

February 6, 2009

Treasure Valley Housing Market – January Slump, Regional Price Differences

New Homes – January is traditionally the worst month of the year for new home sales, and this year was no different. There were only 68 sales of new single-family homes. January sales are typically about 26 percent lower than preceding December sales and the previous record decrease was 42%. Last month set a new record with a decrease of 45 percent from the 124 sales in December of last year.

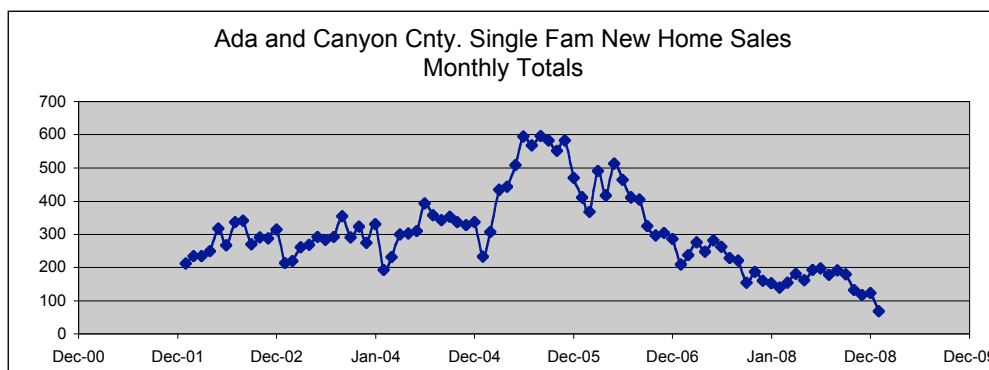


Chart 1

January's sales decline was paired with further price declines. November prices, at an average of \$192,000, marked the first time since March of 2004 that average new home prices were less than \$200,000.¹ January continued the trend. Prices decreased about six percent from December, settling at an average new home price of \$181,458. See chart below.

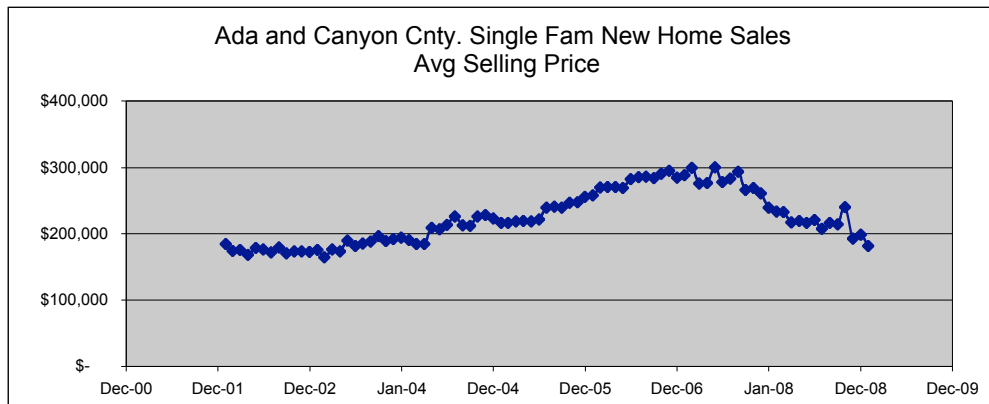


Chart 2

¹ Inflation adjusted. Prices presented in January 2000 equivalent dollars.

Price per square foot also declined in January, coming down about two percent to \$92 from December's \$94/sq ft. This is about \$8 below the pre bubble average price of about \$100 per square foot.

With both sales, and prices, and thus profits, at record lows, this is about as gloomy as an economic report can get. At the same time there is reason for hope. 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. We are there. Rocky Mountain Econometrics also reported the fact that the valley needs about 2,000 new homes per year to cover naturally occurring increases in population. The last 3 – 4 months have been at about half the replacement rate. In short, prices are about where they need to be for a turn around, and need for housing now exceeds sales. That is good news for the building industry. Clearly, the turn around is not here yet, but we are now at a point where the conditions for a turn around in new home sales are being met.

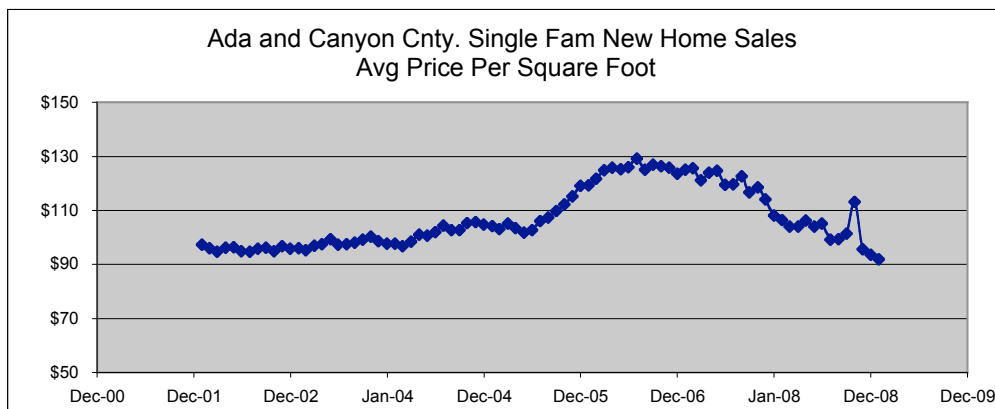


Chart 3

Existing Homes – As with new homes, January is traditionally the lowest sales month of the year for existing single-family homes. January saw 234 sales of existing homes. This is 87 fewer sales, 21 percent, than sales of single-family homes in December.

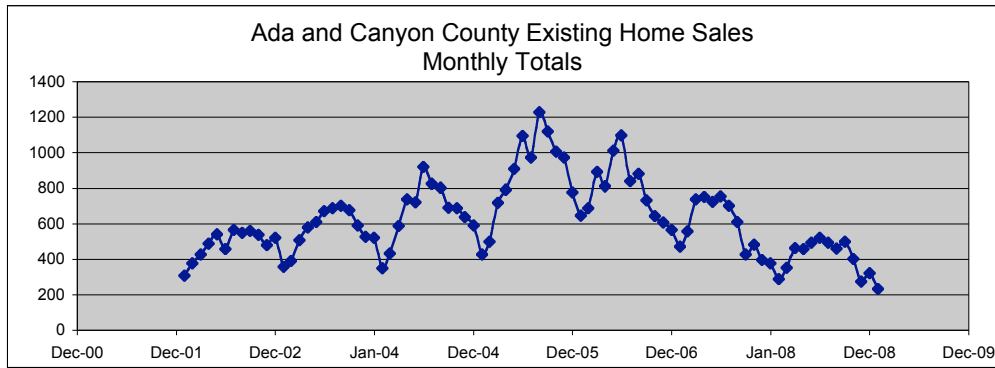


Chart 4

Last month, Rocky Mountain Econometrics stated that December was the first month that the sort of price volatility long present in the new home market became evident for existing homes. January reversed that trend. At \$182,000, December’s average price for existing homes was \$24,000, 12 percent, lower than November, and \$38,000, 17 percent, lower than the October peak. January’s average prices were \$22,343, 12 percent, higher than December prices. Interestingly, the average price of existing homes is now higher than the average price of new homes. See Chart 5 below.

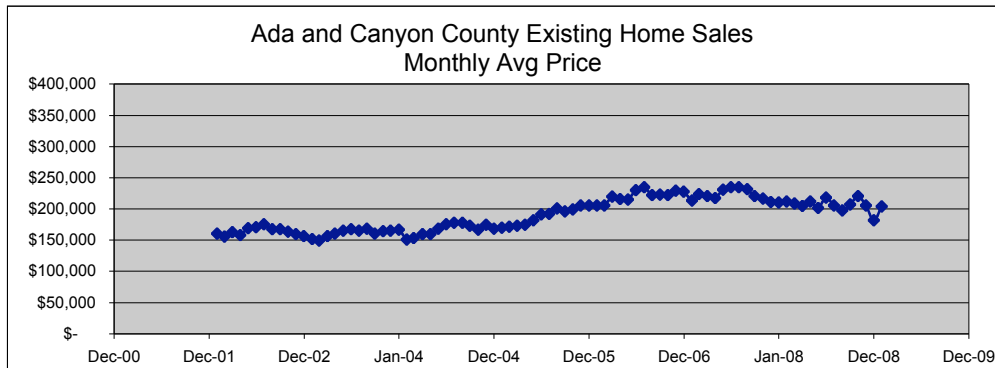


Chart 5

Since the beginning of 2008, there has been evidence of cherry picking among buyers of existing homes. That changed slightly in January, with price per square foot increased from about \$97.6 to \$98.3. It is a very small increase, and one data point does not make a trend. Still, given that the pre bubble price of existing homes was very steady at about \$95 per square foot, prices of existing homes may be approaching their bottom limit. Please refer to Chart 6 below.

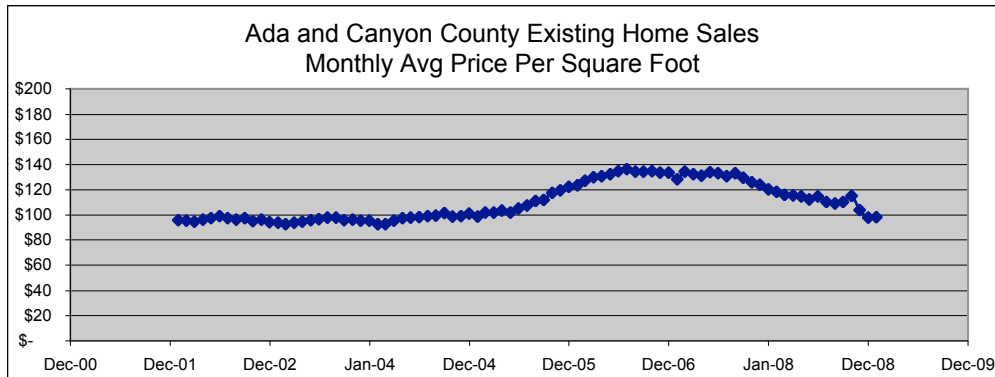


Chart 6

2008 Roundup

With sales of 1,952 new homes in 2008 in the Treasure Valley, the number of homes sold relative to the growth of the valley’s population was relatively balanced. At the same time, it is worth remembering that sales in the first half of the year were more brisk than in the second half. Even though sales roughly matched population increase over the course of the year, sales are now slower than that needed to keep up with population growth.

Sales in Ada County continue to lead sales in Canyon County by a two to one margin. Ada County saw sales of 1259 new homes, of which 502, slightly more than one third, occurred in the Meridian area. Kuna was the next biggest local market with 172 new home sales.

The up-scale Eagle market recorded sales of 64 new homes in 2008 while east Boise saw sales of 56 new homes. See Chart 7 below.

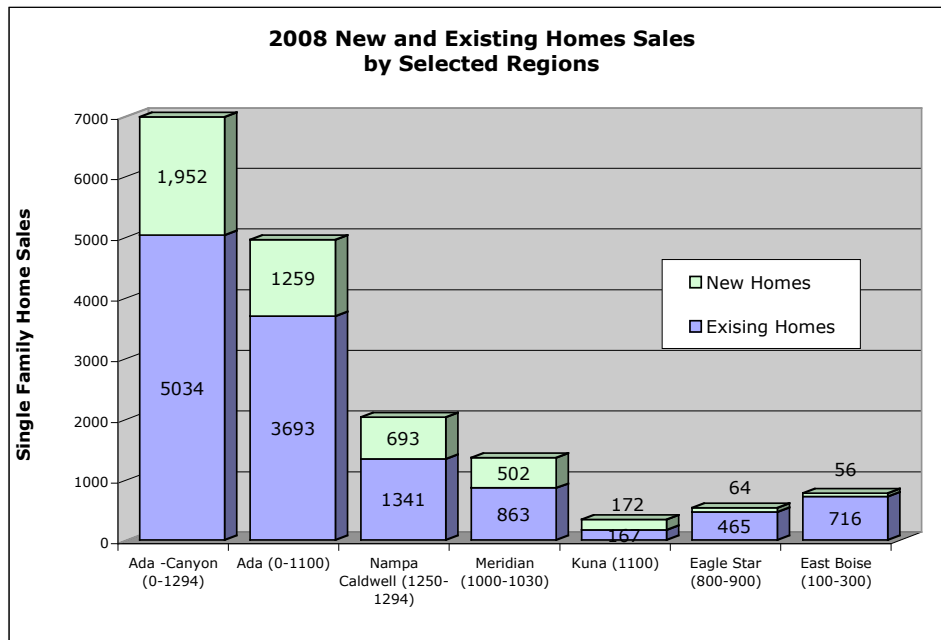


Chart 7

The following two charts display prices in the same selected regions of the valley in 2008. The first chart presents average prices and the second chart presents median prices. The reason for the two charts is that, because prices are limited to zero on the low side, but open ended on the high side, average prices are skewed upward, particularly in regions like the Eagle area where the number of units sold is much lower than in the larger markets like Meridian. As a result, the median sales prices presented in Chart 9 give a better feel for typical home prices in the various markets.

Average Home Prices - New Homes

Valley wide, the average price of a new single family home in 2008 was about \$205,000. In Ada County, prices were a little higher at \$231,000. Nampa and Caldwell new home prices are about \$74,000 lower than Ada prices, at \$157,000. Kuna prices were slightly higher at \$167,000.

From Kuna, it was a \$68,000 jump to Meridian prices at an average of \$235,000 per new single family home. The prices of Eagle area, and east end new homes, were in their own league. At \$429,000 and \$423,000 respectively, they averaged more than \$188,000 more than any other region of the valley, and more than \$218,000 more than the average of the valley as a whole. See Chart 8 below.

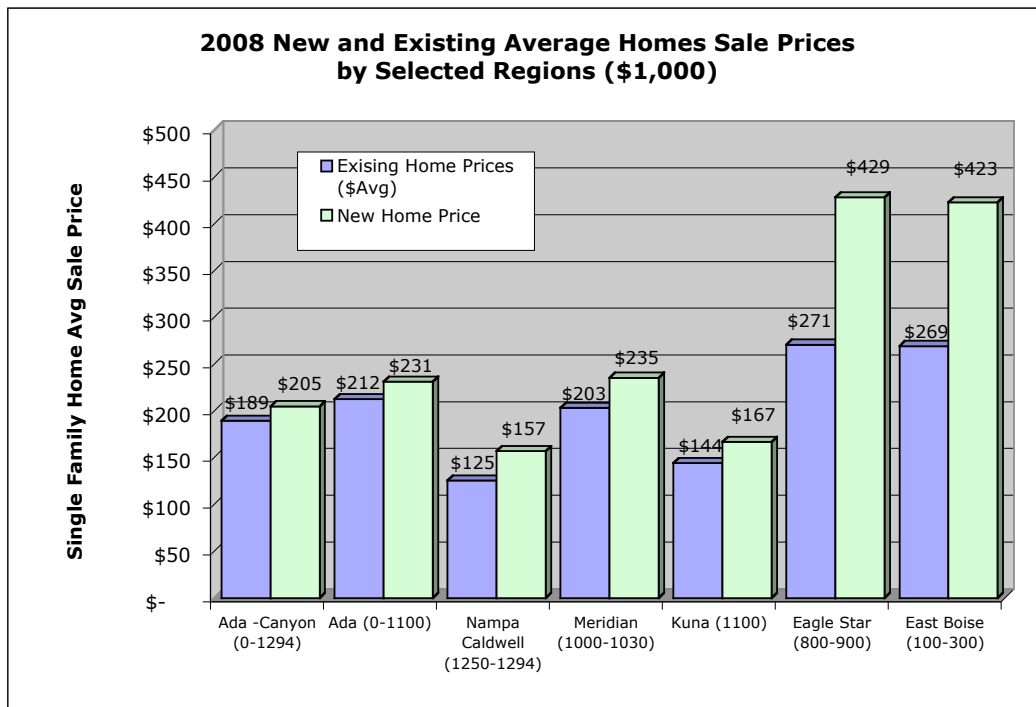


Chart 8

Average Home Prices - Existing Homes

For Ada and Canyon counties combined, the average price of an existing single-family home in 2008 was about \$189,000. In Ada County, prices were about \$23,000 higher at \$121,000. Nampa and Caldwell existing home prices were about \$87,000 lower than Ada prices, at \$125,000.

Kuna prices were a little higher than Canyon County prices, coming in at \$144,000. Meridian existing single family home prices were about \$59,000 higher than Kuna with an average of \$203,000.

Similar to the situation with new homes, the prices of Eagle area, and east end existing homes were also in their own leagues. At \$271,000 and \$269,000 respectively, they averaged more than \$188,000 more than any other region of the valley, and more than \$80,000 more than the average of the valley as a whole.

Median Home Prices - New Homes

Average home prices are interesting because they give a sense of the upside potential of home pricing. However, median home prices give a much better picture of the typical price for which homes change hands in any particular market.

Valley wide, the median price of a new single family home in 2008 was about \$170,000. This is about \$35,000 lower than the valley wide average of \$205,000. In Ada County, median prices were a little higher at \$195,000.

Nampa and Caldwell new home median prices were the lowest in the valley. At \$142,000, they are about \$53,000 lower than Ada County median prices.

In Kuna, median prices were about \$155,000, \$13,000 higher than Canyon prices.

As with average prices, it was a substantial jump from Kuna prices to Meridian median prices. At \$213,000 per new single family home Meridian 's median home price was higher, \$58,000 higher than Kuna.

And, once again, at \$392,000 and \$397,000, Eagle area, and east end new homes were respectively, more than twice as high as the median prices of homes valley wide.

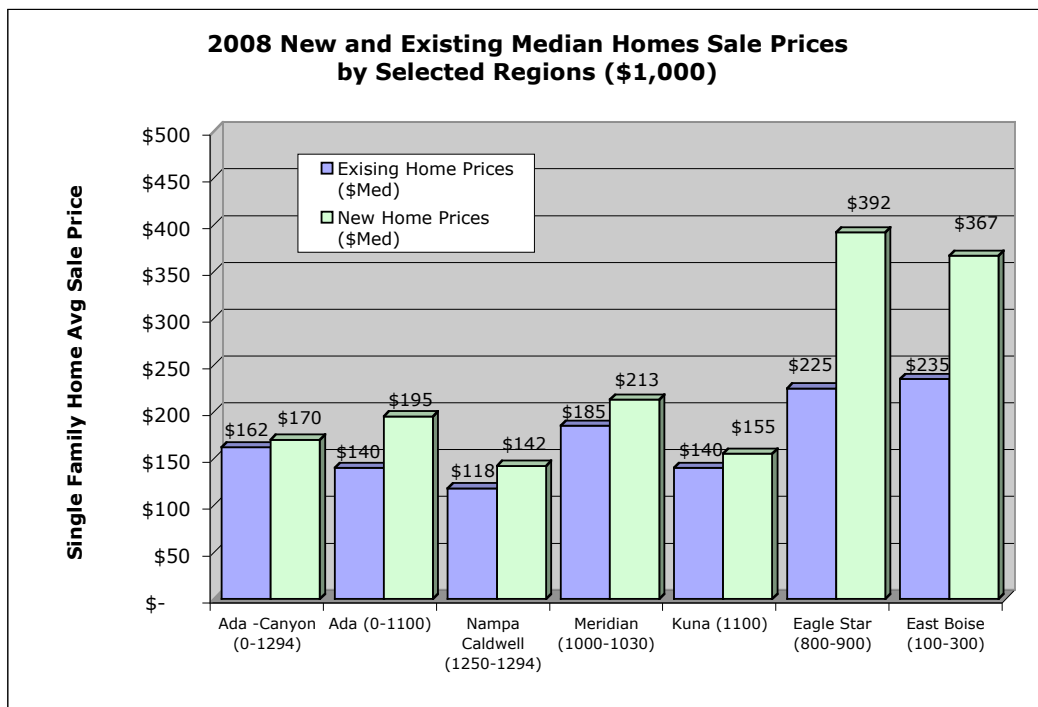


Chart 9

Median Home Prices - Existing Homes

Median home prices for existing homes display the smallest range across the valley of any of the price measures. The highest median prices were in the east end at \$235,000. The lowest, at \$118,000 in the Nampa Caldwell area, were only \$117,000 lower.

At \$185,000, Meridian existing home median prices were about \$45,000 higher than Kuna's \$140,000. In Eagle and the east end, median prices of existing home were fairly reasonable compared to either average or median new home prices. At \$225,000 and \$235,000 respectively, median prices for existing homes in these two areas were less than \$73,000 higher than median prices in the rest of the valley.

Treasure Valley Area Price Differentials

There are a number of factors that determine home prices in any given neighborhood. Things such as size, quality, and amenities such as view, access to parks, schools, foothills, prestige, etc., all come into play. Another major factor has to do with income and other details surrounding ability to pay. For instance, by national standards, Treasure Valley incomes are at best average. That means it is unreasonable to expect average home prices to be at levels seen in higher income areas such as Seattle, San Francisco, or Los Angeles. That said, depending on the location of individual neighborhoods, other factors come into play, a big one being the cost of commuting to work.

In the Treasure Valley, Boise is the obvious employment magnet. It is the destination, more so than any other single part of the valley, to which people travel to work. As such, the cost of commuting from various parts of the valley to Boise becomes a variable cost of living that cannot be used to make mortgage payments. The further homes are located from the Boise job market, the more their residents have to spend to commute, the less they have to spend on mortgages, the less builders and developers can charge for their projects, and the less valuable land becomes in remote area.

Using the IRS cost per mile of \$0.55, a 250 day work year, and a standard 30 year fixed mortgage at 5.5 percent, we can calculate the value of a one way commute mile as being about \$4,036. Thus, the cost per household to commute to Boise ranges from about \$73,000 for Meridian families, to over \$151, 000 for Nampa –Caldwell families.

Using Meridian as the base, it is possible to calculate that, over the 30 year life of a home mortgage, it will cost an additional \$48,433 to commute to Boise from Kuna, and an additional \$72,650 to commute to Boise from the Nampa Caldwell area. Further, we should expect to see these cost differences reflected in home prices in the respective cities.

As predicted, the observed price differential of existing homes is very close to the calculated present value of the cost of commuting from the various communities. For Kuna, the calculated value for the added commute cost to Boise from beyond Meridian is \$48,433. This compares favorably to the observed average and median prices for both new and existing homes that range from \$45,000 to \$69,000 less than equivalent Meridian home prices.

For the Nampa Caldwell area, the calculated value for the added commute cost to Boise from beyond Meridian is \$72,650. This also compares favorably to the observed average and median prices for both new and existing homes that range from \$67,000 to \$78,000 less than equivalent Meridian home prices.

Observed 2008 Home Price Differential
Between Meridian and Selected Cities

| Price Differential | Kuna | Nampa Caldwell |
|--------------------|-----------|-------------------|
| Predicted | -\$48,433 | -\$72,650 |
| Observed | | |
| Avg. Existing | -\$59,000 | -\$78,000 |
| Med. Existing | -\$45,000 | -\$67,000 |
| | | |
| Avg. New | -\$69,000 | -\$78,000 |
| Med New | -\$58,000 | -\$71,000 |

One final note on this subject as regards future housing developments in rural parts of the valley. Commute costs put a downward force on home prices that as distances increase from the prime Boise job market. While the Eagle area seems to be an exception to this rule, they have maintained premium pricing by sacrificing volume. Not everyone can be above average. The point is that, to the extent Ada County and other agencies have approved tens of thousands of homes as much as 30 miles from the valley's job centers, prices of homes in these distant developments will necessarily have to be severely discounted if they are to successfully compete with developments closer to the valley's primary job markets.

Thirty-Day Outlook

Monetary Policy – Look for action at the federal level to make something happen on the lending front on Main Street. While interest rates on most mortgages had been coming down in January, they bottomed out at about 5 percent for 30 year fixed and are now back up in the 5.5 percent area. That is not what either the Fed or Treasury intended, and it is not what the market needs.

Fiscal Policy – As this is being written, the final tweaks are being applied to the federal stimulus bill. There are a lot of unknowns. One rumor is to give as much as a \$15,000 bonus to each home owner, and the 4 percent financing to borrowers and refinancers across the board. If so, lenders will be fielding calls at a rate rarely seen.

Treasure Valley Home Sales – As predicted last month, sales of both new and existing homes tanked in January. The good news is that, while January sales are almost always worse than those of the preceding December, February sales are almost always better than those of the preceding January. Look for January's dismal sales of 68 new homes to increase to the 80 – 100 range. And, look for February's sales of existing homes to surpass January's sales of 234 and reach 270, perhaps a bit higher.