Trends in the Virginia Housing Market
Second Quarter 2008 Report
Virginia Association of REALTORS®

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The state housing market performed better in the second quarter of 2008 than in the first quarter of the year, particularly in terms of sales activity. At the same time, there were dramatic shifts in some local markets across the state. The outlook is for these regional differences to widen in the next quarter before the overall state housing market edges back toward equilibrium.

Highlights

- There were more than 24,000 homes sold across the state in the second quarter of 2008. This is up 48 percent over first quarter sales, reflecting a surprising and more robust spring uptick in activity than was experienced last year.
- Sales and contract activity were still down compared with last year. Sales were down 13 percent between the second quarter 2007 and second quarter 2008. Pending sales were down 20 percent over the same time period.
- Some areas show increases in sales activity, including Prince William (up 72 percent), the Dulles Area (up seven percent), and Greater Piedmont (up one percent).
- After dramatic increases in sales over the 2000 through 2005 period, the number of sales in the second quarter of 2008 is similar to the more normal number seen in 2000.
- Median home prices across the state are up six percent.
- Local markets in Northern Virginia are experiencing dramatic changes in sales and contract activity. Total sales and pending contracts nearly doubled in some parts of the region in the second quarter, suggesting that price declines may begin to ebb later in the year.
- Foreclosures continue to rise across the state but they are most prevalent in Northern Virginia. The sheer number of foreclosures (and short sales) continues to put downward pressure on prices, but also brings new homebuyers into the market.

National Economic Backdrop

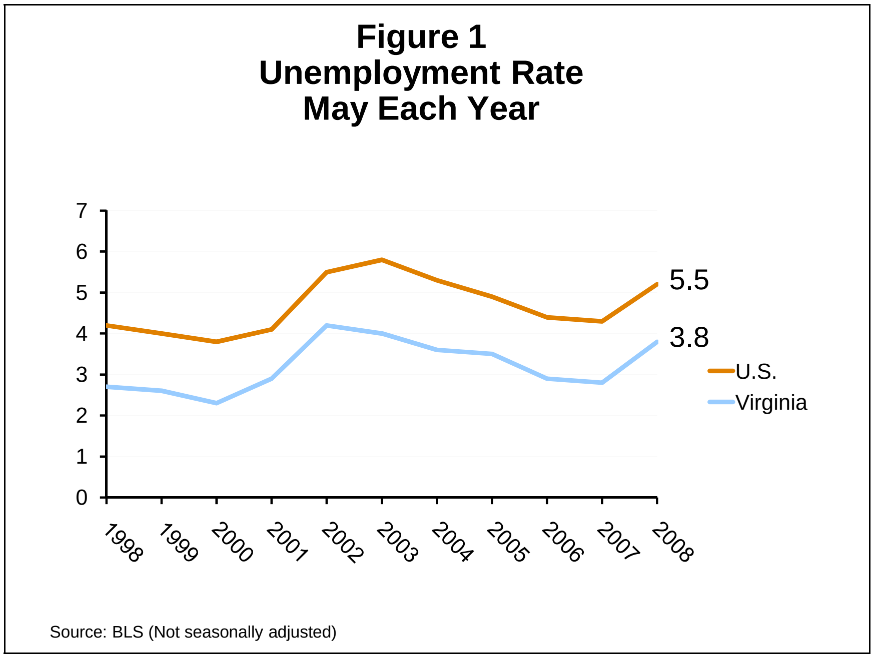
Much of the economic news as of the middle of 2008 continues to focus on the effects of the housing market and conditions of the financial markets.

The national increase in GDP was an anemic 0.6% in the fourth quarter of 2007 and was followed by a 1.0% increase in the first quarter of 2008—an increase that beat most economists' expectations. In the early part of 2008, the consensus of national economists was that the country was likely in a recession and GDP growth would be negative. That has not yet happened. However, as of mid-2008 there are major concerns regarding financial and credit markets as a result of the housing and mortgage market situations. Key national economic indicators as of mid-2008:

- The U.S. Coincident Index (which measures current economic performance) was positive in 2007 and was positive through the first five months of 2008, but has moderated in the last few months. However, the Leading Index—which projects the economic performance six to nine months ahead—has been negative for eight consecutive months and fourteen of the past 18 months.
- Oil prices have continued to rise and have been above the $140 mark through early summer; the average price of gas at the pump is now above $4 per gallon.
- Consumer confidence indices have declined to 17-year lows. Consumer spending had been dropping through the spring but have rose in May and June with the distribution of the government's economic stimulus checks.
- National annual job change turned negative in June for the first time since November 2003. Eighteen months ago, the nation was growing at an annual average increase of 2.13 million jobs. However, for the twelve month period of June 2007-June 2008, job change turned negative as the nation lost 310,000 jobs.
- Job change at the national level reflects the drag caused by the housing market. For the 12 months ending in May, construction, financial/real estate, and retail trade jobs were down 480,000, 105,000, and 180,000 respectively. Changes in these three job sectors reflect the downturns in the housing and credit industries.

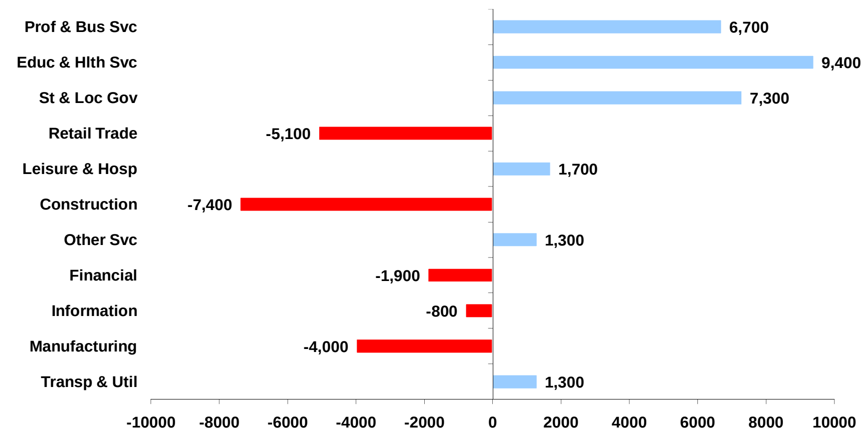
Virginia Economic Trends

While there is still job growth in most metropolitan areas, the state's economy is moderating. A major factor in moderating job growth is the effects of the slowdown in the housing market. Following robust job growth years of 2004 through 2006, job growth moderated to 34,200 in 2007. In 2008, the number of jobs statewide is growing at an annualized rate of 16,200 through May. **While job growth has moderated, the state unemployment rate remains relatively low.** In May, the unemployment rate in Virginia was 3.8%, well below the national rate of 5.5% (Figure 1).



The economic sectors affected by the housing market slowdown include construction, finance /real estate, and retail trade. All three sectors are contracting significantly in the Commonwealth. The construction and finance/real estate sectors are directly related to the housing downturn, while part of the retail trade decline is related to the national consumer confidence situation, as well as lower sales due to less cash out refinancing activity. The effects of the economic stimulus checks are not yet reflected in the jobs data, but increases in consumer spending caused by the stimulus checks will likely be seen in the June-July retail sales data.

Figure 2
May 2007 – May 2008
Job Change By Sector - Virginia
(000s) Total = 7,300



Source: BLS, GMU Center for Regional Analysis

Regional Differences in Housing Markets Across the State

It is never prudent to talk about a "state housing market." In the second quarter of 2008, the regional differences in market activity serve as a reminder of that imperative. For example, the housing markets in Northern Virginia are exhibiting more dramatic trends in terms of homes sales and pending contracts. Compared to other parts of the state, home prices in the Northern Virginia region have fallen more significantly over the last year, but sales activity overall is up in the second quarter of 2008.

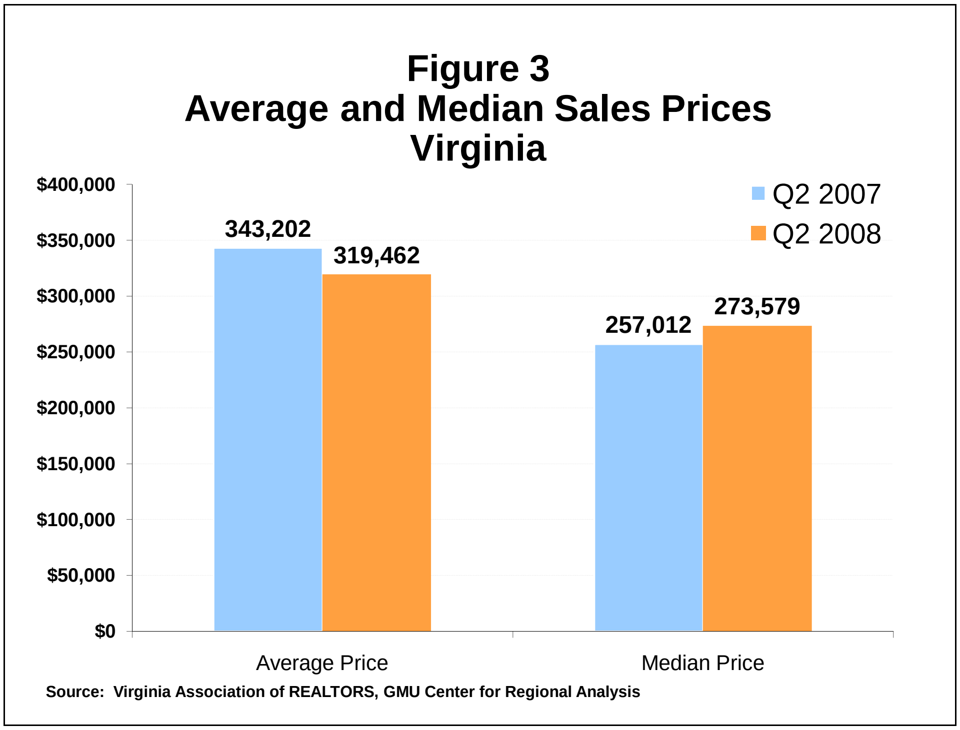
The median price was $273,579, which reflects an increase of six percent.[Fig. 3]

A decline in home prices reflects, in part, a necessary adjustment to bring the market into better balance. Between 2000 and 2007, average wages in the state of Virginia rose by 29.7 percent, while home prices doubled.[1] As a result, it became increasingly difficult for many households to buy a home. Even with exotic subprime loans, homeownership got further out of reach for many Virginians. First-time homebuyers often were either left out of homeownership altogether or

[1] Data on wages are from the Virginia Employment Commission. Home price data are based on the Office of Federal Housing Enterprise Oversight quarterly house price index.

entered into risky adjustable rate loans that they were unable to afford after the interest rate resets. Therefore, a price adjustment was necessary to bring home price growth and income growth back into better alignment.

In some local markets across the state, home prices are holding steady and even increasing. In the Charlottesville market, the median price was up five percent. In Williamsburg, the median home sales price went up eight percent in the second quarter. And in Roanoke Valley, median prices were up two percent in second quarter 2008 compared with second quarter 2007.



There are places across the state where home prices continue to drop. The biggest price declines continued to be in the Northern Virginia area, where the run up in home prices over the last six years was the most remarkable. In Northern Virginia (NVAR), median prices were down 14 percent in the second quarter of 2008 compared with the second quarter of 2007. Prince William, however, continues to be the place where the median price has fallen the most dramatically, down more than 30 percent in the second quarter of 2008. However, second quarter trends in home sales and contracts indicates that price drops in parts of Northern Virginia will begin moderating and prices may be starting to move toward stabilization.

Prices were down more modestly in the Hampton Roads and Richmond Metro areas. In Hampton Roads, median home prices were down about three percent in the second quarter compared to second quarter 2007. In Richmond, average prices were down two percent.[2]

[2] Median home price data are not available for the Richmond Metro area.

Home sales typically pick up in the second quarter as the weather warms and school ends. Second quarter sales in 2008 were up 48 percent over the first quarter. This spring boost is bigger than last year's uptick when second quarter sales were only 30 percent higher than first quarter sales.

Despite positive spring sales trends, transactions continue to be lower than in recent years (Figure 4), although similar to historic norms seen in 2000. Statewide, home sales were down 13 percent in the second quarter of 2008 compared with the second quarter of 2007. This trend is improved over the first quarter when sales volume was down 26 percent over the year before. Much of the progress in sales activity is attributable to improvements in market activity in markets in the Northern Virginia region.

In the second quarter of 2008, sales were up one percent in the Greater Piedmont area, seven percent in Dulles (Loudoun County), and an astonishing 72 percent in Prince William (which includes the cities of Manassas and Manassas Park.) The sizeable price drops in Prince William have attracted both first-time homebuyers and investors who want to capitalize on these good deals. For example, in June 2008, the average price of a home sold in Prince William County was $288,000. Just 12 months earlier, the average home in the county cost over $400,000. Many of these second quarter sales were foreclosures and short sales.

The data on pending sales corroborates the trend that a rebound may be beginning in some Northern Virginia markets. Across the state, the number of second quarter pending sales (i.e. homes with a contract date in the second quarter) was down 20 percent compared to the second quarter of 2007. However, pending sales were up 10 percent in the NVAR region, 37 percent in Dulles and 129 percent in Prince William. Thus, demand for housing in these local markets is evidently getting stronger (Figure 5).

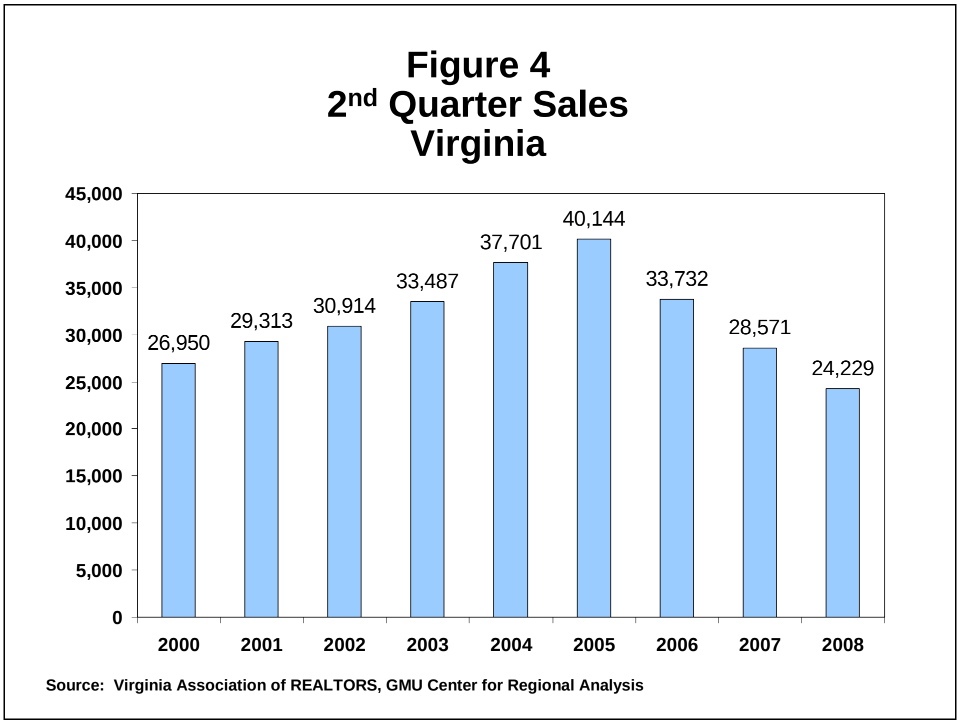


Figure 4
2nd Quarter Sales
Virginia
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
26,950
29,313
30,914
33,487
37,701
40,144
33,732
28,571
24,229
2000
2001
2002
2003
2004
2005
2006
2007
2008
Source: Virginia Association of REALTORS, GMU Center for Regional Analysis

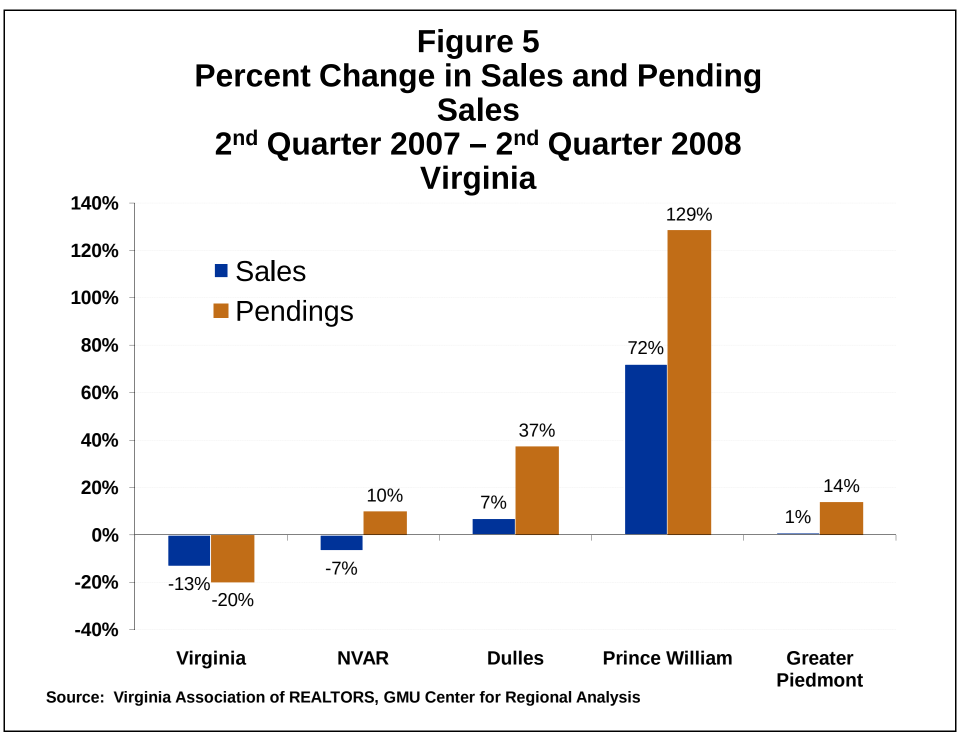


Figure 5
Percent Change in Sales and Pending Sales
2nd Quarter 2007 – 2nd Quarter 2008
Virginia
Sales
Pendings
140%
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
-13%
-20%
-7%
10%
7%
37%
72%
129%
1%
14%
Virginia
NVAR
Dulles
Prince William
Greater Piedmont
Source: Virginia Association of REALTORS, GMU Center for Regional Analysis

Across the rest of the state, sales and pending contracts remain lagging behind where they were last year. In Hampton Roads, Richmond Metro, and Roanoke Valley, sales were about 20 percent lower in the second quarter of 2008 compared with second quarter 2007. Pending sales were down 15 percent in Hampton Roads and down 26 percent in the Richmond Metro area.[3] Because the rest of the state did not have the same dramatic price declines, there has been no great rush back into the market in the rest of the states. In fact, in some local markets, it appears that there may be additional slowdowns to come. For example, while pending sales were down 20 percent statewide, the number was down more than 40 percent in some areas. Given that pendings precede closings, it is possible that the third quarter data will reveal even slower sales (compared to 2007).

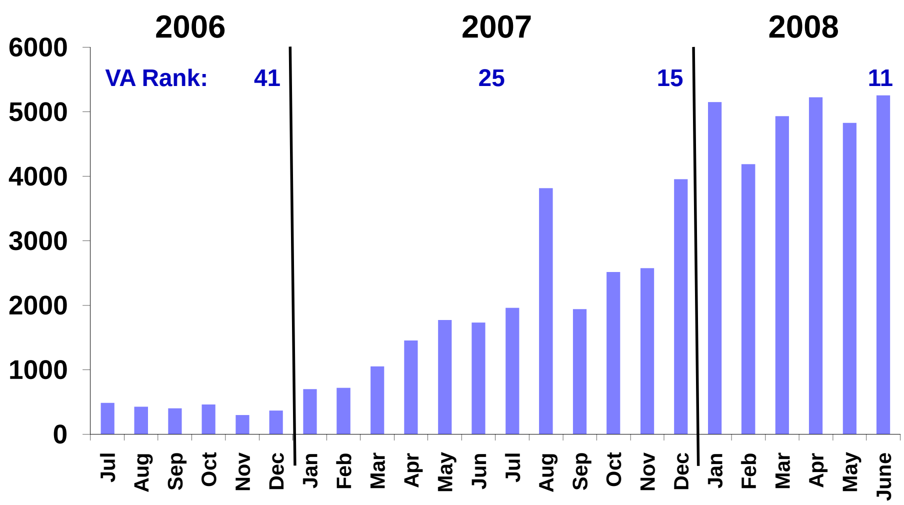
Foreclosures in Virginia

Foreclosures are an important factor in the recent housing market trends in the Prince William market. While foreclosure activity has been most acute in Prince William and other parts of Northern Virginia, other parts of the state have not avoided the issue. In fact, over the past 18 months, the foreclosure rate in Virginia has grown faster than in many other states and does not appear to be decelerating. Shown in the Figure 6 below are Virginia foreclosures by month. It is noteworthy that in December of 2006 Virginia ranked 41st in foreclosure rate among all states, as of June 2008 its ranking has increased to the 11th highest rate in the nation.

The foreclosure problem has clearly worsened, particularly in the past seven months. However, the foreclosure problem is not statewide, and in fact is dominated by the foreclosure problems in Northern Virginia (Figure 7). There are also problems in the metro areas of Richmond, Virginia Beach and Winchester, but the rest of the state is experiencing very minimal foreclosure issues with only a handful in the other metropolitan areas. It is expected that the foreclosure problem will abate somewhat near the end of 2008 as the sub-prime mortgage resets begin to subside.

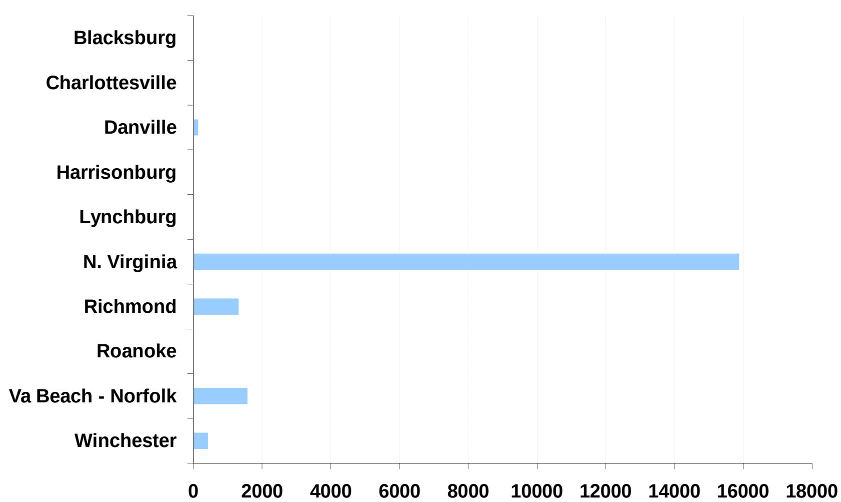
[3] Pending data were not available for Roanoke Valley.

Figure 6
Virginia Foreclosures – Past 24 Months



Source: RealtyTrac, GMU Center for Regional Analysis

Figure 7
Foreclosures
Virginia Metropolitan Areas
July 15, 2008



Source: RealtyTrac, GMU Center for Regional Analysis

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