BUILDER REALTY COUNCIL OF METROPOLITAN DENVER
GENERAL BOARD MEETING MINUTES

Date of Meeting: January 19, 2021

Location: Zoom Virtual Meeting

Report submitted By: Susan Sechrist, Treasurer & Acting Secretary

Attendance: 53 People Pre-Registered; 45 People in Attendance

The meeting commenced at 9:04 a.m.

Troy Warrick facilitated the meeting.

A. Troy introduced the Guest Speaker. The Guest Speaker is John Covert with Zonda (formerly Metro Study).

Highlights of the Presentation:

- Metro Study has been rebranded to Zonda. New data tools and products will be available to Zonda's clients this year. There is a sizeable team of consultants in the Denver office.
- The overriding factor impacting the housing market was the Stay-at Home Orders.
- Some builders had their best year ever, considering where we were in March.
- Toward the end of year caseloads and hospitalizations were declining. Tracked by every county; built into the overall market forecast; how many new home starts will occur? It all comes back to the pandemic. Strength of forecasting is to be flexible and pivot.
- First of December looks like when the last peak occurred. Six levels of case loads and risks; dialed back across the state as some of the restrictions have been lifted.
- Jobless claims spiked and fell; starting to spike again; longevity of uncertainty with the vaccine getting to us by the end of the year. All of that economic uncertainty is still out there with the restaurant industry, hospitality industry, and retail, now it's starting to percolate into other industries: airline industry, oil and gas industry.
- Claims through end of year is way above what our unemployment claims were prior to the pandemic; many of our work still.
- Underlying strength of the economy has been stable and robust; relocations and expansions across all market segments in our economy.
- The unemployment rate has been high 5's low $6's—through end of year unemployment rate.
- Demographics working in our favor.
- Long-term employment growth; we hit a record -74,000 v. September 2019.
- -4.8 Annual Growth Rate; averaged 40,900 new jobs per year past 10 years. If we average 3,600 jobs per month moving forward, we won't get back to peak employment until late 2022.

- Resale Housing Activity – 62,000 occurred last year as an all time high; not sure we will hit this again; level of inventory is so low; pandemic has really accelerated that.
- People staying put and remodeling their homes and finishing basements.
- Months of supply was less than one month of supply, so where are you going to go?
- Builders recognize there is a huge lack of inventory on the resale side.
- New communities launching; different products, different price points.
- Huge opportunity going forward capturing the mindshare of the buyers.
- Comparison between medium resale price and medium new price.
- Homebuilders building smaller homes with smaller lots.
- 11% new and flat for resale side; 8 percent spread between median new and resale; $486,262 and $528,883; poised to accelerate.
- Homebuilders poised to push hard in trying to attract buyers; compelling for buyers to consider.
- Stats - Because lots are so tight in marketplace and demand still strong, builders slowing down the releasing of their lots, keeping pricing stable so they don't burn through all of their lots too quickly; margins squeezed.
- Sales contracts – 1st quarter up 15% over 1st quarter of 2019; second quarter dip; 3rd quarter was a jump 50% increase; 4th quarter mild; annually 15%.
- Third quarter jump in housing starts +52%.
- Total housing starts projected to go up in 1st quarter.
- Builders optimistic for the year ahead; cautious in the summer.
- Starts will grow in 2021.
- 7 county metro area and SW Weld; decline in Denver's housing starts now; stable in last phases.
- How has Lakewood's moratorium affecting Lakewood and other counties? Jefferson County is declining; some master planned communities there are building out. Leyden Rock and Candelas is winding down and going away; a restriction on number of permits that can be pulled in Lakewood; Solterra is winding down.
- A little bit of a pause towards the anti-growth sentiment which carries forward legislatively or a ballot initiative or county by county proposed previously, or each city going it alone because of the pandemic, but may see a resurgence.
- Suburban counties continue to expand because of master planned communities coming online now. Most will be within master-planned communities. 81% of starts are in master planned communities.
- Urban infill activity has become popular; number will climb in master planned communities.   Highlands Ranch will be built out in the next couple of years; Central Park delivering their last phase and last lots.
- A strong pivot out of strong master-planned communities in surrounding periphery communities; millennials had strong in-migration in the markets; wave is moving into the market. Baseline has an urban/suburban feel, as well as Painted Prairie.
- Base prices of Market Share 3Q 2020 - Most of the $400K price point is paired homes and attached homes becoming the price point for first-time first homebuyers, which are townhomes and attached homes; this has become the option for first-time buyer option; 25% of all new housing starts is paired home and townhome product; $500K-$600K is top of the market price point.

- Inventory - 5 months supply the end of last year; homes starting to turn faster. One of the issues was a labor shortage, but now homes are starting to turn quicker. Labor is not much of an issue now; there's only 1 month's supply now; anything 2-3 months is balanced from a new builder perspective; more specs will be built.

Denver – Looking Ahead

- Denver Metro Scenario 1: Pandemic, government restrictions, county-specific, economy and housing activity. Housing starts may go up.
- Scenario 2 – Vaccine gets delayed, unemployment stays higher, travel stays low and some restrictions in place; we might start to see a little foreclosure activity; bouncing between Scenario 1 and Scenario 2; they play off each other.
- Scenario 3 – Go back to stay at home orders; vaccine is delayed; economy stays relatively suppressed; more layoffs, less travel, resale market slows, new home market slows - We're not in scenario 3 but this option is open; we need to stay flexible what some of the possible outcomes are.
- Optimistic about this year in front of us; if things stay relative stable, but talking to builders about the strong back half of the year last year there will be more closings in 2nd quarter, more sales in; how much pentup demand; how deep is the buyer pool out there? Or is there enough of a demand out there? 2021 will level off a bit; might see a single digit housing start.
- Built a Forecast between 3% and 4% increase this year. Moving forward in a more normal, organic market in 2022; a stable couple of years ahead but a "black swan" event could derail this activity.

Challenges

- Election concerns, pandemic unknowns, economic uncertainty, high unemployment and fragile consumer confidence, mortgage forbearance, price appreciation put homes out of reach; are we borrowing demand from the future? Tight lot supplies and gapping out, slowing releases; market competition increases, managing customer expectations, managing cost increases and trades; increased entitlement timelines at local jurisdictions.

What We Have Going for Us

- Record low interest rates; record low resale inventory; healthy price appreciation and equity; strong pre-Covid economy that appears to be stabilizing; steady business expansion; in-migration; stable rental market; substantial pent-up demand – riding the wave; if pandemic shut-down occurs again, builders know how to shift operations quickly.

Discussion on Cut Commissions

- A cyclical norm; at the end of the day we have a fiduciary responsibility to our clients to find the best possible homes for them. We are still getting paid, whether they are a publicly or privately held companies. Builders are still supporting Realtors. Higher volume and lower fees. Builders keeping pace with the resale market.

Metro Districts

- Are there any communities not being a Metro District? A sensitive topic. The volume of metro districts is not going to slow down; a vehicle to get infrastructure in place. You have to pay a little more in taxes; maybe something will be done legislatively related to correct the transparency and inconsistencies with Metro Districts and how they're managed.

Flocking to More Suburbia

- When will that go back? This is what the stats show today. If you look, there is roughly 2, 3, 4, 5-month supply in the downtown urban core. Direct result of the high rises and condos; only place for condos with a dramatic jump in in the more dense, urban environment. It may come back because of the dynamic downtown environment; employment sector will look a little bit differently. Their national consulting team is looking at the transitional things happening in urban environments; too early to tell how that comes back. Two high-rise developers still moving forward with their plans to build downtown; long-term viability and high-density urban development they think is still there.

B. Troy asked if there were any builders/developers on the call who wanted to talk about their communities/developments. None were present on the call at the end of the meeting.

The meeting adjourned at 10:30 a.m.

Respectfully submitted,

Susan A. Sechrist
Treasurer/Acting Secretary