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Understanding Distressed Properties in Steamboat

The plague that infected the real estate market throughout the United States years ago took a little longer to find its way into Steamboat Springs. But once it did, it hit with force and effected the market in a number of different ways. Like a physician trying to treat an unknown virus strain, sellers and buyers, as well as REALTORS, attorneys and title companies entered unknown territory in trying to deal with the challenge at hand. But with the learning curve over and the market steadily improving, distressed properties are now better understood, more easily handled and buyers are needing to now act more quickly when one hits the market.

Most distressed properties generally fall into one of two categories:

Short Sale

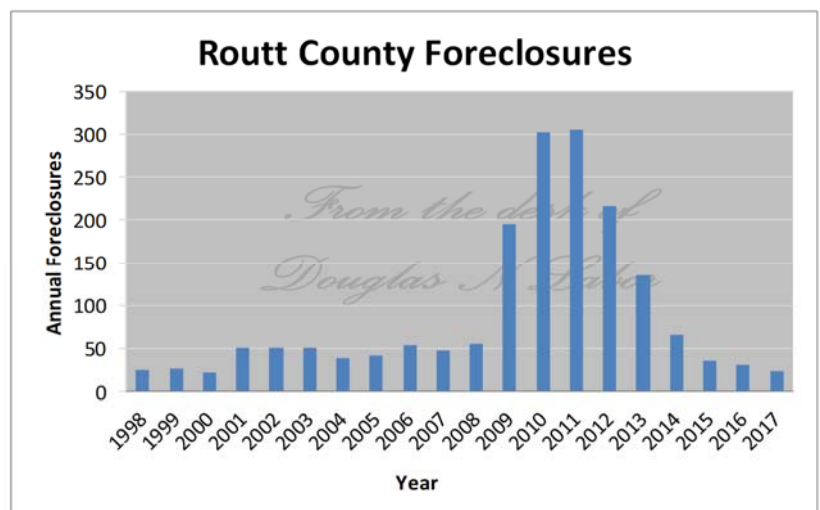
A short sale is when an individual owner still has legal ownership of the property, but is advertising the property at a price less than the amount owed, or selling "short" on the indebtedness. It is most likely at a time when the owner/seller is delinquent in loan payments. As the seller is offering the property for an amount less than what is owed, the seller needs to obtain lender approval for the sale. The lender is the one who will be taking the loss along with the seller. Thus, a short sale is a two-step process of first negotiating a purchase price between buyer and seller, then seller/buyer team up and negotiate with the lender. Not only will a seller's credit be impacted by this unfortunate situation, but the amount of debt relief (amount the seller is short on the mortgage) is considered income by the Internal Revenue Service, and taxes will need to be paid by the seller on that debt forgiveness. Furthermore, short sellers have to wait at least two years before being approved for a mortgage to purchase another property.

In lieu of facing foreclosure, most sellers will try to sell their home via short sale first. However, if unsuccessful, it falls into the second distressed property category:

Foreclosure

A foreclosed property is one where a lien holder (lender) has taken legal ownership of the property. There are three types of foreclosures in Colorado: 1) Public Trustee; 2) Judicial Foreclosure; 3) Tax Sale. The most common type of foreclosure is the Public Trustee Foreclosure. Buyers of foreclosures deal directly with the lender, or a facilitator hired by the lender.

Foreclosures have certainly dropped from their 2010 and 2011 peaks, where slightly over 300 owners lost their properties to note holders annually.



More distressed properties make it onto foreclosure rolls than being purchased as a short sale. Assuming most owners tried to sell their properties under a short sale first to avoid foreclosure, and that foreclosures outnumbered short sales

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2:1, it is safe to say that most sellers were unsuccessful in selling short. While closing numbers would suggest foreclosures are an easier means of divesting, the reality is a number of short sales do go under contract, but roughly only one-third make it to closing.

A short sale is a two-step process. Once a lender receives notification the property is under contract with the seller, they may take anywhere from a few days to several months to consider the offer, let alone accept.

If you are a buyer in today's market looking for a good buy, it is important to not only consider a short sale or lender owned property, but attention should also be given to a "normal" sale.

Data suggests that sellers of non-distressed properties are willing to negotiate more than those in a distressed situation. Free-market sellers generally take a discount of 3% to 7% off of their list price, whereas a short sale seller (and lender) is willing to only discount their price by a stingy 2%, and foreclosed properties an average of 4%.

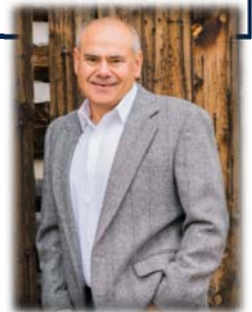
Most distressed properties that hit the market were purchased between 2005 and 2008. This is when Steamboat Springs properties were at their peak. Owners of those properties, including lenders, most likely have a cost basis higher than current values. However, non-distressed owners, who could have bought before or after peak have a lower cost basis than the distressed owner, and may be willing to meet or beat distressed property prices (not to mention the absence of potential frustration from dealing with the lender throughout the buying process). Additional challenges of buying a distressed property include that most owners will only sell the property in "as-is" condition and there are no guarantees on communication or timeliness. While there are opportunities in the foreclosure and short sale market, buyers need to be mentally prepared for the myriad of obstacles that may come their way, and also look at all properties that meet their needs.

Looking for a Distressed Property in the Steamboat area?

Contact us today to receive immediate notifications when a foreclosure or short sale property comes on the market!

ABOUT DOUG...

Doug Labor has over 30 years of real estate experience, including executive level positions with some of the largest ski and golf resorts in North America. He is the General Manager of Sotheby's downtown Steamboat Springs office. What he enjoys most in his real estate practice is providing imaginative, yet logical and valuable guidance in helping clients reach their goals. His industry knowledge and service have been recognized by both clients and peers as one of the premier brokers in Steamboat, with the 2005 and 2014 Steamboat Springs REALTOR of the Year and 2012 and 2014 "Best of the Boat" Real Estate Agent awards. Doug's clients appreciate his unsurpassed market knowledge and keen negotiating skills working for them, as well as the professional work ethic and personal care he delivers to each and every client, no matter if they are in the luxury or introductory market.



To receive my monthly e-newsletter (including Best Buys), learn more about the market, or discuss how you can put me to work for you, contact me at...

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