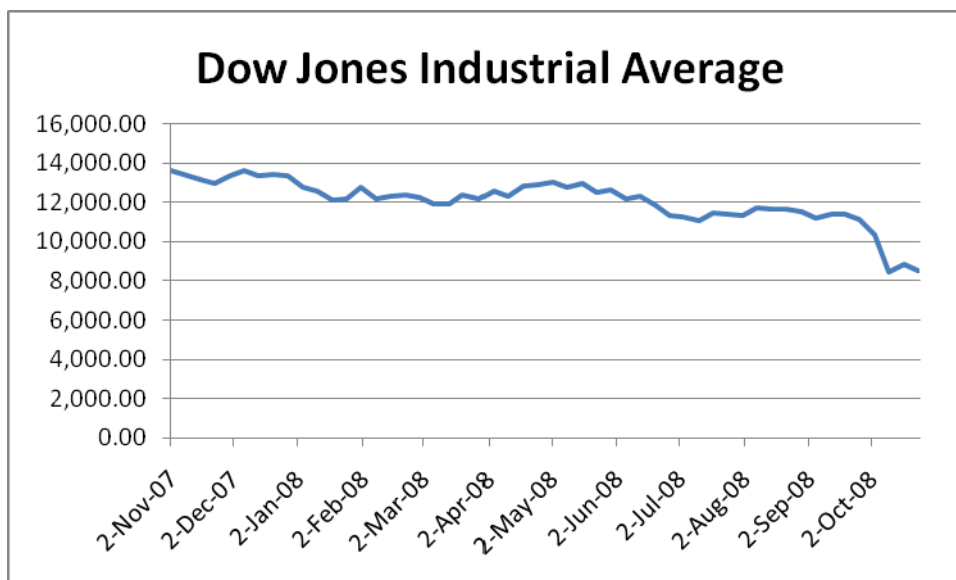


## My Oh My!

What a difference a quarter makes. Just a few short months ago, homeowners, lenders and REALTORS® were slowly beginning to exude cautious optimism. As the summer selling season began to kick into high gear, the metro area posted impressive June numbers. The total sales volume as well as the total number of homes sold was beginning to trend upward. In addition the metro area also began to see a shift in direction of both the average and median price of homes for single family and condominium/townhomes. It was for these reasons that many people were beginning to think or at least hope, that the market had finally bottomed out and was beginning to turn around.

Unfortunately, right before our eyes, we began to see one event after another compound the woes of an already shaky national economy. As oil prices topped \$140/barrel, we began to see many Americans trimming back their “go-go” lifestyles as gas topped \$4.00 per gallon. At the same time we saw the first card fall, as investment banking giant Bear Stearns got caught in the subprime crossfire. Then housing giants Fannie Mae and Freddie Mac unraveled. Next was AIG, one of the largest insurers in the nation. As the days passed by, more and more lenders were disclosing that their aggressive lending practices over the past few years were now sinking their balance sheets as the foreclosure market continued its downward spiral.

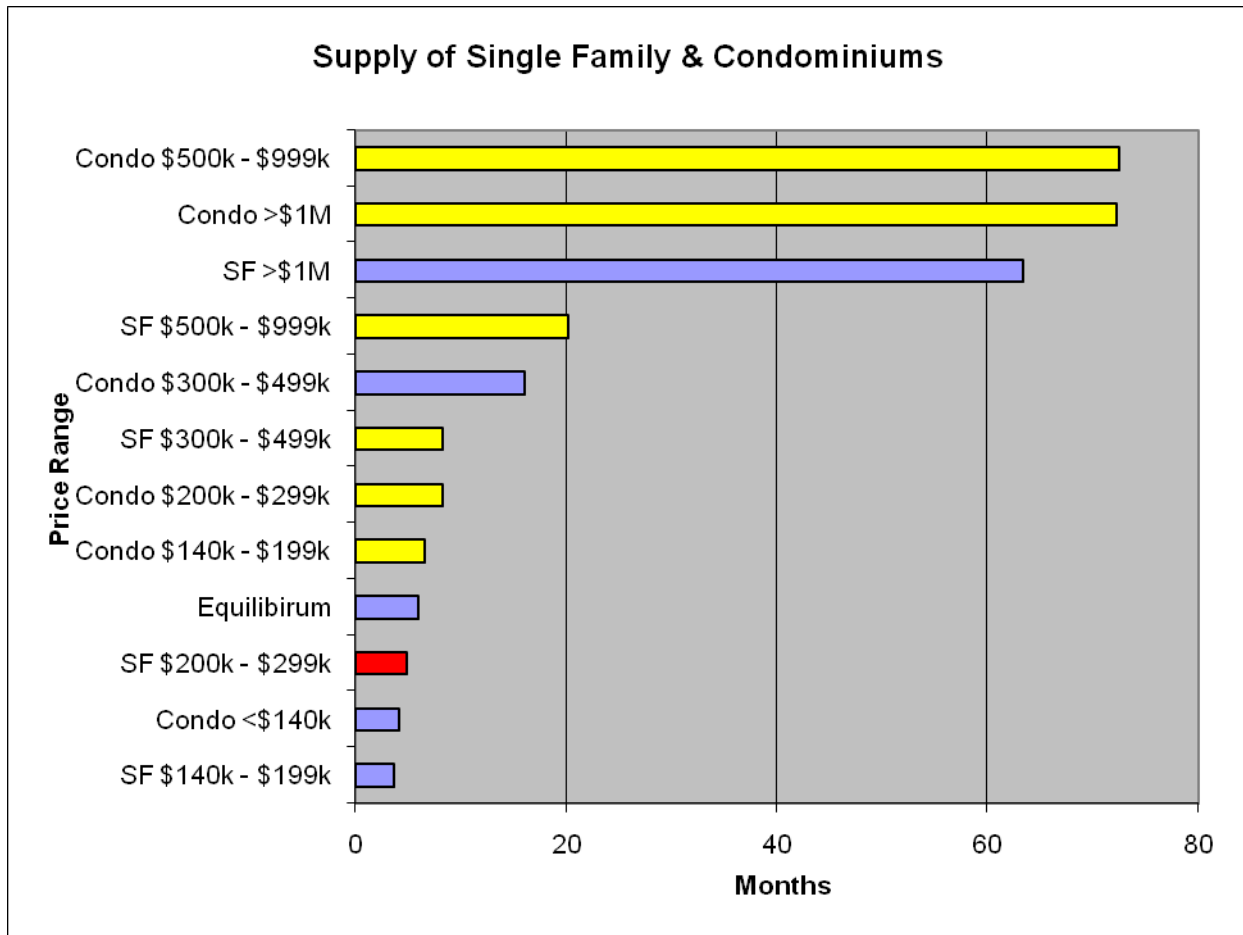
This of course lead to a proposed \$700 billion bailout in which the government would buy back non-performing loans to prevent the further erosion of the banking industry and collapse of the financial sector. Then as Capitol Hill began to debate the merits of the bailout, which no doubt was complicated by the fact that we’re in the throws of an election year, panic quickly entered Wall Street. With each passing day, fear began to tighten its grip around the neck of the consumer and the stock market plummeted. Through the first half of October, the Dow Jones Industrial Average, S&P 500 and NASDAQ all posted losses in excess of 35% in 2008. As the worm turned in the third quarter and produced evidence that the economy may be sliding into its deepest recession since the Great Depression, it’s not



surprising that the once red-hot housing market appears to have finally run out of gas.

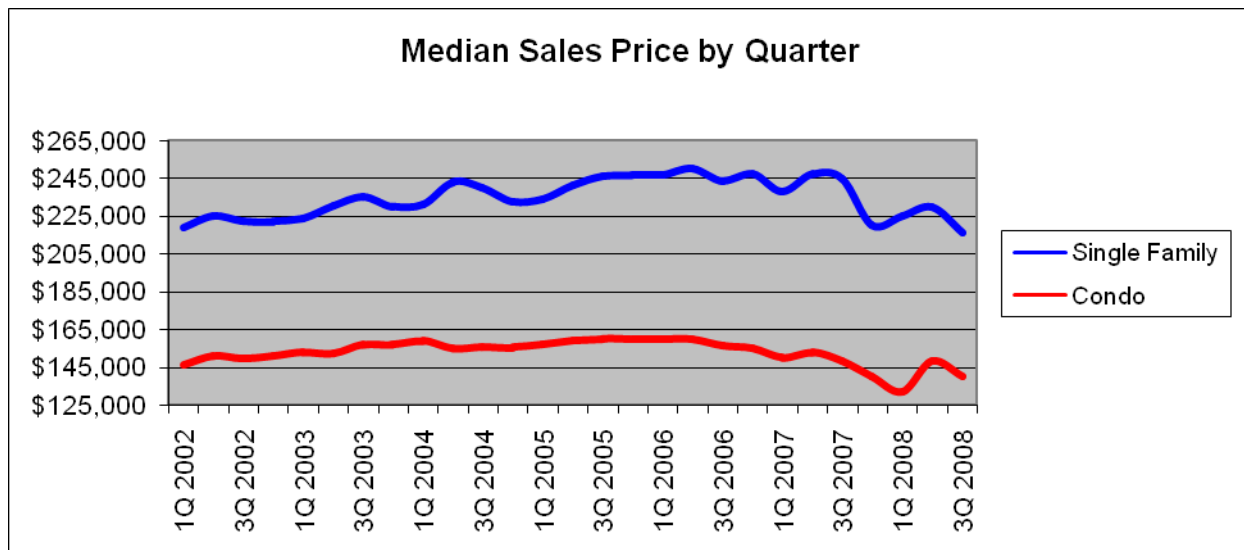
On a national level, home prices continue to tumble. According to a report released in August by the National Association

of REALTORS® the median price nationwide was \$203,100 compared to \$224,000 a year ago. The 9.5% plunge is a reflection of the subprime mortgage fallout. However because of the price decline, the number of unsold homes dropped by 7% in August to 4.3 million homes which equates to a 10.4 month supply. Lawrence Yun, chief economist of NAR expects the supply of homes to continue its decline through the remainder of the year. Said Yun, "At least it's moving in the right direction. The only way to get price stabilization is to get the inventory down."



Closer to home, while just about anyone related to the local real estate industry would tell you that the third quarter posted less than stellar results as compared to other summers, considering all of the events that happened during the third quarter the numbers certainly could have been worse. While both the number of single family homes and condominium/townhomes saw an appreciable increase in the number of homes sold in September compared to September 2007 home sales, year to date sales continue to lag year to date sales for 2007. Single family homes are running 3.2% behind last years pace and condominium/townhomes are nearly 10% off of last year's figures.

Not surprisingly, both the average and median home prices for single family homes are down 12.1% and 10.0% respectively from 2007. Likewise, condominium/townhomes prices are also down compared to last year and posted a 4.8% average price drop and an 8.5% median price drop.



So where does the recent economic turmoil leave the housing market? Is the housing market looking at a deep recession or will the bailout prove to be enough of a catalyst to get the housing market and economy growing again? The answer probably lies somewhere in between. Certainly on a national level many of the areas that experienced unprecedented growth over the last decade such as California, Florida and Nevada will in all likelihood have a ways to go before bottoming out. Other markets, like Colorado, which did not significantly benefit from the most recent housing boom won't have nearly as far to fall and as a result will be positioned for a rebound once capital begins to start flowing again.

While economists will likely continue to debate whether or not the economy is in a full recession, it's undisputable that fear has entered the room. Because fear leads to irrational behavior, it's unclear when to expect the housing market and economy to turn around. If you look back in the history books, you wouldn't have to look farther than a couple of decades to see another period in which unregulated lending led to a banking meltdown and government bail out. Since the current financial meltdown and the savings and loan crisis of the late 1980s share many similarities it's realistic to expect that like the late 1980s, this current downturn shall to pass and the housing market will once again rebound. Realistically it's fair to expect to see a continued erosion of the economy over the next several quarters. Consumers are beginning to see the impacts of the recent financial downfall as they begin to review their quarterly 401k statements. Given the fact that these statements were generated as of September 30<sup>th</sup> and knowing that the financial markets slipped even further during October, it's anticipated that consumer spending will be scaled back over the holiday season. As a result, the economy and therefore housing market will continue to languish until more capital becomes available in the financial markets. However, like the late 1980s, the Colorado housing market should be strategically positioned for a long and prosperous rebound.

<b>Single Family</b>						
	<b>July</b>	<b>August</b>	<b>September</b>	<b>YTD 2008</b>	<b>YTD 2007</b>	<b>% Change</b>
<b>Active</b>	19,788	19,050	18,496	19,452	20,770	-6.3%
<b>Sales</b>	4,154	3,581	3,366	29,662	30,655	-3.2%
<b>Average Price</b>	\$283,860	\$284,531	\$260,118	\$277,308	\$315,375	-12.1%
<b>Median Price</b>	\$229,200	\$225,000	\$216,150	\$224,900	\$249,900	-10.0%
<b>Dollar Volume (000)</b>	\$1,179,156	\$1,018,905	\$875,557	\$8,225,517	\$9,667,817	-14.9%

<b>Condominium</b>						
	<b>July</b>	<b>August</b>	<b>September</b>	<b>YTD 2008</b>	<b>YTD 2007</b>	<b>% Change</b>
<b>Active</b>	5,885	5,598	5,427	5,869	7,222	-18.7%
<b>Sales</b>	969	961	899	7,739	8,585	-9.9%
<b>Average Price</b>	\$169,474	\$173,823	\$161,960	\$173,552	\$182,257	-4.8%
<b>Median Price</b>	\$149,000	\$140,000	\$139,900	\$140,000	\$153,000	-8.5%
<b>Dollar Volume (000)</b>	\$164,220	\$167,044	\$145,602	\$1,343,117	\$1,564,673	-14.2%