YOUR CASTLE
REAL ESTATE

2nd QUARTER 2020 INCOME TRENDS

YOUR CASTLE REAL ESTATE

WHO IS YOUR CASTLE REAL ESTATE?

Established in 2004, Your Castle Realty and Your Castle Real Estate has grown to become the largest independent and 5th largest real estate company on the Front Range according to the Denver Business Journal, with 600 agents in 6 offices. Currently, we are the 154th largest and 5th fastest growing real estate company in the country. We sold over $2 billion of real estate in 2019.

We have appeared in local and national publications including recent awards from the Denver Business Journal and Inc. 5000 (see below).

We are passionate about delivering exceptional consumer experiences. By offering a complete suite of real estate services, we ensure that we meet our client's every need. From sales and rentals, to commercial and new builds, we have experts in every field to guide you skillfully.

We believe that access to the best and most timely information can dramatically shape client decisions. No one does more research on the local housing market than Your Castle. Today's consumer needs a trusted resource that can separate signal from noise and help them navigate the complex process that real estate has become. With our extensive knowledge in every aspect of the field, and fueled by consumer research and insights, we are the go-to source for market information and education.

In 2019, Your Castle Real Estate exceeded $175,000 in charitable donations and is excited to partner with [Mile High United Way] in their inspiring cause! Mile High United Way champions education, health, and financial stability throughout the Metro Denver area. We're also a big sponsor for the Ronald McDonald House and Boys and Girls Clubs of Denver.

Awards and Honors…

Inc. 5000 America's Fastest-Growing Private Companies

America's Fastest-Growing Private Company
2014: #2951
2015: #2163
2016: #2313

Fastest Growing Private Companies – Business Journal

Denver's Fastest-Growing Private Company
2014: #5
2016: #10
2018: #5

REALTRENDS The Trusted Source

Top Ranked Non-Franchise Firms in Colorado 2019: #1

Top Ranked Brokerage Firms in Colorado by Transactions
2019: #4

coloradobiz

Best of Colorado 2017
Best Residential Real Estate Agency

Best Commercial Real Estate Agency

As Seen In…

9NEWS, Money, inman NEWS, 5280 The Denver Magazine, Colorado Public Radio, CASA Magazine, The Denver Post, abc 7

KEY MESSAGES FOR INCOME PROPERTIES

The income property market continues to appreciate. We had a good increase in prices in 2017 and 2018; appreciation was flat in 2019 and has bounced back in Q2 of 2020. Inventory is incredibly low, which has resulted in a drop in MOI (Months of Inventory) and DOM (Days on Market). It is a strong seller's market. Why? Denver remains at low vacancy levels and rents are strong.

METRIC	PERFORMANCE		OBSERVATIONS
Average Price per Unit	15Q2 vs 14Q2: 16Q2 vs 15Q2: 17Q2 vs 16Q2: 18Q2 vs 17Q2: 19Q2 vs 18Q2: 20Q2 vs 19Q2:	+25% +16% +14% +18% +1% +4%	Prices dropped 30% between 2007 and 2009. By 2012, prices had recovered all of their losses. Prices increased another 140% between 2013-2019 (14.9% per year, on average). Prices / unit had been exceeding the increases in market rents (around 7% per year). Rents remain strong and price per unit remains so as well. It's possible the very low interest rates in 2Q20 encouraged buyers to pay a bit more than they did last year.
Number Sold	15Q2 vs 14Q2: 16Q2 vs 15Q2: 17Q2 vs 16Q2: 18Q2 vs 17Q2: 19Q2 vs 18Q2: 20Q2 vs 19Q2:	+16% -27% -9% +22% -23% -71%	Volume declined in 2016-2018. Declines had been due to lack of inventory with margins that investors were looking for. In 2019 there was a noticeable growth in sales, but it's already slowed down again this year. And the COVID crisis hit sales count even harder last quarter.
Days on Market	15Q2 vs 14Q2: 16Q2 vs 15Q2: 17Q2 vs 16Q2: 18Q2 vs 17Q2: 19Q2 vs 18Q2: 20Q2 vs 19Q2:	-19% +10% -26% 0% +17% -46%	Marketing times experienced large reductions in 2013-2016. They dropped again in 2017 to 19 DOM, their lowest levels in more than a decade. DOM is much more volatile in the income sector than the residential market. 2018 was a great year – keep in mind that negative change in DOM is actually a good thing! Marketing times have actually decreased greatly from this time last year.
Months of Inventory (MOI)	04/01/19: 07/01/19: 10/16/19: 01/04/20: 04/04/20: 07/04/20:	2.5 3.0 3.2 4.8 3.3 1.6	MOI had been steadily increasing, but has started to decline again in 2020; currently at the lowest rates in over 15 months.

Data Source: Recolorado.com; Your Castle Real Estate Analysis

CAP RATE ISN'T EVERYTHING

While cap rate is an important metric for RE investment financial performance, it's not the only one. The gap between the cap rate and your borrowing interest rate is more critical.

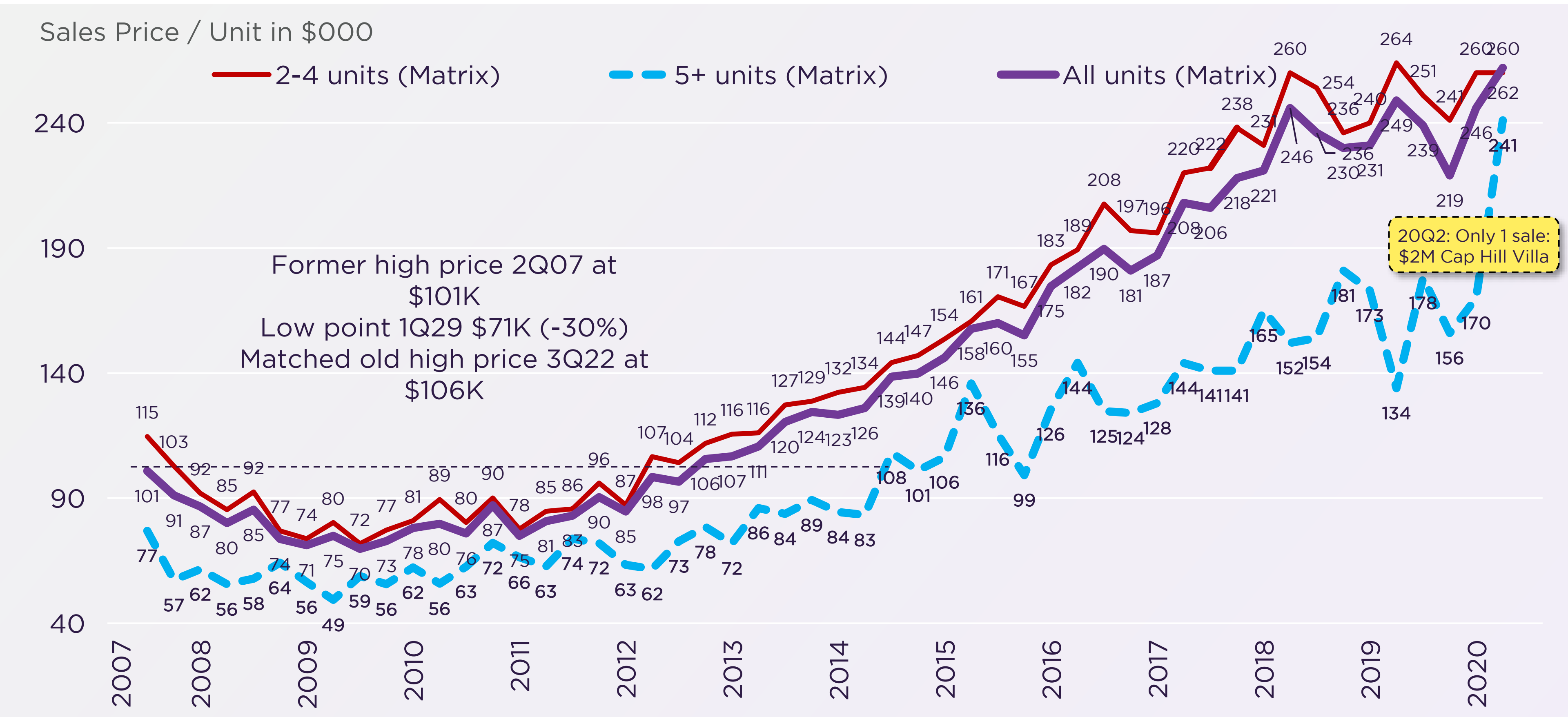
Both cases have same assumptions for annual appreciation (5% per year), vacancy (5%), property management (8%) and maintenance reserves (8%). Based on actual investor purchases on the MLS. Buying at today's higher prices is more profitable than buying at 2006's lower prices.

	2019	2006	Change
Cap rate for rental 3 BR / 3 bath / 1 car town house in central Aurora	6.10%	7.40%	1.30% worse today
Borrow at	3.75% 5/1 ARM for non-O/O	7.00% 5/1 ARM for non-O/O	3.25% better today
Spread (Cap – Int Rate)	2.35%	0.40%	1.95% better today
Debt Cover Ratio	146%	123%	Today's loan is less risky
Year one cash-on-cash return	7.20%	5.20%	2.00% better today
5-year after-tax return (IRR)	18.3%	16.8%	1.5% better today

Data Source: Your Castle Real Estate Analysis

The overall average price per unit declined 30% between 2007 and 2009. Prices have been seasonally increasing ever since. All of the losses since 2007 were regained by 2012. 2012-2019 has average +14.9% annual growth in price per unit. We suspect the next five years will have 2-4% annual growth.

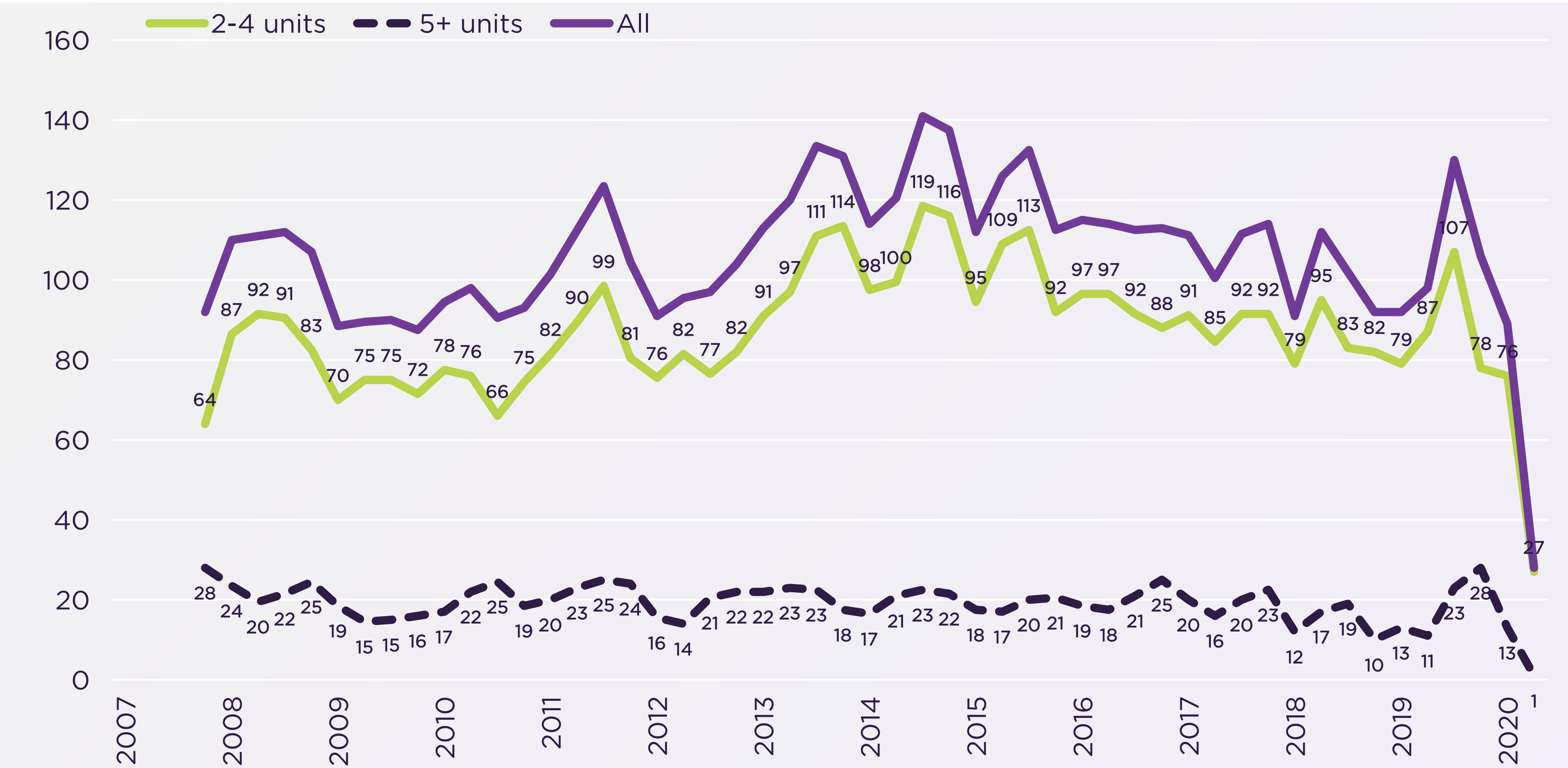
DENVER METRO – AVERAGE PRICE PER UNIT



Data Source: Recolorado.com; Your Castle Real Estate Analysis

Income properties were also affected in the 2008 downturn. Volume was relatively stable from 2009 - 2012. Volume had slowly increased to pre-recession levels; but seeing some volatility over the last few quarters. We had an irregular spike in activity 19Q3 quarter, and then COVID struck. Only one 5+ unit property sold each quarter so far this year!

DENVER METRO - NUMBER UNITS SOLD

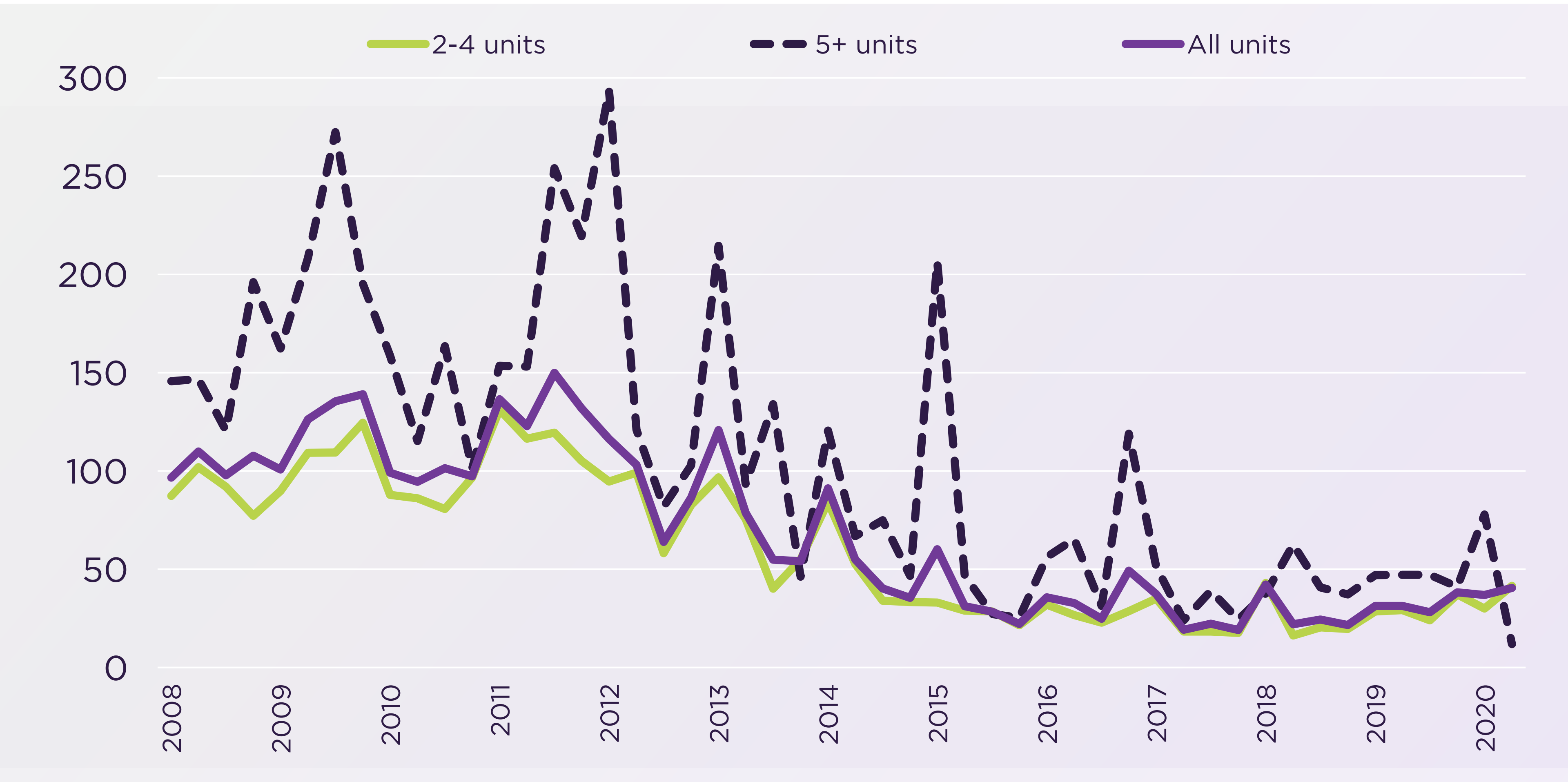


Data Source: Recolorado.com; Your Castle Real Estate Analysis

INCOME PROPERTIES DAYS ON MARKET

The vast majority of income properties are 4-units are less. Marketing time for this segment had been relatively stable since 2016, and started dropping greatly just this year. The multi-family properties, are usually at 2-3x DOM of the small properties, but there has been such little inventory that they're going under contract fast.

DENVER METRO - INCOME PROPERTIES DAYS ON MARKET



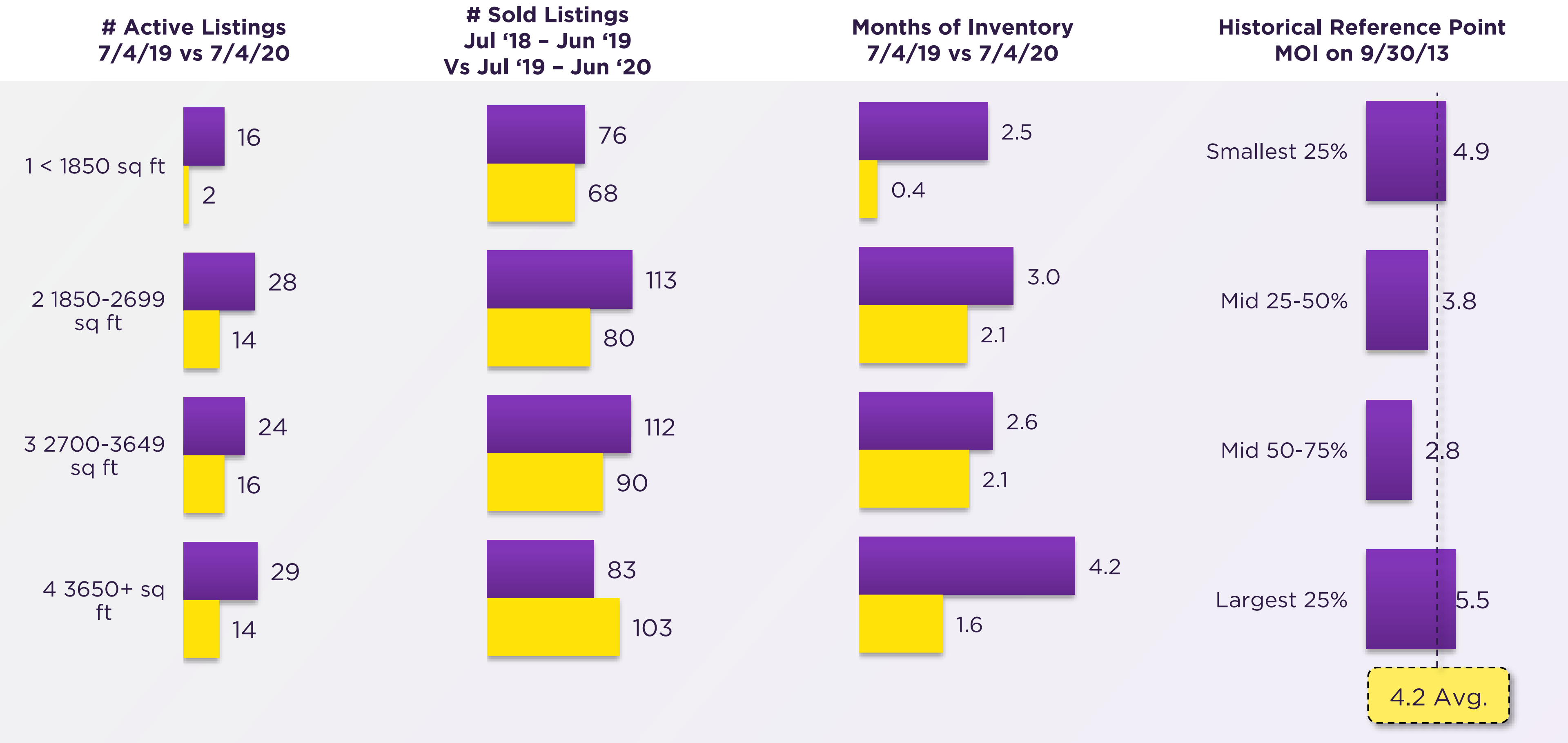
Data Source: Recolorado.com; Your Castle Real Estate Analysis

INCOME PROPERTY MONTHS OF INVENTORY

For homes and condos, there is a lot of variation in the market dynamics between larger and smaller properties. For income, sold count has been relatively steady year over year. Inventory is significantly lower than last year. Buyers should be ready to compete!

Purple = Jul ‘18 – Jun ‘19 Yellow = Jul ‘19 – Jun ‘20

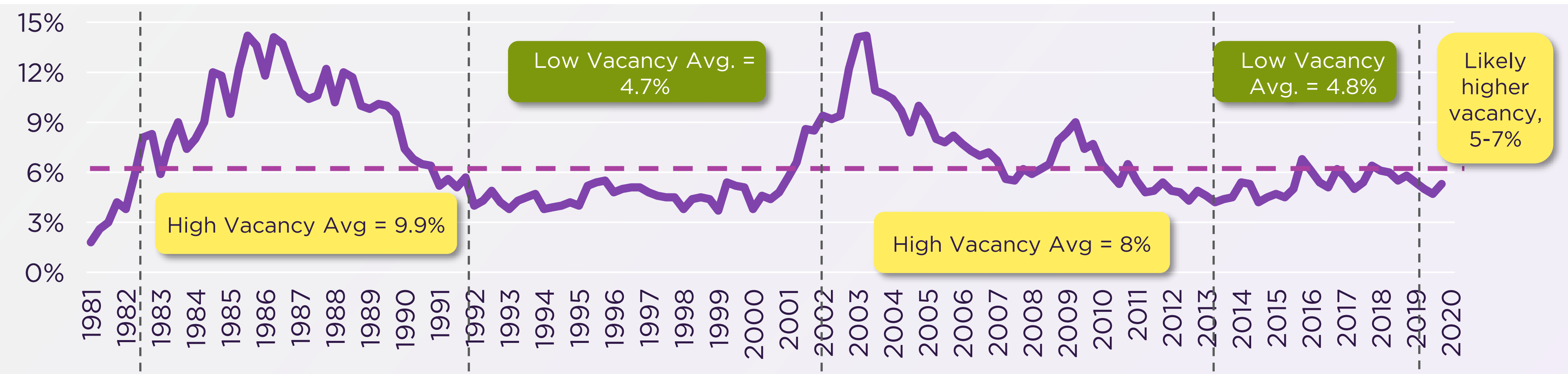
DENVER METRO - INCOME PROPERTIES



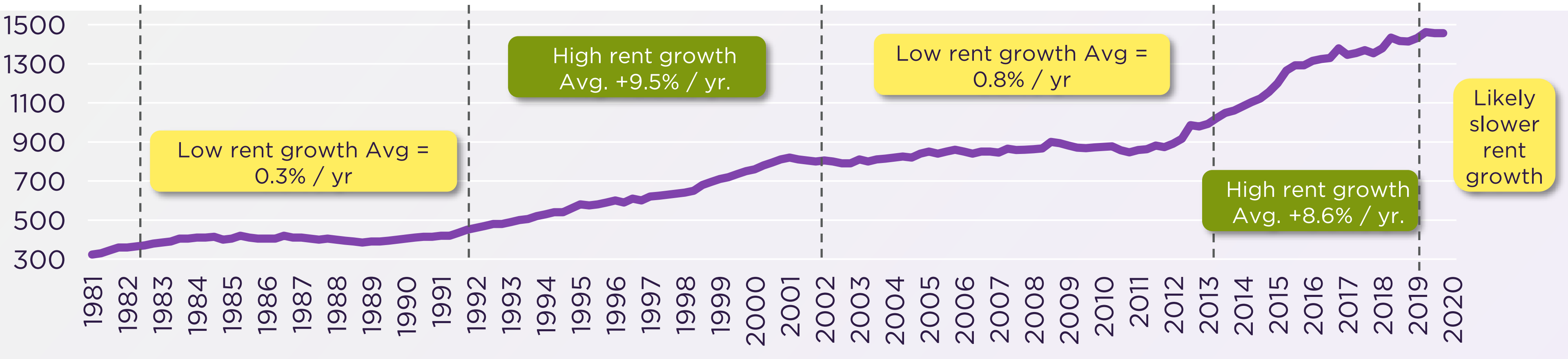
Data Source: Recolorado.com; Your Castle Real Estate Analysis

When Denver rental vacancy is below 6%, we generally experience rent growth. 1981-2018 average rent growth was 4%. (5+ unit Apartment data). 2012 to 2017 averaged 8.6% average annual rent growth. It's likely the next five years will average 2-4%.

VACANCY RATE BY QUARTER % (5+ UNIT BUILDINGS)



MEDIAN RENT BY QUARTER ($) (5+ UNIT BUILDINGS)

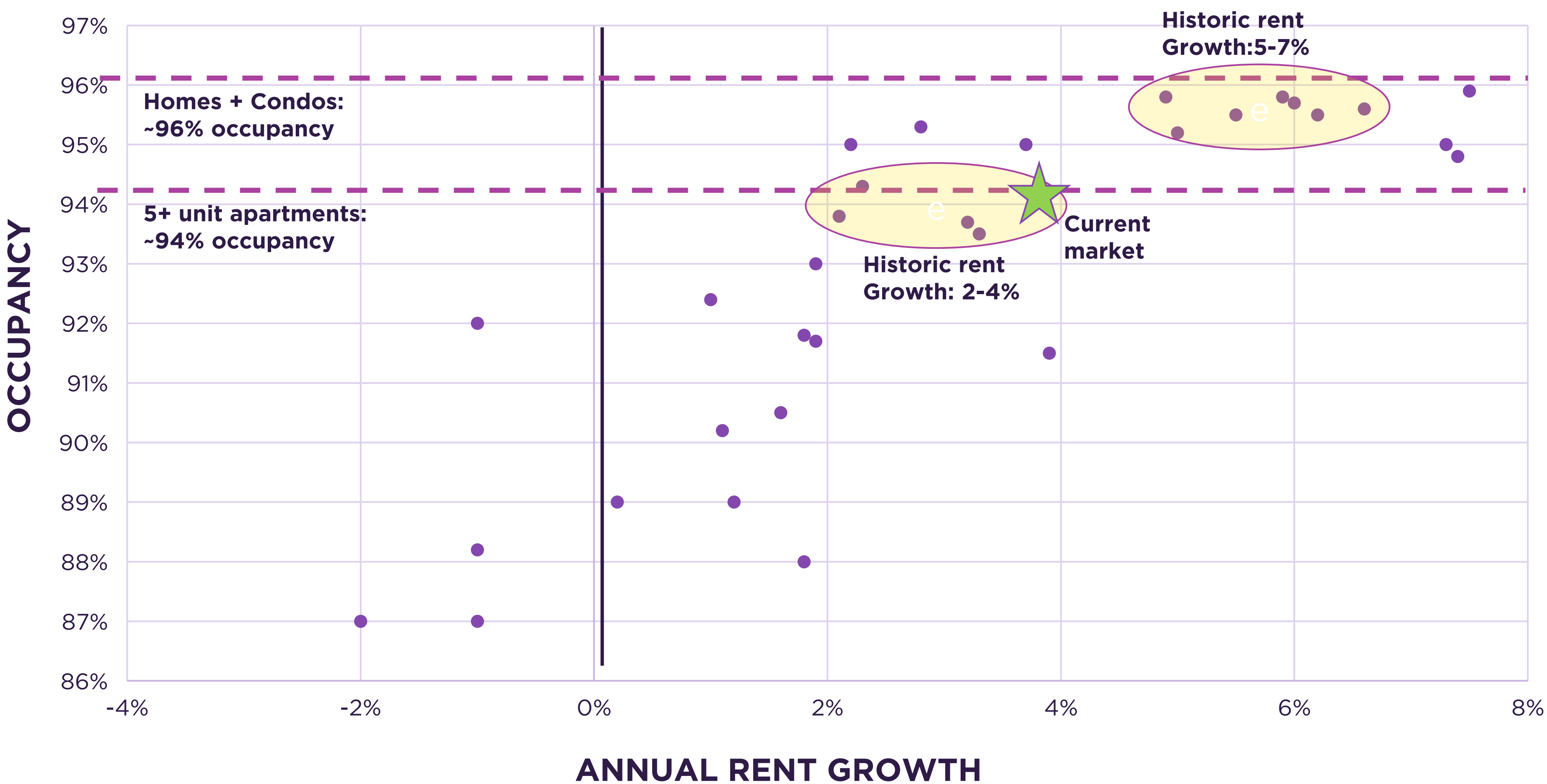


Source: Apartment Association of Metro Denver | Note: DSF = Detached Single Family Home

WHAT CAUSES RENT GROWTH?

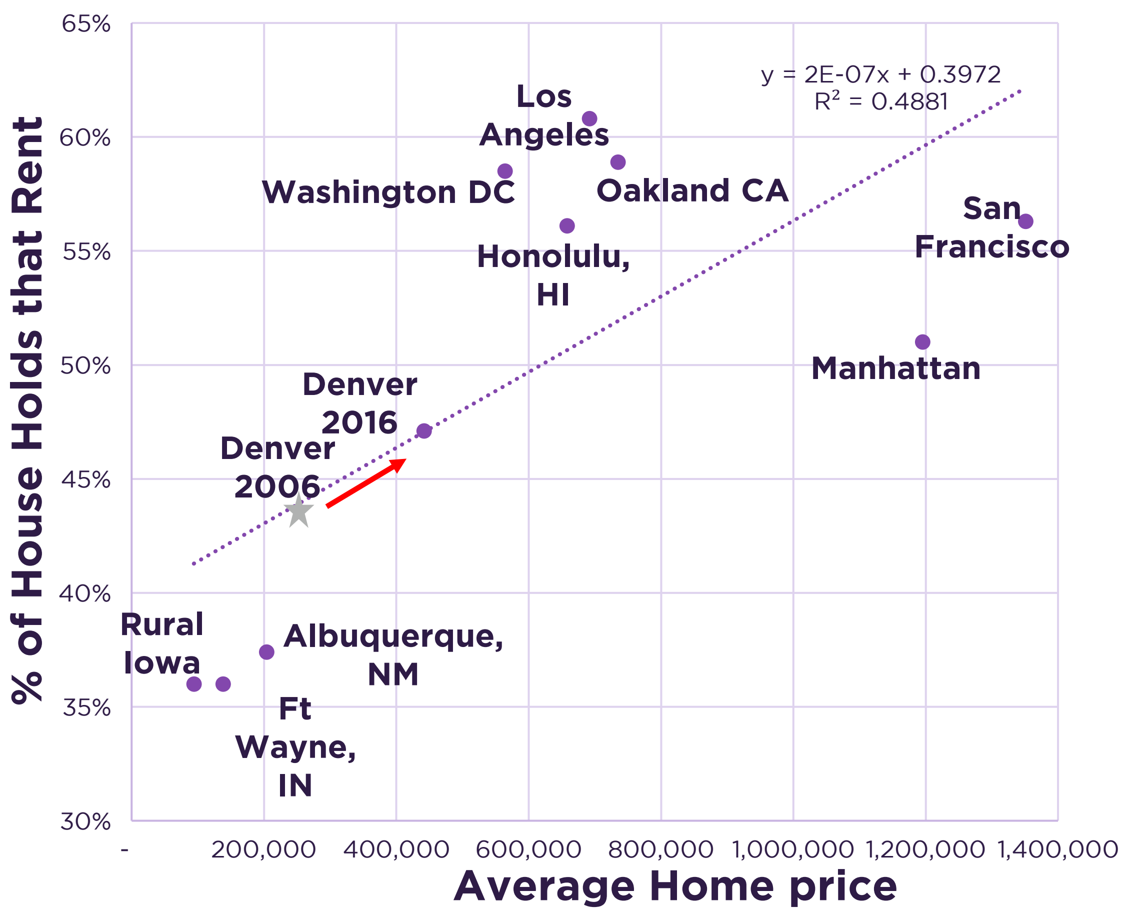
Average apartment rent relative to average Denver per capita income is currently at 23%. The 35-year average is 24%. Rents are more expensive relative to income than they were in 2005-2013, when at historically very low levels. They are now near the historical norm. There's a clear link between occupancy (1-vacancy rate) and rent growth. As vacancy rates gently drift upwards, rent growth will soften.

30-YEAR RELATIONSHIP BETWEEN OCCUPANCY AND RENT GROWTH



There is a strong relationship between home price (e.g., affordability) and what percentage of the population rents (vs. owns). More expensive cities tend to have a higher percentage of renter households. As Denver's housing prices have increased in the past decade (+33%), the percentage of renters has increased (+11%), too.

RELATIONSHIP BETWEEN PRICE AND NON-O/O %



On the left-hand chart

- If home prices continue to increase faster than wage growth (or if mortgage rates go up); we'd expect to see ownership rates in Denver decrease.

What does it mean for the client?

- It would be wise to become a homeowner now before it's altogether unrealistic to save for a down payment.
- If one has the means, it's also a good time to acquire investments properties as the tenant pool grows.

Source: YCRE analysis, Census Bureau,

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Notes from the attorneys...

Source: Your Castle Real Estate analysis. Based on information from Denver (REColorado). Not all properties were listed and/or sold by Company. This representation is based in whole or in part on content supplied by the MLS. The MLS does not guarantee nor is it in any way responsible for its accuracy. Content maintained by the MLS may not reflect all real estate activity in the market. Does NOT include time share, mobile homes, or commercial.

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