

### TOP TEN REASONS TO BE OPTIMISTIC ABOUT NORTHERN VIRGINIA'S HOUSING MARKET

We don't have David Letterman's comedy writers and, for us, real estate is serious business. But we like Dave's countdown format, so here are the top ten reasons to be optimistic about Northern Virginia's housing market:

**10. The softening of the market.** Believe it or not, that's a good thing. There is no doubt that the market is slower and softer in every respect when compared to the last several years. The 20%-25% appreciation rates were not sustainable. And the longer they continued, the harder the fall would be. (More on this topic on Page 2.) Markets seek balance, and that is precisely what this market is doing. The pendulum has swung in favor of buyers, and that is good for the long-term health of the region's housing market.

**9. The media.** OK, this may seem a bit tongue-in-cheek, but area homeowners should rejoice every time the national media and even local media predict doom and gloom for area housing – because they have so often been wrong. The relentless drumbeat of negativity seems almost totally disconnected from reality. Our current favorite: Forbes predicts that the median price of a home in metro DC will increase only 3% over the next ten years. Not 3% annually, mind you. A total of 3%. In the best regional economy in the country.

**8. History.** The compounded average annual increase in the average sales price of a home in the metro DC area over the last 30 years is 7%. (Forbes, are you paying attention?) 7% is normal; 7% is sustainable. We won't see that in 2006, but an individual's housing decision should be a long-term decision. Feel good about owning a home here – unless you have to sell right now.

**7. Income.** Three of the ten wealthiest counties as measured by median household income in the United States are in Northern Virginia: Loudoun (#1), Fairfax (#2), and Prince William (#7). The entire DC region ranks second only to San Jose, California in median income, and we have the lowest regional poverty rate in the country – 7%. That means we have a stable, broad-based economy.

**6. Virginia.** Virginia is one of a handful of states with a AAA bond rating and continues to attract businesses – and jobs – from all over the world. The state not only has a huge number of well-paying white collar jobs, but with Hampton Roads among the busiest seaports in the United States, the state also has a huge industrial base. The future for the Commonwealth looks very good

**5. Northern Virginia.** We are the economic engine of Virginia. The pace of commercial development is accelerating; we have the lowest office vacancy rates in the country. Our local “downtown” – Tysons Corner – has more office space and more jobs than the downtowns of most major metropolitan areas. The emerging town center developments throughout the region will create more jobs closer to major transportation arteries. Rail to Dulles will help fuel and sustain the region's growth. (More on transportation issues later.)

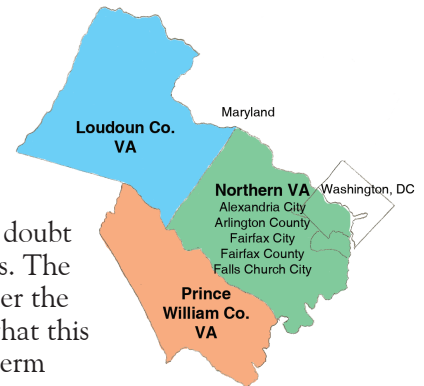
**4. Interest Rates.** Mortgage interest rates are already low and have been trending slightly lower over the last couple of months. Yes, they were a full point lower in the spring of 2005, and the rise in rates contributed to the slowing of the market. A brief historical note: McEneaney Associates was founded in 1980 when mortgage interest rates topped 17%, and people still bought and sold homes. Today's rates look pretty darn good.

**3. Federal Spending.** Although the pace of growth in Federal spending in the region has slowed compared to the first half of the decade, Northern Virginia still receives more than 50 cents of every federal dollar spent in the region, and federal jobs and federal spending provide a very strong foundation for our broad-based economy.

**2. Demographics.** We still have net migration to the area, and we are forming households at a pace that exceeds the number of new housing units being built. And, while in the transitioning market we are seeing an increase in rentals and a decrease in sales activity, people still have to have a place to live.

**1. Jobs.** The region has the lowest unemployment rate in the county – 3.5% – and Northern Virginia's is lowest in the region – right around 2%. We continue to create jobs at a significant pace. Here's just one example: 22,000 new jobs will be coming to Ft. Belvoir over the next 5 years, the equivalent of a new Pentagon coming to the I-95 corridor. And these jobs, by and large, will be well paying, highly technical jobs.

**This is our passionately held conviction: there is no better place in the United States to own a home than in this metropolitan area, and Northern Virginia is the best place in the region.**



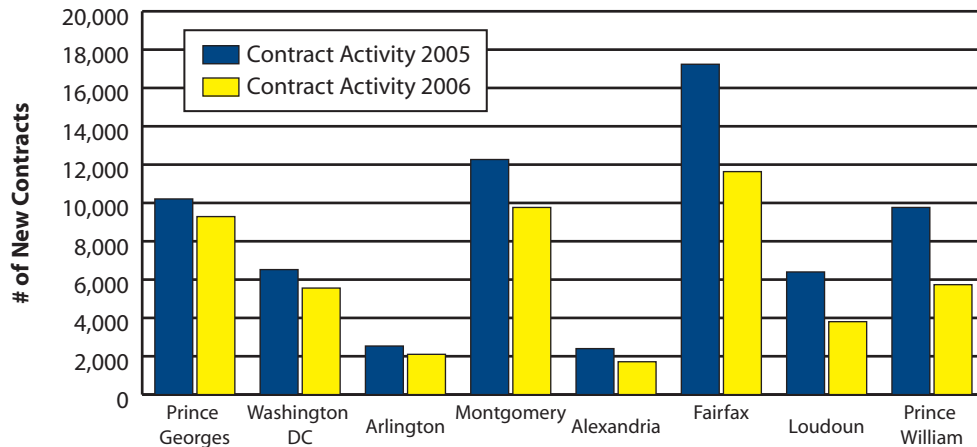
## THE MARKET IS SOFTER IN SOME PLACES THAN IN OTHERS – WHY?

As we have noted, the market is softer in every material respect in every jurisdiction in the metropolitan DC area. There is considerably more inventory; homes are taking longer to sell; contract activity is off as well. Yet, it is not equally soft everywhere: think of this as an “inside-out” market.

In general, the jurisdictions closer to the center of the city are faring better than those farther out. As the charts below indicate, Prince Georges County, Maryland has seen a drop in contract activity of 9% through the first 8 months of 2006 compared to the first eight months of 2005. Loudoun and Prince William Counties in Virginia have been hit the hardest.

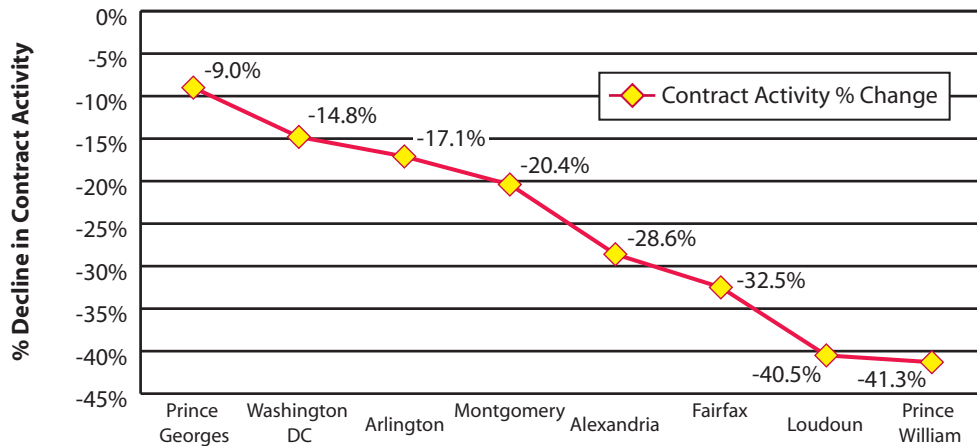
### CONTRACT ACTIVITY

Metro DC Jurisdictions - First 8 Months of 2005 and 2006



### % CHANGE IN CONTRACT ACTIVITY

Metro DC Jurisdictions - First 8 Months of 2005 and 2006



### CONTRACT ACTIVITY – First 8 Months of 2005 and 2006

- Every area in metro DC has seen a softening in demand
- Fairfax County continues to be the most active area, and it also has the greatest population.
- As noted above, the closer-in jurisdictions are holding up far better than the outlying suburbs.
- Contract activity in Prince Georges County is off 9%; DC is off just under 15%. However, Loudoun and Prince William Counties are each off over 40%.
- It would seem that proximity to the close-in major employment center, mass transit and shorter commutes matter a great deal
- With higher gas prices and ever-worsening traffic, it would seem that home buyers are making quality-of-life decisions that place a premium on living closer in.

Our Page One focus was on the top ten reasons to be optimistic about our housing market – and there is one area that gives us pause for concern: **transportation**. Recent studies have indicated that this region has the third worst traffic congestion in the country and that Northern Virginians have the second longest average commutes in the nation – second only to New York City. There is an appalling lack of regional cooperation on transportation issues and an even more appalling lack of political will to fund the desperately needed solutions. The increasing difficulty of moving people, goods and services into and throughout this region is, in our view, the greatest threat to the long-term health of not just the housing market but the regional economy. The impact of traffic on productivity and quality-of-life is significant and growing.



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