

# **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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**Prepared For:**



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## MONTHLY ECONOMIC SUMMARY OF METRO DENVER

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

### Notable Rankings

- ◆ Douglas County's median household income of \$92,732 is second highest in the nation based on newly released 2003 data, down from its first place ranking last year. Los Alamos County in New Mexico ranks first with a median household income of \$93,089. According to the U.S. Census Bureau data, the national median household income in 2003 was \$43,318 compared to Colorado's \$49,248, the ninth highest state median income.
- ◆ Downtown Denver is one of only five downtowns that experienced population gains of more than 35% between 1970 and 2000 according to a new study by the Brookings Institution. Downtown Denver's population increased by 35.6% over the 30-year period. Seattle (+77%), Colorado Springs (+48%), Albuquerque (+45%) and Portland (+35) rounded out the top five downtowns for population gains. Downtown Denver also ranks third in homeownership behind Chicago and Lafayette, LA. About 35% of Downtown Denver residents own their homes.
- ◆ Colorado ranked 43<sup>rd</sup> in the nation for charitable giving during both 2003 and 2002, according to the Catalogue of Philanthropy's Generosity Index. New Hampshire ranked at the bottom of the list for the fourth consecutive year while Mississippi was the most generous state for the second year in a row. The generosity index uses tax return data and takes into account average adjusted gross income as well as the value of charitable donations. Based on an average adjusted gross income of \$50,516, Coloradoans made an average charitable donation worth \$3,480 in 2003.
- ◆ Brighton school district reported the largest enrollment increase in Metro Denver of 13.2% for the 2005-2006 school year. Other notable enrollment increases occurred in the Douglas County school district (+6.8%), Adams 14 Commerce City (+3.5%) and Adams Five-Star Schools (+3.3%). Preliminary data from the State Department of Education revealed enrollment declines in the Englewood, Mapleton, Littleton, Jefferson County and Boulder school districts. Jefferson County, Denver and Cherry Creek are the three largest Metro Denver school districts in terms of total enrollment.
- ◆ Denver's Mayor John Hickenlooper was chosen as one of eight "Public Officials of the Year 2005" by *Governing* magazine. The magazine called Mayor Hickenlooper a "catalyst for uniting a region and revitalizing a city." The magazine specifically noted his involvement in both the FasTracks initiative and the \$378 million jail bond issue. The Mayor was nominated by the Metro Denver Economic Development Corporation.
- ◆ Denver International Airport was the fifth-busiest airport in the nation during the month of August based on the number of boarding domestic passengers. Hartsfield-Jackson Airport in Atlanta was the busiest airport during the first eight months of the year, according to the U.S. Bureau of Transportation. Denver International Airport was the sixth busiest airport during the January-August period this year, down from the fifth busiest during the same period last year.

## General Economic Overview

U.S. gross domestic product (GDP) increased at an annualized rate of 4.3% during the third quarter of 2005, up from 3.3% in the previous quarter, according to preliminary estimates by the Bureau of Economic Analysis. Major contributors to the faster-paced growth were personal consumption expenditures, equipment and software expenditures, federal government spending and residential fixed investment. GDP growth during the third quarter was the strongest since the first quarter 2004. GDP measures the value of all goods and services produced in the U.S.

The National Association of Business Economists (NABE) predicted GDP growth will register 3.6% for 2005 and 3.3% for 2006 in their November survey of 45 economists. The 2005 forecast was slightly improved from the September survey; however, the 2006 forecast was 0.1% weaker.

The Federal Open Market Committee (FOMC) raised the target for the federal funds rate by 25 basis points on November 1<sup>st</sup> to 4.0%, marking the 12<sup>th</sup> increase since the FOMC began tightening monetary policy in June 2004. Interest rates now stand at the highest level in more than four years. The Federal Reserve stated that while "elevated energy costs and hurricane-related disruptions in economic activity have temporarily depressed output and employment," strong gains in underlying productivity and accommodative monetary policy will support the economy. The Federal Reserve also noted that core inflation has remained in check during recent months and that long-term inflation forecasts are "contained." Future rate hikes are anticipated.

The U.S. trade deficit soared to an all-time high of \$66.1 billion in September partly due to increased oil imports associated with the Gulf Coast hurricanes. The 11.4% increase from August to September was also due to record high imports from China as Americans purchased large quantities of televisions, toys and clothing. The annualized trade deficit for 2005 is estimated at \$706 billion, well above the \$617.6 billion annual deficit last year.

Various indexes reveal generally positive economic conditions at the national level but mixed results for Colorado:

- ◆ The Conference Board's Index of Leading Economic Indicators rebounded in October after decreasing in September. The October index rose 0.9% to 137.9 from 136.7 in September. Positive movements were widespread among the index's leading indicators. Most notably, declining initial unemployment claims and increased average weekly hours in manufacturing were positive influences. The national index gauges future economic conditions.
- ◆ The nation's manufacturing sector expanded for the 29<sup>th</sup> consecutive month in October while the overall economy grew for the 48<sup>th</sup> consecutive month. The Institute for Supply Management's Purchasing Managers' Index decreased slightly from a revised 59.4 in September to 59.1 in October. The index tracks overall business activity of more than 350 manufacturing companies located throughout the country. The Front Range Purchasing Manager's Index compiled by the University of Colorado at Denver Business School slipped from 56.8 in September to 48.2 in October, dropping below 50 for the first time since November 2004. Both indexes indicate expansionary conditions with values over 50.0.
- ◆ The national service economy expanded in October at a faster pace than in September. The National Institute for Supply Management's non-manufacturing index registered 60.0 in October, a 6.5% gain over the September index of 53.3. The October index marked the 31<sup>st</sup> consecutive month of expansion which is indicated by a value greater than 50. The Colorado service economy index, compiled by the University of Colorado Denver Business School, fell to 47.3 in October from 52.7 in September. The October index is the first since January to fall below the 50 mark. The index indicates expansionary conditions with values greater than 50 and is a composite of five components: delivery times, inventory levels, new orders, production and employment.
- ◆ The Creighton University Business Conditions Index for the Mountain States region slipped for the third consecutive month in October due to high energy costs and interest rates that helped push down confidence levels of supply managers and business leaders in the Colorado-Utah-Wyoming region. The overall index fell from 67.2 in September to 63.2 in

October, the lowest index value since February 2005. The individual Colorado index also fell for the third consecutive month in October, declining from 60.0 in September to 57.2 in October. A reading greater than 50 indicates expansionary conditions.

- ◆ The Vectra Bank Small Business Index for Colorado increased to 105.9 in October, up from a revised 105.4 in September. The Colorado unemployment rate, the most heavily weighted component, rose to 5.1% from 5.0% during the data collection period. A higher unemployment rate is considered a positive factor because it indicates greater access to labor for small businesses. On the other hand, continued increases in short-term interest rates have a negative effect because of resulting higher financing costs. The index assumes most small businesses are borrowers. Still, Colorado conditions are more positive than national conditions. The national small business index fell from 98.3 in September to 93.2 in October. The index's 100 mark represents the benchmark year of 1997.
- ◆ The Colorado Business Leaders Confidence Index declined nine points to 49.1 in the final quarter of 2005, dropping below the neutral mark of 50 for the first time since the war in Iraq began in early 2003. All six components of the University of Colorado at Boulder index declined indicating short-term uncertainty from a variety of factors. The survey period for the fourth quarter index closely followed Hurricane Katrina's landfall.
- ◆ After reaching 100.9 in July and August, the Leading Index for Metro Denver fell to 100.8 in September, indicating that the economic expansion is positive but stable in Metro Denver. The Leading Index is a predictor of changing economic activity six to nine months in the future. The Historic Index slipped from 129.5 in August to 128.8 in September due to weaker retail sales. Still, the Historic Index remains 1.8% above last year's levels. The Historic Index, which measures year-over-year growth so that both the direction and magnitude of change are important, has generally followed an upward trend since March 2004. The 100 level represents the benchmark year of 1995 for both indexes compiled by Development Research Partners.

## **Labor and Employment**

*Employment in Colorado is projected to increase 2.2% in 2005 and 2.3% in 2006, according to the 41<sup>st</sup> annual Business Economic Outlook Forum held by the University of Colorado at Boulder, Leeds School of Business. This annual forecast event revealed that 2006 will be similar to 2005 in economic terms. All sectors of the Colorado economy are expected to add workers in 2006 with the exception of the Information sector.*

*Metro Denver employment levels slipped by 1,200 positions from September to October but still stand 2.0% higher for the year compared to the same period last year. Employment in Metro Denver has grown at a faster pace than the nation for ten consecutive months on an average year-to-date basis. Colorado employment levels also slipped in October by 800 positions but remain 2.2% higher for the year compared to the first ten months of 2004. Colorado growth has outpaced the nation for 13 consecutive months.*

From September to October, modest employment gains occurred in the Government (+1,700 positions), Wholesale & Retail Trade (+1,200 positions) and Education & Health Services (+1,100 positions) sectors. On the other hand, over-the-month losses occurred in the Leisure & Hospitality (-3,500 positions), Professional & Business Services (-1,200 positions) and Natural Resources & Construction (-800 positions) sectors.

*On an annualized basis, about 26,100 positions have been added to the Metro Denver economy in 2005. The largest percentage gains for the year have occurred in Natural Resources & Construction (+4.0%), Education & Health Services (+3.3%) and Professional & Business Services (+3.3%). The Information sector has experienced the only percentage loss for the year with a 6.1% decline, representing the loss of 3,800 positions.*

About 2.18 million jobs have been added nationally in 2005, bringing the U.S. employment growth rate to 1.7%.

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

	Month of Oct-05 (p)	Month of Sep-05	Month of Oct-04	Year-to- Date Average 2005	Year-to- Date Average 2004	Year-to- Date Average % Change	Annual Growth Rate 2000	Annual Growth Rate 1995
<b>Total 11-County Metro Denver*</b>	1,360.0	1,361.2	1,339.9	1,346.6	1,320.5	2.0%	4.3%	4.2%
Natural Resources & Construction	98.4	99.2	95.5	96.1	92.4	4.0%	10.7%	3.3%
Manufacturing	91.5	91.2	91.6	91.6	90.7	1.0%	-1.0%	3.8%
Wholesale & Retail Trade	207.8	206.6	205.6	205.3	202.4	1.5%	3.5%	5.0%
Transp., Warehousing & Utilities	52.5	51.8	51.5	51.8	51.2	1.2%	8.6%	3.5%
Information	55.3	55.9	59.5	57.3	61.0	-6.1%	10.1%	8.6%
Financial Activities Professional & Business Services	108.7	108.7	106.7	107.8	105.9	1.8%	0.3%	2.9%
Education & Health Services	220.5	221.7	213.9	216.8	209.8	3.3%	7.0%	5.7%
Leisure & Hospitality	138.5	137.4	135.0	136.8	132.4	3.3%	2.9%	4.8%
Other Services	137.0	140.5	134.2	137.9	134.0	2.9%	4.5%	5.8%
Government	50.6	50.7	49.7	50.7	49.5	2.3%	1.0%	3.6%
Federal Gov't	199.2	197.5	196.7	194.5	191.2	1.7%	2.4%	0.5%
State & Local Gov't	31.3	31.6	31.6	31.5	31.8	-0.8%	-0.5%	-6.6%
Colorado	167.9	165.9	165.1	163.0	159.5	2.2%	3.1%	2.6%
United States	2,240.2	2,241.0	2,198.4	2,219.3	2,172.0	2.2%	3.8%	4.5%
	135,038	134,336	133,139	133,296	131,117	1.7%	2.2%	2.6%

\*Includes Adams, Arapahoe, Boulder, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson and Park counties.

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

The following sections summarize recent activity within Metro Denver's key industry clusters:

**Aviation:** United Airlines will close its Stapleton reservation center in January. The cost cutting move will save United from updating an antiquated facility but result in the loss of 250 jobs that pay between \$30,000 and \$35,000 per year. United Airlines will offer relocation to all affected employees in Chicago or Detroit. In the past three years, United has cut more than \$7 billion in expenses and roughly 25,000 jobs as part of its plan to exit bankruptcy.

Englewood-based FlightSafety Services Corp. was awarded a \$17.3 million defense contract extension for crew training on the C-5, one of the world's largest planes. FlightSafety develops and builds flight simulators that cost between \$12 million and \$20 million a piece. The company has been training pilots for more than 20 years and has a history of winning large contracts each year. In fact, the company won \$440 million in contracts from the Pentagon between 1998 and 2003. FlightSafety Services Corp. employs about 100 workers in Colorado and 500 worldwide.

**Aerospace:** Raytheon Co. was forced to cut 50 engineering and information technology jobs at its Aurora facility in November. The cuts are specifically related to changes to a classified government defense contract. Raytheon Co. employs about 2,700 workers in Aurora.

**Bioscience:** Colorado's Venture Capital Authority made its first investment since its inception in Taligen, an Aurora-based biotechnology firm. Taligen is working to commercialize a technology originally developed at the University of Colorado that manipulates proteins in the immune system to block tissue inflammation. Taligen is in the "early stages" of commercialization but has already received \$900,000 in funding from the University of Colorado and Small Business Innovation Research grants.

Medcare, a subsidiary of an Iceland-based company called Flaga Group, announced that it will be moving its global headquarters from Buffalo, NY to Denver, employing about 100 people. The medical device company develops, manufactures and sells sleep diagnostic equipment.

A new \$22 million bio-hazard laboratory is under construction at Colorado State University in Fort Collins that will house 15 research teams for the study of bioterrorism and infectious diseases. Already under construction at the site is an \$80 million federal Centers for Disease Control and Prevention infectious-disease laboratory.

**Energy:** Canada's Enerplus Resources Fund recently picked Denver for its U.S. headquarters. The Denver office is scheduled to open in early 2006 and will employ 25 workers including three transfers from Dallas and 20 local petroleum engineers, geologists, land men and support staff. Enerplus is one of Canada's largest energy income funds, a popular investment vehicle in which the company distributes most of their income to shareholders unlike typical energy investment companies that reinvest most of their income. The current market value of the Enerplus fund is \$4.9 billion with \$227 million in reported net income for the first three quarters of 2005. The Denver headquarters originated from an economic development trade mission to Canada last spring during which Mayor John Hickenlooper, Governor Owens and other economic development officials visited Enerplus.

Aurora-based Merrick & Co. officially tapped its second ethanol production plant on the Coors Brewing Co. campus in November. The plant uses residual beer waste to produce ethanol. Texas-based Valero Energy then blends the ethanol into gasoline which is distributed at Diamond Shamrock gas stations along the Front Range. The new \$2.5 million plant will double Merrick's production to 3 million gallons per year. Ethanol demand has increased threefold in the U.S. since 1996 and U.S. production increased to 3.4 billion gallons in 2004, up from 2.8 billion gallons in 2003. A federal mandate requires that 7.5 million gallons of renewable fuels like ethanol be consumed in the U.S. by 2012.

Cotter Corp. laid off 49 employees at its uranium and vanadium mines on the Western Slope and also announced additional job cuts effective in January. The Denver-based firm blames the high cost of fuels like diesel and other chemicals which have strained operating costs at the mines.

**Financial Services:** Greenwood Village-based TrueLogic plans to double its workforce by year-end by hiring 115 employees. The new hires will bring total employment to 322. TrueLogic provides collection services for banks, telecommunications companies and companies that invest in debt like auto loans and credit card debt. The 2½-year-old company recently opened a 30,000-square-foot call center to accommodate its growth.

Centrix Financial in Centennial cut 103 jobs in November as part of an internal consolidation in addition to 150 layoffs in September. The company currently employs 1,100 workers in Metro Denver, down from Centrix's peak employment of 1,500 workers. Centrix offers "sub-prime" auto loans to credit-challenged borrowers.

Anthem Blue Cross Blue Shield will hire 60 customer service workers by January to staff three new call centers in Denver. The new hires offset an earlier announcement to outsource 45 document management workers in Denver for cost reasons. Anthem Blue Cross Blue Shield is Colorado's largest health insurer.

**Information Technology:** Three of Metro Denver's publicly held telecommunications companies are seeing potential "signs of life" in terms of stock prices after five years of dismal conditions. Qwest Communications' stock price increased 20.2% from October to November. Level 3 Communications' stock price broke the \$3.00 barrier in mid-November for the first time since January and Time Warner Telecom's stock price doubled since May. Unfortunately, the companies are still losing money despite the stock gains. The three companies cumulatively employ approximately 13,000 workers in Metro Denver, about half of the total employment that they had at the industry's peak in 2000.

IBM celebrated its 40<sup>th</sup> anniversary in Colorado this year. IBM employs 4,500 workers in Boulder with an annual payroll of \$360 million and 6,000 workers in Colorado with an annual payroll of \$500 million. The technology company reports that the company and its employees pay an estimated \$40 million in state and local taxes each year. IBM also boasts that it has issued more than 150 U.S. patents in the last five years.

*The hiring pace in Metro Denver will moderate in the final quarter of the year, according to the latest Manpower Employment Outlook Survey. About 23% of the companies interviewed plan to hire more employees in the fourth quarter, down from 32% in the third quarter. From October to December, about 18% of the respondents said that they expect to reduce their payrolls, up from only 2% in the third quarter and 5% in fourth quarter 2004. Another 56% of respondents are expected to maintain current staffing patterns in the coming quarter.* Despite the softer conditions expected in the fourth quarter, the year-to-date Metro Denver employment outlook is on track with the 2004 outlook. Job prospects in the metro region appear best in non-durable goods manufacturing and wholesale/retail trade while staff reductions are expected in transportation/public utilities. Mixed hiring intentions were reported for the construction, durable goods manufacturing, finance/insurance/real estate and services sectors. No change is anticipated in the public administration sector.

The national employment outlook remains strong in the fourth quarter with 29% of companies planning to increase payrolls and only 8% of companies planning to reduce payrolls. Another 57% of respondents anticipate no change in current staffing patterns and 6% are unsure of their plans. The fourth quarter Manpower survey was conducted prior to the Gulf Coast hurricanes.

#### Employment Outlook Survey

	Quarter 4 2005	Quarter 3 2005	Quarter 4 2004	Year-to-Date Average 2005	Year-to-Date Average 2004
Percent of Companies Hiring	23%	32%	29%	29%	24%
Percent of Companies Laying Off	18%	2%	5%	7%	7%
Percent of Companies No Change	56%	63%	61%	61%	62%

Source: Manpower Inc.

*The unemployment rate in Metro Denver fell to 4.7% in October, the lowest monthly unemployment rate since September 2001. Douglas and Boulder counties reported the lowest metro unemployment rates of 3.6% and 4.0% respectively. Denver County reported the highest rate of 5.5% followed by 5.3% in Adams County. All seven Metro Denver counties reported slightly lower unemployment rates in October compared to September.* The annualized unemployment rate of 5.2% remains much improved over the 2004 rate of 5.8%. Both Colorado and the U.S. reported slightly lower average annual unemployment rates. Preliminary data released by the U.S. Department of Labor reveals an unchanged national unemployment rate from October to November.

Online job recruiting activity and related employment opportunities are on the rise, according to the Monster Local Employment Index. Online job demand increased from 106.0 in September to 107.0 in October.

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

	October 2005 (p)		2005 YTD Average		2004 YTD Average		2000	1995
	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Annual Average Unemployment Rate	Annual Average Unemployment Rate
Metro Denver	1,443.7	4.7%	1,432.2	5.2%	1,426.6	5.8%	2.5%	3.8%
Adams County	203.3	5.3%	202.2	5.9%	201.8	6.5%	2.7%	4.1%
Arapahoe Cnty	296.7	4.7%	294.7	5.2%	293.5	5.6%	2.4%	3.3%
Boulder Cnty	170.4	4.0%	167.4	4.5%	165.5	5.0%	2.3%	4.1%
Broomfield Cnty*	24.2	4.3%	24.0	4.7%	24.0	5.6%		
Denver County	307.7	5.5%	305.9	6.0%	305.7	6.8%	2.9%	4.8%
Douglas Cnty	130.1	3.6%	128.9	3.8%	128.4	4.3%	2.0%	2.4%
Jefferson Cnty	311.2	4.6%	309.1	5.0%	307.7	5.4%	2.3%	3.2%
Colorado	2,552.7	4.6%	2,544.3	5.1%	2,518.4	5.6%	2.6%	4.2%
United States	150,304	4.6%	149,173	5.1%	147,269	5.6%	4.0%	5.6%

\*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 number of first time unemployment insurance claims filed in Metro Denver increased from 4,324 in September to 4,948 in October, a month-to-month gain of 14.4%. The October filings reached the highest level since February 2005. The number of claims filed across the state fell 4.4% to 11,202 in October. On an annualized basis, first time employment claims are down 13.5% at the metro level and 10.1% at the state level.

**First Time Unemployment Insurance Claims**

	Month of	Month of	Month of	Year-to-Date	Year-to-Date	Year-to-Date	Annual
	Oct-05	Sep-05	Oct-04	Average	Average	Average	Average
				2005	2004	% Change	2000
Metro Denver	4,948	4,324	5,039	4,847	5,601	-13.5%	3,513
Colorado	11,202	11,719	11,107	10,596	11,793	-10.1%	7,951

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

**Consumer Sector**

Metro Denver prices are improving on several fronts according to various reports. ACCRA reported that Metro Denver prices are slightly below the national average according to the third quarter *Cost of Living Index* which measures the cost of consumer goods and services. The third quarter composite index for Metro Denver was 99.6, meaning that Metro Denver prices are 0.4% below the national average. The composite index is based on six components – housing, utilities, grocery items, transportation, health care and miscellaneous goods and services.

At the national level, The U.S. Department of Labor reported a minimal 0.2% increase in consumer prices nationwide during October, down from a 1.2% increase in prices the month prior. The September increase was the largest monthly price increase in 25 years. Gas prices declined 4.5% and natural gas prices rose 14% in October culminating in a 0.2% decline in overall energy costs.

Gas prices in Metro Denver continued to ease in November after peaking at just over \$3.00 per gallon for regular unleaded gas in early September. The average price in Denver and Boulder was \$2.12 per gallon as of Wednesday, December 1<sup>st</sup>, down nearly \$0.40 from just one month ago. Still, gas prices are up about 12.4% compared to this time last year. Metro Denver gas prices are aligned with the national average of \$2.14 per gallon, according to AAA's fuelgagereport.com.

In other encouraging price news, *the U.S. Department of Energy lowered its estimate for home heating costs this winter due to increased energy supplies from imports and repairs in the Gulf Coast region. The average household will pay \$1,048 this winter to heat their home with natural gas, down from \$1,096 that was estimated in October. Still, the estimated average heating cost for this winter is 41% above the winter 2004 cost.*

National retail and food sales in October slipped 0.1% from September but remain 5.7% above October 2004 sales, according to advance estimates from the U.S. Department of Commerce. Sales for the July to September period are up 6.8% over the same period last year. The sales figures are adjusted for seasonal variation, holiday and trading-day differences but not for price.

Retail analysts encouraged by falling energy prices are releasing more optimistic forecasts for the holiday shopping season. The National Federation of Retailers (NFR) recently increased its forecast for holiday retail sales growth in November and December from 5% to 6% over 2004 holiday sales. Ernst & Young LLP's Consumer Trends Center is also forecasting 6% growth while the International Council of Shopping Centers estimates between 3% and 3.5% growth. High energy costs have prompted many retailers to offer discounts earlier than normal because December heating bills could dampen consumer spending. Analysts also note that luxury retailers are likely to be least affected by high energy costs this season because of the relative impact. In 2004, Americans spent \$414 billion during the two-month period, nearly 20% of all retail sales in 2004.

The Internet continues to make a dent in the retail marketplace. The NFR estimated that approximately 59 million consumers purchased items online on Cyber Monday, the Monday following Thanksgiving.

*Retail sales in Metro Denver were up 5.7% through September compared to the first three quarters of last year. The largest year-to-date gains occurred in Douglas County (+15.5%), Adams County (+15.2%), and Boulder County (+9.5%). Jefferson County reported the smallest gain among the seven metro counties of 2.0%. Data for the City & County of Broomfield is skewed by a large payment of delinquent taxes by a company in May 2004. Retail sales throughout the state are growing at a faster pace than Metro Denver and are 7.2% higher compared to the first nine months of 2004.*

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

	Month of Sep-05	Month of Aug-05	Month of Sep-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual Growth 2000	Annual Growth 1995
Total Metro Denver	6,407,060	6,024,322	6,217,152	52,045,231	49,236,335	5.7%	12.5%	4.8%
Adams County	916,896	867,451	868,760	7,754,295	6,729,698	15.2%	9.3%	-1.7%
Arapahoe County	1,326,190	1,310,459	1,328,026	11,392,854	10,722,195	6.3%	14.2%	6.4%
Boulder County	667,273	572,327	616,944	5,044,384	4,607,441	9.5%	10.5%	5.7%
Broomfield County	132,947	117,203	124,694	1,032,292	1,880,710	-45.1%		
Denver County	1,776,343	1,619,536	1,748,512	14,049,581	13,249,951	6.0%	13.4%	3.1%
Douglas County	494,253	550,136	452,943	4,126,625	3,573,947	15.5%	16.5%	33.8%
Jefferson County	1,093,158	987,210	1,077,273	8,645,200	8,472,393	2.0%	10.8%	6.5%
Colorado	10,928,031	10,166,337	10,454,158	87,929,490	82,001,671	7.2%	10.8%	5.8%

Source: Colorado Department of Revenue.

*The consumer outlook darkened in October across the mountain region and the U.S. Consumer confidence at the national level fell to 85.0 in October, the lowest level in two years. Overall confidence levels in the mountain region slipped 18.4 points in October to 99.2, the lowest level since November 2004. Still, the mountain region reported the fourth most optimistic confidence level out of the nine regions. The October index ended a four-month trend of the mountain region confidence level exceeding all other regions. The mountain region was one of only three regions to report a decline in overall confidence levels from September to October.*

The overall confidence index is comprised of the present situation index and the expectations index. Mountain region consumers reported a decline in their perceptions of current situations from a revised 152.6 in September to 137.1 in October, the second highest reading among the nine regions. The expectations index in the mountain region also fell from a revised 94.3 in September to 74.0 in October, the fifth highest reading among the nine regions. Both index components also fell at the national level in October.

Advance estimates for national confidence levels from the Conference Board show a strong rebound from a revised 85.2 in October to 98.9. Both the present situation index and the future expectations index also improved to 114.0 and 88.8, respectively, in November.

### Consumer Confidence Index

	Month of Oct-05 (p)	Month of Sep-05	Month of Oct-04	YTD Avg 2005	YTD Avg 2004	YTD Avg % Change	Ann Avg 2000
Mountain	99.2	117.6	111.0	119.0	108.9	9.2%	142.1
United States	85.0	87.5	92.9	100.1	95.8	4.5%	139.0

Source: The Conference Board. (p)=preliminary

Hotel reservations at Colorado mountain resorts are up 4% for the 2005-2006 ski season compared to last year's season. Denver-based Mountain Travel Research Program noted that international reservations are on the rise and that travelers are increasingly using the Internet to book rooms. About 72% of reservations are currently made by phone and 28% are made online.

*Hotel occupancy rates declined in October which is typical in the fall and winter months. The average room rate, on the other hand, inched upwards from \$95.68 in September to \$96.05 in October. Both indicators are improved over October 2004 levels as well as on an annualized basis. Year-to-date hotel occupancy rates are 4.1% higher compared to the first ten months of 2004 and average room rates stand 8.8% above 2004 rates.* The statewide lodging industry has also improved over last year. The average hotel occupancy rate for Colorado declined from 64.6% in September to 58% in October. Room rental rates averaged \$94.28 in October, up from \$88.63 in October 2004. For the year, occupancy rates are 62.3%, up from 59.9% during the first ten months of 2004 and average room rental rates are \$104.59, up from \$96.10 last year.

### Metro Denver Hotel Statistics

	Month of Oct-05	Month of Sep-05	Month of Oct-04	YTD Avg 2005	YTD Avg 2004	YTD Avg % Change	Annual 2000	Annual 1995
Percent of Hotel Rooms Occupied	66.5%	69.1%	63.5%	66.6%	64.0%	4.1%	68.6%	72.5%
Average Hotel Room Rate	\$96.05	\$95.68	\$89.98	\$91.51	\$84.11	8.8%	\$89.57	\$71.44

Source: Rocky Mountain Lodging Report.

ATA Airlines will cancel its six daily flights from Denver International Airport (DIA) to Chicago and Phoenix in January following the arrival of Southwest Airlines. Southwest will offer flights to both Chicago and Phoenix starting in January. ATA Airlines has been flying to Denver since 1998 and accounted for 1.5% of the airports domestic market share in August. ATA Airlines entered Chapter 11 Bankruptcy in October 2004.

Record passenger traffic at Denver International Airport has translated into record revenue and profits for the Denver-owned airport. Airport revenues from the first half of 2005 increased 2.4% over the same period last year while airport profits or net income surged 36% over the same time period to \$32.2 million. Concession sales, parking and other services are major contributors to the increased revenues and profits.

Passenger traffic at Denver International Airport is 2.5% higher through the first three quarters of 2005 than the same period last year. Nearly 3.5 million passengers traveled through the ten-year old airport in September, bringing year-to-date traffic to almost 33.0 million passengers. DIA is on track to set another record this year for passenger traffic, surpassing the 2004 record of 42.4 million passengers.

#### Denver International Airport Passengers

	Month of Sep-05	Month of Aug-05	Month of Sep-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual 2000	Annual 1995
Number of Airline Passengers	3,450,484	4,122,226	3,304,468	32,955,405	32,145,502	2.5%	38,751,687	31,035,398

Source: Denver International Airport, Traffic Statistics.

The Colorado stock index posted an 11.4% gain through November compared to modest growth for three national indices. The Colorado stock index is a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state. The largest stock price percentage gains for November were reported by Mesa Laboratories (+36.4%), Cenveo Inc. (+30.7%), Qwest Communications (+20.2%) and United Airlines (+20.0%). The S&P 500 finished the first eleven months of 2005 up 3.1% over the same period last year. The NASDAQ reported a similar gain of 2.6% for the year while the DOW saw minimal growth of only 0.2%.

#### Stock Market Indexes

	Month of Nov-05	Month of Oct-05	Month of Nov-04	YTD Return 2005	YTD Return 2004	YTD Return 2003
Colorado	1,774.3	1,709.2	1,563.9	11.4%	10.7%	22.7%
S&P 500	1,249.5	1,207.0	1,173.8	3.1%	5.6%	20.3%
NASDAQ	2,232.8	2,120.3	2,096.8	2.6%	4.7%	46.8%
DOW	10,805.9	10,440.1	10,428.0	0.2%	-0.2%	17.3%

Sources: Development Research Partners; Yahoo! Finance.

### Residential Real Estate

Real estate has been an attractive and lucrative investment vehicle in recent years in the U.S.; however, Colorado investments have yielded less than average gains. Data from the Office of Federal Housing Enterprise Oversight shows that since 2002, existing home prices have increased by an annual average of 10.9% at the national level compared to 4.3% in Colorado. Meanwhile the Bloomberg Colorado Index and the S&P 500 have yielded annual average gains of 17.9% and 6.8%, respectively.

National sales of previously-owned homes decreased 2.7% in October as sales of existing homes declined to a seasonally-adjusted annual rate of 7.09 million. The National Association of Realtors (NAR) said the decline pushed the number of unsold homes on the market to the highest level in over 19 years. At the current sales pace, it would take 4.9 months to deplete the 2.87 million unsold homes on the market.

The previously-owned homes market in Metro Denver continues to soften in terms of sales and inventory levels. Sales of previously-owned homes are down 1.4% through November 2005 compared to the first eleven months of last year while inventory levels are up 16.3% for the same time period. The Genesis Group reported that existing homes were on the market 5.8 months during third quarter, the same length of time spent on the market during third quarter 2004. Denver (5.8 months) and the Boulder/Longmont (5.4 months) markets had the longest supply of new unsold homes on the market during third quarter this year while Douglas County had the lowest supply (1.8 months).

Annualized prices for single-family homes remain healthy despite minor decreases in November in both the average and median sales price for single-family homes. The average sales price for a single-family home fell by more than \$5,000 in November to \$312,304; however, the year-to-date average sales price is 6.1% above 2004 levels. Both the average and median sales prices for condominiums increased in November. The median sales price for condominiums reported the biggest jump in November from \$157,904 to \$165,500 in November, a \$7,600 gain. Median prices are typically a better market descriptor as average prices tend to be skewed by extremely high or low values.

### Home Sales Activity

	Month of Nov-05	Month of Oct-05	Month of Nov-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Ann Avg 2000	Ann Avg 1995
Home Sales (Under Contract)	4,350	4,570	4,726	61,092	62,084	-1.6%	37,130	28,247
Home Sales (Closed)	3,903	4,006	4,199	48,919	49,596	-1.4%	48,611	36,038
Unsold Homes on Market	26,020	26,828	22,381	26,020	22,381	16.3%	8,820	9,854
Average Sales Price-Single Family	\$312,304	\$317,748	\$290,366	\$307,450	\$289,891	6.1%	\$239,779	\$150,736
Average Sales Price-Condo	\$189,568	\$188,876	\$182,676	\$189,306	\$180,701	4.8%	\$145,197	\$87,369
Median Sales Price-Single Family	\$248,250	\$250,000	\$236,500	\$247,000	\$237,000	4.2%		
Median Sales Price-Condo	\$165,500	\$157,904	\$156,000	\$160,000	\$157,000	1.9%		

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

New home sales were up during the third quarter in five of the seven Metro Denver markets compared to third quarter 2004. The Genesis Group, based in Englewood, reported that only the Boulder/Longmont and Northeast markets experienced declining new home sales. Overall, sales volume is up 3.6% compared to the same period last year.

*The median home price in Metro Denver, which is reported on a quarterly basis by the National Association of Realtors (NAR), increased 2.1% from \$248,400 during the second quarter to \$253,500 during the third quarter. On an annualized basis, the Metro Denver market has experienced 2.7% annual appreciation compared to 12.6% appreciation at the national level. The Metro Denver market excluding Boulder County ranks as the 35th most expensive housing market out of the 150 metro areas ranked in the third quarter of 2005, down from the 29th most expensive market in the second quarter. The Metro Denver market was the seventh most expensive market just three years ago. The Boulder market currently ranks as the 18th most expensive housing market out of the 150 ranked metro areas in third quarter 2005. The most expensive housing markets are San Francisco-Oakland, CA; Anaheim, CA and Honolulu, HI.*

Lawrence Yun, the NAR's senior economist, forecasts that Metro Denver home price appreciation will approach 10% in 2006 while appreciation nationwide wanes. Other economists like Tucker Hart Adams foresee slower appreciation rates than Yun of about 3% next year.

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

	Quarter 3 2005 (p)	Quarter 2 2005 (r)	Quarter 3 2004	YTD Avg 2005	YTD Avg 2004	YTD Avg % Change	Median 2000	Median 1995
Metro Denver	\$253.5	\$248.4	N/A	\$246.0	\$239.5*	2.7%*	\$196.8	\$214.5
United States	\$215.9	\$207.9	\$188.2	\$204.0	\$181.3	12.6%	\$139.0	\$113.1

Source: National Association of REALTORS. (p)=preliminary  
\*Estimation since Q3 2004 data not available.

The Federal Deposit Insurance Corp. (FDIC) says that 53% of Colorado households cannot afford the state's median home price which the FDIC pegged at \$248,500 in November. Only Hawaii has a higher percentage of households that cannot afford the median home price. The FDIC also reported that 53% of the mortgages issued in Colorado during the second quarter of this year were adjustable-rate mortgages. Only California issued a higher rate of adjustable-rate mortgages during the same period. The Mortgage Bankers Association estimates that 15% of Americans hold adjustable-rate mortgages.

*Metro Denver foreclosures are up 17.6% through October of 2005 compared to the same period last year. Foreclosures increased from 1,126 in September to 1,282 in October. Denver, Arapahoe and Adams counties experienced the most foreclosure activity in October. The City and County of Denver leads the metro region for year-to-date foreclosures with 3,010 through October, but Adams County has seen the highest percentage increase in foreclosures compared to last year with a 33.5% increase. Broomfield County is the only county to experience fewer foreclosures through October compared to the same period last year.*

#### Real Estate Foreclosures

	Month of Oct-05	Month of Sep-05	Month of Oct-04	YTD Total 2005	YTD Total 2004	YTD Total % Change
Total Metro Denver	1,282	1,126	852	11,811	10,041	17.6%
Adams County	274	274	174	2,694	2,018	33.5%
Arapahoe County	339	320	180	2,960	2,548	16.2%
Boulder County	64	46	43	517	427	21.1%
Broomfield County	18	9	9	104	108	-3.7%
Denver County	353	260	267	3,010	2,695	11.7%
Douglas County	58	54	50	782	665	17.6%
Jefferson County	176	163	129	1,744	1,580	10.4%

Source: CB Richard Ellis.

The U.S. Department of Commerce reported a 5.9% drop in home construction from September to October, the largest monthly decline since a 17.7% drop in March 2004. The seasonally-adjusted annual rate for housing starts is currently 2.01 million, down from 2.13 million in September. October housing starts declined in both the single-family (-4.9%) and multi-family (-13.7%) markets. While the October decline was nationwide, the West led with a 10.8% drop, followed closely by a 10.5% drop in the Midwest, a 7.5% drop in the North and only a 0.5% drop in the South.

*The total number of residential building permits issued in Metro Denver decreased from 2,094 in June to 1,913 in July, an 8.6% monthly decline. The July decline follows a 37.4% increase in June. The number of permits issued in June was the highest since September 2004. Single-family permits are up 9.1% for the year while single-family (two-family) permits are down 9.8%. July ended the five month trend of zero multi-family permits issued in Metro Denver with Thornton permitting 60 apartment units. For the year, multi-family permits are down 78.9%. The top three areas for permits issued in July as well as during the first seven months of 2005 were Denver, Aurora and unincorporated Douglas County.*

#### Residential Building Permits

	Month of Jul-05	Month of Jun-05	Month of Jul-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Total 2000	Total 1995
Single-Family Units	1,372	1,603	1,289	9,391	8,610	9.1%	15,873	12,560
Two-Family Units	481	491	323	2,459	2,725	-9.8%	3,321	1,965
Multi-Family Units	60	0	391	344	1,627	-78.9%	9,116	4,979
Total Units	1,913	2,094	2,003	12,194	12,962	-5.9%	28,310	19,504

Source: Home Builders Association of Metropolitan Denver.

*A report released by the Colorado Division of Housing indicates that the statewide apartment market is steadily improving. In September, vacancy rates fell to 8.6%, down from 9.8% a year ago. Average monthly rents increased concurrently to a record \$805. Average rents do not include incentives.*

The Denver Metro Apartment Vacancy and Rent Survey revealed that the apartment vacancy rate fell to a four-year low of 7.7% in the third quarter with positive absorption of 1,178 units. The average monthly rental rate rose to \$844 in the third quarter, up from \$826 during the previous period. Incentives remain pervasive however and are not reflected in the average rent data. Through the first nine months of the year, rents are 2.3% higher compared to the same period last year. The Metro Denver apartment market will receive an added boost from the 2,500 Hurricane Katrina evacuees that located to the metro area. Hurricane Katrina rentals began in late September and are not reflected in the third quarter survey results. The Federal Emergency Management Agency, which is subsidizing the housing for the hurricane victims, is expected to add \$75 million to the local economy. Kathi Williams, the Director of the Colorado Division of Housing, estimates that 40% of the evacuees will permanently locate in Metro Denver.

#### Apartment Statistics

	Quarter 3 2005	Quarter 2 2005	Quarter 3 2004	YTD Avg 2005	YTD Avg 2004	YTD Avg % Change	Ann Avg 2000	Ann Avg 1995
Apartment Vacancy Rate	7.7%	8.0%	8.5%	8.3%	9.6%		4.6%	4.3%
Average Monthly Rental Rate (all units)	\$844	\$826	\$779	\$835	\$816	2.3%	\$763	\$564

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

#### Commercial Real Estate

Frederick Ross Co. reported improving market fundamentals for the Metro Denver office market in its October 2005 *View* report. The third quarter vacancy rate was 20.0%, down from 20.4% at mid-year. Third quarter also resulted in 426,900 square feet of positive absorption for which three-quarters was in Class A space. For the year, about 85% of positive absorption has occurred in Class A space. Frederick Ross says the Metro Denver market is on track to net a healthy 2 million square feet of positive absorption in 2005.

The *View* described relatively flat third quarter results for the central business district (CBD). The third quarter vacancy rate inched upwards to 17.1% from 16.8% in the second quarter while 57,000 square feet of negative absorption was recorded. The southeast suburban sub-market, which is home to the Denver Tech Center, experienced 132,000 square feet of positive absorption but an unchanged vacancy rate of 22.5% from the previous quarter. Frederick Ross noted improvements in the northwest market that encompasses the U.S. 36 corridor. The third quarter vacancy rate declined to 22.7% from 24.7% in second quarter and nearly 200,000 square feet of positive absorption, most of which occurred in Class A space. Vacancy rates in the northwest market are much improved considering they were as high as 35% just three years ago.

Metro Denver has the seventh highest office vacancy rate of the 36 North American metro areas surveyed by the ITRA Realty Group. According to ITRA, the vacancy rate in Metro Denver during third quarter registered 17.2% and the average rent was \$17.15 per square foot.

*R. C. Myles with Fuller Real Estate estimates the overall office vacancy rate in Metro Denver will finish 2005 at 17%, down from 20% in 2004. Fuller also estimates the average Class A office rent in 2005 will be \$19 per square foot, down slightly from \$20 per square foot in 2004. The Metro Denver office market has room to improve compared to conditions in 2000 when the overall office vacancy rate was 10% and Class A office rents were \$35 per square foot.*

Data from Costar Realty Information, Inc. also indicates an improving office market in Metro Denver. Direct and total vacancy rates including sublet space declined for the fourth consecutive quarter to 14.1% and 15.7%, respectively, in the third quarter. The average lease rate increased

from \$17.06 per square foot during the second quarter to \$17.47 per square foot in the July-September period, the highest rate in nearly two years. The national office market is healthier than the Metro Denver market based on fundamentals, according to CoStar data. The national vacancy rate decreased in the third quarter to 12.5% and the average lease rate increased to \$22.26 per square foot

### Office Market Statistics

	Quarter 3 2005	Quarter 2 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	4,381	4,315	4,288	4,247	4,172	4,091
Existing Square Feet (millions)	149.8	149.2	148.8	147.3	146.1	142.5
Vacant Square Feet (millions)	21.1	21.6	22.6	22.2	18.4	12.7
Vacancy Rate (Direct)	14.1%	14.5%	15.2%	15.1%	12.6%	8.9%
Vacancy Rate (With Sublet)	15.7%	16.1%	17.2%	17.6%	15.3%	11.7%
Average Lease Rate (per square foot)	\$17.47	\$17.06	\$16.90	\$17.52	\$19.64	\$21.19
New Construction Completed (year-to-date)	0.50 MSF, 31 Bldgs	0.30 MSF, 20 Bldgs	1.05 MSF, 31 Bldgs	1.22 MSF, 36 Bldgs	2.39 MSF, 66 Bldgs	6.07 MSF, 92 Bldgs
Currently Under Construction	1.21 MSF, 32 Bldgs	0.86 MSF, 31 Bldgs	0.82 MSF, 27 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 picked up in the third quarter to its most active level since fourth quarter 2002. Still, construction remains at minimal levels in response to somewhat soft market conditions. About 1.2 million square feet of new office space is currently under construction in Metro Denver of which more than half is located in Denver. The three largest office buildings under construction are the Denver Newspaper Agency and the Environmental Protection Agency buildings in Downtown Denver and a 150,000 square-foot building in the CentreTech Business Park in Arapahoe County. About 500,000 square feet of office space has been added to the Metro Denver market through the first three quarters of 2005, down from 1,050,000 square feet added through third quarter 2004.

*The Metro Denver industrial market steadily improved during third quarter according to Frederick Ross Co. Vacancy rates continued to decline to 8.2% and the market absorbed almost 435,000 square feet of industrial space. The Industrial/Warehouse sub-category reported a 6.6% vacancy rate and 193,000 square feet of positive absorption.*

Fuller Real Estate estimates the overall industrial vacancy rate in Metro Denver will average 7.6% in 2005, an improvement over the 2004 annual rate of 8.1%. Fuller estimates industrial rents will average \$5.50 per square foot (NNN) in 2005, up slightly from \$5.25 per square foot last year. In 2000, Fuller Real Estate reported a 5.6% overall vacancy rate and an average rent of \$7.75 per square foot (NNN).

Metro Denver's third quarter industrial real estate market improved slightly from third quarter of 2004 in terms of both vacancy rates and average lease rates, according to data from CoStar. The direct vacancy rate fell 0.1 percentage points to 7.7% while the total vacancy rate including sublease space dropped from 8.4% to 8.1%. The average lease rate increased from \$4.64 NNN during third quarter 2004 to \$4.73 NNN during third quarter 2005. CoStar reported a national average industrial vacancy rate of 9.3% during the third quarter and a national average lease rate of \$5.77 per square foot

About 840,000 square feet of new industrial buildings are in the works, the largest of which is a 284,000 square-foot ProLogis building in Adams County. Through September, about 610,000 square feet of industrial space in 21 buildings has been completed. Adams County accounts for 71% of recently completed industrial space.

### Industrial Market Statistics

	Quarter 3 2005	Quarter 2 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	5,496	5,433	5,414	5,376	5,323	5,278
Existing Square Feet (millions)	195.5	194.2	193.5	191.4	191.0	188.0
Vacant Square Feet (millions)	15.0	14.5	15.1	13.4	11.8	9.6
Vacancy Rate (Direct)	7.7%	7.5%	7.8%	7.0%	6.2%	5.1%
Vacancy Rate (With Sublet)	8.1%	8.0%	8.4%	7.8%	7.1%	5.7%
Average Lease Rate (per square foot)	\$4.73	\$4.66	\$4.64	\$4.96	\$5.41	\$5.63
New Construction Completed (year-to-date)	0.61 MSF, 21 Bldgs	0.27 MSF, 13 Bldgs	1.40 MSF, 27 Bldgs	1.33 MSF, 32 Bldgs	2.20 MSF, 35 Bldgs	2.09 MSF, 33 Bldgs
Currently Under Construction	0.84 MSF, 21 Bldgs	0.73 MSF, 18 Bldgs	0.61 MSF, 14 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

The Flex/R&D market is also strengthening according to Frederick Ross Co. Third quarter data marked the seventh consecutive quarter for which Flex/R&D indicators were positive. Vacancy rates fell to 18.7% in the third quarter from 19.7% in the second quarter. The Flex/R&D market also recorded 241,000 square feet of positive absorption during the third quarter, led by the southeast sub-market.

*CoStar data shows positive quarterly movements in the flex space market but mixed results in terms of average lease rates when compared to third quarter 2004. The direct vacancy rate remained stable at 15.1% during the third quarter of 2005 but is down from 16.7% a year ago. The vacancy rate including subleases decreased to 16.3% in the third quarter and is also down from a year ago. Meanwhile, the average lease rate increased to \$8.24 NNN per square foot but remains below third quarter 2004 levels.*

### Flex Space Statistics

	Quarter 3 2005	Quarter 2 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002	Quarter 3 2001
Number of Buildings	1,205	1,187	1,177	1,168	1,151	1,113
Existing Square Feet (millions)	36.7	36.5	36.3	36.1	36.4	36.2
Vacant Square Feet (millions)	5.5	5.5	6.1	6.1	5.1	4.5
Vacancy Rate (Direct)	15.1%	15.1%	16.7%	17.0%	14.2%	13.1%
Vacancy Rate (With Sublet)	16.3%	16.8%	18.5%	18.6%	16.1%	14.8%
Average Lease Rate (per square foot)	\$8.24	\$8.16	\$8.39	\$8.35	\$8.55	\$9.42
New Construction Completed (year-to-date)	0.26 MSF, 16 Bldgs	0.10 MSF, 5 Bldgs	0.08 MSF, 3 Bldgs	0.14 MSF, 4 Bldgs	0.67 MSF, 19 Bldgs	2.21 MSF, 48 Bldgs
Currently Under Construction	0.23 MSF, 7 Bldgs	0.22 MSF, 11 Bldgs	0.34 MSF, 16 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

Seven flex buildings with nearly 230,000 square feet are currently under construction, half of which is occurring in Jefferson County. Through September, about 260,000 square feet of new flex space was added to the Metro Denver market, half of which occurred in Douglas County.

Cleveland-based Forest City Enterprises Inc. will have the first shot at becoming the long-term developer for the Fitzsimons bioscience park. The Fitzsimons Redevelopment Authority (FRA) singled out the Stapleton developer for its experience with bioscience parks and because of its success with nearby Stapleton. Initial plans for the 16-acre park include 3.5 million square feet of building space valued at \$2 billion. Build out is slated to last 15 to 20 years. London-based Peninsular and Oriental Group, current owner of the Denver Tech Center and Meridian International Business Park, is the FRA's other top choice.

*Retail vacancy rates fell to 7.2% during the third quarter from 7.5% at mid-year, the ninth consecutive quarterly drop in vacancy rates according to Frederick Ross Co. About 150,000 square feet of new construction was added to the market during the third quarter but 6 million square feet of new space is in the pipeline, including regional malls and lifestyle centers. Investment activity in retail properties during the July-September period remained high with eight property deals totaling \$3 million in transactions.*

Several new hospital developments are underway in Metro Denver including the recently announced Exempla hospital in southern Jefferson County and the HCA-HealthONE Children's Hospital in Denver. Exempla will break ground this spring on the Lutheran Medical Center Southwest, a \$30 million outpatient facility that will provide immediate care, primary and specialty care and diagnostic services. The 250,000-square foot facility is scheduled to open in 2007.

HCA-HealthONE will distribute \$250 million among three of its Metro Denver hospitals for improvements, upgrades and a new Children's Hospital in Denver's Uptown neighborhood. Presbyterian/St. Luke's Medical Center in Denver will receive \$111 million for renovations at the existing facility and for the HealthONE Children's Hospital at P/SL. The 54-bed pediatric care unit will encompass 100,000 square feet and include an intensive care unit, operating rooms, emergency department and diagnostic imaging area. Swedish Medical Center and The Medical Center of Aurora will also benefit from upgrades and expansions.

Mixed-use development activity remains high in Metro Denver. Parker will soon be home to a \$60 million, 46-acre mixed-use development that will feature 150 homes, a town center and 340,000 square feet of retail space, office space and restaurants. The developer, Boulder-based O'Conner Group, likens the town center component to Lakewood's Belmar. The first phase is 18,000 square feet of strip center retail and nine retail pads.

Golden will also see new investment in mixed-used development. NexCore Group LP will raze the Hested's Department Store building in downtown Golden and build 35 residences priced from \$200,000, 12,000 square feet of office space and 18,000 square feet of retail space. The project's estimated value is \$25 million.

A growing trend across the nation and in Metro Denver is incorporating sports franchises into mixed-use developments. Some analysts question whether high-priced franchises that are typically second-tier leagues and arenas and often funded with public money are worth the risk. There are five similar developments in various stages along the Front Range including The Ranch in Loveland (minor-league hockey), Prairie Gateway in Commerce City (major-league soccer), Arista in Broomfield (minor-league hockey and men's basketball) and independent, minor-league baseball stadiums are being discussed in both Aurora and Arvada.

**Monthly Economic Summary of Metro Denver**

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↓	↑	Employment decreased by 1,200 jobs from Sep to Oct; 2.0% annual growth rate
% Companies Hiring	↓	↑	23% of companies expect to add workers in 4th quarter 2005; 18% expect decrease
Unemployment Rate	↓	↓	Rate decreased to 4.7% in Oct, lowest since Sep 2001; U.S & CO rates lower than metro
Initial Claims	↑	↓	Initial unemployment claims increased in Oct; annual claims down 13.5% from 2004
Total Retail Sales	↑	↑	Total retail sales up 5.7% through Sep; up 7.2% for state
Consumer Confidence Index	↓	↑	Mountain region and U.S. confidence levels decreased in Oct but still above 2004 levels
Hotel Occupancy	↓	↑	Hotel occupancy down in Oct to 66.5%; average room rate stable at \$96 per night
DIA Passengers	↓	↑	Traffic up 2.5% in first nine months of 2005, serving nearly 33.0 million passengers YTD
Colorado Stock Index	↑	↑	CO Stock Index increased 11.4% through first eleven months of 2005
Dow Jones Industrial Average	↑	↑	Dow increased in November but is up only 0.2% year-to-date
Home Sales (closed)	↓	↓	Home sales through Nov down 1.4% from last year; median SF sold price up 4.2%
Median Home Price	↑	↑	Median home price increased to \$253,500 in Q3 2005; 2005 price 2.7% higher than 2004
Foreclosures	↑	↑	Foreclosures up 17.6% through Oct; biggest gains in Adams, Boulder & Douglas counties
Residential Building Permits (Total)	↓	↓	Total permits down 5.9% through July 2005; 78.9% decrease in multi-family permits
Apartment Vacancy Rate	↓	↓	Vacancy rate decreased to 7.7% in Q3 2005; avg rental rate increased to \$844 per month
Office Vacancy Rate (with Sublet)	↓	↓	Vacancy rate with sublet now 15.7%; 1.21 million sq. ft. construction is underway
Industrial Vacancy Rate (with Sublet)	↑	↓	Increase in vacancy rate with sublet to 8.1%; 0.84 million sq. ft. of construction underway
Flex Space Vacancy Rate (with Sublet)	↓	↓	Vacancy rate with sublease decreased to 16.3%; minimal construction underway
<b>Positive Changes</b>	<b>8 of 18</b>	<b>15 of 18</b>	