The Summit County

Real Estate Insider

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Inside Reports:

Market Plateau In Its Third Year

But Prices Continue to Soar

The continued lack of property for sale in Summit County will hold sales to around the same number, 2150, as in the past two years.

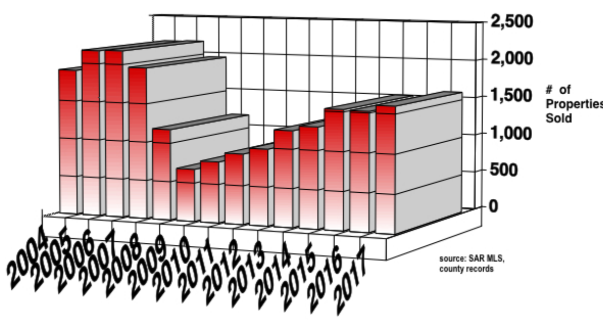
The lack of inventory however, has pushed average prices up quickly this year to about $650,000. Prices may not finish this high by the end of the year, but they will certainly remain above $600,000 for the first time in history.

The last time our market experienced double digit price increases, from 2007 to 2009, it was followed by about seven years of slow or negative growth.

Even that period wasn't a disaster though. Average prices declined by a total of 17 percent between 2009 and 2011 and have now increased by about 38 percent to new record highs.

Over the past 30 years, Summit County real estate has gained an average 6.6 percent per year. This is pretty strong performance compared with any other investment despite what your stock broker tells you.

Number of Summit County Properties Sold Through the First 3 Quarters
2004 - 2017



Yes, there are dues, taxes, maintenance and other costs. But you can't spend a ski week in your mutual fund or rent it out when you aren't using it.

The question is: why has the inventory continued to drop over the past 5 years? Why are there so few sellers?

Here are a few possible reasons.

Boomer inertia. When you've owned something for several years, maybe paid it off or rented it enough to pay for a lot of it, there's no apparent reason to sell it. It's working. And just now you're retiring and will finally be able to use the place for months instead of weeks. It's the plan. Just stick to it.

Value. You bought in 2008 or 2009 at a (for then) record price and have been waiting for the value to recover to the level you paid. Now it has and prices seem to be going higher so you wait a little longer to finally make a little profit on the place. You and about 5000 other owners who bought in those years are not selling.

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It's another autumn in Summit County.

Leaves turned just before it snowed but were still golden as our brief Indian summer weeks began.

New residents and old hands alike are anticipating ski season.

The Porsches are migrating to Summit County as they do every year before the newbies realize they don't work here in the winter.

And a lot of us will take a vacation to warmer places before winter actually sets in.

Yes, it's another autumn in Summit County.

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I welcome your correspondence, comments, corrections, requests for more information, requests to just shut up, subpoenas, encouragement, pats on the back, bottles of Wild Turkey, cash, checks or money orders.

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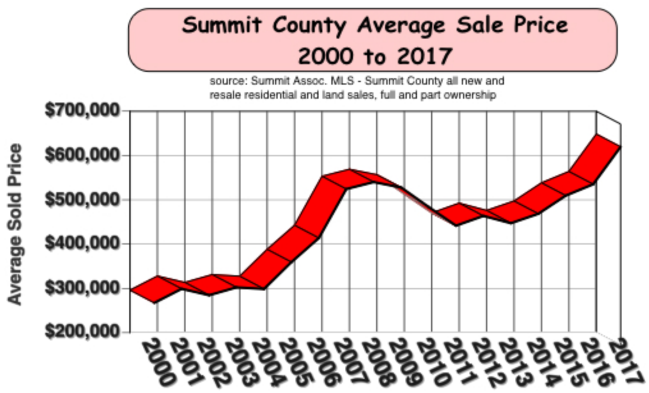
Other arrangements. During the seven lost years you decided to put the property in trust for the kids. They'll inherit and get the stepped up basis and lower the capital gains when they sell. Or you gave it to your favorite charity and took the tax advantages.

Stuck in place. You'd love to sell the place and buy a bigger one, but the replacement property you want has become really expensive… if you can find one. And you don't want to sell before you buy, but you can't buy until you sell. You're stuck.

Waiting for tax reform… and the tooth fairy. Any day now the capital gains tax and all income taxes will be eliminated or greatly reduced and you'll get all the money instead of just two-thirds when you sell.



So there are a lot of different reasons why no one is selling.

What will change this? Why would people suddenly decide to sell in normal or greater numbers?

Death. Boomers who built this market with the most disposable income in history will begin to pass away in greater numbers. This is a gradual process that will take another few years to really impact the market.

Taxes. Tax "reform" that changes the current advantages of property ownership: depreciation, mortgage deductions, 1031 exchanges, etc. If the government stops subsidizing real estate purchases, many will sell. This happened in the mid-80's when depreciation rules changed.

Income inequality. Certainly the absolute number of very rich people will increase as the general population increases, but the percentage of population with the disposable income to buy a second home will decline as income inequality increases.

Catastrophic economic decline. Another depression of the magnitude and suddenness of the 2009 melt down will drive a lot of marginal owners to sell. But by then prices may be down again and we'll have 3000 properties for sale and sell maybe 1000 as happened in 2010.

Random tweets. Second home buyers and investors in general require stability and certainty to risk their money. We have neither right now and business conditions could change at any time.

Climate change. No snow, no skiers. Less snow, less skiers. Pretty simple, eh?

This is a market like we haven't ever seen in Summit County before. For over 20 years, prices never declined in Summit County and then only went sideways for a couple of years.

Until 2009… the year we became a normal market with ups and downs and plateaus.

But the reasons to buy a second home in the mountains have not changed. Successful owners are the ones who bought to enjoy living in a unique area different from where they come from. They are in it for the long haul, not fix and flip profit.

Going forward they will be the ones who cope best with our new cyclical market, who don't watch the day-to-day price changes like it was the Dow. **Who take the enjoyment of living in Summit County as part of their lifetime compensation.**

The solitude of a 14,000 foot mountain top… along with 300,000 of your closest friends. That's the estimate of how many times Colorado's 14'ers get climbed per year. It's getting attention due to the dozen or so deaths on those peaks this year. Having often found a giggling group of Texas kids in T-shirts and flip-flops up there, it's always been a mystery why more of them don't die. Guess Darwin was wrong.

Resistance is futile… prepare to be assimilated. Most of Utah skiing is now owned by Colorado companies. Aspen Skiing bought Deer Valley this year and Vail assoc. jumped on a lease that Park City had failed to renew in time so every ski area in striking distance of the Salt Lake airport save one is owned by two Colorado companies. And most major skiing in North America is in the same boat. In Summit County… home planet of the Borg. We don't even think about it any more.

After a couple of years without a big bike race… one came back this summer. The Colorado Classic spent a day racing around Breckenridge. It's not as epic as the USA Pro Tour, but it's good to have the event return for a while. As both ski and bike racing have proven, however, Coloradans would rather be doing than watching, so crowds and the revenue they bring, are hard to come by.

No college, no theater, no nuthin'… certainly not a 48 unit complex in Dillon next to the CMC building. Once again, forces in Dillon want to stop development as happened with the Lake Dillon Theater (went to Silverthorne) and the Colorado Mtn. College expansion (went to Breck). With no new buildings for 20 years and a town center that has never launched, recent town approval for the Dillon Flats complex threatens to break the streak. Maybe guard gates like in Beaver Creek would cut down traffic.

What to Know About Shared Ownership

Your options range from solid to sketchy

Occasionally buyers and sellers ask about shared ownership. How does it work, what is a share worth, are there any available?

It's a complex question and every share situation is different. Sharing a property can work well for some, not so well for others and the difference is in details of the share set-up.

Often the owners are a group of friends that go together to buy a property and share the use. It's pretty loose. Often they don't bother with a written partnership agreement or maybe even a calendar of use. They are all friends, after all, and have owned the place forever and there's never been a problem. Then one of them wants to sell his share.

What do we do now? How do we decide what price to ask? Do the others get a chance to buy it first? How do we decide who to let into the partnership? If none of this is written down anywhere or hasn't even been thought about, new owners are walking into an unknown situation.

Other times the owners have covered all of this in a written agreement, maybe even formed an LLC to run the property. These partners generally have a set calendar of use, a budget, rules and an exit strategy. This kind of shared ownership has more value and is saleable because new owners can understand what they are buying into.

The most organized situation is a Quarter Fee Association or some other arms-length management entity. It administers the unit, sets and enforces the rules, collects dues and maintains the property. These shares are freely transferable and pretty easy to buy and sell.

Any shared interest will be hard to finance and shares generally sell for cash. Sometimes another partner or the seller will finance for the new owner. Sometimes, one partner got the loan and sold shares without telling the lender so the lender thinks there is one owner. You can imagine the risk in this.

The best financing strategy is for the buyer to use a line of credit from another property for the cash to buy the share.

Generally, quarter ownership is the smallest fraction that maintains its value. There are fifth shares, tenth shares and timeshare weeks but anything less than a quarter is generally hard to sell for what you bought for.

As to time shares, you only need to know that they are not real estate and not an investment. The real money for timeshare operators isn't from selling all the weeks. It's the ongoing dues from 52 owners for each unit. You can always rent a week or two just like at a hotel without buying into the "opportunity" to trade weeks. **Just say no to time share.**

If you are part of a small share partnership and want to sell, your easiest exit is if another partner buys you out. If many of the partners want to sell, selling the whole property will bring the partners the most return.

No matter what kind of shared interest you have or want, be sure there's a written agreement that outlines all of the rights and responsibilities of the owners.

Otherwise you are a test pilot.

Ridiculously Low Inventory Still Hinders the Market

This has been an exceptionally up and down year for sales in the County.

In the first nine months, three have had significantly lower numbers sold than in the previous year. September was the latest with eleven percent fewer sales than the previous year. **This is troubling because August, September and October usually bring the highest number of closings for the year.**

August was up by only four percent. **October needs to be busy to bring the market back up to last year's total number of sales at 2107.**

There have been two months with significantly more sales than the year before. The rest have followed last year pretty closely.

Average prices, on the other hand, are still well above $600,000. Again, this is the first time in history that the average sale price has been above that number. It looks like prices will stay at this record high for the rest of the year.

Both of these trends are the result of the near total lack of attainably priced inventory. At the start of October, the number of properties offered fell back to just over 700, about the number that were offered last May.

There have never been even close to 1000 properties on the market at one time this year.

And many properties that are listed are vacant land. **There were only 440 residences for sale at the beginning of October and only 235 of those were priced at under $1 million.**

For reference, 1179 residences sold for less than $1 million through September while 239 sold for more than that.

Yes, the million-dollar market is still over supplied and the under $1 million market remains severely under supplied.

New construction can't fill the gap in Summit County. There isn't enough land left to build on and that which can be built is too expensive to make sense of building lower priced residences.

There is no relief from this situation. **When demand spikes in the future, the affordable/attainable market will disappear.**

With Dillon Valley East one-bedroom units going for nearly $200,000, it probably already has.

The model for this kind of market is Aspen. It, too is surrounded by National Forest or deed restricted land and is largely built-out. There is essentially no affordable housing for 40 miles and prices average in the mid-millions.

Summit County has already experienced the demise of the under $200,000 market with only 100 or so sold this year, usually in minutes. A grand total of seven residences sold for under $150,000.

While prices may... probably will... decline in the future, we'll probably never see the average price under $500,000 again.

No wonder no one's selling.

Pricing: It Really IS Rocket Science

To end on the 9 or to round up to 0: how best to price a home for sale.

Charm pricing, i.e. just below a round number (think: $9.99 or $399,900), is a common way to price anything, real estate included. And some research confirms that this can work.

Researchers have found that lower-priced houses (below $300,000) sold for significantly more when using charm pricing than similar houses listed with a round-number price. Higher-priced homes ($300,000 to $1 million) benefited from listing prices ending in $5,000 or $9,000, rather than a number that has been rounded to the nearest $10,000.

"Charm" pricing works because of something known as "the left-digit effect": prices ending in "9" are seen as significantly smaller numbers than their rounded counterparts, as long as the number on the far left is smaller than the rounded number. (For example, $2.99 is perceived as close to $2, even though it's only one cent from $3.)

By contrast, other studies have shown that "prestige pricing" can also work because rounded numbers are more easily processed in the brain, and therefore they may feel right.

But more often pricing has to do with how to maximize internet searches.

Pricing at $399,900 can lose the searchers beginning at $400,000. Attracting attention with an odd ending number won't matter to internet searchers, but might in print ads.

And "charm pricing" is most likely to bring a higher sale price in the lowest end of the market. In the $300,000 and up range, common in Summit County, "prestige" pricing - round numbers - is the better way to go.

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