Regional Housing Markets

REGIONAL HOUSING MARKETS ADJUST TO CHANGING CIRCUMSTANCES

After several years of what one real estate professional called “a red-hot housing market,” things have cooled off in Hampton Roads. Sales are down, the inventory of unsold homes is up and sales prices are stagnant or declining. New residential home sales have suffered in particular. Where do we stand now and what does the future hold for residential housing markets in our region? The answers to these questions are the focus of this chapter.

The most reliable primary data about regional housing markets are generated by the Real Estate Information Network Inc. REIN is an independent Multiple Listing Service (MLS) owned by broker and stockholder members in Hampton Roads. Hence, it does not include all residential housing activity, but does include most.

REIN data for Southeast Virginia cover Hampton Roads plus Accomack County, Emporia, Franklin, Greensville County, Middlesex County, Northampton County, Southampton County, Smithfield, Sussex and some adjoining areas of North Carolina. However, residential sales for these areas outside the U.S. government’s formal definition of Hampton Roads have accounted for less than 4 percent of all REIN regional sales since 2002.

Also, note that REIN data for Gloucester County, James City County, Mathews and Williamsburg represent REIN member listings only and therefore may not represent total market activity in these four areas. Further, the increasing use of the Internet to transact real estate business means that REIN data miss some transactions. Having made the reader aware of these caveats, we will nevertheless use REIN data to discuss housing markets in Hampton Roads. We believe these data, though subject to some qualifications, are representative of what has been occurring in housing markets in the region and therefore are capable of providing us with an accurate picture of major trends.

We will focus on the past eight years (2000 through 2007) and provide some data for 2008. The term “residential home” as we use it here includes both detached and attached homes, and unless otherwise stated, condominiums are included in residential homes.

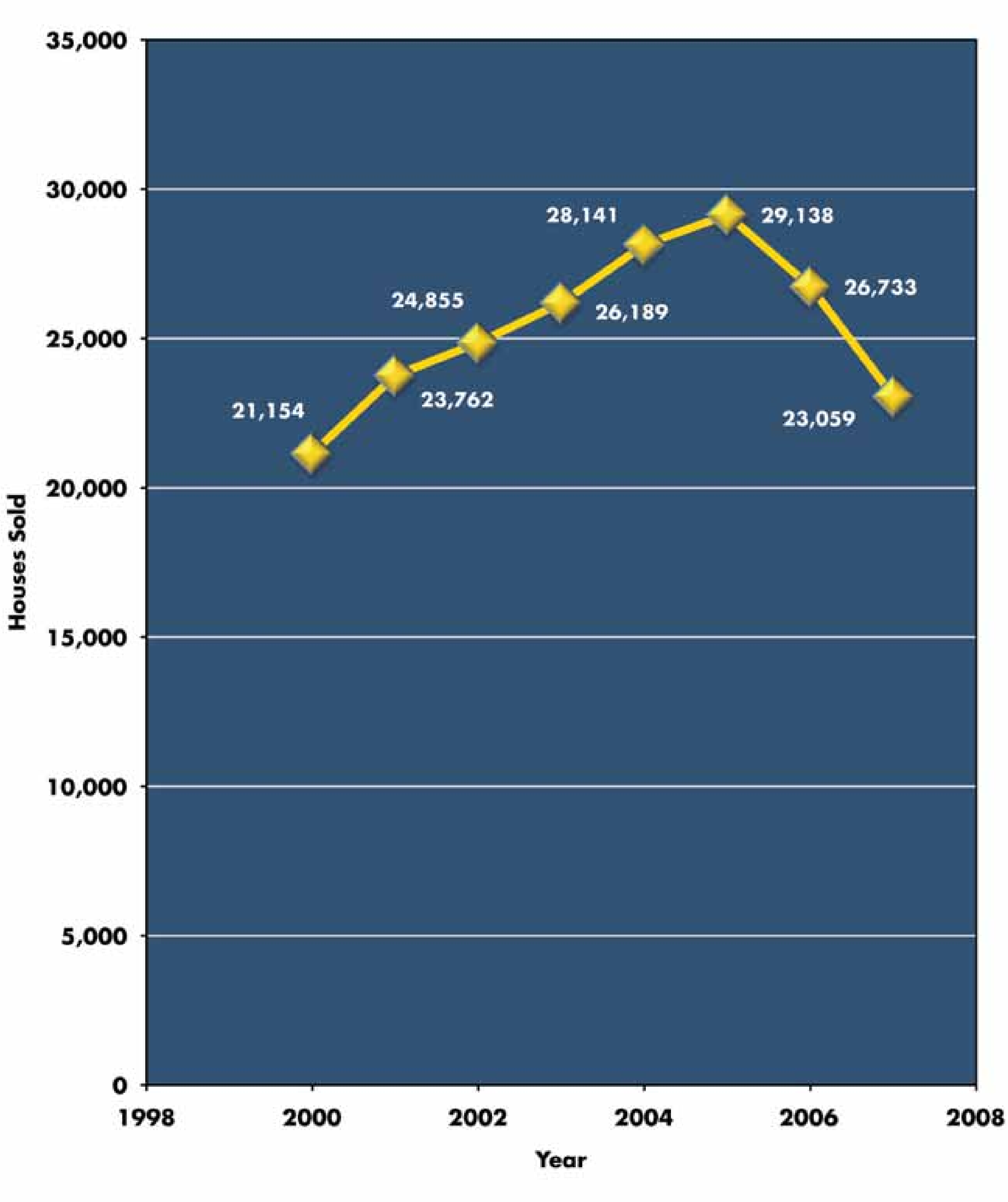
Housing Sales and Inventories of Unsold Homes

Graph 1 illustrates that the number of single-family homes sold in Hampton Roads increased steadily each year from 2000 to 2005, began to decrease after 2005, and declined by almost 21 percent in 2007 from the peak observed in 2005. This decline has continued into 2008; actual sales are down about 20 percent relative to 2007.

Graph 2 reports the inventory of all unsold homes (both new construction and existing, resale homes) as of April 30 for each year since 2000. The inventory of unsold homes reached its low point in 2004, but currently is at its highest level since 2000. The supply of homes on the market in 2008 is five times the level of 2004. The years 2003 through 2005 were a classic “seller’s market,” whereas 2007 and 2008 have been a “buyer’s market.” While some did not notice, residential housing markets in Hampton Roads began to soften at the end of 2005.

GRAPH 1

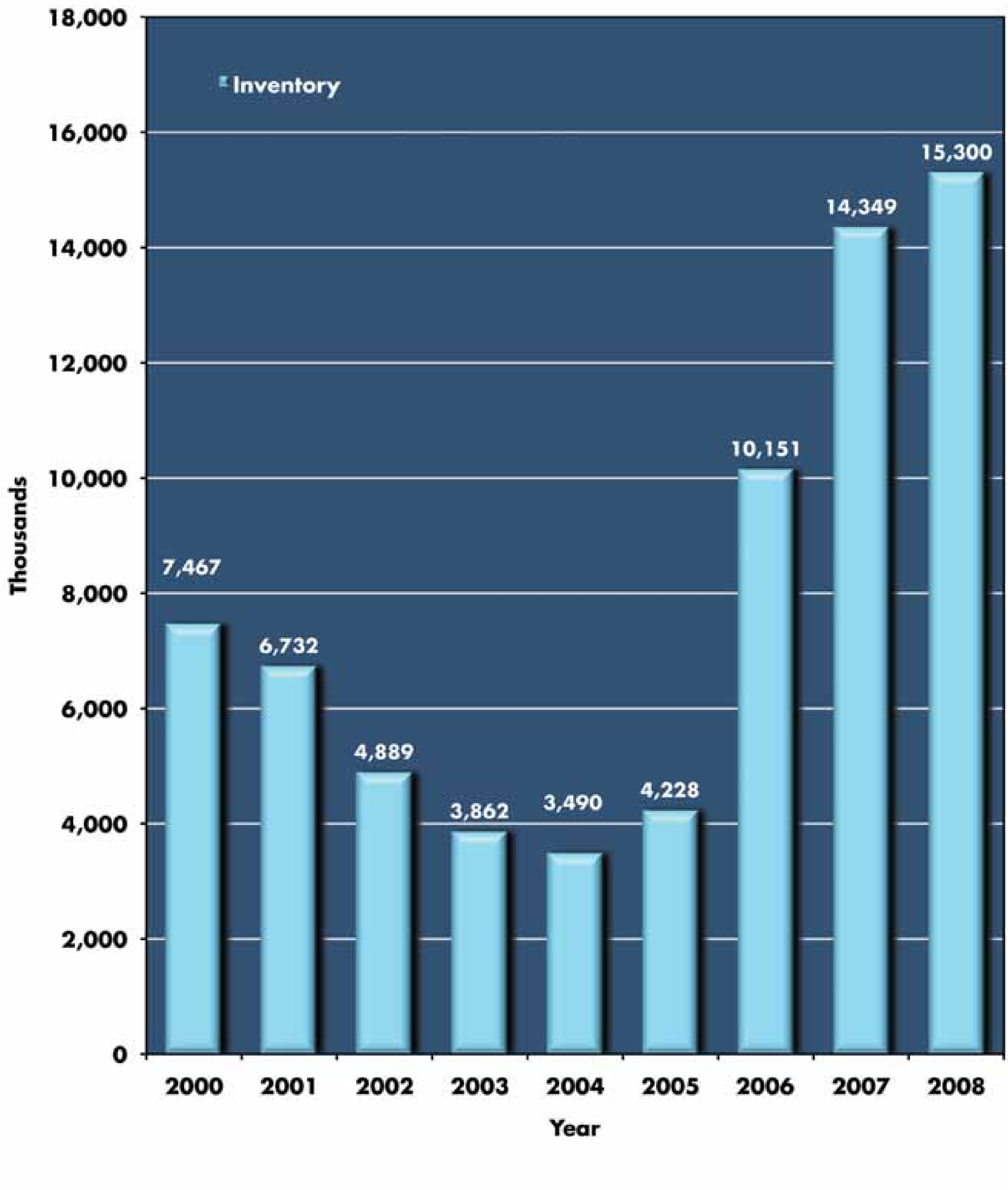
ALL RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, 2000-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project

GRAPH 2

INVENTORY OF ALL UNSOLD RESIDENTIAL HOMES IN HAMPTON ROADS, JUNE 30 OF EACH YEAR, 2000-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project

Residential Housing Sales Prices

Residential housing prices in the United States have fallen significantly over the past year. The Wall Street Journal (June 24, 2008) reported that housing prices in the 20 largest U.S. metropolitan areas were down 15 percent from their peak in 2006. An additional 10 percent decline is forecasted before residential housing prices bottom out.

Things in Hampton Roads have been different, though this is a matter of degree. Housing prices have not cratered in our region and the prices of existing homes in particular have resisted declines. Home sales are down substantially, but Hampton Roads has not seen the miseries that have afflicted California, Florida and Michigan. As we saw in the previous chapter, the delinquency and foreclosure rates on mortgages in Hampton Roads have risen, but certainly do not stand out nationally. Why? The major reason is regional builders and developers were much more cautious during our recent housing expansion than they were in a somewhat comparable expansionary time period in the 1980s. As a consequence, our housing markets in Hampton Roads now are not burdened by the excessive unsold inventory of homes that so deepened the pain of the 1980s housing problems.

Table 1 shows the median (50th percentile) sales price of homes sold in Hampton Roads from 2000 to 2007. The median price increased steadily from $122,000 in 2001 to $238,000 in 2007. Indeed, between 2002 and 2006, the median sales price increased at least 10 percent every year. The result? Between 2002 and 2006, the median sales price increased by an unprecedented 77.2 percent. However, it is no secret that these days have come to an end. The median sales price of homes sold in Hampton Roads increased by only 3.8 percent in 2007 and there are signs of gentle declines in home sales prices in 2008.

TABLE 1
MEDIAN SALES PRICE OF ALL RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, 2000-2007

Year	Median Price	Percent Change Year to Year
2000	$114,000	
2001	$122,000	7.0%
2002	$130,000	6.6%
2003	$145,000	11.2%
2004	$172,500	20.4%
2005	$210,000	22.7%
2006	$230,400	11.9%
2007	$238,000	3.8%
2002-06		77.2%

Sources: Real Estate Information Network and the Old Dominion University Economic Forecasting Project

A note of caution is merited before we provide additional price data. The REIN sales prices we rely upon are accurate general measures of what is going on in Hampton Roads housing markets. Nevertheless, the prices are not necessarily "real" prices in an economic context because seller concessions may reduce the realistic price actually paid by homebuyers. Some seller concessions are small and involve the seller providing a perk such as a no-charge granite countertop upgrade. Other concessions are more substantial and include payment by the seller of a buyer's mortgage for months or even a year, or payment by the seller of any mortgage "points," etc.

Why don't sellers simply lower their prices instead of making such concessions? There are two major reasons. First, a publicized lower home sales price may drag down future sales prices. Second, real estate agents' commissions usually are tied to sales prices. Therefore, many sellers prefer concessions to the reduction of recorded sales prices. Several builders and developers suggested to us that the average size of seller concessions approached 4 percent of recorded sales price in some market segments in Hampton Roads in summer 2008. The bottom line is that recorded sales prices in 2008 and 2009 may exaggerate the "real" price being paid by buyers.

Notable differences exist between the markets for new versus *existing* (resale) homes in Hampton Roads. In general, the market for new homes has deteriorated much more than the market for existing, resale homes. Graphs 3 and 4 illustrate this.

Graph 3 reveals that the median price of existing residential homes increased from $116,900 in 2002 to $223,000 in 2007, or 90.8 percent. The horizontal orange line shows the price distributions at the 50th percentile, the median value. The vertical line in Graph 3 reflects home sales of $600,000 or more. Only 4 percent of existing homes sold at prices higher than $600,000.

Continuing to focus on Graph 3, we can see the price distribution curves shifted to the right each year. This shift occurred at every price level, meaning that sales prices rose for homes in every price range. However, growth began to slow in 2006 and between 2006 and 2007, the median price increased by only 3.8 percent.

Most of the modest 3.8 percent price increase in 2007 was derived from homes that sold for $225,000, or less. These homes accounted for 52 percent of all sales. At the other (high) end of the market, there also were some small price increases among homes that sold for more than $600,000. Even so, as we have seen, these homes accounted for only 4 percent of sales. **This tells us that the prices of existing homes between $225,000 and $600,000 either were flat, or falling. These homes accounted for 44 percent of all sales.**

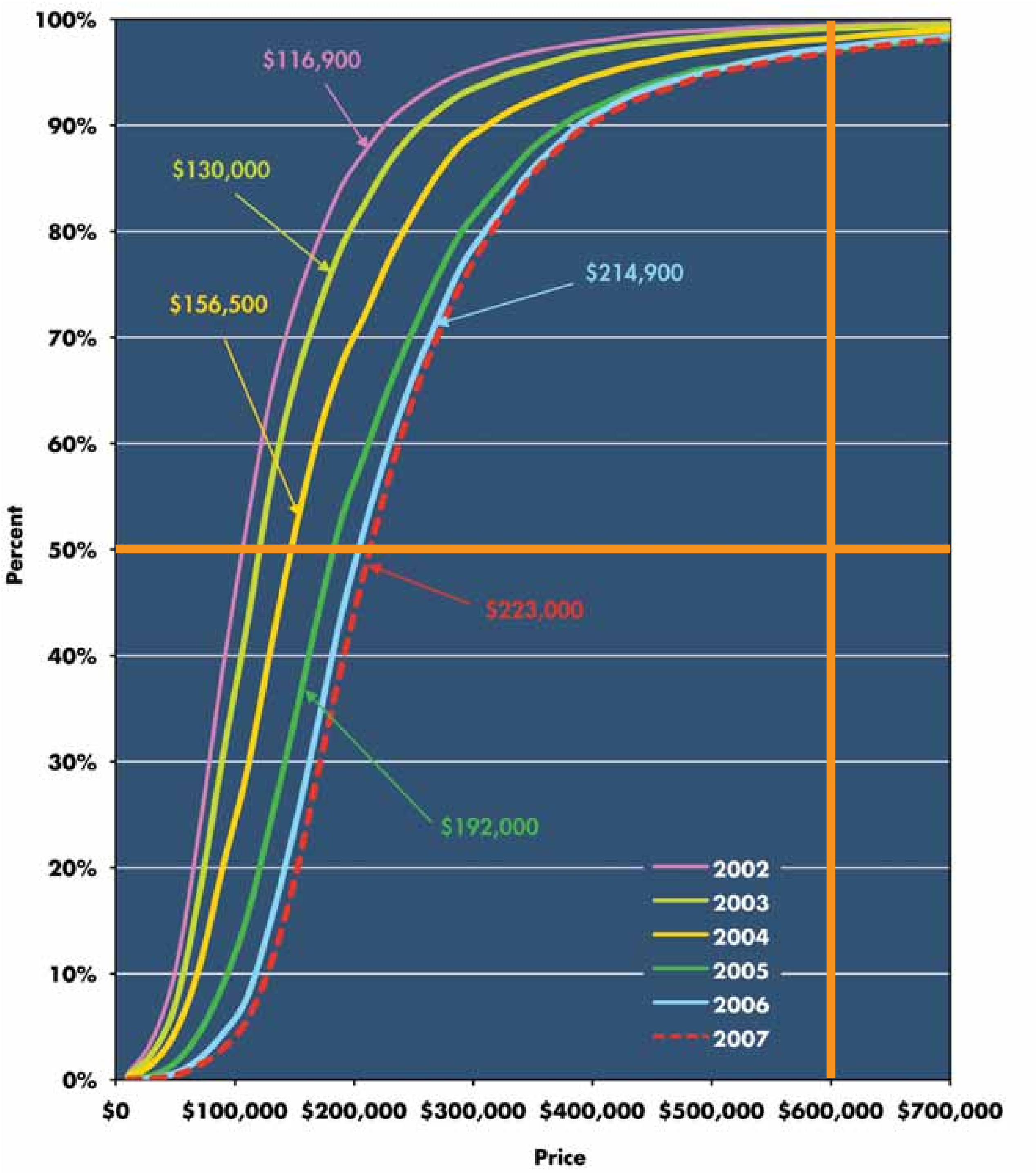
Let's now examine Graph 4, which reports the sales prices of *new* homes. New home sales constitute only 17 percent of all residential home sales. About 90 percent of all new homes were sold for less than $600,000. Nevertheless, the median price of new construction residential homes increased from $186,756 in 2002 to $335,215 in 2007, or 79.6 percent.

Things were already changing, however. **The median sales price for new homes actually decreased from $349,945 in 2006 to $335,215 in 2007, or 4.2 percent. New home sales prices declined in virtually all price ranges, the single exception being new homes selling for more than $600,000.** This, however, is a small sliver of the total market.

These data enable us to point out two significant characteristics of new home markets. First, the average sales price of a new home is about 60 percent higher than the average sales price of an existing home. New homes usually are larger in size than existing homes and frequently incorporate more expensive options than older homes. This pushes up their prices. Second, changes in housing market conditions are reflected most rapidly in the new home market. The supply of existing homes changes rather slowly; relatively few homes are demolished in a given year. The number of new homes constructed, however, is quite sensitive to market conditions and can be altered quickly. Construction even can be halted on new homes in progress. This causes the market for new homes to be more volatile than the market for existing homes, and price changes consequently are larger.

GRAPH 3

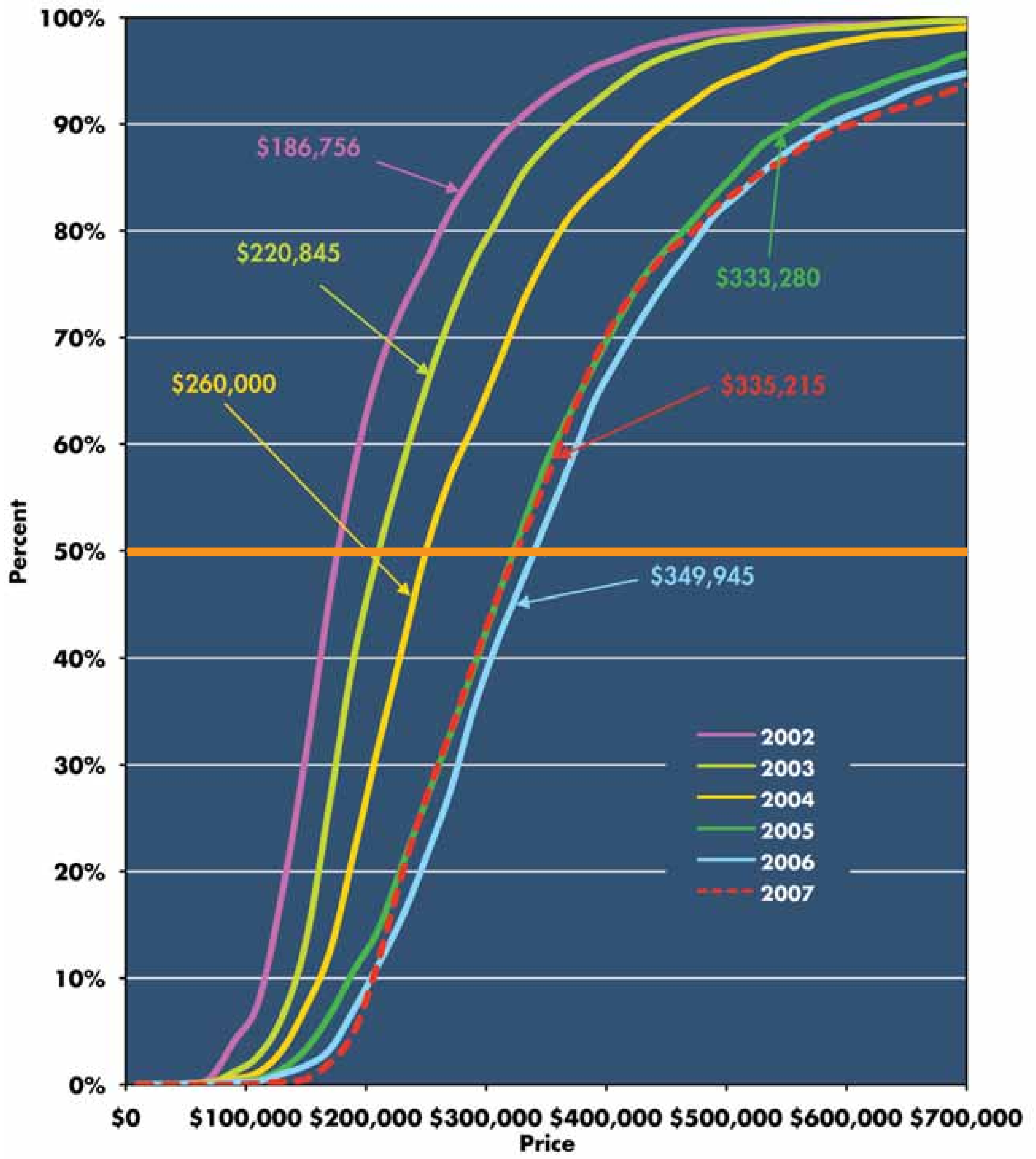
CUMULATIVE PRICE DISTRIBUTION OF EXISTING RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, 2002-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project

GRAPH 4

CUMULATIVE PRICE DISTRIBUTION OF NEW CONSTRUCTION RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, 2002-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Figures reported here represent *only* those properties that are listed through REIN by REIN members and may not represent all new construction activity in our region.

The Supply Side of the Market

EXISTING HOMES

Graph 5 concentrates on *existing* residential home sales, but also reports the average number of days existing homes stayed on the market. Existing home sales reached their peak in 2005 and have declined since then. Existing home sales declined from 24,759 in 2005 to 22,407 in 2006, or 8.3 percent. Sales declined by another 13.7 percent in 2007 and are on target for a 22 percent drop in 2008. While this is not good news, it is small potatoes compared to the massive housing problems confronting states such as California, Florida and Michigan.

In 2004 and 2005, sellers usually were able to sell their homes in less than a month. Since then, the market for existing homes has become softer; it took an average of 47 days to sell a home in 2006 and 65 days in 2007. We estimate that this will rise to 85 days for 2008.

NEW HOMES

The best single measure of the anticipated supply of new homes coming on the market is the number of single, one-unit building permits. A permit must be obtained before building can begin. Graph 6 reports the number of building permits issued for the construction of single-family homes in Hampton Roads between 2000 and 2007. The number of new residential housing building permits peaked in 2003 and declined slightly in both 2004 and 2005. **Beginning in 2006, sharp declines occurred in the number of building permits issued – by slightly more than 20 percent in both 2006 and 2007. This trend did not change in 2008; the number of permits is on course to fall about 25 percent.**

Building permits usually lead to the construction of new homes, but not always. Construction of homes usually leads to sales, but not always. Table 2 focuses upon the number of *new* construction residential homes actually sold in Hampton Roads between 2000 and 2007. **It is clear from this table that sales of new homes have been declining slightly each year since 2003 and that sales declined another 10 percent in 2007. Builders and developers clearly began to adjust to new market conditions as early as 2003. They have exhibited a degree of caution in the past few years that often was absent in the 1980s.**

TABLE 2
NUMBER OF NEW CONSTRUCTION RESIDENTIAL HOMES SOLD IN HAMPTON ROADS, 2000-2007

Year	Number Sold	Percent Change Year to Year
2000	4,095	
2001	4,836	18.1%
2002	4,983	3.0%
2003	4,766	-4.4%
2004	4,587	-3.8%
2005	4,379	-4.5%
2006	4,326	-1.2%
2007	3,907	-9.7%

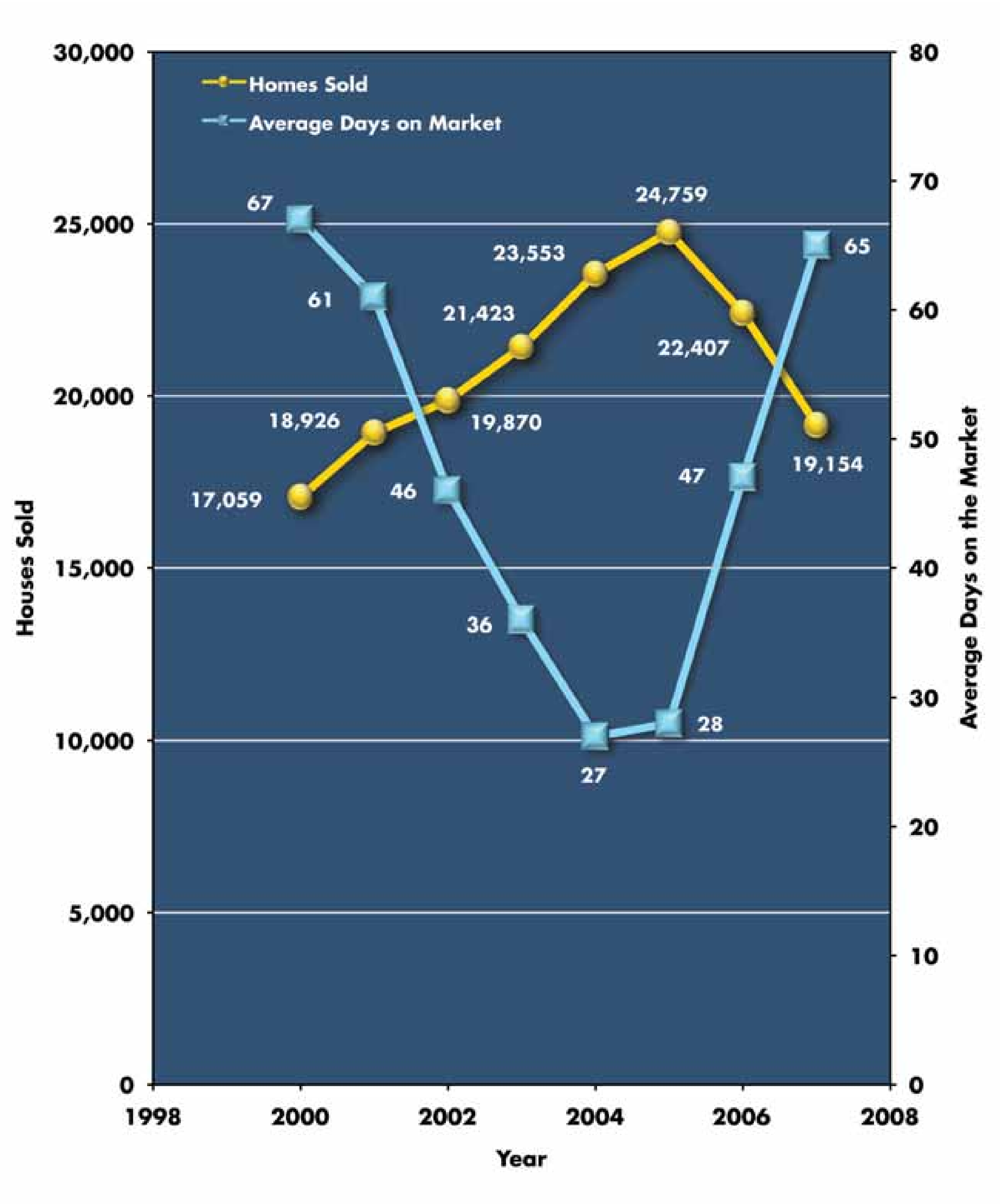
Sources: Real Estate Information Network and the Old Dominion University Economic Forecasting Project. Figures reported here represent *only* those properties that are listed through REIN by REIN members and may not represent all new construction activity in our region.

It is no surprise that the decline in new housing permits has translated into falling sales for new homes in Hampton Roads. Sales began to fall in 2003 and that trend continued in 2007. Further, the sales decline for new homes has spanned all price ranges, though as we have already seen, price declines have been smaller or absent for lower-priced new homes.

The number of days a house stays on the market before it is sold is an important piece of information for existing homes, but is less meaningful for newly constructed homes. The primary reason is that builders and developers often begin a large project by constructing a small number of homes that they subsequently use as models. Thereafter, they sell lots to prospective home builders / owners in that project or development. If the owner of the lot is an individual rather than a builder or developer, then when the construction of a new home on that lot is completed, that home nearly always is occupied immediately and the number of days on the market for that home is zero. This means that the statistic "number of days on market" often provides deceptive feedback about what really is going on in the market for new homes.

GRAPH 5

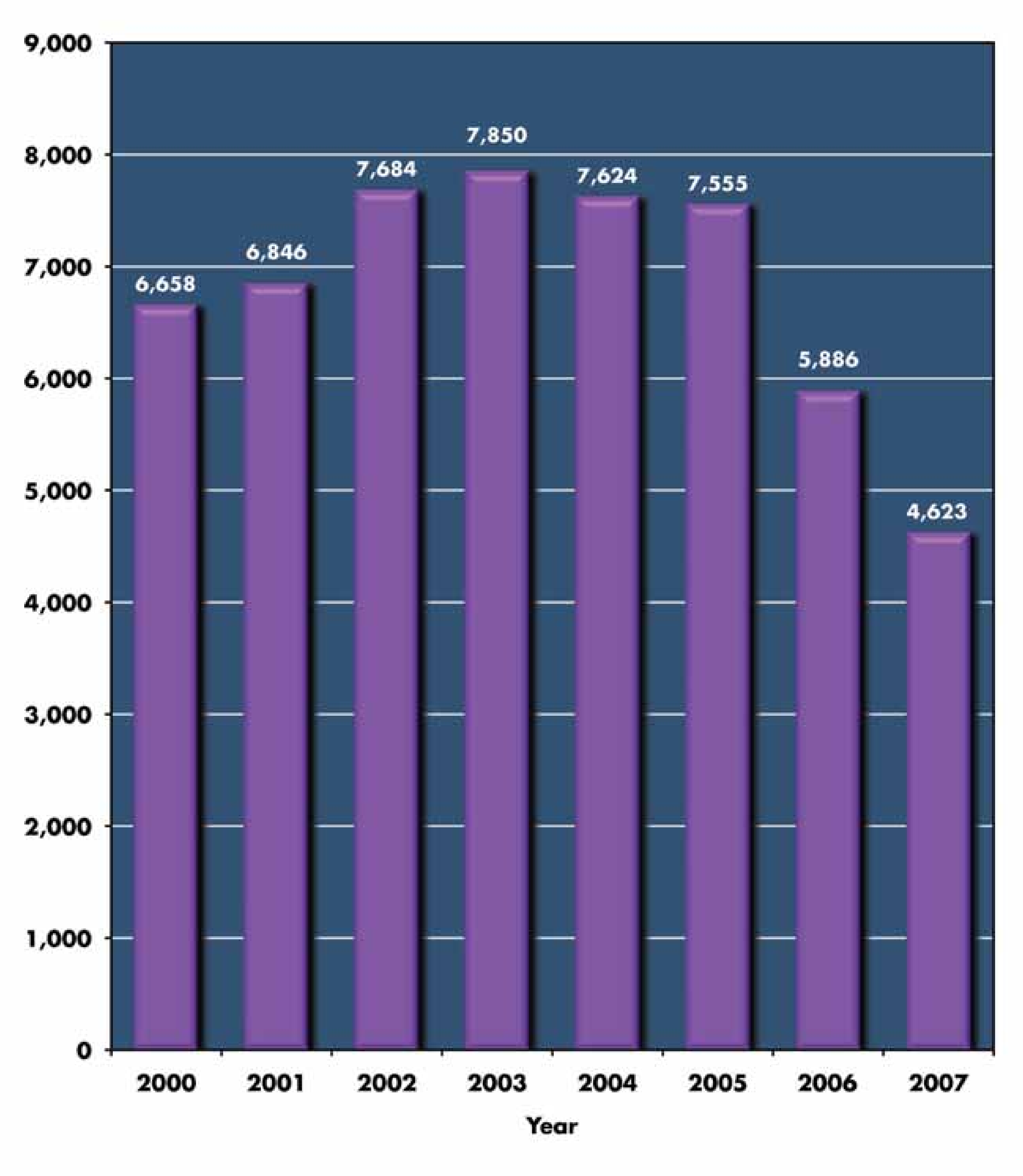
EXISTING HOME SALES AND AVERAGE NUMBER OF DAYS ON THE MARKET, HAMPTON ROADS, 2000-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Days on market is calculated from the date listed to the date under contract for existing homes sold.

GRAPH 6

BUILDING PERMITS FOR SINGLE-FAMILY RESIDENTIAL HOMES, HAMPTON ROADS, 2002-2007



Sources: U.S. Census Bureau and the Old Dominion University Economic Forecasting Project

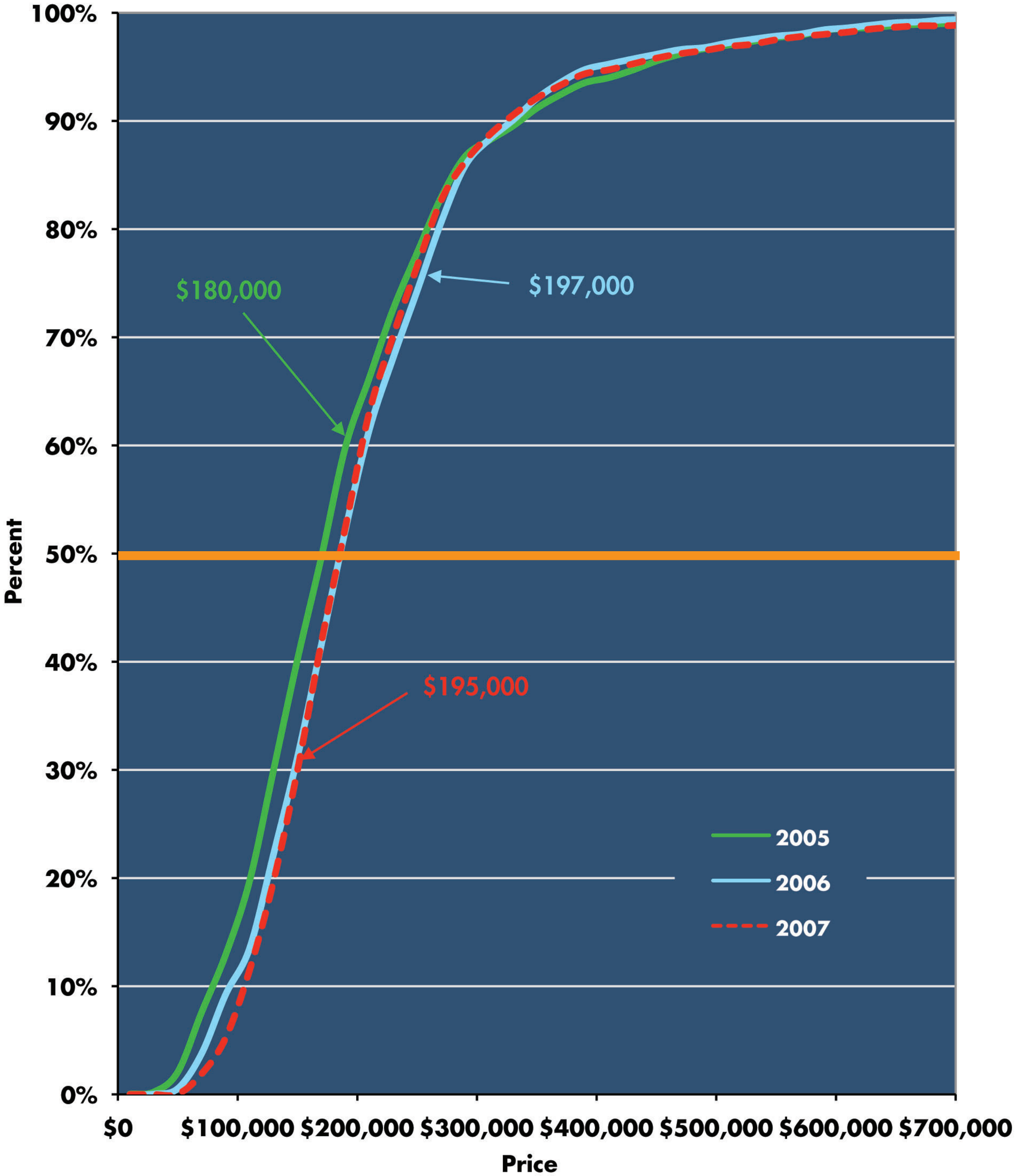
CONDOMINIUMS

Condominiums constitute very distinctive segments of both the existing and new home markets. Condos are considered an "ownership type" according to the Code of Virginia; their styles range from single-family homes to town homes to high-rise apartment condos.

Graphs 7 and 8 display sales prices from 2005 through 2007 for both existing and new construction condominiums, respectively. Median sales prices for new construction condos have been about 50 percent higher than those observed for existing condos, a price pattern very similar to that of residential homes. Regardless, **the median sales price of existing condos decreased by 1 percent in 2007. The median sales price of new condos decreased at a faster pace, 5.2 percent. Given that substantial new condominium inventory is under construction in several different parts of Hampton Roads, the outlook for sellers is not a happy one. But, there are two sides to this coin. If you are a buyer, then there should be some attractive deals to be had in regional condominium markets in 2009.**

GRAPH 7

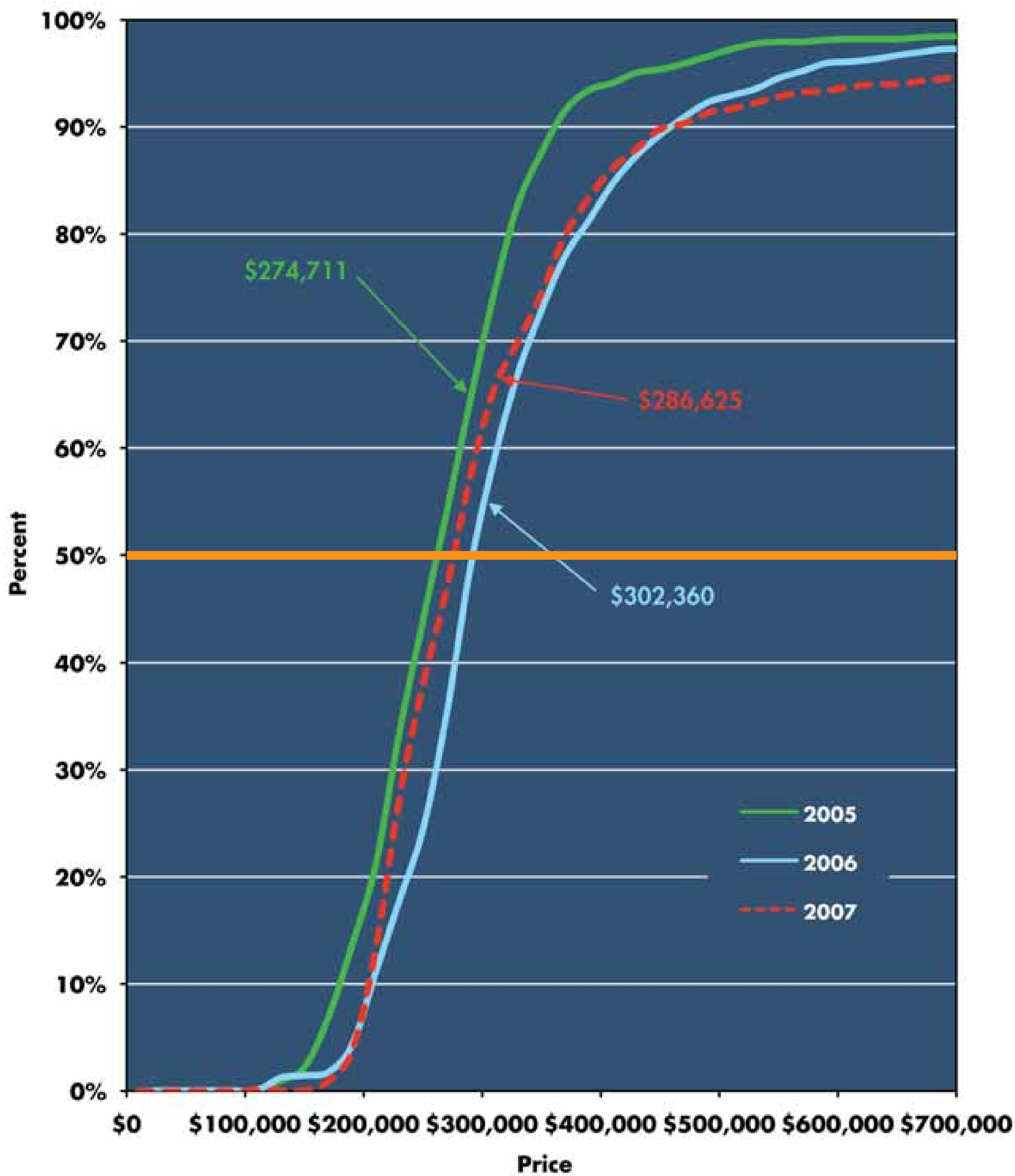
CUMULATIVE PRICE DISTRIBUTION OF EXISTING RESIDENTIAL CONDOMINIUMS SOLD, HAMPTON ROADS, 2005-2007



Sources: Real Estate Information Network Inc. and the Old Dominion University Economic Forecasting Project. Condos are classified as such if they fall under the Virginia Condominium Act, which requires a separate disclosure at time of contract. Condos may be detached as well as attached.

GRAPH 8

CUMULATIVE PRICE DISTRIBUTION OF NEW CONSTRUCTION RESIDENTIAL CONDOMINIUMS SOLD, HAMPTON ROADS, 2005-2007



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Summary Comments

It does not take a rocket scientist to conclude that in an overall sense, housing markets in Hampton Roads are soft. If housing markets here mirror what is going on nationally, then housing sales should begin to perk up in the latter half of 2009. We believe that selected housing prices (for example, new homes and condominiums) will continue to decline over the next year in our region. **However, while overall housing sales prices nationally may decline as much as 25 percent from their peaks (and more in some localities), we see much more modest declines here in Hampton Roads.**

To place our region in context, the National Association of Realtors (NAR) reported that the median price of existing homes nationally declined by 7.7 percent during the first quarter of 2008. However, the median price declined by 13.1 percent in the Washington, D.C., metropolitan area. By contrast, NAR data for Hampton Roads actually showed a 1.6 percent increase in the median sales price. Obviously, we're doing much better than the nation.

How long will it take to "clear the housing market" in Hampton Roads? That is, at current monthly sales rates, how long would it take to sell all of the homes on the market? There were 14,967 homes for sale on April 30, 2008, in our region and, on average, 1,456 homes per month were sold during the first four months of 2008. This translates into 10.3 months of supply. At the peak of the housing market madness in 2003-04, only 1.5 months of supply existed. A supply of four months to six months of unsold houses is deemed normal, though "normal" is seldom attained.

We again must note that the REIN prices discussed here do not reflect any concessions sellers of existing homes or builders provide to home buyers in the form of closing costs and other incentives. We simply do not have any data on concessions, which for the reasons discussed above, are not widely publicized. Still, we can safely say that seller concessions either were very small, or were nonexistent between 2003 and 2005. Since then, concessions have become much more significant.

Finally, though we may be accused of carrying coals to Newcastle, we observe that years from now, 2008 (and probably 2009) will never be considered "great" years, economically speaking. These years may, however, be remembered in Hampton Roads as the time when we encountered our first significant housing market retrenchment since the 1980s. **Our current housing problems thus far are less daunting than those of the 1980s, though it is important to understand that what happens to housing in Hampton Roads largely depends upon national and international events.**

Alas, we do not control national and international events. Hence, even though at this writing it appears that the American economy is working its way through its housing crisis, were that predicament to worsen, we would feel it here in Hampton Roads. Our advice, therefore, is that you keep your eye on national and international economic developments. What happens externally will soon ripple into Hampton Roads. **Nevertheless, at this juncture, there is solid reason to believe that we will have seen the worst of our housing problems by the second half of 2009, when we expect sales again to rise and prices to move upward in most, if not all, market segments.**