



ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET 3rd Quarter 2011

Economic Overview

The national economy entered recession in late 2007 and officially came out of recession in early summer 2009. The recovery since then has been less than robust. As of the third quarter of 2011, the national economy continues to muddle and drift along with no real inclination for growth. Each new release of economic forecasts seems to revise earlier forecasts lower. The lack of stronger economic growth is also being felt in the Central Virginia region as well as statewide.

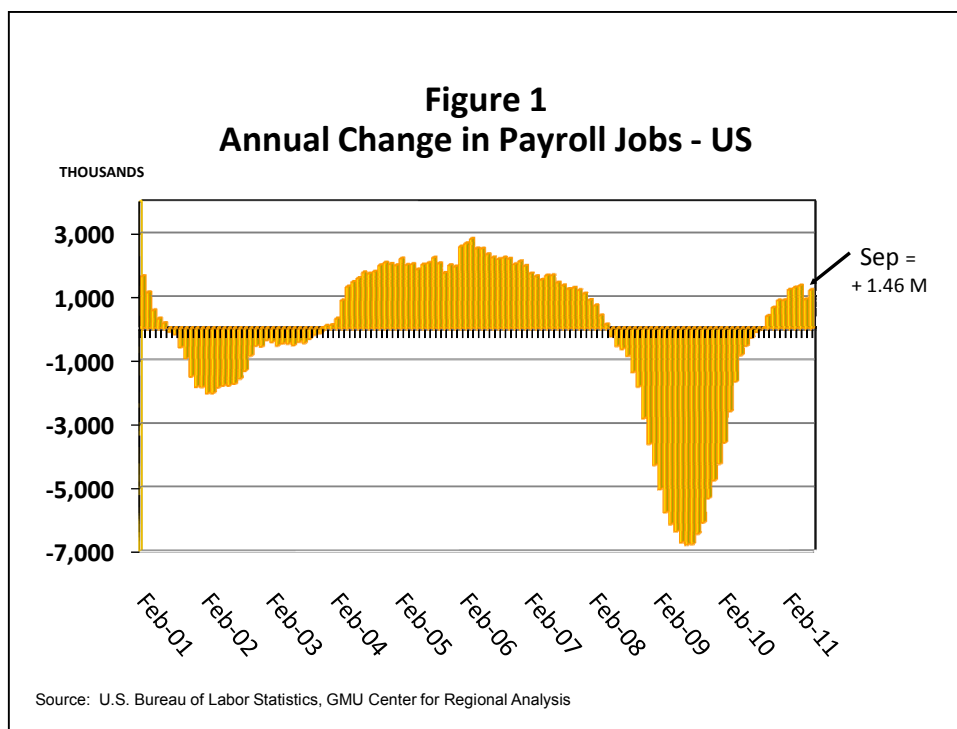
The housing market nationally has also not recovered very well, as foreclosures and credit availability continue to undermine market recovery and sales, which are remaining stubbornly below normal levels. In all previous recessions of the last 50 years, the housing industry has either led the recovery or made significant contributions to the recovery. But for the current recovery, housing's contribution is close to zero. In the Central Virginia region, the housing market has fared somewhat better than nationally but recovery is slow.

The National Economic Backdrop

As of the fall of 2011 it has been two years since the end of the recession and gross domestic product (GDP) has grown by a fairly meager five percent over that time. GDP grew at a faster pace until the first half of 2011, when economic growth slowed again. There are several reasons for this slowdown, including economic issues in Europe, continued issues in the financial system in the U.S., and the failure of the political system to resolve debt and budget problems. But even given all of the uncertainties, there are some positive signs in the national economic indicators:

- Two key indicators—the ISM manufacturing Index and its non-manufacturing index—continue to show expansion. The manufacturing index has been showing expansion for 26 consecutive months and non-manufacturing index for 21 consecutive months (both through September).
- On a year-over-year basis, jobs have been growing nationally for 12 consecutive months. Between September 2010 and September 2011 the U.S. added 1.46 million jobs.

- The Leading Economic Index has been positive (meaning predicting economic growth 6-9 months ahead) for 31 consecutive months. The Coincident Economic Index, which measures current overall performance, has been positive for 25 consecutive months – as predicted by the Leading Index.

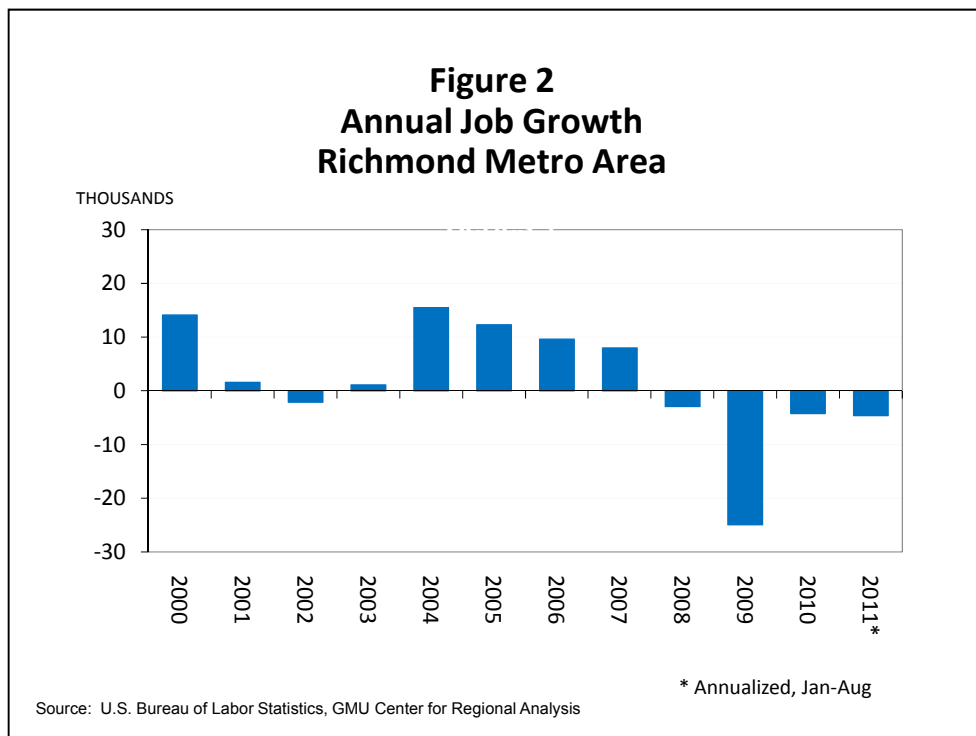


Overall, the national economy is growing very modestly and it does not yet feel like recovery, which has caused some economists to pose the possibility of sliding back into recession. But a number of positive measures suggest a second recession is unlikely. And while the equity markets have been volatile in the third quarter, corporate earnings have been very positive and many corporations are in an exceedingly high cash position. Resolution of the national debt and budget political strife as well as European market woes would go a long way to spurring more robust economic growth in the U.S. economy and real estate markets. Those factors are major contributors to uncertainty for both businesses and consumers, and easing the uncertainty would cause a return of some confidence and a return of spending.

Central Virginia Area Economic Trends

Central Virginia’s economy showed signs of recovery in late 2010 and into the spring of 2011 as the region’s job picture improved. But, the region entered a soft spot in the summer and that has prevailed through the third quarter. On an annualized basis, the region is down 4,200 jobs in 2011 (January-August), compared to the same period in 2010. These losses are small compared to the middle of the recession, and it seems like recovery is just around the corner but not quite yet happening.

One factor in the overall state’s economic picture is that growth has slowed in sectors doing business with the Federal government. This slowdown is likely caused because companies with Federal contracts feel uncertain about what will happen with the Federal budget and debt reduction processes, and they are holding off hiring and investing until that situation clears. This pattern is also seen in those sectors in the Central Virginia Area. Overall, however, the sectors affected most by national business cycles such as trade and hospitality are showing the weakest performance among the region’s sectors.





The positive measures in the region's economy are job growth in its two largest and highest paying sectors. The Professional and Business Services Sector added 4,000 jobs and the Health and Education Services sector added 1,200 jobs for the annual period of August 2010 to August 2011. The other sectors have generally small losses cumulatively, resulting in an overall net loss as the third quarter comes to a close.

National economic forecasts indicate that the economy will work its way out of these doldrums and begin to gain some traction, although the improvement will not be as robust as most consumers and businesses would like.

Central Virginia Area Housing Market

The housing market in Central Virginia continues to be stubbornly slow. While sales activity has picked up somewhat in 2011, prices continue to decline across the region. The major driver of the price declines is the inventory of foreclosures on the market. Until these homes are sold, there will be little upward pressure on prices. Underlying fundamentals—including population growth and historically low interest rates— suggest that the housing market will improve, though the pace of improvement will likely remain modest and will depend on the drawdown of the foreclosure inventory.

Home Sales and Prices – Recent Trends

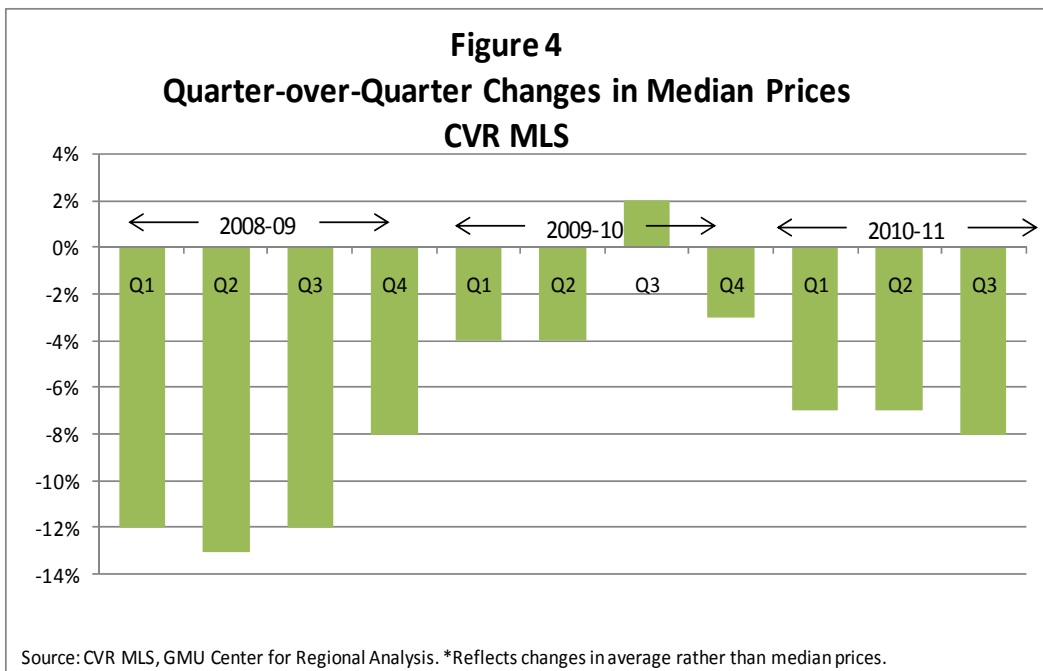
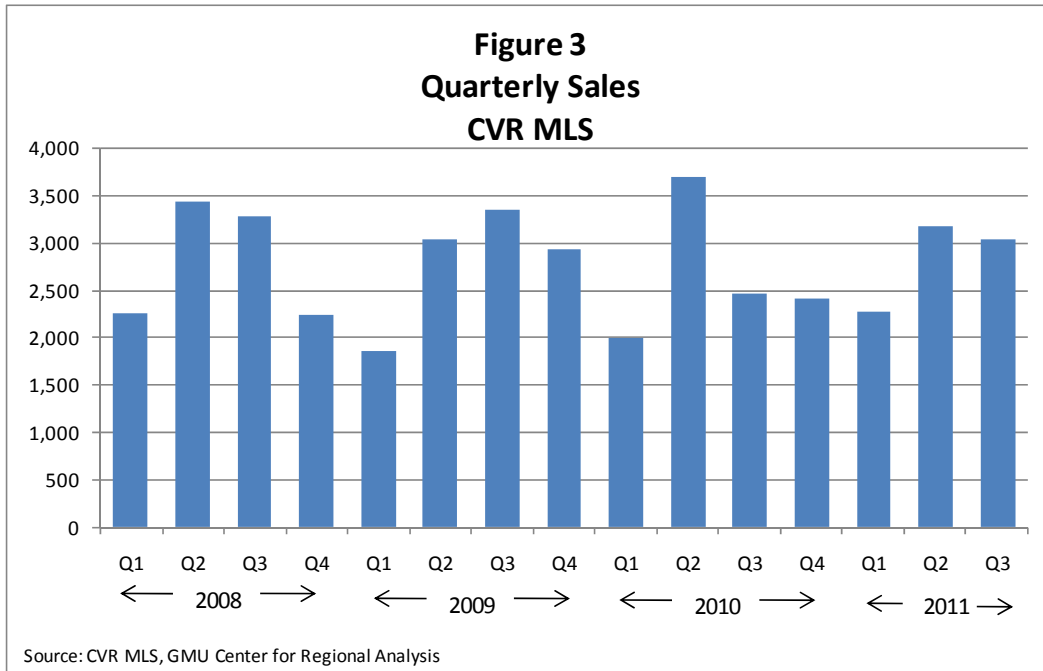
Sales activity has increased in 2011 over 2010, which is a positive sign given that 2010 was boosted by the tax credit in 2010 and now that stimulant is gone. But, prices continue to fall in the Central Virginia region. A major reason for the continued price declines is the number of foreclosed homes on the market. After double-digit price declines in 2009, the price declines were more moderate in 2010 and 2011. Foreclosed homes continue to put downward pressure on prices. Nationally, there was a slowdown in the number of new foreclosures for most of 2011, largely because major lenders stopped processing foreclosures as they responded to the problems with “robo-signing” and other violations.

This fall, foreclosure numbers are up. These foreclosed properties continue to put downward pressure on prices in the Central Virginia market. For example, in September 2011, there were 1,905 homes receiving foreclosure notices in the City of Richmond.¹ The average price of these foreclosed homes was \$121,790 compared to the average of all sales in the city of just over

¹ Data on foreclosures are from RealtyTrac.



\$200,000. In Henrico County, there were 772 properties receiving foreclosure notices in September. The average price of these foreclosed homes was \$141,265 compared to over \$244,000 for all homes sold in the county. Until foreclosures are removed from the inventory, it will be very difficult to see an increase in prices. While there was a slowdown in the number of new foreclosures this year, banks have returned to processing foreclosures and there will be an uptick in the last half of the year. Fortunately, the return to processing foreclosures means that banks are working through them and the inventory will be better known by the end of the year. By next year, if economic conditions remain stable or improve, there should be a noticeable drawdown of the foreclosure inventory.

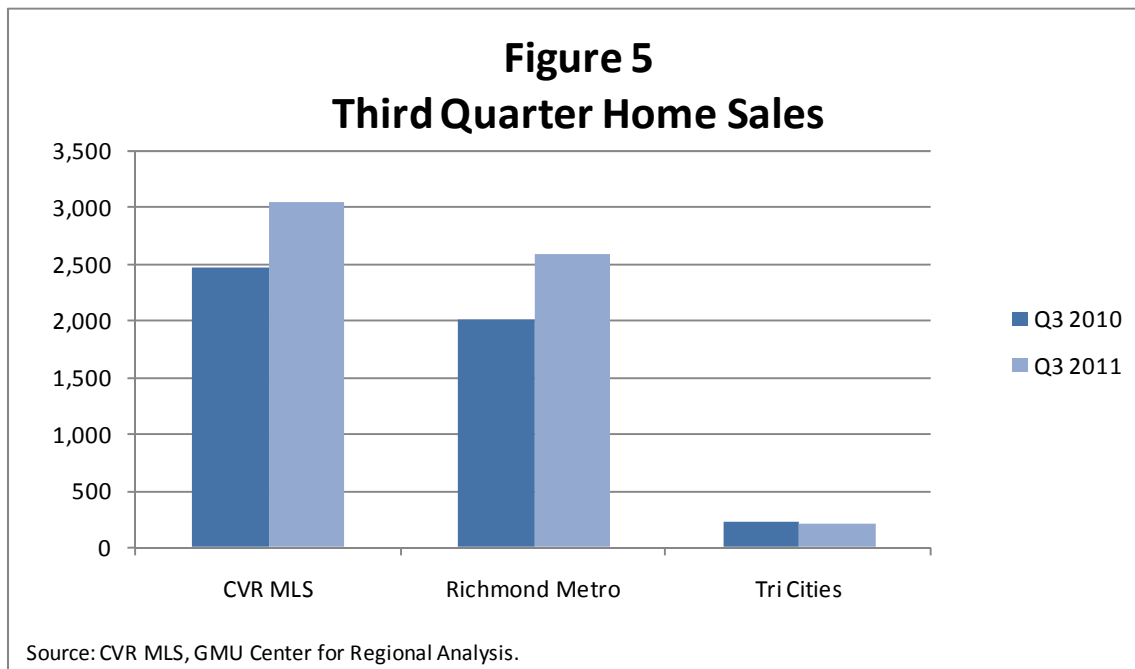


Market Activity – Third Quarter 2011

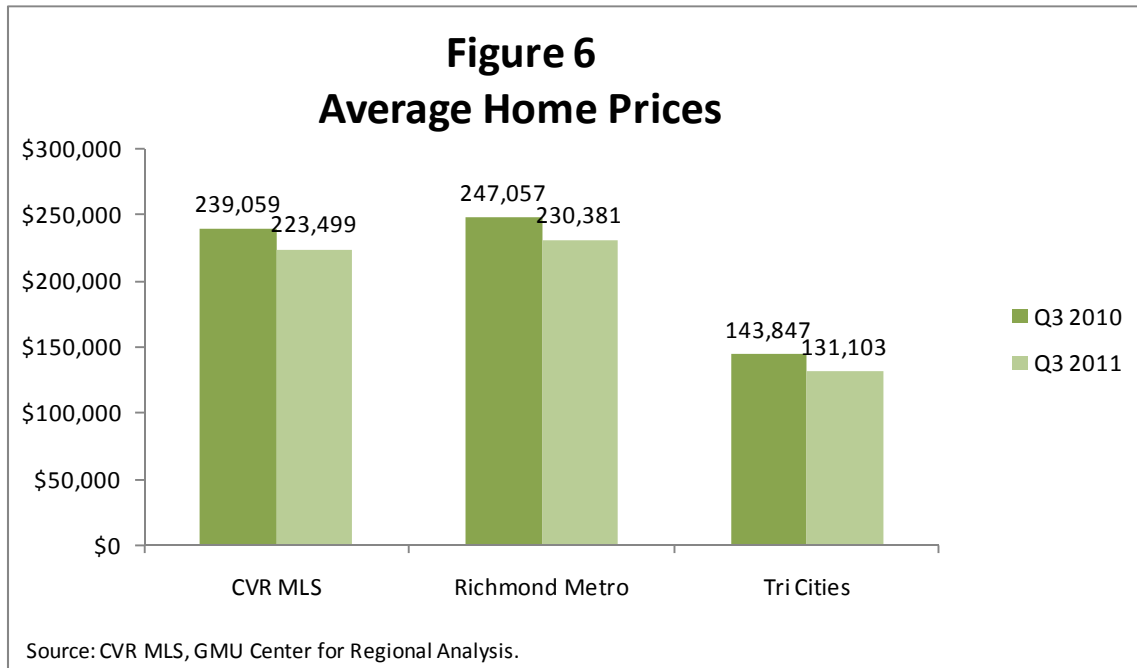
The housing market data for the third quarter of 2011 provides a mixed picture of the status of improvement in the Central Virginia housing market.

Home Sales and Prices

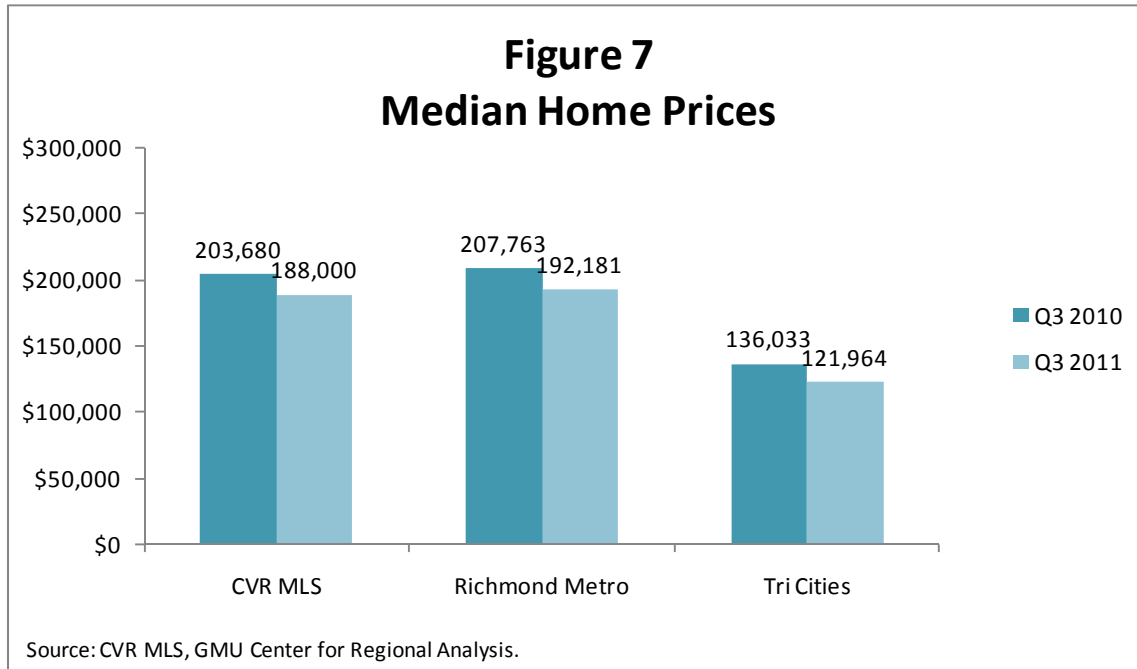
In the third quarter of 2011, there was a total of 3,033 home sales in the Central Virginia MLS reflecting an increase of 23 percent over the third quarter of 2010. Sales were up across the board in the Richmond Metro Area while sales activity was down slightly in the Tri Cities area. This uptick in sales is a reversal of the second quarter when sales were down. (However, the second quarter sales figures for 2011 were being compared to the second quarter of 2010 when there was substantial sales activity associated with the end of the Federal homebuyers' tax credit.) An increase in sales is an important indicator that there is demand for homes and that some of the more moderately priced and distressed properties are being removed from the inventory. Continued improvement in the number of sales is critical for eventual price appreciation in the region.



While the number of sales was up across most of the region, prices continued to fall. The average price of a home sold in the CVR MLS in the third quarter of 2011 was \$223,499, down seven percent from the 2010 third quarter average. The median sales price in the third quarter of 2011 was \$188,000, down eight percent from the third quarter 2010 median.² The trends in prices were similar in the Richmond Metro and Tri Cities area, though Tri Cities experienced somewhat steeper price declines. The cities of Richmond and Petersburg were notable for experiencing moderate increases in median prices in the third quarter of 2011.

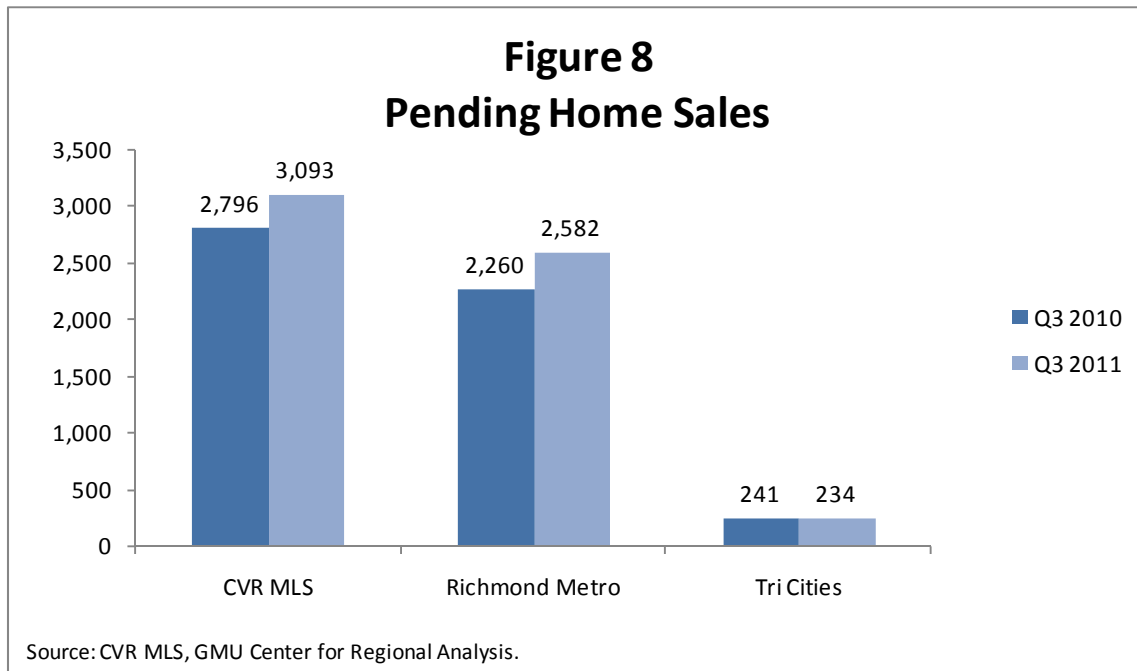


² The average price is the arithmetic average of all prices of homes sold. The median price is the middle price of all homes sold—that is, half of the homes sold for more than the median and half sold for less.



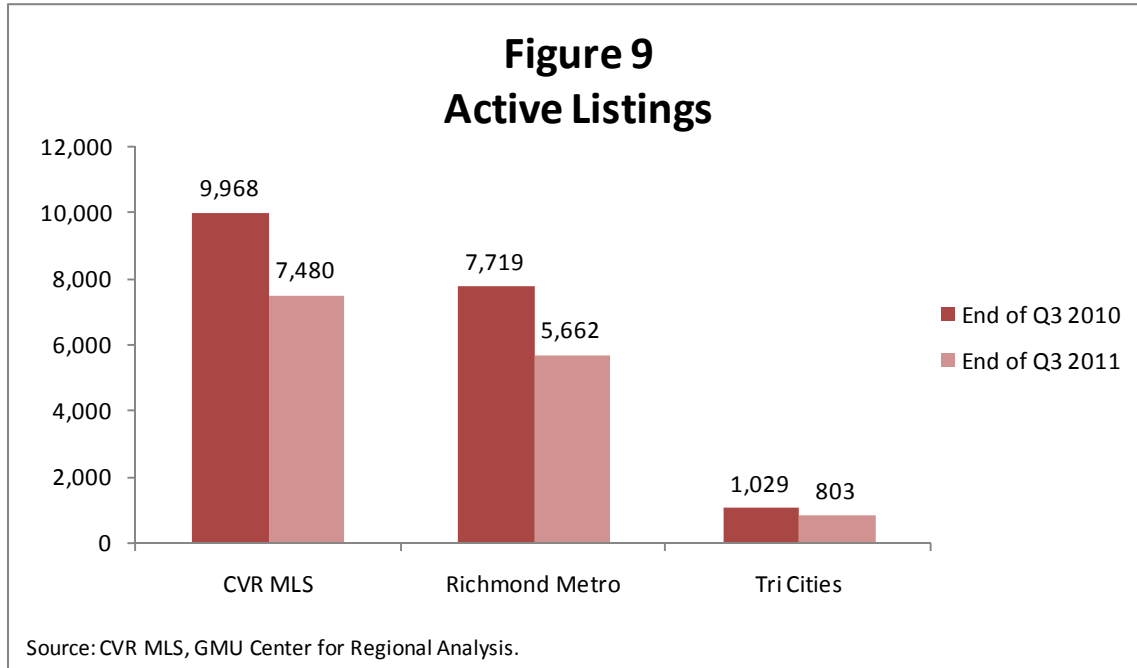
Pending Sales

In the third quarter of 2011, there were 3,093 pending sales, up 11 percent over the third quarter of 2010. The number of pending sales was especially strong in the Richmond Metro area where the number of pending sales increased by 14 percent in the third quarter of 2011 compared with the third quarter of 2010. The Tri Cities area continues to struggle, in sales, in prices and also in pending sales, which suggests that stabilization and recovery in the Tri Cities area, with the possible exception of the City of Petersburg, is coming very slowly.



Active Listings

The number of active listings in the Central Virginia region is down 25 percent in the third quarter of 2011 compared with the third quarter of 2010. While a negative trend in active listings typically suggests a drawn down in inventory, leading to price increases, it is likely that this trend is keeping potential sellers off the market. The level of inventory was down 27 percent in the Richmond Metro area and down 22 percent in the Tri Cities area.



Outlook

The Central Virginia housing market continues to be sluggish. Many of the fundamentals needed for recovery are present—population growth, economic stability, low household formation rates, historically low interest rates, and low prices. But, several obstacles remain. The main roadblocks to recovery are the foreclosure inventory and uncertainty on the part of buyers and sellers. The positive economic signs, if they continue, should improve consumer and business confidence. The major banks have resumed processing foreclosures, which will initially create an uptick in the number of foreclosures. But the resumed process will provide more certainty about the level of foreclosure activity. Next spring will be critical for assessing the sales of distressed properties and the recovery of the housing market.

Residential Sales

County of City	Units Sold			Average Sales Price			Median Sales Price		
	Q3 2011	Q3 2010	% Chg.	Q3 2011	Q3 2010	% Chg.	Q3 2011	Q3 2010	% Chg.
Caroline	20	26	-23%	\$140,184	\$176,292	-20%	\$125,600	\$112,500	12%
Charles City Co.	9	4	125%	\$176,144	\$107,125	64%	\$145,000	\$111,000	31%
Chesterfield	964	735	31%	\$226,968	\$248,589	-9%	\$194,500	\$213,500	-9%
Colonial Heights	32	40	-20%	\$133,266	\$148,562	-10%	\$144,250	\$142,900	1%
Dinwiddie	38	48	-21%	\$150,796	\$160,721	-6%	\$141,950	\$151,500	-6%
Goochland	41	53	-23%	\$347,332	\$425,642	-18%	\$300,000	\$392,000	-23%
Hanover	251	179	40%	\$248,771	\$263,741	-6%	\$228,500	\$244,900	-7%
Henrico	872	673	30%	\$244,159	\$257,621	-5%	\$195,000	\$221,357	-12%
Hopewell	39	54	-28%	\$99,857	\$130,066	-23%	\$79,000	\$122,450	-35%
King William	34	28	21%	\$159,262	\$164,015	-3%	\$159,250	\$176,000	-10%
Louisa	35	34	3%	\$163,336	\$174,354	-6%	\$148,000	\$169,475	-13%
New Kent	38	42	-10%	\$219,533	\$221,550	-1%	\$202,000	\$212,983	-5%
Petersburg	51	38	34%	\$81,352	\$67,644	20%	\$61,500	\$47,101	31%
Powhatan	74	53	40%	\$259,460	\$277,193	-6%	\$236,500	\$220,000	8%
Prince George	45	38	18%	\$196,402	\$213,355	-8%	\$195,000	\$217,500	-10%
Richmond	490	419	17%	\$203,157	\$220,274	-8%	\$164,000	\$160,000	3%
MLS TOTAL	3,033	2,464	23%	\$223,499	\$239,059	-7%	\$188,000	\$203,680	-8%
Chesterfield	964	735	31%	\$226,968	\$248,589	-9%	\$194,500	\$213,500	-9%
Hanover	251	179	40%	\$248,771	\$263,741	-6%	\$228,500	\$244,900	-7%
Henrico	872	673	30%	\$244,159	\$257,621	-5%	\$195,000	\$221,357	-12%
Richmond	490	419	17%	\$203,157	\$220,274	-8%	\$164,000	\$160,000	3%
Richmond Metro TOTAL	2,577	2,006	28%	\$230,381	\$247,057	-7%	\$192,181	\$207,763	-7%
Colonial Heights	32	40	-20%	\$133,266	\$148,562	-10%	\$144,250	\$142,900	1%
Dinwiddie	38	48	-21%	\$150,796	\$160,721	-6%	\$141,950	\$151,500	-6%
Hopewell	39	54	-28%	\$99,857	\$130,066	-23%	\$79,000	\$122,450	-35%
Petersburg	51	38	34%	\$81,352	\$67,644	20%	\$61,500	\$47,101	31%
Prince George	45	38	18%	\$196,402	\$213,355	-8%	\$195,000	\$217,500	-10%
Tri Cities TOTAL	205	218	-6%	\$131,103	\$143,847	-9%	\$121,964	\$136,033	-10%

Source: CVRMLS, GMU Center for Regional Analysis

Pending Sales

County of City	Units		
	Q3 2011	Q3 2010	% Chg.
Caroline	31	35	-11%
Charles City Co.	15	7	114%
Chesterfield	940	838	12%
Colonial Heights	26	35	-26%
Dinwiddie	51	58	-12%
Goochland	42	56	-25%
Hanover	253	218	16%
Henrico	867	752	15%
Hopewell	38	54	-30%
King William	31	41	-24%
Louisa	38	35	9%
New Kent	44	48	-8%
Petersburg	57	47	21%
Powhatan	76	73	4%
Prince George	62	47	32%
Richmond	522	452	15%
MLS TOTAL	3,093	2,796	11%

Chesterfield	940	838	12%
Hanover	253	218	16%
Henrico	867	752	15%
Richmond	522	452	15%
Richmond Metro TOTAL	2,582	2,260	14%

Colonial Heights	26	35	-26%
Dinwiddie	51	58	-12%
Hopewell	38	54	-30%
Petersburg	57	47	21%
Prince George	62	47	32%
Tri Cities TOTAL	234	241	-3%

Source: CVRMLS, GMU Center for Regional Analysis

Active Listings

County of City	Units		
	End of Q3	End of Q3	% Chg.
	2011	2010	
Caroline	55	94	-41%
Charles City Co.	31	43	-28%
Chesterfield	2,025	2,853	-29%
Colonial Heights	102	126	-19%
Dinwiddie	148	198	-25%
Goochland	190	247	-23%
Hanover	635	894	-29%
Henrico	1,728	2,277	-24%
Hopewell	180	204	-12%
King William	148	199	-26%
Louisa	124	135	-8%
New Kent	223	219	2%
Petersburg	225	290	-22%
Powhatan	244	283	-14%
Prince George	148	211	-30%
Richmond	1,274	1,695	-25%
MLS TOTAL	7,480	9,968	-25%
Chesterfield	2,025	2,853	-29%
Hanover	635	894	-29%
Henrico	1,728	2,277	-24%
Richmond	1,274	1,695	-25%
Richmond Metro TOTAL	5,662	7,719	-27%
Colonial Heights	102	126	-19%
Dinwiddie	148	198	-25%
Hopewell	180	204	-12%
Petersburg	225	290	-22%
Prince George	148	211	-30%
Tri Cities TOTAL	803	1,029	-22%

Source: CVRMLS, GMU Center for Regional Analysis

Sales

Date: 3rd Quarter 2011

County or City	Sold Price											Totals	
	Less than \$100,000	\$100,000- 199,999	\$200,000- 299,999	\$300,000- 399,999	\$400,000- 499,999	\$500,000- 599,999	\$600,000- 699,999	\$700,000- 799,999	\$800,000- 899,999	\$900,000- 999,999	\$1,000,000+		
Caroline	7	9	3	1	0	0	0	0	0	0	0	0	20
Charles City Co.	1	6	1	0	1	0	0	0	0	0	0	0	9
Chesterfield	109	383	256	116	55	20	13	7	3	1	1	1	964
Colonial Heights	10	18	4	0	0	0	0	0	0	0	0	0	32
Dinwiddie	9	23	4	1	1	0	0	0	0	0	0	0	38
Goochland	4	11	5	7	6	5	1	0	0	1	1	1	41
Hanover	7	86	89	51	15	1	1	0	1	0	0	0	251
Henrico	109	339	190	105	71	25	11	10	8	2	2	2	872
Hopewell	23	12	4	0	0	0	0	0	0	0	0	0	39
King William	3	24	7	0	0	0	0	0	0	0	0	0	34
Louisa	6	23	4	1	0	0	0	1	0	0	0	0	35
New Kent	2	17	14	4	1	0	0	0	0	0	0	0	38
Petersburg	37	10	3	1	0	0	0	0	0	0	0	0	51
Powhatan	4	22	30	6	6	6	0	0	0	0	0	0	74
Prince George	5	20	16	3	0	0	1	0	0	0	0	0	45
Richmond	168	134	101	32	20	13	6	2	3	6	5	5	490
MLS TOTAL	504	1,137	731	328	176	70	33	20	15	10	9	9	3,033
Chesterfield	109	383	256	116	55	20	13	7	3	1	1	1	964
Hanover	7	86	89	51	15	1	1	0	1	0	0	0	251
Henrico	109	339	190	105	71	25	11	10	8	2	2	2	872
Richmond	168	134	101	32	20	13	6	2	3	6	5	5	490
Richmond Metro TOTAL	393	942	636	304	161	59	31	19	15	9	8	8	2,577
Colonial Heights	10	18	4	0	0	0	0	0	0	0	0	0	32
Dinwiddie	9	23	4	1	1	0	0	0	0	0	0	0	38
Hopewell	23	12	4	0	0	0	0	0	0	0	0	0	39
Petersburg	37	10	3	1	0	0	0	0	0	0	0	0	51
Prince George	5	20	16	3	0	0	1	0	0	0	0	0	45
Tri Cities TOTAL	84	83	31	5	1	0	1	0	0	0	0	0	205

Source: CVRMLS, GMU Center for Regional Analysis

Pending Sales

Date: 3rd Quarter 2011

County or City	List Price											Totals
	Less than \$100,000	\$100,000- 199,999	\$200,000- 299,999	\$300,000- 399,999	\$400,000- 499,999	\$500,000- 599,999	\$600,000- 699,999	\$700,000- 799,999	\$800,000- 899,999	\$900,000- 999,999	\$1,000,000+	
Caroline	12	13	4	2	0	0	0	0	0	0	0	31
Charles City Co.	3	11	1	0	0	0	0	0	0	0	0	15
Chesterfield	120	391	266	91	40	17	6	6	1	1	1	940
Colonial Heights	8	16	2	0	0	0	0	0	0	0	0	26
Dinwiddie	12	30	9	0	0	0	0	0	0	0	0	51
Goochland	5	13	5	5	4	4	4	0	1	0	1	42
Hanover	3	99	95	38	13	2	2	0	1	0	0	253
Henrico	120	372	197	74	48	26	12	6	7	5	0	867
Hopewell	19	15	4	0	0	0	0	0	0	0	0	38
King William	7	19	4	1	0	0	0	0	0	0	0	31
Louisa	7	22	6	2	0	0	1	0	0	0	0	38
New Kent	5	15	16	5	2	1	0	0	0	0	0	44
Petersburg	42	12	3	0	0	0	0	0	0	0	0	57
Powhatan	5	20	27	8	7	8	1	0	0	0	0	76
Prince George	5	31	19	3	2	1	1	0	0	0	0	62
Richmond	207	151	91	33	15	8	4	5	2	1	5	522
MLS TOTAL	580	1,230	749	262	131	67	31	17	12	7	7	3,093
Chesterfield	120	391	266	91	40	17	6	6	1	1	1	940
Hanover	3	99	95	38	13	2	2	0	1	0	0	253
Henrico	120	372	197	74	48	26	12	6	7	5	0	867
Richmond	207	151	91	33	15	8	4	5	2	1	5	522
Richmond Metro TOTAL	450	1,013	649	236	116	53	24	17	11	7	6	2,582
Colonial Heights	8	16	2	0	0	0	0	0	0	0	0	26
Dinwiddie	12	30	9	0	0	0	0	0	0	0	0	51
Hopewell	19	15	4	0	0	0	0	0	0	0	0	38
Petersburg	42	12	3	0	0	0	0	0	0	0	0	57
Prince George	5	31	19	3	2	1	1	0	0	0	0	62
Tri Cities TOTAL	86	104	37	3	2	1	1	0	0	0	0	234

Source: CVRMLS, GMU Center for Regional Analysis

Active Listings

Date: End of 3rd Quarter 2011

County or City	List Price											Totals
	Less than \$100,000	\$100,000- 199,999	\$200,000- 299,999	\$300,000- 399,999	\$400,000- 499,999	\$500,000- 599,999	\$600,000- 699,999	\$700,000- 799,999	\$800,000- 899,999	\$900,000- 999,999	\$1,000,000+	
Caroline	10	24	12	5	0	1	0	2	0	0	1	55
Charles City Co.	3	15	6	3	1	1	1	1	0	0	0	31
Chesterfield	121	818	588	246	122	52	29	24	13	6	6	2,025
Colonial Heights	14	61	20	6	1	0	0	0	0	0	0	102
Dinwiddie	19	79	33	10	4	1	0	1	0	0	1	148
Goochland	7	30	27	28	25	16	14	5	10	3	25	190
Hanover	5	138	228	138	58	28	22	4	6	3	5	635
Henrico	193	783	401	135	72	47	29	27	13	11	17	1,728
Hopewell	51	100	24	3	2	0	0	0	0	0	0	180
King William	8	74	45	12	3	2	3	1	0	0	0	148
Louisa	11	50	36	17	5	2	1	0	1	0	1	124
New Kent	8	58	65	52	25	8	3	1	0	0	3	223
Petersburg	105	96	20	3	0	0	1	0	0	0	0	225
Powhatan	6	48	74	53	33	13	5	2	6	2	2	244
Prince George	6	57	53	21	9	0	0	1	0	0	1	148
Richmond	367	435	238	111	46	22	14	7	11	5	18	1,274
MLS TOTAL	934	2,866	1,870	843	406	193	122	76	60	30	80	7,480
Chesterfield	121	818	588	246	122	52	29	24	13	6	6	2,025
Hanover	5	138	228	138	58	28	22	4	6	3	5	635
Henrico	193	783	401	135	72	47	29	27	13	11	17	1,728
Richmond	367	435	238	111	46	22	14	7	11	5	18	1,274
Richmond Metro TOTAL	686	2174	1455	630	298	149	94	62	43	25	46	5,662
Colonial Heights	14	61	20	6	1	0	0	0	0	0	0	102
Dinwiddie	19	79	33	10	4	1	0	1	0	0	1	148
Hopewell	51	100	24	3	2	0	0	0	0	0	0	180
Petersburg	105	96	20	3	0	0	1	0	0	0	0	225
Prince George	6	57	53	21	9	0	0	1	0	0	1	148
Tri Cities TOTAL	195	393	150	43	16	1	1	2	0	0	2	803

Source: CVRMLS, GMU Center for Regional Analysis