

### WOULD YOU LIKE A CAR WITH THAT HOUSE?

#### *The Impact of Seller Subsidies*

A recent story (November 12, 2006) on abcnews.com led with this headline: “In a Down Market, Home Buyer Gets Maserati.” The lead paragraph of the story intoned that “homeowners are going to any lengths just to get properties off their hands.” Really?

For months, we have noted in this newsletter the softening of Northern Virginia’s real estate market, and there is no denying the reality that contract activity is off significantly from this time last year. (For more details, see the accompanying charts on Page 2.) Properties are, in general, taking longer to sell, and there are plenty of areas throughout the region where home sale prices are lower than last year. So, we decided to take a look to see just what “lengths” area home sellers have been going to “get properties off their hands.”

In the robust sellers’ market of the first half of this decade, it was quite rare for a seller to pay any portion of a buyer’s closing costs, broadly referred to as a “seller subsidy.” That is no longer the case. As the chart below indicates, the average sales price of a Northern Virginia home (Fairfax and Arlington Counties, Alexandria, Fairfax and Falls Church Cities) was \$550,424 in October 2005. Slightly more than one-third of homes settling that month had some amount of seller subsidy, and that subsidy averaged about one-half of 1 percent of the sales price. One year later, two-thirds of homes going to settlement had a seller subsidy, and that subsidy averaged almost 1.25 percent of the sales price.

| NORTHERN VIRGINIA           | October 2005 | October 2006 |
|-----------------------------|--------------|--------------|
| Average Sales Price         | \$550,424    | \$526,506    |
| Average Subsidy             | \$2,506      | \$6,508      |
| Subsidy as % of Sales Price | 0.46%        | 1.24%        |
| % of Sales with Subsidy     | 36%          | 65%          |

The farther out one goes from the District, the more pronounced the seller subsidies become. In Loudoun County, a subsidy was paid on 38% of all homes settling in October 2005, and the average subsidy was – just like closer in Northern Virginia – equivalent to about half of 1 percent of the sales price. Twice as many home sellers paid subsidies in October 2006, and the average subsidy tripled to 1.5 percent of the sales price on those homes.

| LOUDOUN COUNTY              | October 2005 | October 2006 |
|-----------------------------|--------------|--------------|
| Average Sales Price         | \$579,665    | \$494,497    |
| Average Subsidy             | \$2,855      | \$7,463      |
| Subsidy as % of Sales Price | 0.49%        | 1.51%        |
| % of Sales with Subsidy     | 38%          | 66%          |

The most significant changes were in Prince William County, where even last October 60% of home sellers paid subsidies, averaging almost a full percent of the sales price. By this October, almost all Prince William home sellers paid a subsidy; those that did paid close to 2.5 percent of the sales price. Part of the reason is that the average sales price in Prince William is considerably lower, and a higher percentage of purchasers need closing cost or down payment assistance. Nonetheless, it reflects a trend that has emerged over most of this year; that selling a home is a much tougher proposition in Prince William County than any other jurisdiction in the greater Northern Virginia area.

| PRINCE WILLIAM COUNTY,<br>Manassas, Manassas Park | October 2005 | October 2006 |
|---|--------------|--------------|
| Average Sales Price                               | \$430,425    | \$399,845    |
| Average Subsidy                                   | \$4,018      | \$9,401      |
| Subsidy as % of Sales Price                       | 0.46%        | 1.51%        |
| % of Sales with Subsidy                           | 36%          | 65%          |

So what’s the lesson? The increasing frequency and amount of seller subsidies paid reflects the softening market – and it also means that there are some great values out there for home buyers. The willingness of home sellers to bargain presents opportunity for the ready, willing, and able purchaser. And cars? Well, we know of a handful of cases where a local homeowner or builder has offered a flashy incentive like a car, but we haven’t seen it work yet. And there aren’t a lot of cars that are going to be purchased for an average subsidy of \$6,500. Oh, we almost forgot about the Maserati. If one reads all the way to the end of the article on abcnews.com, the car was offered on a \$5,000,000 home in – you guessed it – California. And the buyer didn’t get the whole car; they got a two year lease. We think the seller probably got the better end of that deal.

## STATISTICAL SUMMARY OF GREATER NORTHERN VIRGINIA

The table below shows the most important statistical indicators for the largest jurisdictions in Northern Virginia. As we noted on page 1, the outlying areas are having a bit of a rougher time right now, with homes in both Loudoun and Prince William Counties taking more than 100 days to sell, on average. Note: Percentages depicted in red indicate a negative trend.

### Northern Virginia

|                                    | October 2005 | October 2006 | % Change |
|------------------------------------|--------------|--------------|----------|
| Number of Sales                    | 1,950        | 1,541        | ↓ 21.0%  |
| Fully Available Inventory on 10/31 | 6,634        | 9,672        | ↑ 45.8%  |
| Number of New Listings             | 4,166        | 2,985        | ↓ 28.3%  |
| Number of New Contracts            | 2,020        | 1,537        | ↓ 23.9%  |
| Days on Market - New Contracts     | 36           | 86           | ↑ 138.9% |
| Average Sales Price                | \$550,424    | \$526,506    | ↓ 4.3%   |
| Months' Supply                     | 3.3          | 6.3          | ↑ 91.6%  |

### Loudoun County

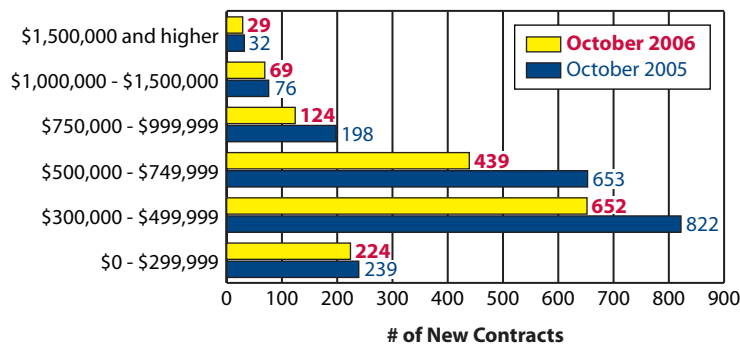
|                                    |           |           |          |
|------------------------------------|-----------|-----------|----------|
| Number of Sales                    | 597       | 388       | ↓ 35.0%  |
| Fully Available Inventory on 10/31 | 2,756     | 3,599     | ↑ 30.6%  |
| Number of New Listings             | 1,308     | 876       | ↓ 33.0%  |
| Number of New Contracts            | 519       | 366       | ↓ 29.5%  |
| Days on Market - New Contracts     | 46        | 114       | ↑ 147.8% |
| Average Sales Price                | \$579,665 | \$494,497 | ↓ 14.7%  |
| Months' Supply                     | 5.3       | 9.8       | ↑ 85.2%  |

### Prince William County, City of Manassas, and City of Manassas Park

|                                    |           |           |          |
|------------------------------------|-----------|-----------|----------|
| Number of Sales                    | 1,031     | 510       | ↓ 50.5%  |
| Fully Available Inventory on 10/31 | 3,338     | 5,071     | ↑ 51.9%  |
| Number of New Listings             | 1,907     | 1,363     | ↓ 28.5%  |
| Number of New Contracts            | 901       | 537       | ↓ 40.4%  |
| Days on Market - New Contracts     | 40        | 110       | ↑ 175.0% |
| Average Sales Price                | \$430,425 | \$399,845 | ↓ 7.1%   |
| Months' Supply                     | 3.7       | 9.4       | ↑ 154.9% |

#### NEW CONTRACT ACTIVITY

October 2005 vs. October 2006 By Price Range - Northern Virginia

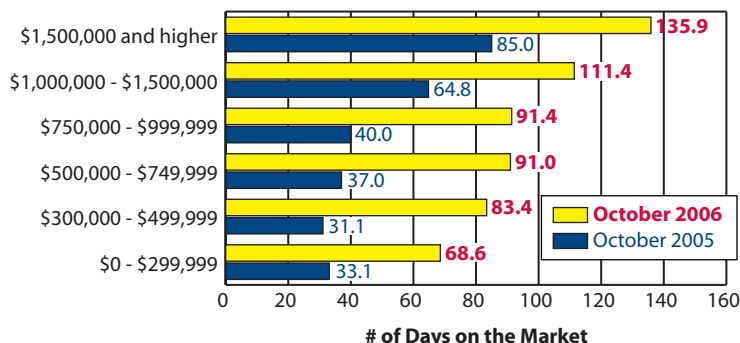


#### NEW CONTRACT ACTIVITY

- As noted above, the number of new contracts ratified in October 2006 in the immediate Northern Virginia area was **down almost 24%** from the number of contracts ratified in October 2005. That's actually a significant improvement; we had been seeing prior monthly drops in the range of 35-40%.
- 55% of all homes going under contract in October 2006 had a price reduction before going under contract. It was 35% in October 2005.

#### AVERAGE NUMBER OF DAYS ON MARKET

October 2005 vs. October 2006 - Northern Virginia New Contracts



#### AVERAGE NUMBER OF DAYS ON MARKET FOR NEW CONTRACTS

- Average number of days on the market for homes receiving contracts in October was up substantially in every price category.
- The average number of days on the market for all homes receiving contracts in October 2006 was 86 days, up from 36 days in October 2005.
- As high as that seems, an average of just under 3 months on the market is actually quite normal and healthy for any market other than the one we have experienced for the last few years.