



The Nest Report

3rd Quarter, 2009

A comprehensive and transparent analysis of the residential real estate market in Charlottesville, Albemarle, and surrounding counties, prepared quarterly by Nest Realty Group.

The Bottom? or Just a Pause?

Summary

By all accounts 2009 has been a miserable year in real estate. Prices are down in nearly every sector. Looking back to 2000, there has been only one twelve month period with fewer closed transactions - the period ending just 90 days ago. Days on market remains high. Short Sales continue to plague our market. The only demand for new construction one can say is pent-up is the demand from builders to get back to work. And yet...

The third quarter numbers show positive signs almost everywhere we look. In both Albemarle and the City of Charlottesville, days on market is down. The actual number of detached home sales in the 3rd quarter increased 20.0% from Q2 to Q3 across the entire EMSA- the strongest growth in more than a decade for a third quarter. Contrast this with 2006 and 2007 when actual closed transactions were off by 20.6% and 25.3% between 2nd and 3rd Quarters. Prices have dropped, and while this may not seem positive in the eyes of individuals currently seeking to sell their home, it is an indication that the market corrections are occurring, and that they are having the appropriate and needed impact.

In short, we will not know when the Charlottesville market has hit the bottom until we have the benefit of twelve to eighteen months of hindsight. As it stands, we believe that the market is making appropriate adjustments to price and sales levels. We anticipate growth in sales volume to perhaps slow for the 4th quarter and then pick up for the nine months that follow. However, we do not see home prices flattening or rising until the third or fourth quarter of next year.

The Broad Market

Across the greater Charlottesville area (including the counties of Albemarle, Fluvanna, Greene, Louisa, and Nelson), the figures for the 3rd quarter look rather positive. Average prices are down roughly 5%, but Days on Market have remained flat and the actual number of closed sales has picked up from 2008. The number of sales of 541 is up 20.0% from 451 sales in the prior quarter.

Rarely do we put much weight in quarter-over-quarter changes in sales volume. We look instead to year-over-year changes in sales levels. The reason is that the historic trends of seasonality provide such dramatic changes to the number of sales that a decrease from Q2 to Q3 is to be expected. A quick look at the graph of historic sales volumes on the following pages demonstrates this precisely. However, in 2009, the exact opposite has happened. The sales in the 3rd quarter dwarfed the historic seasonally high 2nd quarter. This is a huge shift that cannot be pushed aside.

EMSA* - 3rd Quarter Detached Home Sales

| | Average Sale Price (\$000) | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|----------------------------|-------------------|-----------------------|----------------|
| 2009 | 347.4 | 541 | 187.9 | 113 |
| Change | -8.1% | 2.9% | -5.5% | 0.0% |
| 2008 | 377.9 | 526 | 198.8 | 113 |



EMSA - Albemarle, Charlottesville, Fluvanna, Greene, Louisa, & Nelson

However, understanding this shift may not be so simple. Above, you see the 3rd quarter sales comparisons, but the graph below exposes the real weakness - a horrible 1st and 2nd quarter. Below are the

sales figures for the same geographic region, but for 2009 YTD against the same period last year. While Days on Market stayed relatively flat, the quantity and prices were down, resulting in a year that is 26% behind last year thus far in terms of gross volume. (So much for a good third quarter.)

EMSA* - YTD 3rd Quarter

| | Average Sale Price (\$000) | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|----------------------------|-------------------|-----------------------|----------------|
| 2009 | 361.3 | 1223 | 441.9 | 118 |
| Change | -9.8% | -18.0% | -26.0% | 0.9% |
| 2008 | 400.7 | 1491 | 597.4 | 117 |



EMSA - Albemarle, Charlottesville, Fluvanna, Greene, Louisa, & Nelson

Early this year, we projected price drops between 5 and 12% for 2009. We are currently running right on pace with our projections. Despite the fact that we saw volume pick up in the 3rd quarter, there is little expectation that prices will stabilize in the near future. What we are seeing is a reaction of buyers that prices are becoming reasonable once again, and - armed with \$8,000 tax credits - they are *willing* to buy, but are being selective in their purchases. Not all homes are being priced realistically, and the data support that. The homes that sold in the 3rd quarter have an average price per finished square foot of \$145. The homes actively on the market average \$201.

City of Charlottesville, Detached Homes

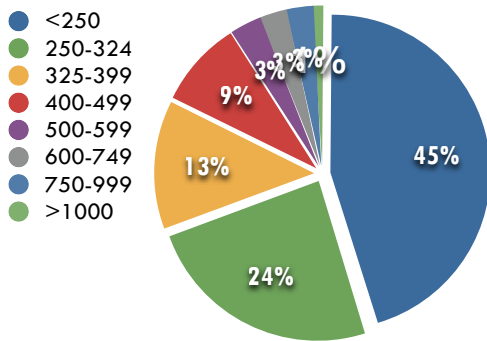
City of Charlottesville - 3rd Quarter Detached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|----------------|
| 2009 | 310.2 | 285.0 | \$177.34 | 97 | 30.1 | 86 |
| Change | -4.1% | -4.7% | -0.5% | -4.0% | -7.9% | -1.1% |
| 2008 | 323.4 | 299.0 | \$178.30 | 101 | 32.7 | 87 |



The city of Charlottesville had a very strong 3rd quarter considering the market around us. With prices only off a tad shy of 5% from year prior, those preparing to sell or currently on the market should find some comfort in these numbers. But again, the numbers are still down in terms of prices, numbers, and total volume. Days on market remained flat.

City Detached Home Sales by Price Category (\$000)
Jan 1, 2009 - Sept. 30, 2009



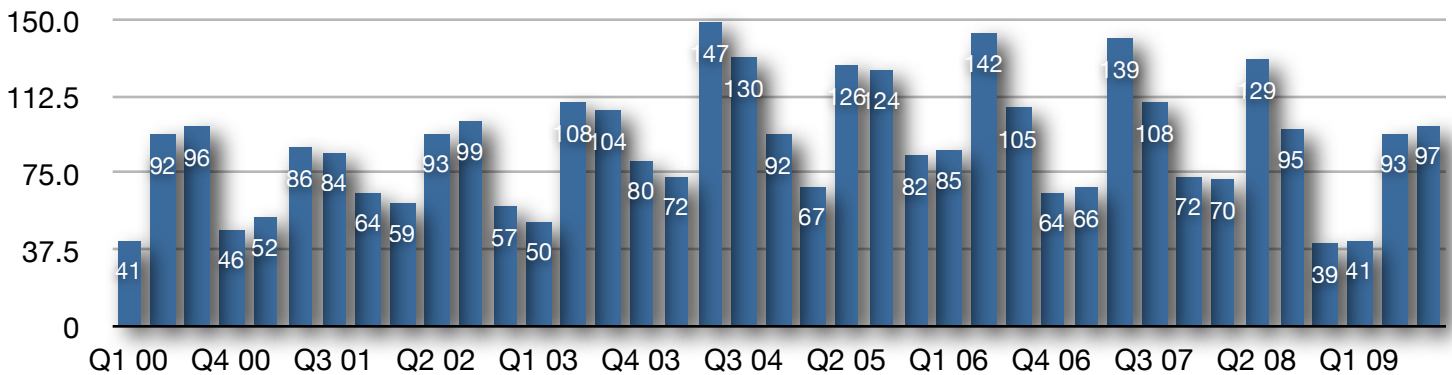
The pie chart to the left shows very clearly what has happened in the city this year. Year to Date, 69% of all transactions in the city were below \$325,000, and nearly two thirds of these transactions were below \$250,000. Less than 10% of the total transactions in the city have been above the half million mark so far. In 2008, I pointed out that one of the problems with the - then current - market was that the high end homes were selling, but not the low end. There was a disconnect between consumer demand and ability to obtain credit for entry level buyers. **This year, the opposite holds true.**

With \$8,000 tax credits, available mortgages, and low interest rates, entry level buyers have returned to the city market in droves. They have pushed our quarterly sales figures up and they have

helped to start the market from the right space: the entry level buyer. Without this critical piece, the market would not be able to move fluidly again.

This brings us to the following chart which shows the sales history going back to the beginning of 2000. The average over this nine year period is actually on 86.8 sales per quarter. With the exception of the last quarter of 2008 and the first quarter of this year, our numbers are right on par with where we would hope to see them.

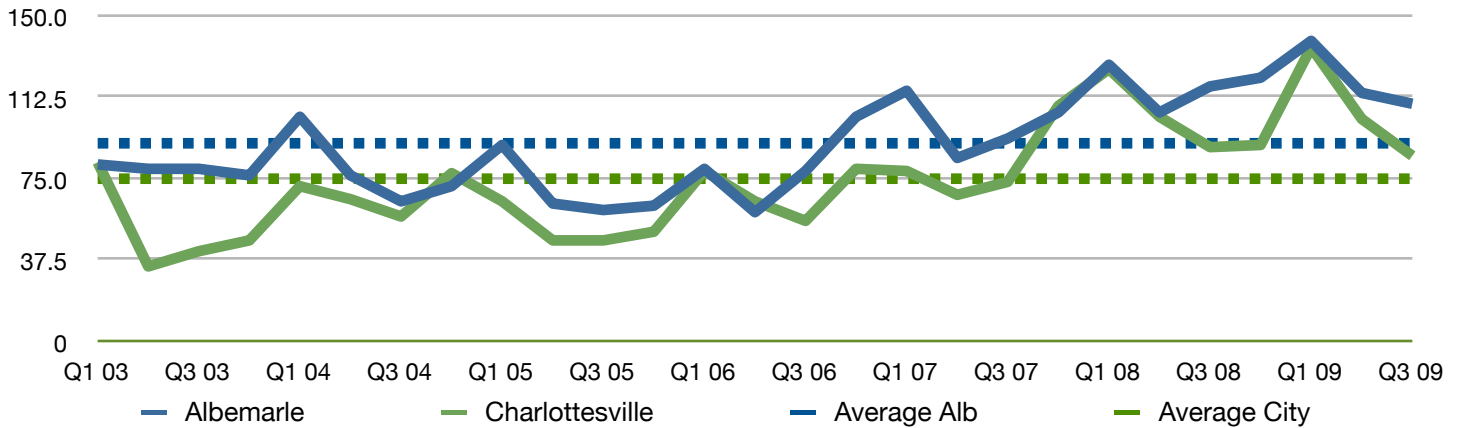
Number of Sales by Qtr - City of Charlottesville



Eyes have been focused on the Days on Market and the rise in these numbers since the market began slowing in the middle of 2006. Inventory began growing, and the time to market began increasing. The days on market appear to be going down, but we caution two things: DOM always goes down at this time of the year, and we are not confident that these numbers are all that accurate.

Agents have the ability to remove a listing from the MLS and re-enter that listing, in essence resetting the DOM to zero each time. Further, new construction that can be marketed for 9 months or more before the foundation is poured is considered to have zero days on market if it is sold before construction begins. This practice is becoming more and more common. Until we can fully process these differences / inaccuracies, we will continue to provide you with this information, but we do so with a note of caution. Therefore, we will continue to focus on trend lines and not specific numbers of days on market.

Days On Market



Albemarle County, Detached Homes

Albemarle County - 3rd Quarter Detached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|----------------|
| 2009 | 435.3 | 358.0 | \$158.62 | 228 | 99.3 | 110 |
| Change | -12.5% | -12.6% | -10.1% | 6.0% | -7.2% | -10.6% |
| 2008 | 497.4 | 409.4 | \$176.44 | 215 | 107.0 | 123 |
| | ▼ | ▼ | ▼ | ▲ | ▼ | ▼ |

This quarter, for Albemarle County, we are providing numbers for both the full county, as well as each high school district individually. The basic stats for the county reflect the overall market with median prices being down and number of sales rising. Both Monticello and Western Albemarle saw an increase year-over-year. Albemarle High School, however, saw a modest reduction in price as well as a reduction in number of homes sold. Total volume in Albemarle was down nearly 25% for the quarter.

We have been pointing to the Northern Virginia market for the last 12 months as our harbinger. In NoVA, prices dropped, followed by a period of increasing sales and price drops, followed by a leveling of prices and a strong sales volume. If this holds true in Central Virginia, then we should expect price drops to continue until sales begin to pick up in earnest.

We have adjusted our numbers throughout this report to remove outliers. In 2008, there were two transactions that totaled over \$36 million in volume according to the original statistics. In 2009, there was a single sale that accounted for 17.3% of one district's total sales volume for the quarter; a transaction that would skew the average price and the average price / s.f. a large amount if we did not make necessary adjustments. These examples highlight the fact that every property deserves individual market analysis.

Albemarle High School - 3rd Quarter Detached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) |
|--------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|
| 2009 | 369.3 | 348.5 | \$144.06 | 78 | 28.8 |
| Change | -18.7% | -13.4% | -11.8% | -7.1% | -24.5% |
| 2008 | 454.1 | 402.3 | \$163.27 | 84 | 38.1 |
| | ▼ | ▼ | ▼ | ▼ | ▼ |

Monticello High School - 3rd Quarter Detached Home Sales

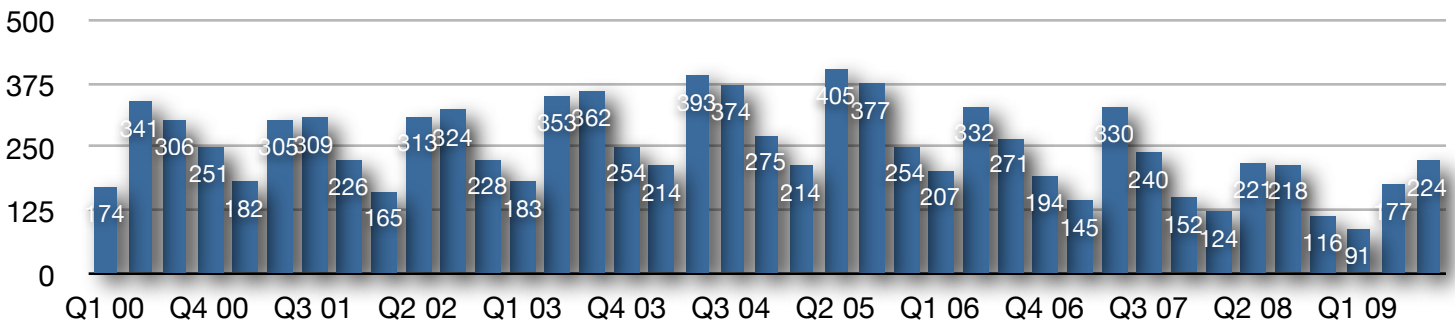
| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) |
|--------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|
| 2009 | 429.4 | 332.0 | \$164.80 | 72 | 30.9 |
| Change | -3.0% | -6.1% | -3.5% | 20.0% | 16.4% |
| 2008 | 442.7 | 353.5 | \$170.85 | 60 | 26.6 |
| | ▼ | ▼ | ▼ | ▲ | ▲ |

Western Albemarle High School - 3rd Quarter Detached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) |
|--------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|
| 2009 | 506.8 | 412.5 | \$167.47 | 78 | 39.5 |
| Change | -16.1% | -17.5% | -13.9% | 13.0% | -5.2% |
| 2008 | 604.1 | 500.0 | \$194.43 | 69 | 41.7 |
| | ▼ | ▼ | ▼ | ▲ | ▼ |

As with the city, we are providing a ten year history of sales in the county. The county actually remains lower in relationship to average than does the city. The average over the ten year period is 251 sales. Only in 2008 and 2009 were 2nd and 3rd quarter sales figures below the ten year average. Number of transaction remains sluggish across all price points, but especially in the high end.

Number of Sales by Qtr - Albemarle County



Attached Home Sales

When buyers think of real estate, the first image that comes to mind for many is the classic brick colonial, next door to other similar properties, each with their own piece of land. But in reality, a major portion of the housing market, and new construction inventory and pipeline shares walls with other homes. Whether the property is a duplex, or one of eight in a string of attached homes, many buyers look to the townhouse market to solve their housing needs.

Charlottesville is no different from other areas in this regard. Whether buyers are looking for more affordable solutions, or lower exterior maintenance, attached housing continues to play a significant role in Charlottesville real estate. And 2009 has seen a significant increase in the attached housing market. The attached homes contributed to just over 20.5% of the total housing market in the first nine months of 2008. In 2009, that number had jumped to 26.85%. The largest jump was within Albemarle county where attached homes grew in their market share from 22.1% of the market by number of sales to 29.7% in 2009.

Because the median sale price of a detached home in the county is \$112,000 more than the median price of a townhouse, the impact on the gross volume is somewhat less, but still significant. Townhouses contributed 19.4% of the gross volume of sales in the county and 17.4% of the city's gross volume. There were up from 12.2% and 19.4% in 2008 respectively.

We believe that much of this growth has to do with issue of credit availability in 2008 vs. 2009 that we discussed earlier. The entry level home buyer was blocked from the market in many ways last year. If we look back to 2004, the beginning of the run-up on the market, townhouse sales represented 22.4% of number of sales and 12.6% of gross volume of sales. These five-year, and one-year growth numbers would suggest that a real shift has occurred. We will continue to watch the townhouse market to determine if this is based on price, location, maintenance, or new construction product offerings.

City of Charlottesville - 3rd Quarter Attached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Average DOM |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|-------------|
| 2009 | 224.1 | 226.3 | \$138.42 | 24 | 5.4 | 122 |
| Change | -2.4% | -6.9% | -2.8% | -31.4% | -33.0% | 35.6% |
| 2008 | 229.5 | 243.0 | \$142.34 | 35 | 8.0 | 90 |
| | ↓ | ↓ | ↓ | ↓ | ↓ | ↑ |

City of Charlottesville - YTD Attached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Average DOM |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|-------------|
| 2009 | 234.0 | 242.0 | \$139.42 | 73 | 17.1 | 191 |
| Change | -5.6% | -8.6% | -2.0% | -16.1% | -20.8% | 44.7% |
| 2008 | 247.9 | 264.7 | \$142.27 | 87 | 21.6 | 132 |
| | ↓ | ↓ | ↓ | ↓ | ↓ | ↑ |

Albemarle County - 3rd Quarter Attached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Average DOM |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|-------------|
| 2009 | 251.8 | 246.1 | \$135.77 | 96 | 24.2 | 91 |
| Change | -1.2% | 3.2% | -8.2% | 57.4% | 55.4% | -3.2% |
| 2008 | 254.9 | 238.6 | \$147.89 | 61 | 15.6 | 94 |
| | ↓ | ↑ | ↓ | ↑ | ↑ | ↓ |

Albemarle County - YTD Attached Home Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | Average Price / Sq. Foot | # of Closed Sales | Volume of Sales (\$M) | Average DOM |
|---------------|-----------------------------|----------------------------|--------------------------|-------------------|-----------------------|-------------|
| 2009 | 255.1 | 240.8 | \$138.06 | 236 | 60.2 | 97 |
| Change | -0.4% | 1.2% | -9.8% | 28.3% | 27.7% | -5.8% |
| 2008 | 256.2 | 238.0 | \$153.12 | 184 | 47.1 | 103 |
| | ↓ | ↑ | ↓ | ↑ | ↑ | ↓ |

Condominiums

Go back to mid 2006 and try to explain to developers what was about to happen to the condo market and you would not have found many who could appreciate the over building and over conversion that was taking place. In 2008, condos underwent their worst financial funding crisis imaginable. The FHA, Fannie, and Freddie simply stopped lending money to condo borrowers. And that crisis is still being felt to a certain degree. Several projects locally are now getting their FHA funding certification, but it is certainly not the majority of the projects. The end result is a third year of three toed sloths stuck in honey. Sales are down - way down. In 2006 there were more than \$18.3 Million in condo sales in the city during the 3rd quarter and more than \$22.7 Million in the condo sales in the County during the same period. This year, just over \$5 Million in both the city and the county.

City of Charlottesville - 3rd Quarter Condominium Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|-----------------------------|----------------------------|-------------------|-----------------------|----------------|
| 2009 | 219.8 | 184.9 | 23 | 5.1 | 90 |
| Change | -6.0% | 4.7% | -46.5% | -49.7% | -11.8% |
| 2008 | 233.8 | 176.7 | 43 | 10.1 | 102 |
| | ↓ | ↑ | ↓ | ↓ | ↓ |

Albemarle County - 3rd Quarter Condominium Sales

| | Average Sales Price (\$000) | Median Sales Price (\$000) | # of Closed Sales | Volume of Sales (\$M) | Days on Market |
|---------------|-----------------------------|----------------------------|-------------------|-----------------------|----------------|
| 2009 | 185.4 | 147.0 | 29 | 5.4 | 81 |
| Change | -9.9% | -7.0% | -35.6% | -41.9% | -21.4% |
| 2008 | 205.6 | 158.0 | 45 | 9.3 | 103 |



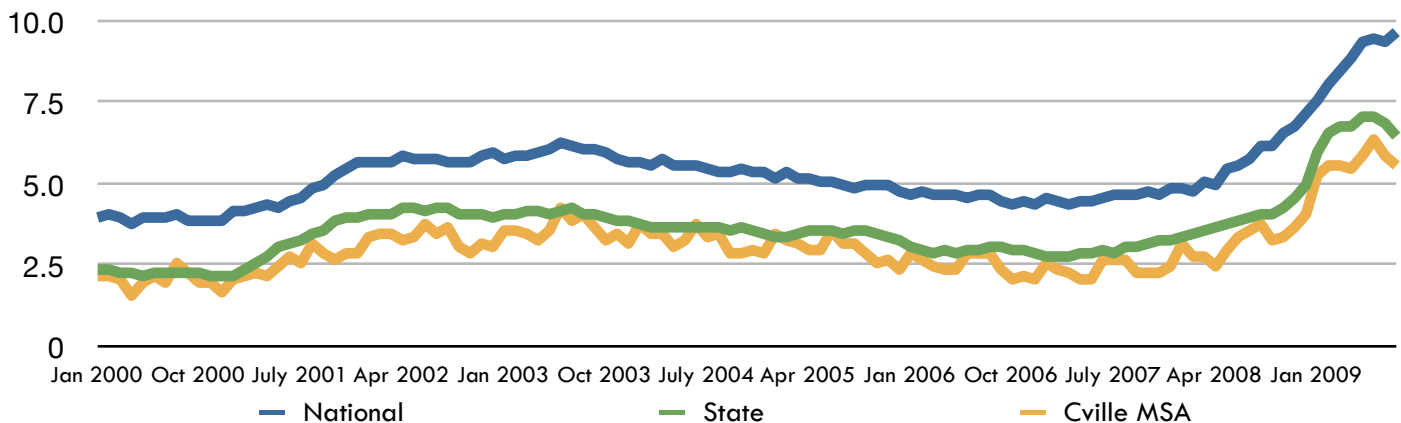
Unemployment Numbers

Bismark, North Dakota may not be your top pick of places to live as we start into the winter months, but they do have one thing going for them: the lowest unemployment in the country at only 3.3%. Charlottesville remains the top ranked MSA in the state of Virginia, and as of August, 2009 was the 18th top MSA out of 372 MSAs in the US. While 5.6% may feel high to many here in town, feel blessed compared to our neighbors in North Carolina, specifically RockyMount with unemployment of 13.8% or Yuma, AZ at a whopping 26.1%.

I first cited unemployment as an important number to watch in Charlottesville in the 4th quarter of last year when the unemployment here was around 3.5%, but the rest of the nation had begun to feel the real effects of the recession. The prices in Charlottesville had not yet begun to fall significantly (drops were localized) and I posited that unemployment and pricing would be intimately tied. And this year, unemployment has doubled, and prices have dropped dramatically.

But there is good news on the horizon. Both the statewide (green line) and the local (yellow line) have shown several consecutive months of unemployment numbers dropping. Yes, the August numbers are still preliminary, but while the national number climbed by 0.3% the state and local numbers fell by an equal amount.

Unemployment Rates



Source: [US Dept of Labor, Bureau of Labor Statistics](#)

Short Sales

At the beginning of this report, I stated that Short Sales plagued our market. A quick guide to short sales : a short sale occurs when a seller has negative equity in his home, and a bank will need to take a loss on their mortgage in order for a sale to be consummated. If a seller has the cash to cover the negative equity, the bank need not get involved.

Across the country, estimates vary, with many experts placing the current number of underwater mortgages at roughly 20% of the US public. What is clear is that we are better off than some areas, such as Las Vegas, where [Zillow](#) estimates that 67.9% of homeowners are underwater on their loans. Deutsche Bank projects this number could grow to as much as half the population by 2011. Whether it reaches 50% is really irrelevant today. What is relevant is how these short sales are affecting our market and how prevalent they may be.

Prevalence is difficult to determine. I can point to agents who will tell you that they have closed a dozen sales this year involving short sales. You will be hard pressed to find an active agent who does not have some level of experience in either listing or selling short sales. However, the data in Charlottesville doesn't support that. Currently there are 315 listings active in Charlottesville, and only 5 are listed as short sales. Albemarle has 1039 active listings and only 22 marked as short sales. The reason for this small number of short sales has two explanations: short sales are being handled directly from the bank to agents without the use of the MLS or agents are unaware that their listings are actually underwater.

I find it impossible to believe that there are only 27 properties in Charlottesville and Albemarle that are underwater on the market. In speaking with a local attorney this morning, he indicated that roughly 10-15% of closings that he is handling are in fact short sales. CAAR has taken steps to correct this error. Agents now must have their clients sign statements designating whether or not their property is underwater, and if so, they **MUST** disclose it, or else not list with a Realtor. By the end of the year, I expect to see better compliance and more accurate numbers. Until then, buyers need to be wary of the potential for massive time delays and roadblocks if they do not take steps to protect themselves.