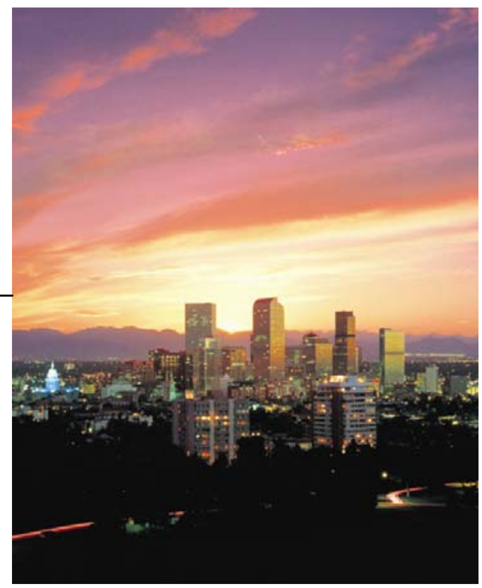
Monthly Economic Summary

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

The Monthly Economic Summary is a comprehensive analysis of economic conditions in the seven-county Metro Denver area, or the region comprised of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson Counties. There are two metropolitan statistical areas (MSAs) located within the Metro Denver region: the Boulder-Longmont MSA (Boulder County) and the Denver-Aurora MSA (Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park Counties). Data in this report may be presented for the seven-county region, MSAs, or counties, depending upon availability. Recent data and, where possible, historical trends are discussed in four sections: labor force and employment, the consumer sector, residential real estate, and commercial real estate.

Notable Rankings

- Denver-based companies CH2M Hill and PCL Construction Enterprises were recently named to *Fortune* magazine's list of "100 Best Companies to Work For." The businesses were applauded for their employee ownership, onsite childcare, paid sabbatical, and other perks.
- Recent studies have given Coloradans poor grades for charitable giving, but a new report suggests grants dispersed by local charities rose noticeably between 2004 and 2006. The Colorado Association of Funders' *Colorado Giving Study* shows local nonprofits gave $400 million in charitable grants in 2006, up from $272 million in 2004. The study also notes that forward-looking prospects for giving are bright, as 94 percent of grant makers surveyed expect charitable giving to remain stable or increase this year.
- Colorado's public school system has room to improve, says *Education Week*'s "Quality Counts" study. The state was ranked 38th overall and earned a C grade for education quality, a metric based on teacher training and salary, standardized test scores, and other factors. According to local officials, comparatively low teacher salaries and misalignment of curriculum with college admissions standards were the largest drag on the state's scores. They emphasize, though, that Colorado earned a much-higher B grade for its overall "Chance for Success."
- Investors watching Colorado's merger and acquisition activity saw fewer deals in 2007, but the value of those transactions rose noticeably. According to *Bloomberg News*, the state saw 434 deals worth $39.1 billion in 2006 and 403 deals at $88 billion in 2007. Analysts say the spike in value was driven by two deals – the $27.5 billion acquisition of Greenwood Village-based First Data and the $20 billion sale of real estate investment trust Archstone-Smith. With fewer large companies left for sale and increasingly cautious investors, merger activity is expected to slow this year.
- While the value of Colorado acquisitions climbed in 2007, the state's inflow of venture capital declined for the second consecutive year. According to a recent *MoneyTree* report by Pricewaterhouse-Coopers and the National Venture Capital Association, Colorado's weaker figures fly in the face of a national trend. In 2007, Colorado venture capital funding declined 15 percent to $564 million, while national funding rose 10.8 percent to its highest level since 2001.

General Economic Overview

According to advance estimates from the U.S. Department of Commerce, fourth quarter GDP growth totaled 0.6 percent. That marks a defined slowdown from third quarter, when GDP advanced at a brisk, 4.9 percent pace. Reduced household spending and slower growth in U.S. exports helped cool GDP growth, but a sharp pullback in residential investment had one of the largest negative influences. Residential investment – or home purchases, construction, remodeling, and related outlays – contracted throughout 2007, but the downslide quickened noticeably as the year ended. A weak household sector has also spooked private businesses, and private inventory investment also sank in fourth quarter. Overall, 2007 GDP growth measured 2.2 percent, down from 2.9 percent in 2006.

The latest GDP estimates suggest recent strength in U.S. exports may be weakening, and the shift could allow rising oil prices to further widen the nation's trade deficit. The U.S. balance of trade grew by 9.3 percent to $63.1 billion in November, marking the largest monthly increase since September 2005. The nation's November exports set a record, but the gain was swamped by an unprecedented spike in oil prices and a rising trade deficit with China.

These and other negative reports left global financial markets shaken as 2008 began, and the Federal Open Market Committee (FOMC) of the Federal Reserve took decisive action. The FOMC announced an emergency rate cut of 75 basis points on January 22, and the target federal funds rate slipped to 3.5 percent. The committee approved a second, 50-basis point cut at its scheduled meeting the following week, and the federal funds rate now stands at three percent. Meeting minutes suggest the committee currently views unstable financial markets as a greater risk to economic growth than inflation, which the committee expects to moderate in the near term. The next FOMC meeting is scheduled for March 18.

Meanwhile, local areas are feeling the compound effects of weak national trends and their own housing corrections. In some areas, though, strong regional economies are tempering the negative impacts. Denver sits in the Federal Reserve's Tenth District, a region where bank economists observed modest growth through the last months of 2007. According to the Tenth District's Beige Book Report, late-year consumer spending slowed, and the effects of the household downturn had bled into some commercial markets. Still, the region's manufacturers maintained a mostly positive outlook, and many employers reported intentions to hire despite slowing market conditions. Overall, the Tenth District remains among a handful of regions to report stable conditions despite growing economic challenges.

Economic Indexes

National and local economic indexes continue to paint a muddy picture of things to come. Many local businesses report positive expectations for their own near-term performance, but their national outlook is far less hopeful.

National Economy

- The Conference Board's Index of Leading Economic Indicators saw a third consecutive decline in December, bringing its tally of negative readings to four in the last six months. The indicators for building permits and average manufacturing hours made the largest negative contributions to the index value, which rested 1.4 percent below the reading from December 2006. Conference Board analysts describe much of the index's 2007 behavior as balanced but note a more negative shift over the past two months.
- The Institute for Supply Management's Purchasing Mangers Index rose from 48.4 in December to 50.7 in January, suggesting that the nation's manufacturers expect more positive conditions in the months ahead. Comments from individual survey respondents, however, point to a cloudier outlook. Some reported that business conditions have improved from the same time last year, but others raised concerns over the conflict between high commodity prices and cash-strapped consumers.
- Business activity in the nation's service sector increased in December, but the Institute for Supply Management's Index of Non-Manufacturing Business Activity suggests service sector gains are slowing. The index declined from 54.1 in November to 53.9 in December, and many survey respondents said high energy costs, weak credit markets, and a sagging residential sector pose a combined threat to business activity. Still, the index rests above 50, which suggests a majority of respondents maintain a positive outlook.

Local Economy

- Business conditions in Denver's manufacturing economy improved in December. The Denver Manufacturing Purchasing Managers Index rose from 50 in November to 51.7 in December, moving contrary to a decline in the national index over the same period. Overall, a majority of Denver manufacturers take a positive outlook on business conditions, and they also have more positive expectations than their peers nationwide.

- Denver's service sector also saw improving conditions in December, although the area's Non-Manufacturing Purchasing Managers Index suggests the pace of gains is slowing. The index declined from 53.8 in November to 53.1 in December, which points to positive – albeit slower – business activity.
- Overall, Colorado's business community has mixed expectations for first quarter. The most recent Business Leaders Confidence Index registered 45.1 for first quarter, down from the 47.9 reading for fourth quarter 2007. The index registers above 50 when business leaders anticipate economic expansion, so index readings over the past two quarters point to an increasingly pessimistic corporate tenor. Still, local business leaders expect the state's economy to outperform the nation. While roughly 60 percent of respondents said a national recession is imminent, nearly 70 percent are looking for Colorado's economy to remain stable or even improve as 2008 begins.
- Vectra Bank's Colorado Small Business Index rose from 92 in November to 94.3 in December. The gain recovered part of November's loss, which was largely driven by a poor view of the national economy. The U.S. Small Business Index also rose between November and December, suggesting that small businesses overall took a more optimistic economic view as the year ended.
- October marked a slight decline in the Metro Denver Leading Index. The index registered 100.8, down from 100.9 recorded in July, August, and September. The Bloomberg Colorado stock index saw a positive trend in October, and the indicator for average manufacturing hours remained stable. All other indicators, however, saw negative 12-month trends. Overall, October's leading index suggests Metro Denver's economy will slow in the coming months. Historically speaking, though, Metro Denver economic trends still look strong. The Historic Index, which measures over-the-year growth, ticked up in October as Metro Denver employment remained stable and retail sales rebounded from a weak September showing. The region's over-the-year job growth reached 1.7 percent in October, essentially the same pace recorded in the prior month. Inflation-adjusted retail sales rose 6.6 percent over-the-year, up noticeably from the 0.1 percent sales growth reported in September. Combined, the two indicators brought the historic index to 133.4, up from 132.2 in the prior month.

Labor Force and Employment

Employment in Metro Denver continued a subtle drift downward as 2007 ended. An additional 4,000 jobs brought December year-to-date employment growth to 1.7 percent, down slightly from the 1.8 percent growth posted in each of the prior five months. Natural resources and construction and manufacturing were the only two of Metro Denver's 11 industry supersectors to report job losses for the year, with job counts through December down two percent and 2.7 percent, respectively. Among the remaining industries, job gains through all twelve months of 2007 ranged from less than 0.1 percent in transportation, warehousing, and utilities to 4.3 percent in professional and business services.

The region's two metropolitan areas reported varying job growth rates for 2007, although both saw slower employment gains as the year ended. The Denver-Aurora MSA reported 1.6 percent job growth for the year, while job gains in the Boulder-Longmont MSA reached a considerably faster 2.6 percent rate. Statewide job growth through December reached two percent and easily exceeded the nation's 1.3 percent employment gain for the year.

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

	Month of Dec-07 (p)	Month of Nov-07	Month of Dec-06	Year-to-Date Average 2007	Year-to-Date Average 2006	Year-to-Date Average % Change	Annual Growth Rate 2002	Annual Growth Rate 1997
Total 11-County Metro Denver*	1,422.8	1,418.8	1,400.8	1,401.7	1,377.8	1.7%	-3.1%	4.4%
Denver-Aurora MSA	1,251.9	1,249.0	1,232.5	1,234.5	1,214.7	1.6%	-3.0%	4.4%
Boulder-Longmont MSA	170.9	169.8	168.3	167.2	163.1	2.6%	-3.4%	4.7%
Natural Resources & Construction	93.6	96.3	97.2	98.4	100.4	-2.0%	-4.9%	6.4%
Manufacturing	86.5	86.6	91.0	88.5	90.9	-2.7%	-9.0%	3.5%
Wholesale & Retail Trade	222.9	220.6	221.2	213.8	211.2	1.2%	-2.9%	2.7%
Transp., Warehousing & Utilities	54.3	54.0	53.6	51.2	51.2	0.0%	-9.8%	2.4%
Information	57.5	57.1	56.1	56.8	56.5	0.5%	-14.2%	11.2%
Financial Activities	108.5	107.8	109.1	108.4	108.0	0.3%	-0.8%	5.5%
Professional & Business Services	244.4	243.0	234.3	238.9	229.2	4.3%	-6.1%	5.3%
Education & Health Services	150.5	149.7	143.6	146.5	141.1	3.9%	2.9%	7.4%
Leisure & Hospitality	147.2	146.8	142.1	147.5	141.8	4.0%	-0.6%	3.2%
Other Services	51.8	51.4	51.9	51.7	51.4	0.6%	1.6%	3.6%
Government	205.6	205.5	200.7	200.1	196.1	2.0%	3.4%	2.3%
Federal Gov't	31.6	30.7	31.0	30.6	30.8	-0.6%	0.5%	0.0%
State & Local Gov't	174.0	174.8	169.7	169.5	165.3	2.5%	4.0%	2.8%
Colorado	2,366.4	2,346.7	2,320.5	2,324.3	2,278.8	2.0%	-1.9%	4.2%
United States	139,229	139,568	137,959	137,969	136,174	1.3%	-1.1%	2.6%

**Includes the Denver-Aurora MSA (Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park counties) and the Boulder-Longmont MSA (Boulder County).*
Source: Colorado Department of Labor and Employment, Labor Market Information. (p) =preliminary

A slowing national economy does not have the same impact on all regions, nor does it have the same affect on all industries. High fuel costs are affecting Metro Denver's aviation industry, but rising energy prices are also driving new business for the region's engineering and renewable energy companies. And while economic uncertainties are slowing the region's job growth overall, a rapidly-aging workforce is stabilizing labor demand in aerospace.

Aerospace: Recent remarks from the Aerospace Industries Association (AIA) suggest a graying labor force could threaten businesses in Metro Denver and other aerospace hotspots. According to the AIA, one-quarter of the nation's aerospace workforce is eligible to retire this year, and 60 percent of the industry's workers are at or beyond age 45. The demographic trend, analysts say, is particularly problematic in light of growing demand for aerospace technologies and services. The AIA expects commercial and military sales for the aerospace industry to increase by $12 billion in 2008, and demand for aerospace expertise in general has doubled over the past decade.

This growing demand for aerospace technologies and services is certainly evident in Metro Denver. Boulder-based Ball Aerospace and Technologies Corporation, for example, was recently awarded a $49 million contract to provide engineering services for the Warfighter Interface Research and Technology Operations unit of the U.S. Air Force. Under the contract, Ball will support the unit's combat-related research of software, equipment, and other factors. Other recently-announced military contracts include one awarded to Centennial-based United Launch Alliance (ULA). The $505 million contract is administered by the Pentagon, and ULA will use Boeing's Delta IV rocket to provide several satellite launches for the National Reconnaissance Office.

While demand for heavy launch services grows, ULA's smaller Delta II rocket is facing slower activity after a busy 2008 launch season ends. ULA intends to restructure the Delta II unit, a move that spokespeople say will reduce the company's facility footprint and, potentially, its workforce. The company has not defined specific job impacts, but officials emphasize that a leaner and more competitive operation has always been ULA's objective.

A competitive environment is driving still other aerospace companies beyond the industry's traditional portfolio of goods and services. For example, Raytheon Company – a Massachusetts-based defense contractor with offices in Aurora – recently announced the sale of its oil extraction technology to Schlumberger Ltd. The technology uses microwaves to free energy reserves from oil shale, and industry players are particularly focused on vast deposits across Colorado, Wyoming, and Utah.

Aviation: Not long after Arapahoe County's Aviation Technology Group (ATG) announced layoffs and trouble securing funds for operation, Centennial-based Adam Aircraft trimmed 40 percent of its workforce. Spokespeople say the company has 400 backorders for its two aircraft, but the ongoing credit crunch has made long-term financing arrangements difficult to secure. The company's Utah plant has been temporarily closed, and workers were also released from its Pueblo location and headquarters office in Centennial.

News from Metro Denver's larger aviation companies is somewhat different. Dallas-based Southwest Airlines announced a major expansion at Denver International Airport (DIA), plans for which include service to six new cities and additional flights for three existing markets. The expansion comes in spite of the airline's plans to slow its growth elsewhere, a broader trend that officials say is necessary as fuel costs rise.

News of the Southwest expansion was hard on the already-struggling stock values of Denver-based Frontier Airlines. The local carrier reported its highest loss ever in fourth quarter 2007, a steep drop analysts say was driven by high fuel costs, realignment of operations, and the delayed launch of its turboprop service. To offset the loss, the carrier plans to sell some of its fleet and reduce capacity.

High fuel costs and stiff competition between airlines is also driving capacity reduction for United Airlines. The carrier plans to reduce its domestic service by four to five percent this year, but it also plans to increase international service by six to seven percent. Denver travelers may notice both prongs of the United approach, as the airline still holds the largest portion of DIA market share.

Overall, aviation industry analysts say travelers should expect an expensive and crowded 2008. Many airlines are raising ticket prices and reducing capacity to deal with high fuel costs, both moves that could make for fuller flights and pricier tickets. At the same time, an anticipated decline in national leisure travel could help balance travel trends.

Energy: Englewood-based construction and engineering firm CH2M Hill is poised to tap a growing market for energy-related construction and services. The company recently acquired Alaska's Veco Corporation and Colorado-based Trigon EPC. The acquired businesses will combine with CH2M Hill's existing energy operations to form a new business unit that will focus on design and construction of power plants, pipelines, and other energy-related facilities.

IT/Hardware: Boulder-based Spectra Logic Corporation recently won a $7.1 million contract to install several data storage units at the Department of Energy's Argonne National Laboratory in Chicago. The units will store and encrypt data kept at Argonne's Leadership Computing Facility.

Financial Services: U.S. Bank, the third-largest holder of Metro Denver deposits, is unveiling a new competitive strategy. The "PowerBank" program will add 150 new workers to U.S. Bank's Metro Denver payroll of 2,200 and will extend hours at many local bank lobbies and drive-throughs. Overall, the PowerBank strategy is designed to serve 95 percent of bank customers within five minutes.

Employment Outlook

Metro area employers improved their hiring outlook for 2008, although hiring expectations remain noticeably below those of prior years. According to the most recent Manpower Employment Outlook Survey, 27 percent of Denver Area employers planned to hire in first quarter, up from 23 percent in fourth quarter 2007. The percent of employers planning layoffs also moved positively, declining from 16 percent in fourth quarter to 14 percent in first quarter. Still, hiring expectations are markedly weaker than prior years. In first quarter 2007, 42 percent of Denver Area employers planned to hire workers, and 30 percent planned to hire in first quarter 2006.

The first quarter hiring outlook for Boulder County was largely flat. The percent of employers planning to hire was unchanged from fourth quarter at 13 percent, and the share of employers planning to reduce payrolls declined slightly to three percent. As in the Denver Area, Boulder County hiring expectations are noticeably down from prior years. In first quarter 2007, 27 percent of Boulder County employers reported intentions to hire, the same share recorded in 2006.

According to the Manpower survey, Denver Area job prospects will be best in non-durable goods manufacturing, transportation and utilities, and financial services. Job prospects in Boulder's non-durable goods manufacturing sector also look bright, contrary to a weaker outlook for non-durable manufacturing jobs at the national level. Nationwide, the survey looks for the best first quarter job opportunities in the mining and transportation and utilities sectors, while construction, education, and public administration joined non-durable manufacturing as sectors with a weak first quarter outlook. Overall, 22 percent of U.S. employers surveyed expected to hire first quarter, and 12 percent planned to reduce payrolls.

Employment Outlook Survey

	Quarter 1 2008	Quarter 4 2007	Quarter 1 2007	YTD Avg 2008	YTD Avg 2007	YTD Avg 2003
Denver Area*						
Percent of Companies Hiring	27%	23%	42%	27%	42%	17%
Percent of Companies Laying Off	14%	16%	8%	14%	8%	13%
Percent of Companies No Change	47%	52%	42%	47%	42%	57%
Boulder County						
Percent of Companies Hiring	13%	13%	27%	13%	27%	N/A
Percent of Companies Laying Off	3%	7%	7%	3%	7%	N/A
Percent of Companies No Change	84%	73%	66%	84%	66%	N/A

**Includes Adams, Arapahoe, Broomfield, Denver, Douglas, and Jefferson Counties.*
Source: Manpower Inc.

Metro Denver ended 2007 with a 12-month average unemployment rate well below the figure reported for 2006. The area's unemployment rate averaged 3.9 percent for the year, down from 4.4 percent in 2006. Monthly data, however, reveal a slightly weaker labor market. At 4.4 percent, Metro Denver's December unemployment rate was up from the 3.9 percent reported for December 2006. December unemployment ticked up in each of Metro Denver's seven counties, with rates ranging from 3.7 percent in Boulder to 4.9 percent in both Adams and Denver Counties. Trends were similar statewide, where year-to-date unemployment registered a low 3.8 percent despite an upswing in December. The U.S. unemployment rate averaged 4.6 percent in 2007 and was essentially unchanged from 2006.

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

	December 2007 (p)		2007 YTD Avg		2006 YTD Avg		2002	1997
	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Ann Avg Unemploy-ment Rate	Ann Avg Unemploy-ment Rate
Metro Denver	1,526.5	4.4%	1,515.9	3.9%	1,494.9	4.4%	5.9%	2.8%
Adams County	220.3	4.9%	218.9	4.4%	216.2	5.0%	6.4%	3.1%
Arapahoe County	314.0	4.4%	312.0	3.9%	307.8	4.3%	5.7%	2.4%
Boulder County	178.5	3.7%	176.8	3.3%	173.1	3.7%	5.7%	2.8%
Broomfield County*	25.8	4.2%	25.7	3.9%	25.3	4.4%	5.7%	
Denver County	317.1	4.9%	314.8	4.3%	310.9	4.9%	6.8%	3.8%
Douglas County	150.8	3.8%	149.8	3.3%	147.6	3.6%	5.0%	1.8%
Jefferson County	319.8	4.1%	318.0	3.7%	313.9	4.2%	5.5%	2.4%
Colorado	2,717.2	4.3%	2,689.7	3.8%	2,651.7	4.3%	5.7%	3.4%
United States	153,705	4.8%	153,233	4.6%	151,428	4.6%	5.8%	4.9%

**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

In Metro Denver and Colorado, counts of unemployment insurance claims typically increase in October and November and fall in December. In late 2007, however, slower job growth pushed the number of claims filed steadily upward from September through the end of the year. An average of 1,200 claims was filed each month in Metro Denver throughout 2007, up 4.3 percent from the monthly average in 2006. Colorado saw a similar trend, with 2007 claims up a slightly higher 4.5 percent over 2006.

Weekly First-Time Unemployment Insurance Claims

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change
Metro Denver	1,958	1,314	1,245	1,211	1,161	4.3%
Colorado	4,033	2,340	2,446	2,211	2,115	4.5%

Note: Reference week data includes the 19th day of the month with the exception of November and December, which includes the 12th day of the month.
Source: Colorado Department of Labor and Employment, Labor Market Information.

Consumer Sector

The U.S. Consumer Price Index for All Urban Consumers (CPI-U) rose 2.9 percent in 2007. That marks a smaller gain than the 3.2 percent increase of 2006, but consumer prices were still on the rise as the year ended. December's CPI was up 4.1 percent over December 2006, driven by large gains for energy and transportation, food, and medical care. According to the U.S. Bureau of Labor Statistics, the price index for food items saw its largest increase since 1990, and energy costs rose more than 17 percent over-the-year.

While gas costs are undeniably elevated, Colorado drivers enjoyed some of the nation's lowest fuel prices in January. Colorado's average price for regular gasoline hit $2.89 and ranked ninth-lowest in the nation as the month ended. Metro Denver drivers enjoyed an even lower price, with the average hovering around $2.82 per gallon as January ended. Analysts note, though, that some of the factors keeping gas prices low are somewhat temporary. Metro Denver gas pipelines, for example, are designed only to receive fuel, not to pump away excess.

Periods of strong demand, then, can leave higher inventories of fuel that drive down prices once busy seasons end. After the excess is absorbed, local prices tend to rise.

Pipeline design is also influencing prices for natural gas, though not in a way that benefits local consumers. The newly completed Rockies Express Pipeline began pumping fuel to Kansas in early January, a move analysts say could dramatically increase Colorado's low prices. With the state's natural gas supply now on the national market, Colorado's cost advantage could drop from $3 to $5 per million BTU to $1 or less. On the consumer end, February home heating bills could show an instantaneous, eight percent increase.

A higher home heating bill is yet another in a string of challenges facing today's consumer, and holiday sales data suggest many households have already cut spending. According to the UBS-International Council of Shopping Centers, same-store sales rose only 0.9 percent in December and failed to reach the Council's already subdued forecast for 1.5 percent growth. While consumers are clearly pulling back, retail analysts suggest that stores themselves are partly to blame for slower spending. Last fall's fashions received a cool response, and some observers expect the spring lineup will also fail to draw shoppers.

The lag in local shopping data will make for a few months' wait before Metro Denver's holiday season can be measured. Data available through October, though, suggest local consumer spending has maintained considerable momentum. Total retail sales declined four percent between September and October, but the drop marked a typical seasonal shift and was smaller than the September-October declines of the prior two years. On a year-to-date basis, Metro Denver retail sales pushed nine percent ahead of the same months in 2006. Year-to-date sales growth was strongest in Adams and Boulder Counties, and growth among Metro Denver's remaining areas ranged from 4.7 percent in Jefferson County to 9.8 percent in Broomfield County.

Total Retail Sales ($000s)

	Month of Oct-07	Month of Sep-07	Month of Oct-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Annual Growth 2002	Annual Growth 1997
Total Metro Denver	7,061,222	7,372,495	6,215,382	68,627,287	62,910,337	9.1%	-0.5%	5.8%
Adams County	1,182,089	1,181,789	887,045	10,992,576	9,469,796	16.1%	-0.3%	7.7%
Arapahoe County	1,439,548	1,479,519	1,359,005	14,873,170	13,901,005	7.0%	1.6%	0.7%
Boulder County	623,431	795,068	547,651	6,544,298	5,799,414	12.8%	-14.5%	3.8%
Broomfield County	125,991	131,244	121,291	1,340,076	1,219,928	9.8%		
Denver County	2,116,945	2,068,598	1,889,226	19,070,880	17,477,845	9.1%	-3.2%	4.9%
Douglas County	524,532	568,419	470,237	5,182,274	4,891,702	5.9%	3.6%	30.9%
Jefferson County	1,048,686	1,147,858	940,927	10,624,013	10,150,647	4.7%	-2.5%	8.7%
Colorado	11,617,523	12,558,342	10,268,067	116,444,724	106,683,254	9.1%	0.3%	6.4%

Source: Colorado Department of Revenue.

The Mountain region Consumer Confidence Index posted its second consecutive drop in December, but it remains considerably ahead of the national index. The U.S. index ticked up slightly as the future expectations component improved, but the present situation component continued to soften. The Mountain region index registered 114.1 in December, driven by declines in both the present situation and future expectations indexes.

Consumer Confidence Index

	Month of Dec-07 (p)	Month of Nov-07	Month of Dec-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change	Ann Avg 2002
Mountain	114.1	119.6	127.8	131.8	130.9	0.7%	114.1
United States	88.6	87.8	110.0	103.2	105.9	-2.5%	88.6

Source: The Conference Board. (p) =preliminary

Metro Denver's hotel occupancy rate hit 47.2 percent in December, down slightly from the 51.3 percent rate reported in December 2006. That year's trends, however, were somewhat inflated by unusually severe weather and large numbers of snowbound visitors. Metro Denver hotel occupancy through all of 2007 rose slightly less than one percent from 2006, but average room rates posted a stronger, 9.5 percent gain.

Metro Denver Hotel Statistics

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change	Annual 2002	Annual 1997
Percent of Hotel Rooms Occupied	47.2%	56.3%	51.3%	67.0%	66.4%	0.9%	60.3%	72.1%
Average Hotel Room Rate	$97.91	$107.01	$95.93	$111.21	$101.54	9.5%	$88.05	$84.06

Source: Rocky Mountain Lodging Report.

Denver International Airport's December passenger traffic posted a 13 percent gain over traffic from December 2006. Again, severe weather influenced the 2006 data as heavy snowstorms reduced access to and from DIA and depressed passenger counts. Nonetheless, 2007 marked a new record for the airport, with total passenger traffic rising more than five percent from 2006 to end the year at 49.8 million.

Denver International Airport Passengers

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Annual 2002	Annual 1997
Number of Airline Passengers	3,886,366	3,861,636	3,442,677	49,816,024	47,326,506	5.3%	35,652,084	34,969,021

Source: Denver International Airport, Traffic Statistics.

Wall Street made a bearish start to 2008. By the end of January, two of the national indexes had more than given back their 2007 gains. The S&P 500 reversed its 2007 return and ended January six percent below December's closing. The NASDAQ also gave back its 2007 progress and stood nearly 10 percent below December's value, and the Dow Jones Industrial Average stood almost five percent below the prior month. The Bloomberg Colorado stock index retained some of its 2007 gain, but it nonetheless ended January down six percent from December.

Stock Market Indexes

	Month of Jan-08	Month of Dec-07	Month of Jan-07	YTD Return 2008	YTD Return 2007	YTD Return 2006
Bloomberg Colorado	423.4	450.2	393.9	-6.0%	3.0%	7.4%
S&P 500	1,378.6	1,468.4	1,438.2	-6.1%	1.4%	2.5%
NASDAQ	2,389.9	2,652.3	2,463.9	-9.9%	2.0%	4.6%
DJIA (Dow Jones)	12,650.4	13,264.8	12,621.7	-4.6%	1.3%	1.4%

Sources: Bloomberg.com, Yahoo! Finance.

Residential Real Estate

Home Resales

According to the National Association of Realtors (NAR), U.S. existing home sales slipped two percent between November and December. The decline put December sales 22 percent below December 2006 and came after several smaller declines had raised hopes for a stabilizing market. Overall, 2007 existing home sales totaled 5.7 million and fell 13 percent below the 6.5 million sales recorded in the prior year. Regional trends were similar, although some portions of the country fared noticeably better than others. The Northeast saw the smallest home sales correction, with 2007 transactions falling seven percent below sales from 2006. The Midwest followed with an 11 percent over-the-year decline in home sales, and sales in the South declined 13 percent. Western states saw the most severe sales slowdown over the year, with 2007 sales falling 20 percent below transactions from 2006.

The hard-hit western region includes Colorado, but the state has so far fared better than many of its neighbors. Metro Denver's existing homes market, for example, ended 2007 on a fairly flat note. Roughly 49,800 home sales closed throughout the year, marking a one percent decline from sales closed in 2006. A forward-looking measure, the count of homes under contract, was also flat in 2007 and fell fewer than 100 contracts shy of the prior year's count. Overall, the data suggest that sales in Metro Denver's existing homes market have maintained considerable momentum despite the ongoing downturn.

Previously-Owned Home Sales Activity

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Ann Avg 2002	Ann Avg 1997
Home Sales (Under Contract)	3,401	4,007	3,328	61,663	61,736	-0.1%	30,089	35,963
Home Sales (Closed)	3,219	3,482	3,104	49,789	50,244	-0.9%	47,919	40,185
Unsold Homes on Market	24,603	27,127	24,534	24,603	24,534	0.3%	20,740	12,903
Average Sales Price-Single Family	$287,874	$297,812	$321,524	$310,418	$317,112	-2.1%	$268,926	$169,587
Average Sales Price-Condo	$177,805	$165,533	$180,084	$180,321	$188,745	-4.5%	$168,226	$100,694
Median Sales Price-Single Family	$220,000	$229,500	$247,500	$245,000	$249,900	-2.0%	$221,000	
Median Sales Price-Condo	$140,000	$139,000	$150,000	$150,000	$157,000	-4.5%	$149,500	

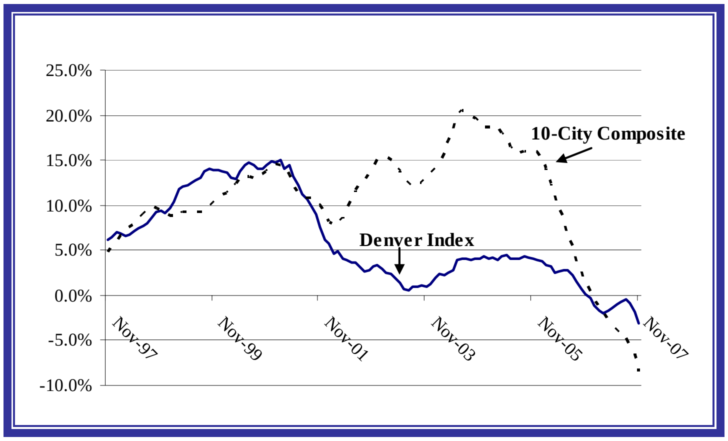
Source: MetroList, Inc.

Note: Data includes the seven-county Metro Denver region plus Elbert, Park, Gilpin, and Clear Creek Counties as well as portions of the Loveland area.

Home Prices

NAR data show December's national median home price at $208,400, down six percent from the median for December 2006. For all of 2007, the national median price stood 1.4 percent below the prior year's figure. Median home prices in the northeastern U.S. faired better than prices in all other regions and ended 2007 almost three percent higher than the 2006 median. Median prices in the Midwest were down two percent over the year, and median prices in the South and West were each down 2.3 percent.

S&P/Case-Shiller Home Price Indexes



Source: Standard & Poor's

The S&P/Case-Shiller Home Price Indexes are built on a different methodology, but they agree with the general trend of softening home prices nationwide. Denver's Index declined two percent between October and November, which left the index down three percent over-the-year. The 10-City Composite index also declined about two percent in November, but its over-the-year loss measured a much larger 8.4 percent. Charlotte, Portland, and

Seattle are the only three metropolitan price indexes to report positive annual returns, but analysts note that every metropolitan price index has now reported three consecutive monthly declines.

Metro Denver has seen a much smaller price correction than many other areas, but Metrolist data confirm that local home prices have dropped. The average sold price of a single-family home was down more than two percent in 2007, and the average sold price of a condominium was down a steeper, 4.5 percent.

Looking back to third quarter, median home prices in Metro Denver's MSAs were still holding fairly solid, with Denver-Aurora prices down less than one percent year-to-date and Boulder-Longmont prices up nearly two percent. Median quarterly home prices help smooth monthly variability, so fourth quarter figures should paint a clearer picture of Metro Denver's late-2007 market. An NAR report on fourth quarter median home prices is due out later in February.

Median Sales Price of Existing Single-Family Homes ($000s)

	Quarter 3 2007 (p)	Quarter 2 2007 (r)	Quarter 3 2006	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change	Median 2002	Median 1997
Boulder-Longmont MSA	$367.5	$383.7	$367.5	$374.0	$367.8	1.7%	$317.6	n/a
Denver-Aurora MSA	$254.1	$255.2	$253.2	$249.6	$250.9	-0.5%	$228.1	$140.6
United States	$220.8	$223.5	$225.3	$219.0	$222.8	-1.7%	$167.6	$129.0

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

Foreclosures

Prior month's releases from California-based RealtyTrac had raised hopes that the surge in U.S. foreclosures was nearing a peak. December, however, brought a seven percent increase in defaults and pushed the month's total count 97 percent ahead of December 2006. Total foreclosure filings reached 2.2 million in 2007, marking a 75 percent increase from 2006 and a foreclosure rate in excess of one percent of all U.S. households. These particular counts of filings, however, cover multiple stages of foreclosure and therefore may count properties multiple times. According to RealtyTrac, foreclosures on unique properties totaled 1.3 million in 2007.

RealtyTrac data for Colorado show roughly 39,400 foreclosure filings on unique properties in 2007. The Colorado Division of Housing's annual report on foreclosures has not yet been released, and the local figures may or may not confirm RealtyTrac's estimate. In the meantime, municipal foreclosure data available through December put Metro Denver's 2007 total filings at 27,400. That marks a 44 percent increase over filings in 2006, with the largest increases concentrated in Denver, Douglas, and Adams Counties.

Real Estate Foreclosures

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Total 2007	YTD Total 2006	YTD Total % Change
Total Metro Denver*	2,869	2,091	1,545	27,356	18,961	44.3%
Adams County	688	474	344	6,192	4,330	43.0%
Arapahoe County	708	460	357	6,237	4,719	32.2%
Boulder County	120	86	61	981	790	24.2%
Broomfield County	22	21	21	253	197	28.4%
Denver County**	825	519	343	8,240	4,696	75.5%
Douglas County	162	278	173	1,865	1,258	48.3%
Jefferson County	344	253	246	3,588	2,971	20.8%

**Foreclosure data for Metro Denver represents the total number of election and demand setups received by the county public trustee in the month received.*
***Denver County foreclosure data for 2007 has been revised and may differ from Denver County data in previous publications.*
The foreclosure data above includes a portion of homes that are withdrawn, so not all of the foreclosures are real-estate owned properties.
Sources: Various County Public Trustees in Metro Denver.

New Homes

U.S. new home sales dipped almost five percent between November and December, and a 9.6-month inventory of unsold homes waited on the market. According to the U.S. Department of Commerce, roughly 774,000 new homes sold throughout the year, down 26 percent from more than one million sold in 2006. On an over-the-year basis, December sales were down the most in the Midwest (-56 percent) and West (-43 percent), followed by the South (-36 percent) and Northeast (-27 percent).

As the new homes market continues to weaken, trends in home construction are also down. A separate Department of Commerce series shows the number of U.S. new home starts down 14 percent between November and December. Home starts numbered roughly 1.4 million for all of 2007, down 25 percent from 2006. Preliminary annual data show home starts in the northeastern U.S. down the smallest percentage (-15 percent), followed by starts in the Midwest and South (-25 percent in each region). Home construction in the West fell the most over the year, with total 2007 home starts down 28 percent from 2006.

Not surprisingly, builder confidence mirrors regional differences in the housing market. The National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index (HMI) registers above 50 when a majority of builders have positive expectations for sales conditions, so January's nationwide reading of 19 is notably low. The HMI for the West registered even lower at 13, but the indexes for the Midwest (17), Northeast (20), and South (23) reported slightly better readings. Overall, the U.S. national HMI has registered essentially the same value over the past four months, suggesting that builders have yet to see market conditions improve.

Metro Denver homebuilding activity continues to be weak overall, but large swings in multi-family permits are creating considerable volatility. Strong prospects in Metro Denver's apartment market drove 2007 multi-family permits up 75 percent over 2006, and a multi-family spike in December boosted total residential building permits to 1,391 from 490 in November. Overall, though, residential construction activity remains depressed. Roughly 14,700 building permits were issued in 2007, down 18 percent from nearly 18,000 permits issued in 2006. Permits for detached single-family homes saw the sharpest correction and ended the year more than 35 percent below 2006 levels. Permits for attached homes – or townhomes, condominiums, and duplexes – were down 13 percent over-the-year.

Residential Building Permits

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Total 2002	Total 1997
Single-Family Detached Units	296	327	688	7,082	10,952	-35.3%	13,793	14,890
Single-Family Attached Units	122	132	389	4,632	5,311	-12.8%	4,425	2,647
Multi-Family Units	973	31	433	3,015	1,727	74.6%	4,085	5,415
Total Units	1,391	490	1,510	14,729	17,990	-18.1%	22,303	22,952

Source: Home Builders Association of Metro Denver.

Apartment Rental Market

Metro Denver's apartment vacancy rate ticked up from 5.3 percent in third quarter to 6.1 percent in fourth quarter. A year-end increase in vacancy is a typical seasonal trend, although this year's gain was slightly larger than gains in prior years. Cooler job growth and less-aggressive landlords could be behind fourth quarter's gain, but analysts note the overall vacancy rate is still the lowest recorded since 2001. Fourth quarter vacancy rates across Metro Denver's seven counties ranged from 4.4 percent in Boulder and Broomfield Counties to 6.9 percent in Adams County.

Average rents in Metro Denver's apartment market have been fairly stable over the past three quarters. The average rose sharply to $864 in second quarter 2007 before falling to $858 in third quarter, and fourth quarter's average registered $860. For all of 2007, Metro Denver average rents reached $856, up 0.8 percent from the 2006 average of $849. Denver County saw the largest increase in average rents over the year (3.9 percent), followed by Adams (1.2 percent) and Boulder and Broomfield Counties (0.2 percent). Arapahoe County saw average rents decline slightly over the year (-0.9 percent), as did Jefferson (-0.8 percent) and Douglas (-0.6 percent) Counties.

Apartment Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	YTD Average 2007	YTD Average 2006	YTD Average % Change	Annual Average 2002	Annual Average 1997
Apartment Vacancy Rate	6.1%	5.3%	7.0%	6.2%	7.0%		9.8%	4.9%
Average Monthly Rental Rate (all units)	$860	$858	$850	$856	$849	0.8%	$822	$650

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

Colorado's commercial real estate industry had a $24.3 billion impact on the state's economy in 2006, says a study commissioned by the Colorado chapter of the National Association of Industrial and Office Properties. According to the study, property taxes, taxes paid on construction materials, and other items related to commercial real estate accounted for 10 percent of Colorado's total economic output that year.

Market Overview

A report recently released by Grubb & Ellis calls fourth quarter a transition period for Metro Denver's office market. Building sales posted an 11 percent over-the-year decline, which marked an abrupt turnaround from a near-60 percent gain through the first three quarters of the year. Leasing activity also slowed in fourth quarter, and the report suggests that large rental rate increases observed in prior periods are also shrinking as leasing and replacement costs converge. Overall, Denver's office market saw a 14.4 percent vacancy rate in fourth quarter, and average lease rates for Class A space stood at $25.86.

Looking ahead, Grubb & Ellis names the addition of new space as one of the largest wildcards in Denver's office market. According to the company's 2008 forecast, a majority of space in the pipeline has seen at least a small amount of pre-leasing activity. Some new additions, however, will be delivered vacant. As a result, the report looks for steady development activity through 2008 but predicts only half of the projects in the planning phase will actually begin construction. Despite the cooler conditions, the report looks for strength in energy, aerospace, and other industries to promote organic growth and help stabilize the market this year.

A fourth quarter report by Frederick Ross Company observes similar trends in Metro Denver's office market. Leasing velocity and building sales both slowed in fourth quarter, but 2.6 million square feet of absorption in 2007 still ranked seventh-highest over the past 25 years. Denver's office market vacancy rate stood at 15.5 percent in fourth quarter, down from 17.6 percent in fourth quarter 2006. The year's building sales were also strong despite a weaker fourth quarter, with total sales rising eight percent to $3.2 billion. Overall, the report looks for moderate office market growth in 2008 and predicts Metro Denver's stable job growth will continue to draw investors.

A diverse and stable industry base keeps Metro Denver's office market attractive, but some of the cost advantages that buyers and tenants have enjoyed in the past may be shrinking. A fourth quarter report by CB Richard Ellis shows Metro Denver asking rates rose 10 percent in 2007, pushing the average lease rate past $20 per square *foot. Economic uncertainty weakened fourth quarter office market activity, but the report suggests Metro Denver's office market is still poised to see a healthy 2008.* Metro-wide vacancy rates ended the year at 12.6 percent, and 2007 office market investment totaled a strong $2.9 billion despite fewer year-end closings.

Financial market instability made both residential and commercial real estate deals harder to close in the second half of 2007, and rising uncertainties kept investors cautious. As a result, Metro Denver's office market flattened between third and fourth quarters. According to the latest data from CoStar Realty Information, Inc., Metro Denver's direct office market vacancy rate was roughly 12 percent in both third and fourth quarter, and average lease rates ticked up to end the year just over $20 per square foot.

Tighter credit conditions also made construction financing a challenge, but many local projects obtained financing before the mortgage collapse. As a result, Metro Denver construction has continued basically untouched. Nearly 3.4 million square feet of office space was in the pipeline as the year ended, with the largest projects located in the vicinity of Sixteenth and Wynkoop Streets in downtown Denver. The RE/MAX International Headquarters, the Signature Centre at Denver West, and the Lone Tree Medical Plaza were Metro Denver's largest completed projects in 2007, followed by the Exempla Lutheran Medical Center Southwest.

Office Market Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003
Number of Buildings	4,853	4,819	4,780	4,736	4,655	4,606
Existing Square Feet (millions)	155.2	154.8	153.7	152.1	151.3	149.9
Vacant Square Feet (direct, millions)	18.6	18.8	19.6	20.1	21.9	21.2
Vacancy Rate (direct)	12.0%	12.1%	12.8%	13.2%	14.5%	14.2%
Vacancy Rate (with sublet)	13.0%	13.0%	13.8%	14.5%	16.2%	16.5%
Avg. Lease Rate (direct, per square foot, full service)	$20.32	$20.01	$18.68	$17.47	$17.01	$17.34
New Construction Completed (year-to-date)	1.38 MSF, 58 Bldgs	1.06 MSF, 39 Bldgs	1.55 MSF, 41 Bldgs	0.73 MSF, 42 Bldgs	1.20 MSF, 38 Bldgs	1.24 MSF, 39 Bldgs
Currently Under Construction	3.36 MSF, 66 Bldgs	2.94 MSF, 74 Bldgs	1.33 MSF, 53 Bldgs	1.34 MSF, 38 Bldgs	0.72 MSF, 28 Bldgs	0.82 MSF, 24 Bldgs

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

A changing economy is driving industrial tenants in different directions, says a recent Grubb & Ellis report. As a result, different types of Metro Denver industrial space are seeing varying levels of activity. Leasing activity in distribution, for example, has tapered as wholesale businesses expect cooler consumer sales. At the same time, the strength of life sciences and aerospace companies is helping keep demand for R&D and flex space relatively strong. Overall, Metro Denver's industrial market saw an 8.6 percent vacancy rate in fourth quarter, with average rents at $4.76 for distribution space and $9.37 for flex space. The Grubb & Ellis report notes that Metro Denver's industrial market has remained stable despite recently weaker trends, and its vacancy and rental rates are in-line with national averages.

A fourth quarter report by Frederick Ross Company also describes Metro Denver's industrial market as stable and less exposed to a weak economy than its office and retail counterparts. Industrial market vacancy stood just over six percent in fourth quarter 2007, down from seven percent in fourth quarter 2006. That marks the lowest industrial vacancy rate reported since 2000, and absorption for fourth quarter also rivaled a 2000 record. Analysts note that 4.6 million square feet of industrial space was added to the market in 2007 and call the rapid development activity a testament to the market's strength. The market's pace is expected to slow in 2008, but rental rates could climb in a still-tight market.

CB Richard Ellis also observes a healthy industrial market in its fourth quarter report. Industrial vacancy rates ticked up slightly, but the report notes that consolidation of several large tenants and delivery of speculative *space were partly to blame. The vacancy rate rose to 6.6 percent from 6.1 percent in third quarter, and average rental rates ticked down from $6.04 to end the year at $5.97. Still, annual net absorption throughout Metro Denver beat the 10-year average by more than one million square feet, and the report expects healthy trends to continue in 2008.*

Data from CoStar Realty Information, Inc. points to a flattening year-end market. Metro Denver's industrial vacancy rates were stable between third and fourth quarter and ended the year at 5.6 percent. Average, triple-net lease rates rose just past $5 per square foot in fourth quarter, marking a gain from early 2007 that was nonetheless slower than lease rate increases seen over the past two years.

Industrial construction slowed through 2007, but a still healthy 1.8 million square feet of space was in the pipeline as the year ended. The vast majority of industrial construction activity was located in Denver and Adams Counties, as were the majority of projects completed throughout the year. In 2007, Adams County alone accounted for 70 percent of the industrial construction projects completed in Metro Denver.

Industrial Market Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003
Number of Buildings	6,248	6,222	6,200	6,162	6,069	6,028
Existing Square Feet (millions)	210.6	210.3	208.9	207.0	205.1	203.1
Vacant Square Feet (direct, millions)	11.8	12.0	13.5	15.7	16.0	14.8
Vacancy Rate (direct)	5.6%	5.7%	6.4%	7.6%	7.8%	7.3%
Vacancy Rate (with sublet)	5.9%	5.9%	6.9%	7.9%	8.4%	8.1%
Avg. Lease Rate (direct, per square foot, NNN)	$5.04	$5.01	$4.96	$4.71	$4.60	$4.69
New Construction Completed (year-to-date)	1.67 MSF, 29 Bldgs	1.34 MSF, 20 Bldgs	1.65 MSF, 28 Bldgs	1.30 MSF, 40 Bldgs	1.82 MSF, 34 Bldgs	2.07 MSF, 38 Bldgs
Currently Under Construction	1.80 MSF, 21 Bldgs	1.17 MSF, 23 Bldgs	2.11 MSF, 28 Bldgs	0.86 MSF, 19 Bldgs	0.33 MSF, 14 Bldgs	1.20 MSF 12 Bldgs

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

Metro Denver's flex market behaved much the same as the office and industrial markets in fourth quarter. Data from CoStar Realty Information, Inc. show vacancy rates unchanged at 12.9 percent in both third and fourth quarters, but average lease rates made an impressive move forward to end the year at $9.32 per square foot.

Flex projects in Boulder accounted for the largest portion of Metro Denver construction as the year ended, but projects in Arapahoe County including the Ridge at SouthPark also made measurable contributions. Overall, slightly less than 200,000 square feet of Metro Denver flex space was in the pipeline in fourth quarter, and nearly 300,000 square feet of space had been added to the market throughout the year.

Flex Space Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003
Number of Buildings	1,294	1,283	1,277	1,262	1,229	1,218
Existing Square Feet (millions)	37.6	37.4	37.2	36.7	36.3	36.1
Vacant Square Feet (direct, millions)	4.8	4.8	5.2	5.2	5.7	6.3
Vacancy Rate (direct)	12.9%	12.9%	14.0%	14.3%	15.6%	17.6%
Vacancy Rate (with sublet)	14.0%	14.1%	14.8%	14.9%	17.0%	19.1%
Avg. Lease Rate (direct, per square foot, NNN)	$9.32	$9.21	$8.55	$8.40	$8.30	$8.03
New Construction Completed (year-to-date)	0.25 MSF, 12 Bldgs	0.16 MSF, 8 Bldgs	0.46 MSF, 15 Bldgs	0.37 MSF, 21 Bldgs	0.12 MSF, 6 Bldgs	0.22 MSF, 10 Bldgs
Currently Under Construction	0.16 MSF, 6 Bldgs	0.38 MSF, 11 Bldgs	0.09 MSF, 2 Bldgs	0.46 MSF, 15 Bldgs	0.37 MSF, 17 Bldgs	0.05 MSF, 1 Bldg

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

Denver's retail market ranks 19th among the 43 U.S. markets examined for Marcus & Millichap's 2008 National Retail Index. Thanks to declining vacancy and above-average growth in retail sales, Denver's position improved from a 25th-place ranking in the 2007 index. Marcus & Millichap expects retail markets nationwide to face challenges as the housing and credit markets correct and consumer spending softens, and the pullbacks could be particularly evident for smaller, neighborhood-based retail properties. In Denver, though, stable job growth and strong trends in transit-oriented development are expected to steady the area's retail market this year.

Similarly, a fourth quarter report by CB Richard Ellis views Metro Denver's retail market as fairly strong despite growing weakness in the household sector and consumer spending. Metro Denver saw negative absorption of retail inventory in fourth quarter, and vacancy rates rose to 6.4 percent. Fourth quarter's average lease rate of $16.10 was up from third quarter, but the report notes that increasing amounts of Class A space have put downward pressure on Class B and C prices. As a result, the overall average asking price has declined. Looking ahead, CB Richard Ellis describes the retail market's current tensions as temporary but expects large new developments to keep continued pressure on older retail centers.

A fourth quarter report by Grubb & Ellis observes a similar tension between the old and the new. The vacancy rate rose to 6.7 percent in 2007, an uptick the report says was driven by new deliveries and their negative impact on smaller shopping centers and neighborhood strip malls. Fourth quarter retail vacancy rates ranged from $14.84 in the Southeast submarket to $26.56 in the South market, where new light rail lines are driving continued interest in transit-oriented development. Looking ahead, the report notes that the final retail impact of the household downturn will ultimately be decided by Metro Denver consumers.

According to a fourth quarter report by Frederick Ross Company, consumers and retail real estate helped carry the nation's economy through the 2001 recession. In the years that followed, though, unsustainable spending growth made correction inevitable. Metro Denver's retail market tracked the overall economy through a slower year in 2007, and vacancy rates rose from 6.4 percent midyear to 6.7 percent in fourth quarter. Retail market absorption totaled only 347,000 square feet throughout the year, but fourth quarter rental rates across all submarkets were higher than fourth quarter 2006. Looking forward, the report expects credit markets to stabilize late this year, and the stability should help encourage new tenancy for struggling Class B and C space.

The retail market has so far been the hardest hit by the credit crunch, partly because cash-strapped consumers are spending less and partly because tighter credits standards are crimping deals. According to CoStar Realty Information, Inc., Metro Denver retail vacancy rates ticked up from seven percent in third quarter to 7.3 percent in fourth quarter, the highest vacancy reported since third quarter 2006. With vacancy on the rise, average lease rates declined from $16.87 in third quarter to $16.60 in fourth quarter.

Despite its softer fourth-quarter performance, Metro Denver's retail market is hardly depressed. More than 6.3 million square feet of retail space was under construction in fourth quarter, including major projects such as

Prairie Center, Riverpoint at Sheridan, and Church Ranch Crossing. Several large projects were also completed in 2007, including the second phase of Harvest Junction in Boulder, The Landmark in Greenwood Village, and Westminster Plaza in Adams County.

Retail Market Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003
Number of Buildings	5,694	5,684	5,655	5,557	5,430	5,317
Existing Square Feet (millions)	138.1	137.8	136.6	131.6	126.1	121.9
Vacant Square Feet (direct, millions)	10.1	9.6	9.8	8.7	7.1	6.8
Vacancy Rate (direct)	7.3%	7.0%	7.2%	6.6%	5.6%	5.6%
Vacancy Rate (with sublet)	7.7%	7.3%	7.6%	6.9%	5.9%	5.8%
Average Lease Rate (direct, per square foot, NNN)	$16.60	$16.87	$16.63	$15.11	$15.39	$13.28
New Construction Completed (year-to-date)	1.60 MSF, 41 Bldgs	1.04 MSF, 26 Bldgs	4.77 MSF, 54 Bldgs	N/A	N/A	N/A
Currently Under Construction	6.30 MSF, 81 Bldgs	5.94 MSF, 127 Bldgs	4.71 MSF, 60 Bldgs	N/A	N/A	N/A

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

Commercial Real Estate Headlines

Metro Denver's commercial market continues to evolve as new hotels and condominium projects prepare to join the city skyline.

Denver's Metropolitan State College recently announced plans to build a $30 million learning center and hotel on its Auraria Campus. The project includes guest rooms, a restaurant, and meeting space in addition to the learning center, and officials expect the new facilities to open in 2010. With the new development, Metro State will join a small handful of campuses nationwide that offer an onsite hotel.

Construction on Spire – a 41-story condominium projected located across from the Colorado Convention Center – has resumed now that the project's developer has secured funding. Work on the building stopped late in 2007 when a foreign lender retracted the project's financing, and developers say tightened credit markets have made new loans difficult to secure. Builders expect Spire to be completed in December 2009.

The majority owner of the downtown retail development Denver Pavilions plans to sell the 350,000 square-foot space. The 10-year old development cost $110 million to build, but an asking price is typically not set for an income-producing property of its size. Investment offers were due to the property's real estate representatives by the end of January.

Westin, a brand under Starwood Hotels & Resorts Worldwide, will operate a luxury hotel to be located off DIA's main terminal. Westin was originally selected to operate the hotel when plans were introduced ten years ago, but the project was postponed in a softening economy. The new, 500-room hotel will cost $200 million and will offer meeting space, restaurants, a health club, and parking facilities.

MONTHLY ECONOMIC SUMMARY

Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇑	⇑	Employment increased by 4,000 jobs from Nov to Dec; employment is up 1.7% through Dec 2007
% Companies Hiring (Denver Area)	⇑	⇓	27% of companies expect to add workers in Q1 2008
Unemployment Rate	⇑	⇓	Metro rate 4.4% in Dec; YTD avg. rate of 3.9% down from 4.4% in 2006
Initial Claims	⇑	⇑	Claims increased 49% from Nov to Dec; 2007 claims up 4.3% from 2006.
Total Retail Sales	⇓	⇑	Metro retail sales down 4.2% from Sept to Oct; retail sales up 9.1% through Oct 2007
Consumer Confidence Index	⇓	⇑	Mountain region confidence decreased from 119.6 in Nov to 114.1 in Dec; 2007 up 0.7% from 2006
Hotel Occupancy	⇓	⇑	Hotel occupancy decreased from 56.3% in Nov to 47.2% in Dec; avg room rate down to $97.91
DIA Passengers	⇑	⇑	Traffic increased 0.6% Nov to Dec; 2007 traffic of 49.8 million up 5.3% from 2006
Bloomberg Colorado Index	⇓	⇓	Bloomberg Colorado Index down 6% from Dec to Jan 2008.
Dow Jones Industrial Average	⇓	⇓	DOW decreased 4.6% Dec to Jan 2008.
Home Sales (closed)	⇓	⇓	Home sales decreased 7.6% from Nov to Dec; YTD down 0.9%
Median Home Price (Denver-Aurora MSA)	⇓	⇓	Median home price in Denver MSA decreased to $254,100 in Q3 2007; YTD price down 0.5%
Foreclosures	⇑	⇑	Foreclosures increased 37.2% Nov to Dec; 2007 foreclosures up 44.3% from 2006
Residential Building Permits (Total)	⇑	⇓	Total permits nearly tripled between Nov and Dec; YTD permits down 18.1% through Dec 2007
Apartment Vacancy Rate	⇑	⇓	Vacancy rate increased from 5.3% in Q3 to 6.1% in Q4; avg rental rate up to $860 per month
Office Vacancy Rate (with Sublet)	⇐⇒	⇓	Vacancy rate unchanged at 13% in Q3 and Q4; avg lease rate up to $20.32 per sq.ft.
Industrial Vacancy Rate (with Sublet)	⇐⇒	⇓	Vacancy rate unchanged at 5.9% in Q3 and Q4; avg lease rate up to $5.04 per square foot (NNN)
Flex Space Vacancy Rate (with Sublet)	⇓	⇓	Vacancy rate down to 14.0% in Q4 2007; average lease rate up to $9.32 per square foot (NNN)
Positive Changes	**5 of 18**	**10 of 18**	

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