Metro-Denver

Small Income Property

Review and Outlook

2016 / 2017

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2016 Summary

Income Property Sales

"Cheers to a new year and another chance for us to get it right." - Oprah Winfrey

It's that time again, since 2003, each January I research all the previous year's Multi-Family Income Property Sales from our local MLS (Metrolist/RE Colorado) to give **the Denver-Metro Area Small Income Property Investor** a market review and a peek into the future**.** I specialize in the 2-4 Unit market.

The Multi-family SOLD information is from Adams, Arapahoe, Denver and Jefferson counties. Sales are from January 1st through December 31, 2016, researched from the MLS database on Jan. 11, 2017. The information used for comparison is from small multi-family property sales 2 or more but less than 20 units.

This year's Average Sales Price and Average Price per Square Foot numbers are through the roof! Again! Over 84% of the sales of Small Income Properties in the Denver-Metro area are in the 2-4 Unit range and much of the 2016 record highs can be attributed to this market. For a closer look at the 2-4 Unit market and specific neighborhoods, contact me for more concise comparable sales information.

Complete sales lists broken down by County and Area are available for a closer look into specific neighborhoods. These 2016 comparable sales lists have been broken down by Duplex, 3 and 4 unit buildings. **I highly recommend that you look at these lists to get an idea of the Small Income Property market near your properties or for areas that you may be interested in investing in. Contact me for your specific area info!**

Data for Single Family Home Investors and for 5+ Unit multi-family properties is also available upon request but is published in different formats. Single Family Homes are analyzed in the MLS/MATRIX format and larger multi-unit sales not listed in the residential MLS are researched separately in Commercial databases.

If you would like to stay up-to-date on the current 2-4 Unit market prices and trends in specific neighborhoods that interest you, I offer my Small Income Property clients updates in a quarterly format throughout the year by email.

The internet has allowed me to save on the ever-increasing mailing and printing costs by publishing on-line but for those who are more comfortable with the printed page or just not connected, I can still mail this printed report and the individual County comparable SOLD lists upon request.

The switch to a more powerful MATRIX MLS system for the Metro-Denver area was completed in 2014. The change has caused a few issues in how I report and compare the annual sales information for Small Income Property but the SOLD format is basically the same. The main draw back for Small Income Properties was the removal of the old specific neighborhood/area designations. We now sort and separate by ZIP CODE.

The notes, numbers, ramblings and thoughts that follow are formed from my research of the MLS SOLD information, my day-to-day involvement in the local Small Income Property market, news reports and feedback from clients & associates in the business. As you will soon see, I am not a professional writer, editor or proof reader, I apologize in advance for any poor spelling, grammar, syntax, etc.

As always, any suggestions, corrections, additions, comments, complaints, praise, etc., is truly appreciated. Your thoughts and feedback are welcomed and helps to keep me up-to-date on what type of information is most valuable to you. Feel free to contact me on anything in this report. My satisfaction comes from helping you achieve your real estate goals.

Have a great and prosperous 2017!

"There are far, far better things ahead than any we leave behind." - C.S. Lewis

2016 Small Income Property Review

The table below shows the annual number of multi-family sales and total sales volume from the MLS by year. Total MLS Sales includes all MLS 4 county Denver-metro multi-family sales. 2-19 units includes all 4 county MLS multi-family sales with less than 20 units. Total Sales Volume is calculated with sales of the 2-19 units. There was a total of 445 MLS Income Property Sales after removing several that were listed incorrectly.

Annual Income Property Sales.

Annual Income Property Sales

	Total MLS Sales	2-19 Units	Total Sales Volume
2004	634	618	$193,874,674
2005	619	610	$202,041,092
2006	579	564	$198,683,420
2007	404	384	$172,375,390
2008	430	408	$109,852,750
2009	357	349	$83,316,905
2010	378	370	$102,508,966
2011	433	417	$116,591,147
2012	394	382	$115,593,574
2013	499	493	$175,470,349
2014	494	485	$198,634,599
2015	460	449	$211,001,746
2016	445	436	$250,808,302

Record Prices with Less Sales- Again!

2016 Income Property Total Sales Slip Slightly - Again!

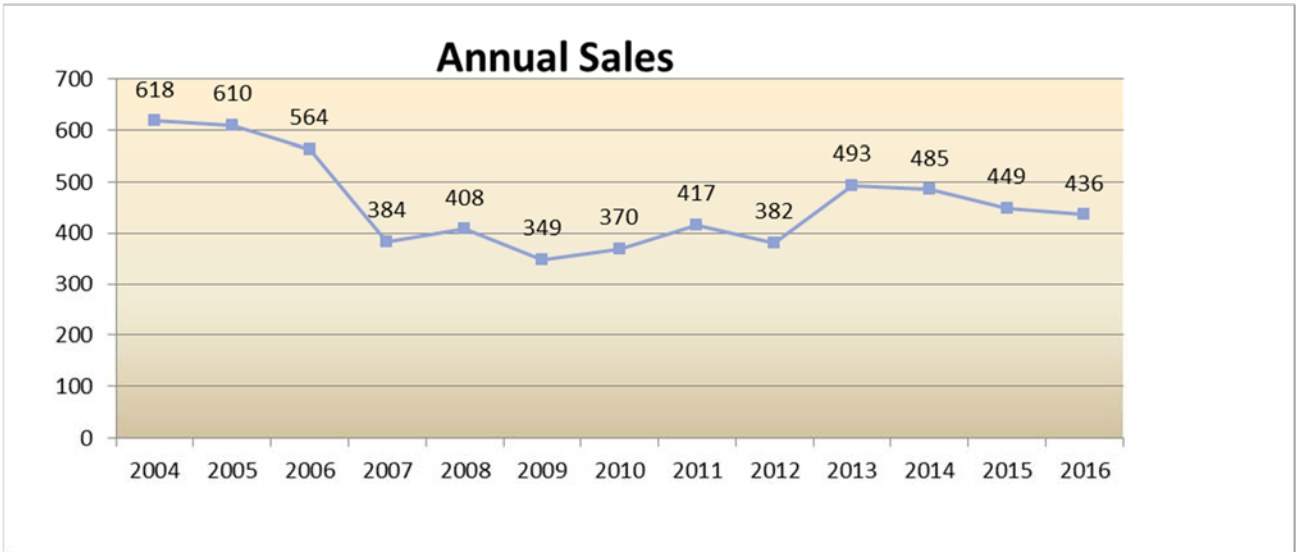
Volume Hits New Record High! - Again!

The table above and the following charts and graphs illustrate that 2016 was a continuation of the previous year regarding most measurable trends. The total number of MLS Income Property sales in 2016 fell again with about 15 less sales than the previous year while Sales Volume increased again by almost 19% to an another all-time high in 2016!

Again!- We had an inventory constricted market with upward trending prices.

"The person who says it cannot be done, should not interrupt the person who is doing it." - Chinese Proverb

Total Sales



Total Sales Slightly Lower in 2016 – Again!

In Metro Denver, we still are well below the peak of 618 annual sales that we reached 2004. The total number of annual sales has not been over 500 since 2006.

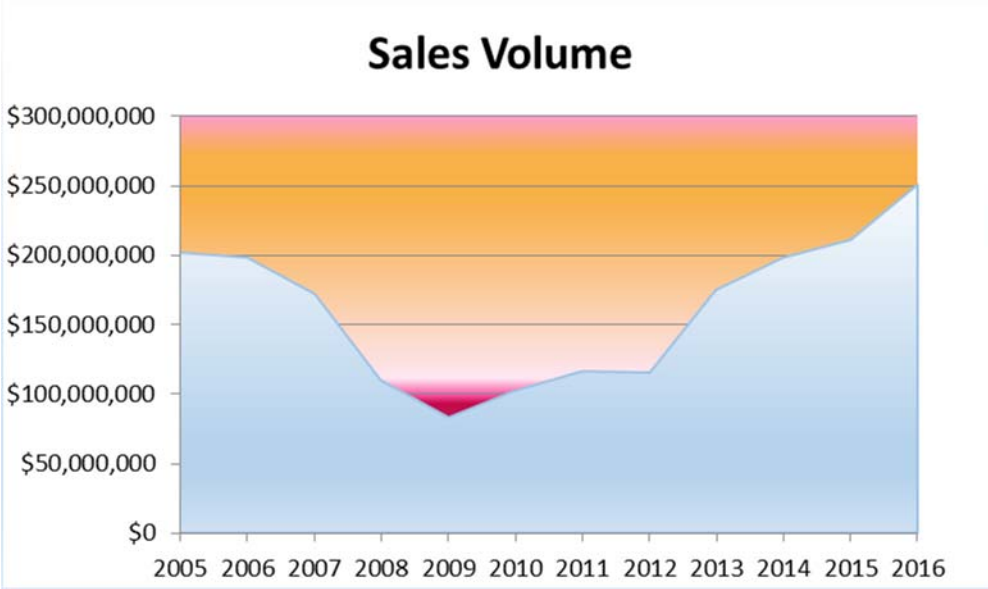
The housing crisis with its declining values and markets ruled by foreclosures gave us a "new normal" in total annual sales. For six years from 2007, the total number of sales averaged about 385 deals a year, never more than 417. Compared to 3 years earlier, that averages out to about 215 less transactions each year over a 6-year stretch! In 2013 and 2014 we finally saw a jump to closer to 500 sales but 2016 shows another decrease in total sales to 436.

The shrinking sales numbers can be attributed to some of the inventory being removed from the market, especially in Denver, and a lack of any substantial new construction in the smaller unit range for residential apartments. Low interest rates for savings, lack of non-real estate financial opportunities for Sellers to invest their proceeds, lack of available properties to find suitable replacement properties, tax consequences and considerably less options in financing have all been contributing factors to the shrinking sales figures.

In the under 20 Unit market, we again saw a decline in total sales from 449 in 2015 to 436 in 2016. The total was up about 87 sales from the low in 2009 but not up to the record levels of 2004 and 2005 or even close to the 2013 mark of 493 sales.

"Success is walking from failure to failure with no loss of enthusiasm." - Winston Churchill

2016 Total Sales Volume



2016 Total Sales Volume Rises – All Time record! – Again!

The 1st Year Above $250 Million Ever!

Total Sales Volume Rises Again in 2016 to Another Record High of $250,808,302!

The 2016 Total Sale Volume finished up almost 19% over 2016. The pace picked up again to resemble the increases in 2013 even though 2016 sales decreased slightly. Year over year, there was an additional $15.5 million from the 2-4 Unit market in 2016

Total sales and volume rose sharply in 2013. Since then, volume has been increasing on declining sales numbers. Inventory scarcity and low Days on Market numbers validate the Supply and Demand theory.

Since the real estate "bubble" days when banks and foreclosures were prominent in the small income property market, the individual investor has seen natural market forces influence the market again, i.e. income, expense, low interest rates, low vacancy, rent increases, supply and demand, etc. Especially lack of supply and high demand in the past 2-3 years.

The trend continues but for the future, rising interest rates, any further tightening on available financing, slowing rent increases, rising vacancies and a continuing downturn in inventory could be determents to the current trend.

"Even if you are on the right track, you'll get run over if you just sit there." - Will Rogers

2016 Average Sales Price

Average Sales Price- NEW ALL TIME HIGH! - Again

Every County Recorded a New All-time High.

The four county Average Sales Price increased to a New Record High of $575,609. That is up over $335k from 2009 and even more astonishing is that it increased over $100,000 in just the last year. That is another 20% jump following a more than 15% rise the previous 3 years

2016's higher Average Sales Price came predominantly from the "larger" 2-4 Unit Small Income Property segment this year than the "smaller" 5-19 Unit market, which is opposite of last year.

We may not be selling more buildings than we were 10 years ago, but we sure are getting higher sales prices!

"Life is 10% what happens to you and 90% how you react to it." Charles R. Swindoll

5-19 Unit

Average Sale Prices Blow Past $1 Million for a New Record High!

Denver-Metro 2016 5-19 unit property sales are back to the 2014 levels after falling back in 2015. Sale Volume rose 44%. As with the rest of the market, the trend of rising Average Price per Square Foot and Average Sales Prices continues. The Average Sales Price came in at over $1,138,000 and the Average Price per Square foot at $186. The Days on the Market increased significantly to 63 days but mostly from a package of Arapahoe properties. Adjusting for this would shave off about 20 days.

5-19 unit apartment sales are a relatively small market share in Denver which sometimes causes some of the numbers to be skewed. The aforementioned Arapahoe County package was the of sale of approximately 7 buildings in Arapahoe County that sold to one entity. These were on the market for a while and all registered as individual sales even though they closed almost simultaneously. This skewed the Total Sales and Days on Market numbers somewhat.

2-4 Unit Market

Average Sales Price Sets Record on 7% Lower Total Sales.

The much larger and general focus of this report is the four County Small Income Property market segment of the 2-4 Units. These sales were down a total of 27 vs 2015 or 7%. Again! About the same as last year! The Average Sales Prices were again much higher than the previous year. The Average Sales Price of the Denver-Metro 2-4 Unit properties rose 18% year over year to a new high of just under $470,000 vs $397,879 in 2015. An additional $15.5 million in record Total Sales Volume. Days on Market moved up 3 to a still low 29!

DENVER – 2016 – Denver Duplex sales shrunk drastically from 127 to only 80 in 2015 but last year in 2016 we saw Duplex sales climb to 101. After a 30% climb in 2015 to $413,000, the Average Sale Price moved only slightly higher to $431,800. Days on market increased also by 10 days to a still short 29 Days on Market!

Once again, Denver's diverse neighborhoods offered a wide price range. 47.5% of Duplex sales were between $172,000 and $399,000. 40% sold in the $400-600k range and rest were spread out up the $1,050,000 for Cherry Creek duplex that I believe was scraped!

Denver is the only County with consistently more than 8-10 Triplex sales. 2016 showed that there were 31 sales, including the two first ever Triplex sales over $1,000,000! The Average Sale Price was a record topping $610,000.

Denver 4 Plex sales rose from 31 to 37 in 2016. The Average Sales Price increased by over $100,000, topping out at more than $836,000. That's up $224,00 year over year! 2016 also recorded another milestone, two 4 units sold for over $2,000,000 each!

ARAPAHOE County- 2016 – Arapahoe's sales have been "off and on" annually. In 2013 they skyrocketed ahead of their neighbors. In 2014 they took a break, 2015 saw another big increase and 2016 total sales fell 35%. Total sales were down from 67 to only 43 total. Total Sale Volume was down on less sales but the Average Sale Price increased by $40,000 to $374,000.

Duplex sales were cut in half from 46 to only 23! Scarcity causes rising prices & shorter sale time - as the Arapahoe Duplex Average Sale Price increased by $38,000, Price per Square Foot went up $25 and Days on Market shrunk by 10 days.

The Triplex and 4 Unit total number of sales stayed the same as 2015. Fourplex volume shrunk because of fewer high end sales than the previous year and an outlier sale in Deer Trail CO. The 10 Triplex sales were a different story. Prices were up over $65,000! If you want to buy a Triplex in Arapahoe County, you must move quickly when they hit the market. They sold in an astonishing 6 day!

ADAMS County –2016 - Adams County 2-4 Unit Small Income Property Total Sales shrunk by about 25%. Most of the loss was in the 3-4 Unit market, with Duplex sales staying nearly the same. After an increase in the 3-4 Unit sales in 2015, we saw a 50% drop in the number of sales for 2016.

Lower sales caused the Total Volume to drop but the Average Sales Price increased almost $46,000 to $361,238. The Price per Square Foot was up about $20 to $150 per square foot but the Days on Market increased by almost 50% to over 40 days.

Previously in 2015, twice as many Buyers were able to find Triplexes with prices that averaged $323,000 and Fourplexes that averaged $425,000. 2016 gave us only 4 Adams County Triplex sales averaging $378,812 and the 11 Fourplex sales that jumped to $492,445.

Adams Duplex Sellers in 2016 saw an average increase of $73,000 up to $326,000 and the Average Price per Square Foot grew by $20 to $153 per square foot. Days on the Market almost doubled to 46.

JEFFERSON County- 2016 -Jeffco 2-4 Unit sales decreased by 20 from the previous year but majority of the loss was in the 4-unit segment where total sales were down to only 25% of the previous year. The Average Sales Price went up about 7% to over $430,000 pushed by the Price per Square Foot increase of $24/ Sq. Ft. to $172. Days on the Market went up slightly but still under a month at 29 days.

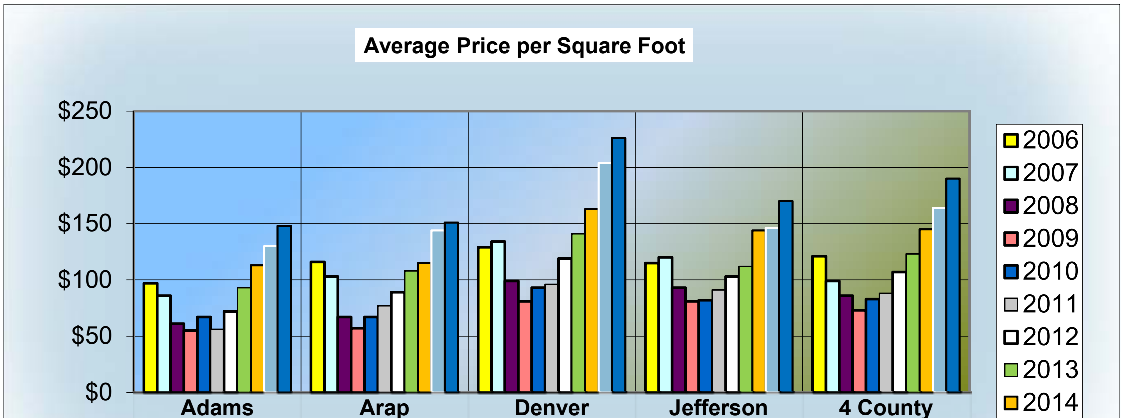
Jeffco Duplex sales increased from 82 to 89 year over year with the Average Sales Price up $50,000 to over $427,000. That increased the Price per Square foot to over $175! Average Days on Market was only modestly higher at 22 days.

Triplex property sales are low again with 7 in 2016 vs 6 in the previous year but the price changes were phenomenal. Price per Square foot jumped $50 per foot! Average Sales Price was up almost $136,000 a deal to over $527,000! This puts the Jeffco 2016 Triplex average above the Fourplex average of $496,143.

Speaking of Jeffco Fourplexes, this segment produced a dramatic change. It was hard to find a 4 unit for sale in Jeffco in 2016. Sales fell to only 7 from 29 in 2015. Price per Square foot stayed the same and Average Sale Price went up only 5%. Days on Market was at 22 but 5 of the 7 sales averaged less than 5 days.

"Opportunity is missed by most people because it is dressed in overalls and looks like work." – Thomas Edison

Average Price per Square Foot



	Adams	Arap	Denver	Jefferson	4 County
2006	$97	$116	$129	$115	$121
2007	$86	$103	$134	$120	$99
2008	$61	$67	$99	$93	$86
2009	$55	$57	$81	$81	$73
2010	$67	$67	$93	$82	$83
2011	$56	$77	$96	$91	$88
2012	$72	$89	$119	$103	$107
2013	$93	$108	$141	$112	$123
2014	$113	$115	$163	$144	$145
2015	$130	$144	$204	$146	$164
2016	$148	$151	$226	$170	$190

Average Price per Square Foot – Four County Average Hits New High!

The four+ County Average Price per Square Foot advanced 15% in 2016 and reached another new record high of $190 per Square Foot. All four Counties individually are also at all-time highs. The traditional order is in place with Denver having the highest averages followed by Jefferson, Arapahoe and Adams County in the rear.

Arapahoe County has been consistently erratic in the third slot. Either edging up near #2 Jefferson County or close to the perennial low-cost Adams County. After slowly rising just 6.5% in 2014, then a hefty 25% in 2015, it increased only about 5% in 2016 to $151 per Square Foot. A few bucks ahead of lasts then record high.

Adams County still has the lowest Average Price per Square Foot of the four Counties but it had another good year, up almost 14%. Since 2013, Adams County has matched Denver's leading rate of increase.

Denver continued with another record year to lead the pack in Average Price per Square Foot. Its 11% gain could not match the phenomenal 2015 jump of 25% but still hit a new record on $226.

Jefferson County had only a slight increase in 2015 but picked up the pace again in 2016 with a 16% gain. At $170 per square foot, it again reached a new all-time.

"You miss 100 percent of the shots you don't take." – Wayne Gretzky

Days on Market (DOM)

Days on Market (DOM) – Close to a month.

These numbers have been crazy and were at phenomenal all-time Lows in 2015.

The continuing lack of inventory caused the Small Income Property DOM figures to stay near the lows of the 2015 records. Single digit Days on Market numbers for properly priced properties are not unheard of.

Adams County went from worst to first in 2015 and first to worst in 2016 because of several properties that "lingered". While Adams County's average was a deceiving 43, the median was only 21.

Arapahoe County and the City and County of Denver increased slightly but stayed close to 1 month. Jefferson County at 27 days, was the only county this year to shorten its Days on Market number

Properly priced properties should have had showing and contract activity in the first 30 days. If no contracts were offered, the Broker and Seller needed to review the marketing plan. Someone was not being realistic! Inventory is still low keeping the Days on Market totals low.

"Do not let what you cannot do interfere with what you can do."- John Wooden

This article is repeated from last year but just as timely!

B and C Class Properties. A good time NOT to get an A!

Lack of Competition - Rising Rents

Most Metro-Denver 2- 4 unit properties are considered B and C class properties based on of age and collectable rents. With more tenants than units for these properties, the future looks bright.

Many firms throughout the country are seeing the value in these properties over newer Class A types. With much of the pipeline of new apartments focused on Class A, there's little to no competition from new Class B or C apartments and their current rent ranges. In fact, in recent years, Class B/C inventory has actually been declining, due to conversions, demolitions, etc. These properties are not adequately being replaced by either new construction or Class A properties sliding down into the B/C category. This presents an ample opportunity for Class B/C rent growth to accelerate.

Investor's Business Daily previously reported, Kevin Finkel of Resource Real Estate, which specializes in commercial real estate investment, lending and securities are renovating Class B and C suburban properties of 1980s vintage or older. They're catering to households that earn the median US income which is more than half the rental population.

Often such renters are couples or single parents who work more than one job and can't afford to live in upscale downtown properties - nor do they necessarily want to live there, Finkel says. While developers receive tax credits to build affordable apartments for low-income renters, incentives for new construction that serves the middle market do not exist, he says.

"Nobody talks about the middle, and that's where the real housing crisis is," he said. "That's where we believe the strongest growth prospects are, and that is where we see an incredible amount of demand for these units."

Many households living in B/C apartments are doing so out of necessity, not preference. If they could afford something better, they'd likely choose it. However, with median real household income falling over the past two decades, many households have limited ability to spend on goods and services, especially housing.

This situation relegates them to B/C apartments and essentially excludes these households from purchasing a home. That's especially true these days, with residential mortgage underwriting standards remaining stringent. Indeed, it's tremendously difficult for many households to obtain a mortgage, even an FHA loan. Many of these households have impaired credit or endured a foreclosure during the recent housing bubble that puts even this option out of reach.

The tenant pool four 2-4 Unit properties should be more than adequate for quite some time!

"The only place success comes before work is in the dictionary." - Vince Lombardi

ADDITIONAL 2-4 UNIT MARKET Info

2-4 UNITS RENTS AND VACANCY

Vacancy rates still low. Rents are high but increases are slowing!

It appears that the rate of rent increases has slowed. There are several sources to check for national and local tends. I would recommend a Jan. 15, 2017 article in the **Denver Post Business Section** by Aldo Svaldi entitled "Housing market has split personality" to check some sources. The numbers from the sources he researched differ somewhat but the consensus is that rental rates are going to plateau as more new units hit the market.

Once again, the new units are not direct completion for the 2-4 market. But as they affect the overall market they will also touch your tenants as some of the lessor units become available at lower prices and/or with concessions.

Locally the Apartment Association of Metro Denver Vacancy and Rent Report recorded that the metro average for vacancies throughout the year held between 5.6 and 5.8% through the first three quarters of 2016.

Of the four Counties I follow, Denver had the highest rate for 2016 at just a touch over 6%. Jefferson County's held consistently under 5% through the third quarter of 2016. Arapaho and Adams were at about 5.5%.

Comparing two bedroom & one bath units, the report had the average rent for the Denver-Metro area at $1293 a month. Denver was $1343. Jefferson County was $1262. Arapahoe at $1245. Adams County was $1211.

The average rent per square foot came in with Denver at $1.50 per square foot, Arapahoe and Adams were at $1.44 and $1.43 respectively while Jefferson County finished the third quarter at $1.45 per square foot for its two bedroom one bath units. For more specific info on your unit types, neighborhoods, etc contact Keith.

2-4 Unit Owners - Raise Your Rents, Please!"

I know I harp on this often and here I go again…..…..if you have not been raising rents- Please consider it NOW!

The phrase I hear most from Owners who are thinking of selling is, "I know my rents could be higher but….." When telling a potential Buyer that the Seller says the rents could be higher, their response is always, "then why hasn't the Seller raised them? And why should I pay any more for low rents?"

A big difference in the operating/management styles of the Small Income Property Owners vs. the 'Big Boys' is taking advantage of the opportunities to raise rents. 2-4 Unit Property Owners tend to become too comfortable with their tenants and fear turnover. Large management companies have more turnover and use these opportunities to raise rents. They have operating plans and software to help maximize their rental rates as leases are renewed in times of low or high turnover.

Simply put;

Low Vacancy = Higher Rents! Higher Rents = Higher Net Income! Higher Net Income = Higher Values!

Some owners (you know who you are) will never raise a tenant's initial rent. Don't be greedy but understand as an Investor, you need to maximize your investment! Oh yeah, did I mention,

Raise your rents!

"Compound interest is the eighth wonder of the world.
He who understands it, earns it ... he who doesn't ... pays it." Albert Einstien

2-4 Unit Financing and Interest Rates

2-4 Unit Financing. Changes and more coming!

Interest Rates

The bad news is that the historical low interest rates have bottomed and turned up. The good news for Buyers is that rates are still low even though they are up about 1% from last year. As of 1/15/2017, current Owner-Occupant conventional loans are near 4.125% for 30 year loans and around 3.75% for a 15-year amortization. FHA 30-year fixed rate is at about 4.375%. Non-Owner Occupied Investor loans are about .375 -.5% higher. The consensus is that rates are going to continue rising, but slowly!

Higher rates will affect affordability in all real estate markets. How much? No one knows. I do know that a more than 2% rise in rates will affect the operating numbers and values for Small Income Property Owners!

For the Small Income Property investor, net operating income is the main influence on property values. The cost of finance was a huge variable prior to our current low rates. If rates were to double (2000) or triple (1990) or quadruple (1982), values could plummet. Even todays owner with a low interest loan, if you had to sell, you would not be able to find a Buyer who could make todays sales prices work with high interest rate financing.

Many analysts have expected long-term rates such as mortgages and Treasury notes to slowly begin to rise for a couple of years now and it finally started in the 4th quarter. At what speed and trajectory this continues depends on the coming economic changes and inflation. The new Trump Administration promises changes. How it affects us, we will see shortly.

Federal Reserve Chairwoman Janet Yellen recently said, "I and most of my colleagues" were expecting to increase the benchmark lending rate "a few times a year" through the end of 2019. The Federal Funds rate, which banks charge to lend to each other overnight is now at .75%.

Per Yellen, it is likely to be at 3 percent by the end of 2019. Yellen acknowledged that this target is "a full percentage point lower than our estimate just three years ago." After so many years of not being able to do anything, she seems eager to push the rates higher.

I expect rates to continue to rise slowly throughout the coming year.

Cash Sales

If you want to go to the front of the line when purchasing real estate, Cash is King!

For the past couple of years, investors with cash were prominent in most all markets – single family investment, multi-family income property- big and small. With rising prices, some cash investors are finding some deals less appealing and some sellers will consider waiting a bit more for a closing if they can get more from a financed Buyer.

In November of 2016 the National Association of REALTORS® reports that all-cash sales were 21 percent of transactions in November, down from 22 percent in October and 27 percent a year ago. Of the Individual investors, Fifty-eight percent of investors paid in cash in November, which matches the lowest share since August 2009.

From personal experience, I would bet that the number was higher in 2016 in Metro-Denver. As we dealt with multiple offers on new listings, most Sellers placed a higher priority on all cash vs financed deals. The same should hold true for the start of 2017.

"You can't build a reputation on what you are going to do." - Henry Ford

Federal Housing Administration (FHA) Financing

2-4 Unit Owner-Occupant Buyers still have the FHA low down payment loan option available with up to a 96.5% Loan to Value. An excellent option for young investors.

Upfront mortgage insurance is still 1.75%, but new for 2017 is a lowered monthly fee. The Department of Housing and Urban Development said in a statement Jan 9th, 2017 that the fee the FHA charges to guarantee mortgages it backs are being cut by a quarter of a percentage point, the monthly mortgage-insurance premiums fall from .85 to .60. That's worth $50 on every $100,000 of loan. This will help buyers in qualifying while interest rates are rising but it also generates less money to fund coverage of bad loans.

This was done by the Obama Administration on its way out and takes effect Jan. 27th. Should the new administration see this as a political issue, they also could change the fee.

FHA also offers the 203K Loan program for Owner-Occupants which is excellent for buying a fix-up property and being able to borrow the fix-up monies at closing based on the renovated value. The 203K Loan is still available only to Owner-Occupants.

Conventional Financing

As an Investor, it basically takes a 25% down payment or more to finance a 2-4 Unit sale with conventional financing. Conventional Owner-Occupant financing for 2-4 units is offered again with 15% down on Duplexes but you still need at least 25% down on 3-4 units.

Fannie Mae made changes in its Multiple Financed Property rules. When you purchase your fourth or fifth Small Income Property you will be looking at different requirements than when buying your # 1-2-3 or 4 financed properties. The new limitations apply to the total number of properties financed. If you have a loan on your primary residence, this also counts towards your total.

When purchasing the 5-10 financed property, a 25% down payment on the property purchase will be required for a 1-unit property and 30% down payment will be required for 2-4 units' vs 15% for single family home investment financing and 20% to 30% down payment for multi-unit properties on your first four financed investments.

Requirements include a 720 or better credit score, no foreclosures or bankruptcy in last 7 years, current 2 years tax returns, no late pays in the last 12 months and 6 months of PITI reserves on EACH of the financed properties.

There are less lenders willing to do the financing on your 5-10 investment properties. Many banks and mortgage lenders will often avoid in promoting, originating and funding Fannie Mae 5-10 Financed Properties due to the time and complexity it involves in processing, underwriting, funding and servicing these types of conventional loans.

Also, Fannie Mae has discontinued its "Home Path" financing. Their similar option, The HomeStyle Renovation mortgage is a single-close loan that enables borrowers to purchase a home that needs repairs, or refinance the mortgage their existing home and include the funds for renovation in the loan balance. The loan amount is based on the "as-completed" value of the home rather than the present value. The Home Style Renovation Program can also be used on investment properties and 2nd homes with varying down payments.

"What you lack in talent can be made up in desire, hustle and giving 110% all the time." Don Zimmer

Other 2-4 Unit Financing Options

Short term **Hard Money** is always available with higher rates compared to conforming financing.

Some Investors have been converting IRA retirement funds into **Self-Directed IRA's** as an excellent option for having Real Estate in your IRA and for financing 2-4 unit deals.

Also, retired investors wishing to make new investments using low interest rate new financing have been able to qualify by using **IRA Disbursements** to satisfy lender underwriting requirements. This is much easier than the Self-Directed program and allows access to current low rate options.

Seller's still have the **1031 Tax-deferred Exchange** available to roll all of their equity into a larger or more suitable property while deferring taxes. This is an excellent investment vehicle to grow your portfolio and defer the Capital Gains tax burden. Recent talk of tax code changes may threaten this option in the future.

VA Loans

Eligible veterans can take advantage of their VA Loan benefit with a Zero Down Payment on Owner-Occupant 2-4 Units. Loan limits for 2017 have risen to $493,350 for our four counties. Some VA Jumbos are available with a 25% down payment on the difference above the limit.

Owner Will Carry Loans (OWC)!

Owner Will Carry (OWC) financing is sometimes available. Low returns on conventional investments, installment sale tax benefits and future cash flow have caused more owners of Free and Clear property to consider OWC financing as a smart option. Many forward-thinking clients over the past few years have seen it as way to lock in rates of return that have outpaced options they may have had to re-invest funds in CD's, money markets, mutual funds, stocks, etc.

We are hopeful that **Commercial & Community Banks** may be able to make a comeback. The threat of repeal or roll back of Dodd/Frank by the new congress could put them back in play.

Dodd / Frank Overreach. (IMHO)

Dodd / Frank, created the Consumer Financial Protection Bureau (CFPB). Mercatus Center at George Mason University showed Federal banking regulatory restrictions due to Dodd-Frank soared from 80 in 2011 to 2,986 at the end of 2014 due to the 19,000 pages of wisdom. And they weren't done there.

Politico reported in Sep. 2016, in another study of small banks, eighty percent of respondents found that the numerous regulations caused their compliance costs to rise by more than five percent since 2010. President's Council of Economic Advisers showed that more than one in five U.S. banks have disappeared—1,708, or more than one every business day—since Dodd-Frank was enacted. Meanwhile, virtually no new banks have been formed, a historically unprecedented lack of investment and startup activity for the industry.

They also decided that an Owner making a new OWC loan and the Broker putting a real estate deal together were no longer smart enough to fill in the blanks on the Trust Deed and Promissory Note. The Seller now needed to find, hire and pay an attorney to fill out the documents.

"It's hard to beat a person who never gives up." Babe Ruth

2016 Summary

Small Income Property - A RECORD YEAR -Again!

The higher prices on lower sales in the 2015 laid the ground work for a repeat in 2016. We saw a record year in most all categories in 2016 except the total number of sales.

Sales decreased slightly in the Small Income Property real estate market in 2016 again but prices continued to increase from the previous year with total **Sales Volume at a record high** again on 3% fewer sales. The pent-up demand from the previous year continued throughout 2016 with Sellers having the upper hand. Many Sellers having to deal with multiple offers.

The continued lack of inventory helped keep the already low Days on the Market numbers in historically low territory. Once again demand outstripped supply considerably more than most other years in the last 10 years, pushing the **Average Days on the Market** for Small Income Property to under 34 Days.

The record **Four County Average Sales Price was up 20%** and the **2-4 Unit market was 18% higher**. All counties hit historical highs. The Average Sales Price of the 2-4 Unit properties rose to just under $469,457 vs $397,879 in 2016. 2-4 Unit properties were 84% of the under 20-unit property sales.

The **Average Price per Square Foot was up 15%** and reached another new record high of $190. All counties showed record highs. The averages varied widely with Adams County at only $148 per square foot while Denver topped the $225 square foot mark for the first time.

Low vacancy rates, rising rents and low interest rates fueled the turnaround of the past few years. The trend continued in 2016 with higher Small Income Property volume in 2016 even with less sales.

Single Family Market - A Very Good Year

The Denver Post reports that The Colorado Association of Realtors estimates the median price of a home sold in Colorado last year rose 10 percent, with both new listings and the inventory of homes available for sale in December at historic lows. The Denver Metro Association of Realtors said the 2016 gain of the median price on a metro home sold was 11.4 percent, down from 14.2 percent in 2015. Most think 2017 will slow to under 10%.

Commercial Markets - Positive Year

The Denver Post reports: Denver Commercial Real Estate Finishes 2016 Strong

Office. Vacancy decreased slightly to 12.1 percent, down from 12.3 percent in the third quarter and 12.6 percent a year ago, according to CBRE Research. With another 775,000 square feet of office space that broke ground in the fourth quarter, Office vacancy is expected to increase during the first half of the year, with 1.5 million square feet of new office space set to come online with only 43 percent of that space currently pre-leased.

Industrial. 2017 will be the year of e-commerce for Denver's industrial real estate market with AMAZON's new 450,000 square foot facility. 2016 was the fourth straight year vacancy held below 5 percent. More than 3.5 million square feet of new industrial space remains under construction.

Retail, - Denver's retail market saw direct vacancy fall to 5.3 percent — the lowest level on record — down from 5.8 percent in the third quarter and 6.1 percent in 2015, per CBRE Research. Average asking lease rates hit $17.73 per square foot triple net, their highest levels since early 2009.

ALL Markets Advanced in 2015 AGAIN!

"You only have to do a very few things right in your life so long as you don't do too many things wrong." - Warren Buffett

2017 Outlook.

The University of Colorado Business Outlook for 2017 forecasts a continuing positive trend for Colorado business and rental real estate in the coming year.

According to economist Richard Wobbekind of the University of Colorado Boulder's Leeds School of Business from the 52st annual Colorado Business Economic Outlook Forum presented Dec. 5 by the Leeds School's Business Research Division.

"Colorado will continue to rank among the top 10 states nationally for employment growth in 2017, a six-year standing," said Wobbekind. "And it is poised for continued long-term growth, boasting a skilled workforce and high-tech, diversified economy; relatively low cost of doing business; global economic access and exceptional quality of life." Job growth down slightly to 54,900 jobs, or 2.2% in 2016, is expected to pick up in 2017 to 63,400 jobs, or 2.4%.

Overall, the forecast calls for a gain of 65,100 jobs, or growth of 2.6 percent, in Colorado. All non-agriculture sectors but the state's natural resources and mining industry are predicted to grow in 2017, with construction leading the way.

On multifamily construction, the report states:

Multifamily construction activity continued to increase in 2016, with permits at their highest level since 2002. Multifamily construction is expected to decrease in 2017, but to a level that is still considered robust. Construction will consist primarily of apartments; however, if municipalities' attempts to alleviate developer concerns at the local level are successful, construction of condominiums may gradually increase, appealing to first-time homebuyers because of their relative affordability.

Demand for home ownership will shift production from multifamily to new single-family homes, which will more than offset the decline in multifamily permits. The committee forecasts 12,000 multifamily units will be permitted in 2017, a decrease of 5.5% from 2016, in response to the more balanced apartment market, increased single-family activity, and construction delays from worker shortages.

While multifamily construction is expected to fall slightly in 2017, strong growth in single-family homes is forecast to make up for any decline, with single-family permit growth to exceed the national average by 8 percentage points. Construction employment is expected to grow by 5.7 percent, or from 157,000 jobs in 2016 to 166,000 jobs in 2017.

The Metro Denver Economic Development Corporation's (Metro Denver EDC) **Economic Update**

Notably, year over year had jobs up over 50,000, also up were Companies Hiring, Median Home Prices, Homes Sales and Residential Building permits. Unemployment Rate and Claims were down

The January Monthly Economic Indicators showed the unemployment rate was at the lowest rate (2.6 percent) since Dec 2000.

Residential building permits for the Metro Denver area increased in November compared with the prior year. Metro Denver reported a 22.2 percent increase in total permits issued between November 2015 and 2016, with 428 additional permits issued.

The Commercial Real Estate market in Metro Denver reported robust activity in 2016. More than 7.4 million square feet of space was completed in 2016, an increase of 45.4 percent over the prior year. Over 9.8 million square feet was under construction, rising 34.3 percent between 2015 and 2016.

"I walk slowly but I never walk backward." – Abraham Lincoln.

2017 Small Income Property Outlook

Rents – Plateau after skyrocketing.

The Denver Post reports on 1/18/2017 that according to the Denver Metro Area Apartment Vacancy and Rent Report, the average apartment rent fell for the second consecutive quarter. With the market struggling to absorb new units, the average drop $24 to $1347. The largest quarterly drop in the 36 years the report has been conducted. Average rents decreased and vacancy rates increased in all six of the metro counties covered.

After such a long run of skyward increases, it appears the market will take a little break.

Smaller 1-4 units properties should not be affected right away because of the competitive difference in new units vs our existing units but Owners should keep an eye on the trend.
With the rent hikes slowing. 2-4 Unit owners who have maximized their rents will probably have to stay at current levels or risk more vacancy and evictions.

Vacancy - Rates are turning north throughout the area.

From the same article mentioned above, the apartment vacancy rate shot up a full percentage point from 5.1 percent to 6.2 percent because of the new units flooding the market. Once again, these new units rarely compete with the Small Income Property owners' units.

While apartment vacancies tend to rise in the fourth quarter, that is a large jump. With the rate now at its highest point since 2010 and the fact that all counties went up, there is reason to watch closely over the next few months.

Small Income Property Owners can expect vacancy rates to stay near current levels in the near term but keep an eye on rates later in the year.

Interest rates are rising!

The Federal Reserve has finally begun to tighten short-term interest rates and are expected to continue to raise rates slow throughout the coming year**.**

In its latest outlook, Freddie Mac said it expects to see "some additional interest rate increases following the recent movements." The company, which provides capital to the mortgage market by buying mortgage loans from lenders, predicts 30-year mortgage rates will average 4.2% at the end of 2017.

Kiplinger reports, The Federal Reserve will be hiking short-term rates at least twice this year, and possibly more if inflation gets out of hand. By the end of 2017, expect the average 30-year fixed-rate mortgage to rise to 4.6%, with 15-year fixed mortgage rates at 3.8%.

I expect rates to rise slowly but to still stay low throughout most of this coming year.

Single Family Home market

Lawrence Yun, chief economist of the National Association of Realtors®, presented his 2017 economic and housing forecast and said of the single-family home market, "The decline in affordability in many parts of the country is taking a toll on the public's outlook about their housing market." ""Making matters worse, the unwelcoming reality of higher mortgage rates is likely further holding back confidence."

Despite this year's dip in buyer enthusiasm, existing-home sales in 2016 were at 5.42 million, making it the best year since 2006 (6.47 million), NAR reports. Sales in 2017 are forecast to grow by about 2 percent and reach 5.52 million. The national median existing-home price is forecasted to rise around 5 percent this year and by 4 percent in 2017. **Denver's market will do better but probably less than the double digits increases of the past year.**

"It does not matter how slowly you go as long as you do not stop." Confucius

2017 Small Income Property Outlook

Sales Totals

The Small Income Property market will continue with low supply to start the year. On January 18, 2017, there were only 29 listings of 2-4 Unit properties available FOR SALE in all 4 counties in the MLS. Most of these were undesirables with 4 times the average Days on the Market numbers vs last year average of close to 30 days. From January 1st - 15th there were only 8 new UNDER CONTRACT listing's.

This means we are starting out 2017 worse than last year as far as available 2-4 unit properties for sale.

The slow start will likely keep Annual Sales totals down again.

Average Sales Prices

In 2016, the 4 County Average Sales Price of 2-4 Unit properties was up almost 20% following increases in each of the previous 3 years. The lack of supply mentioned above will again cause available deals to be bid to their top ranges but can we continue to sustain this rate of increases? Not forever but 2017 will start the year the same as last year even with vacancy rates, interest rates and operating costs continuing to rise and rents are plateauing**.**

I suspect that the trajectory of any increase flattens later this year or next year.

Average Price per Square Foot

The Average Price per Square Foot reached another new record high of $190 which was an increase of 15%. The two previous years also had increases of 18% and 13%. As with the Average Sales price, the question is how long can the market sustain these types of increases?

Since 2010, the 4 County Average has increased each year with a recent skyward trajectory. Once again, with vacancy rates, interest rates and operating costs continuing to rise and rents flattening out - even with properties selling in the top ranges, the trend should slow – at some point.

The rocket ride is slowing.

Days on Market

The continued lack of inventory helped pushed the already low Days on the Market numbers to unseen record levels. Hard to believe it reached a month or less! We may have seen the bottom but the scarcity of product will again keep this number low as we begin 2017.

Properly priced properties will continue to see multiple offers and sell quick.

"When you have exhausted all possibilities, remember this – you haven't!" - Thomas Edison

2017 – Bring it on!

2-4 Unit Owners! Contact me to stay abreast of neighborhood sales and get the complete lists of all the 2016 and upcoming 2017 Sales of 2-4 Units in the County where your property is located.

2-4 Unit Sellers! Contact me for a Current Market Analysis of your Small Income Property and let me help you sell your property for the highest possible price with the least amount of inconvenience to you!

2-4 Unit Buyers! Contact me to be notified of any new 2-4 Unit Listings on the day they hit the market - so that you will get the opportunity to offer on the best available deals!

If you are interested in Buying, Selling or Trading or if you have any questions, comment, compliments, complaints or corrections regarding anything in this report or any real estate related questions, please feel free to reach me at any of the contacts listed below. I am here to help!

Oh, by the way … if you know of someone who would appreciate the level of service I provide, please call me with their name and business number. I'll be happy to follow up and take great care of them.

Keith A. Hurtubise

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"Start where you are. Use what you have. Do what you can." Arthur Ashe

2017

Owners – Hold and Operate

Owners wishing to continue holding their properties should take advantage of the low vacancies, steady rents and low interest rates. These factors should help to make your Small Income Property more profitable to operate than it was in the past.

As I harped on earlier, raise rents when possible, even if just a little. Income property is valued on NET INCOME. Raising rents increases net income, which raises the value of your Income Property. Also, better cash flow helps you offset rising expenses and makes any of the sure to come emergency operating headaches seem a little less terrible!

Lease your vacant units quickly! The low vacancy rates allow Owners to avoid the forever lost days of rent that can never be recovered when you have tenant turnover.

Every year or two, consider shopping your expenses that can be competitively bid – insurance, trash, management, etc.

If you have not refinanced or need to refinance again, give me a call and I can help point you in the direction for a better loan.

Stay invested but consider if this is the time in the market cycle to sell your current property and move up to a better or more suitable investment. The 1031 Tax-deferred Exchange is still available and an excellent device to move all of your equity into a more suitable investment without paying taxes.

The first step is to contact me for a Current Market Analysis of your property to determine its highest present value. Feel free to contact me at any time with any questions.

Always remember, I am in the referral business. I have a list of RECOMMENDED and NOT RECOMMENDED vendors to help you with almost any job necessary to operate a Small Income Property successfully. Also, I would love to hear from you if you have someone who you really like and would recommend.

Feel free to contact me at any time with any real estate related questions you may have. I would love to help you, your friends or family with any buy, sell or investment decisions. I am here to help and I am never too busy for your referrals!

"If opportunity doesn't knock, build a door." – Milton Berle

2017

Sellers - Timing? Taxes? Trade?

With today's record high prices there has never been a better time to sell!

Not all, but most who own Small Income Property did not buy with the intention of owning it until they die. If the time is coming for you to sell this year, there are several things as an Owner that you should consider.

The last couple of year's rising prices mean that your property is probably worth more than you thought. You may now be able to get the price you need to achieve your goals.

Lower inventories mean more Buyers will look at your property and that allows a better chance at finding the optimum Buyer who will pay the highest price. This also helps with quicker and cleaner deals from contract to closing because the Buyers are less likely to terminate with fewer other options to consider.

There are still more Buyers and money coming into the market and the Buyers tend to better qualified. With the small pool of loans currently available and the more stringent process to qualifying for a Small Income Property loan, it has kept most of the unscrupulous and the flakey Buyers out of the market.

The low debt expenses for Buyers resulting from low interest rates help to keep the cash flow numbers more positive which help support higher sales values. This trend will slow as rates rise off their historical lows.

Appraisals have been an issue the past few years but less so for me because I have some appraisal background. More sales, higher prices and the higher price per square foot numbers have helped alleviate some of these issues, even though some appraisers have had difficulties keeping up in some markets. The higher prices per square foot generally helps the appraisers to be able to appraise the property at the higher negotiated prices.

The 2016 Capital Gains Tax rates are unchanged (so far). They are still between 10-20% with a possible surtax on high income earners. Contact your accountant for a worst-case scenario to see how it affects you or give me a call and I can refer you to a CPA who specializes in real estate.

If you are not ready to pay the taxes or leave the real estate business completely, Seller's still have the 1031 Tax-deferred Exchange available to them to roll all their equity into a larger or more suitable property while deferring taxes. This is an excellent investment vehicle to grow your portfolio. I can give you an overview of the program.

Now is an excellent time for Sellers with some equity to review their return on equity and look at whether it is a good time to move up to a newer, larger or more suitable property.

The first step is to contact me for a Current Market Analysis of your property to determine its highest present value. Feel free to contact me at any time with any questions.

"Whatever the mind of man can conceive and believe, it can achieve."- Napoleon Hill

2017

Buyers –The Small Income Property Market is in an Uptrend Cycle!

2017 still offers an excellent opportunity for the Buyer to get into this market but one needs to have all the available knowledge to assure that you get the best possible price.

In past few years, I have been telling Buyers – If you buy now, I believe you will be very happy in 5 years! It has proven true and I still believe it is possible. Prices are still rising to help build equity quickly and interest rates are still near historic lows!

Vacancies are low with more tenants coming into the market. Last year Investor's Business Daily said, we currently live in a "Rent Don't Buy World" and that "There appears to be a long-term shift in attitude towards renting especially with millennials. People are still afraid to own."

There are still more people and businesses moving to Colorado than moving out. More jobs mean more cash flowing into the State and better prosperity for all. Colorado will remain one of the top growth states nationally in 2017. We benefit from being a very desirable state where people want to live and work. Nationally we are rated at or near the top in most surveys in desirability.

Savvy investors have been building their portfolios for the future and will continue to do so. There are some proficient lenders for Small Income Property that will help lead us through the qualifying maze of the options that are still available.

Owner-occupant Buyers still have the excellent low down payment FHA option along with the 203k Loan programs for fix up properties!

Consider your Self-Directed IRA for Real Estate as an alternative retirement plan to a conventional existing plan or use your IRA to qualify for today's favorable financing.

The lowest prices from the last couple of years are gone. But when you have the market info to make an intelligent buying decision, we can still find a suitable investment with profit potential that makes excellent economic sense.

You must stay in touch and know the market. Follow the sales. Review my database of 2-4 Unit SOLDS. There is no better way to educate yourself to the current market trends.

Contact Keith at any time to find new listings that may hit the market early, automatically be notified of new MLS listings and to negotiate the best deal in today's fast moving marketplace!

With the Days on the Market numbers at record lows, you need to act quickly to get the best deals before they are snapped up by other investors. I can put you into my system to assure that you will get an email notifying you as soon as any NEW 2-4 UNIT LISTINGS hit the market in areas that interest you. Contact me anytime!