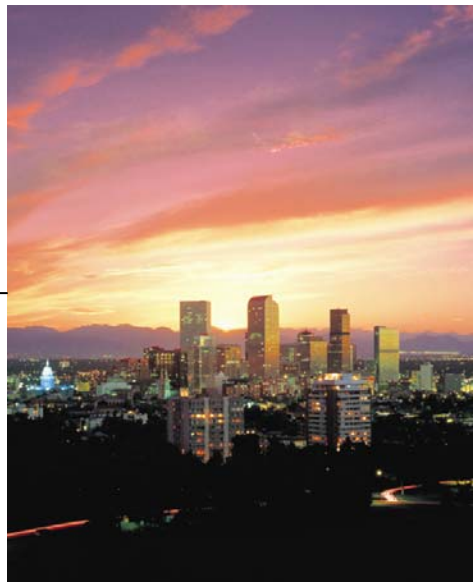
Metro Denver
Economic Development Corporation

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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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 MSA (Boulder County) and the Denver-Aurora-Broomfield 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

- Data recently released by Airports Council International (ACI) show Denver International Airport ranked fifth busiest in the U.S. and 10th busiest in the world in 2009. ACI tallies final traffic rankings for a given year in late summer of the following year.
- *Inc.* magazine's 2010 "Inc. 500" list named 16 Colorado businesses among the nation's fastest-growing small public companies. Rankings on the list reflect companies' percentage revenue growth between 2006 and 2009, and Broomfield-based construction and consulting company Ayuda Management Corporation received the highest ranking (22nd) of all Colorado companies on the list.
- The *INSIDE Public Accounting* newsletter recently named two Metro Denver firms to its "IPA Top 100," which ranks the nation's largest accounting firms by revenue. Ehrhardt Keefe Steiner & Hottman PC ranked 51st overall, and Hein & Associates LLP ranked 63rd.
- The 2010-2011 edition of the "Best Colleges" rankings by *U.S. News & World Report* names five Metro Denver schools among the top national universities. Colorado School of Mines ranked highest (72nd), followed by the University of Colorado at Boulder (86th), the University of Denver (86th), Colorado State University (124th), and the University of Colorado-Denver (191st).

  The U.S. Air Force Academy and the University of Colorado at Boulder both received top-10 rankings for undergraduate engineering programs and for various engineering specialties. See www.usnews.com for complete rankings.
- The 2010 edition of *Forbes'* "America's Best Colleges" list also ranks several Metro Denver schools among the nation's best. The ranking of 610 schools nationwide is based on graduates' salaries, school retention rates, average student debt loads, and other factors designed to measure students' satisfaction and success. The highest-ranked Metro Denver school on the list was the Colorado School of Mines (168th), followed by the University of Colorado at Boulder (185th), the University of Denver (207th), Colorado State University (306th), the University of Colorado-Denver (352nd), and Metropolitan State College of Denver (534th).
- *Popular Science* magazine recently named the Engines and Energy Conversion Laboratory (EECL) at Colorado State University among "30 Awesome College Labs." University spokespeople say the EECL gives students hands-on experience with clean energy technology that will prove invaluable in the green workforce.
- News web site The Daily Beast ranks Boulder first among "America's Brainiest Metros." Contributors ranked metro areas using the "Brainiest Metros Index," which reflects each area's share of adult population with advanced degrees and the number of scientists, computer scientists, and mathematicians as a share of total employment. Prestigious science programs at the University of Colorado at Boulder and several key federal labs contributed to Boulder's high rank.
- Denver is the nation's 45th-safest city for drivers, according to *Allstate America's Best Drivers Report* for 2010. Rankings in the report are based on auto accident data for the nation's 200 largest cities, and Denver drivers reportedly have an accident likelihood that is five percent below the national average.

- Metro Denver is the nation's seventh-least stressful major metro area, according to a recent ranking by business news web site Portfolio.com. Criteria for the ranking of the nation's 50 largest metro areas included unemployment rates, crime rates, health risks, and other factors. Salt Lake City ranked as the nation's least-stressed metro area, and Detroit ranked as most stressed.
- A 2010 survey administered by Bankrate.com suggests Colorado has the nation's 12th lowest mortgage closing costs. Survey data show Colorado closing costs on a hypothetical $250,000 home purchase for a buyer with good credit and a 20 percent down payment are $3,366 excluding taxes, escrow fees, and other variable charges. Closing costs nationwide for the same loan average $3,741, although comparable costs range as high as $5,623 in New York.

Policy Watch

- President Obama recently signed funding legislation designed to shore up state budgets for Medicaid and public education. Supporters say the funds were much needed, particularly for the many cash-strapped school districts facing layoffs just weeks before the new school year began. Opponents of the $26 billion legislation say the bill is only a temporary stopgap that comes at a high cost to business, particularly businesses in renewable energy. In order to fund the legislation without growing the nation's deficit, lawmakers trimmed funding for programs including a Department of Energy loan guarantee available for renewable energy and green technologies.

  Colorado lawmakers say the state's portion of the $26 billion federal cash infusion will help balance the budget for the current fiscal year. The portion of the funding to be directed to Medicaid in Colorado is smaller than lawmakers had anticipated, but higher-than-expected tax receipts have helped offset some of the shortage. The governor's office is currently working to close a remaining budget gap of roughly $5 million and has proposed delayed hiring for some vacant state positions, cuts to several programs under the Department of Corrections, and transfers from various cash funds. State lawmakers warn that additional budget cuts could be necessary if an income tax forecast to be released this month shows weaker-than-expected growth.
- The U.S. Congress failed to approve funding for higher loan guarantees and fee waivers on Small Business Administration (SBA) loans before the August recess, but legislators are expected to resume discussions this month. Congress has extended funds for the guarantees and waivers several times in attempts to spur small business lending and job creation, but many small businesses say funding remains scarce and banks are often unwilling to lend more than what the government will guarantee.

  That assertion initially appears at odds with what many senior lending officers are saying about loan availability and terms. According to the Federal Reserve's most recent *Senior Loan Officer Opinion Survey on Bank Lending Practices*, many banks have eased standards on loans to small businesses for the first time since 2006. The Survey also notes, however, that large domestic banks have been more likely to ease loan standards than smaller financial institutions. Many large banks have been able to use bailout dollars, record-low borrowing rates, and revenue from fees to recover their balance sheets, while small banks – many of which rely on development and commercial property loans – are still struggling. Because small and regional banks tend to be more active as small business lenders, their slower recovery limits the availability of small business credit. Data from the FDIC suggest small or regional banks account for all bank failures reported so far this year.
- Administration officials say they are not considering a second stimulus package but will nonetheless push for several economic support policies in the coming months. Proposals include an extension of tax cuts for middle-class families enacted under the Bush administration and extended tax cuts for business research and development. The administration has also proposed a nationwide investment in transportation infrastructure and could create an "infrastructure bank" that will pool public and private dollars to fund projects. Officials

say an end to tax breaks for multi-national corporations and oil and gas companies could help fund the proposed measures.

- The Denver Regional Transportation District (RTD) has proposed a fare increase that could raise the cost of riding light rail and buses by 11 to 14 percent effective January 1. RTD's 2011 budget is short by $18 million largely due to a major drop in sales tax revenue, which is the transit agency's largest funding source. In addition to the fare increase, the RTD board has proposed budget cuts including a continued salary freeze for transit workers, service reductions, and furlough days. The board will take a final vote on the proposed budget changes in October.
- The Census Bureau's *Consolidated Federal Funds Report for Fiscal Year 2009* shows Colorado ranked low among the states for per capita federal spending in the fiscal year that ended last September. Spending amounts tracked in the report include stimulus dollars and fall into five categories: retirement payments, other direct payments to individuals, grants, procurement, and wages and salaries. Colorado ranked 33rd among the 50 states for total federal spending per capita in fiscal year 2009 ($9,514), but the state ranked higher for procurement spending (ninth) and federal wages and salaries (10th).

General Economic Overview

Data from the U.S. Department of Commerce show the nation's trade deficit widened noticeably (+18.8 percent) between May and June as imports increased and exports declined. Rising imports suggest demand from consumers and businesses is reviving, but goods brought in from other countries effectively subtract from the value produced by the nation's economy.

That value – measured by gross domestic product (GDP) – continues to grow slowly. The U.S. Bureau of Economic Analysis (BEA) recently revised its estimate of second quarter GDP growth down to 1.6 percent from the 2.4 percent rate released in late July. Consistent with the Commerce Department data on international trade, BEA analysts say higher imports and lower exports played a role in the downward revision. Analysts also downgraded their earlier estimates of business inventories, which had initially boosted the nation's economy as companies restocked empty shelves. The restocking trend may be ending, but business spending in general remains swift. Notably, businesses in the second quarter invested in equipment and software at the quickest pace reported since late 1983.

Despite their noticeable ramp-up in equipment spending, businesses remain largely unwilling to add jobs at a pace that would support stronger consumer activity. The GDP data suggest growth in consumer spending on goods slowed between the first and second quarters of 2010, but spending on services – which includes transportation, utilities, insurance, and the like – accelerated. The BEA will release a final estimate of second quarter GDP growth on September 30.

In the meantime, policymakers are faced with the task of supporting a fragile recovery. Just five months ago, Federal Reserve policymakers were planning an orderly end for the central bank's massive monetary stimulus program. Those plans abruptly shifted in August, when members of the Federal Reserve's Open Market Committee determined that weaker economic growth justified more stimulus. Where policymakers had planned to trim the Federal Reserve's balance sheet, they now plan to reinvest the central bank's balance sheet proceeds through a monthly purchase of $10 billion in long-term government securities. Because mortgage and other key interest rates track rates on long-term securities, the Federal Reserve hopes its new investment will spur borrowing and lending. Some analysts say, however, that the central bank's planned investment is too small to have more than a minor impact on key interest rates. The policy change, they say, is more a symbolic demonstration of the Federal Reserve's willingness to support the economy should it deteriorate. The Federal Reserve Open Market Committee next convenes on September 21.

While the U.S. struggles to regain economic momentum, economies overseas – particularly some eastern economies – are rapidly expanding. International data on second quarter GDP suggest China recently surpassed Japan as the world's second-largest economy behind that of the United States. Some analysts say China's rapid growth could mean the country meets or exceeds the U.S. in total output within the next decade, but others emphasize that China could continue to struggle with dramatic income disparity and a slim resource base. Either way, the Chinese influence on the U.S. economy continues to grow. China is by far the largest holder of U.S. debt, so a change in the country's willingness to hold that debt can noticeably affect U.S. interest rates. Chinese labor costs have also been on the rise as the country continues to industrialize, and some retail analysts say the higher labor costs will soon translate into higher U.S. prices for clothing, toys, and other manufactured goods.

Economic Indexes

National Economy

- The Conference Board's Leading Economic Index rose 0.1 percent between June and July. The index has essentially flattened over the past several months as the nation's early economic recovery gave way to a slower pace of growth. Conference Board analysts do not expect the U.S. economy to reenter recession, however.
- The Institute for Supply Management's Purchasing Managers Index (PMI) fell from 56.2 in June to 55.5 in July. The shift suggests the nation's manufacturing base – while still expanding – is losing some momentum. Some respondents to the manufacturing survey called business conditions strong, but others said demand is weakening as retailers are increasingly unwilling to accumulate inventory.
- The Institute for Supply Management's Non-Manufacturing Index rose from 53.8 in June to 54.3 in July. Many respondents to the non-manufacturing – or service sector – survey said they are cautiously optimistic about business conditions in the coming months.

Local Economy

- The University of Colorado's Leeds Business Confidence Index for the third quarter rose to a level (54.8) not seen since the second quarter of 2007. The improvement reflects better business outlooks on sales, profits, and capital expenditures, and Colorado business leaders were also optimistic about hiring trends in the coming months. Local business leaders are more divided over the nation's economic outlook, however. Thirty-four percent of business leaders who responded to the survey expect the nation's economy to improve during the third quarter, 34 percent expect no change, and the remaining 32 percent of respondents expect a renewed decline.
- The Vectra Bank Colorado Small Business Index rose from 98.5 in June to 99.5 in July. Vectra Bank's corporate economist says the state's economy is bound for modest growth, but he notes that growth may not be evident until later this year.
- The Goss Institute's Business Conditions Index for Colorado fell for the second consecutive month in August. The August reading of 53 was below the July reading (56.2) and the June reading (68.4) but remained above 50, which suggests the Colorado manufacturing economy is still growing but is losing momentum.

Labor Force and Employment

Metro Denver employers cut 6,300 jobs between June and July, although a typical seasonal decline in state and local government employment was largely behind the drop. More encouraging was the fact that modest job gains in many of Metro Denver's private sector industries helped offset government job losses in July. July employment levels in education and health services, leisure and hospitality, and other services were higher than year-ago levels. Employment levels in two more private sector industries – professional and business services and wholesale and retail trade – were within one percent of last year's levels. Weak employment trends in the second

half of the year remain a threat, particularly in sectors including government and construction. In the meantime, though, Metro Denver's labor market is gradually showing signs of life.

Average Metro Denver employment across all industries through the first seven months of the year was down 2.4 percent from employment in the same months of 2009. Colorado employment was down 2.6 percent year-to-date in July, and employment nationwide was down 1.2 percent.

Many of the workers who lost jobs during the "Great Recession" have accepted new positions that require fewer skills and offer lower compensation, according to a recent survey by the Pew Research Center. Fifty-four percent of survey respondents that lost a job during the recession and subsequently regained employment said they were overqualified for their new position. A comparatively smaller 36 percent of employed survey respondents that did not lose a job during the recession said they were overqualified for their jobs. Just 38 percent of workers re-employed after a job loss said they were earning higher wages at their new jobs, and 28 percent said they were receiving better benefits.

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

	Month of Jul-10 (p)	Month of Jun-10	Month of Jul-09	Year-to-Date Average 2010	Year-to-Date Average 2009	Year-to-Date Average % Change	Annual Growth Rate 2005	Annual Growth Rate 2000
Total 11-County Metro Denver*	1,343.8	1,350.1	1,355.8	1,329.9	1,362.3	-2.4%	1.9%	4.3%
Denver-Aurora MSA	1,188.7	1,192.8	1,199.2	1,172.4	1,202.3	-2.5%	2.0%	4.0%
Boulder-Longmont MSA	155.1	157.3	156.6	157.5	160.0	-1.6%	1.7%	6.2%
Natural Resources & Construction	77.3	76.3	83.4	73.1	83.0	-12.0%	4.8%	10.7%
Manufacturing	73.9	74.2	78.2	74.4	79.6	-6.4%	0.6%	-1.0%
Wholesale & Retail Trade	201.0	200.5	202.4	198.0	203.7	-2.8%	2.3%	3.5%
Transp., Warehousing & Utilities	46.4	46.2	49.1	45.9	49.3	-6.8%	-0.5%	8.3%
Information	53.3	53.4	55.0	53.3	55.7	-4.2%	-5.8%	9.6%
Financial Activities	98.3	98.5	99.9	98.5	100.4	-1.8%	1.5%	0.3%
Professional & Business Services	230.0	228.9	231.2	223.2	231.8	-3.7%	3.8%	7.0%
Education & Health Services	162.0	160.3	156.9	159.5	156.9	1.7%	3.2%	2.9%
Leisure & Hospitality	150.4	149.8	149.5	142.0	142.2	-0.1%	3.0%	4.5%
Other Services	53.5	53.6	53.3	53.1	52.9	0.4%	0.5%	1.0%
Government	197.7	208.4	196.9	208.7	207.0	0.8%	0.7%	2.4%
Federal Gov't	32.0	32.6	30.8	32.0	30.5	4.8%	-1.4%	-0.5%
State & Local Gov't	165.7	175.8	166.1	176.8	176.5	0.2%	1.1%	3.1%
Colorado	2,211.8	2,223.1	2,237.3	2,195.7	2,254.5	-2.6%	2.1%	3.8%
United States	129,954	131,345	129,971	129,613	131,231	-1.2%	1.7%	2.2%

**Includes the Denver-Aurora-Broomfield 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

Metro Denver Industry Cluster Headlines

Metro Denver's major research universities are a key resource for the region's industry clusters, so sponsored research awards to the schools are also valuable to the wider regional economy. Spokespeople for the University of Colorado (CU) say research awards received at the university's four Colorado campuses reached a record $847 million in the 2009-2010 fiscal year. That award total is significantly higher than the previous year's $711 million, although spokespeople note that the increase was partly driven by one-time stimulus awards. Researchers

will use the awards to CU campuses to promote advances in healthcare and biotechnology, space technology, environmental studies, and renewable energy.

Spokespeople for the University of Northern Colorado have also reported on the school's 2009-2010 sponsored research activity, which amounted to $3.3 million in total awards for projects in education, nursing, and science. Colorado State University and the Colorado School of Mines have not yet released sponsored research reports for fiscal year 2009-2010.

Aerospace: The National Geospatial-Intelligence Agency (NGA) recently awarded Longmont-based DigitalGlobe a 10-year contract worth as much as $3.6 billion. Under the contract, DigitalGlobe will provide high-resolution satellite images to support defense and intelligence needs as well as humanitarian efforts. DigitalGlobe will collect the NGA imagery using the WorldView-3 satellite, and company officials say they have awarded contracts for the satellite's construction to Boulder-based Ball Aerospace Technologies Corporation and ITT Corporation. The satellite should be completed by 2014.

In another key project development, Jefferson County-based Lockheed Martin Space Systems received design approval for a third generation of GPS satellites to be built under contract with the U.S. Air Force. Now, the company can move forward with prototype testing and final assembly of the satellites in a special facility to be built at Lockheed's Waterton Canyon Campus. Lockheed spokespeople say as many as 100 people will work at the facility, but the company plans little new hiring.

Aviation: The Indianapolis-based management of Frontier Airlines has extended the lease for the carrier's office building on Tower Road. They say the 10-year extension signifies the commitment of Republic Airways Holdings – Frontier's parent company – to maintain a Frontier hub in Denver. Frontier executives were relocated from Denver to Indianapolis earlier this year, but divisions including customer service, training, and marketing remained in Denver and will continue to operate from the Tower Road facility. Frontier spokespeople say the building will house more than 500 employees once the reservations and customer relations teams are moved to that location.

Many of the recent changes for Frontier Airlines – and other carriers – are echoes of the challenging conditions faced by the air travel industry over the past several years. With air travel trends forecast to improve slowly, further changes in the industry are likely still ahead. Mexicana Airlines, for example, recently halted all flights out of Denver and other airports after bankruptcy negotiations with the airline's labor unions failed. Investors are reportedly trying to raise capital for the airline, but it remains unclear if or when it will emerge from bankruptcy.

Fossil Energy: Spokespeople for oil producer BP say the company plans to sell its Wattenberg Gas Plant in Aurora. The plant processes a daily total of more than 190 million cubic feet of natural gas from the Denver Julesburg Basin, but BP spokespeople say the plant is no longer a strategic asset. Company officials say they have intended to sell the Wattenberg plant for some time, but they recently decided to move forward with the sale to help generate restitution funds for the Deepwater Horizon oil spill in the Gulf of Mexico.

Xcel Energy recently submitted its plans for retrofitting coal-fired power plants throughout Metro Denver. To meet requirements established under Colorado's Clean Air Clean Jobs Act, the utility plans to spend $1.3 billion to make the plants run on natural gas. As the conversions occur, Xcel expects to reduce the plants' nitrogen oxide emissions by 75 percent in 2017 and 89 percent by 2022. Xcel now waits for approval from the Colorado Public Utilities Commission, and ratepayers could see a one percent increase in power bills effective January 1 if the utility's plans are adopted.

Cleantech: Longmont-based Heartland Renewable Energy LLC is proceeding with plans to build one of the nation's largest solid waste gasification facilities. The 80-acre facility will be located near Gilcrest and will use mechanisms called anaerobic digesters to convert manure and food waste into methane gas. The gas will then be pumped into pipelines and used to power homes in Weld County. Spokespeople say the entire process can be completed with little or no disturbance to the surrounding community.

Major cleantech development plans are also unfolding in southern Colorado, where a North Carolina-based power company – Cogentrix Energy LLC – plans to build the world's largest concentrated photovoltaic power plant north of Alamosa. Xcel Energy will purchase the plant's power, which will be generated from a lens-based technology said to be more efficient than silicon solar panels. Spokespeople for Xcel Energy say the plant – which is scheduled to begin operations in 2012 – will help it meet state mandates for renewable energy provided that the utility, regulators, and other parties can agree on building more transmission lines.

The new solar plant, the gasification facility, and other cutting-edge developments in Colorado's cleantech cluster reflect what researchers say is a combination of natural resources and research support unique to the Mountain Region. A report recently released by Brookings Mountain West suggests Colorado and neighboring states are positioned to lead the nation's clean energy economy, but researchers say the government should establish more federal labs that can rapidly commercialize clean energy technology and fully leverage the Mountain Region's resources.

IT/Software: California-based Hewlett-Packard Co. (HP) has purchased Denver-based enterprise database management company Stratavia, Inc. Spokespeople for HP – which has facilities in Colorado Springs and Fort Collins – have not said whether HP will fully absorb Stratavia or operate the company as a separate division.

The Denver headquarters of another IT company, MapMyFitness Inc., is departing for Austin, Texas. The company – which designs web-based and mobile applications for fitness tracking – has secured capital from an Austin-based venture firm.

Telecommunications: Greenwood Village-based WildBlue Communications, Inc. and EchoStar XI Operating LLC – a division of Douglas County-based EchoStar – have both received stimulus-funded contract awards that the companies will use to provide satellite Internet access for rural communities. The companies' awards are worth a combined $34 million and are housed under the U.S. Department of Agriculture's Rural Utilities Service.

Infrastructure expansions are also set to occur in Metro Denver, where Portland, Oregon-based Integra Telecom Inc. will expand its fiber network. Integra – which will spend more than $2 million on the Denver network expansion – is one of three telecoms fighting the proposed merger of Denver-based Qwest Communications with Louisiana-based CenturyLink. The three companies say the merger will reduce competition in the telecom market.

Qwest spokespeople say the merger deal is likely to proceed regardless of the companies' complaints, and the merger process is so far on track. Shareholders of Qwest and CenturyLink recently approved the deal, as have regulators in seven states and the U.S. Department of Justice. Regulators in Colorado and 13 other states still need to approve the deal, as does the Federal Communications Commission. Once the approval process is complete, the final merger could close early next year.

Another telecommunications network expansion in Metro Denver arrived with the recent launch of Sprint's 4G service. Sprint representatives will hire at least 80 workers at the company's Englewood call center to help meet additional customer service needs related to the network.

Employment Outlook

Results from the most recent Manpower Employment Outlook Survey suggest employers in the Denver-Aurora-Broomfield MSA have downgraded their year-end hiring expectations. Ten percent of Denver-area companies that responded to the survey plan to add jobs in the fourth quarter, compared to 19 percent of employers who planned to add jobs in the third quarter survey. The overall fourth quarter hiring outlook for the Denver area is little changed from the outlook reported for the fourth quarter of 2009, with slightly more than one-in-ten employers planning layoffs and three-quarters of employers planning no changes in staffing.

Results of the nationwide Manpower survey for the fourth quarter were only slightly more positive. Fifteen percent of employers nationwide plan to add jobs in the fourth quarter, compared to 12 percent of employers

surveyed at the same time last year. Eleven percent of employers plan to cut jobs in the fourth quarter, and the vast majority – 71 percent – plan to leave staffing levels unchanged. The overwhelming majority of employers planning no hiring activity reflects a growing conundrum – many employers are waiting to hire until the recovery strengthens, but a stronger recovery in many ways depends on better hiring activity.

Employment Outlook Survey

	Quarter 4 2010	Quarter 3 2010	Quarter 4 2009	YTD Avg 2010	YTD Avg 2009	Ann Avg 2005
Denver-Aurora-Broomfield MSA						
Percent of Companies Hiring	10%	19%	9%	13%	11%	29%
Percent of Companies Laying Off	11%	8%	11%	10%	12%	7%
Percent of Companies No Change	75%	68%	77%	73%	74%	61%
Percent of Companies Unsure	4%	5%	3%	5%	3%	3%
U.S.						
Percent of Companies Hiring	15%	18%	12%	15%	15%	29%
Percent of Companies Laying Off	11%	8%	14%	10%	14%	8%
Percent of Companies No Change	71%	70%	69%	72%	68%	58%
Percent of Companies Unsure	3%	4%	5%	3%	5%	6%

Note: Manpower stopped collecting data for the Boulder MSA after the second quarter of 2010.
Source: Manpower Inc.

Slight gains and declines in Metro Denver's unemployment rate over the past several months have been generally consistent with seasonal trends. In other words, the region's unemployment rate has recently been stable. The July unemployment rate for Metro Denver (7.9 percent) was several tenths of a percentage point lower than the rate reported one year ago, but data suggest the rate declined partly because many frustrated job seekers have abandoned their searches and left the labor force.

July unemployment rates in the seven Metro Denver counties ranged from 6.4 percent in Boulder County to 9.1 percent in Adams County. The July rate for Colorado was eight percent, and the national average unemployment rate was a considerably higher 9.7 percent.

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

	July 2010 (p)		2010 YTD Avg		2009 YTD Avg		2005 Ann Avg	2000 Ann Avg
	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate	Unemployment Rate
Metro Denver	1,516.2	7.9%	1,501.4	8.0%	1,538.8	8.1%	5.2%	2.6%
Adams County	224.7	9.1%	222.5	9.4%	227.7	9.3%	5.8%	2.8%
Arapahoe County	309.0	8.1%	304.8	8.0%	312.4	8.0%	5.2%	2.4%
Boulder County	170.3	6.4%	171.8	6.3%	175.4	6.7%	4.5%	2.4%
Broomfield County	30.3	7.2%	29.9	7.2%	30.8	7.5%	4.9%	2.4%
Denver County	320.1	8.7%	316.6	8.8%	324.6	8.9%	5.8%	3.0%
Douglas County	157.6	6.5%	155.6	6.4%	160.1	6.9%	4.2%	2.1%
Jefferson County	304.1	7.8%	300.2	7.8%	307.7	7.8%	5.0%	2.4%
Colorado	2,680.9	8.0%	2,653.7	8.1%	2,721.8	8.0%	5.1%	2.7%
United States	155,270	9.7%	153,946	9.9%	154,475	9.1%	5.1%	4.0%

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

Consistent with seasonal trends, the average weekly count of unemployment insurance claims filed in Metro Denver rose slightly between June and July. While total claims counts remain elevated, the pace of new filing

activity appears to have stabilized over the past several months. The average weekly count of claims reported through the first seven months of the year was 19.6 percent lower than the average for the same months in 2009. Similarly, the average weekly count of claims filed statewide through the first seven months of 2010 was 19.3 percent lower than the comparable 2009 average.

Weekly First-Time Unemployment Insurance Claims

	Month of Jul-10	Month of Jun-10	Month of Jul-09	YTD Avg 2010	YTD Avg 2009	YTD Avg % Change
Metro Denver	1,993	1,923	2,198	2,079	2,586	-19.6%
Colorado	3,512	3,466	3,944	3,859	4,780	-19.3%

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

The Denver-Aurora-Broomfield metropolitan statistical area (MSA) ranked in the bottom quintile of MSAs for change in total personal income between 2008 and 2009. The 2.2 percent decline in Denver-Aurora-Broomfield personal income over that period was larger than the national average decline for metro areas (-1.8 percent) but was smaller than the 4.2 percent drop reported in the Boulder MSA. On a per capita basis, Denver-Aurora personal income fell 4.2 percent between 2008 and 2009, and per capita income in the Boulder MSA fell 5.1 percent. The nationwide average decline in metro area per capita personal income was 2.8 percent.

Negative income trends – and underlying job trends – largely explain the ongoing weakness in consumer confidence. The Conference Board's U.S. Consumer Confidence Index rose from 51 in July to 53.5 in August, but the consumer outlook remains depressed by historical standards. The August increase reflects consumers' slightly better short-term expectations for jobs and business conditions, but the index data also suggest that consumers are increasingly discouraged about conditions today. *Consistent with the National Index, the Mountain Region Consumer Confidence Index rose in August as consumers' slightly better short-term outlook offset their deteriorating assessment of current conditions. Even after the August gain, the Mountain Region Index remains more than 60 percent below pre-recession highs.*

Consumer Confidence Index

	Month of Aug-10 (p)	Month of Jul-10	Month of Aug-09	YTD Avg 2010	YTD Avg 2009	YTD Avg % Change	Ann Avg 2005
Mountain	55.1	46.7	57.6	53.8	49.0	9.8%	120.3
United States	53.5	51.0	54.5	54.3	42.1	29.1%	100.3

Source: The Conference Board. (p) = preliminary

Retail analysts say deep discounts for groceries and other essentials plus dramatic back-to-school sales on clothes have boosted shopping activity only slightly. Some retailers have cut earnings forecasts for the year, and analysts say many stores are achieving profits by cutting costs and reducing inventory.

Data from the Department of Commerce confirm that consumers remain frugal even with their essential purchases. U.S. retail sales rose 0.4 percent between June and July, but higher gasoline prices and stronger auto sales overshadowed weaker sales activity for many other items. Total "core" retail sales – which exclude sales of cars, gasoline, and building materials – declined 0.1 percent in July as consumers spent less on groceries, clothing, home furnishings and appliances, and other items.

Whether or not Metro Denver consumers have followed their peers nationwide and trimmed their spending will not be clear until summertime data are released in several months. In the meantime, data suggest *Metro Denver*

consumer activity throughout the spring was reasonably healthy compared to last year's sales trends. Total Metro Denver retail sales through the first five months of the year were 4.7 percent higher than sales in the same months of 2009. Year-to-date sales gains in the seven Metro Denver counties ranged from 0.9 percent in Adams County to seven percent in Douglas County. Retail sales statewide through the first five months of the year were 3.3 percent higher than sales in the same months of 2009.

Total Retail Sales ($000s)

	Month of May -10	Month of Apr-10	Month of May-09	YTD Total 2010	YTD Total 2009	YTD Total % Change	Annual Growth 2005	Annual Growth 2000
Total Metro Denver	6,405,905	6,338,232	5,955,046	31,758,774	30,326,159	4.7%	7.8%	12.5%
Adams County	1,064,194	1,064,849	1,101,315	5,166,127	5,118,597	0.9%	16.6%	9.3%
Arapahoe County	1,277,505	1,344,177	1,172,486	6,457,038	6,121,638	5.5%	6.6%	14.2%
Boulder County	576,243	578,799	558,661	3,042,386	2,929,641	3.8%	9.0%	10.5%
Broomfield County	155,686	117,108	118,384	594,638	557,568	6.6%	-31.5%	N/A
Denver County	1,870,925	1,854,063	1,621,077	9,304,205	8,781,039	6.0%	10.4%	13.4%
Douglas County	505,362	465,499	465,102	2,419,083	2,260,044	7.0%	13.5%	16.5%
Jefferson County	955,990	913,736	918,021	4,775,296	4,557,632	4.8%	2.4%	10.8%
Colorado	10,526,123	10,370,993	9,888,070	52,647,619	50,942,090	3.3%	8.4%	10.8%

Source: Colorado Department of Revenue.

The U.S. Consumer Price Index (CPI) rose in July for the first time since March. Economists with the Bureau of Labor Statistics note, however, that higher oil prices accounted for more than two-thirds of the total increase. "Core" CPI, or the index that measures prices for all items except energy and food, rose a slight 0.1 percent in July and was up just 0.9 percent over-the-year. Measured either by core or headline CPI – which was up 1.2 percent over-the-year in July – U.S. inflation pressures remain extremely subdued.

The Denver-Boulder-Greeley CPI suggests prices in Metro Denver rose 1.7 percent between the first halves of 2009 and 2010. An increase in energy prices – which came through gas prices and several utility rate increases – was substantially responsible for the gain. Core CPI for the Denver-Boulder-Greeley area rose 0.8 percent between the first halves of 2009 and 2010, while core CPI nationwide rose 1.1 percent over the same period.

Inflation pressures in the coming months are likely to stay muted, particularly if oil prices remain at recent lows. As of late August, oil prices had fallen roughly $10 per barrel from highs near $83 reached early in the month. Investor concerns over renewed weakness in the U.S. economy are limiting price increases, energy analysts say, and those limited gains are keeping pump prices low in many areas. According to the AAA *Daily Fuel Gauge Report*, the U.S. average price per gallon of regular gasoline ended August at $2.68, down from the $2.74 average reported one month earlier. Average gasoline prices in Metro Denver, however, have risen recently, and oil industry experts have few explanations. The Metro Denver average price per gallon of regular gasoline in late August ($2.69) was almost ten cents per gallon higher than the month-ago average ($2.61).

The average hotel occupancy rate throughout Metro Denver in July (79.7 percent) was up noticeably from the 72 percent occupancy rate reported one year earlier. Partly because consumers remain cautious about spending, average room rates throughout Metro Denver have been slower to recover. The Metro Denver average room rate for the first seven months of the year ($106.62) was 0.2 percent higher than the average for the same months in 2009.

Metro Denver Hotel Statistics

	Month of Jul-10	Month of Jun-10	Month of Jul-09	YTD Avg 2010	YTD Avg 2009	YTD Avg % Change	Annual 2005	Annual 2000
Percent of Hotel Rooms Occupied	79.7%	78.2%	72.0%	64.2%	59.1%	8.6%	64.1%	68.6%
Average Hotel Room Rate	$107.97	$111.37	$104.71	$106.62	$106.45	0.2%	$91.10	$89.57

Source: Rocky Mountain Lodging Report.

June was the sixth consecutive month of 2010 in which passenger traffic at Denver International Airport was higher than the prior year's level. Total traffic through the first six months of the year was 3.4 percent higher than traffic in the same months of 2009. Nationwide traffic data for June is not yet available, but data through May suggest traffic through the first five months of the year was just one percent higher than traffic during the first five months of 2009.

Denver International Airport Passengers

	Month of Jun-10	Month of May-10	Month of Jun-09	YTD Total 2010	YTD Total 2009	YTD Total % Change	Annual 2005	Annual 2000
Number of Airline Passengers	4,790,182	4,371,002	4,708,808	25,166,529	24,337,554	3.4%	43,387,369	38,751,687

Source: Denver International Airport, Traffic Statistics.

Downbeat reports on jobs, GDP growth, and other key indicators drove many stock investors to safer assets in August. Each of the major national indexes declined between July and August, and year-to-date returns on the indexes ranged from -6.8 percent on the NASDAQ to -4 percent on the Dow Jones Industrial Average. The Bloomberg Colorado Index also declined between July and August but maintained a positive annual return (+12.5 percent).

Stock Market Indexes

	Month of Aug-10	Month of Jul-10	Month of Aug-09	YTD Return 2010	YTD Return 2009	Ann Avg Return 2005
Bloomberg Colorado	362.6	372.9	282.1	12.5%	27.9%	16.9%
S&P 500	1,049.3	1,101.6	1,020.6	-5.9%	13.0%	3.0%
NASDAQ	2,114.0	2,254.7	2,009.1	-6.8%	27.4%	1.4%
DJIA (Dow Jones)	10,014.5	10,465.9	9,496.5	-4.0%	8.2%	-0.6%

Sources: Bloomberg.com, Yahoo! Finance

Residential Real Estate

Government data suggest the administration's mortgage modification program remains troubled and only marginally successful. Nearly half of the homeowners who had enrolled since March 2009 had left the program in July, and slightly less than one-third of the enrollees had received a permanent and successful modification. Government officials had hoped the program could help between three and four million homeowners avoid foreclosure by 2012, but less than half a million homeowners have successfully completed the program since it began early last year.

The federal government recently stepped up other efforts to avert foreclosures with investments in two homeowner support programs. The Treasury Department will take $2 billion from the $700 billion Troubled Asset Relief Program (TARP) to augment the Hardest Hit Fund, which is a resource pool designed to support foreclosure prevention programs in states with high unemployment and devastated housing markets. The U.S.

Department of Housing and Urban Development also unveiled the $1 billion Emergency Homeowners Loan Program, which will offer loans to unemployed and underemployed homeowners facing foreclosure.

Defaults on mortgage loans are not the only problem dogging U.S. home lenders. Using data from the American Bankers Association, a recent *New York Times* article suggests that the delinquency rate on U.S. home equity loans far exceeds the rate for all other types of loans, credit cards and personal loans included. The article notes that banks have written off many billions in home equity loans and lines of credit deemed uncollectible, often because borrowers have threatened bankruptcy or have lost all equity in their homes. Bankers estimate that homeowners borrowed one trillion dollars against their homes during the pre-recession housing boom.

As lenders continue their cleanup, the federal government is beginning discussion on potential reforms for Fannie Mae and Freddie Mac. The government-chartered entities have been under conservatorship for two years, and the administration plans to answer calls for their reform with a proposal to be unveiled in January. Fannie Mae and Freddie Mac play a key role in the so-called secondary mortgage market, which generates funding for home lending. As a result, mortgage experts say the potential reforms could have widespread impacts on the overall costs and benefits of home ownership.

Home Resales

Data from the National Association of Realtors (NAR) show U.S. existing home sales fell 27.2 percent between June and July. The NAR home sales dataset is adjusted to remove seasonal shifts, so the sales decline in July chiefly reflected the after-effects of the tax credits. July sales were also 25.5 percent lower than sales in July 2009 and represented the lowest sales total on record since the NAR began collecting data in 1999.

While July's decline was dramatic, NAR analysts note that a "pause period" in sales was to be expected once the tax credits expired. They also note that several key factors – extremely low interest rates, affordable prices, and a broad selection of homes to choose from – are likely to draw buyers back to the market, particularly if job growth accelerates. July home sales in the Midwest were down the most (-33.3 percent) over-the-year, followed by sales in the Northeast (-30.3 percent), the West (-23 percent), and the South (-19.8 percent).

Metro Denver home sales in July were 26.6 percent lower than the year-ago sales level, and the count of homes put under contract in July fell 28 percent over-the-year. Because sales slowed so significantly, the region-wide inventory of unsold homes rose in July to the highest level reported since September 2008. Partly because the market was stronger earlier in the year, though, year-to-date average home prices have still improved relative to last year's levels. The July year-to-date average sales price for single-family homes in Metro Denver was 7.6 percent higher than the comparable 2009 average, and the July year-to-date average condominium price was 2.2 percent higher than the average for the first seven months of 2009.

Previously-Owned Home Sales Activity

	Month of Jul-10	Month of Jun-10	Month of Jul-09	YTD Total 2010	YTD Total 2009	YTD Total % Change	Ann Avg 2005	Ann Avg 2000
Home Sales (Under Contract)	3,808	3,885	5,286	32,203	34,316	-6.2%	65,256	37,130
Home Sales (Closed)	3,259	4,046	4,440	24,249	23,803	1.9%	53,106	48,611
Unsold Homes on Market	23,450	22,689	20,890	23,450	20,890	12.3%	23,092	8,820
Average Sales Price-Single Family	$297,218	$299,375	$276,654	$279,800	$260,092	7.6%	$307,529	$239,779
Average Sales Price-Condo	$154,209	$171,600	$165,530	$161,055	$157,665	2.2%	$189,035	$145,197
Median Sales Price-Single Family	$240,000	$244,000	$229,900	$230,000	$215,000	7.0%	$247,000	$195,000
Median Sales Price-Condo	$129,000	$143,350	$145,500	$135,000	$133,000	1.5%	$160,000	$126,500

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.
Source: MetroList, Inc.

The lack of homebuyers currently in the market is a sign of missed opportunity, some economists say. Market forces aligned *after* the tax credits ended and drove mortgage rates to decades-low levels that could have saved some buyers several times the amount of the tax credit in mortgage interest. Analysts say buyers may not have anticipated the lower rates and would need to stay in their homes for a period of years before the lower rates reaped more benefit than the upfront credit. Buyer psychology is also to blame for possible missed opportunities. For many buyers, a lump-sum payment is more attractive than a larger payment – or in this case, a savings – spread over a period of years. Average mortgage rates fell below 4.5 percent in August as investors sought safe haven in treasuries and the Federal Reserve committed to investing in long-term securities.

Home Prices

According to the NAR, the nationwide median home price in July ($182,600) was 0.7 percent higher than the year-ago median. Early-year improvements in median home prices have slowed now that the tax credits are expired, but NAR analysts say home prices have been right-sized to current income levels and should therefore be relatively stable in the months ahead. July median home prices were up over-the-year in the West (+3.3 percent) and the Northeast (+4.8 percent) but were down in the Midwest (-2.8 percent) and the South (-3.3 percent).

Metropolitan area median home price data released by the NAR in early August confirm that growth in median home prices has moderated. *The second quarter median home price in the Denver-Aurora-Broomfield MSA ($234,700) was up 4.9 percent over-the-year, and the second quarter median price in the Boulder MSA ($352,400) was up 3.6 percent.* In the first quarter, median home prices in the Denver and Boulder MSAs were up by considerably greater margins of 16.5 percent and 10.2 percent, respectively. Among the 100 MSAs where second quarter median home prices rose on an over-the-year basis, the Denver MSA ranked 47th for largest increase and the Boulder MSA ranked 59th. Some of the metros hardest-hit by the housing downturn – Phoenix, San Francisco, San Diego, and others – reported the largest over-the-year increases in median home price in the second quarter, with medians in some areas up by 20 to 30 percent. Even with the gains, though, medians in these areas were still below pre-recession highs by anywhere from 20 to 50 percent.

Fifty-three metro areas reported median home prices in the second quarter that were below year-ago levels, with percentage declines ranging from 0.1 percent in Amarillo, Texas to 15.4 percent in Cumberland, Maryland. The nationwide median home price in the second quarter ($176,900) was up 1.5 percent over-the-year but was still more than 20 percent below the pre-recession high ($221,900) reached in 2006. The NAR will release data on third quarter metropolitan area median home prices on November 11.

A final source of data on home prices, the S&P/Case-Shiller Home Price Indices, also suggests that home price gains may be tapering. Specifically, the annual rate of growth for the 20-City and 10-City Composite Indices slowed between May and June. Analysts disagree over the future of home prices, with some saying prices will taper only slightly and others expecting a deeper correction. Projections aside, positive over-the-year change in the June price indexes for 15 of the 20 metro areas suggest better sales trends have helped many housing markets gain at least a preliminary footing. The June index for Denver was 1.8 percent higher than the June 2009 index level, but other metros – primarily those in Arizona and California – reported much higher percentage growth.

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

	Quarter 2 2010 (p)	Quarter 1 2010 (r)	Quarter 2 2009	YTD Avg 2010	YTD Avg 2009	YTD Avg % Change	Median 2005	Median 2000
Boulder MSA	$352.4	$361.8	$340.2	$357.1	$334.3	6.8%	$348.4	n/a
Denver-Aurora-Broomfield MSA	$234.7	$224.8	$223.7	$229.8	$208.3	10.3%	$247.1	$196.8
United States	$176.9	$166.4	$174.2	$171.7	$170.8	0.5%	$219.0	$139.0

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

A report jointly released by the Colorado State University Everitt Real Estate Center (EREC) and the Colorado Association of REALTORS (CAR) suggests home prices throughout Metro Denver – defined as a six-county area that excludes Boulder – rose 7.1 percent between 1999 and 2009. The report is based on the newly minted EREC-CAR House Price Index, which applies a repeat sales methodology similar to that used in indexes by S&P/Case-Shiller and the Office of Federal Housing Enterprise Oversight. Among Metro Denver counties, home prices rose the most between 1999 and 2009 in Douglas County (+28.3 percent) and Broomfield (+24.5 percent), and Adams County was the only one of the six to report price depreciation (-2.7 percent). Price appreciation throughout all of Metro Denver over the past 10 years paled in comparison to appreciation along the Western Slope (+68.5 percent), in Mountain Resort communities (+43.2 percent), and in Northern Colorado (+30.6 percent).

Foreclosures

Metro Denver foreclosure activity remains somewhat unpredictable with filings up in some months and down in others. From a broader perspective, though, the pace of new filings has been gradually slowing. The total region-wide count of filings reported during the first seven months of the year was 13.2 percent lower than the count reported during the same months of 2009. Filings year-to-date through July were down by even wider margins in the City and County of Denver (-22.4 percent) and Adams County (-17 percent). *Data from the Colorado Division of Housing show foreclosure sales are beginning to trend down as well, which could suggest that the entire foreclosure pipeline – from new filings to the backlog of homes at the final stages of foreclosure – is slowly emptying.*

Real Estate Foreclosures

	Month of Jul-10	Month of Jun-10	Month of Jul-09	YTD Total 2010	YTD Total 2009	YTD Total % Change	Annual Total 2005
Total Metro Denver*	1,760	1,728	2,505	13,579	15,647	-13.2%	14,335
Adams County	350	335	490	2,867	3,453	-17.0%	3,281
Arapahoe County	435	447	590	3,228	3,527	-8.5%	3,600
Boulder County	99	96	145	758	788	-3.8%	619
Broomfield County	31	25	34	186	212	-12.3%	124
Denver County	387	340	634	2,937	3,787	-22.4%	3,713
Douglas County	162	206	222	1,390	1,501	-7.4%	878
Jefferson County	296	279	390	2,213	2,379	-7.0%	2,120

**Figures represent the total number of election and demand setups received by county public trustees in the given period. Some foreclosures may be subsequently cured or withdrawn.*
Sources: Colorado Division of Housing and county public trustees.

Data from RealtyTrac show the July count of U.S. homes with some sort of foreclosure filing was down 10 percent from the July 2009 count. More detailed RealtyTrac data show the number of homes with new foreclosure filings declined 28 percent between July 2009 and July 2010, but the number of homes in the final, repossession phase of foreclosure in July was up six percent over-the-year.

New Homes

Data that are adjusted for seasonal variation show nationwide new home sales fell 12.4 percent between June and July, and the July sales total was the lowest reported since the Commerce Department began recordkeeping in 1963. July new home sales also fell to a record low in the West, where total sales for the month were 54.6 percent below the July 2009 total. July new home sales in the remaining U.S. regions fell below year-ago levels by anywhere from 21.4 percent in the Midwest to 26.6 percent in the South.

A second Department of Commerce data series shows that U.S. housing starts – after adjustment for seasonal variation – rose 1.7 percent between June and July. The July rate of starts, however, was seven percent lower than

the rate reported one year earlier. The Northeast was the only U.S. region to report a July housing starts rate that was higher (+26.2 percent) than the year-ago rate, but the increase in that region was entirely due to the volatile multi-family market. July start rates in the remaining U.S. regions were below year-ago rates by anywhere from 7.9 percent in the South to 15.5 percent in the Midwest. Total U.S. building permits – which are a leading indicator for the new homes market – fell 3.1 percent between June and July. Notably, the July count of building permits was down roughly 75 percent from the July 2005 level.

The depth of the slump in builder confidence is not surprising given the depth of the pullback in residential construction. The National Association of Homebuilders (NAHB)/Wells Fargo Housing Market Index, a measure of builder sentiment, declined in August to the lowest level reported since March 2009. NAHB economists say builders are frustrated over the sluggish economy, home appraisal problems, competition from foreclosures, and tight credit. Even so, analysts expect better job growth and low mortgage rates will help support stronger new home sales trends through the end of this year.

Metro Denver home construction activity continued at a measured pace after the homebuyers' tax credits expired. The number of permits pulled region-wide for single-family detached homes in July was roughly 19 percent higher than the number pulled one year prior, and the July count of permits for condominiums and townhomes was almost three times the total pulled in July 2009. Apartment construction, however, remained at a standstill. The total count of permits for all housing types pulled through the first seven months of the year was 44 percent higher than the count for the same months in 2009.

Residential Building Permits

	Month of Jul-10	Month of Jun-10	Month of Jul-09	YTD Total 2010	YTD Total 2009	YTD Total % Change	Total 2005	Total 2000
Single-Family Detached Units	304	300	256	2,054	1,282	60.2%	15,778	15,873
Single-Family Attached Units	65	52	22	481	351	37.0%	4,642	3,321
Multi-Family Units	0	7	0	307	342	-10.2%	459	9,116
Total Units	369	359	278	2,842	1,975	43.9%	20,879	28,310

Source: Home Builders Association of Metro Denver.

Apartment Rental Market

Apartment vacancy rates in Metro Denver continue to tighten as multi-family construction remains at a standstill, in-migration of new residents continues, and displaced homeowners turn to renting. *According to the Denver Metro Apartment Vacancy and Rent Survey, the region-wide average apartment vacancy rate in the second quarter (6.1 percent) was the lowest reported since late 2007.* Second quarter vacancy rates around the region ranged from 4.9 percent in the Boulder/Broomfield area to 7.4 percent in the City and County of Denver.

Lower vacancy has led to higher rental rates, although housing analysts say weak job and income growth is limiting the extent to which landlords can ask more of tenants. The region-wide average rental rate in the second quarter ($900) was 3.4 percent higher than the year-ago average rate, and rates around the region were up from year-ago levels by anywhere from 1.4 percent in Jefferson County to 5.1 percent in the Boulder/Broomfield area.

Apartment Statistics

	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	YTD Average 2010	YTD Average 2009	YTD Average % Change	Annual Average 2005	Annual Average 2000
Apartment Vacancy Rate	6.1%	6.5%	9.0%	6.3%	8.7%		8.2%	4.6%
Average Monthly Rental Rate (all units)	$900	$877	$870	$889	$876	1.4%	$839	$763

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

Development Activity

- Denver Transit Partners – the public-private partnership which will oversee the FasTracks Eagle P3 Project – broke ground on the project in late August. Under the Eagle P3 agreement, Denver Transit partners will build and maintain the East Corridor Commuter Rail Line between Union Station and Denver International Airport. If the partnership receives a federal grant next year, it could also begin work on a portion of the Northwest Rail Line and the Gold Line commuter rail segment to Arvada and Wheat Ridge. Spokespeople for the Regional Transportation District say the Eagle P3 project could directly and indirectly generate 5,000 jobs in 2012 and another 5,000 jobs in 2013.
- Developer Fleisher Smyth Brokaw will build a new medical office building at the corner East 17th Avenue and Lafayette Street in Denver. Spokespeople for the development company say rapid growth in the healthcare industry is driving the need for new space, and the building is already 25 percent pre-leased by a large medical practice. Groundbreaking for the 95,000-square-foot building – which will include space for ambulatory surgery and imaging plus a restaurant, retail space, and parking – is scheduled for mid-2011.
- Officials with Metropolitan State College of Denver are proceeding with the bond issuance for a 126,000-square-foot development planned near the school's downtown campus. The project – to be located at 12th Street and Auraria Parkway – will include classrooms plus a conference center and a 150-room hotel that will operate under the schools' hospitality and tourism training program. The hotel will be operated by students and branded as a SpringHill Suites by Marriott, and officials say the facility will make Metro State one of just a handful of schools worldwide that offer hospitality training in a functioning hotel. Construction could begin early next year and should be complete by fall of 2012.

Market Fundamentals

A second quarter report by Frederick Ross Company suggests Metro Denver's office market is making a slow but steady recovery. Only a handful of Denver area office markets reported negative absorption in the second quarter, and the Southeast Suburban and Central Business District submarkets are some of the most improved partly due to major move-ins by Xcel Energy, Catholic Health Initiatives, and others. Frederick Ross brokers say leasing activity should accelerate as existing leases end and the economy revives, but they expect the new development pipeline to remain sluggish for some time.

According to CoStar Realty Information, Inc., the total square footage of Metro Denver office property under construction during the second quarter of 2010 was less than half of the total under construction one year prior. Other office market fundamentals were generally flat in the second quarter, with direct vacancy declining slightly to 13.5 percent from 13.6 percent in the first quarter and the direct average lease rate rising one cent to $20.07 per square foot. The new FBI headquarters building at Stapleton and 1800 Larimer were among the four office properties completed in the first half of the year.

Office Market Statistics

	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006
Number of Buildings	5,528	5,506	5,496	5,440	5,359	5,310
Existing Square Feet (millions)	164.8	164.0	163.2	160.5	159.2	157.2
Vacant Square Feet (direct, millions)	22.2	22.3	22.2	19.1	19.2	20.1
Vacancy Rate (direct)	13.5%	13.6%	13.6%	11.9%	12.1%	12.8%
Vacancy Rate (with sublet)	14.4%	14.5%	14.8%	12.7%	12.8%	13.9%
Avg. Lease Rate (direct, per sq. ft, full service)	$20.07	$20.06	$21.16	$21.85	$20.22	$17.97
New Construction Completed (year-to-date)	0.73 MSF, 4 Bldgs	0.01 MSF, 1 Bldg	0.69 MSF, 15 Bldgs	0.57 MSF, 24 Bldgs	0.79 MSF, 19 Bldgs	0.40 MSF, 21 Bldgs
Currently Under Construction	0.73 MSF, 14 Bldgs	1.16 MSF, 7 Bldgs	1.93 MSF, 13 Bldgs	3.54 MSF, 51 Bldgs	2.15 MSF, 88 Bldgs	1.56 MSF, 40 Bldgs

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

A report by Frederick Ross Company shows Metro Denver's industrial vacancy rate was more than two percentage points lower than the national average in the second quarter largely because the local market has maintained a favorable balance of supply and demand. Conditions within Metro Denver's industrial market, however, are not uniformly good. Activity in the warehouse sector has increased, but the market for flex and R&D property is still struggling with rising vacancy and lower lease rates.

Metro Denver's industrial market continues to perform better than other property types throughout the region. Data from CoStar Realty Information, Inc. show the region-wide direct industrial market vacancy rate declined in the second quarter to six percent from 6.5 percent in the first quarter. Despite declining vacancy, average lease rates remain depressed. Direct average lease rates declined just one cent per square foot to $4.74 in the second quarter, but the second quarter lease rate was nearly five percent below the rate reported in the second quarter of 2009 and almost nine percent lower than the second quarter 2008 rate. A scant 60,000 square feet of industrial property was under construction during the second quarter.

Industrial Market Statistics

	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006
Number of Buildings	6,777	6,770	6,766	6,742	6,691	6,638
Existing Square Feet (millions)	217.2	217.0	216.9	215.3	212.8	210.5
Vacant Square Feet (direct, millions)	13.1	14.2	15.2	13.4	13.1	15.6
Vacancy Rate (direct)	6.0%	6.5%	7.0%	6.2%	6.1%	7.4%
Vacancy Rate (with sublet)	6.4%	6.9%	7.3%	6.7%	6.3%	7.7%
Avg. Lease Rate (direct, per square foot, NNN)	$4.74	$4.75	$4.98	$5.19	$4.94	$4.85
New Construction Completed (year-to-date)	0.07 MSF, 3 Bldgs	0.01 MSF, 1 Bldg	0.19 MSF, 4 Bldgs	0.32 MSF, 12 Bldgs	0.65 MSF, 8 Bldgs	1.08 MSF, 14 Bldgs
Currently Under Construction	0.06 MSF, 2 Bldgs	0.02 MSF, 1 Bldg	0 MSF, 0 Bldgs	1.16 MSF, 20 Bldgs	1.87 MSF, 22 Bldgs	1.35 MSF, 14 Bldgs

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

Unlike the industrial market in Metro Denver, the flex market has yet to show sustained improvement. The direct flex market vacancy rate in the second quarter (14.9 percent) was higher than the 14.6 percent rate reported in the first quarter and was more than three percentage points above the pre-recession low point. The average flex market lease rate has remained fairly stable despite rising vacancy and reached $9.63 per square foot in the second quarter, up one cent per square foot from the first quarter average. Flex market construction activity, however,

remains stalled. Just 20,000 square feet of flex property was under construction during the second quarter, and no properties have been completed yet this year.

Flex Space Statistics

	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006
Number of Buildings	1,362	1,360	1,356	1,332	1,308	1,289
Existing Square Feet (millions)	38.6	38.5	38.4	37.5	36.9	36.4
Vacant Square Feet (direct, millions)	5.8	5.6	5.4	4.6	4.3	4.6
Vacancy Rate (direct)	14.9%	14.6%	14.2%	12.3%	11.7%	12.6%
Vacancy Rate (with sublet)	15.3%	15.1%	14.8%	12.9%	12.3%	13.2%
Avg. Lease Rate (direct, per square foot, NNN)	$9.63	$9.62	$9.52	$9.85	$8.99	$8.42
New Construction Completed (year-to-date)	0 MSF, 0 Bldgs	0 MSF, 0 Bldgs	0.10 MSF, 5 Bldgs	0.37 MSF, 8 Bldgs	0.14 MSF, 5 Bldgs	0.29 MSF, 8 Bldgs
Currently Under Construction	0.02 MSF, 1 Bldg	0 MSF, 0 Bldgs	0.20 MSF, 4 Bldgs	0.48 MSF, 19 Bldgs	0.14 MSF, 7 Bldgs	0.23 MSF, 9 Bldgs

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

A second quarter report by Frederick Ross Company suggests the worst of the retail market correction is over. Deals closed by Smart & Final Stores, Sunflower Farmer's Markets, and other retailers have helped absorb vacancy in big-box and strip space, and rental rates appear to be stabilizing. Limited job growth and hesitant consumers are probably the greatest challenges still facing Metro Denver's retail market.

The third consecutive quarterly decline in Metro Denver's direct retail market vacancy rate left the rate at 7.8 percent in the second quarter. Because the retail market remains highly competitive, retail lease rates continue to sink. Data from CoStar Realty Information, Inc. show the first quarter direct average lease rate ($15.31 per square foot) was six percent below the first quarter rate and was 12 percent lower than the peak rate reported in the third quarter of 2008. A slight 170,000 square feet of Metro Denver retail space was under construction during the second quarter, and just 320,000 square feet of space has been completed so far this year.

Retail Market Statistics

	Quarter 2 2010	Quarter 1 2010	Quarter 2 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006
Number of Buildings	9,008	8,965	8,929	8,804	8,673	8,522
Existing Square Feet (millions)	157.0	156.5	155.6	153.1	150.0	146.2
Vacant Square Feet (direct, millions)	12.2	12.6	12.8	10.5	9.9	10.2
Vacancy Rate (direct)	7.8%	8.1%	8.2%	6.9%	6.6%	7.0%
Vacancy Rate (with sublet)	8.1%	8.4%	8.6%	7.1%	6.8%	7.2%
Avg. Lease Rate (direct, per square foot, NNN)	$15.31	$16.29	$16.80	$16.54	$16.65	$15.75
New Construction Completed (year-to-date)	0.32 MSF, 11 Bldgs	0.03 MSF, 3 Bldgs	1.05 MSF, 37 Bldgs	1.56 MSF, 33 Bldgs	0.67 MSF, 16 Bldgs	N/A
Currently Under Construction	0.17 MSF, 6 Bldgs	0.43 MSF, 10 Bldgs	0.62 MSF, 24 Bldgs	3.15 MSF, 58 Bldgs	5.90 MSF, 71 Bldgs	N/A

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

Metro Denver Indicator Summary

Indicator	Monthly/Quarterly Direction	Annual Direction	Summary of Recent Changes
Nonfarm Employment Growth	⇓	⇓	Employment down 6,300 jobs Jun to Jul; YTD emp. down 2.4% through Jul 2010.
% Companies Hiring (Denver Area)	⇓	⇑	10% of companies expect to add workers in Q4 2010 and 75% expect no change.
Unemployment Rate	⇓	⇓	Metro rate 7.9% in Jul; YTD avg. rate of 8% down slightly from 2009 YTD avg.
Initial Unemployment Insurance Claims	⇑	⇓	Claims increased Jun to Jul; YTD claims down 19.6% through Jul 2010.
Total Retail Sales	⇑	⇑	Metro retail sales increased Apr to May; YTD sales up 4.7% thru May 2010.
Consumer Confidence Index	⇑	⇑	Mountain Region up to 55.1 in Aug from 46.7 in Jul; index up 9.8% YTD through Aug 2010.
Hotel Occupancy	⇑	⇑	Hotel occupancy increased from 78.2% in Jun to 79.7% in Jul; occupancy up 8.6% YTD.
DIA Passengers	⇑	⇑	Traffic increased May to Jun; traffic up 3.4% YTD through Jun 2010.
Bloomberg Colorado Index	⇓	⇑	Bloomberg Colorado Index down 2.8% from Jul to Aug; year-to-date return at 12.5%.
Dow Jones Industrial Average	⇓	⇓	DOW decreased 4.3% Jul to Aug; year-to-date return at -4%.
Home Sales (closed)	⇓	⇑	Home sales decreased 19.5% Jun to Jul; YTD sales up 1.9% through Jul.
Median Home Price (Denver-Aurora MSA)	⇑	⇑	Median home price in Denver MSA up 4.4% Q1 '10 to Q2 '10; Q2 price up 4.9% from Q2 '09
Foreclosures	⇑	⇓	Foreclosures increased 1.9% Jun to Jul; YTD down 13.2% through Jul 2010.
Residential Building Permits (Total)	⇑	⇑	Total permits increased between Jun and Jul; YTD up 43.9% through Jul 2010.
Apartment Vacancy Rate	⇓	⇓	Vacancy rate decreased from 6.5% in Q1 to 6.1% in Q2; avg rental rate at $900 per month.
Office Vacancy Rate (with Sublet)	⇓	⇓	Vacancy down from 14.5% to 14.4% in Q2 2010; avg lease rate up to $20.07/sq.ft.
Industrial Vacancy Rate (with Sublet)	⇓	⇓	Vacancy down from 6.9% to 6.4% in Q2 2010; avg lease rate down to $4.74/sq. ft. (NNN)
Retail Space Vacancy Rate (with Sublet)	⇓	⇓	Vacancy rate down from 8.4% to 8.1% in Q2 2010; avg. lease rate down to $15.31/sq. ft. (NNN)
Positive Changes	**11 of 18**	**16 of 18**	

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