MONTHLY ECONOMIC SUMMARY

A Monthly Summary of Economic Conditions

in Metro Denver

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

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MONTHLY ECONOMIC SUMMARY
OF METRO DENVER

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

Notable Rankings

- Colorado ranked third in the nation for economic development potential from nanotechnology research behind Massachusetts and California, according to New York-based Lux Research. The rankings show that Colorado is blessed with many opportunities to excel in nanotechnology, which is the science of creating new products through the manipulation of atoms and molecules. Cited opportunities include the National Renewable Energy Lab, a highly educated workforce and a pro-business climate. Metro Denver is also home to leading nanotech companies like ZettaCore, a cutting-edge startup, along with ALD Nanosolutions, ITN Energy and Astralux. Virginia and New Mexico rounded out the top five rankings.
- Colorado bank growth ranked first in deposits and branches for the 10-year period ending second quarter 2004. Colorado deposits grew 84% over the ten-year period, totaling $64.5 billion. Further, Colorado's percentage growth in branch office was the third highest in the nation over a five-year period and first in a one-year period. Over the ten-year period, branches with more than $1 billion in assets grew 199% compared to 11.2% growth experienced by branches with less than $1 billion in assets.
- Children's Hospital in Denver is the seventh best hospital in the nation, according to *Child Magazine's* survey. Children's has the fifth best cancer program in the nation, the ninth best neonatal intensive care unit and the tenth best heart institute. In addition, Children's has been ranked as one of the best children's hospital by *U.S. News & World Report* for more than a decade.
- Colorado ranked as the third-fastest-growing state in incremental broadband growth through the first half of 2004. Colorado connections increased 4.8% or by 94,000 connections during the first two quarters compared to 3.4% growth at the national level. The faster growth will help Colorado catch up to other states since Colorado currently ranks 20th in overall broadband penetration at 24.7%, roughly equal to the national average of 24.6%. As of mid-year 2004, there were 522,028 broadband connections in Colorado. Some analysts find broadband penetration is highly related to average income levels. Only Alaska and Connecticut experienced faster connection growth during the same period.
- Metro Denver ranks first in moviegoers among the 75 U.S. markets tracked by Scarborough Research. The rankings are based on the percent of adults who saw at least one movie in the past 30 days. Metro Denver scored 34.7% followed by San Francisco/Oakland/San Jose (34.5%) and San Diego (34.4%). Rounding out the top five were Salt Lake City (34.1%) and Los Angeles (33.4%).
- Fewer venture capital funds flowed into Colorado last year according to the Money Tree Survey by PriceWaterhouseCoopers, which reports funding decreased from $628 million in 2003 to $444 million in 2004. Venture funding increased 11% nationwide in 2004. On the other hand, an Ernst & Young study that reports money committed versus money received paints a more positive picture. According to Ernst & Young, venture capital funding

committed increased from $354 million to $370 million in 2004. Regardless, experts say out-of-state interest is growing and expect to see significant improvements in venture capital funding in Colorado in 2005.

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 U.S. According to preliminary data from the Bureau of Economic Analysis, GDP grew at an annual rate of 3.1% in the last quarter of 2004 compared to 4.0% in the previous quarter. Major contributors to the slower increase in real GDP were personal consumption expenditures, equipment and software, private inventory investment, and government spending; however, these gains were partially offset by a negative contribution from exports. GDP increased a healthy 4.4% for the year.

The U.S. trade deficit increased 7.7% in November reaching $60.3 billion, a record high. The Commerce Department also reported that the deficit is expected to surpass $600 billion in 2004, well over the $496.5 billion deficit in 2003. International trade activity is anticipated to increase between Australia and the U.S. under the Australian-United States Free Trade Agreement (AUSFTA) that went into effect in January 2005. Australia is Colorado's 15th largest export market, with year-to-date sales totaling $110 million through October 2004. North American Free Trade Agreement (NAFTA) partners remain at the top of Colorado's export market list; but the strongest export trade growth has occurred between Colorado and South Korea and Malaysia.

The Federal Open Market Committee (FOMC) of the Federal Reserve is expected to increase the federal funds rate on February 2, their first meeting of 2005. Most economists expect the Committee to continue to increase the rate throughout 2005 as the national economy expands, albeit conservatively. In December, the FOMC raised the target for the federal funds rate for by a quarter point, bringing the federal funds rate to 2.25%. The December increase was the fifth of its kind since June 2004. 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.

National inflation increased an average of 2.7% in 2004, the steepest increase in three years. Analysts blame the increase on rising gasoline and energy costs in 2004 even though prices moderated toward the end of the year. In fact, the Consumer Price Index, which is used to measure inflation, dipped 0.1% in December. Fuel costs were also to blame for inflationary pressure in 2003. There is reason to believe that oil prices will moderate considerably in 2005, providing some inflationary relief.

Final 2004 statistics for a majority of the economic variables are included in this month's report. Without a doubt, the metro Denver economy was significantly stronger at the end of 2004 compared to the end of 2003. Indeed, various indexes for the region indicate a growing or stabilizing metro Denver economy:

- The Vectra Bank Colorado Small Business Index for Colorado did not change in December from the revised 95.6 of the previous month, indicating stability and steady growth. The index's most heavily weighted component, the unemployment rate, remained at 5.0% for the last two months of the year. Because the index assesses economic conditions from a small-business perspective, higher unemployment is considered a positive movement because it implies better access to labor. The national index slipped to 102.0 in December from 104.2 in November. The 100 level represents the benchmark year of 1997.
- The Colorado service economy index slipped to 56.05 in December from 60.55 in November. According to the index produced by the University of Colorado at Denver Business School, values greater than 50 indicate growth. The results indicate that the economy is still growing, but perhaps at a slower pace. The nation's service sector expanded in December due to continued improvements in employment and rising prices, according to the Institute of Supply Management's non-manufacturing index. The index steadily increased to 63.1 in December

from 61.3 in November and 59.8 in October. Services represent the largest component of the U.S. and Colorado economies.

- The Front Range Purchasing Managers Index, which measures the health of the manufacturing sector, jumped to 57.1 in December after dipping to 47.2 in November. According to the index compiled by the University of Colorado at Denver, a score above 50 indicates expansion while a score below 50 indicates a contraction. This index focuses on the behavior of manufacturers, activity that typically slows late in the year. At the national level, the index continues its upward trend, climbing to 58.6 in December from 57.8 in November.
- The Leading Index remained at 100.4 in October, continuing the generally upward movement that began in March 2004. The Leading Index, compiled by Development Research Partners, includes seven economic variables and is a predictor of changing economic activity six to nine months in the future. The Historic Index increased to 129.2 in October, up from 128.6 in September. The Historic Index measures year-over-year growth, so both the direction and magnitude of change are important. The volatility in recent months reflects the volatility of the two economic indicators included in the Historic Index – retail sales and employment.
- The Mountain States Business Conditions Index from the survey of supply managers and business leaders in Colorado, Utah and Wyoming increased to 66.4 in December, up from 60.6 in November. According to the monthly index compiled by Creighton University, an index value greater than 50 indicates economic growth in the next three to six months. The Colorado index experienced a decrease to 70.6 in December, down from 76.1 in November. While durable goods reported strong results, the information industry (including telecommunications) continues to report weak conditions, according to the report.
- Colorado business leaders remain cautiously optimistic about the economic outlook for Colorado and the national economies, according to Compass Bank's Colorado Business Leaders Confidence Index. The index fell in the first quarter 2005 to 61.3 from 63.8, the second consecutive quarterly decline, indicating positive, but weakening confidence. Numbers above 50 suggest expansion while numbers below 50 suggest economic contraction in the survey conducted by the Leeds School of Business at the University of Colorado.

Labor and Employment

Employment in metro Denver improved for the fourth consecutive month in December with the addition of 2,600 positions over November, according to preliminary employment statistics from the Colorado Department of Labor and Employment. December is traditionally a month of high employment due to the holiday retail season and December 2004 employment levels were the highest since December 2002. The December gain results in a 0.1% increase in year-to-date average employment over 2003, representing an increase of 700 positions. The employment situation has been generally improving in metro Denver since March 2004.

Seven of the 12 major industry categories posted gains in 2004 over 2003. In absolute terms, the strongest job growth in 2004 occurred in the professional and business services sector (+3,800 jobs), education and health services sector (+2,500 jobs), and government sector (+1,500 jobs) mainly due to increases at the state and local levels. On the other hand, certain sectors continue to be plagued with job losses including construction (-4,600 jobs), information (-2,500 jobs) and manufacturing (-1,300 jobs) sectors.

The employment picture continues to improve more rapidly at the state level than the metro level, propped up by seasonal workers at ski resorts and holiday retail workers. Average annual employment was 13,800 positions higher in 2004 than in 2003, a 0.6% increase. The Federal Deposit Insurance Corp. is forecasting between a 2% and 3% employment increase for Colorado in 2005, implying the strongest job gains since 2000. The national economy closed 2004 with a 1.0% average annual employment gain over 2003, the fastest rate of growth since 2000.

Job growth is expected to strengthen in 2005 at the national, state and local levels. According to the *2005 Economic Forecast for Metro Denver* by Development Research Partners, national employment will expand by 1.9% compared to a 2.0% growth rate in Colorado. Job growth in metro Denver will continue to lag slightly, expanding by 1.6% or 21,300 positions.

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

	Month of Dec-04 (p)	Month of Nov-04	Month of Dec-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	1,319.9	1,317.3	1,301.3	1,300.2	1,299.5	0.1%	3.9%	4.3%
Natural Resources & Mining	5.6	5.5	5.3	5.4	5.2	5.0%	-12.7%	-2.8%
Construction	80.6	82.9	82.4	81.3	85.9	-5.4%	12.3%	8.5%
Manufacturing	90.7	90.1	90.1	89.6	90.9	-1.5%	-1.5%	0.8%
Wholesale & Retail Trade	208.1	205.1	207.7	202.6	203.1	-0.2%	3.2%	5.5%
Transp., Warehousing & Utilities	53.6	53.2	50.8	51.7	50.7	1.9%	3.5%	3.4%
Information	61.8	61.6	63.6	61.9	64.4	-3.8%	12.4%	13.8%
Financial Activities	106.7	106.9	108.8	106.7	106.5	0.1%	3.8%	5.5%
Professional and Business Services	210.2	210.1	198.5	204.8	201.0	1.9%	5.9%	4.9%
Education & Health Services	133.6	133.3	132.0	131.4	128.9	2.0%	1.2%	3.5%
Leisure and Hospitality	123.1	122.8	121.1	124.2	123.7	0.4%	4.6%	5.3%
Other Services	49.0	48.7	48.4	48.8	48.9	-0.2%	2.1%	5.9%
Government	196.9	197.1	192.6	191.9	190.4	0.8%	1.4%	0.3%
Federal Government	33.4	32.2	32.7	32.3	32.2	0.3%	-1.5%	-4.5%
State & Local Government	163.5	164.9	159.9	159.6	158.2	0.9%	2.1%	1.9%
Colorado	2,207.7	2,192.9	2,167.1	2,164.2	2,150.4	0.6%	3.6%	5.1%
United States	133,027	133,207	130,862	131,287.0	129,931.0	1.0%	2.4%	3.1%

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

The U.S. Department of Defense continues to select Colorado companies to assist in Air Force and Army operations. Lockheed Martin Commercial Space Systems Company was awarded a $7.5 million contract for work related to the Titan missile program that will continue well into 2008. TEAM Integrated Engineering Inc. and other companies were selected to provide advisory and assistance services in support of the Air Force Center for Environmental Excellence missions under terms of an $850 million contract. Finally, Denver-based PCL Construction Services Inc. was chosen by the Department to build a Chapel Center at Buckley Air Force Base for $5.3 million.

California-based Clipper Windpower Inc. is considering opening a plant in Colorado to build the largest wind turbines in the nation. The turbines, which generate electricity from wind, stand 435 feet in the air – higher than some downtown skyscrapers. The manufacturing plant would initially employ 75 workers earning $42,000 annually but employment has the potential to expand to 550 workers. Clipper currently leases space at the National Renewable Energy Lab for product development and testing.

The natural resources and mining sector is extremely active on multiple fronts. Colorado's oil and gas sector had an all-around record year in 2004. Last year, 2,917 drilling permits were issued in the state, an all-time record high and above the previous record set in 1981 of 2,378 permits. Also, the number of active wells increased 8% to a record 26,968 in 2004. Drilling companies have been encouraged by rising natural gas prices and new federal land that the Bush administration has made available for drilling. Analysts estimate that the value of Colorado's natural gas production determined by volume and price is about $6 billion. Two pipelines that will carry natural gas to out-of-state destinations are in the planning stages. El Paso Corp. will spend $180 million in 2005 on the pipelines which they hope to have in operation by the end of the year.

In addition, Colorado coal production hit a record high for the fourth year in a row due to increased demand from electric utilities and supply limitations in the Eastern states. In 2004, production increased 12% to 40.1 million tons valued at $1.08 million, moving Colorado from the seventh to the sixth highest-producing coal state. Western coal is less expensive to mine that Eastern coal since the majority is accessible from surface mines; however, Western coal also produces less energy than Eastern coal. There are currently five coal plants either planned or under construction in Colorado that will support the increased demand.

Three closed uranium and vanadium mines in Colorado will reopen in 2005, adding to the momentum in Colorado's natural resources and mining industry. Uranium is a radioactive mineral used primarily as fuel by the nuclear industry. Vanadium is a hardening mineral like molybdenum that is used by the steel industry. Furthermore, with gold prices in the neighborhood of $400 per troy ounce, the outlook for Colorado gold production is bright in 2005.

About 25% of metro Denver employers will hire new staff in the coming quarter and only 2% plan to reduce payrolls, according to the newly released first quarter 2005 Manpower Employment Outlook Survey results. The results indicate weaker expectations than in the previous two quarters (29% in 4th quarter 2004 and 36% in 3rd quarter). However, first quarter 2005 results are more optimistic compared to first quarter 2004 when only 15% of the employers surveyed planned to add workers. Job prospects appear best in construction, durable and non-durable goods manufacturing, wholesale/retail trade, services and public administration. Little change is expected in transportation/public utilities, finance/insurance/real estate and education. National results also suggest stability with 24% of the 16,000 surveyed employers planning to add positions and 10% planning to decrease payrolls.

Employment Outlook Survey

	Quarter 1 2005	Quarter 4 2004	Quarter 1 2004	YTD AVG 2005	YTD AVG 2004
Percent of Companies Hiring	25%	29%	15%	25%	15%
Percent of Companies Laying Off	2%	5%	17%	2%	17%
Percent of Companies No Change	70%	61%	51%	70%	51%

Source: Manpower Inc.

Despite the positive employer outlook, about three-fourths of Denverites considered job opportunities to be "fair" or "poor" in 2004, up from 50% of the population in 2003. The 2004 Citizen Survey also reported 86% of residents think job growth is "too slow" when only 58% of residents thought the same in 2003.

Indeed, January was a tough month for metro Denver employment. Following the Oracle Corp - PeopleSoft Inc. merger, Oracle Corp. laid off 9% of its workforce or a total 5,000 workers of which about 600 jobs were lost locally. However, Oracle competitor QAD Inc. is recruiting the laid-off workers and plans to open a Denver office. QAD plans to hire 10 positions initially but could grow employment to 50 within six months.

Level 3 Communications announced it will reduce its workforce by between 500 or 600 positions, or about 12% of its total workforce. Most of the January losses occurred at the Broomfield headquarters. The company has cut jobs annually since 2001 when more than 2,000 job cuts were announced. Level 3 operates five-optic networks in the U.S. and Europe and currently employs 5,000 workers.

Shareholders recently approved the merger of Golden-based Coors Brewing Company with Montreal-based Molson Inc. It is likely that the new Molson Coors Brewing Co. will eliminate duplicative positions, which is likely to mean layoffs in Golden. Specific staffing plans have not yet been announced.

In other job loss news, Jefferson County will soon loose 200 jobs when Knowledge Learning Corp., a leading child-care business, moves its corporate headquarters to Portland, OR. The move comes after Knowledge Learning acquired Portland-based competitor KinderCare Learning Centers, Inc. for $1 billion. ACT Teleconferencing in Golden cut 35 jobs or 10% of its workforce as part of a global consolidation. ACT provides audio, video and Web-based conferencing services to a global clientele.

The metro Denver unemployment rate increased slightly to 5.0% in December, up from a revised 4.9% in November, with declines in both the total labor force and the total number of people employed. Three of the seven metro Denver counties experienced increasing unemployment rates, while Arapahoe and Douglas counties experienced slightly lower unemployment rates. No changes were reported in Boulder and Broomfield counties. Metro Denver's year-to-date average unemployment rate of 5.1% represents a significant improvement from last year's rate of 6.2%. The average annual unemployment rate in metro Denver is equal with the state's rate and continues to be lower than the U.S. average of 5.5%.

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

	December 2004 (p)		2004 YTD Average		2003 YTD Average		1999 Annual Average	1994 Annual Average
	Total Labor Force	Unemploy-ment Rate	Total Labor Force	Unemploy-ment Rate	Total Labor Force	Unemploy-ment Rate	Unemploy-ment Rate	Unemploy-ment Rate
Metro Denver	1,471.2	5.0%	1,452.5	5.1%	1,427.8	6.2%	2.4%	3.9%
Adams County	208.3	6.0%	205.6	6.0%	201.9	7.1%	2.7%	4.2%
Arapahoe Cnty	302.1	4.8%	298.6	5.0%	293.1	6.1%	2.1%	3.5%
Boulder Cnty	179.3	4.4%	176.3	4.5%	175.5	5.8%	2.6%	3.7%
Broomfield Cnty	24.4	4.8%	24.1	5.0%	23.7	6.1%		
Denver County	311.8	6.1%	308.1	6.2%	302.7	7.4%	3.1%	5.0%
Douglas Cnty	124.9	3.5%	123.3	3.6%	120.9	4.6%	1.4%	2.5%
Jefferson Cnty	320.4	4.5%	316.3	4.6%	310.1	5.6%	2.2%	3.4%
Colorado	2,536.0	5.0%	2,518.5	5.1%	2,477.9	6.0%	2.9%	4.2%
United States	147,877	5.1%	147,401	5.5%	146,510	6.0%	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 fell in December at both the metro and state levels. In metro Denver, December claims fell to 12.2% to 5,417 claims, while claims at the state level fell 4.9% to 12,510 claims. The December decreases bring the 2004 average monthly claims to only 5,633 for metro Denver, 21.5% lower than in 2003. Similar slowing can be seen at the state level with an 18.7% decrease in average annual claims in 2004.

First Time Unemployment Insurance Claims

	Month of Dec-04	Month of Nov-04	Month of Dec-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Annual Average 1999
Metro Denver	5,417	6,167	7,060	5,633	7,193	-21.5%	3,801
Colorado	12,510	13,157	15,499	11,966	14,721	-18.7%	7,857

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

Business bankruptcies in Colorado reached the highest level in 2004 since 1993, increasing 43.5% to 775 filings. The U.S. Bankruptcy Court for the District of Colorado also reports total bankruptcies, including personal filings, increased 8.6% over 2003, reaching a record high of 27,991 filings in 2004. The good news is filings slowed considerably in the second half of 2004.

Consumer Sector

Last-minute holiday shoppers boosted retail sales during the 2004 holiday season. National retail sales increased 5.7% compared to the 2003 holiday season, according to the National Federation of Retailers. For the year, national sales ended 6.7% higher than 2003 levels, the steepest increase since 1999's growth rate of 7.9%. However, the Federation is forecasting sales to grow at a slower pace of 3.5% in 2005 due to higher interest rates and worrisome debt levels.

The Commerce Department reported December retail sales finished 1.2% higher than November, mainly due to increased auto sales which jumped 4.3% after posting a 1.0% decline in the month prior. Car dealerships introduced consumers to attractive incentive programs in the last month of the year, spurring sales. Consumer spending excluding automobiles increased a moderate 0.3%, slightly lower than the 0.4% increase in November. On an annual basis, 2004 retail sales increased 8.0% over 2003, the largest percentage increase since 1999 when retail sales grew 8.5%, according to the Commerce Department.

Retail sales through December of 2004 will not be available until March for metro Denver. At this point, data through October remains the latest available. The October information, initially presented last month, is repeated this month.

Total Retail Sales ($000s)

	Month of Oct-04	Month of Sep-04	Month of Oct-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual Growth 1999	Annual Growth 1994
Total Metro Denver	5,400,136	6,217,152	4,934,523	54,636,471	50,967,172	7.2%	7.0%	9.8%
Adams County	735,172	868,760	658,613	7,464,870	6,704,738	11.3%	10.5%	14.0%
Arapahoe County	1,237,967	1,328,026	1,150,000	11,960,162	11,754,301	1.8%	10.2%	5.9%
Boulder County	519,902	616,944	474,169	5,127,343	5,089,655	0.7%	4.1%	7.1%
Broomfield County	102,669	124,694	97,507	1,983,379	1,114,294	78.0%		
Denver County	1,464,443	1,748,512	1,372,707	14,714,394	13,717,445	7.3%	2.2%	8.0%
Douglas County	399,756	452,943	345,064	3,973,703	3,410,413	16.5%	18.3%	29.0%
Jefferson County	940,227	1,077,273	836,463	9,412,620	9,176,326	2.6%	7.3%	15.2%
Colorado	8,955,428	10,484,060	8,135,885	91,107,857	84,987,158	7.2%	7.4%	11.6%

Source: Colorado Department of Revenue.

Metro Denver retail sales have posted a 7.2% gain through October compared to the first ten months of last year, bringing the year-to-date total to $54.6 billion. The same 7.2% increase can be found at the state level, reaching $91.1 billion in total retail sales. Sales dropped in all seven metro-area counties and at the state level from September to October, reflecting seasonal changes and exhausted back-to-school shoppers that need a rest before holiday shopping picks up. The strongest annual gains are occurring in Broomfield, Douglas and Adams counties. Retail activity is essentially flat in Boulder County. Sales are only slightly improved in both Arapahoe and Jefferson counties.

Payment cards, including debit and credit cards, are becoming a staple in the American consumer economy. For the first time, electronic payments surpassed check payments in 2003. In 1970, 16% of American households had a payment card compared to 73% today. In 1971, the average payment cards per household totaled 0.6 compared to 7.8 in 2003. Merchant popularity has grown along with households as only 820,000 merchants accepted payment cards in 1971 compared to 5.3 million today.

The second of three Lord & Taylor department stores in metro Denver closed in January. The Broomfield store at Flatiron Crossing was one of 32 planned closures in 15 states as Lord & Taylor transitions to a more up-scale department store. The Park Meadows store closed last May but the Cherry Creek store will continue to operate for an undisclosed length of time. Flatirons Crossing owner, Macerich Co., has not announced future plans for the 120,000-square-foot site.

Colorado casinos benefited from an improving economy in 2004. After experiencing their first decline in 13 years in 2003, casino revenues increased 4% in 2004. Central City's new four-lane road that opened in November is attributed with sparking interest and making Central City casinos more accessible to metro Denver gamblers.

The consumer confidence index for the mountain region increased in December to 119.8 from a revised 95.1 in November. The overall index incorporates two indices: the present situation index and the expectations index. For the mountain region, the present situation index showed a strong increase from 110.1 to 131.5 along with an increase in the expectations index from 85.1 to 112.1, indicating consumers perceived improving business conditions presently and in the future. Overall, the mountain region's average annual confidence level for 2004 of 108.7 is above the national average of 96.0. The mountain region currently reports the highest consumer confidence and expectations indices of the nine regions and the second highest present situation index.

Overall confidence at a national level rose for the first time since July. After dropping to 92.6 in November, national confidence increased to 102.3 due to gains in both the present situation and the expectations indices. The present situation index saw an increase from 96.3 to 105.9 while the expectations index grew from 90.2 to 99.9. Preliminary results for January indicate national consumer confidence will rise again, to 103.7 from a revised 102.7. Along with the mountain region, national confidence levels were significantly improved in 2004 over 2003.

Consumer Confidence Index

	Month of Dec-04 (p)	Month of Nov-04	Month of Dec-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change
Mountain	119.8	95.1	105.1	108.7	89.4	21.5%
United States	102.3	92.6	94.8	96.0	79.8	20.3%

Source: The Conference Board. (p)=preliminary

Nationally, hotel construction was flat in 2004 after experiencing a 12% gain in 2003. McGraw-Hill reports in its Outlook 2005 that hotel construction will increase in 2005 to 53.0 million square feet and metro Denver will be no exception. After minimal activity over the last few years, metro Denver will be home to a handful of new hotels, including the 1,100-room Hyatt at the Colorado Convention Center and a 228-suite Residence Inn by Marriott in downtown Denver. Plans were recently announced for a 220-room Hilton Garden Inn across from the Colorado Convention Center by Arapahoe-County based Stonebridge Companies. The $35 million hotel, a lower cost alternative to the Hyatt, is scheduled to open in fourth quarter 2006. The first new hotel in almost 100 years opened in downtown Boulder on January 31st. The $36 million St. Julien Hotel & Spa features a 10,000-square foot spa and fitness center, a 125-seat restaurant and 200 rooms regularly priced between $245 and $600 per night.

As is typical during December, the metro Denver hotel occupancy rate fell to 47.0% in December from 55.2% in November along with a decrease in rental rates from $85.79 to $79.66. On the bright side, the lodging economy improved in terms of both occupancy and rental rates over December 2003. In December 2003, metro Denver hotel occupancy rates stood at 43.0% compared to 47.0% of this year. Rental rates increased by more than $5.00 per night over December 2003. Northeast Denver near the airport reported the strongest occupancy rate of 62.3% in the metro area, partly due to increased holiday travel and consequential travel delays and cancellations. Downtown Denver had the second highest occupancy rate and the highest rental rate in the final month of 2004 of $113.17 per night.

The year-to-date comparison shows an improvement in occupancy rates but a slight loss in rental rates. Contributing to the occupancy increases may be a 2.3% decrease in the supply of metro Denver hotel rooms in 2004 to 33,830 rooms. Supply is set to increase with the aforementioned construction activity.

Metro Denver Hotel Statistics

	Month of Dec-04	Month of Nov-04	Month of Dec-03	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Annual 1999	Annual 1994
Percent of Hotel Rooms Occupied	47.0%	55.2%	43.0%	61.9%	59.5%	4.0%	67.2%	72.2%
Average Hotel Room Rate	$79.66	$85.79	$74.38	$84.42	$84.79	-0.4%	$87.36	$66.03

Source: Rocky Mountain Lodging Report.

The metro Denver economy will get a boost in February when the NBA All-Star Game comes to town along with its high-profile entourage. An estimated 40,000 attendees and visitors will generate about $30 million in economic impacts and attend at least 200 unofficial events or parties throughout the weekend. Almost 80% of Denver's hotel capacity or 4,400 rooms are booked on February 18th and 19th according to the Denver Metro Convention and Visitors Bureau.

Warm weather and more activities pushed the 99th National Western Stock Show attendance up 1.31% over 2004's attendance to 633,544 people. However, attendance levels remained below the 2003 record of 641,033 people. Ticket revenues were up 7.6% along with the increased overall attendance. The Stock Show is metro Denver's largest convention, annually.

The recently expanded $311 million Colorado Convention Center may have tougher than expected competition in the coming years. The Brookings Institute reported that 40 U.S. cities are spending hundreds of millions of dollars on new or renovated convention halls despite a contracting convention industry and dwindling attendance. Some analysts caution that the estimated 7 million square feet of future exhibit space may lead to an over-built industry, especially since exhibit space has increased 51% since 1990. Colorado Springs is among the 40 cities considering a new convention center.

Colorado's ski resorts have seen an increase in skier visits so far this season. Compared to the early season last year (Oct. 15 – Dec. 31), statewide visits are up 8.1% to 2.93 million visits while smaller resorts saw a 26.6% increase in visits, according to the Colorado Ski County USA. Also, visits to larger, destination resorts outside the Front Range like Steamboat Springs are up 4.3%. Front Range destination visits are up 6.3%. International skiers are flocking to Colorado's resorts partly due the weak U.S. dollar and aggressive marketing campaigns in the U.K., Germany, Australia, New Zealand and Canada.

Through October 2004, international arrivals increased 22% over the same period in 2003, mainly from Mexican originations. In response to the increased international travel, Denver International Airport is spending $13.9 million to expand the international arrivals area, including a new baggage carousel and an additional 5,000 square feet of office space in the Customs and Border Protection area. Frontier, United and Mexicana have all increased flights to Mexico since last year.

Denver passengers will soon have more airline options than before and even more attractive fares. United's discount airline, Ted, will introduce three daily flights to Chicago's Midway International Airport in April, marking United's first service to Midway in 13 years and the 10th destination from DIA. Frontier Airlines currently offers four daily flights to Midway but will ramp up to five in April. In addition, discounters ATA Airlines and Southwest Airlines have agreed to a code share that allows Denver passengers to fly on Southwest when routed to Midway Airport by ATA. The code share will likely put downward pressure on fares because of Southwest's famously low fares. Downward fare pressure also resulted from an across-the-board fare cut at Delta Airlines in early January, which prompted competitors to lower fares on comparable flights.

Denver International Airport is on track to surpass 41.0 million passengers served in 2004. Nearly 3.2 million passengers traveled through the airport in November, bringing year-to-date traffic to 38.9 million passengers. Passenger traffic is up 13.8% over last year and will easily surpass the previous pre-September 11th record of 38.7 million passengers in 2000. Increased passenger traffic has positively affected airport concession sales which reached $150 million in the first eleven months of 2004, a $5 million increase.

Denver International Airport Passengers

	Month of Nov-04	Month of Oct-04	Month of Nov-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Annual 1999	Annual 1994
Number of Airline Passengers	3,185,083	3,450,667	2,888,380	38,898,512	34,183,775	13.8%	4,009,587	4,232,906

Source: Denver International Airport, Traffic Statistics.

Stock prices slipped in January across the board. The S&P fell 2.5% from December to January whereas the NASDAQ dropped 5.2% and the DOW retreated 3.3%. 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, performed better than the other indexes and only declined 0.2%.

Stock Market Indexes

	Month of Jan-05	Month of Dec-04	Month of Jan-04	YTD Return Jan-05	YTD Return Jan-04	YTD Return Jan-03
Colorado	1,362.12	1,364.93	1,327.97	-0.21%	-0.07%	0.67%
S&P	1,181.27	1,211.92	1,131.13	-2.53%	1.73%	-2.74%
NASDAQ	2,062.41	2,175.44	2,066.15	-5.20%	3.13%	-1.09%
DOW	10,427.20	10,783.01	10,488.07	-3.30%	0.33%	-3.45%

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

Residential Real Estate

Record home sales in seven Colorado resort areas - Grand, Summit, Routt, Eagle, Pitkin and San Miguel counties and the Crested Butte region - are expected to exceed $6 billion in 2004, surpassing record sales in 2000. The increase partly results from more baby boomers switching from intangible to tangible investments due to volatility in the stock market coupled with solid home price appreciation. In Eagle County, sales neared $2 billion in 2004 mostly from cash buyers. Pitkin County brokers moved $1.5 billion in residential sales, nearly double 2003 volume. The more affordable markets of Keystone, Breckenridge, Winter Park, Steamboat and Crested Butted also saw more activity in million dollar homes in 2004.

January was another active month for the metro Denver residential market. Despite a 38.6% drop in the number of homes sales from December to January, home sales under contract are up 44.3% over last January. The number of homes under contract is good indicator of current activity as opposed to homes that may have sat on the market for months. Analysts cite several factors contributing to the 44.3% increase in homes under contract including consumer fears of rising interest rates, confidence in an improving economy, good weather and willing lenders. Home sales reached a new record in 2004 with 54,012 sales of previously-owned homes valued at $14.3 billion, a 12.6% increase in home sales.

Home Sales Activity

	Month of Jan-05	Month of Dec-04	Month of Jan-04	YTD Total 2004	YTD Total 2003	YTD Total % Change	Ann Avg 2000	Ann Avg 1995
Home Sales (Under Contract)	3,226	3,458	2,235	3,226	2,235	44.3%	37,130	28,247
Home Sales (Closed)	2,713	4,416	3,290	2,713	3,290	-17.5%	48,611	36,038
Unsold Homes on Market	20,917	20,891	21,846	20,917	21,846	-4.3%	8,820	9,854
Average Sales Price-Single Family	$290,503	$289,209	$283,134	$290,503	$283,134	2.6%	$239,779	$150,736
Average Sales Price-Condo	$186,702	$186,001	$189,826	$186,702	$189,826	-1.6%	$145,197	$87,369
Median Sales Price-Single Family	$230,000	$232,500	$225,500	$230,000	$225,500	2.0%		
Median Sales Price-Condo	$157,000	$155,475	$160,000	$157,000	$160,000	-1.9%		

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

Median prices for single-family homes fell for the second month in a row to $230,000, but remain 2.0% higher than 2003 prices. The median condominium price increased for the first time since October 2004, landing at $157,000. Still, the median condo price is currently 1.9% less than January 2003 prices.

Three Colorado metros made the top 100 least affordable home markets list out of 325 metro areas, according to a new study by Economy.com. Boulder-Longmont is the 47th least affordable market in the nation, based on an average household's ability to buy a home at the current rate on a 30-year fixed mortgage with 20% down. Metro Denver was the 84th least affordable residential market while Colorado Springs landed in the middle at the 69th least affordable market in the nation. A 2004 Citizen Survey of Denver residents shows Denverites aren't surprised by the rankings. For the third year in a row, nearly 80% of residents rated access to affordable quality housing as "fair" or "poor." Still, other market are more expensive, especially California metros which rounded out the top five least affordable housing markets.

In another study, 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.

Median Home Price ($000s)

	Quarter 3 2004 (p)	Quarter 2 2004	Quarter 3 2003	YTD AVG 2004	YTD AVG 2003	YTD AVG % Change	Median 1999	Median 1994
Metro Denver	N/A	$241.8	$250.8	$236.8*	$233.6*	1.4%*	$171.3	$116.8
United States	$188.5	$183.5	$175.0	$180.9	$168.0	7.7%	$133.3	$109.8

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

**Based on second quarter 2004 results due to lack of data for the third quarter of 2004.*

The national median price of an existing single-family home increased to $188,500 during the third quarter of 2004, leading to a 7.7% increase year-to-date. Unfortunately, the median home price for Denver was listed as "not available" in the quarterly report by the National Association of Realtors. Since third quarter data for metro Denver is not available, information related to the second quarter results is repeated in this report. 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.

Metro Denver foreclosures increased 29.1% in 2004 to 12,166, making 2004 the second-worst year on record besides 1998 when 17,122 homes were returned to the market. On an annual basis, Denver, Arapahoe and Adams counties experienced the sharpest percentage gains in 2004. Denver ranked first among the seven metro counties with 3,345 foreclosures in 2004. Arapahoe County (2,985) and Adams County (2,298) rounded out the top three – all posting annual gains over 31%. On the bright side, Boulder County is reporting only an 8.5% annual increase, the best of the seven counties.

Real Estate Foreclosures

	Month of Dec-04	Month of Nov-04	Month of Dec-03	YTD Total 2004	YTD Total 2003	YTD Total % Change
Total Metro Denver	1,203	1,087	909	12,166	9,422	29.1%
Adams County	256	224	208	2,498	1,899	31.5%
Arapahoe County	295	282	207	2,985	2,250	32.7%
Boulder County	53	44	41	524	483	8.5%
Broomfield County	15	11	11	134	110	21.8%
Denver County	330	320	223	3,345	2,495	34.1%
Douglas County	87	48	63	800	653	22.5%
Jefferson County	167	158	156	1,880	1,532	22.7%

Source: CB Richard Ellis.

Residential construction closed 2004 on a high note with a 41.7% increase in the number of residential permits issued in December compared to November in metro Denver. Compared to November, the number of single-family detached homes and multi-family homes increased while single-family attached permit levels fell. On an annual basis, total residential construction activity in 2004 was more robust than last year across all seven metro counties, posting a 19.2% annual increase. The greatest relative gains occurred in Douglas County, Boulder County and Jefferson County. Nationally, housing starts totaled 1.953 million units in 2004, a 5.7% gain over 2003.

Residential Building Permits

	Month of Dec-04	Month of Nov-04	Month of Dec-03	YTD Total 2004	YTD Total 2003	YTD Total % Change	Total Dec-04	Total Nov-04
Single-Family Units	1,209	848	1,122	14,260	12,656	12.7%	1,209	848
Two-Family Units	365	396	300	4,843	3,755	29.0%	365	396
Multi-Family Units	227	27	0	2,681	1,858	44.3%	227	27
Total Units	1,801	1,271	1,422	21,784	18,269	19.2%	1,801	1,271

Source: Home Builders Association of Metropolitan Denver.

Approximately 2,700 new apartment units came on-line in 2004 throughout metro Denver. Another 2,353 apartment units are either planned or currently under construction in downtown Denver alone, according to the Colorado Housing and Finance Authority (CHFA). A soon-to-be released report by CHFA projects roughly 9,100 apartments will be vacant in metro Denver in 2005 compared to 10,000 units at the end of 2004. The report also says the biggest need in the apartment market is units affordable to renters making 40% to 50% of the area median income.

The metro Denver apartment market exhibited mixed signals in the fourth quarter of 2004. The Denver Metro Apartment Vacancy and Rent Survey reported a slight increase in rents bringing the average rate to $822 per month, the highest level since fourth quarter 2001. Meanwhile, the vacancy rate increased from 8.5% in the third quarter to 10.0% in the final quarter of 2004, the first increase in eight quarters. The “economic vacancy rate,” which is determined by physical *vacancies plus concessions, discounts and other write-offs as a percentage of gross potential rent, increased from 24.5% to 25.1% in the fourth quarter.*

Vacancy rates have a tendency to rise in the fourth quarter because bad weather and holidays discourage apartment seekers from hunting. Experts also attribute the higher vacancy to increased apartment construction in the second half of the year. The apartment market is expected to strengthen in 2005 as rising mortgage rates discourage some households from home ownership and others are forced to foreclosure.

Apartment Statistics

	Quarter 4 2004	Quarter 3 2004	Quarter 4 2003	Year-to-Date Average 2004	Year-to-Date Average 2003	Year-to-Date Average % Change	Ann Avg 1999	Ann Avg 1994
Apartment Vacancy Rate	10.0%	8.5%	10.9%	9.7%	12.1%		4.5%	4.3%
Average Monthly Rental Rate (all units)	$822	$821	$816	$818	$806	1.4%	$717	$527

Source: Denver Metro Apartment Vacancy and Rent Survey.

A survey released by RealFacts, a California real estate research company, shows that 2004 apartment rents either declined or rose by less than 3% in 15 out of 20 major markets in the West. The only markets that outpaced the 3% increase were Southern California, Nevada and Fresno, CA. The report says Denver rents increased 0.6% in 2004, less than reported by the *Denver Metro Apartment Vacancy and Rent Survey*.

Commercial Real Estate

Despite lackluster fundamentals like high vacancy rates and low rents, commercial real estate investment in metro Denver thrived in 2004 due to low interest rates and continued uncertainty on Wall Street. Real estate investors purchased $2.1 billion in office, industrial and retail properties in 2004, the second-highest annual total ever and double the total value in 2003. The number of properties purchased also more than doubled, from 109 properties in 2003 to 218 properties in 2004. During the record year of 1998, sales hit $2.36 billion for 165 properties when REITs were on a buying spree.

The top three sales for 2004 were downtown Denver's Independence Plaza office tower for $73.9 million, Flatiron Marketplace in Broomfield for $55.5 million and Broadway Marketplace in Denver for $53.0 million. So far in 2005, the January purchase of Janus Capital Group world headquarters in Cherry Creek for $57.6 million set a record price of $360 per square foot. The Janus purchase rings in at more than $100 per square foot above previous office sales in metro Denver. Fuller and Company reports that the retail market has the seen the majority of investment activity followed by the office market.

Fuller and Company reported that the metro Denver office market closed 2004 with a slightly higher vacancy rate of 19.9%, including sublease space. The southeast market, which includes the Denver Tech Center, outperformed other markets with 800,000 square feet of the total 850,000 metro-wide positive absorption, most of which occurred in class "A" buildings due to affordable lease terms. The Northwest market ended with a higher than average vacancy rate of 28.2%. In terms of leasing activity, the southeast market experienced over 4 million square feet of leasing activity compared to only 2.2 million in downtown Denver in 2004. As a result of a handful of mergers and acquisitions in the oil and gas industry, about 250,000 square feet of sublease space became available in downtown Denver. The reorganizations have also spurred leasing activity in the small to mid-size office products. In 2005, Fuller expects to see moderate rental increases across the metro area between $.50 and $1.50 per square foot along with about 1.5 million square feet of positive absorption.

Trammell Crow reported an even higher overall vacancy rate of 20.7% for metro Denver in 2004, with the fourth quarter rate falling to 17.6%. Trammell Crow also reported positive absorption in 2004, but a lesser amount than reported by Fuller and Company. Rental rates declined only 3% to $17.63 per square foot in 2004, an improvement over the 6% annual decline in 2003.

Data from Costar Realty Information, Inc. indicates a slowly improving office market in metro Denver. Direct vacancy rates declined by 0.1 percentage point each quarter of 2004, ending at 15.0%, while lease rates increased slightly. The vacancy rate including sublease space posted similar results, starting the year at 17.3% and ending at 16.8% in the fourth quarter. Average lease rates for all classes of space increased for the first time in three years from $16.89 in the third quarter to $17.05 in the fourth quarter, the highest rent since the fourth quarter of 2003.

Office Market Statistics

	Quarter 4 2004	Quarter 3 2004	Quarter 2 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	4,218	4,212	4,200	4,181	4,141	3,981
Existing Square Feet (millions)	148.1	148.0	147.8	146.9	145.7	142.1
Vacant Square Feet (millions)	24.8	25.4	25.4	25.3	24.1	14.3
Vacancy Rate (Direct)	15.0%	15.1%	15.2%	14.8%	13.6%	10.0%
Vacancy Rate (With Sublet)	16.8%	17.2%	17.2%	17.2%	16.5%	13.1%
Average Lease Rate (per square foot)	$17.04	$16.88	$16.95	$17.37	$18.93	$20.75
New Construction Completed (year-to-date)	1.20 MSF, 38 Bldgs	1.05 MSF, 31 Bldgs	0.80 MSF, 18 Bldgs	1.24 MSF, 39 Bldgs	2.90 MSF, 82 Bldgs	7.75 MSF, 117 Bldgs
Currently Under Construction	0.72 MSF, 28 Bldgs	0.82 MSF, 27 Bldgs	0.37 MSF, 21 Bldgs	0.82 MSF, 24 Bldgs	1.39 MSF, 33 Bldgs	2.83 MSF, 65 Bldgs

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

Raytheon, Aurora's largest employer, is planning a new facility in Aurora's Centre-Tech Business Park, adjacent to Raytheon's 45-acre campus. The new 150,000 square foot building will house up to 750 software developers, engineers, scientists and support positions. Completion is anticipated by the end of the year. As of year-end 2004, Raytheon employed 2,650 people in Aurora and expects to hire an additional 150 people in 2005.

Office construction remained at minimal levels in 2003 and 2004 in response to soft market conditions. Only about 1.2 million square feet of new office space was added to the metro Denver market in 2004, slightly less than the 1.24 million square feet added in 2003. There are currently 28 buildings under construction that will result in the addition of 724,000 square feet of office space. Most of these buildings are small with the exception of the 280,000-square-foot Denver Newspaper Agency building.

On the other hand, office construction increased 10% in 2004 to 158.0 million square feet nationally, according to McGraw-Hill Companies Outlook 2005, after experiencing an 8% decline in 2003. Large projects behind the increases include government office buildings in Washington, D.C. and a handful of high-rises in New York City. Metro Denver ranked 20th for square feet of new office starts in 2004.

Metro Denver's industrial market continued to improve in 2004, according to Fuller and Company's January Commercial Real Estate report. The direct vacancy rate stabilized at 8.0% and 8.6% including sublease space. The Northwest market closed 2004 with the highest metro vacancy rate of 12.7%, up from 12.3% in 2003. While rental rates have not increased, sales prices are at a ten-year high during a record year for industrial investment. In fact, industrial real estate sales surpassed $210 million in 2004, the second highest level since 1995. Fuller reports tenant concessions diminished, especially in the second half of 2004.

Trammell Crow reported that industrial properties in metro Denver saw 1.04 million square feet of positive net absorption in 2004, after posting 620,000 square feet of negative absorption in 2003.

Again, the Montbello/I-70 submarket led the submarkets with 547,000 square feet of absorption. Boulder struggled through another year of negative absorption in 2004, but at a much improved level. Vacancy rates closed fourth quarter at 9.5%, slightly higher than reported by Fuller and Company and CoStar and only 0.1% less than the 9.4% annual rate in 2003. Even though rental rates slipped 3.1% in 2004, the pace was much slower than the 10.7% decline in 2003.

All submarkets except for the Central submarket experienced positive absorption in 2004 according to Fuller and Company, led by the Northeast submarket. The 100-acre Samsonite campus in the Northeast market was purchased by a California company for $14 million. The purchase involves about 1 million square feet of buildings, most of which will likely be razed by purchaser Panattoni Development Co. While Samsonite will lease space for at least two years, experts expect the company will eventually leave metro Denver.

Metro Denver's industrial real estate market slipped slightly in the fourth quarter of 2004, according to data from CoStar. Both the direct vacancy rate and total vacancy rate, which includes sublet space, crept upwards by 0.1 percentage point to 8.1% and 8.8% respectively. The average lease rate also slipped a few cents from $4.67 NNN to $4.64 NNN. Since the third quarter, seven buildings with about 420,000 square feet of industrial space were added; however not all of the space was absorbed.

Industrial Market Statistics

	Quarter 4 2004	Quarter 3 2004	Quarter 2 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	5,383	5,377	5,368	5,348	5,308	5,187
Existing Square Feet (millions)	193.3	192.9	192.7	191.4	189.4	186.1
Vacant Square Feet (millions)	16.9	16.7	17.7	16.1	14.0	9.6
Vacancy Rate (Direct)	8.1%	8.0%	8.2%	7.5%	6.4%	5.1%
Vacancy Rate (With Sublet)	8.8%	8.7%	9.2%	8.4%	7.4%	6.0%
Average Lease Rate (per square foot)	$4.64	$4.67	$4.68	$4.70	$5.44	$5.56
New Construction Completed (year-to-date)	1.82 MSF, 34 Bldgs	1.40 MSF, 27 Bldgs	1.22 MSF, 14 Bldgs	2.07 MSF, 38 Bldgs	2.77 MSF, 49 Bldgs	2.22 MSF, 38 Bldgs
Currently Under Construction	0.33 MSF, 14 Bldgs	0.61 MSF, 14 Bldgs	0.58 MSF, 14 Bldgs	1.20 MSF 12 Bldgs	0.87 MSF, 17 Bldgs	1.65 MSF, 16 Bldgs

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

Industrial construction activity was down slightly compared to last year. About 1.82 million square feet of industrial space in 34 buildings was completed in 2004 compared to 2.07 million square feet finished in 2003. Only 330,000 square feet of industrial, manufacturing and warehouse space is currently under construction in 14 buildings. Nine of the 14 buildings under construction are located in Adams County, representing about 60% of the new industrial space. Trammell Crow reported flat construction activity in 2004 at about 1.5 million square feet, down from 1.6 million square feet in 2003. The majority of construction occurred in the Montbello/I-70 submarket.

The only fixed-base operation (FBO) for the maintenance, fueling and hangaring of helicopters is currently under construction at Centennial airport. The 16,000-square-foot Heliplex will alleviate costly maintenance trips to Fort Collins. AirCam, the developer, says helicopter business has increased at Centennial Airport due to TV stations, police, private owners and AirCam, which owns three copters for film and television footage, the Division of Wildlife, light utility work, developers and the Forest Service.

CoStar data shows mixed results in the flex space market, revealing decreased vacancy rates along with decreased lease rates. The direct vacancy rate slipped from16.6% to 16.2% in the fourth quarter and remains about two percentage points below the vacancy rate with sublease space. The sublease vacancy rate has shown steady improvement over the last year, declining from 19.5% one year ago to the current rate of 18.0%. Three buildings with less than 40,000 square feet were added to the market during the fourth quarter. During 2004, only about 120,000 *square feet of new flex space was added in six buildings, down significantly from 2001 when 2.5 million square feet in 52 buildings was added.*

Flex Space Statistics

	Quarter 4 2004	Quarter 3 2004	Quarter 2 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	1,169	1,166	1,165	1,163	1,151	1,096
Existing Square Feet (millions)	36.1	36.0	36.0	36.0	35.7	34.5
Vacant Square Feet (millions)	6.5	6.6	6.8	7.0	6.0	4.8
Vacancy Rate (Direct)	16.2%	16.6%	16.6%	17.8%	15.0%	13.9%
Vacancy Rate (With Sublet)	18.0%	18.4%	18.8%	19.5%	16.8%	18.8%
Average Lease Rate (per square foot)	$8.18	$8.32	$8.27	$8.03	$8.32	$9.49
New Construction Completed (year-to-date)	0.12 MSF, 6 Bldgs	0.08 MSF, 3 Bldgs	0.09 MSF, 3 Bldgs	0.22 MSF, 10 Bldgs	0.81 MSF, 27 Bldgs	2.45 MSF, 52 Bldgs
Currently Under Construction	0.37 MSF, 17 Bldgs	0.34 MSF, 16 Bldgs	0.03 MSF, 2 Bldgs	0.05 MSF, 1 Bldg	0.25 MSF, 6 Bldgs	0.43 MSF, 15 Bldgs

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

In other development news, plans for a Veteran's Affair (VA) hospital at Fitzsimons appear to have been derailed by Washington officials that say the 12.5-acre site is too small and that a 38-acre site is needed instead. The VA and the University of Colorado Hospital have been developing a plan to share facilities between the two hospitals since 2000. Congress appropriated about $30 million for the new hospital last spring, but it is now uncertain whether the VA will renovate its East Ninth Avenue hospital in Denver, look for other possible sites or push forward on the Fitzsimons plan.

Propped up by strong consumer spending, the retail sector out performed other commercial real estate sectors in terms of fundamentals. Construction continued throughout 2004 but at a slower pace with approximately 2.2 million square feet completed versus 2.5 million square feet in 2003. The Northwest and West submarkets experienced the strongest net absorption in the metro area with 514,843 square feet and 477,840 square feet, respectively. Vacancies declined to 6.5% in the fourth quarter with the lowest rate of 3.4% occurring in both the Southwest and South submarkets. The average asking rent closed 2004 at $14.73 per square foot.

According to the McGraw-Hill Companies Outlook 2005, store and shopping center construction is slowing across the nation. Construction increased 3% in 2004 to 290.0 million square feet after posting a 10% increase in 2003. McGraw-Hill projects a 3% decline in store and shopping center construction in 2005, partly due to a continued shift to smaller venues like lifestyle centers. Northfield at Stapleton, a planned lifestyle center in metro Denver, recently announced potential future tenants may include Foley's and a SuperTarget. Confirmed tenants include a Bass Pro Shop and an 18-screen movie theatre.

Movie theatres will account for a sizable portion of retail construction in 2005 and 2006. Approximately 120 new movie screens will be added in metro Denver, mostly as lifestyle shopping center anchors. Developers covet theatres because they bring consumer traffic, attracting restaurants and other retailers. Planned theatres in metro Denver include Harkins Theatres in Northfield, Century Theatres in Northglenn, AMC Theatres in Westminster, Colorado Cinemas in Aurora, Colorado Cinemas in Castle Rock and Century Theatres in Boulder.

Monthly Economic Summary of Metro Denver

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇑	⇑	Employment increased 2,600 jobs from Nov to Dec, 0.1% annual growth rate
% Companies Hiring	⇓	⇑	25% of companies expect to add workers in 1st quarter 2005; only 2% expect decrease
Unemployment Rate	⇑	⇓	Dec rate increased to 5.0% from 4.9%; metro rate same as state but lower than U.S.
Initial Claims	⇓	⇓	Initial unemployment claims decrease in Dec; annual claims down 21.5% from 2003
Total Retail Sales	⇓	⇑	Total retail sales up 7.2% in first ten months of 2004
Consumer Confidence Index	⇑	⇑	Mountain region confidence increased in Dec and remains higher than national level
Hotel Occupancy	⇓	⇑	Hotel occupancy decreased to 47.0% in Dec; average room rate about $80 per night
DIA Passengers	⇓	⇑	Traffic up 13.8% through Oct, DIA likely to surpass 41 million passengers in 2004
Colorado Stock Index	⇓	⇓	After increasing 2.7% in 2004, CO Stock Index decreased 0.21% in Jan
Dow Jones Industrial Average	⇓	⇓	Dow increased 3.2% in 2004 but retreated 3.3% in Jan
Home Sales (closed)	⇓	⇓	Jan home sales down 17.5% from last January; average SF sold price 2.6% higher
Median Home Price	⇑	⇑	Median home price rose to $241,800 in Q2 2004, 1.4% higher than last year
Foreclosures	⇑	⇑	Foreclosures up 29.1% in 2004, strongest increase in Denver, Arapahoe and Adams
Residential Building Permits (Total)	⇑	⇑	Total permits up 19.2% for the year; 44.3% increase in multi-family permits
Apartment Vacancy Rate	⇑	⇓	Vacancy rate increase to 10.0% in Q4 2004; avg rental rate increases to $822 per month
Office Vacancy Rate	⇓	⇑	Vacancy rate with sublet now 16.8%; minimal construction is underway
Industrial Vacancy Rate	⇑	⇑	Minor increase in vacancy rate with sublet to 8.8%; minimal construction underway
Flex Space Vacancy Rate	⇓	⇓	Vacancy rate with sublease decreased to 18.0%; minimal new construction
Positive Changes	**7 of 18**	**12 of 18**	