

IT'S TWO, TWO, TWO MARKETS IN ONE!

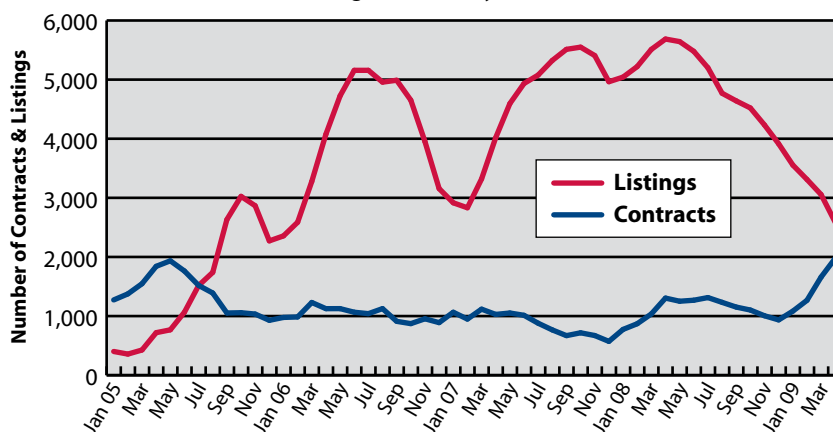
With a tip of the hat to the old commercial for Certs (It's a breath mint...no, it's a candy mint!), there really are **at least** two very different markets in Northern Virginia. Cert-ainly (sorry about that), a home's location and condition still matter enormously, yet we have never seen markets that differ so dramatically depending on price range. So, when someone refers to "the market," dig a little deeper.

The chart below compares the active inventory (the red line) to the number of ratified contracts (the blue line) each month since January 2005 for homes priced less than \$500,000. It is clear that, in the first half of 2005, demand significantly outpaced supply, and in general, homes were getting snapped up just as soon as they came on the market. Home prices soared as a consequence. But as we have all seen, there were limits to how long prices could continue to rise at a pace that greatly exceeded the growth in real income, and in mid-2005, things started to change – and change rapidly. By mid-2006, there was a significant imbalance in the lower end of the market. With a huge increase in inventory and a 40% drop in the number of contracts, the supply of homes priced under \$500,000 jumped from just **2 weeks** to more than 5 months in the space of just one year. And, with that big drop in demand, came downward pressure on prices. Yet, the real estate markets in Northern Virginia and Washington, DC as a whole are remarkably resilient. Inventory of under-\$500,000 homes peaked in April 2008 and has been on a steady decline since then. Falling home prices and incredibly low interest rates combined to make entry-level housing attractive once again. Amazingly, contract activity has returned to Spring 2005 levels, and one could plausibly argue that we are now looking at a **sellers' market** at the lower end of the market. For homes that are priced right, we have even seen the return of multiple offers and escalation clauses, pushing sales prices above list prices.

However, and as the charts on the following page show, the further up the home price ladder one climbs, the more different the markets become. For homes priced between \$500,000 and \$999,999, the market looks almost evenly balanced between supply and demand. And for homes priced at more than \$1,000,000, there's no question that it is a buyers' market. So whether you're a buyer or a seller, your negotiation strategies are going to vary significantly, depending on the price of the home you are looking to buy or sell.

Contracts vs. Active Listing Inventory by Month
List Price Less Than \$500,000

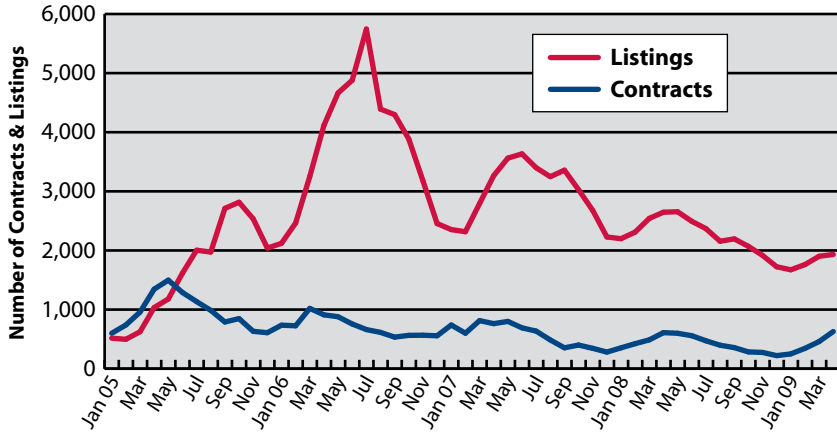
Northern Virginia - January 2005-Current



Contracts vs. Active Listing Inventory by Month

List Price \$500,000-\$999,999

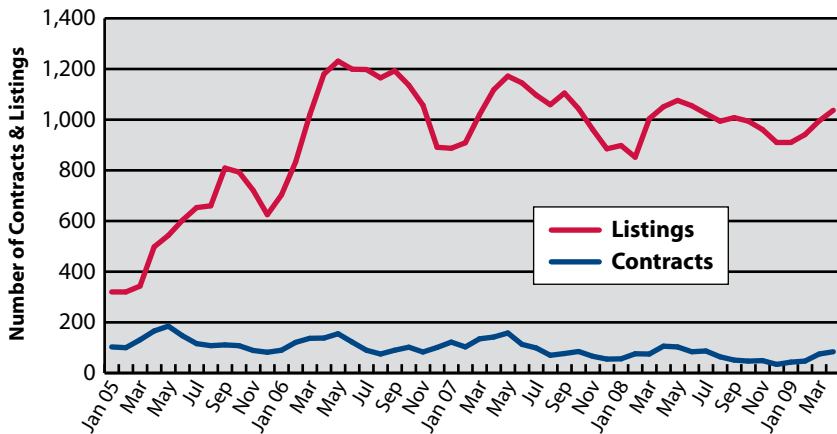
Northern Virginia - January 2005-Current



Contracts vs. Active Listing Inventory by Month

List Price \$1,000,000 & Higher

Northern Virginia - January 2005-Current



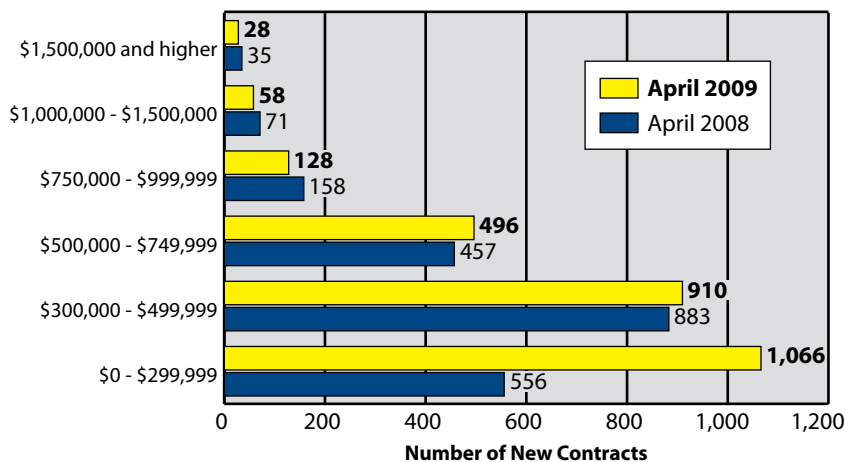
CONTRACTS vs. ACTIVE INVENTORY -

Homes priced \$500,000 - \$999,999, and \$1,000,000 and higher

- The chart immediately to the left tracks homes priced between \$500,000 and \$999,999. In the first half of 2005, demand exceeded supply – but a transitioning market soon forced a very wide disparity between supply and demand. The gap has narrowed considerably even though contract activity has not returned to 2005 levels. (And it probably won't return to those levels, by the way).
- In general the market for homes priced between \$500,000 and \$999,999 is pretty well balanced, with scales tilting more toward a buyers' market the higher up the price ladder one travels.
- For homes priced at more than \$1,000,000, the market never saw the huge imbalance we saw in the lower prices ranges in early 2005. But those were great times for million dollar home sellers nonetheless.
- But, by mid-2006, the gap between supply and demand was big – and it has stayed big.
- There is no doubt that it is a buyers' market in the upper brackets.

NEW CONTRACT ACTIVITY

Northern Virginia - April 2008 vs. April 2009 by Price Range



NEW CONTRACT ACTIVITY

- The number of new contracts ratified in April 2009 was **up 24.4%** from the number of contracts ratified in April 2008.
- Homes priced below \$300,000 saw significant increases in activity.
- Contract activity for 2009 year-to-date is **up 24.5%**.
- **38.0%** of all homes going under contract in April 2009 had at least one price reduction before going under contract.



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