McEnearney REALTORS® Associates

Market Watch

Washington, DC

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TIME TO RE-STOCK

If a retailer had this little inventory to sell, they'd swear someone had been shoplifting! To keep the doors open, they'd have to re-stock their shelves with saleable merchandise, and that's exactly what needs to happen in Washington, DC's real estate market.

In our last issue of MarketWatch, we focused on the opportunity for buyers because of historically low interest rates. But we believe there's an even bigger opportunity for potential sellers because there are so few listings on the market.

Here's one narrow example of the acute shortage: at the end of December, there were **35 condos/co-ops priced between $500,000 and $600,000 on the market in all of Washington, DC**. At the end of May, there were 82. We recognize that inventory is always lower in the middle of winter than it is in the spring, but this isn't just seasonal. Inventory is down 39% from this same time last year, and there was an 11% drop in the number of new listings coming on the market in December as well. In the past six months, **188** condos in that $500-$600k price range went under contract, so the demand is clearly there – but right now there's nothing to buy. When there's plenty of demand and little or no supply, prices are going to rise – that's just a simple economic fact of life.

Anyone who is thinking about selling their home in the next year or two should really consider doing it now. This includes would-be sellers who purchased at the top of the market and think they don't have equity. A couple of caveats: every submarket is different; the time still has to be right for your personal circumstances, and given the low inventory, finding your next house could be a bit of a challenge. Nonetheless, we know there are plenty of sellers who are in for a pleasant financial surprise in the next few months. If moving up or moving out is in your agenda, give us a call and we can help you craft a strategy to accomplish your real estate goals.

So what's in store for the Washington, DC's real estate market over the next few months? We know the low-inventory issue isn't going to be solved overnight, so expect that supply will remain very tight in significant portions of the District through at least the first six months of 2013. The Fed has made it clear that they intend to keep interest rates low, and while we know that they can't stay under 4% forever, they should stay there for another six months as well.

So what's really ahead is more of the same: a healthy market with tight supply, low rates and rising prices. But – and there's always a but - we're still keeping a watchful eye on the sequestration and budget ceiling negotiations. Some defense contractors have already started job layoffs given the uncertain situation, and folks don't buy houses when they're out of work. The nation's economy - and the region's housing market - remains vulnerable if Congress and the White House can't find a long-term solution.

ABSORPTION RATE BY PROPERTY TYPE

The following tables track absorption rate by property type, comparing the rates in the just-completed month to the rates in the same month of the previous year. The absorption rate is a measure of the health of the market, and tracks the percentage of homes that were on the market during the given month and in the given price range that went under contract. [The formula is # Contracts/(# Contracts + # Available).] An example: The absorption rate for condos/co-ops priced $500,000-$749,999 in December 2012 was 32.8%; that compares to a rate of 14.7% in December 2011, and the increase means the market was better in 2012 for that type of home. If the absorption rate was less in 2012 than in 2011, we have put the more recent absorption rate in **red**. This month there was **improvement for 16 of the 18 individual price categories**.

Condo/Co-op	December 2011			December 2012		
Absorption Rates	Listings	Contracts	Rate	Listings	Contracts	Rate
$299,999 & under	369	79	17.6%	212	80	**27.4%**
$300,000 - $499,999	251	77	23.5%	129	84	**39.4%**
$500,000 - $749,999	110	19	14.7%	80	39	**32.8%**
$750,000 - $999,999	34	6	15.0%	29	6	**17.1%**
$1,000,000 - $1,499,999	26	4	13.3%	20	8	**28.6%**
$1,500,000 & higher	28	3	9.7%	28	5	**15.2%**
Grand Total:	**818**	**188**	**18.7%**	**498**	**222**	**30.8%**

ABSORPTION RATES – CONDOS AND CO-OPS

- The overall absorption rate for condos and co-ops for December was 30.8%, an increase from the 18.7% rate in December 2011.
- The absorption rate for condos across most price ranges is more balanced in DC than anywhere else in the region.

Fee Simple Attached	December 2011			December 2012		
Absorption Rates	Listings	Contracts	Rate	Listings	Contracts	Rate
$299,999 & under	234	77	24.8%	111	50	**31.1%**
$300,000 - $499,999	115	49	29.9%	65	49	**43.0%**
$500,000 - $749,999	65	40	38.1%	56	47	**45.6%**
$750,000 - $999,999	40	15	27.3%	28	20	**41.7%**
$1,000,000 - $1,499,999	34	5	12.8%	25	9	**26.5%**
$1,500,000 & higher	42	3	6.7%	39	7	**15.2%**
Grand Total:	**530**	**189**	**26.3%**	**324**	**182**	**36.0%**

ABSORPTION RATES – ATTACHED HOMES

- The overall absorption rate for attached homes for December was 36.0%, an increase from the 26.3% rate in December 2011.
- Again, look at the balance across most price ranges.

Fee Simple Detached	December 2011			December 2012		
Absorption Rates	Listings	Contracts	Rate	Listings	Contracts	Rate
$299,999 & under	104	25	19.4%	38	25	**39.7%**
$300,000 - $499,999	56	19	25.3%	25	20	**44.4%**
$500,000 - $749,999	27	7	20.6%	23	11	**32.4%**
$750,000 - $999,999	19	19	50.0%	20	11	**35.5%**
$1,000,000 - $1,499,999	21	8	27.6%	18	4	**18.2%**
$1,500,000 & higher	74	7	8.6%	53	6	**10.2%**
Grand Total:	**301**	**85**	**22.0%**	**177**	**77**	**30.3%**

ABSORPTION RATES – DETACHED HOMES

- December 2012's absorption rate for detached homes was 30.3%, an increase from 22.0% in December 2011.
- And the balance among the price ranges is evident here as well.