

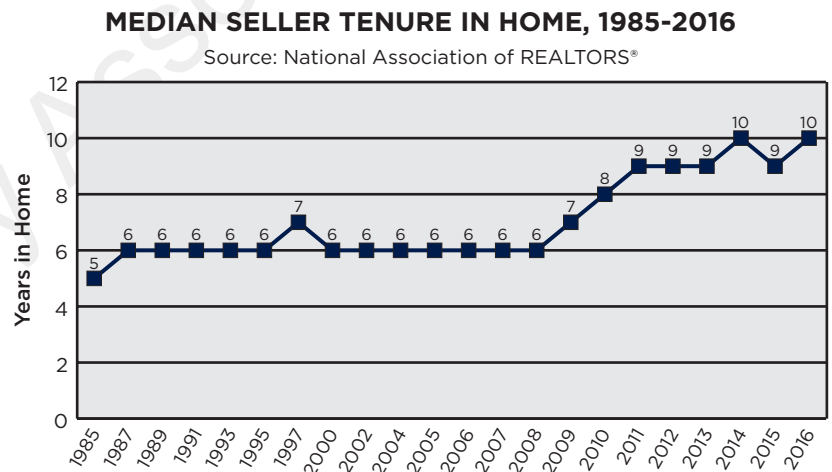
Is There An Inventory Problem?

With the number of fully available homes on the market near record lows for this time of year and with fewer new listings coming on the market, is there any relief in sight for buyers who are frustrated by their lack of choices? And why aren't more sellers taking advantage of this low inventory by putting their homes on the market?

We don't see any relief on the horizon. There are really only three ways to create a net increase in inventory. The first is new construction, and while construction permits have increased, there is an estimated shortfall of 50,000 units over the next 5 years just to meet new household formation. The second way inventory increases involves investors selling units that they have been holding as rental properties. With rents rising faster than home prices, there is no market pressure for that to happen. And the third way is homeowners leaving the area and selling their residences. While there is always emigration from the metro area, we are still attracting more people than we are losing.

We're not minimizing the impact of current homeowners who sell and buy another home in the area, but that doesn't create a net increase in inventory. On top of that, the current low inventory climate actually discourages some from moving. While they may be confident they can sell their current home, they lack confidence they can find their next one with relatively few homes on the market.

There is another undeniable fact that is keeping a lid on movement by existing homeowners: people are staying in their homes longer than they used to. In their 2016 Profile of Home Buyers and Sellers, the National Association of REALTORS® reported that the median number of years a seller remained in their home was 10 years. From 1987 – 2008 it was just six years. That is a seismic shift. A large part of that jump is the simple fact that many could not move even if they wanted to during and after the crash of the real estate market that started in 2006. But even as equity has returned to the overwhelming majority of the nation's homeowners, they just aren't in a big hurry to sell.



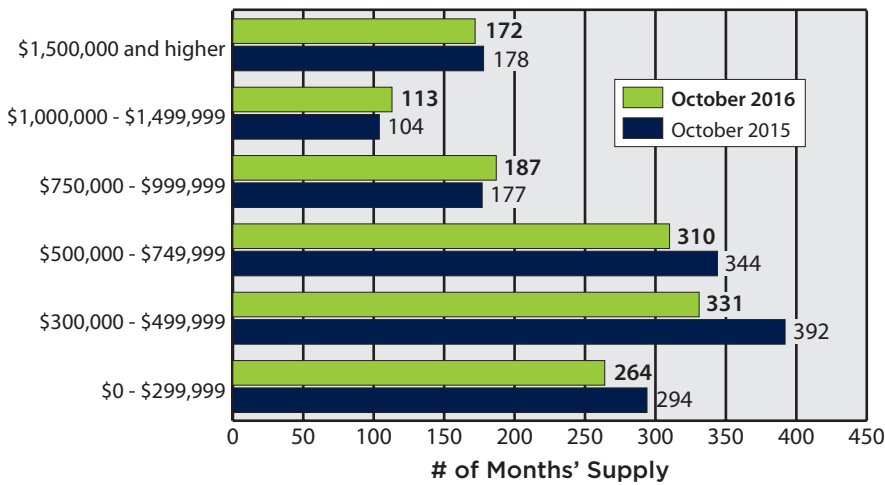
Economist Elliot Eisenberg summed up the impact of this demographic trend in a recent post: "The percentage of Americans that moved fell to an all-time low of 11.2% in 2016 from a peak of 42% in the early 1950s. Numerically, moving activity topped out in 1984 at 45 million and has steadily fallen to 35 million today, the same level as in 1962." The population of the United States was 186,000,000 in 1962; today it is over 324,000,000.

When people don't move as often, inventory is going to suffer.

The Washington area is certainly more transient than the nation as a whole, but we've seen our "seller tenure" change as well. In 2000, the median number of years a seller was in their home was 6.5 years. So far in 2016, it's 8.5 years. We know this period of tight inventory won't last forever, but there are some fundamental reasons it won't change any time soon.

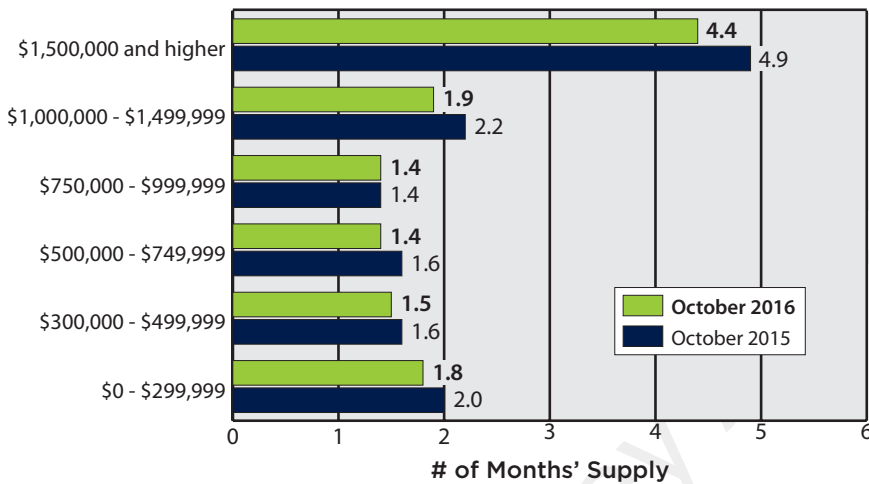
FULLY AVAILABLE LISTINGS

Washington, DC - October 31, 2015 vs. October 31, 2016



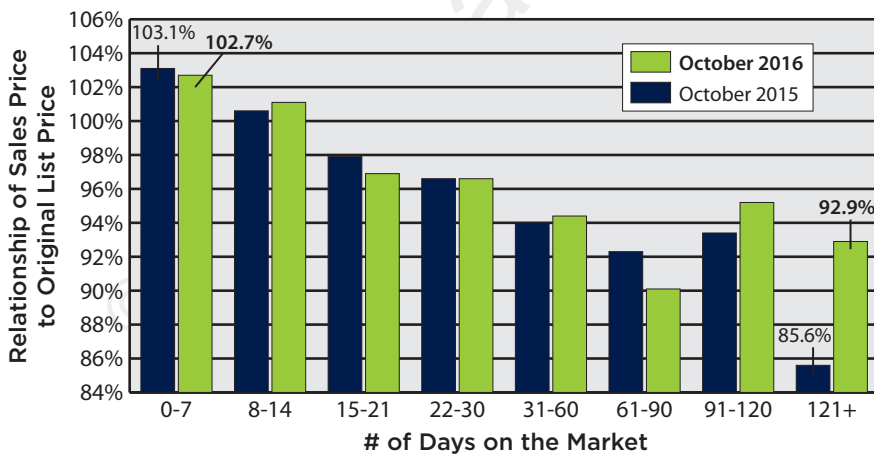
MONTHS' SUPPLY

Washington, DC - End of October 2015 vs. End of October 2016



RELATIONSHIP OF SALES PRICE TO ORIGINAL LIST PRICE vs. DAYS ON THE MARKET

Washington, DC - October 2015 vs. October 2016 - Resale Properties Sold



FULLY AVAILABLE LISTINGS

- The available inventory for October 2016 was down 7.5% from October 2015. Inventory increased for two price categories.
- 34.1% of all homes on the market have had at least one price reduction since coming on the market.

MONTHS' SUPPLY

- The overall supply of homes on the market at the end of October 2016 was 1.7 months, which is a 6.5% decrease from the supply at the end of October 2015.
- That's the lowest supply in the metro area by almost a month.
- In addition to the lowest overall supply, DC has the most balanced supply in the region across all but the highest price category.

RELATIONSHIP OF SALES PRICE TO ORIGINAL PRICE vs. DAYS ON MARKET

- Initial pricing strategy is critical to the listing process, regardless of market conditions. The longer a home sits on the market, the deeper the discount to its original list price will likely be.
- Homes settling in October 2016 that received contracts their first week on the market sold, on average, 2.7% above list. Those that took 4 months or longer to sell sold for 7.1% below the original price.



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