ASPEN/SNOWMASS MARKET OVERVIEW:

2006 Year End Review and
A Look at What's Ahead

Aspen Board of Realtors Presentation
December 13, 2006

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

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 13, 2006.

Introduction

Good afternoon to everyone and Happy Holidays. Thanks for coming. I am Randy Gold and our company is The Aspen Appraisal Group. For those of you who don't know us…. we have five appraisers in our office: Scott Bowie, Betsy Krizmanich, Liz Newman, Ed Segaul and myself. The Aspen Appraisal Group is unmatched in the Roaring Fork Valley for the depth of our experience, the wide range in types of properties we appraise and our professional credentials. If you want to know more about our company please visit our website at: 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 December 1, 2006. We also include data on all transactions occurring in our Board area, and this data is through November 13.

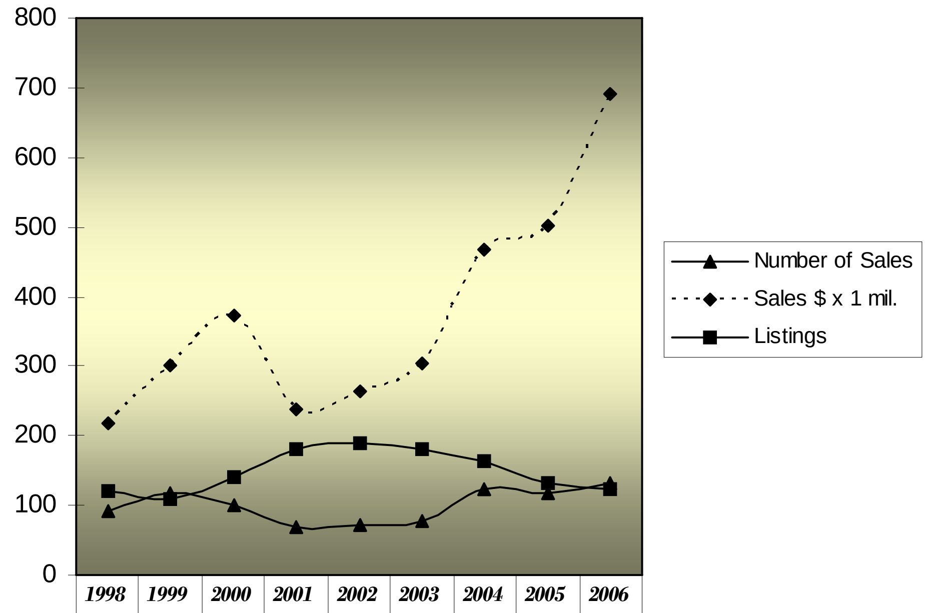
We have graphically displayed trends in our market since 1998 to illustrate not only the strong real estate markets of 1998-2000, but also the effects of the stock market decline and national recession in 2001-2002, along with the recovery in 2003-2004 and the unprecedented market strength of 2005 and 2006

Sale and listing data in our graphs was taken primarily from data published by the Aspen Board of Realtors through the Multiple Listing Service. Our estimate of listings is based on an average of those available mid July and those available in December. We of course do not yet have all the data for 2006; those totals are based only upon the first 11 months of the year; 2006 data is not annualized and will ultimately be understated. 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 2006.

Aspen Single Family Sales & Listings



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	91	118	99	69	73	77	124	118	131
Sales $ x 1 mil.	$218.7	$301.0	$373.3	$239.3	$265.1	$303.9	$468.3	$502.5	$690.1
Listings	120	110	141	182	188	182	164	132	123

Aspen Single Family

With only 11 months of data the number of sales is already up about 11% over 2005 while the average number of listings is down about 7%; the current number of listings today has dropped over 20% to only 101.

Most interesting is the huge increase in dollar volume with the average price of a SF house up over a $1,000,000. The average sale price thus far in 2006 is about $5,250,000, up from about $4,250,000 in 2005, and $3,800,000 in 2004. The more meaningful indicator of median sale price is about $4,150,000.

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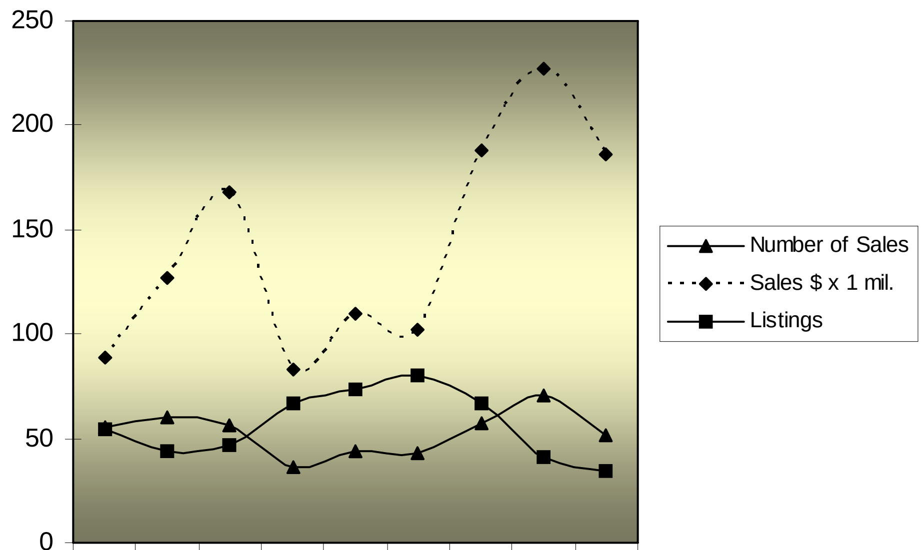
Snowmass Single Family Sales & Listings



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	*55*	*60*	*56*	*36*	*44*	*43*	*57*	*71*	*52*
Sales $ x 1 mil.	*$89.19*	*$127.1*	*$167.9*	*$83.32*	*$109.5*	*$102.1*	*$188.3*	*$227.5*	*$185.6*
Listings	*54*	*44*	*47*	*67*	*73*	*80*	*67*	*42*	*35*

Snowmass Single Family

In Snowmass it is a somewhat different story as the number of sales is down about 27%. Listings are also down, about 17% as an average with the current number of listings today at about 33. The average sale price did however increase from about $3,200,000 last year to over $3,500,000 currently; the median price as of December 1 is about $3,100,000.

The decline in the number of sales could be due to tempered market enthusiasm, but, more likely, it is an indication that buyers are becoming more discerning with many of the available listings simply overpriced.

This is not to suggest that the Snowmass single family market has weakened. Particularly interesting here is the crossing of listings and sales that we saw in 2005 and that has continued. When that happens it signifies a particularly overheated market where the statistical marketing time is less than 1 year. This is the case for both Snowmass and Aspen single family houses.

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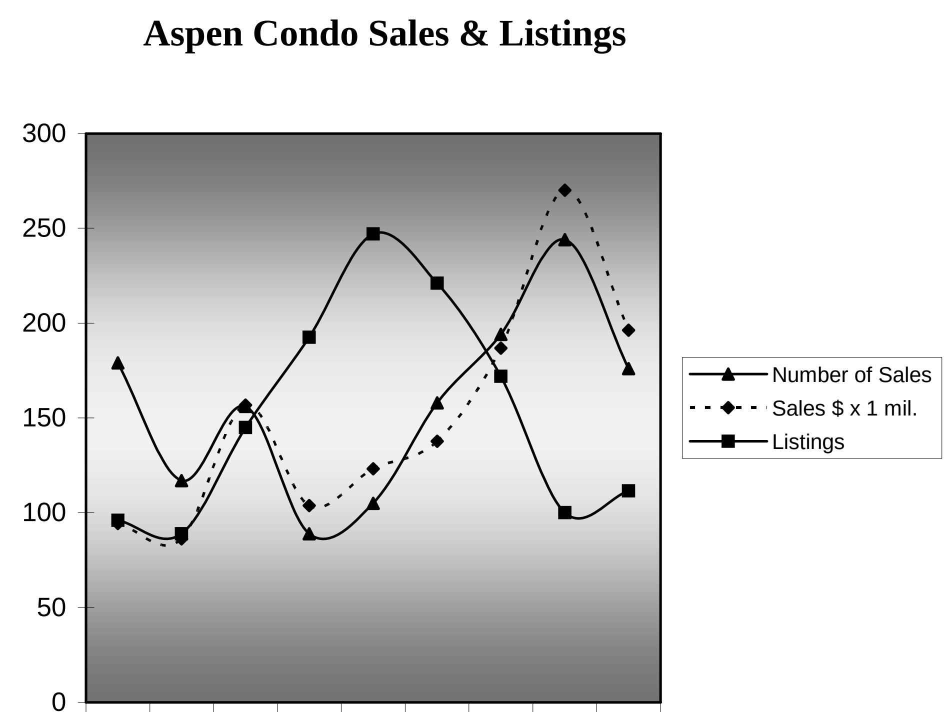

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	*179*	*117*	*156*	*89*	*105*	*158*	*194*	*244*	*176*
Sales $ x 1 mil.	*$94.3*	*$86.2*	*$156.*	*$103.*	*$123.*	*$137.*	*$186.*	*$270.*	*$196.*
Listings	*96*	*89*	*145*	*193*	*247*	*221*	*172*	*100*	*112*

Aspen Condominiums

The number of sales is down about 28% based on the first 11 months of data. At the same time the number of listings is up about 12% as an average, but the number today sits at about 135, or up 35%. Average sale price is essentially unchanged from last year, still about $1,100,000. The median sale price as of December 1 is about $975,000.

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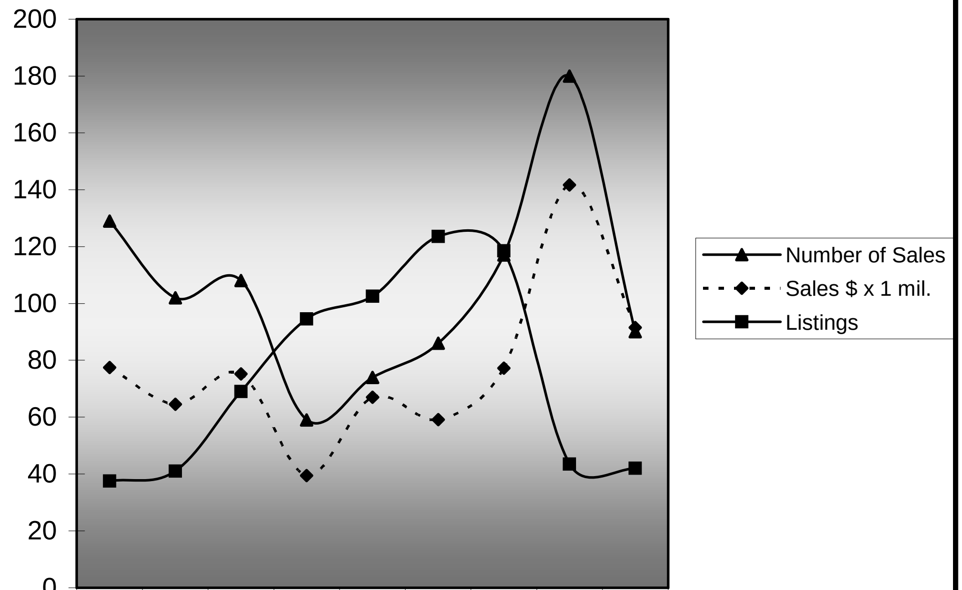
Snowmass Condo Sales & Listings



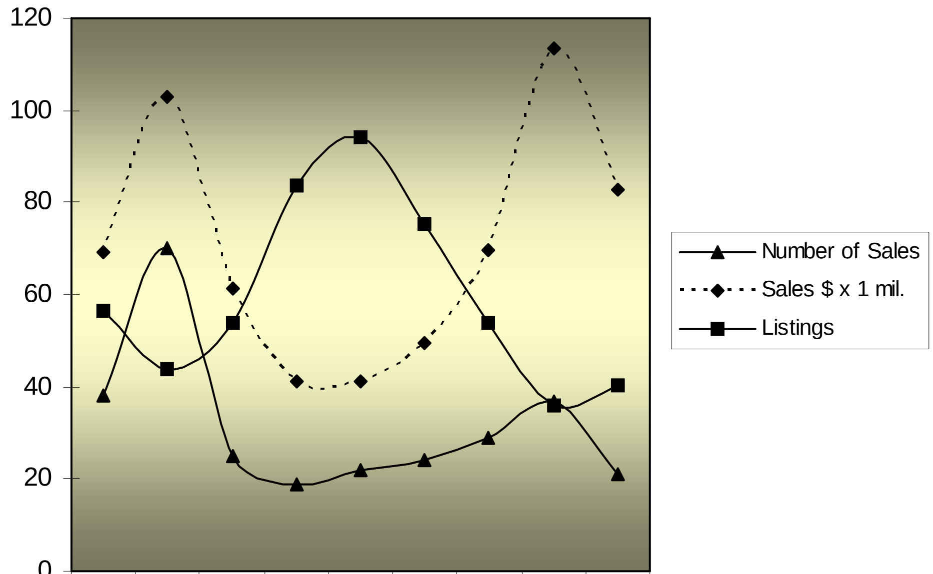
	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	*129*	*102*	*108*	*59*	*74*	*86*	*117*	*180*	*90*
Sales $ x 1 mil.	*$77.43*	*$64.49*	*$75.17*	*$39.49*	*$67.01*	*$59.17*	*$77.26*	*$141.6*	*$91.54*
Listings	*38*	*41*	*69*	*95*	*103*	*124*	*119*	*44*	*42*

Snowmass Condominiums

The number of sales is down dramatically about 50%, while the number of listings is about the same as an average, but down about 18% now, with the current number of listings at 36. The average sale price has risen from approximately $800,000 last year to just over $1,000,000 now. The median price sits at about $700,000.

The trend of sales exceeding number of listings is even more evident in Aspen and Snowmass condominiums. The market is still very strong despite the declining number of sales. The declining sales are probably the result of some buyer migration toward fractional interest product, and the fact that much of the inventory there is for sale is tired and overpriced.

Aspen Lot Sales & Listings



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	*38*	*70*	*25*	*19*	*22*	*24*	*29*	*37*	*21*
Sales $ x 1 mil.	*$69.16*	*$103.0*	*$61.34*	*$41.20*	*$41.04*	*$49.46*	*$69.71*	*$113.2*	*$82.73*
Listings	*57*	*44*	*54*	*84*	*94*	*76*	*54*	*36*	*41*

Aspen Lots

The number of sales is down approximately 43% thus far while the average number of listings is up, 14%; the actual number of listings is now 44 vs. 41 we show as average. The average sale price is up dramatically, from about $3,000,000 last year to over $3,900,000 now. The median sale price is approximately $3,400,000.

Here you can see that the number of sales is well below the number of listings, suggesting about a 2 year supply of lots. This is the only market sector where we see this. If you look closer at the available listings you will find that the average list price is about $5,000,000; the median list is about $4,300,000, both well above their historic indicators. This activity suggests to us that many of the Aspen lots are just priced too high.

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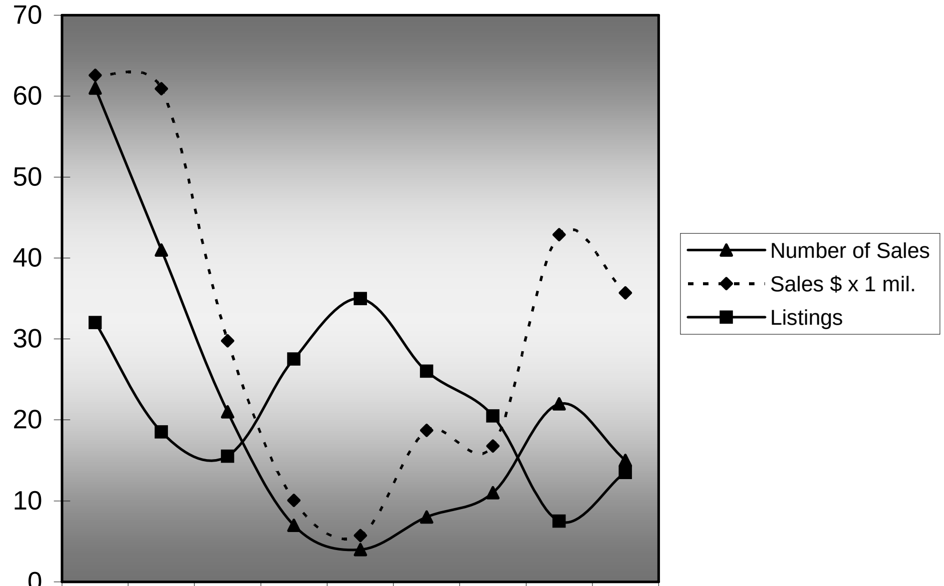
Snowmass Lot Sales & Listings



	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	61	41	21	7	4	8	11	22	15
Sales $ x 1 mil.	$62.59	$60.92	$29.75	$10.07	$5.72	$18.73	$16.77	$42.88	$35.67
Listings	32	19	16	28	35	26	21	8	14

Snowmass Lots

Here the number of sales is trending down, like Aspen, and in this case about 32%.
The number of listings has seen a big increase, up 75% over last year as an average, with the current number of listings at 18. Average sale price was about $2,000,000 last year, but that has increased to about $2,400,000 currently; the median of these sales is about $2,300,000.

Here the market seems more in balance with about a one year supply of lots. However, it would appear that overpricing is still evident as the average and median list price of available lots is about $4,000,000, and dramatically above the average sale price and median prices to date of $2,400,000 and $2,300,000, respectively.

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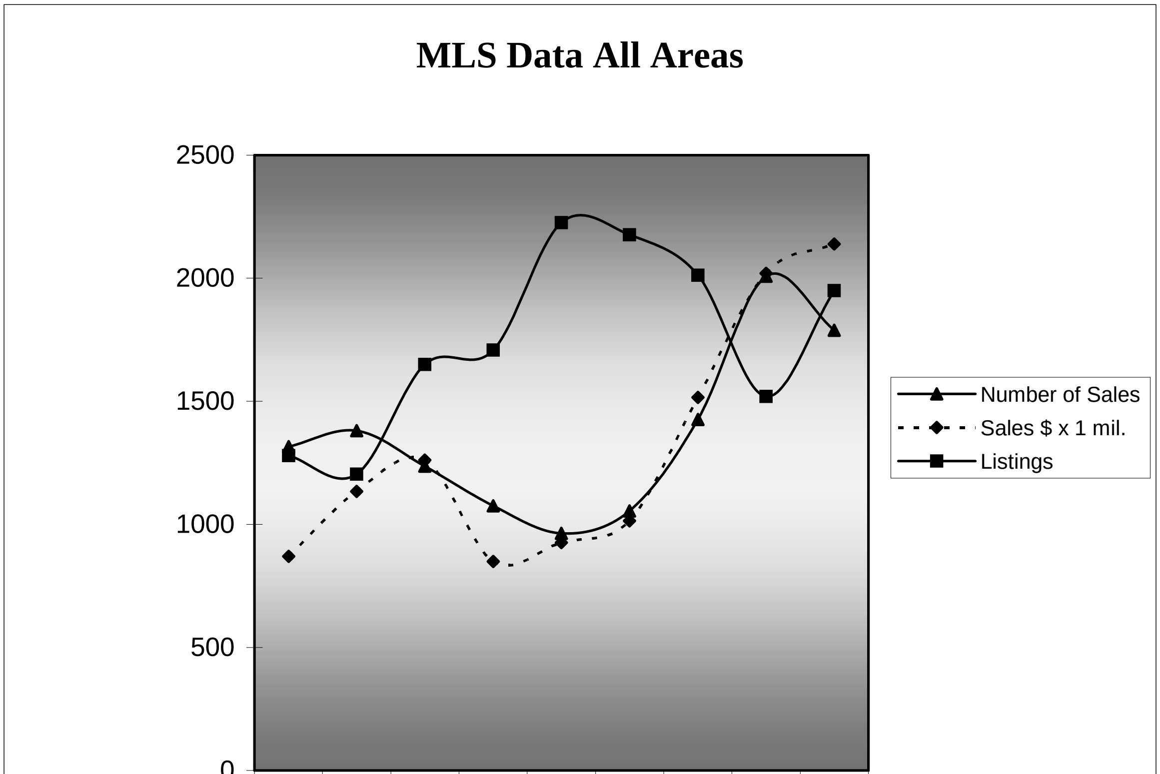
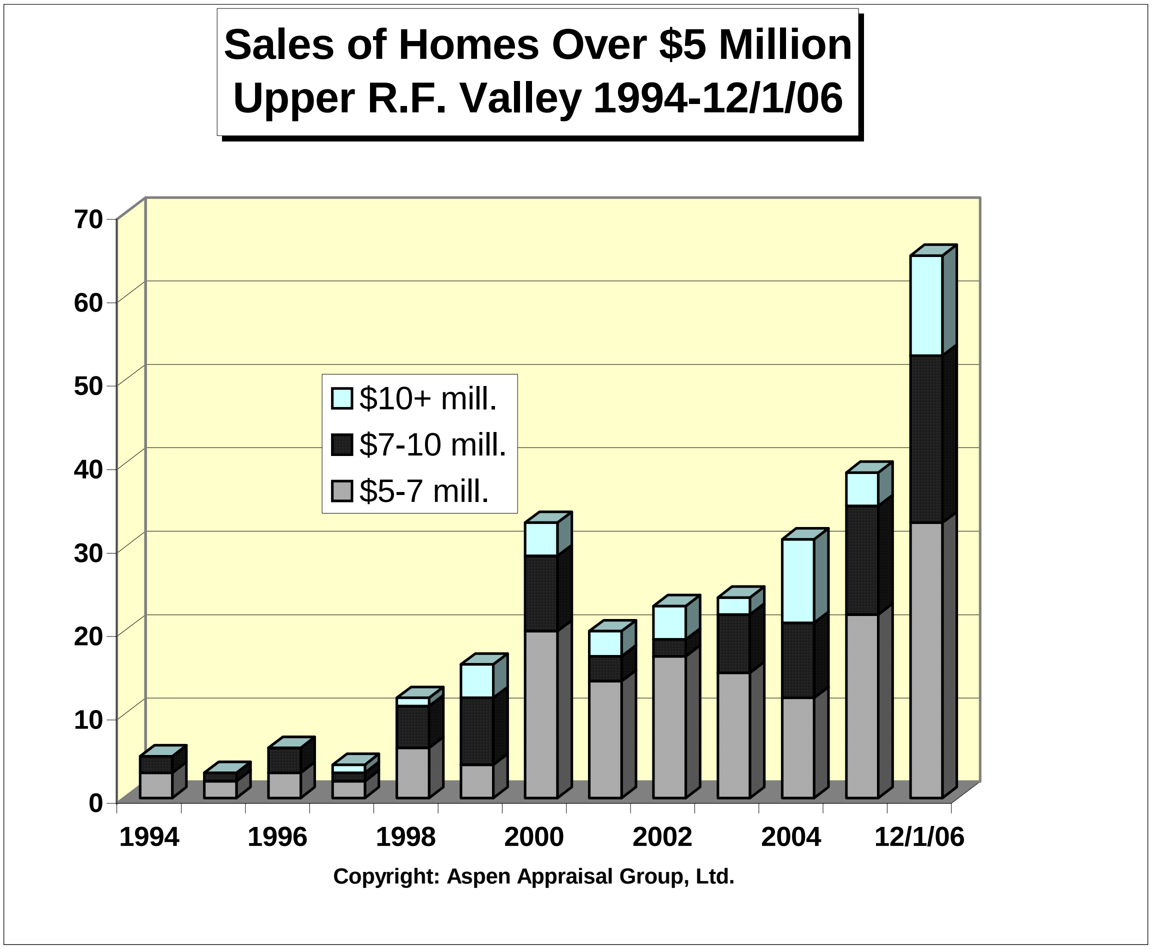


	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of Sales	*1315*	*1380*	*1237*	*1075*	*964*	*1055*	*1426*	*2008*	*1788*
Sales $ x 1 mil.	*$870*	*$1,134*	*$1,261*	*$850*	*$925*	*$1,014*	*$1,516*	*$2,020*	*$2,139*
Listings	*1280*	*1204*	*1650*	*1708*	*2227*	*2176*	*2012*	*1520*	*1950*

MLS All Areas

We have less confidence this year in the MLS Data from All Areas as the merger of the Aspen and Glenwood Springs Boards and the way statistics are kept with respect to land transactions changed. We have done our best to adjust the data to keep it apples to apples, but the data here is somewhat corrupted.

In the first 11 months of 2006 we have again eclipsed $2 Billion in volume despite an 11% decline in the number of sales. At the same time the number of listings has increased by over 25%, a change from last year at this time.



Single Family Sales over $5,000,000

As shown on this bar graph, 2005 was the best year ever, but 2006 blew away 2005, and with only 11 months of data. Particularly noteworthy is the surge in $10,000,000+ sales, that last year I identified as an area of weakness. Thru December 1 there have been 12 sales of $10,000,000+ houses.

The number of listings in this category had been relatively constant in 2004 and 2005 with about 20-25 available properties. Now, the supply of these $10,000,000+ listings has nearly doubled with 37 shown in the MLS, not including another 10 or so pocket listings. If there is an area of the market that is oversupplied, it is this $10,000,000+ single family sector.

2006 signaled a significant shift in the market's willingness to pay upwards of $15,000,000 for a single family house. Last year I noted that excluding Mandalay Ranch, there had been only 6 sales in history over $15,000,000, and only 1 sale over $20,000,000. However, in 2006 alone we saw 7 closings over $15,000,000 with 2 more under contract. Sales of single family houses over $20,000,000 are still virtually non- existent. We now have two closings over this threshold, the Peak House that sold in 2001, and the closing last week of the Smith house on Red Mountain. One could argue that the 1422 Red Mountain Road (corner of East Reds Road) should also qualify. However, this sale is complicated because the purchase was of land and a partially completed structure at under $15,000,000, even though the MLS reports the sale at $23,000,000. Of course when complete the buyer will certainly have well over $20,000,000 into the project, but to our way of thinking this seems more of a land sale.

We all know about the Shady Lane property closing at $22,500,000 in October. In my view this is really a land sale, albeit one that is difficult to justify. What is interesting about this sale is that it is an example of how a billionaire can influence the market. With this sale, the market for rare, outstanding lots has theoretically taken a major step up. Although this is an exceptional property, there are certainly realtors, sellers and buyers who will be influenced by this sale. However, it is important to have some perspective.

We all know that a billionaire has a lot more money than a millionaire. To help understand the difference, think about it in time: a million seconds is about 11 days; a billion seconds is nearly 32 years. In simple terms think about a billionaire vs. one of our more typical high end buyers with a paltry 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, paying $9,500,000 for a house instead of $9,000,000 for example, 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. It is this type of market activity that drives us crazy as real estate appraisers. 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, what is Market Value then?

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Aspen Commercial Market

Retail and office rents in the Aspen core are continuing to trend up and it seems that prime retail and office rents have taken a significant step up. We have seen our first retail rents over $200/SF, and rents of $100-150/SF are becoming common. Most prime office rents are in the $40-$75/SF range. 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 6.5%.

Sales or contracts on commercial buildings in 2006 include: Holtz Plaza, the Aspen Athletic Club Bldg, Hannah Dustin Building, all of which sold without formal market exposure. There have also been sales of several commercial/office condominiums around town and over 20 commercial spaces in Obermeyer Place have purchase options with most in the range of $350-$500/SF. We still have had only two examples sell above $1,000/SF. Commercial land and redevelopment properties have continued to sell, but understandably tempered by the City's Moratorium. In 2006 we saw the sales of the North Mill Street properties, the Polar Revolution Building, Wienerstube and Lemos lot, and Stage 3. Like the numerous sales that took place in 2005, these sales were also fueled by the City's change in zoning regulations to allow for much more favorable development. Of course the Moratorium has become a stumbling block. We will come back to this.

Snowmass Commercial Market

In Snowmass we talked last year about the sales of almost everything that is a commercial building in the Town including the Snowmass Land Company building, Gateway Building, The Mall, the Timbermill, the Silvertree Hotel and the Snowmass Center. The most significant change now is that with the exit of Intrawest, nearly all of the commercial developments involve Pat Smith and a mix of partners. Potentially this situation has both positive and negative aspects. On the positive side, development should be better suited to the public with more control over tenant mix and phasing of new development. This should also translate positively to increased business for the tenants in these projects. On the negative side are the tightly controlled supply and the resulting upward pressure on rents which will undoubtedly force some long time Snowmass tenants out of business.

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Interviews

This year we again interviewed numerous Aspen and Snowmass brokers. Many were office managers and their companies are involved in the bulk of all transactions that occur in our market. The results were very similar to last year.

The hottest areas of the Aspen market: the core in Aspen for all property types, Red Mountain and Pitkin Green of course, and east of town with East End, Mountain Valley, Aspen Grove and continuing up the Pass, with Morningstar Subdivision showing notable strength. Our horrific traffic has certainly been one of the catalysts driving property values east of Aspen.

Particularly strong and undersupplied are condominiums under $1,500,000, single family houses under $4,000,000 and truly exceptional vacant land at any price. Oversupplied right now are $10,000,000+ houses and more typical lots, particularly those in Woody Creek.

We don’t really have any neighborhood weakness in Aspen. The neighborhoods that we identified last year: Five Trees, Maroon Creek Club, Aspen Highlands Village and Starwood have all come back. But, it is interesting that there is still a perception among many of the brokers I spoke with that Five Trees is weak, even though there were 4 sales there last year. Marketing times in all of these neighborhoods have been lengthy however.

Snowmass has no real weakness. The strongest part of the market continues to be the premier ski accessible projects with Pines and Two Creeks, with several sales occurring here before even reaching the Multiple Listing Service. Base Village and the extensive ski area improvements are driving the market. Also particularly strong and undersupplied: single family houses under $3,000,000, condominiums under $1,000,000 and vacant land.

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Fractional Interest Units:

Fractional market continues to show great strength, accounting for nearly 10% of our total volume. Given the relative size of the Aspen/Snowmass markets, we already have a large supply of fractional units and we are going to see even more units built. Most noteworthy is the plan for the Snowmass Center with a 150,000 SF residential club component. In my view the fractional market remains an area of potential weakness. In addition to the potential for overbuilding, we are already seeing more resale units come back on the market from existing owners. While declining quality condominium inventory for whole ownership units may attract more buyers to the fractional model, this remains a confusing product for many brokers and clients.

By now most of you know about the success of the Residences at Little Nell. This project of 26 fractional units is really the darling of the industry, setting new highs on fractional prices. Three bedroom fractions have ranged from $900,000 initially to over $1,400,000 now, while the 9 four bedroom units have brought prices from about $1,200,000 initially to $2,500,000 recently and now $3,000,000. The 208 interests are about 70% sold out. It is truly astounding to see that kind of money paid for 6 weeks of use per year!

Land Title keeps good data on fractional interest volume. In 2004 they showed about $65,000,000 in sales. In 2005 that more than doubled to nearly $178,000,000. In 2006 the market is even stronger; thru October there has been approximately $161,000,000, compared to $135,000,000 as of the same date in 2005. The fractional market has definitely been growing, but what will be interesting is to see how values hold up as these projects mature and more and more owners become sellers. This has always been our area of concern as there is very little history industry wide and locally on resale strength.

Aspen and Snowmass buyers are used to making money on their investments. In other areas outside Aspen, the premier projects have seemed to maintain their values. Our exceptional projects like the Timbers and likely the Residences at Little Nell will probably also have strong resales, but, undoubtedly many of the fractional projects here will not. The question then is, over time, how would a weak 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 the mantra for both Snowmass and Aspen.

Town of Snowmass Village

For Snowmass the key words are still **massive development** with a totally altered character in the next few years as it steamrolls into the 21st century. Base Village and the ski area revitalization of course are the most significant changes and it is fueling other areas of the market. The Snowmass Center expansion and redevelopment is proceeding, the new Town Hall is underway, work is continuing at the Entry and in the next few years we will likely see the Mall seeking approvals for redevelopment. Wood Run Place, Wood Run V, and the Crestwood are completing major façade renovations. We will also see more tear downs in the older neighborhoods like Melton Ranch, Wildridge, Ridge Run and Wood Run. In short, it is going to be a construction nightmare in Snowmass for the next 5 years at least. Will the chaos stall the market, or will the enthusiasm for new product add more fuel to the already hot market? My guess is some of both, but as construction continues and time passes, more buyers will unquestionably become interested in Snowmass. Snowmass is positioning itself well for the future.

City of Aspen

Last year we talked about the City of Aspen's remarkable 180 from anti growth to full on pro growth. I noted in my talk that a Moratorium was likely; that proved true in April as the City did some major backpedaling. The Moratorium is now in effect until February, 2007 and is certainly a healthy pause for the City. Developments that got in under the wire include Cooper Street Pier, Weinerstube, Stage 3, the Jerome Professional Building and La Cocina. These projects will add in the range of 87,000SF of new development over what exists now on these lots and 20 new free market residential units, plus some AH (affordable housing). These developments are already trying to borrow 5 units against the future allotment of only 8 new residential units annually in the commercial zones.

Of course we cannot say with certainty what the outcome of the Moratorium will really be, but here are some of the likely changes. First, FAR (floor area ratio) throughout the commercial and lodge districts will probably be reduced. Second, there will likely be much more extensive design review standards for all commercial zones, not just Commercial Core (C-C) where the HPC has its influence. Third, application will probably change from first come first serve to a specific date or dates to apply, but a priority system will be implemented based on a variety of criteria like how much AH is in the development or how much community space. Fourth, there has been discussion on the development of new “community commercial” area to be included in these new developments, although the concept of what that means is not yet well defined. Fifth, cash in lieu fees will probably become more discretionary. Sixth, there is discussion about implementing a “rate of development,” restricting the pace of both new development and redevelopment.

In my view the City was smart in the way they slowed things down not only with the Moratorium itself, but in restricting the size and number of new residential units in the commercial districts to only 8 annually and no with each no more than 2,000 SF. The residential piece was the carrot driving these new developments, no doubt about it. Ironically, this will probably turn out to be a good thing for developers if the City doesn’t change the rules again. This limitation on size and the number of units will probably create more demand for their product as there is unquestionably a larger pool of buyers who can afford $2,000/SF for only 2,000 SF as opposed to building the large 4-5,000 SF units and having to sell those at $8,000,000 to $10,000,000 or more.

Change is certainly very much alive in the City. Although commercial land sales have slowed, there have still been numerous transfers that have taken place with lots of developers watching and waiting to see how the Moratorium will be resolved. In addition to the Lodge at Aspen Mountain, the large redevelopment of the Limelight/Snowflake as The Monarch, and the Dancing Bear, other developments in the wings include a major redevelopment of North Mill Street, Holland House/Skiers Chalet, Polar Revolution, redevelopment of the Skye Hotel, and probably the corner to Little Annies.

Yesterday (December 12th) was pretty exciting at City Council. Ah, how the pendulum swings…Another 6 month Moratorium addressing interior renovation and remodeling in the commercial core. Moratorium 2 extends only to the Commercial-Core zone. Of course there are strong feelings both for and against this legislation. I don’t think the Moratorium itself with a six month trigger is particularly problematic; the problems will likely come with how that Moratorium is resolved into new legislation. And, there will be some new players weighing in as the makeup of City Council changes this Spring.

Pitkin County

The County has also been busy. In July they completed a major re-write of the Code. In addition to more extensive reviews for new or expanded developments, that will lead to more time and expense, one of the biggest changes was the “by right” FAR extension to properties within the Urban Growth Boundary (UGB). Now, 5,750SF is your by right maximum, but if underlying zoning allows for more, a TDR or TDRs will be necessary. This will certainly create more demand for TDRs, but the nagging question was where would those TDRs come from? Well the County has taken a significant step in this area. Last week they codified new legislation that will allow for the creation of new TDRs from

limited development conservation sites in addition to just Rural and Remote sites. My discussions with some of our local planners suggest that in the area of 50 new TDRs could come of this legislation in the next few months. It seems reasonable that this large supply of new TDRs will probably depress the price from what we have seen recently of $250,000 to $300,000.

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Conclusion

There are two areas that I remain very concerned about: Our horrific traffic, that has plagued us will get worse before it gets better; this is still a negative influence on the market. But, at least discussions on the Entrance to Aspen have revived. Perhaps we as a community will finally find an acceptable solution, and implementation will begin. Additionally, the City will hopefully take some positive steps controlling the pace of development. Another potential problem is one we have grappled with for years: a shortage of employees. Now, not only are there the highway/commuting headache and the lack of affordable housing, but we are now also competing with the new oil and gas related jobs on the Western Slope, and of course tighter rules around immigrant employees. How will this shortage affect the high quality of service our guest and owners demand? We will have to see how that plays out.

After the incredible banner years of 2004, then 2005, and now an even more astounding 2006, it seems that we are still **poised for a slowdown.** As 2006 closes, the frenzy in the market seems over, but it is difficult to know if it is really over or it is just a seasonal lag. I suspect it is probably the latter. As a general statement, I do not expect appreciation to be nearly as strong next year, although I am not expecting it to cease either. I also expect that days on the market will lengthen for most property types.

I expected in 2006 to see some leveling in prices, but that did not happen. Appreciation was dramatic and exceeded the prior 2 banner years. But, as 2007 unfolds, I still expect to see some leveling in prices, and we almost certainly will not see a year like 2006 in volume. Most of the brokers we spoke with feel the same way, but it is difficult to know whether the indicators are solidly pointing this way or it is just a gut reaction and wishful thinking. The exception, where we will probably still see strong price increases, is the very high end, both exceptional lots and large, outstanding houses. I think we will see more sales of $20,000,000+ houses than we have ever seen before and we will finally see more sales of high quality product over $2,000/SF. On the other hand, we now have a 3 year supply of $10,000,000+ houses. Statistically this is an area of potential weakness, but the reality is that these are also the buyers that are the least price sensitive.

Although the slowing national market for housing, our generally limited supply, sticker shock and a definitive sellers market are signals that the market could slow, I do not think that is going to happen for several reasons. First, the amount of wealth in the hand of maturing baby boomers is astounding and with the wide reaching changes underway in both Aspen and Snowmass we are well positioned to compete. Second, interest rates remain low, and have trended down in the last year. 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. Finally, I expect that many of the new fractional buyers that have been introduced to our market will move up and buy whole ownership product.

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.

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