

# *Appendix Three: Housing Market Trends*

---

## **TABLE OF CONTENTS**

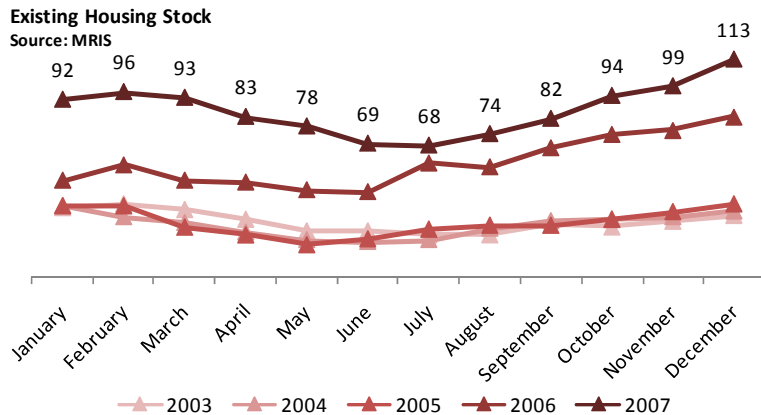
Time-On-Market	2
Construction Costs	4
Land Costs	5
Foreclosures	6
Redevelopment of Existing Home Sites	8

## TIME-ON-MARKET

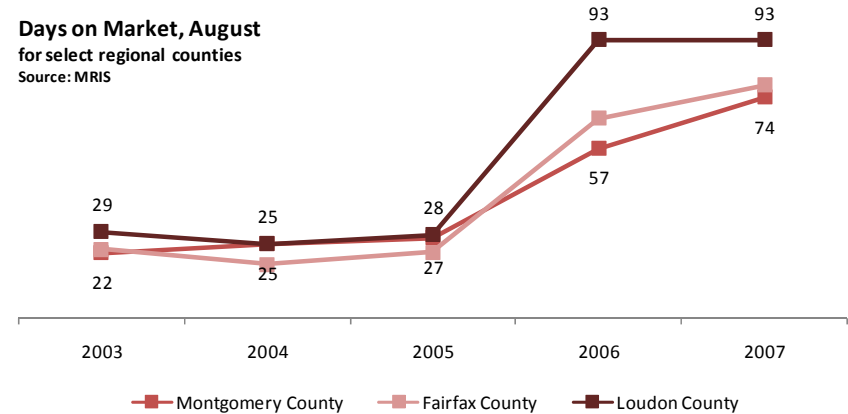
**Time/days on the market is an indicator of the housing market's health.** The less time-on-market, the more robust the market. (More homes achieving a greater percentage of asking price.) Large increases in time-on-market indicate that the market is slowing, as there are fewer buyers than supply of homes for sale. As time-on-market is affected by seasonality, it is important to compare the same months in different years.

**During 2003-2005, most homes remained on the market for fewer than 40 days.** In 2006, the number of days it took to sell a home increased significantly. This timing coincided with the beginning of the national and local housing market cooldown. 2007 showed even larger increases in the time it took to sell a house in Montgomery County, reaching over 100 days in December. This is over twice the amount of time it took to sell a house in December 2003-2005. Recent trends in time-on-market provide no sign that the housing market is improving or will improve soon.

### Days on Market, Montgomery County



**Montgomery County's housing market is faring better than it's Virginia counterparts.** During the housing boom, Montgomery County was on par with Fairfax and Loudon counties in the number of days it took to sell a house. In August 2007, the County had the shortest time on market for sold homes.



## Time-On-Market, Montgomery County

Source: MRIS

	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>	<i>December</i>
2003	36	38	35	30	24	24	22	22	27	26	29	32
2004	37	31	28	23	19	18	19	25	29	30	31	34
2005	37	37	26	22	17	20	25	27	27	30	34	38
2006	50	58	50	49	45	44	59	57	67	74	76	83
2007	92	96	93	83	78	69	68	74	82	94	99	113

## Time-On-Market, Selected Counties, August

Source: MRIS

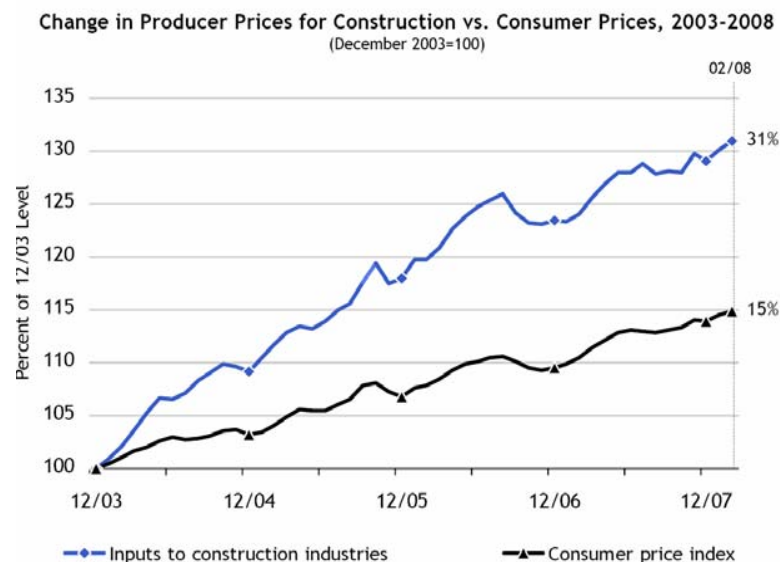
	<i>Montgomery County</i>	<i>Fairfax County</i>	<i>Loudon County</i>
2003	22	23	29
2004	25	18	25
2005	27	22	28
2006	57	67	93
2007	74	78	93

## CONSTRUCTION COSTS

**The price of construction materials is increasing faster than the price of consumer goods.** From December 2003 until December 2007, the Producer Price Index- PPI (price for construction materials) has risen faster than the Consumer Price Index-CPI (price for consumer goods). The PPI was 31% higher at the end of 2007 than it was at the end of 2003, compared to an increase of 15% in the CPI during the same time period (Associated General Contractors of America).

**The increase in construction costs is due to labor and materials.** Labor costs increased due to the need of specialized skill sets and the decreased number of workers in the construction field. Materials have increased in cost due to increased worldwide demand; the falling value of the dollar relative to other currencies has increased foreign demand for domestic construction inputs; and the growing transportation bottlenecks and rising fuel prices have a greater impact on construction than on most other industries.

**Increased construction costs is anticipated to slow the pace of residential development.** Developers will find it difficult to make projects 'pencil'. The projects that do occur should be less risky and well located to consumer preferences. As higher construction costs tend to translate into higher home prices, it can be expected that if this trend continues it will be more difficult to get naturally occurring affordable housing, resulting in an overall decline in the affordability in Montgomery County.



## LAND COSTS

**Montgomery County is experiencing increasing land prices.** Land prices increase due to declining availability of land available for both green field and infill development. As one-third of Montgomery County's land is restricted from development due to being part of the Agricultural Reserve, conservation easements or land designated as parkland, the available land stock is restricted.

**The County is almost built out.** With 80% of 'developable land' consumed a high demand exists for the remaining 20%. The restricted land becomes even more valuable when viewed in the regional context. As part of the Washington, D.C. metropolitan region, Montgomery County has historically been part of the favored quarter of the fast growing region, attracting a highly educated, well compensated citizenry who place a high premium on proximity to the District, access to major transportation routes and infrastructure, as well as, access to the County's well regarded schools and amenities.

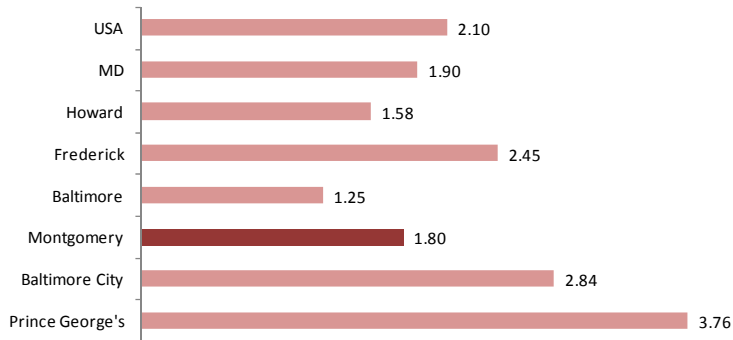
**Limited land availability has translated into higher land/housing prices.** The competition for the few remaining green and infill sites in premium Montgomery County locations has driven up land costs and has placed a reverberating premium on land throughout the County. Middle class families are pushed out of the urban ring, which places higher competition/land prices on mid-County areas, such as Rockville, North Bethesda, Wheaton, etc., which then pushes into the Upcounty regions, i.e., Gaithersburg, Germantown, Clarksburg, etc.

## FORECLOSURES

**Montgomery County has an increasing foreclosure rate.** In March 2008, Montgomery County's foreclosure rate was 1.8 foreclosures per 1,000 households up from 0.89 per 1,000 households in December 2007. This is still below the Maryland and national average (1.9 and 2.1 respectively). Maryland foreclosure activity was up 6% in March, compared to a nationwide average increase of 4%. Since March 2007, statewide filing increased 343%.

### Foreclosure Rate Per 1,000 Households, March 2008

Source: Realty Trac, M-NCPPC, Census



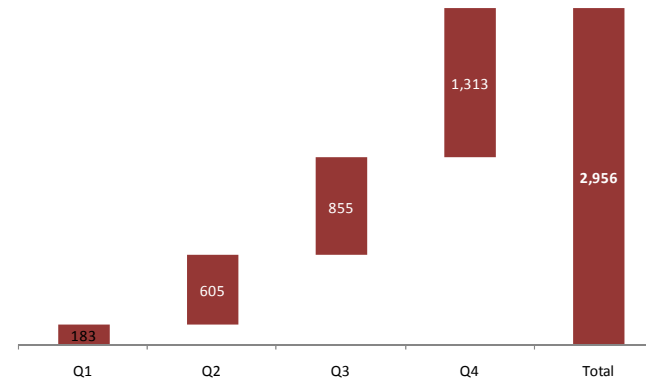
**Montgomery County and four other counties made up 72% of March foreclosure filings in Maryland.** The other counties included Prince Georges, Baltimore City, Baltimore, and Anne Arundel.

**The trend of increasing foreclosures can be observed in 2007.** Only 6% of foreclosures in the County occurred during the first quarter. Fourth quarter foreclosures accounted for 44% of total annual foreclosures in the County. While still low in real numbers, this trend, as well as the increasing foreclosure rate in March 2008,

indicates that foreclosures remain a concern in Montgomery County.

### Number of Foreclosures by Quarter, 2007

Source: Realty Trac, M-NCPPC, Census



**Each foreclosure reduces the value of all homes on a neighborhood block.** Moody's estimates that the reduction in value is 1.5% for each foreclosure. They further predict that home prices will fall 20% from their 2006 peak prices.

**Bloomberg predicts that the housing market will begin to recover in 2009.** Freddie Mac has projected that sales of new and existing homes will fall to 5 million this year, down 33% from 2005. These predictions convey that while the housing slump has been painful to Montgomery County residents, businesses and government, it may be a short-term phenomenon. With recovery beginning in 2009, the housing market should return in the medium term and bring back with it higher household wealth, increased property tax revenue, and increased neighborhood investment.

## Foreclosures, Montgomery County, 2007

Source: Realty Trac, M-NCPPC, Census

	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Total</i>
<b>Number of Foreclosures</b>	183	605	855	1,313	2,956
% of Total	6.2%	20.5%	28.9%	44.4%	100.0%

## Foreclosures, March 2008

Source: Realty Trac, M-NCPPC, Census

	<i>Foreclosures</i>	<i>Households</i>	<i>Foreclosure/1,000 HHs</i>
<b>USA</b>	234,685	111,617,402	2.10
Maryland	4,275	2,249,674	1.90
Howard	156	98,919	1.58
Frederick	196	79,983	2.45
Baltimore	389	311,657	1.25
Montgomery	641	356,400	1.80
Baltimore City	675	237,758	2.84
Prince Georges	1,128	300,177	3.76

## REDEVELOPMENT OF EXISTING HOME SITES

**In recent years, Montgomery County has seen a rapidly increasing number of homes redeveloped in existing, primarily close-in neighborhoods.** This trend also known as teardowns, infill or mansionization has raised concerns from the community, as well as various County agencies (M-NCPPC, County Council, DPS, etc.). Substantial numbers of older, modest-sized houses have been redeveloped into much larger homes that many times do not fit into the scale or character of the established neighborhood.

**Neighborhoods most impacted are in the Urban Ring.** These neighborhoods are already struggling with providing affordable housing to its residents. This trend only exacerbates the affordable housing problem, as smaller homes in need of system upgrades are more affordable than the housing stock that is replacing them.

**Residential infill activity has been steady since 2002.** Permits spiked in FY04 and FY05 during the height of the housing boom, with a noticed decline in FY07 (when the housing market slowdown occurred and increase in foreclosures).

**Over 75% of these residential infill projects occurred in Bethesda, Chevy Chase and Kensington.** This finding further emphasized that this is a localized problem, which is only exaggerating the affordability problems in these neighborhoods.

**Mansionization can greatly impact the character of the existing housing supply.** If the trend continues, it can be expected that close-in communities will become more expensive, have larger

homes, less tree cover, more stormwater runoff, and be less accessible to a wide range of household incomes. As neighborhoods are knocked down house by house, they escape the MPDU and Workforce Housing requirements, which is meant to equally distribute households earning less than 120% of AMI throughout new development in the County.



## Distribution of Residential Infill Construction Permits

Source: OLO Report 2007-4

<i>Location</i>	<i>Zip Code</i>	<i>Demolition and Rebuild Permits</i>	<i>Percent of Total</i>
Bethesda	20817	313	26%
Bethesda	20814	228	19%
Chevy Chase	20815	140	12%
Kensington	20895	107	9%
Bethesda	20816	103	9%
Silver Spring	20910	43	3%
Colesville	20904	41	3%
Cabin John	20818	31	3%
Aspen Hill	20906	27	2%
Wheaton	20902	26	2%
Potomac	20854	25	2%
All Other		97	4%
<b>Total</b>		<b>1,181</b>	<b>100%</b>

## Residential Infill Construction Permits

Source: OLO Report 2007-4

	<i>Addition and Renovation Permit</i>	<i>Demolition and New Construction on Same Site Permit</i>	<i>New Construction on Vacant Lot Permit</i>	<i>Total Permits</i>
2002	1,572	173	51	1,796
2003	1,604	155	21	1,780
2004	1,862	205	8	2,075
2005	1,704	290	14	2,008
2006	1,646	275	3	1,924
2007 (through Nov).	609	83	2	694