

The 14th Annual GMU Economic Conference

The Washington Area Housing Market in 2006 – A Year of Change?

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A
Housing Market
Bubble?



“We’ll take it.”

**THE
COMING
CRASH
IN THE
HOUSING
MARKET**

**10 THINGS YOU CAN DO NOW
TO PROTECT YOUR MOST
VALUABLE INVESTMENT**



JOHN R. TALBOTT

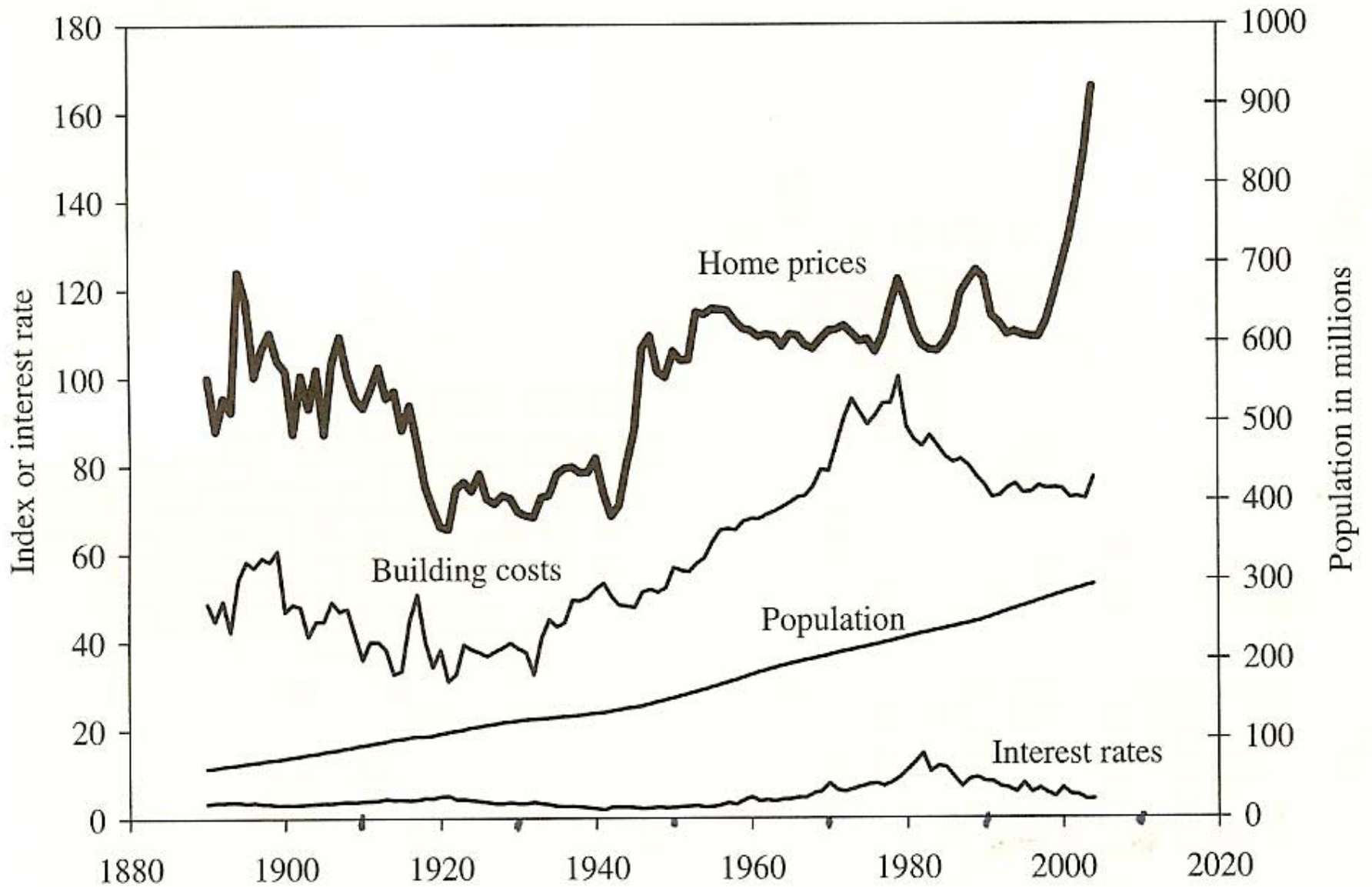
"A modern classic of 'serious' economics that demands to be read, and can be enjoyed, by the interested nonspecialist."
—The Economist

IRRATIONAL WALL EXUBERANCE

SECOND EDITION

ROBERT J. SHILLER

A completely revised and updated edition of the international bestseller, including analysis of the worldwide real estate bubble and its aftermath



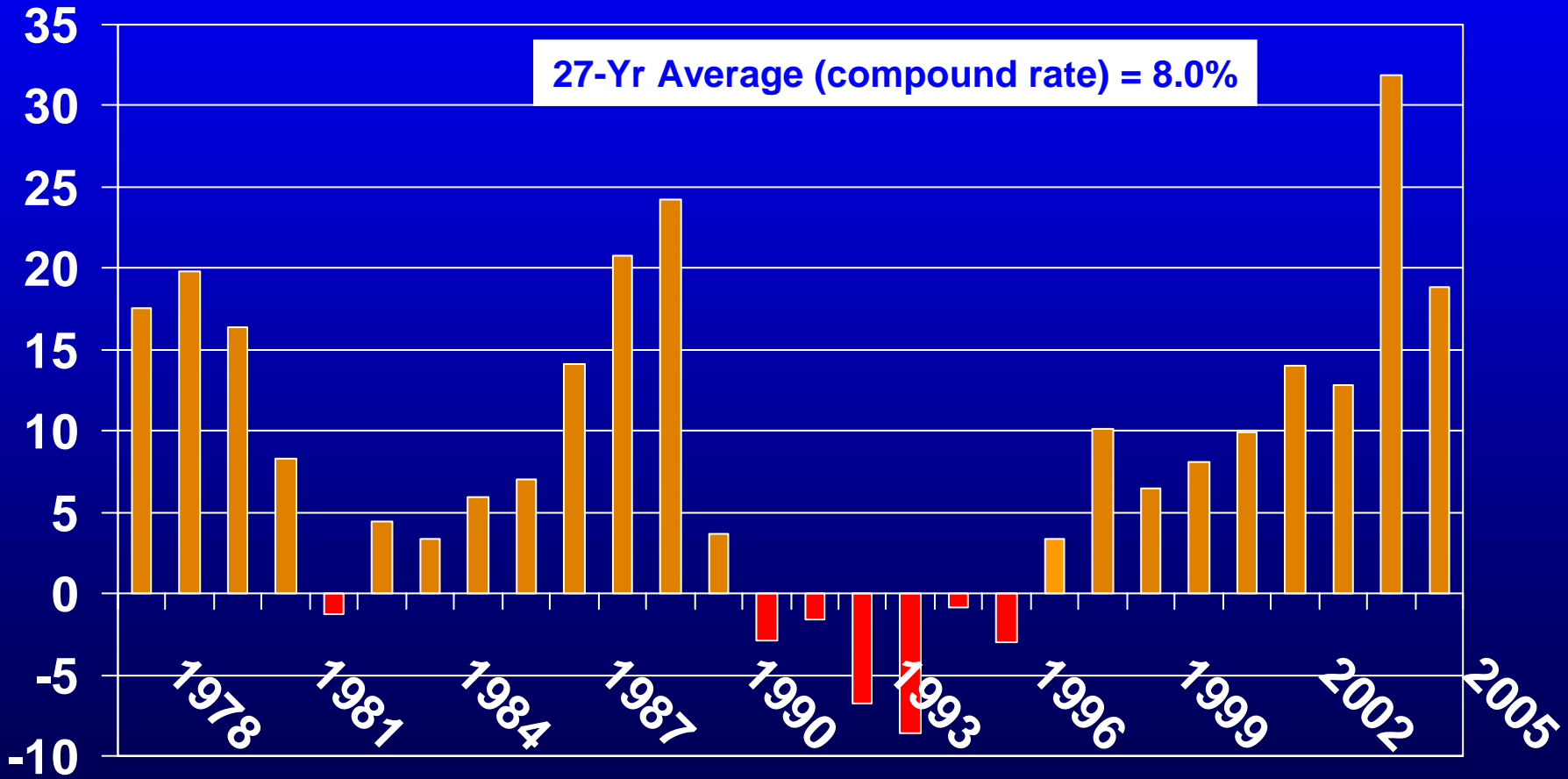
The New York Times

December 25, 2005

**“Take It From Japan:
Bubbles Hurt”**

Housing Price Index Annual % Change Los Angeles 3rd Quarter Each Year

1995 Q1=100



The Washington Area Housing Market

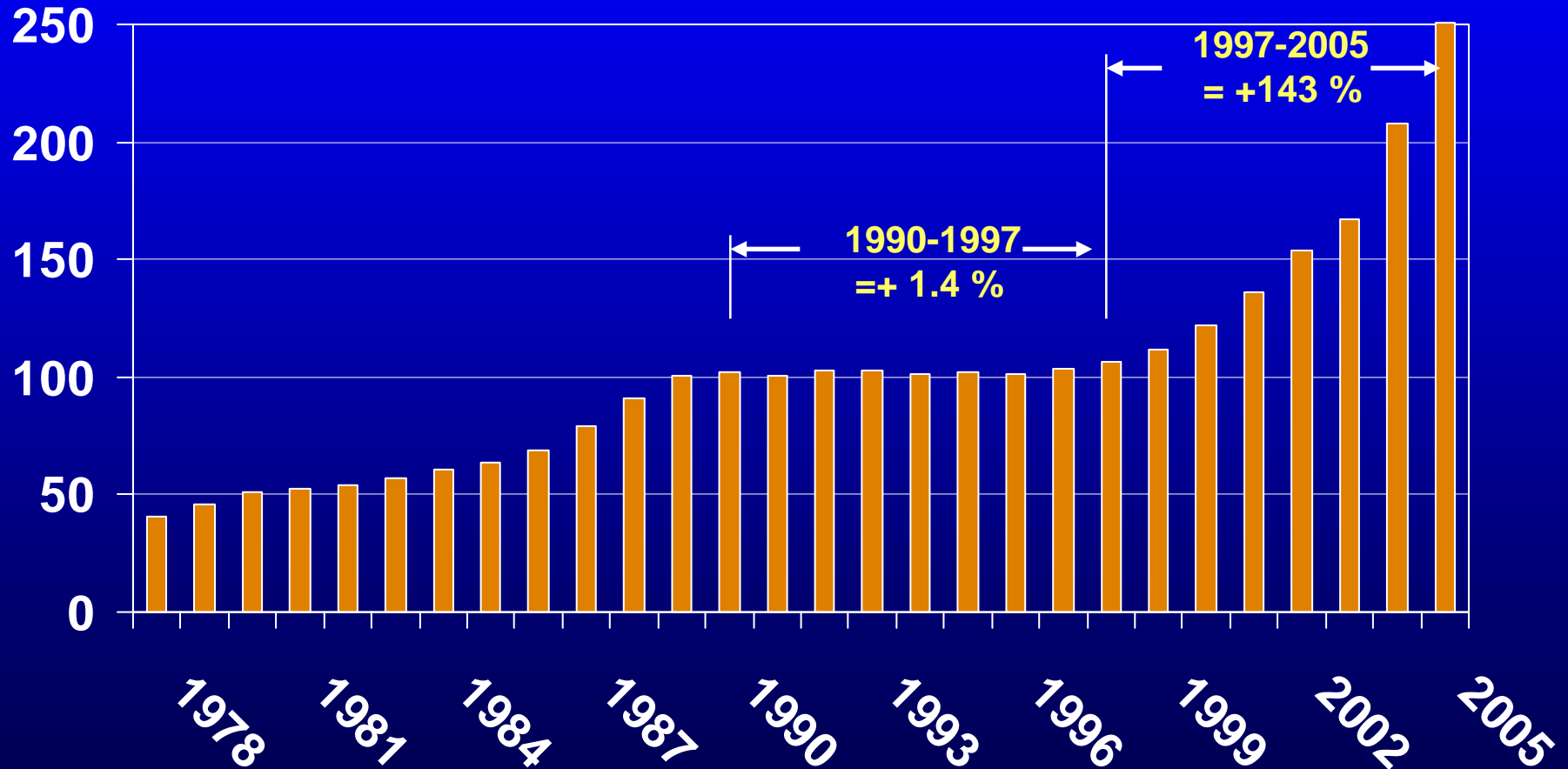
What is Happening?

- **Nationally – Low mortgage interest rates**
- **Job growth driving demand**
- **Housing supply constrained by collective planning and zoning policies of the local governments**

Result: Housing Sales and Prices Increasing at Record Levels

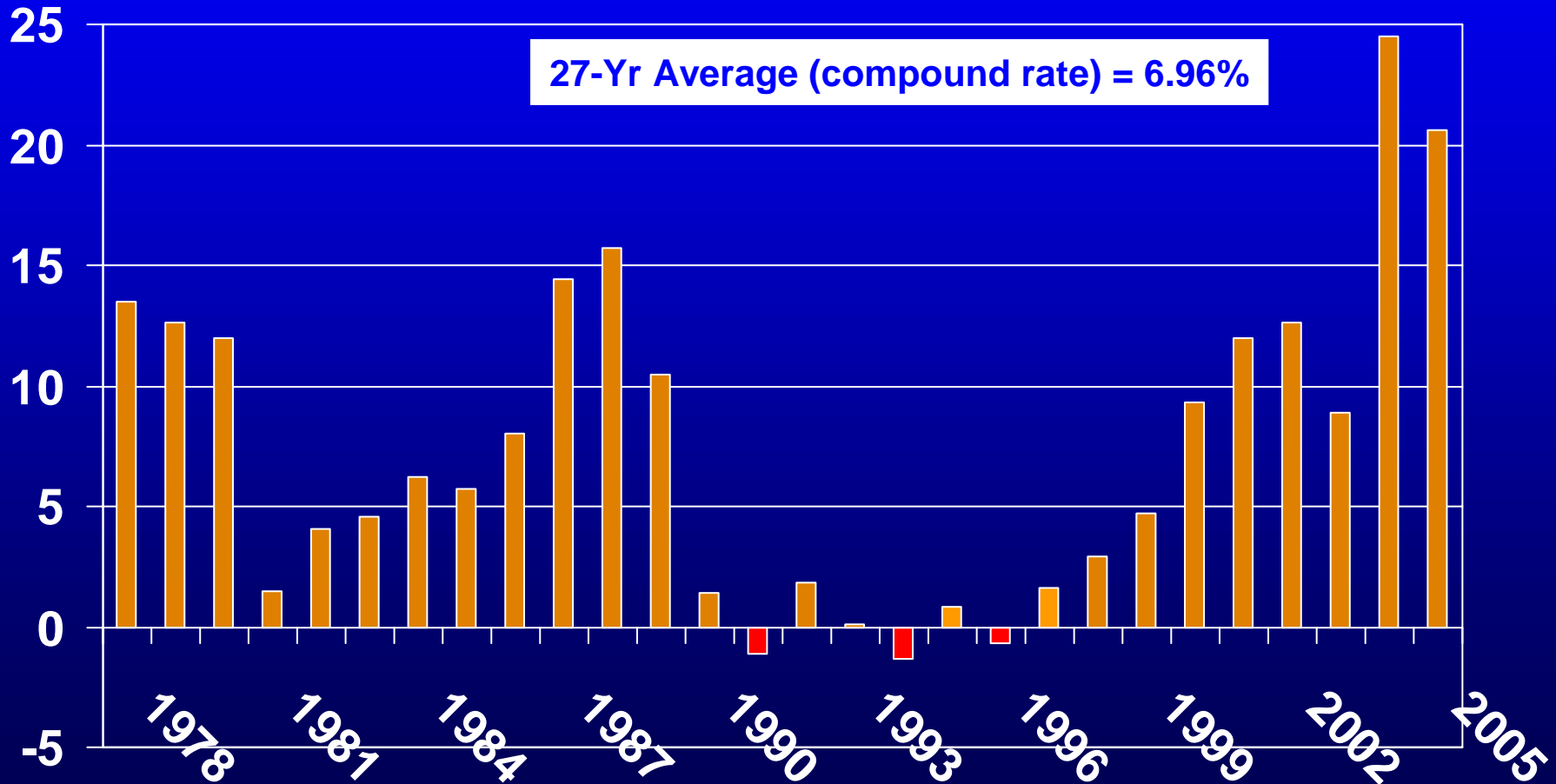
Housing Price Index Washington PMSA 3rd Quarter Each Year

1995
Q1=100



Housing Price Index Annual % Change Washington PMSA 3rd Quarter Each Year

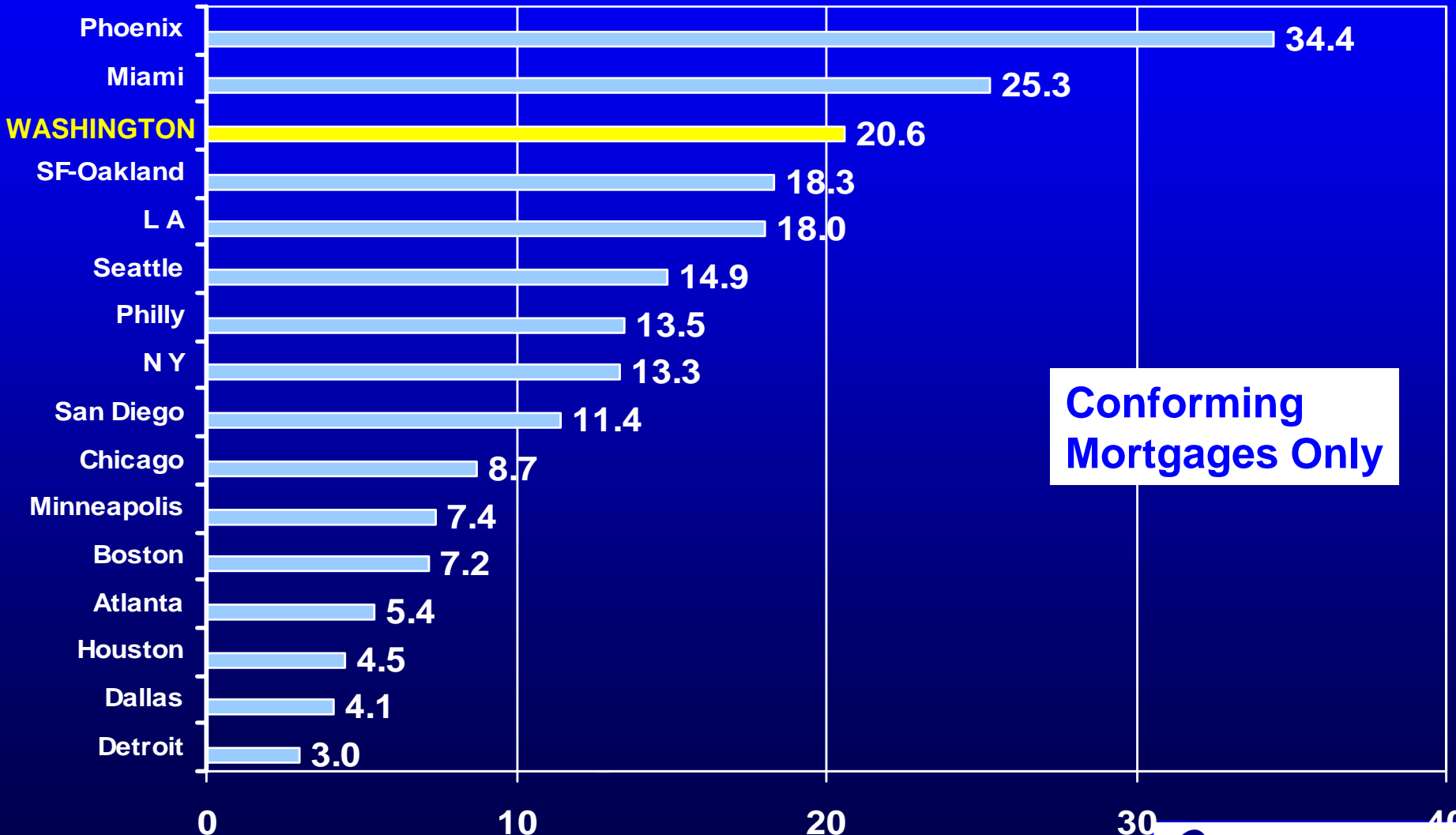
1995 Q1=100



Metro Comparisons

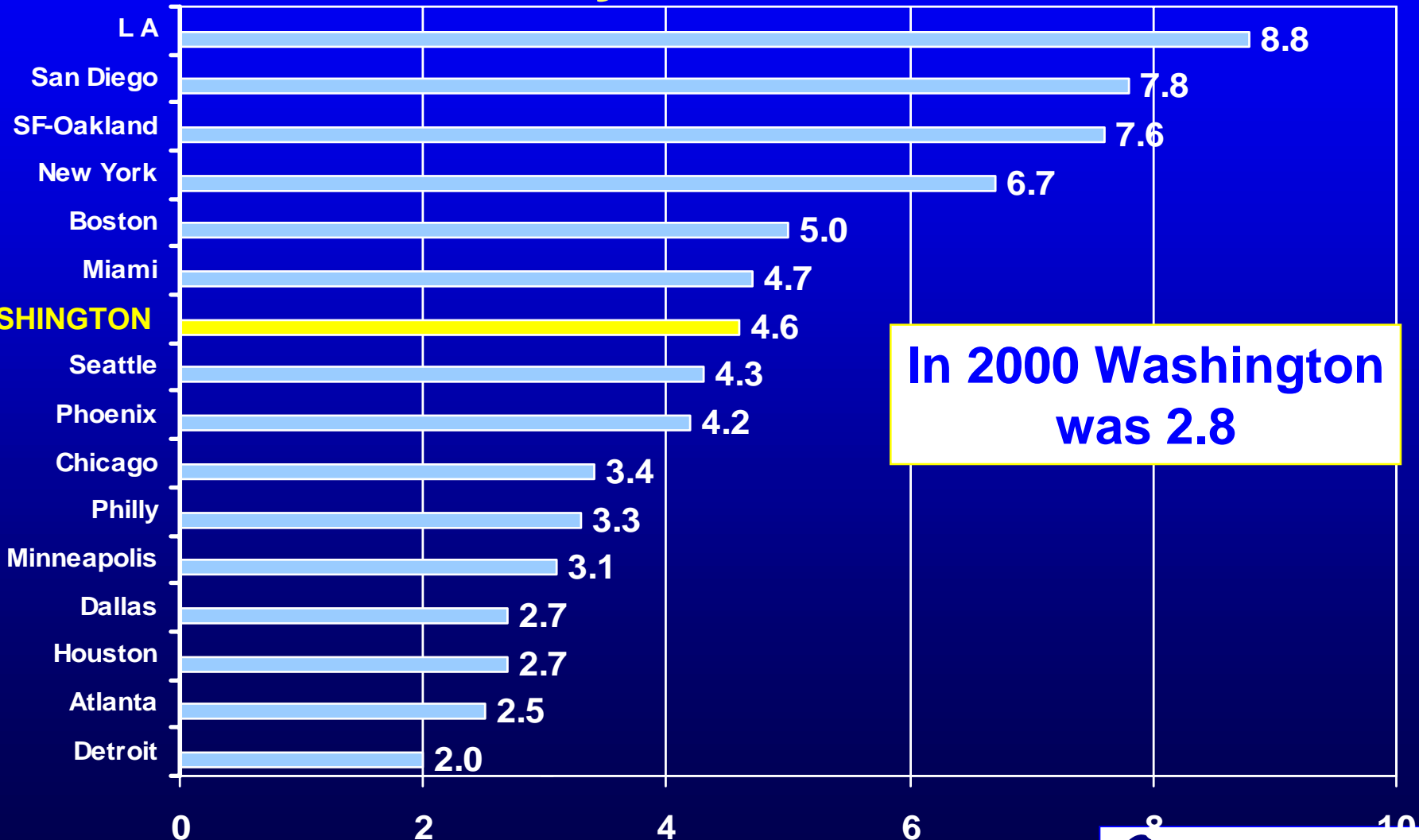
Annual Percent Change in House Prices 2004 –2005 (3rd Quarter)

Percent



Metro Comparisons

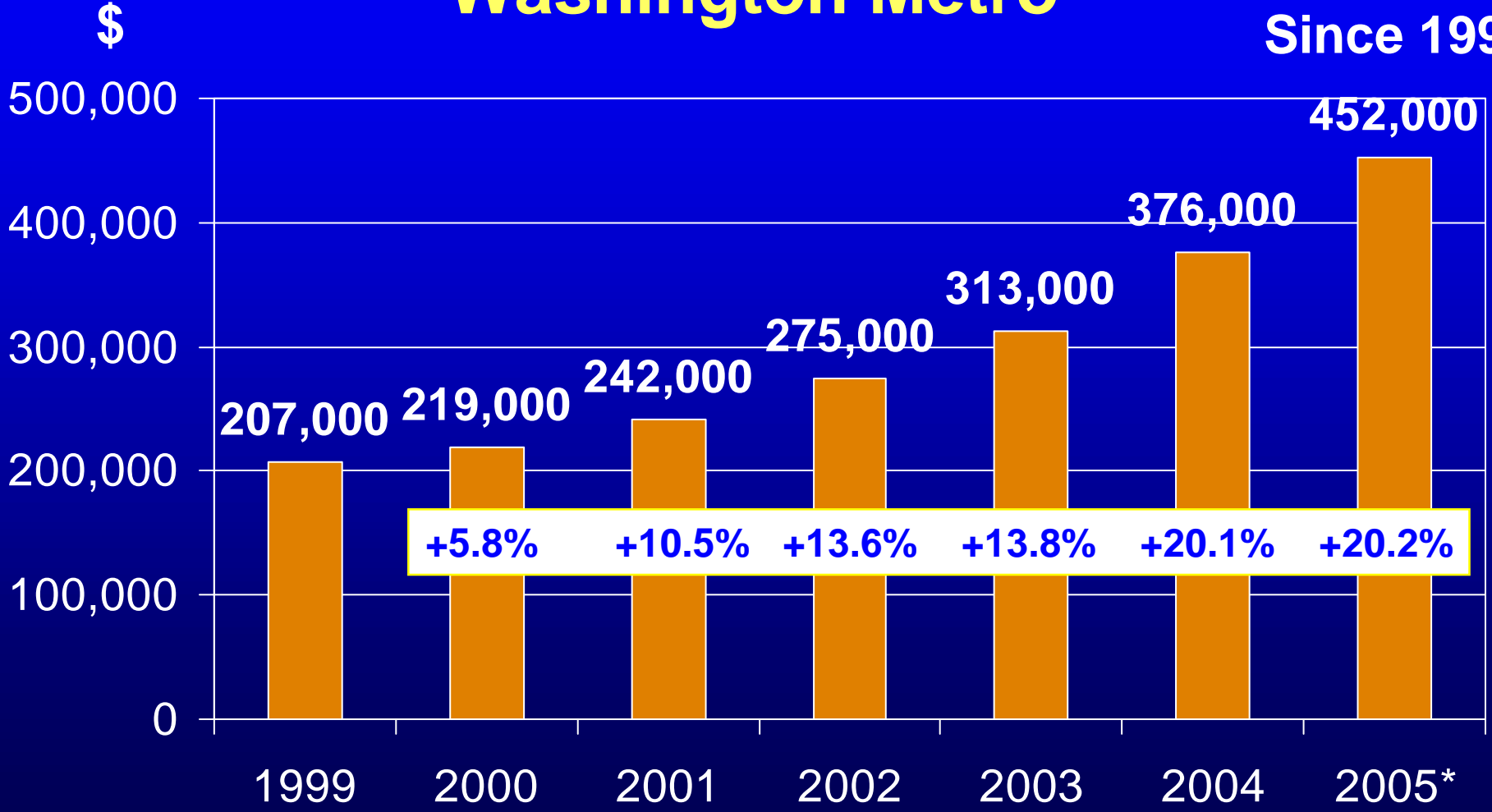
Ratio of Median Value of New Housing to Median Family Income – Q3 2005



In 2000 Washington was 2.8

Average Sales Price All Housing Types Washington Metro

+ 118%
Since 1999



Source: MRIS, GMU Center for Regional Analysis

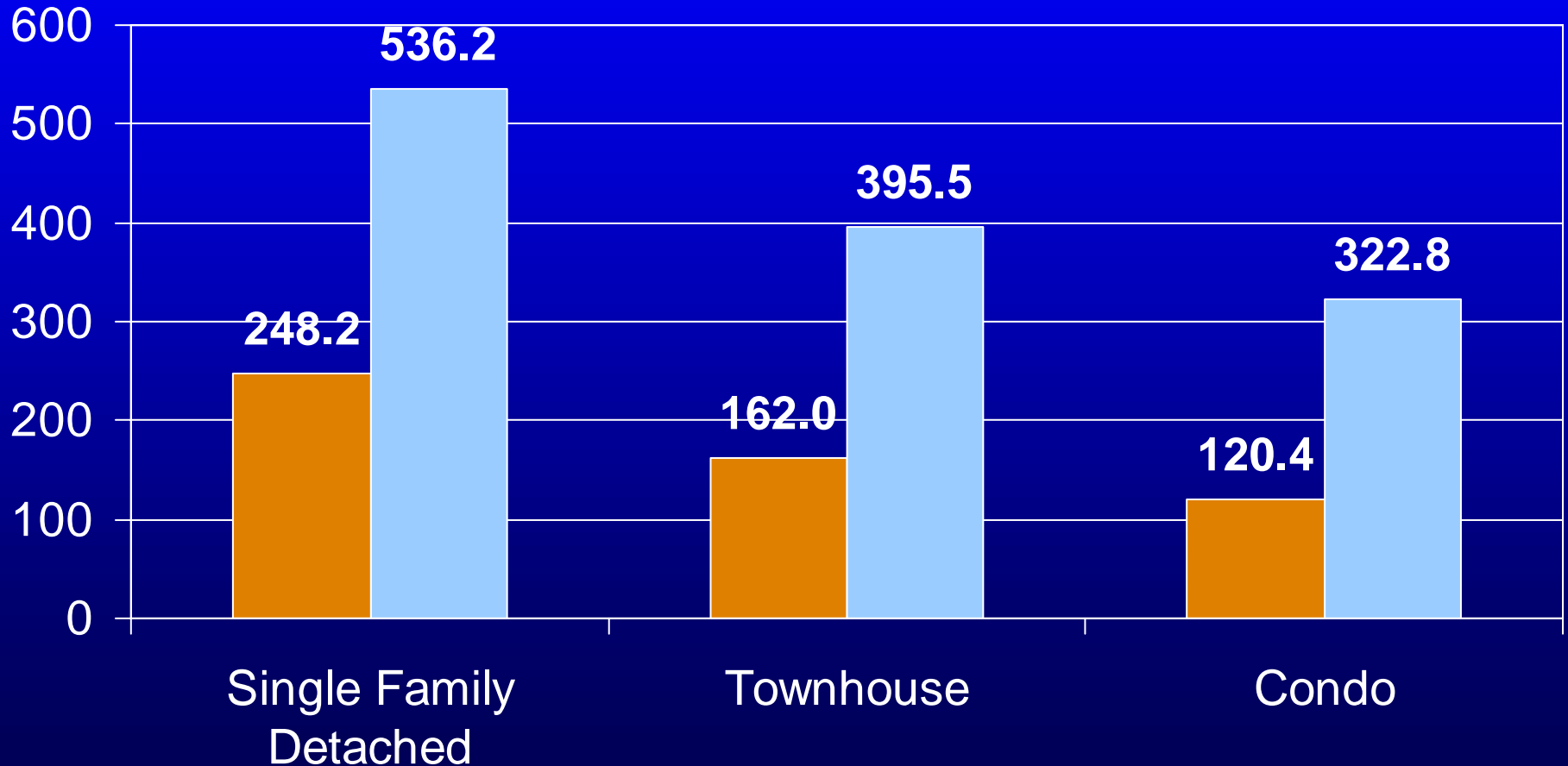
* Jan-Nov 2005



Average Sales Price by Type Washington MSA

Annual Data Through November Each Year

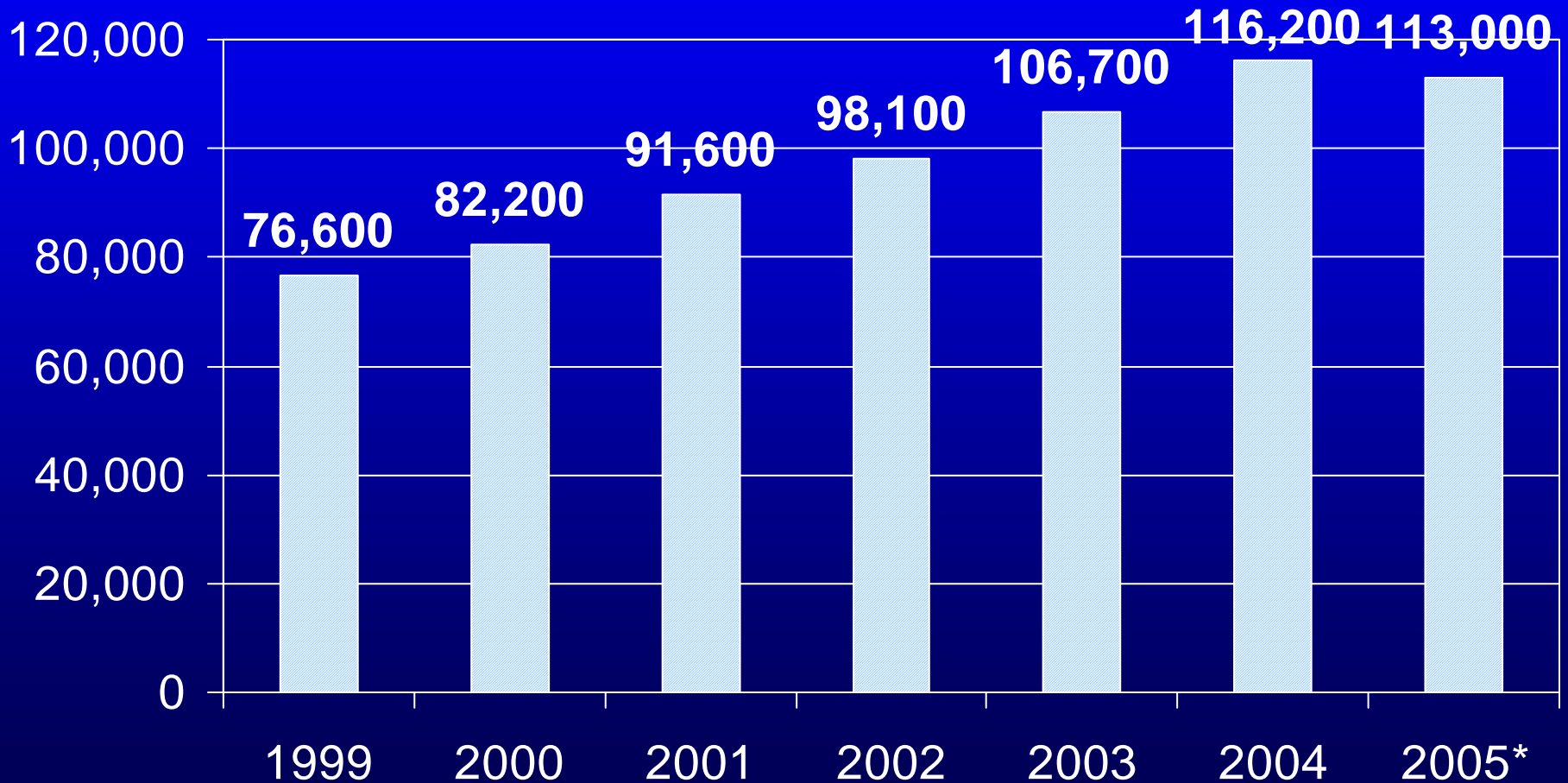
\$1,000s



Source: MRIS, GMU Center for Regional Analysis

Units Sold Each Year All Housing Types Washington MSA

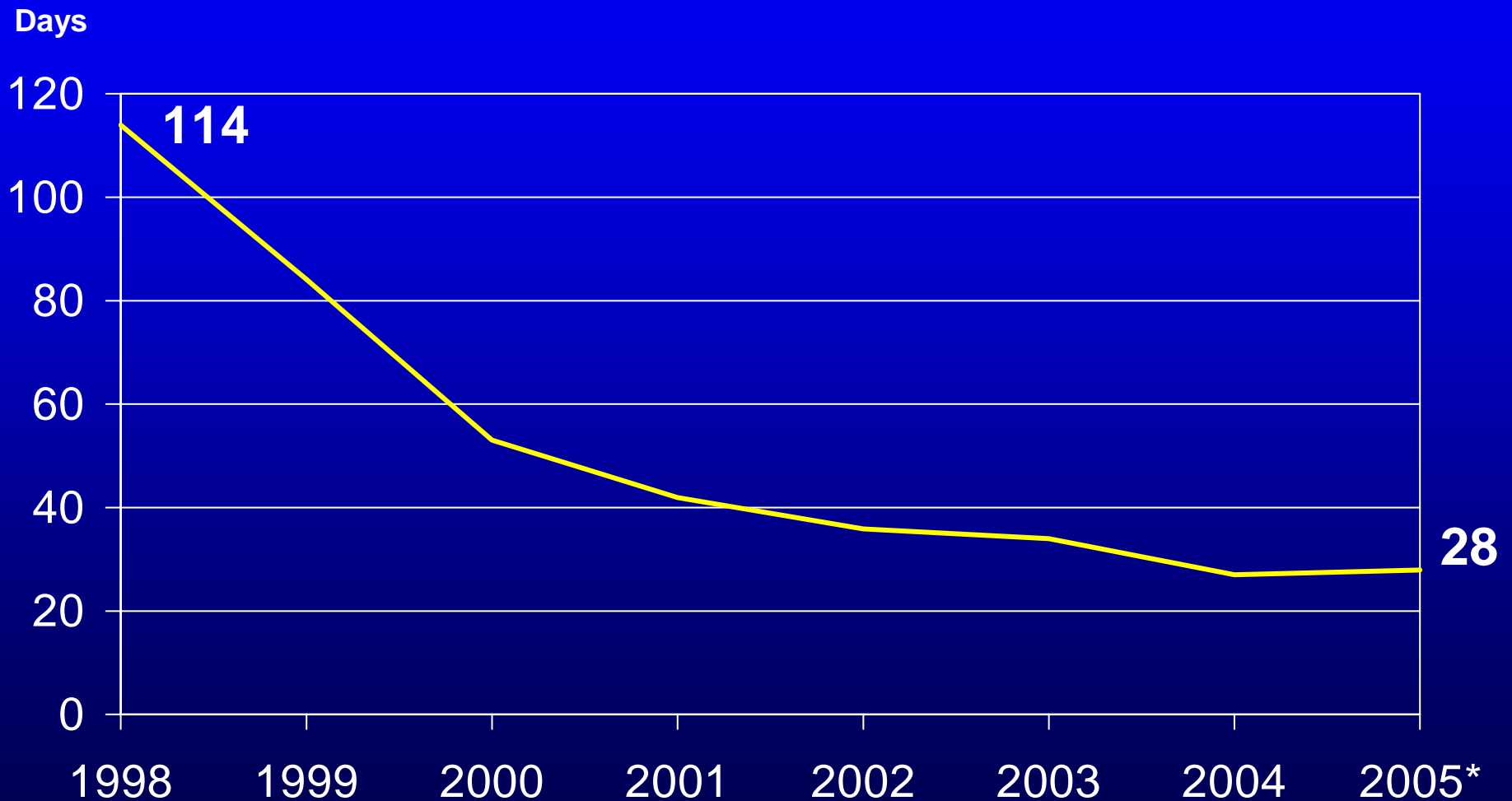
+ 47.5%
Since 1999



Source: MRIS, GMU Center for Regional Analysis

* Jan – Nov Data Extrapolated

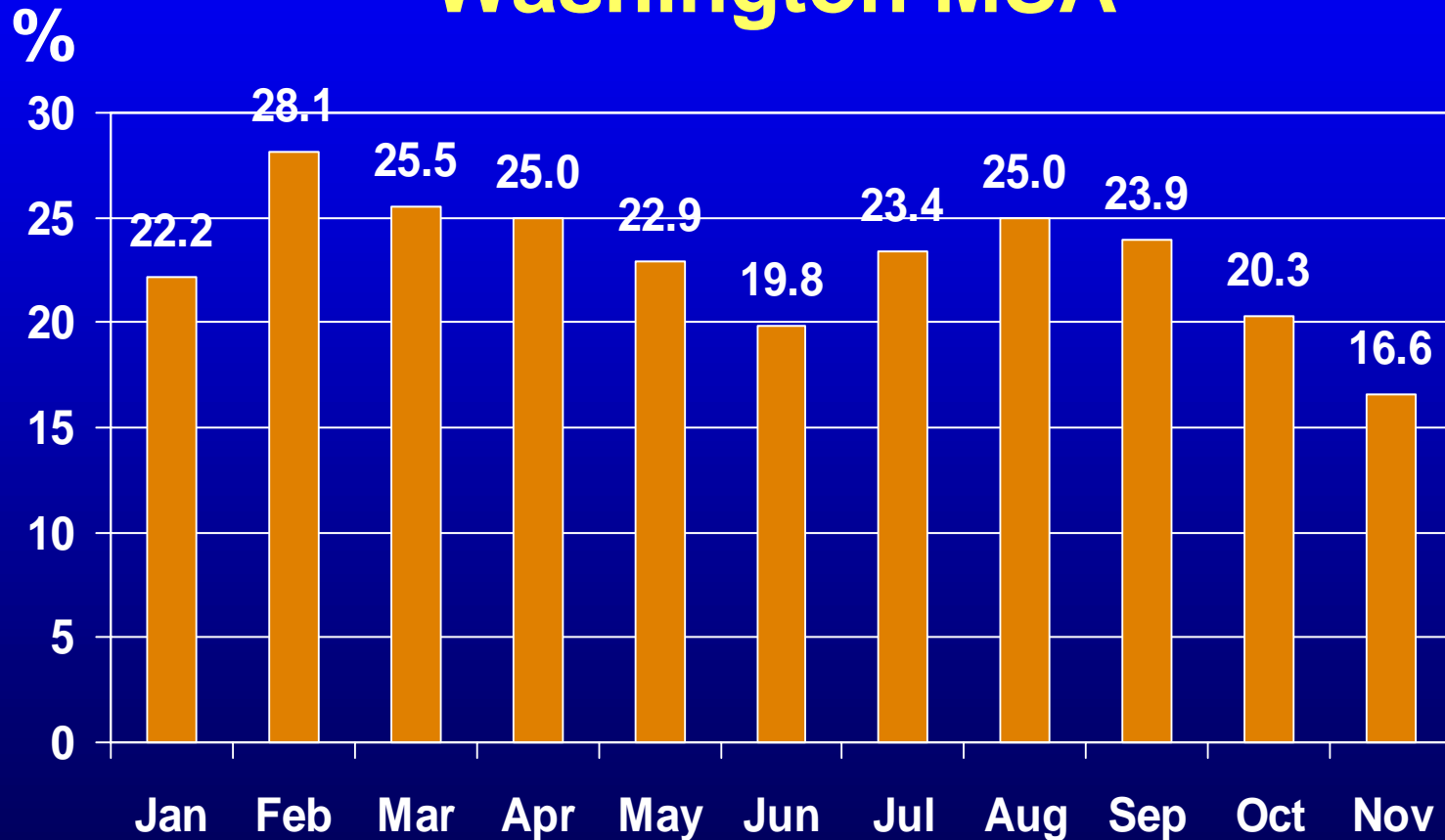
Average Days on Market All Housing Types



Source: MRIS, GMU Center for Regional Analysis

* Jan – Nov Data Extrapolated

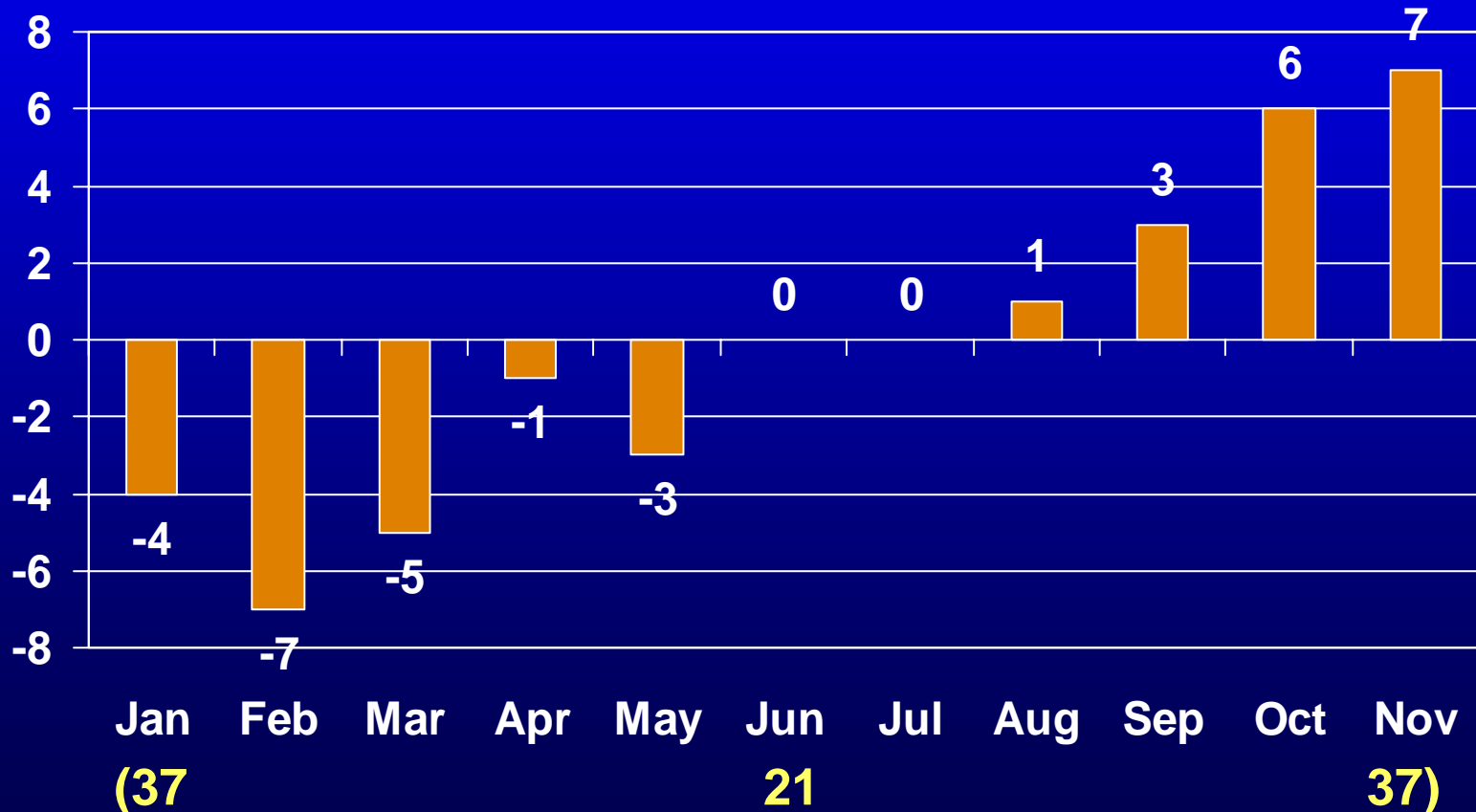
Average Sales Price Percent Change Month-over-the-year, All types 2004 – 2005 Washington MSA



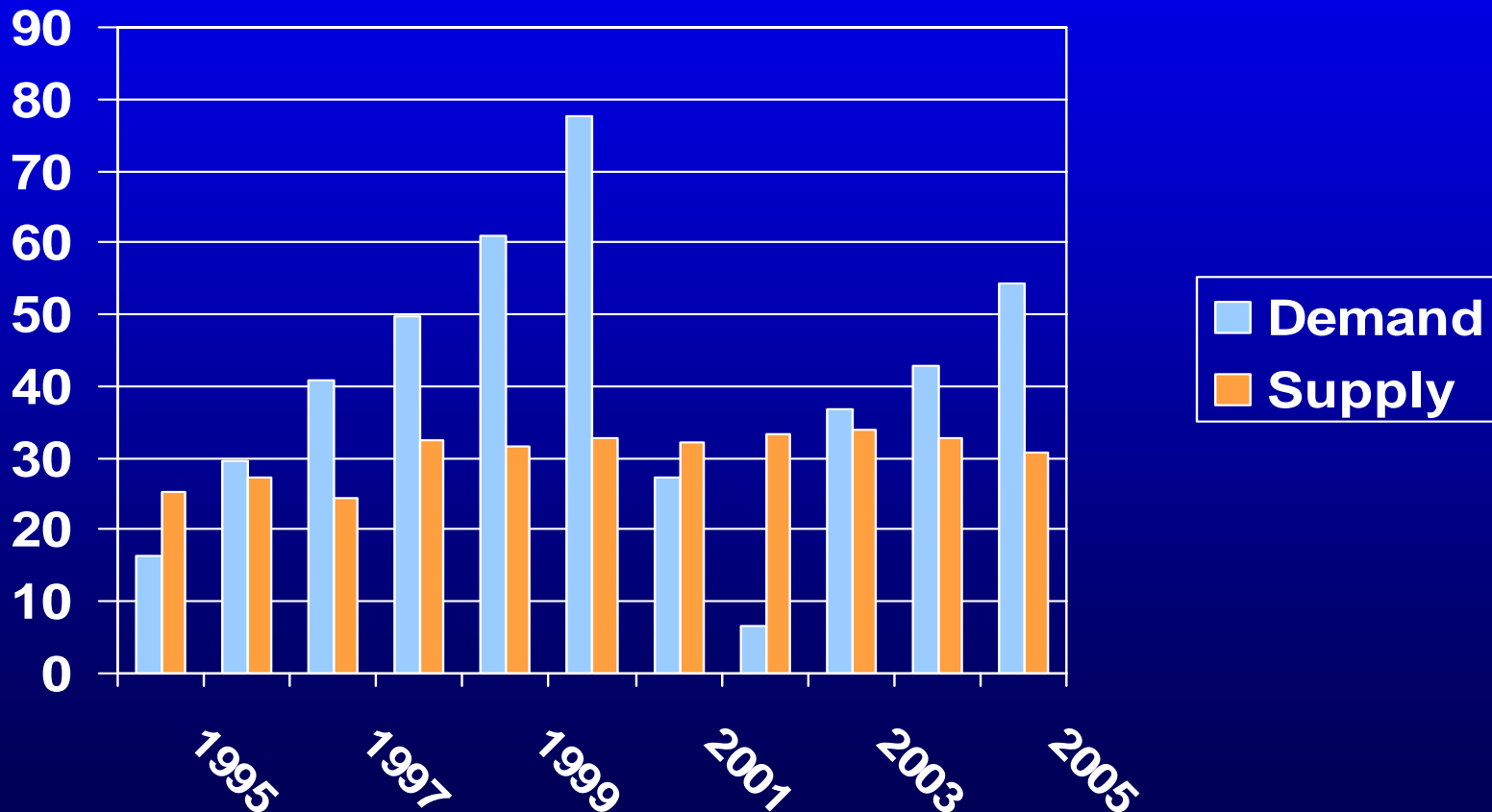
Total Unit Sales Change Month-over-the-year, All Types 2004 – 2005 Washington MSA



Average Days on the Market Change Month-over-the-year, All Types 2004 – 2005 Washington MSA

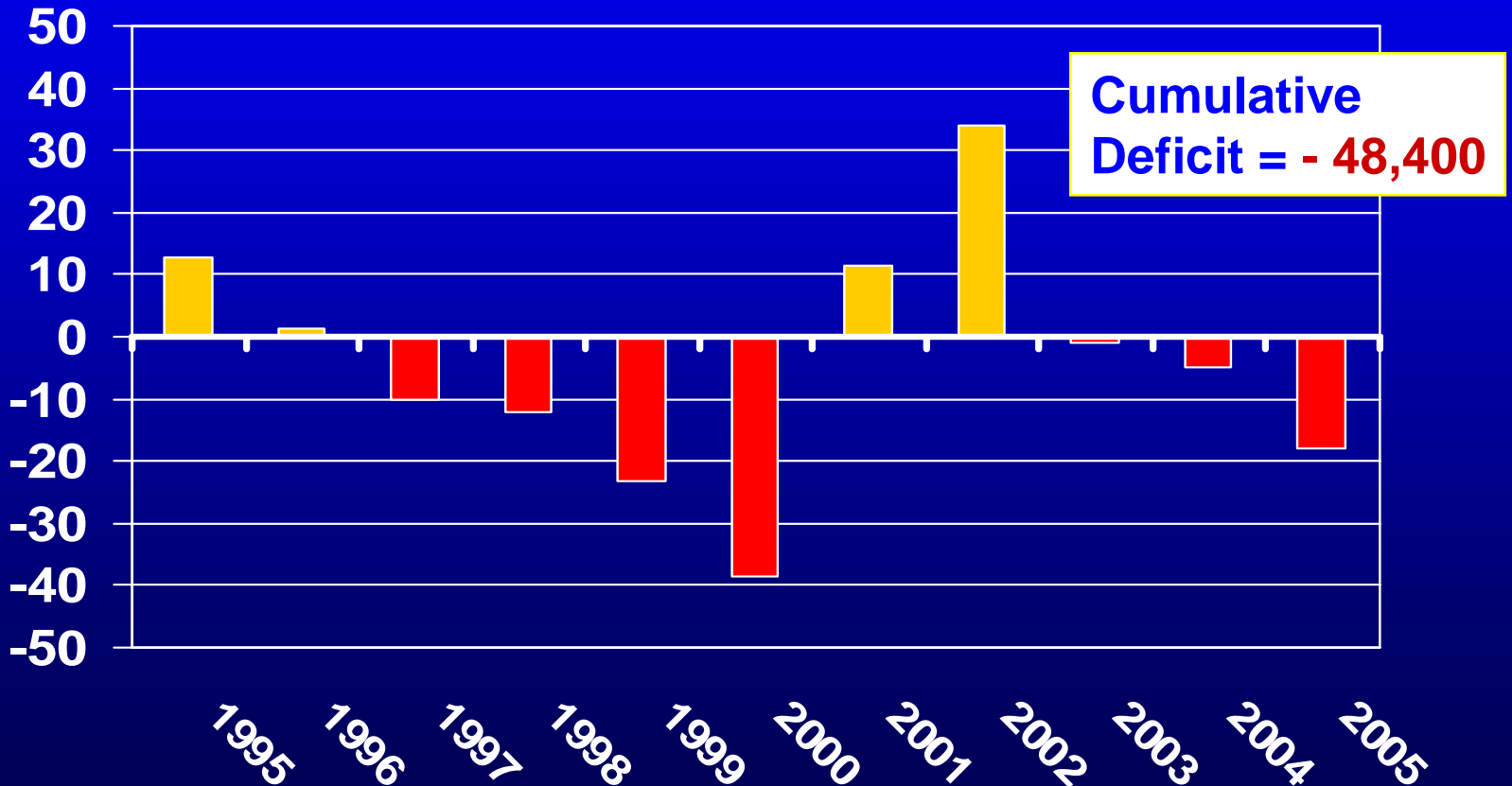


Annual Change Housing Demand and Supply 1995 - 2005 Washington MSA

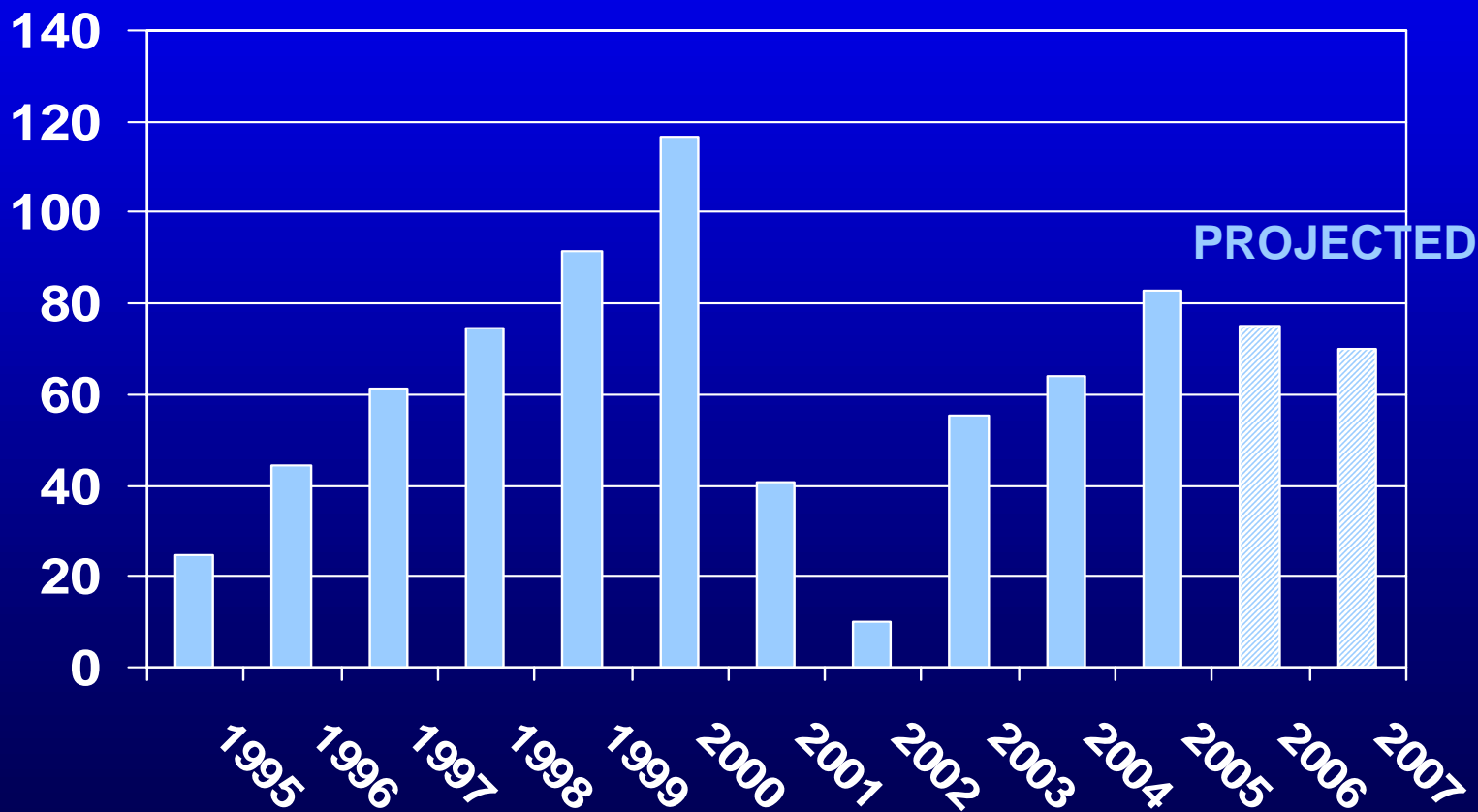


Annual Change In Housing Demand vs. Housing Supply 1995 - 2005 Washington MSA

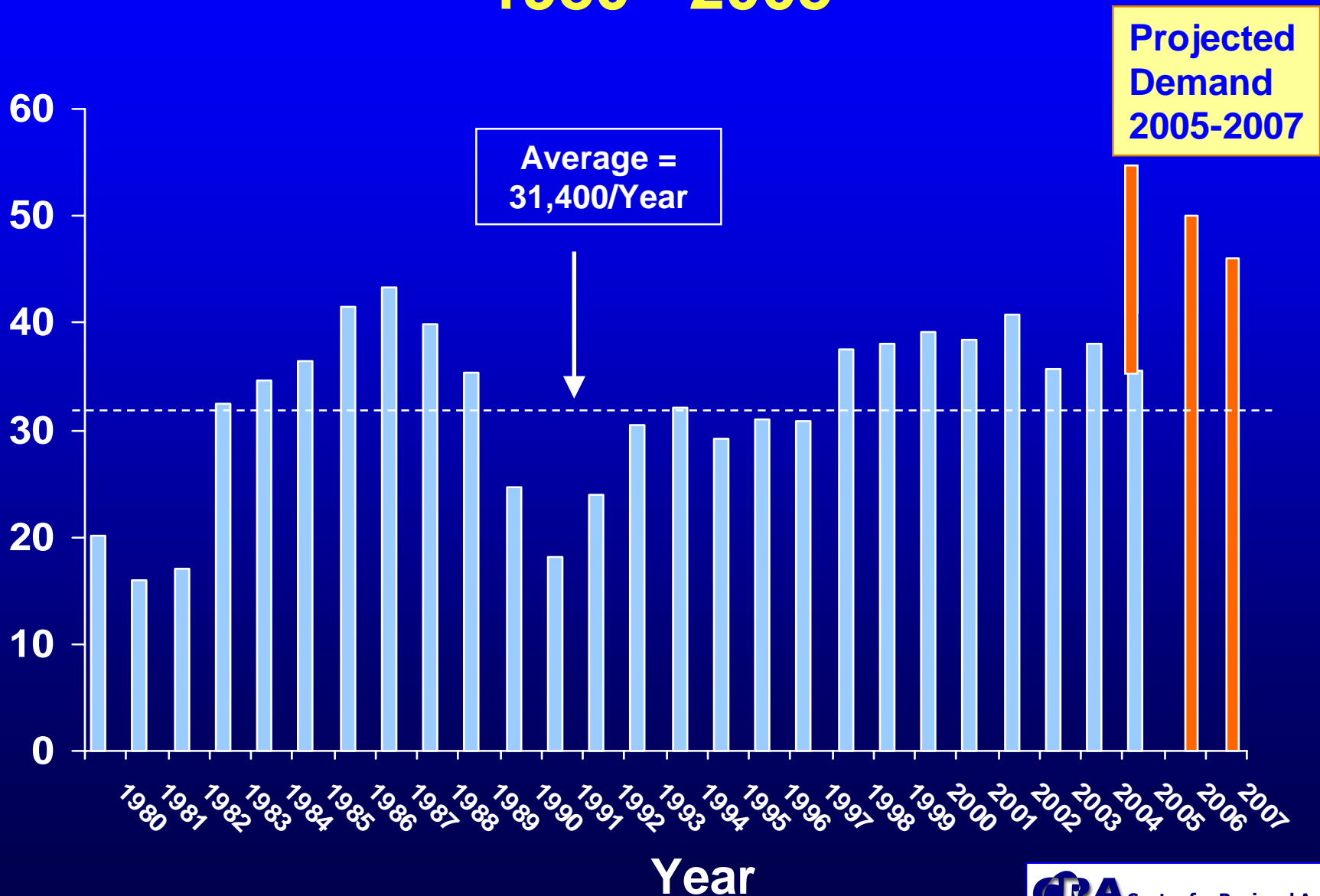
Units in 1000s



Annual Job Change 1995 - 2007 Washington MSA



MSA Total Housing Unit Permits 1980 - 2005



**Outlook for the
Washington Area
Housing Market
in 2006 and 2007**

Housing Outlook for 2006 and 2007

Fortune Magazine with Economy.com made forecasts for the top 100 metro areas and say Washington prices will be up 2% in 06 and down 3% in 07

Kiplinger says 2006 will be the 3rd best market of all time, only 2004 and 2005 are better

Housing Outlook for 2006 and 2007

**Market will continue to cool –
returning to “more Normal”:**

- **2006 Prices will increase in the range of 6% – 12% compared with 20+% in 2005**
- **Sales volume will drop back to 2002-2003 levels (98-100,000 transactions)**
- **Days on Market rising to 45-55 average**

Housing Outlook for 2006 and 2007

Areas of region with more affordable housing will continue to have 15-20% increases in 2006 – Prince George's, Prince William, Spotsylvania

The more affordable single family units (detached and attached) will have more price increase than condominiums

Housing Outlook for 2006 and 2007

The key factor in housing demand is job growth. When LA lost 22% in housing prices, it was also losing 485,000 jobs from its economy.

Over the next 4 years, the Washington economy will grow by 256,000 jobs – 20% more than the last 4 years.



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