Is the **Denver Real Estate Market** in a **Bubble?**

Definitions of a Bubble

A bubble is a run-up in the price of an asset that is not justified by the fundamental supply and demand factors for the asset.

A surge in prices, often more than warranted by the fundamentals.

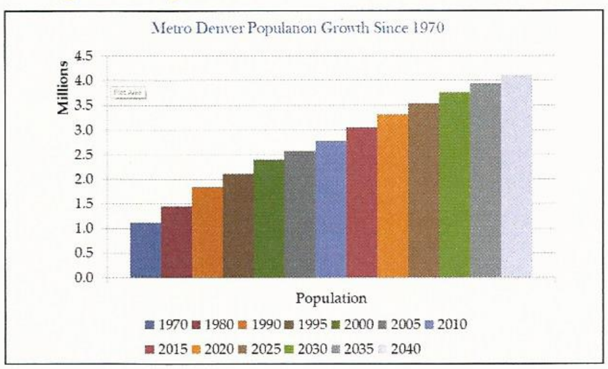
Thus, we will look at the fundamentals of real estate—demand and supply.

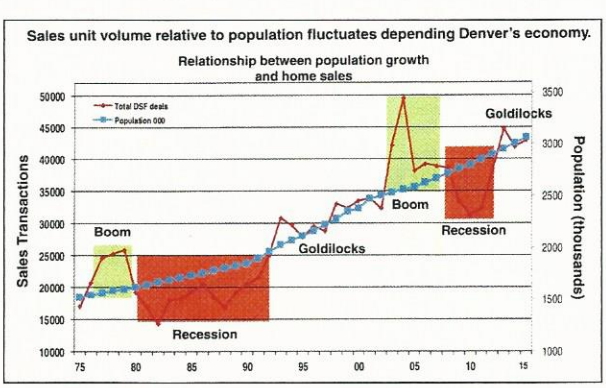
What Caused the Last Bubble?

1. "Fog a mirror" loan approvals, as nearly $2 trillion of sub-prime loans closed in 2004-2006.
2. A belief everyone could/should buy a home.
3. A belief that home prices would always rise.

These factors led to a HUGE surge in demand and when mortgage credit became tighter, demand FELL OFF A CLIFF. But, at the same time home builders were building 15,000+ new homes a year and they couldn't stop production of new homes quickly enough. This falling demand and surging supply caused prices to PLUMMET!

Factor #1 - Driving Housing Demand Today is Population Growth





Factor #2 - Job & Wage Growth Soars!

Since December 2011 we have added 250k new jobs.

Metro Denver's unemployment rate as of October 2016 is just 2.9%.

Metro Denver has added 49,000 new jobs from October 2015 through October 2016.

Personal incomes in Colorado in 2016 rose 5.1% according to the Bureau of Economic Analysis. Incomes grew 4.9% in 2014.

Factor #3 - Driving Housing Demand is Soaring Rents

In 2015 average apartment rents rose 10%.

3rd quarter data—average rents up 5.8% and median rents up 6% in last year.

The vacancy rate dropped to 5.1% in the third quarter, down from 6.8% at the end of 2015.

Zillow predicts that rent will increase 5.9% in 2017

Factor #4 - Driving Housing Demand is Record Low Interest Rates

Renters can lock in their cost of housing by buying a home and locking in today's low rates.

The Fed's ZIRP since the end of 2008 has lowered the liquid savings rate under .25%.

Thus, savers and investors have been looking for yield elsewhere and real estate has been a top investment vehicle for them.

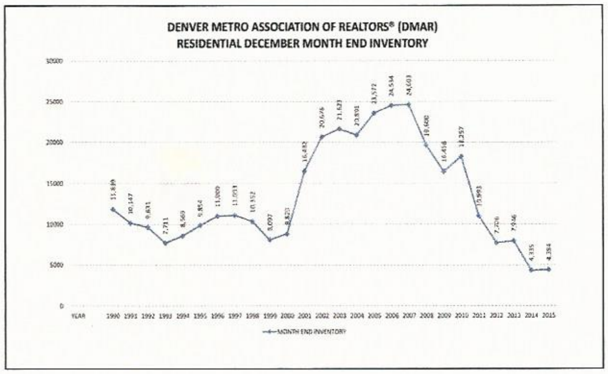
Factor #5 - Driving Housing Demand Is All the Awards We are Winning

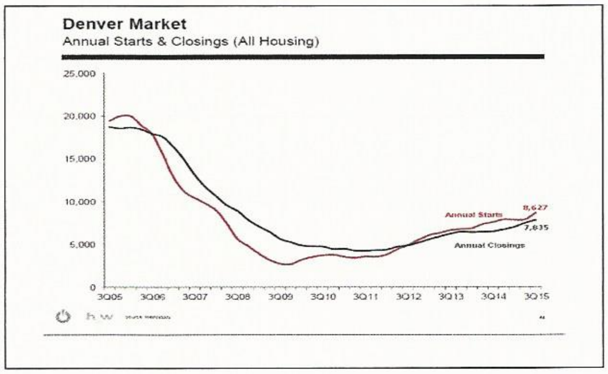
Nearly every week a publication or website names Denver or the Front Range one of the best cities or metro areas to live in for everyone ranging from Millennials to families to retirees.

Denver was ranked as the #1 city in the country to live in by U.S. News and World Report. Why? "Our healthy job market, cost of living, and perception as a desirable place to live," the report says.

Denver features 300 days of sunshine, the rugged Rocky Mountains, and no humidity that is drawing people here every year.

Now Let's Look at the Supply of Used and New Homes





Are Builders Keeping Pace With Our Growth?

In 2014 and 2015 builders built a total of 30,388 new apartments and homes.

In the last 2 years metro Denver has grown by about 120,000 people and this population increase required 48,000 new homes and apartments.

We built 18,000 FEWER homes & apartments than we needed!

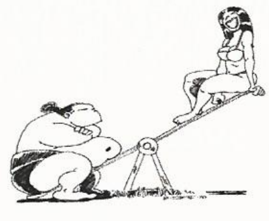
Why are Builders So Far Behind?

The big production home builders are taking 10-14 months on average to build a new home, double to triple the time it took 10 years ago.

The Construction Industry Training Council of CO says the construction industry is only attracting 1 new worker for every 3 older workers who are leaving the industry.

Michael Gifford, President & CEO of the Associated General Contractors of CO said, "We are at full capacity as to what we can build."

Thus Demand has to Decrease



Will people quit moving here?
Will job growth slow?
Will income growth end?
Will interest rates soar?
Will the mountains disappear?
Will 300 days of sunshine go away?
Will marijuana be outlawed?

2 National Experts Give Their Opinion

Svenja Gudell Chief Economist at Zillow said, "This kind of rapid and unflagging growth could be worrisome, and may indicate a local bubble starting to form in Denver;" however she points out it takes more than just rocket-like growth to fuel a bubble.

When growth "is driven by solid underlying economic fundamentals like strong job and wage growth, true housing demand and limited supply and not rampant speculation—which is the case in Denver," no matter how high the prices rocket, it doesn't mean that a bubble is inevitable, according to Gudell.

Ralph DeFranco, global chief economist for Arch MI said in June, "Don't expect Denver home prices to go down. Everybody wants in. It isn't a bubble and it will continue to be like this."

Could 2008 Happen Again?

From 2003-2007 you could buy a home with no money down with a 580 fico score and many did. Nearly all of these loans were 2 or 3 year ARMs.

For the last few years on a conventional loan the average LTV has been 80-85% with an average credit score of 760+ and > 90% loans have been fixed rate loans.

Fannie Mae's 6 month delinquency rate on loans closed since 2011 is only about .25%. From 1999-2003 this rate was about 2%. From 2004-2008 this rate averaged over 8%. We are lending to the CREAM OF THE CROP over the last 5 years; thus 2008 will NOT happen again!