

YOU ARE IN . . . THE DEAD ZONE

We hate to be the bearer of bad news, but according to the June issue of *Fortune* Magazine, you are living in the “dead zone” if you live in the metro DC area. Or more specifically, as *Fortune* describes the area: “Washington-Arlington, DC.” If they can’t even define our area, perhaps their conclusions might be a bit suspect as well.

Has the market softened? Absolutely. Are there considerably more homes on the market than last year, or the year before, or the year before? You bet. Is it tougher to sell a house now than in the spring of 2005 or 2004? No question. Are buyers more concerned about the kind of decisions they are making, perhaps even nervous that they might be buying at the top of the market? For sure. But “**dead?**” Hardly. Let’s put today’s local housing indicators – good and bad – into perspective, and then discuss what buyers and sellers **should** be paying attention to in the current market.

APRIL	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
# of New Contracts	1,664	2,257	2,580	2,641	2,737	2,921	3,100	3,124	3,291	2,193
# of Active Listings	11,481	10,165	6,499	3,887	3,622	3,111	3,483	2,992	3,158	9,374
Months’ Supply	6.9	4.5	2.5	1.5	1.3	1.1	1.1	1.0	1.0	4.3
% Selling in 1st 30 Days	3.4%	40.0%	54.4%	75.3%	86.6%	81.4%	76.2%	88.8%	90.6%	50.6%
Average Days on Market	133	146	77	37	13	26	29	17	15	49

The table above offers a ten-year recap of the most important local housing indicators as of April of each year. As one can readily see, there has been a substantial, recent decline in contract activity (down 33% in April 2006 compared to April 2005), a huge jump in available listings, an increase in the average number of days a property is on the market before receiving a contract, and a big jump in overall supply as well. But one can just as readily see that the most recent numbers indicate a return to **normal**. April 2006 looks remarkably like April of 1998 – about the same number of ratified contracts, with less supply and a shorter time on the market. No one – not even *Fortune* – would have described our housing market in 1998 as “dead.” In fact, we mark 1998 as the beginning of the sellers’ market. Would **you** describe a market where half the homes going under contract are on the market 30 days or less as dead? Is a market “dead” when inventories are still below the average of 11,000 homes on the market that we saw throughout the 1990s?

So, just what is it that leads *Fortune* to pronounce our market dead? Here’s how they describe our market:

“With houses hovering beyond the reach of most potential purchasers, formerly frantic markets grow eerily calm. People who rush to list their homes, hoping to grab a fat gain just before prices break, take them off the market. Sales shrink as buyers float low-ball offers, and sellers refuse them. Realtors and mortgage brokers find other jobs. The bubble areas turn into Dead Zones. There’s no mystery about what it will take to close the affordability gap and bring the markets back to life: Prices will have to come down, and incomes will have to move up...”

We beg to differ, because the history of home prices in this area does not support *Fortune*’s contention, and the bleak picture they paint does not resemble our day-to-day experience. Remarkably, *Fortune* doesn’t even support its **own** contention. After pronouncing this patient dead, they go on to project home prices in our region will decline by only 1.7% in 2006. Even if they’re right, does that sound like a dead market?

So, really, just how accurate have they been? Here are some quotes from another article in *Fortune*:

“...In a year or two, prices will fall with a thud, unleashing a double-dip recession that will pummel home prices even more. . .Right now, the biggest danger lies mainly with cities on the two coasts. . .Over the next five years you’ll do well if your house appreciates in the low single digits. . .That’s the upbeat forecast. . .”

That article was published on October 28, 2002.

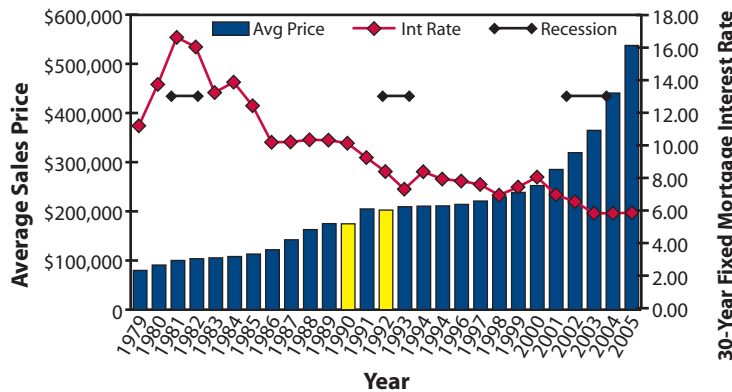
The simple fact is that much of the mainstream, major media in this country have been predicting the demise of residential real estate for a long, long time. This month we're just picking on *Fortune*. In previous issues of MarketWatch, we've called into question the veracity of *The Washington Post*, *The New York Times*, *The Nation* and others. We're not suggesting that we've always gotten it right, because we haven't. The durability and longevity of the sellers' market exceeded our expectations. However, this is what we said in the May/June 2002 issue of MarketWatch:

"How long can the sellers' market last? . . . Eventually, home price appreciation will eclipse the growth in real income, and more and more buyers will be priced out of the market. When that happens, the market will cool off. But don't expect that anytime soon."

When the market here "cools off," what has happened in the past? Why are we so confident that home prices aren't going to plummet? Let's take a look. The two charts below show the average home price in Northern Virginia from 1979 through 2005. The one on the left also includes the average 30-year mortgage interest rate as well as three periods of national recession. The chart to the right shows the average price compared to the number of sales each year.

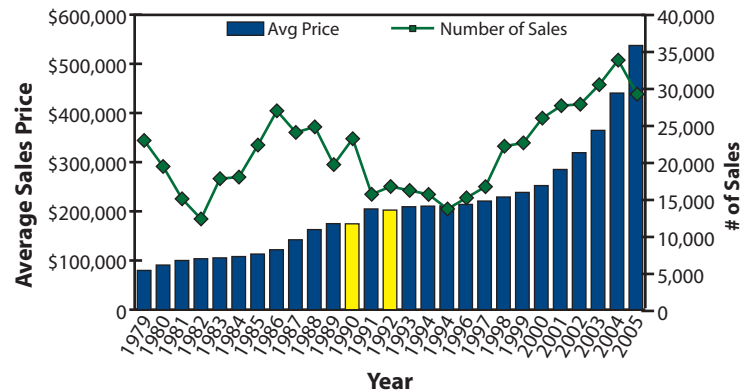
NORTHERN VIRGINIA RESIDENTIAL REAL ESTATE

Mortgage Interest Rates, National Recessions vs. Average Sales Price
1979-2005



NORTHERN VIRGINIA RESIDENTIAL REAL ESTATE

Number of Sales vs. Average Sales Price
1979-2005



Only twice in the 27-year period covered by these charts has the average price fallen compared to the previous year. In those two instances, 1990 and 1992, the declines were 0.1% and 1.1% respectively. Through times of very high and very low interest rates, through times of national and local recessions, through times of rising and falling numbers of sales, prices here have held up remarkably well – better than any place in the country. That's why we're skeptical – to say the least – when we hear stories of doom and gloom, and that prices are going to plummet.

So, what should a homeowner do in today's environment? Here's our advice: the decision on whether to sell your personal residence should be based on your personal circumstances, not on what the "pundits" are predicting. Have you had a change in your personal or job situation that would indicate the need for different housing? Do you – independent of market indicators – need to be in a larger home, or a smaller home, or a different school district? How stable is your income? If you decide for your own reasons that this is the right time to sell, don't panic! This is still a wonderful time to sell, because you will be selling in a normal market. If you price your home in line with the realities of this **normal** market, taking into account all of your competition, you can and will sell your home. (And we hasten to add that your REALTOR® is in the best position to advise you about the correct pricing and marketing!) If you don't need to sell, don't. For investors, the equation may be a bit different, but the decision should nonetheless be based on your personal financial circumstances, and should not be driven by short-term perceptions of the market.

And what should a prospective purchaser do? The advice is very similar. Have your personal and/or work circumstances changed? How stable is your income? Can you buy and afford to keep the house for at least five years? (Historically, there has hardly ever been a time that a homeowner has been burned holding a property here at least that long.) Don't buy if you think you are going to make a killing in six months, because you won't. And perhaps most importantly, if all the other factors point to this being the right time to buy, don't defer your decision because you think prices are about to plummet. There's nothing in our history, and nothing in the current local market, that make that a plausible scenario.



www.McEneaney.com
The BEST address for YOUR address

