Mesa County Real Estate Report

Second Quarter 2008
ADVANCED TITLE TECHNOLOGY

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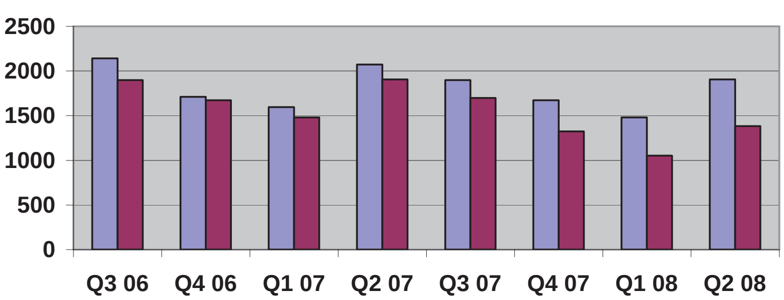
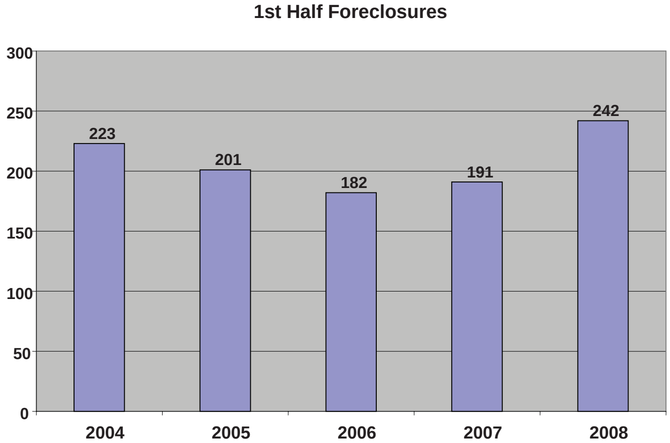
A year ago, a Realtor friend asked me if four consecutive quarters of real estate sales declines should be cause for concern. I suggested then that the decreases were all relatively small, but they certainly revealed a trend to watch. Today, after another four quarters of declining sales, and in widening amounts, we find ourselves in the midst of a real estate recession and a broad market adjustment that may take another year to reverse. The graph below shows a comparison of the quarterly sales for the last eight quarters when compared to the same quarter a year earlier.

The irony for the real estate market is that it is facing sales declines in the face of an otherwise healthy local economy. Jobs drive an economy and jobs are plentiful in the Grand Valley with good job growth and a very low unemployment rate. Retail sales collections by the City of Grand Junction continue at a brisk pace and are up nearly 10% year to date from last year. Foreclosures are up a tick and are currently of no real consequence for the economic well being of the community.

Quarterly Sales Comparison

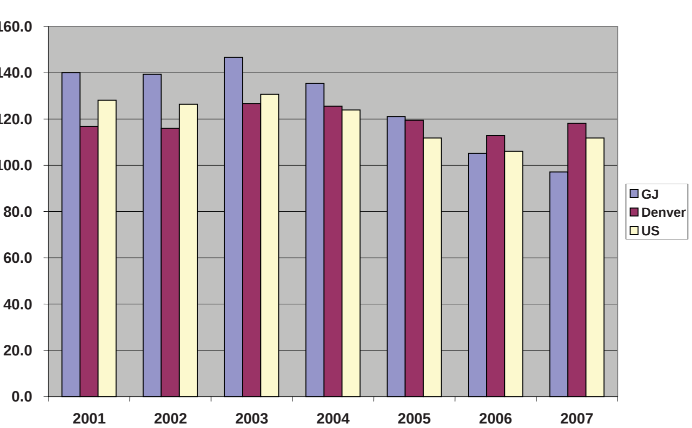


1st Half Foreclosures

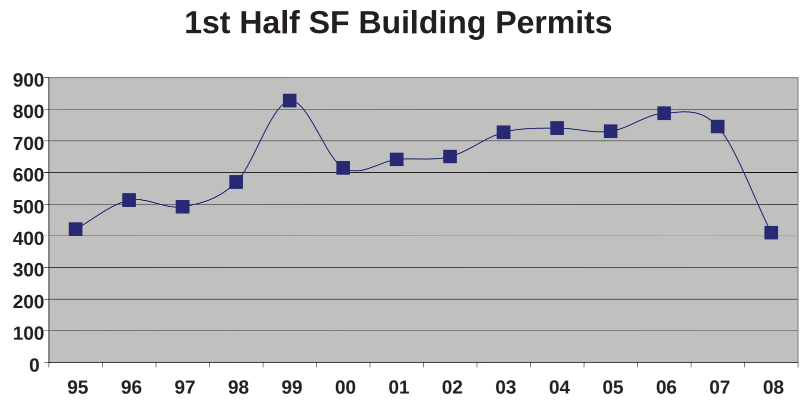


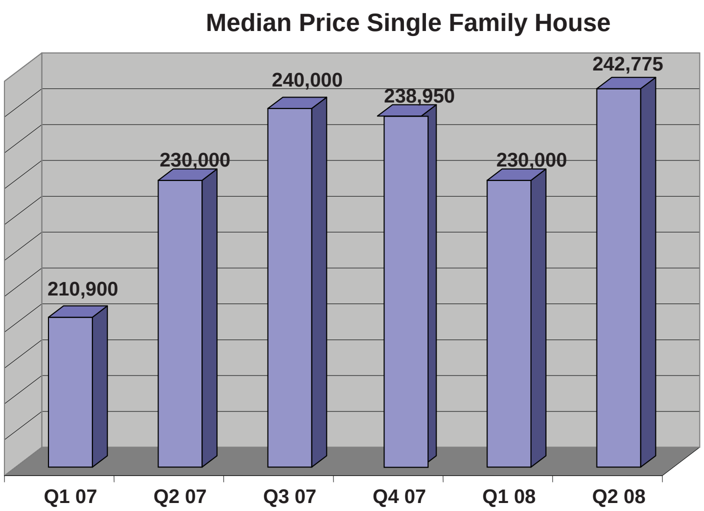
The primary culprits of the recent real estate slowdown are three-fold. First, hefty property appreciation from 2005 through 2007 pushed many first time home buyers and some move-up purchasers out of the market. Second, people moving to Grand Junction were often stalled in buying a home by their inability to sell their existing home. And lastly, the national mortgage market has tightened credit for borrowers as a result of the subprime meltdown and a continuing concern for the financial stability of the large secondary market players, Fannie Mae and Freddie Mac, and the banking industry in general. This has made it more difficult for consumers to secure home mortgages or other financing. So, despite Mesa County's insular success economically, residents are feeling the effects of negative national conditions. Credit markets will eventually find a balanced footing and Congress is determined to legislate some level of consumer relief before elections. This should alleviate many of the effects of the national trends and leave local residents to deal with the main cause of the local sluggish market – the quickly appreciated residential values for lots and houses from 2005 through 2007 which has left housing in the Grand Junction area housing less affordable than in Denver and the United States as a whole. Housing used to be far more affordable in Grand Junction than in Denver, relative to the median income. That has now reversed, as the graph below demonstrates. The index is a relationship between the median income of a family and the median price of a single family house; the lower the index, the less affordable the housing stock.

Housing Affordability Index



Two solutions for the affordability dilemma are (1) a substantive increase in wages and salaries for consumers or (2) a reduction in property values; or a combination of both. Historically, any increases in wages and salaries are meted out in small increments as employers react to a tight labor market. A more likely scenario is that property values will level off or decline to a point where buyers find the market to their liking and a better balance exists between the median income of a family and the median price of a house. It appeared that prices were headed in the correct direction since the high median price in the 3rd quarter of 2007 with declines in the following two quarters. However, the median price of a single family house shot up to $242,775 in the second quarter of this year. This does not help the affordability equation for the average consumer, even in the face of a handsome 10% increase in the median income for Grand Junction area residents in the last year.





Here are the numbers for the second quarter. There were 1382 sales in the quarter, down 27.5% from the 1906 sales in the second quarter of 2007. Year to date, there have been 2436 sales through June, compared to 3387 sales during the first six moths last year; a 28% decline. Sales volume for the second quarter totaled $434 million, a 16.5% drop from the $520 million for the same period in 2007. Likewise, sales volume reported a year to date decline of 13.2%, from $863 million in 2007 to $749 million this year. Some notable sales for the quarter are as follows:

1. The sale of the Residence Inn on Horizon Drive to a Delaware corporation for $12,229,100.
2. The purchase by Delta Petroleum of Denver of a large land parcel near Collbran for $15,685,000.

As expected, single family building permits dropped in the second quarter. Banks tightened credit for most lending, including construction lending, and prudent builders are selling off some of their “spec” inventory before taking on more debt and risk in a declining market. An inventory index that shows the number of months on the market for certain price segments confirms that the $500,000-$800,000 range is a particularly soft spot in this market, and that the sub-$400,000 range for housing, resale and new home construction, is still relatively healthy. There were 227 permits pulled in the second quarter, a reduction of 46% from the 418 permits issued a year ago. For the year, there have been 410 permits issued, an overall decline of 45% from the first half of 2007. At this pace, we expect to see annual single-family permit activity at the 1995 levels.

The home building industry is one of the best economic forces in a community. Funds for residential construction is re-circulated throughout the local economy and causes a very favorable economic multiplier effect for the local economy. According to the National Association of Home Builders, there are 184 direct and indirect jobs supported by every 100 single family homes built, and another 100 jobs supported by the economic ripple effect from those 100 homes built. Based on current trends, the Grand Valley will experience a reduction of approximately 600 single family permits by the end of 2008. This will result in a loss of 1100 jobs in residential construction and related industries and another 600 jobs based on the economic ripple effect for single family construction. The added result is a $96 million reduction of local wages, salaries, and business owner’s income and a reduction of nearly $11 million in local taxes and fees.

Another effect of a slowing housing construction industry, particularly with a growing population, is the added crunch on the residential rental market. The second irony is that while there is a growing demand for rentals, bank credit tightening, as mandated by state and federal regulators, has made it even more difficult to build new rental properties. This will exacerbate what is the tightest rental market in 30 years. Some home builders may package small groups of their inventory for sale to investors who will use the houses for rentals but, by and large, good rentals are derived from the sub-$400,000 price range, the very group that is selling the best at this time. Investor purchases of new houses for rentals will provide only a modest solution to the rental dilemma.

So, what to expect in the next 12 months? Well performing banks will loosen credit when they can convince regulators that market conditions are suitable to extend credit further. The federal government will provide some consumer relief from foreclosures and will shore up the two elephants in the room – Fannie Mae and Freddie Mac, in order to maintain a sizable secondary market and consumer confidence. Interest rates will go….. …Jury still out on that one; inflation is a real concern. Locally, the housing market will continue to adjust, finding the right price in all price segments and local mortgage lenders will continue to make loans under a new set of rules. All home builders will reassess their business plans to find a way to survive while preparing for a ramp up sometime in the second half of 2009.

Bob Reece
President