Rocky Mountain Econometrics
208-631-4334
208-344-0809
P.O. Box 1914
Boise, ID. 83701
tjones@rmecon.com
www.rmecon.com
Anthony Jones - Principal

December 9, 2008

Treasure Valley Housing Market – Record Low Sales, Top Heavy Market

New Homes - Another month, another record low number of sales. In November there were only 103 new single-family home sales recorded in the Treasure Valley, 18 fewer, 15 percent, than the record low set the previous month.

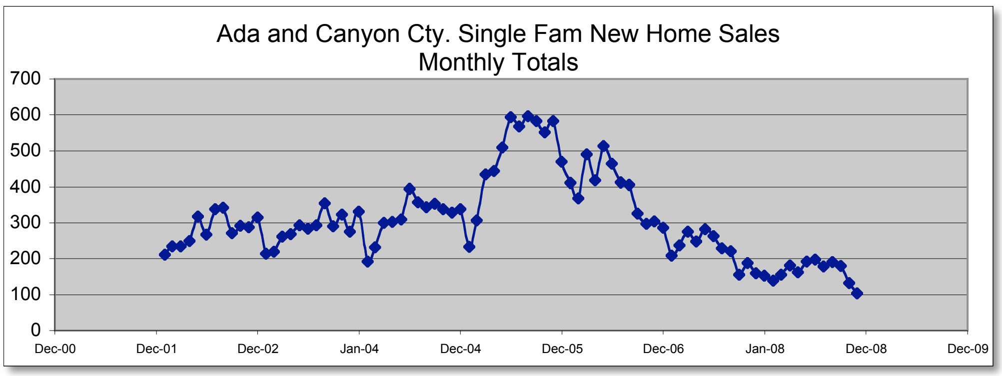

Chart 1

Of some interest is that the average price of new homes sold last month was pretty firm, and has remained so since March. See Chart 2, below. The November average price of a new home was $225,400. In March, the price average was only $1,600 higher at $227,000. From March to November average prices have only ranged a total of $14,000 from a low of $216,000 in July, to a peak of $229,000 in April.

Given the soft sales market, and the plethora of competitive offerings, the conventional wisdom is that home prices should be falling. More on this subject below.

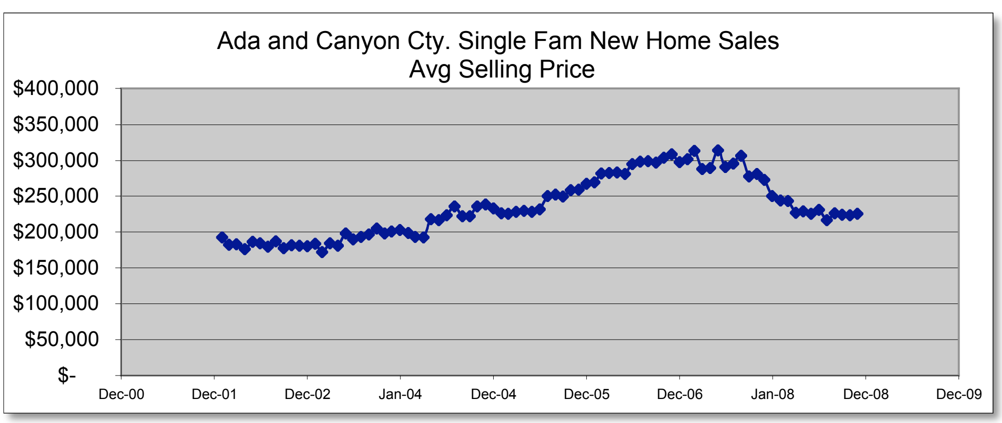

Chart 2

Existing Homes - Last month, compared to new homes sales, the sales of existing homes looked pretty firm. This month, existing homes made up for lost time. Sales of existing single-family homes in the Treasure Valley slumped from 402 in October, to a sparse 250 sales in November, a 150 unit, 37 percent, decrease.

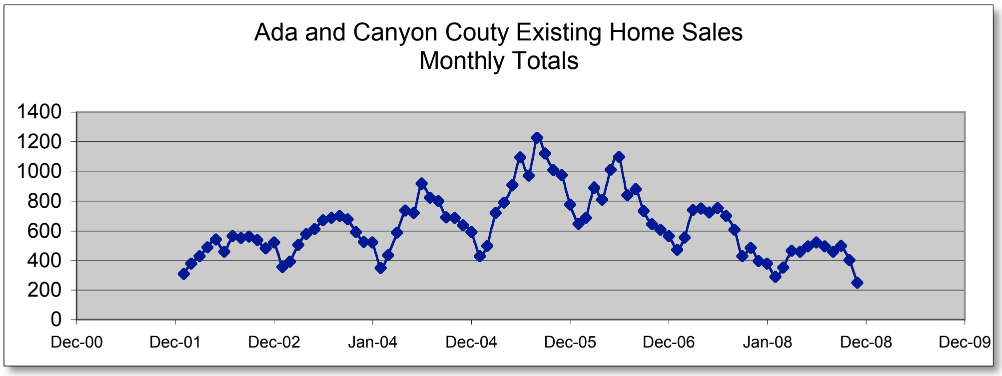

Chart 3

Sellers may take some measure of pride in that the average price of existing homes is at a near record high. The record was set in June of 2007 at $239,000. The average selling price in November, at $232,700, was a high point for 2008, and within $6,300 of the all time record.

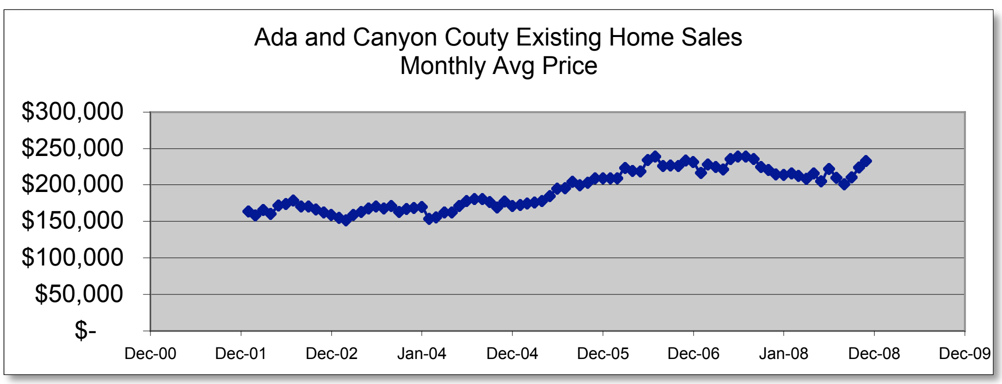

Chart 4

It is important to remember that the sale of existing homes, in most cases, serves a fundamentally different purpose, and thus has substantially different price impacts, than does the sale of existing homes. For new homes, first and foremost, the purpose of selling the homes is to generate revenue for the builder/developer. The seller of a new home must constantly evaluate the trade off between selling price, and the interest cost of carrying an empty home.

In the case of existing homes, the person or persons selling the home may want to trade up, trade down, or rearrange their living situation in a variety of ways. Still, while they may find the circumstances of their current residence in some way undesirable, in most cases they do not need to sell the home. The existing home, in most cases, still provides the necessary services of a roof and walls to keep out the weather. To that end, many sellers remain firm on the price of their homes, and continue to live in the structure, on the understanding that it may not move for months, or even years.

In short, new homes are much more susceptible to downward pricing pressure than are existing homes. That said, given ample inventories, and extended days on the market, it seems reasonable to expect prices of existing homes to soften in coming months.

Inventory to Sales Ratios

Following are four charts. One group of two charts is for new homes, and a similar group of two charts is for existing homes. In each group of two, the first chart displays the number of single family detached homes sales in the Treasure Valley, broken out by price point. The second chart in each group lists single-family home listings, by price point, divided by the number sales in each price point in November. In each case, the second chart effectively provides a display of months of inventory at the November rate of sales.

New Homes - A couple of observations. First, in the immediately following chart, the Sales By Price Point chart presents a fairly typical distribution of sales. Most of the sales take place in the $150,000 to $300,000 categories. There are very few sales below that point for the simple reason that it is very difficult to profitably produce viable houses that cheaply. And, sales diminish at the higher price points because fewer and fewer people have the resources to purchase and maintain properties at ever-higher price levels. In better economic times, the various price points would extend further to the right consistent with higher sales counts, but the general bottom heavy shape of the graph would be the same.

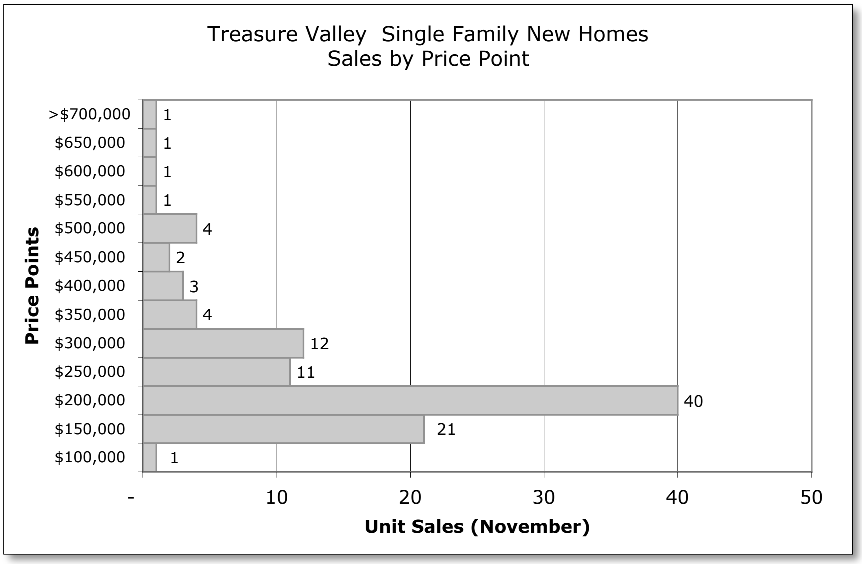

Chart 5

The second chart, Chart 6 below, displays current inventory relative to current sales at each price point. For instance, at the $300,000 price point, there were 11 listings on the market for each of the 12 properties that closed.

At the sub $300,000 price points, the numbers are a little high, but not wildly out of line. If sales increase even slightly, such as to pre September 2008 levels, those numbers will represent an inventory of as little as 6 months.

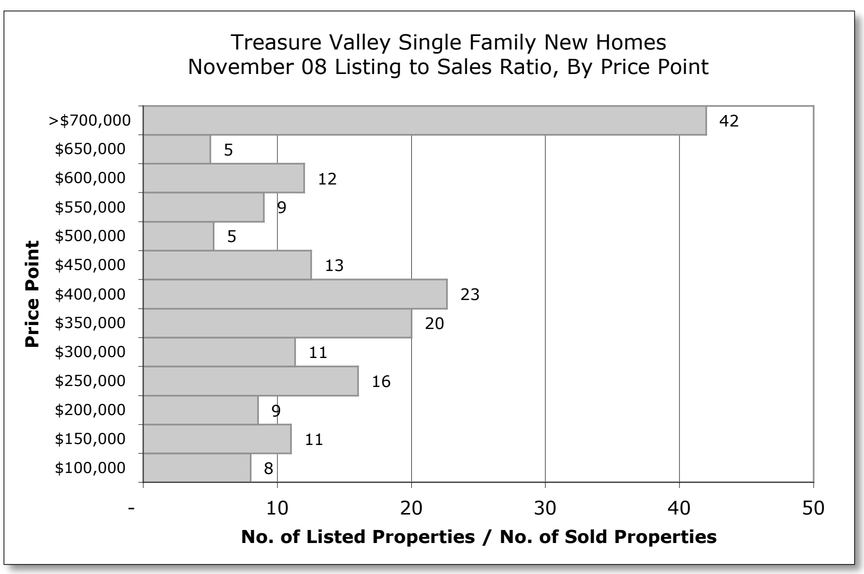

Chart 6

Rocky Mountain Econometrics Anthony Jones - Principal
208.344.0809 P.O. Box 1914 tjones@rmecon.com
208.631.4334 Boise, ID. 83701 www.rmecon.com

The data from the higher price points suggest a market that is top heavy. In November, at prices above $700,000 there were more than 42 new homes competing for a single buyer. It is fair to say that, even in a down market, November was an unusually slow sales month, so the inventory to sales ratio may not be as bad as this chart suggests. Still, at no time have the average monthly sales at this price level exceeded 3.6 for a full year. In the unlikely event that sales in this rarified price range double, there is still enough inventory for the next two years.

Further, there are a tremendous number of lots in subdivisions and planned communities that have already been approved and are capable of putting large numbers of homes on the market in a very short time. Call it potential, or imminent inventory. Long story short, there is enough existing and potential inventory to outstrip sales, and put downward pressure on prices for at least two years, probably more.

<u>Existing Homes</u> - The situation is very similar for existing homes. The number of sales at various price points follows the traditional distribution with most of the sales happening in the lower $150,000 to $250,000 ranges. And, as with new homes sales, the number of sales decreases into the low single digits as prices exceed $400,000. In better economic times, the various price points would show higher sales counts, but the general bottom heavy shape of the graph would be the same.

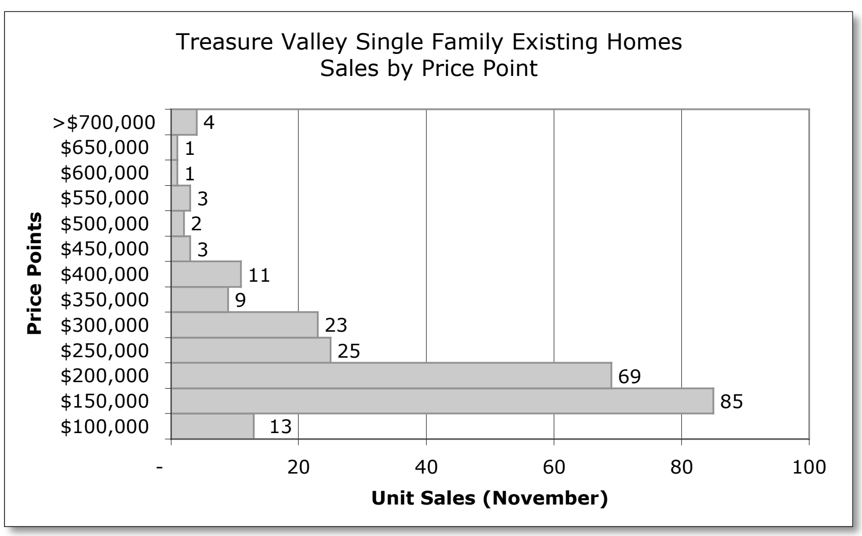

Chart 7

And, also similar to the case with new homes, the inventory to sales ratio of existing homes is very top heavy. At the most competitive categories, $200,000 and below, sellers can expect their homes to be on the market for 6 to 18 months. At the higher price points, the numbers can be daunting. For instance, at the $500,000 price point, there were 108 listings competing for two (2) sales.

As with new homes it could be argued that November was an abnormally slow month, so the inventory to sales ratio is less severe than these numbers suggest. Still, for existing homes priced above $450,000, the highest monthly sales rates seen in recent history were 24 per month in 2006. There are currently 369 homes for sale in that price range. That means that, even if sales quickly return to historic average sales rates, properties in this price range can currently expect to be on the market for 16 months or longer.

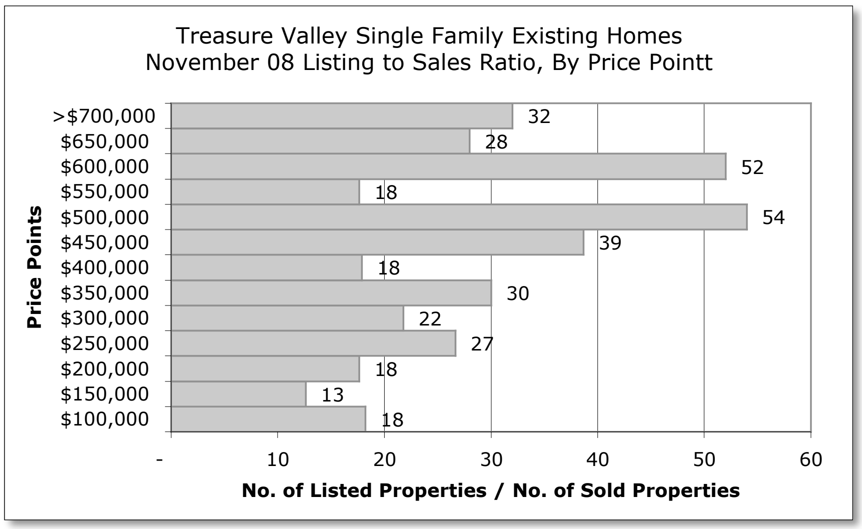

Chart 8

A Brief Note on Population, Migration, and Finance

At the national level, the year-to-year increase in population creates a need for about a one percent annual increase in the housing stock. At the local level, that translates into a demand for about 2,000 new homes each year, or about 170 new homes each month, to serve the increase in the indigenous Treasure Valley population. In November new home sales were only about 60 percent of the volume necessary to cover indigenous population growth.

While population growth is the overriding factor driving the national need for additional housing, migration from one region to another often overwhelms local population impacts. Such has been the case in the Treasure Valley for the past several years. Persons and families migrating to the Treasure Valley, primarily from California, Oregon, and Washington, accounted for as much as two-thirds of the 600 homes per month purchased in 2005.

We have excellent information on population trends. Population growth is as reliable as the movement of a clock. Information on migration is less certain. It can be measured accurately, but only after the fact. There is evidence that in-migration declined by more than 10 percent in 2007. With the further decline of the west coast housing market, combined with the ongoing troubles at Micron, Albertsons, and other local employers, it is reasonable to think that in-migration to the Treasure Valley has slowed even further, perhaps stopped. This is particularly true of the historic flow of persons migrating to the Treasure Valley with large equity nest eggs that fueled the bulk of the high-end local housing market. There is no indication that the migratory flow has reversed. Still, it is a possibility for the near future that cannot be dismissed.

Traditionally, financial institutions play relatively little role in the home purchase decision. Lower interest rates are better than higher of course, but provided lenders do their jobs consistently, the market will accommodate them. Lending institutions may become a sales deterrent if they abruptly change loan qualification standards in manner that blocks access to funding. That, coupled with the global/national/regional economy that makes everyone's job and income future suspect, is one reason for the most recent decline in Treasure Valley home sales. Buyers and sellers alike can only hope the federal government resolves the economic and financial market problems. And, soon.

Summary

Sales of new homes in the Treasure Valley are not only at record lows, they are too low to support indigenous population growth. It would be premature to predict a major rebound in homes sales in the immediate future. However, even at current depressed sales levels, in the absence of net out-migration from the area, pressure will soon start to push new home sales back up to roughly 170 residences per month.

This should be relatively good news for new homebuilders and developers, and sellers of existing homes priced below $300,000. In that price range, there is substantially less excess inventory than is present at higher price points. In a few of the lower price ranges there is currently less than a twelve-month inventory. In some scenarios, inventory in a couple of the lower price ranges may even be less than 6 months However, at the higher price points, it is very much a buyers market. In November, at prices above $300,000. each buyer had their pick of up to 42 new homes and as many as 54 existing homes.

Migration is key. Population growth in the Treasure Valley can only support new single family construction of about 2,000 homes per year. Construction of 3,000 homes per year, or more, such as occurred in recent years is dependent on high levels of in-migration that does not appear to be present at the moment.