

# **MONTHLY ECONOMIC SUMMARY**

**A Monthly Summary of Economic Conditions**

**in Metro Denver**

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

**Released September 7, 2005**

**Prepared For:**



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## MONTHLY ECONOMIC SUMMARY OF METRO DENVER

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

### Notable Rankings

- ◆ Colorado is the 29<sup>th</sup> most expensive state in which to do business, the same ranking achieved last year. According to the 2005 Cost of Doing Business Index by the Milken Institute, the cost of doing business in Colorado is about 7% below the national average. Hawaii, New York and Massachusetts are the three most expensive states while South Dakota, North Dakota and Iowa are the three least expensive states for doing business. The rankings are determined by taxes, wages, electricity and real estate costs for industrial and office space.
- ◆ According to the BizCosts® study by The Boyd Company, both Denver and Colorado Springs are affordable markets for biotechnology companies in terms of operating expenses. The study ranks major annual operating costs for a 200-worker biotechnology facility among 60 comparative metro areas for both construction and lease scenarios, with a number 1 ranking being the most expensive. Under the construction assumption, Denver ranks 21<sup>st</sup> and Colorado Springs ranks 45<sup>th</sup>. Under the lease assumption Denver ranks 26<sup>th</sup> and Colorado Springs ranks 52<sup>nd</sup>. San Francisco and San Jose are the top two most expensive markets under both assumptions.
- ◆ Colorado adults have the lowest percentage of obesity (16.8%) among the 50 states even though one in six Colorado adults is still considered obese. The state also has the lowest percentage of adults with diabetes (4.3%) and one of the lowest percentages of cancer deaths among adults. The report by the Trust for America's Health, found that 23% of adults are obese nationwide, six out of ten adults are overweight and 7% of adults have diabetes. The three leanest states are Colorado, Massachusetts and Vermont and the three most obese states are Mississippi, Alabama and West Virginia.
- ◆ ACT scores from Colorado's 11<sup>th</sup>-graders improved slightly from 18.8 in 2004 to 19.0 in 2005 despite a slip in math scores from 18.8 in 2004 to 18.6 in 2005. For the sixth consecutive year, D'Evelyn Senior High in Jefferson County averaged the highest ACT score in the state of 26.7 while Jefferson Open High School reported the largest gain of 5.05 points this year. The ACT is a college admissions exam that measures students' proficiency in math, English, reading and science.
- ◆ Colorado students scored better than average on their 2005 SAT tests and improved slightly from last year according to the College Board. Colorado students averaged 560 for both verbal and math sections compared to the national averages of 508 for verbal and 520 for math. About 25% of Colorado students from both public and private schools took the test while 49% of students nationwide took the exam. Colorado students scored 554 on the verbal exam and 553 on the math exam in 2004.
- ◆ About 29.4% of Colorado ninth-graders do not graduate from high school and another 30% who do graduate do not continue on to college, according to white papers by the Bell Policy Center, a Denver-based think tank. The Bell Policy Center papers also reported that of the students who attend college, only half actually graduate from a community college within

three years or earn a bachelor's degree within six years. The studies place Colorado below average in terms of the percentage of low-income students who attend college.

- ◆ Colorado had the fifth most foreclosed homes on the market in July with 6,159 foreclosed homes for sale, according to a study by Foreclosure.com. Texas (12,123), Ohio (8,062), Michigan (7,208) and Georgia (6,692) were the only states worse off in terms of the number of foreclosed homes for sale. Analysts say interest-only and adjustable rate mortgages are partly to blame as home owners are unable to pay once the payments change. Rhode Island had the fewest with only 8 foreclosed homes for sale.
- ◆ Weld County is the fastest growing county in the state. Indeed, Firestone and Frederick in Weld County are among the ten fastest growing cities in the nation. U.S. Census data reveals that more than 150,000 people moved into six towns in southwestern Weld County between 2000 and 2004 resulting in 167% growth in population in Firestone during the four-year period, 119.8% growth in Frederick, 57.7% growth in Lochbuie, 51.2% growth in Erie, 10.6% growth in Dacono and 3.5% growth in Fort Lupton. About 64% of southwestern Weld County workers commute to neighboring counties for work.
- ◆ U.S. home prices rose 13.4% from the second quarter 2004 to the second quarter 2005 according to the Office of Federal Housing Enterprise Oversight. Colorado home price increases have moderated with Colorado ranking 43<sup>rd</sup> in one-year home price appreciation, 42<sup>nd</sup> in price appreciation during the April-June period, 33<sup>rd</sup> in price appreciation since 2000 and 21<sup>st</sup> in price appreciation since 1980.

### General Economic Overview

According to preliminary estimates by the U.S. Department of Commerce, U.S. gross domestic product (GDP) increased at an annualized rate of 3.3% during second quarter 2005, down from the 3.8% pace during 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.

Hurricane Katrina, the worst storm to hit the Gulf Coast since 1969 and likely the most costly natural disaster in U.S. history, devastated the Gulf Coast regional economy when it came ashore on August 29<sup>th</sup>. The total economic impact could top \$100 billion according to Risk Management Solutions, a major insurance risk modeler. Mark Zandi of Economy.com pegs the direct economic loss of Hurricane Katrina at \$130 billion, with the most severe impacts felt throughout the Gulf Coast regions of Louisiana, Mississippi and Alabama. The rest of the country is likely to feel the effect more than previous natural disasters because of Katrina's disruption to the nation's energy supply network. Estimates vary for third quarter GDP growth depending upon automobile sales, but there is a consensus for slower growth during the fourth quarter followed by a faster pace in 2006.

Immediate impacts are expected in the energy, construction and tourism sectors. Construction costs for the approximately 150,000 affected structures are estimated at \$80 billion to repair private structures, including \$50 billion for housing, and another \$20 billion to rebuild infrastructure. Ken Simonson of General Contractors of America says the reconstruction efforts will require the borrowing of construction workers from other regions and could intensify current shortages of construction materials like cement.

Loren Scott, president of Loren C. Scott & Associates, identifies three arms of the energy industry impacted by Katrina: refineries, pipelines and natural gas production. The Gulf region typically produces 1.5 million barrels of oil per day, representing 23% of oil produced in U.S. Now, companies and facilities are not only struggling to restore electricity but are also suffering from the lack of workers as energy employees try to re-establish their lives.

Eight relatively large refineries were impacted by Katrina. The Exxon Mobile refinery, the largest in the area and the second largest in the nation, is operational after power was restored. Two other larger refineries are in the process of starting back up but the smaller refineries continue to struggle with no electricity and no workers.

On-shore pipelines appear to be operational again; however, the 33,000 miles of off-shore pipelines remain the biggest uncertainty mainly because they are not visible through the cloudy water. At least 26 off-shore platforms are missing and 20 have sustained damage. Still, the region is making great improvements by decreasing the "shut-in" production from 93% to 69% in just a few days.

About 50% of total Gulf region's natural gas production remains "shut in," down from more than 80% in just a few days. Denver's Forest Oil Corp. and St. Mary's Land & Exploration Co. heeded warnings and shut down production before the storm. Both companies are slowly bringing production back online.

Sara Johnson of Global Insight acknowledges the supply shock to consumers but expects to see relief at the gas pump by year-end and early next year with the price of oil falling to \$60 a barrel. Johnson expects gasoline prices to remain at around \$3.30 per gallon through September, but will fall to \$2.55 by December. Despite the optimistic estimate, the average household will spend \$600 more on energy during the third quarter than last quarter and the share of energy expenditures per household will increase from 5.4% to 6.1% over the same period. During the first week of September, oil prices were trading around \$66 per barrel. The worst case scenario according to Nariman Behraves, the chief economist at Global Insight, is that the price of crude oil would increase to \$100 per barrel and gas prices would be \$3.50 per gallon for a few months.

Prior to Katrina, analysts expected that the Federal Open Market Committee (FOMC) would continue to raise interest rates throughout the remainder of 2005. Indeed, the FOMC raised the federal funds rate another 25 basis points on August 9<sup>th</sup> to 3.5%, marking the tenth increase since June 2004 and reaching the highest point in nearly four years. The board also raised the target for the discount rate by 25 basis points to 4.5%. Now, analysts do not expect further rate hikes until year-end, allowing time for the nation to begin to recover from Katrina.

National productivity, defined as output per hour, increased 2.2% during the second quarter, down from a 3.2% increase during the first quarter. The U.S. Department of Labor says that despite the decline, the productivity increase is enough to guarantee continued increases in the standard of living. Productivity has been increasing since the 2001 recession when employers laid off workers to reduce costs.

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 27<sup>th</sup> consecutive month in August while the overall economy grew for the 46<sup>th</sup> consecutive month. The Institute for Supply Management's Purchasing Managers' Index decreased from 56.6 in July to 53.6 in August, a 3.0% decline. 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, slowed in July to 60.5 from a reading of 62.2 in June. The deceleration was blamed on price increases amid higher energy costs. Still, July's index level marked the 28<sup>th</sup> consecutive month of expansion indicated by a reading greater than 50. Colorado's service industry rebounded in June after slipping in May. The index compiled by the University of Colorado at Denver Business School rose to 60.71 in June, up from 55.32 in May. Index values greater than 50 indicate expansionary conditions. The Colorado and national non-manufacturing indexes are similar but not identical.

- ◆ The employment index for the Mountain State region set another record in July at 72.4, up from 71.0 in June, according to the Creighton University Economic Forecasting Group in Omaha. The mountain region includes Colorado, Utah and Wyoming and index values greater than 50 indicate economic growth in the next three to six months. Creighton University spokesperson says Colorado has added about 22,000 jobs since January and will add another 26,000 by year-end, giving the state a 2.2% job growth rate.
- ◆ The Vectra Bank Colorado Small Business Index for Colorado decreased from a revised 111.1 in June to 108.5 in July. The state's unemployment rate declined in July which is considered a negative factor since it reduces the potential workforce for small businesses. The 100 level represents the benchmark year of 1997.
- ◆ 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 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.
- ◆ The Leading Index for Metro Denver, which is a predictor of changing economic activity six to nine months in the future, remained at 100.7 for the fourth consecutive month suggesting that economic growth is stabilizing. The Historic Index rebounded in May to 129.1, up from 128.5 in April. The 0.5% increase was due to employment growth. The May 2005 index is 1.7% higher than the May 2004 index. The Historic Index measures year-over-year growth, so both the direction and magnitude of change are important. The 100 level represents the benchmark year of 1995 for both indexes compiled by Development Research Partners.

### Labor and Employment

*Metro Denver employment is once again outpacing the nation. Preliminary figures by the Colorado Department of Labor reveal that year-to-date Metro Denver employment has grown 2.1% compared to 1.7% growth at the national level. On a month-over-month basis, Metro Denver employment declined 0.6% in July, a loss of 8,000 positions, with most sectors reporting minimal percentage drops or no growth. This was a typical seasonal loss as the majority of teachers are removed from the employment rolls for the summer.*

The largest percentage gains from June to July occurred in the Natural Resources & Construction (+1.0%), Transportation, Warehousing & Utilities (+0.8%) and Professional & Business Services (+0.3%) sectors. On the other hand, employment in the Government sector (-4.3%) and Information sector (-0.9%) was down. *For the year, the largest employment gains have occurred in the Natural Resources & Construction (+4.2%, 3,800 positions), Professional & Business Services (+3.3%, 6,900 positions), Education & Health Services (3.4%, 4,500 positions) and Leisure & Hospitality (+3.1%, 4,200 positions) sectors. Information sector employment remains 3,700 positions below last year's levels, a 5.9% decrease.*

Colorado employment declined 0.5% from June to July, a loss 12,300 positions. Still, year-to-date employment is up 2.3% compared to the same period last year and is at its highest levels since 2001. National employment decreased 0.9% in July. Hurricane Katrina may reduce payrolls by about 500,000 jobs in the coming months which would mark the biggest employment decline in 30 years. Labor analysts estimate that there are one million displaced workers in the Gulf Coast states and it could be several weeks or months before laborers are able to find work.

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

|   | Month of<br>Jul-05 (p) | Month of<br>Jun-05 | Month of<br>Jul-04 | Year-to-<br>Date<br>Average<br>2005 | Year-to-<br>Date<br>Average<br>2004 | Year-to-<br>Date<br>Average<br>% Change | Annual<br>Growth<br>Rate<br>2000 | Annual<br>Growth<br>Rate<br>1995 |
|---|------------------------|--------------------|--------------------|-------------------------------------|-------------------------------------|---|----------------------------------|----------------------------------|
| <b>Total 11-County<br/>Metro Denver*</b>                    | 1,356.4                | 1,364.4            | 1,330.5            | 1,341.4                             | 1,313.7                             | 2.1%                                    | 4.3%                             | 4.2%                             |
| Natural Resources &<br>Construction                         | 99.8                   | 98.8               | 96.2               | 94.7                                | 90.9                                | 4.2%                                    | 10.7%                            | 3.3%                             |
| Manufacturing   | 91.7                   | 92.2               | 91.7               | 91.7                                | 90.3                                | 1.5%                                    | -1.0%                            | 3.8%                             |
| Wholesale & Retail<br>Trade                                 | 206.9                  | 206.9              | 203.8              | 204.5                               | 201.4                               | 1.6%                                    | 3.5%                             | 5.0%                             |
| Transp., Warehousing<br>& Utilities                         | 52.2                   | 51.8               | 52.2               | 51.8                                | 51.0                                | 1.5%                                    | 8.6%                             | 3.5%                             |
| Information   | 57.0                   | 57.5               | 60.6               | 57.9                                | 61.5                                | -5.9%                                   | 10.1%                            | 8.6%                             |
| Financial Activities<br>Professional &<br>Business Services | 108.6                  | 108.5              | 106.7              | 107.4                               | 105.5                               | 1.7%                                    | 0.3%                             | 2.9%                             |
| Education & Health<br>Services                              | 221.0                  | 220.4              | 214.3              | 214.9                               | 207.9                               | 3.3%                                    | 7.0%                             | 5.7%                             |
| Leisure & Hospitality                                       | 136.7                  | 137.1              | 131.6              | 136.4                               | 131.9                               | 3.4%                                    | 2.9%                             | 4.8%                             |
| Other Services  | 144.2                  | 144.1              | 140.0              | 136.7                               | 132.5                               | 3.1%                                    | 4.5%                             | 5.8%                             |
| Government  | 51.2                   | 51.5               | 50.2               | 50.6                                | 49.4                                | 2.5%                                    | 1.0%                             | 3.6%                             |
| Federal Gov't   | 187.1                  | 195.6              | 183.2              | 195.0                               | 191.3                               | 1.9%                                    | 2.4%                             | 0.5%                             |
| State & Local Gov't   | 31.6                   | 31.6               | 31.9               | 31.5                                | 31.8                                | -0.9%                                   | -0.5%                            | -6.6%                            |
| Colorado  | 155.5                  | 164.0              | 151.3              | 163.4                               | 159.5                               | 2.5%                                    | 3.1%                             | 2.6%                             |
| United States   | 2,234.6                | 2,246.9            | 2,188.7            | 2,210.7                             | 2,161.4                             | 2.3%                                    | 3.8%                             | 4.5%                             |
|   | 133,531                | 134,732            | 131,384            | 132,826                             | 130,641                             | 1.7%                                    | 2.2%                             | 2.6%                             |

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

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

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

**Aerospace:** Ball Aerospace & Technologies Corp. will cut between 3% to 5% of its workforce to match its current contract needs. Most cuts will be indirect in nature and include not filling open positions, voluntary layoffs and reassigning workers. Ball has expanded its local workforce by 45% in the past four years and currently employs 2,900 workers.

All remaining military operations at the old Lowry Air Force Base will end as a result of a recent panel vote following the Base Realignment and Closure (BRAC) process. The 1,184 jobs at the Defense Finance and Accounting Service (DFAS) office at Lowry will be moved to other military bases around the country and the 438 jobs at the Air Reserve Personnel Center will move to Buckley Air Force Base. Still, Colorado gained more than it lost under the BRAC closures with 7,000 to 8,000 troops moving to Fort Carson in Colorado Springs.

**Aviation:** Aviation Technology Group (ATG) announced plans to build a manufacturing facility at Front Range Airport in Adams County after considering alternative locations in New Mexico and Utah. ATG is developing a two-seater Javelin jet that is configured similar to a fighter jet. The Javelin, which can reach speeds of 600 miles per hour and an altitude of 45,000 feet, is priced at \$2.8 million for the civilian model and \$5.5 million for the military model. The manufacturing facility will employ about 150 high-paying jobs in the next few years with employment ultimately reaching 500 at full potential. In addition to the state aviation development zone tax credit that became affective in August, ATG noted that the enterprise zone tax credits available at Front Range Airport played an important role in its location decision for the manufacturing facility. Enterprise zone tax credits are not available at Centennial Airport in unincorporated Arapahoe County where ATG will retain its headquarters.

**Bioscience:** The biotech industry will be profitable as early as 2008 according to Ernst & Young. Biotech revenues increased 17% in 2004, reaching \$46 billion; however, companies lost \$6.4 billion.

Positive test results for Myogen's Darusentan drug which aims to lower blood pressure in patients for whom hypertension drugs are ineffective, spiked the Westminster-based company share prices by 60% last month. The drug must still pass through Phase III testing by the Food and Drug Administration before it can be sold on the market, a process that could take more than a year.

Amgen Inc. is also in late-stage testing for AMG 162, an osteoporosis injection that eliminates the need for pills. ThinkEquity Partners estimates that the global osteoporosis drug market will be worth \$11.5 billion next year and \$7 billion in the U.S. alone. Amgen also is testing AMG 531, a drug that reduces suffering from bruising and internal bleeding disorders due to low platelet levels. The drug would be manufactured in Boulder. Amgen currently employs 800 workers in Boulder and Longmont.

On the downside, EAS Inc. will close its headquarters in Golden and move to Columbus, OH to be closer to parent company Abbott Laboratories. The nutritional supplement company known for its protein shakes and vitamin bars was acquired by Abbott in late 2004 for \$360 million. Abbott spokesperson said some of the 115 workers at the Golden office that mostly handle the company's marketing and administrative functions will be offered positions in Ohio. Others will be laid off with the exception of a small sales staff to operate a Golden sales office.

**Energy:** The \$14.6 billion energy bill signed by President Bush will serve as a boon to Colorado's thriving energy industry. Analysts estimate local companies will realize millions of dollars in tax benefits and enjoy a streamlined regulatory process, enabling companies to commercially produce oil shale within two years. For consumers, the bill means an extended daylight savings time starting in 2007 and tax breaks for fuel-efficient cars and appliances.

A study by research firm Rand Corp. indicates oil shale fields in Colorado, Utah and Wyoming could technically produce between 500 billion to 1.1 trillion barrels of oil of which the midpoint – 800 barrels – is three times the size of Saudi Arabia's oil reserves and could satisfy 25% of the U.S. demand for oil over the next 400 years. In the best case scenario, commercial production is at least 20 years away. The study does not report on economic, technical and environmental obstacles.

Henderson Mine in Clear Creek County is one of two finalists for the National Science Foundation's Deep Underground Science and Engineering Laboratory (DUSEL). The proposed laboratory would be a multi-disciplinary underground research center and a magnet for scientists around the world.

Boise-based Washington Group International Inc. will add 100 oil and gas employees to its Denver workforce, bringing its local workforce to 800 jobs. The jobs will pay between \$70,000 to \$140,000 in annual salaries and include project managers and several types of engineers.

Forest Oil Corp. decided to remain in Denver instead of moving out of state after striking an incentive deal with the City and County of Denver. The incentive package offers \$450,000 in tax rebates over the next five years in exchange for the creation of 385 jobs paying an average annual salary of \$85,000. Forest Oil, which handles the exploration, acquisition, development, production and marketing of natural gas and crude oil, currently employs 264 workers in Denver and has offices in Louisiana, Texas, Alaska and Canada.

**Information Technology:** Evolving Systems Inc., a Douglas County telecommunications software provider, announced a 10% reduction in its global workforce in an effort to cut costs and improve profitability. The company has not disclosed where the cuts will occur but has said the cuts will affect all levels.

Shareholders of Storage Technology Corp. approved the company's \$4.1 billion acquisition by Sun Microsystems Inc. in August. Mainly administrative layoffs are expected to follow at the Louisville-based data storage company. StorageTek currently employs about 7,000 workers worldwide and 2,000 at its Louisville headquarters. Despite the merger, StorageTek's name will be the brand name for Sun's storage products from its Data Management Group.

Hewlett-Packard plans to cut about 14,500 customer service jobs worldwide but has not announced how the cuts will affect its 5,400 Colorado employees working in offices in Littleton, Colorado Springs, Fort Collins and Loveland. The cuts are part of a restructuring plan that will save \$1.9 million annually.

Agilent Technologies sold its chip unit to two buyout firms for \$2.7 billion in a move that will help return them to their core test-and-measurement business. The Palo Alto, CA-based company will cut 1,300 jobs as part of the corporate restructuring but the fate of the 2,660 Colorado workers at their Loveland, Fort Collins, Douglas County and Colorado Springs facilities is unknown. On a positive note, all of the state's semiconductor employees will be offered jobs by the new owner.

The hiring pace in Metro Denver will continue at a strong pace in the third quarter of 2005. About 32% of the companies interviewed for the latest Manpower Employment Outlook Survey plan to hire more employees, down slightly from 35% in the last quarter. Only 2% of the respondents said that they expect to reduce their payrolls while 63% expect to maintain their current staffing patterns. Job prospects appear best in durable and non-durable goods manufacturing, wholesale/retail trade, services and public administration, according to Manpower. Employers in transportation/public utilities plan to reduce staffing levels while those in construction, finance/insurance/real estate and education do not intend to change current staffing levels. National results reveal that strong hiring activity is expected to continue across the country. About 31% of the 16,000 surveyed employers plan to add positions while 6% expect to reduce payrolls.

#### Employment Outlook Survey

|                                 | Quarter 3<br>2005 | Quarter 2<br>2005 | Quarter 3<br>2004 | Year-to-Date<br>Average<br>2005 | Year-to-Date<br>Average<br>2004 |
|---------------------------------|-------------------|-------------------|-------------------|---------------------------------|---------------------------------|
| Percent of Companies Hiring     | 32%               | 35%               | 36%               | 31%                             | 22%                             |
| Percent of Companies Laying Off | 2%                | 7%                | 2%                | 4%                              | 7%                              |
| Percent of Companies No Change  | 63%               | 55%               | 60%               | 63%                             | 62%                             |

Source: Manpower Inc.

*The unemployment rate in the seven-county Metro Denver registered 5.2% in July, down from a revised 5.3% in June. At the county level, the unemployment rate ranges from a low of 3.9% in Douglas County to a high of 5.9% in the City & County of Denver. The unemployment rate decreased or was flat in all counties except for Douglas County which posted a 0.1% increase to 3.9%. The Metro Denver year-to-date unemployment rate of 5.3% remains below the 2004 rate of 5.9% for the same time period. The average annual unemployment rate in Metro Denver in July 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)

|                 | July 2005 (p)     |                   | 2005 YTD Average  |                   | 2004 YTD Average  |                   | 2000                             | 1995                             |
|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------------------|----------------------------------|
|                 | Total Labor Force | Unemployment Rate | Total Labor Force | Unemployment Rate | Total Labor Force | Unemployment Rate | Annual Average Unemployment Rate | Annual Average Unemployment Rate |
| Metro Denver    | 1,447.6           | 5.2%              | 1,427.0           | 5.3%              | 1,418.5           | 5.9%              | 2.3%                             | 3.8%                             |
| Adams County    | 204.6             | 5.8%              | 201.6             | 6.0%              | 200.6             | 6.8%              | 2.5%                             | 4.1%                             |
| Arapahoe Cnty   | 298.5             | 5.3%              | 293.6             | 5.3%              | 291.5             | 5.8%              | 2.1%                             | 3.3%                             |
| Boulder Cnty    | 167.6             | 4.7%              | 166.6             | 4.6%              | 164.4             | 5.1%              | 2.4%                             | 4.1%                             |
| Broomfield Cnty | 24.3              | 4.7%              | 23.9              | 4.9%              | 23.8              | 5.8%              |                                  |                                  |
| Denver County   | 309.2             | 5.9%              | 305.0             | 6.2%              | 303.9             | 7.0%              | 3.0%                             | 4.8%                             |
| Douglas Cnty    | 130.6             | 3.9%              | 128.4             | 3.9%              | 127.4             | 4.4%              | 1.3%                             | 2.4%                             |
| Jefferson Cnty  | 312.9             | 5.1%              | 308.0             | 5.1%              | 306.8             | 5.5%              | 2.1%                             | 3.2%                             |
| Colorado        | 2,564.4           | 5.2%              | 2,539.5           | 5.2%              | 2,505.9           | 5.8%              | 2.8%                             | 4.2%                             |
| United States   | 151,122           | 5.2%              | 148,731           | 5.3%              | 147,052           | 5.8%              | 4.0%                             | 5.6%                             |

\*Broomfield County was formed in November 2001 from parts of Adams, Boulder, Jefferson and Weld counties.

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

The number of first time unemployment insurance claims filed in July fell 6.2% in Metro Denver, the sixth consecutive monthly decline. At the state level, the number of claims filed in July fell 6.1%, the third consecutive monthly decline. Monthly Metro Denver claims are averaging 16.3% lower than the 2004 level, indicating an improved labor market.

**First Time Unemployment Insurance Claims**

|              | Month of | Month of | Month of | YTD AVG | YTD AVG | YTD AVG  | Annual  |
|--------------|----------|----------|----------|---------|---------|----------|---------|
|              | Jul-05   | Jun-05   | Jul-04   | 2005    | 2004    | % Change | Average |
| Metro Denver | 4,127    | 4,401    | 5,528    | 4,946   | 5,906   | -16.3%   | 3,513   |
| Colorado     | 8,469    | 9,017    | 11,175   | 10,574  | 12,456  | -15.1%   | 7,951   |

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

**Consumer Sector**

Metro Denver prices increased 1.4% during the first half of 2005 when compared to the first half of 2004, according to the U.S. Department of Labor's Consumer Price Index (CPI). The increase was fueled by a 13.2% increase in overall energy costs, including a 15.5% increase in motor fuel costs, 13.2% increase in natural gas costs and a 7.5% increase in electricity costs. During the first half of 2004, Denver prices declined 0.7%.

Gas prices, which were already on the rise, soared in the days following Hurricane Katrina. Regular gas cost \$3.04 per gallon across the nation as of September 6<sup>th</sup> compared to \$3.02 per gallon in Denver and Boulder, according to AAA's [www.fuelgagereport](http://www.fuelgagereport). A gallon of regular gas cost only \$1.81 in Denver and Boulder one year ago. Some Metro Denver drivers are trading in their SUV's for more fuel efficient models in the wake of rising gas prices or finding alternative transportation like buses, light rail and bikes. Across the county, some residents are canceling or postponing road trips because of the heightened expense, creating ripple effects on the tourism industry.

Advance estimates from the U.S. Department of Commerce reported a 1.8% increase nationally in retail and food services sales in July to \$357 billion. Retail Metrics LLC reported a stronger 3.7% increase during the transitional month of July according to its survey of 65 retailers with same-store-sales, stores that have been in operation at least one year. In July, stores typically

change out summer goods for fall goods. The July results are sluggish compared to the 5.2% increase in June but are in line with the 3.8% average increase during the first half of the year. Discounters like Wal-Mart Stores Inc. and Costco Wholesale Corp. whose inventory includes air conditioners and food reported stronger sales than more apparel-oriented stores like Federated Department Stores Inc., J.C. Penny's Co., Kohl's Corp. and the Gap Inc.

International Council of Shopping Centers chief economist, Michael Niemira, explained that consumers were more interested in deals during July which could be found at auto dealerships. In fact, employee discount promotions at General Motors Corp., Ford Motor Co. and DaimlerChrysler AG's Chrysler Group resulted in a combined 26.5% increase in July auto sales. Industry analysts are anticipating a slowdown in automobile sales next month due to higher than average sales during the promotion months. On an annualized basis, seasonally adjusted auto sales are expected to fall from 20.8 million vehicles in July to 16.9 million vehicles in August.

*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.*

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

|                    | Month of<br>Jun-05 | Month of<br>May-05 | Month of<br>Jun-04 | YTD Total<br>2005 | YTD Total<br>2004 | YTD Total<br>% Change | Annual<br>Growth<br>2000 | Annual<br>Growth<br>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.

*Several recently released reports indicate increasing health care costs locally and nationally. A Mountain States Employer's Council survey reported an 82% increase in the average premium costs for company-sponsored health insurance for a family between 2000 and 2004. In 2005, annual health insurance premiums rose an estimated 13% for Colorado and Utah employers, down from the 17.5% increase in 2004 according to Compdata Surveys. Premiums increased 12.4% nationally in 2005. Kansas City-based Compdata Surveys says the slower increase in premiums has more to do with cost shifting to employees than reduced insurance premiums.*

U.S. companies are expected to pay an average of 12.6% more in 2006 for employee health care plans as reported in a survey conducted by Hewitt Associates. Kaiser Permanente plans the smallest increase of 10.4% while Humana Inc. plans the largest increase of 23.6%. The survey included health-maintenance organizations with plans that cover 20% of privately insured Americans.

Lockton Companies of Colorado, a benefit management firm, reported that about 87% of Colorado employers planned to pass some of the cost increase along to employees this year. PricewaterhouseCoopers LLP reported that about 40% of employers are proposing to shift an increasing share of the costs to employees.

Colorado for Health Care, a grass-roots group looking to lower health care costs, cites consolidation as the major reason behind increasing costs. In the early 1990's, Metro Denver had more than 20 independent or smaller-system hospitals but by 1997 three major health care systems – HCA-HealthONE, Centura and Exempla- had acquired most of the local industry. Alternatively, a report by the American Hospital Association cited an aging population, rising wages and salaries due to labor shortages and more complex treatment options among other reasons.

Families USA reported that 8.4% of commercial health insurance premiums go to offset expenses from caring for the uninsured totaling \$355 million of annual individual premiums in Colorado and \$934 of an annual family premium. The study estimated that the uninsured cost Colorado's health care system about \$714 million each year.

*Overall confidence levels in the mountain region dipped to 123.9 in July from a revised 130.1 in June but continue to stand well-above 2004 levels and reported the highest levels for the month of the nine regions measured, according to the Conference Board. All regions except for the Pacific experienced declines in their overall index.* The index is comprised of the present situation index and the expectations index. Mountain region consumers reported a decrease in their perceptions of current situations from a revised 149.3 to 141.9 in July, the highest reading among the nine regions. The expectations index in the mountain region also declined in July from a revised 117.3 in June to 112.0, also the highest reading among the nine regions. National confidence declined from a revised 106.2 in June to 103.2 in July. Both the present situation and expectation indices also declined at the national level.

Preliminary confidence data for August reveals an unexpected increase at the national level despite climbing fuel costs. The Consumer Confidence Index increased to 105.6 in August, up from a revised 103.6 during the month prior.

### Consumer Confidence Index

|               | Month of<br>Jul-05 (p) | Month of<br>Jun-05 | Month of<br>Jul-04 | YTD AVG<br>2005 | YTD AVG<br>2004 | YTD AVG<br>% Change | Annual<br>Average<br>2000 |
|---------------|------------------------|--------------------|--------------------|-----------------|-----------------|---------------------|---------------------------|
| Mountain      | 123.9                  | 130.1              | 112.7              | 120.0           | 108.0           | 11.1%               | 142.1                     |
| United States | 103.2                  | 106.2              | 105.7              | 103.2           | 95.6            | 7.9%                | 139.0                     |

Source: The Conference Board. (p)=preliminary

The Grand Prix in Denver drew more than 150,000 onlookers in mid August, a 34% increase over 2004 attendance levels. Race manager Jim Freudenberg says the gain ensures that the event has "finally got a hold on this market." Grand Prix organizers estimate the event's economic impact at about \$20 million.

Colorado casinos reported a record high in July for adjusted gross proceeds (AGP), which is gambling revenue minus the amount paid out in winnings. According to the Colorado Department of Revenue's Division of Gambling, gambling proceeds topped \$69.9 million in July, a 4% increase over the previous record-high month of July 2004. Roadwork on U.S. 6 and rockslides on Interstate 70 appear to have had little effect on AGP. The 47 casinos in the state employ about 7,500 workers.

*Occupancy rates and average room rates in Metro Denver were generally flat in July after posting three consecutive monthly gains. Occupancy decreased to 77.0% in July from 77.6% in June, but average occupancy for the year stands 4.2% higher than during the same period last year. Average room rates decreased to \$91.94 per night in July, down from \$91.99 in June. Room rates are 8.1% higher through the seven months of 2005 compared to the same period in 2004.* The statewide lodging industry has also improved over last year. The July occupancy rate rose to 75.4% from 73.5% in July 2004 and the average room rate rose to \$106.33 from \$96.96 from a

year ago. For the year, the Colorado occupancy rates stands at 61.2% and the average room rate is \$106.48.

### Metro Denver Hotel Statistics

|                                 | Month of<br>Jul-05 | Month of<br>Jun-05 | Month of<br>Jul-04 | YTD AVG<br>2005 | YTD AVG<br>2004 | YTD AVG<br>% Change | Annual<br>2000 | Annual<br>1995 |
|---------------------------------|--------------------|--------------------|--------------------|-----------------|-----------------|---------------------|----------------|----------------|
| Percent of Hotel Rooms Occupied | 77.0%              | 77.6%              | 76.9%              | 64.7%           | 62.1%           | 4.2%                | 68.6%          | 72.5%          |
| Average Hotel Room Rate         | \$91.94            | \$91.99            | \$84.81            | \$89.28         | \$82.57         | 8.1%                | \$89.57        | \$71.44        |

Source: Rocky Mountain Lodging Report.

The Colorado Convention Center hosted its largest convention of the year in August, the Assemblies of God biennial meeting. The economic impact of the 30,000 attendees is estimated at only \$40 million, down from the typical impact of \$60 million for a group of that size. The impact is lower because alcohol is banned for attendees, resulting in less patronage of bars and restaurants. Projections for 2005 put annual delegates visiting the newly expanded convention center at 157,000, up from 127,873 in 2004. The center is expecting at least 27 meetings in 2006 and 2007. Another 14 groups are already confirmed for 2008.

Passenger traffic at Denver International Airport increased to nearly 4.3 million passengers during the high-travel summer season month of July, a 1.0% increase over July 2004 levels. For the year, traffic is up 2.2% over 2004 which was the airport's busiest year on record. Concession sales at DIA's 136 businesses are up 9.5% through the first half of the year compared to the same period last year. The gain is largely due to increased air traffic and the lack of in-flight meals provided by airlines. In 2004, the airport realized \$7.83 in concession revenue per passenger, totaling nearly \$30.7 million for the year.

### Denver International Airport Passengers

|                              | Month of<br>Jul-05 | Month of<br>Jun-05 | Month of<br>Jul-04 | YTD Total<br>2005 | YTD Total<br>2004 | YTD Total<br>% Change | Annual<br>2000 | Annual<br>1995 |
|------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-----------------------|----------------|----------------|
| Number of Airline Passengers | 4,275,728          | 4,064,958          | 4,232,446          | 25,379,872        | 24,831,611        | 2.2%                  | 38,751,687     | 31,035,398     |

Source: Denver International Airport, Traffic Statistics.

Airline ticket prices are likely to climb after jet fuel costs soared about 20% in the days following Hurricane Katrina. United Airlines, the predominate carrier at Denver International Airport, has already increased round-trip ticket prices by \$10 to \$30. Price increases were matched by Delta and are being considered by most other airlines. The Air Transport Association says a gallon of jet fuel has risen by \$0.40 over the last two weeks which translates into \$18 million in extra fuel expenses each day.

### Stock Market Indexes

|          | Month of<br>Aug-05 | Month of<br>Jul-05 | Month of<br>Aug-04 | YTD Return<br>2005 | YTD Return<br>2004 | YTD Return<br>2003 |
|----------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Colorado | 1,779.31           | 1,800.70           | 1,428.66           | 11.8%              | 1.2%               | 24.5%              |
| S&P 500  | 1,220.33           | 1,234.18           | 1,104.24           | 0.7%               | -0.7%              | 14.6%              |
| NASDAQ   | 2,152.09           | 2,184.83           | 1,838.10           | -1.1%              | -8.2%              | 35.6%              |
| DOW      | 10,481.60          | 10,640.91          | 10,173.92          | -2.8%              | -2.7%              | 12.9%              |

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

The Colorado stock index posted an 11.8% gain through August compared to flat or negative movements 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.

Through August, the S&P 500 is up only 0.7% compared to a 1.1% decline in the NASDAQ and a 2.8% decline in the DOW.

The American Housing Survey released by the U.S. Census Bureau reported that the percentage of people living below the poverty line in Colorado increased from 9.7% in 2003 to 9.9% in 2004 despite a slight increase in the median household income. The number of people living below the poverty line in 2004 is estimated at 447,000 people. At the national level, the number of people living in poverty rose by 1.1 million in 2004 to 37 million, accounting for 12.7% of the total population. The study also revealed that more than 120,000 households in Metro Denver in 2004 had zero savings or investments and almost 40,000 households got by on less than \$5,000 for the year.

### **Residential Real Estate**

Sales of previously-owned homes in Metro Denver are 1.0% lower through August compared to the same period last year while the number of unsold homes on the market is 7.2% higher than last year. MetroList data through August also shows home sales under contract were 2.0% lower than the same period last year.

Despite slower sales activity, home prices continue to appreciate at reasonable rates. The median price of a single-family home hit another record in August, increasing from \$252,250 in July to \$255,000 in August. Compared to the first eight months of 2004, the median price is 3.7% higher for a single-family home. On the other hand, median condo prices slipped from \$164,000 in July to \$162,499 in August, bringing year-to-date prices only 1.9% higher than last year. The average days on the market for condominiums is averaging 116 days compared to only 75 days for single-family homes.

The average price of a single-family home decreased from \$318,348 in July to \$314,533 in August. 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 increased to \$201,373 in August from \$197,290 in July, bringing the year-to-date average price 4.8% 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. Neither median nor average sale prices reflect any sale concessions.

### **Home Sales Activity**

|                                      | Month of<br>Aug-05 | Month of<br>Jul-05 | Month of<br>Aug-04 | YTD Total<br>2005 | YTD Total<br>2004 | YTD Total<br>% Change | Ann Avg<br>2000 | Ann Avg<br>1995 |
|--------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-----------------------|-----------------|-----------------|
| Home Sales<br>(Under Contract)       | 5,647              | 7,255              | 5,612              | 46,014            | 46,966            | -2.0%                 | 37,130          | 28,247          |
| Home Sales<br>(Closed)               | 5,091              | 6,203              | 4,785              | 35,437            | 35,801            | -1.0%                 | 48,611          | 36,038          |
| Unsold Homes on<br>Market            | 26,650             | 26,411             | 24,862             | 26,650            | 24,862            | 7.2%                  | 8,820           | 9,854           |
| Average Sales<br>Price-Single Family | \$314,533          | \$318,348          | \$300,484          | \$306,325         | \$289,821         | 5.7%                  | \$239,779       | \$150,736       |
| Average Sales<br>Price-Condo         | \$201,373          | \$197,290          | \$181,699          | \$189,062         | \$180,382         | 4.8%                  | \$145,197       | \$87,369        |
| Median Sales<br>Price-Single Family  | \$255,000          | \$252,250          | \$240,000          | \$245,000         | \$236,200         | 3.7%                  |                 |                 |
| Median Sales<br>Price-Condo          | \$162,499          | \$164,000          | \$156,250          | \$160,000         | \$157,000         | 1.9%                  |                 |                 |

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

New production home sales during the first half of 2005 remained stable compared to the same period last year according to the Genesis Group's Mid-Year 2005 report. With the exception of the Boulder/Longmont market area which experienced a 36% decline, sales volume was also stable or increased in Metro Denver. Sales through June of attached homes increased 9.5%

compared to the first six months of 2004 and accounted for 33.4% of total new home sales during the first half of 2005. Meanwhile, sales of detached homes declined 4.3% over the same period. Inventory levels for both attached and detached new production homes were 15% higher through June 2005 compared to the first half of 2004.

*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<br>2005 (p) | Quarter 1<br>2005 (r) | Quarter 2<br>2004 | Year-to-<br>Date<br>Average<br>2005 | Year-to-<br>Date<br>Average<br>2004 | Year-to-<br>Date<br>Average<br>in YTD | Median<br>2000 | Median<br>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 were up only 13.0% through July 2005 compared to the first seven months of 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 decreased to 1,046 in July, down from 1,144 in June. Adams, Boulder and Douglas counties continue to post high percentage increases in foreclosure activity while Denver, Arapahoe and Adams counties report the highest number of foreclosures in absolute terms for the year. Broomfield County is the only county to experience fewer foreclosures through July compared to the same period last year.*

#### Real Estate Foreclosures

|                    | Month of<br>Jul-05 | Month of<br>Jun-05 | Month of<br>Jul-04 | YTD Total<br>2005 | YTD Total<br>2004 | YTD Total<br>% Change |
|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-----------------------|
| Total Metro Denver | 1,046              | 1,144              | 963                | 8,196             | 7,255             | 13.0%                 |
| Adams County       | 215                | 249                | 235                | 1,890             | 1,497             | 26.3%                 |
| Arapahoe County    | 275                | 264                | 283                | 2,000             | 1,881             | 6.3%                  |
| Boulder County     | 33                 | 50                 | 42                 | 351               | 307               | 14.3%                 |
| Broomfield County  | 5                  | 7                  | 10                 | 65                | 79                | -17.7%                |
| Denver County      | 275                | 368                | 226                | 2,109             | 1,929             | 9.3%                  |
| Douglas County     | 69                 | 70                 | 36                 | 574               | 472               | 21.6%                 |
| Jefferson County   | 174                | 136                | 131                | 1,207             | 1,090             | 10.7%                 |

Source: CB Richard Ellis.

*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<br>Apr-05 | Month of<br>Mar-05 | Month of<br>Apr-04 | YTD Total<br>2005 | YTD Total<br>2004 | YTD Total<br>% Change | Total<br>2000 | Total<br>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<br>2005 | Quarter 1<br>2005 | Quarter 2<br>2004 | Year-to-<br>Date<br>Average<br>2005 | Year-to-<br>Date<br>Average<br>2004 | Year-to-<br>Date<br>Average<br>% Change | Annual<br>Average<br>2000 | Annual<br>Average<br>1995 |
|--|-------------------|-------------------|-------------------|-------------------------------------|-------------------------------------|---|---------------------------|---------------------------|
| Apartment Vacancy Rate                     | 8.0%              | 9.3%              | 9.7%              | 8.7%                                | 10.1%                               |   | 4.6%                      | 4.3%                      |
| Average Monthly Rental<br>Rate (all units) | \$826             | \$834             | \$818             | \$830                               | \$814                               | 2.0%                                    | \$763                     | \$564                     |

Source: Denver Metro Apartment Vacancy and Rent Survey.

Grubb & Ellis pegs the current overall vacancy rate for the Metro Denver apartment market at 9.3%. While rent concessions have slowed and landlords are demanding longer leases for concessions, they still account for between 15% to 20% of gross potential rents. Grubb & Ellis reports the Metro Denver apartment market has reached the trough and will improve along with an improving job market and limited new supply. They expect an additional 2,500 units will be added this year, down from the peak of 9,000 units added in 2002. Typically, the metro market adds about 4,500 apartment units each year.

### Commercial Real Estate

Rezoning was approved for the largest plot of developable land in Jefferson County in August, including the rezoning of both Cimarron Park and Vauxmont. The parcels, totaling 1,500 acres, are located in Arvada and have potential to attract jobs, residents and increase tax revenues. Planned development at Vauxmont includes 137 acres of commercial use, 52 acres industrial use, 518 residential units, and parks and open space. Cimarron Park plans allow for 1,700 single-family homes, townhomes, condos and apartments, 133 acres for retail and 23 acres for office and industrial uses.

Frederick Ross reports in the July issue of *View* that the Metro Denver office market is most assuredly in the midst of an upswing with positive absorption and lower vacancy rates. Class A properties continue to push the market, accounting for 90% of all absorption market wide. Rental rates were mostly stable with some minor increases during the last six months in the CBD and Southeast Suburban Class A market. Sublease space declined by about 200,000 square feet and the total amount of vacant space stands at approximately 1.65 million square feet. Through June, about 230,000 square feet of office was added, two-thirds of which is renovated space and one-third is new construction.

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.

Grubb & Ellis also describes an improving office market. Their four main submarkets (Downtown, Southeast Suburban, Northwest and Boulder) all reported positive absorption during second quarter 2005 and secondary suburban submarkets are beginning to show signs of improvement. Sublease space is shrinking at a rate of one million square feet per year and is hoped to fall to 2001 levels over the next 18 months. Grubb & Ellis pegs the second quarter metro fundamentals at a 20.0% vacancy rate with a \$20.24 per square foot Class A asking rent and a \$16.61 per square foot Class B asking rent.

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 a slowly improving office market in Metro Denver. Direct vacancy rates declined by 0.2 percentage points during the second quarter of 2005, following a similar decline during first quarter. The direct vacancy rate fell to 14.6% while the vacancy rate including sublease space fell to 16.2%. The average lease rate slipped to \$17.06 per square foot during second quarter from \$17.12 in the previous quarter.*

#### Office Market Statistics

|   | Quarter 2<br>2005     | Quarter 1<br>2005     | Quarter 2<br>2004     | Quarter 2<br>2003     | Quarter 2<br>2002     | Quarter 2<br>2001     |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Number of Buildings                       | 4,326                 | 4,270                 | 4,240                 | 4,210                 | 4,158                 | 4,050                 |
| Existing Square Feet (millions)           | 149.1                 | 148.6                 | 148.1                 | 147.2                 | 145.7                 | 140.5                 |
| Vacant Square Feet (millions)             | 21.8                  | 22.0                  | 22.6                  | 22.1                  | 16.8                  | 11.7                  |
| Vacancy Rate (Direct)                     | 14.6%                 | 14.8%                 | 15.3%                 | 15.0%                 | 11.5%                 | 8.3%                  |
| Vacancy Rate (With Sublet)                | 16.2%                 | 16.4%                 | 17.2%                 | 17.6%                 | 14.5%                 | 11.0%                 |
| Average Lease Rate (per square foot)      | \$17.06               | \$17.12               | \$16.96               | \$18.00               | \$20.15               | \$21.24               |
| New Construction Completed (year-to-date) | 0.30 MSF,<br>20 Bldgs | 0.16 MSF,<br>11 Bldgs | 0.80 MSF,<br>18 Bldgs | 1.02 MSF,<br>29 Bldgs | 1.86 MSF,<br>49 Bldgs | 3.72 MSF,<br>48 Bldgs |
| Currently Under Construction              | 0.86 MSF,<br>31 Bldgs | 1.02 MSF,<br>32 Bldgs | 0.37 MSF,<br>21 Bldgs | 0.60 MSF,<br>18 Bldgs | 1.51 MSF,<br>40 Bldgs |                       |

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

Office construction remains at minimal levels 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. About 300,000 square feet of office space has been completed in the first half of 2005, even less than the same time last year. There are currently 31 buildings under construction that will result in the addition of 860,000 square feet of office space.*

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 industrial real estate market improved during the second quarter of 2005 in terms of both vacancy rates and average lease rates, according to data from CoStar. The direct vacancy rate fell 0.5 percentage points to 7.8%. A similar drop occurred in the vacancy rate including sublease space. The average lease rate increased \$0.10 to \$4.71 NNN from \$4.61 NNN.*

### Industrial Market Statistics

|   | Quarter 2<br>2005     | Quarter 1<br>2005    | Quarter 2<br>2004     | Quarter 2<br>2003     | Quarter 2<br>2002     | Quarter 2<br>2001     |
|---|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Number of Buildings                       | 5,442                 | 5,408                | 5,388                 | 5,357                 | 5,308                 | 5,278                 |
| Existing Square Feet (millions)           | 194.7                 | 193.9                | 193.5                 | 191.6                 | 189.5                 | 188.0                 |
| Vacant Square Feet (millions)             | 15.2                  | 16.0                 | 16.3                  | 13.7                  | 11.4                  | 9.6                   |
| Vacancy Rate (Direct)                     | 7.8%                  | 8.3%                 | 8.4%                  | 7.2%                  | 6.0%                  | 5.1%                  |
| Vacancy Rate (With Sublet)                | 8.4%                  | 8.9%                 | 9.4%                  | 7.9%                  | 7.0%                  | 5.7%                  |
| Average Lease Rate (per square foot)      | \$4.71                | \$4.61               | \$4.68                | \$5.12                | \$5.42                | \$5.63                |
| New Construction Completed (year-to-date) | 0.27 MSF,<br>13 Bldgs | 0.18 MSF,<br>8 Bldgs | 1.22 MSF,<br>14 Bldgs | 0.98 MSF,<br>24 Bldgs | 0.93 MSF,<br>19 Bldgs | 2.09 MSF,<br>33 Bldgs |
| Currently Under Construction              | 0.73 MSF,<br>18 Bldgs | 0.57 MSF,<br>9 Bldgs | 0.58 MSF,<br>14 Bldgs | 1.37 MSF,<br>12 Bldgs | 0.99 MSF,<br>22 Bldgs | 0.53 MSF,<br>14 Bldgs |

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

Industrial construction is also at minimal levels. *Only 13 new industrial buildings have been completed through the first half of 2005, resulting in the addition of 270,000 square feet. Further, about 730,000 square feet of industrial space in 18 buildings is currently under construction in Metro Denver.* All recently constructed buildings were less than 70,000 square feet.

*CoStar data shows positive movements in the flex space market, including an improved vacancy rate and a stable lease rate. The direct vacancy rate fell to 15.2% during the second quarter of 2005 from 16.3% the previous quarter. The vacancy rate including subleases also fell in the second quarter to 16.8% from 17.9%. Meanwhile, the average lease rate remained stable at \$8.18 NNN per square foot.*

### Flex Space Statistics

|   | Quarter 2<br>2005     | Quarter 1<br>2005     | Quarter 2<br>2004    | Quarter 2<br>2003    | Quarter 2<br>2002     | Quarter 2<br>2001     |
|---|-----------------------|-----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Number of Buildings                       | 1,186                 | 1,182                 | 1,175                | 1,166                | 1,143                 | 1,103                 |
| Existing Square Feet (millions)           | 36.5                  | 36.5                  | 36.3                 | 36.1                 | 36.3                  | 36.1                  |
| Vacant Square Feet (millions)             | 5.5                   | 6.0                   | 6.1                  | 5.8                  | 4.8                   | 3.7                   |
| Vacancy Rate (Direct)                     | 15.2%                 | 16.3%                 | 16.7%                | 16.0%                | 13.6%                 | 10.9%                 |
| Vacancy Rate (With Sublet)                | 16.8%                 | 17.9%                 | 18.8%                | 17.7%                | 15.2%                 | 12.1%                 |
| Average Lease Rate (per square foot)      | \$8.18                | \$8.19                | \$8.28               | \$8.67               | \$8.82                | \$9.93                |
| New Construction Completed (year-to-date) | 0.10 MSF,<br>5 Bldgs  | 0.06 MSF,<br>3 Bldgs  | 0.09 MSF,<br>3 Bldgs | 0.13 MSF,<br>3 Bldgs | 0.54 MSF,<br>12 Bldgs | 1.25 MSF,<br>27 Bldgs |
| Currently Under Construction              | 0.22 MSF,<br>11 Bldgs | 0.46 MSF,<br>18 Bldgs | 0.03 MSF,<br>2 Bldgs | 0.07 MSF,<br>5 Bldgs | 0.34 MSF,<br>15 Bldgs |                       |

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

Five buildings with nearly 100,000 square feet were added to the flex market during the second quarter. This represents a level of construction that is slightly higher than 2004. Of the 11 buildings that are currently under construction, the majority are located in Douglas County and are about 12,000 square feet in size.

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.

The retail sectors continue to outperform other commercial real estate sectors with high demand and low vacancy rates according to Fuller & Company's Mid-Year Report. Lease rates have shown little movement but are holding steady at an average of \$15 per square foot NNN with some leases commanding \$30 per square foot NNN.

**Monthly Economic Summary of Metro Denver**

| Indicator                            | Monthly/<br>Quarterly<br>Direction | Annual<br>Direction | Summary of Recent Changes  |
|--------------------------------------|------------------------------------|---------------------|--|
| Nonfarm Employment Growth            | ↓                                  | ↑                   | Employment decreased by 8,000 jobs from June to July; 2.1% annual growth rate            |
| % Companies Hiring                   | ↓                                  | ↑                   | 32% of companies expect to add workers in 3rd quarter 2005; 2% expect decrease           |
| Unemployment Rate                    | ↓                                  | ↓                   | Rate declined to 5.2% in July; metro rate currently equals both state and national rates |
| Initial Claims                       | ↓                                  | ↓                   | Initial unemployment claims decreased in July; annual claims down 16.3% 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 decreased in July but are above 2004 levels   |
| Hotel Occupancy                      | ↓                                  | ↑                   | Hotel occupancy flat in July at 77.0%; average room rate the same at \$92 per night      |
| DIA Passengers                       | ↑                                  | ↑                   | Traffic up 2.2% in first seven months of 2005, serving about 25.4 million passengers YTD |
| Colorado Stock Index                 | ↓                                  | ↑                   | CO Stock Index increased 11.8% through first eight months of 2005                        |
| Dow Jones Industrial Average         | ↓                                  | ↓                   | Dow decreased in August and is down 2.8% year-to-date                                    |
| Home Sales (closed)                  | ↓                                  | ↓                   | Home sales through August down 2.0% 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 13.0% through August; biggest gains in Adams & Douglas 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                  | ↓                                  | ↓                   | Vacancy rate with sublet now 16.2%; minimal construction is underway                     |
| Industrial Vacancy Rate              | ↓                                  | ↓                   | Decrease in vacancy rate with sublet to 8.4%; minimal construction underway              |
| Flex Space Vacancy Rate              | ↓                                  | ↓                   | Vacancy rate with sublease decreased to 16.8%; minimal construction underway             |
| <b>Positive Changes</b>              | <b>10 of 18</b>                    | <b>15 of 18</b>     |  |