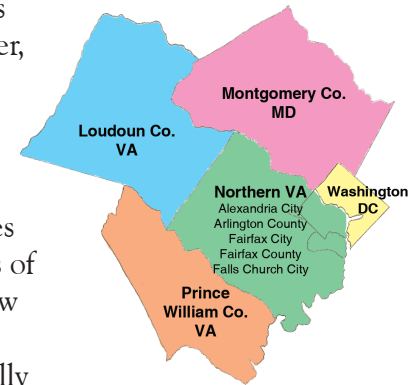


### THE MARKET IS TURNING THE CORNER – SLOWLY, BUT IT IS TURNING

The real estate market in Northern Virginia, and in the entire Washington region, is slowly emerging from an 18-month slowdown. And while we believe the worst is over, it will take some jurisdictions longer to recover than others.

As we have noted in this space for months, the slowdown was most pronounced in outlying jurisdictions and, as such, it will take longer for those areas to rebound. Loudoun and Prince William counties struggled last year, with each showing declines in contract activity of roughly 40% from 2005 to 2006. Northern Virginia (the cities of Alexandria, Fairfax and Falls Church, and the counties of Arlington and Fairfax) saw the number of contracts drop 25% last year, while Montgomery County Maryland's contracts fell by 19%. Washington, DC saw a decline of "only" 14%. Despite generally higher home prices closer in, buyers seemed to be motivated to live closer to major employment centers, mitigating the impact of some of the worst traffic congestion in the country. As a consequence, the inventory of available homes at the end of 2006 was highest, relative to demand, in Prince William and Loudoun.



The table below shows the level of new contract activity during the first two months of 2007 compared to the first two months of 2006. Washington, DC has actually experienced an **increase** in contract activity of almost 7%, while Northern Virginia has seen a modest decline of about 4%. Montgomery County's decline was about 8%. In the case of Northern Virginia and Montgomery County, contract activity was actually tracking through the first six weeks of the year - up until the Valentine's Day snow and ice storm. The extreme difficulty of even showing homes for sale turned the year-to-date numbers modestly negative in just two weeks.

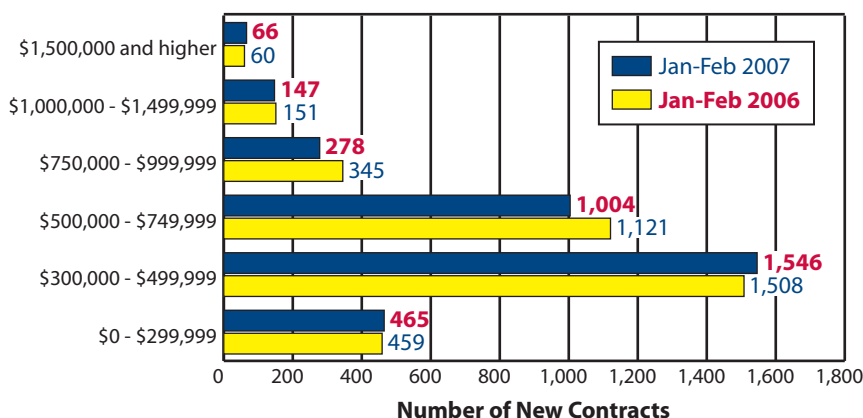
NEW CONTRACTS	Jan-Feb 2006	Jan-Feb 2007	% Change
Washington, DC	1,230	1,315	6.9%
Northern Virginia*	3,644	3,492	-4.2%
Montgomery County	2,084	1,921	-7.8%
Prince William County	1,122	955	-14.9%
Loudoun County	1,552	1,073	-30.9%

As we noted above, Prince William and Loudoun's struggles are a bit more pronounced, and they were hit even harder by the mid-February storms. It will be interesting to note how quickly their numbers improve.

The chart to the left shows the details of Northern Virginia's contract activity through the first two months of 2007. We find it particularly encouraging that, despite the overall decline in contract activity, there were increases in the number of homes priced under \$500,000 going under contract. The sellers of those homes today are tomorrow's move-up buyers, and it signals a return to the market by first-time home buyers. The market really is turning the corner, but at a very gradual pace. We won't see anything like the heady days of 2000-2005, but things will get better.

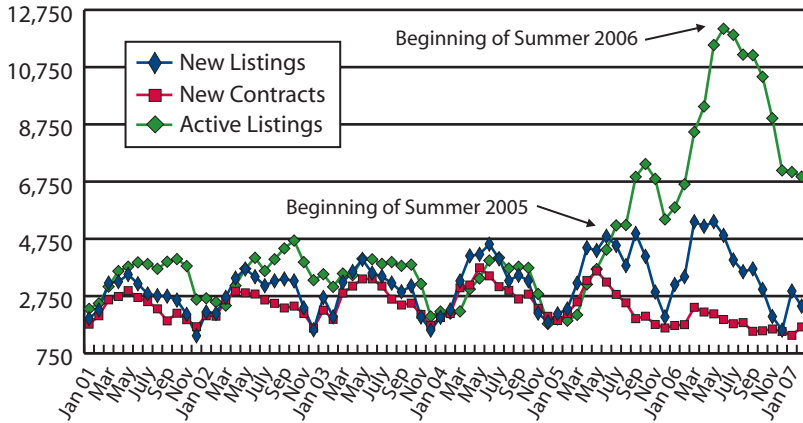
#### NEW CONTRACT ACTIVITY

Jan-Feb 2006 vs. Jan-Feb 2007 - Northern Virginia by Price Range



## NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

January 2001-Current - Northern Virginia

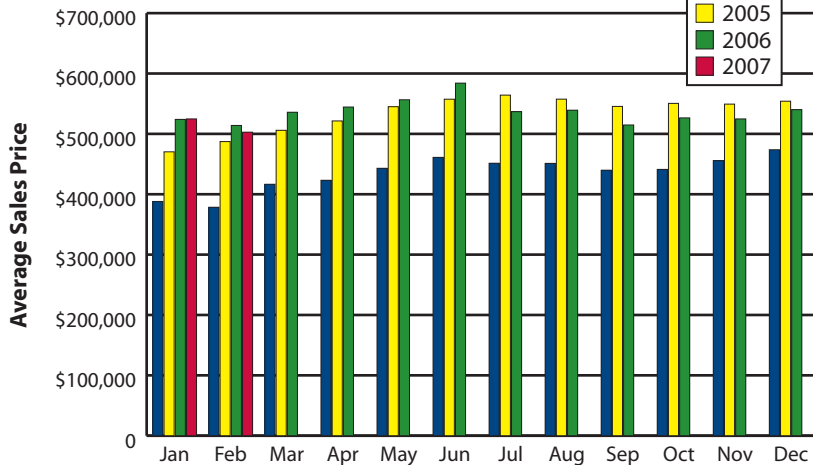


## NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

- What does a sellers' market look like? When the number of contracts, the number of new listings and the total available inventory run along almost parallel lines, that's a sellers' market, and that was the case in Northern Virginia until the summer of 2005.
- At that point, inventory exploded at the same time demand softened, and a gap was created. The wider the gap the softer the market – and there was a big gap that is only now beginning to narrow.

## AVERAGE SALES PRICE

Sales in Northern Virginia - 2004-Current

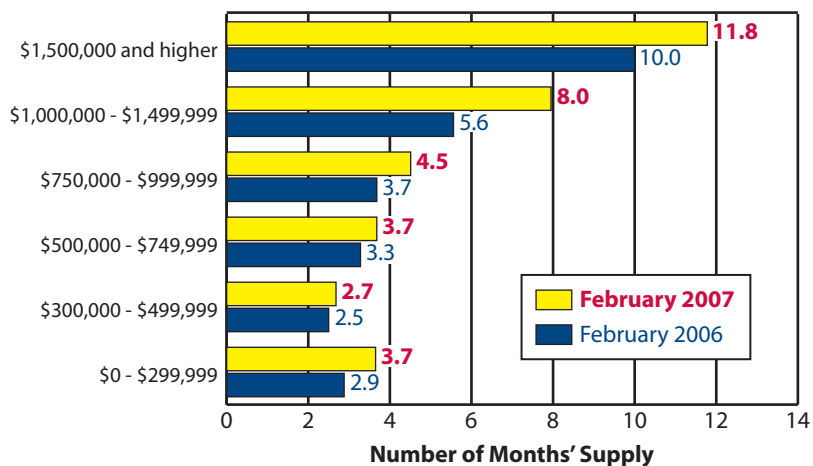


## AVERAGE PRICES

- From July 1999 through June 2006, the average sales price of a home going to settlement in Northern Virginia was higher than the same month of the previous year.
- That remarkable streak ended in July 2006; as the inventory of homes on the market soared, prices started to come down.
- Every month in the second half of 2006 had a lower average sales price than the same month of 2005. That turned around in January 2007, but then fell a bit in February.

## MONTHS' SUPPLY

February 2006 vs. February 2007 - Northern Virginia by Price Range



## MONTHS' SUPPLY

- The overall supply of homes on the market at the end of February was 3.6 months. Even though that's still up from the 3.2 month supply last February, it's another good sign that the market is starting to improve.
- To give some perspective, the typical supply at the end of February through all of the 1990s was more than **one year**. Certainly the market has not returned to the heady days of 2000-2005, but it is nowhere near as tough as it was in the 90s.



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