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TELLURIDE REAL ESTATE MARKET ANAYLSIS

2009 Perspective and 2010 Forecast

By George R. Harvey, Jr.

"Buy on Fear, Sell on Greed"- Warren Buffett

Overview: In 2009 the Telluride regional real estate market hit bottom. To quote a friend from Jackson Hole, "This does not mean that prices are about to return to the heady days of 2006 and 2007, it just means the trend we are in is no longer getting worse, which is a critical factor." Sales in all the selected resorts (see attached page 3) increased in both number and dollar amounts in the second half of 2009 over the first six months of 2009. However, with unemployment expected to hover around 10% throughout 2010 and the United States economy embracing the greatest amount of debt ever, yes, there are many skeptics that think times will get worse. I don't think so. If Warren Buffett is "all in", then the bottom is behind us.

In my 25 years in Telluride I have never seen such a combination of abundant and unique inventory, low interest rates and so many motivated sellers. It is the perfect storm for buyers. Some buyers believe there will be better buys tomorrow. I don't; I just think there will be different better buys. Some of the best purchases in our market have already been made in the last 6-12 months. I believe that 2010 and most of 2011 will continue to be a buyers market as long as our absorption of inventory stays at this rather slow pace. If you review the internal chart of tracking sales to number of listings over the last 10 years you will notice the last time we had a perfectly balanced market was the year 2000 when the number of sales was in balance with the number of listings. In 2005-2006, the number of sales and the number of listings started to widen significantly.

At the current sales rate we have about a 5-7 year supply depending on which specific market segment is in question; however, I predict that 2010 will see an increase in sales of 10-20% primarily due to more sellers realizing the trend we are currently in is going to take a couple of years to get through. Some will want to sell sooner rather than later. Of course there are always anomalies. In Breckenridge a home sold in 2009 for over $8 million ($2 million higher than the last previous high sale) and in Aspen a home sold for $43 million. Vail's highest home sale in 2009 was almost $16 million. In Mountain Village a home just sold in January for $10.1 million cash and a one week closing. Candidly these are fluke sales and they do happen in luxury high end markets but will not be indicative of an overall trend.

The Good News for Buyers: As stated above, buyers have the best selection of properties, lowest interest rates and the most motivated sellers that I have seen in at least a couple of decades in the Telluride real estate market. Some sellers are offering seller financing and some are willing to take 40-50% discounts for cash quick closings. As I have said before, luxury resort property is a discretionary purchase; people don't have to have it but in a good or challenged market there are still buyers who want the unique environment, privacy and beauty that Telluride offers. Yes, buyers are more cautious but those who are capable buyers find Telluride is still one of the most beautiful places in the world and its destination location provides a truly peaceful way to escape some of life's stresses.

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Caution to Buyers: Some of the best deals on properties have already been purchased; please remember sellers are smart and many are affluent. You're not going to get the same kind of deal you might find in Las Vegas or Orlando. The Colorado economy is expected to be in the top 10 states in 2010 given that the vast majority of our property owners and property purchasers are from Colorado provides a fairly stable economic environment.

The Not So Good News for Sellers: Sellers have a big decision to make. The trend we have been in for 18 months is generally anticipated to continue for the next 18 months or longer. Sellers' primary decision is: do they want to sell now and be first in their property category for the next sale or do they want to be in for the long haul? In my discussions with some sellers, if you are not interested in pricing to the current market, then I suggest you remove your property from the market. Whatever broker you are working with, ask them to do a thorough analysis of the competition in your price range and how many competing properties have sold in your market range in the last 12-18 months. As best as I can determine about 75-80% of buyers are looking for a deal and that is their primary focus. The remaining 20-25% of the buyers is more interested in the specific requirements of a property whether it is on a mesa, a ski-in/out property or in the town of Telluride. The smallest percentages of buyers are less sensitive to price and more sensitive to property specifics.

Advice to Sellers: Study your market competition and whatever the last sale was in your property category, price your property 10% less than the previous price point if you want to get an offer in 2010. Generally speaking all listings that actually sell in 2010 will only have one offer and in rare situations two offers. If you are fortunate to get an offer on your property, work on it diligently with your broker to make sure that transaction happens as you may not get another chance this year.

Developers: My news for developers this year is pretty much the same as last year. Look for diamonds in the rough such as potential remodels of homes and/or condominiums because they can be bought right and may have special locations that further enhance a sale. There will always be some custom building for a few clients and the soft and hard costs of construction are both very favorable. The biggest challenge developers will have is the existing competing inventory for the next couple of years. In hindsight too many developers didn't thoroughly analyze the market 4-5 years ago and see the decreasing number of sales and only looked at the increasing dollar amount of sales. That probably contributed to the over abundance of inventory we currently have. In my opinion it is going to take 2-5 years to work off most of the inventory where developers start thinking about any significant new developments again. Another challenge for developers will be the lack of development financing. In February I attended a meeting in Denver with Mark Snead, Denver Branch of the Federal Reserve Bank of Kansas City, analyzing the Colorado real estate market and the lending environment. Mr. Snead said it is going to be 2-3 years before banks are interested in lending on development projects in the state of Colorado.

Finally, if you wish to discuss this market analysis or your particular property needs, please give me a call at 970-729-0111 or email george@theharveyteam.net

DISCLAIMER: All of the above predictions are strictly the opinion of:
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San Miguel County real estate sales statistics provided by:
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Telluride Real Estate Sales in Perspective

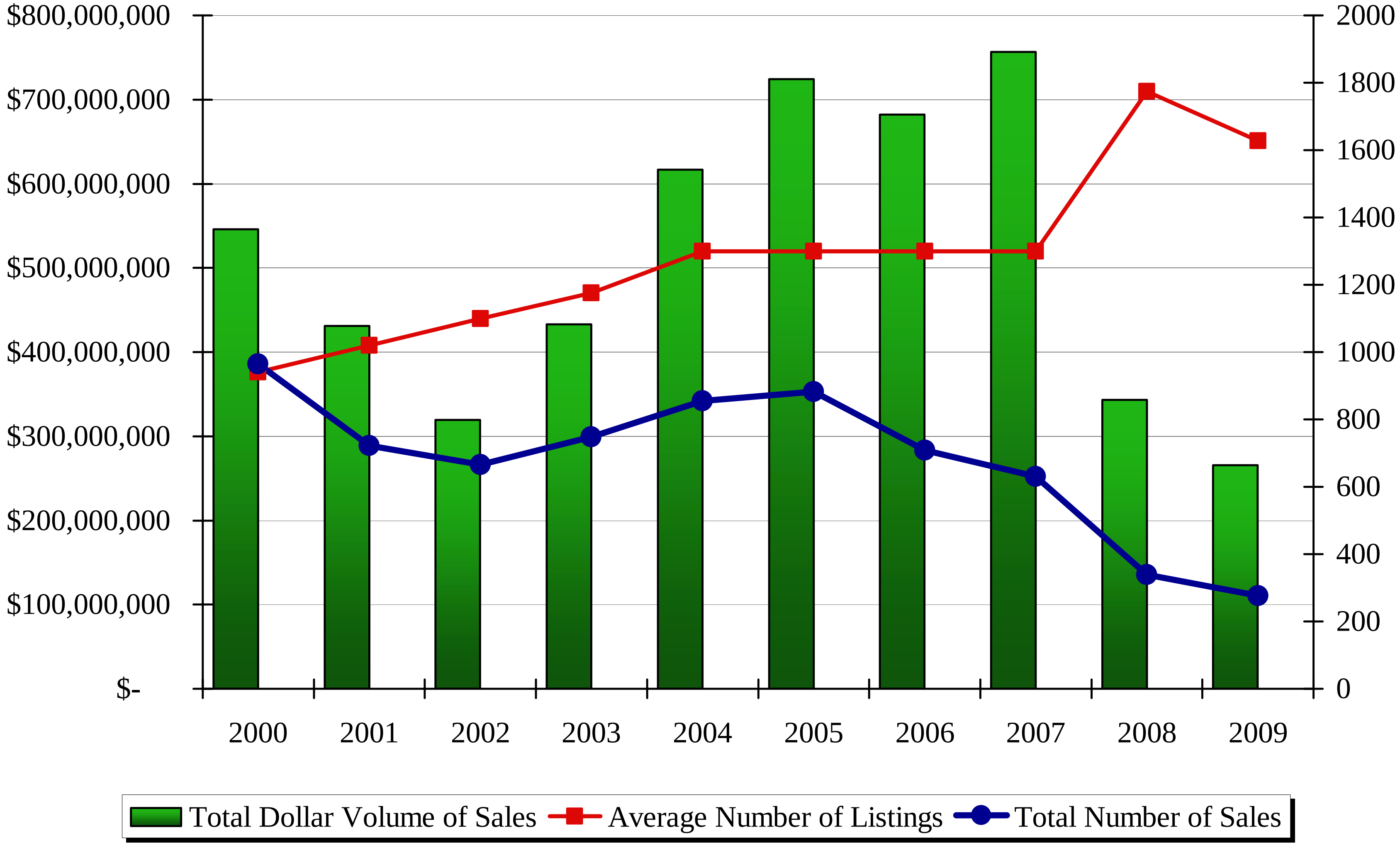
Year	$ Volume	% Change	# of Sales	% Change
1999	$415.2 million	↑ 62%	925	↑ 55%
2000	$546.2 million	↑ 32%	965	↑ 4%
2001	$430.9 million	22% ↓	722	25% ↓
2002	$319.2 million	26% ↓	666	8% ↓
2003	$433.1 million	↑ 36%	748	↑ 12%
2004	$617.0 million	↑ 42%	855	↑ 14%
2005	$724.5 million	↑ 17%	883	↑ 3%
2006	$681.9 million	6% ↓	709	20% ↓
2007	$756.6 million	↑ 11%	631	11% ↓
2008	$343.2 million	55% ↓	339	46% ↓
2009	$265.7 million	23% ↓	276	19% ↓

Select Luxury Real Estate Markets in Perspective

Location	2009 Sales $	% Change	2009 Sales #	% Change
Aspen CO	**$1,072,548,228**	22% ↓	**702**	15% ↓
Breckenridge area CO	**$683,009,100**	36% ↓	**1245**	32% ↓
Crested Butte CO	**$120,095,404**	32% ↓	**324**	13% ↓
Durango CO	**$286,020,800**	23% ↓	**737**	22% ↓
Steamboat Spgs. CO	**$439,774,300**	39% ↓	**1063**	1% ↓
Vail CO	**$898,444,183**	60% ↓	**938**	42% ↓
Jackson Hole WY	**$333,821,233**	54% ↓	**223**	47% ↓
Whistler/Blackcomb	**$314,039,782**	27% ↓	**489**	3% ↓

All statistics deemed reliable, but not guaranteed.

10-Year San Miguel County Real Estate Comparison
2000 through 2009
(Excluding all Foreclosure Sales)



San Miguel County Real Estate Sales Activity Report Comparison for 2008 & 2009

(Includes only the major listing & sales property categories)

Property Location	2008 TOTAL SALES	# INVENTORY	2009 TOTAL SALES	# INVENTORY
	$ #	AS OF 12/31/08	$ #	AS OF 12/31/09
Telluride				
Telluride Condominiums/Half Duplex	$ 23,829,285 / 35	133	$ 26,314,744 / 30	122
Telluride Single Family Homes	$ 40,968,856 / 18	66	$ 19,266,700 / 12	68
Telluride Vacant Residential	$ 5,641,000 / 4	29	$ 540,000 / 2	34
Mountain Village				
Mtn Village Condominiums/Half Duplex	$ 69,042,019 / 38	206	$ 43,385,017 / 30	145
Mtn Village Single Family Homes	$ 41,012,500 / 10	64	$ 47,616,135 / 18	64
Mtn Village Vacant Residential	$ 14,589,196 / 13	78	$ 5,746,500 / 8	82
Remainder of County				
Aldasoro Single Family Homes	0 / 0	10	$ 5,973,000 / 2	9
Aldasoro Vacant Residential	$ 7,309,000 / 6	15	$ 775,000 / 1	18
Ski Ranch Single Family Homes	$ 7,458,500 / 6	22	$ 782,250 / 2	20
Ski Ranch Vacant Residential	$ 1,863,000 / 3	11	0 / 0	8
Remainder of Cty. Single Family Homes	$ 36,369,250 / 40	113	$ 25,257,800 / 24	118
Remainder of Cty. Vacant Residential	$ 23,101,985 / 42	174	$ 33,298,400 / 28	137
Total	**$271,184,591 / 215**	**921**	**$208,955,546 / 157**	**825**

Guesstimate for 2010 # of Sales for all of San Miguel County is: 300 to 400
Actual 2009 # of Sales for all of San Miguel County was: 276

Guesstimate for 2010 $ of Sales for all of San Miguel County is: $300 to $400 mil.
Actual 2009 $ of Sales for all of San Miguel County was: $265.7 mil.

Disclaimer: All "guesstimates" were made at the beginning of 2010. Courthouse Foreclosure sales are excluded.

SAN MIGUEL COUNTY REAL ESTATE DATA

(Excluding all FRACTIONAL & DEED-RESTRICTED Sales)

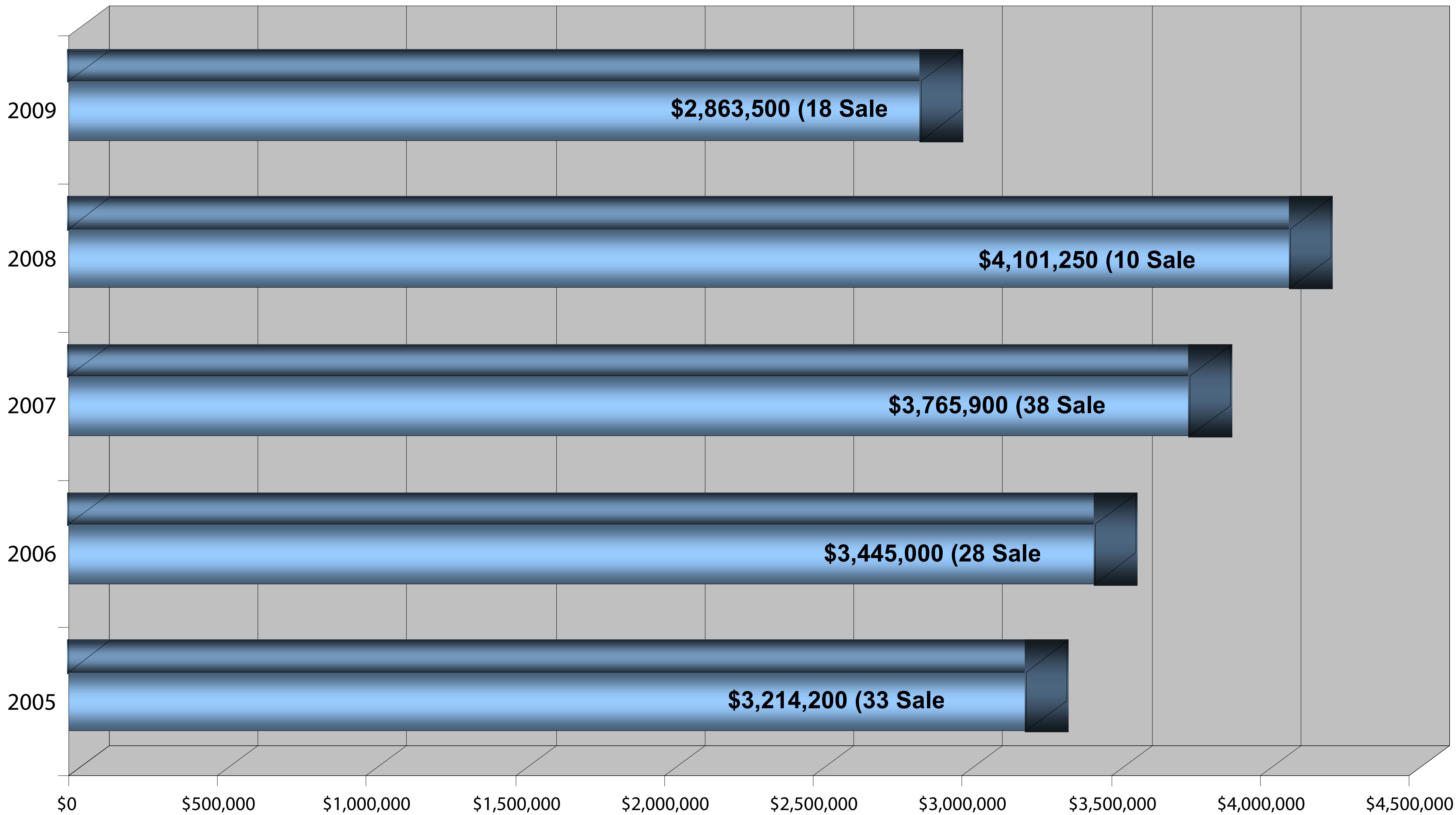
	2007		2008		2009	
	$	#	$	#	$	#
TELLURIDE:						
Telluride Condominiums/Half Duplex (ITC)	$58,563,719	67	$23,829,285	35	$26,602,000	31
Telluride Single Family Homes (ITR)	$67,686,800	32	$40,968,856	18	$20,380,700	13
Telluride Improved Non-Residential (ITN)	$26,929,251	18	$18,222,000	10	$2,398,000	3
Telluride Vacant Residential (VTR)	$9,667,000	10	$5,641,000	4	$540,000	2
Telluride Vacant Non-Residential (VTN)	$11,456,875	5	$2,170,000	2	$1,425,000	2
MOUNTAIN VILLAGE:						
Mtn. Village Condominiums/Half Duplex (IMC)	$119,844,887	81	$69,042,019	38	$46,991,150	31
Mtn. Village Single Family Homes (IMR)	$144,690,470	40	$41,012,500	10	$54,364,200	20
Mtn. Village Improved Non-Residential (IMN)	$2,097,650	8	$8,835,116	4	$27,245,200	11
Mtn. Village Vacant Residential (VMR)	$45,538,965	36	$14,589,196	13	$8,647,900	11
Mtn. Village Vacant Development (VMN)	$19,000,000	4	$14,900,000	3	$45,000,000	1
Remainder of COUNTY:						
Aldasoro Single Family Homes (IA)	$11,925,000	3	$0	0	$5,973,000	2
Aldasoro Vacant Residential (VA)	$9,047,500	8	$7,309,000	6	$775,000	1
Ski Ranch Single Family Homes (IS)	$8,279,000	5	$7,458,500	6	$1,843,500	3
Ski Ranch Vacant Residential (VS)	$1,686,750	3	$1,863,000	3	$0	0
County Condominiums/Half Duplex (ICC)	$1,863,000	5	$734,000	2	$1,339,000	4
County Single Family Homes (ICR)	$64,028,048	70	$36,369,250	40	$28,799,500	30
County Improved Non-Residential (ICN)	$6,142,500	6	$2,450,000	4	$1,959,500	4
County Vacant Residential (VCR)	$113,864,649	88	$23,101,985	42	$33,473,400	29
County Vacant Non-Residential (VCN)	$6,145,000	5	$5,573,000	10	$12,555,800	15
TOTALS *Excluding* Fractionals & Deed-Restricted:	$728,457,064	494	$324,068,707	250	$320,312,850	213
TOTALS *Including* Fractionals & Deed-Restricted:	$756,586,660	631	$343,215,629	339	$334,074,300	302
TOTALS for *ONLY* Fractionals & Deed-Restricted:	$28,129,596	137	$19,146,922	89	$13,761,450	89
PERCENTAGES of Fractionals & Deed-Restricted:	3.72%	21.71%	5.58%	26.25%	4.12%	29.47%
	(% of $)	(% of #)	(% of $)	(% of #)	(% of $)	(% of #)

SAN MIGUEL COUNTY REAL ESTATE DATA

(Excluding all FRACTIONAL & DEED-RESTRICTED Sales)

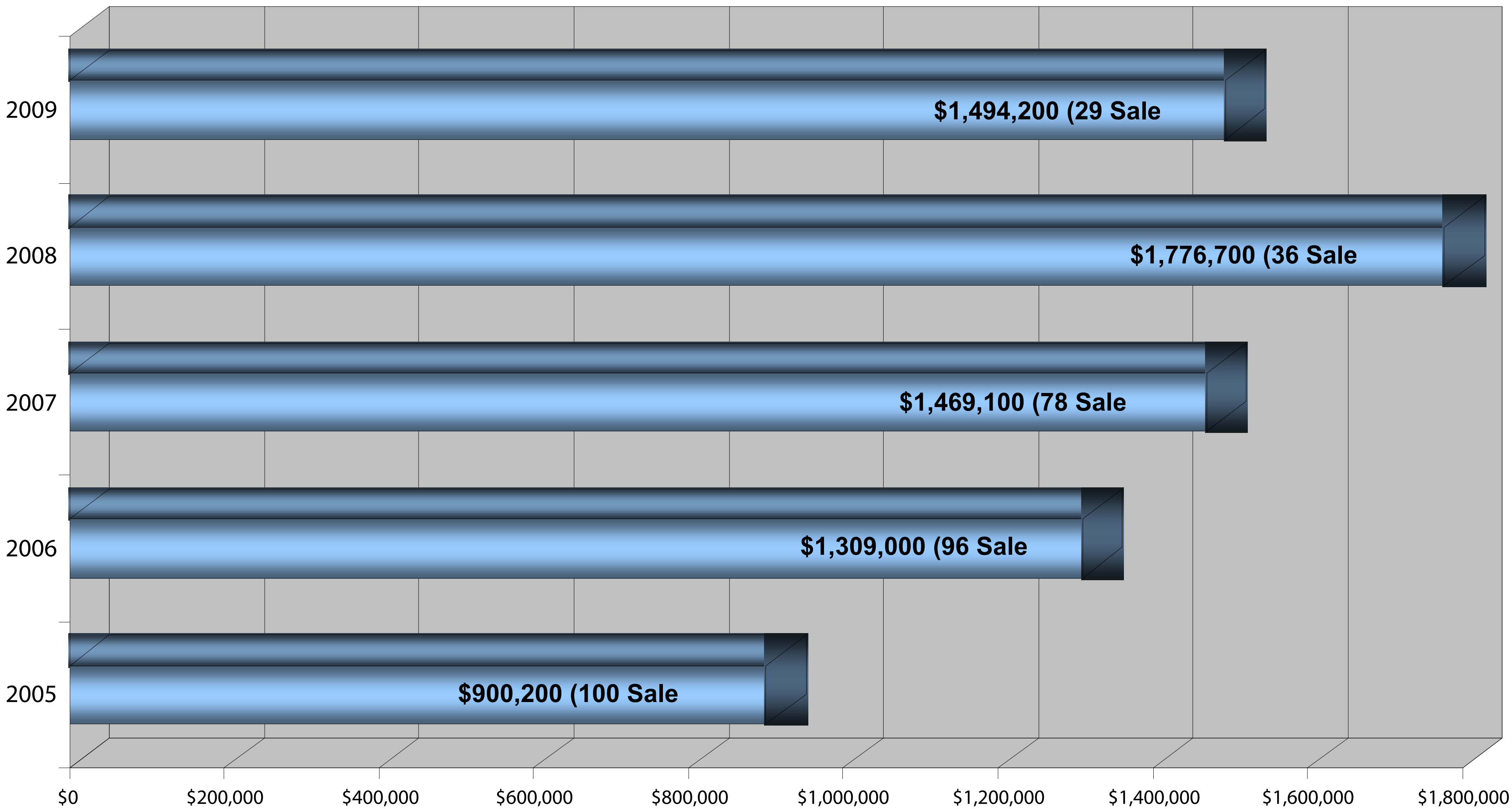
	2004		2005		2006	
	$	#	$	#	$	#
TELLURIDE:						
Telluride Condominiums/Half Duplex (ITC)	$65,612,955	126	$74,390,414	103	$73,620,824	94
Telluride Single Family Homes (ITR)	$51,477,378	35	$41,747,200	24	$63,086,742	23
Telluride Improved Non-Residential (ITN)	$16,928,936	21	$26,393,400	18	$15,954,800	15
Telluride Vacant Residential (VTR)	$13,734,600	20	$15,580,000	13	$5,720,000	7
Telluride Vacant Non-Residential (VTN)	$9,396,230	9	$3,450,000	2	$22,700,805	8
MOUNTAIN VILLAGE:						
Mtn. Village Condominiums/Half Duplex (IMC)	$79,121,950	87	$104,587,702	103	$126,082,154	98
Mtn. Village Single Family Homes (IMR)	$104,268,350	30	$106,068,220	33	$96,459,918	28
Mtn. Village Improved Non-Residential (IMN)	$20,324,100	13	$3,942,500	10	$2,956,465	11
Mtn. Village Vacant Residential (VMR)	$37,380,224	43	$54,959,062	64	$61,520,144	64
Mtn. Village Vacant Development (VMD)	$17,900,000	3	$48,480,000	7	$7,310,000	2
Remainder of COUNTY:						
Aldasoro Single Family Homes (IA)	$7,376,000	2	$4,840,000	2	$21,485,000	5
Aldasoro Vacant Residential (VA)	$5,898,362	8	$10,235,000	12	$775,000	1
Ski Ranch Single Family Homes (IS)	$9,189,500	9	$11,010,000	7	$8,935,000	7
Ski Ranch Vacant Residential (VS)	$1,999,500	4	$1,500,000	3	$2,575,000	4
County Condominiums/Half Duplex (ICC)	$3,769,950	14	$4,813,000	14	$1,100,000	3
County Single Family Homes (ICR)	$37,946,620	73	$45,013,150	96	$63,152,874	68
County Improved Non-Residential (ICN)	$21,024,500	11	$5,084,300	10	$2,500,000	6
County Vacant Residential (VCR)	$79,771,199	122	$106,740,136	160	$72,999,125	100
County Vacant Non-Residential (VCN)	$2,665,500	8	$3,147,325	10	$3,505,100	10
TOTALS *Excluding* Fractionals & Deed-Restricted:	$585,785,854	638	$671,981,409	691	$652,438,951	554
TOTALS *Including* Fractionals & Deed-Restricted:	$616,994,895	855	$724,790,245	884	$681,912,663	709
TOTALS for *ONLY* Fractionals & Deed-Restricted:	$31,209,041	217	$52,808,836	193	$29,473,712	155
Percentages attributable to Fractionals & Deed-Restricted:	5.06%	25.38%	7.29%	21.83%	4.32%	21.86%
	(% of $)	(% of #)	(% of $)	(% of #)	(% of $)	(% of #)

Single Family Homes in Mountain Village
Average Price per Sale



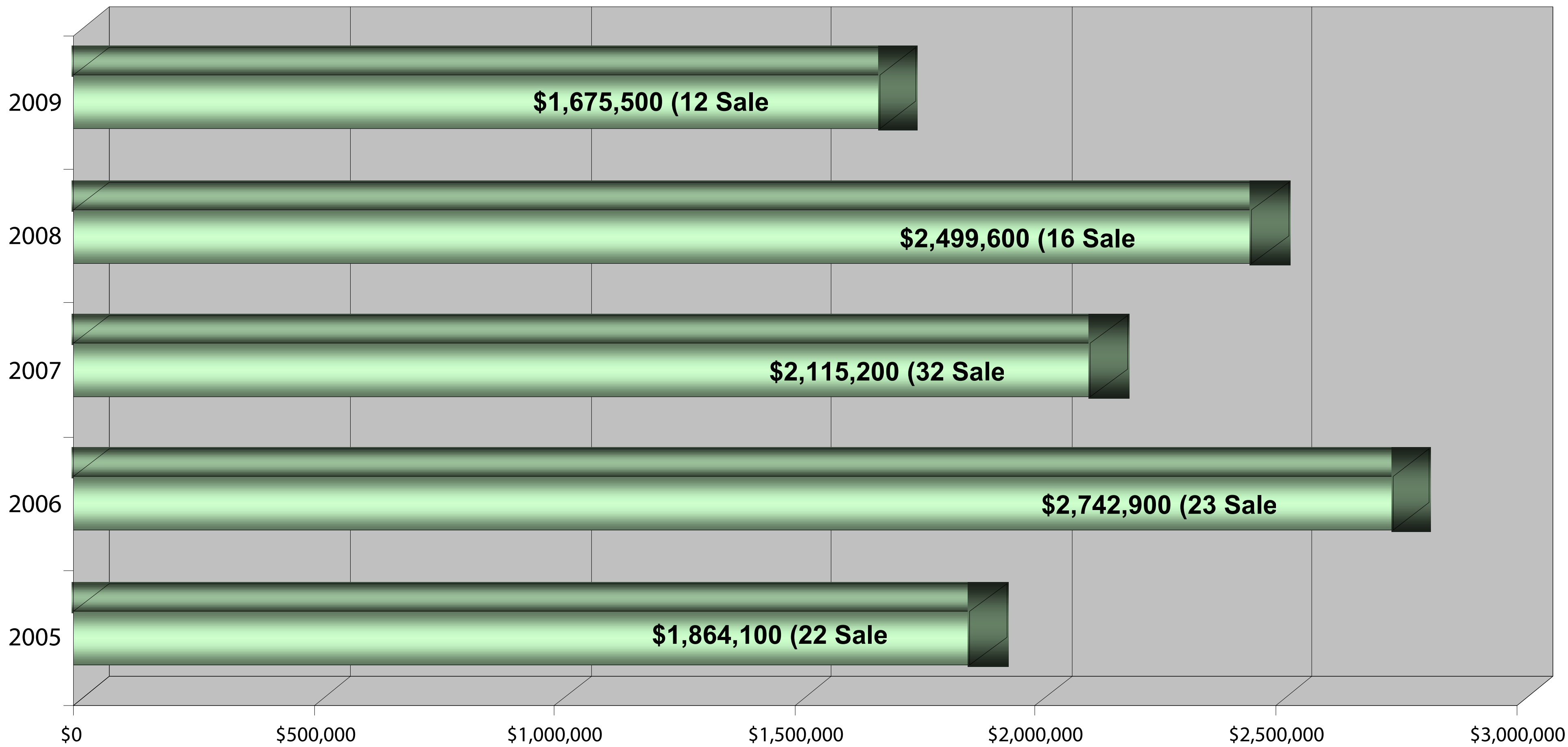
Deed-Restricted units and non-valid sales are NOT included
Sales data through EOY 2009

Whole Ownership Condominiums in Mountain Village
Average Price per Sale



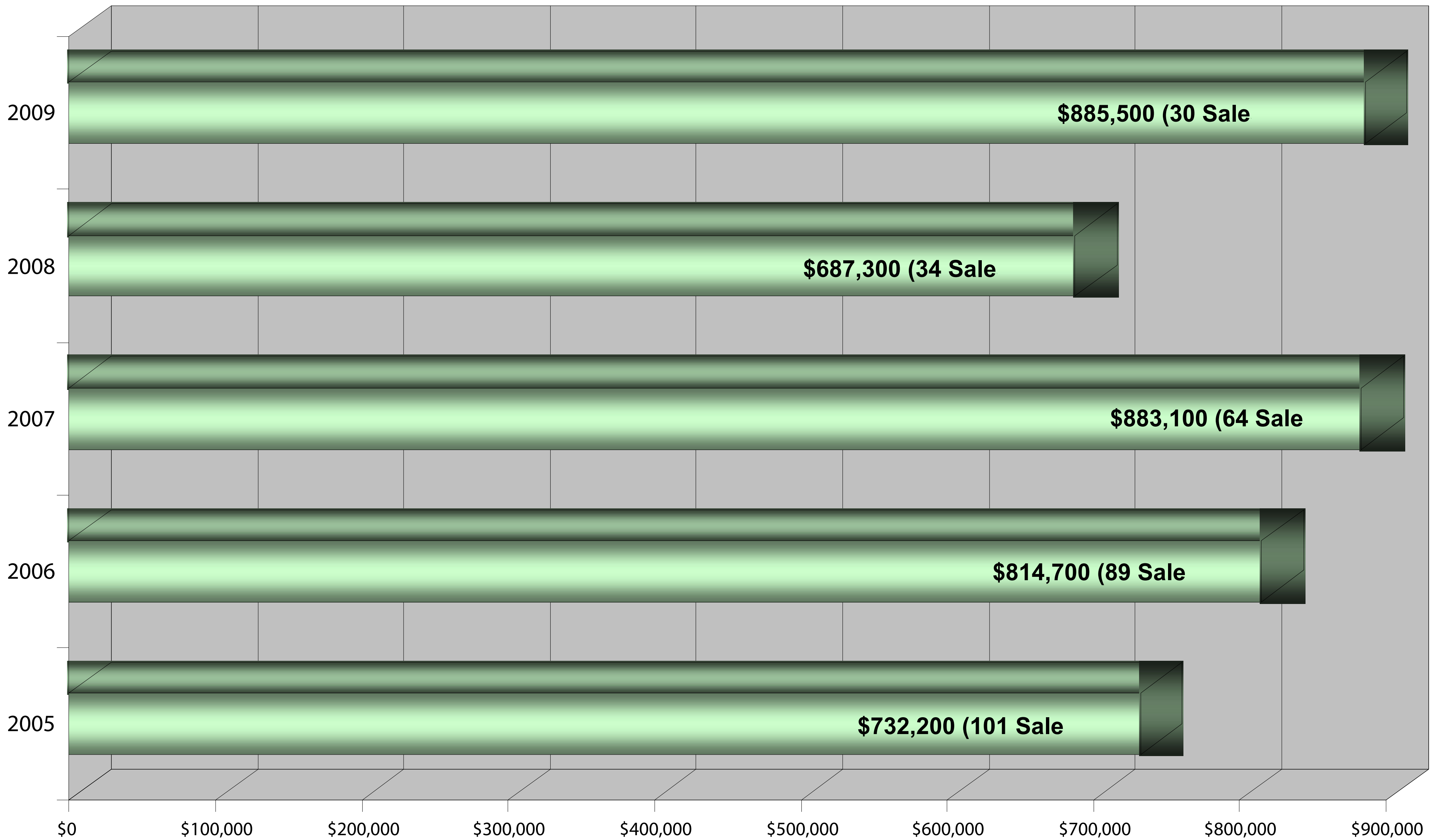
Deed-Restricted units and non-valid sales are NOT included
Sales data through EOY 2009

Single Family Homes in Telluride
Average Price per Sale



Deed-Restricted units and non-valid sales are NOT included
Sales data through EOY 2009

Whole Ownership Condominiums in Telluride
Average Price per Sale



Deed-Restricted units and non-valid sales are NOT included
Sales data through EOY 2009