



Goodbye 2008

What was once viewed as a relative unknown in 2006 and 2007, the ramifications and extent of the subprime mortgage collapse and ensuing credit crunch are now coming into focus. Fortunately, while the economy is nowhere close to rivaling the period of the Great Depression, the current economy and the uncertainty that remains has entered uncharted waters for a good majority of the population. Over the past year, the United States economy has stripped away 3.5 million jobs, causing the national unemployment rate to rise to 7.6% as of January, 2009. Closer to home, Colorado witnessed a decrease of 16,200 jobs over the past year and watched helplessly as its unemployment rate increased from 4% in December 2006 to just over 6.1% today.

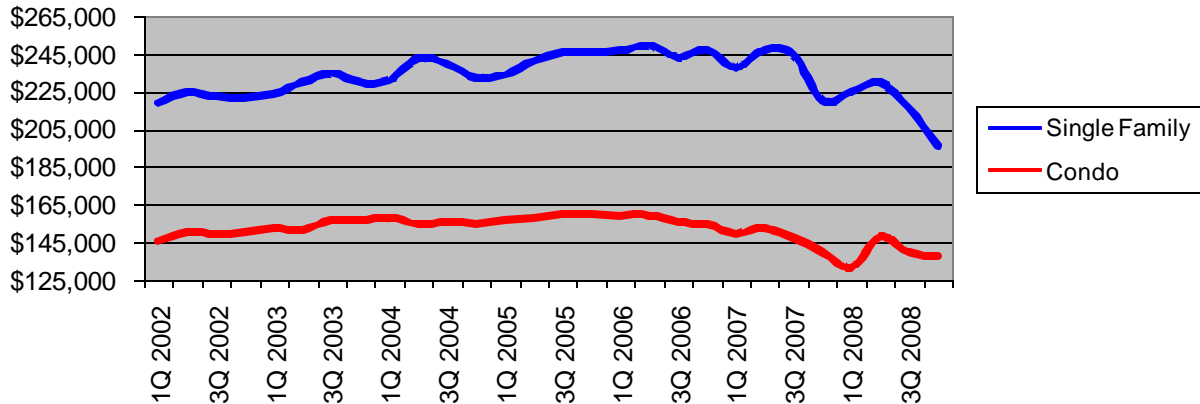
As the nation endures rising unemployment, the amount of homes entering foreclosure remains a problem in most markets. The flow of capital has slowed and has consequently increased the average number of days to sell a home. As a result of a longer sales cycle and foreclosure market that won't seem to go away, the supply of homes has steadily increased and has therefore caused further price erosion on a national basis. Because of this, mortgage finance company Freddie Mac announced in early February that it would need an additional \$30 billion to \$35 billion in government aid as it copes with losses on loans the company backed. This is on the heels of the \$13.8 billion the company received late last year after the government took it over.

Similar to the Savings & Loan bailout of the 1980s, lending requirements and to a lesser extent lending practices have changed for the better over the past year. While FHA loans are still available, more and more creditors are seeking the traditional twenty percent down. This has forced many would be home buyers to begin saving more of their income than in previous years. As a result, businesses are now competing with one another for a decreasing supply of disposable income and are offering unprecedented discounts on everything from LCD televisions to frozen pizzas to Las Vegas hotel rooms.

Metro Home Prices Plummet. While the metro area has not seen the epic declines that other parts of the country have experienced in states like Florida, California, Nevada and Arizona, the average price of a single family home decreased to \$240,945 in December 2008. Furthermore, the median price of single family home tumbled to \$196,000 in December compared to \$220,000 12 months prior. While the 10.9% decline was nothing to write home about, the national median home price was \$175,400 in December, which was 15.3% below the median in December 2007. Meanwhile, the median price of condominium/townhomes while negative posted a modest 1.4% decline year over year and finished 2008 at \$138,000.



Median Sales Price by Quarter



Forget the Jones' . As employees continue to cringe upon reviewing their quarterly 401k statements in the mail, the demand for upper end homes continues to diminish. At the end of 2008, the metro area had over a two year supply of single family homes priced between \$500,000 and \$999,999 and nearly a five year supply of homes over \$1,000,000. Meanwhile, homes priced less than \$500,000 had less than a ten month supply and as low as a two month supply for homes under \$140,000.

Months of Supply

	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
139,999 or less	3.4	3.8	5.8	6.1	2.2	8.3	8.8	9.6	6.5	4.3
140,000 to 199,999	5.2	2.1	8.4	6.9	4.6	8.4	8.0	12.1	10.8	10.7
200,000 to 299,999	5.4	4.9	7.5	7.3	6.6	8.6	7.4	11.3	8.9	13.9
300,000 to 499,999	6.9	5.9	8.9	10.5	9.9	17.3	11.8	19.8	17.6	31.3
500,000 to 999,999	10.1	8.6	11.9	16.0	25.4	7.2	13.6	27.6	33.8	49.1
1,000,000 plus	24.8	20.2	20.9	40.8	58.3	41.5	15.2	117.0	92.0	37.2

A Penny Saved. Many economists speculate that we will see the bottom in late 2009. As such, businesses and households alike will continue to proceed with cautionary spending and a renewed enthusiasm for savings. The tightening of the credit market has caused consumers to become more cautious about their spending habits and accordingly businesses catering directly to consumer's discretionary income have taken a beating. The latest index on consumer savings indicates that America is starting to save more. While Americans are on average still only

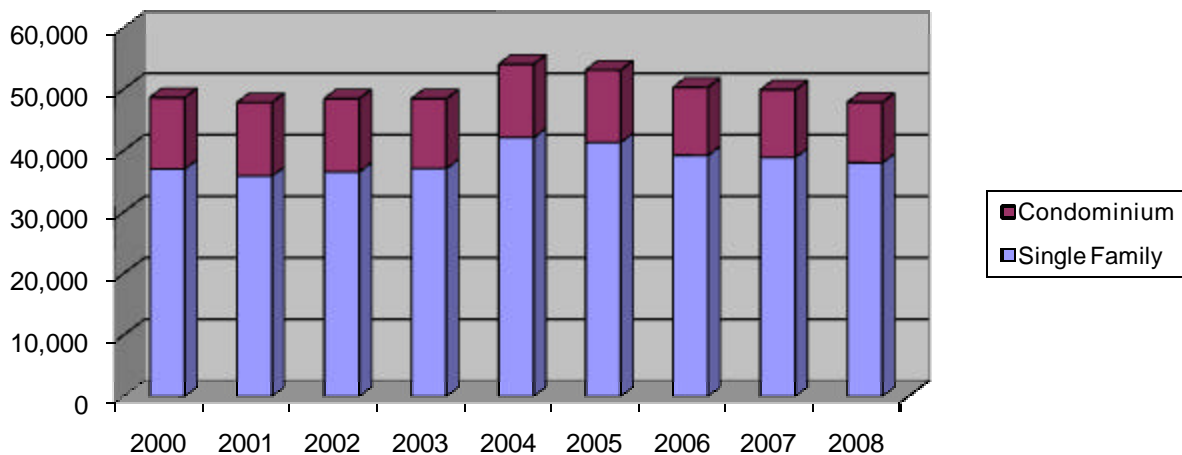


saving 3.5% of their income, the savings rate has increased about one half of a percentage point each year for the past few years.

It's Under Contract. While the number of homes under contract decreased almost 9% from November 2008 to December 2008, the metro area witnessed an increase in the number of homes under contract on an average monthly rate between 2007 and 2008. For the year, the metro area witnessed a 3.5% increase which is understandable given the recent credit crunch. However, the situation is compounded by the fact that the average number of homes on the market decreased by over 10% from 2007 to 2008. Therefore we're now seeing a much higher ratio of homes under contract as it relates to current inventory.

The Perfect Storm? The tightening of the credit market has caused both businesses and consumers to re-evaluate their vitality. Companies large and small are now looking at their balance sheets and trying to save every last nickel by reducing their budgets, delaying purchases, reducing salaries of essential personnel and terminating others. Meanwhile, consumers who are now reeling from depreciated home values and retirement accounts that are a fraction of what they used to be are now applying the brakes on their own spending as well. For years, policymakers have fretted about inflation. Now however, it appears that deflation could be begin to rear its ugly head. Deflation is defined as a decline in general price levels which is often caused by a reduction in the supply of money or credit. While on the surface lower prices do provide short term economic relief and appear to be a wonderful thing for consumers, long term, decreasing prices lead to more cost cutting which in turn leads to more unemployment and further erosion of consumer confidence.

Total Sales





Outlook: As the national recession lingers throughout 2009, consumers and businesses will continue to reexamine and reprioritize their needs. Assuming that the new Administration is able to deliver the \$750+ billion economic stimulus package in a timely manner, the nation should begin to see minimal signs of recovery in late 2009. This should help to re-ignite spending and thwart off deflationary fears.

According to the Metro Denver Economic Development office, Colorado's economic trends are expected to outperform national averages. Buoyed by high concentrations of employment in renewable energy, aerospace, and other industries with strong long-term growth prospects, the state is expected to experience a smaller-than-average employment loss of 0.4 percent in 2009. However, because Metro Denver accounts for the majority of the financial services, construction and manufacturing jobs within the state (all industries facing contractions), the region's unemployment rate is expected to tick up to 6.5%.

Most likely, home prices will continue to decline over the short run and then appear to flatten out. Supply should remain relatively stable over the next year with homes valued less than \$500,000 having the most demand. Significant strides in the housing market will be relatively non-existent throughout the remainder of 2009 and won't be readily measurable until consumers begin spending again.

Single Family						
	October	November	December	YTD 2008	YTD 2007	% Change
Active	17,842	16,775	14,995	18,722	20,871	-10.3%
Sales	3,386	2,355	2,585	37,988	38,845	-2.2%
Average Price	\$250,172	\$242,557	\$240,945	\$270,261	\$310,418	-12.9%
Median Price	\$206,000	\$195,000	\$196,000	\$219,900	\$245,000	-10.2%
Dollar Volume (000)	\$847,082	\$571,222	\$622,842	\$10,266,663	\$12,058,198	-14.9%

Condominium						
	October	November	December	YTD 2008	YTD 2007	% Change
Active	5,278	4,986	4,605	5,641	7,040	-19.9%
Sales	896	565	649	9,849	10,944	-10.0%
Average Price	\$164,686	\$161,615	\$162,770	\$171,350	\$180,321	-5.0%
Median Price	\$130,300	\$130,000	\$138,000	\$138,000	\$150,000	-8.0%
Dollar Volume (000)	\$147,558	\$91,312	\$105,637	\$1,687,626	\$1,973,436	-14.5%