



SUMMARY OF THE CENTRAL VIRGINIA AREA HOUSING MARKET ANALYSIS 1st Quarter 2011

National and Local Economic Overview

The national economy continued to show strength by several measures as 2011 has begun, and the Central Virginia region appears to be gaining some economic momentum as well. At the national level, the economy would be gaining even more traction were it not for the problems in the Middle East and subsequent increases in oil prices, and the continued malaise of the housing market at the national level. After a very weak job market in Central Virginia, it appears that the region is turning the corner and is now adding jobs and should show growth in 2011.

During the recession only the Health and Education Services Sector added jobs, but over the 12 months from March 2010 to March 2011, most sectors added jobs, led by the Professional and Business Services sector. The Construction and Financial Services sectors have almost returned to growth and should turn positive in the second quarter. The largest job losses at the national level as of March were in State and Local Government – a sector that usually lags economic recoveries.

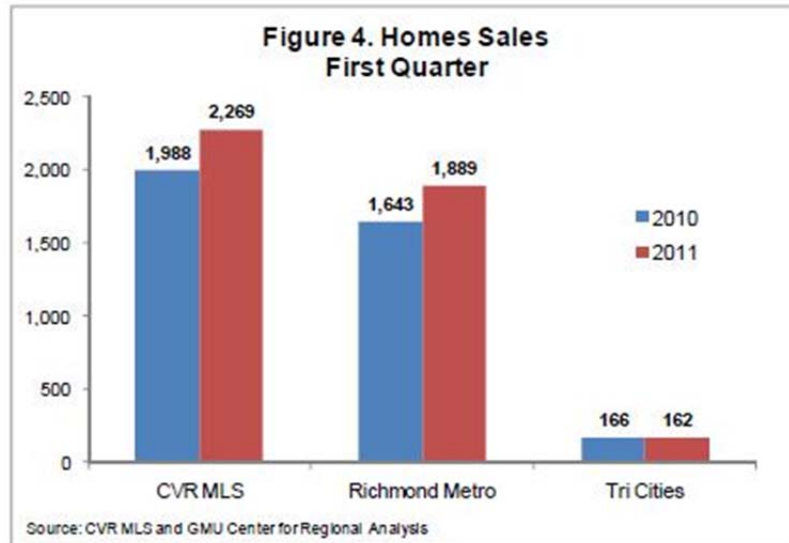
Central Virginia's economic conditions began to improve in 2010 and the jobs picture has improved significantly, although growth is very modest as of early 2011. Following a loss of 24,900 jobs in 2009, the losses began moderating in early 2010 and job growth started again in the summer, albeit modestly, and had a small loss in December before turning up again with a growth of 2,900 jobs from February 2010 to February 2011. On a quarterly basis, the region's growth showed a spurt in the 2nd quarter of 2010 and a drop in the fourth quarter. The first quarter of 2011 is expected to be flat and the forecasts are for growth in each of the remaining three quarters of 2011 to be in the range of 2,500 to 3,500 jobs each quarter.

In looking at the 12-month period of February 2010 to February 2011, the Richmond metro area's job growth was led by the Professional and Business Services sector with +3,000 jobs and the construction sector with +2,700 jobs. The Financial and Retail Trade sectors continue with declines reflecting the business cycle. As the overall job situation continues to improve, it can be expected that Retail Trade and Financial sectors will also begin to add jobs again. State and Local Government had the largest decline with -2,600 jobs. State and local government sector lags business cycles because of the strong dependence on property tax revenues which lag the business cycle because of the timing of the property assessment process. Property tax assessments will not recover until the overall housing market recovers and values rise.

Central Virginia Area Housing Market

Homes sales were up in the first quarter of 2011 compared with the first quarter of 2010, but prices continued to fall. The prices of sold homes and prices of active listings suggest there remains a substantial pool of foreclosures and short sales in the market. While buyers are returning to market and finding good deals, several factors will make it challenging to reduce the glut of foreclosures. The speed with which the inventory of foreclosures and short sales is

drawn down will depend on the continued recovery of the regional economy, as well as policy decisions at the Federal level and practices within the banking system. It will likely take until the end of 2011, if not beyond, to work through the inventory of distressed and foreclosed properties.



Home Sales and Prices

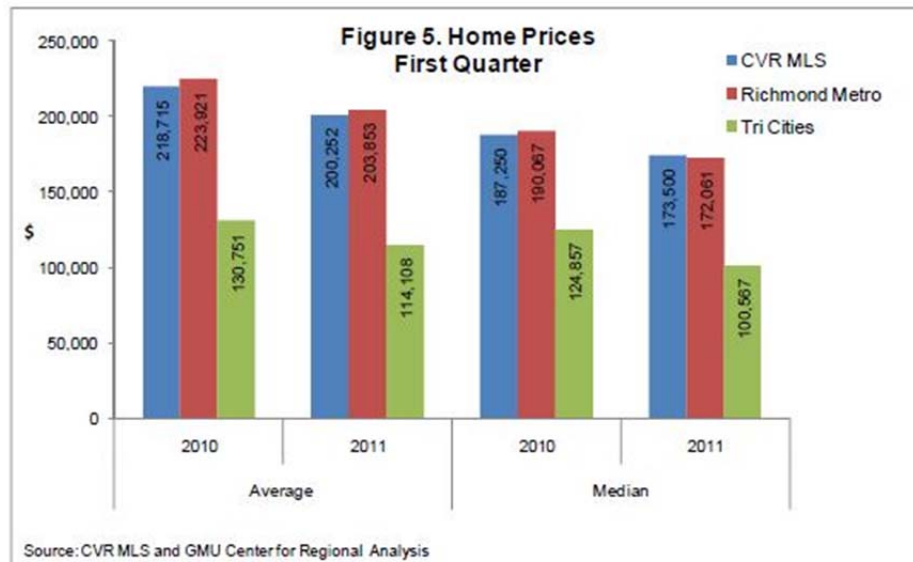
Sales activity in Central Virginia was brisk in early 2011. In the Central Virginia MLS, a total of 2,269 homes were sold in the first quarter of 2011, compared with 1,988 in the first quarter of 2010. These sales figures represent an increase of 14 percent over the year. Sales were strongest in the Richmond Metro Area but still lagged in the Tri Cities Area. In the Richmond Metro Area, there were 1,889 homes sold, an increase of 15 percent over the first quarter 2010 sales. However, in the Tri Cities Area, sales in the first quarter were down two percent compared to the same quarter last year.

Despite strong sales activity, prices continued to fall. In the first quarter of 2011, the average price of a home sold in the Central Virginia area was \$200,525, which was down eight percent from the average sales price in the first quarter of 2010. The median price in the first quarter of 2011 was \$173,500, down seven percent from a year ago. Sales prices were down in nearly every jurisdiction in the Central Virginia region. In the Richmond Metro Area, average and median prices were down nine percent. In the Tri Cities Area, the average price in the first quarter of 2011 was 13 percent lower than in the first quarter of 2010 and the median price was down 19 percent.

The main drag on home prices is foreclosures. A substantial share of all sales in the first quarter of 2011 was foreclosures and the persistent inventory of foreclosures and short sales continues to put downward pressure on prices.

In the Central Virginia region, nearly one quarter of all homes were sold for less than \$100,000 in the first quarter of 2011. In the Richmond Metro Area, about 20 percent of homes sold in this price range. In the Tri Cities Area, a remarkable 48 percent of all sales were for less than \$100,000 in the first quarter of 2011. The data indicates that lower priced homes have become a growing share of all home sales. The rise in the number of very low priced homes suggests that the foreclosure and short sale inventory is still relatively large and could take many months to

clear out. Brisk sales activity will help to remove these properties from the inventory. However, processing delays at the banks and uncertain government regulatory activity could delay this drawn down.



Pending Sales

Pending sales are typically a leading indicator of final sales. In the first quarter of 2011, pending sales were down compared to the first quarter of 2010. In the Central Virginia region, there was a total of 3,077 pending sales in the first quarter of 2011, compared with 3,192 in the same quarter last year. The numbers of pending sales were down by three percent in the Richmond Metro Area and by ten percent in the Tri Cities Area.

Active Listings

One sign that inventories in the region are being drawn down slightly is the trend in active listings. At the end of the first quarter of 2011, there was a total of 8,617 active listings on the market. The current level of inventory is lower than at the end of first quarter 2010 when there were 8,897 active listings. Lower levels of inventory, coupled with increasing sales activity, are positive signs for the housing market. However, the current inventory of active listings contains a greater share of lower priced homes, including foreclosures and short sales. This trend suggests that there is still a substantial number of foreclosed properties that have not yet come to market.

Outlook for 2011

The fundamentals for an improving housing market are present in the Central Virginia region. Job growth is starting to improve and the region is adding relatively high wage jobs in the Professional and Business Services Sector. Inventories of homes for sale are lower than they have been in many months. Interest rates are still at historically low levels. There is pent-up demand for housing, as potential buyers have been waiting to see if the market has hit bottom.

However, several challenges remain that will lead to a very slow recovery in the housing market throughout the year. The biggest obstacle to recovery is the level of foreclosures. The data on active listings suggest that foreclosures are a growing share of homes on the market. And the

currently listed foreclosed properties may only be a small share of the total inventory.

The foreclosure process has been slowed by problems with bank procedures and changes to Federal regulation. Thus, the shadow inventory continues to grow. In addition to the high level of foreclosures, tighter credit requirements are another impediment to recovery in the housing market in 2011. Some potential buyers continue to have difficulty obtaining financing.

A potential but partial offset to these challenges could be forecasts for interest rates. While interest rates are currently low, they are projected to rise by the end of the year. Potential buyers who are waiting until the market hits bottom may be motivated to move off the sidelines as 2011 progresses.