



ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET 1st quarter 2013

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Economic Overview

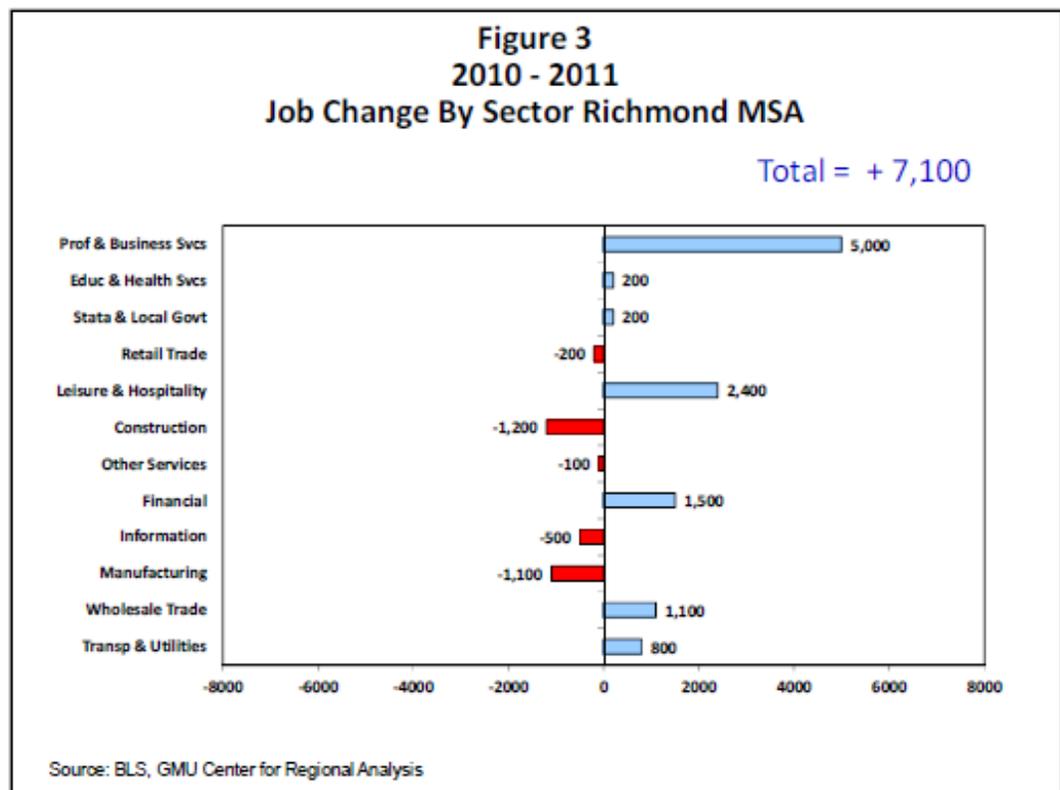
Key economic factors in the first quarter of 2013:

- Both the Manufacturing and Non-manufacturing (Services) indices measured expansion in the first quarter. The Services index has been showing expansion every month since December 2009, and the Manufacturing index has only been negative (and very moderately) for four months in the past four years.
- The number of payroll jobs has continued to increase at an annual rate of approximately two million new jobs, and the unemployment rate continued to decline in the first quarter and is currently at 7.6 percent.
- Corporate earnings continue to show growth and the equity markets had a very positive first quarter as the exchanges recorded new highs.
- Personal income and retail sales both increased in the first quarter of 2013.
- The best performing sector of the economy has been the housing sector. In February, new home sales were up 12.3 percent from February of 2012 and housing starts were up 34 percent from 2012. Existing home sales were up 10.2 percent, and median home prices were up in almost every major market in the U.S., with many markets showing double-digit increases.
- Consumer confidence, however, has moderated from late 2012 and reflects the caution many consumers are feeling as a result of the concerns about the Federal budget and its effects on the economy.

The trends of growth and expansion in the housing sector are particularly positive, given that housing had been a drag on the economy and is now becoming a major contributor to economic growth.

Central Virginia Economic Trends

Final counts of jobs for 2012 were released in mid-March and showed that Central Virginia had stronger job growth in the past year than originally estimated from sample data. Final numbers show that the Richmond metropolitan statistical area (MSA) added 8,500 jobs in 2011 and 12,500 jobs in 2012 for a total of 21,000 new jobs over the past two years. Since 1990, the region has added an average of 5,900 jobs per year, so the past two years have been good for the region's economy. Through the



end of the first quarter in 2013, job growth continues to be strong. From March 2012 to March 2013, the region added 8,700 jobs, which is 47 percent more than the 23-year average. The very good job growth has been broad and across almost all sectors of the economy.

Clearly, as of the first quarter of 2013, the Central Virginia region has broad and strong job growth and this portends very positively for the region’s housing market.

The outlook for the economy and the housing market indicate a good year ahead. The building industry appears to sense the improving conditions, as building permit data show a marked uptick from the past few years. Looking at data for the last half of each year since 2004, the last half of 2012 showed the most permits issued in the Richmond metropolitan area since 2007, with almost 2,500 permits— 1,000 more permits than in the last half of 2011.

The positive job growth in the region and other economic indicators point to a good year for the housing market in 2013 in the Central Virginia region. Effects may yet be felt from the national spending policy changes, but the region’s economy is growing at a pace and strength to be able to weather most headwinds.

Central Virginia Area Housing Market

In the first quarter of 2013, sales and prices were up across the Central Virginia market. Price growth was robust and sellers are commanding prices very close to list price. Pending sales in the first quarter were up modestly. Inventories continued to be drawn down across the Central Virginia region. The outlook for the rest of 2013 is positive for the local market.

In the Central Virginia market, home sales have been up year-over-year for seven consecutive quarters. In the first quarter of 2013, there was a total of 2,630 home sales in the Central Virginia area, an increase of seven percent over the number of sales in the first quarter of 2012. The region has seen strong sales growth as the market has recovered over the past two years.

Figure 4
Quarter-over-Quarter Percent Change in Sales



Source: CVR MLS, GMU Center for Regional Analysis

Home Sales and Prices

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In the Richmond Metro Area, the number of sales was up eight percent with 2,206 sales in the first quarter of 2013 compared to the first quarter of 2012. Sales were up in all jurisdictions in the Richmond Metro Area, with the exception

of the city of Richmond. Chesterfield and Henrico counties posted double-digit growth in sales in the first quarter. There were slightly fewer sales in the Tri Cities area in the first quarter of 2013 compared to the first quarter of 2012. There was a total of 199 sales versus 203 sales last year. The biggest drops in sales were in the city of Petersburg and in Prince George county. Because these are smaller markets, the number of sales quarter-to-quarter tend to fluctuate more than in some of the larger jurisdictions.

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There has also been strong price appreciation across the region. Price growth has resulted from increased demand and declining inventories.

The average sale price in the Central Virginia region was \$216,150 in the first quarter of 2013, up 11 percent over the average price in the first quarter of 2012. The median price¹ in the region was \$179,950 in the first quarter of 2013, up four percent over the same quarter last year.

Price appreciation was seen broadly across the region. In the Richmond Metro Area, the average sales price in the first quarter of 2013 was \$220,862 and the median sales price was \$184,851, increases of 10 and 11 percent, respectively, over the first quarter of 2012. While sales were flat in the city of Richmond, the average price in the city was up 24 percent and the median price was up 28 percent in the first quarter of 2013 compared to the first quarter of 2012. In the Tri Cities Area, the average sales price in the first quarter of 2013 was \$131,588, up 14 percent from the first quarter of 2012. The median sales price in the Tri Cities Area was also up 14 percent—\$120,050 in the first quarter of 2013 compared to \$105,512 in 2012. Price growth was particularly strong in Colonial Heights, Petersburg and Dinwiddie county.

Figure 5
Average Sales Price
1st Quarter

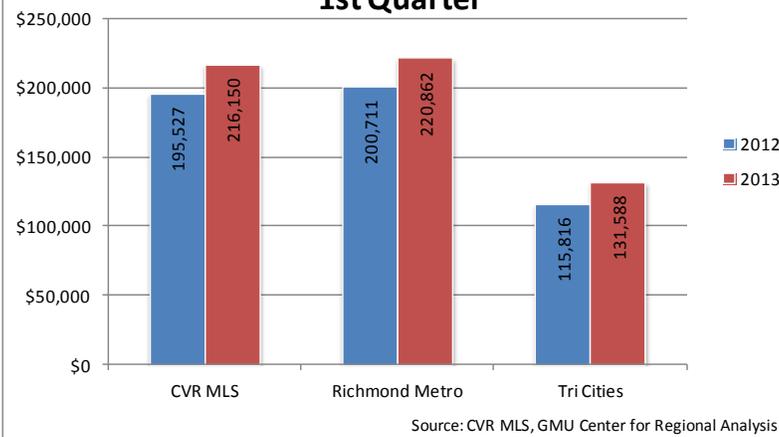
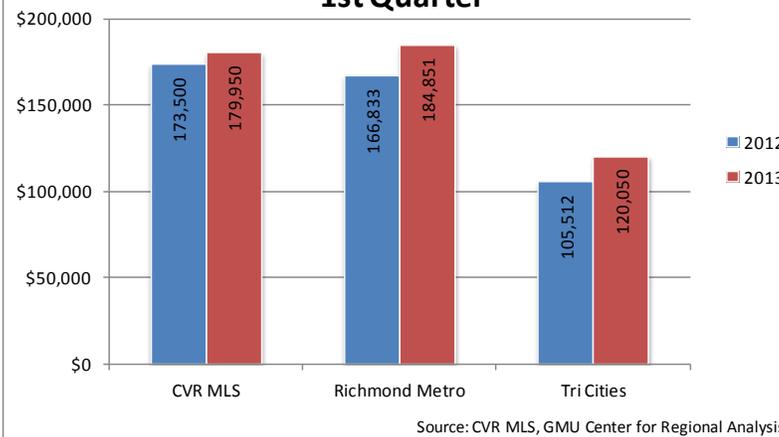


Figure 6
Median Sales Price
1st Quarter



¹ The median price is the price at which half the homes sold for more and half sold for less.

Figure 7
Average Sales-to-List Price Ratio
CVR MLS



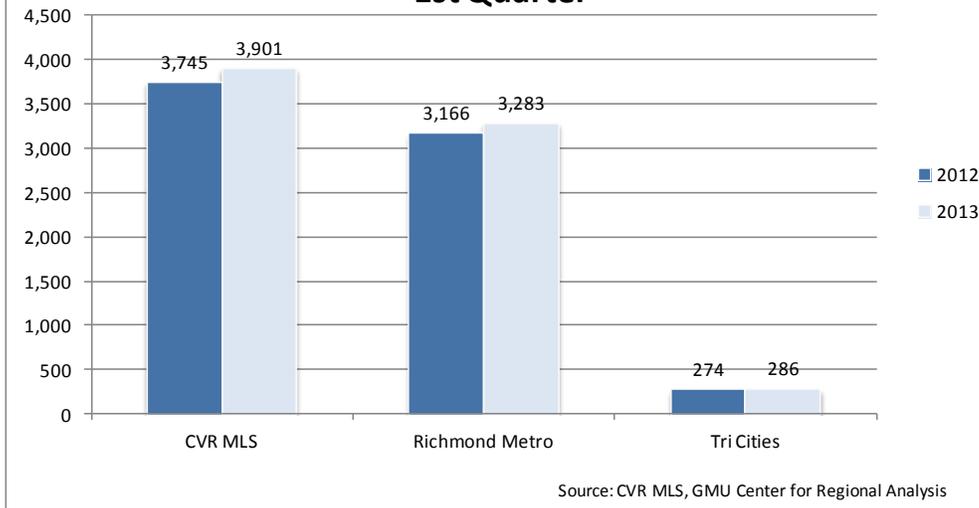
The upward pressure on prices can be seen in the data comparing list prices to sold prices. In the Central Virginia market, the average sales-to-list price ratio was 0.97—that is, the average sales price in the region was 97 percent of the average list price which suggests that, on average, sellers are able to get very close to their asking price.

The sales-to-list price ratio has been steadily increasing since the third quarter of 2011. The improvement in this price ratio is attributable to strong demand and a sellers' market. Sellers may also be pricing their

homes more appropriately as market fundamentals are returning to normal.

Pending Sales

Figure 8
Pending Sales
1st Quarter



In the first quarter of 2013, there was a total of 3,901 pending sales in the Central Virginia region, up four percent over the number of pending sales in the first quarter of 2012. Pending sales were up by four percent both in the Richmond Metro Area and the Tri Cities Area. In the Richmond Metro Area, there were 3,283 pending sales in the first quarter of 2013. The Tri Cities Area had 286 pending sales during the quarter.

Active Listings

The number of active listings in the Central Virginia market continued to decline, and the relatively limited number of homes listed for sale has led to faster sales and robust price growth. In the first quarter of 2013, the average days on market in the Central Virginia region was 72. In the first quarter of 2012, the average days on market was 78 and in the first quarter of 2011 it was 86. The shorter time on market is indicative of strong demand and short supply in the region.

Outlook

There continues to be strong demand for housing in the Central Virginia market as the region's economy expands. In the first quarter of 2013, sales and prices are up, the sales-to-list price ratio is up, days on market is down, and inventories are low. There are healthy local markets all around the Central Virginia area.

The spring and summer market will continue to be healthy as underlying economic fundamentals remain sound. There are a couple of trends to watch, which may be indicators of a transitioning market. First, the very low inventories suggest two possible consequences over the next few months. Would-be sellers who have been unable to list their homes because they have been underwater may begin contributing to the inventory. Others who have remained on the sidelines because of uncertainty may start to feel more confident about the status of the market. As a result, one possibility is an increase in the inventory of homes for sale over the next quarter. If inventory levels do not increase because people remain cautious, it is possible that sales activity will slow in the second quarter as would-be buyers have fewer options.

Overall, despite the potential for some transitions in the market, the underlying fundamentals are steady. Home sales and home prices in the Central Virginia market will continue to improve steadily throughout the spring and into the summer.