

# **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

- ◆ The Greeley metro area in Weld County was the fastest growing region in the country from 2000-2003. The Greeley metro population grew 16.8% over three years to 211,300 people, an increase of about 30,000 residents. Most of the growth occurred in the southwest portion of the county near the I-25 corridor. St. George, UT was the second fastest growing area followed by Las Vegas, NV. The U.S. Census Bureau also ranked Edwards, CO (14<sup>th</sup>) and Montrose (18<sup>th</sup>) among the fastest growing micro statistical areas, urban clusters with between 10,000 and 50,000 people.
- ◆ *The Economic Policy Institute examined five prominent business climate rankings and found that Colorado is the only state to rank among the top ten in all five indices. Thirty-four of the 50 states can claim a top ten ranking in at least one of the five indices. The study looked at rankings from the following indices: The Small Business Survival Index, the Beacon Hill Institute's Competitiveness Index, the Tax Foundation's State Business Climate Index, Cato Institute's Fiscal Policy Report Card and the Economic Freedom Index.*
- ◆ Kiplinger's Personal Finance included Denver in its list of the top seven "cool" cities for young professionals, touting Denver's relatively affordable housing market, the LoDo social scene, a top 20 ranking for Wi-Fi access, a good light rail system and its nearness to Rocky Mountain National Park. The report compares the cost of living to New York City and says that young professionals who choose Denver will essentially increase their spending power by \$11,686. The six other "fun and affordable" cities that made the list are Athens, GA; Austin, TX; Minneapolis, MN; Nashville, TN; and Raleigh, NC.
- ◆ The U.S. ranks ninth among industrialized nations in the share of the population between 25 and 34 years that has achieved at least a high school diploma. The U.S. tied for seventh with Belgium for the share of the same population group that has earned a college degree. As recently as 20 years ago, the U.S. was first in both measures according to the Paris-based Organization for Cooperation and Development. Alternatively, the U.S. spends \$11,152 annually per student on education, second only to Switzerland who spends \$11,334.
- ◆ The Wall Street Journal/Harris Interactive 2006 survey of the top business schools reveals that Daniel's College of Business at the University of Denver is among the top schools in the world for producing graduates with high ethical standards. Daniel's improved by one position to a fourth place rank in ethics alongside Brigham Young University and Dartmouth. The rankings are developed from more than 3,200 MBA-recruiter surveys. Daniel's also received the following rankings: third in the technology industry, sixth for academic excellence in accounting, seventh in the financial services industry and ninth for academic excellence in information technology. Overall, Daniel's placed eighth among a list of 47 North American regional business schools.
- ◆ The University of Colorado spun off nine new private companies during the 2004-2005 academic year, most of which are in the biotechnology field. The University's tech-transfer efforts have also resulted in 177 invention disclosures along with 139 patent applications for those disclosures during their 2005 fiscal year. Tech-transfer revenue at CU increased from

\$5.8 million in the 2003-2004 academic year to \$21.7 million last year. Tech transfer at Colorado State University resulted in two patents and six license agreements for research in the last fiscal year while the Colorado School of Mines reported one spinout company, one license agreement and 30 patent applications.

- ◆ Colorado bankruptcies are on the rise in anticipation of The Bankruptcy Abuse Prevention and Consumer Protection Act that takes effect on October 17, 2005. Under the new law, households with incomes greater than \$40,000 have to file for Chapter 13 which requires a five-year repayment schedule instead of the more lenient Chapter 7 which allows filers to erase almost all of their debt. Colorado ranks second in the percentage increase in bankruptcy filings from July 1, 2004 to June 30, 2005 with a 10.3% increase according to the U.S. Bankruptcy Courts. The number of filings has topped 24,000 so far this year, a 13% increase over the number of filings through the same period last year.

### **General Economic Overview**

According to final estimates by the U.S. Department of Commerce, U.S. gross domestic product (GDP) increased at an annualized rate of 3.3% during the second quarter 2005, down from the 3.8% pace during the first quarter. Personal consumption expenditures, exports, equipment and software, residential fixed investment and government spending were listed among the major contributors to real GDP growth. The deceleration from first to second quarter is primarily attributed to a downturn in private inventory investment.

Global economic growth is projected to register 4.3% for both 2005 and 2006, according to the latest "World Economic Outlook" by the International Monetary Fund (IMF). The 2006 figure is slightly lower than previously forecasted partly due to uncertainty with oil prices. In 2004, the world economy grew 5.1%. The IMF is currently forecasting that the United States economy will grow 3.5% this year and 3.3% in 2006. Both 2005 and 2006 projections are lower than the IMF had forecast in April. Morgan Stanley & Co. also reduced its forecast for U.S. GDP growth in 2005 from 3.8% to 3.5% mostly due to higher energy costs.

Looking forward, Tucker Hart Adams, a local economist for U.S. Bank, forecasts only 3.0% economic growth for the nation in 2006 due to rising interest rates and costs. Adams warns of a recession in 2006 and 2007 based on high consumer debt, unsustainable home price appreciation and increasing energy costs. A Bloomberg News survey of 52 economists in early September reported slightly more optimistic growth expectations with an average estimate of 3.4% GDP growth in 2006.

Adams' concern about consumer debt is supported by increasing late credit-card payments across the nation. The American Bankers Association reported that the percentage of credit-card bills more than 30 days past due reached a record high of 4.8% in the second quarter. Analysts would not be surprised if the percentage climbed even higher in the coming months. The previous record of 4.75% was set in the first quarter of the year. Meanwhile, the personal savings rate dropped to a record low of 0.6% in July.

The Federal Open Market Committee (FOMC) raised the target for the federal funds rate by 25 basis points on September 20<sup>th</sup> to 3.75%, the 11<sup>th</sup> increase since monetary tightening began in June 2004. The Committee's monetary policy was unaltered by Hurricane Katrina because its impact, while severe in the near term, is not expected to have long term implications. Still, the FOMC acknowledges the associated dislocation of economic activity, loss of employment and increasing energy prices which add to inflationary pressures. Hurricane Rita made landfall after the September meeting but is likely to be considered in much the same manner.

Hurricane Katrina is considered the country's worst natural disaster in history and is expected to reduce GDP growth by 0.5% to 1.0% during the second half of the year. Recent economic loss estimates for Hurricane Katrina are as high as \$175 billion, according to Economy.com, which includes \$100 billion in damaged structures and infrastructure, \$25 billion in disrupted economic activity and \$50 billion in increased energy bills for consumers and businesses. Insurance claims

could range between \$20 billion and \$35 billion according to Risk Management Solutions, Inc. The Congressional Budget Office (CBO) estimates 400,000 job losses in the coming months and Economy.com is forecasting a 3.2% increase in consumer prices on an annualized basis during the second half of the year, up from 2.5% prior to the hurricane. According to the *Chronicle of Philanthropy*, nearly \$1.4 billion has been raised for Hurricane Katrina victims as of late September.

On the other hand, Hurricane Katrina does have a select group of beneficiaries. Hotels and convention centers outside of the damaged regions are benefiting from meeting relocations. The steel industry is likely to see short term increases in sales due to the massive rebuilding in the damaged areas. The trucking industry has seen an increase in demand as supplies are badly needed in the southeast.

The greatest local impact from Hurricane Katrina beyond increased fuel costs is the more than 1,000 evacuees residing in Metro Denver. At the peak, about 440 evacuees had been placed in a Lowry dormitory while others are scattered among family and friends across the metro area. While the extent is unknown, it is likely that a significant number of evacuees will choose Metro Denver as their permanent residence in the near future.

Metro Denver's economy continues to show slow, steady improvement. Various recently released indices reveal stable economic conditions at the state and local levels:

- ◆ The nation's manufacturing sector expanded for the 28<sup>th</sup> consecutive month in September while the overall economy grew for the 47<sup>th</sup> consecutive month. The Institute for Supply Management's Purchasing Managers' Index increased from a revised 53.6 in August to 59.4 in September, a gain of 5.8%. 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 increased to 54.0 in August from 50.8 in July. Both indexes indicate expansionary conditions with values over 50.
- ◆ The national service economy, measured by the National Institute for Supply Management's non-manufacturing index, expanded from 60.5 in July to 65 in August. The August index marked the 29<sup>th</sup> consecutive month of expansion indicated by a reading greater than 50. Colorado's service industry expanded by more than four percentage points to 60.7 in August. The Colorado service economy index, compiled by the University of Colorado Denver Business School, indicates expansionary conditions with values greater than 50. The Colorado and national non-manufacturing indexes are similar but not identical.
- ◆ The Conference Board's Index of Leading Economic Indicators slipped for the second consecutive month in August. The August index which was compiled prior to Hurricane Katrina fell 0.2% to 136.7 following a 0.1% decline in the July index. The relatively small declines are consistent with moderate economic growth estimated for the near term.
- ◆ The Business Conditions Index for the Mountain State region declined slightly in August but remains "vigorous" according to the Creighton University Economic Forecasting Group in Omaha. The overall index for Colorado, Utah and Wyoming slipped from July's robust 72.4 to 71.2 in August. The index tracks the economic outlook six months in advance and indicates expansionary conditions with readings above 50. The Colorado index also slipped in August, falling from 72.9 in July to 67.4.
- ◆ The Vectra Bank Small Business Index for Colorado increased from a revised 109.1 in July to 110.1 in August, suggesting improved conditions for small businesses. The state's unemployment rate increased to 5.2% at the time this index was compiled which is considered to have a positive impact on the small business climate since it increases the potential workforce for small businesses. The 100 level represents the benchmark year of 1997. The U.S. index also increased from 102.2 in July to 103.6 in August.
- ◆ Colorado business leaders are positive but reserved about the state's economic growth in the third quarter. The Colorado Business Leader's Confidence Index, compiled by the Business Research Division of the University of Colorado at Boulder, declined 3.4 points to 58.1 for the

third quarter from 61.5 in the second quarter. However, business leaders still expect the state economy will outperform the nation as has been the case in three of the past four quarterly surveys. Index values above 50 indicate expansionary conditions.

### Labor and Employment

*Metro Denver employment growth continues to outpace the nation. Average annual employment in Metro Denver is 2.1% higher for the first eight months of 2005 than the same period last year. Employment growth throughout Colorado is averaging 2.3% so far this year compared to the national growth rate of 1.7%. The largest percentage gains for the year in Metro Denver are reported in the Natural Resources & Construction sector (+4.3%), Education & Health Services sector (+3.5%) and the Professional & Business Services sector (+3.3%). The Information sector has experienced the only percentage loss through August with a 6.0% decline, representing the loss of 3,700 positions.*

About 1,900 positions were added to the Metro Denver economy from July to August, most of which occurred in the Wholesale & Retail Trade sector (+700 positions), Natural Resources & Construction sector (+600 positions) and the Leisure & Hospitality sector (+500 positions). On the other hand, month-to-month employment fell in the Information (-500 positions), Financial Activities (-200 positions), Transportation, Warehousing & Utilities (-100 positions) and Federal Government (-100 positions) sectors.

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

	Month of Aug-05 (p)	Month of Jul-05	Month of Aug-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>	1,357.5	1,355.6	1,332.6	1,343.3	1,316.1	2.1%	4.3%	4.2%
Natural Resources & Construction	100.7	100.1	96.2	95.5	91.6	4.3%	10.7%	3.3%
Manufacturing	91.9	91.7	92.0	91.7	90.5	1.3%	-1.0%	3.8%
Wholesale & Retail Trade	207.5	206.8	204.6	204.9	201.8	1.5%	3.5%	5.0%
Transp., Warehousing & Utilities	51.9	52.0	52.0	51.8	51.1	1.2%	8.6%	3.5%
Information	56.5	57.0	60.4	57.7	61.4	-6.0%	10.1%	8.6%
Financial Activities	108.7	108.9	106.8	107.6	105.7	1.8%	0.3%	2.9%
Professional & Business Services	221.6	221.2	214.7	215.7	208.8	3.3%	7.0%	5.7%
Education & Health Services	137.2	137.0	132.2	136.5	131.9	3.5%	2.9%	4.8%
Leisure & Hospitality	144.6	144.1	140.7	137.7	133.6	3.1%	4.5%	5.8%
Other Services	51.4	51.2	50.3	50.7	49.5	2.4%	1.0%	3.6%
Government	185.5	185.6	182.7	193.6	190.3	1.8%	2.4%	0.5%
Federal Gov't	31.5	31.6	31.7	31.5	31.8	-0.8%	-0.5%	-6.6%
State & Local Gov't	154.0	154.0	151.0	162.1	158.5	2.3%	3.1%	2.6%
Colorado	2,240.6	2,234.4	2,195.3	2,214.4	2,165.6	2.3%	3.8%	4.5%
United States	133,702	133,579	131,416	132,939	130,738	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

National productivity, defined as output per hour, increased at a revised 1.8% during the second quarter, down from a faster-paced 3.2% during the first quarter. The U.S. Department of Labor also reported that labor costs rose 2.5% during the second quarter, up from a 2.2% increase during the previous quarter.

The following sections summarize recent business activity within the key industry clusters operating in Metro Denver.

**Aerospace:** Northrop Grumman won a \$1 billion U.S. Missile Defense Agency contract. The ten-year contract may lead to more than 2,000 new jobs at the company's Joint National Integration Center at Schriever Air Force Base in Colorado Springs which currently employs 350 Northrop Grumman workers and 600 contract workers. The third largest defense contractor also announced plans to construct a 75,000 sq. ft. building in Aurora next summer that will house 350 new positions with a total payroll of \$28 million. The high-paying jobs will help develop sophisticated hardware and software for government clients tasked with homeland security, national defense and intelligence. Aurora is currently home to about 1,000 Northrop Grumman employees.

NASA unveiled its \$104 billion, 13-year plan to return humans to the moon as soon as 2018 and chose an Apollo-like design for the Crew Exploration Vehicle that is said to be 10 times safer than the current space shuttle. Both Northrop Grumman and Jefferson County-based Lockheed Martin are competing for the contract to build the vessel. The mission is part of President Bush's initiative for a mission to Mars by 2020.

Several Metro Denver satellite imaging companies have aided the relief efforts in the Gulf Coast from Hurricane Katrina. The Geospatial Information & Technology Association in Aurora is serving as a clearing house for emergency requests from the affected area as well as for volunteers and contributions from geographic information systems companies. Both DigitalGlobe in Longmont and Space Imaging Inc. in Thornton are collecting images of damaged areas. Meanwhile, Virginia-based Orbimage Inc. confirmed its purchase of Space Imaging Inc. for \$58.5 million last month. The merger shrinks the commercial spy satellite industry from three to two companies. Orbimage executives are not planning layoffs for Space Imaging's 175 employees but do acknowledge there may be some "shifting" between Thornton and its Dulles, VA headquarters.

The National Geospatial Technical Operations Center which produces topographic maps will be consolidated at the Denver Federal Center from the field offices in Menlo Park, CA, Rolla, MO and Reston, VA. While the consolidation is a boon to the satellite imaging industry and Lakewood will retain the 114 active jobs, it does not mean the 290 jobs from out-of-state will be moved to the Federal Center. Depending on the company's reorganization to improve competitiveness, the Denver Federal Center group could either take on additional work or contract the work out.

**Aviation:** Aviation Technology Group (ATG) celebrated the successful test flight of a Javelin prototype last month at Centennial Airport. The Arapahoe County company, which currently employs about 100 workers, has been developing a civilian and military model of the plane over the last five years. The Javelin is designed like a fighter plane and can reach speeds of 600 miles per hour at an altitude of 45,000 feet. At least 100 deposits have been taken for the jets once they are certified by the Federal Aviation Administration which is expected in late 2007 or early 2008. ATG recently chose Front Range Airport for its manufacturing facility and expects to hire 150 to 500 high-paying positions in the coming years.

United Airlines submitted a reorganization plan that will help the airline exit bankruptcy as early as February 1, 2006. United Airlines is the dominant carrier at Denver International Airport and currently employs 58,500 employees worldwide of which about 5,400 workers are based in Metro Denver. United's Metro Denver workforce has decreased by 2,300 positions since it filed for bankruptcy in 2002.

Frontier Airlines, on the other hand, has added nearly 1,800 employees since 2001 and expects to add another 2,000 positions by 2008. Frontier's growth comes amid bankruptcy filings in September for Delta Air Lines Corp. and Northwest Airlines Corp. caused by soaring fuel costs, heavy debt and pension obligations. Little to no local impact is anticipated from the filings. Also in September, the merger of US Airways and America West was completed.

The U.S. airline industry has lost more than \$32 billion since 2001. As high fuel costs continue to impact the industry, many of the nation's major airlines are reporting losses through the second quarter of this year including Denver International Airport's United Airlines and Frontier Airlines, Delta, Northwest, US Airways, American and Continental. Southwest, American West and JetBlue are listed among the profitable airlines through second quarter.

**Bioscience:** Aurora's Globelmmune Inc. closed \$34.3 million in venture capital funding last month. Globelmmune currently employs 45 workers and plans to add 10 new positions over the next few months. The funding will be used to further clinical trials for two drugs that fight pancreatic cancer and hepatitis C.

Sirna Therapeutics recently published breakthrough research in RNA Interface, one of the most promising new drug-discovery techniques. RNA helps regulate a cell's activity and is similar in makeup to DNA. In layman's terms, the Boulder-based company discovered how to deliver RNA drugs to the right place at non-toxic levels to fight disease. Sirna's stock price increased 80% during the third quarter.

**Energy:** The Rocky Mountain region is the nation's only region to show potential growth in long-term natural gas resources. In fact, the Rocky Mountain region's gas potential increased 9.3% since 2003 compared to flat or negative growth in other regions including Alaska (0.0%), Pacific region (-0.2%), North Central region (-0.4%), the Gulf Coast (-1.0%), Mid-Continent (-2.9%) and the Atlantic region (-17.5%). Nationwide resources decreased 0.7%, indicating the easily and least costly resources may be diminishing. Potential resources for the Rocky Mountain region totaled 191.4 trillion cubic feet of natural gas.

Energy development in Colorado is expected to generate more than \$8 billion in revenue this year, a 60% increase in just two years. The Colorado Oil and Gas Conservation Commission projects new drilling permits will reach 3,950 for the year and operating wells will total nearly 29,000 across the state. The heightened natural gas drilling is mostly due to increased prices which have grown from \$1.83 per thousand cubic feet in 2001 to \$14.20 per thousand cubic feet as of last week.

**Information Technology:** Intel Corp. will spend an estimated \$190 million on an expansion to the Colorado Springs facility next year on top of a \$400 million facility upgrade announced last year. The upgrades are expected to result in "several hundred" new jobs over the next three years. The Santa Clara, CA-based chipmaker employs 1,200 workers in Colorado, including 900 in Colorado Springs, 300 in Fort Collins and 25 in Denver.

In the latest move of Oracle Corp.'s quest to usurp SAP AG as the world's largest manufacturer of business application software, Oracle announced its purchase of San Mateo-based Siebel for about \$5.85 billion last month. In the past nine months, Oracle has completed or announced five takeovers including PeopleSoft Inc. which merged with Denver-based J.D. Edwards in 2003.

**Financial Services:** Centrix Financial cut 150 positions last month, or 10% of its 1,500-person workforce, citing stricter credit union rules for third-party loan providers issued by the National Credit Union Administration this summer. Centennial-based Centrix Financial says the job losses will be temporary following an adjustment period to the new guidelines.

*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 hurricanes Katrina and Rita.

### 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.

Job vacancies in Metro Denver rose 40%, or by 6,700 positions, during the April to May 2005 survey period compared to the same period last year. The Job Vacancy Survey produced by the Colorado Department of Labor reports that an estimated 23,300 unfilled positions were available this past spring in the metro region versus 16,600 jobs in Spring 2004.

*The unemployment rate in Metro Denver dropped to 4.9% in August, the lowest rate since September 2001. At the county level, the unemployment rate ranges from a low of 3.7% in Douglas County to a high of 5.5% in both Adams County and the City & County of Denver. The unemployment rate decreased in all seven Metro Denver counties from July to August. The Metro Denver year-to-date unemployment rate of 5.3% remains below the 2004 rate of 5.9% for the same period. The average annual unemployment rate in Metro Denver through August was equal to the national rate but slightly higher than the state rate of 5.2%.*

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

	August 2005 (p)		2005 YTD Average		2004 YTD Average		2000 Annual Average Unemploy- ment Rate	1995 Annual Average Unemploy- ment Rate
	Total Labor Force	Unemploy- ment Rate	Total Labor Force	Unemploy- ment Rate	Total Labor Force	Unemploy- ment Rate		
Metro Denver	1,442.6	4.9%	1,428.8	5.3%	1,420.4	5.9%	2.5%	3.8%
Adams County	203.8	5.5%	201.9	5.9%	201.1	6.7%	2.7%	4.1%
Arapahoe Cnty	297.5	4.9%	294.0	5.2%	292.2	5.7%	2.4%	3.3%
Boulder Cnty	167.0	4.3%	166.6	4.6%	164.5	5.1%	2.3%	4.1%
Broomfield Cnty*	24.2	4.2%	23.9	4.8%	23.9	5.7%		
Denver County	308.0	5.5%	305.3	6.1%	304.6	6.9%	2.9%	4.8%
Douglas Cnty	130.3	3.7%	128.6	3.8%	127.8	4.4%	2.0%	2.4%
Jefferson Cnty	311.8	4.7%	308.4	5.1%	306.4	5.6%	2.3%	3.2%
Colorado	2,556.7	4.8%	2,541.7	5.2%	2,511.0	5.7%	2.6%	4.2%
United States	150,469	4.9%	148,949	5.3%	147,191	5.7%	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

More than 40% of the current national workforce will reach the traditional retirement age within five years, leaving the country with a possible shortage of 5 million skilled workers, according to a study on the baby boomer population by the New York-based Conference Board. The number of

workers between the ages of 55 and 64 years will grow by 51% to 25 million workers while the number of workers between the ages of 35 and 44 years is expected to decline by 7%. The baby-boomer effect is expected to impact some industries more than others. For example, about half of the nation's electric-utility workers and government civilian workforce will reach retirement age by the end of the decade. The National Association of Manufacturers estimates about 40% of its workforce will be of retirement age within ten years. On the bright side, several study show that 70% to 80% of baby boomers plan to work past retirement age.

Another business concern is the cost of health insurance. The cost of health insurance rose 9.2% in 2005 according to the Kaiser Family Foundation. While the 2004 increase is the smallest yearly increase since 2000, it still outpaces inflation and wage increases. The average annual health insurance cost for a family totaled \$10,880 with the employee paying \$2,713. The average health insurance cost for a single worker totaled \$4,024 with the employee paying \$610. Meanwhile, the percentage of employers providing health insurance dropped from 69% in 2000 to 60% in 2004. Most of the decline occurred in small companies. In fact, only 47% of companies with between three and nine employees offer coverage. Premiums increased 13.9% in 2003 and 11.2% in 2004.

*The number of first time unemployment insurance claims filed increased 11.0% in August after six consecutive months of decline. The number of claims filed at the state level increased 6.5% in August. Despite the increases, the number of year-to-date filings is 15.6% lower than last year for the metro region and 14.7% lower for the state.* The U.S. Department of Labor reported that as of mid-September, Hurricane Katrina has accounted for 214,000 jobless claims. Katrina-related claims are expected to rise in the coming weeks.

### First Time Unemployment Insurance Claims

	Month of Aug-05	Month of Jul-05	Month of Aug-04	Year-to-Date Average 2005	Year-to-Date Average 2004	Year-to-Date Average % Change	Annual Average 2000
Metro Denver	4,580	4,127	5,120	4,900	5,808	-15.6%	3,513
Colorado	9,022	8,469	10,171	10,380	12,171	-14.7%	7,951

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

Real wages increased in 2004 for a select group of highly skilled workers like nurses and airline pilots. The overall average hourly wage rose 1.9% from \$17.75 in July 2004 to \$18.09 in July 2005; however real gains were negated by 3% inflation over the same period. The U.S. Department of Labor's 2004 National Compensation Survey reports that wages have outpaced inflation over a longer period of time. From 1997 to 2004, wages have increased 19.9% compared to 17.7% inflation.

### Consumer Sector

Higher energy prices continue to plague the nation. The national average price of regular unleaded gas was \$2.94 per gallon according to AAA's fuelgagereport.com as of Monday, October 3, 2005. The average price in Denver was slightly lower at \$2.88 per gallon and \$2.92 per gallon in Boulder. The Organization of the Petroleum Exporting Countries (OPEC) provided some relief to the oil markets by releasing an additional 2 million barrels of oil daily, indicating supply fears are unfounded. Many analysts are predicting gas prices will continue to fall in the next couple months amid claims that oil companies are engaging in price gouging.

In addition, consumers are likely to see significant increases in their home heating bills this winter. Natural gas prices hit a record high during the last week of September, reaching \$14.20 per thousand cubic feet. The U.S. Department of Energy estimates the average household will pay \$400 more for natural gas this winter than last winter. Xcel Energy is estimating Colorado households will likely face rising prices throughout the winter with a 49% increase expected in

October and a 34% increase likely in December. Xcel cites limited natural gas supplies, higher prices and the short term shock from Hurricane Katrina as reasons for the price hike.

Americans slowed their borrowing in July, possibly indicating that higher interest rates are having an affect. Americans increased their debt by \$4.39 billion from June to July, down from a \$14.55 billion increase from May to June which was the largest increase in eight months. The June increase is largely attributable to increased automobile sales spurred by employee discount sales.

National retail sales dropped 2.1% in August, mostly due to a 12% drop in automobile sales. The August decline is the largest percentage decline since a 2.9% drop in November 2001 following the terrorist attacks. The U.S. Department of Commerce reports that retail sales excluding automobiles rose 1.0%, partially led by an increase in gasoline prices.

*Retail sales in Metro Denver were up 4.4% through June compared to the first six months of last year. While all counties experienced gains, the largest year-over-year gains occurred in Adams County (+17.1%), Douglas County (+13.8%) and Boulder County (+10.2%). The City and County of Denver led the metro area in sales for the year, followed by Arapahoe and Jefferson counties. Data for the City & County of Broomfield is skewed by a large payment of delinquent taxes by a company in May 2004. Statewide retail sales were up 6.6% through June. July data has not been released yet.*

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

	Month of Jun-05	Month of May-05	Month of Jun-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual Growth 2000	Annual Growth 1995
Total Metro Denver	6,515,238	5,504,610	6,379,132	33,872,631	32,439,500	4.4%	12.5%	4.8%
Adams County	1,041,114	822,372	867,471	5,128,309	4,379,661	17.1%	9.3%	-1.7%
Arapahoe County	1,411,211	1,252,772	1,383,755	7,451,131	7,050,438	5.7%	14.2%	6.4%
Boulder County	611,646	529,499	568,547	3,284,632	2,980,297	10.2%	10.5%	5.7%
Broomfield County	130,847	111,677	375,314	662,463	1,535,041	-56.8%		
Denver County	1,726,221	1,455,299	1,694,884	9,136,128	8,674,624	5.3%	13.4%	3.1%
Douglas County	520,801	456,793	441,008	2,619,777	2,302,141	13.8%	16.5%	33.8%
Jefferson County	1,073,398	876,197	1,048,153	5,590,190	5,517,298	1.3%	10.8%	6.5%
Colorado	11,056,523	9,136,756	10,284,217	56,941,524	53,414,830	6.6%	10.8%	5.8%

Source: Colorado Department of Revenue.

Two large retailers announced Metro Denver closures last month. Mervyns department store will close its 10 Front Range stores in February in an effort to improve profitability. The closure will result in the loss of 162 full-time workers and 584 part-time workers. Albertsons will close three stores in Brighton, Aurora and Jefferson County, resulting in about 200 job losses. Speculators believe Albertsons will leave Colorado all together because the company is fourth in Colorado market share and wants to focus on markets where the brand is number one or two. The retailer said recently it may be looking for a buyer for the 2,500-grocery store chain.

*Overall confidence levels in the mountain region increased to 129.0 in August from a revised 124.9 in July, registering the mountain region as the most confident of the nine regions in the survey for the third consecutive month. Consumer confidence in the mountain region is 12.5% higher through the first eight months of 2005 compared to the same period last year. Mixed results were reported across the nine regions with four regions reporting improvements, four reporting declines and one region reporting no change.*

The index is comprised of the present situation index and the expectations index. Mountain region consumers reported an increase in their perceptions of current situations from a revised 141.9 to 152.8 in August, the highest reading among the nine regions. The expectations index in the mountain region fell in August from a revised 113.7 to 113.1, still the highest reading among

the nine regions. National confidence increased slightly from a revised 103.6 to 105.6 in August due to gains in both the present situation and expectations indexes.

### Consumer Confidence Index

	Month of Aug-05 (p)	Month of Jul-05	Month of Aug-04	YTD AVG 2005	YTD AVG 2004	YTD AVG % Change	Annual Average 2000
Mountain	129.0	124.9	106.1	121.2	107.8	12.5%	142.1
United States	105.6	103.6	98.7	103.6	96.0	7.9%	139.0

Source: The Conference Board. (p)=preliminary

The Ellie Caulkins Opera House opened in the Denver Center for Performing Arts in September after two years of construction. The \$92 million facility, which has a traditional European style and 2,268 seats, has been named among the best in the world.

Colorado casinos reported a 2.1% increase in adjusted gross proceeds (AGP), gambling revenue minus the amount paid out in winnings, in August compared to August 2004. The Colorado Department of Revenue's Division of Gambling reported \$63.9 million in gambling proceeds at the state's 46 casinos. Black Hawk's 21 casinos posted the only decline.

*While hotel occupancy rates in Metro Denver have been generally flat for the past three months, the August rate of 77.0% remains well above the August 2004 rate of 75.2%. Average room rates increased from \$91.94 per night in July to \$96.78 per night in August, the highest price on record. Average room rates through the first eight months of 2005 are 8.7% higher than the same period in 2004.* The statewide lodging industry has also improved over last year. The average hotel occupancy rate for Colorado through August is 71.5% compared to the August 2004 rate of 69.5%. Average room rates increased to \$105.37 in August 2005 compared to \$97.74 in August 2004.

### Metro Denver Hotel Statistics

	Month of Aug-05	Month of Jul-05	Month of Aug-04	YTD AVG 2005	YTD AVG 2004	YTD AVG % Change	Annual 2000	Annual 1995
Percent of Hotel Rooms Occupied	77.0%	77.0%	75.2%	66.3%	63.8%	3.9%	68.6%	72.5%
Average Hotel Room Rate	\$96.78	\$91.94	\$86.35	\$90.40	\$83.13	8.7%	\$89.57	\$71.44

Source: Rocky Mountain Lodging Report.

Starwood Hotels & Resorts is opening an "aloft" hotel in Cherry Creek. The "aloft" is part of the W Hotels Worldwide division that some dub "W lite." Construction of the 136-room hotel is set to begin in 2006 and to be completed the following year. The exact location is unknown at this time for the estimated \$27.2 million hotel. The "aloft" would be the third hotel in the Cherry Creek area.

Negotiations are underway to convert the Embassy Suites Hotel in the Denver Place Tower Plaza to a Ritz-Carlton Hotel. A team of Denver developers purchased the hotel and adjacent Athletic Club at Denver Place last month for a reported \$77.75 million. The Ritz-Carlton is among a handful of hotels either planned or underway in Downtown Denver that would add a total of 1,800 rooms.

Denver International Airport (DIA) dropped from the fifth to the seventh busiest airport for the first half of 2005 even though DIA is on track for a record year in terms of the number of passengers boarding planes, according to the U.S. Bureau of Transportation Statistics. Las Vegas's McCarran Airport and Phoenix's Sky Harbor surpassed DIA during the January-June period due to significant population and tourism growth. McCarran and Sky Harbor also serve as hub airports for discount airlines America West and Southwest.

Passenger traffic at Denver International Airport hit a record high in August of nearly 4.4 million passengers, a 9.7% increase over August 2004 travel. For the year, traffic is up 3.3% over 2004 which was the airport's busiest year on record. International travel is up 43.9% through the first eight months of the year compared to the same period last year.

### Denver International Airport Passengers

	Month of Aug-05	Month of Jul-05	Month of Aug-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual 2000	Annual 1995
Number of Airline Passengers	4,397,701	4,275,728	4,009,423	29,780,396	28,841,034	3.3%	38,751,687	31,035,398

Source: Denver International Airport, Traffic Statistics.

The Colorado stock index posted a 10.8% gain through September compared to minimal or negative growth for 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. Westminster-based Myogen was the best performing stock in Colorado during the third quarter with a 236% increase in its stock price. Through the third quarter, the S&P 500 is up 1.4% compared to a 1.1% decline in the NASDAQ and a 2.0% decline in the DOW.

### Stock Market Indexes

	Month of Sep-05	Month of Aug-05	Month of Sep-04	YTD Return 2005	YTD Return 2004	YTD Return 2003
Colorado	1,763.9	1,779.3	1,438.7	10.8%	1.9%	21.1%
S&P 500	1,228.8	1,220.3	1,114.6	1.4%	0.2%	13.2%
NASDAQ	2,151.7	2,152.1	1,896.8	-1.1%	-5.3%	33.8%
DOW	10,568.7	10,481.6	10,080.3	-2.0%	-3.6%	11.2%

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

### Residential Real Estate

Sales of previously-owned homes in Metro Denver are 1.8% higher through the first three quarters of the year compared to the same period last year while the number of unsold homes on the market is 10.7% higher than last year. MetroList data through September also shows home sales under contract were only 0.2% higher than the same period last year.

Average and median home prices slipped in September with the exception of the median condo price which rose from \$162,500 to \$165,000, a record high. The median price for a single-family home fell from \$255,000 to \$250,000 in September after setting record highs in the two months prior. Compared to the first nine months of 2004, the median price is 3.8% higher for a single-family home and 2.0% higher for condominiums.

The average price of a single-family home decreased from \$314,533 to \$309,620 in September but the year-to-date average price of a single-family home price stands 5.7% higher than the same period last year. The average price for a condo decreased slightly from \$201,373 to \$200,922 in September, bringing the year-to-date average price 5.2% higher than last year. Median prices are typically a better market descriptor as average prices tend to be skewed by extremely high or low values.

In a different study, Denver ranks as the 136<sup>th</sup> most expensive housing market out of 319 markets in the Coldwell Banker Home Price Comparison Index with an average sale price of \$336,433. Boulder ranks as the most expensive Colorado market with an average sale price of \$546,350

and ranks 68th nationally. Other local rankings include Highlands Ranch at 123<sup>rd</sup>, Fort Collins at 175<sup>th</sup> and Colorado Springs at 235<sup>th</sup>.

### Home Sales Activity

	Month of Sep-05	Month of Aug-05	Month of Sep-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Ann Avg 2000	Ann Avg 1995
Home Sales (Under Contract)	6,158	5,647	5,084	52,172	52,050	0.2%	37,130	28,247
Home Sales (Closed)	5,573	5,091	4,465	41,010	40,266	1.8%	48,611	36,038
Unsold Homes on Market	27,200	26,650	24,581	27,200	24,581	10.7%	8,820	9,854
Average Sales Price-Single Family	\$309,620	\$314,533	\$291,422	\$306,613	\$289,998	5.7%	\$239,779	\$150,736
Average Sales Price-Condo	\$200,922	\$201,373	\$179,183	\$189,750	\$180,350	5.2%	\$145,197	\$87,369
Median Sales Price-Single Family	\$250,000	\$255,000	\$240,000	\$246,000	\$237,000	3.8%		
Median Sales Price-Condo	\$165,000	\$162,499	\$156,031	\$160,125	\$157,000	2.0%		

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

The median home price in Metro Denver, which is reported on a quarterly basis by the National Association of Realtors, increased from \$236,000 during the first quarter to \$248,400 during second quarter. Prices are 2.3% higher through the first half of 2005 compared to the first half of 2004 in contrast to the national home price increase of 11.6% for the same period. The report pegs Metro Denver as the 29th most expensive housing market out of the 145 metro areas ranked in the second quarter of 2005, down from the 24<sup>th</sup> most expensive market in the first quarter. The Metro Denver market was the seventh most expensive market just three years ago.

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

	Quarter 2 2005 (p)	Quarter 1 2005 (r)	Quarter 2 2004	Year-to- Date Average 2005	Year-to- Date Average 2004	Year-to- Date Average in YTD	Median 2000	Median 1995
Metro Denver	\$248.4	\$236.0	\$241.8	\$242.2	\$236.8	2.3%	\$196.8	\$214.5
United States	\$208.5	\$188.3	\$183.5	\$198.4	\$177.8	11.6%	\$139.0	\$113.1

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

*Metro Denver foreclosures are up 14.6% through the first eight months of 2005 compared to the same period last year. While any increase in foreclosures is undesirable, the pace of the increase in 2005 is much improved compared to last year. Foreclosures in Metro Denver increased from 1,046 in July to 1,207 in August. Adams, Douglas and Boulder counties continue to post high percentage increases in foreclosure activity. Broomfield County is the only county to experience fewer foreclosures through August compared to the same period last year.*

### Real Estate Foreclosures

	Month of Aug-05	Month of Jul-05	Month of Aug-04	YTD Total 2005	YTD Total 2004	YTD Total % Change
Total Metro Denver	1,207	1,046	947	9,403	8,202	14.6%
Adams County	256	215	198	2,146	1,695	26.6%
Arapahoe County	301	275	211	2,301	2,092	10.0%
Boulder County	56	33	32	407	339	20.1%
Broomfield County	12	5	9	77	88	-12.5%
Denver County	288	275	208	2,397	2,137	12.2%
Douglas County	96	69	85	670	557	20.3%
Jefferson County	198	174	204	1,405	1,294	8.6%

Source: CB Richard Ellis.

National housing starts slowed for the second month in a row in August according to a report by the U.S. Department of Commerce. Construction of new homes and apartments dropped 1.3% in August and 1.5% in July, indicating the U.S. housing market may be cooling. Even so, August construction totaled 2.01 million units and is the eighth of the last nine months in which monthly construction has exceeded 2 million units.

The number of residential building permits issued in Metro Denver during the first four months of 2005 increased 5.8% compared to the same period last year. Single-family construction is leading the way with a 17.3% year-to-date gain, followed by a 14.3% decrease in the number of attached single-family (two-family) permits. Multi-family home construction is down 39.2% through April, which is good news for the slowly improving apartment market. In fact, no multi-family permits were issued in February, March or April. May data was not available at the time of this report.

### Residential Building Permits

	Month of Apr-05	Month of Mar-05	Month of Apr-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Total 2000	Total 1995
Single-Family Units	1,313	1,685	1,397	5,133	4,376	17.3%	15,873	12,560
Two-Family Units	214	303	538	1,246	1,454	-14.3%	3,321	1,965
Multi-Family Units	0	0	20	284	467	-39.2%	9,116	4,979
Total Units	1,527	1,988	1,955	6,663	6,297	5.8%	28,310	19,504

Source: Home Builders Association of Metropolitan Denver.

The Denver Metro Apartment Vacancy and Rent Survey revealed mixed results for the metro apartment market but it is still considered a renter's market. Vacancy rates fell to 8.0% in the second quarter from 9.3% in the first quarter, the lowest rate since third quarter 2001. Average rental rates slipped to \$826 per month during second quarter from \$836 per month but remain above second quarter 2004 rates.

### Apartment Statistics

	Quarter 2 2005	Quarter 1 2005	Quarter 2 2004	Year-to- Date Average 2005	Year-to- Date Average 2004	Year-to- Date Average % Change	Annual Average 2000	Annual Average 1995
Apartment Vacancy Rate	8.0%	9.3%	9.7%	8.7%	10.1%		4.6%	4.3%
Average Monthly Rental Rate (all units)	\$826	\$834	\$818	\$830	\$814	2.0%	\$763	\$564

Source: Denver Metro Apartment Vacancy and Rent Survey.

The Metro Denver apartment market is set to have a record year in terms of sales. Through early August, investors have paid a record \$755 million for 27 apartment buildings with more than 100

units which already surpasses the previous record set in 2000 of \$681 million in sales. The \$176 million sale of Palomino Park Resort in Highlands Ranch in late Fall has yet to be added to the list, bringing the expected sales for the year to \$931 million. Apartment sales last year totaled \$456 million, according to Denver-based Apartment Appraisers & Consultants.

### **Commercial Real Estate**

CB Richard Ellis describes a thriving commercial real estate market in their Mid Year 2005 report with capitalization rates averaging higher than comparable markets and low prices per square foot compared to similar markets. Real estate remains an attractive investment due to relatively low interest rates and weak alternative investment markets such as the stock market. In the first six months of the year, the price per square foot for office sales averaged \$143.81 compared to \$100.09 experienced in the second half of 2004. Sales volume reached \$852 million for the first two quarters of 2005, the majority of which occurred in the first quarter.

CB Richard Ellis reported that the metro Denver office market experienced mixed results among the submarkets during second quarter 2005 while overall statistics remained relatively static. Average asking lease rates increased slightly to \$16.65 per square foot with the most competitive rates in the northeast submarket, averaging \$10.37 per square foot. Downtown rates finished the quarter at the top, averaging of \$19.01 per square foot. CB Richard Ellis expects metro area lease rates to remain competitive through the end of the year. Second quarter vacancy rates improved to 17.3% from 18.0% rate during the same period last year but showed little change from first quarter 2005.

Fuller & Company's mid-year report describes a solid and healthy office market with 1.1 million square feet of positive absorption during the first half of 2005 and a lower vacancy rate of 18.2%. On the other hand, conditions were not consistent among all submarkets and lease rates have made only minimal improvements, particularly in Class B space. Fuller & Company analysts forecast another 1.0% point drop in the overall vacancy rate during the second half of 2005 combined with continued positive absorption.

*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.*

#### **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.

CB Richard Ellis' Mid Year report also indicates a strong investment market for industrial properties. The average price per sq. ft. for industrial space dropped from an average of \$47.92 per sq. ft. during the second half of 2004 to an average of \$38.66 during the first half of 2005. Denver prices are well below those of comparable metro areas providing significant cost advantages to investors. Industrial capitalization rates have followed the U.S. in a general decline since early 2001; however the Denver rate currently stands about more than one-half a percentage point above the national average. On the other hand, sales volume has slowed during the first half of 2005 compared to the second half of 2004. Sale volume through June totaled only \$76 million, down from approximately \$180 million during the July-December period last year.

CB Richard Ellis' *MarketView* report for second quarter 2005 showed a slight set back for the industrial market from the improvements of the previous five consecutive quarters. Still, the sector has strong fundamentals and is expected to be corrected next quarter. Vacancy rates increased to 8.7%, rising the most in the North Denver submarket. Eight of 12 submarkets experienced negative absorption, translating into overall negative absorption during the second quarter. Lease rates held stable at \$4.80 per square foot, down slightly from \$4.82 per square foot during first quarter. The highest rates of about \$7.00 per square foot can be found in the Northwest and Aurora submarkets. CB Richard Ellis also noted moderate construction activity with seven ground-breakings during the April-June period.

Fuller & Company's Mid-Year Report says the Metro Denver industrial market will continue to improve through 2005 as it has during the first half of the year. Vacancy rates dropped for the second consecutive quarter to 7.8% and will continue to fall to 7.3% by year-end 2005. For second quarter, Fuller & Company shows the highest vacancy rates without sublease space in the Northwest (12.7%) and Southeast (11.9%) submarkets. Net absorption is expected to remain positive.

*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.*

#### 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

Industrial construction remained at minimal levels. 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.

*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 the September, about 260,000 square feet of new flex space was added to the Metro Denver market, half of which occurred in Douglas County.

CB Richard Ellis research depicts an improving retail market in second quarter including positive absorption and increasing rental rates from the previous quarter. The overall retail vacancy rate showed little change from first quarter's 6.4% rate although fluctuations were noticed within the submarkets. Lease rates in the Colorado Boulevard submarket jumped 23% from first quarter to \$22.85 per square foot compared to the lowest rates of \$10.71 per square foot found in the Aurora submarket. The West submarket currently holds the highest vacancy rate of 10.3% but also experienced one of the greatest improvements. Construction activity declined to 3.8 million square feet during the second quarter, ending a year-long trend of increasing activity.

Significant retail development is occurring in both the north I-25 corridor and the southeast markets, two of the most active markets in terms of population growth. Groundbreaking is scheduled for the \$113.6 million Orchard Town Center in Westminster at I-25 and West 144<sup>th</sup> Ave. The first phase of the Larkridge retail development at I-25 and Colorado Highway 7 is set to open in October. Northglenn selected a developer for a large-scale retail project at 120<sup>th</sup> Ave. and I-25. Broomfield is working on a 1.1 million sq. ft. retail project for the northwest corner of I-25 and Colorado Highway 7.

On the southern side of the metro area, several of the larger tenants like Wal-Mart and Sam's Club are operational at the Southlands retail development located at E-470 and Smoky Hill Rd. in Aurora. In addition, plans are underway to redevelop the Southglenn Mall at Arapahoe Rd. and South University Blvd. into the Streets at Southglenn, a pedestrian-oriented mixed-use development with 950,000 sq. ft. of retail space and 350 residential lofts. The City of Centennial recently approved forming a special taxing district that would allow a portion of the property and sales taxes collected to be used to repay bonds needed to finance the project. The 31-year old mall will be demolished next spring and could open as early as Fall 2007.

**Monthly Economic Summary of Metro Denver**

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↑	Employment increased by 1,900 jobs from July to August; 2.1% annual growth rate
% Companies Hiring	↓	↑	23% of companies expect to add workers in 4th quarter 2005; 18% expect decrease
Unemployment Rate	↓	↓	Rate declined to 4.9% in August; metro rate currently equals national rate
Initial Claims	↑	↓	Initial unemployment claims increased in Aug; annual claims down 15.6% from 2004
Total Retail Sales	↑	↑	Total retail sales up 4.4% through June; up 6.6% for state
Consumer Confidence Index	↑	↑	Mountain region and U.S. confidence levels increased in Aug and are above 2004 levels
Hotel Occupancy	↔	↑	Hotel occupancy flat in Aug at 77.0%; average room rate increased to \$97 per night
DIA Passengers	↑	↑	Traffic up 3.3% in first eight months of 2005, serving about 29.8 million passengers YTD
Colorado Stock Index	↓	↑	CO Stock Index increased 10.8% through first nine months of 2005
Dow Jones Industrial Average	↑	↓	Dow increased in September but is down 2.0% year-to-date
Home Sales (closed)	↑	↑	Home sales through Sept. up 1.8% from last year; average SF sold price 5.7% higher
Median Home Price	↑	↑	Median home price increased to \$248,400 in Q2 2005; 2005 price 2.3% higher than 2004
Foreclosures	↑	↑	Foreclosures up 14.6% through Sept; biggest gains in Adams, Douglas & Boulder counties
Residential Building Permits (Total)	↓	↑	Total permits up 5.8% through April 2005; 39.2% decrease in multi-family permits
Apartment Vacancy Rate	↓	↓	Vacancy rate decrease to 8.0% in Q2 2005; avg rental rate decreases to \$826 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>11 of 18</b>	<b>16 of 18</b>	