

FALL MARKET UPDATE

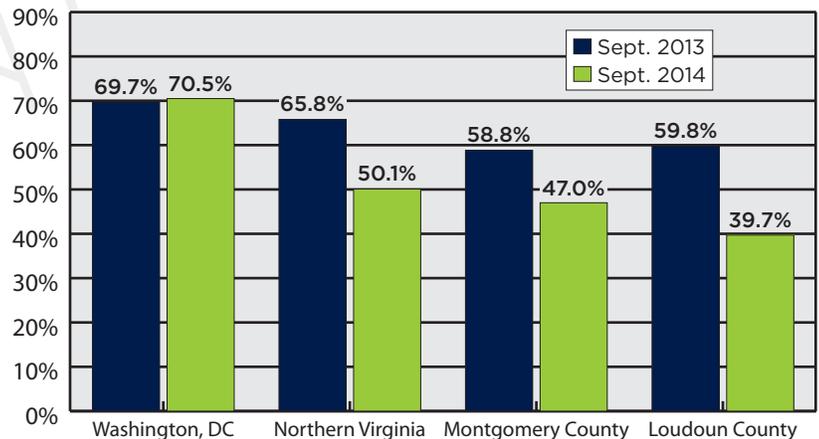
2014 has seen a slowdown in the DC Metro Area's real estate market compared to the frenetic pace of 2013, and there's no reason to believe that will change over the remaining three months of the year. However, there is no need to hit the panic button, as the overall market remains pretty solid.

Almost every major indicator is down compared to last year – there are fewer new contracts, homes are taking a bit longer to sell and they are not selling as close to list price as last year. Regionally, there has been a significant increase in the number of homes on the market, which means potential buyers who were hard-pressed to find a home of choice in last year's exceptionally tight market are finding many more options to choose from now. This is especially true in the outer suburbs. There are 60% more homes on the market in Loudoun and Prince William Counties today than this time last year. But in the District, there has only been a 7% increase.

That highlights one undeniable fact: there is not just one set of market conditions throughout the region that will impact the likely direction of the market for the rest of the year, and there are significant differences between jurisdictions. Washington, DC has the strongest market in the region, with an overall supply of homes on the market of less than two months – although that is starting to slowly increase. That low level of supply relative to demand means that DC is still a seller's market. At the other end of the regional spectrum, Loudoun County has a 4.5-months' supply. It is reasonable to expect modest upward pressure on home prices in DC while the foot is coming off the gas a bit elsewhere.

We can look at the pace of new contract activity as the best indicator of short-term market direction, and every jurisdiction in the metro area has seen a decline in contract activity in August and September combined compared to last year. But we can also look at the "Urgency Index" to help us take the temperature of the market – think of it as a rudimentary consumer confidence index for housing. We look at the number of new contracts in a month and see how many of those homes were on the market for 30 days or less. In the extremes, we have seen as many as 95% of the homes sell in 30 days or less (April of 2004) and as few as 16% (December 2007). The Urgency Index today provides insight into the direction of the market over the next few months and highlights the significant differences in our region.

URGENCY INDEX
Washington, DC Metro Area
September 2013 vs. September 2014

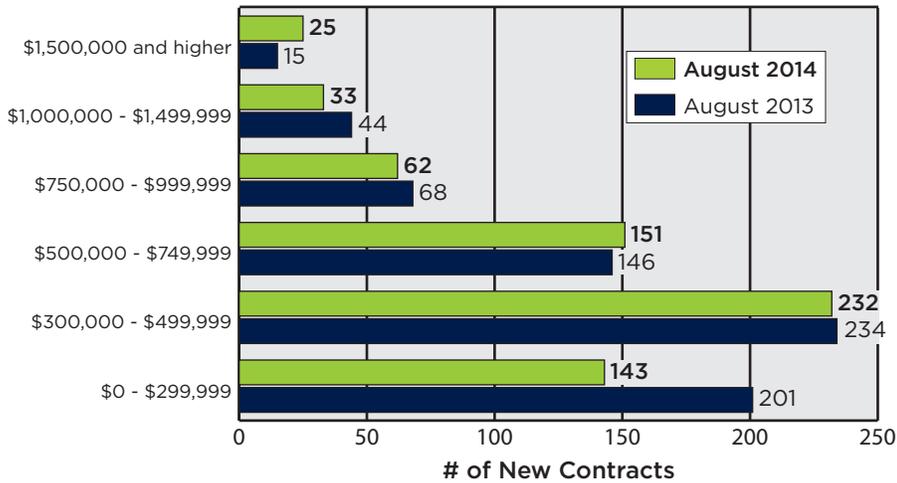


As the chart indicates, the District is outperforming every other jurisdiction. At just over 70%, it has the highest Urgency Index in our metro area and is even slightly ahead of last September's Index. The other three major areas have all seen significant drops in the Urgency Index – 12% for Montgomery County, 15% for Northern Virginia, and 20% for Loudoun County.

But this is the real message behind the numbers: the lower the Urgency Index, the slower the market in will be over the next few months. That bodes well for DC, while things will be a bit slower in Northern Virginia and Montgomery County, and even slower in the outer suburbs.

NEW CONTRACT ACTIVITY

Washington, DC - August 2013 vs. August 2014

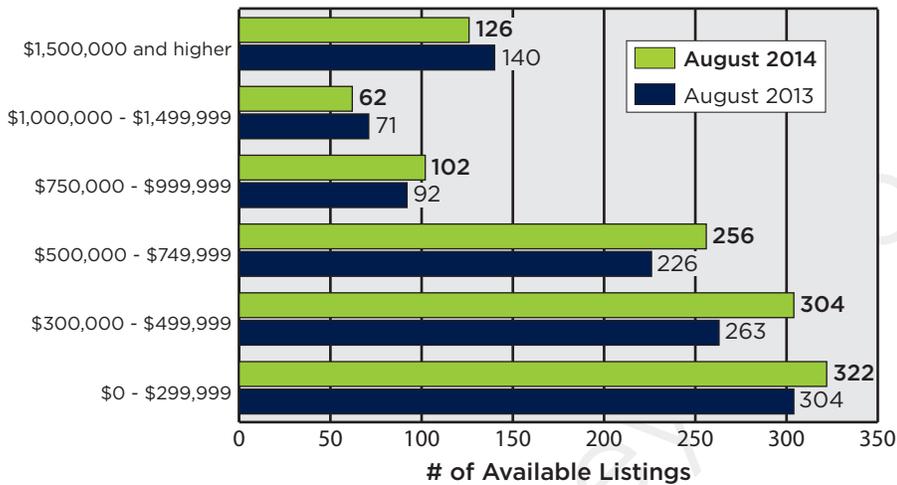


NEW CONTRACT ACTIVITY

- The number of new contracts ratified in August 2014 was **down 8.8%** from August 2013, and that's the biggest monthly % drop this year.
- Contract activity year-to-date is **down 1.7%**.
- **26.5%** of all homes going under contract in August had at least one price reduction.

FULLY AVAILABLE LISTINGS

Washington, DC - August 31, 2013 vs. August 31, 2014

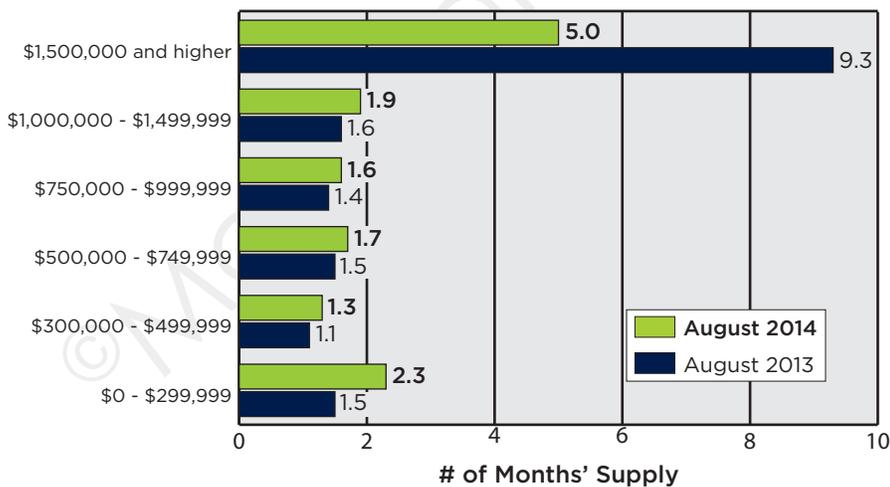


FULLY AVAILABLE LISTINGS

- The available inventory for August 2014 was **up 6.9%** from August 2013, and that was the smallest increase in the region by far.
- **34.6%** of all homes on the market have had at least one price reduction since coming on the market.
- The top two price categories actually dropped in inventory.

MONTHS' SUPPLY

Washington, DC - End of August 2013 vs. End of August 2014



MONTHS' SUPPLY

- The overall supply of homes on the market at the end of August was **1.8 months**, up slightly from 1.5 months at the end of August 2013.
- That's the lowest supply in the metro area, more than a full month lower than Northern Virginia, the area with the next lowest supply of 3.1 months.
- In addition to the lowest overall supply, DC has the most balanced supply in the region across all but the highest price category.



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