

May 5, 2009

Treasure Valley Housing Market – Moving Foreword by Holding Steady

New Homes – There were no records set in April, for either increases or decreases in sales. That may be good news in itself.

There were 106 new single-family homes in April. This is exactly the same number of sales as reported in March. That is relatively good news. April typically sees sales drop from the preceding March by about 5 percent. So, to the extent that last month held even with March of this year, it equates to about 5 percent better sales than normal.

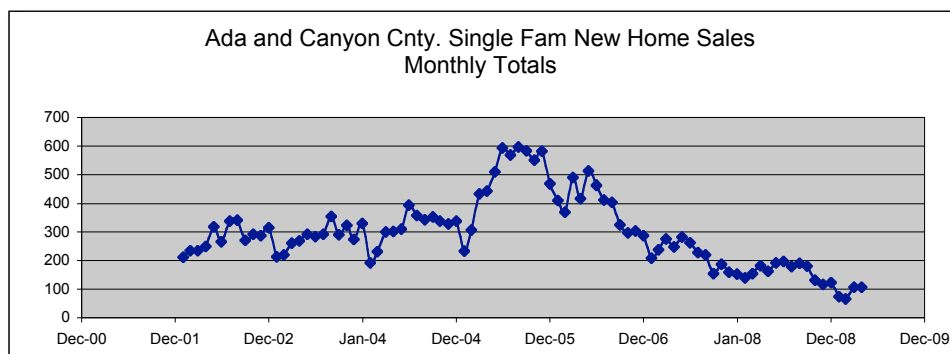


Chart 1

Once again, average Treasure Valley new homes prices were quite firm, continuing a trend that began in November of last year. Average prices for new single-family homes have been at, or slightly below \$200,000 since November of 2008. The average price for new single family homes in March was \$193,000. In April, prices were up about 2 percent to \$198,600.

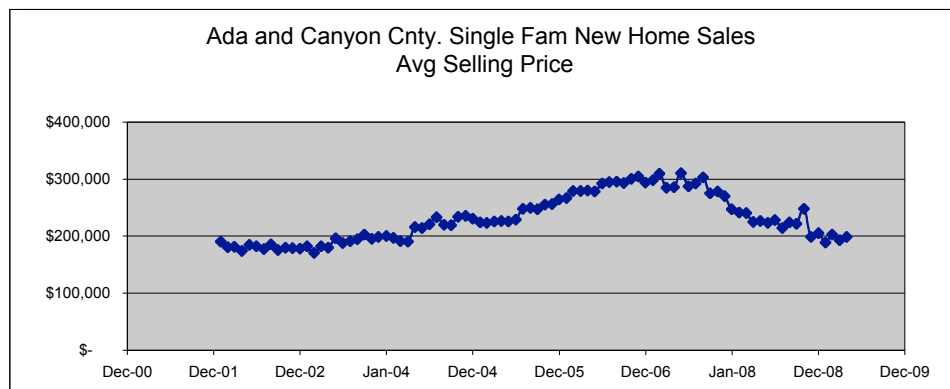


Chart 2

The price per square foot of the new homes was up by about \$1.26 from the previous month. The March number was \$96.39 per square foot. The April number was \$97.65

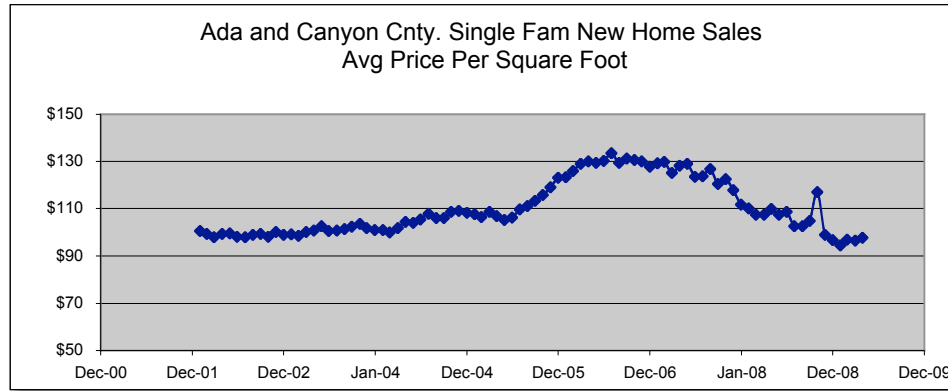


Chart 3

One reason prices are staying as firm as they are is that the market for new homes is starting to come back into balance. Sales, while still well below recent historic levels, are starting to pick up. That, combined with the virtual halt in new home construction means that inventories of new homes are being absorbed and are starting to return to more reasonable levels.

The following graph, Chart 4. Shows April new home sales by price point. While the numbers for each price point are a little low relative to past years, the distribution is fairly normal with the bulk of the sales happening in the \$250,000 or lower price points.

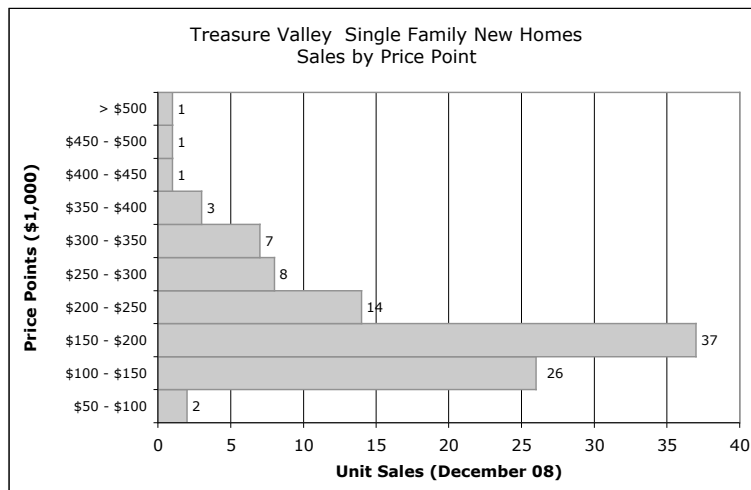


Chart 4

The chart that is more important is the following Chart 5. This chart shows the ratio of new homes listed for sale, divided by the number of homes that sold last month for each price point. This provides a measure of months of inventory at current sales rates.

Generally, numbers below 6 indicate that the market is tight. Numbers greater than 12 suggest there is too much inventory. So, to the extent that most price points are between 7 and 12 means that much of the excess new home inventory has been absorbed and there will soon be a need to again start constructing more homes. That will be good news for local builders. It would be even better news if there were not a glut of existing homes on the market. See the following section on existing homes.

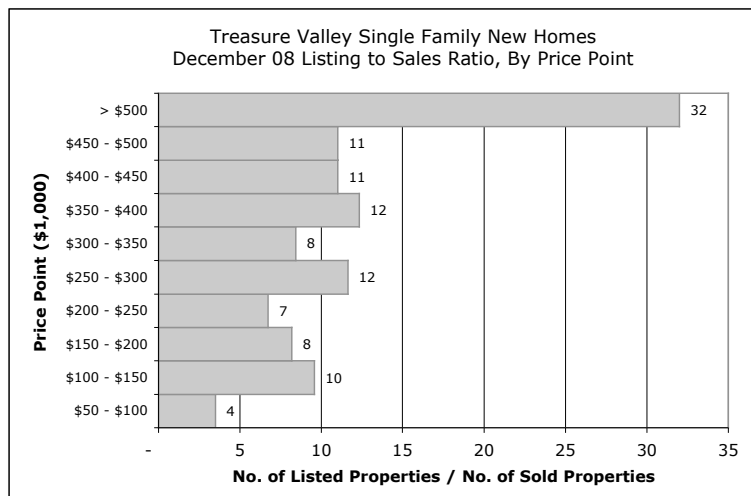
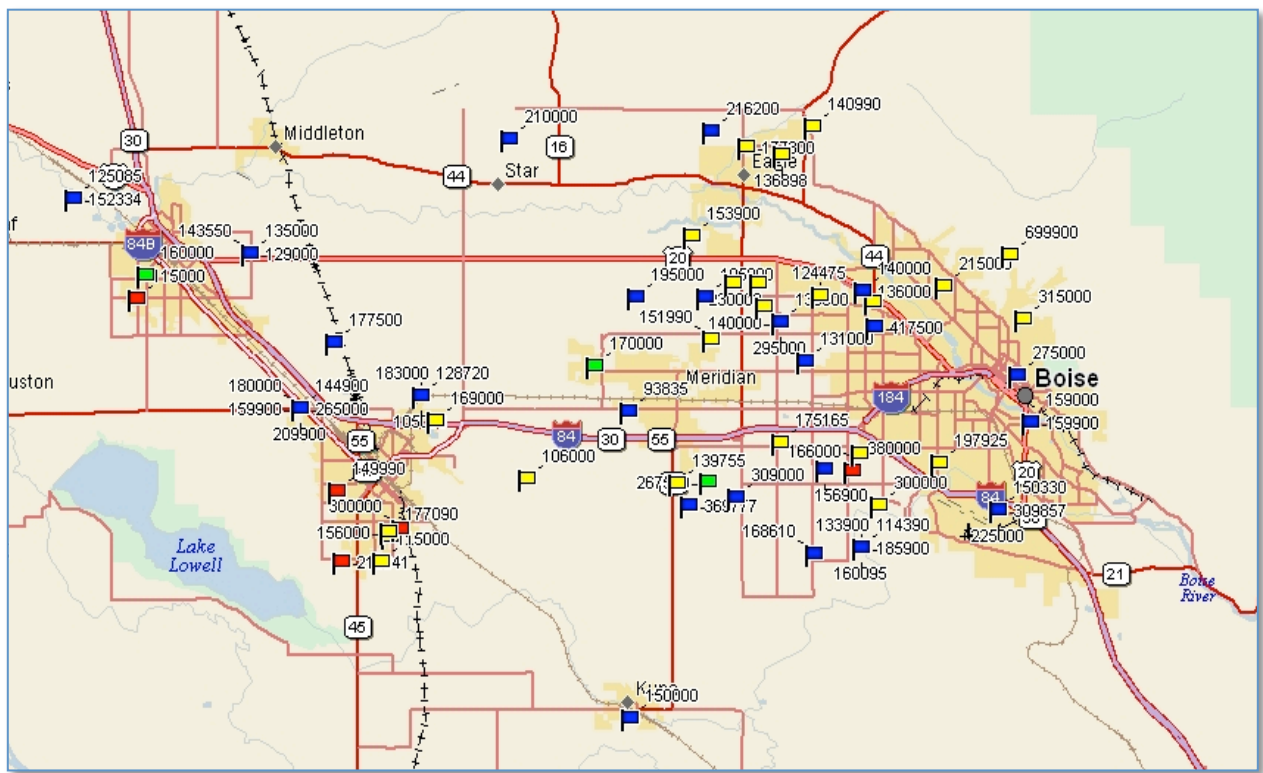


Chart 5

Sales Location Map - New this month is a map that displays the approximate location of single family new homes sold in April, as well as the price at which the transaction occurred.

West and southwest Boise and north Meridian remain the primary growth area in the valley, and that is where most sales occurred this April. The Eagle – Star area had a relatively big month with six sales. That is not particularly startling by itself. What is surprising is that many of the prices were in the low 6 digit range.

Something of a surprise is the relative paucity of home sales in the Kuna area. For the past couple of years, Kuna was seen as something of a challenger to Meridian for the crown of new home sales. One of the reasons Kuna was challenging Meridian was that home prices in Kuna were often discounted below those of their competitors to the north. The near absence of sales in Kuna in April may suggest that at current depressed price levels, buyers do not have to look as far south to find affordable housing.



Existing Homes – Existing homes sales had a bit of a setback in April. Most April's see a 7 percent increase in sales relative to the preceding March. This April saw sales decline from 433 in March to 396 in April, a decrease of 8.5 percent. The largest March to April decline in recent times is 9 percent.

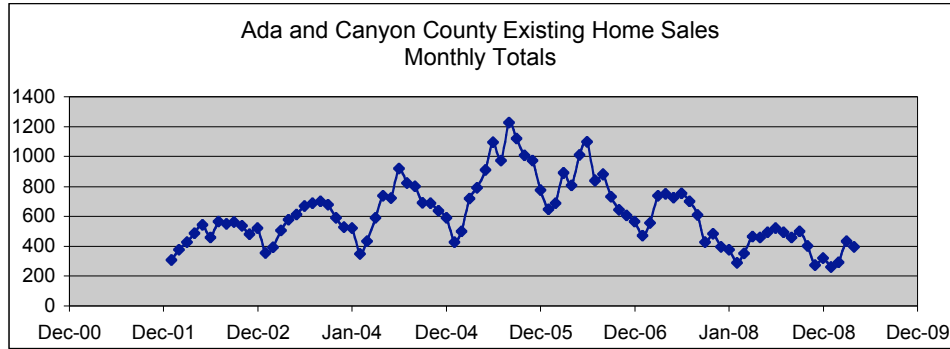


Chart 6

Sales totals were off. So too were prices. As has been noted several times in past newsletters, the prices of existing homes continues to be well above the price of homes before the bubble. Pre-bubble prices, adjusted for inflation, were down around \$150,000. April prices came in at about \$168,000. So, prices are still trending downward, but it is probably reasonable to expect further declines in coming months. Please refer to Chart 7.

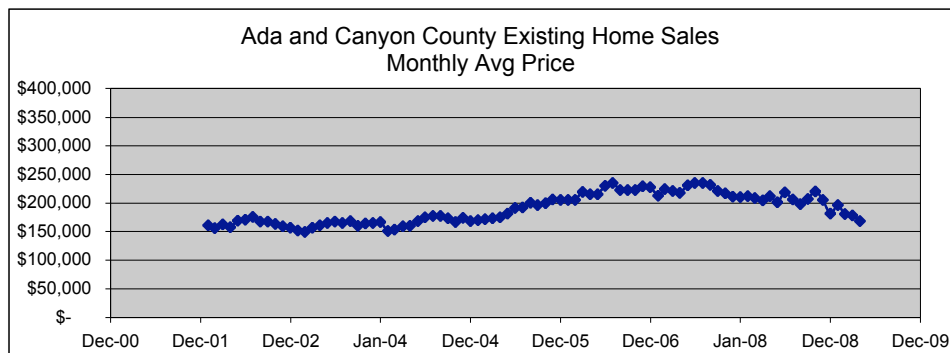


Chart 7

One reason prices of existing homes are as high as they are is that consumers are buying bigger houses. The following chart, Chart 8, shows that, adjusted for inflation, buyers of existing homes are getting some pretty good bargains. Before 2005, it was typical for existing homes to come in at about \$100 per square foot. At the top of the bubble in 2005 and 2006, per square foot prices approached \$140. That number came down to 86.9 in April setting a record for recent times.

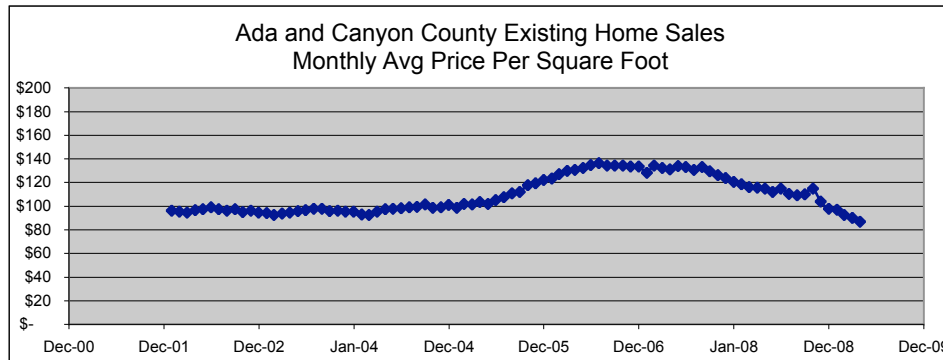
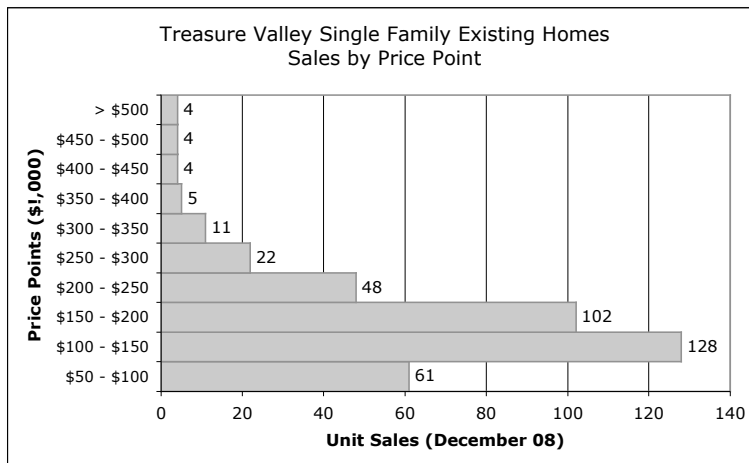


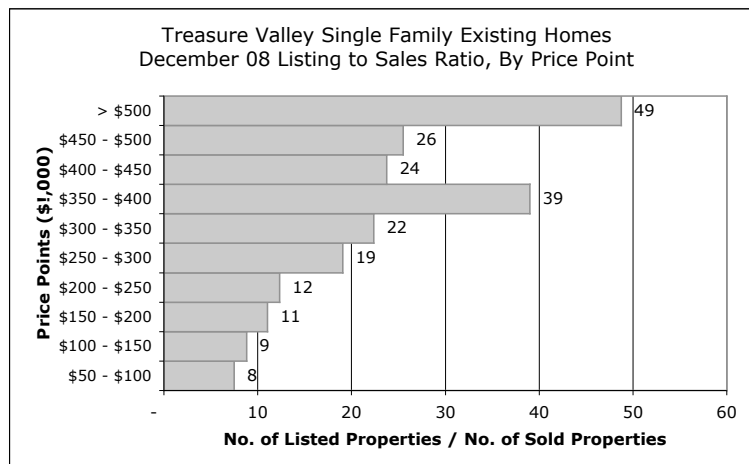
Chart 6

It is often difficult to make definitive statements about the existing home market. The owners of existing homes are often not as motivated as the owners of an empty new homes so the number of home listings, relative to the number of homes that have sold, may not indicate the same level of price pressure as it would in the new home market. Still, it is fair to say that the inventory of existing homes to the number of existing homebuyers is excessive.



With sales at or near 400 units per month, sales of existing homes are still running at about 75 percent of the pre-bubble sales rate. Sales by price point follow the usual distribution with most of the sales happening in the sub \$200,000 categories.

Where life gets troubling for sellers of existing homes is the number of listings relative to the number of sales. For homes below \$250,000, there are 12 or fewer homes for every buyer. This is a little high, but not excessively so. At price points above \$250,000, there are between 19 and 49 homes listed for every buyer.



By just about any definition, that is a lot of inventory. As long as this situation persists, one can only expect buyers to continue searching for bargains, and finding them, as motivated sellers of upper end homes cut prices to sell their homes.

And this situation is bad news for new homebuilders as well. There are a lot of clean, relatively new, one-owner homes on the market. And, the prices are dropping. Buyers that would normally be looking at new homes can find a lot of value in some of the offerings in the existing home market.

Thirty-Day Outlook

Monetary Policy – The Fed is predicting that the recession will end in late 2009. That is good news, of course. At the same time, the end of the recession means the beginning of the recovery, not the recovery itself. That will take a while longer. Where this is headed, is that the Fed cannot lower the interest rates. They are already down near zero. They also will not raise interest rates. They don't want to kill the recovery before it starts.

Mortgage rates could be lower. The spread between mortgage rates and the federal funds rate is about 2 points higher than the traditional spread. That said, the banks are enjoying the extra profit margin. The 30-year fixed rate is currently stuck at about 5%. Don't expect mortgage rates to decline much, if any, in the next 30 days.

Treasure Valley Home Sales – May is traditionally a pretty good month for new home sales. The average increase over April sales is 14 percent, with some years seeing increases as high as 23 percent. Given the continued depressed nature of the economy, and the renewed conservatism of the lending institutions, look for sales of new single family homes in the treasure Valley to come in at about 115 with prices continuing to hold firm.

April and May are also the time that builders get back into action. Even though there will be fewer of them this year than usual, it is a good sign for the economy. The cautionary note is that even a relatively low number of additional new homes will add to an inventory that remains too high.

For existing homes, May sales typically increase by as much as 25 percent from the preceding April, with an average increase of 8 percent. With new home inventories starting to tighten, and prices continuing to drop on existing homes, existing homes are primed to have a very good month. We won't see record sales, not even a record increase in sales. However, sales of 450 to 470 would not be a surprise. Prices per square foot will likely drop by as much as another dollar to about \$85.