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Third Quarter 2011

Q3 MARKET REPORT

In last quarter's newsletter, Boylan and Company advised our clients to neither overreact or underreact to the pressures in the housing market. It is becoming increasingly difficult for seller's to approach the sale of their home in a pragmatic way. The National Association of Realtors released figures in October which indicate that national home prices fell 3% to $165,400. The ironic side of their report details that sales actually rose 11% over seasonally adjusted numbers seen one year ago. The pressure on pricing will not relent in the near future and seller's fatigue is causing many to discount their pricing. At this point, virtually every sector of the local housing market is seeing a downward trend in values causing many would be sellers to wait out the market hoping that prices will start to turn around in a couple of years. Unfortunately for those who have to sell, steady pricing pressure from foreclosures and the worry of further loss of value, the anxiety is forcing the hand of sellers to negotiate with low ball offers from value seeking buyers.

For would be buyers, finding the perfect home has become tough since inventory is dwindling. A drop of inventory by 11% and reluctance to put homes on the market has created a scenario by which pickings are slim. This combined with difficulty in obtaining mortgages, has depressed sales numbers locally. Buyers are expecting more for their money; if they can't get it, waiting seems to be the best option since interest rates aren't rising any time soon.

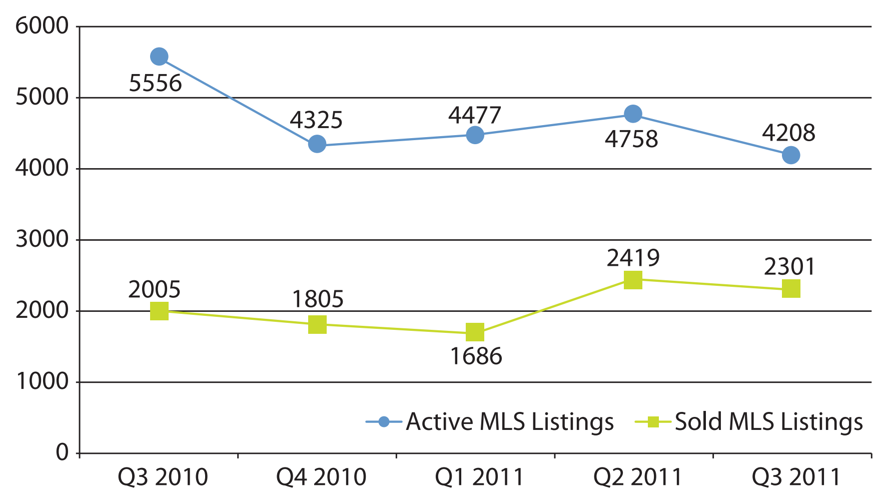
Overall, the market must be carefully navigated whether buying or selling. Read on for more detailed information on the status of the Pikes Peak Real Estate market.

Mortgage Availability

Fear about job security, getting approved for a mortgage, and if a house purchased will hold its value are keeping buyers away. Interest rates are extraordinarily low, not expected to increase for some time. Rates run between 4.25% and 5.25%. Jumbo mortgages require 20% down. For the move up buyer, this can be difficult to manage. For move up buyers who have a house that they want to turn into an income property as they move up, 30% equity in current property and a 20% down payment for jumbo sized mortgage is essential. The 30% rule is the result of the "Buy and Bail" rule which prevents underwater home owners from buying a comparable home with lower value and letting the underwater house go.

For the buyer looking under the $425,000 price point, mortgages are available. Most readily available are FHA and VA loans. Documentation is an important aspect to the application process; generally two years of job history and salary is at the heart of the documentation process. Stated incomes are not acceptable. In the current economy, many applicants have changed jobs for greater stability or were forced due to downsizing; this is not a barrier to getting a mortgage so long as income is stabilized and documented. With regard to credit scores, the best rates are obtained with scores at 740 and above. Interest rates may increase by 0.5% to 1% for scores down to 660. Credit scores less than 660 make for difficult underwriting. Work with an established lender who has been in the business for many years and understands the various programs and challenges.

Total MLS Sold Listings
Q3-2010 – Q3 2011



According to "National Association of Realtors Chief Economist" Lawrence Yun, Americans are saving again. In a recent article, Yun notes that "In the ten years prior to 2008, Americans socked away an average of $250 billion per year. Since 2008, consumers have become more careful about their spending and are now saving some $600 billion a year." This adjustment in behavior doesn't seem to be hitting all sectors of the economy equally. As a matter of fact, spending on food, clothing, utilities, and health care have hit new highs. So where is this increased saving power coming from?

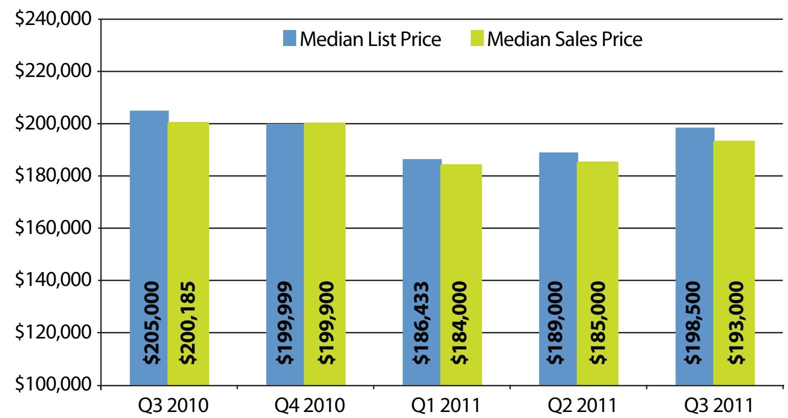
Vehicle sales have fallen to about 12 million units a year over the past three years, well below the 16 million to 17 million unit sales pace typical before the slowdown. New and Existing home sales hit 1.2 million and 7.1 million, respectively in 2005. The comparable figures are now 300,000 and 5 million.

Although we try to focus on the local market in this newsletter, similarities to the national market are too obvious to resist. Deleveraging is the local trend as well. People just don't want to part with their cash out of fear of job security, retirement funds and inflation. We are seeing healthy activity in those segments of the market where federal loan programs like FHA and VA are the financial instrument of choice, this would be anything under $278,000 for FHA and $417,000 for VA, these loans require smaller down payments, so buyers are more comfortable getting into these types of loans. But as we move above the FHA and VA loan limits we see a real softening in the market. These "non-government" loans require much more money down, 20% and more depending on credit scores and qualifications. In our new deleveraged economy, few people are willing to part with that much cash.

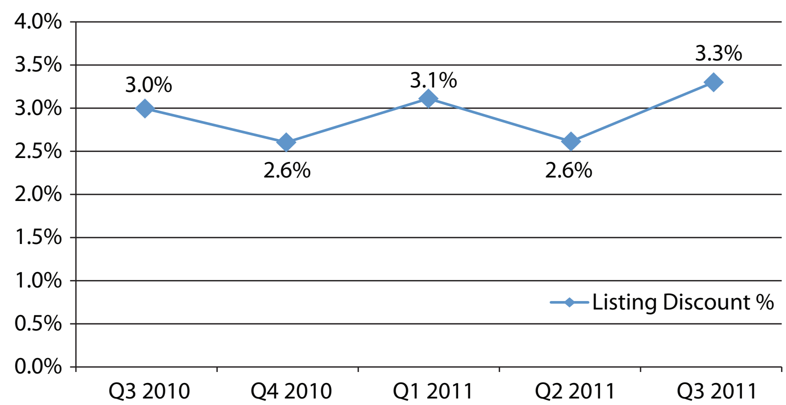
The S&P/Case Shiller Home Price Index which tracks national real estate trends recently reported that Denver remains stable in pricing and activity. Minneapolis continues to be the worst of the twenty (20) major cities covered in the report with regard to pricing. The recent report was mixed with some improvement over the last four months with regards to pricing but a view that the national housing market may resume a downward trend and not have bottomed out.

In spite of soft consumer confidence, the National Association of Home Builders is feeling optimistic looking ahead and published higher than anticipated industry confidence numbers. The push for confidence came primarily from positive real estate stabilization and moderate growth in the Western regions of the United States due to some stabilization in broader regional economies. While the confidence survey is the highest jump seen since the phase out of the First Time Home Buyer Credit in 2008, the industry still remains under pressure due to inflationary increases in supplies and pricing pressure from distressed sales and foreclosures in the existing homes market.

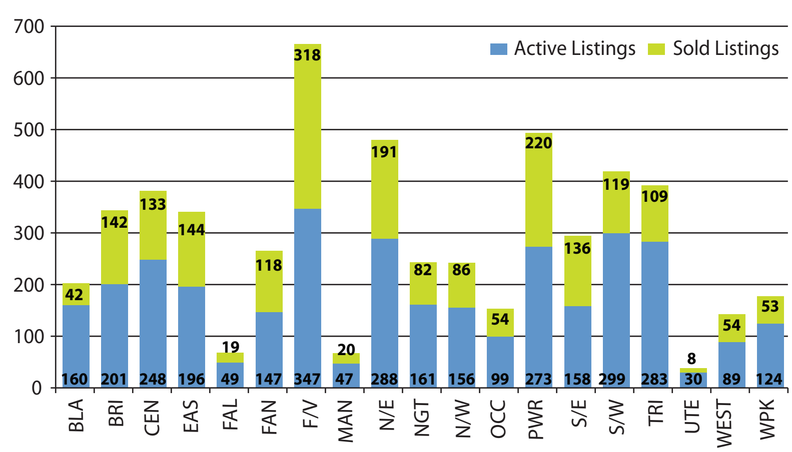
Median Sales Price
Q3 – 2010 to Q3 – 2011



Listing Discount by Quarter
Q3-2010 – Q3 2011



Total Active Listings by Area
Q3 – 2011

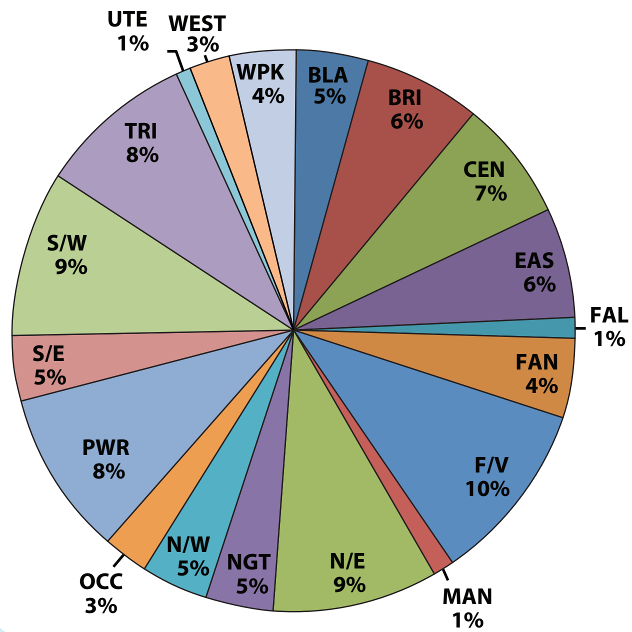


Seller's Strategy:

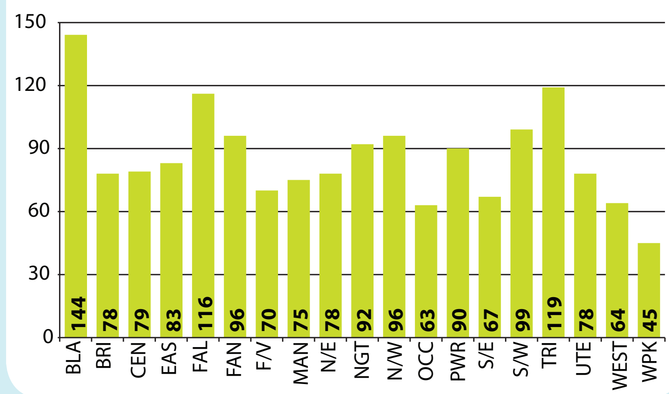
Locally, the greatest pricing pressure remains on homes priced over $450,000. Over the last quarter, we have seen continued tightening of mortgage availability at all price points. Move up buyers who have a $225,000 house to sell before jumping into a higher end home are rare. The interesting dilemma is that inventory is very low and not great quality, again, due to would be sellers who hope to wait out the market. This has frustrated some buyers who are opting instead to build which is frustrating desperate upper end sellers. Additionally, given the fluidity of today's job market, fewer people are able or willing to buy for fear of being "tied down". The only real way to succeed at this price point is competitive pricing, staging and marketing. Above all, patience and flexibility are keys to ultimately selling a house.

All segments of the market, including the upper end, are trending towards renting. As we mentioned above, all segments of the market have would be buyers who won't or can't buy. Instead, they are looking to rent houses. This has fueled the rental market in all areas of El Paso County. Who is offering the rentals? There are typically two scenarios in the market, home owners who must move but cannot part with the anticipated loss and investors. Nationally, about a third of all home sales are cash transactions driven by investors seeking to take advantage of the market. Typically, both are just looking to cover their expenses so rental rates are quite competitive. Some renters are looking for a long term living situation and are offering owners multi-year lease agreements to lock in the house and competitive rate.

Total Active Listings by Area
Q2 – 2011



Average Days on Market
Q3 – 2011



Buyer's Strategy:

The market does offer buyers the opportunity to invest and generate revenue. Those who qualify for mortgages can get financing at extraordinarily low rates creating excellent investment opportunities that feel safer than the equities market. Boylan and Company offers advice and services to our clients interested in making a move such as this.

key

BLA	Black Forest	NGT	Northgate
BRI	Briargate	OCC	Old Colorado City
CEN	Central	PWR	Powers
EAS	East	S/E	Southeast
F/V	Fountain Valley	S/W	Southwest
FAL	Falcon	TRI	Tri-Lakes
FAN	Falcon North	UTE	Ute Pass
MAN	Manitou Springs	WEST	West
N/E	Northeast	WPK	Woodland Park
N/W	Northwest		

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Valuation 101…

It is important to understand how your home value is determined whether refinancing or establishing a selling price. A couple of years ago, significant changes took place in the appraisal industry whereby appraisers must use sales from the last three months in nearby areas.

Comparables are homes that are in the subject's neighborhood and are similar in size and condition. The appraiser makes adjustments to value based upon number of bathrooms, basement improvements, fireplaces, etc. Ideally, three comparables will be used to generate a value for the subject home. The type of sale these comparables recently underwent is not a consideration for value inclusion. What does this mean? Distressed sales and foreclosures count. It is not uncommon to have at least one low value comparable considered since there are still many foreclosures hitting the market. A good Realtor will conduct a "Comparable Market Analysis" or CMA when listing your home. A CMA is quite similar to a residential appraisal and will set appropriate expectations for setting a price. It is critical that the CMA be updated regularly since it is not uncommon for houses to take more than three months to sell. Realtors with Boylan and Company are well trained and experienced with CMA's and understanding market valuations; give us a call for more information!

Year to Year Comparison
Q3 – 2010 to Q3 – 2011