

2011 Summary

Income Property Sales

*'You can't know where you're going
Until you know where you've been!'*

It's that time again! Each January, I research the previous year's small multi-family income property sales from our local MLS (Metrolist) for a market review and a peek into the future.

The multi-family SOLD information is from the four counties of Adams, Arapahoe, Denver and Jefferson. Sales are from January 1st through December 31, 2011.

The information used for comparison is from small multi-family property sales with less than 20 units. The majority, over 80% of these sales in the Denver-Metro area are in the 2-4 unit range. The 2011 price per square foot calculation has changed but the effect is less than a \$.50/ per square foot difference from 2010.

Complete sales lists broken down by County and Area are available for a more in-depth look into specific neighborhoods. These sales lists for your review, as in the past, have been broken down by Duplex, 3 unit and 4 unit buildings. Data for 5+ unit multi-family properties is also available but not published in this format. Many 20+ unit sales are not listed in the MLS are researched separately.

I offer updates quarterly throughout the year by email if you are interested in staying up-to-date on the current market prices and trends.

The ever increasing mailing and printing costs have prevented me from mailing the report to everyone. For those of you who are more comfortable with the printed page, I can still mail the information to you upon request.

The notes, numbers, ramblings and thoughts that follow are formed from my research of the MLS SOLD information, my day-to-day involvement in the local market and feedback from clients & associates in the business. Feel free to contact me regarding anything on the following pages.

Your feedback helps to keep me up-to-date on what type of information is most valuable to you. My satisfaction comes from helping you achieve your real estate goals.

As always, any suggestions, comments, complaints, praise, etc., is truly appreciated.

Market Improves for Small Income Property!

	Annual Income Property Sales		
	Total 2+Units	2-19 Units	Total Sales Volume
2002	520	0	\$0
2003	473	461	\$149,082,145
2004	634	618	\$193,874,674
2005	619	610	\$202,041,092
2006	579	564	\$198,683,420
2007	404	384	\$172,375,390
2008	430	408	\$109,852,750
2009	357	349	\$83,316,905
2010	378	370	\$102,508,966
2011	433	417	\$116,591,147

Income Property Sales – Increasing!

The table above shows the annual number of multi-family sales and total sales volume from the MLS by year.

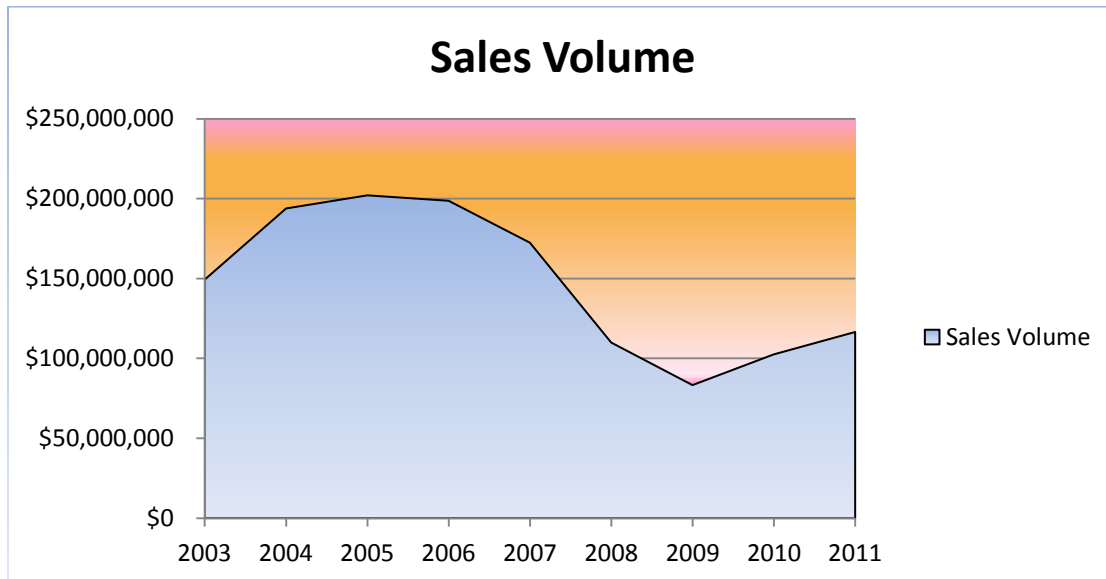
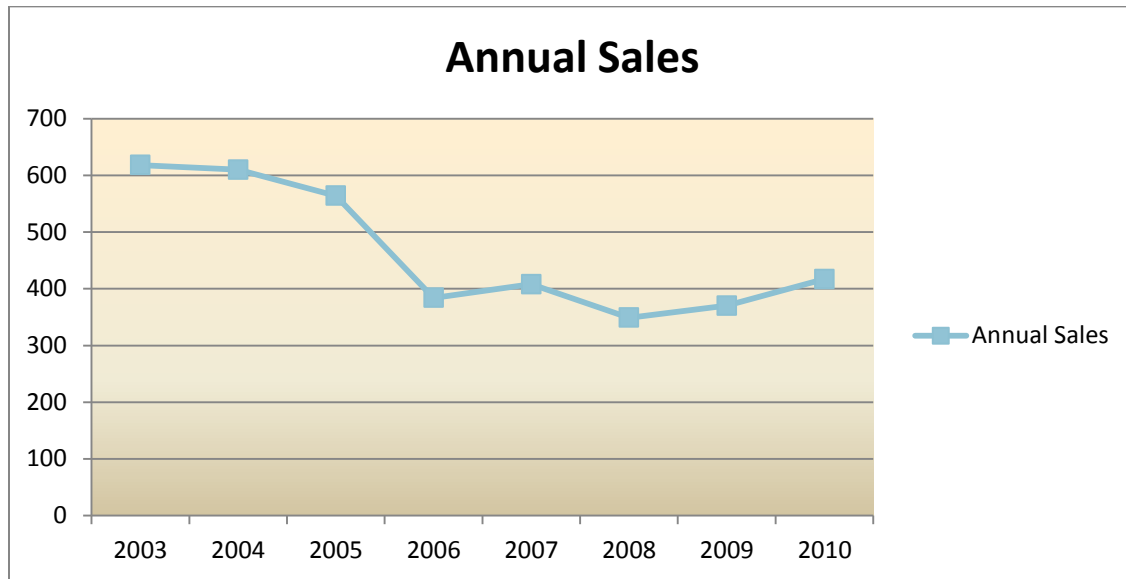
2+ Units includes all 4 county listed multi-family sales.

2-19 Units includes all 4 county listed multi-family sales with less than 20 units.

Total Sales Volume is calculated with sales of the 2-19 units for comparison.

2011

The table above and the graph on the next page illustrates that the total number of small income property sales rose again in 2011 to 417 from 370 in 2010 which was up from a previous decade low of 349 in 2009. This is still well below the highs of over 600 in both 2004 and 2005 but the trend (more on that later) is higher over the past 3 years. As I stated last year, a bottom seems to have formed in both in the amount of sales and sales volume.



Sales Volume – Up for Second year in a row!

Total Sales Volume was up again in 2011 after turning positive for the first time in 5 years in 2010. Volume had declined from 2005 to 2009 by 60%.

While still well below the 2005 high of over \$200 million, it has trended up from the 2009 low of \$83 million.

With the latest increases in Sales Volume and Total Sales in 2011, we could be looking at 2009 as the bottom of the market and maybe entering the next phase of the market cycle.

Market Cycles

Having an interest in technical analysis, (I am by no means an expert), it struck me that the previous two charts are showing a very good comparison to standard Market Cycles charts. Check it out below.

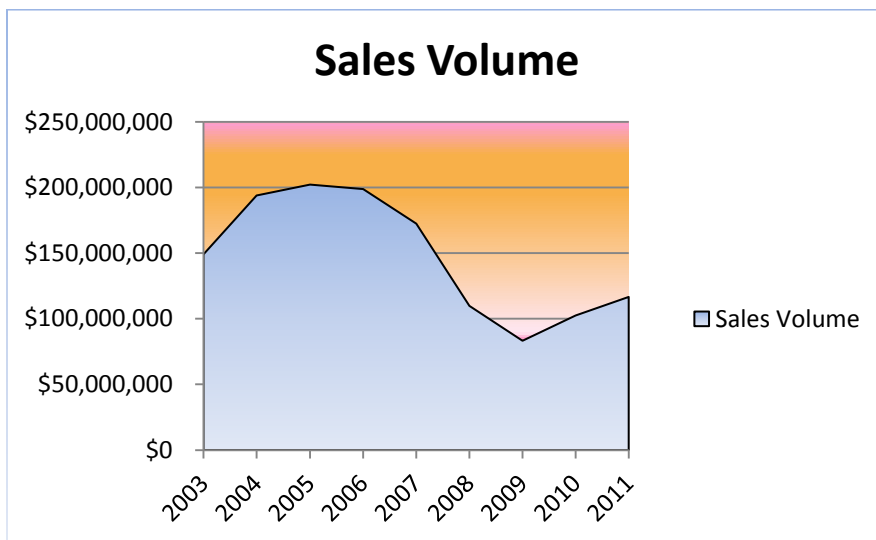
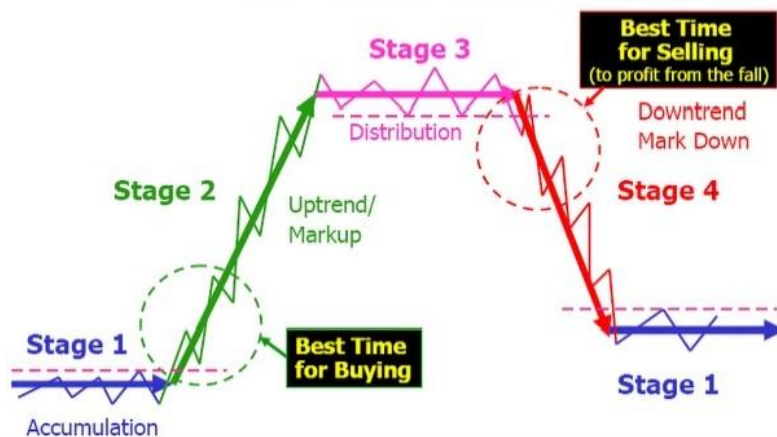
There are 4 stages to market cycles;

Stage 1 – Bottoming/Basing/Accumulation

Stage 2 – Advance/Uptrend/Markup

Stage 3 – Topping/ Basing/Distribution

Stage 4 – Decline/Downtrend/Mark Down



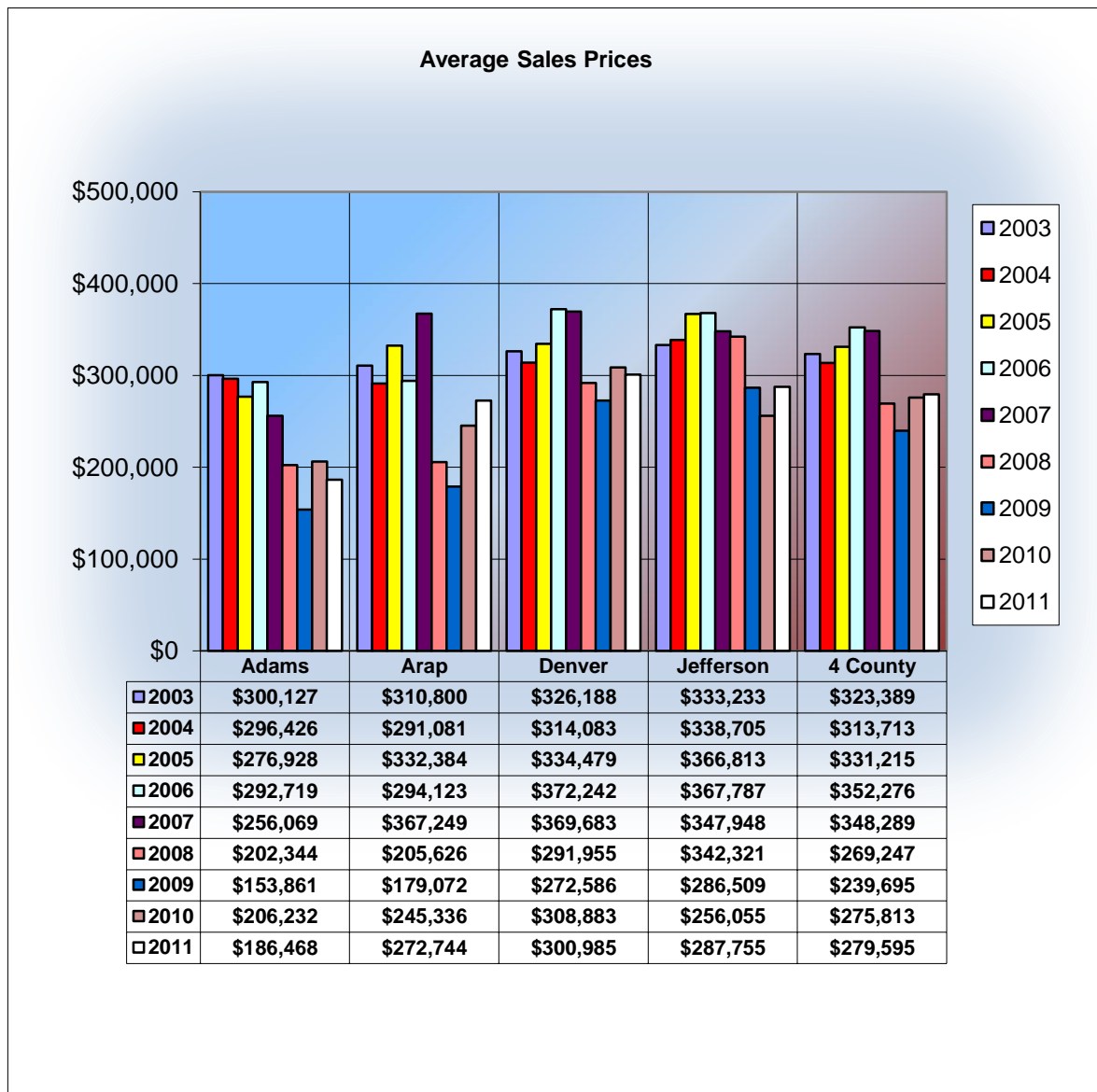
We appear to have a bottom in place at 2009 and have started the Stage 1 / Accumulation cycle and are possibly entering a Stage 2 / Uptrend. This offers the opportunity for profits ahead if the pattern holds true.

Average Sales Price- Also UP!

The 4 County Average Sales Price increased only slightly to \$279,595. This number coupled with the higher total sales and higher total volume number means that overall there were more sales but at close to the prices of the previous year.

The Denver County average was down slightly while Jefferson County saw an increase of 12.5%

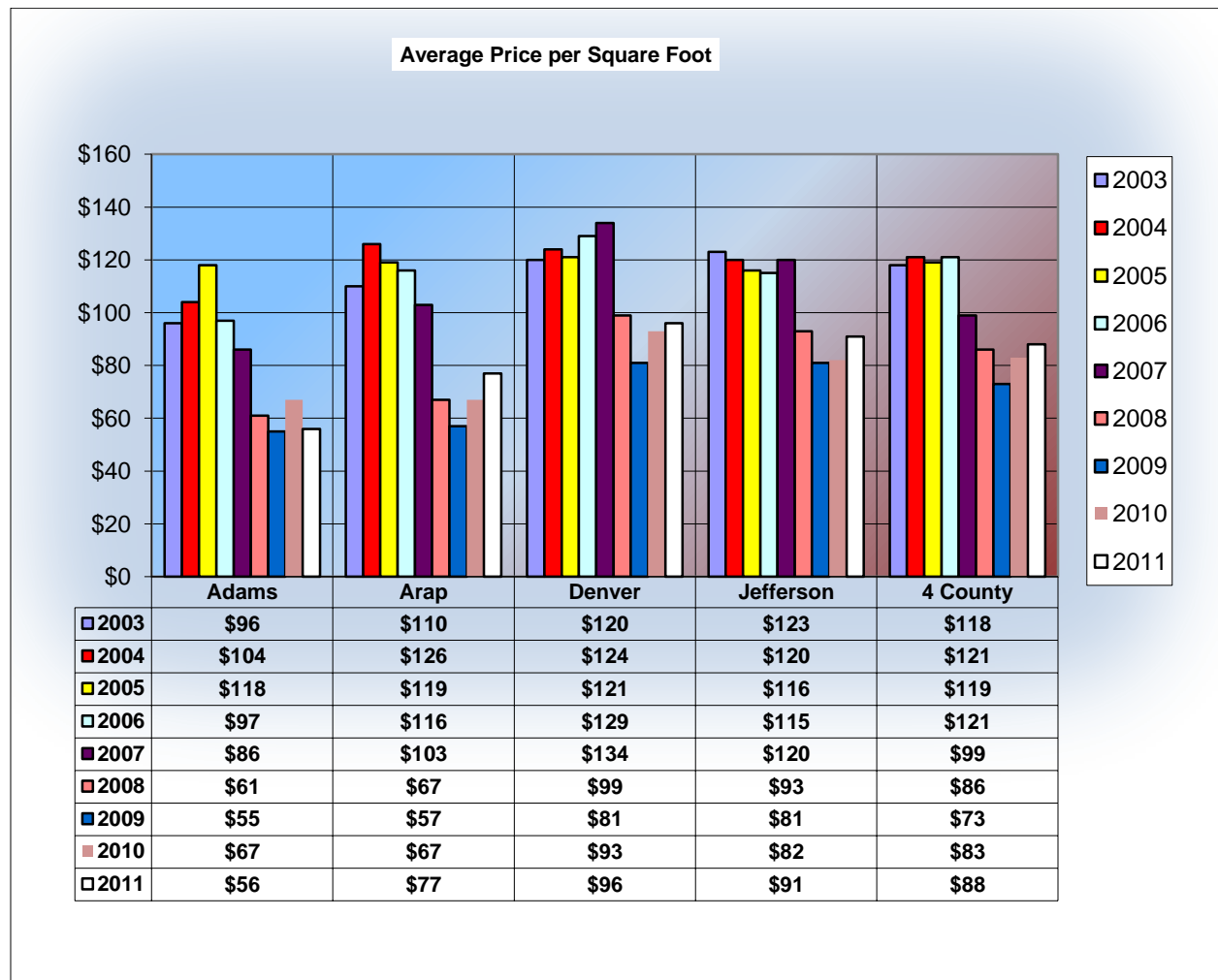
The Average Sales Prices in Adams and Arapahoe Counties have been more volatile of late. Arapahoe was up 11% over 2010 but Adams went down almost 10%. The Adams County average DUPLEX sale was under \$100,000 and the 4 UNIT sales average was less than \$185,000!



Average Price per Square Foot – Mostly Up!

The Average Price per Square Foot numbers showed slow improvement but were up only \$5.00 per square foot across the 4 counties. Arapahoe was up \$10, Jefferson rose \$9 with Denver up only \$3 per square foot.

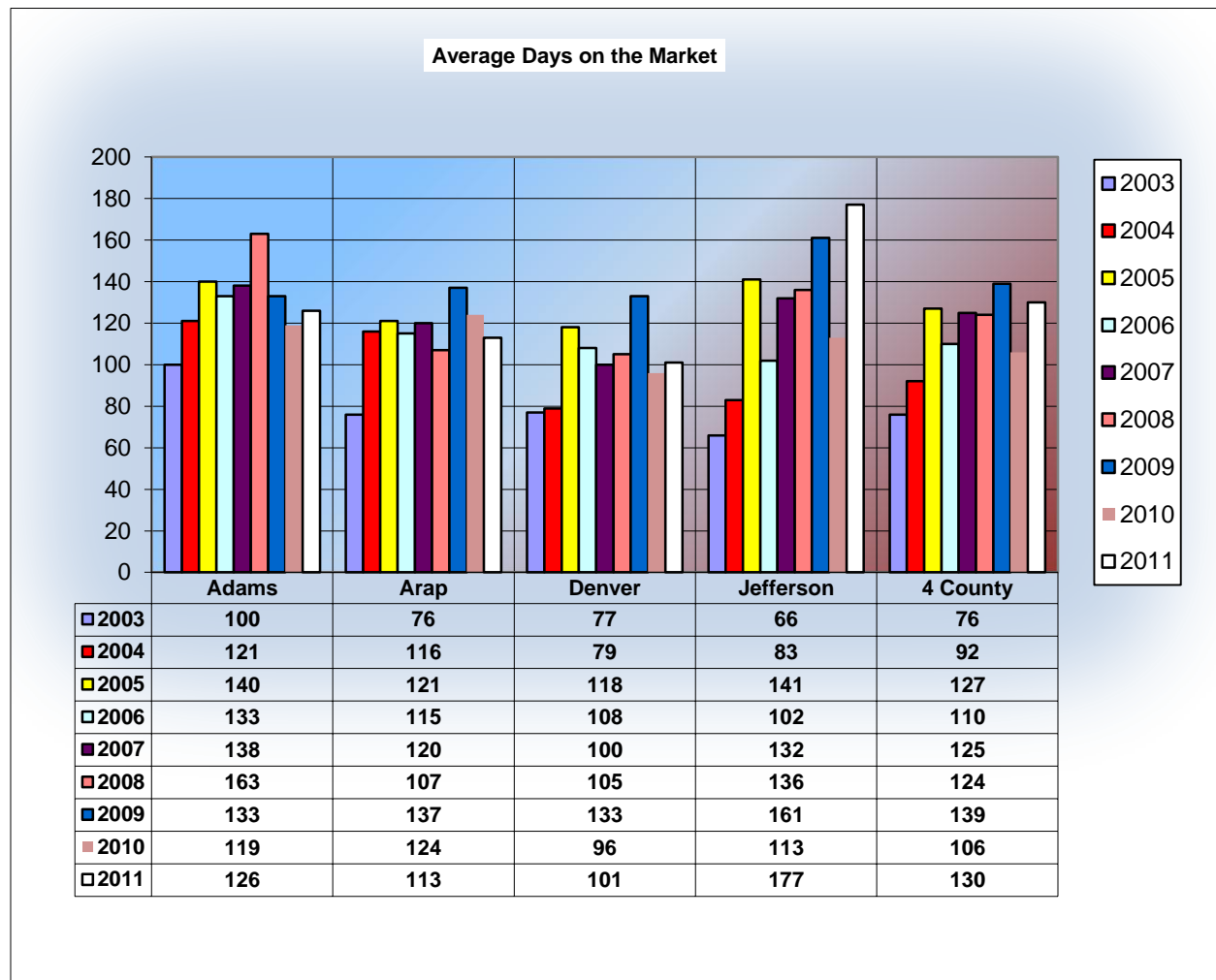
Adams County showed the biggest and the only negative change. Duplex sales numbers stayed the same but their price per square foot dropped \$20. Adams County total Fourplex sales doubled but their price per square foot dropped \$24!



Days on Market (DOM) - Averaging about 4 Months

The amount of time between listing and closing increased in all but (here it comes again) Arapahoe County. The longer times necessary for loan underwriting and short sales, as well as the huge increase in Jefferson County numbers helped contribute to the overall increase.

Jefferson County DOM increased from an average 113 days to 177 but the median number of Days on the Market is only 152. Part of the blame on the increase is caused by 12 sales that were on the market for over a year before they closed - ranging from 367 days through 1,041 days. Also, there was an Edgewater package of 4 Duplexes that are listed 4 times at 265 days. The average Jefferson County DOM is only 136 days when removing three of the duplex sales and the mature listings.



Foreclosures

According to RealtyTrac, foreclosures nationally dropped over 34% from 2010 to 2011. They expect 2012 to be higher but less than the 2010 peak.

In 2009, one of every 3 sales of Small Income Property in the Denver-Metro was a bank owned deal. In 2010 it was a little over 50%, with 47% of sales coming from Individual Sellers.

2011 saw an increase in Individual Sales of the 2-19 units from 47% up to 58%. Only 53% of 2-4 unit sales were listed as Individual Sales.

I have talked to a couple of people in the mortgage business recently who think the 'Shadow Inventory' is a possible monkey wrench in any housing recovery. It includes properties that have been repossessed but have not been put up for sale, those caught up in the clogged foreclosure process and the ones that are severely delinquent in loan payments and headed for foreclosure.

The national estimates range wildly from 1.6 million homes on the low end up to 15.3 million homes on the high end. Depending on the actual numbers of these properties and how this inventory is fed to market will determine how any housing recovery continues or stalls.

Below is a link to a National map with local estimates of its impact.

http://www.miamiherald.com/static/multimedia/Special_Reports/business/fullscreenmap.html

Denver-Metro's improving rental market conditions should help stem the tide of new foreclosures and keep the threat of any "Shadow Inventory Dump" in Small Income Properties at bay.

Sales Concessions

Sales concessions which were such a huge problem just a few years back are no longer much of an issue. Most are legitimate and the total concession amount for all 2-19 units is under 0.6%. Very few entries appear questionable. The abuses and the underhanded practices that were so prevalent a few years back have thankfully not returned.

Financing - Always an Issue

2-4 unit owner-occupant Buyers still have the FHA low down payment loan option with up to 96.5% LTV. FHA also offers the 203K Loan program for owner-occupants which is excellent for buying a fix-up property and being able to borrow the fix-up monies at closing. The 203K Loan is available only to owner-occupants.

Conventional owner-occupant 5% down financing for 2-4 units went away towards the end of 2011. It now requires 20% + down payments.

As an Investor, it basically takes 25% down to finance a 2-4 unit sale with conventional financing. There have been some rumblings about a program similar to the 203K for Investors in the past couple of years but so far nothing has materialized. This would really move the market, if it ever comes to fruition.

Owner Carry Financing has been available but rare.

Converting a poorly or non-performing retirement fund to a Self-Directed IRA is an excellent option for financing. Comparing present real estate with your present returns with should offer positive alternatives.

The good news is that interest rates have remained low and do not look like they will spike up quickly. It's safe to say these rates are not going to be available forever but when they will increase is anyone's guess.

The bad news is that the qualifying process is not as easy as it once was. I had one Buyer this past year that just quit in the middle of the qualifying process and used their IRA cash. A Buyer for one of my listings said facetiously at the closing table regarding the qualifying process, "never again! When they ask for the type of toilet paper I use, that is getting to be a bit much!" (-:

Also, Buyers and Sellers need to be aware of the constant changes being implemented into the process from our always helpful and overseeing government. The Dodd-Frank act is close to 900 pages, has untold rule changes and a "brief" summary takes about 20 pages.

Did you like the payroll tax cut stimulus? It included a hidden tax, which goes into effect April 12 that will affect most people buying or refinancing. It is scheduled to last 10 years and produce the \$37.5 billion needed to cover the payroll tax cut extension and an extension of unemployment benefits for up to 99 weeks.

In the words of John Stossel, "Give me a break!"

Rents and Vacancy

[See *Denver Post* info below.](#)

Simply put,

Low Vacancy = Higher Rents!

Higher Rents = Higher Net Income!

Higher Net Income = Higher Values!

In 2011 vacancies were down, concessions were down and rents went up.

One of the most prevalent operating/management issues that Small Income Property Owners have vs. the 'Big Boys' is taking advantage of opportunities to raise rents. 2-4 Unit property owners tend to become too close to their tenants and it affects their economic decision making.

Some owners (you know who you are) will never raise a tenant's initial rent.

I do realize that the current economic conditions will not allow us to raise rents as high as we could historically with vacancies numbers this low. But the opportunity is there for some increases.

I have heard several differing views in the past year regarding rental increases with existing and new tenants.

Many have relayed to me their amazement at the amount of interest they get in any new vacancy but they also have become aware that a spotless credit rating is rare among applicants. Thorough screening along with a character 'gut check' is always in order with new tenants.

Some owners who have tried to be aggressive with rental increases on existing (and new tenants) have had issues with losing tenants shortly after the increases. They were then forced to back off a bit or try again. Others have been slow to try to raise rents because they fear these same issues will be a problem for them.

One goal this year is for me to continually make owners aware of the opportunity to raise rents. Don't be greedy but understand as an Owner, you need to maximize your investment!

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Summary 2011

The 2011 real estate market for the Small Income Property Owner was an extension of the 2010 market. It showed a continued small improvement over the previous year.

On the positive side, it continued growing slowly in a profitable direction. The year was helped by a few more investors, with a couple of more dollars and the previously mentioned low vacancy rates, rising rents and low interest rates.

On the negative side it was held back by foreclosures, short sales, single family home investments, shortage of lending options, longer times needed to close and a less than inspiring economic outlook.

The business of Real Estate is constantly changing. 2011 offered the consumer more technology along with more transparency but the sales process is constantly becoming more complex. Brokers must keep up with the changes and continuing education or be left behind.

Discount Brokers have been floundering but have helped show the need for competent Real Estate Brokers with the necessary knowledge to negotiate and complete a clean deal.

Check out this article, <http://agbeat.com/real-estate-news-events/forsalebyowner-com-founder-gives-up-on-own-listing-hires-real-estate-broker/>. It tells how the founder of a discount brokerage tried and failed to sell his own home by owner. He then listed with a competent broker; received multiple offers and got more than the asking price!

The National Association of Realtors (NAR) reported that over 25% of Realtors are no longer in the business. Some say the number that have quit is much higher. A separating of the wheat from the chaff!

The NAR also reported that it 'overestimated home sales by more than 14 percent since 2007.' How does that happen?

On the good news front, we at RE/MAX are thriving. J.D. Power and Associates reported in 2011 that they recognized RE/MAX as providing the highest overall consumer satisfaction for both Buyers and Sellers. Also in 2011, the RIS Media Power Broker Survey and the REAL Trends 500 both showed that RE/MAX agents averaged more than double the average transactions of many competitors.

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Outlook 2012

Overall in 2012, I expect more of the same - a general improving of the Small Income Property market but with more positive influences than negative to start the year.

The aforementioned low vacancy and interest rates along with rising rents should help increase values. Smart/early/big money is betting on multi-family. Multi-family housing starts have picked up. The National Association of Home Builders reports that starts of multi-family have grown strongly and are back up to 2/3 of normal.

Obviously, more jobs will mean more cash flowing and better prosperity for all. Migration to Colorado is up; we are in the top 5 states for positive in flow of new residents. We welcome DaVita, Arrow Electronics and all newcomers.

Possible negative factors to watch out for; a shadow inventory dump of single family homes and rising interest rates – possibly later this year.

Intangibles

One thing that has loomed over us for a while is the possible/probable European recession, bankrupt countries and their effect on our interest rates and economy.

Another is inability of our own leaders to deal with the deficit, rein in spending or to allow our economy to flourish and increase revenues.

2012 is a Presidential election year! If you weren't aware of this fact, you will be in the next few months. \$6-8 billion – with a “B” will be spent to get a job that pays \$400,000 a year. (Although, I hear the retirement plan is pretty good!) Like it or not, this will election will weigh heavily on the economy for years to come.

Also, there is the ever present wacko 9/11 factor.

2012

For Owners - Increase Values!

With low vacancies and higher rents it should be somewhat more profitable to operate your income property than it was a few years back.

Raise rents, even if just a little. Income property is valued on INCOME. Raising rents increases the value and helps you offset rising expenses which lower value.

Lease up quickly! Avoid the lost days of rent that can never be recovered when you have tenant turnover.

Consider if this is the time in the market cycle to sell your current property and move up to a better or more suitable investment. The 1031 tax-deferred exchange is still available and an excellent device to move all of your equity into a more suitable investment.

For Buyers - Small Income Property is "On Sale"!

If Duplexes were cars, we would be hearing a screaming "Dealing Doug" type yelling at us, "Buy Now! We've slashed prices & are offering cut-rate financing!"

2012 offers an excellent opportunity for the Buyer to get into this market. Prices are still 20% off their highs. Interest rates are at lifetime lows! Vacancies are low and rents are rising with more tenants coming into the market.

Contact a competent Broker (Me) to find and negotiate the best deal. You won't be able to match the lowest prices in the neighborhood from the last couple of years but you can still find a deal that makes excellent economic sense with less downside potential.

If you can be an owner-occupant buyer, the FHA options are still available and attractive.

Consider a Self-Directed IRA for Real Estate as an alternative retirement plan.

2012

For Sellers - Timing? Taxes?

With more buyers and money coming into the market, Sellers will now have a better opportunity for a chance at a profitable sale. Sellers will also start to see some positive influences of the lower vacancies and higher rents.

Rising interest rates, should we see them, will not help Sellers.

Prices are still off of their highs, but with fewer listings, Sellers should be in a better position than they were a few years back. It appears that most of the 'bottom fishing' deals are in the past and market competition among Buyers will open up the search for the best deal available.

If you intend to sell and pay off the taxes on the sale of your income property in the next 2 years, a 2012 sale is the smart move if considering Capital Gains Taxes. The 15% Long-term Capital Gains Tax Rate that was put in place in 2003 was again extended in 2010 through 2012. The Capital Gains rate is scheduled to jump to 20% after 2012.

If you are not ready to pay the taxes and leave the business completely, Seller's still have the 1031 tax-deferred exchange available to roll their equity into larger or more suitable property.

Now is an excellent time for Sellers with some equity to review their return on equity and look at whether it is a good time to move up to a newer, larger or more suitable property.

The first step is to contact me for a unique Current Market Analysis of your property.

2012 – Bring it On!

2-4 Unit Owners!

Contact me for a complete list of all the 2011 2-4 Unit sales in the County where your property is located!



If you are interested in Buying, Selling or Trading or if you have any questions, comment, compliments, complaints or corrections regarding anything in this report or any real estate related questions, please feel free to reach me at any of the contacts listed below.

Oh, by the way ... if you know of someone who would appreciate the level of service I provide, please call me with their name and business number. I'll be happy to follow up and take great care of them.

Keith A. Hurtubise

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As reported in the Denver Post;

Apartment vacancies fall

Posted: 11/17/2011 01:00:00 AM MST

The Denver Post

Colorado's apartment-vacancy rate has reached its lowest level since 2001, the Colorado Division of Real Estate reported today.

The statewide apartment-vacancy rate, not including Denver, averaged 5 percent in the third quarter, down from 5.5 percent a year earlier and from 5.2 percent in the 2nd quarter. Metro Denver's vacancy rate, measured in an earlier survey, fell from 5.3 percent to 4.9 percent. The statewide average apartment rent rose 3.1 percent, from \$871 a year ago to \$898 in the third quarter.

Read more: [Apartment vacancies fall - The Denver Post](#)

http://www.denverpost.com/business/ci_19352679?IADID=Search-www.denverpost.com-www.denverpost.com#ixzz1jSxWezFM

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Apartment vacancies lower, rents higher in Denver metro region

Posted: 11/03/2011 12:09:57 AM MDT Updated: 11/03/2011 12:11:06 AM MDT

The Denver Post

An apartment in metro Denver keeps getting harder to find, as vacancy rates remained below 5 percent in the third quarter of this year, according to a new report from the Apartment Association of Metro Denver and the Colorado Division of Housing.

At a 4.9 percent, the most recent quarterly vacancy rate is the lowest third-quarter mark since 2000, the report found. Last year's third-quarter rate was 5.3 percent.

"Vacancy rates remain near 10-year lows and the vacancy rate has dropped year-over-year for the past eight quarters in a row," report author Ron Throupe, an assistant business professor at the University of Denver, said in a media release.

As economics tend to do, scarcity drove up price. The median monthly rent in metro Denver rose to \$881, a 2.9 percent hike from the third quarter of last year, when the median rent was \$856. Denver County saw the largest increase in rents, 5.4 percent from \$809 to \$853. Douglas County, however, reported a decline of 3.6 percent, from \$1,111 to \$1,071.

In the metro region, the median rent in Adams County was \$886; Arapahoe County, \$844; Boulder/Broomfield counties, \$991; and in Jefferson County, \$837.

Concessions, discounts and delinquencies fell from 13.6 percent last year to 10.4 percent for the same quarter this year, the report states.

"We're starting to see concessions go away and all those offers for free rent are becoming rare as vacancies fall," Colorado Division of Housing spokesman Ryan McMaken states in the release. "Delinquencies are still an issue, though, as renters confront unemployment and declining wages." The report is available at www.aamdhq.org.

Read more: [Apartment vacancies lower, rents higher in Denver metro region - The Denver Post](#) http://www.denverpost.com/breakingnews/ci_19253533?IADID=Search-www.denverpost.com-www.denverpost.com#ixzz1jSyDBRYD

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2011 - Bye-Bye!

Income Property Review

2012 - Bring it on!



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