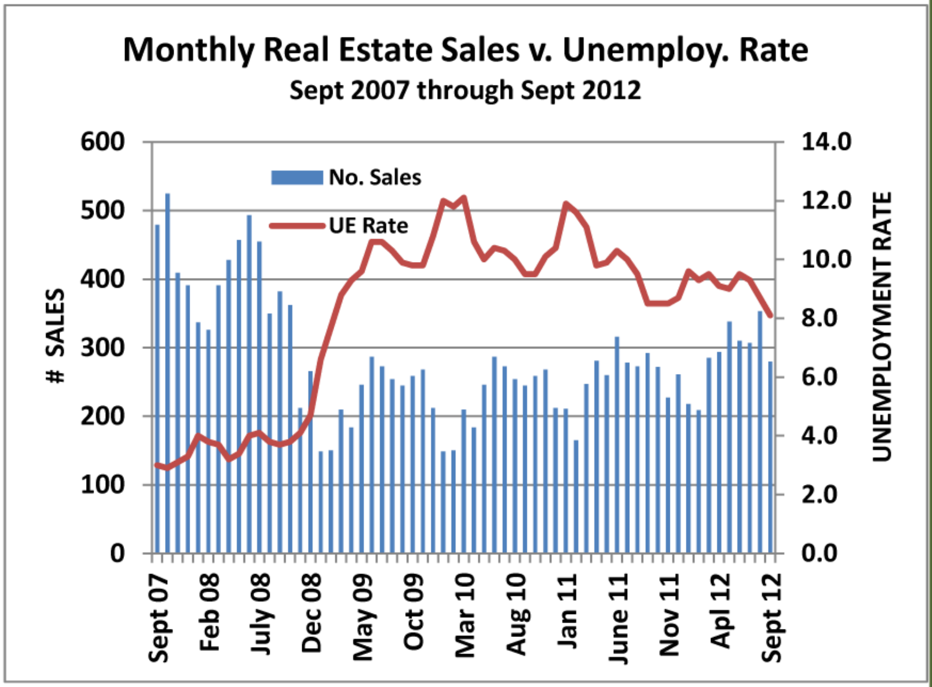
mesa county Real Estate REPORT

Real Estate Improves

Q3 2012

Real estate sales continued to improve for the 7th consecutive quarter from the recent low at the end of 2010. There were 940 sales in the 3rd quarter of this year, a healthy 11.5% advance quarter to quarter from 2011. For the year, there have been 2594 sales filed; 11.7% ahead of last year. The dollar volume of sales took a substantial 20% jump, from $154 million in the third quarter of 2011 to $185 million this quarter. For the year, dollar volume is 12% ahead, from $448 million last year to $503 million this year.



The reasons for the improvement are fairly straight forward. The total number of people employed in Mesa County has improved some 3085 since the beginning of the year, pushing the unemployment rate down to 8.1% in September from 9.6% at the beginning of the year. There is a historical correlation between real estate activity and the unemployment rate as shown on the graph above. Also, property values have been headed upward in the last two quarters giving potential buyers some incentive to jump into the market. In addition, investors are actively purchasing bargain priced houses as rentals to be a hedge against low returns in other areas of their investment portfolios. The Grand Junction area real estate market appears to be poised to continue improvement as long as national trends or events do not override its progress.

Property Values Improve

There are a host of data providers that focus on home values, particularly since the housing crisis started in 2008 and loss of value has had a notorious effect on the financial soundness and flexibility of home owners. The most notable data providers are: Federal Housing Finance Agency (FHFA), Case-Shiller, CoreLogic, and Zillow. Each has a particular methodology and a different reason to exist. We have reviewed the current data from all four and there is no question that prices are improving in the Grand Junction metropolitan area. Of this four, we find the methodology of Zillow still to be the most compelling for a view of the market as a whole, but not necessarily for any particular property. The Zillow Home Price Index shows improvement of 0.5% quarter over quarter and 4.3% year to date over last year. The progress of housing prices reported by Zillow correlates very closely to the increase in the median price of housing reported by the Realtor's MLS system.

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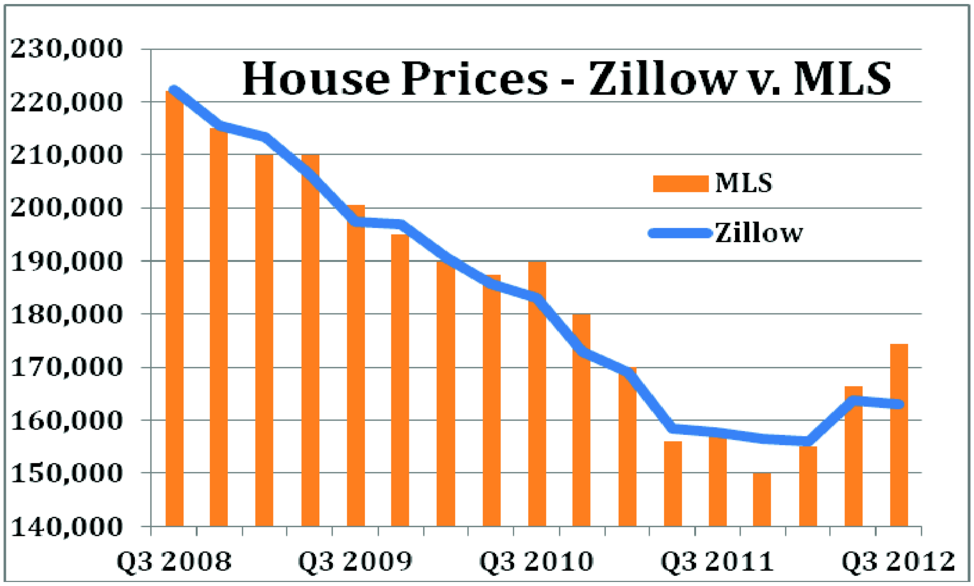
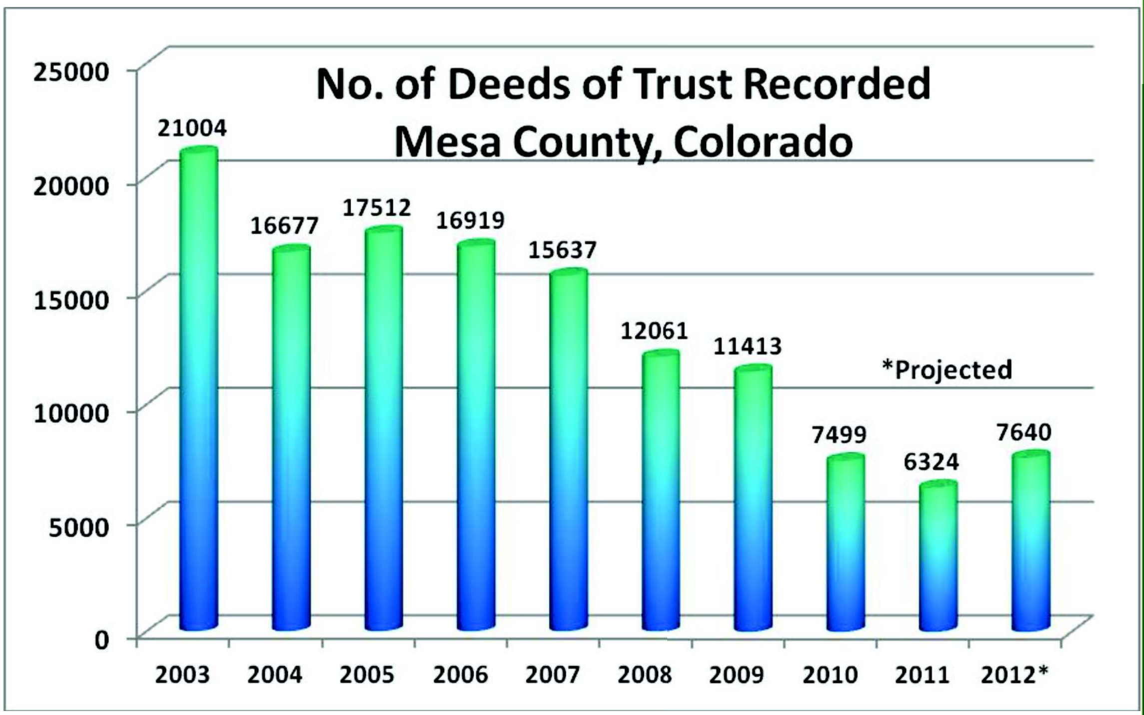


A good portion of the increase in housing prices is based on a declining inventory, particularly in the lower price segments. Low and moderate priced houses are selling in the 3 - 4 month time period on average. The time period to market higher priced houses still favors the purchaser but that trend should change in 2013. Improvement in housing (and all other types of real estate) prices should start to make the appraisal process better for lenders who have struggled in the past few years with valuations of real estate. Appraisers have been criticized, whether valid or not, by the federal government, legislators, and lending industries since the housing bubble burst. A clear market direction in prices should make appraisals more definitive and assist in the orderly transfer of real estate titles.

Lenders are experiencing a slightly improved market in all types of lending. Projected for the year, lenders should see a 20% increase in their activity from last year. The first increase since 2005.



Construction lending, as a segment of all lending, is also projected for an increase this year. We expect to see nearly 90 such loans this year, on par with 2010 and up 22% from last year. This is still far below the 882 construction loans filed in 2005 and is indicative of the reduced levels of new home construction since the housing crisis began. Also, some financing for new construction is coming from private lending sources and do not appear as construction loans in the public record.

Home building has improved each quarter over quarter this year with 86 single family permits pulled in the third quarter versus 76 permits in the 3rd quarter of 2011. For the year, There have been 293 permits issued, a 38% increase over the 213 issued in the first 9 months of last year.

Foreclosures filed with the Public Trustee continue to slowly, but erratically on a month to month basis, decline since the high point in December of 2009 when 201 were filed. They are still at a level more than double of what would be considered normal for this market. Likewise, foreclosure sales are slowly receding from its high point in the second quarter of 2010. If employment numbers continue to improve, we expect foreclosures to dwindle. This process is likely to take until 2015 according to a Federal Reserve report.