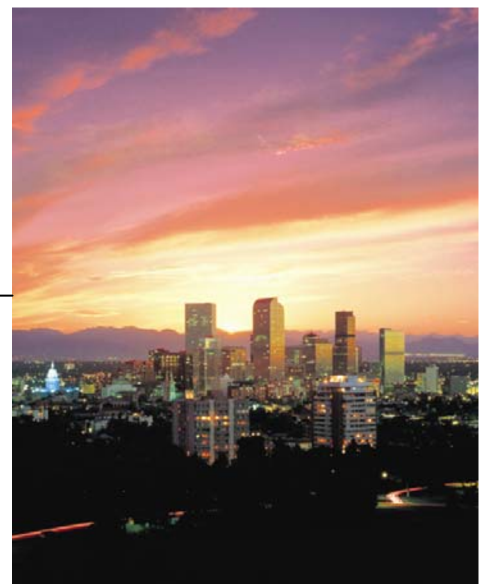
Metro Denver
Economic Development Corporation

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.

The report contains four sections: labor force and employment, the consumer sector, residential real estate, and commercial real estate. The most current statistics available are used, and the report also provides historical context when prior years' annual averages are available.

Notable Rankings

- Metro Denver's Transportation Expansion (TREX) project celebrated its first birthday in November with one of the nation's top highway awards. Calling TREX a "gentle giant," the National Partnership for Highway Quality (NPHQ) honored TREX with the highly respected National Achievement Award. NPHQ rates highway facilities on overall quality, public partnerships, timeliness and budget, and other factors. The organization noted that TREX finished 19 months ahead of schedule and received strong approval ratings.
- Denver-based Frontier Airlines met on-time milestones in 2007 as the bulk of the aviation industry struggled with late flights and discontented passengers. Recent data from the U.S. Bureau of Transportation Statistics ranked Frontier fourth overall for on-time arrivals through the first 10 months of the year, and the airline also reported the smallest number of flight cancellations in October. Industry-wide, the percentage of on-time flights reached its lowest level since 2000 after declining through much of 2007.
- Denver International Airport ranked 11th overall for on-time arrivals in November, down from its third place ranking for November 2006. Consistent with the rest of the U.S. aviation industry, DIA saw a downtrend in on-time arrivals throughout 2007. The airport's share of on-time flights reached 77.3 percent for the 11 months ended in November, falling below its 80 percent on-time arrival rate through the same months of 2006.
- Coloradans rank poorly on the national scale of charitable giving, says the Colorado Nonprofit Association. According to the group's newly issued report, Colorado has the nation's fifth-highest income but ranks 36th for the percentage given to charities. The report also claims Colorado giving has fallen seven percent below the national average for the past six years, and the rate of giving is particularly low in the state's higher income brackets.

General Economic Overview

The U.S. Department of Commerce's final estimates of third quarter gross domestic product (GDP) confirmed the preliminary estimate of 4.9 percent growth. That means the total value of goods and services produced in the U.S. economy increased nearly five percent between third and fourth quarter, compared to a four percent gain in second quarter and less than one percent growth in first quarter. Third quarter's surge forward, a surprise to many given the widening credit crisis, was driven by gains in exports, household spending, investment in nonresidential structures, and government expenditures. Most economists expect a much weaker showing when advance estimates of fourth quarter GDP are released January 30.

Gains in exports drove GDP higher in third quarter, but imports also increased. The nation's trade deficit rose from $57.1 billion in September to $57.8 billion in October as increased imports of industrial supplies, consumer items, and automobiles outpaced higher exports of capital goods. More notably, October's data suggest that high oil prices and consumption are a growing burden on the U.S. balance of trade. October's petroleum deficit reached an all-time high, while the nation's non-petroleum deficit reached the lowest level recorded since March 2004.

High energy prices pose a two-part challenge for the Federal Open Market Committee (FOMC) of the Federal Reserve, because the price gains can slow spending and increase inflation simultaneously. The FOMC dropped the target federal funds rate to 4.25 percent in December, but the committee's forward-looking plans are more ambiguous. Commodity and consumer prices continue to rise, and the FOMC is charged with balancing the residential downturn's risk to growth with mounting inflationary pressures. The committee's next meeting is scheduled for the end of January.

Economic Indexes

As 2007 ended, conflicting reports on the housing downturn and its financial fallout put business and consumer confidence on an erratic course. At the same time, different regions and industries have seen widely varying impacts from the residential turmoil, so some variation in the economic indexes is reasonable.

National Economy

- The Conference Board's Index of Leading Economic Indicators hit a two-year low in November. The index fell 0.4 percent from October's value and registered a 2.3 percent annual rate of decline over the past six months. That marks the index's largest six-month drop in six years, according to Conference Board analysts. Negative trends in the indicators for stock prices, unemployment insurance claims, and consumer expectations drove November's decline, and the indicators for building permits and the interest rate spread remained weak. Conference Board analysts say the index still points to slow economic growth in the coming months, but they note that downside risks have increased.
- The nation's manufacturing sector ended ten consecutive months of growth in December. The Institute for Supply Management's Purchasing Mangers Index registered 47.7, falling behind November's reading of 50.8 and below the overall tipping point of 50. When the index registers below that level, a majority of manufacturers surveyed have a pessimistic economic outlook. Respondents with businesses closely tied to the housing market reported poor conditions, and many claimed high and rising commodity prices are hurting profits.
- Business activity in the nation's non-manufacturing sector increased for the 56th consecutive month in November, but the pace of growth slowed. The Institute for Supply Management's Index of Non-Manufacturing Business Activity registered 54.1 in November, down from 55.8 in October. Survey responses ranged from a poor outlook in the finance and insurance industry to more optimistic observations in the utilities sector.

Local Economy

- Business conditions in Denver's manufacturing economy improved in November, but the pace of improvement slowed considerably. The Denver Manufacturing Purchasing Managers Index registered just above 50 in November, down from 59.5 in October. Index values above 50 point to improving conditions in the manufacturing sector, so the most recent index results suggest Denver's manufacturing economy is growing at a slower pace.
- Denver's service economy saw a somewhat different trend as the area's Non-Manufacturing Purchasing Managers Index increased from 43.9 in October to 53.8 in November. The indexes for all of Denver's service-providing sectors improved in November and helped the overall index rise above the break-even value of 50. In other words, the service sector's majority view on economic conditions shifted from negative in October to positive in November.

- The Creighton University Business Conditions Index for the Mountain States region declined between August and November before rising slightly in December. November's value of 56.6 marked the index low for the year, but the December index rose to 61.2 as positive export trends and strong growth in natural resources employment encouraged the region's businesses. Creighton economists note, however, that inflationary pressures are mounting and manufacturers remain concerned about the residential downturn.
- Vectra Bank's Colorado Small Business Index slipped from 95.2 in October to 94.7 in November as uncertainty in the nation's economy eroded local business confidence. Economic consultants to Vectra Bank say historically low unemployment and stable job growth bode well for the local economy, but they emphasize that national economic trends have a strong impact on Colorado's small businesses. Still, index results suggest small businesses in Colorado enjoy better-than-average business conditions, as the U.S. Small Business Index registered 87.0 in November.
- The Metro Denver Leading Index has been flat for the past three months, registering 100.9 in July, August, and September. On a 12-month average basis, only the Bloomberg Colorado stock index saw a positive trend in September. The indicators for single-family building permits, first-time claims for unemployment insurance, average weekly manufacturing hours, employer hiring expectations, the interest rate spread, and consumer expectations all saw negative 12-month trends. Generally, the negative shifts were slight, and the leading index maintained a flat course. Looking forward, the index points to slower but stable economic growth in Metro Denver. The Historic Index, which measures over-the-year growth, declined in September as employment flattened and retail sales cooled. Over-the-year job growth in Metro Denver has been stable for the past several months, registering 1.5 percent in August and 1.6 percent in September. Retail sales followed a softer trend, with September's inflation-adjusted sales tax receipts up just 0.1 percent over September 2006. Combined, the two indicators brought the historic index to 132.2, down from 132.8 in August.

Labor Force and Employment

Metro Denver's November employment figures followed a flattening course that began earlier this year. The Metro Denver economy added 4,000 jobs in November as seasonal hiring accelerated, and year-to-date job growth remained stable at 1.8 percent. Natural resources and construction and manufacturing were the only two of Metro Denver's 11 industry supersectors to report year-to-date job losses (-1.8 percent and -2.4 percent, respectively). Among the remaining industries, year-to-date employment growth ranged from less than one percent in transportation, warehousing, and utilities to 4.2 percent in professional and business services. The leisure and hospitality supersector ran a close second with employment up 4.1 percent through November.

Regionally, the Boulder-Longmont MSA continues to lead job growth with employment up 2.6 percent year-to-date. The Denver-Aurora MSA reported 1.6 percent job growth through November, running ahead of the nation's 1.3 percent gain but behind Colorado's two percent growth through the first 11 months of 2007.

Colorado's job growth through 2007 was largely driven by gains in natural resources and mining. As the year ended, news from the state's mining sector suggested the growth could continue, at least through 2008. In early December, Freeport-McMoRan Copper and Gold, Inc. announced it will re-open the Climax molybdenum mine in Leadville. Molybdenum, a metal used to harden steel, has tended to fluctuate in price and has taken jobs with it. Recent growth in the global economy, however, has driven up molybdenum prices, and the mine's owners plan to resume operations for the first time since 1995. They will invest $500 million to improve the existing facility and restart operations, and construction is scheduled to begin next spring. Company officials say daily operations will busy 350 workers when pit-mining resumes in 2010.

Businesses in Metro Denver's industry clusters also made headlines in December:

Aerospace: Jefferson County-based Lockheed Martin Space Systems will be a key part of NASA's $375 million lunar mission. The Space Systems division will build a pair of satellites designed to orbit the moon and take detailed measurements of its gravitational field. The division's Waterton Canyon control room will monitor the satellites throughout the mission in 2011, and the Centennial-based United Launch Alliance will provide a booster rocket to launch the equipment.

Boulder's Ball Aerospace and Technologies Corporation also made news with a recent contract award. The company will build antennas for a global early detection system that signals a ground-based nuclear explosion. Sandia National Laboratories selected Ball Aerospace as the prime contractor for the project, called the Ground Nuclear Detection Terminal Integrated Correlation and Display System (ICADS).

Aviation: Denver-based Frontier Airlines made recent headlines with its on-time performance, but the airline also gained press when it announced a 100-position job cut. Airline officials say high jet fuel costs prompted the layoffs, and headquarters personnel, reservations agents, and other administrative workers will be affected. Frontier officials also announced plans to selectively reduce the airline's flight schedule.

Financial pressures are also affecting smaller aviation operations, although the challenges facing Centennial's Aviation Technology Group (ATG) have a somewhat different source. According to company officials, ATG has relied on short-term loans to finance its projects, and that type of financing has all but disappeared as the nationwide credit crisis continues. The light aircraft developer will lay off 40 of 50 employees at its Centennial Airport headquarters, and company officials are examining ways to keep ATG in business.

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

	Month of Nov-07 (p)	Month of Oct-07	Month of Nov-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*	1,419.8	1,415.8	1,395.7	1,399.9	1,375.7	1.8%	-3.1%	4.4%
Denver-Aurora MSA	1,250.5	1,246.7	1,228.1	1,233.0	1,213.1	1.6%	-3.0%	4.4%
Boulder-Longmont MSA	169.3	169.1	167.6	166.9	162.6	2.6%	-3.4%	4.7%
Natural Resources & Construction	97.3	99.2	99.0	98.9	100.7	-1.8%	-4.9%	6.4%
Manufacturing	86.8	87.4	90.7	88.7	90.9	-2.4%	-9.0%	3.5%
Wholesale & Retail Trade	220.8	215.8	218.8	212.9	210.3	1.3%	-2.9%	2.7%
Transp., Warehousing & Utilities	54.6	52.4	53.3	51.0	51.0	0.0%	-9.8%	2.4%
Information	57.5	56.6	56.1	56.7	56.5	0.3%	-14.2%	11.2%
Financial Activities	108.0	108.2	108.3	108.4	107.9	0.4%	-0.8%	5.5%
Professional & Business Services	242.5	243.6	232.7	238.4	228.7	4.2%	-6.1%	5.3%
Education & Health Services	149.4	149.0	143.1	146.1	140.9	3.7%	2.9%	7.4%
Leisure & Hospitality	146.5	148.0	141.2	147.5	141.8	4.1%	-0.6%	3.2%
Other Services	51.0	51.3	51.5	51.6	51.3	0.7%	1.6%	3.6%
Government	205.4	204.3	201.0	199.6	195.7	2.0%	3.4%	2.3%
Federal Gov't	30.6	30.6	30.7	30.5	30.8	-0.9%	0.5%	0.0%
State & Local Gov't	174.8	173.7	170.3	169.1	164.9	2.5%	4.0%	2.8%
Colorado	2,345.7	2,339.5	2,302.5	2,320.4	2,275.0	2.0%	-1.9%	4.2%
United States	139,493	139,253	138,052	137,847	136,012	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

Beverage: An increasingly competitive craft beer market is driving Colorado's second largest craft brewer, Flying Dog Brewery, to move its manufacturing operations from Denver to Maryland. Flying Dog has been producing some of its beer in Maryland since 2006 and recently purchased a larger, cutting-edge facility northwest of Washington, DC. Company officials plan to keep their headquarters in Denver and say the manufacturing move will bring the business closer to a larger, east coast market.

Changes are also underway in the mass-market segment of the brewing industry. SABMiller PLC and Molson Coors Brewing Company recently signed a definitive agreement for their proposed merger, moving one step closer to a deal industry analysts say will close in mid-2008. The deal, which would combine the nation's second- and third-largest brewers, is awaiting approval from the Securities and Exchange Commission.

Bioscience: Replidyne Inc., a pharmaceutical company based in Louisville, recently cut 35 percent of its workforce. Company officials say they need additional investment to complete clinical trials of a bronchitis drug, and the cuts were necessary to keep the company in business for at least two years. Replidyne now employs about 50 workers.

Energy: Golden's National Renewable Energy Laboratory (NREL) will hire 100 scientists and administrative staff, thanks to the lab's largest-ever budget increase. A 2007 congressional measure boosted the Energy Department's current budget by $500 million, and NREL received $100 million of the distribution. That increased the lab's operating budget by 50 percent, and NREL also secured funds to build a $55 million new facility on the existing campus. The gains will reverse the downsizing and layoffs that have affected NREL over the past several years, and analysts say the lab could benefit further from spending increases granted to the Energy Department in December.

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
Denver Area*					
Percent of Companies Hiring	27%	23%	42%	27%	42%
Percent of Companies Laying Off	14%	16%	8%	14%	8%
Percent of Companies No Change	47%	52%	42%	47%	42%
Boulder County					
Percent of Companies Hiring	13%	13%	27%	13%	27%
Percent of Companies Laying Off	3%	7%	7%	3%	7%
Percent of Companies No Change	84%	73%	66%	84%	66%

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

The Metro Denver unemployment rate typically rises in late fall, but November's rate rose slightly more than it has in previous years. The area's unemployment rate rose from 3.5 percent in October to 3.9 percent in November as unemployment increased in each of the region's seven counties. Rates ranged from 3.4 percent in Boulder County to 4.4 percent in Denver County, and Adams County saw the second-highest rate of 4.3 percent. Colorado unemployment also made a noticeable step up, rising from 3.4 percent in October to 3.9 percent in November. Despite the gains, Metro Denver and Colorado unemployment remain low, and both are well below November's U.S. average of 4.5 percent.

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

	November 2007 (p)		2007 YTD Avg		2006 YTD Avg		2002 Ann Avg	1997 Ann Avg
	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Unemploy-ment Rate	Unemploy-ment Rate
Metro Denver	1,538.1	3.9%	1,515.0	3.8%	1,493.0	4.4%	5.9%	2.8%
Adams County	221.7	4.3%	218.8	4.3%	216.0	5.0%	6.4%	3.1%
Arapahoe County	316.8	4.0%	311.8	3.8%	307.5	4.4%	5.7%	2.4%
Boulder County	179.2	3.4%	176.7	3.3%	172.7	3.8%	5.7%	2.8%
Broomfield County*	26.0	3.9%	25.6	3.8%	25.3	4.4%	5.7%	
Denver County	319.4	4.4%	314.6	4.2%	310.6	4.9%	6.8%	3.8%
Douglas County	152.2	3.5%	149.7	3.2%	147.4	3.7%	5.0%	1.8%
Jefferson County	322.7	3.8%	317.8	3.7%	313.6	4.3%	5.5%	2.4%
Colorado	2,726.5	3.9%	2,687.2	3.8%	2,649.1	4.4%	5.7%	3.4%
United States	154,035	4.5%	153,186	4.6%	151,324	4.7%	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

Typical seasonal trends brought Metro Denver's count of first time unemployment insurance claims higher between October and November. On a year-to-date basis, Metro Denver unemployment claims are roughly on par with last year's counts, a somewhat unexpected trend given the area's slower job growth. Statewide, the count of unemployment insurance claims filed through November was down roughly two percent from the same period last year.

Weekly First-Time Unemployment Insurance Claims

	Month of Nov-07	Month of Oct-07	Month of Nov-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change
Metro Denver	1,314	1,182	1,510	1,143	1,153	-0.9%
Colorado	2,340	2,224	2,728	2,045	2,085	-1.9%

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) increased 0.6 percent in November (before seasonal adjustment) and stood 4.3 percent ahead of the index from November 2006. According to the U.S. Bureau of Labor Statistics, increases in the index for energy accounted for almost 70 percent of November's total increase in the CPI. Not surprisingly, the index for transportation costs was also a major contributor to November's gain, followed by the indexes for apparel, housing, and medical care. Food prices also rose in November, dominated by gains for fruits and vegetables, dairy goods, and grain products. Some analysts are predicting even larger price gains for grains and grain-based products this year, as poor weather has affected many wheat crops and global has risen.

Grains are just one of many commodities on a record-setting price pace as 2008 begins. Crude oil prices hit an all-time high of $100 per barrel in early January, renewing concerns about gas prices and other cost pressures in the new year. Analysts say violence and ongoing tensions in oil-producing nations drove prices to the infamous $100 mark, as did reports of refinery closures and OPEC's bleak report on long-term supplies. Industry analysts also note that speculation plays a large role in oil price volatility, but most of the conditions driving higher prices are here to stay. That could mean a national average fuel price of $3.40 by springtime, says the U.S. Energy Information Administration. Local officials are even more concerned and caution that gas prices could reach $4 per gallon by summer. Nonetheless, Metro Denver fuel prices are currently below the national average. As January began, the average per-gallon price for regular gasoline was $2.75 in Metro Denver, below the national average price of $3.05 and below last month's $2.94.

Forecasts for high oil and food prices are particularly ominous for the restaurant industry, and the National Restaurant Association is predicting a weak 2008. The trade group's forecast looks for a 4.4 percent increase in restaurant sales nationwide, its lowest projection in four years. Several major restaurant chains including Applebee's and Chili's have reported sales declines, but some analysts say restaurateurs are more concerned about managing rising food prices than they are about slumping sales. In Colorado, a comparatively moderate housing correction is expected to help the state's restaurant industry outperform the national average. Even with the lowest projected increase in a decade – 5.7 percent – growth in Colorado restaurant sales could easily surpass national numbers.

Meanwhile, many Colorado consumers were no exception to what retailers observed nationwide: worried buyers who spent less. Several Metro Denver retailers reported slower-than-expected foot traffic on the typically busy day-after-Christmas. Nationwide, stores already boasting bargains through the early holiday season cut prices even further, hoping to encourage post-holiday gift card spending and shopping. According to MasterCard Advisors, retail spending between Thanksgiving and Christmas rose 3.6 percent from last year, the slowest rate of sales growth in four years. Research firm ComScore reported 19 percent growth in Internet sales this holiday season, a robust gain that nonetheless fell below the near-30 percent growth rates recorded in prior years. Even slower spending, though, appears to be driving American consumers further into debt. According to the American Bankers' Association, 2.4 percent of U.S. consumer loans were delinquent in third quarter. That marks a sharp increase from second quarter and the highest delinquency rate since mid-2001.

MONTHLY ECONOMIC SUMMARY

A look back to September – the most recent month for which local retail detail are available – reveals subtle signs of slowing in Metro Denver's retail market. Retail sales across all industries totaled almost $7.4 billion in September, up about six percent from September 2006. While sales gains are still healthy, over-the-year growth tapered considerably in all but one of the seven Metro Denver counties. Boulder County reported September retail sales up 15 percent over September 2006, but growth in the remaining counties ranged from a much weaker -0.6 percent in Broomfield County to 4.9 percent in Denver County. Statewide, September retail sales were up 5.6 percent over last year, bringing total sales growth through the first nine months of this year to 8.7 percent.

Total Retail Sales ($000s)

	Month of Sep-07	Month of Aug-07	Month of Sep-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Annual Growth 2002	Annual Growth 1997
Total Metro Denver	7,372,495	6,872,288	6,946,529	61,566,065	56,694,955	8.6%	-0.5%	5.8%
Adams County	1,181,789	1,137,935	992,659	9,810,487	8,582,751	14.3%	-0.3%	7.7%
Arapahoe County	1,479,519	1,456,761	1,462,312	13,433,622	12,542,000	7.1%	1.6%	0.7%
Boulder County	795,068	615,334	690,899	5,920,867	5,251,763	12.7%	-14.5%	3.8%
Broomfield County	131,244	129,350	132,074	1,214,085	1,098,637	10.5%		
Denver County	2,068,598	1,922,497	1,971,993	16,953,935	15,588,619	8.8%	-3.2%	4.9%
Douglas County	568,419	528,597	565,711	4,657,742	4,421,465	5.3%	3.6%	30.9%
Jefferson County	1,147,858	1,081,814	1,130,881	9,575,327	9,209,720	4.0%	-2.5%	8.7%
Colorado	12,558,342	11,846,111	11,891,470	104,827,201	96,415,187	8.7%	0.3%	6.4%

Source: Colorado Department of Revenue.

The Conference Board's Consumer Confidence Index for the Mountain region followed an inconsistent course in November. The index declined to 113.9 after hitting 140.1 in October, the third-highest reading for the year. The national Consumer Confidence Index posted its fourth consecutive decline in November as consumers' short-term outlooks deteriorated considerably.

Consumer Confidence Index

	Month of Nov-07 (p)	Month of Oct-07	Month of Nov-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change	Ann Avg 2002
Mountain	113.9	140.1	125.7	132.9	131.1	1.4%	104.3
United States	87.3	95.2	105.3	104.5	105.5	-1.0%	96.6

Source: The Conference Board. (p) =preliminary

Metro Denver hotels saw slightly weaker traffic in November. A November drop in occupancy is consistent with seasonal patterns, but the decline to 56.3 percent from October's 74.6 percent was slightly larger than the shift recorded in previous years. In 2006, for example, occupancy rates declined from 71.3 percent in October to 58.6 percent in November. Still, the shifts from 2006 to 2007 were subtle, and unseasonably warm weather and high gas costs may have contributed to slightly slower Thanksgiving travel. Overall, Metro Denver hotel occupancy was up 1.6 percent through the first 11 months of the year, and average room rates posted a robust 10 percent increase.

Metro Denver Hotel Statistics

	Month of Nov-07	Month of Oct-07	Month of Nov-06	YTD Avg 2007	YTD Avg 2006	YTD Avg % Change	Annual 2002	Annual 1997
Percent of Hotel Rooms Occupied	56.3%	74.6%	58.6%	68.9%	67.8%	1.6%	60.3%	72.1%
Average Hotel Room Rate	$107.01	$121.08	$103.04	$112.06	$101.85	10.0%	$88.05	$84.06

Source: Rocky Mountain Lodging Report.

Passenger traffic at DIA was swift in October, bringing the year-to-date number of travelers passing through the airport to almost 42.1 million. That represents a 4.6 percent increase in travelers over the same months of 2006. According to the U.S. Bureau of Transportation Statistics, DIA was the nation's fourth-busiest airport in the first half of 2007. With just two months of travel data yet to be released, DIA remains on-track for its busiest year ever.

Denver International Airport Passengers

	Month of Oct-07	Month of Sep-07	Month of Oct-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Annual 2002	Annual 1997
Number of Airline Passengers	4,157,284	3,951,172	3,951,615	42,068,022	40,208,963	4.6%	35,652,084	34,969,021

Source: Denver International Airport, Traffic Statistics.

Wall Street ended 2007 in positive territory, but widespread financial turmoil pushed annual gains well below last year's levels for several major indexes. The S&P 500 finished 2007 with the smallest annual gain of 3.5 percent, down noticeably from last year's 13.6 percent return. The Dow Jones Industrial Average followed with a 6.4 percent gain for the year, also running behind its 2006 return of 16.3 percent. The NASDAQ finished just ahead of 2006 with a 9.8 percent gain in 2007, but the Bloomberg Colorado Index saw a slightly better margin. Far ahead of the national indexes in terms of overall return, the Bloomberg Colorado Index finished 2007 with a 17.7 percent gain.

Stock Market Indexes

	Month of Dec-07	Month of Nov-07	Month of Dec-06	YTD Return 2007	YTD Return 2006	YTD Return 2005
Bloomberg Colorado	450.2	450.4	382.5	17.7%	17.3%	16.9%
S&P 500	1,468.4	1,481.1	1,418.3	3.5%	13.6%	3.0%
NASDAQ	2,652.3	2,661.0	2,415.3	9.8%	9.5%	1.4%
DJIA (Dow Jones)	13,264.8	13,371.7	12,463.2	6.4%	16.3%	-0.6%

Sources: Bloomberg.com, Yahoo! Finance.

Residential Real Estate

Home Resales

The U.S. market for existing homes was essentially flat in November, with sales rising 0.4 percent to an annual rate of five million units. National Association of Realtors (NAR) analysts say the November data point to a stabilizing market, but flat national trends can also come from wide variations across regions and different types of homes. Sales of single-family homes rose 0.7 percent in November but remain 20 percent below last year's sales pace, while sales of condominiums declined 1.6 percent and fell 21 percent below last year's pace. In the West, sales increased in November but remain 25 percent below last year's pace, while sales in the South and Northeast declined two percent and three percent, respectively. The Midwest had the best November showing with a sales pace unchanged from October and 17 percent below the sales pace from last year.

In Metro Denver, existing home sales followed a typical seasonal pattern downward, and sales through the first 11 months of the year were down slightly from 2006. Slightly less than 3,500 home sales closed in November, bringing the year-to-date total of closed sales to 46,600. That puts home sales through November 1.2 percent below sales from the same period last year, and the forward-looking measure of homes under contract was essentially flat on a year-to-date basis. On a more positive note, Metro Denver's unsold inventory is down 1.5 percent year-to-date.

Previously-Owned Home Sales Activity

	Month of Nov-07	Month of Oct-07	Month of Nov-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Ann Avg 2002	Ann Avg 1997
Home Sales (Under Contract)	4,007	4,645	4,139	58,262	58,408	-0.2%	30,089	35,963
Home Sales (Closed)	3,482	3,848	3,565	46,570	47,140	-1.2%	47,919	40,185
Unsold Homes on Market	27,127	28,928	27,530	27,127	27,530	-1.5%	20,740	12,903
Average Sales Price-Single Family	$297,812	$289,754	$310,562	$311,939	$316,819	-1.5%	$268,926	$169,587
Average Sales Price-Condo	$165,533	$176,222	$195,747	$180,510	$189,295	-4.6%	$168,226	$100,694
Median Sales Price-Single Family	$229,500	$234,200	$240,000	$246,000	$250,000	-1.6%	$221,000	
Median Sales Price-Condo	$139,000	$140,000	$155,750	$150,999	$157,594	-4.2%	$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

According to the NAR, the national median price for all existing homes was $210,200 in November, down three percent from the median reported in November 2006. The NAR continues to emphasize that the mortgage and home sales contractions have been particularly hard on high-priced markets, and they say the down-drifting median home price reflects a market shift towards less-expensive homes.

The S&P/Case-Shiller Home Price Indexes apply a different methodology, but they suggest that even the nation's strongest metro markets are struggling. The number of metro areas showing positive annual returns declined from five in September to three in October – Seattle, Portland, and Charlotte are now the only metro areas to see home price indexes higher than last year. The Denver Index posted a 1.7 percent loss between September and October, and the index recorded a -1.8 percent annual return. Analysts say the annual growth rate for the 10-City Composite index reached a record low in October, as did annual rates for 11 of the 20 metro areas tracked. The 20-City Composite Index declined 1.4 percent in October and now posts an over-the-year loss of 6.1 percent.

New data from Metrolist essentially validates the long-term trend of Denver's S&P/Case-Shiller Home Price Index. The average sold price of a single-family home in Metro Denver rose between October and November, but the year-to-date average fell 1.5 percent below the same period last year. Metro Denver's condominium market continues to see a steeper correction, with average sold prices falling between October and November and the year-to-date average standing almost five percent below last year's average price.

A look at various sources of home price data makes it easy to see why buyers, sellers, and market professionals are concerned about conflicting information. These conflicting reports on home prices and sales will likely continue, though, because different metro areas and types of homes will continue to see very different trends. Quarterly home price data smoothes some of the variability caused by weather and other external factors but comes with a greater lag. The national median home price was $220,800 in third quarter, down two percent from third quarter 2006. Locally, median home prices in the Denver-Aurora and Boulder-Longmont MSAs both declined between second and third quarter. On a year-to-date basis, median prices in Boulder are up 1.7 percent while the Denver-Aurora median price was down 0.5 percent through third quarter. An NAR report on fourth quarter median home prices is due out 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

Economists with California-based RealtyTrac say the national trend in foreclosures could be reaching a peak, but data from late 2007 and early 2008 are needed to confirm a turning point. Nationwide, the number of foreclosure filings declined 10 percent between October and November in the first double-digit drop reported since April 2006. Despite the good news, November's filings remained 70 percent above filings from November 2006, and industry analysts fear another wave of adjustable mortgages nearing reset could keep foreclosures at record levels through 2008.

The RealtyTrac process for reporting monthly foreclosures can count individual properties multiple times, and local officials say the approach overstates the foreclosure problem. Nonetheless, they remain concerned that 2008 will resemble 2007 as more Metro Denver homeowners approach reset on adjustable loans. *In November, Metro Denver foreclosures declined from the prior month but posted a 38 percent year-to-date increase over the first 11 months of last year. Denver, Douglas, and Adams Counties continue to report the sharpest gains in defaults, but public trustees say foreclosure is affecting properties across many locations and price ranges.* The Colorado Foreclosure Hotline reported twice the number of calls in December as operators received in December 2006, an uptick that surprised officials who expected a quieter holiday.

Real Estate Foreclosures

	Month of Nov-07	Month of Oct-07	Month of Nov-06	YTD Total 2007	YTD Total 2006	YTD Total % Change
Total Metro Denver*	2,071	2,472	1,712	24,467	17,796	37.5%
Adams County	474	513	448	5,504	3,986	38.1%
Arapahoe County	460	574	381	5,529	4,362	26.8%
Boulder County	86	77	67	861	729	18.1%
Broomfield County	21	27	23	231	176	31.3%
Denver County**	519	686	444	7,415	4,733	56.7%
Douglas County	258	158	108	1,683	1,085	55.1%
Jefferson County	253	437	241	3,244	2,725	19.0%

**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

According to the U.S. Department of Commerce, the nationwide count of new home sales dipped sharply in November and stood at an annual rate of 647,000 units. That sales pace is nine percent below October's rate of sales and more than 34 percent below the sales pace recorded in November 2006. Regionally, new home sales trends between October and November ranged from a 28 percent decline in the Midwest to a four percent increase in the West. Compared to last year's trends, however, sales in all regions are substantially weaker. New home sales in the Midwest are down the most over the year, with November's sales pace falling almost 39 percent below November 2006. New home sales in the Northeast declined 28 percent over the year, the smallest annual loss of all U.S. regions.

Department of Commerce data also show a November decline in housing starts, with the total number of buildings started falling 3.7 percent below October's figure and 24 percent below housing starts from November 2006. The data suggest that many of the nation's builders are shifting their focus towards multi-unit housing as the market for single-family, detached homes continues to suffer. The number of multi-unit housing starts actually increased between October and November, partially offsetting a sizeable decline in starts of single-unit residential buildings.

Weak figures on housing starts and new home sales seem to come as no surprise to builders, who reported the same confidence levels in December as they had in the prior two months. The National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index has stayed at 19 for the past three months, well below the break-even value of 50. The index registers above 50 when a majority of builders have a positive outlook on sales conditions, so the index's recent trend points to a predominantly negative view. Analysts say the stability of the index suggests builders have accepted the negative trends and are preparing for a resurgence in building activity later this year.

Some types of residential construction are already seeing increased permit activity, specifically multi-unit and apartment projects. Local construction data show residential building permits rising sharply between September and October, a gain due entirely to large increases in permits for condominiums, townhomes, and apartment buildings. Overall, Metro Denver building permits are down 17 percent year-to-date, with the worst correction in detached, single-family homes (-33 percent year-to-date). Permits for condominiums, townhomes, and other attached, single-family housing were down seven percent through the first ten months of the year, but permits for apartment projects had made an impressive 75 percent gain. Strong prospects in the rental market are part of the driving force behind increased apartment construction, but analysts caution that larger numbers of condominium conversions and failed home sales could keep a ceiling on new rental inventory.

Residential Building Permits

	Month of Oct-07	Month of Sep-07	Month of Oct-06	YTD Total 2007	YTD Total 2006	YTD Total % Change	Total 2002	Total 1997
Single-Family Detached Units	427	490	616	6,459	9,677	-33.3%	427	490
Single-Family Attached Units	468	127	328	4,378	4,705	-7.0%	468	127
Multi-Family Units	604	75	0	2,011	1,141	76.2%	604	75
Total Units	1,499	692	944	12,848	15,523	-17.2%	1,499	692

Source: Home Builders Association of Metro Denver.

Apartment Rental Market

Fourth-quarter data for Metro Denver's apartment rental market are not yet available, but third quarter figures still speak to rapidly tightening conditions. The third quarter vacancy rate of 5.3 percent was down from the prior quarter's 6.2 percent and noticeably below the 6.7 percent vacancy rate recorded in third quarter 2006. The overall vacancy rate in Metro Denver's apartment rental market is now at its lowest level since 2001. Across the seven Metro Denver counties, third quarter vacancy rates declined from second quarter and ranged from a low of 3.6 percent in the Boulder-Broomfield area to a high of 5.9 percent in Adams County. Given the noticeably tightened rental market, a third quarter decline in average lease rates came as a surprise. Average rents declined between second and third quarter in four of the seven Metro Denver counties, and the metro area average declined from about $864 to just over $858. Only Denver and Jefferson Counties saw increases in average lease rates, with rents rising 1.7 percent in Denver County and 1.3 percent in Jefferson County.

Industry analysts suggest that third quarter's unusual rent trends could reflect downward price adjustments at the high end of the market. Luxury apartment owners face stiff competition for tenants, analysts say, so some units may have been priced beyond the market.

Apartment Statistics

	Quarter 3 2007	Quarter 2 2007	Quarter 3 2006	YTD Average 2007	YTD Average 2006	YTD Average % Change	Annual Average 2002	Annual Average 1997
Apartment Vacancy Rate	5.3%	6.2%	6.7%	6.2%	7.0%		9.8%	4.9%
Average Monthly Rental Rate (all units)	$858	$864	$866	$855	$848	0.8%	$822	$650

Source: Denver Metro Apartment Vacancy and Rent Survey.

Forecast

The National Association of Realtors' November forecast looks for existing home sales to total roughly 5.7 million in 2007 and essentially the same number in 2008. The forecast for median home prices is also flat across both years, while the outlook for new home sales and construction anticipates a continued – albeit smaller – correction. NAR analysts emphasize, however, that local areas will see decidedly different trends as the market recovers.

Commercial Real Estate

Market Overview

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 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.

In its third quarter 2007 report, Frederick Ross Company observes a Metro Denver office market that remains healthy despite signs of credit-related weakness. Leasing velocity in the office market slowed between second and third quarter, but year-to-date absorption remains in line with the company's forecast for the year. Denver vacancy rates in third quarter stood at 15.6 percent, down from 18.2 percent in third quarter 2006. Not surprisingly, rental rates are on the rise, led by increases in the downtown Central Business District. Outside the Central Business District, the Southeast Suburban office market has a high concentration of housing-related tenants and could therefore show weakness through the residential downturn. Of course, a stalled credit market affects commercial sales metro-wide, and several recent deals have collapsed. Still, Frederick Ross expects the commercial credit outlook to improve and predicts investors will be drawn to Metro Denver's diverse and stable economy.

A third quarter report released by Grubb & Ellis also acknowledges office market impacts from the residential downturn. Third quarter vacancy rates ticked up slightly in the Southeast Suburban market, a region home to many mortgage-related businesses. The report puts metro-wide office market absorption at 1.9 million square feet year-to-date, a solid reading that is nonetheless below previous records. Lease rates continued their rise in third quarter and stood at $25.27 and $20.58 for Class A and Class B property, respectively. The report suggests that many affected businesses have already responded to the housing downturn, and potential tenants and investors watching different markets will be encouraged by a relatively strong Denver economy.

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

Similar to Metro Denver's office market, the industrial market flattened as 2007 ended. According to CoStar Realty Information, Inc., 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.

The third quarter report by Frederick Ross Company describes a Metro Denver industrial market only slightly affected by the turmoil in housing. Third quarter industrial vacancy of 6.3 percent represented a seven-year low and a noticeable decline from the 7.6 percent rate posted in third quarter 2006. All sectors of Metro Denver's warehouse market saw third quarter vacancy rates below 10 percent, and the flex market continued its post-recession recovery with a three percentage-point improvement in vacancy rates from third quarter 2006. As many industrial market investors rely more on capital than debt, a roiled credit market has had only limited impacts on industrial property. Still, industrial investment slowed in third quarter, and while new development continues, many owners and investors are choosing to upgrade existing properties and avoid high prices for land and building materials.

A third quarter industrial market report by Grubb & Ellis also observes a trend in renovations of existing properties. The report notes, however, that increasing lease rates have spurred new development, and nearly three million square feet of industrial space is currently under construction. Grubb & Ellis acknowledges the housing downturn as a risk but emphasizes that Metro Denver's industrial market enjoys strong demand from local companies as well as out-of-state businesses that view Denver as a regional hub for manufacturing and distribution.

The Metro Denver industrial market has seen a strong 2007, says a third quarter report by Fuller Real Estate. The report notes that disrupted financial markets and tighter credit conditions have affected investment, but year-to-date investment sales have nonetheless reached the highest level in 10 years. Overall, the report expects vacancy rates in the Metro Denver market to decline to seven percent by the end of 2007.

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

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 6.9 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 $16.81 in third quarter to $16.55 in fourth quarter.

Despite its softer fourth-quarter performance, Metro Denver's retail market is hardly depressed. More than 5.7 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.

The third quarter retail report by Frederick Ross Company describes a slower but still healthy market. Third quarter vacancy rates rose to 6.55 percent from the midyear rate of 6.38 percent. Net absorption was approximately 49,800 square feet in third quarter, but absorption would have been negative were it not for several new projects that are more than 90 percent pre-leased. Overall, retail lease rates were essentially unchanged between second and third quarter, but the residential downturn has noticeably increased vacancy for Class B and Class C retail space. Frederick Ross expects the credit market to stabilize in 2008 and promote tenancy or even redevelopment for Class B and C properties.

Retail Market Statistics

	Quarter 4 2007	Quarter 3 2007	Quarter 4 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003
Number of Buildings	5,686	5,551	5,525	5,429	4,943	4,839
Existing Square Feet (millions)	139.1	136.4	135.4	130.3	126.8	122.8
Vacant Square Feet (direct, millions)	10.1	9.4	9.6	8.6	6.8	6.5
Vacancy Rate (direct)	7.3%	6.9%	7.1%	6.6%	5.4%	5.3%
Vacancy Rate (with sublet)	7.7%	7.3%	7.4%	6.9%	5.6%	5.5%
Average Lease Rate (direct, per square foot, NNN)	$16.55	$16.81	$16.63	$15.12	$15.42	$13.37
New Construction Completed (year-to-date)	1.52 MSF, 36 Bldgs	1.04 MSF, 26 Bldgs	4.77 MSF, 54 Bldgs	N/A	N/A	N/A
Currently Under Construction	5.72 MSF, 85 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 is home to several major redevelopment projects, and new construction continues across the area.

Builders recently announced preliminary redevelopment plans for the former site of the University of Colorado at Denver and Health Sciences Center (UCDHSC). The UCDHSC – now called the University of Colorado Denver – is moving to new facilities at the Anschutz Medical Campus in Aurora. Developer Shea Properties expects the site at Colorado Boulevard and East Ninth Avenue to be ready for construction in early 2009, and plans for the new urban center include residential, office, and retail space. Parking garages, a pharmacy, and other existing facilities will be saved, and redevelopment of the area’s street grid will better connect the new center to the surrounding community.

A second developer has also targeted the Colorado Boulevard location and will build an extended-stay hotel across from the redevelopment site. The location of the new hotel is the current home of long-time tenant Annie’s Café and several other businesses, and the café’s owners have agreed to relocate to the new hotel’s ground floor. Construction begins this summer and developers say the hotel will open for business in 2009. The development team is also busy on other Metro Denver projects, including the nearly-completed Ritz-Carlton Hotel downtown, a hotel complex to be located at Fitzsimons in Aurora, and a hotel to be located near light rail in Greenwood Village.

Redevelopment efforts are also underway near I-25 and Broadway, where the last pieces of the 83-acre Gates Rubber property were recently sold. Called a prime example of urban infill development, the site is the future home of two hotels, a movie theater, more than 3,000 apartment units plus other housing, and 1.3 million square feet of office and retail space. Developers hope the site will attract tenants looking for easy transit access and lower-rent alternatives to downtown, and many of the residential offerings are eco-friendly. Timelines vary as different developers own different portions of the property, but one of the primary developers hopes to complete his portion in 12 to 15 years.

Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇑	⇑	Employment increased by 4,000 jobs from Oct to Nov; employment is up 1.8% through Nov 2007
% Companies Hiring (Denver Area)	⇑	⇓	27% of companies expect to add workers in Q1 2008
Unemployment Rate	⇑	⇓	Metro rate 3.9% in Nov; YTD avg. rate of 3.8% down from 4.4% in 2006
Initial Claims	⇑	⇓	Claims increased 11.2% from Oct to Nov; YTD claims are down 0.9% through Nov 2007
Total Retail Sales	⇑	⇑	YTD Metro retail sales up 8.6% through Sept 2007; 8.7% year-to-date gain for Colorado
Consumer Confidence Index	⇓	⇑	Mountain region confidence decreased from 140.1 in Oct to 113.9 in Nov; YTD up 1.4%
Hotel Occupancy	⇓	⇑	Hotel occupancy decreased from 74.6% in Oct to 56.3% in Nov; avg room rate down to $107.01
DIA Passengers	⇑	⇑	Traffic increased 5.2% Sept to October; YTD traffic of 42.1 million up 4.6% through Oct 2007
Bloomberg Colorado Index	⇓	⇑	Bloomberg Colorado Index down slightly (0.04%) from Nov to Dec; index up 17.7% for the year
Dow Jones Industrial Average	⇓	⇑	DOW decreased 0.8% from Nov to Dec; index up 6.4% for the year
Home Sales (closed)	⇓	⇓	Home sales decreased 9.5% between Oct and Nov; YTD down 1.2%
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 decreased 16.2% Oct to Nov; YTD up 37.5% through Nov 2007
Residential Building Permits (Total)	⇑	⇓	Total permits increased 117% from Sep to Oct; YTD permits down 17% through Oct 2007
Apartment Vacancy Rate	⇓	⇓	Vacancy rate decreased from 6.2% in Q2 to 5.3% in Q3; avg rental rate down to $858 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	**8 of 18**	**13 of 18**	

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