

NEWS

Want a house in Fort Collins? Grab \$500,000, get in line and join the housing Hunger Games

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Buying a house in Fort Collins these days can feel like a combat sport. Maybe more like the "Hunger Games." Or Charlie Brown and the football — every time you get close to the ball, Lucy whisks it away.

If you're in it, you know that stress, anxiety and frustration well. Buyers pushing their budgets beyond what's comfortable feel a roller coaster of hope and disappointment as offer after offer gets bested by one even better.

In a market that's seeing median home prices escalate at rates not seen since the early 1990s, the frenzy is forcing many homebuyers to stretch their budgets, offer risky concessions and pit themselves against cash buyers from outside Northern Colorado, all while creating financial windfalls for many sellers.

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Realtor Keith Huntsman of The Group Real Estate put in "a very aggressive offer" on an \$825,000 home for a client recently. The offer was \$25,000 over list price, and the buyers waived the appraisal provision. "We were one of eight offers on the property," he said.

The listing Realtor said the offer was "phenomenally good," Huntsman said, but not good enough. His clients' search continues.

George Gintoli bought his home in northwest Loveland nearly 11 years ago for \$178,000. It's listed now for \$565,000, a 217% jump in a decade. In this burning hot real estate market, he's hoping it will fetch \$25,000 or \$30,000 over his asking price.

He'll need most of that profit to move up to his new \$830,000 home under construction in Loveland.

"Thank God for that or we wouldn't be able to afford a house close to \$1 million," Gintoli said. "We're getting a new house, but it's not much bigger."

And therein lies the rub.

Even move-up buyers with robust equity have to buy something else if they want to stay here — and that something else comes with a hefty price tag.

The median home price in Loveland at the end of the first three months of 2021 was nearly \$410,000, up 7.9% from the same time last year, yet among the lowest median prices for towns and cities in Larimer County.

Gintoli, a loan originator with Cornerstone Home Lending, knows the market well and has been house hunting for about 18 months.

"We decided it was time to move up," he said. "At first, everything was out of our price range. But as the housing market grew and our house rose in price, it made the gap a little smaller."

Gintoli and his family faced another obstacle: "Homes for sale were going off the market in seconds," he said. "We were getting beat by everybody," with offers \$20,000 or \$30,000 over asking price.

Most homes, particularly those under \$1 million, are selling quickly.

Runaway prices push median sales near \$500K

The median sales price for single-family detached homes in Larimer County was \$485,000 at the end of the year's first quarter, fueled by a convergence of low-interest rates that create more buying power, inventory that's 67% less than a year ago, high demand, soaring construction and labor costs, and a shift in how and where we work that's bringing an influx of buyers from outside the county.

Townhomes and condominiums are still a more affordable option, especially for first-time homebuyers, with a median sales price of \$338,000.

Timnath sales prices are highest in Northern Colorado, topping more than \$500,000, but Fort Collins is nipping at Timnath's heels with a median price of \$498,750, just \$1,250 shy of that half-a-million mark.

While Timnath's prices are the highest, its price escalation is among the slowest in Larimer County, at 4.9%.

Timnath's prices are heavily influenced by sales in the high-end Harmony Club development, said Eric Thompson, president of Windermere Real Estate Services in Fort Collins.

"The fact that they didn't grow by as much as other areas is most likely because the number of closings there happened to be slightly down versus the same time period last year," he said. "Prices are jumping up in Timnath to the same degree as other places."

Windsor was the only town in Northern Colorado to see median home sales prices drop, albeit less than 1%.

More: Windsor pumped \$11 million into business incentives as Kodak shrank. The return: massive

That's partially because Windsor was the only community with ample inventory: 450 homes were listed for sale in the first quarter, compared with 293 at this time last year. Closings were also up from 278 in the first quarter of 2020 to 289 this year.

Windsor's prices, supply and demand are largely driven by the popularity of Martin Lind's RainDance community, where homes start in the mid-\$300,000 range.

The 2,800-unit subdivision is just about full, far surpassing the 10- to 20-year buildout Lind had expected.

Severance and Wellington, communities often seen as more affordable options for buyers, saw median home prices rise significantly.

Wellington's median home price was \$410,000, a 12.5% increase/ Severance's median sales price was \$421,900, up 15.5%, the fastest escalation in Northern Colorado, followed by Fort Collins' 15.4%.

Greeley, which two years ago still had homes selling for under \$300,000, was still the most affordable community in Northern Colorado with a median sales price of \$356,520, up nearly 10% from a year ago.

If there's any good news for buyers out there, it's that interest rates are the "lowest in our lifetime ... and they're buying in one of the healthiest markets in the country," Thompson said.

It's riskier business for buyers

Realtor Catherine Rogers of C3 Real Estate Solutions in Fort Collins said clients are having to make difficult choices not only on where to live, but what to buy and how far to stretch their comfort levels.

If they're stretching their budgets to buy an older home that might not be exactly what they're looking for, will there be money for remodels or upgrades?

"For most buyers today, it's more of a compromise than ever before," she said.

Buyers have to act fast or lose out. There's a new saying in the industry: "If you have to sleep on it, you won't sleep in it."

Tips: 5 things home buyers, sellers should do to prepare for housing dogfight

That means many are writing offers that offer cash to cover any gap between the sales price and appraisal value and include escalation clauses and inspection waivers — something most Realtors recommend against unless the buyer has a construction background and knows what to look for.

"Buyers need to do some soul searching and really analyze what they need versus what they want," Rogers said.

Gintoli has three criteria for selecting a buyer for his home. The first is price. But he also needs a 45-day close so he can stay in the house a little longer until his new home is ready. "We don't want to be homeless all summer long," he said.

He also wants the new purchasers to consider allowing them to rent back their home until they can move to their new place. Gintoli's been told the new house will be ready in September, but as of this week, builders hadn't broken ground.

Nearly half of all Larimer County sales in the first quarter, 46%, have been cash offers, Thompson said, but that doesn't matter to Gintoli.

It's more important that the buyer comes fully qualified, he said. As a loan originator, he "knows what to look for to know someone is not wasting our time," he said.

But his buyer likely won't be a first-timer. "First-time homebuyers on used homes in my area are just gone," he said. The market has priced them out.

"At one time (first-time homebuyers) were able to negotiate with the seller and have the seller help the buyer get into their home, but that's not happening any more," Gintoli said. "Now it's 'This is what I want, who's going to give us more than asking price, and that's it.'"

Gintoli said he's helped dozens of people get their credit where it needs to be and written probably 30 letters for buyers in the last month and a half, but "not one is getting a look."

First-time buyers are priced out

It won't be long before Fort Collins' median home price tops \$500,000, a benchmark that prices most first-time and younger homebuyers out of the market.

"The reality is if someone needs a property in the \$300s, Fort Collins is no longer an option when it comes to a single-family" home, Thompson said.

"The radius of affordability has been pushed out farther from the core of Fort Collins to Greeley, Severance, Ault," he said. "Affordable housing is an issue and really it is an issue for the first-time buyer. That's the group having the biggest challenge right now because of who they're competing with."

It's nearly impossible for first-time homebuyers to compete in this market, especially when competing with cash offers and buyers coming from California and Denver, where home prices make Fort Collins' look miniscule. That move-in market combined with low interest rates are forcing prices up at a "velocity faster than anyone could have expected," said Brandon Wells, president of The Group Real Estate.

More: Fort Collins has an affordable housing problem. A sweeping city plan seeks to solve it.

A seller deciding between a first-time buyer qualifying for an FHA loan with a minimal down payment and a buyer able to plunk down cash "is more likely to take the cash offer versus financing," he said.

Gintoli said West Coast buyers are putting in offers on homes sight unseen. "If it hits the (Multiple Listing Services) they're offering cash then and there, or a massive amount of overage in cash. That gave us a little kick in the butt to sell ours."

Realtor Doug Miller with The Group said it's up to agents to set the proper expectations for buying clients from Day 1 "so they don't get four or five contracts rejected before they realize this is how it's going to be. They need the proper mindset."

How to get out of the housing market 'mosh pit'

Katie Schafer just closed on a new home, moving up from a one-bedroom condo in Fort Collins to a three-bedroom, three-bath single-family home in the Van de Water subdivision in Loveland.

After living in the condo for three years with her 100-pound dog, Ringo, she wanted more room and a yard for the pooch.

"I had to go to Loveland," she said. "Fort Collins was just crazy. I couldn't get an offer accepted there."

Schafer, a loan originator who was living and working in Fort Collins, wrote a few offers for \$20,000 more than the seller's asking price. "They didn't even get looked at," she said.

Buyers were accepting offers that contained guarantees to make up any gap between sales price and appraisal "by large amounts," Schafer said. "I couldn't do that."

Schafer admits she was being picky, "and you can't really be picky" in this market, she said. "I would, of course, make a strong offer, but they weren't good enough."

"I realized I didn't want to be doing this all summer long. I didn't want to keep getting beat out."

Like Gintoli, Schafer was steered toward a new build.

While new construction is still competitive and prices are going up amid rising lumber and labor costs, Schafer didn't have to negotiate price, waive inspections, offer open-ended contingencies or anything else. The price was the price, although buying new appliances and paying for landscaping added to the cost.

"On the flip side, you're putting all that money into the house. It makes it worth it," she said.

She's confident she didn't overpay for the home, unlike her concern with a pre-owned home. "If you're overpaying by \$100,000, it can take a couple years to get that actual value," she said. "It's comforting to feel like I paid what (the home) was worth."

Now largely working from home in one of her spare bedrooms, Schafer is confident she's gaining equity. "If I want to sell in two years, I'd break even" even with Realtor fees and the like, she said.

If the market stays as hot, she'd likely not just break even but turn a profit.

Gintoli's home value in Loveland went up \$70,000 during the 18 months he was looking for a new house, he said.

The cost to build his new home has gone up, too, nearly \$100,000 since he first started looking, as cost of materials has gone up exponentially.

The dynamic between buying a new build versus a pre-owned home is different, Wells said. "Many people choose new construction because they want to get out of the competitive mosh pit."

"Builders were not ready for the velocity of what 2021 brought to them," he said. "They're trying to deliver the pipeline of what was contracted last year. The good news is rates have been low and that's helped them offset some of their issues. The demand is there and they're frantically trying to get (homes) to market."

Competition comes from higher-priced markets

Northern Colorado is not unique when it comes to soaring home prices. It seems to be a national phenomenon given some of the lowest mortgage interest rates in history. With every 1% drop in interest rates, buying power increases by \$10,000.

"Interest rates are like fuel on the fire, but they are not the fire itself," Thompson said. "The fire itself is the health of our economy and the fundamentals ... that cause people to want to live here."

People with jobs that can be done remotely are now free to move wherever they choose, a trend exacerbated by the COVID-19 pandemic. "When people are untethered from their company's headquarters and can live anywhere, where else would they rather live?" Thompson said.

Most of The Group's internet activity right now is coming from the Denver metro area, second only to Fort Collins-based searches, Wells said. "Some people want to get out to a more rural/suburban area. We've seen a large influx of remote workers choosing destinations ... and they're choosing Northern Colorado."

Bidding wars are the norm with many Denver buyers joining the fray, looking to get out of the city, Rogers said. "It's really a pressure cooker right now for buyers at all price points."

Once upon a time, in the not too distant past, homes priced at less than \$350,000 were the ones being gobbled up quickly. That sweet spot now is more like \$1 million or more.

"We're no longer seeing a clear delineation" in price compared with interest, Wells said. "We've had properties in the \$1 million to \$2 million range that have had the same interest, demand, multiple offers and cash transactions."

Many of those buyers are coming from other parts of the country and have equity from higher-priced markets, he said. "Every price point is different, but there's always a feeding frenzy when good inventory comes on the market."

Are we in a housing market bubble?

Neither Wells nor Thompson believes Northern Colorado is in a housing bubble that could pop, bringing down housing prices.

That's because supply is drastically low, buyers' credit scores and down payments are high and move-up buyers are equity rich, bringing lots of cash to the table, Windermere's national economist Matthew Gardner said in a recent podcast.

That means it's less likely for buyers to get upside down or walk away from their mortgages, factors that would cause a foreclosure crisis, he said.

"Back in the halcyon days in 2007-08, if you had a heartbeat you could get a mortgage," Gardner said.

Those days are gone. In March, buyers' average FICO score (on which mortgages are based) was 759, "remarkably high compared to pre-bubble days," he said. Last year, only 2% of people who took out mortgages had FICO scores less than 650.

And in Colorado, 36.5% of buyers had more than 50% equity in their existing homes, according to Gardner.

Gardner and most economists believe the rate of price escalation will slow when interest rates start to rise. But he doesn't believe they will go up much this year and will remain fairly low for the next couple of years.

And there's nothing on the horizon "that will significantly change the supply side of the equation," Thompson said. "Builders are having a hard time keeping up, affordable land is hard to come by and there are a lot of hoops to jump through to get developable parcels approved."

More: Here's what Fort Collins' new metro district policy means for developers, homeowners

Sellers do have some challenges

If you think it's an easy market for sellers, who can put out a for-sale sign in their front yard and sit back and wait for the cash to roll in, think again.

Sellers still need to make sure the home is priced right, in good condition and staged property.

"The irony is the market is incredibly challenging right now, even for sellers," Thompson said. "Even in this market it's challenging to ensure the seller has the very best offer."

The seller may have 20 offers from which to pick, but the offer with the highest price is not always the one that's most likely to close. "The ability to discern which offer is most likely to close is really important," he said.

Thompson said he saw a home with multiple offers, two of which had escalation clauses without a cap, meaning they would beat the highest offer no matter how much it cost.

"They were willing to pay anything," Thompson said. But the seller chose neither one because another offer was more likely to close.

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