

Northern Colorado Real Estate Posts Strong Year in 2005

The Northern Colorado commercial real estate market recorded its best year ever in sales, leasing, and construction in 2005. The residential market achieved its second best year in history with home sales totaling 10,731, narrowly missing the all time record of 10,802 set in 2004. New home sales set a record with 5,766 new homes sold in Larimer and Weld counties (2,590 in Larimer and 3,176 in Weld) in 2005.

Area	Homes Sold '05	\$ Volume '05	Average Price '05
Fort Collins/Wellington	4,008	\$ 983,941,789	\$245,494
Greeley/Weld	3,885	\$ 794,017,139	\$204,280
Loveland/Berthoud	2,142	\$ 531,754,516	\$248,251
Windsor	696	\$ 216,679,038	\$311,320
Totals	10,731	\$2,526,392,482	\$235,429

2005 Highlights:

1. Centerra (I-25/U.S. Hwy. 34) The 670,000 square foot “Promenade Shops at Centerra” opened in October 2005. This retail center at I-25 and U.S. Hwy 34 is the biggest retail project ever built in Northern Colorado. Recently completed and current construction at Centerra totals 2,000,000 square feet. The I-25 and U.S. Hwy 34 area has the largest concentration of commercial construction in Colorado at the present time.

2. Record Volume & Prices. The average price of a home in Northern Colorado increased to \$235,429, up 5.5% from \$223,219 a year ago. Dollar volume of real estate sold set a new record at \$2,526,392,482. The market was \$1 billion just 9 years ago.

3. Record New Home Sales. Nearly 5,800 new homes (2,600 in Larimer and 3,200 in Weld) were built and sold in 2005. The median new home price rose to \$252,100 in Larimer County (up 5%) and \$229,500 in Weld County (up 4.4%).

4. Record Employment. Employment in Larimer and Weld counties rose to 265,290 in 2005, an increase of 2,759. The unemployment rate dropped to 4.3% in Larimer and 4.6% in Weld, with Loveland having the lowest rate of any major city in Colorado at 3.7%.

Fort Collins/Wellington Residential Sales Statistics

Year	# of Homes	% Change	Dollar Value	% Change	Average Sales Price	% Change
2000	3674	- 5%	\$712,910,308	+ 6%	\$194,042	+11%
2001	4059	+10%	\$864,736,896	+21%	\$213,042	+10%
2002	4175	+ 3%	\$907,286,750	+ 5%	\$217,314	+ 2%
2003	3821	- 8%	\$873,255,500	- 4%	\$228,541	+ 5%
2004	4087	+ 7%	\$942,415,724	+ 8%	\$230,589	+ 1%
2005	4008	- 2%	\$983,941,789	+ 4%	\$245,494	+ 6%

Greeley/Weld Residential Sales Statistics

Year	# of Homes	% Change	Dollar Value	% Change	Average Sales Price	% Change
2000	3217	+ 7%	\$518,437,333	+20%	\$161,156	+12%
2001	3776	+17%	\$645,266,523	+24%	\$170,886	+ 6%
2002	3794	+ .5%	\$678,858,087	+ 5%	\$178,929	+ 5%
2003	3761	- 1%	\$710,750,905	+ 5%	\$188,979	+ 6%
2004	3840	+ 2%	\$759,980,195	+ 7%	\$197,911	+ 5%
2005	3885	+ 1%	\$794,017,139	+ 4%	\$204,380	+ 3%

Loveland/Berthoud Residential Sales Statistics

Year	# of Homes	% Change	Dollar Value	% Change	Average Sales Price	% Change
2000	1965	+12%	\$379,419,885	+23%	\$193,089	+10%
2001	1866	- 5%	\$392,471,195	+ 3%	\$210,327	+ 9%
2002	2045	+10%	\$445,880,256	+14%	\$218,034	+ 4%
2003	1976	- 3%	\$438,846,011	- 2%	\$222,088	+ 2%
2004	2162	+ 9%	\$514,310,240	- 17%	\$237,886	+ 7%
2005	2142	- 1%	\$531,754,516	+ 3%	\$248,251	+ 4%

The number of "homes sold" is defined as "purchased dwelling units" and includes both new and resale single-family homes, town homes, condominiums, and patio homes. Change in average sales price is not the same as appreciation.

Residential Building Permits

City	Single Family			Multi-Family		
	2003	2004	2005	2003	2004	2005
Fort Collins	973	987	735	425	308	244
Loveland	808	866	754	214	137	118
Greeley/Evans	821	888	724	507	427	331

Commercial Vacancy Rates

Property Type	Fort Collins		Loveland		Greeley/Evans	
	1/1/05	1/1/06	1/1/05	1/1/06	1/1/05	1/1/06
Apartments	11.0%	9.5%	12.5%	8.6%	11.1%	8.8%
Office	11.9%	13.4%	5.7%	5.0%	11.8%	20.8%
Retail	5.4%	4.9%	1.9%	1.9%	4.5%	5.8%
Industrial	4.6%	4.9%	3.4%	2.0%	8.1%	7.1%

Forecast For 2006

An improving economy, continued low interest rates (though rising), an employment growth rate that will outpace the state and nation, and major construction projects will keep the Northern Colorado economy humming – though at a conservative pace, not “boom times”.

While the demand side of the equation will hold up nicely, the risk for 2006 is oversupply – too many lots, houses, apartments, and commercial space (especially office). Builders, developers, sellers, and investors are advised to do their homework before proceeding. Here are our predictions for 2006:

2006 Residential Sales Forecast

<u>Prediction</u>	<u>Fort Collins</u>	<u>Loveland</u>	<u>Greeley/Weld</u>	<u>Windsor</u>
Number of Homes Sales	4,030	2,184	3,905	710
Residential Sales Volume	\$1.19 billion	\$561 million	\$803 million	\$231million
Average Sales Price	\$252,910	\$256,890	\$205,705	\$324,800

Trends For 2006

1. Oversupply. There is an oversupply of resale homes, apartments, and office space for rent. These areas will be a “buyer’s market.” There is also a potential oversupply of residential lots. A rule of thumb for a “balanced market” is 1.44 new dwelling units for every new job. A tracking of employment growth indicates we are oversupplying residential dwelling units & lots by 2,000/year.

2. Good Market. Very Competitive. The buyers and tenants will be there in 2006 – but they will be picky, expecting quality, value, design and “wow!” They have a lot from which to choose. Sellers, builders, and landlords who bring their “A” game will do well. Those who bring less will complain that it is a “bad market”.

3. Design Power. Buyers are demanding more design in their housing. Builders and sellers who provide the “wow!” will do very well. If in doubt, provide more, not less. Here are some of the design “turn-ons” and turn-offs”.

Turn-ons. Houses backing to open space, views, water; outdoor rooms and outdoor fireplaces; colors (anything but white); hardwood or tile floors on most of the main level (except bedrooms and possibly dining rooms); main-floor master bedrooms; 9-10 foot ceilings (even in basements); natural materials (stone, wood); “killer-kitchens” - custom cabinets (42” or better), islands, granite, full-tile backsplash; stainless-steel appliances.

Turn-offs. Dated, overpriced homes; clutter; un-staged homes; white walls; oak; brass; vinyl; choppy floor plans that don’t flow; dated southwestern designs and colors; 8-foot ceilings; 4-inch tiles; half of anything – ½ brick up the front, ½ wide porches you can’t use, ½ the lighting you need, single tile backsplash versus full backsplash, etc.

4. Interest Rates and “Cap Rates”. Traditionally, capitalization rates used by investors to value investment property have tracked with interest rates. The low interest rates and shortage of quality investment properties have dramatically lowered cap rates over the past several years – as investors “bid down” the cap rates. With gradually rising interest rates, look for cap rates to start rising again – affecting the valuation formulas for commercial and investment real estate. Be careful if you have adjustable rate loans that are tied to a short term rate index (such as prime).

5. Apartment Rents. It appears rents have finally bottomed out. Vacancy rates will continue to gradually decline as buildings fill up. Rents will start slowly rising by year end.

6. Advice for:

- **Sellers.** You are competing with builders as well as other sellers. Make your home look as new as possible (put it in “show” condition) and price it right.
- **Buyers.** Every 1% rise in interest rates equals 10% less home you can buy for the same payment. This may be your last year to buy at historically low rates.
- **Builders.** Raise the level of your game on design and customer service. Know your market and watch your supply.
- **Developers.** Create “residential resorts” versus “subdivisions.” Commercial developers: create a sense of identity and place.
- **Investors.** Watch your “cap rates.”

7. Hot Markets. Timnath – “receiving area” for Fort Collins! Within a few years, it will be recognized as one of the fastest growing places in the country- easy to do with a current population of only 200. Hot markets will continue in Wellington, Windsor, Water Valley, Centerra. “25/34”, and watch for the amazing amount of residential growth southeast of I-25 and U.S. Hwy. 34 in 2006.

8. Flashback. Fifteen years ago we made the following predictions:

1. Northern Colorado would become a “region” with people living in one community but often working, shopping, and entertaining in another.
2. I-25 would be perceived as “Main Street” and would become the most used “local street” for commuting and commerce.
3. The epicenter of economic activity for the region would move to the intersection of I-25 and U.S. Hwy. 34 (where the U.S. trade routes cross).

9. Vision 2020. Here is our crystal ball for the next fifteen years.

1. The hottest growth corridors will be (1) I-25 from Wellington to Berthoud (with most residential growth occurring within 2 miles either side of I-25); (2) U.S. Hwy 34 from Loveland to Greeley; (3) Harmony Road from Fort Collins to Eaton; (4) U.S. Hwy 85 from Denver to Ault.
2. The combined population of Larimer and Weld counties will reach 720,000, an increase of 225,159 from the 494,841 total at the end of 2005.

10. Enjoy 2006 - “Another Year in Paradise!”