

# 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 Denver metropolitan 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

- ◆ Colorado ranked first among the 50 states and 10 Canadian provinces for “economic freedom,” according to a report by the National Center for Policy Analysis and Canada’s Fraser Institute. The rankings were based on such measures as government spending, government employment, transfer payments, taxation levels, and the flexibility of labor laws. Delaware, South Dakota, and Tennessee tied for first with Colorado.
- ◆ Venture capital funding in Colorado rose 11.9% in 2003, rising from \$555 million in 2002 to \$620.9 million in 2003. Colorado now ranks sixth among the 50 states in attracting venture capital investment dollars, up from ninth place in 2002. Nationally, venture capital declined 15% from \$21.4 billion in 2002 to \$18.2 billion in 2003. In the fourth quarter of 2003, software companies attracted 28.5% of the venture capital funds in Colorado and industrial/energy companies received 20.9% of the funds.
- ◆ Total personal income in Colorado increased 0.63% percent from the second quarter of 2003 to the third quarter of 2003, compared to the national increase of 1.1%. Indeed, this growth rate ranked 49<sup>th</sup> of the 50 states. Colorado has experienced minimal income growth due to two consecutive years of job losses. Nine of the ten states posting the strongest personal income growth rates are located west of the Mississippi, with Idaho posting the strongest increase of 2.2%.
- ◆ Rose Medical Center in Denver received the Distinguished Hospital Award for Clinical Excellence given by HealthGrades, a Lakewood, CO-based company that assesses hospitals nationwide. The winners were chosen based on performance in 26 clinical categories, including such measures as low mortality and complication rates. Other Colorado hospitals receiving the distinction included Poudre Valley Hospital in Fort Collins and Penrose-St. Francis Health Services in Colorado Springs.
- ◆ The Community College of Denver is the second-fastest growing two-year community college in the nation according to U.S. Department of Education figures for schools with enrollments between 5,000 and 9,999. CCD posted a 21.7% increase in its enrollment between Fall 2001 and Fall 2002.

### Labor and Employment

The final estimate of real Gross Domestic Product (GDP) for the third quarter of 2003 shows that the U.S. economy expanded at an annual rate of 8.2%, the fastest rate since 1984. The strong growth was achieved due to rapid increases in consumer spending as a result of the federal fiscal stimulus package and continued mortgage refinance activity; the fastest growth in more than a

year in exports; strong residential construction activity; and the fastest growth in business investment since the first quarter of 2000.

Advance estimates for real GDP growth in the fourth quarter of 2003 show that growth slowed to about a 4.0% annual pace. The economy grew by 3.1% for all of 2003, the strongest growth since 2000 and an improvement over the 2.2% annual increase achieved in 2002. National economic performance is expected to continue to improve in 2004, with a Bloomberg News survey of 62 economists pegging growth at 4.4% in 2004.

Economic conditions continue to solidify at the national level. In addition to the increase in gross domestic product described above, consumer spending increased at an estimated 5.6% in 2003, personal income steadily increased each quarter of 2003, home construction activity has continued at a brisk pace, and job layoffs are slowing. Improving national economic conditions are good news for Colorado. Indeed, several local business and economic indexes are starting to hint that Colorado may soon be invited to the recovery:

- ◆ The Vectra Bank Colorado Small Business Index increased to 84.2 in December, up slightly from a revised 83.3 in November. The national index grew to 94.3 from 93.7 in November. Colorado's index continues to under-perform the nation due to continued weakness in the tourism, telecommunications, and technology sectors.
- ◆ The Colorado service economy index contracted slightly for the fourth time in the past six months. The index fell to 44.05 in December, down from 51.33 in November. According to the index produced by the University of Colorado at Denver Business School, values over 50 indicate that the service economy is growing. The December decline was expected, as buying activity by purchasing managers tends to taper off during the holidays.
- ◆ The Leading Index for metro Denver released in February posted its first increase in six months, increasing to 99.8. This index, compiled by Development Research Partners, is said to be a predictor of economic activity six to nine months in the future. The variables included in the index are starting to move in more positive directions, although minimal single family home construction continues to be a drag on the index. The Historic Index, which is a measure of metro Denver's growth rate, increased slightly to 129.6 due to improving monthly retail sales tax collections.
- ◆ Colorado's manufacturing economy declined for the second consecutive month in December as manufacturers reported drops in production and employment. However, a portion of this decline may be attributed to typical seasonal patterns as holiday orders are complete. The Front Range Purchasing Managers Index fell to 45.6 in December, down from 47.6 in November. In this index which is based on a survey of Front Range manufacturers and is compiled by the University of Colorado at Denver, a score above 50 indicates growth.
- ◆ The overall index for Colorado, Utah and Wyoming finished 2003 at 61.3, up from 60.2 in November, according to the monthly survey by Creighton University in Omaha. Since an index of 50 indicates expansion, the good news is that this was the seventh consecutive month of growth based on responses from supply managers and business leaders. In Colorado alone, the index reached 66.1 in December. This was up from 59.3 in November and was the ninth consecutive month of values over 50.
- ◆ Expectations for the state economy improved seven points to 68.2, according to Compass Bank's Colorado Business Leaders Confidence Index for the first quarter of 2004. In the survey conducted by the Leeds School of Business at the University of Colorado, about 75% of the respondents predict the state economy will exhibit a moderate to strong increase. Further, 53% of the companies surveyed anticipate a moderate to strong increase in capital

spending in 2004. On the downside, only 47% expect stronger hiring patterns as companies remain cautious of adding workers.

*There were 1,400 jobs added to the metro Denver employment base in December, a welcome change following two months of decline. Still, total employment is down by 16,800 positions for the year, a 1.3% decline. Employment is down by 0.8% at the state level, signifying stronger performance than metro Denver but still lagging the U.S. which posted a decline of 0.3% in 2003. While most analysts agree that the worst is over for Colorado, a slow recovery in 2004 is anticipated.*

As has been the case during the last several months, only two of the 12 industry sectors are posting an average annual increase in employment in 2003. Employment in the Financial Activities sector is up 3.4%, representing a gain of 3,500 jobs. Education and Health Services employment is 3,300 jobs higher, a 2.6% increase.

Employment in the Education and Health Services sector is expected to continue its growth pattern in 2004 as three additional hospitals open for business, bringing the total to five new hospitals opened within one year throughout metro Denver. Given the number of jobs associated with hospital operations, it is surprising that the job growth is not even stronger. The more constrained job growth is due to supply issues as opposed to demand as a critical nursing shortage continues to impact the region.

Significant losses continue to plague the Professional and Business Services (-5,700 jobs), Information (-3,500 jobs), and Manufacturing sectors (-3,100 jobs), sectors that include various high tech industries. The Construction sector has also lost 3,800 jobs compared to last year due to the decline in residential and nonresidential construction. A national study by Challenger, Gray & Christmas Inc. revealed that there were 82,328 layoff announcements in the fourth quarter of 2003, up from 47,998 cuts in the third quarter. While this included 51% fewer job cuts overall in the tech sector in 2003, telecomm job losses continued to mount in the fourth quarter.

#### Nonfarm Wage & Salary Employment (000s)

	Month of Dec-03 (p)	Month of Nov-03	Month of Dec-02	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change	Annual Growth Rate 1998	Annual Growth Rate 1993
Total Metro Denver	1,315.7	1,314.3	1,331.3	1,313.2	1,330.0	-1.3%	3.8%	4.1%
Natural Resources & Mining	5.2	5.2	5.0	5.0	5.3	-4.8%	1.6%	-2.7%
Construction	85.1	87.6	90.8	90.3	94.1	-4.1%	12.6%	16.4%
Manufacturing	93.0	92.8	96.1	94.2	97.3	-3.1%	1.6%	-0.9%
Wholesale & Retail Trade	211.0	207.9	216.7	206.7	209.5	-1.3%	2.8%	3.3%
Transportation, Warehousing & Utilities	52.6	52.1	53.4	51.2	51.9	-1.4%	0.4%	3.7%
Information	66.7	66.8	69.0	67.6	71.0	-4.9%	14.9%	5.6%
Financial Activities	106.5	106.3	100.7	104.8	101.4	3.4%	6.2%	5.8%
Professional and Business Services	201.8	201.2	199.8	200.3	206.0	-2.8%	3.3%	4.8%
Education & Health Services	131.2	130.7	127.1	128.8	125.6	2.6%	2.3%	3.4%
Leisure and Hospitality	118.9	119.9	120.4	122.3	124.2	-1.6%	2.1%	6.4%
Other Services	49.0	48.6	49.8	49.4	49.8	-0.8%	2.2%	3.7%
Government	194.7	195.2	202.5	192.7	194.0	-0.7%	1.9%	2.1%
Federal Government	33.3	32.2	33.5	32.8	32.0	2.4%	0.3%	2.1%
State & Local Gov't	161.4	163.0	169.0	159.9	161.9	-1.3%	2.3%	2.1%
Colorado	2,175.2	2,167.8	2,195.3	2,166.3	2,183.7	-0.8%	3.9%	4.6%
United States	130,955	131,157	131,017	130,045	130,376	-0.3%	2.6%	1.9%

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

According to the national Manpower Employment Outlook Survey, about 13% of the employers expect to cut jobs while about 61% expect no change in their employment level for the January-March period. On the plus side, about 20% of the employers surveyed expect to add workers, down slightly from 22% last quarter. Somewhat contradictory information comes from the Conference Board, which announced that its gauge of help-wanted advertising rose in November for the first time since June, signaling that companies are beginning to hire.

Results were less optimistic for metro Denver. About 15% of the companies surveyed expect to add workers during the first quarter of 2004, similar to hiring plans reported for the first quarter of 2003. The percent of companies expecting to reduce their employment level increased to 17% following an amazing drop to only 2% in the fourth quarter of 2003. Reductions are expected to be a little heavier than this same time last year. The majority of the survey respondents, 51%, report no change in the number of workers. On an industry basis, new job opportunities appear best in non-durable goods manufacturing, transportation/public utilities, and finance/insurance/real estate. Job losses are anticipated in construction, wholesale/retail trade, and public administration.

#### Employment Outlook Survey

	Quarter 1 2004	Quarter 4 2003	Quarter 3 2003	Quarter 2 2003	Quarter 1 2003	Quarter 4 2002
Percent of Companies Hiring	15%	25%	15%	20%	17%	24%
Percent of Companies Laying Off	17%	2%	20%	20%	13%	7%
Percent of Companies No Change	51%	66%	46%	57%	57%	59%

Source: Manpower Inc.

*The unemployment rate in metro Denver increased in December to 5.8%, up from 5.7% in November 2003 and the same as the rate posted in December 2002. Still, the average annual unemployment rate for 2003 remained at 5.8%, just below last year's average rate of 5.9%.*

#### Labor Force Statistics (not seasonally adjusted civilian labor force)

	December 2003 (p)		2003 Year-to-Date Average		2002 Year-to-Date Average		1998 Annual Average	1993 Annual Average
	Total Labor Force (000s)	Unemployment Rate	Total Labor Force (000s)	Unemployment Rate	Total Labor Force (000s)	Unemployment Rate	Unemployment Rate	Unemployment Rate
Metro Denver	1,432.6	5.8%	1,429.5	5.8%	1,414.6	5.9%	3.2%	4.8%
Adams County	199.2	7.1%	197.9	6.8%	196.4	6.2%	3.6%	5.2%
Arapahoe Cnty	294.7	5.6%	294.0	5.7%	288.2	5.7%	2.7%	4.2%
Boulder Cnty	173.7	4.9%	174.9	5.3%	184.5	5.8%	3.3%	4.5%
Broomfield Cnty	24.8	5.2%	24.8	5.5%	20.5	4.3%	---	---
Denver County	306.9	7.0%	305.5	6.8%	299.9	6.9%	4.1%	6.1%
Douglas Cnty	117.1	4.1%	117.2	4.4%	115.5	4.9%	1.7%	3.3%
Jefferson Cnty	316.1	5.2%	315.2	5.1%	309.5	5.3%	2.8%	4.2%
Colorado	2,479.2	5.6%	2,472.9	5.7%	2,437.4	5.7%	3.8%	5.3%
United States	146,501	5.4%	146,510	6.0%	144,863	5.8%	4.5%	6.9%

\*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

The unemployment rate at the county level ranges from a low of 4.1% in Douglas County to a high of 7.1% in Adams County and 7.0% in Denver County. At the state level, the not seasonally adjusted unemployment rate remained at 5.6% in November and December. The national unemployment rate fell to 5.4%, down from 5.6% last month. The average annual unemployment rate for the state and metro Denver areas remains just below the national average of 6.0%.

Along with the increase in the monthly unemployment rate, there was an increase in the number of people filing unemployment insurance claims for the first time in December. First time unemployment insurance claims numbered 7,060 in December, up from 6,780 in November. Claims also increased at the state level, rising from 14,163 in November to 15,499 in December. Still, this indicator has shown gradual improvement throughout the last half of 2003, finally reaching an annual decrease of 0.3% in 2003 compared to 2002. This is a welcome change, as claims had been increasing rapidly on an annual basis for the last two years.

#### First Time Unemployment Insurance Claims

	Month of Dec-03	Month of Nov-03	Month of Dec-02	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change	Annual Average 1998
Metro Denver	7,060	6,780	7,339	7,193	7,215	-0.3%	3,935
Colorado	15,499	14,163	16,727	14,721	14,637	0.6%	

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

#### Consumer Sector

Year-to-date retail sales for 2003 continued to strengthen in October. Total retail sales for the first ten months of the year are 2.1% higher than the same period last year. Indeed, total retail sales have increased in four of the seven counties. Denver County is flat, whereas Broomfield County is down 4.0% and Douglas County is down 4.8%. At the state level, all industry retail sales through the first ten months are up 1.7%.

National data indicates that late sales activity boosted holiday sales to their highest level in four years as total retail trade and food services sales increased 5.6% in 2003. Online holiday sales grew to \$18.5 billion during the 2003 holiday season, a 35% increase from the 2002 season. The study by Goldman Sachs, Harris Interactive and Nielsen/NetRatings indicates that this was the third consecutive season of record growth in online purchases.

#### Total Retail Sales (\$000s)

	Month of Oct-03	Month of Sep-03	Month of Oct-02	Year-to-Date Total 2003	Year-to-Date Total 2002	Year-to-Date % Change	Annual Growth Rate 1998	Annual Growth Rate 1993
Total Metro Denver	4,934,374	5,654,918	4,779,756	50,967,023	49,935,080	2.1%	8.2%	11.7%
Adams County	658,611	749,808	670,962	6,704,736	6,503,376	3.1%	9.2%	10.9%
Arapahoe County	1,149,853	1,254,606	1,017,664	11,754,154	11,295,617	4.1%	6.8%	15.3%
Boulder County	474,166	592,043	466,663	5,089,652	4,890,995	4.1%	11.0%	16.9%
Broomfield County	97,509	113,899	125,474	1,114,296	1,160,522	-4.0%		
Denver County	1,372,709	1,527,755	1,281,520	13,717,447	13,715,666	0.0%	7.9%	10.6%
Douglas County	345,062	384,927	350,440	3,410,411	3,583,345	-4.8%	15.7%	29.5%
Jefferson County	836,464	1,031,880	867,033	9,176,327	8,785,559	4.4%	5.9%	4.9%
Colorado	8,135,732	9,416,344	7,993,385	85,042,089	83,607,407	1.7%	7.0%	9.6%

Source: Colorado Department of Revenue.

Four communities in the north metro Denver area are racing to develop regional retail centers to serve the growing north population. Forest City Enterprises recently announced plans to build a \$150 million retail center on 215 acres near the northwest corner of Interstate 25 and 144<sup>th</sup> Avenue. Three other retail developments planned for the north metro area include Jordon Perlmutter & Co.'s plan to build a two-million-square-foot, \$200 million mall at the southeast corner of I-25 and Colorado 7; a partnership between developer Craig Carlson and THF plans a mall just east of Brighton at I-76 and E-470; and Broomfield is working with Developers

Diversified Realty on plans for a 1.2-million-square-foot retail development on 273 acres at the northwest corner of I-25 and Colorado 7.

Consumer confidence in the Mountain region improved slightly in December. The Mountain Region is currently posting the second highest confidence level of the nine regions included in the monthly report by the Conference Board, behind the South Atlantic region. In contrast, the national Consumer Confidence Index retreated slightly in December as consumers feel that jobs are still hard to find in the recovering national economy.

#### Consumer Confidence Index

	Month of Dec-03 (p)	Month of Nov-03	Month of Dec-02	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change
Mountain	103.2	102.8	88.1	89.3	104.3	-14.4%
United States	91.3	92.5	80.7	79.5	96.6	-17.7%

Source: The Conference Board. (p)=preliminary

*Hotel occupancy fell for the fifth month in a row in December, falling from 53.5% occupancy in November to just 43.0%. Further, the December 2003 occupancy rate was lower than the same month last year when the rate was 45.0%. The average occupancy rate for the year of 59.5% is 1.3% lower than last year's average of 60.3%.*

The average hotel room rate declined by about \$8 in December, down to \$74.38. The average hotel room rate throughout all of 2003 was 1.5% lower than in 2002.

A similar study by Horwath Horizon Hospitality Advisors LLC/Montgomery Associates found that the hotel occupancy rate in metro Denver remained the same in 2002 and 2003 at about 61% occupancy. Further, the study found that the number of occupied room nights rose by about 73,000 from 2002 to 2002. *The metro Denver hotel market added about 116,000 available room nights in 2003 with the construction of 317 new hotel rooms. This was the lowest number of new hotel rooms added in a year since 1994 when the market expanded by just 50 rooms.*

#### Metro Denver Hotel Statistics

	Month of Dec-03	Month of Nov-03	Month of Dec-02	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change	Annual Average 1998	Annual Average 1993
Percent of Hotel Rooms Occupied	43.0%	53.5%	45.0%	59.5%	60.3%	-1.3%	70.0%	69.9%
Average Hotel Room Rate	\$74.38	\$82.33	\$74.96	\$84.79	\$86.05	-1.5%	\$87.52	\$63.19

Source: Rocky Mountain Lodging Report.

Other measures also point to sluggish tourism behavior. Skier visits throughout the state were down about 9% through December compared to the same period last year. Colorado resorts reported 2.67 million skier visits from October through December 2003 compared to 2.94 million visits during the same period in 2002.

The state's casinos reported a 3% decline in revenues in 2003, the first annual decline in the industry's 12-year history in Colorado. Gaming revenues fell from \$719.7 million in 2002 to \$698.3 million in 2003.

The arts and cultural organizations throughout metro Denver reported mixed results in 2003. Attendance at the four Tier I organizations in the Scientific & Cultural Facilities District (Denver Zoo, Denver Museum of Nature & Science, Denver Art Museum, and Denver Botanic Gardens) increased an estimated 4.1%, rising from 3.4 million visitors in 2002 to 3.54 million visitors in

2003. A sample of nine Tier II organizations found that attendance was down 6.8% in 2003. The SCFD provides funding for over 300 arts and cultural organizations located throughout metro Denver.

November 2003 passenger counts at Denver International Airport surged 14% higher than last November, pushing passenger totals for the first 11 months of 2003 5.2% higher than the same period last year. The average fare at Denver International Airport continues to fall with the expansion of low fare carriers at the airport. The average one-way fare in the first quarter of 2003 was \$176, down from \$201 during the same period in 2002. Air fares at DIA ranked as the 14<sup>th</sup> highest of the major airports in the country, down from a number six ranking during the first quarter of 2002.

#### Denver International Airport Passengers

	Month of Nov-03	Month of Oct-03	Month of Nov-02	Year-to-Date Total 2003	Year-to-Date Total 2002	Year-to-Date Total % Change	Total 1998	Total 1993
Number of Airline Passengers	2,880,948	3,168,824	2,524,103	34,176,343	32,490,690	5.2%	36,831,400	32,626,956

Source: Denver International Airport, Traffic Statistics.

According to the "January effect," a good January usually means a good year for the S&P 500 index. Over the past 50 years there have been only five significant exceptions to this rule, including last year when the S&P was down 2.7% in January but finished the year up more than 26%. Let's hope that the rule holds true for 2004, as the S&P gained 1.7% in January.

The Colorado stock index, a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state, posted a slim decline during the month while the NASDAQ increased 3.1%.

#### Stock Market Indexes

	Month of Jan-04	Month of Dec-03	Month of Jan-03	Year-to-Date Return Jan-04	Year-to-Date Return Jan-03	Year-to-Date Return Jan-02
Colorado	1,327.97	1,328.91	1,041.16	-0.07%	0.67%	1.09%
S&P	1,131.13	1,111.92	855.70	1.73%	-2.74%	-1.56%
NASDAQ	2,066.15	2,003.37	1,320.91	3.13%	-1.09%	-0.84%
DOW	10,488.07	10,453.92	8,053.81	0.33%	-3.45%	-1.01%

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

#### Residential Real Estate

A record 6.1 million previously owned homes sold in the U.S. in 2003, 5.5% higher than the previous record set in 2002 of 5.57 million home sales. The median price of an existing home rose 7.5% in 2003 to \$173,200, the largest increase since 1980.

The number of home sales closed in metro Denver in 2003 was roughly the same level as 2002. There were 47,966 properties closed in 2003, including 11,289 condominiums and 36,677 single-family homes, up 0.1% from a total of 47,919 properties closed last year. The total value of properties sold rose to \$12.2 billion in 2003, up 3.9% from \$11.7 billion in sales last year. In the first month of 2004, the number of homes closed was 6.4% lower than 2003. The number of properties under contract increased 5.6%, indicating that it is still a very active residential marketplace.

The average price of a single-family home increased 3.3% to \$277,856 throughout all of 2003. The average condo price in 2003 of \$175,215 was 4.2% higher than the 2002 average. *Home prices jumped dramatically in January 2004, with the average price of a single-family home rising to \$283,134 and the average condo price reaching \$189,826. However, analysts point out that the rising prices in January were more due to the mix of properties sold as opposed to pure price appreciation.* For example, Steve McGuire of RE/MAX Professionals noted that 43 condos in downtown Denver sold in January 2004 at an average price of \$409,000 compared to 32 sales averaging \$330,453 per unit last January.

*After declining for five months in a row, the number of homes on the market increased to 21,846 in January, up by about 220 units from last month. The inventory of unsold homes was 2.6% higher than January 2003.*

#### Home Sales Activity

	Month of Jan-04	Month of Dec-03	Month of Jan-03	Year-to-Date Total or Avg 2004	Year-to-Date Total or Avg 2003	Year-to-Date Total or Avg % Change	Total or Average 1999	Total or Average 1994
Home Sales (Under Contract)	2,235	1,705	2,116	2,235	2,116	5.6%	38,248	30,193
Home Sales (Closed)	3,290	3,585	3,515	3,290	3,515	-6.4%	46,742	37,685
Unsold Homes on Market	21,846	21,623	21,288	21,846	21,288	2.6%	8,097	8,751
Average Sales Price-Single Family	\$283,134	\$273,700	\$265,826	\$283,134	\$265,826	6.5%	\$208,274	\$138,137
Average Sales Price-Condo	\$189,826	\$182,034	\$173,839	\$189,826	\$173,839	9.2%	\$122,562	\$80,276

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

Median home price figures for the fourth quarter of 2003 will be released on February 12, 2004. The median home price in metro Denver increased to \$250,800 in the third quarter of 2003, 5.4% higher than last quarter and an average of 4.8% higher for the year. Nationally, the median price of an existing single-family home rose to \$177,000 in the third quarter of 2003, a 5.1% increase compared to last quarter. Home prices have increased an average of 7.9% nationally through the first three quarters of 2003.

Of the 126 metropolitan areas included in the most recent National Association of Realtors quarterly median home price report, the metro Denver area is the 15<sup>th</sup> most expensive housing market. 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 \$568,200. The markets most similar in price to metro Denver include Sacramento (\$252,800), West Palm Beach (\$249,300), and Chicago (\$249,100).

Comparing the third quarter of 2003 to the second quarter of 2003, six metro areas reported double-digit increases in median home prices whereas 18 metro areas reported a loss. Home prices in metro Denver increased 5.4% during this time period, the 38<sup>th</sup> highest rate of appreciation.

#### Median Home Price (\$000s)

	Quarter 3 2003	Quarter 2 2003	Quarter 3 2002	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change	Median 1998	Median 1993
Metro Denver	\$250.8	\$237.9	\$233.6	\$239.3	\$228.4	4.8%	\$152.2	\$104.7
United States	\$177.0	\$168.4	\$161.4	\$168.9	\$156.6	7.9%	\$128.4	\$106.8

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

There were a total of 9,422 foreclosures filed in 2003, a 44.1% increase over 2002 and the highest number since 1988. Still, to keep this level of activity in perspective, foreclosure activity represented about 1% of all homes in 2003 compared to 1988 when foreclosure activity represented 2.3% of all homes. A record 17,122 foreclosures were filed in 1988.

About 28% of the foreclosures have been filed in the City and County of Denver. In percentage terms, Jefferson County has experienced the smallest increase while Boulder County has suffered the greatest increase

#### Real Estate Foreclosures

	Month of Dec-03	Month of Nov-03	Month of Dec-02	Year-to- Date Total 2003	Year-to- Date Total 2002	Year-to- Date Total % Change
Total Metro Denver	909	790	626	9,422	6,539	44.1%
Adams County	208	203	145	1,899	1,313	44.6%
Arapahoe County	207	174	150	2,250	1,575	42.9%
Boulder County	41	38	22	483	291	66.0%
Broomfield County	11	9	4	110	73	50.7%
Denver County	223	157	167	2,495	1,742	43.2%
Douglas County	63	54	34	653	415	57.3%
Jefferson County	156	155	104	1,532	1,130	35.6%

Source: CB Richard Ellis.

There were 1.85 million home starts nationally in 2003, the best year for home building in about 25 years. In 1978, 2.02 million new homes were constructed. The national housing construction market was one of the main forces supporting the economy in 2003. Growth is expected to moderate slightly in 2004 but will still be quite strong based on the expectations that long-term mortgage rates may creep higher late in the year.

The total number of new housing units dropped 17.5% during the first eleven months of 2003, a ten-year low in residential construction activity. There were 11,534 single-family detached home permits issued through the end of November 2003 compared to 12,772 units permitted during the same period of 2002, a 9.7% decline. Single-family attached homes have also declined, dropping 15.2% to only 3,455 units. Of the 33 jurisdictions in the seven-county metro Denver area included in the report, only six have permitted more housing units this year than last. Of the six jurisdictions, only Commerce City and Erie have permitted at least 100 units more this year than last year at this time.

#### Residential Building Permits

	Month of Nov-03	Month of Oct-03	Month of Nov-02	Year-to-Date Total 2003	Year-to-Date Total 2002	Year-to-Date Total % Change	Total 1998	Total 1993
Single-Family Units	785	1,171	990	11,534	12,772	-9.7%	16,058	13,347
Two-Family Units	269	331	240	3,455	4,073	-15.2%	3,527	588
Multi-Family Units	161	568	839	1,858	3,586	-48.2%	7,794	1,951
Total Units	1,215	2,070	2,069	16,847	20,431	-17.5%	27,379	15,886

Source: Home Builders Association of Metropolitan Denver.

Apartment construction continues to fall dramatically, with only 1,858 permits issued in the first eleven months of the year, a 48.2% drop compared to last year. Considering that apartment vacancies are improving but remain at high levels, this decrease in apartment construction is the appropriate response to market conditions.

The apartment vacancy rate dropped to 10.9% in the fourth quarter of 2003, down from 11.1% in the third quarter. Seasonal influences usually lead to an increase in the apartment vacancy rate from the third quarter to the fourth quarter. This was the first time that the rate declined during this period of the year since 1990. This continuing decline in the apartment vacancy rate is welcome after reaching a peak of 13.1% vacancy in the first and second quarters of 2003.

The vacancy rate fell in four of the six counties included in the report (data for the newly-formed Broomfield County is not available in this report). Arapahoe County posted a slight increase from 10.6% to 10.8%. The vacancy rate jumped 2.5 percentage points in Boulder, rising from 7.1% to 9.6%. Douglas County continues to post the highest vacancy rate at 19.0%.

As the apartment vacancy situation improved, average apartment rental rates firmed. Following a decline in the average rental rate during the first and second quarters of 2003, rates held steady during the third and fourth quarters at about \$815 per month. The average rental rate for all apartment units was just 0.4% lower than the fourth quarter of 2002.

#### Apartment Statistics

	Quarter 4 2003	Quarter 3 2003	Quarter 4 2002	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change	Annual Average 1998	Annual Average 1993
Apartment Vacancy Rate	10.9%	11.1%	11.7%	12.0%	9.8%	22.4%	4.4%	4.3%
Average Monthly Rental Rate (all units)	\$815	\$815	\$814	\$806	\$809	-0.4%	\$636	\$454

*Source: Denver Metro Apartment Vacancy and Rent Survey.*

A national study by RealFacts, a Novata, CA-based apartment research company, estimated that the average apartment rental rate in Denver was \$854 in 2003. Denver had the 10<sup>th</sup> highest rent of the 19 western cities included in this study. The study found the highest average rental rate in San Francisco at \$1,544 per month and the lowest in Tucson at \$614 per month.

#### Commercial Real Estate

Moody's Investors Service released their annual report on the one-year outlook for office, retail, industrial, multi-family, and hotel markets in 59 cities across the country. Denver rated second to last in the third quarter 2003 rankings with an overall score of 40 (on a scale of 0 to 100, with 0 being poorest), which was a slight improvement from a score of 35 in the previous quarter. Denver scored a 44 in the downtown office market, 34 for the suburban office market, 25 in retail, a 50 in the apartment market, a 56 in the hotel market, and a 38 in the industrial market.

*The metro Denver office vacancy rate increased to 15.1% in the fourth quarter of 2003, up from a revised 14.8% in the third quarter of 2003. The rate with sublease space was relatively stable, rising from 17.4% to 17.5%. For the year, the direct vacancy rate rose 1.5 percentage points while the rate with sublease space was 1.0 percentage point higher.* Rising vacancy rates have been accompanied by falling average lease rates. The average direct lease rate for all classes of space was \$17.23 per square foot at the end of this year, down from an average of \$18.90 per square foot at the end of 2002.

The January 2004 report by Fuller & Company reveals similar results. Fuller & Company pegs the office vacancy rate with sublease space at 19.0% in 2003, up from 18.6% in 2002. While the market as a whole experienced negative net absorption of 350,000 square feet, nearly 850,000 square feet of sublease space was absorbed.

The southeast market saw its vacancy rate fall from 23.1% to 22.8% in 2003 as the submarket absorbed 250,000 square feet. Much of the absorption may be attributed to the purchase of the former Merrill Lynch campus by EchoStar, which relocated its headquarters from Littleton to Douglas County. Although the Central Business District submarket experienced negative net absorption of about 200,000 square feet and slightly higher vacancy rates than last year, the prospects in 2004 are bright as many tenants have already made space commitments downtown. For the first time in several years, the northwest market posted positive net absorption of 250,000 square feet with a 25.8% vacancy rate.

According to some of the metro area's top brokers, the commercial real estate market has hit bottom and slowly improving conditions are expected in 2004. The high vacancy rates combined with low average lease rates are attracting the attention of companies across the country. Further, investors remain bullish in Denver, with more than \$1.1 billion in office, industrial and retail properties purchased in 2003.

#### Office Market Statistics

	Quarter 4 2003	Quarter 3 2003	Quarter 2 2003	Quarter 4 2002	Quarter 4 2001	Quarter 4 2000
Number of Buildings	4,037	4,035	4,025	3,997	3,915	3,796
Existing Square Feet (millions)	145.2	145.2	144.9	143.9	141.1	133.5
Vacant Square Feet (millions)	21.9	21.5	21.1	19.6	14.4	9.8
Vacancy Rate (Direct)	15.1%	14.8%	14.6%	13.6%	10.2%	7.3%
Vacancy Rate (With Sublet)	17.5%	17.4%	17.2%	16.5%	13.3%	8.5%
Average Lease Rate (per square foot)	\$17.23	\$17.49	\$17.83	\$18.90	\$20.72	\$21.35
New Construction Completed (year-to-date)	1.24 MSF, 39 Bldgs	1.22 MSF, 36 Bldgs	1.02 MSF, 29 Bldgs	2.90 MSF, 82 Bldgs	7.75 MSF, 117 Bldgs	5.87 MSF, 109 Bldgs
Currently Under Construction	0.82 MSF, 24 Bldgs	0.59 MSF, 21 Bldgs	0.60 MSF, 18 Bldgs	1.39 MSF, 33 Bldgs	2.83 MSF, 65 Bldgs	

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

Office construction activity continues to be constrained in metro Denver. Slightly more than 1.2 million square feet of new office space was added in 2003, compared to 2.9 million square feet built in 2002 and 7.7 million square feet added in 2001. Only about 820,000 square feet of new office space in 24 buildings is currently under construction. Three of these buildings are 100,000 square feet or more, including a 100,000-square-foot building in the Belmar development in Lakewood, a 120,000-square-foot building at Fitzsimons, and a 186,000-square-foot building in Cherry Creek North in Denver.

The industrial vacancy rate continues to creep upwards. *Data from CoStar Realty Information, Inc. indicates a direct industrial vacancy rate of 7.9% in the fourth quarter of 2003, up from the 7.3% rate posted last quarter. The average lease rate slipped to \$4.84 per square foot, down from \$5.54 per square foot posted during the fourth quarter of 2002.*

While the 2.1 million square feet of industrial space completed so far this year is below last year's level of 2.8 million, the amount of square feet currently under construction surpasses last year. At the end of the fourth quarter, there was 1.2 million square feet of new industrial space under construction in 12 buildings compared to 870,000 square feet under construction at the end of 2002.

According to Fuller & Company, the industrial vacancy rate rose from 8.6% at the end of 2002 to 8.8% at year end 2003, with sublease space representing about 1% of the total vacancy rate. Further, the industrial market experienced negative absorption of about 740,000 square feet in

2003. Speculative construction totaled about 822,000 square feet in 2003, a steep decrease from the 3.3 million square feet of speculative product completed in 2000.

#### Industrial Market Statistics

	Quarter 4 2003	Quarter 3 2003	Quarter 2 2003	Quarter 4 2002	Quarter 4 2001	Quarter 4 2000
Number of Buildings	5,230	5,222	5,217	5,192	5,133	5,078
Existing Square Feet (millions)	189.1	188.3	188.0	187.0	184.1	181.6
Vacant Square Feet (millions)	14.9	13.7	13.2	12.0	9.7	9.8
Vacancy Rate (Direct)	7.9%	7.3%	7.0%	6.4%	5.3%	5.4%
Vacancy Rate (With Sublet)	8.7%	8.0%	7.8%	7.4%	6.2%	5.9%
Average Lease Rate (per square foot)	\$4.84	\$5.10	\$5.25	\$5.54	\$5.68	\$5.12
New Construction Completed (year-to-date)	2.07 MSF, 38 Bldgs	1.33 MSF, 32 Bldgs	0.98 MSF, 24 Bldgs	2.77 MSF, 49 Bldgs	2.22 MSF, 38 Bldgs	2.76 MSF, 58 Bldgs
Currently Under Construction	1.20 MSF, 12 Bldgs	1.52 MSF, 12 Bldgs	1.37 MSF, 12 Bldgs	0.87 MSF, 17 Bldgs	1.65 MSF, 16 Bldgs	

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

The direct vacancy rate in flex buildings continues to increase at a strong clip. The direct vacancy rate increased to 18.0% in the fourth quarter of 2003, up from 16.9% last quarter. The vacancy rate for flex space is nine percentage points higher than the market segment's healthiest point in the fourth quarter of 2000 when vacancy was just 9.0%. Construction activity is virtually non-existent in this market segment with only about 220,000 square feet completed in 2003 compared to 810,000 square feet built in 2002. The average lease rate of \$8.25 per square foot is down from last quarter, and has declined fairly consistently since the fourth quarter of 2001 when the average was \$9.73 per square foot.

#### Flex Space Statistics

	Quarter 4 2003	Quarter 3 2003	Quarter 2 2003	Quarter 4 2002	Quarter 4 2001	Quarter 4 2000
Number of Buildings	1,130	1,126	1,125	1,120	1,090	1,030
Existing Square Feet (millions)	35.9	35.8	35.8	35.7	34.6	32.0
Vacant Square Feet (millions)	6.4	6.1	5.8	5.4	4.7	2.9
Vacancy Rate (Direct)	18.0%	16.9%	16.2%	15.0%	13.6%	9.0%
Vacancy Rate (With Sublet)	19.8%	18.8%	18.0%	16.9%	15.4%	10.0%
Average Lease Rate (per square foot)	\$8.25	\$8.50	\$8.83	\$8.58	\$9.73	\$9.24
New Construction Completed (year-to-date)	0.22 MSF, 10 Bldgs	0.14 MSF, 4 Bldgs	0.13 MSF, 3 Bldgs	0.81 MSF, 27 Bldgs	2.45 MSF, 52 Bldgs	1.15 MSF, 39 Bldgs
Currently Under Construction	0.05 MSF, 1 Bldgs	0.06 MSF, 5 Bldgs	0.07 MSF, 5 Bldgs	0.25 MSF, 6 Bldgs	0.43 MSF, 15 Bldgs	

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

**Monthly Economic Summary of Metro Denver**

<b>Indicator</b>	<b>Monthly/ Quarterly Direction</b>	<b>Annual Direction</b>	<b>Summary of Recent Changes</b>
Nonfarm Employment Growth	↑	↓	Employment down 16,800 jobs in 2003; figures to be revised in March
% Companies Hiring	↓	↓	15% of companies expect to add workers in 1 <sup>st</sup> quarter of 2004; 17% expect decrease
Unemployment Rate	↑	↓	Dec unemployment rate increased to 5.8%; metro Denver annual rate lower than nation
Initial Claims	↑	↓	Initial unemployment claims increase in Dec; average monthly claims down 0.3% for year
Total Retail Sales	↓	↑	Retail sales continue to pick up, total retail sales up 2.1% through first ten months
Consumer Confidence Index	↑	↓	Mountain region confidence increased in Dec and remain at reasonable levels
Hotel Occupancy	↓	↓	Hotel occupancy decreased to 59.5% for year; average room rate about \$85 per night
DIA Passengers	↓	↑	DIA traffic up 5.2% in first 11 months of 2003; 36.8 million passengers to date
Colorado Stock Index	↓	↓	Stock index fell in Jan; does "January effect" apply to the Colorado index?
Dow Jones Industrial Average	↑	↑	Dow remained above 10,000 mark in Jan, posted gains of 1.7% for the month
Home Sales (closed)	↓	↓	Jan home sales closed down 6.4% and average single family sold price 6.5% higher
Median Home Price	↑	↑	Median home price increased 4.8% through Q3 2003 compared to 7.9% national increase
Residential Building Permits (Total)	↓	↓	Total permits down 17.5% so far in 2003; multi-family units decline 48.2% in 2003
Apartment Vacancy Rate	↓	↑	Vacancy rate still at high level but drops to 10.9% in Q4 2003; avg rental rate stabilizes
Office Vacancy Rate	↑	↑	Vacancy rate with sublet now 17.5%; construction has slowed considerably
Industrial Vacancy Rate	↑	↑	Rate continues to increase slowly and now at 7.9%; new construction slightly lower
Flex Space Vacancy Rate	↑	↑	Vacancy rate with sublease increased to 19.8%; little new construction
<b>Positive Changes</b>	5 of 17	6 of 17	