

Washington D.C. Region's Housing Market Still Going Strong But, there are signs of deceleration.

August 23, 2022: This year continues to remain a positive one for the DC metro's housing market. But so far, 2022 has not been as hot as 2021. Here's the latest numbers, courtesy of Bright MLS:

- **House prices in the D.C. metro area continue to show above average rates of appreciation.** On a quality- and seasonally-adjusted basis¹, house prices in the District of Columbia are up nearly 8.0% from a year ago, while house prices in the D.C. suburbs are up an average of 11.4% from a year ago. The historic average house price appreciation rate for the District v. its suburbs is 7.8% and 6.7%, respectively.
- **But, while house price growth in the region has remained strong, it continues to show signs of deceleration.** At the same time last year, annual house price appreciation was 9.5% and 16.2% in the District and its suburbs, respectively.
- **Raw house prices have also shown similar trends.** Over the course of the past year, the median house price in the District rose from \$920,000 to \$935,000; an increase of 1.6%. During the same period, the median house price in D.C.'s suburbs rose from \$620,000 to \$670,000; an increase of 8.1%. But both of these numbers are also a deceleration from the same time last year, when annual house price appreciation was 17.2% in the District and 11.7% in the suburbs, respectively.
- **House price changes across the region continue to remain positive.** From lowest to highest, the average YoY change in house price levels by county/submarket in 2022 Q2 are: Falls Church (+4.4%), Northeast D.C. (+6.8%), Alexandria (+7.1%), Southwest D.C. (+7.6%), Southeast D.C. (+7.9%), Arlington (+8.4%), Prince George's (+8.5%), Northwest D.C. (+9.4%), Montgomery (+10.3%), Fairfax (+10.8%), Fairfax City (+11.7%), Loudon (+13.5%) and Frederick (+20.2%).
- **Proximity and accessibility to downtown D.C. remains a central driver of house prices.** Northwest D.C. is the priciest submarket² in the Washington D.C. region with a median house price of nearly \$1.3m. It is followed by Arlington County, just across the Potomac river from the District, with a median price of \$1.15m. These are the only submarkets in the D.C. metro area with median prices exceeding one million dollars.
- **Much like house prices, sales activity in the region continues to run above average, but have shown significant signs of deceleration over the past year.** In the District, 1,510 houses transacted under arms-length conditions in Q2. This is well above the District's historic quarterly average of 990 sales per quarter, but it is down 11.6% from 1,709 transactions during the same quarter last year. Similarly, the suburbs have shown a similar pattern. In the counties surrounding D.C., 13,138 houses transacted under arms-length conditions in Q2. While this significantly exceeds the suburb's historic average of 8,960 sales per quarter, it is still down nearly 17% from 15,814 in the same quarter last year.

¹ As measured by our regression-based house price index.

² We are defining "submarkets" as either "counties" (if in the suburbs) or one of the four quadrants of the District of Columbia (if in the city). However, there are certainly neighborhoods in both the suburbs and the District that are pricier.

- **This deceleration in sales activity is especially notable when put into context from the same time last year.** In 2021 Q2, arms-length house sales in the District were up 63% from 1,048 sales in 2020 Q2, while house sales in the District’s suburbs were up 59% from 9,975 sales in 2020 Q2. Thus, these quarter’s numbers show a dramatic YoY decrease.
- **Inventory continues to remain at exceptional lows.** The number of homes available for sale in the District currently stands at 1,864 dwellings, while in the suburbs it is at 6,237. At the current pace of sales, this inventory would be exhausted within 2.25 months and 1.19 months, respectively. Although these numbers are up slightly from a few months ago, this is a typical seasonal fluctuation (both inventories and sales tend to rise as the calendar transitions from winter to spring). Normally, a 5-7 month’s supply is considered normal, and indicative of a balanced market. With inventories so low while demand remains high, the Washington DC region remains in a deep “seller’s market”, with sellers having greater leverage over buyers.
- **Zillow has dramatically downgraded its house price forecast for the Washington DC region this quarter.** The well-known national housing analytics firm is currently predicting that the general level of house prices in the D.C. region will decline by 0.4% over the next 12 months³. Last quarter, Zillow was predicting an increase of 14.3% over the next year.

The Bottom Line: Low inventories are doing battle with increasing interest rates to determine both the current level and direction of house prices. For the past few years, the shift to remote working combined with the low number of homes listed for sale have pushed house prices upwards. But, with many people returning to in-person work and interest rates rising, the housing market should start to become more balanced. While leveling—or even declining—house prices may traditionally be perceived as a negative economic indicator, this is not necessarily the case when considered in today’s economic context. House price appreciation has substantially outpaced household income growth over the last few years, and much of this appreciation is due to the exceptionally low number of houses available for sale—especially at a time when the pandemic has forced many people to spend more time at home than they did previously. A cooling of house prices combined with a simultaneous rise in inventories would not only increase housing affordability, but would also increase the variety of housing choices to current prospective homebuyers. Both would be positive outcomes.

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If you would like Dr. Gillen to address your organization, business or community group with a presentation on recent trends in the local economy and real estate market, he would be happy to do so...and it’s absolutely free! Just contact him at the email address above.

³ Source: <https://www.zillow.com/>