



YOUR CASTLE
— REAL ESTATE —
4th Quarter 2015 Home Trends
1/11/2016

Who is Your Castle Real Estate?

Established in 2004, Your Castle Real Estate has grown to become the 2nd largest independent and 7th largest real estate company on the Front Range according to the Denver Business Journal, with more than 500 agents in 6 offices. Currently, we are the 175th largest and 5th fastest growing real estate company in the country. We sold over \$1.2 billion of real estate in 2015.

In the past few years, Your Castle has appeared in many local and national publications including recent awards from the Denver Business Journal and Inc. 5000. Look below for more of our awards and media to which we have contributed.

At Your Castle, we are passionate about delivering exceptional consumer experiences. By offering a complete suite of real estate services, we ensure that we meet our consumers' every need. From sales and rentals, to commercial and new builds, we have experts in every field to guide you skillfully from beginning to the end of your real estate journey.

We believe that access to the best and most timely information can dramatically shape our decisions and no one does more research on the local housing market than Your Castle. Today's consumer needs a trusted resource that can separate signal from noise and help them navigate the complex process that real estate has become. With our extensive knowledge in every aspect of the field, and fueled by consumer research and insights, we are the go-to source for market information and education.

Your Castle Real Estate: *Local Knowledge. Total Commitment.*

Awards and Honors...



America's Fastest-Growing
Private Company
2014: #2951



Denver's Fastest-Growing
Private Company
2013: #5
2014: #5



Top 200 Real Estate
Brokerage in the Nation
2014: #186

As Seen In...



Key messages for homes. Prices are up 11% in the prior 12 months vs historical 6%. Inventories are tighter than last year, especially for homes under 1,700 SF. In 2016, we expect 6-8% appreciation, modest unit sales volume increases, and tight inventories. The crunch is / will be tightest in the first-time buyer market. No relief in sight under \$300K.

Metric	Performance	Observations
Average Home Price \$	4Q14 vs. 4Q13: +11% 1Q15 vs. 1Q14: +15% 2Q15 vs. 2Q14: +12% 3Q15 vs. 3Q14: +11% 4Q15 vs. 4Q14: +10%	Prices grew 8.5% in 2014, 10% in 2015 and 11% in 2016. Our historical appreciation rate from 1971 to 2014 averaged 6% per year. Recent above-average gains were driven by low inventory (esp: low and middle range of market). Much of the “appreciation” is a mix change of sales of bigger, expensive homes. In our view, smaller size segment appreciation will continue to outpace larger home categories in 2016-17.
MOI (Months of Inventory)	01/01/15: 1.0 MOI 04/01/15: 1.0 MOI 07/01/15: 1.5 MOI 10/01/15: 1.8 MOI 01/01/16: 1.0 MOI	MOI has been stable to declining for 24 months. On 1/1/16 it was 1.0 months. The smallest 50% of market (homes up to 1745 sq. feet) have approximately 0.3 MOI – a <i>very</i> strong seller’s market. The luxury market (largest 10%) is nearly a buyer’s market, at 6 MOI. Denver will remain a strong sellers market at lower price points for at least another 12-18 months. Luxury homes are almost balanced. That will continue in 2016.
Showings per Active Listing per Month	4Q 2011: 7.6 4Q 2012: 10.5 4Q 2013: 10.5 4Q 2014: 12.6 4Q 2015: 12.8	Showings are a good leading indicator for UC... which predicts sales. Showings in 4Q15 about the same as 4Q14. As in 2013-14, “desirable” homes in good condition that are priced right still sell rapidly with lots of showings. Sometimes with multiple offers. This is true at all price points. Overall the market is “less hot” than it was in 2Q2015 and 2Q2014.
Under Contract (UC)	01/01/15: 2,718 04/01/15: 4,724 07/01/15: 5,464 10/01/15: 4,719 01/01/16: 3,413	UC is the best leading indicator of sales. At the end of 4Q15, homes under contract were significantly higher than 4Q14. Note that there was a change in how banks provide information to title companies for closing the transaction (TRID). Many brokers wrote 45 day contracts instead of a typical 30 day close throughout 4Q. Some of the increase in UC is likely due to this. Still, we anticipate 1Q16 sales volume to be above 1Q15.
Number Sold	4Q14 vs. 4Q13: +1% 1Q15 vs. 1Q14: 0% 2Q15 vs. 2Q14: +1% 3Q15 vs. 3Q14: +2% 4Q15 vs. 4Q14: 0%	2012 unit sales were +12%. 2013 was +16%. In 2014 this reversed; sales were -7% vs. 2013. 2015 volume was flat from 2014. Price increases have not (yet) brought extra inventory in the market. It’s inevitable that increased prices will increase inventory, but it is impossible to know when. 2016 may see slight increases in unit sales volume.
Inventory	01/01/15: 2,955 04/01/15: 3,149 07/01/15: 4,437 10/01/15: 5,419 01/01/16: 2,987	Inventory levels continue to stay historically low, especially for smaller homes. This will continue to drive big price increases on the low end. Supply and Demand 101 predict inventories should have increased in 2013... we’re still waiting. In our view, inventory for the smallest 50% of homes will remain tight – or get even tighter – in 2016. While it’s difficult to buy, do it now if you can. It could be more difficult in 2016-17.

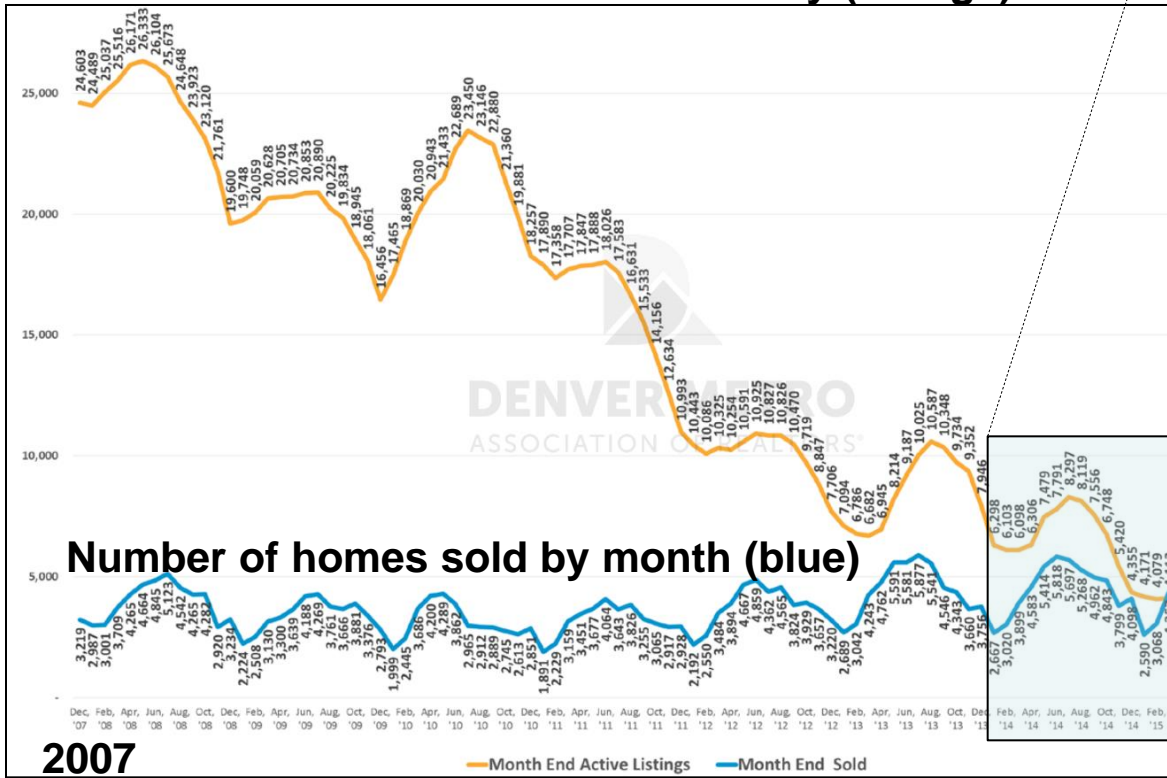
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Historical context: Inventory levels of homes and condos available for purchase are historically low.

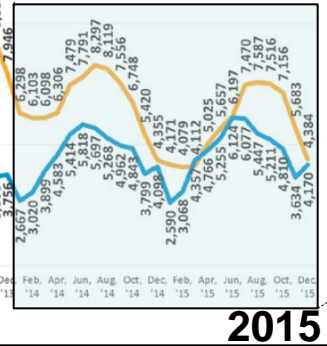
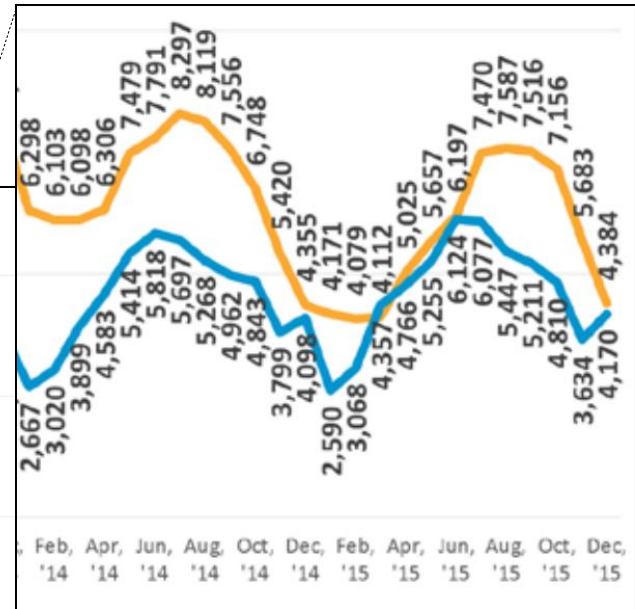
Denver Metro (homes, condos and townhomes)

Inventory (top line) and monthly sales (bottom line), 2007-2015

Number of active homes in inventory (orange)



Number of homes sold by month (blue)



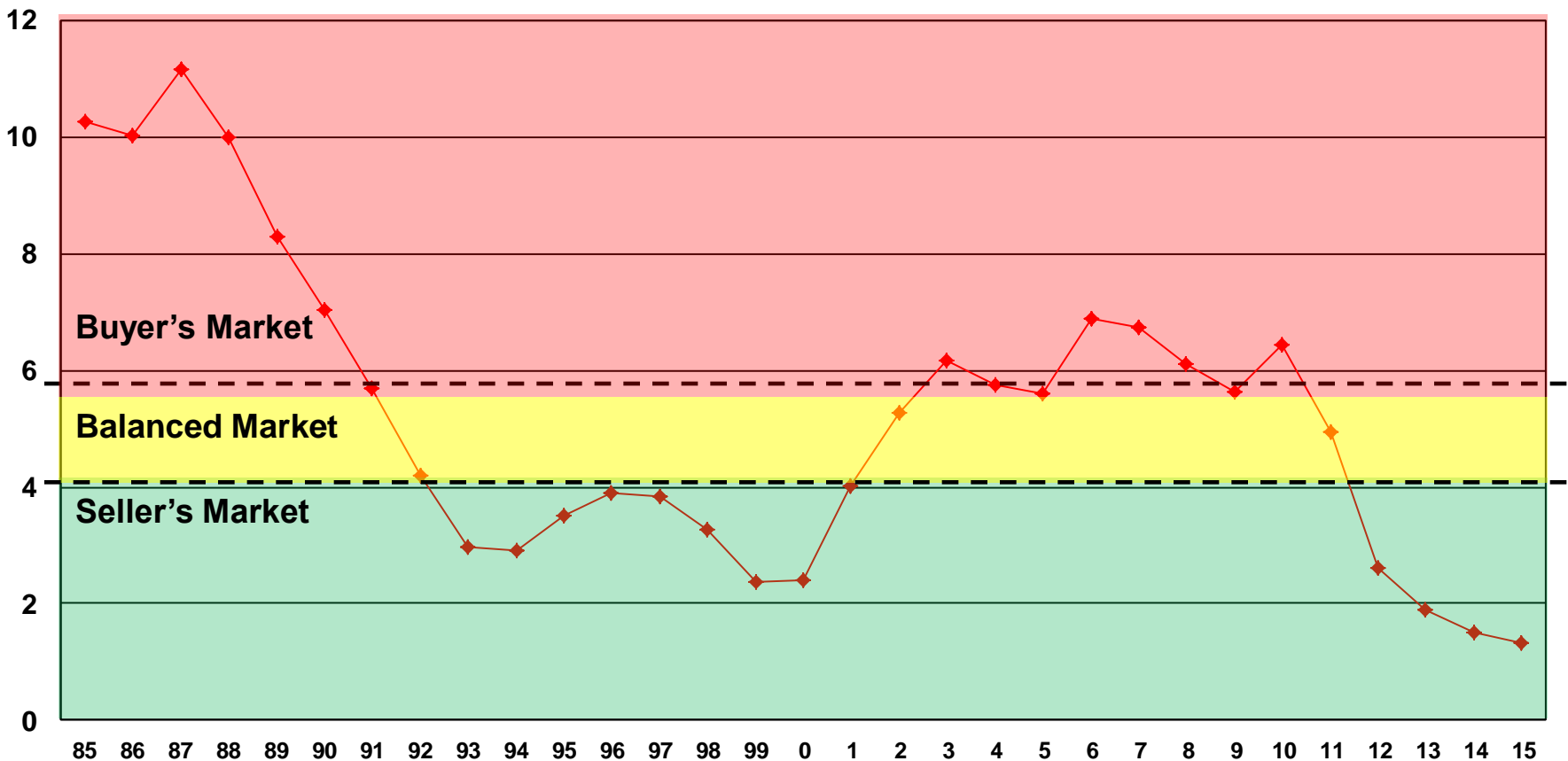
Source(s): Denver Metro Association of Realtors

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Historical context: We have been through this before. Inventory is tighter now than in 1999-2000, but not by much. MOI on 1/1/16 was 1.0.

Months of Inventory (MOI)

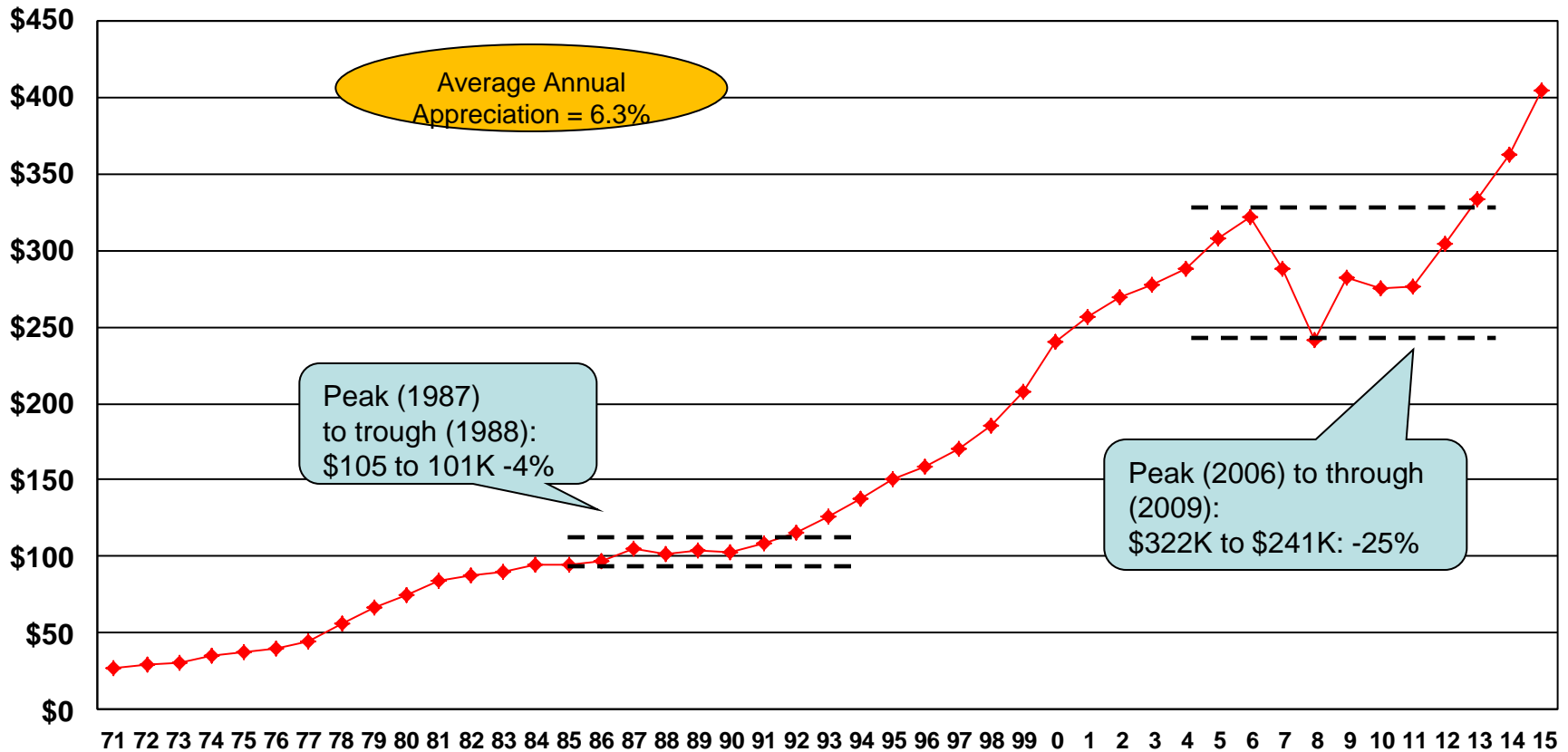


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Historical context: The average Denver home price from 1971-2014 was mostly an upward march: +6.3% per year. In the last recession, prices dropped 25% from their 2006 peak. Home prices hit bottom in 2008. Prices have been going up ever since, reaching all time highs in 4Q15.

Denver Metro (DSF only, not condos or townhomes)

Sales Prices in \$000



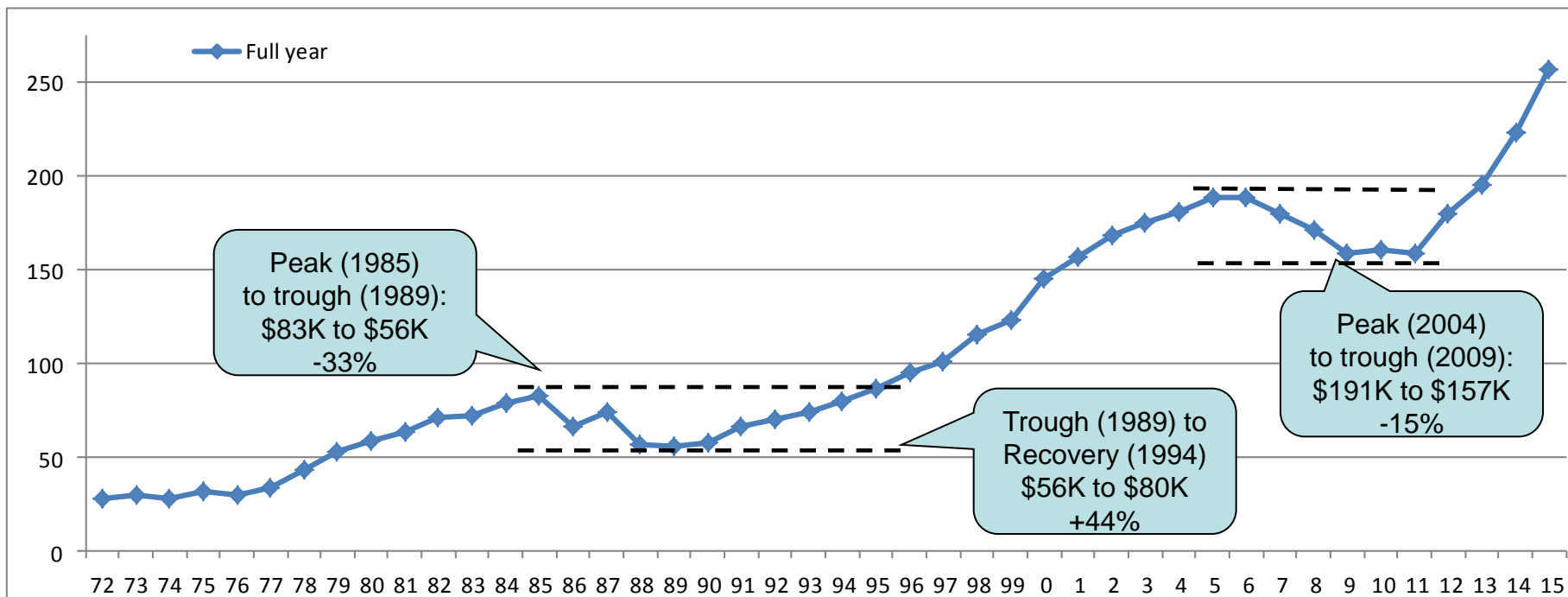
Note: DSF = Detached Single Family Home

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Historical context. The average Denver condo price from 1972 to 2014 has mostly been a march upwards: appreciating +5.3% per year. 2015 saw condo prices hit all time highs, up 15% from 2014.

Denver Metro (Condo & Townhomes only, no DSF)

Sales Prices in \$000



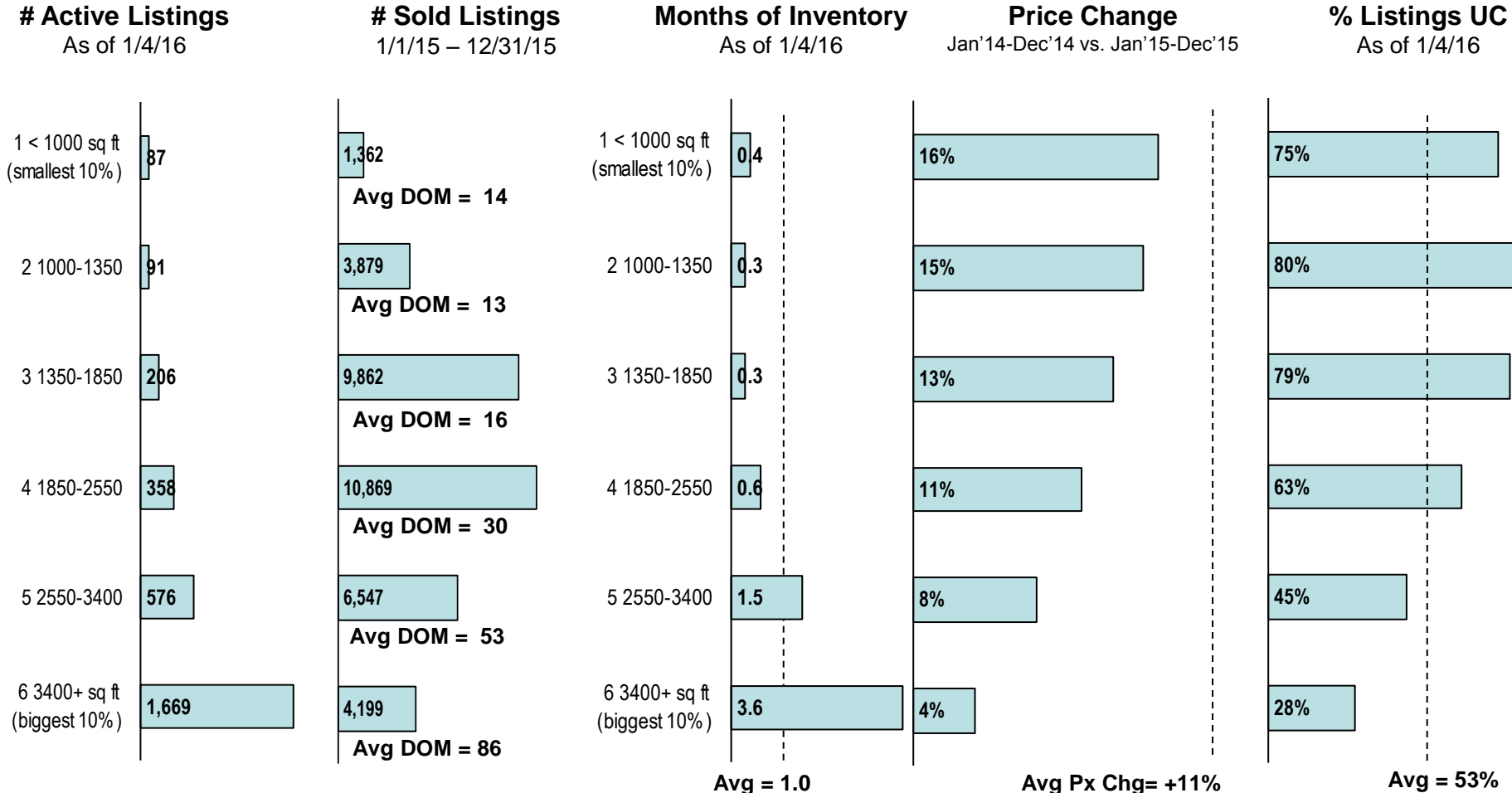
Why did the condos appreciate less than homes? One guess: The average home price in 1972 was \$29K. The average condo price in 1972 was \$28K. We'd guess the initial condos were relatively luxurious and in great locations. Condos built since then have been positioned as "entry level" – smaller than homes, and thus less expensive.

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Overall, there was 1.0 month of inventory (MOI) on 1/4/2016. There is less than 0.5 MOI on homes under 2,550 SF (very strong seller's market). Homes under 1,850 SF are generally selling at a 1.5% *premium* to asking price, not at a discount.

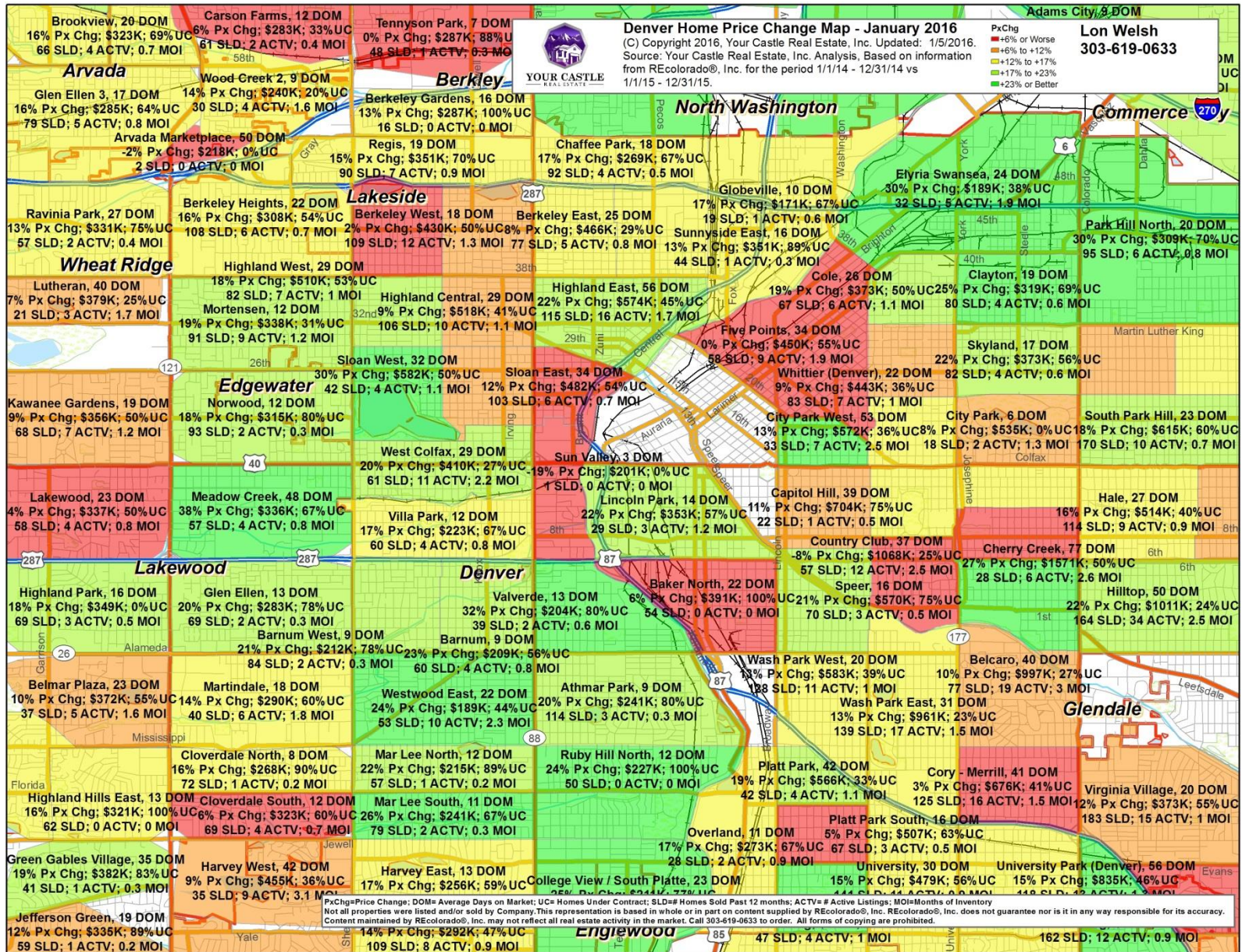
Denver Homes (no condos or townhomes)

Based on above-grade SF



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The price change map shows detailed trends data by neighborhood.

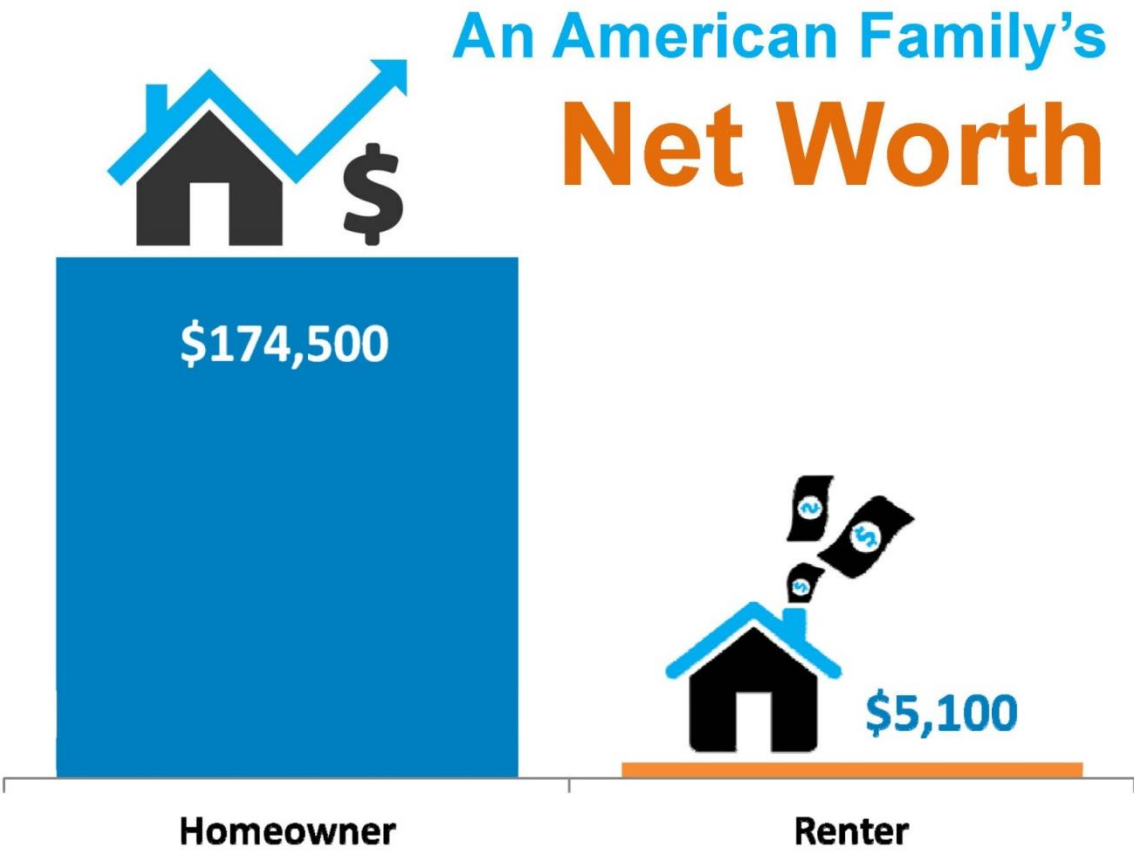


Detailed trends data by suburb.

T1 - Time Period 1 - Jan 2014 - Dec 2014								Note: Data from Metrolist (1/4/2016); analysis by First Alliance Title, Inc									
T2 - Time Period 1 - Jan 2015 - Dec 2015								© Copyright 2016 Your Castle Real Estate, Inc									
DENVER HOMES			Number of Sales						Days on Market			Avg ASK \$000		Avg SOLD \$000			Avg Disc
Update: January 2016	Current	Current	% Listings	Sold	Sold	Chg	MOI	Sold	Sold	Chg	Average	Ask vs.	Sold	Sold	Chg		
City	Active	U/C	U/C	t1	t2	Sales		t1	t2	DOM	Asking	Sold Px Gap	t1	t2	Price		
Arvada	168	179	52%	1,837	1,961	7%	1.0	31	28	(3)	580	57%	333	371	11%	0.6%	
Aurora	272	494	64%	5,076	5,094	0%	0.6	29	22	(7)	431	40%	272	307	13%	1.0%	
Brighton	79	95	55%	968	998	3%	0.9	42	25	(17)	429	33%	286	323	13%	0.3%	
Broomfield	78	72	48%	934	1,006	8%	0.9	39	26	(12)	741	74%	402	426	6%	0.2%	
Castle Pines	23	13	36%	221	222	0%	1.2	46	45	(1)	906	54%	556	589	6%	-1.7%	
Castle Rock	279	183	40%	1,662	1,612	-3%	2.1	47	45	(2)	994	118%	420	456	9%	-0.6%	
Centennial	77	128	62%	1,593	1,639	3%	0.6	27	21	(6)	694	66%	369	417	13%	-0.1%	
Cherry Hills Village	28	5	15%	96	86	-10%	3.9	107	117	11	3,794	87%	1,974	2,027	3%	-3.8%	
Commerce City	62	94	60%	792	883	11%	0.8	38	23	(15)	355	25%	250	284	14%	0.8%	
Conifer	37	23	38%	219	217	-1%	2.0	61	58	(3)	865	92%	408	449	10%	-1.6%	
Denver	685	788	53%	8,652	8,292	-4%	1.0	30	25	(5)	688	60%	378	431	14%	0.4%	
Edgewater	1	7	88%	74	65	-12%	0.2	15	10	(5)	725	113%	274	340	24%	1.2%	
Englewood	58	70	55%	830	739	-11%	0.9	27	21	(6)	1,096	152%	365	434	19%	0.1%	
Evergreen	86	40	32%	541	519	-4%	2.0	64	62	(1)	1,301	119%	508	594	17%	-0.1%	
Federal Heights	3	2	40%	29	27	-7%	1.3	28	17	(12)	204	3%	180	198	10%	0.9%	
Golden	103	56	35%	642	741	15%	1.7	53	44	(10)	908	72%	477	527	11%	-1.3%	
Greenwood Village	41	17	29%	152	171	13%	2.9	71	84	13	2,263	99%	1,118	1,135	2%	-3.2%	
Henderson	6	25	81%	216	211	-2%	0.3	23	14	(8)	396	33%	267	299	12%	0.7%	
Highlands Ranch	69	141	67%	1,748	1,697	-3%	0.5	25	20	(5)	640	40%	419	456	9%	0.0%	
Lakewood	98	142	59%	1,580	1,552	-2%	0.8	31	23	(8)	850	130%	328	370	13%	0.4%	
Larkspur	43	12	22%	120	131	9%	3.9	106	84	(22)	943	73%	548	545	0%	-2.4%	
Littleton	170	201	54%	2,386	2,425	2%	0.8	29	27	(2)	841	99%	385	422	10%	0.0%	
Lone Tree	30	18	38%	160	202	26%	1.8	47	75	27	1,187	55%	695	766	10%	-2.2%	
Northglenn	3	40	93%	402	394	-2%	0.1	18	11	(7)	283	11%	220	255	15%	1.4%	
Parker	205	189	48%	1,962	2,023	3%	1.2	42	34	(8)	739	69%	407	437	7%	-0.3%	
Pine	20	15	43%	102	87	-15%	2.8	61	51	(9)	597	58%	338	379	12%	-2.0%	
Thornton	121	213	64%	1,730	1,834	6%	0.8	24	23	(0)	452	44%	279	315	13%	1.1%	
Westminster	94	123	57%	1,317	1,548	18%	0.7	26	20	(5)	533	55%	300	344	15%	0.9%	
Wheat Ridge	48	28	37%	398	342	-14%	1.7	28	24	(5)	759	115%	310	353	14%	0.7%	
Grand Total	2,987	3,413	53%	36,439	36,718	1%	1.0	33	27	(5)	772	91%	363	404	11%	0.3%	
*Above SF																	
1 < 1000 sq ft (smallest 10%)	87	133	60%	3,984	4,075	2%	0.3	21	14	(7)	239	-6%	220	255	16%	1.5%	
2 1000-1350	91	184	67%	6,722	6,769	1%	0.2	21	13	(8)	345	16%	258	296	15%	1.3%	
3 1350-1850	206	483	70%	9,501	9,338	-2%	0.3	25	16	(8)	392	18%	293	332	13%	0.8%	
4 1850-2550	358	874	71%	9,774	9,848	1%	0.4	35	30	(5)	426	2%	375	417	11%	-0.2%	
5 2550-3400	576	762	57%	4,838	4,949	2%	1.4	53	53	0	507	-12%	534	575	8%	-1.3%	
6 3400+ sq ft (biggest 10%)	1,669	977	37%	1,620	1,739	7%	11.5	82	86	4	1,037	4%	964	999	4%	-2.7%	
Grand Total	2,987	3,413	53%	36,439	36,718	1%	1.0	33	27	(5)	772	91%	363	404	11%	0.3%	
1 \$195K or less	41	125	75%	3,843	1,362	-65%	0.4	25	17	(9)	163	-1%	162	164	1%	0.2%	
2 \$195K to \$245K	87	339	80%	6,155	3,879	-37%	0.3	21	11	(10)	222	-1%	221	224	1%	1.8%	
3 \$245K to \$320K	226	841	79%	9,665	9,862	2%	0.3	23	12	(11)	284	1%	279	281	1%	1.4%	
4 \$320K to \$430K	567	965	63%	8,584	10,869	27%	0.6	34	22	(12)	378	3%	368	368	0%	0.2%	
5 \$430K to \$590K	817	663	45%	4,964	6,547	32%	1.5	48	43	(5)	503	2%	493	493	0%	-0.8%	
6 \$590K +	1,249	480	28%	3,228	4,199	30%	3.6	67	71	5	1,274	43%	905	892	-1%	-1.6%	
Grand Total	2,987	3,413	53%	36,439	36,718	1%	1.0	33	27	(5)	772	91%	363	404	11%	0.3%	

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Buying is generally more affordable and less expensive than renting. In addition, research by the Federal Reserve found that home owners accumulate 35x more net worth than renters over their lifetime. It's still a very good idea to buy vs. rent.



Federal Reserve 2012

Should I buy now? If you buy a home today vs. next year (First Time Buyer). Over \$195,000 in wealth creation in ten years!

Assumptions

Buy now

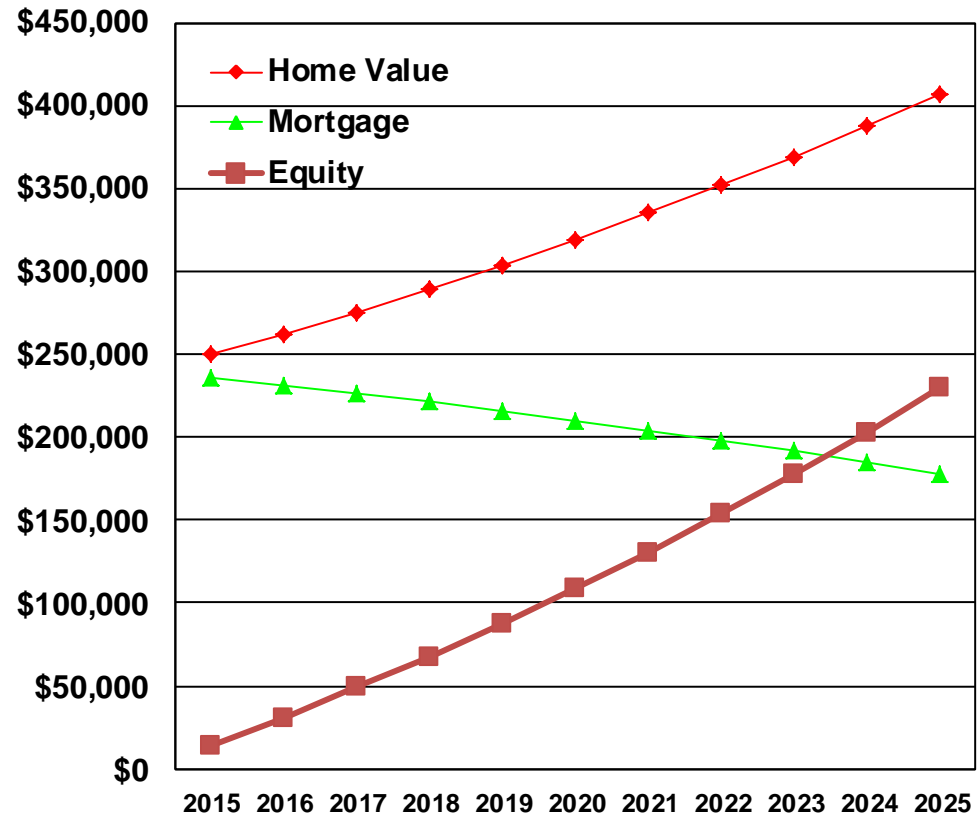
- Purchase price: \$250,000
- Down payment %: 10%
- Down payment \$: \$25,000
- Rate: 4.25%
- Amortization: 30 years
- Payment: \$1,107

- Appreciation %: 5% per year
- Appreciation \$: \$157,000
- Loan pay down: \$ 46,000
- Simple ROI: 915%

Wait 12 months (“watch market”)

- Assume mortgage rates +0.5%
- Assume home appreciation +5%
- Payment in '16: \$1,232
- *Payment change:* +11%

Projected Home Change in Value



Source(s): Your Castle Real Estate analysis

1st Trade up Buyer – If you buy a home today vs. next year. Over \$285,000 in wealth creation in ten years!

Assumptions

Buy now

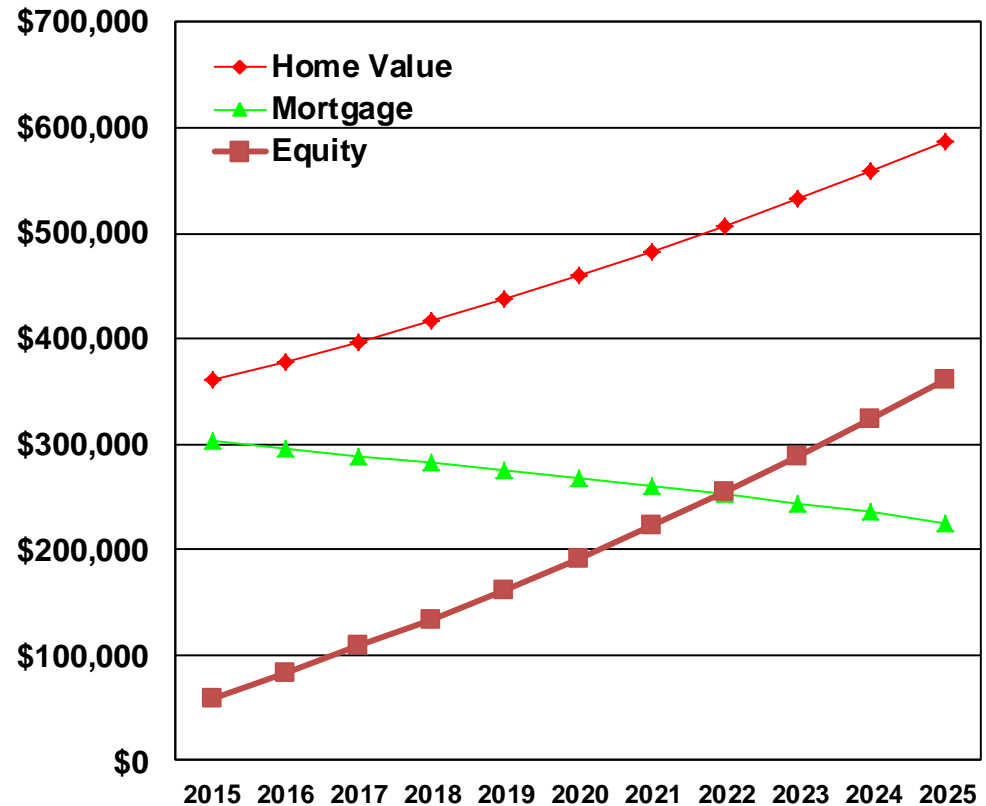
- Purchase price: \$360,000
- Down payment %: 20%
- Down payment \$: \$72,000
- Rate: 4.00%
- Amortization: 30 years
- Payment: \$1,375

- Appreciation %: 5% per year
- Appreciation \$: \$226,000
- Loan pay down: \$ 61,000
- Simple ROI: 500%

Wait 12 months (“watch market”)

- Assume mortgage rates +0.5%
- Assume home appreciation +5%
- Payment in '16: \$1,530
- *Payment change:* +11%

Projected Home Change in Value



Source(s): Your Castle Real Estate analysis

Should I buy now? 3rd Trade up Buyer – If you buy a home today vs. next year. Over \$550,000 in wealth creation in ten years!

Assumptions

Buy now

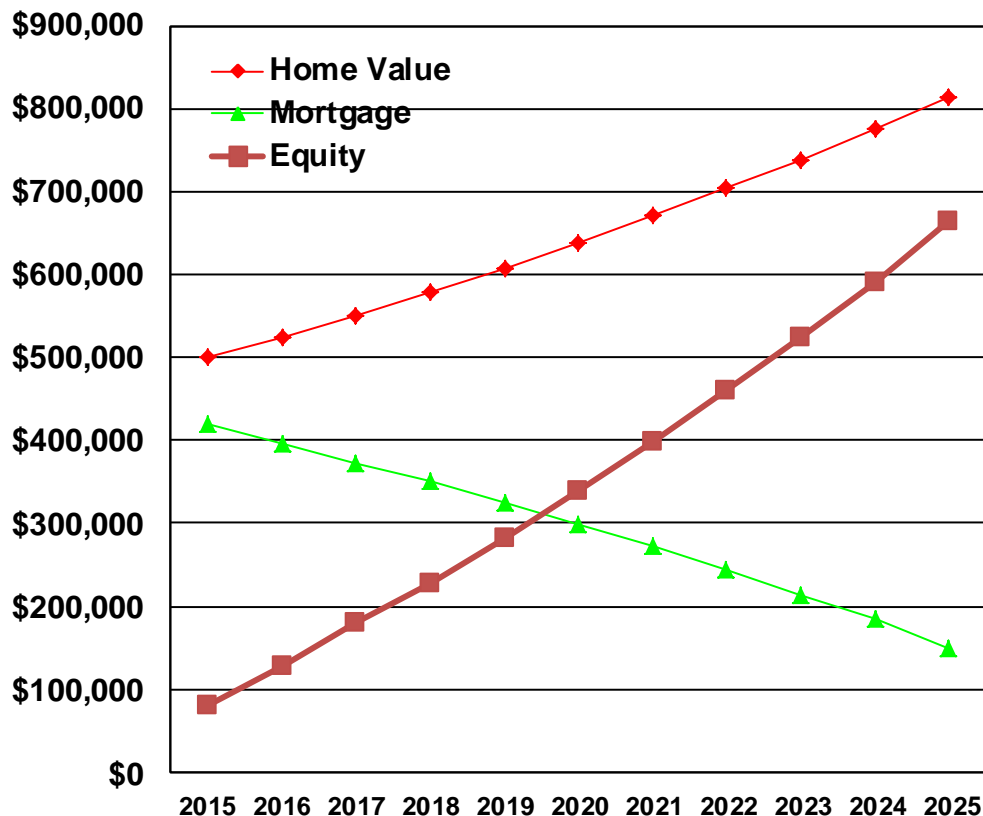
- Purchase price: \$500,000
- Down payment %: 20%
- Down payment \$: \$100,000
- Rate: 3.50%
- Amortization: 15 years
- Payment: \$2,860

- Appreciation %: 5% per year
- Appreciation \$: \$314,000
- Loan pay down: \$243,000
- Simple ROI: 660%

Wait 12 months (“watch market”)

- Assume mortgage rates +0.5%
- Assume home appreciation +5%
- Payment in '16: \$3,110
- *Payment change:* +9%

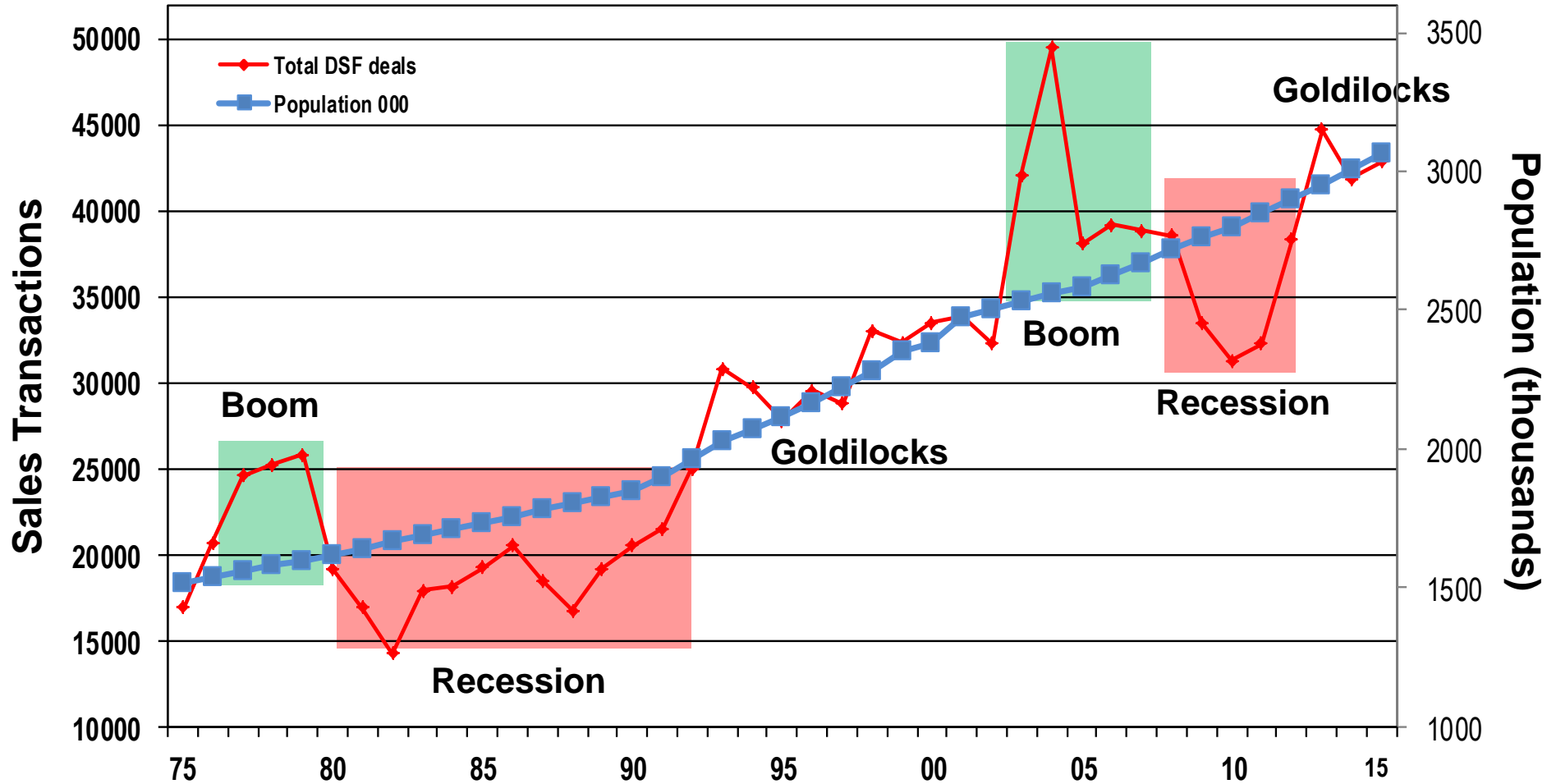
Projected Home Change in Value



Source(s): Your Castle Real Estate analysis

Historical context: Sales unit volume relative to population fluctuates depending Denver's economy. 2014 sales volume was 11% off the 2004 peak, 2015 volume was only +1% ... Metro Denver now has 18% more people than it did in 2004!

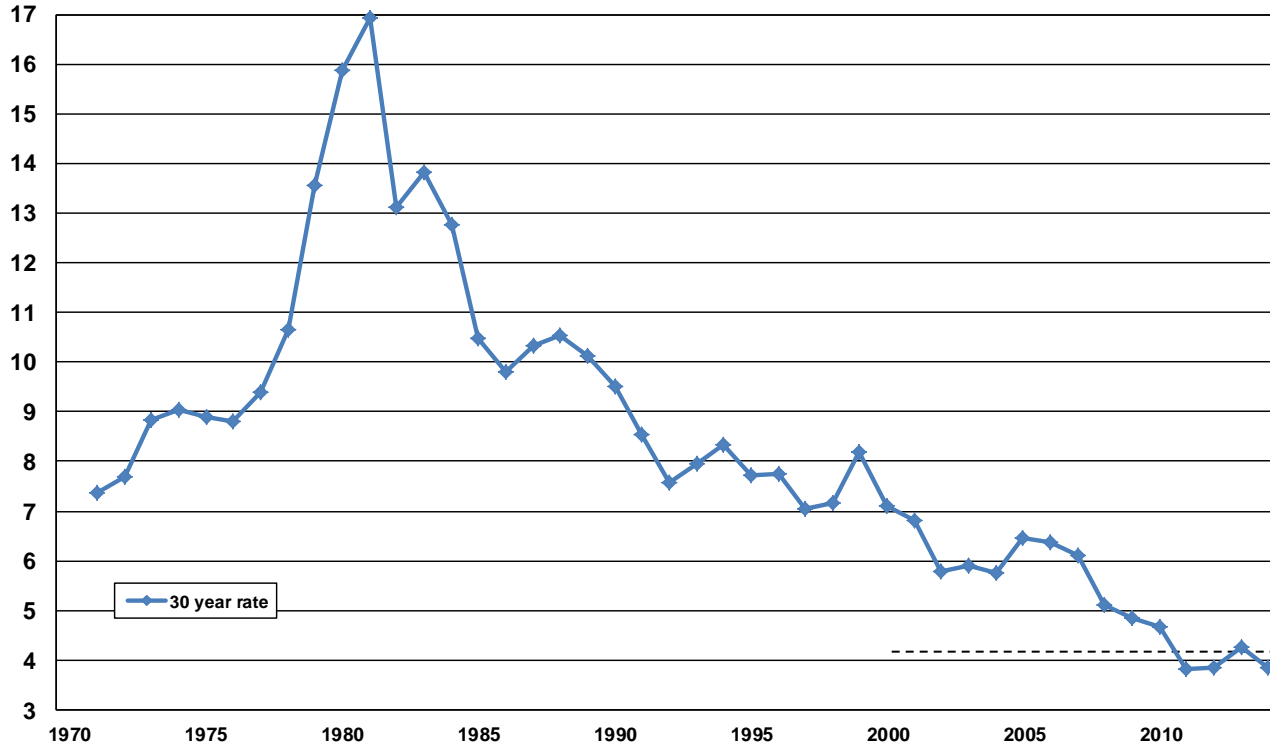
Relationship between population growth and home sales



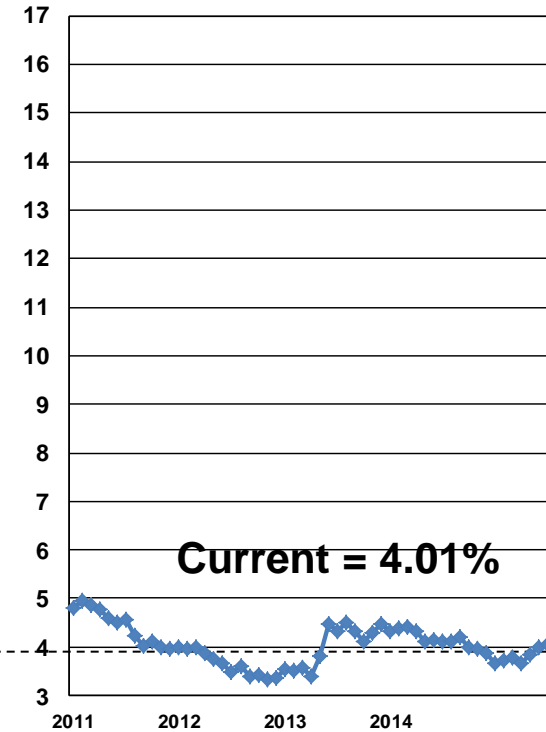
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Historical context: Mortgage rates are up modestly recently, but are still very low by historical standards. A \$60K household can afford a \$310,000 house at 3.5%. At 4.5%, they can afford \$275,000.

30 year fixed rate: 1971-2013



30 year fixed rate: 2011-15



'70s Avg = 9%

'80s Avg = 13%

'90s Avg = 8%

'00s Avg = 6.5%

'10s Avg = 4.1%

Payment, P+I, \$200K loan

\$1610

\$2210

\$1470

\$1260

\$965

Max home \$60K person can afford

\$170,000

\$125,000

\$190,000

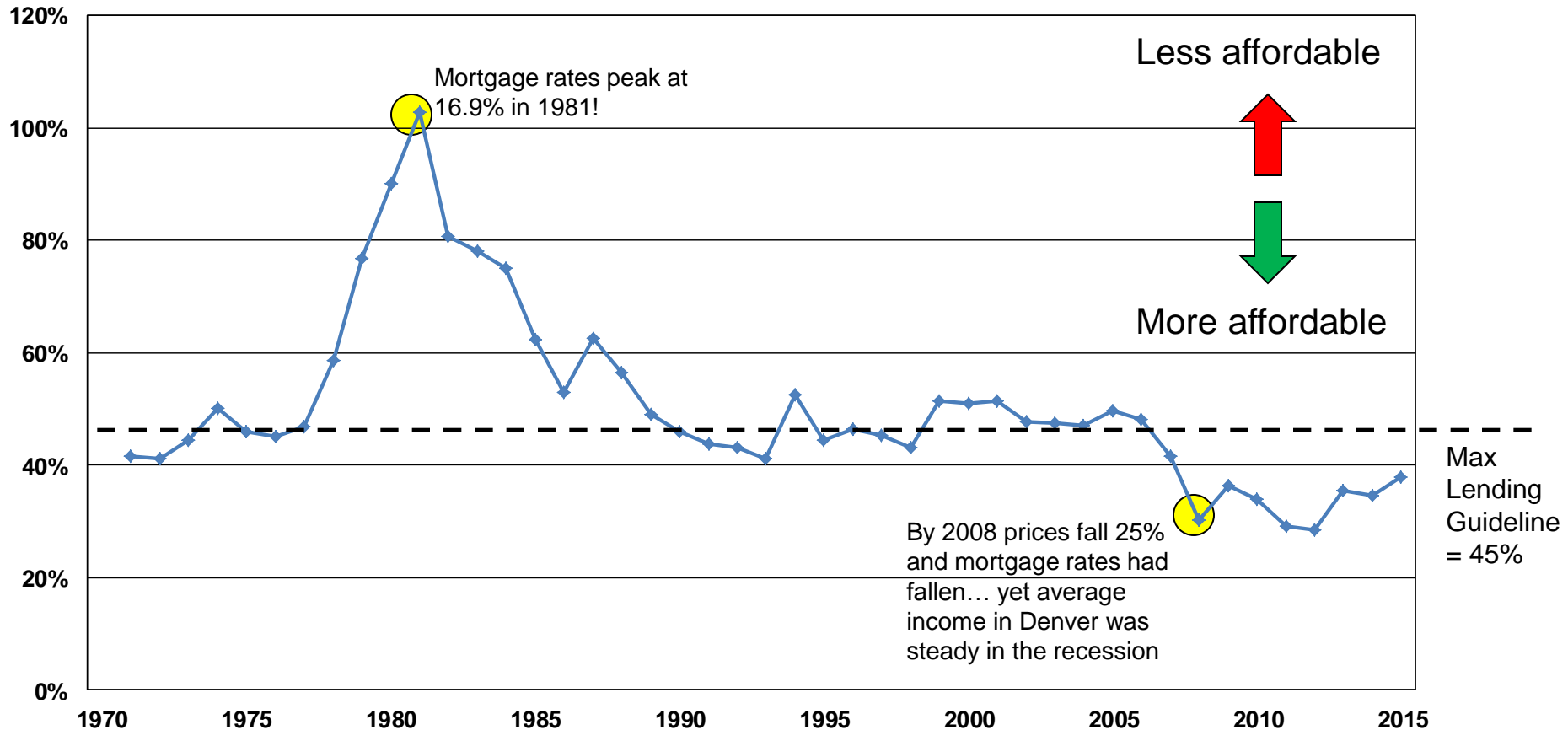
\$220,000

\$290,000

Source(s): Freddie Mac, Your Castle Real Estate
http://www.freddiemac.com/pmms/pmms_archives.html

Historical context: Denver Housing Affordability. We compared average Denver per capita income, average home Denver price, and the average annual mortgage rate to find DTI (Debt to Income). A lower number means more affordable. We're still near the historic low for the past 45 years.

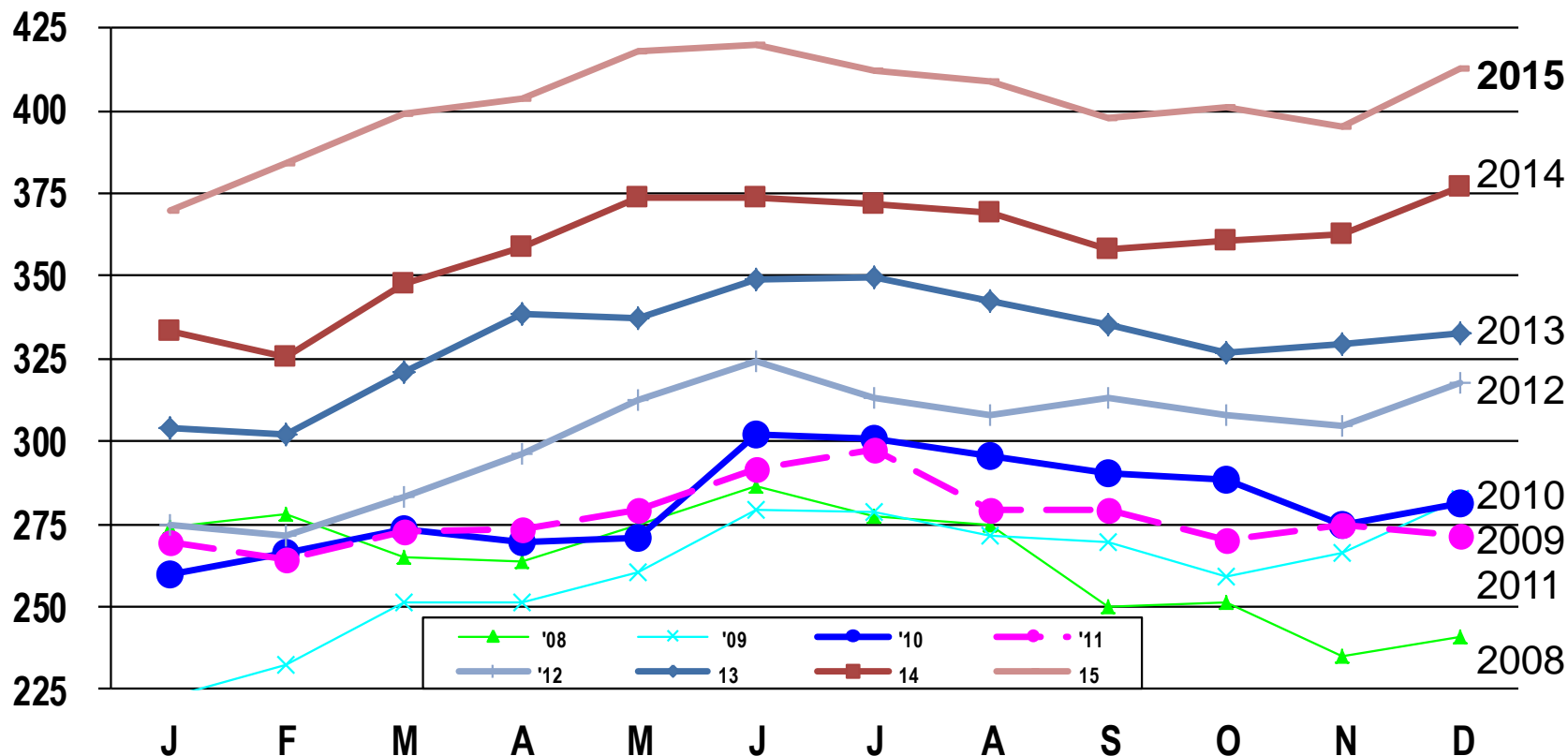
DTI (Average Debt to Income) for Denver Metro



Source(s): Freddie Mac, Your Castle Real Estate
http://www.freddiemac.com/pmms/pmms_archives.html

Denver metro average home price by month. 2015 continued to show strong price appreciation.

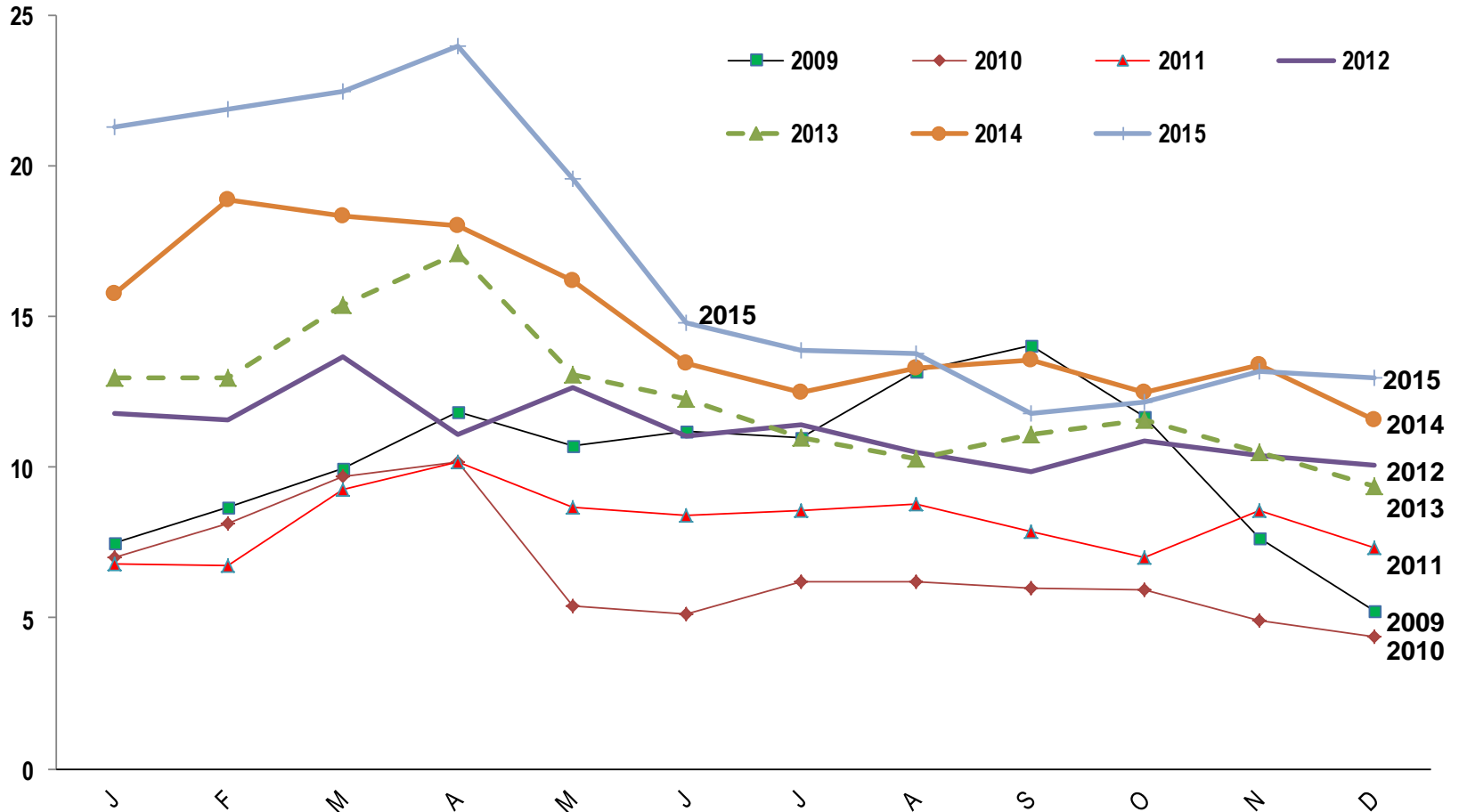
Denver Metro – Average Home Price (DSF only, not condos or townhomes)
\$ thousands



Source(s): Your Castle Real Estate analysis. Based on information from REcolorado®, Inc.
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Showings in 2014 outperformed 2013 overall. 1Q15 saw extremely strong showing traffic. Showings slowed down after the Spring, but still remains historically strong. It's still a great time to be a seller!

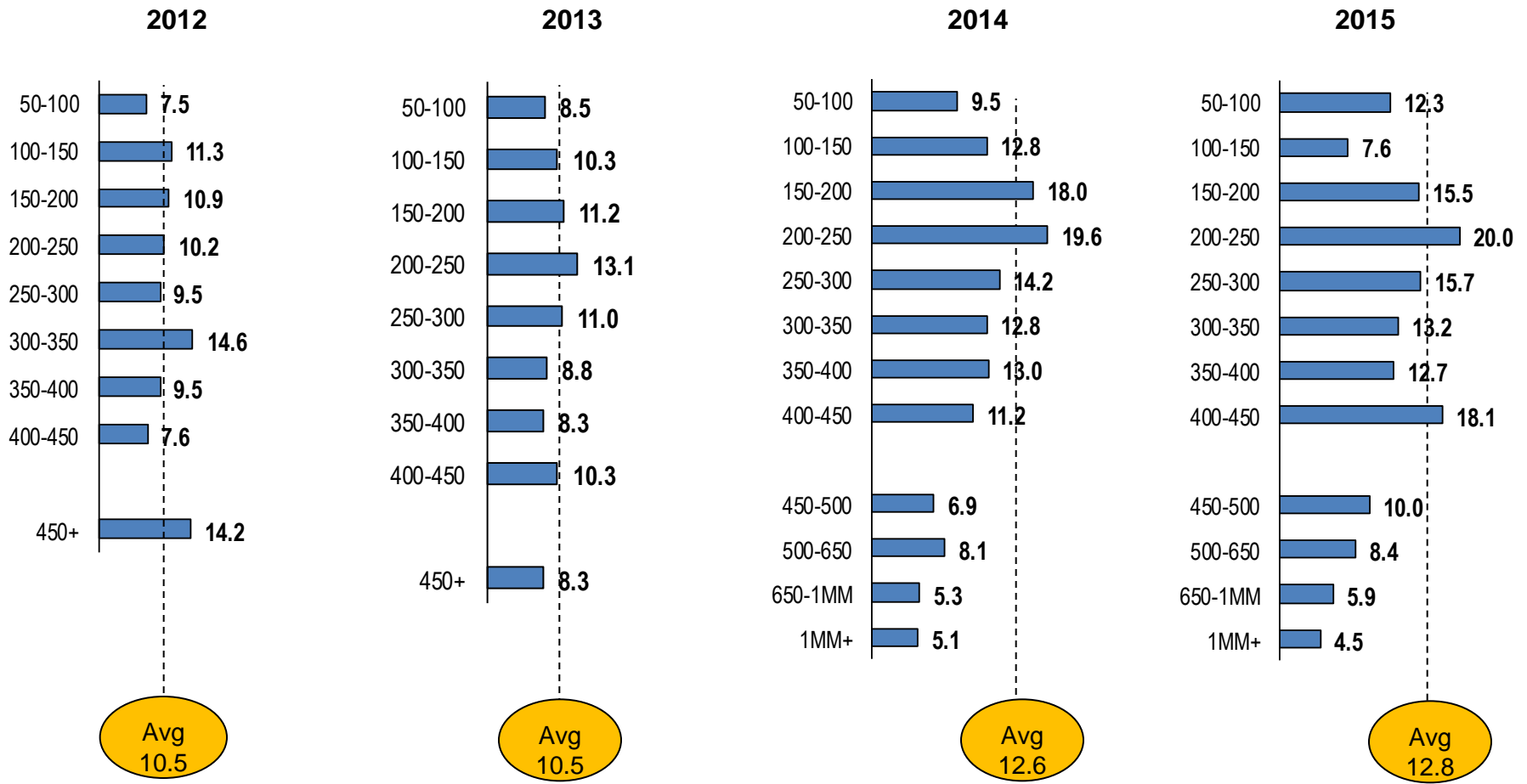
Showings / Active Listing
DSF + CND for YCRE. 2009 - 2015



Source(s): Your Castle Real Estate analysis. Based on information from Centralized Showing Service

Showing traffic in 4Q15 was ahead of 4Q14, but down from early '15 due to increased inventory. It's still a great time to list a house.

Showings / Active Listing – 4Q Home and Condo for YCRE. By Price Point.



Source(s): Your Castle Real Estate analysis. Based on information from Centralized Showing Service

Investor Buyer – If you buy a rental property today vs. next year.

Assumptions

Buy now

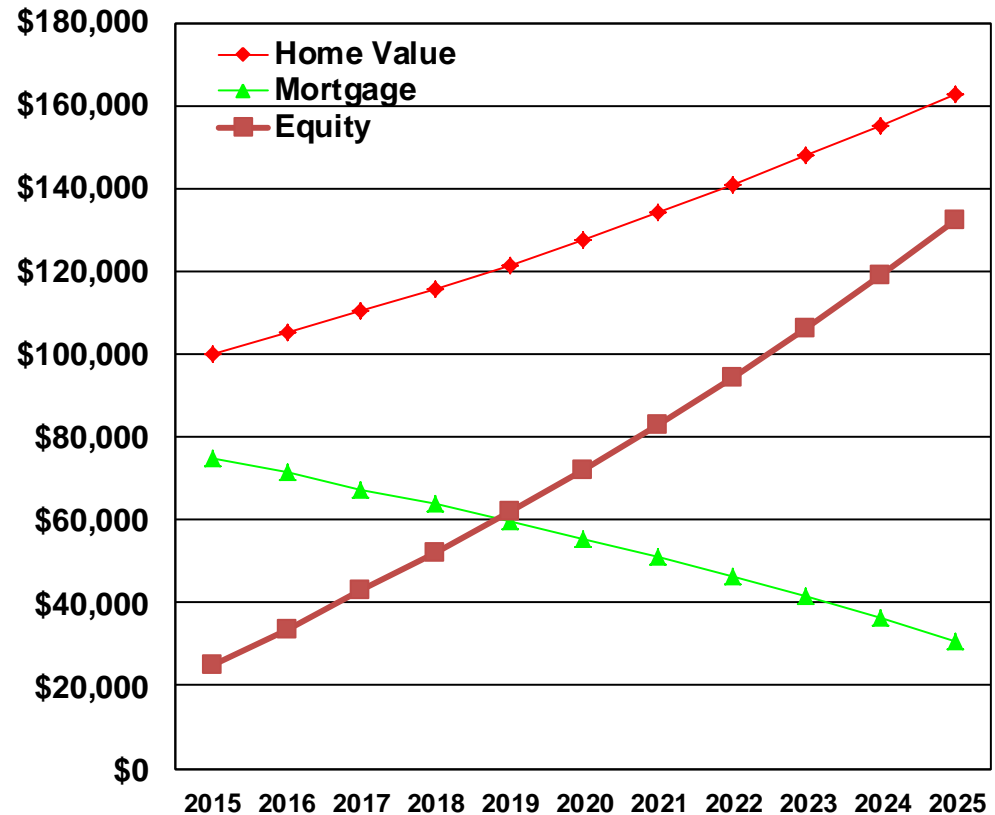
- Purchase price: \$100,000
- Down payment %: 25%
- Down payment \$: \$25,000
- Rate: 4.25%
- Amortization: 15 years
- Payment: \$565

- Appreciation %: 5% per year
- Appreciation \$: \$63,000
- Loan pay down: \$45,000
- Simple ROI: 530%

Wait 12 months (“watch market”)

- Assume mortgage rates +0.5%
- Assume home appreciation +5%
- Payment in '16: \$615
- *Payment change:* +9%

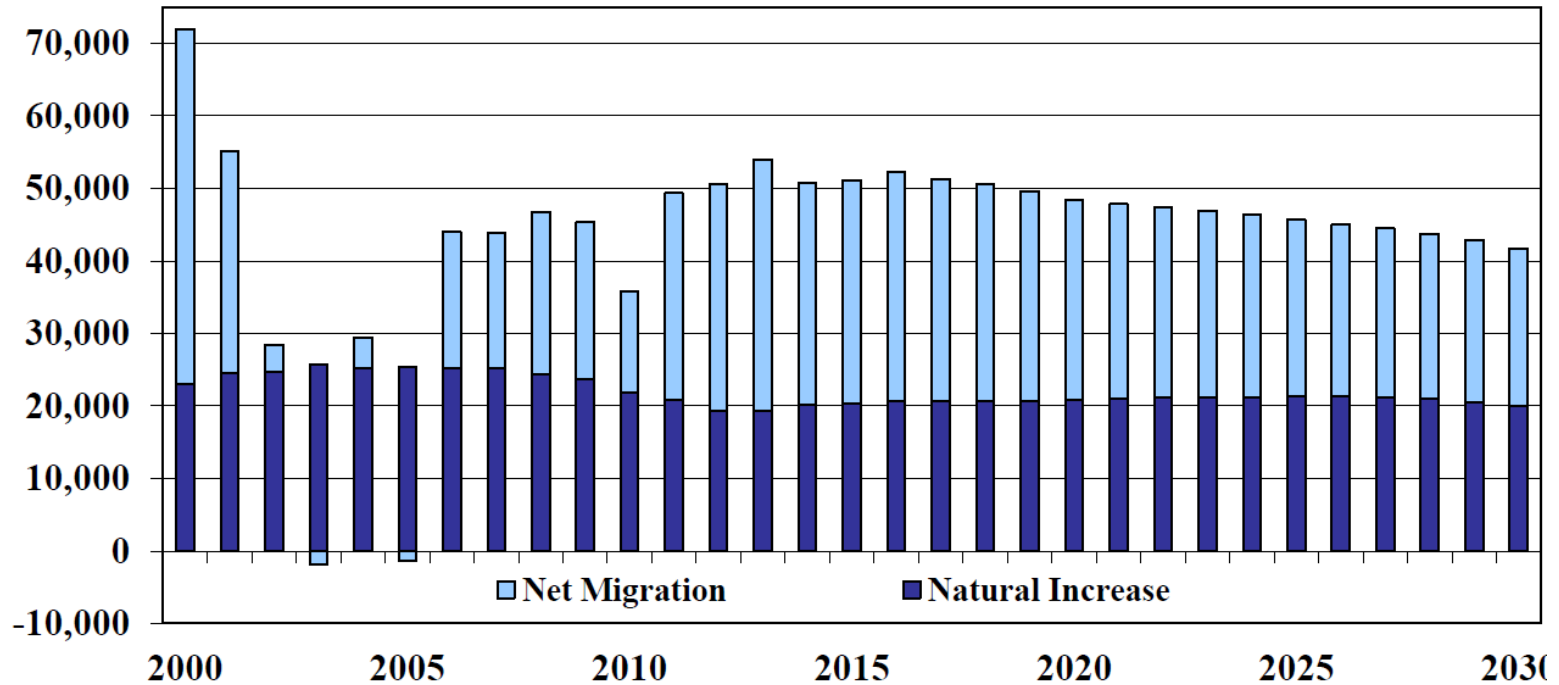
Projected Home Change in Value



Source(s): Your Castle Real Estate analysis

Local economist Patty Silverstein and the Census Bureau expect the Denver population will continue to grow around 50,000 people per year. Where are they going to live?

2015 Population = 3.05 million



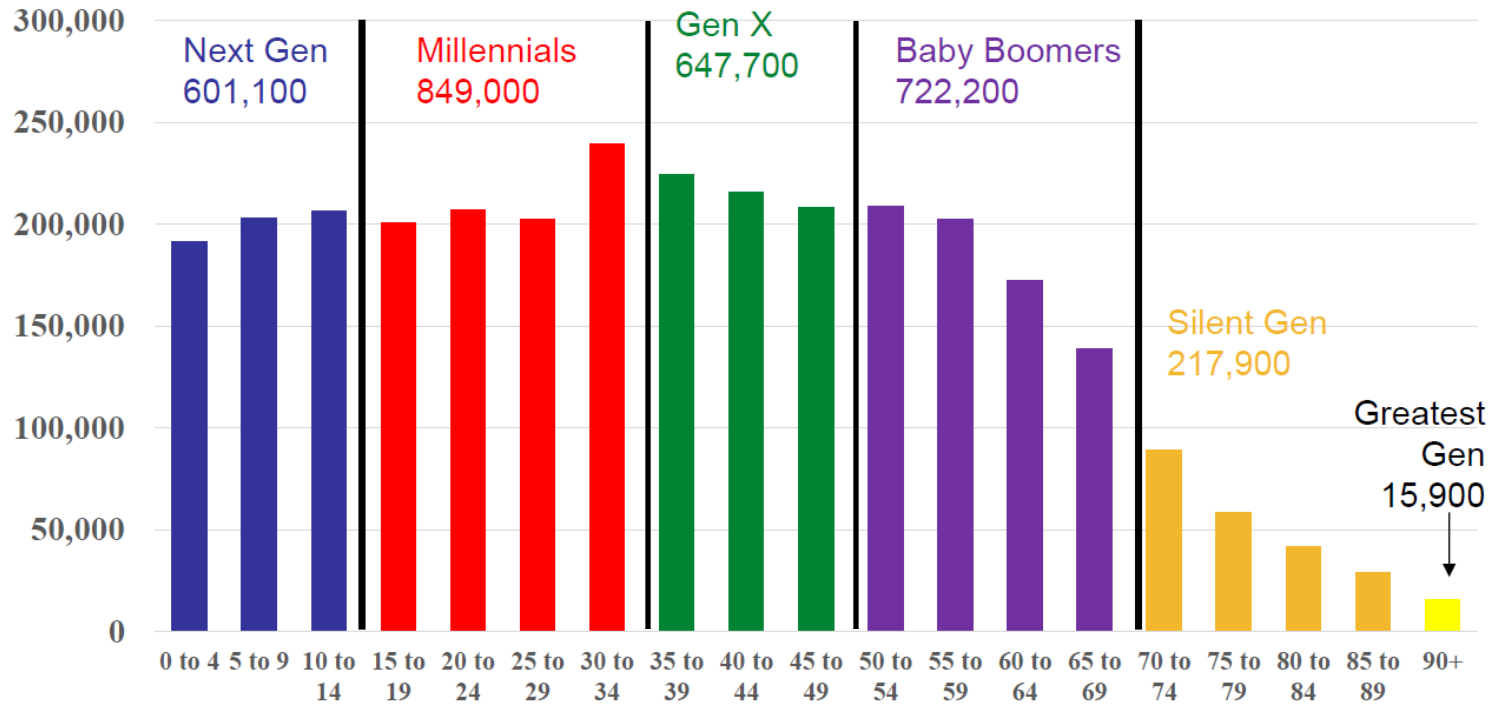
Source: Colorado Division of Local Government, State Demography Office.



2015 Economic Forecast for Metro Denver

The population of metro Denver will grow from 3.0 million (2015) to 3.5 million (2025). Millennials continue to be the biggest group. 36% of Millennials currently live with parents. This will drive a lot of household growth as they move out.

Metro Denver Population 2015 = 3.05 million



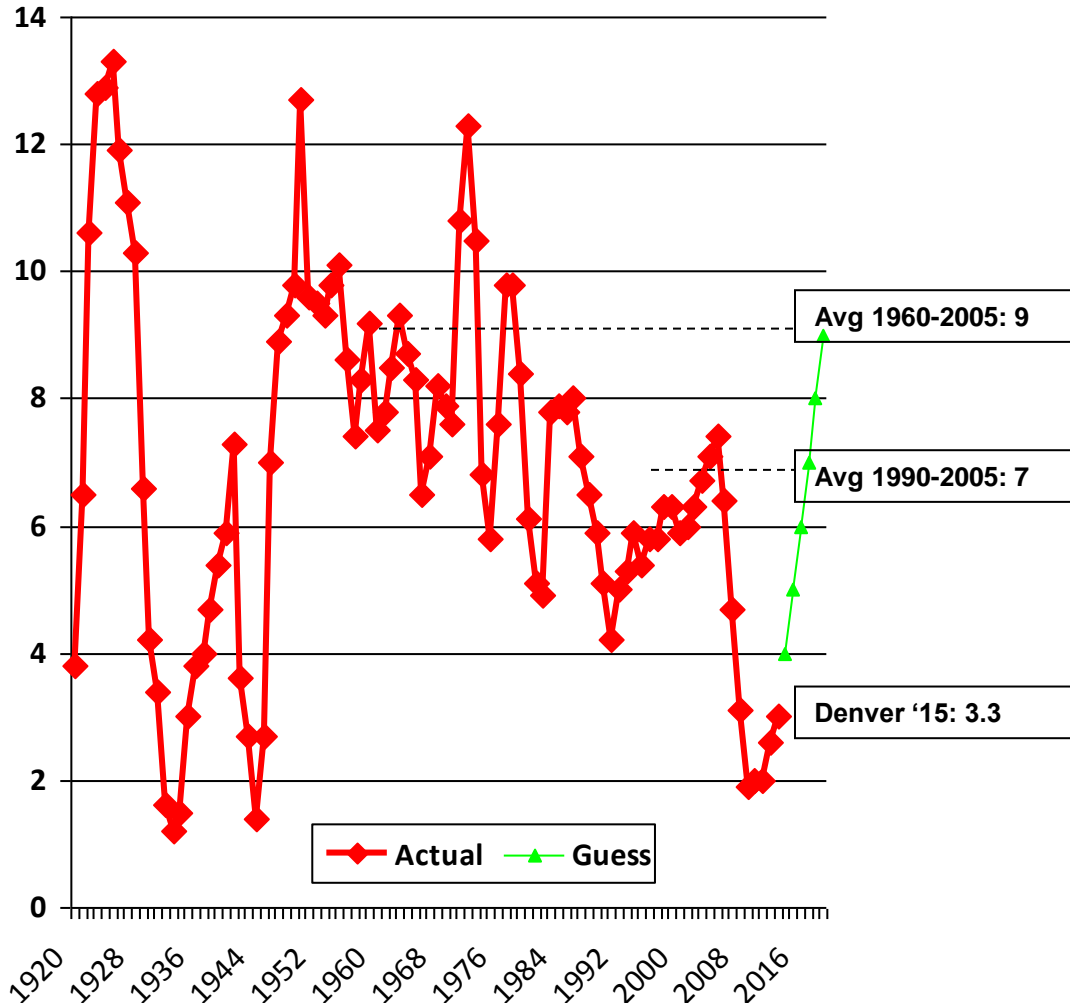
Source: Colorado Division of Local Government, State Demography Office.



2015 Economic Forecast for Metro Denver

The United States isn't building enough homes for the population growth. As a result, it might take several years before the inventory shortage improves.

Home Starts per 1,000 people
US Average

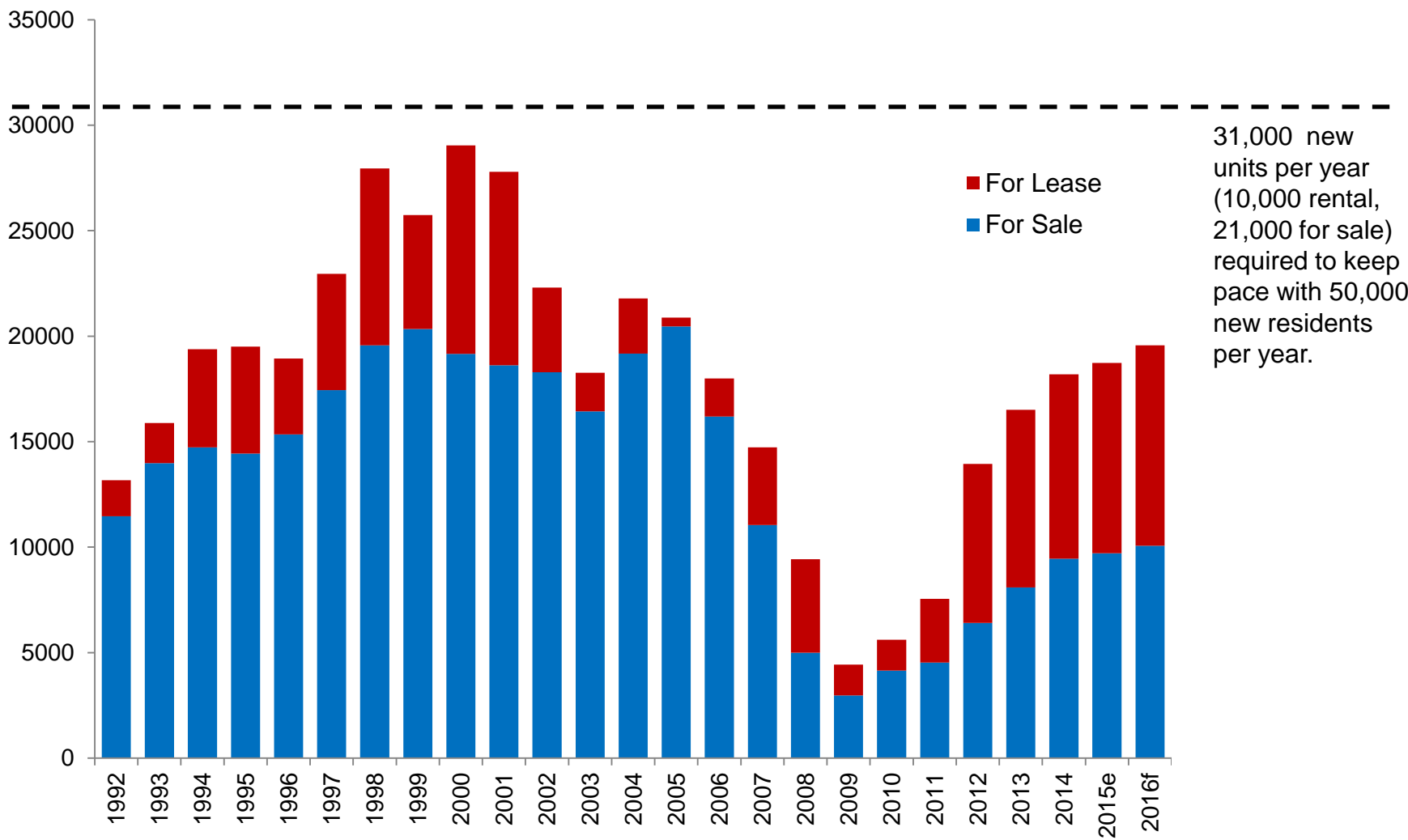


Source: Census Bureau, Your Castle Real Estate analysis.

Discussion Points

- The market is “locked up” with limited inventory.
- “Elective” sellers, worried about being homeless, are not listing. Volume has dropped as a result.
- Many of the sellers are not “elective”.
- Total sales volume is less than it could be – there should be a lot of “pent up demand” after the recession.
- What will unlock the market? We could build our way out of it. There is historical precedent for this. Look at the rebounds post-Depression, post-WWII, and in the mid-1970s.
- Most recessions have resulted in a slow down of building (below historical average) and have been followed by a construction boom (above the historical average)
- This could happen again, but it’ll take a few years for construction to catch up.
- As a result, the current locked up state of the market with little inventory, elective sellers on sidelines, and volume below potential could continue for a few years.

Local economist Patty Silverstein estimates 16,000 units were permitted in 2014 and 18,000 units in 2015. That's for rental (top bar, in red) and for sale (blue bar).



31,000 new units per year (10,000 rental, 21,000 for sale) required to keep pace with 50,000 new residents per year.

Source(s): The Genesis Group, Home Builder's Association of Metropolitan Denver
 Note: Seven County Metro Denver includes Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson Counties

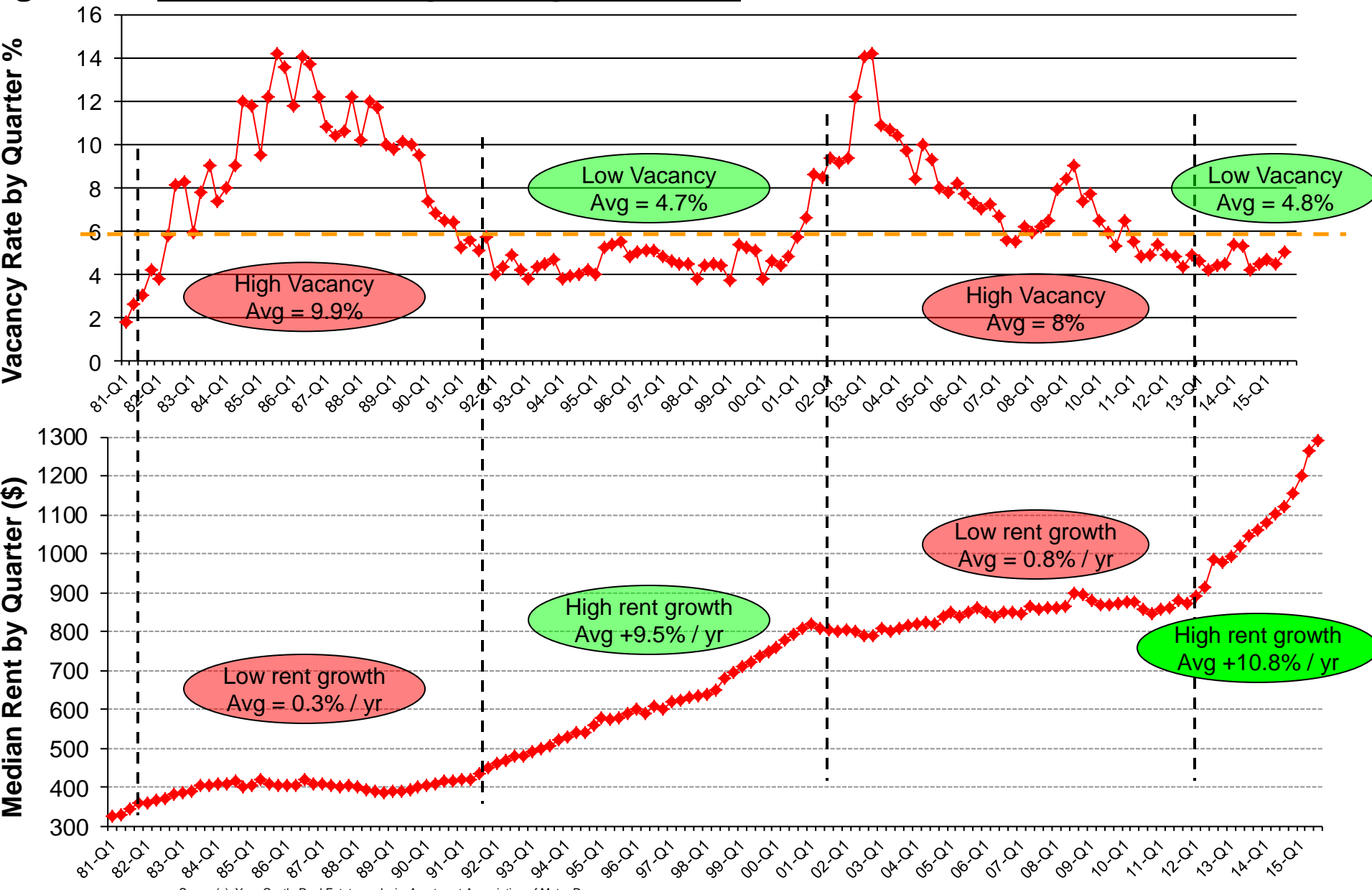
YCRE analysis reveals 2014 actual construction or 2015 forecast are far from what is required to meet population growth. As a result, low rental vacancy and low for-sale inventory conditions are likely to continue for a several years.

Due to high land and construction costs, the housing gap is (and will likely continue to be) most acute for entry-level housing.

	<u>2015</u>	<u>2025</u>	<u>10 yr Change</u>	<u>Avg Chg / Year</u>
Denver population	3,000,000	3,500,000	500,000	50,000
People / household	<u>2.55</u>	<u>2.35</u>		
Households	1,176,000	1,489,000	313,000	31,300
Renter HH %	35%	35%		
Renter HH #	411,600	521,150	109,550	10,955
Owner Occ HH #	764,400	967,850	203,450	20,345
Apt under constr.	8,000			
Homes under constr.	10,000			

Source: Census Bureau, Your Castle Real Estate analysis.

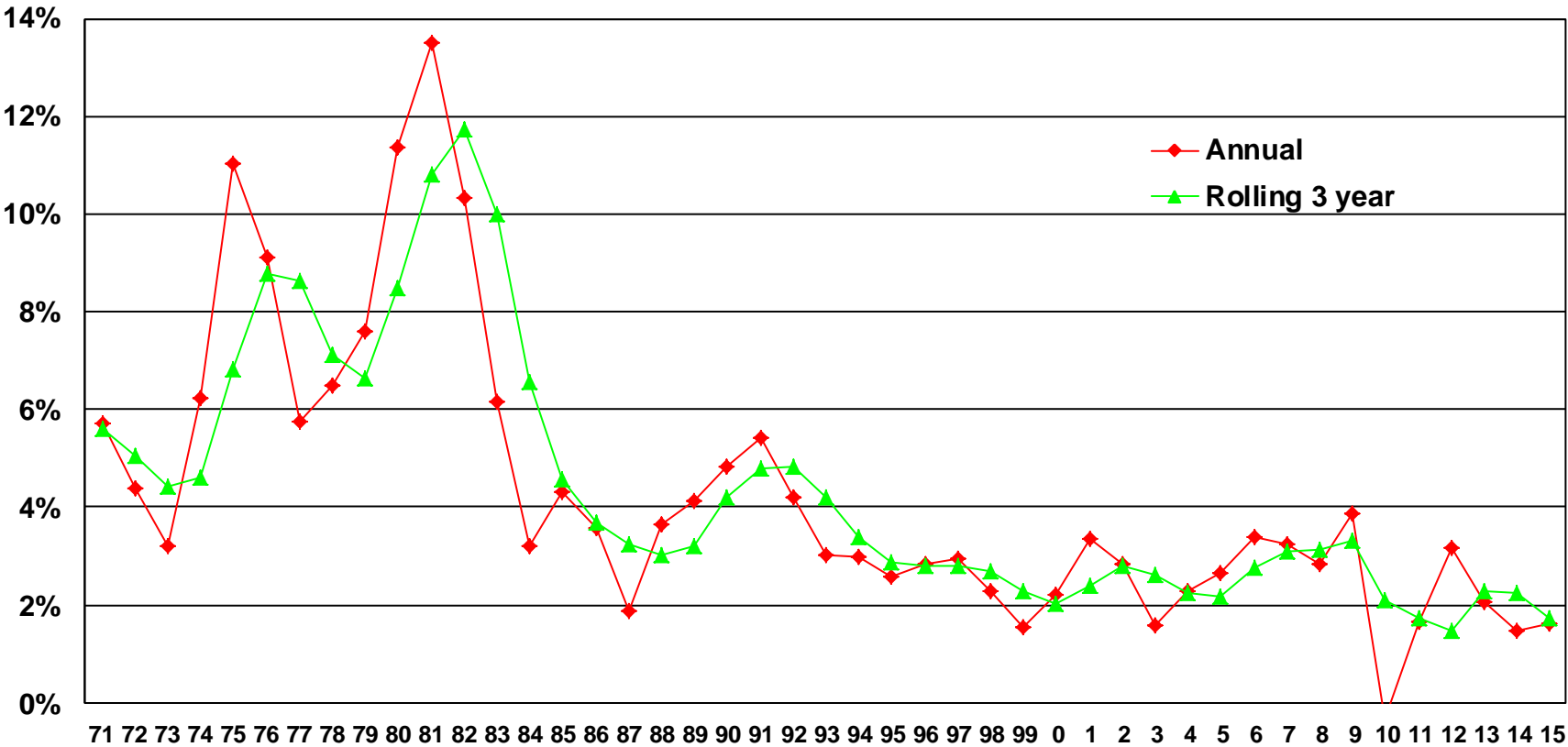
Historical Context: When Denver rental vacancy is below 6%, we experience rent growth. 1981-2014 average rent growth: 4%.



Source(s): Your Castle Real Estate analysis, Apartment Association of Metro Denver

Over the course of decades, inflation has quite an impact on prices. Since 1970, the average rate of inflation has been 4.3% per year. It varies a lot by decade. If you exclude the high-inflation 1970's, the average for 1980-2014 is 2.8% per year.

US CPI (Consumer Price Index)
Change in inflation rate, annual and rolling three years



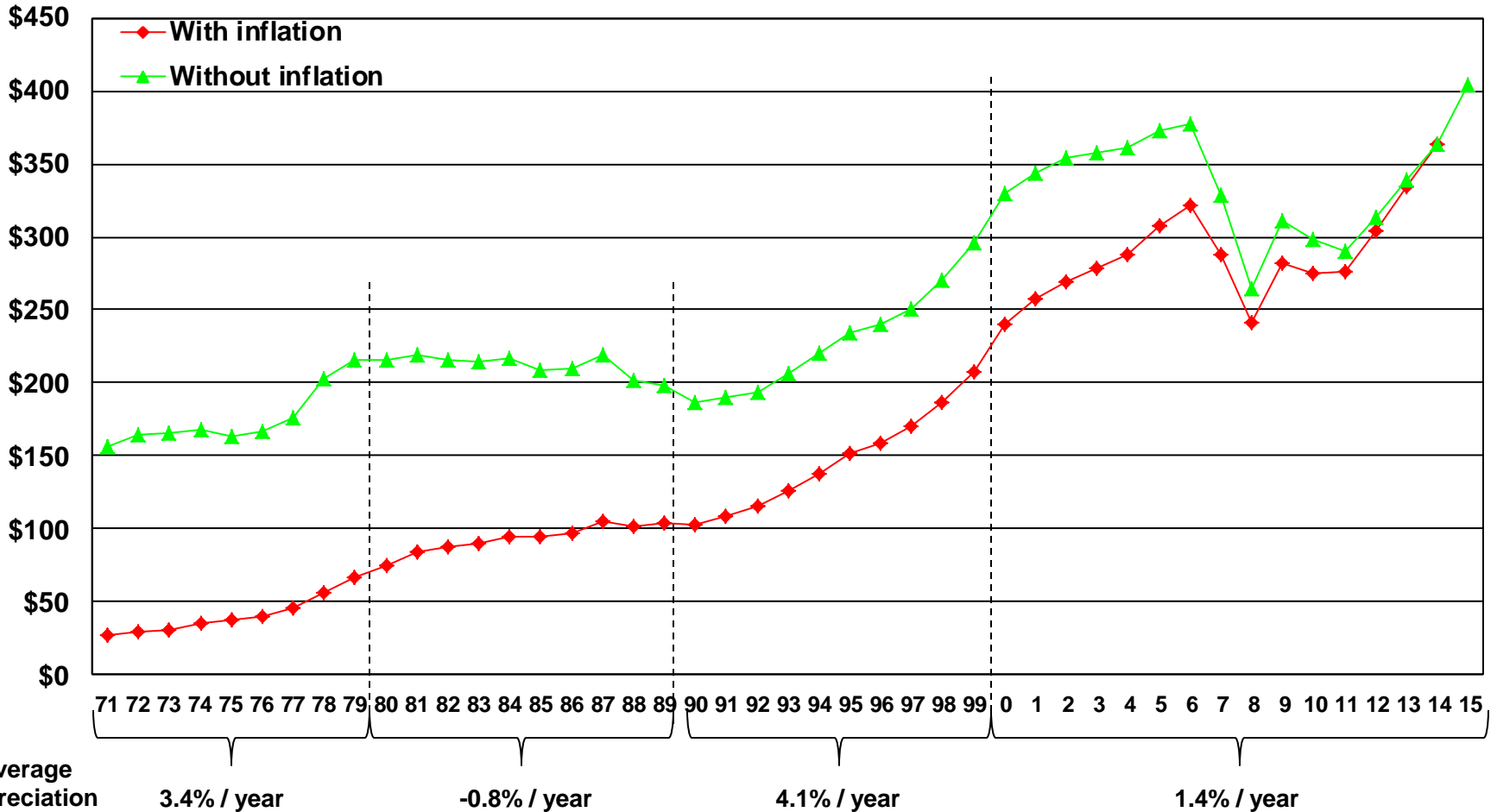
Average Inflation: 1970 – 1982: 7.9% 1983 – 89: 4.0% 1990 – 99: 3.0% 2000 - 09: 2.6% 2010-15 :2.0%

Source(s): Your Castle Real Estate analysis and research.

Home prices, adjusted for inflation, have grown 1.9% per year in Denver metro since 1971... from \$155,000 (1971) to \$405,000 (2015). If you do not adjust for inflation, home prices grew 6.3% per year... \$27,000 (1971) to \$405,000 (2015).

Denver Metro (DSF only, not condos or townhomes)

Sales Prices in \$000, with and without inflation (CPI) factor



Note: DSF = Detached Single Family Home

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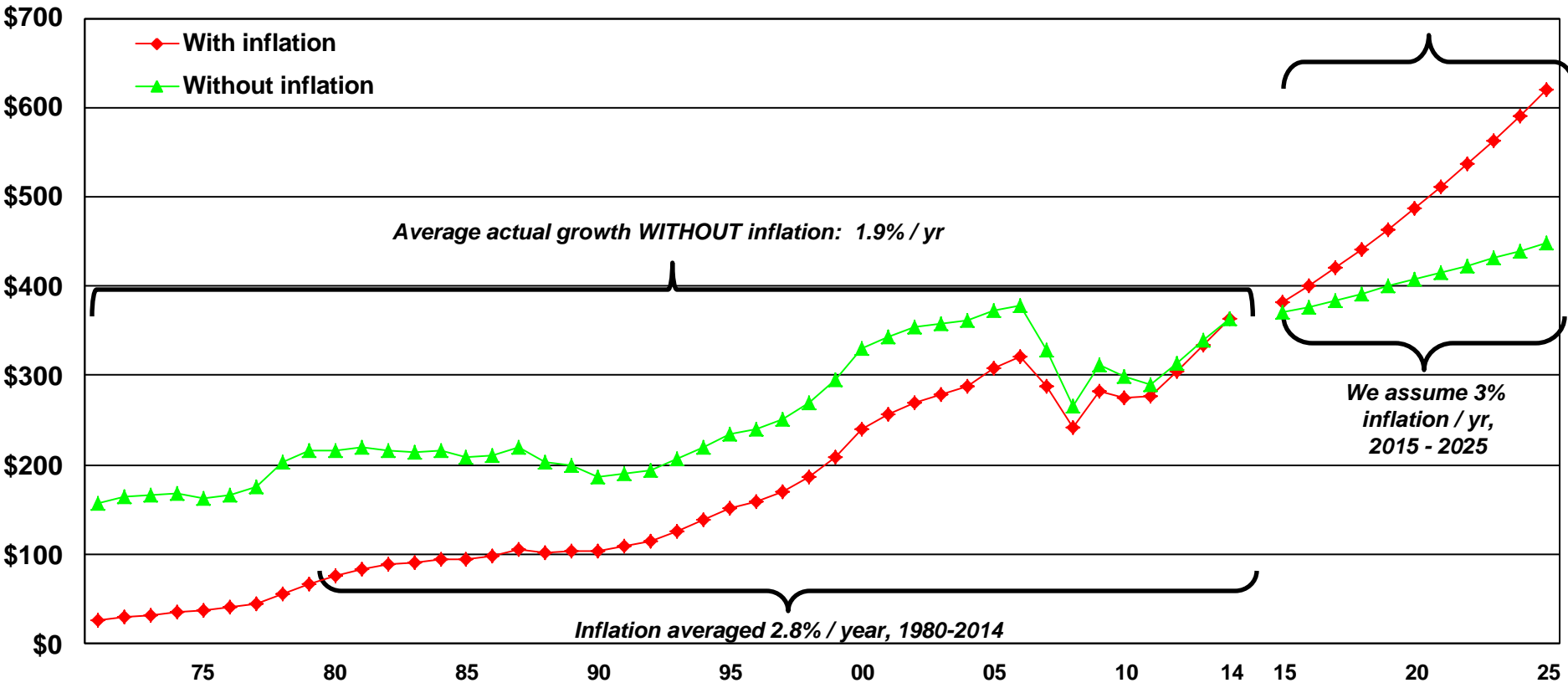
In the next decade, prices will continue to appreciate. With 2.8% inflation and 1.9% real annual growth, about 5% per year could be plausible. The home price with inflation would grow from \$363K in 2014 to \$621K in 2025.

FORECAST

Denver Metro (Homes only) – Forecast 2015 - 2025

Sales Prices in \$000, with and without inflation (CPI) factor

We assume real growth of 2% per year, 2015-2025 + inflation



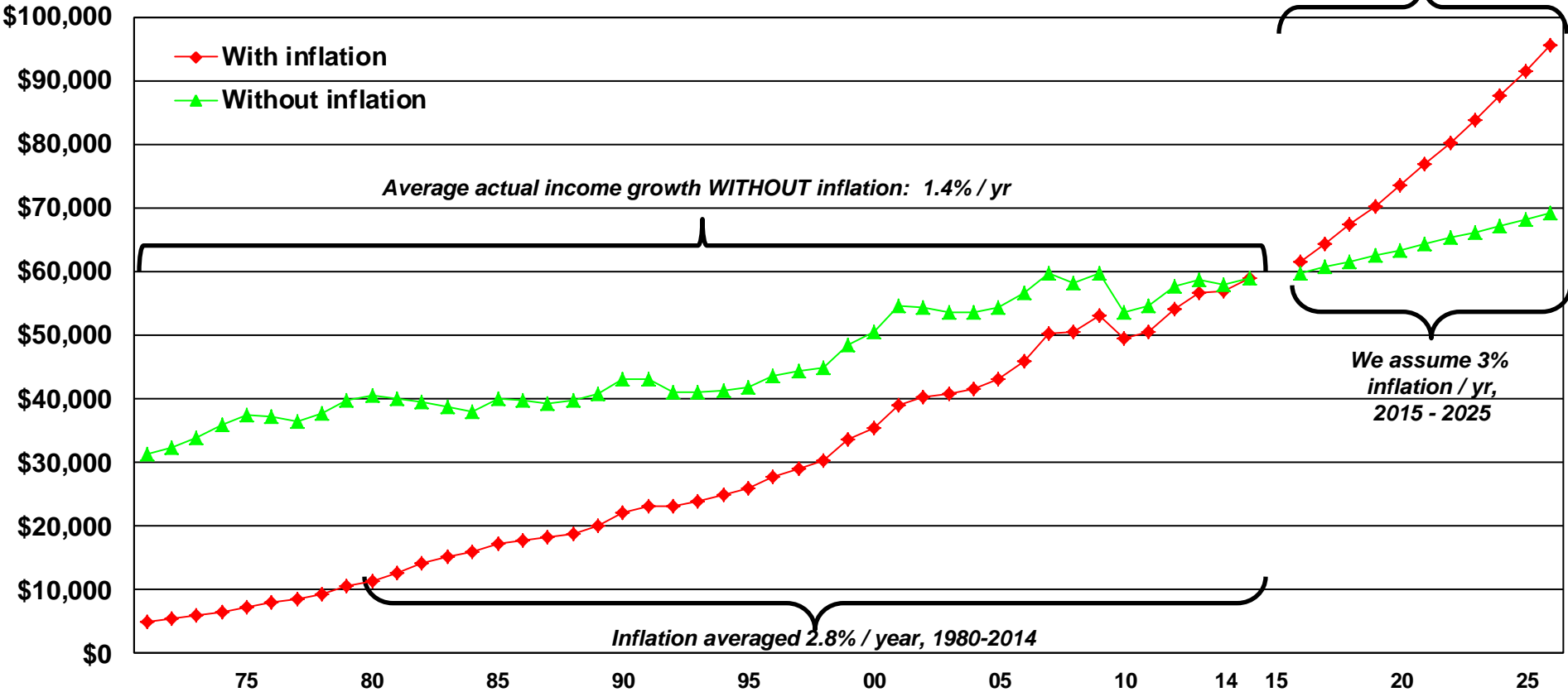
Having an OMG moment? Who could afford that? It's actually very plausible. Personal income in Denver, before adjusting for inflation, grew from \$4,900 (1970) to \$59,000 (2014). After taking out inflation, that's 1.4% per year – about the same as home price growth! If we assume 4.5% growth per year 2015-25 (with inflation), the average income will grow to \$96,000 by 2025. Home affordability won't change much.

FORECAST

Denver Per Capita income – Forecast 2015 - 2025

Income in \$000, with and without inflation (CPI) factor

We assume real growth of 1.5% per year, 2015-2025 + inflation

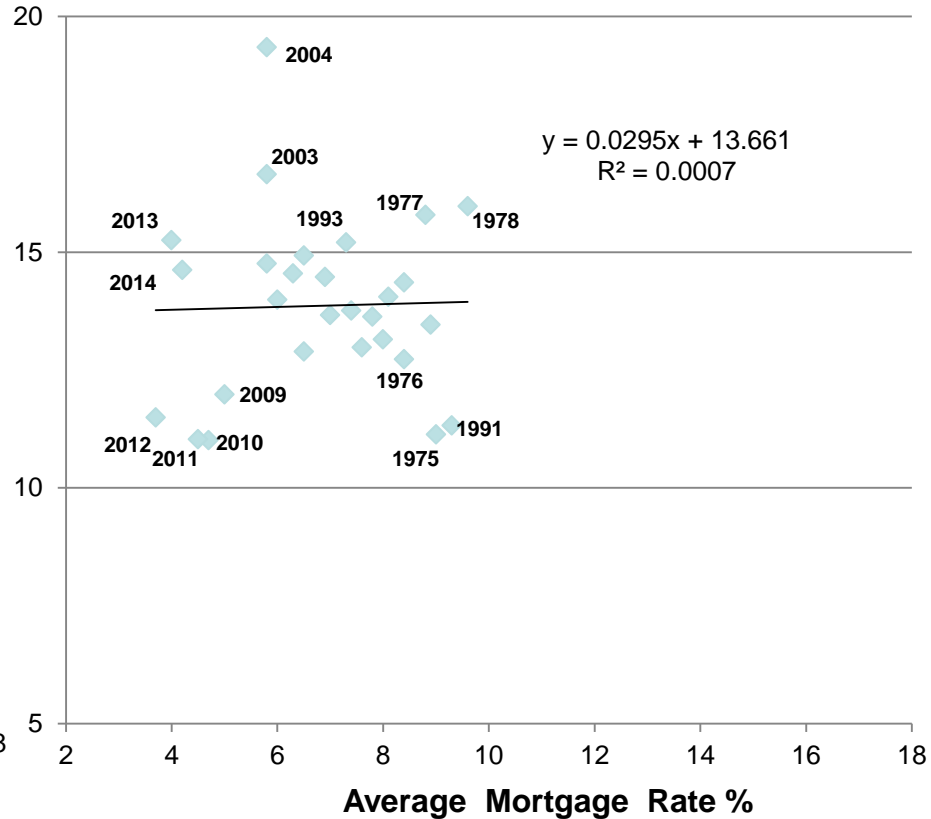
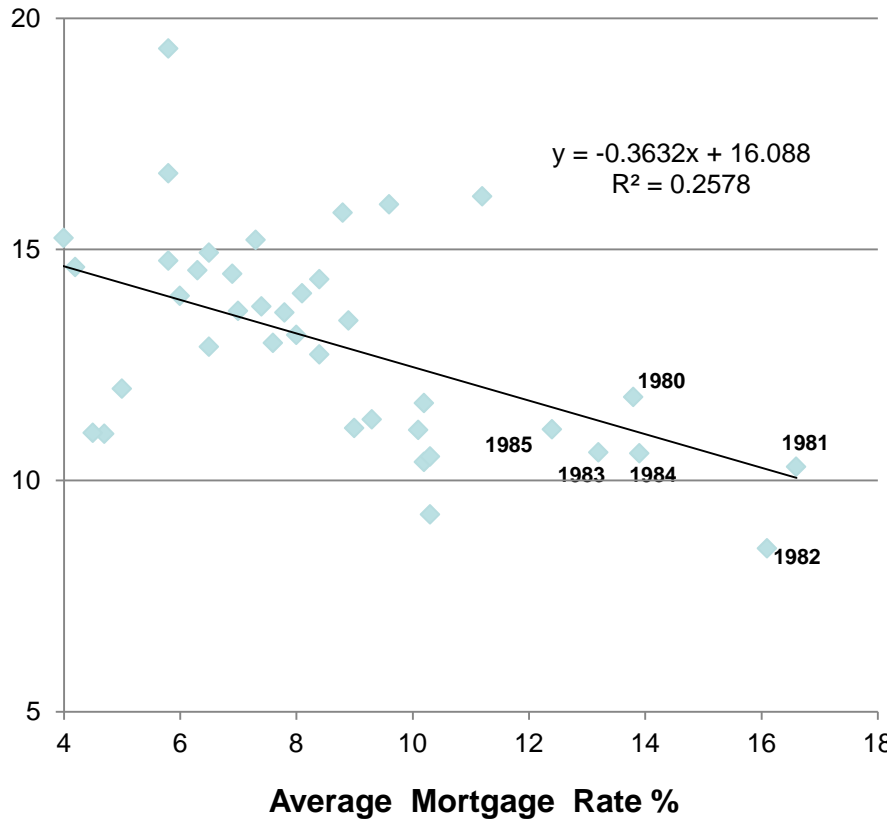


If you delete 1979-1990, when mortgage interest rates were above 10% (1980-85), there is NO RELATIONSHIP between homes sales volume in Denver and rates.

1975 – 2014
All mortgage rates

1975 – 2014
Excludes years over 10% rates

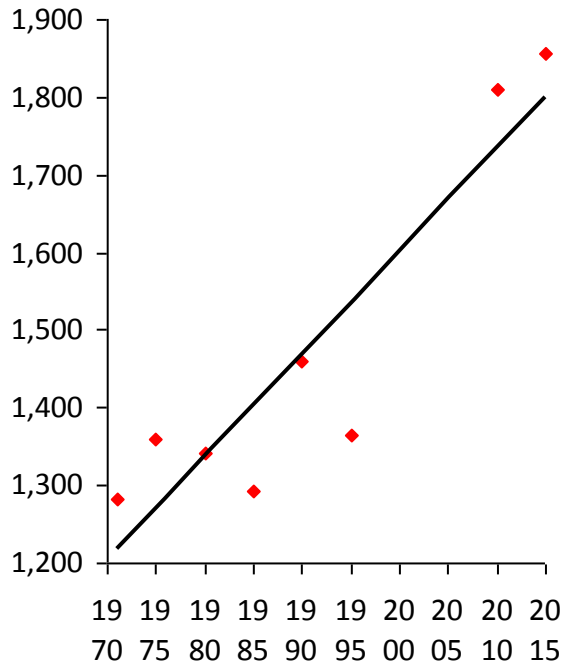
Homes Sold / 1000 Population



Source(s): Your Castle Real Estate analysis. Based on information from REcolorado®, Inc., Census Bureau, Denver Chamber of Commerce, Freddie Mack
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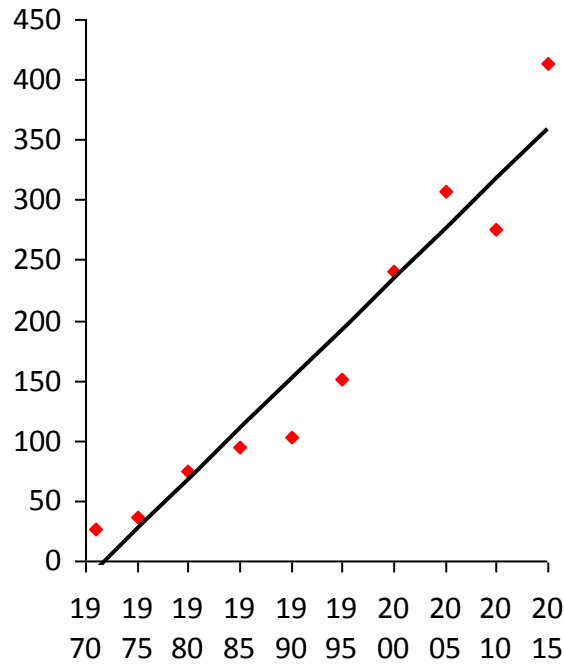
About 1% of the 6.5% average increase in home price over the past 45 years is due to the increase in the average size of a home.

Average Home Size
Square Feet, 1971-2015



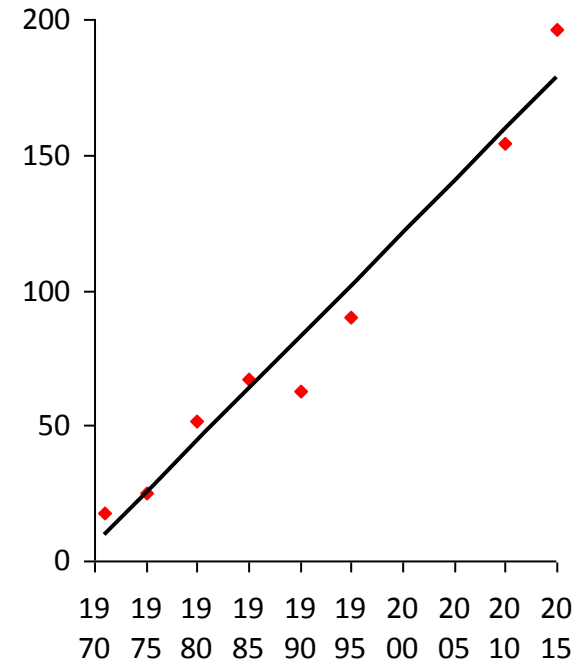
The average sold home size has increased from 1,280 SF to 1,855 SF. That's about 1.0% per year.

Average Home Price
\$000, 1971-2015



The average home price has increased from \$27K to \$414K. That's about 6.5% per year.

Average \$ per SF
All home, \$, 1971-2015

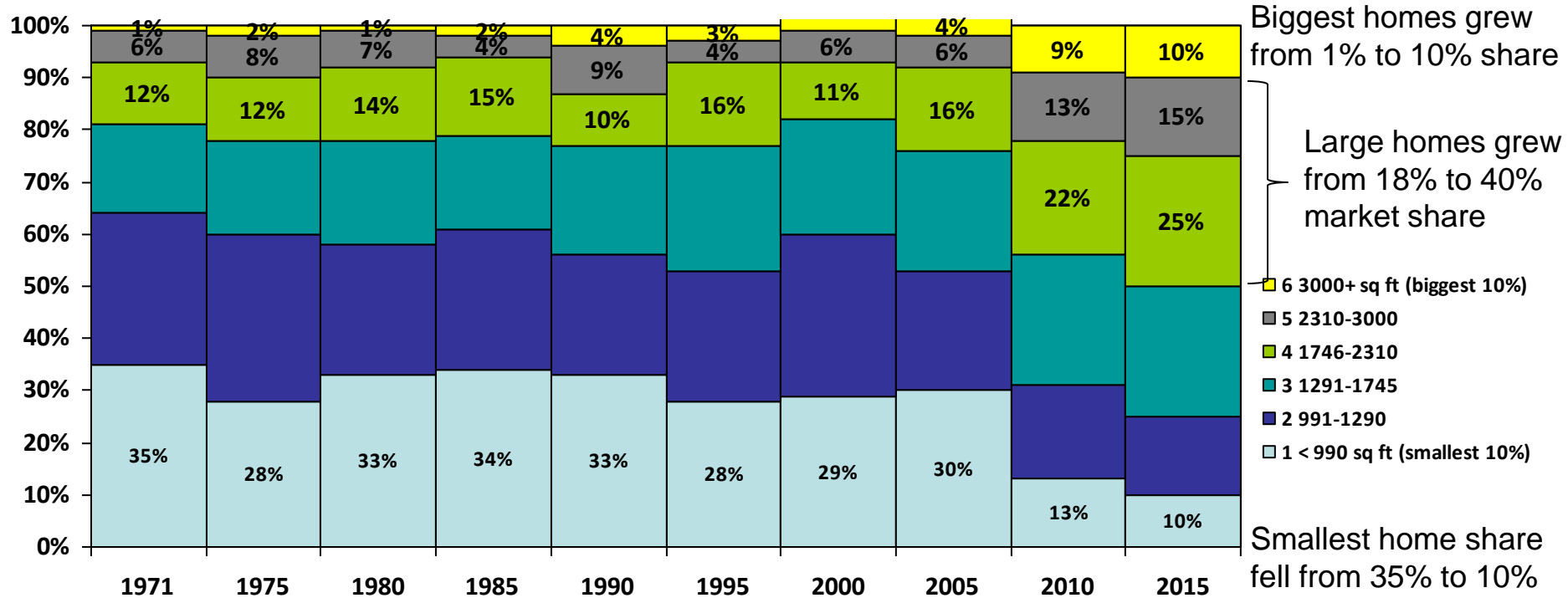


The average \$/SF has increased from \$18K to \$196K. That's about 5.5% per year.

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Illustrated another way, mega-home (over 3,000 SF) share grew from 1% to 10% of the market, while small home (under 1,000 SF) fell from 35% to 10% of the market.
 Will the trend for increasingly larger homes continue for the next ten years, or will home sizes stabilize?

Change in Market Share of Large vs. Small Homes
 %, 1971-2015



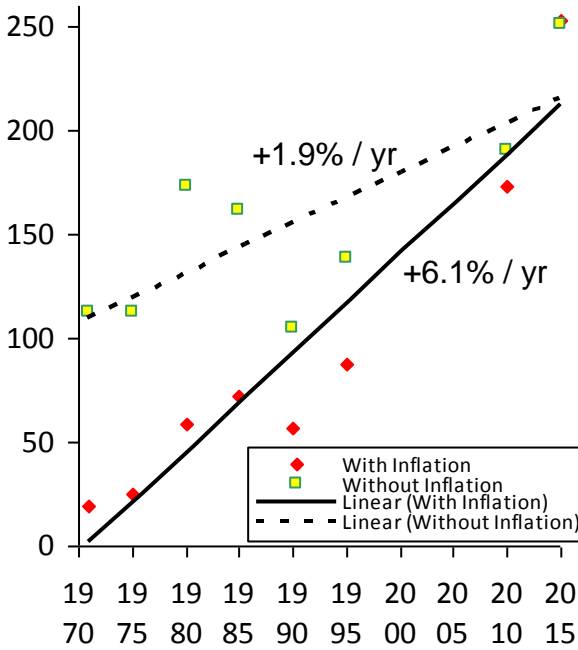
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Smaller homes have appreciated 2x more than large homes after inflation. Given the supply/ demand imbalance for small homes (and the balanced supply of large homes), that should continue for several years.

Longer term, we need to build a lot of small condos, otherwise the scarcity for first home product will continue.

Small Home Appreciation

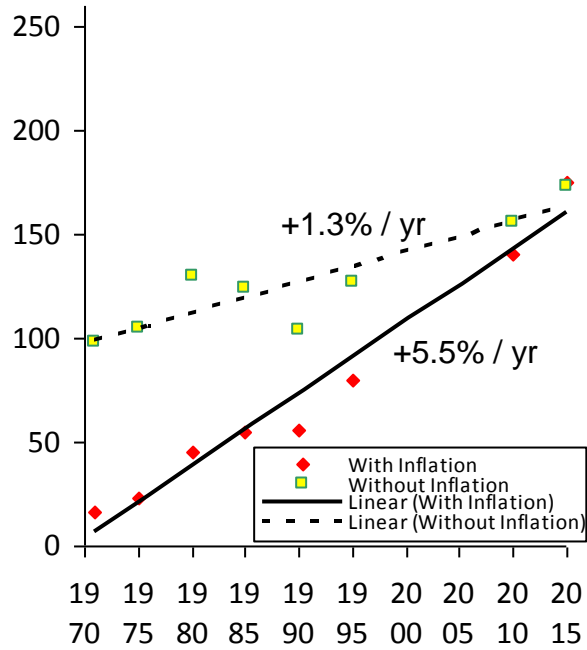
Only homes under 990 SF, \$ / SF



These homes' average sold price / SF increased **6.1%** per year with inflation and **1.9%** without inflation.

Medium Home Appreciation

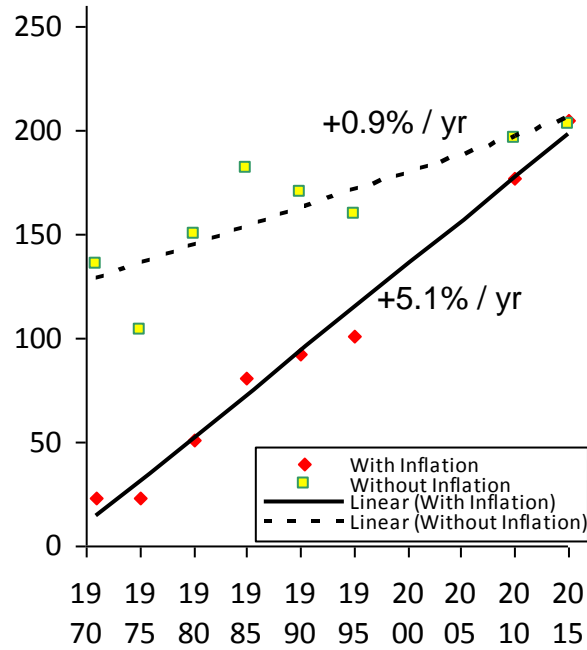
Homes 1,300-2,300 SF, \$ / SF



These homes' average sold price / SF increased **5.5%** per year with inflation and **1.3%** without inflation.

Large Home Appreciation

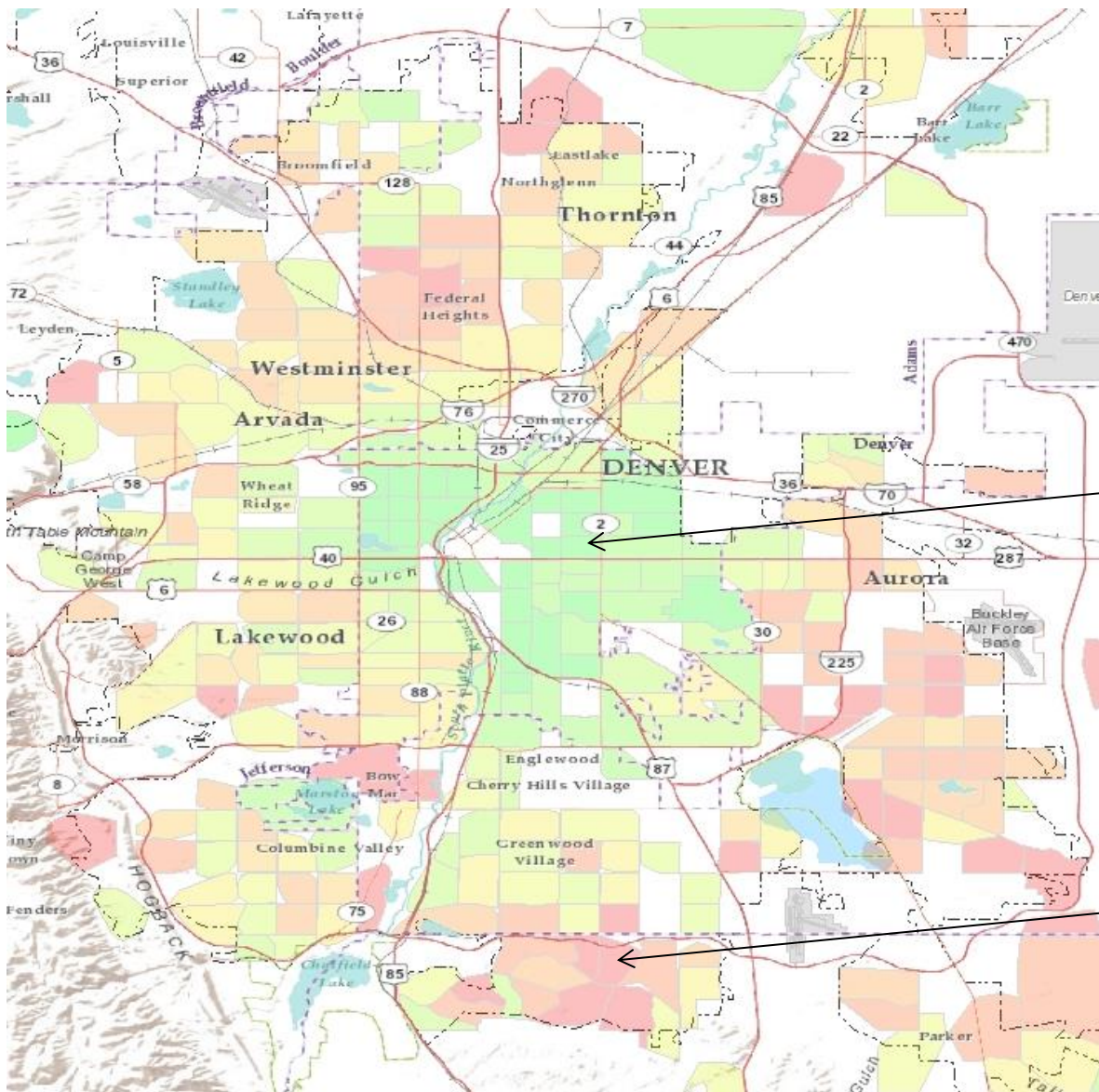
Only homes over 3,000 SF, \$ / SF



These homes' average sold price / SF increased **5.1%** per year with inflation and **0.9%** without inflation.

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The gap in appreciation growth between large and small homes also shows up on the 20 year price change map.

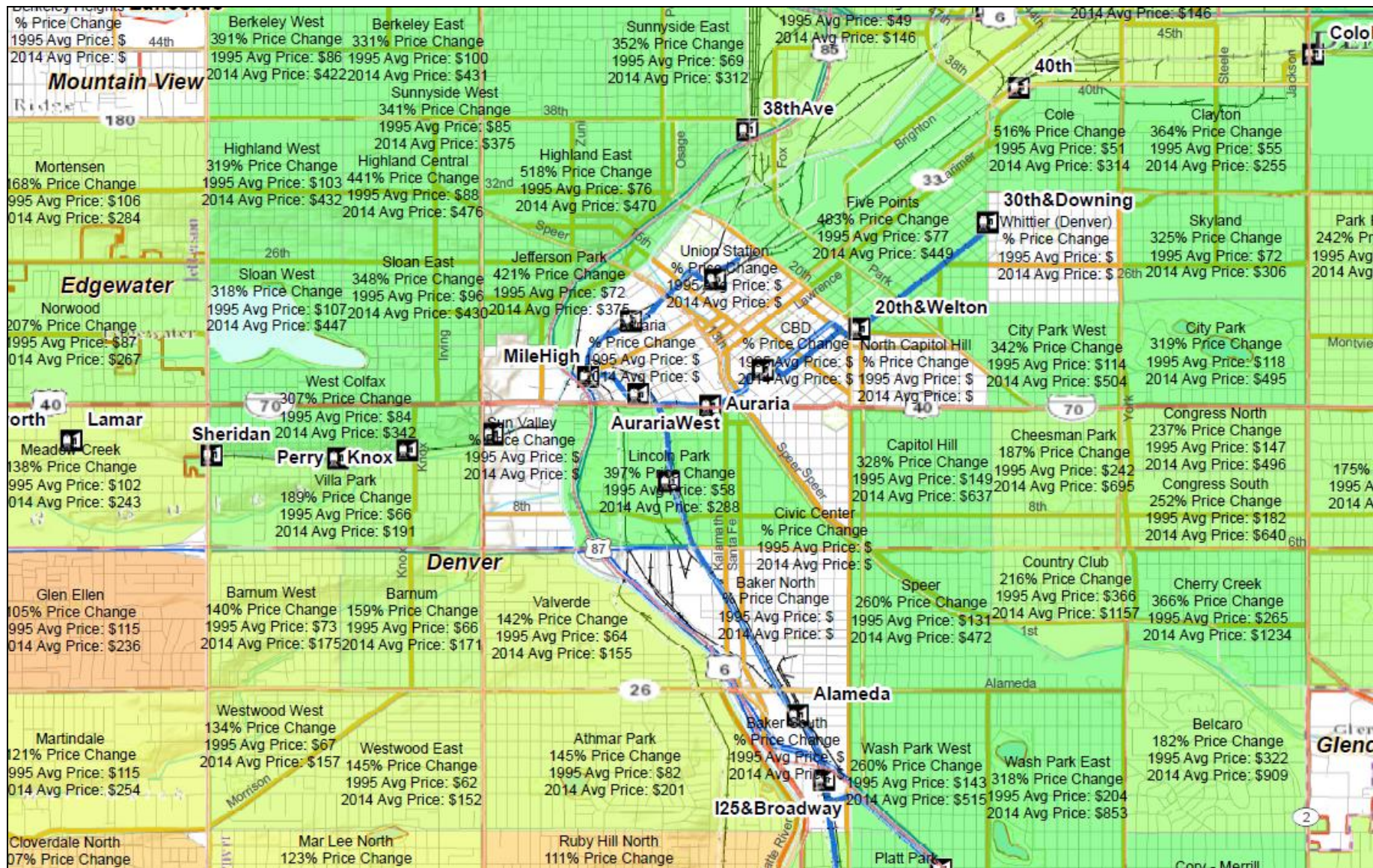


Homes in central Denver experienced the most appreciation over the past 20 years

Homes in far suburbs experienced the least appreciation over the past 20 years

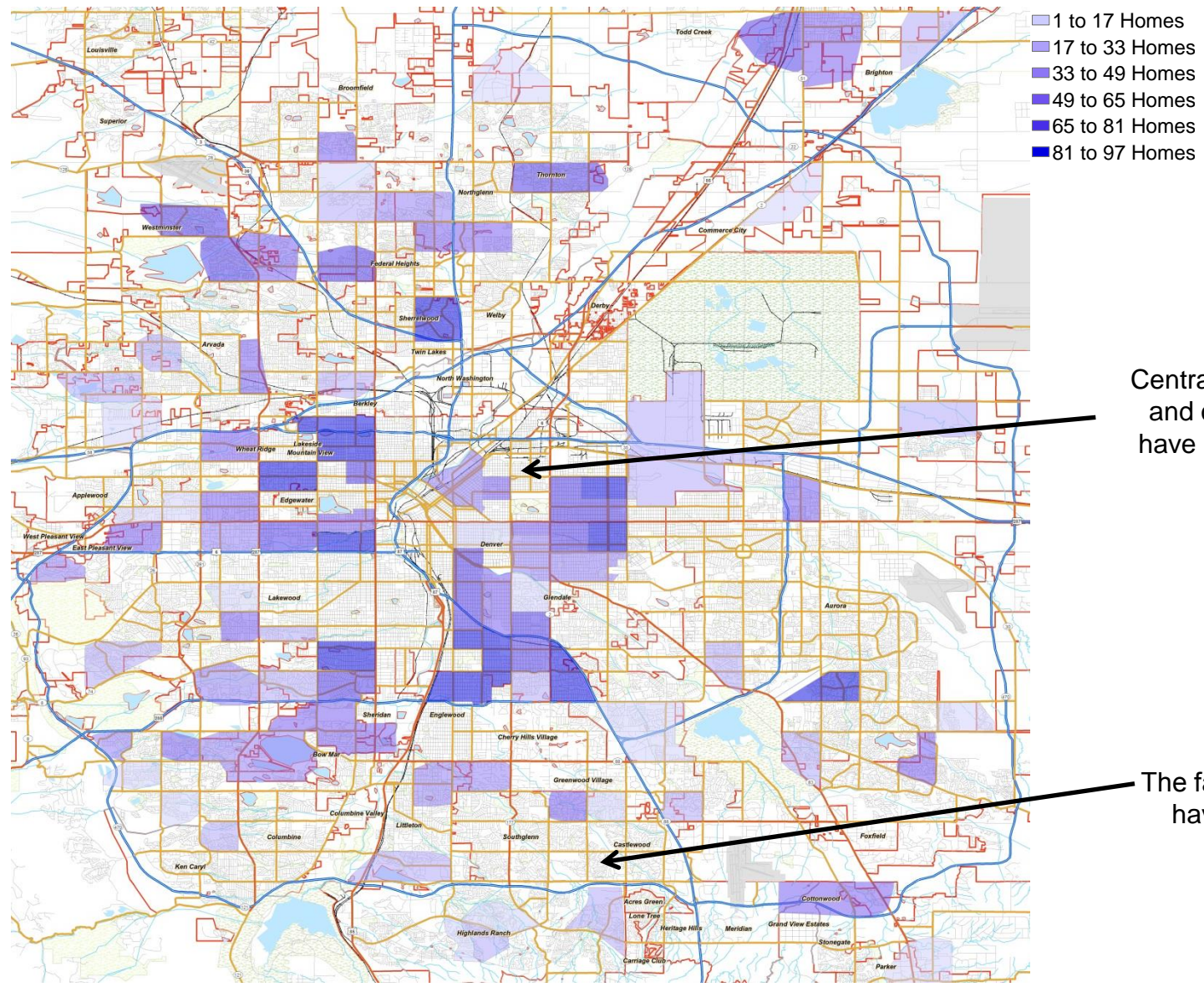
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Here's a look at some core Denver neighborhoods and their high rates of appreciation, 1994 – 2014.



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With that insight, where are the smallest (under 990 SF) homes concentrated? Central Denver!

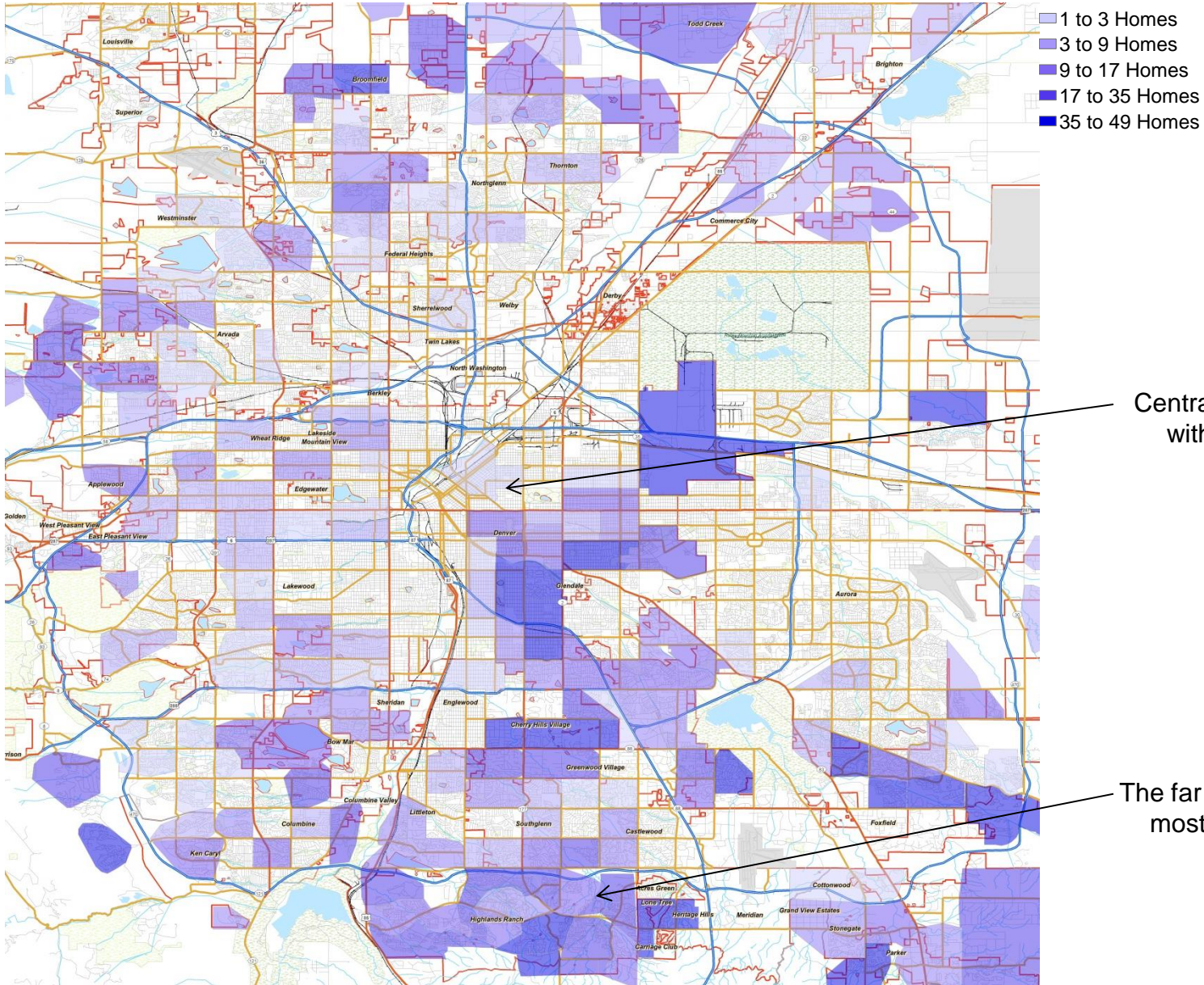


Central Denver neighborhoods and close in suburbs tend to have most of the small homes

The far (newer) suburbs don't have many small homes

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Where are the largest (over 3000 SF) homes concentrated?



- 1 to 3 Homes
- 3 to 9 Homes
- 9 to 17 Homes
- 17 to 35 Homes
- 35 to 49 Homes

Central Denver neighborhoods with a lot of development.

The far (newer) suburbs have most of the large homes

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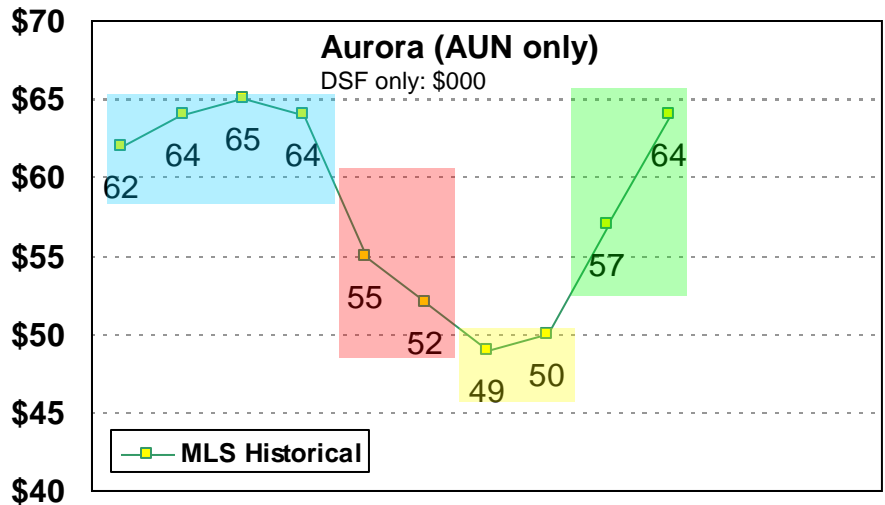
Anatomy of a real estate market cycle. Denver's last two cycles had many common features. This doesn't enable us to predict the future, but it gives insights.

A: Before the Fall

- Prices are appreciating, but at a slowing pace, as the end of the cycle is near.
- Fall is foreshadowed by increasing foreclosure volume (though still at a *relatively* low level).
- Discounts and Days on market increase as inventory builds.

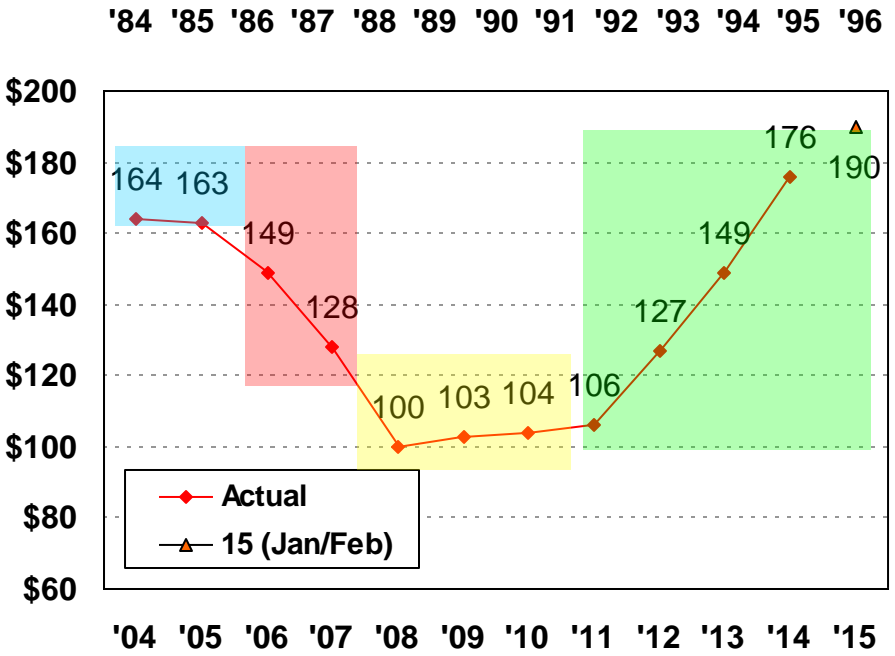
B: The Fall

- Number of foreclosures increases dramatically.
- Low cost distress sales replace regular full price sales; so blended average price decreases quickly.
- Elective sellers in good condition decide to wait or rent their homes, further reducing non-distress sales.
- DOM reaches peak; then inventories fall as owner occupant sellers pull out.



C: The Bottom

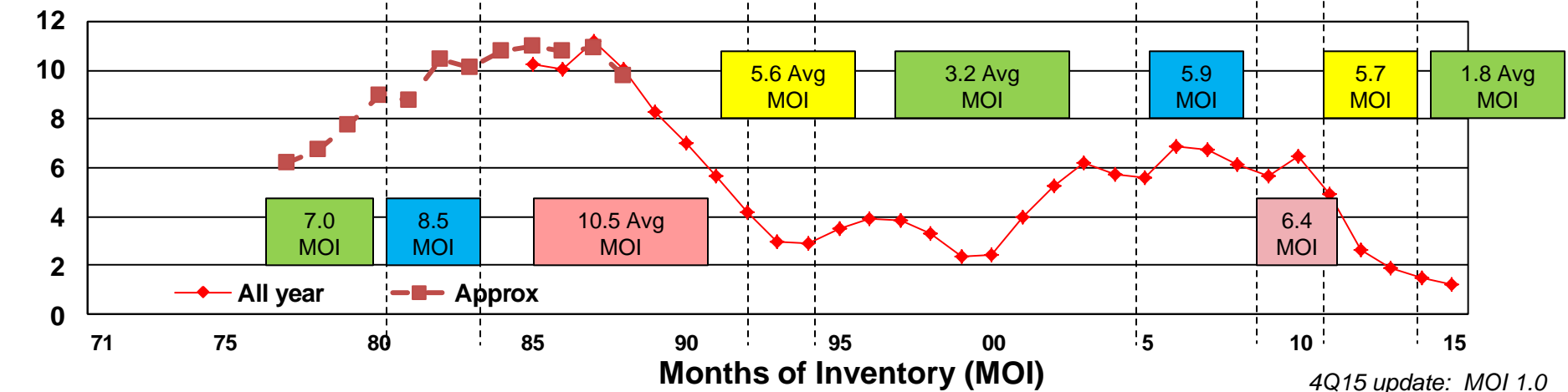
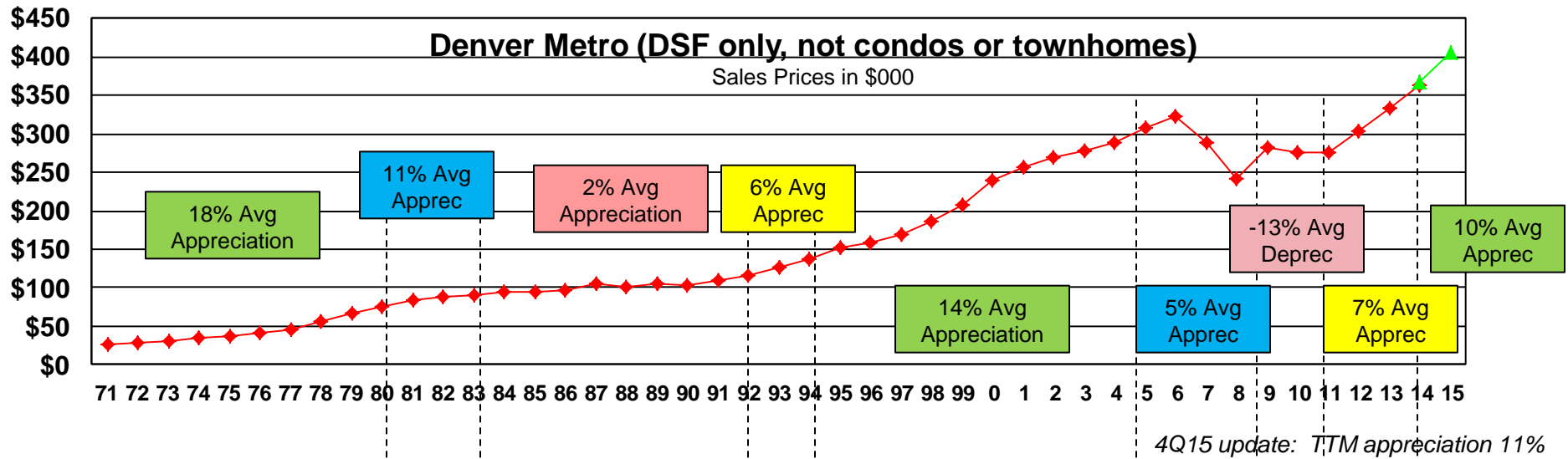
- Distress volume peaks and distress pricing hits bottom.
- First time buyers frustrated with lack of move-in ready inventory: pent-up demand.
- F&F'ers start to re-enter.
- Buy and hold investor (land lord) demand outstrips supply; multiple bidding gives a floor to prices.



D: The Recovery

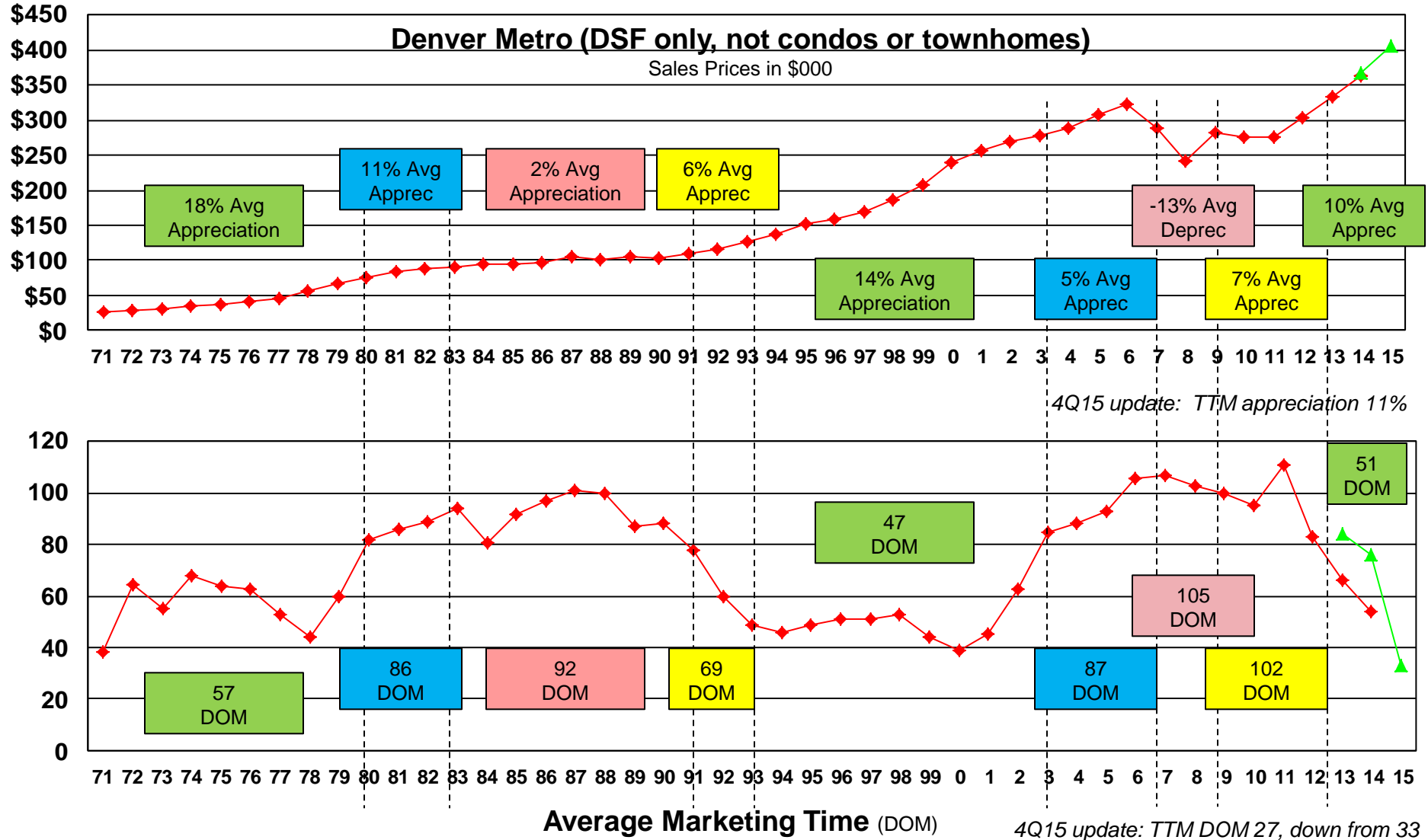
- Foreclosure volume declines.
- Non-distress sellers waiting on sidelines finally re-enter.
- Mix shifts from beat-up to nice homes; prices increase.
- "Show me investors" on sidelines rush in to market, increase market frenzy.
- Number of true "deals" shrinks but newbie investors buy anyway, driving up prices
- F&F activity increases; increasing quality and price of inventory.
- First time buyers finally buy; using up pent-up demand.

Home price appreciation vs. MOI. During times of high appreciation, MOI is low. MOI grows for ~3 years (highlighted in blue) before a real estate recession starts (highlighted in red).



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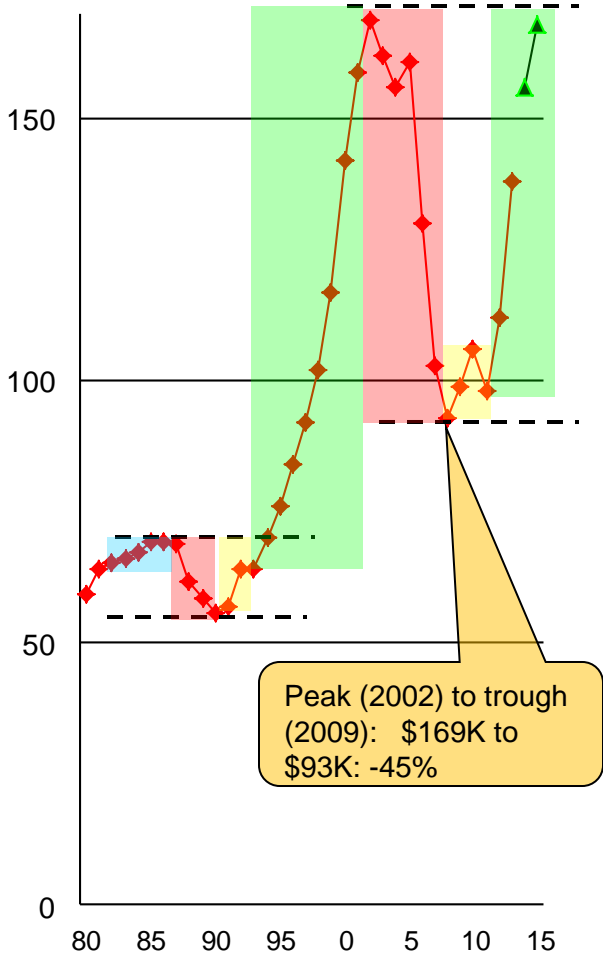
Home price appreciation vs. DOM. As inventories build (as measured by MOI), marketing times (as measured by DOM) increase. The transition from growth to recession is highlighted with blue.



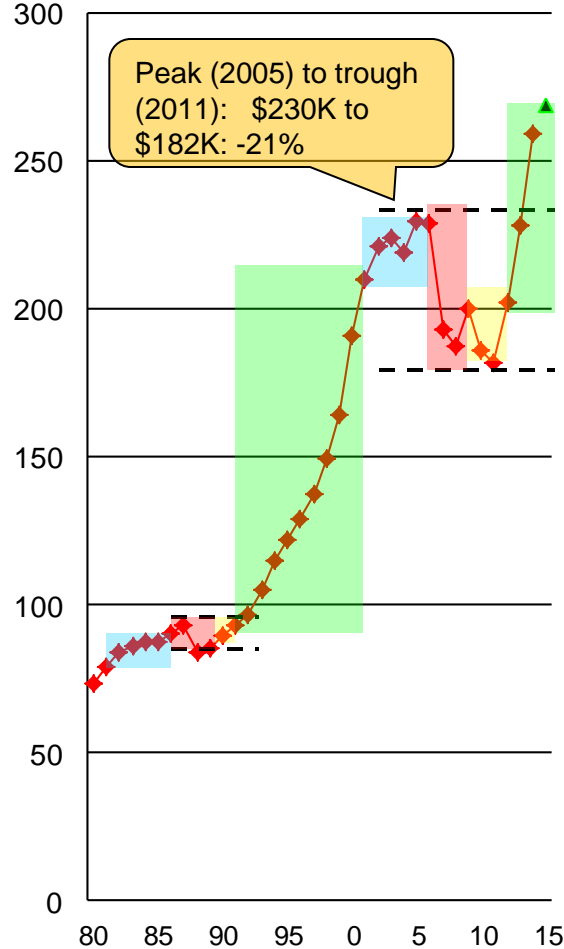
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Each neighborhood has a different path through the market cycle. More expensive areas have less volatility. NW Denver appreciated in the downturn. North Aurora was a roller coaster. Moderately priced S Aurora was in the middle.

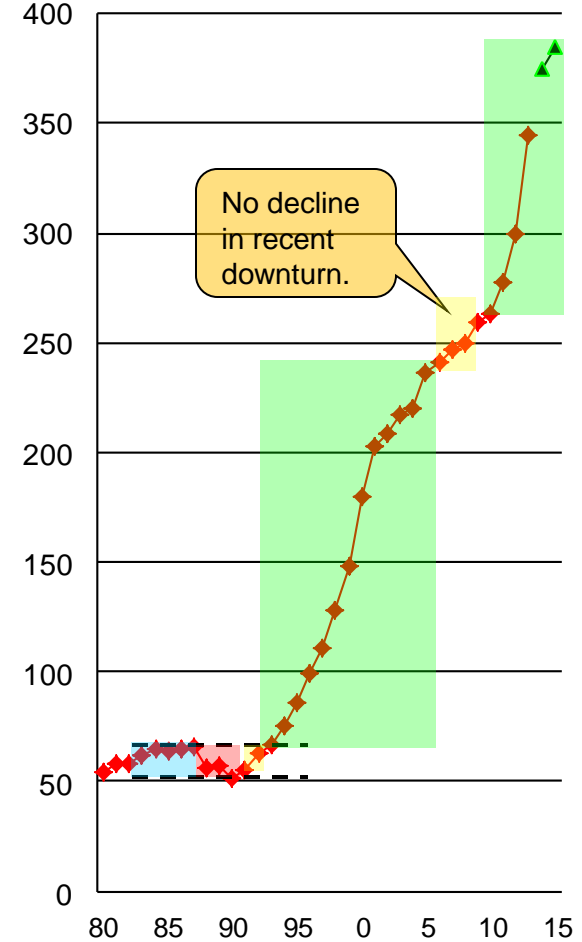
North Aurora (Homes)
Sales Prices in \$000



South Aurora (Homes)
Prices \$000



NW Denver County (Homes)
Prices \$000



Source(s): Your Castle Real Estate analysis. Based on information from REcolorado®, Inc.,
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