

Your Second Home as an Investment

March 25, 2007

The last few years have seen a dramatic increase in the number of people purchasing second homes – not just in Colorado but nationwide. What is fueling this increase? Here are the reasons given in the report “2006 National Association of Realtors® Profile of Second Home Owners.”

When asked the question “What are your reasons for buying a vacation home?” – the following percent of respondents gave these reasons:

Use for vacations or family retreat	74%
Diversify Investments/ Good Investment opportunity	34%
Home will be primary residence in retirement	18%
Provide rental income	13%
Tax benefits	12%
Had extra money	5%

Vacation home buyers have been increasingly motivated (especially since 2003) by the need to further diversify their investments and they believe their purchase is a good opportunity to do that.

Have these buyers been correct in their beliefs? Our statistics show, that the 14 resort towns that we cover have averaged between 6% and 31% in annual appreciation per year over the last 5 year period.

Looking at the last 3 years more closely, here are the appreciation figures for 7 resort towns. These percentages are a blended rate of the increase in the median sale price of single family homes, condominiums and town homes.

<u>Resort Town</u>	<u>2004 %</u>	<u>2005 %</u>	<u>2006 %</u>
Breckenridge	2.4	12.4	8.5
Telluride	44.5	36.1	18.8
Crested Butte	20.6	18.9	15.7
Steamboat	5.7	16.8	- .3
Aspen	- 21.2	57.8	N/A
Glenwood Springs	2.1	6.5	5.0
Winter Park	4.2	6.7	23.0

Not totally reflected in these percentages (because they represent the entire market) is the even more dramatic appreciation of upper end residences.

Looking at the national housing market, the message is mixed. There has been a sharp decrease in new home construction which has fueled concerns of a possible housing downturn that could last well into 2007 and affect the wider economy. On the other hand, this slowdown of new home construction could help by reducing the inventory of unsold homes.

In the fourth quarter of 2006, existing home sales in most states were down from year-ago levels. Only 6 states saw an increase in existing home sales during this period. Colorado, as a whole, saw a 12% decrease.

So as the U.S. housing market has plodded along, with many regions experiencing flat or minimal appreciation, most of the resort markets of Colorado have seen substantial valuation increases and for a variety of reasons. Some of these reasons include (in no particular order),

1. A diminishing supply of developable land
2. Increased demographic demand, particularly from baby boomers
3. Increased demand from foreign buyers
4. Low inventories
5. Availability of cash, particularly from inheritances and stock market profits

Will this pace of appreciation continue for these resort towns? Probably. The long term demographic, statistical and migration data certainly support it.

So, are we suggesting that you hurry out and buy a resort home in Colorado as an investment? No. The primary motivating factor should be for the lifestyle enjoyment of your immediate and extended family. Any appreciation in value should be viewed as just the icing on the cake.

But if you do decide that potential price appreciation is one reason to include a second home in your overall portfolio strategy, it will certainly be an investment that is a lot more fun than stocks, bonds and mutual funds.

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Resort town sales statistics courtesy of Tyrone Adams, Colorado Association of Realtors