

2022 NVAR Region Forecast Mid-Year Update

The Northern Virginia Association of Realtors® (NVAR), in conjunction with the Center for Regional Analysis at George Mason University (GMU-CRA), issues a consensus forecast for the NVAR region's housing market. The association convenes a panel of key experts from differing sectors of the real estate industry to review preliminary forecasts developed by GMU-CRA economists and offer their insights into current and near-future market conditions. The following represents the forecast team's usual mid-year update for the annual forecast. This update arrives a bit later than usual in large part because the forecast team was getting our model recalibrated for, and our collective heads around, the wild ride we have seen in mortgage interest rates. The mixed messages being delivered by the national economy, increasing worries about inflation, and mortgage rate expectations have made this a very interesting year for predicting the direction of Northern Virginia residential real estate market.

It has been an amazing year, though not necessarily in a good way. On February 24, 2022 Russian invaded Ukraine in the most significant act of war in Europe since World War II. Just as we were beginning to see some supply chains that had been disrupted by the pandemic, especially the effects of China's Zero-COVID business shutdown policies, this war combined with the sanctions placed on Russia by most western nations has caused shortages in oil, critical minerals used in technology products, food, and other commodities. Combined with high consumer demand levels sparked by job growth, inflation rose to levels not seen in 40 years. Controlling inflation has now become the primary focus of the Federal Reserve Bank, even at the hypothetical cost to job growth, resulting in large jumps in interest rates on federal funds. So far this year, the Federal Funds rate has increased 2.25%, with widely communicated expectations that rates will rise to the range of 3.25-3.75% by the end of 2022—interest rates that are intended to slow economic growth. Oil producing nations in OPEC have increase production somewhat and oil prices have dropped. Prices at the gas pump, which had reach \$6 per gallon in some markets, is now in the \$4.25 per gallon range. Still the June readings for inflation, the most recent available, are running at 8.6%. Importantly, though softening some, the Producer Price Index is still highly elevated, which tells us that consumer prices will not be coming down to usual target levels of a little over 2% anytime soon.

The news on the national economy is also concerning. The U.S. has now seen two consecutive quarters of negative GDP growth this year. We are technically not in a recession, but consumer confidence has plummeted, which affects potential home buyers. Just to make sure you stay confused, the just-released job numbers for July 2022 came in at more than 540,000 new jobs created in the nation, more than double expectations. The labor market remains very tight with many workers getting good raises, which will contribute to inflation as the prices of goods and services rise to pay for higher wages. In real terms, most workers are falling behind, meaning that though they are seeing larger paychecks, the cost of goods and services is rising faster.

Most of the readers of these forecasts track mortgage interest rates closely. Only the most senior members of staff have ever seen mortgage rates swing as quickly as the rates have risen and fallen back so far this year. Some 30-year, fixed rates hit the 6% range a few months ago, then fell back into the 4.5% range, with trends showing a rise back towards 5%. This created a bit of shock and awe among home buyers, though interesting our data tell us that some used the rising interest rates to trigger action. In some housing segments, peak sales activity occurred in early spring this year as buyers closed homes in time to keep mortgage rates that has been locked in earlier in the year. Still, for many buyers the higher mortgage levels are impacting affordability and there are indications of market softening.

Overall, it seems the net effect of these conflicting signals on economic performance has been to somewhat cool a very, very hot residential real estate market in Northern Virginia. Some sellers are, gasp, actually reducing their sales price to lock in quick action. However, inventories remain relatively tight and jobs are plentiful. If you hear individuals proclaiming the housing industry sky is falling, smile and move on. The forecast team's consensus for the remainder of 2022 is for the housing industry to remain strong, just not at the unsustainable levels of last year. In sum, housing prices will continue to rise, but at a more moderate pace than the past year or so. Inventories are rising for some submarkets, but this is still very much a sellers' market balance. Unit sales will decrease compared to last year, but it will still be a good year for most realtors, brokers, and others. It also seems that more normal seasonal patterns are starting to return – don't expect 2020/2021 levels of market activity in late fall and winter.

Forecast by Jurisdiction

Fairfax County (view charts)

After a year and a half of rapidly rising prices, the market for single family homes in the region's largest jurisdiction will see good, not overheated, price increases (about 5%). Total unit sales in 2022 will drop 15% compared to 2021, but that still means over 7,800 home sales in 2022 – not bad! Inventories of single-family homes will stabilize. The expectation for December inventories will be a 19% decline, but that is off an unusually active December 2021.

The forecast team expects inventory gains in townhomes located in Fairfax County and related jurisdictions that will be notably higher than fall of 2021. This is most welcome news for realtors who had interested buyers but practically nothing to show last year. Our forecasts suggest that townhome buyers may be more sensitive to the impacts of rising mortgage rates; therefore, our revised expectations for total units sold in 2022 will be just under 3,700, about one-third fewer sales than 2021.

The Fairfax condominium market will continue to see price increases, somewhat due to buyers being forced to consider this more affordable housing option. Median prices will show a 10% gain in December 2022 compared to December 2021 supported by declining inventories. We could speculate that inventories will drop in part because existing owners will decide they can't afford to move up to single family homes at Northern Virginia prices with mortgage rates about 5%.

Arlington County (view charts)

The forecast team made the explicit choice to lower expectations of rising single family home prices in Arlington because, 1) the rate of price increases observed in 2021 were simply not sustainable, and 2) buyers are more loan-qualification constrained with higher interest rates. Inventories will drop some, down 4% at year, and unit sales will decline. Do not worry much about Arlington's housing market. Hiring at Amazon HQ2 is expected to accelerate, Boeing is moving their corporate headquarters to the county, and Hilton's HQ is staying put. Demand for all housing in Arlington is solid. We just have to wish ourselves luck getting folks to want to leave so we can sell their home.

The same market dynamics are at play in with Arlington townhomes. Prices are somewhat flattening, but will still be pretty strong at year end. Sales activity will drop by about 100 units for 2022 and inventories will remain tight.

The Arlington condo market has seen high month to month variances over the past couple of years. The underlying economic fundamentals for the jurisdiction, as noted above, is very solid. The charts shown below show that in a thin market, about 130 unit sales per month on average, the median value can be shift \$20,000-\$40,000 in any month just based on the characteristics of the particular units sold. Therefore, we see prices “trading in a range” and a most decline in unit sales (about 10% drop) for 2022. Inventories may actually rise—slightly.

Alexandria City (view charts)

The chart for median prices of Arlington single family homes shows a market coming back, somewhat, to reality. Our forecast team is seeing some softening in this market, so we have brought our forecast of prices down a bit, to just very good. As with Arlington, Alexandria is a small market where home prices can be volatile based on the condition/age of a handful of homes – either good or bad. We expect December 2022 prices to be about 15% above December 2021, but if you draw an imaginary straight line through several years of pricing data, the overall trend is a sustainable rise, discounting the volatility in pricing over the past couple of years. Overall, inventories will continue to be tight for Alexandria single family homes and total units sold in 2022 will be about 330, a 27% decrease compared to 2021.

Alexandria townhome inventories will shrink modestly, unit sales will drop by about 250 for the year (-25%), and these supply constraints will keep prices rising (12% higher in December 2022 compared to a year earlier). Condominiums in Alexandria will see inventories remain below the levels experienced at the height of the pandemic, but notably above pre-pandemic levels. Unit sales will exceed 1,400 in this market segment in 2022, below last year but still very strong compared to earlier years. Prices will be 7.3% higher this December compared to last year.

At the beginning of 2022 we had expected many market metrics to begin looking like normal Northern Virginia housing markets – tight inventories and rising prices that make it hard for first time buyers and many working families to realize their home ownership dreams. In that sense, we were spot on, but the market details and our economic environment are even more volatile. Key themes that will impact our housing markets will include: 1) can the Federal Reserve engineer the soft landing for the economy that brings inflation under control without sparking a job-killing recession? 2) will the additional sanctions on Russia scheduled to kick in later this year spark supply chain disruptions? 3) will China use its supply chain power to try to punish the U.S. economy by a legislator visited Taiwan? 4) where will mortgage rates stabilize/will they stabilize? The solid news for our regional economy is that federal spending will continue, and will likely increase, regardless of November election outcomes. The DC regional economy is not growing quickly, but is very resilient. This will keep our outlook for the Northern Virginia housing market veery upbeat, but with closer scrutiny as we see how external influences unfold in the coming months. Stay tune!

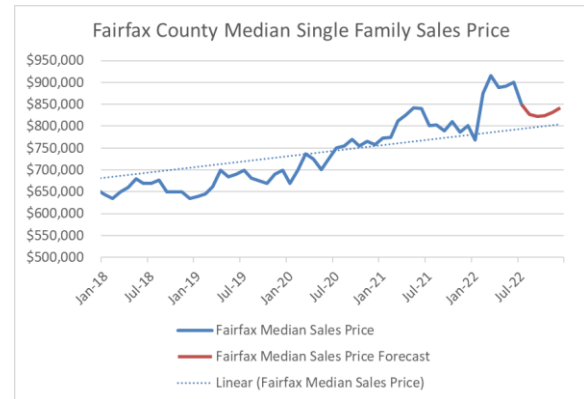
Learn more at cra.gmu.edu and NVAR.com/stats.

Fairfax County – Single Family 2022

Key Market Statistics

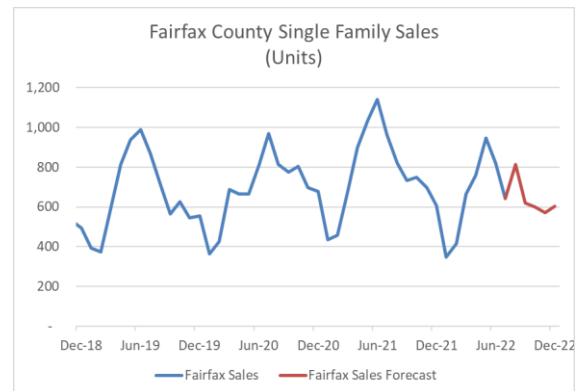
Prices – Single Family

- Housing Prices (Dec 2022): \$841,745
- Median Price in Peak Month: May, \$891,000
- Avg. Year-over-Year Change (Dec – Dec '22): +5.0%



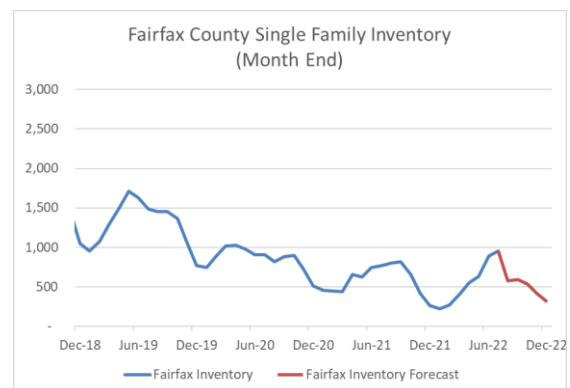
Sales – Single Family

- Unit Sales (2022 annual): 7,806
- Number of Sales in Peak Month: May, 946 units
- Year-over-Year Change (2021 – 2022): -15.3%



Inventory – Single Family

- Units on Market (Dec 2022): 313
- Inventory in Peak Month: June, 892 units
- Avg. Year-over-Year Change (Dec–Dec '22): -19.0%

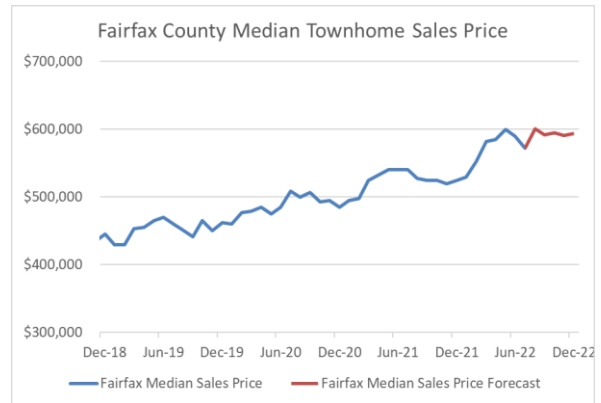


Fairfax County – Townhome 2022

Key Market Statistics

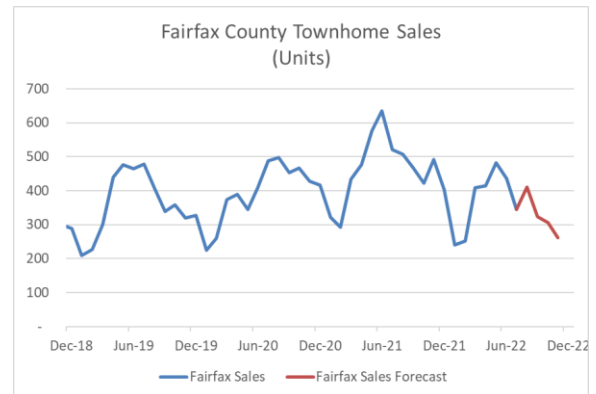
Prices – Townhome

- Housing Prices (Dec 2022): \$594,187
- Median Price in Peak Month: Aug, \$601,085
- Avg. Year-over-Year Change (Dec – Dec '22): +13.4%



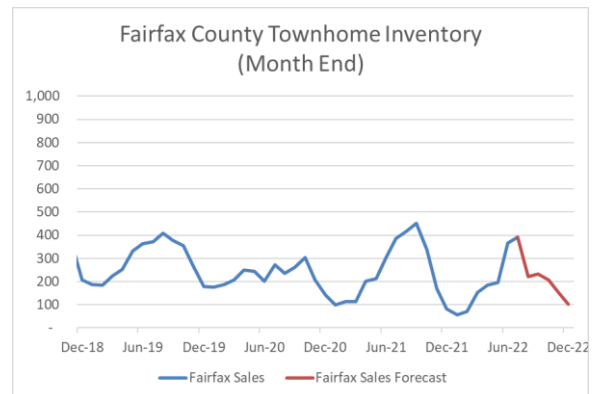
Sales – Townhome

- Unit Sales (2022 Annual): 5,544
- Number of Sales in Peak Month: May, 483 units
- Year-over-Year Change (2021-2022): -33.3%



Inventory – Townhome

- Units on Market (Dec 2022): 103
- Inventory in Peak Month: July, 392 units
- Avg. Year-over-Year Change (Dec–Dec '22): +27%

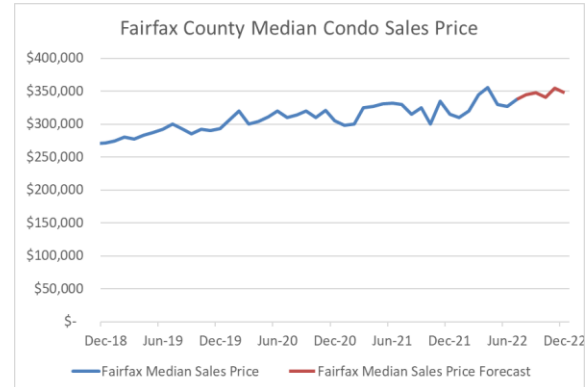


Fairfax County – Condo 2022

Key Market Statistics

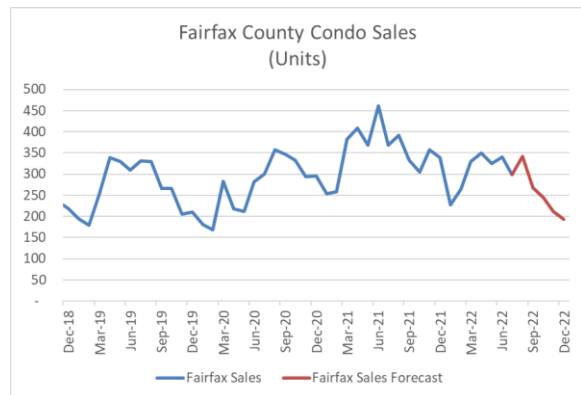
Prices – Condo

- Housing Prices (Dec 2022): \$347,170
- Median Price in Peak Month: Sept., \$347,320
- Avg. Year-over-Year Change (Dec – Dec '22): +10.2%



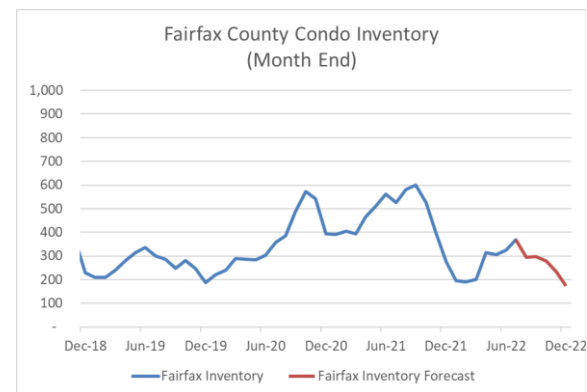
Sales – Condo

- Unit Sales (2022): 3,054
- Number of Sales in Peak Month: April, 350 units
- Year-over-Year Change (2021-2022): -27.7%



Inventory – Condo

- Units on Market (Dec 2022): 173
- Inventory in Peak Month: July, 368 units
- Avg. Year-over-Year Change (Dec–Dec '22): -37%

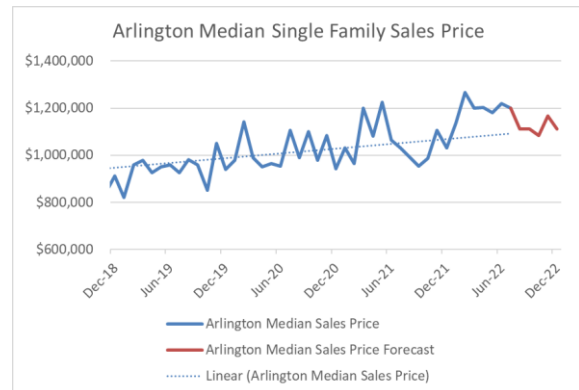


Arlington County – Single Family 2022

Key Market Statistics

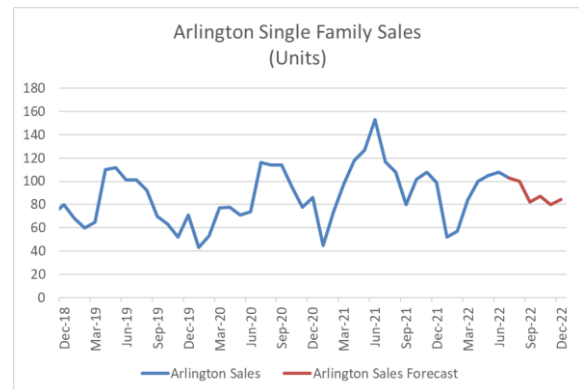
Prices – Single Family

- Housing Prices (Dec 2022): \$1,111,118
- Median Price in Peak Month: June, \$1,218,750
- Avg. Year-over-Year Change (Dec – Dec '22): +7.7%



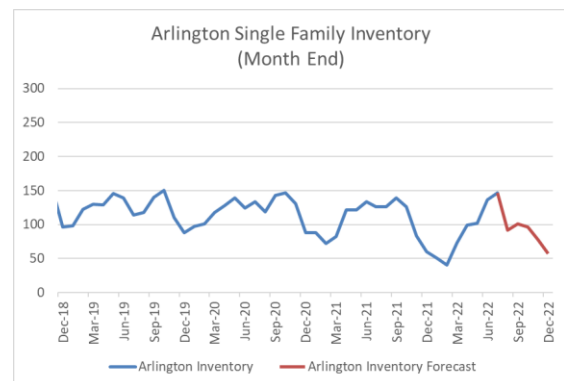
Sales – Single Family

- Unit Sales (2022): 935
- Number of Sales in Peak Month: June, 108 units
- Year-over-Year Change (2021-2022): -23.3%



Inventory – Single Family

- Units on Market (Dec 2022): 58
- Inventory in Peak Month: July, 147 units
- Avg. Year-over-Year Change (Dec–Dec '22): -4.1%

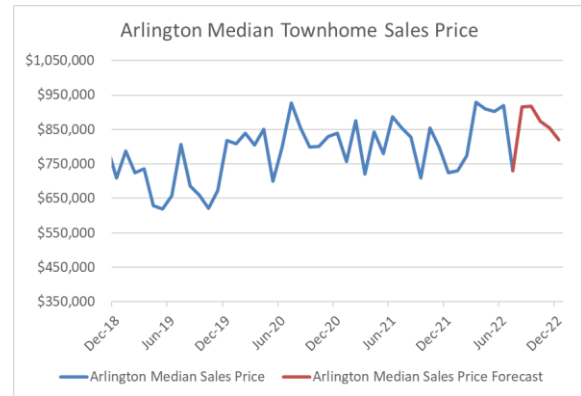


Arlington County – Townhome 2022

Key Market Statistics

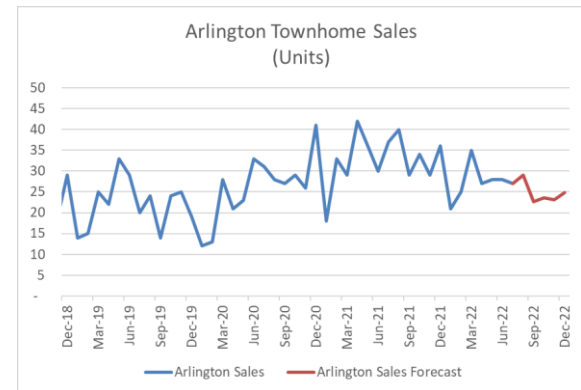
Prices – Townhome

- Housing Prices (Dec 2022): \$821,111
- Median Price in Peak Month: July, \$920,250
- Avg. Year-over-Year Change (Dec – Dec '22): +13.3%



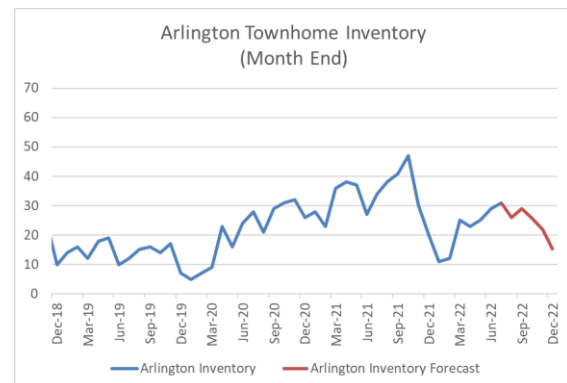
Sales – Townhome

- Unit Sales (2022): 286
- Number of Sales in Peak Month: March, 35 units
- Year-over-Year Change (2021-2022): -27.2%



Inventory – Townhome

- Units on Market (Dec 2022): 18
- Inventory in Peak Month: July, 31 units
- Avg. Year-over-Year Change (Dec – Dec '22): -10%

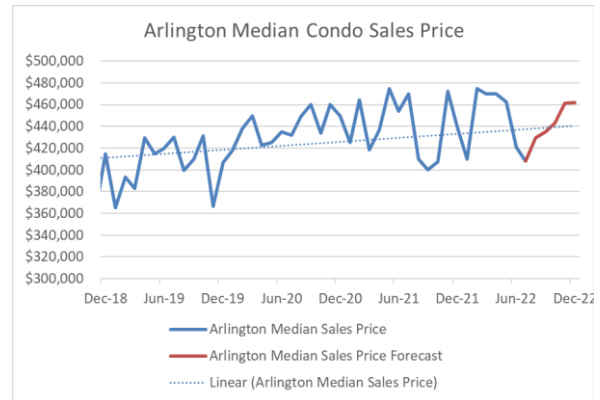


Arlington County – Condo 2022

Key Market Statistics

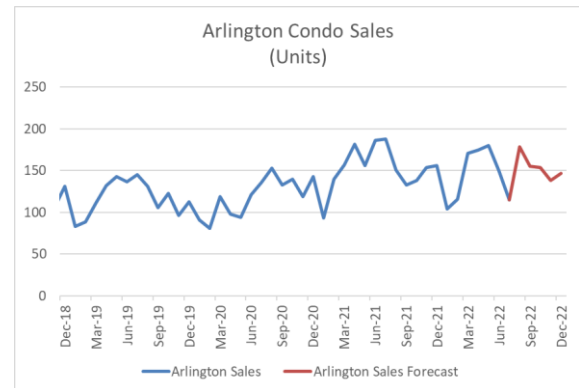
Prices – Condo

- Housing Prices (Dec 2022): \$462,020
- Median Price in Peak Month: Feb., \$475,000
- Avg. Year-over-Year Change (Dec – Dec '22): +5.0%



Sales – Condo

- Unit Sales (2022): 1,634
- Number of Sales in Peak Month: May, 180 units
- Year-over-Year Change (2021 – 2022): -2.0%



Inventory – Condo

- Units on Market (Dec 2022): 210
- Inventory in Peak Month: July, 283 units
- Avg. Year-over-Year Change (Dec – Dec '22): 13.5%

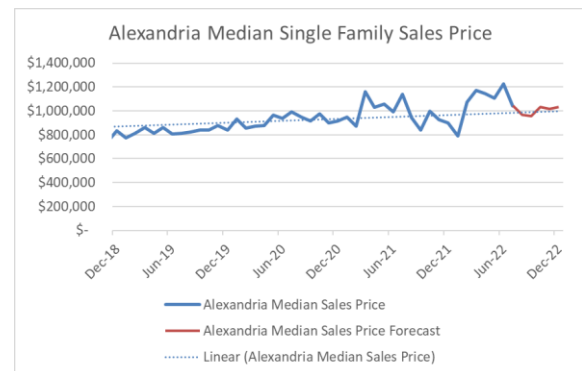


Alexandria – Single Family 2022

Key Market Statistics

Prices – Single Family

- Housing Prices (Dec 2022): \$1,033,856
- Median Price in Peak Month: June, \$1,122,333
- Avg. Year-over-Year Change (Dec – Dec '22): +15%



Sales – Single Family

- Unit Sales (2022): 332
- Number of Sales in Peak Month: June, 53 units
- Year-over-Year Change (2021-2022): -27.3%



Inventory – Single Family

- Units on Market (Dec 2022): 10
- Inventory in Peak Month: May, 34 units
- Avg. Year-over-Year Change (Dec–Dec '22): -9.1%

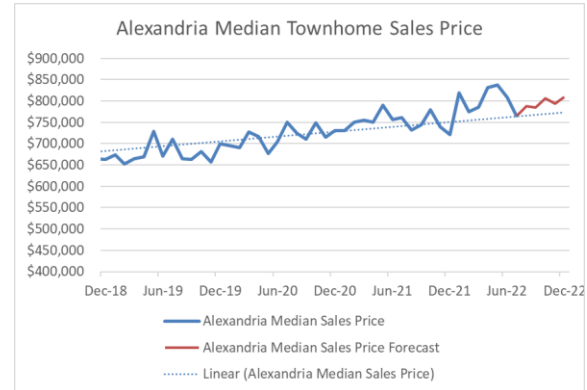


Alexandria – Townhome 2022

Key Market Statistics

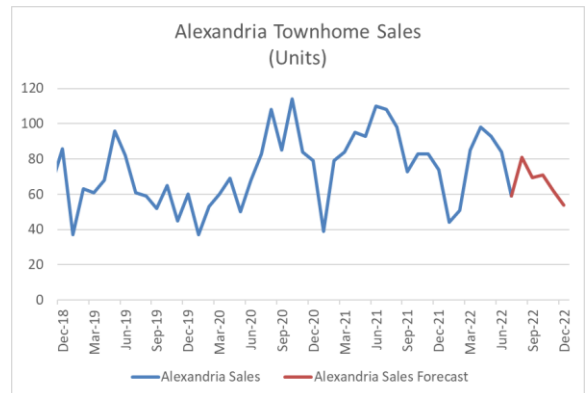
Prices – Townhome

- Housing Prices (Dec 2022): \$803,462
- Median Price in Peak Month: May, \$837,000
- Avg. Year-over-Year Change (Dec – Dec '22): +12.2%



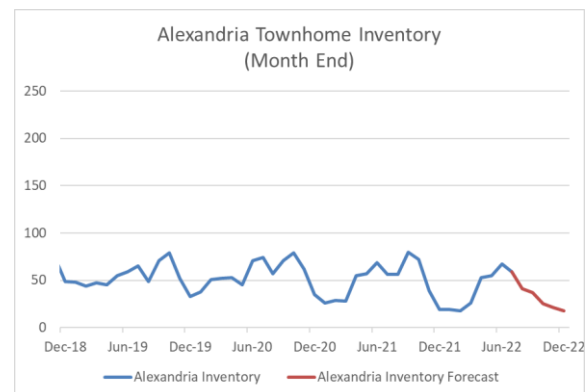
Sales – Townhome

- Unit Sales (2022): 767
- # of Sales in Peak Month(s): Apr, 98 units
- Year-over-Year Change (2021-2022): -24.7%



Inventory – Townhome

- Units on Market (Dec 2022): 18
- Inventory in Peak Month: June, 67 units
- Avg. Year-over-Year Change (Dec – Dec '22): -5.3%

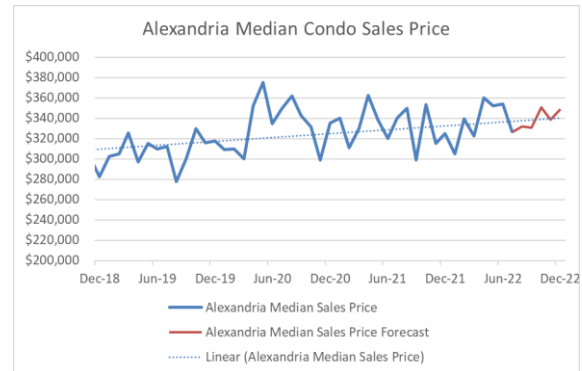


Alexandria – Condo 2022

Key Market Statistics

Prices – Condo

- Housing Prices (Dec 2022): \$348,648
- Median Price in Peak Month: Apr \$360,000
- Avg. Year-over-Year Change (Dec – Dec '22): +7.3%



Sales – Condo

- Unit Sales (2022): 1,426
- Number of Sales in Peak Month: Mar, 180 units
- Avg. Year-over-Year Change (Dec – Dec '22): -12.0%



Inventory – Condo

- Units on Market (Dec 2022): 96
- Inventory in Peak Month: July, 154 units
- Avg. Year-over-Year Change (Dec – Dec '22): -15%

