ATTOM DATA SOLUTIONS

HOUSING NEWSREPORT

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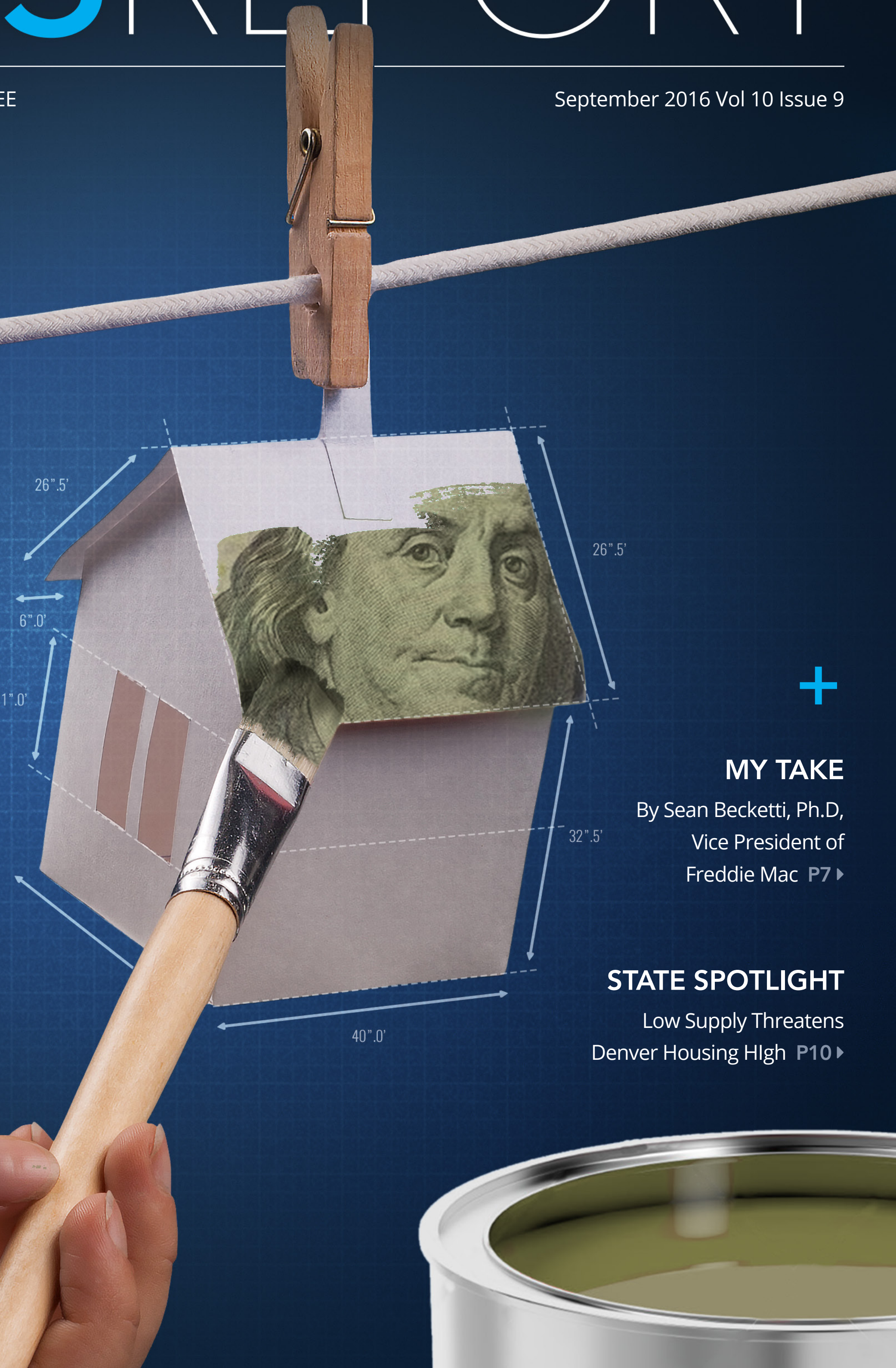

FINANCING FIX-N-FLIP$

Flipping property for a profit is big business. Last year, nearly 180,000 homes and condos were flipped. Now, new online crowdfunding websites have set up shop to lend money to flippers. P1

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MY TAKE

By Sean Becketti, Ph.D, Vice President of Freddie Mac P7

STATE SPOTLIGHT

Low Supply Threatens Denver Housing HIgh P10

FINANCING FIX-N-FLIPS

BY OCTAVIO NUIRY, MANAGING EDITOR

Some believe house flipping is a fad.

But it's anything but that.

Not only is flipping homes for a profit a growing industry, but it is exceedingly popular on cable television, where more than a half dozen prime-time flipping shows feature quick-turn real estate investors, including "Flipping Boston," "Flipping Vegas," "Flipping Out," "Flip or Flop," "Fixer Upper" and "Zombie House Flipping."

Americans — it seems — can't get enough of flipping shows.

And the growing number of flippers bears this out.

In 2015, investors flipped nearly 180,000 single-family homes and condos nationwide, accounting for 5.5 percent of all sales, according to ATTOM Data Solutions, which defines a flip as a house resold within six months of purchase. More than 51,000 single family homes and condos were flipped Q2 2016, the most flips in six years, reports ATTOM.

And more of the flippers are using financing to fund their flips — 32 percent of homes flipped in Q2 2016 were financed, the highest level since Q3 2008.

Nearly 40,000 investors — both individuals and institutions — flipped homes in Q2 2016 — a nine year high.

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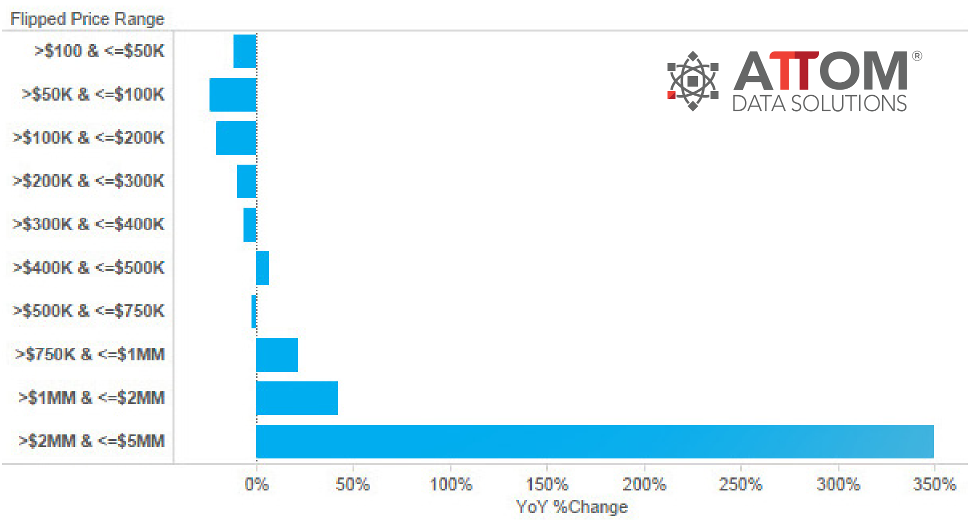
U.S. HOME FLIPPING BY PRICE RANGE, Q1 2016



> *Anytime we need money it's only 12 hours away. It's pretty amazing. We've raised over $13 million from RealtyShares alone in just two years."*
>
> **Alex Sifakis** | President of JWB Real Estate Capital
> Jacksonville, FL

Markets with the highest flipping rate in the second quarter of 2016 were Memphis (11.1 percent); Visalia-Porterville, California (10.1 percent), Tampa (10.0 percent); York-Hanover, Pennsylvania (9.7 percent); and Mobile, Alabama (9.6 percent).

Not only is the flipping industry large and growing but new players are moving into the space.

Serial flipper and real estate investor Alex Sifakis, president of JWB Real Estate Capital in Jacksonville, Florida, said over the last few years his company has increasingly borrowed money from crowdfunding sources. When he needs a few million dollars to purchase the 50 to 60 properties his company buys every month, he simply turns to online crowdfunding sites.

"Anytime we need money it's only 12 hours away," said Sifakis, whose company manages over 1,300 rental properties for clients, of which 400 are owned by JWB. "It's pretty amazing."

Sifakis estimates his firm will need $50 million this year to fund his ever-expanding real estate empire. His firm sells half of the purchases to other investors, keeping the rest for his own rental portfolio. He also manages rentals for passive real estate investors.

"We've raised over $13 million from RealtyShares alone in just two years," he said.

Sifakis said that in addition to hard money lenders, his firm has increasingly relied of online real estate crowdfunding sites like Dominion, Genesis Capital, RealtyShares, and other short-term money-lending firms. In addition to these and other crowdfunding sites, some of the nation's largest Wall Street investment banks and private equity firms — including Cerberus Capital and Colony Capital — have started making short-term bridge loans to investors who buy homes to quickly flip them for a profit.

"These firms are big players in the residential real estate market," he said.

But Sifakis said it's getting harder to find good deals and it cost more to find them.

"It's getting harder to find houses," said Sifakis. "Two years ago, we would find 80 percent of our acquisitions on the MLS. Now the cost of acquisition has increased because we have to spend more money on marketing and locating properties to purchase. The margins are getting compressed."

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But while acquisition costs are rising, borrowing costs are falling. Safakis said borrowing costs — traditionally the highest in residential lending — are tumbling as more online lending platforms compete for customers.

Real Estate Crowdfunding Platforms

Flippers are increasingly looking for new and creative ways to finance their flips, and crowdfunding is a popular source of funding, according to Nav Athwal, chief executive officer and founder of RealtyShares, an online crowdfunding fix-n-flip short-term lender.

"We're a national platform but most of our short-term loans are in six or seven states, including California, Texas, Illinois, New Jersey and Florida," said Athwal, a real estate attorney and electrical engineer by training. "Flippers are our core business. We're geared towards flippers. Since hard money lenders are too expensive, we are an attractive alternative for real estate flippers."

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Flippers are our core business. We're geared towards flippers. Since hard money lenders are too expensive, we are an attractive alternative for real estate flippers.

Nav Athwal | CEO and founder of RealtyShares
San Francisco, CA

Hard Money Lenders

Hard money loans, also known as bridge loans or asset-based loans, give flippers cash for home purchases and construction with about a year to repay. Hard money loans are for a short period of time — usually one year or less — with interest rates much higher than bank loans. Hard money lenders are a higher risk for flippers because they can expect to pay higher interest rates, ranging from 14 to16 percent, plus origination fees on top of the high interest rate.

RealtyShares, however, charges interest rates as low as 8 to 12 percent on a short-term renovation loans, with a 2.5 percent origination fee.

"Over the last year, we have seen a lot more capital flow into the fix-n-flip market," said Athwal, whose platform originates, underwrites and services loans. "Flippers are leveraging our platform to do more projects. California has always been a high volume market for us. Cities like Los Angeles, San Diego and the Bay Area are active flipper markets. We're seeing a lot more deals above $500,000 in California."

Real estate investors pumped $2.5 billion into crowdfunding platforms like RealtyShares in 2015, according to Massolution, a Los Angeles-based crowdfunding research firm.

That's more than biotech, alternative energy, tech wearables, online gaming and social media start-ups combined, reports the *Los Angeles Times*.

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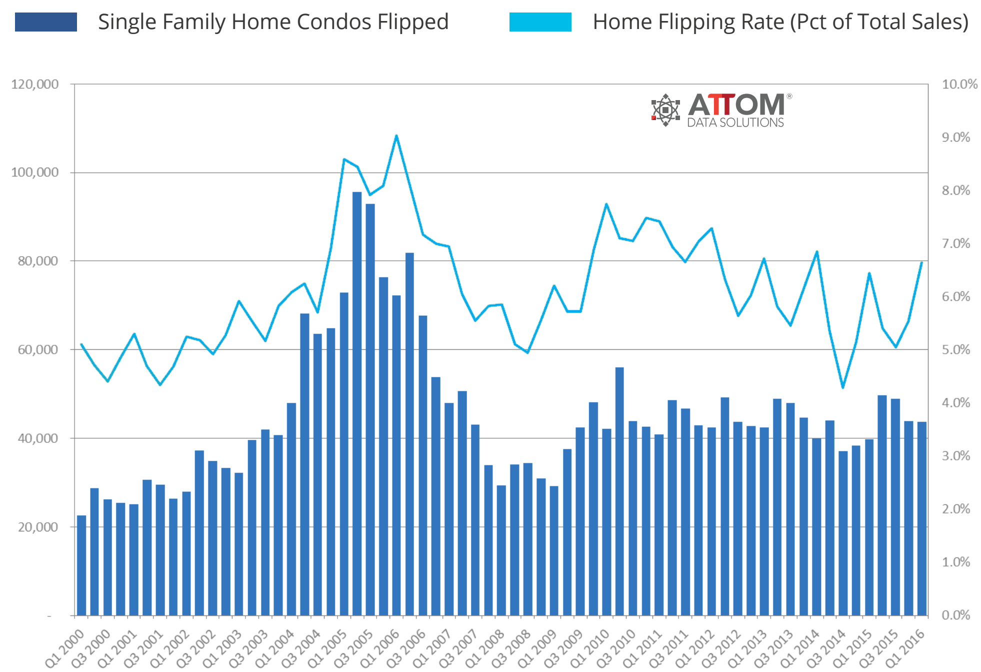
U.S. HOME FLIPPING HISTORICAL TREND



> *"I use everything in my power to use other people's money. We typically don't use our own money."*

Dave Seymour
Professional flipper
Boston, MA

But there are perils inherent in hard-money lending, which is often a final option for borrowers who can't qualify for bank loans. The term "hard-money" lending can be traced to the Great Depression when private individuals started lending money because many banks had folded.

Not only are home flips rising — but they're going upscale too.

Million Dollar Flips

Flips of homes priced at $1 million or higher are more profitable than entry-level quick-turn properties. The average gross profit for a flip sold between $1 and $2 million is $366,466, generating a 37 percent gross return on investment, according ATTOM Data Solutions. And flips sold between $2 and $5 million generated an average gross profit of $835,678, creating 42 percent in gross ROI.

Wicked Smart Money by 'Flipping Boston'

In Boston, professional flippers Dave Seymour and Peter Souhleris, stars of A&E's television show "Flipping Boston," and partners in the real estate brokerage CityLight Homes, are hooked on the flipping game. High prices and low inventory makes these heady days for flippers like Seymour and Souhleris.

"I use everything in my power to use other people's money," said Seymour, who with his partner flips 12 to 20 houses a year using hard money lenders and private lenders. "We typically don't use our own money."

With buyers outnumbering sellers, investors like Seymour and Souhleris are clamoring for the small number of available houses in the Boston area. With inventory tight and prices rising, Seymour said it's hard to find good properties.

"Here in Boston, the MLS inventory isn't there," said Seymour, originally from England and a retiree from the Lynn (Massachusetts) Fire Department. "But I have seen an increase in short sales. One theory I have is that home equity lines of credit (HELOCs) are coming due and borrowers are defaulting. I also believe shadow inventory is beginning to show up."

Recently the demo duo purchased a condo for $1.5 million. They put in another $500,000 in rehab construction

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costs, carrying cost and miscellaneous expenses. They sold the unit for $2.7 million. But Seymour worries the real estate market is due for a shift.

"I'm anticipating a correction," he said, concerned about rising home prices, multiple offers and the return of easy mortgages. "It's gone silly again. I'm cashing out. And I'm going to wait for the downswing. Then, I'm going to be buying like a monkey."

Paul Deitch, chief executive officer of Patch of Land, said flippers are increasingly doing more high-end flips, requiring more capital.

"As a lending platform we work with many people who are rehabbing, and who come to us specifically for financing," said Deitch, a former managing director at Oaktree Capital. "We've observed that with the strong growth in many markets, these entrepreneurs want to do more deals and want to lever up in order to diversify across multiple projects, instead of concentrating all their cash into one single project. Also, in certain markets like L.A. they are doing bigger deals, which require more money; these are deals in higher end markets and executed by savvier entrepreneurs who are also more experienced in obtaining financing to scale their businesses."

Deitch said the firm has focused on one-year residential purchase and rehab loans under $1 million. But flush with new capital, it is now looking to expand its range.

"The early platforms like Patch of Land, RealtyMogul, Fundrise and RealtyShares have evolved to specialize in certain asset classes or product types," said Deitch. "For example, we only do debt products — we lend on single family, multifamily and commercial bridge. Others, like RealtyMogul now focus on raising equity on large commercial projects and do not do any fix-and-flip lending."

Flipped Out

Higher home prices in the nation's capital haven't put an end to home flipping in the Washington D.C. area, according to Arlington,

Virginia, serial flipper Lance Young, who uses his own cash and hard money to rehab row houses, condos, townhouses

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"As a lending platform we work with many people who are rehabbing, and who come to us specifically for financing."

Paul Deitch | CEO of Patch of Land
Los Angeles, CA

N. Barton St, Arlington, VA before and after renovation

> *"I just sold one in Arlington, Virginia. ... I purchased it for $400,000 and after four months of renovation, I listed it for $619,000 and had multiple offers at the full asking price."*

Lance Young
Serial Flipper
Arlington, Virginia

and single family homes in Washington, D.C.'s Beltway.

"I work the northern Virginia market," said Young, who has been flipping properties since 1987, and recently flipped an 800 square foot home in northern Virginia, with two bedrooms.

"The location was excellent and the house sits just 3.7 miles from the White House in Washington, D.C.," said Young. "I purchased it for $400,000 and after four months of renovation, I listed it for $619,000 and had multiple offers at the full asking price. The net profit was $69,000. The deal was completed early spring of 2016."

Young said he does about a half dozen flips a year.

"These are good times to be seller in D.C.," he said. "D.C. is a strong, vibrant market that's going up steadily."

But flipping houses isn't for everyone.

"Don't get in this game unless you know what you're doing," warned Seymour, the Boston flipper. "I've made some horrendous mistakes. Always be educated. Learn how to do business the right way — and make sure everybody wins. And do business with integrity." ■

IS IT TIME TO WORRY ABOUT **HOUSE PRICES?**

BY SEAN BECKETTI
VICE PRESIDENT & CHEIF ECONOMIST, FREDDIE MAC

About
Sean Becektti, Ph.D

As chief economist, Sean Becketti leads a team that forecasts mortgage and housing market trends and conducts analysis and research on economic and policy issues affecting Freddie Mac. Becketti joined Freddie Mac from Flagstar Bank, where he was senior vice president and head of modeling and analytics.

Becketti holds master's and Ph.D. degrees from Stanford University and a bachelor's degree from University of California – Santa Cruz.

In 2011, house prices started recovering from the Great Recession. For the first few years, rapid house price appreciation was welcome news. Homeowners regained lost equity, the number of underwater borrowers shrank and delinquencies and defaults fell. More recently though, surging house prices have led some to worry about the potential for another house price bubble. Recently, house prices finally topped their 2006 peaks and growth has been particularly strong in recent years, averaging 5.6 percent annually.

How can we tell when we should be worried about rising house prices? There is no foolproof technique, but there are methods that provide useful guidance. We employ a two-stage method approach. The first stage compares the prices of recent sales to household incomes to pinpoint areas that merit further scrutiny. The second stage checks whether additional indicators suggest that house prices in the highlighted areas are headed for a fall in the future. So far, these indicators suggest that it's not time to worry about house prices—yet.

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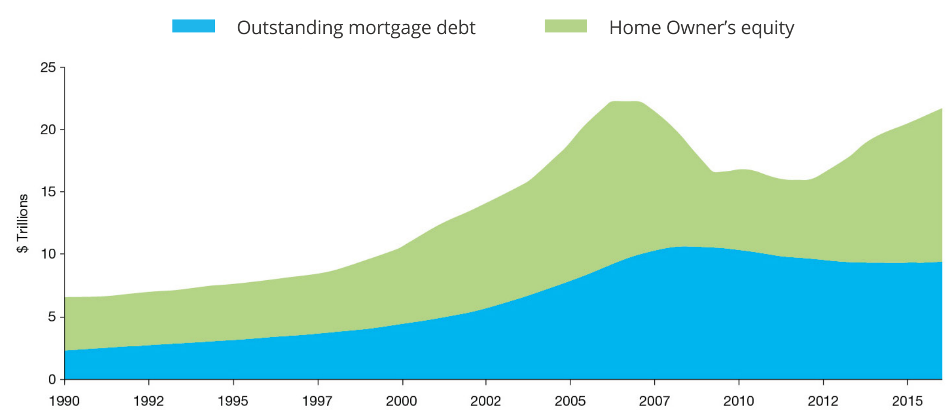
LEVERAGE OF THE U.S. HOUSING MARKET



Source: Federal Reserve Board

First stage: Pinpointing high house prices

We're looking for a way to spot areas where house price increases appear to be feeding on themselves for no apparent economic reason — in other words, the beginning of a bubble.

To thin the herd of over 350 metropolitan statistical areas (MSAs) nationwide, we look at price-to-income (PTI) ratios. These ratios vary a lot across the country, so assessments have to be made relative to what is typical for each MSA. For example, San Francisco is a desirable location, and residents historically have been willing to devote a larger-than-average share of their budgets in order to live there. In addition, buildable land in San Francisco is extremely limited, so the supply of housing can't expand to meet the high demand. As a result, the PTI ratio in San Francisco usually is much higher than it is elsewhere.

Ten metros with unusually-high PTI ratios as of the end of 2015 appear on our watch list. The ratios in these 10 metros are high relative to the historical experience in each metro. Interestingly, they appear in clusters — Raleigh and Charlotte in North Carolina; Jacksonville, Orlando, and Miami in Florida; Dallas, Austin, and San Antonio in Texas; and Portland and San Jose on the West Coast.

Second stage: Are house prices headed for a fall in these areas?

The PTI ratio doesn't, by itself, identify potential house price bubbles. Other supporting information is needed. In particular, we examine the answers to three questions:

1. *Are there nonfinancial reasons for the high PTI ratios?*
2. *Are credit conditions deteriorating?*
3. *Is leverage increasing?*

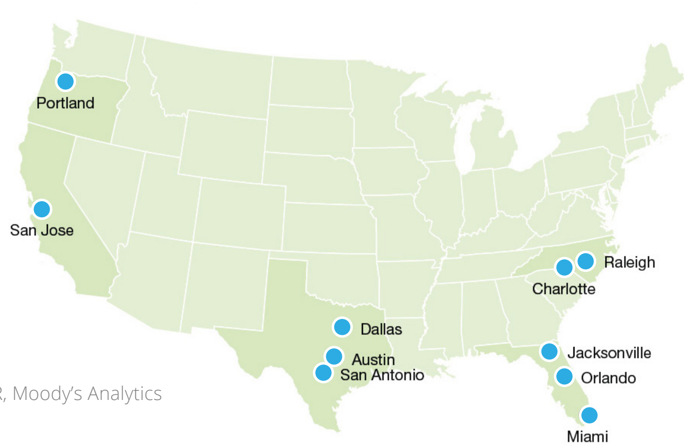
Are there nonfinancial reasons for the high PTI ratios?

A key characteristic of housing markets currently is the limited supply of houses for sale. Nine of the 10 metros on our watch list have less than six months of inventory today. Three metros have between three and four months of inventory; four have between two and three months; and Portland has just over one month of inventory. Only Miami appears to have a balance between supply and demand.

The increase in recent years in income inequality provides another reason increasing PTI ratios may not be signaling increasing house price risk. PTI ratios compare the median price of recently-sold homes to the median household income, including households that intend to remain renters and homeowners with no plans to move. The upward trend of traditional PTI ratios may indicate simply that more-affluent households are purchasing higher-end houses. Affordability may be decreasing for average- and lower-income households, but the households that are purchasing homes may not be stretching financially to do so.

A review of loan-level Freddie Mac data provides mixed evidence on this hypothesis. The average of loan-level PTI ratios — the ratios of the house price to the income of the buyer of that specific house — is lower and less volatile than the traditional PTI measure. And, in fact, nine of the 10 metros on the initial watch list no longer exceed their recalculated thresholds. Only Miami still exceeds the outlier threshold.

METROS WITH HIGH PTI RATIOS AS OF 2015



Source: NAR, Moody's Analytics

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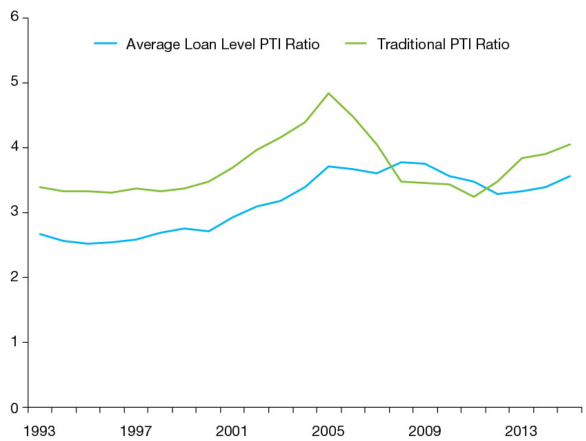
US Loan Level vs Median House Price-to-income Ratios



Source: Freddie Mac, Moody's Analytics

Loan Level PTI And Threehold
(Q4 2015)

Region	Loan Level PTI	Threshold
United States	3.6	3.8
San Jose, CA	7.1	10.0
Portland, OR	4.1	4.2
Miami, FL	3.8	3.3
Austin, TX	3.3	3.7
Raleigh, NC	3.2	3.4
Orlando, FL	3.2	3.5
Charlotte, NC	3.2	3.6
Jacksonville, FL	3.1	3.7
Dallas, TX	3.0	3.1
San Antonio, TX	2.8	2.8

Source: Freddie Mac

This table reinforces the importance of comparing PTIs to local norms. For instance, San Jose has the highest current PTI (7.1) of the ten metros, but historical experience in San Jose indicates that the ratio in San Jose has to exceed 10.0 before it merits further scrutiny. In contrast, Miami's current ratio of 3.8 is well above the normal range of typical PTI values in Miami.

Are credit conditions deteriorating?

Deteriorating credit conditions suggest higher defaults and foreclosures in the future, which, in turn, may put downward pressure on house prices. However, delinquency and default reveal themselves only over time, making them relatively poor warning signals of an impending bubble. Fortunately, other measures may provide more-timely indications of weakening credit conditions. For example, the Mortgage Bankers Association index of credit availability has been increasing steadily since 2011, suggesting underwriting standards may be loosening. However, this increase does not appear significant when compared to the levels the index reached during the house price bubble.

Increases in mortgage fraud may signal lax underwriting. CoreLogic's mortgage fraud risk index shows that Miami is the one metro with an unusually-high loan-level PTI ratio compared to the average index for the other nine metros on the watch list. The index for Miami has increased sharply in the last few years, but no such trend is visible for the average of the other nine metros.

Increases in house flipping may also indicate overly-optimistic investor expectations of future house price appreciation. Currently, flipping represents just over six percent of home sales in the Miami metro — well below the peak of around 10 percent, according to Core logic. However, the share of house flipping in Miami has been steadily creeping up since 2008.

Is leverage increasing?

Evidence of increasing leverage is an important warning sign of potential house price weakness. To date, that evidence is lacking. The value of housing has increased rapidly since 2011. However, mortgage debt outstanding has not increased over this period; in fact, it has declined slightly. Although homeowners currently have a near-record amount of equity in their homes, they have not tapped it so far.

As things stand currently, the high level of equity provides homeowners with a substantial cushion against house price fluctuations. Of course, homeowners may decide in the future to increase their leverage, especially if the pace of wage growth fails to accelerate and the income of the majority of Americans continues to stagnate. In that situation, households will be less resilient in the event the economy sags, and house price risk will increase. This last point highlights what is likely to be the "canary in the coal mine." As long as leverage remains low, homeowners will remain resilient in the face of economic fluctuations. However, if leverage creeps up, homeowners' financial cushion will shrink, leaving them more vulnerable to economic shocks.

In sum, this analysis suggests that, aside from isolated areas, we don't need to worry about house prices — yet. ■

LOW SUPPLY THREATENS DENVER HOUSING HIGH

BY DAREN BLOMQUIST, EXECUTIVE EDITOR

The Denver housing market is in the midst of a housing high driven by strong population and job growth coupled with a low supply of residential properties to buy or rent.

"It all starts with population growth," said Matt Holt, who works for a Denver-based investment firm that buys non-performing loans and real estate across the country. "A lot of young people are moving here. They all move out for the lifestyle. They move out for the mountains, the skiing, the hiking.

"You get this young, highly educated pool of talent that is driving business here," continued Holt, 32, who owns a home near downtown and bikes the three miles to work each day (see Profile of a Denver Millennial on Page 13). "We've had some large corporations move here. They are providing good jobs that pay well and help support the housing market too."

But the same forces that created the housing boom — growing demand and scarce supply — now threaten to hobble continued growth in the Denver residential real estate market, according to local experts.

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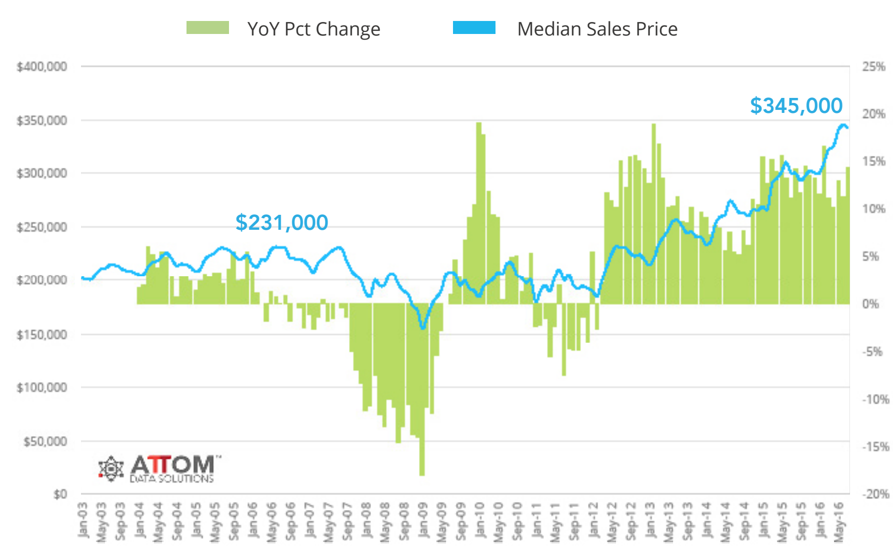
DENVER HOME PRICE HIGH



"From a (sales) volume stand point it appears we may have peaked in 2015," wrote Greg Smith, broker/owner at RE/MAX Alliance in Boulder, in an email. "As a result of limited inventory we are currently in a holding pattern …. In comparison to previous booms the limited new construction, low unemployment, and continued influx of people moving to Colorado, we are expecting more of an easing in the market as opposed to a large adjustment."

Pricing Problematic for Young and Old

The demand-supply imbalance has boosted home prices, raising them out of reach for many first-time homebuyers, according to Ian Armstrong, broker/owner at Armstrong Real Estate Services in Denver.

"The average price for a home has shot up so much that the average price of a home is hard to afford, and those that do come on (the market at an affordable price) get 10 offers," said Armstrong, who said anything below $350,000 is selling fast while sales of homes priced above that are starting to slow. "I'm seeing a lot of first-time homebuyers; it's just that I'm having a hard time finding something in their budget. They have to move further out away from the city."

The highly competitive market in the lower price ranges is also proving problematic for older homeowners looking to downsize, according to Steffen Kaufman, broker associate at RE/MAX Professionals in Englewood.

"I have so many older clients who would move in a heartbeat if they could find what they are looking for, but they can't," he said, explaining that most of these downsizing clients are selling a bigger home priced around $700,000 and looking to purchase a smaller, ranch-style home in the $300,000 to $400,000 range. "I wish I could find product. I could probably make quite a few commissions. I have clients who have been looking for over a year who just can't find what they are looking for."

Peak Prices, Poor Affordability

Median home prices in the 10-county Denver metropolitan statistical area hit an all-time high of $345,000 in June 2016, according to ATTOM Data Solutions. That was a whopping 49 percent above the city's pre-recession high of $231,000 in June 2006. Median home prices in July pulled back 1 percent from the all-time high, but were still up 14 percent from a

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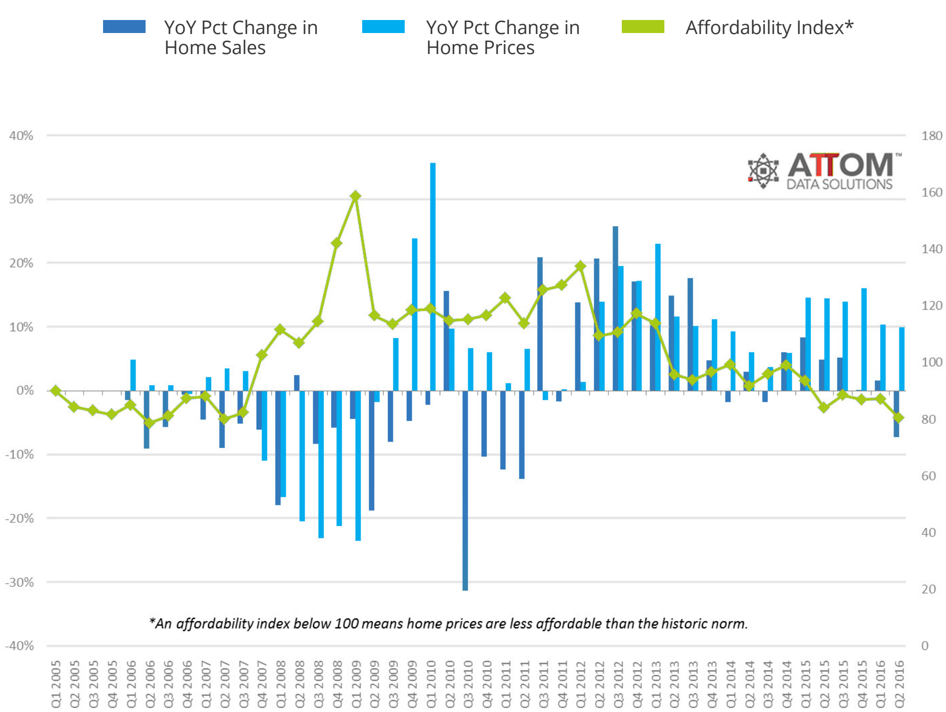
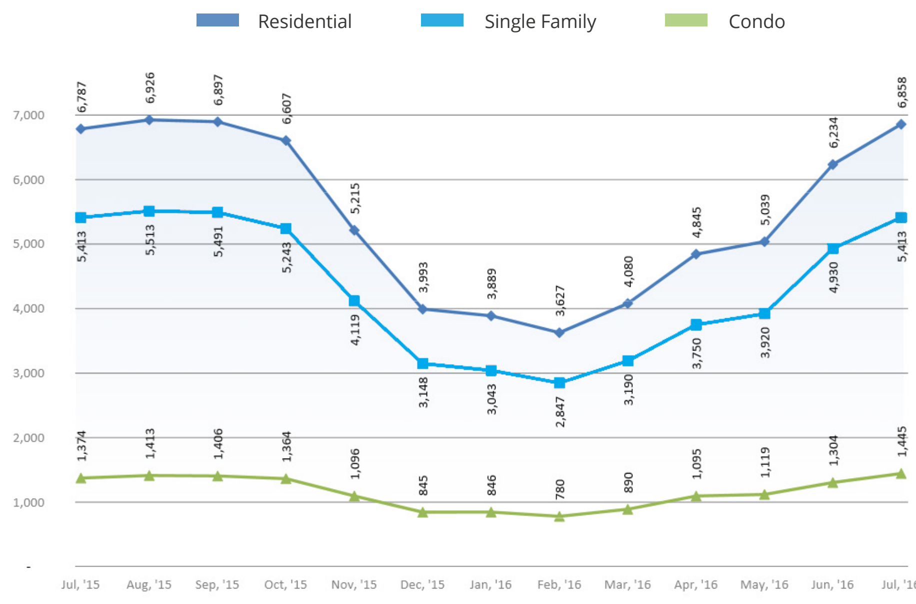
I'm seeing a lot of first-time homebuyers; it's just that I'm having a hard time finding something in their budget. They have to move further out away from the city.

Ian Armstrong | Broker/Owner, Armstrong Real Estate Services, Denver, CO

DENVER COUNTY AFFORDABILITY & SALES PRICE



METROPOLITAN DENVER 7 COUNTY MONTH END INVENTORY OF UNSOLD HOMES



Source: REcolorado

I think there are lot of frustrated buyers … who are on the sidelines just waiting."

Chad Ochsner
Employing broker at
RE/MAX Alliance in Arvada

year ago — the 54th consecutive month with a year-over-year increase.

The rapid rise in home prices has pushed affordability below its historic norm in the Denver area, according to the ATTOM Affordability Index. The share of average wages needed to buy a median-priced home was higher than its historic norm in all five Denver-area counties covered in the index for Q2 2016.

While the absolute share of wages needed to buy a home in Denver County (42.5 percent) is still relatively low compared to some other high-priced coastal markets such as San Francisco County (94.6 percent), King County (Seattle), Washington (47.7 percent), Multnomah County (Portland), Oregon (48.4 percent), and Kings County (Brooklyn), New York (121.7 percent), it is above its own historic average of 34.2 percent of average wages to buy a median-priced home over the past 10 years.

"I do have a concern moving forward about affordability. We remain the most expensive non-coastal city except for Chicago. ... That's something we, collectively as a community, need to be aware of and address," said Chad Ochsner, employing broker at RE/MAX Alliance based in Arvada, who said companies considering a corporate move to Colorado will likely take into account the home affordability factor. "I think it is a bit of a logjam scenario. I think there are lots of frustrated buyers ... who are on the sidelines just waiting."

Construction-Defect Law Constraint

Ochsner noted there has been a slight uptick in inventory in recent months, from 4,845 active residential properties listed for sale in April, to 6,858 in July, according to the region's multiple listing service (MLS), REcolorado.

"The additional inventory certainly helps. That's the message we're communicating to our buyers. If you've been pushed out of the market in the spring there are now more homes to choose from," Ochsner said, adding that he believes a balanced supply and demand in Denver requires about 20,000 residential properties listed for sale — nearly three times the July inventory.

According to Ochsner and other local experts, the inventory shortage has been exacerbated by the state's construction defect law, which critics claim allows homeowners too easily to sue builders for

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High-end development in Denver

problems in new construction. As a result, critics of the law claim, there has been a dearth of new condo construction in Denver during the recent housing boom.

"As a result of builder's risk and some predatory practices of attorneys, builders do not feel comfortable providing this product and, as a result, many first time buyers are finding it hard to enter the market, which can cause some ripples across the market as a whole," wrote Greg Smith, the RE/MAX Alliance broker/owner in Boulder.

According to Ochsner, developers are instead building apartments that can be converted to condos in seven years, after the condo-defect statute of limitations is passed.

"Apartment construction is just crazy," he said, noting that some cities have taken steps to remove the bite out of the construction-defect law. "They went ahead and made some changes, for example taking some litigious power out of the HOAs."

Those steps to soften the construction defect law is good news for Kaufman, the broker associate in Englewood, who is working with a group of investors to purchase land for condo development.

"We are working on two condo projects to ease some of the pain," he said. "We've got land and we're acquiring more land … now that the prices have moved up it allows us to insure it properly.

"You need proper insurance, but you need people who do it according to code and do it right," Kaufman continued, adding that the construction-defect law is creating a difficult environment for developers. "There has to be a cap. You can't have a developer make $2 million on a condo project and they get sued for

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PORTRAIT OF A DENVER MILLENNIAL

- **Name and Age:** Matt Holt, 32
- **Hometown:** Denver

  "Growing up we never came downtown. Frankly it wasn't that safe and there wasn't a whole lot to do down here."
- **Occupation:** Vice President, Portfolio Management

  "I work for an investment firm and we run a couple of opportunity funds. We own anything from non-performing loans to performing loans."
- **Transportation to Work:** Bike

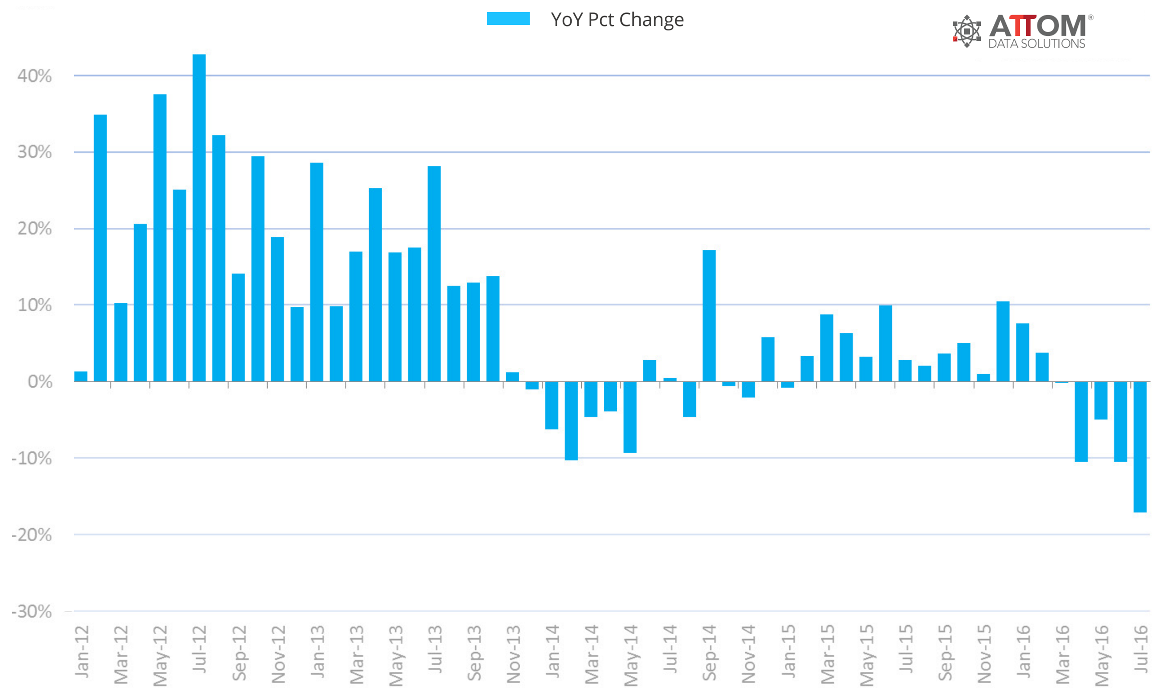
  "I bike to work every day (three miles via bike path). … They are doing a great (job) of making the city more bike-able, so that is appealing."
- **Neighborhood:** Washington Park

  "I bike to work every day (three miles via bike path). … They are doing a great (job) of making the city more bike-able, so that is appealing."
- **Rent or Own:** Owned since 2012

  "In our general friend group, (there are) a lot of homeowners. They are all pretty financially responsible. Especially in an appreciating market, they know you want to buy an appreciating asset. We also have friends who have gotten priced out. They were waiting (to buy) until they got married, so they are having to move further out from downtown."
- **Kids = Move to Suburbs?:** Not necessarily

  "If my wife and I ever did have kids we probably would try to stay as long as possible. … With the gentrification going on, you are starting to get a lot better schools. You are starting to get some STEM schools. … People are just staying where they are."

DENVER METRO HOME SALES TRENDS



$20 (million) and put them out of business."

Sales Volume Slowing

In the meantime, the scarcity of supply and the resulting affordability challenges for buyers is finally showing up in the form of slowing home sales volume.

After 13 consecutive months of year-over-year increases, sales volume in the 10-county Denver metro area has now decreased on an annual basis for five consecutive months ending in July — when volume plummeted 17 percent from a year ago, according to ATTOM Data Solutions.

"My suspicion is that August sales will be way down," said Tom Guest, broker/owner at Key Masters Real Estate in Castle Rock. "I don't think prices will be affected as much.... I think we'll have another strong spring when people come back."

Not Getting the Showings

But pricing could be impacted for high-end properties, according to Kaufman, the Englewood broker associate who said inventory is starting to build up in some select higher-end enclaves such as Highlands Ranch, a suburban community about 20 miles south of downtown Denver.

Kaufman said he recently listed a property in Highlands Ranch for $535,000 that was not getting much interest, which he attributed to the fact that there were 62 other nearby listings in a similar price range.

"In my opinion (that is) why we are not getting the showings," said Kaufman, noting that buyers now have stronger negotiating power for homes listed above $500,000. "A house like that will probably not sell for full price."

Homes that sold for more than $500,000 in the Denver metro area sold a median $276 per square foot in July 2016, a 5 percent increase compared to a year ago. But that was less than half the rate of increase for homes that sold under $500,000. Those lower-priced homes sold for a median $211 per square foot in July 2016, up 12 percent from a year ago — the 20th consecutive month with a double-digit annual increase.

The Millennial Factor

Aside from price, another reason suburban markets like Highlands Ranch

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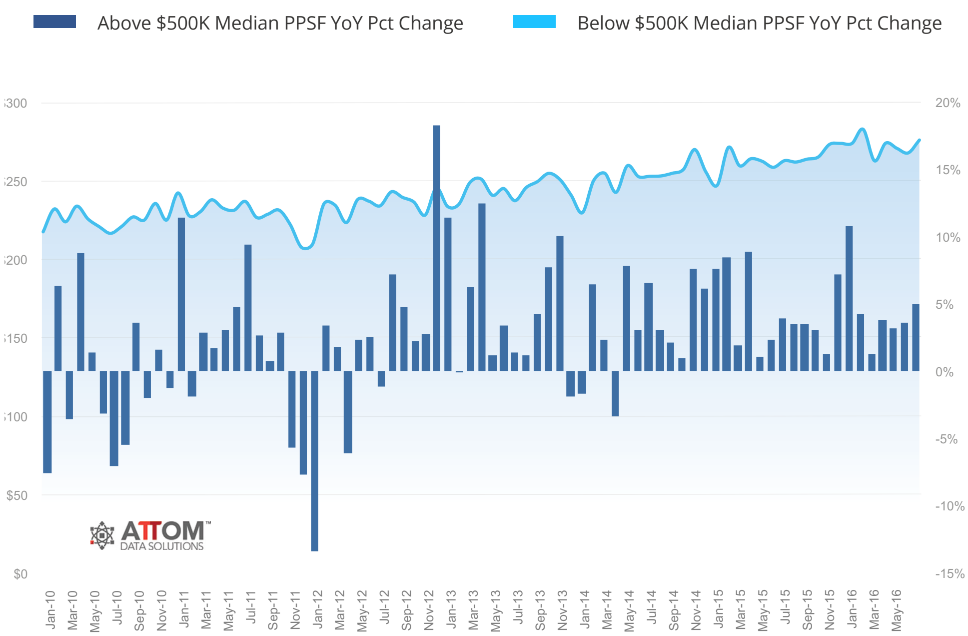
DENVER HIGH & LOW END PRICE TRENDS



> *My suspicion is that August sales will be way down. I don't think prices will be affected as much. ... I think we'll have another strong spring when people come back."*

Tom Guest | Broker/owner at Key Masters Real Estate in Castle Rock

may have more built-up inventory is because of the premium during this housing recovery on everything urban, walkable and close to downtown, according to local experts.

"Walkability really has been a big factor in this housing cycle. It used to be 'drive until you qualify' or larger homes on larger lots are what you want. Now it's more urban centric close to amenities (that) have much more come into play," said Ochsner of RE/MAX Alliance in Arvada, adding that this trend has fueled gentrification in previously down-and-out neighborhoods near downtown as millennials move into those neighborhoods.

While homeownership rates remain historically low among millennials, more are buying as they make more money or hit major life milestones, according to Ochsner.

"A lot of them are not able to buy or are hesitant to buy and are comfortable with renting. ... As they are settling down and meeting spouses ... the discussion of homeownership comes into play," he said, adding that as millennials grow older they will likely move from a downtown Denver neighborhood into the first ring of suburbs, which are now more accessible to downtown thanks to a growing network of light rail lines through the metro area.

Light Rail Revolution

"We have four new light rail lines," he said, explaining the most recent one connects the city to the airport. "It's been exciting to watch all the light rail train lines go up. And what that has done to the market with transit-oriented developments. Certain parts of the city that 20 years ago, 'no one would want to go there' (now) within walking distance to a rail stop is where people want to be."

Kaufman, the broker associate in Englewood working with investors on condo developments, said the new light rail lines are an important factor in planning those developments.

"The light rail project has been a focal point for infill," he said. "Anything along the rail lines has had huge demand."

Guest, the Castle Rock broker/owner, said developers are building the transit-oriented developments as "mini-downtowns" to provide millennials with an alternative to the actual downtown.

"The downtown is still a great draw, but because there is a limited quantity builders are starting to do this in other areas," he said, noting that a former

CONTINUED ON NEXT PAGE ▸

"loser dive mall" was converted into one of these developments where his son now lives. "My son … now he has his own little downtown area about 10 miles from downtown."

Renovating for Short-Term Rentals

Meanwhile individual homeowners are taking it upon themselves to do some small-scale infill development to help address the supply scarcity and deteriorating affordability in Denver.

"We've seen people in the neighborhood — they're basically putting a mother-in-law suite over the garage and turning it into either long-term rentals or short rentals," said Holt, who lives in the Washington Park neighborhood adjacent to downtown Denver. "People can now turn their homes into income-producing assets. There are people in my neighborhood who are just renting out a room, and they are getting 1,000 bucks a month for that. … (It) makes housing more affordable."

Ochsner, the employing broker at RE/MAX Alliance, said the building of Accessory Dwelling Units (ADUs) is popular in Portland, another market where his brokerage does business, and he expects that trend to accelerate in Denver also as homeowners gain more equity but have fewer options when it comes to moving up to a new home.

More than 9,000 Home Equity Lines of Credit (HELOCs) were originated in the Denver metro area in Q2 2016, up 24 percent from a year ago to the highest level since Q2 2006 — when more than 10,000 HELOCs were originated in the metro area, according to the ATTOM Data Solutions Q2 2016 Loan Origination Report. The increase in Denver was the eighth highest among 73 major metro areas analyzed in the report.

Bridge Loans for Move-Up Buyers

Meanwhile, some prospective move-up buyers concerned about not being able to quickly secure their future home in the highly competitive Denver market are resorting to bridge loans, according to Ochsner.

These short-term loans allow homeowners to leverage their current property to make a competitive offer on their next home — either an all-cash offer or an offer with a beefy down payment. Once the new home is secured, the old home can be put on the market and sold to pay off the loan, according to Jodi Thomas, a president at FirstBank in Wheat Ridge.

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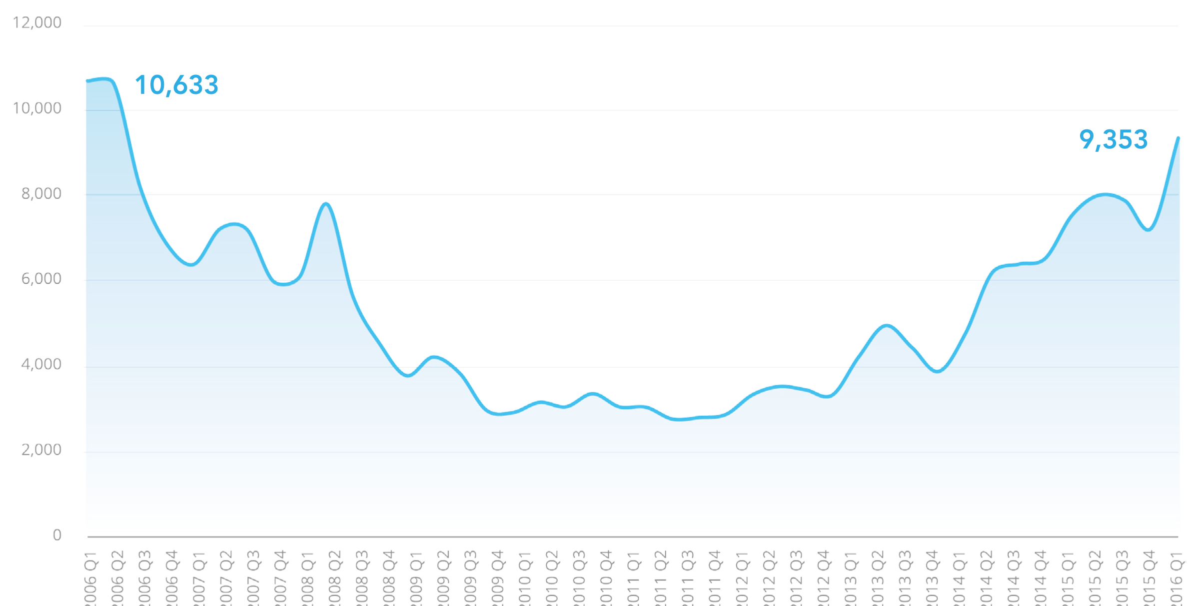
DENVER METRO HELOC ORIGINATIONS



"I wish I could find product. I could probably make quite a few commissions. I have clients who have been looking for over a year who just can't find what they are looking for.

Steffen Kaufman
Broker Associate at RE/MAX Professionals, Englewood

Denver Colorado Downtown Financial District

"Bridge loans eliminate the timing pressures of having to sell the current home before buying the next," wrote Thomas in an email response to questions. "Finding affordable homes in the Denver market can be difficult. …. When a low- to moderate-income family finds a home and makes an offer, many

times they are competing with an investor's cash offer. … Bridge loans, along with a strong pre-approval letter from a reputable lender, can help low- to moderate-income families get their offers accepted."

"A Ton" of Low Down Payment Loans

First-time homebuyers, who don't have the option of leveraging their current home's equity with a bridge loan, are increasingly relying on low down payment loans, according to Armstrong, the broker/owner in Denver.

"There are a lot of first-time homebuyer loans out here," he said, specifically referencing a down payment assistance program available through the Colorado Housing and Finance Authority (CHFA). "A lot of 5 percent down conventional loans. A lot of the 3 percent down FHA loans."

Kaufman said he is seeing "a ton" of low down payment buyers in his market. He said he considers those buyers a high risk for default given any shock to the overall economy or those borrowers' individual circumstances.

"I think FHA is no different than 0 down or stated or all that stuff," he said, noting that he had two sales closing that day with low down payment buyers — one of whom had made eight previous unsuccessful offers and offered $15,000 above the list price of $275,000 to secure the home. "No one is going to stick around for $7,000 down."

Constriction of Contractors

But bridge loans and low down payment loans are not enough to get some prospective home buyers over the affordability hump in Denver. And some of those prospective buyers are leaving the Denver area as a result, which is having a ripple effect on the housing market, Kaufman noted.

"We're seeing a constriction of contractors. … They can't pay them enough to live here," he said, adding that one of the head painters on the painting crew he uses had recently moved out of the Denver area because he could no longer afford to live there. "For inspections you have to give it some thought as a Realtor … you have two weeks to close and you have a laundry list of things that need to be done and (you) can't find a contractor." ■

PORTRAIT OF A HOME FLIP in Q2 2016

More than 51,000 single family homes and condos were flipped in Q2 2016, the most home flips since Q3 2010 -- a six-year high. ATTOM analyzed these 51,000 home flips to find out the who, what, when, where, why and how of this renewed home flipping frenzy.

Who:
Mom-and-Pop

39,775 flippers
(most since Q2 2007)

What:
Under $200K

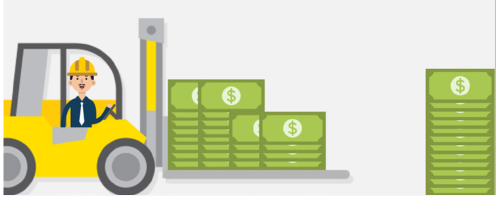
54% of flips sold for
$200,000 or less

When:
185 Days

Longest average time to flip since Q2 2006

How:
Cash (but shifting)

68.3% of flips purchased with cash least since Q2 2008



Why:
$62,000

Average gross profit
the highest on record

Where:
Memphis

11.1% of sales were flips,
the nation's highest

Purchases of New Homes Soars

Sales of newly built homes rose in July to the highest level in nearly a decade, a sign of renewed demand for new homes.

Purchases of new single family homes increased 12.4 percent in July from June to a seasonally adjusted annual rate of 654,000, according to the Commerce Department. That was the highest level since October 2007.

The median sales price of new houses sold in July 2016 was $294,600. At the end of July there was a 4.3 month supply of newly built homes, the report showed. Sales in the Northeast were up 40 percent in July, while sales in the South rose by 18 percent. Sales in the West and Midwest were flat.

Source: Commerce Department

Bricklaying Robot Builds House in Two Days

An Australian bricklaying company says their robot can build a house in just two days.

Fastbrick Robotics, an Australian bricklaying company, promises that their Hadrian X robot, with a 30 meter arm, can construct a brick home in 48 hours. Hadrian X is expected to be at construction sites within a year. Mounted on the back of truck, it is simply driven onto a building site and can lay 1,000 bricks an hour, gluing them into place, and work around the clock, 24 hours a day, according to *The Daily Mail*.

“We are a frontier technology company, and we’re one step closer to bringing fully automated, end-to-end 3D printing brick construction into the mainstream,” engineer Mike Pivac, co-founder and CEO of Fastbrick, a Perth-based company, told *UK Construction Week*.

Sources: Popular Mechanics, The Daily Mail, UK Construction Week

Shareholder Can't Inspect Freddie Mac's Records

A Virginia federal court ruled August 23 that Freddie Mac shareholders cannot force the mortgage finance company to allow it to inspect their records, dismissing a lawsuit brought on by a Freddie Mac shareholder.

U.S. District Judge James C. Cacheris dismissed a lawsuit brought by Timothy J. Pagliara, a shareholder of Freddie Mac. Pagliara had asked the court to order Freddie to allow him to inspect its books and records. He has filed lawsuits in both Delaware and Virginia state courts seeking access to corporate records from both the GSEs related to the net worth sweep.

The court held that Freddie shareholders no longer possess a right to inspect the company's records because those rights had been transferred to the Federal Housing Finance Agency (FHFA), when the company went into conservatorship in 2008.

Fannie Mae and Freddie Mac received a combined $187.5 billion bailout from taxpayers in 2008 to remain afloat. In September 2008, they were taken into conservatorship by the Federal Housing Finance Agency.

The case is *Timothy J. Pagliara v. Federal Home Loan Mortgage Corporation*.

Source: *The Wall Street Journal*

Nevada HOA Lien Law Unconstitutional

A federal appeals court ruled that a Nevada law that stripped lenders of their first deed of trust rights when a homeowners' association (HOA) forecloses on a property is unconstitutional.

In a 2-1 decision, the Ninth Circuit Court of Appeals overruled a 2014 Nevada Supreme Court decision, which held that HOA foreclosures were a super lien and can extinguish a first mortgage.

In *Bourne Valley Court Trust v. Wells Fargo Bank*, the federal appellate court held that the non-judicial foreclosure of a Nevada HOA super lien cannot constitutionally extinguish a mortgage lender's security interest.

In 2014, the Nevada Supreme Court held that, as a matter of lien priority, HOA super lien foreclosures can extinguish a first mortgage.

Source: Housingwire

AUGUST 2016

State-by-State Foreclosure Activity Summary

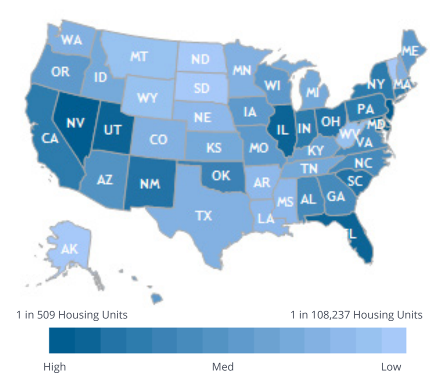
Rank	State	Default	Auction	REO	Total	1/every X HU (rate)	%Δ from Aug 16	%Δ from Aug 15
	U.S. Total	**27,614**	**36,324**	**31,194**	**95,132**	**1,395**	**10.36**	**-13.17**
21	Alabama	0	773	615	1,388	1,578	17.23	-4.60
49	Alaska	0	3	24	27	11,401	-52.63	-78.91
23	Arizona	0	1,057	591	1,648	1,744	-4.63	-10.92
41	Arkansas	0	192	253	445	2,987	5.95	26.06
13	California	4,560	3,155	2,421	10,136	1,360	13.34	-4.05
37	Colorado	322	434	222	978	2,289	46.85	3.06
11	Connecticut	636	164	371	1,171	1,273	-4.72	1.91
3	Delaware	254	203	94	551	746	-23.58	61.11
	District of Columbia	0	95	19	114	2,639	93.22	293.10
5	Florida	4,116	3,628	3,183	10,927	828	-2.42	-27.69
19	Georgia	0	1,096	1,555	2,651	1,552	3.31	-27.96
26	Hawaii	127	70	83	280	1,874	-5.08	-3.78
32	Idaho	165	90	60	315	2,144	12.50	-49.11
6	Illinois	2,152	2,179	1,593	5,924	895	25.77	3.08
14	Indiana	481	1,038	497	2,016	1,395	13.26	-25.50
27	Iowa	289	225	201	715	1,886	13.49	22.43
34	Kansas	92	294	177	563	2,203	81.03	-16.96
30	Kentucky	224	378	341	943	2,056	29.36	-14.12
42	Louisiana	154	217	242	613	3,244	-37.89	-36.54
24	Maine	287	65	46	398	1,821	-8.08	23.60
2	Maryland	919	1,596	1,323	3,838	625	23.49	-14.14
18	Massachusetts	806	420	640	1,866	1,510	-11.73	17.51
31	Michigan	0	1,212	923	2,135	2,123	2.64	-23.37
39	Minnesota	0	439	480	919	2,573	14.45	-33.65
43	Mississippi	0	159	136	295	4,355	14.79	-4.84
29	Missouri	0	664	697	1,361	2,001	1.72	-24.56
45	Montana	0	39	25	64	7,606	3.23	137.04
40	Nebraska	135	104	50	289	2,786	31.36	33.18
4	Nevada	551	502	407	1,460	812	-0.88	-37.18
36	New Hampshire	0	166	104	270	2,286	-4.26	-9.70
1	New Jersey	2,727	1,954	1,864	6,545	546	11.69	-1.04
10	New Mexico	370	241	188	799	1,135	19.43	-11.02
15	New York	2,932	1,283	1,626	5,841	1,396	18.26	3.23
20	North Carolina	899	943	969	2,811	1,560	20.90	-37.31
50	North Dakota	12	0	5	17	19,530	112.50	112.50
8	Ohio	1,382	1,853	1,612	4,847	1,059	19.77	-1.94
17	Oklahoma	319	484	311	1,114	1,508	15.08	20.69
25	Oregon	79	413	433	925	1,823	-9.22	-31.89
12	Pennsylvania	993	1,790	1,536	4,319	1,292	17.14	-5.55
16	Rhode Island	0	135	179	314	1,474	5.37	89.16
9	South Carolina	766	632	625	2,023	1,068	8.82	-18.59
47	South Dakota	0	22	17	39	9,466	116.67	-17.02
33	Tennessee	0	464	843	1,307	2,172	10.95	-42.32
38	Texas	32	2,554	1,407	3,993	2,551	14.35	-11.89
7	Utah	281	294	518	1,093	915	71.05	43.63
48	Vermont	0	11	22	33	9,828	-69.16	-55.41
22	Virginia	0	1,367	638	2,005	1,697	15.63	13.99
35	Washington	50	746	511	1,307	2,235	-17.28	-38.98
46	West Virginia	0	56	56	112	7,886	72.31	-5.88
28	Wisconsin	502	405	423	1,330	1,982	33.53	-26.72
44	Wyoming	0	20	38	58	4,572	16.00	-44.76

TOP 20

Foreclosure Rates in the Nation's 20 Largest Metros in August 2016

Rank	Metro	Housing Units Per Forelcosure Filing (Rate)
1	Baltimore, MD	596
2	Philadelphia, PA	689
3	Miami, FL	738
4	Chicago, IL	750
5	Tampa, FL	761
6	Riverside, CA	803
7	Washington, DC	1,009
8	New York, NY	1,012
9	St. Louis, MO	1,162
10	Atlanta, GA	1,407
11	Los Angeles, CA	1,423
12	San Diego, CA	1,703
13	Phoenix, AZ	1,748
14	Detroit, MI	1,797
15	Boston, MA	1,982
16	Dallas, TX	2,067
17	Seattle, WA	2,073
18	Minneapolis, MN	2,081
19	San Francisco, CA	2,151
20	Houston, TX	3,113

Foreclosure Rates for the U.S.



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