YOUR CASTLE
REAL ESTATE

4th QUARTER 2020 RESIDENTIAL TRENDS: DENVER

WHO IS YOUR CASTLE REAL ESTATE?

Established in 2004, Your Castle Realty and Your Castle Real Estate has grown to become the largest independent and 6th largest real estate company on the Front Range according to the Denver Business Journal, with 650 agents in 6 offices. We are the 5th fastest growing real estate company in the country. We sold over $2 billion of real estate in 2019 and 2020.

We have appeared in local and national publications including recent awards from the Denver Business Journal and Inc. 5000 (see below).

We are passionate about delivering exceptional consumer experiences. By offering a complete suite of real estate services, we ensure that we meet our client's every need. From sales and rentals, to commercial and new builds, we have experts in every field to guide you skillfully.

We believe that access to the best and most timely information can dramatically shape client decisions. 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.

In 2018, 2019 and 2020 Your Castle Real Estate annually gave $175,000 in charitable donations. We're a big sponsor for the Ronald McDonald House and Boys and Girls Clubs of Denver.

Awards and Honors...

America's Fastest-Growing Private Company
2014: #2951
2015: #2163
2016: #2313

Denver's Fastest-Growing Private Company
2014: #5
2016: #10
2018: #5

Top Ranked Non-Franchise Firms in Colorado 2019: #1

Top Ranked Brokerage Firms in Colorado by Transactions
2019: #4

Best of Colorado 2017
Best Residential Real Estate Agency

As Seen In...

KEY MESSAGES FOR HOMES AND CONDOS

METRIC	COMPARISON	HOME	CONDO	OBSERVATIONS
Average Sale Price	4Q19 vs 4Q18: 1Q20 vs 1Q19: 2Q20 vs 2Q19: 3Q20 vs 3Q19: 4Q20 vs 4Q19:	+4% +7% 0% +12% +17%	+6% +4% 0% +5% +5%	**From 1971 to 2018, price growth averaged 6% per year.** More recently, prices grew an average of 7.4% annually in 2014 - 2020. 8% in 2017 and 2018. 2019 returned to historical average appreciation rates. Growth during the height of the COVID pandemic was flat, but already increased greatly. We expect strong appreciation in the first half of 2021, but moderate price growth in the 2nd half.
MOI (Months of Inventory)	01/01/20: 04/01/20: 07/01/20: 10/01/20: 01/01/21:	0.9 1.1 1.1 0.8 0.3	1.2 1.6 1.8 1.6 0.8	MOI has been relatively stable for 48 months. There is a normal level of seasonal variation. The new year is seeing inventory at thirty-year lows! We don't anticipate improvement until mid-2021 at the earliest.
Under Contract (UC)	01/01/20: 04/01/20: 07/01/20: 10/01/20: 01/01/21:	2,520 3,611 5,671 5,198 2,625	1,464 1,743 2,674 2,452 1,753	UC is a good leading indicator of closed sales volume. Volumes are a bit higher than this time last year due delayed demand from the COVID crisis. We anticipate strong sales volume for the new year. The lack of inventory is the constraint; there is plenty of buyer demand (and cheap mortgage money).
Number Sold	4Q19 vs 4Q18: 1Q20 vs 1Q19: 2Q20 vs 2Q19: 3Q20 vs 3Q19: 4Q20 vs 4Q19:	+12% +5% -20% +22% +21%	+7% +14% -24% +21% +29%	First quarter (Jan-March) of 2020 saw a 5-14% increase in sales versus first quarter last year. Real estate was hit hardest the second quarter of 2020, but recovered just as quickly, resulting in higher than usual sales, setting records for third and fourth quarters.
Inventory	01/01/20: 04/01/20: 07/01/20: 10/01/20: 01/01/21:	2,788 3,508 3,294 2,482 912	1,624 2,081 2,279 2,092 1,119	Inventory is down dramatically for both homes and condos. It's been interesting to see the demand for homes and condos respectively change directions amidst the COVID crisis in that detached homes are seeing and even tighter seller's market.

Data Source: Recolorado.com; YCRE analysis

HISTORICAL CONTEXT: DENVER HOME PRICES

Clients always want to know how the market's doing. Start by giving them a historical context of the Denver market.

Important points:

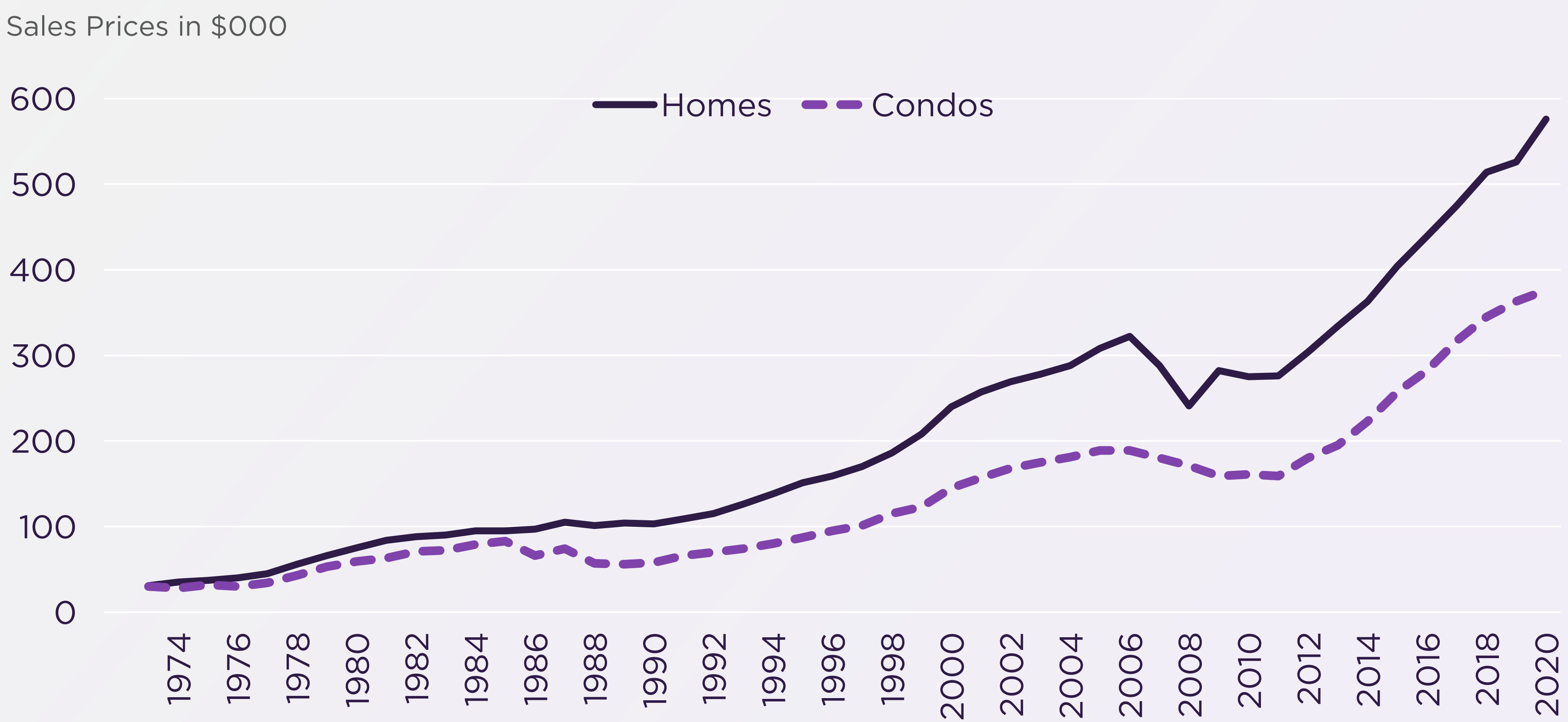
- The average priced home in metro Denver in 1971 was $27,000!
- On average, home prices rise 6% per year, just a bit above inflation.
- Homes have gone up in price all but 4 years in the past 44! So, just because we're at record high prices DOESN'T mean prices have to fall next year. People who say that are wrong 90% of the time!
- "Experts" love to talk about a 7-year cycle. However, do you see one on the chart? Prices rose from '71 to '87 (16 years). They held about steady for 4 years. Then rose for another 16 years. Then dropped for 3 years. Note how large the 2006 – 2009 drop was.
- Currently prices have been rising for 12 years.
- Prices rose another 8% for detached homes in the past 12 months.

What does it mean for the client?

- It's important for clients to understand the market and prices move in long waves. It's hard for them to appreciate this in a 24/7 news cycle era.
- Stay informed on articles on Zillow and the New York Times but don't get too caught up and make a flash decision based on them.
- Look at the long-term trends to best understand the market and how it can help them make their decisions.

Homes and condos appreciated at 6% annually over the past 45 years (1974-2018). Condos weren't as affected by the 2008 recession as homes were. Around 1986 the desire for single-family homes began to outpace condos. While both segments continue to see appreciation, the homes values are beginning to see greater growth.

DENVER METRO PRICE APPRECIATION (HOMES VS CONDOS)



Data Source: Recolorado.com; YCRE analysis

Inventory levels of homes.

- On the left side of the chart:
  - The solid line on the top of the chart is the number of homes and condos for sale, from 2008 to today.
    - Notice the line is very high in 2008, due to LOTS of bank foreclosures.
    - Buyers didn't buy as much during the downturn due to the scary media headlines and job loss.
    - As a result inventories were high.
  - The dotted line on the bottom shows the number of homes sold each month
    - Notice its been trending upwards.
    - This was caused by an improving economy and growth in the population.
  - Note more homes are sold in the summer than the winter
    - Investors buy consistently all year.
    - Families with kids in school prefer to move in the summer.

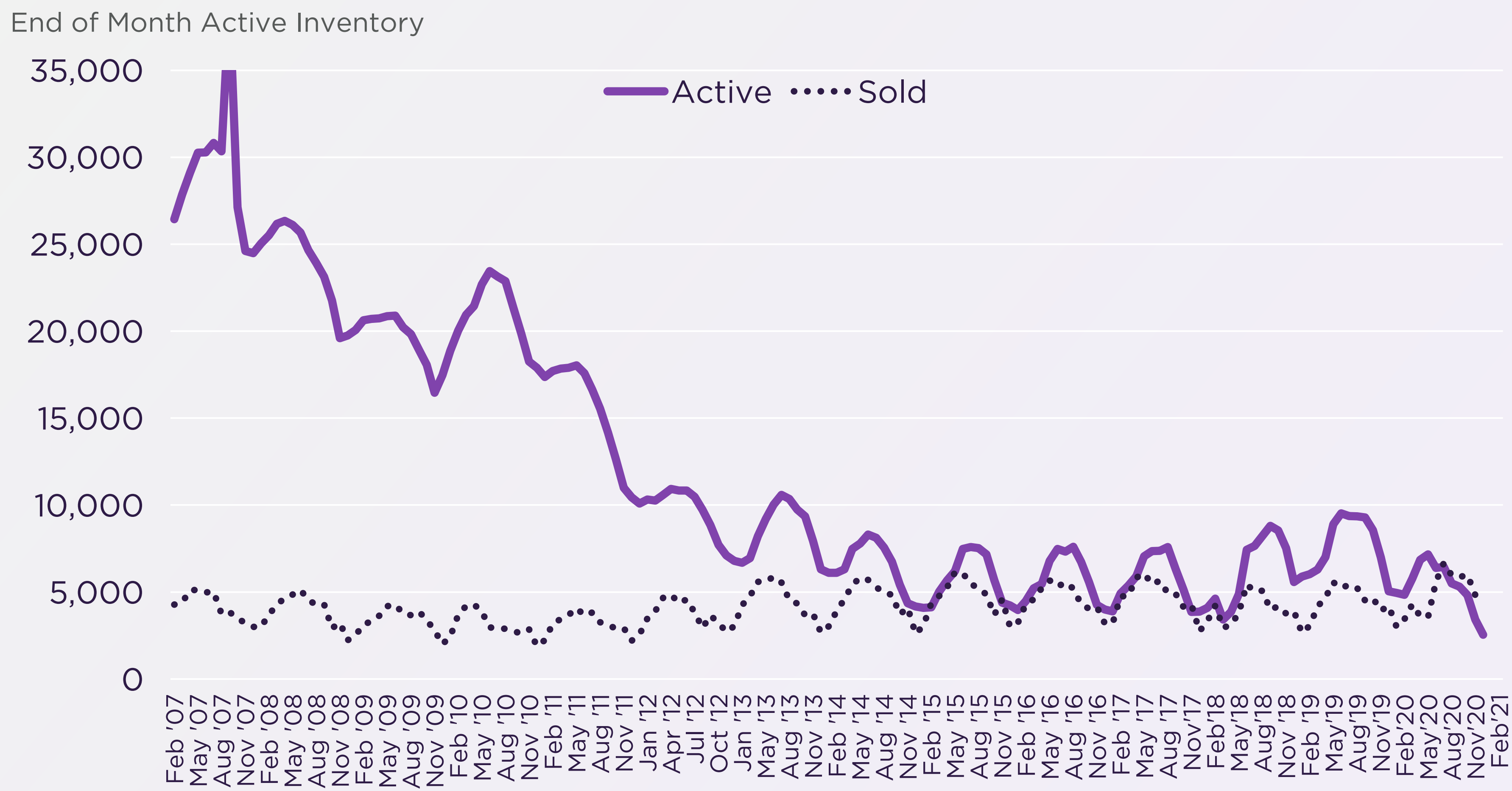
- On the right side of the chart
  - Notice that the number of sales is about the same as the number of homes for sale.
  - There's very little inventory and it's competitive for buyers.
- Other observations
  - We didn't arrive in this low inventory situation overnight. It took almost a decade to burn off all of the excess bank inventory.

What does it mean for the client?

- As long as the inventory is tight
  - Buyers will have to compete hard (write great offers) to win a home.
  - Sellers will generally have the edge in negotiations

Inventory levels of homes and condos available for purchase had been growing in 2019, but dropped again throughout 2020. As you can see, inventory is the lowest it has been in over thirteen years!

DENVER METRO (HOMES, CONDOS AND TOWNHOMES) INVENTORY (TOP LINE) AND MONTHLY SALES (BOTTOM LINE), 2007-2020



Data Source: Denver Metro Association of Realtors: DMAR Market Trends Reports 2020 (11 County Metro Area)

Months of Inventory (MOI) is a great metric to track the strength of the market. It is the measure of how long it would take for all the properties on the market to be sold if no more inventory came on the market.

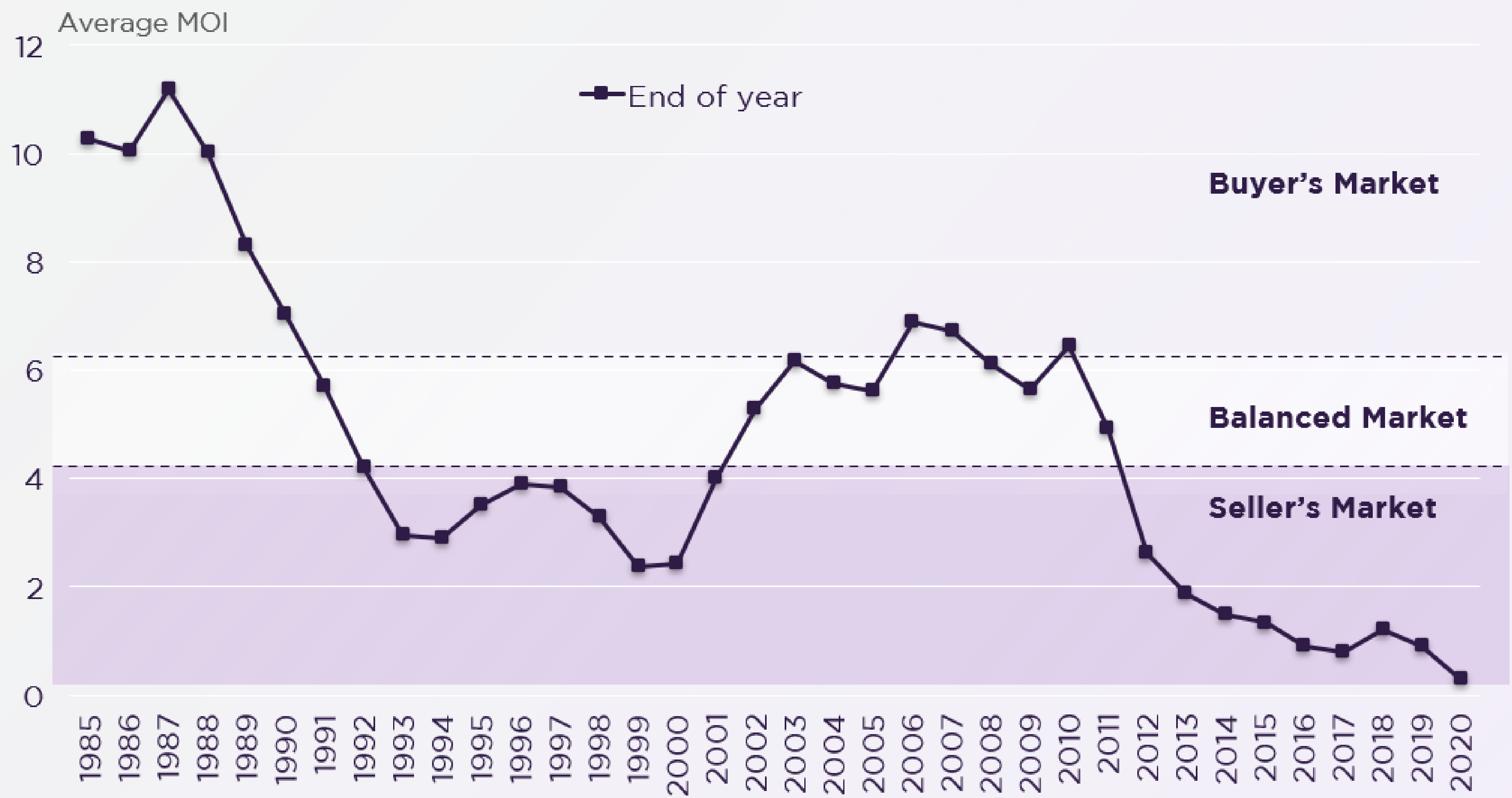
- For e.g., if one home is selling per month in a certain neighborhood and there are currently 6 homes on the market, there would be 6 MOI in that neighborhood. (Note that Six MOI = 90 days on market.)
  - MOI was high in the mid to late 80's, reflecting our slow Denver market at that time.
  - As the market strengthened going into the 90's the MOI plummeted. During the 90's MOI was under 4, a strong seller's market.
  - MOI began increasing in 2001 and leveled off around 2004 at 6-7 (buyer's market).
  - As the market began to strengthen after our downturn in 2007 – 2009 the MOI went down quickly. This indicates there are more buyers than sellers, and housing inventory is not keeping up with housing demand. This is where we are currently in the market.
  - We have way more demand for homes than we have supply, so prices are going up.

What does it mean for the client?

- It is critical for your clients to understand the market in order to make correct decisions.
- Low MOI means a strong sellers' market with all that implies:
  - Multiple offers
  - Picky sellers
  - Buyers need to have their act together with strong contracts and pre-qual letters, etc.
- Sellers: use this to help show your sellers how strong the market is to list.
  - Educate them on the difference between a buyer that is pre-approved vs. pre-qualified, and that not all offers are equally strong.
- Buyers: educate serious buyers on how to be a strong buyer.

We have been through a tight inventory in the past (1993-2000). MOI on 1/04/2021 was 0.3, another 30yr record low!

MONTHS OF INVENTORY (MOI) DETACHED SINGLE FAMILY



Data Source: Recolorado.com; YCRE analysis

Average Number of Showings/Active Listing/Month is a great way to get insight on the strength of the market.

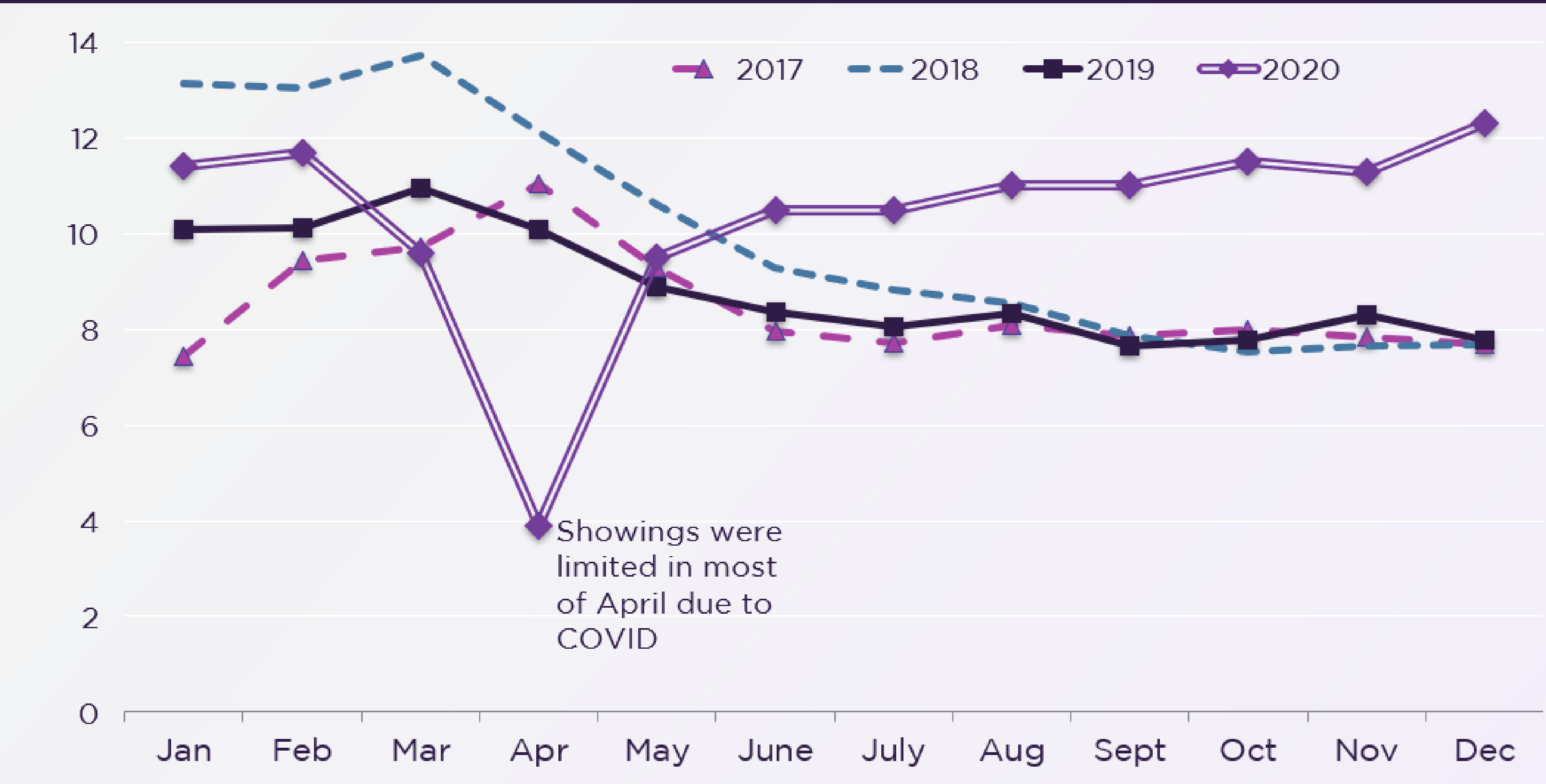
- For e.g., let's say a town has 10 listings and there are 100 showings in January. Then 100/10 = 10 showings/listing/month. The higher the number the:
  - More showings there are, and/or
  - The fewer listings there are
- So, the higher the number the stronger the seller's market.
- So when clients ask "how the market is", show them the most current version of this graph so they can look forward a couple of months in the market.
- You can see the strength of the market the past few years as the number continued going higher and higher as more buyers looked for homes and fewer homes were on the market.
- When this number begins dropping it will indicate a slowdown in the market, just as the opposite indicated a speed up.
- As you can see, showings hover right around 8 per month from July – December.

What does it mean for the client?

- When the number is relatively high it is a seller's market as it is now. The numbers have skyrocketed the past few years as more folks are looking for homes (demand) than selling homes (supply).
- A balanced market is in the range of 10. We hit 23 the spring of '15!
- While the last three years had some variation in the first half of the year, listings have an average of 8 showings from July to December.

The new decade certainly started with a hot real estate market! The mandate from DORA regarding showings resulted in an unprecedented drop in activity in April. But the market rebounded just as quickly the very next month! Showings were at 4-year highs for the respective months of June through December!

SHOWINGS / ACTIVE LISTING (HOMES + CONDOS)

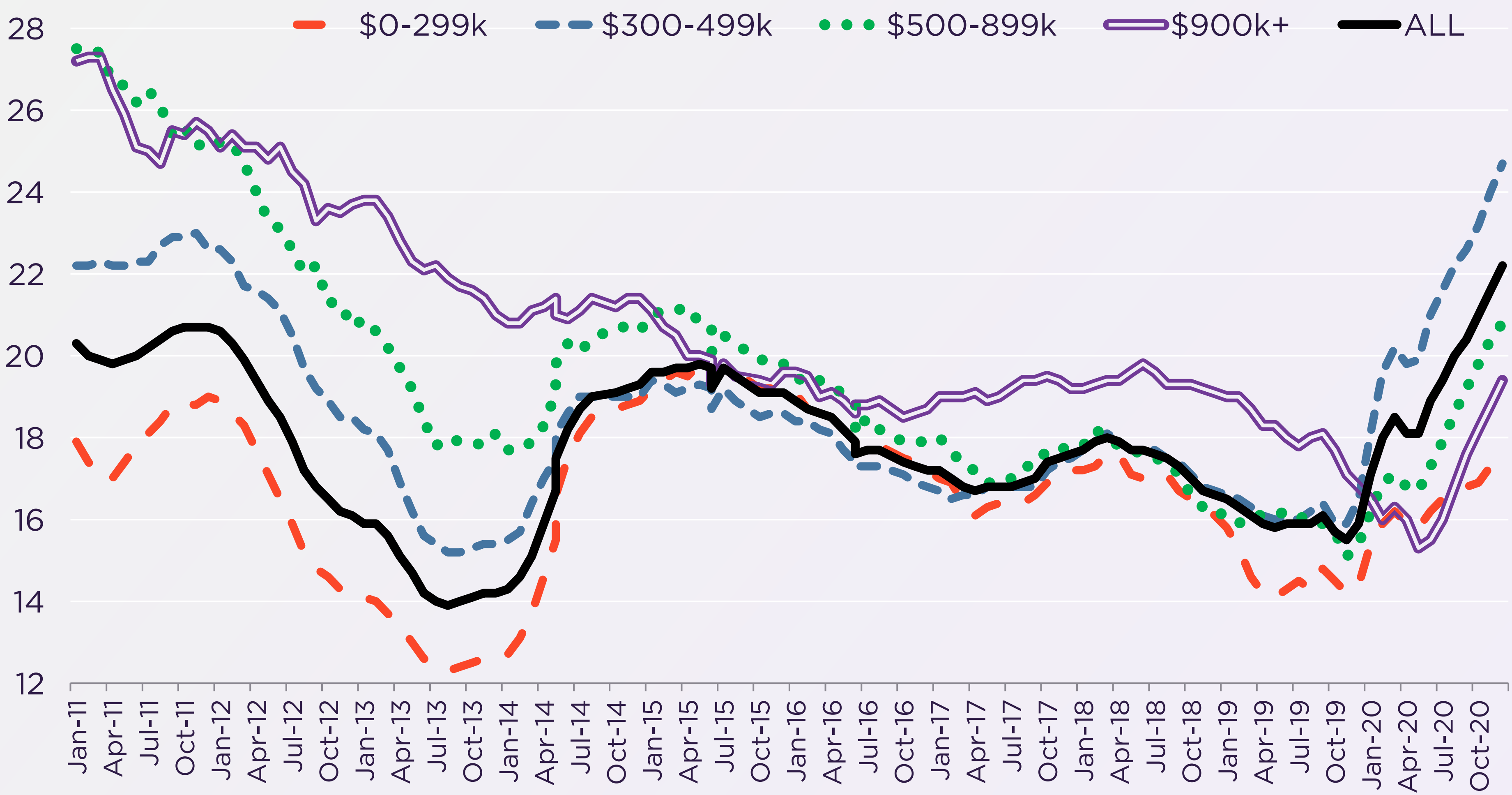


Source: Denver Metro Area Your Castle Real Estate statistics from Centralized Showing Service

When listing a home, agents and their clients need to have an idea of what to expect from the market to determine if they're on the right track. If the listing is not going as planned, when should you make a change? After so many days on market...? What if you knew the average number of showings it takes to get a property under contract?

Based on the month listing went under contract.

AVERAGE # SHOWINGS FROM LIST TO PENDING



Source: RE Colorado and ShowingTime, DMAR reporting region.

Performance of different size homes.

- Let's look more closely at different prices segments of home sales.
  - This chart breaks sales down into the sizes of homes: under 1,000 sq. ft. (smallest 10%), 3,015+ SF (biggest 10%) and four buckets in between.
  - It looks at the metrics for each size bucket so you can accurately assist your clients much more in making buying and selling decisions.
  - Instead of just looking at neighborhood or type of home or price range we can get right down to the size of the home.
  - For e.g., if your client is looking to buy an 1,700 sq. ft. home, you'd look at segment 3. 1,325-1,799 sq. ft.
    - You see that DOM is 15, there's only 0.2 MOI, prices have risen nearly 8% in the past year.
    - 80% of the properties in this size range on the MLS are ALREADY under contract.

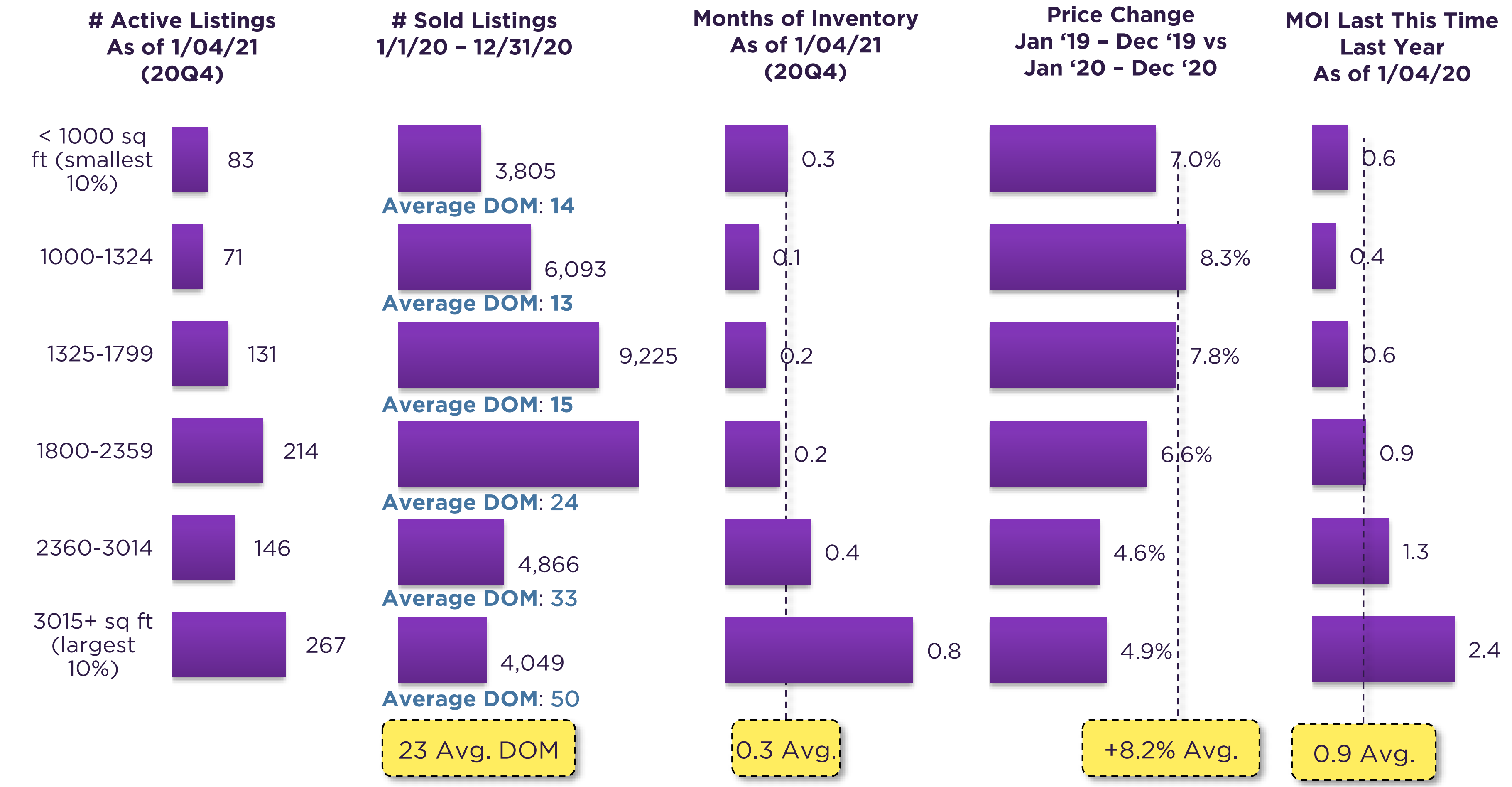
What does it mean for the client?

- It's critical for a smart buyer or seller to understand everything they can about their market, down to the size range of the property in question.
- This slide helps you provide specific, quantifiable data to your clients based on the size of their home so they can make the right decisions.
- Used in conjunction with other data like neighborhood metrics and local comps, this chart will help your clients make better decisions.

CURRENT MARKET: HOMES

MOI for detached homes is at 30yr lows! Inventory is low across the board. Smaller homes continue to see more appreciation than their larger counterparts. Even the largest properties are continuing to appreciate.

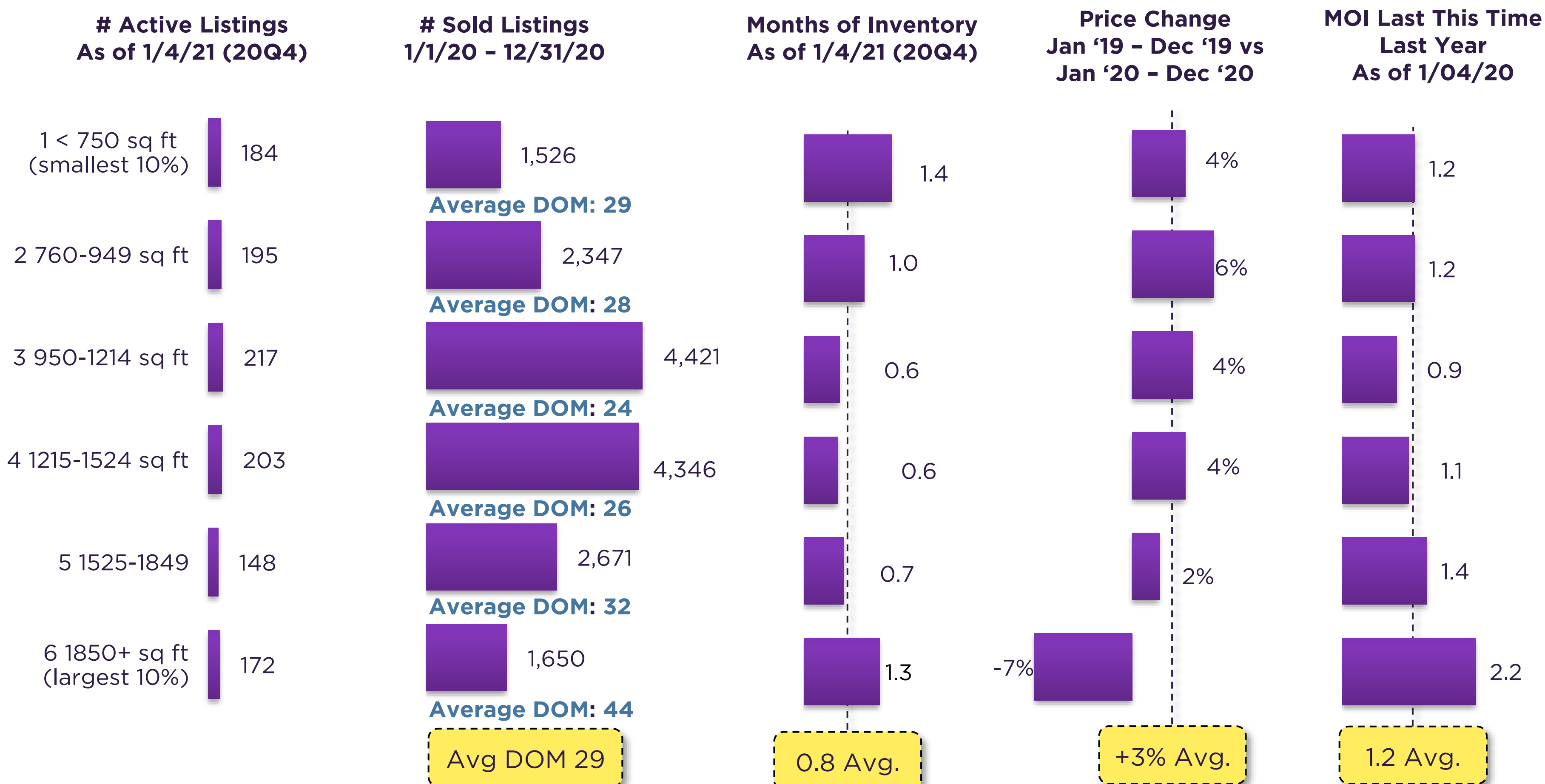
DENVER HOMES (NO CONDOS OR TOWNHOMES) BASED ON ABOVE GRADE SF



Data Source: Recolorado.com; YCRE analysis

Condo Months of Inventory (MOI) was just 0.8 MOI on 1/04/2021; 50% tighter than this time last year. As DOM and MOI slightly decrease, the seller's market continues.

DENVER CONDOS BASED ON ABOVE GRADE SF



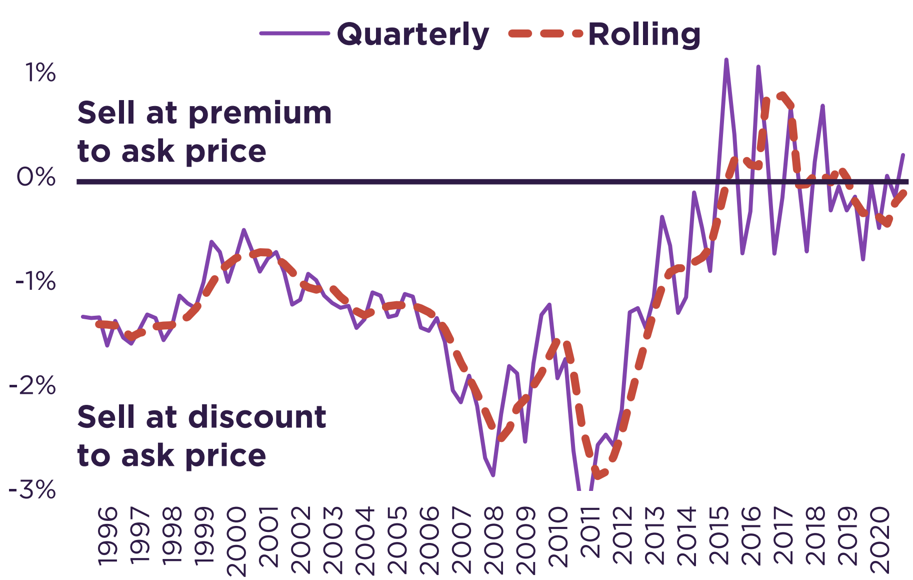
Data Source: Recolorado.com; YCRE analysis

Do discounts change over a market cycle? Is it time for lowball offers again?

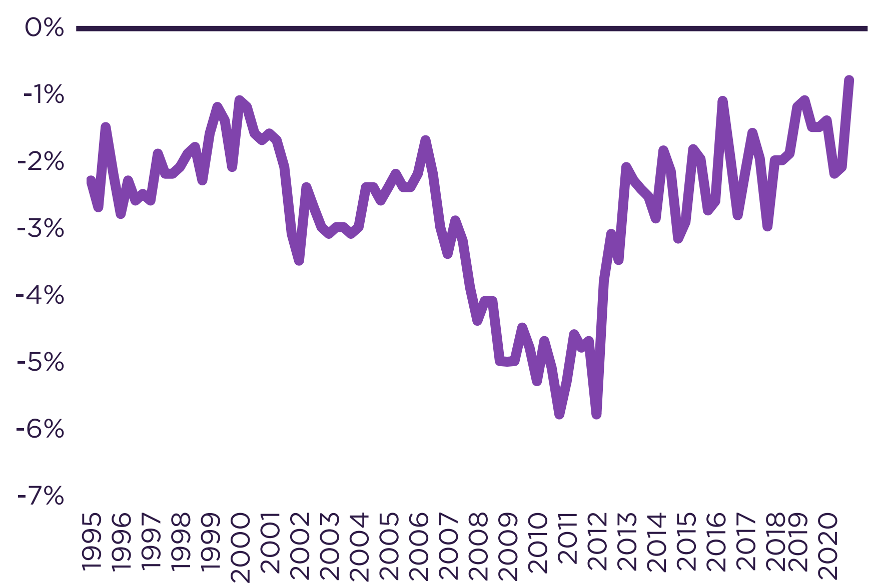
Answer: Not in this market! In a very strong market (2015 – early 2018, 2021), properties tend to sell for close to asking price or even at a slight premium. In a very slow market (2009-2012), properties might need up to a 6% discount (luxury) or 3% discount (all others) to final asking price. As inventory increases, discounts will slowly increase. To the surprise of most sellers, buyers usually will not make an offer on an overpriced house. They just move on to the next house. A house needs to be priced within 1-3% of final sales price to get <u>any</u> offer.

Homes only (no condos or townhomes)

DISCOUNT (ALL DSF)



DISCOUNT (LUXURY)

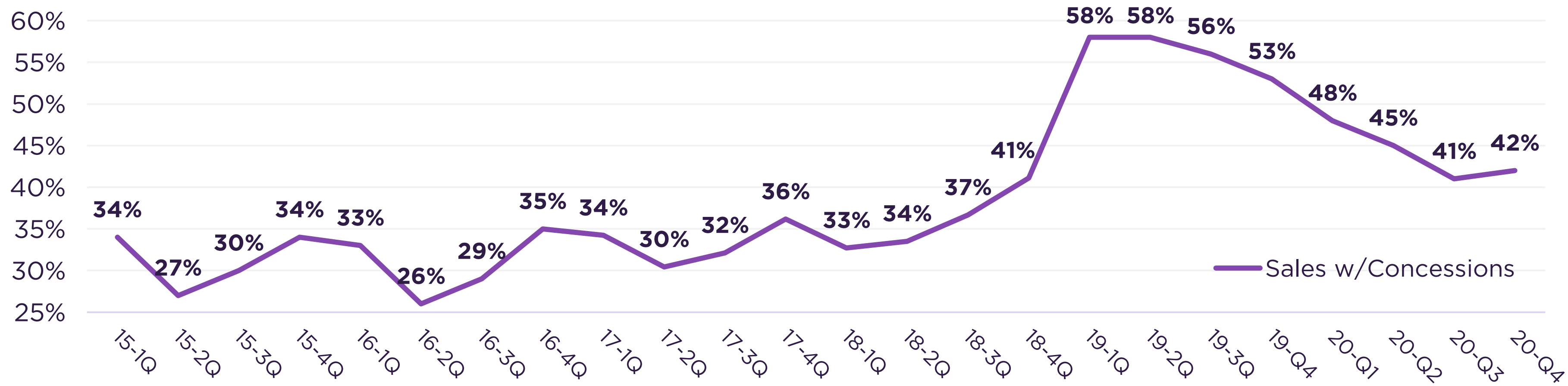


Data Source: Recolorado.com; Your Castle Real Estate Analysis

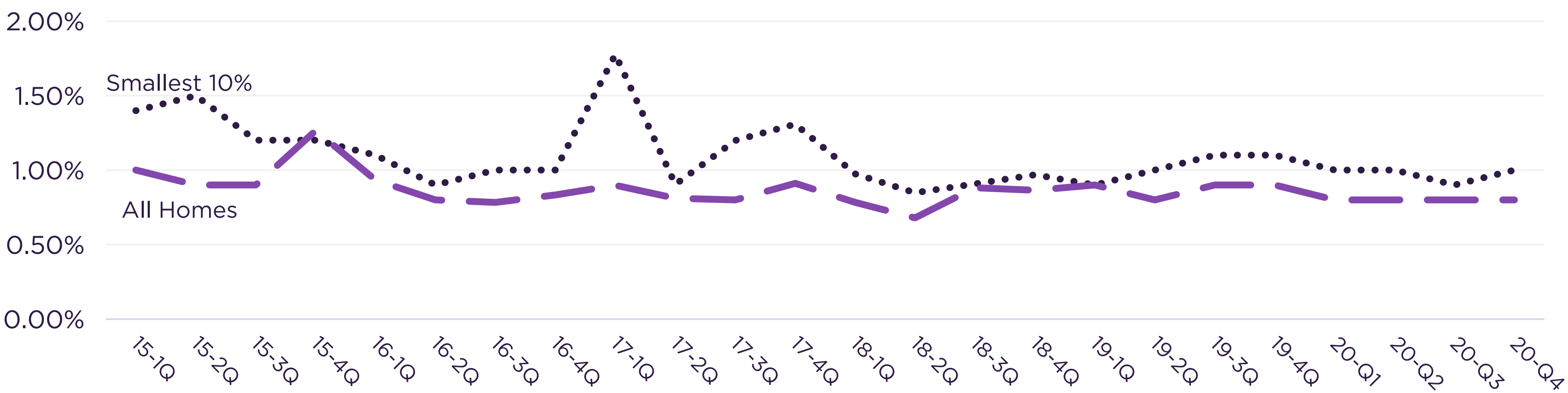
SALE CONCESSIONS: HOMES

While the rate of transactions with concessions held at over 50% for all of 2019, the rate has slowly been dropping. Of sales that had concessions, the smallest homes are getting a bit more in concession to sale price percentage, but that speaks more to the lower-priced segment.

CONCESSION TRENDS (HOMES)



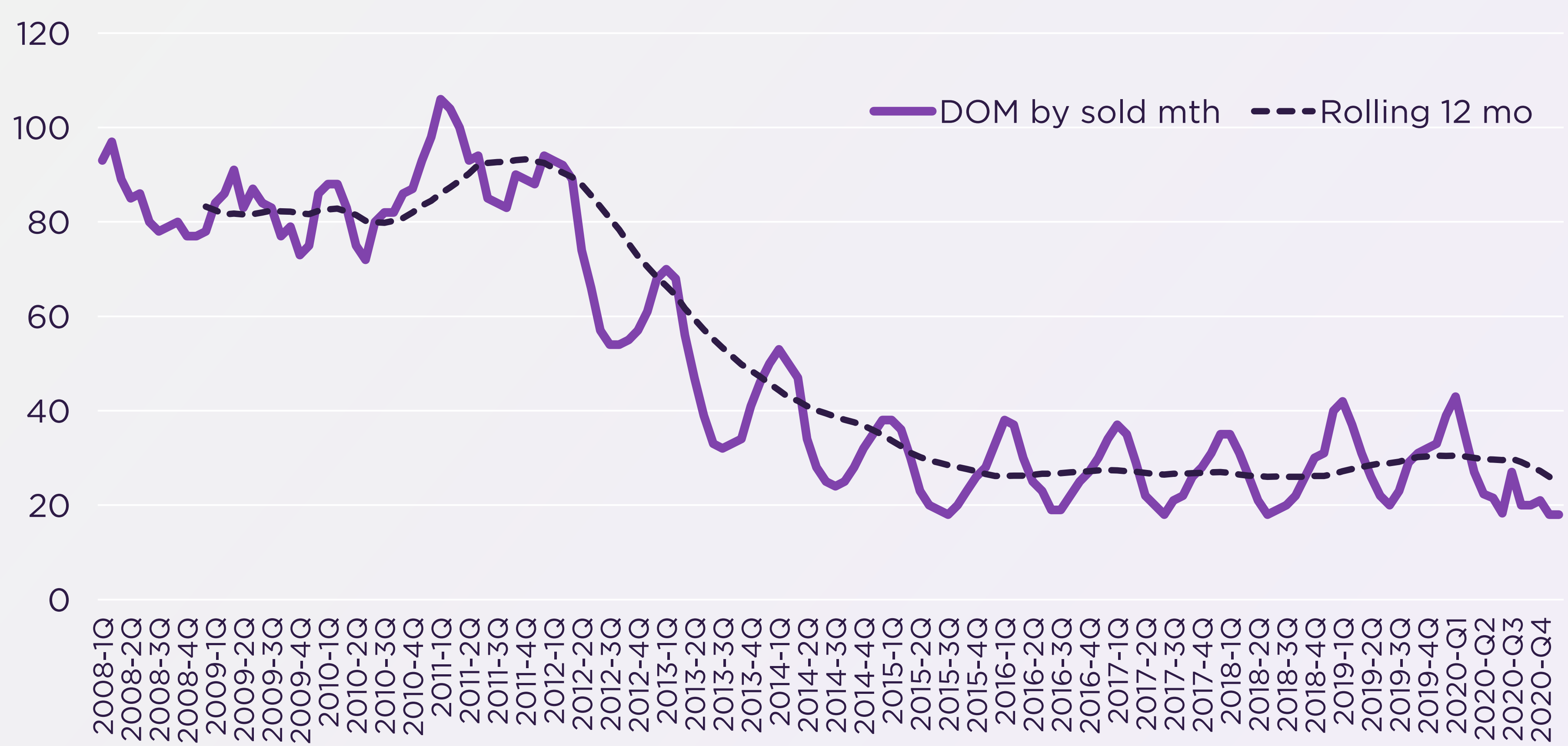
CONCESSION AMOUNT TO SALES PRICE (HOMES)



Data Source: Recolorado.com; YCRE analysis

Single Family Home marketing times were stable for almost four years (2006-2009). There was an increase in marketing time when the tax credit expired on 4/30/10. DOM (days on market) has declined dramatically since, even more so just over the last twelve months.

DENVER METRO HOMES DAYS ON MARKET, QUARTERLY

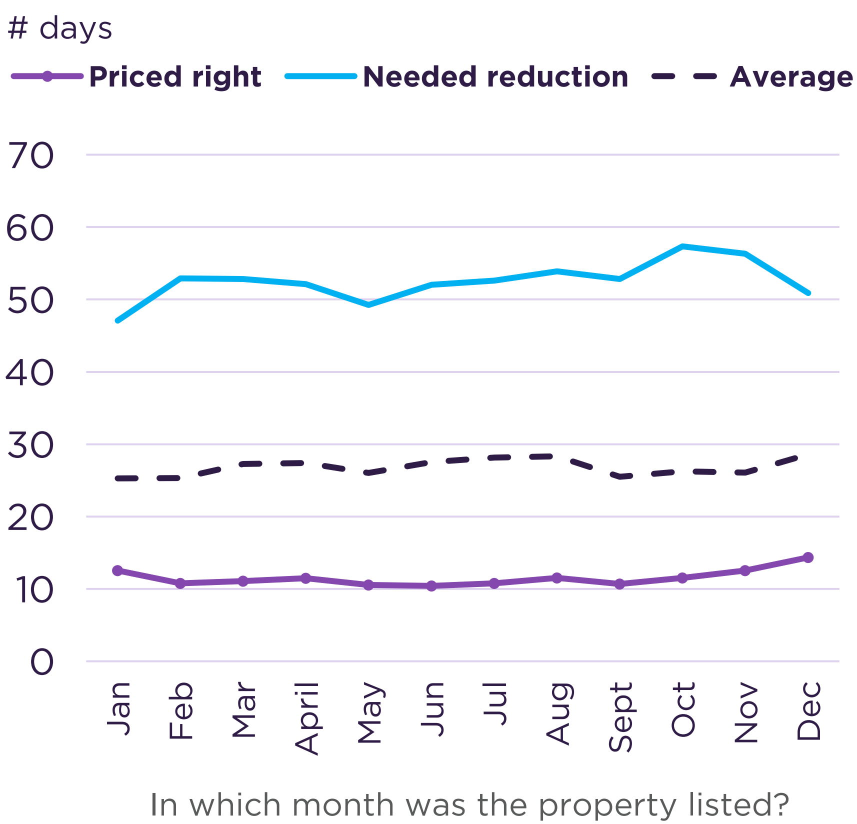


Data Source: Recolorado.com; YCRE analysis

What are the dangers of overpricing?

Answer: Over the past 24 months, homes that were priced right at initial listing (e.g., did not require a price reduction) sold in just 11 DOM! Mispriced homes (that required a reduction) needed 53 DOM, or nearly FIVE times as long to get under contract.

DOM (HOMES ONLY, SIX COUNTY METRO, 1Q19 – 4Q20)



HOW MUCH IS YOUR HOME OVERPRICED?

Only Drive-By's + Online Views = **13%**
Homes with little or no showings are priced 13% too high on average

Low or Infrequent Showings = **9%**
Homes with little or no showings are priced 9% too high on average

Showings + No Offers = **5%**
Homes with little or no showings are priced 5% too high on average

Receiving Offers = **Priced Correctly**

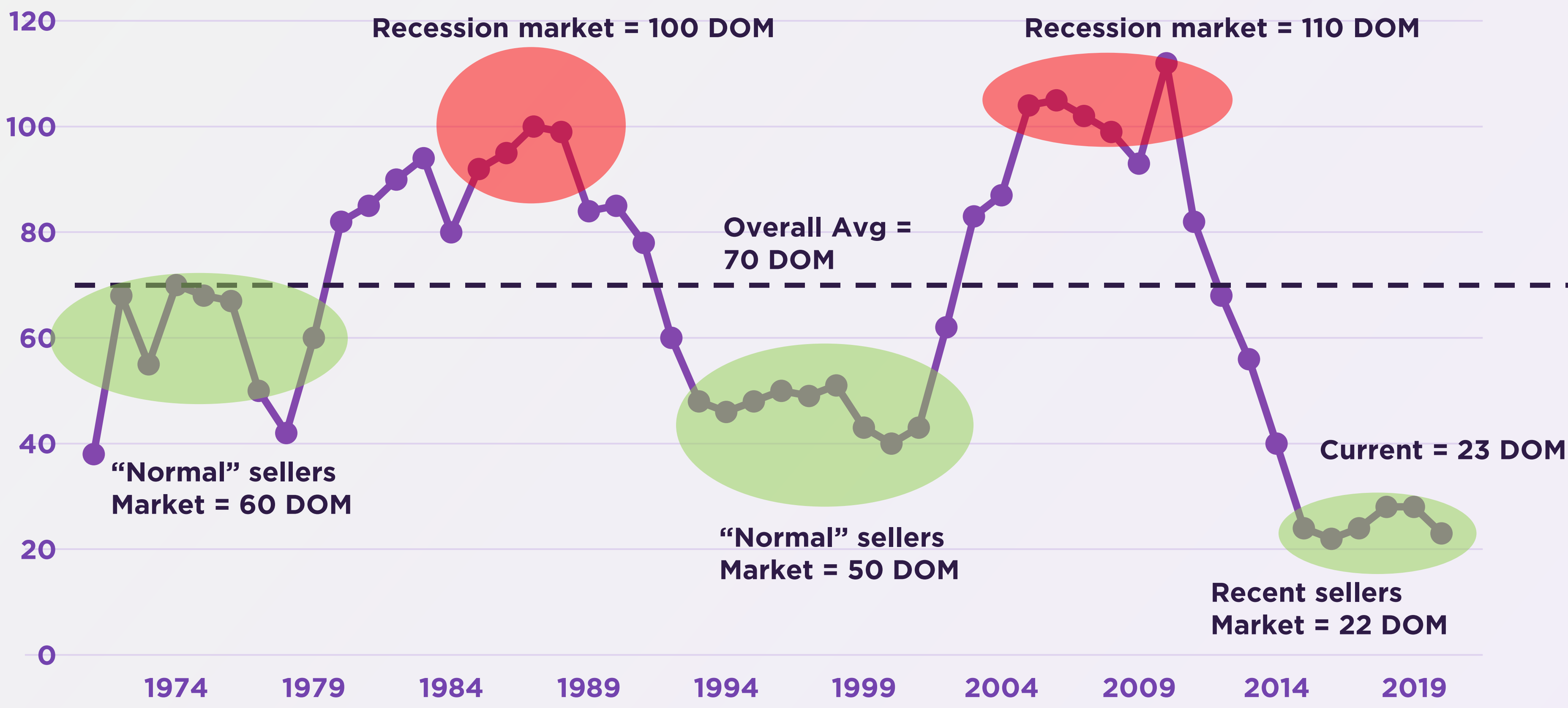
Information based on data received from real estate agents over 20-year time period

Data Source: Your Castle Real Estate analysis. Based on information from Centralized Showing Service

How does Days on Market change over a market cycle?

Answer: The average over 50 years is 70 Days on Market (DOM). When there is a recession, it can take over three months to go under contract (UC). Recently, it's taken about 23 days. In 50 years, homes have never sold that fast. Increasing DOM is normal and great for buyers. And at the same time, seller can rest assured that these are still the best marketing conditions in nearly 50 years!

DENVER METRO HOMES DAYS ON MARKET

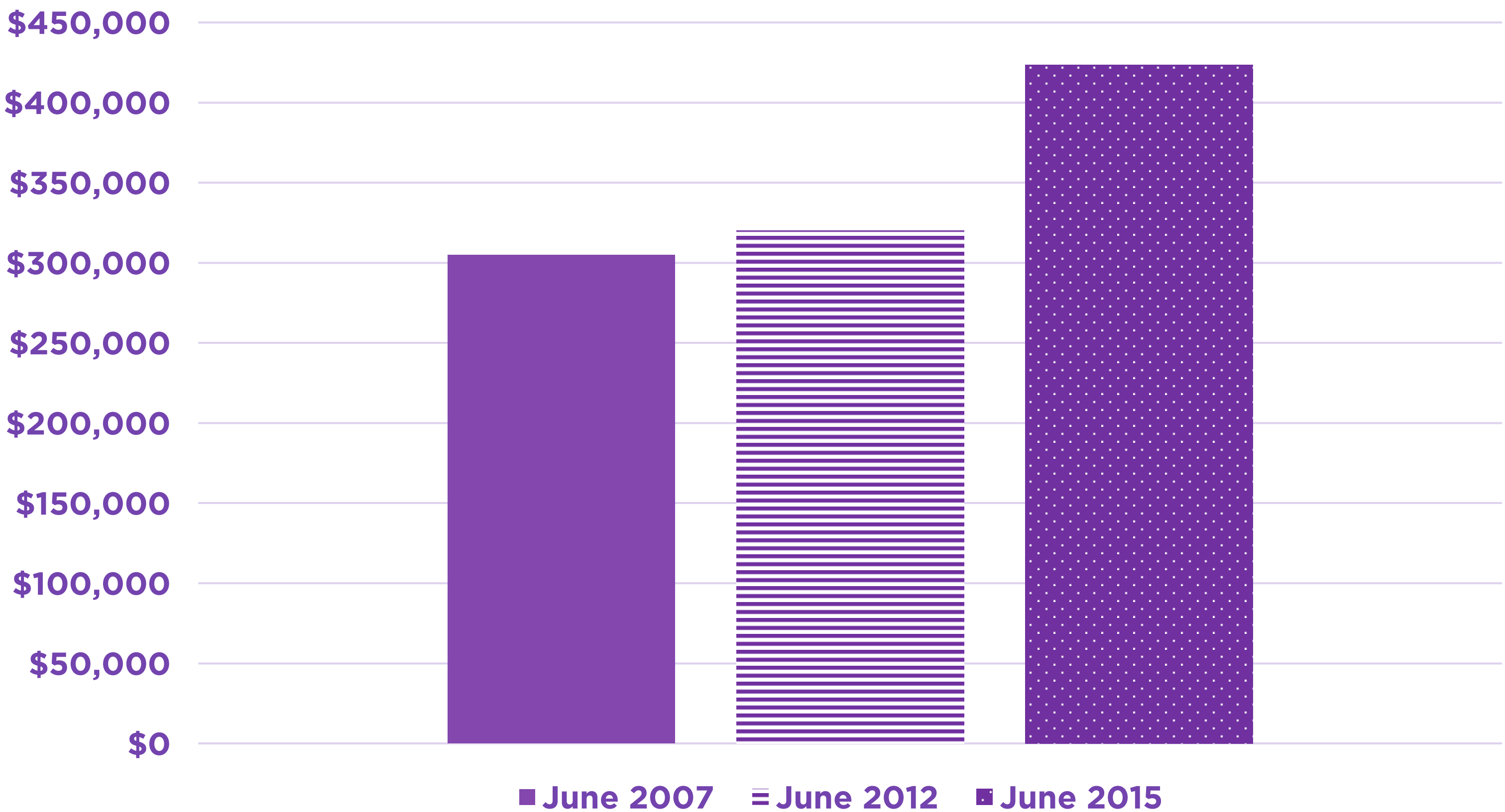


Source: Source: Your Castle Real Estate analysis. REcolorado®, Inc.

What if you purchased a home for $305,000 in June 2007, the worst housing recession in Denver history?

If you held it for five years, you would actually be up by $10,000.

If you held it for a total of 8rys (the national average), your home would be worth $423,600... $112,000 MORE than you purchased it for!

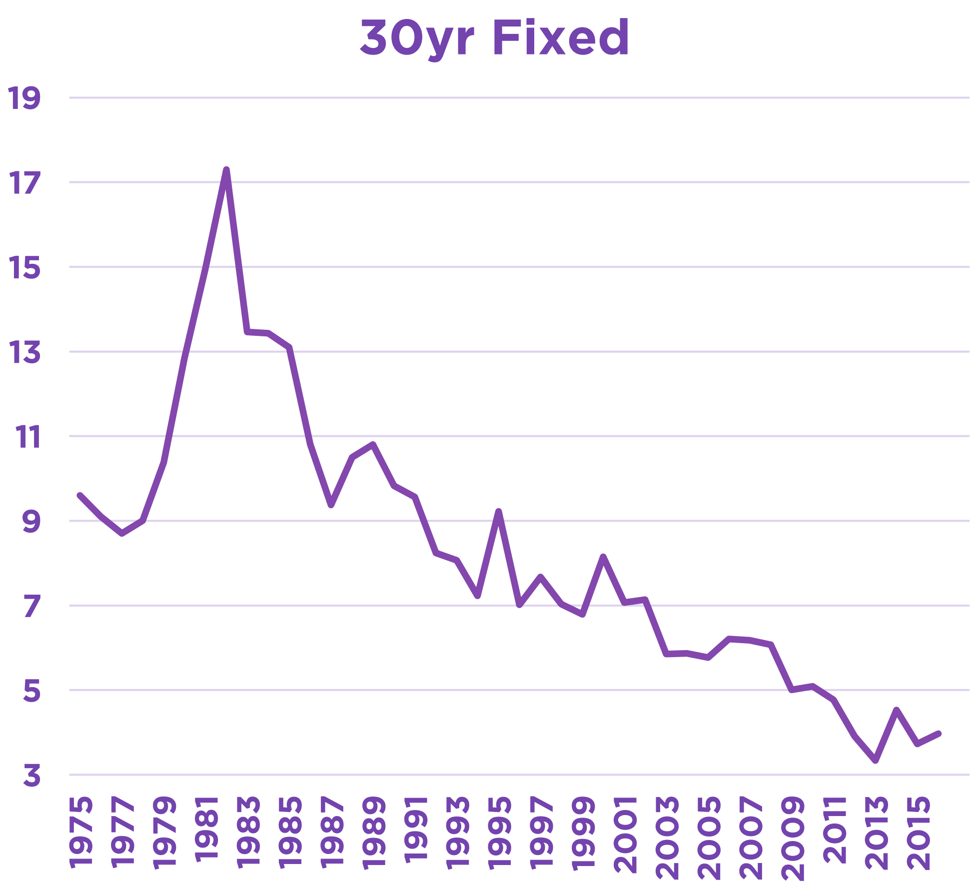


Data Source: Recolorado.com; First Alliance Title

HISTORICAL CONTEXT: MORTGAGE RATES

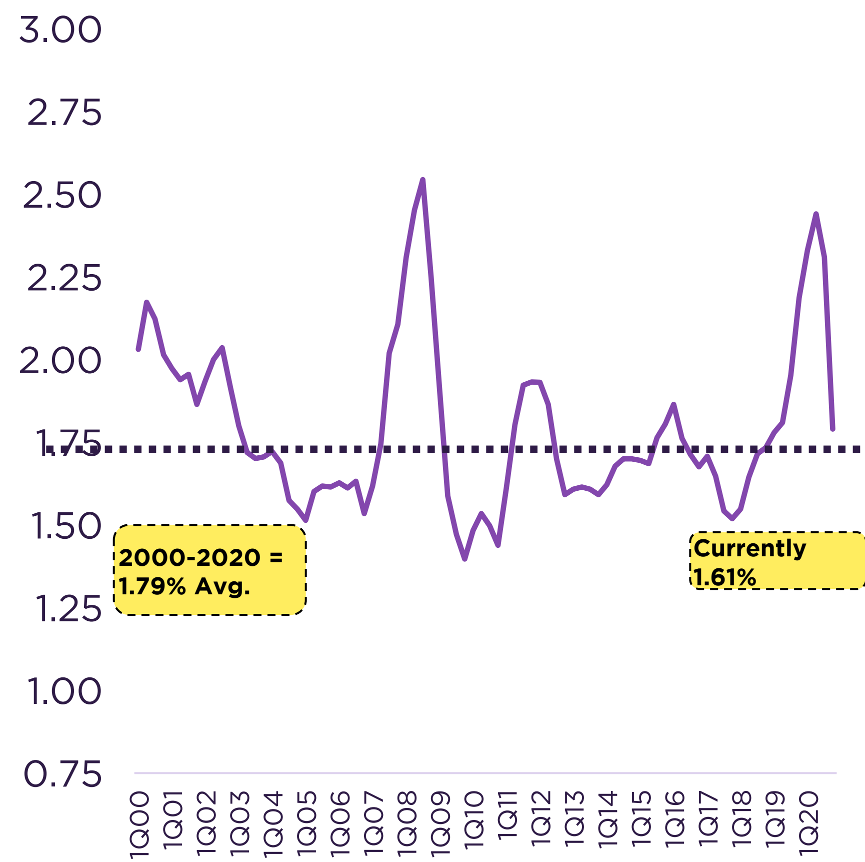
The average mortgage rate was 2.65% on 1/7/21 – **still at 50-year lows** that Freddie Mac has been tracking rates! Mortgage rates hit new lows multiple times this year, falling below 3% for the first time in July. The low rates have made millions more Americans eligible to save money on their monthly payments.

30 YEAR FIXED RATE: 1971-2016



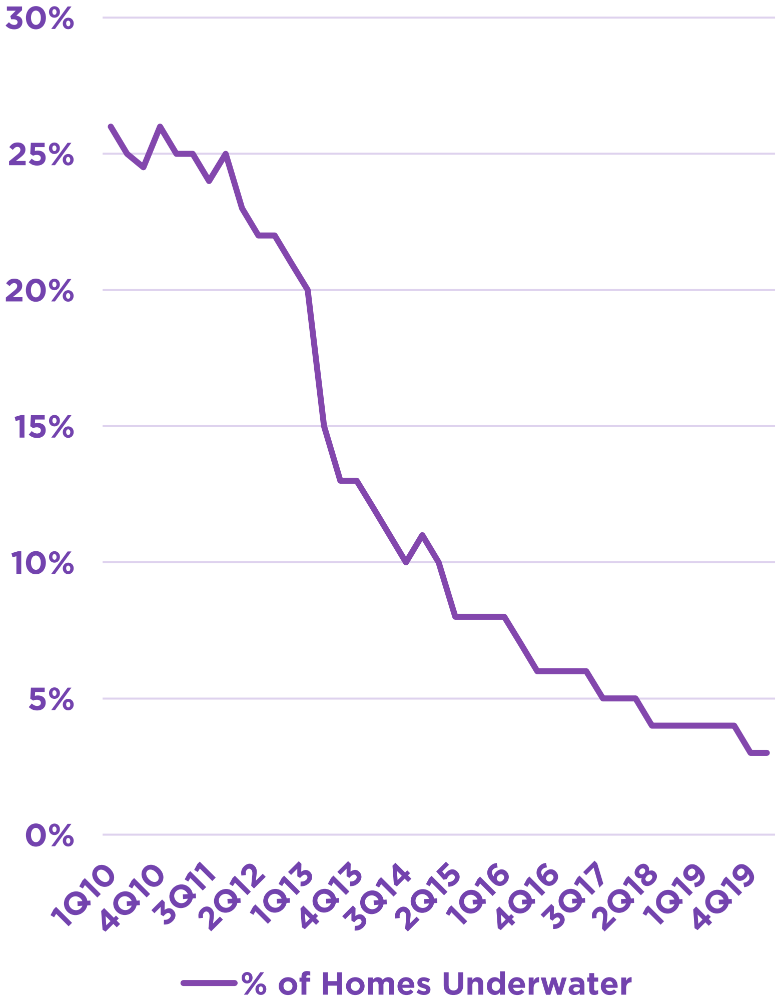
MORTGAGE/BOND SPREAD

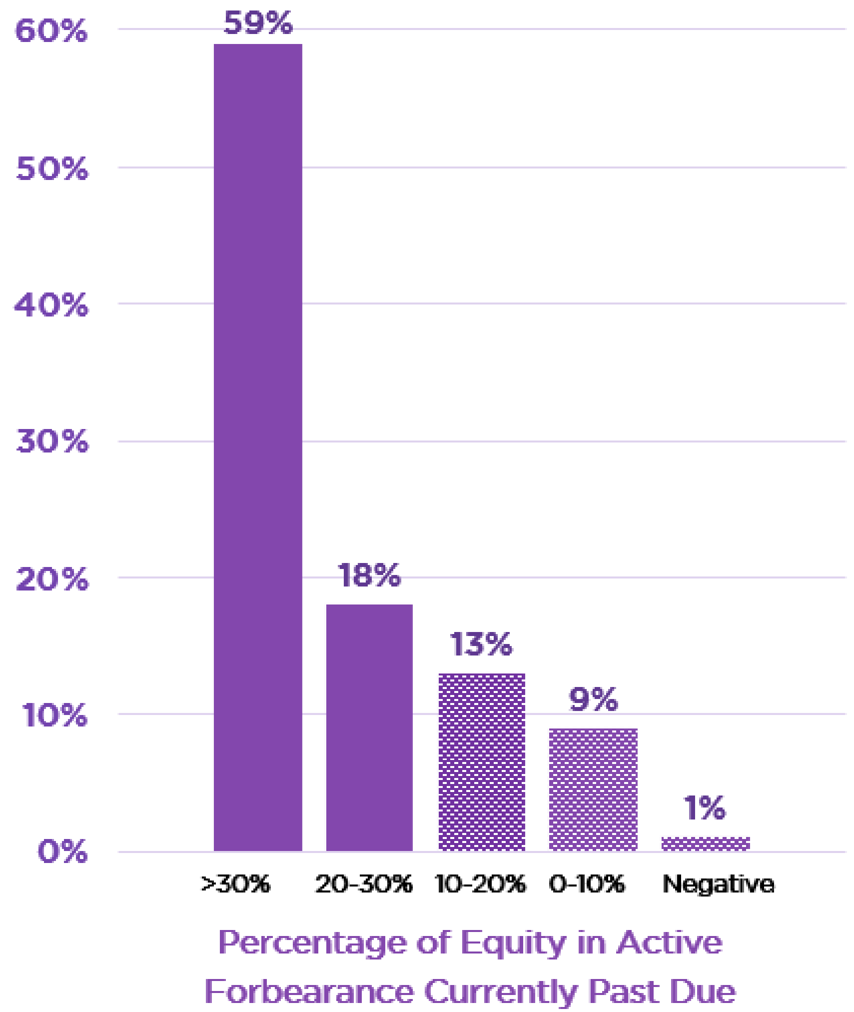
*Rolling Quarterly Average



Source: Freddie Mac, MacroTrends.net, Your Castle Real Estate | http://www.freddiemac.com/pmms/pmms_archives.html

Only 3% of US homes are currently "underwater" (home value is less than mortgage balance), while 97% have equity. Therefore we won't see any material increase in foreclosure activity from the COVID crisis. Everyone who loses a job or has economic trouble will just list the normal way, sell, and harvest their equity. Of all active forbearances which are past due on their mortgage payment, 77% have at least 20% equity in their home.





Data Source: CoreLogic, Keeping Current Matters: "Two Reasons We Won't See a Rush of Fo

Own or rent?

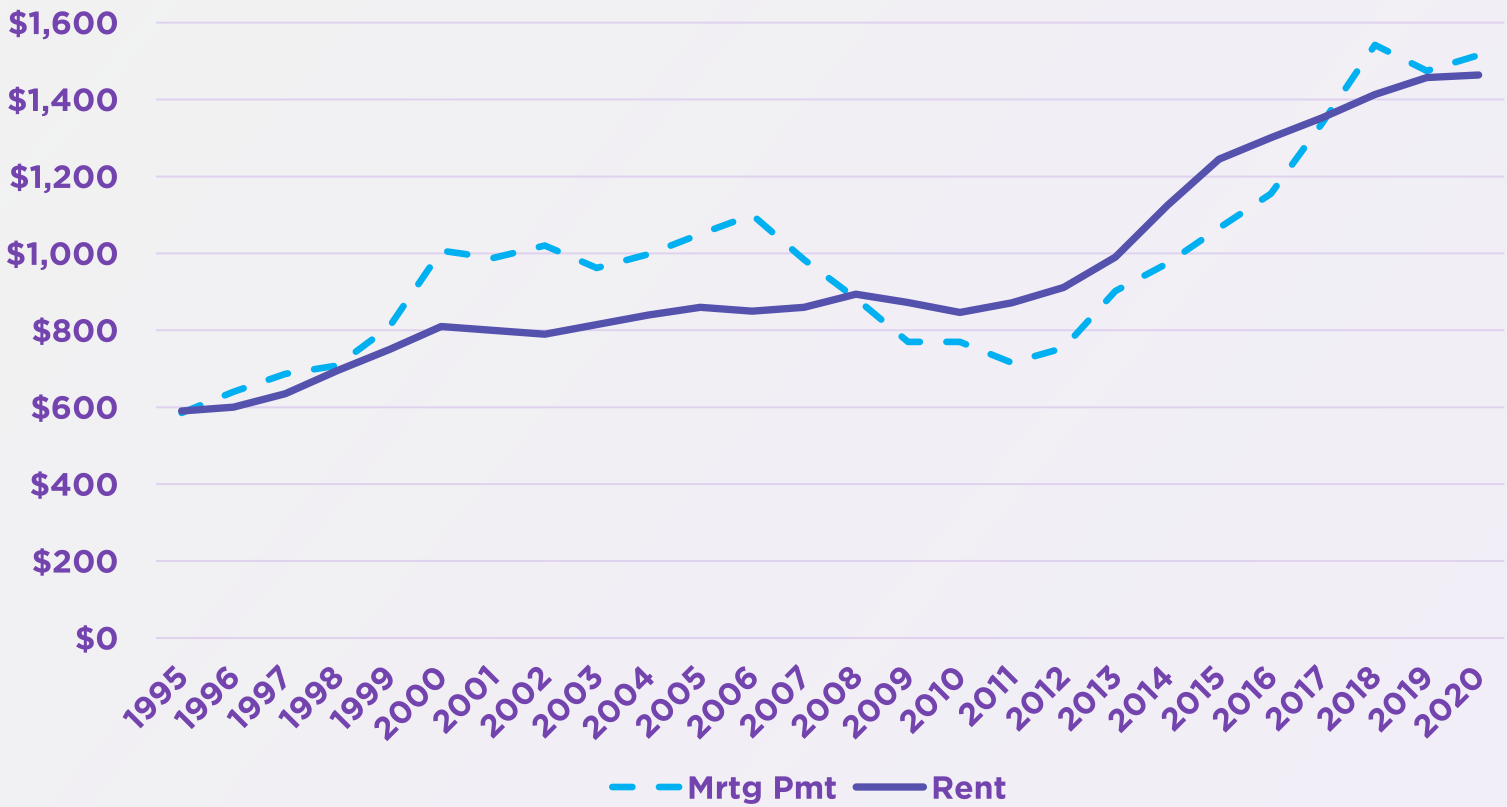
- On the chart below:
  - During the housing "boom" in the early 2000s, rental rates were less than mortgage payments.
  - At the crash of 2008, the values are nearly identical, and then mortgage payments were less than rental rates for the better part of the last decade.
  - Only in the past two years has the mortgage payment slightly passed rental rates as Denver has experienced great appreciation.

What does it mean for the client?

- In addition to principal and interest payments, homeowners are also responsible for property insurance, taxes and HOAs.
- But let's not forget about great benefits of home-ownership: appreciation and tax credits.
- Lifestyle is another item to consider: renting is "easier" in that if something breaks the property management company is often responsible for it. However, you can remodel / customize a place you own.

"They" say that owning is better than renting. Below is a comparison of a mortgage payment (principal and interest) and a monthly rent payment. During the housing "boom" in the early 2000s, rental rates were less than mortgage payments. At the crash of 2008, the values are nearly identical, and then mortgage payments were less than rental rates for the better part of the last decade. Only in the past two years has the mortgage payment slightly passed rental rates as Denver has experienced great appreciation.

MORTGAGE PAYMENT (2BR CONDO) VS AVERAGE RENT PAYMENT



In addition to principal and interest payments, homeowners are also responsible for property insurance, taxes and HOAs.

But let's not forget about great benefits of home-ownership: appreciation and tax credits.

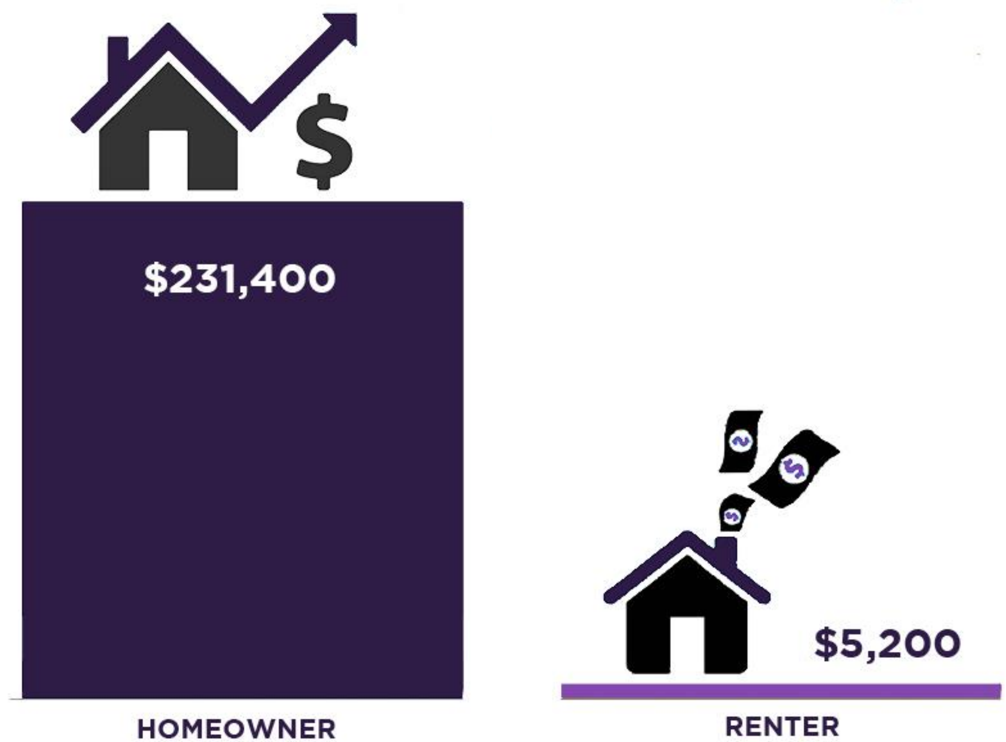
Source: RE Colorado, YCRE Analysis, Apartment Association of Metro Denver, FreddieMac.com
Note: House Pmt. = Principal and Interest, Metro Denver Average 2BR condo Price. 95% LTV, 30-Yr Fixed Interest Rate.

NET WORTH FOR OWNERS IS HIGHER THAN RENTERS

Buying is generally more affordable and less expensive than renting. In addition, research by the Federal Reserve found that home owners accumulate 45x more net worth than renters over their lifetime.

It's still a very good idea to buy vs. rent.

AN AMERICAN FAMILY'S NET WORTH



Data Source: Federal Reserve Survey of Consumer Finances 2016-2019

Homeowners are the 1%'ers!

- Well, it's not quite that simple .. but what is true is that the vast majority of wealth in America is held by homeowners, not renters.
- The average net worth of a U.S. homeowner in 2019 was $246,200, compared to just $5,300 for the average renter.
- The numbers are shocking, and renters definitely aren't aware of this, so educate them. Let them know that if they want to build wealth over time owning a home is the tried and true formula.
- Investors (landlords) with a few rental properties do even better!
- The more the world changes, the more it stays the same – buying a home is the right thing to do to house one's family and build long term wealth.
- Or they can just make their landlord happy (and wealthy) forever. Whichever they choose.

What does it mean for the client?

- If you are renting you should STRONGLY consider buying if you want to build wealth. The numbers are clear.

Denver wealth creation for first-time buyers. The Federal Reserve chart about net worth is interesting, but let's try to make it a bit more tangible for Denver.

- We'll consider several typical scenarios – this one is for a first-time buyer
- The top left looks at what that first-time buyer client might face if they buy today.
- The bottom left examines how much more their payment might be in a year if..
  - Home prices go up 5%
  - Interest rates go up 0.5%
  - The payment could go up 11% if you wait for a year (and what will your rent do in the interim?)
- The right side is a chart depicting…
  - Top: The home value, with 5% annual appreciation.
  - Middle green: the mortgage balance, which is paid off over time.
  - Lower heavy red line: the accumulated equity ("wealth creation") for the client.

What does it mean for the client?

- The first-time buyer's 5% down payment of $12,500 turns into $157,000, or +1256%.
- For many buyers, this gain would be tax free!
- You also get to save on rent expense.
- Potentially, you deduct your property taxes and mortgage interest as tax deductions, reducing your tax burden. These benefits are not included here. Talk to your CPA.
- Historically, the stock market (S+P 500) returns around 11% per year before tax or 8% per year after tax.
- If history predicts the future, that $25,000 down payment invested in the stock would worth $54,000 (after tax) in ten years, for a 115% return.

If you buy a home today vs. next year (First Time Buyer). **Over $150,000 in wealth creation in ten years!**

ASSUMPTIONS

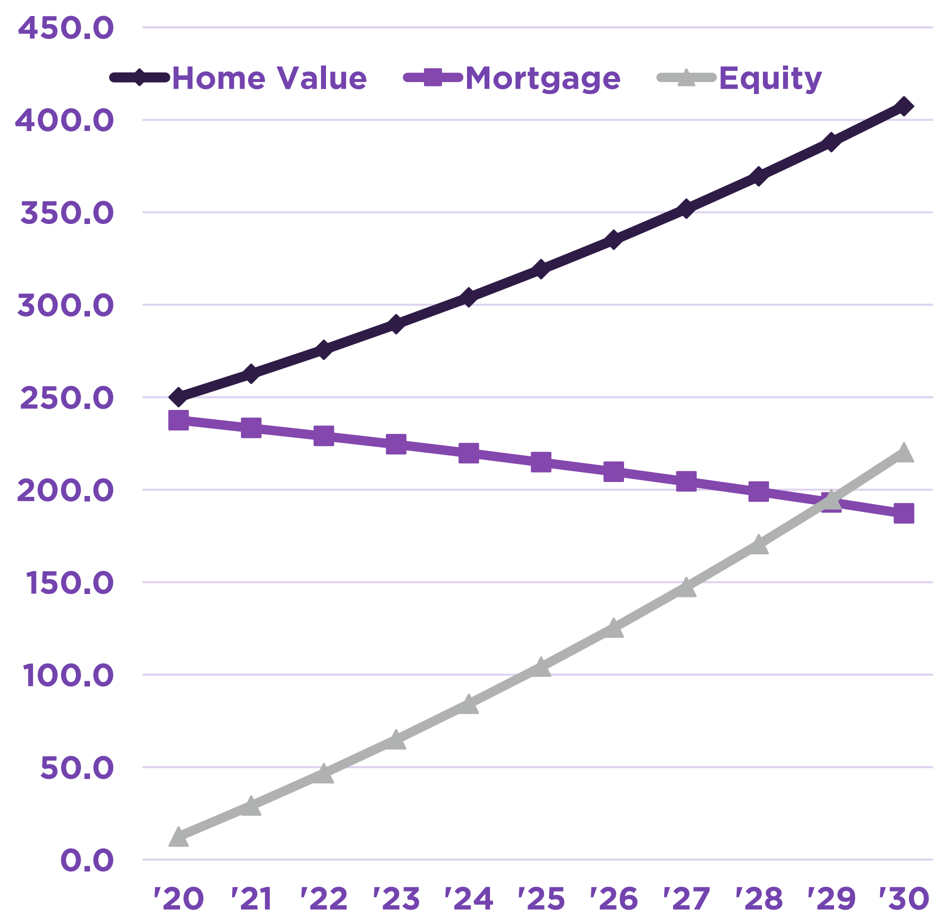
Buy now

- Purchase price: $250,000
- Down payment %: 5%
- Down payment $: $12,500
- Rate: 4.0%
- Amortization: 30 years
- Payment: $1,134
- Appreciation %: 5% per year
- Appreciation $: $157,000
- Loan pay down: $ 50,000
- Simple ROI*: 1256%

Wait 12 months ("watch market")

- Assume mortgage rates +0.5%
- Assume home appreciation +5%
- Payment beginning next year: $1,263
- Payment change: +11%

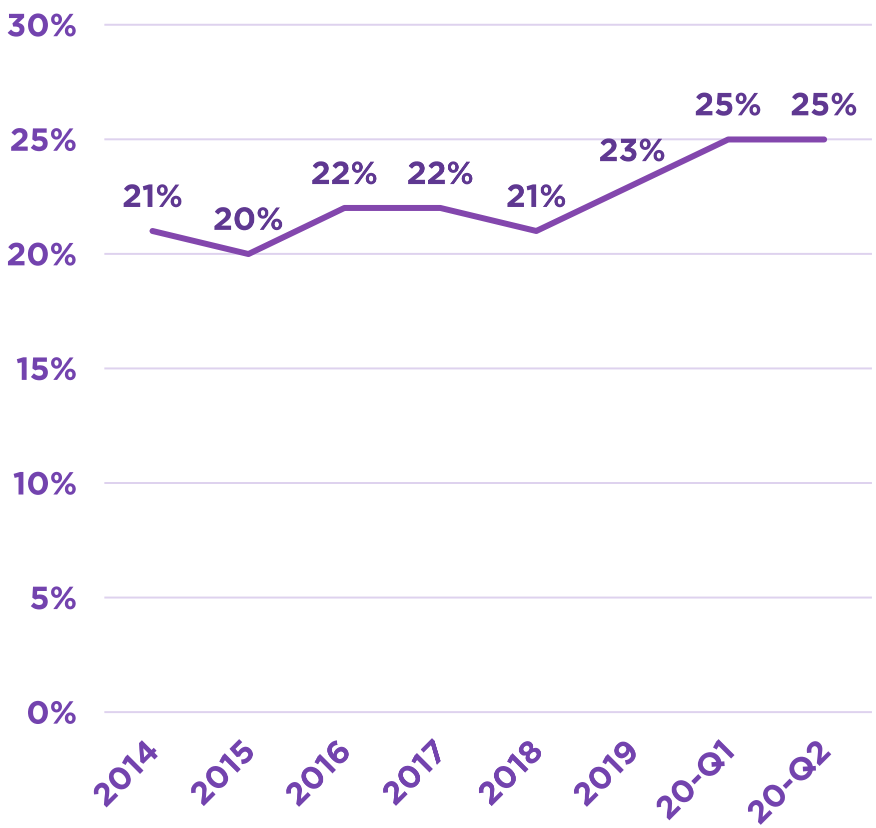
PROJECTED HOME CHANGE IN VALUE



Data Source: BankRate.com
*This does not include approximately $93k paid in interest over first 10yrs.

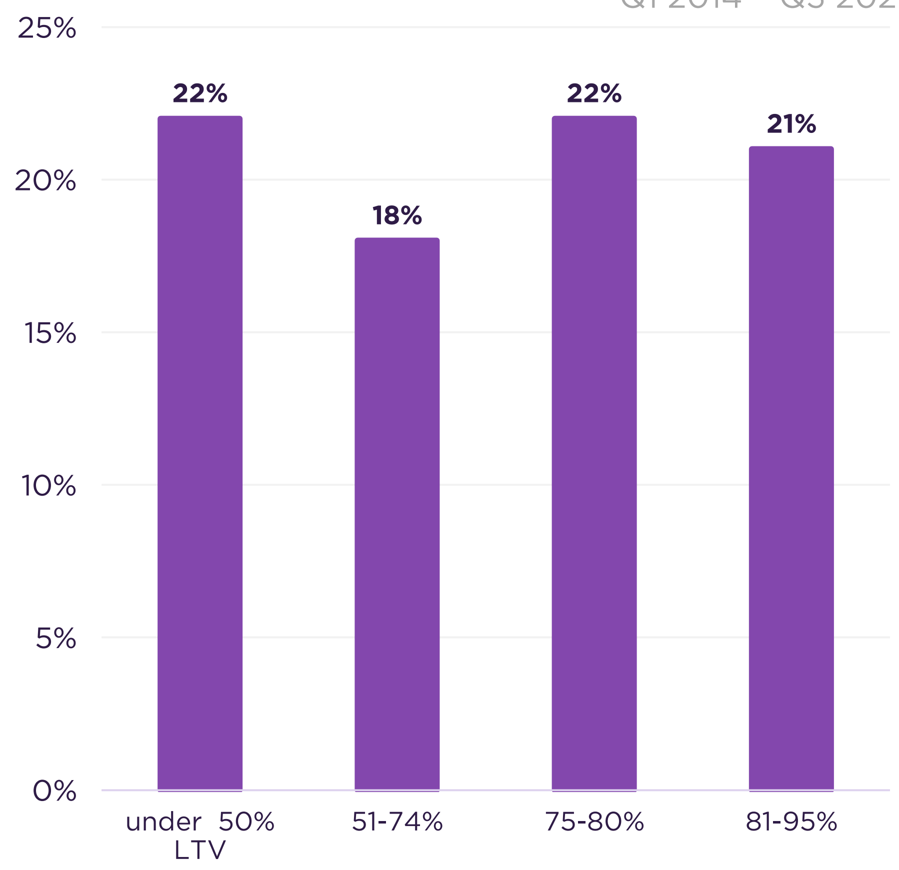
The percentage of homes that fall out of contract has remained steady around 18-25%.

% OF DEALS THAT FALL OUT OF CONTRACT IS DECLINING SLIGHTLY



LOAN TO VALUE DOES NOT IMPACT DEAL FAIL RATE

*Q1 2014 – Q3 2020

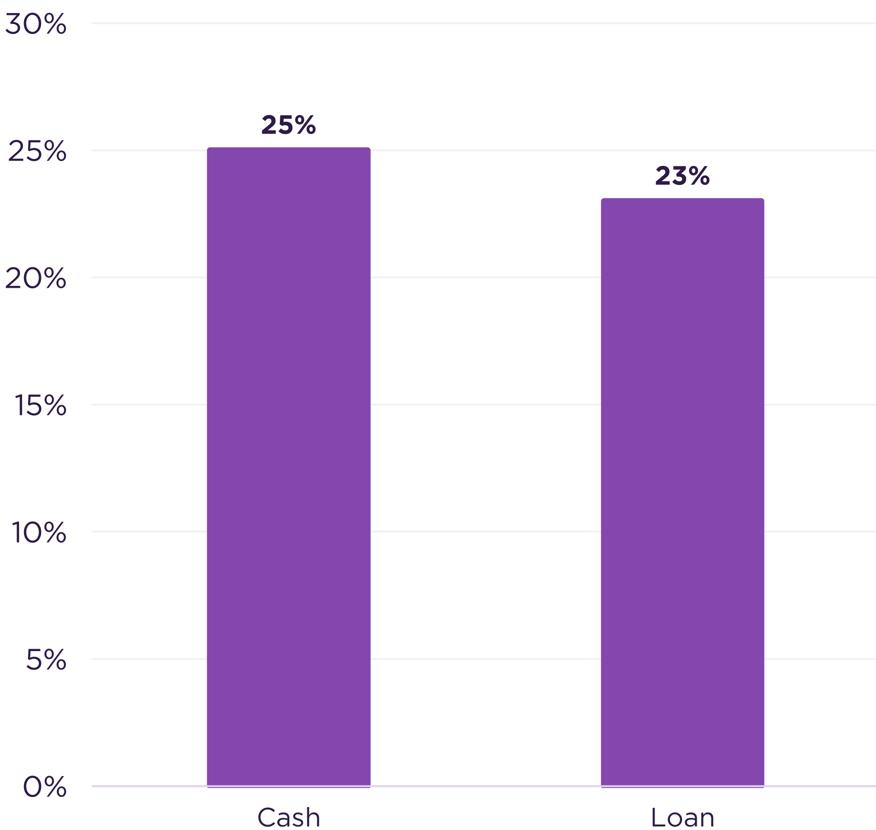


Data Source: First Alliance Title

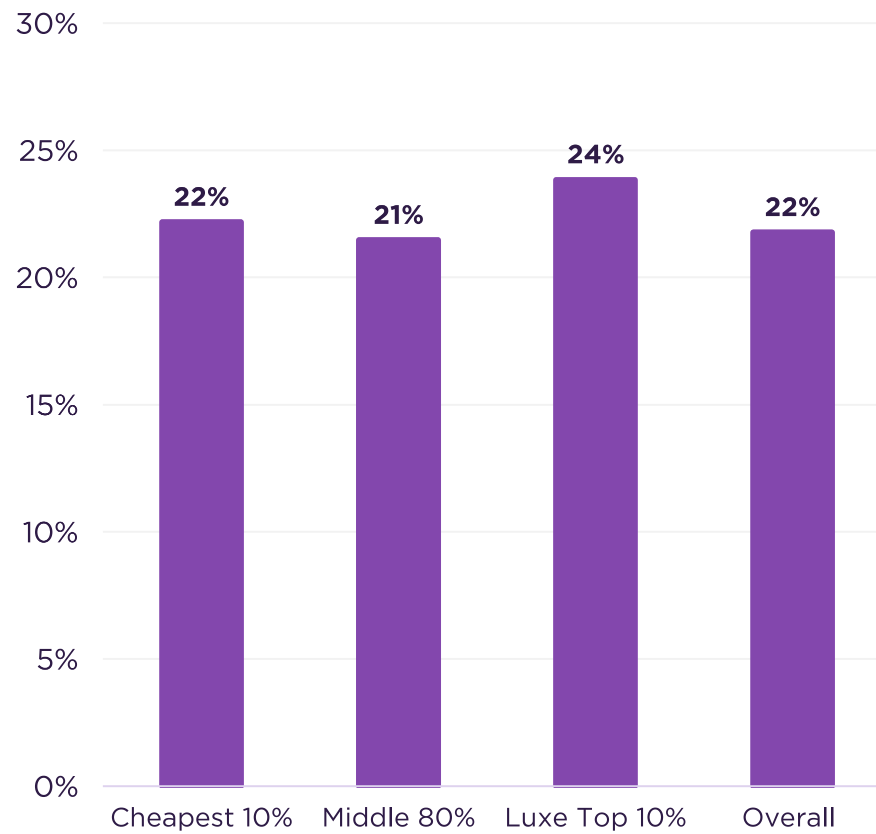
Deal financing type, and amount of LTV doesn't much impact the probability of close. Luxury properties are slightly more likely (24%) than non-luxury properties (21%) to fall out… which isn't really that material of a difference.

*Q1 2014 – Q3 2020

CASH DEALS ARE AS LIKELY TO CLOSE AS LOAN DEALS



LUXURY DEALS ARE SLIGHTLY MORE LIKELY TO FALL OUT OF CONTRACT



Data Source: First Alliance Title

Metro Denver is one of the most desirable places to live in the country, that's why so many people are moving here!

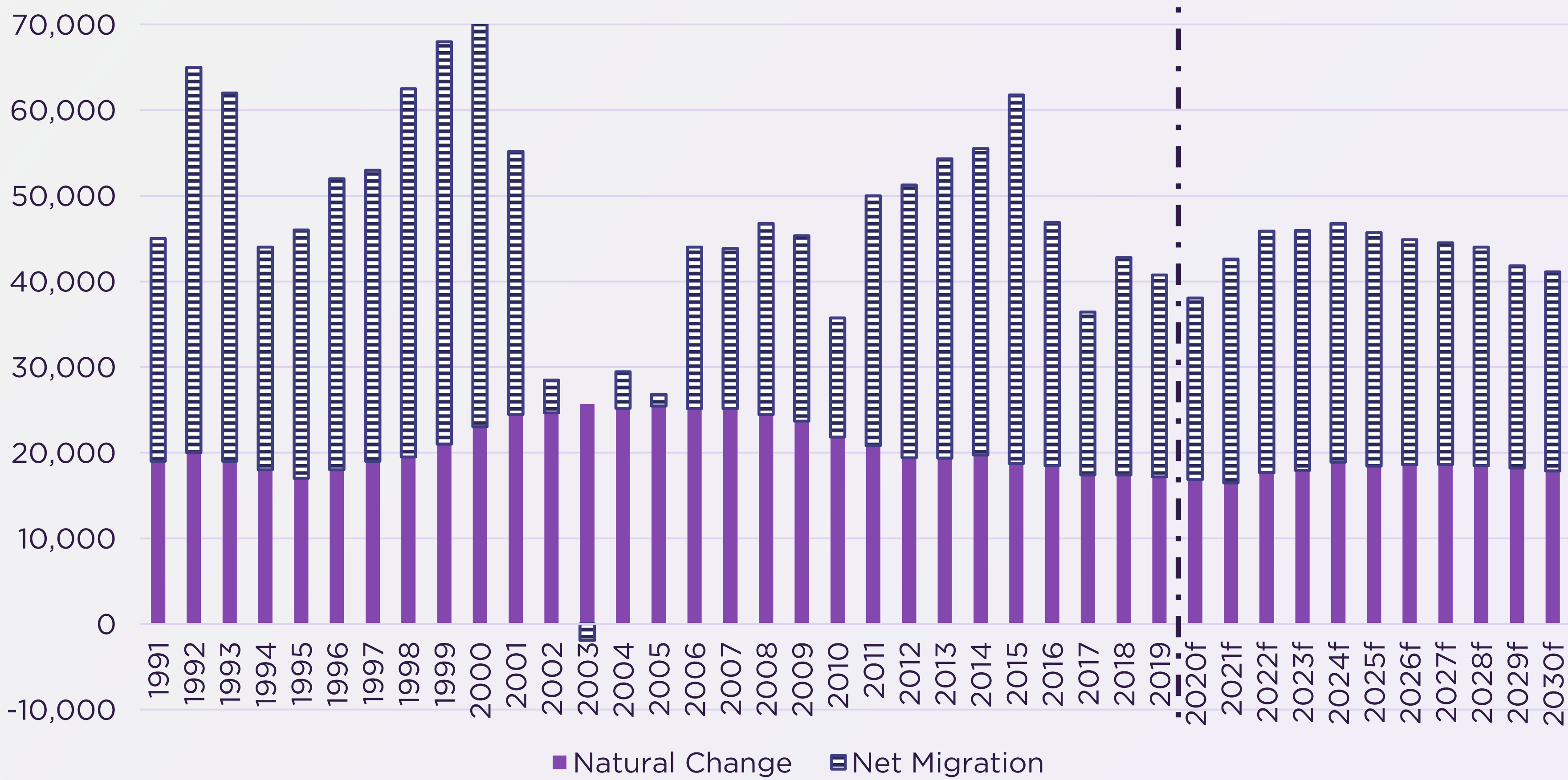
- Metro Denver hit 3,000,000 people in the fall of '14.
- We are expected to increase our population by 50,000/year for the next 10 years. That's a LOT of growth.
- This fact alone will support the housing market and continue to make the demand for housing (both rental and purchase) stronger than the supply for years to come.

What does it mean for the client?

- More and more people are moving to the Front Range and they all need to live somewhere.
- Our increasing population should help your nervous buyers breathe easier.
- The demand for property will continue to outstrip the supply for a long time.

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?

2020 POPULATION – 3.3 MILLION



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

The Millennial population is a very large group of metro Denver residents and it will affect our housing market.

- There are 849,000 millennials in metro Denver and 36% of them still live with their parents.
- As the economy continues to improve and the large population of millennials gets older they will begin moving out of their parents homes and begin renting and purchasing property en masse.
- This movement will put additional pressure on both the rental market and the housing market over the next few years, continuing to strengthen both markets.
- Expect both rents and home prices to keep rising for at least the next few years.

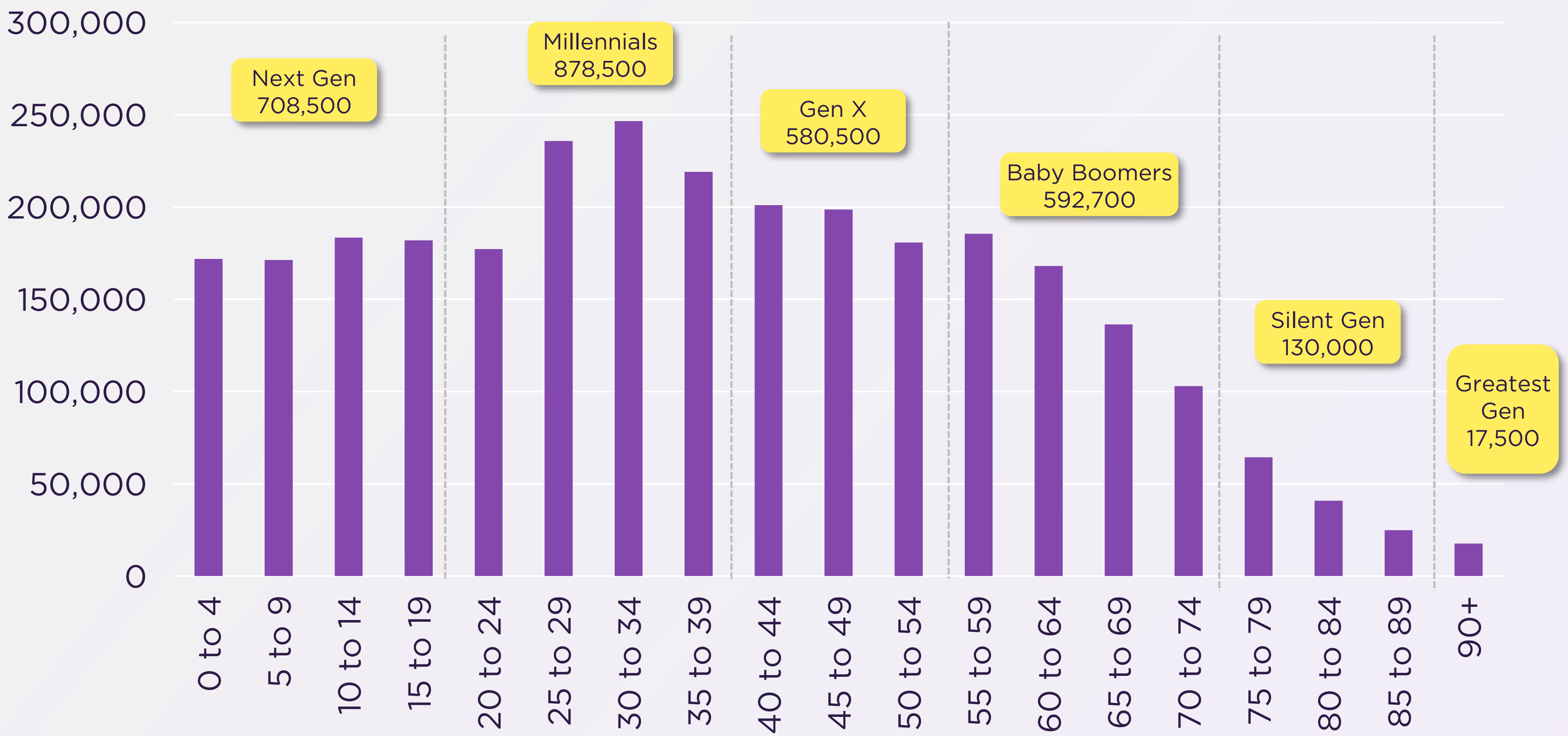
What does it mean for the client?

- The Millennial generation demand for housing will be very strong in the future as they grow up and move out of their parents' homes.
- This is one of three major factors that suggest our housing market is going to stay strong for the foreseeable future.

Millennials continue to be the biggest group.

DENVER DEMOGRAPHIC MAKEUP

Metro Denver is comprised of 6 counties: Adams, Arapahoe, Broomfield, Denver, Douglas and Jefferson.

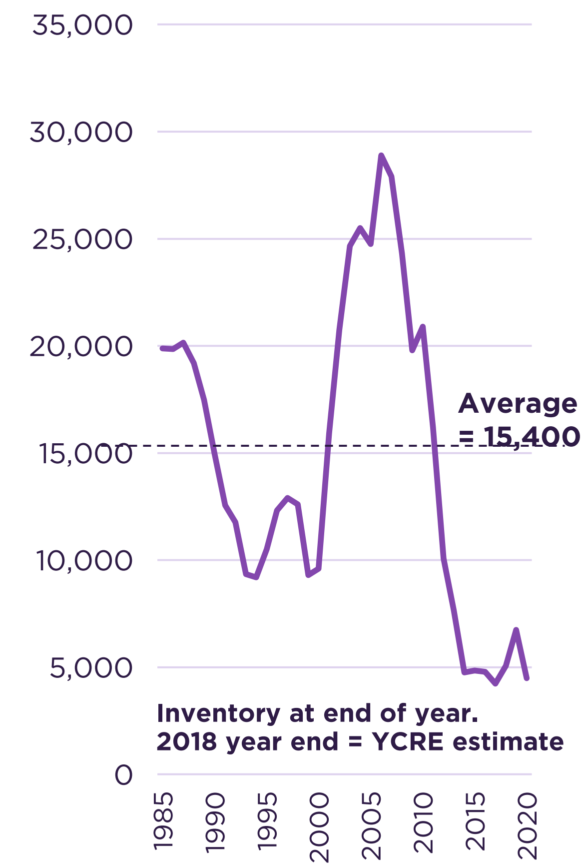


Source: CNBC, Colorado Division of Local Government, State Demography Office

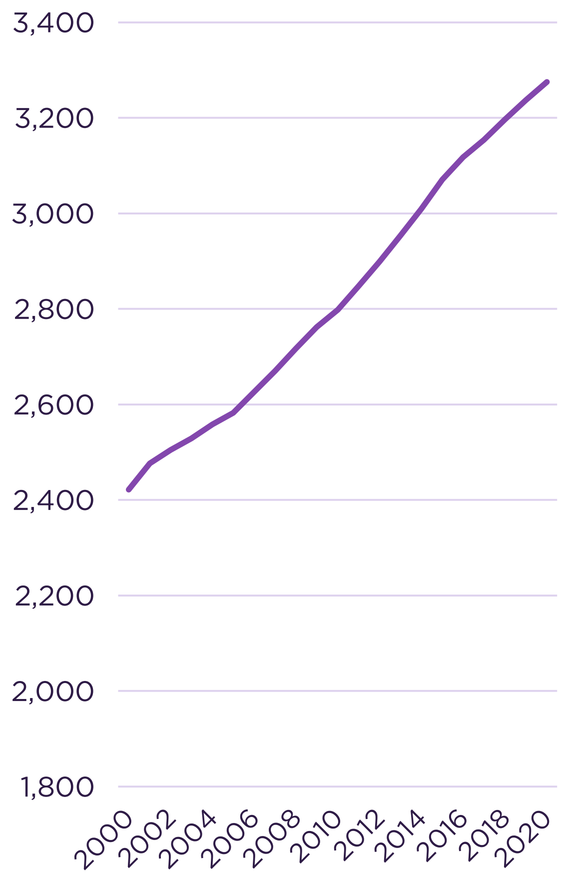
Has inventory increased a lot recently? Will it be hard to sell my home?

There isn't a relationship between inventory level and population. The number of homes active on the market in 2016-18, relative to the population, was at the lowest level ever, and the market is at nearly the same level now! The inventory is less than a third of the historical long-term average.

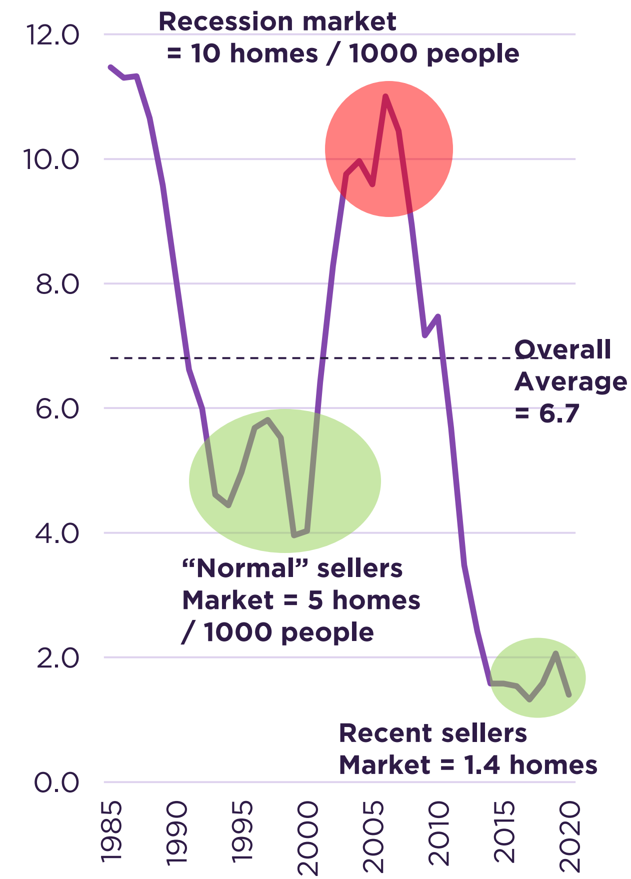
INVENTORY OF HOMES IN DENVER METRO



POPULATION OF DENVER METRO Thousands of people



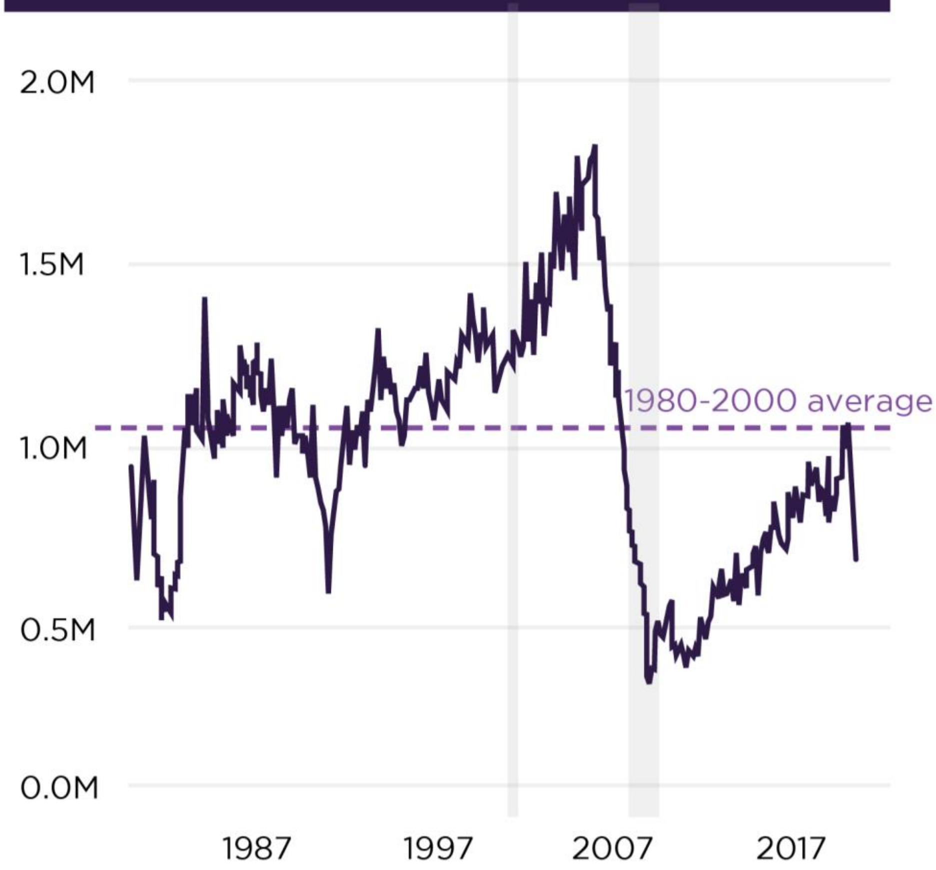
INVENTORY OF ACTIVE HOMES per 1000 ppl in Denver metro



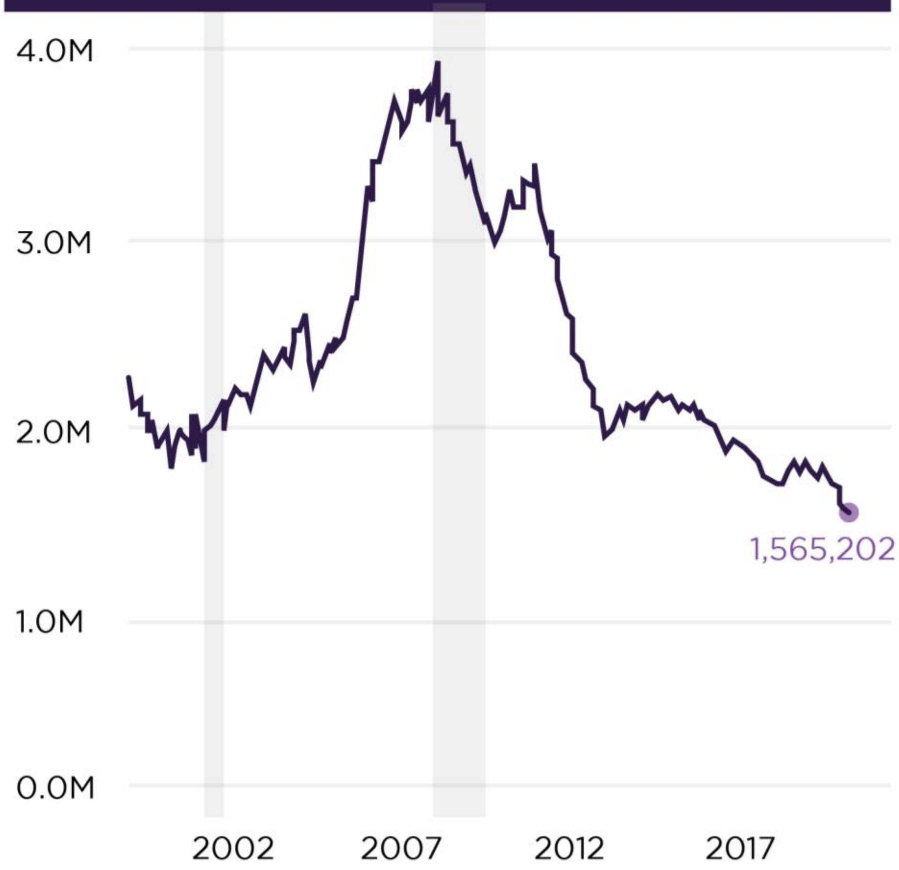
Source: MetroDenver.org, Denver Chamber of Commerce, Metrolist, Your Castle

New construction has been anemic for over a decade. Without enough new supply, active inventory is being driven down by strong demand. Data reported on a *national* level.

SINGLE FAMILY HOUSING STARTS



FOR SALE, EXISTING INVENTORY



Data Courtesy of Zillow

Data Source: Zillow Analysis of NAR Data

Population and unit sales. We're not in a bubble, since we're selling exactly the right number of homes for the city's population. Not like 2005.

- Let's see what we can learn from history to get insight into our future market.
  - This chart compares the number of home sales transactions to the population of metro Denver.
  - The blue line is the population (right axis) – basically the number of expected homes sales in a year given the population that year.
  - '75 – '79 – coming out of a recession there are a lot more home sales. What you'd expect.
  - '80 – '92 – big recession in Denver. People don't buy homes when there is a lot of unemployment and consumer confidence is low.
  - '93 – '02 – our local economy improves, workers get more confident and there are a lot more homes sales.
  - '03 – '05 – huge boom in home sales due to the culmination of irrational lending practices (e.g., "liar loans / stated income loans"). We go way beyond the average number of sales for the existing population.
  - '06 – '09 – the inevitable reaction to a boom. The market busts, sales plummet.
- '10 – '13 – the inevitable reaction to a bust. The market turns and home sales skyrocket.
- '14 – surprise! The number of sales in '14 was actually lower than in '13. The inventory is so low there just aren't enough homes to buy. Everyone thought that '14 sales would skyrocket and lead us to another bust but they were wrong. (It's hard to predict the future!).
- '15 sales were about even with '14.

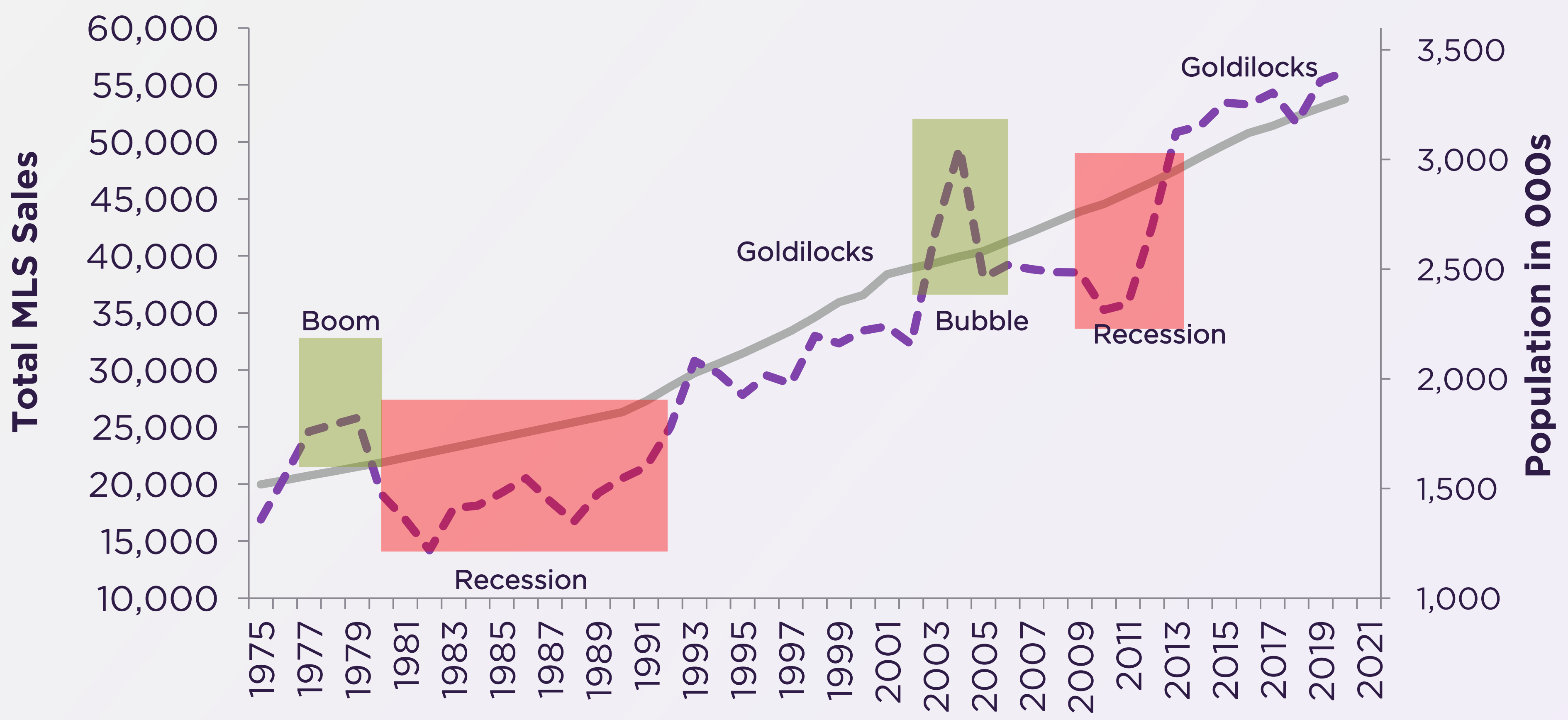
What does it mean for the client?

- The upshot? We're selling almost EXACTLY the number of homes in our market of 3 million people as we should.
- While in '06 a bust was likely to follow the huge number of sales from the previous 3 years, that's not the case now.
- There is no evidence from this data that any sort of bust is on the horizon.

Sales unit volume relative to population fluctuates depending Denver's economy.

Sales figures include Single Family Homes and Condos.

RELATIONSHIP BETWEEN POPULATION GROWTH AND RESIDENTIAL SALES



Data Source: Recolorado.com, MetroDenver.org

Comparing historic rental rates with vacancy rates.

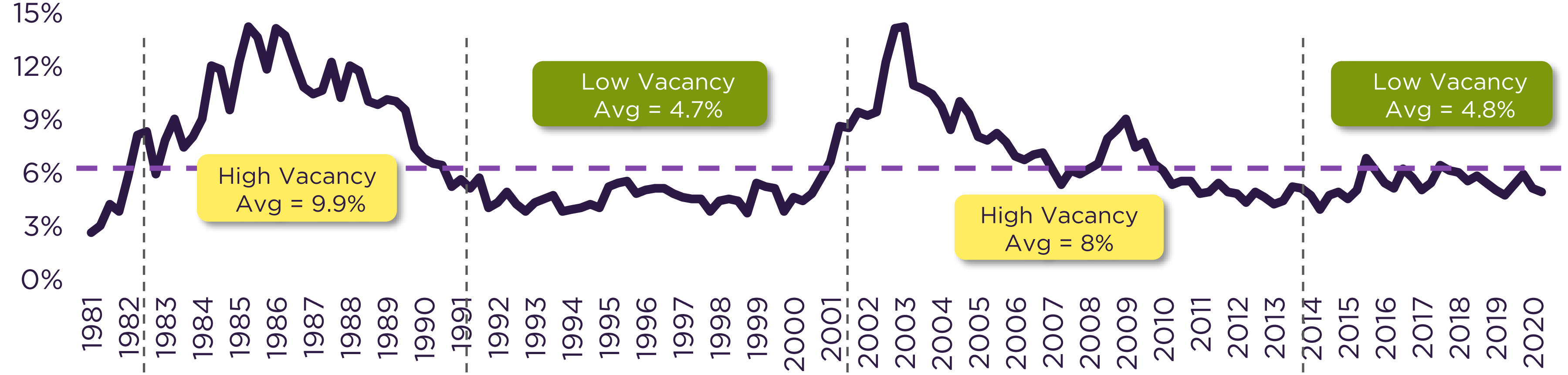
- This chart shows the correlation between rental vacancy rate and median rent in metro Denver since ‘81.
- Not surprisingly, when vacancy rates are high, rents stall and vice versa.
- During the 80’s vacancy rates were high and rent growth was very slow.
- During the 90’s vacancy rates were low and rent growth was very strong.
- During the 2000’s vacancy rates skyrocketed in the first few years and rent growth was very slow.
- Since then vacancy rates have mostly fallen (except in 2010) and rents have risen.
- Today’s ultra low vacancy rate has led to massive rental increases – rents have risen over 30% in the past 3 years.
- Long term buy and hold investors are taking advantage of this trend by buying more rental properties.

What does it mean for the client?

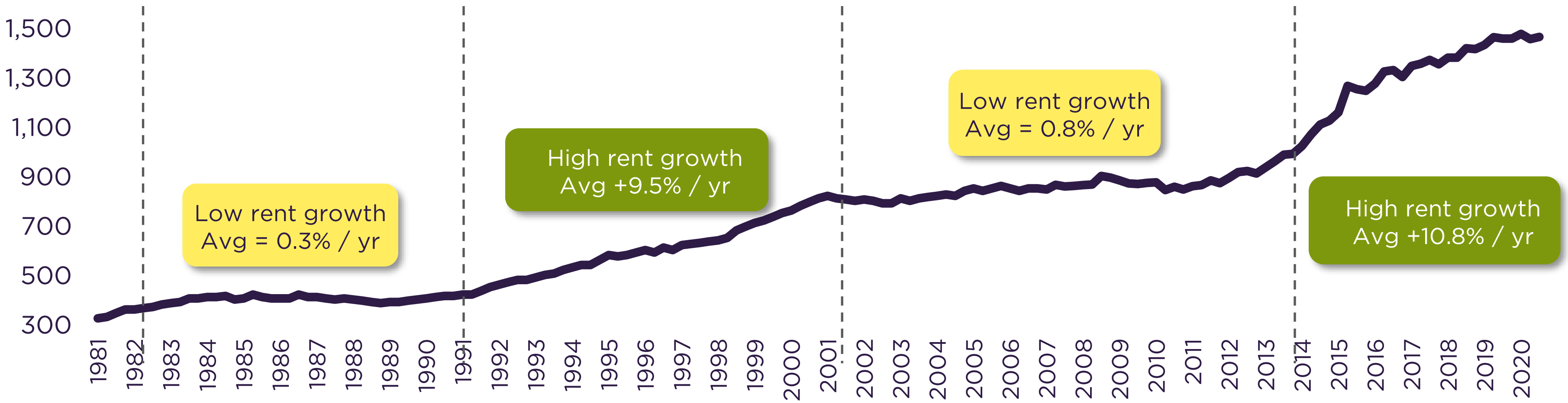
- Renters are suffering through the strongest rental increases in metro Denver history.
- Because of the lack of rental unit construction, this dynamic is not expected to change for years.
- This is causing many renters to take the plunge and purchase a home, further increasing the demand for homes.
- Low interest rates make home ownership (as compared to renting!) relatively affordable.
- The ones who are in a better position are landlords and home sellers.

When Denver rental vacancy is below 6%, we experience rent growth. 1981-2019 average rent growth: 4%. (5+ unit Apartment data only)

VACANCY RATE BY QUARTER %



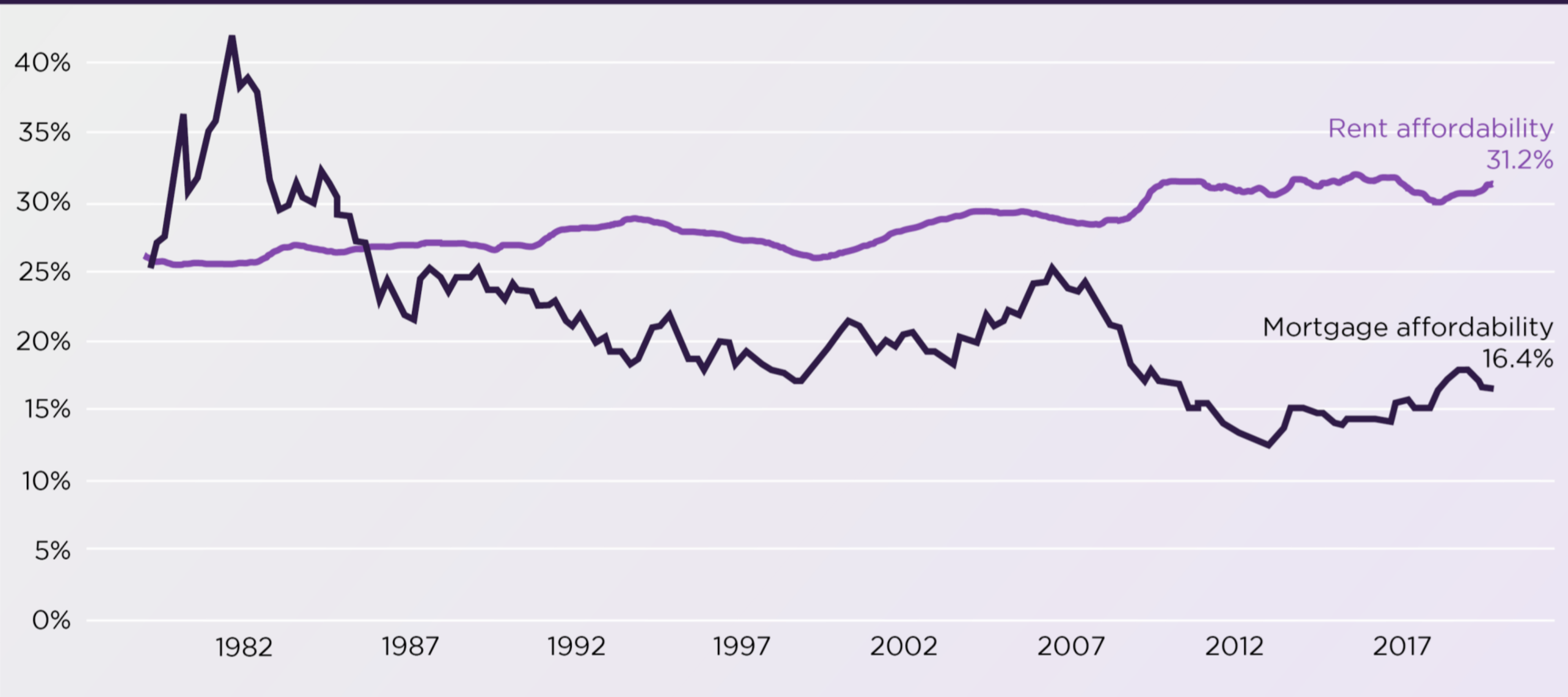
MEDIAN RENT BY QUARTER ($)



Source: Apartment Association of Metro Denver

Due to pressure on supply, slow income growth and no ability to harness lower rates, affordability of housing has become worse for renters.

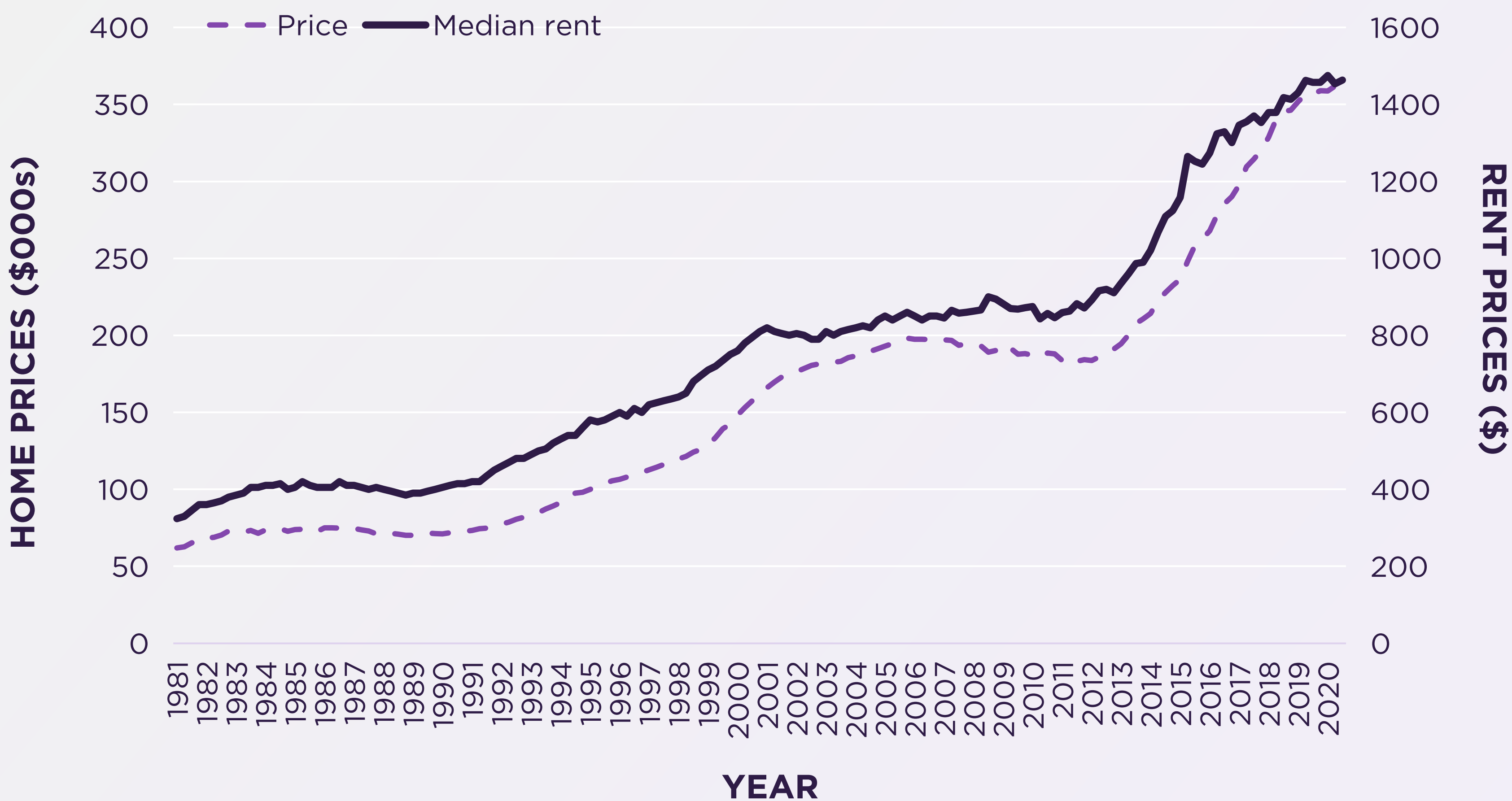
SHARE OF INCOME SPENT ON RENT



Data Source: Zillow Analysis

Over the past 50 years, rents in Denver have grown at about the same pace as home prices.

AVERAGE DENVER HOME PRICE VS. MEDIAN DENVER RENT



Data Source: FRED (Fed Reserve Econ Database); Apartment Association of Metro Denver

There's an expected 252% ROI over 10 years if you buy a rental property today (and this doesn't even include cashflow!). Even though home prices are up about 40% in four years, rents have gone up about the same amount. An investor can still earn great returns today!

ASSUMPTIONS

Buy now

Purchase price:	$200,000
Down payment %:	25%
Down payment $:	$50,000
Rate:	4.0%
Amortization:	30 years
Payment:	$716
Appreciation %:	5% per year
Appreciation $:	$125,779
Loan pay down:	$31,824
Simple ROI:	252%

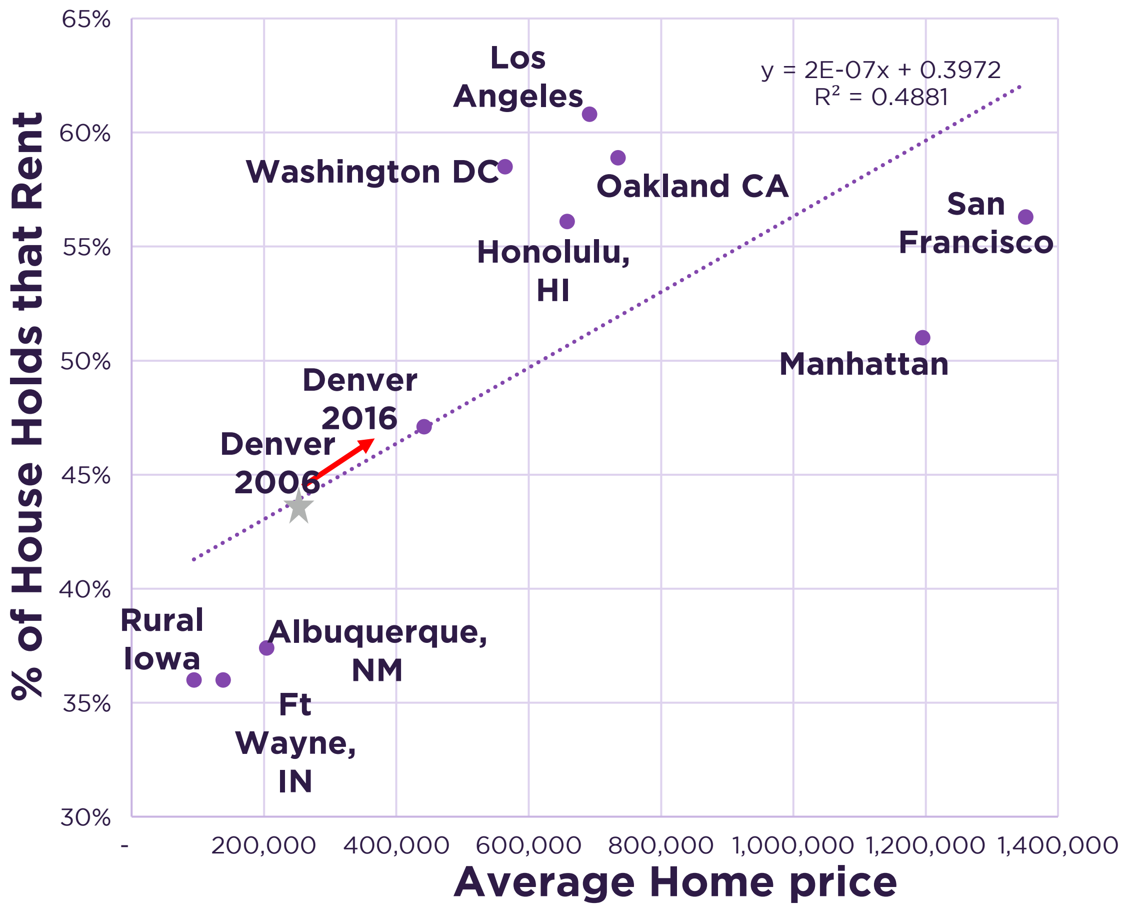
Wait 12 months ("watch market")

Assume mortgage rates	+0.5%
Assume home appreciation	+5%
Payment beginning next year:	$798
Payment change:	+11%

PROJECTED HOME CHANGE IN VALUE

There is a strong relationship between home price (e.g., affordability) and what percentage of the population rents (vs. owns). More expensive cities tend to have a higher percentage of renter households. As Denver's housing prices have increased in the past decade (+33%), the percentage of renters has increased (+11%), too.

RELATIONSHIP BETWEEN PRICE AND NON-O/O %



Source: YCRE analysis, Census Bureau,

On the left-hand chart

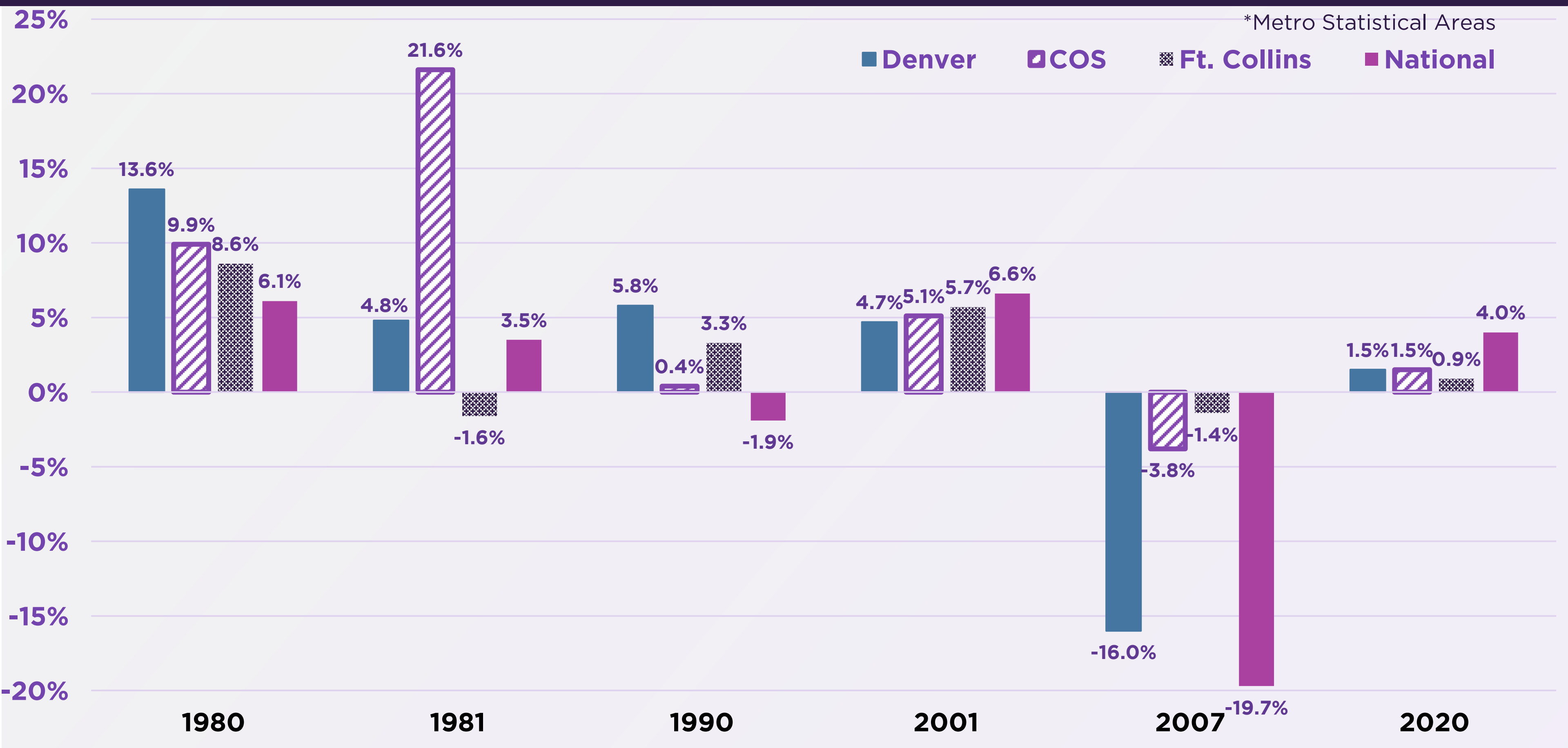
- **If home prices continue to increase faster than wage growth (or if mortgage rates go up); we'd expect to see ownership rates in Denver decrease.**

What does it mean for the client?

- **It would be wise to become a homeowner now before it's altogether unrealistic to save for a down payment.**
- **If one has the means, it's also a good time to acquire investments properties as the tenant pool grows.**

Nationally, homes have appreciated in four of the last six recessions. The appreciation rates vary widely across the front range from recession to recession. All markets have appreciated in FIVE of the last six recessions, with Fort Collins being the only exception with a small dip in 1981. “Recession” does NOT equate to “Housing Crisis”! Even if a house is “upside down”, the monthly payment doesn’t change (given the typical 30-yr fixed mortgage.)

HOUSING APPRECIATION RATES DURING RECESSIONS



Source: CoreLogic, National Bureau of Economic Research, FRED.

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Castle & Cooke MORTGAGE, LLC NMLS #1251

Joe Massey
303.809.7769
jmassey@castlecookemortgage.com
www.castlecookemortgage.com

FIRST ALLIANCE TITLE

Greg Parham
303.558.6623
greg@firstalliancetitle.com
www.firstalliancetitle.com

Aerowood Property Managment

Ellie Reimer
720.474.2822
aerowoodpm@gmail.com
Denver's Premier Name in
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Notes from the attorneys…

Source: Your Castle Real Estate analysis. Based on information from Denver (REColorado). Not all properties were listed and/or sold by Company. This representation is based in whole or in part on content supplied by the MLS. The MLS does not guarantee nor is it in any way responsible for its accuracy. Content maintained by the MLS may not reflect all real estate activity in the market. Does NOT include time share, mobile homes, or commercial.

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