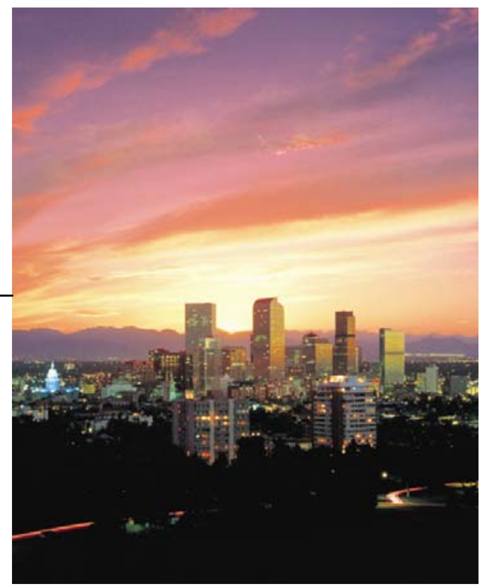
Monthly Economic Summary

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 following report presents a comprehensive analysis of business and economic conditions currently prevailing in the seven-county Metro Denver area, including Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties. 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 according to the seven-county definition, the MSA level, or the county level, depending upon data availability.

Information in this report is grouped into four main categories: labor and employment; the consumer sector; residential real estate; and commercial real estate. The most recent statistics currently available are used, including the most recent monthly or quarterly data, the previous month or quarter, and a comparison of annual trends with the previous year. In addition, the report includes annual averages from five- and ten-years previous so that current data may be compared to historical trends.

Notable Rankings

- Colorado ranked fourth in the 2006 State Competitiveness Report released by Suffolk University's Beacon Hill Institute, up from sixth in the 2005 study. The Institute defines competitiveness as "the policies and conditions that ensure and sustain a higher level of per capita income and its continued growth" and bases its rankings on eight sub-indexes: government and fiscal policy, security, infrastructure, human resources, technology, business incubation, openness, and environmental policy.

- Colorado's competitiveness in 2006 was confirmed by the second edition of the Metro Denver Economic Development Corporation's *Toward a More Competitive Colorado* report. In summary, Colorado citizens are remarkably healthy, productive, and innovative but the state lacks in its human capital investment.

Competitive Attributes:

• 1st in high tech employment
• 2nd most highly educated state in percentage of college graduates
• 4th highest concentration of doctorates in science and engineering
• 4th highest venture capital investments per capita
• 8th highest in patents per million population
• 9th most productive workforce
• Lowest obesity rate

Competitive Challenges:

• 48th in state and local support for higher education
• 48th in higher education spending per full-time student
• 48th in K-12 spending as a percentage of personal income
• 25th in high school graduation rates

- Colorado reclaimed its title with the nation's top foreclosure rate in December even though Colorado's total foreclosures fell 4% in the final month of the year. Nevada bumped Colorado from the top position in November, only to fall back to the number two position in December. Colorado topped the California-based RealtyTrac's list for nine of the past 12 months in 2006 so it is no surprise that Colorado had the highest foreclosure rate than any other state in 2006 of one filing for every 33 homes. Georgia and Nevada followed with one filing for every 41 homes. Other foreclosure rankings include the following: Greeley posted the highest foreclosure rate among the 200 largest metropolitan areas in the nation for the fifth consecutive month in December; and Adams County inched past Weld County in December 2006 to claim the highest foreclosure rate in the state.

- Colorado's economy ranked among the strongest in the country in the *2007 Development Report Card for the States* compiled by the Corporation for Enterprise Development (CFED). The state achieved a position on the national "honor roll," earning a B for economic performance, an A for business vitality, and an A for development capacity, or positioning for future growth. According to the CFED, "Colorado has consistently been a high performer over the 20-year span of the *Development Report Card for the States*, particularly on Business Vitality and Development Capacity" and is considered to be a "forward-thinking state with a robust business community and agile labor force." Massachusetts, Minnesota, Utah, and Wisconsin also made the 2007 "honor roll."

- Ninety-two Colorado companies took in $622 million in venture capital funding in 2006, 5% less than 2005 venture capital awards. About half of the $622 million was awarded to biotechnology ($158.6 million) and software ($134.3 million) companies, according to the MoneyTree report by PricewaterhouseCoopers and the National Venture Capital Association. Awards to industrial/energy companies totaled $98.6 million in 2006. At the national level, total venture capital funding hit a five-year high in 2006 of $25.5 billion.
- A separate study by Ernst & Young pegged Colorado's total venture capital awards in 2006 at $464.4 million, representing a 31% decline from 2005. Fifty-five Colorado companies received venture capital funding in 2006. The discrepancies between the two studies can be partly explained by different tracking methodologies. Total venture capital funding across the country increased 8% in 2006 to $25.8 billion.
- Colorado has the third-highest rate of homelessness in the nation, based on results from a National Alliance to End Homelessness report that used January 2005 data. Of the more than 744,000 people that were homeless in the U.S. in January 2005, 21,730 were living in Colorado which produced a homelessness rate of 0.47% for Colorado. Only Rhode Island and California had higher per capita homelessness rates than Colorado. Local advocates say the results are inaccurate though because Colorado's homeless population estimates were not based on actual counts in 2005 as they are now. John Parvensky of the Colorado Coalition for the Homeless estimates a winter count of the state's homeless population at about 15,000, giving Colorado a 0.32% rate of homelessness, which would be the 13th in the U.S.
- Colorado had the 16th highest rate of inbound shipments in United Van Lines 2006 Migration Study at 54.7%. The study is based on the 227,254 interstate household moves between the 48 contiguous states (including Washington DC) handled by United. The number of inbound moves to Colorado increased 1.2% in 2006, marking the fourth consecutive year the state has reported more inbound moves than outbound moves. Colorado is considered a "balanced" state but came in just under the 55% minimum of a "high inbound" state. On a regional scale, the west, southwest, and south regions of the country have the strongest inbound rates and the central northeast has the strongest outbound rate. North Carolina has the highest inbound rate while Michigan and North Dakota are tied for the highest outbound rate.

General Economic Overview

The national economy expanded 3.5% in the fourth quarter of 2006, according to advance estimates from the U.S. Bureau of Economic Analysis. The fourth quarter pace was improved over the 2.0% expansion in real gross domestic product (GDP) posted in the third quarter. The acceleration in the final quarter of the year is attributed to slower imports of goods, stronger exports of services, strengthened consumer spending, and increased government spending at the federal, state, and local levels. GDP growth was somewhat tempered in the fourth quarter by an 11% decline in private investment. On an annual basis, the U.S. saw a 3.4% increase in GDP in 2006 compared to a 3.2% increase in the year prior. Gains in inventory investment, exports, nonresidential structures, and state and local government spending offset the downturn in residential investment in 2006.

Tom Hoenig, president of the Federal Reserve Bank of Kansas City, forecasts a more than 3.0% increase in GDP in 2007. According to Hoenig, the recent ease in inflationary pressures, mainly due to lower energy prices, is conducive to continued economic expansion but the nation's tight labor market and cooling housing market present two combatants to economic growth.

The Federal Open Market Committee (FOMC) of the Federal Reserve left the target for the federal funds rate unchanged at 5.25% in January. The FOMC has left the target unchanged since its August 2006 meeting. The

Committee regards recent economic indicators to be signs of firm economic growth and potential stabilization in the housing market. Core inflation readings have moderated recently, easing inflationary pressures; however, continued high resource utilization may apply upward inflationary pressure in the coming year. Overall, moderate economic expansion throughout 2007 is likely. The FOMC will re-evaluate such inflationary pressures at the next meeting on March 20, 2007.

The following indexes generally indicate slow economic growth trends for the nation, state, and Metro Denver:

- The Conference Board's Index of Leading Economic Indicators increased 0.3% in December, following a revised flat reading in November and a modest decline in October. The December improvement suggests stronger economic growth for the U.S. in the coming months. The December index increased to 138 from a revised 137.6 in November. Six of the ten indicators contributed to the December increase, including building permits, average weekly claims for unemployment insurance, real money supply, stock prices, vendor performance, and manufacturer's new orders for nondefense capital goods. The coincident index, which measures current economic activity, also increased in December, rising 0.2% to 123.3.
- The nation's manufacturing sector contracted in January following a December expansion. Previously, the sector also contracted in November 2006 for the first time in 41 consecutive months, according to the Institute for Supply Management's Purchasing Managers Index (PMI). The Index decreased 2.1% from 51.4 in December to 49.3 in January, confirming the sector is losing momentum. Seven manufacturing industries experienced growth in January, led by apparel, leather & allied products, and petroleum and coal products. On the bright side, the nation's overall economy expanded for the 63rd consecutive month in January. A reading greater than 50.0 suggests economic expansion whereas a reading below 50.0 suggests economic contraction.
- The local manufacturing industry expanded in December but a slower rate than in November, according to the Denver Manufacturing Purchasing Managers Index, which is compiled by the College of Business at the University of Colorado at Denver. The index decreased from 59.0 in November to 51.6 in December, suggesting advancing economic conditions for the local manufacturing economy but at a more modest rate. Similar to the national index, a reading above 50.0 indicates economic expansion.
- The national service economy expanded for the 46th consecutive month in January and at a faster pace than exhibited in December. The Institute for Supply Management's Non-Manufacturing Index increased from 56.7 in December to 59.0 in January with seven of 17 non-manufacturing industries reporting heightened economic activity, seven reporting decreased activity, and three reporting no change in activity levels. Utilities; transportation and warehousing; and professional, scientific and technical services posted the strongest gains in January.
- Metro Denver's non-manufacturing or service-economy continued to contract in December, despite an increase in the non-manufacturing index from 42.7 in November to 44.7 in December. The non-manufacturing index is compiled by the College of Business at the University of Colorado at Denver. Similar to the national manufacturing and service-economy indexes, a reading below 50.0 suggests economic contraction.
- The Creighton University Business Conditions Index for the Mountain States region rebounded in January, reversing a five-month trend of declining values. The index increased from 72.8 in December to 73.8 in January, suggesting a more robust economic expansion ahead for the Colorado-Wyoming-Utah region. The January results reflected cooling inflationary pressure and brisk regional job growth. The individual Colorado index surged in January, rising from 50.4 in December to 69.8 in January. A reading greater than 50.0 indicates expansionary conditions.
- Economic conditions for Colorado's small businesses declined in December, according to Vectra Bank's Colorado Small Business Index. The index decreased from a revised 100.5 in November to 99.0 in December as the state's unemployment rate decreased. A declining unemployment rate is said to negatively impact small businesses because labor can be more difficult to obtain. Meanwhile, small business conditions strengthened at

the national level, increasing from a revised 85.8 in November to 87.6 in December. Both indexes use a baseline value of 100.0 in 1997.

- Colorado business leaders expect modest economic growth in the first quarter of 2007, according to the latest results of the Colorado Business Leaders Confidence Index. After decreasing for three consecutive quarters, the index increased from 49.9 in the fourth quarter of 2006 to 53.5 in the first quarter of 2007. The survey results also reveal that Colorado business leaders have had more confidence in the economic performance of Colorado than the nation for seven consecutive quarters. The forward-looking index is comprised of six component indexes, five of which reported improvements from the fourth quarter to first quarter. An increase above the 50.0 mark suggests the economy is in expansion mode.
- After staying at 101.1 for six consecutive months, the Metro Denver Leading Index declined to 101.0 in October, suggesting slower growth for the Metro Denver economy over the next six to nine months. While one monthly decline certainly does not make a trend, it confirms that the pace of economic activity is slowing. The October month-to-month decline is the first of its kind in a year. Five of the seven Leading Index components moved in a positive direction in October. The Historic index, which measures year-over-year growth, slipped 0.1% in October from 130.3 in September, falling to 130.2. Compared to last year, the Historic Index is up 1.2%. The recent downward trend from the 2006 high of 103.7 in May suggests that the economic growth path in Metro Denver has shifted to a slower growth pattern than exhibited in the first half of the year. Both of the Historic Index's two components moved in a positive direction in October. The 100 level represents the benchmark year of 1995 for both indices, which are compiled by Development Research Partners.

Labor and Employment

Employment in Metro Denver increased by 6,600 positions from November to December, bringing total employment in Metro Denver to 1,396,600 jobs by year end. Total employment in Metro Denver increased 1.8% in 2006 compared to a 1.4% gain at the national level. A closer look reveals employment increased 1.9% in the Denver-Aurora MSA and 1.5% in the Boulder-Longmont MSA, according to preliminary data released by the Colorado Department of Labor and Employment. Ten of the 11 major industry groups reported increased employment levels from 2005 to 2006. The most active sectors for job growth in 2006 were the Natural Resources & Construction (+4.3%); Transportation, Warehousing & Utilities (+3.6%); and Professional & Business Services (+3.0%) sectors in percentage change terms. The strongest absolute gains occurred in the Professional & Business Services (+6,700 jobs); Natural Resources & Construction (+4,100 jobs); and Leisure & Hospitality (+3,200 jobs) sectors. The Information sector, which includes telecommunications, is the only sector to report jobs losses from 2005 to 2006. Information sector employment finished the year down 2.1% for an annual loss of 1,200 jobs, albeit the smallest annual loss since losses began in 2001.

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

	Month of Dec-06 (p)	Month of Nov-06	Month of Dec-05	Year-to-Date Average 2006	Year-to-Date Average 2005	Year-to-Date Average % Change	Annual Growth Rate 2001	Annual Growth Rate 1996
Total 11-County Metro Denver*	1,396.6	1,390.0	1,375.2	1,375.7	1,350.7	1.8%	0.0%	3.1%
Denver-Aurora MSA	1,228.8	1,223.6	1,211.5	1,212.8	1,190.1	1.9%	-0.2%	3.2%
Boulder-Longmont MSA	167.8	166.4	163.7	162.9	160.6	1.5%	1.5%	2.7%
Natural Resources & Construction	98.9	100.6	98.5	100.9	96.8	4.3%	2.0%	5.5%
Manufacturing	92.8	92.5	92.0	92.0	91.3	0.7%	-5.8%	2.0%
Wholesale & Retail Trade	219.8	215.6	218.7	210.7	208.5	1.0%	-0.4%	2.9%
Transp., Warehousing & Utilities	55.8	55.5	52.9	53.0	51.1	3.6%	2.3%	5.4%
Information	55.8	55.8	55.9	55.9	57.1	-2.1%	-3.3%	5.1%
Financial Activities	109.0	108.2	108.3	108.3	106.8	1.4%	-0.3%	5.5%
Professional & Business Services	229.1	227.7	223.7	226.7	220.0	3.0%	-1.4%	3.6%
Education & Health Services	141.7	141.5	139.7	140.2	137.5	2.0%	4.1%	3.5%
Leisure & Hospitality	141.1	140.4	136.9	140.9	137.7	2.3%	1.0%	1.2%
Other Services	51.0	50.6	50.3	50.7	50.4	0.6%	-0.2%	5.1%
Government	201.6	201.6	198.3	196.6	193.6	1.5%	2.5%	0.8%
Federal Gov't	31.8	31.2	32.0	31.3	31.4	-0.1%	-3.3%	-5.2%
State & Local Gov't	169.8	170.4	166.3	165.2	162.2	1.9%	3.8%	2.5%
Colorado	2,313.1	2,293.6	2,269.6	2,272.1	2,225.5	2.1%	0.6%	3.6%
United States	136,935	137,141	135,041	135,371	133,463	1.4%	0.0%	2.1%

**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

The following sections summarize recent activity within Metro Denver's key industry clusters:

Aerospace: Longmont-based DigitalGlobe announced its acquisition of California-based GlobeXplorer, a satellite and aerial-imagery integration and publishing company that employs about 70 workers in Walnut Creek, CA. The acquisition adds Walnut Creek, California, and Phoenix offices to DigitalGlobe's existing network. The acquisition does not involve employee relocation or layoffs at this time.

Aviation: Frontier Airlines is in expansion mode. The Denver-based carrier struck a deal with Indianapolis-based Republic Airlines for regional jet service. Republic Airlines will fly 17 Embraer 170 jets on behalf of Frontier, replacing Alaska Air Group's service. Frontier Airlines will control the ticketing, routing, and scheduling of the 76-seat Bombardier planes, which will begin service in March. The contract lasts for a minimum of 11 years starting in December 2008 when all 17 jets are delivered for service. Republic Airlines will hire more than 200 flight attendants to accommodate the Frontier Airlines deal. The airline held job fairs in Denver in January but requires that all new-hires relocate at least initially to one of its 12 existing crew bases around the country. The Republic Airlines deal follows Frontier's purchase of 10 turboprop planes that will be used to shuttle customers throughout the Rocky Mountain region to Denver International Airport (DIA). Lynx Aviation, a new subsidiary of Frontier Airlines, will operate the turboprop planes.

Frontier Airlines also plans to boost its mainline service by 12.7% in its next fiscal year starting in April 2007, down slightly from the 14.6% growth target in fiscal year 2006. Still, Frontier's double-digit target in 2007 comes amid steep competition at DIA from Southwest Airlines and United Airlines and is among the most aggressive growth targets of major airlines. Most of Frontier's growth will focus on Canada and Mexico.

Both Frontier Airlines and United Airlines were negatively impacted by the severe weather in Denver towards the end of 2006. Frontier Airlines reported a $14.4 million loss in its third fiscal quarter ended December, or about a 39-cent loss per share. Frontier Airlines was forced to cancel 875 flights that affected 105,000 passengers. Without the snowstorms, Frontier Airlines would have reported a 14-cent loss per share. United Airlines cancelled 3,900 flights due to the Denver snowstorms of which 2,000 were cancelled at DIA. The weather decreased the Chicago-based airline's revenue by $40 million.

Bioscience: More than 1.2 million people work in the biotechnology industry, according to data from the U.S. Bureau of Labor Statistics and analysis from Angelou Economics. Included in the 1.2 million is research, testing, and medical laboratories; medical devices and equipment; drugs and pharmaceuticals; and agricultural feedstock and chemicals employment. The research, testing, and medical laboratories and drugs and pharmaceuticals are the fastest-growing sub-sectors and collectively account for 60% of total biotechnology employment in the U.S. The Milken Institute pegs annual employment growth in the biotechnology sector at 1.6% through 2014, faster than the 1.4% annual growth estimated at an all-industry level. The average biotechnology wages is $66,000 in the U.S., 65% higher than the all-industry average wage.

The bioscience industry is known for its tedious, risky, and time-consuming process required to bring a technology to market, but three Metro Denver companies are poised for a breakthrough year in 2007. Accera in Broomfield produces Ketasyn, a drug that improves the memory of patients with mild-to-moderate Alzheimer's disease. The 10-person company had proved Ketasyn is market successful in dogs and is looking to partner with a larger pharmaceutical company to carry Accera through the final clinical trials. Since its inception, Accera has raised $14 million but once the drug is approved, the worldwide market is between $18 billion and $20 billion. Valleylab in Boulder employs about 1,300 people in Colorado and is a medical device firm. Last year, Valleylab introduced Force Triad, a unique electrosurgery tool that allows surgeons to cut skin, bone, and structured vessels in place of knives or scalpels. The company has sold 1,000 machines so far and with $13 million recently handed down from parent company Tyco, the company expects development and sales to grow. The Boulder-based company is hiring 40 corporate staff and adding a sixth building to their campus. Finally, Taligen Therapeutics is working to stop inflammation with applications in asthma, rheumatoid arthritis, and macular degeneration that present a worldwide market of between $35 million and $60 million. Taligen is based at Fitzsimons in Aurora.

Energy: Unlike most of the merger and acquisition deals of 2006 in which Metro Denver lost energy-company headquarters, Denver-based Forest Oil Corp. will buy Houston Exploration Co. for $1.5 billion in cash and stock. The move makes Forest Oil one of the nation's largest independent energy companies, boosts its production by 65%, and adds 3,200 drilling sites to the company's assets. Forest Oil Corp. employs about 500 workers and Houston Exploration Co. employs about 170 workers. Mergers and acquisitions remain active in the energy sector. In 2006, a record $689.4 billion in transactions were recorded nationwide, a 42% increase over 2005 transactions.

The Colorado Oil & Gas Conservation Commission approved a record 5,904 drilling permits in 2006, a 35% increase over the 4,373 drilling permits approved in 2005 and a 50% increase over the 2,917 permits approved in 2004. Prior to 2004, drilling permits were relatively flat from year to year since 2,378 permits were issued in 1981. Higher prices for oil and gas as well as the opening of federal lands in the Rocky Mountains for energy exploration and production were two driving factors in the recent surge in permits.

On the renewables side, a site in northern Colorado near Windsor is being considered for a wind farm by Denmark-based Vestas Wind Systems. The Vestas deal could create in excess of 400 jobs at a 180,000-square-foot plant in the Great Western Industrial Park. Vestas currently supplies about 35% of the world's wind turbines and employs 12,000 workers.

Information Technology: Brocade Communications Systems of San Jose, CA will slash 270 local jobs in the first half of 2007 as part of its $973 million acquisition of Broomfield-based McData Corp. Local job cuts will target the sales, marketing, field support, and administrative occupations. Despite layoffs, company representatives say the Brocade office in Metro Denver will have a strong engineering, information technology, finance, operations, and support presence. Brocade's current workforce includes about 2,400 employees. The merger is expected to create about $100 million annually in "synergies" through job cuts and other savings as well as a more competitive company that is better suited to take on competitors such as Cisco Systems Inc.

Hyperion Solutions Corp. of Santa Clara, CA will purchase Denver-based Decisioneering for an undisclosed price. Decisioneering employs 70 workers between its offices in Denver and Europe and produces a business risk-analysis software product called Crystal Ball. Hyperion is a leader in business performance management software and employs 2,700 workers companywide. No layoffs are expected for the Denver employees.

In other employment news, Albertsons will close nine underperforming stores along the Front Range, six of which are located in Metro Denver. The nine closures will result in about 750 job cuts and are the second wave of closures since the summer of 2006. On the bright side, Staples Inc. is opening a fulfillment center in Brighton near Interstate-76 that may create 100 to 150 jobs. The center will serve the company's delivery business as well as process online and catalog orders.

The hiring pace in Metro Denver will strengthen in the first three months of 2007, according to the latest Manpower Employment Outlook Survey. An estimated 42% of Denver area employers will hire workers in the first quarter of 2007, up from 33% in the fourth quarter of 2006 and 30% in the first quarter of 2006. About 8% of Denver area companies are expected to reduce payrolls in the first quarter of 2007, up from 2% in the prior quarter. About 42% of Denver area companies expect no staffing changes. Hiring expectations in the Boulder area are also stronger in the first quarter of the year, but not as robust as in the Denver area. About 27% of Boulder employers plan to hire additional staff in the January-March period, up from 23% in the fourth quarter of 2006. Seven percent of Boulder respondents plan to reduce payrolls in the first quarter, down from 10% in the fourth quarter, and 66% are not planning any staffing changes. First quarter job prospects in the Denver area appear best in wholesale/retail trade, education, services, and public administration. Construction, durable and non-durable goods manufacturing, and finance/insurance/real estate employers reported mixed hiring intentions for the coming quarter. No changes are anticipated in transportation/public utilities.

The Metro Denver employment outlook is more positive than Manpower Inc.'s national outlook, which weakened for the second consecutive quarter. About 23% of the 14,000 employers surveyed nationwide plan to add staff in the first quarter of 2007, down from 28% in the fourth quarter. About 11% plan to reduce staff levels, up from 8% in the fourth quarter, and another 60% are unsure about upcoming staffing changes.

Employment Outlook Survey

	Quarter 1 2007	Quarter 4 2006	Quarter 1 2006	YTD 2007	YTD 2006
Denver Area*					
Percent of Companies Hiring	42%	33%	30%	42%	30%
Percent of Companies Laying Off	8%	2%	4%	8%	4%
Percent of Companies No Change	42%	60%	55%	42%	55%
Boulder County					
Percent of Companies Hiring	27%	23%	27%	27%	27%
Percent of Companies Laying Off	7%	10%	10%	7%	10%
Percent of Companies No Change	66%	67%	56%	66%	56%

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

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The Metro Denver unemployment rate was unchanged in December at 4.0%. The November and December rates are at the lowest level in more than five year. Metro Denver's average unemployment rate in 2006 registered 4.5% compared to 5.1% in 2005. All seven Metro Denver counties reported unemployment rate declines from 2005 to 2006. Labor market conditions in 2006 were the strongest in Douglas (3.2%), Boulder (3.9%), and Broomfield (4.3%) counties. The City and County of Denver (5.2%) and Adams County (5.1%) reported the highest rates. Arapahoe and Jefferson counties both reported average annual unemployment rates of 4.4% in 2006. The statewide unemployment rate was also unchanged in December at 3.9%. Through December, the average annual Colorado and U.S. unemployment rates stand at 4.4% and 4.6%, respectively.

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

	December 2006 (p)		2006 YTD AVG		2005 YTD AVG		2001	1996
	Total Labor Force	Unemploy-ment Rate	Total Labor Force	Unemploy-ment Rate	Total Labor Force	Unemploy-ment Rate	Ann Avg Unemploy-ment Rate	Ann Avg Unemploy-ment Rate
Metro Denver	1,465.8	4.0%	1,481.5	4.5%	1,442.3	5.1%	3.9%	3.8%
Adams County	209.3	4.6%	208.3	5.1%	202.5	5.8%	4.2%	4.2%
Arapahoe Cnty	307.7	3.8%	306.5	4.4%	297.8	5.0%	3.8%	3.2%
Boulder Cnty	147.9	3.9%	169.5	3.9%	167.6	4.5%	3.5%	3.8%
Broomfield Cnty	24.9	3.7%	24.8	4.3%	24.0	4.7%	3.7%	**
Denver County	315.0	4.6%	313.7	5.2%	305.1	6.0%	4.6%	5.0%
Douglas Cnty	142.1	2.8%	141.1	3.2%	136.8	3.6%	3.1%	2.2%
Jefferson Cnty	318.9	3.8%	317.6	4.4%	308.5	5.0%	3.6%	3.4%
Colorado	2,642.5	3.9%	2,629.5	4.4%	2,547.9	5.0%	3.8%	4.2%
United States	152,571	4.3%	151,428	4.6%	149,320	5.1%	4.7%	5.4%

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

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

The number of first time unemployment insurance claims filed in Metro Denver decreased from 5,638 in November to 4,758 in December. The average number of claims filed in 2006 is down 5.5% from the average number of claims filed in 2005. Statewide claims also decreased from November to December, bringing the annual average of claims filed throughout the year down 11.2% from 2005.

First-Time Unemployment Insurance Claims

	Month of Dec-06	Month of Nov-06	Month of Dec-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Annual Average 2001	Annual Average 1996
Metro Denver	4,758	5,638	5,649	4,676	4,948	-5.5%	6,599	4,573
Colorado	10,505	11,434	12,874	9,665	10,888	-11.2%	13,624	

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

Consumer Sector

Inflation, as measured by changes in the Consumer Price Index (CPI), was elevated during the first half of 2006 but tapered off in the second half of the year as energy prices moderated. Consumer prices advanced at seasonally-adjusted annual rates of 4.3% in the first quarter and 5.1% in the second quarter but slowed to a 0.8% increase in the third quarter and a 0.2% in the fourth quarter of 2006. For the year, consumer prices increased 3.2% in 2006.

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Despite the fastest month-to-month increase in U.S. consumer spending recorded in five months, the holiday shopping season disappointed retailers nationwide. According to a report by the International Council of Shopping Centers, chain store sales in the November-December period increased only 2.8% over the two-month period in 2005. In 2005, the holiday shopping season produced a 3.6% gain over 2004 sales. Prior to the latest data release, analysts had predicted a 5% or more increase in 2006 holiday retail sales. The SpendingPulse survey by MasterCard Advisors revealed a similar trend in holiday retail sales. Retail sales from the day after Thanksgiving to Christmas Eve posted a 3% increase over the same period in 2005, down from a 5.2% increase posted in 2005. The 2006 gain is the slowest annual advance since the survey began in 2003. MasterCard data includes purchases made with either cash, checks, or a MasterCard.

Looking ahead, the National Retail Federation forecasts a 4.8% increase in U.S. retail sales in 2007, the slowest annual advance in five years. Their latest forecast anticipates subdued sales in the first half of the year but accelerated sales in the second half of the year.

According to the latest data available, *retail sales in Metro Denver decreased 10.4% from September to October in a typical seasonal pattern but stand 9.4% above October 2005 retail sales. All seven Metro Denver counties reported decreases from September to October but remain well above 2005 retail sales levels on a year-to-date basis.* Retail sales in the City and County of Denver are up 11.2% through October followed by respective gains of 10.4% and 10.2% in Adams and Arapahoe counties. More modest gains are reported in Douglas, Broomfield, Jefferson, and Boulder counties. Retail sales in the seven-county metro region are up 8.8% through October compared to a 9.3% gain across the state. November retail sales data was not available at the time of this report.

Total Retail Sales ($000s)

	Month of Oct-06	Month of Sep-06	Month of Oct-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Annual Growth 2001	Annual Growth 1996
Total Metro Denver	6,215,382	6,940,629	5,683,527	62,796,623	57,728,758	8.8%	2.9%	7.1%
Adams County	887,045	992,659	799,159	9,443,489	8,553,454	10.4%	3.6%	3.2%
Arapahoe County	1,359,005	1,462,312	1,225,596	13,904,038	12,618,450	10.2%	-0.5%	10.1%
Boulder County	547,651	690,899	514,471	5,769,408	5,558,855	3.8%	1.6%	10.4%
Broomfield County	121,291	132,074	113,069	1,217,634	1,145,361	6.3%		
Denver County	1,889,226	1,971,993	1,679,142	17,493,884	15,728,723	11.2%	1.6%	2.2%
Douglas County	470,237	559,811	432,004	4,889,098	4,558,629	7.2%	16.5%	46.4%
Jefferson County	940,927	1,130,881	920,086	10,079,072	9,565,286	5.4%	2.6%	5.8%
Colorado	10,268,088	11,900,407	9,461,858	106,608,278	97,493,621	9.3%	2.9%	7.2%

Source: Colorado Department of Revenue.

The smaller than expected growth in U.S. retail sales in 2006 was not triggered by a shift in consumer spending to consumer saving. New data from the U.S. Commerce Department reveals the personal savings rate fell to its lowest level in 2006 since the -1.3% savings rate during the Great Depression in 1933. The personal savings rate was -1.0% in 2006, down from -0.4% in 2005. Negative savings rates imply that consumers are spending all of their earnings as well as dipping into their savings accounts.

Consumer confidence levels in the Mountain region were essentially flat from November to December, increasing slightly from a revised 125.7 in November to a preliminary 125.8 in December. Mountain region consumers reported the second most optimistic reading of the nine regions, according to the Conference Board's Consumer Confidence Index. Average confidence levels through year-end were 8.6% ahead of 2005 confidence levels in the Mountain region. The confidence index is comprised of the present situation index and the expectations index. The perception of the current situation improved from a revised 161.4 in November to 165.9 in December, the highest December reading among the nine regions. The future expectations index decreased from a revised 101.9 in November to 99.1 in December, the third highest December reading of the nine regions.

Consumer Confidence Index

	Month of Dec-06 (p)	Month of Nov-06	Month of Dec-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Ann Avg 2001
Mountain	125.8	125.7	114.4	130.7	120.3	8.6%	115.2
United States	109.0	105.3	103.8	105.8	100.3	5.5%	106.6

Source: The Conference Board. (p) =preliminary

National consumer confidence improved in December after sustaining only a modest increase in November. The U.S. consumer confidence index increased from a revised 105.3 in November to 109.0 in December due to improvements in both the present situation index and the future expectations index. Advance estimates for January confidence levels reveal another improvement in overall consumer confidence to 110.3.

Colorado's 26 ski areas saw a 6.74% increase in total skier visits from October 13th to December 31st last year to a record 3.29 million skiers. Destination resorts, including Aspen resorts, Crested Butte Mountain Resort, Steamboat, Telluride, and Durango Mountain, saw the strongest increase of about 12%. According to Boulder-based RRC Associates, the average skier spent $210 per day during the two-and-a-half month period on lift tickets, lodging, and food and drink, which translates into $690 million in direct spending. Based on this data from the early season, Colorado is on track to surpass the entire 2005-2006 record of 12.53 million skiers.

Severe winter weather negatively impacted attendance at the National Western Stock Show in January. Total attendance at the 101st show was down 10% in 2007 to 649,637 people from the record high of 726,972 in 2006. The annual stock show is still the region's largest annual convention.

The tourism market in Metro Denver will likely be strong in 2007 and beyond based on future convention bookings. *Denver was recently selected as the host city for the 2008 Democratic National Convention in August. The Democratic Convention will bring an estimated 35,000 delegates and journalists to the metro region and be the City's largest traditional convention gathering in its history. The Denver Metro Convention and Visitors Bureau estimates the convention will have a $160 million economic impact on the region while Mayor John Hickenlooper has touted an overall economic benefit ranging from $139 million to $206 million. Roughly 17,000 of Metro Denver's 40,000 hotel rooms have been set aside for convention goers, most of which are within walking distance to the Pepsi Center or near light rail stations.* The 2008 convention will be Denver's first national political convention since the 1908 Democratic Convention.

Metro Denver's lodging industry finished 2006 well ahead of 2005 in terms of both occupancy and average room rates. In a typical seasonal pattern, the average occupancy rate decreased from 58.6% in November to 51.3% in December. Through the end of the year, the average hotel occupancy rate in Metro Denver was 3.6% above 2005 occupancy levels. The average room rate also decreased from $103.04 in November to $95.93 in December, but stands 11.5% above 2005 rates on a year-to-date basis. The statewide lodging industry in 2006 was also improved over 2005. The statewide occupancy rate increased 2.5% in 2006 to 62.4% while the average room rate in Colorado increased $8.48 to $113.84.

Metro Denver Hotel Statistics

	Month of Dec-06	Month of Nov-06	Month of Dec-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Annual 2001	Annual 1996
Percent of Hotel Rooms Occupied	51.3%	58.6%	46.6%	66.4%	64.1%	3.6%	62.5%	72.3%
Average Hotel Room Rate	$95.93	$103.04	$84.28	$101.54	$91.10	11.5%	$88.52	$77.58

Source: Rocky Mountain Lodging Report.

In other hospitality news, Sage Hospitality is preparing for the grand opening of The Curtis hotel in Downtown Denver. Sage renovated the Executive Tower Inn at 14th and Curtis Streets into what is being called “one of the funkiest hotels in the country.” The $30 million renovation of the 336-room hotel will be complete in March.

Developers Michael Brenneman and Jeff Selby have arranged for $200 million in financing for the 50-story Four Seasons hotel in Downtown Denver, moving the project one step closer to ground breaking. The hotel will offer 235 hotel rooms and 102 luxury condominiums called the Four Seasons Private Residences.

Finally, plans were announced for a $60 million luxury hotel in Greenwood Village by developer Charlie Biederman. The 15-story, 180-room Renaissance hotel is set to open in time for the Democratic National Convention in August 2008. About 15 condominiums are included in the project and will be priced about $650 per square foot.

Heightened competition at Denver International Airport (DIA) continues to keep air fares low. Data from the U.S. Bureau of Transportation Statistics reveals a 4% decline in DIA airfares from third quarter 2005 to third quarter 2006. Denver was one of only four U.S. cities to see an air fare decline. On average, air fares in the U.S. rose 7.5% from third quarter of 2005 to third quarter 2006.

Passenger traffic at DIA decreased from October to November in a typical seasonal change, but November 2006 traffic was up 9.3% from November 2005 traffic levels. Through the first 11 months of the year, almost 43.9 million travelers passed through the airport, bringing year-to-date passenger traffic up 10.1% from the same period in 2005. November 2006 also marks the 19th consecutive month the airport has set a monthly passenger traffic record. DIA could hit a record of about 48.0 million passengers in 2006, although December traffic projections will likely be below expectations due to Metro Denver’s severe weather in the later half of December. Still, passenger traffic through just the first 11 months of the year exceeded the annual total in 2005 of 43.4 million.

Denver International Airport Passengers

	Month of Nov-06	Month of Oct-06	Month of Nov-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Annual 2001	Annual 1996
Number of Airline Passengers	3,674,866	3,951,615	3,362,441	43,883,829	39,840,840	10.1%	36,092,806	32,296,174

Source: Denver International Airport, Traffic Statistics.

Investor optimism climbed to a three-year high in January, according to the UBS/Gallup Index of Investor Optimism. The Index jumped to 103 in January from 90 in December as investors found themselves less pessimistic about the slowdown in the U.S. residential market. Further, 37% of the survey respondents foresee the Dow Jones industrial average closing at a higher level than its 2006 record close.

In more good news, the nation’s financial markets began 2007 on a positive note with month-end values of the three major stock indexes showing gains from December 2006 to January 2007. The S&P 500, NASDAQ, and DOW also reported gains over their January 2006 positions, including a 15.3% increase in the DOW, 11.6% increase in the S&P 500, and a 6.2% increase in the NASDAQ.

The Colorado stock index, a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state, also increased from December to January and posted a 10.4% gain over the January 2006 index. The companies reporting the largest stock price percentage gains from December to January included Sun Microsystems (+22.5%), Crown Media Holdings (+12.4%), and Mesa Laboratories (+12.2%). On the other hand, companies reporting the largest losses in January included Katy Industries (-8.6%), Rocky Mountain Chocolate Factory (-8.5%), and Gaiam (-7.3%).

Stock Market Indexes

	Month of Jan-07	Month of Dec-06	Month of Jan-06	YTD Return 2007	YTD Return 2006	YTD Return 2005
Colorado	1,956.5	1,876.6	1,772.9	4.3%	-0.1%	-0.1%
S&P 500	1,428.8	1,418.3	1,280.1	0.7%	2.5%	-2.5%
NASDAQ	2,448.6	2,415.3	2,305.8	1.4%	4.6%	-5.2%
DOW	12,523.3	12,463.2	10,864.9	0.5%	1.4%	-2.7%

Sources: Development Research Partners; Yahoo! Finance.

Residential Real Estate

Existing homes sales declined by a larger than expected 0.8% in December, according to the National Association of Realtors (NAR). Total existing home sales in 2006 were down 8.4% to 6.48 million units, the biggest annual decline in 17 years when total homes sales fell 14.8%. New home sales also declined in 2006 by the largest amount in 16 years. New home data from the U.S. Commerce Department indicates new home sales were down 17.3% in 2006 at 1.06 million units despite a 7.4% increase in November and a 4.8% increase in December.

Similar to the nation, sales of existing homes in Metro Denver lost strength in 2006. Total home sales declined 5.4% in 2006 to 50,244 sales, still the third-highest annual sales level on record. Both single-family detached and condominium sales declined in 2006 for the second consecutive year, finishing 2006 at 39,208 single-family detached home sales and 11,036 condominium sales. Slower home sales in 2006 translated into higher unsold inventory levels in 2006. Average unsold inventory levels increased to a record 28,789 homes on the market in 2006 from 24,534 homes on the market in 2005. The total value of properties sold in 2006 slipped from $14.9 billion in 2005 to $14.5 billion, a 2.8% decline.

Resale home price appreciation was positive for the single-family category in 2006 in Metro Denver. The average sales price in the single-family category increased from $310,562 in November to $321,524 in December, bringing the average annual sales price in 2006 to $317,112. Compared to 2005, the average annual sales price in Metro Denver was up 3.1% in 2006. The median sales price also increased in December, rising from $240,000 in November to $247,500 in December. On an annual basis, the median sales price in the single-family category was up a modest 1.2% over 2005. Condominium home price appreciation was negative or flat in 2006. The average sales price for condominiums in Metro Denver decreased from $195,747 in November to $180,084 in December, bringing the average annual price down 0.2% in 2006. The median sales price for condominiums also decreased from $155,750 in November to $150,000 in December, bringing the annual median price down 1.9% from 2005.

Home Sales Activity

	Month of Dec-06	Month of Nov-06	Month of Dec-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Ann Avg 2001	Ann Avg 1996
Home Sales (Under Contract)	3,328	4,139	3,404	61,736	65,256	-5.4%	32,248	33,406
Home Sales (Closed)	3,104	3,565	3,713	50,244	53,106	-5.4%	47,832	37,755
Unsold Homes on Market	24,534	27,530	23,092	24,534	23,092	6.2%	15,892	12,315
Average Sales Price-Single Family	$321,524	$310,562	$306,233	$317,112	$307,529	3.1%	$257,394	$159,132
Average Sales Price-Condo	$180,084	$195,747	$184,758	$188,745	$189,035	-0.2%	$160,342	$94,596
Median Sales Price-Single Family	$247,500	$240,000	$246,400	$249,900	$247,000	1.2%	$213,950	
Median Sales Price-Condo	$150,000	$155,750	$156,200	$157,000	$160,000	-1.9%	$141,000	

Sources: MetroList, Inc.

Note: The 2005 data has been revised to reflect a geographic definition change that extends beyond the seven-county Metro Denver region to the entire area covered by MetroList, Inc. The 2005 data now includes Elbert, Park, Gilpin, and Clear Creek counties as well as portions of the Loveland area.

According to a separate data series from the NAR, the median price for a previously-owned home in the Denver-Aurora MSA fell to $253,200 during the third quarter of 2006, the 39th highest price out of 150 metropolitan areas. The median home price of $366,800 in the Boulder-Longmont MSA was the 19th highest in the nation in the July-September period. The median home price slipped 0.1% from third quarter 2005 to third quarter 2006 in the Denver-Aurora MSA, earning the region the 104th fastest appreciation rate. The Boulder-Longmont MSA saw a 2.6% year-over-year increase, which was the 72nd fastest appreciation rate. Median single-family home prices across the U.S. declined 1.2% during the same period, dropping to $224,900. Forty-six metropolitan regions reported zero or negative appreciation in the single-family category over the period, including a 10.5% decline in the Detroit area. On the other hand, 21 metropolitan areas tracked double-digit gains, including Salem, OR which reported the strongest rate of 24.7%. Elmira, NY; Salt Lake City, UT; Virginia Beach-Norfolk, NC-VA; and Gainesville, FL rounded out the areas with the top five appreciation rates.

Median Home Price ($000s)

	Quarter 3 2006 (p)	Quarter 2 2006	Quarter 3 2005	YTD Average 2006	YTD Average 2005	YTD Average % Change	Median 2001	Median 1996
Boulder-Longmont MSA	$366.8	$373.2	$357.5	$366.8	$347.0	5.7%	n/a	n/a
Denver-Aurora MSA	$253.2	$255.2	$253.5	$250.9	$246.0	2.0%	$218.3	$133.4
United States	$224.9	$227.1	$227.6	$223.3	$214.9	3.9%	$156.6	$122.6

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

The total number of opened foreclosure cases in Metro Denver in 2006 surpassed the previous record high of 17,122 foreclosures in 1988. Total foreclosure cases hit 19,348 in 2006, a 34.9% increase over total cases opened in 2005. However, it is important to note that some of these foreclosure cases may have been cured or withdrawn throughout the year. Data is not yet available for 2006, but the Colorado Division of Housing estimates that about 32% of total foreclosure cases in 2005 along the Front Range were either cured or withdrawn. It is also important to note that the total number of foreclosures as a percent of the number of homes in 2006 is down from 1988. Development Research Partners estimates that approximately 2.1% of total housing units in the metro area were in foreclosure in 1988 compared to 1.7% in 2006. The City and County of Denver led the seven-county region in foreclosures in 2006 with 5,115 opened cases, or more than a quarter of Metro Denver's total foreclosures. Arapahoe and Adams counties followed close behind with 4,719 and 4,330 foreclosure cases, respectively. In percentage terms, the sharpest increases in opened cases occurred in the City and County of Broomfield (+53.9%), the City and County of Denver (+37.8%), and Jefferson County (+40.1%). Boulder County (+27.6%), Arapahoe County (+31.1%), and Adams County (+32.0%) reported the smallest gains in 2006.

Real Estate Foreclosures

	Month of Dec-06	Month of Nov-06	Month of Dec-05	YTD Total 2006	YTD Total 2005	YTD Total % Change
Total Metro Denver*	1,630	1,712	1,261	19,348	14,339	34.9%
Adams County	344	448	275	4,330	3,281	32.0%
Arapahoe County	357	381	380	4,719	3,600	31.1%
Boulder County	61	67	46	790	619	27.6%
Broomfield County	21	23	13	197	128	53.9%
Denver County	428	444	303	5,115	3,713	37.8%
Douglas County	173	108	56	1,226	878	39.6%
Jefferson County	246	241	188	2,971	2,120	40.1%

**Foreclosure data for Metro Denver represents the total number of election and demand setups received by the county public trustee in the month received. The foreclosure data above includes a portion of homes that are withdrawn so that not all of the foreclosures are real-estate owned properties.*
Source: CB Richard Ellis.

New home construction activity in Metro Denver increased slightly in November from October, based on the number of residential building permits issued in the seven-county region. The total number of single-family and multi-family permits increased from 944 in October to 957 in November, bringing year-to-date permits down 14.2% from the same eleven-month period last year. Single-family detached home construction is down 29.4% from 2005 while single-family attached or two-family construction activity is up 14.7%. Multi-family construction activity is also up through November compared to the minimal construction activity that occurred in 2005. Multi-family permits were issued in only Arvada, Boulder, and Denver in November. Aurora (1,833), Denver (1,317), and Castle Rock (907) have issued the most permits for single-family detached construction so far this year while Denver (1,637), unincorporated Douglas County (533), and Aurora (376) have issued the most single-family attached permits. Arvada (324), Lakewood (307), unincorporated Douglas County (270), Denver (256), Boulder (77), and Lafayette (60) are the only communities with any multi-family construction through November 2006.

Residential Building Permits

	Month of Nov-06	Month of Oct-06	Month of Nov-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Total 2001	Total 1996
Single-Family Units	587	616	1,145	10,264	14,542	-29.4%	14,262	13,182
Two-Family Units	217	328	566	4,922	4,291	14.7%	4,442	2,093
Multi-Family Units	153	0	0	1,294	384	237.0%	9,090	3,666
Total Units	957	944	1,711	16,480	19,217	-14.2%	27,794	18,941

Source: Home Builders Association of Metro Denver.

The rental market in Metro Denver continued to benefit from the region's high foreclosure activity and rising mortgage rates. The apartment vacancy rate in Metro Denver increased slightly from third quarter to fourth quarter but the fourth quarter 2006 vacancy rate of 7.0% stands well below the 7.9% vacancy rate reported a year earlier. For the year, the average vacancy rate in the seven-county region declined from 8.2% in 2005 to 7.0% in 2006. The last time the annual vacancy rate was lower than 7.0% was in 2001 when the metro region posted a 6.4% rate, and in the last five years about 25,000 rental units have been added to the market. The average monthly apartment rent also decreased from third quarter to fourth quarter but the fourth quarter 2006 rate stands about even with the fourth quarter 2005 rate. On an annual basis, the average apartment rental rate was 1.2% higher in 2006 than in 2005.

Apartment Statistics

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	YTD Average 2006	YTD Average 2005	YTD Average % Change	Annual Average 2001	Annual Average 1996
Apartment Vacancy Rate	7.0%	6.7%	7.9%	7.0%	8.2%		6.4%	5.0%
Average Monthly Rental Rate (all units)	$850	$866	$848	$849	$839	1.2%	$822	$607

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

Steady demand for office space in the Metro Denver market led to higher lease rates and lower vacancy rates in 2006. The office market in Metro Denver completed its 11th quarter of positive absorption in the fourth quarter of 2006, according to CB Richard Ellis. Metro Denver ended 2006 with an overall vacancy rate of 13.7%, down from 14.3% in the third quarter of 2006. The fourth quarter vacancy rate dropped to the lowest rate posted since 2001. The Northwest, South Colorado/Midtown, and Boulder submarkets posted the highest vacancy rates of between 18.7% and 20.0%. On the other hand, the lowest vacancy rates occurred in the Southwest (8.6%), West Hampden/Alameda (9.8%), and Capitol Hill (10.0%) submarkets. *Average asking lease rates climbed to $18.21 per square foot in the October-December period, up from $17.74 per square foot in the third quarter. The West Hampden-Alameda submarket offered the most competitive rate of $12.85 per square foot in the fourth quarter while asking lease rates in the Downtown and Cherry Creek markets ranged from $20.82 per square foot to $22.15 per square foot, respectively.* The outlook for Metro Denver's office market, according to CB Richard Ellis, is that strong demand will continue the trend of rising lease rates and reduced concessions; however, the speed at which developers deliver new product to the market may affect the decreasing vacancy rate trend.

Grubb & Ellis analysts also anticipate lease rate increases in 2007 for the Metro Denver office market due to strong economic fundamentals and continued investment interest. The record investment activity of the last two years will soften slightly as 56% of the Downtown Denver office market has been traded in the last two years and investors typically hold on to their properties for longer than one or two years. Still, the 20% increase in construction costs over the last two years continues to prop up investment activity as opposed to new construction projects.

The Metro Denver office market improved in 2006 according to the latest data from Costar Realty Information, Inc. The direct vacancy rate fell from 13.3% in the fourth quarter of 2005 to 12.6% in the fourth quarter of 2006 even though developers added about 1.55 million square feet of office space to the seven-county region in 2006. The latest fourth quarter direct vacancy rate is the lowest it has been since third quarter 2002. The total vacancy rate, including sublet space, also fell over the same period from 14.8% to 13.7%. Meanwhile, average lease rates increased in Metro Denver, providing further evidence of a strengthening office market. The average lease rate increased from $17.46 per square foot in the fourth quarter of 2005 to $18.54 per square foot in the fourth quarter of 2006, the highest average lease rate reported since fourth quarter 2002.

About 1.33 million square feet of office construction is currently underway in Metro Denver among 53 buildings. Approximately 37.7% of the office square footage under construction is occurring in the City and County of Denver. Construction projects in Jefferson and Douglas counties account for 27.3% and 23.0% of total office construction activity in Metro Denver. The three biggest projects currently underway are the RE/MAX International headquarters in Denver at 250,000 square feet, the Signature Centre at Denver West in Jefferson County at 186,000 square feet, and the Lone Tree Medical Plaza in Douglas County at 71,100 square feet.

Office Market Statistics

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002
Number of Buildings	4,516	4,507	4,473	4,422	4,377	4,332
Existing Square Feet (millions)	150.9	150.5	149.4	148.5	147.2	145.9
Vacant Square Feet (millions)	19.0	18.8	19.9	21.6	21.1	20.1
Vacancy Rate (Direct)	12.6%	12.5%	13.3%	14.5%	14.3%	13.8%
Vacancy Rate (With Sublet)	13.7%	13.6%	14.8%	16.3%	16.7%	16.6%
Average Lease Rate (per square foot)	$18.54	$18.21	$17.46	$17.03	$17.36	$18.95
New Construction Completed (year-to-date)	1.55 MSF, 41 Bldgs	0.96 MSF, 33 Bldgs	0.73 MSF, 42 Bldgs	1.20 MSF, 38 Bldgs	1.24 MSF, 39 Bldgs	2.90 MSF, 82 Bldgs
Currently Under Construction	1.33 MSF, 53 Bldgs	1.77 MSF, 48 Bldgs	1.34 MSF, 38 Bldgs	0.72 MSF, 28 Bldgs	0.82 MSF, 24 Bldgs	1.39 MSF, 33 Bldgs

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

The industrial real estate market in Metro Denver continued to tighten in 2006, according to CB Richard Ellis. Vacancy rates decreased from 7.2% in the third quarter to 7.0% in the fourth quarter of 2006 as 1.1 million square feet of industrial space was absorbed. The Midtown, Southwest, and Central Denver submarkets posted the lowest vacancy rates while the Longmont, Boulder, and Southeast submarkets were on the high end. Average lease rates increased from $5.66 per square foot in the third quarter to $5.73 per square foot in the fourth quarter. The highest asking lease rates occurred in the Longmont and Boulder submarkets compared to the lowest asking lease rates in the North Central, Commerce City, and Airport Montbello submarkets. Construction activity ticked upwards in the final quarter of 2006 but remains well below the robust building activity of the late 1990s.

Metro Denver's industrial market experienced improving fundamentals in 2006, according to Costar Realty Information, Inc. The direct vacancy rate in the industrial category decreased from 7.8% in the fourth quarter of 2005 to 6.9% in the fourth quarter of 2006, representing Metro Denver's lowest direct vacancy rate in more than three years. The overall industrial vacancy rate, which includes sublet space, also declined in 2006, falling from 8.1% in the fourth quarter of 2005 to 7.4% in the fourth quarter of 2006. Average lease rates increased over the same period, rising from $4.70 per square foot to $4.96 per square foot. The fourth quarter 2006 average lease rate is at the highest level since second quarter 2003. About 1.71 million square feet of industrial space in 32 buildings was added to Metro Denver in 2006 and another 2.11 million square feet of space is currently under construction. Construction activity is at the strongest level since 1999. More than half of the industrial space currently under construction is being added in Adams County, including the more than 400,000-square-foot Aurora Commerce Center Building.

In other construction news, Denver-based ProLogis announced it will design and build a 625,000-square-foot distribution center in Aurora for Furniture Row Cos. along with a 360,000-square-foot speculative building nearby. Neither ProLogis nor Furniture Row Cos. released the expected cost of the 625,000-square-foot warehouse but analysts peg the cost at about $25 million. About 80 workers will be hired to staff the new warehouse. ProLogis will own and manage 7.5 million square feet of local space in Metro Denver with the completion of the aforementioned buildings. ProLogis currently boasts a 97% lease rate locally, up from 85% in 2003.

Industrial Market Statistics

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002
Number of Buildings	5,699	5,688	5,667	5,629	5,594	5,553
Existing Square Feet (millions)	202.9	202.4	201.2	199.8	198.0	196.0
Vacant Square Feet (millions)	14.0	14.3	15.6	15.5	14.3	12.2
Vacancy Rate (Direct)	6.9%	7.1%	7.8%	7.8%	7.2%	6.2%
Vacancy Rate (With Sublet)	7.4%	7.5%	8.1%	8.4%	8.1%	7.2%
Average Lease Rate (per square foot, nnn)	$4.96	$4.93	$4.70	$4.59	$4.67	$5.39
New Construction Completed (year-to-date)	1.71 MSF, 32 Bldgs	1.19 MSF, 20 Bldgs	1.30 MSF, 40 Bldgs	1.82 MSF, 34 Bldgs	2.07 MSF, 38 Bldgs	2.77 MSF, 49 Bldgs
Currently Under Construction	2.11 MSF, 28 Bldgs	1.53 MSF, 25 Bldgs	0.86 MSF, 19 Bldgs	0.33 MSF, 14 Bldgs	1.20 MSF, 12 Bldgs	0.87 MSF, 17 Bldgs

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

Unlike the strengthening office and industrial markets, the flex real estate market in Metro Denver is stable. Costar Realty Information, Inc. reported unchanged direct and overall vacancy rates from year-end 2005 to year-end 2006. On the bright side, vacancy rates were unchanged even though 460,000 square feet of flex space was added to the Metro Denver market last year. In addition, the average lease rate improved from $8.40 per square foot in the fourth quarter of 2005 to $8.59 per square foot in the fourth quarter of 2006, the highest lease rate since second quarter 2003. Construction activity in the final quarter of 2006 was at its lowest level since second quarter 2004 with only two buildings under development. Flex space construction is occurring in Denver and Jefferson counties.

Flex Space Statistics

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002
Number of Buildings	1,267	1,266	1,251	1,224	1,213	1,196
Existing Square Feet (millions)	38.1	38.1	37.6	37.2	37.0	36.6
Vacant Square Feet (millions)	5.3	5.2	5.2	5.8	6.3	5.4
Vacancy Rate (Direct)	13.9%	13.7%	13.9%	15.6%	17.1%	14.6%
Vacancy Rate (With Sublet)	14.5%	14.2%	14.5%	16.9%	18.6%	16.5%
Average Lease Rate (per square foot, nnn)	$8.59	$8.47	$8.40	$8.30	$8.05	$8.37
New Construction Completed (year-to-date)	0.46 MSF, 15 Bldgs	0.39 MSF, 13 Bldgs	0.37 MSF, 21 Bldgs	0.12 MSF, 6 Bldgs	0.22 MSF, 10 Bldgs	0.81 MSF, 27 Bldgs
Currently Under Construction	0.09 MSF, 2 Bldgs	0.07 MSF, 2 Bldgs	0.46 MSF, 15 Bldgs	0.37 MSF, 17 Bldgs	0.05 MSF, 1 Bldg	0.25 MSF, 6 Bldgs

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

The Metro Denver retail market saw strong construction activity in 2006 with the completion of several projects including The Southlands and Northfield at Stapleton. CB Richard Ellis describes the retail market growth trend as "manageable," noting the 2.0 million square feet of absorption in 2006. The vacancy rate decreased from 5.7% in the third quarter to 5.4% in the fourth quarter with the Aurora submarket maintaining the highest vacancy rate of 8.2% and the Southeast submarket boasting the lowest vacancy rate of 2.8%. Average asking lease rates jumped by nearly one dollar from third quarter to fourth quarter, rising to $16.62 per square foot in the October-December period. Boulder lease rates were the most expensive in the fourth quarter at $21.83, followed closely by the Colorado Boulevard/Cherry Creek ($20.91) and Southeast ($20.15) submarkets. On the other hand, rates were most competitive in Aurora and the Southwest submarkets of $12.73 and $14.55, respectively.

Grubb & Ellis perceives the market fundamentals to be strong and expects vacancy rates to decline and lease rates to rise in 2007. Construction activity will remain a viable force but soften somewhat from 2005 and 2006 activity levels. Construction will likely remain strongest near emerging residential markets such as the North I-25 corridor and the E-470 markets.

Metro Denver's retail market fundamentals reported mixed results in 2006, according to Costar Realty Information, Inc. The direct vacancy rate increased slightly from 6.1% in the fourth quarter of 2005 to 6.5% in the fourth quarter of 2006, partly due to the 4.99 million square feet of new retail space among 60 buildings that was added to the seven-county region last year. The overall vacancy rate, including sublet space, also increased over the same period, rising from 6.5% to 6.9%. Meanwhile, the average lease rate improved from $15.15 in the fourth quarter of 2005 to $16.63 a year later, the highest average lease rate on record. About 4.71 million square feet of new retail space is currently under construction in Metro Denver of which about 48.2% is located in Adams County. Retail projects in Broomfield account for 15.0% of the total square footage under construction. The remaining new square footage is dispersed among Boulder (9.3%), Arapahoe (8.9%), Jefferson (7.7%), Denver (6.4%), and Douglas (4.5%) counties. Current retail projects include the $225 million, 750,000-square-foot redevelopment in Sheridan called River Point. River Point, the largest development project in the history of Sheridan, will encompass 135 acres and feature such prospective tenants as Target, Costco, J.C. Penney, Regal Cinema, and Circuit City. Englewood-based developer Miller Weingarten broke ground on the project in mid-December.

Retail Market Statistics

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002
Number of Buildings	3,890	3,832	3,789	3,698	3,600	3,483
Existing Square Feet (millions)	129.1	127.3	123.8	117.1	112.2	107.2
Vacant Square Feet (millions)	8.4	8.6	7.5	6.3	5.9	1.5
Vacancy Rate (Direct)	6.5%	6.8%	6.1%	5.4%	5.2%	1.4%
Vacancy Rate (With Sublet)	6.9%	7.2%	6.5%	5.7%	5.4%	1.4%
Average Lease Rate (per square foot)	$16.63	$16.61	$15.15	$15.43	$13.27	$12.67
New Construction Completed (year-to-date)	4.99 MSF, 60 Bldgs	3.47 MSF, 34 Bldgs	N/A	N/A	N/A	N/A
Currently Under Construction	4.71 MSF, 60 Bldgs	4.23 MSF, 62 Bldgs	N/A	N/A	N/A	N/A

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

Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇑	⇑	Employment increased by 6,600 jobs from Nov to Dec; employment up 1.8% in 2006
% Companies Hiring	⇑	⇑	42% of companies expect to add workers in Denver and 27% to add in Boulder in Q1 2007
Unemployment Rate	⇔	⇓	Metro rate unchanged at 4.0% in Dec; annual rate for 2006 at 4.5%
Initial Claims	⇓	⇓	Unemployment claims decreased 15.6% in Dec to 4,758; annual claims down 5.5%
Total Retail Sales	⇓	⇑	Total metro retail sales up 8.8% through Oct 2006; 9.3% YTD increase for Colorado
Consumer Confidence Index	⇑	⇑	Mountain region confidence level up slightly to 125.8 in Dec from 125.7; YTD up 8.6%
Hotel Occupancy	⇓	⇑	Hotel occupancy decreased from 58.6% in Nov to 51.3% in Dec; avg room rate decreased to $96
DIA Passengers	⇓	⇑	Nov traffic down 7.0% from 3.95 million in Oct to 3.67 million in Nov; annual traffic up 10.1%
Colorado Stock Index	⇑	⇑	CO Stock Index increased 4.3% from December to January; index up 10.4% over January 2006
Dow Jones Industrial Average	⇑	⇑	DOW increased 0.5% from Dec to Jan; index posting a 15.3% gain over Jan 2006
Home Sales (closed)	⇓	⇓	Home sales down 12.9% in Dec for a 5.4% decline in 2006; avg SF sales price up 3.1%
Median Home Price (Denver-Aurora MSA)	⇓	⇑	Median home price in Denver MSA decreased to $253,200 in Q3; median price up 2.0% YTD
Foreclosures	⇓	⇑	Foreclosures decreased 4.8% in Dec but increased 34.9% in 2006 over 2005
Residential Building Permits (Total)	⇑	⇓	Total permits increased 1.4% from Oct to Nov; annual permits are down 14.2% through Nov
Apartment Vacancy Rate	⇑	⇓	Vacancy rate increased to 7.0% in Q4 from 6.7% in Q3; avg rental rate down to $850 per month
Office Vacancy Rate (with Sublet)	⇑	⇓	Vacancy rate increased slightly to 13.7% in Q4 from Q3; 1.33 million sq. ft. under construction
Industrial Vacancy Rate (with Sublet)	⇓	⇓	Vacancy rate down slightly to 7.4% in Q4 from Q3; 2.11 million sq. ft. under construction
Flex Space Vacancy Rate (with Sublet)	⇑	⇔	Vacancy rate increased to 14.5% in Q4 from Q3; 90,000 sq. ft. of construction underway
Positive Changes	**9 of 18**	**14 of 18**	

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