

THE NEST REPORT

Charlottesville / Central Virginia Region

Q4 2011

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THE NEST REPORT

Cautious Optimism

That pretty much sums up our thoughts on this past quarter, the coming quarter and 2012 as a whole. We are seeing consistent, positive news out of Washington and New York, but the local markets are driven by more than that. They are driven by local consumer confidence, jobs, interest rates, and asking prices. But they are also driven by UVA hiring plans, Planning Commission work, and NGIC. They are driven by local events.

As we continue to watch this market, we are reminded that when the market recovers, we won't see it for months and months. When we entered the most recent recession, we might have felt the economy was going wrong, but it took 9 months to prove that our gut instinct was right. We are still not willing to bet on our gut about a turn around, but the numbers are beginning to look more and more positive.

First and foremost is that we need to define turnaround. Are we interested in the number of transactions increasing? Or are we interested in when our home prices will begin to tick upward? Or we are wondering when our home prices will be back to 2006 levels? The first may well be happening, the second is down the road, and the third is several years out in many areas.

Sales (number of transactions) have certainly increased. Across the MSA, all of 2011 saw more transactions than 2010, 2009, or 2008. Still substantially below the bubble years, the numbers are getting better across the board. Sales numbers are driven by the price declines and the re-centering of the market is working. In fact, if you look at the trend lines for Albemarle County (largest locality in our MSA) the three year trend line shows substantial increases in the sales volumes.

Most people are wanting to know when the prices will stop dropping. When can we expect to see prices stabilize? This is farther down the road. The increase in sales numbers will help, but until we see inventory levels between 6 and 9 months across all areas, price stabilization is not going to happen. Currently, we are looking at 13.8 months of inventory for the MSA and some of the counties are as high as 24 months. Pockets of the city and county are down in the stable range, but we need it more wide spread. We do not predict that prices will level until at least Q3 of this year, but we do think we are getting there

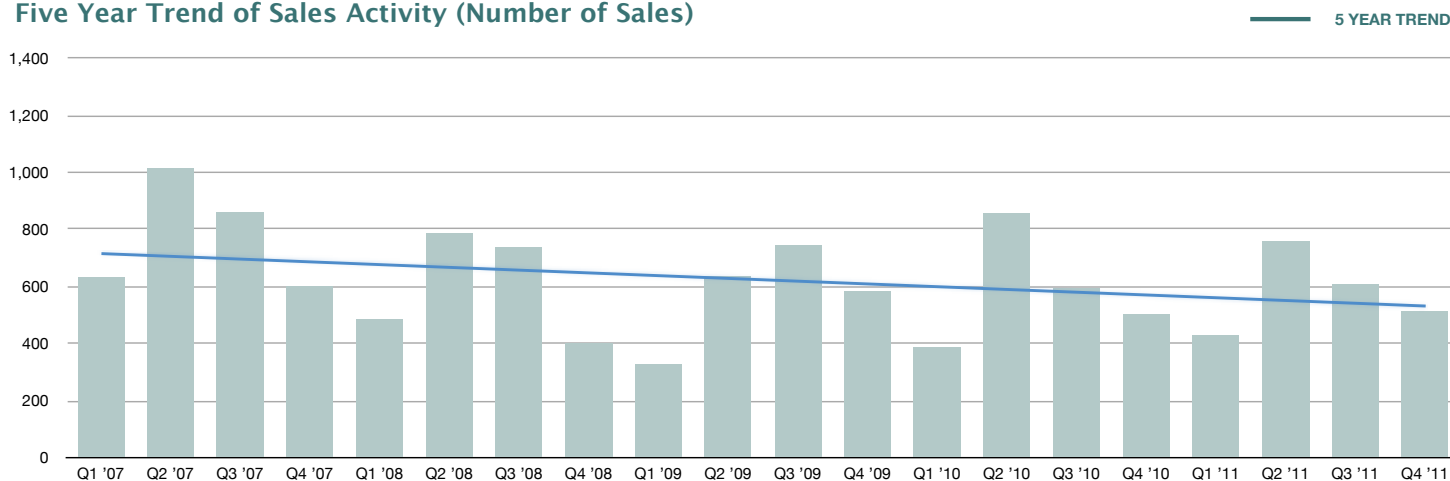
Interest rates are the lowest ever, and they should remain low. Private sector jobs have seen twenty straight months of growth. Unemployment is headed in the right direction. But we are not there yet. We still need 9 more months of looking backwards to know where we are today.

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Central Virginia/Charlottesville MSA Market Snapshot

Across the Charlottesville MSA, sales remained constant year-over-year in the 4th quarter. A downward shift of less than 1% in total sales of detached homes, and an increase of nearly 15% in attached and condo properties kept inventory at bay. In fact, **inventory leading into 2012 across the MSA is lower than any year since 2008**. The year-over-year change in single family properties alone has dropped by more than 5% and the months of inventory has decreased similarly. It is still not at a stable level, but it is approaching normal. The big question will be shadow inventory – how much is out there and how much will this affect the market?

Five Year Trend of Sales Activity (Number of Sales)



Sales dropped ever so slightly, but the trend line above is somewhat deceptive. If you look at the last few years instead of going back to end of the bubble years in 2007, the trend line is actually increasing. Looking only at 4th quarters, the sales volume in 2011 puts us right in the middle of the past five years. With inventory dropping, we anticipate the sales volume to continue into the first quarter. There have been 3 straight years of year-over-year growth in first quarters and this should continue into 2012. The major driver here are prices. Average prices have dropped significantly while median prices have remained constant – signaling a decrease in high-end sales that have pulled that average up in the past. Months of inventory, while down, does remain higher than home sellers would like to see if prices are to bottom out. The big shift in prices is a drop in price per square foot. What does this mean? Bigger houses are selling for less.

MSA (Albemarle, Charlottesville, Fluvanna, Greene, Louisa, and Nelson)

Single Family		Average List Price	Average Sale Price	Median Sale Price	Price per Square Foot	Avg Days on Market	Total Sales	Total Inventory	Months of Inventory
	Q4 2011	\$356,063	\$336,347	\$265,000	\$140.00	131	394	2007	13.8
	Change	-13.5%	-12.9%	1.1%	-10.8%	12.9%	-0.8%	-5.3%	-4.2%
	Q4 2010	\$411,619	\$386,383	\$262,000	\$157.00	116	397	2120	14.4
	Change	6.3%	5.8%	-2.6%	-4.3%	-4.9%	-7.7%	3.5%	-2.0%
Q4 2009	\$387,266	\$365,094	\$269,000	\$164.00	122	430	2049	14.7	

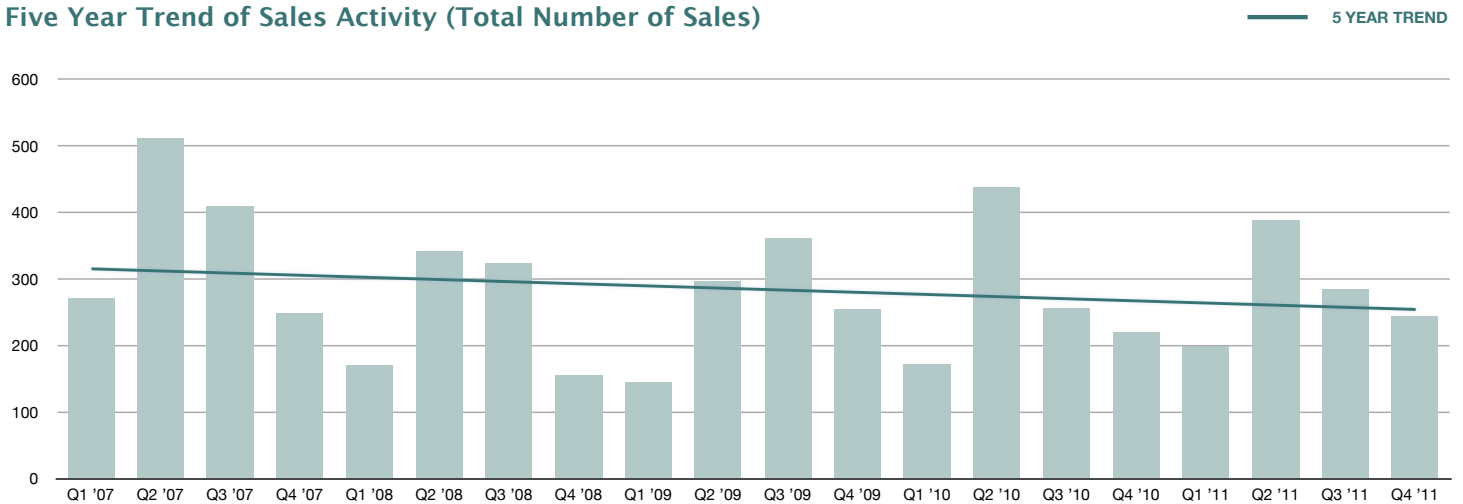
Attached / Condo		Average List Price	Average Sale Price	Median Sale Price	Price per Square Foot	Avg Days on Market	Total Sales	Total Inventory	Months of Inventory
	Q4 2011	\$225,543	\$219,680	\$209,875	\$125.00	108	120	530	11.2
	Change	-0.8%	-1.4%	-2.3%	-10.1%	2.9%	14.3%	-7.0%	-5.9%
	Q4 2010	\$227,322	\$222,853	\$214,925	\$139.00	105	105	570	11.9
	Change	-4.0%	-3.7%	-2.6%	3.0%	-4.5%	-31.8%	-15.9%	-9.2%
Q4 2009	\$236,888	\$231,327	\$220,750	\$135.00	110	154	678	13.1	

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Albemarle County Market Snapshot

Sales across Albemarle County continue to reflect a soft real estate market. Sales from the prior period are down; however, the difference (% change) between 4th and 3rd Quarters in 2011 is less than in any period going back to before 2006. The market in general appeared to have more activity relative to other periods than 4th quarters tend to have. Sales of single family homes were down less than 10% from prior period and up ever so slightly (1 transaction) from the same time last year. However, this is offset by a nearly 12% drop in single family contracts written in the 4th quarter from the same period last year.

Five Year Trend of Sales Activity (Total Number of Sales)



Away from single family homes, the attached and condo projects have found a renewed buyer market. With median prices up from Q3 to Q4, it is exciting to see that townhomes saw a 40% increase in sales from the same period last year and condos a 38.5% increase for the same period. Across all home types and price points, the days on market continues to be higher than healthy. Of the 1117 homes that sold in Albemarle County in 2011, only 404 had Continuous Days on Market of 30 days or less, whereas 405 had marketing periods in excess of four months, and 308 in the middle.

Single Family		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	453,050	428,640	343,700	120	\$137	163
Change	4.0%	2.5%	-5.8%	48.1%	-9.3%	-9.9%	
Q3 2011	435,817	417,995	365,000	81	\$151	181	
Q4 2011	453,050	428,640	343,700	120	\$137	163	
Change	-18.3%	-18.8%	7.4%	11.1%	-6.2%	0.6%	
Q4 2010	554,797	528,056	320,000	108	\$146	162	

Attached		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	261,652	261,083	235,120	71	\$121	63
Change	13.5%	16.7%	7.1%	-34.9%	-6.9%	-11.3%	
Q3 2011	230,487	223,689	219,500	109	\$130	71	
Q4 2011	261,652	261,083	235,120	71	\$121	63	
Change	15.4%	15.1%	1.3%	20.3%	-9.0%	40.0%	
Q4 2010	226,719	226,871	232,000	59	\$133	45	

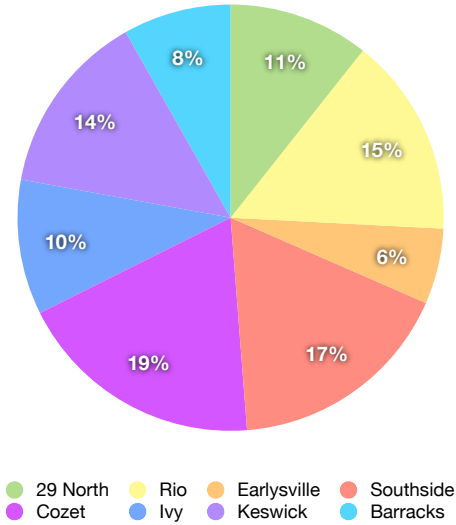
Condos		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	142,022	136,544	129,900	128	\$109	18
Change	-10.2%	-7.8%	3.9%	58.0%	-16.2%	-45.5%	
Q3 2011	158,236	148,143	125,000	81	\$130	33	
Q4 2011	142,022	136,544	129,900	128	\$109	18	
Change	-35.0%	-33.8%	-13.1%	100.0%	-4.4%	38.5%	
Q4 2010	218,363	206,397	149,500	64	\$114	13	

Contracts Written

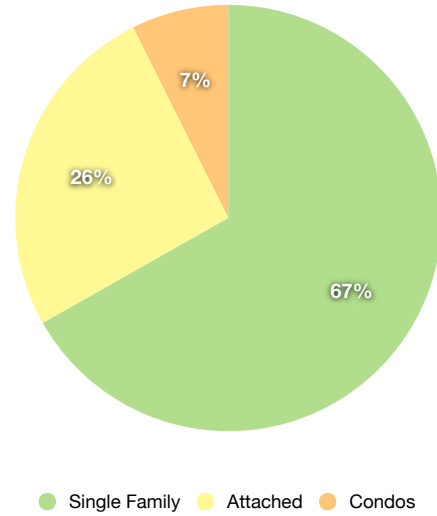
	Q4 2010	Q4 2011	Change
Single Family	168	148	-11.9%
Attached	60	56	-6.7%
Condos	16	22	37.5%

Albemarle County Market Snapshot (Part 2)

Albemarle County Sales by Sub-Area

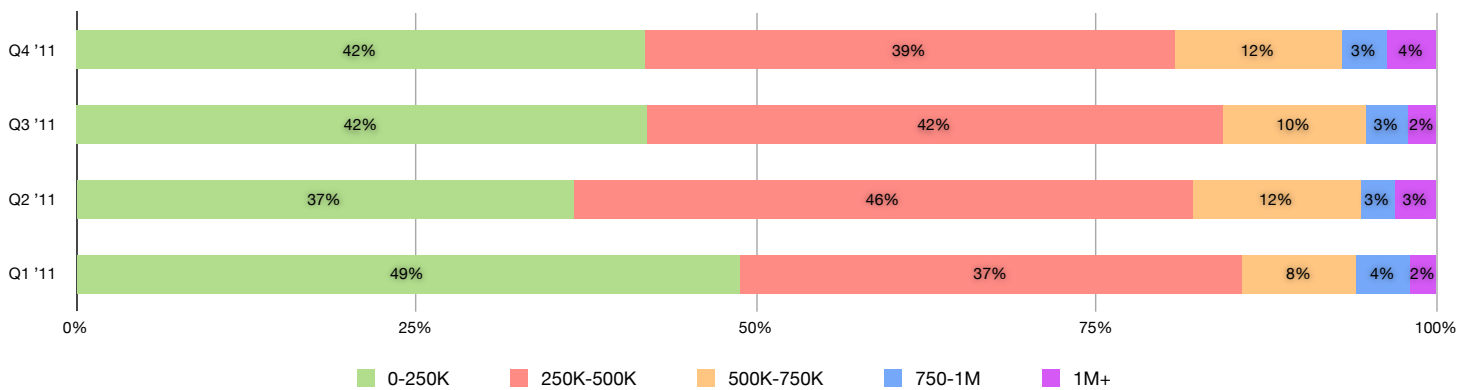


Albemarle County Sales by Type



Disparity of inventory seems to be key in understanding the Albemarle county sales by area. A comparison between last quarter and this quarter is shocking in a few ways. Notably, 29 North in the course of a single quarter went from being 17% of sales down to 11% while Earlsville went from 1% up to 6%. However, this may not be driven by demand nearly as much as it is driven by inventory. Earlsville has by far the highest inventory on a monthly absorption level of any area in Albemarle Co. The flip side is also true. While 29N has shrunk in its percentage of the market, it (along with neighboring Rio Road) has by far the lowest monthly inventory available. On the "property type" side, single family homes continue to hold roughly 2/3 of the market in Albemarle County.

Albemarle County Percent of Sales by Price Range

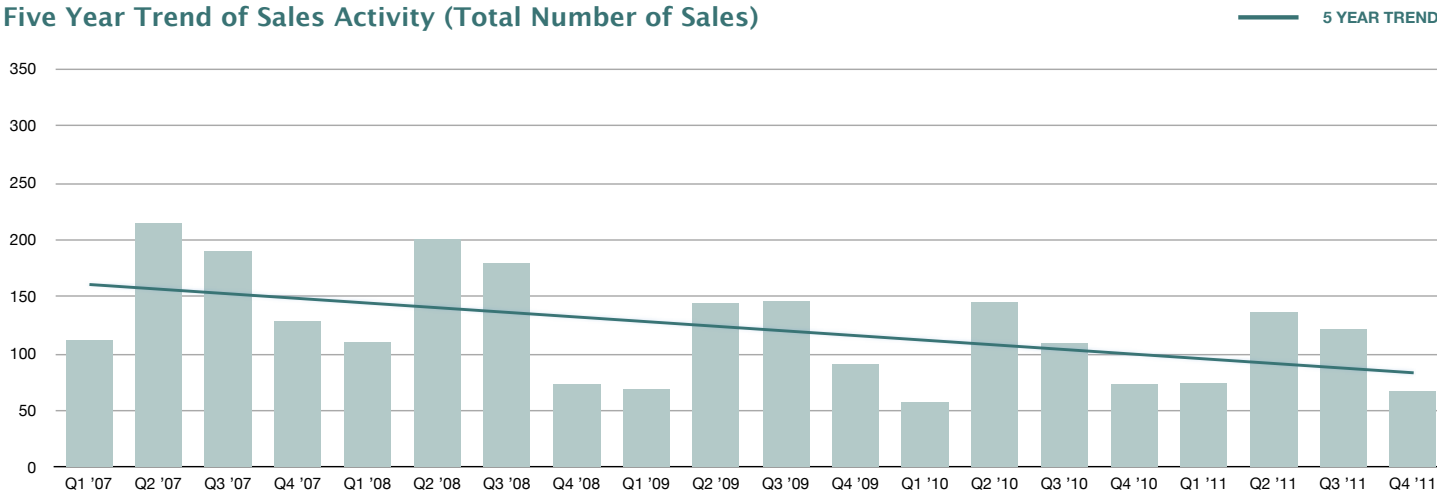


Home sale price distribution stayed fairly steady in Albemarle County. 81% of all homes sold in Q4 2011 were under \$500,000, down from 84% in the prior quarter. Through 2011, sales of properties over \$500,000 were strongest in the fourth quarter, but that still only represents 19% of the total market. The lack of fluctuation here serves as a positive sign that the market may be stabilizing. An unstable market is more likely to have big jumps and fluctuations from quarter-to-quarter.

Charlottesville City Market Snapshot

We have said for several quarters now that detecting a rebound is going to be a moving target. Moreover, it is likely we won't know we are there until we have been there for at least 9 months (or more). The 4th quarter seems to continue this "Are we there yet?" mentality. This is the second straight quarter of year-over-year growth. Sales of single family homes and attached homes increased from the 2010 period, but condos dropped by more than 25%. The overall trend line for the city looks more pronounced than does the trend for Albemarle. This is due in part to the fact that 2008 was a much stronger year for sales in the City than in the County. The sales decline began much later in the City.

Five Year Trend of Sales Activity (Total Number of Sales)



Sales prices were a mixed bag in the city. In the single family home market, prices as they are related to size of homes went up in the city by 8.5% both year-over-year and against the past quarter, while median and average sale prices declined. With so few homes in the city selling this time of year (50), a single home that closed last year at \$1,000,000 can move the average by \$20,000. Because of this, the \$/SF may become a better indicator of prices. However, the differentiation certainly indicates an unstable market that has not sorted itself out yet. Contracts written in the 4th quarter point to a 1st quarter of 2012 that should maintain some strength.

Single Family		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	327,383	304,826	242,500	109	\$166	50
Change	-10.6%	-10.6%	-10.2%	19.8%	8.5%	-41.2%	
Q3 2011	366,322	341,038	270,000	91	\$153	85	
Q4 2011	327,383	304,826	242,500	109	\$166	50	
Change	-32.1%	-29.1%	-14.1%	-6.8%	8.5%	8.7%	
Q4 2010	481,810	429,655	282,187	117	\$153	46	

Attached		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	178,963	170,250	157,500	143	\$101	6
Change	-18.8%	-18.7%	-34.3%	43.0%	-18.5%	-45.5%	
Q3 2011	220,427	209,507	239,700	100	\$124	11	
Q4 2011	178,963	170,250	157,500	143	\$101	6	
Change	-3.1%	-7.1%	1.6%	64.4%	-14.4%	20.0%	
Q4 2010	184,680	183,300	155,000	87	\$118	5	

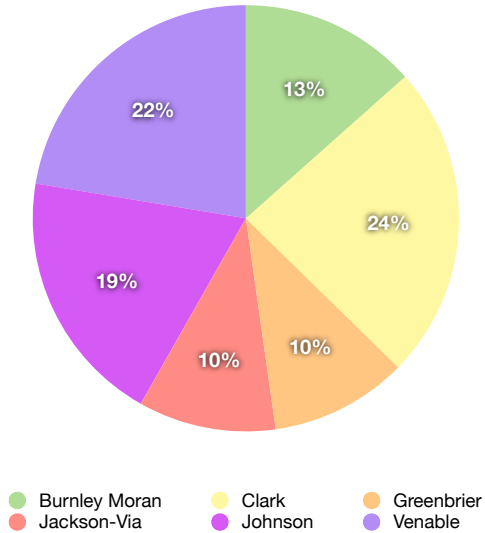
Condos		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Avg \$ PSF	Total Sales #
	Q4 2011	189,204	180,279	147,900	116	\$238	11
Change	-4.3%	-3.9%	2.4%	58.9%	11.7%	-56.0%	
Q3 2011	197,758	187,656	144,400	73	\$213	25	
Q4 2011	189,204	180,279	147,900	116	\$238	11	
Change	-32.9%	-37.6%	-34.0%	24.7%	35.2%	-26.7%	
Q4 2010	282,008	288,892	224,000	93	\$176	15	

Contracts Written

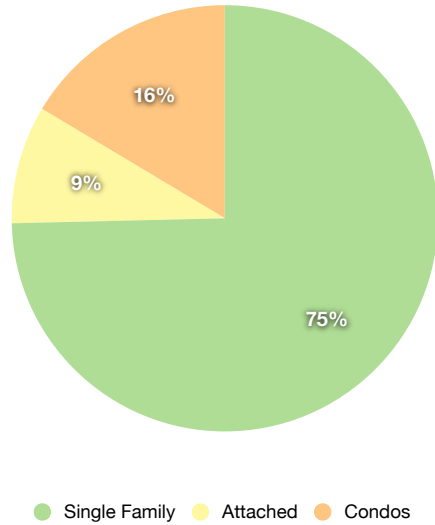
	Q4 2010	Q4 2011	Change
Single Family	45	54	20.00%
Attached	6	10	66.67%
Condos	16	16	0.00%

Charlottesville City Market Snapshot (Part 2)

Charlottesville City Sales by Elementary School Area

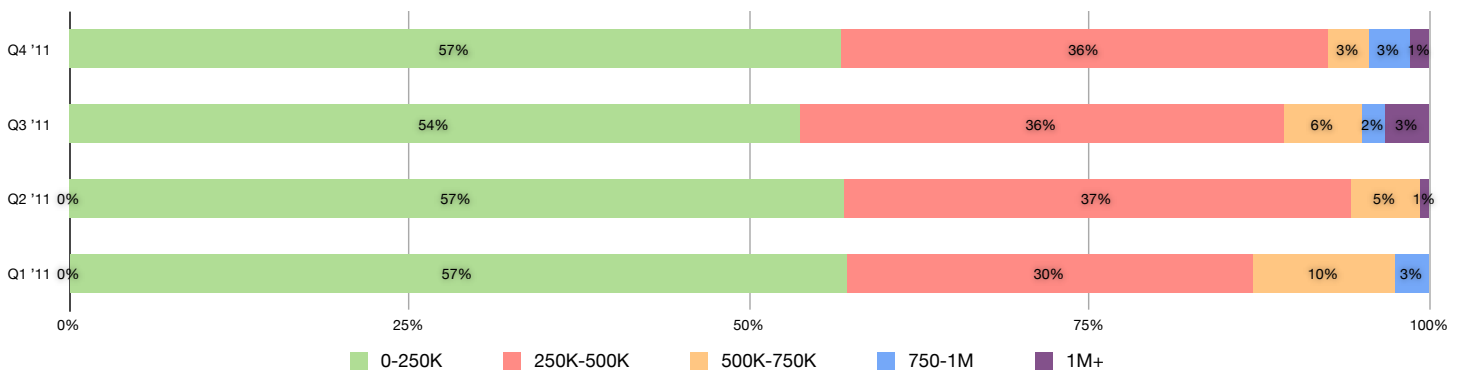


Charlottesville City Sales by Type



By school district, Clark held the top position for number of sales. Home to the hip area of Belmont, Clark saw an increase from 19% to 24% of the market. Venable school district also saw an increase from 19% to 22%. The biggest loser was the downtown neighborhood that includes Burnley Moran Elementary School that went from 21% down to only 13%. The shift was more a gain in the overall market than a loss for Burnley Moran, which went from 10 sales down to 9. Notable, however, is that in Q3 2010 there were three transactions over \$500,000 in Burnley Moran and only 1 in Q4 2011.

Charlottesville City Percent of Sales by Price Range



The mixed signals continued in Q4 with higher priced properties. After a strong Q3, the sales of properties over \$500,000 retreated to only 7% of the overall market. In Q4 2011, this represented only 5 homes that sold in this price range. Already in Q1 2012, we have had 1 sale close over \$500,000 (\$890,000) and there are 7 additional properties currently under contract with asking prices ranging from \$525,000 to \$2.1 million. The city has always had a fairly small market for luxury properties, but that market tends to remain fairly active. There are only 7 detached properties listed over \$750,000 versus the 171 properties in this price range in Albemarle County.

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Fluvanna County

Overall		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Total Sales #	Total Inventory	Months of Inventory
	Q4 2011	\$252,760	\$235,472	\$188,500	135	68	346	16
	Change	16.1%	11.5%	-10.0%	7.1%	-8.1%	-1.4%	15.9%
	Q4 2010	\$217,719	\$211,178	\$209,500	126	74	351	13.8
	Change	-1.4%	-2.7%	4.8%	5.0%	-8.6%	-3.8%	-14.3%
Q4 2009	\$220,703	\$217,091	\$200,000	120	81	365	16.1	

Fluvanna has continued to suffer from lackluster sales and slogging prices. Sales dropped another 8.6% from the year prior and median sale prices are down another 10%. However, the average sales price is up and the inventory appears to be down slightly. The number of contracts written is up nearly 50% from the year prior which should substantially help our total inventory number as well as the growing months of inventory. One driving force to the outlying counties is the continued fear of gas prices and transportation costs, which has increased the actual cost of owning properties that involve a regular commute for work.

Contracts Written

Q4 2010	Q4 2011	Change
52	77	48.1%

Greene County

Overall		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Total Sales #	Total Inventory	Months of Inventory
	Q4 2011	\$316,210	\$309,469	\$214,450	110	42	255	10.2
	Change	29.2%	30.1%	-7.8%	37.5%	-25.0%	9.9%	-23.3%
	Q4 2010	\$244,793	\$237,819	\$232,500	80	56	232	13.3
	Change	-2.7%	-3.9%	7.1%	-22.3%	3.7%	2.2%	-7.0%
Q4 2009	\$251,530	\$247,558	\$217,000	103	54	227	14.3	

This quarter reverses a trend of strong Greene sales. Contracts written are up by more than 13%, but the other indications are not as positive. Sales are down 25%, inventory is up by 10%, Days on Market are up significantly (37.5%) and median sales prices are down by 7.8%. The price drop makes up for the strong movement that Greene Co. saw in 2010. Median prices have now retreated to the 2009 levels. Most disturbing for future Greene sales is that the Average asking price has gone up from ~\$250,000 two years ago to ~\$315,000 now. In order to see the sales levels increase and remain high, prices are going to need to come back in line with buyer expectations. Greene is the ONLY county in our report with increased inventory in Q4 2011, and it has been rising for several years. Look to Greene to see the most dramatic price drops in 2012...or the lowest sales numbers.

Contracts Written

Q4 2010	Q4 2011	Change
45	51	13.3%

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Louisa County

Overall		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Total Sales #	Total Inventory	Months of Inventory
	Q4 2011	\$209,663	\$204,536	\$175,000	112	66	215	17.4
	Change	7.9%	8.6%	-11.2%	-5.1%	127.6%	-9.3%	2.4%
	Q4 2010	\$194,317	\$188,349	\$196,986	118	29	237	17
	Change	-18.1%	-20.8%	-8.4%	-10.6%	-50.8%	-13.5%	-8.1%
Q4 2009	\$237,137	\$237,825	\$215,000	132	59	274	18.5	

Lowered inventory, lowered days on market, lowered median sales prices and a dramatic increase in number of sales: this is what recoveries are made of. It doesn't mean it's the bottom and it doesn't mean that it will be sustained, but this is what we want to see. Throw in an increase in contracts written and moving forward, things look pretty good. It doesn't mean there hasn't been pain. The median price is down \$40,000 from two years ago and the average price is down \$33,000, but those adjustments are necessary to get this market moving again. Builders are again active in Spring Creek where 29 homes sold in 2011. And the ability of local builders to offer good prices on new homes has driven all the pricing around them.

Contracts Written

Q4 2010	Q4 2011	Change
34	37	8.8%

Nelson County

Overall		Average List Price	Average Sale Price	Median Sale Price	Avg Days on Market	Total Sales #	Total Inventory	Months of Inventory
	Q4 2011	\$287,394	\$264,387	\$225,000	209	66	354	23.1
	Change	-24.1%	-20.4%	-4.3%	266.7%	15.8%	-10.2%	-4.1%
	Q4 2010	\$378,803	\$332,190	\$235,000	57	57	394	24.1
	Change	-6.6%	-7.5%	-2.1%	-63.9%	26.7%	1.8%	-27.4%
Q4 2009	\$405,478	\$359,107	\$240,000	158	45	387	33.2	

Nelson is perhaps the most up and down county in our study area. What seems to be going one direction in one quarter is now regularly the opposite the next. Nelson is driven by two distinctly different markets: Rolling pastures, wooded lands, rural getaways and Wintergreen. And if one does well, the whole county does well. In Q3, we saw a year-over-year drop in sales of nearly 50%. This quarter sales are up 16% and contracts written point to a strong Q1 in 2012. But the inventory remains high with 23.1 months of inventory. This is the highest of any county in our study. Asking prices are down more than average or median prices, which could reflect a growing acceptance of sellers on the reality of the market. Days on market, however, reflects a very slow process for sellers. Ten Percent of the homes sold in Nelson had been on the market for more than 600 days.

Contracts Written

Q4 2010	Q4 2011	Change
52	62	19.2%

*Some statistics in this report come courtesy of the Charlottesville Area MLS as of 10/15/11.