



3rd Quarter 2004

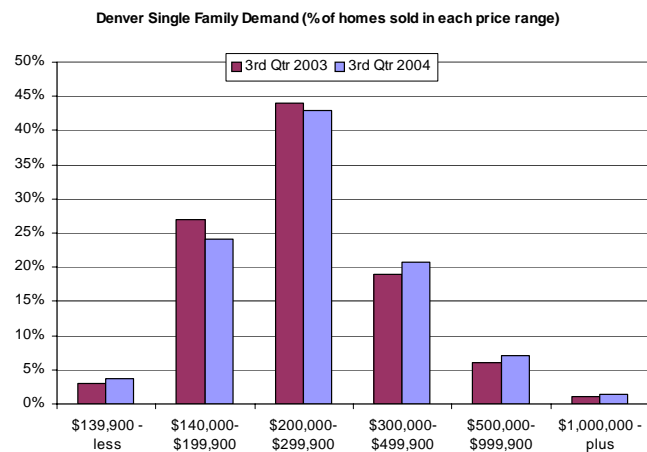
Housing Market Summary

Good News. Bad News.

Fall always seems to be the most exciting time of the year. The rainbow of colors that cascade from tree lined streets, the cool evening air, campaign promises and the beginning of football season. In addition, fall is also the time when soothsayers feel obligated to read the tea leaves or rub their crystal balls in an effort to give us a glimmer of what the future might have in store for us.

Good News Ahead, Except For the Housing Sector - Dr. Tucker Hart Adams, U.S. Bank's Rocky Mountain regional economist, predicts that the State will continue to add jobs through the rest of this year and into next year. According to Dr. Adams, she is expecting a 2.5% increase in job growth, translating into roughly 55,000 new jobs. She also expects the unemployment rate to drop from 5.7% to 4.7% during 2005. However, while she is optimistic about the State's economic position, she cautions about the housing market. Housing permits are on pace to rise 15.3% this year, a number that far outstrips population growth. As a result, Dr. Adams expects permits to fall by 12.7% next year. In addition, because more and more people are extending beyond their means to make a purchase using riskier mortgage products such as no money down, interest only and no credit qualification loans, she indicated this could spell disaster for these types of buyers and the housing market overall if rates began to rise.

Mortgage Rates Still Attractive - Although mortgage rates began to rise in the spring, rates declined in September and reached a five month low. Rates have remained tight despite the Federal Reserve raising its federal funds rate (the interest rate that banks charge each other on overnight loans) three times since June.



Short term interest rates have since dipped again, because the bond markets have determined that inflation is not as looming of a problem as once thought. As a result, mortgage rates on a 30 year mortgage are running below 6%.

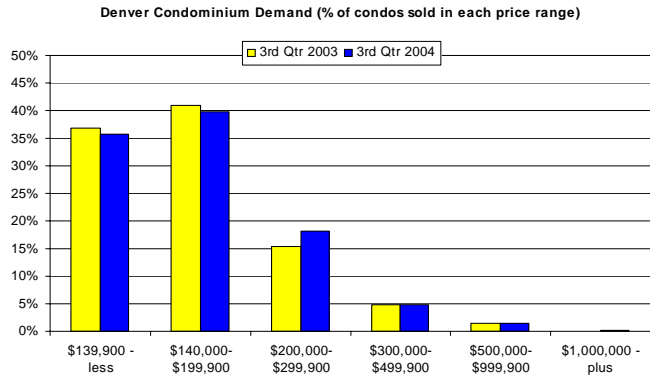
National Home Sales Rising - On a national level the housing market has proved to be far more resilient than many economists had expected. According to the latest Commerce Department report for September, home sales jumped 9.4% in August from July, hitting a seasonally adjusted annual rate of 1.184 million homes. However, while sales continue to remain strong, trouble could be brewing in paradise. According to Steven Wood of Insight Economics, the supply of available new homes on the market has increased by over 17% in the past year, to the highest level since 1979. This has been the largest increase in over a decade.

Single Family						
Description	July	August	September	YTD 2004	YTD 2003	% Change
Active	19,424	19,857	20,216	19,424	18,859	3.0%
Sales	4,912	3,714	3,460	31,381	27,798	12.9%
Average Price	\$296,939	\$300,484	\$291,422	\$290,223	\$277,847	4.5%
Median Price	\$244,800	\$240,000	\$240,000	\$237,000	\$230,000	3.0%
Dollar Volume (000)	\$1,458,564	\$1,115,998	\$1,008,320	\$9,107,488	\$7,723,591	17.9%

Local Sales Losing Steam – Unlike the national figures, locally, it appears that the early summer sales vibrancy has begun to fade. Although it traditionally accepted that home sales begin to decline after labor day (as evidence by the 6.8% and 6.2% decline in sales between August and September for single family and condominiums respectively), when comparing sales to September 2003, sales were down 1.6% for single family and 2.7% for condominiums this year.

Home Prices Stagnant – Although the average price of a single family home in the metro area continues to dance around the \$300,000 level, the median home price, currently at \$240,000 remained relatively unchanged during the third quarter. On the surface, it appears that home prices are still climbing as the average sales price increased by 4.5% and 3.1% for single family and condominiums over 2003. However, the median year to date price on single family homes only increased by 3% from 2003. In addition, the condominium market witnessed a gain of just fewer than 2% during this same time period. Therefore, after comparing the average price to the median price, it's evident that the average price appreciation has more to do with more expensive homes selling during the time period, than it does with the actual value of all homes increasing.

The 4th Quarter Outlook – Not surprisingly, mortgage rates will continue to play a vital role in the vitality of



the metro housing market. Although unlikely, any sudden rise in rates could spell disaster for the housing market. Statistically, the supply of homes and the average number of days on the market not only increased during the third quarter, but increased from this time a year ago as well. Fortunately, this happens to be a presidential election year. Historically speaking, the economy traditionally receives an immediate, albeit temporary stimulus right after the election.

Economists are projecting low interest rates, an increase in job growth and retail sales and a decline in unemployment and housing permits. If true, the housing sector could continue to chug along without any serious “market correction” implications. Here's hoping that Dr. Tucker Hart Adams is right.

Condominium						
Description	July	August	September	YTD 2004	YTD 2003	% Change
Active	7,810	7,735	7,552	7,552	6,526	15.7%
Sales	1,317	1,071	1,005	8,885	8,552	3.9%
Average Price	\$180,766	\$180,914	\$180,720	\$180,720	\$175,231	3.1%
Median Price	\$157,250	\$157,000	\$157,000	\$157,000	\$154,000	1.9%
Dollar Volume (000)	\$238,069	\$193,759	\$181,624	\$1,605,697	\$1,498,576	7.1%

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