

WHAT DO DISNEY, *THE NATION*, *THE ECONOMIST* AND THE ASSOCIATED PRESS HAVE IN COMMON?

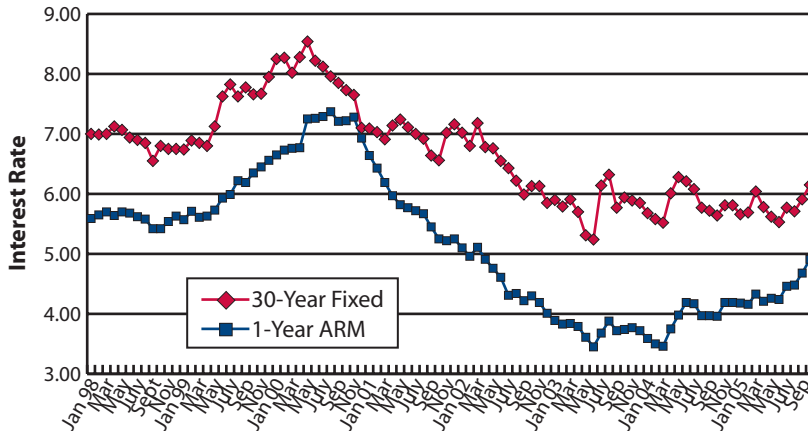
Chicken Little. Or, rather, the desire to make money from the Chicken Little Syndrome. Disney has a hit animated film of the same name, and folks of all ages are flocking to see it. And it would appear that any number of media outlets have decided that there is money to be made in spreading baseless fear that the real estate sky is falling.

The long-term reader of this space may be getting sick and tired of us dealing with this issue, but the recent slowdown in the market has renewed the hyperbolic clucking that the end of the good times must be near. Here's our favorite. An October 5, 2005 article in *The Nation* led with this understated bit of journalism: "The Big One isn't the long-predicted California earthquake or even a hurricane named Katrina. The genuine big one will arrive with a deafening pop, the sound of the real estate bubble bursting." That was immediately followed by the "truly ominous" info that Manhattan real estate prices had fallen 13% in the third quarter. Really? The truth is that prices in Manhattan **rose** in the third quarter of 2005 compared to the third quarter of 2004. There's more, but this sums it up quite well: go to Google and type in "real estate bubble," and you'll get 3,500,000 entries!

Is the market softening? Absolutely. Are properties taking longer to sell? Absolutely. Is there substantially more inventory on the market in Metro DC than this time last year? You betcha. Is it possible that **some** area home prices might actually go down? Possible - but not probable. What we are seeing is the expected return to a more normal market after two white-hot years that were anything but normal. Instead of 20-25% appreciation, expect the average price to rise 7-12% next year - that's what we've been saying for a long time now, Chicken Little and Henny Penny notwithstanding.

30-YEAR FIXED AND 1-YEAR ADJUSTABLE RATES

Month-End Mortgage Rates – 1998-Current

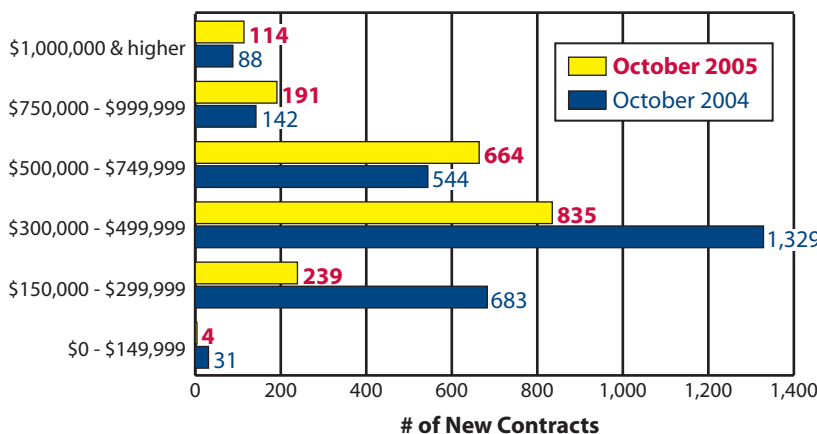


MORTGAGE RATES

- 30-year fixed interest rates at the end of October averaged 6.15%, compared to 5.64% at the end of October 2004.
- One-year ARMs were 4.91% at the end of October 2005 vs. 3.97% at the end of October 2004.
- This bump-up in rates has certainly sent many prospective purchasers scurrying for interest-only loans.
- NAR forecasts fixed-rate mortgages to reach 6.75% by the end of 2006.

NEW CONTRACT ACTIVITY

October 2004 vs. October 2005 by Price Range

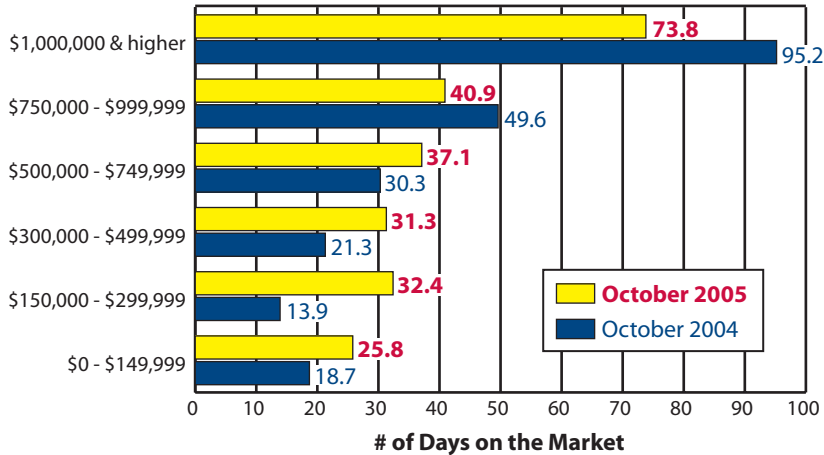


NEW CONTRACT ACTIVITY

- The number of new contracts ratified in October 2005 was **down 27%** from the number of contracts ratified in October 2004.
- 35% of all homes going under contract in October 2005 had a price reduction before going under contract; it was only 19% last October.

AVERAGE NUMBER OF DAYS ON MARKET

October 2004 vs. October 2005 - New Contracts

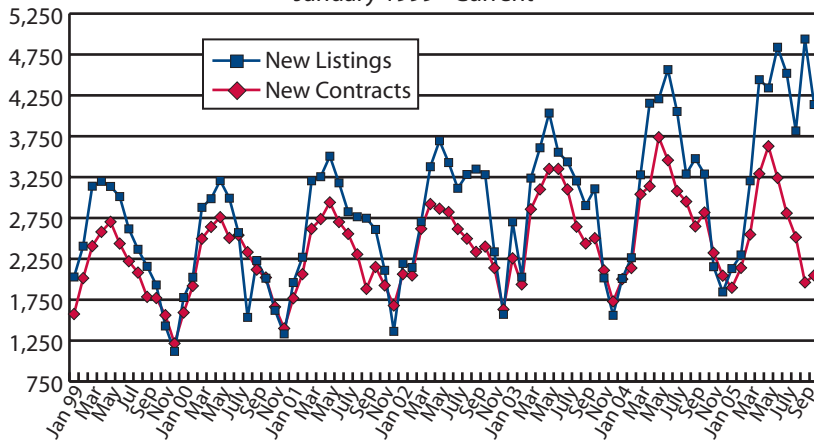


AVERAGE NUMBER OF DAYS ON THE MARKET - New Contracts

- Average number of days on the market for homes receiving contracts in October was up in 4 of the 6 price categories, but actually **declined** slightly for homes priced over \$750,000.
- The average number of days on the market for all homes receiving contracts in October 2005 - including new construction - was 37 days, up from 25 days in October 2004.

NUMBER OF NEW LISTINGS vs. NUMBER OF NEW CONTRACTS

January 1999 - Current

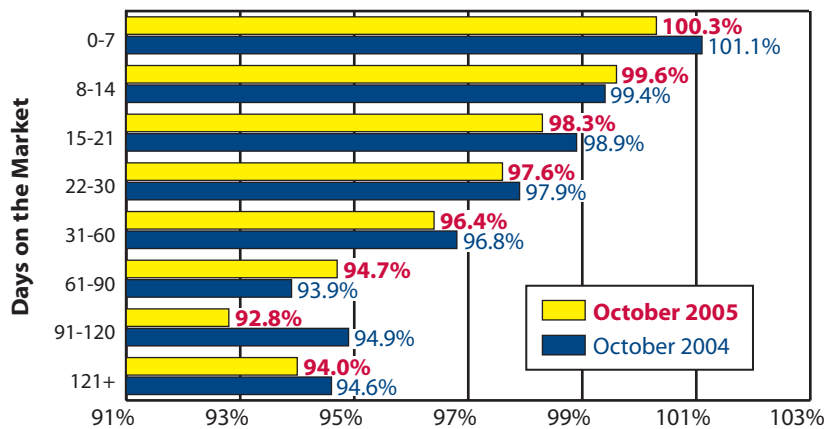


NUMBER OF NEW LISTINGS vs. NUMBER OF NEW CONTRACTS

- There were almost 4,100 new listings that came on the market in October 2005, the greatest number of new listings in October since we started tracking this indicator.
- This compares to just over 2,000 newly ratified contracts in October, a substantial gap.
- There is no doubt that the market has softened in virtually every respect - even though prices are still holding up quite well.

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

October 2004 vs. October 2005 - Resale Properties Sold in Northern Virginia



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

- Homes sold closer to their original list price in October 2005 in only 2 of 8 "Days on the Market" categories compared to October 2004.
- Even homes selling in the first week on the market fared a little more poorly than last year - selling just barely above list price on average.



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