



A QUARTERLY MARKET REPORT FROM SANTA FE'S LARGEST LOCALLY OWNED AND MANAGED REAL ESTATE BROKERAGE

THE SUMMER SEASON IN SANTA FE IS IN FULL SWING with the opera, the Desert Chorale and Site Santa Fe opening to rave reviews, and the International Folk Art Festival sales surpassing last year by 17%. "Art Santa Fe" filled the Railyard parking to overflowing, and the farmers' market is thriving even while migrating from site to site, awaiting completion of its permanent home. The convention center is due to open in September—and the monsoons have arrived, bringing welcome rainfall to our Santa Fe gardens.

New construction is evident in every corner of our city. The Double A Restaurant building disappeared to make way for new county offices. The new Railyard buildings are nearly ready for REL, the farmers' market, and locally-owned shops with underground parking. The Auberge Encantado and Buffalo Thunder resorts are almost complete, and the old St. Vincent Hospital on Palace Avenue is being reconfigured as a high-end hotel. The Railrunner will begin regular commuter service from Albuquerque and points south later this year.

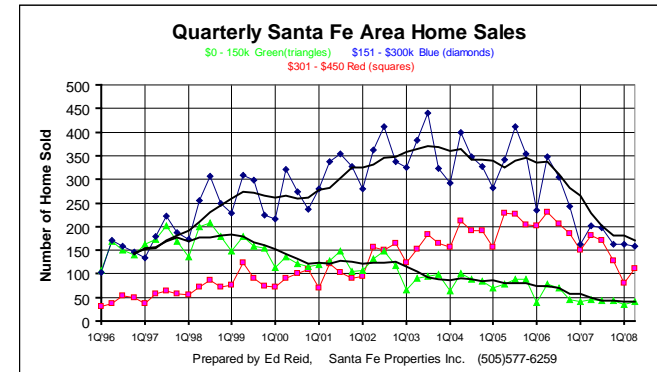
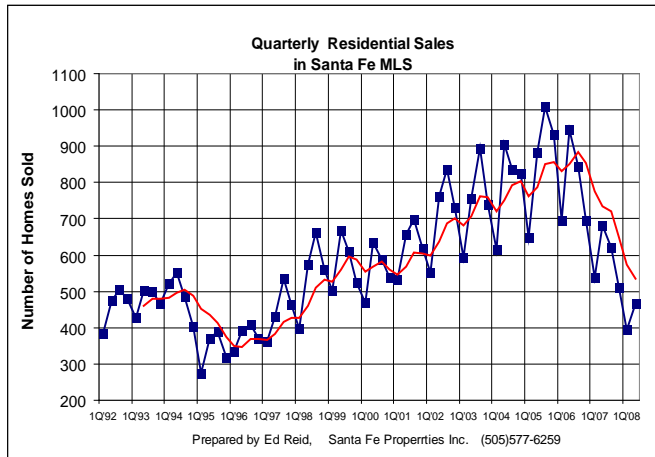
Today's real estate environment offers a large inventory and a buyer's market. Steady sales appear to mark the end of the two-year market correction with buyers getting serious in these last few months. Our average price is again hitting new highs, but Santa Fe's buyers are financially strong with petroleum-related income, a solid entertainment industry, and strong prices for food products.

Nationally, the real estate market is digesting excess inventory and foreclosures centered mainly in a few, formerly high growth areas. Complications from unemployment, inflation in energy and food prices, and various local problems add to the uncertainty, worrying future buyers.

The local paper last week reported that home sales in Santa Fe are really falling. Not so. In fact, MLS data shows that sales rose 18% above the low first quarter level. This indicates a much more steady market than the newspaper reports. Clearly sales are at a lower level than a year ago, but they are now more likely to bounce up a little than go down further. A new base seems to be forming around current sales levels from which a new uptrend might begin in perhaps a year.

The newspaper used year-to-year comparisons, capturing the decline in sales from the higher level seen at this time last year. This is old news. Total monthly spending on real estate in the last three months was up from the previous three months. Home sales under \$300,000 have held steady for a year-and-a-half, with the average home price remaining stubbornly high. In May and June the number of monthly home sales has moved above our long declining trendline,

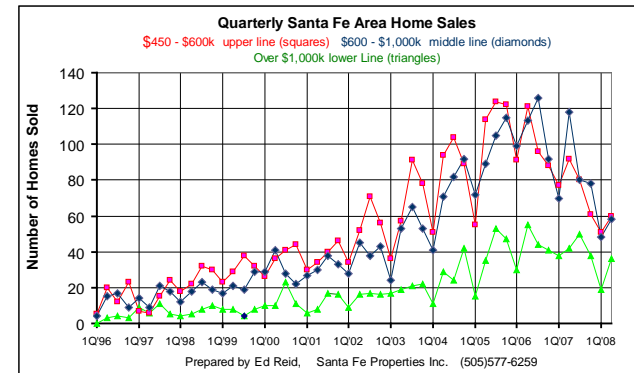
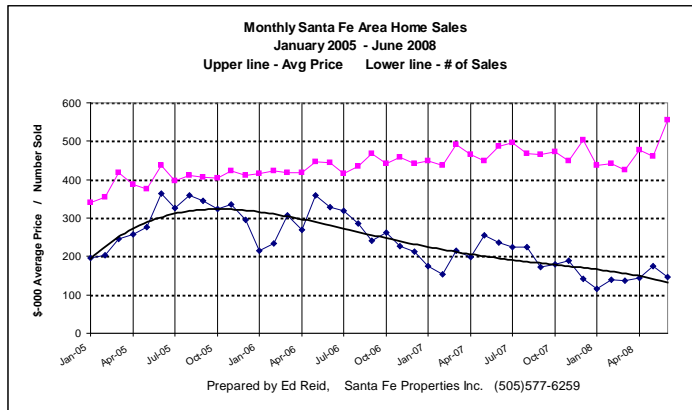
which may signal the end of the current correction. These are very positive signs for our market. Third quarter sales should be up in number of units sold, and the average price should hold steady near current levels.



These days, uncertainty is a certainty, especially in financial markets where a dramatic correction has occurred. They are in the midst of a broad retrenchment as major financial institutions work through the losses they have suffered. High-risk, high-yielding mortgage loans that never should have been made will continue to make news for a while, but the Treasury Department has weighed in, and the worst may be over.

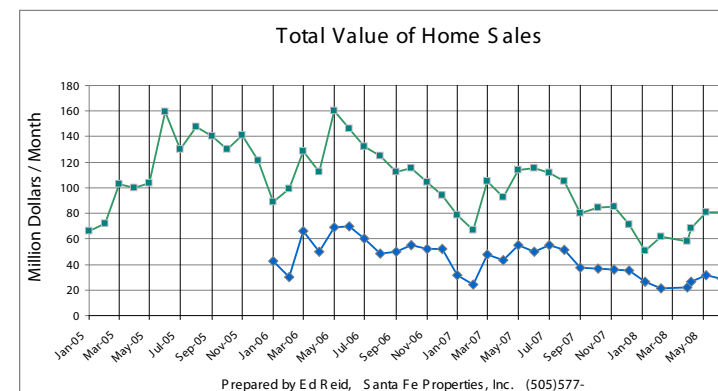
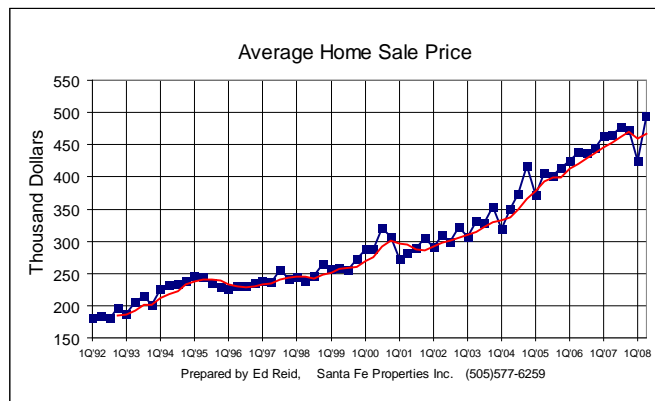
Real estate is all about location and resources. In Santa Fe, a small population has grown here over centuries, wresting crops from fertile pockets, herding, hunting, mining, and timbering. The respect for the land, its resources, and its beauty has marked each of the cultures that have settled here. Conserving resources has been a winning strategy. Baby boomers who know and therefore love Santa Fe, are moving forward with retirement and the purchase of a second home. It is a rich and diverse haven from America's commercial mega culture. Mild climate, clear air, art, fine dining and shopping all contribute to Santa Fe's allure.

Investors are now buying properties in promising neighborhoods. One experienced investor pointed out that, with inflation likely to increase, there are no better places to invest than in carefully-selected real property, or in gold. There is no way to know whether we have reached the bottom of the real estate market in Santa Fe, and we will certainly see more financial problems making headlines. But prudent investors often see beyond the headlines and act while others are still immobilized by worry. Few would deny that the next five years will bring solid gains for Santa Fe homes.



The last Market Report forecast an increase in the number of sales, but a decrease in the average price of a home, which was pessimistic. Homes selling for over \$1,000,000 rebounded sharply in the second quarter after dropping 50% in the first quarter. With 36 sales recorded in the MLS, this market returns back near the range of the last two years, with around 40 sales per quarter.

One sale of over \$15,000,000 pushed the overall average home sale price to a new all time high of approximately \$493,000. Even without this unusual sale the average price rebounded to \$458,000, up 8% from last quarter.



Homes sales under \$300,000 are steady, and in all other price ranges, sales increased during the second quarter. The total number of home sales has risen above our trendline in May and June, supporting the thought that the correction may be over. On the other hand, inventories are still high with over 3300 homes for sale. Sellers must get very competitive to succeed.

