

Housing Summary - 2nd Quarter 2006

Half Full or Half Empty? Depending on whether or not you're an optimist or pessimist, you're opinion of the metro area housing market could vary greatly. Sales and housing prices have continued to rise throughout the first half of the year, however, so has the supply of homes on the market. Sales on the Upswing- As expected, the metro area witnessed a monthly increase in both single family and condominium sales during June as the summer selling season began in full swing. The condominium sector experienced a 5.6% increase over May and the single family sector surged by 14.3%. These figures when viewed on an isolated basis indicate the market is moving in a positive albeit anticipated direction. In addition, when comparing year over year sales, thereby accounting for seasonality changes, the condominium market increased by over 4.5% and single family homes posted a whopping double digit increase over June 2005, which was considered by many to be one of the more healthier periods in recent memory.

Despite June's rosy numbers the housing market continues to be in a precarious and unstable position. Seemingly at every turn whether it's at the local or national level, via print or television, media outlets are singing in harmony that the housing bubble is bursting.

A year ago we wrote in the second quarter 2005 analysis:

...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...

Foreclosures Soaring Through the Roof - Colorado reported 5,392 foreclosures in March, allowing the state to continue to garner the dubious distinction of having the highest foreclosure rate in the nation. Roughly one out of every 339 homes in Colorado is in some degree of foreclosure with the highest concentrations being in Adams and Arapahoe counties. Most economists are pointing towards aggressive lending practices such as no money down, 5 year adjustable rate mortgages and even interest only loans as the primary culprits for the rise in foreclosures. If there is such thing as a silver lining in leading the nation in foreclosures it's that of the nearly 5,400 homes in foreclosure, approximately 16% of the homes are now lender owned, which is almost 4 percent below the national average.

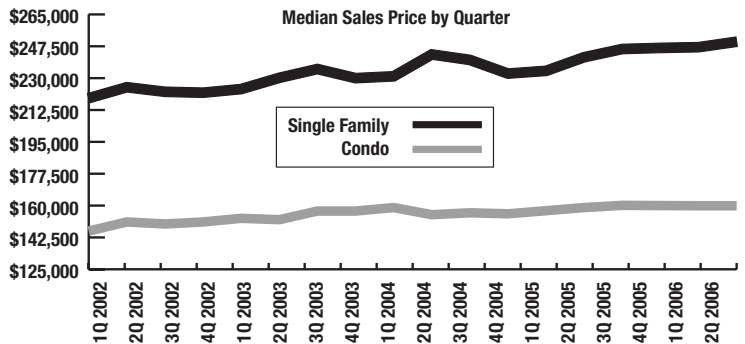
Metro Denver Single Family Data						
	April	May	June	YTD 2006	YTD 2005	% Change
Active	20,965	22,069	23,230	20,253	16,385	23.6%
Sales	3,303	3,893	4,449	19,824	18,803	5.4%
Avg. Price	\$318,949	\$315,257	\$335,111	\$317,761	\$301,358	5.4%
Med. Price	\$250,000	\$250,943	\$261,750	\$250,000	\$241,491	3.5%

Metro Denver Condominium Data						
	April	May	June	YTD 2006	YTD 2005	% Change
Active	8,080	8,388	8,670	7,845	7,048	11.3%
Sales	997	1,117	1,179	5,635	5,340	5.5%
Avg. Price	\$188,146	\$189,986	\$184,566	\$185,693	\$189,058	-1.8%
Med. Price	\$157,400	\$160,000	\$159,900	\$157,500	\$158,900	-0.9%
\$ Volume	\$187,581	\$212,213	\$217,603	\$1,046,380	\$1,004,874	4.1%

Builder Confidence Plummets – Despite a mild spring which allowed builders to stay on schedule, a recent monthly survey of confidence among national homebuilders fell in May to its lowest level in 11 years. Builders cited increased building costs and concerns about rising mortgage rates as the primary catalysts behind their concerns.

A Glut of Inventory – The supply of single family homes increased 5.3% from May as sellers began placing their homes on the market during the busiest season of the year. Condominiums and townhomes were not far behind, increasing nearly 3.5% from May. While the rise in inventory was expected, it's concerning to know that there were 31,900 homes on the market in June, a whopping 23% increase from the same period in 2005. The two driving forces behind this dramatic rise are a result of the sharp increase in the amount of foreclosures and an increase in the average number of days on market. Single family homes are on average taking nearly 17% longer to close and condominiums just over 11% longer to close than homes sold during this same time frame last year.

Home Prices Still Rising – Despite the sharp increase in inventory, single family home prices in the metro continue to rise. The average price of a single family home increased to \$335,111 in June and posted a median average of \$261,750 which represented a 6.3% and 4.3% increase over May 2006 respectively. However, the condominium and townhome sector wasn't as fortuitous as they witnessed an average price decrease of 2.9% to \$184,566.



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 condominium sector could be headed for further price erosion as every price range features at least a 9 months supply.

It's Not Just About the Homes – Perhaps no other industry has as much influence in the economy as the housing sector. According to Moody's Economy.com, housing related employment accounted for roughly 23% of the 4.9 million jobs created since the nation's job market began to expand in 2003. However, as home prices begin to level off, homeowners will be unable to draw upon the equity in their homes and consequently will decrease their spending on consumer goods. While nobody would argue that a real estate slowdown will impact architects, contractors, lenders and agents, the slowdown will also plague businesses ranging from manufacturing to retail sales.

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The unprecedented housing boom may finally be coming to a close. It appears that the Federal Reserves monetary policy is working in that they have consistently been raising interest rates over the past few years in an effort to inhibit inflation. The housing slowdown coupled with a decrease in job growth will likely materialize in a decline in wage appreciation and therefore put a cap on inflation fears.

Foreclosures will continue to impact the metro area, however, to what degree remains to be seen. Should interest rates continue to increase and/or we see a rapid decline in job growth, the metro area could see lenders taking back an unprecedented amount of additional homes. Should this happen, it's likely the metro area could crash dramatically as opposed to the anticipated soft landing that we are all hoping for.

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