



TRENDS IN HOUSING



MID-YEAR 2009



Welcome to *Trends in Housing*, a joint publication of MRIS and Delta Associates. This report provides a regular in-depth look at the issues that shape the Mid-Atlantic housing market. We hope you find this publication valuable, and we welcome your feedback.



David Charron
President and CEO
MRIS

MID-YEAR 2009 HIGHLIGHTS:

The Washington area housing market has moved into the correction phase – the first step in recovery:

- **Prices** are showing renewed signs of strength: 2nd quarter prices in most jurisdictions were up from the 1st quarter, though still lower than one year ago. Prices may experience slight declines through the end of the year, but increased demand and a lower supply of listings are helping facilitate price traction.
- **Days on market** are down sharply compared to both last quarter and a year ago. Properties continue to sell quickest in the Core jurisdictions, but across the region, time on market is moving toward the region's long-term average.
- The ratio of **inventory** to sales (months of sales) continues to decline in all jurisdictions from one year ago. The metro-wide ratio of 5.1 months' worth of listings is below the normal, healthy standard of 6 months, signaling that demand is beginning to outpace supply.

2

INSIDE THIS ISSUE

1. The Washington Metro Area For-Sale Housing Market	3
2. The Baltimore Metro Area For-Sale Housing Market	9
3. Policy Spotlight: Federal Home Affordable Refinance Program	10
4. Ask Delta	11
5. Summary Data on the Mid-Atlantic Housing Market	12
6. Local Spotlight: Herndon	16
7. Regional Spotlight: Exurban Virginia	17
8. The Washington Regional Economy and Outlook	19
9. The Baltimore Regional Economy and Outlook	21
10. The Condominium Market	22
11. The Apartment Market	23
12. The Commercial Real Estate Market	24
Methodology	27
About MRIS and Delta Associates	28



The Washington housing market in the 2nd quarter of 2009 began to show early signs of recovery, as prices rose from the previous quarter and homes sold more quickly. Spurred by low interest rates and Federal incentives, buyer activity picked up, propelling stronger sales volume compared with a year ago. Although sale prices remain lower than a year ago, buyers are beginning to leave the sidelines, as the economy no longer seems in a freefall.

A combination of relatively low prices, low interest rates and Federal incentives have sparked buyer interest, and **unit sales volume is up 51.2% from the previous quarter and 7.0% from one year ago**. Sales volume in the 2nd quarter of the year is often strong, as the spring homebuying season gets underway. That appears to be the case this year, even as the national recession continues to affect economic growth. **The Washington region continues to add high-paying jobs, which is fostering housing demand, even as it loses lower-paying jobs.** As the national economy gains traction, Washington will see continued strength in the region's housing market. (See Figures 1 and 2)

The average price of a Washington-area home is \$382,515 in the 2nd quarter of 2009. The metro-wide price of homes sold in the 2nd quarter of 2009 was up 12.1% from the 1st quarter of 2009, but it was 13.2% lower than in the 2nd quarter of 2008.

The Federal plan to offer a tax credit worth \$8,000 to first-time homebuyers has helped to lure renters into the housing market. Nationally, first-time buyers made up 40% of all home purchases in the 1st quarter of 2009. Although statistics on how many buyers use the credit will not be available for many months, first-time buyers are credited with helping to work through the excess inventory that marked the region's housing market a year ago.

Prices remain highest in the **Core** jurisdictions of the District, Arlington and Alexandria. The average sales price of a Core home in the 2nd quarter of 2009 is \$497,216, up 6.4% from the 1st quarter but down 8.7% from one year ago. In the District, the average price in June 2009 was down 6.2% from one year earlier. In Alexandria, the average sales price in June 2009 was down 5.6% compared with June 2008; Arlington posted price declines of 1.9% for the same 12-month period. (See Figure 3)

MARKET INDICATORS

WASHINGTON METRO AREA AT MID-YEAR 2009

Figure 1

		Change vs. Last Quarter	Change vs. Q2 2008
Q2 Avg. Sales Price	\$382,515	↑12.1%	↓13.2%
Q2 Sales (units)	15,543	↑51.2%	↑7.0%
Q2 Days on Market	93	↓17	↓10
Sales Pace*	5.1 Months	↓2.6 Months	↓2.3 Months

*Sales pace as of June 2009. Pace is ratio of total for-sale inventory to current month's sales.

Source: MRIS, Delta Associates; July 2009.

MARKET CONDITIONS

WASHINGTON METRO AREA AT MID-YEAR 2009

Figure 2

FAVORABLE TO BUYERS - Prices Remain Lower Than One Year Earlier - Historically Low Interest Rates - Incentives/Repairs Negotiable	FAVORABLE TO SELLERS - Inventory Continues to Decline - Homes Selling More Quickly - Rental Conditions Remain Snug - Projected Population Increase
UNFAVORABLE TO BOTH: Challenging Credit Conditions	

Source: Delta Associates; July 2009.

HOME PRICES BY SUB-AREA*

WASHINGTON METRO AREA MID-YEAR 2009

Figure 3

Sub-Area*		Change vs. Last Quarter	Change vs. Q2 2008
Core	\$497,216	↑6.4%	↓8.7%
Units	2,763	↑70.1%	↑5.3%
Inner	\$397,320	↑9.9%	↓14.8%
Units	8,401	↑61.7%	↑12.3%
Outer	\$280,553	↑12.1%	↓15.7%
Units	4,187	↑25.1%	↓1.5%

*Core: DC, Arlington, Alexandria.

Inner: Fairfax, Montgomery, Prince George's; Fairfax City and Falls Church.

Outer: Loudoun, Prince William, Frederick.

Source: MRIS, Delta Associates; July 2009.

The area's **Inner** ring of Fairfax, Montgomery and Prince George's counties (and Falls Church and Fairfax cities) experienced price increases of 9.9% from the 1st quarter; the average price in the 2nd quarter of 2009 was \$397,320, which is down 14.8% from one year ago. Fairfax County home prices fell 8.5% from June 2008 to June 2009. In Montgomery, prices fell 15.9% over the same period; Prince George's home prices fell 17%.

The **Outer** suburbs of Loudoun, Prince William and Frederick counties – where foreclosures led to the region's steepest price declines – showed the strongest quarterly price gain. The average sales price of an Outer home in the 2nd quarter is \$280,553, up 12.1% from the 1st quarter but down 15.7% from one year ago. In Frederick County, the average sales price in June 2009 declined 10.5% from one year earlier. In Loudoun, home prices fell 8.1% from June 2008 to June 2009; Prince William posted declines of 19.0% year-over-year. (See Figure 4)

Compared to the 2nd quarter of 2008, sales dollar volume was up sharply in the Core and Inner Suburbs, but down slightly – 1.5% – in the Outer suburbs, which experienced strong foreclosure-driven volume last year. **Through June, the number of homes sold metro-wide in 2009 is up 10% from the first six months of 2008, indicating a return of buyers to the market.**

Although home prices in the 2nd quarter of 2009 were lower than one year earlier, the rate of decline has eased. In the Core and the Inner suburbs, prices have bounced back to 4th quarter 2008 levels; prices in the Outer suburbs approximate those seen in the 3rd quarter of 2008. It is too early to tell whether this market has passed the bottom or whether this is a temporary bounce, but rising volume portends well for recovery. (See Figure 5)

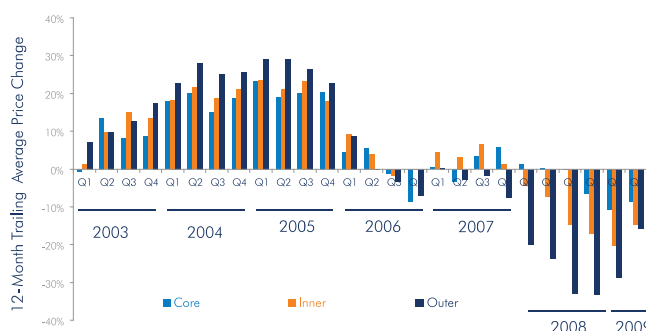
As buyer activity has increased, properties are selling more quickly. For the Washington region, homes sold in an average of 93 days, down from 110 days in the 1st quarter and 103 days one year ago.

In the **Core**, time on market fell to 80 days, down from 96 days in the 1st quarter but up from 70 days one year ago. Properties in the **Core** are selling at a rate nearing the region's long-term average of 76 days. Time on market in the Outer suburbs now averages 88 days, down 19 days from the previous quarter and down 35 days from one year ago. Homes are taking the longest to sell in the Inner suburbs – 97 days – down from 117 days in the previous quarter and 102 days one year ago.

(See Figure 6)

HOME SALES AVERAGE PRICE CHANGE WASHINGTON METRO BY SUB-AREA* 2003 - MID-YEAR 2009

Figure 4



*Core: DC, Arlington, Alexandria.

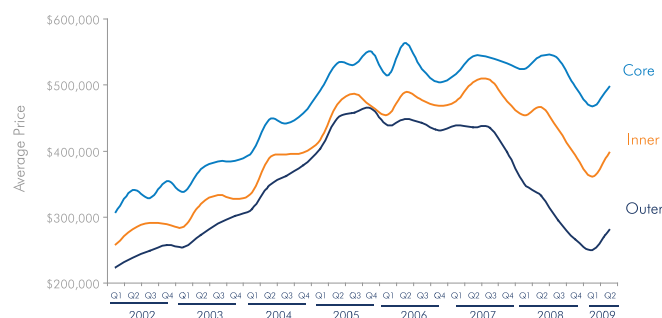
Inner: Fairfax, Montgomery, Prince George's; Fairfax City and Falls Church.

Outer: Loudoun, Prince William, Frederick.

Source: MRIS, Delta Associates; July 2009.

AVERAGE SALES PRICE FOR EXISTING HOUSES WASHINGTON METRO BY SUB-AREA* 2002 - MID-YEAR 2009

Figure 5



*Core: DC, Arlington, Alexandria.

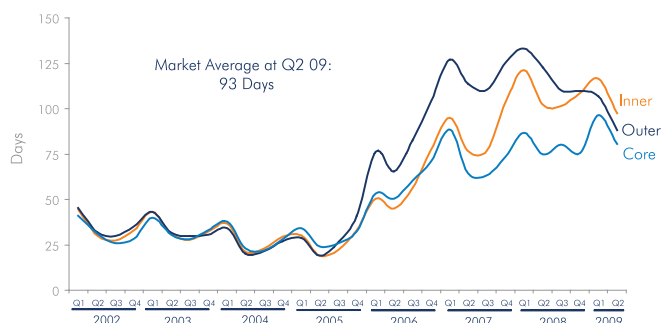
Inner: Fairfax, Montgomery, Prince George's; Fairfax City and Falls Church.

Outer: Loudoun, Prince William, Frederick.

Source: MRIS, Delta Associates; July 2009.

AVERAGE DAYS ON MARKET - EXISTING HOUSES WASHINGTON METRO AREA BY SUB-AREA* 2002 - MID-YEAR 2009

Figure 6



*Core: DC, Arlington, Alexandria.

Inner: Fairfax, Montgomery, Prince George's; Fairfax City and Falls Church.

Outer: Loudoun, Prince William, Frederick.

Source: MRIS, Delta Associates; July 2009.

According to Freddie Mac, the average 30-year fixed-rate mortgage at the end of June 2009 was 5.42%, down 103 basis points from the same time one year earlier. Rates bottomed at 4.78% in April before rising again, though they still remain low by historic standards. The rate for a 15-year fixed-rate mortgage was 4.87% at the end of June 2009.

A combination of low rates and the Federal \$8,000 tax credit for first-time homebuyers is helping lure some buyers from the sidelines. Although some buyers are facing higher lending thresholds – larger down payments, better cash reserves – buyer activity picked up in the 2nd quarter.

Recent market statistics indicate that buyer and seller expectations are moving toward each other, helping to bring the market into balance. The average time on market in the Washington area is 93 days. Although this three-month duration is above the long-term average of 76 days, it is the lowest time on market since the 3rd quarter of 2007. However, sellers remain disconnected from market conditions on pricing. The average selling price in the 1st quarter of 2009 is 91.8% of list price, up 19 basis points from the 1st quarter but indicating that sellers are still making hefty concessions to facilitate sales.

In May, the national pending-home sales index, a forward-looking indicator of contracts signed (but not settled) for previously owned homes, rose 0.1% from the April reading – the fourth straight month that the index rose. The May 2009 index, which is published by the

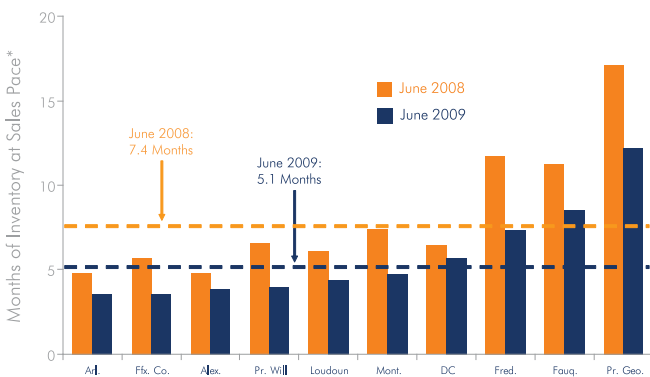
National Association of Realtors, was 6.7% higher than the May 2008 reading. **Pending home sales signal optimism in the market;** however, some contracts are taking longer than normal to settle as appraisals and lenders are grappling with a recalibrating market. The National Association of Realtors' **affordability index rose 42 basis points to a record high in May 2009.** The affordability index incorporates median home prices, median incomes and average mortgage rates to broadly gauge the national homebuying climate.

Lower prices continue to propel sales volume, and the region persists in working through its inventory overhang. **The Washington area has an average of 5.1 months of for-sale inventory at June 2009, down from 7.4 months' worth one year ago.** In recent years, Washington area average prices tend to rise when the ratio of inventory to sales is below 6 months' worth. Lender constraints may hinder a quick rise in prices, but the gap between supply and demand is closing in the Washington area.

In every jurisdiction except Falls Church, the ratio of inventory to sales fell sharply in the 2nd quarter of 2009 compared to one year ago. Although Prince George's County has the highest ratio in the region – 12.2 months' worth of inventory at June 2009 – that ratio is down from 17.1 months one year ago. Both Arlington and Fairfax County have just 3.5 months' worth of inventory at June 2009, the lowest in the region. (See Figures 7 and 8)

MONTHS OF FOR-SALE INVENTORY WASHINGTON METRO AREA JUNE 2008 vs. JUNE 2009

Figure 7

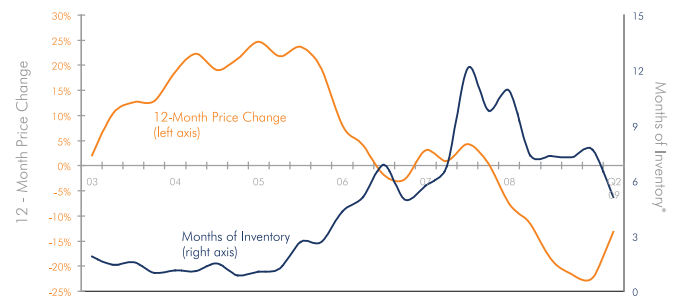


*Pace is ratio of total for-sale inventory to current month's sales.

Source: MRIS, Delta Associates; July 2009.

PRICE CHANGE AND INVENTORY WASHINGTON METRO 2003 - 2ND QUARTER 2009

Figure 8



*Months of inventory at current sales pace for last month in each quarter.

Source: MRIS, Delta Associates; July 2009.

NAVIGATING THE MARKET

The Washington area housing market appears to be well into the correction phase – the first step in recovery. Although home prices are lower than they were one year ago, they are showing strength from the 1st quarter. The Federal \$8,000 tax credit for first-time homebuyers has lured buyers off the sidelines. That tax credit applies to home purchases settled before December 1, 2009, which should continue to propel buyer interest through the year.

Steady **buyer** activity – especially in the lower price brackets – has helped the region work through its excess inventory. As a result, the ratio of inventory to sales is now 5.1 months – the lowest since late 2006 – and is approaching a healthy balance between buyers and sellers. Well-priced properties in desirable neighborhoods are seeing multiple offers, another indication of the slowly shifting market. **As demand and supply come into balance, we should see continued price traction in coming quarters.** (See Figure 9)

A tight apartment market is helping to facilitate housing demand, particularly among first-time buyers. The region's stabilized vacancy rate for investment-grade apartments (Class A and B) is 4.3% in the 2nd quarter of 2009, down from 4.6% in the 1st quarter but up from 3.6% one year ago. With the national vacancy of 6.6%, Washington boasts one of the lowest apartment vacancy rates in the nation. Washington area apartment rents decreased 1.4% from June 2008; Class A rents were down 1.8% over the same period.

Seller expectations remain out of sync with the market, but they are slowly closing the gap with buyer demands. The average sales price in the 2nd quarter

of 2009 is 91.8% of list price, the highest share in three quarters. Sellers continue to make concessions to buyers to facilitate sales, but those concessions are shrinking.

Building activity in the region remains muted, as the market is not yet expanding and lending activity is still constrained by the national Credit Crunch. According to the Census, the annualized number of permits for new housing nationally in June 2009 was 563,000, up 8.7% from the May number and up from the record low of 498,000 set in April 2009. The number of permits issued in June 2009 was down 52.0% from the number issued in June 2008. (See Figures 10 and 11)

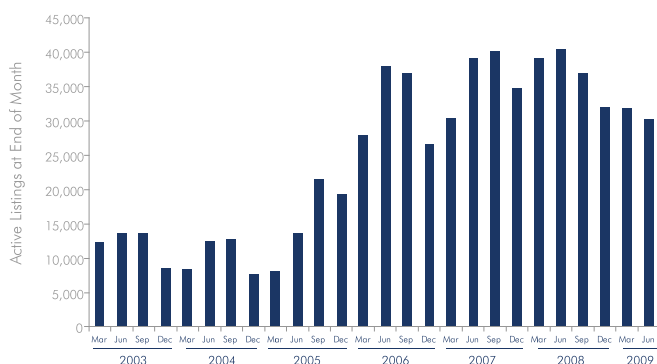
The number of housing starts fell 46.0% from June 2008 to June 2009, as oversupply remains a concern in many metropolitan areas. In the near term, new-home buyers will help to work through the excess inventory of existing newly built homes. In the Washington area, a recent report from Zelman & Associates observed that demand for buildable lots in top-tier locations was increasing, which may portend rising building activity in coming quarters.

Mild building activity correlates with still-low builder confidence. The National Association of Home Builders/Wells Fargo Housing Market Index of builder confidence was 15 in June 2009, down one point from May but up considerably from the record low of 8 set in January 2009. An index below 50 indicates that more builders view sales conditions as poor than good. The index is based on three components. Two of them – measuring current sales conditions and the traffic of prospective buyers – held steady from May; the measure of expectations in the next six months declined.

TOTAL ACTIVE LISTINGS

WASHINGTON METRO AREA, ALL HOUSING TYPES
2003 THROUGH 2ND QUARTER 2009

Figure 9

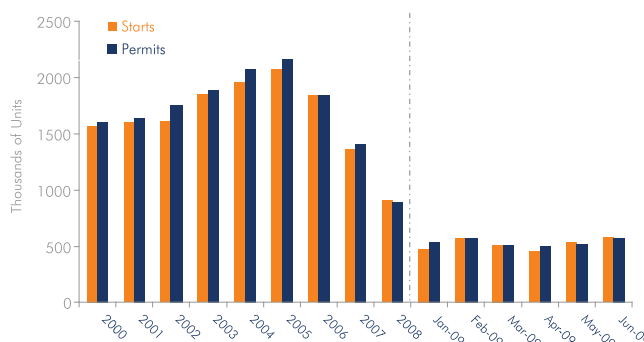


Source: MRIS, Delta Associates; July 2009.

CONSTRUCTION STARTS AND BUILDING PERMITS*

UNITED STATES
2000 THROUGH JUNE 2009

Figure 10



*For privately owned housing units, seasonally adjusted and annualized.

Source: Census Bureau, Delta Associates; July 2009.

Home refinancings surged in the 1st quarter as interest rates fell below 5%. According to Freddie Mac's *Quarterly Refinance Review*, homeowners cashed out \$14.5 billion in home equity in the 1st quarter of 2009. For the past two quarters, the total cash-out volume of \$32 billion is the lowest six-month volume in eight years. The 1st quarter 2009 volume was down from \$17.5 billion in the 4th quarter 2008. Half of those refinancing in the 1st quarter of 2009 lowered their annual mortgage interest rate by at least 20%, corresponding to an interest rate about 1.25 percentage points below the previous rate. Among those who refinanced, more than 99% of those with adjustable-rate mortgages refinanced into a fixed-rate mortgage. The median age of the refinanced loans was 1.6 years, and the median appreciation of the refinanced properties was 12% since the refinanced loan was taken out.

The Mortgage Bankers Association reported in early July refinancing activity was driving mortgage lending. Refinancings increased 17.7% from the previous week and accounted for 54.9% of all applications. Unadjusted, the MBA Market Composite Index – which measures loan application volume – was up 15.3% compared with the week earlier, though it was down 2.7% compared with the same week last year.

CONSUMER SPENDING LUKEWARM; SAVINGS RATE RISES

The Federal government stimulus plan began to boost incomes in May, and consumers responded. Consumer spending edged up in May for the first time since February, according to the Commerce Department. Spending rose 0.3% from April, after rising less than 0.1% the

previous month. However, the Commerce report also showed that the national savings rate surged to 6.9%, the highest since December 1993. Unsure about the job security and the future of the economy, consumers are opting to save their paychecks instead of spending them. Retail sales continue to be a barometer of consumer sentiment; modest gains will not help bring about the end of the recession.

The consumer price index rose 0.7% in June 2009 after rising 0.1% in May, seasonally adjusted. The index is down 1.2% from June 2008, the steepest 12-month decline since February 1950. The National Retail Federation reported that June 2009 retail industry sales (excluding gas stations, autos and restaurants) declined 0.2% from May 2009; they were down 3.8% from June 2008. Retailers are counting on a strong back-to-school selling season to offset sluggish sales earlier in the year.

THE APPRAISAL QUESTION

Appraisals are a key component of any home sales involving a mortgage. The appraisal – ordered by the lender – sets the market value of the house. During the housing boom, appraisers came under fire for lax standards, leading to overvalued mortgages. As the national housing market declined, parties on all sides of transactions raised concerns that it was difficult to accurately assess the market value of homes.

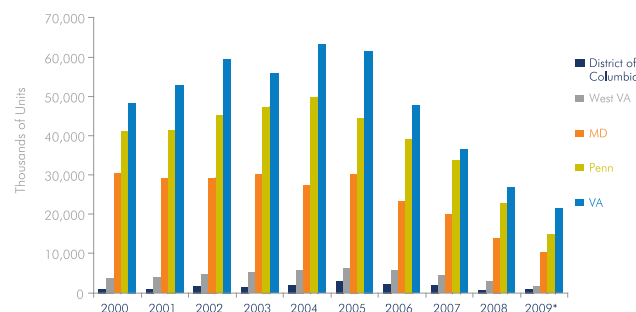
In an effort to increase transparency and accountability among lenders, buyers and appraisers, the Home Valuation Code of Conduct (HVCC) was established between Freddie Mac, the Federal Housing Finance Agency and the New York State Attorney General. It took effect on

CONSTRUCTION BUILDING PERMITS BY STATE

SELECTED MID-ATLANTIC JURISDICTIONS

2000 THROUGH MAY 2009

Figure 11



*For privately owned housing units. Through May 2009, annualized.

Source: Census Bureau, Delta Associates; July 2009.

May 1; Freddie Mac and Fannie Mae will no longer purchase mortgages that do not comply with the HVCC.

The code applies to 1- to 4-unit single-family loans sold to Fannie Mae or Freddie Mac. The HVCC aims to establish independence of appraisers from lenders or other third parties who might influence the development, result or review of an appraisal.

In practice, field reports indicate that the HVCC is stifling loan activity. The appraiser must be completely separate from the lender, and does not necessarily need to have experience in the local market. Furthermore, the HVCC prohibits the order of an appraisal by a mortgage broker – it must come from the lender directly. Some **REALTORS®** and builders have expressed concern that appraisals are being conducted by individuals disconnected from nuances within a local market – for example, applying the Washington metropolitan area price change to a home in a desirable neighborhood in Bethesda, where price declines are more moderate.

The HVCC calls for the founding of an Independent Valuation Protection Institute to set standards for and govern appraisal practices. As yet, that institute has not yet been established. Until that is in place, some members of Congress are urging a moratorium on the HVCC's role in the home-buying process; such a moratorium is still being considered.

WASHINGTON VS. THE NATION

In the Washington metro area, the Federal Housing Finance Agency (formerly OFHEO) reported a 10.0% annual decline in home prices for the 12 months ending

March 2009, compared to a decrease of 12.2% for all of 2008. FHFA reported a national average home price decline of 7.1% for the 12 months ending March 2009. In contrast, the National Association of Realtors reported a national average home decline of 13.8%, and a Washington area decline of 25.0% for the 12 months ending in the 1st quarter of 2009. (FHFA and NAR use different methodologies to calculate price changes.)

(See Figure 12)

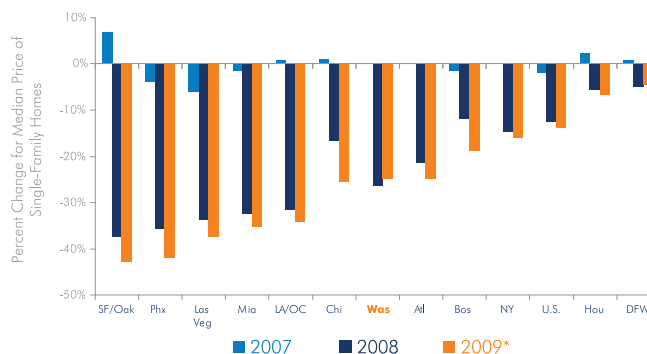
From March 2008 to March 2009, Washington home prices fell 18.4%, according to the Case-Shiller index, placing it in the middle of major metro areas for 12-month performance. However, Washington was 5th out of 20 cities for monthly price gains, with a 1.2% price decline from February to March. Phoenix, Las Vegas and the San Francisco Bay Area saw annual price declines in excess of 30%. Washington continues to rank second nationally (after New York) in the Case-Shiller index on the ratio of home prices to earnings, after New York.

WASHINGTON HOUSING OUTLOOK

The Washington housing market has entered the correction phase of the cycle, with signs of recovery (from the previous quarter). We expect that a combination of continued Federal spending and a steadying labor market will continue to bring traction to the Washington housing market, particularly in the Core. The pace of the recovery may be uneven, but by late 2009/early 2010, we expect that healthy demand will yield yearly price gains, particularly in the Core, where inventory is more limited and demand is strongest, but extending to the Outer suburbs by late 2010/early 2011.

ANNUAL ESCALATION OF EXISTING HOME SALE PRICES

Figure 12



*12-Month change through 1st quarter.

Source: National Association of Realtors, Delta Associates; July 2009.

The Baltimore market showed signs of renewal in the 2nd quarter of 2009. Prices showed slight growth from the previous quarter, and homes spent less time on market than in the 1st quarter. However, the Baltimore market is still weaker than a year ago; Baltimore's housing market may be in the very early phases of a recovery.

Baltimore City showed the most improvement: prices rose 5.4% in the 2nd quarter of 2009 from the previous quarter. However, Baltimore City showed the steepest yearly declines; prices in the 2nd quarter were 20.0% lower than a year ago. The city's low average sales price of \$160,891 contributes to volatility in percentage changes.

In the Northern suburbs, prices rose 3.0% from the previous quarter but were down 8.4% from one year ago. The average sales price in the Northern suburbs for the 2nd quarter is \$276,067.

The Southern suburbs posted the region's only price decline in the 2nd quarter. Prices were down 2.0% from the 1st quarter of 2009; they were down 12.2% from one year ago. The average sales price in the Southern suburbs in the 2nd quarter is \$366,873.

As a whole, Baltimore metro prices were up 1.6% from 1st quarter 2009 but down 11.3% from one year earlier. The ratio of inventory to sales declined 4.0 months to 7.9 months at June 2009, indicating that buyer interest is helping work through excess inventory. Annualized, unit sales volume through the 1st half of 2009 is 88.9% of the 2008 total volume. (See Figure 13)

For more detail on the Baltimore housing market, please see the graphs in Section 5.

MARKET INDICATORS BALTIMORE METRO AREA AT 2ND QUARTER 2009

Figure 13

		Change vs. Last Quarter	Change vs. Q2 2008
Q2 Sales Price	\$280,637	↑1.7%	↓11.3%
Q2 Sales (units)	5,937	↑63.5%	↓6.9%
Q2 Days on Market	126	↓15	↑8
Sales Pace*	7.9 Months	↓4.0 Months	↓1.1 Months

*Sales pace as of June 2009. Pace is ratio of total for-sale inventory to current month's sales.

Source: MRIS, Delta Associates; July 2009.



POLICY SPOTLIGHT: FEDERAL HOME AFFORDABLE REFINANCE PROGRAM



In early July, the Federal Housing Finance Agency announced a policy change designed to help underwater homeowners refinance their mortgages into more affordable loans. The Federal Home Affordable Refinance Program (HARP) allows borrowers to take out a mortgage of up to 125% of the home's value, provided the existing loan is owned or guaranteed by Fannie Mae or Freddie Mac. The previous loan maximum was 105% of the home's value.

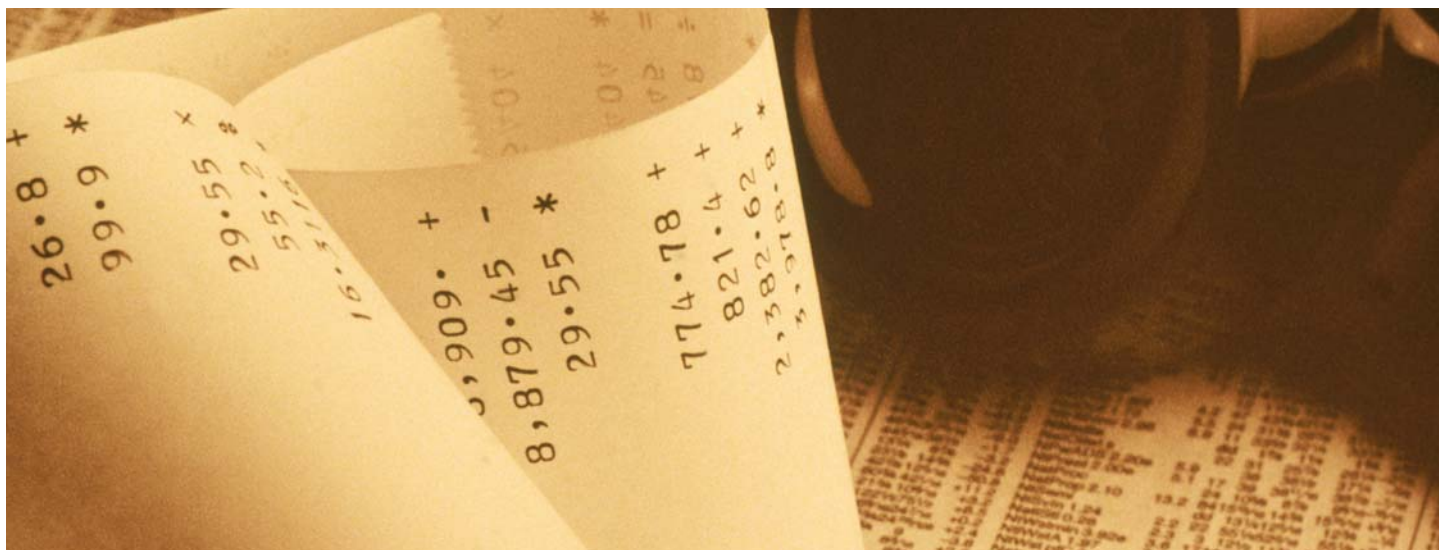
The higher loan amounts will allow homeowners with negative equity to take advantage of both low interest rates and the refinancing options offered by the Federal Homeowner Affordability and Stability Plan that was launched in the spring. [See Page 10 of the 1st Quarter 2009 *Trends in Housing* report.]

In areas where home values have fallen precipitously in the past year – such as Phoenix and Las Vegas – the program will allow homeowners to stay in their homes at more attractive loan terms. In essence, the government is betting that home values will recover and meet the full value of these loans. In the meantime, it should reduce the likelihood of short sales or foreclosures caused by negative equity.

Homeowners may refinance an adjustable-rate mortgage into a fixed-rate mortgage. This change helps homeowners who may have purchased a home in the past 5 years with an adjustable-rate mortgage, but then were unable to refinance into a fixed-rate loan as values fell.

Under this policy, a homeowner who purchased a house with an adjustable-rate mortgage for the full value of the home, \$300,000 – but then saw the value of that home fall to \$240,000 – would be able to refinance into a fixed-rate mortgage for the full \$300,000 value.

Credit Suisse estimates that up to 3 million homeowners may be eligible for the program. More information about the refinance program – and the loan modifications available through the Federal Hope for Homeowners policy – is available online at <http://www.makinghomeaffordable.gov>.



Q *What are the biggest obstacles to housing market stability in Washington?*

A There are two factors that continue to constrain the Washington area housing market: regional employment and lending practices.

The area is losing **jobs** overall, though not as many as most major metropolitan areas. Washington area employment declined by 35,300 jobs in the 12 months ending May 2009. An uncertain employment outlook affects consumer confidence. Prospective home buyers are unlikely to make a large purchase unless they feel secure in their jobs.

Although net employment in Washington declined, the region is shedding lower-paying jobs while adding higher-wage positions. The region saw job growth in high-paying fields such as Professional/Business Services and Education/Health services over the 12 months ending May 2009. In addition, stimulus spending is generating government employment; the region added 9,200 Federal jobs in the 12 months ending May 2009.

However, simply adding high-paying jobs is not enough to pull the region out of the national recession. Potential buyers must also feel secure in their employment, so business conditions and the national economy affect those decisions.

Beyond the region's employment, a return to evenhanded **lending standards** will help the area's housing market, particularly for higher-end homes. During the housing boom, lax lending rules led to some borrowers who

were overextended and at risk of foreclosure. In recent years, risk-averse lenders have swung the pendulum of standards to the other end, requiring high down payments and limiting mortgages to a lower loan to income ratio than the historical norm. Now, even creditworthy borrowers may have trouble finding attractive terms for a high-end home. Lenders should take on more risk when warranted – steadily employed borrowers, stable jobs, good credit – without a return to the no-doc, quick-approval loans that were a hallmark of the boom years.

The average price of a home in the Washington area is \$382,515 at the 2nd quarter of 2009, below the conventional loan threshold of \$417,000. However, the average price of a home in the Core jurisdictions is above that threshold, at \$497,216. Loans greater than \$417,000 but under the Washington area's extended conforming limit of \$729,750 are known as "conforming jumbo," which feature higher interest rates and often stricter financial requirements for the borrowers.

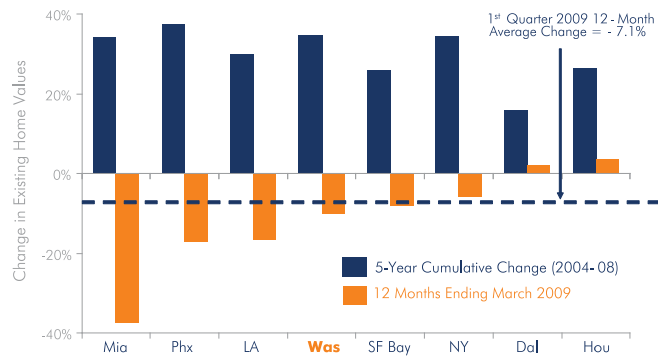
Loans above \$729,750, or jumbo loans, are the most expensive to the borrower. Jumbo loans are not Federally guaranteed and come with higher rates, around 6% compared with 5.2-5.3% for a conventional loan, as of early July.

In the Washington market, which features an ample supply of high-priced homes, a return to lender normalcy will help facilitate recovery in the market's higher end. Those buyers tend to be move-up buyers, which will in turn create inventory for first-time and lower-end buyers as they make sales.



CHANGE IN EXISTING HOME VALUES SELECT METRO AREAS

Figure 14



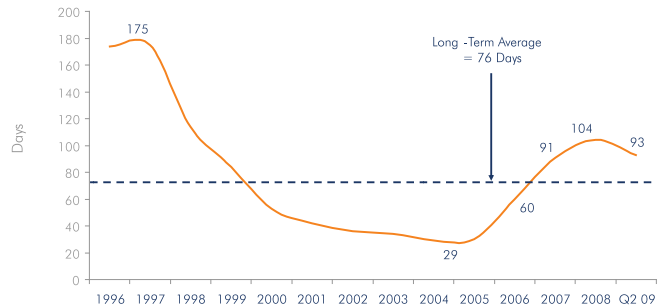
Source: FHFA, GMU Center for Regional Analysis, Delta Associates; July 2009.

Summary:

The Washington area saw a -10.0% change in existing home values for the 12 months ending March 2009 (per FHFA data), below the national average of -7.1%.

AVERAGE DAYS ON MARKET - EXISTING HOUSES WASHINGTON METRO AREA 1996 THROUGH 2ND QUARTER 2009

Figure 15



Source: MRIS, GMU Center for Regional Analysis, Delta Associates; July 2009.

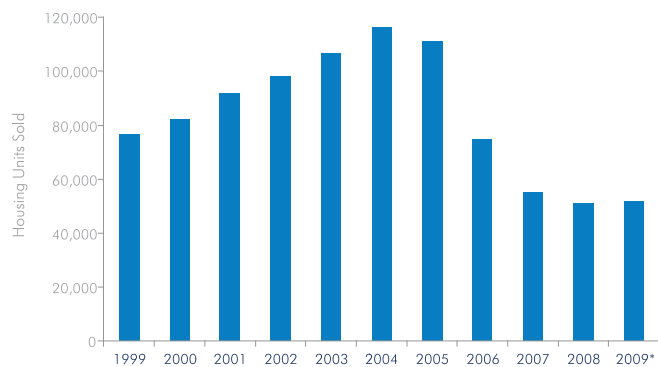
Summary:

The average time on the market in 2nd quarter 2009 was 93 days, down from 110 days at 1st quarter and 103 days one year earlier.

SALES VOLUME

WASHINGTON METRO AREA, ALL HOUSING TYPES
1999 THROUGH 2ND QUARTER 2009

Figure 16



*2nd quarter sales, annualized.

Source: MRIS, Delta Associates; July 2009.

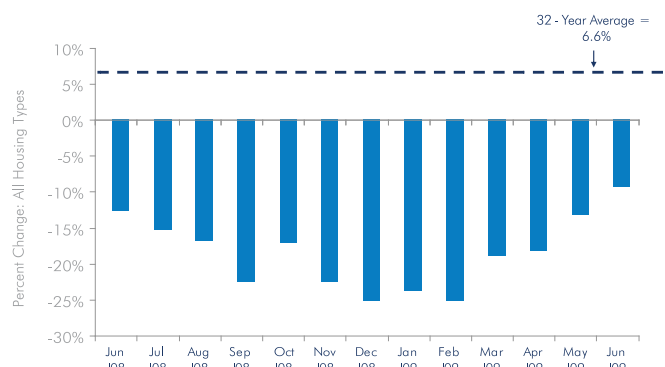
Summary:

Through June, the 2009 sales volume was 25,824 homes. At this pace, annualized sales volume will be 1.0% higher than in 2008. Sales volume in the 2nd quarter of 2009 was 7.0% higher than in the 2nd quarter of 2008, helping to offset weak volume in the first three months of the year.

SALES PRICE CHANGE - TRAILING 12 MONTHS

WASHINGTON METRO AREA
JUNE 2008 vs. JUNE 2009

Figure 17



Source: MRIS, GMU Center for Regional Analysis, Delta Associates; July 2009.

Summary:

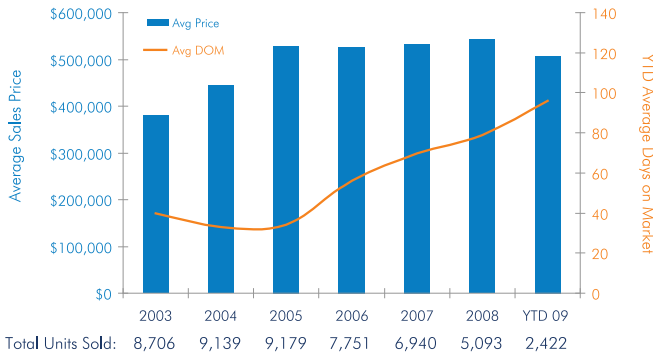
Prices have declined in each month of 2009. On a 12-month trailing basis, prices in April 2009 were 18.2% lower than in April 2008. In May 2009, prices were 13.2% lower than in May 2008. Average home prices in June 2009 were 9.5% lower than in June 2008.

SUMMARY DATA ON THE MID-ATLANTIC HOUSING MARKET



DISTRICT OF COLUMBIA HOUSING MARKET INDICATORS 2003 THROUGH 2ND QUARTER 2009

Figure 18

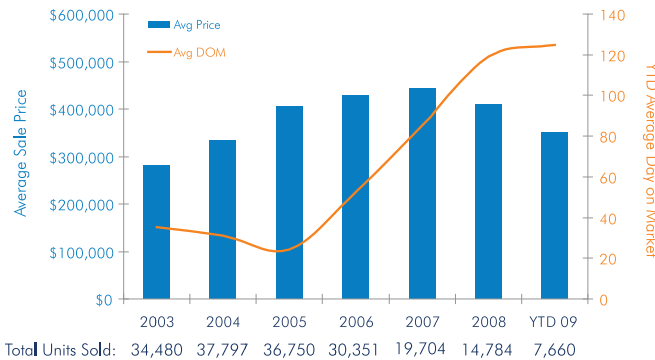


Source: MRIS, Delta Associates; July 2009.

Summary: Prices rose 4.1% in the 2nd quarter of 2009 from the previous quarter, though they were 9.8% lower than one year earlier. Average time on market in the 2nd quarter is 90 days, down from 105 days in the 1st quarter but up from 76 days one year ago. Annualized 2009 unit sales volume is 95% of the 2008 total.

SUBURBAN MARYLAND HOUSING MARKET INDICATORS 2003 THROUGH 2ND QUARTER 2009

Figure 20



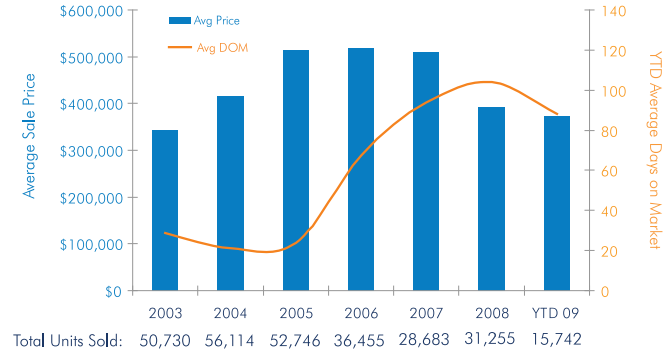
Includes: Frederick, Prince George's, and Montgomery Counties.

Source: MRIS, Delta Associates; July 2009.

Summary: Prices rose 7.0% in the 2nd quarter of 2009 from the previous quarter, but they are down 17.8% from one year ago. Average days on market fell to 119 from 136 in the previous quarter. Annualized unit sales for 2009 are 4% higher than in 2008.

NORTHERN VIRGINIA HOUSING MARKET INDICATORS 2003 THROUGH 2ND QUARTER 2009

Figure 19



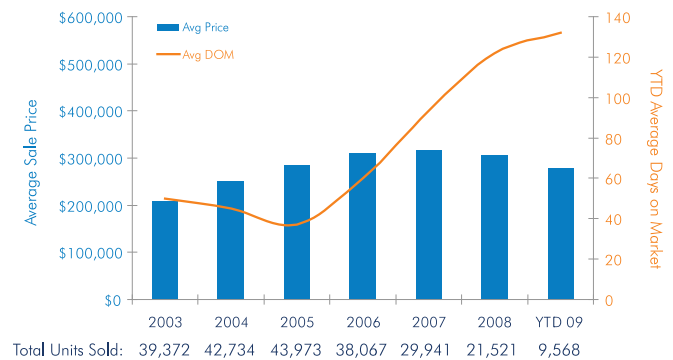
Includes: Arlington, Fairfax, Fauquier, Loudoun, and Prince William Counties; Alexandria, Fairfax, and Falls Church Cities.

Source: MRIS, Delta Associates; July 2009.

Summary: The average price in the 2nd quarter of 2009 rose 15.7% from the 1st quarter, though it is 11.5% lower than one year earlier. Time on market averaged 79 days in the 2nd quarter – the lowest of any substate area and below the regional average. Annualized unit sales for 2009 is 100% of 2008 unit sales.

BALTIMORE AREA HOUSING MARKET INDICATORS 2003 THROUGH 2ND QUARTER 2009

Figure 21



Includes: Anne Arundel, Carroll, Harford, Howard, and Baltimore Counties; Baltimore City.

Source: MRIS, Delta Associates; July 2009.

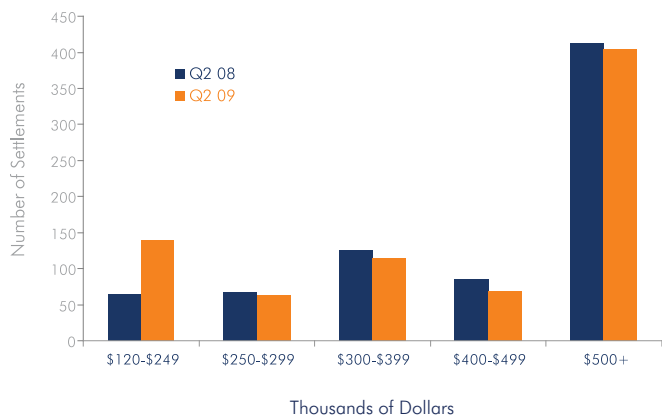
Summary: The average sales price in the 2nd quarter of 2009 rose 1.7% from the previous quarter but was 11.3% lower than one year earlier. Time on market averaged 126 days in the 2nd quarter, down from 141 days in the previous quarter. Annualized unit sales for 2009 are 89% of the 2008 total.

SUMMARY DATA ON THE MID-ATLANTIC HOUSING MARKET



DISTRICT OF COLUMBIA SINGLE-FAMILY SALES

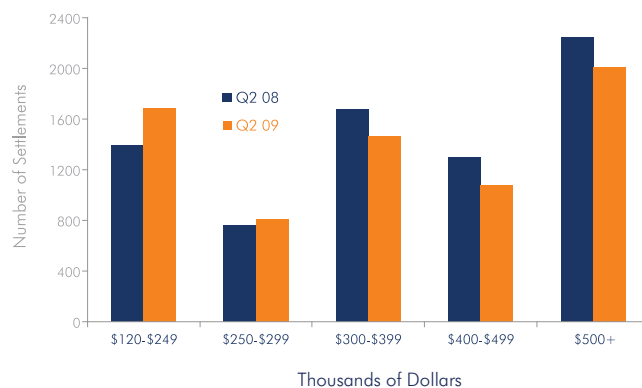
Figure 22 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Source: MRIS, Delta Associates; July 2009.

NORTHERN VIRGINIA SINGLE-FAMILY SALES

Figure 23 2ND QUARTER 2008 vs. 2ND QUARTER 2009

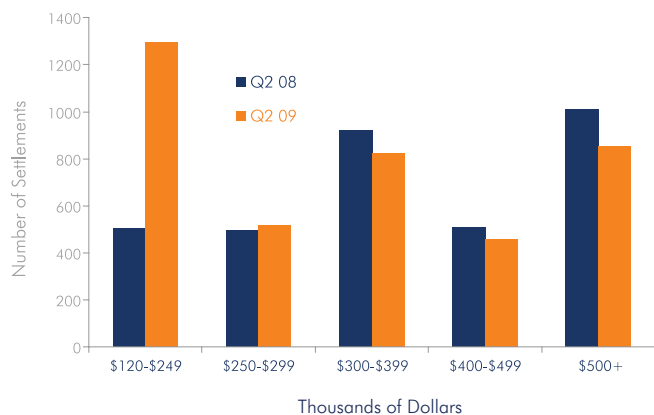


Includes: Arlington, Fairfax, Fauquier, Loudoun, and Prince William Counties; Alexandria, Fairfax, and Falls Church Cities.

Source: MRIS, Delta Associates; July 2009.

SUBURBAN MARYLAND SINGLE-FAMILY SALES

Figure 24 2ND QUARTER 2008 vs. 2ND QUARTER 2009

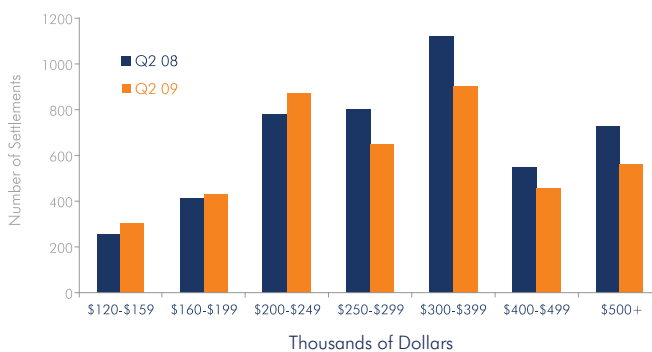


Includes: Frederick, Prince George's, and Montgomery Counties.

Source: MRIS, Delta Associates; July 2009.

BALTIMORE AREA SINGLE-FAMILY SALES

Figure 25 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Includes: Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties; Baltimore City.

Source: MRIS, Delta Associates; July 2009.

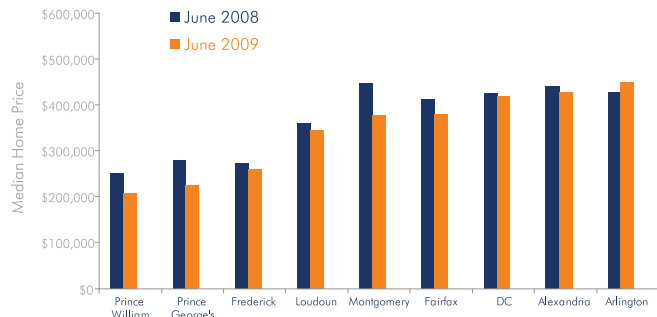
SUMMARY DATA ON THE MID-ATLANTIC HOUSING MARKET



MEDIAN SOLD PRICE

SELECTED WASHINGTON METRO AREA JURISDICTIONS
JUNE 2008 vs. JUNE 2009

Figure 26

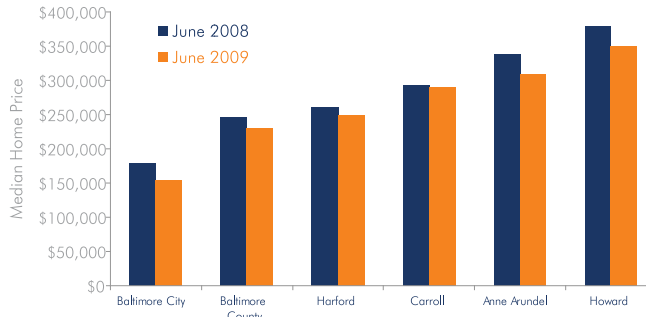


Source: MRIS, Delta Associates; July 2009.

MEDIAN SOLD PRICE

SELECTED BALTIMORE METRO AREA JURISDICTIONS
JUNE 2008 vs. JUNE 2009

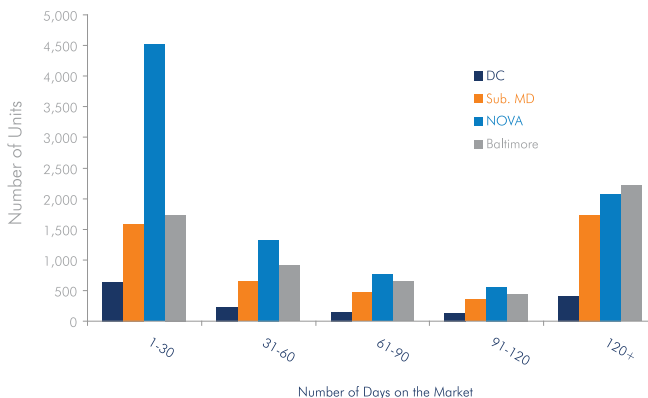
Figure 27



Source: MRIS, Delta Associates; July 2009.

SALES BY DAYS ON MARKET 2ND QUARTER 2009

Figure 28



Source: MRIS, Delta Associates; July 2009.

Herndon, a town of 22,000 in Fairfax County, was in the national spotlight two years ago as having a particularly high level of foreclosures. Herndon is a magnet for many construction workers – often immigrants – who were left unemployed when the Credit Crunch in 2007 brought most work to a halt.

In the following year, foreclosures spiked in Herndon, and one study called the town an “impending hot spot” for foreclosure concentration. However, Herndon was one of the first areas in the region to suffer severe price declines, and it is just now showing signs of strength along with the rest of the region.

For the Zip code 20170, which includes Herndon, the average sales price of \$305,184 in the 2nd quarter of 2009 represented a 37.9% gain from the 1st quarter, and a modest – 0.4% – gain from the 2nd quarter of 2008. However, the 2nd quarter 2009 average sales price is down 40.1% from the 1st quarter of 2007. A relatively small number of sales – 176 in the 2nd quarter – contributes to greater swings in sales price. (See Figure 29)

As prices have fallen, homes have sold more quickly than in the Washington region as a whole. The average time on market in the 2nd quarter of 2009 was 40 days in Herndon, well below the regional average of 93 days and below the city’s recent high of 78 days one year ago.

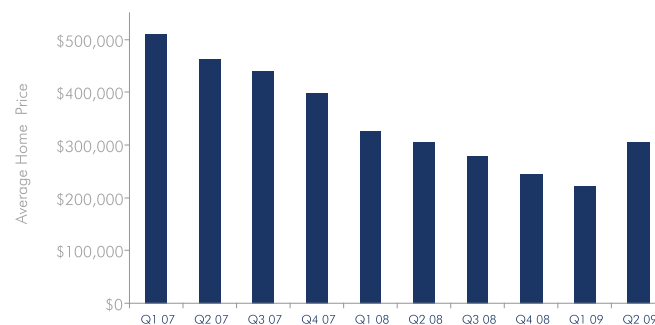
The Herndon Zip code currently is experiencing high buyer interest, though sales often involve a third party. As of mid-July, there are 84 actively marketing properties for sale, of which 27 are in foreclosure or are listed as a short sale. There are an additional 207 homes under contract, of which 151, or 72.9%, are in foreclosure or are being marketed as a short sale.

As of June 2009, Herndon has a 3.8-month ratio of inventory to sales, down from 6.4 months at June 2008. That ratio is below the regional average of 5.1 months and is one indicator of a recovering housing market. However, until Herndon can resolve the foreclosures and short sales, further near-term price declines are not improbable. Once the volume of distressed sales abates, Herndon should be well-poised for future housing market growth and recovery.

AVERAGE SALES PRICE

HERNDON

Figure 29 1ST QUARTER 2007 - 2ND QUARTER 2009



Note: For Zip Code 20170, which includes Herndon.

Source: MRIS, Delta Associates; July 2009.

Beyond Loudoun and Prince William counties lay Washington's exurbs in Northern Virginia – the counties of Culpeper, Stafford and Spotsylvania, plus Fredericksburg City. Collectively, these jurisdictions help bolster the economy of both Washington and Richmond.

Employment in Culpeper, Stafford, Spotsylvania and Fredericksburg was essentially flat – increasing 0.2% – in the 12 months ending September 2008 (the most recent county-level data available). That change is lower than an annual gain of 1,700 jobs, or 1.6%, in all of 2007 compared to 2006. However, employment has likely continued to contract in Exurban Virginia in 2009, particularly as the Construction industry remains hard-hit and the national economic slowdown is constraining demand for goods and services.

Education and Health posted the strongest performance, adding 1,230 jobs – 9.8% – in the 12 months ending September 2008. Financial Services employment rose by 270 jobs, or 3.5%, in the same time period. The Construction industry posted the steepest decline, shedding 1,460 jobs, or 16.7%, in the 12 months ending September 2008, compounding annual sector employment declines of 13.6% from 2006 to 2007.

As the economy has contracted, home prices have fallen in Exurban Virginia. The area particularly suffered from an oversupply of homes in new developments on Washington's fringe. In early 2008, there was 13.1-months' worth of homes for sale at the then-current sales pace. The elevated inventory pushed time on market to nearly 150 days in early 2008. Since then, home prices have fallen to help stimulate market activity; as a result, both time on market and the ratio of inventory to listings have declined.

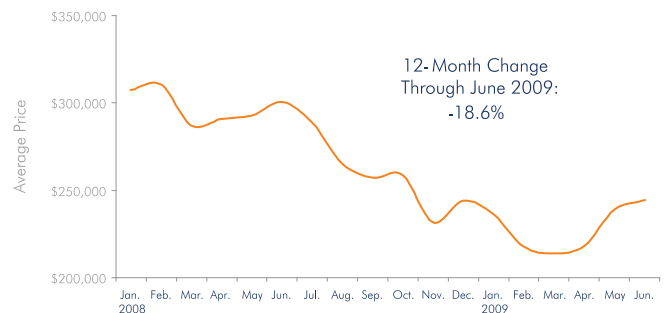
The average selling price of a home in Exurban Virginia is \$235,046 at 2nd quarter 2009, up 6.4% from the 1st quarter of 2009 but down 20.3% from the 2nd quarter 2008. Median prices in June 2009 were down in all jurisdictions compared with one year earlier.

(See Figures 30 and 31)

Homes in Exurban Virginia averaged 103 days on the market in the 2nd quarter of 2009, 10 days longer than the metropolitan Washington area. That duration is down sharply from 128 days in the 1st quarter of 2009 and 134 days one year earlier. A combination of tightening inventory and Federal incentives for buyers has helped stimulate the exurban market. (See Figure 32)

AVERAGE SALES PRICE BY MONTH EXISTING HOUSES - EXURBAN VIRGINIA JANUARY 2008 - JUNE 2009

Figure 30

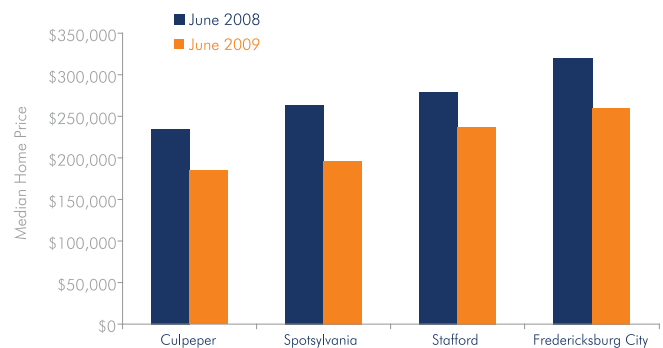


Note: Includes Culpeper, Spotsylvania and Stafford counties and the city of Fredericksburg.

Source: MRIS, Delta Associates; July 2009.

MEDIAN SOLD PRICE EXURBAN VIRGINIA JURISDICTIONS JUNE 2008 vs. JUNE 2009

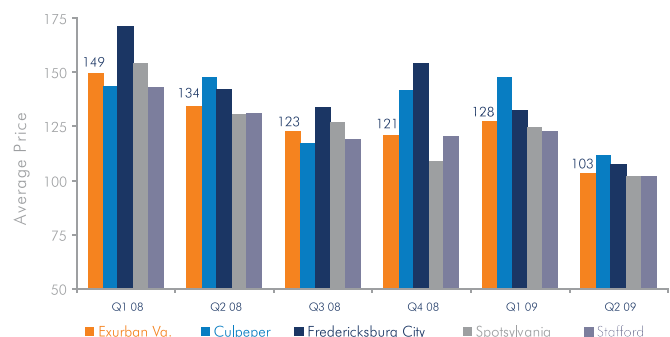
Figure 31



Source: MRIS, Delta Associates; July 2009.

AVERAGE DAYS ON MARKET EXISTING HOUSES - EXURBAN VIRGINIA 1ST QUARTER 2008 - 2ND QUARTER 2009

Figure 32



Note: Includes Culpeper, Spotsylvania and Stafford counties and the city of Fredericksburg.

Source: MRIS, Delta Associates; July 2009.

There were 1,221 home sales in the 2nd quarter of 2009, a 17.5% increase over the 2nd quarter of 2008. Year-to-date, total unit sales in 2009 are 22.6% higher than this time last year.

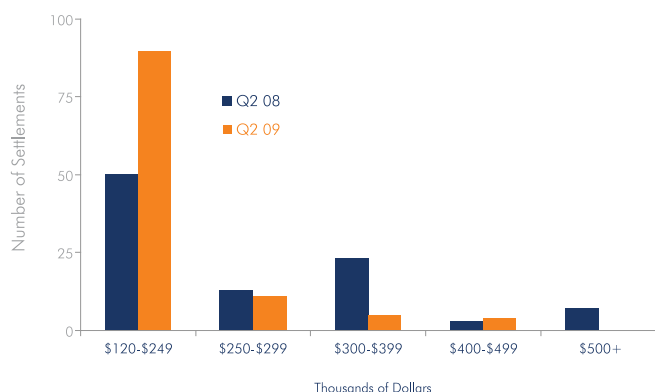
Buyers and sellers remain disconnected on home pricing in Exurban Virginia. In the 2nd quarter, homes sold for an average of 89.0% of list price. For the past six quarters, homes have sold for less than 90% of asking price. Seller concessions are helping facilitate the Exurban Virginia housing recovery. The ratio of listings to sales stands at 5.2 months' worth of inventory at June 2009, down from 9.8 months one year ago.

While distressed sales have put downward pressure on prices in Exurban Virginia – as in the rest of the region – low prices are spurring buyer interest, and supply and demand are beginning to approach a balance in Exurban Virginia. If the number of homes listed remains steady and buyer interest persists, Exurban Virginia is well-poised to see continued declines in time on market through 2009, with possible price traction in 2010.

(See Figures 33, 34, 35 and 36)

CULPEPER COUNTY SINGLE-FAMILY SALES

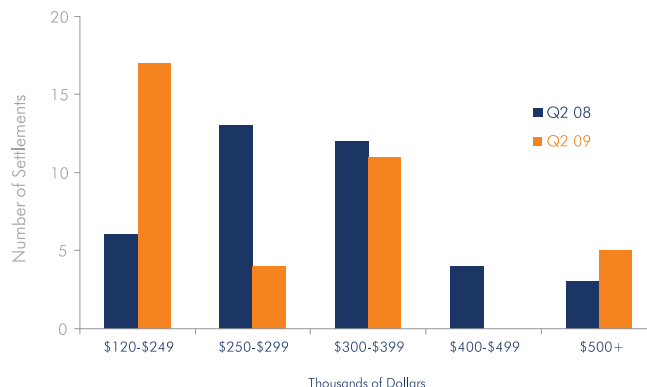
Figure 33 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Source: MRIS, Delta Associates; July 2009.

FREDERICKSBURG CITY SINGLE-FAMILY SALES

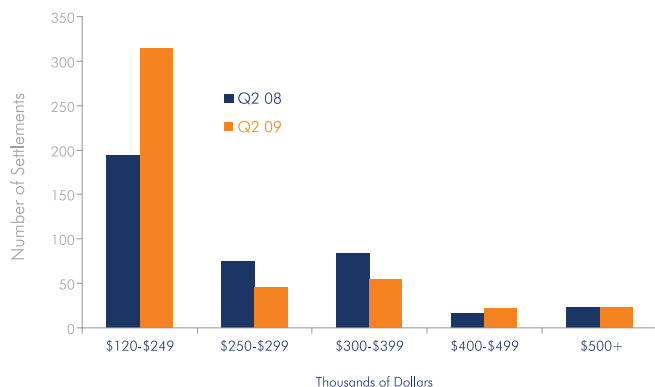
Figure 34 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Source: MRIS, Delta Associates; July 2009.

SPOTSYLVANIA COUNTY SINGLE-FAMILY SALES

Figure 35 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Source: MRIS, Delta Associates; July 2009.

STAFFORD COUNTY SINGLE-FAMILY SALES

Figure 36 2ND QUARTER 2008 vs. 2ND QUARTER 2009



Source: MRIS, Delta Associates; July 2009.

The Washington area economy shed 35,300 jobs in the 12 months ending in May 2009, a departure from the long-term average of adding 52,100 jobs per annum. However, the region has a relatively low unemployment rate and one of the strongest economic bases in the country, buoyed by Federal stimulus administration. (See Figure 37)

Job Change

With 3.0 million payroll jobs, the Washington metro area ranks the fourth-largest job base among metro areas, behind New York, the LA Basin and Chicago.

Despite ailing conditions, Washington maintains the lowest unemployment rate and one of the strongest economic bases, as the metro area remains one of the top economic centers in the nation, even during recessionary periods.

Washington is affected by the national recession, but it is outperforming other large metropolitan areas. Over the 12 months ending May 2009, more than 200,000 jobs were shed in Chicago and New York, and more than 300,000 jobs were shed in the LA Basin. Furthermore, while Washington is experiencing negative net job change, it is adding high-end jobs while shedding low-end jobs.

Job Change by Sector

Employment in the service-providing sector declined by 15,800 jobs in the 12 months ending May 2009. Over the same period, employment in the goods-producing sector declined by 19,500 jobs.

The top three sectors leading job growth in the metro area over the 12 months ending May 2009 are Professional and Business Services, Education/Health and Government.

The **Professional and Business Services** sector gained 6,600 jobs during the 12 months ending May 2009, below the 15-year annual average of 20,300.

The **Education and Health** sector gained 2,500 new jobs in the previous 12 months, below the 15-year annual average of 8,300.

The **Government** sector added 9,500 new jobs in the past 12 months, of which nearly all – 9,200 – were at the Federal government level.

The **Financial** sector contracted by 3.8%, shedding 6,000 jobs in the 12 months ending May 2009.

Unemployment Rate

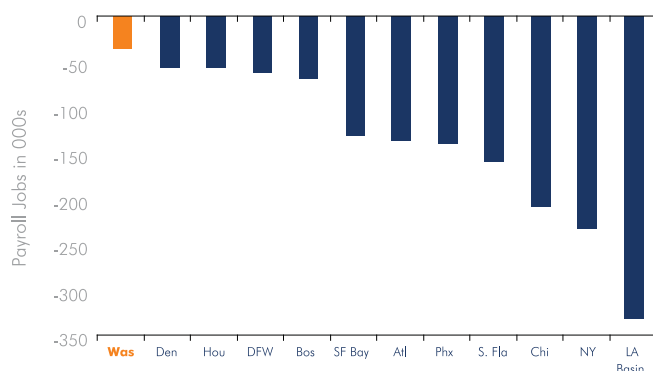
The Washington area unemployment rate is 6.2% at May 2009, up 270 basis points from one year earlier. The current unemployment rate is above the average unemployment rate of the 1990s, which was 3.9%.

The Washington metro area has the lowest unemployment rate among comparable metros and compares favorably to the national rate of 9.4% in May 2009. The U.S. rate rose to 9.5% when June data was released. (See Figure 38)

PAYROLL JOB CHANGE

LARGE METRO AREAS
12 MONTHS ENDING MAY 2009

Figure 37

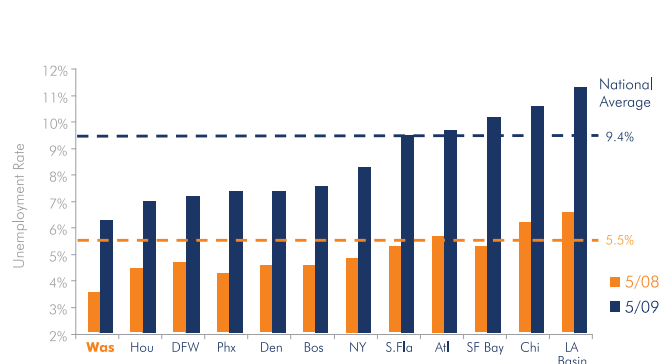


Source: BLS, Delta Associates; July 2009.

UNEMPLOYMENT RATES

LARGE METRO AREAS
MAY 2008 vs. MAY 2009

Figure 38



Source: BLS, Delta Associates; July 2009.

Coincident Index

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, was 105.6 in March 2009, below the 20-year average of 107.9. However, the index increased from 104.1 in February as consumer confidence edged up.

Although the index is lingering around the level experienced during the slowdown of 2001, it remains well above the level experienced during the early 1990s recession. (See Figure 39)

The Washington Region's Core Industries

The Washington area's gross regional product (GRP) was \$401.3 billion in 2008, an increase of 3.1% from revised 2007 figures. We expect the GRP to grow modestly in 2009.

Approximately one-third of the GRP was generated by the Federal government – the region's most important core industry. A core industry is one that imports capital and exports a good or service. Total Federal spending in the Washington metro area was up in 2008 to \$131.6 billion, a 5.6% increase from 2007. (See Figure 40)

In 2008, Federal procurement¹ spending increased 10%, based on revised data, above the historic average of 7.3%. Procurement spending is projected to rise 13.2% in 2009, to \$75.3 billion in current-year dollars, accounting for 53% of all Federal funds flowing into the area economy. These procurement funds have a much greater secondary economic impact than salary dollars spent on the Federal payroll.

Washington Area Economic Outlook

We expect the Washington metro area economy to moderate in 2009, with few employment gains and a rising unemployment rate. Consumer confidence should remain low, as uncertainty surrounding the Federal bailout/stimulus remains.

Although we expect slowing conditions, the local economy should grow 1.2% in 2009, as the metro area benefits from being the seat where national economic recovery is managed. Conditions should further stabilize in 2010 as the national economy regains its footing.

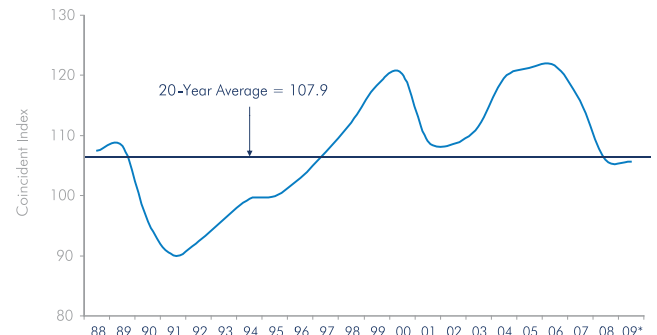
The Government and Professional and Business Services sectors should continue to grow jobs, as Federal funding targets both sectors. The Construction and Retail sectors should continue to experience declines, as groundbreakings have ceased and consumerism has declined.

In consultation with Dr. Stephen Fuller of George Mason University, **we project that 13,500 new payroll jobs will be created in the Washington area in 2009 – with gains back-ended as the government staffs up later in the year.** Job growth will rise in 2010, with 34,100 new jobs and gain steam in 2011 with 42,400 new jobs. (See Figure 41)

¹/Federal procurement is the government's outsourcing of work to the private sector and is the most important component of Federal spending.

COINCIDENT INDEX WASHINGTON MSA 1988 - 2009

Figure 39



* At March 2009.

Source: GMU Center for Regional Analysis, Delta Associates; July 2009.

CORE SECTORS OF THE ECONOMY WASHINGTON METRO AREA

Figure 40

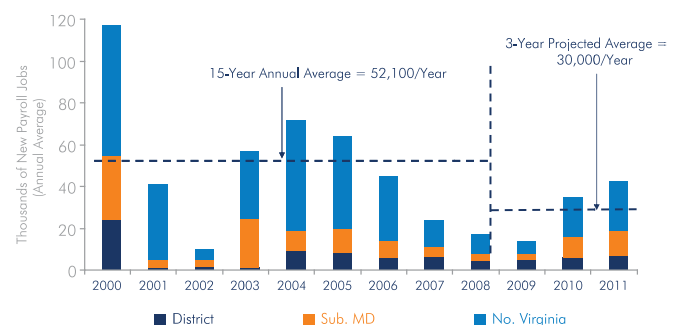
	2008		2009	
	\$	%GRP	\$	%GRP
GRP in Billions				
Total Federal \$s	\$131.6	32.8%	\$141.7	34.5%
Portion Procurement	\$66.5	16.6%	\$75.3	18.3%
Technology	\$60.0	14.9%	\$63.1	15.4%
Building Industry	\$23.1	5.8%	\$23.1	5.6%
Int'l Business	\$18.8	4.7%	\$19.4	4.7%
Hospitality	\$7.8	1.9%	\$8.0	2.0%
Other	\$160.0	39.9%	\$155.2	37.8%
Total GRP	\$401.3	100.0%	\$410.5	100.0%

Note: Figures are estimates in current-year dollars and have been revised.

Source: Dr. Stephen Fuller, Delta Associates; July 2009.

PAYROLL JOB GROWTH WASHINGTON METRO AREA 2000 - 2011

Figure 41



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005.

Source: Dr. Stephen Fuller, Delta Associates; July 2009.

The Baltimore metro area is feeling the pinch of the national recession, as the region shed 39,200 jobs in the 12 months ending May 2009. Baltimore unemployment rose, though it was below the national average. Overall, the Baltimore area will feel the impact of the national recession in 2009, as job reductions accelerate, then lessen as the year comes to a close. However, given stimulus funding and a solid core economic base, this area will recover quickly and remain stable in the long term.

Job Growth by Sector

Baltimore employment declined by 39,200 jobs in the 12 months ending May 2009. Education/Health and Government were the only sectors to add jobs during that period.

The **Education/Health** sector created 3,800 payroll jobs over the 12 months ending May in the Baltimore area. Of these new jobs, 87% (on a net basis) were created in the health field.

The **Government** sector added 1,700 jobs in the 12 months ending May, of which 65% (on a net basis) were at the Federal government level.

The **Professional/Business** sector shed 6,800 payroll jobs in the 12 months ending May 2009. Employment in the Financial Services sector declined by 5,900 over the same period.

Unemployment Rate

The Baltimore area unemployment rate was 7.6% in May 2009, up from 4.1% one year prior. Though unemployment remains elevated by local historical standards, the Baltimore area unemployment rate compares favorably to the national rate of 9.4% in May 2009, which rose to 9.5% in June.

The Baltimore Region's Core Industries

The Federal and State government represents 18.1% of the Baltimore metro area's gross regional product (GRP). The financial and professional services core industry is a comparable size. Baltimore's GRP in 2008 totaled approximately \$133.0 billion, growth of 2.0% from \$130.2 billion in 2007. We expect growth to slow in 2009 as the Baltimore metro continues to feel the effects of the national recession. (See Figure 42)

Baltimore Area Economic Outlook

We expect the Baltimore metro to increasingly feel the impact of the national recession during 2009, as this metro will not be immune to the nation's downward pressure. However, we believe conditions will start to improve modestly in late 2009, with recovery underway in 2010.

We anticipate employment will increase gradually, but will be below the long-term average. Job gains will continue in the Education/Health sector, as Johns Hopkins University and the University of Maryland, Baltimore are economic powerhouses in the metro area and are to benefit from the American Recovery and Reinvestment Act. BRAC will also benefit the metro, as employment gains are realized soon at Ft. Meade and Aberdeen.

We expect employment to decline by 15,000 jobs in 2009, as the economy slows further. Job growth will start to recover in 2010 and 2011 with 7,000 and 12,000 new jobs, respectively. Although we project job growth in 2010 and 2011, growth will still be below the 15-year average of 14,900 jobs per annum.

CORE INDUSTRIES OF THE ECONOMY

BALTIMORE AREA
2008

Figure 42

Core Industries	\$ (Bil.)	% GRP*
Federal/State Government	\$24.1	18.1%
Financial/Professional Services	\$24.1	18.1%
Education/Health	\$10.5	7.9%
Construction	\$10.5	7.9%
Manufacturing	\$5.2	3.9%
Hospitality/Tourism	\$4.2	3.1%
Transportation/Warehousing	\$4.2	3.1%
Other	\$50.2	37.8%
Total GRP*:	133.0	100.0%

*GRP = Gross Regional Product

Note: Core industry subcomponents were redefined in June 2007.

Source: Dr. Stephen Fuller, Delta Associates; July 2009.

THE WASHINGTON METRO CONDOMINIUM MARKET

The state of the Washington condo market at Mid-Year 2009:

- **Sales Volume:** New unit sales volume (defined as net binding contracts written with security deposits up) during the 2nd quarter reached 618 units. The spring selling season brought new buyers to the condo market, many of whom were waiting on the sidelines. As a result, **new condo sales during the second quarter of 2009 were double the amount of the first quarter** and reached above 600 units for the first time since the 3rd quarter of 2007.
- **Prices:** While continuing to hold up better than the single-family market, condo sales prices have edged down. Effective new condo prices were down 3.9% metro-wide from 12 months ago, with bigger declines in Suburban Maryland. Resale prices declined by 12.7% during the past 12 months, with bigger declines in the outer suburbs of Northern Virginia.
- **Concessions:** Down in the District, but up in the suburbs. Metro-wide, concessions are up slightly, averaging 3.7% of the purchase price at mid-year 2009 (up 20 basis points from one year ago).
- **Pipeline:** Down. There are currently 8,480 unsold condominium units that are actively marketing in the metro area. As a result, there is now 5.1 years' worth of inventory of product on the market at current rates of sales velocity in the metro area. Arlington/Alexandria and the District are well below the metro average.
- **Sales Pace:** Projects that have sold out in the past two years have averaged about three unit sales per month.

During the 2nd quarter, there were 618 net new unit sales in the metro area. In the past 12 months, there were a total of 1,667 sales, about 25% less than that of the prior 12-month period. The most sales during the past 12 months have occurred in Arlington and the City of Alexandria, and the District.

Concession rates declined in the District, however, the lowest concession rate in the metro area is in Anne Arundel/Howard at 2.0%. Conversely, the highest concession rate in the metro area is in Prince George's County at 5.2%.

The Washington metro area currently has an inventory of 8,480 new units to sell – perhaps a 5.1-year inventory at current rates of net sales velocity. The number of projects due to deliver will diminish to near zero by the end of the year inside the Beltway, with few contract cancellations left

to offset gross sales. However, there are a significant number of units still under construction in the Outer suburbs, so the potential for contract cancellations will remain for those areas during the balance of 2009. As long as mortgage interest rates remain low and job growth remains at the upper income levels, we expect a net sales pace of 2,000 to 3,000 units per annum over the next two years. With this, **select jurisdictions will find equilibrium arriving quickly – perhaps in late 2009 or in 2010.**

THE BALTIMORE METRO CONDOMINIUM MARKET

There were 162 net sales in the Baltimore metro area during the 2nd quarter of 2009, the highest quarterly volume seen in years. Sales increased in all jurisdictions from the prior quarter, except for the Southern Suburbs.

Effective new condo prices are down 6.5% metro-wide in the 12 months ending June 2009. Price declines in the Northern Suburbs are approaching 10%; in Baltimore City, prices have declined by only 4.4%.

Concessions are up slightly metro-wide from last year. Currently, projects in the Northern Suburbs are offering the most concessions, at 5.0%, though that is down from 5.3% one year ago. The Southern Suburbs are offering concessions of 2.0%, and Baltimore City concessions are 3.9%. The metro average for concessions is 4.1%.

The actively marketing pipeline has declined since the first quarter, mainly due to sales activity. There are 2,623 unsold units currently marketing, including 2,479 units that are either under construction or delivered. In addition, there are 1,434 units planned with probable sales within the next 36 months. There are an additional 3,900 units in the long-term pipeline in the Baltimore metro area, as well as 6,100 multifamily units planned as either condominiums or rental units.

The inventory-to-sales ratio of condos in the Baltimore metro area has dropped significantly compared to the first quarter, but it is still too high. Since most of the condo pipeline has already delivered in the metro area, we expect contract cancellations will have less of an effect on net sales velocity in the second half of 2009.

We look to 2011-12 as the period when price traction could return to the market, but mounting job losses in Baltimore may affect the timing of the recovery of the housing market in general.

THE WASHINGTON AREA APARTMENT MARKET

The Washington metro area continues to be one of the better apartment markets in the nation due to:

1. A job market that, while losing lower wage earners, is still adding higher wage earners—those who occupy Class A apartments.
2. A transient work force that has produced a large pool of Class A renters by choice.
3. A stalled housing market that has turned would-be purchasers into renters.

However, our projections of a more competitive market have begun to be evident. While several quarters of weaker performance are ahead for the Washington metro, the groundwork is being laid for stronger market conditions in 2011 and 2012, and an emerging product shortage by late 2012 or 2013.

- The pipeline of supply continues to decline from its peak in the 4th quarter of 2007.
- Annualized Class A absorption exceeds 8,000 – the highest of any metro market in the country and the highest we have ever recorded in the Washington metro.

Highlights of the Washington apartment market performance as of mid-year 2009:

- The region's **stabilized vacancy rate** for investment grade apartments (Class A and B) increased to 4.3% from 3.6% a year ago. With the national rate at 6.6%, this is one of the lowest vacancy rates of any metro in the nation.
- **Rents decreased** over the past 12 months for all investment grade product – down 1.4% since June 2008. Class A rents declined by 1.8% during this period, compared to growth of 1.8% at mid-year 2008.
- **Annual net absorption**, at 5,210 Class A and B apartments, remains strong; however, dis-absorption of Class B apartments accelerated over the quarter. Annual Class A absorption continued its upward climb to 8,294 units – a nation-leading pace. Average monthly absorption at new projects was 15 units per project per month, buoyed by large concessions at newly delivered projects. Even so, this rate is remarkable, as the number of projects in lease-up now totals 47.
- **Concessions** at Class A projects continued to edge higher, to 6.2% of face rent, compared to mid-year 2008, when they were 4.1% of face rent. This upward trend began in the 1st quarter of 2007 as the market became more competitive.
- **Pipeline:** After rising from a historically low 18,000 units in 2005, the pipeline ballooned to 36,951 units in December 2007, largely driven by the rever-

sion of condominium projects. In the 1st quarter of 2008, the pipeline began its cyclical decline, and has continued downward to 20,771 units as of mid-year 2009. We believe this downward trend will continue over the next year due to the difficulty of obtaining credit.

THE BALTIMORE AREA APARTMENT MARKET

Recently, the demand for rental housing has moderated as job growth in the Baltimore area has turned negative and supply has increased.

Apartment market highlights at mid-year 2009:

- **Stabilized Class A vacancy** is the same as last year at this time across the metro area, at 5.4%. Baltimore's Southern submarkets are down to 4.7% from 4.9% a year ago. Baltimore's Northern submarkets are also lower at 4.9%, down from 5.6% last year. In addition, the Baltimore region's vacancy rate is well below the national average of 6.6%.

Concessions in the Baltimore metro area have risen compared to the same time last year (5.7% compared to 4.0%).

- **Average effective rents** in the metro area are \$1,353 (\$1.36 per SF). Rent growth in this metro area is essentially flat over the year at negative 0.1%. Year-over-year, rents in the Baltimore suburbs grew slightly this quarter by 0.2%. Effective rents in the Southern Suburbs grew by 1.3% from mid-year 2008 and the Northern Suburbs fell 1.2% from last year. Effective rent growth in the Baltimore City submarkets was negative over the year, falling 1.4% in both the Fells Point/Inner Harbor and Downtown submarkets.
- **The supply pipeline** metro-wide has recently trended downward but did not continue that trend this quarter. Some 4,072 units are planned to deliver in the next 36 months in the Baltimore metro area (up from the 3,761 units planned this time last year). These counts exclude Baltimore's southernmost suburbs: Anne Arundel and Howard Counties (whose units are also counted in the Washington metro pipeline).

Lease-up pace for actively marketing projects in the Baltimore area averages eight units per month per project. Projects that have recently stabilized have slightly better average lease-up paces of 10 per month for garden properties and nine per month for high-rise properties.

Although the pipeline has trended down in recent quarters, we project that supply will slightly exceed the number of units that will be absorbed in the Baltimore area over the next 36 months. This suggests that while occupancy and rent growth will continue to be positive over the next three years, they will still warrant close monitoring.

The Washington area economy shed 35,300 jobs in the 12 months ending in May 2009, a departure from the long-term average of adding 53,400 jobs per annum. Despite moderating local economic conditions, it does not compare to the deterioration seen in other metro areas nor at the national level.

THE WASHINGTON AREA OFFICE MARKET

Despite softening conditions, the metro area remains one of the top performing markets in the nation. The Washington metro area office market is in the correction phase of the cycle.

Mid-year 2009 Washington office market highlights:

- **Net absorption:** 307,000 SF in the 2nd quarter, compared to the quarterly average of 900,000 SF in 2008.
- **Overall vacancy rate:** 12.1%, up from 10.0% one year ago. Fourth-lowest rate in the nation. (See Figure 43)
- **Space under construction:** 10.5 million SF, down from 18.9 million SF one year ago.
- Space U/C is 32% **pre-leased**, compared to 27% one year ago.
- **Effective rents:** down 1.5% in the 1st half, compared to an increase of 0.1% in 2008.
- **Investment sales:** \$245 million in the 2nd quarter, compared to the quarterly average of \$919 million in 2008. 1st half 2009 average sale price: \$298/SF.

The Washington metro area market should remain one of the best performing office markets in the nation. However, we expect market conditions to wane during the balance of the year. The recession should bottom out by year-end 2009 and start a slow recovery during 2010, as the Federal government's bailout activities begin to ramp up hiring and office leasing. However, real growth will not be felt until 2011.

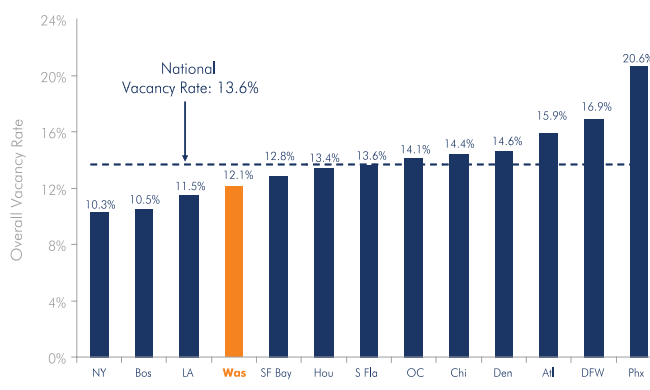
Overall, the long-term outlook for the metro area remains positive, driven by the continued activity of the Federal government.

THE BALTIMORE AREA OFFICE MARKET

The Baltimore metro area office market experienced slow market conditions during the 2nd quarter of 2009. Although absorption was slightly positive, it was boosted by pre-leased deliveries. Vacancy is elevated, as it increased 120 basis points during the past year. However, this rise is modest due to the stability of the health industry located here. Tenants remain frozen in leasing decisions, waiting for an improving economic climate. Although construction levels have declined since last year, a handful of spec projects have started or planned to start by year-end, as developers rely on tenants relocating to the area under the Base Realignment and Closure (BRAC) decision. Rents ticked down during the past six months, as property owners with available space struggle to obtain tenants. Although the Baltimore metro area is poised for slowing conditions in the near-term, the market should stabilize quicker than other metro areas because of the expanding health care industry here.

OFFICE VACANCY RATES SELECTED METRO AREAS MID-YEAR 2009

Figure 43



Source: CoStar, U.S. Census, Delta Associates; July 2009.

Mid-year 2009 Baltimore office market highlights:

- **Net absorption:** positive 37,000 SF in the 2nd quarter, compared to the quarterly average of 350,000 SF during 2008.
- **Overall vacancy rate:** 12.8%, up from 11.6% one year ago.
- **Space under construction:** 1.7 million SF, down from 4.2 million SF one year ago.
- **Rents:** down 2.2% during the 1st half of 2009, compared to a decline of 0.5% in 2008.
- **Investment sales:** \$88.5 million in the 2nd quarter. 1st half 2009 average sales price: \$221/SF.

We expect the Baltimore area office market to experience sluggish conditions during the remainder of 2009, with improvement in 2010. We expect job losses in 2009, mainly in the Construction and Retail sectors, which are non-office-using. Growth should continue in the Education/Health sector, as stimulus funding spurs activity in this core industry. We expect vacancy to rise during the last two quarters of 2009, as tenants refrain from leasing new space until improving conditions are felt. We believe vacancy will start to edge down during 2010 and be below today's vacancy rate by June 2011, as the economy improves and tenants relocate here due to the Department of Defense's BRAC decision.

We anticipate rents will edge down this year, but may rise in 2010 as leasing activity improves. **In the long term, the Baltimore metro area is well positioned for steady future growth, as the health and life-science industries fuel demand in the area.**

THE WASHINGTON AREA RETAIL MARKET

Incomes in the Washington metro area grew by 27.5% from 2000 to 2008, compared to 19.9% nationally. By 2013, the Washington metro area's average household income is projected to rise 15.2%, compared to a rise of 11.6% nationally, and enough to support future retail growth.

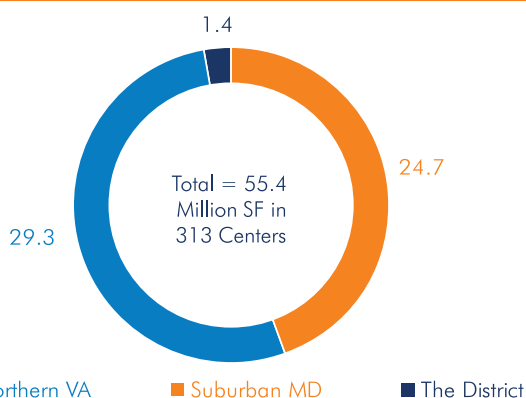
The Washington metro area has over 117 million SF of retail space, inclusive of all types of retail, in over 1,000 shopping centers. Northern Virginia is home to more than half of the total metro retail inventory.

Of the total retail inventory in the Washington metro area, 55.4 million SF is located in 313 grocery-anchored shopping centers, which is almost half of the total retail inventory in the metro area. Grocery-anchored centers are less severely impacted by the national recession. (See Figure 44)

Metro-wide vacancy at grocery-anchored centers edged up over the past year to 3.7% at year-end 2008, from 2.3% one year earlier. The Suburban Maryland vacancy rate at year-end 2008 was 3.8%, a rise of 163 basis points over the prior year. The Northern Virginia vacancy rate was 3.6%, a rise of 119 basis points since year-end 2007. Although the metro-wide retail vacancy rate inched up in 2008, it remains below the peak vacancy of 4.8% at year-end 2002, experienced during the last economic slowdown. (See Figure 45)

GROCERY-ANCHORED SHOPPING CENTERS
WASHINGTON METRO AREA - 2009
(MILLIONS OF SQUARE FEET)

Figure 44



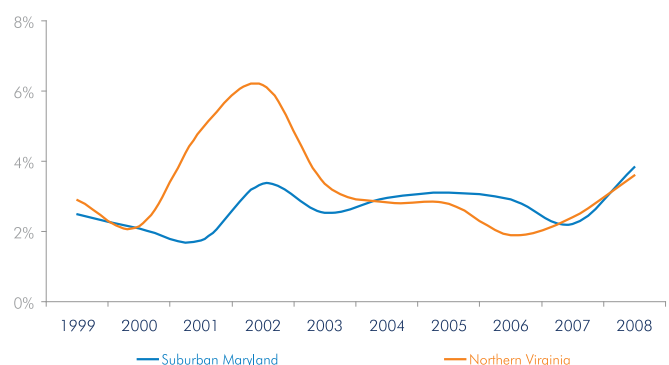
Note: Estimate

Source: Delta Associates; July 2009.

GROCERY-ANCHORED SHOPPING CENTER VACANCY RATES

Figure 45

WASHINGTON METRO AREA 1999 - 2008



Source: Delta Associates; July 2009.

Rental rates at grocery-anchored centers increased 1.7% in 2008, after rising 3.9% in 2007. Although vacancy ticked up in 2008, it remained low enough to support rent increases. Metro-wide average in-line tenant rents were \$33.71/SF at year-end 2008. Suburban Maryland rents at year-end 2008 were \$33.89/SF, compared to Northern Virginia at \$33.51/SF. (See Figure 46)

Although rents were slow to climb in 2008, the rate of growth was stronger compared to the last economic slowdown of 2001 and 2002, when rents declined 4.0% and 2.1% per year, respectively. If lackluster consumer spending continues to drive up retail vacancy rates, rents could flatten or decline in 2009.

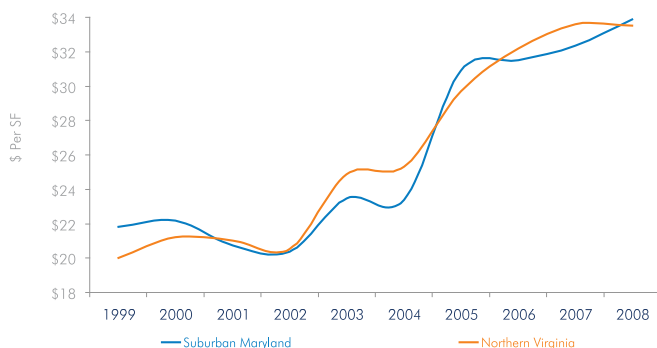
The metro area has 25.1 SF of retail space per capita, above the national average of 20.0. The area remains underserved as the growing population continues to demand retail services, particularly in the District of Columbia where there is just 8.7 SF of retail space per capita. (See Figure 47)

Just over half of the Washington area shopping centers are over 25 years old, while only 15% are aged ten years or less. Although new retail projects have entered the market, older centers remain the bulk of retail space – providing opportunity for renovation and upgrade.

Tenants will control the market during 2009 – a period of increased competition. Owners who have the cash to make substantial upgrades, particularly at strong locations, will be doing so. Renovating is likely to attract higher-caliber tenants and generate additional cash flow.

GROCERY-ANCHORED SHOPPING CENTER ASKING RENTS

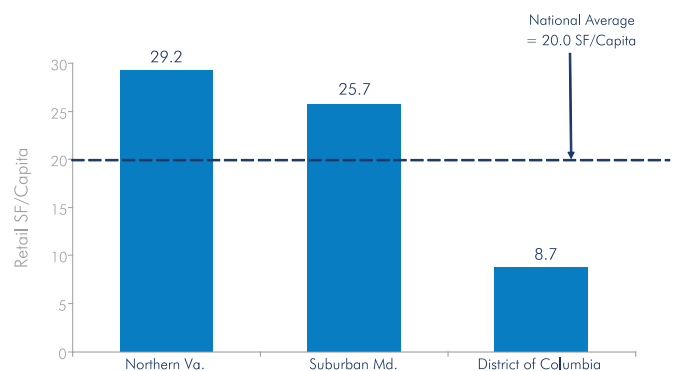
Figure 46 WASHINGTON METRO AREA 1999 - 2008



Source: Delta Associates; July 2009.

RETAIL SPACE PER CAPITA WASHINGTON METRO AREA 2009

Figure 47



Source: CoStar, U.S. Census, Delta Associates; July 2009.

SINGLE-FAMILY HOUSING DATA

Northern Virginia is defined as Arlington, Fairfax, Fauquier, Loudoun, and Prince William Counties; Alexandria, Fairfax, and Falls Church Cities.

Suburban Maryland is defined as Frederick, Montgomery, and Prince George's Counties.

Exurban Virginia, featured in Section 7 of this issue, is Culpeper, Spotsylvania and Stafford Counties and Fredericksburg City.

The Washington Metro Area describes all of the jurisdictions listed above and the District of Columbia.

The Baltimore Metro Area is defined as Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties; Baltimore City.

COMMERCIAL REAL ESTATE DATA

Office, Apartments, Condominiums

Northern Virginia is defined as Arlington, Fairfax, Loudoun, and Prince William Counties; Alexandria, Fairfax, and Falls Church Cities.

Suburban Maryland is defined as Frederick, Montgomery, and Prince George's Counties.

The Washington Metro Area is defined by all of the jurisdictions listed above, plus the District of Columbia.

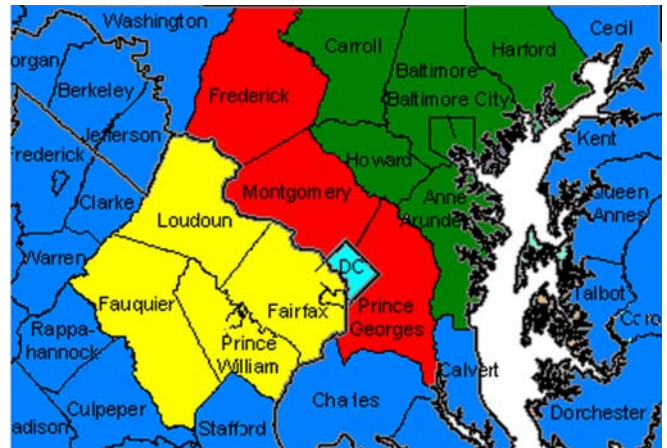
The Baltimore Metro Area is defined as Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties, plus Baltimore City.

Retail

Northern Virginia is defined as Arlington, Fairfax, Loudoun, and Prince William Counties; Alexandria, Fairfax, and Falls Church Cities.

Suburban Maryland is defined as Montgomery and Prince George's Counties.

The Washington Metro Area is defined by all of the jurisdictions listed above, plus the District of Columbia.



BUREAU OF LABOR STATISTICS METRO AREA DEFINITIONS

Atlanta

Atlanta-Sandy Spring-Marietta, GA

Austin

Austin-Round Rock, TX

Boston

Boston-Cambridge-Quincy, MA-NH (Metropolitan NECTA)

Chicago

Chicago-Naperville-Joliet, IL-IN-WI
(Non-Metropolitan Division)

Dallas-Fort Worth

Dallas-Forth Worth-Arlington, TX

Denver

Denver-Aurora, CO + Boulder, CO

Houston

Houston-Sugar Land-Baytown, TX

LA Basin

Los Angeles-Long Beach-Glendale, CA (Metropolitan Division)
Riverside-San Bernardino-Ontario, CA
Santa Ana-Anaheim-Irvine, CA (Metropolitan Division)

New York

New York-Northern New Jersey-Long Island, NY-NJ-PA

Phoenix

Phoenix-Mesa-Scottsdale, AZ

San Antonio

San Antonio, TX

San Francisco Bay

San Francisco-Oakland-Fremont, CA + San Jose-Sunnyvale-Santa Clara, CA

South Florida

Fort Lauderdale-Pompano Beach-Deerfield Beach, FL
Miami-Miami Beach-Kendall, FL
West Palm Beach-Boca Raton-Boynton Beach, FL

Washington

Washington-Arlington-Alexandria, DC-VA-MD-WV
(Non-Metropolitan Division)

MRIS

Metropolitan Regional Information Systems, Inc. (MRIS) is the nation's largest Multiple Listing Service. MRIS serves over 51,000 real estate professionals spanning Maryland, the District of Columbia, Northern Virginia, and parts of West Virginia and Pennsylvania – a total of 22,000 square miles.

Customers currently have access to over 78,000 active listings, an archive of 3.0 million "comparable" listings and in excess of 5.0 million public records containing tax, assessment, and deed transfer information about properties throughout the region. The cutting edge technology designed by MRIS keeps real estate professionals' business ahead of the curve.

MRIS is owned by 25 Shareholder **REALTOR®** Associations and governed by brokers who rely heavily on input from the agents, brokers, and shareholders serving on vital committees.

When measuring both listing and selling agent activity, MRIS subscribers generated more than \$36 billion in sales volume and engaged in over 102,000 transactions in 2008.

For more information on MRIS, please visit:
mris.com

Delta Associates

Delta Associates, the research affiliate of Transwestern, is a firm of experienced professionals offering consulting and data services to the commercial real estate industry for over 25 years. The firm's practice is organized in four related areas:

- Consulting, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
- Valuation services for real estate companies and fractional interests in them.
- Distressed asset recovery services to include property performance analyses and enhancement studies, debt structuring evaluation and note valuations, portfolio assembly due diligence, valuations and litigation support.
- Subscription data for select metro regions for office, flex/industrial, retail, condominium, and apartment markets.

Delta's *Trends in Housing* team includes: Greg Leisch, Chief Executive; David Weisel, President, Consulting Division; Alexander (Sandy) Paul, National Research Director; and Ann Thompson, Senior Associate.

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