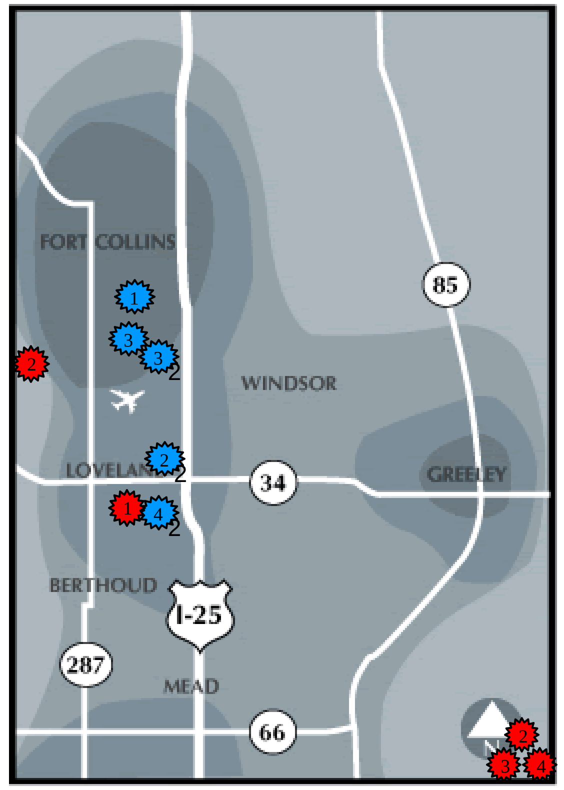
Top Sellers in Northern Colorado During 2006

Detached Product

Rank	Community	Location	Builder
1	Garden Gate	Loveland	Journey Homes
2 Tied	Enclave @ Enchantment Ridge	Loveland	Aspen Homes
	Stoneridge	Firestone	Journey Homes
3	Silver Peaks	Lochbuie	Journey Homes
4	Berkshire	Lochbuie	KB Home

Attached Product

Rank	Community	Location	Builder
1	Sidehill Condos	Fort Collins	Engle Homes
2	High Plains Village/ Courtyard	Loveland	McStain Homes
3 Tied	Timbers Condos	Ft. Collins	The Timbers LLC
	Harvest Park TH's	Ft. Collins	Standard Pacific
4	Stone Creek TH's	Loveland	Parkside Homes



The Genesis Perspective is a quarterly newsletter containing excerpts from our quarterly Northern Colorado Housing Overview, an in-depth analysis and forecast of the Northern Colorado housing market.. This newsletter is available free via email, and if you prefer, we will mail you a hard copy for a $50 annual fee. To order or change your subscription, please contact Meghan Kelly at 303-662-0155 or at mkelly@thegenesisgroup.net.

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The GENESIS Perspective

Northern Colorado

Year-End 2006

After the Storm: Prospects for Better Weather Ahead

Just as Colorado ended 2006 in the deepfreeze of its heaviest snowfall in many years, the Northern Colorado housing market was also "snowed in" with a contraction in sales activity and a slowdown in price appreciation. An avalanche of foreclosures and an overhang of inventory are slowing the recovery from a market correction that started with declining new home sales volume back in Fourth Quarter 2005. The important questions now are whether the current climate will create substantial "spillover" effects in other sectors of the economy....and whether the skies will clear sooner...or later?

Of primary concern is the elevated level of vacant for-sale homes in the region's existing housing stock. Slowing sales volumes are impacting both the new and resale housing markets. Colorado, and especially Weld County, has been in the national news as record levels of foreclosures have left the market with even more vacant homes for sale. The major causes of these foreclosures are the overly-aggressive lending practices of the past few years and relatively flat appreciation rates—-factors that prohibited the equity-creation that many homebuyers hoped for after financing their homes with 100 percent loans and adjustable rate mortgages.

A positive trend is the reduction of new home inventory, which began in late 2006 in most (but not all) Northern Colorado market areas, as builders responded to soft market conditions. On the other hand, inventory in the resale market has continued to climb in all but two Northern Colorado market areas. This inventory overhang must be absorbed before residential construction activity can return to sustainable levels.

Prospects for stabilization in our housing markets lie in the expansion of our economy. Job growth creates demand for more housing. We anticipate that job growth in Northern Colorado will continue, albeit gradually, and that housing demand will be a lagging result.

The Northern Colorado homebuilding market has historically been dominated by local builders whose needs for sales volume are a fraction of that required by most larger builders. The region experienced an influx of regional and national builders over the past few years when low interest rates increased demand for new housing. However, by late 2006 most production builders had halted new land acquisitions, and many cancelled previous commitments, sometimes walking away from investments of millions of dollars. The exodus of most of these larger production builders from the northernmost parts of the region is creating opportunities for local builders and investors who have the ability to ride out the storm with patient money.

In summary, the long-term potential for Northern Colorado is bright; however, there will be storms on the horizon for the near future. The region is poised for growth, but there is still the possibility of further economic contraction. We forecast the region will pull out of this market correction gradually, but growth for 2007 will not match that of 2004 / 2005. As we assess the situation, we acknowledge the unique attributes of this region that make it such a desirable place to live. These include quality of life, close proximity to Denver and world-class ski resorts, a good supply of skilled workers, and a general pro-business/pro-growth stance that encourages relocation and expansion. These factors will weigh heavily in support of market recovery.

Volume 2006, Issue 4

CONTENTS

KEY INDICATORS

Compared to Year-End 2005

Employment ↑
Mortgage Rates ↑
New Home Sales ↓
Building Permits ↓
New Home Inventory ↓
Resale Housing Inventory ↑
Existing Home Sales ↓

ECONOMIC Trends

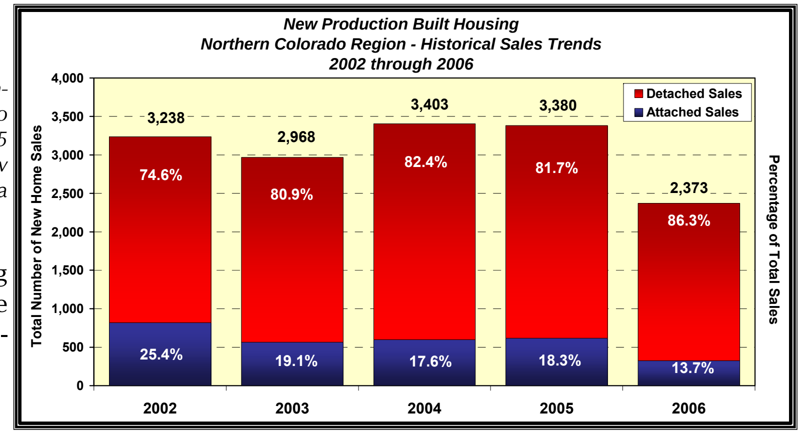
- **Employment** - Average employment growth in Northern Colorado **increased 2.3 percent during both 2005 and 2006** surpassing the percentage growth for metropolitan Denver, the state, and the nation.

- The unemployment rate in Northern Colorado was **3.6 percent in December 2006, down from 4.3 percent in December 2005.**

- **Interest Rates**—***The 30-year fixed mortgage interest rate declined to 6.35 percent during Fourth Quarter 2006,*** down from 6.67 percent in Third Quarter 2006, but about the same as it was at the end of 2005.

- After experiencing much lower inflationary pressure than the nation from 2003 through 2005, ***inflation in the Denver region rose to 3.3 percent for the first half of 2006, still slightly below the U.S. inflation rate for that period***.

NEW Housing Activity



Source: The Genesis Group

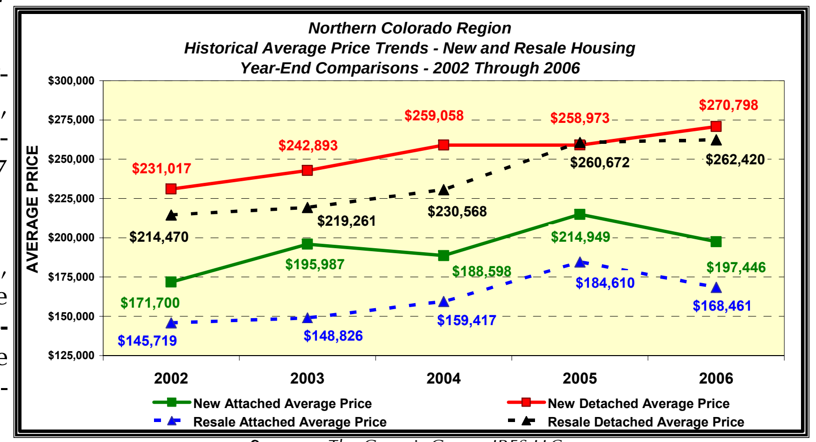
Of note is a change beginning in 2006 for our definition of the Southwest Weld County market area. Prior to 2006, our Northern Colorado Housing Overviews included data from the area west of Interstate 25 and east of the Weld/Larimer County Line; however, this area is now exclusively covered in our analysis of the metro Denver area. All data in this report reflects this boundary change.

New home sales volume declined a sharp 30 percent during calendar year 2006, reaching the lowest levels in the five years that we have been collecting data in Northern Colorado.

Each of the four Northern Colorado market areas reflected declines ranging from 12 percent in the Southern Weld market area to 39 percent in the Loveland / Berthoud market area.

New detached home sales declined by a sharp 26.0 percent in year-end comparisons, falling to 2,047 sales., while attached homes (condos, townhomes and duplexes) saw an even sharper decrease in sales, with a 47 percent decline to only 326 sales.

Average base prices for **new detached** homes in the region, as shown in the table to the right, continued to increase slightly in spite of the softening market. Prices of **resale detached** homes also reflected a slight increase, while average prices of **both new and resale attached** homes actually declined.



***Sources**: The Genesis Group, IRES LLC*

NEW Housing Inventory

During 2006, builders began to respond to the slowdown in new home sales with a reduction in inventory. Overall inventory fell 15.9 percent, from 1,356 homes at the end of 2005 to 1,141 homes at the end of 2006.

Attached new housing inventory declined 10.7 percent from 391 to 349 homes on the market at the end of 2006. Even though inventory was down, this was not enough to offset the sharp decline in sales volume, and month's supply rose from 7.6 to 12.9 months. Detached inventory dropped almost 18 percent from 965 to 792 units at year-end. However, despite this decline in the number of inventory homes, the month's supply for detached homes increased from 4.2 months to 4.6 months, reflecting the sharp drop in sales this year.

Remaining build-out (sum of inventory and vacant lots committed to builders) increased in Windsor/Severance and Southern Weld County, while decreasing in Loveland/Berthoud and Ft. Collins/Wellington.

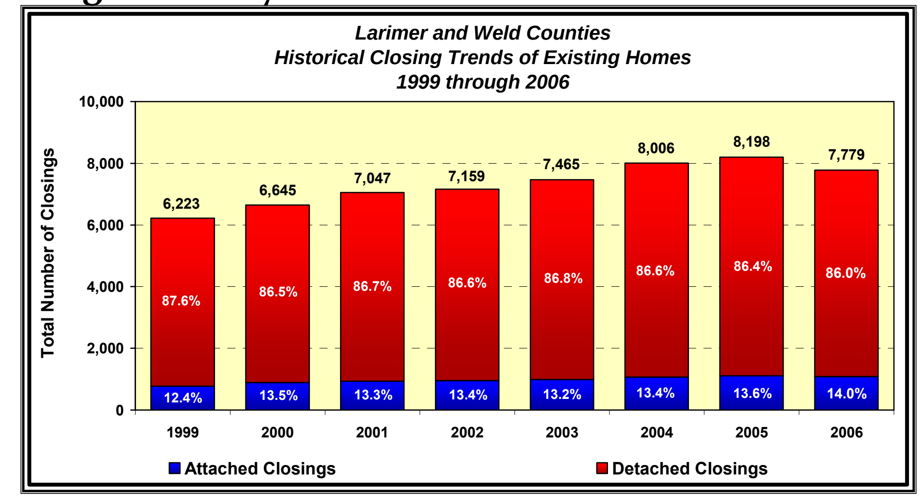
RESALE Housing Inventory

Inventory levels for **resale** housing in Larimer and Weld Counties combined were **four percent higher** at the end of 2006, compared to one year earlier.

Segmented by property type, listings of attached homes increased 8.5 percent from 565 to 613, while listings of detached homes increased 3.1 percent from 3,364 to 3,468.

Based on the monthly rate of closings for the prior 12 month period, the month's supply of existing homes (attached and detached) increased from 5.7 months at the end of 2005 to 6.2 months at the end of 2006.

RESALE Housing Activity



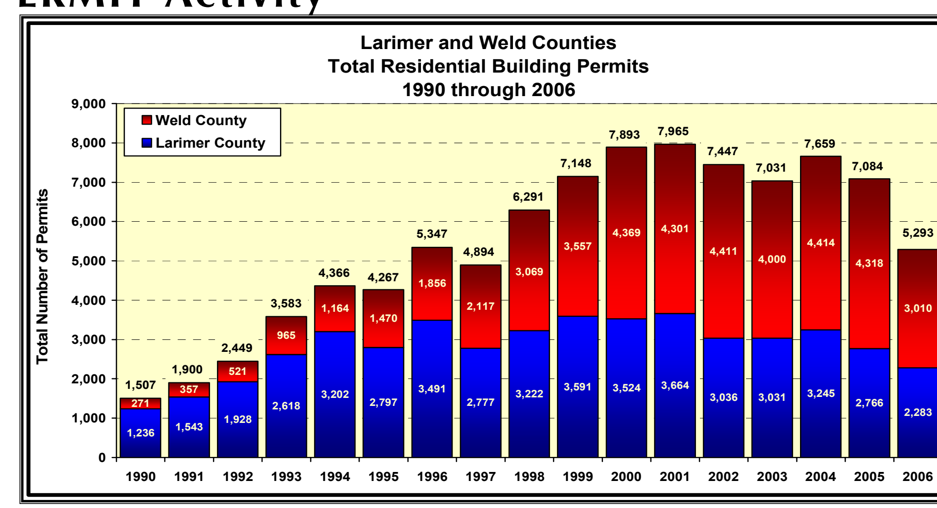
***Sources**: The Genesis Group, IRES LLC.*

After increasing each year since 1999, closings of existing (resale) homes in Larimer and Weld Counties **declined during 2006.** As compared with 2005, closings were down five percent, from 8,198 to 7,779 closings. Closings of existing **detached** homes de-creased six percent, while closings of attached homes were down only two percent.

Detached sales accounted for 86 percent of total existing home sales.

Resale activity was down in all the market areas except for Windsor / Severance, where closings are actually 16 percent higher than they were during 2005.

Building PERMIT Activity



***Sources**: Home Builders Association of Metro Denver and The Genesis Group*

A significant sign that the market is responding to the slowdown is a reduction in the volume of residential building permits for new construction. The total number of residential building permits issued in Larimer and Weld Counties **declined 25 percent** from 7,084 permits in 2005 to 5,293 permits in 2006.

Perhaps the more important statistic for the Northern Colorado homebuilding industry is the trend of residential permits **excluding multi-family structures**. Permits for one-unit structures (single-family detached, duplex and townhomes) **fell almost 37 percent** during 2006, as compared with permits issued during 2005.

In **Larimer County**, the number of building permits for one-unit structures decreased from 2,268 to 1,435 permits during 2006 compared to permits issued in 2005, a decrease of 36.7 percent. In comparison, the number of permits for one-unit structures in **Weld County** decreased from 4,131 to 2,617 permits, a decrease of 36.6 percent.