

How Local is Our Real Estate?

By
Luke T Miller, PhD

Large metropolitan residential real estate is directly impacted by unemployment, interest rates, home inventories, and relevant macro-economic trends. However, I would argue that real estate in the four corners region of Colorado (and comparable resort- and tourism-based communities) is impacted less by these same macro trends. Keep in mind, the four corners region has lower foreclosure rates, relatively sparse subprime and shady lending practices, and significant interest from the affluent baby-boomer generation searching for their dream retirement community and/or seasonal second home. As such, when evaluating our local market it might be more appropriate to monitor our 'feeder' markets versus standard local real estate metrics.

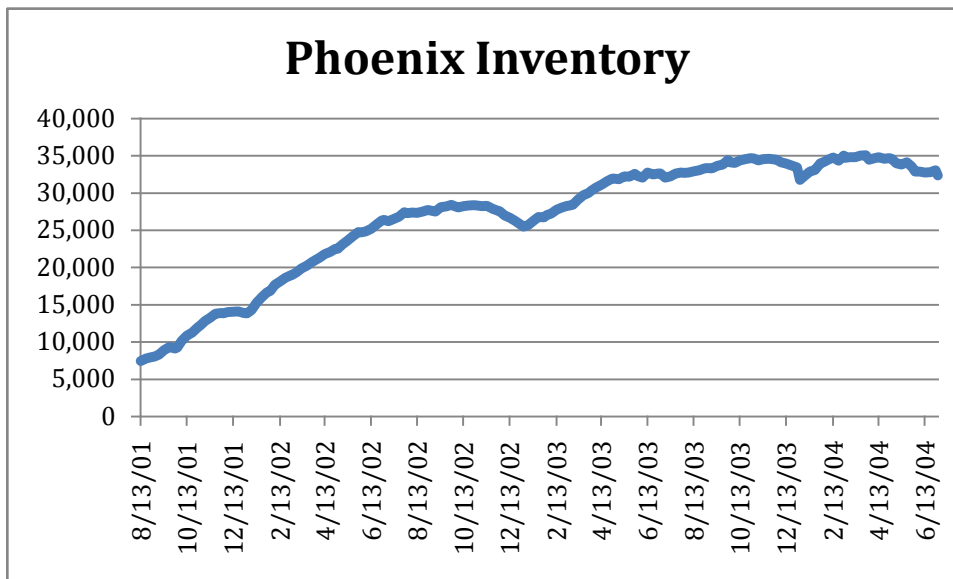
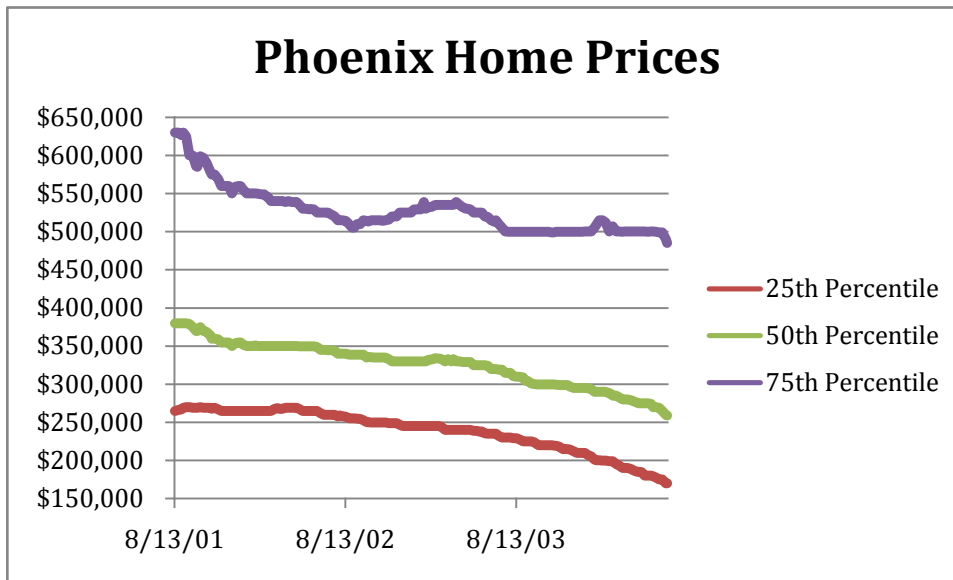
It's difficult to exactly identify our region's feeder markets. However, casual conversation with any Durango newcomers point to similar clusters: Texas, Southern California, Arizona, Colorado Front Range, and New Mexico. So instead of pulling data for the four corners region, I accessed the U.S. Bureau of Economic Analysis and National Association of Realtors databases to gain insights into our feeder markets. Specifically, I obtained basic real estate metrics for Houston, San Diego, Phoenix, Denver, and Albuquerque. Not coincidentally, I found that "all real estate is local".

Since the real estate "top" in Summer 2005, median home price levels in Houston, Albuquerque, and Denver are actually up 6%, 9%, and 23%, respectively. In contrast, median home price levels in San Diego and Phoenix are down 29% and 32%, respectively. Home inventories appear to be topping in Houston and Phoenix, decreasing in Denver and San Diego, and increasing in Albuquerque. Anecdotally, one could argue the strong oil & gas sector is supporting some of our feeder markets (Houston, Albuquerque, and Denver), whereas, high-flying Phoenix and San Diego markets did not have the fundamentals in place to sustain their real estate valuations.

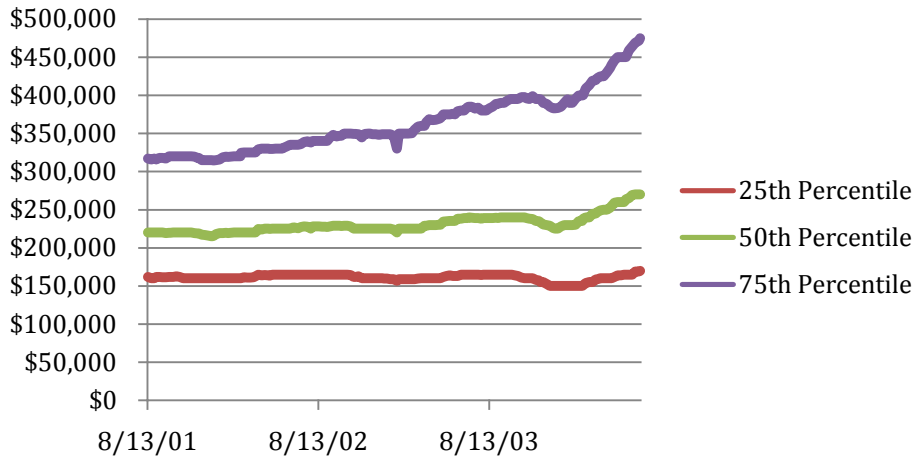
Isolating the 25th percentile home values (or the entry-level home market) point to another interesting observation. The entry-level homes in Houston, Albuquerque, and Denver have remained relatively constant since Summer 2005, and indicate an equilibrium state between employment, rents, and home ownership. Put another way, those earning stable wages have been able to purchase homes, without the price of homes moving upwards against them. In contrast, entry-level homes in San Diego and Phoenix continue to fall precipitously, indicating significant non-affordability levels. This same observation can be found in a plot of the mortgage-to-income ratios for these markets. Namely, Phoenix and San Diego's ratios are greater than 30% and 50%, respectively. In other words, in San Diego, annual mortgage payments comprise half of an individual's annual income.

What does all this mean for our local market? About half of our feeder markets have remained relatively strong against national headwinds, with the other half setting new lows every quarter. This observation could be one reason why the four corners market has remained relatively neutral over the last 2 years, with median home prices in Durango near the \$400,000 plus or minus \$30,000 range. In terms of actionable items, perhaps efforts to 'recruit' newcomers to the area should be focused on comparatively strong feeder markets versus Hollywood and the retiring desert.

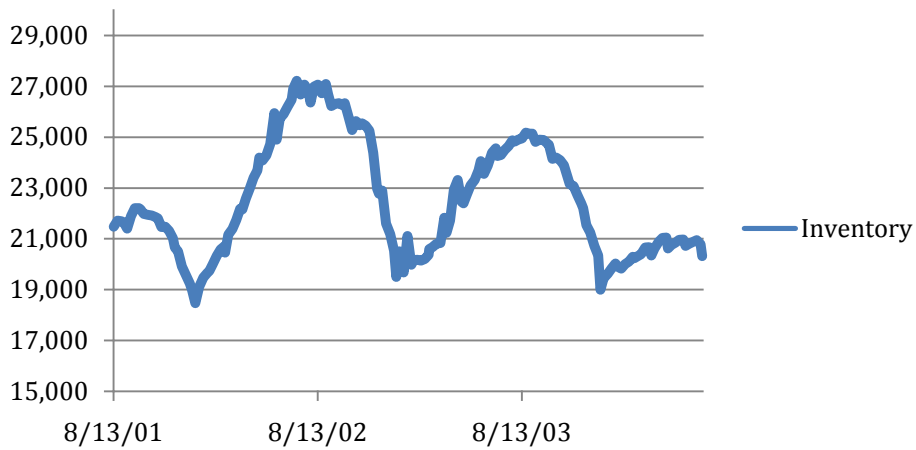
Please visit our website at soba.fortlewis.edu/econoweb under “News You Can Use” for additional information, data, and plots used for this article.



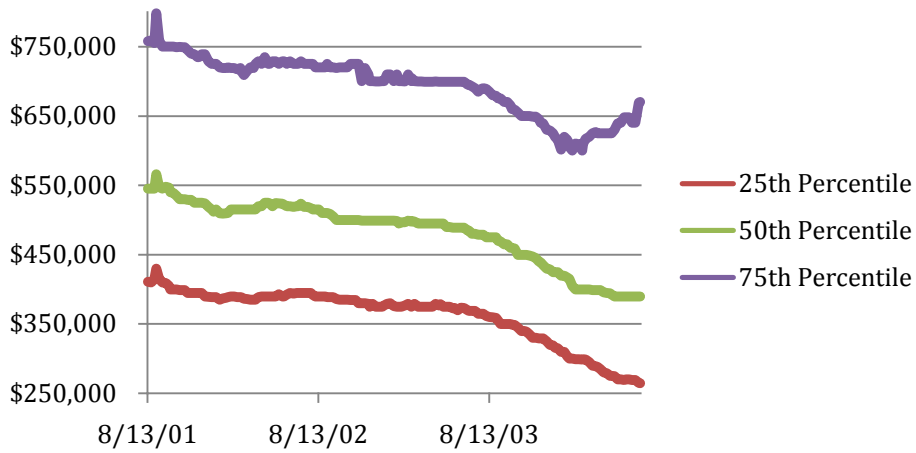
Denver Home Prices



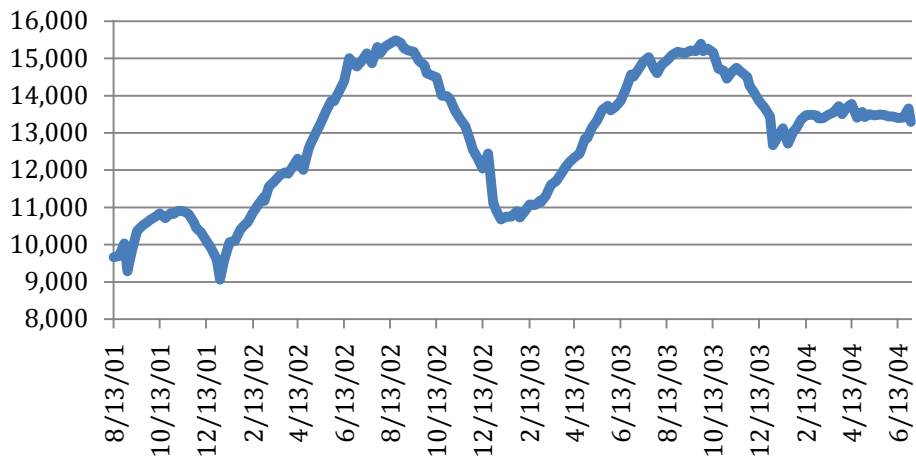
Denver Inventory



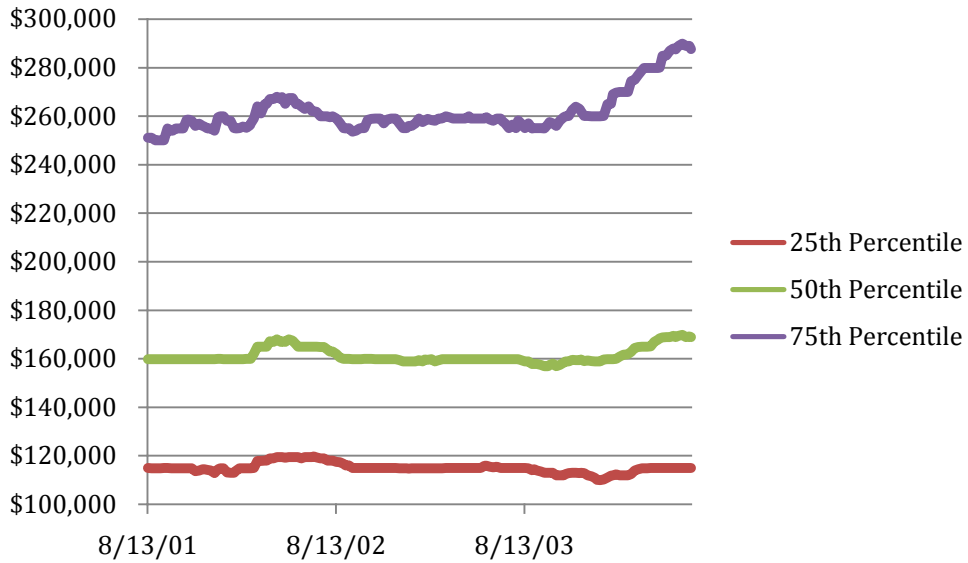
San Diego Home Prices



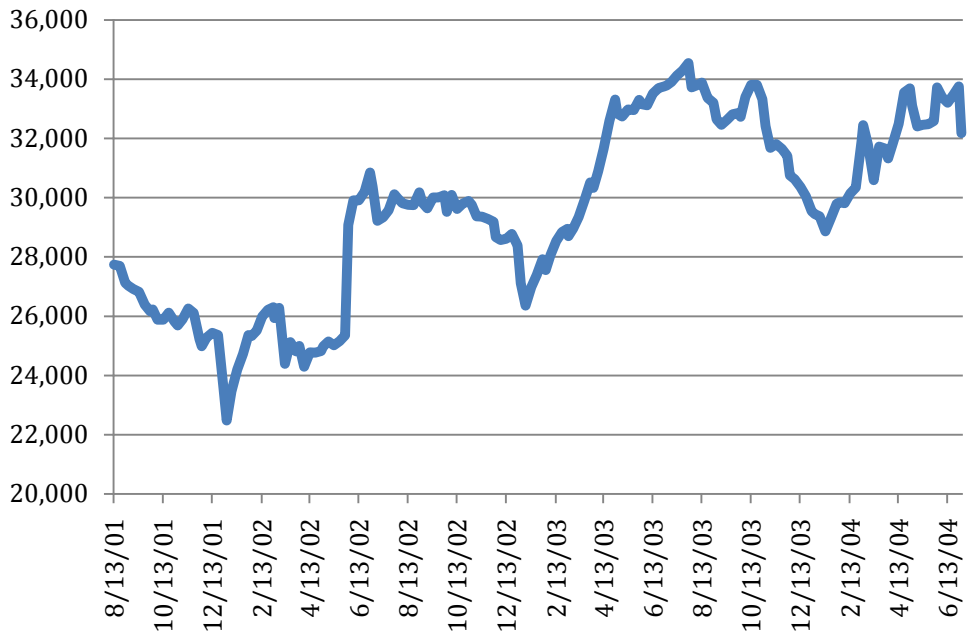
San Diego Inventory



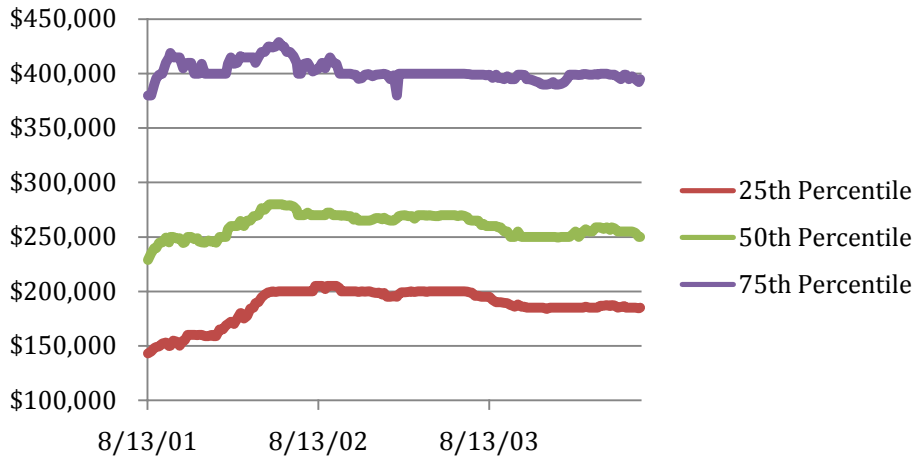
Houston Home Prices



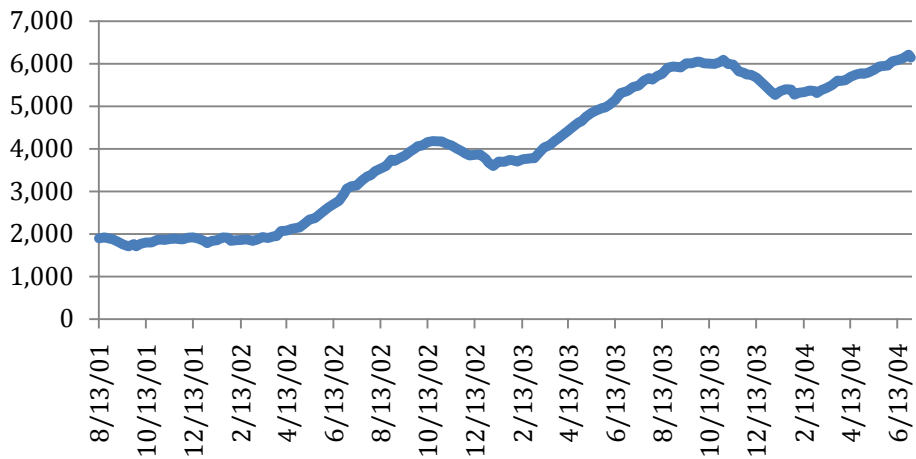
Houston Inventory



Albuquerque Home Prices



Albuquerque Inventory



Mortgage-to-Income Ratio

