

## Is the Market Slower Because of the Weather – or Something Else?

A recent profile on CNBC described the impact of our unusually cold and snowy winter as “frozenomics,” and there are plenty of industries and cities that have been crippled by the nasty stuff we had this year. We’ve all heard about 36-hour traffic jams in the south, and every school system in our region exhausted their supply of built-in snow days so kids will be in school well into summer. Planes were grounded, power outages were rampant and we all added “polar vortex” to our vocabulary.

And there is no doubt that Montgomery County’s real estate market felt the chill. New contract activity was down 10% in January and February compared to the same two-month period last year.

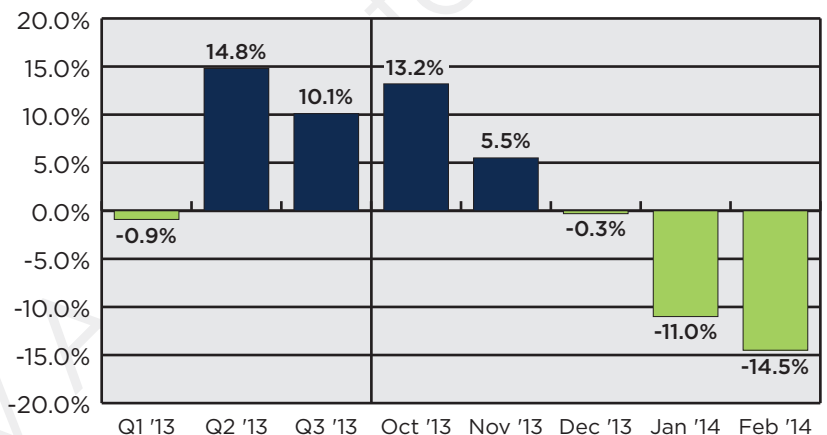
But it’s not just the weather – the market actually started to slow in November. After very strong second and third quarters in 2013, the number of new contracts in November rose just 5% compared to 2012. New contract activity was down slightly in December. This happened before the snow and ice set in.

So if it wasn’t the weather, what was it? Well, rising mortgage interest rates have robbed purchasers of roughly 10% of their buying power compared to a year ago, and that has priced some first-time home buyers out of the market and lowered the price point for others. Home prices are rising faster than household income, and that puts a bit of a chill on demand as well.

The brief government shutdown in October and budget sequestration created some uncertainty in major employment sectors. And even though the number of available homes on the market is up a bit, supply is still tight. And here’s the irony about tight supply – at least in the short term, it helps keep some inventory off the market. There are homeowners who would like to be move-up buyers but they are still sitting on the sidelines because they aren’t confident they can find their next home. And if they aren’t sure they can purchase, they aren’t putting their homes on the market.

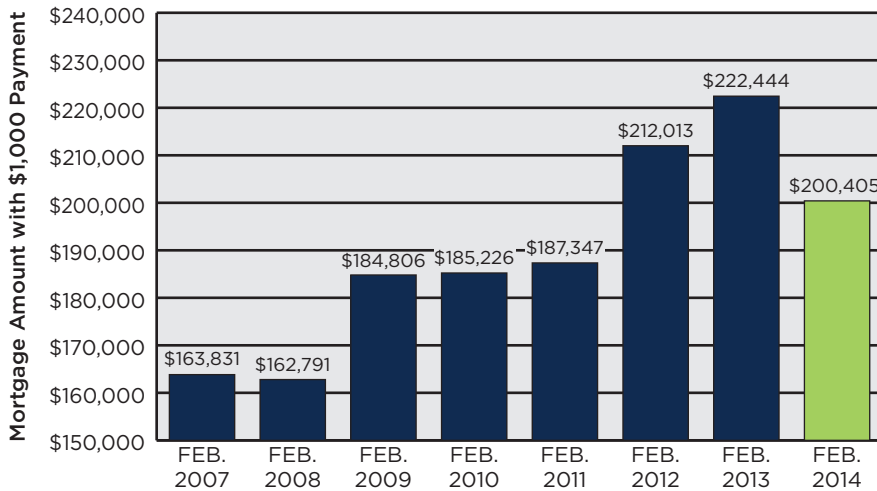
This isn’t all bad news by any means. Home prices are still going up, just not as rapidly as they did in mid-2013. Homes are still selling in an average of about two months, and there is still only about a two-month supply of homes on the market. What we’re seeing is the expected moderation that is heading us in the direction of a more balanced market.

**PERCENTAGE CHANGE IN NEW CONTRACT ACTIVITY**  
Compared to the Same Period the Previous Year  
Montgomery County



## BUYING POWER

Mortgage Amount with \$1,000 Payment

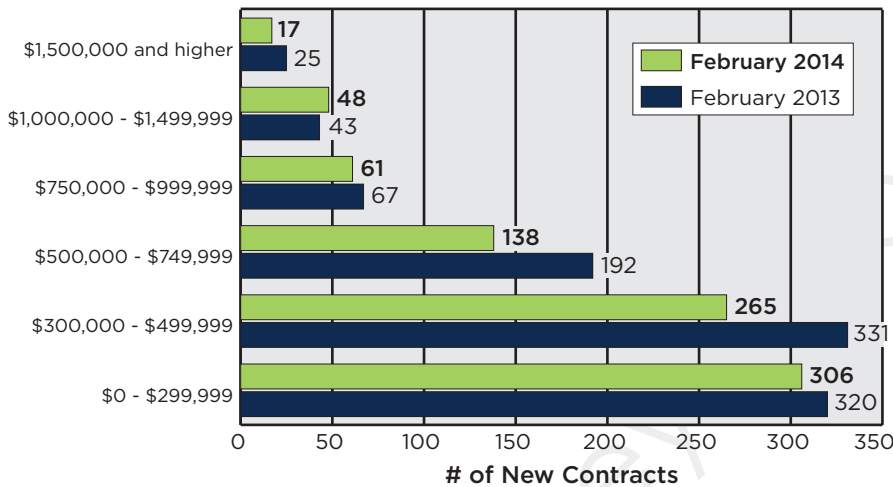


## BUYING POWER

- A \$1,000 principal and interest payment supported a loan of \$200,405 at the end of February which is **\$20,041** less than this time last year, and almost \$12,000 less than February 2012.
- While mortgage rates are still very low from an historical perspective, they are roughly a full percentage point higher than this time last year, reducing buying power by about 10%.

## NEW CONTRACT ACTIVITY

Montgomery County - Feb. 2013 vs. Feb. 2014 by Price Range

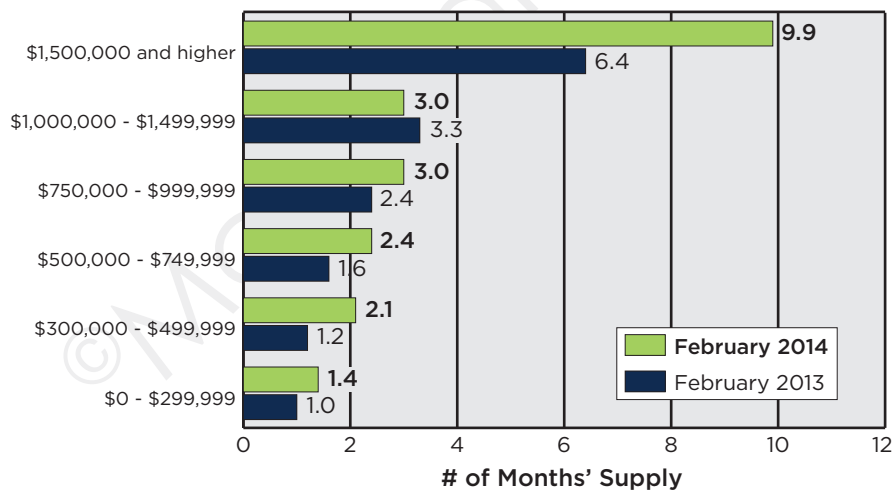


## NEW CONTRACT ACTIVITY

- The number of new contracts ratified in Feb. 2014 was **down 14.6%** from the number of contracts ratified in Feb. 2013.
- Contract activity year-to-date is **down 13.0%**.
- **27.9%** of all homes going under contract in February 2014 had a price reduction before going under contract.
- And **54.6%** of all homes going under contract in February were on the market 30 days or less; this time last year it was 60.2%.

## MONTHS' SUPPLY

Montgomery County - End of Feb. 2013 vs. End of Feb. 2014 by Price Range



## MONTHS' SUPPLY

- The overall supply of homes
- on the market at the end of February was **2.2 months**, up from 1.5 months the end of February 2013.
- Supply is lower for just one price category.



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