

# *STRATEGIC RESEARCH*

## **The Pueblo Housing Market 2010 - 2012**

prepared for

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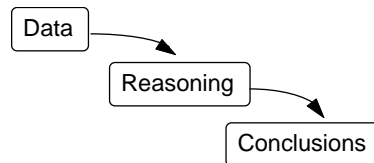
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prepared by  
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**February 1, 2010**



## David Bamberger & Associates



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**Introduction and Summary**

## Introduction

This is the 18th 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 2010-2012.

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 2010. Data collected in the survey included 2009 production and sales, year-end unsold inventory and construction activity, past and expected future price increases, expected production for 2010, and buyer demographics. The builder survey covered 12 builders who accounted for about 43% of the builder generated single family permit activity in 2009.

**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: 2009 - 55, 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 2009. New single family home production totaled only 184 permits for the year, down 51%. The resale housing market also saw slower sales with 1,987 for the year, down 15% from 2008.

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, 2008 and 2009 for creating new buyers and borrowing buyers from the future. The buyer pool for new homes has contracted, significantly.

Following the national economic decline, the Pueblo economy slowed in 2009. Job growth fell into negative territory, declining by almost 1,800 jobs in 2009, a drop of 2.6%.

Builders responded to the slowdown in buyer traffic by dramatically cutting back on spec building. Much of the spec overhang left in 2008 was sold in 2009. 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 struggling to gain traction. 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 economy see renewed growth? When will local job growth turn positive? 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 saw 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....

- Continued thawing of the credit market freeze
- Increased local job and income growth
- Continued draw down of excess inventory of homes
- Continued low mortgage rates
- Return to normal credit underwriting standards
- Improved market psychology
- Increased consumer confidence
- Increased global and national economic growth

**The big question is.... where will the local housing market go in 2010, 2011 and 2012? 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 wobble along at the bottom in 2010, 2011 and 2012.**

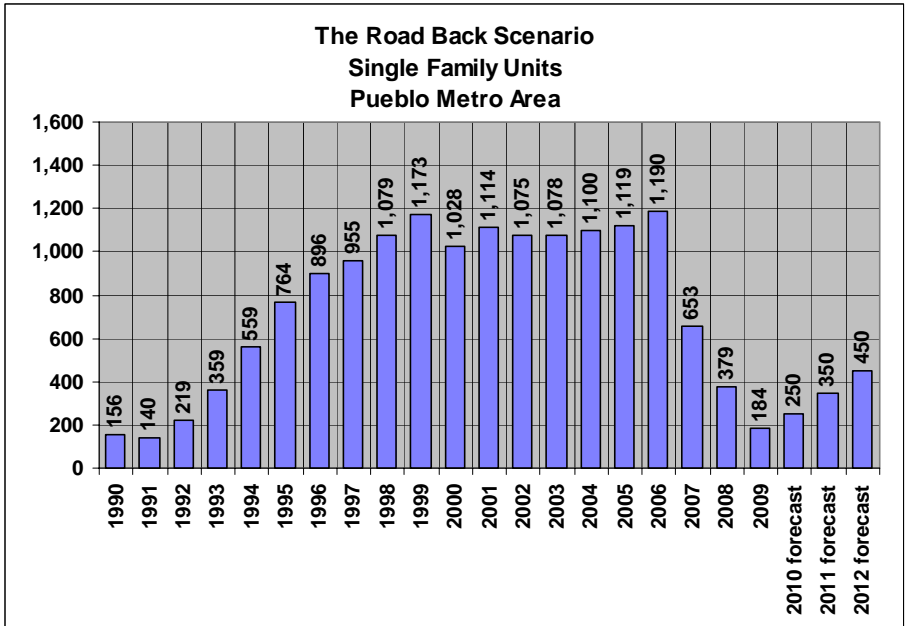
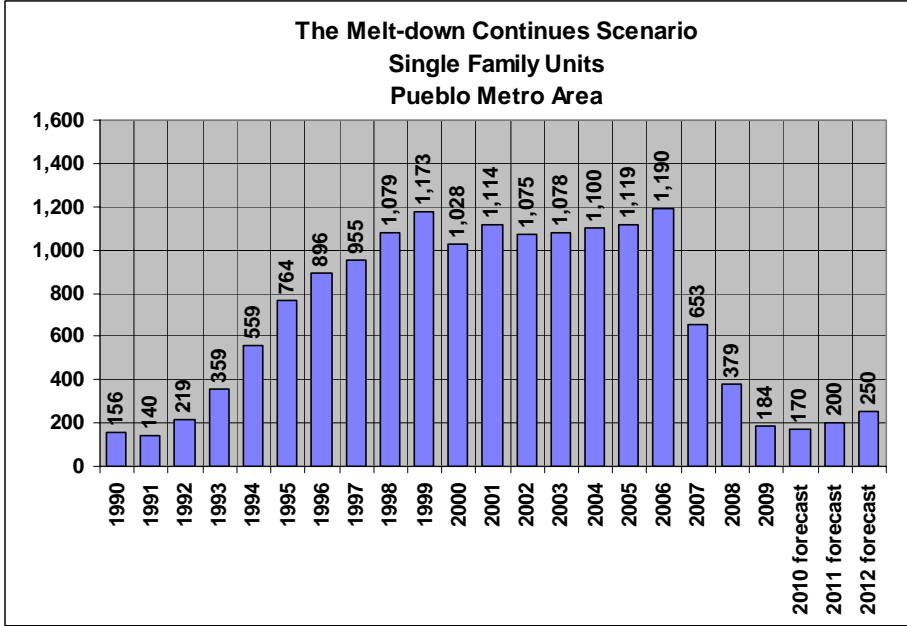
**In 2009 the Pueblo economy follows the path set by the US economy.** The local economy continues on a slow path. Single family housing construction declines to 170 in 2010.

**In 2011 the national and the local economy continues in recession mode.** Some signs of housing market recovery appear in mid-2011 and local single family housing construction increases to 200 in 2011 and 250 in 2012.

**“The Road Back” scenario - The US economy bottomed out toward the end of 2009 and shows recovery going into 2010, 2011 and 2012.**

**In 2010 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 250 in 2010.

**In 2011 the national economy starts to recover and the local economy follows.** The housing market starts to pick up in early-2011 and local single family housing construction increases to 350 in 2011 and 450 in 2012.



**Discussion of Findings**

**The US economy continues to wobble along at the bottom going into 2010.** The recession, which officially started in December 2007, likely saw the bottom in the 3rd quarter of 2009. But, the after-shock tremors are still being felt. Job losses continue and unemployment keeps climbing. Growth in consumer spending remains slow. Mortgage foreclosures continue to climb at an alarming rate. New housing production continues to decline. Housing values are still in negative territory.

**US economy going into 2010 – Some bad economic news and some good news.....**

**Bad News**

- Unemployment Rate: 10.0% (Dec 2009)
- Job Growth: -306,330 (4th Qtr 2009)
- Personal Consumption Spending: 0.5% (4th Qtr 2009)
- Housing Starts: -38.7% (2009 annual)

**Good News**

- Gross Domestic Product: 5.7% (annual rate % change 4th Qtr 2009, provisional estimate)
- CPI: -0.31% (2009 annual)
- Retail Sales: 1.7% (4th Qtr. 2009)
- Dow Jones Industrial Average: 10,067 (end of last week in Jan 2010)

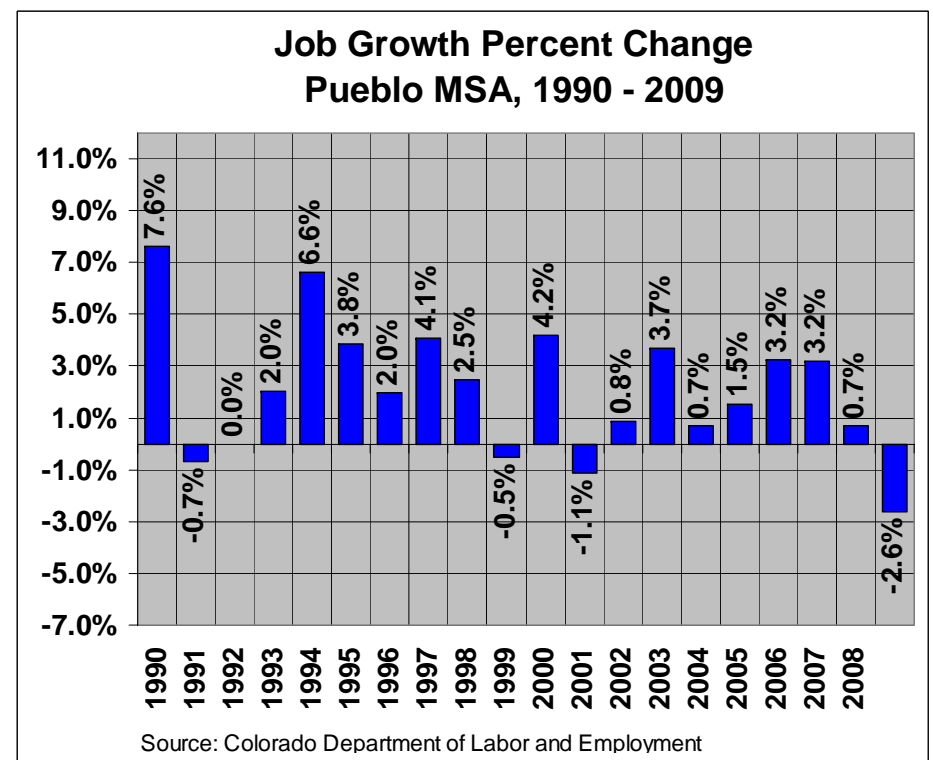
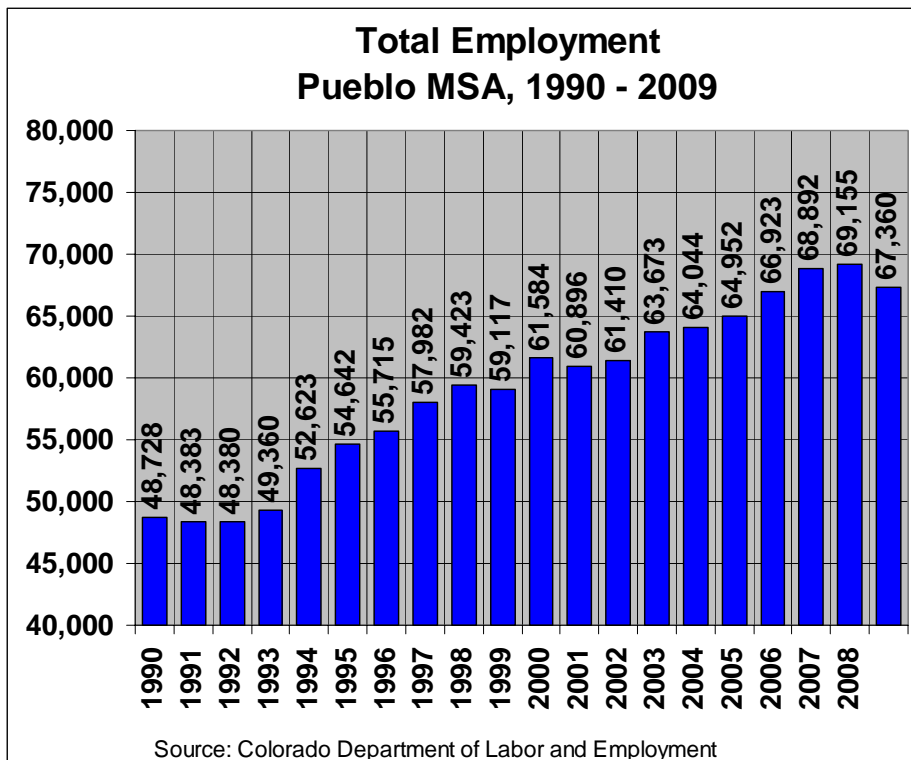
**Looking ahead....** A survey of professional forecasters conducted by the Federal Reserve Bank of Philadelphia predicts the US economy will see a jobless recovery over the next two years, with unemployment remaining at a high level and inflation remaining low.

	<u>2010</u>	<u>2011</u>
• GDP	2.4%	3.1%
• Inflation (CPI)	1.4%	1.8%
• Unemployment	10.0%	9.2%

**The Pueblo economy is like a small ship being tossed around in a turbulent global economic sea.** The local economy has been dramatically affected by outside forces, over which it has little control. In 2009 job growth went negative and unemployment rose significantly.

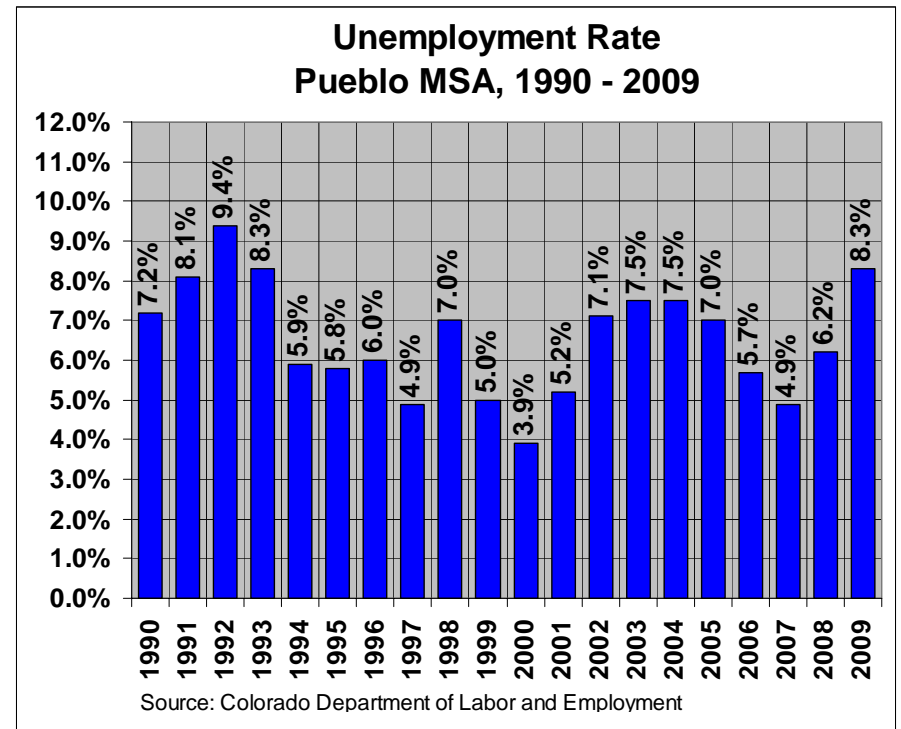
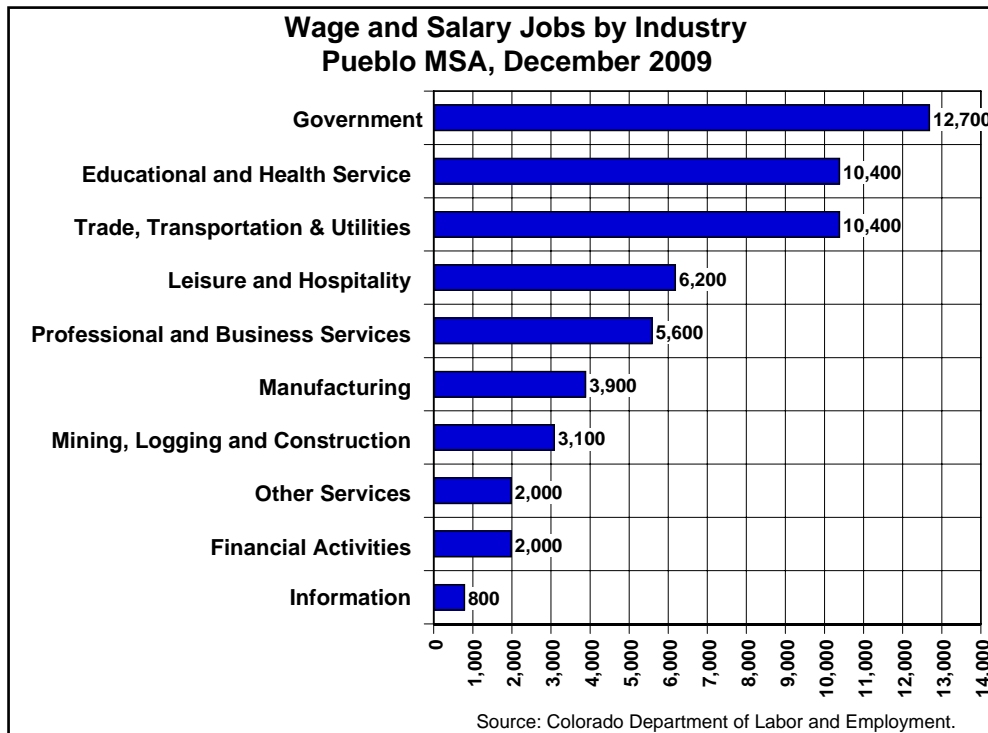
**Employment in the Pueblo metro area totaled 67,360 in 2009, a decline of almost 1,800 jobs, or 2.6% for the year.** Up until 2009 the number employed showed gains for seven years in a row.

**In spite of the recent decline, 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 25,630 net new jobs have been created, an average of about 915 per year, an annual rate of growth of 1.7%.



**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 12,700 employees; the Educational and Health Services and Transportation and Utilities sectors are tied at second each with 10,400 employees; the Leisure and Hospitality sector is the fourth largest with 6,200 employees. The construction industry employs about 3,100. Manufacturing, which has been a key sector, employed about 3,900 employees.

**With the slowing economy and the surge in recent job losses, the unemployment rate in Pueblo jumped to 8.3% in 2009, up from 6.2% in 2008 and 4.9% in 2007.** Unemployment in 2009 climbed back close to the high point seen in 1992 and 1993, but still lower than the 15% rates experienced in the early 1980s.



**PEDCO announced 140 new primary jobs in 2009.** This was down from 746 primary jobs announced in 2008. The two announcements in 2009 included The Water Company (100 jobs), a water purification equipment manufacturing company and Big R Stores (40 jobs), a farm equipment supplier headquarters and warehouse.

PEDCO New Primary Job Announcements  
Pueblo Metro Area, 1997 - 2009

Year	Company	Type of Company	Employees Announced	Year	Company	Type of Company	Employees Announced
1997	Ashland Chemical Company	Chemical purification	132	2002	Premier Fulfillment	Fulfillment distribution center	75
1997	Davie Wire Company	Manufacture wire	125	2002	Flexible Foam Products	Manufacturer carpet pad	18
1997	WR Inc	Manufacturer	10	2002	Lason	Information management	38
1997	Fountain Foundry	Foundry	70	2003	Adam Aviation	Aircraft manufacturing	450
1997	CO Fastener & Nail Co.	Manufacturer	20	2003	Pueblo Suburban Development	Manufacture and run greenhouses	1,300
1997	Foundation Health	HMO / Information processing	1,200	2004	Takehiba Electric	Medical equipment R&D	48
1997	Biomark Incorporated	Distribution center-medical	5	2004	Deneen & Company	Food processing	40
1998	North Am. Telephone Network	Telemarketing	55	2004	Benshaw (Trane)	Manufacturer / water chillers	60
1998	Flexible Foam Products	Manufacturer carpet pad	50	2004	Dun & Bradstreet	Business services - call center	325
1998	Chemical Marketing Concepts	Chemical repackaging	50	2005	Express Scripts	Business services - call center	500
1998	Convergys/Matrix Marketing	Telemarketing	350	2005	Receivable Management Services	Business services - call center	325
1998	Hartung Agalite Glass	Manufacturer	60	2005	Professional Bull Riders	Sports association headquarters	180
1998	Kroger Foods	Back office operation (accounting)	20	2005	LB Foster	Prefabricated rail manufacturing	28
1998	Grupo Cementos de Chihuahua	Cement Manufacturer	130	2005	Timberline Steel	Fabricated steel manufacturing	29
1999	ALM Aviation	Aircraft painting and maintenance	70	2005	Eldorado Stone (StoneCraft)	Manufacture stone building products	25
1999	Innotrac	Telemarketing/customer service	450	2006	Doss Aviation	USAF Pilot Training	200
1999	The TPA, Inc.	Medical claims processing	600	2006	Atlas Pacific Engineering	Mfg. food products machinery	22
1999	Universal Boilerworks	Manufacture industrial boilers	100	2006	Cingular	Call Center	500
1999	Stonecraft Industries	Manufacture stone building products	80	2006	Verisma	Software development	15
1999	McCallin Diversified Industries	Fabricate steel plates	50	2007	Document Solutions Center	Colorado State Agency	40
2000	Vestas Wind Systems	Wind turbine manufacturer	450	2008	Receivable Management Services	Business services - call center	250
2000	EDSS	Data processing	485	2008	Vestas	Wind Turbine Manufacturing	450
2001	Tenant International	Manages corporate telecom services	165	2008	VINS	Gov Contract Services for Veterans	6
2001	Stonecraft	Manufacture stone building products	60	2008	Document Solutions Center	Colorado State Agency	50
2002	Innotrac	Telemarketing/customer service	60	2009	Big R Stores	HQ and whse farm equip supplier	40
2002	Haddonstone USA	Manufacturer-stonework	30	2009	The Water Company	Water purification equipment mfg	100
2002	Eupec Risk Management Systems	Pipeline safety systems	95	Total			9,954

Source: PEDCO

**The Pueblo Economic Development Corporation efforts have been very successful over the long term.** Since 1997 PEDCO has made 53 announcements for the retention, expansion or relocation of primary employers and 9,954 new primary jobs, an average of over 766 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 coming into a local economy 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 two major layoff announcements, totaling 375 primary jobs.** Trane, a manufacturer of commercial air conditioning systems, historically one of Pueblo’s largest employers, cut 300 local jobs in 2009 and Qwest, a telecommunications company closed a directory assistance call center, laying off 75 workers.

**The Trane announcement was initially made in 2008 and was expected to play out over three years.** It appears that the poor performance of the national economy, caused Trane to accelerate downsizing their local work force.

Announced Primary Industry Layoffs  
Pueblo Metro Area, 1998 - 2009

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	Shutdown (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.	50
2008	Rocky Mountain Steel	Downsizing	Manufacturer of steel	85
2009	Qwest	Closure	Call center	75
2009	Trane	Downsizing	Air conditioning system mfg.	300
Total				2,902

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.

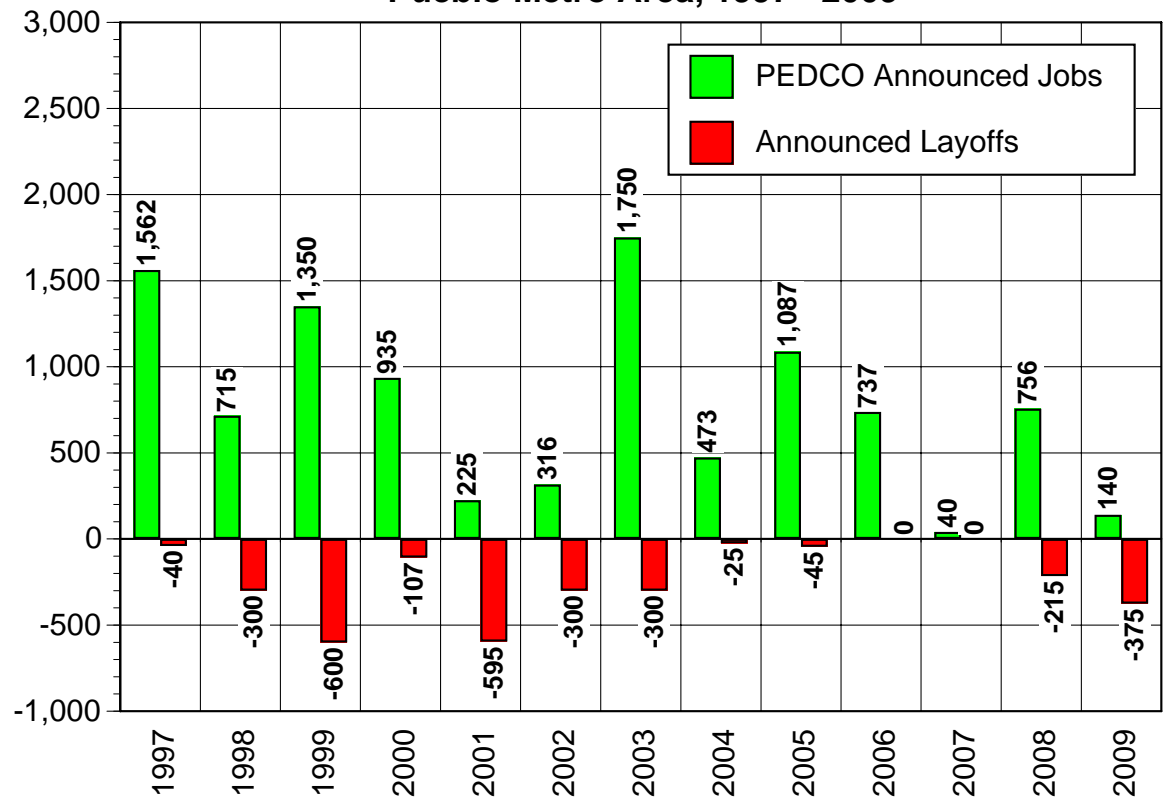
**Over the past 13 years, about 2,902 primary jobs, were lost to layoffs.** On the average roughly one in three primary jobs created in the past 13 years, replaced jobs that were lost to layoffs. Thus, if the recent past holds for the future, about 230 new primary jobs must be created each year just to stay even.

Net Primary Job Announcements  
Pueblo Metro Area, 1997-2009

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	140	0	140
2008	756	215	541
2009	140	375	-235
Total	10,086	2,902	7,184

Department of Labor and Employment

Primary Job Gains and Losses  
Pueblo Metro Area, 1997 - 2009



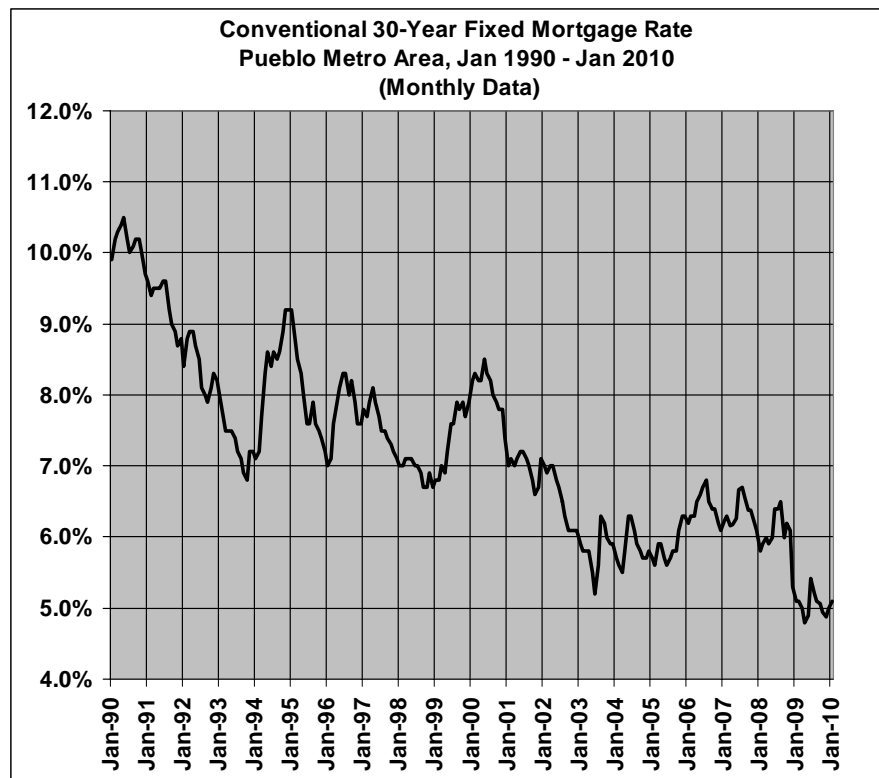
Source: PEDCO, Pueblo Chieftain, Colorado Department of Labor and Employment and David Bamberger & Associates.

**The year 2009 saw mortgage rates drop to record lows.** Today, rates for a 30 year conventional fixed rate 30-year home mortgage are a little over 5%, lower than they were at the low point in 2003.

**Pueblo's population slowed in 2009, growing by an estimated 0.4%, the smallest gain in many years.** Population in July 2009 totaled 158,094, up by only 705, for the 12 months. Since 1990 population in the metro area increased by 34,731. Much of this increase has been the result of very strong net migration accounting for 70%, or 24,250 of the total growth.

**Net migration was weak in 2009, adding less than 200 people to Pueblo County's population.** Assuming an average of 2.5 people per household, this translates into an estimated increase of about 70 occupied homes in the past year and may partially explain the slow-go in the local housing market in 2009.

Components of Population Growth  
Pueblo Metro Area, 1990-2009



Source: Federal Reserve Bank

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	157,389	1,666	2,167	1,608	559	1,107
2009	158,094	705	2,180	1,652	528	177
Totals		34,731	38,216	27,735	10,481	24,250
Percent		100%			30%	70%

Source: Colorado State Demographer and David Bamberger & Associates

**As in years past, households moving to Pueblo were major players in the new home market in 2009.** Builders report that 58% of their buyers were new move-ins from out-of-town and 42% of their buyers were local. Of the out-of-town buyers, 16% 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 11% of buyers and working households made up 89% of buyers in 2009.

**Move-up buyers made up the largest segment of the new home market in Pueblo in 2009.** In 2009 46% of buyers were move-up buyers, 37% were first time buyers and 17% were move-down buyers.

**Pueblo continues to attract buyers who work in Colorado Springs.** Builders report that this segment made up 25% of new home buyers in 2009. It appears that Pueblo has emerged as a viable affordable housing option for people who work 40 miles to the north in Colorado Springs.

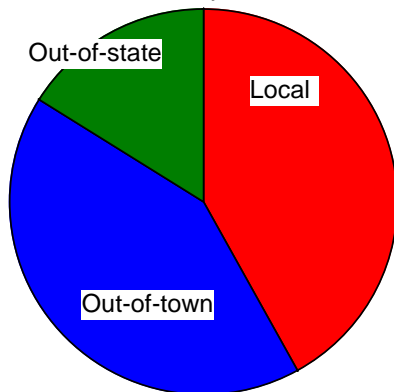
Pueblo New Home Buyer Demographics, 2003 to 2009

	2003	2004	2005	2006	2007	2008	2009
<b>Previous residence of buyers</b>							
Local	79%	71%	65%	44%	57%	49%	42%
Out-of-town	21%	29%	35%	33%	29%	31%	42%
Out-of state (not collected in 2003-2005)	NA	NA	NA	23%	14%	20%	16%
Total	100%	100%	100%	100%	100%	100%	100%
<b>Housing stage of buyers</b>							
First time buyers	43%	23%	37%	32%	22%	27%	37%
Move-up buyers (buying bigger home)	37%	57%	49%	48%	47%	55%	46%
Move-down buyers (buying smaller home)	20%	20%	14%	20%	31%	18%	17%
Total	100%	100%	100%	100%	100%	100%	100%
<b>Place of work of buyers</b>							
Work in Pueblo	76%	62%	62%	52%	59%	54%	54%
Work in Colorado Springs	11%	12%	13%	20%	21%	20%	25%
Work somewhere else	4%	5%	7%	9%	4%	13%	10%
Retired	10%	22%	22%	19%	16%	13%	11%
Total	100%	100%	100%	100%	100%	100%	100%

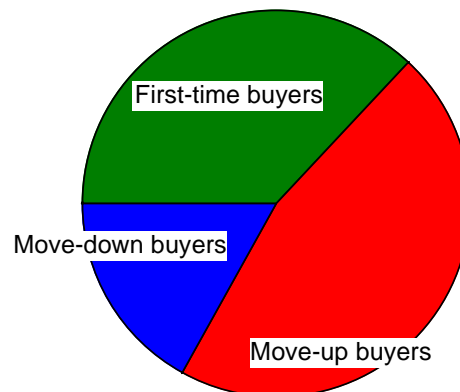
Source: David Bamberger & Associates survey

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

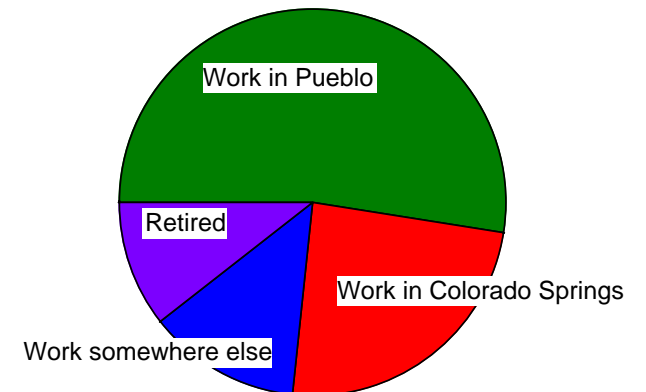
Where New Home Buyers Came From, 2009



New Home Buyer Segments, 2009



Where Buyers Work, 2009



**Builder's spec inventories at the start of 2010 were down dramatically from a year ago.** Based on our survey of builders, we estimate that there were 64 spec homes under construction or complete as of January 1, 2010, down from 172 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 250 units per year, spec inventory represents a little over three 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 2009, they did do a very good job of responding to market signals and cut back on spec building.

**According to our builder survey, prices for new homes declined by an estimated 2% in 2009.** As a comparison, the U.S. Consumer Price Index fell by 0.3% during the year 2009.

**Builders also reported they expect prices of new homes to continue to fall in 2010.** Prices of new homes in Pueblo are expected to see a moderate decline by about 0.5%.

**Estimated Price Change of New Homes**

- 2009 average: -2.0%
- 2010 average: -0.5%

Estimated Single Family New Home Market Performance  
Pueblo County, January 1, 2010  
(Sample data scaled to represent the whole market)

Price Range	Started Jan-Dec 2009	Under Construction 1-Jan-10			Completed (not closed) 1-Jan-10			Sold 2009	Plan to Build in 2010
		Presold	Unsold	Total	Presold	Unsold	Total		
Less than \$160,000	53	2	9	11	2	5	8	77	90
\$160,000 to \$199,999	80	7	7	14	7	0	7	93	93
\$200,000 to \$249,999	35	7	2	9	7	17	23	37	34
\$250,000 to \$299,999	11	5	0	5	5	7	12	21	20
\$300,000 and over	5	2	5	7	2	12	14	19	14
Total	184	23	23	46	23	41	63	248	251

Source: David Bamberger & Associates Builder Survey, January 2009. Note: The survey included responses from 11 builders, accounting for 43% of permits pulled by builders in 2009.

Analysis of Speculative New Single Family Inventory  
January 1, 2010

(Sample data scaled to represent the whole market)

Price Range	Total Unsold Inventory	Sold per Month in 2009	Months of Inventory
Less than \$160,000	14	6	2.2
\$160,000 to \$199,999	7	8	0.9
\$200,000 to \$249,999	19	3	6.0
\$250,000 to \$299,999	7	2	4.0
\$300,000 and over	16	2	10.5
Total	64	21	3.1

Source: David Bamberger & Associates Builder Survey - January 2010.

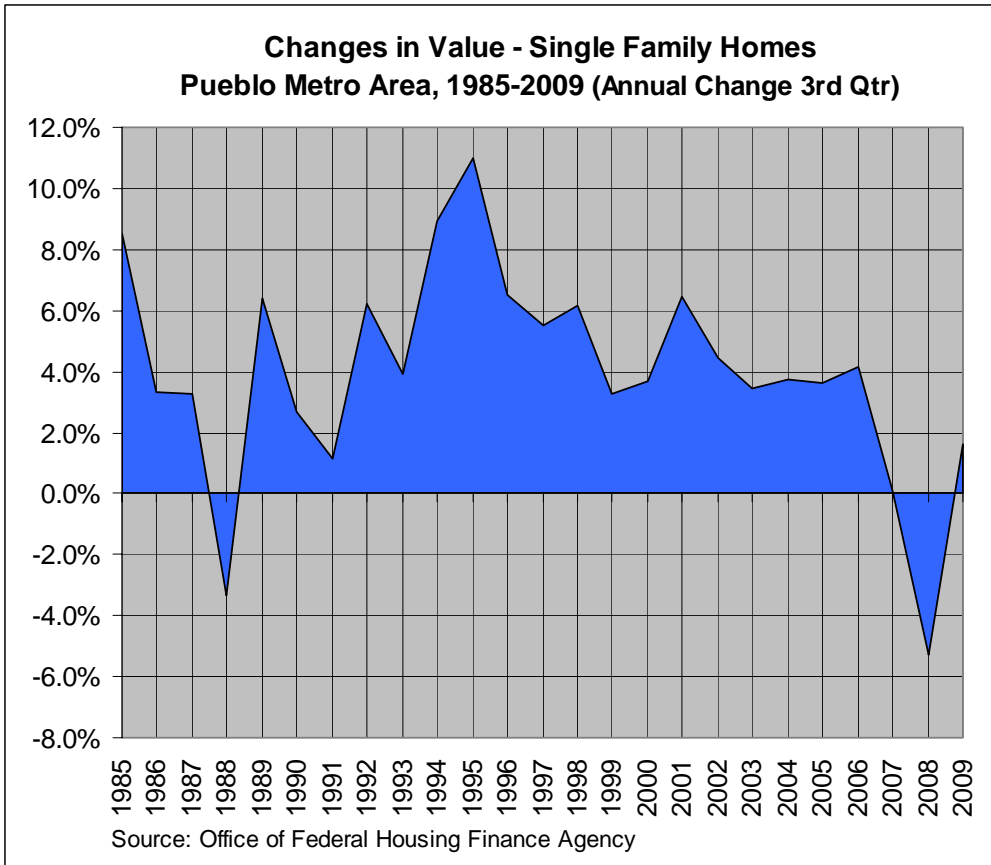
**Single family home values in Pueblo saw an increase of 1.6% between the 3rd quarter of 2008 and the 3rd quarter of 2009.** This followed a big decline in 2008, dropping by 5.3% between the 3rd quarter of 2007 and the 3rd quarter of 2008.

**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, 1983-2009

Year	Quarter	Single Family Home Value	Percent Change Over One Year Ago
1985	3rd	\$68,530	8.5%
1986	3rd	\$70,800	3.3%
1987	3rd	\$73,130	3.3%
1988	3rd	\$70,680	-3.4%
1989	3rd	\$75,200	6.4%
1990	3rd	\$77,220	2.7%
1991	3rd	\$78,090	1.1%
1992	3rd	\$82,940	6.2%
1993	3rd	\$86,200	3.9%
1994	3rd	\$93,880	8.9%
1995	3rd	\$104,180	11.0%
1996	3rd	\$110,970	6.5%
1997	3rd	\$117,110	5.5%
1998	3rd	\$124,310	6.1%
1999	3rd	\$128,340	3.2%
2000	3rd	\$133,050	3.7%
2001	3rd	\$141,620	6.4%
2002	3rd	\$147,960	4.5%
2003	3rd	\$153,020	3.4%
2004	3rd	\$158,770	3.8%
2005	3rd	\$164,480	3.6%
2006	3rd	\$171,300	4.1%
2007	3rd	\$171,400	0.1%
2008	3rd	\$162,340	-5.3%
2009	3rd	\$165,010	1.6%

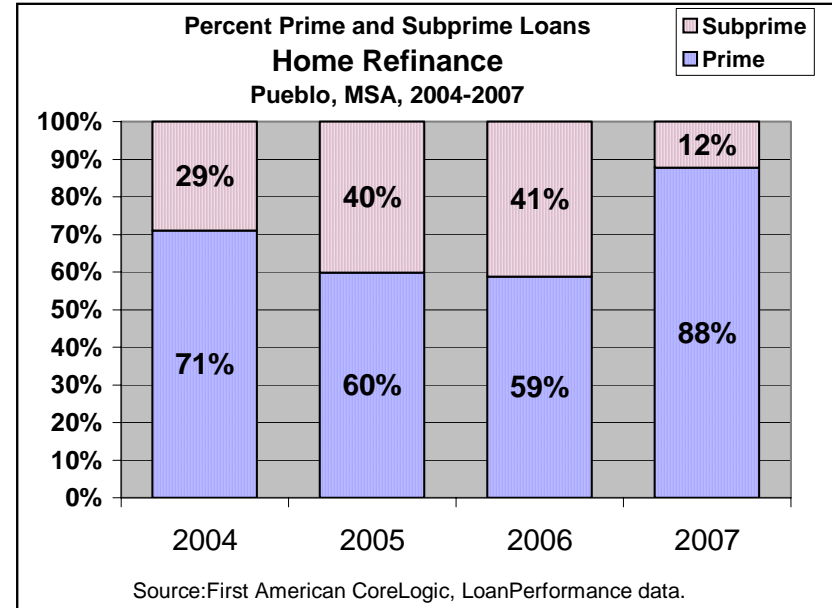
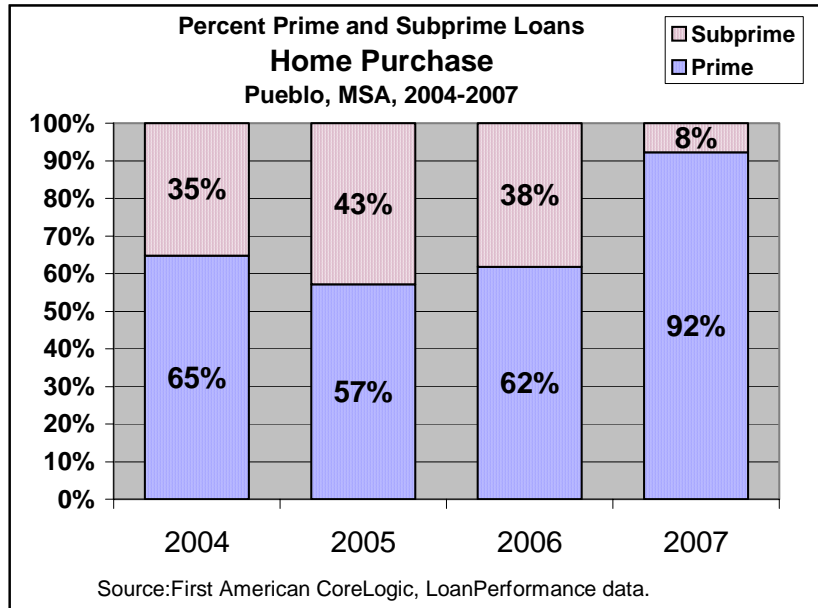
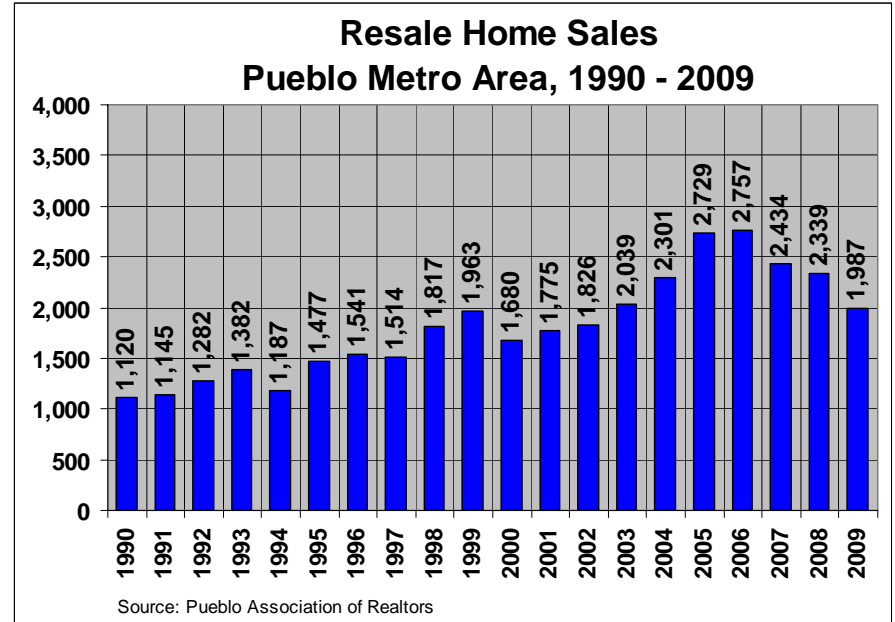


Source: Office of Federal Housing Finance Agency  
File: SF Values

**The resale market in Pueblo slowed some in 2009.**

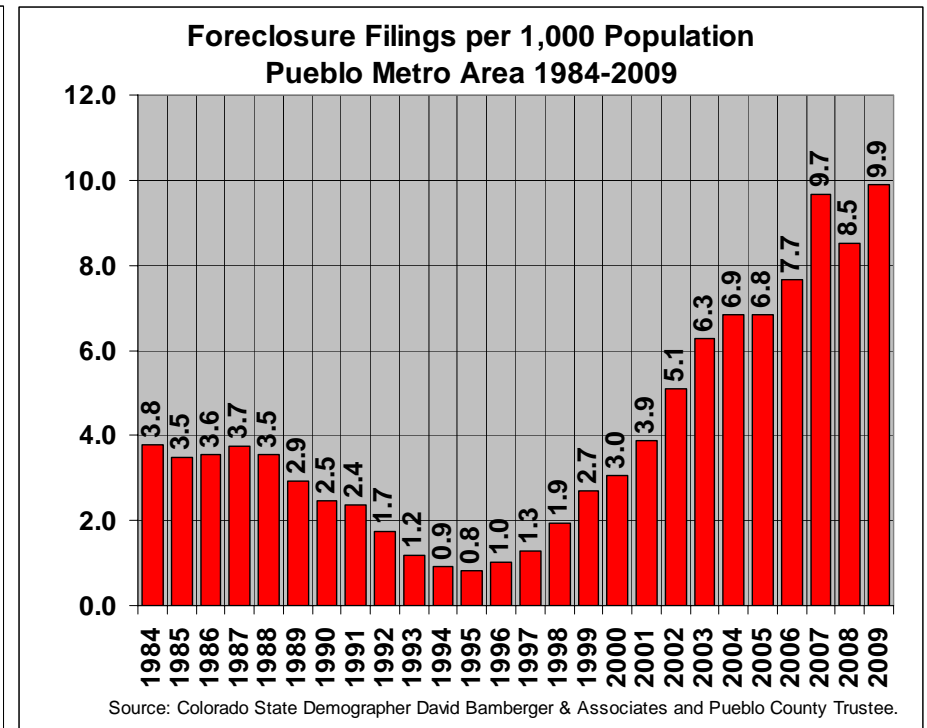
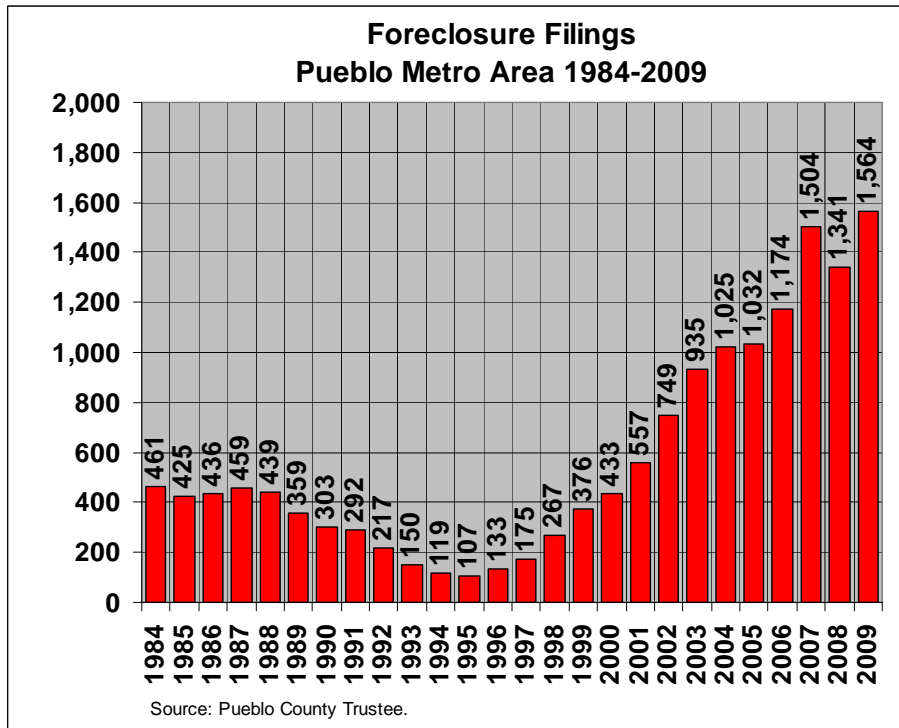
Resale home sales totaled 1,987 units in 2009, down from 2,339 in 2008, a decline of 15.1%. The slowdown in sales activity over the past several years, has created a bubble of inventory, especially in luxury homes, where realtors continue to report a significant amount of supply at current sales rates.

**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 or 2009, it is clear that the sub-prime era ended in 2006.



**Home mortgage foreclosure filings in Pueblo increased to 1,564 in 2009 from 1,341 in 2008.** Foreclosures on a per capita basis have increased significantly since the mid-1990s. Foreclosure filings per 1,000 population in Pueblo increased to 9.9 per 1,000 population in 2009, higher than the 9.7 in 2007. As a benchmark comparison, per capita foreclosures were less than one per 1,000 population in the mid-1990s.

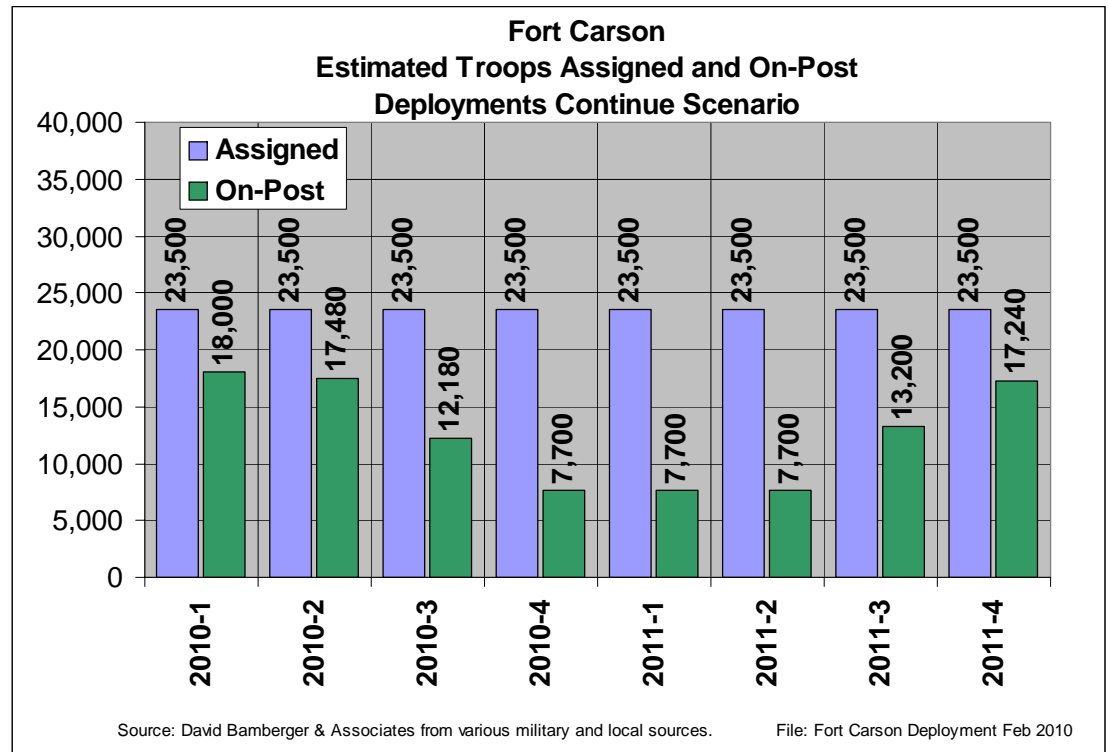
**The Pueblo housing market is still clearly paying a price for the liberal use of creative mortgage financing for both home purchases and refinancing over the past few years.** Sub-prime loans with low teaser rates, zero down and adjustable rate mortgages were a disaster waiting to happen. With a slowing economy, job losses and only small gains in home values in 2009, the problem will likely remain over the next several years. It would not be a surprise to see local foreclosures remain at well over 1,000 per year over the next three years.



The hype about Fort Carson's expansion and its impact on the housing market evaporated with the April 2009 announcement that the planned 5th Brigade Combat Team and its additional 3,600 troops will not happen. This means that the expansion of about 4,000 troops this past summer 2009 is it.

While the mid-year 2009 increase in troops at Fort Carson was positive, future troop deployments to Afghanistan could have a big impact on the housing industry. Assuming deployments continue with 12 month cycles of deployment and restation, the number of troops on the ground at Fort Carson could vary from a high of 18,000 in the 1st quarter of 2010 to a low of 7,700 in the 4th quarter of 2010 to the 2nd quarter of 2011.

Continued deployment of troops from Fort Carson in 12 month cycles is the down-side scenario and will depend on future decisions by the Army.



Troops Assigned to Fort Carson									Assigned	
Year-Qtr	HQ 4ID	1BCT 4ID	2BCT 4ID	3BCT 4ID	4BCT 4ID	43SB	10th SFG	Other	Total	Change
2010-1	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	-
2010-2	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2010-3	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2010-4	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2011-1	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2011-2	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2011-3	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0
2011-4	1,300	3,800	3,800	3,800	3,800	2,200	1,800	3,000	23,500	0

Troops On-Post at Fort Carson									On-Post	
Year-Qtr	HQ 4ID	1BCT 4ID	2BCT 4ID	3BCT 4ID	4BCT 4ID	43ASG / SB	10th SFG	Other	Total	Change
2010-1	1,300	3,800	3,800	3,800	0	1,540	1,120	2,640	18,000	-
2010-2	1,300	3,800	3,800	0	3,800	1,300	1,080	2,400	17,480	-520
2010-3	0	0	3,800	0	3,800	1,100	1,080	2,400	12,180	-5,300
2010-4	0	0	0	0	3,800	1,000	900	2,000	7,700	-4,480
2011-1	0	0	0	0	3,800	1,000	900	2,000	7,700	0
2011-2	0	0	0	3,800	0	1,000	900	2,000	7,700	0
2011-3	1,300	3,800	0	3,800	0	1,300	900	2,100	13,200	5,500
2011-4	1,300	3,800	3,800	3,800	0	1,540	900	2,100	17,240	4,040

Source: David Bamberger & Associates from various military and local sources. File Fort Carson Deployments Feb 2010

**Housing production totaled only 377 units in 2009, down from 416 in 2008, a drop of 39 units and 9.4%. Last year's drop followed big declines in 2007 and 2008.**

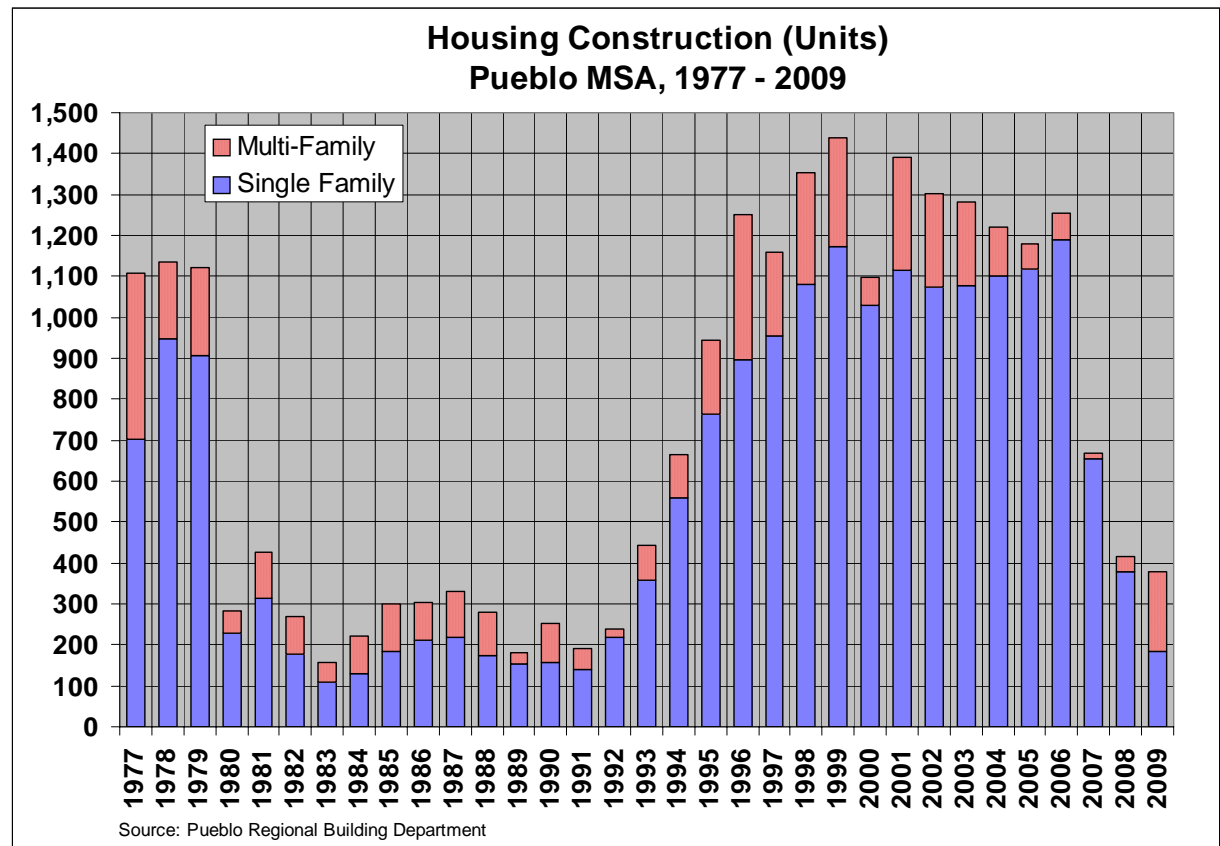
**Housing production in Pueblo in 2009 included 184 single family units and 193 multi-family units.** Single family production in 2009 dropped by a staggering 51% from 379 units in 2008. Multi-family production, on the other hand, increased by a surprising 156 units from only 37 units in 2008.

**The big drop in the production of new housing in Pueblo in 2007, 2008 and 2009 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 over the past three years.

New Home Construction (units)  
Pueblo Metropolitan Area, 1990 - 2009

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
2009	184	193	377

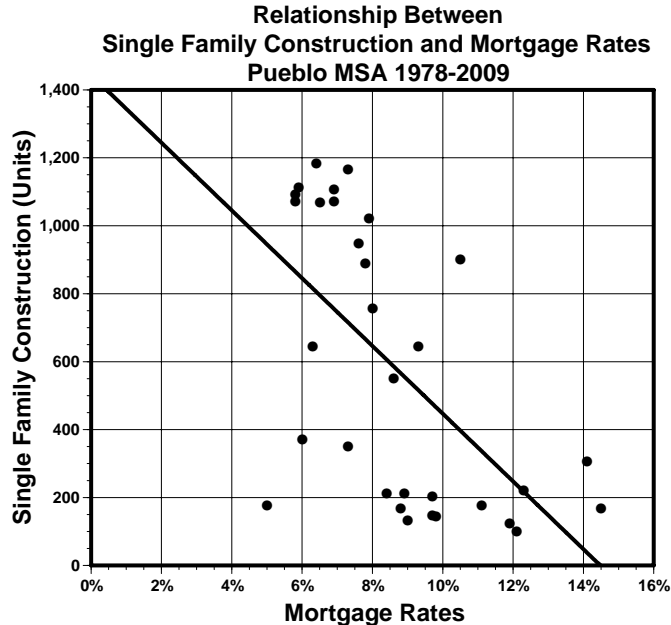
Source: Regional Building Department.



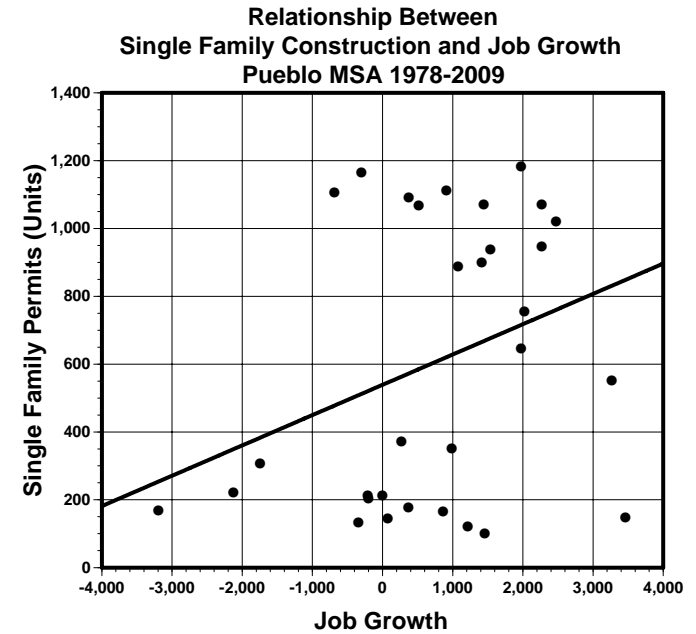
**Over the long run the main drivers of the Pueblo housing market are job growth, interest rates and net migration.** This is confirmed in a recent update to the research that we conduct every year on the Pueblo housing market.

**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 helped our understanding of how the market works and the direction it might take in the future.

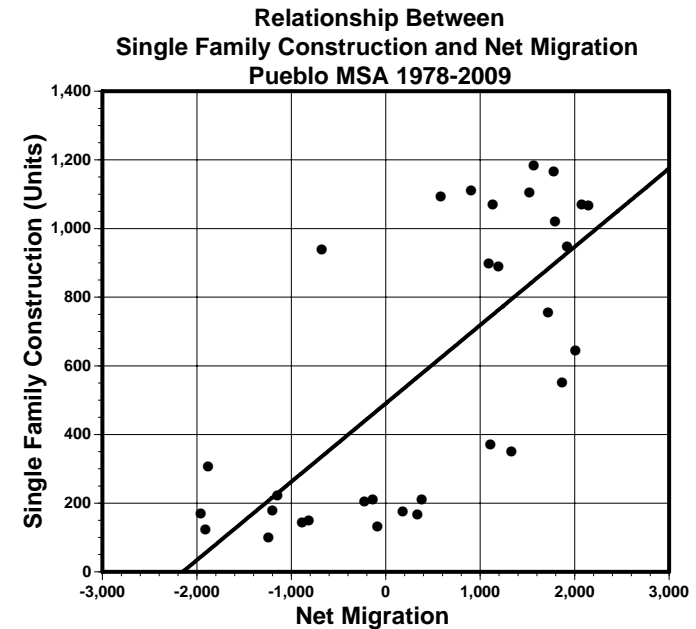
**We have learned that commuters with jobs in other cities and retirees moving to Pueblo have recently emerged as important forces in the Pueblo housing market.** The large gains in net-migration in part helps explain why the housing market remained strong even though job growth was weak and even negative in 1999-2001.



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



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



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

HOUSING, JOBS, INTEREST RATES AND NET MIGRATION  
PUEBLO, 1977-2009

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	64,044	371	1,100	120	1,220	2,301	3,521	578	5.8%	34.6%	0.30
2005	64,952	908	1,119	60	1,179	2,729	3,908	901	5.9%	30.2%	0.77
2006	66,923	1,971	1,190	64	1,254	2,757	4,011	1,566	6.4%	31.3%	1.57
2007	68,892	1,969	653	14	667	2,434	3,101	2,005	6.3%	21.5%	2.95
2008	69,155	263	379	37	416	2,339	2,755	1,107	6.0%	15.1%	0.63
2009	67,360	-1,795	184	193	377	1,987	2,364	177	5.0%	15.9%	-4.76

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.

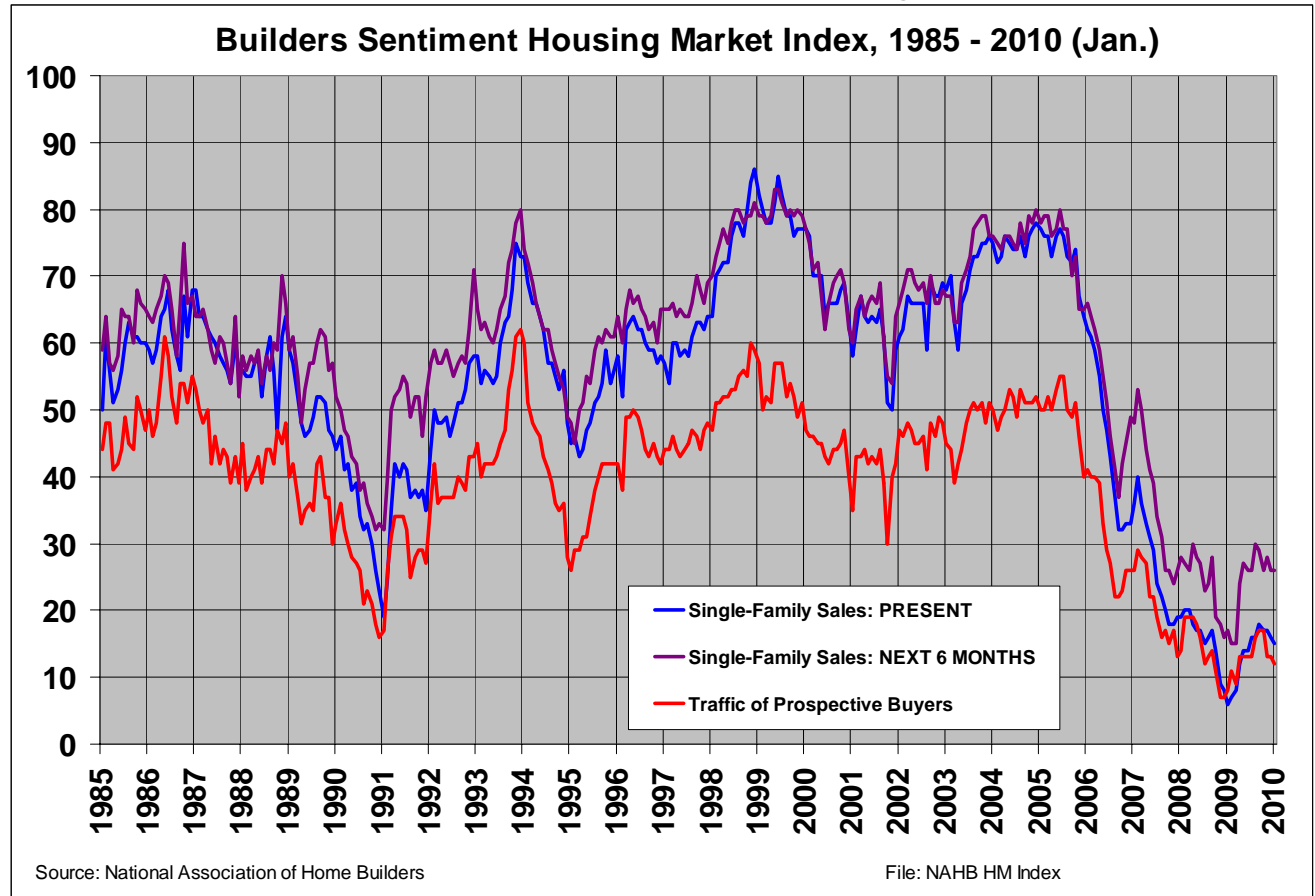
Note: Multi-family includes duplexes, 4-plexes, townhomes, condos and apartments.

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 pushed builder confidence down to a record low in January 2009. Since then, the Builders Sentiment Index has increased some.

**Most economists are predicting that the US housing market will not see the bottom until at least mid-2010.** There is still an over-hang of both new and re-sale homes on the market in many parts of the country. The increase in foreclosure activity in 2009 added 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

**The Pueblo housing market is experiencing the biggest slump in years.** Many of the global, national and local economic signals remain gloomy. The US economy is struggling to stay above water.

**Unemployment and home foreclosures remain big barriers to a sustainable recovery in the Pueblo housing market. Local job growth is likely to stay in negative territory, or hover around zero in the near-term future.** The question is how long will it take for the housing market to gain real momentum?

**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 future direction 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 36 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 - 2012

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	371
2005	1,119	5.9%	901	908
2006	1,190	6.4%	1,566	1,971
2007	653	6.3%	2,005	1,969
2008	379	6.0%	1,107	263
2009	184	5.0%	177	-1,795
<b>2010 forecast</b>	<b>170</b>	<b>5.5%</b>	<b>100</b>	<b>0</b>
<b>2011 forecast</b>	<b>200</b>	<b>5.9%</b>	<b>200</b>	<b>300</b>
<b>2012 forecast</b>	<b>250</b>	<b>6.2%</b>	<b>400</b>	<b>500</b>

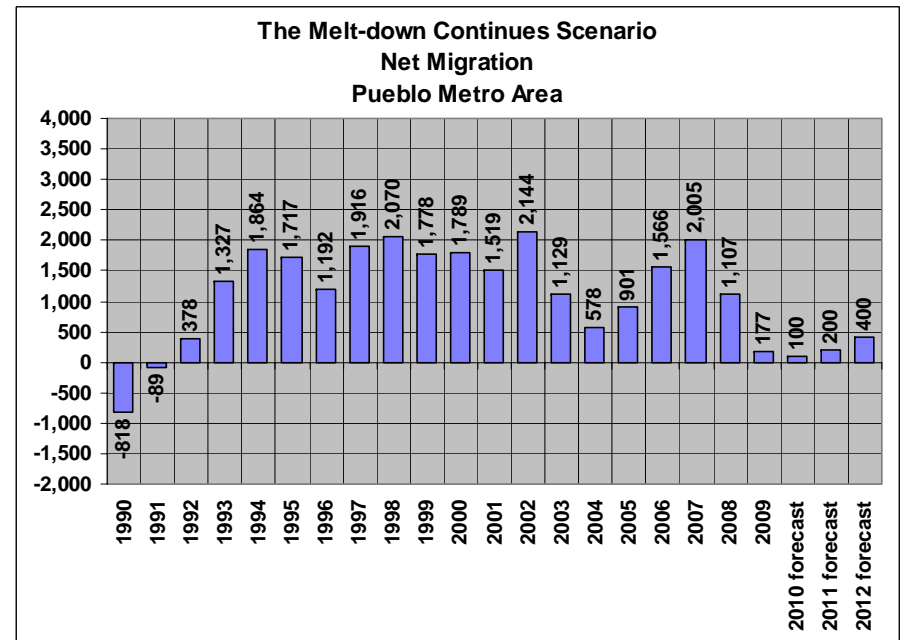
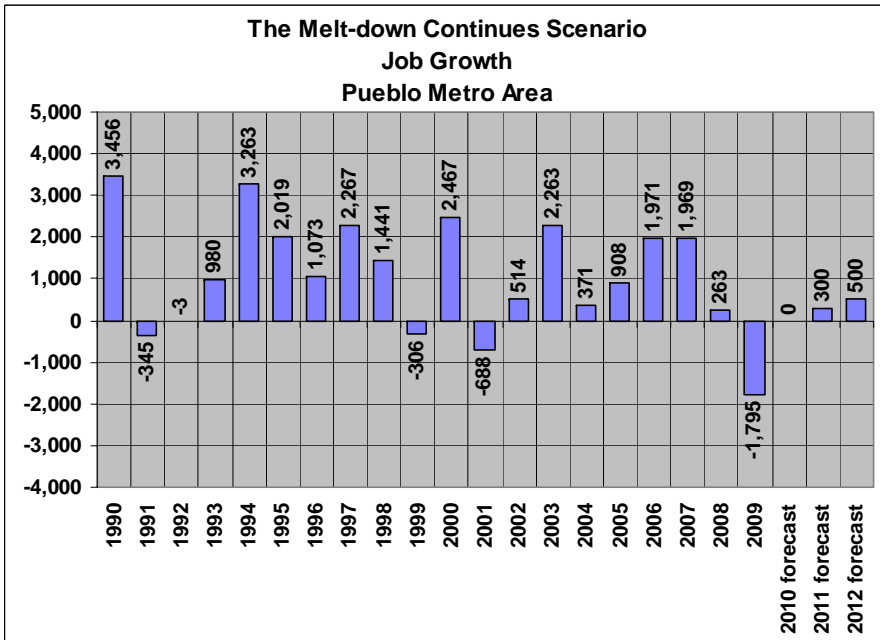
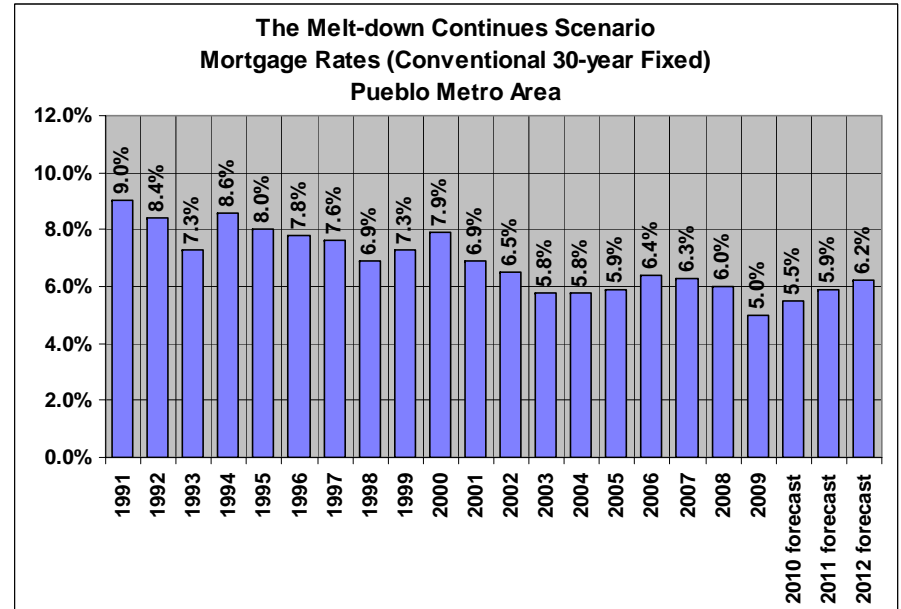
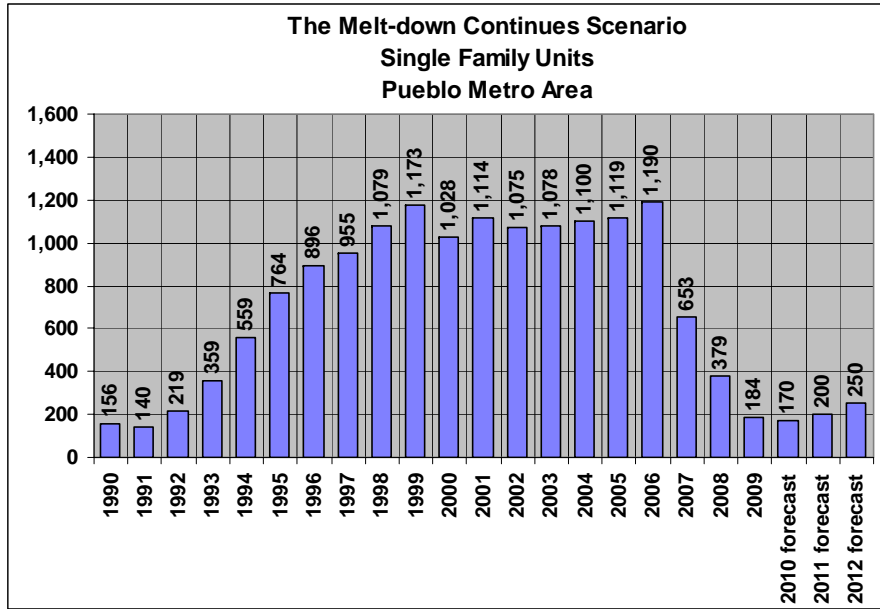
Source: David Bamberger & Associates.

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 remains negative. Unemployment climbs higher. Credit markets remain very tight. Housing values in most metro areas continue to slide. Mortgage delinquencies and foreclosures remain a problem. Commercial real estate markets crumble. Consumer confidence remains low. Personal income continues to fall. The US economy remains in a big funk in 2010 and 2011, but starts to see some signs of life in 2012.

The Pueblo economy follows the path set by the US economy. The local economy continues to wobble along at the bottom. Job growth hits zero in 2010 and climbs a little to 300 in 2011 and 500 in 2012.

Single family housing starts drop to 170 in 2010 and rise to 200 in 2011 and 250 in 2012 as economic recovery starts to gain traction.



## The Road Back Scenario

### Forecasts -- "The Road Back" Scenario

Single Family Permits, Mortgage Rates, Net Migration and Job Growth  
Pueblo Metro Area, 1990 - 2012

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
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2004	1,100	5.8%	578	371
2005	1,119	5.9%	901	908
2006	1,190	6.4%	1,566	1,971
2007	653	6.3%	2,005	1,969
2008	379	6.0%	1,107	263
2009	184	5.0%	177	-1,795
<b>2010 forecast</b>	<b>250</b>	<b>5.8%</b>	<b>500</b>	<b>200</b>
<b>2011 forecast</b>	<b>350</b>	<b>5.9%</b>	<b>800</b>	<b>400</b>
<b>2012 forecast</b>	<b>450</b>	<b>6.0%</b>	<b>1,000</b>	<b>600</b>

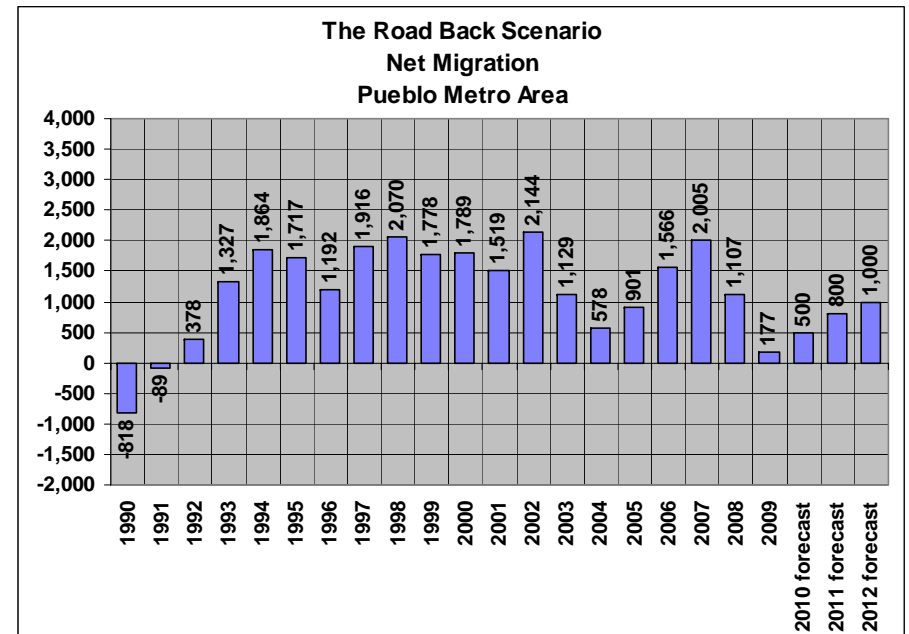
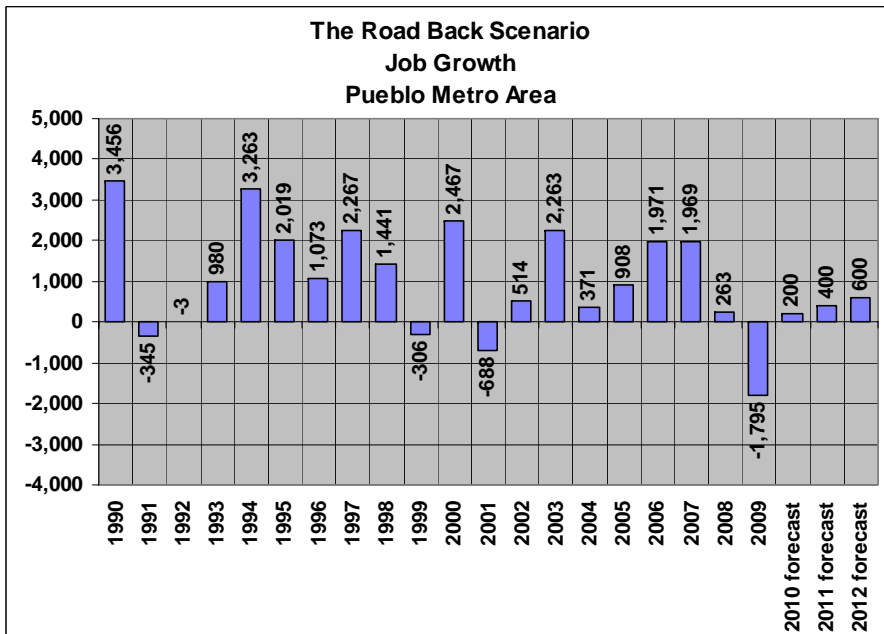
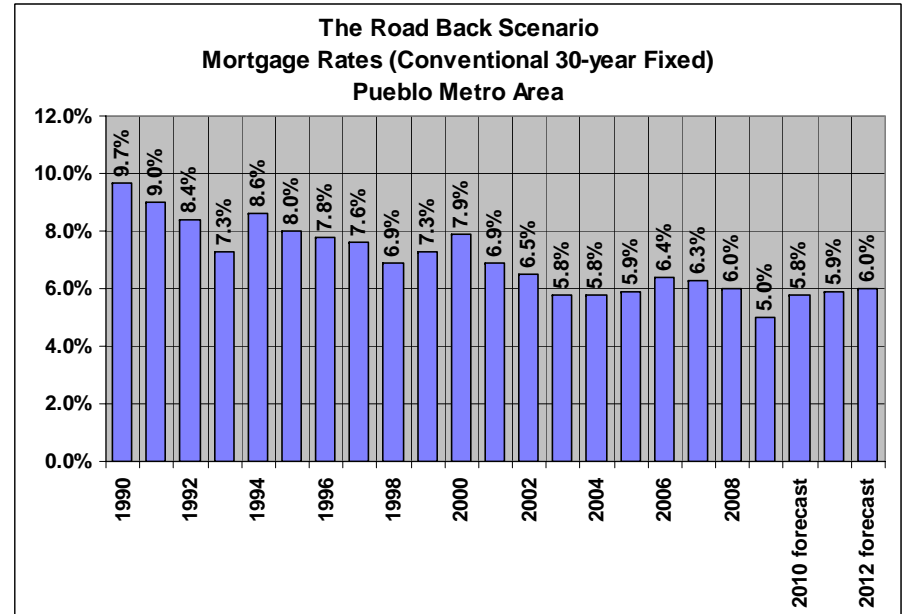
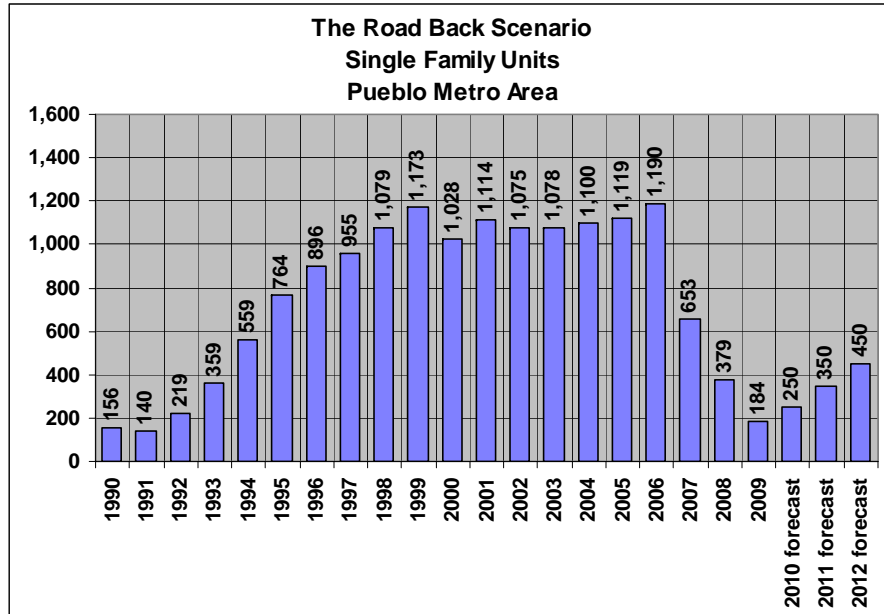
Source: David Bamberger & Associates.

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 starts to see signs of life emerge in 2010. The rate of job losses slows. 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 2012 it's almost back to normal.

In 2010 the Pueblo economy follows the path set by the US economy. The local economy starts to see signs of life in 2010. Job growth increases to 200 in 2010, 400 in 2011, and 600 in 2012 as the global and US economies start to grow again.

Single family housing starts total 250 in 2010, then increase to 350 in 2011 and 450 in 2012 as local job growth climbs and consumer confidence increases.



## Final Thoughts

**The Pueblo single family housing market continued its downward spiral through 2009.** The party ended in 2006, leaving the market with a little hangover in 2007; the hangover pain got even worse in 2008 and 2009.

**Today, spec new home inventories are 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 see it in 2010, 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....

- Continued thawing of the credit market freeze
- Increased local job and income growth
- Continued draw down of excess inventory of homes on the market
- Continued low mortgage rates
- Return to normal credit underwriting standards
- Improved market psychology
- increased consumer confidence
- Increased global and national economic growth

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