

MONTHLY ECONOMIC SUMMARY

A Monthly Summary of Economic Conditions
in Metro Denver

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

Released November 2, 2004

Prepared For:



1445 Market Street
Denver, Colorado 80202

Researched and Compiled by:



Development Research Partners, Inc.
Patricia Silverstein
10184 W Belleview Ave, Suite 100
Littleton, Colorado 80127
www.DevelopmentResearch.net
(303) 991-0073 Patty@DevelopmentResearch.net

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

- ◆ Venture capital is slowly trickling back into the state. Venture capital investments in Colorado fell to \$97 million in the third quarter of 2004, down from \$121 million during the second quarter. Still, this does represent a slight improvement over the third quarter of 2003 when investments totaled \$96 million. The quarterly survey by PricewaterhouseCoopers also shows a decline in U.S. venture capital activity, falling to \$4.3 billion in the third quarter from \$5.9 billion in the second quarter.
- ◆ Commercial loan portfolios in Colorado grew at a 14.7% annualized rate in the second quarter of 2004 according to the Federal Deposit Insurance Corp. Anecdotal evidence suggests that loan demand continued at a strong rate in the third quarter as customers are feeling more confident about the direction of the economy.
- ◆ Colorado made the list of top places where corporate executives are looking to expand or relocate their operations for the first time since 2000. The list was compiled through a reader survey by *Plants Sites and Parks* magazine.
- ◆ The Denver Public Library slipped to a third place ranking in the annual Hennen's American Public Library Ratings. Denver's library system was rated tops in the country for three consecutive years. It lost its top rating due to recent budget cuts that have eliminated library positions, reduced library hours, and slashed book-buying budgets.
- ◆ Colorado has the lowest obesity rate of the 50 states plus the District of Columbia. About 16% of the adult population in Colorado is obese, earning the state a healthy last place ranking. Colorado also ranks last in adult-onset diabetes, impacting 4.7% of the adult population. According to the study by the Trust for America's Health, 119 million Americans are overweight or obese and cost the country \$117 billion annually on medical costs related to obesity.
- ◆ Slower in-migration trends into the state of Colorado have resulted in the lowest K through 12 student growth in a decade. The projected number of students for the 2004-05 school year is only 5,317 students higher than last year, a 0.7% increase. Significant growth or decline in the student population impacts a district's programs and facilities because school funding is tied to enrollment.
- ◆ While more high school students are better prepared for college, the National Center for Public Policy and Higher Education claims that few states have made gains in college enrollment and graduation over the last decade. The new study, *Measuring Up 2004: The National Report Card on Higher Education*, evaluates 10-year performance trends in each state in five areas of higher education: preparation, participation, completion, affordability, and economic and civic benefits. Colorado received A grades in preparation and benefits, but scored a D- in affordability due to the net college costs for low- and middle-income students to attend public two- or four-year colleges and universities representing about a third of their annual income. These institutions enroll 85% of students in the state.

General Economic Overview

National economic growth is most commonly measured by gross domestic product (GDP), which measures the value of all goods and services produced in the United States. Advance estimates of real (inflation-adjusted) GDP reveal that the economy expanded at a 3.7% annualized rate in the third quarter of 2004, up from 3.3% in the second quarter. GDP growth increased due to stronger consumer spending and an improvement in the trade balance. Business investment increased a solid 11.7% due to increases in sales of equipment and software.

Looking ahead, record oil prices and weaker-than-expected hiring since June will constrain growth in the final three months of 2004. A Bloomberg News survey of 63 economists predicts that the economy will expand 3.6% in 2005.

Despite strong GDP growth, the Composite Index of Leading Economic Indicators decreased 0.1% in September. This was the fourth consecutive month of decline in the index produced by The Conference Board. The index forecasts the general economy's health in the coming six to nine months. Analysts note that the decline has not been large enough or consistent enough to indicate an end to the current economic expansion.

Confident that the U.S. economy remains on a growth track, the Federal Open Market Committee (FOMC) of the Federal Reserve raised the target for the federal funds rate a quarter point in mid-September to 1.75%, the third increase this year. Most analysts expect yet another increase before the year-end. The federal funds rate, the Federal Reserve's primary tool in influencing economic activity, is the interest rate banks charge each other on overnight loans. The FOMC cites underlying productivity growth, healthy output levels and improved labor market conditions as motivations for the increase. The moves were a response to slightly elevated levels of inflation and the perception that the economy appears poised to resume stronger growth. The FOMC believes productivity growth will continue to support moderately growing output and employment levels.

According to the National Bureau of Economic Research, the United States economy emerged from recession in November 2001. This means that the current national economic expansion is now three years old. Economic recovery did not reach Colorado and the Denver metro area until the middle of 2004. Various indexes generally show that economic gains are more consistent and are gaining momentum in metro Denver, but the region still faces economic challenges.

- ◆ The Vectra Bank Colorado Small Business Index fell to 91.9 in September from a revised 92.1 in August due to rising interest rates. Although short-term interest rates remain at historically low levels, the Federal Reserve is expected to raise interest rates again by the end of the year. The national index also declined, falling from a revised 99.3 in August to 96.0 in September. The 100 level represents the benchmark year of 1997.
- ◆ The Colorado service economy index expanded for the seventh straight month in September. The index rose slightly to 57.21 in September, up from 53.12 in August. According to the index produced by the University of Colorado at Denver Business School, values greater than 50 indicate growth. The service sector makes up the bulk of Colorado's economy.
- ◆ The Leading Index for metro Denver released in October increased to 100.3, 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 consumer expectations, falling unemployment claims and the improved hiring outlook. The Historic Index, which is a measure of metro Denver's growth rate, increased to 129.5 due to improving employment and retail sales activity.
- ◆ The Business Conditions Index from the October survey of supply managers and business leaders in Colorado declined to 54.8 from September's 57.5 and August's 55.5, according to the monthly index compiled by Creighton University. Components of the overall index for the month included new orders at 50.5, production at 50.0, delivery speed at 37.5, inventories at 66.7, and employment at 75.0. An index value greater than 50 indicates economic growth in

the next three to six months. Although the state has not been adding manufacturing jobs in 2004, the trend is on the upswing for durable goods manufacturers.

- ◆ Colorado business leaders are less confident, but remain optimistic, about the economic outlook for Colorado and the national economies, according to Compass Bank's Colorado Business Leaders Confidence Index for the fourth quarter of 2004. The overall index fell to 63.8, down from 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. On the positive side, about 47% of those surveyed expect to add jobs in the fourth quarter.
- ◆ 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.
- ◆ The forecast for September's Institute for Supply Management's manufacturing index is 58.3, down from 59 in August. Still, any reading above 50 indicates expansion, making September the 16th consecutive month of increase. The forecast is compiled by 73 economist surveys through Bloomberg News.
- ◆ Activity in the service sector of the U.S. economy slowed moderately in September from the previous month's pace. The September non-manufacturing index fell to 56.7 from the prior month's 58.2 reading, according to the survey conducted by the Institute for Supply Management. September marks the 18th consecutive month of service sector expansion, which accounts for two-thirds of U.S. economic activity.

Labor and Employment

The metro Denver area added 2,300 jobs in September, according to preliminary employment statistics from the Colorado Department of Labor and Employment. Still, average monthly employment in metro Denver for the first nine months of the year is down by 4,300 positions compared to the same period last year, a 0.3% decline.

At the end of the third quarter, seven of the 12 major industry categories are posting employment increases compared to the same period last year. The strongest job growth in 2004 is occurring in education and health services (+2,800 jobs), professional and business services (+1,300 jobs) and financial activities (+800 jobs).

The construction (-5,500 jobs), manufacturing (-1,800 jobs) and information (-2,500) sectors continue to be plagued with large job losses. Indeed, job layoffs announced this month include Agilent Technologies Inc. (manufacturing, -100 jobs in Colorado) and AT&T (information, -7,400 jobs nationally, unknown impact in Colorado).

On the plus side, several large employers in metro Denver have been steadily adding to their workforce in recent months. Dish Network has added about 1,000 jobs in the past year, Frontier Airlines has added nearly 1,000 positions since July 2003, Raytheon plans to hire about 525 employees, and Wells Fargo has added about 1,300 bank jobs since September 2003.

The employment picture is improving more rapidly at the state level. Year-to-date average annual employment is 6,600 positions higher in 2004 than in 2003, a 0.3% increase. Current state forecasts peg the 2004 annual increase at 10,000 positions. The national economy has posted a 0.9% increase in employment through the end of September compared to the same period in 2003.

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

	Month of Sept-04 (p)	Month of Aug-04	Month of Sep-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	1,307.4	1,305.1	1,302.3	1,294.5	1,298.8	-0.3%	3.9%	4.3%
Natural Resources & Mining	5.4	5.4	5.2	5.4	5.1	4.8%	-12.7%	-2.8%
Construction	83.2	83.6	86.8	80.9	86.4	-6.4%	12.3%	8.5%
Manufacturing	88.7	88.5	89.8	89.4	91.2	-2.0%	-1.5%	0.8%
Wholesale & Retail Trade	201.2	202.5	203.0	201.8	202.4	-0.3%	3.2%	5.5%
Transp., Warehousing & Utilities	51.7	52.1	50.0	51.1	50.7	0.9%	3.5%	3.4%
Information	61.0	61.5	63.6	62.2	64.6	-3.8%	12.4%	13.8%
Financial Activities	106.0	106.9	106.8	106.7	105.9	0.7%	3.8%	5.5%
Professional and Business Services	210.6	210.5	203.4	203.0	201.7	0.7%	5.9%	4.9%
Education & Health Services	131.7	129.9	128.8	130.8	128.1	2.2%	1.2%	3.5%
Leisure and Hospitality	128.2	131.0	126.3	124.6	124.2	0.3%	4.6%	5.3%
Other Services	48.7	49.6	48.5	48.7	49.0	-0.5%	2.1%	5.9%
Government	191.0	183.6	190.1	190.0	189.5	0.3%	1.4%	0.3%
Federal Government	32.2	32.2	32.0	32.2	32.2	0.0%	-1.5%	-4.5%
State & Local Government	158.8	151.4	158.1	157.8	157.3	0.3%	2.1%	1.9%
Colorado	2,178.5	2,177.5	2,155.9	2,153.5	2,146.9	0.3%	3.6%	5.1%
United States	131,916	131,212	130,135	130,697.4	129,590.6	0.9%	2.4%	3.1%

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

Colorado export activity has increased by about 15% in the first half of 2004 compared to the first six months of 2003. Major export categories include semiconductors, computers and peripherals, telecommunications equipment, and measuring and analyzing control instruments. Colorado's top trading partners include Canada and Mexico, with China recently emerging as a potential major market for the state. The growth of Colorado exports is helping to create jobs in the state.

About 29% of metro Denver employers will hire new staff in the coming quarter and 5% will reduce payrolls, according to the newly released fourth quarter Manpower Employment Outlook Survey results. Last quarter, the slightly rosier outlook indicated about 36% of employers planned to hire new staff while only 2% planned to decrease payrolls. Despite the less optimistic outlook, fourth quarter results are more optimistic compared to fourth quarter last year.

The strongest hiring prospects are in the construction, transportation/public utilities, finance/insurance/real estate and services sectors. Employers in the durable goods manufacturing and wholesale/retail trade sectors reported mixed hiring intentions while little change is expected in the non-durable goods manufacturing, education and public administration sectors.

National results suggest stability with 28% of the 16,000 surveyed employers planning to add staff and 7% planning to decrease payrolls. Even though the forecast has shown little change over the past three quarters, the numbers are comparatively higher than last year's forecast. The most bullish prospects are in the manufacturing, retail and service categories. Similar to the relatively high consumer confidence levels in the West, employers in the west are also the most optimistic about hiring in the coming quarter.

Employment Outlook Survey

	Quarter 4 2004	Quarter 3 2004	Quarter 4 2003	YTD AVG 2004	YTD AVG 2003
Percent of Companies Hiring	29%	36%	25%	24%	29%
Percent of Companies Laying Off	5%	2%	2%	7%	5%
Percent of Companies No Change	61%	60%	66%	62%	61%

Source: Manpower Inc.

Employers are expected to increase wages by an average of 3.4% in 2005, according to the annual Pay Increase Projections survey by Mountain States Employers Council. Workers have generally experienced some level of wage increase each year during this recessionary period. However, the average salary increases of 3.2% in 2003 and 2004 were the lowest posted in the history of the survey dating back to 1975. The projected increase in wages of 3.4% in 2005 is encouraging and tends to indicate that business confidence is rebounding.

The unemployment rate in metro Denver continued its gradual decline in September, slipping from 5.0% in August to 4.7% in September as employment moved in a positive direction. The City and County of Denver saw a drop in unemployment from 6.0% in August to 5.5% in September. Despite the steep decline, Denver's unemployment rate remains the highest in the metro area. Adams County has the second highest rate of 5.4% while Douglas County posted the lowest level of unemployment with only 3.3% of its labor force unemployed. The metro area unemployment rate has fallen significantly in 2004, with a year-to-date average of 5.2% compared to last year's rate of 6.4%. The metro Denver September unemployment rate falls between the state and the U.S. unemployment rates of 4.6% and 5.1%, respectively.

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

	September 2004 (p)		2004 YTD Average		2003 YTD Average		1999 Annual Average Unemployment Rate	1994 Annual Average Unemployment Rate
	Total Labor Force	Unemploy- ment Rate	Total Labor Force	Unemploy- ment Rate	Total Labor Force	Unemploy- ment Rate		
Metro Denver	1,478.6	4.7%	1,443.2	5.2%	1,423.0	6.4%	2.4%	3.9%
Adams County	209.1	5.4%	204.4	6.1%	201.2	7.2%	2.7%	4.2%
Arapahoe Cnty	304.8	4.7%	296.7	5.1%	292.1	6.2%	2.1%	3.5%
Boulder Cnty	178.2	4.4%	175.0	4.6%	174.7	6.0%	2.6%	3.7%
Broomfield Cnty	24.6	4.8%	24.0	5.2%	23.6	6.3%		
Denver County	313.3	5.5%	306.3	6.3%	301.8	7.5%	3.1%	5.0%
Douglas Cnty	125.9	3.3%	122.5	3.7%	120.6	4.7%	1.4%	2.5%
Jefferson Cnty	322.7	4.3%	314.3	4.7%	309.1	5.7%	2.2%	3.4%
Colorado	2,560.9	4.6%	2,509.4	5.2%	2,472.8	6.2%	2.9%	4.2%
United States	147,186	5.1%	147,190	5.7%	146,429	6.1%	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 decreased by over 600 claimants in September, bringing average monthly claims in 2004 to 22.2% lower than last year. Claims also decreased at the state level, dropping by about 700 claimants from August to September. Claims at the state level for the first nine months of the year are 19.3% lower than last year.

First Time Unemployment Insurance Claims

	Month of Sep-04	Month of Aug-04	Month of Sep-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Annual Average 1999
Metro Denver	4,508	5,120	6,230	5,664	7,280	-22.2%	3,801
Colorado	9,455	10,171	12,338	11,869	14,716	-19.3%	7,857

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

Consumer Sector

Retail sales reached \$5.3 billion in August, boosting total retail sales for the first eight months of 2004 to 6.5% higher than the same period in 2004. All metro counties except Boulder are posting year-to-date increases in retail activity. Retail activity in Broomfield appears exceptionally strong due to the filing of delinquent returns in May.

The strongest annual gains are occurring in Douglas and Adams counties, with both counties posting double-digit rates of growth. On the other hand, retail activity is essentially flat in Arapahoe and Jefferson counties. Statewide retail sales were up 6.2% through August of 2004, bringing total sales to \$71.7 billion. Retail trade sales, which is a subset of total retail sales, were up only 4.1%. Retail trade sales more closely reflect the increase in taxable retail sales.

Total Retail Sales (\$000s)

	Month of Aug-04	Month of Jul-04	Month of Aug-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual Growth 1999	Annual Growth 1994
Total Metro Denver	5,326,825	5,252,816	5,279,652	43,019,116	40,377,731	6.5%	6,379,064	5,877,784
Adams County	760,601	720,672	769,339	5,860,935	5,296,317	10.7%	867,474	754,934
Arapahoe County	1,212,429	1,131,266	1,123,908	9,394,121	9,349,695	0.5%	1,383,754	1,185,608
Boulder County	510,310	499,890	593,146	3,990,497	4,023,443	-0.8%	568,549	493,703
Broomfield County	112,562	108,411	110,018	1,756,013	902,888	94.5%	375,315	741,883
Denver County	1,398,218	1,428,598	1,335,003	11,501,437	10,816,983	6.3%	1,694,887	1,425,380
Douglas County	399,054	419,809	372,228	3,121,003	2,680,422	16.4%	441,010	400,436
Jefferson County	933,651	944,170	976,010	7,395,110	7,307,983	1.2%	1,048,075	875,840
Colorado	9,135,690	9,009,345	8,818,084	71,667,333	67,498,139	6.2%	10,455,495	9,285,552

Source: Colorado Department of Revenue.

Retail spending is picking up throughout metro Denver due to the improving employment situation, increasing business spending and growing tourist activity. However, there are a couple of storm clouds looming. Oil prices have now reached over \$50 per barrel, causing an increase in gasoline prices. According to AAA, the average price of a gallon of regular gasoline in Colorado reached \$1.973 on October 18 compared to the national average of \$2.014. In addition, increased demand and reduced supply of natural gas is causing heating prices to rise quickly. As consumers are forced to spend more for their energy and transportation needs, spending on discretionary items may decline.

Cabela's is counting on further increases in retail activity in metro Denver. Cabela's, the nation's most extensive outfitter of outdoor gear, is opening their first Colorado store at I-70 and 32nd Avenue in What Ridge. The 200,000-square-foot store will employ about 450 people when it opens in mid-2006.

Colorado boasts a strong sports market, a fact on which Dew Action Sports Tour is counting. Denver is one of five cities chosen to host the new event featuring skateboarding, BMX bicycle and motocross competitions. The Dew Tour, backed by NBC and Clear Channel, will be held July

6-10, 2005 at the Pepsi Center. The event is expected to create an economic impact of \$20 to \$30 million as it draws a regional crowd of about 100,000 fans. The other four cities selected include Louisville, KY; Portland, OR; San Jose, CA; and Orlando, FL.

The consumer confidence index for the mountain region increased to 114.7 in September from a revised 106.1 in August. The overall index incorporates two indices: the present situation index and the expectations index. For the mountain region, the present situation index increased sharply from 109.5 to 136.9 as consumers perceived improving business conditions. The mountain region currently boasts the highest present situation index of the nine regions. The expectations index, on the other hand, fell to 99.9, down from 103.9. National confidence levels fell slightly in September, the second consecutive month of decline. The national index declined due to soft labor market conditions with expectations for the next six months unchanged from August. Still, compared to last year, confidence levels are significantly higher in the mountain region and at the national level.

Consumer Confidence Index

	Month of Sept-04 (p)	Month of Aug-04	Month of Sep-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change
Mountain	114.7	106.1	96.6	108.5	84.5	28.5%
United States	96.8	98.7	77.0	96.1	76.5	25.6%

Source: The Conference Board. (p)=preliminary

The hotel occupancy rate slipped from 75.2% in August to 66.5% in September while the average hotel room rate in metro Denver fell from \$86.35 to \$85.96 as summer tourism activity tapered off. Even so, September occupancy rates and room rates are higher than September 2003 rates, indicating a stronger tourism industry compared to last year. Year over year statistics show a 3.6% increase in occupancy and a 1.1% decline in room rates.

Metro Denver Hotel Statistics

	Month of Sep-04	Month of Aug-04	Month of Sep-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Annual 1999	Annual 1994
Percent of Hotel Rooms Occupied	66.5%	75.2%	63.4%	64.1%	61.9%	3.6%	67.2%	72.2%
Average Hotel Room Rate	\$85.96	\$86.35	\$84.69	\$83.46	\$84.39	-1.1%	\$87.36	\$66.03

Source: Rocky Mountain Lodging Report.

The Denver International Airport market area achieved the highest occupancy rate throughout the metro Denver area in September, reaching 73.2%. The North Denver market area posted the lowest occupancy rate of 50.6%. Hotels throughout the Denver metro area benefit from tourism and business travelers.

Denver's cultural institutions generated \$1.3 billion in economic activity in 2003, with almost \$500 million being new dollars flowing into Denver from outside of the region. About 11.3 million people attended cultural events in Denver, with about 2.8 million visitors from outside the metro area, including 1.4 million from outside Colorado. The joint study by Deloitte Consulting and the Colorado Business Committee for the Arts is conducted every two years. This was the first time the survey measured how much money from outside the region was attracted to Denver's cultural institutions.

The ski season is off to an early start with Loveland Ski Area opening on October 15 and A-Basin opening on October 22. Most other ski areas throughout the state plan opening dates by the middle to end of November.

Slightly over 3.3 million passengers traveled through Denver International Airport in September, Surpassing last September by nearly 345,000 passengers. The year-to-date passenger total of 32.26 million is 14.7% higher than last year's total at this time. Consumers have been attracted by the improving economy and competitively priced airfares. However, low fares and rapidly rising jet fuel prices are causing steep losses throughout the industry, prompting numerous layoffs.

Denver International Airport was the fifth busiest airport nationwide for domestic travel in the first half of 2004, one step up from the first half of last year when Phoenix Sky Harbor International Airport edged by Denver. The four busiest airports were Atlanta's Hartsfield-Jackson, Chicago's O'Hare, Dallas-Fort Worth and Los Angeles. Domestic travel at Denver International Airport was up almost 17% in the first half of 2004, an increase of more than one million passengers. In addition, the number of non-stop international destinations from Denver increased from nine to 14 – most of which are to leisure destinations in Mexico. DIA's busiest year on record is 2000; however, the airport is on track to surpass 2000 levels in 2004.

The Boyd Group of Evergreen, CO projects that Denver International Airport's ranking will slip to number seven by 2010 as Phoenix and Las Vegas airports experience greater growth due to larger increases in tourism, population and income. While Denver's airport is expected to see an 18% increase in air traffic by 2010, Phoenix is expected to grow by 33% and Las Vegas by 26%.

Denver International Airport Passengers

	Month of Sep-04	Month of Aug-04	Month of Sep-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual 1999	Annual 1994
Number of Airline Passengers	3,304,789	4,009,587	2,960,096	32,262,762	28,126,571	14.7%	4,009,587	4,232,906

Source: Denver International Airport, Traffic Statistics.

Stock prices inched upwards in October for the most part, with the S&P closing 1.6% higher than it began the year. 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, increased to 1,253.41. Still, the Colorado index is 5.7% lower than the value posted at the beginning of 2004. The NASDAQ increased to 1,974.99 in October, the second consecutive monthly increase, but still 1.4% lower for the year. The DOW, on the other hand, has retreated 4.1% for the year. On an annual basis, the S&P continues to outperform the other stock indexes, posting a minimal positive gain for the year. The bright spots in the market this year have been in oil stocks, chemicals and metals, cell-phone companies and utilities.

Stock Market Indexes

	Month of Oct-04	Month of Sep-04	Month of Oct-03	YTD Return Oct-04	YTD Return Oct-03	YTD Return Oct-02
Colorado	1,253.41	1,239.70	1,287.60	-5.68%	24.50%	-21.77%
S&P	1,130.20	1,114.58	1,050.71	1.64%	19.42%	-22.85%
NASDAQ	1,974.99	1,896.84	1,932.21	-1.42%	44.68%	-31.82%
DOW	10,027.47	10,080.27	9,801.12	-4.08%	17.50%	-16.21%

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

Residential Real Estate

Residential activity continues to be strong across the country, spurred by low mortgage rates. Freddie Mac reported that the 30-year fixed mortgage rate fell to 5.64% as of October 28, the lowest rate since April 1, 2004. Rates have gradually drifted downward since hitting a high of 6.34% in mid May. It should be noted that the national mortgage rate averages do not include add-on fees, otherwise known as points.

Continued low rates positively impact the residential market by making homeownership attainable to lower-income households. Low rates also allow homeowners to refinance their investments. Last year, homeowners nationwide refinanced and turned a record \$138.1 billion of home equity into cash, allowing previously mortgage-dedicated dollars to purchase other consumer goods and services.

The number of home sales closed in metro Denver increased in October to 5,131, bringing year-to-date activity to 10.8% higher than the same period last year. There have been 45,427 homes closed in the first ten months of 2004. If current trends continue into the final two months of the year, total home sales will easily surpass 50,000 units in 2004.

The average price of a single-family home fell for the second month in a row. The average home price fell 0.5% to \$289,983 in October after breaking the \$300,000 mark in August. Still, the average single-family home price is up 4.4% and the average price of a condominium is up 3.4% for the first ten months of 2004 compared to the same period last year. The year-to-date average prices for a single family home and condominium are \$289,887 and \$180,536, respectively.

Home Sales Activity

	Month of Oct-04	Month of Sep-04	Month of Oct-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Ann Avg 1999	Ann Avg 1994
Home Sales (Under Contract)	3,154	2,689	2,638	30,092	26,082	15.4%	38,248	30,193
Home Sales (Closed)	5,131	4,465	4,956	45,427	40,985	10.8%	46,742	37,685
Unsold Homes on Market	26,030	26,976	25,181	26,030	25,181	3.4%	8,097	8,751
Average Sales Price-Single Family	\$289,983	\$291,422	\$275,839	\$289,887	\$277,746	4.4%	\$208,274	\$138,137
Average Sales Price-Condo	\$185,804	\$179,183	\$177,173	\$180,536	\$174,606	3.4%	\$122,562	\$80,276
Median Sales Price-Single Family	\$235,900	\$240,000	\$229,000	\$237,000	\$230,000	3.0%		
Median Sales Price-Condo	\$159,000	\$156,031	\$154,500	\$157,250	\$154,000	2.1%		

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

The median price for a home in metro Denver rose 213% between 1982 and 2003 and outpaced other western cities including Albuquerque, Dallas and Houston, according to the National Association of Realtors. Appreciation in metro Denver fell short of the super-hot areas like San Francisco and New York where median prices rose 336% and 357% respectively. The median home price in San Francisco stands at \$558,100, well above New York City's median of \$352,760.

Home appreciation is moderating in metro Denver in 2004. Data from the National Association of Realtors shows the median home price in metro Denver rose from \$231,800 in the first quarter of 2004 to \$241,800 in the second quarter. Median home prices in metro Denver so far this year are tracking about 1.4% higher than last year. Median home prices at the national level increased to \$183,800 during the second quarter, about 7.8% higher for the year.

The National Association of Realtors ranked Denver as the 29th most expensive housing market out of 128 metro areas, compared to the seventh most expensive market just three years ago. Many metro areas experiencing record appreciation have surpassed Denver home prices. The moderation in home prices is good news as lower housing prices make metro Denver a more attractive site for relocating companies and employees.

The three most expensive housing markets in the country remain in California. Orange County, CA moved into first place with a median home price of \$655,300, San Francisco placed second at \$647,300 and San Diego was third with \$559,700. At the other extreme, South Bend, IN came in

last with a median home price of \$93,800. The median home price in Las Vegas of \$269,900 surpassed Denver for the first time, largely due to lack of existing inventory in the Las Vegas market.

Median Home Price (\$000s)

	Quarter 2 2004 (p)	Quarter 1 2004	Quarter 2 2003	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Median 1999	Median 1994
Metro Denver	\$241.8	\$231.8	\$237.9	\$236.8	\$233.6	1.4%	\$171.3	\$116.8
United States	\$183.8	\$170.8	\$168.5	\$177.3	\$164.5	7.8%	\$133.3	\$109.8

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

Foreclosure activity increased in September after falling slightly in August. There were 987 foreclosures recorded throughout metro Denver in September, a 17.8% increase compared to the same month last year. Total foreclosures for the first three quarters of this year are nearly 35% higher than 2003. Denver County has experienced the largest percentage increase, with foreclosures for the year 44.4% higher than last year. Experts cite risky strategies such as no-money down loans and relaxed underwriting standards as reasons for the high number of foreclosures. Slower home price appreciation in metro Denver than nationwide signals weaker demand for housing and can trap homeowners who counted on high appreciation to relieve them of their debt. Foreclosures are still well below the high levels experienced during this region's last recession when foreclosures topped 17,000 in 1988. Foreclosures are a lagging economic indicator; often occurring months after homeowners have lost their jobs and have tapped other options to fund their mortgages.

The percentage of homeowners across the nation behind on mortgage payments rose slightly in the second quarter to 4.43%, up from 4.33%. Analysts consider the increase a temporary change in the downward trend that began in mid-2001. On the other hand, the percentage of mortgages that began the delinquency process slowed to 0.39% in the second quarter, down from 0.46%. Foreclosure activity typically lags delinquencies by one or two quarters.

Real Estate Foreclosures

	Month of Sep-04	Month of Aug-04	Month of Sep-03	YTD Total 2004	YTD Total 2003	YTD Total % Change
Total Metro Denver	987	947	838	9,024	6,703	34.6%
Adams County	149	198	172	1,844	1,331	38.5%
Arapahoe County	276	211	202	2,228	1,650	35.0%
Boulder County	45	32	45	384	364	5.5%
Broomfield County	11	9	13	99	81	22.2%
Denver County	291	208	251	2,428	1,681	44.4%
Douglas County	58	85	39	615	485	26.8%
Jefferson County	157	204	116	1,426	1,111	28.4%

Source: CB Richard Ellis.

Residential construction activity in metro Denver slowed slightly from July to August, with 1,998 units permitted during the month. Still, residential construction activity is up 24.9% over last year. Indeed, August marks the fourth consecutive month that year-to-date activity surpassed the same months in 2003. The increase is most apparent in the multi-family market where construction is up by 112%. It should be noted, however, that very limited apartment construction activity occurred in 2003, so any increase in activity registers as a large percentage increase. All of the August apartment activity occurred in Denver and Thornton (Adams County).

Residential Building Permits

	Month of Aug-04	Month of Jul-04	Month of Aug-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Total 1999	Total 1994
Single-Family Units	1,153	1,289	955	9,763	8,482	15.1%	1,289	1,412
Two-Family Units	539	323	331	3,264	2,581	26.5%	323	487
Multi-Family Units	306	391	88	1,933	912	112.0%	391	763
Total Units	1,998	2,003	1,374	14,960	11,975	24.9%	2,003	2,662

Source: Home Builders Association of Metropolitan Denver.

The metro Denver apartment vacancy rate fell to 8.5% in the third quarter of 2004, according to the Denver Metro Apartment Vacancy and Rent Survey. The apartment vacancy rate has dropped for five consecutive quarters since reaching a peak of 13.1% in the second quarter of 2003. Experts attribute the decline in the vacancy rate to modest new apartment construction and shifting lifestyle preferences. Average rental rates are starting to creep back upwards, with the average rate for all units rising to \$821 per month in the third quarter.

Apartment Statistics

	Quarter 3 2004	Quarter 2 2004	Quarter 3 2003	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Ann Avg 1999	Ann Avg 1994
Apartment Vacancy Rate	8.5%	9.7%	11.1%	9.6%	12.4%		4.5%	4.3%
Average Monthly Rental Rate (all units)	\$821	\$818	\$815	\$816	\$803	1.6%	\$717	\$527

Source: Denver Metro Apartment Vacancy and Rent Survey.

Apartment rents throughout the western United States are rising, according to a survey by the Novato, CA-based research firm called RealFacts. Average rents were higher as of September 30, 2004 compared to one year ago in all but four of the 20 major metro markets in the west. The study lists an average rental rate of \$850 per month in Denver, a 0.2% increase over last year. The strongest increases were posted in San Bernadino/Riverside counties (+6.9%), Los Angeles/Orange counties (4.5%), and Fresno County (3.9%). Average monthly rental rates in the west range from a high of \$1,356 in the Los Angeles area to \$619 in Tucson.

Commercial Real Estate

The third quarter update by the Frederick Ross Company reveals that the office market continues to post small improvements. During the third quarter, 455,000 square feet of office space was absorbed throughout the metro Denver area as the vacancy rate fell slightly from 22.7% at midyear to 22.4%. Much of the absorption is occurring in Class A properties as tenants seek higher quality space at low rates.

Data from Costar Realty Information, Inc. indicates a relatively stable office market throughout metro Denver. The direct office vacancy rate inched downwards to 15.0% for the third quarter of 2004, while the vacancy rate with sublease space increased slightly from 17.0% to 17.1%. Average lease rates for all classes of space slipped from \$16.94 in the second quarter of 2004 to \$16.86.

Office Market Statistics

	Quarter 3 2004	Quarter 2 2004	Quarter 1 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	4,178	4,166	4,160	4,143	4,093	3,912
Existing Square Feet (millions)	147.6	147.4	147.1	146.2	144.9	139.5
Vacant Square Feet (millions)	22.2	22.2	22.3	21.5	18.0	12.3
Vacancy Rate (Direct)	15.0%	15.1%	15.1%	14.7%	12.4%	8.8%
Vacancy Rate (With Sublet)	17.1%	17.0%	17.2%	17.3%	15.2%	11.6%
Average Lease Rate (per square foot)	\$16.86	\$16.94	\$17.01	\$17.54	\$19.55	\$21.06
New Construction Completed (year-to-date)	1.05 MSF, 31 Bldgs	0.80 MSF, 18 Bldgs	0.48 MSF, 10 Bldgs	1.22 MSF, 36 Bldgs	2.39 MSF, 66 Bldgs	6.07 MSF, 92 Bldgs
Currently Under Construction	0.82 MSF, 27 Bldgs	0.37 MSF, 21 Bldgs	0.58 MSF, 22 Bldgs	0.59 MSF, 21 Bldgs	1.55 MSF, 40 Bldgs	3.75 MSF, 69 Bldgs

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

Office construction has slowed from 2003 in response to the soft market conditions. Construction activity continues to slide in the region as about 1,050,000 square feet of office space was added through the third quarter of 2004 compared to 1,220,000 through the third quarter of 2003. About 820,000 square feet of new office space in 27 buildings is currently under construction, representing an increase in activity compared to the second quarter of 2004 when just 370,000 square feet was under construction in 21 buildings.

A second quarter 2004 survey of 30 office markets in the United States by ITRA Realty Group reveals that Denver offers some of the least expensive office space in the country. The average office rental rate in Denver of \$16.75 per square foot was the third lowest of the 30 markets, with Minneapolis and St. Louis offering slightly lower priced space. The office vacancy rate in Denver of 17.3% ranks right in the middle, with the highest vacancy rate of 26.0% found in St. Louis and the lowest rate of 8.0% found in Washington, DC.

The industrial market is also posting small but steady gains. The third quarter report by the Frederick Ross Company estimates that the industrial vacancy rate remains steady at 9.0% with positive year-to-date absorption of about 1.4 million square feet.

Data from CoStar indicates a slightly improving industrial market in metro Denver. The direct industrial vacancy rate declined from 8.1% in the second quarter to 8.0% in the third quarter of 2004. Further, the rate with sublease space fell a full 0.5 percentage point, dropping from 9.1% to 8.6%. The average lease rate remained relatively stable at \$4.67 NNN.

Industrial Market Statistics

	Quarter 3 2004	Quarter 2 2004	Quarter 1 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	5,339	5,331	5,322	5,304	5,262	5,151
Existing Square Feet (millions)	192.4	192.3	191.5	190.2	188.7	184.3
Vacant Square Feet (millions)	15.4	15.6	15.5	13.5	11.1	9.2
Vacancy Rate (Direct)	8.0%	8.1%	8.1%	7.1%	5.9%	5.0%
Vacancy Rate (With Sublet)	8.6%	9.1%	8.9%	7.9%	6.8%	5.7%
Average Lease Rate (per square foot)	\$4.67	\$4.68	\$4.62	\$4.97	\$5.50	\$5.66
New Construction Completed (year-to-date)	1.40 MSF, 27 Bldgs	1.22 MSF, 14 Bldgs	0.48 MSF, 7 Bldgs	1.33 MSF, 32 Bldgs	2.20 MSF, 35 Bldgs	2.09 MSF, 33 Bldgs
Currently Under Construction	0.61 MSF, 14 Bldgs	0.58 MSF, 14 Bldgs	1.26 MSF, 17 Bldgs	1.52 MSF, 12 Bldgs	0.79 MSF, 18 Bldgs	0.53 MSF, 14 Bldgs

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

Construction activity remains about on par with last year. Through the first nine months of 2004, 1,400,000 square feet of new industrial space has been added to the metro Denver market in 27

buildings. Last year at this time 1,330,000 square feet had been added in 32 buildings. Only about 610,000 square feet of space is currently under construction, down from 1,520,000 square feet during the third quarter of last year.

The metro Denver flex market has also stabilized. According to CoStar Realty Information, there was no change in the direct flex vacancy rate from the second quarter to the third quarter of 2004. The direct vacancy rate of 16.5% remains about two percentage points below the vacancy rate with sublease space. Still, the sublease vacancy rate has shown steady improvement in 2004, currently resting at 18.3%. About 90,000 square feet of new construction has been completed so far in 2004. At the end of the third quarter, 16 buildings were under construction that will add about 340,000 square feet to the market. This was the largest increase in flex construction in the past two years.

Flex Space Statistics

	Quarter 3 2004	Quarter 2 2004	Quarter 1 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	1,157	1,156	1,154	1,149	1,134	1,080
Existing Square Feet (millions)	36.2	36.2	36.2	36.1	35.7	34.1
Vacant Square Feet (millions)	6.0	6.0	6.1	6.1	5.1	4.6
Vacancy Rate (Direct)	16.5%	16.5%	16.7%	16.9%	14.4%	13.4%
Vacancy Rate (With Sublet)	18.3%	18.6%	18.7%	18.6%	16.2%	15.1%
Average Lease Rate (per square foot)	\$8.33	\$8.27	\$8.08	\$8.33	\$8.55	\$9.49
New Construction Completed (year-to-date)	0.09 MSF, 3 Bldgs	0.09 MSF, 3 Bldgs	0.0 MSF, 0 Bldgs	0.14 MSF, 4 Bldgs	0.67 MSF, 19 Bldgs	2.21 MSF, 48 Bldgs
Currently Under Construction	0.34 MSF, 16 Bldgs	0.03 MSF, 2 Bldgs	0.08 MSF, 3 Bldgs	0.06 MSF, 5 Bldgs	0.22 MSF, 9 Bldgs	0.66 MSF, 19 Bldgs

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

Monthly Economic Summary of Metro Denver

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↓	Employment increased 2,3 jobs from Aug to Sept, -0.3% annual growth rate
% Companies Hiring	↓	↓	29% of companies expect to add workers in 4th quarter 2004; only 5% expect decrease
Unemployment Rate	↓	↓	Sept unemployment rate decreased to 4.7%; metro Denver annual rate lower than nation
Initial Claims	↓	↓	Initial unemployment claims decrease in Sept and are 22.2% below last year
Total Retail Sales	↑	↑	Total retail sales up 6.5% in first eight months of 2004; strongest gain since 2000
Consumer Confidence Index	↑	↑	Mountain region confidence increased in Sept and remains higher than national level
Hotel Occupancy	↓	↑	Hotel occupancy decreased to 66.5% in Sept; average room rate about \$86 per night
DIA Passengers	↓	↑	Traffic up 14.7% through Sept, DIA 5 th busiest airport in country in first half of 2004
Colorado Stock Index	↑	↓	Stock index increased in Oct but is down 5.7% for the first ten months of 2004
Dow Jones Industrial Average	↓	↓	Dow decreased in Oct and is now down 4.1% for the year
Home Sales (closed)	↑	↑	Oct home sales up and are 10.8% higher for year; average SF sold price 4.4% higher
Median Home Price	↑	↑	Median home price rose to \$241,800 in Q2 2004, 1.4% higher than last year
Foreclosures	↑	↑	Foreclosures up 35% through Sept and are at highest levels in ten years
Residential Building Permits (Total)	↔	↑	Total permits up 25% through Aug; multi-family units more than double 2003 level
Apartment Vacancy Rate	↓	↓	Vacancy rate drops to 8.5% in Q3 2004; avg rental rate increases to \$821 per month
Office Vacancy Rate	↓	↑	Vacancy rate with sublet now 17.1%; construction has slowed considerably
Industrial Vacancy Rate	↓	↑	Minor decrease in rate to 8.0%; about 610,000 SF under construction
Flex Space Vacancy Rate	↔	↓	Vacancy rate with sublease decreased to 18.3%; slight increase in new construction
Positive Changes	11 of 18	11 of 18	