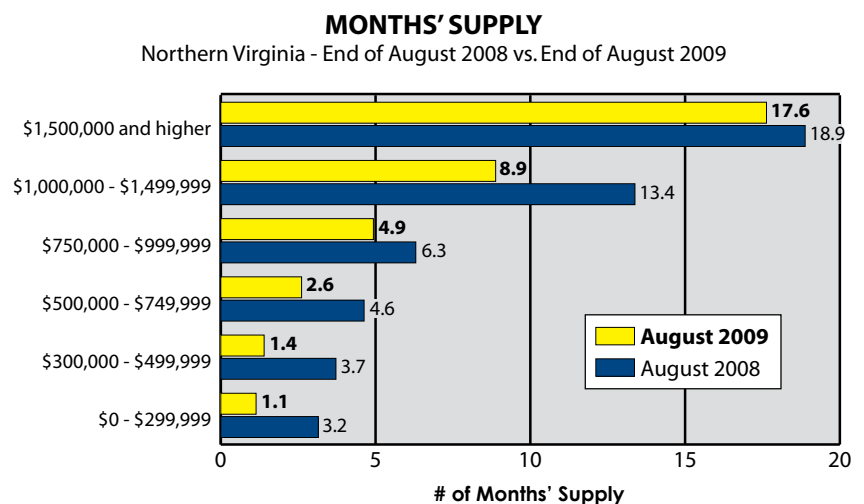


SIGN, SIGN, EVERYWHERE A SIGN . . .

. . . blocking out the scenery, breaking my mind. Do this, don't do that. Can't you read the sign?" The Five Man Electrical Band's 70's hit "Signs" could apply to any effort to read the "signs" in Northern Virginia's real estate market because there are so many conflicting indicators out there. As we have noted in this space on many occasions, market conditions vary widely depending on price and geography, and no one should feel confident saying that the "bottom" has been hit. Yet, there are now more positive "signs" than negative.

A September 2nd piece in the Wall Street Journal written by James B. Stewart opined that, "overall...I can't imagine a better time to buy than now." The generally downbeat Case-Shiller Home Price Index has turned positive for the DC Metro area for the last four consecutive months. The number of homes on the market in Northern Virginia is considerably less than this time last year, and contract activity is considerably higher across most price ranges. The vitality at the lower end of the price spectrum has helped moved a lot of "troubled" inventory – foreclosures and short sales – off the market. That inventory had to be diminished for there to be any prospect of a broader recovery. To be sure, there are some negative signs as well. There is still downward pressure on home prices, particularly in the upper brackets. Since most transactions involve mortgage financing and appraisals, and those appraisals by definition look backwards in time for recent comparable sales, it is going to take some time for appraised prices to move upward. That contributes mightily to a slow-to-recover market. We remain concerned about the likelihood of rising mortgage interest rates in the long term. And looking a bit farther down the road, there is no way to accurately judge the impact of the next major wave of mortgage interest rate resets that will start in late 2010 and 2011. Overall though, we're more optimistic about the direction of the market than we've been at any time in the past three years.

Specifically, one of the signs we look at to tell us which direction the market is headed is "supply," which is simply a measure of the available inventory divided by contract activity in any given month. And as the chart to the right indicates, every price category looks better than this time last year – and that is especially true for homes priced less than \$500,000. There's less than a 45-day supply of such homes on the market, and we are actually seeing multiple offers on some of these properties. And while it's true that there is plenty of supply of upper bracket homes, it is equally true that it's less than this time last year.



NEW CONTRACT ACTIVITY - BY PROPERTY TYPE AND PRICE RANGE Northern Virginia

Condo/Co-op	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	316	423	33.9%	2097	3377	61.0%
\$300,000-\$499,999	143	164	14.7%	1236	1127	-8.8%
\$500,000-\$749,999	15	20	33.3%	200	209	4.5%
\$750,000-\$999,999	7	5	-28.6%	37	35	-5.4%
\$1,000,000-\$1,499,999	1	1	0.0%	16	11	-31.3%
\$1,500,000 and higher	3	0	-100.0%	9	0	-100.0%
Grand Total:	485	613	26.4%	3595	4759	32.4%

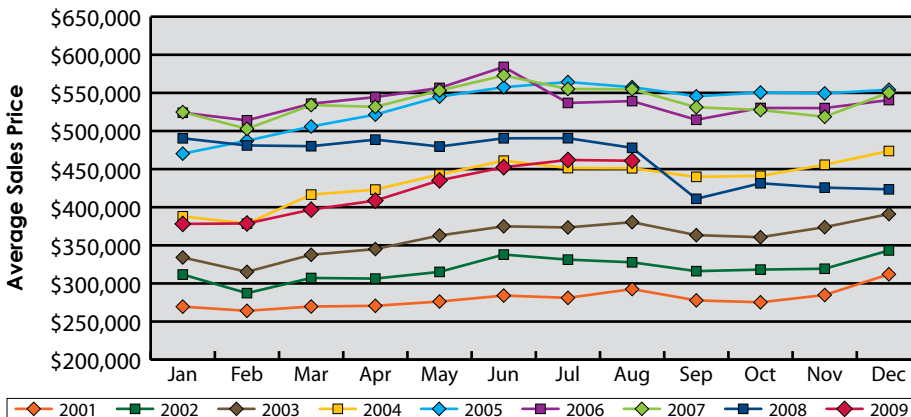
Fee Simple Attached	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	301	225	-25.2%	1651	2370	43.5%
\$300,000-\$499,999	223	260	16.6%	2293	2134	-6.9%
\$500,000-\$749,999	61	69	13.1%	600	591	-1.5%
\$750,000-\$999,999	11	13	18.2%	118	109	-7.6%
\$1,000,000-\$1,499,999	1	3	200.0%	24	26	8.3%
\$1,500,000 and higher	2	0	-100.0%	16	4	-75.0%
Grand Total:	599	570	-4.8%	4702	5234	11.3%

Fee Simple Detached	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	109	120	10.1%	489	1332	172.4%
\$300,000-\$499,999	300	315	5.0%	2480	2701	8.9%
\$500,000-\$749,999	239	284	18.8%	2217	2420	9.2%
\$750,000-\$999,999	93	95	2.2%	835	768	-8.0%
\$1,000,000-\$1,499,999	37	47	27.0%	394	401	1.8%
\$1,500,000 and higher	20	24	20.0%	202	178	-11.9%
Grand Total:	798	885	10.9%	6617	7800	17.9%

- The tables to the left indicate contract activity for August 2009 compared to August 2008, as well as year-to-date contract activity for all three major property types.
- A **red** number indicates a negative market trend, and even a quick glance shows there's less **red** in the August numbers than for year-to-date numbers. In general, that means that the market is improving relative to earlier in the year.
- And in general, those homes that can be readily financed with a "conforming" mortgage – typically priced less than \$750,000 – are faring better than those homes that require "jumbo" mortgages.
- The sign we find most encouraging is that, with few exceptions, contract activity was up across all price ranges in all three property types in August. Some weakness at the low price end for attached homes turned those numbers negative for the month, but there were increases in contract activity through the broad middle of that market. Most encouragingly, every price category among detached homes improved.

AVERAGE SALES PRICE

Homes in Northern Virginia – 2001-Current



AVERAGE SALES PRICE

- The red line in the middle of the chart to the left tracks the average sales price so far in 2009, and they are tracking very closely to pricing levels seen in 2004.
- There's no reason to believe we're going to see prices fall below those levels, and it finally looks as though we're going to have some months ahead that track above pricing from 2008 – another positive sign.



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