



THE GENESIS GROUP

The GENESIS Perspective

Metropolitan Denver

First Quarter 2007

FORECLOSURES Threaten to Overwhelm the Market

Metropolitan Denver's housing market is hurting. In spite of job growth that continues to exceed the national average, strong retail sales, growing personal incomes, healthy commercial real estate conditions and other signs of economic improvement, both the resale and new housing markets suffered from declining sales volume and rising inventories in 2006. These trends continued into First Quarter 2007 with existing home sales down six percent and new home sales off by 39 percent from First Quarter 2006.

We believe foreclosures represent the most significant challenge contributing to the woes of both the new and resale housing markets. **Initial foreclosure filings in the metro Denver area are on pace to reach a level for 2007 that would be approximately equal to half of the annual number of existing home sales in a "normal" market.** Most of these "distressed sale properties" will soon be involuntarily transferred to a new owner (lender, short-sale buyer, foreclosure buyer). This additional "involuntary supply" of homes is threatening the health of metro Denver's housing market by directly and indirectly reducing demand for existing and new housing.

Foreclosures are having the greatest impact on the low to middle home price ranges of the new and resale housing markets. Recent metro Denver area foreclosure filings have generally been focused in lower price ranges; 72 percent had an original loan amount under \$200,000 and 95 percent were for homes with loans under \$300,000. This involuntary supply competes with normal market transactions. When normal market sellers in these price ranges have difficulty selling their existing homes because of the oversupply of underpriced foreclosures, their ability to buy a new or resale move-up home at a higher price is limited.

In order to understand how long this excess supply condition will continue to plague the housing market, it is important to understand what happens to homes for which a foreclosure notice has been filed. Unfortunately, reliable information about the ultimate disposition of homes for which foreclosure notices have been filed is hard to come by, although the number of people who are ultimately able to bring payments current and avoid an involuntary transfer is believed to be small, perhaps 10 percent. Of the other 90 percent, some will be sold before the foreclosure process is finalized (perhaps in a "short sale" where the lender accepts less than the full amount due), and some will be voluntarily deeded to the lender. Even at the final "foreclosure sale," when the property is up for bids at the local county courthouse, some homes will be purchased by an investor rather than the original lender. At this point, some homes will be put back on the market via a multiple listing service while others will be retained indefinitely as rental properties.

For the balance of 2007, we look to the market performance during the second half of 2006 when there were 5,302 new home sales. Because this number already represented a sharp 31 percent decline from the second half of 2005, we believe it reasonable to forecast the same number of sales for second half of 2007. Using this reasoning, **we forecast approximately 5,600 sales for the first half of 2007 (2,800 sales per quarter) and 5,302 sales during the second half of the year, for a total of 10,902 new production home sales for 2007, rounded to 11,000.**

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KEY INDICATORS Compared to First Quarter 2006

Employment	↑
Mortgage Rates	=
New Home Sales	↓
For-Sale Permits	↓
Rental Permits	↑
Resale Activity	↓

ECONOMIC Trends

- From June 2005 through First Quarter 2007, the 12-month average wage and salary employment growth rate for both the state and the metropolitan Denver area surpassed that of the nation. Through First Quarter 2007, State of Colorado 12-month average employment increased at a 2.2 percent growth rate; this compares to 2.0 and 1.7 percent growth rates for the metropolitan Denver area and the nation respectively.
- For each month since August 2003, the Consumer Confidence Index for the Mountain Region has exceeded the index level

recorded for the nation during the same period. In April 2007 the index fell to 135.7 from 143.0 the previous month, but the region's confidence level in April was the highest recorded among the nation's nine regions during the month.

- Colorado bankruptcies jumped 116 percent in First Quarter 2007 to 3,083 filings. The latest quarterly figure represents a seven percent decline from Fourth Quarter 2006. Though changes in federal bankruptcy became effective in 2005 making it more difficult to file for Chapter 7 bankruptcy ("straight bankruptcy" or liquidation), the number of filings in this category still represents nearly 83 percent of all bankruptcy filings, versus 89 percent in 2004 and 93 percent in 2005.



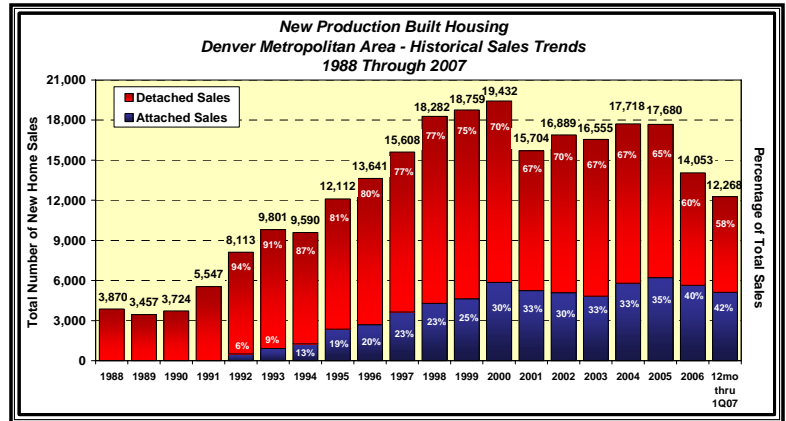
NEW Housing Activity

Total new production home sales (2,800 units) in the metropolitan Denver areas during First Quarter 2007 were down 39 percent from First Quarter 2006. Twelve months of sales activity through First Quarter 2007 hit an 11 year low of 12,268 home sales. Overall sales volume decreased in all seven metropolitan Denver market areas.

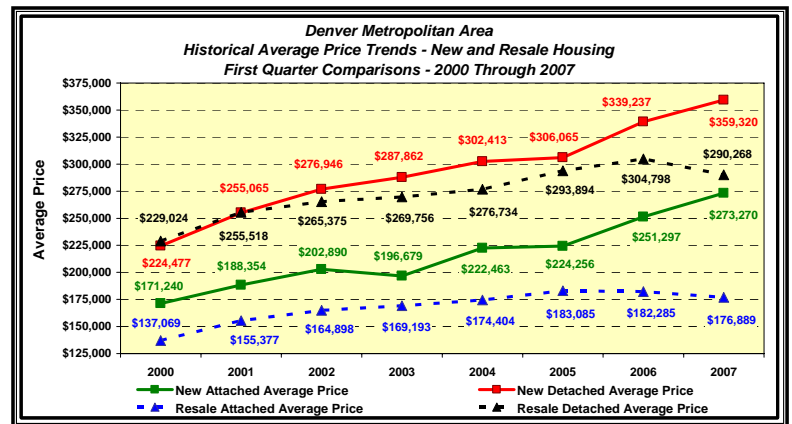
Strong demand for new attached housing continues as sales of condominiums, townhomes and duplexes accounted for 40 percent of the market at Year-end 2006 and 42 percent of all sales in the 12 month period through First Quarter 2007. This is only the second time in the last 18 years that sales of attached homes accounted for 35 percent or more of total sales volume. Concurrently, this is the first time that the detached housing sector dropped under 60 percent in market capture.

Over the last several years, the detached housing market has captured between 65 percent and 70 percent of the Denver market. However, First Quarter 2007 marks the first period since 1999 in which detached sales dropped below 3,000 homes. New detached homes sales declined by a dramatic 42 percent in First Quarter 2006 to 2007 comparisons, reaching only 1,776 sales.

The average base price of new detached homes increased 17 percent from First Quarter 2005 to 2007 to \$359,320. The average price of a new attached home increased 8.7 percent to \$273,270 from First Quarter 2006.



Sources: The Genesis Group; Data compiled by Hanley Wood LLC. Note: 1988 through 1991



Sources: The Genesis Group, Metrolist Inc., IRES LLC; Data Compiled by Hanley Wood LLC.

New Housing INVENTORY

New home inventory increased 6.0 percent from 3,291 homes in First Quarter 2006 to 3,488 homes in First Quarter 2007. The number of unsold new detached homes dropped 17 percent while the number of available attached homes was up 26 percent.

As of First Quarter 2007, the month's supply of available new detached homes increased to 2.1 months from 1.7 months a year earlier. Notably, this is the first time that first quart de-

tached inventory supply has exceeded two months and is the highest first quarter supply level recorded over the past seven years.

The month's supply of unsold new attached homes jumped to 5.2 months in First Quarter 2007, up from 3.5 months in First Quarter 2006. This is only the second quarter in the past eight years that first quarter month's supply has exceeded five months.

Resale Housing INVENTORY

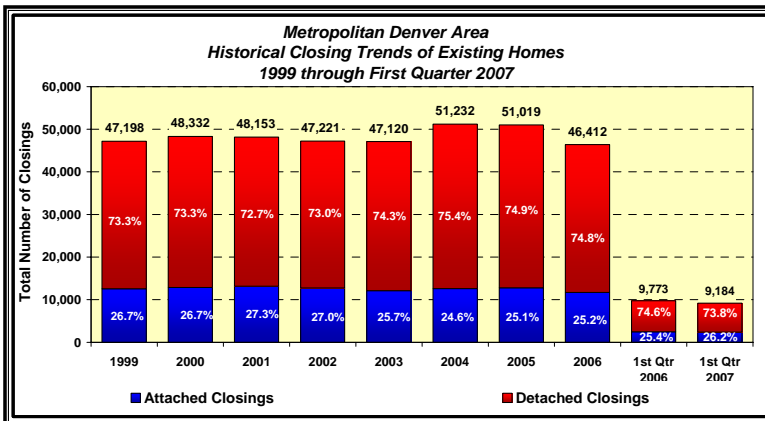
When compared to First Quarter 2006, the number of existing inventory homes (attached and detached) declined slightly. There were 22,943 total existing homes (attached & detached) listed for sale in First Quarter 2007 compared to 23,908 listings a year earlier, a four percent decrease. During the same time period, attached listing volume decreased 10 percent and detached listing volume decreased one percent.

Based on the monthly sales rate for the previous 12 months through First Quarter 2007, the supply of existing homes (attached and detached) increased to 5.9 months, up from 5.7 months a year earlier.

The supply of existing attached homes declined from 7.6 to 7.3 months, and the supply of existing detached homes increased from 5.0 to 5.4 months.



RESALE Housing Activity



Sources: The Genesis Group, Metrolist Inc., IRES LLC.

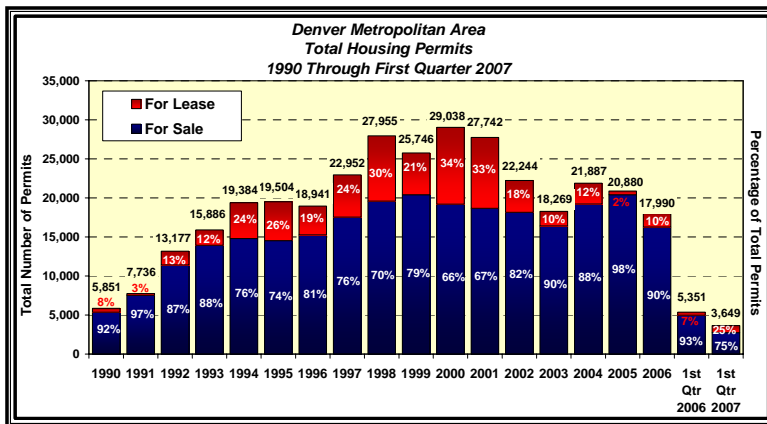
The number of existing home closings (attached & detached) decreased six percent in the metropolitan Denver area, comparing First Quarter 2006 and First Quarter 2007. During this time period, existing attached home closings declined three percent and existing detached home closings declined seven percent.

In First Quarter 2007, attached closings accounted for a slightly higher percentage (26 percent) of total sales compared to First Quarter 2006 (25 percent).

When compared to First Quarter 2006, the volume of detached closings declined in all seven metropolitan Denver market areas. The greatest decline occurred in the Boulder/Longmont market area, down 20 percent.

The volume of attached closings was down in five of the seven metropolitan Denver market areas in First Quarter 2006 and 2007 comparisons. The Arapahoe and Northeast market areas registered increases in attached closings. The most significant decline in attached closings occurred in the Northwest market area, down 15 percent.

Building PERMIT Activity



Sources: Home Builders Association of Metro Denver and The Genesis Group

Total residential building permits have trended downward since the peak in 2000 when 29,038 permits were issued. The downward trend continued into 2007 with only 3,649 total permits issued in First Quarter 2007 compared to 5,351 issued in First Quarter 2006, a decrease of 32 percent.

For-sale housing permits, which were down by 45 percent in first quarter comparisons, were responsible for most of the decline. For-sale permits accounted for 75 percent of the 3,649 total permits reported in First Quarter 2007 which is a substantially smaller percentage than the 93 percent share in First Quarter 2006.

Of the 2,735 for-sale permits issued in First Quarter 2007, 62 percent were for detached homes and the remaining 38 percent were for attached homes.

Multi-family (rental) permits accounted for the remaining 25 percent of total permits in First Quarter 2007, which is up from 7 percent in First Quarter 2006.

In First Quarter 2007, single family detached permits accounted for 47 percent of total permits issued in the seven county metropolitan Denver area, the smallest percentage in First Quarter comparisons since 2000.

Join us for our **Second Quarter 2007 Genesis Perspective Briefing on June 5th**. For the first time at a Genesis Briefing...get ready for a comprehensive forecast on the National, Regional and Local housing markets! For more information, visit our website at www.thegenesisgroup.net/events.html.

Our guest **Boyce Thompson**, Editorial Director of the BUILDER group of magazines published by Hanley Wood, LLC., will begin with program by adding a national perspective and Cheri Meyn and Beth Culberson of The Genesis Group will present regional market highlights and our 2007 forecast plus a spotlight program reviewing unique market conditions throughout the Denver metro region.

The GENESIS Tour

#1 Kent Place at Cherry Hills – Continuum Partners

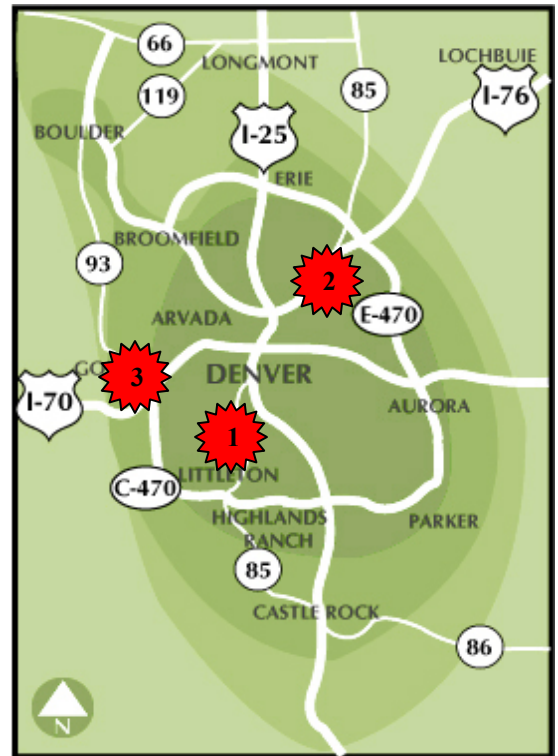
Kent Place is a high-end, mixed-use development at South University and East Hampden Avenue in Englewood, on the site of the former Denver Seminary. Named Kent Place after the Kent Denver School that was located at the same site until 1968, Continuum Partners' development is 11.5 acres in total. When completed, Kent Place will consist of approximately 350 units and 65,000 square feet of retail and office space. Prices range from the low \$600's to over \$3.5 million, and phase I will include 89 luxury condominiums and 22 townhome units when completed in 2009.

#2 Harvest Meadows - Centex Homes

Harvest Meadows by Centex Homes is located in Northern Commerce City, just 10 minutes from the new Northfield Shopping Mall and a short drive from downtown Denver. The location is very accessible to nearby I-76 and E-470, making Harvest Meadows convenient to anywhere in metro Denver. Eight, two-story homes are available with prices starting from the mid \$200's and ranging in size from 1,799 to 3,460 square feet. The community also features a two acre park in the middle of the community surrounded by open space, trails and wildlife preserves, such as Barr Lake State Park, the Rocky Mountain Wildlife Preserve and the Prairie Gateway area.

#3 Canyon View – KB Home

Canyon View is KB Home's first luxury community in Colorado and introduces new features to KB Home, including courtyards with built-in gas grills, fireplaces and covered decks. Canyon View is located northwest of downtown Golden, near Lookout Mountain and Table Mountain, and when completed, the community will include 60 single family homes. Located within the Jefferson County Public School District, homes at Canyon View range from 2,307 to 3,820 square feet and start at \$449,995.



*The Genesis Perspective is a quarterly newsletter containing excerpts from our quarterly Metro Denver Housing Overview, which is considered to be the most informative analysis and forecast of the Denver housing market.. This newsletter is available **free** via email, and if you prefer, we will mail you a hard copy for a \$50 annual fee. To order or change your subscription, please contact Meghan Kelly at 303-662-0155 or at mkelly@thegenesisgroup.net.*



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