



THE GENESIS GROUP

The GENESIS Perspective

Metropolitan Denver

Year-End 2007

Volume 2007, Issue 4 CONTENTS

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KEY INDICATORS Compared to Year-End 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>	↓

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, the same rate of growth as in the first 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 continued to decline through 2007 with sales down 31 percent in the metropolitan Denver area. Initial foreclosure filings were up by 41 percent in 2007 in metro Denver to a total of 27,024. Although this number has reached historic highs, it is partly due to a larger population living in the metro Denver area. Existing home sales volume declined by 2.7 percent in 2007, while resale home listings were 4.9 percent lower at Year-End 2007 than at 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 & a generally good quality of life, employers are motivated to grow or relocate to metro Denver 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 metro Denver. 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 metro Denver area have remained relatively affordable in relation to household incomes.

More can be found in The Genesis Group’s 4th Quarter 2007 Metropolitan Denver Housing Overview. www.GenesisGroup.net/Products.html

Economic Trends

- The Consumer Price Index rose by 2.8 percent in 2007, a decline from 3.2 percent for calendar year 2006 but above the Federal Reserve’s target and trending upward late in the year.
- Solid employment gains in Colorado continued to fuel economic growth through 2007. Recently revised data showed 2.2 percent employment growth for the state exceeding the 1.1 percent growth for the nation. The metropolitan Denver area also exceeded the U.S. rate of job growth for the year with 2.1 percent. The unemployment rates of 3.9 percent in

the metropolitan Denver area and 3.8 percent for the state in December 2007 were below the 4.6 percent unemployment rate for the U.S.

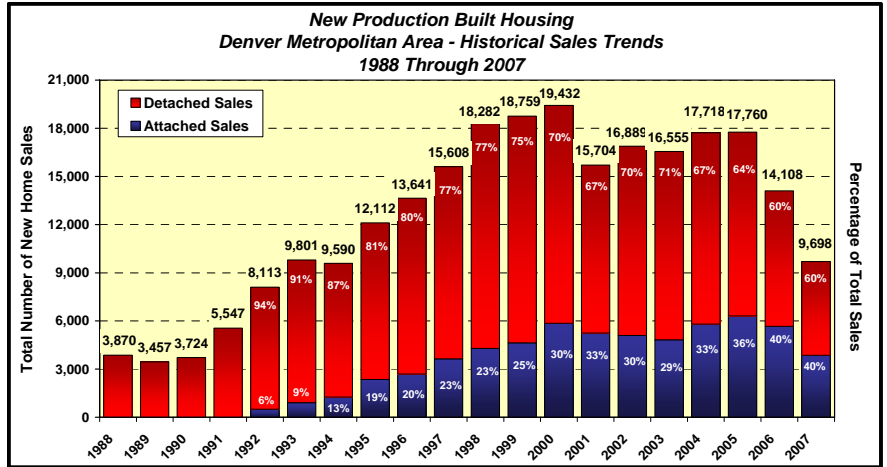
- Solid increases in retail sales continued, at 8.8 percent for both the state and metro Denver for the first nine months of 2007, well above the rate of inflation.
- Inflation in the Denver region rose to 3.6 percent for 2006, slightly above the 3.2 percent U.S. inflation rate for 2006. However, the region’s inflation rate moderated in First Half 2007 (the most recent data available at this writing), matching the 2.5 percent inflation rate for the U.S. for the same period.



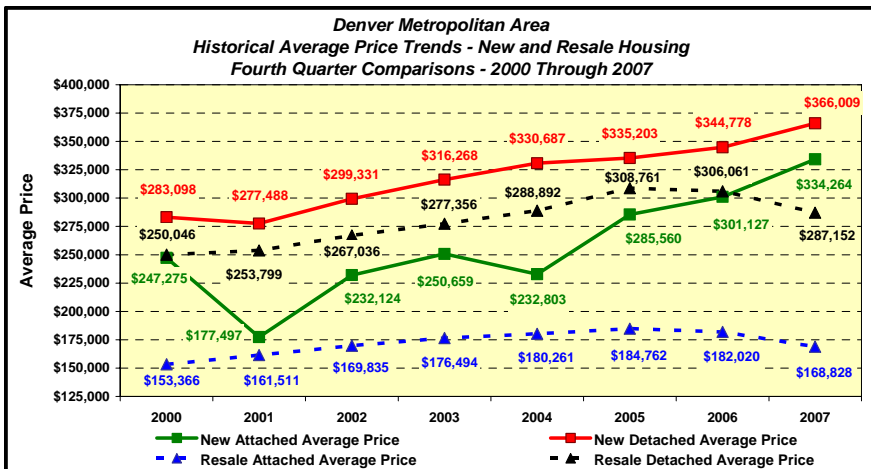
New Housing Activity

In 2006, new production home sales volume dropped by 21 percent and the decline continued in 2007 with sales dipping to a 12-year low of 9,698 new home sales. This marks a 31 percent decline in overall new home sales from 2006 to 2007.

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 2007. This is only the third time in the last 18 years that sales of attached homes accounted for 35 percent or more of total sales volume.



Sources: The Genesis Group; Historical Data Compiled by Hanley Wood LLC

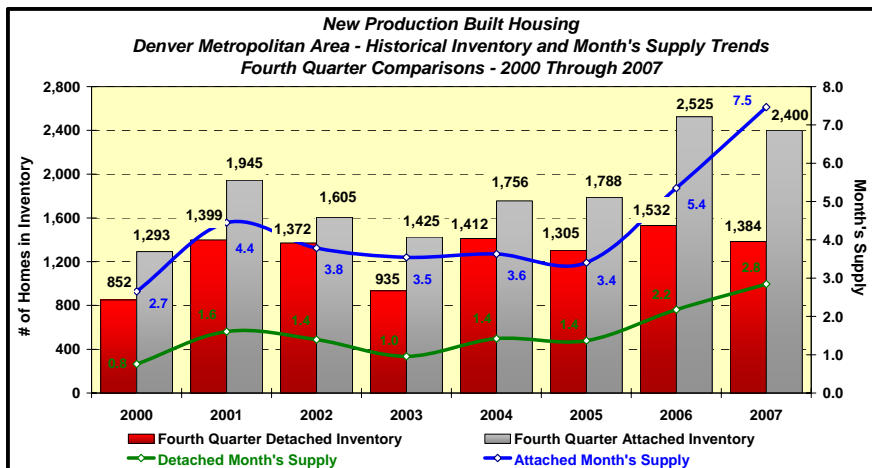


Sources: The Genesis Group, Metrolist Inc, IRES LLC, Data Compiled by Hanley Wood LLC.

Following a peak in 2005, attached sales volume slowed in 2006 and then dropped significantly in 2007, reaching the lowest point of the decade. Attached new home sales declined 32 percent from 2006 to 2007, posting 3,859 sales.

This year marks the first period since the early 1990s wherein detached sales dropped below 6,000 homes, declining 31 percent from Year-End 2006 to 2007. Detached sales were largely impacted by a challenging fourth quarter where sales volume dropped 40 percent to 899 units in Fourth Quarter 2007 as compared to Fourth Quarter 2006.

New Housing Inventory



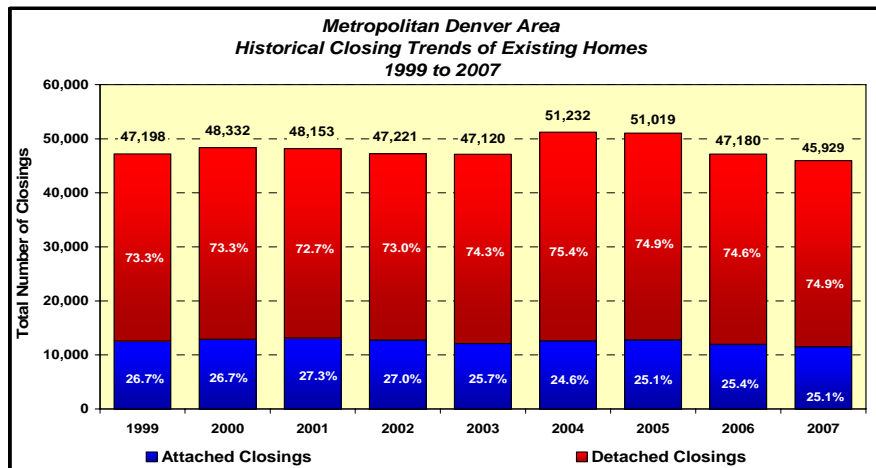
Sources: The Genesis Group; data compiled by Hanley Wood LLC

New home inventory decreased 6.7 percent from 4,057 homes at Fourth Quarter 2006 to 3,784 homes at Fourth Quarter 2007.

The number of available attached homes was down 5.0 percent from Fourth Quarter 2006 to Fourth Quarter 2007. The supply of unsold new attached homes jumped to 7.5 months at Fourth Quarter 2007, up from 5.4 months a year earlier. The past five quarters mark the only time periods in the past eight years in which month's supply has exceeded five months and the only time that month's supply has topped seven months. The number of unsold new detached homes dropped nearly 10 percent from Fourth Quarter 2006 to Fourth Quarter 2007. Despite the decline in inventory volume, the supply of available new detached homes increased from 2.2 months to 2.8 months in Fourth Quarter 2007.



Resale Housing Activity



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

The total number of existing home closings decreased 2.7 percent in the metropolitan Denver area, when comparing 2006 and 2007.

For year-end comparisons, existing attached home closings declined 3.7 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 6.7 percent. The Denver market area recorded the largest decline in attached closings, down 11 percent in 2007 compared to 2006.

Detached home closings declined 2.3 percent comparing year-end 2006 to year-end 2007. The volume of detached closings declined in most metropolitan Denver market areas, with the Northeast market area posting the only increase, up nearly five percent.

Resale Housing Inventory

Existing home inventory decreased 4.9 percent from 20,781 homes at the end of Fourth Quarter 2006 to 19,753 homes at the end of Fourth Quarter 2007.

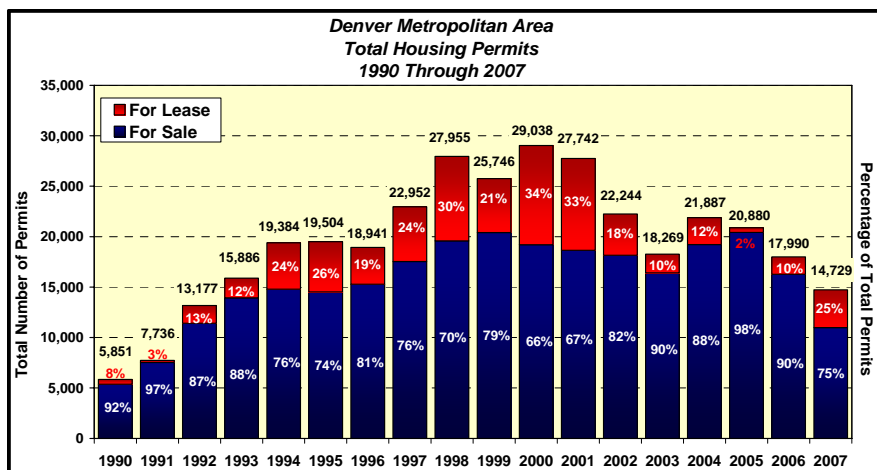
The number of available attached homes was down 17.1 percent from the end of Fourth Quarter 2006. The supply of unsold

attached homes declined to 5.5 months at the end of Fourth Quarter 2007, from 6.5 months a year earlier.

The number of unsold detached homes remained stable, up just 0.5 percent, in fourth quarter comparisons. The supply of available detached homes realized a slight increase, up from 4.9 months at Fourth Quarter 2006 to 5.0 months at Fourth Quarter 2007.

Building Permit Activity

There were 14,729 residential building permits issued in 2007, down 18 percent from 2006. For-sale residential building permits declined 32 percent from 16,263 permits in 2006 to 10,986 in 2007. For-sale permits made up 75 percent of all permits issued, down from 90 percent in 2006.



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

Attached for-sale residential building permits decreased 26 percent from 5,311 permits in 2006 to 3,904 issued in 2007. Attached permits accounted for 35.5 percent of all for-sale permits issued.

Detached (single family) for-sale residential building permits fell 35 percent from 10,952 permits issued in 2006 to 7,082 issued in 2007. Detached permits accounted for 65.5 percent of all for-sale permits issued.

Single family permits comprised 48 percent of all permits issued in 2007—a 35 percent decline compared to 2006

Townhome permits accounted for only 6 percent of all permits issued in 2007 a decline of 50 percent from 1,661 in 2006 to 836 permits in 2007.

Condominium permits made up 21 percent of all permits issued in 2007—falling 16 percent from 3,650 in 2006 to 3,068 permits in 2007.

Apartment permits were 25 percent of all permits issued in 2007 and was the only product type to experience an increase in permit activity for 2007—increasing 117 percent from 1,727 in 2006 to 3,743 in 2007.

The Genesis Tour

#1 Regency—Standard Pacific & Taylor Morrison

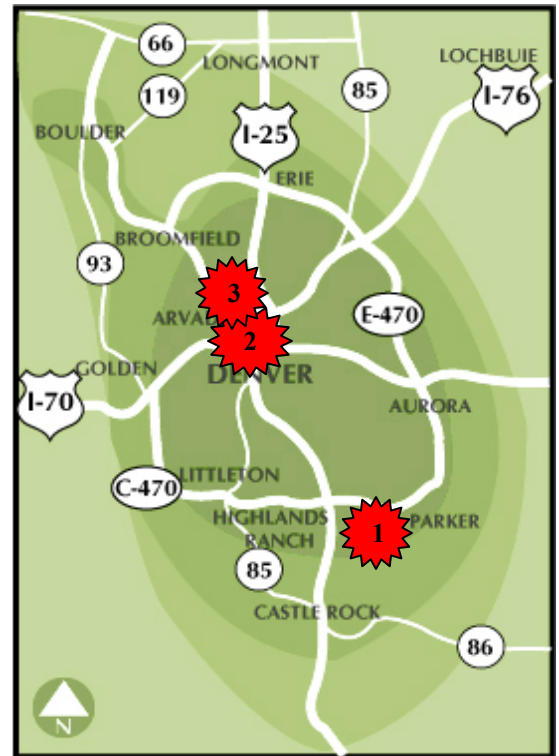
Regency is located in the town of Parker on Newlin Gulch Boulevard, south of East Mainstreet. Standard Pacific and Taylor Morrison both offer detached homes priced from \$320,000 to \$400,000. Standard Pacific offers floor plans ranging from 1,800 to 3,100 square feet, and Taylor Morrison offers new and innovative plans ranging from 2,100 to 3,500 square feet. Each builder features two furnished models.

#2 Shoenberg Farms Village—Village Homes

Low-maintenance townhomes and single family homes located in Westminster at 73rd Ave. and Depew St. The Encore Collection, featuring low maintenance single family homes, offers five floor plans ranging from 1,600 to 1,900 square feet. The Mill Collection features uniquely styled low-maintenance townhomes. Three floor plans are offered ranging from 1,350 to 1,500 square feet.

#3 Country Club Highlands—John Laing Homes

This community, located on the northwest corner of 120th Ave. and Zuni St. in Westminster features low maintenance patio homes and opened in June, 2007. Five new ranch plans, ranging in size from 1,910 to 2,663 square feet, featuring private outdoor living areas.



*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.*



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