1st Quarter 2010

U.S. Housing Market Conditions

Mid-Atlantic Regional Report

HUD Region III

1st Quarter Activity

The following summary of the Mid-Atlantic region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Mid-Atlantic region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market con-ditions carried out in support of HUD's programs.

During the 12 months ending March 2010, employment levels in the Mid-Atlantic region continued the decline that began in mid-2008. Nonfarm employment averaged 13.6 million jobs during the 12-month period, down 422,000 jobs, or 3 percent, from the 14 million jobs averaged during the 12 months ending March 2009. The education and health services and the government sectors were the only employment sectors to add jobs. The education and health services sector grew by nearly 37,950 jobs, or 1.7 percent, which was down significantly from the 64,100 jobs added during the same period a year earlier. The government sector grew by 18,200 jobs, or 0.8 percent, but the state and local government subsector lost 2,300 jobs, or 0.1 percent, after gaining 20,450 jobs during the 12 months ending March 2009. Job declines were most severe in the manufacturing sector, which lost 112,000 jobs; in the construction sector, which lost nearly 90,400 jobs; and in the wholesale and retail trade subsectors, which lost a combined total of 85,200 jobs. The job losses represented declines of 10, 13, and 9.5 percent, respectively.

Total nonfarm employment declined in every state in the region and in the District of Columbia. On a percentage basis, Delaware reported the largest job decline of 4.4 percent; losses of 4,100 jobs in the construction sector and 3,600 jobs in the manufacturing sector accounted for 40 percent of the jobs lost in the state. In Pennsylvania, during the 12-month period, declines of 69,100 manufacturing jobs and 37,900 professional and business services jobs accounted for 57 percent of the 186,900 total jobs lost, down 3.2 percent from a year earlier. Virginia lost a total of 120,860 jobs, or 3.2 percent, and Maryland lost a total of 74,100 jobs, or 2.9 percent. In Virginia and Maryland, construction was the leading sector in the number of jobs lost, down 29,200 and 22,900, or 14 and 15 percent, respectively. In West Virginia, employment declined by 20,660 jobs, or 2.7 percent. A gain of 7,400 jobs in the federal government subsector helped the District of Columbia remain relatively stable, losing only 590 jobs, down

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less than 0.1 percent from a year earlier. During the 12 months ending March 2010, the regional unemployment rate averaged 7.9 percent, nearly 2 percent lower than the national rate of 9.7 percent but up from the regional average of 5.4 percent recorded during the 12 months ending March 2009. Unemployment rates among the states in the region ranged from 7 percent in Virginia to 8.7 percent in West Virginia. The District of Columbia reported an unemployment rate of 10.9 percent, up from 7.4 percent a year earlier.

The extension of homebuyer tax credit programs, lower interest rates, and a continued decline in home prices contributed to increased volume in existing home sales. In addition, both the number of days that homes stayed on the market and the existing levels of inventory declined, so, although sales markets remain soft in the region, a return to balance is under way. The Maryland Association of REALTORS® reported that, during the 12 months ending March 2010, 61,360 existing homes were sold in Maryland compared with approximately 43,020 homes sold during the 12 months ending March 2009. This 19-percent increase in sales was a significant improvement compared with the 22-percent decline reported during the 12 months ending December 2009. During the 12 months ending March 2010, the average home sales price declined 10 percent to $298,360, and the average monthly inventory of homes for sale declined 12 percent to 42,740 homes. In the Baltimore metropolitan area, sales volume increased 11 percent to 22,620 homes sold at an average price of $278,790, reflecting an 8-percent decline in average price from the 12 months ending March 2009.

According to the NATIONAL ASSOCIATION OF REALTORS®, the resale markets in Pennsylvania, Virginia, West Virginia, and Delaware improved during 2009 (the most recent data available) compared with the sales volume reported in 2008. The annual rate of home sales in the fourth quarter of 2009 increased 17 percent in Delaware to 13,600 homes sold compared with the annual rate of 11,600 reported in the fourth quarter of 2008. In Pennsylvania, an annual rate of 226,400 home sales was recorded, up nearly 27 percent compared with the rate of 178,800 in 2008. An annual rate of 115,600 homes was sold in Virginia, up 12 percent from 2008. In West Virginia, during the fourth quarter of 2009, an annual rate of 32,800 home sales was posted, a 41-percent increase from the annual rate during the fourth quarter of 2008.

In the Philadelphia metropolitan area, according to data from Trend and Metropolitan Regional Information Systems, Inc. (MRIS®), nearly 49,300 homes were sold during 2009 (the most recent data available), which is nearly 7 percent below the volume sold during 2008 but is a significant improvement over the 23-percent decline between 2007 and 2008. The average home sales price was $250,100, down 6 percent from the average price recorded in 2008. MRIS® reported a total of 65,800 homes sold in the Washington, D.C. metropolitan area during the 12 months ending March 2010, a 9-percent increase from the 60,180 homes sold during the same period a year earlier. Average home prices in this area were $360,225, down 4 percent from the average price of $376,250 reported a year earlier.

According to Lender Processing Services Mortgage Performance Data, in March 2010, the number of home loans in foreclosure, 90 days or more delinquent, or in REO (real estate owned) in the region increased by 39 percent to 237,280 compared with the number recorded during March 2009. This level represents a current rate of 6.7 percent of all loans recorded in the region compared with a rate of 4.8 percent in March 2009; it is still less than the current 9-percent rate for the nation.

Improvement in the existing homes sales market has stimulated new single-family home construction, but development of multifamily units continues to be stymied by a lack of financing. For the region, during the 12 months ending March 2010, single-family homebuilding activity, as measured by the number of building permits issued, remained relatively stable after a 5-year trend of declining production. Based on preliminary data, the number of homes permitted decreased by only 0.5 percent to 39,180 homes compared with the number permitted during the 12-month period ending March 2009. The production of new homes increased in Delaware, up 21 percent to 2,970 homes, and in Maryland, up 12 percent to 8,050 homes. Pennsylvania, Virginia, and West Virginia permitted 12,040, 14,580, and 1,420 homes, respectively. The declines of 7, 2, and 15 percent in the three states were significantly below the 32-, 34-, and 44- percent declines reported during the previous 12-month period. The District of Columbia issued permits for 120 homes compared with 210 homes during the previous period. Multifamily construction activity, as measured by the number of units permitted, continued to decline but at almost one-half the rate of the 12-month period ending March 2009. Preliminary data for the 12 months ending March 2010 indicate that the number of multifamily units permitted declined by 2,430 units, or 17 percent, to 11,600 units compared with a 31-percent decline during the previous period. The number of multifamily units permitted in Delaware and the District of Columbia during the 12-month period ending March 2010 increased by 90 and 620 units to a total of 510 and 1,050 units, respectively. The largest multifamily reductions occurred in Maryland, Virginia, and Pennsylvania, which recorded decreases of 850, 990, and 960 units, respectively.

Apartment markets throughout the region remained soft during the first quarter of 2010, with vacancy rates for class A units in the three largest rental markets above 8.5 percent. In the Baltimore metropolitan area, Delta Associates reported that the vacancy rate increased to 8.7 percent from the 7.8-percent rate recorded during the first quarter of 2009. In the northern suburbs of the metropolitan area, vacancy rates were 14.9 percent, up from 6.2 percent a year earlier because two recently completed projects with a total of 200 units continue in lease-up and apartments face increased competition from reduced pricing at new condominium developments. In the southern suburbs, rates increased from 8.6 to 10.9 percent because 600 units are in lease-up. The market remains soft in the city of Baltimore, where the current vacancy rate is 10.7 percent, down from the 12.6-percent rate recorded in March 2009. Average rents in the Baltimore suburbs increased from $1,379 in the first quarter of 2009 to $1,450 in the first quarter of 2010; in the city of Baltimore, average rents declined from $1,700 to $1,670.

The apartment market in the suburbs of the Philadelphia metropolitan area was soft, but the Center City Philadelphia market tightened in response to lowered rents. In the New Jersey suburbs, Delta Associates reported an increase in vacancy rates from 10.5 percent in March 2009 to 13.6 percent at the end of the first quarter of 2010. Average rents rose from $1,320 to $1,365 and concessions increased from 5.8 to 7.1 percent of contract rent. In the suburbs in Pennsylvania, vacancy rates increased from 7.8 to 8.3 percent with concessions rising almost 2 percentage points to 7.4 percent. Average rents were $1,410 in March 2010, an increase from $1,380 a year earlier. Between March 2009 and March 2010, the apartment market tightened in Center City Philadelphia, where the vacancy rate fell from 7.6 to 4.2 percent and rents declined from $2,045 to $1,965. Concessions decreased from 7.5 to 6.5 percent of contract rent.

In the Washington, D.C. metropolitan area, the rental market was generally soft. Delta Associates reported an increase in vacancy rates in the garden apartment market from 7.8 percent in March 2009 to 8.2 percent at the end of the first quarter of 2010. The vacancy rate for Class A units in the Northern Virginia submarket increased from 5.9 to 8.2 percent; it was affected by vacancy rates of 14 percent in Prince William County and 24 percent in the Tyson's Corner area of Fairfax County, where a combined total of more than 500 units are currently in lease-up. Rates in suburban Maryland were highest in Charles County (15 percent, up from 5 percent a year earlier) and Prince Georges County (12 percent, down from 24 percent in March 2009). Rents in garden apartments average $1,625 in the Maryland suburbs that are close to Washington, DC, and $1,565 in Northern Virginia. Vacancy rates in highrise units increased from 6.7 to 13.2 percent in Northern Virginia but decreased in both the District of Columbia and the Maryland suburbs from 19.5 to 11.8 percent and from 27.5 to 13.7 percent, respectively. Rents for highrise apartments average $2,450 in the District of Columbia, $2,250 in suburban Maryland, and $2,190 in Northern Virginia.