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Treasure Valley Housing Market – Black February

New Homes – It was no surprise when January sales were low, January sales are always several percentage points below the preceding December. However, February sales are usually about 12 percent better than the respective preceding January. Not so this February.

With only 74 new single-family homes sales, January was one of the lowest sales months since the 1980s. February was even worse with only 58 sales of new homes in the Treasure Valley. Prior to last month, the worst January to February sales decline was – 10 percent. Last month broke that record with a 22 percent decline in sales from January to February.

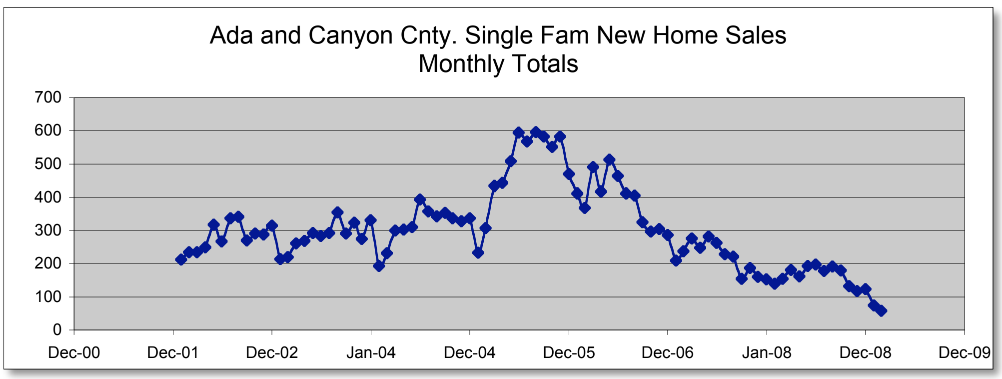

Chart 1

Stories of major price cuts are easy to come by, but average Treasure Valley new homes prices are holding reasonably firm in the high $190,000 to low $200,000 range. The average price for new homes in February was $203,000. That was $15,000 higher than January, and $5,000 higher than last November. See Chart 2 below.

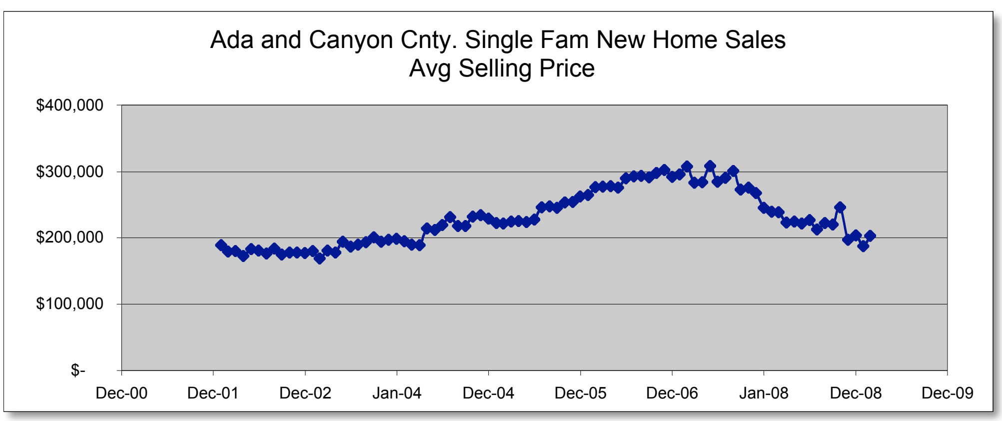

Chart 2

Price per square foot is also holding reasonably firm, indicating that average selling price is not being supported by builders cutting the price of larger homes to get them to move. In February, prices per square foot averaged $96. This was $2 per square foot higher than January, and within $2 of the November prices.

February prices per square foot are currently about $4 below the pre bubble average inflation adjusted price of about $100 per square foot. In a "normal" recession, that should be enough to stimulate buying activity. The fact that it is not is one more hint that there are more shoes to drop before recovery begins.

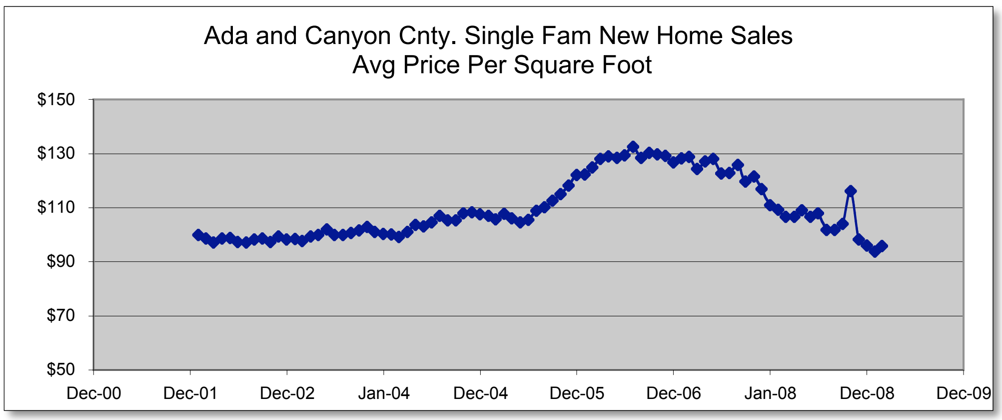

Chart 3

Existing Homes – February sales of existing home posted a small increase from January's dismal numbers. In January, 260 existing single-family homes changes hands in the Treasure Valley. In February an additional 12 homes changed hands for a total of 272, an increase of five percent.

There is both good news and bad news in the 5 percent sales gain. The bad news is that February sales are, on average, 16 percent better than the preceding January. So, in a sense, last month's sales were low by about 10 percentage points. The good news, such as it is, is that the pervious worst sales increase from January to February was six percent. Given the magnitude of the current economic crisis, to see a sales increase that is only one point less than the previous record, looks pretty good.

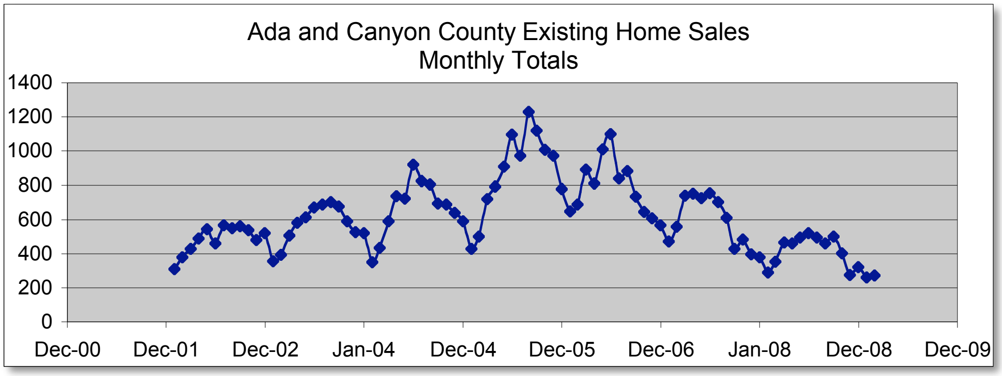

Chart 4

While home prices are severely depressed in most of the country, the amount that people are paying for homes is holding relatively firm in the Treasure Valley.

February saw average prices dip to $176,000 for an existing single family home. That was about $11,000 below January prices. However, it was only about $22,000 lower than prices in October of last year. Those are moves in the wrong directions but, by national standards, they are not that severe. It is worth remembering that pre-bubble prices, adjusted for inflation, were lower still at about $150,000 to $175,000. Please refer to Chart 5.

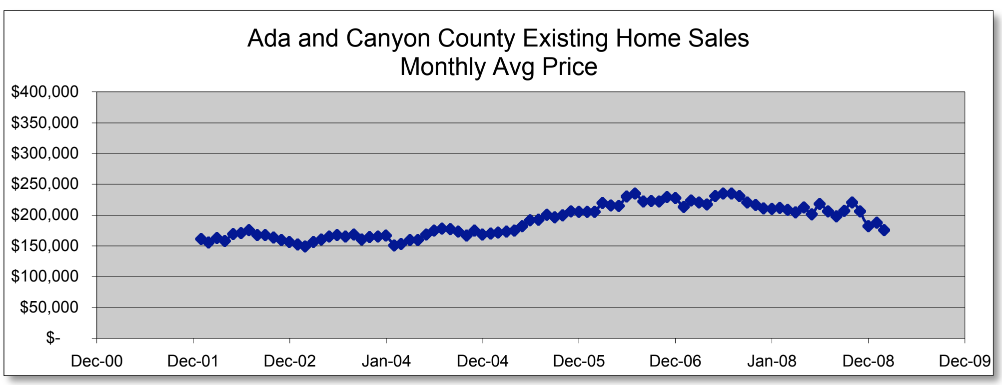

Chart 5

While average home prices may be holding relatively firm, the same cannot be said for prices per square foot. Per square foot prices were in the $95 to $100 range pre-bubble, and peaked at about $140 in 2005. Since then they have been coming back down. In February they reached a record low of $87 per square foot for an existing single-family home in the Treasure Valley. Please refer to Chart 6

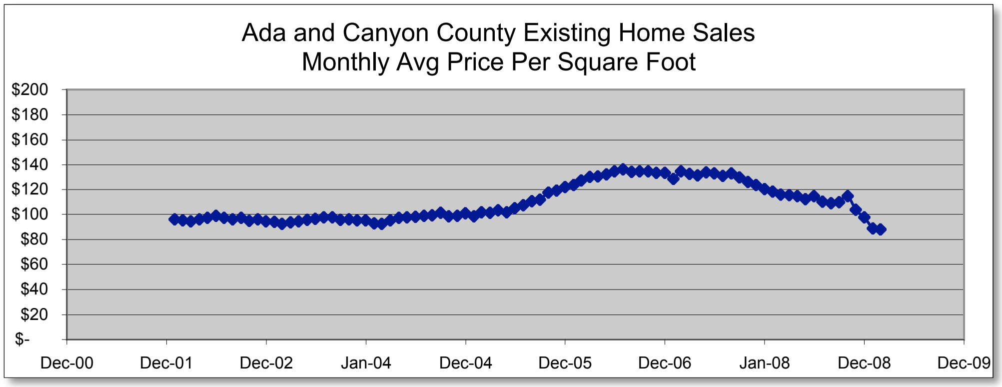

Chart 6

What this means, with average prices paid holding relatively steady, but prices per square foot dropping, is that buyers are now typically getting more house for the buck. Prior to early 2008, existing home sales ranged from an average of about 1600 to 1800 square feet. Since then, the average has been steadily increasing to the point where, since June of last year, the average has been over 1800 square feet, with a peak of 2,000 square feet set in January. Chart 7 below shows the trend.

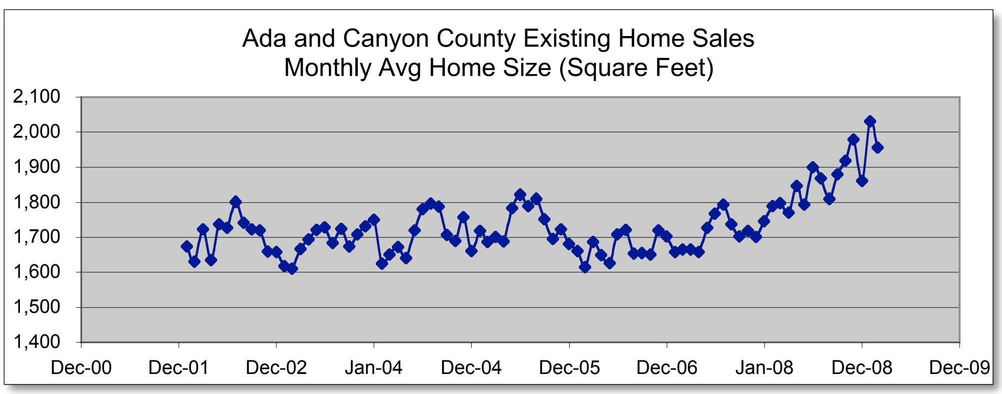

Chart 7

Notes on Migration - In recent editions of this newsletter, RME has noted that prices and inventory are sufficiently low that they cannot be considered the main problem for the lack of new home sales. The valley needs about 2,000 new homes per year to cover naturally occurring increases in population and sales in the last 5 months have been at about half that rate. Two big questions currently in play involve bank's willingness to lend, and migration.

After a period where banks and other lenders were far too reckless in their lending policies, it is hard to fault them for not wanting to provide mortgages when each new day is greeted with an increase in the number of unemployed. Still, in the absence of increased lending for new homes, new home sales will not increase. To that end, the recent policy shifts on the part of the United States Department of Treasury are the first glimmer of hope in many months.

Migration is also a major question in the Treasure Valley. There has been a tidal wave of people moving to the valley for so long that it is almost taken for granted. There was net in-migration of about 5,000 families to Ada and Canyon counties in both 2005 and 2006. This accounted for as much as two-thirds of the total demand for new homes. The two main sources of these families was from other parts of Idaho, and people from the west coast, with particular emphasis on Seattle, Portland, San Francisco, and Los Angeles. No longer. The rate of in migration to Ada County was down by at least 20 percent in 2008.

There is evidence from Atlas Van Lines that Idaho is starting to see a small out migration of jobs at the managerial level and above. It remains unknown if the lower labor classes will be similarly affected.

Micron is probably the wild card in this respect, at least as far as the Treasure Valley is concerned. Recent and planned layoffs at the semi-conductor manufacturer tend to suggest an increase in out-migration. Countering that trend is Micron's recent request for $100+ million to convert their plant into a solar panel and LED production facility.

For Christmas to happen in March on south Federal Way requires the governor to give a full ten percent of the entire Idaho stimulus package to a single company. Also, the money would appear to put Micron in direct competition with a solar panel manufacturer in Pocatello freshly capitalized via private sources. Any stimulus generated by spending on Micron would potentially be offset, at least partially, by a damping effect to Pocatello's economy.

The safe path regarding migration is to hope for the best while preparing for the worst. Expect a period of reduced in-migration, or even modest out-migration, to prevent a quick return to 2005 home sales levels.

Thirty-Day Outlook

<u>Monetary Policy</u> – It is now roughly six months since the Fed and the Treasury Dept. got seriously involved in straitening out the banking debacle. While it is fair to say that the matter is still far from resolved, there is finally a legitimate processes in place for restructuring some of the nations troubled mortgage loans. It will not rescue everyone, but it will at least get the ball rolling. The first phase of the process should begin to take effect in March.

While it is good to see some of the aid starting to make it through channels and to the ultimate lender, interest rates are still stubbornly high, and getting higher. According to the Federal Reserve, the average mortgage rate in the country increased by nearly a quarter of a point last month to 5.125

percent. By historic perspectives, that is good interest rate, but not one that can be considered a stimulant.

Fiscal Policy – The stimulus bill has been passed and the relative amounts each state will receive have been announced. The who and how much in each state remains unknown. Out of $787 Billion, Idaho is scheduled to receive about $1 Billion.[1]

The Governor's office, and legislature, is now contemplating how to apportion the $1 billion in funding among roughly $5 billion of requests. The funds are not likely to start hitting the street by the end of March, but we should have pretty good picture of when and where it will happen. That alone should be enough to take some of the chill off the frozen lending market and restart some lending.

Treasure Valley Home Sales – March is the month of the year in which sales traditionally increase the most relative to the previous month. On average, March sales are 26 percent better than February sales for new single-family homes, and 34 percent better for existing homes. The low end of the range for new and existing sales gains is 16 percent and 29 percent respectively.

Look for an increase in both categories next month, but given the persistent drumbeat of bad economic news, it will be towards the low end of the range. For new homes, look for sales of around 80 units. For existing homes, it will be a good month if more than 364 units change hands.

1 $787 Billion amounts to about $3,000 per person nation wide. However, Idahoans will only receive the equivalent of about $1,000 per person.