

**The
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Appraisal
Group, Ltd.**

ASPEN/SNOWMASS MARKET OVERVIEW:

2007 Year End Review and
A Look at What's Ahead

Aspen Board of Realtors Presentation
December 19, 2007

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PREPARED BY: Randy Gold MAI, SRA
Appraiser-Consultant

The Aspen Appraisal Group, Ltd.
300 E. Hyman Avenue, Suite A, Aspen, CO 81611 (970) 925-8987 fax: (970) 925-5046
www.AspenAppraisalGroup.com email: info@AspenAppraisalGroup.com

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The following text is from the annual presentation made by Randy Gold MAI, SRA to the Aspen Board of Realtors, held at the Hotel Jerome on December 19, 2007.

Introduction

Good afternoon to everyone and Happy Holidays. Thanks for coming. I am Randy Gold and our company is The Aspen Appraisal Group. By way of introduction, the Aspen Appraisal Group is unmatched by other appraisal companies in our area for the depth of our experience, the wide range in types of properties we appraise and our professional credentials. We are the largest and best established appraisal firm in the Roaring Fork Valley. We have five appraisers in our office: Betsy Krizmanich, Ed Segaul, our newest addition, Kim Tarver, Scott Bowie and myself. Many of you know Kim, perhaps as Kim Swales. She grew up in Aspen and comes to us after working for 3 years with the Assessor's office. We are very excited to have Kim working with AAG; she is a great addition to our company. If you want to know more about our company please visit our website at: www.AspenAppraisalGroup.com

Our presentation this year will be a little different. In trying to be more green-conscious, and save some trees, you will notice that we did not provide the graphs when you checked in. We will be doing a PowerPoint presentation instead. The graphs are available to you at our website, or you can call us. There is no cost if you are a Board member. Also available for purchase is the full text of my talk along with the graphs. There is a link on our website homepage, again AspenAppraisalGroup.com.

The Aspen Appraisal Group, Ltd. has compiled a variety of data to demonstrate trends in our real estate market. This presentation focuses on the Aspen and Snowmass areas specifically (Zones 1 & 2 in the MLS), examining sales and listings of single family houses, lots and condominiums through November 30, 2007. We also include data on all transactions occurring in our Board area as well as single family sales over \$5,000,000 from Zones 1-4.

We have graphically displayed trends in our market since 1999 to illustrate not only the strong real estate markets of 1999-2000, but also the effects of the stock market decline and national recession in 2001-2002, along with the recovery in 2003-2004 and the unprecedented market strength of 2005, 2006 and 2007.

Sale and listing data in our graphs was taken primarily from data published by the Aspen Board of Realtors through the Multiple Listing Service and from the Paragon On-line system. Our estimate of listings is based on an average of those available mid year and those available November 30. We of course do not yet have all the data for 2007. As a

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result we have annualized 2007 totals based upon the first 11 months of the year. Ultimately, the final numbers for 2007 will be a little different than our estimates.

The Board requests a disclaimer be attached to use of its data, and rather than attach that to each graph, we include it below.

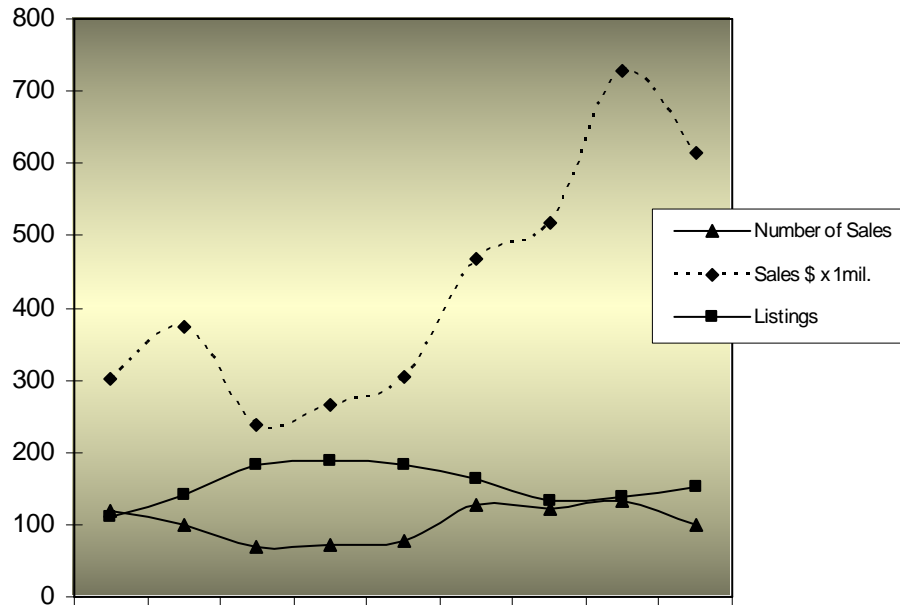
This representation is based in whole or in part on data supplied by the Aspen Board of Realtors. Neither the Board nor its MLS guarantees or is in any way responsible for its accuracy. Data maintained by the Board or its MLS may not reflect all real estate activity in the market.

Time is short today, so I will try and keep my comments limited to the Aspen and Snowmass markets. First, let's look at some numbers for 2007.

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Aspen Single Family Sales & Listings



	1999	2000	2001	2002	2003	2004	2005	2006	2007
▲ Number of Sales	118	99	69	73	77	127	121	134	99
◆ Sales \$ x 1 mil.	\$301.	\$373.	\$239.	\$265.	\$303.	\$469.	\$517.1	\$729.	\$615.1
■ Listings	110	141	182	188	182	164	132	140	154

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Aspen Single Family Houses

The data suggests a weakening market for single family houses. Based on our estimate for year end, the number of sales will be down significantly from 2006, approximately 26%, from 134 sales last year to 99 this year. At the same time the average number of listings increased about 10% to 154 while the current number of listings as of November 30 is approximately the same.

Most interesting is that while total dollar volume is also projected to drop, roughly 15%, the average and median price of a single family house is up significantly. The average sale price in 2007 is estimated at approximately \$6,200,000, up from \$5,450,000 in 2006 and from about \$4,250,000 in 2005. The more meaningful indicator is the median sale price. For those of you who may have forgotten what the median is, it is the midpoint, splitting a sample of data so that half falls above the mid point while the other half of the data falls below. The median sale price for Aspen Single Family Houses is about

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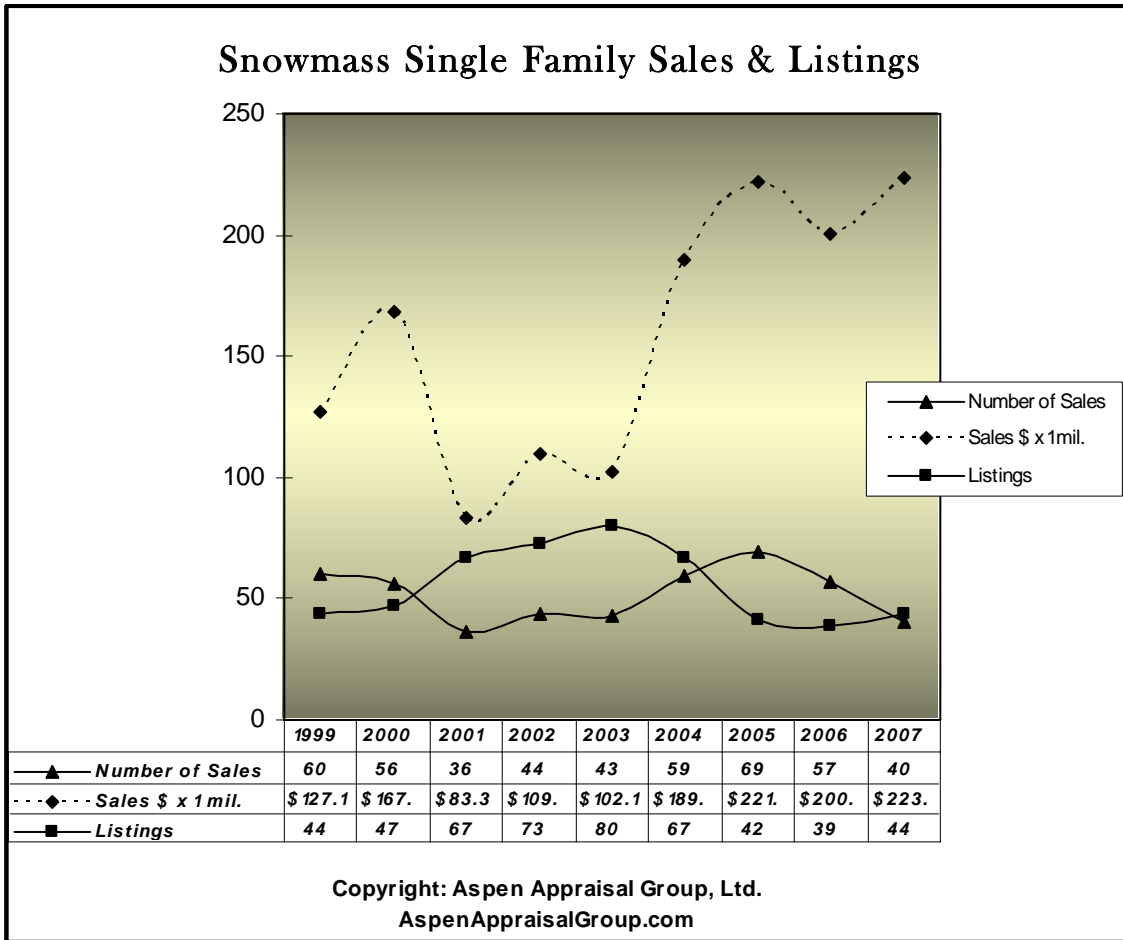
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\$5,550,000 in 2007, up over 30% compared to 2006 when the median sale price was about \$4,150,000. Thus, while there have been fewer total sales, there have obviously been a lot of very expensive ones.

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Snowmass Single Family Houses

In Snowmass it is a similar story as the number of sales is down about 30% while average listings over the course of the year have increased modestly, roughly 12% with the current number of listings today at about 44. However, unlike Aspen, total dollar volume is up dramatically, over 20%. The average sale price increased over 50%, from about \$3,500,000 last year to over \$5,500,000 currently; the median price as of November 30 is up about 30%, \$4,100,000 now compared to \$3,100,000 last year.

The decline in the number of sales is probably due in part to tempered market enthusiasm, a limited number of “quality” alternatives, and an indication that buyers are becoming more discerning, with many of the available listings simply overpriced. However, the houses that are selling are the best and most expensive homes in the market.

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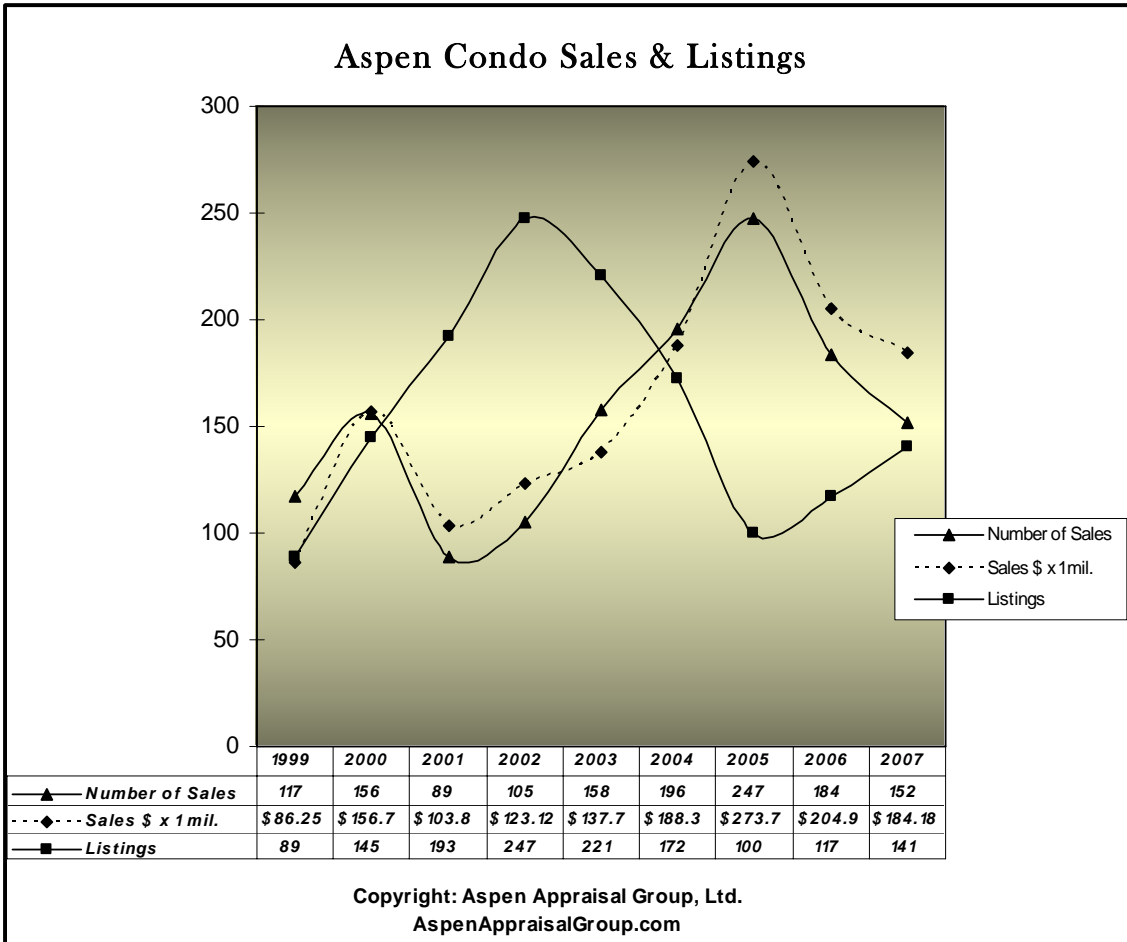
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Relatively speaking the Snowmass single family market also seems to be weakening. Particularly interesting here is the reverse crossing of listings and sales. In 2005 and 2006 we saw the number of sales exceed the number of listings, signifying a particularly overheated market where the statistical marketing time is less than 1 year. Now, in 2007 we see a reversal where the number of listings exceeds the number of sales, although they are, at this point in time roughly in parity.

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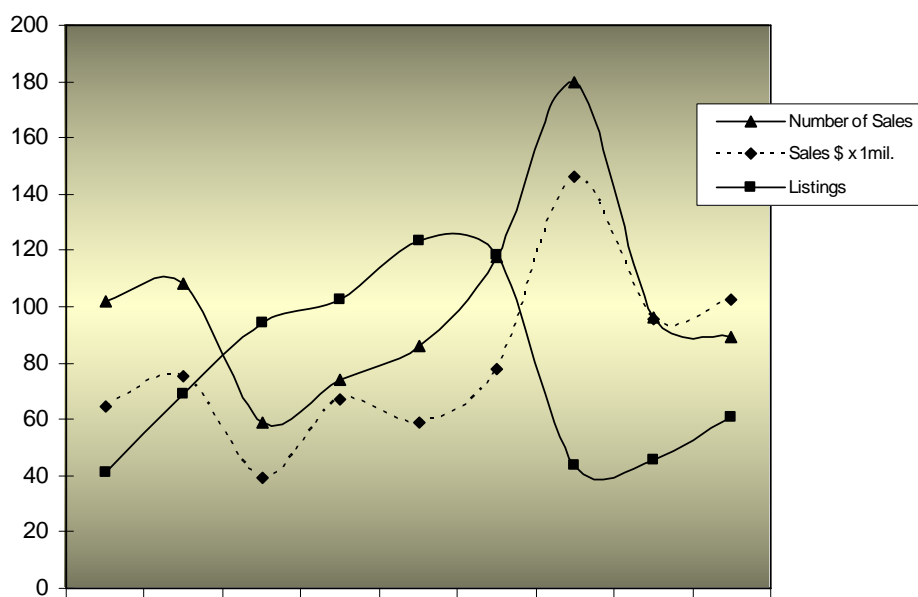
Aspen Condominiums

We can also see some signs of a weakening market here compared to 2006. If you look at 2005 and 2006 you can see the big disparity in numbers of sales, far exceeding the available number of listings. That changed in 2007 with a more balanced supply now. The number of sales in 2007 is down about 17%. At the same time the number of listings is up about 20% as an average, and the number today sits at about 144. Average sale price is up modestly, from about \$1,100,000 last year to \$1,200,000 currently. The median sale price went from about \$975,000 last year to about \$1,150,000 now.

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Snowmass Condo Sales & Listings



	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of Sales	102	108	59	74	86	118	180	96	89
Sales \$ x 1 mil.	\$64.49	\$75.17	\$39.49	\$67.01	\$59.17	\$77.61	\$146.08	\$95.75	\$102.82
Listings	41	69	95	103	124	119	44	46	61

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Snowmass Condominiums

Snowmass condominiums are harder to read. At first glance the trend seems similar to Aspen condominiums. We have a small decline in the number of sales, about 7%, contrasted with the huge nearly 50% decline we saw in 2006 vs. 2005. At the same time the number of listings has grown by over 30% since last year. The wildcard is Base Village as it is not reflected here. Although we will talk more about that later, the first units in the Hayden and Capitol Peak Lodges are supposed to start closing this month. At the end of the day, with Base Village data, 2007 will likely prove to be a much stronger year than 2006. The message is that the market is very strong for new, well located condominiums in Snowmass, while the market for older product (hardly surprising), is not as strong. The average sale price for a Snowmass condominium thus far has risen from approximately \$1,000,000 last year to just over \$1,200,000 now. The median price sits at about \$950,000. Again, this is exclusive of Base Village.

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Since 2004 we have seen a significant shortage of supply in both Aspen and Snowmass condominiums with the trend of sales greatly exceeding the number of listings. While sales still exceed listings, in 2007 we can see that we are moving toward a more balanced condominium market in both Aspen and Snowmass.

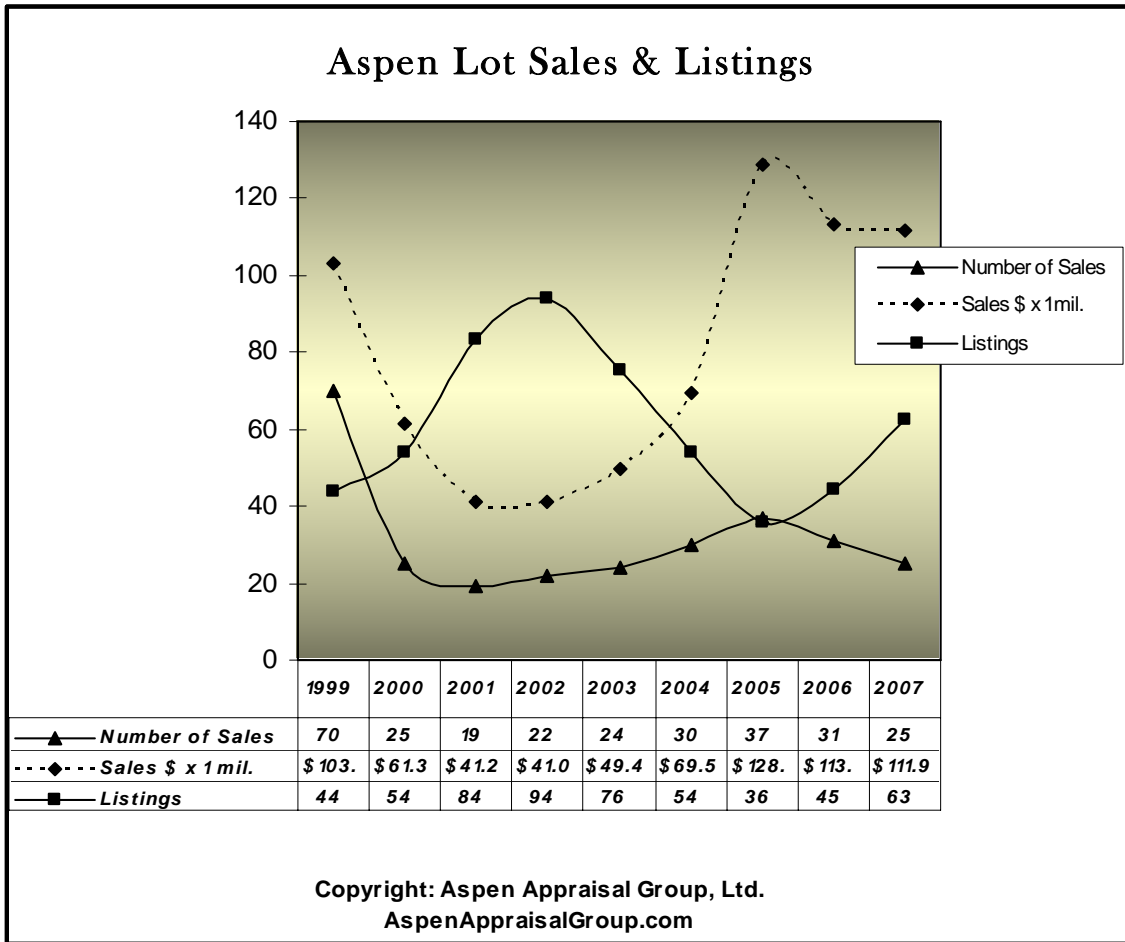
So, what about Base Village? The first closings are slated for the end of this month in the Capitol Peak Lodge and Hayden Lodge buildings. Initially 87 units of 90 were offered for sale by then, Intrawest. Units were placed under contract about 2 ½ years ago. Most of the sale prices are in the range of \$1,000/SF to \$1,300/SF. Two of the remaining 3 units held off the market are reportedly under contract for over \$2,000/SF. It probably follows then that the new buyers are very happy with their acquisitions. New product has been in short supply, and when you combine that with what is to become the 100% location, it is not surprising to see this activity. As most of you know the next round of new product has just been introduced by Related Westpac. Although closings will not occur for approximately 2 years, sale prices are certainly not shy. At roughly \$2,500 to nearly \$3,000/SF for the 30 Little Nell at Snowmass units these prices rival what is being paid for similar product in Aspen. Units range in size from about 1,000 SF to 3,600 SF, with prices from \$2.5M to \$7.1M. Also available is the first phase in the Viceroy where prices are more modest, in the range of \$1,250-\$1,500/SF primarily. Prices here start at about \$550,000 and go to over \$3M.

As a sidebar to Base Village, and new Aspen and Snowmass condominium product, I thought it would be interesting to share some data about the Vail market. If you have driven by Vail, you can see it is crane central with over \$2B under construction. New product is selling for big numbers, although like Base Village, delivery of the finished product and closings are well down the road. The Lodge at Vail Chalets, adjacent to the Lodge at Vail, with the outstanding slope-side location pre-sold 13 residences last winter in a heartbeat. All are priced in the range of \$2,500/SF, but what is noteworthy is that these units are big, and so are the sale prices. The units are 3,700 SF to 5,700 SF and the sale prices range from about \$9M to \$14M. A second example is the Four Seasons, a new 128 room hotel with 16 whole ownership units and 19 fractionals. The first five units are now available. List prices range from \$7.15M to \$16M, or about \$2,200/SF to \$2,800/SF. When I look at Vail and this type of activity it seems more reasonable to see the two large penthouses in The Monarch in downtown Aspen, both under contract in the area of \$3,000/SF, with prices of \$10M to \$16M.

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Aspen Lots

The trend we saw in 2006 is continuing with declining sales and increased listings. The Aspen lot market is continuing to weaken. The number of sales is down approximately 19% compared to 2006 while the number of listings is up significantly, approximately 40% with about 63 listings now. The average sale price is up about 20%, from about \$3,650,000 last year to over \$4,600,000 now. The median sale price is approximately \$3,800,000 currently.

Here you can see that the number of sales is well below the number of listings, suggesting about a 2 1/2 year supply of lots. This is the only market sector where we see this kind of supply. Last year we talked about how the average and median list prices were well above their historic indicators, suggesting that many of the Aspen lots were just priced too high. We are not seeing that disparity now, although some overpricing is still evident. Additionally, demand has backed off and sales have declined in part because

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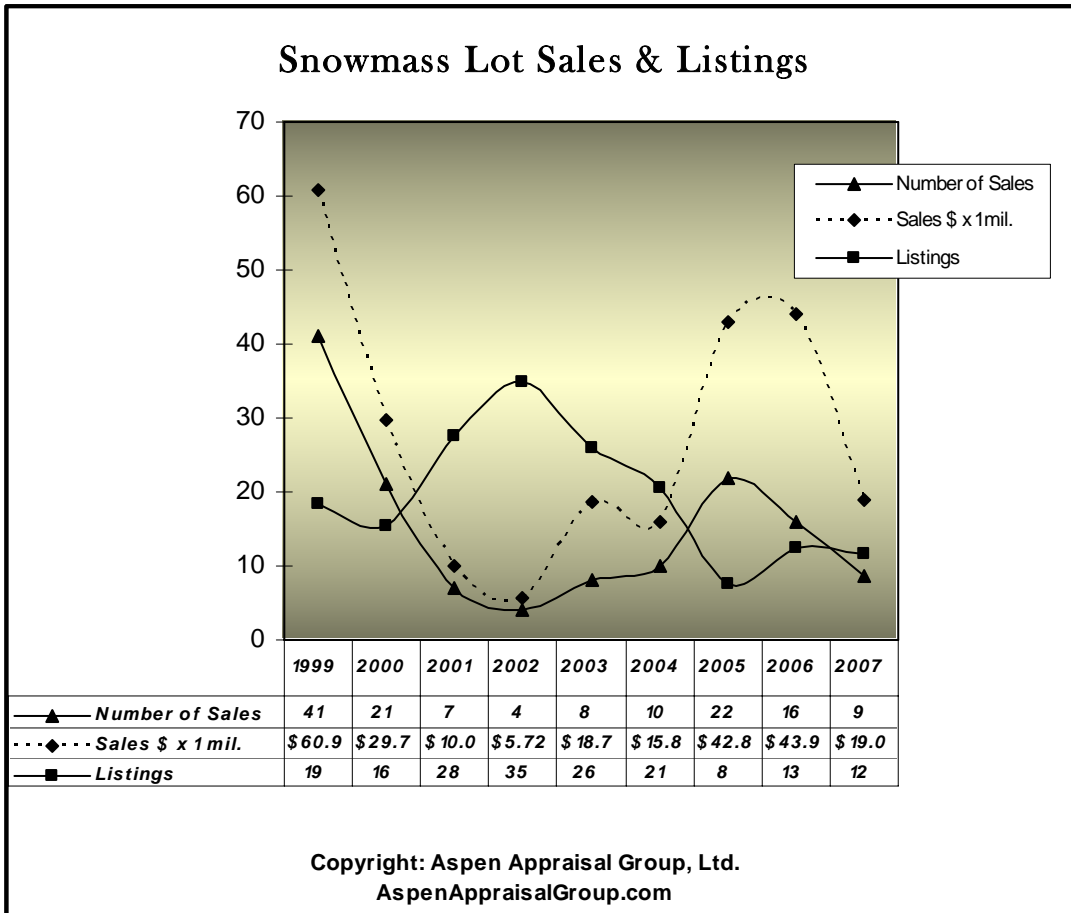
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speculators and developers are largely stepping back, leaving owner users as the market segment still interested in buying lots.

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Snowmass Lots

Here the number of sales continues to decline, with a projection of 9 sales this year compared to 16 last year; this is a drop of nearly 45%. The number of listings however has stayed relatively constant, and there are only 7 lots listed. The graph shows the crossing of sales and listings, with more than a 1 year supply now. We have not seen this since 2004.

Interesting is the huge drop in dollar volume with the average sale price down about 20%, from about \$2,750,000 last year to \$2,200,000 now. The median sale price is also down, from about \$2,400,000 last year to \$1,800,000 currently. The suggestion here is that the lots that have been available are not prime inventory like the Pines and Two Creeks.

As always, we have to temper our comments about our lot markets with the fact that we just don't have very much undeveloped land and that is not likely to change given our land use process. We have had approximately 25 lot sales in Aspen and 9 in Snowmass in

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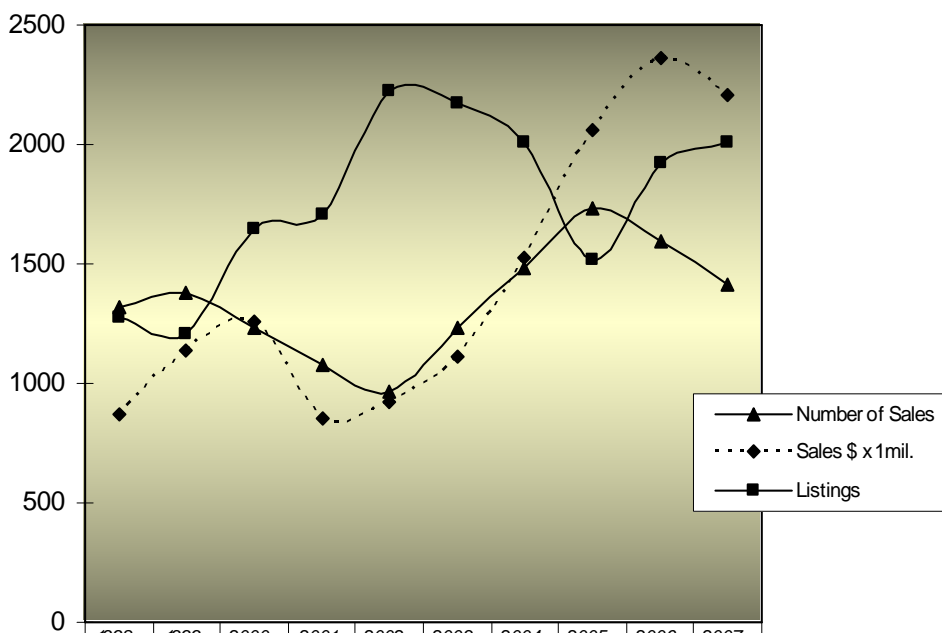
annualized 2007. As of November 30 there were roughly 7 lot listings in Snowmass, a meager supply really. This situation can't help but adulterate any confidence we might have in our apparent statistical results.

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MLS Data All Areas



▲ Number of Sales	1315	1380	1237	1075	964	1231	1484	1735	1596	1417
◆ Sales \$ x 1mil.	\$870	\$1,134	\$1,261	\$850	\$925	\$1,112	\$1,522	\$2,058	\$2,361	\$2,203
■ Listings	280	204	1650	1708	2227	2176	2012	1520	1924	2008

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MLS All Areas

We have less confidence than we would prefer in the MLS Data from All Areas as the merger of the Aspen and Glenwood Springs Boards and the way statistics are kept has changed somewhat, particularly with respect to land transactions. The data is far from perfect. We have done our best to adjust the data to keep it apples to apples, but the data here is still corrupted. It is also undermined by listings that find their way into multiple zones and property types; the same property can be listed in more than one section of the MLS.

In the first 11 months of 2007 we have again eclipsed \$2 Billion in volume, still a very strong year, although not as big a year as 2006 which will continue to reign as the biggest year ever. It is only the third time we have passed this milestone. Based on annualizing the first 11 months, we show about an 11% decline in the number of total sales, and about

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a 7% drop in dollar volume. The number of listings has held relatively stable since last year.

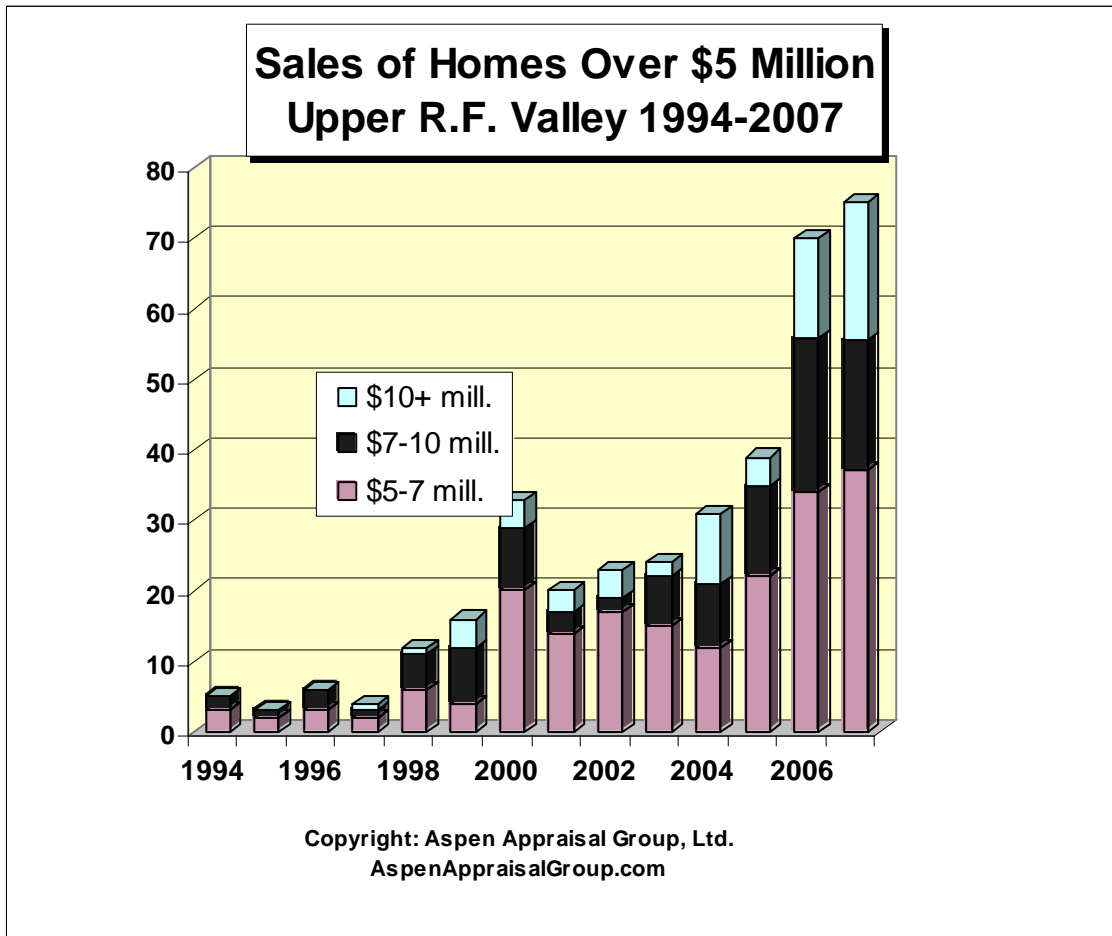
Because of our low confidence in this data, we have also looked to sales data kept by Land Title. They do a great job tracking sales and we appreciate them making this data available to us. They look only at Pitkin County. Their data shows gross volume thru November of just over \$2.3B, well in excess of what we show despite the geographic area being smaller. Why is that? The answer is that they include all fractional sales in their data compared to only some in the MLS data. They also include all affordable housing sales, sales that don't involve brokers, commercial sales that are not reported in the MLS and they also include sales that may not be arms length. For example we saw a closing of Eagle Pines Lot 5 at \$6,750,000 a few weeks ago. This sale was not reported in the MLS. In verifying the sale we found that it was not arms length; it was an allocated price in a joint venture between the land owner and a builder to develop a spec house. This sale would be included in the Land Title data.

If you look at the first 11 months of the year in its entirety, gross sales according to Land Title are down minimally from 2006, from about \$2.394B last year at this time to \$2.327B now, less than a 2% decline. However, what is particularly interesting in their data is the weakening we saw in October and November sales volume. October saw a drop of nearly 37% in dollar volume compared to the prior October and about 13% decline in the number of transactions. November results were more dramatic with a 54% drop in dollar volume and a 36% drop in numbers of sales. We will talk more about this market softening later.

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Single Family Sales over \$5,000,000

As shown on this bar graph, 2005 had been the best year ever, but 2006 blew it away. 2007, not surprisingly, is on track to exceed 2006. Yes, we continue to see an increase in \$5M+ single family sales. Based on the first 11 months of the year we are essentially at the same level of sales as last year, 69 vs. 70. The biggest increase is in \$10M+ sales, up already over 25% from last year. This too is not surprising given that we have such a large supply of alternatives now. Through December 1 there have been 18 sales of \$10M+ houses. As a note, Snowmass has also seen its first \$10M+ sales in 2007; 4 of them between \$10M and \$11.5M including 2 in Wood Run, one in Two Creeks and one in Wildcat Vista.

The number of listings in this category had been relatively constant in 2004 and 2005 with about 20-25 available properties. Last year we noted that the supply of these \$10,000,000+ listings had nearly doubled with 37 shown in the MLS, not including

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another 10 or so pocket listings. As of December 1 the MLS shows 57 available listings over \$10M plus we would guess another 10 pocket listings. This is more than a 3 year supply. Noteworthy is that 12 of these are priced over \$20M. As we noted last year, if there is an area of the market that is oversupplied, and continues to be, it is this \$10,000,000+ single family sector. My guess is that there are some very nervous spec developers out there now.

2006 signaled a significant shift in the market's willingness to pay upwards of \$15,000,000 for a single family house. In 2007 we saw more sales of \$20M+ properties than ever before. Last year we noted that prior to 2006, excluding Mandalay Ranch, there had been only 6 sales in history over \$15,000,000, and only 1 sale over \$20,000,000. In 2006 alone we saw 7 closings over \$15,000,000 with 2 more under contract at year end. However, in 2006 sales of single family houses over \$20,000,000 were still virtually non-existent. This year we saw that change. We saw sales of the Leff property in Castle Creek at \$23.5M, Bob Richie's Eagle Pines house at \$23M, Prince Bandar's record sale at \$36.5 and now the Hirsch property on Wildcat Ridge is reportedly under contract; it is listed at \$37.5M. In addition there have been two other very strong purchases, although these properties are really exceptional land plays. There is the Popish Valley in Wildcat at \$26M for 540 acres and Bill Koch's purchase in Castle Creek, four contiguous properties, with approximately 82 acres, including Elk Mountain Lodge, purchased for about \$51M.

Last year we talked about the Shady Lane property closing at \$22,500,000 in October, 2006. It was one example of how a billionaire can influence the market. We talked about how this sale influenced the thinking of buyers, sellers and realtors. Well the "billionaire effect" continues in several of these \$20M+ purchases, most notably the Koch purchase in Castle Creek. Again, I would suggest that it is important to have some perspective.

You will no doubt recall my fascinating factoid from last year's talk. It is worth repeating as our billionaires are certainly impacting this very top of the market. To help understand how much purchasing power a billionaire has, we equated time to a millionaire and a billionaire. Think about this way: if a millionaire spent \$1 every second he would be out of money in 11 days. A billionaire could spend \$1 every second, or \$3,600 every hour, and not be out of money for 32 years! In simple terms think about a billionaire vs. one of our more typical high end buyers with a statement of only a \$100,000,000. The billionaire has 10 times more money. Thus, for the \$100,000,000 buyer who might overpay by \$500,000 for a piece of property, or for the \$10,000,000 statement buyer who overpays by \$50,000 for a condominium, a billionaire purchaser can overpay by \$5,000,000 and it has the same insignificance. Of course if our billionaire buyer has a couple of billion, the comparison is even more skewed. It is this type of market activity that drives us crazy as appraisers. There is no denying that we have an abundance of billionaires in our market. My own rough count is in the neighborhood of 40 already own property here, and who knows how many more come to visit. As they continue to play and buy in Aspen, these billionaires will undoubtedly influence the prices others must

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pay for our exceptional properties. Remember, the concept of “Market Value” is grounded in a buyer who is “prudent” and “rational.” These very high end purchases are neither prudent nor rational; they are emotional and the price paid at the end of the day really doesn’t matter. What matters is that this buyer ends up with the property he or she wants. So, I would ask you again, what is Market Value in these cases?

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Aspen Commercial Market

Retail and office rents in the Aspen core are continuing to trend up but more modestly than last year when we saw a major step up. We continue to see rents of \$100-150/SF as commonplace and we have a few isolated examples in the range of \$200/SF, but they are rare. Office rents are still in the \$40-\$75/SF range. Expenses being passed through to tenants range widely, from roughly \$8/SF to over \$20/SF, with most CAM expenses in the area of \$12/SF to \$18/SF. Vacancy for retail and office is still very low, less than 2%. Capitalization rates are also still low, similar to last year in the range of 5% to 6%. However, for the first time we have also seen some examples where the overall rate was 4% or lower, which is remarkable. For those of you who may not know what a capitalization rate is, simply, it is the relationship of income to value. A building that has \$100,000 in net income and sells for \$1,000,000 has a capitalization rate of 10%; net income divided by sale price. The cap rate is one of the keys to accurately estimating the value of income properties.

Sales or contracts on commercial buildings in 2007 were not as plentiful as 2006, in part a result of limited supply, but also a result of an unpredictable City Council and uncertain land use code. Sales in 2007 included the Forge Building and Ajax View Building, both in the area of \$800/SF to \$1,000/SF. Approximately 23,000 SF of commercial space at the base of Aspen Highlands sold in the area of \$350/SF. Obermeyer Place closed numerous commercial units that had been under contract for 2 years. Most of the Obermeyer Place sales were from \$350-\$500/SF for unfinished shells. There was one sale of arguably the premier commercial space at over \$1,000/SF.

One fascinating commercial sale took place in Connor Cabins. This is where BJ has her Aspen office. This small approximately 1,500 SF free standing commercial condominium sold for well over \$2,000/SF. It was sold to a wealthy, non- resident second home owner, for use as a part time office. It is by far and away the highest price per square foot we have seen paid for a commercial property. BJ is pretty happy right now.

And of course near and dear to me is the sale of the Crystal Palace. Sadly, The Aspen Appraisal Group may be looking for a new home after more than 30 years in this building. This sale is another fascinating look at buyer dynamics and what makes our market so interesting, and complicated from an appraisal perspective. Thanks to the Aspen Times everyone shared in some of the drama. As many of you know, both Greg Hills and Pat Smith, very astute local developers, had the building under contract at separate times. Both prudently walked away after closely examining the City's latest and greatest land use code. The numbers simply did not make sense. Then, Linden Nelson stepped up. He is apparently unconcerned with how long it will take him to redevelop this property, or ultimately what he can do with it. And yet the Crystal Palace is unquestionably a property needing total redevelopment. As an appraiser that is tough to

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300 E. Hyman Avenue, Suite A, Aspen, CO 81611 (970) 925-8987 fax: (970) 925-5046
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reconcile. Although he owns other commercial property here, Mr. Nelson has no local development experience. Will he regret this decision 3 years from now when he is still mired in the approval process? Maybe he will, and maybe he won't. Only time will tell. On his side is another entertaining phenomenon in our market. Many developers, ironically, are rewarded by a lengthy approval process. There is long term appreciation at play for his completed product to be delivered 5 years or more from now. Nevertheless, the risk facing him is significant to say the least. I guess the Dingilians who own the corner of Spring and Hyman are also hoping there is another buyer like Mr. Nelson out there. That property is listed without any entitlements at the bargain price of only \$39M.

While we are talking about commercial property it is perhaps time to talk a little about our new City Council. How about paying \$18.25M for the BMC property? It is truly astounding. It is beyond me to see how they can pay that kind of money without ever fully understanding the realities of what this property is worth. It had no entitlements, had difficult access, and any developer would have to come to terms with John McBride before anything could happen. A developer would have spent years in the County approval process. The City never got an appraisal. They argued that there were other offers were on the table at over \$20M. If so, why didn't BMC take one of those? I understand that the City can enhance the value of their acquisition because of the adjacent 3 acres they own, and that building affordable housing is a big priority, and that for them it is more important to just understand what their per unit subsidy will be. But I fail to understand how they can spend that large amount of our money without even considering an appraisal.

The City Council has certainly given us an entertaining ride. Let's look at a brief history of the land use code. In September of 2004, after several years of discussion, infill legislation was passed and the barn door was wide open for developers. It stayed open about 18 months. In May, 2006 the first of two moratoriums was passed, lasting for a year. The code changed dramatically in June, 2007. Notable changes included reduced FARs in commercial districts, reduction of height limits, reintroduction of the Growth Management Quota System as a competitive vehicle, and increased requirements for providing on-site affordable housing. Particularly noteworthy is that the revised code does not even have the imprint of the Current Council and Mayor Ireland. While the new council may not have had enough time yet to formally re-write the Code, they certainly have had enough time to reinterpret it. This is very scary for the development community as the developers of the Lodge at Aspen Mountain, Cooper St Pier, and Wienerstube among others are finding out. Developers who thought they had gotten in under the wire to be processed under the old rules have had a major wake up call. It has not mattered much that their applications were submitted prior to the 2006 Moratorium. And, how will the Lift One Lodge do in their application to be submitted to Council in February. We will see how that drama unfolds. One thing is certain, the development pendulum has swung back hard and fast.

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Snowmass Commercial Market

Two years ago just about everything commercial in Snowmass sold including the Snowmass Land Company building, Gateway Building, The Mall, the Timbermill, the the Snowmass Center. This year the Mountain Chalet also closed. Next year the Silvertree Hotel, Snowmass Conference Center and Wildwood Lodge will probably close as all have been under contract for some time. Massive redevelopment is planned for both the mall and Snowmass Center, but an emergency 6 month moratorium passed by the Town Council in October has forced Mr. Smith, Mr. Chafin and Mr. Light to take a rest; needless to say they were not happy. The moratorium expires April 15th. The goal is to re-engage the community who, like Aspenites, is not happy with the pace of development and the on and off site impacts of this unprecedented construction. It is not only Base Village that is creating impacts. In the last 2 years over \$100M was spent in renovations of most condominium projects in Snowmass. There is also the new recreation center, Town Hall and new affordable housing. Base Village construction is moving along nicely, and ahead of schedule. Not only is the first phase of residential units nearing completion, but there is other excitement in Base Village: the opening of the Treehouse Kid's Center and the first commercial spaces with some ASC space for ticketing and guest services, and a Four Mountain Sports store, while several restaurants and an ice cream/candy store should open too in the near future.

So, how will the Town modify the current land use code during the moratorium? Only time will tell. But, the road for Snowmass' big boys has probably taken a turn for the worse.

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Interviews

This year we again interviewed numerous Aspen and Snowmass brokers. Many were the office brokers and their companies are involved in the bulk of all transactions that occur in our market. Thanks to all of you who let us pester you with questions.

The hottest areas of the Aspen market remain the core for all property types, Red Mountain and Pitkin Green of course, the West End, and east of town with East End, Mountain Valley, Aspen Grove and continuing up the Pass. But West Aspen has also been strong. Our horrific traffic continues to be one of the catalysts driving property values east of Aspen, and to a lesser degree, east of the roundabout.

Particularly strong and undersupplied are condominiums under \$1,500,000, single family houses under \$5,000,000 and truly exceptional vacant land at any price. Oversupplied right now are \$10,000,000+ houses and more conventional lots with an abundance of lots listed in Woody Creek.

We don't really have much neighborhood weakness in Aspen, although there seems to be some resistance to the Maroon Creek Club and Five Trees areas as, generally speaking, list prices there have gone up dramatically compared to past sales. Also coming up in our discussions was some price resistance from buyers for older and tired condominium product listed at over \$1,500/SF. Single family houses in the \$7M-\$10M range are also having a tougher time as many seem overpriced.

Snowmass has no real weakness, although most brokers thought that there was some resistance to the older inventory in Wood Run, Ridge Run, Melton Ranch and Wildridge that just seems overpriced. There is a severe shortage of ski accessible product, both improved and unimproved. Vacant land is in short supply, as evidenced in strong interest in the new 17 lots of Sinclair Mesa. Condominium inventory under \$1M is also in very short supply. In 2007 there were 48 sales in this price range; there are only 19 available units now, not including the Viceroy offerings.

It could be argued that with the large supply of new condominium inventory coming down the pike in Snowmass, this is an area of potential weakness. However, there is also a lot of pent-up demand as new product has not really been available for 20 years, particularly with the 100% location. And now, as the development pipeline slows because of the changing code and moratorium, Related Westpac will no doubt be even more aggressive in their pricing. The brokers we interviewed all expect demand to continue to be very strong for the new Snowmass product. The excitement around Base Village and a newly rejuvenated Snowmass is unquestionably fueling all areas of that market.

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One interesting area of conversation with our interviewees was the apparent disconnect in the market now between buyers and sellers. Buyers think it is a buyer's market, or should be. There are a variety of reasons for this attitude including the sub-prime mortgage debacle and record foreclosures that they hear about every day, tanking residential sales nationally and a country moving toward recession to name a few. Sellers on the other hand, mostly don't care what buyers think. Most can afford to just sit and wait. This disconnect is certainly one of the factors contributing to a pronounced market slowdown, evident in the last 60-90 days. But this same disconnect has a built-in self correcting mechanism: unsatisfied sellers, most of who do not have to sell, will simply take their properties off the market, thereby helping keep the supply in check.

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Fractional Interest Units:

The fractional market seems unsettled. Sales volume has dropped dramatically. According to Land Title, sales volume through November is about \$80.5M, down over 50% from last year at the same time when there had been about \$169.7M in sales. This stat is somewhat misleading. Part of the downturn is because the bigger projects like the Hyatt sold most of their inventory last year and thus there has been less available that is built and ready to close. However, when we look at the new projects that are still coming out of the ground, like the Dancing Bear or The Residences for example, presales remain very strong. The Residences are now 90% sold out and prices have continued to escalate. Three bedroom units are all that are left; prices have risen from \$900,000 initially to \$1.4M last December, to \$1.75M now. Four bedroom units sold for as high as \$3M; pretty amazing prices for 6 weeks of use per year. Phase 1 of 9 units in the Dancing Bear with 1/8 shares is reportedly sold out. All units are three bedrooms and prices have risen from \$589,000 to \$859,000 now.

The Innsbruck has shown strong activity and is reportedly about 60% sold out. It is now complete. It is selling 1/12 shares for 17 small one and two bedroom units. The price point is very attractive at \$93,000 to \$227,000 and that affordability along with the good quality of the units help make up for what many would consider a less than optimal location.

The Hyatt is reportedly about 55% to 60% sold out, selling 1/20 shares for their 50 units.

The Timbers in Snowmass continues to show great strength and is to our knowledge really the only project that has shown appreciating resales. Listings are now in the \$500,000 range, compared to \$425-\$450,000 a year ago. This project also sold 1/8 shares.

The Ritz and Snowmass Club continue to struggle. Although the St. Regis with 1/11 shares for 17 units is sold out from the developer, resale listings are now occurring and sales appear to be sluggish.

What is apparent is that if you buy early, you are probably going to be fine. Buyers more interested in use vs. investment will probably be more content. This fractional market remains an area of potential weakness. The potential for overbuilding is less of a threat than a year ago as in Aspen, a new City Council will undoubtedly help stifle new supply by denying development. In Snowmass, Pat Smith/Related Westpac is requesting conversion of 125 condominium units into 41 fractional interest 3 and 4 bedroom units to be sold in 1/8 shares. There is no question that as already built projects mature, more resale interests will be available than ever before. It is going to be very interesting to see how prices hold up. As we have talked about in the past, some projects like the Residences at Little Nell and Timbers will continue to flourish. Others, with the

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developer gone, will suffer and people who got in late will not be happy. This has always been our area of concern as there is very little history industry-wide and locally on resale strength.

The unanswered question is, over time, how would a weakening and declining resale market in some projects affect new buyer's interest in this fractional product?

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What's Ahead?

Change is still the mantra for both Snowmass and Aspen. However, change now is not about new development so much as it is about a **change in attitude** from the Aspen and Snowmass resident communities along with their elected officials. The change in attitude of course comes from dealing with the effects of all the development that has been approved.

Town of Snowmass Village

For Snowmass the key words, now 3 years running, are **massive development**. It is a full on renaissance in Snowmass. There are a new Town Hall, new recreation center and new entry area. Most of the older condominium projects are or have been upgraded, although some could certainly do more, and those that have done nothing will likely be driven by the market to do something. Base Village and the ski area revitalization of course are the most significant catalysts, fueling other areas of the market. As Base Village comes to reality and visitors can see and touch the finished product, we expect demand to continue to grow. Although the Snowmass Center and Mall makeover are stalled because of the moratorium, ultimately there will be approvals for those key areas. Snowmass can still look forward to construction mania for another decade. The construction chaos has not however stalled the market. Enthusiasm for new product remains very strong. Snowmass because of its renaissance is well positioned for the next 10-20 years to compete for buyers and visitors.

City of Aspen

A year long commercial moratorium has borne fruit with a changed Land Use Code passed in June. FARs have been lowered, allowed height has been reduced, more affordable housing is required and the competitive aspects of Growth Management have been reinstated to name only some of the changes. Developers both in the process and wanting to be are in limbo as the new Council continues to find their footing. It is a very uncertain time for developers of commercial and residential real estate in Aspen. There are lots of developers that thought their projects would have approvals by now, but as of today, they have nothing. These include the Jerome Professional Building, Weinerstube and Cooper Street Pier. Stage 3 and La Cocina escaped and are now under construction. It is almost certain that the approval process is going to get much worse for developers. Simply, risk has increased exponentially for developers compared to a year ago. While the barn door was wide open for about 18 months, it is virtually shut now.

It could be argued that this council was elected largely because of its anti-growth stance following the community's negative reaction to all of the recent development and the construction chaos and traffic that development has brought with it. Thus, they are doing

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what they have been elected to do. Saying no is a very effective tool in controlling growth. The Council is unarguably slowing growth, if not stopping it dead in its tracks. How will this affect value? One of the great ironies of our market is clamping off supply just fuels higher prices.

We cannot leave our discussion of the City without some comment on Ordinance 30/48. From what appeared to be a losing battle for some 80 property owners cursed with owning a 1977 or older house, the Council has finally back pedaled. Ordinance 48 is still not perfect; many believe that as crafted now it will actually encourage demolition rather than protect these properties. Hopefully City Council will keep an open ear in the next few weeks before this legislation is enacted on January 9. But the biggest negative of involuntary designation seems to off the table. It appears that it will now be voluntary to restrict your property and your decision will ultimately reflect how much incentive the City gives you to do so. Removing involuntary designation was a significant victory for the community.

Pitkin County

The County has been quiet really since their total re-write of the Code in 2006. However, the time and cost have increased significantly to get any kind of land approved for development, even a residential building site that is not fully entitled. The implementation of increased reviews, replacing 1041 Review with defining the activity envelope and then a detailed site plan review are making it more expensive to develop lots. Our private land planners are very busy.

Last year the County extended the “by right” FAR to properties within the Urban Growth Boundary (UGB). Now, 5,750SF is the by right maximum for all properties in the County. This has certainly fueled demand for TDRs. The County also took positive steps to add to the supply by codifying new legislation that allows for the creation of new TDRs from limited development conservation sites in addition to just Rural and Remote sites. The 50 or so TDRs projected to come from these ranches did not hit the market at once. It seems that there are still plenty of TDRs available. TDRs have not only held their value, they have increased, with the most recent sales between roughly \$300,000 and \$320,000.

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Conclusion

Last year I talked about two major areas of concern: horrific traffic and its negative influence on the market, and the shortage of employees. Well discussions on the Entrance to Aspen are alive and well, and who knows, maybe a miracle will happen and something will actually get approved. The City, to their credit, has certainly reigned in development, and that may help ease the traffic nightmare, but to be truthful, I doubt it will even be noticeable. In the mean time, real estate lying east of town, and to a lesser degree, east of the roundabout, has flourished.

The employee shortage remains a boondoggle. There is no question that this is a huge priority for City Council, thus their BMC purchase. They are also moving toward 100% affordable housing mitigation from new projects, despite the fact that the code does not require it, yet. Employers are getting creative in finding temporary winter help. But we are still competing for employees with the oil and gas industry, and now, even in our own valley as the commercial sector expands mid-Valley. There are also the commuting hassles and tighter rules around immigration. One of the underlying messages here is that wages are going to have to increase to keep employees. Add rising rents and other increasing costs of doing business, it is not a pretty picture for the business community.

In last year's talk I noted that I expected in 2007 to see some leveling in prices, but that appreciation would continue in most areas of the market, albeit not as strong as in 2006. That forecast proved true. I forecasted that dollar volume and numbers of sales in most sectors would decline; true again. I also correctly predicted more sales of \$20M+ properties than ever before, but this was hardly brilliant given that the available supply had grown so much. We have also seen more residential sales over \$2,000/SF, but they have been less plentiful than I expected. Based in part on what we have seen in Vail, in 2008 we will probably see our first sales over \$3000/SF. The clamp down on new development and supply will translate to higher prices.

Virtually every broker we spoke with acknowledged a major slow down starting about 2-3 months ago. According to Pitkin County Title, their closing volume has dropped off big. The Land Title closing data for October and November also supports this. Not only are fewer contracts being written, but many contracts are falling through. The biggest reason seems to be changing buyer psyche, damaged by the myriad of national day to day bad news from the mortgage meltdown and record foreclosures to tanking residential sales nationally, rising oil prices, an unsettled stock market and a country headed for recession. The slower market is also a function of evaporating 1031 money as owners of trade properties in other markets find they cannot sell them.

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Virtually every broker we spoke with expects to see leveling in prices in most areas of the market and I agree. The statistical data we talked about shows across the board weakening. I suspect that appreciation is going to slow significantly, if not halt altogether. The exceptions are probably new, well located product in both Aspen and Snowmass, and exceptional properties that are part of the ultra high-end market, be it exceptional vacant land or large houses where the developer did everything right. The billionaire effect has its place. Sales volume in 2008 will continue to decline in my judgment in most areas of the market, although I am guessing we will again see a record number of \$20M+ sales, if for no other reason, that there are so many listings available, and these buyers are not really price sensitive. At this time next year I think we will be talking about the kind of sales volume we saw in 2005, and probably still in the range of \$2B.

This is not a dire prediction. I am not forecasting that the market is in the tank and that we will see price corrections across the board. Rather, we are in a softening market and we remain poised for a slowdown. But, to be frank, that would be healthy for the market. Simply, supply and demand are much more in balance now than they have been in the last few years.

There are of course a variety of positive forces that in my view help to assure the stability of our market and continued success for the brokerage community. First, there is the huge amount of wealth in the hand of maturing baby boomers and with the wide reaching changes underway in both Aspen and Snowmass we are well positioned to compete for these dollars. These baby boomers are ready to spend their money now. Second, interest rates remain relatively low, and have trended down in the last six months as the Fed continues to try to bolster the national housing market. Third, continually improving technological advances will motivate buyers to spend more time here. Fourth, in general we still have a limited supply of inventory and there are no really large scale developments that will likely get approved that will change that. Our new City Council is certainly going to do their part to limit supply, and Snowmass too may see more limited supply as the moratorium and community input run their course. Finally, there is the plunging dollar. When one Euro equals nearly \$1.50, we are a great bargain, particularly for a market of buyers who is used to seeing and paying prices of \$2,000/SF to \$5,000/SF for resort real estate. We have not yet seen a big European influence here, but this market is certainly one that we should be exploring.

In closing, thank you to everyone we talk with regularly for sharing your information and views on the market. We could not do our job without your help.

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