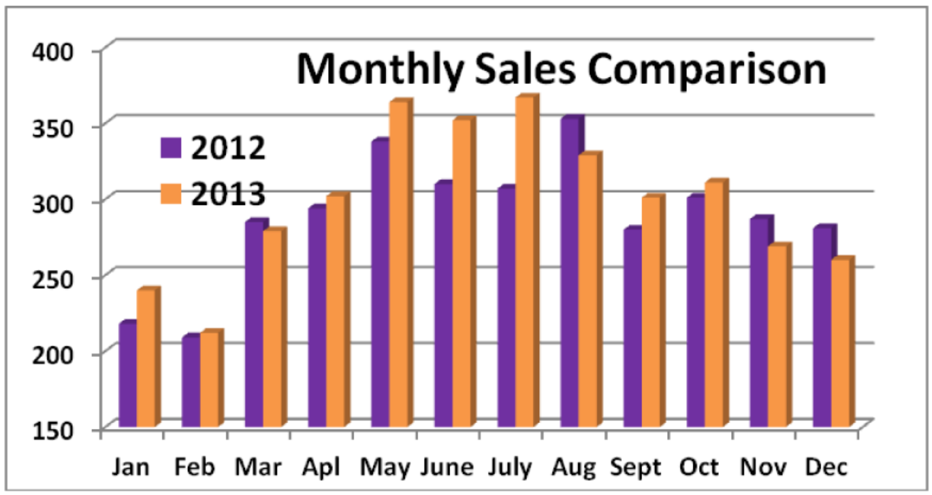
mesa county

Real Estate REPORT

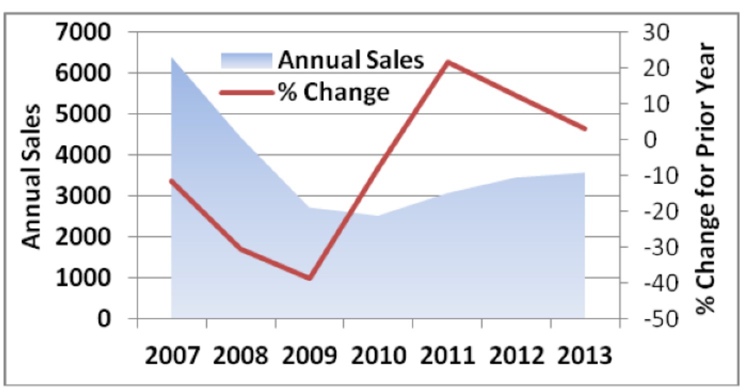
Real Estate Recovery Unimpressive

Q4 2013

Before we take a look at some details of the local market, a quick review of some of the main factors that affected the market throughout the year may be helpful. (1) Interest rates rose a whole percentage point since the beginning of the year with bond prices taking a beating. A new FED chairman has been approved, so it is still speculative what path the FED will pursue under a new chief. Odds are that the FED will not tamper much with the marginal success they have had with QE1 and QE2. (2) Energy companies have redeployed some of their assets from the Western Slope to areas of the country for more favorable returns, causing some energy and energy-related workers to leave the area. (3) No solution has been found to rein in the apparent folly of the GSE's of FNMA and Freddie Mac, so those secondary market players look to be intact the coming year. (4) Obamacare or the Affordable Care Act is now in the real estate business with a tax on certain sales. (5) The number of people gainfully employed in Mesa County was stagnant throughout the year and employment participation trended downward making the unemployment rate look better than it should. (6) City and County budgets were tightened as prospects of increasing tax collections dimmed.



While most of the Front Range is enjoying a resurgent real estate market with, in some locales, prices at all-time highs, the market in Mesa County is trudging along with modest improvement. Real estate sales totaled 840 in the 4th quarter of this year, a 4% decline from the 876 sales in the last quarter of 2012. That brings the year-end total to 3586 sales in 2013, an increase of 3.3% over last year's total of 3470. Eight months of 2013 reported sales in excess of the comparable months of the prior year. While sales were 8% ahead of last year through July, they did taper off in the final 5 months. Dollar volume improved 13% to \$769 million from \$681 million in 2012. Year over year, market improvement was best in 2011 but the rate of improvement has diminished the last two years. The real estate market has lost some of its momentum and appears to be stuck in 2nd gear - moving forward but not at a healthy pace.



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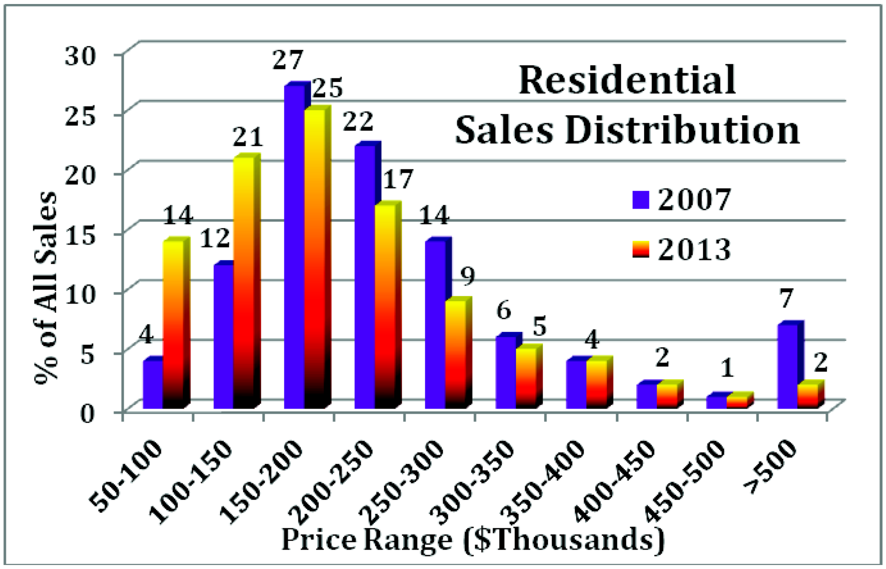
Price Range Shift

The price range that that contains the greatest number of sales in the residential market today has shifted downward from the peak in 2007 as shown on the sales distribution graph below. The largest percentage increase from 2007 is in the under $150,000 price range, while the largest decrease in percentage of total sales is in the $200,000-$300,000 range. This shift downward in price is based primarily on sales of foreclosed homes in the last 4-5 years.

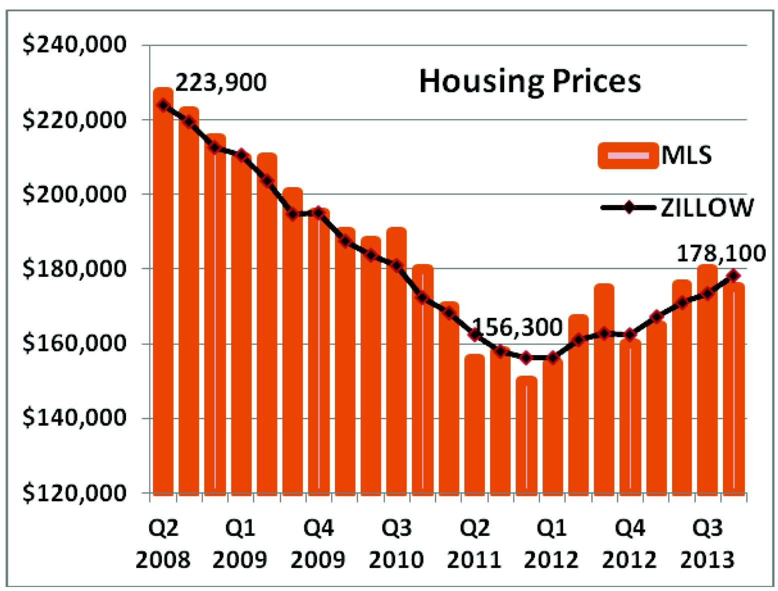
Both the local Multiple Listing Service, through its median sales price, and Zillow, through its House Price Index, report a 9% increase in housing values in the past year. Housing values for both entities generally trend in the same direction, but in the fourth quarter, the MLS reported a 2.8% decline to $175,000 in the median price of residential property, while Zillow reported a 2.8% increase to $178,100. Zillow does not use median prices to arrive at its housing values and is probably a better indicator at the macro level. Zillow has forecasted an appreciation rate for the Grand Junction area real estate of just under 5% for 2014.

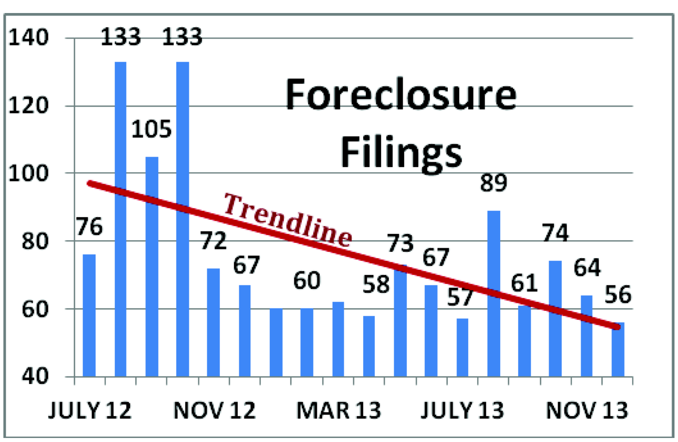


Improvement Ahead

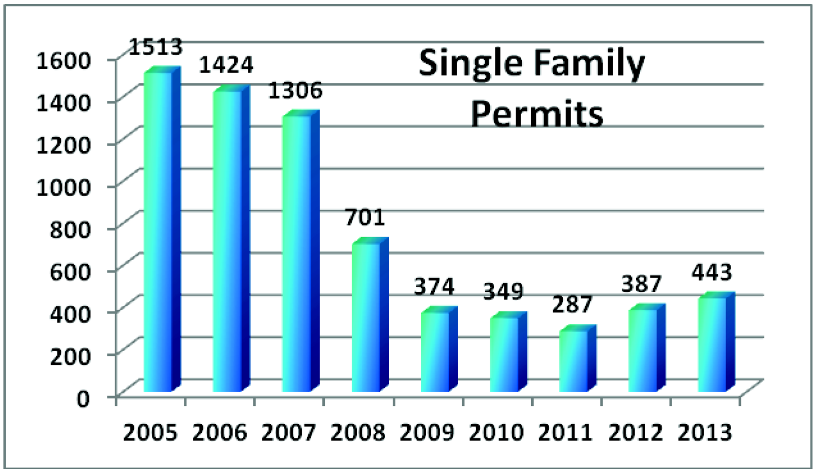
There are a few promising trends in the Mesa County market. The percentage of residential sales by HUD, VA, FNMA and Freddie Mac has dropped from a high of 25.3% (691 sales) in 2011 to 17.2% (500 sales) in 2013. All sales of foreclosed property by the national government or its GSE's, or by any lender for that matter, produce a downward pressure on prices.

Another positive trend is that foreclosure filings and sales, a precursor of eventual sales by lenders and government entities, have been on a decline since October of 2012. The concern of "shadow" foreclosures never materialized in Mesa County.





Home building has continued to improve, albeit at a slow pace since the low of 2011, with 443 single family permits being issued in 2013. Two companies accounted for 30% of all permits issued and not surprisingly the houses are focused on entry level prices. With existing houses at the low end of the price spectrum being gobbled up at a good pace, some home builders have found an active market for new housing at the same price point.



Housing affordability is again a plus for Grand Valley residents – for those that may be able to take advantage of it. It is ironic that in the past 10 years, the Grand Junction MSA was the most affordable MSA in which to purchase a house, then the least affordable, now perhaps once again the most affordable. Housing affordability takes into account the (national) mortgage interest rate and the local factors of median price of the house and the median income of a family.

What's in store for 2014? The FED seems diligent to usher a soft landing from the quantitative easing they have directed since 2008. We expect any rise of interest rates in 2014 to be modest leaving rates at still a very attractive level for any borrowers who might qualify. Builders should still be able to move their product in the affordable level as long as interest rates do not spike. Lenders will continue to adjust to the new reality of living under the Consumer Financial Protection Bureau and changes in lending guidelines and compliance – lending money will not be made easier in 2014. Consumers in the Grand Valley will continue to utilize the services of a Realtor. Realtor participation in residential sales reached 93% in 2013.