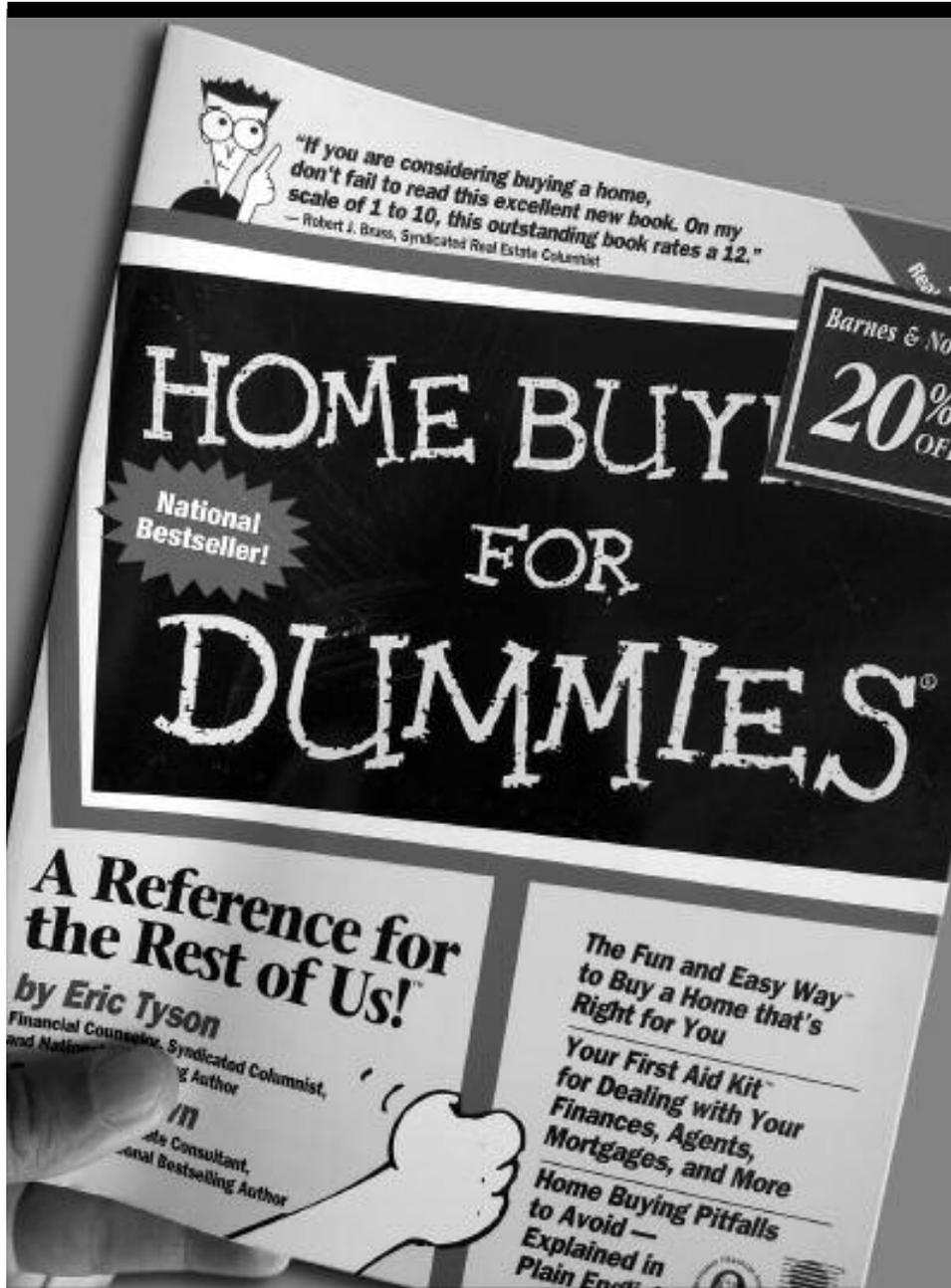
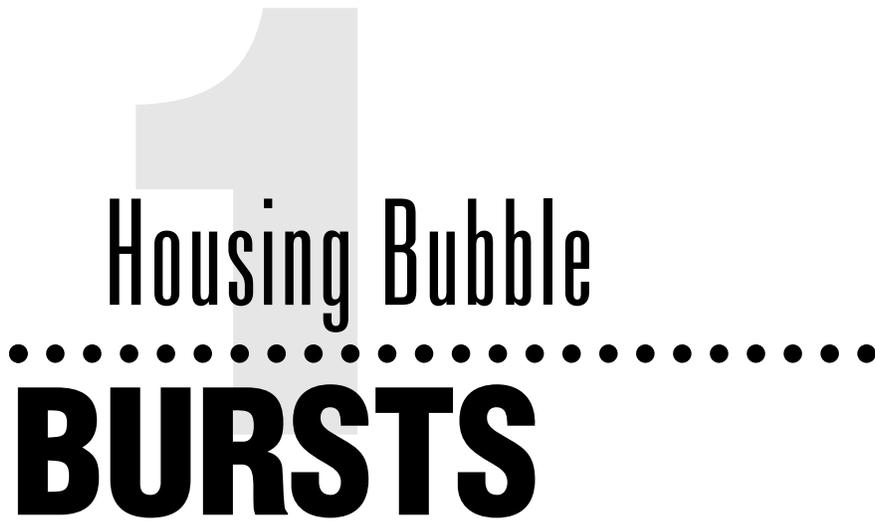


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Homebuyers during the boom days of the mid-2000s could have used some helpful hints to guard against easy-money lending schemes that later came back to haunt them.



Housing Bubble

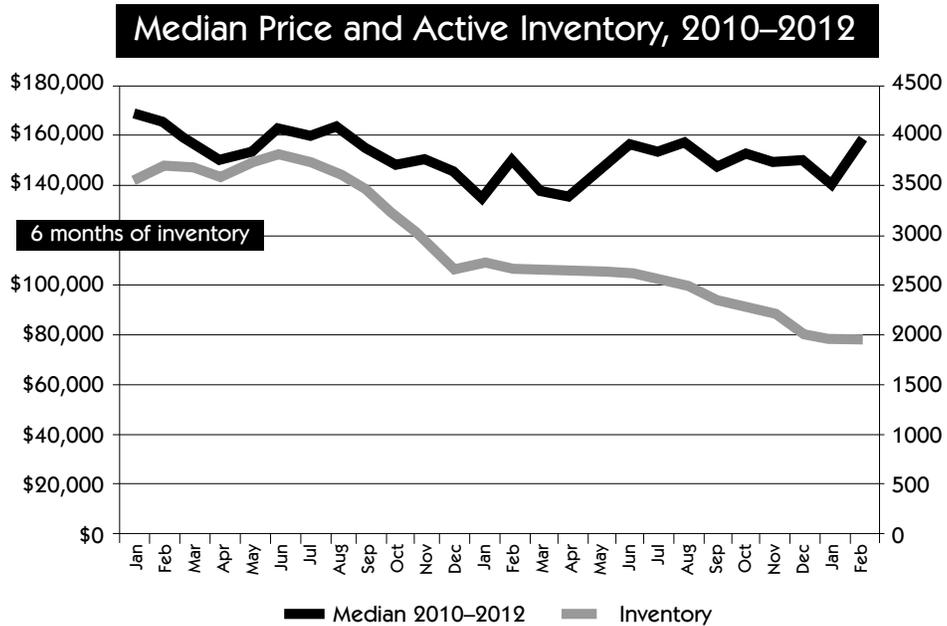
BURSTS

by Steve Xia

The National Bureau of Economic Research may have deemed the Great Recession over in July 2009, but it doesn't yet feel that way for many Americans, especially homeowners. Nearly 40 percent of American households have been affected by unemployment, negative home equity, mortgage payments in arrears or foreclosure. Housing prices are a long way from full recovery and in some parts of the nation they are still declining.

The housing crisis that brought a sudden halt to the real estate boom in 2007 was caused by numerous factors in both the credit and housing markets—imprudent/irrational consumption by consumers, corporate greed, predatory lending practices, irrational exuberance in the financial markets and several sweeping deregulatory measures by the government that gave financial institutions the ability to trade in risky assets and loan instruments. Most experts now agree that the sharp downturn in the U.S. housing market

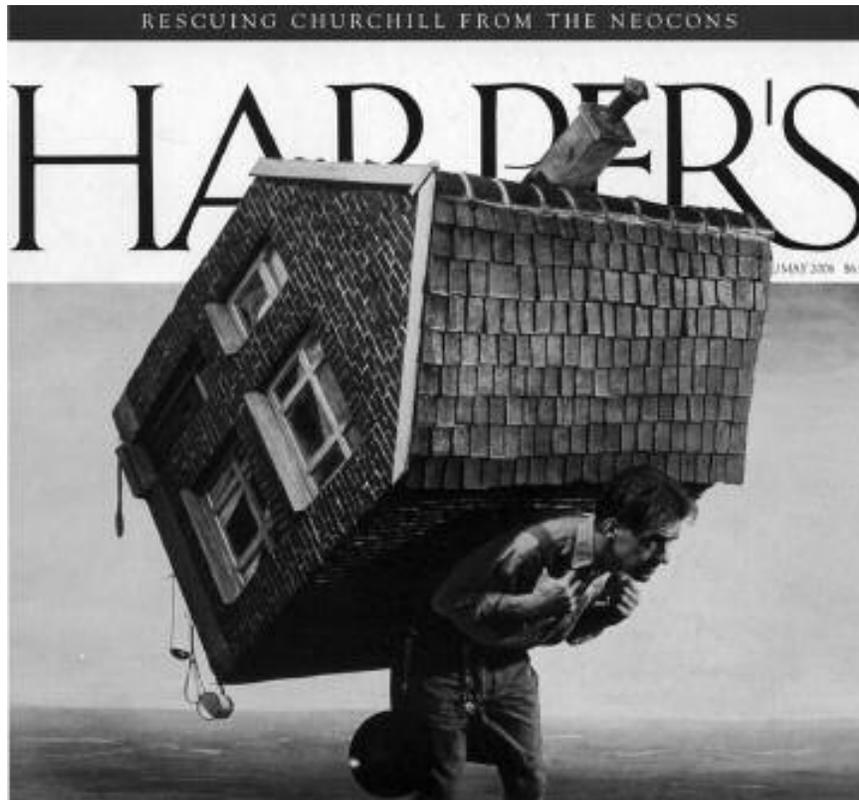
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was a major catalyst that sent the economy on its downward spiral toward recession. The effects are still being felt today.

At first, Idaho and the Treasure Valley were spared most of the calamities that befell much of the nation. The housing crisis and the economic recession it spawned struck other, more populous parts of the nation first, such as the Midwest, Southern California and Florida. From 2003 to 2007, Idaho had the nation's fastest-growing economy. In fact, the state's economy grew rapidly every year after 1987, reflected by continued positive annual job growth until mid-2008. Even the recession of 2001 barely made an impact on Idaho's growth. White-collar newcomers from California and elsewhere were attracted to the Boise area by both its relatively mild climate and its combination of urban amenities and outdoor recreation.

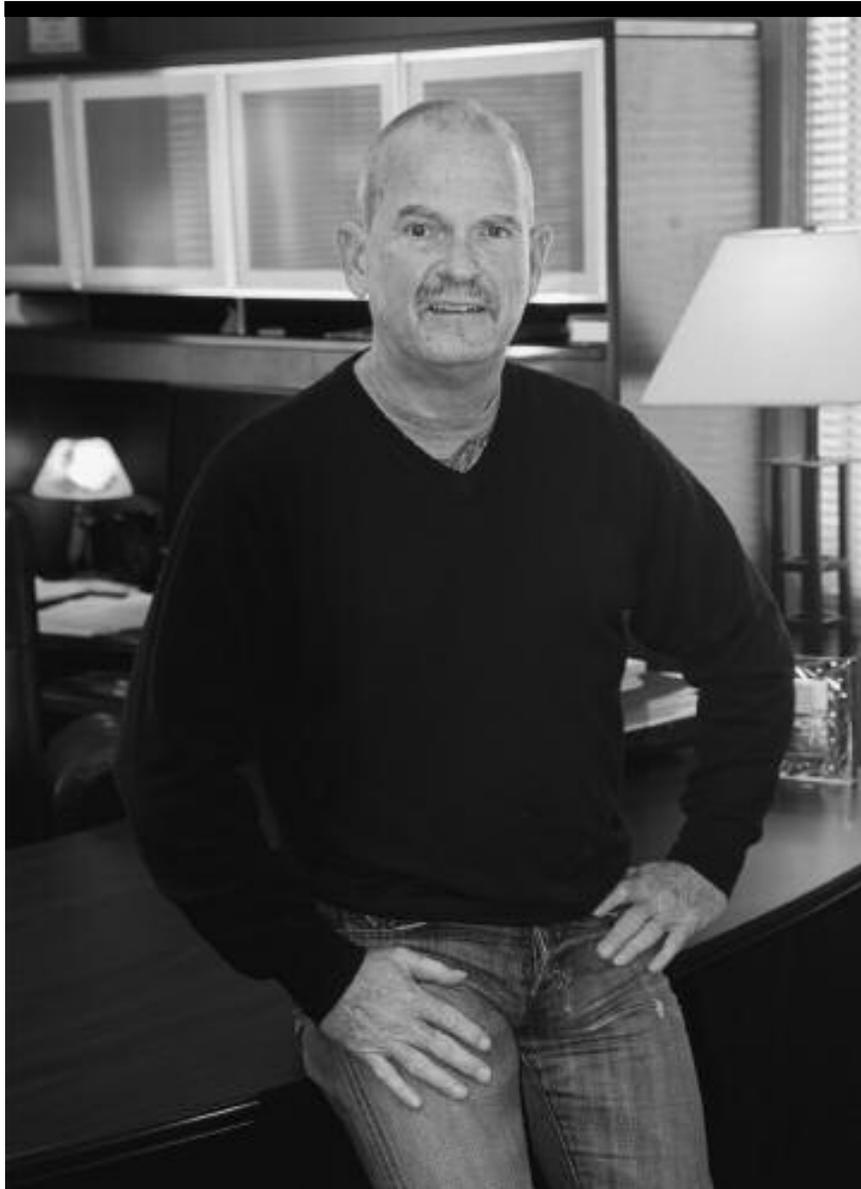
In 2007, the signs of an upcoming decline were not yet apparent in southwest Idaho. Jobs were still plentiful. Housing prices leveled off a bit, but still retained most of their value. During the boom, new condos, homes and commercial buildings sold quickly, and even well into 2007 the rate of property sales continued to increase. In September 2007, Dennis Cauchon of *USA Today* observed that in Idaho, "homebuilding hasn't crashed there as it has across much of the USA, and a two-decade run of prosperity continues."



"Never before have so many Americans gone so deeply into debt so willingly," wrote Michael Hudson in a 2006 *Harper's* essay that anticipated the crash of 2008.

He added that in comparison to Phoenix, Las Vegas and Orlando, three of the hardest-hit metropolitan areas at the start of the economic collapse, the heart of America's boom was "right here in Idaho." In contrast, in Las Vegas 1 out of 31 homes had filed for foreclosure during this time. However, the author incorrectly predicted how the Boise region and the state as a whole might sidestep the recession altogether and elevate its growth at even higher rates, with new developments catering to those who would have headed to those "hot-weather" places that were hit hard and underwater.

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Allan R. Ansell

Median home prices are increasing, but the recovery is still too tenuous to predict, said Marc Lebowitz, executive director of the Ada County Association of Realtors.

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Mike Turner at Front Street Brokers

In 2011, Ada County home sales followed the nationwide trend with a late November rise after five years of steady decline.

When the housing crisis finally hit Idaho, however, it hit hard. "We had one of the highest peaks ... we accelerated at so fast a pace," said Marc Lebowitz, executive director of the Ada County Association of Realtors. Lebowitz said there were approximately 1,300 homes on the market in January 2006. By the end of that year there were 4,000 homes for sale, most of them newly built. In February 2012, there were 1,900 homes listed. The median value of a home in Ada County at the 2006 peak was \$247,700. The median price hit a low of \$134,900 in January 2011; in January 2012, the median value was \$139,000. In 2010, Idaho had the nation's seventh highest rate of foreclosure. By then, home prices had fallen by more than a third since their peak in mid-2006. "The housing downturn started late in the Northwest and now it's ending late," said Mark Zandi,

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chief economist at Moody's Analytics. Based on his observations, Idaho, Oregon and Washington lagged behind the national cycle and will suffer declines after other areas stabilize. Data from RealtyTrac show that new defaults have declined sharply and nearly bottomed out in states where the real estate crisis hit first, such as California, Nevada and Florida.

There are positive signs in the Ada County foreclosure picture. In December 2011, there were 318 foreclosures in the county compared to more than 900 the previous December, according to the Intermountain Multiple Listing Service. In July 2010, while 1 in 397 households nationwide received a notice of default, auction or bank repossession, in Idaho that figure was 1 in 240 households. At the end of 2010, 1 out of 3 mortgage holders in the Treasure Valley owed more in mortgages than their house was worth, a total of 55,542 homeowners in the region. But the numbers have improved since then. In January 2012, only 1 out of 776 homes in Idaho received a foreclosure filing. Even though foreclosures dropped, Idaho's default rate still remained above the national average, finishing November 2011 with the 16th highest rate. Lebowitz said of the Ada County homes sold in January 2012, 40 percent were in distress. "While that may seem like a big number, two years ago 60 percent were distress sales," he said.

The increased demand from those waiting for just the "right time" to buy a home is a good sign, which in turn should lead to a gradual increase in home values. In addition, there is a noticeable increase in investors buying up properties for investment purposes based on the thinking that prices have hit rock bottom and can't go much lower, if at all. "Investors are coming into the Boise market now more than ever. It's a safer bet than real estate," said Lebowitz. But he said that rather than individual buyers, this time he's seeing large institutional investors like equity firms "roaring into the market" to buy large groups of homes.

Some parts of the Treasure Valley housing market were hit harder than others. In August 2009, for example, 53 percent of homes sold in the Eagle market were short sales or foreclosures. This was a significantly higher rate than other places in the valley during the same period, with Meridian at 41 percent, Boise at 29 percent and Kuna at only 24 percent. There are few solutions for those facing default.

With no equity, refinancing a mortgage is nearly impossible. Negotiations for loan modifications or short sales are also viable options. But this often turns into a drawn-out process that forces some homeowners into foreclosure while they are still waiting for word from their lender. Some homeowners facing foreclosure adopted a new strategy to hold on to their properties for as long as possible. They intentionally stopped making their mort-



Boisedailyphoto.com

Empty windows and vacant condos are signs of recession in Boise's downtown.

gage payments with the knowledge that it could be years before their lender decides to foreclose on them because of the large backlog of distressed properties being processed. This trend of so-called "strategic foreclosures" is a new thing for the real estate market, even to market insiders. "In 16 years of selling real estate, I've never seen the concept of strategic foreclosures being accepted the way it is now," said Shaun Tracy, an agent with Re/Max of Boise. Tracy explained how in the past, if a borrower didn't make a mortgage payment, the bank would almost certainly foreclose within six months. That's not the case anymore. Tracy can personally testify to that. "Right now, I know one person who hasn't made a payment in three years and is still living in the house," he said.

Meridian—a once-booming city—has faced foreclosures, job losses, business failures and slower population growth. Prior to the recession, it was the fastest-growing city in Idaho. According to the Community Planning Association of Southwest Idaho, 25,000 people moved into Meridian between 2004 and 2007. Meridian's northwest area was the hottest real estate spot in a region where the market was already sizzling. Then came the collapse, which hit Meridian and northwest Meridian especially hard

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Buildidaho.com

The average new home in Eagle lost about 40 percent of its market value from 2008 to 2010. Pictured: an aerial view of Eagle.

because many of the homes were built and purchased when housing prices were at their peak. According to Re/Max agent Tracy, "Buyers never got in on skyrocketing appreciation rates, which left many owing more than the house is worth when prices began falling." Data from the Intermountain Multiple Listing Service showed in 2006, there were 1,625 home sales recorded in northwest Meridian, selling for a median price of \$250,000. In 2011, sales totaled 874 and the median price dropped to just under \$145,000.

Eagle provides a useful case study of what can happen when urban planning doesn't go as intended. In some ways, Eagle seems like it was modeled after the prototypical American suburbia. For many years, the upscale community west of Boise grew rapidly, with new development springing up non-stop. At the height of the housing boom, Eagle was an island of prosperity, an affluent community where multimillion-dollar homes were built on

lots that sold in the mid-six-figure range. However, the city itself does not have a large economic base. The small city center does not offer many amenities, and is not very pedestrian-friendly. It is obvious that developers were counting on people with jobs elsewhere (mainly Boise, perhaps some in Meridian) to fill the new homes. That's why when the housing market collapsed, Eagle was one of the hardest hit and was left with an oversupply of construction lots that have found few buyers. The city ranks poorly in nearly all statistical categories relative to the housing crisis, including a disproportionate number of foreclosures relative to its population. The city's population of 21,000 makes up a little over 5 percent of the total in the Treasure Valley. However, in late 2007, Eagle had 1 in 8 foreclosure filings in the valley. That year, 101 homes in Eagle had a date set with the auctioneer. By September 2010, foreclosure filings in Eagle had jumped more than 500 percent since 2007.

Nearly half of the 400 or so homes sold in north Ada County during the first nine months of 2010 were "distressed sales" that included foreclosures, short sales or bank-owned property. According to Ada County Assessor Bob McQuade, assessed property values in Eagle have fallen to \$2.5 billion from \$3.5 billion in the past year (2010) alone. Families, investors and builders have all been badly hurt, especially those trading in large expensive homes. Many developers were ditched by would-be speculative buyers who opted out of buying when home values tanked. In addition, the influx of well-to-do folks from out of state has pretty much dried up. But there are signs the Ada County housing market is improving. "Prices are coming back," said Lebowitz. "Three of the last four months we've had a median price increase ... it's looking positive." However, he cautioned that this is a tenuous recovery "built on fragile glass."

Wells Fargo economist Kelly Matthews said the loss of construction and high-tech jobs in the valley has made the economy of the region "no better than" the economies of Phoenix or Las Vegas. Idaho lost more than 66,000 jobs during the worst recession since the Great Depression. Construction, which was the largest job sector before the recession, took the hardest hit, shedding more than 10,000 jobs between 2007 and 2010. Retail is now the No. 1 economic activity in the state, which is problematic because the retail industry itself relies on consistent growth and solid performance from other sectors/industries. One bright spot is that after 33 consecutive months of job loss, non-farm jobs did grow in 2011, with 612,900 employed as of December 2011, up 7,900 from one year ago. According to the Idaho Department of Labor, the unemployment rate stood at 8.1 percent in

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43 degrees North Real Estate Buildidaho.com

Foreclosures behind the gates of luxurious subdivisions have forced new housing price reductions of more than 50 percent. Pictured: Eagle's Tucson-themed Estates at Corrente Bello.

January 2012 and has fallen for six straight months. For the past year the entire workforce exceeded 700,000, still considerably down compared to its peak of 732,000 in May 2007.

The recession showed us that the financial world today is all interconnected, as evidenced by the far-reaching effects across various sectors and far beyond U.S. borders. A flood of defaults led to a drop in housing prices, which helped to undermine the subprime mortgage market. People became wary of financial institutions, and as the recession wore on, consumer spending dropped significantly, negatively affecting the U.S. economy. The sagging economy led to vacant homes and office space, and the lack of demand for new building caused the once-vibrant construction industry to falter. Homeowners are also cutting back on home improvements and remodeling, so businesses that cater to them are affected as well. Overseas economies are affected because many have a stake in mortgage-backed securities or businesses that relied on the artificially inflated housing market to sustain itself.

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Idaho has felt the ripples throughout every segment of its economy. As a result, services that government provides—education, Medicaid or social programs, to name only a few—have been reduced. Analysts from the financier Warren Buffet to local real estate agents contend that the housing market is the key to recovery. When it rebounds, so will the economy. The question remains: When?

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Steve Xia will graduate this spring with a major in history and Chinese studies. Born in Shanghai, China, he came to the U.S. as a toddler and moved to Idaho when he was in the 4th grade. He graduated from Boise High. He plans to pursue a career either in education or in a field where he can use his Chinese language skills.