



## **ANALYSIS OF THE CENTRAL VIRGINIA AREA HOUSING MARKET 4<sup>th</sup> QUARTER 2010**

### **Economic Overview**

The national economy technically entered recovery in mid-2009 after 19 months of recession. Thus, as 2010 has ended, the economy has been in recovery for a year and a half, with slow but sustained growth in gross domestic product (GDP). However, the national unemployment rate remains high and job losses have been very slow to recover. This is likely due to the kind of recession this was—a very deep recession triggered by a near-collapse of the housing market and financial systems. But in spite of how the recovery is feeling, it is nevertheless happening, and there are a lot of reasons to expect 2011 to be better than 2010 for the U.S., Virginia, and the Central Virginia region. The improving recovery locally will definitely be felt in the local housing market as prices will stabilize and by the end of 2011 new housing and the housing construction sector should begin rebounding.

### **National Economic Backdrop**

The 2007-2009 recession as measured by GDP was the deepest recession since the end of World War II. The most recent recession was about the same length as both the recession in the early 80s and the recession in the early 90s. Contrary to popular reports, however, the recovery from this recession has not been the worst, and in fact is on pace to be a better recovery than each of the two previous recessions. There are certainly more negatives to overcome before the economy can be termed robust, or even normal. But many economic signals are indicating positive times and more positive times as 2011 unfolds and especially in 2012.

### **Central Virginia Economic Trends**

Central Virginia's economy did not fall as deeply as the nation's, but the region did experience a serious economic downturn. There is not as much data at the local level to provide a broad and in-depth economic measure of all the impacts on the region. But the most important economic measure is jobs, and the current picture and outlook are much more positive than they have been. After averaging an annual growth in jobs of just more than 11,000 per year from 2004-2007, the Richmond metropolitan area lost 3,000 jobs in 2008, and 26,000 in 2009. However, on an annualized basis through November (most recent data available), the region has just about turned the corner and renewed job growth. For the year from November 2009 to November 2010, the region lost only 400 jobs. While some sectors remain negative, they are not nearly as negative as a year ago, and already some of the region's key sectors have begun adding jobs. The Professional and Business Services Sector is the region's largest and highest-wage sector, and it has gone from losing 5,400 jobs in 2009 to adding 2,700 jobs in 2010. Almost all sectors have made significant improvements on the job front over the past year. The construction sector also was greatly improved, having lost 5,700 jobs in 2009 but adding 600 in 2010. Retail trade—very much affected by consumer confidence—will start adding jobs in early 2011 if the trend in jobs in that sector continues. That could also be said for Financial

Services and Manufacturing. As these trends continue to improve, the region will see greater improvement in the unemployment rate, which in November stood at 7.6 percent while the U.S. was 9.3 percent (both not seasonally adjusted). These improving economic conditions are the backdrop to the regional housing market in the coming year. The market will be better in 2011 than 2010 as it will begin to track the overall economic improvement, and 2012 is forecast to be a year in which the markets will be deemed normal.

### **Richmond Area Housing Market**

In 2010, both the national housing sector and the Richmond area housing market were propped up by efforts on the part of the Federal government, particularly the Federal tax credit for first time and move-up buyers which expired in June 2010. At the end of 2010, there are signs that the Central Virginia area housing market—and in particular, the Richmond Metro area—is starting to stand on its own. Sales were driven up in the first half of 2010 as a result of the tax credit. In the second half of the year, however, there has not been a dramatic drop in sales, as has been seen in other markets. Rather, while sales dipped a bit in the 3<sup>rd</sup> quarter, sales held steady in the 4<sup>th</sup> quarter of 2010. In addition, prices in much of the Richmond area market have stabilized in 2010, due not only to the demand encouraged by the tax credit but also due to a draw down in inventories of lower-priced homes, particularly foreclosures and short sales.

### **Current Market Conditions**

#### ***Home Sales***

In the 4<sup>th</sup> quarter of 2010, there were 2,410 total sales in the Central Virginia MLS area, with 1,967 in the Richmond Metro Area and 208 in the Tri Cities area. Sales at the end of 2010 were lower than at the end of 2009. However, in the 4<sup>th</sup> quarter of 2010, sales were fairly steady compared to the 3<sup>rd</sup> quarter 2010, without the notable dip that usually occurs between the fall and the winter. For example in 2009 there were 2,929 sales in the 4<sup>th</sup> quarter, which was down from 3,346 in the 3<sup>rd</sup> quarter. In 2010, the numbers of sales in the 3<sup>rd</sup> and 4<sup>th</sup> quarters were virtually the same—2,464 versus 2,410. Sales peaked in the 2<sup>nd</sup> quarter of 2010, with nearly 4,000 sales. These sales reflect some *new* buyers enticed into the market by the tax credit, as well as buyers who had already been planning to purchase a home in 2010 but made their decision to buy earlier so that they could also take advantage of the credit. Over the year, the number of sales in the region was down about five percent compared to 2009—10,558 sales in 2010 compared with 11,162 sales in 2009. Sales activity was down five percent in the Richmond Metro area and down slightly more—eight percent—in the Tri Cities area. Monthly sales at the end of 2010 have been fairly steady. This stabilization of sales is one sign—along with an improving economy—that the Richmond area housing market is poised to enter 2011 able to return to a more normal market without the support of Federal government intervention.

#### ***Home Prices***

At the end of 2010, home prices were showing signs of stabilization. At the end of 2009, prices were down by double-digit levels in the region. However, in the 4<sup>th</sup> quarter of 2010, the average home price in the Central Virginia MLS was \$221,804, down just two percent from the 4<sup>th</sup> quarter of 2009. The average price of a home sold in the 4<sup>th</sup> quarter of 2010 in the Richmond Metro area was basically the same as in 4<sup>th</sup> quarter 2009—\$229,030 versus \$229,064. Prices continued to lag in the Tri Cities area, where the average price of a home sold in the 4<sup>th</sup> quarter of 2010 was \$135,454, down 14 percent from the 4<sup>th</sup> quarter of 2009. The city of Petersburg continues to experience a fairly steep decline in home prices at the end of 2010. Median prices in the 4<sup>th</sup> quarter of 2010 showed similar trends. The median sales price in the Central Virginia region was \$189,359, down three percent from the 4<sup>th</sup> quarter of 2009. The median home price in the Richmond Metro area was also down just three percent from a year earlier and the decline in the Tri Cities area median price was 16 percent. As a result of a strong 3<sup>rd</sup> quarter annual prices

in 2010 were down only very slightly from 2009. In 2010, the average sales price in the Central Virginia MLS was \$227,959, down just one percent from the average for 2009. The 2010 average price in the Richmond Metro was down by only about \$700 compared to 2009 and average prices in the Tri Cities area were off by seven percent compared to 2009. The relative steadiness of prices through much of 2010 is an indicator of the draw down of inventories of lower priced homes—particularly foreclosures and short sales—in some parts of the region.

### ***Pending Sales***

Pending sales are an indicator of final sales and in the 4<sup>th</sup> quarter of 2010, the number of pending sales in the Richmond region is about the same as in the 4<sup>th</sup> quarter of 2009. There were 2,385 pending sales in the Central Virginia MLS in the 4<sup>th</sup> quarter of 2010, compared with 2,466 pending sales in the 4<sup>th</sup> quarter of 2009, reflecting a decline of just three percent. Pending sales in the Richmond Metro area were down just one percent in the 4<sup>th</sup> quarter of 2010 compared to the 4<sup>th</sup> quarter of 2009 and in the Tri Cities area, where the pace of housing activity remains more sluggish, pending sales were off by 17 percent in the 4<sup>th</sup> quarter of 2010 compared to the 4<sup>th</sup> quarter of 2009.

### ***Active Listings***

At the end of 2010, there were 8,227 active listings on the market in the Central Virginia region, with 6,299 in the Richmond Metro area and 920 in the Tri Cities area. The levels of inventories at the end of 2010 were about the same as at the end of 2009. The number of active listings in the Central Virginia area was down just two percent region-wide, and inventories were basically flat in the Richmond Metro area and down two just two percent in the Tri Cities area. In each quarter of 2010, active listings at the end of the quarter were similar to inventories in each quarter of 2009. The price composition of inventories in 2010 was somewhat different than in 2009. For example, at the end of 2010 there was a greater share of lower priced listings compared to 2009. Nearly 12 percent of the listings at the end of 2010 were priced under \$100,000 and another 40.03 percent were listed for between \$100,000 and \$199,999. In 2009, about eight percent of listings were under \$100,000 and 35.5 percent were listed for between \$100,000 and \$199,999. The presence of lower-priced listings is an indicator of the process of drawing down inventories of foreclosures and short sales, which have continued to be a drag on the housing market's recovery. While these homes may take longer to sell—and may continue to put downward pressure on prices in early 2011—the removal of these homes from the inventory of existing homes for sale is critical to the full recovery of the market.

### ***Outlook for 2011***

While sales and prices in the Central Virginia region were down slightly in 2010 compared to 2009, there are signs that the market will join several other markets across the nation that will experience sustained recovery in 2011. Several market fundamentals should be watched as we move into 2011, such as the region's steadily improving economy, the early 2011 decline in foreclosures and short sale numbers, especially strong demand in the first half of 2011 for smaller, lower-priced homes, an increasing demand from move-up buyers for larger, somewhat higher priced homes and a rejuvenation of the home construction industry that will be an aid to the region's economic recovery and add to the supply of housing for sale in 2011.

The outlook for 2011 is good but it is expected that sales and price trends will improve slowly over the year. The first quarter of 2011 will not compare favorably to the first quarter of 2010 because of the uptick in 2010 spurred by the tax credit. Overall, 2011 will begin the return to a normal housing market and will lead to more steady recovery and growth in 2012.