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Executive Summary

The purpose of this report is to analyze the Ada County, Idaho Real Estate Market. I hear the question over and over, “Is now a good time to buy Real Estate, or should I wait”? If you want to purchase a home, it is a valid question. No one wants to buy something as an investment and have the price depreciate. In this report, I will explore the background behind the housing downturn, the current market conditions and attempt to give insight into the future of the Real Estate market in Ada County, Idaho.

Executive Conclusion

With a high supply and low demand, the chances of getting the home you want are outstanding. With interest rates at a record low and many economists predicting that they have hit the bottom you cannot go wrong with a 30 year or 15 year loan (See Figure 2). If you have not owned a home in 3 years and 6 months the U.S. Congress has passed an \$8000 tax credit that is yours to keep if you buy a home prior to December 31, 2009 (U.S. Department of Housing and Urban Development, 2009). All of this adds up to why it is a great time to buy a home now.

The only downside in buying a home now is that your credit scores and employment have to be very stable. The current credit scores required to purchase a home is 620 FICO score (U.S. Department of Housing and Urban Development, 2009). If you are in a job that is not stable, then that would be another consideration when looking to purchase a home.

Factoring all things, 2009 could be the best year since 1974 to purchase a home.

Problem

It is commonly known that the U.S. housing market downturn has gone from bad to worse, dragging the broader economy into what threatens to be the worst economic setback since the Great Depression. Policymakers have not yet been able to break the downward spiral that has developed among the sinking housing market, job losses, frozen credit markets, and rising foreclosures.

Background

Almost three years into the housing downturn, most indicators of the market's performance continue to worsen. By the end of 2008, construction had fallen to its slowest pace since the Census Bureau began collecting data in 1959, inventories of homes were at a record high, and house prices had plummeted. Home sales seemed to be stabilizing, but only because of a surge in sales of foreclosed properties. Rising job losses and mounting negative home equity, combined with lax mortgage underwriting standards earlier in the decade, have rapidly eroded mortgage credit quality, further depressing the market (U.S. Department of Housing and Urban Development, 2009).

According to Ada County Association of Realtors, and Intermountain MLS Home sales for 2008 were down 20% from 2009. Home prices dropped to levels not seen since 1999.

The housing "bubble" was inflated by numerous forces. The most important were the flawed process of mortgage securitization, a lack of regulatory oversight, and old-fashioned hubris. The bubble is now deflating with a vengeance. The boom began to recede in earnest in the spring 2006 selling season. The surge in prices during the first half of the decade, along with monetary tightening by the Federal Reserve, had made housing unaffordable, even with anything-goes

mortgage lending. House prices have since fallen by 25%, bringing prices back to where they were at the beginning of 2004.

The erosion of credit quality fueled the financial market crisis, which further depressed the housing market. Financial institutions are taking hundreds of billions of dollars in losses from the bad mortgage-related investments they made during the boom. These losses fed the financial panic that hit a fever pitch at the end of last summer after the government took over Fannie Mae and Freddie Mac. Credit markets froze, hurting not only mortgage borrowers but also disrupting nearly all businesses. These forces sent a mildly contracting economy into a full-blown recession.

Discussion of Findings

Not only is this housing downturn unprecedented in depth, but it reaches across the nation. House prices have fallen in about 70% of all metro areas over the past several years. Ada County home prices agree with the national statistic. Although prices in most metro areas declined modestly during this period, price depreciation from peak exceeded 5% in 116 metro areas and exceeded 20% in about 50 metro areas. In Ada County home prices are down 18% from the peak. Those metro areas with the most exposure to nonprime and investor lending, and that consequently experienced the greatest run-up in prices during the boom, are suffering the greatest declines on the downside of the housing cycle. California and Florida prices, for example, have descended by 50% or more from peak, but no area of the country has been spared.

Current Ada County Real Estate Market

Despite the darkening national economic outlook and the weak conditions in the housing market, some positive signs give hope that a bottom in the housing market is coming into view. Among the positive indicators are:

- Mortgage Rates
- Home Inventory (Supply and Demand)
- \$8000 First Time Home Buyers Credit
- Home Prices are Very Low

Home Inventory

Home inventory is the number of homes for sale on the market at a given time. Refer to figure 1 and you will notice that “Number of Homes for Sale” is at a 20 year high (Ada County Association of Realtors, 2009).

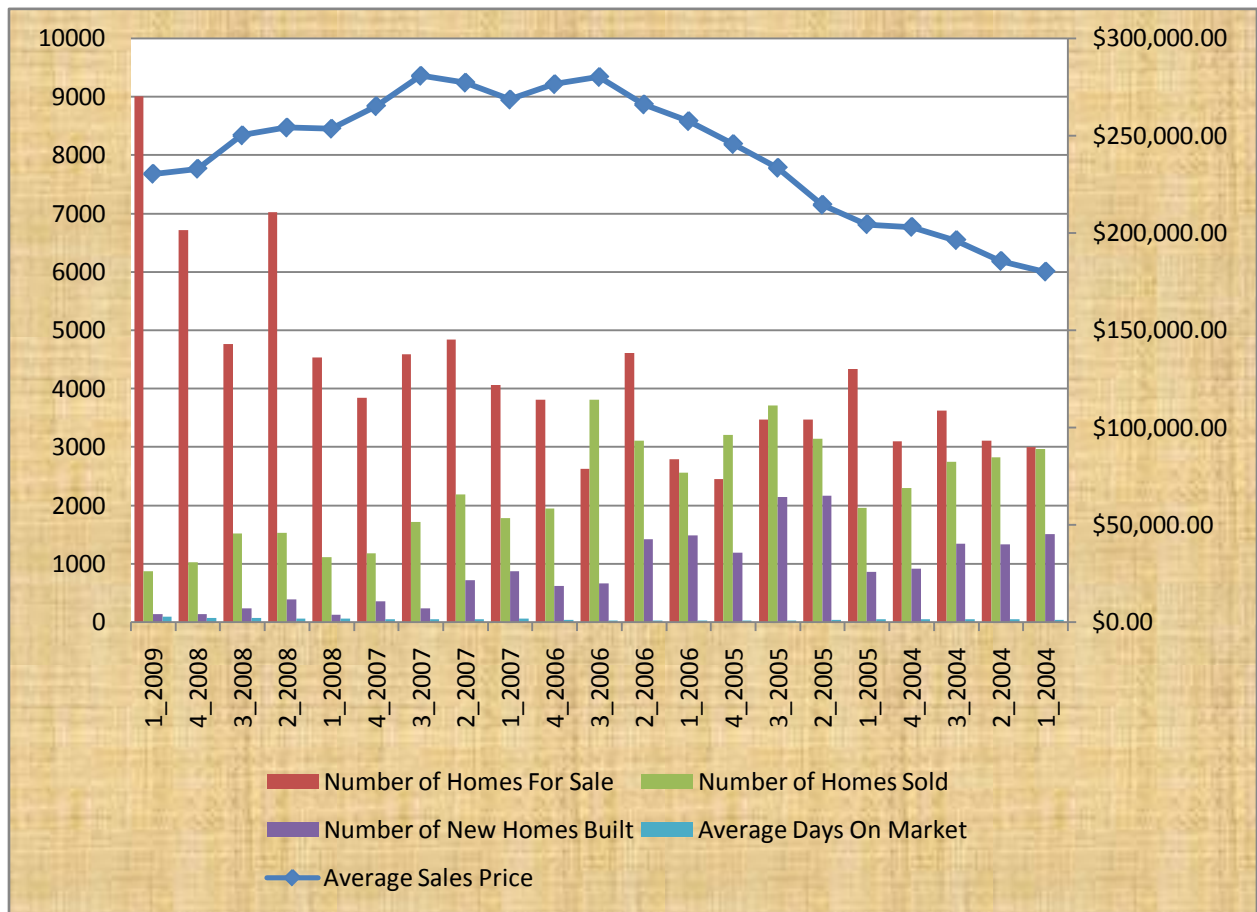


Figure 1

\$8000 First Time Home Buyers Credit

A tax credit of up to \$8,000 is available for qualified first-time home buyers purchasing a principal residence on or after January 1, 2009 and before December 1, 2009 (National Association of Home Builders, 2009).

Home Prices

If you look at figure 1 you will notice that the average home price has come down, but from my experience as a REALTOR, I can attest to the fact that those numbers are misleading. The average person is buying larger homes for less money. But since they are larger, the average home price has not come down as much as the real home prices have dropped. For instance, I paid \$245,000 for my home in 2005. I sold a home just like mine, same floor plan and lot size for \$159,000 last month. Ada County Association of Realtors reports that Boise area has the 27th worst home glut in the nation and home values have dropped 43% from the peak in the summer of 2005 (Ada County Association of Realtors, 2009).

Mortgage Rates

Rates on 30-year mortgages fell this week to the lowest level on record after the Federal Reserve launched a new effort to assist the staggering U.S. housing market (Zibel, 2009).

Mortgage finance giant Freddie Mac said Thursday that average rates on 30-year fixed-rate mortgages dropped to 4.85 percent this week, from 4.98 percent last week. It was the lowest in the history of Freddie Mac's survey, which dates back to 1971 and was down a full percentage point from a year ago.

The previous record low of 4.96 percent was set in the week of Jan. 15. Rates fell after the Fed last week said it will pump \$1.2 trillion into the economy in an effort to lower rates on mortgages and loosen credit.

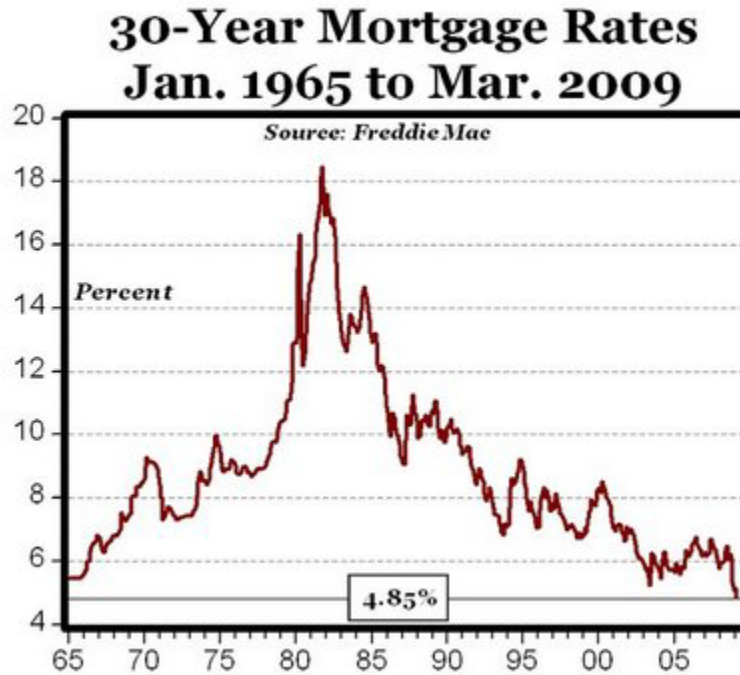


Figure 2

Conclusions and Recommendations

With a high supply and low demand, the chances of getting the home you want are outstanding. With interest rates at a record low and many economists predicting that they have hit the bottom you cannot go wrong with a 30 year or 15 year loan (See Figure 2). If you have not owned a home in 3 years and 6 months the U.S. Congress has passed an \$8000 tax credit that is yours to keep if you buy a home prior to December 31, 2009 (U.S. Department of Housing and Urban Development, 2009). All of this adds up to why it is a great time to buy a home now.

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Factoring all things, 2009 could be the best year since 1974 to purchase a home.

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