



Trends in the Virginia Housing Market First Quarter 2009 Report

By
Rosemary deButts, MIRM

Highlights

- Dismaying economic news continued to plague the national economy in the first quarter. Negative job growth and unemployment worsened; consumer confidence reached new all-time lows; foreclosures rose, building permits and housing starts were 48% below comparable 2008 levels; new and existing home sales and prices continued to decline.
- There were some bright economic spots too. After a very rocky start, the stock market had a mini rally at the end of the quarter. Weekly conventional mortgage rates ended the quarter at 4.85%. The government extended and expanded the First Time Home Buyer's Credit program and announced the Mortgage Modification program.
- Existing home sales in Virginia during the first quarter of 2009 totaled 15,795 units, down 4.7% from the same period in 2008. In the fourth quarter of 2008, the state had 16,998 total sales. Knowing that home sales are cyclical and that the first quarter is typically the slowest period during the year, the decline from the last quarter amounted to 7.1%. The northern area, including Blue Ridge, Dulles, Fredericksburg, Greater Piedmont, NVAR and PWAR all had positive increases in sales compared to the same period in 2008.
- Median sales prices in the state of Virginia continued to decline. The state-wide median of \$223,221 was 14.1% lower than the median in the first quarter of 2008. The good news though was that the median actually increased 7.8% from the last quarter of 2008 indicating that prices may have reached bottom and now are on the rise. However, average sales prices continued to decline.



National Economic Backdrop

A brief summary of key indicators at the national level follows.

Employment

In the first quarter of 2009, total non-farm payrolls declined by over two million jobs. In fact, payroll declines in the first quarter of 2009 amount to 66% of the declines incurred *over the span of the entire year* in 2008. Since December 2007, when the current recession began, the national economy has lost over 5.1 million jobs.

Unemployment Rate

Initial claims for unemployment rose to 8.5% in March - a figure not seen since November of 1983. During this decade, unemployment remained in the 5% range until August 2008 when it began to rise steeply and steadily. Unemployment across the nation has risen for the last six consecutive months.

Dow Jones Index

The Dow Jones Index began the quarter above 9,000 but posted a loss of 776 points in January. February followed with a loss of 938 points. The Index continued its downward decline and reached a low point on March 9th of 6,547 units. On the heels of good news in the housing industry (spike in housing starts, improved existing and new home sales in February) the market rebounded 16% to 7,609 by March 30th. As of April 15th, the Index exceeded 8,000.

Consumer Confidence

The Consumer Confidence Index began in 1967 and surveys 5,000 households in the country about their confidence in the overall economy, both present and future. The overall Index reached an all-time low of 38.8 in October 2008. It then reached a new all time low in four of the last five months ending at 26 in March 2009. This is 61% lower than the corresponding month in 2008. The Present Situation Index reflects how consumers feel about the current economy and it declined 76% since last year. While the Expectations Index improved in March compared to February, consumers are not enthusiastic about the outlook in the next six months.



Consumer Confidence

	Mar 09	vs. Feb 09	vs. Mar 08
Overall Index	26.0	2.8%	-60.5%
Present Index	21.5	-3.6%	-76.3%
Expectations Index	28.9	5.9%	-41.5%

Source: The Conference Board

Mortgage Rates

Weekly conventional mortgage rates started the first quarter of 2009 at 5.10% and ended at 4.85%. Mortgage rates at these historically low levels are typically a significant driver in housing demand. However, stringent lending standards coupled with dismal consumer confidence continued to dampen consumer demand in the first quarter of 2009. It is reassuring that the national government has a vested interest in maintaining low mortgage rates in the future to stem the tide of foreclosures and spur a home buying flurry that will stimulate the overall economy.

Mortgage Modification Program

The Treasury Department announced a mortgage loan modification program in mid February designed to help beleaguered homeowners avoid foreclosure. The government allocated \$75 billion to subsidize payment reductions and provide incentives for servicers and borrowers to participate in the program. Homeowners have responded and created a backlog of demand even as the government continues to work out the program details.

First Time Home Buyer's Credit

Another program designed to spur housing demand is the First Time Home Buyer's Credit. A first time buyer is, interestingly, defined as anyone who has not owned a principal residence in the three years prior to the purchase of a new home. It provides an \$8,000 credit with no repayment requirement to buyers who close between January 1 and December 1, 2009.

Foreclosures

Across the nation, the number of foreclosure filings in the first quarter of 2009 was the highest quarterly total on record probably resulting from the lifting of foreclosure freezes since December 2008. Total foreclosure filings reached 803,489 in the first quarter - up 24% over 2008 and a 9% increase over the previous quarter.



Building Permits

The long term trend for the number of building permits issued across the nation since January 2007 is steeply down. Even with seasonal increases in the summers of 2007 and 2008 which typically peak in June, 2008 ended the year with 37% fewer permits issued than in 2007. In February 2009, permits increased 5% from the January figure but were 48% behind the February 2008 rate. From January 2000 to October 2007, the total number of permits issued in the United States exceeded 100,000 units each month. However, since November of 2007, total permits fell below 100,000 units every month (except for June 2008) and the latest release for February 2009 was 38,000 units.

Housing Starts

Housing starts had a surprising jump in February; revised figures reflect a 17% increase over January. The pace subsided by 11% in March to the second lowest level on record at 510,000 starts nationwide. On a year-over-year basis, new construction is down by 48% from March 2008.

Existing Home Market

Existing home sales rebounded slightly (5%) in February 2009 to 4.72 million units from a dismal performance in January. Monthly sales declined in seven of the last twelve months. Compared to February 2008, unit sales declined 4.6%. The median home price in the United States was \$165,400, up .4% from January and about equal to 2003 levels. The National Association of REALTORS® began collecting data in 1968. January's decline in the median sales price of 17.5% was the largest year over year decline ever recorded. February's decline of 15.5% is in second place. Unlike the new home market, the available inventory of existing homes is trending down from a high of 11.3 months in April 2008 to February's 9.7 month level.

New Home Market

New home sales in February 2009 increased 4.7% to a seasonally adjusted annual rate of 337,000 units. Although encouraging news, the figure is 41.1% less than the corresponding 2008 level of 572,000 units. On a month over month basis, new home sales have declined nine of the last twelve months. The current median price of new homes is \$200,900 and based on February sales there is a 12.2 month supply of new homes available for sale.

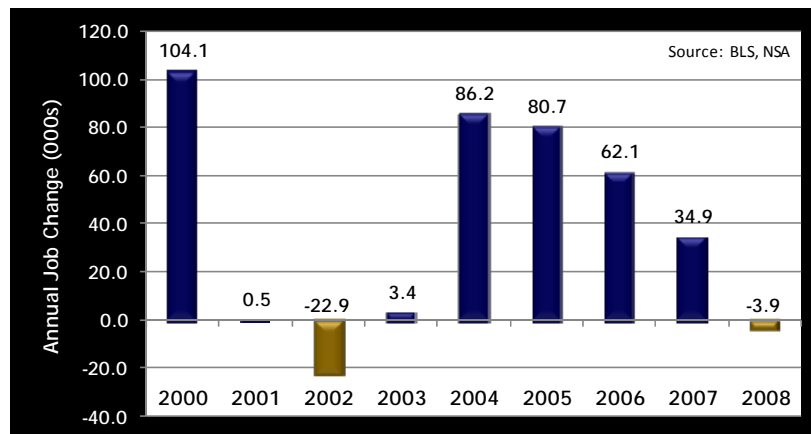


Statewide Economic Backdrop

Employment

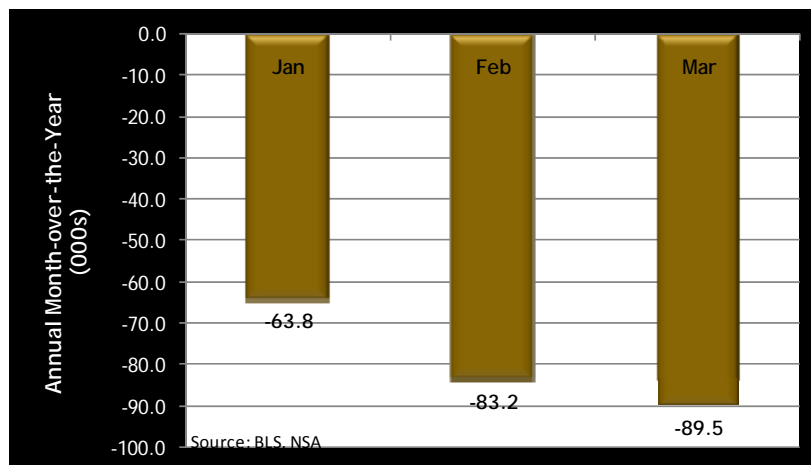
Not since 2002 in the aftermath of the 911 terrorist attacks has the state of Virginia experienced negative job growth. Although job growth peaked in 2004 and trended down from there, the four year average was 66,000 new jobs created per year. That changed in 2008 though with a year-over-year loss of almost 4,000 jobs.

Virginia's Annual Job Change: 2000 - 2009



In 2009, the trend continued in the first quarter with the variance between statewide total non-farm employment in March of 2009 down by 89,500 jobs compared to March 2008 (-2.4%).

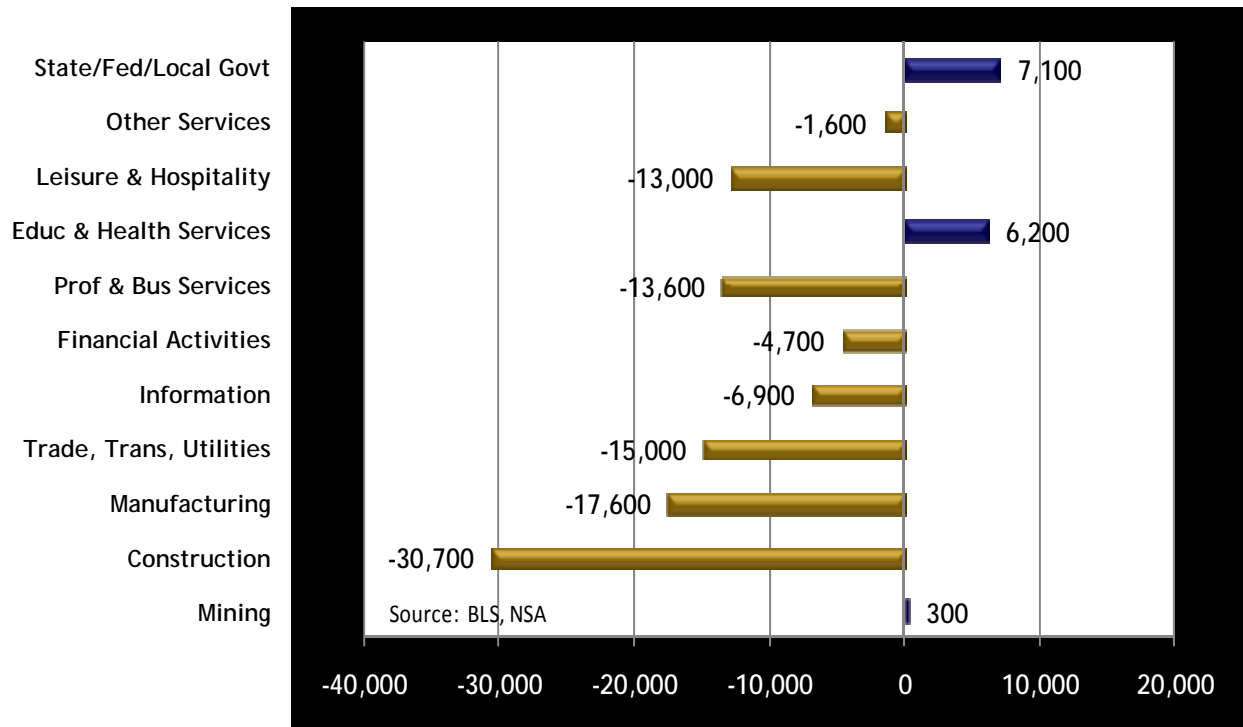
Virginia's Annual Month-over-the-Year Job Change: 2009





Given the condition of the homebuilding industry in Virginia, it is not surprising that the largest job losses occurred in the construction sector. Comparing March 2009 to March 2008, the construction sector lost nearly 31,000 jobs. Manufacturing is another sector hit hard by the recession with over 17,000 lost jobs.

March 2008 vs. March 2009
Job Change by Sector: Virginia

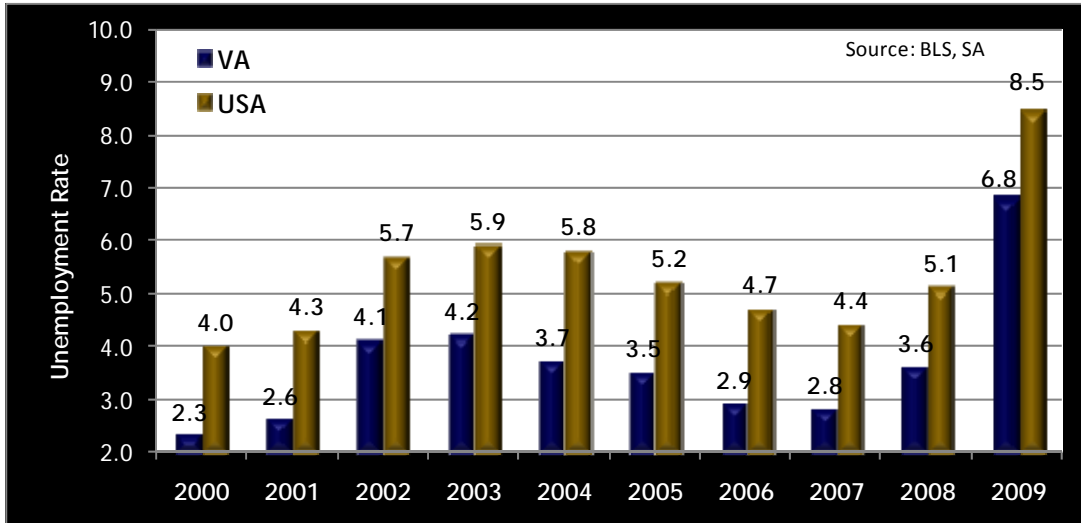


Unemployment

Unemployment in Virginia is on the rise, it reached 6.8% in March. The last time it was this high was sixteen years ago in April 1983. For the sake of comparison, the monthly average since January 2000 was 3.5%. While this is troubling, it is important to put these statistics in context. The following graph illustrates the relationship between Virginia and the nation. The national unemployment rate is now at 8.5% and since 2000 has exceeded Virginia's rate by at least 1.7%. But, Virginia's economy continues to outperform other states while struggling with job losses.

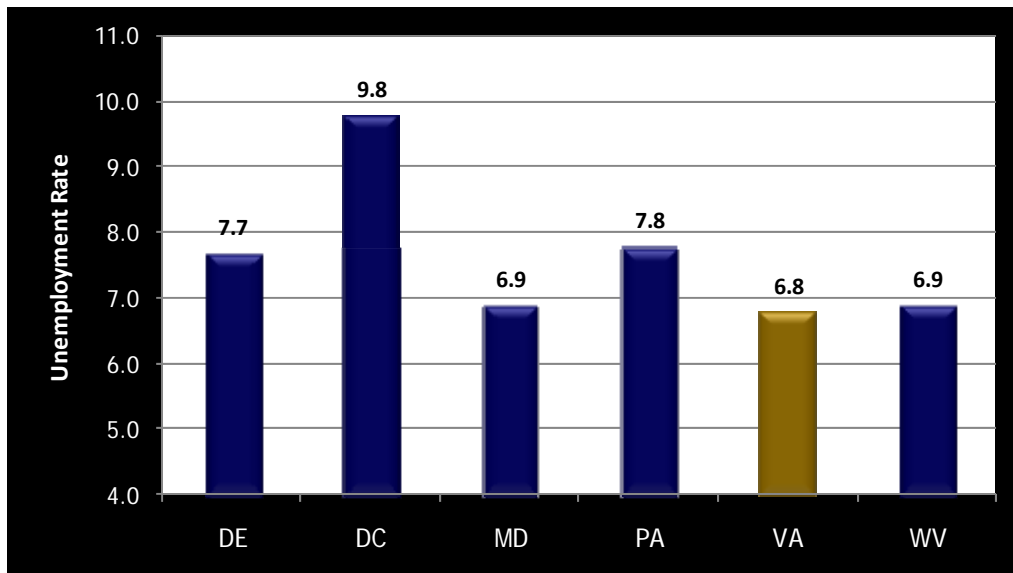


Virginia/USA Unemployment Rate: March of each Year



According to the Bureau of Labor Statistics, Virginia is part of the Mid-Atlantic Region. The graph below illustrates how Virginia is faring compared to the other states in the region. It had the lowest unemployment rate in March 2009 of its five neighbors followed closely by Maryland and West Virginia. The unemployment rate in the District of Columbia is approaching 10%.

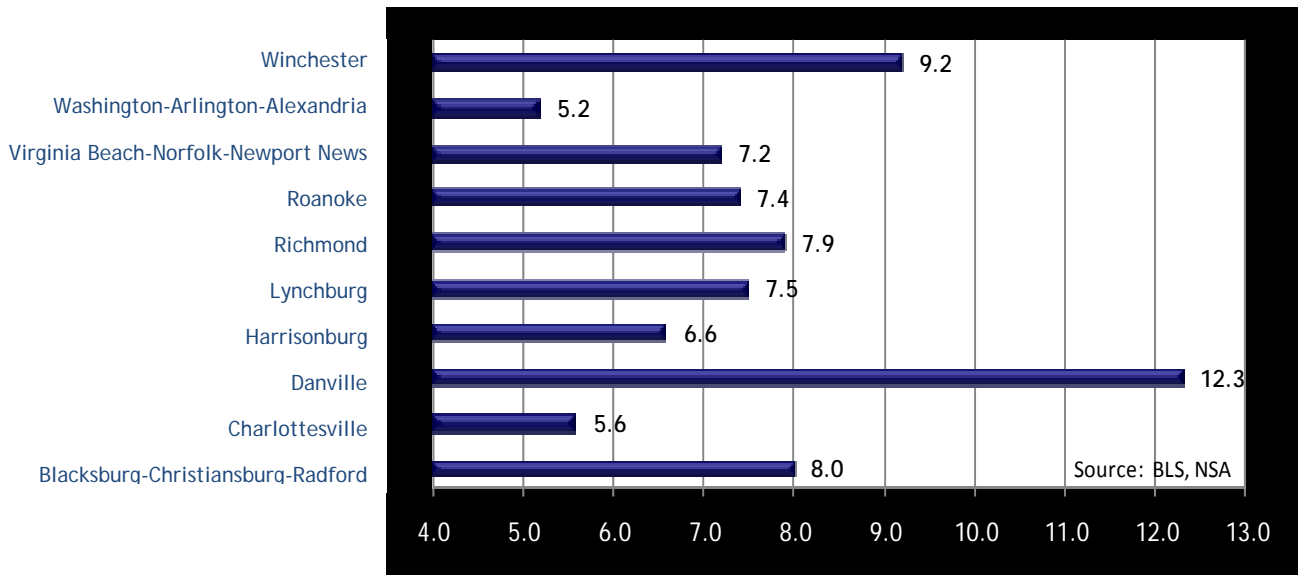
Mid-Atlantic Unemployment Rate: March 2009





For a snapshot of the unemployment situation in areas throughout the state, the following graph compares the March 2009 unemployment rate in February 2009 among the major metropolitan areas across the state. The Danville MSA stands out for its atypical unemployment rate of 12.3%. Nearly 31% of jobs in Danville are concentrated in the manufacturing sector which, as shown earlier, has been particularly hurt by the recession.

Virginia Unemployment Rate by Metropolitan Area: February 2009



Building Permits

Not surprisingly, the number of building permits issued in Virginia during 2008 lagged behind corresponding 2007 levels in every month except January. That pattern is repeating itself so far in 2009 as well. The latest release of the Virginia building permits data for February indicates that while the number of issued permits increased 126% on a month over month basis, they were 10% below the February 2008 level.

Housing Starts

In the South region, where Virginia is located, housing starts also spiked in February, the revised figures were up 27% over January, but like the national results, they decreased in March by 17% to 268,000. Compared to March 2008, starts were 48% lower in March 2009.



Housing Market Activity in Virginia

On a statewide basis, home sales declined by 4.7% in the first quarter compared to the same period in 2008 to 15,795 units. Sales were down from the previous quarter as well, by 7.1%. Median sales prices fell by 14.1% to \$223,221 compared to the first quarter of 2008 and *increased* 7.8% compared to the previous quarter. This suggests that the existing home market in Virginia may be on the cusp of recovery. Tempering that optimism is the average sales price of \$214,429 which was down 12.4% compared to the first quarter of 2008 and by over 33% from the fourth quarter of 2008.

The only areas in the state that posted a percentage increase in sales in the first quarter compared to the first quarter of 2008 were located in the northern part of the state (Blue Ridge, Dulles, Fredericksburg, Greater Piedmont, NVAR and PWAR). The largest percentage increase, 75.9%, occurred in the Prince William area where low-priced foreclosures represent a significant portion of total sales. These same areas in northern Virginia, among others, had positive increases in March 2009 compared to March 2008 for pending sales, suggesting sales in the next quarter should also increase.

All but four associations posted a median sales price decline (including the northern Virginia groups) comparing the first quarter of 2009 to 2008. Lexington/Buena Vista's median increased by 50% compared to last year. The three other percentages increases were considerably smaller: +12.8% in Dan River, +4.6% in the Chesapeake Bay & Rivers area and +3.6% in the Southwest Virginia area. Average sales prices also increased in three areas: Eastern Shore (+17.5%); Harrisonburg/Rockingham (+1.1%); and Southern Piedmont (+68.9%). All other associations reported no change or a percentage decline over the period.

It has been said that various parts of the state seem to lag trends in northern Virginia. If that holds true in the second quarter and coupled with typical cyclical sales trends, Virginia sales should be more robust this year than last in the second quarter.

Foreclosures

During the first quarter of 2009, Virginia ranked tenth among the 50 states and the District of Columbia for the highest number of foreclosures in the country. Thankfully, the number of foreclosures declined 10.7% from the previous quarter to 14,725. However, this represents a 12% increase over the first quarter of 2008.

Virginia Foreclosures

1Q09	4Q08	1Q08
14,725	16,495	13,151
	-10.73%	11.97%

Source: RealtyTrac