

MONTHLY ECONOMIC SUMMARY

A Monthly Summary of Economic Conditions

in the

Denver Metropolitan Area

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

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Prepared For:



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M E T R O
C H A M B E R O F
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MONTHLY ECONOMIC SUMMARY OF THE DENVER METROPOLITAN AREA

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

- ◆ The Boulder-Longmont metropolitan area boasts the highest percentage of college graduates of all metro areas with 250,000 people or more. According to the American Community Survey by the U.S. Census Bureau, 55.2% of the adult population in Boulder had a bachelor's degree or higher in 2002. The Boulder-Longmont metro area also has one of the highest percentages of high school graduates. About 93.6% of the adult population has a high school degree, ranking the region just behind Lincoln, NE (94.3%) and Madison, WI (93.7%).
- ◆ Colorado's population increased 1.1% to 4.55 million residents from July 2002 to July 2003, ranking the state 16th in the country. This was a dramatic change from the 2002 rankings when Colorado was the sixth fastest growing state in the country. Throughout the 1990s decade and into 2002, Colorado was consistently one of the top ten fastest growing states in the country. In-migration has historically been the major factor in Colorado's population increase. As people tend to move based on their perception of job opportunities, the lack of job growth throughout the state in recent years has caused a slowdown in migration activity.
- ◆ Denver International Airport earned a first place ranking for the healthfulness of its food offerings in the annual survey of the nation's 15 largest airports by the Physicians Committee for Responsible Medicine. According to the survey, 83% of the restaurants at Denver International Airport offer at least one healthful entrée.

Labor and Employment

The final estimate of Gross Domestic Product 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.

Most analysts believe that the economy is growing at a healthy, but slower, rate of about 4% in the fourth quarter. Combining these two quarters with performance in the first half of the year, gross domestic product is estimated to increase 3.2% in 2003. 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.

Several national economic reports indicate a much healthier economy at the end of 2003 than the start of the year. In addition to the increase in gross domestic product described above, consumer

spending increased at an estimated 5.5% for the year, personal income has 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. Still, Colorado continues to wait for an economic jump-start from the nation, as indicated by the inconsistent behavior described by several local business and economic indexes:

- ◆ The Vectra Bank Colorado Small Business Index increased to 85.9 in November, up slightly from a revised 85.3 in October. On the other hand, the national index fell to 93.2 from 94.1 in October. 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 the Denver metro area released in December remained at the same level for the sixth month in a row. This index, compiled by Development Research Partners, is said to be a predictor of economic activity six to nine months in the future. While the variables included in the index are starting to move in more positive directions, there is not yet enough momentum to propel the Leading Index upward. The Historic Index, which is a measure of the Denver metro area's growth rate, increased slightly to 129.1 due to improving monthly retail sales tax collections.
- ◆ 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.

Nonfarm employment in the Denver metro area contracted by 800 positions in November. Total employment is down by 16,700 positions for the first 11 months of 2003, a 1.3% decline. Employment is down by 0.8% at the state level, signifying stronger performance than the Denver metro area but still lagging the U.S. which is posting a decline of 0.3%. Forecasts for Colorado job growth in 2004 range from a low of 1.2% by the Colorado Legislative Council to a high of 2.3% by Xcel Energy's corporate economist. 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 3.2%, representing a gain of 3,300 jobs. Education and Health Services employment is 3,200 jobs higher, a 2.5% increase.

Significant losses continue to plague the Professional and Business Services (-6,400 jobs), Information (-3,600 jobs), and Manufacturing sectors (-3,100 jobs), sectors that include various high tech industries. The Construction sector has also lost 3,700 jobs compared to last year due to the decline in residential and nonresidential construction.

Nonfarm Wage & Salary Employment (000s)

	Month of Nov-03 (p)	Month of Oct-03	Month of Nov-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 Denver Metro	1,315.4	1,316.2	1,333.8	1,313.1	1,329.8	-1.3%	3.8%	4.1%
Natural Resources & Mining	5.2	5.2	5.1	5.0	5.3	-5.5%	1.6%	-2.7%
Construction	86.6	89.5	93.5	90.7	94.4	-4.0%	12.6%	16.4%
Manufacturing	92.7	92.9	95.5	94.3	97.4	-3.1%	1.6%	-0.9%
Wholesale & Retail Trade	208.8	204.8	213.9	206.4	208.8	-1.2%	2.8%	3.3%
Transportation, Warehousing & Utilities	51.5	51.3	53.0	51.0	51.8	-1.5%	0.4%	3.7%
Information	66.3	66.3	69.1	67.6	71.2	-5.1%	14.9%	5.6%
Financial Activities	106.6	106.5	100.8	104.7	101.4	3.2%	6.2%	5.8%
Professional and Business Services	201.3	202.3	200.9	200.1	206.5	-3.1%	3.3%	4.8%
Education & Health Services	130.6	130.6	127.3	128.6	125.4	2.5%	2.3%	3.4%
Leisure and Hospitality	121.0	122.2	121.6	122.7	124.6	-1.5%	2.1%	6.4%
Other Services	49.0	49.3	49.8	49.5	49.8	-0.7%	2.2%	3.7%
Government	195.8	195.3	203.3	192.5	193.2	-0.3%	1.9%	2.1%
Federal Government	32.4	32.4	32.6	32.8	31.9	2.8%	0.3%	2.1%
State & Local Gov't	163.4	162.9	170.7	159.8	161.3	-1.0%	2.3%	2.1%
Colorado	2,166.5	2,163.7	2,188.0	2,165.3	2,182.7	-0.8%	3.9%	4.6%
United States	131,198	131,055	131,428	129,968	130,317	-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 the Denver metro area. 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 the Denver metro area increased in November to 5.7%, up from 5.4% in October. Still, the rate posted this month is down from the 5.8% unemployment rate that

occurred in November 2002. This decline in the monthly rate was enough to keep the annual average unemployment rate at 5.8%, just below last year's average rate of 5.9%.

Labor Force Statistics
(not seasonally adjusted civilian labor force)

	November 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
Denver Metro	1,440.4	5.7%	1,429.2	5.8%	1,415.1	5.9%	3.2%	4.8%
Adams County	199.8	6.9%	197.8	6.8%	196.4	6.2%	3.6%	5.2%
Arapahoe Cnty	296.7	5.7%	293.9	5.7%	288.3	5.7%	2.7%	4.2%
Boulder Cnty	175.5	4.9%	175.0	5.4%	184.6	5.8%	3.3%	4.5%
Broomfield Cnty	25.0	5.4%	24.8	5.5%	20.5	4.3%	---	---
Denver County	307.9	6.7%	305.4	6.8%	300.0	6.9%	4.1%	6.1%
Douglas Cnty	117.8	4.1%	117.2	4.4%	115.5	4.9%	1.7%	3.3%
Jefferson Cnty	317.8	5.1%	315.1	5.1%	309.7	5.3%	2.8%	4.2%
Colorado	2,488.2	5.6%	2,472.3	5.7%	2,437.6	5.7%	3.8%	5.3%
United States	146,969	5.6%	146,510	6.0%	144,868	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 6.9% in Adams County and 6.7% in Denver County. At the state level, the not seasonally adjusted unemployment rate increased from fell from 5.2% in October to 5.6% in November. The national unemployment rate remained at 5.6%, the same level as last month. The average annual unemployment rate for the state and Denver metro area remain below the national average of 6.0%.

The number of people filing unemployment insurance claims for the first time decreased to 6,780 in November, down from 6,959 in October. Claims also decreased at the state level, falling from 14,544 in October to 14,163 in November. This indicator has been showing gradual improvement through the last half of 2003, finally reaching a point of no change in claims from 2002 to 2003 in the Denver metro area. This is a welcome change, as claims had been increasing on an annual basis for the last two years.

First Time Unemployment Insurance Claims

	Month of	Month of	Month of	Year-to-Date Average	Year-to-Date Average	Year-to-Date Average	Annual Average
	Nov-03	Oct-03	Nov-02	2003	2002	% Change	1998
Denver Metro	6,780	6,959	7,344	7,205	7,204	0.0%	3,935
Colorado	14,163	14,544	15,433	14,650	14,447	1.4%	

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. Preliminary same store retail sales indicate sales were up by about 4% compared to last year, but final figures will not be released until January 8th. In addition, ComScore Networks Inc. reported that online holiday sales were up nearly 30% from a year earlier. *It is estimated that total national retail sales increased an estimated 5.5% for all of 2003, the largest increase in three years.*

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 Total % Change	Annual Growth Rate 1998	Annual Growth Rate 1993
Total Denver Metro	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.

Looking forward, the Colorado Restaurant Association forecasts that restaurant sales throughout the state will increase 6.1% in 2004. While some restaurant owners feel that this forecast is too optimistic, any level of increase would be welcome as sales have been flat the past several years. The National Restaurant Association is even more aggressive in their forecast, expecting Colorado restaurant sales to increase by nearly 10% to \$6.5 billion.

The improvement in consumer spending activity is good news for the state budget. According to the December forecast released by the Office of State Planning and Budgeting, Colorado revenues are \$77 million above projections made in September. Revenues are coming in stronger than previously expected because of strengthening corporate income taxes.

Consumer confidence in the Mountain region slipped slightly in November, but still remains at some of the highest levels posted since the middle of 2002. 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 New England region. The Consumer Confidence Index rose nationally in November as consumers feel that a labor market turnaround is underway.

Consumer Confidence Index

	Month of Nov-03 (p)	Month of Oct-03	Month of Nov-02	Year-to-Date Average 2003	Year-to-Date Average 2002	Year-to-Date Average % Change
Mountain	102.1	104.9	94.2	87.9	105.8	-16.9%
United States	91.7	81.7	84.9	78.4	98.1	-20.1%

Source: The Conference Board. (p)=preliminary

Hotel occupancy fell for the fourth month in a row in November, but managed to post stronger performance than November 2002. The occupancy rate fell to 53.5%, below the October level of 61.8%. Still, this decline is consistent with the typical seasonal pattern of hotel occupancy falling throughout the latter half of the year following the peak summer season. The year-to-date occupancy rate is now only 0.6% below last year's level, continuing the monthly improvement in

annualized performance. The average hotel room rate increased in November 2003 compared to November 2002, with the year-to-date rate now just 0.1% below last year's average.

Denver Metro Area Hotel Statistics

	Month of Nov-03	Month of Oct-03	Month of Nov-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	53.5%	61.8%	50.8%	61.2%	61.6%	-0.6%	70.0%	69.9%
Average Hotel Room Rate	\$82.33	\$89.41	\$80.40	\$84.68	\$84.76	-0.1%	\$87.52	\$63.19

Source: Rocky Mountain Lodging Report.

Preliminary figures point to increasing hotel reservations and airline bookings for many of the state's ski areas this holiday season compared to last year. Early indications were that skier visits across the state were on par or surpassing the same time last season.

Displaying a typical seasonal pattern, the number of air passengers declined from October to November. However, November 2003 passenger counts 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.

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.

All of the stock indexes tracked in this monthly report ended the year at significantly higher levels than last year. This was a welcome change after three years of annual declines in the indexes. The Colorado stock index, a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state, ended the year about 26% higher than last December. The S&P 500 also increased by about 26%. The Nasdaq and the Dow both passed major milestones in December with the Nasdaq reaching 2,000 for the first time since January 2002 and the DOW passing 10,000 for the first time since May 2002. While analysts expect continued gains in 2004, they caution that price increases may not be as strong as 2003 as company expenses rise causing slower earnings growth.

Stock Market Indexes

	Month of Dec-03	Month of Nov-03	Month of Dec-02	Year-to-Date Return Dec-03	Year-to-Date Return Dec-02	Year-to-Date Return Dec-01
Colorado	1,304.48	1,276.39	1,034.20	26.13%	-20.01%	-5.60%
S&P	1,111.92	1,058.20	879.82	26.38%	-23.37%	-13.04%
NASDAQ	2,003.37	1,960.26	1,335.51	50.01%	-31.53%	-21.05%
DOW	10,453.92	9,782.46	8,341.63	25.32%	-16.76%	-7.11%

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

Residential Real Estate

The number of home sales closed finished the year at roughly the same level as last year, while the total value of the homes sold increased 3.9% over 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.

Single-family home appreciation averaged only 3.3%, with the average home price increasing to \$277,856. Single-family home appreciation rates have dropped for the last three years since posting a 15.1% increase in 2000. Condominium appreciation rates have also dropped since 2000 when prices rose 18.5%. The average condo price in 2003 of \$175,215 is 4.2% higher than last year's average. This was the second year in a row that national home appreciation rates have surpassed those posted in the Denver metro area.

The inventory of unsold homes declined for the fifth month in a row. There were 21,623 homes on the market as of the end of December, about 4.6% higher than last year at this time.

Home Sales Activity

	Month of Dec-03	Month of Nov-03	Month of Dec-02	Year-to-Date Total or Avg 2003	Year-to-Date Total or Avg 2002	Year-to-Date Total or Avg % Change	Total or Average 1998	Total or Average 1993
Home Sales (Under Contract)	1,705	1,916	1,685	29,703	30,089	-1.3%	40,916	34,101
Home Sales (Closed)	3,585	3,396	3,068	47,966	47,919	0.1%	45,951	35,864
Unsold Homes on Market	21,623	23,814	20,676	21,623	20,676	4.6%	10,352	7,711
Average Sales Price- Single Family	\$273,700	\$283,517	\$268,666	\$277,856	\$268,926	3.3%	\$185,785	\$125,647
Average Sales Price- Condo	\$182,034	\$175,292	\$169,159	\$175,215	\$168,226	4.2%	\$115,235	\$73,680

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

Home sales activity remained strong throughout 2003 due to the lowest mortgage rates since the 1950s. Low mortgage rates helped lure new buyers into the market, and prompted existing homeowners to refinance their mortgages. According to the Mortgage Bankers Association of America, U.S. homeowners refinanced a record \$2.2 trillion in mortgages in 2003, nearly double the amount of refinancing activity posted in 2002. Approximately \$40 billion of the refinance activity is thought to have occurred in Colorado. While the refinancing boom has helped to boost consumer spending in recent months, the downside is that job losses at mortgage companies, title companies, and the like are expected as refinance activity slows.

The median home price in the Denver metro area 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 Denver metro area is the 15th 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 the Denver metro area 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 the Denver metro area increased 5.4% during this time period, the 38th 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
Denver Metro	\$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

Total foreclosure activity declined 26% from October to November. Still, foreclosure activity is at its highest point in 15 years, with a total of 8,477 foreclosures filed through the end of November. At this time last year, just 5,913 foreclosures had been filed. On a positive note, the number of foreclosures in 2003 is dwarfed by the record 17,122 foreclosures filed in 1988.

About 27% 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 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 Denver Metro	754	1,020	517	8,477	5,913	43.4%
Adams County	203	157	91	1,691	1,168	44.8%
Arapahoe County	174	219	146	2,043	1,425	43.4%
Boulder County	38	40	28	442	269	64.3%
Broomfield County	9	9	6	99	69	43.5%
Denver County	157	434	113	2,272	1,575	44.3%
Douglas County	55	51	35	591	381	55.1%
Jefferson County	118	110	98	1,339	1,026	30.5%

Source: CB Richard Ellis.

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 Denver metro 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 remain at high levels, this decrease in apartment construction is the appropriate response to market conditions.

The apartment vacancy rate dropped for the first time since the first quarter of 2001, falling to 11.1% in the third quarter of 2003. This was a welcome decline following two quarters of 13.1% vacancy, the highest vacancy rates since the first quarter of 1987 when the rate reached 13.5%.

The vacancy rate fell in five of the six counties included in the report (data for the newly-formed Broomfield County is not available in this report). Only Jefferson County posted an increase in the vacancy rate, rising from 8.8% in the second quarter to 10.4% in the third quarter. Boulder County posted the steepest decline, falling from 11.9% to 7.1% as University of Colorado students snapped up available units upon returning to school in the fall. Douglas County continues to post the highest vacancy rate at 19.4% but also posted one of the steepest drops as the vacancy rate fell 4.3 percentage points.

As the apartment vacancy situation improved, average apartment rental rates firmed. Following two consecutive quarters of decline, the average apartment rental rate increased by nearly \$21 per month in the third quarter. However, the average rental rate masks the fact that many apartment communities are still offering substantial move-in bonuses such as free rent and free gifts. According to Dr. Gordon Von Stroh, the author of the study, the “economic vacancy” rose to 28.5% in the third quarter, up from 20.5% in the second quarter. Once the move-in bonuses are factored in, the average rental rate is actually down about \$54 per month compared to last quarter.

Apartment Statistics

	Quarter 3 2003	Quarter 2 2003	Quarter 3 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	11.1%	13.1%	9.4%	12.4%	9.1%		4.4%	4.3%
Average Monthly Rental Rate (all units)	\$815	\$794	\$808	\$803	\$808	-0.6%	\$636	\$454

Source: Denver Metro Apartment Vacancy and Rent Survey.

The apartment vacancy rate throughout Colorado fell from 11.6% in the first quarter of 2003 to 11.1% in the third quarter of the year, according to the semi-annual report by the Colorado Division of Housing. Vacancy rates ranged from a high of 32.8% in Lake County to a low of less than 3.0% in Alamosa and Salida. The average apartment rent throughout the state was \$776 per month, with average rental rates ranging from \$1,010 in Eagle County to about \$295 in the Fort Morgan/Sterling area.

Commercial Real Estate

The Denver metro 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 the Denver metro area. 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

Denver Metro Summary

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↓	↓	Employment down 16,700 jobs in Jan-Nov 2003 compared to same period last year
% Companies Hiring	↓	↓	15% of companies expect to add workers in 1 st quarter of 2004; 17% expect decrease
Unemployment Rate	↑	↓	Nov unemployment rate increased to 5.7%; Denver metro remains lower than nation
Initial Claims	↓	↔	Initial unemployment claims decrease in Nov; average monthly claims flat 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 decreased in Nov but remains at reasonable levels
Hotel Occupancy	↓	↓	Hotel occupancy decreased in Nov to 53.5%; average room rate just under \$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 increased in Dec to finish the year about 26% higher than last year
Dow Jones Industrial Average	↑	↑	Dow closed above 10,000 mark in Dec, 25.3% higher for the year
Home Sales (closed)	↑	↑	Home sales finish the year even with 2002; 5th straight monthly decrease in inventory
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 11.1% in Q3 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
Positive Changes	6 of 17	8 of 17	