

2006 Third Quarter Market Report

On Pace for Second Best Year for Local Real Estate

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Despite attempts by some national analysts to spread gloom and doom over the housing market, 2006 is shaping up to be a banner year for real estate sales. In fact, this year will likely be the second best ever recorded in the Charlottesville area (and third nationally). While it is true the 2006 sales figures are down substantially from the record year of 2005, we are on the same sales pace as 2004, which was the second best real estate market in history.

Although this year's sales totals are similar to 2004, the rest of the market statistics are very different. In 2004, the inventory of homes for sale was very low (around 1200) and prices were rising rapidly. Today we have 3000 homes on the market and prices are only going up at a modest rate. In other words, 2004 was a very strong seller's market and 2006 has turned into a buyer's market. 2005 is likely to be the high-water mark for real estate sales for many years to come and every other year will pale when compared to the phenomenal sales totals from last year.

Overview

The third quarter of 2006 was a continuation of the transition the market has been in for the last 12 to 15 months. According to figures from the CAAR Multiple Listing Service, 3132 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 nine months compared to 3539 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 11.5% from last year, they were almost dead-even with the first three quarters 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 current inventory levels. 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

A closed transaction is one that has completed the sales process and changed ownership. In the third quarter, 1044 homes were sold in the Charlottesville area according to the CAAR MLS. That is 20% down from last year's third quarter figure. For the first nine months of 2006, sales are off 11.5%. Although this is a significant decrease in the number of sales year to year, it is important to keep an historical perspective of these figures. As mentioned, 2006 is on pace to be the second best year for real estate in history.

Third Quarter 2006

All counties are significantly down from last year for both the quarter and the year, but the city of Charlottesville, thanks to amazing condo sales, is up 24.4% from last year.

Area	Total Sales	Compared to 2005	Quarter	Year
Albemarle	427	-73	-14.6%	-19.7%
Cville	150	-2	-1.3%	+24.4%
Fluvanna	145	-43	-22.9%	-17.8%
Greene	61	-29	-32.2%	-6.0%
Louisa	42	-18	-30.0%	-14.5%
Nelson	55	-56	-50.5%	-40.3%

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 third quarter “under contract” figures for 2006 were down 10.4% from the same period last year. For the third quarter, 921 listings went “under contract” in 2006 compared to 1218 during the same period last year. This should point the way to a soft fourth 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 third quarter of 2006, for instance, 25 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 third quarter of 2006 was \$269,000 which is just slightly below the previous year’s figure. (See table below for specific area figures.)

Area	Median Price	Quarter	Year
Albemarle	\$309,000	+7%	+14%
Charlottesville	\$249,450	-3%	+3%
Fluvanna	\$250,000	+4%	+7%
Greene	\$253,000	+5%	+16%
Louisa	\$221,000	-2%	+12%
Nelson	\$286,500	-11%	0%

Year to date, the median price in our area has risen 9%. That is a very healthy increase (not too much, not too little). The increase in inventory has helped slow down the unsustainable price rises we have experienced in recent years. This is another

indication that we are in a buyer's market after several years of the sellers being in control.

Days on Market (DOM)

It is no surprise that the average days a property stayed on the market has continued to rise. In the third quarter, the average property stayed on the market a reasonable 70 days. Anything below 100 days is a sign of a hot market, so our local market remains heated despite cooling compared to last year. Both Greene (65) and Louisa (80) showed a decrease in DOM during the third quarter (-5 and -4 respectively). Fluvanna (84 days, up 35), showed the largest increase for the quarter. Other areas showed moderate increases for the quarter: Albemarle (63 days, up 26), Charlottesville (63 days, up 16), and Nelson (85 days, up 15). For the year, properties in the area are only staying on the market 11 days more than last year. Considering the current high inventory levels (see below), it is surprising that DOM has not increased more.

Inventory

One of the major factors that affect 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 October, 2006, our database has 2,992 homes actively listed for sale. That is almost two times the 1,681 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.

Inventory levels have been increasing since late last year, but seem to be leveling off. 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 6.5 months of supply in inventory which indicates we are solidly in a buyer's market.

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 third quarter of 2006, the most expensive area per square foot was Nelson at \$205 (up 3.6% from last year). The other areas were as follows: Albemarle \$183 (up 10.2%), Fluvanna \$141 (up 9%), Greene \$162 (up 18.5%), Louisa \$151 (up 18.1%), and Charlottesville \$198 (up 14.2%). The entire area was up 9.5% to \$174.

Conclusions and Forecasts

While it would be easy to get caught up in reports of the "slowing housing market" or the mythical "bubble bursting" that is being reported in the national media, it would be wiser to look at the current market in a more historical perspective. The record sales of last year were a result of a market that was over-heated due to low inventory, high demand

and attractive investment opportunities. This year's market is a better, more rational market in many ways. Demand is still high, inventory is more than adequate and the overall economy is stronger than last year. Prices for local area homes are still going up, but at a much more reasonable and sustainable rate than the past five years. Buyers have more leverage and a lot more opportunity with this year's market, but sellers are still able to sell their homes in a relatively short time. There is every reason to expect that 2006 will be a great year – probably the second best ever – for real estate in our 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.