



# The Best Way to Buy Real Estate in Steamboat



## Steamboat

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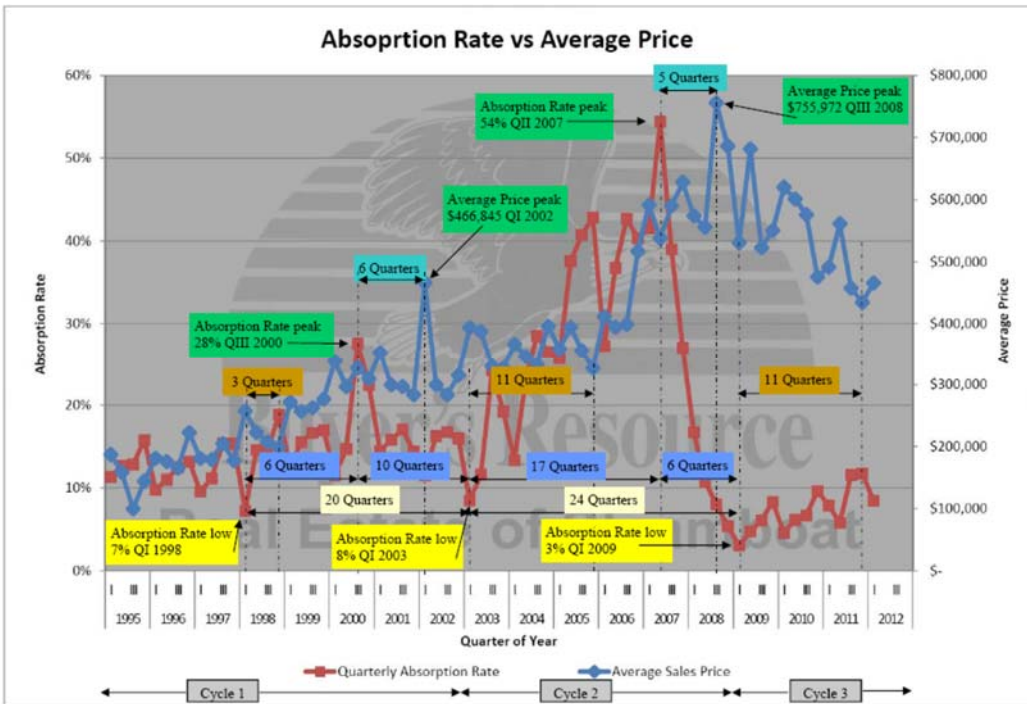
## What Direction is the Steamboat Market Heading?

The only sure thing a veteran Steamboat Springs real estate investor can say about the market is that it goes up and down...then up and down again. Investment cycles are expected in any market. Opportunities exist for savvy investors when buying in market lows and selling at peaks. While that is obvious, only the savviest know when those times occur, with many finding out a little too late. But the best investors look for a pattern to help them base their decision.

Are there any patterns in the Steamboat market to help determine where may it be heading in the immediate future? A look to the past may help determine if it's to continue on its downward march, level out, or start climbing out of the worst market correction in recent history.

Supply and demand define any market. On the supply side, quarterly Steamboat Springs Multiple Listing Service Data going back to 1995 shows supply (listings) at its peak of 2,385 in the second quarter (QII) of 2010 and low of 869 in QI of 2007. The average number of listings throughout this time period has been 1,573. On the demand side, purchases were at an all time high in QII of 2007 at 569 and then hit a record low seven short quarters later with 62 purchases in QI of 2009. Average purchases in a given quarter have been 246. QI 2012 netted 151 purchases.

To ascertain the relationship between supply and demand, and consequently the health of a market, is Absorption Rate. This number represents the percentage of properties that are purchased (absorbed) relative to how many that are on the market in a given period of time. This is calculated by taking the number of purchases (demand) in a



quarter (three month period) and dividing it by the number of listings (supply) in that same timeframe. The higher the number the more active a market. In QI 1995 there were 1,270 listings and 144 purchases, representing a quarterly Absorption Rate of 11% (144/1,270). The average during these 69 quarters is 18%. An 18% Absorption Rate means 18% of the market is absorbed in a three

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month period. Absorption Rate can also be used to estimate how long it takes a property to sell. An 18% quarterly rate equates to a property taking 17 months (3 months / 18%) to sell, and a point where modest growth in the Steamboat market is realized. When comparing the quarterly Absorption Rates for the Steamboat Springs real estate market with Average Prices, certain patterns can be found that may help identify past trends, as well as anticipate future behavior. When looking at this relationship, the most striking findings include:

### **Three Market Cycles**

Since 1995 the Steamboat Springs real estate market appears to have experienced three cycles:

- Cycle 1: 1995 – 2002, A slow, steady market increase, then hit with the DotCom bust, 9/11 tragedy and Iraqi war resulting in market regression;
- Cycle 2: 2003 – 2008, Almost exponential market growth followed by unprecedented decline from worldwide economic collapse;
- Cycle 3: 2009 – Present, Slow improvement of property absorption but property values still in decline. This cycle is not done...

### **Market Lows**

The all time low quarterly Average Price since 1995 was QIII in 1995 at \$99,896 (current Average Prices are now over four times higher).

The all time Absorption Rate low since 1995 was QI 2009 at 3% - Meaning if the market remained at that pace it would have taken an average of eight years to sell a property.

### **Market Highs**

The all time quarterly Average Purchase Price high occurred in Cycle 2's QIII of 2008 at \$755,972. The most recently completed QI of 2012 posted \$466,130. This represents a regression in pricing to 2006.

The all time high Absorption Rate occurred in Cycle 2 QII at 54%, representing the average time a property would take to sell at less than six months. The highest Absorption Rate in Cycle 1 was 28%, reflecting a real estate frenzy at that time.

### **Dynamics and Patterns**

Absorption Rate increases first, then Average Price increases. Average Prices peaked an average of five quarters after an Absorption Rate peak.

Absorption Rate decreases first, then Average Price decreases. In Cycle 1 it only took three quarters before prices stopped dropping from the Absorption Rate low. However, Cycle 2 took 11 quarters, and Cycle 3 is hinting at a price low that's similar to an 11 quarter timeframe. This could also indicate the Cycle 1 decline was not as economically deep as the other two.

It took 20 quarters (five years) for the Absorption Rate to go from its low in Cycle 1 to the low in Cycle 2 and 24 quarters (six years) to go from low in Cycle 2 to low in Cycle 3. It also took 27 quarters (nearly seven years) to go from the Absorption Rate high in Cycle 1 to its high in Cycle 2. The US economy was certainly on a sustained run during that time and mortgage financing was easily acquired.

### **Future Projections Using Past History**

With Cycle 2 taking 11 quarters after its Absorption Rate low to produce its Average Price low, and assuming Cycle 3's Absorption Rate low occurred in QI 2009, 11 quarters after that was QIV 2011 at an average price of \$435,000. Could this be the low point of the Steamboat market in Cycle 3 (the current market cycle)?

This may be a difficult question to answer, for in Cycle 2 it took 17 quarters to go from its Absorption Rate low to its high, and Cycle 1 it only took 6 quarters. Cycle 3 has been hit harder economically than the other two, so it is reasonable to think it would take longer to recover.

### **Conclusion**

The economic times we have experienced over the past several years have been unprecedented. Looking at the dramatic fall in the health of the Steamboat Springs real estate market in Cycle 3, the supply vs. demand line certainly stands out more than any other event. However, the events that have caused market declines in the past were also unique unto themselves. The amount of short sales and foreclosures have not been as much of the market in the past as they are now. It is most important for any real estate seller or buyer to realize from this snapshot that markets are dynamic and they react to many forces. However, it is sometimes hardest to look beyond the current to get to the future.

History has proven that before prices begin to rise the Absorption Rate needs to recover first. It is very clear that since Cycle 3's 3% low in QI of 2009 Absorption Rate has been slowly, but steadily improving, and highly suggesting prices may be ready to follow suit.

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