

# 2006 Second Quarter Market Report

*Charlottesville Goes Condo Crazy*

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Aaron Levenstein once said that “statistics are like bikinis – what they reveal is suggestive, but what they conceal is vital.” The numbers in the 2006 Second Quarter Market Report are very enticing, but to understand the full story of the changing real estate market, you have to dig a little deeper. There is no doubt that the local market has changed dramatically in the last twelve months – for better or worse, depending on your perspective – but the vital information about the health of this market is just below the surface of the numbers.

There are three significant changes that we must keep in mind when analyzing the current market. First, the current inventory of homes on the market is significantly higher than this time last year (2669 listings compared to 1368 last year). The law of supply and demand always rules the marketplace, so this giant leap in inventory has a dynamic affect on all of the numbers in this report. For the last several years, the rapid price increases of area homes and the shrinking number of days properties stayed on the market were directly related to the low inventory levels of homes on the market. The new high “supply” of homes for sale is starting to show in the market numbers in the form of slower price increases and a growing number of days it takes to sell a home.

The second major change that is affecting the market numbers is the explosion in condo sales. Even a casual observer of the local real estate market has probably noticed the number of condominiums for sale – either from new construction or from apartment conversions. This trend started hitting the market in early 2005 and has picked up significantly in 2006. While some of the new condos are higher priced “luxury” units designed for aging baby-boomers looking for a low maintenance lifestyle, most are affordable units being snapped up by investors, first-time home buyers and members of the Charlottesville work force.

The third change you should keep in mind while pondering this market report is a worldwide trend that is as true in Charlottesville as it is in Tokyo – people are moving back into the city. After decades of steady migration to the suburbs, people are starting to move back into cities. Charlottesville has shown a steady increase in population since the 2000 census and this trend is starting to show up in the market statistics.

## **Overview**

The second quarter of 2006 was a continuation of the second-best start to a year for home sales in our area. According to figures from the CAAR Multiple Listing Service, 2075 homes were sold in the Charlottesville market area (including the counties of Albemarle, Fluvanna, Greene, Louisa, and Nelson, and the City of Charlottesville) in the first six months compared to 2300 in the previous year. (Note: total figures include all properties reported to the MLS even if they were outside the main market areas.)

Although sales were down from last year, they were still 7% higher than the first half of 2004 (which was a record year at the time).

Each quarter, CAAR publishes market statistics on the number of transactions closed, the number of listings that went under contract, the median sales price, the average days on market, price per square foot, and the number of new listings. These figures are tallied on a year-to-date basis every quarter and are compared to the same information from the previous year.

### **Transactions Closed**

As mentioned, one major difference between this year and last is the number of condo sales. Last year, Albemarle saw an explosion in condo sales and this year, Charlottesville has seen a similar shift in the marketplace. Second quarter results by area are mixed in 2006 (see chart) with Albemarle, Fluvanna, Louisa, and Nelson, showing decreases in sales, Greene remaining steady, and Charlottesville posting an amazing increase. The dramatic increase in sales in the city is directly related to condo sales. Traditionally, Charlottesville has averaged between 30 and 40 condo sales in the second quarter, but in 2006, 133 condo (or attached) properties were sold in the city. Nelson's decline, on the other hand, may be a signal of a fundamental shift in the popular resort market. Sales at Wintergreen Resort have dropped to the lowest level in three years which may indicate that the resort property frenzy peaked in 2005.

### **Second Quarter 2006**

<b>Area</b>	<b>Total Sales</b>	<b>Compared to 2005</b>	<b>% Change</b>
Albemarle	481	-96	-16.6%
Charlottesville	221	+119	+82.6%
Fluvanna	163	-25	-13.3%
Greene	82	-1	-1.3%
Louisa	58	-19	-24.7%
Nelson	64	-34	-34.7%

### **Under Contract**

Properties that are "under contract" (or pending) are ones that have a ratified sales contract that has not yet closed. This is, of course, an important indicator of how the closed transaction market will perform in the coming months. The second quarter "under contract" figures for 2006 were down only 2.8% from the same period last year, but a closer look at the numbers tells a different story. Based on the number of pending transactions in the second quarter, we can expect current trends to continue – Charlottesville numbers up due to condo sales and other areas will likely be down slightly. For the second quarter, 1271 listings went "under contract" in 2006 compared to 1307 during the same period last year. This should point the way to a soft third quarter for 2006 (at least compared to last year).

### **Median Sales Price**

The median sales price is a better indicator of what the “average” home in our area sells for than is the “average” sales price. Our area has many estates and homes that often sell for more than a million dollars. In the second quarter of 2006, for instance, 23 transactions were closed for over one million dollars. Such properties distort the average sales price figures dramatically. The median sales price, on the other hand, is the number that represents the middle of the market. 50% of the homes in our area sold for more than this price and 50% sold for less than this price. The median sales price for the entire market area in the second quarter of 2006 was \$265,000 which is \$20,000 more than the previous year’s figure. (See table below for specific area figures.)

<b>Area</b>	<b>Median Price</b>	<b>% Change</b>
Albemarle	\$315,000	+14%
Nelson	\$272,500	+1%
Greene	\$264,348	+20%
Louisa	\$256,200	+33%
Charlottesville	\$245,000	0%
Fluvanna	\$240,000	+5%

The overall market, including properties outside the areas listed, increased by 8% which is the smallest increase in several years. (Note: Charlottesville’s median price was flat due to the significant increase in the number of affordable condo units sold this year.)

### **Days on Market (DOM)**

It is no surprise that the average days a property stayed on the market increased for the second quarter in a row. This is directly related to the significantly increased inventory of homes on the market. What was surprising is that the DOM average only increased slightly in the second quarter. The average DOM for all sales reported in the Multiple Listing Service was just 69 days, which is 10 more days than the previous year. Anything below 100 days is a sign of a hot market, so our local market remains heated despite cooling compared to last year. Louisa was the only market to show a decrease in DOM for the second quarter (61 days which is down 24 days from last year). Greene and Charlottesville showed moderate increases coming in at 88 days (+23) and 69 days (+18) respectively. Albemarle 57 (+7) and Fluvanna 66 (+2) showed only minor increases.

### **New Listings**

As stated above, the major factor that affects the DOM statistic is inventory. If the inventory of homes for sale is low, then there are fewer properties for buyers to consider and properties sell more quickly. CAAR tracks the number of new listings that come on the market each quarter to help us monitor the inventory of available homes. There has been significant growth in the inventory over the last 12 months. As of early July, 2006, our database has 2,681 homes actively listed for sale. That is almost double the 1,368 homes on the market this time last year. This is a rather amazing turnaround since inventory has been very low for the past five years or more.

This change indicates a fundamental shift in the market – a return to normalcy. The rule of thumb is that a healthy, balanced real estate market has a 5 month supply of homes available for sale. Less than that and it is a seller's market, more than that and it is considered a buyer's market. For the past several years, we have experienced a strong seller's market and prices have gone up rapidly. Now, we have about six months of supply in inventory which indicates we are now in a buyer's market. After seven years in a seller's market, this change is going to cause buyers and sellers to have to adjust their behavior during a transaction. Sellers should no longer expect multiple offers and quick sales and buyers can now take their time to select between several properties.

### **Price per Square Foot**

This category helps us track the affordability of housing across jurisdictions in our area, but it is important to understand that this figure is not completely accurate. Each home is a different mix of land, location, style and amenity, and this figure does not take this soft data into account. CAAR considers this to be an interesting statistic, but not one that should be used too widely in comparing properties. In the second quarter of 2006, the most expensive area per square foot was Charlottesville at \$211 (up 28% from last year). The other areas were as follows: Albemarle \$186 (up 12%), Fluvanna \$144 (up 13%), Greene \$160 (up 17%), Louisa \$161 (up 33%), and Nelson \$191 (up 2%).

### **Conclusions and Forecasts**

At the beginning of the year, I predicted that 2006 would be yet another record year for home sales in the Charlottesville area, but only by a small margin. It appears that I was a little overly optimistic and will need to revise that prediction. Instead of setting a new record for home sales in 2006, this will be the second best year for sales in Central Virginia (only surpassed by 2005). I also predicted that we would continue to see prices increase, but by a more moderate rate in the 8% to 10% range and that homes would continue to sell quickly by historic standards, but probably not quite as fast as 2005. Both of those predictions are on track and should hold true for the balance of the year. All in all, 2006 is going to be a great year for real estate in the Charlottesville area.

If you have any questions on these market statistic or other aspects of the local market, please contact me at 434-817-2393 or [dave@caar.com](mailto:dave@caar.com).