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The Fine Print

Fueling empowered real estate decisions
with objective data and subjective analysis

SELLEY GROUP REAL ESTATE, LLC

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INTRODUCTION:
The Purpose of The Fine Print is to provide comprehensive, objective information about the Pikes Peak Regional Real Estate Market. The Goal of The Fine Print is to provide factual data and locate opportunities in a fluid real estate market.

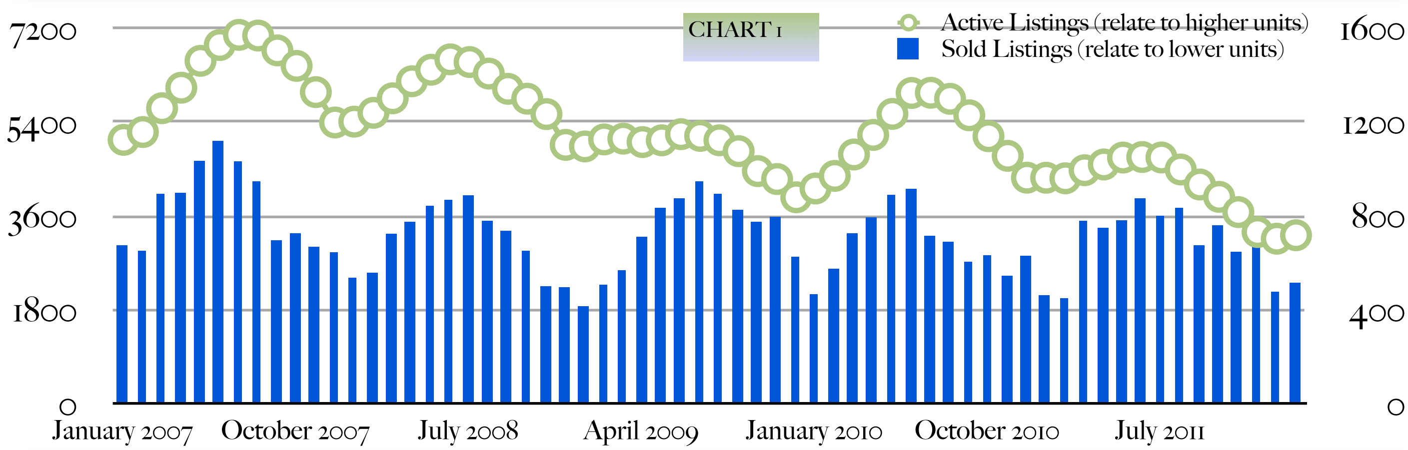
THE RULES:
There are many rules in a fluid real estate market, but here are a few that we believe hold true IN ANY MARKET (one favoring buyers; one favoring sellers; it does not matter):

- LOCATION, LOCATION, LOCATION
- MONEY IS MADE ON THE BUY
- SELLERS SET ASKING PRICES; BUYERS DETERMINE VALUE
- BUYERS BUY VALUE
- THOSE WITH POWER HAVE FEW NEEDS. THOSE WITH NEEDS HAVE LITTLE POWER
- THE HARDEST THING TO GAIN IS TRUST; THE EASIEST THING TO LOSE

STRENGTHS	WEAKNESSES
Market balance. Months of Inventory improved to 6.3 months, and should drop below 6 months March through Summer.	Very little for buyers to choose from. The market is just over 6 months of inventory, but is functioning more like a seller's market.
Seller probability of sale has increased. A properly priced property without major defects in very good shape WILL sell, and almost anywhere.	National unemployment remains a pesky 8.3%. That is a big improvement over the near 10% it was at, but historically is very high
Interest rates are starting to climb slightly, but remain below 4.00%. Watch these though, Wall Street is having a good year and that will likely fuel some increase	Confidence in markets is starting to return. Confidence in government? Different story. With a presidential election coming soon, don't expect anything bold out of Washington.
OPPORTUNITIES	**THREATS**
It is $4.77 per thousand to finance your money these days. That means the Principal & Interest payment on a $200K mortgage is only $954 a month.	Economic sensitivity is still very tenuous. Consumers remain more willing to believe negative news rather than positive news. It doesn't take much to tip the market negative.
This is a buy and hold market, but the market balance has presently reduced some of the risk.	Dozens of outside-real-estate risks are out there, from jobs to local government to DOD cuts.

Single Family Unit Comparison (Chart 1): The bland sales performance in January saw improvement in February. Somewhat shockingly, the scant number of listings in January barely increased in February, and today there are fewer homes for sale than on January 1st. Inventory is 25.3% lower than the same time last year.

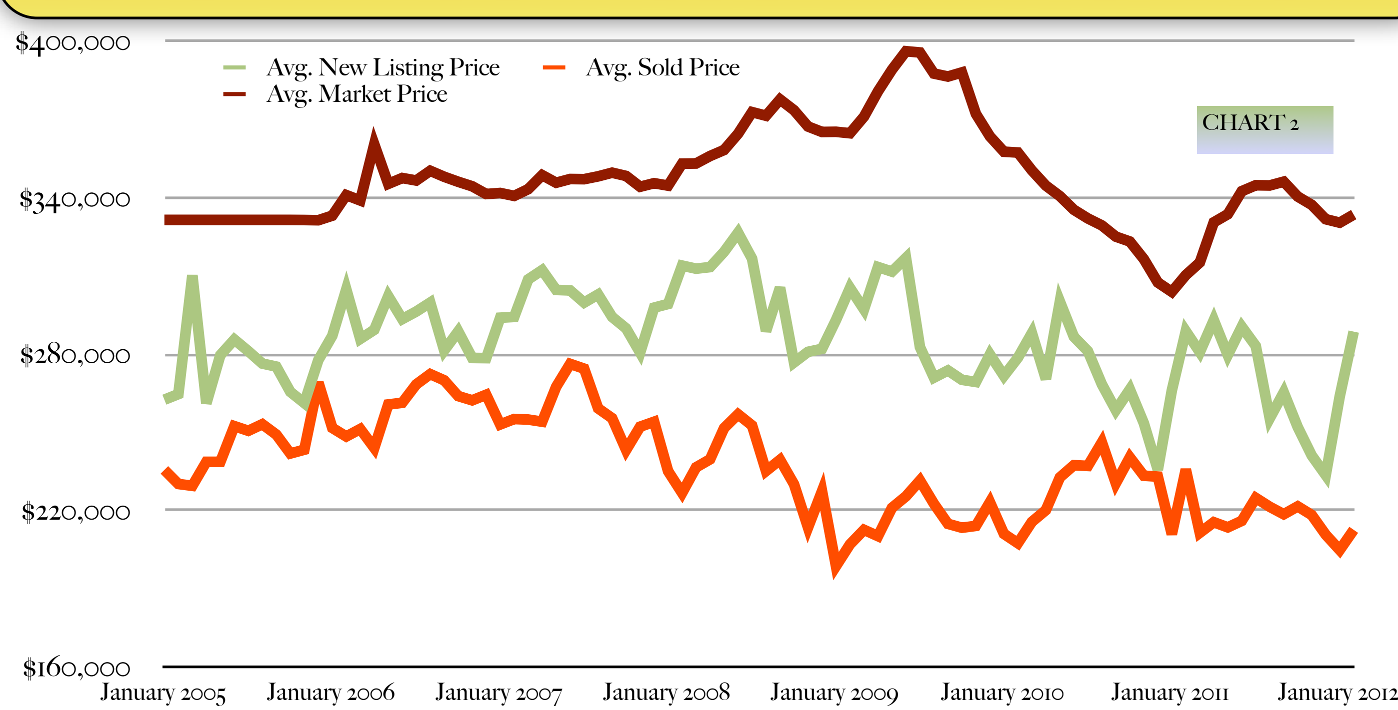
The dominant market characteristic continues to be a lack of inventory. Compoundng this is the fact that after five years of short-sale and bank-owned sales (30 to 50% of all sales each month in the winter each year since late 2008), the market has nearly exhausted the number of buyers capable of improving a distressed property or who can wait out the tedium of a short-sale approval. And these properties still represent a large percentage of all available listings. The market is at a ten-year low in gross active inventory, but when you consider how many buyers simply will not or can not buy a bank-owned or short-sale property (say they have to close by any date in the next 90 days), that shrinks the inventory all the more. Despite the lack of inventory, prices are not yet appreciating and rates are so good, buyers are now committing to purchases. While 514 single family units closed is an average number for the last five years, is is 14.7% higher than last February.



Average Price Comparison (Chart 2): Compared to last year, prices are way down. But wait until next month. March set the tone for the discounting in 2011, when there was a precipitous drop in average sales price from February to March that never recovered.

February saw a very small improvement over January, and the $212,800 average sales price is 1% more than the average sales price of March, 2011. This shows that over the last 12 months, closed sales have wavered very little.

The average asking price on the market is steadily climbing. There remains excess high-end inventory right now, which equals a buyers' market (especially over $400,000). But under $250,000, there is very little to buy. From $125,000 to $250,000 there is 4.1 to 5.6 months of inventory, all tipping heavily towards a sellers' market. From $250,000 to all prices above, there is 7 months plus inventory, with a year or more of sell-through required for almost all prices above $425,000. This means that the average price is weighted towards the high end that is not moving as quickly as the low end. This is a double market, one where it is getting increasingly easy to sell a less expensive property and buy at a discount a more expensive property.



Months of Inventory (Chart 3): How a market enters the Spring/Summer selling season typically is a precursor to the rest of the year. Without a tax credit (or it's deadline) to sway the market like in 2010, the near-balance of late February and early March should indicate a tilt towards less than six months for the next several months. This is however only a measure of balance. The 514 closed sales, while better than 2009 and 2011 was the third lowest number in the last 10 years.

New Market Activity (Chart 4): Pending sales are quite similar to where they were a year ago (6 units higher in 2012). To compensate for the irregularities of this status in the PPAR MLS, we are adding a category that tracks all Under Contract and Pending Sales as a single number and Under Contract Short-Sales as a separate number to better report the pace of purchasing activity.

CHART 3

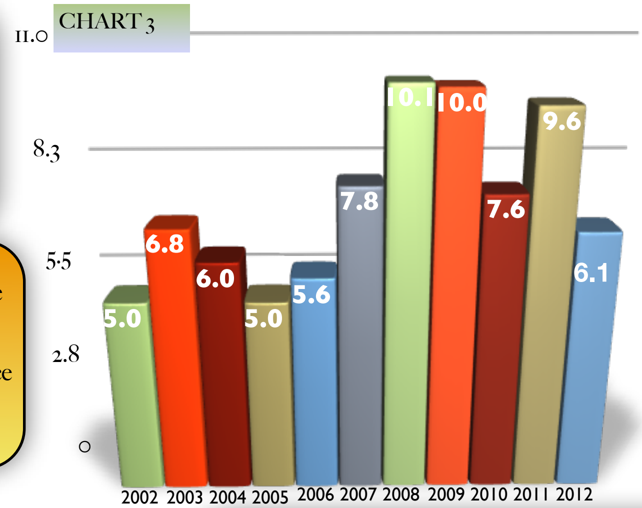


CHART 4

Pending & Under Contracts (P & U/C): 1239

Short-Sale Under Contracts (UCSS): 402

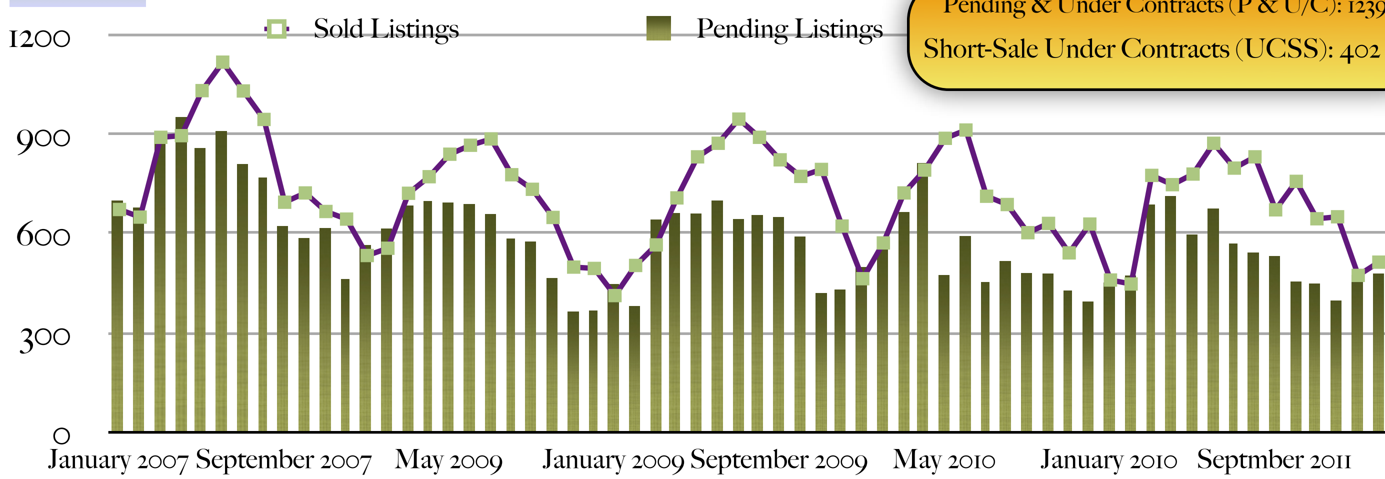


TABLE 1

Single Family	#SFR ACTIVI	#SFR SOLD	TIME TO SEI	#SFR Listed	Avg List	Avg Sold	SP to LP	Avg.
Area	All For Sale	Last 3 mos	Months	Last 3 mos	Price	Price	List %	DOM
BLA	118	30	11.80	74	$584,942	$350,732	95.1%	76
BRI	195	82	7.13	188	$342,916	$274,064	99.9%	124
CEN	185	121	4.59	166	$217,636	$141,448	96.7%	92
EAS	134	120	3.35	151	$197,702	$173,775	97.1%	118
F/V	320	233	3.93	332	$191,649	$159,334	99.2%	78
FAN	131	70	5.61	129	$270,987	$251,670	98.0%	98
N/E	200	139	4.32	213	$255,060	$206,463	96.8%	91
N/W	109	46	7.11	86	$402,054	$265,850	95.9%	55
NGT	119	43	8.30	98	$476,885	$333,224	97.9%	95
OCC	64	41	4.68	51	$197,966	$169,258	96.4%	121
PWR	223	147	4.55	237	$222,523	$186,786	97.7%	106
S/E	128	127	3.02	180	$141,860	$124,718	98.6%	89
S/W	236	86	8.23	160	$644,630	$384,548	94.3%	86
TRI	193	73	7.93	120	$513,186	$393,954	98.0%	145
WES	55	32	5.16	40	$449,678	$365,147	96.6%	86
WPK	89	31	8.61	61	$409,250	$236,730	95.1%	68

TABLE 2

Single Family	#SFR ACTIVE	#SFR SOLD	TIME TO SELL	#SFR Listed
Price	Supply	Demand	Months	Last 3 months
Under $75,000	60	117	1.54	27
$75,000 to $99,999	102	99	3.09	49
$100,000 to $124,999	151	163	2.78	50
$125,000 to $149,999	275	184	4.48	110
$150,000 to $174,999	273	200	4.10	95
$175,000 to $199,999	301	161	5.61	103
$200,000 to $224,999	211	148	4.28	86
$225,000 to $249,999	230	133	5.19	94
$250,000 to $274,999	191	90	6.37	64
$275,000 to $299,999	211	72	8.79	76
$300,000 to $324,999	127	50	7.62	52
$325,000 to $349,999	153	37	12.41	64
$350,000 to $374,999	99	29	10.24	45
$375,000 to $399,999	129	27	14.33	63
$400,000 to $424,999	54	22	7.36	20
$425,000 to $449,999	82	19	12.95	40
$450,000 to $474,999	38	6	19.00	15
$475,000 to $499,999	65	6	32.50	34
$500,000 to $524,999	29	6	14.50	11
$525,000 to $549,999	37	6	18.50	20
$550,000 to $574,999	40	6	20.00	20
$575,000 to $599,999	48	2	72.00	25
$600,000 to $649,999	43	11	11.73	14
$650,000 to $699,999	59	6	29.50	21
$700,000 to $749,999	20	4	15.00	11
$750,000 to $799,999	37	4	27.75	11
$800,000 to $849,999	13	1	39.00	6
$850,000 to $899,999	20	4	15.00	11
$900,000 to $949,999	7	1	21.00	3
$950,000 to $999,999	24	0		16
$1 mil to $1.50 mil	59	6	29.50	46
$1.5 mil to $2.0 mil	28	1	84.00	20
$2.0 mil & above	20	0		12
Total	**3236**	**1621**	**5.99**	**1334**

TABLE 3

Condo/Townhome	#SFR ACTIVE	#SFR SOLD	TIME TO SELL	#SFR Listed
Price	Supply	Demand	Months	Last 3 months
Under $100,000	85	91	2.80	40
$100,000 to $124,999	46	42	3.29	24
$125,000 to $149,999	53	41	3.88	21
$150,000 to $174,999	59	22	8.05	23
$175,000 to $199,999	39	14	8.36	18
$200,000 to $224,999	16	10	4.80	3
$225,000 to $249,999	19	10	5.70	9
$250,000 to $274,999	10	4	7.50	3
$275,000 to $299,999	16	3	16.00	8
$300,000 to $349,999	9	4	6.75	3
$350,000 to $399,999	5	0		0
Over $400,000	31	5	18.60	15

Advice for market participants:

SELLERS: Get it on the market now if you need to sell it; wait a few months if you're close, but not satisfied with your net proceeds. The market has changed. We are declaring the end to the market recession. We are not declaring the end to a buyer's market. The first major advantage enjoyed by sellers since the expiration of the first-time buyer tax credit is at hand: just over 3200 listings for sale, 25% below last year's inventory, at a ten-year low. This is multiplied by buyer's zeal for low interest rates. But prices have come down for six years. They don't reverse course readily. We are maintaining our projections for 2012 appreciation, but at only 1 to 3% annualized.

BUYERS: The fact that there is very little to purchase should be seen as confirmation that the buyer's market that has lasted for six straight years is coming to a close. It is not at the close yet, and it is okay to remain skeptical about appreciation. Appreciation has not yet begun. But consider: supply and demand is in better balance now than at anytime in since 2006. That spring, 2200 listings were debuting each month. This year, it is around 1200 new listings. It does not take but one other buyer to make "the house of your dreams" the house of someone else.

The End of the Housing Recession. The Beginning of a Seller's Market. Not the End of a Buyer's Market

Yeah, we're making a slimy, want-it-both-ways headline and we're sticking to it.

The Housing Recession is over. A recession is a protracted period of time of successive losses. The shape and scope of the losses in real estate can depend on the eye of the beholder, but realistically, it has to be measured financially, and in this case, it is true that the time of further price declines appears to be over. This is for several reasons:

1.) Buyers buying today are leading the comeback. This is not real estate salesmanship, but this is a consumer-lead recovery. The 514 units closed in February was still the third worst February in ten years, but those buyers bought up approximately 1/6th of the active inventory. Buyers are capitalizing on the triple threat of depressed prices, historically low-interest rates and their own bankability (because these are people with jobs, high credit and something to put down, because they're about the only ones that can buy, still) and they are leveraging their strength in a manner that is an emotional pronouncement on their future. This is an ownership class who is buying to own, not necessarily for profit. They're buying because the long-term fundamentals are strong (not the short-term) and they came to this conclusion themselves.

2.) There is not much to buy. The low supply amplifies the impact of any uptick in demand. The ten-year low in inventory is a pretty staggering scenario. During the local traditional relocation seasons, buyers that want to buy have to choose among the best available properties. They have a fixed number of days to make a selection and lack infinite time; in that scenario, the best house wins. That is not the same scenario as an over-saturated inventory market where the best deal wins. What we are beginning to see is that local buyers are starting to operate like out-ot-town buyers: they're buying the best property and not waiting for others.

3.) The return of bidding wars. Our trusted peers in Phoenix, Austin and Denver are all seeing near similar market conditions in terms of inventory, and similar market actions among buyers: find a well-priced, good condition, unique property and hang-on for the bidding war. Selley Group Real Estate has a whopping three agents, and yet we have participated in two dozen bidding wars as a company in the last three months alone. These have involved properties in off-the-beaten path areas like Ute Pass, in high-inventory neighborhoods like University Park, in bank-owned properties downtown, on half million dollar properties on acreage in Sun Hills. We are also happily losing some of these bidding wars as buyers are getting caught up in the fever and often exceeding fair-market value.

4.) It is not just us that has business cooking along: our real estate peers are all whipped. All three members of Selley Group Real Estate belong to Empire Title's Peak Producers. This is an invite-only group of REALTORS that represents the Top 10% in terms of production in the Pikes Peak Region. At our first gathering earlier this month, it was a collection of ragged, worn-out, whipped from showing agents. To a person, everyone was reporting a sharp increase in showing activity, a renewed enthusiasm among buyers and peak-season hours being put in months ahead of usual. Empire Title had a record February.

5.) Inventory should be building now. So far, there are fewer for sale than on January 1.

6.) There is nothing artificially stimulating the market, and therefore, no arbitrary deadline that people have to get things done by. The tax credits thinned inventory, but inventory swelled right after the expiration because the incentive to buy disappeared. There is no fake carrot dangling out there.

Please understand, we make these pronouncements with caution. A Seller's Market is beginning because there is low inventory. If the Rob-Signing conclusion dumps several hundred bank-owned properties on the market, that Seller's Market is done before it gets going. The Buyer's Market remains because rates remain (for the moment) at historic lows and prices are between 2000 and 2004 values. The Recession is over because there is not much more that can push values down and buyers seem quite committed to making their purchases. But this does not mean the roaring days of 2003-2006 are right around the corner.

The market fundamentally can't appreciate much more than 3% in 2012 because the majority of purchases are financed, and the majority of financed-purchases have to go through some appraisal system like HVCC. HVCC is despised by almost everyone in the industry except appraisal management offices, a third-party construction of HVCC that holds enormous clout to a real estate transaction. The rules of HVCC basically work against the concept of real estate appreciation. They don't just want three times as many properties in the appraisal (from three to six solds; plus three active or under contract as present-condition barometers), but also place more rigid rules on the acceptability of a sales comparable. This system takes away from the appraiser's field knowledge of an area, and places more emphasis on each parcel working inside a system. Our personal critique of HVCC is that every piece of real estate is different, that's the magic of real estate as a commodity that makes it so different from other commodities, and this singular difference is lost in the system of HVCC. Correspondingly, we are presently telling all buyers this truth: you, the buyer, determine market value. Not the seller. Not the bank. Certainly not the appraiser. All the appraiser is doing is making sure you're not getting ripped off. Rarely do appraisals come in above purchase price. The purpose of the appraisal has gone from a valuation of the property to a substantiation of the buyer's actions by a third-party system that applies to all 50 states. It's a very odd construct that has a hard time taking into consideration super-low inventory. It will take time for the other components of the HVCC-style appraisals (the 4 quarter market condition comparison and the active/under-contract comparison), to permeate the underwriting perspective that the market is recovering.

HVCC or not, something is going on, and the financial rehabilitation of the market appears to be at hand.

Single Family Home Sales February	TRENDING	Avg. Sales Price, February	TRENDING	No. of Single Family Units For Sale	TRENDING	30-Yr Fixed Rate	TRENDING
514	Expecting 750+ units in March	$212,000 down 10% from 2011, but up 4% from January	Hard to say. It's a hot market under $250K	3224, fewest since February, 2002	Seems impossible that it can stay so low	3.9%	Betting on under 4.5% for year, but under 4 is close to done.

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