

MONTHLY ECONOMIC SUMMARY

A Monthly Summary of Economic Conditions
in Metro Denver

(Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson Counties)

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MONTHLY ECONOMIC SUMMARY OF METRO DENVER

The following report presents a comprehensive analysis of business and economic conditions currently prevailing in the seven-county metro Denver area, including Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties. The data in this report is grouped into four main categories: labor and employment; the consumer sector; residential real estate; and commercial real estate. The most recent statistics currently available are used, including the most recent monthly or quarterly data, the previous month or quarter, and a comparison of annual trends with the previous year. In addition, the report includes annual averages from five- and ten-years previous so that current data may be compared to historical trends.

Notable Rankings

- ◆ Denver ranked 23rd out of 50 cities in fiscal fitness according to a new survey by State Farm Insurance. The survey looks at account participation in retirement plans, savings rates, life insurance coverage and healthy lifestyles. Denver residents ranked towards the top for physical health but near the bottom for savings compared with income. Salt Lake City, Portland and Tampa-St. Petersburg-Clearwater, FL topped the list.
- ◆ Boulder and Thornton crossed the 100,000 population mark as of January 1, 2004 according to population estimates by the Denver Regional Council of Governments. Metro Denver now boast eight cities with populations greater than 100,000 as Boulder and Thornton join Arvada, Aurora, Centennial, Denver, Lakewood and Westminster.
- ◆ Metro Denver grew 1.6% in 2003, considerably less than the average annual rate of 3.8% experienced between 1995 and 2000 but still faster than the national average. The Denver Regional Council of Governments estimates that metro Denver is home to 2.61 million residents, an increase of almost 200,000 since the 2000 Census. Natural growth (births less deaths) accounted for the addition of about 25,000 people in the last year while net migration (new residents moving into the region minus residents leaving) accounted for 16,250 new residents. Net migration levels continue to be significantly lower than the late 1990s levels of around 40,000 people.
- ◆ Denver and Boulder are the most desirable communities to live according to a new survey by the Scripps Survey Research Institute Center at Ohio University. Survey participants were asked to identify in which of 26 cities they would be willing to live. Fifty-three percent said they would be willing to live in Denver and 51% said they would be willing to live in Boulder. Detroit ranked at the bottom with only 16% indicating that they would be willing to live there.
- ◆ Venture capital funding in Colorado decreased 9.7% while funding nationwide increased 17%, according to the second quarter 2004 MoneyTree venture capital survey. National funding in the second quarter of \$5.6 billion in 761 deals was the highest in two years. Colorado funding in the second quarter included \$84 million in 13 venture deals. The largest amount of funding in Colorado went to Replidyne Inc., a Louisville-based developer of new antibiotics that received \$33 million. The second largest deal went to another Louisville-based company, Zenodata Corp., which received \$10.5 million to bolster its activities as a technology provider to financial firms. Colorado venture capital funding is down 65% from the second quarter of 2003.

Labor and Employment

Many analysts are forecasting that the national economy will grow at its fastest pace in twenty years in 2004. Economic growth is measured by gross domestic product (GDP), which measures the value of all goods and services produced in the United States. Still, GDP growth slowed in the second quarter of 2004 with advance estimates indicating an annual average growth rate of just 3.0%, below the 3.8% level that most analysts expected. GDP growth slowed due to weak consumer spending, especially on big-ticket items such as automobiles. On the other hand, business investment increased a solid 8.9% due to increases in sales of equipment and software.

The economic recovery continues in Colorado and metro Denver. Several local business and economic indexes reveal that economic gains are more consistent and are gaining momentum:

- ◆ The Vectra Bank Colorado Small Business Index fell to 92.1 in June, down from a revised 93.4 in May. The reason for the decline is actually a positive for Colorado as the index declines as unemployment declines. This is because lower unemployment rates make it more difficult for small businesses to hire workers, a negative influence in this index. The national index, on the other hand, increased from 102.9 in May to 107.1 in June due to impressive U.S. economic growth.
- ◆ The Colorado service economy index continued to indicate expansion in June. Although the index in June slipped to 57.15, values greater than 50 indicate that the service economy is growing. According to the index produced by the University of Colorado at Denver Business School, high production levels and a rise in new orders should result in continued expansion in the months ahead.
- ◆ The Leading Index for metro Denver released in July increased to 100.0, and has demonstrated fairly steady growth since January. This index, compiled by Development Research Partners, is said to be a predictor of economic activity six to nine months in the future. The Leading Index was buoyed by an increase in single-family construction activity, rising average manufacturing hours, falling unemployment claims, and the improved hiring outlook. The Historic Index, which is a measure of metro Denver's growth rate, slipped slightly to 128.7. Due to the rising Leading Index, expect the Historic Index to start to rise in the months ahead.
- ◆ Colorado's manufacturing economy expanded in June according to the Front Range Purchasing Managers Index, the fifth consecutive month of expansion. The index surged to 63.9 from 58 in May, growing at the fastest rate this year. In this index, which is based on a survey of Front Range manufacturers compiled by the University of Colorado at Denver, a score above 50 indicates growth. The national index expanded at a slightly lower rate, reaching 61.1 in June. The national index has not been below 50 since April 2003.
- ◆ The business conditions index for Colorado, Utah and Wyoming fell slightly in July due to inflation concerns, falling from 60.4 in June to 57.3 in July. Still, in this monthly survey by Creighton University, an index greater than 50 indicates an expanding economy over the next three to six months.
- ◆ Colorado business leaders remain optimistic about the economic outlook for Colorado and the national economies, according to Compass Bank's Colorado Business Leaders Confidence Index for the third quarter of 2004. The overall index increased from 64.2 in the second quarter to 66.1 in the third quarter. Numbers above 50 suggest expansion in the survey conducted by the Leeds School of Business at the University of Colorado.
- ◆ The outlook for Colorado technology firms continues to be positive for the second half of 2004, according to the Colorado Tech Index by ccintellect and the Denver Business Journal. In the first half of 2004, 54% of the firms surveyed reported an increase in employment. This figure rose to 61% projecting employment increases in the latter half of this year, with employment gains expected across all job types.

Total nonfarm employment in metro Denver rose by 8,200 positions in June, a 0.6% increase over the previous month. The increase marks the fourth consecutive month of employment gains

in the metro area. The largest gains occurred in the Construction, Transportation/Warehousing/Utilities, and Leisure/Hospitality sectors. State government employment posted a large decline due to public education employment reporting methods. While the June 2004 employment level is slightly greater than June 2003, the average year-to-date employment level is down 0.7% from the same time last year.

The employment situation continues to improve at the state level as well. Average monthly employment through June 2004 is now roughly equal to the first six months of 2003. Colorado and metro Denver employment growth rates continue to lag the nation which is currently posting a 0.6% employment growth rate.

A recent Federal Deposit Insurance Corp. employment forecast blames weakness in telecommunications, manufacturing and the airline industry for the lag in Colorado's economic recovery. While this forecast says that Colorado will not reach peak employment until 2005 and that metro Denver may not see an employment turnaround until 2006, current statistics tend to reveal a quicker return to positive employment trends.

Nonfarm Wage & Salary Employment (000s, not seasonally adjusted)

	Month of Jun-04 (p)	Month of May-04	Month of Jun-03	Year-to- Date Average 2004	Year-to- Date Average 2003	Year-to- Date Average % Change	Annual Growth Rate 1999	Annual Growth Rate 1994
Total Denver Metro	1,311.5	1,303.3	1,310.9	1,288.1	1,297.0	-0.7%	3.9%	4.3%
Natural Resources & Mining	5.4	5.4	5.1	5.3	5.1	5.3%	-12.7%	-2.8%
Construction	83.0	80.4	89.0	79.4	85.5	-7.2%	12.3%	8.5%
Manufacturing	90.2	89.8	91.2	89.7	91.7	-2.2%	-1.5%	0.8%
Wholesale & Retail Trade	203.9	202.4	203.0	201.7	202.3	-0.3%	3.2%	5.5%
Transp., Warehousing & Utilities	52.7	51.1	49.7	50.8	51.0	-0.3%	3.5%	3.4%
Information	62.0	62.1	64.2	62.5	65.0	-3.9%	12.4%	13.8%
Financial Activities	106.6	105.8	106.7	106.7	105.3	1.3%	3.8%	5.5%
Professional and Business Services	208.3	206.2	204.2	199.0	200.4	-0.7%	5.9%	4.9%
Education & Health Services	130.3	130.7	128.7	130.9	127.9	2.4%	1.2%	3.5%
Leisure and Hospitality	129.1	126.2	128.7	121.8	122.2	-0.3%	4.6%	5.3%
Other Services	49.1	48.5	49.6	48.5	48.9	-0.9%	2.1%	5.9%
Government	190.9	194.7	190.8	191.9	191.8	0.0%	1.4%	0.3%
Federal Government	32.3	32.2	32.3	32.3	32.3	-0.1%	-1.5%	-4.5%
State & Local Government	158.6	162.5	158.5	159.6	159.5	0.0%	2.1%	1.9%
Colorado	2,180.4	2,158.7	2,166.7	2,141.5	2,141.8	0.0%	3.6%	5.1%
United States	132,359	131,875	130,830	130,334	129,531	0.6%	2.4%	3.1%

Source: Colorado Department of Labor and Employment, Labor Market Information. (p)=preliminary

Several major industry merger and purchase announcements were made throughout the month of July. First, two venture capital firms plan to purchase ICG Communications for \$6.3 million cash. ICG Communications is a high speed communications provider based in Arapahoe County and is facing a second bankruptcy. ICG plans to cut 23% of its workforce, or a total of 185 jobs, of which 72 will be lost in Colorado. It is undecided whether the ICG headquarters will remain in Colorado.

Second, Golden-based Adolph Coors Company and Molson Inc. of Canada announced their merger in late July, making the company the fifth-largest brewer worldwide. The combined

company will keep dual headquarters in Golden and Montreal and stock shares will trade on both the New York and Toronto stock exchanges. Executives expect to gain from cost savings resulting from a combined brewery network, consolidated administrative functions and more efficient procurement.

Third, Boulder-based Spyder Active, a ski-apparel company, was acquired by one of the nation's largest private equity firms, Apax Partners Worldwide, LLP. Under Apax, Spyder will branch out to other sports beyond skiing and snowboarding. Spyder sales have grown 40% each year for the past three years.

On the downside, Lowe Alpine, a backpack and outdoor clothing manufacturer, closed its Boulder operations in July after 35 years. The company is moving the entire operation to New Hampshire, the new owner's hometown. Lowe was acquired by Asolo Co. in 2002. Maxtor Corp. of Longmont plans to cut 130 jobs at its Longmont plant. The job loss is due to a company wide cutback of 400 to 500 jobs at its three plants in Longmont, CO, Milpitas, CA and Shrewsbury, Mass. The recent cuts follow the loss of 350 Maxtor jobs at the Longmont plant last year.

While further job cuts throughout metro Denver are not out of the question, the most recent Manpower Employment Outlook Survey reveals increased hiring trends. For the July to September period, 30% of the 16,000 U.S. employers surveyed said that they plan to add workers. This was a slight increase from last quarter when 28% indicated that they would be adding employees. Further, only 6% of the employers expect to cut jobs while about 59% expect no change in their employment level.

Hiring expectations in Denver are even more bullish than the national level. About 36% of the companies report hiring plans for the July to September period, up substantially from last quarter when only 14% planned to add workers. Similar to last quarter, only 2% of the companies indicated that staff decreases are anticipated. About 60% of the survey respondents expect no change in the number of workers.

On an industry basis, new job opportunities appear best in construction, manufacturing, transportation/public utilities, wholesale/retail trade, finance/insurance/real estate, and services. Employers in education plan to reduce staffing levels, while public administration is expected to remain unchanged.

Employment Outlook Survey

	Quarter 3 2004	Quarter 2 2004	Quarter 3 2003	Year-to- Date Average 2004	Year-to- Date Average 2003
Percent of Companies Hiring	36%	14%	15%	22%	17%
Percent of Companies Laying Off	2%	3%	20%	7%	18%
Percent of Companies No Change	60%	75%	46%	62%	53%

Source: Manpower Inc.

The unemployment rate in metro Denver increased to 5.3% in June after declining for five months in a row. Still, the rate is down significantly from last year when the June 2003 rate stood at 6.6%. At a county level, Denver and Adams County reported the highest levels of unemployment of 6.3% and 6.1% respectively. Douglas County posted the lowest level of unemployment in the seven-county metro area with only 3.7% of its labor force unemployed. For the year, metro Denver's unemployment rate of 5.4% is between the state's average rate of 5.3% and the national rate of 5.8%.

Labor Force Statistics
(000s, not seasonally adjusted civilian labor force)

	June 2004 (p)		2004 YTD Average		2003 YTD Average		1999	1994
	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Annual Average Unemployment Rate	Annual Average Unemployment Rate
Metro Denver	1,455.1	5.3%	1,430.2	5.4%	1,413.2	6.4%	2.4%	3.9%
Adams County	205.8	6.1%	202.4	6.4%	199.7	7.3%	2.7%	4.2%
Arapahoe Cnty	299.1	5.1%	293.5	5.2%	289.6	6.1%	2.1%	3.5%
Boulder Cnty	176.7	4.8%	175.1	4.7%	174.6	6.2%	2.6%	3.7%
Broomfield Cnty	24.2	5.1%	23.7	5.3%	23.4	6.2%		
Denver County	308.6	6.3%	303.3	6.6%	299.5	7.5%	3.1%	5.0%
Douglas Cnty	123.5	3.7%	121.1	3.8%	119.6	4.8%	1.4%	2.5%
Jefferson Cnty	317.1	4.8%	311.0	4.9%	306.7	5.8%	2.2%	3.4%
Colorado	2,545.9	5.2%	2,486.5	5.3%	2,451.2	6.3%	2.9%	4.2%
United States	148,478	5.8%	146,691	5.8%	146,151	6.2%	4.2%	6.1%

*Broomfield County was formed in November 2001 from parts of Adams, Boulder, Jefferson, and Weld counties.

Source: Colorado Department of Labor and Employment, Labor Market Information. (p)=preliminary

First time unemployment insurance claims in metro Denver increased in June to 5,073. Claims at the state level also increased, up from 10,227 in May to 10,603 in June. This increase in June is consistent with the increase in the unemployment rate. Still, the average number of new unemployment insurance claims during the first six months of the year remains 22.6% below last year's average.

First Time Unemployment Insurance Claims

	Month of Jun-04	Month of May-04	Month of Jun-03	Year-to-Date Average 2004	Year-to-Date Average 2003	Year-to-Date Average % Change	Annual Average 1999
Metro Denver	5,073	4,722	7,012	5,970	7,715	-22.6%	3,801
Colorado	10,603	10,227	13,831	12,670	15,772	-19.7%	7,857

Source: Colorado Department of Labor and Employment, Labor Market Information.

Consumer Sector

May retail statistics for metro Denver have not yet been released, so this report repeats April retail data. *Total retail sales fell from March to April in a typical seasonal pattern, but year-to-date activity is substantially stronger in 2004 than 2003. Retail activity totaled \$5.0 billion in April, bringing total consumer activity for the year to \$20.2 billion. The 6.2% increase for the year is the strongest increase in retail activity since the year 2000.* The strongest gains are occurring in Adams County (+13.2%) and Douglas County (+18.9%). At the state level, all industry retail sales were up 5.3% year-to-date.

The Commerce Department shows national retail sales dropped 1.1% in June, the largest decline in 16 months. The drop was larger than anticipated and comes on the heels of an even better than expected 1.4% increase in May. A 4.3% drop in automobile sales was the major drag on activity. All other sales slipped by only 0.2% in June after factoring out automobile sales. Other sectors showing declines were sales at clothing stores, department stores, food and beverage stores, gasoline stations and bars and restaurants. Among the sectors posting gains were furniture stores, electronics and appliances, building and garden supplies, health and beauty, sporting goods, books and music stores. The decline in retail activity was blamed on bad weather, the lingering effects of high energy prices and a slowdown in growth of the nation's payrolls.

Total Retail Sales (\$000s)

	Month of Apr-04	Month of Mar-04	Month of Apr-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual Growth 1999	Annual Growth 1994
Total Metro Denver	4,992,824	5,764,173	4,782,357	20,182,559	18,997,089	6.2%	7.0%	9.8%
Adams County	707,710	719,522	662,940	2,757,257	2,435,672	13.2%	10.5%	14.0%
Arapahoe County	1,070,510	1,310,200	1,091,942	4,481,063	4,388,842	2.1%	10.2%	5.9%
Boulder County	453,719	572,233	453,154	1,918,047	1,843,440	4.0%	4.1%	7.1%
Broomfield County	106,476	119,446	97,235	417,843	451,488	-7.5%		
Denver County	1,362,536	1,603,912	1,273,598	5,554,357	5,252,499	5.7%	2.2%	8.0%
Douglas County	391,041	415,188	328,249	1,460,696	1,228,916	18.9%	18.3%	29.0%
Jefferson County	900,832	1,023,672	875,239	3,593,296	3,396,232	5.8%	7.3%	15.2%
Colorado	8,240,002	9,779,745	7,890,217	33,781,188	32,082,107	5.3%	7.4%	11.6%

Source: Colorado Department of Revenue.

The consumer confidence index for the mountain region posted a large increase in June, rising from 99.3 in May to 121.5 in June. Consumer confidence on a national level also rose from 93.1 to 101.9 over the same time period. Confidence levels are about 20 points higher than they were at this time last year.

Consumer Confidence Index

	Month of Jun-04 (p)	Month of May-04	Month of Jun-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change
Mountain	121.5	99.3	93.9	107.1	83.6	28.1%
United States	101.9	93.1	83.5	93.8	75.5	24.2%

Source: The Conference Board. (p)=preliminary

Summer vacations contributed to an increase in hotel occupancy around metro Denver. June occupancy soared to 71.2% from 60.5% from May. Still, the occupancy rate was slightly below the June 2003 rate of 72.3%. The year-to-date average hotel occupancy rate of 59.6% is 2.9% higher than last year. As occupancy improves, the average hotel room rate should also track upwards. At this point, however, the average hotel room rate for the year of \$82 per night is 2.4% lower than the \$84 per night average posted last year.

Metro Denver Hotel Statistics

	Month of Jun-04	Month of May-04	Month of Jun-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Annual 1999	Annual 1994
Percent of Hotel Rooms Occupied	71.2%	60.5%	72.3%	59.6%	57.9%	2.9%	67.2%	72.2%
Average Hotel Room Rate	\$84.76	\$83.71	\$86.89	\$82.08	\$84.11	-2.4%	\$87.36	\$66.03

Source: Rocky Mountain Lodging Report.

Meeting planners from across the county attended the annual Meeting Professionals International convention/trade show in Denver last month. The meeting gives local cities, transportation companies, hotels and other facility representatives the opportunity to attract future meetings to the metro area. Rich Grant of the Denver Metro Convention & Visitors Center estimated that the meeting could result in \$100 million in future convention business.

Colorado's 45 casinos reported that adjusted gross proceeds – total wagers minus payouts – increased to \$711 million in fiscal year 2004. After the decline in revenue posted in fiscal year 2003, this meager 0.5% increase is welcome. Still, this increase is but a fraction of the growth that the industry experienced throughout the 1990s and into the year 2000. Gaming in Central City is expected to get a boost in November when the Central City highway is scheduled to open.

More than 3.8 million passengers traveled through Denver International Airport in May, making it the busiest month ever since the airport's opening in February 1995. The year-to-date passenger total of 17.4 million is an amazing 20.9% higher than last year's total at this time. An improving economy and the prevalence of discount airlines attributed to the increase; however, 2003 passenger travel numbers were stunted by the March blizzard.

Denver International Airport traffic grew faster than the national average during the first three months of 2004. Further, the Airports Council International reports DIA grew faster than any of the top 10 airports with the exception of New York's JFK International Airport. The Council cites Frontier's growth, falling fares and rising fuel prices at the pump as reasons behind the growth.

The introduction of United's Ted may have also played a part in the traffic growth. On the downside, Spirit Airlines will end its service to Denver in early September because "other markets have more potential for the low-fare carrier." Spirit began serving Denver in May 2002.

Record traffic at Denver International Airport is trickling down to retailers, hotels and other businesses at or near the airport. DIA vendor revenue for 2004 is likely to surpass the 2003 record level of \$145.5 million.

Denver International Airport was recently awarded the CMAA's National Construction Management Award for its 16,000-foot runway. The previous year's winner was responsible for the reconstruction of the Pentagon following the September 11, 2001 attack. The award judges construction quality, on-time performance and cost control.

Denver International Airport Passengers

	Month of May-04	Month of Apr-04	Month of May-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual 1999	Annual 1994
Number of Airline Passengers	3,825,322	3,736,080	3,029,380	17,430,105	14,419,305	20.9%	38,034,017	33,133,428

Source: Denver International Airport, Traffic Statistics.

After a brief increase in stock prices in June, all stock indexes retreated by the end of July. The Colorado stock index, which is a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state, fell to 1,267.74 in July. This represents a 4.6% decline in the index for the year, placing its performance on a level similar to the 5.8% decline in the NASDAQ and the 3.0% decline in the DOW. The S&P is outperforming the other stock indexes, posting just a 0.9% decline for the year.

Stock Market Indexes

	Month of Jul-04	Month of Jun-04	Month of Jul-03	YTD Return Jul-04	YTD Return Jul-03	YTD Return Jul-02
Colorado	1,267.74	1,271.90	1,269.62	-4.6%	22.8%	-17.8%
S&P	1,101.72	1,140.84	990.31	-0.9%	12.6%	-20.6%
NASDAQ	1,887.36	2,047.79	1,735.02	-5.8%	29.9%	-31.9%
DOW	10,139.71	10,435.48	9,233.80	-3.0%	10.7%	-12.8%

Sources: Development Research Partners; Center for Business and Economic Forecasting; Yahoo! Finance.

Residential Real Estate

Residential activity continues to increase as illustrated by the increasing number of sales. *Year-to-date home sales are up 19.4% through July 2004, with a total of 31,046 homes sold through July 2004 compared to 26,007 homes sold in the same period last year. The median price of a single-family home increased to \$244,800 in July from \$243,000 in the previous month. The median price for a single-family home is up 2.6% for the year while the median price of a condo is up 2.8%. Through July, there were 28,026 unsold homes on the market, a 4.7% increase from July 2003.*

Home purchases by single women now account for approximately 21% of all transactions, according to data from the National Realtors Association. Single women are the second largest segment of home buyers with married couples as the largest segment (59%). Single men purchased approximately 11% of homes and unmarried couples 8%. Narrowing income disparity and low interest rates are allowing the single women segment to grow. Further, single women accounted for 13% of second and vacation home buyers.

Home Sales Activity

	Month of Jul-04	Month of Jun-04	Month of Jul-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Ann Avg 1999	Ann Avg 1994
Home Sales (Under Contract)	3,644	2,950	2,719	21,367	17,797	20.1%	38,248	30,193
Home Sales (Closed)	6,229	5,164	4,639	31,046	26,007	19.4%	46,742	37,685
Unsold Homes on Market	28,026	28,043	26,764	28,026	26,764	4.7%	8,097	8,751
Average Sales Price-Single Family	\$296,939	\$293,566	\$287,103	\$288,392	\$274,861	4.9%	\$208,274	\$138,137
Average Sales Price-Condo	\$177,646	\$178,073	\$174,244	\$180,250	\$174,963	3.0%	\$122,562	\$80,276
Median Sales Price-Single Family	\$244,800	\$243,000	\$238,000	\$235,000	\$229,000	2.6%		
Median Sales Price-Condo	\$157,367	\$155,000	\$153,000	\$157,250	\$153,000	2.8%		

Sources: Brad Benson, Perry & Co.; Metrolist.

Residential activity continues to be strong across the country. The U.S. Department of Commerce estimates that housing, including construction, improvements and sales commissions, accounted for about 5% of the \$11 trillion U.S. economy in the first quarter of 2004. National sales of previously owned homes rose 2.1% in June to an annualized rate of 6.95 million homes, according to the National Association of Realtors. Sales increased in all regions including a 3.5% increase in the Midwest, 3.1% in the West, 2.8% in the Northeast and 0.4% in the South.

Data from the National Association of Realtors indicates that the median home price in metro Denver fell to \$231,800 in the first quarter of 2004, down by about \$1,300 from last quarter. Of the 127 metropolitan areas included in the National Association of Realtors first quarter 2004 statistics, metro Denver is the 23rd most expensive housing market. With the exception of Lake County, IL, all of the more expensive markets are located on the east or west coast. The most expensive housing market is the San Francisco Bay area, boasting a median home price of \$597,300. The markets most similar in price to metro Denver include Chicago (\$228,100), Sarasota, FL and Providence, RI (both at \$239,900).

Nationally, the median price of an existing single-family home fell to \$170,800 in the first quarter of 2004. Compared to last year at this time, metro Denver home prices are up 1.1% compared to the 6.5% national increase. The slowdown in home price appreciation in metro Denver is actually welcome news for economic development efforts as home affordability for potential employees is a key factor in company expansion and relocation plans.

Median Home Price (\$000s)

	Quarter 1 2004 (p)	Quarter 4 2003	Quarter 1 2003	Year-to- Date Average 2004	Year-to- Date Average 2003	Year-to- Date Average in YTD	Median 1999	Median 1994
Metro Denver	\$231.8	\$233.1	\$229.3	\$231.8	\$229.3	1.1%	\$171.3	\$116.8
United States	\$170.8	\$172.2	\$106.4	\$170.8	\$160.4	6.5%	\$133.3	\$109.8

Source: National Association of REALTORS. (p)=preliminary

Foreclosure activity increased from May to June led by large increases in Douglas County (+70%), Jefferson County (+26%) and Arapahoe County (+22%). Only Adams and Broomfield counties posted declines compared to last month. Foreclosure activity is 41.4% higher through the first half of 2004 compared to the same period last year. The smallest annual increases are occurring in Boulder and Broomfield counties while the largest increases are in Adams and Denver counties. The recently released Federal Deposit Insurance Corp. quarterly report stated that single-family mortgage closures and personal bankruptcies in Colorado are at the highest levels in ten years.

Real Estate Foreclosures

	Month of Jun-04	Month of May-04	Month of Jun-03	YTD Total 2004	YTD Total 2003	YTD Total % Change
Total Metro Denver	996	888	738	6,127	4,332	41.4%
Adams County	184	201	129	1,262	856	47.4%
Arapahoe County	257	210	152	1,458	1,011	44.2%
Boulder County	39	33	33	265	221	19.9%
Broomfield County	10	11	10	69	54	27.8%
Denver County	254	250	254	1,703	1,158	47.1%
Douglas County	85	50	65	436	318	37.1%
Jefferson County	167	133	95	934	714	30.8%

Source: CB Richard Ellis.

Total residential construction activity is up 14.1% for the first five months of 2004. There were 5,909 single-family detached permits pulled through the end of May. The most active residential product is two-family units, also known as single-family attached homes. Permit activity through May is up 26.5% for two-family units. There continues to be minimal apartment construction, with multi-family units down by 19.3%. The six multi-family permits in May were pulled in Boulder County. Experts expect the lack of multi-family construction to have positive impacts on the market.

Residential Building Permits

	Month of May-04	Month of Apr-04	Month of May-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Total 1999	Total 1994
Single-Family Units	1,533	1,397	1,082	5,909	5,171	14.3%	17,523	13,441
Two-Family Units	461	538	455	1,915	1,514	26.5%	2,883	1,355
Multi-Family Units	6	20	0	473	586	-19.3%	4,784	4,588
Total Units	2,000	1,955	1,537	8,297	7,271	14.1%	25,190	19,384

Source: Home Builders Association of Metropolitan Denver.

The metro Denver apartment vacancy rate dropped to 9.7% in the second quarter of 2004 according to the "Denver Metro Apartment Vacancy and Rent Survey." The apartment vacancy rate has dropped steadily since reaching a peak of 13.1% in the second quarter of 2003. While some of the improvement is due to seasonal factors, it appears that the worst is over for the apartment market. Average rental rates are starting to creep back upwards, with the average rate for all units rising to \$818 per month in the second quarter. Average rental rates vary throughout the metro Denver area, ranging from \$761 per month in Denver County to \$1,024 in Douglas County.

Apartment Statistics

	Quarter 2 2004	Quarter 1 2004	Quarter 2 2003	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Ann Avg 1999	Ann Avg 1994
Apartment Vacancy Rate	9.7%	10.5%	13.1%	10.1%	13.1%		4.5%	4.3%
Average Monthly Rental Rate (all units)	\$818	\$809	\$794	\$814	\$797	2.1%	\$717	\$527

Source: Denver Metro Apartment Vacancy and Rent Survey.

According to the latest apartment survey produced for the Colorado Division of Housing by Dr. Gordon Von Stroh, overall apartment market conditions throughout the state were relatively stable from September 2003 to the first quarter of 2004. The average monthly rent in 21 markets outside of metro Denver increased \$11 to \$762 per month. The state's average apartment vacancy rate fell to 11.0%, down from 11.1%.

Commercial Real Estate

Data from Costar Realty Information, Inc. indicates a relatively stable office market throughout metro Denver. The direct office vacancy rate held steady at 15.2% for the first half of 2004, while the vacancy rate with sublease space declined slightly from 17.3% to 17.2% in the second quarter 2004. Average lease rates for all classes of space slipped from \$16.99 per square foot to \$16.94 in the second quarter of 2004.

Overall, the office market is down compared to the previous year. Lease rates are down \$0.92 from this time last year and direct vacancy rates are up .08%. *Office construction has slowed from 2003 in response to the soft market conditions. Construction activity continues to slide in the region as about 800,000 square feet of office space was added in second quarter 2004 compared to 1,020,000 in the second quarter of 2003. About 370,000 square feet of new office space in 21 buildings is currently under construction, down from the previous quarter by 210,000 square feet and one building.*

A forecast by Jones Lang LaSalle puts the downtown office vacancy rate at 15.6% over the next three years and predicts the downtown market will fare better than the suburban market. The forecasted Southeast market vacancy rate of 19.2% ranks the metro Denver suburban market as the third highest vacancy rate behind Dallas and San Francisco. Downtown Denver ranks as the sixth highest in office vacancy, with a lower rate than Dallas, Houston, Los Angeles, Atlanta and Chicago. The report says both the southeast and northwest markets are more active than the downtown market due to growth in tech firms, health care and technical colleges.

Fuller and Company's Mid-Year Commercial Real Estate Report estimates that the Central Business District is currently posting an 18% vacancy rate including sublease space. Expanding mining and hedge fund firms will have positive effects downtown, but ownership changes in the oil and gas industry may cause some firms to leave. High end facilities downtown are commanding rental rates between \$23 and \$27 per square foot. However, the majority of properties are achieving rates under \$20 per square foot. Relatively low rental rates are allowing many firms to upgrade from lower to higher quality space.

The CBD saw only 18% (811,090 square feet) of the metro area leasing activity compared to the Southeast's 40% (2,054,165 square feet) of activity. Despite the Southeast's 340,000 square feet of positive absorption through June, the market continues to struggle from the tech woes with more than 7 million square feet available and a 24% vacancy rate.

Fuller & Company puts the overall office vacancy rate (including sublease space) at 17.4% and notes the decrease in available sublease space to 2.5 million square feet from more than 5 million square feet over the past 18 months. Sublease space experienced almost 600,000 square feet of positive absorption in the first half of 2004 while direct space experienced 400,000 square feet of negative absorption.

Lackluster market conditions have not scared off investors, especially in the Class A and B markets. In the first six months of 2004, there were 21 sales of buildings over 10,000 square feet.

Office Market Statistics

	Quarter 2 2004	Quarter 1 2004	Quarter 4 2003	Quarter 2 2003	Quarter 2 2002	Quarter 2 2001
Number of Buildings	4,115	4,108	4,097	4,085	4,029	3,846
Existing Square Feet (millions)	146.9	146.6	146.1	145.5	144.0	137.3
Vacant Square Feet (millions)	22.3	22.3	21.5	20.9	16.5	11.4
Vacancy Rate (Direct)	15.2%	15.2%	14.7%	14.4%	11.4%	8.3%
Vacancy Rate (With Sublet)	17.2%	17.3%	17.2%	17.0%	14.4%	10.9%
Average Lease Rate (per square foot)	\$16.94	\$16.99	\$17.36	\$17.86	\$20.06	\$21.09
New Construction Completed (year-to-date)	0.80 MSF, 18 Bldgs	0.48 MSF, 10 Bldgs	1.24 MSF, 39 Bldgs	1.02 MSF, 29 Bldgs	1.86 MSF, 49 Bldgs	3.72 MSF, 48 Bldgs
Currently Under Construction	0.37 MSF, 21 Bldgs	0.58 MSF, 22 Bldgs	0.82 MSF, 24 Bldgs	0.60 MSF, 18 Bldgs	1.51 MSF, 40 Bldgs	

Source: CoStar Realty Information, Inc. MSF=Million Square Feet

Data from CoStar indicates a stable industrial market in metro Denver supported by residential construction suppliers, vendors to public improvement projects like TREC and the downtown convention center, and logistics and service distribution companies. *The industrial vacancy rate inched up to 8.2% from 8.1% in the previous quarter. Similarly, the overall vacancy rate (including sublease space) grew to 9.2% from 8.9%. The average lease rate increased slightly to \$4.66 per square foot from \$4.62 in the previous quarter. About 1,220,000 square feet of industrial space came online in the second quarter compared to only 480,000 square feet in the first quarter. However, only 580,000 square feet of space is currently under construction, down from 1,260,000 square feet in the first quarter.*

The Fuller and Company Mid-Year Commercial Real Estate report also describes a stable industrial market with flat rental rates of \$3.50/SF NNN, slightly negative absorption and a slight increase in occupancy from mid-year 2003. Low interest rates are strengthening the investor/user market for industrial properties and in some cases, smaller, prime industrial space is out-pricing office product in the metro. Total year-to-date industrial investment sales volume for buildings exceeding values of \$1 million was about \$112 million, which is 20% higher than the same period in 2003. Fuller & Company predicts falling direct vacancy rates and small increases in rental rates in the second half of 2004 due to less construction and strong positive absorption triggering construction activity in early 2005.

Fuller and Company says very few developers are willing to build speculatively in the present market. Only 372,000 square feet of speculative projects were under construction in the first half of 2004 compared to between 3.5 and 4 million square feet per year in the late 1990s. The last year metro Denver saw less than 1 million square feet of speculative industrial space was in 1995.

Industrial Market Statistics

	Quarter 2 2004	Quarter 1 2004	Quarter 4 2003	Quarter 2 2003	Quarter 2 2002	Quarter 2 2001
Number of Buildings	5,301	5,292	5,284	5,271	5,220	5,112
Existing Square Feet (millions)	192.3	191.5	191.0	190.0	187.2	182.8
Vacant Square Feet (millions)	15.9	15.5	14.3	13.1	10.7	9.6
Vacancy Rate (Direct)	8.2%	8.1%	7.5%	6.9%	5.7%	5.2%
Vacancy Rate (With Sublet)	9.2%	8.9%	8.3%	7.7%	6.7%	5.8%
Average Lease Rate (per square foot)	\$4.66	\$4.62	\$4.71	\$5.14	\$5.55	\$5.40
New Construction Completed (year-to-date)	1.22 MSF, 14 Bldgs	0.48 MSF, 7 Bldgs	2.07 MSF, 38 Bldgs	0.98 MSF, 24 Bldgs	0.93 MSF, 19 Bldgs	1.03 MSF, 25 Bldgs
Currently Under Construction	0.58 MSF, 14 Bldgs	1.26 MSF, 17 Bldgs	1.20 MSF, 12 Bldgs	1.37 MSF, 12 Bldgs	0.99 MSF, 22 Bldgs	

Source: CoStar Realty Information, Inc. MSF=Million Square Feet

According to CoStar Realty Information, Inc, the metro Denver flex market is improving. The first quarter 2004 direct vacancy rate is 16.6%, down from 16.9% in the previous quarter. The vacancy rate with sublease space is also down from 18.9% in the first quarter to 18.7% in the second quarter. The second quarter average lease rate of \$8.24 is up from \$8.07 in the first quarter. About 90,000 square feet of new construction was recently completed and 30,000 square feet is currently under construction.

Flex Space Statistics

	Quarter 2 2004	Quarter 1 2004	Quarter 4 2003	Quarter 2 2003	Quarter 2 2002	Quarter 2 2001
Number of Buildings	1,140	1,138	1,138	1,132	1,110	1,060
Existing Square Feet (millions)	35.8	35.8	35.8	35.7	35.1	33.3
Vacant Square Feet (millions)	5.9	6.1	6.5	5.8	4.9	3.7
Vacancy Rate (Direct)	16.6%	16.9%	18.2%	16.4%	13.9%	11.0%
Vacancy Rate (With Sublet)	18.70%	18.90%	19.90%	18.1%	15.6%	12.2%
Average Lease Rate (per square foot)	\$8.24	\$8.07	\$8.02	\$8.67	\$8.79	\$9.68
New Construction Completed (year-to-date)	0.09 MSF, 3 Bldgs	0.0 MSF, 0 Bldgs	0.22 MSF, 10 Bldgs	0.13 MSF, 3 Bldgs	0.54 MSF, 12 Bldgs	1.25 MSF, 27 Bldgs
Currently Under Construction	0.03 MSF, 2 Bldgs	0.08 MSF, 3 Bldgs	0.05 MSF, 1 Bldgs	0.07 MSF, 5 Bldgs	0.34 MSF, 15 Bldgs	

Source: CoStar Realty Information, Inc. MSF=Million Square Feet

Data from the International Council of Shopping Centers indicates shopping center space in the state of Colorado grew 12% between 2000 and 2003 and that the number of actual shopping centers grew from 773 to 850 over the same time period. Since personal income increased only 1% during that period and mall visits held constant, there is concern that shopping space is outpacing income growth. Still, the first quarter 2004 Market Overview by Frederick Ross Company suggests a stable retail market through the first quarter 2004. The market absorbed 750,000 square feet of space as six new retail centers were completed in the first quarter totaling 728,227 square feet. They also report an additional 1.7 million square feet currently under construction.

The area known as Aurora's original downtown bounded by East 14th, East 16th, Geneva and Clinton Streets is undergoing a \$32.9 million renovation. The project, Florence Square, will feature 220 apartments, retail shops, restaurant, art gallery and an outdoor art walk. The area suffered from economic decline after the Army closed Fitzsimons Army Medical Center and Lowry Air Force Base in the 1990s. In addition, the Simon Property Group is spending \$100 million to renovate Aurora Mall. When completed by mid-2005, the mall will sport a new Dillard's department store, renovated food court and a more up-scale décor to attract more shoppers.

Monthly Economic Summary of Metro Denver

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↓	Employment increased 8,200 jobs from May to June, 4 th consecutive monthly increase
% Companies Hiring	↑	↑	36% of companies expect to add workers in 3 rd quarter of 2004; only 2% expect decrease
Unemployment Rate	↑	↓	June unemployment rate increased to 5.3%; metro Denver annual rate lower than nation
Initial Claims	↑	↓	Initial unemployment claims increase in June but are still 22.6% below last year
Total Retail Sales	↓	↑	Total retail sales up 6.2% in first four months of 2004; strongest gain since 2000
Consumer Confidence Index	↑	↑	Mountain region confidence increased in June and remains higher than national level
Hotel Occupancy	↑	↑	Hotel occupancy increased to 71.2% in June; average room rate about \$85 per night
DIA Passengers	↑	↑	Traffic up 20.9% thru May, strongest month ever in May with 3.8 million passengers
Colorado Stock Index	↓	↓	Stock index decreased in June and is down 4.6% for the first seven months of 2004
Dow Jones Industrial Average	↓	↓	Dow decreased in July and is now down 3.0% for the year
Home Sales (closed)	↑	↑	July home sales up and are 19.4% higher for year; average SF sold price 4.9% higher
Median Home Price	↓	↑	Median home price fell to \$231,800 in Q1 2004, but is 1.1% higher than last year
Foreclosures	↑	↑	Foreclosures up 41% through June and are at highest levels in ten years
Residential Building Permits (Total)	↑	↑	Total permits up 14.1% through May; multi-family units down 19.3%
Apartment Vacancy Rate	↓	↓	Vacancy rate drops to 9.7% in Q2 2004; avg rental rate increases to \$818 per month
Office Vacancy Rate	↔	↑	Vacancy rate with sublet now 17.2%; construction has slowed considerably
Industrial Vacancy Rate	↑	↑	Minor increase in rate to 8.2% from 1 st to 2 nd quarter; under 600,000 SF under construct
Flex Space Vacancy Rate	↓	↑	Vacancy rate with sublease decreased to 18.7%; little new construction
Positive Changes	9 of 18	11 of 18	