



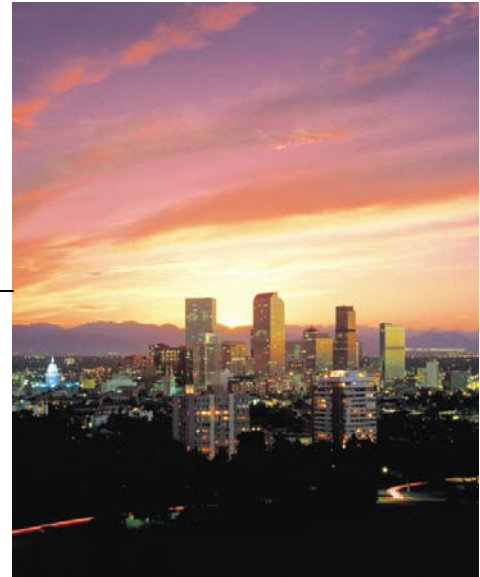
Metro Denver
Economic Development Corporation

Monthly Economic Summary

A Monthly Summary of Economic Conditions in Metro Denver

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

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MONTHLY ECONOMIC SUMMARY

The 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 Metro Denver definition, at the MSA level, or at 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

- ◆ Venture capital awards to Colorado companies surged in the third quarter of the year to the biggest three-month total since 2002. The Ernst & Young and Dow Jones Venture One study reported a total of \$195 million in funding among 17 deals during the third quarter, up from \$64.4 million in the second quarter. For the year, Colorado companies have attracted \$368.2 million among 45 deals. Colorado is on pace to surpass 2003 and 2004 funding totals but will likely stay under the \$664 million raised last year. Overall, venture capital funding in recent years still remains well below the \$3.4 billion awarded to Colorado companies in 2000.
- ◆ The MoneyTree report, a separate but similar study by PricewaterhouseCoopers and the National Venture Capital Association, revealed that Centennial-based Adam Aircraft Industries attracted the third largest venture capital award in the nation during the July-September period. The \$93 million award follows the Federal Aviation Administration's approval of Adam Aircraft Industries' A500 plane last year. The MoneyTree report also recorded the first time that U.S. venture capital funding awarded to biotechnology companies surpassed funding awarded to software companies since the study began collecting industry data. Experts say that rising medical costs and an aging population are behind the shift. In Colorado, MoneyTree data shows third quarter awards totaled \$209 million among 22 companies, the largest quarterly haul since 2003.
- ◆ *Colorado ranked 15th in the nation for the percentage increase in jobs added during the second quarter of the year. Colorado reported a 2.2% gain compared to a 1.4% gain at the national level. The report by the Federal Deposit Insurance Corp. ranked Idaho first. Louisiana and Michigan were the only states to report losses.*
- ◆ The nation's population, which is growing at an annual rate of just under 1.0%, surpassed 300 million in October. The U.S. Census Bureau estimates that a person is added to the U.S. population every 11 seconds. Colorado's current population of 4.8 million is growing at a faster than average annual rate of 1.4%. The state's population is expected to exceed 5.0 million in 2008 and 6.0 million in 2018. The Colorado Demography Section noted that while the Front Range will continue to serve as the growth epicenter, growth will shift from Jefferson County on the west to Adams, Weld, and Douglas counties. Colorado's population will also become more diverse with the fertility rate of Hispanic women more than double that of non-Hispanic white women and nearly double that of all other ethnic groups combined.
- ◆ Colorado ranks 48th in the nation for the share of state and local tax dollars that go to the state government. The latest study by the Center for Tax Policy pegs Colorado's state government share at 48.4% of the \$14.6 billion in tax revenue compared to the national average of 58.7%. State governments in Arkansas and Hawaii collect about 80% of the total state and local tax revenue. On the other hand, Colorado ranks third in the share of tax receipts collected by local governments at 51.6%. Only New York and Texas collect higher shares at the

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local government level. Colorado ranks high at the local government level because local governments in Colorado rely heavily on local sales tax revenue.

- ◆ The City and County of Denver ranks eighth among 20 major U.S. cities for residents that dropped their land lines in favor of wireless phone service, according to a survey by Telephia. About 11% of Denver residents have only wireless phone service compared to 19% in Detroit, which topped the list, and 5.5% in San Francisco, which was at the bottom of the list.
- ◆ A study by the International Health, Racquet & Sportsclub Association reports that both Colorado and the City and County of Denver rank first among the 50 states and major U.S. cities for residents with a health club or fitness center membership. About 22% of Colorado residents have a health club or fitness center membership compared to 20.8% in Utah. More than 25% of Denver residents have a health club membership, just slightly more than 24.9% in Columbus, OH.

General Economic Overview

The U.S. economy expanded at a slower rate in the third quarter of the year compared to the prior quarter and is currently growing at the slowest pace in more than three years. According to advance estimates from the U.S. Bureau of Economic Analysis, gross domestic product (GDP) grew at an annual rate of only 1.6% in the July-September period, down from the 2.6% pace achieved in the April-June period. The third quarter deceleration is attributed to the largest quarter-to-quarter decline in residential investment since 1991, increased imports, reduced investment inventory, and more modest consumer and government spending. Disappointed economists had expected a third quarter pace of 2.1%.

Both the national economic slowdown and retreating energy prices were influential considerations at the Federal Open Market Committee's (FOMC) two-day meeting in October. The FOMC left the target for the federal funds rate unchanged at 5.25% for the third time in a row. The committee acknowledged the nation's slowing economic growth due in part to the cooling housing market but expects economic growth to expand at a moderate pace in the coming months. Inflation concerns remain although reduced energy prices and other factors have contained pressure at this time. Most analysts believe the FOMC will also leave the target rate unchanged at the next meeting on December 12, 2006.

The U.S. trade deficit, which measures the difference between U.S. exports and imports, increased 2.7% from a revised \$68 billion in July to a record \$69.9 billion in August as imports increased more rapidly than exports. The U.S. imported more equipment, commodities, and consumer goods in August but also exported a record amount. The shortfall with China hit an all-time high in August. At the current pace, the 2006 U.S. trade deficit is estimated to surpass the 2005 record deficit of \$716.7 billion.

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

- ◆ The Conference Board's Index of Leading Economic Indicators increased to 137.7 in September after two consecutive months of declines. Five of the ten leading index contributors moved in a positive direction from August to September. The leading index has declined in five of the last eight months. The coincident index, which gauges current economic conditions, was unchanged in September after posting month-to-month gains since September 2005. Three of the coincident indicators moved in a positive direction from August to September, bringing the index to 123.3.
- ◆ The nation's manufacturing sector expanded for the 41st consecutive month in October, albeit at its slowest pace since June 2003. The Institute for Supply Management's Purchasing Managers' Index slipped 1.7% from 52.9 in September to 51.2 in October, reflecting the struggling auto and housing industries. Eight manufacturing industries experienced growth in October, lead by apparel, leather & allied products, and

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miscellaneous manufacturing. A reading greater than 50 suggests economic expansion whereas a reading below 50 suggests economic contraction.

- ◆ The Front Range Purchasing Managers' Index, compiled by the University of Colorado at Denver Business School, rebounded in September to 60.5 from 43.3 in August. The August reading was the only reading since December 2005 to fall below 50, which indicates economic contraction.
- ◆ The national service economy expanded for the 43rd consecutive month in October and at a faster pace than exhibited in September. The National Institute for Supply Management's Non-Manufacturing Index increased from 52.9 in September to 57.1 in October with half of the 18 non-manufacturing industries reporting increased economic activity. Utilities, information, and retail trade were the top three growth industries in October.
- ◆ Metro Denver's non-manufacturing or service-economy index also recovered in September, similar to the region's manufacturing index, with an increase from 43.7 in August to 57.1 in September. The non-manufacturing index is compiled by the College of Business at the University of Colorado at Denver and indicates expansion with a reading of 50 or greater.
- ◆ The Creighton University Business Conditions Index for the Mountain States region decreased in October for the second consecutive but remains in a positive growth trend. The October index slipped to 67.6 in October from 73.3 in September and 75.6 in August, indicating softer growth expectations for the Colorado-Wyoming-Utah region. The individual Colorado index slipped for the third consecutive month in October to 53.8 from 65.8 in September. A reading greater than 50 indicates expansionary conditions.
- ◆ Colorado's small business owners experienced improved conditions in September, according to Vectra Bank's Colorado Small Business Index. The index increased from a revised 104.2 in August to 105.0 in September, primarily due to a slightly higher unemployment rate of 4.8% at the time of this index and upward revisions to global economic growth forecasts. The index considers increased unemployment to be a positive factor for small businesses because workers are easier to hire from a small business perspective. Small business conditions also improved at the national level, increasing from a revised 88.3 in August to 91.4 in September. Both indices use a baseline value of 100 in 1997.
- ◆ Colorado business leaders anticipate slower economic growth in Colorado during the final quarter of 2006. The Colorado Business Leaders Confidence Index declined for the third consecutive quarter from 54.2 in the third quarter to 49.9 in the fourth quarter. The slip below the neutral 50 suggests the economy may be edging toward a contractionary mode although index authors say a slowdown is more likely. The forward-looking index is comprised of six component indexes, all of which reported declines from the third quarter outlook.
- ◆ The Metro Denver Leading Index was unchanged for the fourth consecutive month in July at 101.1, suggesting steady economic growth. Five of the seven index components moved in a negative direction from June to July. On a positive note, the April-July indexes are at the highest level since June 2001. The Leading Index is a predictor of changing economic activity six to nine months in advance. The Historic Index, which measures year-over-year growth, slipped for the second consecutive month in July to 130.5, suggesting that the regional economy is growing at a slower rate than at this time last year. Both of the Historic Index's two components decreased from June to July. The 100 level represents the benchmark year of 1995 for both indices, which are compiled by Development Research Partners.

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Labor and Employment

Year-to-date employment growth in Metro Denver slipped below the 2.0% mark in September for the first time in nearly a year, according to preliminary data from the Colorado Department of Labor and Employment. Through the third quarter, employment in Metro Denver is up 1.9% compared to the same period last year. Statewide employment growth continues to expand at a stronger clip than Metro Denver as it has since December 2003. Colorado employment growth through September is up 2.2% compared to a 1.4% annualized gain at the national level. Both Metro Denver and Colorado employment growth have outpaced the nation since December 2004.

Employment declines were widespread in September with nine of the eleven federally-defined supersectors reporting declines – some of which are seasonal shifts. Government employment increased by 10,500 positions due to the return of public school teachers and no change occurred in the Education and Health Services sector. On a year-to-date basis, the Natural Resources and Construction sector leads with the highest percentage gain of 5.5% through third quarter, followed by a 3.2% increase in Professional and Business Services employment, and a 3.1% gain in Transportation, Warehousing and Utilities employment. In absolute terms, the Professional and Business Services sector has seen the largest gain of 7,000 positions so far this year, followed by 5,300 new jobs in the Natural Resources and Construction sector, and 2,900 jobs in both the Education and Health Services and Government sectors.

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

	Month of Sep-06 (p)	Month of Aug-06	Month of Sep-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*	1,382.7	1,381.4	1,364.8	1,370.3	1,344.1	1.9%	0.0%	3.1%
Denver-Aurora MSA	1,219.9	1,221.5	1,203.1	1,208.6	1,184.4	2.0%	-0.2%	3.2%
Boulder-Longmont MSA	162.8	159.9	161.7	161.7	159.7	1.3%	1.5%	2.7%
Natural Resources & Construction	104.1	104.4	101.1	101.0	95.7	5.5%	2.0%	5.5%
Manufacturing	92.1	92.3	91.4	91.8	91.1	0.8%	-5.8%	2.0%
Wholesale & Retail Trade	207.9	209.2	209.8	209.1	206.3	1.3%	-0.4%	2.9%
Transp., Warehousing & Utilities	53.0	53.1	50.9	52.3	50.7	3.1%	2.3%	5.4%
Information	55.8	56.3	56.5	55.9	57.4	-2.7%	-3.3%	5.1%
Financial Activities	108.0	108.5	107.4	108.1	106.3	1.7%	-0.3%	5.5%
Professional & Business Services	230.3	231.3	223.8	225.9	219.0	3.2%	-1.4%	3.6%
Education & Health Services	140.3	140.3	137.6	139.7	136.8	2.1%	4.1%	3.5%
Leisure & Hospitality	142.9	147.5	140.6	140.8	138.0	2.0%	1.0%	1.2%
Other Services	50.4	51.1	50.3	50.7	50.4	0.5%	-0.2%	5.1%
Government	197.9	187.4	195.4	195.0	192.1	1.5%	2.5%	0.8%
Federal Gov't	31.1	31.3	31.3	31.3	31.4	-0.3%	-3.3%	-5.2%
State & Local Gov't	166.8	156.1	164.1	163.7	160.7	1.9%	3.8%	2.5%
Colorado	2,288.1	2,288.8	2,247.3	2,263.6	2,215.5	2.2%	0.6%	3.6%
United States	135,842	135,380	134,137	134,815	132,931	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

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

Aerospace: The Federal Trade Commission granted Lockheed Martin Corp. and Boeing Co.'s United Launch Alliance, LLC (ULA) anti-trust clearance in early October after 18 months of review. The ULA will combine the production, engineering, test, and launch operations of Boeing Delta and Lockheed Martin Atlas rockets to save the federal government between \$100 million and \$150 million a year. Jefferson County will serve as ULA's headquarters with the concentration of engineering and administrative services while assemblage and integration operations will be housed at Boeing's facility in Decatur, AL. The ULA is expected to employ 3,800 workers in Colorado, California, Alabama, Florida, and Texas. The deal also means 750 to 1,000 high-paying positions will be transferred from Huntington Beach, CA to Metro Denver.

Aviation: A Connecticut-based company has made an initial commitment to purchase 101 of Centennial-based Adam Aircraft Industries A700 lightweight jets. In other news, Adam Aircraft Industries received the third largest venture capital award in the nation during the third quarter of \$93 million to develop the A500 jet which was recently approved by the Federal Aviation Administration.

The Jefferson County Airport will be renamed the Rocky Mountain Metropolitan Airport to help draw attention to the airport's convenient location in Metro Denver. The Rocky Mountain Metropolitan Airport is the closest airport to Downtown Denver at only a 20-minute drive. In 2005, the airport contributed an estimated \$300 million to the regional economy.

Biotechnology: California-based Gilead Sciences, Inc. will acquire Westminster-based Myogen, Inc. for \$2.5 billion or \$52.50 a share by year end. Gilead Sciences will capitalize on the two drugs Myogen is preparing to market. Ambrisentan treats a rare, lethal heart and lung disease and could generate \$600 million in annual revenues. The drug could be on the market in early 2007 pending federal approval. The second drug, darusentan, treats high blood pressure and could earn between \$800 million and \$1 billion a year starting in 2009. Gilead Sciences is planning to keep some component of Myogen's operations in Metro Denver; however, details are unknown at this time. Myogen currently employs 160 workers in Metro Denver and was spawned from licensed research performed at the University of Colorado. Gilead Sciences makes the world's best-selling AIDS medicine.

The U.S. Food and Drug Administration (FDA) rejected Louisville-based Replidyne's application for approval of faropenem, an antibiotic, in October. The antibiotic was the company's most advanced product and is designed to treat community-acquired pneumonia, bacterial sinusitis, chronic bronchitis, and skin infections. The FDA said additional clinical trials are needed to gain approval.

Energy: The natural gas drilling boom of late is showing signs of a slowdown in the Rocky Mountain region with natural gas prices down to \$2 per thousand cubic feet. Three drilling companies temporarily closed wells in October and another company announced capital investment cutbacks. Analysts explain that the low prices do not justify the higher-than-average drilling costs in the Rocky Mountains where the gas is trapped between layers of rock. Demand for natural gas this winter will determine whether the current slowdown is a trend or not.

Telecommunications: Broomfield-based Level 3 Communications announced its \$1.47 billion purchase of rival fiber-optic network provider Broadwing Corp., marking Level 3's seventh corporate buyout since the spring of 2005. The purchase of Austin, TX-based Broadwing Corp. adds a solid base of corporate and wholesale customers to Level 3's customer base and will reduce overall industry overcapacity once Level 3 eliminates network duplications. Level 3's balance sheet will also get a boost since Broadwing has few debts. It is not known how Broadwing's 1,600 employees will be affected.

In other employment news, FedEx selected Commerce City for its second largest freight distribution center, behind the Dallas facility. Metro Denver's central location for east-west shipments was key in the site selection process. The Memphis-based company broke ground on the 170,000-square-foot facility in mid-October which is scheduled to be completed in November 2007 and will replace the 46,000-square-foot facility currently in place.

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FedEx already employs 580 workers at the existing Commerce City site, making FedEx the municipality's fourth largest employer. In total, FedEx has 330 distribution centers, more than 28,000 employees, and handles more than 65,000 shipments daily.

On the other hand, Galileo International, a travel reservation company, cut its Denver workforce by 20% in October, resulting in the loss of 100 local workers. The layoffs follow the company's recent acquisition by a private equity firm for \$3.4 billion and are said to simplify business processes and reduce costs.

The hiring pace in Metro Denver will soften in the final quarter of 2006 but remain at a stronger level than a year ago, according to the latest Manpower Employment Outlook Survey. About 33% of the companies interviewed in the Denver area plan to hire more employees in the fourth quarter of 2006, down from 43% in the third quarter and 38% in the second quarter. On the bright side, only 2% of the companies expect to reduce payrolls in the fourth quarter, down from 8% in the third quarter. About 60% of Denver area companies expect no staffing changes. Hiring expectations are also lower in the Boulder area with about 23% of companies planning to hire in the fourth quarter, down from 47% in the third quarter. Ten percent of Boulder respondents plan to reduce payrolls in the fourth quarter, up from 0% in the third quarter. Job prospects in the Denver area appear best in construction, durable goods manufacturing, transportation/public utilities, wholesale/retail trade, finance/insurance/real estate, and public administration.

Similar to the Metro Denver outlook, the national employment outlook for fourth quarter 2006 is also softer with 28% of companies planning to add workers during the October-December period, down from 31% in the previous quarter. About 8% of the 14,000 companies interviewed plan to reduce staff levels, 58% expect no staffing changes, and the remaining 6% are undecided.

Employment Outlook Survey

	Quarter 4 2006	Quarter 3 2006	Quarter 4 2005	YTD Average 2006	YTD Average 2005
Denver Area*					
Percent of Companies Hiring	33%	43%	23%	36%	29%
Percent of Companies Laying Off	2%	8%	18%	7%	7%
Percent of Companies No Change	60%	49%	56%	52%	61%
Boulder County					
Percent of Companies Hiring	23%	47%	17%	34%	29%
Percent of Companies Laying Off	10%	0%	7%	5%	8%
Percent of Companies No Change	67%	53%	76%	59%	58%

*Includes Adams, Arapahoe, Broomfield, Denver, Douglas and Jefferson counties.

Source: Manpower Inc.

The Metro Denver unemployment rate decreased from 4.8% in August to 4.3% in September, bringing the year-to-date rate to 4.6% through the third quarter of 2006. At this time last year, the year-to-date unemployment rate was 5.3%. A closer look reveals a 3.7% unemployment rate in the Boulder-Longmont MSA and a 4.4% unemployment rate in the Denver-Aurora MSA. All seven Metro Denver counties reported unemployment rate declines from August to September. Denver (5.1%) and Adams (4.8%) counties reported the highest unemployment rates in the ninth month of the year while Douglas (3.2%) and Boulder (3.7%) counties reported the lowest unemployment rates. The statewide unemployment rate decreased from 4.6% in August to 4.2% in September while the national unemployment rate declined from 4.6% to 4.4% over the same period. On a year-to-date basis, the Colorado and U.S. unemployment rates stand at 4.6% and 4.7%, respectively.

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

	September 2006 (p)		2006 YTD AVG		2005 YTD AVG		2001	1996
	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Total Labor Force	Unemployment Rate	Ann Avg Unemployment Rate	Ann Avg Unemployment Rate
Metro Denver	1,495.2	4.3%	1,477.6	4.6%	1,438.7	5.3%	3.9%	3.8%
Adams County	209.6	4.8%	207.5	5.3%	202.0	6.0%	4.2%	4.2%
Arapahoe Cnty	309.2	4.3%	305.3	4.5%	297.1	5.2%	3.8%	3.2%
Boulder Cnty	172.6	3.7%	170.6	4.0%	167.1	4.6%	3.5%	3.8%
Broomfield Cnty*	25.0	4.2%	24.7	4.5%	23.9	4.9%	3.7%	
Denver County	316.2	5.1%	312.6	5.4%	304.4	6.2%	4.6%	5.0%
Douglas Cnty	142.4	3.1%	140.5	3.2%	136.3	3.7%	3.1%	2.2%
Jefferson Cnty	320.1	4.2%	316.5	4.5%	307.7	5.2%	3.6%	3.4%
Colorado	2,662.1	4.2%	2,620.5	4.6%	2,542.9	5.2%	3.8%	4.2%
United States	151,635	4.4%	151,064	4.7%	149,047	5.2%	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 for the third consecutive month in September, falling from 4,220 in August to 3,726 in September. Through third quarter 2006, first time unemployment claims are down 6.8% in Metro Denver. Statewide claims decreased from 8,508 in August to 7,594 in September and stand 12.6% below average claims at this time last year.

First-Time Unemployment Insurance Claims

	Month of	Month of	Month of	YTD Avg	YTD Avg	YTD Avg	Annual	Annual
	Sep-06	Aug-06	Sep-05	2006	2005	% Change	Average 2001	Average 1996
Metro Denver	3,726	4,220	4,324	4,508	4,836	-6.8%	6,599	4,573
Colorado	7,594	8,508	11,719	9,200	10,529	-12.6%	13,624	

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

Consumer Sector

Inflation worries subsided with the largest consumer price decline in September in ten months, according to the U.S. Bureau of Labor Statistics. The Consumer Price Index decreased 0.5% in September due in part to a 7.2% decline in gasoline and energy prices from August. The September decline is the biggest month-to-month drop since November 2005 when energy prices moderated after spiking sharply post Hurricane Katrina. Overall inflation is running at 2.1% for the year. Core inflation, which excludes more volatile energy and food prices, increased 0.2% in September, the third consecutive month of modest increases. Core inflation is posting a 2.9% increase for the year.

Gasoline prices continued to plummet in October and early November. As of November 3, 2006, the national average price for a gallon of regular gasoline was \$2.20 compared to \$2.30 a month earlier and \$2.45 a year earlier. Gasoline prices in Metro Denver have realized a more significant decline in the past month. The average price for a gallon of regular gasoline in Metro Denver was \$2.13 on November 3, 2006 compared to \$2.54 a month earlier and \$2.49 a year earlier. The record high in Metro Denver was \$3.02 recorded in September 2005.

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Gasoline prices are on a downswing just as energy bills are expected to increase based on a proposed rate hike for natural gas by Xcel Energy and typical demand increases in the upcoming colder months. In fact, the average residential user will use 83% more natural gas in November than in October while small businesses typically double their natural gas usage. Still, November 2006 natural gas bills are expected to be 35% lower than in the same month last year. The U.S. Department of Energy, Energy Information Administration is forecasting smaller average natural gas bills this winter but higher electricity bills. The 58% of U.S. households that use natural gas to heat their homes will pay an average of \$826 this winter, down 13% or \$119 from last winter. The 30% of U.S. households that use electricity to heat their homes will pay \$839 this winter, up 7% or \$58 from last winter.

Lower energy costs have yet to significantly impact consumer spending, at least according to September data from the U.S. Census Bureau. Retail and food service sales declined 0.4% from August to September although September sales are up 5.5% compared to the same month last year. Third quarter sales posted a 5.6% gain over third quarter 2005 sales. The U.S. Census Bureau data is seasonally adjusted but not adjusted for inflation.

Back-to-school shoppers in Metro Denver prompted a 5.5% increase in total retail sales from July to August. Through the first eight months of 2006, retail sales are up 8.8% in Metro Denver and 9.5% across the state. The strongest year-to-date gains in Metro Denver have occurred in Denver (+11.1%), Adams (+10.6%), and Arapahoe (+10.1%) counties. Boulder County (+3.5%) and Jefferson (+6.0%) counties are reporting the most modest gains among the seven counties.

Total Retail Sales (\$000s)

	Month of Aug-06	Month of Jul-06	Month of Aug-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Annual Growth 2001	Annual Growth 1996
Total Metro Denver	6,450,981	6,116,599	6,024,322	49,640,612	45,638,171	8.8%	2.9%	7.1%
Adams County	1,001,305	925,813	867,450	7,563,785	6,837,399	10.6%	3.6%	3.2%
Arapahoe County	1,464,237	1,333,748	1,310,458	11,082,721	10,066,664	10.1%	-0.5%	10.1%
Boulder County	575,869	557,139	572,328	4,530,858	4,377,111	3.5%	1.6%	10.4%
Broomfield County	124,232	114,594	117,201	964,269	899,345	7.2%		
Denver County	1,774,317	1,663,561	1,619,535	13,632,665	12,273,238	11.1%	1.6%	2.2%
Douglas County	488,108	488,528	550,138	3,859,050	3,632,372	6.2%	16.5%	46.4%
Jefferson County	1,022,913	1,033,216	987,212	8,007,264	7,552,042	6.0%	2.6%	5.8%
Colorado	10,970,704	10,578,015	10,166,337	84,439,783	77,103,732	9.5%	2.9%	7.2%

Source: Colorado Department of Revenue.

Consumer confidence in the mountain region surged in September after retreating in the two months prior, according to the Conference Board's Consumer Confidence Index. Consumer confidence in the mountain region is the most optimistic among the nation's nine regions. Mountain region consumer confidence increased from a revised 119.3 in August to a preliminary 135.0 in September, bringing confidence levels through third quarter 8.6% above 2005 levels. The confidence index is comprised of the present situation index and the expectations index, which both increased in September. The perception of the current situation jumped from a revised 152.0 in August to 181.6 in September, the highest reading of the nine regions. The future expectations index increased from a revised 96.2 in August to 104.0 in September, the second highest reading of the nine regions.

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Consumer Confidence Index

	Month of Sep-06 (p)	Month of Aug-06	Month of Sep-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Ann Avg 2001
Mountain	135.0	119.3	117.6	131.6	121.2	8.6%	115.2
United States	104.5	100.2	87.5	105.4	101.8	3.6%	106.6

Source: The Conference Board. (p) =preliminary

National consumer confidence also advanced in September, rising from a revised 100.2 in August to a preliminary 104.5 in September. Both perceptions of current conditions and future expectations improved in September at the national level. Advance estimates for October confidence levels reveal a slight decrease in the overall consumer confidence index from September with a decline in the present situation index and an increase in the expectations index.

The Metro Denver Convention and Visitors Bureau has booked a total of 842 future meetings and conventions valued at \$2.2 billion, including the American Institute of Architects annual meeting in 2013 that will bring 22,000 attendees. Based on bookings so far this year, 2006 is on pace to be a record year. Interest in Metro Denver as a destination goes beyond U.S. borders. The Bureau reported a 25% increase over 2005 in the number of international companies offering Denver tours.

Denver hosted the Urban Land Institute's (ULI) fall meeting in October, drawing a record 6,000 of the nation's leading land-use experts. The organization offered praised to Metro Denver for its passage of the \$4.7 billion FasTracks project, calling it the "nation's largest comprehensive mass transit development," as well as its regionalism approach to future growth, and cultural outlets.

Record bookings have contributed to improving conditions for Metro Denver's lodging industry in terms of increased occupancy and higher average room rates compared to 2005. The average occupancy rate slipped from 76.7% in August to 73.5% in September as the summer travel season wrapped up; however, the average occupancy rate through third quarter is up 2.7% compared to the same period last year. Despite the slip in occupancy, the average room rate increased from \$106.81 in August to \$107.56 in September, bringing the average room rate through August up 10.8% compared to 2005. The average room rate in Downtown Denver surpassed \$150 per night in September for the first time while the average occupancy rate of 76.7% was higher than the metro average. The statewide occupancy rate in September 2006 was 65%, up 2.2% from the same month last year. The average room rate increased \$8.39 from September 2005 to \$114.06 in September 2006.

Metro Denver Hotel Statistics

	Month of Sep-06	Month of Aug-06	Month of Sep-05	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Annual 2001	Annual 1996
Percent of Hotel Rooms Occupied	73.5%	76.7%	69.1%	68.4%	66.6%	2.7%	62.5%	72.3%
Average Hotel Room Rate	\$107.56	\$106.81	\$95.68	\$100.83	\$90.99	10.8%	\$88.52	\$77.58

Source: Rocky Mountain Lodging Report.

Cultural institutions in Metro Denver, which attracted 14.1 million visitors in 2005, generated \$1.4 billion in economic activity for the region and employ 10,800 local workers. About 2.4 million of the total 14.1 million visitors were from outside the metro region. For comparison purposes, about 4.5 million people attended professional sporting events in 2005. The new report released by the Colorado Business Committee for the Arts covers more than 300 nonprofit institutions in Metro Denver that are funded by the Scientific & Cultural Facilities District tax. About \$785 million of the \$1.4 billion represents visitor purchases including tickets, parking, and babysitters. The remaining \$600 million represents grants, investments, and the institutions' operating expenditures. The previous study in 2003 tallied 11.3 million visitors and a total economic impact of \$1.3 billion to Metro Denver.

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Metro Denver visitors, residents, and businesses continue to benefit from airline competition at Denver International Airport (DIA). DIA and Colorado Springs' passengers saw the smallest quarter-over-quarter fare increase in the second quarter of 2006 as the national index rose to its highest level in 11 years, according to the U.S. Bureau of Transportation Statistics Air Travel Price Index. The average airfare at DIA was \$214.47 in the April-June period, up from \$195.03 in the same period last year.

Passenger traffic at DIA decreased from July to August in a typical seasonal pattern, although August 2006 passenger traffic was up 5.1% over the same month last year making it the busiest August ever. Through the first eight months of the year, almost 32.4 million travelers have passed through the airport and passenger traffic through August is up 9.6% over 2005 traffic levels. August 2006 also marks the 16th consecutive month the airport has set a monthly passenger traffic record, despite the fallout from the foiled United Kingdom terrorist attacks. Record passenger traffic at DIA is prompting expansion discussions. The eleven-year-old airport, which was built to accommodate 50.0 million passengers, is on track to hit 48.0 million passengers in 2006. Current discussions include a \$160 million project that would add eight new gates on Concourse C.

Denver International Airport Passengers

	Month of Aug-06	Month of Jul-06	Month of Aug-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Annual 2001	Annual 1996
Number of Airline Passengers	4,334,320	4,571,230	4,122,226	32,350,869	29,504,702	9.6%	36,092,806	32,296,174

Source: Denver International Airport, Traffic Statistics.

The nation's financial markets trended upward in October, allowing for a record close in the Dow Jones Industrial average. The DOW closed above the 12,000 mark for the first time ever in October after two weeks of strong gains. Analysts concur that investors are confident that the economy is on track to slow but not stall. The record close occurred on the anniversary of Black Monday (October 19, 1987) when the DOW dropped 508 points for its second biggest percentage loss ever. The DOW is a compilation of 30 large, blue-chip stocks that some say is not as meaningful to the diversified portfolios of today as the S&P 500 with 500 stocks. For the year, the DOW and S&P 500 show robust gains of 12.7% and 10.4%, respectively, compared to the NASDAQ's relatively more modest gain of 7.3%.

Meanwhile, the Colorado stock index, a compilation of the stock prices of 30 companies either headquartered in Colorado or having significant operations in the state, increased 3.7% from September to October for an annualized gain of 6.1%. The companies reporting the largest stock price percentage gains from September to October were United Airlines (+35.3%), McData Corp. (+12.7%), and Gaiam, Inc. (+12.4%). United Airlines' third quarter earnings report of \$190 million marked the first time the airline has achieved back-to-back profits in over six years. Only six of the 30 companies reported month-to-month losses in October, including Crown Media Holdings (-11.1%), Katy Industries (-7.8%), and the Rocky Mountain Chocolate Factory (-4.1%).

Stock Market Indexes

	Month of Oct-06	Month of Sep-06	Month of Oct-05	YTD Return 2006	YTD Return 2005	YTD Return 2004
Colorado	1,882.8	1,815.3	1,709.2	6.1%	7.4%	3.6%
S&P 500	1,377.9	1,335.9	1,207.0	10.4%	-0.4%	1.6%
NASDAQ	2,366.7	2,258.4	2,120.3	7.3%	-2.5%	-1.4%
DOW	12,080.7	11,679.1	10,440.1	12.7%	-3.2%	-4.1%

Sources: Development Research Partners; Yahoo! Finance.

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Residential Real Estate

The nation's housing market continues to exhibit signs of cooling, according to new data from the National Association of Realtors (NAR). Existing home sales declined for the sixth consecutive month in September, falling to an annual pace of 6.18 million units or the slowest sales rate since January 2004. The September 2006 pace was 1.9% slower than the pace set in the month prior and 14.2% slower than a year earlier. On the bright side, the number of unsold homes on the market in September decreased 2.4% from August to 3.75 million units. David Lereah, chief economist of the NAR, added that, "The worst is behind us as far as a market correction – this is likely the trough for sales." New home sales strengthened in September, rising 5.3% to a seasonally-adjusted annual rate of 1.075 million homes. The September increase was the second of its kind after three months of declines. Still, September 2006 sales were down 14.2% from a year earlier.

Metro Denver home sales dropped to the lowest level in September since February 2006. Through third quarter, home sales in Metro Denver are down 5% compared to the same nine-month period last year. A closer look reveals a 5% year-to-date decline in single-family home sales and a 4.8% year-to-date decline in condominium sales. Home sales under contract, a leading indicator, are also down so far this year. On a positive note, unsold inventory levels decreased by about 200 homes in September to 31,450 homes on the market, bringing September inventory levels up 15.4% compared to this time last year. The average sales price declined from August to September in both the single-family and condominium categories, although only the average condominium sales price is down compared to last year. Despite three consecutive declines, the average single-family sales price stands 3.7% above 2005 levels through third quarter. Average condominium sale prices are down 0.5% in Metro Denver through third quarter.

Home Sales Activity

	Month of Sep-06	Month of Aug-06	Month of Sep-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Ann Avg 2001	Ann Avg 1996
Home Sales (Under Contract)	4,740	5,673	5,191	49,554	52,709	-6.0%	32,248	33,406
Home Sales (Closed)	4,108	5,025	4,726	39,442	41,514	-5.0%	47,832	37,755
Unsold Homes on Market	31,450	31,664	27,248	31,450	27,248	15.4%	15,892	12,315
Average Sales Price-Single Family	\$308,903	\$320,092	\$305,943	\$318,487	\$307,084	3.7%	\$257,394	\$159,132
Average Sales Price-Condo	\$191,006	\$196,659	\$192,390	\$188,726	\$189,732	-0.5%	\$160,342	\$94,596
Median Sales Price-Single Family	\$243,500	\$252,900	\$249,000	\$250,000	\$247,000	1.2%	\$213,950	
Median Sales Price-Condo	\$156,250	\$160,000	\$163,000	\$158,000	\$160,000	-1.3%	\$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.

Several reports warn of or indicate home price declines across the U.S. Moody's Economy.com is forecasting a decline in U.S. home prices in 2007 for the first time since the Great Depression. Overall, U.S. home prices are expected to fall 3.6% from 2006 to 2007 with 20 areas posting double-digit declines, including Greeley and Weld County. The "Housing at the Tipping Point" report predicts home prices will fall 4.6% in Denver, 2.8% in Boulder County, 6.1% in Fort Collins, and 10.7% in Greeley. Local real estate analyst Gary Bauer calls Economy.com's Colorado forecasts "aggressive."

New-home prices posted the largest year-over-year decline in 35 years in September, according to the U.S. Commerce Department. The September median sales price in the new-home category was \$217,100, a difference of 9.7% from a year earlier. Moreover, the September median sales price was at its lowest level in two years.

Preliminary national data from the NAR indicates existing home prices sustained their largest year-over-year decline in September since the organization began tracking the data in 1968. The median single-family home price in September 2006 was \$266,500, representing a 2.5% decline from September 2005. The average single-

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family home price also fell by 2.3% over the same 12-month period. Furthermore, U.S. home prices declined 1.7% in the third quarter of 2006.

The latest metro-level data from the NAR is available through the second quarter of 2006 for previously-owned homes. Thirty-seven of the 151 metropolitan areas tracked reported double-digit gains and 26 areas reported modest declines from second quarter 2005 to second quarter 2006. Overall, the median sales price for single-family homes in the U.S. increased 3.7% to \$227,500 in the second quarter while appreciation was flat for previously-owned condominiums. The median sales price for condominiums slipped 0.3% to \$225,800 in the second quarter. Fifteen of the 57 metropolitan areas tracked reported double-digit gains and 14 areas suffered declines.

The median home price for previously-owned single-family homes in the Denver-Aurora area increased 4.5% from the first quarter to \$255,200 in the second quarter, according to the National Association of Realtors. Compared to second quarter 2005, the median home price for the single-family category appreciated 2.7%. The Boulder-Longmont area has experienced higher appreciation rates over the past year. The median home price for previously-owned single-family homes in the Boulder-Longmont area increased 3.6% from the first quarter to \$373,200 in the second quarter and grew 7.8% from second quarter 2005. Home price appreciation from second quarter to second quarter ranked the Denver-Aurora area 95th out of the 151 largest metropolitan statistical areas in the U.S. and the Boulder-Longmont area experienced the 51st largest price appreciation. The median home price in the Denver-Aurora area of \$255,200 was the 36th highest while Boulder's median price of \$373,200 ranked 19th during the second quarter of 2006. The three most expensive home markets in the country are the San Francisco, San Jose, and Anaheim-Santa Ana metropolitan areas in California.

Median Home Price (\$000s)

	Quarter 2 2006 (p)	Quarter 1 2006	Quarter 2 2005	YTD Average 2006	YTD Average 2005	YTD Average % Change	Median 2001	Median 1996
Boulder-Longmont MSA	\$373.2	\$360.4	\$346.2	\$366.8	\$341.7	7.3%	n/a	n/a
Denver-Aurora MSA	\$255.2	\$244.2	\$248.4	\$249.7	\$242.2	3.1%	\$218.3	\$133.4
United States	\$227.5	\$217.9	\$219.4	\$222.7	\$208.5	6.8%	\$156.6	\$122.6

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

The most expensive homes in Metro Denver are in zip code 80118 (Larkspur) where the median sales price is \$527,300, according to third quarter data from California-based DataQuick Information Services. Two Boulder zip codes, 80304 and 80302, rounded out the top three most expensive zip codes in Metro Denver at about \$520,000. The least expensive zip codes, on the other hand, were 80216 (Denver, \$122,000), 80010 (Aurora, \$138,000), and 80235 (Denver, \$148,000).

High foreclosures are contributing to the softer residential market conditions in Metro Denver. Foreclosures are the result of several factors including employment losses, weak income or wage gains, inflation, the type of mortgage products offered, and mortgage/appraisal fraud. A detailed explanation of the factors behind foreclosures and the impact of foreclosures on Metro Denver's residential market can be viewed on Metro Denver EDC's website. (www.metrodenver.org/NewsCenter/HousingStudy.icm)

Colorado posted the highest foreclosure rate in the nation during the third quarter, according to California-based RealtyTrac, with a new foreclosure filing for every 127 households. Colorado has held the dubious distinction for two consecutive quarters. RealtyTrac recorded 14,374 homes in foreclosure during the July-September period, which was the eighth highest in the nation and a 24% increase over second quarter foreclosures.

Despite a decline in the total number of new foreclosure cases from the record high in August to September, Metro Denver foreclosures are up 34.2% through the third quarter of 2006. Data from CB Richard Ellis indicates that all seven Metro Denver counties experienced relief from August to September with the exception of Arapahoe

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County, which recorded increased activity. Through third quarter, the most foreclosures have occurred in Denver, Arapahoe, and Adams counties while Broomfield, Denver, and Jefferson counties have posted the largest percentage gains in foreclosure cases through September.

Real Estate Foreclosures

	Month of Sep-06	Month of Aug-06	Month of Sep-05	YTD Total 2006	YTD Total 2005	YTD Total % Change
Total Metro Denver*	1,474	1,706	1,126	14,132	10,529	34.2%
Adams County	382	407	274	3,231	2,420	33.5%
Arapahoe County	379	333	320	3,449	2,621	31.6%
Boulder County	58	66	46	585	453	29.1%
Broomfield County	16	19	9	133	86	54.7%
Denver County	361	493	260	3,728	2,657	40.3%
Douglas County	79	122	54	861	724	18.9%
Jefferson County	199	266	163	2,145	1,568	36.8%

*Foreclosure data for Metro Denver represents the total number of election and demand setups received by the county public trustee in the month received. 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.

U.S. home construction activity rebounded in September after three months of waning activity. The U.S. Census Bureau reported housing starts increased to an annualized pace of 1.77 million units in the ninth month of the year, up from the 1.67-million-unit pace set in the month prior. September 2006 activity levels are still down from the 2.16-million-unit pace in September 2005. Meanwhile, housing permits, which are considered to be a longer-term indicator, declined from an annual rate of 1.73 million in August to 1.67 million in September.

New home construction activity in Metro Denver increased slightly in September for the second consecutive month. The total number of building permits issued for residential construction increased from 1,259 in August to 1,314 in September, although year-to-date permits are down 8.5% compared to permits issued through third quarter 2005. Single-family detached home construction is down 25.8% from 2005 while single-family attached or two-family construction activity is up 30.9%. Multi-family construction activity is also up through September compared to the minimal construction activity that occurred in 2005. Aurora (1,650), Denver (1,037), and Castle Rock (842) have issued the most permits for single-family detached construction so far this year while Denver (1,562), unincorporated Douglas County (432), and Aurora (357) have issued the most single-family attached permits. Lakewood (307), unincorporated Douglas County (270), Arvada (264), Denver (240), and Lafayette (60) and are the only communities with any multi-family construction so far this year.

Residential Building Permits

	Month of Sep-06	Month of Aug-06	Month of Sep-05	YTD Total 2006	YTD Total 2005	YTD Total % Change	Total 2001	Total 1996
Single-Family Units	595	829	1,354	9,061	12,211	-25.8%	14,262	13,182
Two-Family Units	224	283	612	4,377	3,345	30.9%	4,442	2,093
Multi-Family Units	495	147	0	1,141	384	197.1%	9,090	3,666
Total Units	1,314	1,259	1,966	14,579	15,940	-8.5%	27,794	18,941

Source: Home Builders Association of Metro Denver.

The rental market continues to strengthen in Metro Denver with decreasing vacancy rates and rising average rents that are fueled by both high foreclosure levels and higher interest rates. The apartment vacancy rate in Metro Denver decreased from 6.9% in the second quarter to 6.7% in the third quarter, the lowest rate since second quarter 2001. The third quarter 2006 vacancy rate was the highest in the City and County of Denver at 7.6% compared to the lowest rate of 4.8% in Boulder/Broomfield counties. Gordon Von Stroh, the University of

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Denver business professor who compiles the data, expected the vacancy rate to decrease even further to 6.2% or 6.3% in the third quarter but still anticipates a stable vacancy rate in the final quarter of 2006. Von Stroh suggests that competition from the rental single-family home market may be precluding more rapid improvement in the vacancy rate. *The average monthly apartment rent increased from \$844 in the second quarter to \$866 in the third quarter. Still, average rent figures do not factor out concessions, which are still prevalent in the Metro Denver region. In fact, Von Stroh's "economic vacancy" rate, which does figure in rental concessions and other write-offs, is estimated at 23.1%.* Douglas County had the highest average monthly rent in the third quarter of \$956, followed by \$894 in the Boulder/Broomfield market, and \$826 in Jefferson County. Average apartment rents are the most affordable in Adams County at about \$781 per month.

Apartment Statistics

	Quarter 3 2006	Quarter 2 2006	Quarter 3 2005	YTD Avg 2006	YTD Avg 2005	YTD Avg % Change	Annual Average 2001	Annual Average 1996
Apartment Vacancy Rate	6.7%	6.9%	7.7%	7.0%	8.3%		6.4%	5.0%
Average Monthly Rental Rate (all units)	\$866	\$844	\$846	\$848	\$835	1.5%	\$822	\$607

Source: Denver Metro Apartment Vacancy and Rent Survey.

Boulder apartment renters pay the highest percentage of apartment rent to income in the county. The new study from the U.S. Census Bureau estimates that 44% of renters in Boulder spent at least half of their income on rent in 2005. Fort Collins ranked 26th with 36.3% percent of renters spending more than half of their income on rent. Generally speaking, fast-growing cities in the west or southwest part of the country tend to carry higher renter costs.

Commercial Real Estate

New third quarter reports from several local commercial real estate firms indicate that the office market in Metro Denver continues to gain strength. Fuller Real Estate reported improved market fundamentals for Metro Denver's office market in the third quarter of 2006. Vacancy rates continued their decline to 7.6% from 8.1% reported at year-end 2005 while more than one million square feet of positive net absorption was recorded, the highest quarterly absorption level in six years. Decreased vacancy rates have prompted increased speculative construction in freestanding user buildings, distribution centers, and commercial condominiums. Fuller estimates that total speculative construction starts in 2006 will near two million square feet and that lease rates will continue to improve.

According to Frederick Ross Company's third quarter report, the Metro Denver office market is, "past recovery and into a growth stage." Third quarter absorption totaled 921,263 square feet, bringing year-to-date absorption to 2.38 million square feet. All submarkets posted positive absorption in the third quarter although the CBD led the way, which contributed to declining vacancy rates. Lease rates continued to climb in the third quarter with the largest gains achieved in the higher-quality spaces in the central business district (CBD) and the Southeast Suburban submarkets. The Downtown Denver market is on track to reach a record one million square feet of leasing activity this year. The previous leasing activity record was set 21 years ago when the CBD absorbed 968,000 square feet. Third quarter absorption in Downtown Denver alone registered 369,269 square feet, which was 36% more than the 287,000 square feet of positive absorption registered in all of 2005.

Jones Lang LaSalle estimates the CBD's third quarter direct vacancy rate at 10.8% overall or 10.4% in the Class A market and 11.4% in the Class B market. The average gross rent in Downtown Denver is \$20.27 per square foot or \$21.88 per square foot for Class A space and \$17.38 per square foot for Class B space. A total of 572,100 square feet of new office space is currently under construction in the CBD which is split about evenly between the

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Class A and B products. So far this year, Jones Lang LaSalle has tallied a total of 743,982 square feet of net absorption including sublease space.

Suburban office market conditions are slightly softer than Metro Denver's CBD although improved over recent quarters. The suburban markets in Metro Denver posted a direct vacancy rate of 14.4% overall, including a 12.3% vacancy rate in the Class A market and a 16.2% vacancy rate in the Class B market, according to Jones Lang LaSalle. The Southeast submarket posted the highest direct vacancy rate in third quarter of 18.8% while the Midtown and Northeast submarkets both had vacancy rates of about 10.1%. The average gross rent in suburban Metro Denver is \$17.99 per square foot or \$20.64 per square foot for Class A space and \$15.82 per square foot for Class B space. Rents were most expensive in the Northwest submarket and least expensive in the Northeast submarket during the July-September period. A total of 1.26 million square feet of new office space is currently under construction in suburban Metro Denver of which 825,000 square feet is Class B space. Only the Southeast, Southeast Suburban, and West submarkets were undergoing new construction in the third quarter. So far this year, Jones Lang LaSalle has tallied a total of 1.17 million square feet of net positive absorption including sublease space.

Grubb & Ellis describes Metro Denver's office market as strong, driven by decreasing vacancy rates and increasing lease rates. The Office Market Trends Denver report for the third quarter pegs the overall metro vacancy rate at 15%, including an 11.9% vacancy rate in the CBD and 16.1% in the suburban markets. Asking rents stand at \$21.75 per square foot in the Class A category and \$18.12 in the Class B category in Metro Denver. The CBD is commanding \$25.29 per square foot in the Class A market and \$20.61 in the Class B market. Net absorption registered 1.01 million square feet in the third quarter for a year-to-date total of 2.81 million square feet.

According to data from Costar Realty Information, Inc., the overall vacancy rate in Metro Denver decreased from 14.1% in the second quarter of 2006 to 13.7% in the third quarter. A year ago, the office vacancy rate stood at 15.4%. Meanwhile, the average lease rate per square foot increased from \$17.87 in the second quarter to \$18.18 in the third quarter. Last year, office rents averaged \$17.40 per square foot. About 1.77 million square feet of construction is currently underway in Metro Denver.

Office Market Statistics

	Quarter 3 2006	Quarter 2 2006	Quarter 3 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002
Number of Buildings	4,485	4,431	4,396	4,354	4,311	4,260
Existing Square Feet (millions)	150.7	149.7	149.1	148.4	146.9	145.5
Vacant Square Feet (millions)	19.0	19.3	20.8	22.0	21.8	18.3
Vacancy Rate (Direct)	12.6%	12.9%	14.0%	14.8%	14.8%	12.6%
Vacancy Rate (With Sublet)	13.7%	14.1%	15.4%	16.8%	17.4%	15.3%
Average Lease Rate (per square foot)	\$18.18	\$17.87	\$17.40	\$16.86	\$17.56	\$19.57
New Construction Completed (year-to-date)	0.96 MSF, 33 Bldgs	0.40 MSF, 21 Bldgs	0.50 MSF, 31 Bldgs	1.05 MSF, 31 Bldgs	1.22 MSF, 36 Bldgs	2.39 MSF, 66 Bldgs
Currently Under Construction	1.77 MSF, 48 Bldgs	1.56 MSF, 40 Bldgs	1.21 MSF, 32 Bldgs	0.82 MSF, 27 Bldgs	0.59 MSF, 21 Bldgs	1.55 MSF, 40 Bldgs

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

Metro Denver's industrial market is also making strides. Frederick Ross Company reported positive net absorption of more than 1.1 million square feet in the third quarter with year-to-date absorption at more than 2.7 million. At this pace, the Metro Denver market could absorb about 3.5 million square feet by year-end. The multi-tenant warehousing market drove the increased leasing activity in the July-September period. Overall vacancy rates have also improved from 6.7% at year-end 2005 to 6.3% at the end of third quarter. About 1.22 million

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square feet of new industrial space has been added to the Metro Denver market so far this year with about 60% occupied. The East submarket continues to dominate construction in Metro Denver. Frederick Ross includes R&D/Flex properties in the Industrial category.

CoStar data also reveals improving market fundamentals for the industrial segment. The vacancy rate decreased from 7.8% in the second quarter of this year to 7.6% in the third quarter. The overall vacancy rate is down from 8.3% reported in the same quarter last year. Average lease rates increased slightly from \$4.83 in the second quarter to almost \$5.00 in the third quarter, similar to three years prior. About 1.19 million square feet of industrial space in 20 buildings was added to Metro Denver since January 2006. Another 1.53 million square feet of space is currently under construction of which more than 70% is occurring in Adams and Denver counties.

Industrial Market Statistics

	Quarter 3 2006	Quarter 2 2006	Quarter 3 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002
Number of Buildings	5,643	5,589	5,558	5,526	5,487	5,442
Existing Square Feet (millions)	200.2	199.3	197.7	196.4	194.2	192.6
Vacant Square Feet (millions)	14.4	14.8	15.6	15.4	13.4	11.2
Vacancy Rate (Direct)	7.2%	7.4%	7.9%	7.8%	6.9%	5.8%
Vacancy Rate (With Sublet)	7.6%	7.8%	8.3%	8.4%	7.6%	6.7%
Average Lease Rate (per square foot, nnn)	\$4.92	\$4.83	\$4.72	\$4.65	\$4.96	\$5.48
New Construction Completed (year-to-date)	1.19 MSF, 20 Bldgs	1.08 MSF, 14 Bldgs	0.61 MSF, 21 Bldgs	1.40 MSF, 27 Bldgs	1.33 MSF, 32 Bldgs	2.20 MSF, 35 Bldgs
Currently Under Construction	1.53 MSF, 25 Bldgs	1.35 MSF, 14 Bldgs	0.84 MSF, 21 Bldgs	0.61 MSF, 14 Bldgs	1.52 MSF, 12 Bldgs	0.79 MSF, 18 Bldgs

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

Metro Denver's flex real estate market is stable, according to data from Costar Realty Information, Inc. The overall third quarter vacancy rate increased slightly to 7.6% from second to third quarter and remains on par with third quarter 2003. The average lease rate was unchanged from second to third quarter at \$8.46 per square foot but stands higher than the average lease rate a year earlier. Only 390,000 square feet of flex space has been added to the Metro Denver market so far this year and only 70,000 square feet is currently under construction of which all is located in Jefferson County.

Flex Space Statistics

	Quarter 3 2006	Quarter 2 2006	Quarter 3 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002
Number of Buildings	1,255	1,245	1,233	1,207	1,198	1,179
Existing Square Feet (millions)	37.5	37.4	37.0	36.6	36.4	36.0
Vacant Square Feet (millions)	5.5	5.4	5.4	6.0	6.2	5.1
Vacancy Rate (Direct)	14.7%	14.3%	14.6%	16.4%	17.2%	14.3%
Vacancy Rate (With Sublet)	15.3%	15.1%	15.6%	17.9%	19.0%	16.1%
Average Lease Rate (per square foot, nnn)	\$8.46	\$8.46	\$8.32	\$8.37	\$8.32	\$8.60
New Construction Completed (year-to-date)	0.39 MSF, 13 Bldgs	0.29 MSF, 8 Bldgs	0.26 MSF, 16 Bldgs	0.08 MSF, 3 Bldgs	0.14 MSF, 4 Bldgs	0.67 MSF, 19 Bldgs
Currently Under Construction	0.07 MSF, 2 Bldgs	0.23 MSF, 9 Bldgs	0.23 MSF, 7 Bldgs	0.34 MSF, 16 Bldgs	0.06 MSF, 5 Bldgs	0.22 MSF, 9 Bldgs

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

Market fundamentals in Metro Denver's retail market remained strong during the third quarter despite slightly slower performance. Frederick Ross Company reported a decline in positive absorption in the third quarter from

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about 1.0 million square feet in each of the first two quarters of 2006 to just 379,000 square feet in the third quarter. Thus, Frederick Ross is projecting 2006 total net absorption to fall under the highs of 2004 and 2005. On a positive note, vacancy rates are expected to hit a record low in Metro Denver at year-end. As of third quarter, the overall vacancy rate was 4.9% compared to 6.2% at year-end 2005.

Several retail construction projects in Metro Denver are nearing an end or were recently completed, adding roughly 2.5 million square feet of new retail space to the Metro Denver market before year-end. Among the newly finished projects are The Orchard Town Center in Westminster, the \$130 million Twenty Ninth Street in Boulder, the \$350 million Southlands in Aurora, and the final phase of Northfield at Stapleton in Denver. *Experts dismiss overbuilding concerns because the new developments are either being added to areas with strong population growth or replacing existing retail developments. The International Council of Shopping Centers (ICSC) estimates that Colorado offers 26.95 square feet of retail space person compared to the national average of 20.53 square feet, a difference of 31%. Interestingly, Trammel Crow Co. reported that of the 2.5 million square feet of new retail space expected to open in Metro Denver in 2006, only 290,000 square feet opened in the first half of the year.*

In other retail construction news, Park Meadows Mall announced that the former Lord & Taylor department store will be replaced with a 145,000-square-foot outdoor retail plaza. Plans for the retail plaza include four restaurants and a variety of retail tenants among six to eight buildings along with fire pits and fountains. The Lord & Taylor building is undergoing its final stage of demolition so that the new retail plaza can open in 2008.

Costar data reveals slightly different statistics for the retail segment in Metro Denver. The overall vacancy rate ticked upward from 7.0% in the second quarter to 7.2% in the third quarter while the average lease rate increased from \$16.13 in the second quarter to \$16.41 in the third quarter. About 3.47 million square feet of new construction has been added to Metro Denver in 34 buildings since the beginning of the year. Another 4.23 million square feet is currently under construction of which about 39% is located in Adams County and 32% is located in Boulder County.

Retail Market Statistics

	Quarter 3 2006	Quarter 2 2006	Quarter 3 2005	Quarter 3 2004	Quarter 3 2003	Quarter 3 2002
Number of Buildings	3,376	3,178	3,138	3,077	2,969	2,893
Existing Square Feet (millions)	121.7	118.1	114.5	109.5	102.5	98.1
Vacant Square Feet (millions)	8.3	7.9	7.1	6.3	4.9	0.9
Vacancy Rate (Direct)	6.8%	6.7%	6.2%	5.7%	4.8%	0.9%
Vacancy Rate (With Sublet)	7.2%	7.0%	6.6%	6.1%	4.9%	0.9%
Average Lease Rate (per square foot)	\$16.41	\$16.13	\$15.17	\$14.65	\$13.75	\$12.58
New Construction Completed (year-to-date)	3.47 MSF, 34 Bldgs	N/A	N/A	N/A	N/A	N/A
Currently Under Construction	4.23 MSF, 62 Bldgs	N/A	N/A	N/A	N/A	N/A

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

Westfield Development Co. and the Bradbury family unveiled plans for a \$700 million transit oriented development (TOD) just south of Park Meadows Mall and along the Southeast light-rail line. The energy-efficient development will feature 2.0 million square feet of office space, 2,000 residential units, and 50,000 square feet of retail space. Construction is slated to begin in early 2007 with completion in 2014.

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Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↑	Employment increased by 1,300 jobs from Aug to Sep; employment up 1.9% through Q3
% Companies Hiring	↓	↑	33% of companies expect to add workers in Denver and 23% to add in Boulder in Q4 2006
Unemployment Rate	↓	↓	Metro rate decreased in Sep to 4.3% from 4.8% in Aug; annual rate through Q3 at 4.6%
Initial Claims	↓	↓	Unemployment claims decreased in Sep from 4,220 to 3,726; annual claims down 6.8%
Total Retail Sales	↑	↑	Total metro retail sales up 8.8% through August 2006; 9.5% YTD increase for Colorado
Consumer Confidence Index	↑	↑	Mountain region confidence level improved in Sep to 135.0; YTD confidence up 8.6%
Hotel Occupancy	↓	↑	Hotel occupancy slipped in Sep from 76.7% to 73.5%; avg room rate increased to \$108
DIA Passengers	↓	↑	Aug traffic decreased 5.2% from July; annual traffic up 9.6% through August
Colorado Stock Index	↑	↑	CO Stock Index increased 3.7% from September to October; index up 6.1% for the year
Dow Jones Industrial Average	↑	↑	DOW closed at record high of 12,011.73 in October; index posting a 12.7% gain for the year
Home Sales (closed)	↓	↓	Home sales decreased in Sept and are down 5.0% for the year; avg SF sales price up 3.7%
Median Home Price (Denver-Aurora MSA)	↑	↑	Median home price increased to \$255,200 in Q2 2006; median price up 3.1% YTD
Foreclosures	↓	↑	Foreclosures decreased in Sep but up 34.2% through Q3; all counties with double-digit gains
Residential Building Permits (Total)	↑	↓	Total permits increased 4.4% from Aug to Sep; annual permits are down 8.5% through Q3
Apartment Vacancy Rate	↓	↓	Vacancy rate decreased to 6.7% in Q3 from 6.9% in Q2; avg rental rate up to \$866 per month
Office Vacancy Rate (with Sublet)	↓	↓	Vacancy rate with sublet down to 13.7% in Q3; 1.77 million sq. ft. construction is underway
Industrial Vacancy Rate (with Sublet)	↓	↓	Vacancy rate with sublet down slightly to 7.6% in Q3; 1.53 million sq. ft. under construction
Flex Space Vacancy Rate (with Sublet)	↑	↓	Vacancy rate with sublet increased to 15.3%; 70,000 sq. ft. of construction underway
<i>Positive Changes</i>	13 of 18	15 of 18	



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