



Washington Area 
HOUSING OUTLOOK

Third Quarter 2010



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The Washington Metro Area For-Sale Housing Market

The Washington metro area housing market continues to show signs of cyclical recovery, although market headwinds created mixed performance metrics in the 3rd quarter 2010.

- **3rd quarter prices:** Up from mid-year and from last year at this time.
- **Days on market** declined from the 3rd quarter of 2009, but rose from mid-year 2010.
- A decline in **sales volume** in the 3rd quarter compared to the 2nd has pushed **inventory** back up to levels seen earlier in the year.

The Washington area housing market in the 3rd quarter of 2010 continues to show signs of recovery, as prices increased 6.2% over the year and 3.1% for the quarter. And homes sold more quickly compared to last year – an average of 61 days on market compared to 81 days last year. But that is up a few days from the 2nd quarter when it took 56 days for a home to sell.

Unit volume stalled over the summer, however, following the expiration of the Federal housing tax credit at the end of April and the end of the peak spring selling season. Sales volume in the 3rd quarter decreased 22.7% compared to the 2nd quarter volume, and is down 16.0% since 3rd quarter 2009. The Washington region continues to add high-paying jobs, which is fostering housing demand, even as it loses lower-paying jobs. As the national economy gains traction, Washington will see burgeoning strength in the region's housing market. As of 3rd quarter 2010, two of four major housing market indicators have improved compared to one year earlier – price and days on market. (See Figure 1)

MARKET INDICATORS WASHINGTON METRO AREA AT THIRD QUARTER 2010

Figure 1

		Change vs. Last Quarter	Change vs. Q3 2009
Q3 Avg. Sales Price	\$410,839	↑ 3.1%	↑ 6.2%
Q3 Sales (units)	13,936	↓ 22.7%	↓ 16.0%
Q3 Days on Market	61	↑ 6	↓ 20
Sales Pace*	6.9 Months	↑ 2.4 Months	↑ 1.5 Months

* Sales pace as of September 2010.

Pace is ratio of total for-sale inventory to current month's sales.
Source: MRIS, Delta Associates; October 2010.



The average price of a Washington-area home is \$410,839 in the 3rd quarter of 2010. The metro-wide price of homes sold in the 3rd quarter of 2010 was 6.2% higher than in the 3rd quarter of 2009. This marks the fourth straight quarter that metro-wide prices have risen on a trailing 12-month basis.

Prices remain highest in the Core jurisdictions of the District, Arlington and Alexandria. The average sales price of a Core home in the 3rd quarter of 2010 is \$514,073, up 8.0% compared to one year ago. In the District, the average price in September 2010 was up 7.3% from one year earlier. In Alexandria, the average sales price in September 2010 was up 12.8% compared to September 2009; Arlington posted price increases of 6.0% for the same 12-month period. (See Figures 2 and 3)

The area's inner ring of Fairfax, Montgomery and Prince George's counties (and Falls Church and Fairfax cities) experienced an average price increase of 4.7% from the 3rd quarter 2009; the average price in the 3rd quarter of 2010 was \$414,176. Fairfax County home prices rose 9.0% from September 2009 to September 2010. In Montgomery County, prices rose 4.1% over the same period; Prince George's home prices fell 11.4%.

The outer suburbs of Loudoun, Prince William and Frederick counties – where foreclosures led to the region's steepest price declines in 2006 through 2008 – had the strongest yearly price gain of the sub-areas. The average sales price of an outer suburbs home in the 3rd quarter is \$327,108, up 9.4% from one year ago. In Prince William County, the average sales price in September 2010 increased 10.8% from one year earlier. In Loudoun, home prices rose 5.1% from September 2009 to September 2010; Frederick posted declines of 8.5% year-over-year.

In general, 12-month price growth in Virginia jurisdictions is recovering earlier than in Maryland jurisdictions, likely due to two factors. Job growth in Northern Virginia has recovered stronger and faster than in Suburban Maryland, thereby increasing demand for housing. Also, Northern Virginia's housing market eroded earlier than Suburban Maryland's and is experiencing a "first-in, first-out" effect.

HOME PRICES BY SUB-AREA* WASHINGTON METRO AREA AT THIRD QUARTER 2010

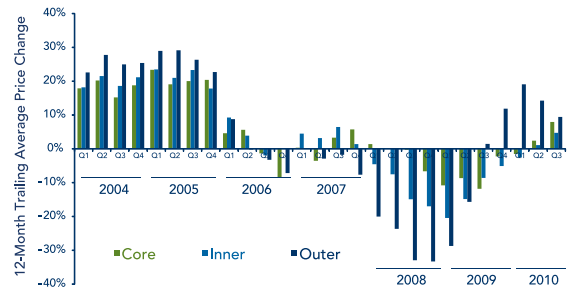
Figure 2

Sub-Area*		Change vs. Last Quarter	Change vs. Q3 2009
Core	\$514,073	↑ 1.0%	↑ 8.0%
Units	2,564	↓ 26.3%	↓ 16.1%
Inner	\$414,176	↑ 5.4%	↑ 4.7%
Units	7,858	↓ 23.1%	↓ 15.2%
Outer	\$327,108	↑ 2.1%	↑ 9.4%
Units	3,289	↓ 20.2%	↓ 19.0%

* Core: DC, Arlington, Alexandria.
Inner: Fairfax, Montgomery, Prince George's, Fairfax City and Falls Church.
Outer: Loudoun, Prince William, Frederick.
Source: MRIS, Delta Associates; October 2010.

HOME SALES AVERAGE PRICE CHANGE WASHINGTON METRO AREA BY SUB-AREA* 2004 - THIRD QUARTER 2010

Figure 3



* Core: DC, Arlington, Alexandria.
Inner: Fairfax, Montgomery, Prince George's, Fairfax City and Falls Church.
Outer: Loudoun, Prince William, Frederick.
Source: MRIS, Delta Associates; October 2010.

In the 3rd quarter of 2010 the number of homes sold metro-wide is down 16.0% from 3rd quarter 2009, indicating a temporary lull following the burst of activity in the months before the Federal tax credit expired.

Home prices at the metro level in the 3rd quarter of 2010 were higher than one year earlier, with Outer jurisdictions showing the most improvement again this quarter. The Inner Suburbs continue to show the least improvement with the slowest growth; prices in the outer suburbs approximate those seen in the 2nd quarter of 2008. We think that in the Washington metro, the bottom has likely passed.

As buyer activity has waned in the past few months, properties are selling less quickly. For the Washington region, homes sold in an average of 61 days, up from 56 days in the 2nd quarter, but down from 81 days one year ago. While higher than last quarter, 61 days on market at the 3rd quarter of the year is still the lowest time on market since 2006.

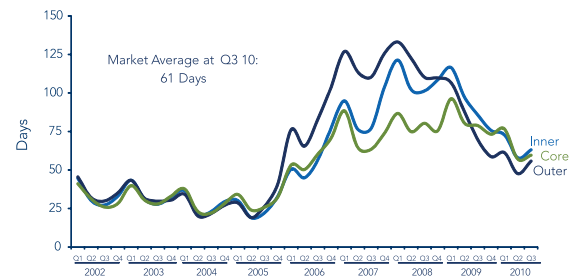
Homes are taking the longest to sell in the Inner Suburbs (Fairfax, Montgomery, and Prince George's); time on market fell to 63 days, down from 86 days one year ago. Properties in the Inner Suburbs are selling at a rate far below the region's long-term average of 76 days. Time on market in the outer suburbs now averages 56 days, down from 70 days one year ago. In the Core time on market declined to 60 days, down from 79 days one year ago. (See Figure 4)

Recent market statistics indicate that buyer and seller pricing expectations have been moving toward each other, helping to bring the market into balance. The average selling price in the 3rd quarter of 2010 is 94.2% of list price, down from the 2nd quarter, but still one of the highest ratios in the past three years.

High sales volume in the months preceding the 3rd quarter has helped the region work through its inventory overhang. However, a moderation in activity during the 3rd quarter has led to an uptick in inventory. The Washington area has an average of 6.9 months of for-sale inventory at September 2010, up from 5.4 months of inventory one year ago. In recent years, Washington area average prices tend to rise when the ratio of inventory to sales is below 6 months. Lender constraints may hinder a quick rise in prices, but the gap between supply and demand has been closing in the Washington area. (See Figure 5)

**AVERAGE DAYS ON MARKET
EXISTING HOUSES**
WASHINGTON METRO BY SUB-AREA
2002 - THIRD QUARTER 2010

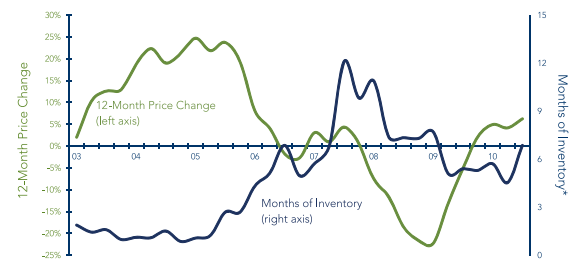
Figure 4



* Core: DC, Arlington, Alexandria.
Inner: Fairfax, Montgomery, Prince George's, Fairfax City and Falls Church.
Outer: Loudoun, Prince William, Frederick.
Source: MRIS, Delta Associates; October 2010.

PRICE CHANGE AND INVENTORY
WASHINGTON METRO
2003 - THIRD QUARTER 2010

Figure 5



* Months of inventory at current sales pace for last month in each quarter.
Source: MRIS, Delta Associates; October 2010.

In nearly all jurisdictions the ratio of inventory to sales rose in the 3rd quarter of 2010 compared to one year ago. Prince George's County has the highest ratio in the region at 10.4 months' worth of inventory at September 2010. Fauquier County is the only jurisdiction with a ratio lower than last year at this time. The City of Falls Church has just 4.5 months' worth of inventory at June 2010, the lowest in the region. This metric has been volatile due to the expiration of the Federal tax credit and the shifting of some demand to the early part of 2010 (See Figure 6)

Washington Outperforms the Nation

By most measures, the Washington metro area housing market is performing better than most other metro areas. In the Washington metro area, the Federal Housing Finance Agency (FHFA, formerly OFHEO) reported a 7.5% annual increase in home prices for the 12 months ending in June 2010. This increase was the second best of the 25 largest metro areas behind Oakland, California. FHFA reported a national average home price decline of 1.6% during this time period.

In contrast, the National Association of REALTORS® reported a national average price increase of 1.5% for the 12 months ending June 2010, and a Washington area increase of 3.9%. (FHFA and NAR use different methodologies to calculate price changes.) (See Figure 7)

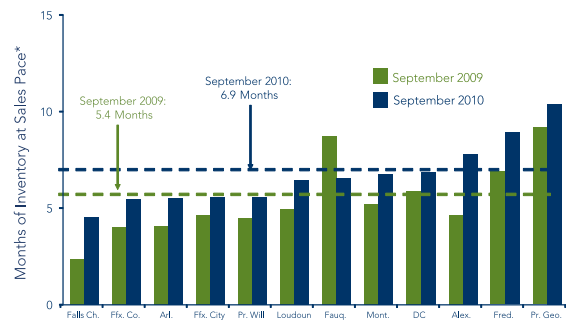
From July 2009 to July 2010, Washington home prices increased 6.5%, according to the Case-Shiller index, placing 4th among major metro areas for 12-month performance. Of note, Washington home prices saw the 2nd highest price increase among 20 large metros over the period from June to July 2010, at 1.1%.

Washington Housing Outlook

The Washington area housing market has entered the recovery phase of the cycle. We expect that a combination of a slowly recovering national economy and an expanding local labor market will continue to bring gains to the Washington housing market. The pace of the recovery may be uneven, however. In the remainder of 2010, we expect that renewed demand will continue to yield yearly price gains. The outer suburbs, which experienced deterioration first when the market began to decline, are now leading the local housing recovery.

MONTHS OF FOR-SALE INVENTORY WASHINGTON AREA

Figure 6 SEPTEMBER 2009 vs. SEPTEMBER 2010

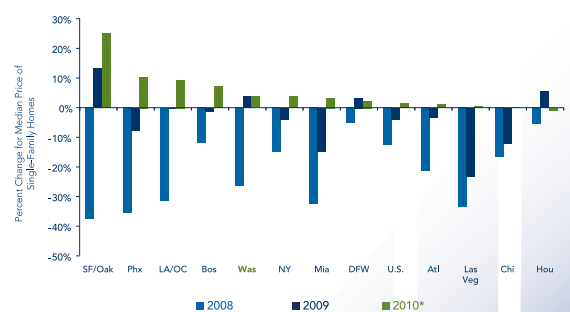


Pace is ratio of total for-sale inventory to current month's sales.
Source: MRIS, Delta Associates; October 2010.

By most measures, the Washington metro area housing market is performing better than most other metro areas.

ANNUAL ESCALATION OF EXISTING HOME SALES PRICES

Figure 7

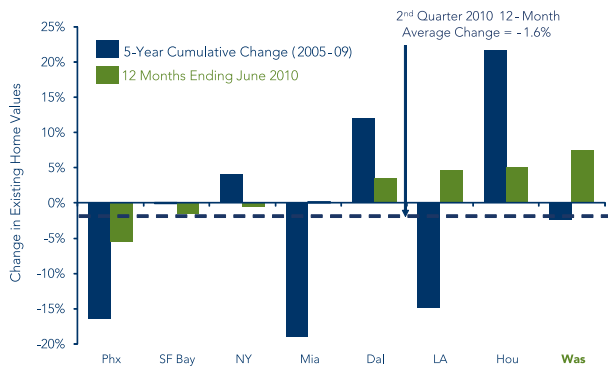


* 12 months ending June 2010.
Source: National Association of REALTORS®, Delta Associates; October 2010.

The Big Picture

CHANGE IN EXISTING HOME VALUES SELECT METRO AREAS

Figure 8



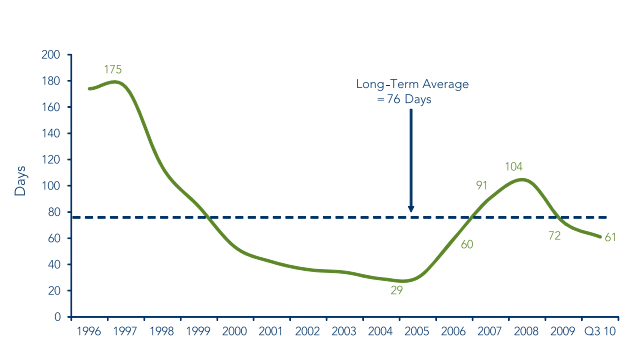
Source: FHFA, GMU Center for Regional Analysis, Delta Associates; October 2010.

Our Take: The Washington area saw a 7.5% change in existing home values for the 12 months ending June 2010 (per FHFA data), ahead of the national average of -1.6%.

AVERAGE DAYS ON MARKET

EXISTING HOUSES - WASHINGTON METRO AREA 1996 THROUGH THIRD QUARTER 2010

Figure 9



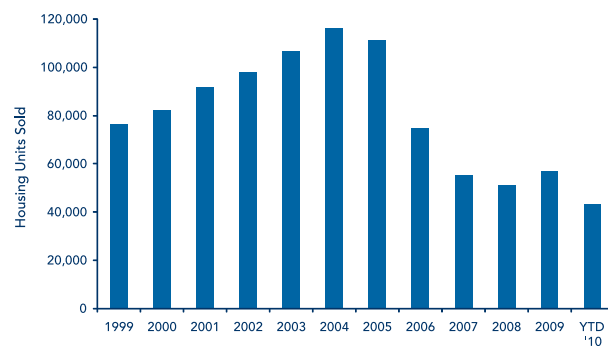
Source: MRIS, GMU Center for Regional Analysis, Delta Associates; October 2010.

Our Take: The average time on the market in 3rd quarter 2010 was 61 days, down from 81 days one year earlier.

SALES VOLUME

WASHINGTON METRO AREA, ALL HOUSING TYPES 1999 THROUGH THIRD QUARTER 2010

Figure 10



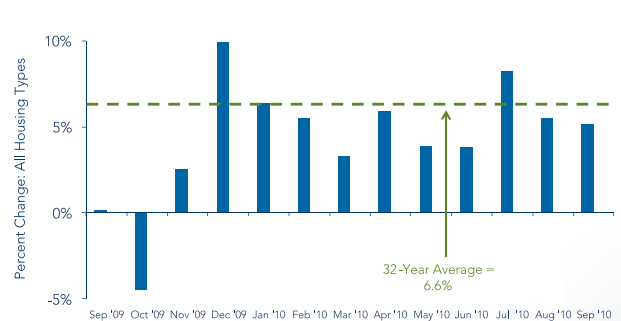
Source: MRIS, Delta Associates; October 2010.

Our Take: Sales volume in the 3rd quarter was 13,936 homes: 16.0% lower than the same quarter in 2009. When annualized, the YTD 2010 total of 43,181 homes sold is on a pace comparable to last year's.

SALES PRICE CHANGE - TRAILING 12 MONTHS WASHINGTON METRO AREA

SEPTEMBER 2009 THROUGH SEPTEMBER 2010

Figure 11



Source: MRIS, Delta Associates; October 2010.

Our Take: Prices continue to post gains year-over-year following a turbulent 2009. On a 12-month trailing basis, prices in September 2010 were 5.2% higher than in September 2009. Pricing varies significantly by substate area.

Washington Regional Economy and Outlook

The Washington metro area economy is recovering faster than those of other large metro areas. The Washington metro area added 20,500 new payroll jobs during the 12 months ending August 2010. However, this figure is below the 20-year annual average of 37,000. The unemployment rate reached a height of 7.0% in January 2010, but has descended unevenly to 6.2% as of August 2010 – remaining the lowest rate in the nation among major markets.

(See Figures 12 and 13)

Job Change

With 3.0 million payroll jobs, the Washington metro area ranks the fourth largest job market among metro areas, behind New York, the LA Basin and Chicago.

The region continues to grow high-wage jobs even as it sheds low-wage jobs. However, it is Government hiring, rather than private sector activity, which is generating most of the job creation locally.

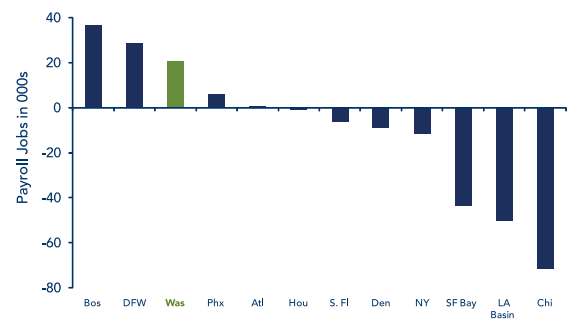
Unemployment Rate

The Washington area unemployment rate is 6.2% at August 2010, up 10 basis points from last year at this time.

The Washington metro area has the lowest unemployment rate among comparable metros and compares favorably to the national rate of 9.6% in August 2010. The national rate remained 9.6% in September 2010.

PAYROLL JOB CHANGE LARGE METRO AREAS

Figure 12 12 MONTHS ENDING AUGUST 2010

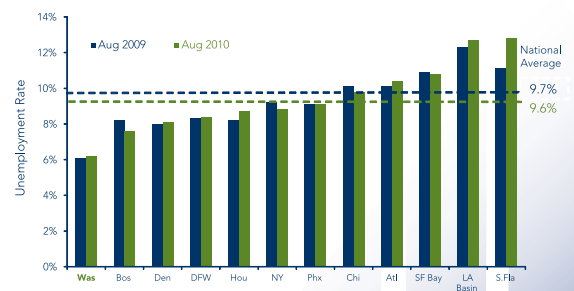


Source: BLS, Delta Associates; October 2010.

The Washington metro area economy is recovering faster than those of other large metro areas.

UNEMPLOYMENT RATES LARGE METRO AREAS

Figure 13 AUGUST 2009 vs. AUGUST 2010



Source: Bureau of Labor Statistics; October 2010.

Washington Area Economic Outlook

We expect the Washington metro area economy to slowly recover during the balance of 2010 — adding new jobs methodically. Although we believe the local economy is in recovery, we expect the pace to be slow, as consumers and companies remain cautious.

We expect consumer confidence will edge up moderately, as jobs continue to be added to the local area. As job growth regains steam and the unemployment rate descends, consumers will increasingly become more optimistic. As consumers feel more confident, retail sales will start to pick up on both essential and non-essential items.

Of note, while potential job cuts at defense contractors (as announced by Defense Secretary Gates in August) are a threat to the regional economy, the impact is difficult to predict at this time. Previous government efforts to trim costs have often failed or been scaled back. Such cuts, if they occur, may be notable but are not likely to derail economic growth.

In consultation with Dr. Stephen Fuller of George Mason University, we project that 32,200 payroll jobs will be added to the Washington metro area economy during 2010.

We expect the Northern Virginia substate area to be the leader in job growth with 16,700 new jobs in 2010. The Suburban Maryland and District substate areas should produce 9,300 and 6,200 new jobs, respectively.

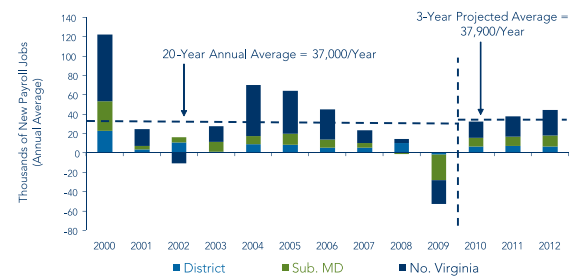
We expect job growth in the Washington metro area will gain greater steam in 2011 and 2012 – adding 37,300 and 44,300, respectively.

(See Figure 14)

We expect the Washington metro area economy to slowly recover during the balance of 2010.

PAYROLL JOB GROWTH WASHINGTON METRO AREA 2000 - 2012

Figure 14



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005.
Source: Dr. Stephen Fuller, Delta Associates; October 2010.



Delta Associates

Delta Associates, the research affiliate of Transwestern, is a firm of experienced professionals offering consulting and data services to the commercial real estate industry for over 30 years. The firm's practice is organized in four related areas:

- Consulting, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
- Valuation services for real estate companies and fractional interests in them.
- Distressed asset recovery services to include property performance analyses and enhancement studies, debt structuring evaluation and note valuations, portfolio assembly due diligence, valuations and litigation support.
- Subscription data for select metro regions for office, flex/industrial, retail, condominium, and apartment markets.

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For more information on Delta Associates, please visit DeltaAssociates.com



Washington Area Housing Outlook Sources

Bureau of Labor Statistics, Delta Associates, Dr. Stephen Fuller and John McClain at GMU's Center for Regional Analysis, Federal Housing Finance Agency, Metropolitan Regional Information Systems, National Association of REALTORS®, S&P/Case-Shiller.