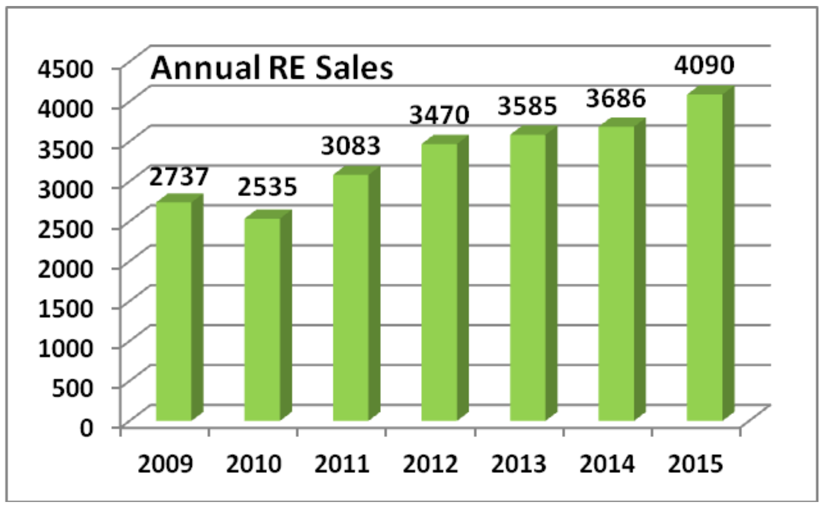
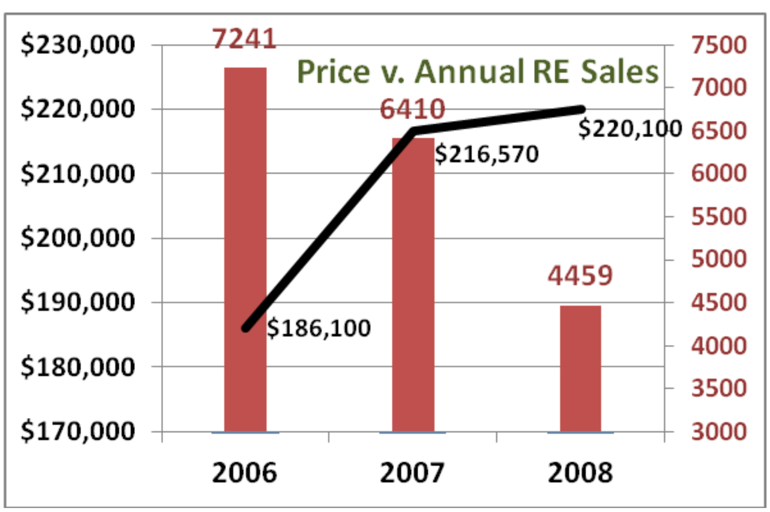
Mesa County REAL ESTATE REPORT Q4 2015

BOB'S TOP STORY

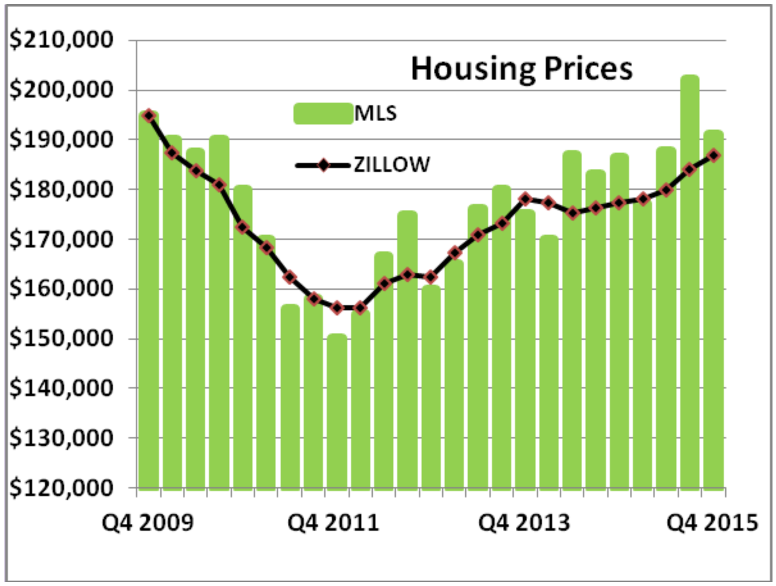
Real Estate Sales Improve



The year ended with 10 months of 2015 experiencing improvement in real estate sales over their counterpart months a year earlier. A look first at the 4th quarter shows real estate sales increased 8% for the quarter, from 937 in 2014 to 1013 this year. For the year, reported sales reached a total of 4090, a solid 11% ahead of 2014. However, 84% of all sales went for a dollar amount under $300,000. The market was brisk for lower priced properties but there remains a reduced market for the mid and higher priced properties. The local real estate market has nearly recovered from the beginning of the "Great Recession" started in 2008 when there were 4459 sales that year. This is still only 56% of the total sales in the heyday of 2006 when Mesa County witnessed a total of 7241 real estate sales. Looking back for perspective, a nationwide conversation started in 2008 about housing "bubbles" and how public officials could better predict an eventual "burst" in prices. Most analysis centered on the ratio of the median housing price versus the median income for a family. When housing prices rose much faster than salaries and wages, affordability dropped and a price bubble was created. In Mesa County during the years of 2006 -2008, the median household income rose 23% while the median house price rose only 18% so it would appear that a bubble was not in the making. However, the number of real estate sales declined by some 38% during that same period. Clearly, there was a disconnect between apparent demand with rising housing prices and the volume of real estate transactions.

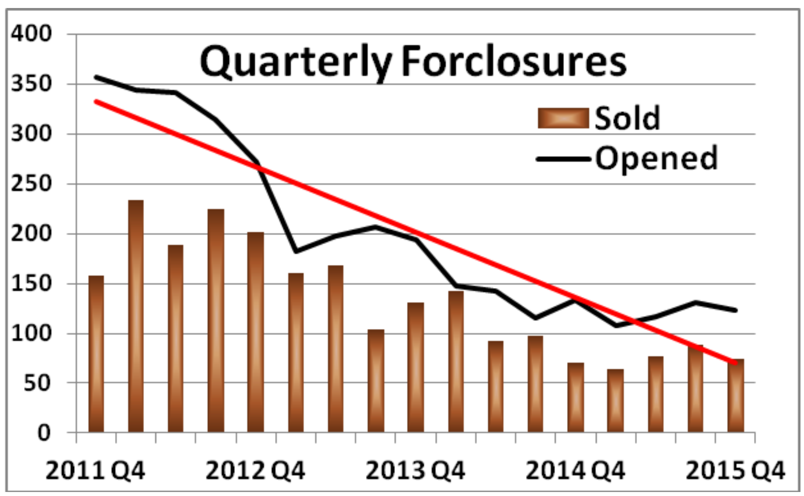


Median housing prices dipped some in the last quarter from $202,000 in the 3rd quarter of 2015 to $191,000 in the 4th quarter, according to the local Realtor Multiple Listing Service, whereas Zillow reported a slight increase in their House Value Index (median value versus MLS median price), from $184,000 to $186,000 using their available October and November figures. Based on historical numbers, it appears the 3rd quarter MLS number of $202,000 was an anomaly. Housing values for the county saw an appreciation rate in the 4% range for 2015.

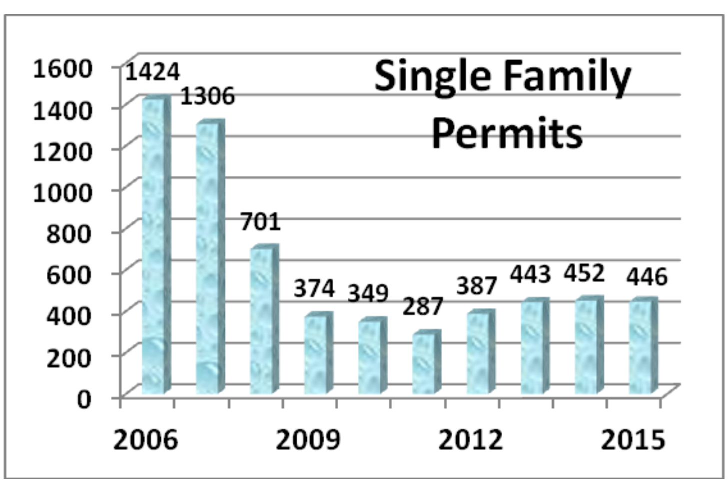


OTHER KEY FACTORS

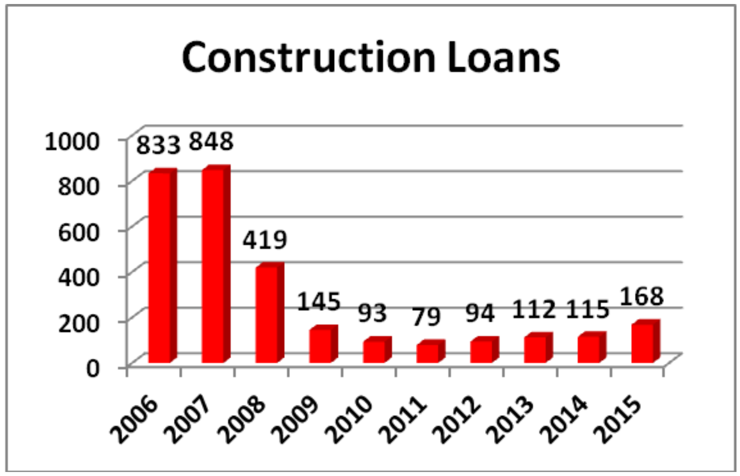
The decline in foreclosures has been a positive economic factor in the Grand Valley for the last few years. The number of foreclosures initiated through the Public Trustee's office is reaching a normal level for a population the size of Mesa County. The pace of decline is slowing than in recent years, but the trend line is still heading in a good direction. Foreclosures that proceed to a sale have also declined in similar fashion.



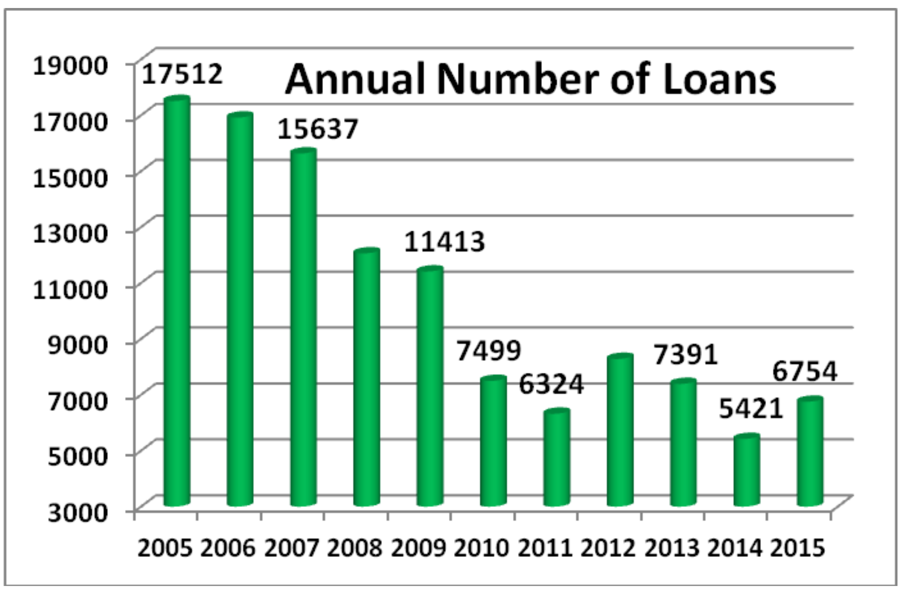
A corollary to foreclosure activity is the number of sales by HUD, the Veterans Administration and the GSEs of Fannie Mae and Freddie Mac after they have acquired property following foreclosure. As a group, they accounted for 25.3% of all residential sales in 2011, In 2015 that percentage has dropped to 5.5%. HUD and the VA, along with the GSEs can afford to take less for a property than the private market, thereby pushing prices lower. A lessening of their market influence is a boost to free market pricing.



Fourth quarter permits for single family construction rose 26% over the same quarter from last year. There were 134 permits issue in the quarter compared to 106 a year earlier. However, for the year, there were 6 fewer permits issued than the previous year; from 452 in 2014 to 446 this year. Single family construction is a good measure of economic health for a community. Not only does it have a very positive economic multiplier effect, it is also an indication of the ability of consumers to purchase a new home and the confidence to make a long-term financial commitment. Mesa County is hovering at approximately one-third the level of single family construction when population growth was 2.5-3.0 % per year.



Construction lending rose slightly in 2015 with 168 loans funded for the year. Timberline Bank and Home Loan State Bank were the two leading construction lenders by some measure with 39 and 36 loans funded respectively. Other lenders were as follows: Grand Valley Bank (22) – Bank of the San Juans (19) – Alpine Bank (16) – Bank of Colorado (16) – Vectra Bank (5) – ANB Bank (3) – Wells Fargo (2) – Others (10). It is unknown how many construction loans were funded privately since these lenders are not filing the State required Disburser's Notice. We do have anecdotal evidence that private funding of residential construction has become a substantial segment of residential construction financing.



Overall lending rose 25% this year with a total of 6754 Deeds of Trust recorded versus 5421 in 2014. Recorded loans have been bouncing along at about one-third the normal level since 2010. All during this period, the Fed Funds Rate has been 0.00%-0.25% in an attempt to encourage banks to lend at a time that qualified borrowers were sparse. The FED has now raised the FF Rate the smallest amount in the last month essentially to see how the markets would respond. They have also encouraged housing loans by pushing down mortgage rates to remarkably attractive levels for consumers during this period with a 30-year mortgage at 5% in 2010, declining since to around 4% today. The economy has been in an growth trough for most of the last 6 years, but there are signs in some of the largest markets that inflation may become a concern again which would spur additional rate increases by the FED. Despite declining unemployment rates, there are still large numbers of underemployed, the lowest employment participation rate since 1977, and industrial capacity utilization at its lowest since 2013. The possibility of rampant inflation seems to be illusory, so we expect a modest rise in mortgage interest rates this year unless there is a large unexpected event that would change the economic outlook.

LOOKING FORWARD

An ongoing concern has been that Mesa County will not have recovered fully from the Great Recession before mortgage interest rates begin to climb as predicted now for some 4 years. An upward push in interest rates for mortgages would place extra buden on consumers to qualify for loans. Higher mortgage rates also tend to slow down appreciation of housing values. We believe there will be a modest rise in mortgage interest rates this year and this will have a small effect on the overall real estate market in Mesa County.

Resetting of adjustable rate mortgages to a higher rate may be a cause for concern but lenders now have better modification processes in place to measure the real ability for a borrower to absorb any additional burden of a mortgage payment increase.

At the beginning of 2016, there is only a 3.8 month inventory of all available properties in Mesa County. Clearly, this market is in need of more properties to be listed and available to the market. New single-family construction will fill some of that demand but we will have to wait to see if single family builders can fill the gap of the departure of the largest production builder in Mesa County.

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