12-29-2024

When were home prices truly affordable?

Median sale prices are up in Eagle, Summit, Grand, Pitkin, Routt and Garfield counties

BY ROBERT TANN

SUMMIT DAILY

Median sale prices for single and multifamily homes remain at or near historic levels in Colorado — and 2024 is likely to be no exception.

wrong!

Despite some relief from what is expected to be an ongoing series of cuts to the federal interest rate, which affect mortgage payments, housing costs could be as high as ever for new homebuyers next year.

A November report from the National Association of Realtors shows that, nationally, first-time homebuyers make up just 24% of the buying demographic — a historic low. At the same time, homebuyers have never been older. *

"The U.S. housing market is split into two groups: first-time buyers struggling to enter the market and current homeowners buying with cash," said Jessica Lautz, the association's deputy chief economist and vice president of research, in a statement.

"First-time buyers face high home prices, high mortgage interest rates and limited inventory, making them a decade older with significantly higher incomes than previous generations of buyers," Lautz continued. "Meanwhile, current homeowners can more easily make housing trades using built-up housing equity for cash purchases or large down payments on dream homes."

In Colorado, mountain towns remain some of the most expensive markets in the state with median home prices reaching into the multimillions.

Compared to 2023, median sale prices in Eagle, Summit, Grand, Pitkin, Routt and Garfield counties are all up so far this year, according to the most recent data from the Colorado Association of Realtors.

While price points range across different regions, all have seen costs driven up in recent years due to the COVID-19 pandemic and a subsequent explosion in property values. But before that, home prices had risen at a much more gradual rate.

Remembering a "building boom"

Longtime Vail-area Realtor Mike Budd remembers a time when roughly two-thirds of all homes in his region sold for under $1 million. "That began to erode as we were coming through and out of COVID so that, effectively in 2024, it was getting to represent about 30% of the transactions," Budd said.

But while the pandemic exacerbated high costs, housing in resort areas has long been less attainable than in the state's more urban markets. Industry experts say it's difficult to pin down the last time when housing in mountain communities was truly "affordable," a term they also say is subjective.

Within the last 15 years, home affordability peaked statewide in 2012, according to a housing affordability index study by the Colorado Association of Realtors. The index measures whether or not a typical family earns enough income to qualify for a mortgage loan on a typical home — nationally and regionally — based on recent price and income data.

Median for-sale prices were also at the lowest level in 2012, hovering at around $200,000 for a single-family property and below $150,000 for a multifamily unit, such as a townhouse or condo.

Industry experts attribute the trend to two main factors: a bump in housing supply and the 2007-08 Great Recession.

In the years leading up to the recession, the High Country was home to several construction companies building market-rate starter homes, leading to enough inventory to keep prices moderate for working residents.

"There was a building boom going on back then. ... It was a very, very vibrant time," said Colorado Association of Realtors President Dana Cottrell. "That kind of competition was there, and it's so different from what we have now."

Budd said the state and its mountain communities were seeing years of extremely robust economic growth, "and houses were selling like popcorn."

Budd added, "We ran into a lot of people, particularly at the lower pricing spectrum, who'd been able to procure mortgages with low interest rates and low down payments."

But those low-cost homes also meant low equity. Amid the economic tumult of the Great Recession, many of those homeowners were left unable to afford their mortgages and were ultimately foreclosed on. It led to an influx of depreciated properties on the market — and buyers with the means to do so quickly capitalized.

"We were seeing dramatic price reductions ... so people were able to procure homes, and that drove the pricing up quickly," Budd said.

"That was not a traditional economic reaction, it was just a window of time where we had all this product."

Construction down, costs up

After a gradual decrease from 2010 to 2012, median home prices began to rise again statewide, according to Colorado Association of Realtors data. At the same time, new construction slowed dramatically and housing inventory failed to keep up with demand.

As of last year, the United States was projected to be in a housing deficit of between 4 million to 7 million homes, according to a Pew study.

Part of the decline is attributed to the recession, which decimated construction jobs. In mountain areas particularly, the cost of labor and materials has only risen while available land continues to shrink.

"So the cost of land has also skyrocketed, so that makes creating true affordable housing a much more difficult task," Budd said.

The pandemic further changed the landscape when a deluge of remote workers left urban centers and flocked to mountain towns with cash on hand to buy. Prices quickly soared. From 2022 to 2023, residential property valuations in mountain resort counties increased anywhere from 63% to 92%, according to state data.

Typical economics of supply and demand were flipped upside down. Even with a recent increase in homes on the market, prices continue to climb due to demand for vacation homes from affluent buyers. In some resort areas, around half of all transactions are in cash.

"I think the resort communities have differentiated themselves more than ever from what's going on in the state as a whole," Budd said.

Should another catastrophe like the Great Recession hit, it's unlikely it would have the same impacts on the housing market as before.

The reason, according to Budd, is that current resort area homeowners have banked far more equity in their high-valued homes compared to the average homeowner in 2008-09 — meaning they'd likely be able to weather the economic storm. Without foreclosures, those homes wouldn't suddenly emerge on the market for a bargain price.

The demographic of buyers who are struggling to become homeowners would also be the ones most affected by a recession.

"Jobs are so important to real estate, and when an economic situation happens where it affects jobs ... then it's not affordable because people don't have jobs that are paying enough to afford the lower prices," Cottrell said.

Market-rate home prices in mountain towns are all but certain to remain high relative to the rest of the state, driven in part by the sheer demand from cash buyers.

Still, Cottrell believes the single greatest factor that could soften market-rate prices remains increased supply, a challenge when the cost of construction remains high and available land low. While inventory has risen in several resort markets over the past year, housing stock is still historically low.

Nationally, transactions slowed last year to the lowest point since 1995, and buyers are seeking more concessions from sellers to help offset the escalating costs of mortgage payments, insurance and homeowners association fees.

"Yes we have more homes, but we still don't have a ton of homes," Cottrell said. "So until that inventory-buyer ratio changes, we're going to see prices stay steady or even rise a bit."