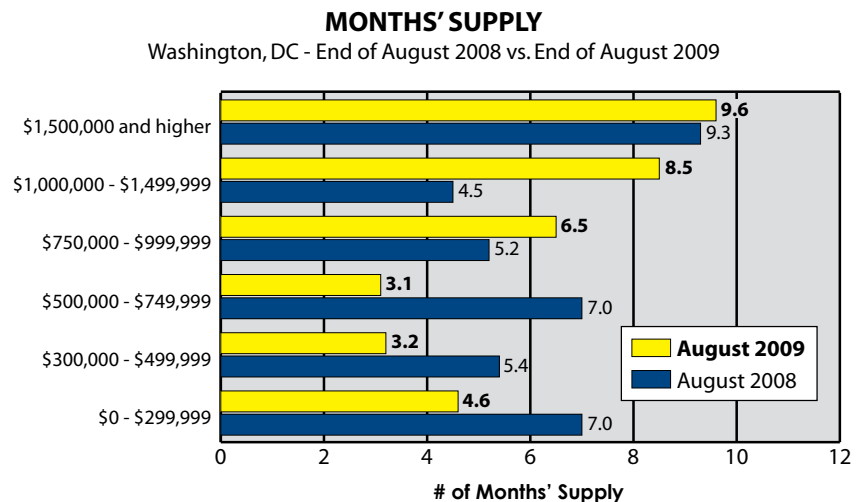


SIGN, SIGN, EVERYWHERE A SIGN . . .

. . . 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 Washington, DC'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 Washington, DC 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 last 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, there are some conflicting signs, more so in DC than any other jurisdiction in the region. There's considerably less supply of homes priced less than \$750,000 than this time last year, but more expensive homes are facing even tougher times than 12 months ago. DC's market is the most balanced among all price ranges – but it also has the highest overall supply at just over 4 months. Montgomery County is just under 3 months, while Northern Virginia's is only 2.1 months.



NEW CONTRACT ACTIVITY - BY PROPERTY TYPE AND PRICE RANGE Washington, DC

Condo/Co-op	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	93	100	7.5%	732	770	5.2%
\$300,000-\$499,999	107	142	32.7%	890	968	8.8%
\$500,000-\$749,999	31	38	22.6%	337	320	-5.0%
\$750,000-\$999,999	6	8	33.3%	63	67	6.3%
\$1,000,000-\$1,499,999	7	1	-85.7%	28	29	3.6%
\$1,500,000 and higher	0	2	-	12	22	83.3%
Grand Total:	244	291	19.3%	2062	2176	5.5%

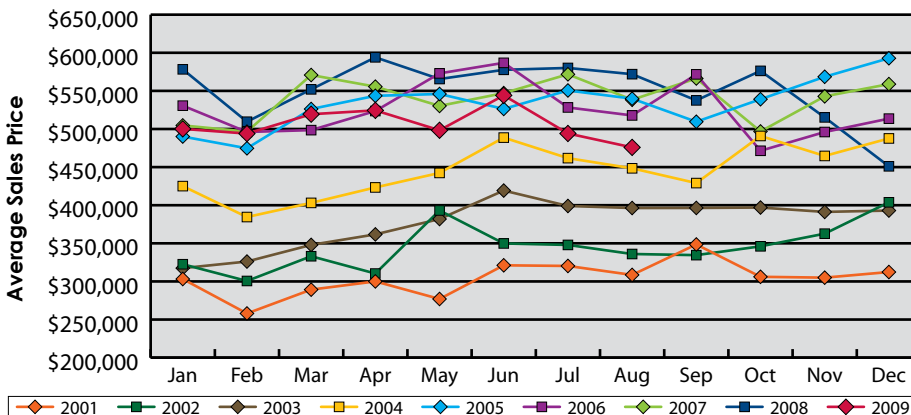
Fee Simple Attached	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	43	114	165.1%	380	803	111.3%
\$300,000-\$499,999	65	59	-9.2%	514	469	-8.8%
\$500,000-\$749,999	21	43	104.8%	330	353	7.0%
\$750,000-\$999,999	15	16	6.7%	188	173	-8.0%
\$1,000,000-\$1,499,999	11	8	-27.3%	84	77	-8.3%
\$1,500,000 and higher	6	6	0.0%	42	31	-26.2%
Grand Total:	161	246	52.8%	1538	1906	23.9%

Fee Simple Detached	New This Month			Year-To-Date		
	2008	2009	% Change	2008	2009	% Change
Contracts						
\$299,999 and under	20	31	55.0%	113	199	76.1%
\$300,000-\$499,999	18	18	0.0%	127	143	12.6%
\$500,000-\$749,999	8	13	62.5%	105	138	31.4%
\$750,000-\$999,999	15	9	-40.0%	137	135	-1.5%
\$1,000,000-\$1,499,999	4	6	50.0%	88	73	-17.0%
\$1,500,000 and higher	8	13	62.5%	86	69	-19.8%
Grand Total:	73	90	23.3%	656	757	15.4%

- 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. In general, that means that the market is improving relative to earlier in the year.
- In all three property types, there is significant strength at the lower end of the market, with increases in contracts for homes priced less than \$300,000.
- As noted on page one, DC's market is the most balanced in the region among all price ranges. It was the last to feel the effects of the market downturn and in many respects it is the last to begin its recovery. But DC's downturn was nowhere near as severe as the outlying suburbs so it doesn't have as deep a hole to climb out of.

AVERAGE SALES PRICE

Homes in Washington, DC – 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 well above pricing levels seen in 2004 but below those of 2005.
- There's no reason to believe we're going to see prices fall below those 2004 levels. We're obviously a long way from getting back to the market peaks of 2006 and 2007, but signs are pointing up.



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