

IS THE MARKET RECOVERING? A DEFINITE MAYBE

One thing is certain – it's a **lot** better than it was at this time last year. As 2009 comes to a close, these are the key indicators that we are watching very closely to give us a sense of where we're headed in 2010:

CONTRACT ACTIVITY: Looking good. Through the first ten months of 2009, the number of ratified contracts is up 34% compared to the same time period of 2008, and was up 71% in October. The recent expansion and extension of the homebuyer's tax credit program to take us through the spring market certainly helps.

INVENTORY: Looking really good – for now. The number of homes on the market is down 43% from this time last year, and that means there's actually a shortage of homes for sale in the lowest price ranges. That bodes well for at least some modest upward pressure on home prices. But that could change because of...

SHORT SALES AND FORECLOSURES: A drag on 2010. The number of non-performing mortgages in Montgomery County is increasing, due to the rise in unemployment and underemployment. That's going to get worse before it gets better, and there are plenty of adjustable rate mortgages that are due to reset at higher rates next year, too. These trends will combine to put more distressed homes on the market in 2010. We don't think the impact will be as dramatic as it has been during the last two years, but it will have a dampening effect on the market recovery.

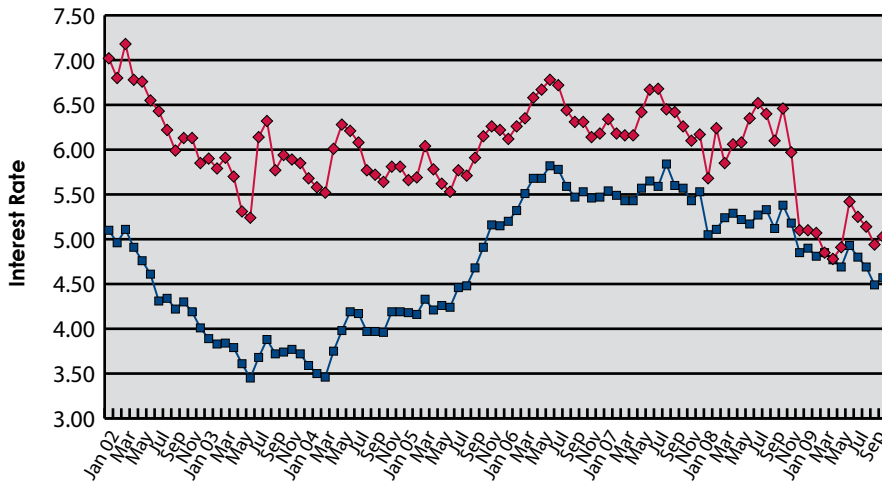
UNEMPLOYMENT: A mixed bag. The unemployment rate in Montgomery County is 5.3%, almost two full percentage points higher than this time last year – and it will get worse before it gets better. Rising job losses will hurt in 2010, and we wouldn't be surprised to see the unemployment rate climb to slightly more than 6% before turning around - and that turnaround won't come until early 2011. Nonetheless, our rate is about half the national rate, which has climbed to more than 10%.

INTEREST RATES: Incredible – for now. Low mortgage interest rates mean that purchasers have almost 17% more buying power for their dollar than at this time last year. But rates will rise in 2010 as growing federal budget deficits put a squeeze on rates. Both the National Association of REALTORS® and the Mortgage Bankers Association are forecasting a half point rise during the course of the year, rising from the current 5% to slightly more than 5.5%. There is a big caveat to their forecasts, however: the federal government has to come up with a "plausible deficit reduction plan" during 2010 for rates to rise only by that amount. Failure to do so could send rates soaring.

SO WHERE ARE WE HEADED IN 2010? In our view, the same place we've been in 2009 – a **slow** recovery with a few bumps along the way. Readers of this space for any period of time know that we are unabashed optimists about the long term health of our real estate market, and we still are – for the long term. And as we've said for years, we'd rather have our market conditions than those anywhere else in the country for the long run. We expect an overall increase in contract activity of around 10% compared to 2009 and modest price appreciation of perhaps 3% for homes priced under \$750,000. The price of more expensive homes will stabilize, but it will likely be 2011 before we see any appreciation of consequence.

30-YEAR FIXED AND 1-YEAR ADJUSTABLE INTEREST RATES

Month-End Mortgage Rates – 2002-Current

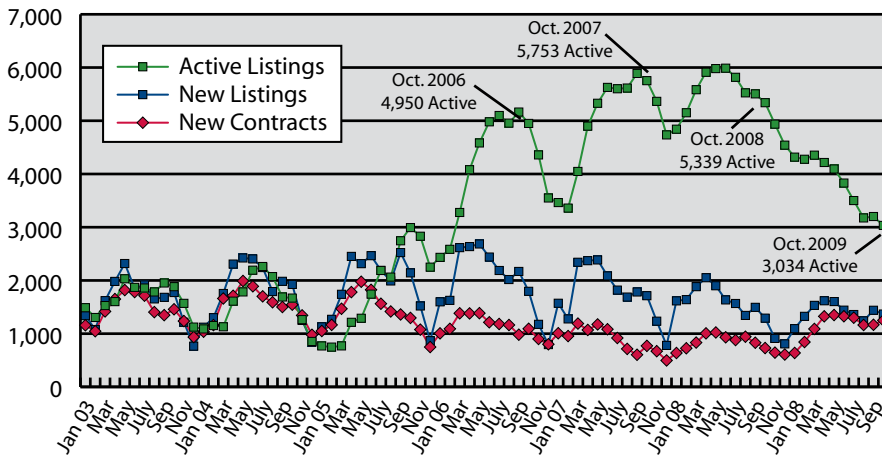


MORTGAGE INTEREST RATES

- 30-year fixed interest rates at the end of October averaged 5.03%, compared to 6.46% at the end of October 2008.
- That drop of almost 1.5% has contributed mightily to the emerging market recovery.
- This will be an extraordinarily important indicator in 2010. If rates climb more than forecast because of rising deficits, lots of first-time homebuyers could be locked out of the market.

NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

Montgomery County – January 2003-Current

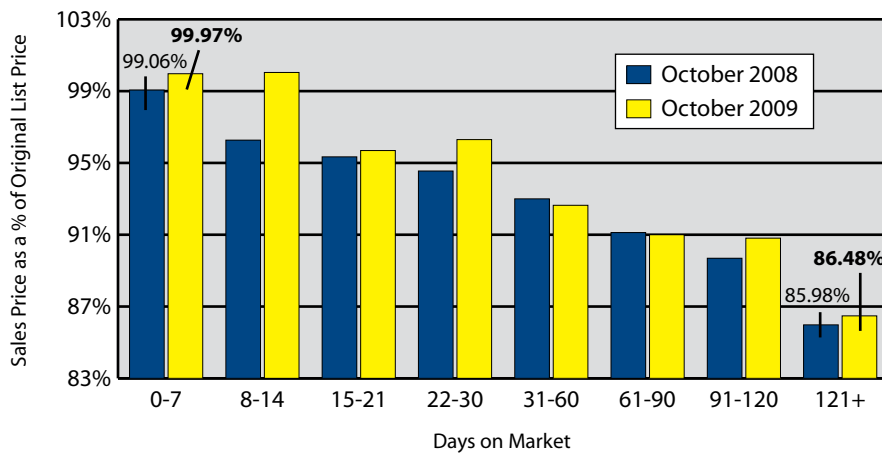


NUMBER OF NEW LISTINGS, CONTRACTS AND ACTIVE LISTINGS

- Montgomery County inventory peaked in June 2008. It has decreased steadily for the past 17 months.
- With contract activity now well above the levels experienced at the bottom of the market, the gap between supply (the green line) and demand (the red line) has narrowed considerably.
- Although the narrowing gap between inventory and contracts does not reflect the significant differences among price ranges, it is nonetheless a very narrow gap.

RELATIONSHIP OF SALES PRICE TO ORIGINAL LIST PRICE vs. DAYS ON MARKET

Oct. 2008 vs. Oct. 2009 - Resale Properties Sold in Montgomery County



RELATIONSHIP OF SALES PRICE TO ORIGINAL LIST PRICE vs. DAYS ON MARKET

- As the market improves, buyers seem to know value when they see it – and they'll jump on it. If the value isn't there, they're perfectly content to buy something else or wait for sellers to align their price with the market.
- Homes settling in October 2009 that received contracts their first week on the market sold, on average, for **0.03% below** the original list price. Those that took 4 months or longer to sell sold at **13.52% below** the original list price!



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