

2008 1st Quarter Market Report

A Recipe That's Hard to Swallow

By Dave Phillips, CEO
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Have you ever stood in your kitchen, felt a creative surge and decided to “invent” a new recipe that will land you a “celebrity guest” spot on one of Rachael Ray’s shows on the Food Network? Okay, maybe that’s just me. Sometimes the recipe turns out well, like my yogurt-mustard sauce to accent a tuna steak, but other times, like my Pumpkin Meatloaf, the recipe is a bit hard to swallow.

The local Charlottesville area real estate market is a lot like my Pumpkin Meatloaf – a combination of ingredients that don’t work well together. Like a good recipe, a good real estate market is one that features a good balance of ingredients. If you put in a little too much of one ingredient, the dish may not taste very good; however, if you put in way too much of that ingredient, the dish becomes unpalatable. The recipe for the Charlottesville area real estate market has way too much of one ingredient – supply of homes for sale – and that has created an unbalanced recipe that is hard to swallow.

Overview

As reported in the 2007 Year-End Market Report, the local (and national) real estate market slowed down quickly during the second half of 2007. That slowdown continued into the first quarter of 2008, but there are some signs of improvement. What has NOT improved is the oversupply of homes on the market. In addition, many of these homes have been on the market for a long time, indicating that they are still priced too high for the current market. On a positive note, our market appears to have only minimal problems with defaults, foreclosures and short sales. These issues are present in the local market, but they are not the significant problem being felt in other states and localities.

Homes Sold

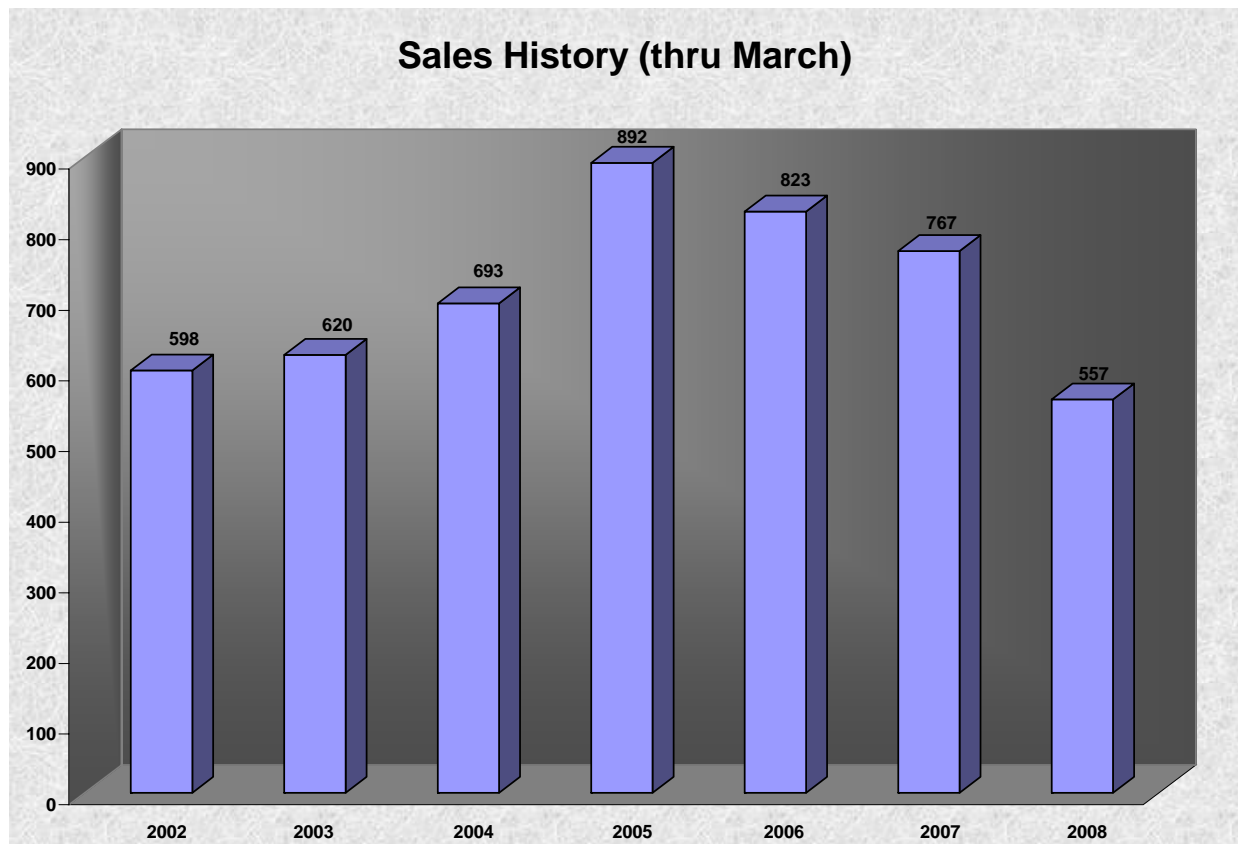
There were 557 homes sold in the first quarter of 2008, which was down 210 (-27.4%) from the first quarter 2007. All local areas (Albemarle -40%, Charlottesville -7.1%, Fluvanna -26.4%, Greene -27.5%, Louisa -14.3%, and Nelson -35.6%) posted lower sales than the same period last year. This is the lowest number of sales reported in the MLS for the first quarter since 2000.

New to the CAAR Market Report this year are numbers from the other side of Afton Mountain. The Staunton/Waynesboro real estate market, referred to as the Central Valley in the charts below, now overlaps with the Charlottesville area market to such an extent that we need to report separate numbers for that area. These numbers were generated from the Greater Augusta MLS, which has more complete data on the Valley market than the CAAR MLS. As you can see, sales in the Valley are doing better than most of the region and, thanks to Albemarle’s significant sales drop, the Valley is the largest market area in the report. Sales were down in the Valley by just 9.2% compared to last year.

Home Sales – First Quarter							
County	2002	2003	2004	2005	2006	2007	2008
Albemarle	235	263	286	368	305	270	162
Charlottesville	73	65	91	107	131	112	104
Fluvanna	98	82	119	120	94	91	67
Greene	56	55	46	58	72	51	37
Louisa	25	23	29	41	46	49	42
Nelson	75	82	72	85	61	59	38
Other	36	50	50	113	114	135	107
MLS Total*	598	620	693	892	823	767	557
Central Valley**						238	216

*includes sales outside the counties listed

**numbers courtesy of the Greater Augusta MLS



Median Sales Price

The most surprising statistic in this section is the significant increase in the median sales price in Albemarle County. With sales off 40%, it is hard believe the median price would go up \$51,600 (17.9%). If you peel back the onion on the situation (sticking with the cooking theme), the number makes more sense. Three factors explain the increase: 1) condo sales decreased dramatically (see section later in this report); 2) the higher end of the market is less affected by the mortgage market issues; and 3) moderately priced homes in Albemarle may have a tough time competing with similarly priced homes in other counties – other counties offer more house for the money.

You should not confuse an increase in the median home prices with an actual increase in home prices. The median prices listed below are the middle of the market of properties that sold. Simply put, this is an indication of what buyers were willing to pay and is not a true reflection of individual home prices. It is probably safe to assume that a steady, year-to-year increase in the median price is a good sign, but it does not necessarily mean prices are up.

Although home prices vary from house to house and street to street, the numbers in the first quarter may indicate prices are stabilizing. There are two statistics that give us a glimpse of the real change in home prices – average price and price per square foot – but neither is an exact science. Last year, both these numbers declined, but in the first quarter of 2008, the “average” price of homes that sold increased just over \$40,000 while the price per square feet (see details below) declined slightly. This could be an early indication of prices stabilizing, or just a temporary respite.

The only way to know what your home will sell for is to have a REALTOR® or appraiser prepare a comparative market analysis (CMA) for your property. This market is changing very quickly and to be up-to-date, you need to do a CMA every two weeks. Pricing a property correctly is the best way to sell it!

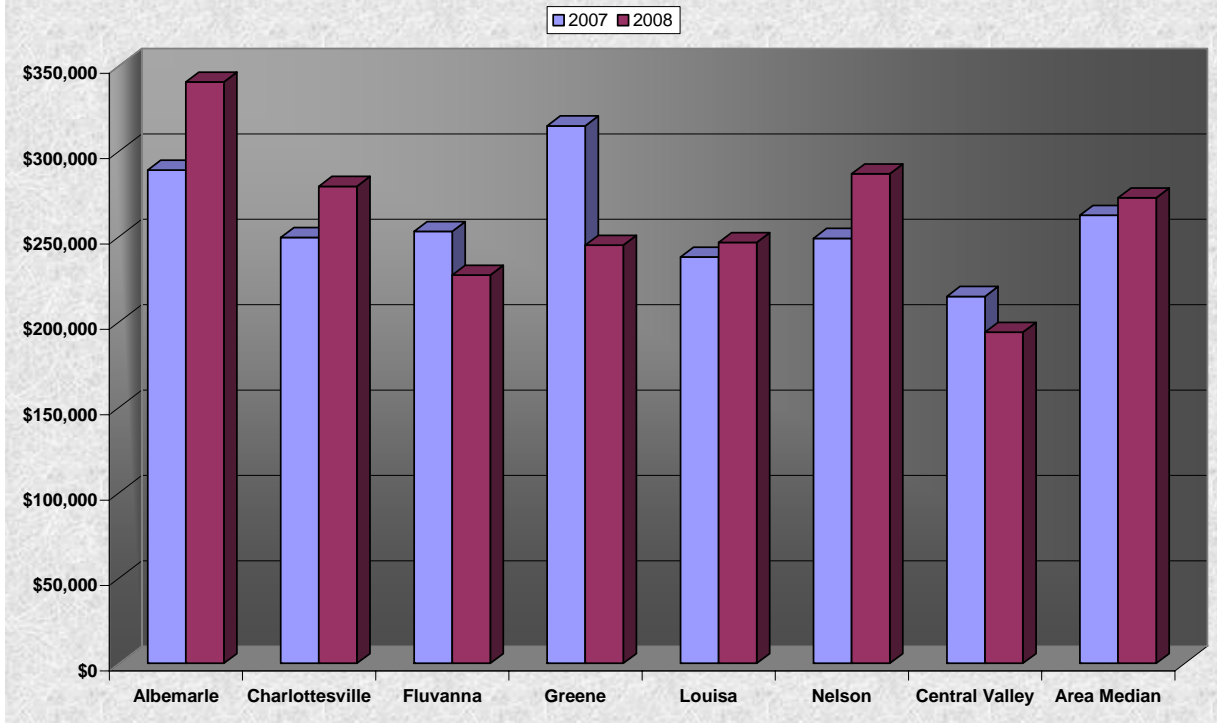
Overall, the median price rose \$10,186 (+3.9%). Fluvanna (-10.1%), Greene (-22.2%), and the Valley (-9.8%) were the only three areas where median price declined. Albemarle (17.9%), Charlottesville (12%), Louisa (3.6%), and Nelson (15.2%) were all up for the quarter.

Median Prices – First Quarter							
County	2002	2003	2004	2005	2006	2007	2008
Albemarle	\$217,000	\$230,590	\$264,850	\$239,950	\$344,400	\$289,000	\$340,600
Charlottesville	\$130,000	\$168,000	\$183,500	\$225,000	\$274,000	\$249,500	\$279,500
Fluvanna	\$131,625	\$150,000	\$167,500	\$205,950	\$245,000	\$253,000	\$227,500
Greene	\$148,500	\$157,000	\$160,975	\$192,500	\$294,975	\$314,900	\$245,000
Louisa	\$120,000	\$197,195	\$150,000	\$189,000	\$213,450	\$238,000	\$246,500
Nelson	\$155,500	\$149,000	\$232,500	\$280,500	\$339,000	\$249,000	\$286,750
Area Median*	\$163,950	\$183,500	\$209,500	\$225,000	\$289,900	\$262,500	\$272,686
Central Valley**						\$215,000	\$194,000

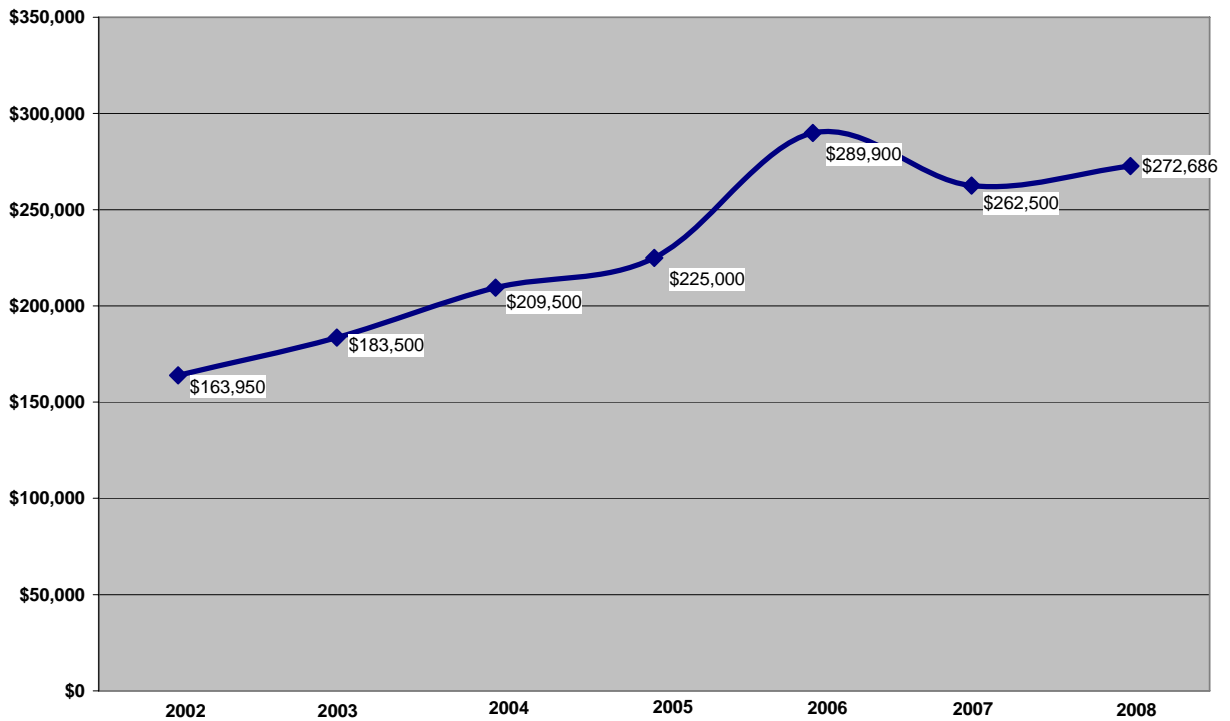
*includes sales outside the counties listed

**numbers courtesy of the Greater Augusta MLS (note: these are average prices, not median)

2007-2008 Median Sales Price



Median Sales Price (Entire Area)



Inventory of Homes for Sale

Simply put, there are too many homes on the market right now. This surplus of inventory should keep prices low as sellers are forced to offer “good deals” in a very competitive marketplace. There is a direct, inverse relationship between inventory and prices. The more homes we have on the market, the more pressure there is on sellers to keep prices down. For this reason, we do not expect home prices in the area to increase in the near future.

Currently, we have 3,673 homes on the market, compared to 3,100 at this time last year. The median price of these homes for sale is \$319,000. The average DOM (days on market) of these homes is 147 days. It is a great time for first-time buyers, because there are 663 homes for sale under \$200,000 with an average DOM of 130. There are 576 homes currently on the market priced at a million dollars or more, with an average DOM of 200.

Days on Market (DOM)

DOM for homes that have sold is perhaps the best indicator of the true market condition. In a balanced market, the DOM should be around 90 days. In 2005, the market was a super-heated sellers’ market due to low inventory, and DOM dropped to 43 (see chart below). That was an unhealthy market (although a lot of sellers enjoyed the ride). The first quarter of 2008 shows a DOM of 114, which is reflective of the high inventory we now have. We continue to be in a fairly strong buyer’s market, so sellers will need to price their properties aggressively to beat the average DOM.

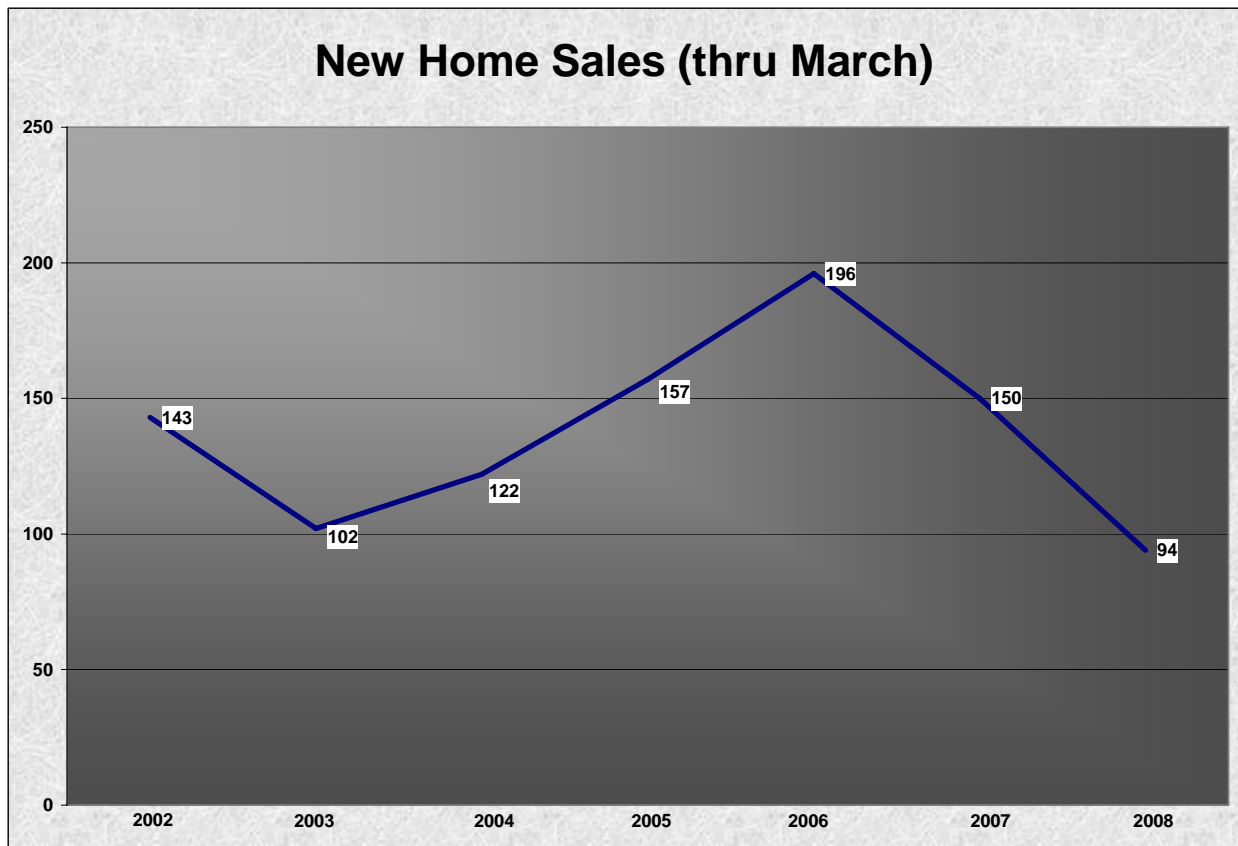
DOM for Homes Sold – First Quarter							
County	2002	2003	2004	2005	2006	2007	2008
Albemarle	43	38	57	25	38	92	114
Charlottesville	41	29	36	46	32	49	122
Fluvanna	61	53	63	50	71	80	107
Greene	70	50	93	47	57	83	83
Louisa	74	107	75	94	70	103	118
Nelson	61	62	69	40	70	73	159
Area Median*	53	49	60	43	53	80	114
Central Valley**						126	157

**includes sales outside the counties listed*

***numbers courtesy of the Greater Augusta MLS*

New Construction

It is important to note that many “new” homes are not included in CAAR MLS statistics. It is very common for a buyer to contact a builder directly to custom build a home. With that said, the historical perspective of the pace of new home sales gives us a reasonably good picture of the market for new construction. As the chart below shows, new home sales have declined sharply in the past 24 months.



Price Per Square Foot (Finished)

Looking at the average price per square foot of finished space in homes that have sold is interesting, but should not be relied on as a scientific number. The averages in this section of the report include the cost of the land, which varies greatly based on location and amenities. A lot at Wintergreen with fantastic views of the valley costs much more than a lot in other parts of Nelson. With that said, the numbers in this section reflect a general sense of the cost of housing in the areas listed. The new Central Valley area is the lowest price per square foot section of the market. Not surprisingly, Fluvanna, Greene and Louisa are well behind Charlottesville and Albemarle. Nelson, as mentioned, is heavily influenced by Wintergreen building prices and lot cost.

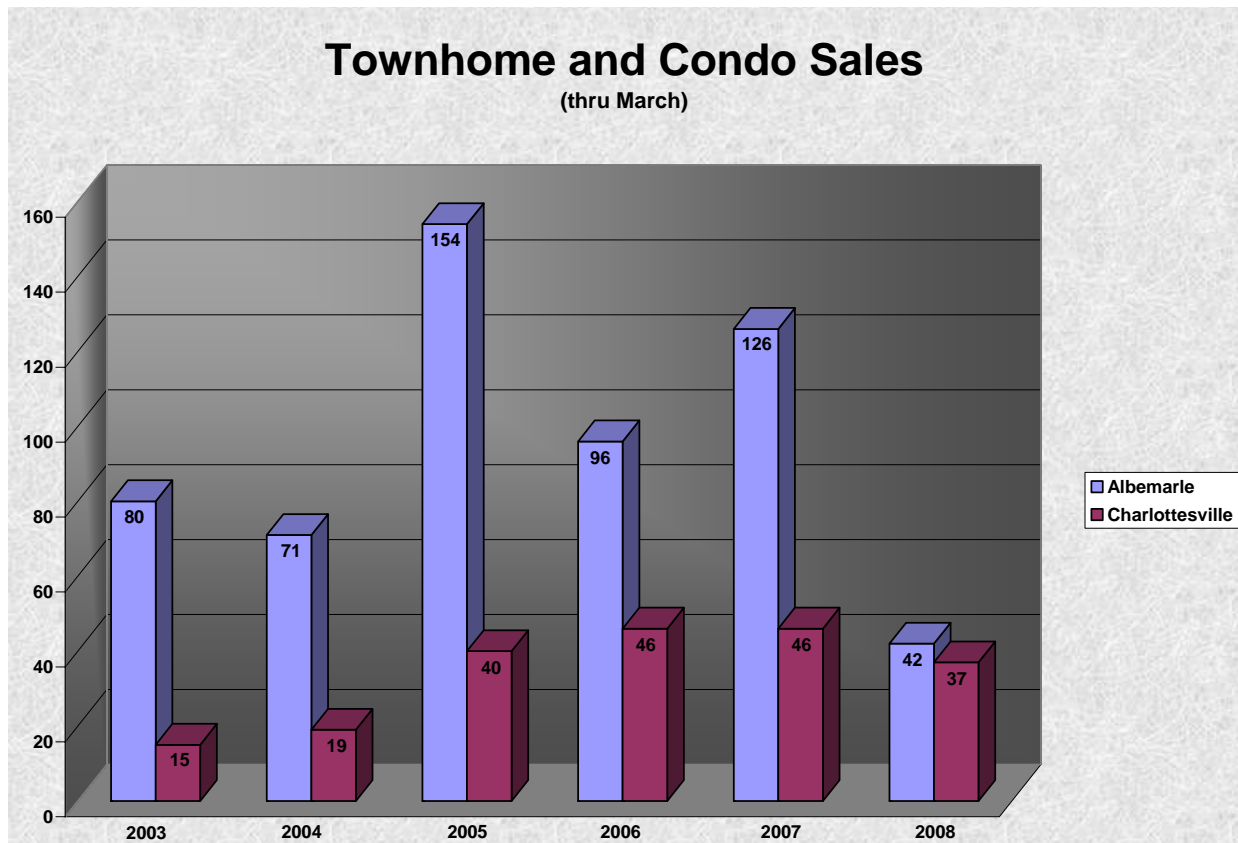
Price Pre Sq. Ft. – First Quarter							
County	2002	2003	2004	2005	2006	2007	2008
Albemarle	117	124	140	155	173	174	177
Charlottesville	104	117	139	172	186	186	194
Fluvanna	85	99	100	121	141	135	137
Greene	97	97	115	133	148	157	146
Louisa	83	108	106	122	147	142	149
Nelson	115	129	155	193	232	206	199
Area Average*	106	119	131	150	169	166	165
Central Valley**						131	121

*includes sales outside the counties listed

**based on CAAR MLS data

Condos and Townhomes

The explosion of condominiums and townhomes in 2005 and 2006 appears to be over. Charlottesville condo sales are still reasonably strong, but Albemarle sales plummeted 66% compared to the first quarter of 2007. The chart below shows the attached homes sold in the first quarter of 2008 compared to past years. Inventory levels of attached homes for sale are still high, with 509 listed for sale in Charlottesville and Albemarle. This over-supply is presented in the 146 average DOM for the attached properties currently on the market. The median price of an attached home is \$239,900, which is much lower than the \$435,000 for detached homes on the market.



Conclusions and Predictions

There is only one conclusion to draw from the numbers in this report – it is a GREAT time to be a buyer. If you are looking to move or invest and plan to hold the property at least 3 to 5 years, this market offers an extraordinary opportunity. If you are a seller – especially one whose property has been for sale for several months - it is time to face reality. If you want to sell in this type of market, you need to offer a better combination of location, amenities, and pricing than the 500 other sellers with whom you are competing for buyers. Since location and amenities are difficult to change, price is the main item you can control. Just remember, you may have to sell low, but you will also be able to buy low.

Looking ahead, I expect to see similar market conditions for the balance of the year – at least. These market cycles typically last 18 to 24 months, and this cycle started in late 2006. If Wall Street continues to struggle, long-term investment money will move back to real estate as the investors smell the good deals that abound. With the Spring Market upon us, we can cross our fingers and hope that sellers *get real*, buyers *get deals*, and the over-supply of homes for sale shrinks. That sounds like a recipe we could all enjoy.

For more information on this report or the real estate market, visit www.caar.com or contact Dave Phillips, CEO of the Charlottesville Area Association of REALTORS[®], at (434) 817-2393, or 981-8088, or Dave@caar.com.