MONTHLY ECONOMIC SUMMARY

A Monthly Summary of Economic Conditions

in Metro Denver

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

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MONTHLY ECONOMIC SUMMARY OF METRO DENVER

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

Notable Rankings

- Colorado ranked 12th in the 2006 State Business Tax Climate Index compiled by the Tax Foundation. The index is comprised of five sub-indexes for which Colorado's rank is reported in parenthesis: Business Tax Index (6), Individual Income Tax Index (14), Sales and Gross Receipts Tax Index (26), Unemployment Insurance Tax (21) and Wealth and Property Tax Index (14). Wyoming has the most business-friendly tax system while the New York system is the least-hospitable to business.
- Venture capital funding awarded to Colorado companies increased 48% in 2005 to $661.7 million which accounted for 2.8% of total funding awarded to U.S. companies. The National Association of Seed and Venture Funds also reported that the total number of Colorado deals increased from 68 in 2004 to 75 in 2005. California recipients account for the bulk of venture capital funding, registering 47.1% of the total $21.7 billion in funding awarded last year. Only seven states attract more than a half-billion venture capital dollars: California, Massachusetts, Texas, New Jersey, Washington, Colorado and North Carolina.
- A slightly different venture capital report estimates that Colorado awards totaled $651.8 million in 2005, the most since 2003 but still down from the peak of $3.42 billion in 2000. The report by VentureOne and Ernst & Young ranked Colorado 7th for venture capital funding in 2005.
- Metro Denver ranked 105th in the 2005 edition of the Milken Institute's Best Performing Cities Index, up from 130th in the 2004 edition. Fort Collins ranked 46th, Boulder 92nd and Colorado Springs 71st. All Colorado rankings were improved from the 2004 edition, led by Fort Collins which ranked 133rd in 2004. Three of the top five performing metro areas were located in Florida. The index ranks the 200 largest metro areas in the U.S. based on their ability to create and sustain jobs. Both long-term and short-term measurements of employment and salary growth as well as technology output growth were considered.
- The 2005 Metropoll Study of meeting planners reported that Metro Denver was the 10th best destination overall for conventions in 2005 among the 40 largest U.S. cities. Denver ranked 2nd for low crime rate/safe city, 4th for clean/attractive city, 5th for moderate food and lodging costs and 6th for new or expanded convention center, inexpensive to get to and good local transportation.
- Brighton School District in Adams County reported a 12.9% increase in enrollment for the 2005-2006 school year, the largest percentage gain in the metro area. Douglas County reported a 7.3% enrollment increase followed by a 4.9% increase for the St. Vrain School District. On the other hand, Englewood School District (-3.9%), Mapleton School District (-2.6%) and Littleton School District (-0.7%) reported enrollment declines.

General Economic Overview

According to preliminary estimates, U.S. gross domestic product (GDP) expanded 1.6% in the fourth quarter of 2005, down from 4.1% in the third quarter. The deceleration is attributed to weaker consumer and government spending, acceleration in imports and a slowdown in investment in equipment and software and residential fixed investment. On the other hand, inventory investment and exports grew, according to the U.S. Department of Commerce, Bureau of Economic Analysis.

The National Association of Business Economists (NABE) forecasts GDP will grow 4.5% in the first quarter of 2005, up from a previous forecast of 3.4% growth for the January-March period. For the year, the NABE panel of 53 economists expects GDP growth to register a solid 3.3% in 2006, the same growth expectation reported in the previous forecast. Due to the faster-pace growth, NABE also anticipates the new chairman of Federal Reserve, Ben Bernanke, will raise interest rates at least two more times in 2006. Oil prices at the end of 2006 are forecasted to trade at about $59 a barrel, down from the current price of $63 a barrel. Overall inflation is expected to slow to 2.9% in 2006 and 2.4% in 2007. In 2005, inflation registered 3.4%, the largest increase since 2000. Finally, employment will increase 1.6% in 2006 and 1.3% in 2007, according the February forecast.

The Bush administration released a similar economic forecast for 2005 with GDP growing 3.4% in 2005 and 3.3% in 2007. The White House expects the unemployment rate to fall to about 5% in 2006 and remain at the same level in 2007.

The target for the federal funds rate currently stands at 4.5% after a 25-basis point increase in January, the 14th increase since the FOMC began tightening monetary policy during the summer of 2004. There was no regularly scheduled meeting of the Federal Open Market Committee (FOMC) in February.

The U.S. trade deficit reached a record high of $725.8 billion in 2005 with the deficit to China alone exceeding $201.6 billion. The 2005 deficit was 17.5% higher than the previous record high set in 2004. Soaring oil prices, increased U.S. demand for oil and foreign car imports were contributing factors to the record-high deficit. Global Insight forecasts another record-high deficit in 2006 of $810 billion.

Colorado exports increased 2.0% in 2005 to a record high of $6.78 billion, despite a sharp decline in semiconductors exports. Semiconductor exports fell 33% in 2005 to $763 million. In 2004, semiconductors were the state's largest export category. Now computer and data-storage devices are the state's largest export category. According to data from Massachusetts-based World Institute for Strategic Economic Research and the World Trade Center Denver, Colorado exports would have increased 9% in 2005 if semiconductors were not included. Colorado lagged the nation in export growth which reported a 10.6% increase in U.S. exports last year.

The free-trade agreement with Australia that was implemented in 2005 was a major factor behind the 58.3% increase in Colorado exports to Australia. Exports to Mexico increased 23.2% and Canadian exports grew 8.9%. Declines occurred in exports to Malaysia (-20.5%), South Korea (-19.9%) and France (-10.1%). Colorado's top five trading partners are Canada, Mexico, Japan, China and Germany.

Various indexes reveal positive economic gains at the national, state and metro level and mixed results for Colorado and Metro Denver:

- The Conference Board's Index of Leading Economic Indicators rose 1.1% in January to 140.1, suggesting stronger economic growth for the national economy in the coming months. The index increased only 0.3% in December. The national index gauges future economic conditions based on 10 components, six of which showed improvements in January. The Conference Board's coincident index, which gauges current economic conditions, rose 0.2% in January after increasing 0.2% in the month prior.
- The nation's manufacturing sector grew for the 33rd consecutive month in February, according to the Institute for Supply Management's Purchasing Managers' Index. The index increased from 54.8 in January to 56.7 in February, indicating expansion at a more robust pace. The index, which tracks overall business activity of more than 350 manufacturing

companies located throughout the country, reported the strongest growth in the miscellaneous, apparel and textiles categories. A reading greater than 50 suggests economic expansion whereas a reading below 50 suggests economic contraction.

- The national service economy expanded for the 35th consecutive month in February while both business activity and new orders grew at a faster rate than in January, according to the National Institute for Supply Management's non-manufacturing index. The index increased from 56.8 in January to 60.1 in February. Ten of the 17 service sectors tracked by the organization reported increased activity in February, led by the mining, insurance and communication sectors.
- The Front Range Purchasing Managers Index compiled by the University of Colorado at Denver Business School rebounded in January after a downturn in the local manufacturing sector in December. The index increased to 53.1 in January after registering 46.9 in December. A reading below 50 indicates economic contraction while a reading greater than 50 indicates economic expansion.
- The Colorado service economy index, compiled by the University of Colorado at Denver Business School, was positive in January at 56.8 compared to 55.2 in November. Due to technical difficulties, there was not December index. The index indicates expansionary conditions with values greater than 50 and is a composite of five components: delivery times, inventory levels, new orders, production and employment.
- The Creighton University Business Conditions Index for the Mountain States region increased for the fourth month in a row in February to a record 75.2. The Colorado-Utah-Wyoming region benefited from waning inflationary pressures and warm weather in February. The individual Colorado index also improved from 68.8 in January to 70.0 in February. A reading greater than 50 indicates expansionary conditions.
- The Vectra Bank Small Business Index for Colorado slipped from a revised 104.5 in December to 101.2 in January. The Colorado unemployment rate, the most heavily weighted component, fell from 5.0% to 4.6% at the time this index was calculated. A lower unemployment rate is viewed negatively in that a small business has more difficultly recruiting employees. The national small business index also slipped from a revised 91.6 in December to 89.1 in January.
- The Colorado Business Leaders Confidence Index rebounded in the first of quarter of 2006 after reporting a nine point decline in the fourth quarter of 2005 caused by the Gulf Coast hurricane damage. The forward-looking index, which is comprised of six components, grew from 49.1 in the fourth quarter of 2005 to 60.9 in the first quarter of 2006. The current index reading is on par with the reading of 61.3 from a year ago.
- The Leading Index for Metro Denver stabilized at 100.8 in November, the same reading from October. The stable Leading Index, which is a predictor of changing economic activity six to nine months in advance, signals that economic growth is positive in Metro Denver albeit at a slightly more conservative rate. The Historic Index increased from 128.7 in October to 129.8 in November, due to stronger retail sales and employment gains throughout Metro Denver. The November 2005 index stands 1.6% higher than the November 2004 index, an improvement over the 1.3% growth rate posted the previous month but still the second slowest growth rate achieved in 2005. The Historic Index measures year-over-year growth, so both the direction and magnitude of change are important. The 100 level represents the benchmark year of 1995 for both indexes compiled by Development Research Partners.

Labor and Employment

January employment data and revised 2005 data will be released by the Colorado Department of Labor in mid-March. Pending that release, the same employment data reported in last month's report is repeated here.

Employment growth averaged 1.9% in Metro Denver in 2005, according to preliminary December data from the Colorado Department of Labor & Employment. Employment growth averaged 2.1%

for the state and 1.5% for the U.S. in 2005. Metro Denver employment slowed to an annualized growth rate of 1.6% during the second half of the year from 2.1% reported in the first half of 2005. Still, Metro Denver employment grew at a healthier rate than the nation during each month of 2005. Total nonagricultural employment in Metro Denver reached 1,367,800 workers in December with the addition of 4,700 new positions from November to December. December 2005 employment levels stand 1.3% higher than December 2004 levels which translates into the addition of about 17,500 new positions. The recovery is not yet complete in Metro Denver since employment is still down by 42,500 jobs since peaking in December 2000 at 1,410,300 jobs.

All industry groups are tracking at higher levels compared to last year with the exception of Information, which posted an average annual decline of 3,900 jobs in 2005. Employment gains in 2005 were the greatest in the Professional & Business Services (+6,900 jobs), Education & Health Services (+4,200 jobs), Leisure & Hospitality (+3,800 jobs) and the Natural Resources & Construction (+3,500) sectors.

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

	Month of Dec-05 (p)	Month of Nov-05	Month of Dec-04	Year-to-Date Average 2005	Year-to-Date Average 2004	Year-to-Date Average % Change	Annual Growth Rate 2000	Annual Growth Rate 1995
Total 11-County Metro Denver*	1,367.8	1,363.1	1,350.3	1,349.9	1,325.1	1.9%	4.3%	4.2%
Natural Resources & Construction	96.2	97.4	94.0	96.2	92.8	3.9%	10.7%	3.3%
Manufacturing	91.2	91.2	91.9	91.6	91.0	0.8%	-1.0%	3.8%
Wholesale & Retail Trade	215.3	211.5	212.7	206.7	203.9	1.4%	3.5%	5.0%
Transp., Warehousing & Utilities	53.0	53.2	53.4	52.0	51.5	1.1%	8.6%	3.5%
Information	55.2	55.2	59.7	57.0	60.8	-6.2%	10.1%	8.6%
Financial Activities	109.5	108.7	107.4	108.0	106.1	1.8%	0.3%	2.9%
Professional & Business Services	220.1	219.9	213.9	217.4	210.5	3.3%	7.0%	5.7%
Education & Health Services	139.1	138.8	135.8	137.1	132.9	3.3%	2.9%	4.8%
Leisure & Hospitality	136.9	135.8	133.8	137.6	133.9	2.8%	4.5%	5.8%
Other Services	51.1	50.8	50.0	50.7	49.6	2.4%	1.0%	3.6%
Government	200.2	200.6	197.7	195.6	192.3	1.7%	2.4%	0.5%
Federal Gov't	32.3	31.2	32.9	31.6	31.9	-0.8%	-0.5%	-6.6%
State & Local Gov't	167.9	169.4	164.8	164.0	160.5	2.2%	3.1%	2.6%
Colorado	2,263.4	2,244.0	2,223.1	2,225.1	2,178.9	2.1%	3.8%	4.5%
United States	135,044	135,316	133,075	133,463	131,435	1.5%	2.2%	2.6%

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

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

Aerospace: Raytheon Co. cut 5% of its workforce or 130 jobs at its Aurora campus in February as a result of program restructuring from an unidentified government customer. The cuts affected all levels of positions. The aerospace and defense company now employs 2,450 workers in Metro Denver.

Aviation: The U.S. Bureau of Transportation Statistics reported that the airline industry lost 27,000 positions in 2005, a 6.3% decrease from 2004 employment levels. Large carriers such as American Airlines and United Airlines accounted for the bulk of the losses. Employment growth at low-cost carriers either slowed or leveled off in 2005. Analysts blame the tempered growth among low-cost carriers on high fuel costs. As of December 2005, airline industry employment totaled 407,000 positions of which 69,000 were employed by low-cost carriers.

United Airlines currently employs 5,244 workers in Metro Denver, down from about 6,000 workers a year ago. Meanwhile, Denver-based Frontier Airlines added 250 workers in 2005. Looking ahead, the outlook is bright for the Metro Denver aviation market. United Airlines will increase Denver departures by 7% or 32 departures by the summer of 2006 and recall furloughed employees nationwide. Frontier Airlines will add 600 positions along with 6 new planes, service to Canada and increased domestic routes. Newcomer Southwest Airlines will add at least two new cities to its Denver market.

Biotechnology: Insmed, a Virginia-based company, plans to hire an additional 35 to 40 workers at its Boulder facility in 2006. New employees will engage in quality assurance, process development and manufacturing. Insmed manufactures drugs that treat endocrine and metabolic disorders. The Food and Drug Administration recently approved Insmed's recombinant protein-based drug that treats growth failure in children.

Energy: The National Renewable Energy Lab (NREL) in Golden, CO, which started in 1977 as a small solar research lab, has grown into a 327-acre research campus with 930 employees and 170 contractors. Current programs at the lab include solar energy, wind power, biomass energy, hydrogen and fuel cells, hybrid vehicles and geothermal energy. Unfortunately, U.S. Department of Energy funding for NREL has declined from $243 million in 2003 to $202 million in 2005 and $174 million in 2006. Recent budgets cuts resulted in 32 layoffs last month which were reinstated one day before President Bush's visit in February.

Denver Mayor John Hickenlooper announced plans for a city-owned solar plant that will produce up to 2 megawatts of power, enough power to supply 2,000 homes. The plant will be built in Northeast Denver and is part of the Denver's Sustainable Development Initiative.

Recent federal regulations and increasing oil prices have incited an investment boom in ethanol plants nationwide. Currently, 42 plants are underway in the U.S. – five of which are located in Colorado. Colorado is already home to the Coors ethanol plant in Golden and the Sterling Ethanol plant in Sterling which produce a combined 51.5 million gallons per year. The Coors plant expects to double its production from 1.5 million gallons to 3 million gallons in the near future. Future plants include: Front Range Energy in Windsor, Great Western in Evans, Panda Energy in Yuma County, Sterling Ethanol in Yuma County and Sun Energy in Walsh. The 2005 Energy Policy Act requires the U.S. to use 7.5 billion gallons a year of renewable fuels like ethanol by 2012. Current usage is 4.3 billion gallons.

Information Technology - Software: Oracle Corp. will cut 2,000 jobs nationwide and the Denver office will likely be affected. The extent of the Denver job losses is not known at this time. The world's third-largest software company employs about 1,400 workers between Oracle's Denver and Colorado Springs offices. Total employment after the job cuts will be 55,000 workers world-wide. In other news, Oracle's acquisition of Siebel Systems Inc. for $5.8 billion was completed in late January. Current plans call for the retention of 90% of Siebel's product-development, support and sales personnel.

According to a survey by Robert Half Technology of chief information officers at high-tech companies, the Mountain States region has the hottest tech job market in the nation with 24% of chief information officers planning to add staff in the first quarter of 2006 and only 2% planning reductions. The Mountain States region includes Colorado, Arizona, Wyoming, Idaho, Montana, New Mexico, Nevada and Utah. The survey results also indicated 15% of Denver respondents plan to hire additional workers in the first quarter of 2006 while 3% plan to decrease payrolls. Mark Zandi of Economy.com expects 2006 to be the best year for the technology industry since 2000.

The hiring pace in Metro Denver will increase in the first quarter of 2006 while fewer companies plan to reduce staffing levels, according to the latest Manpower Employment Outlook Survey. About 30% of the companies interviewed plan to hire more employees in the first quarter, up from

23% in the fourth quarter of 2005. Only 4% of the respondents plan to reduce their payrolls during the January-March period, down from 18% in the fourth quarter of 2005. Another 55% of respondents are expected to maintain current staffing patterns in the coming quarter. Job prospects in Metro Denver appear best in construction, non-durable goods manufacturing, transportation/public utilities, wholesale/retail trade and services and public administration. Mixed intentions were reported by employers in finance/insurance/real estate. No change is expected in durable goods manufacturing and education.

The national employment outlook for first quarter 2006 is slightly weaker than in Metro Denver. About 23% of companies plan to increase payrolls while 10% of the 16,000 companies interviewed will reduce payrolls. Another 61% of respondents anticipate no change in current staffing patterns and 6% are unsure of their plans.

Employment Outlook Survey

	Quarter 1 2006	Quarter 4 2005	Quarter 1 2005	Year-to-Date Average 2006	Year-to-Date Average 2005
Percent of Companies Hiring	30%	23%	25%	30%	25%
Percent of Companies Laying Off	4%	18%	2%	4%	2%
Percent of Companies No Change	55%	56%	70%	55%	70%

Source: Manpower Inc.

Job cuts at the national level were down 19% in February from the same month last year. The report issued by Chicago-based Challenger, Gray & Christmas suggests a strengthening labor market with 87,437 job cuts in February 2005 compared to 108,387 job cuts in February 2004.

January and revised 2005 labor force data will be released by the Colorado Department of Labor in mid-March. Pending that release, the same data reported in last month's report is repeated.

The Metro Denver unemployment rate decreased in December to 4.5%, the lowest rate reported since September 2001. Unemployment rates also fell in Colorado and the U.S. in the final month of 2005 to 4.5% and 4.6%, respectively. For the year, the unemployment rate in Metro Denver averaged 5.1%, the same as the national rate and slightly higher than the Colorado rate of 5.0%. The highest average unemployment rates in the seven-county metro region in 2005 were 5.9% in the City & County of Denver and 5.8% in Adams County. The most favorable rates in 2005 were 3.8% reported in Douglas County and 4.4% in Boulder County.

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

	December 2005 (p)		2005 YTD Average		2004 YTD Average		2000	1995
	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	1,440.1	4.5%	1,433.7	5.1%	1,431.0	5.7%	2.5%	3.8%
Adams County	203.2	5.2%	202.4	5.8%	202.4	6.4%	2.7%	4.1%
Arapahoe Cnty	295.6	4.4%	294.9	5.1%	294.4	5.5%	2.4%	3.3%
Boulder Cnty	169.8	3.8%	167.8	4.4%	166.2	4.9%	2.3%	4.1%
Broomfield Cnty*	24.1	4.2%	24.0	4.7%	24.1	5.5%		
Denver County	307.2	5.3%	306.2	5.9%	306.6	6.7%	2.9%	4.8%
Douglas Cnty	129.7	3.3%	129.1	3.8%	128.8	4.2%	2.0%	2.4%
Jefferson Cnty	310.5	4.4%	309.4	4.9%	308.6	5.4%	2.3%	3.2%
Colorado	2,538.6	4.5%	2,543.5	5.0%	2,522.2	5.5%	2.6%	4.2%
United States	149,874	4.6%	149,320	5.1%	147,401	5.5%	4.0%	5.6%

**Broomfield County was formed in November 2001 from parts of Adams, Boulder, Jefferson and Weld counties.*
Source: Colorado Department of Labor and Employment, Labor Market Information. (p) =preliminary

The number of first time unemployment insurance claims filed in Metro Denver increased to 6,048 in January 2006, the highest level since January 2005. The total number of claims filed in January 2006 was 11.4% lower than the number of claims filed in January 2005. At the state level, first time unemployment claims decreased to 12,429 in January 2006, down from 12,874 in December 2005. The total number of claims filed in January 2006 is 15.0% lower than the number of claims filed in January 2005 for the state.

First Time Unemployment Insurance Claims

	Month of Jan-06	Month of Dec-05	Month of Jan-05	Year-to-Date Average 2006	Year-to-Date Average 2005	Year-to-Date Average % Change	Annual Average 2001	Annual Average 1996
Metro Denver	6,048	5,649	6,829	6,048	6,829	-11.4%	6,599	4,573
Colorado	12,429	12,874	14,618	12,429	14,618	-15.0%	13,624	

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

Salaries in 2006 will increase by a moderate 3.7%, the same percentage increase reported in 2005, according to Salary.com's National Salary Budget Survey. About 35% of human resource managers reported larger budgets for salary increases in 2006, 9% reported smaller budgets and 55% reported no change.

Median net worth, the difference between household assets and liabilities, rose a meager 1.5% to $93,100 between 2001 and 2004 across the U.S. Comparatively, median net worth increased 10.3% during the previous study period of 1998-2001. The Federal Reserve report singled out rising mortgage debt as the main reason net worth growth slowed in the most recent study period. In fact, the average amount of housing debt per household increased 27% over the three-year period to $124,100 while the share of households with mortgage debt climbed from 45% in 2001 to 48%. The net worth of the wealthiest 10% of U.S. households increased 4% between 2001 and 2004, however, the net worth of the poorest 20% of U.S. households fell 11%. The report also noted that average family incomes actually fell across the nation between 2001 and 2004. After adjusting for inflation, the average family income in the U.S. fell to $70,700 in 2004, a 2.3% decline. During 1998-2001, average family incomes increased 17.3% which was preceded by a 12.3% increase from 1995 to 1998. The survey encompassed 4,000 households.

Welfare rolls across Colorado have increased 45% in the past five years and hit a record high of 15,214 cases in September 2005. In October 2005, the Colorado Department of Human Services Colorado works program reported a low of 10,471 cases. The state's population increased by only 7.0% over the same period.

Consumer Sector

U.S. consumer prices increased at a strong clip in the first month of 2006, advancing 0.7% compared with a 0.1% decline in December 2005. The Consumer Price Index increases are largely attributable to rising energy and food prices. January energy prices increased 5%, the largest increase since the 11.8% gain in September that was prompted by the Gulf Coast hurricanes. Food prices rose 0.5% in January mostly due to higher prices for fruit, vegetables, dairy products and beef and veal. Poultry and pork prices declined in January.

Local inflation is increasing at its fastest pace in four years, according to the Consumer Price Index for the Denver-Boulder-Greeley market. On an annualized basis, prices rose an average of 2.1% in 2005 in Metro Denver compared to the national increase of 3.4%.

Most of the price increase came in the latter half of the year as prices were 2.8% higher during the second half of 2005 compared to prices in the second half of 2004. National inflation during the second half of 2005 was 3.8%. A more detailed look shows that motor fuel prices increased 32.3% in Metro Denver during the second half of the year followed by a 30.9% increase in natural gas prices. Shelter costs in Metro Denver fell 2.1%.

Falling wholesale prices for natural gas will likely result in smaller heating bills for Metro Denver consumers. A typical bill for a residential customer will fall 24% from $126 in February to $96 in March due to a combination of the lower price and reduced usage from warmer weather. The average customer uses 14% less natural gas from February to March. A typical bill for a business customer will fall 23% from $580 in February to $447 in March. Still, the commodity price of natural gas is 13% higher than the March 2004 price.

January retail sales, excluding automobiles, increased 2.2% nationwide, the strongest increase since late 1999. Retail sales, including automobiles, increased 2.3% in January, the best showing in nearly two years. The U.S. Department of Commerce reported a meager 0.4% increase in overall retail sales in the month prior. Economists cited unseasonably warm weather and the redemption of gift cards as factors behind the surprising increase.

Strong December retail sales in Metro Denver pushed annual retail sales to nearly $72.9 billion in 2005, a 6.7% increase over 2004 annual sales. The strongest gains occurred throughout the year in Adams County (+16.5%), Douglas County (+13.8%) and the City & County of Denver (+8.7%). All counties reported increases in retail sales with the exception of the City & County of Broomfield for which the data is skewed by a large payment of delinquent taxes by a company in May 2004. Colorado retail sales grew at a faster pace than Metro Denver sales during 2005 with a 7.7% increase to $122.9 billion. Metro Denver retail sales have represented about 60% of total retail sales in Colorado over the past decade.

Total Retail Sales ($000s)

	Month of Dec-05	Month of Nov-05	Month of Dec-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual Growth 2000	Annual Growth 1995
Total Metro Denver	9,396,099	5,748,448	8,490,866	72,873,308	68,316,188	6.7%	12.5%	4.8%
Adams County	1,322,673	872,998	1,032,147	10,749,127	9,229,137	16.5%	9.3%	-1.7%
Arapahoe County	2,090,195	1,184,510	1,903,491	15,893,154	14,989,997	6.0%	14.2%	6.4%
Boulder County	1,010,965	509,064	930,236	7,078,885	6,550,738	8.1%	10.5%	5.7%
Broomfield County	194,152	110,265	293,751	1,449,777	2,385,057	-39.2%		
Denver County	2,521,234	1,657,694	2,182,208	19,907,650	18,306,703	8.7%	13.4%	3.1%
Douglas County	714,763	469,177	665,357	5,742,571	5,047,112	13.8%	16.5%	33.8%
Jefferson County	1,542,117	944,740	1,483,676	12,052,144	11,807,444	2.1%	10.8%	6.5%
Colorado	16,053,420	9,482,313	14,607,585	122,927,088	114,130,019	7.7%	10.8%	5.8%

Source: Colorado Department of Revenue.

Consumer confidence in the mountain region surged in January 2006 to 143.6, up from a revised 114.4 in the previous month. The January reading is the highest reading since October 2000, according to preliminary data from The Conference Board. The mountain region reported the most optimistic confidence level overall out of the nine regions in December. At the national level, overall confidence levels in the U.S. increased slightly in January from a revised 103.8 to 106.3. The confidence index is comprised of the present situation index and the expectations index. Mountain region consumers reported an increase in their perceptions of current situations from a revised 142.2 in December to 181.4 in January, the highest reading among the nine regions. The future expectations index in the mountain region increased in January from a revised 95.8 in December to 118.5, also the highest reading.

Advance estimates for national confidence levels show a decline in optimism in February, falling from a revised 106.8 in January to 101.7 in February. The present situation index increased from 128.8 to 129.3 while the future expectations index declined from 92.1 to 83.3.

Consumer Confidence Index

	Month of Jan-06 (p)	Month of Dec-05	Month of Jan-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Ann Avg 2001
Mountain	143.6	114.4	119.2	143.6	119.0	20.7%	115.2
United States	106.3	103.8	105.1	106.3	97.7	8.8%	106.6

Source: The Conference Board. (p) =preliminary

In 2005, 40 conventions were held at the newly expanded Colorado Convention Center. Total attendance exceeded 164,000 people registering about 275,000 room nights. The economic impact of the 40 conventions is estimated at $326.9 million. At least 152 future conferences or meetings are booked at the Colorado Convention Center with a total attendance estimated at 766,200 people.

Hotel occupancy rates in Metro Denver increased from 54.8% in December to 57.0% in January along with an increase in the average room rate from $83.83 in December to $92.34. Both the occupancy rate and average room rate are improved over January 2005 levels. The statewide lodging industry also reported improvements from January 2004 to January 2005. The average hotel occupancy rate for Colorado is 55.7%, 2.8% higher than occupancy in January 2005. The average room rental rate is $120.68, $9.02 higher than the rate in January 2005.

Metro Denver Hotel Statistics

	Month of Jan-06	Month of Dec-05	Month of Jan-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Annual 2001	Annual 1996
Percent of Hotel Rooms Occupied	57.0%	54.8%	47.0%	57.0%	54.8%	4.0%	62.5%	72.3%
Average Hotel Room Rate	$92.34	$83.83	$79.66	$92.34	$83.83	10.2%	$88.52	$77.58

Source: Rocky Mountain Lodging Report.

Denver-based Frontier Airlines confirmed new, nonstop service from Denver to Calgary beginning in May 2006. The new service makes Frontier Airlines one of the first U.S. discount carriers to service Canada with one-way fares starting at $119.

Passenger traffic at Denver International Airport increased from November to December and was 1.5% higher than December 2004 levels. Almost 43.4 million passengers traveled through Denver International Airport in 2005, a 2.6% increase over 2004. Passenger traffic in 2005 reached a record high, surpassing the previous record set in 2004 of 42.3 million passengers. January data was not available.

Denver International Airport Passengers

	Month of Dec-05	Month of Nov-05	Month of Dec-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Annual 2000	Annual 1995
Number of Airline Passengers	3,546,529	3,362,441	3,495,055	43,387,513	42,275,913	2.6%	38,751,687	31,035,398

Source: Denver International Airport, Traffic Statistics.

The Colorado stock index increased in February and posted a 1.6% year-to-date increase over the same period in 2005. The Colorado stock index is a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state. The three companies reporting the largest stock price percentage gains from January to February were Wild Oats (+48.5%), Rocky Mountain Chocolate Factory (+10.8%) and Kroger Co. (+8.9%). The largest percentage declines were reported by Newmont Mining (-14.4%), Crown Media Holdings Inc. (-14.0%) and Apache Corp. (-11.4%). United Airlines debuted its new stock (UAUA) at $34.82 on February 6, 2006 on the NASDAQ Stock Market. The stock closed at the end of

February at $35.47. *All three national indices posted stronger gains through February than the Colorado stock index. The NASDAQ reported the strongest increase of 3.4%, followed by a 2.6% increase for both the S&P and the DOW.*

Stock Market Indexes

	Month of Feb-06	Month of Jan-06	Month of Feb-05	YTD Return 2006	YTD Return 2005	YTD Return 2004
Colorado	1,802.9	1,772.9	1,622.6	1.6%	1.9%	5.5%
S&P 500	1,280.7	1,280.1	1,203.6	2.6%	-0.7%	3.0%
NASDAQ	2,281.4	2,305.8	2,051.7	3.4%	-5.7%	1.3%
DOW	10,993.4	10,864.9	10,766.2	2.6%	-0.2%	1.2%

Sources: Development Research Partners; Yahoo! Finance.

Niwot-based Crocs Inc. (CROX) celebrated a successful initial public offering in early February. The 9.9 million shares were initially offered at $21 but ended opening day at $28.55, a 36% gain. With a market value of $1.09 billion, Crocs Inc. is the fifth largest publicly traded shoe company behind Nike, Reebok International, Timberland Co. and Wolverine Worldwide. Crocs Inc. raised about $207.5 million during its first day of trading.

Residential Real Estate

Existing home sales fell for the fifth consecutive month in January, according to preliminary results from the National Association of Realtors (NAR). Sales declined 2.8% in January from December, slipping to a seasonally adjusted annual rate of 6.56 million units. Single-family sales declined 1.5% in January but condominium/co-op sales fell 10.6%.

Further evidence that the national residential market is slowing is a 5.0% decline in the number of new home sales in January to a seasonally-adjusted rate of 1.233 million units. In December, sales increased 3.8% after falling 7.0% in November. Accordingly, the number of unsold new homes on the market in January was 528,000 homes, a nine-year record. On a positive note, the U.S. Commerce Department reported that the median sale price for new homes increased from $229,000 in December to $238,000 in January. The January price is the highest since the record high of $243,900 that was set in October 2005.

Sales of previously-owned homes in Metro Denver declined in the first month of 2006 to 2,843 sales. Still, January 2006 sales were 4.8% stronger than January 2005 sales. The number of homes sales under contract increased from December 2005 to January 2006. Inventory levels continued to climb in January with the average days on the market increasing to 102 days for single-family homes and 133 days for condominiums. The number of unsold homes on the market is below the record high of 28,043 homes in June 2004 but at the highest level for the month January.

The average sale price for a single-family home increased in January to nearly $307,000, a 5.7% gain over the average sale price twelve months prior. The average sale price for condominiums increased slightly to $192,300, a 3.0% increase over the average sale price in January 2005. The median sale price for a single-family home stands 6.5% above the median price a year ago while the median price for condominiums stands 1.3% below the January 2005 price. Median prices are generally considered a better market descriptor because average prices can be skewed by extremely high or low values.

Home Sales Activity

	Month of Jan-06	Month of Dec-05	Month of Jan-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Ann Avg 2001	Ann Avg 1996
Home Sales (Under Contract)	4,266	4,075	3,226	4,266	3,226	32.2%	32,248	33,406
Home Sales (Closed)	2,843	4,086	2,713	2,843	2,713	4.8%	47,832	37,755
Unsold Homes on Market	24,387	23,572	20,917	24,387	20,917	16.6%	15,892	12,315
Average Sales Price-Single Family	$306,982	$303,934	$290,503	$306,982	$290,503	5.7%	$257,394	$159,132
Average Sales Price-Condo	$192,271	$191,560	$186,702	$192,271	$186,702	3.0%	$160,342	$94,596
Median Sales Price-Single Family	$245,000	$245,000	$230,000	$245,000	$230,000	6.5%	$213,950	
Median Sales Price-Condo	$155,000	$160,000	$157,000	$155,000	$157,000	-1.3%	$141,000	

Sources: MetroList, Inc.

Colorado home values grew at less than half the national rate in 2005, marking the fourth consecutive year that Colorado has lagged the nation. The Office of Federal Housing Enterprise Oversight reported a 13% increase in the average U.S. existing home value in 2005 compared to a 6% increase in Colorado home values, the 44th largest increase among the 50 states. The Metro Denver market experienced a 4.5% increase in 2005. Since 2000, the average existing home value in Colorado increased only 28% compared to a 57.7% increase at the national level. The national increase was led by residential markets in California, Hawaii, Nevada and Florida.

The median home price in Metro Denver, which is reported on a quarterly basis by the National Association of Realtors (NAR), slipped 2.4% from a revised $253,500 in the third quarter to $247,500 in the fourth quarter of 2005. For the period from fourth quarter 2004 to fourth quarter 2005, Metro Denver home prices increased 4.4% and Boulder home prices increased 16.8% compared to the national increase of 13.6%.

Nationwide, a record 72 out of 145 metropolitan areas surveyed reported double-digit appreciation from fourth quarter 2004 to fourth quarter 2005. The previous record was set with double-digit gains in 69 metropolitan areas during the third quarter of 2004. The Denver market ranked 116th in annual appreciation and the Boulder market ranked 36th. The markets experiencing the highest rates of home appreciation included Phoenix, AZ (+48.9%), Cape Coral, FL (+48.0%) and Orlando, FL (+42.0%).

For the year, the median home price in Metro Denver averaged $247,100, making the region the 36th most expensive housing market in the country. The Boulder median home price in 2005 of $348,400 ranks the region as the 21st most expensive market. In terms of annual price appreciation, Metro Denver's increase of 3.3% earned it a 136th place ranking while Boulder ranked 96th with a 7.1% annual increase. Of 155 metro areas included in the annual survey, 69 metro areas posted double-digit rates of increase from 2004 to 2005.

Median Home Price ($000s)

	Quarter 4 2005 (p)	Quarter 3 2005	Quarter 4 2004	Year-to-Date Average 2005	Year-to-Date Average 2004	Year-to-Date Average % Change	Median 2000	Median 1995
Metro Denver	$247.5	$253.5	$237.1	$247.1	$239.1	3.3%	$196.8	$214.5
United States	$213.0	$215.9	$187.5	$207.3	$184.1	12.6%	$139.0	$113.1

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

A report by the Colorado Blue Ribbon Panel on Housing identified a disparity between income and the ability to purchase a home across Colorado. The disparity puts more than 50,000 households in five Metro Denver counties at risk for homelessness because they spend more than 35% of their income on housing. For example, the average salary for a Metro Denver teacher is $43,600 which translates into an affordable home price of $150,000. However, the median cost of a home in Metro Denver is $240,500. More than 4% of Colorado households earn between 30% and 60% of the Colorado median income of $55,700.

Metro Denver foreclosures increased to 1,523 in the first month of 2006, the highest number on record in Metro Denver. Compared to January 2005, the number of foreclosures in Metro Denver stands 37.1% higher. Denver, Adams and Douglas counties reported the highest levels of foreclosure activity in January 2006 in terms of percentage gains from January 2005. Although all seven Metro Denver counties reported heightened foreclosure activity, Boulder, Arapahoe and Broomfield counties reported the smallest percentage increases. The largest number of foreclosures in January occurred in Adams, Denver and Arapahoe counties.

Real Estate Foreclosures

	Month of Jan-06	Month of Dec-05	Month of Jan-05	YTD Total 2006	YTD Total 2005	YTD Total % Change
Total Metro Denver	1,523	1,261	1,111	1,523	1,111	37.1%
Adams County	399	275	271	399	271	47.2%
Arapahoe County	356	380	308	356	308	15.6%
Boulder County	58	46	51	58	51	13.7%
Broomfield County	12	13	10	12	10	20.0%
Denver County	358	303	242	358	242	47.9%
Douglas County	126	56	89	126	89	41.6%
Jefferson County	214	188	140	214	140	52.9%

Source: CB Richard Ellis.

National housing starts surged 14.5% in January despite forecasts of a slowdown. The January increase in housing starts marks the largest monthly gain since March 1973 but follows a 6.9% decline in December 2005. Heightened construction in the first month of the year pushed construction to a seasonally-adjusted annual rate of 2.28 million units. Single-family construction increased 12.8% while multi-family construction increased 21.9% in January.

The total number of residential permits issued in Metro Denver was down 4.2% from 2004 permits. The number of single-family building permits increased 10.6% while the number of two-family and multi-family permits fell 4.2% and 82.9% in 2005. Denver, Aurora and unincorporated Douglas counties reported the highest levels of residential construction activity in 2005. Single-family home construction was strongest in Aurora, Denver and Castle Rock while two-family construction activity was strongest in unincorporated Douglas County, Denver and Broomfield. Multi-family construction was at a minimum in 2005. In fact, unincorporated Adams County, Commerce City, Denver, Lakewood and Thornton were the only areas to report any multi-family activity.

Residential Building Permits

	Month of Dec-05	Month of Nov-05	Month of Dec-04	YTD Total 2005	YTD Total 2004	YTD Total % Change	Total 2000	Total 1995
Single-Family Units	1,236	1,145	1,209	15,778	14,260	10.6%	15,873	12,560
Two-Family Units	351	566	365	4,642	4,843	-4.2%	3,321	1,965
Multi-Family Units	75	0	227	459	2,681	-82.9%	9,116	4,979
Total Units	1,662	1,711	1,801	20,879	21,784	-4.2%	28,310	19,504

Source: Home Builders Association of Metropolitan Denver.

Opus Northwest and Income Property Specialists of Boulder moved up the construction schedule of the second Pinnacle at City Park building to begin this fall due to strong unit sales in the first building. Units in the second building will be larger and more expensive than units in the first building. The entire $160 million development will be complete by the summer of 2008, which includes a 22-story tower, a 27-story tower, a parking garage and 18 townhomes. Construction of the second tower is scheduled to begin this fall. Lafayette-based Wonderland Homes and Denver-based Allied Realty Service are also developing residential projects adjacent to the Pinnacle at City Park project.

Developer Randy Nichols will construct a $110 million, 41-story residential tower at 14th and Champa streets in Downtown Denver that will appeal to current renters between the ages of 25 and 35 years. The Spire will feature 505 units at about 800 square feet each with sales prices starting at about $220,000.

Nearby, Canadian developer Gary Switzer will build another tower that targets upscale empty-nesters. The Great Gulf Group will build a 55-story condominium building with 200 units that range in size from 1,200 to 7,000 square feet and start in the mid-$500,000s. The building value is estimated at $165 million.

Donald Trump wants to build the tallest building in Denver next the El Jebel site at 17th and Sherman streets. The luxury condominium building and hotel would be about 60 stories tall and reach 715 feet, the maximum height allowed under the City Council's planned unit development agreement. The project cost is estimated at $150 million.

Long Beach, CA-based Urban Pacific Builders announced plans for a mixed-use condominium development in the Westminster Promenade. The Axis development will feature 750 loft-style condo units and is scheduled to be finished over the next three to five years. The first phase involves 180 units priced between the high $200,000s and the low $400,000s. Square-footage will range from 850 square feet to 1,650 square feet. About 24,000 square feet of retail space, a hotel and entertainment project are also part of the $200 million Axis development. A FasTracks transit station will be approximately 100 yards from the nearest units.

New student housing at Downtown Denver's Auraria Campus will help campus enrollment reach a record high this coming fall. Three new buildings will add a total of 1,800 beds: Campus Village, The Regency and the Inn at Auraria. Monthly rent ranges from $650 to about $800.

Former Denver Mayor Wellington Webb and Jim Sullivan of Alliance Development Partners were unanimously selected by the Denver Urban Renewal Authority as the redevelopment team for the Dahlia Square project at Dahlia Street and East 33rd Avenue. Estimated redevelopment costs are $17 to $18 million for the redevelopment – excluding the residential portion – and $3.5 million for the land. Oakwood Homes was chosen to develop about 90 homes on the site that will be priced from the $150,000s but will not exceed $200,000. Construction is set to begin in late 2006 with completion in 2008. About 40 senior housing units and 55 affordable apartments may become part of the deal depending on negotiations with the Catholic Archdiocese of Denver who would manage the units. The Dahlia Square project also includes a 12,500-square-foot medical facility and a 6,500-square-foot child care center.

The apartment vacancy rate in Metro Denver rose to 7.9% in the fourth quarter of 2005, a slight increase from the 7.7% vacancy rate reported in the prior quarter. Fourth quarter rates tend to be higher for seasonal reasons. This was the lowest fourth-quarter rate posted since 2000 when the vacancy rate stood at 4.7%. The apartment vacancy rate averaged 8.2% in Metro Denver in 2005, down from this business cycle's peak of 12.0% reached in 2003. Rates for all counties were relatively similar in 2005, ranging from a low of 7.6% in Arapahoe and Douglas counties to a high of 9.1% in Denver County. Gordon Von Stroh, the report's author, predicts the vacancy rate could fall below 7% by the end of 2006 if absorption continues to be positive. The average apartment rent increased from $846 to $848 in the final quarter of 2005, bringing the 2005 year-to-date average 2.6% higher than the 2004 average.

Apartment Statistics

	Quarter 4 2005	Quarter 3 2005	Quarter 4 2004	Year-to-Date Average 2005	Year-to-Date Average 2004	Year-to-Date Average % Change	Ann Avg 2000	Ann Avg 1995
Apartment Vacancy Rate	7.9%	7.7%	10.0%	8.2%	9.7%		4.6%	4.3%
Average Monthly Rental Rate (all units)	$848	$846	$822	$839	$817	2.6%	$763	$564

Source: Denver Metro Apartment Vacancy and Rent Survey.

A new report by Gordon Von Stroh that examines "small" rental properties shows falling vacancy rates in 2005 for single-family homes, duplexes, triplexes, fourplexes, condominiums and townhomes. The average vacancy rate ended 2005 at 5.3% after hitting 7% in 2004 and 12.4% in 2003. On the other hand, the average monthly rental rate slipped to $913 in the final quarter of 2005, down from $928 in 2004 and $961 in 2003.

Commercial Real Estate

Office market absorption was positive in Metro Denver for the third consecutive year in 2005, according to the Frederick Ross View report. Approximately 1.9 million square of space was filled in 2005 with the Southeast market accounting for nearly two-thirds of total absorption. Demand for Class A space remained high with the CBD, Southeast and Northwest markets each benefiting from more than 500,000 square feet of Class A positive absorption. Meanwhile, the office vacancy rate for Metro Denver fell from 21.7% in 2004 to 20.2% in 2005. Fifty-one office buildings sold for more than $5 million in 2005 with capitalization rates ranging from 3% to 8%. Class A rental rates increased but were generally flat for Class B and C space. More than 1.2 million square feet of new construction was added to the market in 2005. The new supply for 2006 is light with just four projects currently under construction.

Jones Lang LaSalle reported that the overall Metro Denver market experienced 2.5 million square feet of positive absorption in 2005 with 11.7% of stock absorbed in the Northwest market compared to 0.8% of stock absorbed in the Northeast market. The CBD and the Southeast Suburban market accounted for 2.3% and 1.9% of total positive absorption, respectively. The Metro Denver office market ended the year with a 12.3% vacancy rate in the CBD and 16.0% in the Suburban market. In the CBD, Class A rental rates increased 4.1% in 2005 compared to 8.1% in the Suburban markets. The year-end report also notes that Class B rental rates increased at a slower rate of 1.5% in the CBD and 1.2% in the Suburban markets.

Office fundamentals from Costar Realty Information, Inc. also indicate a stable office market that is making slow but steady steps in the right direction. Vacant square footage declined for the fifth consecutive quarter in the fourth quarter even as more space was added to the market. Direct and total vacancy rates including sublet space decreased to 13.4% and 15.0%, respectively, in the fourth quarter. The average lease rate held steady at $17.47 per square foot, the highest rate since third quarter 2003.

Office construction increased in the fourth quarter to its strongest level since fourth quarter 2002. More than 1.34 million square feet of new office space is currently under construction in Metro Denver. Over half of the new space is located in the City and County of Denver. In fact, the three largest construction projects are located in Denver: the Denver Newspaper Agency building, the Environmental Protection Agency building and the Lowry Medical Center Office building. About 730,000 square feet of office space was added to the Metro Denver market in 2005, down from 1.2 million square feet added in 2004.

Office Market Statistics

	Quarter 4 2005	Quarter 3 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	4,409	4,350	4,320	4,278	4,232	4,155
Existing Square Feet (millions)	150.4	149.5	149.0	147.6	146.3	143.5
Vacant Square Feet (millions)	20.2	20.8	22.0	21.7	20.1	14.5
Vacancy Rate (Direct)	13.4%	13.9%	14.8%	14.7%	13.7%	10.1%
Vacancy Rate (With Sublet)	15.0%	15.5%	16.6%	17.1%	16.6%	13.2%
Average Lease Rate (per square foot)	$17.47	$17.44	$17.09	$17.33	$18.92	$20.76
New Construction Completed (year-to-date)	0.73 MSF, 42 Bldgs	0.50 MSF, 31 Bldgs	1.20 MSF, 38 Bldgs	1.24 MSF, 39 Bldgs	2.90 MSF, 82 Bldgs	7.75 MSF, 117 Bldgs
Currently Under Construction	1.34 MSF, 38 Bldgs	1.21 MSF, 32 Bldgs	0.72 MSF, 28 Bldgs	0.82 MSF, 24 Bldgs	1.39 MSF, 33 Bldgs	2.83 MSF, 65 Bldgs

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

The 2005 year-end report by Frederick Ross shows an improving industrial market in Metro Denver. Positive absorption approached 2.4 million square in 2005 of which 1.75 million square feet was in the warehouse sector. The vacancy rate improved from 9.0% in 2004 to 8.4% in 2005. The vacancy rates for warehouse product alone improved from 7.3% to 6.7% while the R&D/flex vacancy rate increased from 19.0% to 20.6%. About 1.3 million square feet of new construction was added to the market last year with the east market gaining the most new supply. Almost 2.1 million square feet of new construction will be added in 2006.

According to CoStar, the industrial vacancy rate in Metro Denver of 8.0% (direct) and 8.4% (with sublet) in the fourth quarter compared to rates of 7.8% and 8.4%, respectively, in the fourth quarter of 2004. CoStar data shows lease rates increased to $4.71 per square foot in the fourth quarter, up from $4.61 per square foot in the fourth quarter of 2004.

About 860,000 square feet of new industrial buildings are under construction. The three largest construction projects are located in Denver, including two at the Gateway development and one at the Centerpark development. About 1.3 million square feet of new industrial space was added to the Metro Denver market in 2005, significantly less than the 1.8 million square feet added in 2004. Almost 73% of the new space was added in Adams County.

Industrial Market Statistics

	Quarter 4 2005	Quarter 3 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	5,544	5,481	5,460	5,426	5,386	5,326
Existing Square Feet (millions)	197.8	196.2	195.6	193.9	191.8	188.9
Vacant Square Feet (millions)	15.8	14.9	15.2	14.2	12.0	9.8
Vacancy Rate (Direct)	8.0%	7.6%	7.8%	7.3%	6.3%	5.2%
Vacancy Rate (With Sublet)	8.4%	8.1%	8.4%	8.2%	7.2%	6.0%
Average Lease Rate (per sq. ft, nnn)	$4.71	$4.73	$4.61	$4.69	$5.43	$5.53
New Construction Completed (year-to-date)	1.30 MSF, 40 Bldgs	0.61 MSF, 21 Bldgs	1.82 MSF, 34 Bldgs	2.07 MSF, 38 Bldgs	2.77 MSF, 49 Bldgs	2.22 MSF, 38 Bldgs
Currently Under Construction	0.86 MSF, 19 Bldgs	0.84 MSF, 21 Bldgs	0.33 MSF, 14 Bldgs	1.20 MSF 12 Bldgs	0.87 MSF, 17 Bldgs	1.65 MSF, 16 Bldgs

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

Denver's City Council is considering expanding its 13-acre foreign trade zone by adding a 500-acre industrial park near Windsor. The expansion would help to attract large foreign manufacturers. A foreign trade zone is a site within the U.S. that the federal government considers outside of customs territory so that tariffs can be lifted or delayed. Currently, Denver's foreign trade zones are in the Stapleton and Denver International Airport areas. The Great

Western Industrial Park near Windsor is being developed by Denver-based Broe Cos., a real estate and transportation investment firm.

CoStar data shows steady but positive quarterly movements in the flex space market. The direct vacancy rate was unchanged in the fourth quarter from 14.7% in the third quarter but is well below the 2004 fourth quarter rate of 16.6%. The total vacancy rate including sublet space declined from 16.0% in the third quarter to 15.5% in the fourth quarter. Meanwhile, the average lease rate increased to $8.37 per square foot and remains above the average lease rate a year ago.

Flex Space Statistics

	Quarter 4 2005	Quarter 3 2005	Quarter 4 2004	Quarter 4 2003	Quarter 4 2002	Quarter 4 2001
Number of Buildings	1,218	1,207	1,190	1,179	1,165	1,136
Existing Square Feet (millions)	36.8	36.7	36.4	36.2	35.9	34.9
Vacant Square Feet (millions)	5.4	5.4	6.0	6.4	5.3	4.8
Vacancy Rate (Direct)	14.7%	14.7%	16.6%	17.6%	14.8%	13.7%
Vacancy Rate (With Sublet)	15.5%	16.0%	18.2%	19.2%	16.6%	15.6%
Average Lease Rate per sq. ft, nnn)	$8.37	$8.30	$8.29	$8.04	$8.34	$9.50
New Construction Completed (year-to-date)	0.37 MSF, 21 Bldgs	0.26 MSF, 16 Bldgs	0.12 MSF, 6 Bldgs	0.22 MSF, 10 Bldgs	0.81 MSF, 27 Bldgs	2.45 MSF, 52 Bldgs
Currently Under Construction	0.46 MSF, 15 Bldgs	0.23 MSF, 7 Bldgs	0.37 MSF, 17 Bldgs	0.05 MSF, 1 Bldg	0.25 MSF, 6 Bldgs	0.43 MSF, 15 Bldgs

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

Flex space construction picked up during the fourth quarter of the year. About 460,000 square feet of flex space is currently under construction, up from 370,000 square feet underway at this time last year. More than 40% of the flex space construction is occurring in Jefferson County. About 370,000 square feet of new flex space was added to the Metro Denver market in 2005, up from 120,000 square feet in 2004.

The Metro Denver retail market exhibited sustained improvement in 2005 with 4.15 million square feet of positive absorption, according to the January 2006 edition of View by Frederick Ross. Positive absorption prompted a decline in the vacancy rate from 8.5% in 2004 to 6.1% in 2005 while lease rates were on the rise in many sectors. Investment activity was also solid in 2005 with 34 properties bringing sale prices greater than $5 million. Capitalization rates generally fell between 6.1% and 9.2% in 2005. About 2.5 million square feet of new construction was added to the Metro Denver market last year, most of which was pre-leased. Approximately 4.0 million square feet of new construction will come online in 2006.

Chicago-based Landmark Properties is finalizing plans to build Frederick Town Center at Interstate 25 and Colorado Highway 52 that will house 900,000 to 1.3 million square feet of open-air retail space. The 110-acre site will be part of the 651-acre Wyndham Hill planned community that will offer 1,300 single-family homes and 400 multi-family homes. Wyndham Hill is being developed by Community Development Group of Boulder. Landmark Properties is to complete the purchase of land in the next few months and begin construction on the Town Center either this fall or in the spring of 2007.

The medical facility market is active across Metro Denver. The 80,000-square-foot Lowry Medical Center officially opened its doors in February. The $19 million, physician-owned building was developed by Development Solutions Group LLC and houses the 30,000-square foot Lowry Surgery Center, a 7,500-square foot imaging center, a physical therapy center and a physician clinical office. The $8 million Lowry Two Medical Center is the second phase of the project.

Construction started one year ahead of schedule on Lafayette's $4.3 million addition of the Good Samaritan Hospital due to rising demand. The expansion will increase the hospital's 174-bed capacity by 30 beds and is slated for completion in August.

Construction is underway at Adventist hospital in Littleton. The $36 million expansion will add 24 intensive care beds and 32 medical/surgical beds to the existing 175-bed hospital. Construction of the two new floors is scheduled to be finished in a little more than one year. Adventist is expecting a 5% increase in trauma, emergency department and pediatric after-hours visits in 2006.

The Veterans Affairs hospital at Fitzsimons is one step closer to reality. The Fitzsimons Redevelopment Authority and the U.S. Department of Veterans Affairs (VA) agreed on a price for the 24-acre site at Fitzsimons. Pending completion of a study to determine if the land is developable, the VA will purchase the land for $15 million. The VA may also enter negotiations for an additional seven acres in three adjacent parcels in the future. The VA hospital deal was put on hold last year over a concern that the 13-buildable acres allotted to the VA were insufficient.

Finally, the master plan is underway to transform the 670-acre Denver Federal Center into a St. Anthony Central Hospital site and a Regional Transportation District light rail transit station. Under several agreements, the City of Lakewood will annex the entire site and assign lease rights to the new occupants. The hospital project could break ground in either late 2006 or early 2007 with completion scheduled in 2010. The new St. Anthony Central Hospital will be the first full-scale hospital in Lakewood.

Monthly Economic Summary of Metro Denver

Indicator	Monthly/ Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇑	⇑	Employment increased by 4,700 jobs from Nov to Dec; 1.9% annual increase over 2004
% Companies Hiring	⇑	⇑	30% of companies expect to add workers in 1st quarter 2006; only 4% expect decreases
Unemployment Rate	⇓	⇓	Metro rate decreased to 4.5% in Dec; annual unemployment rate of 5.1% same as U.S.
Initial Claims	⇑	⇓	Initial unemployment claims increased in Jan; Jan 06 claims down 11.4% from a year ago
Total Retail Sales	⇑	⇑	Total retail sales up 6.7% in 2005; total retail sales up 7.7% for state
Consumer Confidence Index	⇑	⇑	Confidence levels surged in Jan to highest level since Oct 2000; up 20.7% over Jan 05
Hotel Occupancy	⇑	⇑	Hotel occupancy increased in Jan to 57%; avg room rate increased to $92
DIA Passengers	⇑	⇑	Traffic increased 2.6% in 2005, serving nearly 43.4 million passengers
Colorado Stock Index	⇑	⇑	CO Stock Index increased in February; 1.6% higher than February 2005 level
Dow Jones Industrial Average	⇑	⇑	Dow increased in February to 2.6% higher than the February 2005 level
Home Sales (closed)	⇓	⇑	Home sales fell in Jan but are up 4.8% over Jan 05 sales; average SF sold price up 5.7%
Median Home Price	⇓	⇑	Median home price decreased to $247,500 in Q4 2005; 2005 price 3.3% higher than 2004
Foreclosures	⇑	⇑	Foreclosures up 37.1% in Jan 2006; biggest gains in Adams, Denver & Douglas counties
Residential Building Permits (Total)	⇓	⇓	Total permits down 4.2% through Dec; 82.9% decline in multi-family permits
Apartment Vacancy Rate	⇑	⇓	Vacancy rate increased to 7.9% in Q4 2005; avg rental rate increased to $848 per month
Office Vacancy Rate (with Sublet)	⇓	⇓	Vacancy rate with sublet down to 15.0%; 1.34 million sq. ft. construction is underway
Industrial Vacancy Rate (with Sublet)	⇑	⇔	Increase in vacancy rate with sublet to 8.4%; 0.86 million sq. ft. of construction underway
Flex Space Vacancy Rate (with Sublet)	⇓	⇓	Vacancy rate with sublet down to 15.5%; 0.46 million sq. ft. construction underway
Positive Changes	**11 of 18**	**15 of 18**	