

STRATEGIC RESEARCH

The Pueblo Housing Market 2009 - 2011

prepared for

Horizon Communities, Inc.
3330 North Elizabeth St.
Pueblo, CO 81008
(719) 544-4181

and

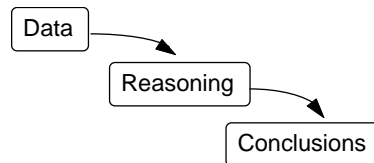
Pueblo Bank and Trust Company
301 W. 5th
Pueblo, CO 81003
(719) 545-1834

prepared by
David Bamberger & Associates

February 17, 2009



David Bamberger & Associates



*Applied Economics
and
Real Estate Research*

- Empirical Research
- Computer Modeling
- Rigorous Analysis

• **Economics • Marketing • Management**
for
sound business decisions
since 1981

David Bamberger & Associates
5431 Majestic Dr.
Colorado Springs, CO 80919
(719) 522-0776, FAX (719) 592-1126
davebamberger@aol.com

Horizon Communities, Inc.

(Bob Leach and Brian Robinson)
3330 North Elizabeth St.
Pueblo, CO 81008
(719) 544-4181

Pueblo Bank and Trust Company

301 W. 5th
Pueblo, CO 81003
(719) 545-1834

Note: It is our intent to encourage wide-spread free distribution of this report. You are encouraged to copy all or part of this report and pass on copies as you desire. All we ask is that you cite the source and refrain from charging a fee.

Table of Contents

- 3 Introduction and Summary**
- 7 Discussion of Findings**

Introduction and Summary

Introduction

This is the 17th consecutive year that we have compiled detailed data and published a report on the Pueblo metro area housing market. The analysis is designed to give insight into current market trends and to draw some conclusions about where the market is likely to go in 2009-2011.

For our study we conducted interviews with people knowledgeable about the local housing industry. We also compiled a large amount of published statistical data, including employment, housing production, listing of resale homes and home sales from a number of private and public sector sources.

In addition to the published data we also conducted a builder survey in January 2009. Data collected in the survey included 2008 production and sales, year-end unsold inventory and construction activity, past and expected future price increases, expected production for 2009, and buyer demographics. The builder survey covered 13 builders who accounted for about 47% of the builder generated single family permit activity in 2008.

Manufactured Housing Footnote: At the end of the 1990s manufactured homes were a relatively big player in the Pueblo new home market. Since then, they have declined. The Pueblo Regional Building Department issued permits for manufactured homes in the Pueblo MSA: 2008 - 38, 2007 - 31, 2006 - 45, 2005 - 56, 2004 - 80, 2003 - 112, 2002 - 254, 2001 - 287. This report does not include manufactured housing in the data or analysis.

Summary

The Pueblo housing market had another down year in 2008. New for-sale home production totaled only 379 permits for the year, down 42%. The resale housing market also saw slower sales with 2,320 for the year, down 5%.

Historically low mortgage rates, the availability of creative mortgage instruments and relaxed lending standards pulled many buyers into the market in 2004 - 2006.

The Pueblo housing market, like markets all over the country, paid the price in 2007 and 2008 for creating new buyers and borrowing buyers from the future. The buyer pool for new homes shrunk, significantly.

Following the national economic decline, the Pueblo economy slowed in 2008. Job growth totaled 470 in 2008, a gain of only 0.7%.

Builders responded to the slowdown in buyer traffic by dramatically cutting back on spec building. As a result, there is not a huge excess supply of unsold inventory.

The future direction of activity in the Pueblo housing market is characterized by a lot of uncertainty. The global economy is in the most severe recession in decades. The recent slowdown in job growth and housing production in Pueblo shows that Pueblo's economy and housing market are not immune to these forces.

When will the US recover from the current recession? What impact will the recently enacted federal economic stimulus package have on the speed of recovery? Will the new home purchase federal tax credits jump start sales of homes in Pueblo? How will continued foreclosure activity in Pueblo impact housing inventories? What direction will mortgage rates take? When will local consumer confidence recover?

The question everybody is asking is... "Has the Pueblo housing market seen the bottom?" Well, maybe we'll see it in 2009, but, remember, several key factors have to come together before the local single family market can recover and return to normal conditions. They include the following....

- | | |
|---|--|
| <ul style="list-style-type: none">• Recovery from the global credit market freeze• Increased local job and income growth• Reduce excess inventory of homes on the market• Continued low mortgage rates• Return to positive housing price appreciation | <ul style="list-style-type: none">• Return to normal credit underwriting standards• Improved market psychology• increased consumer confidence• Increased global and national economic growth• Reduced foreclosure activity |
|---|--|

The big question is.... where will the local housing market go in 2009, 2010 and 2011? Will Pueblo see a decline in housing market activity or will it see a recovery?

“The Melt-down Continues” scenario - The US economy continues to sink into a deep recession in 2009 that continues through 2010.

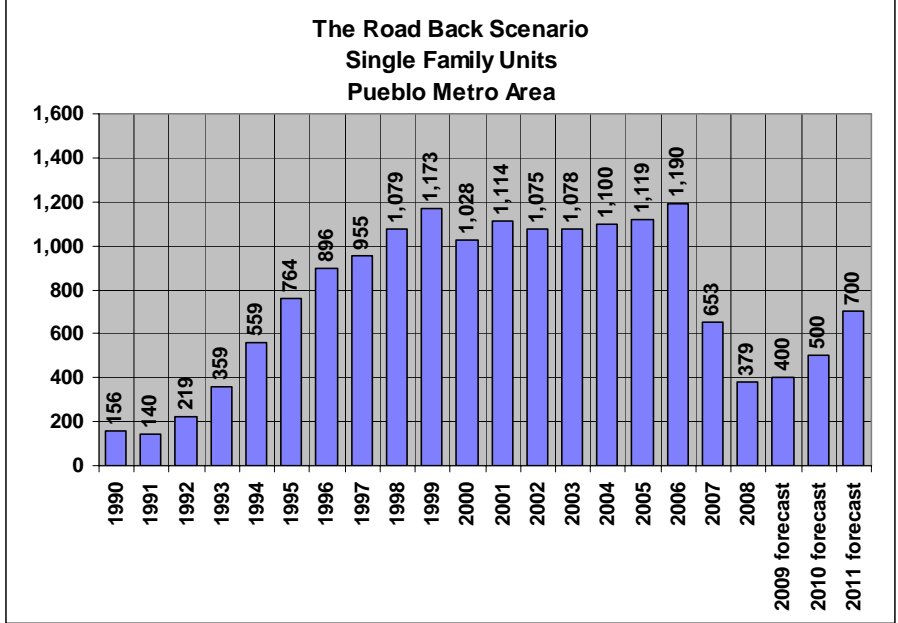
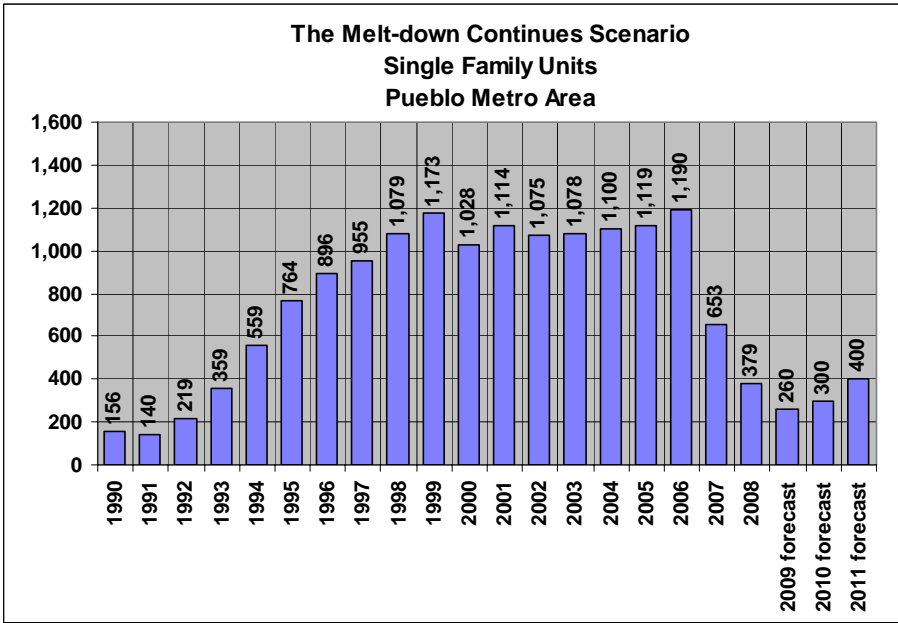
In 2009 the Pueblo economy follows the path set by the US economy. The local economy slows dramatically. Single family housing construction declines to 260 in 2009.

In 2010 the national and the local economy continues in recession-mode. Some signs of housing market recovery appear in mid-2010 and local single family housing construction increases to 300 in 2010 and 400 in 2011.

“The Road Back” scenario - The US economy bottoms out toward the end of 2009 and shows recovery going into 2010.

In 2009 the Pueblo economy follows the path set by the US economy. The local economy moves ahead, but in slow motion. Single family housing construction totals 400 in 2009.

In 2010 the national economy starts to recover and the local economy follows. The housing market starts to pick up in early-2010 and local single family housing construction increases to 500 in 2010 and 700 in 2011.



Discussion of Findings

The freezing-up of global credit markets, the unraveling of the stock market and the push by governments and central banks throughout the world to deal with the economic turbulence has dominated the news since the fall of 2008. What started as a credit crunch spilled over into the real economy. The virus has spread and nobody in the global economy has been spared the pain of economic decline.

The US economy is officially in a recession; it started in December 2007. Layoffs and job losses are off the charts. Consumer spending is in decline. Housing values are falling at double digit rates in many parts of the country. Unemployment lines are growing. Credit is tight. Banks are failing. The mood of business, investors and consumers is gloomy.

US economy -- Lots of bad economic news.....

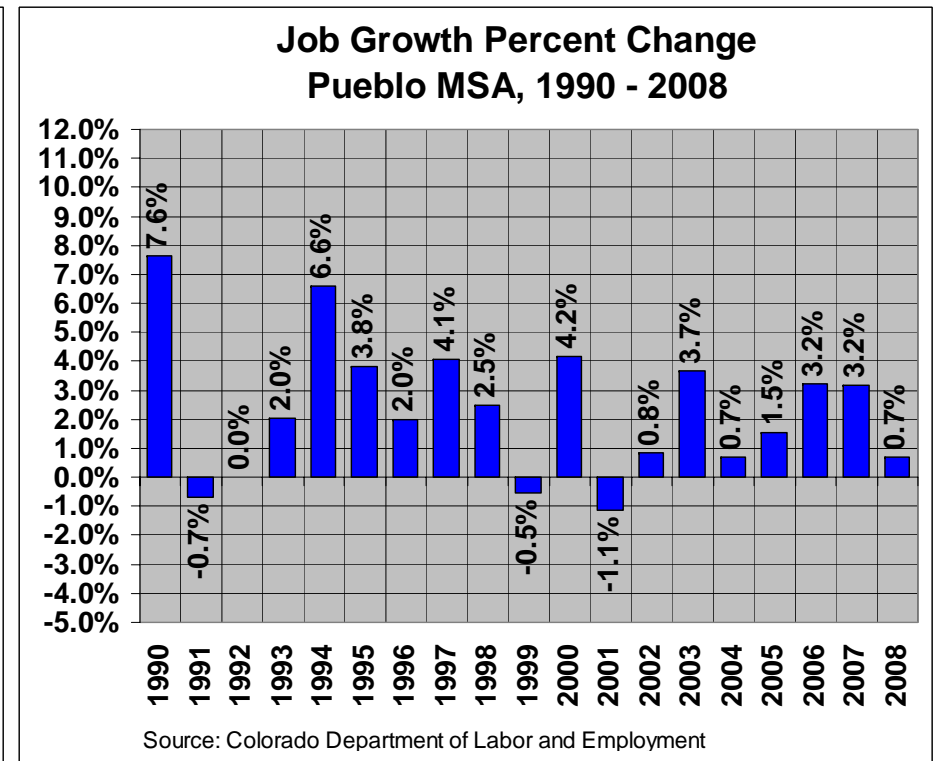
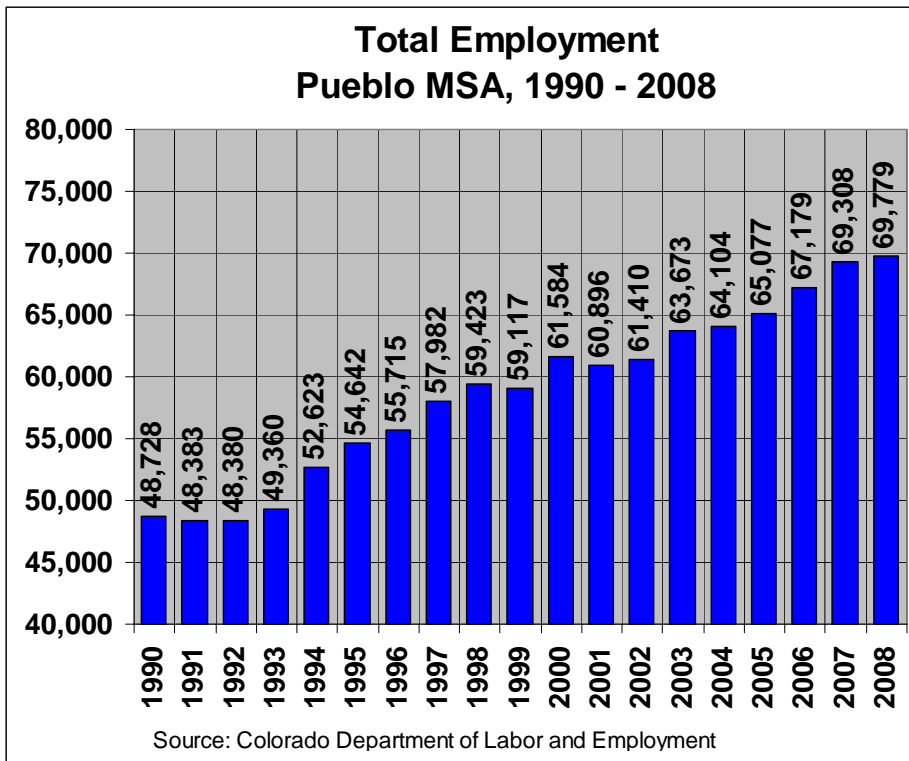
- Unemployment Rate 7.6% (Jan 2009)
- Job Growth -598,000 (Jan 2008)
- Gross Domestic Product -3.8% (annual rate % change 4thQtr 2008, provisional estimate)
- Housing Starts -15.5% (annual rate % change Dec 2008)
- CPI -0.7% (Dec 2008)
- Consumer Confidence Index 37.7% in Jan 2009 1985=100 (the index hovers at all time lows)
- Dow Jones Industrial Average 7850 (end of 2nd week in Feb 2008), down 43% since high in September 2007)

Dramatic economic decline has spread throughout the global economy. Japan, EU, UK, India, Russia and China are experiencing dramatic slowdown; the list goes on. Will the global economic slowdown turn into a prolonged and deep depression, or just a recession? Nobody really knows, but both outcomes are possible. Many economists are predicting the worst is yet to come.

The Pueblo economy is like a small ship being tossed around in a turbulent global economic sea. The local housing market has been affected by outside forces, over which it has little control. Local job losses are mounting. The rate of foreclosures has increased. The result has been that housing sales and production in Pueblo have declined significantly over the past two years.

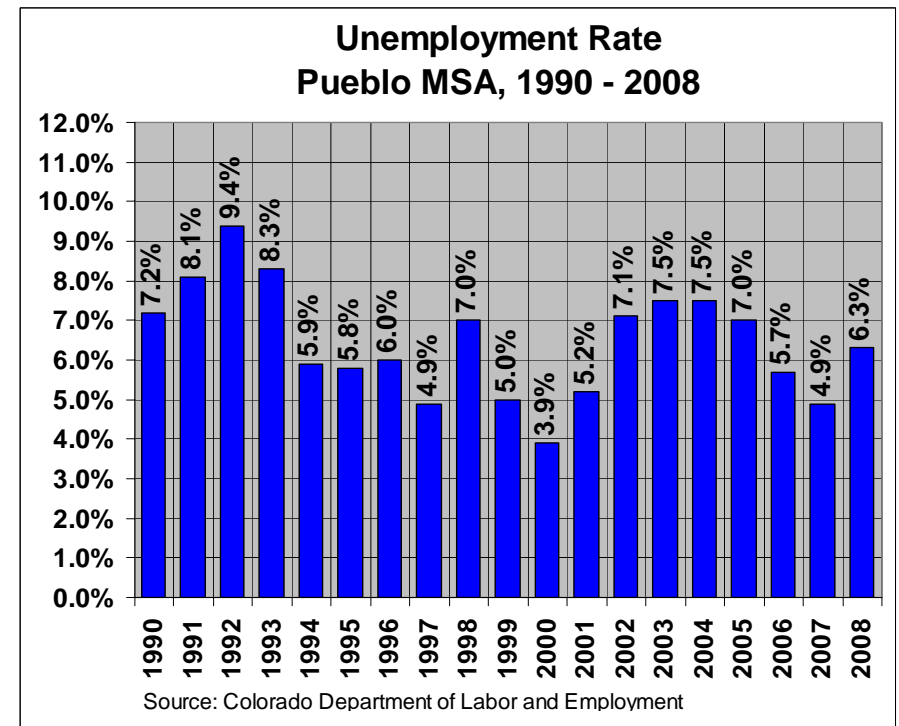
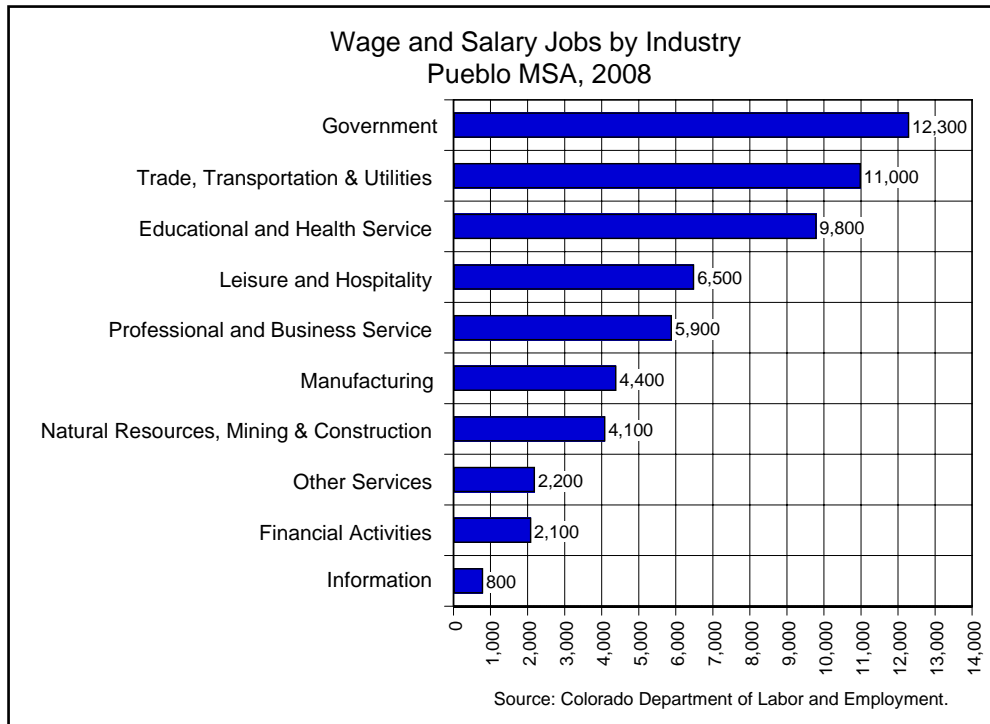
Employment in the Pueblo metro area totaled 69,780 in 2008, an increase of 470, or 0.7% for the year. The number employed showed a gain in 2008 for the seventh year in a row. Employment grew by 2,130 in 2007, a gain of 3.2% and 2,100 in 2006, a gain of 3.2%. The most recent seven years saw a reversal of the loss of jobs experienced in 2001. Total employment dropped by -690 (-1.1%) in 2001.

Employment growth has been strong in Pueblo over the longer term. Employment totaled 41,730 in 1982, Pueblo's low point, following major cutbacks at CF&I Steel, and the recessions in 1980 and 1981-1982. Since then, a total of 28,050 net new jobs have been created, an average of about 1,080 per year and an annual rate of growth of 2.0%.



The most recent employment data by industry shows the Pueblo economy has very strong Government, Services, and Trade sectors. The leading employer is the Government sector with 12,300 employees; the Trade, Transportation and Utilities sector is next with 11,000 employees; the Educational and Health Services sector is the third largest with 9,800 employees. The construction industry employs about 4,100. Manufacturing, which has been a key sector, employed about 4,400 employees.

The current recession has had an impact on job growth and unemployment. Slower job growth and some layoffs pushed the unemployment rate in Pueblo up to 6.3% in 2008, from 4.9% in 2007. While it is discouraging to see the number of unemployed in Pueblo climb last year, the rate for 2008 was below the 8% to 9% rates seen in 1991, 1992 and 1993.



PEDCO announced 756 new primary jobs in 2008. This was up from only 40 primary jobs announced in 2007. The largest announcement in 2008 was Vestas, a wind turbine manufacturing company that will invest about \$240 million in a manufacturing plant to build steel towers for its wind turbine generators that produce electricity. The plant will employ 450 in Pueblo when fully operational in late 2009 or early 2010.

PEDCO New Primary Job Announcements
Pueblo Metro Area, 1997 - 2008

Year	Company	Type of Company	Employees Announced	Year	Company	Type of Company	Employees Announced
1997	Ashland Chemical Company	Chemical purification	132	2002	Eupec Risk Management Systems	Pipeline safety systems	95
1997	Davie Wire Company	Manufacture wire	125	2002	Premier Fulfillment	Fulfillment distribution center	75
1997	WR Inc	Manufacturer	10	2002	Flexible Foam Products	Manufacturer carpet pad	18
1997	Fountain Foundry	Foundry	70	2002	Lason	Information management	38
1997	CO Fastener & Nail Co.	Manufacturer	20	2003	Adam Aviation	Aircraft manufacturing	450
1997	Foundation Health	HMO / Information processing	1,200	2003	Pueblo Suburban Development	Manufacture and run greenhouses	1,300
1997	Biomark Incorporated	Distribution center-medical	5	2004	Takehiba Electric	Medical equipment R&D	48
1998	North Am. Telephone Network	Telemarketing	55	2004	Deneen & Company	Food processing	40
1998	Flexible Foam Products	Manufacturer carpet pad	50	2004	Benshaw (Trane)	Manufacturer / water chillers	60
1998	Chemical Marketing Concepts	Chemical repackaging	50	2004	Dun & Bradstreet	Business services - call center	325
1998	Convergys/Matrix Marketing	Telemarketing	350	2005	Express Scripts	Business services - call center	500
1998	Hartung Agalite Glass	Manufacturer	60	2005	Receivable Management Services	Business services - call center	325
1998	Kroger Foods	Back office operation (accounting)	20	2005	Professional Bull Riders	Sports association headquarters	180
1998	Grupo Cementos de Chihuahua	Cement Manufacturer	130	2005	LB Foster	Prefabricated rail manufacturing	28
1999	ALM Aviation	Aircraft painting and maintenance	70	2005	Timberline Steel	Fabricated steel manufacturing	29
1999	Innotrac	Telemarketing/customer service	450	2005	Eldorado Stone (StoneCraft)	Manufacture stone building products	25
1999	The TPA, Inc.	Medical claims processing	600	2006	Doss Aviation	USAF Pilot Training	200
1999	Universal Boilerworks	Manufacture industrial boilers	100	2006	Atlas Pacific Engineering	Mfg. food products machinery	22
1999	Stonecraft Industries	Manufacture stone building products	80	2006	Cingular	Call Center	500
1999	McCallin Diversified Industries	Fabricate steel plates	50	2006	Verisma	Software development	15
2000	Vestas Wind Systems	Wind turbine manufacturer	450	2007	Document Solutions Center	Colorado State Agency	40
2000	EDSS	Data processing	485	2008	Receivable Management Services	Business services - call center	250
2001	Tenant International	Manages corporate telecom services	165	2008	Vestas	Wind Turbine Manufacturing	450
2001	Stonecraft	Manufacture stone building products	60	2008	VINS	Gov Contract Services for Veterans	6
2002	Innotrac	Telemarketing/customer service	60	2008	Document Solutions Center	Colorado State Agency	50
2002	Haddonstone USA	Manufacturer-stonework	30	Total			9,946

Source: PEDCO

The Pueblo Economic Development Corporation efforts have been very successful over the long term. Since 1997 PEDCO has made 51 announcements for the retention, expansion or relocation of primary employers and 9,946 new primary jobs, an average of over 829 per year.

Primary jobs are a major driver of economic growth because they bring new dollars into the local economy. Primary industry includes businesses, nonprofit organizations and government agencies that bring income into the local economy from outside the area. 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 a multiplier effect on the local economy.

The past year saw three major layoff announcements, totaling 435 primary jobs. The good news is, not all of these layoffs took place in 2008. Trane, a manufacturer of commercial air conditioning systems, and one of Pueblo's largest employers (750 employees in Pueblo) announced in November 2008 that it will cut 270 jobs over the next three years.

The other two layoffs announced in 2008 were also manufacturing employers. Adam Aircraft, which closed its aircraft manufacturing operations in Pueblo, announced 80 layoffs. Rocky Mountain Steel, which idled its rod and bar division for an unknown length of time, announced 85 layoffs.

Announced Primary Industry Layoffs
Pueblo Metro Area, 1998 - 2008

Year Announced	Company	Type of Announcement	Type of Company	Number of Employees Announced for Layoff
1997	Lan Technologies	Shutdown	Manufacturer computer disc	40
1998	Rocky Mountain Steel	Downsizing	Manufacturer of steel	300
1999	QualMed	Shutdown	HMO claims processing	600
2000	Boeing	Downsizing	Aerospace manufacturing	77
2000	Hyd-Mech	Shutdown	Industrial band saw manufacturing	30
2001	Columbia House	Shutdown	Mail order fulfillment	400
2001	Benesight	Downsizing	Health insurance service provider	60
2001	Innotrac	Downsizing	Call center	115
2001	Flexible Foam	Shutdown (Temporary)	Manufacturer carpet pad	20
2002	Convergys	Downsizing	Telemarketing	250
2002	Benesight	Downsizing	Health insurance service provider	50
2003	Benesight	Downsizing	Health insurance service provider	50
2003	Boeing	Suhtdown (2004)	Aerospace manufacturing	250
2004	Benesight	Downsizing	Health insurance service provider	25
2005	Eupec - RMS	Shutdown	Pipeline safety systems	45
2006	None	None	None	0
2007	None	None	None	0
2008	Adam Aircraft	Closure	Aircraft manufacturing	80
2008	Trane	Over 3 years	Air conditioning system mfg.	270
2008	Rocky Mountain Steel	Downsizing	Manufacturer of steel	85
Total				2,747

Source: Colorado Department of Labor and Employment, PEDCO, Pueblo Chieftain and Colorado Department of Labor and Employment

Recent history has shown that new primary jobs must be created in Pueblo every year just to keep up with plant closures, downsizing and the resulting worker layoffs. It's a fact of modern business; companies come and go. Those primary jobs must be replaced, or the city's economy will rapidly decline.

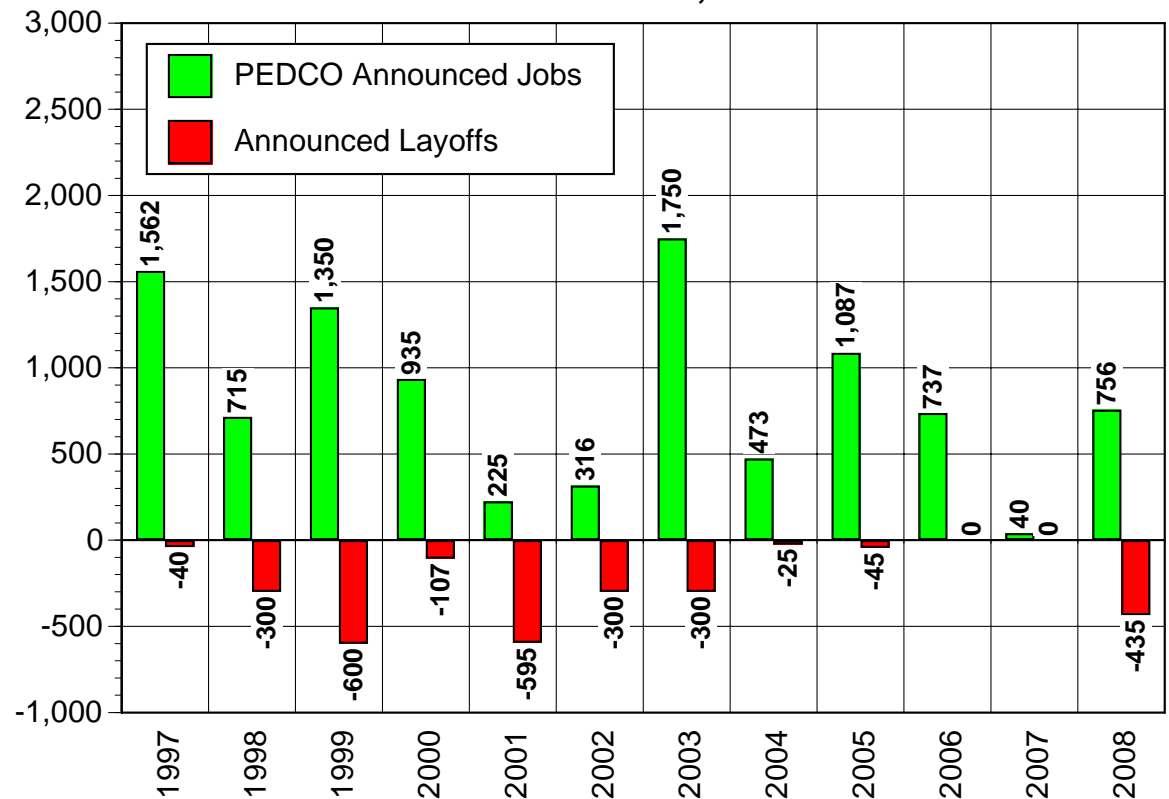
Over the past 12 years, about 2,750 primary jobs, were lost to layoffs. On the average roughly one in four primary jobs created in the past 12 years, replaced jobs that were lost to layoffs. Thus, if the recent past holds for the future, about 230 new primary jobs must be created each year just to stay even.

Net Primary Job Announcements
Pueblo Metro Area, 1997-2008

Year	Announced New Jobs	Announced Layoffs	Net Gain / Loss
1997	1,562	40	1,522
1998	715	300	415
1999	1,350	600	750
2000	935	107	828
2001	225	595	-370
2002	316	300	16
2003	1,750	300	1,450
2004	473	25	448
2005	1,087	45	1,042
2006	737	0	737
2007	40	0	40
2008	756	435	321
Total	9,946	2,747	7,199

Source: PEDCO, Pueblo Chieftain and the Colorado Department of Labor and Employment

**Primary Job Gains and Losses
Pueblo Metro Area, 1997 - 2008**

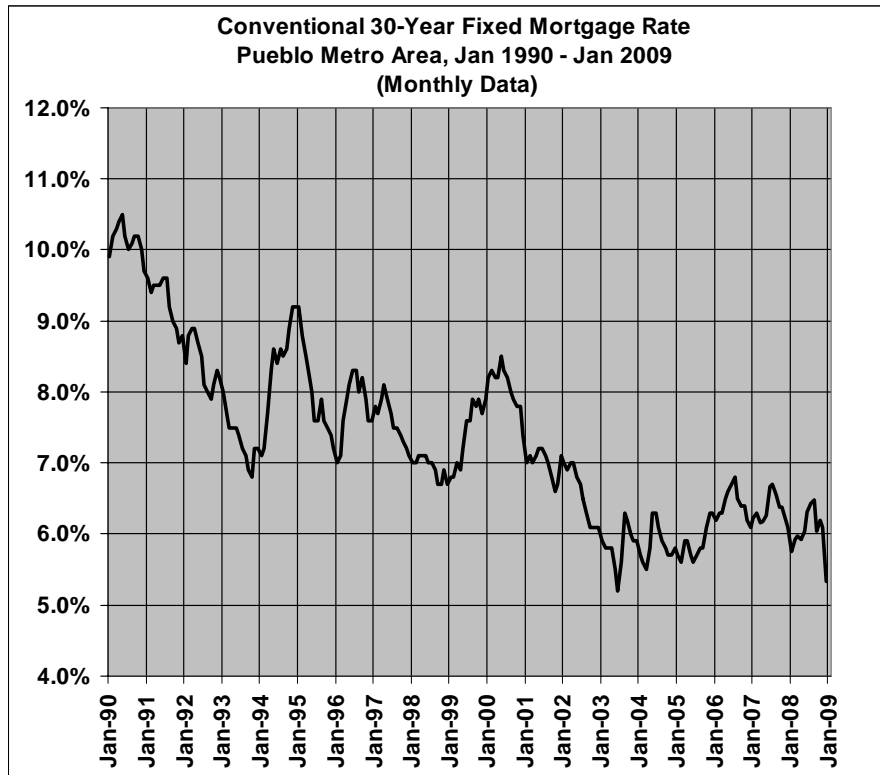


Source: PEDCO, Pueblo Chieftain, Colorado Department of Labor and Employment and David Bamberger & Associates.

The year 2008 saw mortgage rates rise through mid-year and then fall by year-end. Today, rates for a 30 year conventional fixed rate 30-year home mortgage are a little over 5%, almost as low as they were at the low point in 2003.

Pueblo's population grew by an estimated 2.1% in 2008, the biggest gain in many years. Population in July 2008 totaled 158,970, up by 3,250, for the 12 months. Since 1990 population in the metro area increased by 35,610. Much of this increase has been the result of very strong net migration accounting for 72%, or 25,600 of the total growth.

Net migration was strong in 2008, adding over 2,600 people to Pueblo County's population. Assuming an average of 2.5 people per household, this translates into an estimated increase of over 1,000 occupied homes in the past year.



Source: Federal Reserve Bank

Components of Population Growth
Pueblo Metro Area, 1990-2008

Year	Population	Change	Births	Deaths	Natural Increase	Net Migration
1990	123,053	-310	1,698	1,190	508	-818
1991	123,486	433	1,764	1,242	522	-89
1992	124,410	924	1,805	1,259	546	378
1993	126,348	1,938	1,780	1,169	611	1,327
1994	128,722	2,374	1,746	1,236	510	1,864
1995	130,832	2,110	1,730	1,337	393	1,717
1996	132,498	1,666	1,734	1,260	474	1,192
1997	134,794	2,296	1,739	1,359	380	1,916
1998	137,381	2,587	1,869	1,352	517	2,070
1999	139,718	2,337	1,933	1,374	559	1,778
2000	142,054	2,336	1,927	1,380	547	1,789
2001	144,184	2,130	2,004	1,393	611	1,519
2002	146,831	2,647	1,985	1,482	503	2,144
2003	148,569	1,738	2,060	1,451	609	1,129
2004	149,567	998	1,946	1,526	420	578
2005	150,915	1,348	1,993	1,546	447	901
2006	153,083	2,168	2,014	1,412	602	1,566
2007	155,723	2,640	2,142	1,507	635	2,005
2008	158,970	3,247	2,078	1,460	618	2,629
Totals		35,607	35,947	25,935	10,012	25,595
Percent		100%			28%	72%

Source: Colorado State Demographer

As in years past, households moving to Pueblo were major players in the new home market in 2008. Builders report that 51% of their buyers were new move-ins from out-of-town and 49% of their buyers were local. Of the out-of-town buyers, 20% were from out-of-state.

Retirees in particular seem to be attracted to Pueblo for the low cost of living and low-cost, high-value housing. Retirees made up 13% of buyers and working households made up 87% of buyers in 2008.

Move-up buyers made up the largest segment of the new home market in Pueblo in 2008. In 2008 55% of buyers were move-up buyers, 27% were first time buyers and 18% were move-down buyers.

Pueblo continues to attract buyers who work in Colorado Springs. Builders report that this segment made up 20% of new home buyers in 2008. It appears that Pueblo has emerged as a viable affordable housing option for people who work 40 miles to the north in Colorado Springs.

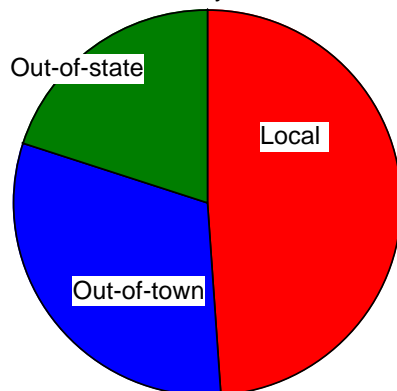
Pueblo New Home Buyer Demographics, 2003 to 2008

	2003	2004	2005	2006	2007	2008
Previous residence of buyers						
Local	79%	71%	65%	44%	57%	49%
Out-of-town	21%	29%	35%	33%	29%	31%
Out-of state (not collected in 2003-2005)	NA	NA	NA	23%	14%	20%
Total	100%	100%	100%	100%	100%	100%
Housing stage of buyers						
First time buyers	43%	23%	37%	32%	22%	27%
Move-up buyers (buying bigger home)	37%	57%	49%	48%	47%	55%
Move-down buyers (buying smaller home)	20%	20%	14%	20%	31%	18%
Total	100%	100%	100%	100%	100%	100%
Place of work of buyers						
Work in Pueblo	76%	62%	62%	52%	59%	54%
Work in Colorado Springs	11%	12%	13%	20%	21%	20%
Work somewhere else	4%	5%	7%	9%	4%	13%
Retired	10%	22%	22%	19%	16%	13%
Total	100%	100%	100%	100%	100%	100%

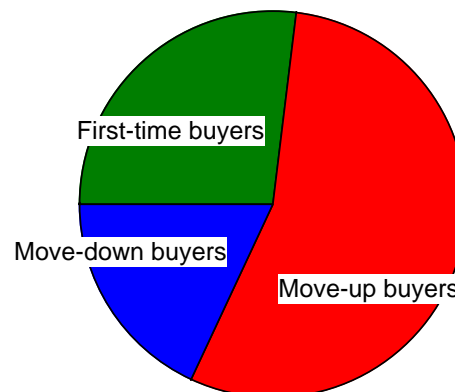
Source: David Bamberger & Associates survey

Note: Totals may not add to 100% due to rounding. Data on Out-of-state not collected in 2003-2005.

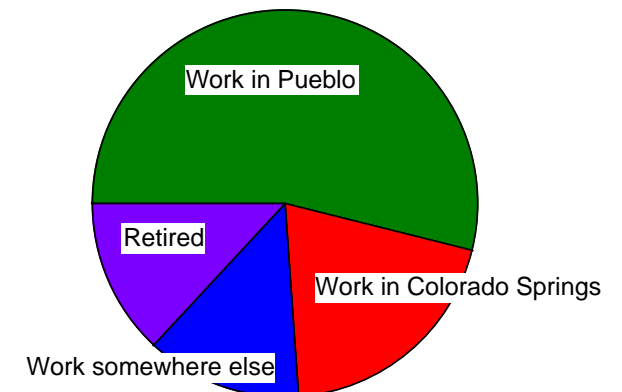
Where New Home Buyers Came From, 2008



New Home Buyer Segments, 2008



Where Buyers Work, 2008



Builder's spec inventories at the start of 2009 were down some from a year ago. Based on our survey of builders, we estimate that there were 172 spec homes under construction, or complete as of January 1, 2009, down from 205 a year ago. The survey found that spec inventory was highest in the \$200,000 to \$300,000 price range relative to sales rates.

Overall, for an annual production and sales rate of about 400 units per year, spec inventory represents a little over five months of permitting activity; within acceptable levels considering that the lead time to build a new home is five to six months from start to finish. While the homebuilding and construction lending industries endured significant pain in 2008, they did do a very good job of responding to market signals and cut back on spec building.

Prices for new homes increased in 2008 at the same rate as the Consumer Price Index. Builders reported a 2.0% price increase for new homes in 2008. The Consumer Price Index increased by 2.0% during the same time.

Prices of new homes in Pueblo are expected to see a moderate increase in 2009. Builders reported that they expect new home prices to increase by about 1.0%.

Estimated Price Increases of New Homes

- 2008 average: 2.0%
- 2009 average: 1.0%

Estimated Single Family New Home Market Performance
Pueblo County, January 1, 2009
(Sample data scaled to represent the whole market)

Price Range	Started Jan-Dec 2008	Under Construction 1-Jan-09			Completed (not closed) 1-Jan-09			Sold 2008	Plan to Build in 2009
		Presold	Unsold	Total	Presold	Unsold	Total		
Less than \$160,000	128	2	21	24	2	20	22	158	103
\$160,000 to \$199,999	149	19	39	58	19	32	51	163	150
\$200,000 to \$249,999	54	17	6	24	17	21	38	28	30
\$250,000 to \$299,999	24	2	4	6	2	9	11	14	24
\$300,000 and over	40	11	9	19	11	11	22	52	30
Total	395	51	79	131	51	93	144	417	336

Source: David Bamberger & Associates Builder Survey, January 2009. Note: The survey included responses from 13 builders, accounting for 47% of permits pulled by builders in 2008.

Analysis of Speculative New Single Family Inventory
January 1, 2009
(Sample data scaled to represent the whole market)

Price Range	Total Unsold Inventory	Sold per Month in 2008	Months of Inventory
Less than \$160,000	41	13	3.1
\$160,000 to \$199,999	70	14	5.2
\$200,000 to \$249,999	27	2	11.4
\$250,000 to \$299,999	13	1	11.1
\$300,000 and over	20	4	4.6
Total	172	35	5.0

Source: David Bamberger & Associates Builder Survey - January 2009.

Single family home values in Pueblo suffered a big decline in 2008, dropping by 6.4% between the 3rd quarter of 2007 and the 3rd quarter of 2008. The drop in values last year followed a gain of only 0.4% in 2007.

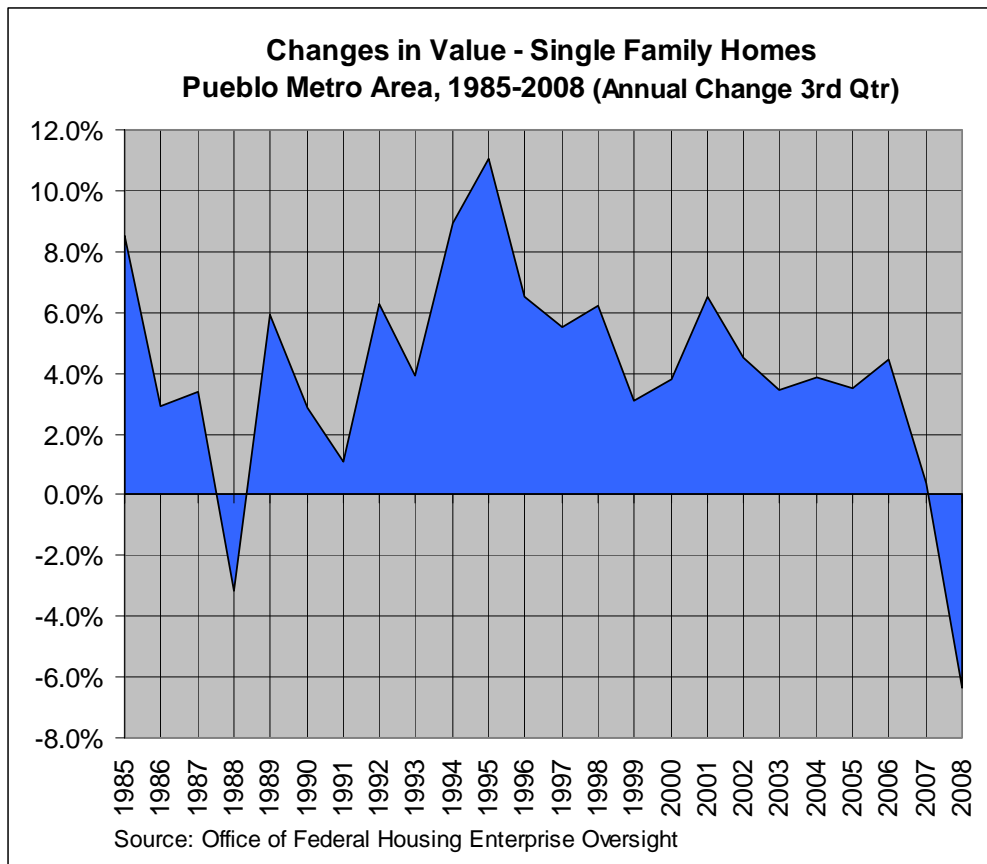
The estimates of home values are based on data from the Office of Federal Housing Enterprise Oversight. They publish quarterly estimates of the change in value of homes for several hundred cities throughout the US.

The OFHEO estimates are based on repeat sales and re-financing data on the same property over time. This method is substantially better than using a simple median sales price figure, which we have used in this report in the past.

Changes in Value - Single Family Homes
Pueblo Metro Area, 1983-2008

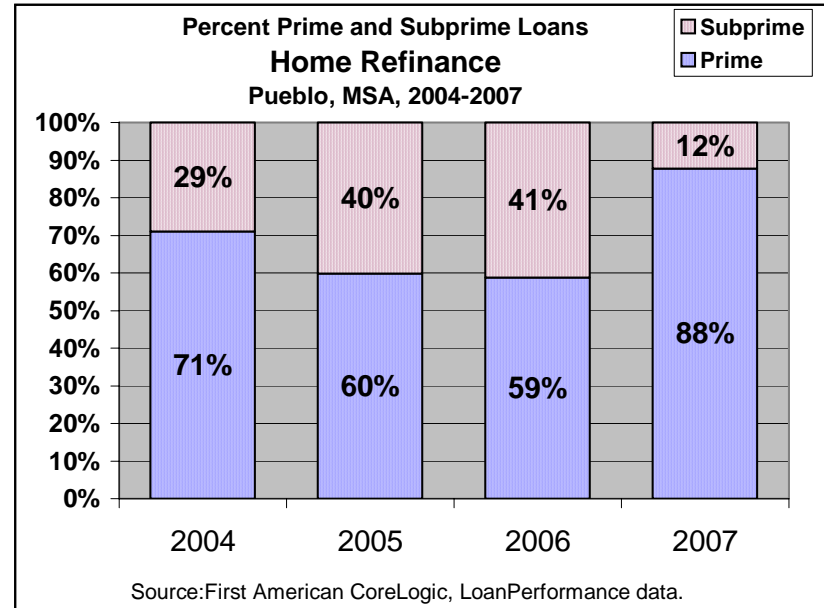
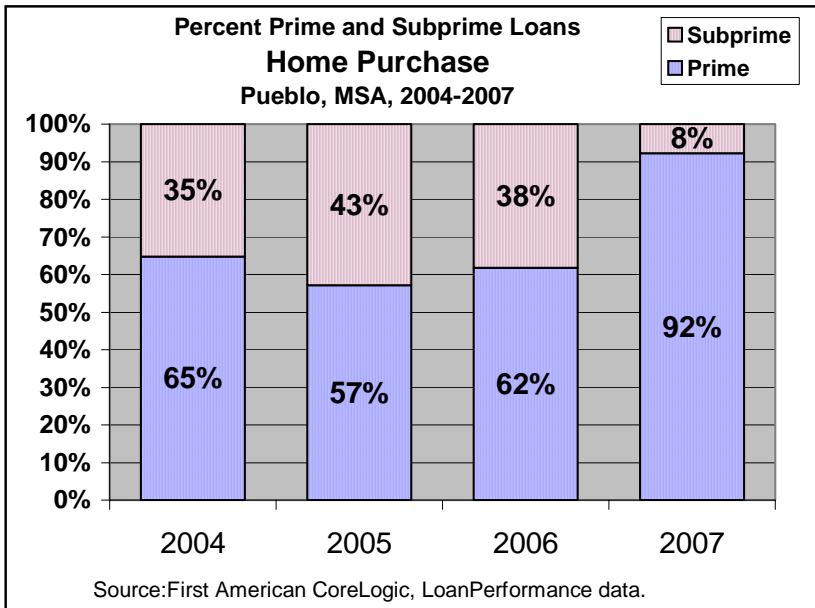
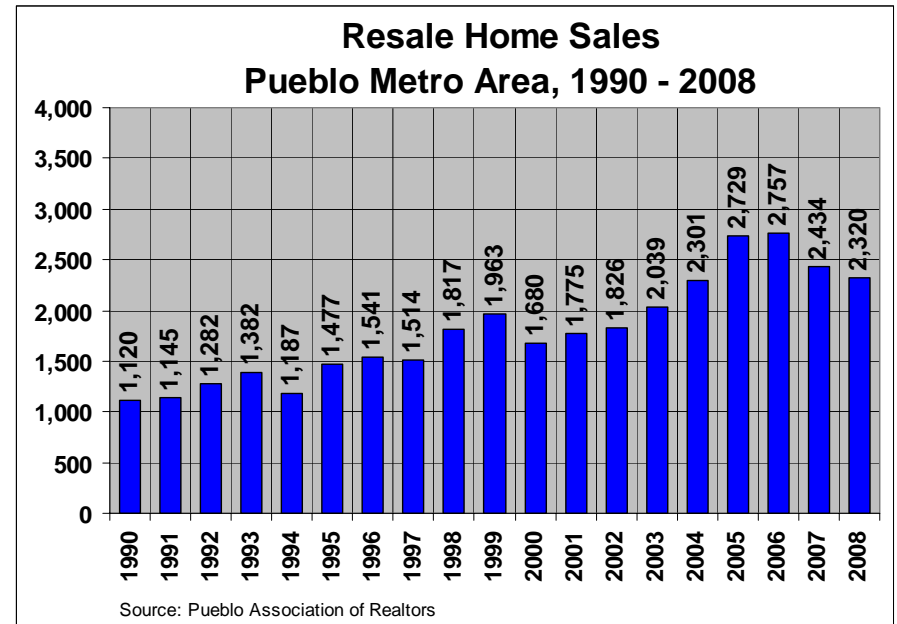
Year	Quarter	Single Family Home Value	Percent Change Over One Year Ago
1985	3rd	\$68,750	8.5%
1986	3rd	\$70,750	2.9%
1987	3rd	\$73,130	3.4%
1988	3rd	\$70,810	-3.2%
1989	3rd	\$75,000	5.9%
1990	3rd	\$77,160	2.9%
1991	3rd	\$77,990	1.1%
1992	3rd	\$82,900	6.3%
1993	3rd	\$86,130	3.9%
1994	3rd	\$93,840	9.0%
1995	3rd	\$104,200	11.0%
1996	3rd	\$110,960	6.5%
1997	3rd	\$117,090	5.5%
1998	3rd	\$124,350	6.2%
1999	3rd	\$128,230	3.1%
2000	3rd	\$133,070	3.8%
2001	3rd	\$141,740	6.5%
2002	3rd	\$148,130	4.5%
2003	3rd	\$153,270	3.5%
2004	3rd	\$159,210	3.9%
2005	3rd	\$164,790	3.5%
2006	3rd	\$172,080	4.4%
2007	3rd	\$172,760	0.4%
2008	3rd	\$161,750	-6.4%

Source: Office of Federal Housing Enterprise Oversight
File: SF Values



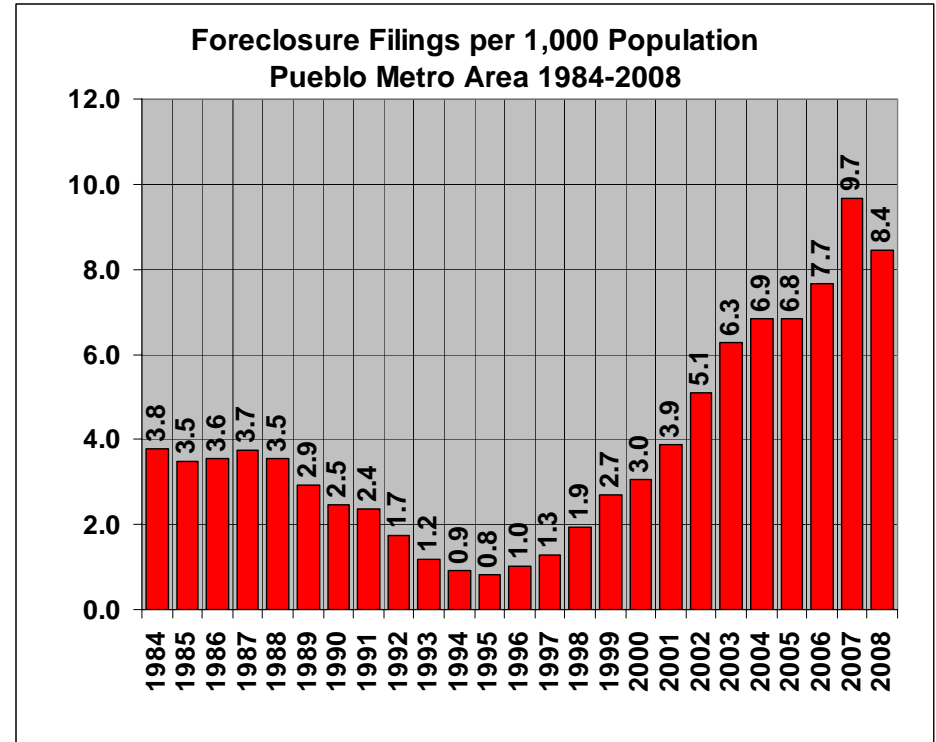
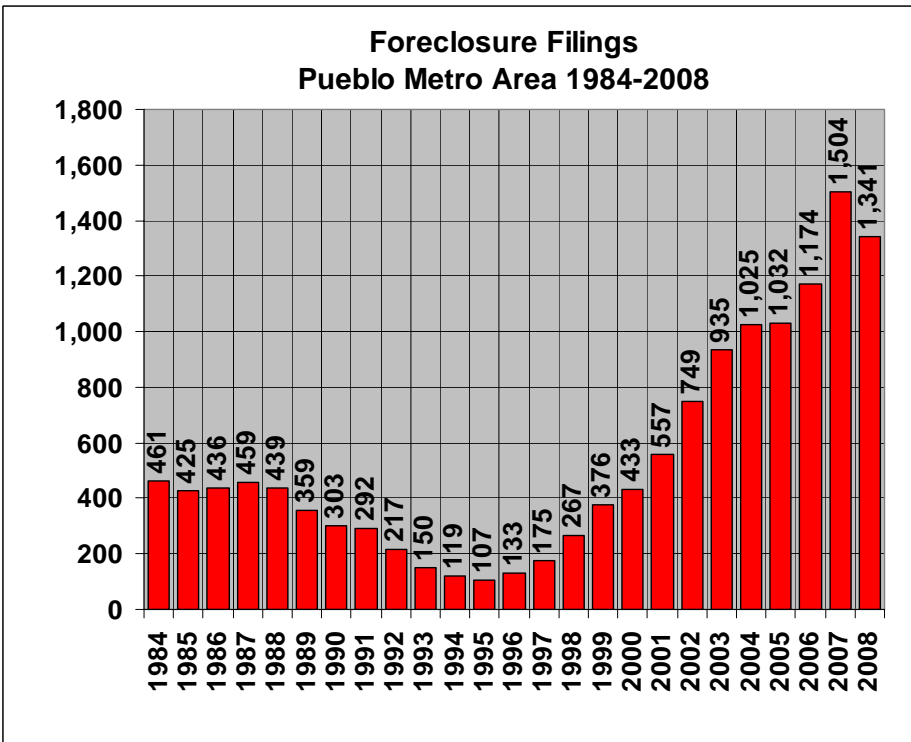
The resale market in Pueblo slowed some in 2008. Resale home sales totaled 2,320 units in 2008, down from 2,434 in 2007, a decline of 4.7%. The slowdown in sales activity over the past several years, has created a bubble of inventory, especially in luxury homes, where realtors report a significant amount of supply at current sales rates.

The shift from the use of conventional-type financing to creative financing for home purchase expanded the market for buyers, giving both the new and resale market an added push in 2004-2006. Sub-prime loans for home purchases made up 35% of all loans in 2004, 43% in 2005, 38% in 2006, then dropped to 8% in 2007. Sub-prime and prime loans for home refinancing made up close to the same percentages in 2004-2007. While we don't have data for 2008, it is clear that the sub-prime era has ended.



Home mortgage foreclosure filings in Pueblo declined slightly to 1,341 in 2008 from a peak of 1,504 in 2007. Foreclosures on a per capita basis have increased significantly since the mid-1990s. But, foreclosure filings per 1,000 population in Pueblo dropped slightly in 2008 to 8.4 per 1,000 population, lower than the 9.7 in 2007, but still up from less than one per 1,000 population in the mid-1990s.

The Pueblo housing market is clearly paying a price for the liberal use of creative mortgage financing for both home purchases and refinancing over the past few years. Sub-prime loans with low teaser rates, zero down and adjustable rate mortgages were a disaster waiting to happen. With a slowing economy and a drop in home values in 2008, the problem will likely get worse, before it gets better. It would not be a surprise to see local foreclosures remain at well over 1,000 per year over the next three years.



Fort Carson will see a big increase in troops over the next five years. The Army is planning to assign about 10,300 more troops to Fort Carson by 2013. About 3,600 were already added in 2006 and 2007.

About half of the increase in troops at Fort Carson is planned for 2009. An estimated 1,000 troops with the 4th Infantry Division Headquarters and 3,800 troops with the 1st Brigade Combat Team are expected to be restationed to Fort Carson from Fort Hood after their tours in Iraq are completed in the 2nd quarter of 2009.

There has been a lot of speculation about the size of the potential impact of Fort Carson’s announced expansion on the Pueblo housing market. Today, a very small percentage, only 2.4% of troops stationed at the post, live in Pueblo County. It is not likely that Pueblo will see a significant jump in housing demand from the expected troop increases unless:

1. A bigger gap in housing affordability opens up between Pueblo and Colorado Springs
2. Commuter patterns change with the addition of a southern entrance to the post

Housing needed to accommodate the expected total increase in troops assigned to Fort Carson by 2013 is estimated to include:

- 770 Family units on-post
- 810 Owner units off-post
- 1,040 Barracks spaces on-post
- 6,000 Renter units off-post (2,500 absorbed from existing stock)

Fort Carson Assigned Troops

Year	Total	Change
2005	14,500	
2008	18,100	3,600
2009	23,200	5,100
2011	28,100	4,900
2013	28,300	300

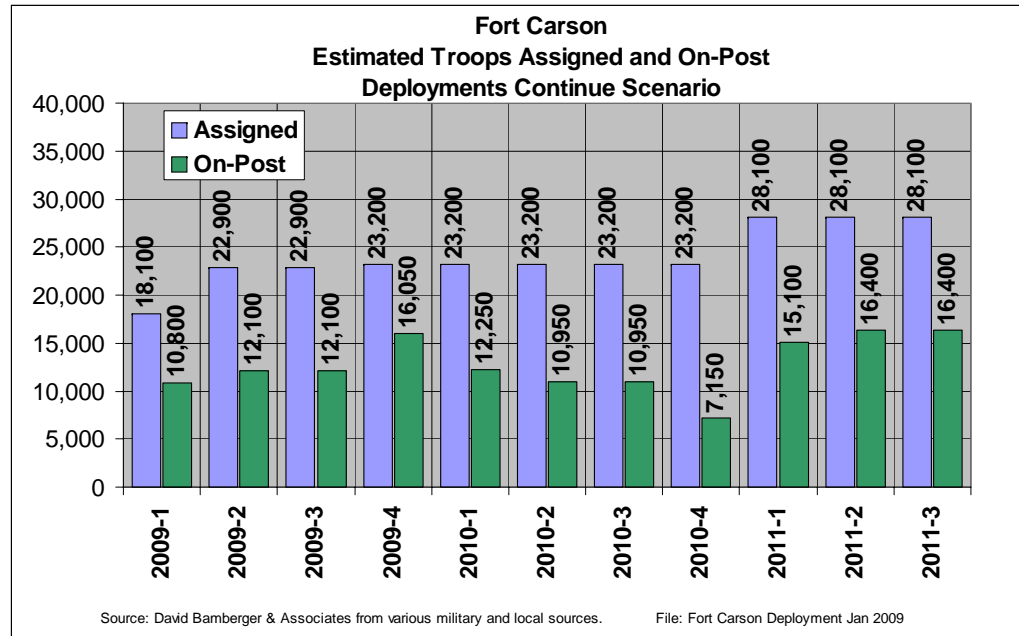
Source: Fort Carson (1/31/009)

We should note that these housing needs estimates assume that all of the expected increase of 10,300 troops will be on-the-ground at Fort Carson. The actual need and timing of new housing construction to meet that need will depend on the number of troops deployed over-seas and the choices families make on where they will reside during the spouse’s deployment.

While the impact on Pueblo’s housing market of Fort Carson expansion is uncertain at this time, we can make some assumptions to illustrate “orders of magnitude”. If Pueblo’s existing 2.4% share of Fort Carson’s troops were doubled to 5% and applied to the increase in Fort Carson troops living off-post, then there would be a demand for about 40 owner units and 300 renter units. These are not exceptionally large numbers.

While the expected mid-year 2009 increase in troops at Fort Carson is a positive signal, troop deployments to Iraq and Afghanistan could mitigate the impact on the housing industry. For example, while a large number of troops will be restationed at Fort Carson in 2009, the 4thBCT (3,800 soldiers) will deploy from Fort Carson to Afghanistan in the 2nd quarter of the year.

Taking the past deployment-restation schedule into the future -- Assuming deployments continue with 12 month cycles, the number of troops actually on the ground at Fort Carson could vary from a high of 16,050 in the 4th quarter of 2009 to a low of 7,150 in the 4th quarter of 2010.



Troops Assigned to Fort Carson										Assigned	
Year-Qtr	HQ 4ID	1BCT 4ID	2BCT 4ID	3BCT 4ID	4BCT 4ID	New BCT	43SB	10th SFG	Other	Total	Change
2009-1	300		3,800	3,800	3,800		2,000	1,500	2,900	18,100	
2009-2	1,300	3,800	3,800	3,800	3,800		2,000	1,500	2,900	22,900	4,800
2009-3	1,300	3,800	3,800	3,800	3,800		2,000	1,500	2,900	22,900	0
2009-4	1,300	3,800	3,800	3,800	3,800		2,000	1,800	2,900	23,200	300
2010-1	1,300	3,800	3,800	3,800	3,800		2,000	1,800	2,900	23,200	0
2010-2	1,300	3,800	3,800	3,800	3,800		2,000	1,800	2,900	23,200	0
2010-3	1,300	3,800	3,800	3,800	3,800		2,000	1,800	2,900	23,200	0
2010-4	1,300	3,800	3,800	3,800	3,800		2,000	1,800	2,900	23,200	0
2011-1	1,300	3,800	3,800	3,800	3,800	3,800	2,400	1,800	3,600	28,100	4,900
2011-2	1,300	3,800	3,800	3,800	3,800	3,800	2,400	1,800	3,600	28,100	0
2011-3	1,300	3,800	3,800	3,800	3,800	3,800	2,400	1,800	3,600	28,100	0

Troops On-Post at Fort Carson										On-Post	
Year-Qtr	HQ 4ID	1BCT 4ID	2BCT 4ID	3BCT 4ID	4BCT 4ID	New BCT	43ASG / SB	10th SFG	Other	Total	Change
2009-1			0	3,800	3,800		1,000	750	1,450	10,800	
2009-2	1,300	3,800	0	3,800	0		1,000	750	1,450	12,100	1,300
2009-3	1,300	3,800	0	3,800	0		1,000	750	1,450	12,100	0
2009-4	1,300	3,800	3,800	3,800	0		1,000	900	1,450	16,050	3,950
2010-1	1,300	3,800	3,800	0	0		1,000	900	1,450	12,250	-3,800
2010-2	0	0	3,800	0	3,800		1,000	900	1,450	10,950	-1,300
2010-3	0	0	3,800	0	3,800		1,000	900	1,450	10,950	0
2010-4	0	0	0	0	3,800		1,000	900	1,450	7,150	-3,800
2011-1	0	0	0	3,800	3,800	3,800	1,000	900	1,800	15,100	7,950
2011-2	1,300	3,800	0	3,800	0	3,800	1,000	900	1,800	16,400	1,300
2011-3	1,300	3,800	0	3,800	0	3,800	1,000	900	1,800	16,400	0

Source: David Bamberger & Associates from various military and local sources.

File Fort Carson Deployments Jan 2009

Housing production totaled only 416 units in 2008, down from 667 in 2007, a drop of 251 units and 47.6%. Last year's drop followed a big decline in 2007 when production fell by 587 units and 46.8% from 1,254 in 2006.

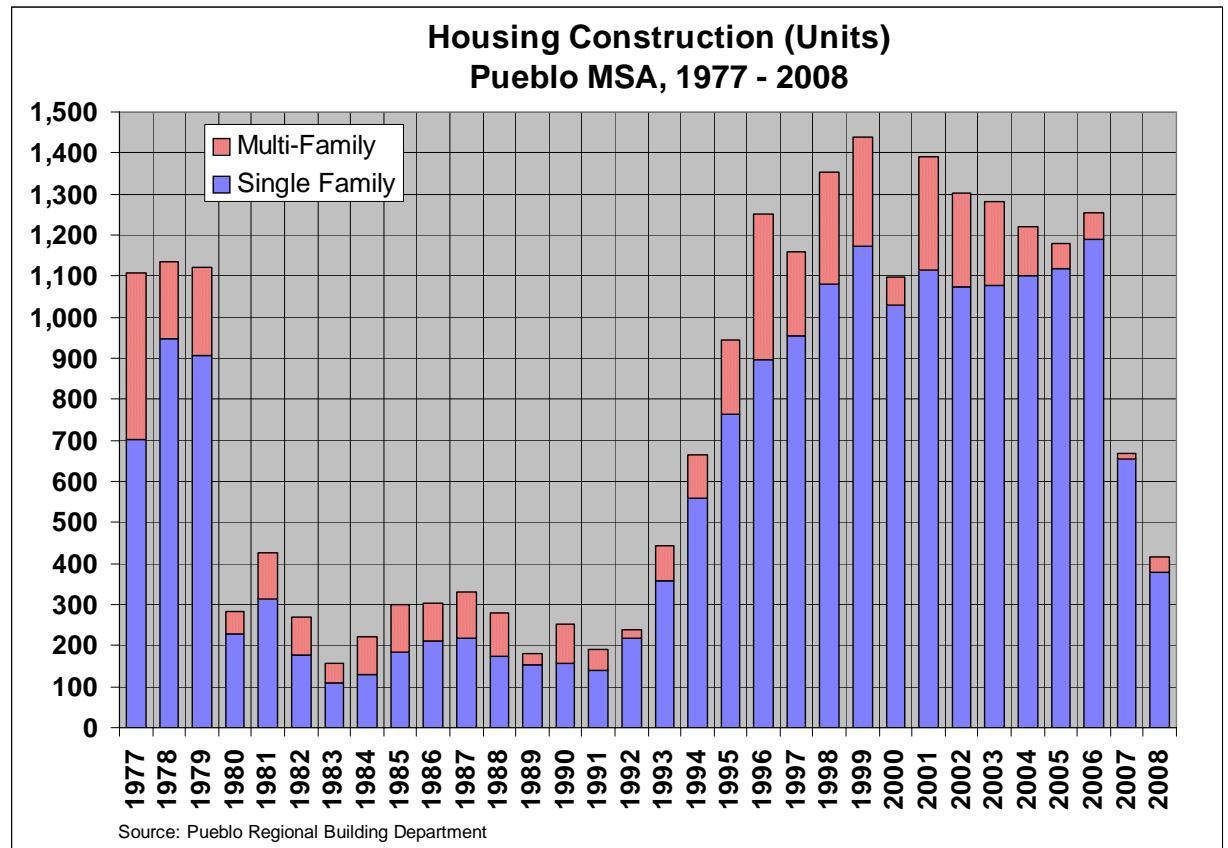
The big drop in the production of new housing in Pueblo in 2007 and 2008 followed the nationwide housing market implosion. The subprime mortgage melt-down, overbuilding and tightening of home financing requirements that had a big impact throughout the country, also had a big impact on the Pueblo new home market in 2007 and 2008.

Housing production in 2008 included 379 single family units and 37 multi-family units. Single family production hovered at a little over 1,000 units per year between 1996 and 2006. Until 2007, swings in new multi-family home production, with a high in 1996 of 356 and a low of 60 in 2005, accounted for most of the variation in total residential construction in the Pueblo metro area.

New Home Construction (units)
Pueblo Metropolitan Area, 1990 - 2008

Year	Single Family	Multi-Family	Total
1990	156	97	253
1991	140	50	190
1992	219	21	240
1993	359	83	442
1994	559	106	665
1995	764	179	943
1996	896	356	1,252
1997	955	204	1,159
1998	1,079	274	1,353
1999	1,173	264	1,437
2000	1,028	70	1,098
2001	1,114	276	1,390
2002	1,075	228	1,303
2003	1,078	204	1,282
2004	1,100	120	1,220
2005	1,119	60	1,179
2006	1,190	64	1,254
2007	653	14	667
2008	379	37	416

Source: Regional Building Department.

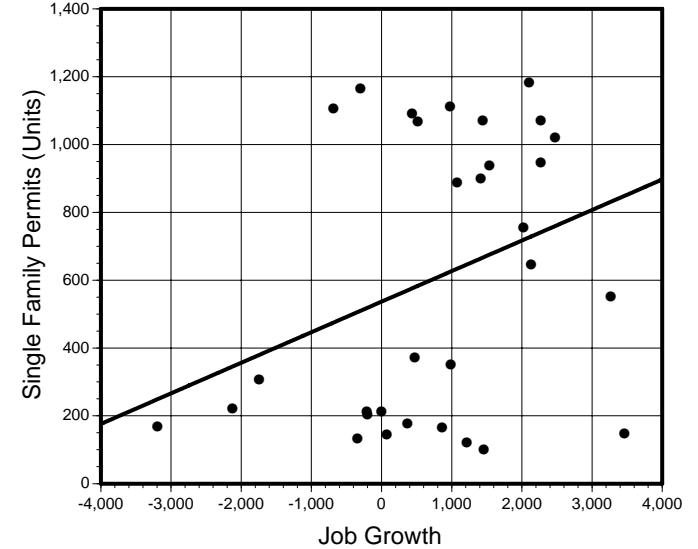


The main drivers of the Pueblo housing market are job growth, interest rates and net migration. This is confirmed in a recent update to the research that we conduct every year on the Pueblo housing market.

A couple of years ago we added net migration to our kit of data and analysis tools. Plugging in net migration as an explanatory variable enhances our understanding of how the market works and the direction it might take in the future.

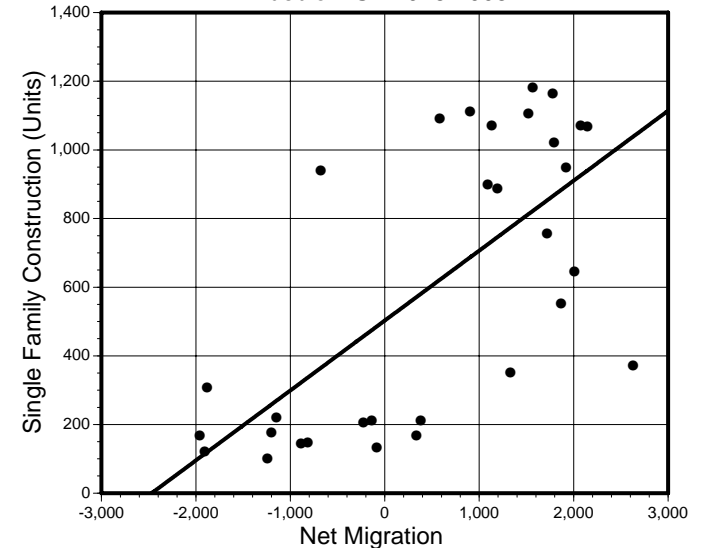
We have learned that commuters with jobs in other cities and retirees moving to Pueblo have recently emerged as important forces in the Pueblo housing market. The large gains in net-migration in part helps explain why the housing market remained strong even though job growth was weak and even negative in 1999-2001. Strong net-migration didn't boost the market in 2008, however.

Relationship Between Single Family Construction and Job Growth Pueblo MSA 1978-2008



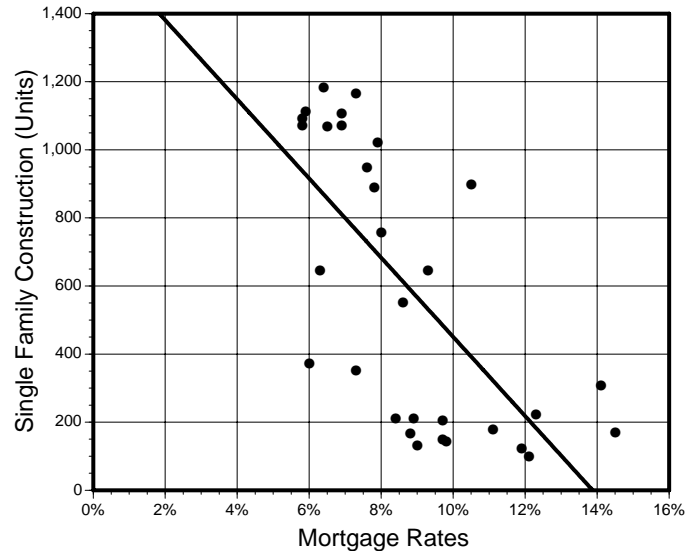
Source: Pueblo Regional Building Department, Colorado Department of Labor and Employment and David Bamberger & Associates.

Relationship Between Single Family Construction and Net Migration Pueblo MSA 1978-2008



Source: Pueblo Regional Building Department, Colorado State Demographer and David Bamberger & Associates.

Relationship Between Single Family Construction and Mortgage Rates Pueblo MSA 1978-2008



Source: Pueblo Regional Building Department, Federal Reserve Bank, Various Mortgage Companies and David Bamberger & Associates.

HOUSING, JOBS, INTEREST RATES AND NET MIGRATION
PUEBLO, 1977-2008

Year	Total Employment		New Home Construction (units)			Resale Home Sales	Total Housing Activity	Net Migration	Home Mortgage Rate	New as a % of Total Housing Activity	Change in Employment to New Home Construction
	Total	Change	Single Family	Multi-Family	Total						
1977	45,872		701	406	1,107	2,058	3,165	-1,919	8.8%	35.0%	
1978	47,405	1,533	947	188	1,135	2,073	3,208	-681	9.3%	35.4%	1.35
1979	48,813	1,408	907	216	1,123	2,249	3,372	1,089	10.5%	33.3%	1.25
1980	46,682	-2,131	229	54	283	1,298	1,581	-1,149	12.3%	17.9%	-7.53
1981	44,932	-1,750	315	110	425	1,464	1,889	-1,883	14.1%	22.5%	-4.12
1982	41,734	-3,198	176	92	268	1,059	1,327	-1,962	14.5%	20.2%	-11.93
1983	43,187	1,453	108	49	157	1,034	1,191	-1,246	12.1%	13.2%	9.25
1984	44,395	1,208	130	91	221	1,255	1,476	-1,910	11.9%	15.0%	5.47
1985	44,761	366	185	114	299	1,129	1,428	-1,205	11.1%	20.9%	1.22
1986	44,556	-205	212	91	303	1,299	1,602	-228	9.7%	18.9%	-0.68
1987	44,342	-214	219	111	330	1,167	1,497	-142	8.9%	22.0%	-0.65
1988	45,200	858	174	104	278	1,171	1,449	332	8.8%	19.2%	3.09
1989	45,272	72	152	28	180	1,047	1,227	-887	9.8%	14.7%	0.40
1990	48,728	3,456	156	97	253	1,120	1,373	-818	9.7%	18.4%	13.66
1991	48,383	-345	140	50	190	1,145	1,335	-89	9.0%	14.2%	-1.82
1992	48,380	-3	219	21	240	1,282	1,522	378	8.4%	15.8%	-0.01
1993	49,360	980	359	83	442	1,382	1,824	1,327	7.3%	24.2%	2.22
1994	52,623	3,263	559	106	665	1,187	1,852	1,864	8.6%	35.9%	4.91
1995	54,642	2,019	764	179	943	1,477	2,420	1,717	8.0%	39.0%	2.14
1996	55,715	1,073	896	356	1,252	1,541	2,793	1,192	7.8%	44.8%	0.86
1997	57,982	2,267	955	204	1,159	1,514	2,673	1,916	7.6%	43.4%	1.96
1998	59,423	1,441	1,079	274	1,353	1,817	3,170	2,070	6.9%	42.7%	1.07
1999	59,117	-306	1,173	264	1,437	1,963	3,400	1,778	7.3%	42.3%	-0.21
2000	61,584	2,467	1,028	70	1,098	1,680	2,778	1,789	7.9%	39.5%	2.25
2001	60,896	-688	1,114	276	1,390	1,775	3,165	1,519	6.9%	43.9%	-0.49
2002	61,410	514	1,075	228	1,303	1,826	3,129	2,144	6.5%	41.6%	0.39
2003	63,673	2,263	1,078	204	1,282	2,039	3,321	1,129	5.8%	38.6%	1.77
2004	64,104	431	1,100	120	1,220	2,301	3,521	578	5.8%	34.6%	0.35
2005	65,077	973	1,119	60	1,179	2,729	3,908	901	5.9%	30.2%	0.83
2006	67,179	2,102	1,190	64	1,254	2,757	4,011	1,566	6.4%	31.3%	1.68
2007	69,308	2,129	653	14	667	2,434	3,101	2,005	6.3%	21.5%	3.19
2008	69,779	471	379	37	416	2,320	2,736	2,629	6.0%	15.2%	1.13

Sources: Colorado Dept. of Labor and Employment, Pueblo Regional Building Dept., Pueblo Board of Realtors, U.S. Bureau of the Census and the Colorado State Demographer.

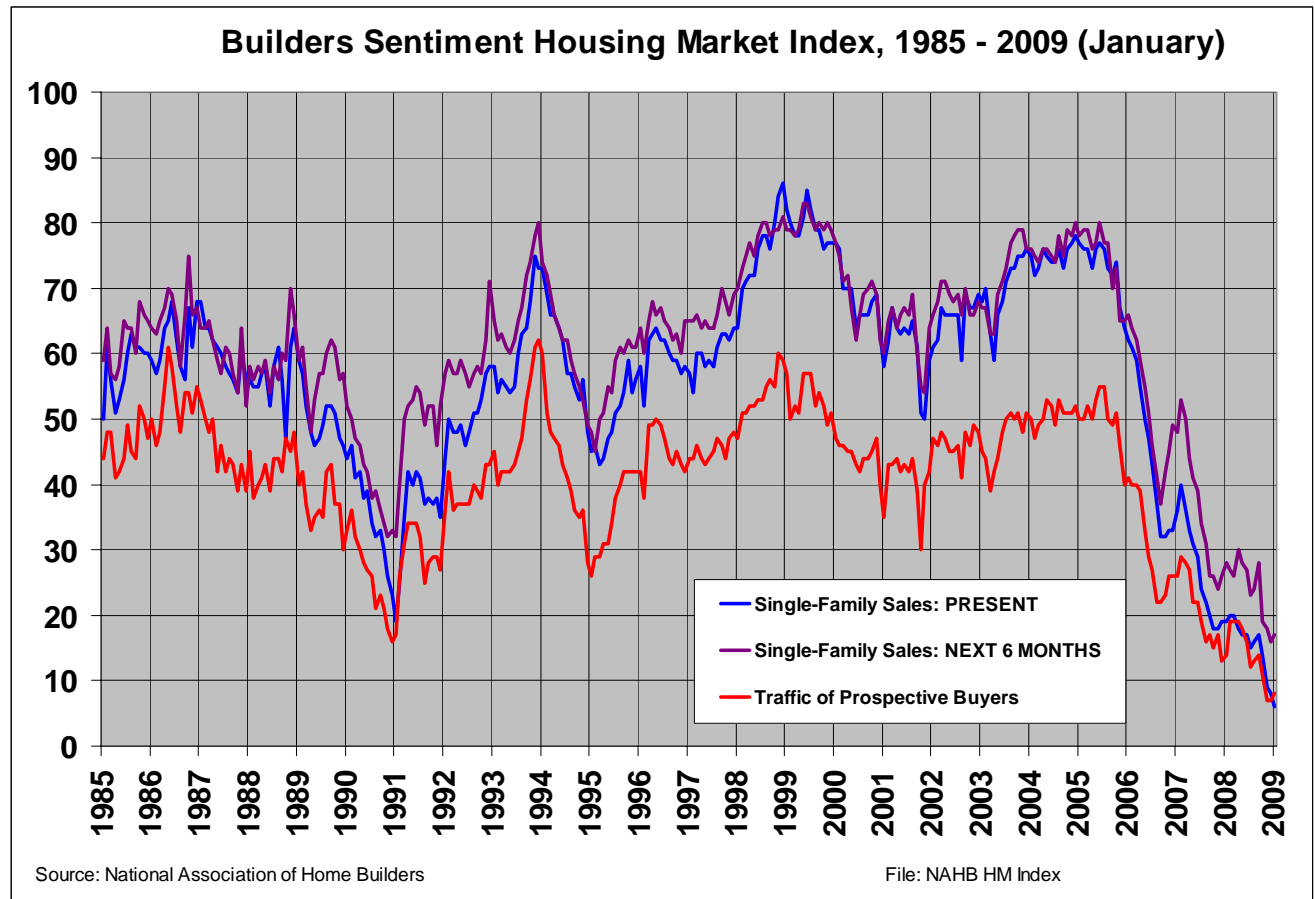
Note: Multi-family includes duplexes, 4-plexes, townhomes, condos and apartments.

Note: Single family includes single family detached.

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. Pueblo has not been 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 decline in builder confidence since 2005. The recent melt-down of credit markets and the bad economic news has pushed builder confidence down to a record low in January 2009.

Most economists are predicting that the US housing market will not see the bottom until at least mid-2009. There is still an over-hang of both new and resale homes on the market in many parts of the country. The increase in foreclosure activity in 2009 will add to the over-hang. Inventory levels must drop significantly and prices must stabilize before new home construction can get back 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.

The Economic and Housing Market Forecast Scenarios

Today the housing market in the US is in grid-lock, driven by panic and fear. The credit and financial market crisis spilled over into the real economy. The US economy has been in a recession for the past year. The slowdown has been accelerated by layoffs, wage cut-backs and mortgage defaults. Home buyers are waiting for home prices to stabilize. Lenders are waiting for credit risk to get back to normal. Everybody is waiting for the economic news to turn positive.

The Pueblo housing market is in the biggest slump it has seen in a number of years. The global, national and local economic signals are gloomy. Local job growth slowed in 2008 and could go into negative territory in 2009. Recovery of housing markets may be a long way off. The question is when will the market see the bottom? Will it get worse before it gets better, or are we on a slow road back?

The single family housing market in Pueblo could follow one of several different paths over the next two years. To keep it simple we have developed two scenarios to illustrate the possible future directions of the Pueblo single family housing market.

The first path we call “**The Melt-down Continues**” 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.

Each of these scenarios and our forecasts are discussed in the following four pages.....

The Melt-down Continues Scenario

Forecasts -- "The Melt-down Continues" Scenario

Single Family Permits, Mortgage Rates, Net Migration and Job Growth
Pueblo Metro Area, 1990 - 2011

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	156	9.7%	-818	3,456
1991	140	9.0%	-89	-345
1992	219	8.4%	378	-3
1993	359	7.3%	1,327	980
1994	559	8.6%	1,864	3,263
1995	764	8.0%	1,717	2,019
1996	896	7.8%	1,192	1,073
1997	955	7.6%	1,916	2,267
1998	1,079	6.9%	2,070	1,441
1999	1,173	7.3%	1,778	-306
2000	1,028	7.9%	1,789	2,467
2001	1,114	6.9%	1,519	-688
2002	1,075	6.5%	2,144	514
2003	1,078	5.8%	1,129	2,263
2004	1,100	5.8%	578	431
2005	1,119	5.9%	901	973
2006	1,190	6.4%	1,566	2,102
2007	653	6.3%	2,005	2,129
2008	379	6.0%	2,629	471
2009 forecast	260	5.8%	100	-400
2010 forecast	300	5.9%	200	0
2011 forecast	400	6.0%	400	400

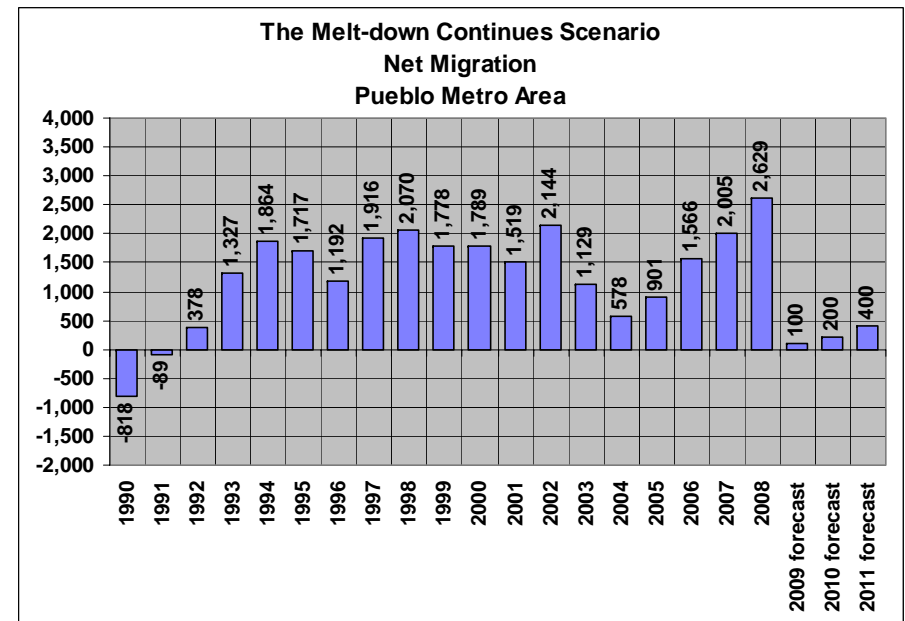
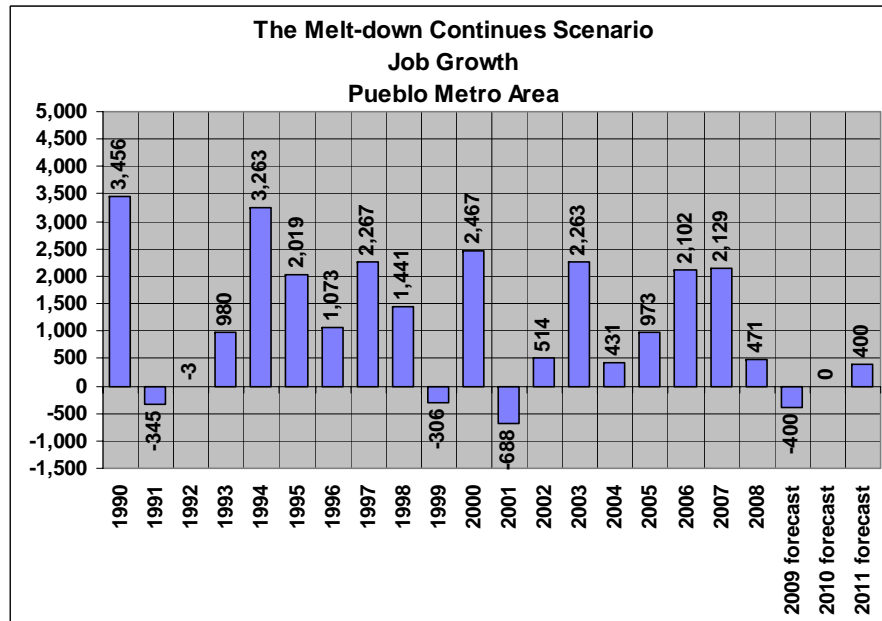
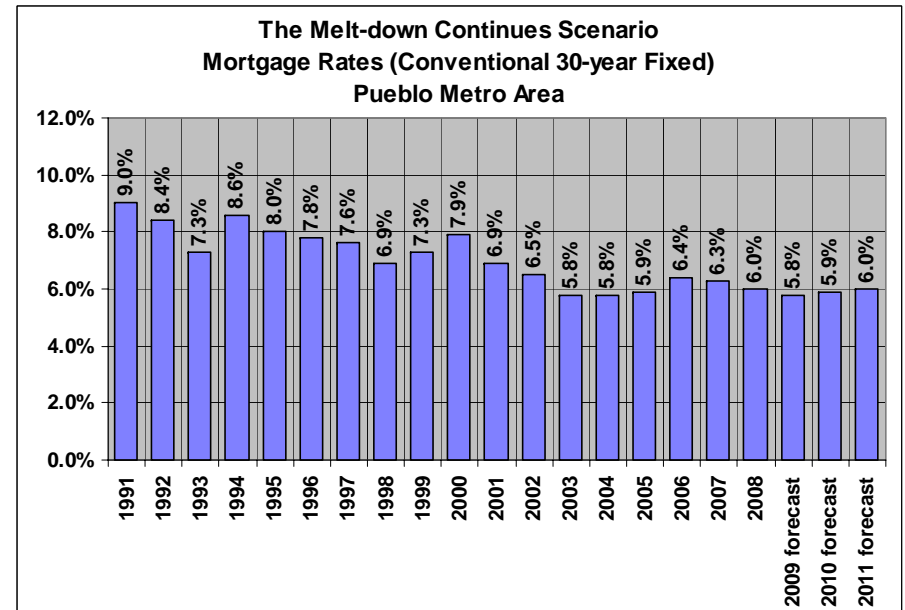
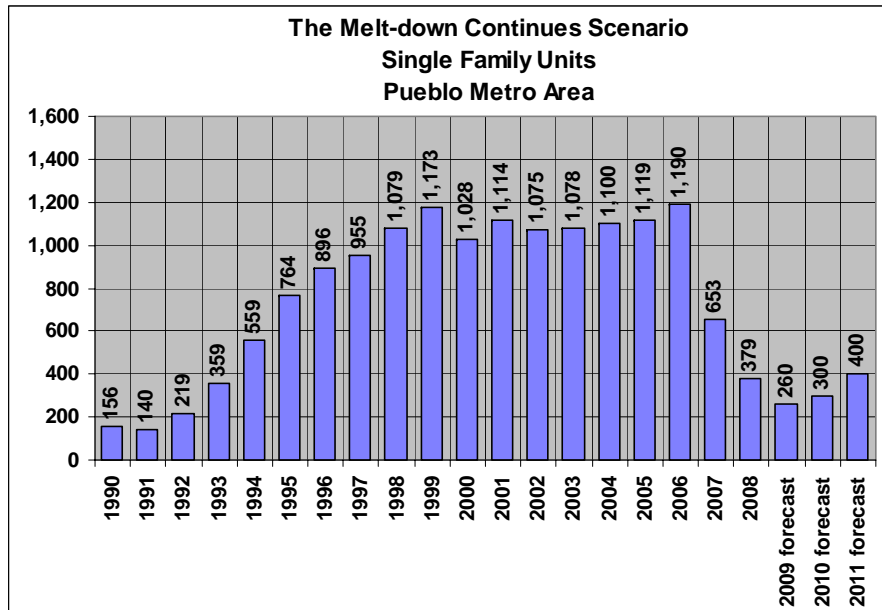
Source: David Bamberger & Associates.

Actions of the Federal Reserve Bank, the US Treasury Department, and central banks around the world are not successful in stemming global economic melt-down.

The US economy falls into an irreversible downward spiral and goes into a deep and prolonged recession in 2009. Frozen credit markets, declining housing values, a jump in mortgage delinquencies, a big drop in consumer confidence, a slow-down in retail spending, growing stock market losses, increased lay-offs, negative job growth, a big jump in consumer debt defaults, and a decline in business investment pushes the US economy into deep recession in 2009 and 2010.

The Pueblo economy follows the path set by the US economy. Feeling the impact of the US recession, the local economy slows dramatically. Job growth goes negative in 2009 and remains at zero in 2010. Home shopper traffic drops even farther, contract cancellations rise as lenders tighten mortgage qualification criteria.

Single family housing starts decline to 260 in 2009 and rises only slightly to 300 in 2010 and 400 in 2011.



The Road Back Scenario

Forecasts -- "The Road Back" Scenario

Single Family Permits, Mortgage Rates, Net Migration and Job Growth
Pueblo Metro Area, 1990 - 2011

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	156	9.7%	-818	3,456
1991	140	9.0%	-89	-345
1992	219	8.4%	378	-3
1993	359	7.3%	1,327	980
1994	559	8.6%	1,864	3,263
1995	764	8.0%	1,717	2,019
1996	896	7.8%	1,192	1,073
1997	955	7.6%	1,916	2,267
1998	1,079	6.9%	2,070	1,441
1999	1,173	7.3%	1,778	-306
2000	1,028	7.9%	1,789	2,467
2001	1,114	6.9%	1,519	-688
2002	1,075	6.5%	2,144	514
2003	1,078	5.8%	1,129	2,263
2004	1,100	5.8%	578	431
2005	1,119	5.9%	901	973
2006	1,190	6.4%	1,566	2,102
2007	653	6.3%	2,005	2,129
2008	379	6.0%	2,629	471
2009 forecast	400	5.9%	500	0
2010 forecast	500	6.0%	900	600
2011 forecast	700	6.2%	1,200	900

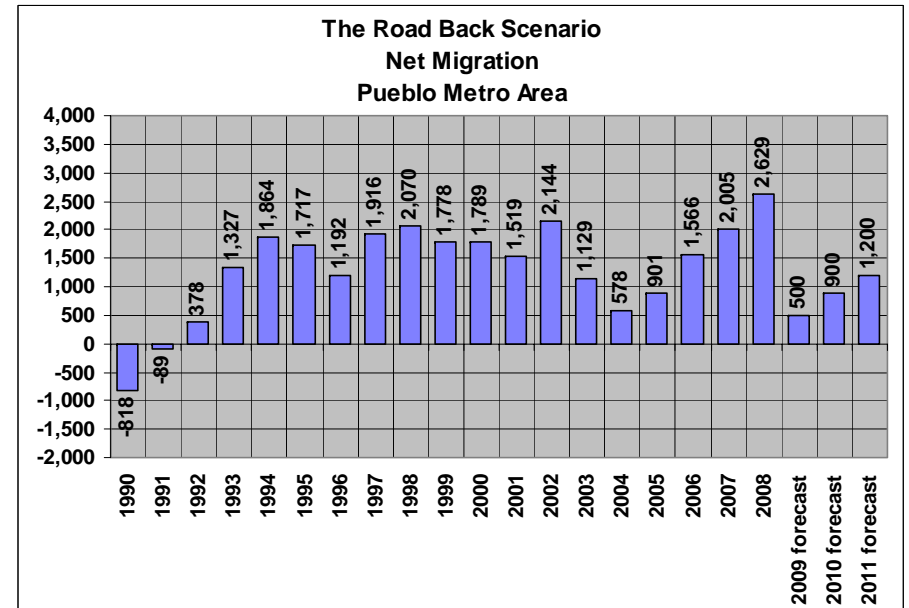
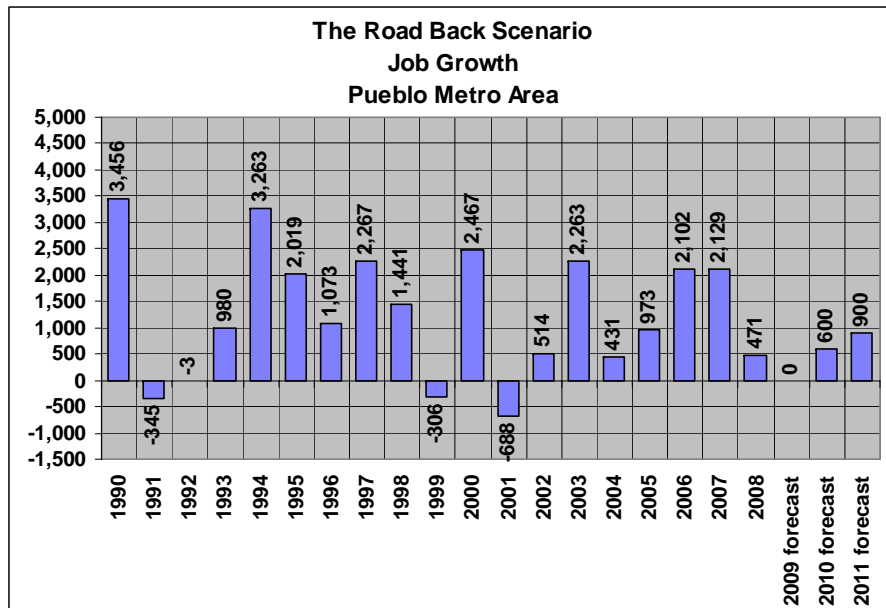
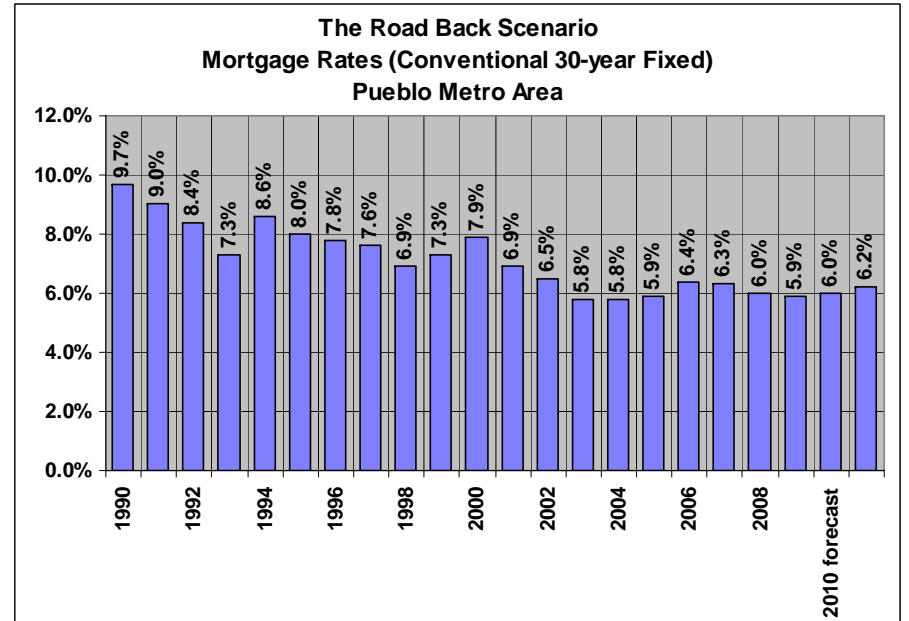
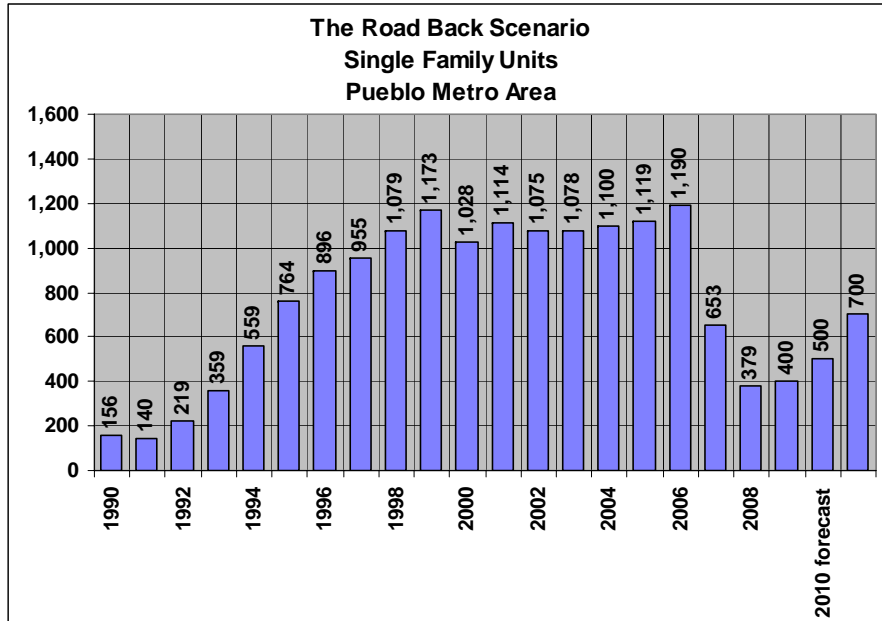
Source: David Bamberger & Associates.

Actions of the Federal Reserve Bank, the US Treasury Department, and central banks around the world are successful in stemming global economic melt-down.

The US economy wobbles along, but does not drop into a deep recession. In spite of declining housing values, a jump in mortgage delinquencies, and troubled financial markets in 2009 and early 2010, the US economy starts to see positive signs in mid-2010. Job growth turns positive, personal income shows gains, consumer spending increases and business investment picks up. The US economy dodges a fatal bullet and the bleeding stops by year-end 2010.

In 2009 the Pueblo economy follows the path set by the US economy. The local economy moves ahead in slow motion. Job growth is zero in 2009, but jumps to 600 in 2010. Builders see shopper traffic increase some as potential buyers gain confidence that economic and housing market conditions improve.

Single family housing starts increase to 400 in 2009 and 500 in 2010 and then jump to 700 in 2011.



Final Thoughts

The Pueblo single family housing market continued its downward spiral through 2008. The party ended in 2006, leaving the market with a little hangover in 2007; the hangover pain got even worse in 2008.

Today, spec new home inventories are still very low. Lenders and builders have done a great job to bring down the over-hang of unsold new homes. Builders are building a few specs, but only when the market signals indicate there is a high probability of a sale.

The question everybody is asking is... “Have we seen the bottom?” Well, maybe we’ll see it in 2009, but, remember, several key factors have to come together before the local single family market can recover and return to normal conditions. They include the following....

- Recovery from the global credit market freeze
- Increased local job and income growth
- Draw down excess inventory of homes on the market
- Continued low mortgage rates
- Return to positive housing price appreciation
- Return to normal credit underwriting standards
- Improved market psychology
- increased consumer confidence
- Increased global and national economic growth
- Reduced foreclosure activity

The big uncertainty the housing market faces today is the possibility of continued global economic melt-down that could translate into a prolonged period of very slow going.