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

New Homes – December set another multi year low sales record of 114 new homes sales for the month. To the extent that a few sales for the month may be recorded after the fact, December's sales may ultimately come in at about 120, thus leaving November's with the record of low sales month. One way or the other, December will still be at or near the lowest sales month of the last decade.

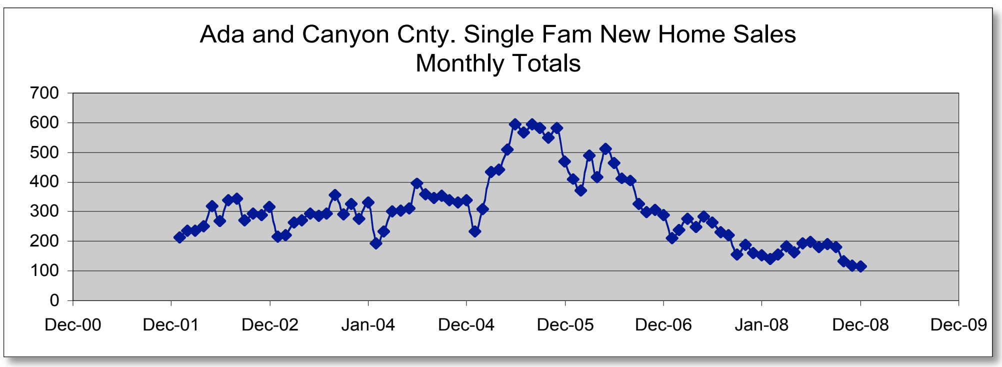

Chart 1

In the first half of the year, average prices of new homes were pretty firm. October prices, bolstered by the sale of a single very big-ticket property, even increased.[1] See Chart 2, below. November and December prices are much more in line with soft market expectations. The average price of a new home in December was $196,500. This is about $30,500, 13 percent, below the March price average of $227,000.

Previous issues of this report developed the concept that the average prices of new homes needed to get down to $202,000, or lower, before a sales rebound was likely to occur. It may be bad news for profits, but it is good news for sales that prices are fluid and appear to be at, or at least near, the tipping point.

[1] At recent low sales volumes, one or two excessively high priced homes, or excessively low priced homes, can move the average monthly sales price by several percentage points.

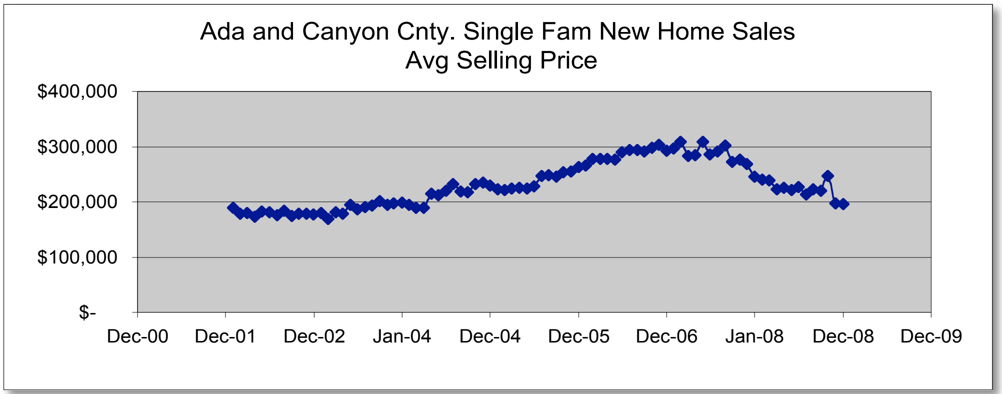

Chart 2

While the average price of new homes in the valley is still above pre 2005 levels, there is evidence that today's buyers are getting excellent value for the dollar.[2] Prior to 2004, it was typical for new homes to be priced at about $100 per square foot. Prices increased to about $108 by the end of 2004, before jumping to about $130 in early 2006 where they stayed until about mid 2007. Since then, the number has been trending downward. In December, new single family homes in the Treasure Valley sold for an average of $94 per square foot, a number not seen since 2001, or earlier.

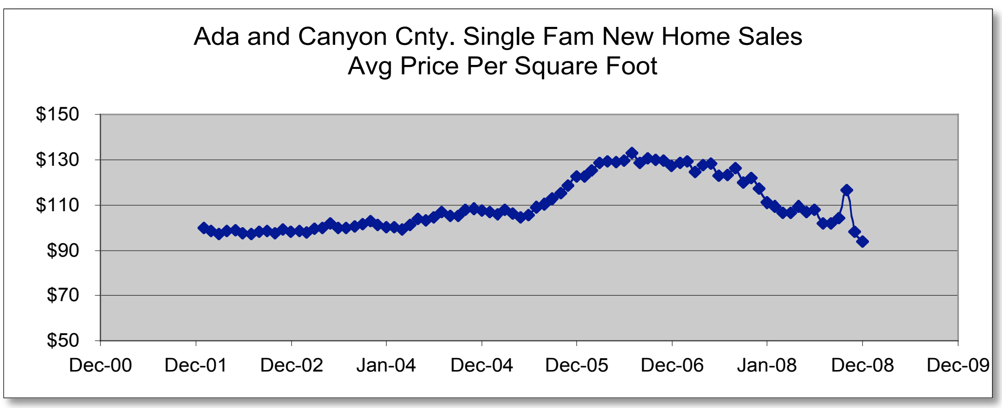

Chart 3

Existing Homes – December saw 296 sales of existing homes to post a slight recovery, exceeding November sales by nine. In this market, any increase is welcome news to agents across the valley. Sales of less than 300 per month are extremely depressed. For perspective, pre-peak (2002 through 2004) sales averaged 574 per month.

[2] All prices are adjusted for inflation and presented as valued in December 2008.

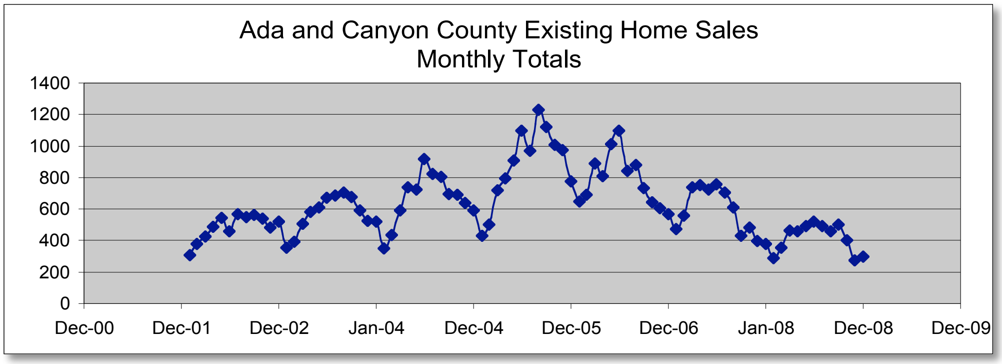

Chart 4

December was the first month that the sort of price volatility long present in the new home market became evident for existing homes. Even though 2008 prices are below those of 2006 and 2007, they had remained reasonably constant until December. Prior to December 2008 prices had ranged from a low $198,000 in August, to a high of $220,000 in October. At $182,000, December's average price for existing homes is $24,000, 12 percent, lower than November, and $38,000, 17 percent, lower than the October peak.

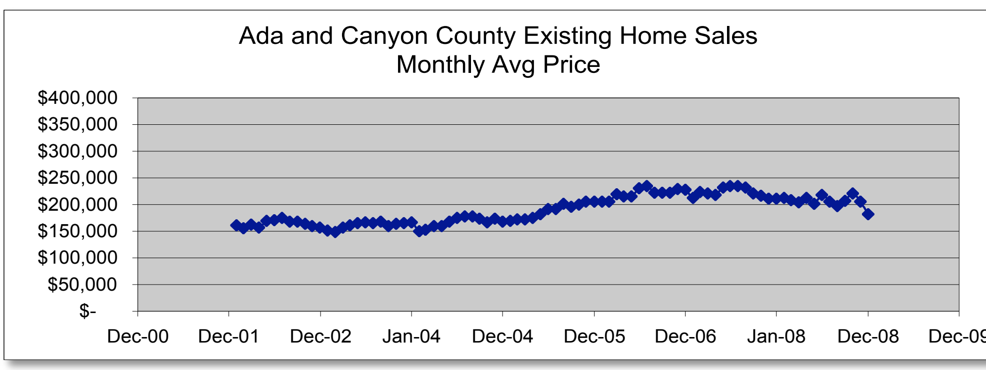

Chart 5

There is evidence that there is some cherry picking going on among existing homebuyers. The price per square foot of existing homes was very steady at about $95 per square foot for the three years from 2002 through 2004 and early 2005. In late 2005, prices climbed to about $134 where they stayed until about mid 2007. Since then, per square foot prices of existing homes have been on a fairly steady decline and have returned to pre 2005 levels. The December average price per square foot of exiting single family homes in the Treasure Valley was $98. Please refer to Chart 6.

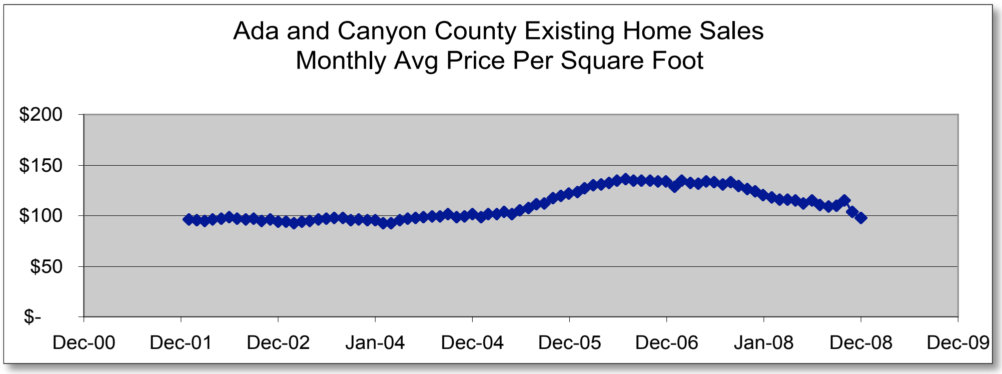

Chart 6

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 December. In each case, the second chart effectively provides a display of months of inventory at the December rate of sales.

New Homes - A couple of observations. First, the following Sales By Price Point chart presents a fairly typical distribution of sales. Most of the sales take place in the $150,000 to $200,000 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.

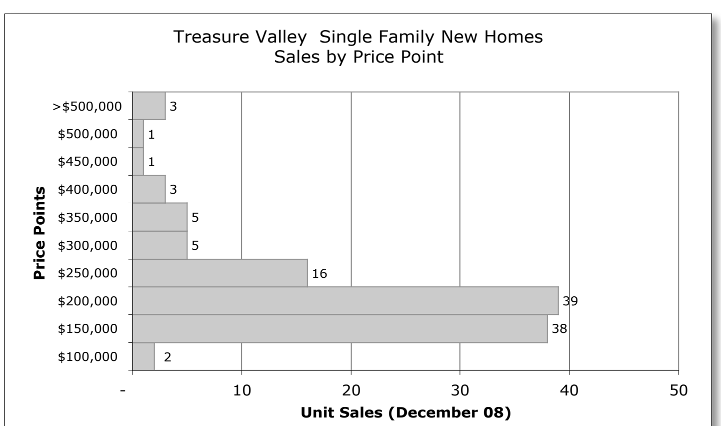

Chart 5

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 24 listings on the market for each of the 5 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 early 2008 levels, those numbers will represent an inventory of as little as 6 months.

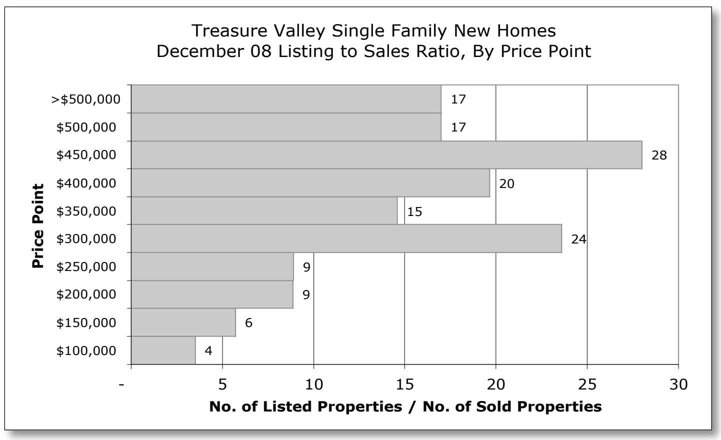

Chart 6

The problem involve homes at the higher price points. In December, at prices above $400,000, there were more than 96 new homes competing for five buyers.

Further, there are a tremendous number of lots in subdivisions and planned communities that have already been approved and are capable of coming on line very quickly. Long story short, for upper echelon new homes, 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.

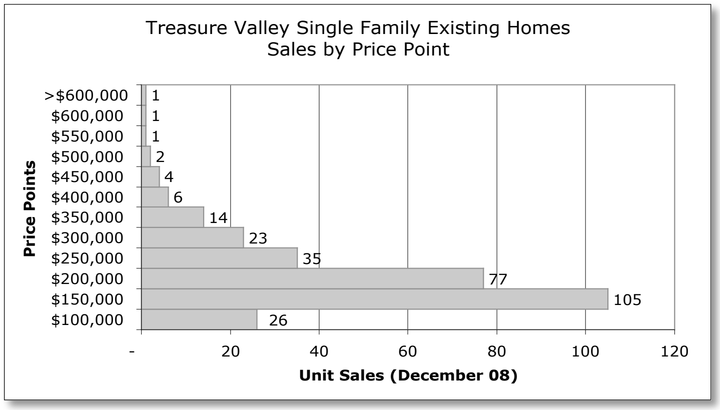

Chart 7

And, also similar to the case with new homes, the listing to sales ratio of existing homes remains very top heavy. In the most competitive categories, $200,000 and below, sellers can expect their homes to be on the market for 10 to14 months. At the higher price points, the numbers can be daunting. For instance, at the $500,000 price point, there were 88 listings competing for two (2) sales.

As with new homes it could be argued that November was an abnormally slow month, so the listing 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 318 homes for sale in that price range. That means that, even in the unlikely event sales quickly return to historic average sales rates, properties in this price range can expect to be on the market for 13 months or longer.

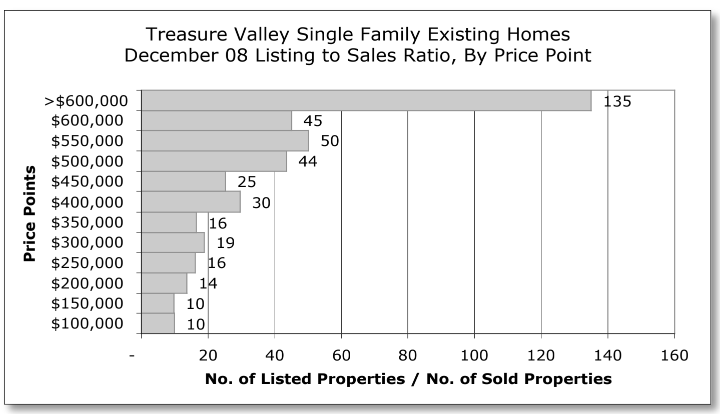

Chart 8

Thirty-Day Outlook

Monetary Policy - At $300 billion and counting to prop up some of the nation's largest banks, as a prerequisite for saving the greater economy, there is evidence that the Treasury Department's activities are finally starting to have an impact on local lending activities.

Interest rates on most mortgages have come down roughly one full percentage point in the last two months. The 30 year fixed rate is now at about 5.25 percent. This is clearly a move in the right direction. And, lenders say they are busier than they have been in months. However, it is worth remembering that 5.25 percent is not an excessively low rate by historic standards.

Traditionally, there is only a difference of about 3 percentage points between the federal funds rate and the 30-year mortgage rate. The fact that there is currently more than 5 points difference suggests that there is room for further mortgage rate reductions. If the government is serious about moving excess housing inventory, rates need to come down more, at least another full point, perhaps two.

Fiscal Policy - President Elect Obama is reportedly looking at from $300 Billion to more than $1 Trillion in tax cuts and other stimulus actions. That works out to more than $3000 per family per year. Depending on how it is configured and where it is distributed, the benefit to the national and local economy could be substantial. The project will not be in place for several months, but we will likely know the shape it will take by the end of January.

Treasure Valley Home Sales - As bad as November and December sales levels were, January will be the real test. January is typically the lowest sales month of the year. At one level, it is hard to imagine sales falling much, if any, from December's depressed level. There just isn't much room left for sales to drop. However, since 2002, January sales of both new and existing homes have, on average, declined between 9 percent and 40 percent from each preceding December. If this relationship holds for January 2009, new home sales for January could be as low as the 60s and sales of existing homes could be as low as 200.

Summary

December will be remembered as an ignominious end to a dismal year. Sales of 114 new homes and 296 existing homes were at, or near, record lows in both categories.

The average price of a new home in December was still surprisingly firm at $196,500. While prices continue to come down, prices in the $200,000 range are still pretty high for a region not known for high wage scales. Prices per square foot are a different story. Buyers are clearly getting better and better deals from cash strapped builders and developers. December, new single family homes in the Treasure Valley sell for an average of $94 per square foot, a number not seen since 2001, or earlier.

The story is generally the same, if less extreme, for existing homes. December was the first month where the price of existing homes showed signs of genuine softening. At $182,000, December's average price for existing homes is $24,000, 12 percent, lower than November, and $38,000, 17 percent, lower than the October peak. The December average price per square foot of exiting single family homes in the Treasure Valley was $98. This is considerably lower than the $134 per square foot prices seen from late 2005 until about mid 2007. It is not as low as the $95 per square foot prices seen from 2002 through 2004, but it is getting there.

Finally, December was, in some respects was a month of marking time. There is a general consensus that there is much that needs to be changed, indeed must be changed, if the economy and the housing market is to rebound.

The effects of federal monetary stimuli are finally starting to show up at the street level in the form of lower mortgage interest rates that have dropped by one full point in the last two months. This is a move in the right direction. However, current mortgage rates are still not particularly low by historic standards. Expect more monetary policy efforts by the feds to generate a bigger impact at the street level

At the fiscal policy level, the president elect has announced intentions for a stimulus package of from $300 Billion to more than $1 Trillion in the form of middle income tax cuts and other stimulus programs. The impact of more than $3000 per family per year, assuming it reaches Boise, will have a substantial beneficial impact on the local economy.