



REAL ESTATE

Q :: IS THERE TRUTH in the NUMBERS?

Recovery isn't imminent, and patience is the name of the game. For a second time, **Western Home Journal** covers a question-and-answer panel, as the experts lay it on the line: What's happening in the market? At a recent gathering over lunch on the sunny and oh-so-hip Ajax Tavern terrace, four prominent local realtors all agreed that the stage is set for a positive upturn in local real estate markets. And, like a watershed, the flow starts at the top. As soon as Aspen properties start to move—a trend we are happy to report has already begun—the rest of the valley will follow suit. By Sarah Shaw / Photos by Derek Skalko



ROUND TABLE

These are the figures from the industry, which all our experts share access to. As of September 30, 2011, there were 900 properties for sale in Aspen, Snowmass and Basalt; this is 13% less inventory than at this time last year. At third-quarter's end, the average sold price in Aspen was \$1,055/square foot. Basalt weighed in at \$257/square foot, and Snowmass Village fell in between at \$698/square foot. While these numbers remain lower than the market's high numbers in 2005 and 2006, they have increased since 2010. True, these numbers tell a six-year story of fiscal woe in a region that counts real estate as one of its major economic drivers (following closely on the heels of professional services, retail and construction). This news isn't meant to be depressing, so please, read on. Compared with 2010's numbers, the statistics are actually positive, and point to a recovery in the market. The number of sales in Aspen is up nearly 30% over 2010. Snowmass Village has seen a 31% increase in sales over last year, and Basalt has nearly doubled its year-to-date sales (up 83%).

Q: What are the current inventory levels in the valley, and what are buyers looking at?

BJ Adams, BJ Adams and Company: Inventory is dropping in Aspen and Basalt, and levels are stable in Snowmass. The market in Basalt has really started to pick up because now there is very good product available. The fact that the inventory is not increasing signifies to me that the market is turning around.

Greg Rulon, Joshua & Company: There are some great options out there right now. Most buyers ask themselves these two questions: "Which house is most comfortable for me?" and "Which one can I live in right away?"

Brian Hazen, Mason and Morse Real Estate: We tend to attribute our higher real estate prices to our tough building codes, but some of our clients come from places where codes are just as tough. For example, Marin County and coastal areas of southern California are much more stringent than we are. Many times, our clients see something they like and are willing to spend the

time and money to create their dream home. But, along with this current trend, people are also shopping the market and scrutinizing the builders.

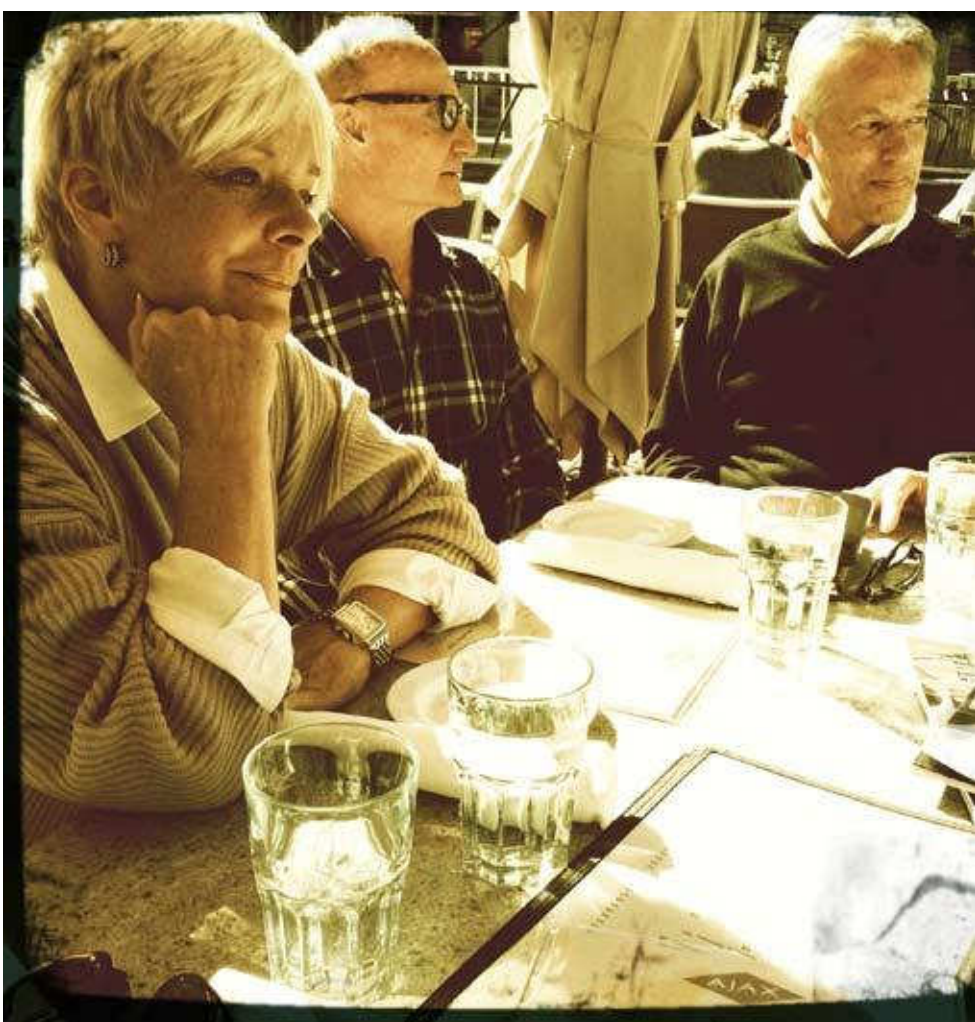
Scott Davidson, Aspen Associates Realty Group: Lot prices have decreased and as a result, we're seeing some speculation in the market again. In fact, some of the locals that are speculators are buying because there are some good deals to be had. As our market builds again, what will be lacking is new single-family-home product.

Adams: I showed a client dozens of houses recently, and he finally came to the conclusion that the prices on built product didn't truly reflect his values. He knew he could buy a single-family lot and build exactly what he wanted, and he wouldn't have to compromise on any single element. Buyers want a deal. No matter the price, they think they can get it for much less. In today's market, buyers want a smaller product, as well; they aren't psyched for all that space.

Hazen: The philosophy has changed and our clients are much more conservative with their wealth. If they don't have to build a 12,000-square-foot home, they won't.

Davidson: I sold two lots in the West End last year, and I still think those buyers made the right decision. Those lots can't support huge homes, and the buyers were smart to opt for 6,000-square-foot houses.

Hazen: My theory is that if you are outside the city limits, your showing activity is cut in half. Any property that is located outside of easy access to the core is less popular now. People don't want to have to drive everywhere. That's why the east end of Aspen is so popular right now. This theory alone means that a buyer has to build a smaller home.



Adams: The idea of the large home has always puzzled me. Snowmass Village has had a cap on home sizes at 5,500 square feet for as long as I can remember. People have adapted to it and lived with it. That all changed when Aspen made available the ability to build 10,000–15,000-square-foot houses. Suddenly, there was a mad rush to obtain the extra square footage before the County took it away, and the market responded.

Davidson: Speculators were building as fast as they could get their hands on it because they were afraid they would lose the opportunity. Whatever the square-footage limit was at the moment, people built to it.

Hazen: There is some logic to lifting a house and putting a basement under it. If you can add 2,000 square feet of basement and double the price per square foot, it's a no brainer. Why wouldn't a buyer do that? That being said, I think the price per square foot is the absolute weakest analysis.

Adams: But when the market is this complicated, it's a place for people to put a stake in the ground and start their analysis. However, it's also a tool that is overly used by the lazy broker.

Davidson: Prices per square foot in Aspen/Snowmass range today from \$1,700 to \$500/square foot. When you add location, these numbers start to make sense.



Hazen: Many people come from areas where lot values are more uniform. It's always a challenge for realtors here to convince buyers that the unknown nooks and crannies of Aspen and Snowmass Village are often worth the extra value.

Q: Is inventory a deciding factor on where we are right now?

Adams: That is why single-family lot sales are lagging. In Basalt, for example, you can buy a single-family home for less than it costs to build a new home.

Hazen: In some cases, it's the architectural detail and materials that are way beyond what the market will support now.

Adams: Some neighborhoods are stronger than others. In Aspen, the West End and West Aspen are currently very strong.

Rulon: It's hard to generalize about this market because there are so many micro-neighborhoods that are booming. In some neighborhoods, there have been no sales in five years, whereas in others, five houses came on the market at the same time.

Adams: People are less comfortable with neighborhoods in transitions where big new homes are adjacent to run-down properties that were built in the 1960's. Look at Aspen's Park and Midland neighborhoods. There was a time that people were so confident that everything would be torn down and

redeveloped. Now people aren't sure if the neighborhood is going to change. People are more sensitive about the quality of the neighborhood that they are looking at, and again, they're doing their homework.

Rulon: If you're in the middle of the pack as a seller, there's a smaller chance for an immediate sale. The value-priced and unique properties are selling, whether it has a view lot or exquisite construction. People are recognizing value, and those are the ones that are selling.

Q: What does the condominium and fractional ownership market look like?

Adams: The condo market is strong. Snowmass has rebounded, and that area is now 50% above last year. The prices finally settled into a place where people became interested. The central core's condo market in Aspen is also doing well. Prices per square foot in those areas are actually starting to increase.

Hazen: A few years ago, buyers might not have considered a condo, but now it's a safe investment, and they are just glad to have something in Aspen.

Adams: Well, it's safer to have \$1 million invested rather than \$5 million. There's not such a worry about where the market is going when less of your assets are tied to real estate.

Hazen: The contemporary design boom has really helped the condo market because so much of it was so dated.

Adams: In Snowmass, the condo floor plans are dated, but the exteriors have all been updated. Five years ago, all the homeowner's associations were put on notice that they better improve their developments, or they wouldn't be able to compete in the new marketplace that included Base Village.

Rulon: As a result, \$100-plus million was invested in exterior remodels alone.

Adams: You only notice that the condos are dated when you go inside and see the low ceiling heights. But in every other respect, they reflect today's tastes. Almost every single homeowner's association in Snowmass Village has invested hundreds of thousands of dollars into upgrading their properties.

There continues to be more fear about buying in Base Village now than there is in purchasing a Crestwood unit or other comparable property with a homeowner's association that has been around for a while. You know what your fees are and you know where your income is. In Base Village, it's all still a big unknown. But if you can buy something in Base Village that's low enough, you might get a good deal.

Q: Where do you see the market six months from now?

Adams: I think we're going to have a reasonably good and stable winter. Reservations look really strong and people are comfortable that the worst is behind us. It's fragile: it wouldn't take much of an event to stall the market again.

Davidson: I agree. It's slow and steady, and I don't think you're going to see any dramatic change in sales in the next six months. Year-to-date in Aspen, we're up 16%. If we hit that next year, we're good. I don't think we're going to see a bigger increase in sales. Inventory is going to continue to decrease, but there's no new product coming on the market. Sellers are real now.

Rulon: The people we work with still have money to invest. They might have less now than before, however. And there are uncertainties in our world, including the proposed changes to the tax laws and the shifting political situations. But, it drives our buyers nuts to sit on their hands and see their money doing nothing. We might even see a shift from the stock market back into the real estate market. If we get into an inflationary period, real estate is the place to be, not the stock market.

Hazen: Liquidity is still a problem. A lot of people really got scared, and so they are still willing to go with the stock market. However, nobody increases their prices faster than Aspen sellers. My forecast is that the market will continue to be strong, with troughs of low points that occur as the inventory starts to decrease. There is more shadow inventory out there than we think. I see sellers who want to wait until the market gets better, and I tell them they could do that, but it doesn't necessarily mean that they will make more money. Sellers' natural tendency is to overprice. If the market does get better, however, they may not get a higher return for several reasons, including the fact that buyers like new product and there's a fair amount of shadow inventory that will reemerge





[FROM LEFT BJ Adams, Brian Hazen, A. Scott Davidson, and Craig Rulon]

on the market and increase the competition. There are some incredible opportunities nationwide, particularly in urban environments that haven't come back yet.

Adams: I think that's going to be offset by people who may have needed to sell, but now they don't because they're more comfortable.

Hazen: Every season, I see an incredible number of items come on the market right before Christmas. That's the mysterious shadow inventory. Snowmass is unprecedented in that regard. If that keeps up, the market won't appreciate as quickly, due to the lack of product.

Adams: Many people play the game of removing their listings at the end of the season with the hope that they can increase their odds during the next high season. I didn't see as much of that this year. A lot of people seem to be happy in this market right now and are more willing to take a chance.

Hazen: It's very important that our buyers feel like they have more choices than ever, and that things have stabilized. It is also important that the shadow inventory keeps offering a big selection. In the heyday, nobody complained if we didn't have a selection because we turned it into the strength of the market. Now that buyers have had a big selection for a number of years, I'm not so sure they're going to buy into the strength of market. Buyers are getting used to having choices.

Adams: Scarcity drives decision making. As long as buyers think there's going to be a constant supply of inventory, it's easy to wait until the next visit to make a choice. But, if a decrease is imminent, those buyers will make a move.

Rulon: If each of us showed a different client the same ten houses, our clients would probably choose the same two houses as their top choices. And, if one of those two choices goes under contract, our clients panic.

Hazen: That's where I disagree. I think our buyers have become more educated and sophisticated, so they have identified geographically different markets that are comparable to Aspen—either in price or demographics—that they can look to. If prices go up too quickly, I don't think we'll see people fighting over property the way they used to, or making sudden decisions.

Davidson: We're not losing these clients to other resorts, however, like Steamboat or Telluride. Sophisticated buyers are making complete switches, and investing in urban markets like New York City or Miami.

Adams: I think that there is a possibility of more urgency down the road. It's going to be a while before we're in a place where there's not that much left to buy. But, there are properties that offer a very compelling value right now, and those are going to drive the market.

Hazen: Price is so important. Downsizing and preserving wealth is the name of the game. Nobody wants to be stupid again.