



THE GENESIS GROUP

# The GENESIS Perspective

## Northern Colorado

Mid-Year 2007

### Light at the end of the Tunnel?

Northern Colorado's new housing market continued to contract in First Half 2007 despite growing population and employment. Overall new home sales fell by a disappointing 23 percent in First Half 2007 to the lowest level in the last five years. There was a bright spot in the new home market as attached home sales increased nearly 38 percent; however, most of this increase was attributable to a localized surge in a few projects in Fort Collins. In comparison, sales of new detached homes declined in all Northern Colorado market areas, down 31 percent in First Half 2007.

New home inventory fell as builders continued to reduce the number of speculative homes. New inventory homes fell by 26 percent in Northern Colorado, however, the overall supply of homes increased from 5.4 to 5.9 months due primarily to the sharp drop in detached home sales. The supply of new attached homes remained high at the end of Second Quarter 2007, but dropped from 11.4 to 9.1 months. Despite a 30 percent decline in the volume of new detached inventory homes, the supply increased from 4.5 to 5.1 months.

The number of residential building permits issued in Larimer and Weld counties has been declining since reaching a near record high in 2004 and dropped 25 percent from 2005 to 2006. As compared to First Half 2006, the number of residential building permits declined 42 percent in First Half 2007.

The resale market showed small signs of improvement as overall closings of existing homes increased three percent. As compared to First Half 2006, the overall number of closings increased in three of the five total market areas in Northern Colorado. Overall closings declined nearly 3 percent in Greeley-Evans and fell less than one percent in the Loveland-Berthoud market area. The overall number of resale listings dropped 9 percent at the end of Second Quarter 2007, although the overall supply of available homes in Northern Colorado was more than 7 months.

We believe that Northern Colorado's new home market will face several key challenges in the coming months and new home sales will be hindered by continued turbulence in the mortgage industry and the uncertainty that almost always seems to bog down the economy during an election year. Paramount of our concerns is the mounting number of delinquencies and foreclosures, which will be further exacerbated by a flood of adjustable rate mortgages that are scheduled to reset at higher rates in the coming months. The most significant challenges to the new housing market include the following:

**Tightening Credit:** Although some economic analysts believe that money will still be available, citing a redundant financial system that is able to rapidly re-route credit in favor of alternative investments, the current crisis will no doubt impact small business including many home builders. The implications of the recent credit crunch may have a far more reaching impact on the economy than the plunge in tech stocks in 2001 and 2002.

**Foreclosures:** In 2006, the number of foreclosures increased 34 percent to a record high 3,298. The number of foreclosures filed in First Half 2007 has already outpaced First Half 2006, up 26 percent to 1,998 filings in First Half 2007.

**Competition and Diminishing Margins:** Today, slowing home sales have extended the build-out of many projects and builders are competing against resale homes within their own projects, often at substantial discounts.

**Negative Effects of Incentives:** Most new home builders are offering aggressive incentives in an effort to attract and motivate buyers with seemingly little sense of urgency. As the aggressive use of incentives continues, buyers are unsure whether home prices actually reflect value or if the price is likely to be lower in the near future.

### Volume 2007, Issue 2 CONTENTS

<i>New Housing Activity</i>	2
<i>New Housing Inventory</i>	2
<i>Resale Housing Inventory</i>	2
<i>Resale Housing Activity</i>	3
<i>Building Permit Activity</i>	3
<i>Region's Best Sellers</i>	4

### KEY INDICATORS Compared to Mid-Year 2006

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

### ECONOMIC Trends

**Employment**—Average employment growth has remained positive in Northern Colorado since 1990. During the most recent 12-month period, average employment was 2.4 percent higher than during the previous months. We believe the region will stay ahead of the national economic recovery and forecast an average of 5,300 jobs in 2007.

**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 (6.88 percent).

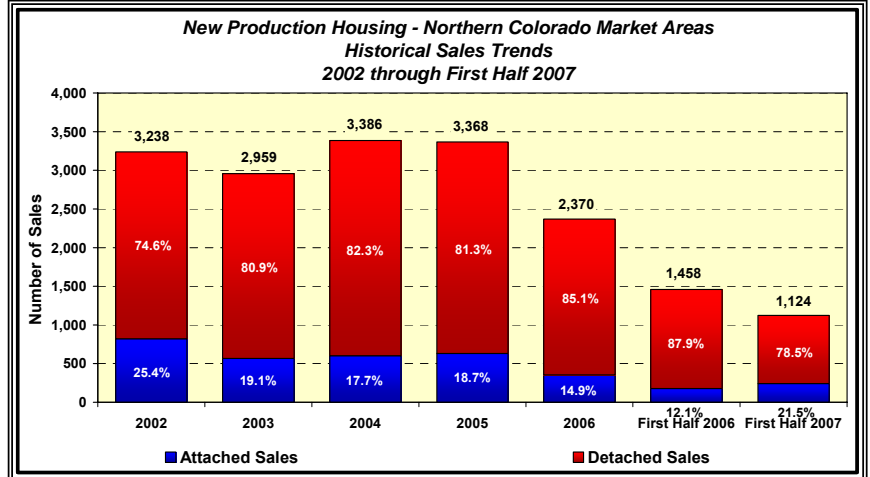
**Inflation**—The recently released Consumer Price Index for the Denver region shows a decline to a 2.5 percent inflation rate, making it virtually identical to the national rate



## 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.

New home sales in Northern Colorado have steadily declined over the last several years since reaching a peak of 3,386 annual home sales in 2004. In 2006, sales of new homes dropped to the lowest level in the last five years, down nearly 30 percent as compared to 2005. New homes sales fell again during First Half 2007, down 23 percent compared to the first half of 2006.



Source: The Genesis Group

Since 2002, sales of new detached homes have comprised an increasingly greater portion of total production home sales in Northern Colorado.

This trend reversed itself during the first half of 2007 and detached home sales accounted for roughly 78 percent of total new home sales in Northern Colorado, down from 88 percent of total sales in the first half of 2006.

## New Housing Inventory

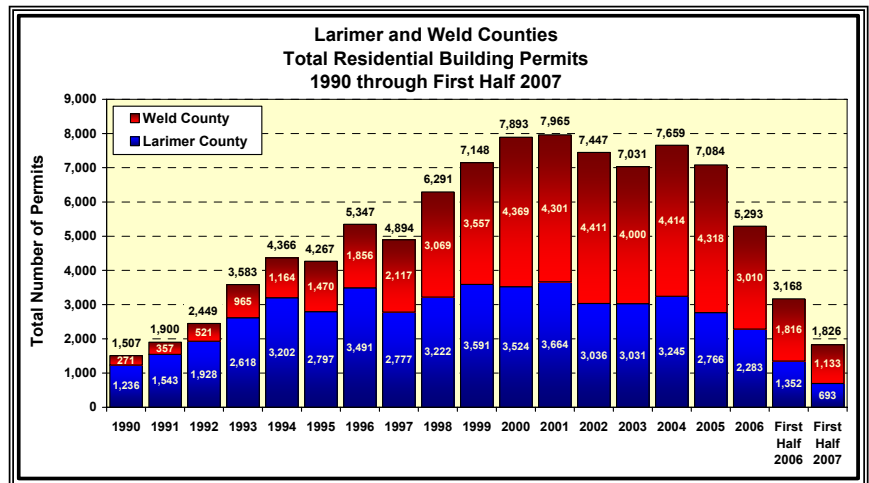
The number of available new homes in Northern Colorado declined 26 percent at the end of Second Quarter 2007 from 1,351 to 1,003 homes. Despite the significant drop in inventory, the supply of new homes increased slightly based on the number of home sales during the previous 12 months, up from 5.4 to 5.9 month's supply at the end of Second Quarter 2007. The number of available detached homes fell from 976 to 688 homes, down 30 percent as compared to the Second Quarter 2006. Although the number of inventory homes declined significantly, the month's supply of detached homes increased from 4.5 months at the end of Second Quarter 2007, the highest level since 2002. At the end of Second Quarter 2006, the number of new attached inventory homes fell 16 percent from 375 to 315 homes. Due to this decline in inventory and the corresponding increase in sales, the month's supply of attached homes fell from 11.4 months in Second Quarter 2006 to 9.1 months at the end of Second Quarter 2007.

## Building Permit Activity

Total residential building permits issued in Larimer and Weld Counties during First Half 2007 decreased 42 percent as compared to First Half 2006.

Permits for one-unit structures declined 39 percent in and accounted for 85 percent of total permits issued in First Half 2007, up from 80 percent in First Half 2006.

Condominiums and apartment permits were down 57 percent in First Half 2007. Permits for multi-unit structures in both Larimer and Weld counties declined from 20 percent of total permits in First Half 2006 to 15 percent in First Half 2007.



Sources: The Genesis Group; U.S. Census Bureau

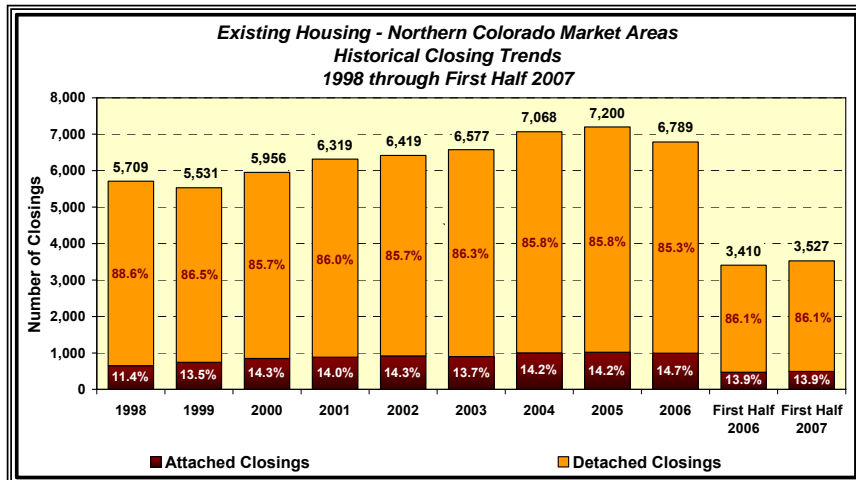


## Resale Housing Activity

The total number of existing home closings increased three percent in Northern Colorado in First Half 2007. By far the most significant increases in closings occurred in entry-level price ranges below \$80,000 and between \$100,000 and \$150,000.

As compared to First Half 2006, existing attached home closings increased four percent from 473 to 492 closings in First Half 2007.

Detached home closings increased from 2,937 to 3,035 in First Half 2007, up three percent from First Half 2006. The volume of detached closings increased in most Northern Colorado market areas with the Southern Weld market area posting the greatest percentage increase, up 18 percent.



Sources: The Genesis Group, IRES LLC.

## Resale Housing Inventory

The overall supply of available resale homes also declined, down from 7.8 to 7.2 months. At the end of Second Quarter 2007, the supply of **attached** homes in Northern Colorado was 8.6 months, down from 9.5 months at the end of Second Quarter 2006. The month's supply of available **detached** homes declined slightly from 7.5 months to 7.0 months. At the end of Second Quarter 2007, the volume of listings fell nine percent 4,591 to 4,171 homes. The number of existing **attached** listings fell eight percent

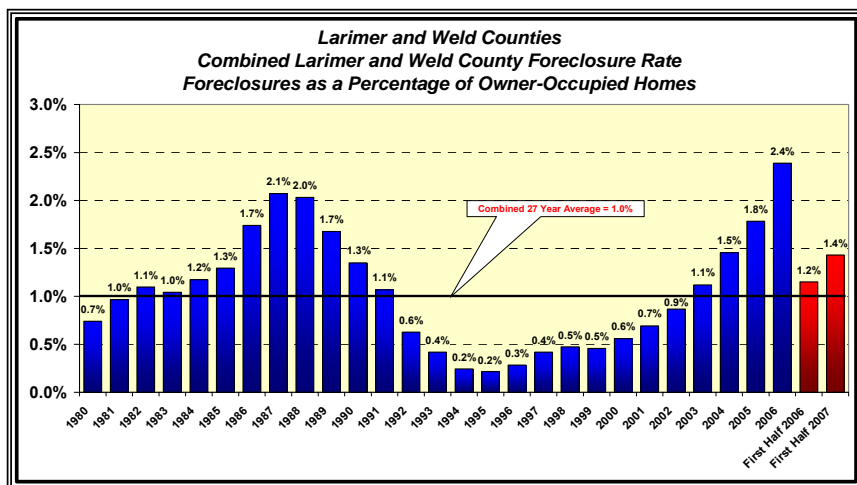
from 789 to 725 homes at the end of Second Quarter 2007.

The total number of **detached** listings fell nine percent from 3,802 to 3,444 homes at the end of Second Quarter 2007. As compared to Second Quarter 2006, the supply of existing detached homes was generally stable in most price ranges except for over \$500,000, up from 16.6 months at the end of Second Quarter 2006 to 21.2 months at the end of Second Quarter 2007.

## Foreclosure Activity

In Larimer and Weld counties combined, 1,998 foreclosures were filed in the first half of 2007, up 26 percent from 1,584 in the first half of 2006. Total foreclosures in 2006 were 3,298, up 34 percent from 2,458 in 2005.

Foreclosure filings have increased every year since a record low in 1995 when 193 foreclosures were reported. Weld County comprised 62 percent of total Northern Colorado foreclosures in the first half of 2007, and Larimer County accounted for the remaining 38 percent.



Sources: The Genesis Group; SKLD Information Services, LLC

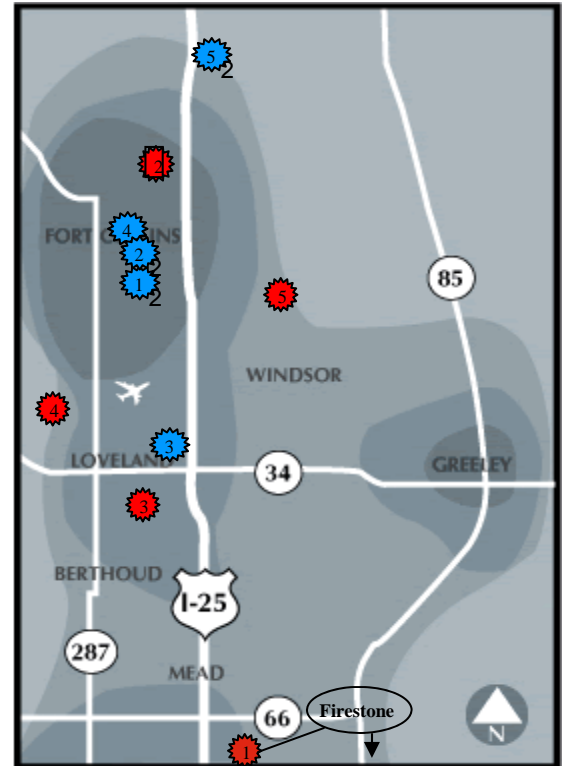
Top Sellers in Northern Colorado During First Half of 2007

Detached Product

Rank	Community	Location	Builder
1	Stone Ridge	Firestone	Journey Homes
2	Maple Hill	Ft Collins	Journey Homes
3	Garden Gate	Loveland	Journey Homes
4	Enclave at Enchantment Ridge	Loveland	Aspen Homes
5	Timber Ridge	Severance	Journey Homes

Attached Product

Rank	Community	Location	Builder
1	Rigden Farm Townhomes II	Fort Collins	McCoy
2	Sidehill Condos	Fort Collins	Engle Homes
3	Lakeshore @ Centerra—Protégé Condos	Loveland	Lennar
4	Old Town North—North Flats	Fort Collins	Millhaus
5	Wellington Village—Condos	Wellington	Rehmer, Boos, Lamas



The Genesis Perspective is a quarterly newsletter containing excerpts from our quarterly Northern Colorado Housing Overview, an in-depth analysis and forecast of the Northern Colorado 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](mailto:ggrant@thegenesisgroup.net).

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