



# 2nd Quarter 2005 Housing Market Summary

## Housing - A Safe Haven?

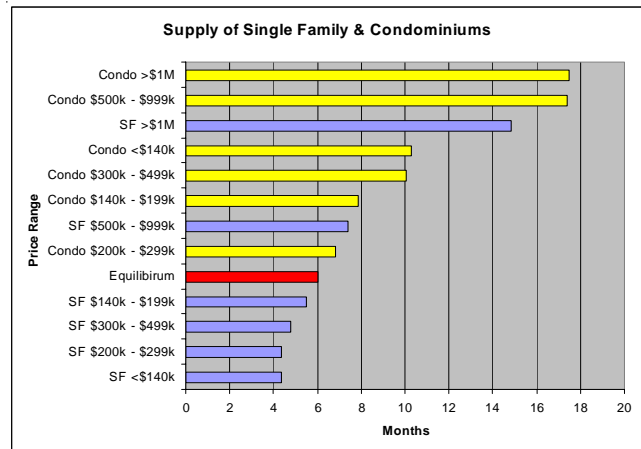
It's no secret, despite the economic turbulence that Colorado as well as the rest of the nation has experienced over the past decade; the housing sector has remained remarkably resilient. Fueled by low interest rates, the year to date average sales price for a single family home climbed to \$301,358, a 10.9% increase from this time a year ago. However while prices continued to climb higher, so did the amount of time it took to sell both condominiums and single family homes. The average time required to sell a single family residence increased by nearly 5% during the first half of this year versus the same time period a year ago, and the condominium sector witnessed nearly an 11% increase.

While there is plenty of good news to talk about as it relates to the housing sector, the market is also exhibiting negative signals as well. Therefore, the \$64,000 question is will the housing sector continue to a safe haven for homeowners and investors or is it headed for a correction?

**Sales & Pricing:** While the metro area hasn't witnessed the sizzling pace that is being experienced in other parts of the country like Las Vegas and Phoenix, the total sales volume of single family homes sold through the first part of the year skyrocketed by over 27% from this time a year ago. However, this shouldn't come as breaking news as the metro area began to see the amount of homes under contract dramatically increase in April.

Unfortunately, statistically speaking, the condominium sector hasn't kept pace with the single family market.

The average price for a condominium actually lost ground in June, decreasing by 1.6% from may to \$192,842. Not surprisingly, the total year to date volume of sales increased by only 1.2% from this time last year.



**Supply:** Supply is measured by the number of homes on the market divided by the number of sales. Measured in terms of months, most industry experts agree that a 6 month supply of homes is an optimum equilibrium. Based on this benchmark, it appears that the metro area could be poised for further price appreciation as all homes

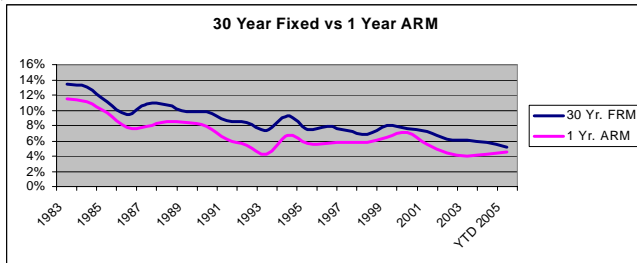
Single Family						
	April	May	June	YTD 2005	YTD 2004	% Change
<b>Active</b>	16,886	17,460	17,966	16,385	18,463	-11.3%
<b>Sales</b>	4,007	3,594	3,965	18,803	16,357	15.0%
<b>Average Price</b>	\$308,547	\$304,887	\$312,065	\$301,358	\$271,686	10.9%
<b>Median Price</b>	\$245,000	\$244,000	\$251,500	\$241,491	\$226,000	6.9%
<b>Dollar Volume (000)</b>	\$1,231,384	\$1,098,794	\$1,232,314	\$5,671,658	\$4,443,976	27.6%

In addition, unlike previous years, the level of activity in higher priced homes (greater than \$500,000) is increasing which translates into an upward pressure on the average price of a home as well as the overall sales volume.

priced under \$500,000 appear to be in short supply.

However, the condominium sector appears to be oversupplied in just about all price ranges with the exception of those priced between \$200,000 - \$299,999.

**Interest Rates:** According to a recent article published in the *Rocky Mountain News*, the most creditworthy of homeowners have a rare opportunity right now to lock in a long term 30 year fixed rate mortgage at lower rate than a short term adjustable rate mortgage. While this type of “unnatural condition” has occurred in the past, it could be an early indication of a looming worldwide economic slowdown.



**Conclusion:** Since the supply of housing is more or less fixed, price appreciation is driven from the demand side which consists of disposable income, interest rates and returns offered by alternative investments such as equities. If we look back at history we will see that the surges in housing prices are largely tied to low interest rates. However, unlike previous recessions that were

created in large part as a result of the central banks raising interest rates in order to curtail inflation, our most recent recession was created primarily because of a popping of a financial and economic bubble. Because of this, the Fed's were able to push interest rates lower during the recession which thereby reduced the rate on mortgages.

However, over the past year, the Fed has increased its benchmark rate by a quarter point at everyone of its meetings and has given every indication that it will continue to do so for the foreseeable future. This will undoubtedly increase the amount of foreclosures in the metro area which already is on pace to break last years level which unfortunately was the highest level since 1988.

Therefore, while money has continued to flow into the housing sector due to low interest rates and undistinguishable returns in other equity investments, it's realistic to expect that unless the metro areas economic conditions suddenly begin to take off, at some point in time, the industry will begin to lose steam and head for a correction. With that said, it's also realistic to think that because the metro area has not sizzled like other parts of the country, the correction (if any) felt in the metro area could be little more than a speed bump.

<b>Condominium</b>						
	<b>April</b>	<b>May</b>	<b>June</b>	<b>YTD 2005</b>	<b>YTD 2004</b>	<b>% Change</b>
<b>Active</b>	7,278	7,485	7,851	7,048	7,066	-0.3%
<b>Sales</b>	1,144	1,037	1,126	5,340	5,492	-2.8%
<b>Average Price</b>	\$183,931	\$195,989	\$192,842	\$189,058	\$181,529	4.1%
<b>Median Price</b>	\$153,850	\$159,500	\$163,307	\$158,900	\$157,326	1.0%
<b>Dollar Volume (000)</b>	\$208,063	\$202,803	\$217,980	\$1,004,874	\$992,839	1.2%

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