



THE GENESIS GROUP

The GENESIS Perspective

Colorado Springs

Year-End 2007

Chicken Little or Pollyanna – is there a middle ground?

With the “chicken little” media telling us the sky is falling by declaring a recession before it happens, political “leaders” on both sides of the aisle are threatening the economy with tax increases (state and national), more spending (including the incumbent protection tax rebate scheme) and massive government expansion into the private sector (health insurance, energy). Meanwhile, the home mortgage credit crisis threatens to expand to other financial markets, and the Federal Reserve is responding by lowering interest rates at the risk of stoking inflationary pressures.

Others (call us Pollyanna) argue that a more realistic assessment of the current situation is that the economy remain fundamentally sound, and that drastic moves are premature.

- After all, GDP growth was a respectable 2.2 percent in 2007 and positive at 0.6 percent in the fourth quarter.
- Inflation was up to 4.1% at Year-end 2007, but averaged only 2.8 percent through the year.
- The weak dollar has benefits. Exports, 12 percent of the economy, are increasing at a 13.6 percent rate.

Sales of new production-built homes declined by 28 percent in the Colorado Springs area during 2007, down from 3,554 sales in 2006 to 2,544 sales in 2007. Foreclosure activity increased 39 percent from 2,554 initial foreclosure filings in 2006 to 3,556 foreclosure filings in 2007. This increase follows a 12 percent jump in foreclosures from 2005 to 2006. Over 76 percent of initial foreclosure filings were for homes with original loan values less than \$200,000. The \$100,000 to \$170,000 price range continued to capture the largest share of initial foreclosure filings with 49 percent of foreclosures in 2007. Existing

home sales volume declined by 16 percent in 2007, while resale home listings increased by 16 percent at Year-End 2007 vs Year-End 2006.

The “blessings” are that fundamental real estate supply and demand factors will allow Colorado’s housing market to recover more quickly and more strongly than many other competing markets. Among the reasons:

- Low income, real estate tax rates, a strong downtown, nationally recognized and popular major sports franchises, good schools, a largely underemployed and entrepreneurial workforce, a desirable climate and a generally good quality of life, employers are motivated to grow or relocate to Colorado Springs and the Front Range.
- Optimistic individuals are also encouraged to continue to move here to take advantage of these trends, continuing the state’s trend of solid in-migration.
- Speculative home sales (and pre-sales) have been minimized by the modest rates of home price appreciation in Colorado Springs. It makes little sense to buy a home as a speculative investment if there is little chance its value will increase in the near future. As a result, the oversupply of both new and resale housing is far less of a burden than is being manifested in many other markets in the country.
- By avoiding high levels of home price appreciation since 2001, housing prices in the Colorado Springs area have remained relatively affordable in relation to household incomes.

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More information can be found in The Genesis Group’s 4th Quarter 2007 Colorado Springs Housing Overview.

Visit www.GenesisGroup.net/Products.html

Employment Activity

Unemployment Rate — The seasonally unadjusted unemployment rate for Colorado Springs was 4.3 percent in December 2007, which was less than the 4.6 percent recorded the same month a year ago. Comparatively, the December 2007 unemployment rates were lower for the State of Colorado and metropolitan Denver region at 3.8 and 3.9 percent, respectively and higher for the nation at 4.6 percent.

Employment Growth — Colorado Springs experienced slower employment growth than the metropolitan Denver area, the state of Colorado and the nation for 12 month average wage and salary employment in 2007. Average 12 month nonfarm payrolls increased a modest 1.0 percent through Fourth Quarter 2007 in the Colorado Springs MSA, adding 2,500 net new jobs. This growth is based on revisions released by US Bureau of Labor Statistics on March 11, 2008.

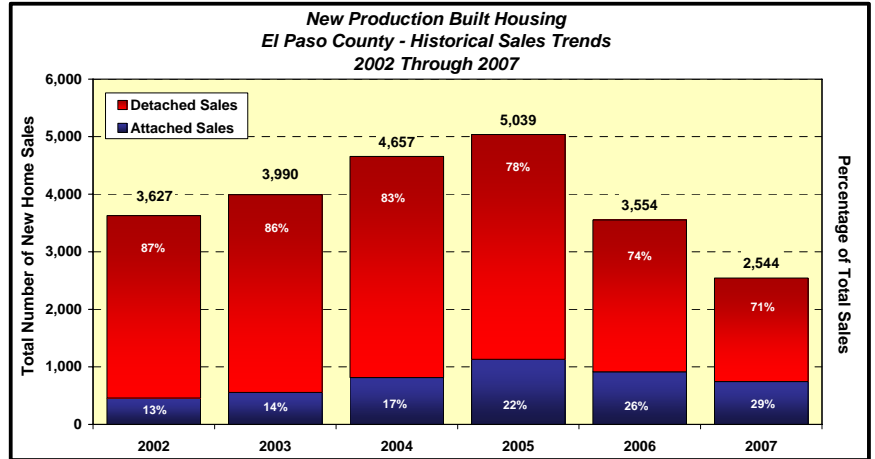


New Housing Sales Trends

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 expansion, total new home sales in El Paso County decreased 29 percent from a record 5,039 in 2005 to 3,554 in 2006. This trend has continued as new home sales fell to a historic decade low of 2,544 homes in 2007, a 28 percent decline from 2006.

Attached housing is capturing a larger share of the new housing market in El Paso County, growing from 13 percent in 2002 to 29 percent in 2007. 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.

The attached new home market has been increasing since 2002, achieving slightly higher market capture and sales volume. In 2007, sales of attached homes dropped 19 percent to 743 homes as compared to 2006.



Source: The Genesis Group; Hanley Wood Market Intelligence

New detached home sales in El Paso County experienced a 32 percent decline from 2006 to 2007, dropping to 1,801 homes, less than half of the sales volume recorded in 2004 and 2005. The detached market has historically captured a greater share of the El Paso County new home market; thus, its decline has driven the overall decrease in sales volume in the Colorado Springs area.

New Housing Inventory

The number of available new homes in El Paso County declined six percent at the end of Fourth Quarter 2007 from 788 to 743 homes. Despite the drop in inventory, the supply of new homes increased slightly based on the number of home sales during the previous 12 months, up from 2.7 to 3.5 months.

The inventory of new attached homes increased 17 percent from 273 to 318 homes at the end of Fourth Quarter 2007. The decline in sales volume reported in 2007 coupled with the increase in in-

ventory prompted the month's supply of attached homes to rise from 3.6 months in Fourth Quarter 2006 to 5.1 months in Fourth Quarter 2007.

The number of unsold new detached homes dropped nearly 18 percent from Fourth Quarter 2006 to Fourth Quarter 2007. Despite the decline in inventory volume, the month's supply of available new detached homes increased slightly from 2.3 to 2.8 months in Fourth Quarter 2007.

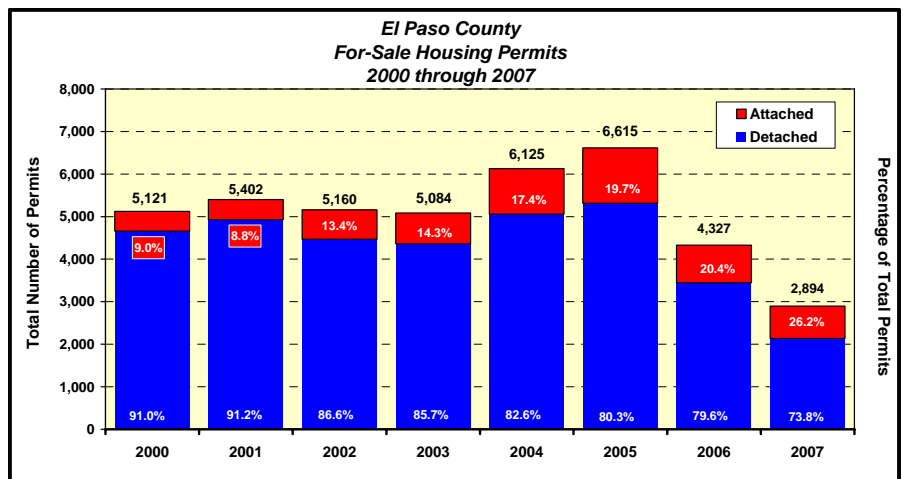
Building Permit Activity

Total permits reached a peak in 2001 with 7,110 permits issued. Conversely, 2007 marked a record low in permit activity this decade. The 3,091 permits issued in 2007 was a 31 percent decline from the 4,506 permits issued in 2006.

For-sale residential building permits declined 33 percent from 4,327 permits in 2006 to 2,894 in 2007. For-sale permits comprised 94 percent of all permits issued in 2007, down from 96 percent capture rate in the prior year.

Attached for-sale building permits decreased 14 percent from 881 permits in 2006 to 759 issued in 2007. Attached permits accounted for 26 percent of all for-sale permits issued.

Building permits for single family detached homes fell 38 percent from 3,446 in 2006 to



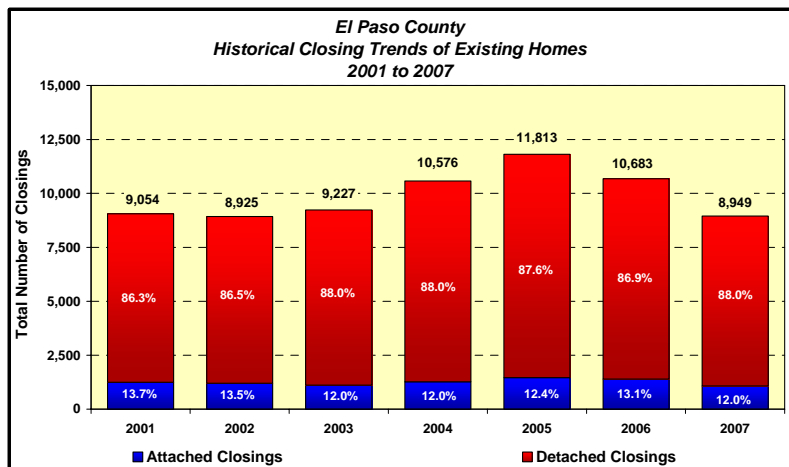
Sources: The Genesis Group; Pikes Peak Regional Building Department

2,135 in 2007. Detached permits accounted for 74 percent of all for-sale permits issued.



Resale Housing Activity

After peaking in 2005 at nearly 12,000 closings, the volume of existing home closings declined during both 2006 and 2007. In 2007, 8,949 closings for existing homes were recorded, a 16 percent decline compared to 2006. Closing levels in 2007 were comparable to volume in 2002, prior to the peak in activity. Closings for existing attached homes dropped 23 percent based on year-end 2006 and 2007 comparisons, while closings for existing detached homes declined by 15 percent from 2006 to 2007.



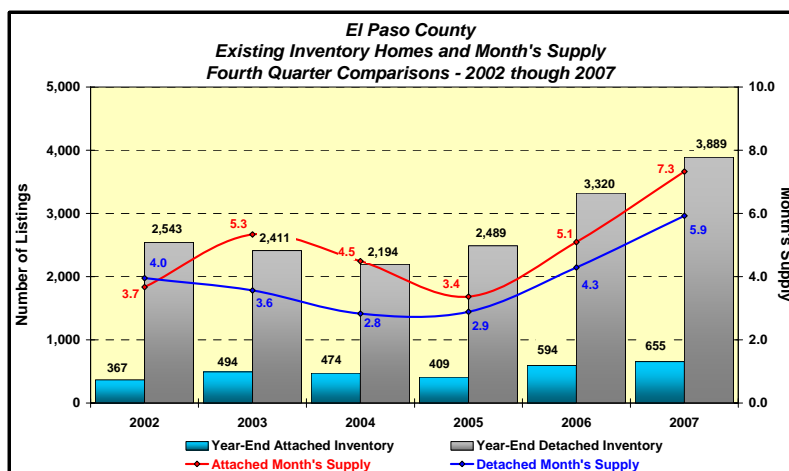
Sources: The Genesis Group; Pikes Peak Association of Realtors

Resale Housing Inventory

The number of existing homes listed for sale continues to rise. The volume of existing home listings has increased each year since 2003 based on Fourth Quarter comparisons. Existing home inventory increased 16 percent from 3,914 homes at Fourth Quarter 2006 to 4,544 homes at Fourth Quarter 2007.

The number of available attached homes was up 10 percent from Fourth Quarter 2006 to Fourth Quarter 2007. The month's supply of unsold attached homes jumped from 5.1 months to 7.3 months.

The number of available detached homes increased 17 percent comparing Fourth Quarter 2006 to Fourth Quarter 2007. Month's supply of existing detached homes increased from 4.3 months to 5.9 months.



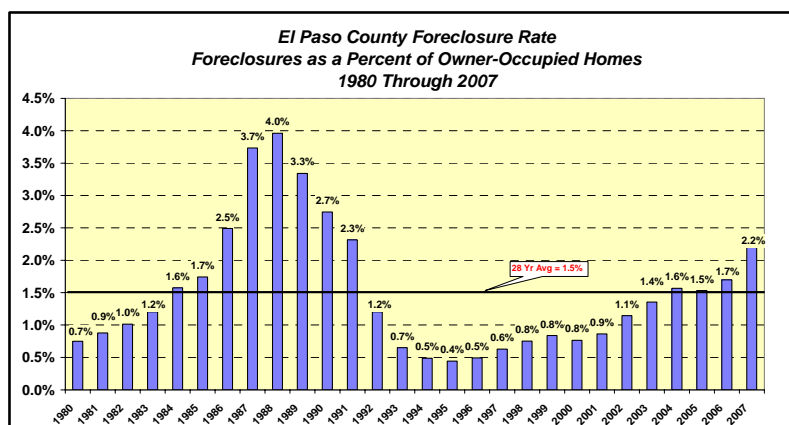
Sources: The Genesis Group; Pikes Peak Association of Realtors

Foreclosure Activity

There were 3,556 foreclosure notices filed in El Paso County during 2007, up 39 percent from 2,554 in 2006. In 2005, 2,273 foreclosures were filed in the county. Foreclosure filings have increased every year since 1995 when a record low of 431 foreclosures were reported.

To better measure the impact of foreclosures in El Paso County, The Genesis Group has tracked initial foreclosure filings as a percentage of owner-occupied homes. This calculation gives a good indication of how foreclosures have increased in relation to the increasing housing stock. With 3,598 foreclosures in 2007, El Paso County had a foreclosure rate of 2.2 percent.

Over the past 27 years, the El Paso foreclosure rate has fluctuated from a low of 0.4 percent in 1995 to a high of 4.0 percent in 1988. While the foreclosure rate has



Sources: The Genesis Group; El Paso County Public Records; Colorado Demography Office; ESRI

not reached the historical rates of the 1980s, rates have been above the 27-year average for the past two years and could rise further in 2008.

Top Sellers in Colorado Springs During 2007

Detached Product

Rank	Community	Submarket / City	Builder
1	Claremont Ranch	Powers Submarket Colorado Springs	D.R. Horton
2	Indigo Ranch	Powers Submarket Colorado Springs	Classic Homes
3	The Glen at Widefield	Fountain Submarket Widefield	New Generation Homes

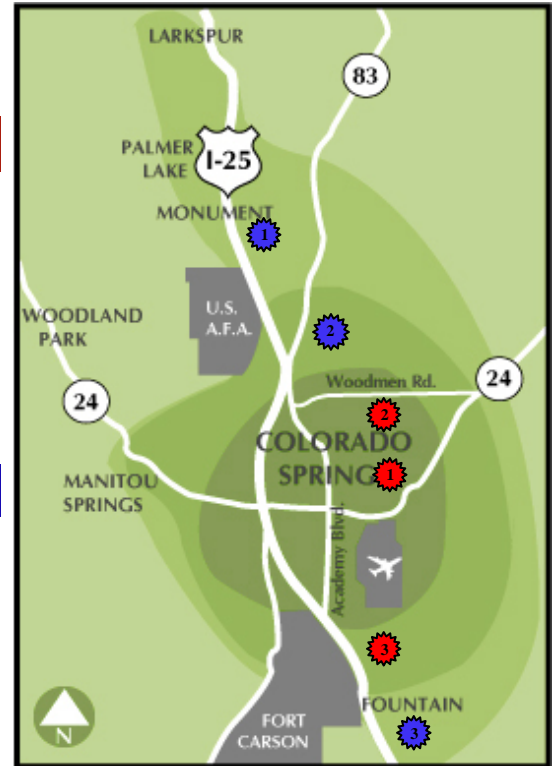
Attached Product

Rank	Community	Submarket / City	Builder
1	Woodmoor Park	Monument Submarket Monument	Pulte Homes
2	The Townes at Kettle Creek	Briargate Submarket Colorado Springs	Ashton Woods Homes
3	Countryside Townhomes	Fountain Submarket Fountain	Pulte Homes

Source: Hanley Wood Market Intelligence

About Us...

The Genesis Group is a market research and analysis firm specializing in the Colorado Front Range, but servicing the entire Rocky Mountain region and beyond. Bringing 20 years of experience to the local marketplace, Genesis offers a diverse array of products and services to homebuilders, land developers, appraisers and municipalities, as well as to providers of debt and equity capital for new housing developments. Please visit our website for more information about our products and services. www.thegenesisgroup.net



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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