

### WELL, THAT WAS FUN, WASN'T IT?

2008 was, without a doubt, the single most challenging year in real estate in Northern Virginia in at least 30 years. And the nation-wide problems in real estate helped to precipitate the takeover of Fannie Mae and Freddie Mac, the bailout of numerous banking, insurance and financial institutions and the loss of 33% of the value of the Dow Jones stocks.

In the close-in areas of Northern Virginia (Fairfax, Arlington and Alexandria), the number of sales in 2008 was off **46%** from the peak year of 2004. Loudoun and Prince William Counties reached their low point in 2007, but the number of foreclosures getting cleared from the market gave a significant boost – an increase of 45% - to the number of sales in 2008. Nonetheless, the market remains sluggish and in general, there is still downward pressure on prices. So where is the market headed from here?

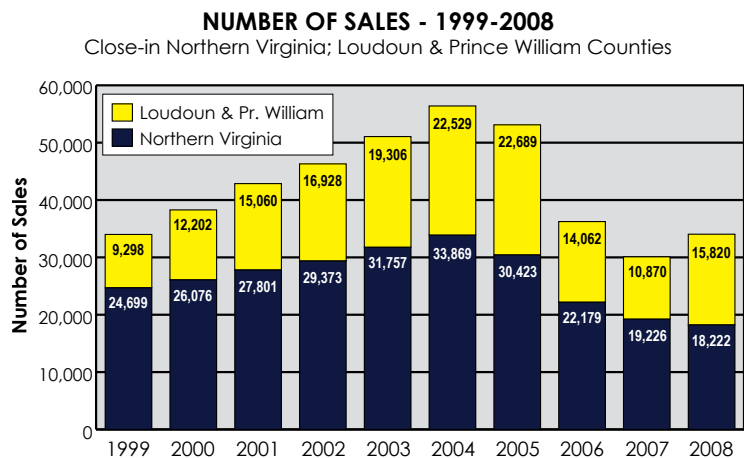
There are a number of reasons to be pessimistic about a recovery in our market anytime soon.

The wave of foreclosures isn't over yet, and there are still plenty of interest rate resets coming. Outlying areas have seen the most dramatic price declines and their recovery will take longer. There are plenty of homeowners who have seen an erosion of equity such that, even though they can handle their mortgage payments, they may not have sufficient equity to sell their homes without bringing cash to the settlement table. And the biggest one is the general sense of uncertainty that exists about the overall economy. If folks are uncertain about their job prospects, or believe that dismal economic conditions will persist, they aren't very likely to purchase a home.

Nonetheless, there are also reasons to think that things will improve in 2009. Mortgage interest rates are as low as they have been in 40 years, and there is pent-up demand to purchase homes – the current level of purchases is well below our historic norms. But the most important reason is jobs. As tough as market conditions here have been during the last few years, the metropolitan Washington region already has the lowest unemployment rate among the 15 largest job markets in the United States. George Mason University's Center for Regional Analysis projects net job growth of 23,700 in 2009 in the region, more than half of which will be in Northern Virginia. Job growth brings household formation, and while that does not mean that each of those new household will purchase a home, job growth sure beats the contraction of employment seen in so many areas of the country. Even more encouraging is George Mason's projection of close to a quarter million new jobs in the region between 2008 and 2013.\*

We expect a market that will limp along through the first half of the year, with a gradual recovery in home prices beginning by the third quarter for those areas closest to the city center. Those areas in the far suburbs are not likely to see anything resembling price appreciation until next year.

\* Source: Dr. Stephen Fuller, George Mason University Center for Regional Analysis, "The Economy in 2009 and Beyond"

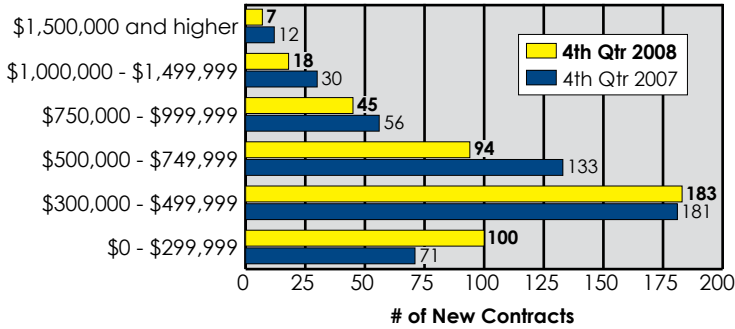


## THERE ISN'T ONE "NORTHERN VIRGINIA MARKET"

As long-time readers of this space know, market conditions vary widely in metro DC – and they vary widely within even the fairly limited geography of close-in Northern Virginia. We've broken the suburbs into six separate submarkets and examined the change in contract activity in the fourth quarter of 2008 compared to the fourth quarter of 2007. The differences may surprise you.

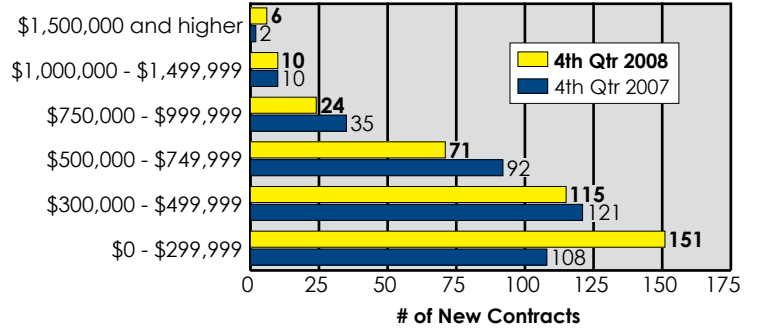
### NEW CONTRACT ACTIVITY

Arlington Co. & Falls Church City - Oct-Dec 2007 vs. Oct-Dec 2008



### NEW CONTRACT ACTIVITY

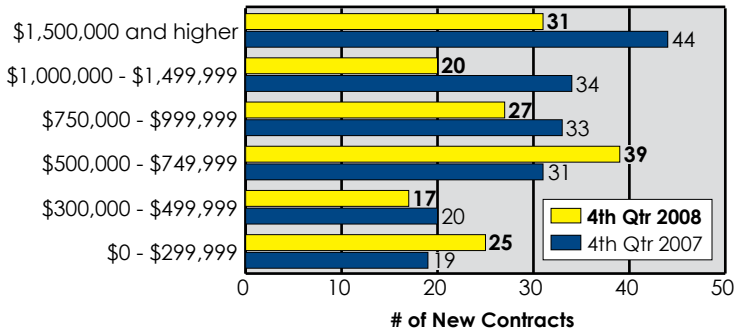
City of Alexandria - Oct-Dec 2007 vs. Oct-Dec 2008



The level of contract activity in the inner suburbs of Arlington and Falls Church City dropped 7.5% in Q4 2008 compared to Q4 2007. But activity actually increased for homes price under \$500,000. In nearby City of Alexandria, contract activity increased modestly, just 2.4% - and all of those increases were confined to homes priced under \$300,000.

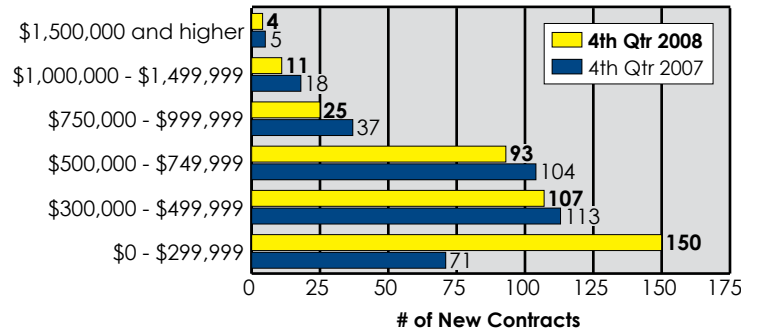
### NEW CONTRACT ACTIVITY

McLean & Great Falls - Oct-Dec 2007 vs. Oct-Dec 2008



### NEW CONTRACT ACTIVITY

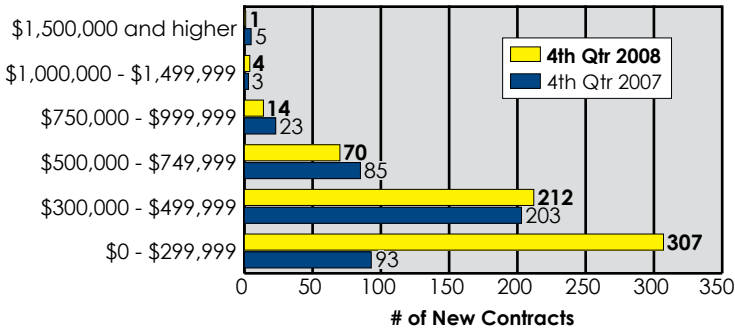
Oakton, Reston & Vienna - Oct-Dec 2007 vs. Oct-Dec 2008



In Northern Virginia's most expensive areas – McLean and Great Falls – contract activity **dropped 12.2%** in Q4 2008. However, there seemed to be a "sweet spot" with an increase in activity for homes prices between \$500,000 and \$750,000. In nearby Oakton, Vienna and Reston, contract levels **increased 12.1%**, but only homes priced \$300K saw that increase.

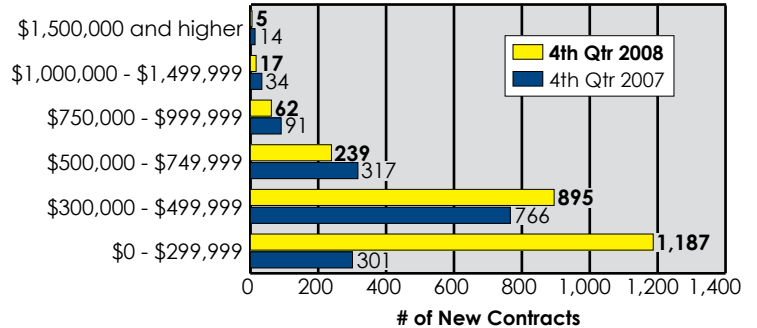
### NEW CONTRACT ACTIVITY

Fairfax Co. portions of Alexandria - Oct-Dec 2007 vs. Oct-Dec 2008



### NEW CONTRACT ACTIVITY

Remainder of Fairfax Co. - Oct-Dec 2007 vs. Oct-Dec 2008



As we have noted, those areas a bit further out – in large measure because of a great impact of short sales and foreclosures – have seen a significant rebound in contracts. In those areas of Fairfax County with an Alexandria mailing address, Q4 2008 contract activity **jumped 47.8%**, and in the rest of the County not covered by the area we have already described, activity **rose 57.7%**. Safe to say market conditions – and impact of those conditions – vary widely!

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Chevy Chase \$899,000 MC6905732



Alexandria \$1,499,900 AX6913265



McLean \$2,450,000 FX6911296



DC/Capitol Sq. \$748,700 DC6889257



Kensington \$635,000 MC6927548



Fairfax \$699,900 FX6955840



Herndon \$889,000 FX6960066



DC/West End \$469,000 DC6961961



Silver Spring \$574,000 MC6954572



Vienna \$679,000 FX6939203



Springfield \$449,900 FX6962625



DC/Logan Circle \$400,000 DC6965075



Silver Spring \$285,000 MC6925721



Alexandria \$349,500 AX6899127



Annandale \$429,900 FX6952945



DC/Capitol Sq. \$874,900 DC6961368



DC/Mount Pleasant \$549,950 DC6952056



Arlington \$625,000 AR6961979



Burke \$326,000 FX6964800



McLean \$995,000 FX6936478



Alexandria \$1,195,000 AX6916514

\*These properties are all available for sale at the time of production. Information is not guaranteed.



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