



DENVER BOARD
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HOUSING MARKET SUMMARY - 4th Quarter 2005

Pop? At the end of each calendar year, the media barrages us with year end reviews and predictions for the upcoming year on everything ranging from fashion trends and celebrity hookups to the Dow Jones Industrial Average and foreign diplomacy. Certainly the housing sector is not immune to this type of year end review and prognostication as it seems that just about every economist has an opinion on the housing market.

What's interesting, particularly this year, is that while these professionals analyze the same data metrics, the spectrum of opinion on where the housing market is headed has never been so broad.

FIVE STRONG YEARS NATIONALLY – According to the National Association of REALTORS® (NAR), nationally the housing market is headed for a fifth consecutive yearly record. Existing home sales are projected to top 7.1 million this year, a 4.7% increase. Moreover, the median price for all housing types was pegged at increasing by an estimated 12.7 percent to \$208,000.

However, while year-to-date 2006 numbers appeared strong, sales of existing homes fell a bigger than expected 2.7 percent in October and an additional 1.7 percent in November, an indication that the nations hot housing market is cooling.

In addition, while prices rose at the fastest clip in more than a quarter-century, the number of unsold homes rose to the highest level in 19 years. It's anticipated that this should begin to dampen future price gains.

The sales slowdown is attributed to the Federal Reserve's continued campaign to boost interest rates to combat the threat of higher inflation after the recent surge in energy prices. As a result, while NAR is projecting a six percent increase in the median price of all homes sold nationally to \$221,400, they are projecting a 3.7% decline to 6.84 million sales nationally for 2006.

Metro Denver Single Family Data

	October	November	December	YTD 2005	YTD 2004	% Change
Active	19,024	18,448	18,770	17,417	18,353	-5.1%
Sales	3,087	3,028	3,178	41,314	42,097	-1.9%
Average Price	\$317,748	\$312,304	\$303,934	\$307,784	\$290,137	6.1%
Median Price	\$250,000	\$248,250	\$245,000	\$246,613	\$236,240	4.4%
Dollar Volume (000)	\$971,127	\$935,743	\$965,587	\$12,690,528	\$12,199,875	4.0%

FED SQUEEZING HARDER - The Federal Reserve rose interest rates a whopping 13 times in 2006 in an effort to slow the economy and keep inflation in check. In addition, the "Fed" has also indicated that they are likely to increase rates again in January and March. It's for this reason that many economists are concerned that additional increases will cause a drop in housing demand and consequently prices and thereby result in a slowdown in consumer spending. Rising interest rates

will also undoubtedly increase the number of foreclosures as people who have opted for non-conventional loans are unable to make the higher payments.

FANNIE MAE AND FREDDIE MAC UPPING THE ANTE - One of the consequences of the national run up in home prices has been that more and more buyers have been forced to seek financing alternatives because of the loan restrictions placed by Fannie

Mae and Freddie Mac. However, Fannie Mae and Freddie Mac are raising the limit on the size of single-family home mortgages they will purchase by 16 percent to \$417,000, thereby increasing the pool of buyers who will qualify for lower-cost

financing. This increase, the largest in at least 25 years should help to provide a boost to the real-estate market, which has been showing some signs of fatigue.

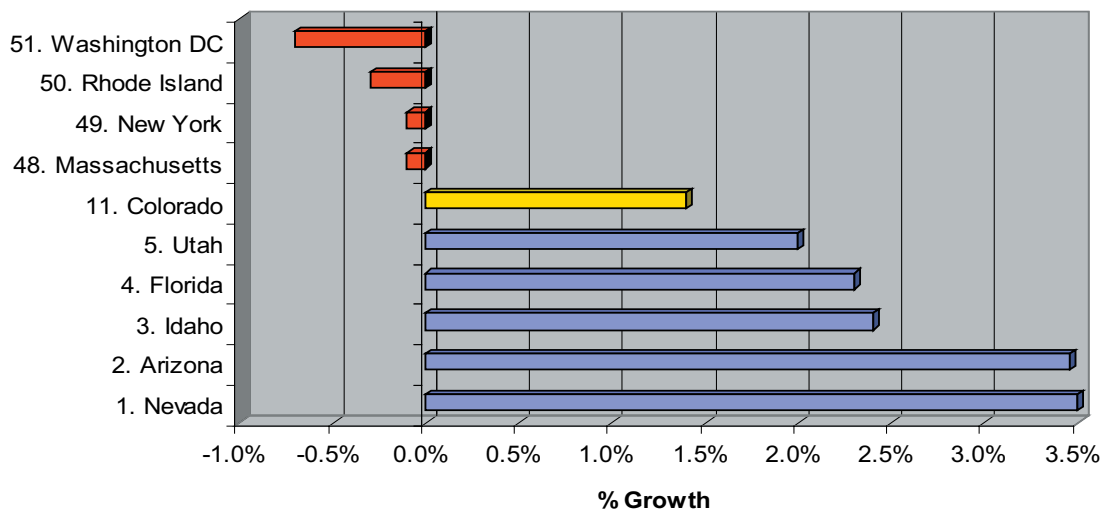
Metro Denver Condominium Data						
	October	November	December	YTD 2005	YTD 2004	% Change
Active	7,804	7,572	6,802	7,357	7,159	2.8%
Sales	919	875	906	11,755	11,915	-1.3%
Average Price	\$188,876	\$189,568	\$191,560	\$191,813	\$181,618	5.6%
Median Price	\$157,904	\$165,500	\$160,000	\$160,000	\$157,000	1.9%
Dollar Volume (000)	\$171,835	\$163,794	\$172,541	\$2,213,837	\$2,156,457	2.7%

COLORADO EMPLOYMENT SURGING BUT POPULATION GROWTH SLUGGISH.

The latest U.S. Bureau of Labor statistics report regarding employment in Colorado found that 40,700 jobs had been added to the labor pool in the 12-month period ending November 2005, amounting to a statewide total of 2,236,000 workers. The figure is just 10,100 jobs shy of the total reached in March 2001 before the recession hit, and reflects a 0.4% decrease in unemployment for the period to 5.0%.

The population in Colorado grew at a 1.4% pace in the period of July 2004 to last July, placing it at 11th in the nation. However, the rate is far slower than the average 3.0% rate clocked in the 1990s, and reflects the downturn in the job market that discouraged migration to the state. Of all the states in the nation, the western states were found to post the largest percentage population gains, with Nevada maintaining its No. 1 ranking for the 19th year in a row at 3.5%, followed by Arizona, Idaho, Florida and Utah.

Population Growth



DENVER HOUSING – SLOW AND STEADY. Although Denver’s housing market has been overshadowed by white hot areas like San Diego and Phoenix, Denver’s slow growth could prove to be the saving grace for the emerging yet still fragile local economy.

these numbers won’t earn front page headlines in USA Today, they probably mean that if/when a housing pop occurs the metro area won’t have as far to fall.

“I think it says the housing market hasn’t collapsed, but it’s a sluggish market, particularly in terms of prices,” said Tucker Hart Adams, a regional economist with U.S. Bank in Denver. “I think the parts of the country that are seeing these double-digit increases are just headed for problems down the road.”

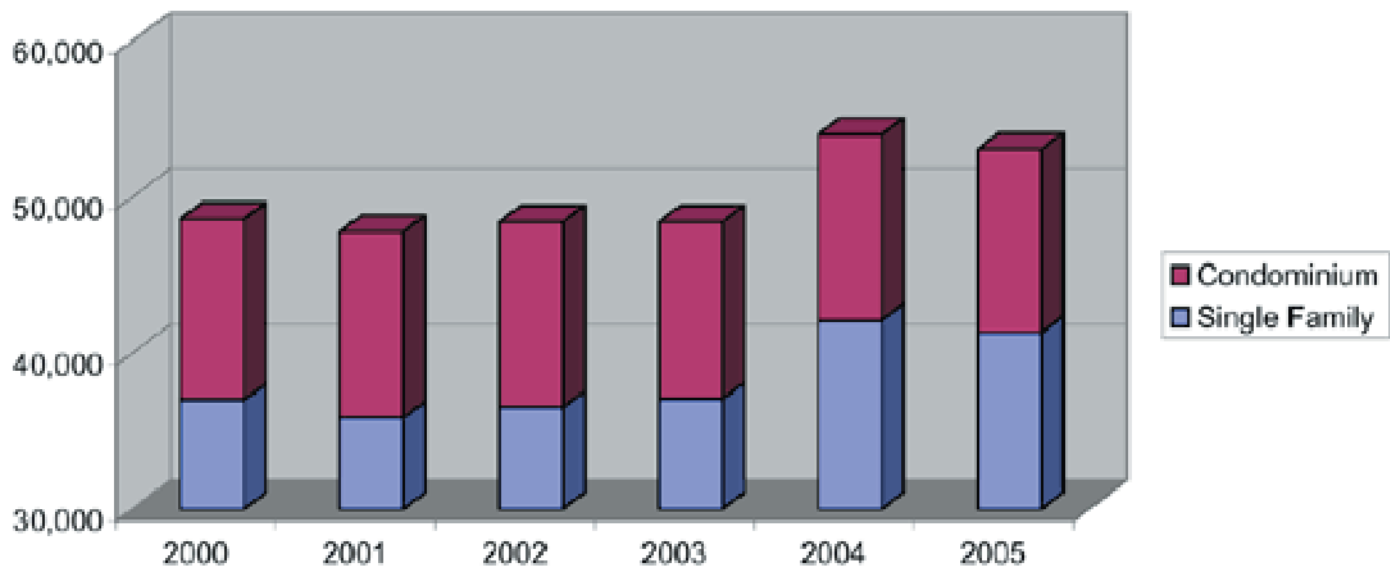
In 2006, the median price of a single family home increased 4.4% from the previous year to \$236,240 and the median price for a condominium increased 1.9% to \$160,000. While

Months of Supply						
	Single Family			Condominium		
	2003	2004	2005	2003	2004	2005
139,999 or less	5.4	3.4	3.8	6.6	8.3	8.8
140,000 to 199,999	5.0	5.2	2.1	5.6	8.4	8.0
200,000 to 299,999	5.2	5.4	4.9	7.7	8.6	7.4
300,000 to 499,999	7.3	6.9	5.9	12.8	17.3	11.8
500,000 to 999,999	11.3	10.1	8.6	16.7	7.2	13.6
1,000,000 plus	19.6	24.8	20.2	28.0	41.5	15.2

TOTAL SALES DIP – 41,314 single family homes and 11,755 condominiums were sold in 2005, which represented a decline of 1.9% and 1.3% respectively over 2004 sales. However, de-

spite the decrease in the number of transaction, the total sales volume for the year increased 4.0% for single family and 2.7% for condominiums.

Total Sales



While sellers are on average were getting more for there homes in 2005, they were also having to wait longer to see that money. The average number of days on market it took a single family home to sell increased by 5.0% to 84 days during 2005. Meanwhile, it took the average condominium 112 days to sell, an increase of 8.7%.

2006 OUTLOOK – Assuming the Federal Reserve stays on course with its anticipated rate hikes, sales, both locally and nationally, will undoubtedly decline. With that said, median prices will continue to rise; it just might take a few days lon-

ger to close the deal. Certainly areas that have experienced double digit price appreciation over the past few years stand more to lose should the housing bubble actually burst. However, because of the ever improving economic fundamentals in Colorado combined with the slow and sustainable growth the local housing market has exhibited over the past few years, any type of market correction is more likely to be a quiet pop than a loud bang. Then again, if the country encounters another devastating tragedy like Hurricane Katrina or some unforeseen negative geo-political event happens, all bets could be off.