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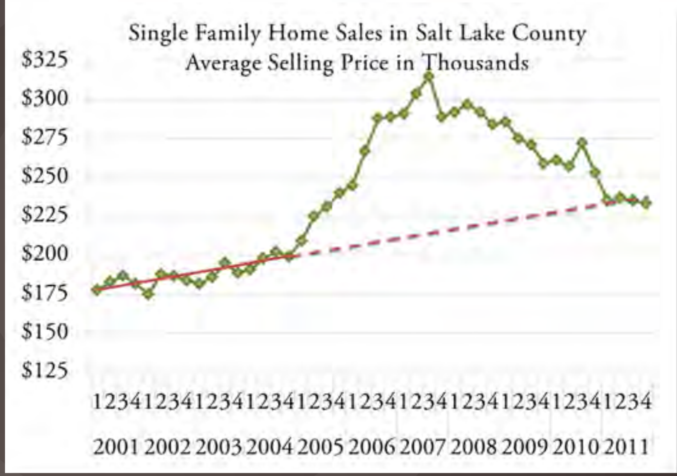
THE PROVERBIAL MARKET 'BOTTOM' *are we there yet?*

by Stephen Karpakis

The quick and simple answer is yes. The Salt Lake Valley housing market has shown signs of stabilizing in 2011. As depicted in the graph, values plunged severely in the second half of 2010, but have subsequently leveled off in 2011 with the average home value remaining fairly constant, right around $235,000, throughout each quarter of the year.



Although the 2011 average single family home selling price of $235,000 is down 9.6% compared to 2010's average of $260,000, a recent surge in sales has likely curbed this sharp decline in values and has contributed to market stabilization. Interestingly, home prices are now down 25% from their 2007 peak and back to a level where they would have been if the more healthy and sustainable upward trend of 3% per year had continued from 2004, avoiding the "bubble" entirely. The red, regression, or "best fit" trend line on the graph demonstrates this.

Current home values coupled with 60-year low interest rates have created a level of affordability, in terms of average monthly payment, which hasn't been seen in over a decade. This is the probable force behind the 9% increase in the number of sales this year over last. This increase is especially significant considering the number of sales were artificially bolstered by tax credits in Q2 of 2010. The fact that the market is self-generating an increase in sales this year, without special tax incentives, suggests values have finally fallen to a point where more buyers are deciding to enter the market versus other alternatives, such as renting or combining households.

Further, the outlook for Utah's overall economy in the coming years is quite good. Utah's unemployment rate has averaged about 2% below the national average in recent years and improved for the third consecutive month in November, dropping to 6.4% from 7% in October. Businesses are now looking at Utah more than ever as an ideal place to invest. Salt Lake City was recently named by FORTUNE as one of the "15 best new cities for business" in the world, along with only one other US city. Utah made the spotlight again for our job prospects in FORBES' "6 Top Job States." Salt Lake has also gained national recognition in regards to its housing market. In a recent article, BUILDER MAGAZINE named Salt Lake City as the # 3 Healthiest Housing Market in the country and predicts our home prices will increase 4.7% in 2012. This ranking is based on several economic indicators tied to home sales. Another bullish forecast comes from S&P'S CASE SHILLER HOME PRICE INDEX which predicts Salt Lake Valley home prices will rise by .3% from Q2, 2011 to Q2, 2012 and 8.9% from Q2, 2012 to Q2, 2013.

Considering our personal experience and analysis of the current Salt Lake housing market along with encouraging economic prospects for our state as a whole, we look to 2012 with optimism. We predict home prices will remain fairly stable throughout the next year. Although some of the forecasts discussed above could be somewhat overly optimistic, we do anticipate modest price gains toward the later part of 2012 and into 2013. An exact market "bottom" may be hard to define, but we believe we are finally experiencing it and sense the Salt Lake Valley market is on the brink of a turning point.

... *but what about* FORECLOSURES?

Foreclosures and distressed properties have probably been the most discussed, and widely covered housing topic by the media in recent times creating a widespread sense of fear about home values. Elevated foreclosure levels over the past few years have indeed had a significant softening effect on the housing market. The Salt Lake Valley is no exception as we've had some of the highest foreclosure rates in the country at times. However, we are now seeing some positive signs through current foreclosure conditions. According to REALTYTRAC data, foreclosure activity (meaning pre-foreclosure notices, auctions, and bank repossessions) in Salt Lake County over the last 6 months has decreased by 32% compared to the 6 months prior. Most mortgages that originated after the "credit crisis," under much tighter lending standards, are performing very well. Therefore, new foreclosure activity should keep decreasing as banks continue to work through the "toxic" loans that were made during the market bubble era, and eliminate current REO inventory. In many cases banks are also granting loan modifications and short sales. The average price of bank-owned properties in the valley has remained fairly constant over the last three quarters and actually increased by about 3% from the 3rd to 4th quarter. This suggests that foreclosure prices have also stabilized and won't have as much negative impact moving forward.

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