



ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET

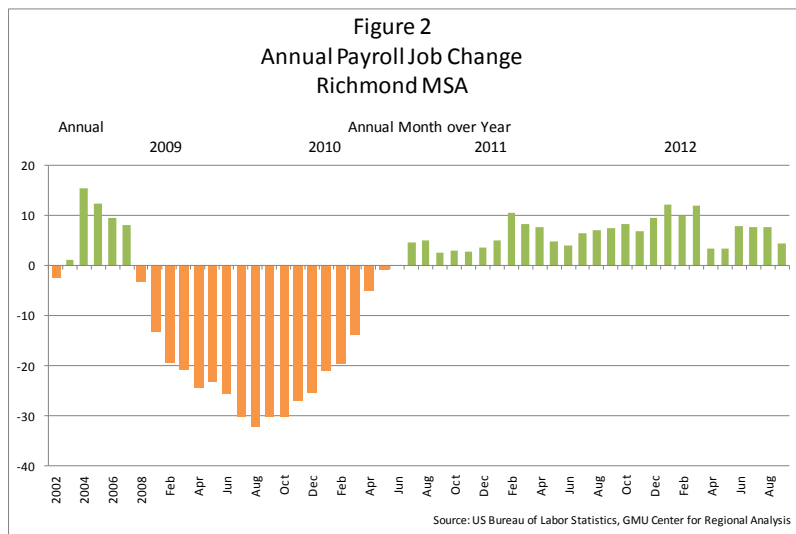
2012 Third Quarter Report Summary

Economic Overview

The Central Virginia region is experiencing continued positive economic signs—some better than the U.S. Job growth is close to the long-term average growth, and although the unemployment rate is not back to normal, it is headed in that direction.

Central Virginia Economic Trends

The Central Virginia region’s economy has also shown signs of continuing improvement. Payroll jobs in the region have been growing since June 2010—27 consecutive months of job growth in the metropolitan area. Through the first nine months of 2012, the region has added about 7,600 jobs on an annual average basis. This annual rate of growth in 2012 exceeds the annual average rate of growth from 2001-2007, a period of generally good economic health in the region.



The region’s unemployment rate has fallen from an August peak of 8.1 percent in 2009 to 6.4 percent as of August 2012. The peak unemployment rate was 8.5 percent in 2010, so the rate has dropped 2.1 percentage points in the past 2 ½ years.

These continuing improvements in the overall economy are a key factor in the improving housing market in the Central Virginia region. It is expected—absent a failure of Congress to do something to remedy the sequestration issue—that the region’s economy and housing market will continue to improve and expand in 2013.

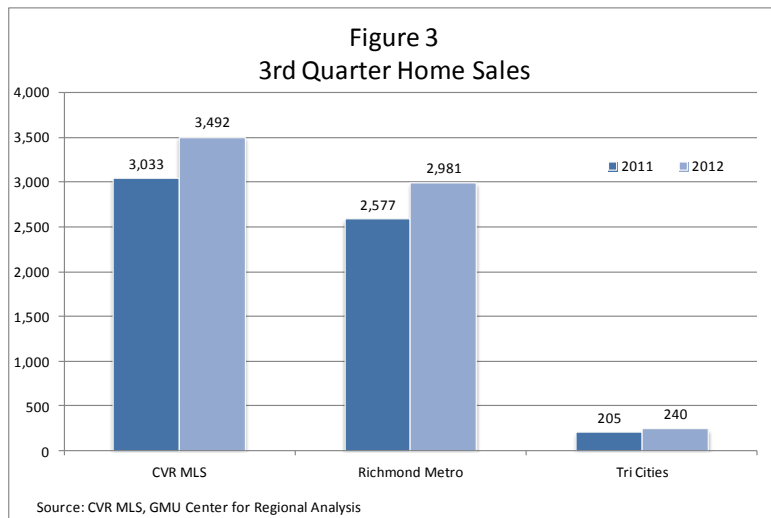
Central Virginia Area Housing Market

In the third quarter of 2012, the Central Virginia housing market continued to improve. Sales and contract activity were up in most jurisdictions, and inventories are at very low levels. Modest price gains and a slower drawdown in inventory levels suggest the market is approaching equilibrium, or a new normal, as we head into fall.

Home Sales and Prices

Market activity continues to be strong in the Central Virginia area, with sales up again in the third quarter of 2012. There was a total of 3,492 sales in the Central Virginia region in the third quarter of 2012, which was

down slightly from the second quarter sales level but was 15 percent higher than the third quarter of last year. The sustained improvements in sales activity signal the strength of the housing market in the Central Virginia region.



Sales were up across the region, with the Tri Cities area demonstrating notable progress. In the Richmond Metro area, there were 2,981 sales in the third quarter of 2012, up 16 percent over third quarter 2011 sales and following double-digit sales growth in the second quarter of 2012. In the Tri Cities area, the pace of sales growth had been more modest in the second quarter. However, in the third quarter the number of sales in the Tri Cities area was 17 percent higher than the number of sales in the third quarter of 2011 (240 versus 205 sales.)

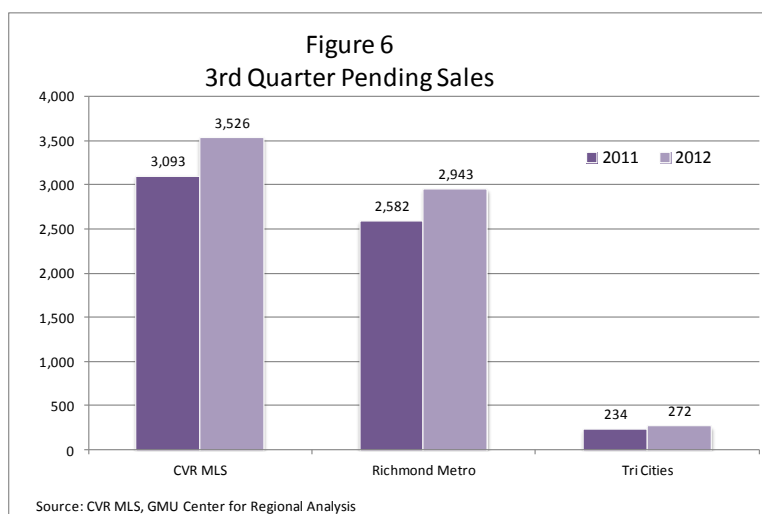
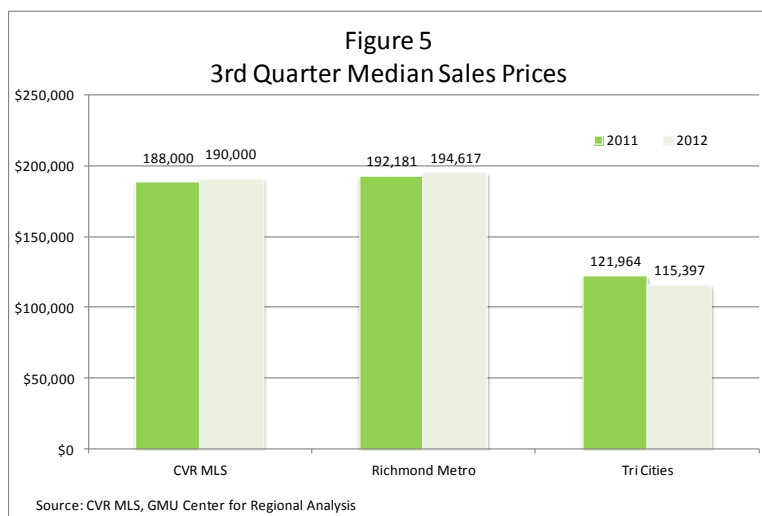
Increases in sales activity indicates increased demand for housing. As demand increases (and inventory declines—see below) there will be upward pressure on prices. Prices continue to stabilize in the Central Virginia housing market, though there is not yet significant upward pressure on prices. Price growth in the region was led by some of the smaller markets, including Caroline, Goochland and New Kent counties. Prices were basically flat in the largest markets of the Central Virginia region. In the Richmond Metro area, the average sold price in the third quarter of 2012 was \$233,650, up one percent from the third quarter of 2011. The median sales price was \$194,617, also up one percent from a year ago.

Pending Sales

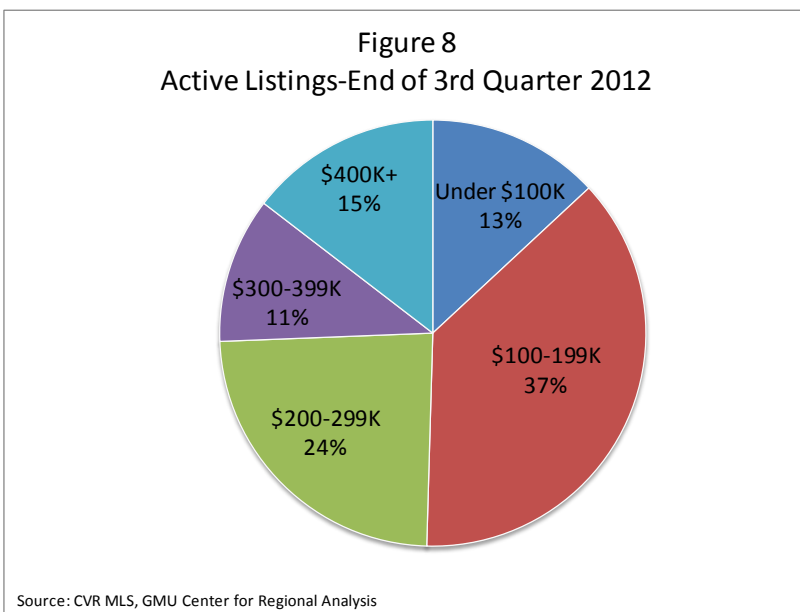
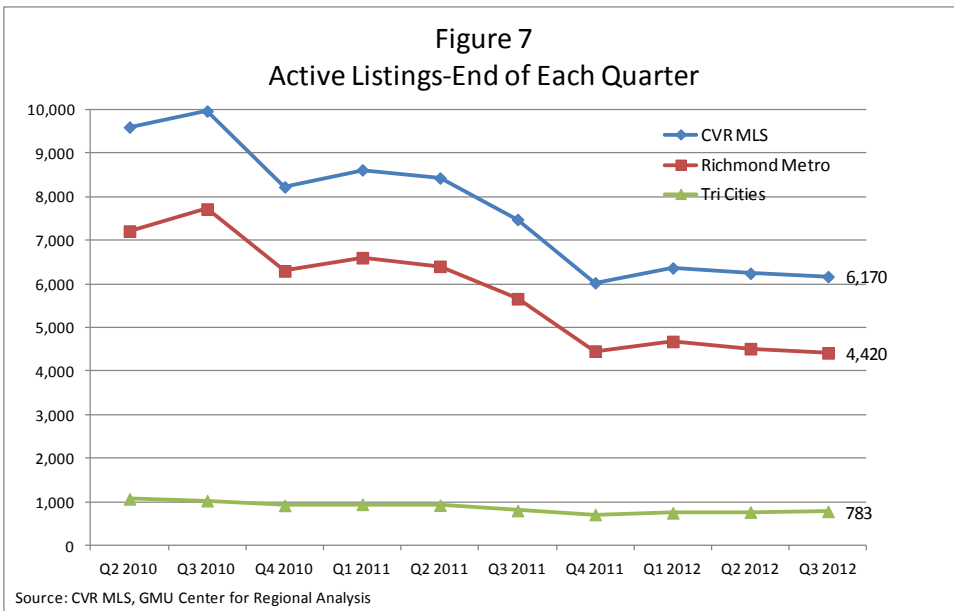
Similar to sales activity, the number of new contracts is up in the third quarter of 2012 compared to the third quarter of 2011, though down slightly from the second quarter of 2012. In the Central Virginia region, there were 3,526 pending sales in the third quarter of 2012, up 14 percent from the third quarter of 2011. There were 2,943 homes that went under contract in the Richmond Metro area in the third quarter of 2012, up 14 percent over last year. In the Tri Cities area, pending contracts totaled 272 in the third quarter of 2012, up 16 percent over the third quarter of 2011.

Active Listings

Strengthening demand and relative low prices have resulting in shrinking inventories in the Central Virginia area. Cautious and uncertain would-be sellers are also contributing to the decline in new listings. The number of active



listings has fallen steadily over the past three years. At the end of the third quarter of 2012, there was a total of 6,170 homes listed for sale. There are 1,300 fewer homes for sale currently than there were at the end of the third quarter last year; the current inventory is nearly 3,800 lower than the third quarter 2010.



Outlook

The fall typically signifies a transition to a somewhat slower housing market. While sales growth and price gains may experience a seasonal slowdown, the health of the overall Central Virginia housing market is sound heading into fall.

While uncertainty about national economic issues will continue to weigh on the minds of some potential buyers, the recovery will continue throughout 2012, albeit cautiously. The Central Virginia housing market seems to have weathered the downturn and is on a path towards sustainable recovery and a return to a more normal market.