

**-34%, 4.5%, 2.1%, 40,000, 17,000, -22%, -485,000**

**Numbers.** They're just numbers. But with half of 2006 behind us, each of these numbers is critical to understanding the current real estate market in Northern Virginia and metro DC, and to understanding where this market is likely to be headed over the next several years.

**-34%.** This is the number that gets the most attention because it represents the percentage decline in the number of home sales through the first six months of the year. That's a big drop. The region's real estate market has been in a transition period since the third quarter of last year, as the extended run-up in home values finally priced more purchasers out of the market. It was inevitable, and we were surprised that it took as long as it did. And that drop has been accompanied by a quadrupling of the number of available homes for sale. One can reasonably conclude that, in the period of one year, we have shifted from a strong sellers' market to a mild buyers' market. And the buyers that are in the market are using their new-found leverage to drive harder bargains. It is pretty rare now for a home to sell above list price, and most successfully negotiated offers have home inspections and other contingencies that sellers did not have to agree to during the last few years.

**4.5%.** When demand drops and supply increases, prices fall. That's Economics 101, right? Wrong. Remarkably, 4.5% represents the **increase in the average sales price** from the first half of 2005 to the first half of 2006. Specifically, the average price in the first six months of 2005 was \$521,517; in the first five months of 2006 the average sales price was \$544,985. While 4.5% is a far cry from the 20%–25% annual increase that we have seen in the last several years, it is nonetheless a truly remarkable number. **A note of caution:** This does not mean that all homes are worth more today than they were at this time last year because that clearly is not the case. Some homes, based on neighborhood-level supply and demand, have fallen in value. And generally speaking, the further a home is from the central business district, the more likely it is to have fallen in value from the dizzying heights of last year. But the numbers don't lie – the average sale price has increased.

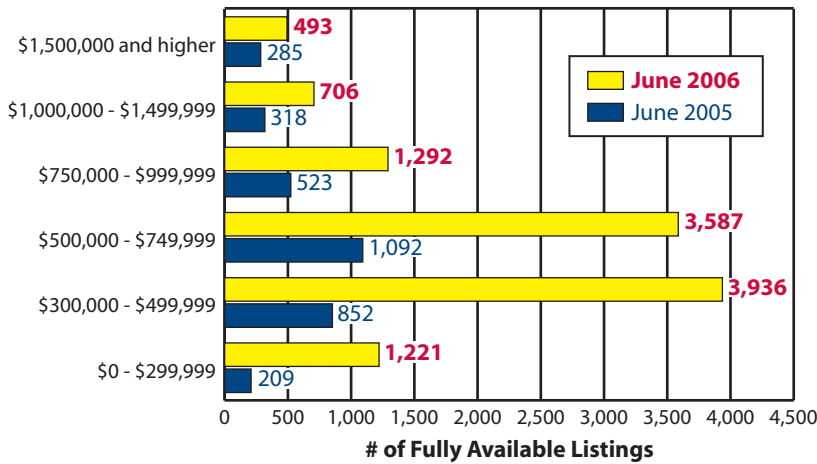
**2.1%.** This is why home prices, on average, have increased. That's the unemployment rate in Northern Virginia. The Washington region's unemployment rate is 2.9%. That's as close to full employment as one will ever see, and employers have jobs that are going begging because of the lack of qualified people. As long as there is strong job growth, the long-term demand for housing will remain strong. More on that later.

**40,000 and 17,000.** According to Dr. Stephen Fuller, the renowned economist who runs the Center for Regional Analysis at George Mason University, 40,000 new jobs will be created in Northern Virginia over the next 12 months. The people for those jobs do not yet live here. And that means that roughly 28,000 new households will be created as those jobs are filled. Those folks have to live somewhere. Certainly, some will choose to rent. Some will look well beyond the geographical confines of Northern Virginia in search of affordable housing. But there is no escaping the reality that there will be an increase in the demand for area housing. And that's why the next number is so important. 17,000 is the number of new housing units that will be built in Northern Virginia over the next twelve months. So if 28,000 households will be created and only 17,000 units will be built, basic math means that there will continue to be demand for relatively scarce housing.

**-22% and -485,000.** There is continued rumbling in national and even local media that our region's housing is significantly overvalued, and that we are poised on the brink of a major housing price adjustment – one study said we're due for a downward adjustment of almost 40%! Hogwash. There is a direct correlation between job growth and the vitality of housing. Dr. Fuller points to a time when home values in metro Los Angeles lost 22% of their value over a two-year period time. During that same time, the area also lost 485,000 jobs. When the bottom fell out of the price of crude oil (hard as that is to believe, given today's gas prices) in the mid-1980s, cities and towns across Texas, Louisiana and Oklahoma saw significant declines in home values as well. That's because their communities were hemorrhaging jobs. As long as our job growth remains strong, our housing market is going to be just fine.

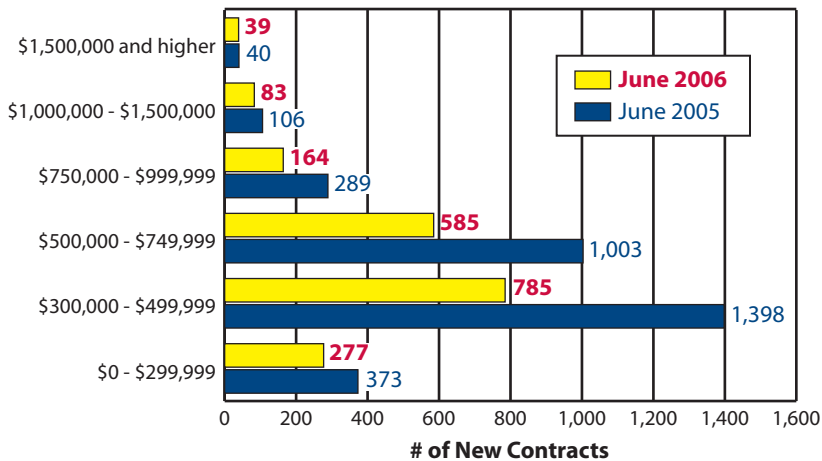
## FULLY AVAILABLE LISTINGS

June 2005 vs. June 2006 by Price Range



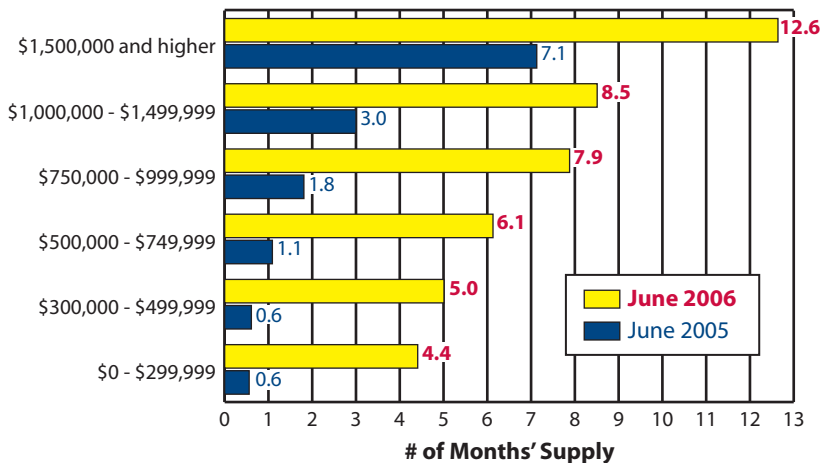
## NEW CONTRACT ACTIVITY

June 2005 vs. June 2006 by Price Range



## MONTHS' SUPPLY

June 2005 vs. June 2006 by Price Range



## FULLY AVAILABLE LISTINGS

- Inventory has climbed substantially in every price category. In June of 2006 the overall inventory increased 242% versus June of 2005.
- 44% of all homes on the market have had at least one price reduction since coming on the market, suggesting that some sellers have underestimated how much the market has changed.

## NEW CONTRACT ACTIVITY

- The number of new contracts ratified in June 2006 was **down almost 40%** from the number of contracts ratified in June 2005. That's the biggest month-over-year drop we have seen this year.
- Through the first six months of 2006, contract activity has declined 28% from the same period last year.
- 46% of all homes going under contract in June 2006 had a price reduction before going under contract. It was only 15% in June 2005.

## MONTHS' SUPPLY

- The overall supply of homes on the market at the end of June was 5.8 months, which is **six times** that supply of last June.
- Given those numbers, it is no surprise that supply is also up substantially in every price range.
- As discussed on page 1, that means purchasers have lots of choices, and they appear in little hurry to rush out and snap up homes as they did last year.



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