

### WHAT A DIFFERENCE A YEAR MAKES!

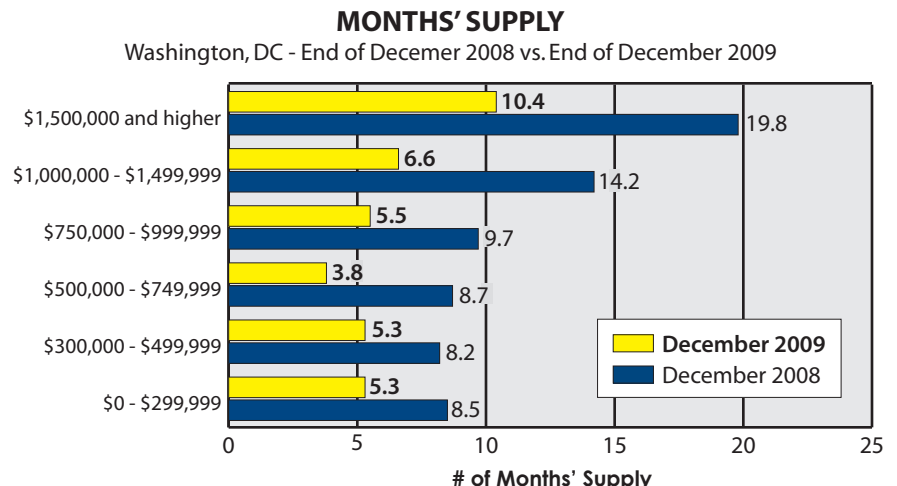
We track a lot of indices to help us determine the direction of the market, but there's none better than "Months' Supply." It is a very simple measure that compares the number of available homes on the market at the end of any given month to the contract activity of that same month. And by that measure, the market conditions at the end of 2009 were **significantly 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 5.3 months compared to 9 months at the end of December 2008. Much of that tightening can be attributed to a major drop in inventory – there were 24% fewer homes on the market on December 31, 2009 than there were on December 31, 2008.

Supply is significantly less in every price range, and while some area jurisdictions have a lower overall supply, the District has the most balanced supply from top to bottom. Elsewhere, the lowest supply exists in the lower price categories, but the strongest market in DC is for homes priced between \$500,000 and \$750,000. At the current level of contract activity, all of the existing inventory would be absorbed in a bit less than four months. Part of what is fueling the market improvement 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.

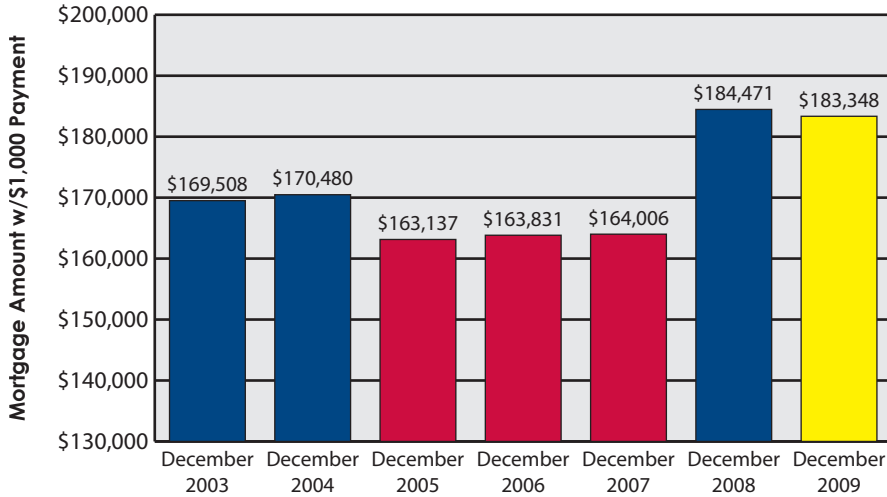
The upper end of the market has seen improvement and is stronger in Washington than anywhere else in the region. There's just a 10-month supply of homes priced more than \$1,500,000 in DC; in Northern Virginia, it is 19 months and in Montgomery County, it is 21 months.

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

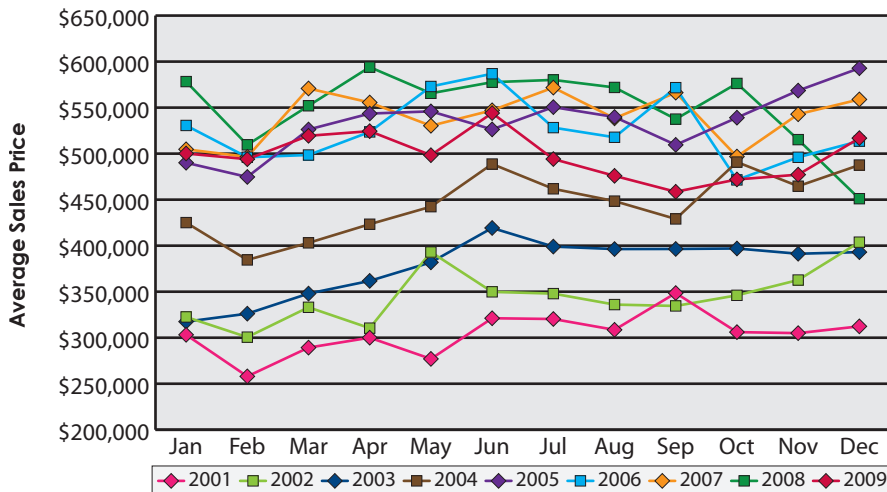


## BUYING POWER

- 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 Washington, DC - 2001-Current

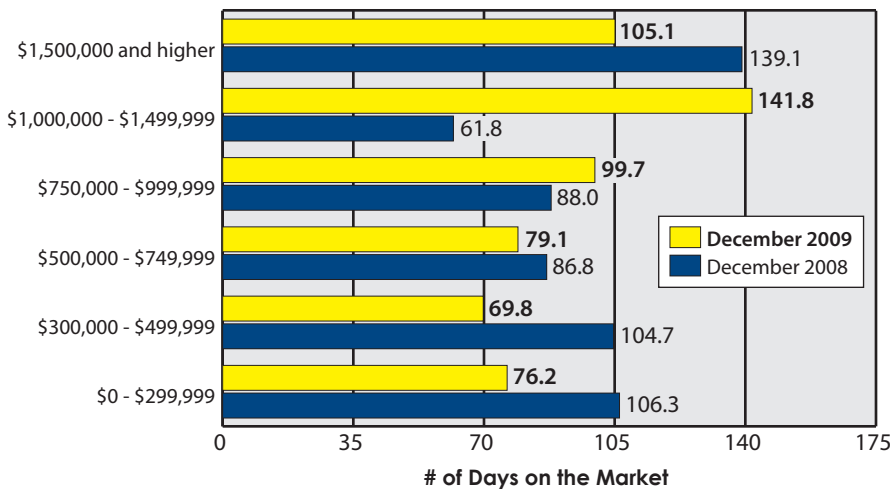


## AVERAGE SALES PRICE

- The average price of a home has held up better in DC than any other jurisdiction in the area. Prices have certainly fallen from their peak in 2006, but not as significantly as the suburbs.
- Overall, prices are hovering close to those of 2004.
- As indicated on page 1, we're starting to see some modest upward pressure on prices where the supply is lowest.

## AVERAGE NUMBER OF DAYS ON MARKET

Washington, DC - 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 about 40% faster than they did this time last year, another indication that there has been significant improvement in the market.
- However, homes priced between \$750,000 and \$1,500,000 are taking longer to sell. Sellers at the upper end should not expect to see price appreciation anytime soon.



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