

2006 First Quarter Market Report

A Return Towards Normalcy

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The real estate market in the Charlottesville area appears to have jumped out of the fire and back into the frying pan. The local residential real estate market has been in transition for the past six months and it appears to be settling in to a very healthy and sustainable segment of the economy. Gone are the desperately low inventories of homes on the market and as a result, the rise in home values should retreat to a more moderate pace. But, don't be fooled by silly reports that the housing market is "down" or that some mythical housing bubble is bursting. Nothing could be further from the truth.

To understand the current market statistics, it is important to keep them in historic perspective. 2005 was an amazing year for the local real estate market. Sales were up 9.1% for the year and the median price for area homes increased by 13%. Those were big increases especially when you consider that 2004 was the 6th year in a row that we set a record for residential sales. When you compare the numbers from the first quarter of 2006 to those of 2005, you may be tempted to say the market is in decline. You would be incorrect and this report will show that 2006 is destined to be one of the best years ever for real estate in central Virginia.

The first quarter of 2006 was the second best start to a year for home sales in our area. According to figures from the CAAR Multiple Listing Service, 729 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 quarter compared to 887 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 significantly from last year, they were still 15% higher than the first quarter of 2004.

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

One major difference between this year and last is the number of condo sales. Last year a couple new, affordable condo projects came onto the market and sold in the first and second quarter. Over 100 units were closed in the first quarter last year in Albemarle County. That was a one time anomaly in the local statistics that impacted the numbers, especially in Albemarle County. First quarter results by area are mixed in 2006 (see chart) with Albemarle, Fluvanna and Nelson, showing decreases in sales, while Charlottesville, Greene, and Louisa posted increases. Albemarle's large decrease in sales is directly related to the strong condominium sales from last year. Nelson's

decline, on the other hand, is linked to a lack of inventory last year in the popular resort market. We should see Nelson rebound in the second quarter. Fluvanna's drop is harder to explain and may be a minor blip on the radar.

First Quarter 2006

Area	Total Sales	Compared to 2005	% Change
Albemarle	266	-76	-22.2%
Charlottesville	109	+11	+11.2%
Fluvanna	82	-38	-31.7%
Greene	62	+6	+10.7%
Louisa	40	+2	+5.3%
Nelson	56	-31	-35.6%

Under Contract

Properties that are "under contract" (or pending) are ones that have a ratified sales contract that have not yet closed. This is, of course, an important indicator of how the closed transaction market will perform in the coming months. The first quarter "under contract" figures for 2006 were down a significant 27.3% from the same period last year. For the quarter, 840 listings went "under contract" in 2006 compared to 1156 during the same period last year. This should point the way to a soft second 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 is fortunate to have many estates and homes that often sell for more than a million dollars. In the first 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 first quarter of 2006 was \$285,000 which is \$60,000 more than the previous year's figure. (See table below for specific area figures.)

Area	Median Price	% Change
Albemarle	\$339,000	+42%
Nelson	\$330,000	+23%
Charlottesville	\$277,000	+23%
Greene	\$271,250	+41%
Fluvanna	\$239,500	+16%
Louisa	\$211,250	+14%

The overall market, including properties outside the areas listed, increased by 27% to a median price of \$285,000. (Note: Albemarle's median price increase was so dramatic because of a significant number of affordable condo units last year.)

Days on Market (DOM)

The best indicator of a hot market is found in this category. The average DOM for the area increased slightly in the first quarter. The average DOM for all sales reported in the Multiple Listing Service was just 77 days, which is 4 more days than the previous year. Anything below 10 is a sign of a hot market. Charlottesville (69) and Nelson (65) reported a drop in DOM (minus 9 and 4 days respectively) while other areas showed minor increases. The DOM for other areas was as follows: Albemarle 68 (+10), Fluvanna 77 (+5), Greene 80 (+12), and Louisa 117 (+1). It is also important to keep in mind that the Albemarle DOM (and to some extent the entire region) was artificially low last year due to the large number of affordable condos that sold in the first quarter.

New Listings

One 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 6 months. As of early April, 2006, our database has 2,377 homes actively listed for sale. That is double the 1,182 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 sellers market, more than that and it is considered a buyers market. For the past several years, we have experienced a strong sellers market and prices have gone up rapidly. Now, we have about six months of supply in inventory and which, if sustained, will bring about a buyers market. However, this is the busiest time of the year for the real estate market, so it is unlikely we will sustain this level of inventory. The most likely scenario is that the inventory stabilizes around 2000 homes and we have the pleasure of being in a balanced 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 2006, the most expensive area per square foot was Nelson at \$227 (up 23% from last year). The other areas were as follows: Albemarle \$176 (up 15%), Charlottesville \$186 (up 4%), Fluvanna \$140 (up 17%), Greene \$157 (up 22%), and Louisa \$146 (up 23%).

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. I am not ready to

hedge that prediction, but sales will need to rebound in the second and third quarter. With more inventory from which to select, buyers are flocking to the marketplace. Even if we do not reach the historic sales level set in 2005, this will be the second best year for sale in Central Virginia. We will continue to see prices increase, but by a more moderate rate in the 8% to 10% range. Homes will continue to sell quickly by historic standards, but probably not quite as fast as 2005. 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.