



Market Madness: Where is the Fredericksburg Area Housing Market Headed?

Presentation to
Fredericksburg Area Association of REALTORS®

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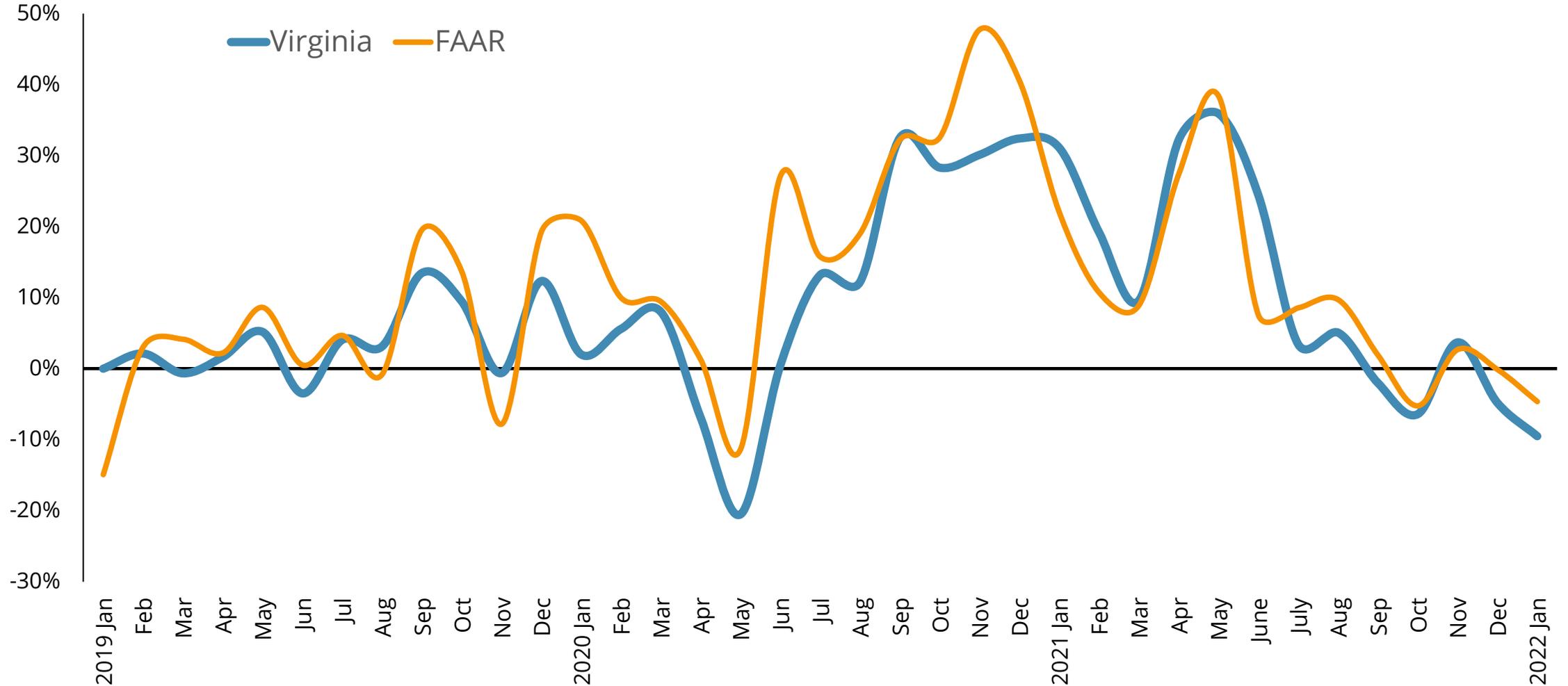
Record-breaking housing market activity 2021 versus 2020

Virginia			
	2020	2021	Change 2020 to 2021
Sales	139,908	154,340	+10%
Volume	\$53.6B	\$66.8B	+22%
Median Price	\$319,902	\$350,000	+9%
Average Days on Market	41	25	-15 days
Months of Supply	1.52	1.04	-0.48 months

FAAR			
	2020	2021	Change 2020 to 2021
	8,980	9,871	+10%
	\$3.2B	\$4.0B	+26%
	\$330,000	\$375,000	+14%
	33	18	-15 days
	1.02	0.81	-0.20 months

Virginia and FAAR Home Sales

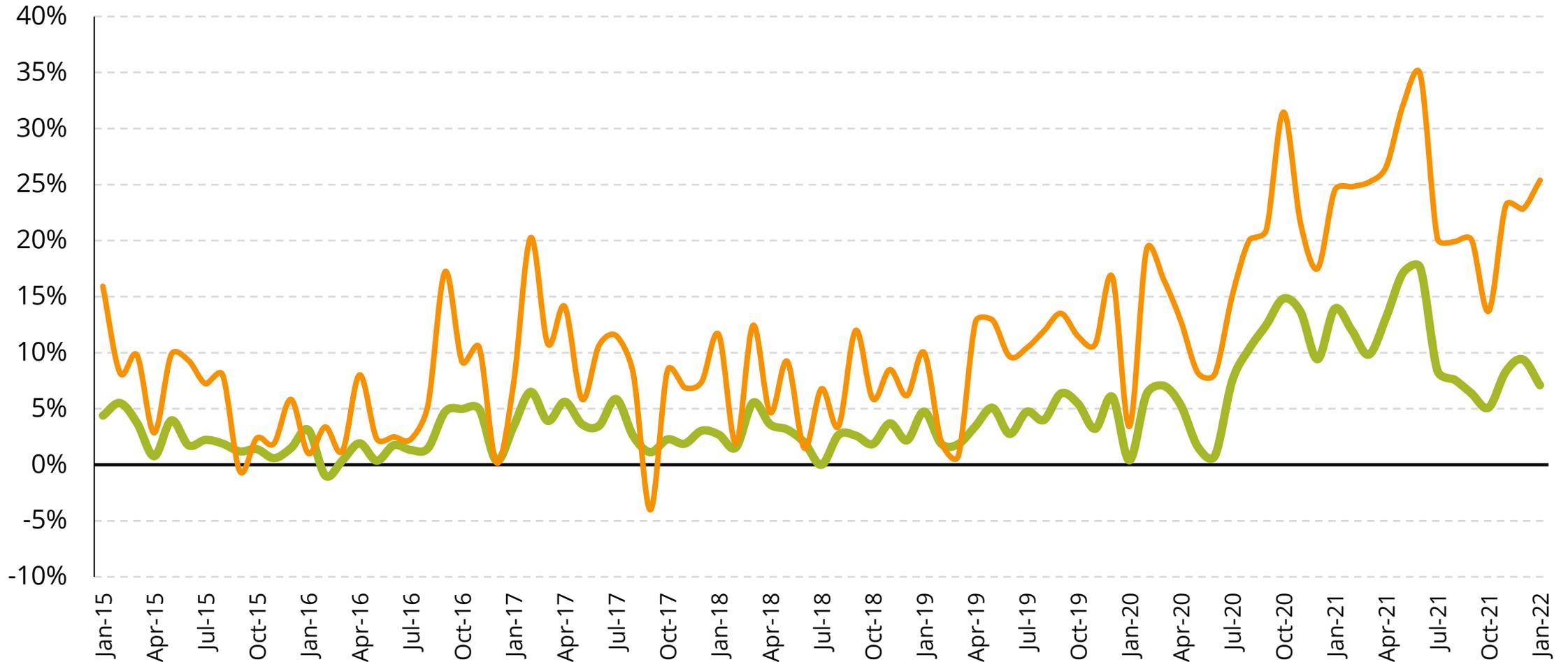
Y-o-Y Change in Monthly Home Sales



Virginia and FAAR Home Prices

Y-o-Y Change in Median Home Price

— Virginia — FAAR

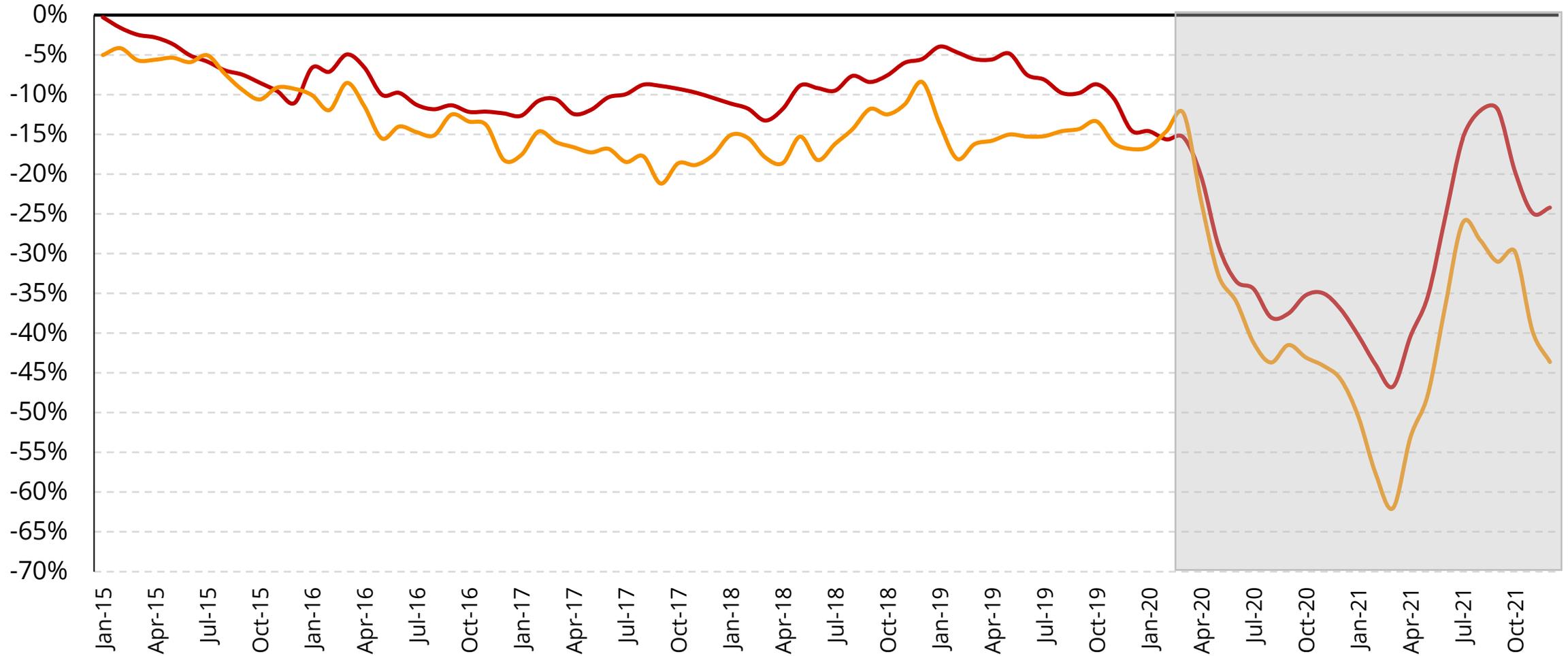


Virginia and FAAR Inventory

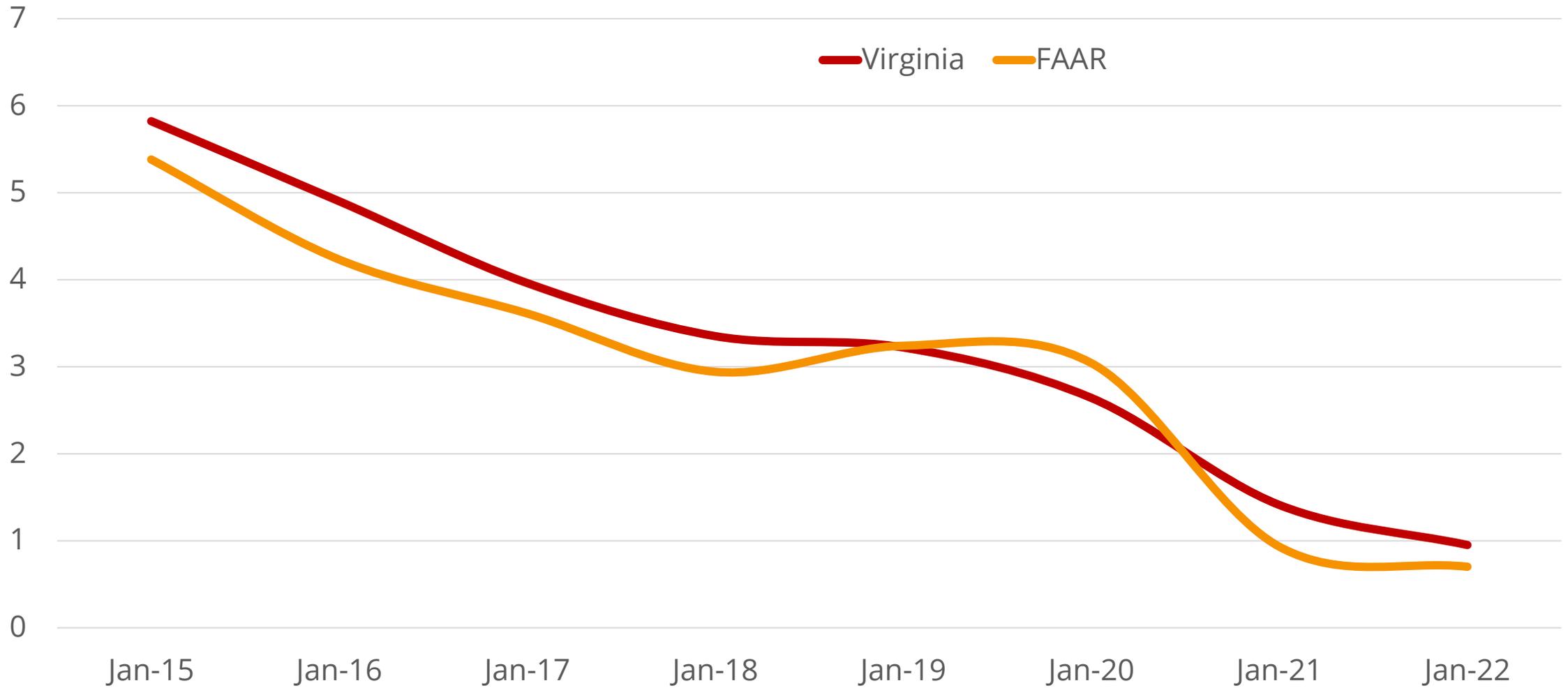
Y-o-Y Change in Month-End Inventory

— Virginia — FAAR

COVID Pandemic



Months of Supply



Recap: What Drove the Hot 2020-2021 Housing Market

Pandemic-related factors

- Mortgages kept low by Federal Reserve policies
- Incomes propped up by Federal stimulus payments
- Remote work and learning
- Surge in re-financing activity which worsened inventory challenge

Other factors

- Favorable demographics supporting demand (i.e., Millennials)
- Baby Boomers staying in their homes longer
- Resilient economy and stable employment picture for many

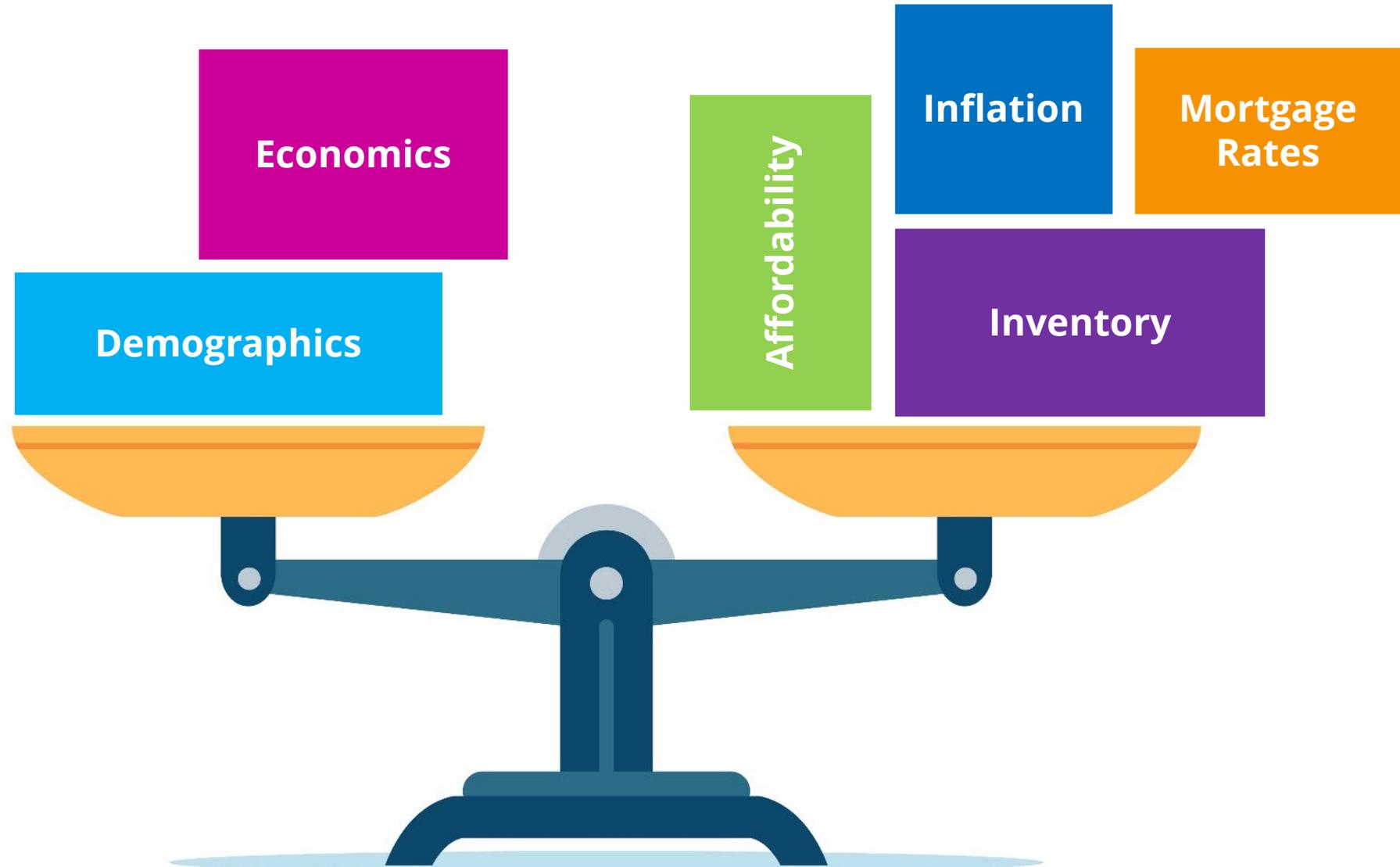


Strong demand, low supply, frenzied market

Outlook for 2022

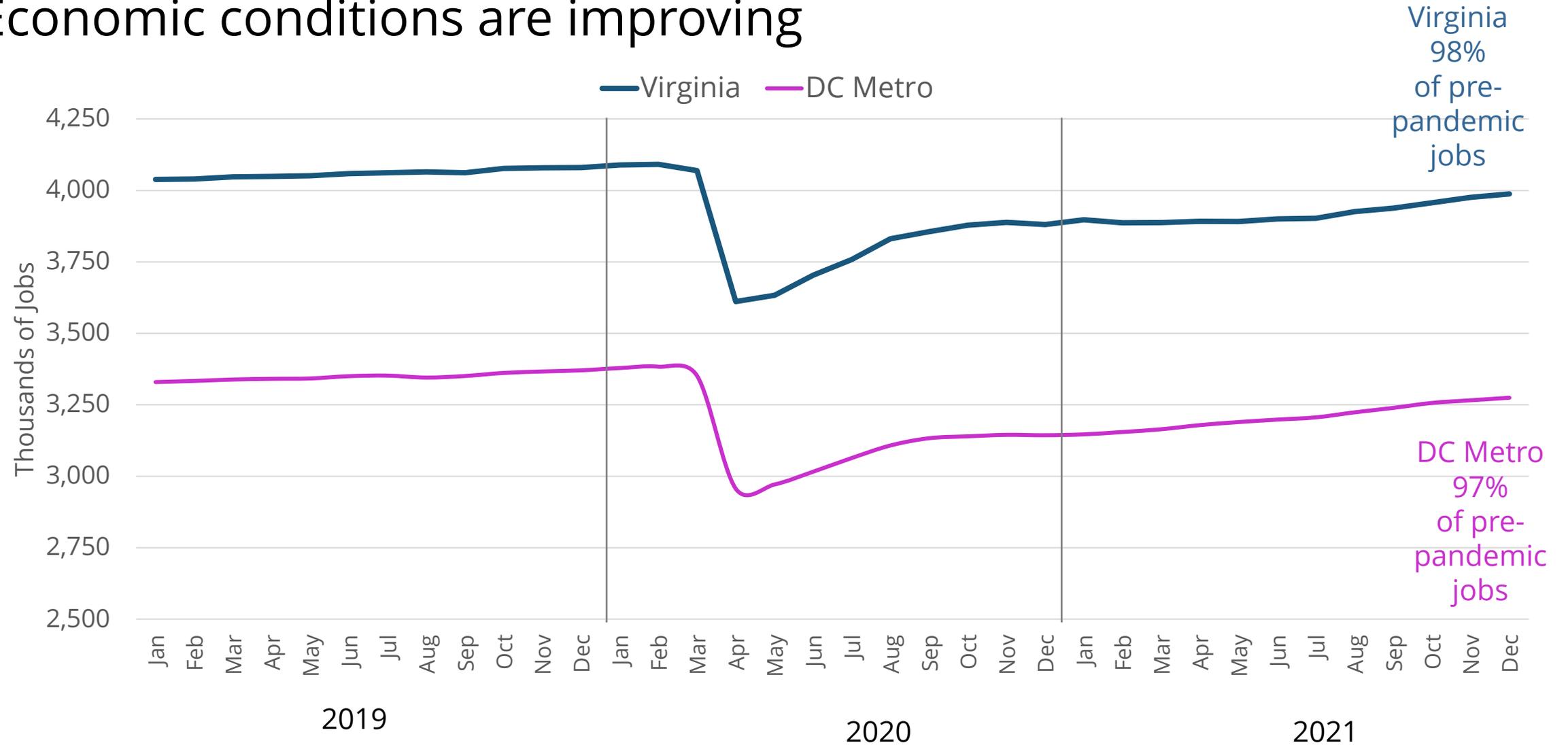


What will tip the scales in the 2022 housing market?



The Economy

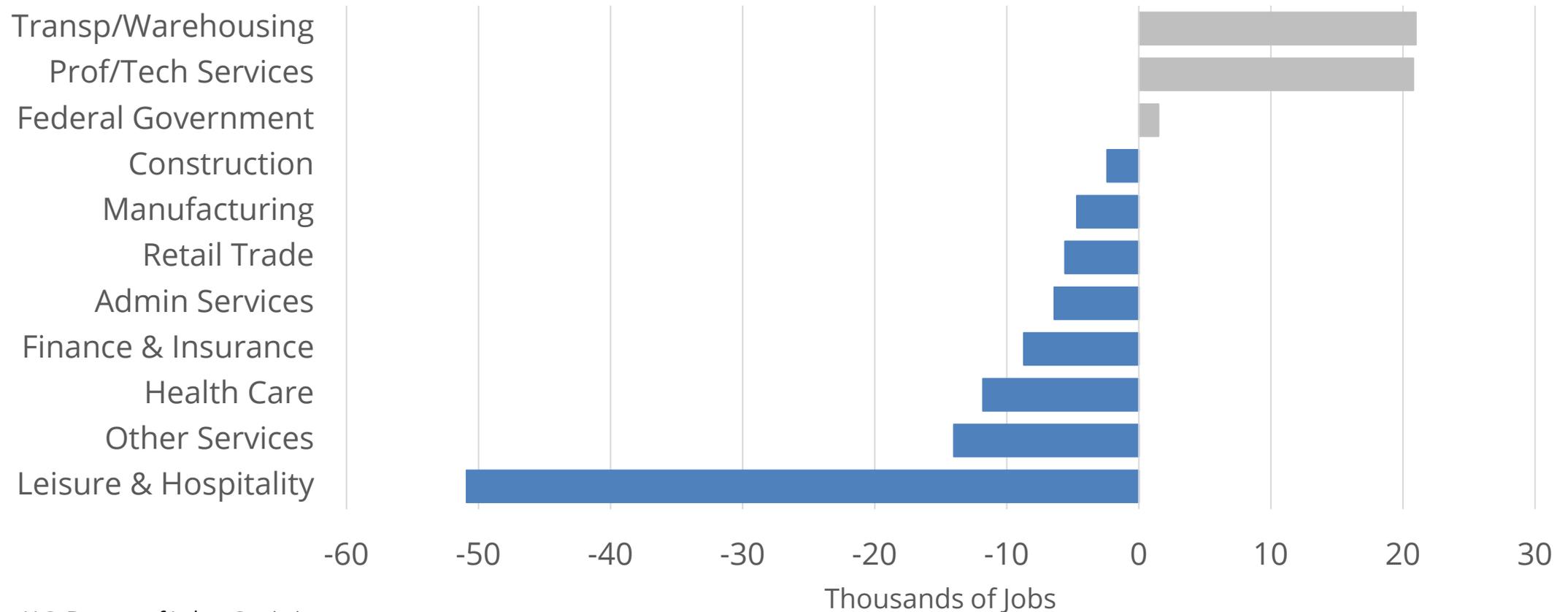
Economic conditions are improving



The Economy

Strong growth in higher-wage, professional jobs

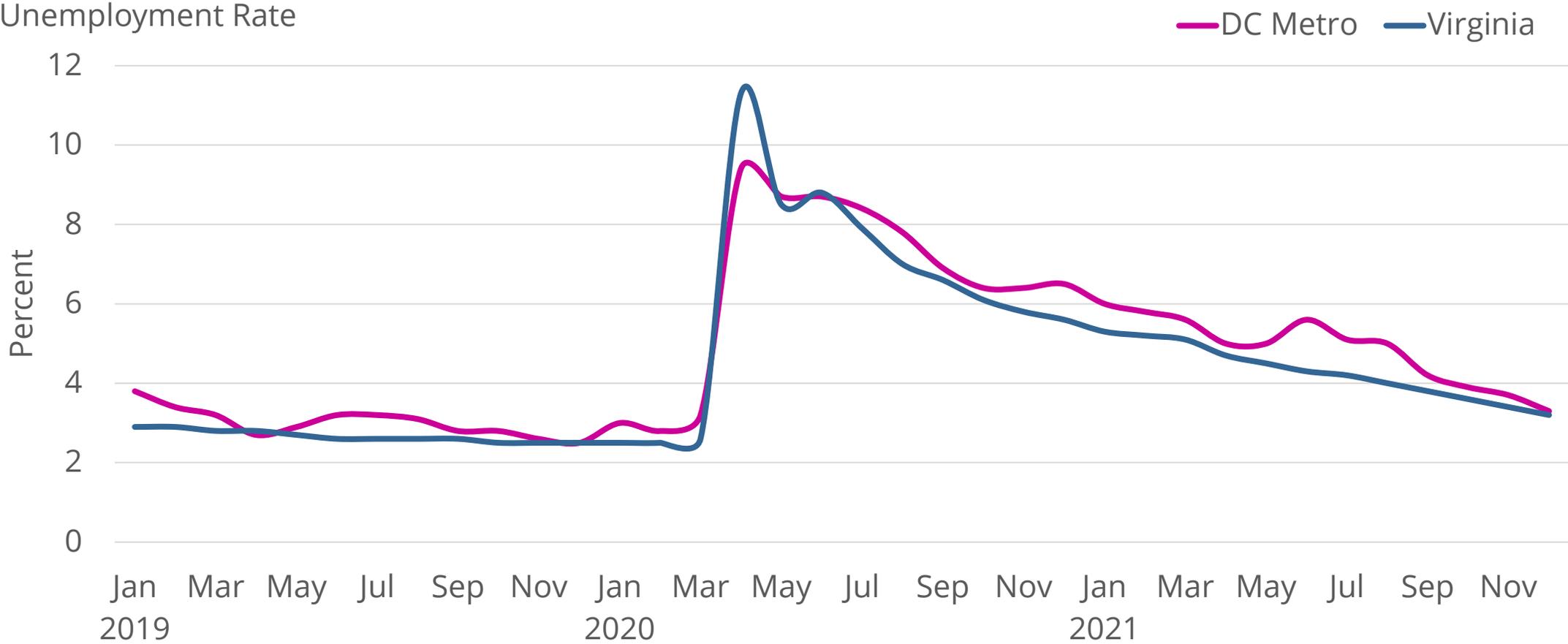
Virginia Employment by Sector December 2021 Compared to January 2020



Source: U.S. Bureau of Labor Statistics

The Economy

Unemployment is close to pre-pandemic levels



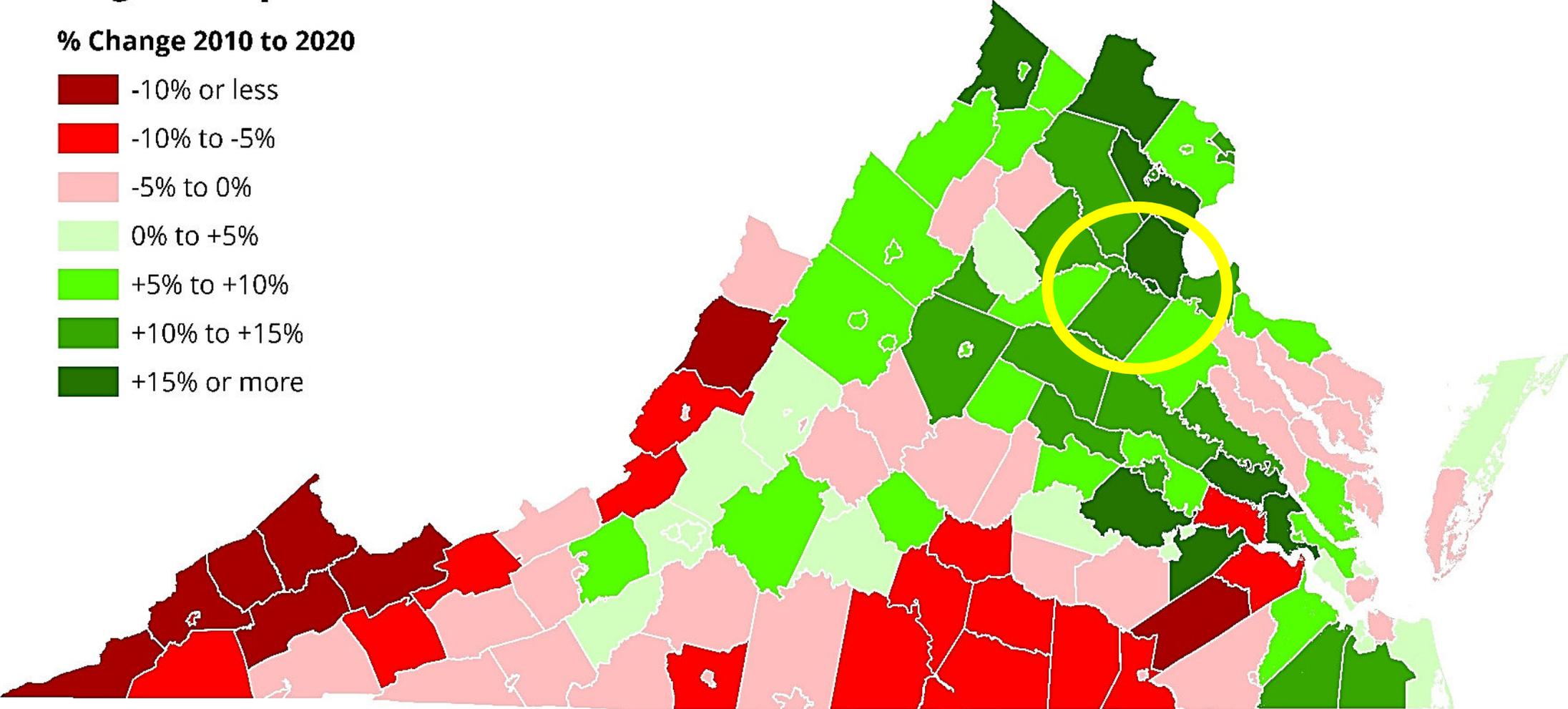
Demographics

The population of Virginia's Urban Crescent has been growing

Virginia Population Trends

% Change 2010 to 2020

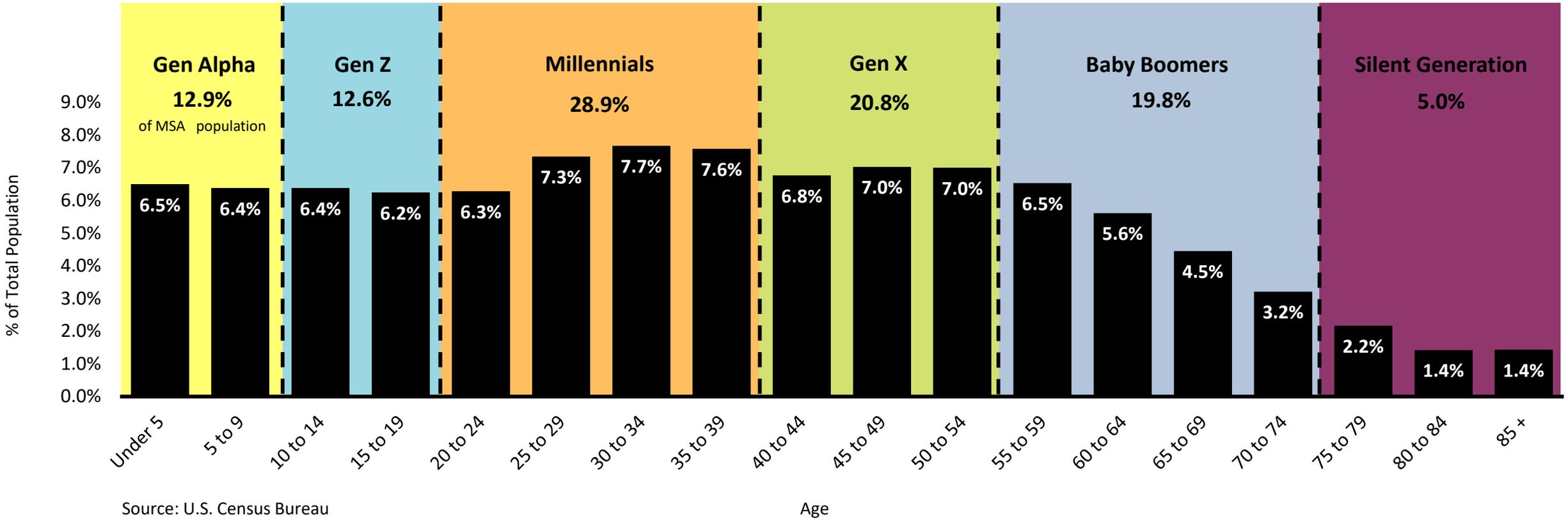
- 10% or less
- 10% to -5%
- 5% to 0%
- 0% to +5%
- +5% to +10%
- +10% to +15%
- +15% or more



Source: U.S. Census Bureau (Decennial Census)

Age Distribution in Washington MSA, 2019

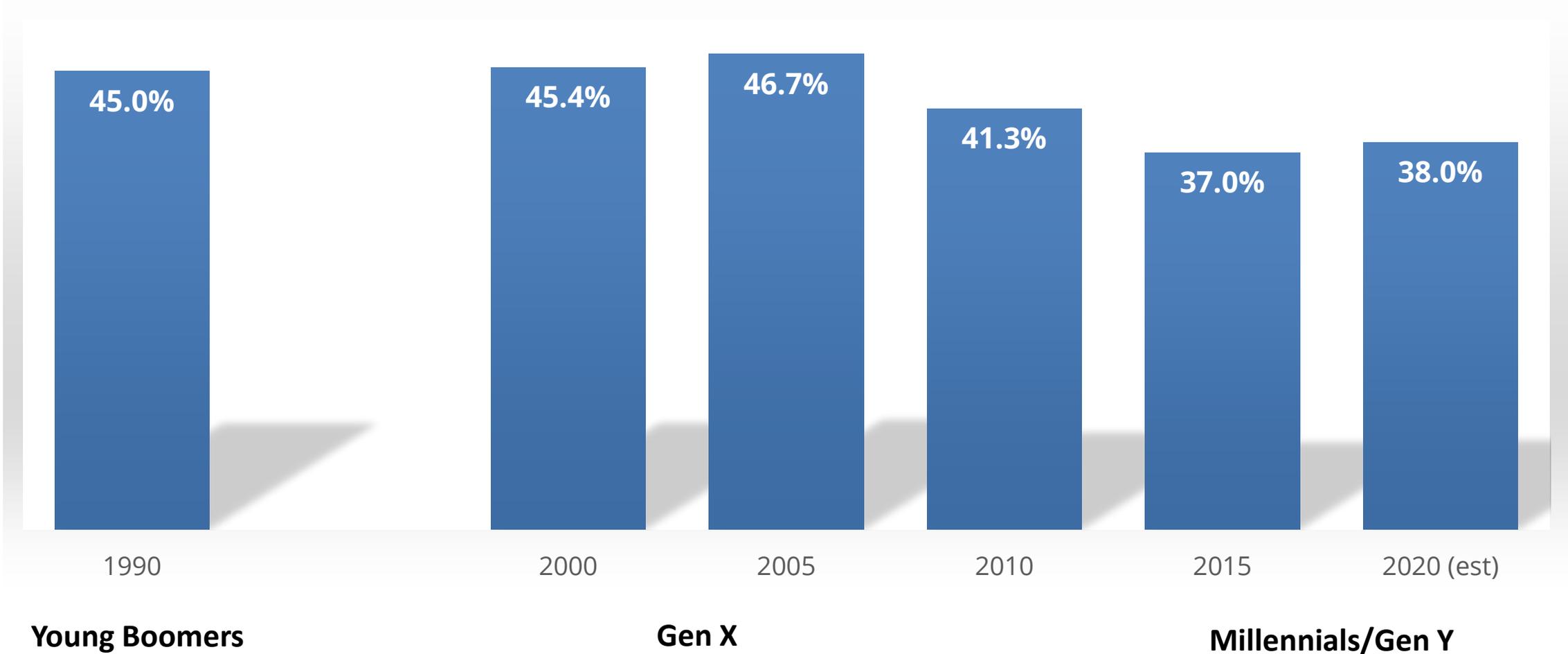
Note: Generation age ranges are approximate



Demographics

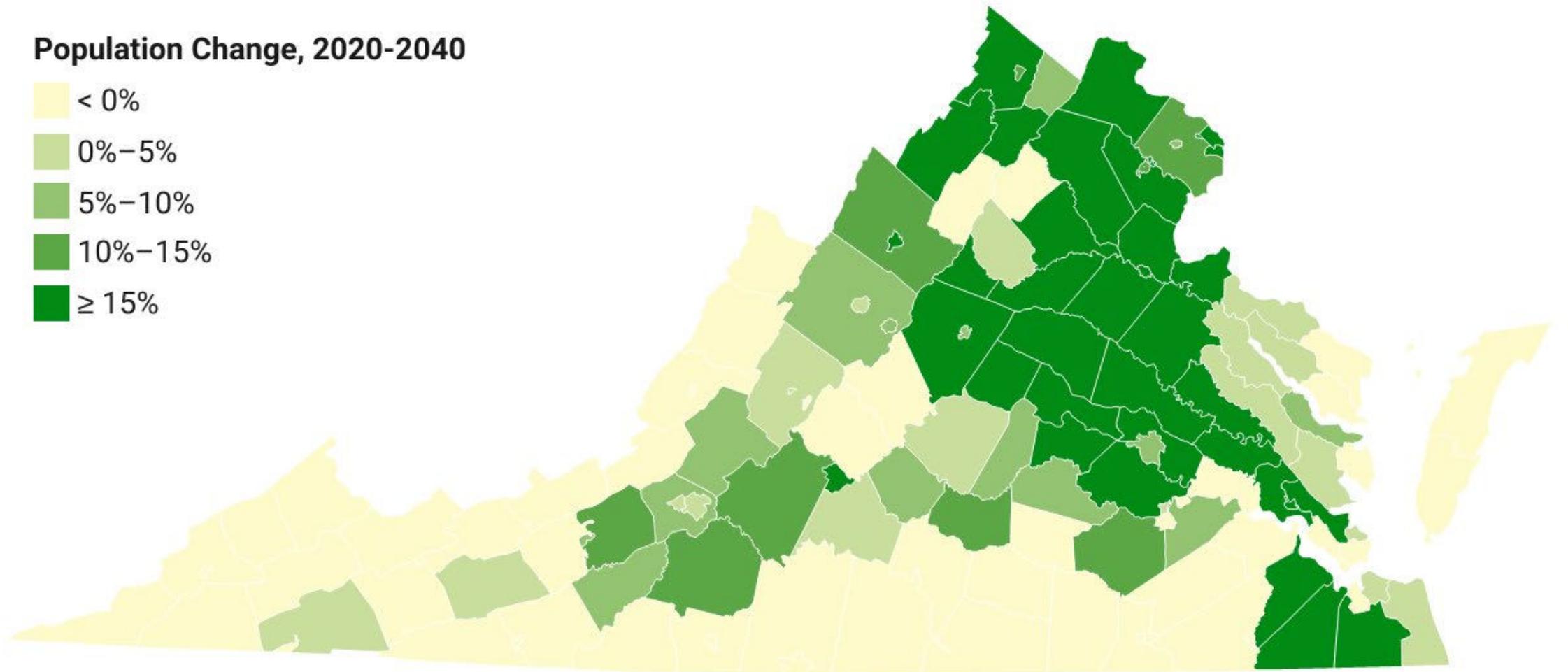
Homeownership rates among Millennials remain relatively low

Homeownership Rates, 25 to 34 Year Olds



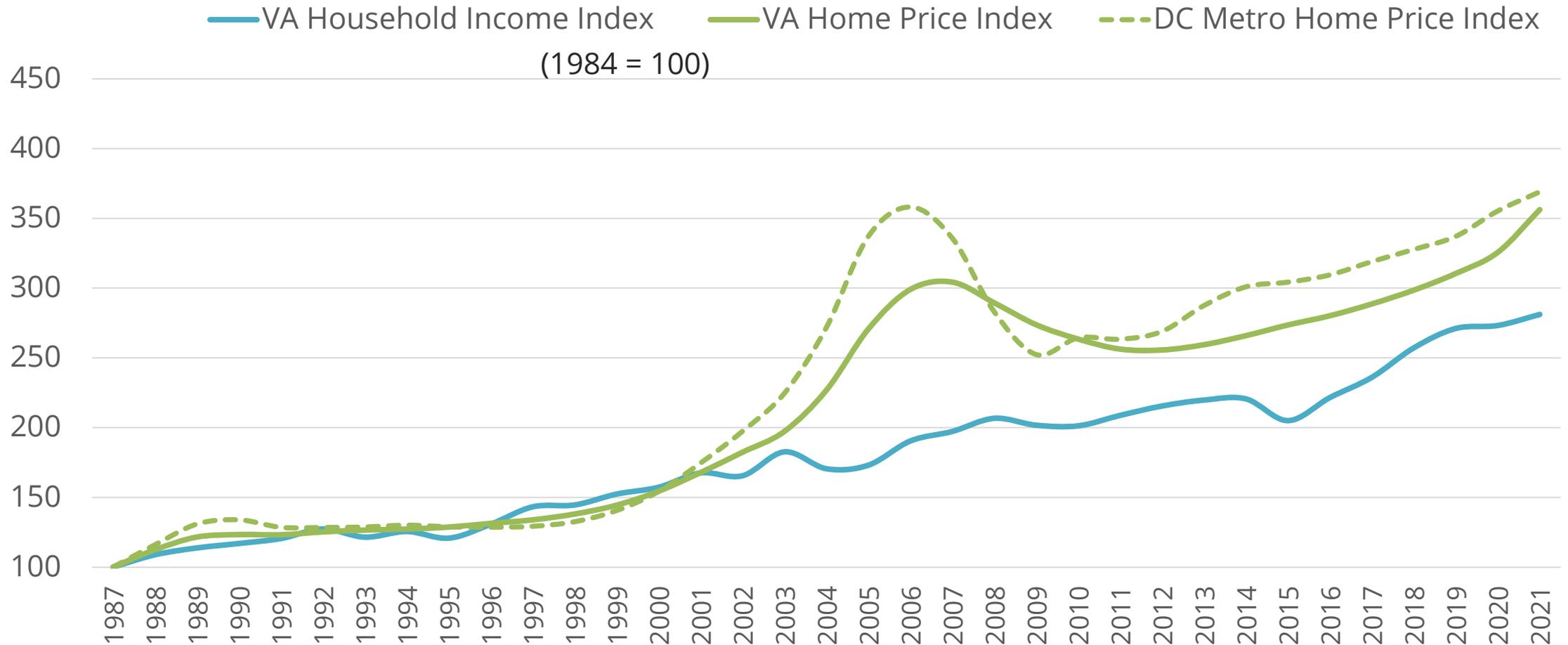
Demographics

Statewide population projected to increase by 14.2% over the next 20 years



Affordability

Home prices are rising much faster than incomes



Virginia Home Prices

The impact of rising prices has been offset by low mortgage rates...until recently

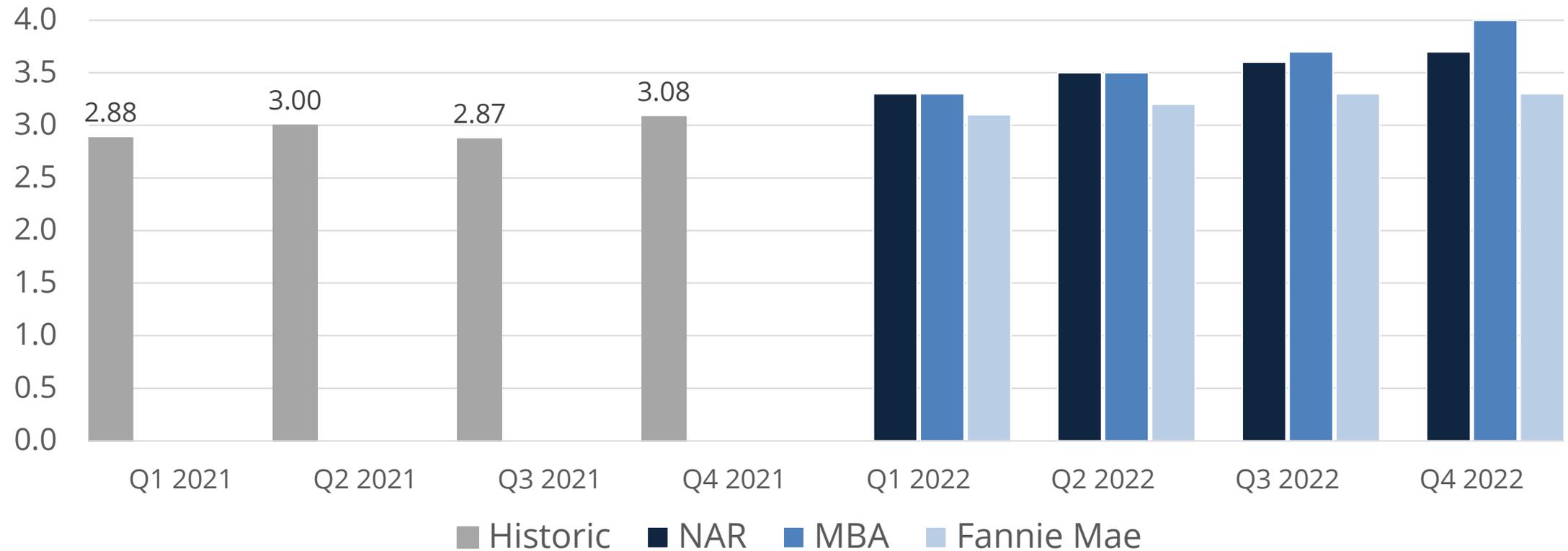
	Median home price	Average mortgage rate	Monthly payment	Income Needed
Dec 2017	\$274,000	3.95%	\$1,235	\$52,938
Dec 2018	\$280,000	4.64%	\$1,370	\$58,714
Dec 2019	\$297,000	3.72%	\$1,302	\$55,795
Dec 2020	\$325,000	2.68%	\$1,249	\$53,530
Dec 2021	\$350,000	3.10%	\$1,420	\$60,850
2022?	\$364,000	4.00%	\$1,650	\$70,750

Source: Virginia REALTORS®. Freddie Mac
Assumes 5% down payment, 1.5% closing costs, and a 30-year fixed rate loan.
Also assumes the total payment is no more than 28% of gross income.

Mortgage Rates

Modest increases forecasted for 2022

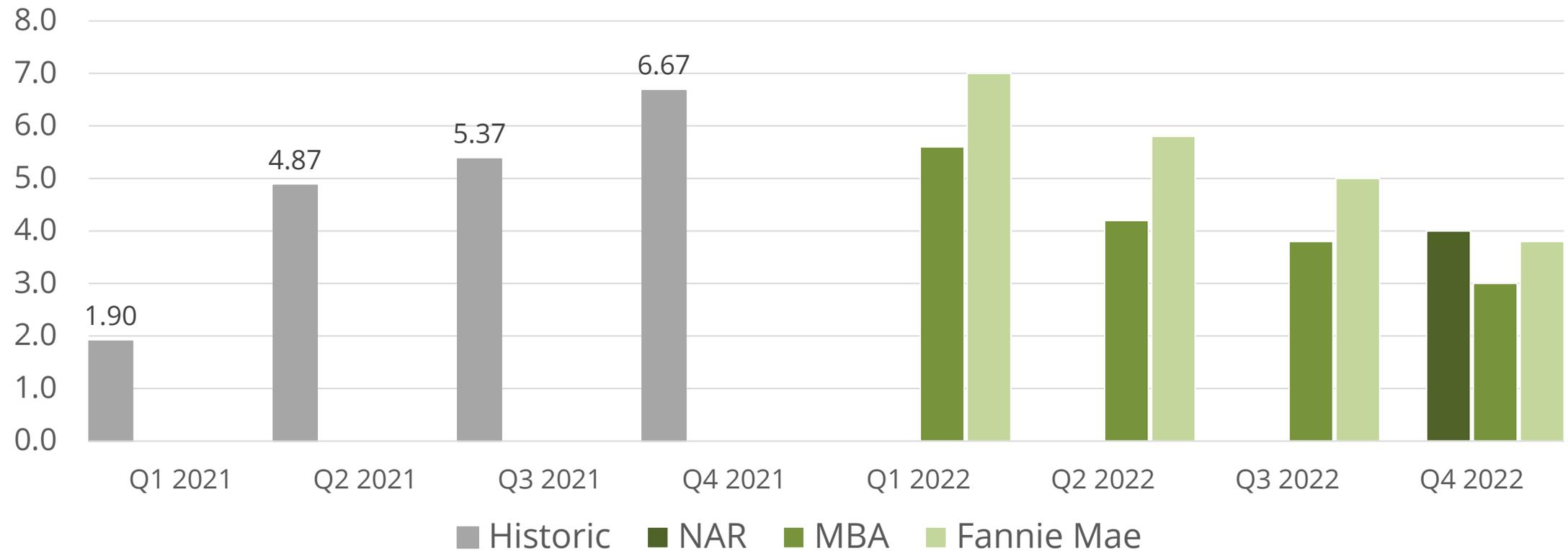
Average 30-Year Fixed Rate Mortgage Rate



Inflation

Most economists are forecasting a sharp drop in inflation this year

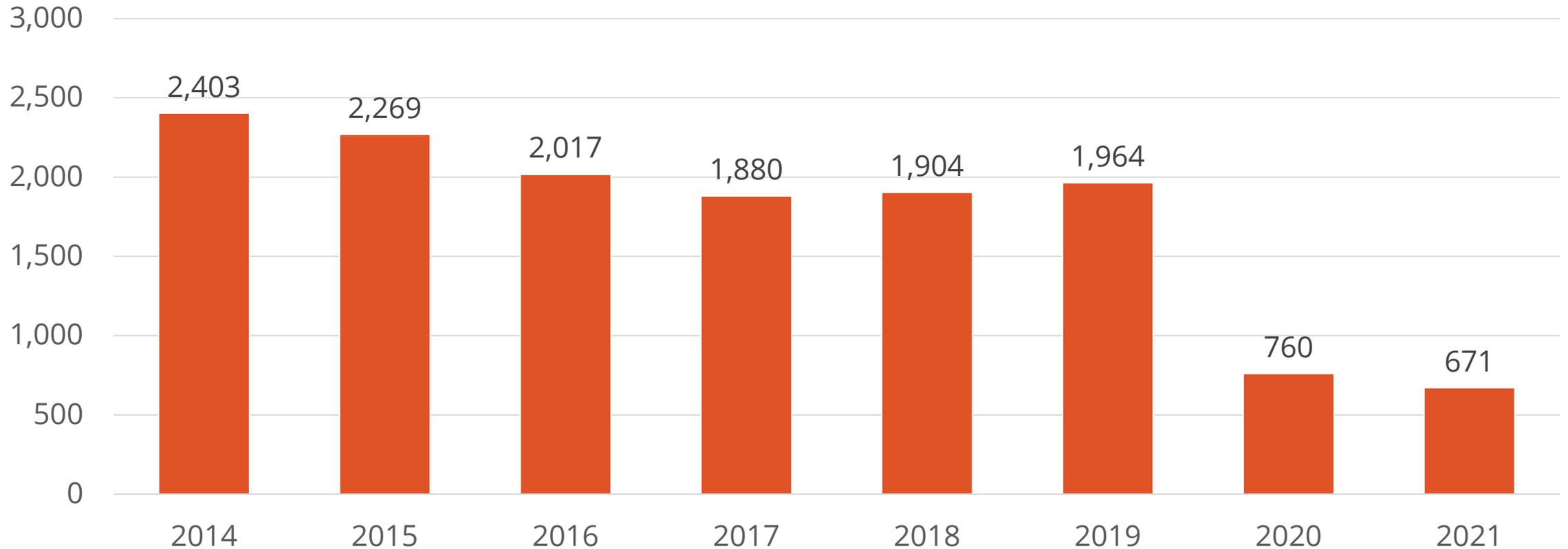
Average Change in CPI-U



FAAR Inventory

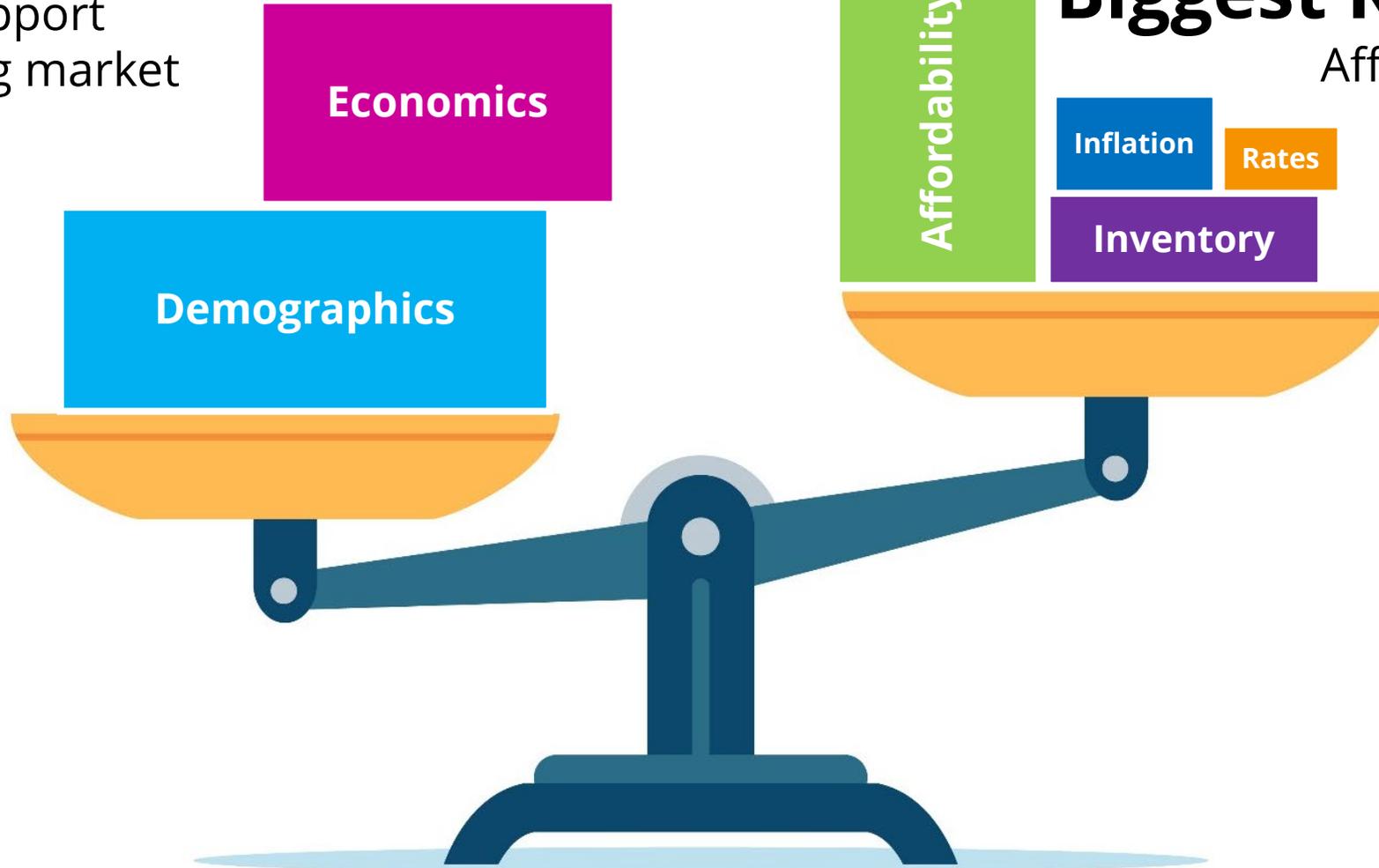
Inventory has been declining for years, but shortage got worse during pandemic

Number of active listings, FAAR
End of December each year



Outlook for 2022

Economic and demographic factors will support strong housing market conditions, outweighing potential challenges in the market.



Biggest Risks in 2022

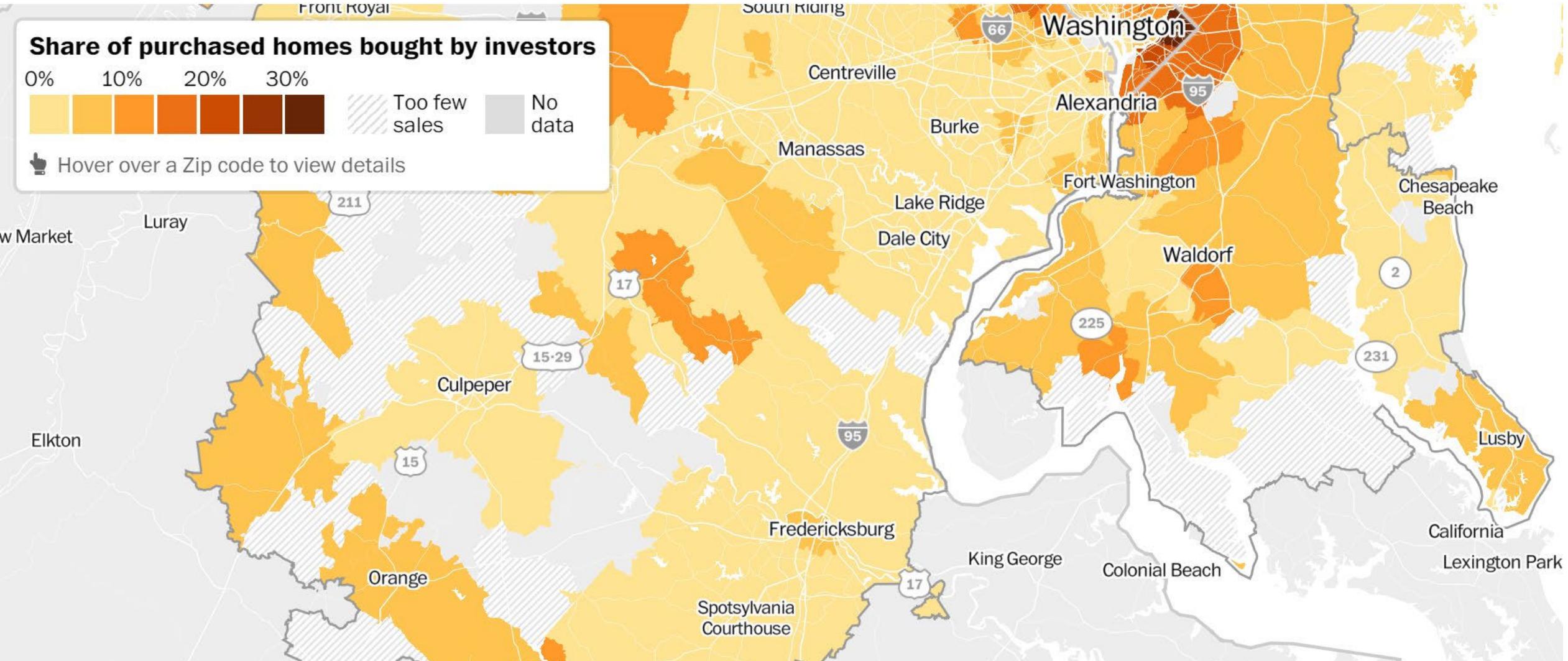
Affordability will be the biggest challenge in 2022, with buyers in many markets priced out.

Inventory will continue to be very tight.

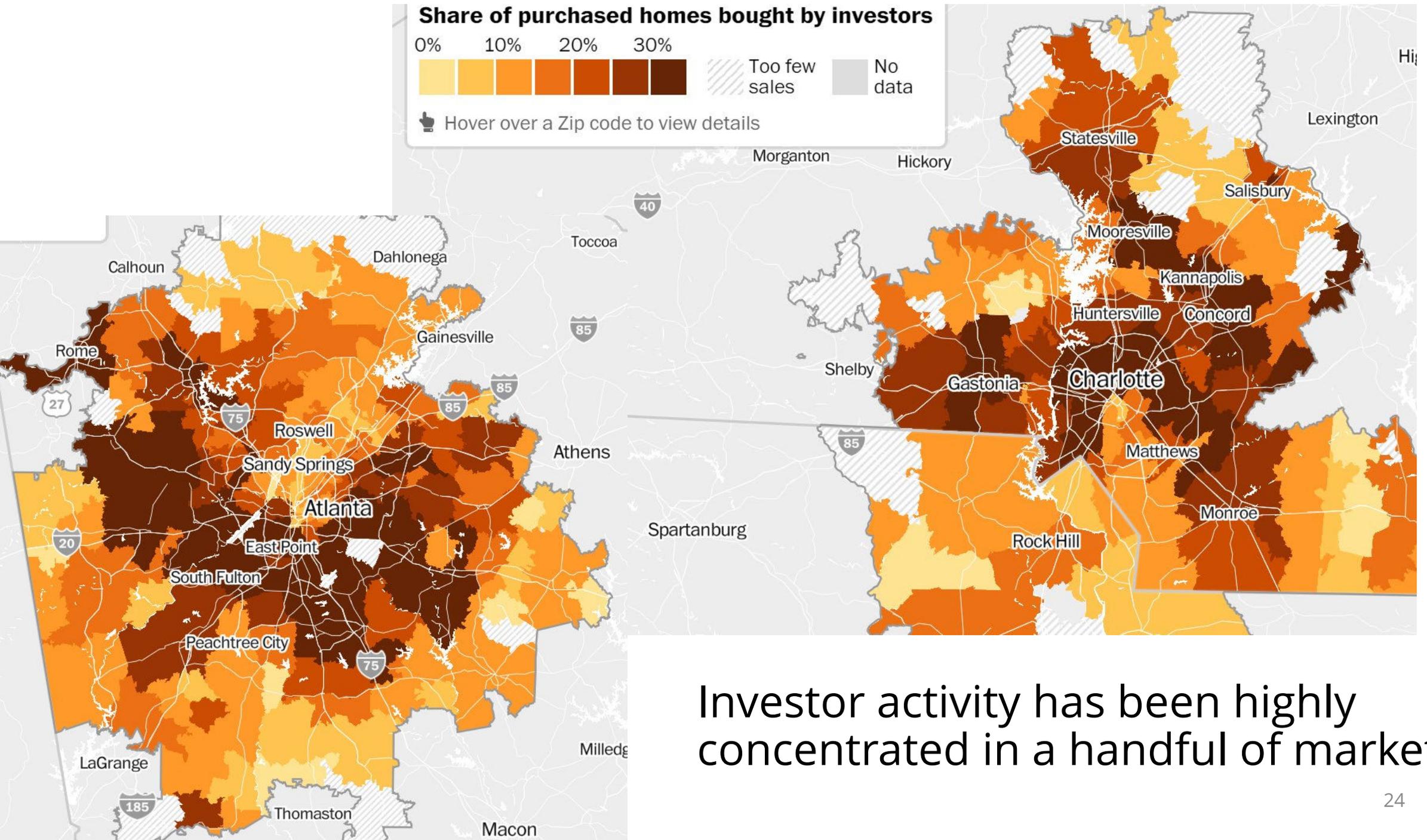
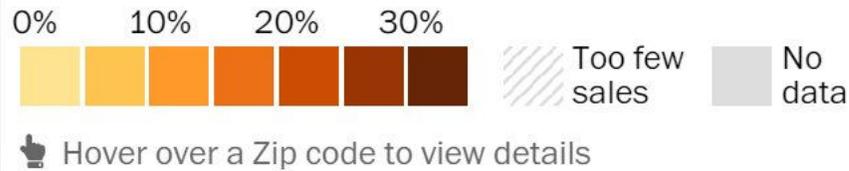
What we **don't** expect in 2022 in the Fredericksburg area market

- Investors being major players in the market
- Foreclosures flooding the market
- A housing market “bubble bursting”

Investors are a **small share** of the Washington DC are housing market

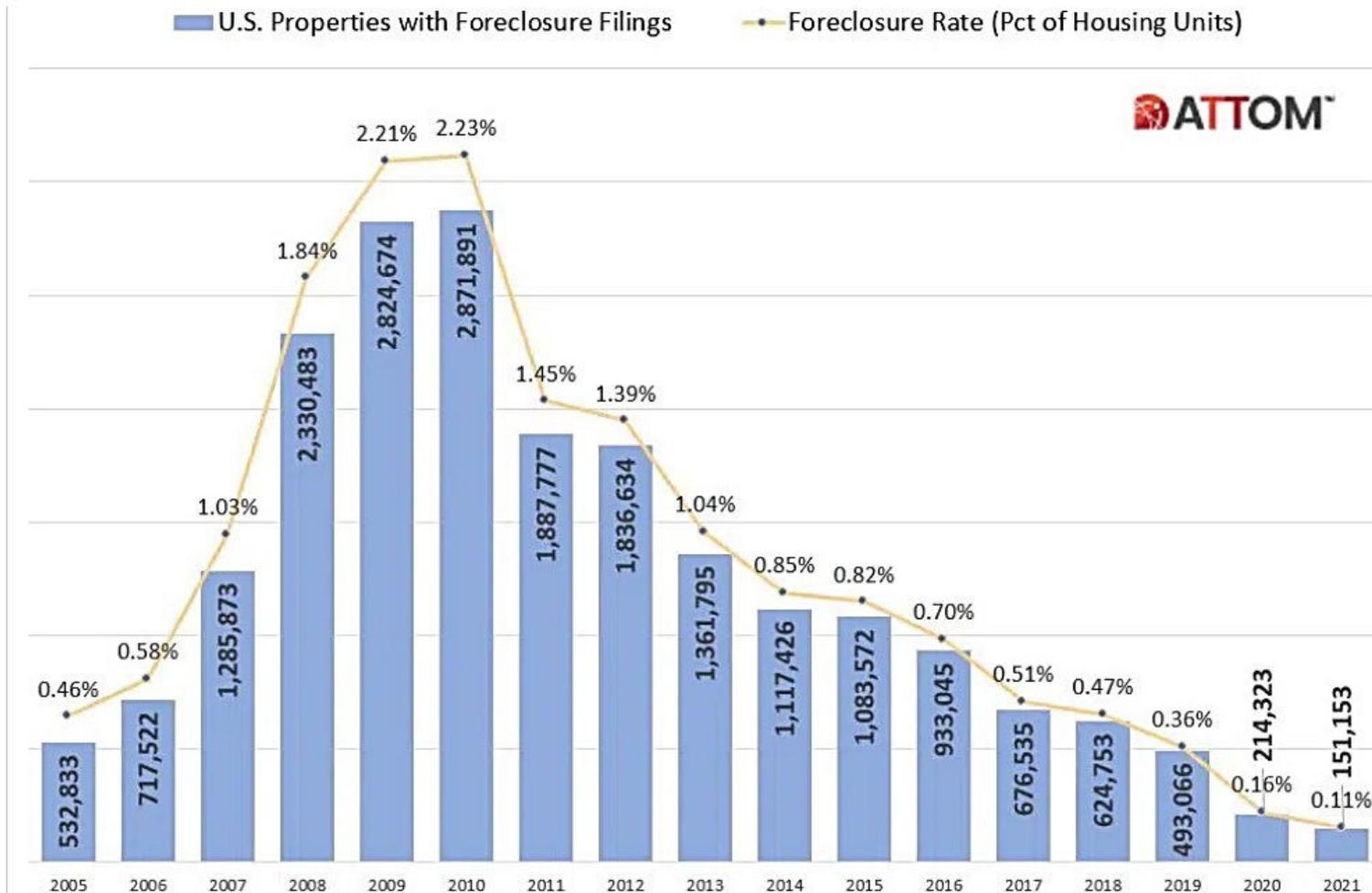


Share of purchased homes bought by investors



Investor activity has been highly concentrated in a handful of markets

Foreclosure and delinquency activity is low, rising from a near zero level



Virginia ranked **31st (out of 50 states)** in terms of foreclosure activity at the end of 2021
 Source: ATTOM

Virginia

	Dec '21	Dec '19
Delinquency %	2.9%	3.1%
Foreclosure %	0.1%	0.2%

Source: Black Knight

2022 is very different than 2008

2008

- Loose credit standards
- Extensive subprime lending
- Abundant supply and surges in new construction activity
- Unemployment rising

2022

- Tight credit standards
- Little subprime lending
- Extremely low inventory and little new construction
- Unemployment falling

The Housing Market: Where We're Headed

Virginia



Home Sales

Annual Change

2021: ~~+6.2%~~ **+10%**

2022: -0.1%

Median Home Price

Annual Change

2021: +9.2%

2022: +4.1%



New Housing Starts

Annual Change

2021: +10.3%

2022: +0.5%



30-Year Mortgage Rate

December average

2021: 3.10%

2022: 4.00%

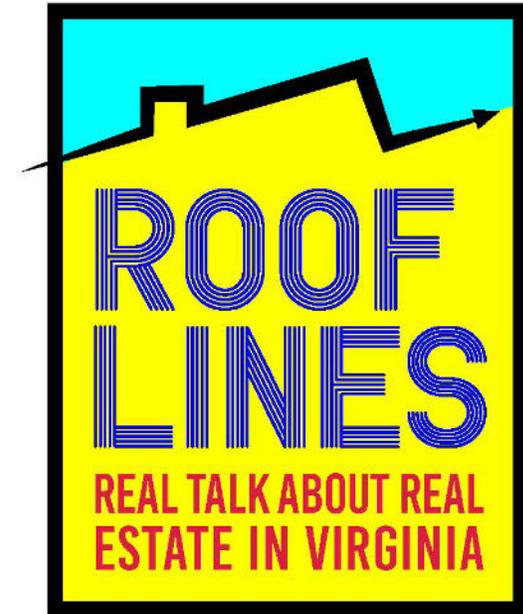


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