



THE GENESIS GROUP

The GENESIS Perspective

Colorado Springs

Mid-Year 2007

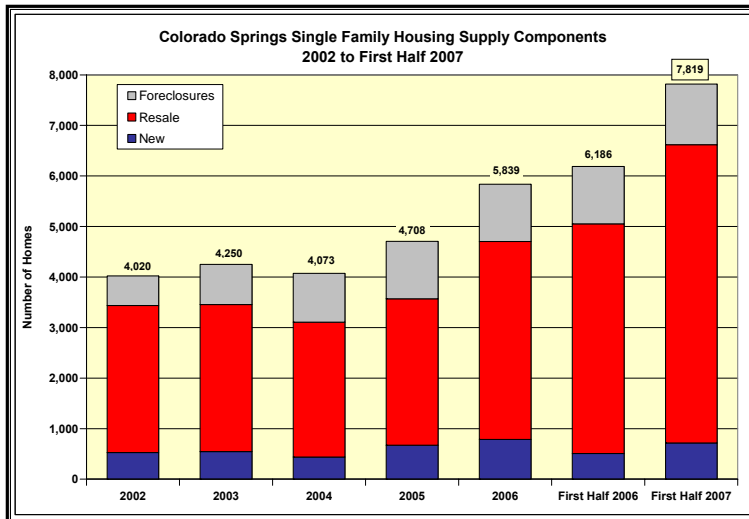
Excessive Supplies Plaguing Housing Market

The supply of unsold homes in the Colorado Springs area which includes the summation of new home inventory, active resale listings and the impact of foreclosures is illustrated in the chart below. The increased number of existing homes on the market is the primary contributor to the over-supplied housing market in this area. As of Mid-Year 2007, there were nearly 5,900 existing home listings, an increase of 26 percent from Mid-Year 2006. The listing volume as of Second Quarter 2007 was 34 percent higher than year-end 2006 levels and more than double the average number of listings from 2002 to 2005 which consistently ranged between 2,700 and 2,900 homes.

Additionally, the impact of foreclosures is a growing concern. Although the increased rate of foreclosures is

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. Foreclosure filings increased 35 percent from First half 2006 to First half 2007. While the current 1.1 percent foreclosure rate is growing, it is still lower than the current rate for the metropolitan Denver area at 1.6 percent. If annualized, the Second Quarter 2007 foreclosure rate is on pace to exceed 2.0 percent, which would be above the 27-year average of 1.5 percent and at a similar level as 1991. Most of these "distressed sale properties" will soon be involuntarily transferred to a new owner (lender, short-sale buyer or foreclosure buyer). The additional "involuntary supply" of homes threatens the health of the Colorado Springs housing market by directly and indirectly reducing demand for existing and new homes.

Foreclosures are having the greatest impact on the low to middle home price ranges of the new and resale housing markets. Recent foreclosure filings have been concentrated in the lower price ranges, with 80 percent for homes with original loan values under \$200,000 and 95 percent with original loan values under \$300,000. This involuntary supply competes with normal market transactions at these price points. When normal sellers in these price ranges have difficulty selling their existing homes because of the oversupply of under-priced foreclosed homes, their ability to buy a new or resale move-up home at a higher price is limited.



Sources: The Genesis Group; Hanley Wood Market Intelligence; Pikes Peak Association of Realtors; SKLD Information Services, LLC

Notes: Estimated Foreclosure impact assumes 50% of prior year foreclosure notices result in an involuntary transaction that is not otherwise accounted for in the MLS reporting.

ECONOMIC Trends

Employment—The employment situation has been improving in Colorado Springs since the beginning of 2004. During 2004, employment growth turned positive following two years of substantial negative job growth and employment growth for 2006 reached 2.2 percent. Average 12 month non-farm payrolls increased 1.0 percent through Second Quarter 2007 in the Colorado Springs MSA.

Interest Rates—Both fixed and adjustable mortgage rates rose during Second Quarter 2007 from the previous quarter. The average 30-Year Fixed Mortgage Interest rate during the month of July averaged 6.85 percent, nearly eclipsing the June 2006 monthly figure

Inflation— The recently released Consumer Price Index for the Denver region shows a decline to a 2.5 percent inflation rate, making it virtually identical to the national rate

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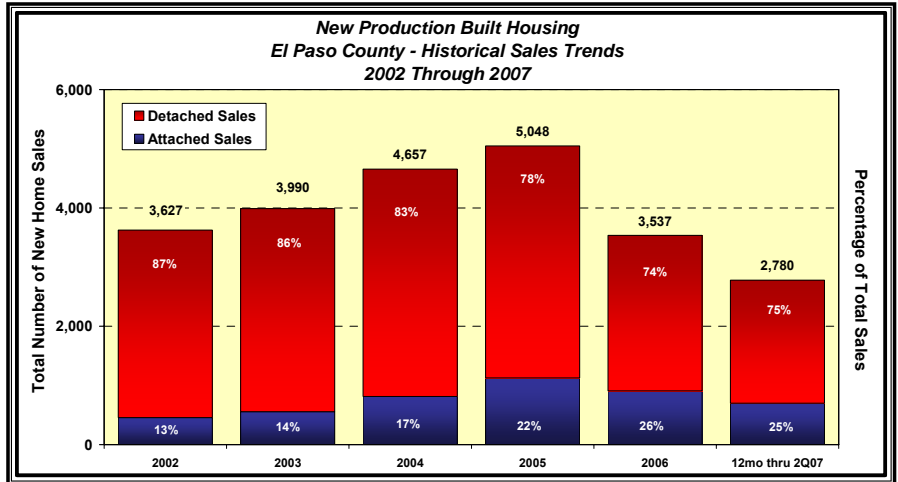
KEY INDICATORS Compared to Mid-Year 2006

<i>Employment</i>	↓
<i>Mortgage Rates</i>	=
<i>New Home Sales</i>	↓
<i>New Home Inventory</i>	↑
<i>Building Permits</i>	↓
<i>Existing Home Sales</i>	↓
<i>Existing Housing Inventory</i>	↑



New Housing Activity

El Paso County had four consecutive years of new home sales growth from 2002 to 2005 and exceeded 5,000 new production home sales in 2005. Following this period of growth, total new home sales in El Paso County decreased a significant 30 percent from a record 5,048 in 2005 to 3,537 in 2006, a five-year low. New home sales volume declined to a low of 2,780 homes for the 12 month period through Second Quarter 2007. This drop in sales volume was a result of the significant sales declines recorded in the latter half of 2006 (down 48 percent) combined with the 33 percent decrease in sales volume for the first half of 2007 compared to First Half 2006.



Source: The Genesis Group; Hanley Wood Market Intelligence

Attached housing is capturing a larger share of the new housing market in El Paso County, growing from 13 percent in 2002 to over 25 percent in

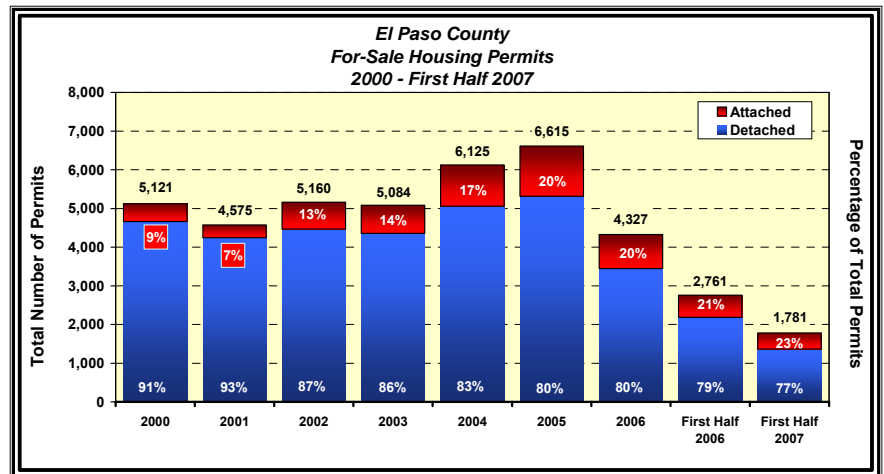
2006. Over the last several years, the detached housing market has generally captured over 75 percent of total new home sales in the El Paso marketplace.

New Housing Inventory

New home inventory increased nearly 41 percent from 509 homes at Mid-Year 2006 to 716 homes at Mid-Year 2007. The month's supply increased from 1.3 months to 3.1 months, the highest since The Genesis Group began tracking supply Fourth Quarter 2002. The number of available attached homes was up 32 percent from Mid-Year 2006 to Mid-Year 2007. The month's supply of unsold new attached homes jumped to 4.5 months at Mid-Year 2007, up from 2.0 months a year earlier. This is the highest supply level since Mid-Year 2003. The number of unsold new detached homes increased 46 percent from Mid-Year 2006 to Mid-Year 2007. Accordingly, month's supply of available new detached homes increased from 1.1 months to 2.6 months in mid-year comparisons. Notably, this is the first quarter that detached supply has exceeded 2.5 months since The Genesis Group began monitoring month's supply in Fourth Quarter 2002.

Building Permit Activity

Total permits reached a peak in 2002 with 6,822 permits issued while reaching a low in 2006 with 4,506 permits. Through First Half 2007, 1,924 permits were issued which is a 32 percent decrease compared to First Half 2006. For-sale residential building permits declined 35 percent from 2,761 permits through First Half 2006 to 1,781 through First Half 2007. As a share of total residential building permits, for-sale permits comprised 93 percent of all permits issued through First Half 2007, down from 98 percent from same period last year.



Sources : The Genesis Group; Pikes Peak Regional Building Department

Attached for-sale building permits decreased 28 percent from 576 permits through First Half 2006 to 416 issued through First Half 2007. Attached permits accounted for 23 percent of all for-sale permits issued. Building permits for single family detached residential homes fell 38 percent from

2,185 through First Half 2006 to 1,365 through First Half 2007. Detached permits accounted for 77 percent of all for-sale permits issued.

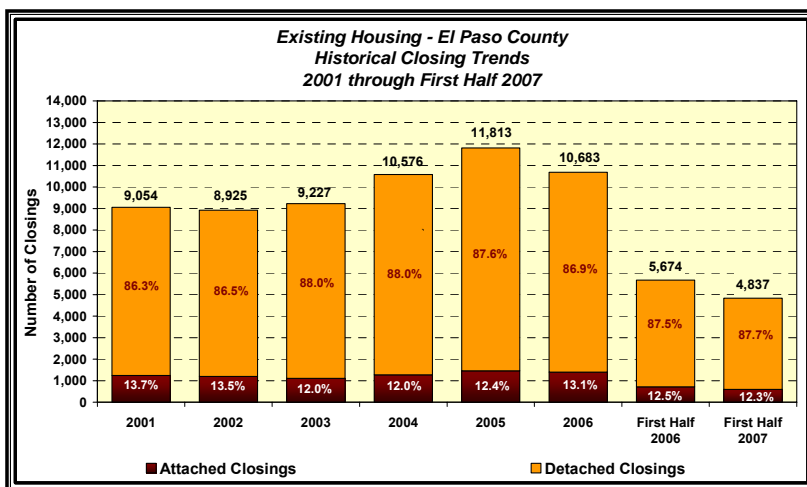


Resale Housing Activity

The total number of existing home closings in El Paso County decreased 15 percent, comparing First Half 2006 and First Half 2007.

Existing attached home closings declined 16 percent in first half comparisons. Attached closing volume declined in six of the seven market areas, with the largest percentage decline in the North area, down 32 percent. The largest absolute decline occurred in the West market area down 39 closings. The only market area to record an increase in attached closings was the East market area, up 7 percent (4 closings) in first half comparisons.

Existing detached home closings declined 15 percent from First Half 2006 to First Half 2007. The volume of detached closings declined in most El Paso market areas, with the Northeast market area posting the only increase; up 6 percent. The greatest decline occurred in the Northwest market area, down 22 percent.



Sources: The Genesis Group; Pikes Peak Association of Realtors

Resale Housing Inventory

Existing home inventory increased nearly 30 percent from 4,540 homes at Mid-Year 2006 to 5,898 homes at Mid-Year 2007.

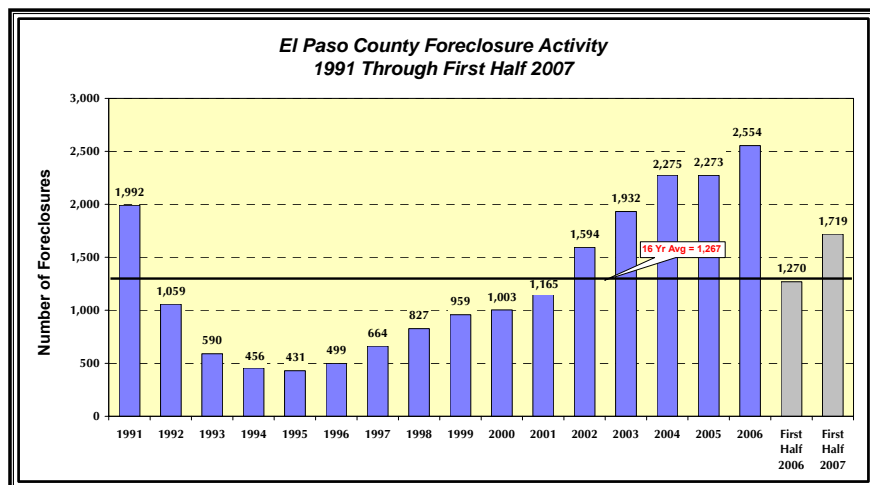
The number of available attached homes was up 31 percent from Mid-Year 2006. The month's supply of unsold attached homes increased to 8.0 months at Mid-Year 2007, from 5.3 months a year earlier.

The number of available detached homes increased 30 percent from Mid-Year 2006 to Mid-Year 2007. Month's supply of existing detached homes increased from 4.5 months at Mid-Year 2006 to 7.1 months at Mid-Year 2007. Notably, this is the first mid-year period where detached supply exceeded five months.

Foreclosure Activity

There were 1,719 foreclosures filed in the first half of 2007, up 35 percent from 1,270 in the first half of 2006. In 2006, a total of 2,554 foreclosures were filed, up 12 percent from 2,273 in 2005. Foreclosure filings have increased every year since 1995 when a record low of 431 foreclosures were reported.

Foreclosures continue to increase as mortgage rates rise, the resale home market slows and works through substantial inventory levels, and home appreciation remains flat. Mortgage lenders have tightened lending requirements in response to the troubled subprime market resulting in fewer qualified home buyers and more stringent refinancing qualifications for existing home owners.



Sources: The Genesis Group; SKLD Information Services, LLC

Must See...

#1 Gold Hill Mesa – John Laing Homes

Gold Hill Mesa is located across from Old Colorado City at the site of the former Golden Cycle Mill. In March 2007, John Laing Homes opened for sales at this unique mixed-use community. The builder features three new home collections including 8 alley-loaded single family plans and 4 condo plans priced from \$198,500 to \$362,500.

#2 Haven Artisan Villas - Keller Homes

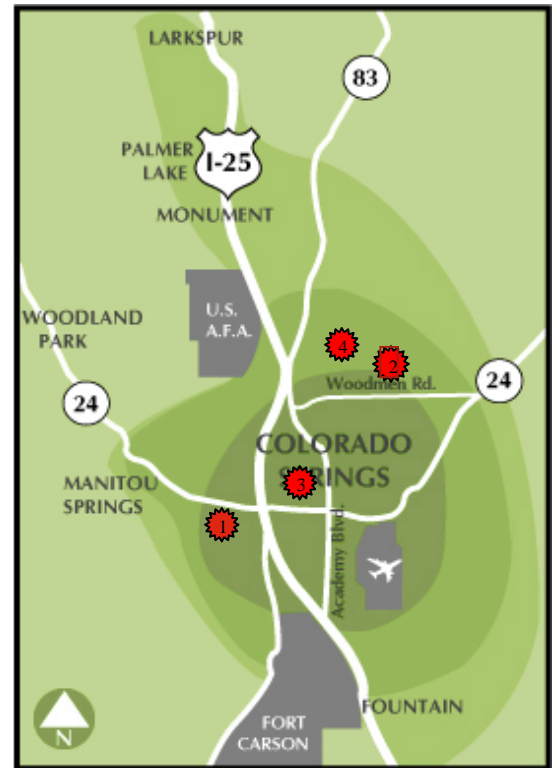
Keller Homes is building a new ranch collection of all-stucco homes. Five floor plans sized from approximately 1,800 to 2,750 square feet are being offered. The homes are base priced from \$330,000. The community is fully maintained and landscaped.

#3 Cottages at MacKenzie Place– MacKenzie House

New to the Colorado Springs area, MacKenzie Place is a recently opened retirement community for persons aged 55 or older that features a variety of for sale and for rent independent and assisted-care housing along with an extensive array of on-site services and amenities. The Cottages is a for sale product that features a combination of single family detached and duplex homes sized from 1,300 to 1,600 square feet.

#4 Townes at Kettle Creek– Ashton Woods Homes

Since opening in March 2007, this townhome community is experiencing tremendous sales success. As its first project in the Colorado Springs area, Ashton Woods Homes is building three-story townhomes priced from \$228,000. Four plans are offered, sized from approximately 1,900 to 2,300 square feet.



Coming Soon...

Grand Opening of Northtree at Banning Lewis Ranch Saturday, September 29th

Tour the 20 Model Homes by the following Builders:

- Capital Pacific Homes
- John Laing Homes
- Classic Homes
- Today's Homes

The Genesis Perspective is a quarterly newsletter containing excerpts from our quarterly Colorado Springs Housing Overview, an in-depth analysis and forecast of the Colorado Springs 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.

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