



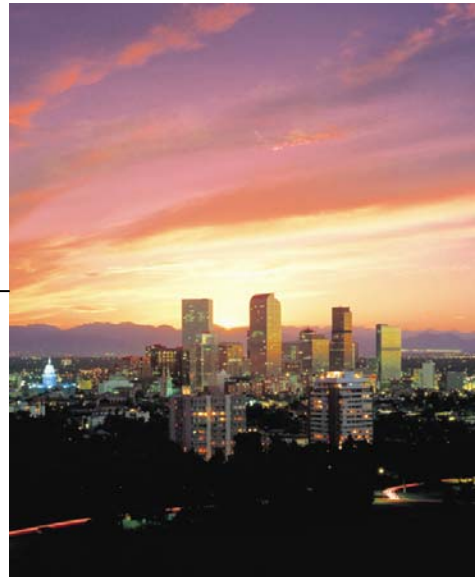
Metro Denver
Economic Development Corporation

Monthly Economic Summary

A Monthly Summary of Economic Conditions in Metro Denver

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

Released August 5, 2008



**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

- ◆ A report by the Washington, DC-based Brookings Institution named Colorado's Front Range among five "Mountain Megs," or regions that are becoming the new economic and political centers of the central U.S. Rapid population growth, a well-educated workforce, and strong infrastructure give the Front Range and several neighboring regions a larger national influence, policymakers say. They note, however, that Colorado and other states in the Intermountain West could need federal help with the infrastructure development and resource preservation needed to support growth. In addition to the Front Range, the Brookings report also named Utah's Wasatch Front, Greater Las Vegas, Arizona's Sun Corridor, and Northern New Mexico as Mountain Megs.
- ◆ CNBC named Colorado the fifth-best state for business in its annual *America's Top States for Business* ranking. The state placed among the nation's top 10 for quality of life and business friendliness and among the top 15 for workforce quality, access to capital, technology, and the overall economy. Colorado's 2008 ranking bettered last year's seventh-place standing, and CNBC attributed much of the improvement to Colorado's advancements in a New Energy Economy.
- ◆ A recent report by KPMG International placed Denver ninth among the nation's 21-largest cities in a ranking of business-friendly tax structures. The ranking compared each city's corporate tax collections with a national average value and showed Denver taxes were 1.8 percent above the nationwide measure. The report also provided an international comparison, where Denver ranked 17th among 35 large international cities. At a broader level, the report noted the U.S. has the world's fifth-most business-friendly tax structure.
- ◆ *Money* magazine recently named several Colorado cities among "America's Best Places to Live." Criteria for "Best Places" included income, diversity, crime rates, and other quantifiable factors as well as qualitative traits such as sense of community and vibrancy. Fort Collins ranked second on the list of best U.S. cities, and other winning Colorado cities included Highlands Ranch (12), Loveland (33), Westminster (44), and Longmont (50).
- ◆ The Colorado unit of Minneapolis-based Xcel Energy ranked fifth among more than fifty U.S. utilities for its total amount of solar energy included in the power grid, according to the Solar Electric Power Association. California utilities claimed five of the top ten positions in the ranking, which included both solar power produced by customers as well as power purchased or produced by the utilities themselves.
- ◆ Dallas-based HomeVestors of America, Inc. – a company that purchases, repairs, and re-lists homes – placed Metro Denver fourth among the nation's top 10 markets for residential real estate investment. The company named Dallas, Houston, and Atlanta as the nation's top three investment markets.
- ◆ CollegeGrad.com, an online clearinghouse for entry-level job listings, recently ranked Denver ninth among the nation's top 25 cities for college graduates seeking jobs. The rankings reflect each city's inventory of job listings. New York, Houston, and Los Angeles had the three highest numbers of entry-level positions.

MONTHLY ECONOMIC SUMMARY

General Economic Overview

The most recent *Beige Book* report for the Tenth District of the Federal Reserve – which includes Denver – points to slower economic growth. Retail sales flattened and fell below expectations district-wide, and auto dealers reported poor sales conditions and limited financing for customers. The Tenth District's residential market remained weak but stable, and the outlook for commercial real estate darkened amid rising construction costs and tight financial markets. On a brighter note, summer tourism trends remained strong across the Tenth District, and visitor counts exceeded expectations in Denver.

At the national level, recent estimates of second quarter GDP growth fell short of expectations. U.S. real GDP growth accelerated from a downwardly revised 0.9 percent in the first quarter to 1.9 percent in the second quarter of 2008, according to advance estimates from the U.S. Bureau of Economic Analysis (BEA). The BEA also released the results from its annual revision process, and the revised figures now show real GDP growth turned negative (-0.2 percent) in the fourth quarter of 2007. Economists note that second quarter GDP figures reflect poorly on the domestic economy, as growth would have been much weaker were it not for import and export trends. A weak dollar has so far boosted U.S. exports and GDP, but slower international growth in the second half of this year could offset the benefits of a competitive currency.

A decline in international consumption could weaken both the nation's economy and regional economies that rely heavily on exports. While exports play a smaller role in Metro Denver than they do in coastal or manufacturing-intensive regions, international trade is still a key contributor to the local economy. The value of Metro Denver exports approached \$2.5 billion in the first half of 2007, according to a recent report by the U.S. Department of Commerce. Viewed another way, Metro Denver exports accounted for nearly 57 percent of Colorado's total export value in the first half of last year.

While many analysts expect export trends to weaken in the second half of 2008, national-level trade data still show recent strength in U.S. foreign trade. Specifically, the nation's trade deficit declined in May as growth in exports exceeded gains in imports. According to the U.S. Census Bureau, the total trade deficit narrowed to \$59.8 billion from \$60.5 billion in April as a weaker dollar and strained U.S. consumers helped curtail imports. Analysts had expected an increase in the trade deficit as oil prices reached record highs.

While oil prices have recently declined, they remain near record high levels and continue to drive wholesale and retail prices higher. Minutes from the most recent meeting of the Federal Open Market Committee (FOMC) describe increased prices for food and energy as a global threat, even in countries where real estate and financial markets have been more stable. The Committee lowered its target federal funds rate by 25 basis points to two percent at its June meeting and will reconvene August 5.

Economic Indexes

National and local economic indexes continue to give mixed signals, which lend support to the concept of an economy moving near or along the bottom of the business cycle.

National Economy

- ◆ The Conference Board's Index of Leading Economic Indicators declined for the second consecutive month in June as negative trends in money supply, unemployment insurance claims, and stock prices more than offset several positive indicators. Indicator trends remain generally weak, but analysts note that the decline in the overall leading index has flattened in recent months.
- ◆ The Institute for Supply Management's Purchasing Managers Index suggests that business activity in the nation's manufacturing sector is essentially stable. The index declined from 50.2 in June to 50 in July, which is the dividing point between manufacturing expansion and decline. Respondents reported general difficulty in

MONTHLY ECONOMIC SUMMARY

controlling high costs and noted that heavy competition often prevents their pass-through of cost increases to customers.

- ◆ The Institute for Supply Management's Index of Non-Manufacturing Business Activity declined from 53.6 in May to 49.9 in June. Service sector respondents remained broadly concerned about the impact of oil prices on wholesale goods and consumer spending habits. Analysts note that the Prices Paid Index – a companion measure to the Business Activity Index – has reached an all-time high.

Local Economy

- ◆ The Colorado Business Leaders Confidence Index rose from 41.7 in the second quarter to 43.6 in the third quarter, which suggests the local business community has an improved outlook for the three months ending in September. Index readings below 50, however, still reflect business expectations for below-average growth. Outlooks for the national economy were considerably weaker, as only 15 percent of respondents in the third quarter survey expected the nation's economy to improve in the near term.
- ◆ The Vectra Bank Colorado Small Business Index rose from a revised 86.6 in May to 87.4 in June, but business conditions for small companies are mixed. Inflation is a significant risk for small businesses, analysts say, because the companies face rising prices and increased borrowing costs should the Federal Reserve move to contain inflation with higher interest rates.
- ◆ Despite a challenging business environment, Colorado companies continue to grow and attract capital investment. According to the most recent *MoneyTree* report by PricewaterhouseCoopers and the National Venture Capital Association, second quarter investment in Colorado companies rose eight percent over-the-year to \$184 million. Renewable energy companies continue to drive business investment in the state, as AVA Solar Inc. and RangeFuels Inc. secured some of Colorado's largest deals in the second quarter.

Labor Force and Employment

Employment in Metro Denver increased by 8,400 jobs between May and June, and the region's year-to-date employment growth measured 1.6 percent. On an over-the-year basis, Metro Denver employment growth slowed to 0.8 percent from 1.2 percent in May, and seasonal hiring trends weakened slightly from prior years.

Employment estimates suggest that growth in Metro Denver's June job count was almost entirely due to net gains in the Denver-Aurora MSA, as over-the-month job gains and losses in the Boulder MSA were essentially balanced. Across the entire Metro Denver region, job growth through the first six months of 2008 was strongest in education and health services (+3.9 percent) and weakest in financial activities (-2.3 percent). Metro Denver job growth through June fell slightly behind the statewide growth rate (1.8 percent) but remained considerably ahead of the national average (0.3 percent).

MONTHLY ECONOMIC SUMMARY

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

	Month of Jun-08 (p)	Month of May-08	Month of Jun-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*	1,437.0	1,428.6	1,424.9	1,414.2	1,392.5	1.6%	-1.4%	4.0%
Denver-Aurora MSA	1,267.5	1,259.1	1,257.9	1,246.5	1,227.6	1.5%	-1.2%	4.0%
Boulder-Longmont MSA	169.5	169.5	167.0	167.7	165.0	1.6%	-2.8%	4.0%
Natural Resources & Construction	102.2	99.8	102.9	97.9	97.0	1.0%	-7.1%	11.9%
Manufacturing	88.5	88.0	89.7	88.0	88.9	-1.0%	-4.9%	1.4%
Wholesale & Retail Trade	217.0	215.4	216.0	215.5	213.3	1.0%	-1.9%	3.0%
Transp., Warehousing & Utilities	52.7	52.3	52.1	52.3	51.7	1.2%	-8.0%	15.8%
Information	56.3	56.5	57.7	56.6	56.7	-0.2%	3.4%	6.1%
Financial Activities	106.2	105.2	108.2	105.1	107.5	-2.3%	-1.3%	3.3%
Professional & Business Services	249.1	248.0	246.1	244.3	237.7	2.8%	2.6%	2.3%
Education & Health Services	152.6	152.5	146.9	151.2	145.6	3.9%	-0.6%	2.1%
Leisure & Hospitality	154.9	150.5	152.4	147.0	142.8	2.9%	-0.4%	2.1%
Other Services	53.1	52.9	52.9	52.5	52.0	1.0%	0.2%	2.0%
Government	204.4	207.5	200.0	203.9	199.5	2.2%	0.5%	0.2%
Federal Gov't	30.0	30.2	30.7	30.1	30.6	-1.9%	-2.9%	1.8%
State & Local Gov't	174.4	177.3	169.3	173.9	168.8	3.0%	1.4%	2.7%
Colorado	2,389.4	2,362.1	2,357.9	2,349.2	2,308.2	1.8%	-1.4%	3.9%
United States	138,624	138,383	138,791	137,354	136,925	0.3%	-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

Business conditions in Metro Denver's industry clusters continue to be mixed, as diverse industries have varying levels of exposure to high commodity prices and a weak national economy.

Aviation: A Russian investment company that recently purchased the bankrupt airplane manufacturer Adam Aircraft has resumed testing on the A700 model. The plane was moving through testing phases with the Federal Aviation Administration (FAA) when Adam Aircraft filed for bankruptcy, and FAA regulators have agreed to let the company's new owners resume the project mid-phase. The new company, called AAI Acquisition Inc., currently has 150 workers at its Centennial headquarters and plans to increase its headcount to 500 by the end of next year.

Denver-based Frontier Airlines continues to address its bankruptcy and a broad-based downturn in the aviation industry with expanded job cuts, flight reductions, and a smaller presence at Denver International Airport (DIA). The company's planned job cuts now number roughly 600 positions, including workers both in Denver and Las Cruces, New Mexico. Total Denver layoffs account for 12 percent of the company's 4,788 local workers, and officials say flight reductions will trim the carrier's schedule at DIA by 17 percent. As flights are reduced, officials also expect Frontier will surrender some of the gates it currently occupies at DIA and retire aircraft. Like many other airlines, Frontier also plans to use an à la carte pricing schedule that would offer base-price flights with additional charges for seat assignments, frequent flyer miles, and late-stage itinerary changes.

MONTHLY ECONOMIC SUMMARY

Administrative changes for the Denver-based airline also include a revised agreement with the company's credit card processor, Greenwood Village-based First Data. First Data previously withheld a portion of Frontier's credit card bookings but will temporarily allow the airline to keep all of its receipts. In return, First Data will gain temporary liens on some of the airline's equipment. Significant corporate changes for Frontier could also include a new financing arrangement. The airline is currently considering two proposals, the first of which involves a \$75 million financing deal with a Washington, DC-based investment group. The group, Perseus LLC, has agreed to loan funds to Frontier and will convert its loans into a majority stake of Frontier stock when the carrier exits bankruptcy. Under a second proposal, Frontier would receive \$75 million in loans from four of its unsecured creditors. Airline officials say the second deal offers better loan terms and would not require Frontier to surrender a majority stake. Either plan would require bankruptcy court approval.

Combined, Frontier Airlines and United Airlines account for 75 percent of the market at DIA. Like Frontier, United plans to reduce its Denver capacity. United officials recently announced plans to reduce Denver flights by 16 percent in 2009. The airline will eliminate 7,000 positions by the end of next year, although officials have not detailed how the layoffs might affect the airline's 5,400 Denver workers. Reports suggest the company has already eliminated 150 local jobs. Other airlines are also announcing job cuts, including an eight percent staff reduction for American Airlines and an 8.3 percent reduction for Northwest Airlines.

As many airlines contract and others grow, officials at DIA are working to reallocate the airport's gate space. Some airlines will move from the C concourse to the A concourse, and airport officials have notified U.S. Airways, Alaska Airlines, Midwest Airlines, and Air-Tran Airways of pending relocations. Dallas-based Southwest Airlines will claim the vacated gate space as the airline grows its Denver capacity to 115 departures this fall.

Aviation analysts say Southwest Airlines' continued growth at DIA could help curb rising Denver fares. Data from the Bureau of Transportation Statistics show Denver-based airfares in the first quarter of 2008 rose 8.4 percent over-the-year while fares nationwide increased 4.4 percent. On an absolute basis, however, the first quarter average fare from Denver – \$324.89 – fell slightly below the national average of \$331.72.

Beverage: Belgian brewing company InBev recently announced its \$52 million purchase of Anheuser-Busch. Company officials with Anheuser-Busch – which produces the Budweiser and Michelob brands – say the brewer employs more than 1,200 Colorado workers at its Fort Collins brewery and research facility, a canning facility in Windsor, and a Denver distribution center. Officials expect all of the company's 12 U.S. breweries to remain open.

Significant changes are also underway for other large members of the U.S. beer market. The recently combined MillerCoors will establish its headquarters in Chicago, a location officials say is more neutral than its two brewery centers in Golden and Milwaukee. As many as 175 executives will relocate from both breweries to Chicago, and the combined company will invest \$150 million to help retrofit the breweries for an expanded product line. According to some reports, two-thirds of the total investment will go towards the MillerCoors brewery in Golden.

Other headquarters changes for the Metro Denver beverage community include the arrival of Seattle-based Aviva Yerba Mate. The company produces 10 loose-leaf blends of the tea-like product and additional blends for coffee shops and teahouses. Aviva officials say Metro Denver's central location and growing population make the area an ideal location for company headquarters.

Bioscience: Arca Biopharma Inc., formerly Arca Discovery, has relocated its headquarters from Denver to the Arista development in Broomfield. Officials say the larger site will help the company transition from drug research to commercialization and will attract bioscience workers from both Denver and Boulder.

A second headquarters move in the bioscience community will relocate a company away from Colorado. Aurora-based Taligen Therapeutics recently announced plans to move the company's headquarters to Cambridge,

MONTHLY ECONOMIC SUMMARY

Massachusetts, where officials hope to benefit from a large concentration of research expertise. The company currently employs eight workers, and spokespeople say operations will continue at its Aurora location.

Another Aurora-based bioscience company, Sierra Neuropharmaceuticals Inc., recently received venture capital financing that will allow the company to proceed with research and clinical trials for epilepsy treatments. The company reformulates neurological drugs and uses an implant system that delivers medicines more directly than oral treatments. Spokespeople say a first product could be on the market in 2013 with a second drug to follow.

Energy: The Fort Collins campus of Colorado State University will soon house a School of Global Environmental Sustainability. School officials are still working on a detailed curriculum, but they say the programs will serve a growing demand for workers trained to meet the needs of “green” industry. Students studying other disciplines can obtain a certificate from the school beginning in fall 2008, and graduate and undergraduate degree programs will be available beginning in 2010.

One branch of green industry, renewable energy, continues to expand in Boulder. Tendril Networks Inc. – a manufacturer of systems that help customers track residential energy consumption in real-time – plans to more than double its 60-person workforce by the end of 2009. The Tendril Residential Energy Ecosystem (TREE) allows customers to monitor their energy use and cost on the Internet or a separate display. The company also offers programmable thermostats and outlets that can reallocate power supply based on current electricity prices.

Another entity focused on renewable energy technologies, the National Renewable Energy Laboratory (NREL) in Golden, will soon operate under a new contractor. The Alliance for Sustainable Energy (ASE) LLC will assume management and operating responsibilities for NREL under a five-year, \$1.1 billion contract administered by the U.S. Department of Energy. ASE consists of the Battelle Memorial Institute and the current NREL contractor, the Midwest Research Institute.

Financial Services: Denver-based holding company Mercury Cos. has closed United Title of Texas and will also discontinue its title, escrow, and related businesses in Arizona and California. Company spokespeople say financial hardship prompted the closures, and the company hopes to sell its four Colorado subsidiaries.

IT/Hardware: Computer hardware company Sun Microsystems is continuing with a plan to eliminate 1,000 jobs. Upcoming cuts will include 212 jobs at the company’s Broomfield and Louisville locations, and company officials say they will deliver layoff notices through September.

Telecommunications: Denver-based StarTek Inc., a customer service outsourcing company, recently announced plans for a new call center in the Philippines. The company already operates 20 facilities across North America, and officials say the new, overseas location could house as many as 1,100 workers.

Employment Outlook

The third quarter hiring outlook for Metro Denver employers improved from the second quarter. According to the most recent Manpower Employment Outlook Survey, the share of Denver Area employers planning to add workers in the third quarter rose to 32 percent from 22 percent who planned to add jobs in the second quarter. The share of employers planning to cut jobs was essentially unchanged, and slightly more than half of the employers surveyed planned no staffing changes.

Boulder County employers reported more conservative hiring plans for the third quarter. As in the second quarter of 2008, twenty percent expect to add jobs and 13 percent plan to reduce payrolls. Slightly more than half of the Boulder employers surveyed plan no staffing changes for the third quarter, down from nearly two-thirds of respondents for the second quarter survey. The Boulder County results generally followed the national trend, as nationwide survey results were largely unchanged from the second quarter. Twenty-six percent of employers nationwide plan to add jobs between July and September, and 10 percent plan to reduce payrolls. Analysts say stability in the survey results over time could suggest that employers are more effectively forecasting their staffing needs.

MONTHLY ECONOMIC SUMMARY

Employment Outlook Survey

	Quarter 3 2008	Quarter 2 2008	Quarter 3 2007	YTD Avg 2008	YTD Avg 2007	YTD Avg 2006
Denver Area*						
Percent of Companies Hiring	32%	22%	26%	27%	37%	37%
Percent of Companies Laying Off	8%	7%	13%	10%	11%	9%
Percent of Companies No Change	55%	44%	57%	49%	47%	49%
Percent of Companies Unsure	5%	27%	4%	15%	5%	5%
Boulder County						
Percent of Companies Hiring	20%	20%	13%	18%	18%	38%
Percent of Companies Laying Off	13%	13%	23%	10%	13%	3%
Percent of Companies No Change	54%	67%	61%	68%	68%	57%
Percent of Companies Unsure	13%	0%	3%	4%	1%	2%

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

The Metro Denver unemployment rate rose from 4.7 percent in May to 5.4 percent in June, and the average unemployment rate through the first six months of the year registered 4.7 percent. Unemployment rates typically increase at this point in the summer season, although the recent shift for Metro Denver was slightly larger than normal. Across the seven Metro Denver counties, June employment rates ranged from 4.7 percent in Boulder and Douglas Counties to 5.9 percent in Adams and Denver Counties. The statewide unemployment rate averaged 4.7 percent through the first half of the year, while the nationwide rate averaged 5.2 percent.

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

	Jun 2008 (p)		2008 YTD Avg		2007 YTD Avg		2003 Ann Avg	1998 Ann Avg
	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate	Unemployment Rate
Metro Denver	1,559.7	5.4%	1,547.7	4.7%	1,506.0	3.8%	6.4%	2.9%
Adams County	229.2	5.9%	227.5	5.3%	221.3	4.4%	7.2%	3.6%
Arapahoe County	319.9	5.4%	317.0	4.7%	308.3	3.7%	6.3%	2.7%
Boulder County	180.2	4.7%	179.3	4.0%	174.7	3.3%	5.8%	3.3%
Broomfield County*	26.9	5.5%	26.6	4.7%	25.9	3.8%	6.4%	
Denver County	323.1	5.9%	320.5	5.2%	311.6	4.2%	7.3%	4.1%
Douglas County	159.7	4.7%	158.4	4.1%	154.1	3.1%	5.3%	1.7%
Jefferson County	320.8	5.1%	318.3	4.5%	310.0	3.7%	5.9%	2.8%
Colorado	2,783.7	5.3%	2,749.9	4.7%	2,674.6	3.8%	6.1%	3.8%
United States	155,582	5.7%	153,686	5.2%	152,412	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 followed a typical seasonal trend and declined between May and June. Counts of claims remain generally elevated, however, with the Metro Denver count up 19.7 percent through the first six months of the year and the Colorado count up 18 percent.

MONTHLY ECONOMIC SUMMARY

Weekly First-Time Unemployment Insurance Claims

	Month of Jun-08	Month of May-08	Month of Jun-07	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change
Metro Denver	1,230	1,291	932	1,363	1,139	19.7%
Colorado	2,117	2,394	1,623	2,444	2,071	18.0%

*Note: Reference week data includes the 19th day of the month with the exception of November and December, which includes the 12th day of the month.
Source: Colorado Department of Labor and Employment, Labor Market Information.*

Consumer Sector

Oil prices have recently declined from all-time highs as U.S. gasoline demand continues to contract. Analysts warn, however, that rising demand for oil in developing countries and continued political instability could limit the recent retreat of oil prices. Still, U.S. motorists enjoyed easing gas prices as July ended. According to the AAA *Daily Fuel Gauge* report, the national average price per gallon of regular gasoline declined to \$3.93 at the end of July, down from \$4.09 in the previous month. Colorado prices averaged a slightly higher \$3.97, but the Metro Denver average price of \$3.91 fell slightly below the national average.

While falling oil prices have helped moderate prices for gasoline, costs for natural gas continue to rise. Xcel Energy recently announced a 19 percent increase in the cost of natural gas for August, which – thanks to typical declines in usage for the month – could mean a 12 percent increase in residential costs from July. Some analysts estimate that August energy bills will reflect a 46 percent increase over bills from August 2007.

The near-term outlook for residential energy costs remains uncertain, but Metro Denver customers could pay as much as 25 percent more for natural gas this winter than they did last year. Recent figures from Xcel Energy suggest total shut-offs for delinquent Colorado customers could reach 72,000 this year, a 33 percent increase over shut-offs from 2007. While Xcel spokespeople say a majority of disconnected customers are ultimately reconnected with bills paid in full, policymakers and nonprofit energy assistance groups remain concerned. According to data from the U.S. Department of Health and Human Services, Colorado is one of only a handful of states that provides no seasonal or temperature-based protections against utility shutoffs.

Continually high prices are forcing consumers to reallocate their spending between utilities, gas, groceries, and leisure, and restaurants are noting a related decline in business. All 11 Colorado locations of the Bennigan's Grill and Tavern recently closed as the restaurant entered a Chapter 7 bankruptcy filing. Each of the Colorado locations was company-owned, and restaurant spokespeople say franchised locations would not be affected by the bankruptcy proceedings.

Colorado will also lose nine Starbucks locations – including stores in Denver, Broomfield, Lakewood, and Longmont – as the Seattle-based company moves to reduce its count of U.S. stores by five percent. Some food and beverage companies, however, are pursuing a different course in the state. The Baskin-Robbins ice cream franchise recently announced plans to open an additional 60 locations across Metro Denver in the next several years. Company spokespeople say a slower economy can benefit business as families substitute less-expensive treats for more costly outings and vacations.

These sorts of changes in spending habits will likely persist as pressures on household budgets continue to mount. According to the Bureau of Labor Statistics, the U.S. Consumer Price Index (CPI-U) increased one percent in June following a 0.6 percent increase in May. With the June increase, the CPI-U rose five percent from June 2007 in a gain analysts say is one of the worst in decades. Oil prices accounted for two-thirds of the CPI increase in June, but food prices also rose considerably over the month. Prices at the wholesale level increased 1.8 percent between May and June and rose 9.2 percent above last year's levels.

MONTHLY ECONOMIC SUMMARY

Over-the-year growth in Metro Denver retail sales has been steady over the past several months, but higher inflation is eroding some of the net gains. Sales through the first five months of the year rose 3.6 percent over the same months in 2007, which amounts to an essentially stagnant sales trend after adjustment for inflation. Not all Metro Denver counties, however, have reported the same trends. Retail sales gains through May ranged from -7.6 percent in the City and County of Broomfield to 13.8 percent in Adams County.

Total Retail Sales (\$000s)

	Month of May-08	Month of Apr-08	Month of May-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Annual Growth 2003	Annual Growth 1998
Total Metro Denver	7,452,564	6,926,751	7,088,432	34,899,903	33,697,139	3.6%	1.6%	8.2%
Adams County	1,427,985	1,279,121	1,242,515	6,253,089	5,496,665	13.8%	6.0%	9.2%
Arapahoe County	1,460,188	1,319,294	1,566,310	6,914,447	7,362,775	-6.1%	1.6%	6.8%
Boulder County	624,165	605,265	608,946	3,136,605	3,089,311	1.5%	4.4%	11.0%
Broomfield County	132,373	115,883	131,967	620,910	671,890	-7.6%	-6.5%	
Denver County	2,230,454	2,066,547	1,984,238	10,191,342	9,566,436	6.5%	-1.6%	7.9%
Douglas County	519,762	505,532	522,972	2,507,204	2,448,475	2.4%	-2.7%	15.7%
Jefferson County	1,057,637	1,035,109	1,031,484	5,276,306	5,061,587	4.2%	4.6%	5.9%
Colorado	12,189,007	11,487,790	11,571,062	58,738,326	56,343,834	4.2%	1.6%	6.9%

Source: Colorado Department of Revenue.

The Mountain Region Consumer Confidence Index declined between May and June and reached its lowest level since March 2003. Still, the index ranked third highest among the nine regional indexes in June. Consumer confidence at the national level remained extremely weak, and the June Consumer Confidence Index reached its fifth-lowest level on record.

Consumer Confidence Index

	Month of Jun-08 (p)	Month of May-08	Month of Jun-07	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Ann Avg 2003
Mountain	66.9	74.9	129.5	88.6	136.8	-35.2%	89.4
United States	50.4	58.1	105.3	66.8	108.3	-38.3%	79.8

Source: The Conference Board. (p) =preliminary

The Metro Denver hotel occupancy rate increased as the summer travel season moved forward, but the June occupancy rate of 76.5 percent fell below the June 2007 level of 80.1 percent. Thanks to a widespread pullback in consumer spending, average occupancy through the first six months of 2008 reached 64.8 percent in a two percent decline over the same months of 2007. Despite the slower lodging activity, Metro Denver average room rates through June increased 5.1 percent over the same period last year.

Metro Denver Hotel Statistics

	Month of Jun-08	Month of May-08	Month of Jun-07	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Annual 2003	Annual 1998
Percent of Hotel Rooms Occupied	76.5%	67.3%	80.1%	64.8%	66.1%	-2.0%	59.5%	70.0%
Average Hotel Room Rate	\$120.62	\$115.38	\$115.26	\$114.64	\$109.05	5.1%	\$84.79	\$87.52

Source: Rocky Mountain Lodging Report.

Passenger traffic at Denver International Airport(DIA) increased between April and May, and the gain pushed traffic through the first five months of 2008 four percent ahead of traffic counts for the same months of 2007.

MONTHLY ECONOMIC SUMMARY

While passenger traffic at DIA continues to increase, growth has moderated over the past several months as consumers and businesses limit travel.

Denver International Airport Passengers

	Month of May-08	Month of Apr-08	Month of May-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Annual 2003	Annual 1998
Number of Airline Passengers	4,450,742	4,078,112	4,299,721	20,721,391	19,924,253	4.0%	37,505,138	36,831,400

Source: Denver International Airport, Traffic Statistics.

The Dow Jones Industrial Average (DJIA) and NASDAQ stock indexes rose slightly between June and July, but the S&P 500 and Bloomberg Colorado Index declined. Weaker-than-expected readings on employment and GDP growth have heightened uncertainty on Wall Street, and falling oil prices have increased concern about slumping U.S. spending and demand. Each of the indexes now shows a negative year-to-date return in excess of 10 percent.

Stock Market Indexes

	Month of Jul-08	Month of Jun-08	Month of Jul-07	YTD Return 2008	YTD Return 2007	YTD Return 2006
Bloomberg Colorado	390.7	423.0	424.1	-13.2%	10.9%	5.0%
S&P 500	1,267.4	1,280.0	1,455.3	-13.7%	2.6%	2.3%
NASDAQ	2,325.6	2,293.0	2,546.3	-12.3%	5.4%	-5.2%
DJIA (Dow Jones)	11,378.0	11,350.0	13,212.0	-14.2%	6.0%	4.4%

Sources: Bloomberg.com, Yahoo! Finance.

Residential Real Estate

Congressional debate over the housing stimulus package ended when the bill became law in late July, but economists continue to disagree about the bill's potential impacts on homeowners and the U.S. housing crisis. The bill established a \$300 billion fund to refinance troubled mortgages under the Federal Housing Administration and extended oversight of mortgage lenders Fannie Mae and Freddie Mac. Other provisions include an increased limit on the size of mortgages Fannie Mae and Freddie Mac can guarantee, as well as a national licensing system for mortgage brokers and tax break program for homebuyers. The bill also provides grant money that will allow local governments to increase foreclosure prevention efforts and home rehabilitation. Colorado officials expect the state will receive \$250 million in one-time funding.

Home Resales

The pace of U.S. existing home sales reversed an improvement and declined by 2.6 percent between May and June, according to the National Association of Realtors (NAR). The current annual sales pace of 4.86 million units is 15.5 percent lower than the sales pace from June 2007, and unsold inventory rose to an 11.1-month supply from a 10.8-month supply in May. NAR analysts say the recent readings reflect general confusion in the marketplace and homebuyer attempts to time purchases at the lowest point in the housing cycle. The West was the only U.S. region to report increased home sales between May and June (+1 percent), while sales declined in the South (-3.1 percent), Midwest (-3.4 percent), and Northeast (-6.6 percent).

The number of closed home sales in Metro Denver increased for the fifth consecutive month in June, and unsold inventory declined slightly. Total home sales through the first six months of the year fell eight percent below sales from the same months of 2007, although the number of homes under contract increased slightly (+1.4 percent) through June. While average selling prices for Metro Denver homes and condominiums remain below last year's levels, recent data suggest the decline in local home prices has slowed somewhat.

MONTHLY ECONOMIC SUMMARY

Previously-Owned Home Sales Activity

	Month of Jun-08	Month of May-08	Month of Jun-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Ann Avg 2003	Ann Avg 1998
Home Sales (Under Contract)	6,308	6,338	6,136	34,483	34,005	1.4%	29,703	40,916
Home Sales (Closed)	4,845	4,664	5,129	23,471	25,513	-8.0%	47,966	45,951
Unsold Homes on Market	26,104	26,333	30,256	26,104	30,256	-13.7%	24,660	12,583
Average Sales Price-Single Family	\$286,887	\$276,374	\$334,833	\$277,566	\$313,851	-11.6%	\$277,856	\$185,785
Average Sales Price-Condo	\$190,367	\$175,758	\$186,328	\$176,426	\$180,238	-2.1%	\$175,215	\$115,235
Median Sales Price-Single Family	\$230,000	\$226,500	\$263,000	\$224,900	\$247,250	-9.0%	\$230,000	
Median Sales Price-Condo	\$148,345	\$148,000	\$157,950	\$139,000	\$153,000	-9.2%	\$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

According to the NAR, the most recent U.S. median home price remained roughly six percent below last year's level. At \$215,100 in June, the national median price for all types of housing reflects a large number of short sales and other discounted transactions, according to NAR analysts. Over-the-year declines in June median home prices were largest in the West (-17.2 percent) and Northeast (-12.6 percent) and more moderate in the Midwest (-2.8 percent) and South (-2.4 percent).

The most recent readings of the S&P/Case-Shiller Home Price Indices generally confirm regional price trends from the NAR data. Price indices for seven of the twenty metropolitan areas – including Denver – rose between April and May, but annual returns remained negative for all of the indices. The annual return for the Denver index measured -4.8 percent in May and fell behind annual returns for just two metro areas, Dallas (-3.1 percent) and Charlotte (-0.2 percent). Among the remaining metro area indices, May annual returns ranged from -5.2 percent in Portland, Oregon to -28.4 percent in Las Vegas.

Quarterly median home price data are based on a different methodology, but the most recent figures also show home price declines persisting through early 2008. According to the NAR, the first quarter U.S. median home price of \$196,300 was down 7.7 percent over-the-year, compared to a 6.1 percent decline in the fourth quarter of 2007. The Denver-Aurora median declined 6.6 percent between the first quarters of 2007 and 2008, and Boulder's median home price declined four percent over-the-year. The National Association of Realtors will release preliminary estimates of second quarter median home prices on August 14.

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

	Quarter 1 2008 (p)	Quarter 4 2007 (r)	Quarter 1 2007	YTD Avg 2008	YTD Avg 2007	YTD Avg % Change	Median 2003	Median 1998
Boulder-Longmont MSA	\$355.7	\$371.1	\$370.7	\$355.7	\$370.7	-4.0%	\$313.0	n/a
Denver-Aurora MSA	\$223.5	\$230.1	\$239.4	\$223.5	\$239.4	-6.6%	\$238.2	\$152.2
United States	\$196.3	\$205.7	\$212.6	\$196.3	\$212.6	-7.7%	\$180.2	\$136.0

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

Foreclosures

According to California-based RealtyTrac, one in 501 U.S. homes received some sort of foreclosure filing in June. The June count of properties with filings declined three percent from May but remained 53 percent higher than June 2007, and RealtyTrac analysts say continued increases over-the-year suggest the nationwide foreclosure trend has not yet peaked.

MONTHLY ECONOMIC SUMMARY

Foreclosures in Metro Denver, however, may be nearing a peak. Foreclosure filings across all seven Metro Denver counties declined for the third consecutive month in June, which – given several more months of consistent declines – could indicate a reversal of the region’s foreclosure trend. In the meantime, total Metro Denver foreclosure filings through the first six months of 2008 rose 7.4 percent over filings from the first half of 2007. Public trustee data show a year-to-date decline in foreclosures filed in the City and County of Denver, while year-to-date totals for the remaining counties exceeded 2007 counts.

Real Estate Foreclosures

	Month of Jun-08	Month of May-08	Month of Jun-07	YTD Total 2008	YTD Total 2007	YTD Total % Change
Total Metro Denver*	2,232	2,256	2,524	14,668	13,656	7.4%
Adams County	477	555	647	3,354	3,190	5.1%
Arapahoe County	578	500	532	3,513	3,013	16.6%
Boulder County	93	96	70	579	427	35.6%
Broomfield County	16	27	14	152	109	39.4%
Denver County	608	541	862	3,780	4,422	-14.5%
Douglas County	169	210	131	1,235	830	48.8%
Jefferson County	291	327	268	2,055	1,665	23.4%

**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 sales pace for new single-family homes was essentially unchanged between May and June, but the June sales pace remained 33 percent below the sales rate from June 2007. According to the U.S. Department of Commerce, the rate of new home sales in all U.S. regions remains anywhere from 27 percent to 38 percent below the sales rate from 2007, but June sales improved in two regions. New home sales in the Northeast increased 5.3 percent between May and June, and sales in the Midwest rose 2.5 percent. The sales pace for new homes slowed between May and June in the South (-2 percent) and West (-0.9 percent).

A separate Department of Commerce report shows the rate of starts for all types of privately owned housing accelerated noticeably (+9.1 percent) between May and June. The report notes, however, that a change in New York City’s multi-family permitting practices is entirely responsible for the gain. Excluding the affected data, U.S. private housing starts declined four percent in June and fell in each of the three remaining U.S. regions except the South (+0.4 percent).

In a similar scenario, July measures of builder confidence declined in three of four U.S. regions. Each regional sub-index of the National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index (HMI) remained at or near record lows in July, although the Northeast confidence index rose slightly over-the-month. Overall, the composite HMI declined to a record low of 16 in July from 18 in June, and respondents noted that buyer traffic has declined considerably.

The pace of building activity at the local level remains solidly behind that of prior years. Metro Denver jurisdictions issued roughly 1,100 building permits in May, and the year-to-date permit count fell 35 percent behind the count for the first five months of 2007. Permits for multi-family units increased considerably through the first five months of 2008, while permits for condominiums, townhomes, and other forms of attached housing declined 62 percent year-to-date.

MONTHLY ECONOMIC SUMMARY

Residential Building Permits

	Month of May-08	Month of Apr-08	Month of May-07	YTD Total 2008	YTD Total 2007	YTD Total % Change	Total 2003	Total 1998
Single-Family Detached Units	382	426	947	1,787	3,414	-47.7%	12,656	16,058
Single-Family Attached Units	93	459	464	865	2,278	-62.0%	3,755	3,527
Multi-Family Units	636	243	40	1,668	954	74.8%	1,858	7,794
Total Units	1,111	1,128	1,451	4,320	6,646	-35.0%	18,269	27,379

Source: Home Builders Association of Metro Denver.

Apartment Rental Market

Metro Denver's apartment vacancy rate rose unexpectedly between the first and second quarters of 2008, and analysts say the increase could reflect the tendency for families and friends to share housing in difficult economic times. Vacancy rates generally decline in the second quarter as students graduate and find their own housing, but the Metro Denver average vacancy rate rose to 6.2 percent from 5.9 percent in the first quarter. Vacancy rates rose in each Metro Denver county except Arapahoe County, where the second quarter vacancy rate declined to 5.9 percent from 6.5 percent in the first quarter. While some analysts view the higher vacancy rate as cause for concern, others note that limited new housing stock in Metro Denver should help support a healthy apartment market going forward.

Average rent increases remain strong despite weaker vacancy trends. The Metro Denver monthly average lease rate rose from \$861 in the first quarter to \$886 in the second quarter, and Adams and Denver Counties reported the largest rent increases between quarters. Higher rents and higher vacancy could suggest that some landlords exchanged more empty units for higher prices, analysts say.

Apartment Statistics

	Quarter 2 2008	Quarter 1 2008	Quarter 2 2007	YTD Average 2008	YTD Average 2007	YTD Average % Change	Annual Average 2003	Annual Average 1998
Apartment Vacancy Rate	6.2%	5.9%	6.2%	6.1%	6.7%		12.0%	4.4%
Average Monthly Rental Rate (all units)	\$886	\$861	\$864	\$874	\$853	2.4%	\$815	\$695

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

The opening of Metropolitan Gardens – a redevelopment project at the former Gates Rubber Company site – will be delayed, according to project spokespeople. One of the two developers involved has exited the project, and some potential tenants have delayed commitments. The finished project could include more office and less residential space than originally planned, developers say, and the first buildings could be ready in 2011.

As ConocoPhillips' plans for the former StorageTek site continue to evolve, the real estate community in the northwest submarket is also changing. Market vacancy rates have reached their lowest levels in nearly a decade, analysts say, and average rents are rising in some locations. Planned development projects along the U.S. 36 corridor include residential units and pedestrian-oriented retail, multiple office properties, and at least three hotels.

Hospitality developments are also underway in other parts of Metro Denver. Starwood Hotels & Resorts recently announced its plans for a loft-format hotel – called Aloft – to be located at the Landings at DIA. The Landings

MONTHLY ECONOMIC SUMMARY

development will bring restaurants and retail space to a parcel near Denver International Airport, and spokespeople say the new hotel will offer loft-style rooms with a high-tech, industrial design.

A brand of Starwood Hotels & Resorts – called Element by Westin – is also developing a hotel near I-25 in Lone Tree. The \$20 million property will offer 124 guest rooms in an extended-stay format, and developers say the hotel's proximity to the Denver Tech Center and Park Meadows Mall will help draw business travelers.

Market Overview

A second quarter report by CB Richard Ellis describes Metro Denver's office market as one of the most competitive in the nation, even as uncertainty delays expansions and relocations. The company's analysis shows that Metro Denver office market absorption remained positive in second quarter despite an increase in sublease space, and strong pre-leasing activity continued for many development projects. While Metro Denver will not escape national turmoil, the report suggests the local market is well positioned to weather a downturn.

Frederick Ross Company also describes a Metro Denver office market that remains strong despite growing weakness at the national level. The Company's second quarter report suggests that Metro Denver's office market continues to expand, even as leasing velocity and vacancy rates slow from the record pace of prior quarters. Organic growth from many of the region's energy and bioscience companies is supporting demand for space, and the tighter credit conditions of recent months have limited speculative development.

A second quarter report by Grubb & Ellis gives a mixed assessment of Metro Denver's office market. While an increased volume of sublease space continues to affect market psychology, the report describes sublease volume as manageable and consistent with long-term averages. A diverse industry base is also dulling the impacts of a weak national economy, and several headquarters companies have recently relocated to Metro Denver. Looking ahead, the report views increasing costs for construction and utilities as some of the greatest near-term challenges for tenants and landlords.

Consistent with other reports, data from CoStar Realty Information, Inc. suggest that Metro Denver's office market weakened in the second quarter as economic uncertainty limited transactions. The direct vacancy rate returned to its year-ago level of 12.1 percent from 11.9 percent in the first quarter, but direct average lease rates still increased and ended the second quarter at \$21.09 per square foot. New construction continued at an essentially steady pace, with the region's largest projects including 1800 Larimer and 1900 Sixteenth Street in Downtown Denver, Palazzo Verdi in Greenwood Village, and One Lincoln Station in Douglas County. The region's largest deliveries so far this year include the Parkside Office Plaza at Inverness and the Lone Tree Medical Plaza, both in Douglas County.

MONTHLY ECONOMIC SUMMARY

Office Market Statistics

	Quarter 2 2008	Quarter 1 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005	Quarter 2 2004
Number of Buildings	4,961	4,934	4,884	4,845	4,786	4,731
Existing Square Feet (millions)	156.1	155.5	154.8	152.9	151.7	150.8
Vacant Square Feet (direct, millions)	18.9	18.4	18.8	19.6	21.5	22.1
Vacancy Rate (direct)	12.1%	11.9%	12.1%	12.8%	14.2%	14.7%
Vacancy Rate (with sublet)	13.1%	12.8%	12.9%	13.9%	15.6%	16.4%
Avg. Lease Rate (direct, per sq. ft, full service)	\$21.09	\$20.74	\$19.69	\$18.01	\$17.01	\$16.89
New Construction Completed (year-to-date)	0.57 MSF, 24 Bldgs	0.08 MSF, 8 Bldgs	0.79 MSF, 19 Bldgs	0.40 MSF, 21 Bldgs	0.30 MSF, 20 Bldgs	0.80 MSF, 18 Bldgs
Currently Under Construction	3.54 MSF, 51 Bldgs	3.49 MSF, 65 Bldgs	2.15 MSF, 88 Bldgs	1.56 MSF, 40 Bldgs	0.86 MSF, 31 Bldgs	0.37 MSF, 21 Bldgs

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

A CB Richard Ellis report says Metro Denver's industrial market has weathered the national downturn well. Occupancy and construction costs continue to rise, however, and credit availability remains tight. While these and other economic challenges could limit demand for industrial property in the second half of 2008, the report suggests that patience on the part of lessors, landlords, and developers will help stabilize the market.

Similarly, the mid-year industrial market report by Frederick Ross Company cautions that market activity could remain slow for the next nine to 12 months. Even in a slower market, however, Metro Denver industrial vacancy rates have remained steady with balanced move-ins and move-outs. Industrial investment has slowed as financing conditions continue to be difficult, but limited development has helped the market remain a reasonable – albeit slower – pace.

Much of the industrial market slowdown reflects a tension between national challenges and local opportunities, says a second quarter report by Grubb & Ellis. As oil and transportation costs continue to rise nationwide, many distribution companies are reconsidering the location and nature of their industrial space. At the same time, a changing energy environment is driving rapid growth both for traditional and renewable energy companies, many of which are hoping to locate or expand in Metro Denver. Overall, the report expects Metro Denver's favorable geographic location and strong employment base to support solid market activity.

Metro Denver's strong job market helped the region advance six places in the Midyear 2008 National Industrial Index by Marcus & Millichap. The index ranks 24 U.S. markets based on supply and demand indicators including construction, vacancy, and job growth. Above-average job growth – particularly in technology-related industries – helped Metro Denver move from a 19th-place spot in the 2007 index to a 13th place ranking in the 2008 edition.

Data from CoStar Realty Information, Inc. also point to solid fundamentals in Metro Denver's industrial market. The industrial market direct vacancy rate ended the second quarter at 6.5 percent, and direct average lease rates rose by \$0.07 per square foot to \$5.19. Industrial development activity was also stable between the first and second quarter with projects in Adams County representing 84 percent of the total industrial space under construction. The year-to-date inventory of industrial deliveries rose slightly in second quarter as construction continued at a slow pace.

MONTHLY ECONOMIC SUMMARY

Industrial Market Statistics

	Quarter 2 2008	Quarter 1 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005	Quarter 2 2004
Number of Buildings	6,361	6,339	6,302	6,269	6,229	6,191
Existing Square Feet (millions)	207.5	207.0	205.7	203.8	201.7	200.7
Vacant Square Feet (direct, millions)	13.4	13.4	13.1	15.3	15.7	16.5
Vacancy Rate (direct)	6.5%	6.5%	6.4%	7.5%	7.8%	8.2%
Vacancy Rate (with sublet)	6.9%	6.7%	6.5%	7.8%	8.3%	9.2%
Avg. Lease Rate (direct, per square foot, NNN)	\$5.19	\$5.12	\$4.96	\$4.85	\$4.64	\$4.66
New Construction Completed (year-to-date)	0.32 MSF, 12 Bldgs	0.28 MSF, 10 Bldgs	0.65 MSF, 8 Bldgs	1.08 MSF, 14 Bldgs	0.27 MSF, 13 Bldgs	1.22 MSF, 14 Bldgs
Currently Under Construction	1.16 MSF, 20 Bldgs	1.26 MSF, 15 Bldgs	1.87 MSF, 22 Bldgs	1.35 MSF, 14 Bldgs	0.73 MSF, 18 Bldgs	0.58 MSF, 14 Bldgs

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

Direct vacancy rates in Metro Denver's flex market rose to year-ago levels in the second quarter, according to CoStar Realty Information, Inc. Direct average lease rates rose from \$9.33 per square foot in the first quarter to \$9.76 per square foot despite slightly higher vacancy levels, and flex market construction activity continued at a steady pace. The High Point OmniCenter – an office, industrial, and retail project near DIA – accounted for 20 percent of flex market construction in the second quarter.

Flex Space Statistics

	Quarter 2 2008	Quarter 1 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005	Quarter 2 2004
Number of Buildings	1,318	1,312	1,301	1,291	1,262	1,242
Existing Square Feet (millions)	38.2	38.1	37.7	37.4	36.8	36.5
Vacant Square Feet (direct, millions)	4.8	4.6	4.7	5.1	5.3	5.8
Vacancy Rate (direct)	12.6%	12.2%	12.6%	13.7%	14.5%	15.9%
Vacancy Rate (with sublet)	13.7%	13.2%	13.5%	14.3%	15.8%	17.7%
Avg. Lease Rate (direct, per square foot, NNN)	\$9.76	\$9.33	\$9.03	\$8.49	\$8.22	\$8.31
New Construction Completed (year-to-date)	0.37 MSF, 8 Bldgs	0.26 MSF, 5 Bldgs	0.14 MSF, 5 Bldgs	0.29 MSF, 8 Bldgs	0.10 MSF, 5 Bldgs	0.09 MSF, 3 Bldgs
Currently Under Construction	0.48 MSF, 19 Bldgs	0.35 MSF, 15 Bldgs	0.14 MSF, 7 Bldgs	0.23 MSF, 9 Bldgs	0.22 MSF, 11 Bldgs	0.03 MSF, 2 Bldgs

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

Metro Denver's retail market has not escaped the woes of the household sector but has outperformed markets in many other regions, according to a second quarter report by CB Richard Ellis. Economic uncertainty continues to limit local retail development, but work continues on The Landmark in Greenwood Village and redevelopment projects at the former Southglenn and Buckingham Square Malls. Looking ahead, the report expects an improved economic outlook and better retail conditions once the nation's political future is more certain.

A second quarter report by Frederick Ross Company also observes Metro Denver's retail market in a better position than many markets nationwide. Retail closures and bankruptcies continue both nationally and locally, and the report cautions that store closures could threaten some retail strip space. Still, Colorado retail spending remains comparatively strong, and many new developments are based in increasingly popular transit-oriented or mixed-used developments.

Grubb & Ellis also describes strong consumer spending as an asset for the Metro Denver retail market. The company's second quarter report emphasizes the comparatively mild local housing correction and suggests that

MONTHLY ECONOMIC SUMMARY

retailers at the highest and lowest ends of the price spectrum continue to thrive. Fringe retail developments, however, may stall until the housing market revives.

In the current retail market, above-average performance can still mean difficult conditions. The Metro Denver retail market direct vacancy rate rose to a recent high of 7.7 percent in the second quarter, according to CoStar Realty Information, Inc. Direct average lease rates rose to \$17.88 per square foot despite the difficult market conditions, but retail construction activity slowed. Cornerstar and Church Ranch Crossing are among the largest retail projects currently under construction in Metro Denver, and Riverpoint at Sheridan, Prairie Center, and the Shops at Villagio are some of the largest completed so far this year.

While retail and hotel properties are technically in separate commercial markets, they share the brunt of weak discretionary spending. According to a separate Marcus & Millichap report, hospitality markets nationwide will weaken this year as consumers limit leisure travel and businesses shorten trips to cut costs. While areas with faster-than-average employment growth – including Metro Denver – will still attract business travel, analysts say growth in revenue per room will likely slow until consumers and businesses regain their confidence.

Retail Market Statistics

	Quarter 2 2008	Quarter 1 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005	Quarter 2 2004
Number of Buildings	6,219	6,147	6,109	6,034	5,902	5,795
Existing Square Feet (millions)	144.1	142.0	139.5	136.3	129.3	126.7
Vacant Square Feet (direct, millions)	11.1	10.3	9.8	9.9	7.8	7.6
Vacancy Rate (direct)	7.7%	7.3%	7.0%	7.2%	6.0%	6.0%
Vacancy Rate (with sublet)	8.0%	7.4%	7.2%	7.4%	6.3%	6.2%
Avg. Lease Rate (direct, per square foot, NNN)	\$17.88	\$16.93	\$17.40	\$16.64	\$16.24	\$14.55
New Construction Completed (year-to-date)	1.56 MSF, 33 Bldgs	0.20 MSF, 12 Bldgs	0.67 MSF, 16 Bldgs	N/A	N/A	N/A
Currently Under Construction	3.15 MSF, 58 Bldgs	4.40 MSF, 72 Bldgs	5.90 MSF, 71 Bldgs	N/A	N/A	N/A

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

MONTHLY ECONOMIC SUMMARY

Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	↑	↑	Employment increased by 8,400 jobs May to Jun; employment up 1.6% through Jun 2008.
% Companies Hiring (Denver Area)	↑	↓	32% of companies expect to add workers in Q3 2008.
Unemployment Rate	↑	↑	Metro rate 5.4% in Jun; YTD avg. rate of 4.7% up from 3.8% in 2007.
Initial Claims	↓	↑	Claims decreased May to Jun; YTD 2008 claims up 19.7% from 2007.
Total Retail Sales	↑	↑	Metro retail sales up 7.6% from Apr to May; YTD sales up 3.6% through May 2008.
Consumer Confidence Index	↓	↓	Mountain Region down to 66.9 in Jun from 74.9 in May; index down 35.2% year-to-date
Hotel Occupancy	↑	↓	Hotel occupancy increased from 67.3% in May to 76.5% in Jun; occupancy down 2% YTD
DIA Passengers	↑	↑	Traffic increased 9.1% Apr to May; YTD traffic up 4% through May 2008.
Bloomberg Colorado Index	↓	↓	Bloomberg Colorado Index down 7.6% from Jun to Jul; year-to-date return at -13.2%.
Dow Jones Industrial Average	↑	↓	DOW increased 0.2% Jun to Jul 2008; year-to-date return at -14.2%
Home Sales (closed)	↑	↓	Home sales increased 3.9% May to Jun; YTD sales down 8% through Jun.
Median Home Price (Denver-Aurora MSA)	↓	↓	Median home price in Denver MSA decreased to \$223,500 in Q1 2008; YTD price down 6.6%
Foreclosures	↓	↑	Foreclosures declined 1.1% May to Jun; YTD up 7.4% through Jun 2008.
Residential Building Permits (Total)	↓	↓	Total permits decreased between Apr and May; YTD down 35% through May 2008.
Apartment Vacancy Rate	↑	↓	Vacancy rate increased from 5.9% in Q1 to 6.2% in Q2; avg rental rate at \$886 per month.
Office Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased to 13.1% in Q2 from 12.8% in Q1; avg lease rate up to \$21.09/sq.ft.
Industrial Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased to 6.9% in Q2 from 6.7% in Q1; avg lease rate up to \$5.19/sq. ft. (NNN)
Flex Space Vacancy Rate (with Sublet)	↑	↑	Vacancy rate increased to 13.7% in Q2 from 13.2% in Q1; avg. lease up to \$9.76/sq. ft. (NNN)
<i>Positive Changes</i>	9 of 18	4 of 18	



Development
Research Partners



Economic and Demographic Research

Industry Studies

Fiscal and Economic Impact Analysis

Real Estate Economics

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