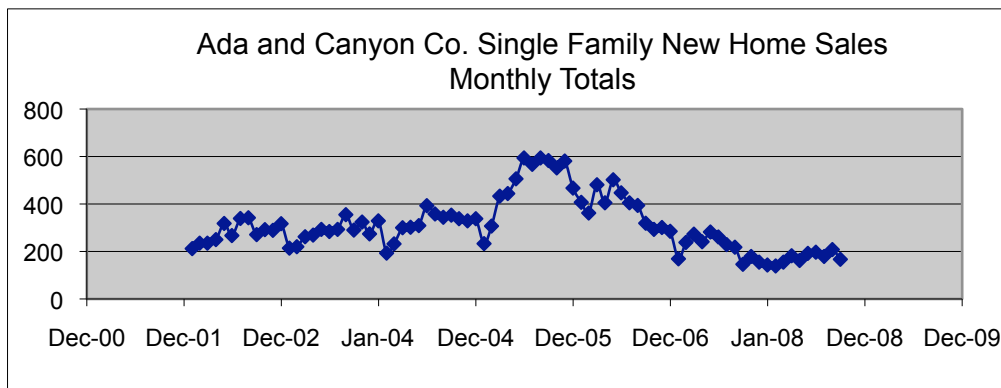


October 1, 2008

Treasure Valley Housing Market – Some Good News

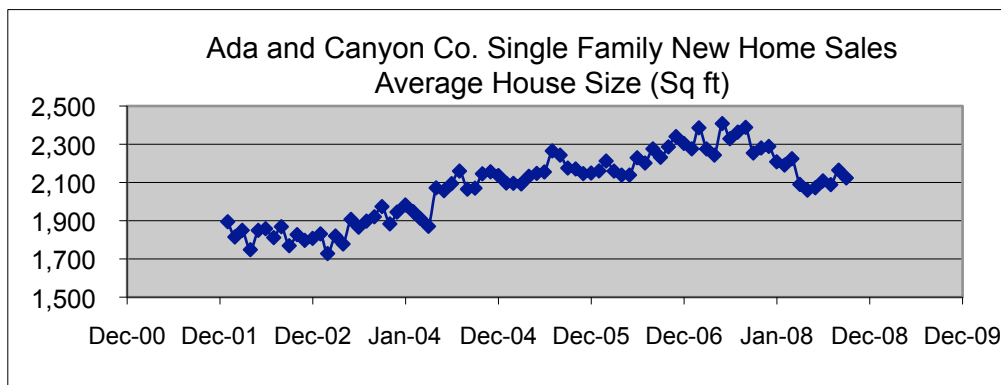
With the backbeat of the national news focusing on the credit market bailout, a bit of good news has been quietly taking shape for Treasure Valley homebuilders. Namely, the market appears to have bottomed out and is now, ever so slowly, starting to rebound.

Since the peak of the market in 2005, when nearly 600 new homes sold each month, Treasure Valley single-family home sales had been on a two year downward path. The bottom appears to have been reached in January of this year with a monthly total of 139 new homes. Since January,



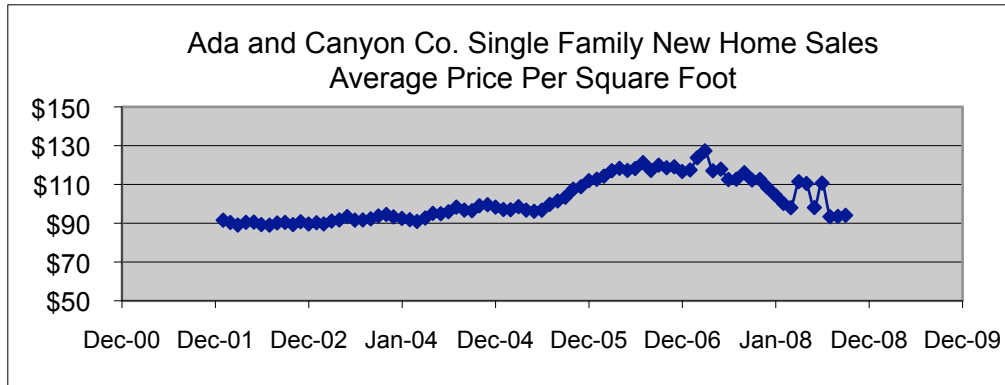
monthly homes sales have reached as high as 208. In September, 167 new homes were sold. Currently, valley wide, homes are selling at a rate of about 2,050 per year.

The current sales rate is comparable to some of the lower pre 2005 monthly sales numbers. And, clearly, 2,000 homes sales per year is a pretty good number for developers and builders that are well positioned with a competitive product.



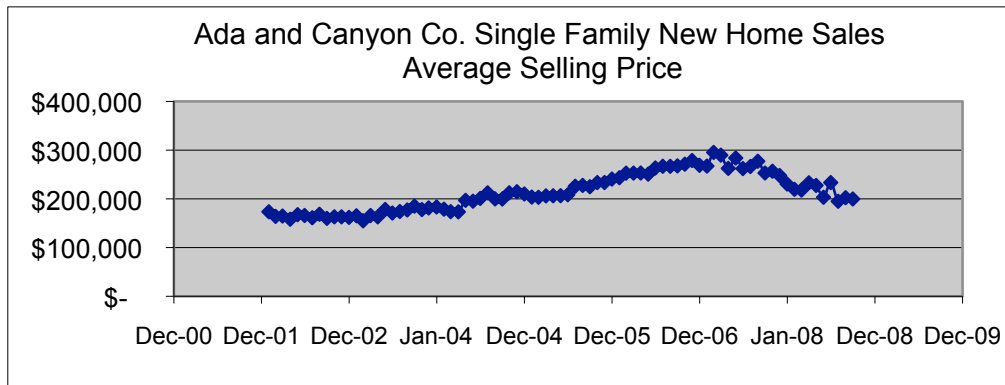
Speaking of competitive, it is very much a buyers market. Today's buyers are also more frugal than the homebuyers of a couple years ago. For instance, the homes that are currently selling are about 300 square feet smaller than the homes that were selling as little as one year ago. At about 2,100 square feet, the typical new home selling today is similar in size to the homes that were selling in 2004 and early 2005.

Today's new construction homebuyers are also demanding, and getting, concessions from the builders on the cost per square foot of the homes. At the top of the market, buyers were routinely paying \$120 per square foot, or more. Today, that number is about \$26 lower at \$94 per square



foot. One minor caveat, some of the reduction in price per square foot is coming in the form of lower quality, lower “style”, homes. By that I mean that new homes are less likely to have high cost amenities such as stone counter tops and hardwood floors than they did a couple of years ago.

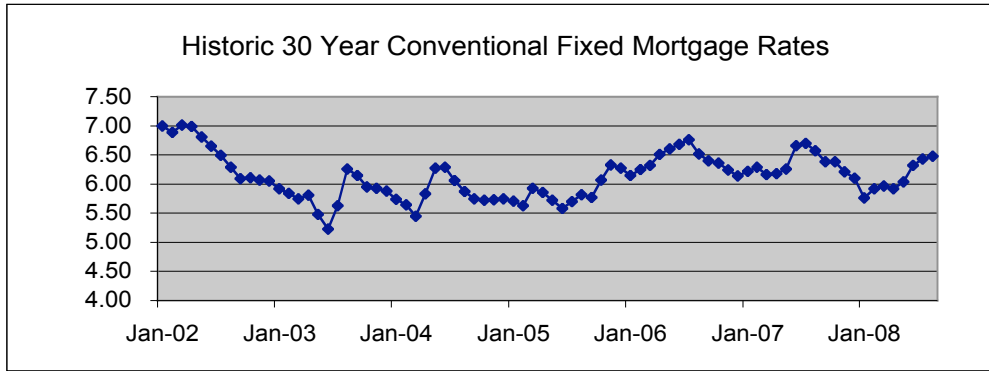
As a result of people buying homes that are both smaller, and priced lower on a cost per square foot basis, it necessarily follows that the homes selling today have lower prices overall. In 2005, the average new home sold in the Treasure Valley peaked at a little over \$250,000. By late 2006, the



average new single-family home price had jumped to \$300,000. Currently, average new home prices have receded to roughly 2004 levels at about \$202,000.

Credit Markets, Bailouts, and What a Rescued Market May look like.

Since 2003, fixed rate mortgage borrowers have typically found rates between about 5.75 and 6.25 percent. After January 2006, rates increased about half a point and ranged from a brief low of about 5.75, to a high of about 6.75. Rates for the most recent month are 6.48 percent. In short, current interest rates are well within the range of interest rates seen in the past 6 years. Or, put another way, problems in the housing market cannot be attributed to interest rates being too high. Lower rates



would obviously be better but current rates by themselves are not sufficiently high to discourage borrowing.

In this economist's mind there are a couple of other problems that have a more profound impact on the local new home market.

First, regardless of the interest rates, qualifying for loans has gotten more difficult. The days of Stated Asset, Stated Income (SASI), and No Asset, No Income (NANI) loans are gone. And, no matter what sort of bailout is crafted on capital hill, SASI and NANI loans will not be back anytime soon.

Second, the loose lending practices of recent years that got many lending institutions into deep trouble created a very real, lingering, and physical component. Namely, for several years, new homes were being built far faster than the requirements of underlying population growth. As a result, there is a substantial glut of new homes on the market. The surplus of existing new homes on the market drives down the price of both new and existing housing. It also has the affect of reducing the demand for additional construction until such time as demand catches up and the existing surplus is reduced to a more realistic level.

Summary

Anyone thinking the halcyon home sales numbers of 2005 will return as soon as a bailout package is in place needs to think again. The world has changed. However, sales of 2,000 + homes each year in an area as small as the Treasure Valley is still a reasonably good market. The market is much more competitive than it was a couple of years ago, and it will remain that way for the foreseeable future. However, for developers and builders providing homes in good locations and offering high value per dollar products, there does appear to be a light at the end of the tunnel.