



The Market

Eagle County real estate closed calendar year 2009 with a whimper as Total Dollar Volume declined by 70% and the Number of Transactions fell 65% from 2007 high water mark numbers. Summit County, due to lower overall price points, fared a bit better at about 65% less Volume and Transactional Activity but for the most part both markets followed in tandem a downward spiral into the depths of buyer/seller transactional gridlock.

The culprit behind these dismal results is a lack of consumer confidence in employment income, capital base net worth, falling home prices and a malaise sentiment towards global markets in general. Numerous conversations with our prospective client base revealed the following issues of concern and appear to be the major inhibitors with regard to high end luxury good purchases.

1. Employment income is reported to be down by double digits percentages with little or no chance for bonuses, profit sharing or stock option conversions. Employee downsizing is an ongoing threat and for owner/entrepreneurs future cash infusions may be necessary in order to maintain viable corporate structures.
2. Stock market portfolio values are still off by more than 30% despite the biggest rally in modern economic history. Little improvement is expected with regard to corporate earnings as a result of consumer deleveraging, high unemployment and the dearth of working capital financing. Despite these fundamental weaknesses stock market indices are expected to improve through year end based upon liquidity momentum but at a cost of continuing volatility as this "hot money" moves in and out of the markets.
3. High end residential housing has suffered a 30% loss of value in most markets across the country. Currently there is no real recovery in sight with real estate continuing as the poster child for the Great Recession.

Conversations with more than 100 prospective clients conducted during the last half of 2009 posed this question, "Are the themes of travel, leisure, recreation and vacation home ownership still on your family's long term radar screen?" A third of the respondents replied "Probably not at this time" with the remaining two thirds citing the just stated topics of concern. The drastic declines in Eagle and Summit County real estate clearly illustrates the result of this perceived loss of wealth and until such time as some predictability returns to the capital markets our industry is likely to remain in the doldrums through the end of this year and well into what looks like the middle of 2011.

The silver lining to all of this bad news lies in the opportunity to purchase irreplaceable assets in fixed supply world class locations at opportunistic prices. Current transactional discounts for Eagle County are running in the 20%-30% range from market highs but in Summit County expect something closer to 10%-20%. As stated in our 2009 Summer Newsletter, there continues to be "a real disconnect between what buyers are willing to pay and what sellers are willing to accept". Connecting the dots between price motivated sellers and homes which meet the aesthetic, lifestyle and quality requirements of our client base continues to be, for the time being, a mathematical nightmare.

A typical property tour of ten homes generally yields one or two candidates that stand out for serious consideration. If one assumes that 8 out of 10 sellers really don't have to sell and are able to ride out the down turn that leaves only two realistic property alternatives. The odds that one of the two selected homes, is one of the two price reasonable offerings is only 20% as confirmed by current volume and transactional year end numbers. Is this gridlock a function of too few properties being available at buyer

acceptable price points, or is it more a matter of abysmal consumer confidence and a reduced demand pool regardless of the discounted benefits? Right now no one knows the answer to this question but come summer we're likely to find out.

2010 is year three of the resort property sales meltdown which began in 1st quarter 2008. We believe that this is the year when the proverbial "rubber will meet the road". What has been a very slim 2 out of 10 realistic/motivated seller base could very well double as time chips away at the "we'll just ride out the down turn mentality". It is illogical to assume that no one really wants or needs to sell over what is sure to be a 5-7 year cyclical time line. People change, circumstances change, and families have issues, health events, financial reversals or changes of interests. Time softens resistance and there is a very good chance that more sellers are preparing to move on thereby improving the odds of an ultimately successful acquisition effort.

Assuming more opportunistic inventory comes available what specific recommendations would we make? Based upon 10%-30% corrections the Projected Overall Cost of Ownership might never be more affordable, especially if one considers the current cost of long term mortgage financing. Governmental monetary policy has artificially depressed the true cost of borrowed funds. For every 1% increase in interest rates property prices would have to come down by about 10% in order to maintain the targeted monthly payment amount. The trick here is to recognize that there are two independent elements at work. One is the declining cost of property; the other is the pricing of borrowed funds which is surely going to rise sometime in the next 12-18 months. As a consumer if you could identify the convergence point between these two independent but inter related factors, that point of intersection would be the absolute best time to buy assets that benefit from leveraged financial structures. Of course most pundits would say timing any market is almost impossible task but that is precisely what we are trying to do. The resort real estate correction trough is certainly right around the corner with the importance of exact timing somewhat mitigated by interest rates which may never be lower in our lifetimes. One of the most hotly contested issues on Capitol Hill is when will the Federal Reserve stop buying mortgage backed securities which is scheduled to cease starting 2nd quarter 2010. So if a vacation home is still on your long term radar screen, this coming summer may be the perfect time to take a closer look at the numbers as we approach the height of the for sale inventory accumulation cycle.

Is now the right time for what many people consider to be an extravagant and frivolous purchase? The answer is "yes" if you know how to go about the process of identifying investment grade assets. Will the resort property markets eventually recover and do vacation homes really increase in value over time? Forecasted increases in overall demand would say that this out of favor asset class will recover based upon baby boomer population demographics, the affluency of the customer base and the more than five billion dollars of on-going and anticipated capital improvements to Vail, Beaver Creek and the Breckenridge ski villages. American Demographics Magazine profiles the typical vacation home customer as couples between the ages of 50 and 70, with grown children, who are in the top 20% of net worth accumulation households. Their lifestyle goals and objectives are recreation, the creation of legacy assets as gathering places for friends and family, and a test of community for eventual retirement purposes.

Are vacation homes optimal investment vehicles? No, but they are not boats or airplanes either which suffer massive losses of value with excessive non-recoverable expenses. Strategically placed properties in Eagle and Summit Counties should continue their 25 year appreciation trend line in the years ahead but perhaps at a slower rate which we predict to be around 5% as opposed to the historic 8% average. Population demographics, their unique world class resort status and Vail Resorts continuing dominance of the industry will all contribute towards these communities long term success. Real estate is a cyclical business. Everything that has happened before will happen again. Right now property is a suspect asset class, but once conventional wisdom believes something to be true, the pendulum is almost certain to swing the other way. Inflation is sure to be the next big thing given our national deficit spending and runaway money creation and if nothing else tangible assets have proven to be reliable hedges against this feared inflationary monster. In the end it's all about long term valuation fundamentals and the fact that none of us are getting any younger. Our easy to understand comparative data analyses greatly reduces the risk of making a poor decision and we pride ourselves on identifying the very best opportunities available in any given market situation.

So if a vacation home seems to be a capricious and irresponsible dream, think again. It is possible to indulge your recreational and lifestyle passions, do something for family and friends, and diversify a portion of the capital base, without undermining opportunity cost of capital considerations. As the Central Rockies only vacation home advisory and consulting service company we specialize in buyer broker representation and pledge uncompromised loyalty, the most comprehensive data analyses available and our more than 60 years of combined industry experience to whatever outcome best serves your intended purpose. There is a great deal more to talk about so give us a call for more information.

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