

HIT OR MYTH – IS THERE A POST-ELECTION REAL ESTATE BOOM?

We hear it all the time: the real estate market in the metro area will really pick up after the elections, especially this year. Regardless of who wins, there's going to be a change in the White House, and there's always change in Congress. And that means new jobs and lots of folks coming to town. But is that really true?

Let's take a look at the basics. There are 3,000 Presidentially appointed jobs and 24,000 jobs on the Hill. On the surface, that many jobs should have an enormous impact on the real estate market, but let's break it down.

Look at the White House. Assume that every single job changes hands, and that there are a considerable number of staff jobs that change with them. Being generous, that could be as many of 8,000 jobs – but let's also talk about the reality of Washington. Lots of the people who will fill those jobs already live here – call it the Potomac Two-Step. Folks currently "out" in the private sector dance "in," and those that are currently "in" dance over to think tanks and other jobs. Again, let's be generous and say that fully half of all of those jobs get filled by folks who move here from parts beyond. It takes almost 18 months for all of those posts to be approved by Congress, so we're looking at 4,000 out-of-towners getting new jobs – and let's finally assume that half of those buy homes in the first year. That would be about 2,000 home purchases.

On the Hill, 8,600 jobs are "non-partisan" and don't change when new members arrive in town, so there are roughly 1,540 jobs subject to change. The reality of our system is that a **huge** change in the makeup of Congress really means no more than a 10% turnover, so that would mean 54 new Members and their staffs. Assume that every single one of the roughly 1,540 staff jobs changes hands, and that half of the new hires come here from out of town. Staff pay is such that only about half could afford to buy a home in this area, so let's further assume that everyone that can buy does, and that they buy right away. If every new member buys and the staff acts as we have described, about 400 homes would be purchased in the first half of 2009 because of Congressional changes.

We will see no more than 2,400 homes change hands as the result of the upcoming elections, spread over a year. And that's being very generous. In a "typical" year, there are roughly 50,000 home sales in Washington, DC and the contiguous counties. (This does not include Loudoun and Prince William Counties in Virginia, or Frederick or Howard Counties in Maryland.) 2,400 purchasers would increase demand by no more than 5% - more of a "blip" than a "boom."

And there is one other significant factor to consider: individuals do not make a decision to purchase a home in a vacuum. Just moving to the area to take a new job – even a new job on the Hill or in the Executive branch – does not cause an individual to ignore overall market conditions. There are reasons that potential purchasers today are reluctant to buy, and those reasons aren't going to disappear because of the elections. Remember the most recent Congressional elections? Democrats swept to victory in the Senate, picking up 5 seats, and in the House, picking up 30 seats; it was considered a huge change, justifiably so. So what happened in the housing market? In the first six months of 2007 – the immediate aftermath of the election - there was a **decline of 15%** in contract activity compared to the first six months of 2000. In 2000, there was a change in the party holding the White House and a net change of 8 seats on the Hill. There was an **8% increase** in contract activity in the six months right after the election compared to the same six month period of the previous year.

The bottom line: the post-election "boom" is a myth, and one should not base one's housing decisions based on the supposed impact of the election. As we have always maintained, sell when it is the right time for you and your family to sell; buy when it is the right time for you and your family to buy. Market timing is a pretty risky endeavor – particularly if one's timing is based on politics.



NORTHERN VIRGINIA	Jan-Jun '07	Jan-Jun '08	% Change
Number of Sales	10,468	8,617	-17.7%
Avg Month-End Available Inventory	7,798	8,911	14.3%
Number of New Listings	21,740	20,008	-8.0%
Number of New Contracts	11,502	10,968	-4.6%
Days on Market - New Contracts	79	93	17.9%
Average Sales Price	\$501,432	\$485,002	-3.3%
Average Seller Subsidy	\$5,085	\$5,065	-0.4%
Average Months' Supply	4.1	4.9	19.8%

GREATER NORTHERN VIRGINIA MARKET PERFORMANCE – FIRST HALF OF 2008

- The first half of 2008 ended better in Northern Virginia, as April, May and June each saw increases in contract activity compared to the same months of 2007 – but overall contract activity was off 4.6%.
- On the other hand, Loudoun and Prince William Counties have seen significant increases in contract activity, but major declines in the average price of homes sold.

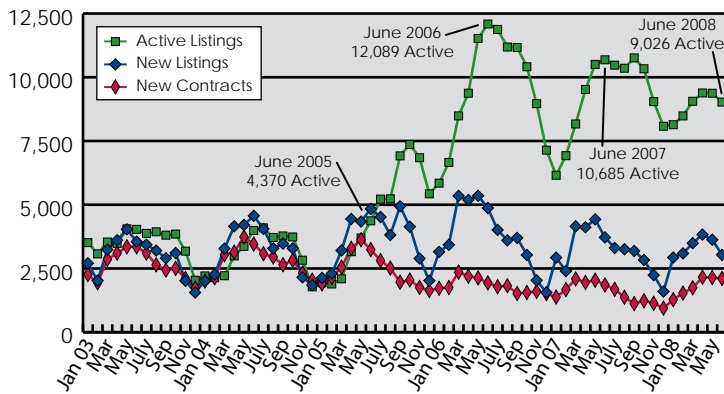
LOUDOUN COUNTY	Jan-Jun '07	Jan-Jun '08	% Change
Number of Sales	2,650	2,530	-4.5%
Avg Month-End Available Inventory	3,086	3,024	-2.0%
Number of New Listings	6,373	5,807	-8.9%
Number of New Contracts	2,922	3,290	12.6%
Days on Market - New Contracts	114	110	-3.0%
Average Sales Price	\$511,939	\$411,891	-19.5%
Average Seller Subsidy	\$7,299	\$5,649	-22.6%
Average Months' Supply	6.3	5.5	-13.0%

PR WILLIAM/Manassas/Manassas Pk	Jan-Jun '07	Jan-Jun '08	% Change
Number of Sales	2,987	4,473	49.7%
Avg Month-End Available Inventory	5,124	5,931	15.8%
Number of New Listings	10,560	11,236	6.4%
Number of New Contracts	3,279	5,995	82.8%
Days on Market - New Contracts	117	121	3.1%
Average Sales Price	\$401,417	\$284,086	-29.2%
Average Seller Subsidy	\$8,520	\$6,353	-25.4%
Average Months' Supply	9.4	5.9	-36.7%

* Note: Percentages depicted in red indicate a negative market trend; black indicates a positive market trend

NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

Northern Virginia – January 2003-June 2008

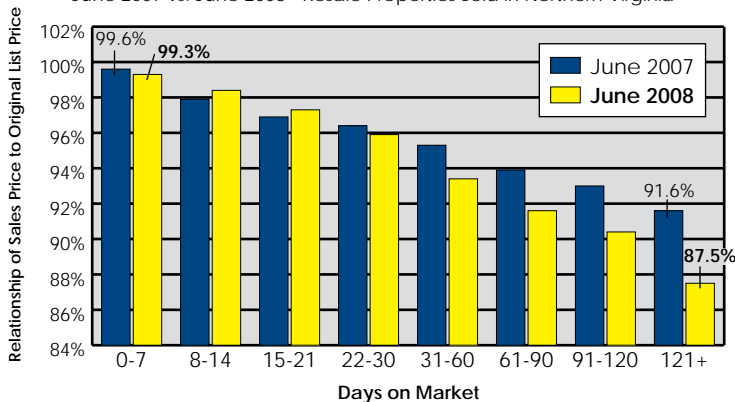


NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

- There were 3,035 new listings that came on the market in June 2008, an **18.4% decrease** from the 3,720 in June 2007.
- While Northern Virginia inventory peaked in June 2006, Washington, DC and Montgomery County, MD inventory is peaking now.
- As long as there is a substantial gap between active listings (the green line on the chart at left) and contract activity (the red line), buyers will have more leverage than sellers.

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

June 2007 vs. June 2008 - Resale Properties Sold in Northern Virginia



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

- As we have noted in this space for **years**, initial pricing strategy is critical to the success of sellers.
- Homes settling in June 2008 that received contracts their first week on the market sold, on average, for **99.3% of list**. Those that took 4 months or longer to sell sold for 87.5% of original list!
- The best thing for sellers to do is to price their home correctly from day one on the market.



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