Aspen Sojourner Mid Summer 2007

off the chart

Real estate prices may be softening around the country, but Aspen continues to buck the trend in a billion-dollar way

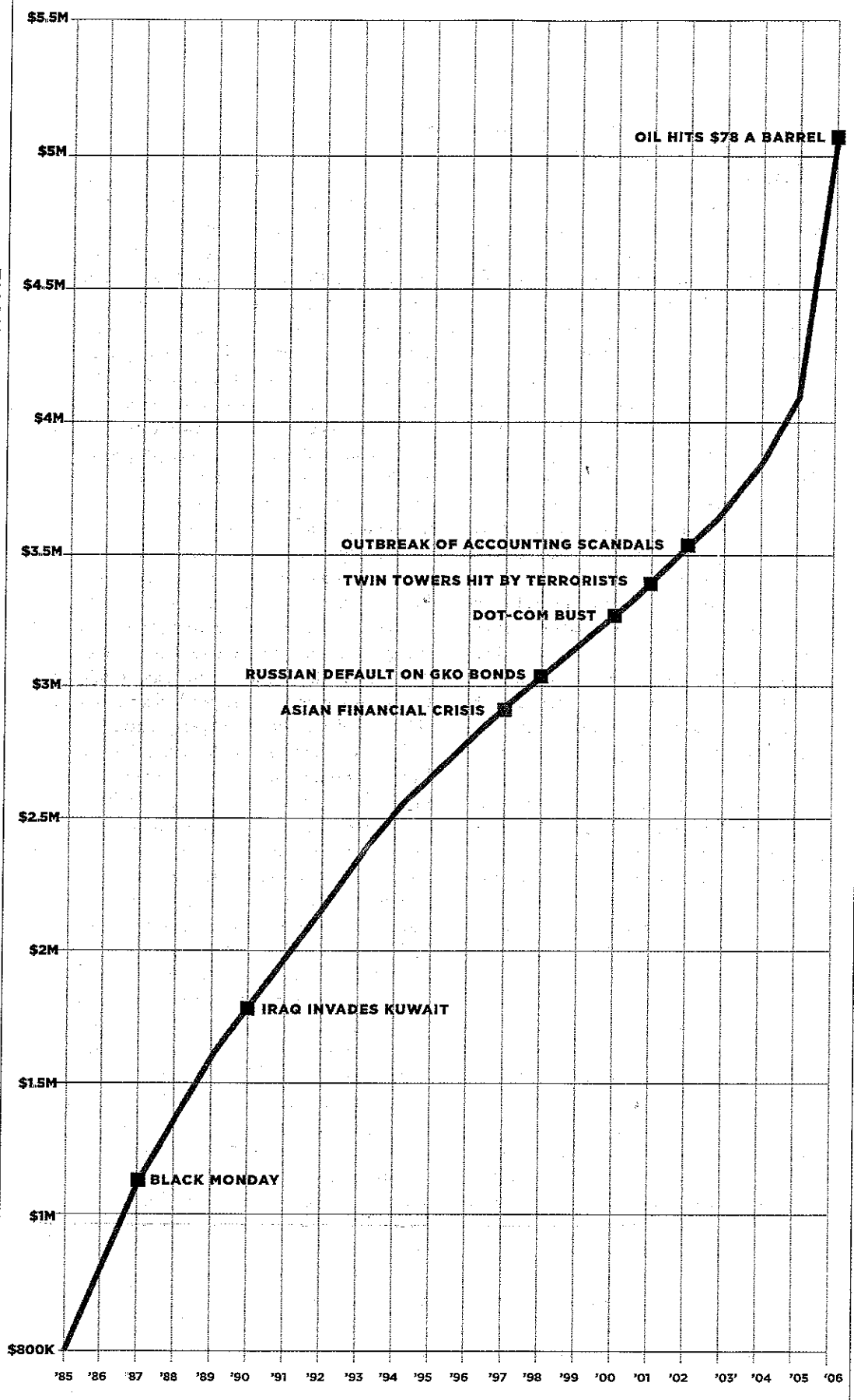
True or false: In May a half-share of a house on Aspen's Main Street went on the market for $1.25 million. The house suffered from fire damage and was not habitable; it also carried a historic designation, making repair tricky. The split ownership came as a result of a lawsuit between the seller and her sister-in-law, who was the other owner. Thus the seller wanted seven figures for a half-interest in a decrepit house with plenty of legal trouble but no guarantee of future use or development.

This is mostly true. The actual asking price was $1.6 million. Insane? Who knows? "Real estate is like drug use in this town," says local developer and recent mayoral candidate Tim Semrau, speaking to the addictive nature of the subject. Aspen real estate has been pricey for more than four decades and has gone up especially dramatically over the last several years, yet no one is trying very hard to kick the habit.

ABOUT THE CHART The developers of Fox Crossing Aspen prepared this chart in an effort to quantify the Aspen real estate market over the last 20 years. Using dates of significant economic downturns as points of reference, the team at Fox Crossing compared what happened in Aspen to what happened in the rest of the world. Statistics were gathered from several different sources and then analyzed. This chart is different from other reports, because it only deals with single-family Aspen homes. —Elizabeth Callahan

BY SCOTT LASSER | PHOTOS BY MARK PEARSON

THE EFFECT OF THE ECONOMY ON THE ASPEN REALESTATE MARKET



SIGNIFICANT IMPACTS 1985-2006

July 2006
Oil Hits $78 a Barrel

August, 2002
Outbreak of Accounting Scandals
The Dow dropped 1677 points
18% in 11 trading days

September 11, 2001
Twin Towers Hit by Terrorists
By the end of the week, the Dow had fallen 1369 7 points (14 3%), its largest one-week point drop in history U S stocks lost $1 2 trillion in value for the week

Sept 2000 – Oct 2002
Dot-Com Bust
The Nasdaq lost 78% of its value as it fell from 5046 86 to 1114 11 The Dow lost 38%

August 31 1998
Russian Default on GKO Bonds
The Dow plunged 512 points second largest in DJIA history

October 27 1997
Asian Financial Crisis
Asia s currency crisis caused the Dow to plummet 554 points for its biggest point loss to date Trading was suspended

August 2 1990
Iraq Invades Kuwait
The Dow dropped 6 3% in one day

October 19 1987
Black Monday
The Dow declined 22%; program trading blamed

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"Aspen is like an island. It's very well protected."

—local developer Mike Tanguay

Biennial property assessment notices were sent out in May, and the average Aspen home saw its assessment grow by roughly 50 percent over a two-year period, according to Pitkin County Assessor Tom Isaac. Inside Aspen there is virtually nothing for sale for less than $1,000 per square foot; condos in choice locations like the Aspen Alps now routinely ask more than $2,000 per square foot. Homes in Aspen's west end routinely trade for $1,300 per square foot or more, as does any luxury property in the upper valley. Special properties can bring a lot more. Nothing, it would seem, has been overlooked. "There just aren't any deals out there anymore," I heard from more than one real estate broker, none of whom wanted to be quoted saying those words.

The dollars now involved in real estate transactions, especially high-end ones, can be staggering. In the past year there have been 23 sales in the county north of $10 million, while another 71 homes have traded in the $5 to 10 million range. Supply is being created to meet this demand; current inventory in these categories stands at 66 and 138, respectively. "The higher you go (in price)," says local broker Eric Cohen, "the more inventory there is relative to sales. But if you look at the graph of sales, the sales numbers are getting there." As a result, Pitkin County now estimates total real estate value for the county at roughly $18 billion. That number is probably low.

Aspen hasn't been cheap for a long time, but a number of factors have aligned lately to drive prices to record levels. First, in any market, prices are set by supply and demand, and in Aspen supply is limited, with much of the area surrounded by government land off-limits to development. "Aspen is like an island," says local developer Mike Tanguay. "It's very well protected." Second, growth control has further limited development on private land. Indeed, the town's stringent, sometimes dysfunctional, growth controls have benefited property owners and developers able to navigate the Byzantine maze that is the approval process. Says one developer, "If you manage to get a home built, you know someone else isn't going to be able to put up a dozen just like it."

Demand is the other side of the price equation, and Aspen's desirability is at the heart of this demand. Aspen has been gilded forever. As longtime real estate broker Penney Carruth says, "Aspen is Aspen." Still, a lot has changed lately to drive demand. First, real estate in the rest of the U.S. has, until recently, experienced a boom unprecedented in the history of the country. The result is that Aspen isn't as comparably expensive as it has been. In the past two years, people have been able to sell choice properties in other parts of the country and buy comparable homes here while putting up little or no additional funds. This is a new phenomenon (though current weakness in other markets suggests the situation may be correcting). International buyers are also increasingly looking to Aspen, as the weakening dollar and rising worldwide real estate prices make Aspen look like a good value. Says Pitkin County Assessor Isaac, "Aspen looks reasonable from the international perspective."

The factors that led to the national boom have also been at work here. Extremely low interest rates have been one of the main fuels to the fire. After 9/11, low rates have made borrowing cheap, and easy money the world over has increased liquidity, a situation that continues today. In the middle of this year money market assets crossed a new threshold of $2.5 trillion. That's trillion, with a T.

A certain amount of that cash is finding its way to Aspen, highlighting another factor behind the rising prices: The rich have gotten richer. According to *The New York Times* (March 29, 2007), in 2005 the top one percent of Americans received their largest share of the national income since 1928. That is, the natural buyers of Aspen real estate are as flush as they've ever been. "It's amazing how many people have three or four million to spend on a second home," says real estate broker Eric Cohen. The aging of the population has also added to demand. Boomers with money are buying second homes in Aspen with an eye toward retirement, even if they are not ready to retire yet.

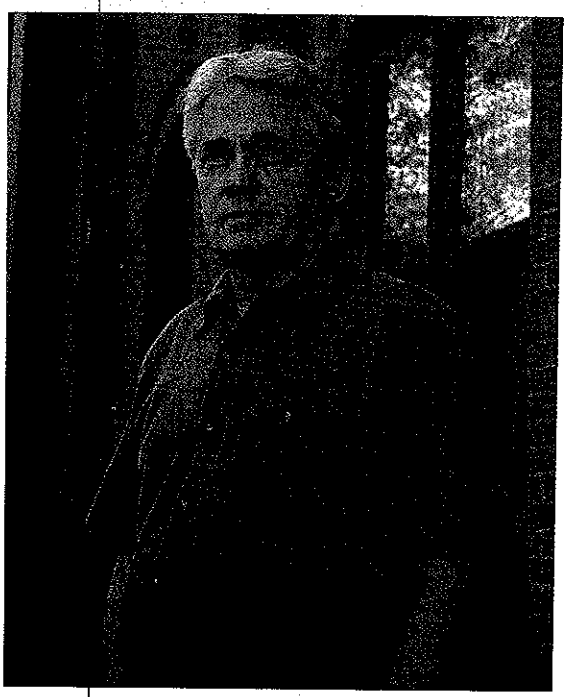
Advances in technology have made it pos-

sible to work from Aspen in a way that wasn't possible even a decade ago. The result is a slightly different type of second-home owner. Eric Cohen says that Aspen second-home buyers are often "multihome" owners who spend more time in Aspen than is generally assumed. Their Aspen home, he says, is not so much a vacation home as an alternative residence. "These are people who have the flexibility in their lives to be where they want to be." He points out that lately there has been a lot of vertical movement in the market. Penny Carruth concurs. "A number of people have invested enough time in Aspen to want to really invest their money," she says.

Finally, Aspen is perceived as a place of financial and personal safety. Aspen does not suffer from hurricanes or tornados, earthquakes, or significant flooding. It seems relatively removed from terrorism, crime is low, and it is small enough that one can feel secure. In these worried times, such factors matter more and more.

"Wages haven't begun to keep up with the growth in the price of housing."

—Housing Office Executive Director Tom McCabe



Is there any inexpensive real estate in Aspen? The answer is yes, but ... you must qualify for it. A subsidized housing program is available to local employees who work in the county and whose income and assets fall below certain guidelines. There are currently 1,297 rental units in the program, many of which are used for seasonal housing. There are also 1,443 owner-occupied units, with a couple hundred more slated for the large Burlingame project and other smaller developments. The housing program is divided into a number of categories, the highest of which is called Resident-Occupied, or RO, housing. Buyers into this program can have no more than $900,000 in assets, but there are no income limits. Last year a 3,600-square-foot house in this category went for $1,244,367. Such is the state of subsidized housing in Aspen. Two-bedroom condos in the lower categories go for far less. A recent sale was priced at $179,079. The appreciation of this housing is capped at 3 percent annually or the rise of the Consumer Price Index, whichever is lower. Once a buyer buys into a unit, no matter the category, there is no more means testing. Thus wealthy people can and do live in this subsidized housing.

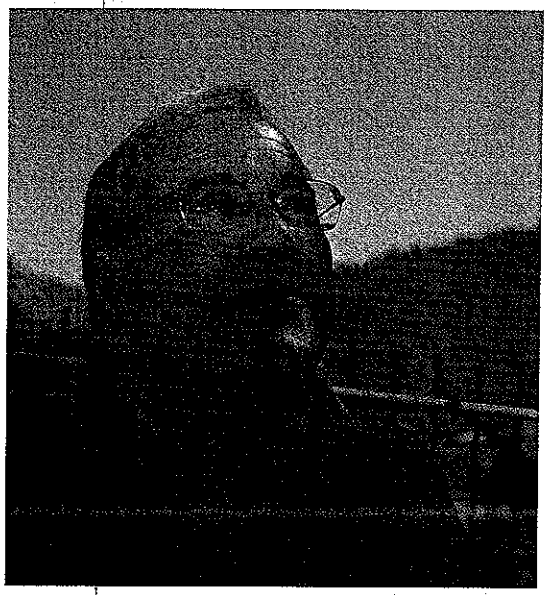
Still, most employee housing dwellers come from the Aspen working classes, and they would not be able to live in the city or the county without the subsidy. As Housing Office Executive Director Tom McCabe says, "Wages haven't begun to keep up" with the growth in the price of housing. As such, more and more workers live downvalley, one of the major causes of the traffic jams on Highway 82 in the morning and Main Street in the afternoon. Most employee units that come up for sale garner multiple bidders, who win the right to buy through a lottery system. The program is largely funded with a real estate transfer tax, "the right tax for the job," says McCabe. Last year the city transfer tax netted more than $11 million. Current "mitigation" law also requires that employee units be built and/or "mitigated" (read: paid for) when new homes are constructed. Thus, the city is one of the better capitalized and more active developers in town.

There is debate as to whether the appreciation caps make employee housing a good deal for buyers. Three percent, it is argued, isn't much, and it is true that money put into an employee housing unit hasn't returned what the free market has. Still, several points need to be made. One, for many it's not a choice: They can only afford to live in Aspen through the program, and if one accepts that living in Aspen is a privilege and not a right, then having the government subsidy makes it, in the words of the Housing Office's McCabe, "not such a bad deal to be an owner." Second, with a normal mortgage an owner has five-to-one leverage, so 3 percent is really 15 percent on invested capital, without risk. (The long-run risk-free rate has averaged roughly 3 percent, as has inflation.) Compared to a free-market unit, employee housing frees up cash that would otherwise go to interest or rent and can thus be deployed elsewhere. It's worth noting that a number of successful (some very successful) real estate brokers live in employee housing. These are people who make their livings promoting Aspen real estate. Given that they have means to vote with their feet, one might assume that the program is a good deal.

Another form of cheap Aspen is the fractional market. "Cheap" is a misnomer, for fractional units are among Aspen's most expensive units on a per-square-foot basis. Still, the cost of entry is low, a couple hundred grand at the Grand Hyatt Aspen for 17 days at the base of

"The business of Aspen is real estate."

—Pitkin County Assessor Tom Isaac



Aspen Mountain, seven of those days the same fixed week every year. "It's very convenient," says one recent buyer from Columbus, Ohio. "The entry point is reasonable, and I figure I'm somewhere in the ballpark for Aspen real estate. It's nice to have a place you can call your own, and when I come to visit I know what I'm going to get and when I'm going to get it." The Hyatt's Mickey Krentz is familiar with this sentiment. Aspen visitors, he says, "want what they want when they want it, and we provide that to people."

Many locals are alarmed at losing the "hot" (read: high occupancy) beds of hotels to increasing fractional projects, but almost no one is currently even proposing to build hotels. Clearly, the escalating costs of Aspen real estate projects have escalated the requirements for cash flow. Fractional projects apparently meet those requirements, whereas hotels don't.

Not surprisingly, real estate development became the major subject of Aspen's recent mayoral election. The first round led to a runoff between longtime Aspen politician Mick Ireland and local developer and former city councilman Tim Semrau. In the end, Semrau appealed to those who were comfortable with some level of continued development, while those who wanted it more seriously curtailed—or stopped—preferred Ireland. Ireland won handily, with 57 percent of the 2,100 votes cast.

Will the price gains of the last couple years continue? "No," says Aspen real estate broker and former mayor Bill Stirling. A slowdown, he says, is inevitable. "It's just a question of when." Some developers echo this sentiment, though no one predicts disastrous price declines. Says broker Lane Schiller, "Our market is affected by the economy, so, if the economy goes into recession, so will our market. I don't pretend to know when the next downturn will come. I advise my clients to buy and enjoy for the long term." The phenomena already mentioned—limited supply, demographically aided demand, worldwide liquidity—strike everyone as supportive of price.

Still, the last couple of years are not ordinary. It is extremely difficult to get solid numbers on the net return of Aspen real estate, but a reasonable estimate is that over the long run gains have averaged in the high single digits, which equates to a doubling of prices every eight or nine years. This is perhaps slightly lower than the average perception, but not bad, either. Given that leverage is a common component of real estate deals, then the returns look quite reasonable if one accepts that Aspen is a relatively safe place to invest. So, while a lessening of expectations is warranted, and City Hall seems poised to get more restrictive, don't expect development to stop any time soon. In the words of Pitkin County Assessor Tom Isaac, "The business of Aspen is real estate."

Foreclosure-Proof?

With foreclosure rates rising across the U.S., Colorado has been vying with Florida, California and Nevada for the highest home foreclosure rate in the U.S. Currently, Colorado ranks No. 2, but was No. 1 for a time. And while mountain towns such as Aspen, Telluride and Vail might technically be part of Colorado, in terms of contributing to the state's foreclosure woes they may as well be on another planet.

According to the Pitkin County Public Trustee, Pitkin County saw 24 foreclosures in 2006, and as of June had seen seven in 2007. When viewed against the total number of homes in the county, both of those numbers represent percentages that are lower than the national average, and significantly lower than the rate in Colorado.

"We haven't had a foreclosure situation [in the Roaring Fork Valley] since our inception 32 months ago," says Scott Garcia, vice president of Aspen-based Timberline Bank. Garcia says Aspen's near imperviousness to foreclosures is easy to explain: "Things that happen in the real world don't apply in this market at all," he says. "The major factor in foreclosures is the real estate market itself. People are protected here because the value of their asset is protected here. The appreciative value of the market keeps people safe."

In other words, because home values in Pitkin County continue to rise, homeowners rarely find themselves in the pinch that causes most foreclosures: owning a home whose value has dropped below its purchase price, while the owner simultaneously can't pay the mortgage. Even if someone loses their job, they can sell their home or refinance to pull some cash out of it. But Garcia points out that even that situation is rare, because 80 to 85 percent of his clients don't take out mortgages to buy homes. They pay cash. —Michael Miracle