https://www.aspendailynews.com/broker-spec-home-market-leads-real-estate-decline/article_ffc3f405-0a1f-5f4f-9249-8bb6aa27e0db.html

Broker: Spec home market leads real estate decline

By Catherine Lutz
Nov 15, 2009

A certain seven-time Tour de France winner may be the fastest man in the world on a bike, but he sure had bad timing in the Aspen real estate market.

Lance Armstrong paid $9.17 million for his West End home in October 2008, shortly after the world went into an economic free fall. One year later, the spec house right next door — designed and built by the same team at the same time with the same high-end design and finishes — finally sold for $6 million, a discount of more than one-third from what the famous cyclist paid.

Without naming the famous buyer, local broker Tim Estin wrote about the tale of the two sales in a recent blog to illustrate what's happening locally with real estate prices, and more specifically how the spec home market may be an indicator of the bottoming out of the market.

No two properties are alike to the real estate industry, Estin, who is with Mason and Morse, said in a recent interview, but the two aforementioned homes are about as close as you're going to get to comparable sales.

"The only difference is it's one year later," he said.

The house sold in October 2008 was $1,614 per square foot, while the neighboring home, already discounted when it was put on the market in June, had its asking price lowered until it eventually sold for $970 per square foot (40 percent less than its twin).

"This story illustrates the sober reality developer/builders must face, how to unload inventory in a falling market?" Estin wrote in his blog. "Consistently, developer/builders are setting new low price benchmarks that the rest of the Aspen real estate market — the second home and vacation home seller — is forced to follow. … Time is money factor… gotta move on, gotta unload."

In the past year, real estate prices have been all over the map, as nobody knew how to predict where the market was going, Estin said. There have been plenty of high-dollar sales — because there are still those who have the money and know what they want — but those sales have skewed the comparables in the vicinity disproportionately high.

Meanwhile, many sellers have taken offers they never would have dreamed of over a year ago — Estin gave as an example a four-bedroom townhome in Aspen originally listed for $6.4 million that recently sold for $4.17 million.

“Now we know the key word is reset,” he said.

But is the local market reset yet, or is it still in the process? With an MLS (Multiple Listing Service, the real estate professionals’ bible where properties are listed) the size of a phone book and plenty of overpriced properties still sitting unsold, probably not, said Estin. But it might be getting there. Many sellers are coming down in price and the spec home builders are trying to unload their inventory any way they can.

“The property’s got to be the winner of the horse race, in its particular horse race,” he said. “It’s when the price comes down to that sweet spot.”

Estin said he's generally seen a 30 to 40 percent price correction with spec homes, while the rest of the market is not quite as off. Brokers and other people in the trade who bought properties and started extensive renovations during the height of the boom years are also getting hit hard. One example is a three-bedroom riverfront townhome in Basalt, previously listed at $2.9 million, that is now going for $1.25 million. (It was purchased in January 2006 for $835,000, then remodeled and expanded.)

"Developers with spec homes are much more motivated sellers so those are getting cleaned out of our system," he said. "I think it's safe to say once you've gotten rid of that inventory you've reached the bottom of the market."

One thing that could protract the process is more foreclosures in the luxury market, which right now seems prime for them, Estin said. And while activity has picked up since late summer, that just might mean people want to close sales before winter, when historically properties don't sell as well as in the summer.

Famous athletes and spec home builders are not the only victims of bad timing — they're joined by the developers of the Residences at Little Nell, which is "the perfect example of being hit by all these macro events and timing," said Estin.

During the boom years RLN was considered the most successful residential fractional project in North America, he said, with more than 90 percent of the project pre-sold by last September. If it hadn't run into construction delays, it very well may be sold out now. But the delays moved closings back to after the economic crisis hit — last December and January — and gave would-be buyers an excuse to try to get out of their contracts. Some simply walked away from their deposits, others are suing to get them back.

Now, the Residences are only about 50 percent sold out, and "nobody can see the end in sight for the developers getting out of it," said Estin. "There were disastrous consequences as a result of the meltdown."

lutz@aspendailynews.com