

STRATEGIC RESEARCH

Semi-Annual Colorado Springs Single Family Housing Market (With Data through the 1st Quarter of 2010)

May 2010

The Colorado Springs Housing Market.....

“Go-go, No-go, Slow-go.....”

Prepared by
David Bamberger & Associates

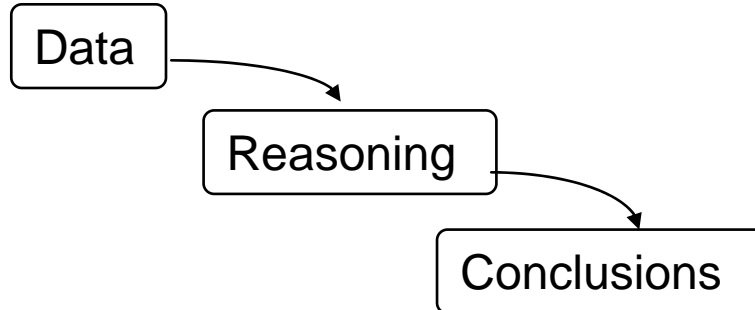
FINAL REPORT

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Peer into the future before it becomes the present



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Introduction

Introduction

This report presents an analysis of the Colorado Springs single family housing market. This is the 18th year in a row that we have published an in-depth analysis of the single family market. The report is designed to provide insight into current industry trends and to draw conclusions about where the market is likely to go in 2010 and 2011.

The report is updated and published twice a year -- in early May, with data through the 1st quarter, and in early November, with data through the 3rd quarter.

This report continues our partnership with Metrostudy, a national supplier of builder and developer survey data. Metrostudy conducts on-going data collection and publication of a variety of data on home construction, new home sales, shopper traffic, lot entitlement and development activity in a large number of market areas throughout the country, including Denver and Colorado Springs.

This report reflects our attempt to provide more timely data. The report includes data through the 1st quarter of 2010. Much of the data was released within the past several weeks.

Methodology

The data contained in this report came from a number of sources, including both published data and proprietary surveys. In addition to the data supplied by Metrostudy, a large amount of published statistical data, including employment, housing production, resale home sales and prices is compiled from several private and public sector sources. To supplement the hard data, we conducted interviews with a number of industry people to get their opinions and views about the market.

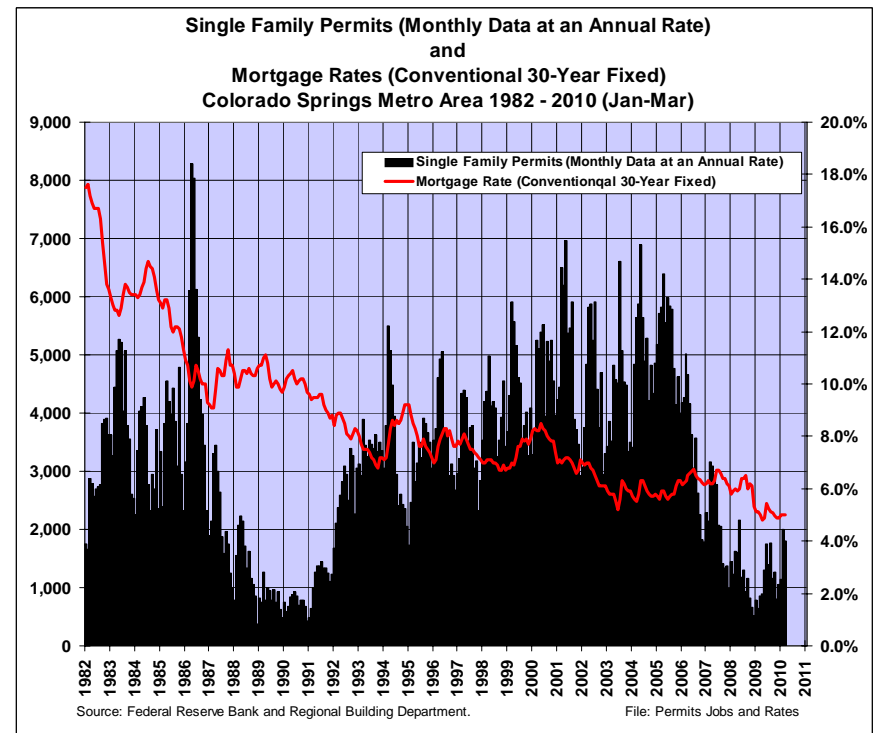
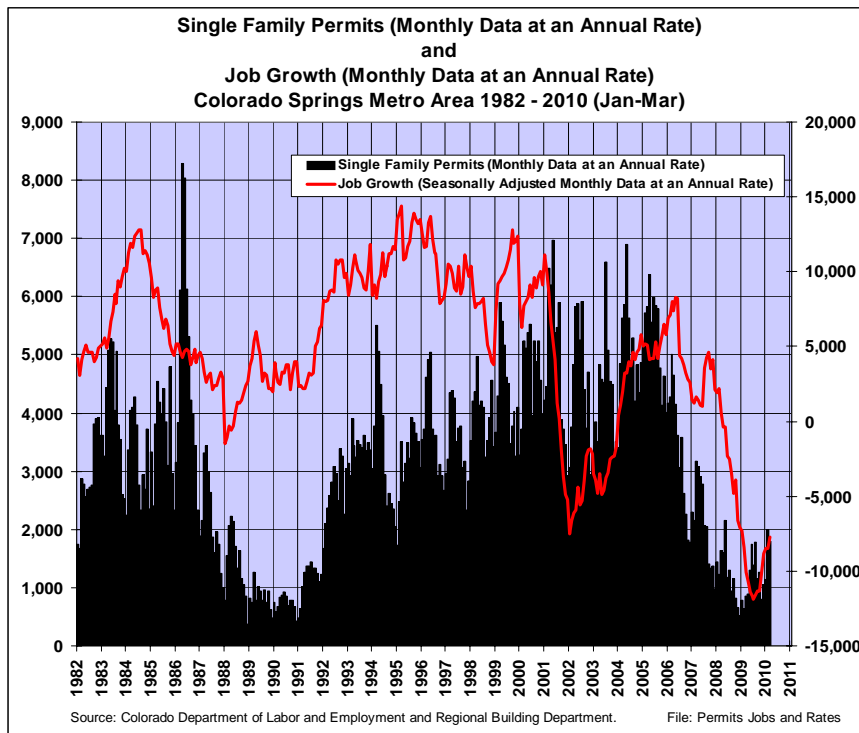
Many of our conclusions are based on an analysis using several quantitative models we have developed over the past 18 years. As our information base grows, our models are updated and our knowledge of how the local economy and housing markets work is improved, we hope.

Summary of Findings

The Colorado Springs single family housing market saw the bottom in 2009. However, job growth remains negative; foreclosures are at close to record highs; consumer and business credit remains tight; and mortgage rates are starting to climb; existing home values are still soft. On the up-side, the rate of job losses has declined; Fort Carson troop deployments have slowed; some builders are building specs; resale home inventories have dropped and sales of both existing and new homes have seen small gains over the past six months.

The question everybody is asking is... “How long will it take for the housing market to recover?” The answer is not clear; several key factors have to come together before the local single family market can recover and return to normal. They include the following....

- Continued thawing of the credit market freeze
- Increased local job and income growth
- Slowdown in mortgage foreclosures
- Continued low mortgage rates
- Return to normal credit underwriting standards
- Reverse the slide in housing values
- Increased consumer confidence
- Increased global and national economic growth



The big question is.... where will the local housing market go in 2010 and 2011? How long will it take for the Colorado Springs housing market to recover?

“The Longer Road Back” scenario - The US remains in a funk in 2010 and 2011.

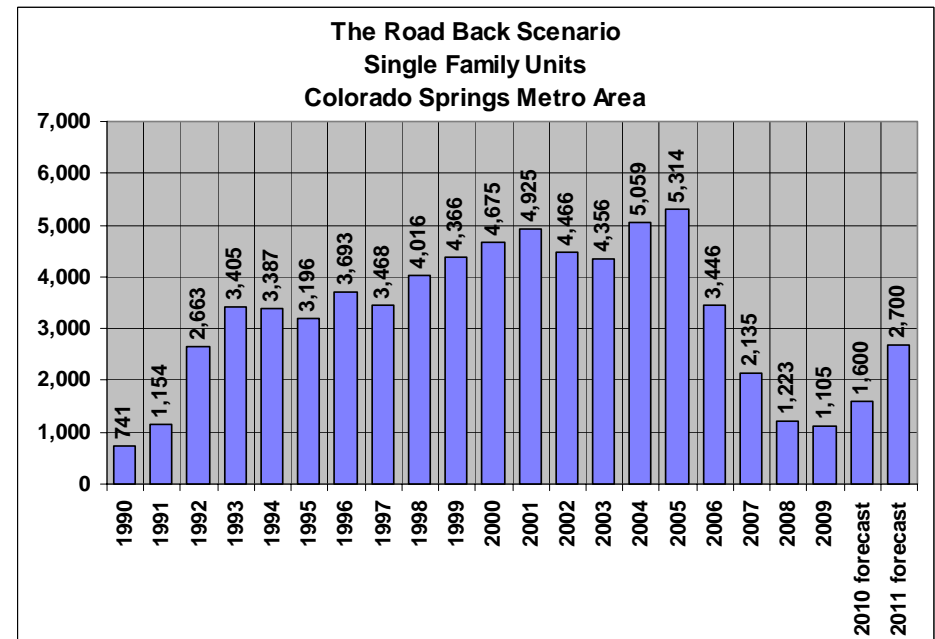
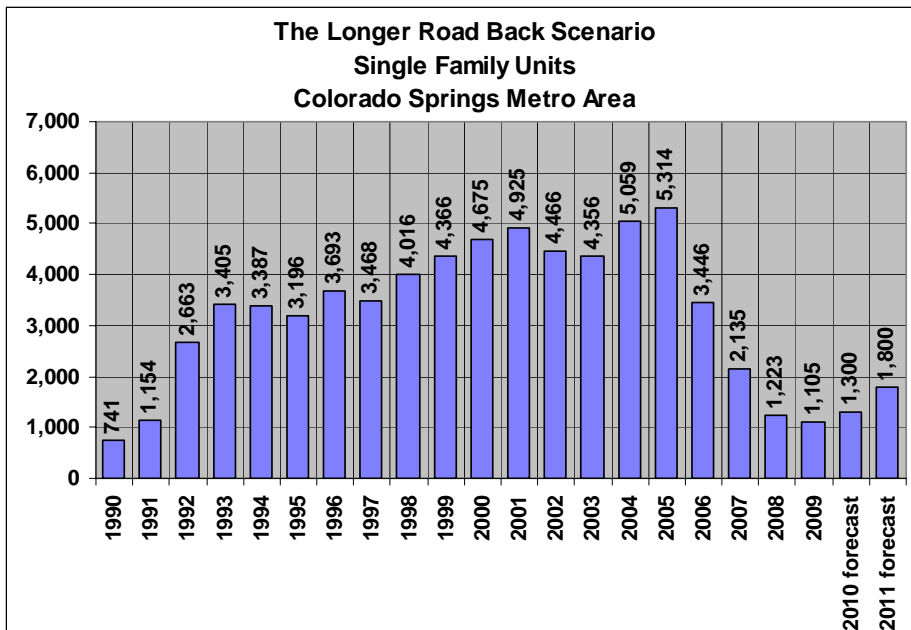
In 2010 the Colorado Springs economy follows the path set by the US economy and continues to wobble along at the bottom. Single family housing construction totals 1,300 in 2010.

In 2011 national and local economic activity picks-up only slightly. The local housing market sees only a little growth. Local single family housing construction increases to 1,800.

“The Road Back” scenario - The US economy sees recovery from the recession in 2010.

In 2010 the Colorado Springs economy follows the path set by the US economy and begins to see recovery. Single family housing construction increases to 1,600 in 2010.

In 2011 national and local economic activity gains momentum. The housing market starts to pick up in early 2011 and local single family housing construction jumps to 2,700.



Detailed Discussion of Findings

The US economy is starting on the long road back to recovery. The recession, which officially started in December 2007, has likely seen the bottom. But, the after-shock tremors are still being felt. Employers have started hiring, but unemployment remains very high. Consumer spending is seeing a slight upturn. Mortgage foreclosures continue at an alarming rate. Housing values are still in negative territory.

US Economy -- Looks like the recession is over!

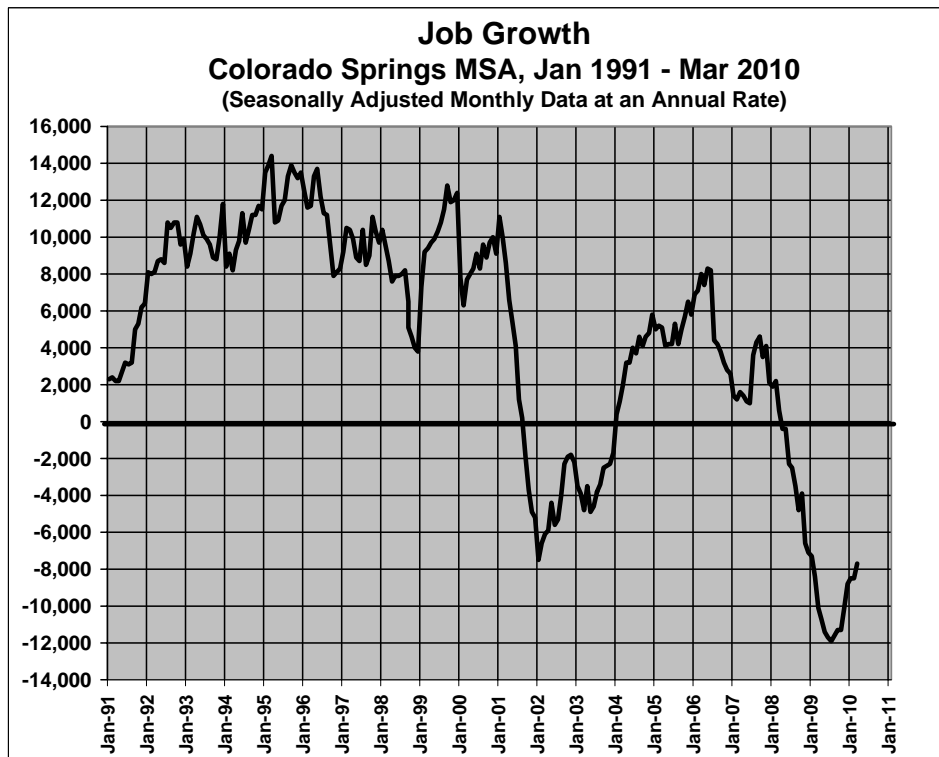
US economy – some good news, but full recovery is still a long way off.....

- Unemployment Rate 9.7% (1st qtr 2010)
- Job Growth +7,330 (1st qtr 2010)
- Gross Domestic Product +3.2% (annual rate % change 1st qtr 2010)
- Consumer Spending +1.6% (annual rate % change 1st qtr 2010)
- Housing Starts +10.4% (1st qtr 2010)
- Housing Values -1.2% (4th qtr 2009)
- Retail Sales +1.9% (1st qtr 2010)
- Foreclosures +7.0% (1st qtr 2010)
- Industrial Production +1.8% (1st qtr 2010)
- Euro to Dollar Exchange \$1.34 (4-19-2010, down from \$1.48 10-30-2009)
- Dow Jones Industrial Average 11,093 (4-19-2010, up 41.4% from 7,847 4-20-2009)
- CPI 2.4% (annual rate 1st qtr 2010)

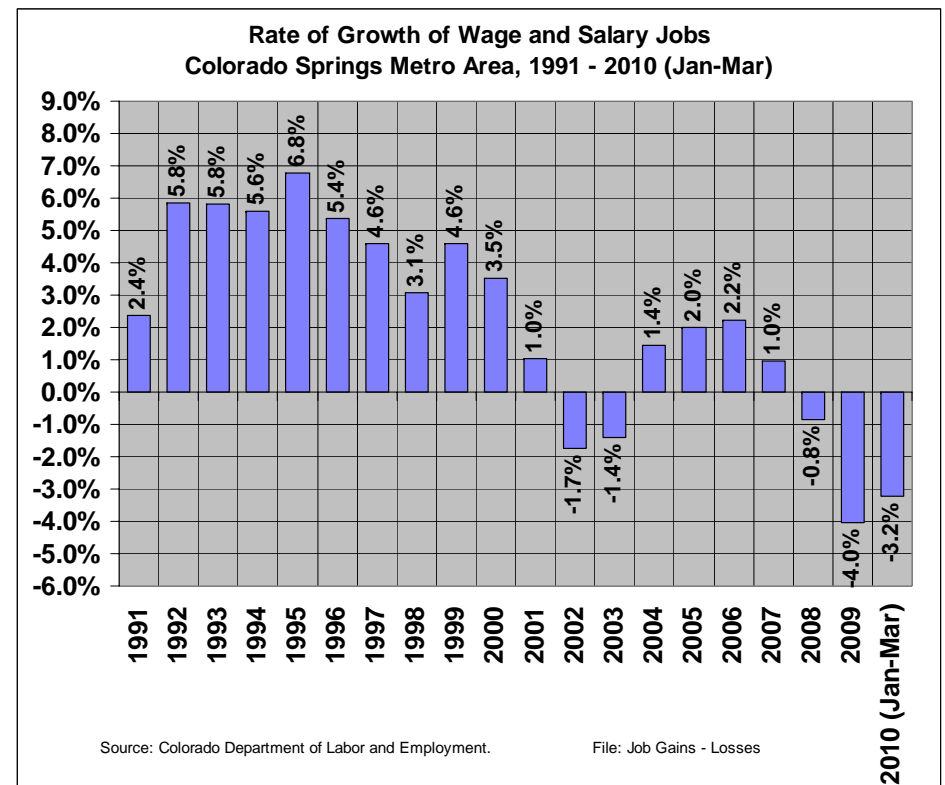
Looking ahead.... The Federal Reserve Bank predicts the US economy will see a slow recovery over the next several years. The ranges of the Fed's latest high and low forecasts are shown below:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
• GDP	2.3% to 4.0%	2.7% to 4.7%	3.0% to 5.0%
• Inflation	1.2% to 2.0%	1.0% to 2.4%	0.8% to 2.0%
• Unemployment	8.6% to 10.0%	7.2% to 8.8%	6.1% to 7.6%

Through the 1st quarter of 2010, job growth in Colorado Springs continued in negative territory. The good news is the rate of decline has slowed. Job growth, which is probably the single most important local economic indicator, fell -3.2% in the three months Jan – Mar 2010, after falling by a shocking 4.0% for the full year 2009. The Colorado Springs economy has lost over 20,000 wage and salary jobs since the start of the recession in December 2007. Colorado Springs will likely see total employment continue to decline this year, but at a slower rate than in 2009.



Source: Colorado Department of Labor and Employment and David Bamberger & Associates



Source: Colorado Department of Labor and Employment.

File: Job Gains - Losses

There is some good economic news through the 1st quarter. Many of the sectors in the local economy have started to turn around, but the hole the recession dug was very deep. While seeing positive gains, most sectors still have a long way to go to get back to levels experienced before the Great Recession started. The economic indicators presented on the following page tell a more complete story.

Key local economic indicators for the 1st quarter of 2010 show the bottom has been reached, but there is still a long way to go to get back to a normal level of activity. On the down-side, job growth continued its slide declining by -3.2%. New car and truck sales fell by -1.8%. The unemployment rate remained high at to 8.7%. On the up-side, taxable retail sales increased by 5.2%. Production of new for-sale homes, which includes single family, condos and townhomes, saw a big 84.6% gain. Announced primary job layoffs totaled only 117 and announced primary job expansion totaled 820. The apartment vacancy rate dropped to 6.9%.

**KEY ECONOMIC INDICATORS
COLORADO SPRINGS METRO AREA, 2001 to 2010 1st Qtr**

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 1st Qtr
Wage and Salary Employment (% Change)	1.0%	-1.7%	-1.4%	1.4%	2.0%	2.2%	1.0%	-0.8%	-4.0%	-3.2%
Unemployment Rate (%)	4.4%	6.4%	6.4%	5.7%	5.3%	4.9%	4.4%	5.7%	8.3%	8.7%
Announced Primary Job Layoffs	4,761	3,972	1,430	1,683	983	1,151	1,441	1,037	1,193	117
EDC Announced New Primary Jobs	1,110	2,050	1,233	2,038	2,460	2,087	2,462	1,280	2,046	820
New Car and Truck Sales (% Change)	-3.5%	-1.5%	-8.0%	7.2%	0.5%	-5.8%	2.4%	-17.8%	-25.5%	-1.8%
For-Sale Residential Construction (% Change)	5.2%	-4.7%	-1.3%	20.3%	8.3%	-34.5%	-33.3%	-44.8%	-16.3%	84.6%
Colorado Springs Taxable Retail Sales (% Change)	3.0%	-3.0%	-1.3%	7.7%	2.7%	3.2%	2.0%	-0.2%	-6.3%	5.2%
Apartment Vacancy 1st Qtr (%)	2.8%	9.1%	12.7%	12.3%	12.7%	10.6%	11.4%	9.0%	11.7%	6.9%

Source: Various published sources.

File: Indicators 2010 YTD

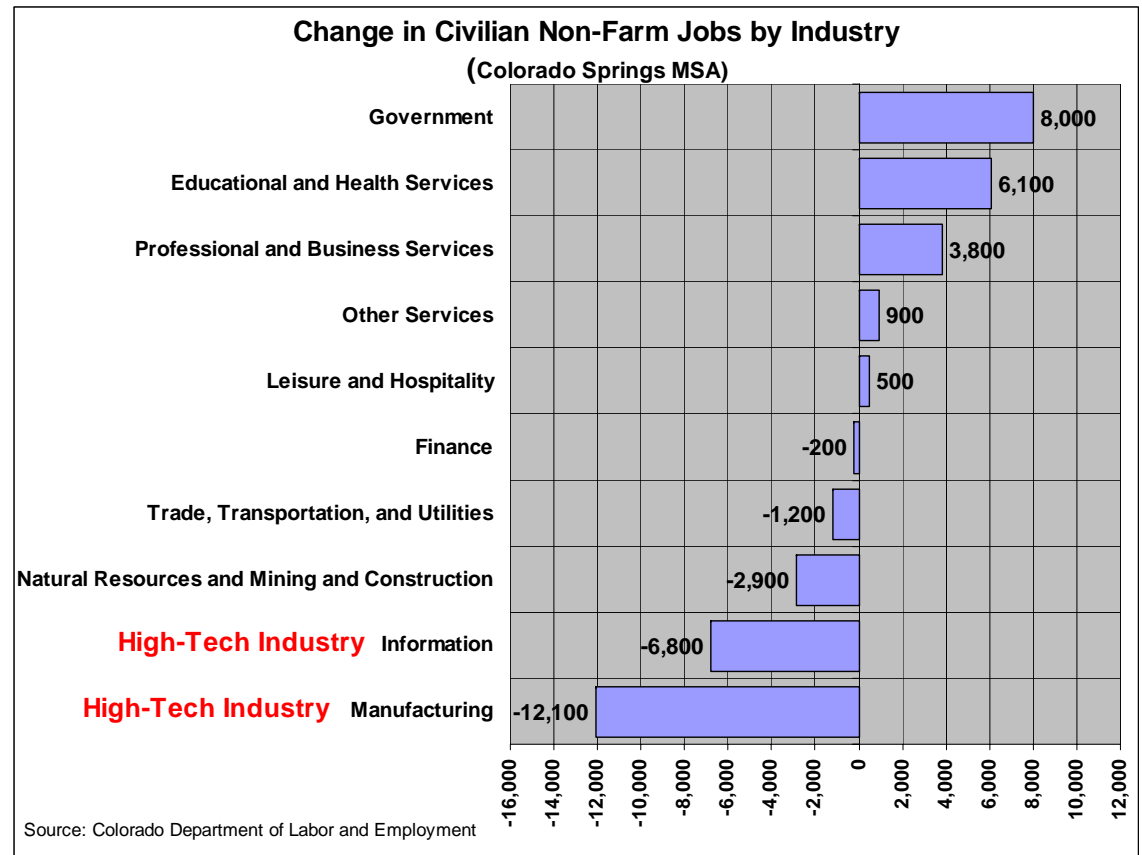
The economic base of Colorado Springs consists of a broad mix of industries. Key industries include high-tech manufacturing, software development, call centers, defense contractors, information processing, back office, Olympic sports, national associations and the military. Total civilian employment in these primary industries is estimated to be about 90,000 with military personnel adding about 32,000 to the total.

Primary jobs are a major driver of economic growth because they bring new dollars into the local economy. The new dollars support jobs at supermarkets, real estate offices, gas stations, home building companies and the like. Then, as the workers in these local industries spend their earnings, even more jobs are supported. Thus, primary industry activity has an expansive multiplier effect on the local economy.

Over the past decade the structure of the Colorado Springs economy experienced a seismic shift. Since 2001 the information and manufacturing sectors lost 18,900 jobs. At the same time the government sector grew by 8,000. Today, government is the local economy's largest employer, with 47,900 employees.

The Colorado Springs economy is currently struggling to find a new direction. The popping of the technology bubble and off-shoring of a significant number of local manufacturing jobs has eroded the high-tech manufacturing and information technology sectors, which for the past several decades have been main elements of the local economic base.

The Economic Development Corporation is playing a key role in re-inventing the local economy. EDC's target industries include: aerospace, defense, biotech, medical equipment manufacturing, data centers, homeland defense, national non-profits, national sports organizations, web-based IT firms, and specialty metals manufacturing. Much work needs to be done, however to shore up the local economic base.



Civilian Employment by Industry, Colorado Springs MSA, 2001-2009

Industry	2001	2009	Change
Manufacturing	25,500	13,400	-12,100
Information	13,700	6,900	-6,800
Natural Resources and Mining and Construction	16,600	13,700	-2,900
Trade, Transportation, and Utilities	39,200	38,000	-1,200
Finance	16,000	15,800	-200
Leisure and Hospitality	29,100	29,600	500
Other Services	13,800	14,700	900
Professional and Business Services	36,400	40,200	3,800
Educational and Health Services	22,100	28,200	6,100
Government	39,900	47,900	8,000
Total	252,300	248,400	-3,900

Source: Colorado Department of Labor and Employment

The Economic Development Corporation announced the expansion and/or relocation of 4 companies and 820 primary jobs in the first three months of 2010. The largest announcement was Everest On-line University, a call and internet center with 600 jobs. In 2009 new primary jobs announced totaled 14 employers and 2,046 jobs.

Recent research on EDC job announcements and actual job creation found the following:

1. It takes about five years after the initial announcement for new primary employers to reach their peak in employment.
2. After a new employer reaches its peak employment, the firm's total number of jobs is about 4% more than the initial announcement.

**Announced New Primary Jobs
Economic Development Corporation Assisted Projects, 2008 and 2009 (Jan-Mar)**

Company	Jobs Announced	Type of Business
2009 Announcements		
WP Aerospace, Inc.	30	Aerospace & Defense - Headquarters
Ranch Hand Truck Accessories	10	Distribution - Truck Accessories
CodeBaby	500	Information Technology / Headquarters - Computer Graphics
Jabil, Inc.	15	Information Technology - Electronics Design
NEK	80	Homeland Defense - Headquarters -
Hewlett Packard	10	Information Technology - Data Center
FirstSource Solutions, Ltd.	150	Information Processing - Collections
FedEx Services Corporation	68	Information Technology - Data Center
Affiliated Computer Services Inc. (ACS)	600	Information Processing - Customer Care
Association of Gospel Rescue Missions	6	Headquarters - Non Profit
Unnamed	500	Information Processing - Customer Care
Billet Racing Products	10	Headquarters / Manufacturing - motorcycle products
Convergent Performance, LLC	30	Information Technology - Consulting and Training
Alliance Financial Partners	37	Headquarters - Financial
Total	2,046	
2010 (Jan - Mar) Announcements		
ARES Corporation	10	Aerospace & Defense - R & D
Auxsol, Inc.	10	Engineering & R&D - Oil and Gas Technology
USAA	200	Customer Service - Financial and banking services
Everest On-Line University	600	Customer Service - Admissions Center
Total	820	

Source: EDC

File: EDC - Ann + Layoffs 2009 and 2010 Jan-Mar

In the first quarter of 2010 primary job lay-off announcements totaled only 117. The largest announced layoff was Ford Motor Credit, with layoffs totaling 80 jobs. In 2009 announced primary layoffs totaled 18 employers and 1,193 jobs.

**Announced Layoffs
Colorado Springs Metro Area, 2009 and 2010 (Jan-Mar)**

Company / Organization	Line of Business	Employees Announced for Layoffs	High-Tech	Close Local Operation
Announced Layoffs 2009				
Direct Checks Unlimited	Printing Operation	100	No	No
Sun Microsystems	Data Storage	2	Yes	No
Direct Checks Unlimited	Fulfillment Operations	99	No	No
Western Forge	Manufacturer - Tools	75	No	No
David C. Cook	Christian Materials Publisher	29	No	No
Sturman Industries	Research and Development	16	Yes	No
Center for Creative Leadership	Coaching and Developing Leaders	12	No	No
Ramtron International Corp.	Semiconductor Manufacturing	8	Yes	No
US Olympic Committee	Olympic sports Headquarters	43	No	No
NavPress	Christian Publisher	9	No	No
T.Rowe Price	Financial Customer Service	44	No	No
Coast IRB (closure)	Independent Review Board	50	No	No
Atmel Corporation	Semiconductor Manufacturing	266	Yes	No
Tech for Less, LLC	Online Sales of Electronic Equipment	35	No	No
ARINC	Maintenance Facility	20	No	No
Sun Microsystems	Data Storage	5	Yes	No
Focus on the Family	Marketing	75	No	No
Sun Microsystems	Data Storage	1	Yes	No
El Paso Corp.	Technical & Support Staff	45	No	No
Deluxe Corporation (closure)	Call Center	225	No	Yes
TOTAL		1,193		
Announced Layoffs 2010 (Jan - Mar)				
Boeing Company	Aerospace & Defense	30	Yes	No
Western Horseman, Inc.	Magazine Publisher	7	No	Yes
Ford Motor Credit	Customer Service	80	No	No
TOTAL		117		

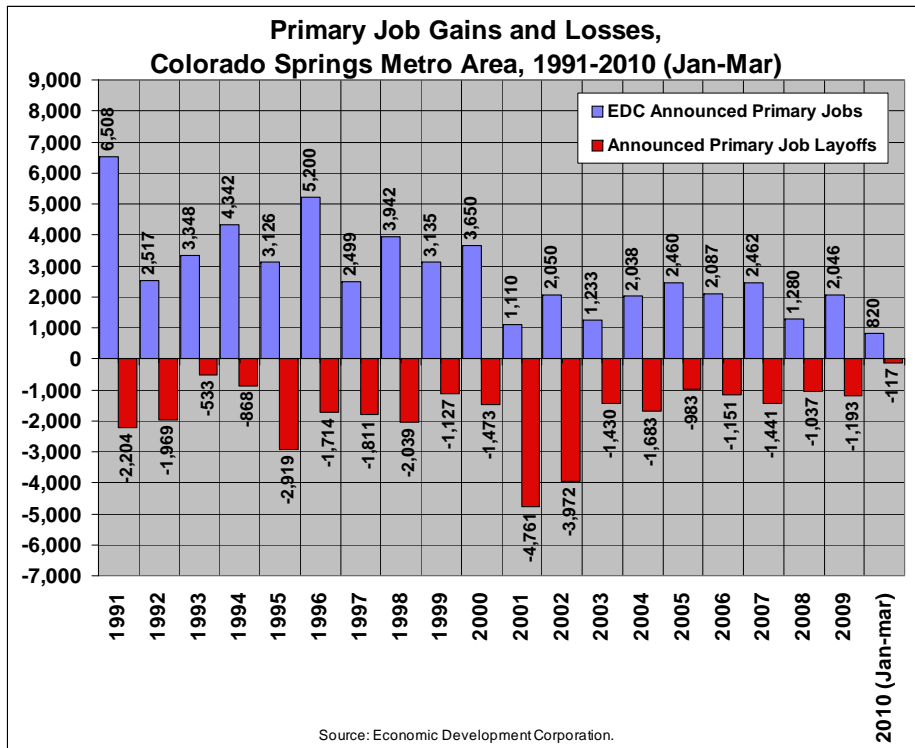
Source: EDC

File: EDC - Ann + Layoffs 2007-2008 Jan-Oct

During the decade of the 1990s primary job announcements were much higher than primary job losses. This all changed in 2001 with the national recession and all the economic problems that occurred over the next several years. Plant closings, corporate downsizing and the lack of corporate expansions caused a steep rise in layoffs and a big drop in announced new jobs. The net of announced primary job gains and losses went negative in 2001 and remained negative through 2003.

Higher job announcements and lower announced layoffs over the past several years have produced positive job growth arithmetic. In 2007 the net was +1,021, but dropped to only +243 in 2008, then increased to 853 in 2009. Through the 1st quarter of 2010 the net was 703, a good start for the year.

It is clear that the local economy still has a way to go to meet the net primary job growth seen in the decade of the 1990s, when primary job announcements averaged 3,822, announced layoffs averaged 1,566 and net announced primary job growth averaged 2,256 per year.



**Primary Job Gains and Losses
Colorado Springs Metro Area, 1990-2010 (Jan-Mar)**

Year	Total Wage and Salary Jobs	Change in Wage and Salary Jobs	% Change in Wage and Salary Jobs	EDC Announced Primary Jobs	Announced Primary Job Layoffs	Net Announced EDC Jobs and Layoffs
1990	157,000					
1991	160,700	3,700	2.4%	6,508	2,204	4,304
1992	170,100	9,400	5.8%	2,517	1,969	548
1993	180,000	9,900	5.8%	3,348	533	2,815
1994	190,100	10,100	5.6%	4,342	868	3,474
1995	203,000	12,900	6.8%	3,126	2,919	207
1996	213,900	10,900	5.4%	5,200	1,714	3,486
1997	223,700	9,800	4.6%	2,499	1,811	688
1998	230,600	6,900	3.1%	3,942	2,039	1,903
1999	241,200	10,600	4.6%	3,135	1,127	2,008
2000	249,700	8,500	3.5%	3,650	1,473	2,177
2001	252,300	2,600	1.0%	1,110	4,761	-3,651
2002	247,900	-4,400	-1.7%	2,050	3,972	-1,922
2003	244,400	-3,500	-1.4%	1,233	1,430	-197
2004	247,900	3,500	1.4%	2,038	1,683	355
2005	252,900	5,000	2.0%	2,460	983	1,477
2006	258,500	5,600	2.2%	2,087	1,151	936
2007	261,000	2,500	1.0%	2,462	1,441	1,021
2008	258,800	-2,200	-0.8%	1,280	1,037	243
2009	248,400	-10,400	-4.0%	2,046	1,193	853
2010 (Jan-Mar)	240,100	-8,300	-3.3%	820	117	703
Total		83,100	52.9%	55,853	34,425	21,428
Annual Average		4,317	2.8%	2,901	1,788	1,113

Source: Colorado Department of Labor and Employment, the Gazette and the Economic Development Corporation.
File: Jobs Gains - Losses Net Jobs

The military makes up a significant part of the Colorado Springs economic base. Total employment at the four military bases is 54,914, including 34,082 military personnel and 20,832 civilian workers.

Employment on local military bases amounts to about 19% of total jobs in the Colorado Springs area. As a footnote, these figures include an estimated 8,000 soldiers deployed to the Middle East, but do not include about 4,700 cadets at the Air Force Academy.

Over the past several years Fort Carson saw significant expansion. The number of assigned soldiers increased from about 17,000 in 2007 to 24,300 today. The increase of more than 7,000 troops was accompanied by new construction of family housing, warehouse space, office buildings, group quarters, new roads and utilities infrastructure totaling over one billion dollars.

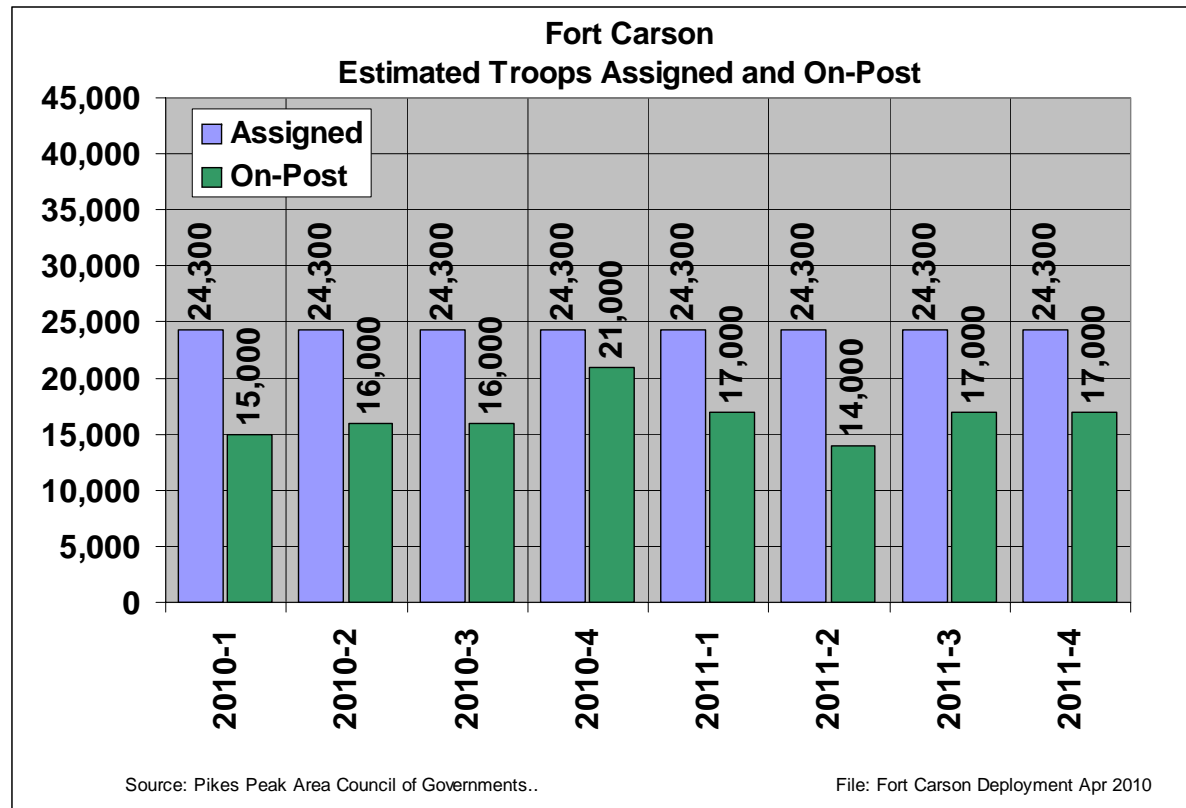
Deployment of troops from Fort Carson to Iraq and Afghanistan continue to soften the impacts of the recent expansion. Estimates from the Pikes Peak Area Council of Governments show the number of troops on-post will range from about 16,000 today to a high of 21,000 and a low of 14,000 over the next several years.

**Military Base Employment
Colorado Springs Metro Area, 2010**

Base	Military Personnel Assigned	Civilian Employees	Total
Fort Carson	24,300	5,610	29,910
Peterson AFB	5,484	5,743	11,227
Air Force Academy	2,078	3,605	5,683
Schriever AFB	2,220	5,874	8,094
Total	34,082	20,832	54,914

Source: Colorado Springs Chamber of Commerce and local military bases

Note: Does not include 4,400 AFA cadets, but includes military personnel on deployment.



Population in the Colorado Springs metro area (El Paso County) was estimated to be 604,540 as of July 2009. Population grew by 1.4%, adding an estimated 8,400 people between mid-year 2008 and mid-year 2009. Natural increase accounted for 5,750 of the gain and net migration accounted for 2,740 of the gain.

Over the long term, population in the Colorado Springs metro area has increased at a rate of 2.4% per year. An estimated 53% of the increase was due to natural increase and 47% was due to net migration.

Population reached 500,000 in the late 1990s, putting the “Springs” on the map as a major city. The metro area saw population top 600,000 in 2009. Expansion at Fort Carson added to the increase, but the recession and job losses causing people to move away mitigated some of the gains. Long term projections indicate that population in the Colorado Springs metro area is expected to grow annually at a rate of about 1.5% to 2% in future years.

**Components of Population Growth
Colorado Springs Metro Area, 1970-2009**

Year	Population	Change	Annual Percent Change	Births	Deaths	Natural Increase	Net Migration
Decade							
1970	240,100						
1980	312,600	72,500	2.7%	56,324	15,748	40,576	31,924
1990	397,500	84,900	2.4%	69,412	19,009	50,403	34,497
2000	519,436	121,936	2.7%	76,506	24,591	51,915	70,021
Annual							
2001	535,556	16,120	3.0%	8,358	3,023	5,335	10,785
2002	544,862	9,306	1.6%	8,714	3,137	5,577	3,729
2003	551,252	6,390	1.2%	8,441	3,218	5,223	1,167
2004	558,896	7,644	1.4%	8,247	3,383	4,864	2,780
2005	567,416	8,520	1.4%	8,560	3,251	5,309	3,211
2006	579,930	12,514	2.2%	8,645	3,435	5,210	7,304
2007	586,076	6,146	1.1%	9,182	3,264	5,918	228
2008	596,053	9,977	1.7%	9,136	3,457	5,679	4,298
2009	604,542	8,489	1.4%	9,246	3,498	5,747	2,742
Totals							
Totals		364,442		280,771	89,014	191,756	172,686
Percent		100%				53%	47%

Source: 1970-2008 Bureau of the Census.

File: Population Growth

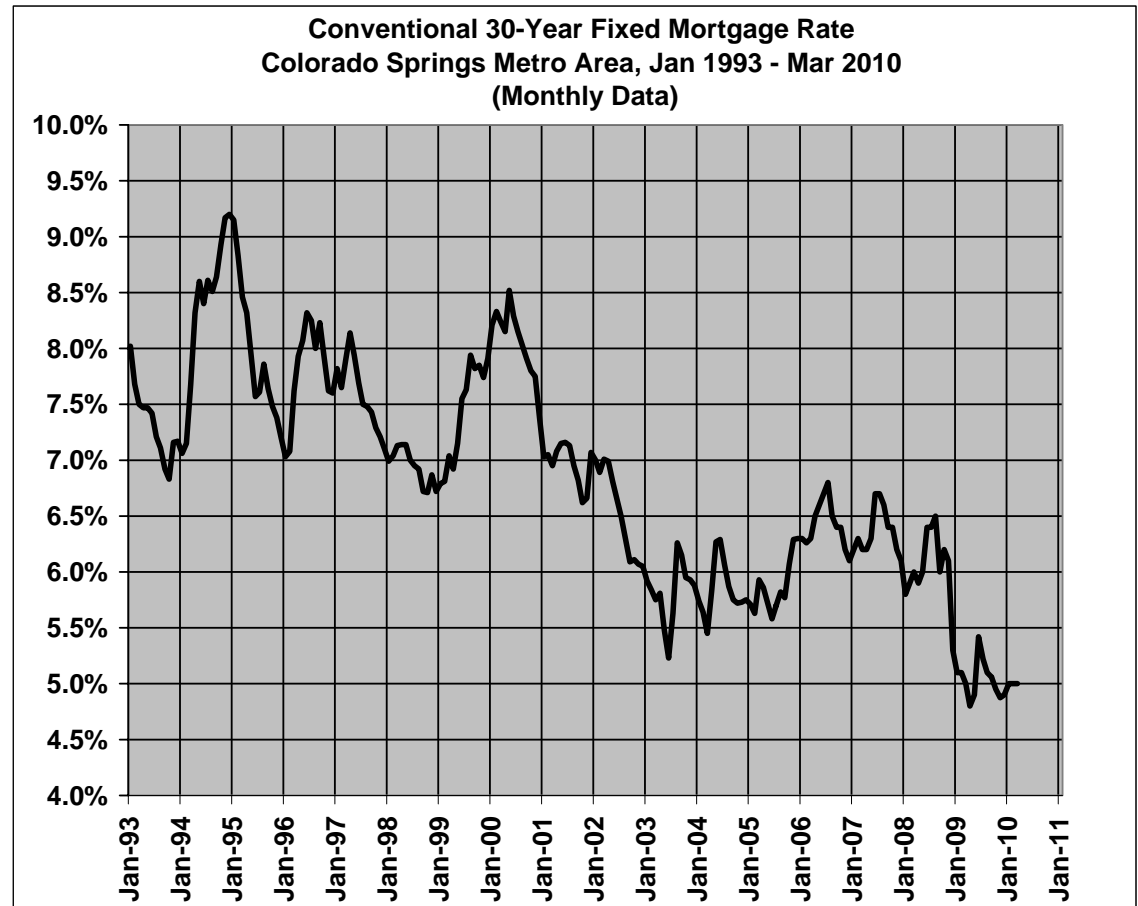
Note: Population for 1970 - 2000 is April 1. Population for 2001-2009 is July 1.

Mortgage rates fell to record lows in early 2009, rose in mid-2009, then fell by year-end, but started to rise in the first quarter of 2010. The rate for a conventional 30-year fixed rate mortgage mid-April 2009 was 5.1%, up from about 4.8% at the low in 2009.

Mortgage rates are expected to continue to rise over the next several years. There are two primary reasons.

1. **The Federal Reserve Bank stopped buying mortgage-backed securities at the end of March 2010.** The Fed bought more than 80% of newly issued mortgage bonds over the past year. The market for mortgage backed-securities now must target private investors, investors who are more risk averse than the Fed. To compensate for the perceived risk of new mortgages, investors are demanding substantially higher interest rates.

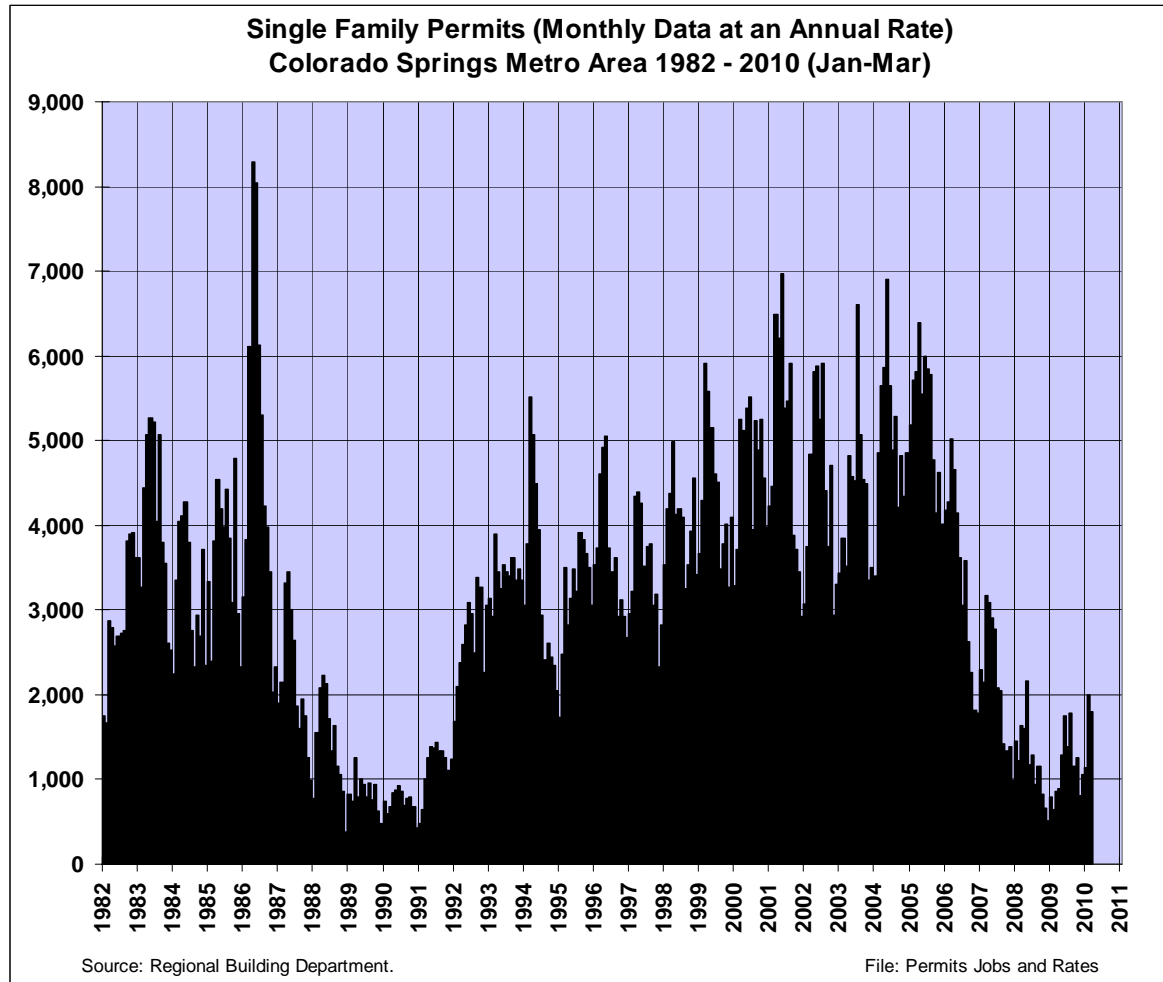
2. **The Treasury Department is challenged by the need to finance the growing federal deficit.** With an increasing supply of Treasury bonds and the number of buyers, such as the Chinese, declining, the price of bonds will likely fall and their yields (interest rate) will rise. By just how much and when is uncertain, but the direction is almost a sure thing. Remember, movements in the 30-year fixed-rate mortgage are closely correlated with movements in the 10-year Treasury rate.



Source: Federal Reserve Bank

New single family home construction in the first three months of 2010 totaled 411 units, an increase of 116.3% compared to the same period of 2009. This is certainly good news and shows the bottom was likely reached in 2009. The question is...how long will it take for the market for new homes to fully recover? It will be a long hard climb to get back to a 3,000 to 4,000 unit market, which has been the historic norm.

Single Family		
Year	Permits (Units)	% Change
1985	3,640	13.1%
1986	4,688	28.8%
1987	2,170	-53.7%
1988	1,410	-35.0%
1989	844	-40.1%
1990	741	-12.2%
1991	1,154	55.7%
1992	2,663	130.8%
1993	3,405	27.9%
1994	3,387	-0.5%
1995	3,196	-5.6%
1996	3,693	15.6%
1997	3,468	-6.1%
1998	4,016	15.8%
1999	4,366	8.7%
2000	4,675	7.1%
2001	4,925	5.3%
2002	4,466	-9.3%
2003	4,356	-2.5%
2004	5,059	16.1%
2005	5,314	5.0%
2006	3,446	-35.2%
2007	2,135	-38.0%
2008	1,223	-42.7%
2009	1,105	-9.6%
2009 (Jan-Mar)	190	-47.1%
2010 (Jan-Mar)	411	116.3%

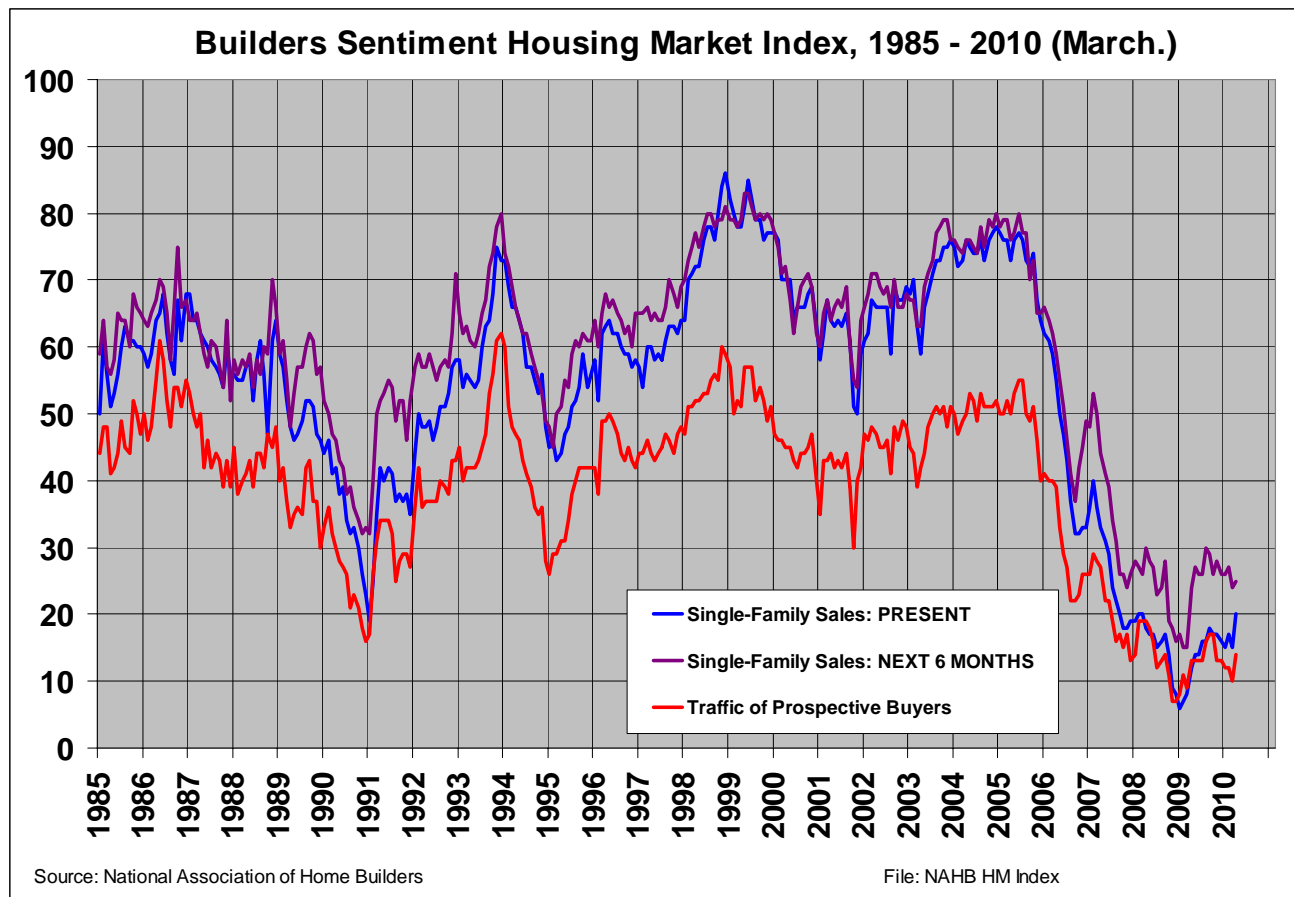


Source: Regional Building Department
File: Housing Time Series/Summary

Housing markets are local markets but there are many linkages to the outside world that can have a significant impact on local buyer expectations, construction and mortgage financing, builder confidence, material prices, etc. The forces causing the current downturn in the US housing market have affected markets throughout the country. Colorado Springs was not immune to the national downturn in housing.

The National Association of Home Builders Housing Market Index, based on a national survey of builders, shows a big decline in builder confidence since 2005. The melt-down of credit markets and the bad economic news pushed builder confidence down to a record low in early 2009. It rose some since then but has a long way to go to return to normal.

Most economists are predicting that the US housing market will not see the bottom until 2010. There is still an overhang of both new and resale homes on the market in many parts of the country. The continued increase in foreclosure activity in 2010 will add to the overhang. Housing values continue to decline in most parts of the country. Values must stabilize before new home construction can get on track.



What is the NAHB's Housing Market Index? The index is based in a national monthly survey of builders conducted by the NAHB Economics staff. The HMI measures builder perceptions of current single-family home sales and sales expectations for the next six months as either "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as either "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view sales conditions as good than poor.

Single family detached homes continue to make up the largest share of the new home market in the Colorado Springs metro area. Since 1999 single family production has made up 74.1%, townhomes and condos made up 13.3% and apartments 12.6% of new home permits.

**New Housing Permits Issued (Housing Units)
Colorado Springs Metro Area, 1999-2010 (January-March)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Jan-Mar)	Total / Average
Units Permitted													
New Single Family Housing (Detached)	4,366	4,675	4,925	4,466	4,356	5,059	5,314	3,446	2,135	1,223	1,105	411	41,481
New Town Houses (Attached)	221	301	327	440	477	715	927	681	542	321	202	52	5,206
New Duplex	14	12	6	32	39	26	33	20	10	2	18	4	216
New Condominiums	192	149	145	212	211	316	349	192	207	51	12	0	2,036
New Three and Four Family Buildings	80	44	82	54	22	8	4	15	8	0	0	0	317
New Five or More Family Buildings	1,068	1,105	1,626	1,609	197	352	127	65	189	388	0	0	6,726
Total	5,941	6,286	7,111	6,813	5,302	6,476	6,754	4,419	3,091	1,985	1,337	467	55,982
Share of Total													
New Single Family Housing (Detached)	73.5%	74.4%	69.3%	65.6%	82.2%	78.1%	78.7%	78.0%	69.1%	61.6%	82.6%	88.0%	74.1%
New Town Houses (Attached)	3.7%	4.8%	4.6%	6.5%	9.0%	11.0%	13.7%	15.4%	17.5%	16.2%	15.1%	11.1%	9.3%
New Duplex	0.2%	0.2%	0.1%	0.5%	0.7%	0.4%	0.5%	0.5%	0.3%	0.1%	1.3%	0.9%	0.4%
New Condominiums	3.2%	2.4%	2.0%	3.1%	4.0%	4.9%	5.2%	4.3%	6.7%	2.6%	0.9%	0.0%	3.6%
New Three and Four Family Buildings	1.3%	0.7%	1.2%	0.8%	0.4%	0.1%	0.1%	0.3%	0.3%	0.0%	0.0%	0.0%	0.6%
New Five or More Family Buildings	18.0%	17.6%	22.9%	23.6%	3.7%	5.4%	1.9%	1.5%	6.1%	19.5%	0.0%	0.0%	12.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Regional Building Department.

File: Permits by Type

New apartment construction has been cyclical, with building activity occurring when vacancies are low and rents are rising. The apartment market took a triple hit early in this decade as a result of (1) the big loss of tech jobs in 2001 and 2002; (2) the deployment of troops to Iraq and Afghanistan that started in late 2002 and continues today; and (3) easy mortgage credit in 2004 to 2006 that made it possible for many renters to become home owners.

Apartment vacancies went from about 3% in 2001 to double digit rates in 2003 and have generally remained there until recently. Real rents declined and have shown little increase over the past five years. New apartment construction dropped to just a trickle, but one major complex started construction in 2008 and none in 2009. With the vacancy rate at just under 7% today, interest in new apartment construction should pick up.

Builder's spec inventories have dropped significantly over the past year. Spec inventory of new single family homes is estimated to be 374 units in April 2010. Spec inventory includes an estimated 255 units under construction and about 119 finished units. Overall, at the sales rate for the past 12 months, there is a 3.7 month supply of specs, but in the higher price ranges, \$500,000 and above, there is a greater supply relative to sales.

Single Family New Home Market Performance, Colorado Springs Metro Area, 1st Qtr 2010										
Price Range	Annual Starts Apr 2009 thru Mar 2010	Annual Closings Apr 2009 thru Mar 2010	Under Construction Apr 1, 2010			Finished Inventory Apr 1, 2010				
			Unsold Specs	Presales Under Contract	Total	Unsold Specs	Presales Under Contract	Total Finished Inventory	Models	Total Finished Inventory Including Models
Less than \$250,000	630	576	135	70	205	26	57	83	36	119
\$250,000 to \$299,999	176	201	28	28	56	19	12	31	16	47
\$300,000 to \$349,999	125	133	33	25	58	19	16	35	14	49
\$350,000 to \$399,999	84	94	24	11	35	12	5	17	12	29
\$400,000 to \$499,999	48	80	7	12	19	11	4	15	7	22
\$500,000 and Over	65	120	28	20	48	32	6	38	5	43
Totals	1,128	1,204	255	166	421	119	100	219	90	309

Source: Metrostudy survey and David Bamberger & Associates. Unsold specs is an estimate prepared by David Bamberger & Associates based on discussions with builders, data from realtor and builder marketing materials and websites. File: Metro Study 1st Qtr 2010

Over the past six months new home spec inventory increased. Our estimates showed a total of 216 unsold specs at the end of September 2009. The end of March 2010 the figure jumped to 374, an increase of 73%. Some of the jump can be attributed to builders responding to anticipated sales from the Federal tax credit program. Builders indicated that there may be some unsold inventory left over after the program ends in April (contract) and May (closing).

Note: Unsold spec inventory is an estimate prepared by David Bamberger & Associates and is not an exhaustive count. The estimates were made based on discussions with builders, data from builder and realtor marketing materials and websites.

Analysis of Speculative New Single Family Inventory April 1, 2010			
Price Range	Total Spec (Unsold Inventory) Apr 1, 2010	Annual Closings Oct, 2008 to Sep 2009	Months of Spec (Unsold) Inventory
Less than \$250,000	161	576	3.4
\$250,000 to \$299,999	47	201	2.8
\$300,000 to \$349,999	52	133	4.7
\$350,000 to \$399,999	36	94	4.6
\$400,000 to \$499,999	18	80	2.7
\$500,000 and Over	60	120	6.0
Total	374	1,204	3.7

Source: Metrostudy survey and David Bamberger & Associates.

The housing market continues to pay the price for the liberal use of creative mortgage financing and easy credit in the years 2004-2006. Local home loan foreclosure filings are still very high. In 2009 foreclosure filings totaled 5,470, up from 4,602 in 2008, an increase of 18.9%. Have we seen the top?

The number of foreclosures in the 1st quarter of 2010 totaled 1,211. If this rate continues throughout the remainder of the year, 2010 will see a total of about 4,800 foreclosures, down some compared to 2009, but still very high at historic norms.

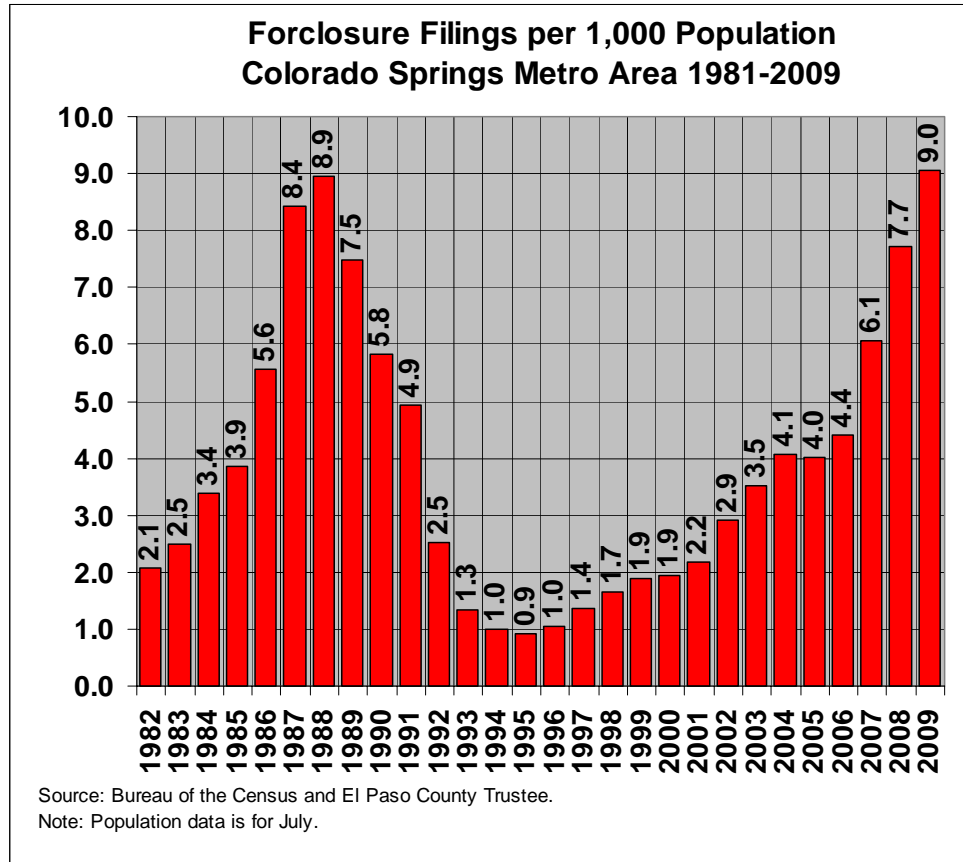
The foreclosure rate in Colorado Springs in 2009 topped the historic high of 1989. In 1989 the rate of foreclosures was 8.9 per 1,000 population. The rate jumped to 9.0 per 1,000 population in 2009, a record high.

**Foreclosure Filings per 1,000 Population
Colorado Springs Metro Area 1981-2010 (Jan-Mar)**

Year	Foreclosure Filings	Population	Foreclosure Filings per 1,000 Population
1981	587	322,200	1.8
1982	692	331,800	2.1
1983	850	341,900	2.5
1984	1,200	355,100	3.4
1985	1,406	363,600	3.9
1986	2,088	375,900	5.6
1987	3,240	384,800	8.4
1988	3,476	388,700	8.9
1989	2,937	392,000	7.5
1990	2,316	397,491	5.8
1991	1,992	404,419	4.9
1992	1,059	422,062	2.5
1993	590	437,105	1.3
1994	456	457,150	1.0
1995	431	469,757	0.9
1996	499	478,381	1.0
1997	664	486,934	1.4
1998	827	498,062	1.7
1999	959	509,044	1.9
2000	1,003	519,326	1.9
2001	1,165	535,556	2.2
2002	1,594	544,862	2.9
2003	1,932	551,252	3.5
2004	2,275	558,896	4.1
2005	2,273	567,416	4.0
2006	2,554	579,930	4.4
2007	3,556	586,076	6.1
2008	4,602	596,053	7.7
2009	5,470	604,453	9.0
2010 (1st qtr)	1,211		

Source: Bureau of the Census and El Paso County Trustee.
Note: Population data is for July.

File: Foreclosures



Source: Bureau of the Census and El Paso County Trustee.
Note: Population data is for July.

The dramatic drop in new home production in 2007-2009 left a huge overhang of single family lots that peaked in 2007. Metrostudy reports a total vacant lot inventory as of the end of the 1st quarter 2010 of 5,810, a drop of 21.3 percent from the peak.

The largest inventory of vacant lots is in lots with 50'-64' frontage. These lots typically target the production sweet-spot of the market with homes priced under \$350,000. The other bulge in lot inventory is lots with 90' and greater frontage. These lots typically target the luxury custom home market.

Lot Inventory by Size Segment
Single Family Detached
Colorado Springs Metro Area, 1st Qtr 2010

Lot Size Segment (Frontage)	Annual Housing Starts Apr 2009 thru Mar 2010	Vacant Lot Inventory Apr 2010	Months of Supply
Less than 50'	120	558	55.8
50'-54'	539	1,136	25.3
55'-59'	58	434	89.8
60'-64'	207	1,102	63.9
65'-89'	45	274	73.1
70'-79'	66	370	67.3
80'-89'	16	304	228.0
90' and Greater	77	1,632	254.3
Total	1,128	5,810	61.8

Source: Metrostudy survey.

File: Metrostudy 1st Qtr 2010

The big jump in vacant buildable lot supply relative to the rate of new home construction over the past several years has kept the number of months of lot supply at a very high level. At the end of the 1st quarter there was a 62 month supply of lots at current building rates, up from a 12 to 15 months supply, which has been the norm during good times.

Lot Inventory and Production
Colorado Springs Metro Area, 3rd Qtr 2002 - 1st Qtr 2010

Year	Quarter	Annual Housing Starts (Previous 12 Months)	Vacant Lot Inventory at end of Quarter	Months of Supply	Annual Delivery of Finished Lots (Previous 12 Months)
2002	3	3,683	4,015	13	4,142
2002	4	3,642	4,637	15	4,279
2003	1	3,755	4,653	15	4,274
2003	2	3,567	4,871	16	4,328
2003	3	3,698	4,726	15	4,294
2003	4	3,807	4,947	16	3,997
2004	1	4,019	4,916	15	4,217
2004	2	4,334	4,760	13	4,158
2004	3	4,385	4,841	13	4,509
2004	4	4,448	5,120	14	4,646
2005	1	4,629	4,773	12	4,371
2005	2	4,660	4,877	13	4,598
2005	3	4,648	4,963	13	4,680
2005	4	4,805	4,647	12	4,196
2006	1	4,746	4,881	12	4,852
2006	2	4,438	4,852	13	4,388
2006	3	3,900	5,181	16	4,086
2006	4	3,451	5,750	20	4,548
2007	1	2,883	5,817	24	3,743
2007	2	2,480	6,063	29	3,685
2007	3	2,291	6,762	35	3,837
2007	4	2,000	7,387	44	3,656
2008	1	1,828	7,179	47	3,329
2008	2	1,530	6,930	54	2,536
2008	3	1,275	7,036	66	1,551
2008	4	1,141	7,006	73	935
2009	1	1,005	6,661	80	781
2009	2	869	6,513	90	742
2009	3	894	6,215	83	343
2009	4	957	6,015	75	218
2010	1	1,128	5,810	62	277

Source: Metrostudy survey.

File: Metrostudy 1st Qtr 2010

Single family resale home sales are up and listings are down. MLS sales of single family homes increased by 18.6% in the 1st quarter of 2010 and listings dropped by 6.0% compared to the 1st quarter of 2009.

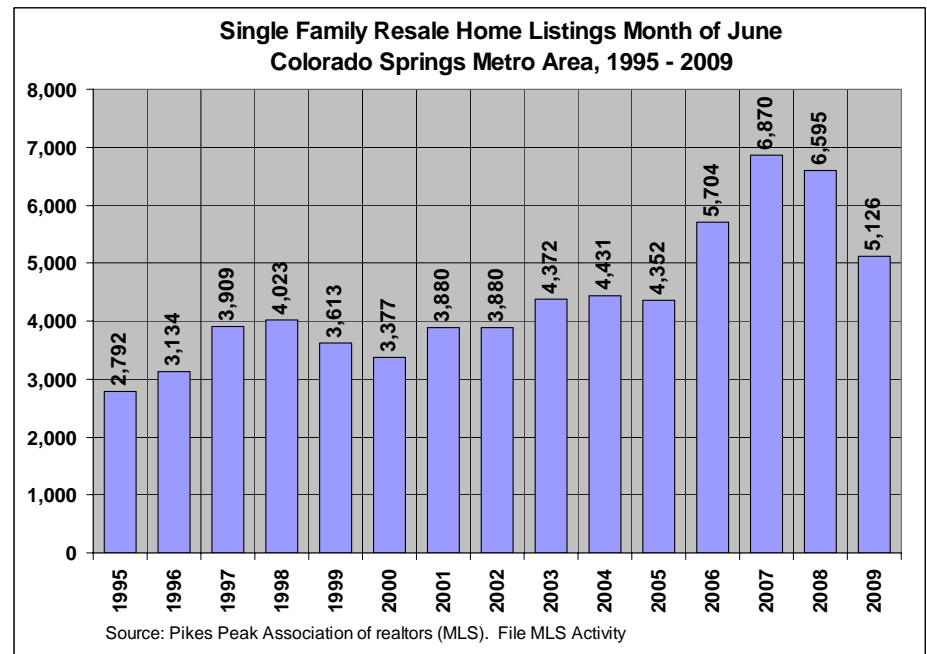
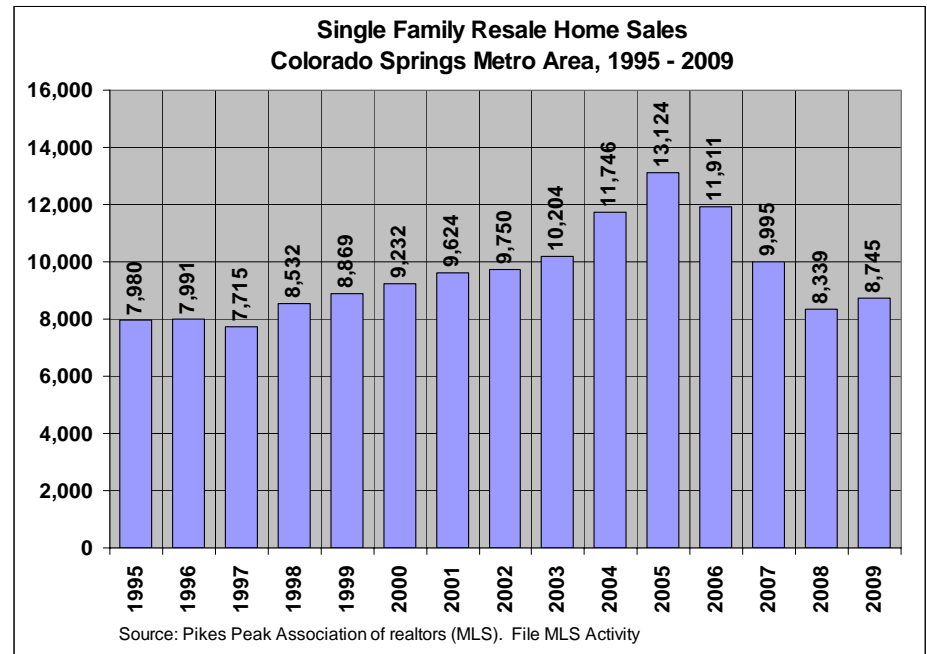
Realtors indicate that some of the surge in sales activity in the 1st quarter is driven by the Federal tax credit that expired at the end of April. Many market observers believe that the momentum will slow now that the tax credits have expired.

**Single Family Resale Activity (Sales and Listings)
Colorado Springs Metro Area, 1995 - 2010 1st qtr**

Year	Sales Total for the Year		Active Listings Month of June		Month of Supply of Listings
	Total Sales for Year	Percent Change	Active Listings June	Percent Change	
1995	7,980	-	2,792	-	4.2
1996	7,991	0.1%	3,134	12.2%	4.7
1997	7,715	-3.5%	3,909	24.7%	6.1
1998	8,532	10.6%	4,023	2.9%	5.7
1999	8,869	3.9%	3,613	-10.2%	4.9
2000	9,232	4.1%	3,377	-6.5%	4.4
2001	9,624	4.2%	3,880	14.9%	4.8
2002	9,750	1.3%	3,880	0.0%	4.8
2003	10,204	4.7%	4,372	12.7%	5.1
2004	11,746	15.1%	4,431	1.3%	4.5
2005	13,124	11.7%	4,352	-1.8%	4.0
2006	11,911	-9.2%	5,704	31.1%	5.7
2007	9,995	-16.1%	6,870	20.4%	8.2
2008	8,339	-16.6%	6,595	-4.0%	9.5
2009	8,745	4.9%	5,126	-22.3%	7.0
2009 Jan-Mar	1,483	-18.1%	5,075	-13.2%	10.3
2010 Jan-Mar	1,759	18.6%	4,773	-6.0%	8.1

Source: Pikes Peak Association of Realtors (MLS). File MLS Activity

Note: The data sourced from PPAR "does not necessarily represent all real estate activity in the market and PPAR does not guarantee its accuracy".



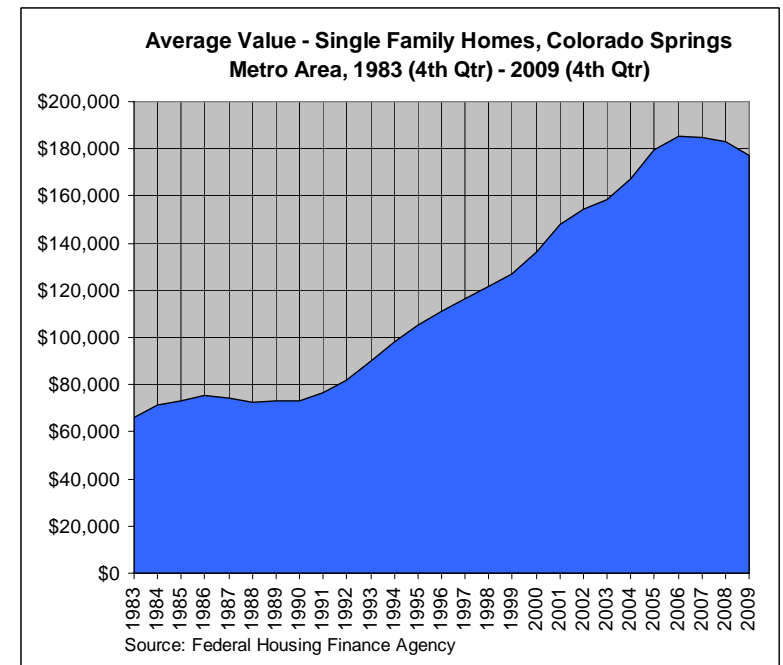
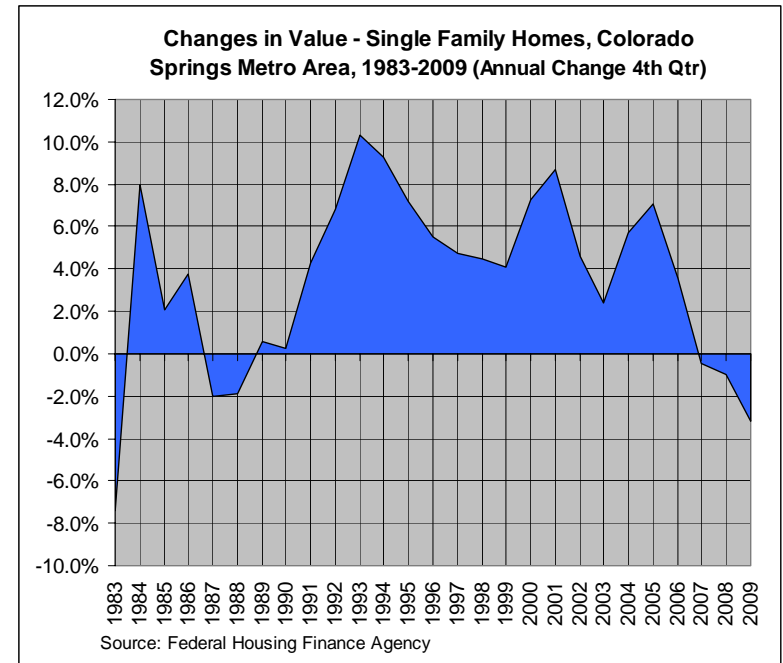
The value of single family homes in the Colorado Springs metro area declined by -3.2% between the 4th quarter of 2008 and the 4th quarter of 2009. This is the third year in a row that values dropped. In 2008 they fell by -1.0% and in 2007 they fell by -0.4%.

Changes in Value - Single Family Homes Colorado Springs Metro Area, 1983-2009

Year	Quarter	Single Family Home Value	Percent Change Over One Year Ago
1983	4th	\$66,110	-7.4%
1984	4th	\$71,370	8.0%
1985	4th	\$72,850	2.1%
1986	4th	\$75,580	3.7%
1987	4th	\$74,050	-2.0%
1988	4th	\$72,670	-1.9%
1989	4th	\$73,080	0.6%
1990	4th	\$73,250	0.2%
1991	4th	\$76,400	4.3%
1992	4th	\$81,620	6.8%
1993	4th	\$90,030	10.3%
1994	4th	\$98,380	9.3%
1995	4th	\$105,490	7.2%
1996	4th	\$111,300	5.5%
1997	4th	\$116,570	4.7%
1998	4th	\$121,820	4.5%
1999	4th	\$126,770	4.1%
2000	4th	\$135,990	7.3%
2001	4th	\$147,770	8.7%
2002	4th	\$154,610	4.6%
2003	4th	\$158,350	2.4%
2004	4th	\$167,390	5.7%
2005	4th	\$179,270	7.1%
2006	4th	\$185,650	3.6%
2007	4th	\$184,850	-0.4%
2008	4th	\$182,990	-1.0%
2009	4th	\$177,120	-3.2%

Source: Federal Housing Finance Agency

File: SF Values



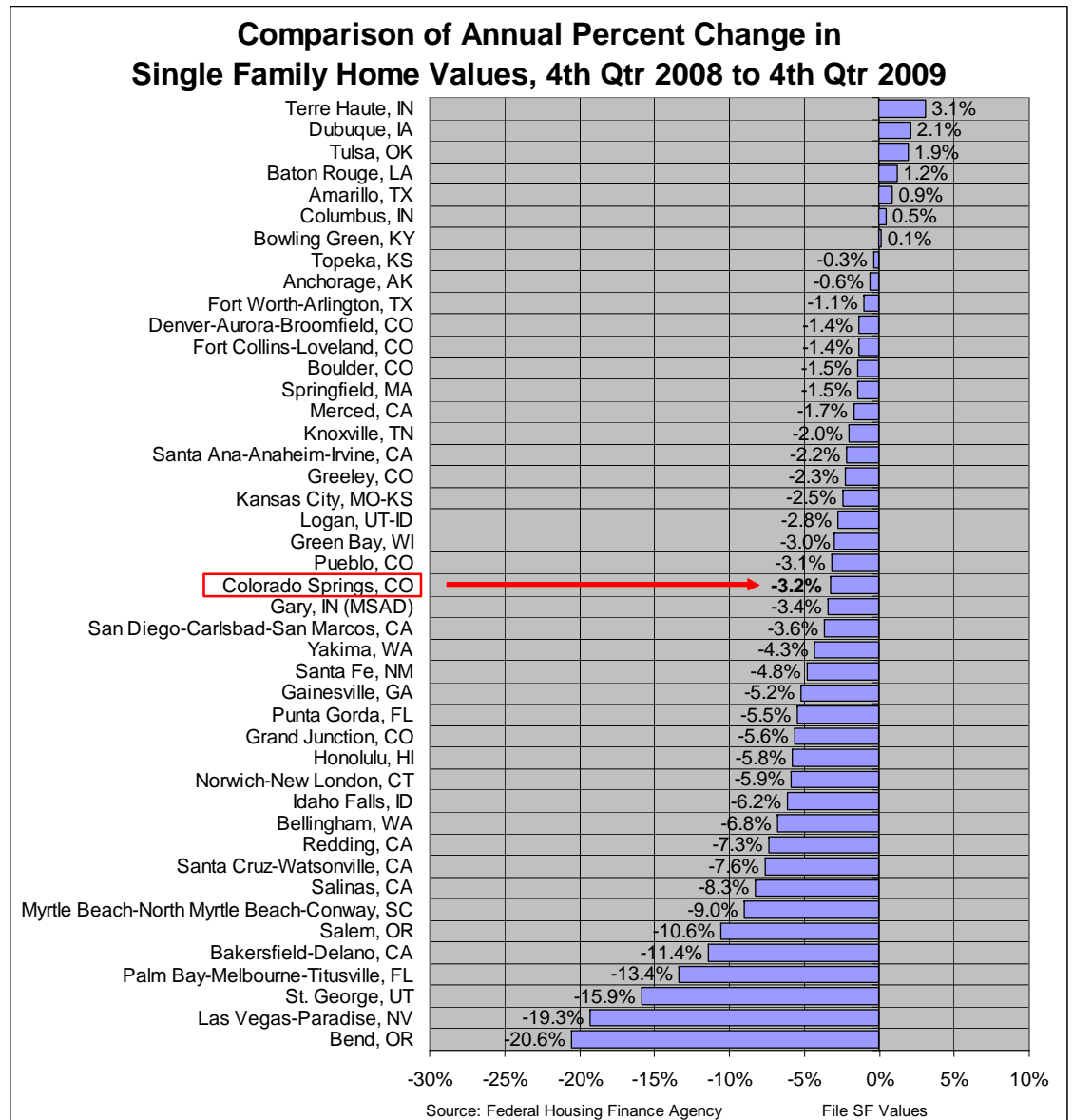
Colorado Springs did not see double digit annual increases in housing values like many cities throughout the country and has not seen big declines in values. Housing values in many parts of the country have taken a big hit over the past two years. Many cities have seen values decline by double digits. For the US as a whole, single family housing values dropped by -1.2% between the 4th quarter of 2008 and the 4th quarter of 2009.

2005	9.3%
2006	3.6%
2007	-1.1%
2008	-8.2%
2009	-1.2%

How does Colorado Springs compare in recent housing value gains and losses to other selected cities? At the upper end of the range, housing values increased in Terre Haute, IN by 3.1%. At the lower end, values in Bend, OR dropped by -20.6%.

All Colorado cities, saw a range of modest losses in housing values between the 4th quarter of 2008 and the 4th quarter of 2009.

• Grand Junction, CO	-5.63
• Colorado Springs, CO	-3.21
• Pueblo, CO	-3.13
• Greeley, CO	-2.25
• Boulder, CO	-1.45
• Fort Collins-Loveland, CO	-1.38
• Denver-Aurora-Broomfield, CO	-1.37

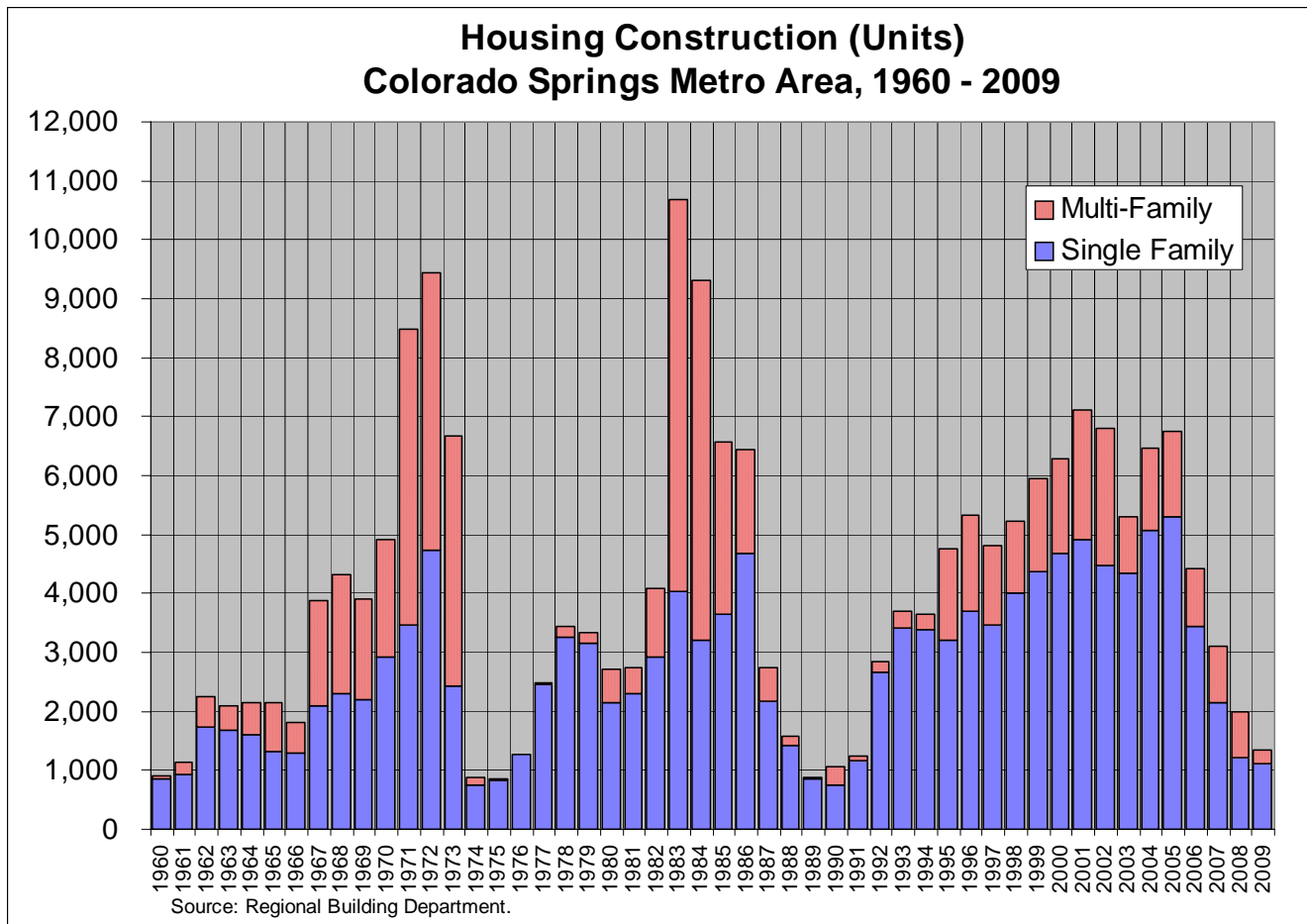


The Colorado Springs housing market has been characterized by cyclical ups and downs over the past four decades. The local building cycles have been 14 to 15 years in duration and the amplitude of the swings has generally been very dramatic.

The boom-bust swings in the 1970s and 1980s were classic inventory cycles - massive over-building, especially in apartments, followed by a long period of almost no new housing construction. Both cycles were characterized by rapid economic growth on the up-side and major recessions on the down-side.

Local Building Cycle Dates and Production Levels

- 1960 Trough - 894 units
- 1972 Peak - 9,448 units
- 1975 Trough - 847 units
- 1983 Peak - 10,676 units
- 1989 Trough - 877 units
- 2001 Peak - 7,111 units
- 2005 Mini-Peak - 6,754



The current cycle, which started from a low-point in 1989, is different from past cycles. It was not so much an inventory correction cycle with a single peak as the past cycles. There was little over-building of apartments and only limited over-building of for-sale homes. Institutional memory of excessive over-building in the 1970s and 1980s kept production from getting way ahead of demand.

The current home building cycle had two peaks, the first one in 2001 and then the second one in 2005, and also two different causes on both the up-side and the down-side of each of these peaks.

- **The long ramp-up to the first peak in 2001 was driven by very strong economic growth.** From 1990 to 2000 the Colorado Springs economy created a net gain of 92,700 jobs. Then, the recession of 2001 and the resulting negative job growth in 2002 and 2003 caused housing demand and production to drop in 2003.
- **The second peak in 2005 was driven by record low mortgage rates and easy credit.** In 2004-2006 record low mortgage rates bought buyers in from the future and easy credit expanded the market for home ownership. In 2004 and 2005 the demand for for-sale homes soared, then dropped dramatically when credit tightened, mortgage rates increased and future demand was satisfied. The melt-down of financial markets, the recession, negative job growth and rising foreclosures were the final nails in the housing market's coffin.

Some signs of a recovery in the local housing market emerged in the 3rd quarter of 2009. Inventories of both new and resales are down. Sales are up slightly, especially in the lower price ranges, i.e. below \$250,000.

The Colorado Springs housing market is experiencing the biggest slump in years. While it is likely that the Great Recession is over, many of the global, national and local economic signals still remain gloomy. Unemployment remains a big barrier to sustainable recovery. Local job growth continues in negative territory. The question is how long will it take for the market to gain real momentum?

The single family housing market in Colorado Springs could follow one of several different paths over the next two years. To keep it simple we have developed two scenarios to illustrate the future direction of the Colorado Springs single family housing market. The first path we call "**The Longer Road Back**" scenario; the second path we call "**The Road Back**" scenario. Both paths are heavily influenced by the direction the global, national and local economies take over the next 12 to 24 months.

“The Longer Road Back” Scenario

The Great Recession of 2007, 2008 and 2009 was over at year-end but there is still a long way to go to climb out of the hole dug by the melt-down of financial markets and the resulting global economic decline.

The US economy continues to wobble along at the bottom. Job growth stumbles along at close to zero. Unemployment remains high. Credit markets remain tight. Housing values in most metro areas continue to slide. Mortgage delinquencies and foreclosures remain a problem. Commercial real estate markets crumble. Personal income continues to fall. Consumer confidence remains low. The US economy continues in a big funk in 2010, but starts to see some signs of life emerge in 2011.

The Colorado Springs economy follows the path set by the US economy. The local economy continues to wobble along at the bottom. Job growth stays negative in 2010 and climbs a little to 1,000 in 2011.

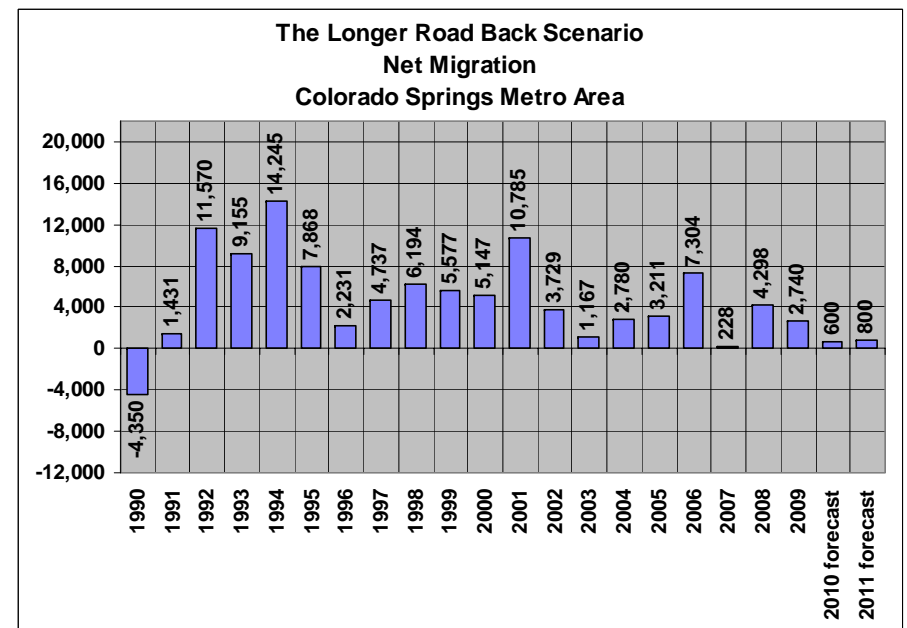
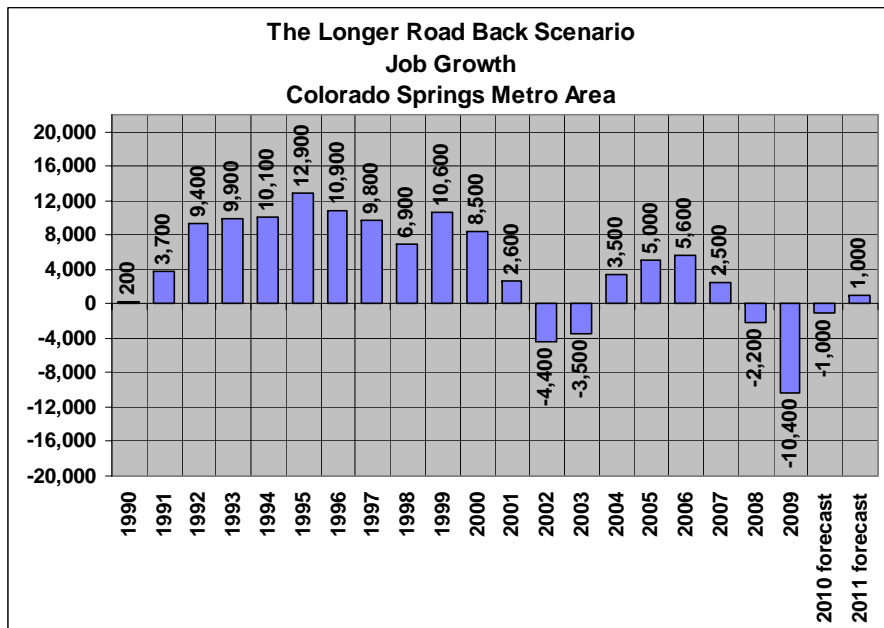
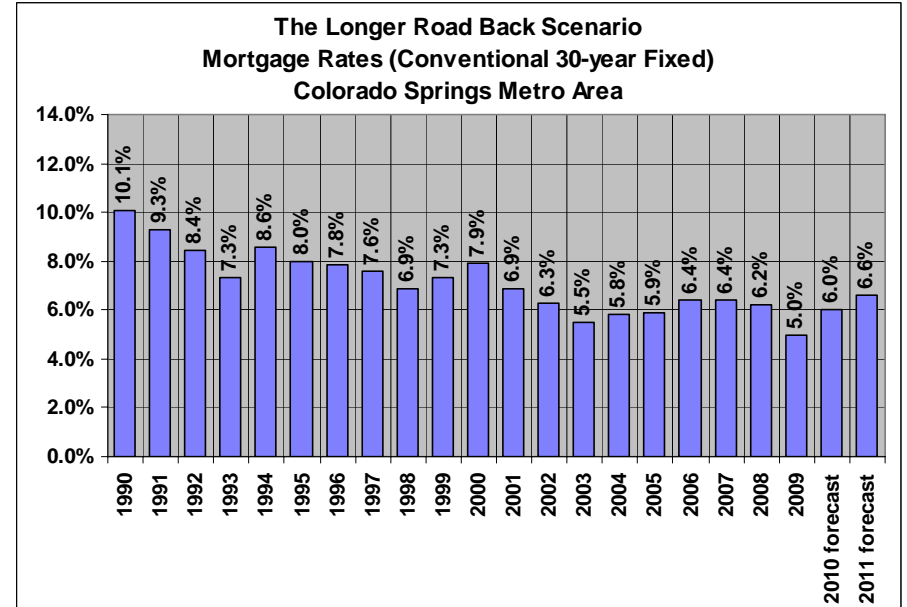
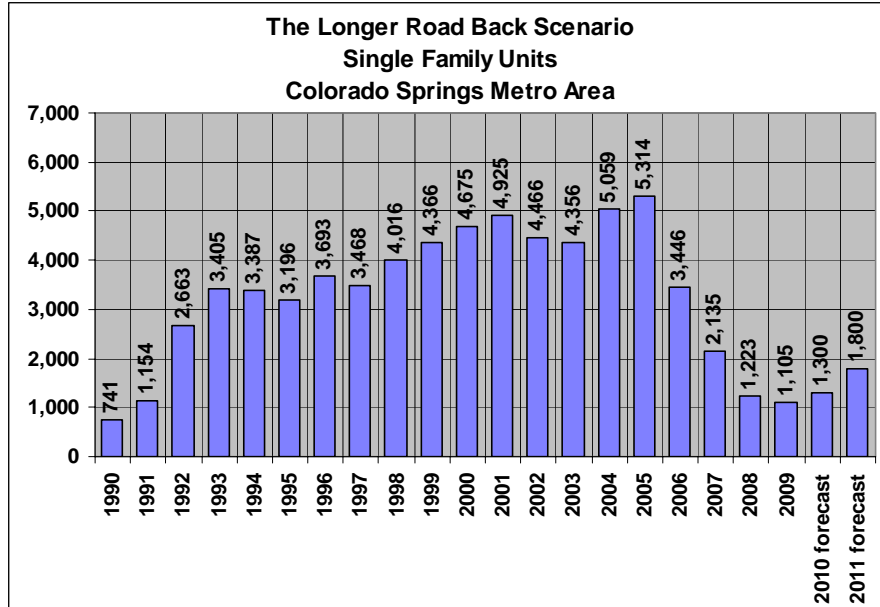
Single family housing starts increase slightly to 1,300 in 2010 and rise to 1,800 in 2011 as economic recovery starts to gain traction.

Forecasts -- "The Longer Road Back" Scenario
Single Family Permits, Mortgage Rates, Net Migration and Job Growth
Colorado Springs, 1990 - 2011

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	741	10.1%	-4,350	200
1991	1,154	9.3%	1,431	3,700
1992	2,663	8.4%	11,570	9,400
1993	3,405	7.3%	9,155	9,900
1994	3,387	8.6%	14,245	10,100
1995	3,196	8.0%	7,868	12,900
1996	3,693	7.8%	2,231	10,900
1997	3,468	7.6%	4,737	9,800
1998	4,016	6.9%	6,194	6,900
1999	4,366	7.3%	5,577	10,600
2000	4,675	7.9%	5,147	8,500
2001	4,925	6.9%	10,785	2,600
2002	4,466	6.3%	3,729	-4,400
2003	4,356	5.5%	1,167	-3,500
2004	5,059	5.8%	2,780	3,500
2005	5,314	5.9%	3,211	5,000
2006	3,446	6.4%	7,304	5,600
2007	2,135	6.4%	228	2,500
2008	1,223	6.2%	4,298	-2,200
2009	1,105	5.0%	2,740	-10,400
2010 forecast	1,300	6.0%	600	-1,000
2011 forecast	1,800	6.6%	800	1,000

Source: David Bamberger & Associates.

“The Longer Road Back” Scenario



“The Road Back” Scenario

The Great Recession of 2007, 2008 and 2009 was over at mid-year 2009 but there is still a long way to go to climb out of the hole dug by the melt-down of financial markets and the resulting global economic decline.

The US economy saw signs of life emerge in 2010. Job growth turns positive. Credit markets begin to thaw. Personal income shows moderate gains. Consumer spending increases. The rate of foreclosures declines. Sales of existing and new homes show increases. Business investment starts to pick up. The US economy gains increasing momentum throughout 2011 and by year-end it's almost back to normal.

In 2010 the Colorado Springs economy follows the path set by the US economy. The local economy starts to see signs of life in 2010. Job growth almost turns positive in 2010 and then jumps to 3,500 in 2011 as the global and US economies start to grow again.

Single family housing starts total 1,600 in 2010, then increase to 2,700 in 2011 as local job growth climbs and consumer confidence increases.

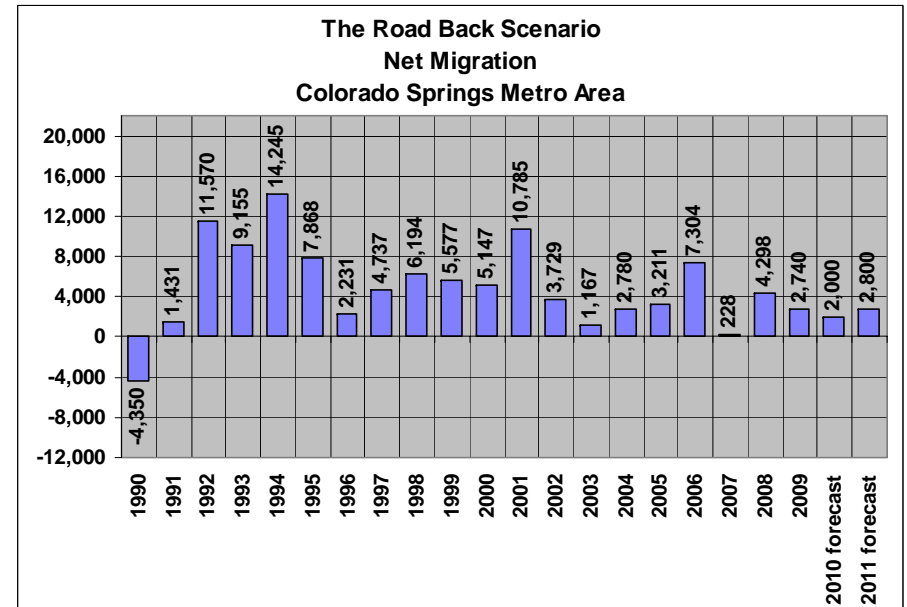
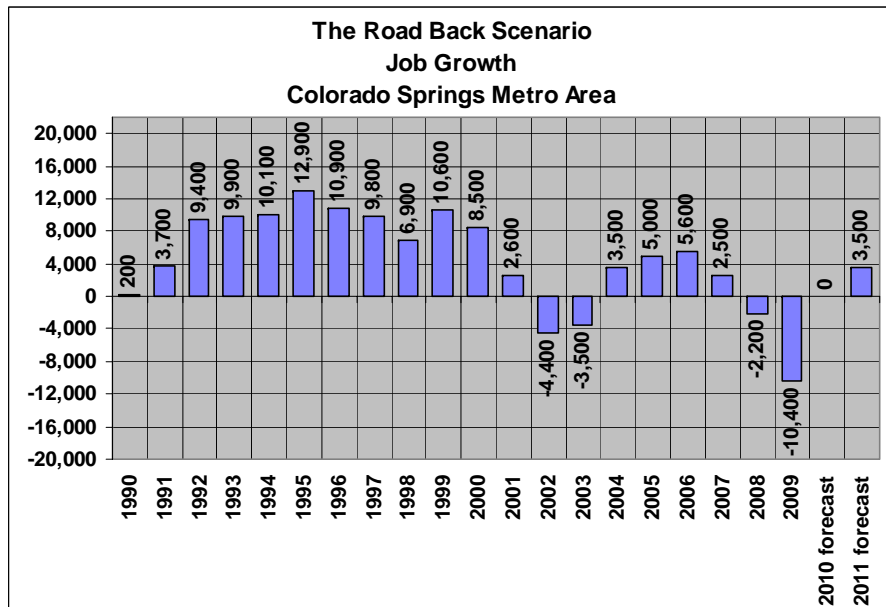
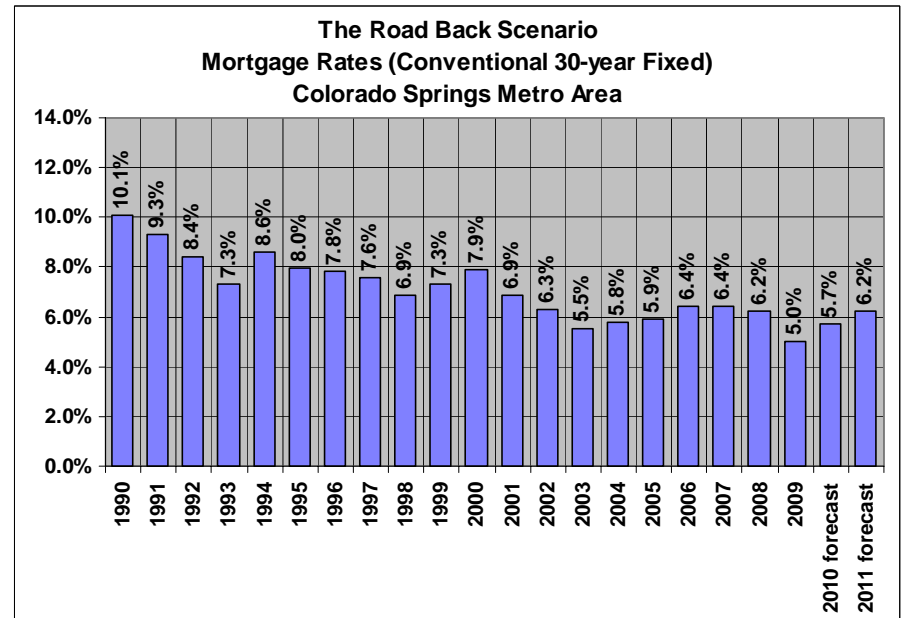
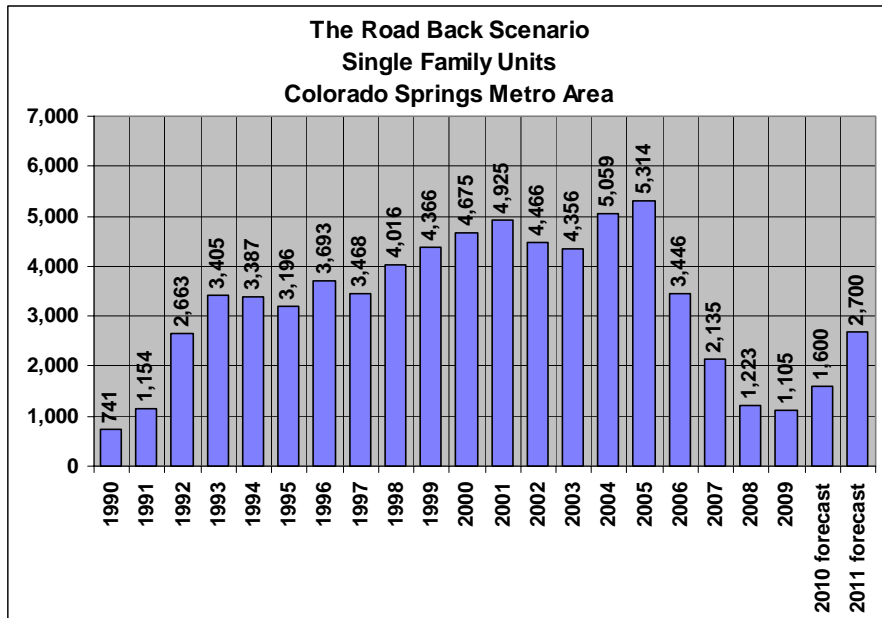
Forecasts -- "The Road Back" Scenario

Single Family Permits, Mortgage Rates, Net Migration and Job Growth
Colorado Springs, 1990 - 2011

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	741	10.1%	-4,350	200
1991	1,154	9.3%	1,431	3,700
1992	2,663	8.4%	11,570	9,400
1993	3,405	7.3%	9,155	9,900
1994	3,387	8.6%	14,245	10,100
1995	3,196	8.0%	7,868	12,900
1996	3,693	7.8%	2,231	10,900
1997	3,468	7.6%	4,737	9,800
1998	4,016	6.9%	6,194	6,900
1999	4,366	7.3%	5,577	10,600
2000	4,675	7.9%	5,147	8,500
2001	4,925	6.9%	10,785	2,600
2002	4,466	6.3%	3,729	-4,400
2003	4,356	5.5%	1,167	-3,500
2004	5,059	5.8%	2,780	3,500
2005	5,314	5.9%	3,211	5,000
2006	3,446	6.4%	7,304	5,600
2007	2,135	6.4%	228	2,500
2008	1,223	6.2%	4,298	-2,200
2009	1,105	5.0%	2,740	-10,400
2010 forecast	1,600	5.7%	2,000	0
2011 forecast	2,700	6.2%	2,800	3,500

Source: David Bamberger & Associates.

“The Road Back” Scenario



Final Thoughts

The Colorado Springs single family housing market saw the bottom in 2009. The Federal tax credits provided a modest boost to the local market over the past 18 months, keeping it from falling farther than it did.

Market signals remain mixed. Job growth is currently negative; foreclosures are close to record highs; consumer and business credit remains tight; and mortgage rates are starting to climb. On the up-side, the rate of job losses has declined; Fort Carson troop deployments have slowed; resale home inventories have dropped and sales of both existing and new homes have seen small gains over the past 6 months.

Lenders and builders are still very cautious about the weak market, especially for homes priced above \$300,000. Today, spec new home inventories are increasing. Some builders are building specs betting on market improvement. Others are holding off building specs betting a continued slow market.

Lot developers have been hit hard by the down-turn. For years the market has maintained about a one year supply of lots in the pipeline. The lot development battleship was not so easy to slow down when the market turned down in 2006; the result is a painful overhang of finished lots that still plague the market today.

The question everybody is asking is... “How long will it take for the housing market to recover?” The answer is not clear; several key factors have to come together before the local single family market can recover and return to normal. They include the following....

- Continued thawing of the credit market freeze
- Increased local job and income growth
- Slowdown in mortgage foreclosures
- Continued low mortgage rates
- Return to normal credit underwriting standards
- Reverse the slide in housing values
- Increased consumer confidence
- Increased global and national economic growth