

WHAT A DIFFERENCE A YEAR MAKES!

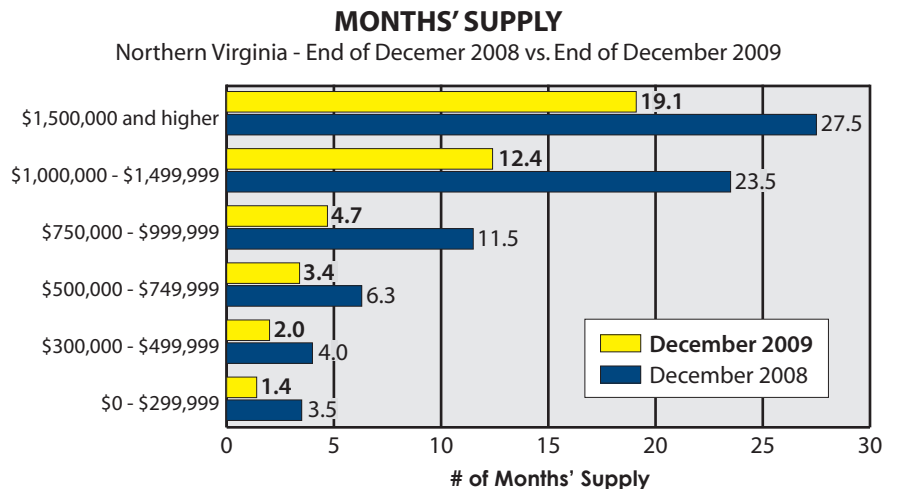
We track a lot of indices to help us determine the direction of the market, but there's none better than "Months' Supply." It is a very simple measure that compares the number of available homes on the market at the end of any given month to the contract activity of that same month. And by that measure, the market conditions at the end of 2009 were **dramatically better** than those at the end of 2008.

The chart at bottom right compares the relative supply across six different price categories in December 2008 and December 2009. The overall supply at year-end was just 2.6 months compared to 4.9 months at the end of December 2008. Much of that tightening can be attributed to a major drop in inventory – there were only half as many homes on the market on December 31, 2009 than there were on December 31, 2008.

Supply is significantly less in every price range, and the supply of homes priced less than \$500,000 looks a lot like a **sellers' market**. At the current level of contract activity, all of the existing inventory in these categories would be absorbed in two months or less. Part of what is fueling this tight supply condition is the homebuyers' tax credit, and we expect to see a pretty robust market this spring at the lower end of the market as purchasers rush to take advantage of this program before the April 30 contract cutoff date rolls around. We're even starting to see some modest upward pressure on prices – exactly as one would expect for any commodity where relatively many purchasers are chasing relatively little inventory.

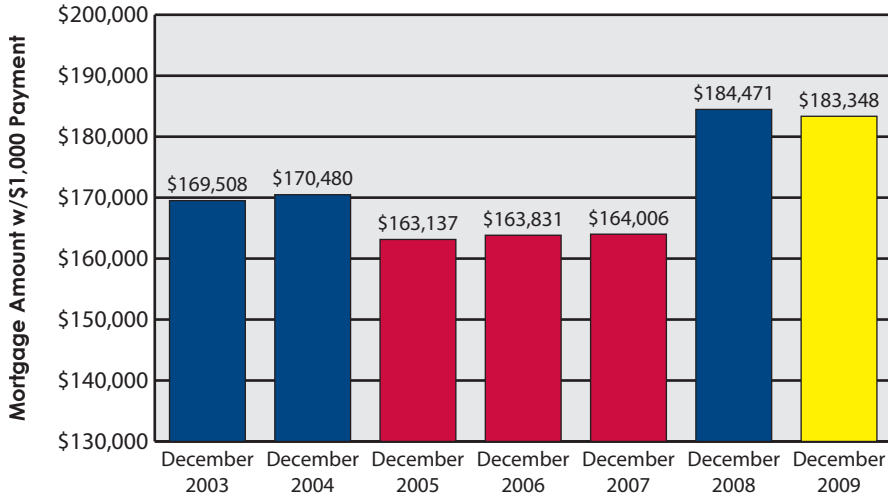
Even the upper end of the market has seen noteworthy improvement. A year ago, there was an almost two-year supply of homes priced between \$1,000,000 and \$1,500,000, compared to slightly more than a one year's supply in 2009. For homes priced more than \$1.5 million, supply has dropped from almost 28 months to about 19 months. That is a major improvement, but make no mistake: the upper bracket is a very different market than the lower end, and there is no reason to expect prices to move higher for quite a while for Northern Virginia's most expensive homes.

We're not suggesting the market is fully recovered, because it isn't. As we have noted, conditions at the lower end are quite different than at the upper end, and there are still plenty of bumps in the road ahead. We remain concerned about the potential of rising interest rates and another round of foreclosures and short sales hitting the street. However, the market is undeniably better than a year ago, and given how rough things have been, that feels pretty good.



BUYING POWER

Mortgage Amount with \$1,000 Payment

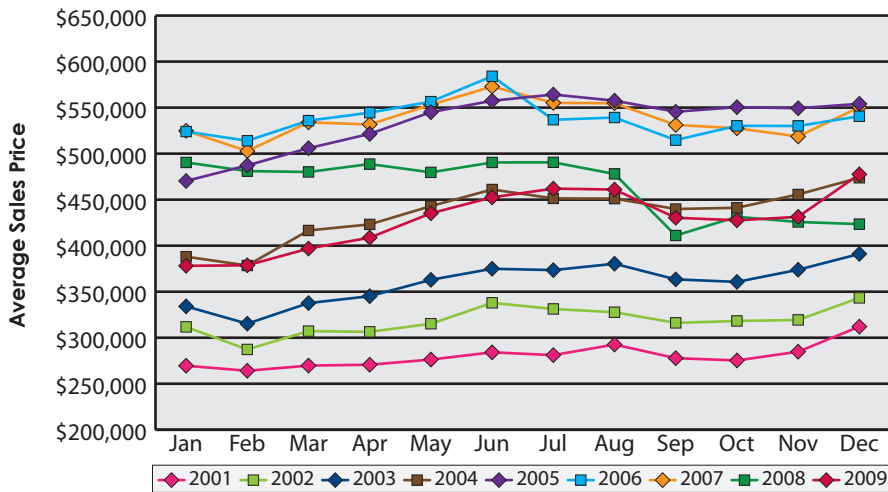


BUYING POWER

- 30-year fixed interest rates at the end of December averaged 5.14%, slightly more than rates at the end of December 2008 – but well below year-end rates for the previous five years.
- A \$1,000 principal and interest payment supported a loan of \$183,348 at the end of December 2009, **roughly \$20,000** more than December 2005 - 2007.
- That increased buying power, combined with the homebuyer's tax credit, has brought a lot of folks off the sidelines and into the game.

AVERAGE SALES PRICE

Homes in Northern Virginia - 2001-Current

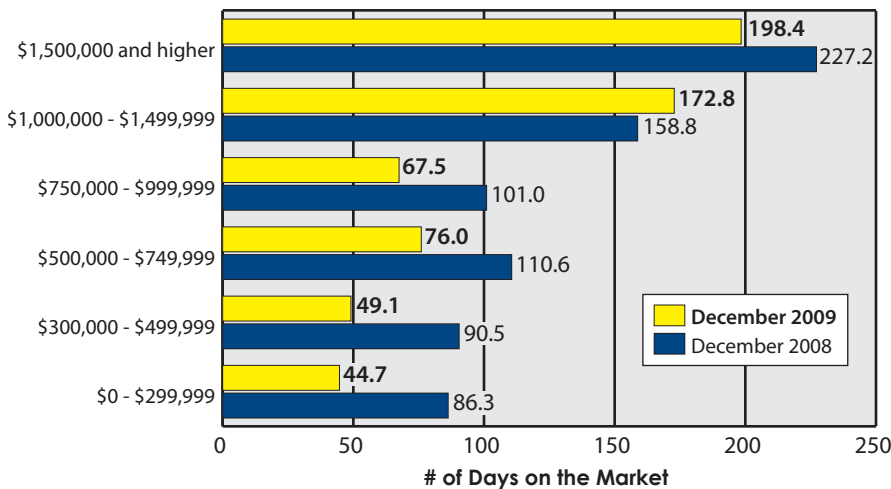


AVERAGE SALES PRICE

- The average sales price levels for 2009 tracked very closely to those of 2004.
- As indicated on page 1, there is very low supply, particularly for homes priced less than \$500,000, so prices have firmed up at the lower end of the market. We have likely seen the last of any significant downward pressure on prices at that lower end.
- However, there is still enough inventory of more expensive homes such that we do not expect any noticeable price appreciation this year.

AVERAGE NUMBER OF DAYS ON MARKET

Northern Virginia - Dec. 2008 vs. Dec. 2009 - New Contracts



AVERAGE NUMBER OF DAYS ON THE MARKET

- With an increased number of buyers and a drop in inventory, we have seen a bit of an increase in "urgency."
- Homes priced less than \$500,000 are selling in about half the time as they did this time last year, another indication that there has been significant improvement in the market.
- Homes priced more than \$1,000,000 have not seen much of an improvement in time on the market, since there is still plenty of inventory relative to demand.



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