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## Determining Your Investment Objectives

July 26, 2010 in [Colorado Foreclosure Market](#), [Durango Real Estate](#), [Pagosa Springs Real Estate](#)

The media has been full of stories about the challenging condition of the housing market across much of our country. For those of us that have worked in the Distress Asset Markets, we are seeing a familiar pattern. The market became overheated, then substantially over-supplied and eventually an event or series of events occurred that signaled the end of the party. In some areas the lights went out quickly, in others, the lights began to dim slightly but steadily, as housing demand slowed, until the room was dark.

At first banks attempted, with the limited tools at their disposal, to work with homeowners struggling to stay in their homes.

Eventually, the foreclosure process got underway, the homeowner was unable to bring their loan current, to refinance or restructure, and the bank became the owner of the property. Pagosa and Durango have seen some foreclosure activity, though not as significant as other urban areas where production builders saturated the market with housing stock already in the pipeline while the economy was slowing down. The ripple effect extended into the commercial real estate market, as well as the land and lot markets. The foreclosure inventory is an important component within the Southwest Colorado market area that investors should become familiar with. This market represents some great buying opportunities for investors.

Currently there are 47 bank owned properties listed in the MLS within the Durango area, and 77 within the Pagosa Springs area. As an investor, how do you determine which properties among these would be the better investments?

First, determine how much of your money you are comfortable with in real estate? Next, identify your real estate investment objectives. Are you looking to acquire property for rental income, or, do you want to purchase property with the objective of making some repairs and upgrades and re-selling it at a profit? You also should determine the timeframe you expect to achieve your objectives within. For example, do you plan to rental property for 5 or 10 years, or, are you going to try to turn the property over in 1 year or less?

These initial considerations are important ahead of sorting through the specific opportunities in the market place. A property suitable for rental income may not be the best choice for a repair and resale program. Blending the two objectives may be the best choice, giving you more options for holding or reselling.

## Foreclosure Investments in Durango and Pagosa Springs, Colorado.

August 8, 2010 in [Colorado Foreclosure Market](#)

After determining financial objectives and ranking the physical features and characteristics of the foreclosure properties available in the area, an investor should decide upon the appropriate purchasing strategy. Obviously the procedures and strategies for purchasing a Colorado foreclosure are different than those used when buying from a private party. In Durango, foreclosure properties are held by Bank of Colorado and Bank of the San Juans, and you will find Pagosa Springs foreclosures held by Citizens Bank, First Southwest Bank and Pine Valley Bank. If you are looking to acquire a Durango foreclosure or Pagosa Springs, Colorado foreclosure you will more likely be dealing with an out of area bank.

The number of foreclosures held by local lenders is generally less than those held by large national banks such as U.S. Bank, Chase Bank, Bank of America, Washington Mutual, Wells Fargo, The Bank of New York, and others. What is likely in the months ahead is that the number of commercial property foreclosures will increase within Southwest Colorado and as a greater percentage of those loans were originated by local or regional lenders, those properties will then become owned by the local lenders.

For foreclosure properties owned by national banks, most often they will handle the disposition of the assets by contracting with outside contractors, this is the case in the Durango and Pagosa Springs, Colorado foreclosure market. Typically the firms provide foreclosure processing, field inspections, eviction processing, property maintenance, valuation services, property marketing and transaction closing management. Many of these

service providers have a large staff of file or case processors, often housed within a large central call center. Some of the tasks are further contracted out. For example, licensed real estate brokers will provide Broker Price Opinions "BPO's" and licensed real estate appraisers will provide appraisal reports to the REO Management firm. When an investor is working to acquire a bank-owned or "REO", it is seldom that they will actually deal directly with anyone from the actual bank that holds title to the property. The exception to this is when an investor is doing a bulk REO purchase, involving a small or large group of properties, sold as a package.

Generally then the investor will be working with a Buyer's Broker, who in turn will be coordinating things with the Listing Broker, who is selected by the Asset Management firm the bank retained to dispose of their foreclosure properties. The Buyer Broker works exclusively in the interests of the investor, negotiating to their benefit, assisting with the due diligence process and the overall management of the transaction. The Listing Broker will really be working to the benefit of the Bank, even though they may officially be listed as a "Transaction Broker". Because of the nature of the ongoing business relationship they have with the Asset Management firm, they are unlikely to be able to remain "neutral" as a Transaction Broker is supposed to be relative to negotiations. It is strongly recommended that investors enter into a written Buyer Agency agreement with a real estate broker that is experienced in dealing with bank owned properties. This is especially important if you are looking to acquire properties within the Durango or Pagosa Springs, Colorado area. The savings in money and time can be quite significant.

## Durango & Pagosa Springs Investment Opportunities

July 26, 2010 in [Colorado Foreclosure Market](#), [Durango Real Estate](#), [Pagosa Springs Real Estate](#)

After determining your primary investment objectives and investment term, you should also consider whether you are comfortable using debt for part of your purchase. Do you have a sufficient credit score and monthly cash flow reserves to handle the requirements of a mortgage or line of credit? If you do, your rate of return will likely be much higher for the cash invested, but as we all know, leverage is a double edged sword. Carefully consider whether it makes sense for you to borrow money to invest in real estate at this time.

In sorting through the bank-owned properties, the first old adage is a great place to start — location, location, location. There are some sections of Southwest Colorado that most investors would not be interested in, and in most cases, one would disqualify those bank-owned properties within areas or subdivisions that you are not comfortable with. What areas should investors not be comfortable with? By all means, call me if you have a specific property location you are concerned with and I will be happy to give you my opinion. Generally, investors should look for areas or subdivisions with some land use restrictions. Areas without restrictions may allow conditions that can negatively impact long term values; for example, an area without land use restrictions may allow manufactured housing to be mixed with on-site stick frame construction homes, or an area may permit camping or commercial uses within residential areas. These are typically conditions that are not favorable for long term value appreciation.

Of those remaining, an investor would first look at the condition of the property. What are the ages of the improvements? Is it structurally sound? What type of heating system does it have? What about utilities? Does it need major work, a roof, drywall, carpets, etc? What is the land like?

Does it have drainage or expansive soil problems? Are there gas wells nearby? How close to a public road is it? What does the immediate neighborhood look like? How does the asking price compare to other properties in the area?

What is the history of the property? What did it last sell for? How much was the loan balance when the bank took it back? What does the title chain reveal? Who was the contractor that built the improvements? Was a Certificate of Occupancy issued by the county building department?

These are a few of screening items an investor should consider in terms of ranking the best opportunities among bank-owned properties.

## Pagosa Springs Real Estate Outlook, 2010: Part Two

January 16, 2010 in [Pagosa Springs Real Estate](#)

"How are things going?"

Atypical question asked of local real estate brokers by members of the public here in Pagosa. "Things are going great, I've really been busy." An acquaintance of mine recently told me that his real estate agent had told him that she was really busy and that the market was really improving quickly. I knew his agent and also knew her production was near the bottom of the list of all the agents in our market. I checked the stats and confirmed that she

did not have any listings under contract and had only closed two small transactions for the whole year.

My acquaintance interpreted the agent's answer as confirming that things are really improving within the real estate market.

The problem was, the question he wanted answered wasn't even asked. Yes, the agent is probably busy; however, the market statistics may or may not indicate the market is improving. Perhaps the agent is busy responding to the questions and concerns of her listing clients. Perhaps she is busy putting together Broker Price Opinions for the lenders that are foreclosing on homes in the area, or, perhaps she is busy trying to figure out how she will survive in an economy her real estate license course never taught her about.

Regardless of what it is she is doing to keep busy, it is not real estate closings that are taking most of her time.

Working on foreclosures and short sales takes a lot more time and energy than working for private sellers and buyers. Banks often utilize Asset Management firms with cadres of case workers, clerks, file managers and negotiators. They have systems full of different reporting forms and guidelines they utilize to track the huge volume of troubled assets they are handling. The brokers that work with the banks and Asset Managers are expected to process a lot more paperwork than is normally necessary or practical in a small rural market like Pagosa Springs.

Getting responses to offers that are submitted can lead to be a lengthy and frustrating process. It is not uncommon for the owner of the foreclosed property to change hands while an offer is pending. The file then is transferred to a new file manager and the process starts over again.

So, yes, some agents are busy—but, in many cases they are not busy doing closings, which is how they get paid. It is wise to be very specific when you are asking a question aimed at finding out how the real estate market is doing. If the broker had no leads last week and this week the phone rang twice, he might respond that he is twice as busy this week as last, but his answer may not tell you what you want to know.

#### **Foreclosure Homes and Other Realities of the Market of 2009**

Last weekend I was working with a local young couple looking to purchase their first home here in Pagosa Springs. They both graduated from high school here and returned after pursuing their educations along the Front Range. They are both employed locally and have a new baby daughter. They are conservative with their finances and plan to only take on an amount of mortgage debt they feel totally comfortable with. The loan limit they have set for themselves is significantly below the amount the bank approved.

We set out to look at several homes that fit within their guidelines. All of the homes are bank-owned or "foreclosure homes". We found one that interested them the most and reviewed the details listed in the MLS. On Monday I visited the courthouse to obtain the recorded history of ownership and lending activity on the property.

The home was listed for sale in the \$150,000 range. It had been on the market with the current listing agent for about 150 days, first listed with the agent at an asking price of \$176,000. Previously, it had been listed by another agent at a price of \$255,000. When I checked the ownership history of the property I found that when it had been foreclosed by the lender, the loan balance was over \$230,000. I also determined that it had last sold in July of 2007 for \$230,000.

Based on the current asking price of roughly \$150,000, the sales history would indicate the property had declined nearly 35 percent in just over two years.

If my customers are successful in purchasing this property, they will not likely find themselves in the type of trap a few years out that many overly optimistic borrowers are now in. They are approaching homeownership in a sensible manner, with their eyes wide open and some intelligent boundaries in place. Because of this, I have no doubt, they will make a good investment that will help them grow a good nest egg for their young family.

A second example of a bank-owned home on the market with an interesting sales history. Presently the home is priced \$114,000. It last sold in January of 2007 for \$200,000, indicating a decline in value of 43 percent over the last three years.

A third property I looked into is currently offered for sale at \$250,000, having last sold for \$329,900 in September of 2006. The loan balance when the bank took it back was just over \$273,000. Interestingly, there was an additional home equity line recorded in the amount of \$90,000, indicating total debt of \$363,000 against the property.

Does this seem like extremely imprudent lending practices by out-of-area lenders—or is it just me?

In looking at these three examples, one can see that, yes, there are some bright spots within our real estate market; especially for the first time home buyers. In addition to some very good prices, some of these lender-owners are offering incentives such as contributions towards the buyers closing costs and two year homeowner warranties.

In some cases, the smarter lenders are even offering bonuses to the real estate agents.

#### **How Can You Know How To Price Your Home Realistically?**

Ask your broker to prepare a Comparable Sales Report for you. This will show you all of the

homes similar to yours in terms of size, location and price range that have sold during the prior 12 month period. It will then compare each of those homes' features to yours and make adjustments, upward or downward to arrive at a supportable range of values. This comparison report should also include a listing of the properties yours would compete against.

The number of comparable listings, divided by the number of sales during the prior 12 months will give you the annual absorption rate. If there are 24 homes on the market similar to yours and 6 have sold during the past year, then that means there is a 4 year supply.

Another way of looking at it is that there will probably be only 6 of the 24 homes on the market that will sell this year. If your price places your property among the top two, then, for the current market, your price is realistic. If you are at the bottom of the top six, your price is less realistic. If you are in the middle or bottom of the 24 homes that are listed for sale, your odds of selling during this year are extremely poor. It is more likely your home will be among the 18 still sitting on the market next year.

## Pagosa Springs Real Estate Outlook, 2010: Part One

January 15, 2010 in [Pagosa Springs Real Estate](#)

I hope the start to a fresh year and new decade finds you healthy and with renewed hope and anticipation for a positive, productive and more enjoyable time ahead. We have all been rocked by the economic and political events of the past couple years and are ready for better times ahead.

It is our hope that this article provides some insight into the economy in Pagosa Springs as well as things we all need to be aware of as we press on.

### **The Real Facts on Pagosa's Housing Market**

No huge surprises here. For the year, the numbers are down; that is, the Total Closed Volume is down by 59% from last year. Total Closed Sales Volume was 2009 of \$68,376,205 as compared to \$168,346,630 for 2008. Total Unit Volume is down by 54% as compared to 2008. These figures are for all classes of real estate, homes, condos, land, etc.

The more concerning figure is the level of housing inventory presently on the market. Based on the trailing 12 months of Closed Sales (166) units, we currently have a 29 month supply of existing housing. In a metropolitan market, a 6 month supply of housing inventory is considered a balanced market. Pagosa has historically carried more inventory, generally about an 18-month supply. This is due in part to the seasonal component of our market as well as the fact that many of the sellers are discretionary sellers. This type of seller is not typically motivated by the pressure of a job transfer, as is often the case within metro market.

As a result, the average number of days on market tends to be greater, and the supply tends to stay further ahead of demand, as compared to markets within urban areas, such as Denver or Dallas.

However, our figures are more out of balance than some metro markets, and yes, significantly over-supplied based on our market history. The good news is that the number of months' supply of homes on the market at the end of 2009 was less than at the end of the second quarter. At that time our housing inventory represented a 44 month supply, so this reduction is a positive.

When we break down the housing inventory by price categories, you can see some price ranges show more over-supply than others — generally, the slower-moving properties are at the higher end of the market. At current rates of sales, Pagosa has an 18 month supply of homes in the \$200-\$299 range. In the \$500-\$799 range, the supply appears to be about 5 years. For homes over \$1.2 million, the supply could last for 10 years at the current rate of sales.

Of the four home sales recorded above \$1,200,000, I personally handled two of the sales. One was a custom lakefront home within Hidden Valley Ranch and the other was a remodeled log home and guest cabin on acreage just west of Parelli Natural Horsemanship Training Center.

Inventory concerns aside, these figures would indicate that perhaps insofar as the single family homes component of our real estate economy, the news is not continuing to worsen. Before we can begin a local real estate recovery, we have to define the bottom, ahead of that we see the rate of decline lessening, and that would seem to be the case with the single family component.

Land, and each of the other components of our market remain very weak and continue to decline overall. We expect to see more downward pressure on commercial real estate values as tenant counts shrink and the overall taxable retail sales volume within our market remains impaired. We also expect some larger commercial properties could end up in the hands of lenders as the commercial real estate mortgage market is under tremendous pressure. Values have declined, placing a number of properties in technical default as the

loan-to-value ratios have fallen below the guidelines set in the loan covenants. Some lenders may remain patient, depending on the guidance provided by the banking regulators, others may be forced to foreclose, absent additional equity contributions by the borrowers.

#### **Is There Any Good News?**

Yes, during a recent visit with our title company we were informed that the Chimney Rock Store and Restaurant will soon be opening under new ownership. We represented the new owner of Victoria's Café in their purchase of the restaurant business from Gordon and Pat Kahn. In both these transactions, it is a good sign to see people having confidence in the long term viability of our local economy. We wish them well. We also see the high end sales that we closed recently within Hidden Valley Ranch and the Aspen Leaf Ranch, representing more than \$3.7 million of investments, as good solid votes of confidence in the future of the Pagosa Springs area.

There continues to be interest in Bootjack Ranch from prospective purchasers outside the state, though no sale is currently pending. With an asking price of \$68 million, down \$20 million from the original listing price, at least two parties remain engaged in discussions. There is no shortage of trophy quality ranches on the market within the Rocky mountain region; still, none match the quality and uniqueness of Bootjack, it is truly an extraordinary property by any measure.

The present conditions are exceptionally friendly for buyers. An abundance of available inventory, low interest rates, and a growing number of motivated sellers provide plenty of positives for prospective buyers. Additionally, a federal tax credit of up to \$8,000 is available to first time home buyers that qualify and close prior to April 30, 2010. Additionally, there is a federal income tax credit of up to \$6,500 available for repeat home buyers. What is the catch? Now you must have a decent credit score and verifiable monthly income. In other words, qualifying is based on normal criteria.

#### **What Factors Would Help the Pagosa Real Estate Market?**

Obviously when the national economy improves across a broad range of measures, consumer confidence will improve and we will see people beginning to spend money on discretionary items such as vacation and resort area real estate. Until that occurs we expect to see the market remain somewhat challenged. We also watch how the real estate economies of areas such as Phoenix and southern California are progressing. Historically, Pagosa has enjoyed a strong relationship with those areas in terms of where many of our buyers have come from. In October of 2009 the Arizona State University W.P. Carey School of Business published their outlook for the Phoenix real estate market. They are projecting that by 2011, new residential building permits within the Phoenix Metro area will be at only 25 percent of the number during the peak years, and still "less than half the demographic demand during times of normal population flow". The projected new housing starts, looking ahead 1-2 years, are far below the boom years, the positive growth does represent a plus for our area.

As new construction comes back into the Phoenix area, home values should begin to increase and owners will gain the confidence needed to invest in resort properties. Durango Mountain Resort continues to market heavily into the Phoenix area. With commercial flights on USAir, Pagosa is only 2-1/2 hours away from the 3.6 million people within the Phoenix Metro Area.

Additionally, the Texas economy remains a strong indicator of our second home market as hundreds of our owners and part time residents reside in the state of Texas. Looking ahead again, as the national and world economies improve, the demand for energy will increase and that is a positive force for the Texas economy. Often times during periods with high oil prices, Pagosa has enjoyed good solid real estate activity from a strong influx of Texas money. There is much that remains attractive here for people from Texas, and relatively speaking, we are pretty easy to access for many Texans, as compared to other parts of the Rockies.

We think it will take longer for Californians to return to Pagosa in large numbers. Their economy remains in shambles and it may take many years for the state to turn things around. We suggest the Town Tourism Committee aggressively market itself to the Texas market and ramp up the advertising into the Phoenix market during 2010 and beyond. Based on the history of our real estate sales, that would seem to be a wise investment of the lodging tax revenues.