



ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET 1st quarter 2012

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Economic Overview

The first quarter of 2012 has exceeded many economists' expectations for the amount of recovery that has occurred, and as the economy has continued upward and gained traction, the housing recovery cannot be far behind. Housing is recovering quite well in some markets already, generally in markets with moderate levels of foreclosures and markets where job growth has been stronger. Most measures of the U.S. economy were generally improving in the first quarter, and economic improvements have been seen in most sections of the country. The 15 largest metropolitan economies are now showing job growth and significant declines in unemployment rates. Foreclosures remain a problem for the housing market in general, and it will likely take the rest of this year and into next year for the foreclosure crisis to be deemed over. The Central Virginia region is also seeing more positive economic signs, and with the normal spring uptick in interest in housing, recovery is clearly underway.

Central Virginia Economic Trends

Job growth began in Central Virginia very moderately in mid-2010 and through mid-2011 and began to gain some steam several months ago. The first two months of 2012 show some acceleration in job growth and recovery in the region. On an annual basis, the region lost 3,100 jobs in 2010, added 7,100 jobs in 2011, and for the first two months of 2012 added just over 10,000 jobs on an annualized basis. This job performance is a huge improvement from the times in the recession when the region was losing over 20,000 jobs on an annual basis. Job growth in the region over the past six months is the best performance since 2005.

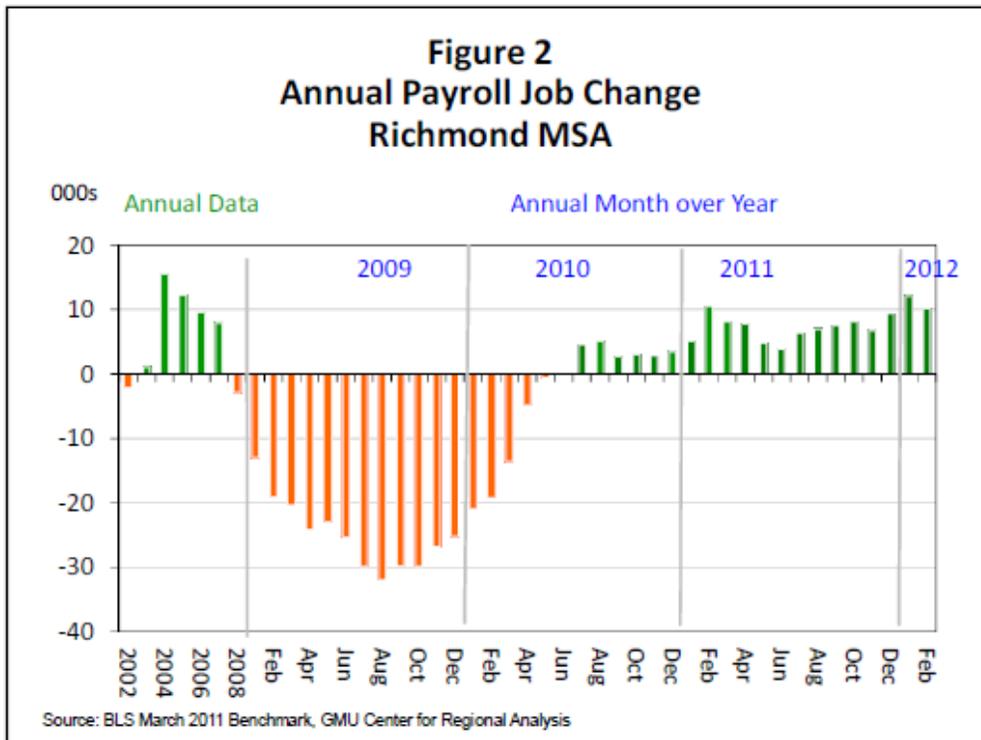
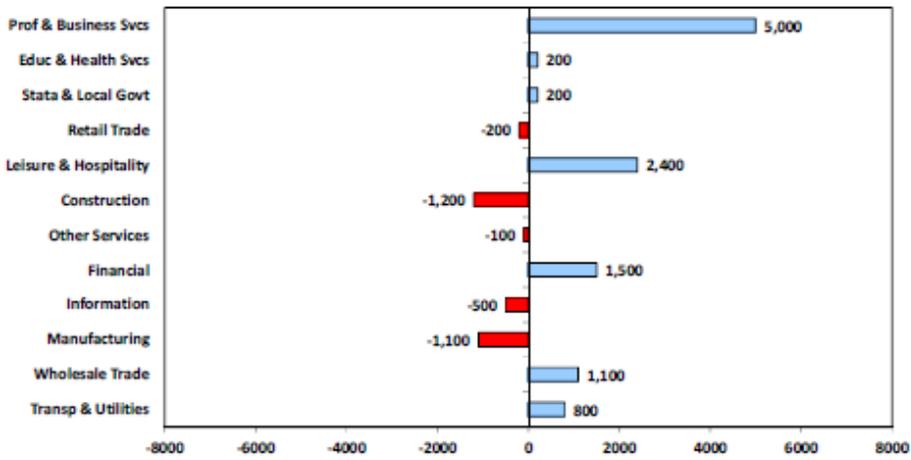


Figure 3
2010 - 2011
Job Change By Sector Richmond MSA

Total = + 7,100



Source: BLS, GMU Center for Regional Analysis

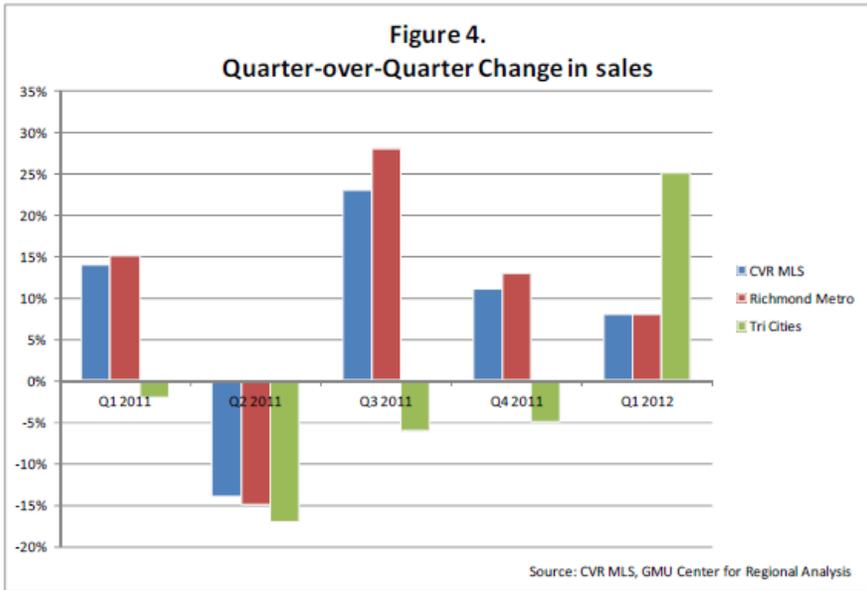
Not all sectors have participated in job recovery, as a few sectors continue to struggle. Overall for the past year, the region added 7,100 jobs with strong growth in Professional and Business Services; Leisure and Hospitality; Financial Services and Wholesale Trade. Construction and Manufacturing – while still negative – are not nearly as negative as they were several months ago.

The region's unemployment rate improvement mirrors the job growth performance. The rate for the region in February (most recent available) was 6.6

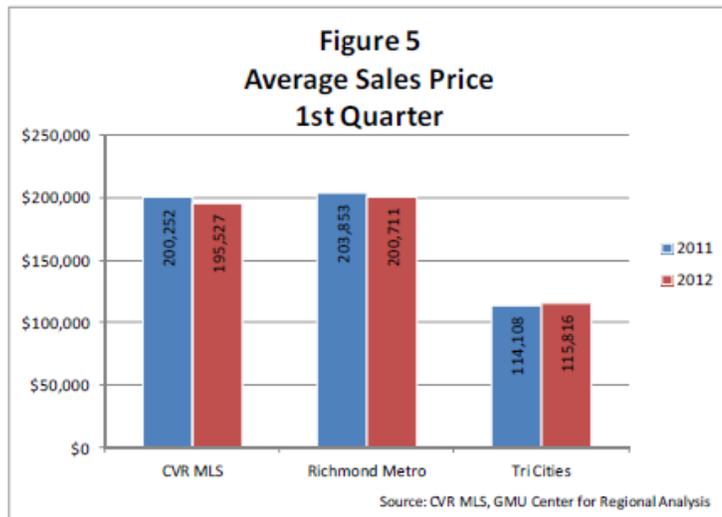
percent, well below the 7.3 percent rate last February and the lowest rate for the month since 2008 in the early months of the recession. The outlook is that these improving trends will continue through the spring and summer. As in any recovery, however, there will be mixed economic signals at times along the way. It is the breadth and depth of positive economic measures that is making the recovery reach more solid ground.

Central Virginia Area Housing Market

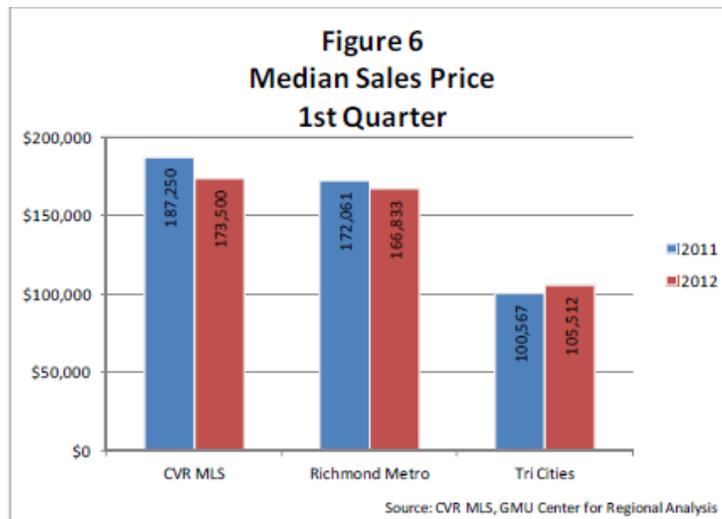
The recovery of the regional economy is critical to the stabilization and improvement of the Central Virginia housing market. Growth in the Professional and Business Services sector is particularly noteworthy. This sector includes relatively high-wage workers who are more likely to be homebuyers than workers in other sectors. The strong growth in this sector is a very positive sign for the region's housing market in 2012. Sales are up, prices have stabilized and are starting to rise in some places, and inventories are being drawn down at a relatively fast pace. Home Sales and Prices Sales activity continues to be strong in the Central Virginia market. The number of sales in the Central Virginia region picked up in 2010 in response to the Federal homebuyer tax credit program, which initially expired in December 2009 and was subsequently extended until June 2010. As a result, sales in the second quarter of 2010 were artificially high, which made the second quarter 2011 numbers look low. Since the middle of 2011, however, home sales have been strong, indicating that the Central Virginia market is stabilizing and improving without government intervention. In the first quarter of 2012, there were 2,451 sales in the Central Virginia MLS, up eight percent over first quarter 2011. In the Richmond Metro, sales were also up eight percent in the first quarter of 2012 compared to the first quarter of 2011. Sales in Chesterfield and Henrico counties were particularly strong, while sales in Hanover county and in the city of Richmond lagged a bit.



The increase in sales in the first quarter of this year continues a trend beginning in mid-2011. In addition, the strengthening of the region's housing market can be seen in the increase in sales in the Tri Cities area. For the first time since the downturn, there was a quarter-over-quarter increase in the number of sales in the Tri Cities area. The increase was driven in particular by strong sales in Prince George county, but the number of sales was also up in Colonial Heights, Hopewell, and Petersburg, as well. As the number of sales in the Central Virginia region continues to increase, there inevitably will



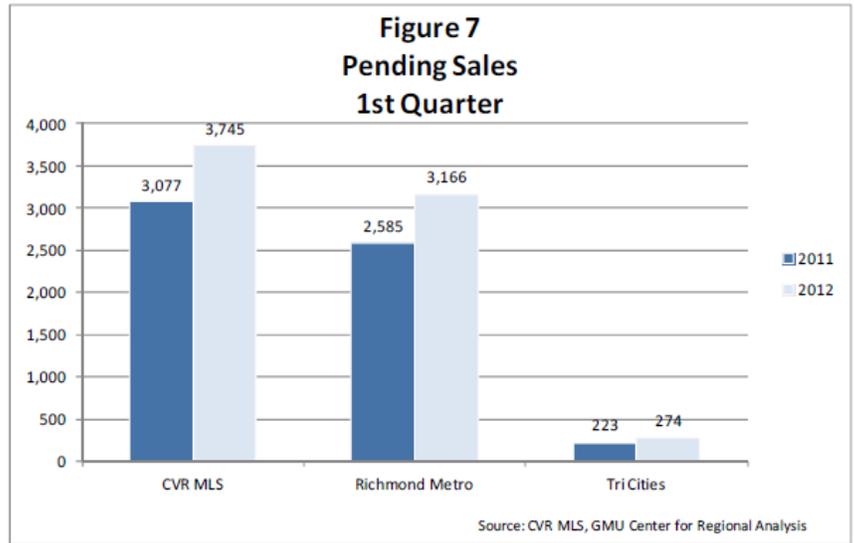
be upward pressure on prices. Lower priced houses, including foreclosures and short sales, are being taken out of the inventory. In the first quarter of 2012, prices are still down slightly regionwide compared to the first quarter of 2011. However, the decline region-wide is much more modest than in previous quarters. Furthermore, the Tri Cities area experienced price growth in the first quarter of 2012. In the Central Virginia region, the average price of all homes sold was \$195,527 and the median sold price was \$173,500 in the first quarter of 2012, reflecting a decline of 2% and 7%, respectively, compared to the first quarter of 2011.



In the Richmond Metro area, the average sales price was \$200,711 and the median sales price was \$166,833, reflecting a modest decline of 2% and 3%, respectively, compared to the first quarter of 2011. In the Tri Cities area, however, prices were up in the first quarter of 2012 compared to the same quarter last year. The average sales price was \$115,816, up 1% over first quarter 2011 and the median sales price was \$105,512, up 5% over first quarter 2011. Price growth was particularly strong in Hopewell and Petersburg, where there had been substantial price declines following the housing bust.

Pending Sales

Pending sales in one quarter typically predict closed sales in the following quarter. In the first quarter of 2012, there were 3,745 pending sales in the Central Virginia region, which was up 22% over the first quarter of 2011. The number of pending sales was up 22 percent in the Richmond Metro and 23 percent in the Tri Cities area. Over the last couple of years, this relationship between pending and closed sales weakened somewhat, as buyers found it harder to secure a home loan and sales that required bank involvement often got derailed. However, financing has opened up somewhat and banks, REALTORS®, buyers and sellers have more knowledge about the short sale process, and pending sales are becoming more likely to transition to closed sales. Thus, the pending sales numbers for the Central Virginia region suggest that the 2nd quarter of 2012 will also see an increase in sales.

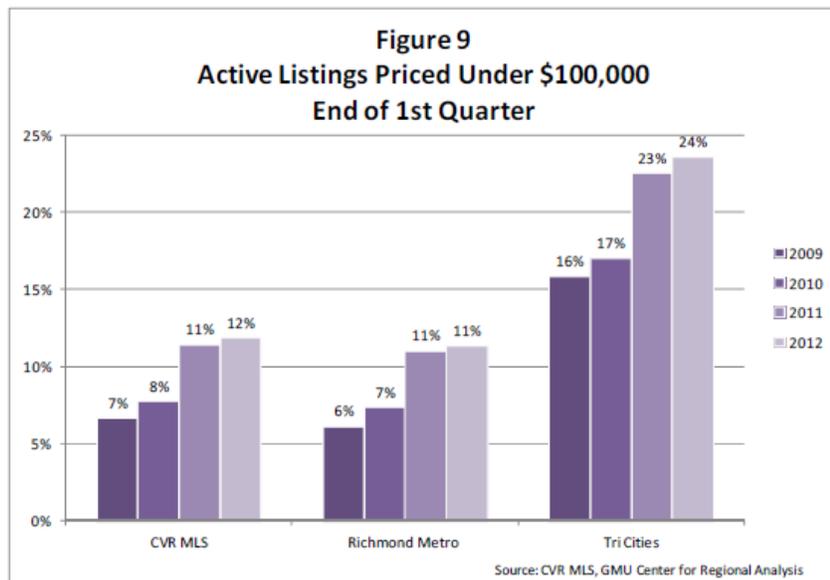


Active Listings

As sales activity has picked up in the Central Virginia area, inventories are being substantially drawn down. At the end of the first quarter of 2012, there were 6,367 active listings in the Central Virginia region. This level of inventory was 26% lower than at the end of the first quarter of 2011 when there was a total of 8,617 homes listed for sale. The number of active listings at the end of the first quarter of 2012 was down 29% in the Richmond Metro area and was down 21% in the Tri Cities area, compared to the same quarter in 2011.

Since 2009, lower-priced homes have accounted for an increasing share of homes on the market in the

Central Virginia region. Distressed properties, including foreclosures and short sales, are often priced as substantial discounts and create an excess of inexpensive properties in the inventory. In the first quarter of 2012, there is evidence that there has been a slowdown in the number of distressed properties flooding the inventory. The proportion of active listings under \$100,000 is virtually unchanged from last year. At the end of the first quarter of 2011, 11% of the homes on the market in the Richmond Metro area and 23% of the homes on the market in the Tri Cities area were priced under \$100,000. At the end of the first quarter of 2012, those shares are virtually unchanged (12% in Richmond Metro and 23% in the Tri Cities area.) The good news is that this share has



ceased to rise after three straight years of increases. This trend suggests that price growth should begin in earnest regionwide in the 2nd and 3rd quarters of 2012.

Outlook

At the beginning of 2012, there are multiple positive signs in the Central Virginia housing market. Sales trends are positive, prices are stabilizing and are beginning to rise, and distressed properties are being taken out of the inventory. There are several indicators that sales will continue to be strong throughout 2012:

- The region is experiencing job growth, with gains in sectors that have relatively high wage earners and potential homebuyers.
- The number of pending sales in the first quarter of 2012 is up substantially over the first quarter of 2011, and pending sales have historically been a predictor of future sales. The relationship between pending and closed sales is getting stronger.
- Sales activity has been up for the past nine months and future sales growth will build on that activity.
- While it is still difficult for some potential homebuyers to get financing, the process for getting a home loan is getting somewhat easier and credit is flowing somewhat more freely.
- Interest rates remain at historic lows. While the Federal Reserve has indicated that it will keep the Federal fund rates low for the time being, there are some analysts who are predicting that 30-year mortgage rates will begin to rise—albeit by a modest amount—during 2012. This potential for rising interest rates will move buyers into the market.

The drawdown of inventories in the Central Virginia region is another positive sign for the stability and recovery of the region's housing market. As the supply of homes for sale decreases, and as buyer confidence continues to rise, there will be upward pressure on prices. Working through the region's distressed properties is critical to the recovery of the housing market, and it appears as though there has been some draw down of some of the region's foreclosures. While the extent of the shadow inventory is unknown, strong job growth will tend to slow the rate of default and foreclosure among homeowners. There will likely be modest price growth in the Central Virginia housing market by the end of 2012, with a return to a market operating under new, normal conditions in 2013.