



Is This the Right Time for You to Buy?

A Report From the Front Lines of Denver's Real Estate Market

Despite the low interest rates, a surplus of houses on the market, and a city chock-full of charming neighborhoods, house hunting in Denver has become an exercise in the absurd. Walking through more than a few of the city's many overpriced homes is enough to make you wonder if it's really such a good time to buy after all.

Take one Crestmoor home I visited that was listed at \$350,000. To be fair, it had six bedrooms and a pretty good location near the park. But it was just one door off busy Alameda Avenue, and there was only one bathroom for all of those six bedrooms. A window in the kitchen inexplicably looked into the garage, and a dried-up koi pond took up most of the tiny backyard. And speaking of dry, the wet bar in the rumpus room hardly qualified as "wet" – the sinks weren't connected to any pipes. The broker I was with admitted, "No one should buy this house, but I'd say the lot is worth \$130,000."

The whole thing would have been funny if it weren't for the fact that asking prices like this are what's threatening to keep us in our two-bedroom condo, which is also on the market, for another summer.

So how did Denver get in this mess? Let's blame the dot-commers.

Those heady days in the mid- to late 1990s brought a flood of new residents and big incomes to the Denver area. Prices soared and homeowners came to expect double-digit appreciation every single year. We've all heard stories of young couples buying Wash Park bungalows, flipping them in three years, and pocketing \$100,000 profits. Back then, sellers could name their price and expect to sell within days of listing. I missed that market and I'm jealous.

A lot has changed since then, of course. Post-9/11, the economy cooled and incomes stagnated. At the same time, the amount of available area housing has continued to grow, thanks in large part to new developments like Lowry and Stapleton (not to mention countless suburban projects) that were begun during the boom years.

THE REAL ESTATE AGENTS ARE CALLING it a buyer's market. The newspapers say prices are flattening out and homes are taking longer to sell, leaving buyers with many more options. Sounds good to me. I'm a buyer, we've got some money to spend, and we definitely need a bigger place. Plus, my boyfriend and I just got engaged, so it would seem like the perfect time to go house hunting.

With the huge supply of houses I keep hearing about (nearly 25,000 homes for sale in March, according to Metrolist, a co-op of Denver real estate agents that compiles areawide housing statistics), I figure I should be in the driver's seat for this house hunt. As it turns out, I'm in the passenger seat as various agents shuttle me around town. And while these guys have nice cars with really comfy leather seats, from where I'm sitting the view ain't pretty.

BUYER BEWARE

BY REBECCA LANDWEHR

ILLUSTRATIONS BY MICHAEL AUSTIN

Normally, this should have produced a buyer's market and a leveling of prices. But we live in times that are anything but normal. Prices not only remain high, they continue to grow. 5280's survey of 97 area neighborhoods (see page 98) found that more than a third posted appreciation upward of 5 percent for the two-year period from February 2002 to February 2004. Seventeen neighborhoods appreciated more than 10 percent.

Compared to other cities, Denver's prices are becoming dangerously out of whack. Economists generally agree that the ratio between a city's median housing price and its median household income ought to be in the neighborhood of 2.5-to-1. Even in a tough economy, nearby cities such as Kansas City, Salt Lake City, and Las Vegas have managed to keep their ratios to 2.7-to-1, according to statistics compiled by John Burns, a real estate

To the east, we visit Aurora,

consultant based in Irvine, Calif. Dallas scores 2.4-to-1, and St. Louis clocks in at 2.3-to-1. But, as of the end of 2003, Denver's ratio stood at 3.8-to-1. (The Mile-High City can take some solace in the fact that coastal cities such as New York, Boston, Los Angeles, San Francisco, and San Diego all topped 7-to-1.)

Today, record-low interest rates are the simplest explanation for why Denver prices continue to rise faster than incomes.

"I think low interest rates have kept the market irrationally strong," says Tucker Hart Adams, U.S. Bank's chief economist for the Rocky Mountain region. Emmett Brennan, a broker associate with Cherry Creek Realty, puts a finer point on it: "You have to remember this market has a false bottom. The only thing keeping these prices high is the low rates."

But interest rates only tell part of the story. There's a human component as well. Like a lot of people, I need a house so I have to accept the market's absurdity.

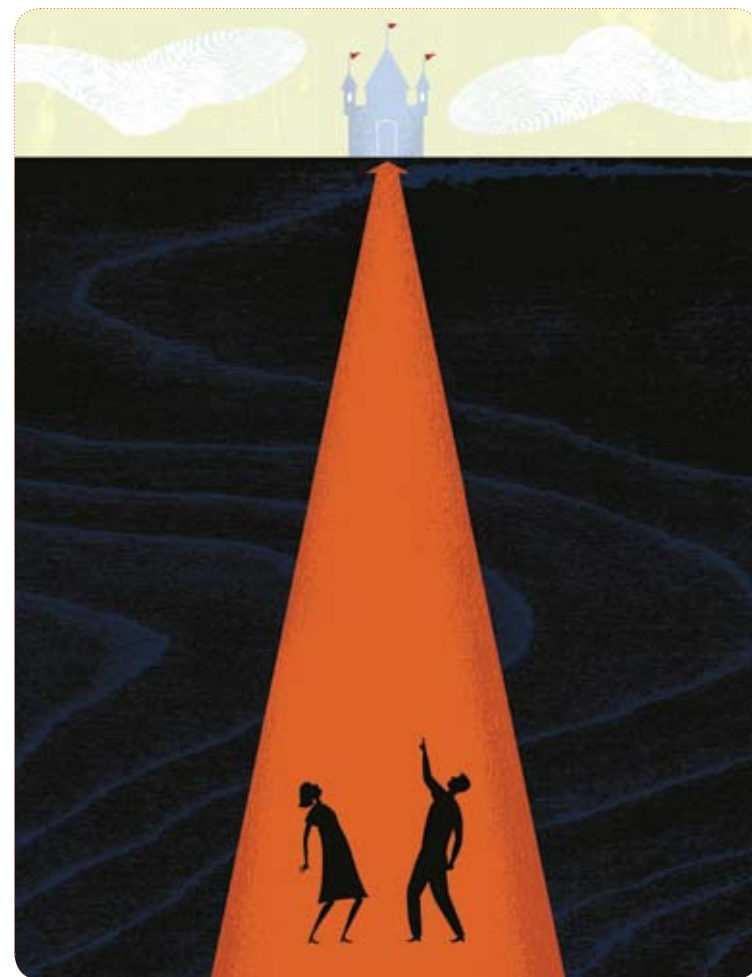
DISCOURAGED BY MY INITIAL SHOWINGS, I GO ONLINE and quickly find my dream house, an adorable cottage in Hilltop. Four bedrooms, decent yard, and within walking distance of Annie's Cafe, our favorite breakfast joint. It's even in the Steck school district, where my fiancé would be thrilled to send his 4-year-old daughter to kindergarten. Listed at \$399,000, it's not technically in our price range, but I'm already making deals with myself. As long as my 1990 Subaru Legacy keeps running, maybe we could afford it.

Today's broker brings me back to reality. "This is not a \$400,000 house," he says. "It's a nice house, but it's not a \$400,000 house." He thinks it's priced about \$20,000 too high. I know he's right, but emotionally I've already bonded with the cottage. In my mind, I'm arranging the furniture. I don't want to lose this place. But he's

right. It's not a \$400,000 house. As we drive away, I say "good-bye" to my dream house.

But it's exactly those kinds of temptations that are fueling this market. In the back of most people's heads, mine included, is the fear that this interest-rate party is about to end. We're going to miss out if we don't buy now. And so we do, thus preventing the normal laws of supply and demand from correcting this cockeyed market.

Mark Levine, director and professor of the Burns School of Real Estate at the University of Denver, echoes other experts when he says he expects interest rates to stay put through the summer. Levine points out that, in an election year, it's to the Bush administration's advantage to bolster consumer confidence. Barring another terrorist attack or some other unforeseen event



that affects the economy, he doesn't expect any major changes in the market till after the November election.

But I don't want to wait to bargain hunt after the election. I want to get in on the low interest rates so we'll move this summer, not next. I know I am contributing to the high price of Denver real estate, but our condo – it ain't getting any bigger.

So I'm back in the passenger seat, checking out the view.

I ask Brennan if my expectations are unrealistic. "No," he says. "But you might have to adjust your neighborhood parameters." I figure that's a polite way of saying, "Yes, you are expecting too much."

So we widen the parameters. In my case, there are real limits to where we can live. It's not about the actual house; it's about the block. We need to be near my future stepdaughter's mom. Both parents share custody, and

proximity of houses is important to everyone. In my heart, I want a charming fixer-upper in Berkley. In reality, I will be lucky to snag a somewhat dumpy house in Mayfair. Still, it can't hurt to see what's out there.

So, just for kicks, I ask Stephen Simpkin, a broker associate with Re/Max City Horizons, to drive me around the charming neighborhoods of northwest Denver. Simpkin sells all over town, and he lives in Highland himself. "The market is picking up," he says. "I've had three closings in the last week, and they were all full-price, or almost full-price, offers."

In Highland you pay for charm. It's quirky houses in funky, friendly neighborhoods. And the investment opportunities are there. "It's like Wash Park a few years ago," says Simpkin. "You can't make that kind of profit any more in Wash Park, but you can over here."

I like Highland, I like the houses. But even these homes have issues. Simpkin says most of his clients are buying for the location and charm, and then spending more to customize. It's tough to find everything you're looking for in these funky homes. One house was adorable and within walking distance

where it seemed like for the same money we could buy a palace!

of my favorite shopping at 32nd Avenue and Lowell Boulevard. It was 1,000 square feet and listed at \$285,000. The 100-year-old Victorian had three bedrooms, one of which contained an amazing Dr. Seuss mural in the baby's room. It was fantastic. But nursery aside, what got me about this place was the living room. It was tiny. It could hold one love seat, one chair, and an entertainment center that fit against the wall exactly between two windows. But the place showed great, with high ceilings and nice floors. "People love hardwood floors," says Simpkin. "I can't emphasize that enough."

CLOSER TO MY TARGET NEIGHBORHOOD ARE THE LOWRY AND STAPLETON developments. Both located with Denver's city limits, these brand-new neighborhoods sprang up in the last decade from a former air force base (Lowry) and the city's old airport (Stapleton).

I've looked at these new developments, and I have friends who live in both. The homes are nicely designed, practical, and (especially in Stapleton) you get a lot more house for your money than in many of the surrounding neighborhoods. What you lose is a yard. Although devotees will tout acres of parks and proximity to greenbelts, to me it sounds like a bill of goods. Unless the covenant says I can plant my tomatoes in the park or set up my tiki torches and croquet set in the greenbelt, it doesn't work for me. But for a lot of people, these new neighborhoods are just the ticket. Both areas are selling well, and data from the Genesis Group, an Englewood-based research group, shows that appreciation in Lowry is outpacing the nearby older neighborhoods (exactly where I want to buy.) That report shows that, since 1998, detached homes in Lowry appreciated 87 percent, compared to a 74 percent increase in nearby Denver neighborhoods. (Not that 74 percent is anything to sneeze at. Here again, I missed that market and I'm jealous.) The average annual appreciation for Lowry is currently 11.5 percent. In my prospective neighborhoods (Hale, Hilltop, and Mayfair), the annual gains averaged 9.3 percent.

Of course, if it's a modern home and a big yard you're after, Denver's suburbs have a lot to offer. Not to mention terrific school districts. I ask Sherrie Mills, a broker with Re/Max of Cherry Creek, to show me some suburban options in my price range.

To the west, we visit Applewood Grove (in Golden near the intersection of Youngfield Street and Colfax Avenue) and Lakewood Village (in Lakewood near Carr Street and Sixth Avenue Parkway). To the east, we visit Aurora.

(Where, from my research on www.recolorado.com, it seemed like for the same money, we could buy a palace!) For \$350,000 in Applewood, we see a 2,700-square-foot tri-level. Although it's extremely dated (and I mean dated), this place really only needs cosmetic upgrades. Actually, it was so dated that it was almost charming — kitchen wallpaper with sketches of custard jars, and light fixtures hanging from chunky gold chains. But the neighborhood is established and the layout of the house is great. With some work, this would be a great house.

I liked Lakewood Village as well. The \$349,000 tri-level we saw there was cosmetically in much better shape, but the design wasn't functional for my tastes. However, the homeowners had established a lovely gardening plot overlooking a babbling brook. Not to mention what must be the region's largest collection of Snoopy parapherna-

lia. At any rate, this was a great location and a pretty decent house. Of course, I can't live in Lakewood, but it was promising.

Aurora, on the other hand, wasn't really my scene. No palace for me. I looked at two homes near the Cherry Creek Reservoir that just didn't suit me.

In a way, though, I was relieved. Nothing I saw in the suburbs was so wonderful as to make me wish I had the freedom to leave the central city. I wasn't any closer to finding a home, but I had learned a thing or two about house hunting in today's confounding market.

First and foremost, don't get sucked in. If you don't have to buy now, don't. If the market goes south, wouldn't it be better to be stuck with a smaller house that's lost value than a big one?

But if, like me, circumstances are forcing your hand and you need a house now, here are some tips to keep in mind. Above all else, avoid the temptation to become so fixated on interest rates and monthly payments that you lose sight of the bigger picture. As Cherry Creek Realty's Brennan reminds me, "You make your money when you buy, not when you sell."

THE IMPULSE TO BUY MORE HOUSE THAN YOU CAN afford while rates are low is understandable, but it's asking for trouble, according to DU's Levine. Not only does it fuel higher prices, but you may also be lighting the fuse on a financial time bomb. "Some brokers tend to get buyers focused on the cash flow – what's the payment," says Levine. "They miss the total picture of what they're spending." And maxing out those monthly payments plays a big part in the area's dramatically increased number of foreclosures. In Denver, Adams, Arapahoe, Boulder, Broomfield, Douglas, and Jefferson counties, 9,431 home foreclosures were recorded in 2003 – a 15-year high and a 45 percent increase over 2002. Says

Levine: "Defaulting on your mortgage is a lot more serious than disappointing appreciation."

Use the Internet to get a feel for the city's many neighborhoods and to cut down on the number of visits you have to make. I recommend www.recolorado.com. It's more comprehensive than the more popular www.realtor.com.

Once you find a house that meets your needs, and you've made an initial visit, ask your broker to pull a listing history, which documents how often the house has been on the market and how the asking price has changed over time. In the case of my \$399,000 cottage, I was able to learn that the current owners paid about \$357,000 in June 2000. I don't know how much work they did on the place, but it was relisted in April 2003 for \$442,000. The place has been on and off the market since then, but it's stayed at a \$399,000 listing price since August 2003. This kind of information will be invaluable when it comes time to make a bid.

And finally, be realistic. The truth about home buying is that everyone has to make sacrifices, no matter your budget. It's like Mills says: "Finding a house is like finding a mate, you never get 100 percent. But, you shouldn't settle for less than 90 percent." And unlike a mate, a house you can renovate.

So, heading back to my neighborhood of choice, I try to lower my standards. I try to remember Brennan's advice to make money when I buy. We visit one more house in Mayfair. It looks tiny from the front, but according to the flier, "It shows great!" It's 3,000 square feet and listed at \$319,900. The price is already down \$30,000 from the original listing in February. Brennan says

that means the owner wants to sell and will probably take less. I'm interested (and a tad skeptical) that he dropped his price so quickly. Brennan also tells me he knows the owner, who is a real estate agent himself. Maybe he knows something we don't know? The place has three bedrooms on the main floor, two bathrooms, a living room and a family room, and a decent backyard. Downstairs has plenty more room for a guest room, office space, and even another family room. The kitchen is fairly new and really quite nice. As we leave, I'm uplifted. This might not be my dream house, but it could be my reality house. We could afford it. It has a nice yard, and it's in a cute neighborhood that could provide a good investment. We could definitely live here.

As Brennan shores up the lockbox, I turn around. Sure enough, other house hunters are waiting in their car for us to leave. It's a couple, about our age, maybe younger. They've got their parents with them. My guess is they're showing them the place for a second opinion before they write up the contract. Without a buyer for our condo, we're not in a position to make an offer of our own. I can't live here, they will. So as we drive off I kiss my reality house good-bye. But it's not as sad as when I left the \$399,000 cottage. Here, at least, I had a glimpse of reality, and you know what? I could live there. ▲

Rebecca Landwehr lives in a lovely two-bedroom condo, with two full bathrooms and a huge deck overlooking the pool. It's one of four units currently for sale in a convenient, centrally located Denver complex. The seller is motivated.

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