

STRATEGIC RESEARCH

The Pueblo Housing Market 2011 - 2013

prepared for

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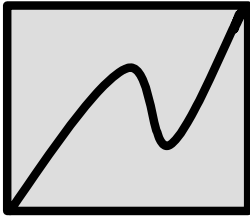
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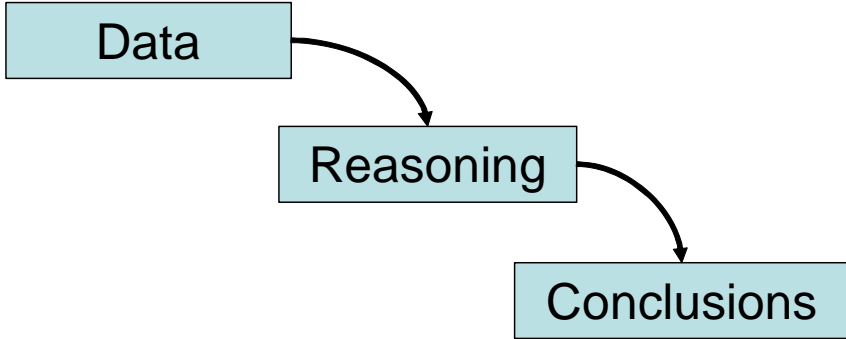
Peer into the future before it becomes the present



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Introduction and Summary

Introduction

This is the 19th 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 2011-2013.

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 2011. Data collected in the survey included 2010 production and sales, year-end unsold inventory and construction activity, past and expected future price increases, expected production for 2011, and buyer demographics. The builder survey covered 5 builders who accounted for about 48% of the builder generated single family permit activity in 2010.

Manufactured Housing Footnote: At the end of the 1990s manufactured homes were a relatively big player in the Pueblo new home market. This report does not include manufactured housing in the data or analysis.

Summary

The Pueblo housing market had another slow year in 2010. New single family home production totaled 213 units for the year, up from 184 in 2009. The resale housing market saw slightly slower sales with 1,883 for the year, down from 2,012 in 2009, a drop of 6.4%.

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 over the past four years 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 had another slow year in 2010. Total employment continued into negative territory, declining by 700 jobs in 2010, the third year in a row of job losses.

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 new home 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 job losses and slowdown in housing production in Pueblo over the past three years shows that Pueblo's economy and housing market are not immune to these forces.

When will the US economy see sustained 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... "When will the local economy and housing market recover?" Well, maybe we'll see recovery start in 2011, 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 2011, 2012 and 2013? When will Pueblo see an economic and housing market recovery?

“The Melt-down Continues” scenario - The US economy struggles to gain traction in 2011 and 2012.

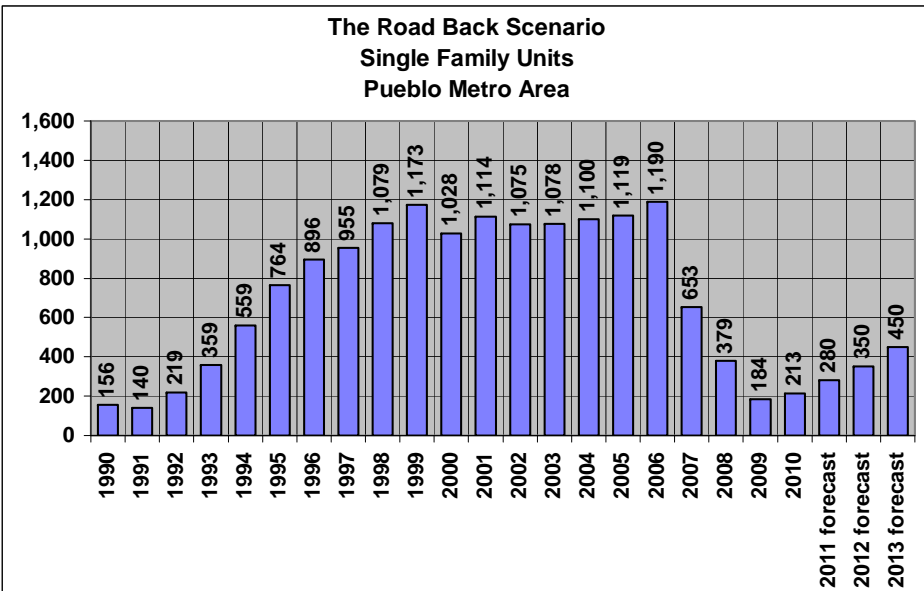
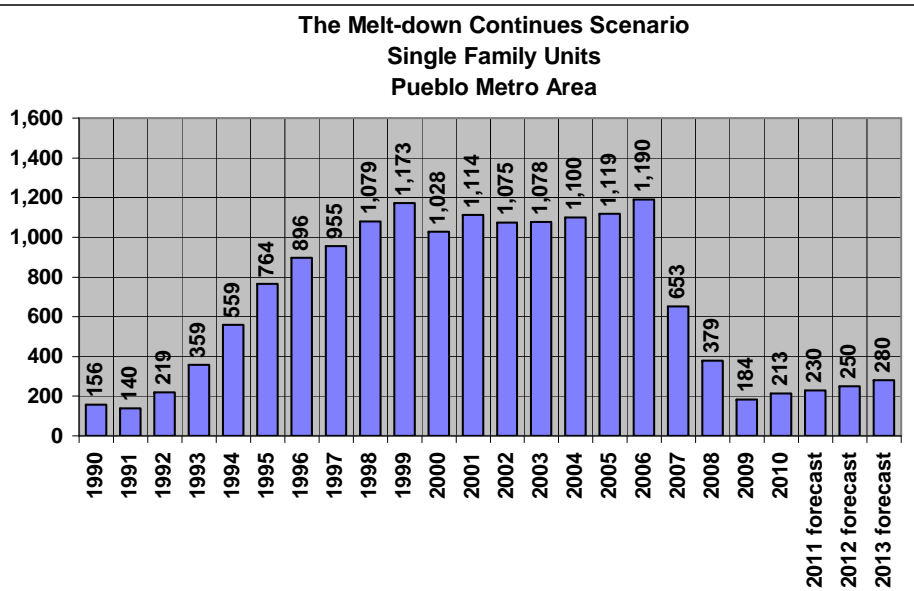
In 2011 the Pueblo economy follows the path set by the US economy. The local economy continues on a very slow path. Single family housing construction increases slightly to 230 in 2011.

In 2012 the national and the local economy begins to improve. Some signs of housing market recovery appear in mid-2012 and local single family housing construction increases to 250 in 2012 and 280 in 2013.

“The Road Back” scenario - The US economy shows strong signs of improvement going into 2011 and 2012.

In 2011 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 280 in 2011.

In 2012 the national economy starts to recover and the local economy follows. The housing market starts to pick up in early 2012 and local single family housing construction increases to 350 in 2012 and 450 in 2013.



Discussion of Findings

The US economy continues on a slow path of recovery moving into 2011. The recession, which officially started in December 2007, saw the bottom in the 2nd quarter of 2009. But, the after-shock tremors are still being felt. The recovery has best been described a a “jobless recovery”. The US economy has lost 7.7 million payroll jobs over the past three years. Employment is down by about 6% from 2007 when the recession started and unemployment stands at 9%.

US economy going into 2011 – mixed economic news.....

- Housing Starts: 588,000 (5.7%) (2010 annual)
- Unemployment Rate: 9.0% (Jan 2011)
- Job Growth: 385,000 (4th Qtr. 2010)
- Gross Domestic Product: 2.8% (annual rate % change 4th Qtr. 2010, provisional estimate)
- CPI: 1.2% (2010 annual)
- Personal Consumption Expenditures: 2.7% (annual rate % change 4th Qtr. 2010)
- Dow Jones Industrial Average: 12,092 (end of first week in Feb 2011)

Looking ahead.... the Federal Reserve Bank predicts the US economy will see a gradual economic recovery over the next three years, with unemployment slowly dropping and inflation remaining low.

Federal Reserve Bank Estimates and Forecasts

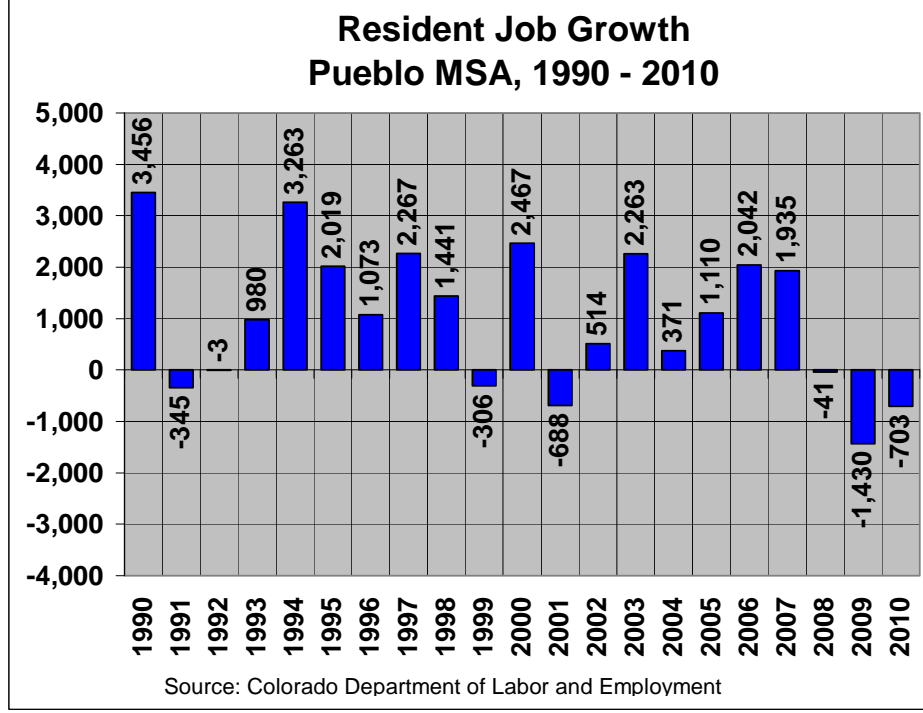
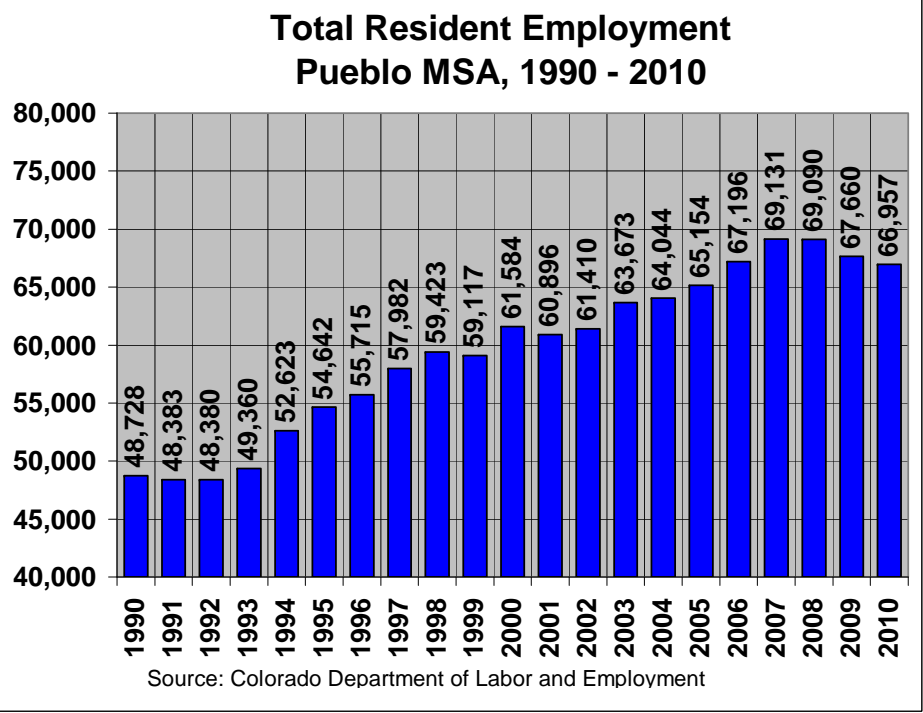
US Economy	2010	Forecasts					
		2011		2012		2013	
		Low	High	Low	High	Low	High
Real GDP Growth (%)	2.9%	3.0%	3.6%	3.6%	4.5%	3.5%	4.6%
Unemployment Rate (%)	9.6%	8.9%	9.1%	7.7%	8.2%	6.9%	7.4%
Inflation (%)	1.2%	1.1%	1.7%	1.1%	1.8%	1.2%	2.0%

Source: Federal Reserve Bank

The Pueblo economy is still feeling the impact of the national recession. The local economy has been dramatically affected by outside forces, over which it has little control. In 2008 job growth went negative and unemployment rose significantly. Job losses and high unemployment in Pueblo continued in 2009 and 2010.

Employment in the Pueblo metro area totaled 66,960 in 2010, a decline of 700 over the year. Since the recession began in 2007 employment has dropped by 2,200 jobs, or 3.1%. Up until 2007 the number employed showed gains for six years in a row.

In spite of the recent decline over the past three years, employment growth has been strong in Pueblo over the longer term. Employment totaled 48,380 in 1991. Since then, employment of Pueblo residents grew by a total of 18,580. Since 1991 employment has grown by an average of 980 per year, an annual rate of growth of 1.7%.



Nonagricultural Wage and Salary Employment by Industry (Annual Average) Pueblo MSA, 2009-2010

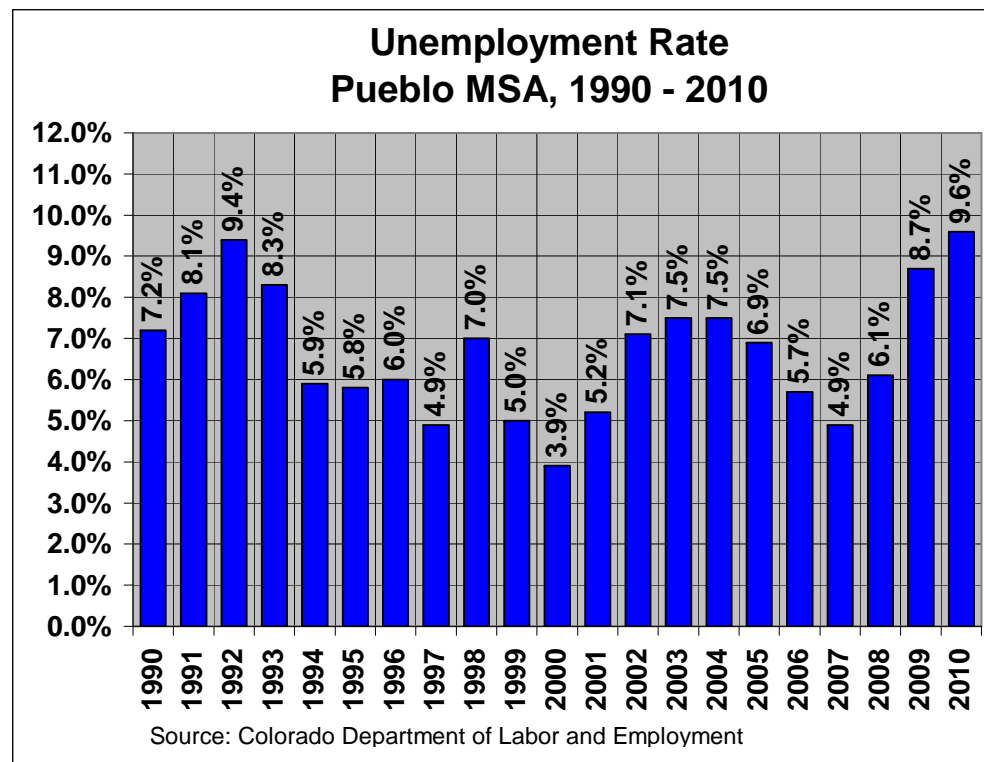
The most recent employment data by industry shows the Pueblo economy has very strong **Government, Services, and Trade** sectors. The leading employer is the Government sector with 12,600 employees.

Other sectors with large numbers of employees include: the **Educational and Health Services and Transportation and Utilities** with over 10,000 employees each; the **Leisure and Hospitality** sector is the fourth largest with 6,400 employees. The construction industry employs about 3,000. Manufacturing, which has been a key sector, employed about 4,000 employees.

With the slowing economy and the surge in recent job losses, the unemployment rate in Pueblo increased significantly in 2009 and 2010. In 2007 the rate was 6.1%; then, it jumped to 8.7% in 2009 and continued to increase in 2010 to 9.6%. Unemployment in 2010 in Pueblo climbed above the high point seen in 1992 and it was much higher than the low of 3.9% in 2000.

Industry	2009	2010	Change	% Change
Mining, Logging and Construction	3,400	3,040	-360	-10.6%
Manufacturing	4,000	3,910	-90	-2.3%
Trade, Transportation & Utilities	10,300	10,300	0	0.0%
Information	800	800	0	0.0%
Financial Activities	2,000	1,970	-30	-1.5%
Professional and Business Services	5,600	5,560	-40	-0.7%
Educational and Health Services	10,300	10,470	170	1.7%
Leisure and Hospitality	6,400	6,320	-80	-1.3%
Other Services	2,000	2,020	20	1.0%
Government	12,500	12,600	100	0.8%
Total Payroll Employment	57,300	56,990	-310	-0.5%

Source: Colorado Department of Labor and Employment. Note: data is subject to revision.



PEDCO announced 85 new primary jobs in 2010. This was down from 515 primary jobs announced in 2009 and 971 announced in 2008. The two announcements in 2010 included Coffee Roasters (10 jobs in food processing) and a Vestas expansion (75 jobs in wind turbine manufacturing).

PEDCO New Primary Job Announcements
Pueblo Metro Area, 1997 - 2010

Year	Company	Type of Company	Employees Announced	Year	Company	Type of Company	Employees Announced
1997	Ashland Chemical Company	Chemical purification	132	2002	Flexible Foam Products	Manufacturer carpet pad	18
1997	Davie Wire Company	Manufacture wire	125	2002	Lason	Information management	38
1997	WR Inc	Manufacturer	10	2003	Adam Aviation	Aircraft manufacturing	450
1997	Fountain Foundry	Foundry	70	2003	Pueblo Suburban Development	Manufacture and run greenhouses	1,300
1997	CO Fastener & Nail Co.	Manufacturer	20	2004	Takehiba Electric	Medical equipment R&D	48
1997	Foundation Health	HMO / Information processing	1,200	2004	Deneen & Company	Food processing	40
1997	Biomark Incorporated	Distribution center-medical	5	2004	Benshaw (Trane)	Manufacturer / water chillers	60
1998	North Am. Telephone Network	Telemarketing	55	2004	Dun & Bradstreet	Business services - call center	325
1998	Flexible Foam Products	Manufacturer carpet pad	50	2005	Express Scripts	Business services - call center	500
1998	Chemical Marketing Concepts	Chemical repackaging	50	2005	Receivable Management Services	Business services - call center	325
1998	Convergys/Matrix Marketing	Telemarketing	350	2005	Professional Bull Riders	Sports association headquarters	180
1998	Hartung Agalite Glass	Manufacturer	60	2005	LB Foster	Prefabricated rail manufacturing	28
1998	Kroger Foods	Back office operation (accounting)	20	2005	Timberline Steel	Fabricated steel manufacturing	29
1998	Grupo Cementos de Chihuahua	Cement Manufacturer	130	2005	Eldorado Stone (StoneCraft)	Manufacture stone building products	25
1999	ALM Aviation	Aircraft painting and maintenance	70	2006	Doss Aviation	USAF Pilot Training	200
1999	Innotrac	Telemarketing/customer service	450	2006	Atlas Pacific Engineering	Mfg. food products machinery	22
1999	The TPA, Inc.	Medical claims processing	600	2006	Cingular	Call Center	500
1999	Universal Boilerworks	Manufacture industrial boilers	100	2006	Verisma	Software development	15
1999	Stonecraft Industries	Manufacture stone building products	80	2007	Document Solutions Center	Colorado State Agency	40
1999	McCallin Diversified Industries	Fabricate steel plates	50	2008	Receivable Management Services	Business services - call center	250
2000	Vestas Wind Systems	Wind turbine manufacturer	450	2008	Vestas	Wind Turbine Manufacturing	450
2000	EDSS	Data processing	485	2008	VINS	Gov Contract Services for Veterans	6
2001	Tenant International	Manages corporate telecom services	165	2008	Document Solutions Center	Colorado State Agency	50
2001	Stonecraft	Manufacture stone building products	60	2009	Big R Stores	HQ and whse farm equip supplier	40
2002	Innotrac	Telemarketing/customer service	60	2009	The Water Company	Water purification equipment mfg	100
2002	Haddonstone USA	Manufacturer-stonework	30	2010	Vestas	Wind Turbine Manufacturing	75
2002	Eupec Risk Management Systems	Pipeline safety systems	95	2010	Coffee Roasters	Food processing	10
2002	Premier Fulfillment	Fulfillment distribution center	75	Total			10,039

Source: PEDCO

The Pueblo Economic Development Corporation efforts have been very successful over the long term. Since 1997 PEDCO has made 55 announcements for the retention, expansion or relocation of primary employers and 10,039 new primary jobs, an average of over 717 per year.

Pueblo's economic base includes a diverse mix of manufacturing, tourism, government and service industries.

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. 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.

Announced Primary Industry Layoffs

Pueblo Metro Area, 1998 - 2010

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
2010	none	none	none	0
Total				2,902

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

The past year saw no major primary job layoff announcements. This was good news, as there were 375 announced primary job layoffs in 2009 and 215 in 2008.

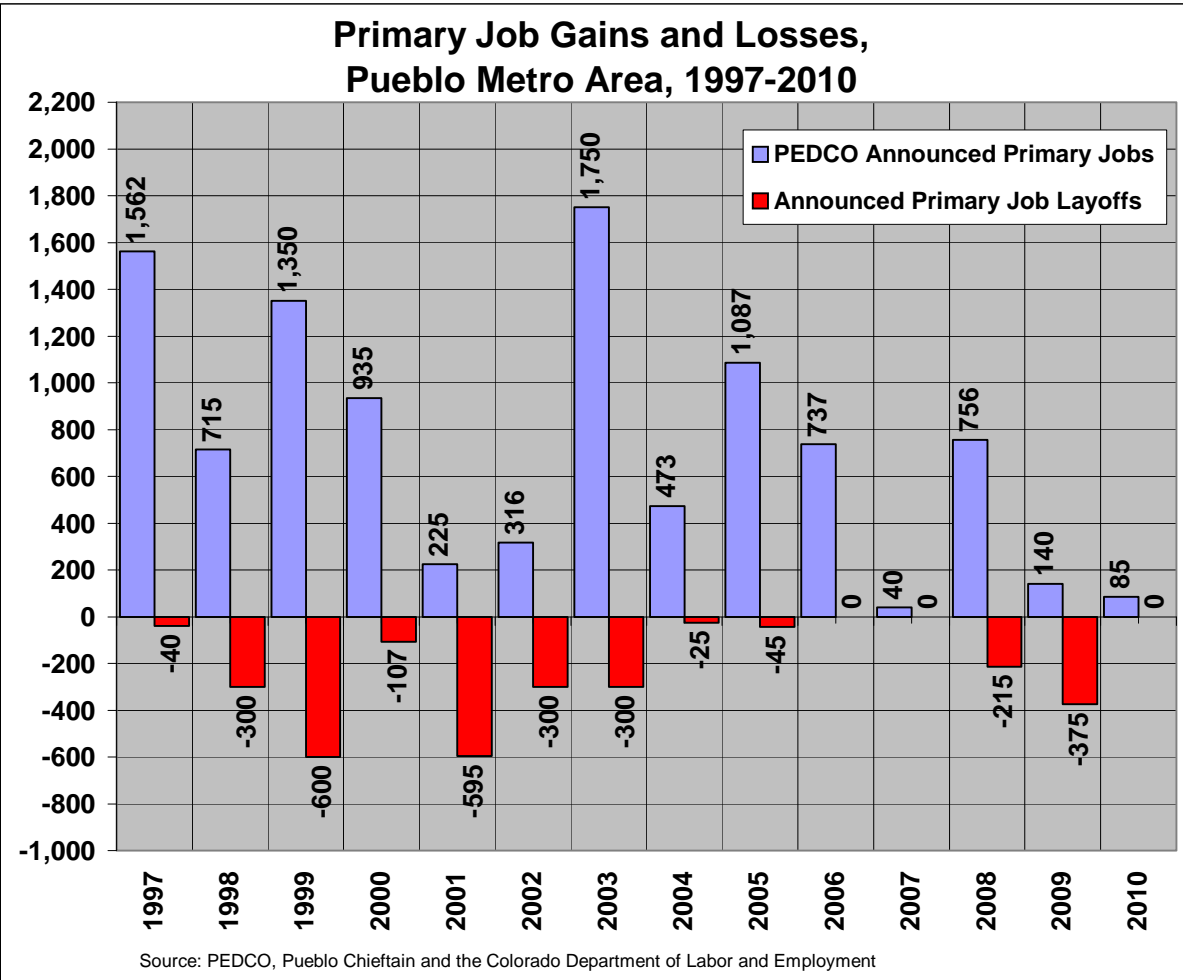
Recent history has shown that new primary jobs must be created in Pueblo every year just to keep up with plant closures, downsizing and the resulting worker layoffs. It's a fact of modern business; companies come and go. Those primary jobs must be replaced, or the city's economy will rapidly decline.

Over the past 14 years, about 2,902 primary jobs, were lost to layoffs. On the average, roughly one in five primary jobs created in the past 14 years replaced jobs that were lost to layoffs. Thus, if the recent past holds for the future, a little over 200 new primary jobs must be created each year just to stay even.

Net Primary Job Announcements
Pueblo Metro Area, 1997-2010

Year	PEDCO Announced Primary Jobs	Announced Primary Job Layoffs	Net Gain / Loss
1997	1,562	-40	1,602
1998	715	-300	1,015
1999	1,350	-600	1,950
2000	935	-107	1,042
2001	225	-595	820
2002	316	-300	616
2003	1,750	-300	2,050
2004	473	-25	498
2005	1,087	-45	1,132
2006	737	0	737
2007	40	0	40
2008	756	-215	971
2009	140	-375	515
2010	85	0	85
Total	10,171	-2,902	13,073

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

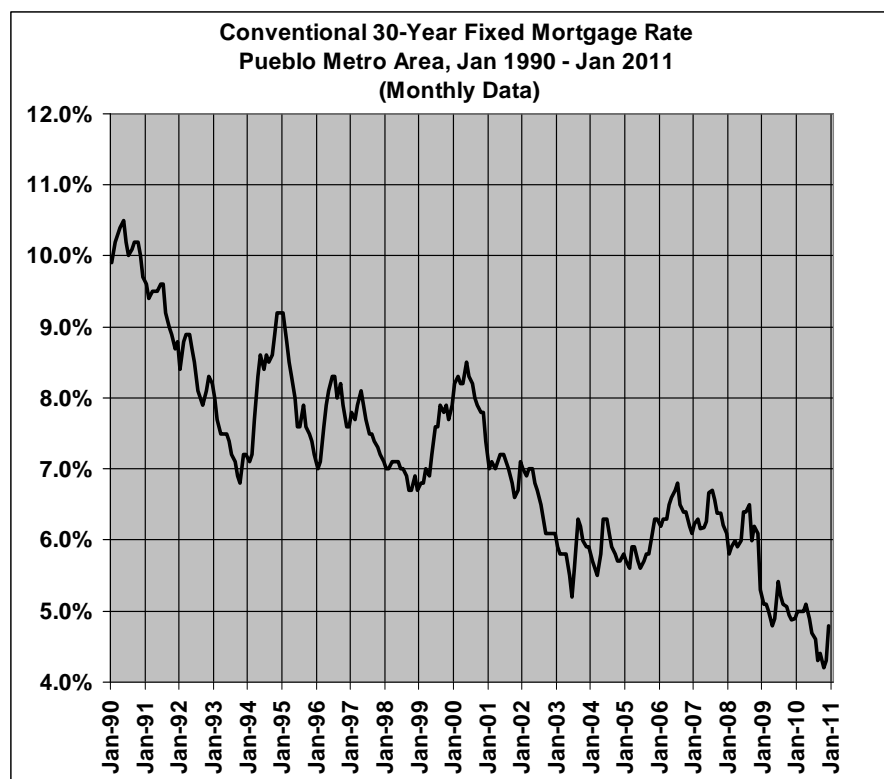


Source: PEDCO, Pueblo Chieftain and the Colorado Department of Labor and Employment

The year 2010 saw mortgage rates drop to record lows. Today, rates for a 30 year conventional fixed rate 30-year home mortgage are a little under 5%. Rates climbed some recently from their record lows of about 4.3% at mid-year 2010.

Population in Pueblo totaled an estimated 161,000 in July 2010, up by 2,600 for the last 12 months. Since 1990 population in the metro area increased by 37,600. Much of this increase has been the result of very strong net migration accounting for 46%, or 17,400 of the total growth.

Net migration was relatively strong in 2010, adding 670 people to Pueblo County's population. Assuming an average of 2.5 people per household, this translates into an estimated increase of about 270 occupied homes in the past year.



Source: Federal Reserve Bank

Components of Population Growth
Pueblo Metro Area, 1990-2010

Year	Population	Change	Births	Deaths	Natural Increase	Net Migration
1990	123,053	-310	1,698	1,190	508	-818
1991	123,482	429	1,764	1,242	522	-93
1992	124,412	930	1,805	1,259	546	384
1993	126,356	1,944	1,780	1,169	611	1,333
1994	128,721	2,365	1,746	1,236	510	1,855
1995	130,831	2,110	1,730	1,337	393	1,717
1996	132,502	1,671	1,734	1,260	474	1,197
1997	134,794	2,292	1,739	1,359	380	1,912
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	141,853	2,135	1,927	1,380	1,588	547
2001	144,124	2,271	2,004	1,393	1,660	611
2002	146,715	2,591	1,985	1,482	2,088	503
2003	148,314	1,599	2,060	1,451	990	609
2004	149,170	856	1,946	1,526	436	420
2005	150,530	1,360	1,993	1,546	913	447
2006	152,741	2,211	2,014	1,412	1,609	602
2007	155,559	2,818	2,143	1,509	2,184	634
2008	157,171	1,612	2,167	1,608	1,053	559
2009	158,362	1,191	2,038	1,558	711	480
2010	160,952	2,590	2,103	1,431	1,918	672
Totals		37,589	40,178	27,884	20,170	17,419
Percent		100%			54%	46%

Source: Colorado State Demographer

This year, as in years past, we compiled data on new home buyer demographics. Here is the update:

Households moving to Pueblo were again major players in the new home market. In 2010 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, 17% 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 18% of buyers and working households made up 82% of buyers in 2010.

First time buyers made up the largest segment of the new home market in Pueblo in 2010. In 2010 41% of buyers were first time buyers, 37% were move-up buyers and 22% were move-down buyers.

Pueblo continues to attract buyers who work in Colorado Springs. Builders report that this segment made up 40% of new home buyers in 2010. 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 2010

	2003	2004	2005	2006	2007	2008	2009	2010
Previous residence of buyers								
Local	79%	71%	65%	44%	57%	49%	42%	42%
Out-of-town	21%	29%	35%	33%	29%	31%	42%	41%
Out-of state (not collected in 2003-2005)	NA	NA	NA	23%	14%	20%	16%	17%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Housing stage of buyers								
First time buyers	43%	23%	37%	32%	22%	27%	37%	41%
Move-up buyers (buying bigger home)	37%	57%	49%	48%	47%	55%	46%	37%
Move-down buyers (buying smaller home)	20%	20%	14%	20%	31%	18%	17%	22%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Place of work of buyers								
Work in Pueblo	76%	62%	62%	52%	59%	54%	54%	42%
Work in Colorado Springs	11%	12%	13%	20%	21%	20%	25%	40%
Work somewhere else	4%	5%	7%	9%	4%	13%	10%	1%
Retired	10%	22%	22%	19%	16%	13%	11%	18%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: David Bamberger & Associates and Summit Economics surveys

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

Builder’s spec inventories at the start of 2011 were down from a year ago. Based on our survey of builders, we estimate that there were 46 spec homes under construction or complete as of January 1, 2011, down from 64 a year ago. The survey found that spec inventory was highest in the \$160,000 and under price range relative to sales rates.

Overall, for an annual production and sales rate of about 200 units per year, spec inventory represents a 2.5 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 2010, 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 increased by an estimated 3.2% in 2010. As a comparison, the U.S. Consumer Price Index increased by 1.2% during the year 2010.

Builders also reported they expect prices of new homes to continue to increase in 2011. Prices of new homes in Pueblo are expected to see a 2.0% increase in 2011.

Estimated Single Family New Home Market Performance
 Pueblo County, January 1, 2011
 (Sample data scaled to represent the whole market)

Price Range	Started Jan-Dec 2010	Under Construction 1-Jan-11			Completed (not closed) 1-Jan-11			Sold 2010	Plan to Build in 2011
		Presold	Unsold	Total	Presold	Unsold	Total		
Less than \$160,000	45	0	4	4	0	10	10	42	31
\$160,000 to \$199,999	82	4	10	15	4	12	17	89	75
\$200,000 to \$249,999	52	4	2	6	4	4	8	52	71
\$250,000 to \$299,999	10	2	0	2	2	0	2	15	19
\$300,000 and over	25	0	0	0	0	2	2	20	6
Total	213	10	17	27	10	29	40	218	202

Source: Summit Economics Builder Survey, January 2010. Note: The survey included responses from 5 builders, accounting for 48% of permits pulled by builders in 2010.

Analysis of Speculative New Single Family Inventory
 January 1, 2011

(Sample data scaled to represent the whole market)

Price Range	Total Unsold Inventory	Sold per Month in 2010	Months of Inventory
Less than \$160,000	15	4	4.2
\$160,000 to \$199,999	23	7	3.1
\$200,000 to \$249,999	6	4	1.4
\$250,000 to \$299,999	0	1	0.0
\$300,000 and over	2	2	1.3
Total	46	18	2.5

Source: Summit Economics Builder Survey - January 2011.

Estimated Price Change of New Homes

- 2010 average: 3.2%
- 2011 average: 2.0%

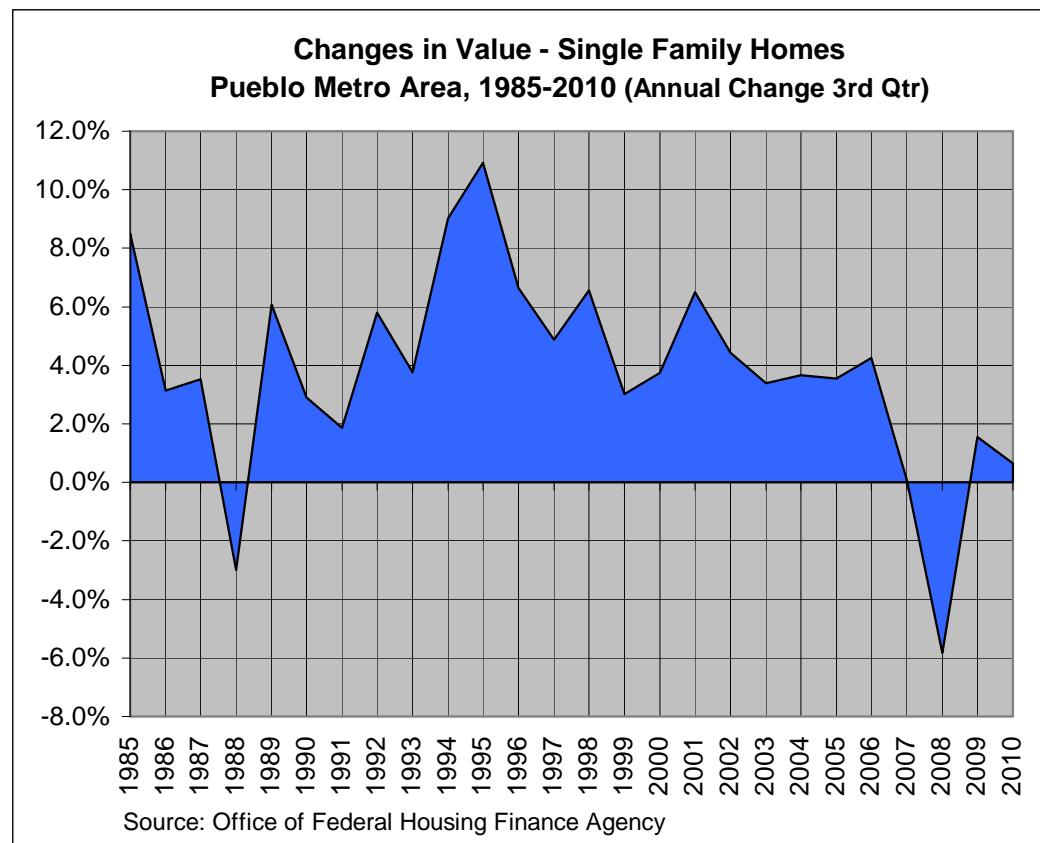
Single family home values in Pueblo saw an increase of 0.6% between the 3rd quarter of 2009 and the 3rd quarter of 2010. This followed an increase of 1.6% in 2009 and a big decline of 5.8% in 2008.

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

The OFHFA estimates are based on repeat sales and refinancing data on the same property over time. This method is substantially better than using a simple median sales price figure.

Changes in Value - Single Family Homes
Pueblo Metro Area, 1983-2010

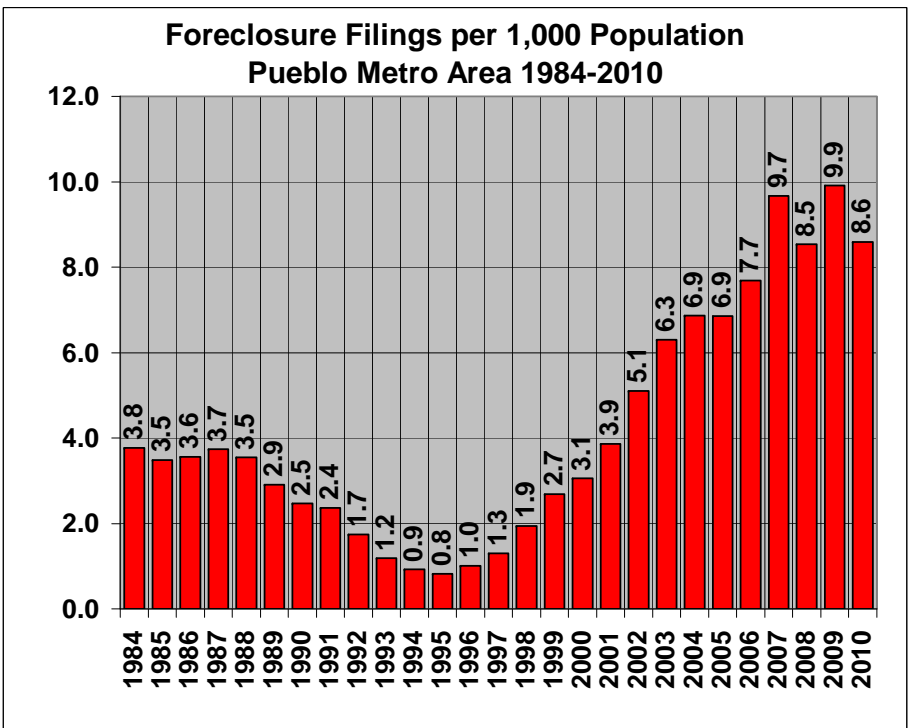
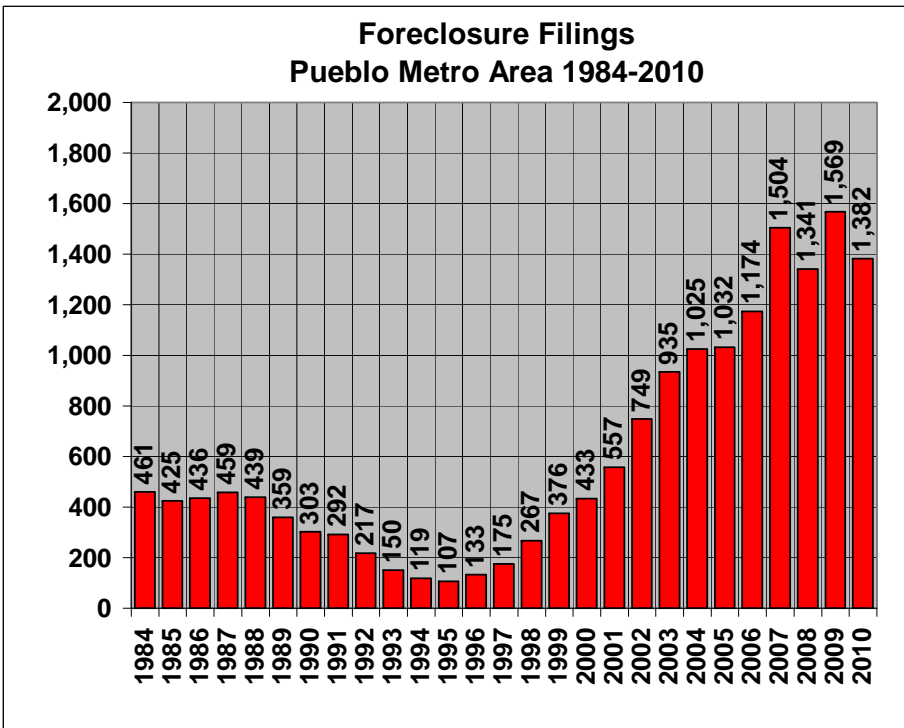
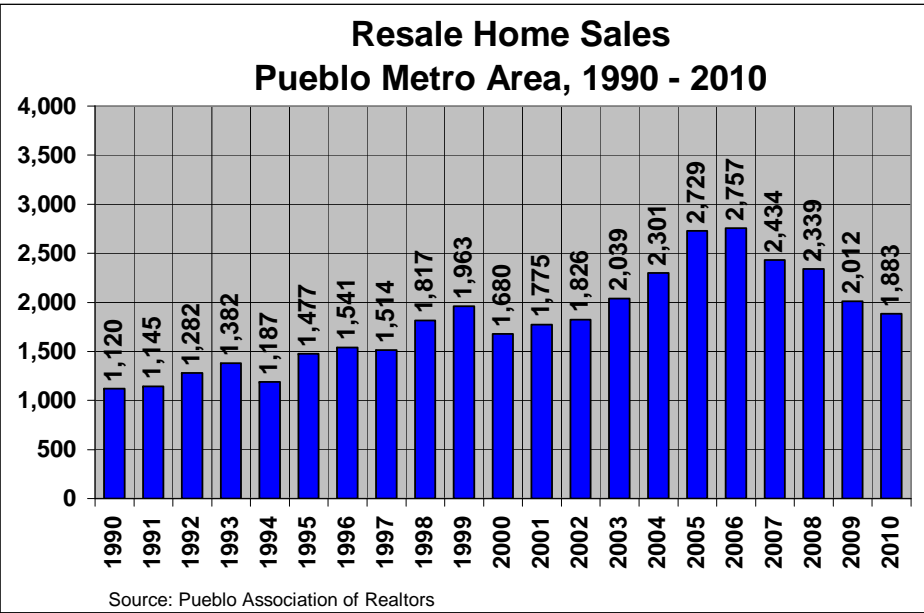
Year	Quarter	Single Family Home Value	Percent Change Over One Year Ago
1985	3rd	\$68,170	8.5%
1986	3rd	\$70,310	3.1%
1987	3rd	\$72,790	3.5%
1988	3rd	\$70,620	-3.0%
1989	3rd	\$74,910	6.1%
1990	3rd	\$77,080	2.9%
1991	3rd	\$78,520	1.9%
1992	3rd	\$83,070	5.8%
1993	3rd	\$86,190	3.8%
1994	3rd	\$93,970	9.0%
1995	3rd	\$104,230	10.9%
1996	3rd	\$111,150	6.6%
1997	3rd	\$116,560	4.9%
1998	3rd	\$124,210	6.6%
1999	3rd	\$127,960	3.0%
2000	3rd	\$132,760	3.8%
2001	3rd	\$141,400	6.5%
2002	3rd	\$147,660	4.4%
2003	3rd	\$152,670	3.4%
2004	3rd	\$158,270	3.7%
2005	3rd	\$163,870	3.5%
2006	3rd	\$170,850	4.3%
2007	3rd	\$170,990	0.1%
2008	3rd	\$161,010	-5.8%
2009	3rd	\$163,510	1.6%
2010	3rd	\$164,560	0.6%



Source: Office of Federal Housing Finance Agency

The resale market in Pueblo slowed some more in 2010. Resale home sales totaled 1,883 units in 2010, down from 2,012 in 2009 and down from 2,757 at the peak in 2006.

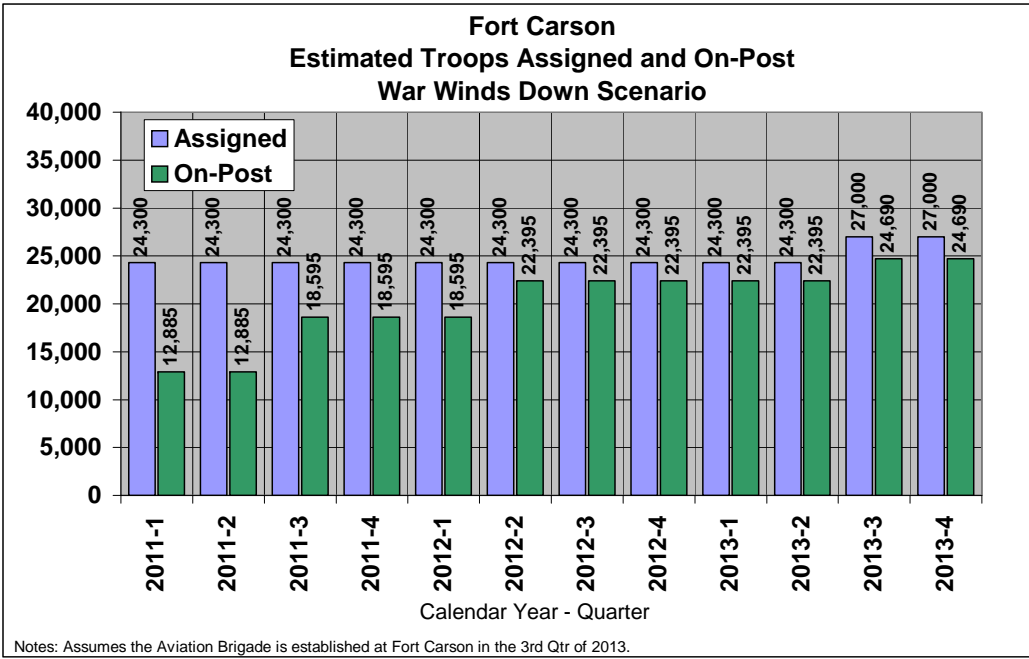
Home mortgage foreclosure filings in Pueblo dropped to 1,382 in 2010 down from 1,569 in 2009. Foreclosures on a per capita basis have increased significantly since the mid-1990s. Foreclosure filings per 1,000 population in Pueblo increased to 9.9 per 1,000 population in 2009, but then dropped to 8.6 in 2010. As a comparison, per capita foreclosures were less than one per 1,000 population in the mid-1990s.



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

Deployment of troops from Fort Carson to Iraq and Afghanistan is expected to decline significantly over the next 12 to 18 months. With the withdrawal of combat troops in Iraq and the possibility of winding down troop deployments to Afghanistan, the number of soldiers actually on-post at Fort Carson will increase from about 12,900 in the 1st quarter of 2011 to 18,600 in the 3rd quarter of 2011 and 22,400 in the 2nd quarter of 2012.

Then, if the proposed aviation brigade of 2,700 soldiers is located at Fort Carson, the number on-base will increase to 24,700 in 2013.



Troops Assigned to Fort Carson										Assigned	
Year-Qtr	HQ 4ID	1BCT 4ID	2BCT 4ID	3BCT 4ID	4BCT 4ID	43SB	10th SFG	Other	Total	Change	
2011-1	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300		
2011-2	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2011-3	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2011-4	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2012-1	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2012-2	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2012-3	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2012-4	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2013-1	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2013-2	1,300	3,800	3,800	3,800	3,800	2,200	1,900	3,700	24,300	0	
2013-3	1,300	3,800	3,800	3,800	3,800	2,200	1,900	6,400	27,000	2,700	
2013-4	1,300	3,800	3,800	3,800	3,800	2,200	1,900	6,400	27,000	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
2011-1	500	0	3,800	0	3,800	1,430	950	2,405	12,885	
2011-2	500	0	0	3,800	3,800	1,430	950	2,405	12,885	0
2011-3	1,300	3,800	0	3,800	3,800	1,800	950	3,145	18,595	5,710
2011-4	1,300	3,800	0	3,800	3,800	1,800	950	3,145	18,595	0
2012-1	1,300	3,800	0	3,800	3,800	1,800	950	3,145	18,595	0
2012-2	1,300	3,800	3,800	3,800	3,800	1,800	950	3,145	22,395	3,800
2012-3	1,300	3,800	3,800	3,800	3,800	1,800	950	3,145	22,395	0
2012-4	1,300	3,800	3,800	3,800	3,800	1,800	950	3,145	22,395	0
2013-1	1,300	3,800	3,800	3,800	3,800	1,800	950	3,145	22,395	0
2013-2	1,300	3,800	3,800	3,800	3,800	1,800	950	3,145	22,395	0
2013-3	1,300	3,800	3,800	3,800	3,800	1,800	950	5,440	24,690	2,295
2013-4	1,300	3,800	3,800	3,800	3,800	1,800	950	5,440	24,690	0

Source: Summit Economics from various military and local sources.

File Fort Carson Deployments Feb 2010

Housing production in Pueblo experienced another down year in 2010. New home production totaled only 234 units, down from 377 in 2009, a drop of 143 units and 37.9%. The drop was due to a big decline in apartment construction.

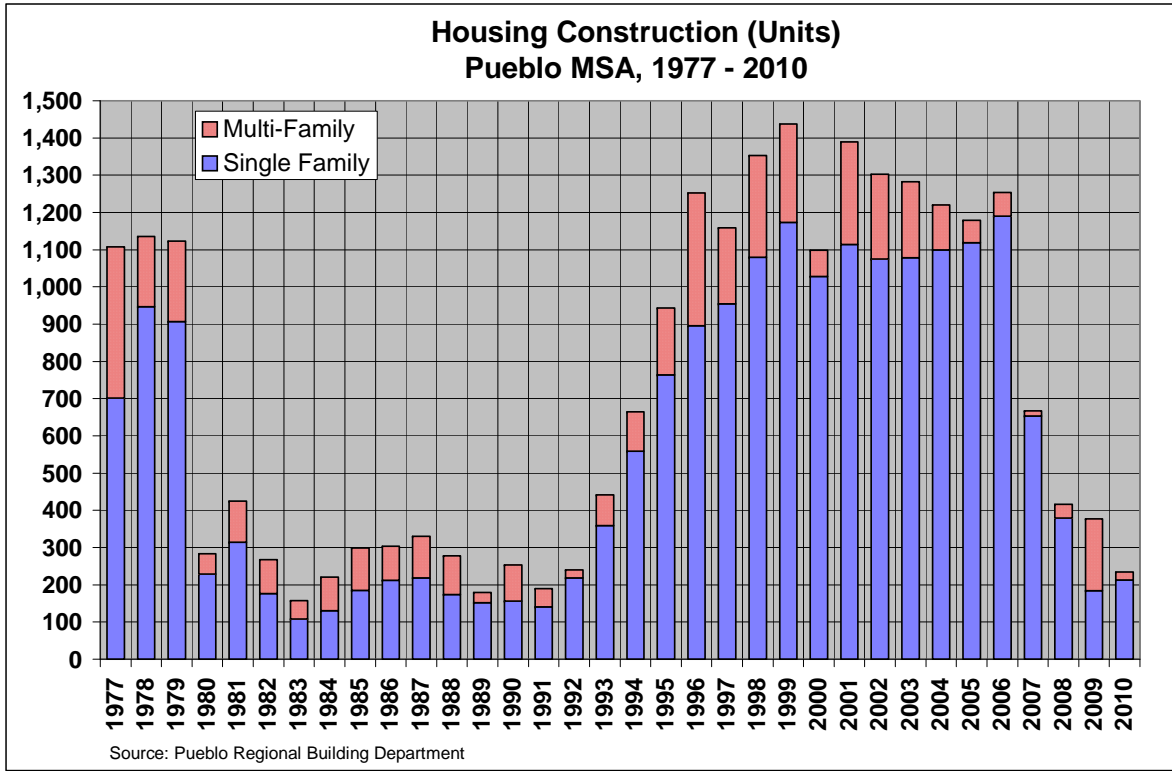
Housing production in Pueblo in 2010 included 213 single family units and 21 multi-family units. Last year's drop followed declines in 2007, 2008 and 2009. Single family production in 2010 increased slightly over the year from 184 units in 2009. Multi-family production totaled 21 units in 2010 compared to 193 units in 2009.

The big drop in the production of new housing in Pueblo in 2007, 2008, 2009 and 2010 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 four years.

New Home Construction (units)
Pueblo Metropolitan Area, 1990 - 2010

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
2010	213	21	234

Source: Regional Building Department.

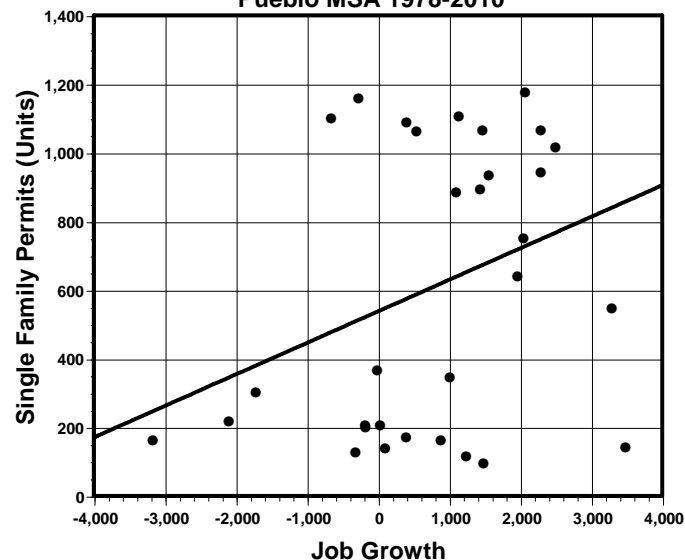


Over the long run, the main drivers of the Pueblo housing market are job growth, interest rates and net migration. This is confirmed in a recent update to the research that we conduct every year on the Pueblo housing market.

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.

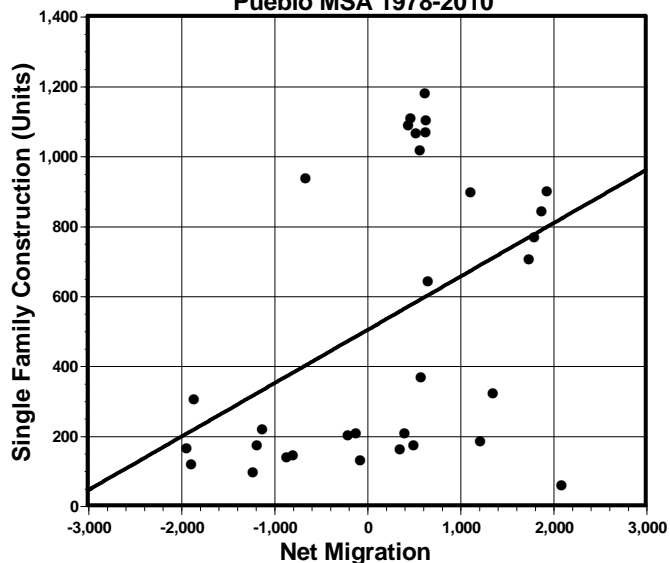
We have learned that commuters with jobs in other cities and retirees moving to Pueblo have recently emerged as important forces in the Pueblo housing market. The large gains in net-migration in part helps explain why the housing market remained strong even though job growth was weak and even negative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

**Relationship Between
Single Family Construction and Job Growth
Pueblo MSA 1978-2010**



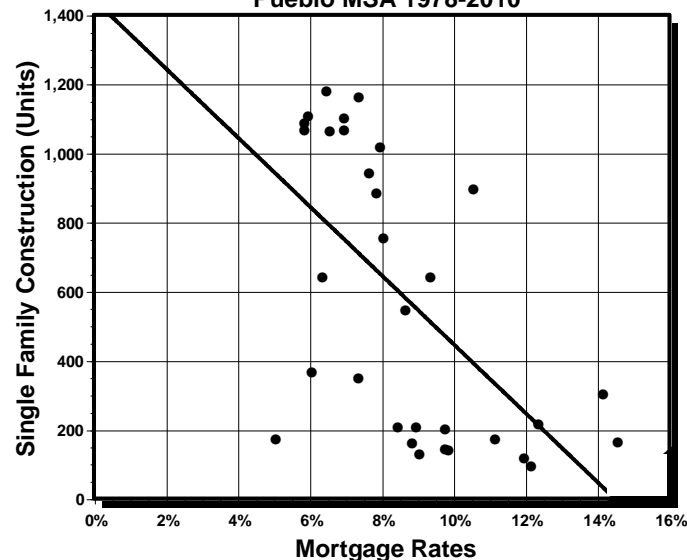
Source: Pueblo Regional Building Department, Colorado Department of Labor and Employment

**Relationship Between
Single Family Construction and Net Migration
Pueblo MSA 1978-2010**



Source: Pueblo Regional Building Department, Colorado State Demographer

**Relationship Between
Single Family Construction and Mortgage Rates
Pueblo MSA 1978-2010**



Source: Pueblo Regional Building Department, Federal Reserve Bank, Various Mortgage Companies

HOUSING, JOBS, INTEREST RATES AND NET MIGRATION
PUEBLO, 1977-2010

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	-93	9.0%	14.2%	-1.82
1992	48,380	-3	219	21	240	1,282	1,522	384	8.4%	15.8%	-0.01
1993	49,360	980	359	83	442	1,382	1,824	1,333	7.3%	24.2%	2.22
1994	52,623	3,263	559	106	665	1,187	1,852	1,855	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	1,197	7.8%	44.8%	0.86
1997	57,982	2,267	955	204	1,159	1,514	2,673	1,912	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	547	7.9%	39.5%	2.25
2001	60,896	-688	1,114	276	1,390	1,775	3,165	611	6.9%	43.9%	-0.49
2002	61,410	514	1,075	228	1,303	1,826	3,129	503	6.5%	41.6%	0.39
2003	63,673	2,263	1,078	204	1,282	2,039	3,321	609	5.8%	38.6%	1.77
2004	64,044	371	1,100	120	1,220	2,301	3,521	420	5.8%	34.6%	0.30
2005	65,154	1,110	1,119	60	1,179	2,729	3,908	447	5.9%	30.2%	0.94
2006	67,196	2,042	1,190	64	1,254	2,757	4,011	602	6.4%	31.3%	1.63
2007	69,131	1,935	653	14	667	2,434	3,101	634	6.3%	21.5%	2.90
2008	69,090	-41	379	37	416	2,339	2,755	559	6.0%	15.1%	-0.10
2009	67,660	-1,430	184	193	377	2,011	2,388	480	5.0%	15.8%	-3.79
2010	66,957	-703	213	21	234	1,883	2,117	672	4.7%	11.1%	-3.00

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.

The Economic and Housing Market Forecast Scenarios

The Pueblo housing market is experiencing the biggest slump in years. While many of the global, national and local economic indicators are showing signs of recovery, housing markets are lagging and showing little signs of improvement.

Negative job growth, high unemployment and home foreclosures remain big barriers to a sustainable recovery in the Pueblo housing market. Local job growth is likely to start toward positive territory 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 - 2013

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	156	9.7%	-818	3,456
1991	140	9.0%	-93	-345
1992	219	8.4%	384	-3
1993	359	7.3%	1,333	980
1994	559	8.6%	1,855	3,263
1995	764	8.0%	1,717	2,019
1996	896	7.8%	1,197	1,073
1997	955	7.6%	1,912	2,267
1998	1,079	6.9%	2,070	1,441
1999	1,173	7.3%	1,778	-306
2000	1,028	7.9%	547	2,467
2001	1,114	6.9%	611	-688
2002	1,075	6.5%	503	514
2003	1,078	5.8%	609	2,263
2004	1,100	5.8%	420	371
2005	1,119	5.9%	447	1,110
2006	1,190	6.4%	602	2,042
2007	653	6.3%	634	1,935
2008	379	6.0%	559	-41
2009	184	5.0%	480	-1,430
2010	213	4.7%	672	-703
2011 forecast	230	5.5%	300	0
2012 forecast	250	5.9%	300	300
2013 forecast	280	6.2%	300	500

Source: Summit Economics

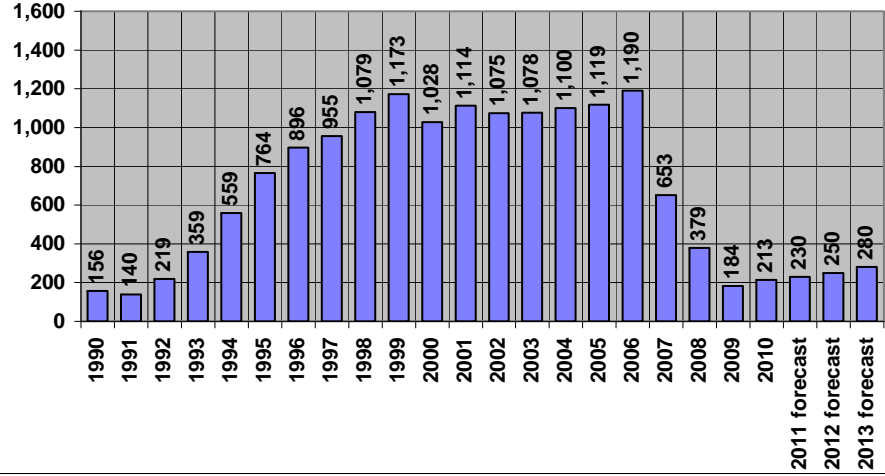
The Great Recession of 2007, 2008 and 2009 was over at mid-year 2009 but there is still a long way to go to climb out of the hole dug by the melt-down of financial markets and the resulting global economic decline.

The US economy struggles to gain traction in 2011. Job growth remains very slow. Unemployment remains at close to double digits. Credit markets remain tight. Housing values in most metro areas show little gains. Mortgage delinquencies and foreclosures remain a big problem. Commercial real estate markets remain soft. Consumer confidence remains low. The US economy stays in a big funk in 2011 and 2012, but starts to see some signs of life in 2013.

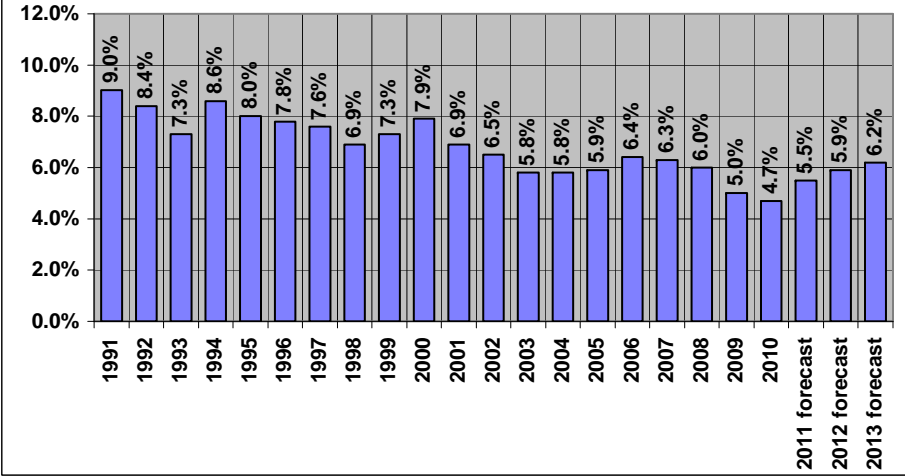
The Pueblo economy follows the path set by the US economy. The local economy continues to wobble along at near the bottom. Job growth hits zero in 2011 and climbs a little to 300 in 2012 and 500 in 2013.

Single family housing starts total 230 in 2011 and rise to 250 in 2012 and 280 in 2013 as economic recovery starts to gain traction.

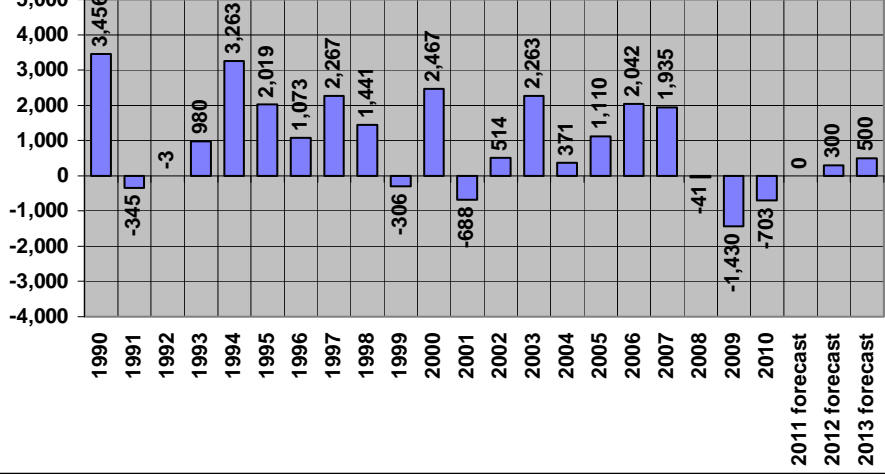
**The Melt-down Continues Scenario
Single Family Units
Pueblo Metro Area**



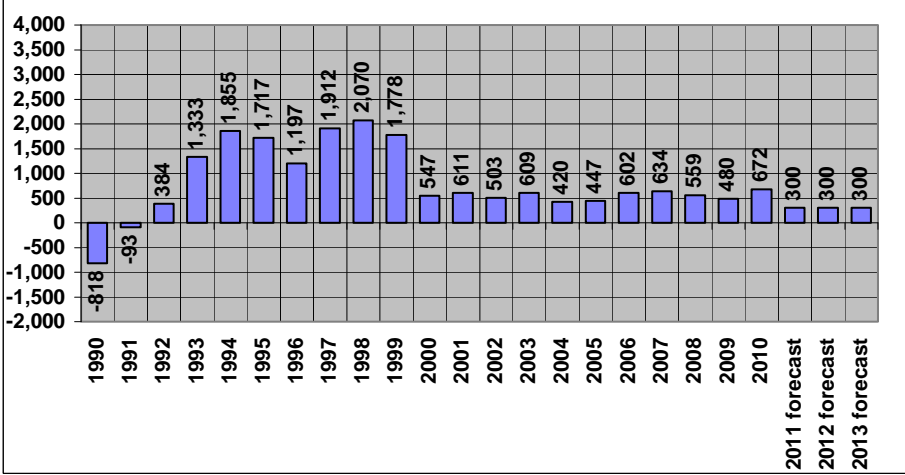
**The Melt-down Continues Scenario
Mortgage Rates (Conventional 30-year Fixed)
Pueblo Metro Area**



**The Melt-down Continues Scenario
Job Growth
Pueblo Metro Area**



**The Melt-down Continues Scenario
Net Migration
Pueblo Metro Area**



The Road Back Scenario

Forecasts -- "The Road Back" Scenario

Single Family Permits, Mortgage Rates, Net Migration and Job Growth
Pueblo Metro Area, 1990 - 2013

Year	Single Family Units	Mortgage Rate	Net Migration	Job Growth
1990	156	9.7%	-818	3,456
1991	140	9.0%	-93	-345
1992	219	8.4%	384	-3
1993	359	7.3%	1,333	980
1994	559	8.6%	1,855	3,263
1995	764	8.0%	1,717	2,019
1996	896	7.8%	1,197	1,073
1997	955	7.6%	1,912	2,267
1998	1,079	6.9%	2,070	1,441
1999	1,173	7.3%	1,778	-306
2000	1,028	7.9%	547	2,467
2001	1,114	6.9%	611	-688
2002	1,075	6.5%	503	514
2003	1,078	5.8%	609	2,263
2004	1,100	5.8%	420	371
2005	1,119	5.9%	447	1,110
2006	1,190	6.4%	602	2,042
2007	653	6.3%	634	1,935
2008	379	6.0%	559	-41
2009	184	5.0%	480	-1,430
2010	213	4.7%	672	-703
2011 forecast	280	5.8%	600	400
2012 forecast	350	5.9%	800	600
2013 forecast	450	6.0%	1,000	900

Source: Summit Economics

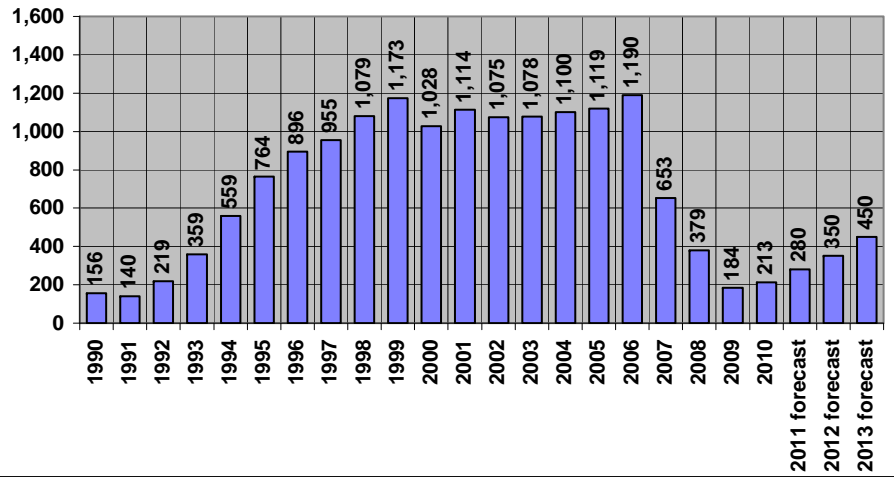
The Great Recession of 2007, 2008 and 2009 was over at mid-year 2009 but there is still a long way to go to climb out of the hole dug by the melt-down of financial markets and the resulting global economic decline.

The US economy sees signs of life emerge in 2011. The rate of job growth increases. Credit markets begin to thaw. Personal income shows moderate gains. Consumer spending increases. The rate of foreclosures declines. Sales of existing and new homes show increases. Business investment starts to pick up. The US economy gains increasing momentum throughout 2011 and by year-end 2012 it's almost back to normal.

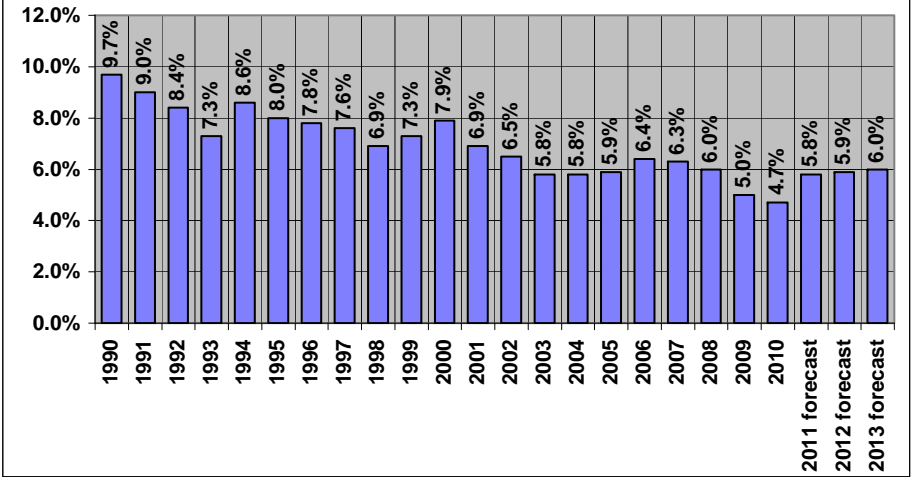
In 2011 the Pueblo economy follows the path set by the US economy. The local economy starts to see signs of life in 2011. Job growth increases to 400 in 2011, 600 in 2012, and 900 in 2013 as the global and US economies start to grow again.

Single family housing starts total 280 in 2011, then increase to 350 in 2012 and 450 in 2013 as local job growth climbs and consumer confidence increases.

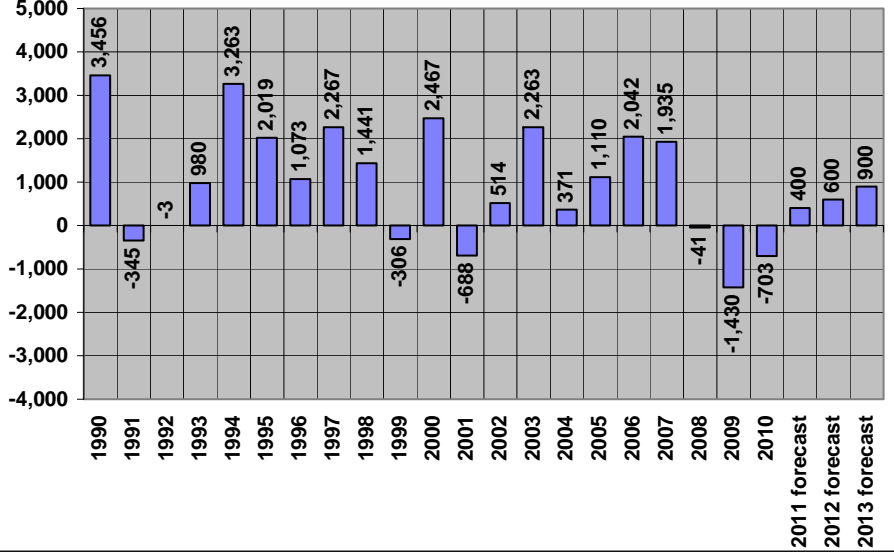
The Road Back Scenario
Single Family Units
Pueblo Metro Area



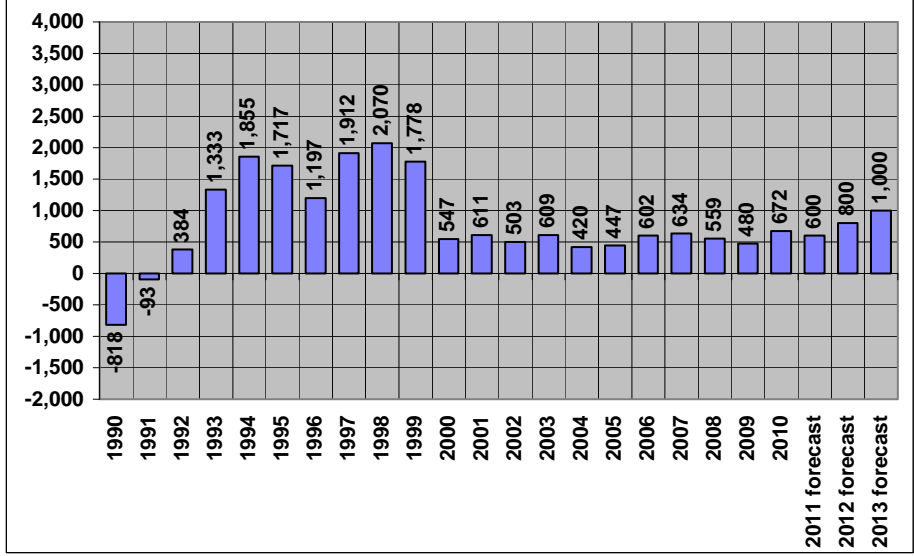
The Road Back Scenario
Mortgage Rates (Conventional 30-year Fixed)
Pueblo Metro Area



The Road Back Scenario
Job Growth
Pueblo Metro Area



The Road Back Scenario
Net Migration
Pueblo Metro Area



Final Thoughts

The Pueblo single family housing market continued to wobble along in 2010. The party ended in 2006, leaving the market with a little hangover in 2007; the hangover pain got even worse in 2008, 2009 and 2010.

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... “when will we see recovery?” Well, maybe we see it in 2011, 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

While there are clear signs that the national economy is gaining traction, the big uncertainty the housing market faces today is the possibility of the continuation of a jobless recovery. The key to recovery of the Pueblo housing market is job growth.