The Northern Virginia Housing Market…Like No Other

By Lisa A. Sturtevant, PhD
Research Assistant Professor
George Mason School of Public Policy
Center for Regional Analysis

Northern Virginia, like many other areas of the country, experienced a dramatic housing boom and bust in the first decade of the 21st century.[1] Between 2001 and 2005, home prices appreciated at double-digit rates. The average home price—for existing single-family homes and condominiums—peaked at nearly $520,000 in June of 2006. Prices in the closer-in jurisdictions of Arlington, Fairfax and the city of Falls Church peaked at even higher levels.

The Northern Virginia housing market cooled considerably in the second half of 2006 and 2007 and prices plummeted throughout 2008 and into 2009. The market deceleration was driven by a tightening of the mortgage market, a pull-back in demand and, in some neighborhoods, a deluge of foreclosures and short sales. Some of the region's price decline was a necessary correction for an aberrant escalation in the first half of the decade.

The recovery of the Northern Virginia housing market has been underway since late 2009. The bust period was deep but swift, and the recovery started sooner in Northern Virginia than in most other places in the country. The near-term outlook for the region's housing market is good, with a strong job forecast, historically low interest rates and months of pent-up housing demand. However, there are some uncertainties in the sustainability of the recovery, including continued limited available of credit and potential changes to the conditions of federally insured home loans.

Sales

At the height of the market, there was an average of more than 5,000 existing homes sales per month in Northern Virginia. According to MRIS, the region's multiple listing service, homes were on the market for an average of less than two weeks during this peak, though in reality, many homes were snatched up on the same day they were listed. Sales activity in the region slowed significantly in 2007 and 2008, and the average days on the market shot up to over 100 days.

The Federal tax credit for first-time homebuyers was authorized in 2009 with the goal of spurring home buying activity. The original tax credit program was set to expire at the end of 2009 but it was expanded and extended until June 2010. There is evidence that the tax credit was responsible for spurring on sales in many markets across the nation. However, in Northern Virginia, the market was already on the mend when the tax credit

[1] The Northern Virginia portion of the Washington DC metropolitan area includes Arlington, Fairfax, Loudoun, Prince William, Spotsylvania, Stafford, Fauquier, Clarke, and Warren counties and the cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park and Fredericksburg.

program was introduced. The incentive enhanced the recovery already underway and encouraged some buyers to purchase earlier than they had planned.

Sales activity in Northern Virginia started to increase in the summer of 2008, largely driven by a surge in sales in Prince William County. The sales and price declines in Prince William County were substantially greater than in other parts of Northern Virginia. The county was hard-hit by the region's first wave of foreclosures, as a result of a proliferation of subprime loans. The majority of the 2008 and 2009 sales in Prince William County were foreclosures and short sales.

Thus, when the Federal tax credit was enacted, sales activity in Northern Virginia was already on the upswing, with owners and investors taking advantage of low prices and confident in the fundamentals of the region's economy. In April 2011, there was a total of 2,807 sales of existing homes in Northern Virginia, a decline of 16 percent from April 2010 but about on pace with the April 2009 sales level.

Prices

Home prices in Northern Virginia increased dramatically in 2004 and 2005. Prices began to moderate in 2006 and, on an annual basis, were negative in 2007, 2008 and 2009. However, prices have been up in Northern Virginia since August 2009 and have been higher month-over-the year for 20 consecutive months. In late 2009 and early 2010, prices were up more than 10 percent over the same month in the year before. In April, the average price of an existing home in Northern Virginia was $392,000, up 4 percent over April 2010.

Prince William County has led the rebound in prices, with increases of 20 and 25 percent in the spring of 2010. But prices have stabilized and are on the rise in all parts of the region. The prices of single-family detached homes and townhouses have been up for 20 and 21 consecutive months, respectively. Condominium prices, on the other hand, have increased less consistently, with price increases in 11 of the past 21 months.

Outlook

The outlook for the Northern Virginia housing market is generally strong. Demand for housing will increase due to strong job growth projected for the region; Northern Virginia is expected to add 19,300 jobs in 2011. Many of these jobs will be in the relatively high wage professional and business services sector.

In addition to the housing demand created by job growth, several other factors indicate sustained improvement in the near-term housing market. First, there is pent-up demand for housing from people who have been waiting to buy. Second, interest rates remain at historically low levels and are not expected to rise significantly this year. Third, homeownership will become increasingly attractive in 2011 as rental vacancy rates fall and rents rise. Finally, residential construction has not yet fully rebounded. Construction of multi-family rental buildings, along with some condominium projects in key neighborhoods, has started. However, there are relatively few new single-family homes under construction and the limited supply will continue to put upward pressures on prices in 2011.

There a few signs that suggest caution in looking ahead. Home mortgages are still difficult for some potential home buyers to secure. In many cases, lenders are requiring a 10 and even 20 percent down payment, which is difficult for many first-time buyers and even some move-up buyers. At the end of 2011, it is possible that the Federal Housing Administration (FHA) will lower its loan limit from $729,750 back to $417,000, meaning that higher priced homes—including most of the single-family homes for sale in Northern Virginia—will be subject to higher interest rates on FHA-insured loans.

Overall, however, the signs point to the continued resurgence in the Northern Virginia housing market, though it will be important to watch for changes in the mortgage market and policy initiatives at the Federal level.