Market Watch

Northern Virginia

McEnearney Realtors® Associates

OCT/NOV 2005 (Vol. 14, No. 10)

KNOWLEDGE ♦ EXPERIENCE ♦ RESULTS

25 years of excellence

THE NORTHERN VIRGINIA TRIATHLON - 2 LEGS COMPLETE, 1 TO GO

The ocean swim – the shortest of the events that's really the warm up for what's to come. The bike course – the longest distance leg, paced at break-neck speed. And the marathon – the last leg that is run at a more deliberate pace, but lasts a long time. Northern Virginia's real estate market from 1998 to now looks a lot like the first two legs of a triathlon, and the next decade sure looks like it will be a marathon.

The current sellers' market began in earnest in 1998. Interest rates for 30-year fixed rates mortgages hovered right around 7%, and actually climbed to as high as 8.5% by early 2000. As the regional economy began to take off, buyers began returning to a previously pretty stagnant market. Home prices started to climb at a very nice 7% - 10% annual pace. That was the warm up. As interest rates started to head south in the spring of 2000 and the economy was hitting its stride, record numbers of buyers came into the market. Rates hit a 40-year low of 5.25% in the spring of 2003 and the race was really on. To a large extent, the Northern Virginia real estate market since 2000 has been characterized by very low inventory of available homes, huge price appreciation (20% - 25% over the last two years), record short times on the market, multiple offers on well-priced homes, and incredibly low interest rates. We have been in that rapid-paced, bike race market phase for at least three years. Now the sprint is clearly over.

Today, the inventory of available homes is more than double that of this same time last year, and the number of contracts has declined by 25%. Because of that big jump in inventory and the drop in the number of contracts, the overall supply of homes is **triple** that of this time last year. Homes are taking a bit longer to sell, and in September almost one third of homes going under contract had price reductions before a buyer materialized. We've seen a pretty big shift in just the last three months in almost every market indicator. Does all of this mean that the race is over?

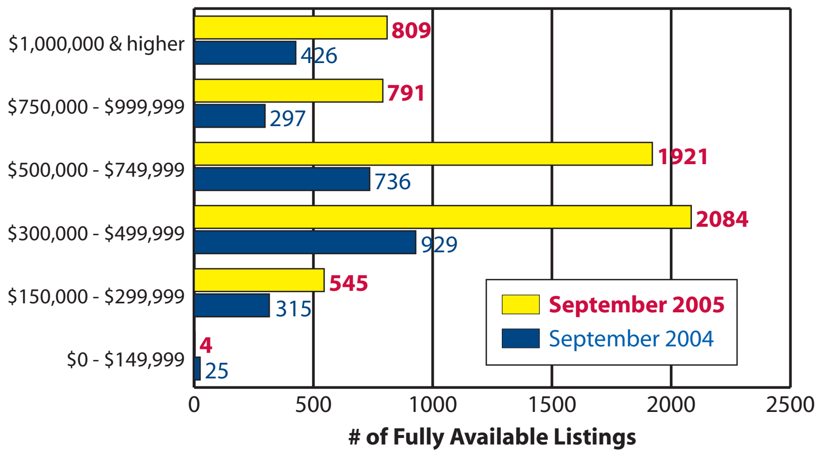
Absolutely not. We have always known that markets seek balance over time, and no one in their right mind would have ever thought that home prices could continue to climb 25% per year indefinitely. Yet the fundamentals of the region's economy in general, and Northern Virginia's in particular, are too strong to believe that the market has run out of steam – it is just settling in for the steadier, longer-lasting pace of a marathon.

We have often quoted Dr. Stephen Fuller of George Mason University, a true visionary about the DC economy. At the recent Northern Virginia Association of REALTORS® Economic Summit, Dr. Fuller focused on this area's incredible job growth as one of the major reasons to remain optimistic about the long-term health of our real estate market. As an example, the DC metropolitan area has created 287,000 net new jobs in the last five years – half of which were created in Northern Virginia. In just the last year, 84,500 new jobs have been created. And here's the real impact of those new jobs on housing: the jobs created 53,000 new households, but builders are only capable of building about 28,000 new housing units – homes, townhomes, condos and rental apartments – per year. Because of the shortage of affordable housing close-in, many of those new households have headed up and out – to the ex-urbs. Dr. Fuller projects a continued and growing shortage of housing units, and that long-term shortage will continue to mean good news for sellers. As long as we continue to see strong job growth, fueled first and foremost by the engine of federal spending (Northern Virginia gets half of every federal dollar spent in the region), we will continue to have a healthy real estate market.

Over the last 27 years, the average annual price appreciation in this region has been 6.9%. Both we and Dr. Fuller expect to see appreciation rates closer to that long-term average – perhaps 7% - 12% per year for the next **decade**. That is a marathon in our book.

FULLY AVAILABLE LISTINGS

September 2004 vs. September 2005 by Price Range

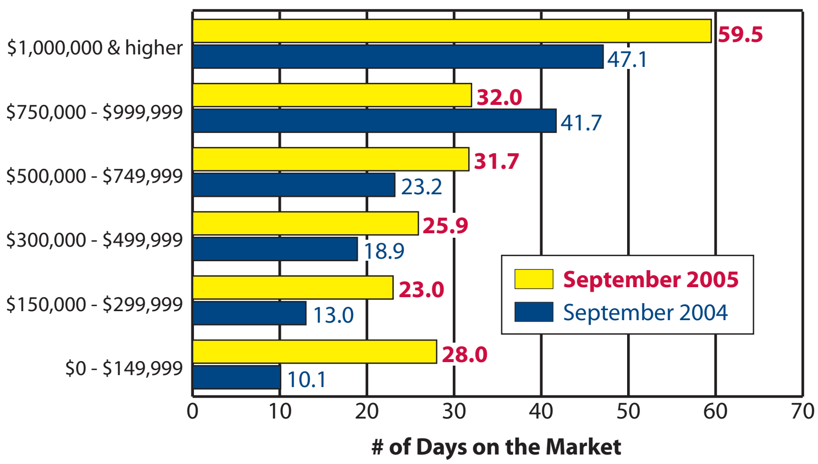


FULLY AVAILABLE LISTINGS

- Inventory has climbed – substantially – in all but the lowest price category.
- The increase is particularly acute for homes priced between $500K and $750K. There was a **161% increase** in the number of listings.
- At the low end of the market, there is essentially no inventory – just 4 homes priced under $150,000 were available at the end of September.

AVERAGE NUMBER OF DAYS ON MARKET

September 2004 vs. September 2005 - New Contracts

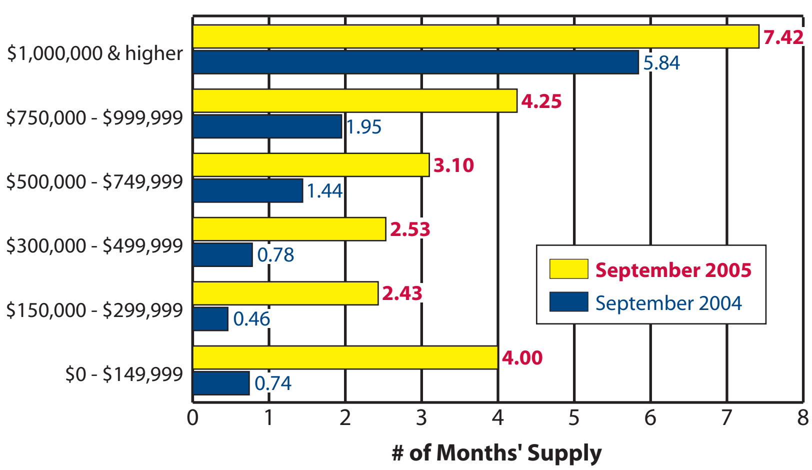


AVERAGE NUMBER OF DAYS ON MARKET

- Average number of days on the market for homes getting contracts in September was up in 5 of the 6 price categories, declining only in homes priced between $750K and $999K.
- The time on the market is still low compared to most places in the country, but there's no doubt that there is considerable softening in the market.
- 28% of all homes going under contract in September 2005 had a price reduction before going under contract; it was 15% last September.

MONTHS' SUPPLY

September 2004 vs. September 2005 by Price Range



MONTHS' SUPPLY

- The average number of days on the market for all properties going to settlement in Northern Virginia in September 2004 was **24 days**, compared to **20 days** in September 2005.
- This is a pretty modest increase, but one that bears watching over the next several months.
- Amazingly, homes selling between $500,000 and $1,000,000 actually sold considerably faster than this time last year.