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

April 7, 2009

Treasure Valley Housing Market – Major Gains in March, More Gains Needed

New Homes – Good news, with caution. March set a new record for the February to March increase in Treasure Valley new homes sales with an increase of 63 percent. The previous record was a 41% increase in March of 2005. The cautionary part of the story has to do with the starting point. In this case, February sales of only 65 new homes in the valley was so low, that setting a record for the February to March increase did not take very many home sales.

March saw 106 new single-family homes change hands. While that was a 63 percent increase over February's 65 new home sales, March's sales are still the third worst on record since 2002.

In short, March was a move back toward normalcy, but there is still some ground to cover. Normal for last March was 182 new home sales. Normal for pre-2005 years for March was in the 200 – 250 new home sales range.

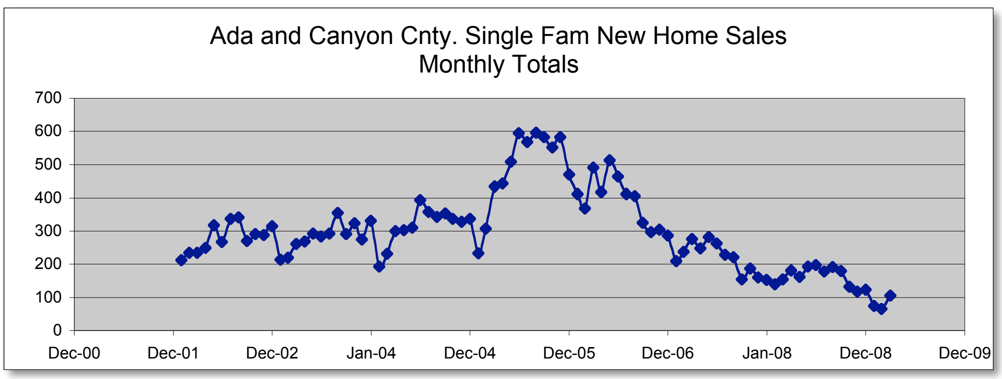


Chart 1

Once again, average Treasure Valley new homes prices held reasonably firm. Since dropping below $200,000 in November of last year, average new homes prices dipped as low as $188,000 in January, rose to $202,000 last month, and retreated a little to about $192,000 in March.

The relative firmness of prices runs counter to the general state of the housing industry. Home prices in the $190,000 to $200,000 range may seem low compared to late 2005. However, adjusted for inflation they are still $10,000 to $20,000 higher than the sub $180,000 price of new Treasure Valley homes in 2003 and 2004. Please see Chart 2 below.

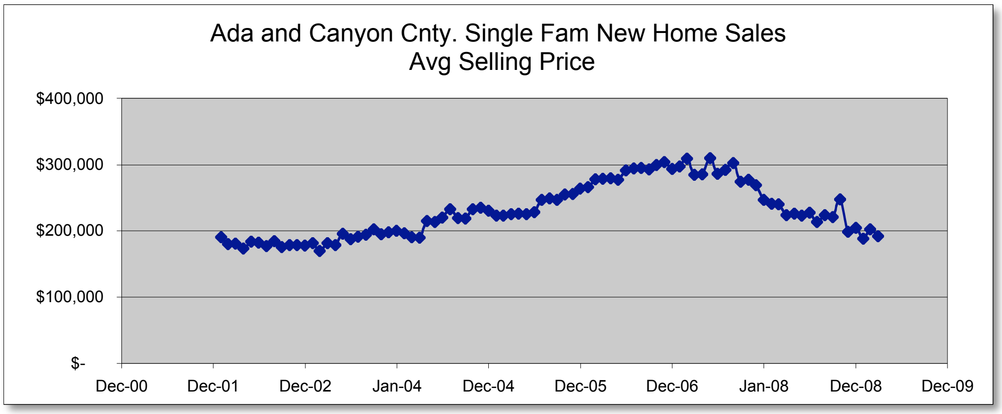


Chart 2

Price per square foot is also held firm in March. For better or worse, builders are not taking excessive price cuts to move homes. In January, prices per square foot averaged $94. This number came up $3 per square foot in February to $97 before easing back to $96 per square foot in March. These prices are about $2 - $3 below the inflation adjusted pre-bubble prices for new homes back in 2002. So, again, prices have come down from the 2005 peak, but severe discounts relative to pre-bubble years are not the norm.

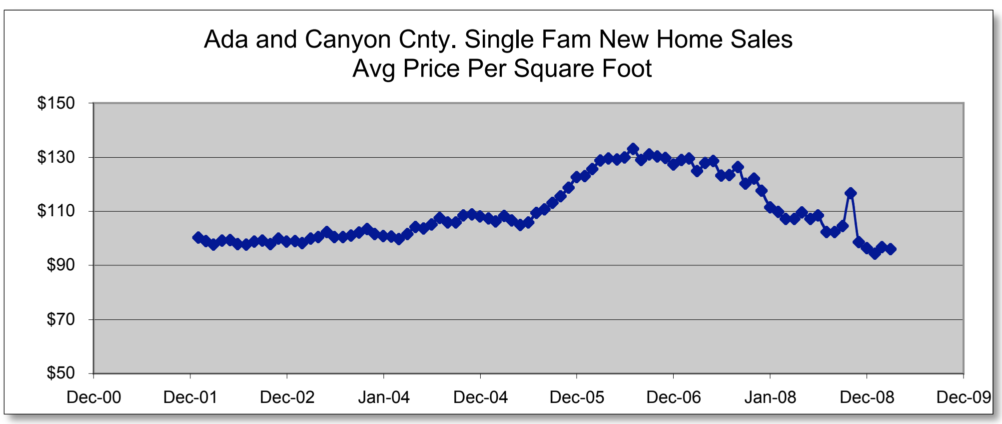


Chart 3

<u>Existing Homes</u> – March sales of exiting homes also saw a record percentage sales increase relative to the previous month. The previous record was a 44 percent increase from February to March in 2005. This March, the increase in existing Treasure Valley existing single family home sales relative to the preceding February was slightly higher at 44.2 percent.

Unlike the situation with new homes, the sales of existing single family homes, where the number was big in percentage terms, but low in actual sales, the number of existing homes sales last month, at 424, compares reasonably well with previous non-bubble sales months. Moving 424 single family existing homes would have been slightly low, but not out of place in 2002, 2003, or 2008.

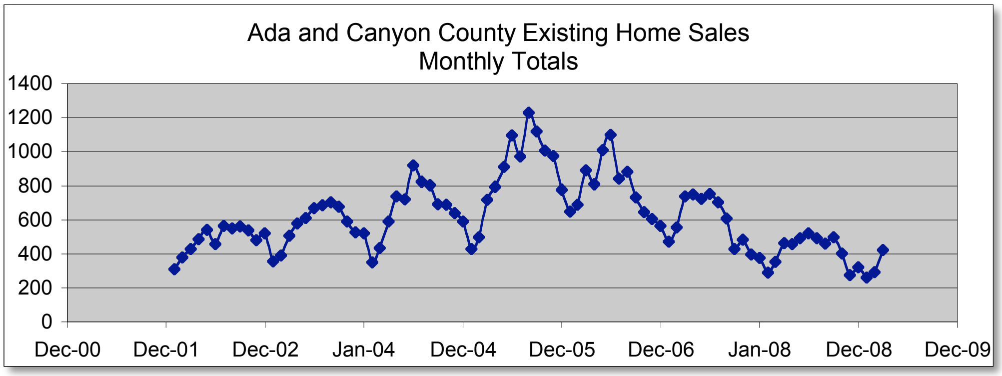


Chart 4

Of particular significance, is that the March sales numbers were accomplished without major price cuts, either in terms of average pricing, or price per square feet.

March saw average prices dip to $178,000 for an existing single family home. That was about $3,000 below February prices of $181,000. Pre-bubble prices, adjusted for inflation, were quite a bit lower still at about $150,000 to $175,000.   To that end, March's sale numbers seem very solid. Please refer to Chart 5.

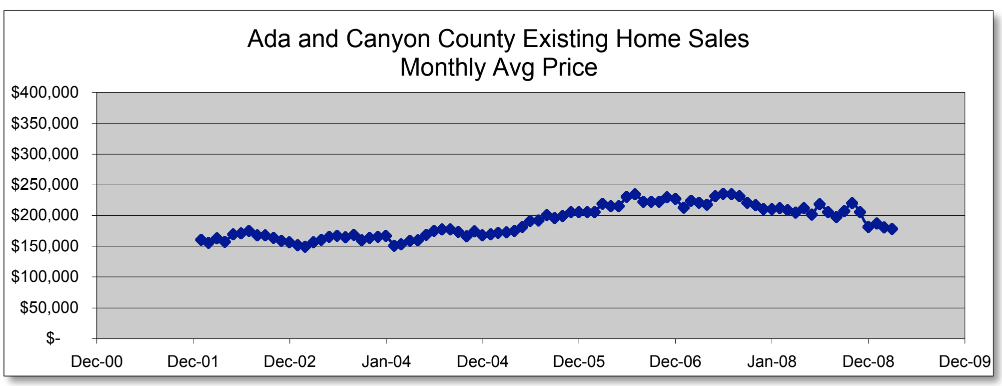


Chart 5

While average home prices may be holding relatively firm relative to historic prices, per square foot prices are showing signs of firming, but at a small discount to pre-bubble prices. Per square foot prices for existing single-family homes were at $90 in March. This is down $2 dollars from February and about $1 higher than January. By comparison, pre-bubble prices, adjusted to current dollars, were typically a little higher in the $95 to $100 range. Please refer to Chart 6

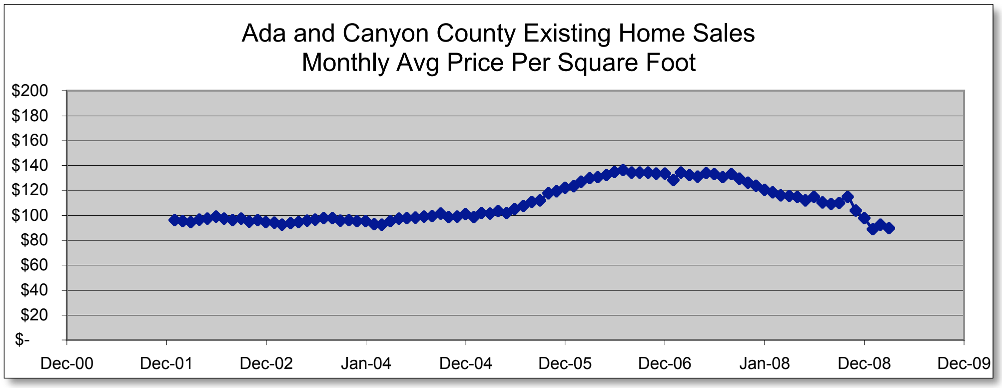
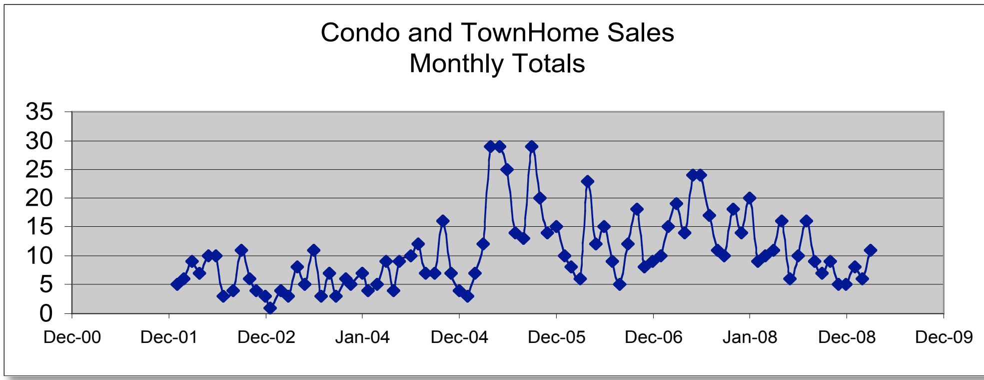


Chart 6

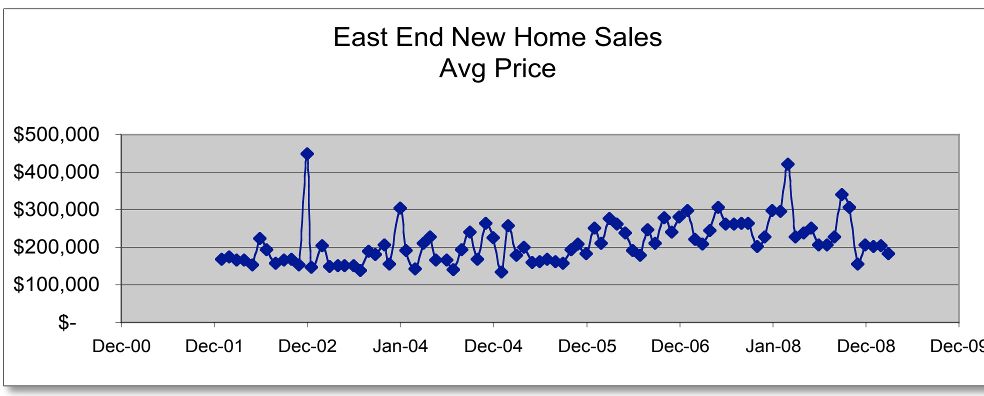
Given the musical chairs nature of existing home sales, it is always legitimate to question what meaning can be gleaned from changes in sales numbers. In this case it is possible to make at least one definitive statement: The lending agencies are once again working. That is no small statement. There were several months when lenders seemed functionally incapable of doing their job. Interest rates are reasonably low by historic standards, but not excessively so, and not substantially different than other recent months. So, once again, the main difference between March, and several of the preceding months, is simply that money is once again flowing from the lenders to deserving buyers.

Condominiums and Townhomes

Long a staple of larger urban areas, condominiums and townhomes have never been a major factor in the Treasure Valley new home market. That may change as the area urbanizes, and commuting distances get ever longer. Currently, condos and townhomes are about 10 percent of the new home market. Pre-bubble, sales typically ranged between 3 and 12 units per month. At the peak in 2005, monthly sales got as high as 30. Post-bubble, sales have returned to the 5 to 10 per month range. Significantly though, they have not dropped below pre-bubble sales rates.



The pre-bubble average prices of condos and townhomes had a floor of about $140,000 to $150,000. At the peak in late 2005 and 2006, the average price of these products was typically around $275,000, $300,000 was not out of the question. In March, the average price was down to $188,000. This was a little low relative to recent months, but not excessively so. Further, adjusted for inflation, current prices of condos and townhomes are still about $40,000 higher than prices of these products in pre-bubble years.



Thirty-Day Outlook

Monetary Policy – As discussed briefly above, the mortgage lending institutions, at least locally, seem to be functioning again. And, not a moment too soon. Interest rates are reasonably low, but there is reason to think that they could go lower. At the same time, while the lending institutions are once again functioning, it is probably fair to say they are still scared. Thirty-year fixed mortgage rates will likely stay close to 5%.

Fiscal Policy – The first funds from the stimulus bill are starting to reach the local economy. The main impact is still to come but, to the extent that the initial funds will help shore up expectations for future benefits, they will go a long way toward stabilizing the economy and stopping further deterioration. This, together with better weather, farmers hitting the fields, and the rest of the rituals of spring, will combine to improve moods, expectations, and therefore generate a modest seasonal improvement the local economy. It will not be a major turning point, but any improvement in the general economic mood is a step in the right direction.

<u>Treasure Valley Home Sales</u> – March is traditionally the month of the year in which sales increase the most relative to the previous month and that happened in record levels last month. April is usually lackluster in this respect. Historically, new homes sales in April range from 15 percent lower to 3 percent higher than the preceding March. There is substantial remaining pent up demand for new homes in the local market. Offsetting that demand is continued weakness in the job market. Sales of new homes should be able to match March's numbers but it is unreasonable to expect much more. Look for sales of about 100 – 110 units will little or no further price deterioration.

For existing homes, April sales historically range from 9 percent lower to 25 percent higher than the preceding March. As with new homes sales, there is undoubtedly some pent up demand. Similarly, the pent up demand is countered by concerns about future employment. Anything over 400 units sold should be considered as good for April this year.