

The **Kearney** Report

Boulder County Real Estate Report



WELCOME TO
COLORFUL
COLORADO



Fourth Quarter 2017

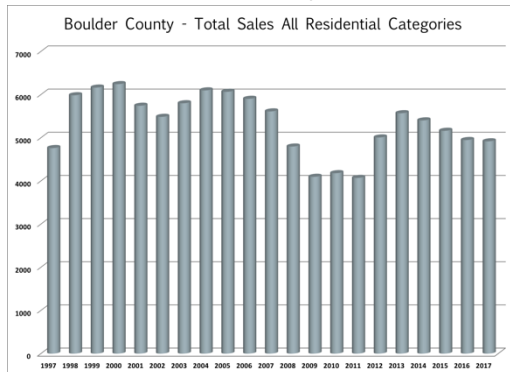
Neil Kearney

2017 YEAR IN REVIEW

Half-way through 2017 we saw a shift in the Boulder area real estate market. The first half of the year was a continuation of the very hot market we experienced in 2014-2016 with rapid price appreciation, low inventory and a strong sellers' market. During the second half of the year we experienced a softer market characterized by homes staying on the market longer, more price reductions and more balanced negotiations.

Here are some of the key statistics in Boulder County from 2017:

- Total sales were down 5% to 4,680 sales.
- The median price for all sales in 2017 was \$480,000 which is up 6% from 2016.
- There were 490 sales that exceeded \$1 million during the year which is 64 more than a year ago, 124 more than two years ago and 301 more than five years ago.
- At the end of December there were just 777 residential properties on the market in Boulder County and 331 of these were already under contract. This represents a low mark since I have been keeping track.



Over the past 10 years, owning real estate in Boulder County has been a great investment. Cumulative appreciation since 2007 has exceeded 60% with most of that occurring during the last five years.

WHAT'S BEEN DRIVING THE MARKET?

The United States is 8 ½ years into an expansion. This represents the 3rd longest consecutive expansion period since the Great Depression.¹ Colorado and especially Boulder County have benefitted from the strong economy. Colorado added approximately 60,000 new residents from migration and 56,300 new jobs in 2017. The unemployment rate in Colorado is 2.5% which is second best in the nation. Boulder County's

unemployment rate is 1.9%.

People come to Colorado for the strong economy, the sunny climate and the outdoor lifestyle. Telecommuting, e-business and a proliferation of startups is allowing many people to make their Boulder dreams come true. Colorado has an especially young population, 55% are between the ages of 20 and 59 and 25.4% are 19 or younger.² Despite earlier reports, millennials are in the market for and are buying homes.

Colorado's population is expected to continue to grow. The current population of 5,538,180 (in July of 2016) is expected to grow to 8,461,000 over the next 30 years. With the proliferation of young, educated and a relatively highly paid workforce (\$54,664 in Colorado and \$74,615 in Boulder County³) it seems that Colorado in general and Boulder County in particular are set for continued growth.

Recently there has been a shortfall in new residential housing. Builders are building and neighborhoods are sprouting up wherever there is vacant land but the demand from newly formed households still exceeds the supply. Many of the newly constructed units of the last few years have been rental apartments and it seems that there is a bit of softening in the "for rent" market.

WHERE ARE WE IN THE REAL ESTATE CYCLE?

Real estate is cyclical. There are many factors involved, but the peaks and valleys of the real estate demand and value have been shown to have a relatively consistent cycle of approximately 18 years. Economist Homer Hoyt made a detailed study of the Chicago real estate market and the broader United States real estate market and found that it has run its course in a steady 18 year rhythm since 1800. There have been exceptions that have disrupted the normal cycle such as The Great Depression, World War II and the post war boom; but on average, the business cycle and the real estate cycle have been very consistent including the 18 year cycle than ended in 2008.

The infographic on this page shows the four phases of the real estate cycle; recovery, expansion, hyper-supply and recession. The last cycle ended in 2008 and we are almost 10 years into the recovery and expansion. To read more about this subject including the details of each stage of the real estate cycle go to www.NeilKearney.com/2017/12/05/the-real-estate-cycle-where-are-we-now/

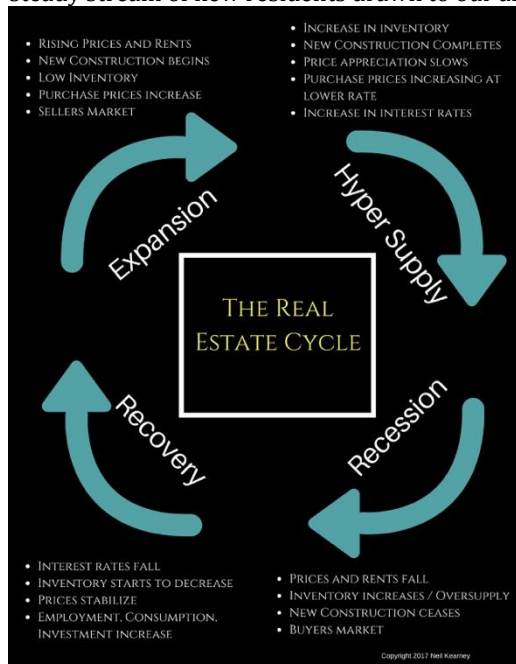
¹ Leeds Business School's "Colorado Business Economic Outlook 2018"

² IBID

³ IBID

The Kearney Report

The difficult question in any market is to know where you are now. First let's eliminate where we know we are not. We are not in recession, nor are we in recovery. Over the last ten years, the Boulder area real estate market has come through the recession phase and then quickly moved through the recovery phase. I say quickly because we were fortunate not to have a big back log of foreclosure homes that needed to be sold. Since mid 2012 we have been in the expansion phase. Throughout the Denver Metro Area we have seen unprecedented construction of rental apartments. We have seen a steady stream of new residents drawn to our area by a good economy and a great lifestyle.



We have seen compounding double-digit real estate appreciation that rivals the top markets in the nation. Early this summer, the temperature of the expansion seemed to have been turned down a few notches and we are now seeing a slowing in price appreciation and a bit less demand. However, our inventory is still very low and the overall economy is still doing well. We seem to be at the beginning of a cycle of increasing interest rates but a 30 year mortgage is still around 4%. To me it seems like we are still in the expansion phase, but if each phase was a day we would be definitely in the afternoon. Here are the next signs we need to look for which would indicate a shift toward the hyper supply phase: 1) increased vacancy rates on rental properties 2) Meaningful increase in interest rates 3) Increased inventory of resale homes for sale 4) New home builders offering incentives and price reductions.

If we are to believe that the real estate cycle runs in an 18 year cycle, we would expect our next major recession in 2024.

HOME PRICE APPRECIATION

Since the second half of 2012 strong price appreciation has been the direct outcome of the positive household creation, lack of inventory, low interest rates and a growing economy. During the first two quarters of 2017 we saw a continuation of this strong trend. According to FHFA.gov the average home appreciated by 3.03% during the first quarter and 3.4% during the second quarter. The third quarter results from FHFA showed that Boulder had -.59% appreciation. This snapped a five year run of positive quarterly returns and may have signaled a change in the market. I will continue to track this to see if this was just a short break or if it was a shift.

One statistic that points to the fact that it may be an anomaly is active inventory. In a market that is losing steam you would expect to see a measurable gain in inventory, homes on the market. But at the end of December, and throughout the year inventory has not increased much at all.

AFFORDABILITY

As this is written in early 2017 long term mortgage rates are still hovering around 4%. This is a bit higher than what we have seen over the past three to four years but the gain has been very slight given the strong market. The Federal Reserve Bank is beginning to raise their short term interest rates and this might be the year that interest rates rise enough to cut into affordability. Affordability is the balance point for each potential purchaser between price, cost of money and income. Incomes are rising in Colorado but very slowly when compared to the increase in the price of real estate over the past five years.

THE NEW TAX BILL AND ITS EFFECT ON REAL ESTATE

The recently passed federal tax bill will definitely have an impact on real estate. In general markets with high taxes and high values will be most affected. Despite the recent increase in local property taxes, Boulder County is considered a low property tax area compared to other parts of the country. However, we are a high value market. The issue is the reduction in the cap for eligibility for the mortgage interest deduction. Previously the cap was \$1 million and it has now been reduced to \$750,000. Not many people have loans in excess of \$750,000, but in our area where the luxury home market is very robust, we may see fewer buyers able to make those purchases.

The Boulder County Treasurer was inundated before the new year with property owners pre-paying their property tax bill in advance. This was in response to the section of the tax bill which caps the deduction for state and local taxes at \$10,000. Previously, homeowners were able to deduct from their federal tax return the amounts paid for state income tax, various

ownership taxes and property taxes without limit. Now the deduction is limited to \$10,000. Buyers may shy away from a house with a large tax bill knowing that payment will no longer reduce their tax bill.

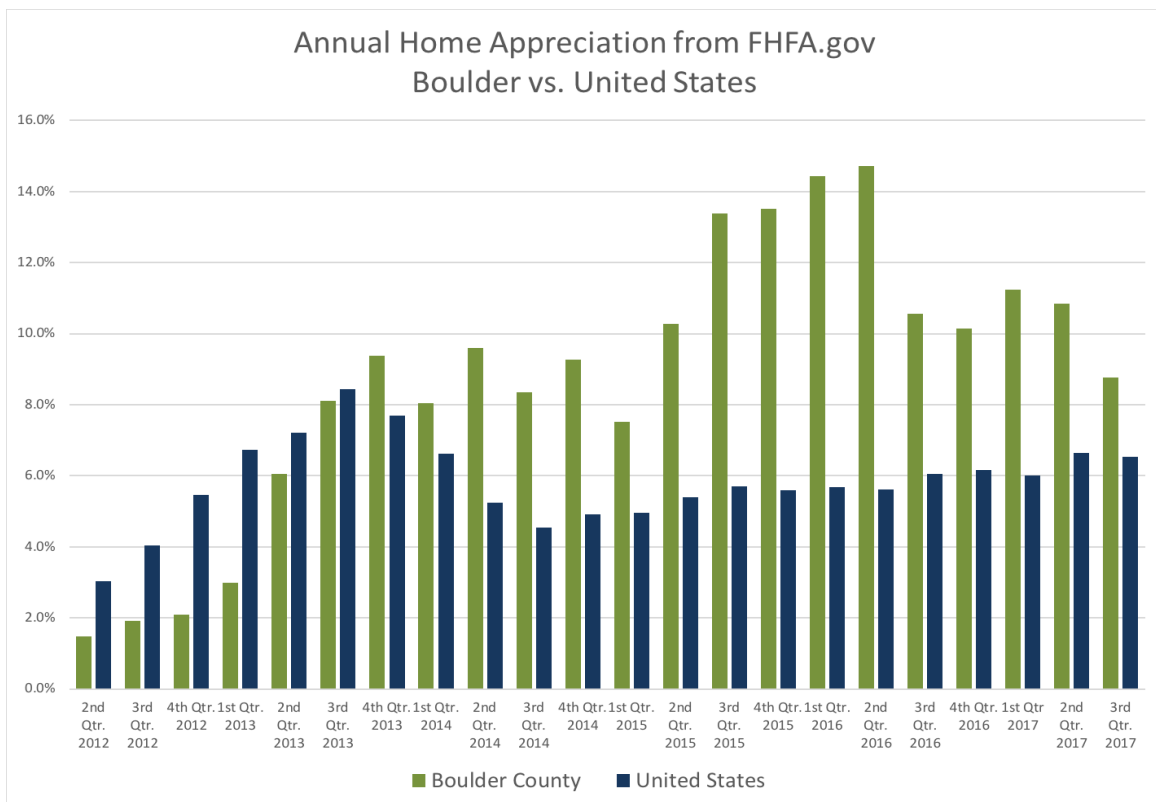
The tax bill also increased the standard deduction and reduced business tax rates among many other changes, so it's not easy to compute the individual effect. What has become apparent, is that the subsidy of real estate through income tax deductions is now reduced and it may affect property values.

THE FUTURE

It's much easier to report the past than it is to predict the future. But that doesn't stop us all from looking forward and trying to make sense of what is to come. The local real estate market did slow down last year. I don't think anyone expected that it was to go forward at break neck speed indefinitely. However, I think there is still strength in the market. Population is growing, we have a shortage of homes, the economy is strong and people want to live here. One of our main challenges is reduced affordability caused by high prices and increasing interest rates. The 2018 Colorado Business Economic Outlook put out by the Leeds School of Business predicted home appreciation in the 3-5% range. This seems about right to me.

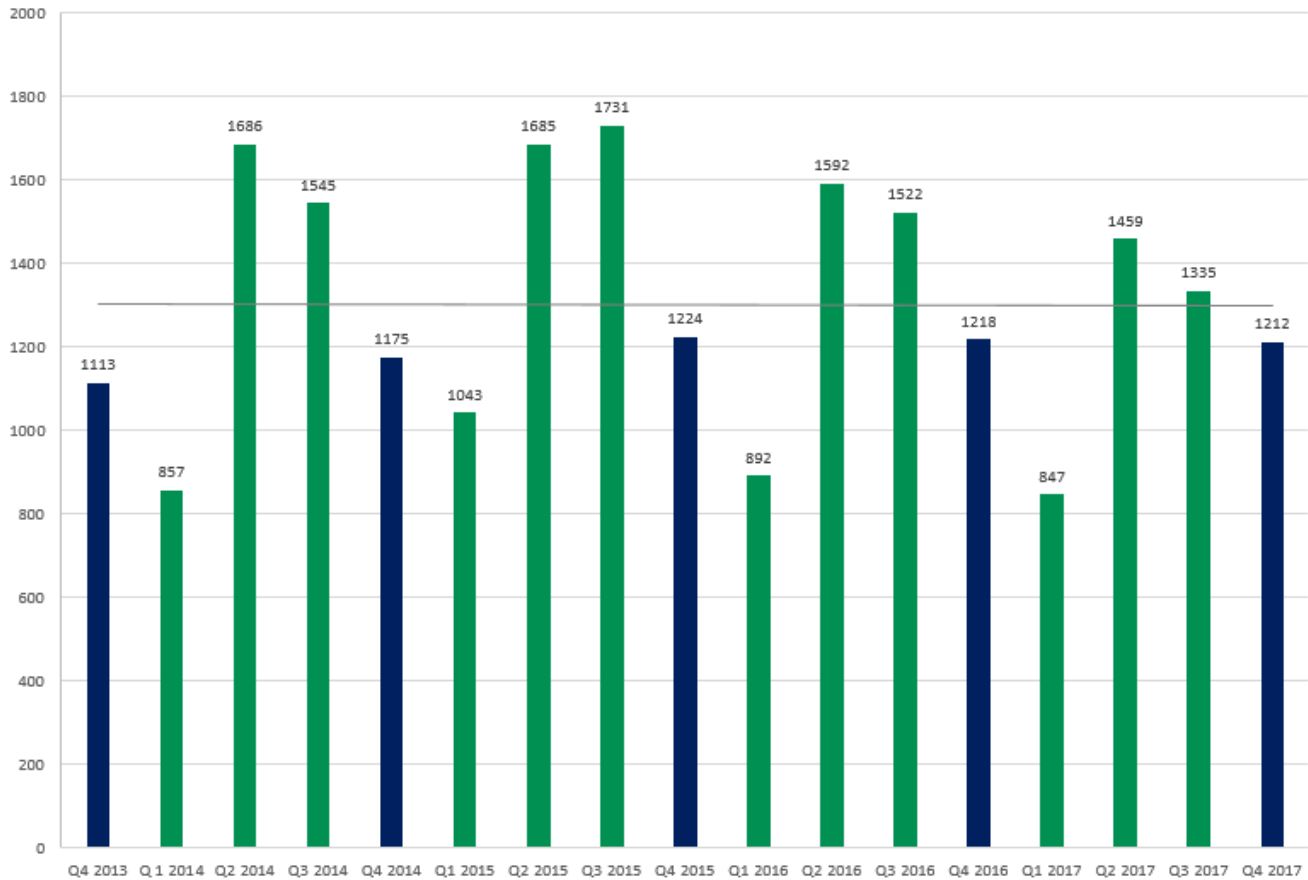
Price Appreciation

The graph below shows the price appreciation trend since the 1st quarter of 2012 in both Boulder County (green) and the United States as a whole (Blue). Boulder's most recent annual appreciation rate (through the 3rd quarter) of 8.76% was 57th highest in the nation. Boulder County's cumulative home price appreciation over the past 10 years according to FHFA.gov has been 56% which ranks us 2nd in the nation.



Boulder County Sales Activity

Five Year Trend of Sales Activity - Boulder County



BOULDER COUNTY MARKET SNAPSHOT

 **0.5%**

TOTAL SALES

There were 1212 total sales in Q4 2017 compared to 1218 total sales in Q4 2016.

 **\$480,000**

MEDIAN SALES PRICE

The median sales price in Q4 2017 was \$480,000 compared to \$420,450 in Q4 2016. This represents an increase of 14%.

 **1,485**

TOTAL INVENTORY

There were 1,485 homes for sale in Boulder County at the end of Q4 compared to 1,538 at the same time the previous year. This represents a 3.5% decrease.

 **29**

DAYS TO CONTRACT

On average it took 29 days for a house to go under contract in Q4 2017. In Q4 of 2016 it was 24 days.

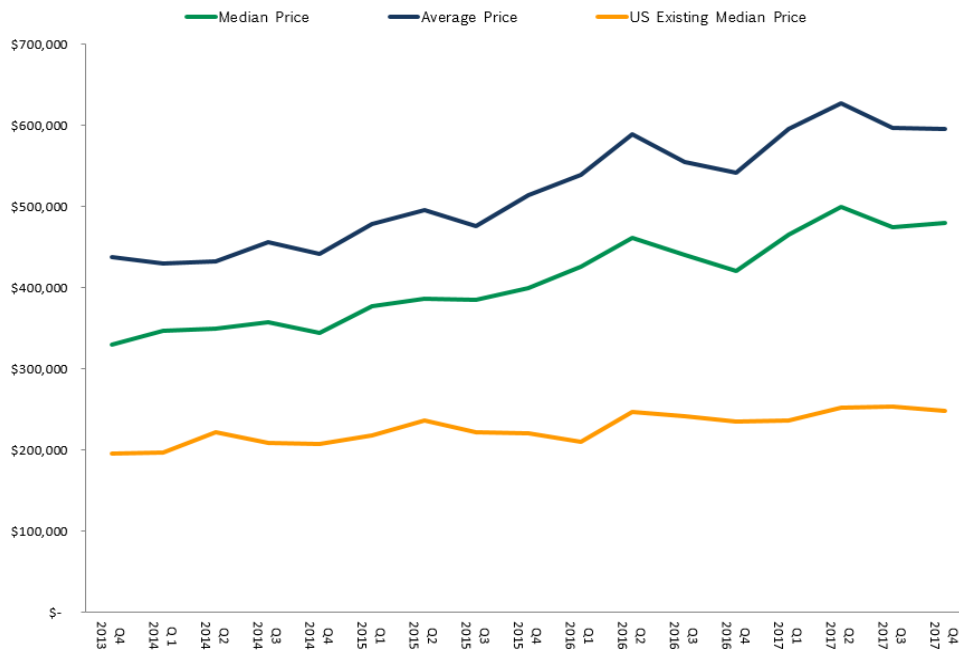
3.34

MONTHS OF INVENTORY

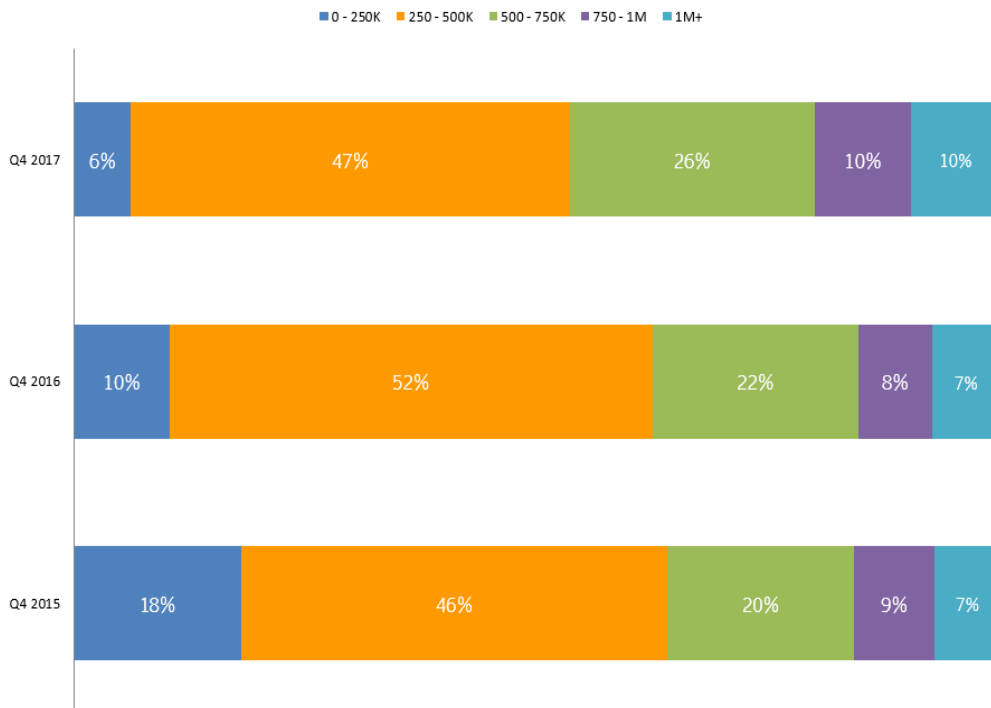
Inventory is decreasing. Currently there are 3.34 months of available listings on the market. However, roughly 50% are already under contract so the effective inventory rate is roughly half of this number.

Boulder County Price Trends

Price Trends in Boulder County Real Estate



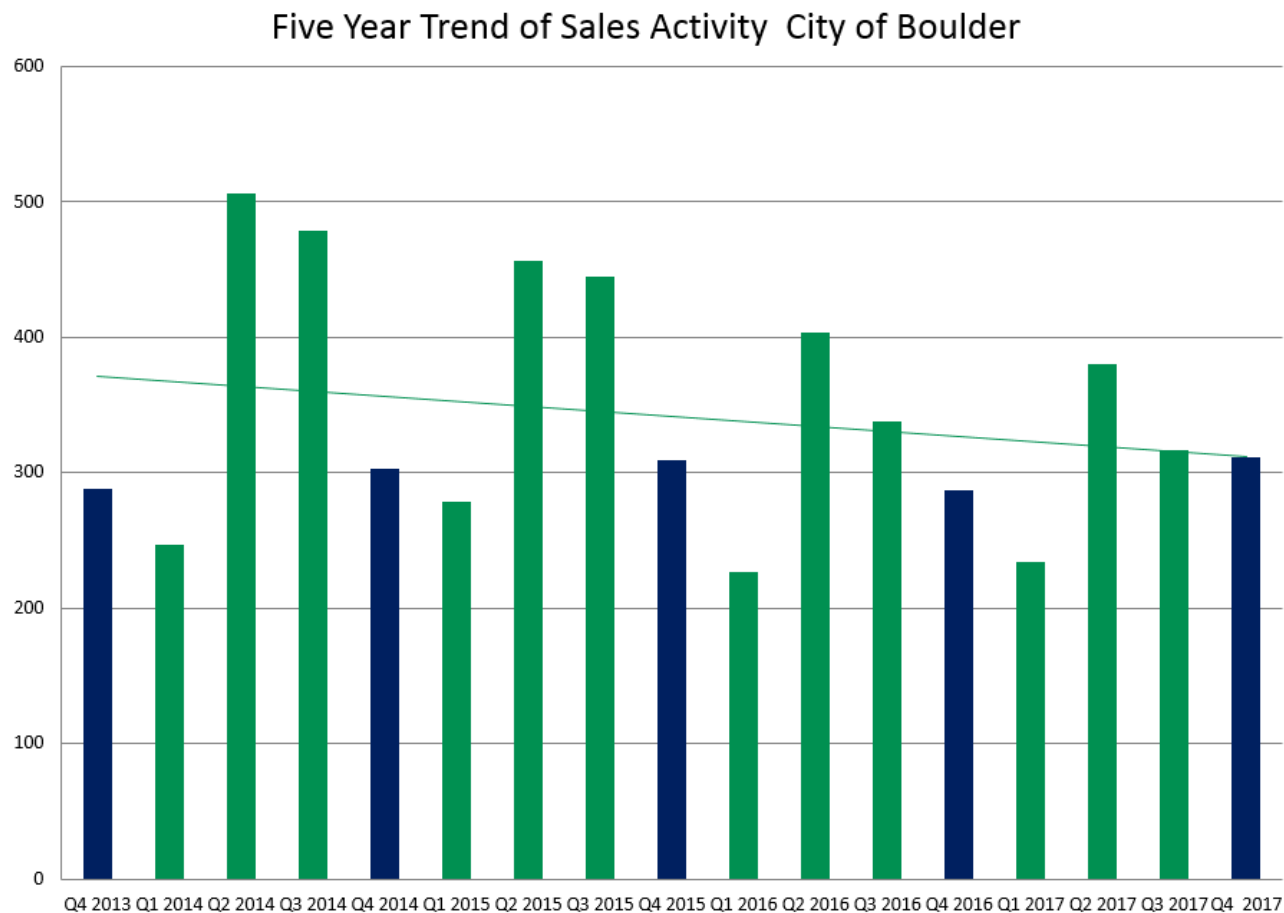
Boulder County Percent of Sales by Price Range



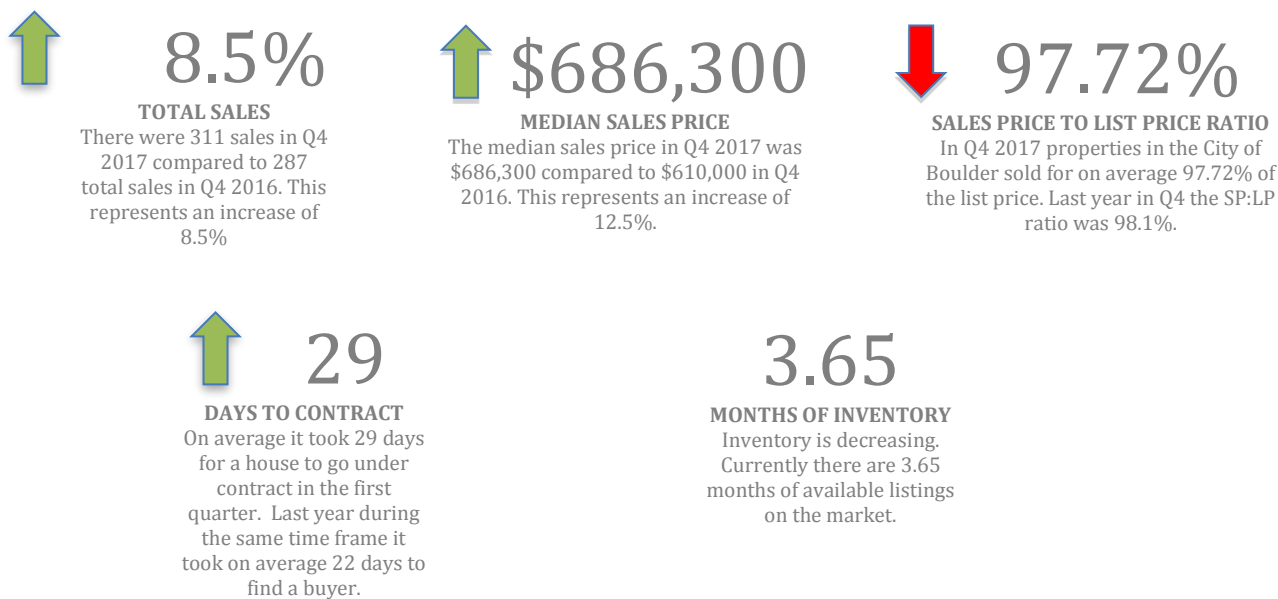
The top graph shows the increase in prices in Boulder County compared to the national average. Average prices in Boulder County have increased over \$200k in five years!

The bottom chart on this page shows the price breakdown of sales in Boulder County in the 4th quarter over the past three years. It makes complete sense that as prices increase, sales in the lower price ranges would decrease but to see it graphically really shows how difficult it is to be a first-time home buyer in this market. Homes that sell for less than \$250,000 has decreased from 18% of the total market to 6% in three years. The mid-range of \$250k to \$500k hasn't changed quite so much, but there are now more sales over \$500,000 (46% in 2017 compared to 36% in 2015). Low interest rates have preserved affordability, but as interest rates climb buyers may find that it's difficult to afford a home.

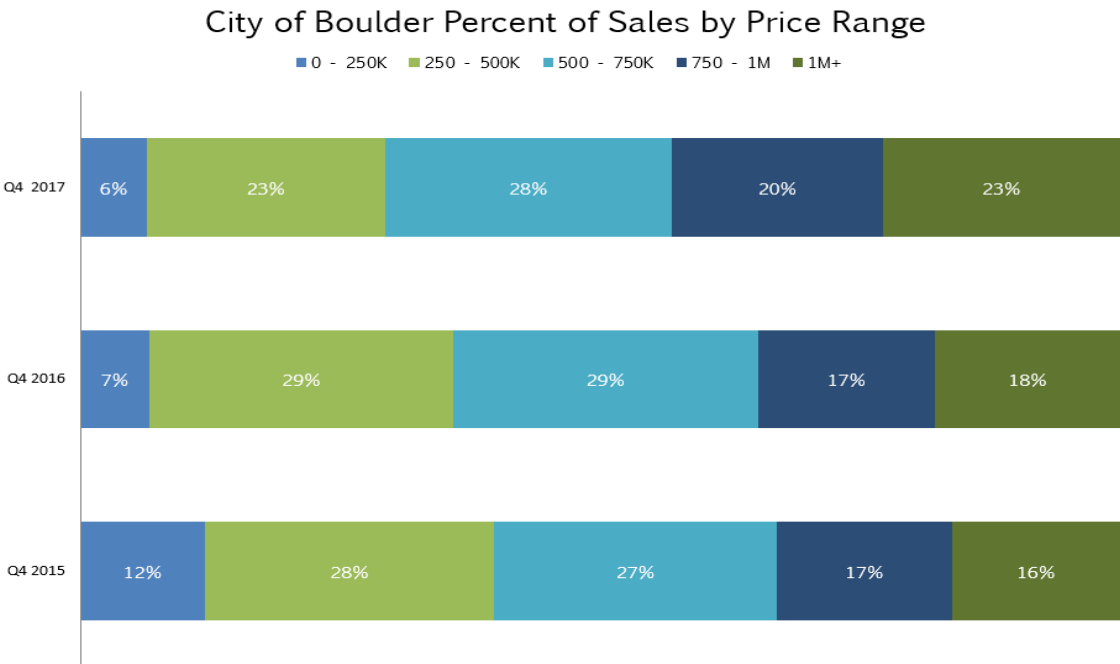
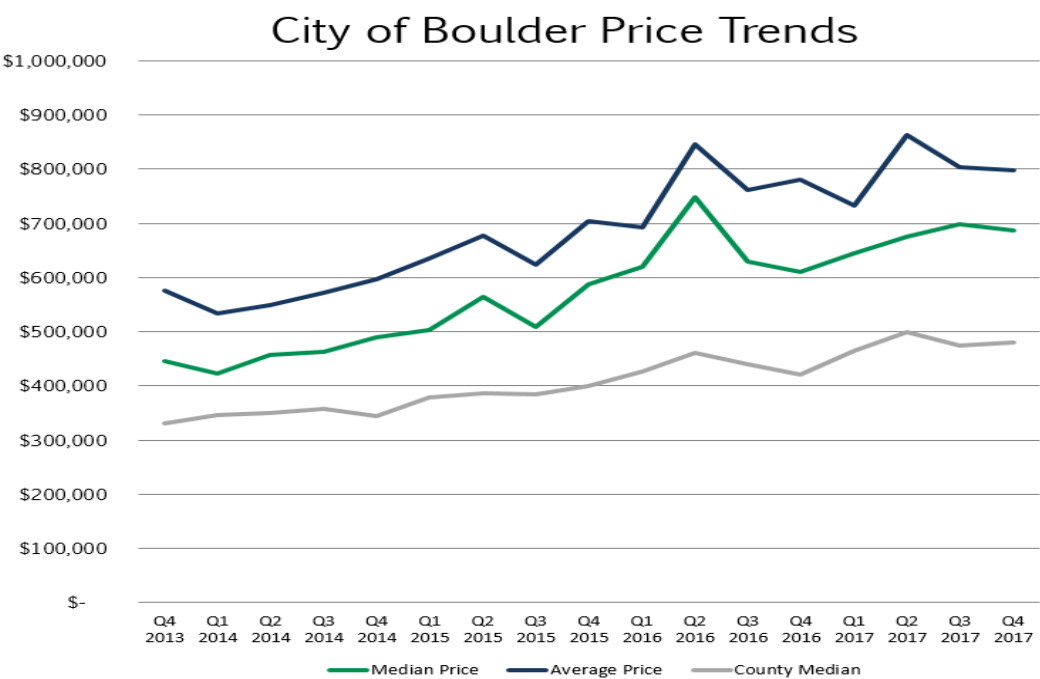
City of Boulder Sales Activity



CITY OF BOULDER MARKET SNAPSHOT



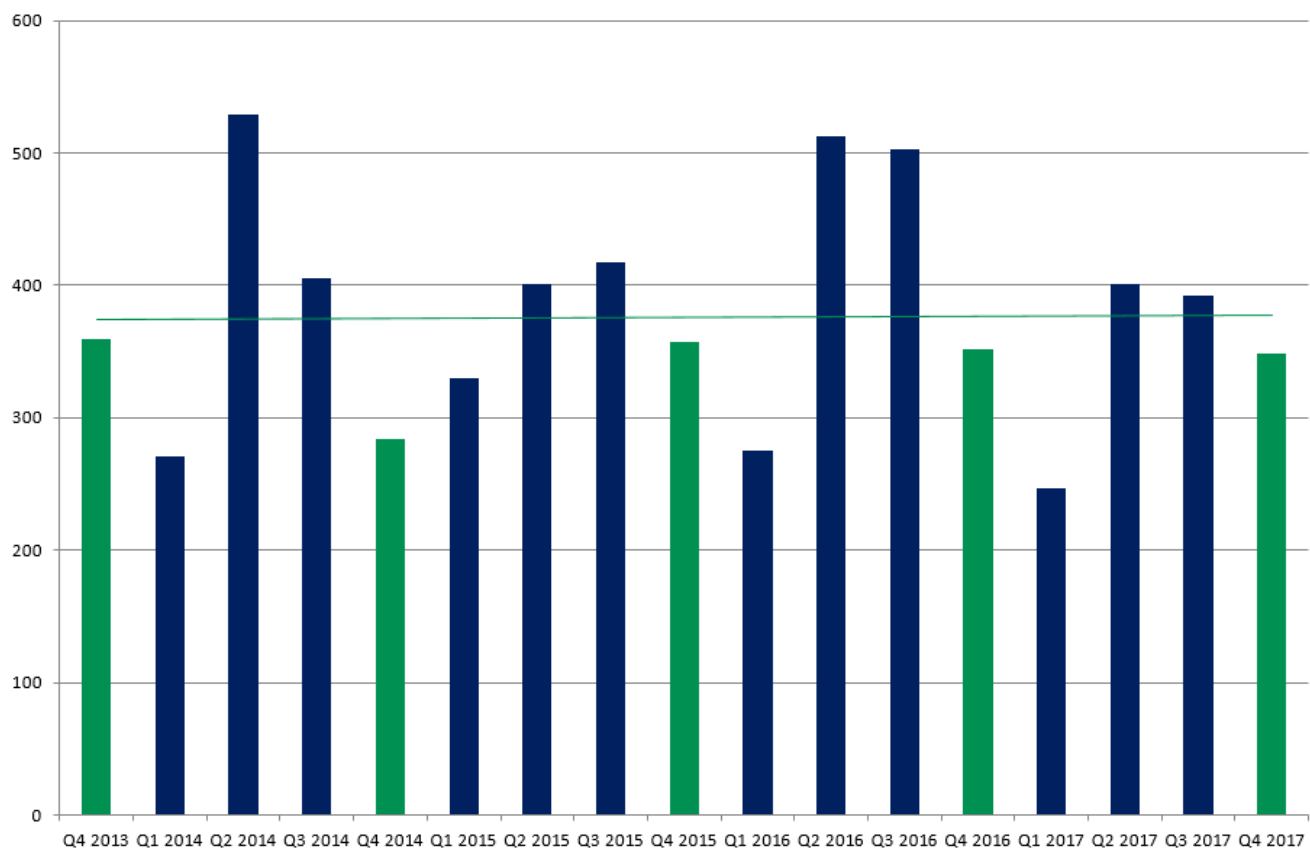
City of Boulder Price Trends



The top chart shows the increase of prices in the City of Boulder over the past five years. Prices have actually moderated over the past year. The bottom chart divides the sales in Boulder by price range in the 4th quarter of each of the last three years. The price of homes in the lower ranges within the City of Boulder has shrunk noticeably over the past three years. Sales under \$500k in 2015 represented 40% of the market and now it's 29%. Sales over \$1 million represented 16% in 2015 and now are 23%.

Erie, Lafayette, Louisville and Superior Sales Activity

Five Year Trend of Sales Activity East County Communities



LAFAYETTE, LOUISVILLE, SUPERIOR, ERIE - MARKET SNAPSHOT

 **1%**

TOTAL SALES
There were 349 sales in Q4 2017 compared to 352 total sales in Q4 2016. This represents a decrease of .85%.

 **\$484,770**

MEDIAN SALES PRICE
The median sales price in Q4 2017 was \$484,770 compared to \$467,000 in Q4 2017. This represents an increase of 4%.

 **98.40%**

SALES PRICE TO LIST PRICE RATIO
In Q4 2017 properties in East Boulder County sold for on average 98.40% of the list price. Last year in Q4 the SP:LP ratio was 100.1%.

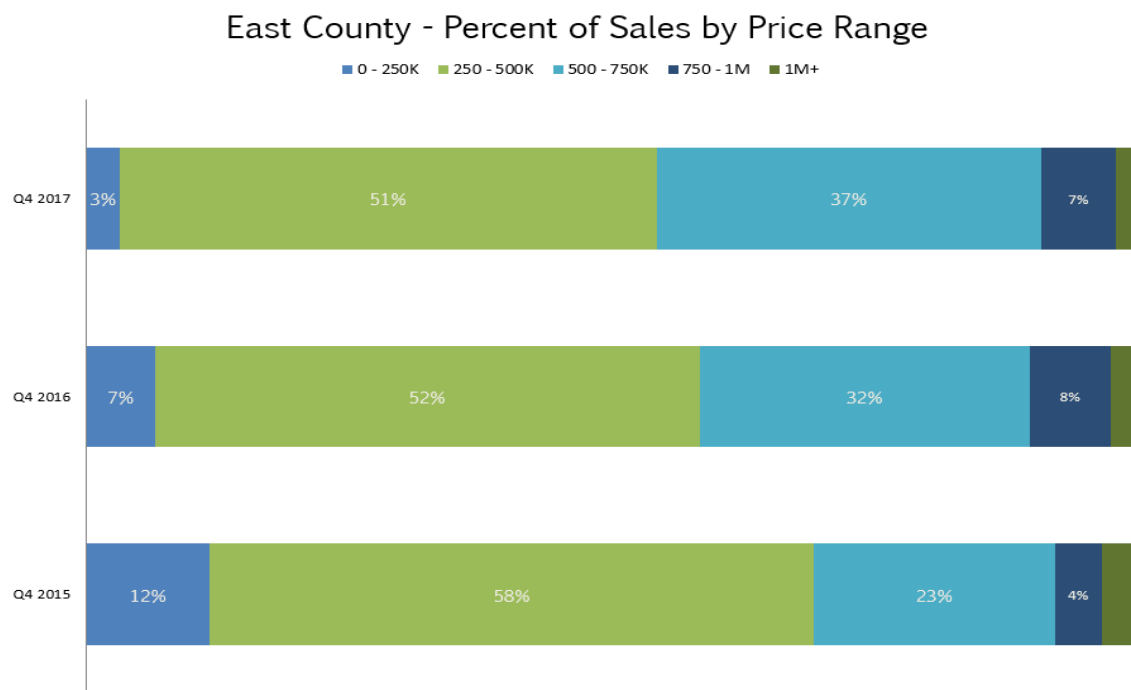
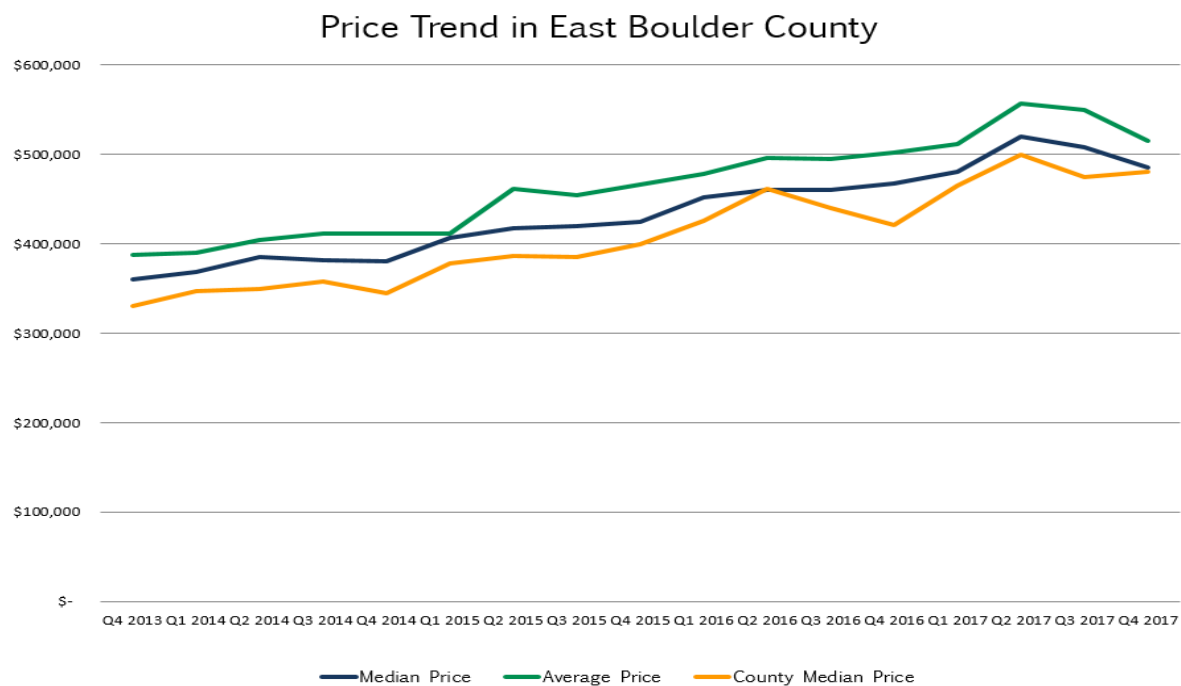
 **28**

DAYS TO CONTRACT
On average it took 28 days for a house to go under contract in the second quarter. Last year during the same time frame it took 26 days on average.

3.11

MONTHS OF INVENTORY
Inventory is rising. Currently there are 3.11 months of available listings on the market. However, this number is overstated because it doesn't take into account the homes that are already under contract.

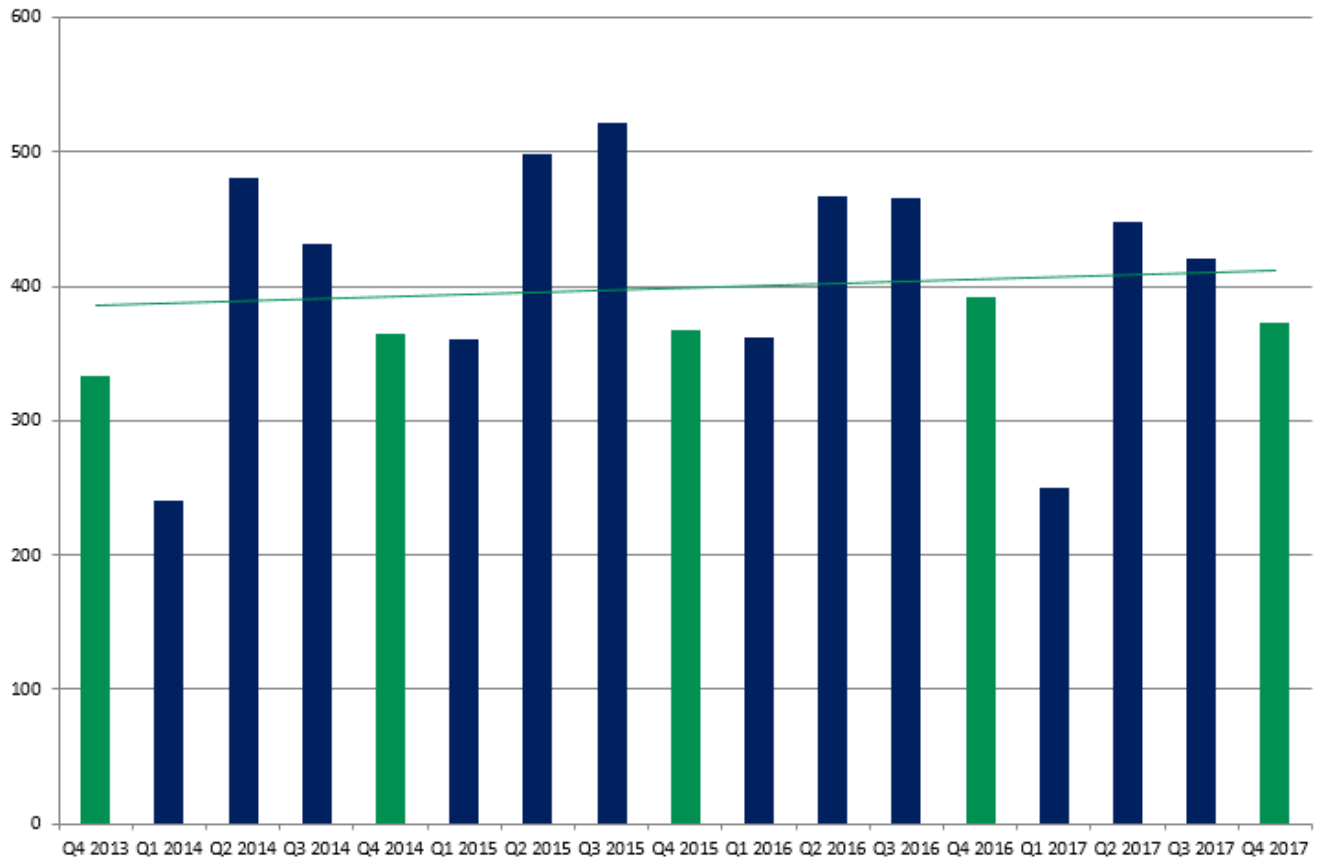
Erie, Lafayette, Louisville and Superior Price Trends



The starter home in Louisville, Lafayette, Erie and Superior has basically disappeared over the past three years. There are not as many condos in these areas and single family homes have really increased in value.

Longmont Sales Activity

Five Year Trend of Sales Activity - Longmont



LONGMONT - MARKET SNAPSHOT

 **5%**

TOTAL SALES

There were 373 total sales in Q4 2017 compared to 392 total sales last year during the same quarter. This represents a decrease of 5%

 **\$374,000**

MEDIAN SALES PRICE

The median sales price in Q4 2017 was \$374,000 compared to \$334,500 in Q4 2016. This represents an increase of 12%.

 **99.64%**

SALES PRICE TO LIST PRICE RATIO

In Q4 2017 properties in Longmont sold for on average 99.64% of the list price. Last year in Q4 the SP:LP ratio was 99.57%.

 **25**

DAYS TO CONTRACT

On average it took 25 days for a house to go under contract in Q4 2017. In Q3 of 2016 it was 19 days.

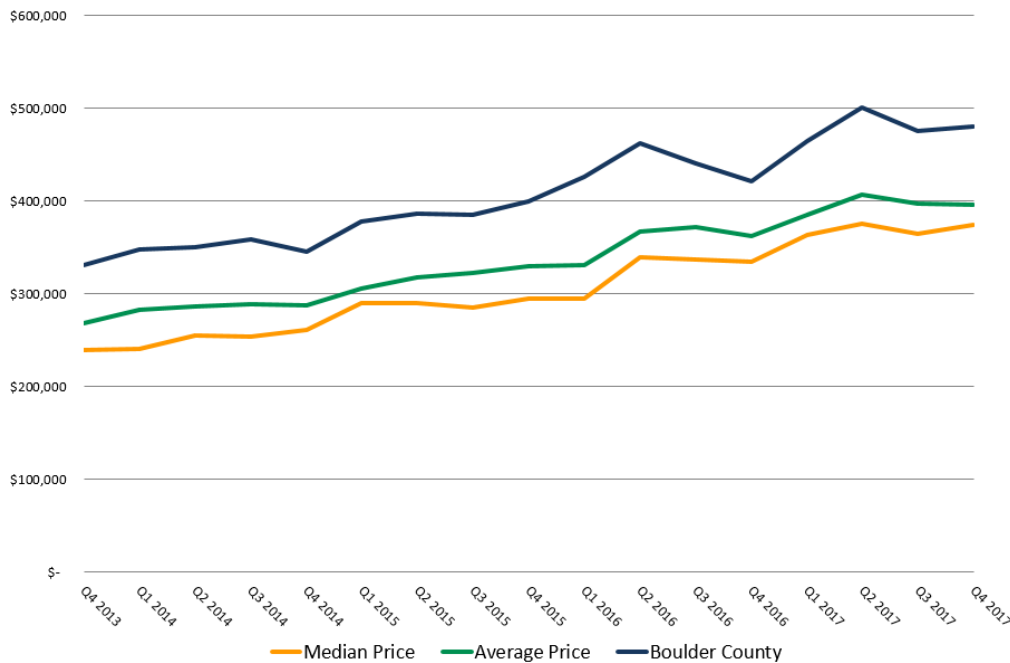
2.86

MONTHS OF INVENTORY

There are currently 2.86 months of inventory on the market in Longmont. A balanced market is around 6 months of inventory.

Longmont Price Trends

Price Trend in Longmont



LONGMONT PERCENT OF SALES BY PRICE RANGE



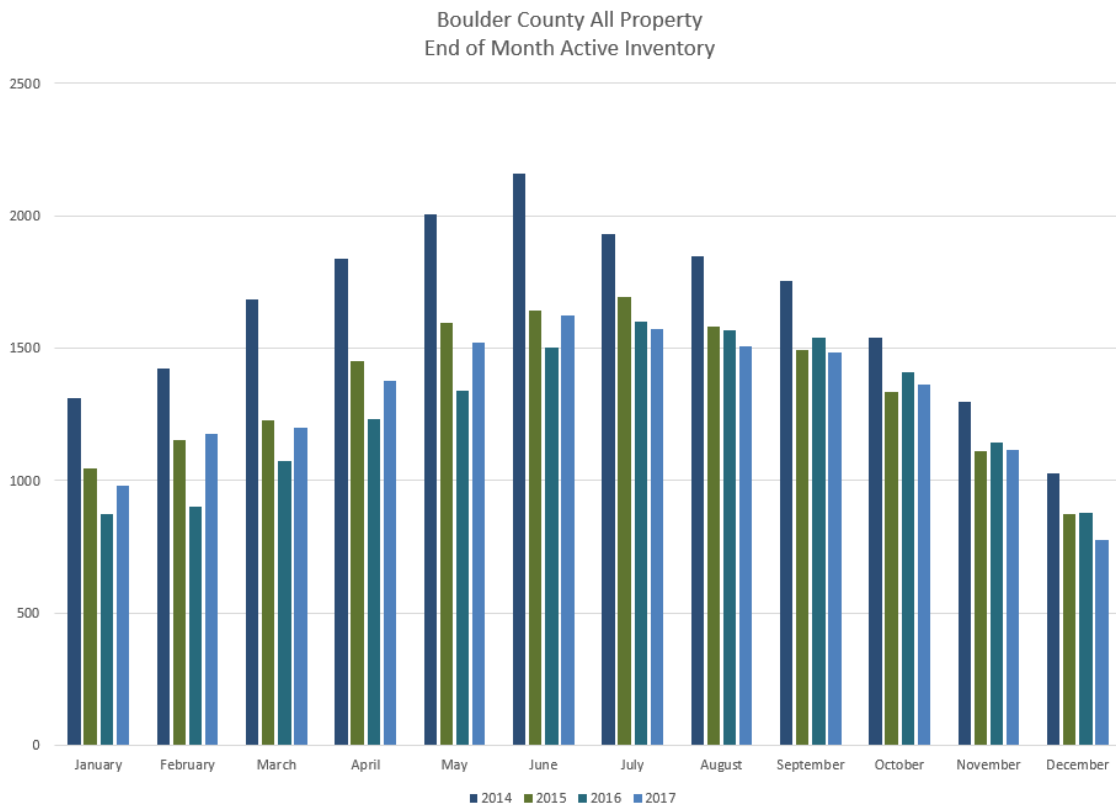
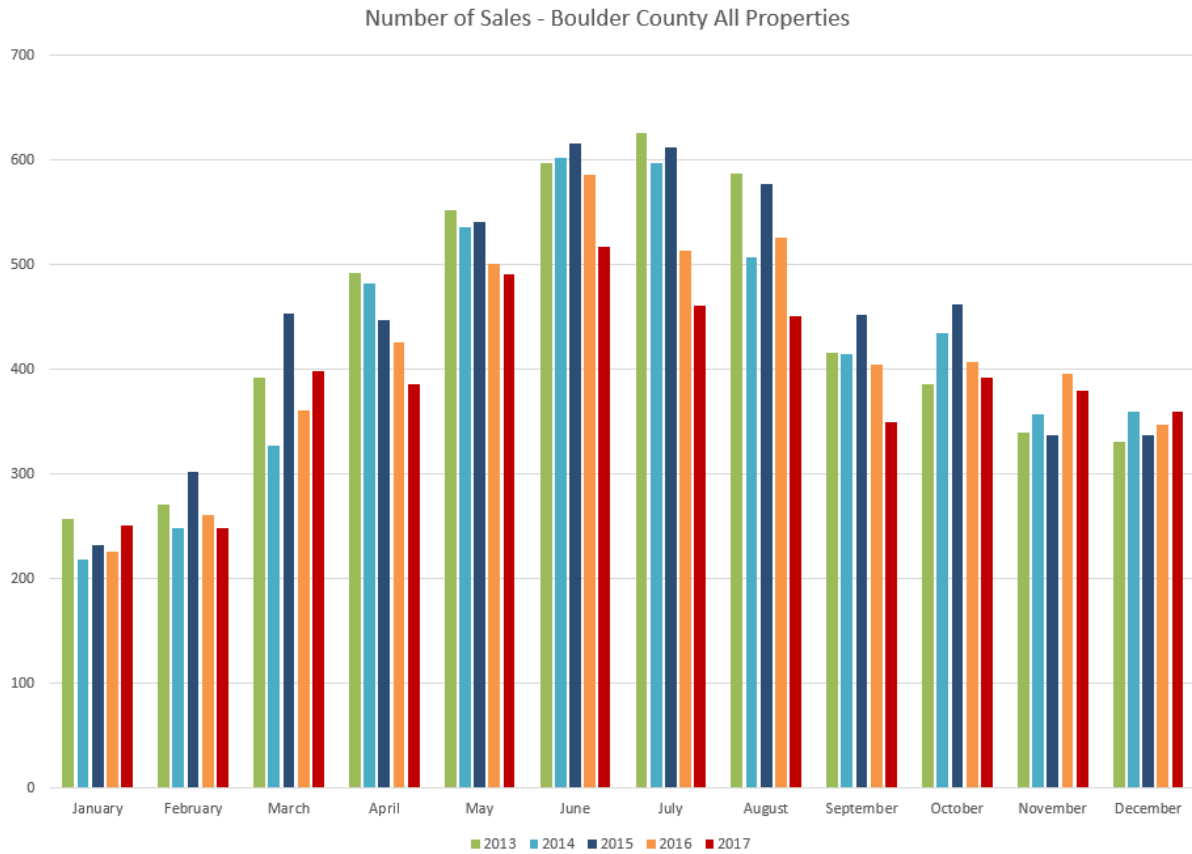
The median price for all sales in Longmont for the quarter was \$374,000, much lower than the county average of \$480,000. The median price for the fourth quarter is up by 12% from the fourth quarter a year ago. This appreciation outpaces the county as a whole.

Longmont has long been the affordable option in Boulder area real estate, but the lower chart to the left shows that the price range under \$250,000 is shrinking rapidly. During the most recent quarter just 5% of sales in Longmont were under \$250,000. Compare this to 27% just two years ago! The other interesting fact gleaned from this chart is the lack of an upper end in Longmont. Just 15% of the sales this past quarter were over \$500,000. Two years ago it was 7%.

Longmont is the only area where the median and average price are lower than the county average.

If you are looking for affordable housing, Longmont is still a great place to look.

Month by Month Sales Activity – Boulder County



Kearney Realty Co. – Our Core Values

1. **Integrity and Class** – Keeping our word; knowing what's right and doing what's right.
2. **Selfless Service** – Exceeding expectations by focusing on exceptional service.
3. **Caring** – All of our relationships are based on mutual respect, cooperation and consideration.
4. **Connected** – Give back to the profession and the community. 5% of company profits are donated to local charities.
5. **Innovation** – Continually striving to find new and better ways to serve our customers and our associates.



My Approach To Home Marketing

It used to be that to market a home meant putting a sign in the yard, copying a few brochures and placing the home in the local MLS service. Back in the day of MLS books, buyers and realtors had to wait a week for the book of listings to be updated. Now, the speed of information is almost instantaneous and it takes a diverse mix of marketing methods to attract buyers and maximize seller return. My goal is to maximize the appeal of my listings to prospective buyers through impeccable preparation, high quality deliverables and a beautiful Internet presence that gives each and every listing the custom feel that buyers appreciate. I fulfill this goal through the execution of my highly effective and proven marketing plan that puts the home, not the agency in the forefront.

Preparation

The first step in my premier marketing plan is in detailed and early preparation. Your house deserves professional and experience representation and this begins long before the sign is placed in the yard. The first step in the preparation phase is to price the property correctly. Proper pricing results in maximizing the sales price for the Seller while still staying attractive to potential Buyers. Correct pricing takes into account comparable sales, the location, the condition of the property, the current market conditions and the competition. I take great care in analyzing and comparing your property to other homes with specialized spreadsheets I have developed over time that help us decide on the right price.

Once the price is set and the listing papers are signed, I go to work to maximize the appeal of the home by taking great photos and writing a compelling description. To many listings describe the property in terms of facts. I strive to describe the home as a lifestyle, a place to make memories, a place they want to live. The goal of the photos and remarks is to make the buyer want to look at the property in person. Almost all potential buyers are viewing listings online. Our first showing is online and the goal of my marketing is to make the buyer want to see the property in person.



The Hub – Custom Designed Website

After the photos are done and the description is written, my hub and spoke marketing plan is implemented. The hub is a custom website that I build from scratch. This is a true custom website developed from scratch and with its own website address. On this website I can tell the full story of your home, display all of the photos, describe the location, the neighborhood, display links to the HOA, show the brochure and the MLS sheet, etc. When a buyer wants more information we want more than 500 characters (the limit on MLS and other online sites) to tell the full story of why this home is different and why they should see it.

The custom website is where interested buyers go to get the information they want and it's where they send their family to share their excitement. This is where we point all of our other marketing. This is where we can give a full and controlled experience to our potential buyers. Some recent examples can be viewed at www.7475Eggleston.com, <http://www.3053w111th.com/>, www.4697TallyHo.com

The Spokes

The spokes of my premier marketing plan includes print, online and Realtor-to-Realtor advertising. The diagram on this page shows how I use a broad spectrum of marketing methods to reach potential buyers. All of my marketing is done with a feel of substance and quality.

Print marketing includes a sign, custom brochures, a sign rider with the website address and consistent display advertising in the Daily Camera.

Our strategic online marketing includes websites across all sectors. These include national websites such as Realtor.com and Redfin.com. Regional websites such as Coloproperty.com. Local websites such as AtHomeColorado.com. Competitor websites such as Remax.com, COHomefinder.com, and wkre.com. Of course your property will be featured on the KearneyRealty.com and NeilKearney.com websites as well. The goal of online marketing is to impel the buyer to take the next step.

Our marketing to other Realtors includes a thorough MLS listing, which includes the compelling description and beautiful photos and email marketing to our local list of over 800 agents. With the MLS listing, it's important to have done all of the prep work upfront because you only have one chance to make a good first impression. I have established a reputation among my peers based on impeccable ethics and easy communication. Other agents like working with me and they know when they bring an offer it will be handled promptly and with complete integrity.

The remainder of this proposal includes examples of my marketing plan, my resume, testimonials from past clients, advice on getting your home ready to show and information about the process of selling a home.

The **Kearney** Report

I have extensive information and market statistics available on my website www.NeilKearney.com and I invite you to do some research on your own.

I look forward to the opportunity to serve you!

Best Regards,

Neil Kearney
Broker/Owner
Kearney Realty Co.