



OUCH!

2007 ended with a whimper in the Northern Virginia real estate market, as a market that was already in transition was hammered by the impact of the uncertainty in the mortgage market. In fact, the number of contracts ratified in December 2007 was the smallest of any month in at least 11 years, and this was true not only in Northern Virginia but in every other jurisdiction in the Washington metropolitan area.

Potential buyers are understandably cautious about making a housing decision if they believe that the market will continue to slide, and homeowners who have to sell in the current conditions of the market are likely to face some pretty tough sledding. There's no sugar-coating the reality that the market is the softest it has been since the early 1990s – an understandable consequence of the unprecedented run up in home prices in the first half of this decade. Yet, as we have noted here many times over the last year, market conditions vary enormously from area to area. And generally speaking, those areas closest to the center of the city are doing better than those further out. Here are a couple of examples:

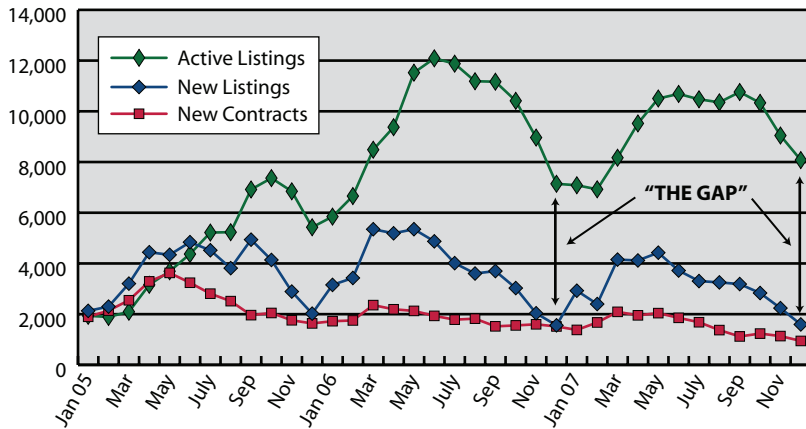
In North Arlington, there is wonderful neighborhood of 40 to 60 year-old detached homes called Lee Heights. In the second half of 2007, there were ten homes that went under contract in Lee Heights; they settled for an average of **99%** of their original list price, and sold in an average of **just 24 days**. Two of those homes actually sold for **more** than list price. In Prince William County, Marumsc Woods is a community of detached homes of about the same vintage as those in Lee Heights, but they are far more modestly priced. There were twelve homes that went under contract in the second half of 2007, but they sold for an average of only **89%** of the original list price, and took an average of **192 days** to sell. We did a little digging, and **half** of these homes were bank-owned or were short sales. In fact, as of the end of 2007, one in four homes on the market in Prince William County was either a foreclosure or short sale (see chart on page 2).

So what's the message for sellers and buyers in this market? Does it make sense to attempt to sell a house under these conditions? If prices are likely to come down, why would someone even consider buying? Here are some basic guidelines that we think make sense in today's market:

- The market – and therefore the market price – of any home is influenced by a variety of factors, including the national economy and prevailing interest rates, as well as regional factors like the local employment picture, proximity to major transportation corridors and employment centers. Yet, the most important factors are **neighborhood specific**, impacted by the number of homes on the market, the presence or absence of distress sales and the desirability of the specific type of housing in that neighborhood.
- Buyers are cautious, and they should be, because prices are likely to come down further before they go up. However, buyers should not assume – as some pundits advise – that every home is overpriced. Do your homework, get the help of a REALTOR® who understands the market and your individual needs. If your **personal** circumstances dictate that this is a good time to buy, there are some exceptional opportunities out there.
- Sellers have to accept the fundamental reality that there are far more homes on the market than there are buyers for them. Sellers cannot assume that the home they have loved will be equally embraced by nervous prospective purchasers. The pricing and condition of your home have to be just right and, to sell, you have to know the realities of the market, **right down to your neighborhood**.

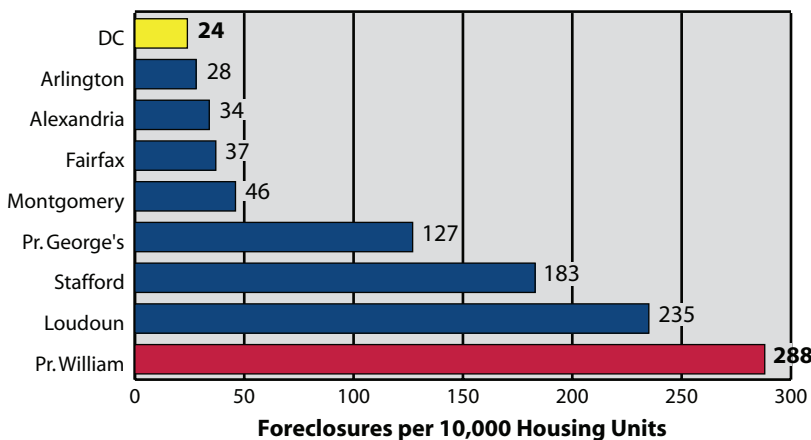
NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

Northern Virginia - January 2005-December 2007

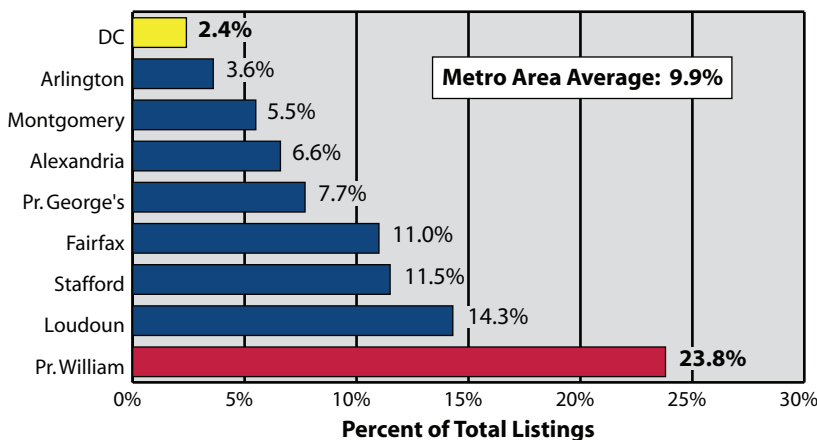


MORTGAGE FORECLOSURE RATES BY COUNTY

4th Quarter 2007



FORECLOSURES AND SHORT SALES AS A PERCENTAGE OF TOTAL LISTINGS - 4th Quarter 2007



Source for 2 charts above: George Mason University Center for Regional Analysis

NUMBER OF NEW LISTINGS, NEW CONTRACTS, AND ACTIVE LISTINGS

- “Mind the Gap.” That’s the warning between rail cars in the London Underground, and it is good advice for today’s real estate market.
- The “gap” between the number of active listings on the market (the green line) and the number of contracts ratified each month (the red line) is double what it was this time last year, and it is likely to get wider still.
- Note that in early 2005, there was no “gap;” listings were absorbed by the hot market just as soon as they came on.

MORTGAGE FORECLOSURE RATES BY COUNTY – 4TH QUARTER 2007

- Are market conditions consistent throughout the area? You be the judge.
- The chart to the left indicates the number of homes that went to foreclosure per 10,000 housing units in each of the jurisdictions noted in the 4th quarter of 2007. With 28 in Arlington and 288 in Prince William, it seems that location really does matter.
- And this mirrors the neighborhood example on page one. Lee Heights in Arlington fared pretty well; Marumsco Woods in Prince William did not.

FORECLOSURES AND SHORT SALES AS A PERCENTAGE OF TOTAL LISTINGS

- How much of an impact are “distressed” properties having on the market? The chart to the left shows homes on the market that are “short sales” (the value of the home is less than the mortgage balance) and homes that have already gone to foreclosure as a percentage of **all** the homes on the market in a given area.
- In Washington, DC, it’s just one home in forty. In Arlington, it’s **one in thirty** – and in Prince William it’s **one in every four**. Clearly, DC, Arlington and other close-in jurisdictions will recover far more quickly than Prince William.



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