



THE GENESIS GROUP

The GENESIS Perspective

Metropolitan Denver

Mid-Year 2007

Credit Crisis Comes "Home" to Roost

For the first seven months of 2007, the U.S. economy continued to perform admirably, with solid employment and GDP growth. However, in early August, national and international debt and equity markets became extremely volatile and a credit crisis ensued that forced the Federal Reserve to intervene and pump liquidity into the markets.

The problem traces back to the stock market downturn in 2001-2002 related to the dot-com speculative investment markets. After lowering interest rates to counter the economic recession, the Federal Reserve maintained low interest rates for several years and the "asset bubble" of stock markets was transferred to a housing "asset bubble."

From 2004 through early 2006 home prices in many major metropolitan areas in the country (notably not in Colorado) appreciated at annual rates of 20 to 30 percent or higher. Since personal incomes were rising at much lower rates, increasingly aggressive mortgage financing instruments were developed to facilitate the sales of homes at the higher prices.

Today we are witnessing the "payback" of these decisions. The new and resale housing markets, which were the economic engines pulling the economy out of recession, today face the possibility of a financial crisis.

The primary source for the recent turbulence was illiquidity in the asset based securities markets, specifically home mortgage backed securities. Starting with sub-prime mortgages to borrowers with poor credit histories, then extending to more creditworthy borrowers with adjustable rate or interest only mortgages, home delinquency and default rates increased more rapidly than many investors had anticipated. As the extent of

the problems became widely understood, investors grew reluctant to purchase any securities backed by home mortgages. Very quickly, some large financial institutions and investment funds that were heavily invested in these securities were forced out of business, as were many mortgage loan originators.

At this writing, we can only speculate about how far the impacts of the credit crisis related to home lending may spread throughout the economy and what the impacts might be on the new housing industry in Colorado and the metro Denver area. Although high rates of foreclosures are truly a symptom of other underlying fundamental problems, it is important to understand how foreclosures also contribute 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.

More can be found in *The Genesis Group's Mid-Year 2007 Metropolitan Denver Housing Overview*. www.theGenesisGroup.net/Products.html

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KEY INDICATORS Compared to Mid-Year 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

- Solid employment gains in Colorado continued to fuel the economic growth for the 12 month period through Second Quarter 2007, with **1.9 percent employment growth for metropolitan Denver exceeding the 1.6 percent growth for the nation.**
- At the end of Second Quarter 2007, the nation's seasonally unadjusted unemployment rate was 4.9 percent compared with 3.8 percent for both the State of Colorado and metropolitan Denver. **The national unemployment rate was slightly higher (up 0.1 percent) while the local unemployment rates were**

almost a full percentage point lower compared to the same time last year.

- **The Consumer Price Index (CPI) increased 2.5 percent in the 12-month period through Mid-Year 2007. This rate represents a further decline from the 2.9 percent rate through First Quarter 2007.** The recently released CPI for the Denver region shows a similar decline to a 2.5 percent inflation rate. The Denver region's inflation rate for the most recent period was virtually identical to the national rate.



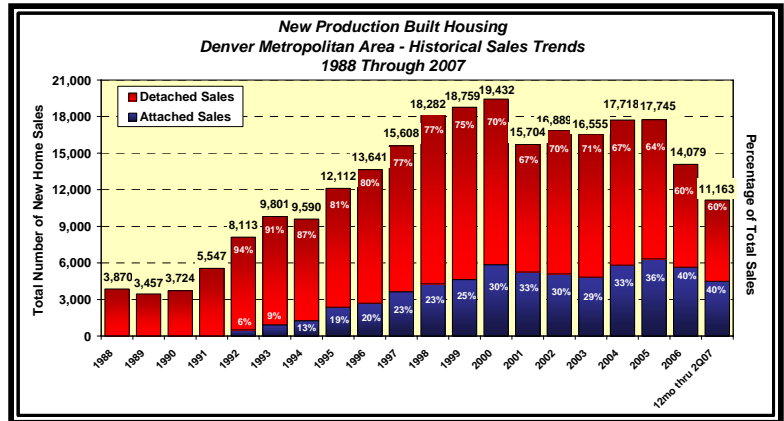
New Housing Activity

New home communities in Denver and Northern Colorado reported notably *less traffic* during Second Quarter 2007 than any second quarter period since 1994. Average weekly traffic per project was 10.0 visitors per week, down from 13 visitors in Second Quarter 2006.

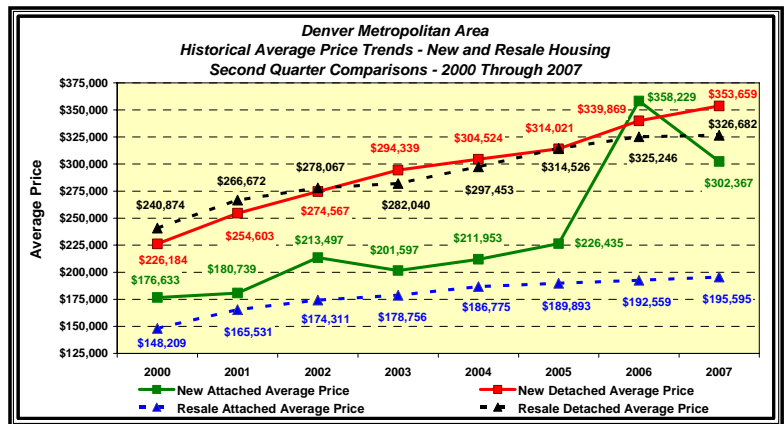
In 2006, new home sales volume declined by 21 percent to the lowest level recorded in 10 years, and **the decline continued in First Half 2007 with sales down 33 percent from First Half 2006 (5,842 units)**. For the 12 months through Second Quarter 2007 volume hit an 11 year low of 11,163 new home sales.

Attached housing accounted for 40 percent of the market at Year-end 2006 and in the 12 month period through Second Quarter 2007; however, attached sales volume dropped significantly in early 2007, hitting the lowest point of the decade. Attached new home sales declined 33 percent in First Half 2007 compared to First Half 2006. detached home sales in mid-year periods have ranged between 5,200 and nearly 7,000 units from 2001 to 2006. However, First Half 2007 marks the first period since prior to 1999 in which detached sales dropped below 5,200 homes. New detached homes sales declined by 33 percent in First Half 2006 to 2007 comparisons, reaching 3,522 sales.

The average price of a new attached home dropped 15.6 percent to \$302,367 from Second Quarter 2006 to Second Quarter 2007. The average base price of new detached homes increased by 4.1 percent from Second Quarter 2006 to 2007 reaching \$353,659.



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 3.8 percent from 3,498 homes at Mid-Year 2006 to 3,632 homes at Mid-Year 2007. The number of available attached homes was up 15 percent from Mid-Year 2006 to Mid-Year 2007, and the number of unsold new detached homes dropped 8.7 percent for the same time period.

The month's supply of unsold new attached homes jumped to 5.6 months at Mid-Year 2007, up from 3.4 months a year earlier. The past three quarters mark the only time periods

in the past eight years that month's supply has exceeded five months.

Despite the decline in inventory levels, the month's supply of available new detached homes increased to 2.8 months from 2.0 months in mid-year comparisons. Notably, this is the first mid-year period that detached supply has exceeded two months and is the highest mid-year supply level recorded over the past eight years.

Resale Housing Inventory

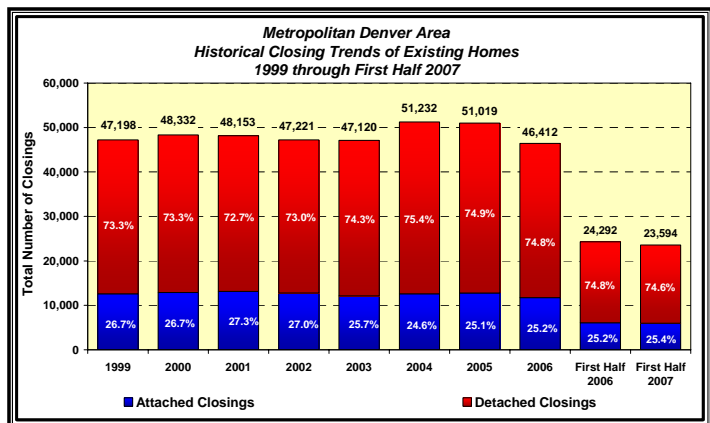
Existing home inventory decreased 5.7 percent from 29,392 homes at Mid-Year 2006 to 27,705 homes at Mid-Year 2007.

The number of available attached homes was down nearly 12 percent from Mid-Year 2006. The month's supply of unsold attached homes declined to 8.7 months at Mid-Year 2007, from 9.2 months a year earlier.

The number of existing available detached homes dropped slightly, three percent, from Mid-Year 2006 to Mid-Year 2007. Despite the decline in inventory, the month's supply of existing detached homes increased to 6.6 months from 6.4 months in mid-year comparisons. Notably, this is the first mid-year period that detached supply has exceeded six and one half months.



Resale Housing Activity



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

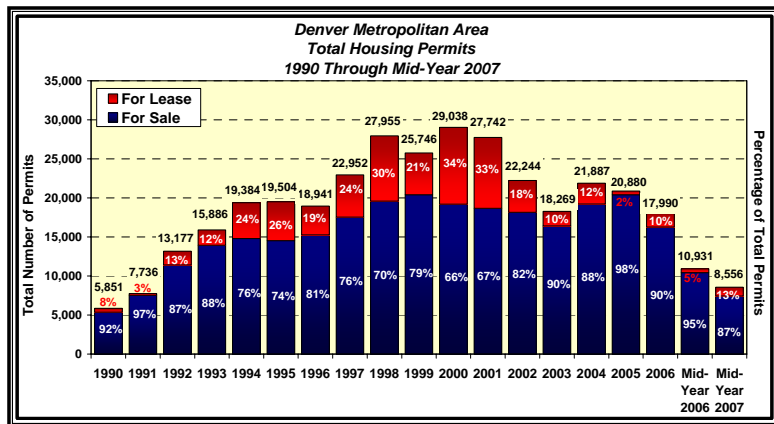
During this time period, existing attached home closings declined two percent, while detached home closings declined 3.2 percent.

Attached closing volume increased or remained stable in four of the seven market areas, with the largest increase posted in the Northeast market area, up 20 percent.

The volume of detached closings declined in most metropolitan Denver market areas, with the Northeast market area posting the only increase; up 3.2 percent. The greatest decline occurred in the Northwest market area, down 7.4 percent.

The total number of existing home closings decreased three percent in the metropolitan Denver area, comparing First Half 2006 and First Half 2007.

Building Permit Activity



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

For-sale housing permits were down 29 percent in first half comparisons. For-sale permits accounted for 87 percent of the 8,556 total permits reported through Mid-Year 2007, a smaller percentage than the 95 percent of total permits through Mid-Year 2006.

Of the 7,425 for-sale permits issued through Mid-Year 2007, 4,150 were for single family detached homes, a 39 percent decline from the first half of 2006. The remaining 3,275 permits were for single family attached housing, down 10 percent from the first half of 2006. During the first half of 2007, 56 percent of for-sale permits were for detached homes (down from 65 percent a year ago) while the remaining 44 percent were for attached homes (up from 35 percent a year ago).

Multi-family (rental) permits accounted for 13 percent of total permits through Mid-Year 2007, which is up from 5 percent for the first half of 2006.

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 8,556 total permits issued through Mid-Year 2007 compared to 10,931 issued through Mid-Year 2006, a decrease of 22 percent.

For those of you who also subscribe to one of our Housing Overviews—either for Metropolitan Denver, Northern Colorado, or Colorado Springs—please take a few moments to complete an on-line survey about the report. We are interested in getting some feedback about the report and learning how you use this quarterly publication. Your responses are highly valued and assist us in further improving our products. <http://www.thegenesisgroup.net/mr/surveys/HousingOverview/>

For more information about our products, including one the Housing Overviews, please visit our website at: <http://www.thegenesisgroup.net/products.html>

The Genesis Tour

#1 European Villas at the Landmark – Everest Development Company

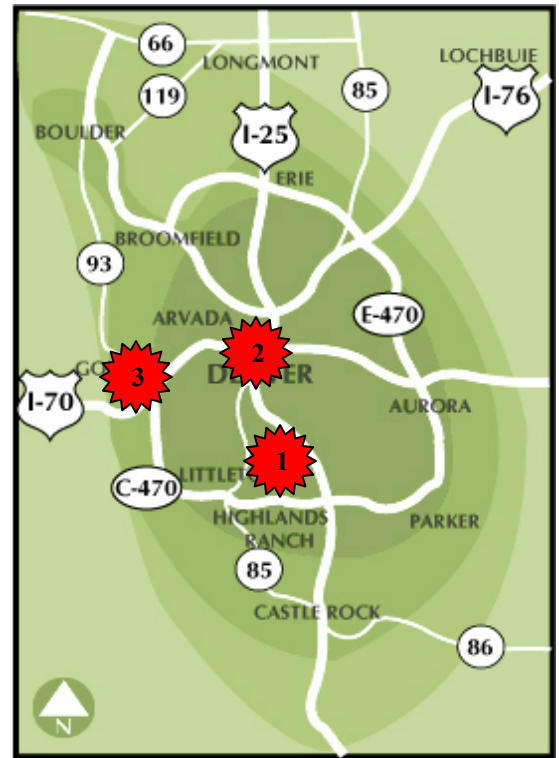
The European Village of Homes at Landmark is one of the metro area's newest and most luxurious Transit Oriented Developments, positioned on the highest elevation in Greenwood Village. The development will include 150,000 square feet of retail space and an impressive list of amenities including a Private Club, spas, fitness centers, personal concierge services and tree-lined piazzas. This village has been created to feel like you are living in a resort or on vacation without leaving the home! The European Village will be made up of Manor Homes and Brownstones ranging in size from 1,525 to over 4,300 square feet and priced from the low \$500's to \$2.4 million.

#2 Four Seasons Private Residences Denver - 1111 Tower LLC

A new kind of living is coming to downtown Denver: private residences that include the luxuries of a five-star hotel. The Four Seasons Private Residences Denver will offer the best in Four Seasons Hotel service plus the comfort and privacy of owning a residence. This 45-story high-rise will be located at 14th Street and Arapahoe in downtown Denver, and floors 18 to 44 will encompass the luxury suites, 102 in total. Units will range from 965 square feet up to 6,100 square feet, and the lower 16 floors will be for hotel accommodations. The hotel and residences are expected to be completed by the beginning of 2010 and are now open for pre-sales.

#3 Cottages at Fairmont Land - Colorado Land & Home Company

This exclusive enclave of twenty-two patio homes is located in Golden. The homes offer a choice of European exteriors, feature main floor master suites, and range in size from 2,400 to 3,000 square feet. Starting in the \$600's, the neighborhood is set in a peaceful area near Applewood Golf Course and has plenty of shopping and dining nearby. Easy access to expressways makes commuting to Boulder, downtown or mountain resorts easy as well.



*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 Nancy Boehler at 303-662-0155 or at nboehler@thegenesisgroup.net.*



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