

BOTTOMING OUT

Boulder Valley housing market offers reassuring signs

Similarities are beginning to pile up, comparing the end of the last miserable cycle for housing to this one. It's still early, but a reassuring convergence is developing.

LENGTH — The previous tough time for Front Range housing began in 1983, bottomed in 1988-89, and prices did not begin a general rise until 1991. This one began in 2002, and is probably bottoming now. Length is important: Incomes rise with inflation (they define each other), and the longer that home prices stay flat or down, the more purchasing power accumulates. Stretches of eight to 10 years are a long time.

CAUSES — The '80s specifics were different, but the music was the same. The downturn began with an oil bust and deepened into population out-migration, net negative until the end of the decade. Neither of those factors is in play today (the Colorado population has grown by 800,000 since 2000). However, the tech bust in 2001 had its parallel in the 1985 bankruptcy of Storage Technology Corp. Jobs in the 2000-2010 decade are a matter of debate, but appear not to have grown at all.

Heaven knows we had a real estate overbuild from 2002-2006, just like the one that ended in 1983; and just like that one, the eastern parts of the metro area and Interstate 25 corridor suffered the most. As in the Bubble, the '80s were also a time of very silly lending practices, commercial funding the worst (provided by night-of-the-walking-dead savings & loans), but the worst-ever residential loan type (previous to subprime), the Federal Housing 245 "graduated payment" and its intentional negative amortization cut broad swaths of carnage.

FORECLOSURES — Just as now, Colorado was a foreclosure capital from 1986-1990. The FHA had its own Sunday section in the Rocky Mountain News, re-marketing foreclosures, and prices fell as much as 40 percent in eastern Denver.

The current cycle has run longer: Colorado led the nation in foreclosures by 2004; although we have not had anything like the depth of trouble in the Bubble Zones, we have had a consistently high level ever since.

In this department, an important difference from the 1980s: The national economy then was in a healthy



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recovery. This time, just as we had about foreclosed our way through the tech bust, overbuild and stupid lending, we got hit by the Great Recession. Had it not been for that, I think by now we'd be well out of our down-cycle.

END OF CYCLE — As this one is not over, it's a tad premature for comparison. However, here are the markers. Rental vacancies grew every year in the '80s, reaching 17 percent by 1989 even in Boulder. It is not an accident that prices began to increase simultaneously with a deep drop in vacancies in late 1990 — near 5 percent. Metro vacancies are approaching that cycle-end now, although rents have not increased — yet. Another similarity: Unit sales (irrespective of type) fell each year from 1983 to 1988, and stayed the same into 1990; this time, unit sales began to crack in 2007, bottomed in the winter after Lehman ('08-'09), had a false-rebound from

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the homebuyer tax credits, and are now rumbling back on that post-Lehman bottom, only about 50 percent of normal volume.

RECOVERY MARKER — The most important marker that I know: In that rock-bottom of unit sales, 1988-1990, for-sale inventory steadily fell. The same thing is happening now: Longmont inventory has fallen in half in two years. At one point last month, in the whole city of Boulder, there were only nine homes listed below \$500,000. At this writing, Louisville has only 76 listings to support annual demand well over 350 purchases. And, as the inventory dwindles, the good and well-priced stuff flies off the shelf, leaving an unusually large collection of one-off, high-ask.

Boulder County markets are in a classic, end-stage emotional standoff, and simply enormous pent-up wish for a new home, or to be out of the current one. Sellers think, "Dump my house — give it away — in this!?" Buyers in perfect reciprocity say, "Buy a house, now!?"

The standoff ends as always, here and everywhere, when a seller emboldened by the quick sale of a similar home asks a higher price, and a small group of buyers — never intending to do so — frustrated by scarce inven-

tory, competes for the new listing.

Real estate is a slow-mover, and it can take price increases a year just to move across town. However, the psychology of boat-missing is a beautiful thing: Nothing changes the mind faster than waking to a suddenly empty harbor.

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