

BE PREPARED FOR BAD NEWS - THAT REALLY ISN'T BAD

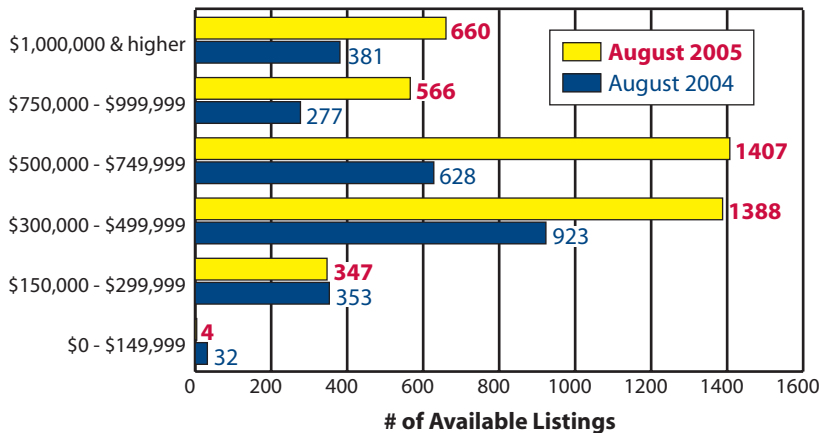
There is no doubt that Northern Virginia's real estate market is showing the inevitable signs of slowing. The number of available homes is climbing, and the number of ratified contracts is dropping. Even the average sales price dropped in August 2005 compared to July 2005. There is no doubt that the local and national media will pepper their stories with tales of the coming bust in real estate prices, predicting doom and gloom.

Here's our prediction: very few of those stories will provide any real context for these emerging numbers. Yes, the number of fully available homes on the market (see chart below) is 68% higher than it was this time last year. Yet that inventory is still less than **half** of what it was throughout the 1990s, when we typically saw well over 10,000 homes on the market. Yes, the number of new contracts is falling, but it is not falling precipitously, and the media is unlikely to report that the number of homes selling for more than \$500,000 continues to climb significantly. And while the media may focus on the drop in the average sales price from July, you probably won't see them point out that the average sales price in August has been less than July in 4 of the last 6 years, the hottest real estate market we have ever seen. The simple fact is that the average price of a home in Northern Virginia **rose almost 24%** in August 2005 compared to August 2004.

We want to emphasize what we have been saying for many months now: the market really is slowing down a bit, and buyers really do have more choices - and that means that sellers will have less leverage than they have enjoyed over the last few years. However, it is still a sellers' market.

FULLY AVAILABLE LISTINGS

August 2004 vs. August 2005 by Price Range

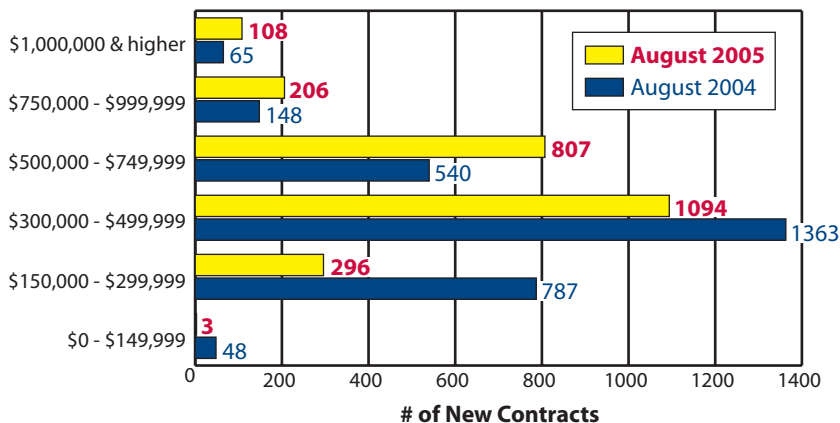


FULLY AVAILABLE LISTINGS

- At the end of August 2005, there were almost 4,400 homes fully available on the market, a **68% increase** from the number of homes on the market at the end of August 2004.
- As prices have climbed, there is almost no inventory of any type of housing under \$150,000.
- This surge in inventory, while still in the historically low range, will undoubtedly give buyers more choices. We're already seeing fewer multiple offers on listings.

NEW CONTRACT ACTIVITY

August 2004 vs. August 2005 by Price Range

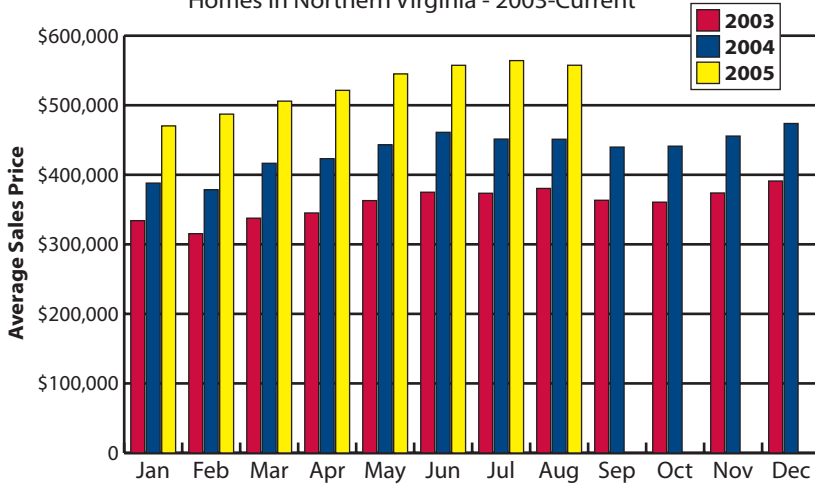


NEW CONTRACT ACTIVITY

- The number of contracts ratified in August 2005 declined over 14% from August 2004. Yet all of that decrease occurred in homes priced under \$500,000.
- As we have been noting for a long time, these declines were inevitable given the huge price increases. More and more potential buyers are getting priced out of the market - and that's how markets ultimately seek balance.

AVERAGE SALES PRICE

Homes in Northern Virginia - 2003-Current

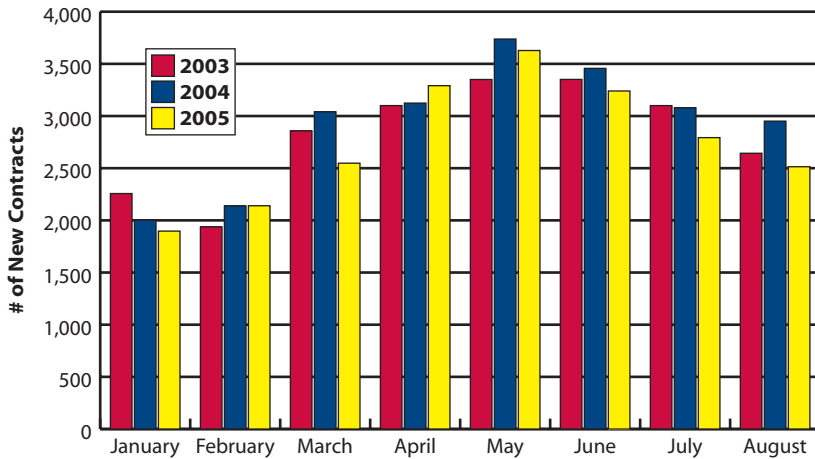


AVERAGE SALES PRICE

- The average price of all homes settling in Northern Virginia in August 2005 was \$557,535, and that's a \$7,000 drop from the average price in July 2005.
- However, as we have noted in our introductory comments, the proper comparison is to the same time last year - and that was \$451,128. That means prices are up almost 24% from last year.
- The month-by-month price history in the accompanying chart shows that it is not at all unusual to see prices fall from the previous month.

NEW CONTRACTS BY MONTH

January-August 2003-2005 in Northern Virginia

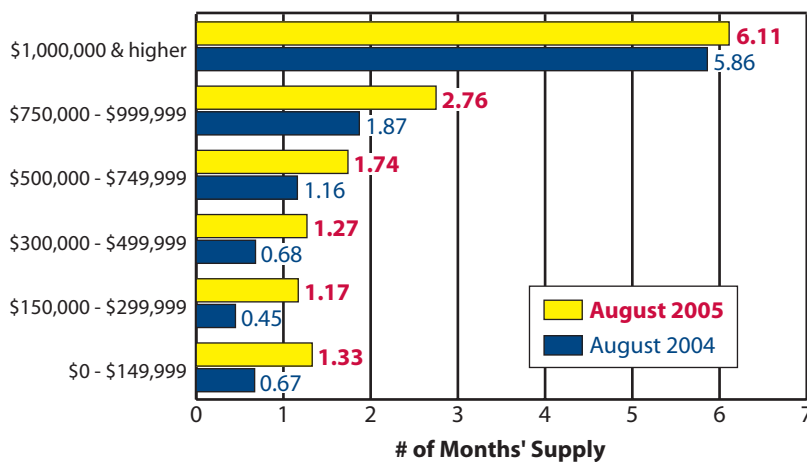


NEW CONTRACTS BY MONTH

- If you see or hear a story that compares contract activity to the previous month, don't pay attention, because that's not the relevant comparison.
- As this chart shows, contract activity varies widely over the course of the year. The important comparison will show the current month compared to the same month of the previous year.
- As the reader will see, contract activity has fallen in 6 of the 8 months so far this year - but as noted above, prices continue to climb.

MONTHS' SUPPLY

August 2004 vs. August 2005 by Price Range



MONTHS' SUPPLY

- The big jump in the number of listings noted on page one, combined with the modest drop in the number of contracts has resulted in more overall supply in the market.
- In fact, the relative supply is almost twice what it was this time last year. But here's the final piece of context: the overall supply of homes is still less than two months.



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