



THE GENESIS GROUP

# The GENESIS Perspective

## Northern Colorado

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 remains 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.

New production built home sales declined by 26 percent in Northern Colorado market areas, down from 2,304 in 2006 to 1,704 sales in 2007. Recent Larimer and Weld County foreclosure filings have generally been focused in lower price ranges; 70 percent of foreclosure filings in 2007 had an original loan amount under \$200,000 and 94 percent were for homes with loans under \$300,000. Existing home sales volume increased by 0.2 percent in 2007, while resale home listings were 0.1 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 Northern Colorado Housing Overview. [www.GenesisGroup.net/Products.html](http://www.GenesisGroup.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>Building Permits</i>	↓
<i>New Home Inventory</i>	↓
<i>Resale Housing Inventory</i>	↑
<i>Existing Home Sales</i>	↑

### ECONOMIC Trends

**Employment**—Solid employment gains in Northern Colorado continued through 2007 at 2.4 percent, higher than the 2.0 percent job growth posted for the state and the 1.7 percent growth for metro Denver; all above the nation’s growth rate of 1.1 percent. The unemployment rates of 4.1 percent in Northern Colorado and 3.8 percent for the state in December 2007 were below the 4.6 percent unemployment rate for the U.S.

**Interest Rates**—The average 30-year fixed mortgage interest rate during Fourth Quarter 2007 was 6.6 percent, down from 6.9 percent for the previous quarter. After 15 months of a stable prime interest rate of 8.25 percent, in September 2007 the Federal Re-

serve made the first of several aggressive moves to pump liquidity into the financial system. Two declines of 0.75 and 0.50 percent in the last 10 days of January 2008 lowered the prime rate from 7.25 to 6.0 percent. Mortgage interest rates (30-year fixed) also declined during January to an average of 6.29 percent and stood at 6.21 percent for the first week of February.

**Inflation**— After experiencing much lower inflationary pressure than the nation from 2003 through 2005, 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.

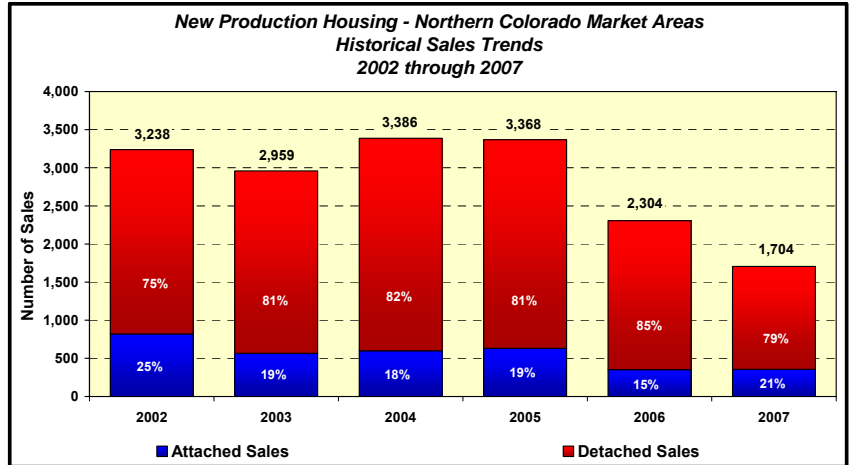


## New Housing Activity

In 2006, sales of new homes dropped to the lowest level in the last five years, down nearly 32 percent as compared to 2005. New homes sales fell again during 2007, down 26 percent compared to the total sales volume in 2006.

Year over year new home sales have declined for eight consecutive quarters starting in 2006, with the largest drop, 48 percent, in Fourth Quarter 2007.

New home communities in Denver and Northern Colorado reported less traffic during Fourth Quarter 2007 than in any fourth quarter since 1994. Weekly traffic averaged 6.5 visitors during Fourth Quarter 2007. The average conversion rates in the third and fourth quarters of 2007 dropped significantly from the 5.2 percent conversion rate achieved in Second Quarter 2007. The 3.5 percent conversion rate reported this quarter was lower than historical fourth quarter conversion rates posted from 2003 to 2006 and mirror those of 2001 and 2002.



Source: The Genesis Group

Since 2002, sales of new detached homes have comprised a growing portion of total production home sales in Northern Colorado. This trend was stalled in 2007 when detached home sales accounted for roughly 79 percent of total new home sales in Northern Colorado, down from 85 percent of total sales in 2006.

## New Housing Inventory

Year-end new home inventory levels declined by 23 percent in Northern Colorado from 2006 to 2007, from 1,097 to 842 homes. Despite the significant drop in inventory, the month's supply of new homes increased slightly because of the reduced home sales in 2007, up from 5.7 months at the end of 2006 to 5.9 months at the end of 2007.

As of Year-End 2007, the number of new attached inventory homes was down 18 percent from Year-End 2006 from 356 to 293 homes. Due to this decline in inventory and stable sales volume reported in 2007, the month's supply of attached homes fell from 12.1 months at Year-End 2006 to 9.9 months at the end of 2007.

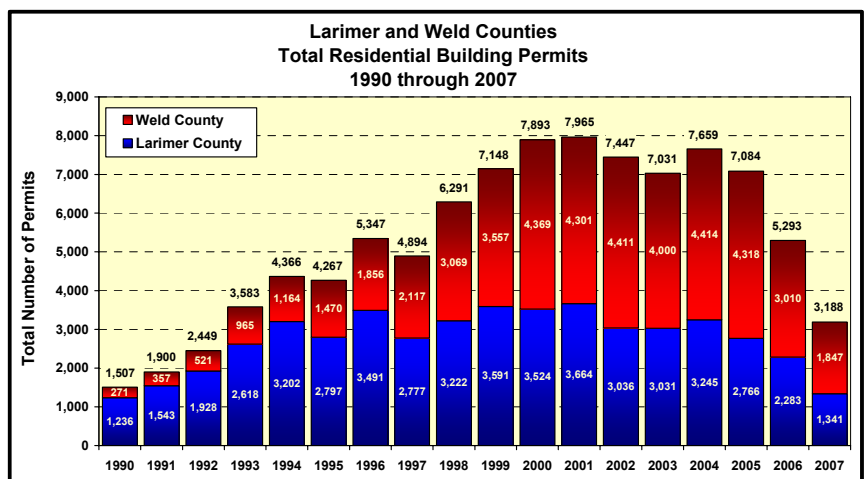
The fourth quarter volume of detached inventory homes increased each year from 2002 through 2005. Following this peak, inventory levels declined 22 percent from Fourth Quarter 2005 to 2006. At the end of 2007, the number of available detached homes fell from 741 to 549 homes, down 26 percent as compared to the previous year. Although the number of inventory homes declined significantly, the month's supply of detached homes increased slightly from 4.6 months to 4.9 months at the end of 2007, due to slowed detached sales volume in 2007.

## Building Permit Activity

Total residential building permits issued in Larimer and Weld Counties during 2007 declined by 40 percent compared to 2006.

Permits for one-unit structures declined 34 percent and accounted for 84 percent of total permits issued in 2007, up from 76.5 percent in 2006.

Condominium and apartment permits were down 58 percent in year end comparisons. Permits for multi-unit structures in both Larimer and Weld counties declined from 23 percent of total permits in 2006 to 16 percent in 2007.



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

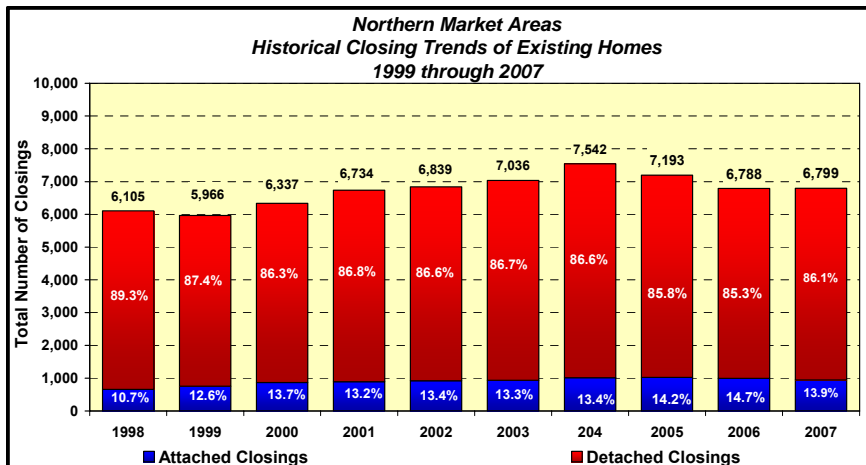


## Resale Housing Activity

The total number of existing home closings increased less than one percent in Northern Colorado in 2007.

As compared to 2006, existing attached home closings declined five percent from 996 to 946 closings in 2007. Attached closing volume decreased in all market areas, except for a 40 percent increase in the Johnstown-Southern Weld market area and 10 percent increase in the Windsor-Severance market area. Of the market areas that decreased, Fort Collins-Wellington posted the largest absolute decline, down 39 closings in 2007.

Detached home closings increased from 5,792 to 5,858 in 2007, up one percent from 2006. Despite the increase in detached home closing volume, most market areas posted a decline in closing activity. As in the attached market, Johnstown-Southern Weld and Windsor-Severance



Sources: The Genesis Group, IRES LLC.

market areas posted increases in closing activity, up 12 percent and three percent respectively. The Loveland-Berthoud market area posted the largest absolute decline, down 19 closings in 2007 compared to 2006.

## Resale Housing Inventory

Listing volume at Fourth Quarter 2007 remains unchanged from Fourth Quarter 2006, increasing by only two listings. The overall month's supply of available resale homes also remained unchanged, at 5.7 months at Fourth Quarter 2006 and 2007.

The number of available attached homes was down 4.3 percent from Year-End 2006. The month's supply of unsold attached homes remained stable at 6.2 months at the end of 2007. As

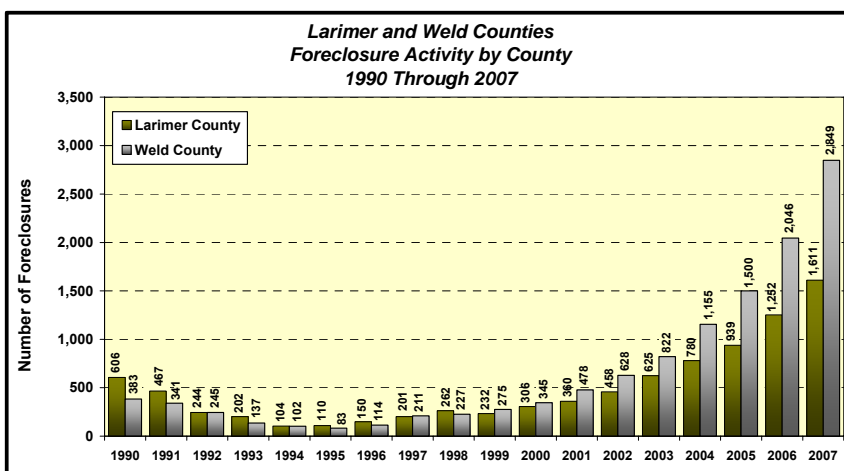
compared to Year-End 2006, the supply of attached homes declined in all market areas except Fort Collins-Wellington and Greeley-Evans.

The number of existing available detached homes increased less than one percent, from Year-End 2006 to Year-End 2007. Detached month's supply remained unchanged at 5.7 months at the end of 2007.

## Foreclosure Activity

In Larimer and Weld counties combined, 4,460 foreclosures were filed in 2007, up 35 percent from the previous year. Total foreclosures in 2006 were 3,305, up 36 percent from 2005. Foreclosure filings have increased every year since a record low in 1995 when 193 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 sub-prime market resulting in fewer qualified home buyers and more stringent refinancing qualifications for existing home owners.



Sources: The Genesis Group; SKLD Information Services, LLC

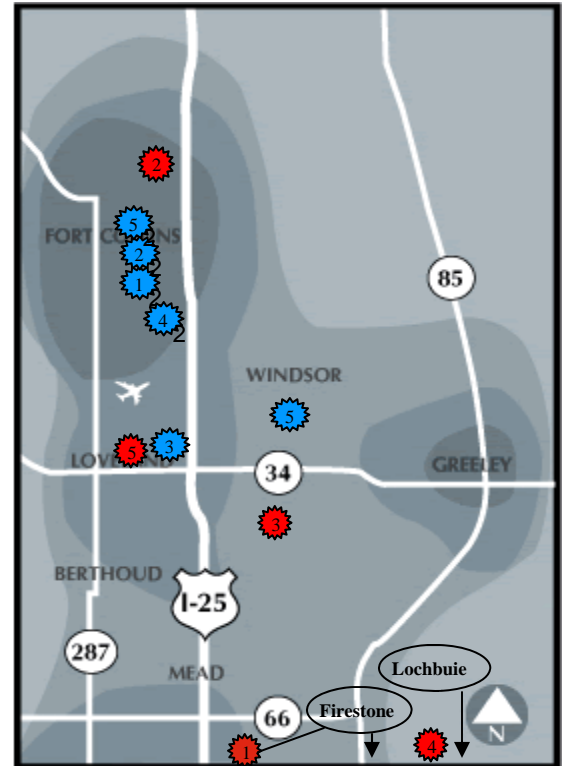
Top Sellers in Northern Colorado During 2007

Detached Product

Rank	Community	Location	Builder
1	Stoneridge	Firestone	Journey Homes
2	Maple Hill	Ft Collins	Journey Homes
3	Pioneer Ridge	Johnstown	Ryland Homes
4	Berkshire	Lochbuie	KB Homes
5	Garden Gate	Loveland	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	Timbers Condos	Fort Collins	The Timbers, LLC
5—tied	Old Town North—North Flats	Fort Collins	Milhaus
5—tied	Water Valley South—Lighthouse Point Condo	Windsor	Landmark Construction



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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