



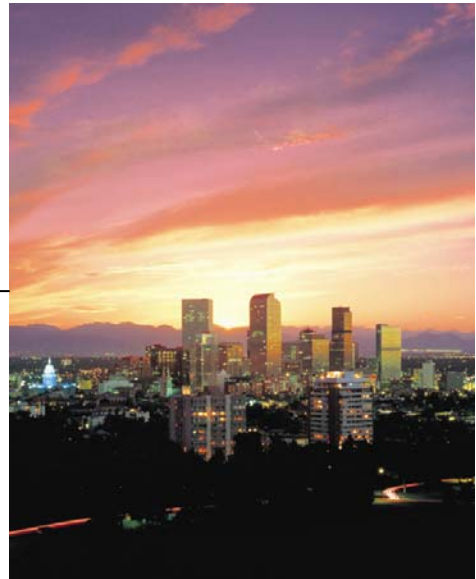
Metro Denver
Economic Development Corporation

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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**Development
Research Partners**

10184 West Belleview Avenue
Suite 100
Littleton, Colorado 80127
www.DevelopmentResearch.net
303.991.0070

MONTHLY ECONOMIC SUMMARY

The Monthly Economic Summary is a comprehensive analysis of economic conditions in the seven-county Metro Denver area, or the region comprised of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson Counties. There are two metropolitan statistical areas (MSAs) located within the Metro Denver region: the Boulder-Longmont MSA (Boulder County) and the Denver-Aurora MSA (Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park Counties). This report presents recent data and long-term trends for the seven-county region, MSAs, or counties, depending on availability. The analysis includes four sections: labor force and employment, the consumer sector, residential real estate, and commercial real estate.

Notable Rankings

- ◆ *Emerging Trends in Real Estate 2009*, an annual report by the Urban Land Institute and PricewaterhouseCoopers, names Metro Denver among ten metro areas with the best commercial real estate investment potential. While the report expects a significant national downturn in commercial real estate next year, it suggests that Metro Denver's diverse industry base, relatively stable housing market, and steady population growth will help offset national weakness.
- ◆ A recent study by Golden-based HealthGrades Inc. shows the concentration of high-performing hospitals in Colorado exceeds the national average. Specifically, 22 percent of the 65 Colorado hospitals included in the study earned high ranks, compared to 15 percent of hospitals nationwide. HealthGrades calculates rankings by procedure, and Colorado hospitals had better-than-average performance in gastrointestinal care, critical care, and three of the remaining six procedure categories.
- ◆ Denver International Airport (DIA) was the nation's fourth busiest airport through the first seven months of 2008, according to data from the U.S. Bureau of Transportation Statistics. United Airlines and Southwest Airlines – the first- and third-largest carriers at DIA – ranked fourth and first among all U.S. airlines for July passenger counts. Denver-based Frontier placed outside of the top ten.
- ◆ The London-based *Financial Times* ranked the Executive MBA program at the University of Denver (DU) Daniels College of Business among the top 95 such programs in the world. The rankings are designed to identify EMBA programs with the strongest reputation for career and salary impacts, faculty research, and diversity. The DU program was among 48 programs offered by U.S. schools and ranked 90th overall.

Special Section: Updates on the Financial Crisis

The global financial crisis continues to drive extreme volatility in markets and significant changes in monetary policy.

- ◆ The U.S. Federal Reserve and at least six other central banks made a coordinated interest rate cut in early October. The cuts did not appear to have immediate impacts on credit markets, but some signs of loosening appeared later in the month.
- ◆ The widespread flight from risk has thwarted many buyers of commercial paper and other money market instruments, so the U.S. Federal Reserve created two new facilities that will purchase the assets. Officials hope the purchases will provide vital funding to businesses and banks that rely on short-term debt.
- ◆ The Emergency Economic Stabilization Act of 2008 was signed into law on October 3. The law contains five programs, the first of which is the \$700 billion Troubled Asset Relief Program (TARP). The law also enacted several tax credits and other provisions under four other acts.
- ◆ Government officials launched TARP with a \$125 billion purchase of preferred stock in nine major banks. Officials hope banks will use cash from the stock sales to increase their capital bases and resume lending, and federal officials are accepting bank applications for an additional \$125 billion in financing. In exchange for the cash, banks will surrender ownership stakes to the government and limit compensation for their executives.

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Government officials say they still intend to proceed with the purchase of bad assets, which was the initial thrust of TARP.

- ◆ Federal regulators approved the disputed sale of Wachovia Corporation to Wells Fargo & Company. Wells Fargo's \$15.1 billion purchase gives it the largest portion of Colorado's banking market, or a 22 percent share. Combined, the companies will also be the nation's fourth-largest lender and will have the largest retail banking network. Analysts say the merger will prove challenging for Wells Fargo, as Wachovia recently sustained the largest quarterly loss ever reported by a lending institution.
- ◆ A second bank transaction should help stabilize beleaguered bank Morgan Stanley. Japanese bank Mitsubishi UFJ purchased a 21 percent stake in Morgan Stanley, and officials with the former investment bank plan to leverage the new stability to acquire other struggling banks.

General Economic Overview

According to advance estimates from the U.S. Bureau of Economic Analysis, the nation's economy contracted in the third quarter of 2008. Specifically, real gross domestic product (GDP) declined by 0.3 percent as business and consumer spending declined sharply and export growth slowed. A large increase in federal government defense spending and a decline in imports helped strengthen the overall GDP growth estimate, but analysts note these factors effectively understate the current weakness in domestic consumption. The BEA will release revised estimates of third quarter GDP growth on November 25.

Like the GDP data, data on international trade also reflect weakening consumption both in the U.S. and overseas. Estimates from the U.S. Department of Commerce show U.S. imports and exports both declined between July and August, but the drop in imports outweighed that of exports by almost a factor of two. As a result, the nation's trade deficit declined to \$59.1 billion in August from \$61.3 billion in July. Peak oil prices had a particularly large influence on summertime imports and helped imports of vehicles and auto parts decline to their lowest level since March 2005.

Oil prices have since fallen, and their descent from the July peak has helped give the U.S. central bank more latitude to adjust target interest rates. The Federal Open Market Committee of the Federal Reserve (FOMC) cut its target federal funds rate to one percent in October, noting that weaker commodity prices and slower economic growth should help limit inflation. With those forces at work, the FOMC hopes reduced interest rates will help offset the growing risks from financial turmoil and an international pullback in business and consumer spending. Central banks in China and Norway cut rates on the same day as the FOMC announcement, and banks in other countries were expected to announce additional rate cuts. The FOMC will hold its last scheduled meeting for 2008 on December 16.

Economic Indexes

Economic indexes are beginning to reflect the financial crisis' impact on business confidence. Readings will likely remain volatile for the next several months as businesses adjust their outlooks.

National Economy

- ◆ The Conference Board's Index of Leading Economic Indicators increased between August and September as positive changes in the indicators for real money supply and several other factors offset negative changes in four indicators including building permits and initial claims for unemployment insurance. Analysts note that the composite index's 0.3 percent gain between August and September was the first positive move in five months.
- ◆ The Institute for Supply Management's Purchasing Managers Index fell from 43.5 in September to 38.9 in October. Analysts say the current index level is the lowest seen since 1982 and reflects a significant

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contraction in demand for manufactured goods. Respondents noted credit market concerns and said suppliers are increasingly limiting their inventory of raw materials.

- ◆ The Institute for Supply Management's Index of Non-Manufacturing Business Activity declined from 50.6 in August to 50.2 in September. Still, the index's position above the growth-neutral point of 50 suggests that the nation's service sector is expanding. Respondents' comments were more positive in light of falling prices for oil and other commodities, but tight credit markets and overall economic uncertainty were particularly large concerns for retailers and public administrators.

Local Economy

- ◆ The Colorado Business Leaders Confidence Index rose from 43.6 in the third quarter survey to 44.0 in the fourth quarter survey. Analysts say the change in the index – which measures business leaders' expectations for the coming quarter – was essentially insignificant, and the index's standing below 50 points to below-potential growth. Still, they suggest that over-the-month improvements in both the state and national indexes could mean economic improvements in 2009. They also note that business leaders remain more confident about Colorado's economic prospects than they do the national outlook, but the gap between the two outlooks has narrowed recently. The University of Colorado Leeds School of Business and Compass Bank jointly produce the Colorado Business Leaders Confidence Index.
- ◆ The Mountain States Business Conditions Index declined from 56.3 in September to 53.2 in October, or a level just above the growth-neutral point of 50. Economists noted that energy-related companies across the mountain region continue to thrive, but housing and financial market problems have had varying impacts on states. Specifically, the economies in Utah and Colorado appear to be weakening more while business conditions in Wyoming remain strong. The Business Conditions Index is released by the Goss Institute for Economic Research.

Labor Force and Employment

Metro Denver employers added 1,200 jobs between August and September, but the gain fell below the seasonal norm. Education and health services and government – which includes public education – were the only two of 11 Metro Denver industry supersectors to report job gains over-the-month. Still, the total year-to-date employment change remains positive for all industries except financial activities (-2,200 jobs through September) and manufacturing (-1,000 jobs through September). Job growth across all Metro Denver industries through the first nine months of 2008 averaged 1.4 percent.

Generally, Metro Denver has followed the state and nation in a trend of slowing job gains that began in mid-to-late summer. Colorado job growth through the first nine months of 2008 averaged 1.6 percent, and U.S. growth through September averaged 0.1 percent after several months of job losses.

While local companies are subject to national trends, many are still outperforming their peers nationwide and are attracting investor interest. According to Dow Jones VentureSource, venture capital funding for Colorado companies increased more than 200 percent between the second and third quarters. The gain brought year-to-date venture capital funding to \$638.6 million and placed Colorado companies on track to meet or surpass the \$1 billion in funding collected when the tech boom peaked in 2001. Renewable energy companies attracted most of the state's venture capital funding in the third quarter, with Fort Collins-based AVA Solar reporting the fifth-largest deal in the nation. Analysts also note that increased venture capital activity in Colorado is currently following a counter-cyclical trend, as venture capital investments nationwide declined one percent between the second and third quarters.

Like venture capital trends, a steady stream of contract awards demonstrates the resilience and competitiveness of Metro Denver companies.

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Aerospace: Longmont-based DigitalGlobe recently announced a multi-year contract with Microsoft Corporation. Officials did not disclose the contract's financial details but said DigitalGlobe will provide satellite imagery for Microsoft's Virtual Earth Program.

Another recent contract award went to Lockheed Martin Space Systems in Jefferson County. Under the \$30 million contract with the U.S. Air Force, Lockheed will develop a demonstration technology that detects missiles and other threats to military satellites. Assurance Technology Corporation will compete with Lockheed for a final contract award.

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

	Month of Sep-08 (p)	Month of Aug-08	Month of Sep-07	Year-to- Date Average 2008	Year-to- Date Average 2007	Year-to- Date Average % Change	Annual Growth Rate 2003	Annual Growth Rate 1998
Total 11-County Metro Denver*	1,434.1	1,432.9	1,421.0	1,420.4	1,400.7	1.4%	-1.4%	4.0%
Denver-Aurora MSA	1,264.4	1,266.1	1,253.4	1,252.8	1,235.7	1.4%	-1.2%	4.0%
Boulder-Longmont MSA	169.7	166.8	167.6	167.6	165.0	1.5%	-2.8%	4.0%
Natural Resources & Construction	100.2	102.5	102.3	99.2	99.1	0.2%	-7.1%	11.9%
Manufacturing	88.0	88.7	89.5	88.2	89.1	-1.1%	-4.9%	1.4%
Wholesale & Retail Trade	216.2	217.1	215.5	215.8	214.2	0.8%	-1.9%	3.0%
Transp., Warehousing & Utilities	52.4	52.5	52.4	52.4	51.9	0.9%	-8.0%	15.8%
Information	57.4	57.7	57.1	57.0	56.9	0.1%	3.4%	6.1%
Financial Activities	105.8	106.4	106.9	105.4	107.6	-2.0%	-1.3%	3.3%
Professional & Business Services	248.8	250.2	246.9	246.1	240.7	2.2%	2.6%	2.3%
Education & Health Services	153.6	152.8	147.6	151.8	146.0	4.0%	-0.6%	2.1%
Leisure & Hospitality	151.4	155.2	148.5	149.3	145.5	2.6%	-0.4%	2.1%
Other Services	53.0	53.6	52.4	52.9	52.2	1.4%	0.2%	2.0%
Government	207.3	196.2	201.9	202.4	197.7	2.4%	0.5%	0.2%
Federal Gov't	30.6	30.3	30.5	30.2	30.6	-1.2%	-2.9%	1.8%
State & Local Gov't	176.7	165.9	171.4	172.2	167.0	3.1%	1.4%	2.7%
Colorado	2,376.3	2,378.3	2,352.2	2,357.8	2,321.6	1.6%	-1.4%	3.9%
United States	137,476	137,231	138,075	137,351	137,173	0.1%	-0.3%	2.6%

*Includes the Denver-Aurora MSA (Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park Counties) and the Boulder-Longmont MSA (Boulder County).

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

Aviation: Spokespeople for Germany's Lufthansa Airlines say the carrier will stop flying a route from Denver to Munich that launched in March 2007, which means an official end for the temporarily suspended flight. Lufthansa officials had originally planned to stop the flight through the winter and resume flights next March, but they recently determined the route did not attract enough business traffic to keep it profitable in a weakening market. They note that the airline will continue flying from Denver to Frankfurt.

Changing market conditions are also affecting smaller aviation companies. AAI Acquisition Inc. – the Russian equity firm that purchased bankrupt Adam Aircraft in early 2008 – plans to reduce its operations and postpone efforts to certify Adam Aircraft's A700 plane. Company spokespeople fault weak economic and credit conditions for the downsizing, and they say previously announced plans to add workers this year and next have been

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cancelled. The company laid off a majority of its employees at Centennial Airport – more than 200 workers – in late October.

Beverage: Spokespeople for MillerCoors recently announced the company's new lease for office space in Chicago. Roughly 400 employees including executives and members of the legal, finance, human resource, and marketing divisions will occupy the building by June 2009.

Bioscience: Pharmaceutical company Gilead Sciences Incorporated will relocate from Westminster to Boulder. Spokespeople say Gilead has secured two new leases in Boulder but did not provide a moving date or details about jobs affected.

A second bioscience company also announced its intentions to locate in Boulder. Massachusetts-based TCD Medical Inc. recently signed a lease for space in Boulder, and spokespeople say the location will help them better access Colorado clients. TCD helps medical device companies commercialize new products by assisting with design, manufacturing, regulation, and other phases of development. Besides its headquarters in Massachusetts, TCD currently has one other office in California.

Other recent bioscience developments also occurred in Boulder County. California-based Amgen Inc., a pharmaceutical company with 950 employees in Boulder, recently announced a \$500 million contract with IBM Corporation for networking and other related services. According to a Boulder newspaper, IBM is the largest employer in the Boulder area with roughly 3,000 workers.

Energy: Englewood-based CH2M Hill will use a \$5.5 million contract from the U.S. Department of Energy to help increase solar energy use in Denver and 24 other cities. The contract project – called the Solar America Initiative – develops tools that help cities analyze various facets of solar energy use, from site selection and zoning rules to financial and engineering considerations. As part of the project, CH2M Hill will create rooftop-by-rooftop city maps that show each building's potential benefit from solar energy. The company already mapped San Francisco in a seven-month pilot project.

While some companies are working to retrofit individual buildings and communities for renewable energy, others are working to transmit the energy from its sources. Xcel Energy and Tri-State Generation and Transmission – Colorado's two largest power suppliers – have agreed to consider a joint construction effort on three transmission line projects at locations in the San Luis Valley, Lamar, and the Front Range. The new transmission lines could carry enough power for as many as three million residential energy customers in Colorado and could link solar, wind, and coal-fired plants to the power grid.

Even with renewable energy development continuing at a seemingly steady pace, analysts say financial market conditions are still affecting the capital-intensive industry. Broomfield-based Renewable Energy Systems Americas, for example, expects to develop 50 percent fewer megawatts of wind power next year due to tight credit markets. Financing problems are also increasing for fossil energy companies. While the largest firms typically have their own cash to fund exploration and capital projects, many smaller companies depend on bank loans for operations. Detailed data on the energy impact of the credit crunch are not yet available, but the number of operating rigs in Colorado declined slightly in October.

Despite recent turbulence, long-term forecasts for global energy prices and demand should keep the energy industry on a solid growth path. For that reason, the University of Colorado Denver Business School is launching a master's program in Global Energy Management. Academic officials and members of the energy industry partnered to design the mostly-online curriculum, which the university hopes will prepare students to replace retiring energy executives in the coming years. The first group of 32 students will begin classes in January 2009.

Financial Services: Spokespeople for Denver-based Janus Capital Group say the company will lay off 115 workers due to financial market turmoil and a weakening asset base. Poor stock performance and redemptions have cut the mutual fund company's asset levels, which are its main revenue source.

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Telecommunications: Denver-based Qwest Communications recently finalized a \$60 million contract to provide voice and data services to 1,300 facilities affiliated with the U.S. Department of Veterans' Affairs. The contract is based in the federal government's Network telecommunications procurement program, which also awarded Qwest recent contracts with the U.S. General Services Administration (GSA) and NASA. The GSA contract is valued at \$31 million and the NASA award is valued at \$18 million.

Other recent announcements from Qwest were less positive. The company plans to cut 1,200 jobs – or three percent of its workforce – in the fourth quarter to help align its staff with the changing market. The Denver-based telecom reported an over-the-year earnings decline of 93 percent in the third quarter.

Employment Outlook

The hiring outlook of Metro Denver employers remained stable between the third and fourth quarters of 2008. According to the Manpower Employment Outlook Survey, the share of Denver Area employers planning to hire in the fourth quarter remained unchanged from the third quarter at 32 percent. On a year-to-date basis, an average of 28 percent of Denver Area employers planned to add jobs, compared to 33 percent for the four quarters of 2007. The hiring outlook was slightly stronger in Boulder County, where the share of employers planning to add jobs rose from 20 percent in the third quarter to 33 percent in the fourth quarter. For the four quarters of 2008, the share of Boulder County employers planning to hire averaged 22 percent in a slight gain over the 17 percent average from 2007.

Metro Denver employers overall have more robust hiring plans than their peers nationwide. The Manpower survey showed 22 percent of U.S. employers planned to add jobs in the fourth quarter, down from 26 percent in each of the prior two quarters. The results show weaker hiring patterns in more than half of the nation's industry sectors, although the outlook is stable for jobs in construction and public administration and improving for jobs in mining. Denver Area and Boulder County employers reported similar industry-level outlooks.

Employment Outlook Survey

	Quarter 4 2008	Quarter 3 2008	Quarter 4 2007	YTD Avg 2008	YTD Avg 2007	YTD Avg 2006
Denver Area*						
Percent of Companies Hiring	32%	32%	23%	28%	33%	36%
Percent of Companies Laying Off	14%	8%	16%	11%	12%	7%
Percent of Companies No Change	54%	55%	52%	50%	49%	52%
Percent of Companies Unsure	0%	5%	9%	11%	6%	5%
Boulder County						
Percent of Companies Hiring	33%	20%	13%	22%	17%	34%
Percent of Companies Laying Off	13%	13%	7%	11%	12%	5%
Percent of Companies No Change	51%	54%	73%	64%	69%	59%
Percent of Companies Unsure	3%	13%	7%	4%	3%	2%

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

Source: Manpower Inc.

The Metro Denver and Colorado unemployment rates declined between August and September, but analysts warn the downshifts are likely temporary as labor markets continue to weaken. In Metro Denver, the rate declined to 5.1 percent from 5.3 percent in August, and the Colorado rate fell to 4.9 percent in September from 5.2 percent in the prior month. September unemployment rates in the seven Metro Denver counties ranged from 4.2 percent in Boulder County to 5.7 percent in the City and County of Denver. Metro Denver's region-wide unemployment rate averaged 4.9 percent through the first nine months of the year, compared to 3.8 percent in the same months of 2007.

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

	Sep 2008 (p)		2008 YTD Avg		2007 YTD Avg		2003	1998
	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Ann Avg Unemployment Rate	Ann Avg Unemployment Rate
Metro Denver	1,546.9	5.1%	1,548.4	4.9%	1,515.3	3.8%	6.4%	2.9%
Adams County	227.1	5.5%	227.6	5.4%	222.7	4.3%	7.2%	3.6%
Arapahoe County	317.2	5.2%	317.4	4.9%	310.5	3.8%	6.3%	2.7%
Boulder County	178.9	4.2%	178.9	4.2%	175.1	3.3%	5.8%	3.3%
Broomfield County*	26.7	5.2%	26.7	4.9%	26.1	3.8%	6.4%	
Denver County	320.8	5.7%	320.9	5.4%	313.6	4.2%	7.3%	4.1%
Douglas County	158.4	4.5%	158.6	4.3%	155.2	3.2%	5.3%	1.7%
Jefferson County	317.8	4.8%	318.5	4.6%	312.1	3.7%	5.9%	2.8%
Colorado	2,762.1	4.9%	2,757.8	4.9%	2,693.5	3.8%	6.1%	3.8%
United States	154,509	6.0%	154,162	5.5%	152,915	4.6%	6.0%	4.5%

*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

Unemployment insurance claims in Metro Denver and Colorado increased between August and September. An average of 1,380 claims have been filed in Metro Denver each week this year, which represents a 23.6 percent increase over the same period in 2007. An average of 2,500 claims were filed in Colorado each week through the nine months ended in September, which amounted to a 22.8 percent increase over the same period last year.

Weekly First-Time Unemployment Insurance Claims

	Month of	Month of	Month of	YTD Avg	YTD Avg	YTD Avg
	Sep-08	Aug-08	Sep-07	2008	2007	% Change
Metro Denver	1,466	1,439	1,087	1,384	1,120	23.6%
Colorado	2,606	2,446	1,763	2,447	1,993	22.8%

Note: Reference week data includes the 19th day of the month for all months except November and December, which include the 12th day of the month.
Source: Colorado Department of Labor and Employment, Labor Market Information.

Consumer Sector

U.S. retail sales declined for the third consecutive month with a 1.2 percent drop between August and September. Sales fell in 11 of the 13 retail categories tracked in the Commerce Department data series, and sales declines for automobiles were particularly severe. Generally, the data confirm that a consumer pullback has widened in the wake of still-high prices for food and energy and growing economic uncertainty.

While retail sales in Metro Denver have typically exceeded sales in other parts of the country, local retailers say customers are clearly reacting to economic trends. More customers are shopping sales, they say, and wild swings in customer traffic are muddying the overall outlook. Most retailers and forecasters agree, though, that the 2008 holiday season will be more difficult than in prior years. To offset the weakness, retailers in Metro Denver and around the country plan to offer more bargains and attract shoppers with special holiday events. Retail experts say more consumers will “nest” at home for this year’s holiday season, and the trend gives retailers an opportunity to maximize sales of decorations and other festive items.

While a “nesting” trend could help struggling retailers, it poses larger risks to travel-related businesses. Recent data on air travel demand are mixed, with some polls reporting significant numbers of people still planning

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holiday flights and other data series showing moderate declines in air passenger traffic. Airlines are depending on a certain contingent to keep their holiday flight plans, experts say, because many carriers have increased their holiday fares between 15 and 60 percent over last year's prices.

Many in Colorado's travel industry are also expecting consumers to keep their travel plans despite higher costs. Spokespeople for Colorado's resort communities say lodging reservations have declined for three consecutive months, but they say consumers are merely delaying their bookings until uncertainties in financial markets, the political environment, and winter weather patterns are more resolved. Even with the difficult outlook, Colorado's ski resorts have remained highly competitive. Six Colorado ski areas were recently named on the Orbitz Insider Ski Index, which lists the top 10 resorts by lodging and vacation package bookings for the November-April period.

Households planning travel by car will enjoy lower gas prices this holiday season. Oil prices are currently down more than 50 percent from a historic high in July, and some energy experts say declining demand in a slower economy could keep gasoline prices near or below \$3 per gallon for the rest of 2008. Others note, though, that prices can spike quickly with refinery shutdowns, and a 1.5-million-barrel output reduction imposed by OPEC could also limit price declines. For now, though, large declines in gas prices are easing at least one consumer worry. In Metro Denver, the average price per gallon of gasoline declined by more than \$1 in one month and reached \$2.35 as November began. Both the Colorado and nationwide average prices reached a slightly higher \$2.42 per gallon.

While easing fuel prices are benefitting worried consumers, food prices remain stubbornly high. Analysts expect restaurant menus and prices to change even more in 2009 as this year's run-up in commodity costs continues to pass through to other goods. Many beef and chicken producers, for example, have reduced herds and flocks to avoid high costs for animal feed, which means smaller supplies of meat in the future. Restaurant industry analysts also note that price increases at many establishments have not been sufficient to offset this year's historic increase in food prices.

At least for now, those increases are ongoing. The U.S. Bureau of Labor Statistics' consumer food price index rose at a 7.5 percent annual rate through the first nine months of 2008, and the food price index increased in September even as prices in several other major spending categories – particularly energy – declined. Rapid oil price declines in October should make for more declines in consumer price indexes in the coming months, although analysts broadly expect food prices will take longer to retreat than prices for other goods. Overall, the U.S. Consumer Price Index (CPI-U) increased 4.6 percent through the nine months ended in September.

While overall inflation has slowed recently, high prices continue to erode retail sales gains. In Metro Denver, however, slowing retail gains have still outpaced inflation. August retail sales increased slightly from July in three of the seven Metro Denver counties including Arapahoe County, the City and County of Broomfield, and Douglas County. Across the entire region, retail sales through August rose 4.7 percent from the same months last year.

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Total Retail Sales (\$000s)

	Month of Aug-08	Month of Jul-08	Month of Aug-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Annual Growth 2003	Annual Growth 1998
Total Metro Denver	7,281,157	7,640,841	7,044,543	58,006,290	55,408,189	4.7%	1.6%	8.2%
Adams County	1,278,824	1,567,570	1,197,262	10,429,694	9,046,445	15.3%	6.0%	9.2%
Arapahoe County	1,405,026	1,392,109	1,454,664	11,295,542	11,925,263	-5.3%	1.6%	6.8%
Boulder County	624,427	645,255	612,910	5,336,065	5,122,759	4.2%	4.4%	11.0%
Broomfield County	138,259	134,563	129,350	1,043,331	1,081,841	-3.6%	-6.5%	
Denver County	2,218,695	2,265,901	2,041,170	17,057,055	15,720,435	8.5%	-1.6%	7.9%
Douglas County	523,137	523,039	527,373	4,156,586	4,083,977	1.8%	-2.7%	15.7%
Jefferson County	1,092,789	1,112,404	1,081,814	8,688,017	8,427,469	3.1%	4.6%	5.9%
Colorado	12,322,552	12,950,831	11,990,670	97,883,216	93,494,422	4.7%	1.6%	6.9%

Source: Colorado Department of Revenue.

The Conference Board's U.S. Consumer Confidence Index rose slightly between August and September as an improvement in respondents' short-term outlooks offset more negative assessments of the job market and business conditions. Analysts warned, though, that the September index reading did not fully capture the impact of recent financial events. A new October release validated that warning, as U.S. consumer confidence fell to an all-time low. The near-term outlook on consumer confidence remains uncertain, as the confidence impact from economic shocks tends to vary by their impact on employment.

October results for the Mountain Region Consumer Confidence Index are not yet available, but they will likely follow the trend of the U.S. index at a slightly higher level. *The Mountain Region index declined from 82.7 in August to 77.2 in September as respondents' assessment of the present economic situation deteriorated.*

Consumer Confidence Index

	Month of Sep-08 (p)	Month of Aug-08	Month of Sep-07	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Ann Avg 2003
Mountain	77.2	82.7	119.9	84.8	134.2	-36.9%	89.4
United States	59.8	58.5	99.5	63.5	107.4	-40.9%	79.8

Source: The Conference Board. (p) =preliminary

Metro Denver hotels reported a slight weakening in occupancy trends between August and September. The Democratic National Convention and other strong convention activity skewed the August occupancy rate upwards, so some of the decline over the month reflects a return to more normal trends. A slight weakening in overall travel trends relative to last year was also responsible for the shift. Specifically, the September occupancy rate declined to 73.1 percent from 78.3 percent in August and fell slightly below the 75.5 percent occupancy rate recorded in September 2007. On a year-to-date basis, Metro Denver average occupancy rates were down 0.9 percent through the first nine months of 2008, but average room rates rose 7.8 percent.

Metro Denver Hotel Statistics

	Month of Sep-08	Month of Aug-08	Month of Sep-07	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Annual 2003	Annual 1998
Percent of Hotel Rooms Occupied	73.1%	78.3%	75.5%	69.0%	69.6%	-0.9%	59.5%	70.0%
Average Hotel Room Rate	\$125.93	\$143.53	\$117.15	\$119.99	\$111.41	7.8%	\$84.79	\$87.52

Source: Rocky Mountain Lodging Report.

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Passenger traffic at Denver International Airport (DIA) followed a seasonal trend and declined between July and August. The total August passenger count of nearly 4.8 million represented a 1.6 percent increase over traffic from August 2007 and brought traffic counts through the first eight months of the year up 3.9 percent from the same period in 2007. Overall, passenger traffic at DIA continues to grow at a steady but slightly slower pace.

Denver International Airport Passengers

	Month of Aug-08	Month of Jul-08	Month of Aug-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Annual 2003	Annual 1998
Number of Airline Passengers	4,768,799	5,000,505	4,691,621	35,320,524	34,006,894	3.9%	37,505,138	36,831,400

Source: Denver International Airport, Traffic Statistics.

Experts say October will be remembered as one of the most volatile market periods in history. Swings throughout the month approached and in some cases rivaled losses from Black Monday in October 1987 before several more positive days late in the month added some stability. Overall, the Dow Jones Industrial Average has declined by almost 30 percent this year, while the NASDAQ and S&P 500 have registered year-to-date losses close to 35 percent. Colorado stocks have performed slightly worse, with the return through October reaching -46.3 percent.

Stock Market Indexes

	Month of Oct-08	Month of Sep-08	Month of Oct-07	YTD Return 2008	YTD Return 2007	YTD Return 2006
Bloomberg Colorado	241.9	328.9	481.3	-46.3%	25.8%	13.4%
S&P 500	968.8	1,164.7	1,549.4	-34.0%	9.2%	10.4%
NASDAQ	1,721.0	2,082.3	2,859.1	-35.1%	18.4%	7.3%
DJIA (Dow Jones)	9,325.0	10,850.7	13,930.0	-29.7%	11.8%	12.7%

Sources: Bloomberg.com, Yahoo! Finance.

Residential Real Estate

Home Resales

The pace of U.S. existing home sales increased between August and September and rose 1.4 percent above the sales pace from September 2007, according to the National Association of Realtors (NAR). NAR analysts say the over-the-year acceleration in sales is the first of its kind since November 2005 and indicates that low prices and interest rates are finally attracting hesitant buyers. At the same time, they note that sales conditions could be volatile in the coming months as credit markets remain tight and economic outlooks are increasingly uncertain. So far, the pace of residential sales has improved the most over-the-year in the West (+34.4 percent), and the entire U.S. inventory of unsold homes has contracted for two consecutive months. The home sales pace remains below last year's levels in the Midwest (-2.5 percent), the Northeast (-7.7 percent), and the South (-7.8 percent).

While home sales in Metro Denver are still below prior years' levels, the pace of the sales decline has slowed and unsold inventory is shrinking. The region's count of closed home sales followed a typical seasonal trend and declined between August and September, and the total count of homes sold through the first nine months of the year fell 4.7 percent from total sales in the same months of 2007. The year-to-date decline in sales has slowed, though, and the count of homes under contract increased 3.2 percent through the first nine months of the year. Despite the positive developments, Metro Denver home prices remain somewhat stagnant at price levels in excess of 10 percent below 2007 prices. Specifically, the selling price for Metro Denver single-family homes averaged \$277,308 through the first nine months of 2008, and the selling price for condominiums averaged \$173,552. Compared to the same months in 2007, Metro Denver single-family home prices are down 12.1 percent and condominium prices are down 4.8 percent.

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Previously-Owned Home Sales Activity

	Month of Sep-08	Month of Aug-08	Month of Sep-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Ann Avg 2003	Ann Avg 1998
Home Sales (Under Contract)	5,269	5,590	4,329	51,220	49,610	3.2%	29,703	40,916
Home Sales (Closed)	4,265	4,542	3,737	37,401	39,240	-4.7%	47,966	45,951
Unsold Homes on Market	23,923	24,648	30,335	23,923	30,335	-21.1%	24,660	12,583
Average Sales Price-Single Family	\$260,118	\$284,531	\$305,459	\$277,308	\$315,375	-12.1%	\$277,856	\$185,785
Average Sales Price-Condo	\$161,960	\$173,823	\$181,458	\$173,552	\$182,257	-4.8%	\$175,215	\$115,235
Median Sales Price-Single Family	\$216,150	\$225,000	\$245,000	\$224,900	\$249,900	-10.0%	\$230,000	
Median Sales Price-Condo	\$139,900	\$140,000	\$148,000	\$140,000	\$153,000	-8.5%	\$154,000	

Source: MetroList, Inc.

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

Home Prices

The combination of improving home sales and declining prices is occurring both in Metro Denver and at the national level. According to the NAR, the September median price for all types of existing homes was \$191,600, or nine percent below the September 2007 level. September median home prices were down the most over-the-year in the West (-18.5 percent), while price levels have declined to a lesser extent in the Midwest (-7.9 percent), the South (-4.1 percent), and the Northeast (-5.4 percent). NAR analysts say the continued declines in home prices are due to foreclosures and other distressed property sales, which they say now account for 35 to 40 percent of U.S. home transactions.

Other data sources are also recording continued home price declines. Cleveland and Boston were the only two of 20 metro areas tracked in the S&P/Case-Shiller Home Price Indices to report a positive price change between July and August. The August price indices were flat for Denver and Chicago and declined for the remaining 16 metro regions. Each of the 20 indices show negative annual returns with over-the-year price declines ranging from 2.8 percent in Charlotte to more than 30 percent in Las Vegas and Phoenix. While overall home price trends continue to be negative, analysts say that the pace of decline in the S&P/Case-Shiller indices has slowed in recent months.

Data on third quarter median home prices may corroborate that trend when they are released in late November. In the meantime, second quarter data show steady annual declines in U.S. home prices. The U.S. second quarter median home price fell 7.6 percent below the year-ago figure and declined a total of 7.7 percent through the first half of the year. The second quarter median home price for the Denver-Aurora MSA fell 11.8 percent below the year-ago figure, and the Boulder median price declined 2.2 percent over the year. Overall, Denver-Aurora median home prices through the first half of 2008 averaged \$224,400 in a 9.3 percent decline from 2007. Boulder prices averaged \$365,400 in a 3.1 percent year-to-date decline.

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

	Quarter 2 2008 (p)	Quarter 1 2008 (r)	Quarter 2 2007	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Median 2003	Median 1998
Boulder-Longmont MSA	\$375.1	\$355.7	\$383.7	\$365.4	\$377.2	-3.1%	\$313.0	n/a
Denver-Aurora MSA	\$225.2	\$223.5	\$255.2	\$224.4	\$247.3	-9.3%	\$238.2	\$152.2
United States	\$206.5	\$196.1	\$223.5	\$201.3	\$218.1	-7.7%	\$180.2	\$136.0

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

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Foreclosures

Roughly 6,800 distressed homeowners in Colorado could receive loan workouts, waivers of prepayment penalties, and other assistance if state officials decide to participate in a multi-state settlement issued by Countrywide Financial Corporation. Colorado did not participate in the predatory lending lawsuit brought against Countrywide by officials in California, Illinois, and other states, but Colorado and all other states are eligible to participate in the \$8.7 billion settlement. Colorado's attorney general is currently weighing the state's options, which include participation in the settlement or independent action against Countrywide's new owner, Bank of America.

As discussions over foreclosure policies continue, the outlook for new foreclosures in Colorado remains unclear. A March 2008 report by the Federal Reserve Bank of Kansas City suggests that the issuance of subprime loans in Metro Denver peaked in 2005, while nationwide subprime lending continued to a peak in 2006. The report also suggests that delinquency rates on Metro Denver subprime loans resemble the national average, and a comparatively larger share of the region's subprime loans are already in REO – or lender-owned – status. Taken together, these trends suggest that the region's foreclosure trend is maturing faster than trends in other parts of the nation and could peak soon.

A separate report by the Pew Charitable Trusts draws a somewhat different conclusion. The report suggests Colorado foreclosures could increase over the next several years, primarily because of subprime loans issued in 2005 and 2006. At one home in every 25 occupied households, Colorado's projected foreclosure rate in the Pew report ranked fourth behind rates in Nevada, Arizona, and California and tied with the projected rate in Utah. The report also suggests that Colorado communities could lose almost \$3.2 billion in home values and tax base over the next two years as foreclosures continue. Pew analysts say the report figures are conservative estimates, as they track only the foreclosures due to subprime loans and do not consider potential defaults on Alt-A or prime loans.

Like the outlook for new foreclosures, data on current foreclosures are inconsistent. According to California-based RealtyTrac, a 12 percent decline in U.S. foreclosure activity between August and September could reverse in the future as the impact of changing state laws wears off. Specifically, RealtyTrac analysts say new laws in several states require lenders to provide advanced notice to borrowers approaching foreclosure, and the new policies have slowed the administrative process. Foreclosure activity could return to a higher level, they say, as lenders and public officials become more accustomed to the new rules.

Changing foreclosure policy is also affecting data at the local level. Previous analysis of the decline in Metro Denver foreclosures between August and September did not account for House Bill 1402, a new law that requires lenders to send distressed borrowers a 30-day notice of foreclosure and contact information for the Colorado Foreclosure Hotline. Local analysts say lenders sent the notices when the bill took effect in August, so August filings slowed considerably. September filings rebounded in most Metro Denver counties, and some public trustees say filings could increase again in October. Overall, Metro Denver foreclosure filings through the first nine months of the year totaled 19,026, which was slightly below the 19,089 filings recorded in the same months of 2007.

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Real Estate Foreclosures

	Month of Sep-08	Month of Aug-08	Month of Sep-07	YTD Total 2008	YTD Total 2007	YTD Total % Change
Total Metro Denver*	1,365	898	1,886	19,026	19,089	-0.3%
Adams County	328	266	395	4,458	4,517	-1.3%
Arapahoe County	342	167	376	4,476	4,495	-0.4%
Boulder County	47	46	87	780	698	11.7%
Broomfield County	24	9	25	210	183	14.8%
Denver County	361	148	593	4,759	5,375	-11.5%
Douglas County	53	111	127	1,575	1,267	24.3%
Jefferson County	210	151	283	2,768	2,554	8.4%

*Foreclosure data for Metro Denver represents the total number of election and demand setups received by the county public trustee in the month received. Some defaults are cured or withdrawn, so not all of the foreclosures listed are real-estate owned properties.
Sources: Various county public trustees in Metro Denver.

New Homes

The nationwide annual rate of new, single-family home sales rose unexpectedly between August and September. Even with the increase, the rate of new home sales remained more than 33 percent below the sales pace from September 2007. September new home sales were down the most over-the-year in the Northeast (-65.1 percent), and sales declines in the West and Midwest both exceeded 37 percent. September new home sales were down over-the-year by the smallest margin in the South (-23.8 percent).

U.S. residential construction continued to contract in September. According to Department of Commerce figures, the rate of starts on all types of privately owned housing declined 6.3 percent between August and September and fell 31.1 percent on an over-the-year basis. Housing starts in all U.S. regions are currently more than 30 percent below last year's levels, with the greatest declines in the West (-44.6 percent), the South (-37.3 percent), and the Midwest (-37.1 percent). Multi-family construction has helped offset some of the overall construction decline in the Northeast, but September housing starts in the region still fell 32.6 percent below starts from September 2007.

Ongoing contraction in building activity and the evolving financial crisis brought homebuilder confidence to a new low in October. The National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index (HMI) declined from 17 in September to an October reading of 14, which beat the index's previous all-time low of 16. Builders in all U.S. regions expressed increasingly negative views of current sales, near-term sales, and traffic of prospective buyers.

The pace of local building activity slowed further in August. Metro Denver jurisdictions issued roughly 560 building permits that month, and total permits issued through the first eight months of 2008 declined 35.5 percent from the same period in 2007. Permits for multi-family construction have more than doubled so far this year, but tighter financing for new projects could limit multi-family building activity as 2008 ends.

Residential Building Permits

	Month of Aug-08	Month of Jul-08	Month of Aug-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Total 2003	Total 1998
Single-Family Detached Units	309	389	658	2,893	5,542	-47.8%	12,656	16,058
Single-Family Attached Units	105	45	328	1,100	3,783	-70.9%	3,755	3,527
Multi-Family Units	148	538	60	2,878	1,332	116.1%	1,858	7,794
Total Units	562	972	1,046	6,871	10,657	-35.5%	18,269	27,379

Source: Home Builders Association of Metro Denver.

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Apartment Rental Market

Metro Denver's apartment vacancy rate rose from 6.2 percent in the second quarter of 2008 to 6.5 percent in the third quarter as the economic outlook weakened. On a year-to-date basis, however, the vacancy rate was unchanged from 2007 at 6.2 percent. Average rents rose to \$892 from \$886 in the second quarter, and the increase contributed to a 2.9 percent year-to-date gain in rents.

Apartment Statistics

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	YTD Average 2008	YTD Average 2007	YTD Average % Change	Annual Average 2003	Annual Average 1998
Apartment Vacancy Rate	6.5%	6.2%	5.3%	6.2%	6.2%		12.0%	4.4%
Average Monthly Rental Rate (all units)	\$892	\$886	\$858	\$880	\$855	2.9%	\$815	\$695

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

Lakewood-based Spectra Colorado is proceeding with a \$5.6 million speculative office development in Golden. The Jefferson Office Park will offer 125,000 square feet of retail and office space in four buildings near C-470 and West Sixth Avenue. The development reportedly has interested tenants and is circumventing the national slowdown because of its prime location, analysts say.

Market Overview

A third quarter report by Grubb & Ellis views Metro Denver's office market in a positive position but expects more challenges ahead. On a year-to-date basis, half of Metro Denver's submarkets have reported positive absorption while half have reported negative absorption. Investment activity nearly halted in the third quarter as credit markets froze, and a larger number of tenants opted for short-term leases as economic uncertainty increased. The report cites new construction as an additional challenge in the coming quarters, as some new space will be delivered with limited or no pre-leasing. While the local office market faces short-term challenges, the report expects transportation development, a thriving energy industry, and global investment interest to keep Metro Denver fundamentals strong in the future.

The third quarter office market report by CB Richard Ellis also predicts challenges ahead but suggests that strong economic fundamentals in Metro Denver will help the region outperform other regions nationwide. While an increasing amount of sublet and shadow space could ultimately yield negative absorption in the coming quarters, comparatively low occupancy costs will make Metro Denver an attractive investment and relocation option even as activity slows nationwide. The report expects a pullback in construction to stabilize occupancy levels over the long term, and Metro Denver's transit-oriented developments will continue to attract businesses looking to conserve space and limit workers' commuting costs.

Data from CoStar Realty Information, Inc. suggest that activity in Metro Denver's office market activity slowed modestly between the second and third quarters of 2008. The direct vacancy rate rose to 12.3 percent from 12.2 percent in the second quarter as the inventory of vacant space increased by roughly 300,000 square feet. Quarter-to-quarter gains in average lease rates had reached two percent or more in recent months, but rates declined slightly in the third quarter. Despite weaker fundamentals, Metro Denver office market construction continued in the third quarter with large projects in Denver and Arapahoe Counties. Specifically, the largest projects currently under construction include 1800 Larimer and Tower 1 at 1900 Sixteenth Street in Denver, as well as Palazzo Verdi and The Streets at Southglenn in Arapahoe County. The largest office projects completed so far this year

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include the Sugar Cube in downtown Denver, One Lincoln Station in Douglas County, and the Arista lifestyle center in Broomfield.

Office Market Statistics

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	Quarter 3 2006	Quarter 3 2005	Quarter 3 2004
Number of Buildings	5,022	5,003	4,955	4,902	4,847	4,792
Existing Square Feet (millions)	157.7	157.2	156.3	154.7	153.3	152.4
Vacant Square Feet (direct, millions)	19.4	19.1	18.9	19.1	21.2	22.4
Vacancy Rate (direct)	12.3%	12.2%	12.1%	12.3%	13.9%	14.7%
Vacancy Rate (with sublet)	13.2%	13.1%	12.8%	13.2%	15.2%	16.5%
Avg. Lease Rate (direct, per sq. ft, full service)	\$21.22	\$21.24	\$20.18	\$18.33	\$17.29	\$16.80
New Construction Completed (year-to-date)	1.05 MSF 44 Bldgs	0.57 MSF 24 Bldgs	1.06 MSF 39 Bldgs	0.96 MSF 33 Bldgs	0.50 MSF 31 Bldgs	1.05 MSF 31 Bldgs
Currently Under Construction	3.41 MSF 54 Bldgs	3.54 MSF 51 Bldgs	2.94 MSF 74 Bldgs	1.77 MSF 48 Bldgs	1.21 MSF 32 Bldgs	0.82 MSF 27 Bldgs

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

As corporate and consumer uncertainties burden Metro Denver's office and retail markets, the region's industrial market continues to improve, says a third quarter report by Grubb & Ellis. Overall vacancy rates remain in line with the ten-year average despite slower activity, and continued growth in the energy and bioscience industries is still supporting demand for industrial and flex space. While tight credit conditions are certainly affecting the industrial market, many start-up companies can still access venture capital or angel funding. Additionally, industrial properties tend to have smaller tenant improvement requirements and can therefore avoid some of the construction cost overruns that are common in the office market. *Overall, the report suggests these sources of flexibility and dynamism will combine with Metro Denver's relatively strong economic fundamentals to keep the industrial market strong this year.*

A third quarter report by CB Richard Ellis also views a strong economy and diverse industry base as key assets for Metro Denver's industrial market. Recent increases in vacancy have been relatively minor, and moderate amounts of pre-leasing in new buildings have also helped stabilize the market. The time needed to close deals has increased with credit and general economic uncertainty, but many tenants' decisions to renew existing leases rather than relocate has helped stabilize landlords' portfolios and markets in general. *Overall, the report expects continued attention from national and international companies as well as organic growth from local businesses to help Metro Denver's industrial market outperform markets in other regions.*

The local industrial market continues to show strength despite widespread turmoil, according to a third quarter report by Fuller Real Estate. Even with its relative stability, though, the Metro Denver industrial market faces challenges in the near term. Frozen capital markets have slowed transactions – particularly large deals – and investor demand has declined. *Looking ahead, the report expects government financial interactions and increased landlord concessions to help improve market conditions.*

Like the Metro Denver office market, the region's industrial market lost some of its momentum in the third quarter. According to data from CoStar Realty Information, Inc., the amount of vacant direct space increased modestly, but the overall vacancy rate remained essentially stable at 6.6 percent. The average lease rate declined slightly to \$5.10 per square foot in the third quarter after several quarters of consistent increases. Industrial market construction continued in the third quarter despite slower market activity, and two large projects in Adams and Denver Counties accounted for more than half of the space in progress. The largest industrial projects completed so far this year include the Digicomm building in Arapahoe County and several properties along East 45th Avenue in Denver.

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Industrial Market Statistics

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	Quarter 3 2006	Quarter 3 2005	Quarter 3 2004
Number of Buildings	6,492	6,475	6,441	6,392	6,348	6,314
Existing Square Feet (millions)	211.3	210.7	209.1	206.6	204.6	203.2
Vacant Square Feet (direct, millions)	14.0	13.9	12.5	14.6	15.8	16.0
Vacancy Rate (direct)	6.6%	6.6%	6.0%	7.1%	7.7%	7.9%
Vacancy Rate (with sublet)	7.1%	7.0%	6.1%	7.4%	8.1%	8.4%
Avg. Lease Rate (direct, per square foot, NNN)	\$5.10	\$5.13	\$4.92	\$4.84	\$4.61	\$4.57
New Construction Completed (year-to-date)	1.77 MSF 33 Bldgs	0.32 MSF 12 Bldgs	1.34 MSF 20 Bldgs	1.19 MSF 20 Bldgs	0.61 MSF 21 Bldgs	1.40 MSF 27 Bldgs
Currently Under Construction	0.90 MSF 11 Bldgs	1.16 MSF 20 Bldgs	1.17 MSF 23 Bldgs	1.53 MSF 25 Bldgs	0.84 MSF 21 Bldgs	0.61 MSF 14 Bldgs

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

Activity in Metro Denver's office and industrial markets slowed modestly between the second and third quarters, but the slowdown in flex market activity was more pronounced. According to data from CoStar Realty Information, Inc., the direct vacancy rate rose to 12.8 percent from 12.4 percent in the second quarter as the inventory of vacant space increased by roughly 200,000 square feet. Average lease rates continued to rise as they have for the past six quarters, although the third quarter gain was noticeably smaller than increases from prior periods. Still, flex market construction activity continued at a steady pace, and the largest projects included the Concord Business Center in Douglas County and the High Point OmniCenter near Denver International Airport. The largest flex buildings completed so far this year also include several OmniCenter buildings as well as properties in Boulder County.

Flex Space Statistics

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	Quarter 3 2006	Quarter 3 2005	Quarter 3 2004
Number of Buildings	1,328	1,320	1,303	1,292	1,268	1,239
Existing Square Feet (millions)	38.3	38.1	37.6	37.3	36.8	36.3
Vacant Square Feet (direct, millions)	4.9	4.7	4.6	5.2	5.3	5.8
Vacancy Rate (direct)	12.8%	12.4%	12.2%	14.0%	14.3%	16.0%
Vacancy Rate (with sublet)	13.9%	13.3%	13.3%	14.5%	15.2%	17.4%
Avg. Lease Rate (direct, per square foot, NNN)	\$9.83	\$9.79	\$9.17	\$8.47	\$8.29	\$8.42
New Construction Completed (year-to-date)	0.59 MSF 20 Bldgs	0.37 MSF 8 Bldgs	0.16 MSF 8 Bldgs	0.39 MSF 13 Bldgs	0.26 MSF 16 Bldgs	0.08 MSF 3 Bldgs
Currently Under Construction	0.38 MSF 11 Bldgs	0.48 MSF 19 Bldgs	0.38 MSF 11 Bldgs	0.07 MSF 2 Bldgs	0.23 MSF 7 Bldgs	0.34 MSF 16 Bldgs

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

A third quarter report by Grubb & Ellis suggests Metro Denver's retail market faces large risks as the holiday season approaches. A considerable portion of the 1.8 million square feet of retail space delivered so far this year remains vacant, and submarkets near distressed housing developments are struggling with high vacancy rates. *Overall, the report expects the extent of the downturn for retail property to mirror the extent to which consumer spending contracts over the next several months.* Retail bankruptcies could increase again next year, but the report describes public commitments by new retailers and stores hoping to capitalize on future population growth as positive influences on the Metro Denver market.

CB Richard Ellis also describes a troubled Metro Denver retail market in its third quarter report. Vacancy rates have increased and retailers have largely delayed expansion plans. Asking lease rates have increased as newly-

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available, more expensive space drives up averages, but many landlords are extending large concessions to struggling tenants. Investment volume has declined considerably, but the report observes ideal investment opportunities as prices have hit temporary lows. Overall, *CB Richard Ellis expects short-term challenges for Metro Denver retail but notes that the region's early descent into the housing crisis should also mean an earlier-than-average recovery for the residential sector and consumer spending.*

Metro Denver retail market activity is sluggish, but vacancy rates have remained slightly below the national average. According to data from CoStar Realty Information, Inc., the third quarter direct vacancy rate rose to 7.9 percent from 7.8 percent in the second quarter as vacant space increased by roughly 200,000 square feet. Average lease rates continue to be volatile and declined to \$17.81 per square foot in the third quarter. Metro Denver retail construction has continued at a brisk pace despite cooling market conditions, and the largest projects underway in the third quarter included Riverpoint at Sheridan and Cornerstar in Arapahoe County. The largest retail projects completed to-date include Prairie Center and portions of Orchard Town Center in Adams County as well as The Shops at Vallagio in Arapahoe County.

Retail Market Statistics

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	Quarter 3 2006	Quarter 3 2005	Quarter 3 2004
Number of Buildings	6,572	6,528	6,466	6,391	6,263	6,131
Existing Square Feet (millions)	143.9	143.1	140.6	138.1	133.3	128.1
Vacant Square Feet (direct, millions)	11.3	11.1	9.7	10.6	9.2	7.5
Vacancy Rate (direct)	7.9%	7.8%	6.9%	7.7%	6.9%	5.9%
Vacancy Rate (with sublet)	8.1%	8.0%	7.1%	7.9%	7.1%	6.1%
Avg. Lease Rate (direct, per square foot, NNN)	\$17.81	\$17.93	\$17.19	\$16.84	\$15.75	\$15.14
New Construction Completed (year-to-date)	2.55 MSF	1.56 MSF	1.04 MSF	3.47 MSF		
	73 Bldgs	33 Bldgs	26 Bldgs	34 Bldgs	N/A	N/A
Currently Under Construction	2.94 MSF	3.15 MSF	5.94 MSF	4.23 MSF		
	72 Bldgs	58 Bldgs	127 Bldgs	62 Bldgs	N/A	N/A

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

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Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↑	Employment increased by 1,200 jobs Aug to Sep; YTD employment up 1.4% through Sep 2008.
% Companies Hiring (Denver Area)	↔	↓	32% of companies expect to add workers in Q4 2008.
Unemployment Rate	↓	↑	Metro rate 5.1% in Sep; YTD avg. rate of 4.9% up from 3.8% in 2007.
Initial Claims	↑	↑	Claims increased Aug to Sep; YTD claims up 23.6% through Sep 2008.
Total Retail Sales	↓	↑	Metro retail sales down 4.7% from Jul to Aug; YTD sales up 4.7% through Aug 2008.
Consumer Confidence Index	↓	↓	Mountain Region down to 77.2 in Sep from 82.7 in Aug; index down 36.9% year-to-date
Hotel Occupancy	↓	↓	Hotel occupancy decreased from 78.3% in Aug to 73.1% in Sep; occupancy down 0.9% YTD
DIA Passengers	↓	↑	Traffic decreased 4.6% Jul to Aug; YTD traffic up 3.9% through Aug 2008.
Bloomberg Colorado Index	↓	↓	Bloomberg Colorado Index down 26.5% from Sep to Oct; year-to-date return at -46.3%.
Dow Jones Industrial Average	↓	↓	DOW decreased 14.1% Sep to Oct; year-to-date return at -29.7%
Home Sales (closed)	↓	↓	Home sales decreased 6.1% Aug to Sep; YTD sales down 4.7% through Sep.
Median Home Price (Denver-Aurora MSA)	↑	↓	Median home price in Denver MSA increased to \$225,200 in Q2 2008; YTD price down 9.3%
Foreclosures	↑	↓	Foreclosures increased 52% Aug to Sep; YTD down 0.3% through Sep 2008.
Residential Building Permits (Total)	↓	↓	Total permits decreased between Jul and Aug; YTD down 35.5% through Aug 2008.
Apartment Vacancy Rate	↑	↔	Vacancy rate increased from 6.2% in Q2 to 6.5% in Q3; avg rental rate at \$892 per month.
Office Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased from 13.1% in Q2 to 13.2% in Q3; avg lease rate down to \$21.22/sq.ft.
Industrial Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased from 7% in Q2 to 7.1% in Q3; avg lease rate down to \$5.10/sq. ft. (NNN)
Flex Space Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased from 13.3% in Q2 to 13.9% in Q3; avg. lease up to \$9.83/sq. ft. (NNN)
<i>Positive Changes</i>	3 of 18	4 of 18	



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10184 West Belleview Avenue
Suite 100
Littleton, Colorado 80127
www.DevelopmentResearch.net
303.991.0070