



ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET

2013 Second Quarter Report

By

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National Economic Overview

The national economy continued to improve through the first half of 2013 as most economic measures were positive and trending upward. Many economic indicators are at levels above their peaks prior to the recession, and there are only a very few segments of the economy that are yet to show significant recovery. In the spring, the equity markets appeared to be entering uncertainty as the Federal Reserve hinted at tapering financial recovery measures; however, at its June meeting, the Fed indicated that further strengthening in the labor market was necessary before scaling back its economic support, leading to a market resurgence.

Through June the impacts of Federal budget problems and sequestration have been very minor and thus far appear to be having little impact on the overall economy. Implementation of the budget cuts is taking place gradually and is mostly being felt by Federal employees through furloughs. There will be some impacts as these reductions continue and government workers cut back on their spending. Overall impacts on the economic recovery would appear to be minimal at mid-year as economic strength is indicated in almost all sectors.

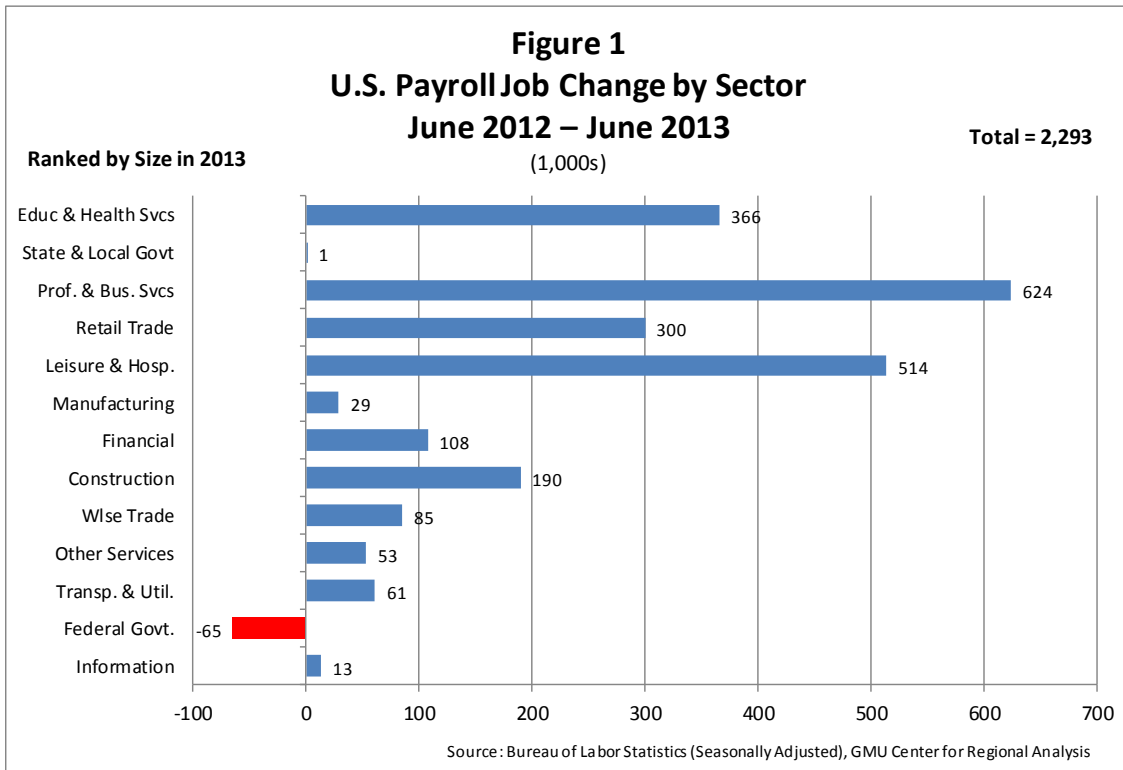
Key economic factors through the first half of the year include:

- In June both the Manufacturing Index and the Non-Manufacturing Index were above 50, meaning that both major categories of the economy are continuing to expand.
- The national unemployment rate has declined to 7.6% as of June, well below its peak of 9.5% in June 2009, and new claims for jobless benefits are hovering around the 350,000 level which is considered normal for moderate economic growth.
- Consumer confidence has continued to improve. In June the future expectations index was up 11 percent and the current situation index was up 6.8 percent compared to the previous month. This indicates that people are both feeling better economically and that



they think the next several months will be even better. This is borne out by retail sales data, which indicate retail spending was up 5.7 percent from June of 2012. The American Banking Association also reported that consumer delinquencies declined in 11 of 13 categories in the first quarter of 2013, pointing to an American populace that seems to be having more success at managing its debt.

- The national housing picture continues to improve along with the other economic indicators. In May 2013, new home sales were up 29 percent, existing home sales were up 13 percent, and housing starts were up 29 percent compared to May 2012. The national homebuilders' index is at its highest level since 2006. In addition, Fannie Mae released results from its monthly housing survey, finding that Americans expect both mortgage rates and home prices to increase. These expectations may lead to further increases in home sales, as consumers rush to make purchases ahead of the expected increases.
- Nationally job growth is gradually gaining more momentum. The U.S. added 2.3 million jobs between June 2012 and June 2013, the highest annual change since the 2005-6 change of approximately the same amount. Furthermore, the job growth is across all sectors with the only decline in the Federal government sector.

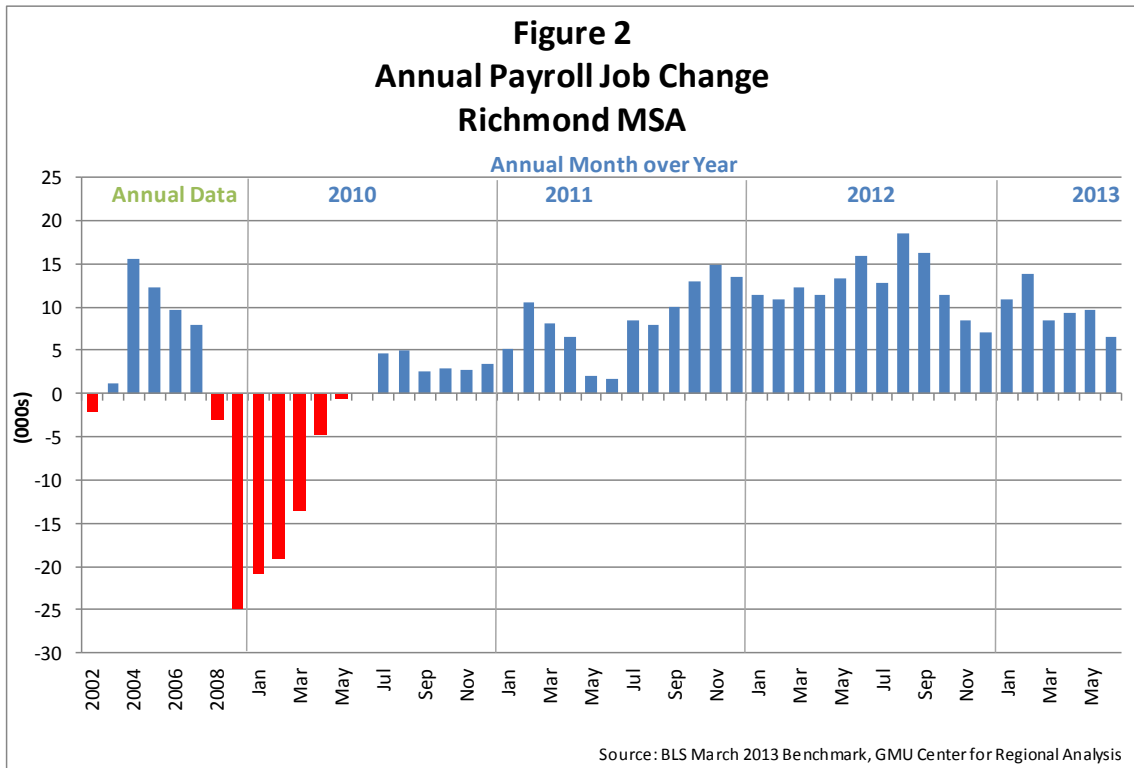


There will continue to be concern and some caution in 2013 as sequestration measures are realized and concern about deficit reduction discussions that might include measures that affect housing. Nevertheless, the current picture is one of a very broad and strengthening economy. This is the backdrop for an already improving housing sector.

Central Virginia Economic Trends

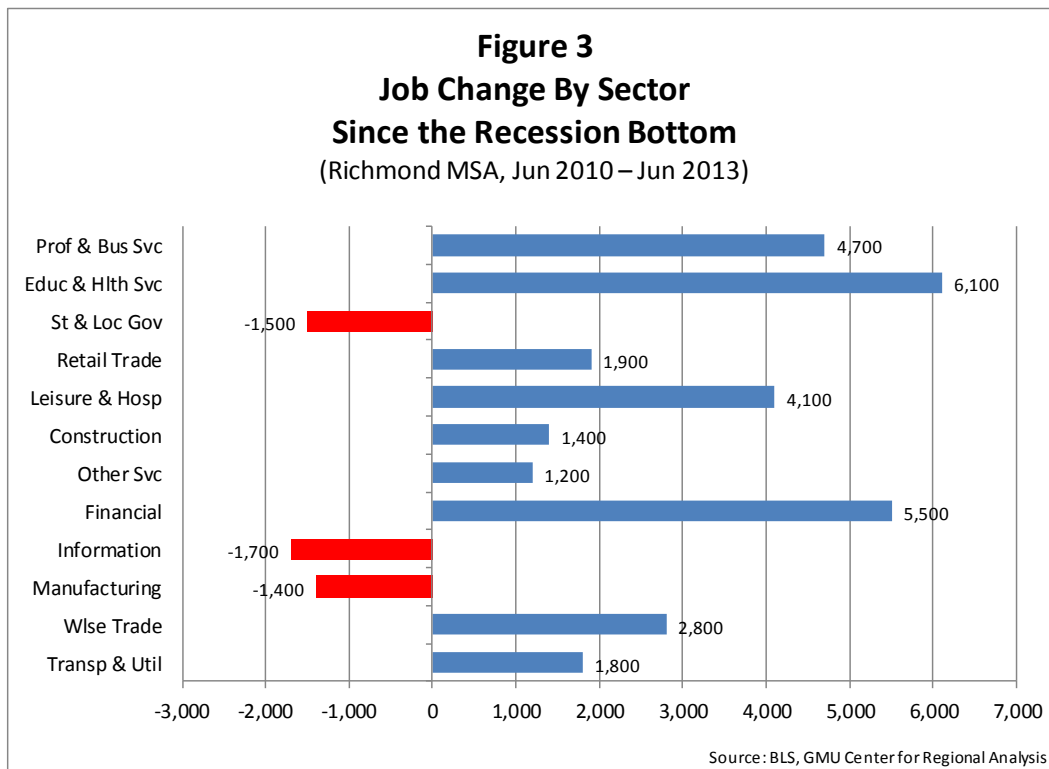
On an annual basis, the peak job level in the Richmond metropolitan area was in 2007 at a level of 633,000. From that peak, the number of jobs in the region dropped to 602,000 in 2010 at the bottom of the recession. As of June 2013, the job level was back up to 635,600 – now higher than pre-recession levels.

Jobs are increasing in the region at a healthy pace and faster than historical levels. As shown in Figure 2, job increases have been in the +10,000 per year range since mid-2011, and as of June's annual increase of 6,600, the average annual increase for the past 24 months has been higher than the 23-year average annual increase of 5,900 jobs.



This pace of job creation indicates a healthy and improving economy--one that has recovered from the recession. Since the bottom of the recession in 2010, the regional job picture has not only improved; the recovery has been across almost all sectors. Leading the recovery has been job growth in Professional and Business Services, Financial Services, Education and Health Services, and Leisure and Hospitality. Construction and Wholesale and Retail Trade have had healthy gains after having heavy losses during the recession. State and Local Government's losses as of mid-year reflects lower property tax revenues resulting from the housing market problems. Information (telecommunications and publishing) and Manufacturing also have losses, which are more structural rather than business-cycle losses.

It is anticipated that the regional job picture and overall economy will continue these trends for the near term, as long as the national economy continues to expand. As a result, the continued recovery in the housing market in the region has an increasingly strong economic foundation.

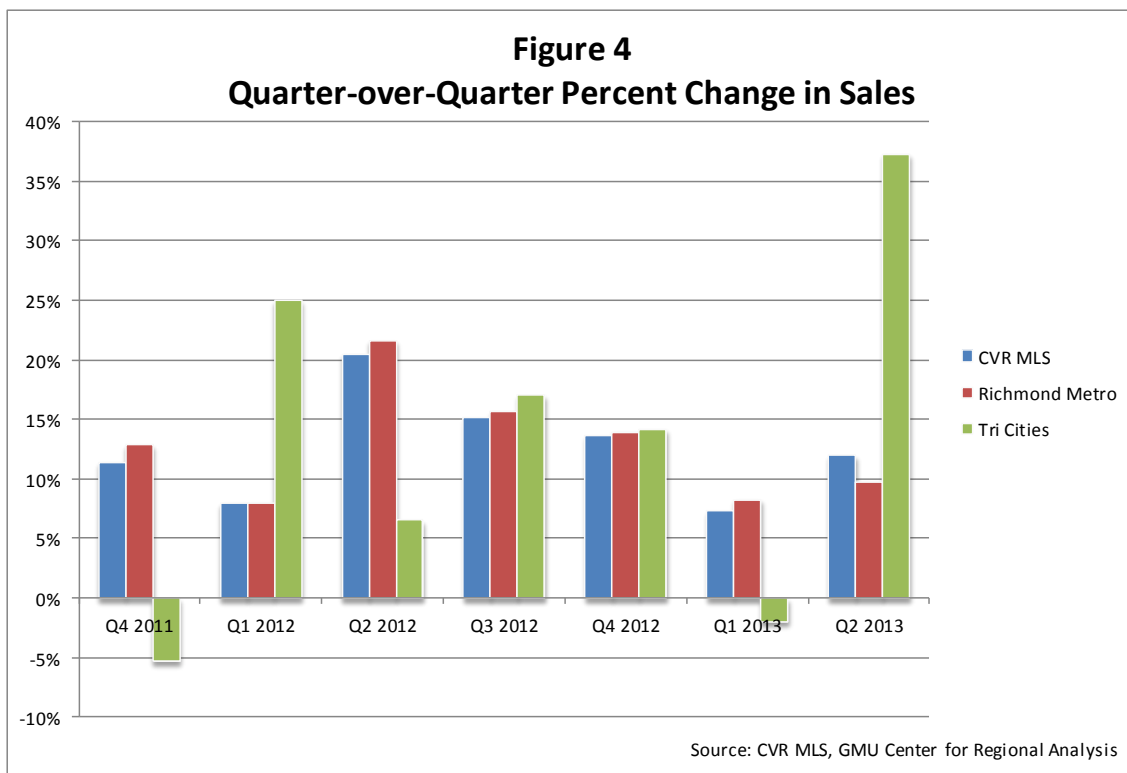


Central Virginia Area Housing Market

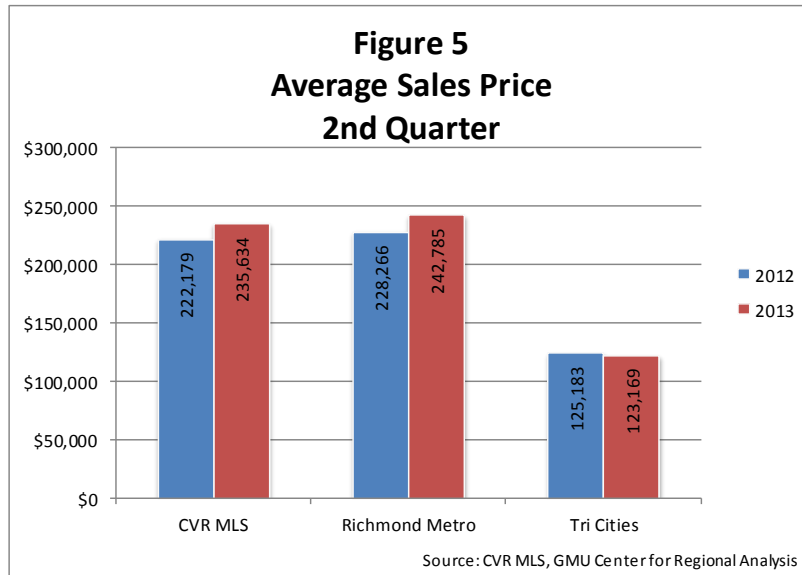
A relatively healthy economy, very low interest rates, and pent-up demand continue to support the Central Virginia region’s resilient housing market. The region’s market performed well in the second quarter of 2013, with increases in sales, prices, and pending sales. Inventory levels are rising somewhat, but they remain lower than the levels of active listings available at this same time last year.

Home Sales and Prices

Sales activity is strong across the Central Virginia market, with particularly robust sales growth in the City of Richmond and in the Tri Cities area. In the second quarter of 2013, there was a total of 4,265 sales of existing homes in the CVR MLS area, a 12 percent increase over the second quarter of 2012. In the Richmond Metro Area, sales were up 10 percent, with a total of 3,592 sales in the second quarter. Sales were up across the metro area, but the City of Richmond experienced relatively fast sales growth, with a total of 761 sales in the second quarter of 2013, or a 21 percent increase over second quarter 2012 sales. In the Tri Cities area, there were 313 sales in the second quarter of 2013, up a dramatic 37 percent from the 228 sales in the second quarter of 2012. All jurisdictions in the Tri Cities area—with the exception of Dinwiddie—experienced double digit increases in sales activity this quarter compared to last year.

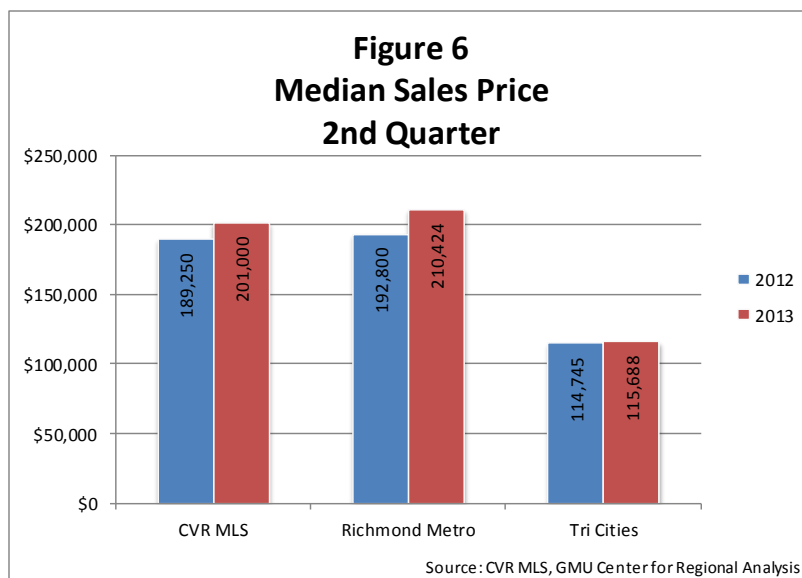


The pace of sales activity has continued to put upward pressure on home prices in most of the Central Virginia market. The average sale price in the region was \$235,634 in the second quarter of 2013, up six percent over the same quarter a year ago. The median sales price of



\$201,000 also reflected a six percent increase over last year.¹ Regionwide, prices have been increasing steadily for about a year, and are now back to about 85 percent of peak.

In the second quarter of 2013, price growth was strongest in the City of Richmond, where the average price increased nine percent and the median price increased 17 percent in the second quarter of 2013 compared to the second quarter of 2012. Home prices have not yet begun to rise consistently in the Tri Cities area. The average price in the second quarter of 2013 was \$123,160, down two percent compared to the second quarter of 2012. Nevertheless, the median price in the Tri Cities Area was up one percent to \$115,688.



Improvements in the region's housing market are reflected in the sales activity and price increases. There are also positive signs in the data on days on market and sales price-

to-list price ratio. In the second quarter of 2013, homes were on the market an average of 57 days in the Central Virginia region. The average days on market has been declining fairly steadily for the past two years, and homes in many neighborhoods are now selling as quickly as they were at the height of the housing market.

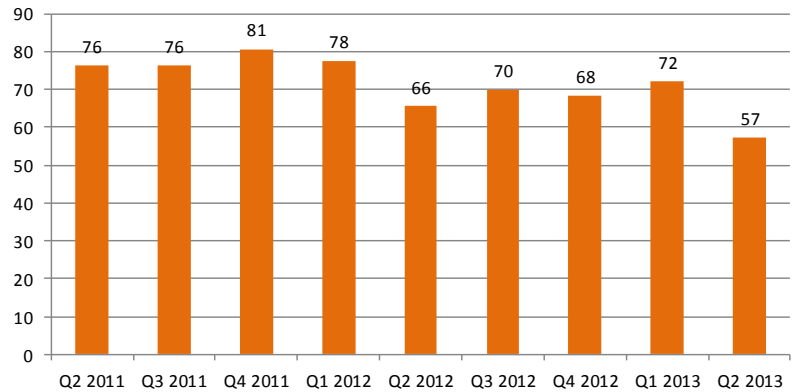
¹ The median price is the price at which half the homes sold for more and half sold for less.

In addition, the ratio of average sale price to average list price has been rising. In the Central Virginia region, the sales price-to-list price ratio was 98 percent in the second quarter of 2013, up more than a percentage point from a year ago and steadily increasing since 2011. These positive signs indicate healthy demand and reasonable expectations on the part of sellers.

Pending Sales

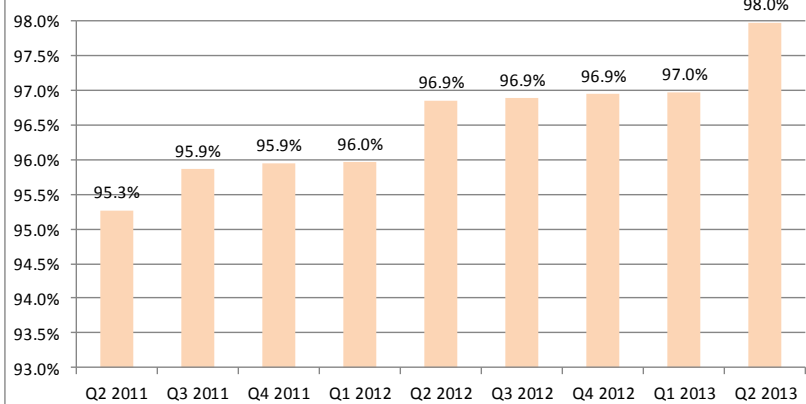
Pending sales are up even more strongly than final sales in the second quarter of 2013. This trend could indicate that transactions are proceeding more quickly, as foreclosures and short sales are being drawn ever more quickly out of the inventory. There were 4,941 pending sales during the second quarter of 2013 in the Central Virginia region, up 14 percent over the number of pending sales in the second quarter of 2012. In the Richmond Metro Area, there were 4,203 pending sales, a 13 percent increase over last year. In the Tri Cities Area, the 302 pending sales in the second quarter of 2013 reflects a three percent increase over the number of pending sales in the second quarter of 2012.

Figure 7
Average Days on Market
CVR MLS

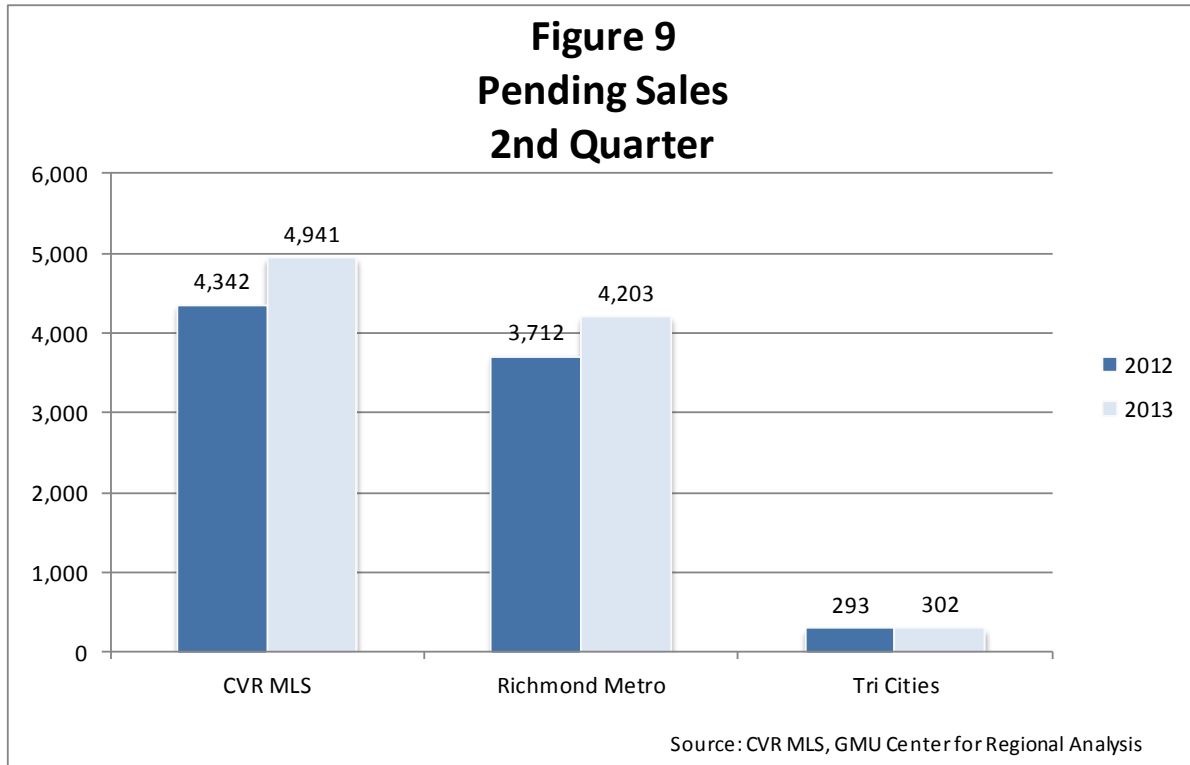


Source: CVR MLS, GMU Center for Regional Analysis

Figure 8
Average Sales-to-List Price Ratio
CVR MLS



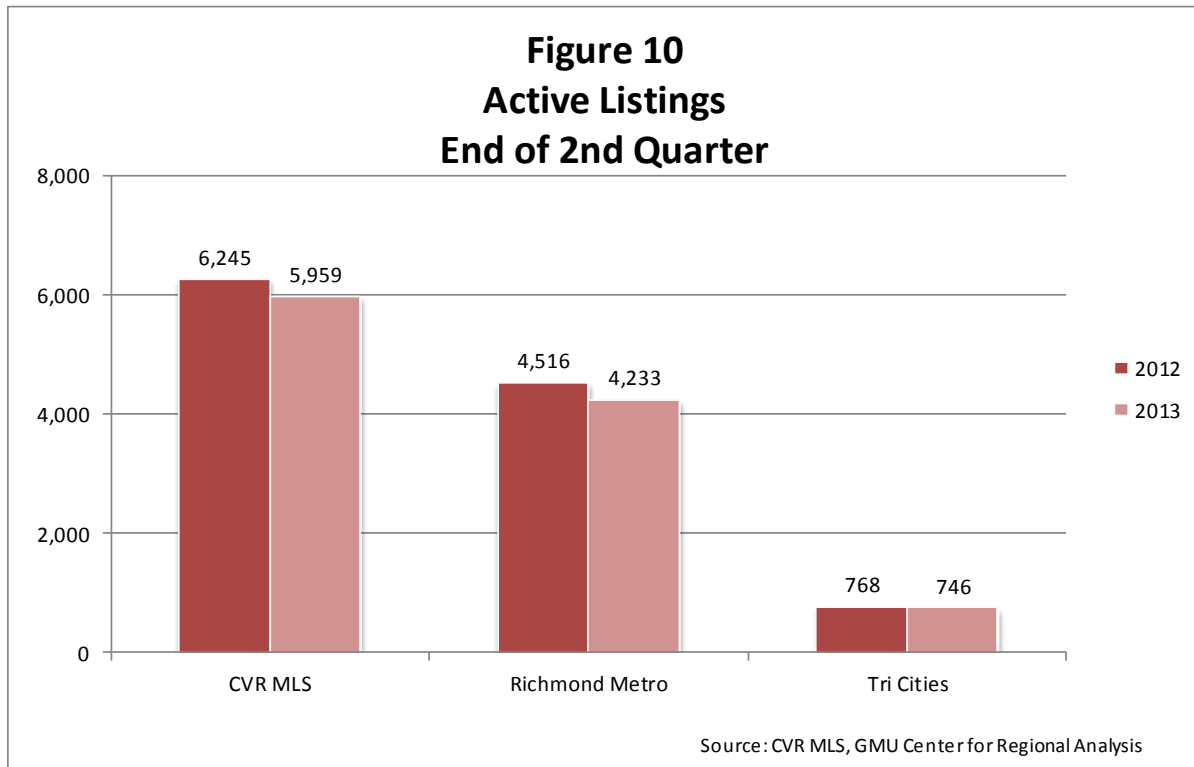
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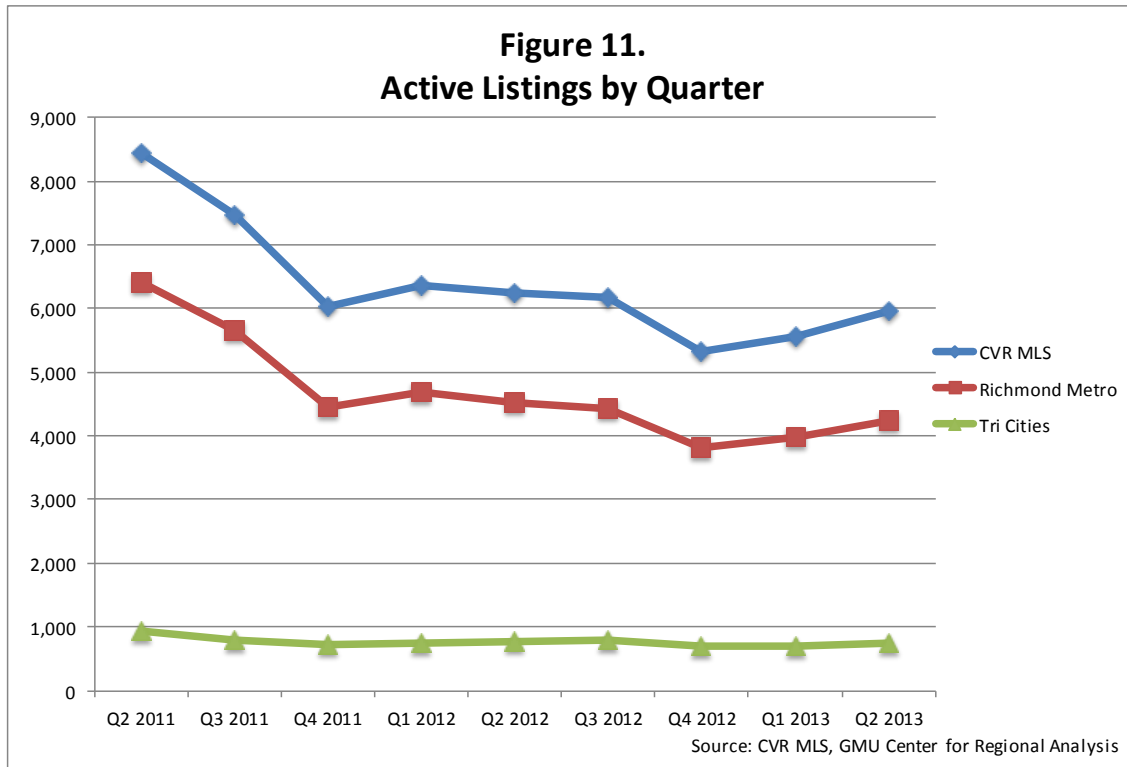
Active Listings

For several quarters, the very low inventory levels have been the most notable characteristic of the regional housing market and have led to upward pressure on prices across most of the Central Virginia region. At the end of the second quarter of 2013, the number of active listings is five percent lower than at the same time a year ago. In the Central Virginia region, there were 5,959 active listings at the end of the second quarter, down from 6,245 at the end of the second quarter of 2012.

Inventory is down across the region. In the Richmond Metro Area, there were 4,233 active listings at the end of the second quarter of 2013, down six percent from the same time last year. In the Tri Cities Area, there were 746 active listings, a decline of three percent compared to the end of the second quarter of 2012.



Despite the fact that the number of active listings is slightly lower than last year, there is evidence that inventory levels are starting to rise. In fact, since the end of 2012, there has been a modest but steady increase in inventory levels each quarter. Since sales activity has also been on the rise, the increased inventory reflects the increasing confidence of homeowners who are becoming more likely to put their homes on the market.



Outlook

The economic fundamentals in the Central Virginia region continue to improve and to support a healthy housing market. Increases in sales activity and prices, and declines in days on market, are indicative of strong demand and a market that is operating more normally than it has since the downturn. Rising inventories are also a positive sign, signifying that would-be sellers are entering the market at increasing rates. This trend suggests fewer underwater homeowners and growing confidence that the housing market is well on its way toward more typical conditions.

During the rest of 2013, sales activity and new listings will likely accelerate. Some buyers and sellers are worried about potential rising interest rates, which will push them into the market this year. (This concern is likely unnecessary as the Federal Reserve has indicated that interest rates will likely remain near historically low levels well into 2014.) Rising inventories of existing homes, along with increases in new construction, will bolster the supply of homes for sale, giving buyers more options. The increases in inventory will likely mean modest price increases



for the rest of the year; however, some local submarkets (e.g. Richmond, Henrico) may continue to see stronger price growth and sales activity.