The Mesa County Real Estate Report

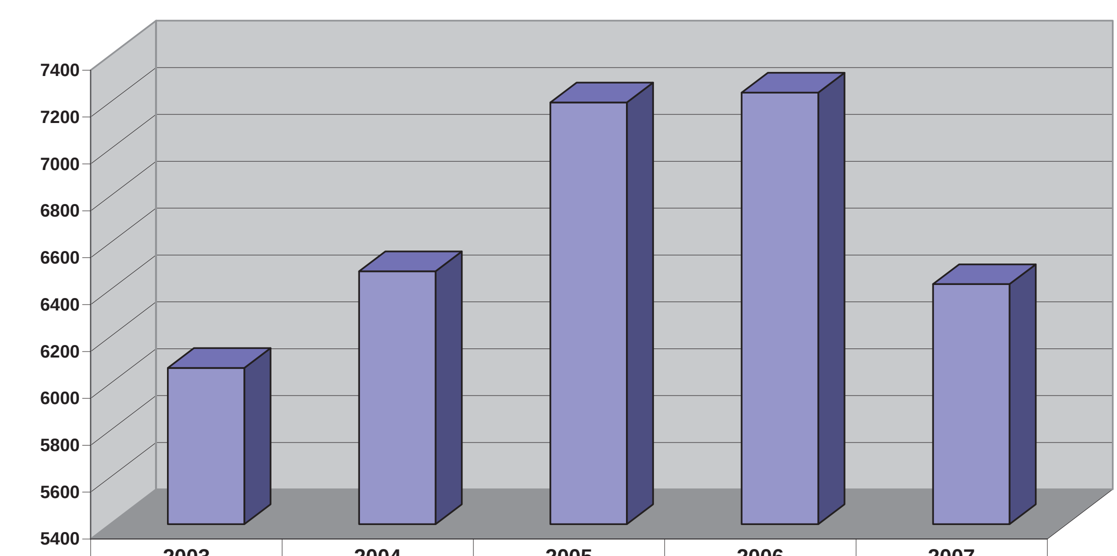
Stewart Title
Grand Junction Division
Annual 2007 Report

The number of real estate sales dropped 20% in the last quarter of this year. There were 1335 sales reported in the last quarter of 2007, compared to 1673 a year earlier. Some measure of sales decline has occurred in each of the last six quarters. The dollar volume also dropped in the quarter, from $414 million in the 4th quarter of 2006 to $368 million in 2007. For the year, 2007 wound up with 6424 total sales, an 11.3% decline from the 7241 sales reported in 2006. The dollar volume for all of 2007 was $1.71 billion, virtually unchanged from the $1.73 billion reported in 2006. The five largest sale transactions during the year were as follows: (1) Sale by Conoco Phillips of its industrial complex to Suncor Energy in Railhead Industrial Park for $14,350,000; (2) Sale of the Candlewood Mobile Home Park for $13,500,000; (3) Sale of the Kimball Creek Ranch to a Houston LLC for $10,000,000; (4) Purchase by Brightstar Redlands Mesa Development LLC of vacant lots at Redlands Mesa for $9,222,800; and (5) The sale of a Merkel 40-acre tract near 24 and G Roads for $7,019,600. This year, there were 130 sales for an amount equal to or greater than $1.0 million for an aggregate of $286 million. In 2006, there were 95 such sales for a total amount of $254 million.

So, if the local economy is robust according to a number of measurements, why is the real estate market limping along? Grand Junction retail sales are up 11% over last year. The unemployment rate hovered in the 4% range all year long. Foreclosure rates are up a tick but still quite low. The energy and medical sectors are still growing handsomely, and population is still growing at nearly a 3% annual rate. The short answer is that hefty appreciation in property values in the last three years has slowed the appetite for some buyers and has removed many first-time homebuyers out of the market. Also, changes in borrower qualification in the mortgage market, as a result of the national sub-prime debacle, have taken a toll on some borrowers in the Grand Valley. It will take some time for the market to make the adjustments to this new reality, but it appears that the local market has been spared, for the time being, the problems associated with the sub-prime lending disaster.

A question that remains is what affect on home values, if any, has resulted from the modest slowdown in real estate sales over the last 18 months. The two main market reporting systems, OFHEO and Zillow publish 4th quarter results on housing appreciation rates in February. At the time of this report, OFHEO has yet to publish their

Mesa County Real Estate Sales 2003-2007



	2003	2004	2005	2006	2007
Series1	6066	6479	7199	7241	6424

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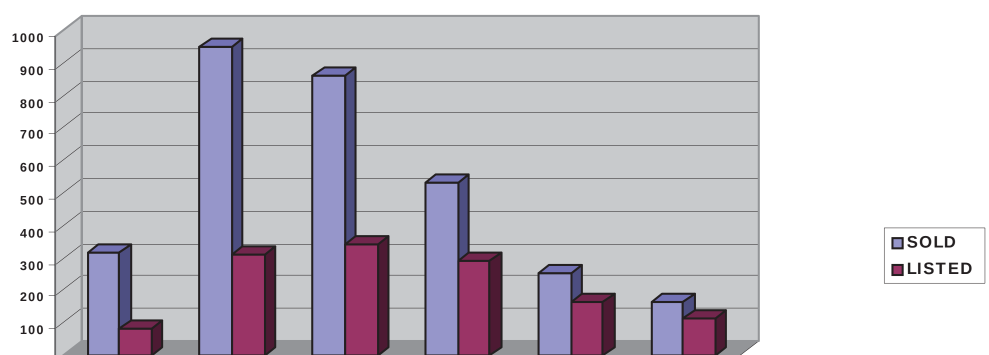
findings, but Zillow has reported an annual appreciation rate of 9.6% for the Grand Junction metropolitan area. This is a 12-month running average. More telling is they report a quarter-to-quarter appreciation rate of –1.2%, an actual decline in housing values. In the short term, we expect to see a continuing downward price trend based on recent sales in Mesa County as the market adjusts to current conditions. Both OFHEO (Office of Federal Housing Enterprise Oversight) and Zillow reflect on the market as a whole. We drilled down to some market segments to see how different prices ranges performed over the last year. The graphs below depict information gleaned from the local Realtor MLS and compares sales for selected price ranges to the total inventory listed at the beginning of the year. To get a perspective, if 100 houses sold in a particular price range in 2007 and there are 100 houses currently listed, one would conclude that there is approximately a 12-month inventory if sales in 2008 continue at around the same pace as 2007. To calculate the number of months of inventory, one can use the formula:

(Current Inventory x 12) divided by Annual Sales

In the case of the $651,000 - $700,000 price range, there is a (32 x 12)/17 = 22.6 month inventory for houses. Conversely, there is only a 6.6-month inventory for the $251,000 to $300,000 house. The National Association of Realtors suggests, and it is supported by other economists, that nationally a six-month inventory is a balanced market between seller and buyer, neither having any market advantage in the offer and acceptance process when entering into a contract to purchase and sell a house. If this inventory index is in

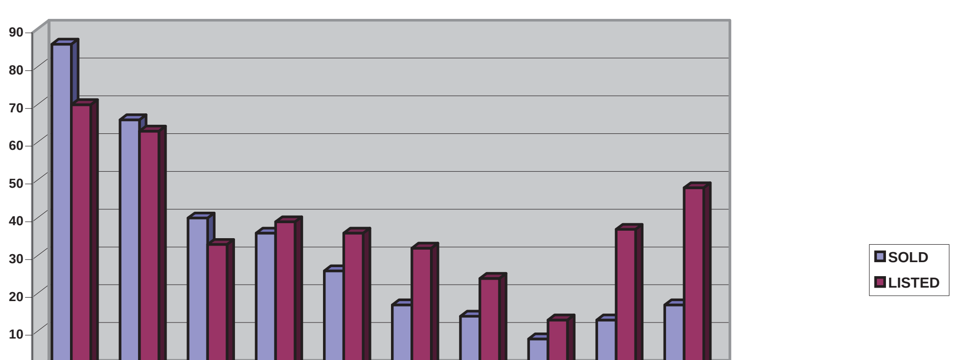
2007 House Sales v. Current Listings to $400,000



	<= 150	151 - 200	201 - 250	251 - 300	301 - 350	351 - 400
SOLD	316	949	860	529	252	164
LISTED	83	307	340	293	162	112

Price Ranges

2007 House Sales v. Current Listings Over $400,000



	401 - 450	451 - 500	501 - 550	551 - 600	601 - 650	651 - 700	701 - 750	751 - 800	801 - 1000	> 1000
SOLD	86	66	40	36	26	17	14	8	13	17
LISTED	70	63	33	39	36	32	24	13	37	48

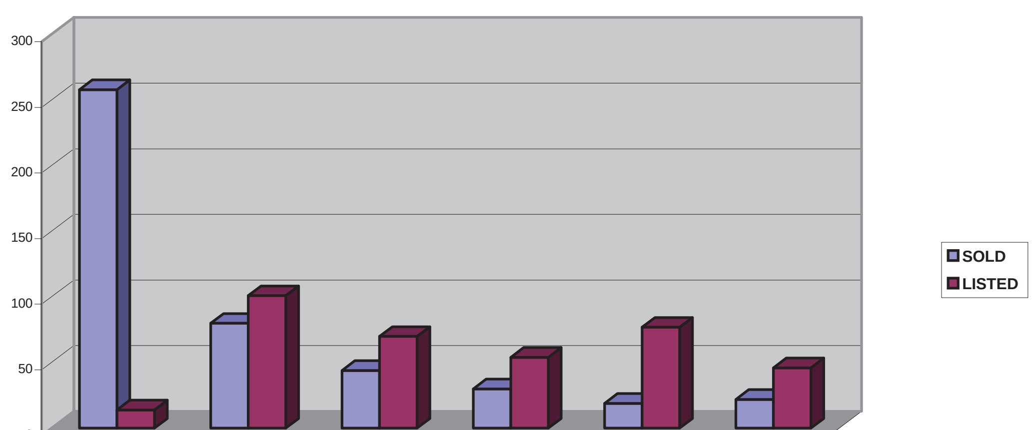
Price Ranges

the 4-month or less range, it depicts a strong seller's market and, conversely, inventory higher than 10 to 12 months tends to benefit buyers. To understand this inventory index "barometer", one needs to know that a 6-month's inventory is a balanced inventory and not the mid-point, and there are only 5 months fewer than a 6-month balance and countless months above that number. In other words, an 8-month inventory does not necessarily mean that that particular price range is in a strong buyer's market. Inventory graphs for both house and vacant residential lot sales are shown below.

It is clear from this information that housing prices above $400,000 will, on the average, experience marketing time that favors a buyer's offer price. In similar fashion, the number of residential lot listings, when graphed against 2007 sales, shows a certain price point of $225,000 above which marketing time extends substantially. There is no published inventory index "barometer" for residential lot sales. And since land developers often place all or most of newly platted lots on the market at the same time, the process of marketing residential lots, and hence marketing time, differs from single-family houses.

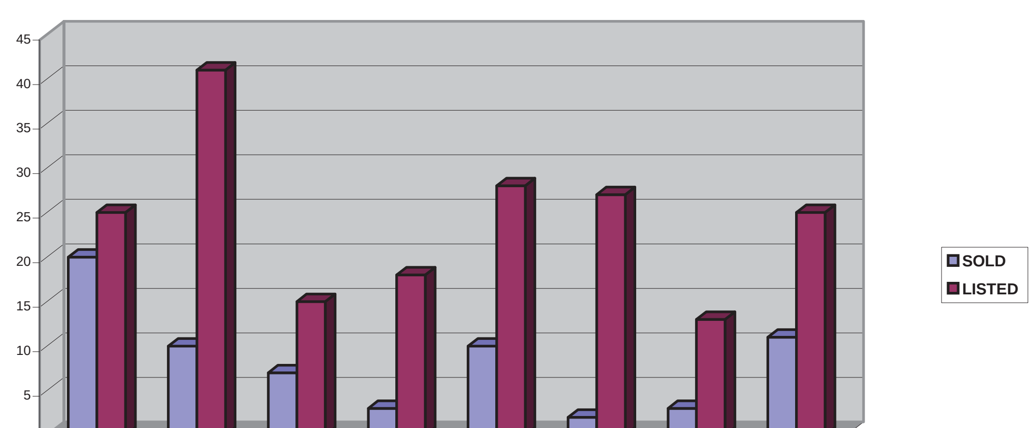
One way of measuring the effect of recently rising prices on the Mesa County is to look at an affordability index. This is a relationship between the median price of a house and the median income of a family. It takes into account current mortgage interest rates and a standard down payment for a house. Below is a graph and its data table, showing a comparison between Grand Junction, Denver, and the United States. A rating or 100 represents that a median income family can

2007 Residential Lots Sales ($200,000 and Under) v. Current Listings



	<75	76 - 100	101 - 125	126 - 150	151 - 175	176 - 200
SOLD	258	80	44	30	19	22
LISTED	14	101	70	54	77	46

2007 Residential Lot Sales (Over $200,000) v. Current Listings

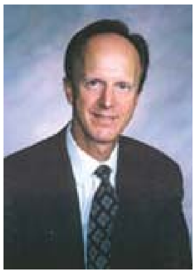


	201 - 225	226 - 250	251 - 275	276 - 300	301 - 350	351 - 400	401 - 500	> 500
SOLD	20	10	7	3	10	2	3	11
LISTED	25	41	15	18	28	27	13	25

afford a median priced house. Ratings below 100 mean that a family would require greater than the median income to afford a median priced house. What this shows is that Grand Junction housing ownership has become less affordable that Denver (2006) and now even the Unites States as a whole. So, although existing owners may have enjoyed a recent run-up on housing values, it has taken a toll on all people entering this market.

It is not surprising that single-family home building kept pace with sales of all real estate. Single-family permits issued in the fourth quarter declined 21% from the same period in 2006, from 290 last year to 229 in 2007. For the year, there were a total of 1306 SF permits issued, an 8.3% decline from the 1424 permits issued in 2006. The City of Grand Junction remains the primary location of single-family permits issued with 644 issued in 2007, followed by Mesa County with 388, Fruita with 248, and all other incorporated areas with 28.

So, given the recent trends in real estate sales and housing prices, population and job growth, and economic growth in the Grand Valley, what will this mean in 2008? The recent housing “stagnation” of a slowdown in sales while values quickly rose has ended and we have entered a period of housing price adjustment with wage and salary pressure upward. Jobs are still plentiful and that is the main thrust of any economy. People will simply have a tougher time finding affordable housing of any kind.



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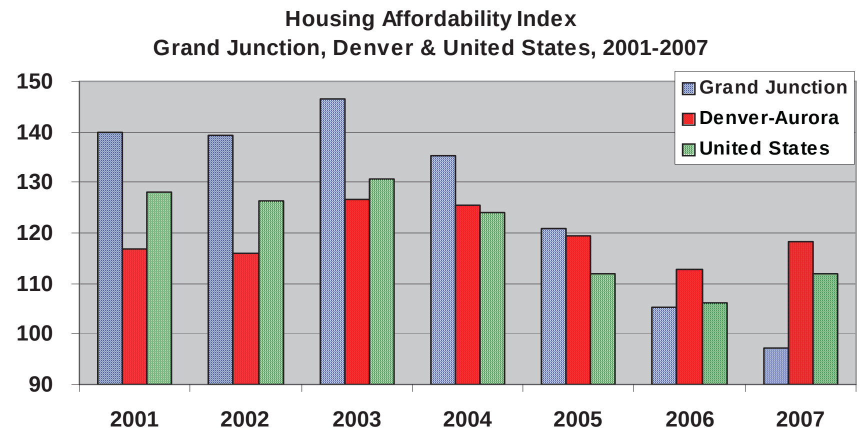
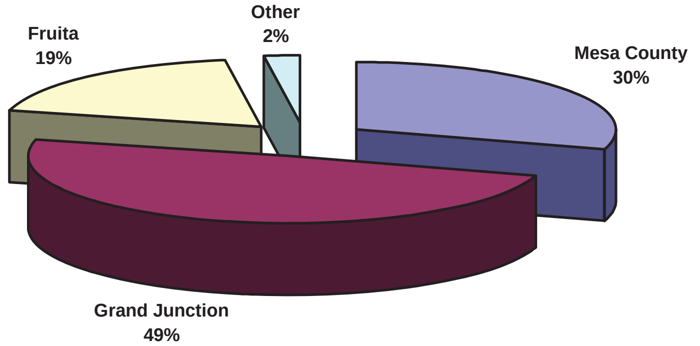


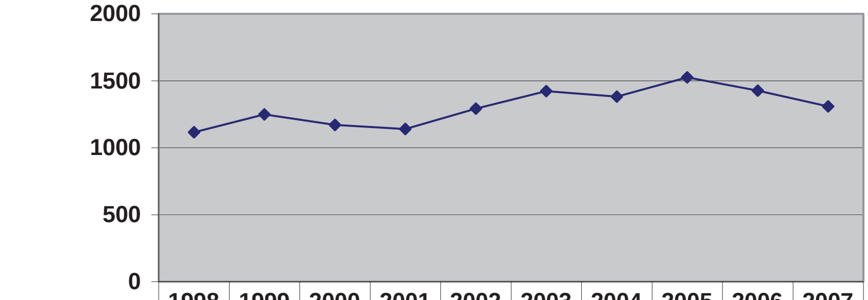
	Grand Junction	Denver-Aurora	United States
2001	140.0	116.7	128.1
2002	139.4	115.9	126.4
2003	146.6	126.6	130.7
2004	135.4	125.5	123.9
2005	121.0	119.5	111.8
2006	105.2	112.8	106.1
2007	97.1	118.1	111.8

Source: James Coil Research & Consulting LLC.

2007 Mesa County Building Permits



Annual Single-Family Permit Counts 1998 - 2008



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Series1	1115	1249	1170	1140	1292	1422	1381	1525	1427	1308

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