

MILE HIGH Marketwatch

DENVER'S MONTHLY ECONOMIC REVIEW

MARCH 2008

NOTABLE RANKINGS

- The Pew Center for the States has given Colorado a grade of C+ for 2008 fiscal governance. The average national grade of B- was based on state personnel issues, finance, infrastructure and information. Employee development and infrastructure maintenance got lower marks in Colorado.
- ...but we're still competitive. The American Legislative Exchange Council ranks Colorado 7th for economic competitiveness, boosted by the state's tax structure and educational freedom.
- Based on the percentage of adults with college degrees, *Forbes* magazine named Boulder FIRST among the "Smartest Cities in America" for the second year in a row.
- Brighton made Gadberry Group's Top 7 list of cities with notable demographic changes. Transportation, housing and schools get credit for the city's 122% population growth (since 2000) and 17% HH income increase.
- What, me worry? Denver ranks 7th on the list of least-stressed metro areas. The BizJournals.com study looked at unemployment, crime and environmental issues among other variables.
- At the same time, a new federal study on health and drug use says that Colorado's teens top the nation in depression, and its young people drink, smoke and use drugs more often than teens in most other states. Almost 10% of Colorado teens report at least one major depressive episode in the previous year. Alcohol dependency ranked 4th and drug abuse ranked 6th.
- The U.S. ranks only 15th in the world for high-speed Internet adoption. 22% of the U.S. population report broadband coverage, behind the likes of South Korea and Australia.
- Men's Fitness magazine ranked Colorado Springs the "Fittest City" in America based on park acreage, air quality and activity levels. Denver ranked fourth.
- Out of 530 candidates, the University of Colorado was one of three U.S. universities to win a 2007 Presidential Award for Community Service.
- DIA's 74.6% on-time arrival rate moves the airport up to 16th in the rankings of major airports, up from 26th a year ago. Airport traffic ranked 5th for 2007.
- Denver financier Phil Anschutz tops the state's list of living charitable donors. Anschutz donated \$23 million last year, followed by \$20 million from University of Colorado professor Marvin Caruthers.
- Denver ranks second for lowest home utility and service bills in the country. Our combined monthly average of \$251.23 for home phone, Internet, television, electricity and gas is only higher than Orlando's \$247.01.

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ECONOMIC INDICATORS

- Colorado's labor market weakened slightly in January as unemployment rose to 4.2%. Last January, our unemployment rate stood at 3.9%.
- Metro Denver's employment growth slowed slightly at the end of the year. After adding 4,000 jobs in December, 2007 posted a final annual employment growth rate of 1.7%. Natural Resources and Construction & Manufacturing were the only two local sectors to report job losses for the year. Professional & Business Services, Education & Health Services and Leisure & Hospitality led the growth categories – all up 4% or more for the year.
- Statewide job growth through December finished at 2% - well ahead of the nation's 1.3% employment gain for the year. "Solid, but not outstanding" is the phrase used to describe Colorado's fourth straight year of job gains, while seeing unemployment dip to the lowest level in six years.
- Colorado job growth continued in January with a 14,500 increase, 74,000 higher than a year ago.
- Metro Denver's unemployment rate rose from 3.9% in November to 4.4% in December. For the year, Denver unemployment averaged 3.9% - down from 4.4% in 2006 and well ahead of the nation's 4.6% rate. The 17,000 January job cuts by U.S. employers are the most since 2003.
- The nation's unemployment rate remained essentially unchanged in January at 4.9%, but other indicators are everywhere – Zales is closing 105 stores and cutting 20% of its headquarters staff, BMW is cutting 5,600 jobs, GM is offering 74,000 buyouts, Starbucks laid off 220 support staff and will leave 380 other positions unfilled, and Honda is closing its Ohio motorcycle production facility.
- As a further result, a new employment trend is emerging – the number of American workers holding multiple part-time positions is increasing rapidly.
- Led by prospects in non-durable goods manufacturing, transportation, utilities and financial services, Manpower's Employment Outlook Survey says 27% of Denver-area employers say they expect to add workers in Q1 2008 – below expectations from prior years, but up from 23% in Q4 2007. Early in 2007, half of Metro Denver companies expected to add workers.
- Seasonal shifts impacted Denver's retail spending in November, the most recent monthly detail currently available. November sales fell 3.2% from October, but YTD remain 9.6% ahead of the same period a year ago. The national average for the same period is up 4.6%.
- Nationally, a 0.4% spending decline in December was followed by a surprising 0.3% increase in January. The increase was led by new car sales and sales at gasoline service stations (duh.) At the same time, a 0.4% inflation rate means that real consumer spending was actually flat.

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- Early indicators for February report better-than-expected sales in some categories, led by discounters Wal-Mart, Costco, Target and Ross, as budget-conscious consumers sought bargains and made consolidated trips. Value rules, even among teens and fashionistas. Most specialty stores are missing sales forecasts. Overall retail sales in February could be down by 0.6%.
- Tax rebates to the rescue? Of the \$105.7 billion set to be distributed, a new NRF survey reveals that consumers intend to spend \$43 billion (about 40%), use \$30 billion to pay down debt, invest \$4.4 billion, save \$19.8 billion and put \$4.6 billion toward medical bills.
- Automotive gains were short-lived. Sales of cars and trucks in the U.S. fell 10% in February as oil prices climbed past \$100 a barrel and consumer confidence continued to fall.
- Consumer Confidence in the Mountain Region increased slightly in January to 121.4, but remains 8% below a year ago. The national index continues to spiral downward at 87.9 – more than 20% below last January's measure and the lowest level since 1992.
- Denver-area inflation slowed in the second half of 2007, our Consumer Price Index increasing 1.9% from the second half of 2006 to the second half of 2007. The first half of the year saw a 3.4% increase.
- Inflation at the wholesale level soared in January – a full point increase and more than double the 0.4% increase economists had been expecting. The January surge left wholesale prices rising by 7.5% over the past 12 months, the fastest pace in more than 26 years.
- Inflation also affects household net worth, which has now declined for the first time since late 2002. The 3.6% drop means we're collectively worth \$533 billion LESS than we were a year ago.
- Economists are still arguing about the "R" word, and Q4 GDP isn't helping. The U.S. economy slowed sharply to a 0.6% annual rate, dragging the 2007 total to an inflation-adjusted 2.2%, the weakest pace in five years.
- Due to job growth in government, leisure, energy, professional services and aerospace and strength in energy, agriculture and tourism, Colorado is so far faring better than most national indicators. If there is a recession, real or imagined, Colorado is expected to handle it better than most.
- While the DOW fell 7.5% between January and February, the Bloomberg Colorado Index dropped 8.5%. Throughout 2007, Colorado-based stocks consistently out-performed Wall Street. (The Bloomberg Colorado Index is a price-weighted index that includes 115 Colorado companies.)

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- Metro Denver home sales decreased by 7.2% between December and January, 15.6% below the same point last year. Nationally, home sales fell 0.4% to a point 23.4% below January 2007. Unsold inventory across the country has risen to a 10.3 month supply. The National Association of Realtors blames limited financing options.
- Home prices nationally fell to a median of \$201,100, down 4.6% from a year ago. For the year, median home prices in Denver declined by 1.6% over the entire year. Average single family home prices in January were 5.4% below the year ago figure.
- Things are worse in most other areas. 45 of 50 states saw falling home sales in Q4 2007. Denver's 49,789 closings in 2007 fell only slightly below the 50,244 in 2006.
- New home sales continue to drop nationally, with a 2.8% monthly decline in January. Compared to last January, new home sales are off by 33.9%. Across all U.S. regions, a 9.9 month supply of new homes remain unsold.
- The new home construction ripple effect? Home Depot Q4 profits fell 27% after the declining housing market hurt demand for building and home goods supplies. Similarly, Lowe's profits fell by a third in the same period.
- Metro Denver's residential building permit activity nearly tripled in December, even though most of that was multi-family. For 2007, 14,729 total permits were issued, an 18.1% decline compared to 2006. SFH permits dropped by 35%, while Multi-Family permits increased by 75%.
- Denver's plunge in SFH construction hits the lowest level in 16 years, and by some estimates, could cost up to 10,000 construction-related jobs.
- Foreclosures in Colorado shot up by 40% in 2007 to a total of 39,915, or one of every 45 homes. In the metro area, Adams County was hit hardest, where the foreclosure rate equaled one of every 23 homes. The overall 3.6% rate is nearing the 3.8% record set during the previous housing collapse in 1988.
- The foreclosure trend continued in January. Colorado ranked fifth in the nation with 6,883 new filings, up 9% from December and up nearly 41% over January 2007. Nationally, mortgage delinquencies hit a 23-year high. 5.8% of home loans are classified as "past due."
- Metro Denver's rental vacancy rate increased slightly to 6.1% in Q4 2007, but the overall vacancy rate remains the lowest recorded since 2001. Boulder County is lowest at 4.4%. Averaging \$860, rental rates remain relatively stable overall, up only 0.8% from the 2006 average. Slowing job growth and more moderate rental marketing seem to be keeping the market in check.
- Metro Denver's office market vacancy rate remains unchanged at 13%. The average lease rate of \$20.32 is also stable. 1.38 million sf of office space (58 buildings) was completed in 2007 and 66 buildings (another 3.36 million sf) are currently under construction.

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- Citing an active commercial construction market combined with slowing demand, Metro Denver's office market has fallen to a 24th-place ranking according to the 2008 National Office Property Index. We ranked 20th in 2007. The change could spur an increase in office property vacancy.
- At the same time, tighter credit conditions toward the end of 2007 helped to hold down office market pricing.
- The industrial market follows the same flat year-end trend. Vacancy rates are unchanged at 5.9% and average lease rates are steady at \$5.04 per square foot. 29 buildings (1.67 million sf) of industrial space was completed in 2007 (70% of that in Adams County alone) and another 21 buildings (1.8 million sf) are currently under construction.
- Even though industrial market activity slowed in 2007, our region's relative stability is still expected to attract investors, and a record \$1 billion in Metro Denver industrial property sold in the second half of 2007.
- Impacted by weaker consumer spending, the retail market continues to exhibit softness that could prompt price declines. Vacancy rates moved up slightly to 7.7% and lease rates fell to \$16.60, while the average price per square foot fell to \$152 – opposite of the national trend, where prices rose to over \$200 per sf.
- On the positive side, 41 retail buildings (1.6 million sf) were completed in 2007 and another 81 buildings (6.3 million sf) are currently under construction. Major projects include Prairie Center, Riverpoint at Sheridan and Church Ranch Crossing.
- Overall, Denver's commercial real estate market finished 2007 with about \$4 billion in sales – almost a 25% drop from the 2006 record of \$5.3 billion, but still the second-strongest year in Denver history. Spillover from financing woes and housing market troubles put the damper on activity in the second half of the year.

RETAIL & BUSINESS DEVELOPMENTS

- The buyer is finally revealed – Houston-based ConocoPhillips is taking over the 432-acre Sun Microsystems/StorageTek campus in Louisville. The energy giant will redevelop the site into a global training and research center focusing on renewable energy and high-tech carbon fuels recovery. Construction and redevelopment is expected to be complete in 2011 or 2012. Overall, the project could end up supporting as many as 10,000 jobs.
- Charles Schwab financial services is bringing up to 500 jobs to Metro Denver as it consolidates offices from Phoenix and San Francisco and relocates them here.

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- Castle Pines North is now a city. After voting to become a municipality, Castle Pines North has become Douglas County's fifth municipality, joining Castle Rock, Parker, Larkspur and Lone Tree.
- Frontier Airlines announced new flight schedules and destinations including Aspen, Durango, Colorado Springs, Grand Junction, Jackson Hole, Bozeman, Missoula and Fargo.
- Brothers BBQ opened its eighth location at 4645 W. Colfax Ave.
- Love's Travel Stops and Country Stores opened a new location at I-76 and SH52.
- Cherry Creek North gets three new restaurants – The Q Worldly Barbeque and Bar, the Blues & Jazz Bar, and Second Home Kitchen and Bar.
- Denver-based Furniture Row has opened a new Furniture Row Shopping Center in Erie, Pennsylvania.
- Avis Rent A Car opened a new facility at 1664 S. Broadway.
- Budget Rent A Car opened a new facility at 4800 E. Evans.
- Max Muscle Sports Nutrition opened its first Denver location at 1550 S. Colorado Blvd.
- Colorado's mountain casinos saw a 3.6% drop in revenue in January, the first month of the new casino smoking ban. The drop isn't as drastic as some operators had expected, though most still say it's too early to determine the full effect of the ban.
- A weak holiday season and a struggling economy led long-time high-tech gadget and novelty retailer Sharper Image to file for bankruptcy.
- A new study from the University of Michigan says that online retailers are delivering not only product, but providing better customer service than traditional stores. Satisfaction with the online market has now surpassed brick-and-mortar retailers by 12 percentage points.
- KinderCare Learning Center has opened a new location on 1.58 acres in the new Havana Town Center.
- The Michigan operators of the Papa Romano's and Mr. Pita chains have finalized agreements to open locations in Colorado. More than 100 stores are planned.
- Costco will be the first tenant at River Point at Sheridan this summer. Their June opening will be closely followed by SuperTarget in July. About half of the 821,230 sf shopping center at West Hampden and South Santa Fe is already signed for.
- Health care apparel company Crazy Scrubs opened a new store at 760 S. Colorado.
- Bicycling giant Shimano acquired Broomfield-based cycling and running apparel manufacturer Pearl Izumi from Nautilus Inc. in a deal valued at \$69.5 million.

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- JBS-Swift is expanding its truck fleet and will add several hundred new jobs in Greeley.
- Niwot-based Crocs announced an expanded licensing agreement with the NBA to now cover all 30 teams. Crocs has agreements with all NHL, MLB and NFL teams as well as 75 colleges.
- High-end women's shoe retailer Marmi is reopening in Cherry Creek North after moving from Park Meadows Mall.
- Lakewood-based Einstein Noah has announced a development agreement to open four Einstein Bros. Bagels stores in South Carolina and Georgia.
- Microsoft has selected Boulder ad agency Crispin Porter as its creative partner for an upcoming consumer marketing campaign worth an estimated \$300 million.
- Staples, Inc. is weathering the economic downturn better than its competitors, and says it is sticking with its plan to open 100 more stores this year, including 11 in Denver, its newest market.
- Vestas Wind Systems opened its first wind-blade manufacturing facility in the U.S. in Windsor, bolstering Colorado's efforts to develop a "new energy economy" based on wind, solar and biofuels energy. The plant will eventually employ 650 workers, and expects to be at full capacity by summer.
- DIA set another traffic record in 2007 with nearly 50 million passengers – a 5.4% increase over 2006 – enough to maintain its #5 ranking among U.S. airports.
- Alberta Development Partners finally began construction on the first new buildings at the \$310 million Streets of SouthGlenn mixed-used development after delays caused by residential component changes. Best Buy, Dick's, Macy's and Staples will anchor the retail portion of the project, and are expected to open in September.
- Orchard Town Center at I-25 and 144th has announced 39 new tenants including Rock Bottom Brewery, Victoria's Secret, Zales and Aeropostale. The 983,000 sf outdoor lifestyle center is already anchored by Target, Macy's, JCPenney and AMC Theaters.

MEDIA UPDATES

- Denver television stations 2, 9 and 20 are part of a new partnership to jointly sell national advertising on their web sites. The partnership involves parent companies Gannett, Tribune Co., The New York Times Co. and Hearst Corp.
- Powered by growth in marketing consulting, employment in advertising and marketing services has reached an all-time high of 769,000 nationally.
- Even though growth is slowing, the Interactive Advertising Bureau says that online ad revenue grew 25% in 2007 to a new high of \$21 billion.

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- Starbucks' new deal with AT&T will boost the number of AT&T Wi-Fi hotspots in the U.S. to 17,000 – the most in the nation.
- Cell phones rule – just ask your kids. For the first time, Americans say they would have more trouble giving up a cell phone than their land line. Expenditures for cell phone services per consumer rose from \$210 in 2001 to \$524 in 2006. Expenditures for residential phone services per consumer fell from \$686 in 2001 to \$542 in 2006.
- Online music listening is up 26% over 2006 and digital music sales are forecast to pass CD sales by 2012. By 2011, half of all music sales in the U.S. will be digital.
- Getting ready for digital TV: the U.S. government will begin mailing \$40 coupons to help consumers pay for converters they'll need to keep older televisions working when over-the-air TV switches to digital signals next year.
- TiVo does NOT = DVR. TiVo is a separate brand of digital recorder, and their share is declining. Only 20% of DVR users/owners actually have TiVo.
- Time-shifting and commercial-skipping increases: Of the top 20 prime time TV shows, 25% of prime time viewing was time-shifted using a DVR, broadband or mobile device. Among younger viewers 18-34, 34% was time-shifted. Over half of DVR owners shift their viewing, and two-thirds say the “always” skip commercials compared to 52% a year ago.
- The lowest-rated Academy Awards broadcast ever was still strong enough to top weekly bully American Idol. Its 18.7 rating means that 18.7% of television households were tuned in. American Idol was next at 16.4%. Network evening news programs are mid-single digits and dropping. By comparison, 36% of Metro Denver homes get a printed newspaper every day and 46% get a printed newspaper every Sunday.
- 78% of U.S. adults report using the Internet WHILE watching TV; 35% say it's “often” or “always.”
- ... and where are those online surfers going while they sort of watch TV? In Q4 2007, 39% of all web users visited a NEWSPAPER web site – in many cases, elusive younger readers.

Sources: The Denver Post, Rocky Mountain News, Denver Business Journal, Mountain States Employers Council, University of Colorado, Colorado Economic Chronicle, Metro Denver Economic Development Corporation, Development Research Partners, BIG Research, Pew Research Center, Burst Media, Denver Scarborough Report, The Wall Street Journal, The New York Times, Reuters, Colorado Department of Labor and Employment, Bureau of Labor Statistics, Manpower, Inc., Colorado Department of Revenue, The Conference Board, Rocky Mountain Lodging Report, Denver International Airport, MetroList, Inc., National Association of Realtors, CB Richard Ellis, Home Builders Association of Metro Denver, Television Business Report, Newspaper Association of America, Harris Interactive Poll, Nielsen Media Research, Center for Media Research, Minnesota Opinion Research, emarketer.com, washingtonpost.com