

WHAT A DIFFERENCE A YEAR MAKES!

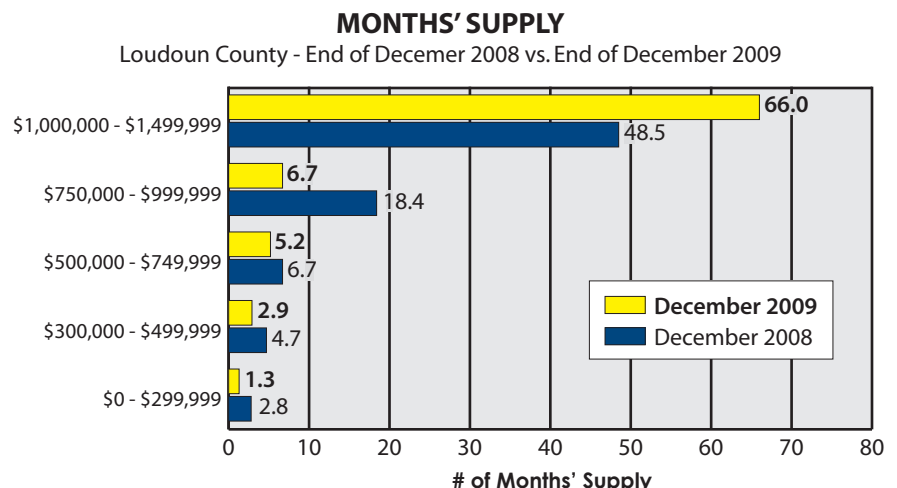
We track a lot of indices to help us determine the direction of the market, but there's none better than "Months' Supply." It is a very simple measure that compares the number of available homes on the market at the end of any given month to the contract activity of that same month. And by that measure, the market conditions at the end of 2009 were **dramatically better** than those at the end of 2008.

The chart at bottom right compares the relative supply across five different price categories in December 2008 and December 2009. The overall supply at year-end was just 3.1 months compared to 4.9 months at the end of December 2008. Much of that tightening can be attributed to a major drop in inventory – there were 44% fewer homes on the market on December 31, 2009 than there were on December 31, 2008.

Supply is significantly less in every price range, and the supply of homes priced less than \$500,000 looks a lot like a **sellers' market**. At the current level of contract activity, all of the existing inventory in those categories would be absorbed in three months or less; for all homes priced less than \$300,000 there is slightly more than a one month's supply. Part of what is fueling this tight supply condition is the homebuyers' tax credit, and we expect to see a pretty robust market this spring at the lower end of the market as purchasers rush to take advantage of this program before the April 30 contract cutoff date rolls around. We're even starting to see some modest upward pressure on prices – exactly as one would expect for any commodity where relatively many purchasers are chasing relatively little inventory.

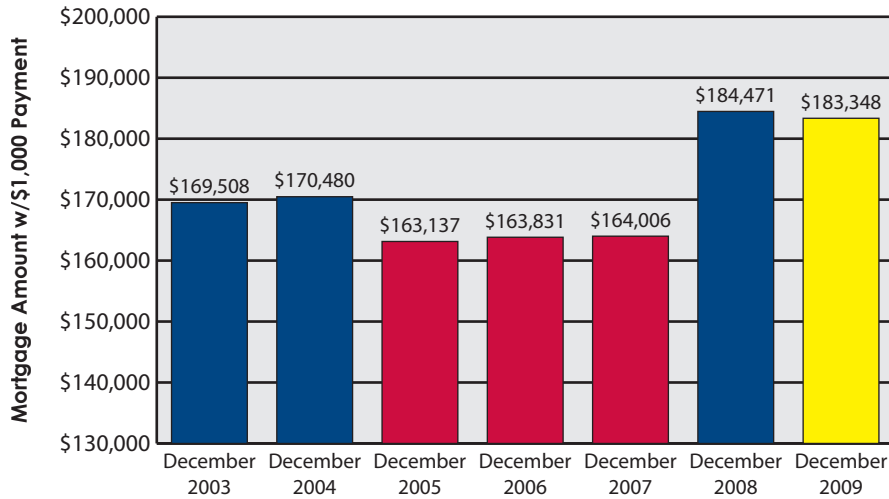
The upper end of the market still has some significant challenges ahead. There is very little activity – there were only seven homes priced between \$1,000,000 and \$1,500,000 that went under contract, and there 70 that are on the market right now. That's a pretty stark contrast to the lower end, where we are starting to see multiple offers on the hottest properties.

We're not suggesting the market is fully recovered, because it isn't. As we have noted, conditions at the lower end are quite different than at the upper end, and there are still plenty of bumps in the road ahead. We remain concerned about the potential of rising interest rates and another round of foreclosures and short sales hitting the street. However, the market is undeniably better than a year ago, and given how rough things have been, that feels pretty good.



BUYING POWER

Mortgage Amount with \$1,000 Payment

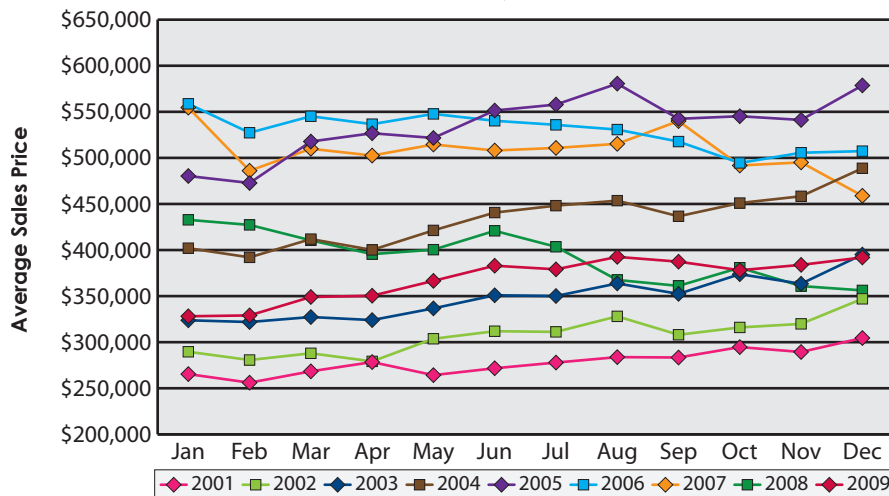


BUYING POWER

- 30-year fixed interest rates at the end of December averaged 5.14%, slightly more than rates at the end of December 2008 – but well below year-end rates for the previous five years.
- A \$1,000 principal and interest payment supported a loan of \$183,348 at the end of December 2009, **roughly \$20,000** more than December 2005 - 2007.
- That increased buying power, combined with the homebuyer's tax credit, has brought a lot of folks off the sidelines and into the game.

AVERAGE SALES PRICE

Homes in Loudoun County - 2001-Current

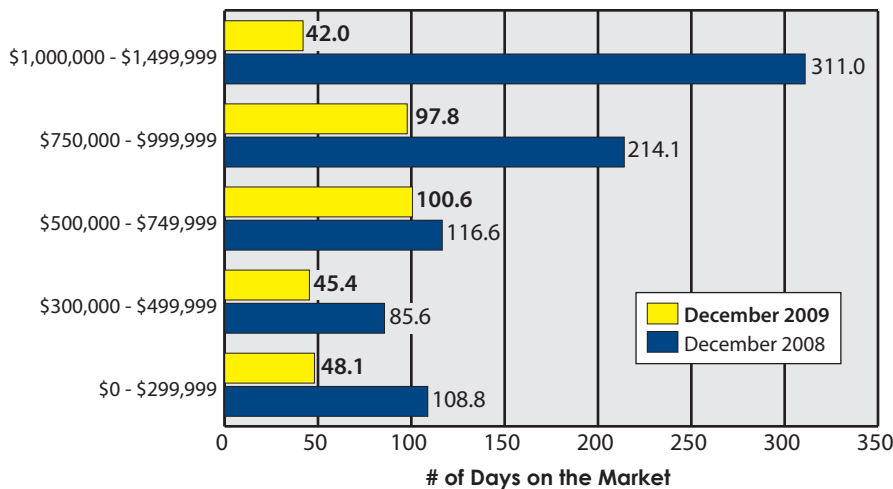


AVERAGE SALES PRICE

- While most metro area jurisdictions saw 2009 homes prices track pretty closely to those of 2004; Loudoun was hit harder when the market went south, so the hole is a bit deeper to climb out of.
- As indicated on page 1, there is very low supply, particularly for homes priced less than \$500,000, so prices have firmed up at the lower end of the market. There's still a very wide gap between home prices now vs. the peak of the market – but that gap is slowly starting to narrow.

AVERAGE NUMBER OF DAYS ON MARKET

Loudoun County - Dec. 2008 vs. Dec. 2009 - New Contracts



AVERAGE NUMBER OF DAYS ON THE MARKET

- With an increased number of buyers and a drop in inventory, we have seen a bit of an increase in "urgency."
- Homes priced less than \$500,000 are selling in about half the time as they did this time last year, another indication that there has been significant improvement in the market.
- Higher priced homes have improved, but on average still take much longer to sell than more modestly priced homes. (And don't be fooled by the very low days-on-market number in the top price category for Dec. 2009 – that was just one home.)



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