



THE GENESIS GROUP

The GENESIS Perspective

Metropolitan Denver

Third Quarter 2007

Metro Denver—Down but Not Out

In prior editions of this publication over the past several quarters we have provided analyses of the trials and tribulations of the metro Denver housing market: declining new home sales, mounting rates of foreclosures, excess resale housing inventory levels. For some time, our quarterly forecasts have concluded that the new housing market was likely to continue to worsen before it could improve.

Although these statistics continued to exhibit signs of a very weak housing market through Third Quarter 2007, we note that metro Denver's economic downturn starting in 2001 may have prevented some of the excesses that are now plaguing housing markets in other parts of the country.

In response to low interest rates and lax home loan underwriting, existing home prices and sales volumes boomed through late 2005 and are now declining sharply in much of the country. Metro Denver missed out on this boom so we didn't see the same increases, and we are avoiding the worst of the declines. Mortgage delinquency rates and the percentage of sub-prime loans have increased sharply in metro Denver and in the state of Colorado, yet remain below the averages for the U.S.

At the local level, we note that the number of existing homes on the market as of Third Quarter 2007 is down from a year earlier. Builders have also largely maintained discipline in starting only

new homes they are likely to sell; new home inventory levels have actually declined over this time period despite the 23 percent drop in new home sales over the 12 months through Third Quarter 2007. And although new home sales have declined for the eighth consecutive quarter, both the number and the percentage declines have moderated for the past two quarters.

Meanwhile, the local economy continues to exhibit signs of strength in terms of job growth, office absorption and retail sales. Net immigration to the state and to metro Denver continues, and consumer confidence in the region remains high. The apartment market has finally recovered to normal vacancy rates, and as rents begin to increase, the option of renting rather than buying a home will become less attractive.

For these reasons, we believe the metro Denver new housing market is nearing the bottom of a long and challenging period. We are dubious about the prospects for rapid improvement, but we believe that the dark days of declining new and existing home sales volume, flat and periodically falling home prices in many submarkets and falling demand in the face of supply increases are finally nearing an end.

More can be found in The Genesis Group's Third Quarter 2007 Metropolitan Denver Housing Overview. www.GenesisGroup.net/Products.html

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KEY INDICATORS Compared to Third Quarter 2006

<i>Employment</i>	↑
<i>Mortgage Rates</i>	↑
<i>New Home Sales</i>	↓
<i>For-Sale Permits</i>	↓
<i>Rental Permits</i>	↑
<i>Resale Activity</i>	↓

Economic Trends

- The Consumer Price Index rose by 2.5 percent through Third Quarter 2007, a significant decline from 3.2 percent for calendar year 2006.
- Solid employment gains in Colorado continued to fuel economic growth for the 12 month period through Third Quarter 2007, with 2.0 percent employment growth for the state exceeding the 1.5 percent growth for the nation. The metropolitan Denver area also exceeded the U.S. rate of job growth for this period with 1.8 percent, although employment growth has slowed for the most recent months. The

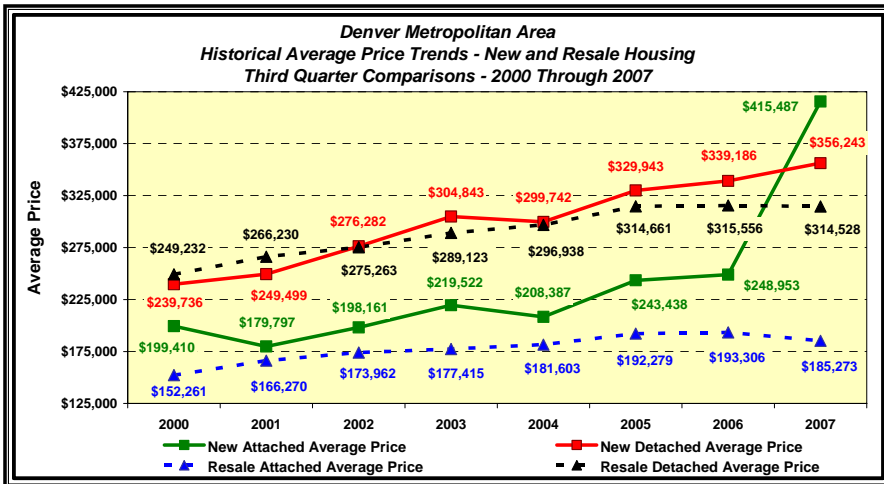
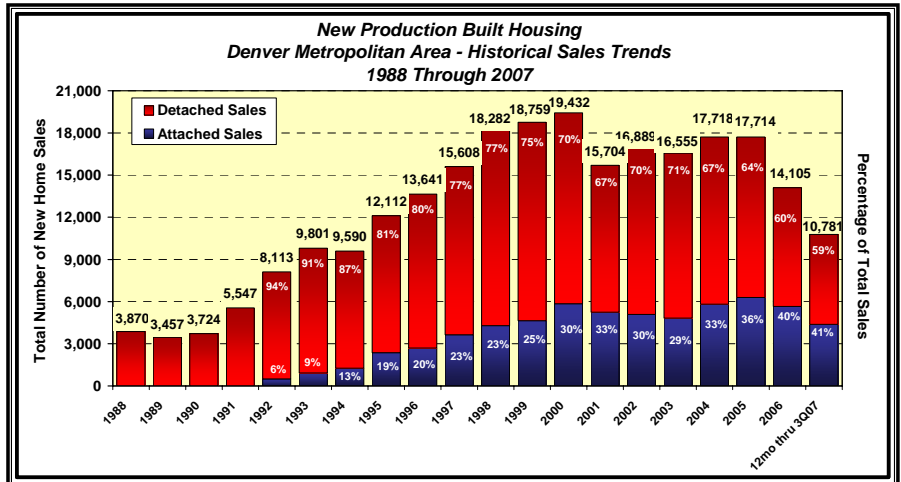
unemployment rates of 3.8 percent in the metropolitan Denver area and the state in September 2007 were below the 4.5 percent unemployment rate for the U.S.

- Solid increases in retail sales continued, at 9.9 percent for the state and 10.5 percent for metro Denver for the first five months of 2007, well above the rate of inflation.
- Inflation in the Denver region rose to 3.6 percent for 2006, slightly above the 3.2 percent U.S. inflation rate for 2006. The region's inflation rate moderated in First Half 2007, however, matching the 2.5 percent inflation rate for the U.S. for the same period which remained steady through Third Quarter 2007.



New Housing Activity

The metropolitan Denver new housing market grew from just over 3,400 annual sales in 1988 to a peak of nearly 19,500 sales in 2000. Sales volume has not reached 18,000 units since 2000 and has been declining annually since 2005. In 2006, new home sales volume declined by 20 percent to the lowest level recorded in 10 years, and the decline continued through Third Quarter 2007 with sales (8,217 units) down 29 percent from year-to-date Third Quarter 2006. For the 12 months through Third Quarter 2007, volume hit an 11-year low of 10,781 new home sales.

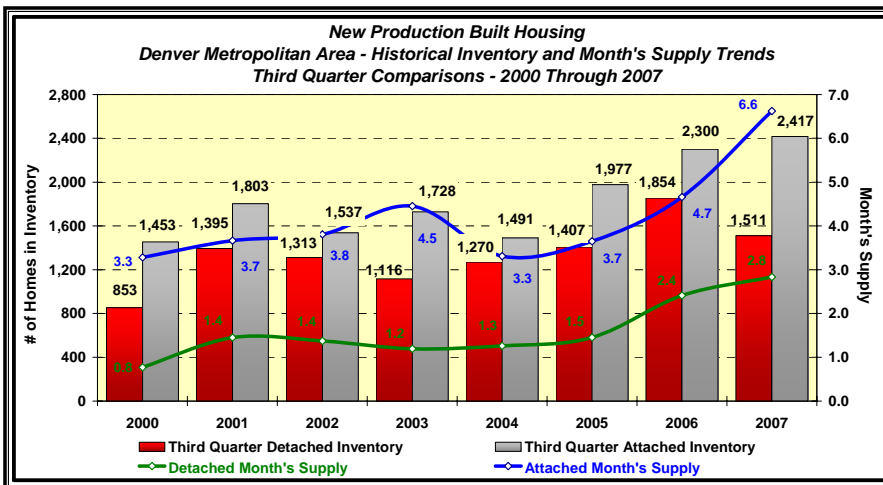


Sources: The Genesis Group; Data compiled by Hanley Wood LLC. Note: 1988 through 1991 attached home sales were negligible; accurate data unavailable—totals include all for-sale housing.

Attached housing continues to be a significant part of the new housing market as sales of condominiums, townhomes and duplexes accounted for 40 percent of the market at year-end 2006 and 41 percent in the 12 month period through Third 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. Over the last several years, the detached housing market has captured between 65 and 70 percent of the Denver market.

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

New Housing Inventory



New home inventory decreased 5.4 percent from 4,154 homes at Third Quarter 2006 to 3,928 homes at Third Quarter 2007.

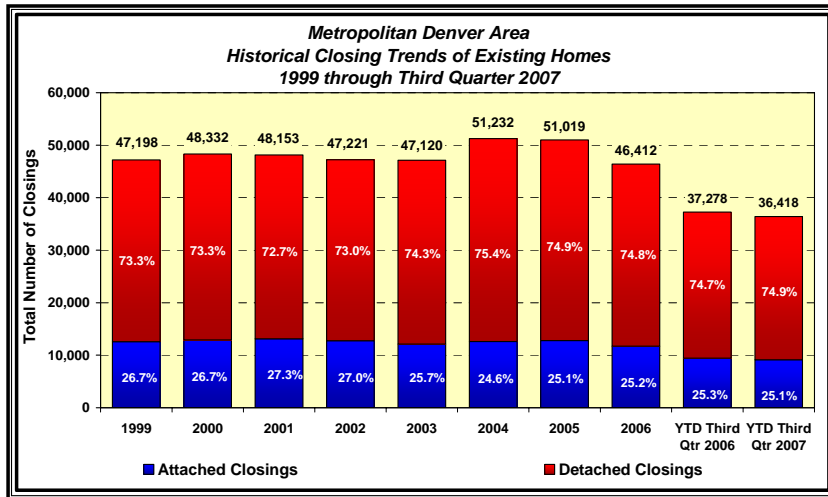
The number of available attached homes was up 5.1 percent from Third Quarter 2006 to Third Quarter 2007. The supply of unsold new attached homes jumped to 6.6 months at Third Quarter 2007, up from 4.7 months a year earlier. The past four quarters mark the only time periods in the past eight years that month's supply has exceeded five months.

The number of unsold new detached homes dropped 18.5 percent from Third Quarter 2006 to Third Quarter 2007. Despite the decline in inventory volume, the supply of available new detached homes increased to 2.8 months from 2.4 months in third quarter comparisons.

Sources: The Genesis Group; data compiled by Hanley Wood LLC



Resale Housing Activity



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

The total number of existing home closings decreased 2.3 percent in the metropolitan Denver area, when comparing year-to-date Third Quarter 2006 and 2007.

Existing attached home closings declined 3.3 percent. Detached home closings declined two percent comparing year-to-date Third Quarter 2006 to year-to-date Third Quarter 2007.

The greatest sales decline occurred in the high volume, mid-price range segments of the resale market. Sales volume increased at prices over \$300,000 for both attached and detached homes. Sales also increased at the lower end of the market—under \$125,000 for attached housing and under \$150,000 for detached.

Resale Housing Inventory

Existing home inventory decreased 5.4 percent from 27,673 homes at the end of Third Quarter 2006 to 26,176 homes at the end of Third Quarter 2007.

The number of available attached homes was down 13.4 percent from the end of Third Quarter 2006. The supply of unsold attached homes declined to 7.6 months at the end of Third Quarter 2007, from 8.5 months a year earlier.

The number of unsold detached homes dropped slightly, down 1.8 percent, in third quarter comparisons. The supply of available detached homes continues to rise in third quarter comparisons, up from 6.4 months at Third Quarter 2006 to 6.5 months at Third Quarter 2007.

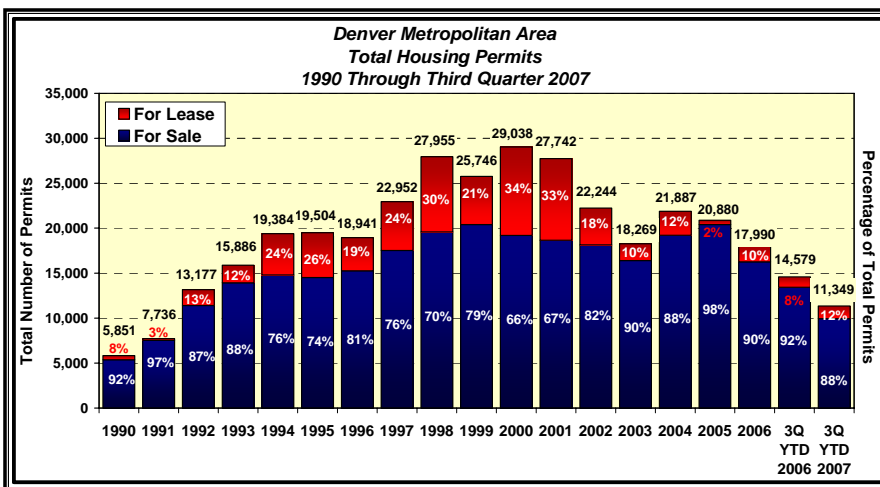
Building Permit Activity

Total residential building permits have generally trended downward from a peak of 29,038 permits in 2000. This downward trend has continued into 2007 with only 11,349 total permits issued through Third Quarter 2007

compared to 14,579 issued through Third Quarter 2006, a decrease of 22 percent.

For-sale housing permits were down 26 percent in year-to-date third quarter comparisons. Of the 9,942 for-sale permits issued through Third Quarter 2007, 6,032 were for single family detached homes, a 33 percent decline from the same period last year. The remaining 3,910 permits were for single family attached housing, down 11 percent from the same period last year.

Multi-family (rental) permits accounted for 12 percent of total permits through Third Quarter 2007, which is up from 8 percent for the same time period in 2006. While for-sale housing permits were down 26 percent, multi-family permits actually increased from 1,141 to 1,407 permits in year-to-date third quarter comparisons, a 23 percent increase.



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

The Genesis Tour

#1 BackCountry – Shea Homes

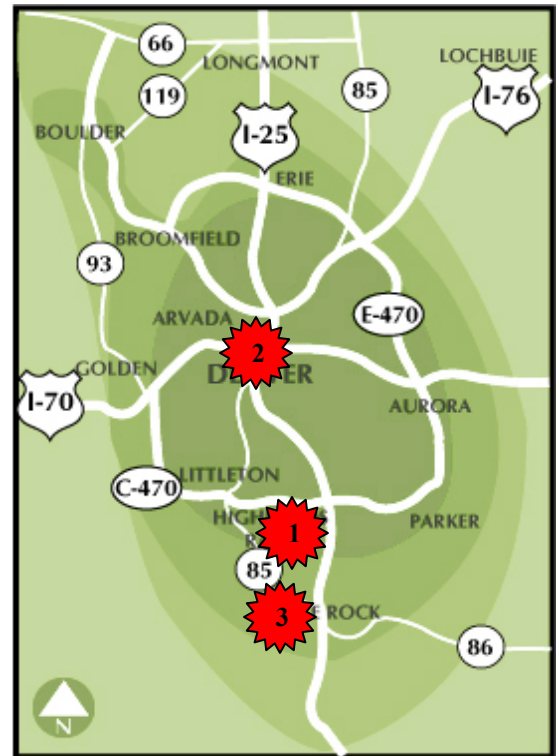
BackCountry, a luxury, gated community located in the Highlands Ranch master plan now has 12 models to view, featuring unique and luxurious product types that push the architectural design envelope. Ultimately, the project will feature 1,200 luxury production and custom lots with an average sales price over \$600,000. Nearly all lots will be located on open space with private Wildcat Reserve open space available to its residents. BackCountry is programmed to feature the strongest and most unique amenity package in Highlands Ranch, offering abundant public and private open spaces, dining, fitness, indoor and outdoor recreation, structured soft programming and high quality architectural elements.

#2 1401 Lawrence—Great Gulf Group

Adjacent to Larimer Square at the northeast corner of 14th and Lawrence, Toronto based Great Gulf Group plans to build a 145-unit, 51 story condominium building on a 25,000 square foot site. Currently, reservations are required to view the finished model for the building that will be the tallest tower in Denver.

#3 Belford Collection at The Meadows / Morningview — Oakwood Homes

This newly designed product opened for sales in June 2007. The collection features six homes with one ranch, one MFM two-story and four traditional two-story plans that are base priced from \$489,500 to \$586,400. The homes range in size from 3,600 to 5,600 square feet including a partial finished basement which comes standard in all homes. This product line is targeted towards both move-up families and empty nesters and has realized strong demand from out-of-state homebuyers .



*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 Ginny Grant at 303-662-0155 or at ggrant@thegenesisgroup.net.*



THE GENESIS GROUP

100 Inverness Terrace East, Suite 220
Englewood, CO 80111
Phone: 303.662.0155
Fax: 303.662.0158
www.TheGenesisGroup.net