

The Estin Report

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Unconventional Wisdom

When it comes to real estate, Aspen and the Roaring Fork Valley break the mold. **Jeremy Swanson** explains the dollars and sense of why the big bad bubble might just pass us over.

The Setup: Home prices in America have rocketed 45 percent higher than inflation since 1996—creating five trillion dollars in wealth, according to the Center for Economic and Policy Research

The Doomsday Scenario: The average home buyer cannot afford the average home. Inventories swell, prices sag. Five trillion dollars vanish—that's \$70,000 per family of four.

The Happy Ending: You're in Aspen, where the housing bubble is made of Kevlar.

Pick up a copy of the *Wall Street Journal* or *Business Week* these days and you'll find economists peering through a miasma of contradictory figures to divine where the housing market is headed. Mark Pisani, number cruncher and marketing director for Aspen's Land Title Guarantee Company, has an easy time reading his charts—they all point up. Pisani reports that for Pitkin County, "A very strong October puts dollar volume up 15 percent for the year and up almost eight percent in the number of transactions."

The picture nationwide, however, is not as rosy. The National Association of Realtors (NAR) reports that existing-home sales will fall 8.6 percent in 2006 from the previous year. New-home sales will fall 16.8 percent and housing starts 10.6 percent.

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"Even as the national market cools, the real estate market here is cushioned by a national and global demand," says Tim Estin, a broker at Mason & Morse who writes an occasional real estate market column for the *Mountain Business Journal*. Estin, who also reports on local market trends on his Web site (www.estinaspen.com), sees the richest of the rich driving much of the demand in Aspen. "In 2006, there has been a surge in the sale of homes over \$10 million," he notes. In 2004 and 2005 combined, there were only 12 listings in this category. This year, there have been 36 such listings, and 12 of them have already sold. "The sale of anything over \$20 million is extremely rare, and we've had three such sales in the past few months," continues Estin.

It's worth noting that for more than 30 years, the Aspen housing market has weathered every storm; during periods of national recession, owners here—who tend to have deep pockets—pull properties off the market rather than discount. Rod Woelfle, president of the Aspen Board of Realtors and the local chapter of the NAR, says, "Luxury markets—like Aspen or the Hamptons—are more isolated." The main factor insulating the Aspen home market is a formula of basic economics: supply and demand. The supply of area homes is extraordinarily constrained. "Ninety-two percent of Pitkin County is government land or otherwise protected," notes Estin.

"We can't just add a suburb," says Woelfle, also a broker at Aspen Land & Homes Sotheby's International Realty. "Where else are you going to build in the Upper Valley?" Land Title's Mark Pisani concurs: "With our geography, we can't just keep developing new properties."

An abundance of developable land in places like Nevada has created a different situation. "The Las Vegas market, for instance, was so hot it attracted a lot of construction," says Woelfle. "It was probably overbuilt, creating too much supply." The trend can be observed nationally, where supply is outstripping demand. The Center for Economic and Policy Research reports that two million housing units are being built annually, while the number of households is growing by only 1.4 million.

The Aspen market's growth is dependent on a steady influx of new affluent consumers. "One big market driver is the enormous amount of money that the baby boomers are coming into," says Woelfle. It's a trend that Pisani has observed as well: "They're reaching their fifties and sixties, their peak income years, and they can spend on second homes and investment homes."

In addition to achieving their maximum earning power, boomers are also reaching a time when they are inheriting funds. "There's a huge transfer of wealth with the baby-boom generation," notes Estin. "As they inherit this wealth, they are also looking for a place to retire or work in semiretirement."

Bullish trends across the stock markets are also contributing to the creation of more wealth. In December, investment firm Goldman Sachs reported that it would dole out \$16 billion in year-end bonuses thanks to record earnings, an average of \$600,000 per employee. "The recent stock market situation has been great for second-home buyers," Woelfle adds.

People are looking for a place to put those funds. Estin says, "I've seen a number of Wall Street financiers intentionally looking to diversify their portfolio." They're not alone; Aspen real estate's returns are a big lure for big wealth. "There is a perception, and a historical reality, that Aspen is a secure place to put your money," continues Estin.

It's an ironic twist that the popping national housing bubble might actually heat up the Aspen market. The worse it looks in California or Florida, the better it looks in the Roaring Fork Valley. "There's a great deal of uncertainty across the national market," observes Estin. "So people are looking for safe havens like Aspen to put their wealth."

"Buyers are avoiding high-risk real estate," says Woelfle. "Coastal markets have gone bonkers for the last two years...and they've reached a situation where prices are slowing down or even dropping. Then the owners come to Aspen a few times..." And get hooked.

"The first time they come, they think it's overpriced. They come back, and they see the prices still went up, and they wish they would have bought in the last time," continues Woelfle. "It's different than a market like Denver, where you wait, you time it to get in. Buy low. Sell high. Aspen is not a wait-to-get-in market. It's a get-in-and-wait market. You sell when it's enough." **A**