

Matthew Hintermeister, immediate past president of the Telluride Association of Realtors speaks out on the Telluride market:

The question of the day not only in Telluride but across the country is: When will real estate prices bottom? Anyone can make a guess, educated or not. However, I'd like to focus on what respected economist Professor Robert Shiller of Yale University, co-creator of the Case-Shiller Indices of housing prices continues to say on the subject.

Shiller makes a clear case, that is now certainly not disputed, that real estate prices on average increased at an abnormally high rate from 1998 to 2006; this made up the first half of the "bubble" or bell curve when shown on a graph. Ever since, prices have fallen on average, making up part or most of the second half of the curve, depending on how long prices continue to fall. Shiller contends that prices will continue to fall until they reach levels seen in 2001-2002. Shiller also notes that real estate markets vary widely, and the size of each market's bubble is different; for example, the bubble experienced in Las Vegas or South Florida was much larger than that in markets such as Dallas or Charlotte. While the Las Vegas Market is off almost 40 percent from its peak, Dallas is only down about 4 percent. These are of course dramatic examples, but they clearly demonstrate the difference between markets that rose dramatically, upwards of 60 percent annual appreciation, and others that appreciated more gradually. Some U.S. markets have already shown several months of improving home prices ; if this is sustained, such markets will have demonstrated a bottom.

The Shiller case indices also point to a widening spread between cost and sales price, i.e., an increasing profit margin for sellers that became unjustified. Shiller has stated that as prices retreat back to cost basis levels, then the market has normalized.

To bring this home, Telluride never experienced annual rates of appreciation greater than 20 percent at any time from 1998-2006, and on average, the rate in our market was about 14 percent. Today, we are seeing sales prices that are similar to those of 2002, which would suggest, according to Professor Shiller that we are at or close to a bottom in our market. However, this does not mean that all prices will fall to 2002 levels as not all sellers are as motivated as others. Rather, as we search for a bottom of our market, sales being done now at prices similar to 2002 are a good foundation for the end of our bubble, i.e., prices should stabilize and return to a steadier, more sustainable rate of appreciation. In regard to Professor Shiller's point on the margin between sales prices and cost bases, the Telluride market has quite a few examples where current prices are at or even below current replacement cost of the property.

Timing the bottom of any market is pretty much impossible, however, approaching our own real estate market with the tools being used by both economists and investors across the country to make educated investments is at least a respectable if not admirable course of action.