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

National and Local 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.

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'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.

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.

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

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 w 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 prices 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. 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.

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 for 2011

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.