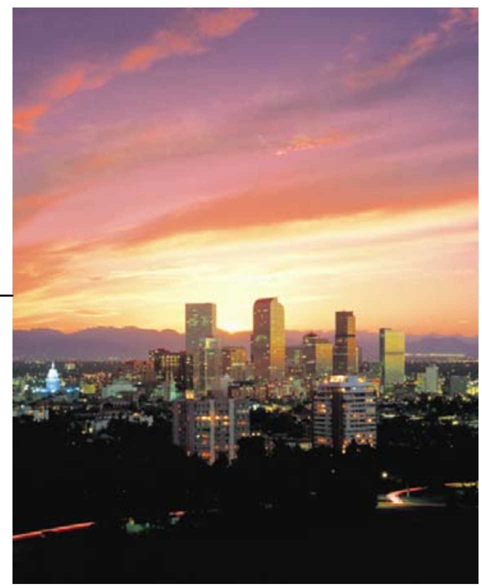
Monthly Economic Summary

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-Longmont 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

- Colorado is the nation's third-best state for business, according to an annual ranking by CNBC.com. The ranking was based on 40 metrics in ten broad categories, including workforce, quality of life, and costs of living and doing business. Colorado received top-10 rankings in the categories that measure business friendliness, access to capital, and overall economy.
- Forbes.com recently named Boulder to its list of ten "Best Cities for Recession Recovery." Analysts identified the areas best positioned to rebound using projections of metropolitan area gross domestic product plus data on unemployment, home prices, and other economic factors. Many of the cities expected to recover more slowly have heavily burdened real estate markets or concentrations of employment in manufacturing or finance.
- Louisville ranked first on *Money* magazine's 2009 "Best Places to Live" list. Magazine editors say the city's low unemployment and crime rates plus its sense of community and outdoor recreation contribute to a top quality of life. Superior was the only other Colorado town named among the magazine's top 100.
- Three Colorado businesses were named on *Fortune's* 2009 list of America's fastest growing small public companies. Precious metals company Royal Gold Inc. ranked highest (10th) overall, followed by medical device manufacturer Mesa Laboratories Inc. (18th) and semiconductor manufacturer Ramtron International Corp (60th).
- Colorado's official economic stimulus web site (www.colorado.gov/recovery) is the second best of its kind in the nation, according to a report compiled by the nonprofit research group Good Jobs First. The group rated state stimulus web sites based on the overall quantity and quality of information and focused more specifically on reporting for transportation projects.
- Metro Denver ranks sixth among the nation's 10 "Happiest Cities for Families," according to fast-food restaurant McDonalds USA. Criteria for the ranking included access to fun activities and spending on those activities in the nation's 50 largest metro areas. McDonalds released the ranking to promote the 30th anniversary of its Happy Meal.
- Metro Denver is the nation's 13th best metro area for singles, according to a recent ranking by Forbes.com. The ranking of 40 metro areas combined factors including cost of living alone, nightlife, expected job growth, and "coolness." Metro Denver received the highest individual rankings for cost of living (third overall), anticipated job growth (11th), and participation in online dating (14th).
- Data from the Corporation for National and Community Service show Colorado has the 17th highest rate of volunteerism among the 50 states and Washington, DC. Colorado's rate of volunteerism between 2006 and 2008 (31.9 percent) also exceeded the national average of 26.4 percent. Denver ranked ninth among large U.S. cities for volunteerism between 2006 and 2008.
- Several Metro Denver healthcare facilities earned top honors in the 2009-2010 "America's Best Hospitals" rankings by *U.S. News and World Report*. The rankings recognize the top 50 hospitals in each of sixteen

specialties, and hospitals ranked in the most specialties are named to the Honor Roll. No Colorado facilities earned that distinction this year, but many facilities still received high scores:

- **National Jewish Health, Denver:** first in respiratory disorders and 19th in pediatric respiratory disorders.
- **Craig Hospital, Englewood:** seventh in rehabilitation.
- **The University of Colorado Hospital, Aurora:** 12th in respiratory disorders, 15th in kidney disorders, 17th in rehabilitation, 19th in rheumatology, 30th in diabetes and endocrine disorders, and 41st in gynecology.
- **The Children's Hospital in Aurora** was one of only 10 hospitals nationwide to be ranked in all 10 categories of pediatric specialty care: fifth for digestive disorders and respiratory disorders, eighth for neonatal care and orthopedics, 10th for cancer and diabetes, 18th for cardiac care, 20th for neurology and neurosurgery, 22nd for kidney disorders, and 28th for urology.
- **Poudre Valley Hospital, Fort Collins:** 42nd in orthopedics.

◆ A Census Bureau Report shows Colorado ranked 41st among the 50 states and Washington, DC for 2007 per-pupil spending at K-12 public schools. The state's per-pupil spending of $8,167 was 84 percent of the national average in 2007, and Colorado ranked third from the bottom on a measure of public school spending per $1,000 in personal income. While the spending figures may not reflect well on the state's school system, lawmakers note that Colorado students still tend to achieve average marks on assessments.

◆ Metro Denver ranked 16th among the nation's urban areas for worst traffic congestion in 2007, according to the *2009 Urban Mobility Report* released by the Texas Transportation Institute. The report's measures of congestion included total annual delay, wasted fuel, and congestion cost. Metro Denver rankings on the measures were 16th, 17th, and 17th, respectively.

Policy Watch

◆ Federal government officials hope to boost funding for the unexpectedly popular Car Allowance Rebate System (CARS), which has been dubbed "cash-for-clunkers." Rebates for roughly 250,000 vehicles exhausted the program's $1 billion budget within its first week, and the House of Representatives recently approved a $2 billion extension to be drawn from an energy program included in the economic stimulus package. The House proposal still needs approval in the Senate, where some lawmakers have already voiced opposition. White House spokespeople say the rebate program continues to operate as before, but some dealers worry they will not be reimbursed for CARS transactions.

◆ Small business lender CIT Group Inc. – a recipient of TARP funds in December 2008 – was recently denied additional government support. The company is struggling with bad assets, and CIT officials hope an emergency loan from bondholders and a cash tender offer for their holdings will allow the company to restructure outside of bankruptcy court. Lenders such as CIT provide financing that keeps merchandise moving between suppliers and stores, and some retailers say their supply chains could be disrupted if CIT fails.

◆ The U.S. and Canadian governments are now official majority owners of a new General Motors. The new company will manufacture the Buick, Chevrolet, Cadillac, and GMC brands and will end production of Saturn, Hummer, Saab, and Pontiac. Government officials say they may conduct an initial public offering for the new company in 2010, although the exact timeline will depend on economic conditions.

◆ Colorado government officials recently received federal approval for the first $19.6 million of nearly $50 million in energy-related stimulus funds for which the state is eligible. Officials say programs covered by the approved funds could begin this fall and will include homebuilder and homeowner efficiency incentives, rebates for solar and wind power equipment, and financing programs for renewable energy investments.

- Officials with the Colorado Housing and Finance Authority (CHFA) say $45.1 million in economic stimulus dollars will create local jobs and new affordable housing options. The state's existing Low Income Housing Tax Credit program – which offers tax breaks to affordable housing investors – has suffered through the recession, and CHFA officials say the stimulus dollars should help fill funding gaps for builders. The funds will cover construction of roughly 1,800 affordable rental units statewide, and construction and management of the properties should support more than 700 jobs.

General Economic Overview

As the U.S. economy and economies worldwide struggle to recover, trade dynamics have shifted considerably. According to data from the U.S. Department of Commerce, the nation's May trade deficit fell to its lowest level since November 1999 as exports increased and imports declined. Notably, U.S. purchases of foreign cars and auto parts contracted in May to a level not seen since 1996.

Not all economic data, however, are unequivocally grim. New estimates of gross domestic product (GDP) from the U.S. Bureau of Economic Analysis (BEA) suggest the nationwide recession eased between the first and second quarters of 2009, and second quarter GDP declined by a smaller-than-expected one percent. Federal, state, and local government spending increased considerably between the first and second quarter, and business investment in structures, equipment, and software – while still declining – fell at a slower rate. A more troubling aspect of the estimates, however, was a 1.2 percent decline in household spending that more than reversed a slight increase from the first quarter. Because household spending drives more than two-thirds of the nation's economic activity, the rate at which spending improves in the coming months will be a key determinant of economic recovery.

While the second quarter drop in GDP was smaller than analysts expected, it added to what is now the longest series of consecutive declines reported since records began in 1947. A scheduled revision of historical data also showed the nation's economy somewhat weaker in the prior few quarters than original estimates had suggested. The new estimates deepened the first quarter decline in GDP to 6.4 percent from the 5.5 percent originally estimated, and the annual increase in 2008 GDP was revised down to a mere 0.4 percent.

While the U.S. economy clearly has ground to recover, encouraging signs led the Federal Open Market Committee of the Federal Reserve to upwardly revise its economic projections. The committee's June *Summary of Economic Projections* shows the annual decline in 2009 GDP could be smaller than analysts originally anticipated, although initial output growth expected in the third and fourth quarters will likely be weak. The newest projections give a less optimistic outlook on unemployment, which the committee expects will exceed prior forecasts. Specifically, committee members expect U.S. unemployment to remain high through 2011, and many expect the nation's economy will need at least five years to return to sustainable levels of output and job growth. The committee has said it will respond to these weaker conditions with accommodative interest rates and monetary policy, which members will discuss at the next scheduled meeting in mid-August.

A separate set of Federal Reserve reports suggest the recession may be losing momentum in many parts of the country. The most recent *Beige Book* report for the Federal Reserve's Tenth District – which includes Colorado and Wyoming – notes gradual improvements in the regional economy. Consumer spending remains weak, but some business respondents to the *Beige Book* survey said spending on automobiles and tourism had increased. The region's nondurable manufacturers also reported slightly better conditions, and stronger home sales helped unsold inventory decline across the Tenth District. The report suggests that still-tight credit conditions and deteriorating commercial real estate markets are some of the greatest risks for district states.

Economic Indexes

National Economy

- The Conference Board's Leading Economic Index rose for the third consecutive month in June, and the index's six-month growth rate rose to the highest level reported since early 2006. While the Conference Board's measures of current economic activity remain weak, improvements in the leading index suggest the nation's economy is poised for recovery.
- The Institute for Supply Management's Purchasing Managers Index rose between June and July but remained below the growth-neutral point of 50. Analysts say the nation's manufacturing sector has contracted for the past 18 months, but improvements in new orders and other leading indicators suggest the sector's downturn may be nearing bottom. Respondents to the Institute's survey had generally pessimistic outlooks for manufacturing, although some said waning inventories were beginning to boost demand for raw materials.
- The Institute for Supply Management's Index of Non-Manufacturing Business Activity suggests the slowdown in the nation's service sector is easing. The June index remains below the level consistent with service sector growth, but survey respondents from several industries indicated slow and steady improvements in customer activity.

Local Economy

- The Leeds Business Confidence Index for the third quarter rose to 47.5 from 35.5 in the second quarter as business leaders reported a mix of positive and negative expectations. Notably, local business leaders are increasingly optimistic about Colorado's economy and their third-quarter sales prospects. At the same time, business leaders remain cautious about their near-term capital investment and hiring plans. (*Note: the Leeds Business Confidence Index was formerly called the Colorado Business Leaders' Confidence Index.*)
- The Mountain States Business Conditions Index rose from 41.4 in June to 51.5 in July. The July reading was above the growth-neutral point of 50, and analysts say the Business Conditions Index will likely improve further in the coming months. They also note, however, that labor market conditions could remain difficult despite broad economic improvements. Notably, 48 percent of businesses responding to a survey released with the Mountain States index expect additional layoffs through the end of 2009.
- The Vectra Bank Colorado Small Business Index rose one-tenth of one percentage point between May and June. The slight shift reflects the mix of positive and negative conditions still confronting small businesses. Borrowing costs are historically low, for example, but credit availability is poor. Higher unemployment rates have also meant better small business access to workers, but slow sales and generally weak economic conditions have trumped hiring plans for many companies.

Labor Force and Employment

Metro Denver employers added 3,000 jobs between May and June, although seasonally adjusted data suggest the gain was smaller than expected for this time of year. Three of the region's 11 industry supersectors reported net job losses in June, although typical summer-season layoffs in education represented a considerable portion of the cuts. Three other supersectors – natural resources and construction, wholesale and retail trade, and professional and business services – account for more than three-quarters of the jobs lost in Metro Denver so far this year. Data suggest, however, that hiring in professional and business services may be starting to revive.

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

	Month of Jun-09 (p)	Month of May-09	Month of Jun-08	Year-to-Date Average 2009	Year-to-Date Average 2008	Year-to-Date Average % Change	Annual Growth Rate 2004	Annual Growth Rate 1999
Total 11-County Metro Denver*	1,377.2	1,374.2	1,440.2	1,367.4	1,418.6	-3.6%	0.8%	4.0%
Denver-Aurora MSA	1,215.7	1,209.8	1,270.9	1,203.8	1,249.5	-3.7%	0.8%	3.9%
Boulder-Longmont MSA	161.5	164.4	169.3	163.6	169.1	-3.3%	0.9%	4.4%
Natural Resources & Construction	86.7	85.9	101.8	84.9	97.6	-13.0%	-0.7%	10.4%
Manufacturing	81.8	81.8	88.3	83.0	88.4	-6.1%	-0.4%	-1.5%
Wholesale & Retail Trade	204.5	204.0	217.1	204.9	215.4	-4.9%	-0.1%	3.2%
Transp., Warehousing & Utilities	50.2	50.6	52.9	50.7	52.8	-4.1%	0.5%	6.1%
Information	55.0	54.6	58.1	55.2	57.9	-4.7%	-5.4%	11.7%
Financial Activities	100.7	100.1	105.7	100.4	105.5	-4.9%	-0.1%	3.8%
Professional & Business Services	234.2	230.6	249.6	229.4	244.9	-6.3%	3.5%	5.9%
Education & Health Services	158.2	158.3	152.9	157.0	151.7	3.5%	3.2%	1.3%
Leisure & Hospitality	148.8	144.2	156.1	141.5	146.8	-3.6%	2.6%	4.6%
Other Services	52.7	52.2	54.2	52.9	53.5	-1.0%	1.7%	1.9%
Government	204.4	211.9	203.5	207.5	204.1	1.7%	-0.2%	1.4%
Federal Gov't	30.3	30.4	30.5	30.3	30.3	0.2%	-1.6%	-1.5%
State & Local Gov't	174.1	181.5	173.0	177.1	173.8	1.9%	0.1%	2.1%
Colorado	2,274.7	2,262.4	2,379.1	2,267.8	2,346.2	-3.3%	1.2%	3.6%
United States	132,609	132,719	138,451	132,364	137,221	-3.5%	1.1%	2.4%

**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

Venture capital continues to flow to Metro Denver businesses, particularly those in the region's bioscience industry cluster. The second quarter *MoneyTree* report released by PricewaterhouseCoopers and the National Venture Capital Association shows all Colorado deals closed throughout the quarter totaled $211 million. The deal volume was on par with investment in the strongest quarters of 2007 and 2008, although the investment total was largely driven by a single deal. The deal – closed by Boulder-based Clovis Oncology Inc. – ranked as the largest in the nation in the *MoneyTree* report and the second largest in a separate report by Dow Jones VentureSource. Either way, analysts say the deal embodies a recent upswing in venture capital activity by life sciences companies.

A separate report on second quarter venture capital released by Ernst & Young LLP shows deals for two Colorado companies ranked among the top five in clean energy and environmental technology. Combined, the deals – one for Boulder-based Tendril Networks and one for Englewood-based Gevo Inc. – totaled $70 million.

Aerospace: The University of Colorado at Boulder's Laboratory for Atmospheric and Space Physics recently won a $42 million NASA contract for the development of a solar radiation sensor. The Total and Spectral Solar Irradiance Sensor (TSIS) will be joined to a satellite system currently under development by Northrup Grumman and Ball Aerospace and Technologies Corp. Government officials say budget cuts had left sensor development on hold, but a recent infusion of stimulus funds from the National Oceanic and Atmospheric Administration allowed the project to move forward.

Separately, officials with Ball Aerospace announced the company's receipt of a second contract award under the U.S. Air Force Space Test Program. Ball won a contract in 2006 for the development of up to six Space Test Program Standard Interface Vehicles, and a vehicle produced under the first contract is scheduled to launch early next year. The newest award for a second vehicle is valued at $13.4 million.

As some contracts begin, the completion of other contracts will mean job cuts for Colorado aerospace workers. Spokespeople for the United Launch Alliance recently announced plans to lay off more than 200 workers by mid-October, and 87 of the positions will be eliminated at the company's Centennial headquarters. Spokespeople say the reductions are necessary as federal spending declines and a contract with the U.S. Air Force ends.

Aviation: A U.S. bankruptcy court recently approved the $109 million sale of Frontier Airlines and its subsidiary Lynx Aviation to Indianapolis-based Republic Airways Holdings. Frontier received a competing bid from Dallas-based Southwest Airlines shortly thereafter, and Southwest must submit a binding proposal for its $113.6 million offer by August 10. Spokespeople for Southwest say the airline would eventually absorb Frontier, while officials with Republic Airways – which plans to counter the Southwest offer – say they would keep the Frontier brand separate. The final buyer for Frontier will be selected at an auction scheduled for August 11.

Other changes in aviation are occurring as airlines confront the financial fallout of low fares and reduced travel activity. Continental Airlines recently announced a second quarter loss and plans for a 1,700-worker layoff, and spokespeople for Southwest Airlines say 1,400 workers recently accepted a voluntary severance deal. United Airlines has also announced plans for capacity reductions this fall.

Bioscience: Spokespeople for California-based pharmaceutical manufacturer Amgen say the company recently laid off 100 employees in its quality and clinical manufacturing divisions. Amgen has Colorado locations in Boulder and Longmont, and spokespeople said the layoff impact at those locations was "minimal."

Another bioscience company in Boulder – OSI Pharmaceuticals Inc. – is preparing to close its local operations. The company is consolidating the 145-employee Boulder office with offices in New York and New Jersey and will operate from one New York location. Officials did not provide a timeline for closures, but they hope to begin the consolidation later this year.

Energy: The CleanLaunch Technology Incubator recently began operations and is already serving its first client, Greenwood Village-based Bye Energy. In conjunction with the Colorado Tech Industry Association and the Governor's Energy Office, CleanLaunch provides start-up companies with the scientific, legal, and support services needed to develop clean energy technologies. The incubator accepts both resident and "virtual" clients at facilities in Stapleton and Jefferson County.

Clean energy technology is also becoming an integral part of operations at Colorado State University. Officials say a two-megawatt solar power plant will be constructed at the university's Foothills Campus this fall, and the finished plant – which will be one of the largest in a university setting – will supply more than 10 percent of the campus' electricity. Under a 20-year contract agreement with developer Renewable Ventures, the university will purchase power generated from the plant at a fixed rate. The university also has the option to purchase the solar panels when the contract expires.

Employment Outlook

Results from the most recent *Manpower Employment Outlook Survey* suggest a majority of business owners are taking a wait-and-see approach to hiring. More than three-quarters of survey respondents in the Denver-Aurora-Broomfield MSA said they would keep staffing levels unchanged in the third quarter, compared to 55 percent of employers who planned no staffing changes at the same time last year. Respondents from the Boulder MSA were slightly more optimistic, with 64 percent expecting no change in staffing and 18 percent expecting to add jobs in the third quarter. The share of employers planning third quarter layoffs declined slightly in both areas, which suggests that employers – while not yet committed to hiring – are taking a more moderate approach to job cuts.

The local survey results were largely similar to the national outlook, which showed 67 percent of employers planning no changes in third quarter staffing, 15 percent planning to hire, and 13 percent planning layoffs.

Employment Outlook Survey

	Quarter 3 2009	Quarter 2 2009	Quarter 3 2008	YTD Avg 2009	YTD Avg 2008	Ann Avg 2004
Denver-Aurora MSA						
Percent of Companies Hiring	9%	10%	32%	11%	27%	24%
Percent of Companies Laying Off	11%	13%	8%	12%	10%	7%
Percent of Companies No Change	77%	73%	55%	73%	49%	62%
Percent of Companies Unsure	3%	4%	5%	3%	15%	8%
Boulder MSA						
Percent of Companies Hiring	18%	14%	20%	17%	18%	N/A
Percent of Companies Laying Off	14%	15%	13%	14%	10%	N/A
Percent of Companies No Change	64%	66%	54%	65%	68%	N/A
Percent of Companies Unsure	4%	5%	13%	4%	4%	N/A

Note: 2009 results are for the Denver-Aurora-Broomfield and Boulder MSAs. Prior years' data are for slightly different geographies but are roughly comparable to 2009 figures.
Source: Manpower Inc.

The Metro Denver unemployment rate rose from 7.3 percent in May to 7.8 percent in June. The increase was consistent with normal seasonal trends, and the Colorado and nationwide unemployment rates also showed a normal seasonal increase. The Metro Denver average unemployment rate for the first half of 2009 (7.5 percent) was up nearly three percentage points from the average for the same months in 2008.

The pace of filings for unemployment insurance in Metro Denver was relatively stable between May and June. Even so, the average number of claimants seeking benefits each week through the first six months of the year nearly doubled from the number reported at the same time last year. Statewide claim activity followed a similar trend as average weekly filings for the first half of 2009 more than doubled the average from the first half of 2008.

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

	Jun 2009 (p)		2009 YTD Avg		2008 YTD Avg		2004	1999
	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Labor Force	Unemploy-ment Rate	Ann Avg Unemploy-ment Rate	Ann Avg Unemploy-ment Rate
Metro Denver	1,545.0	7.8%	1,536.8	7.5%	1,542.3	4.6%	5.8%	2.4%
Adams County	227.9	9.0%	226.5	8.8%	225.6	5.1%	6.5%	2.7%
Arapahoe County	313.9	7.7%	311.5	7.5%	313.0	4.6%	5.7%	2.1%
Boulder County	176.3	6.6%	177.7	6.1%	179.2	3.9%	4.9%	2.6%
Broomfield County*	30.8	7.5%	30.5	7.0%	30.8	4.3%	5.8%	
Denver County	325.5	8.5%	323.6	8.4%	323.5	5.1%	6.6%	3.1%
Douglas County	158.7	6.7%	157.5	6.4%	159.1	4.0%	4.7%	1.4%
Jefferson County	311.8	7.5%	309.5	7.3%	311.2	4.4%	5.4%	2.2%
Colorado	2,723.9	7.8%	2,713.4	7.5%	2,715.6	4.6%	5.6%	2.9%
United States	155,921	9.7%	154,178	9.0%	153,543	5.3%	5.5%	4.2%

**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

Weekly First-Time Unemployment Insurance Claims

	Month of Jun-09	Month of May-09	Month of Jun-08	YTD Avg 2009	YTD Avg 2008	YTD Avg % Change
Metro Denver	2,469	2,437	1,230	2,651	1,363	94.5%
Colorado	4,336	4,730	2,117	4,919	2,444	101.3%

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

A spring rebound in consumer confidence faded through early summer. The Conference Board's U.S. Consumer Confidence Index fell for the second consecutive month in July as survey respondents expressed renewed concerns over weak labor markets. Consumers also expressed negative income expectations, which are a key factor in consumer spending. *The Mountain Region confidence index also weakened in June as respondents gave a more pessimistic assessment of the current economy and the near-term outlook*.

Consumer Confidence Index

	Month of Jul-09 (p)	Month of Jun-09	Month of Jul-08	YTD Avg 2009	YTD Avg 2008	YTD Avg % Change	Ann Avg 2004
Mountain	53.0	68.3	69.0	47.6	86.1	-44.7%	108.8
United States	46.6	49.3	51.9	40.2	64.8	-38.0%	96.1

Source: The Conference Board. (p) =preliminary

Economic worries will change back-to-school spending habits for 85 percent of U.S. families, according to a study conducted by BIGresearch on behalf of the National Retail Federation. Survey respondents said they would shop more sales, buy more store-brand products, and use more coupons. Broader survey results suggest total 2009 back-to-school spending for the average family will decline roughly eight percent from spending in 2008.

A separate consumer survey released by Deloitte Touche shows similar results and suggests that a general downturn in back-to-school spending could have a particularly large impact on spending for clothing and other more discretionary items. The weak outlook has some analysts concerned, because the back-to-school season can account for as much as 15 percent of a retailer's annual sales and is second only to Christmas as the most important sales period.

Early summer sales figures show consumers extremely hesitant to spend. Data from the U.S. Department of Commerce show retail sales increased slightly (0.6 percent) between May and June, but June sales were more than 9 percent below sales from June 2008. *Retail sales in Metro Denver have followed a similar trend, with sales through the first four months of 2009 down more than 11 percent from sales in the same months of 2008.* Retail sales have declined on a year-to-date basis in each of the seven Metro Denver counties, with the largest declines in Adams County (-17 percent), Jefferson County (-13.6 percent) and the City and County of Denver (-10.1 percent).

Total Retail Sales ($000s)

	Month of Apr-09	Month of Mar-09	Month of Apr-08	YTD Total 2009	YTD Total 2008	YTD Total % Change	Annual Growth 2004	Annual Growth 1999
Total Metro Denver	5,803,873	6,801,729	6,922,656	24,337,518	27,443,558	-11.3%	7.4%	7.0%
Adams County	1,003,090	1,057,745	1,279,121	4,005,211	4,825,104	-17.0%	11.7%	10.5%
Arapahoe County	1,183,288	1,483,290	1,317,331	4,926,088	5,455,936	-9.7%	2.6%	10.2%
Boulder County	536,637	687,119	605,517	2,377,142	2,513,423	-5.4%	2.1%	4.1%
Broomfield County	111,879	125,777	113,381	438,667	486,035	-9.7%	49.4%	
Denver County	1,675,818	1,920,748	2,066,547	7,154,442	7,960,372	-10.1%	8.1%	2.2%
Douglas County	433,603	496,226	505,532	1,794,371	1,987,442	-9.7%	16.9%	18.3%
Jefferson County	859,558	1,030,824	1,035,227	3,641,597	4,215,246	-13.6%	3.8%	7.3%
Colorado	9,590,975	11,608,940	11,487,790	41,021,595	46,549,319	-11.9%	7.8%	7.4%

Source: Colorado Department of Revenue.

Some types of retail sales – auto sales in particular – have suffered more than others. A dramatic decline in Colorado car sales may be nearing bottom, however. Data from the Colorado Automobile Dealers Association show Colorado car sales through the first half of 2009 fell 41.4 percent from the same period last year, while car sales nationwide fell 35.1 percent. Analysts say, however, that pent-up demand, growing economic optimism, and the government's Cash Allowance Rebate System – the "Cash-for-Clunkers" program – should help boost auto sales through the second half of the year.

While weaker shopping trends have helped ease pressure on consumer prices, the decline in energy prices from last year's peak is largely to blame for year-over-year declines in the U.S. Consumer Price Index (CPI). Data from the U.S. Bureau of Labor Statistics show the CPI rose slightly in June, but June price levels were down 1.4 percent from the prior year. A measure of CPI that excludes costs for energy and food, however, shows that consumer prices in June were roughly 1.7 percent higher than prices in June 2008. Regardless of the measure used, current inflation rates are somewhat below the levels central bank officials call sustainable and consistent with a growing economy.

As energy prices have exerted a large influence on consumer price trends – and consumer spending habits – many analysts are watching oil prices closely. Price trends, however, have yet to stabilize under the often-competing influences of high supply, speculative investment, and mixed economic news. At the end of July, the U.S. average price per gallon of regular gasoline was $2.52, or roughly ten cents per gallon less than the June average. Metro Denver prices followed a similar trend, with the July average falling roughly ten cents from June to $2.39 per gallon. Compared to prices at this time last year, the Metro Denver average price per gallon of regular gasoline has fallen by more than $1.50.

Lower gas prices have yet to spur lagging travel trends, however. *Metro Denver hotel occupancy rates followed a typical seasonal trend and rose roughly ten percentage points between May and June.* Thanks to weak travel trends, however, occupancy remains below last year's level. Specifically, the 57 percent average occupancy rate reported through the first six months of 2009 fell 12 percent below the average from the same months in 2008. Average room rates have declined by a smaller 6.8 percent on a year-to-date basis.

Metro Denver Hotel Statistics

	Month of Jun-09	Month of May-09	Month of Jun-08	YTD Avg 2009	YTD Avg 2008	YTD Avg % Change	Annual 2004	Annual 1999
Percent of Hotel Rooms Occupied	68.9%	58.8%	76.5%	57.0%	64.8%	-12.0%	61.9%	67.2%
Average Hotel Room Rate	$107.53	$105.07	$120.62	$106.80	$114.64	-6.8%	$84.42	$87.36

Source: Rocky Mountain Lodging Report.

Air carriers at Denver International Airport reported a typical seasonal increase in passenger traffic between April and May, although traffic counts remain below prior years' levels. Specifically, total passenger traffic through the first five months of 2009 fell 5.3 percent below traffic from the same months in 2008.

Denver International Airport Passengers

	Month of May-09	Month of Apr-09	Month of May-08	YTD Total 2009	YTD Total 2008	YTD Total % Change	Annual 2004	Annual 1999
Number of Airline Passengers	4,192,174	3,941,539	4,450,742	19,628,746	20,721,391	-5.3%	42,275,913	38,034,017

Source: Denver International Airport, Traffic Statistics.

The NASDAQ and S&P 500 rose in July past thresholds that are critical to market psychology. While economic conditions remain weak, analysts say increasingly positive long-term outlooks are encouraging sidelined investors. *The Bloomberg Colorado index also rose in July and posted a 25.6 percent year-to-date return.*

Stock Market Indexes

	Month of Jul-09	Month of Jun-09	Month of Jul-08	YTD Return 2009	YTD Return 2008	Ann Avg Return 2004
Bloomberg Colorado	276.9	254.1	390.7	25.6%	-13.2%	17.7%
S&P 500	987.5	919.4	1,267.4	9.3%	-13.7%	9.0%
NASDAQ	1,978.5	1,835.0	2,325.6	25.5%	-12.3%	8.6%
DJIA (Dow Jones)	9,171.4	8,448.1	11,378.0	4.5%	-14.2%	3.1%

Sources: Bloomberg.com, Yahoo! Finance.

Residential Real Estate

Population migration – or the rate at which people move between states and areas – will be one factor that determines how quickly housing markets recover. Many states in the West, for example, have high inbound moving rates that should support a faster reduction in housing inventory. According to a recent study by United Van Lines, more than 55 percent of moves in Colorado through the first half of 2009 were inbound, while roughly 45 percent were outbound. Inbound moving rates were also high in Nevada (58 percent), Wyoming (58 percent), and New Mexico (56 percent).

Home Resales

Data from the National Association of Realtors (NAR) show U.S. existing home sales rose for the third consecutive month in June and fell just 0.2 percent below sales from June 2008. The gain suggests U.S. housing markets are slowly improving as buyers take advantage of tax credits and better affordability, and analysts say home prices could begin to stabilize if sales stay ahead of new inventory. Existing home sales rose between May and June in each of the four U.S. regions, although the West remains the only U.S. region where the current sales pace exceeds the year-ago sales level.

Metro Denver existing home sales rose 15.4 percent between May and June but remained 13.6 percent below the sales level from June 2008. The region's unsold inventory continues to fall, and inventory through the first six months of the year was roughly 80 percent of the inventory available at the same time in 2008. The average sold price for single-family homes rose between May and June, and June's over-the-year decline in sold prices (-1.2 percent) was the smallest reported since September 2007. The average sold price for condominiums fell between May and June, and the June price was almost 15 percent below the price from June 2008.

Previously-Owned Home Sales Activity

	Month of Jun-09	Month of May-09	Month of Jun-08	YTD Total 2009	YTD Total 2008	YTD Total % Change	Ann Avg 2004	Ann Avg 1999
Home Sales (Under Contract)	5,664	5,343	6,308	29,030	34,483	-15.8%	66,196	38,248
Home Sales (Closed)	4,186	3,628	4,845	19,363	23,471	-17.5%	54,012	46,742
Unsold Homes on Market	20,853	20,734	26,104	20,853	26,104	-20.1%	23,267	9,350
Average Sales Price-Single Family	$283,312	$262,066	$286,887	$256,353	$277,566	-7.6%	$289,803	$208,274
Average Sales Price-Condo	$161,939	$172,454	$190,367	$155,753	$176,426	-11.7%	$180,986	$122,562
Median Sales Price-Single Family	$237,500	$220,000	$230,000	$211,000	$224,900	-6.2%	$236,240	
Median Sales Price-Condo	$139,837	$137,000	$148,345	$129,000	$139,000	-7.2%	$157,000	

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.

Home Prices

Data from the NAR show the national median home price declined 15.4 percent over-the-year in June. Distressed properties – which accounted for close to half of all sales in recent months – are now closer to 30 percent of total sales, although that share is still large enough to affect median prices. June median home prices were down the most over-the-year in the West (-24.9 percent) and South (-11.9 percent) and fell by smaller margins in the Midwest (-9.1 percent) and Northeast (-5.9 percent).

Different measures of home prices, the S&P/Case-Shiller 10-City and 20-City composite home price indices, have shown signs of gradual improvement. An increase in the composite indices between April and May was the first of its kind in two years, and 13 of the 20 metro area indices also rose over-the-month. Notably, May increases in the indices for Denver and Dallas were the third-consecutive gains for each area, and the indices for five other metro areas have risen for two consecutive months. Each of the 20 metro area indices and both composite indices are still showing negative annual returns, but the declines are shrinking for a majority of areas.

The National Association of Realtors will release a third measure of home prices, second quarter metropolitan area median home prices, on August 12. The first quarter U.S. median home price of $169,000 was down 13.8 percent from the first quarter of 2008, and the Denver-Aurora median of $192,900 declined by a similar 13.7 percent over-the-year. While the region's price decline is substantial, the Denver-Aurora area ranked towards the middle in a group of 134 metropolitan areas that reported over-the-year declines in median home price in the first quarter. Specifically, the Denver-Aurora region reported the 59th-largest decline in median home price, while the Boulder-Longmont median declined by the 89th-largest margin. Eighteen metro areas – primarily in the Midwest – reported an over-the-year increase in median home price in the first quarter.

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

	Quarter 1 2009 (p)	Quarter 4 2008 (r)	Quarter 1 2008	YTD Avg 2009	YTD Avg 2008	YTD Avg % Change	Median 2004	Median 1999
Boulder-Longmont MSA	$328.4	$324.7	$355.7	$328.4	$355.7	-7.7%	$325.3	n/a
Denver-Aurora-Broomfield MSA	$192.9	$200.8	$223.5	$192.9	$223.5	-13.7%	$239.1	$171.3
United States	$169.0	$180.2	$196.1	$169.0	$196.1	-13.8%	$195.2	$141.2

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

Foreclosures

RealtyTrac economists say higher unemployment is now one of the largest factors driving U.S. foreclosures, which continued to rise through the first half of 2009. RealtyTrac data show one in 84 U.S. homes received some sort of foreclosure filing through the first six months of the year, and that level of filings represents a 15 percent increase from filings in the first half of 2008. Nevada had the nation's highest foreclosure rate through the first six months of 2009 as approximately one in every 16 of the state's homes received some sort of filing.

Metro Denver foreclosure filings rose more than 15 percent between May and June. Some volatility in foreclosure trends is not entirely unexpected, particularly as housing markets begin to recover and weak labor market conditions affect growing numbers of homeowners. June foreclosures increased from May in each of the counties that reported data, although filings were down on a year-to-date basis in all but three counties. Year-to-date filings also declined for Metro Denver as a region, with total filings reported through the first six months of the year roughly 10 percent below filings in the same months of 2008.

Real Estate Foreclosures

	Month of Jun-09	Month of May-09	Month of Jun-08	YTD Total 2009	YTD Total 2008	YTD Total % Change	Annual Total 2004
Total Metro Denver*	2,377	2,058	2,232	13,165	14,668	-10.2%	12,252
Adams County	523	430	477	2,963	3,354	-11.7%	2,498
Arapahoe County	535	465	578	2,964	3,513	-15.6%	3,125
Boulder County**	114	113	93	643	579	11.1%	524
Broomfield County	28	28	16	166	152	9.2%	134
Denver County	536	489	608	3,153	3,780	-16.6%	3,345
Douglas County	274	199	169	1,287	1,235	4.2%	800
Jefferson County	367	334	291	1,989	2,055	-3.2%	1,826

**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.*
***June foreclosure data for the City and County of Broomfield was unavailable at the time of publication; figure provided is an estimate.*
Sources: Various county public trustees in Metro Denver.

New Homes

U.S. new home sales rose a surprising 11 percent between May and June, according to data from the U.S. Department of Commerce. Monthly sales gains were even larger in the Midwest (+43.1 percent), the Northeast (+29.2 percent), and the West (+22.6 percent). The South was the only region to report a sales decline (-5.3 percent). Despite the nationwide gain, June new home sales fell 21.3 percent below the June 2008 level. New home sales rose from the prior year only in the Midwest (+5.8 percent), and sales fell below June 2008 levels in the West (-9.6 percent), the Northeast (-11.4 percent), and the South (-34.4 percent).

A separate Department of Commerce Report shows a June increase in new housing starts, which is another positive sign for the beleaguered residential construction sector. Starts on all types of privately owned housing rose 3.6 percent between May and June as an increase in single-family building activity outweighed a slowdown in multi-family projects. Despite the increase, June housing starts fell 46 percent below starts reported in June 2008. Starts rose between May and June in the Northeast and Midwest and declined in the West and South. June starts in the four U.S. regions were below June 2008 levels by anywhere from 21 percent in the Midwest to 68 percent in the Northeast.

While building activity remains depressed relative to prior years' levels, builders are tentatively optimistic. The National Association of Homebuilders/Wells Fargo Housing Market Index – a measure of builder confidence – rose two points in July to the highest level reported since September 2008. The increase was entirely due to improvements in the sub-index for current sales conditions, because the index that gauges six-month sales expectations has been flat for the past four months. Analysts say homebuilders are still concerned about weak labor markets, recent problems with home appraisals, and the lack of financing for developers and buyers.

MONTHLY ECONOMIC SUMMARY

Metro Denver homebuilders pulled fewer permits in May than they did in April, and the total number of permits issued through the first five months of the year was down almost 68 percent from the number issued during the same months in 2008. Permit activity for multi-family projects – which helped stabilize the residential construction sector when the housing downturn began – has slowed dramatically, and the Metro Denver count of multi-family permits was down almost 80 percent year-to-date in June.

Residential Building Permits

	Month of May-09	Month of Apr-09	Month of May-08	YTD Total 2009	YTD Total 2008	YTD Total % Change	Total 2004	Total 1999
Single-Family Detached Units	196	214	382	803	1,787	-55.1%	14,260	17,523
Single-Family Attached Units	51	59	93	250	865	-71.1%	4,843	2,883
Multi-Family Units	0	173	636	342	1,668	-79.5%	2,681	4,784
Total Units	247	446	1,111	1,395	4,320	-67.7%	21,784	25,190

Source: Home Builders Association of Metro Denver.

Apartment Rental Market

Metro Denver's average apartment vacancy rate rose in the second quarter of 2009 to the highest level reported since the first quarter of 2005. The second quarter rate (nine percent) was nearly three percentage points higher than the vacancy rate reported at the same time last year, and housing officials say the increase reflects heavy job losses. The region's second quarter average rental rate fell to $870 from $882 in the first quarter and was more than $16 below the average from the second quarter of 2008.

Apartment Statistics

	Quarter 2 2009	Quarter 1 2009	Quarter 2 2008	YTD Average 2009	YTD Average 2008	YTD Average % Change	Annual Average 2004	Annual Average 1999
Apartment Vacancy Rate	9.0%	8.4%	6.2%	8.7%	6.1%		9.7%	4.5%
Average Monthly Rental Rate (all units)	$870	$882	$886	$876	$874	0.2%	$817	$717

Source: Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

While government fiscal and monetary stimulus measures have made some headway against frozen credit markets, many developers say current financing conditions are still extremely difficult. The developer of an extended-stay hotel to be located near the former University of Colorado Denver Health Sciences campus, for example, says he is struggling to finance the project. The site has been cleared but now sits vacant, and some analysts say financing struggles with another of the developer's hotel assets could make development of the new site even more challenging.

Weaker fundamentals in Metro Denver's commercial real estate markets are also stalling development plans. *A second quarter report by CB Richard Ellis shows Metro Denver office market vacancy increased in the second quarter and average lease rates declined. Office market development activity has all but halted and investment activity has also slowed, although the June sale of Seventeenth Street Plaza in downtown Denver was the fifth-largest office transaction closed so far this year.* Looking ahead, the report highlights Metro Denver's diverse economy and developers' recent restraint as factors that should help the region rebound more quickly than other areas.

A second quarter report published by Grubb & Ellis also shows rising vacancy and falling lease rates in Metro Denver's office market. The slow yet steady increase in vacancy rates contrasts with a more dramatic trend in lease rates, which were fairly stable before a steep drop in the second quarter. *The report notes, however, that the market's current weakness is still less severe than negative trends observed in the prior two downturns, and Metro Denver is increasingly recognized as one of the regions most likely to recover first.* The current market is also providing opportunities for businesses hoping to secure affordable long-term leases and businesses with the resources to relocate or expand.

Many analysts expect this tenant's market to endure in the coming months. *A recent report by Frederick Ross Company, for example, says 2009 could be the first time since 2002 that Metro Denver's office market shows full-year negative absorption. The report suggests that asking rates could decline between 10 and 15 percent over-the-year in 2009 and may need several years before they return to levels that drive new development.* Because activity in the office market is heavily influenced by overall employment trends, the report expects office market fundamentals to remain weak for much of 2009 and 2010 as the broader economy recovers.

A separate source of commercial real estate data, CoStar Realty Information, Inc., shows the Metro Denver direct office market vacancy rate for the second quarter of 2009 was unchanged from the first quarter at 13.6 percent. Average second quarter lease rates were also flat over-the-quarter at $21.04 per square foot, and office market construction activity rose slightly from the first quarter. Compared to construction volume in the second quarter of 2008, however, the second quarter 2009 volume was down more than 45 percent. The largest office properties completed so far this year are at 1515 Wynkoop in Denver and at Village Center Station in Greenwood Village.

Office Market Statistics

	Quarter 2 2009	Quarter 1 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005
Number of Buildings	5,208	5,176	5,132	5,060	5,014	4,954
Existing Square Feet (millions)	161.3	160.7	158.6	157.3	155.4	154.1
Vacant Square Feet (direct, millions)	22.0	21.8	18.9	19.0	19.9	21.9
Vacancy Rate (direct)	13.6%	13.6%	11.9%	12.1%	12.8%	14.2%
Vacancy Rate (with sublet)	14.8%	14.8%	12.8%	12.8%	13.9%	15.6%
Avg. Lease Rate (direct, per sq. ft, full service)	$21.04	$21.03	$21.62	$20.20	$17.92	$16.93
New Construction Completed (year-to-date)	0.69 MSF, 15 Bldgs	0.40 MSF, 9 Bldgs	0.57 MSF, 24 Bldgs	0.79 MSF, 19 Bldgs	0.40 MSF, 21 Bldgs	0.30 MSF, 20 Bldgs
Currently Under Construction	1.93 MSF, 13 Bldgs	1.85 MSF, 24 Bldgs	3.54 MSF, 51 Bldgs	2.15 MSF, 88 Bldgs	1.56 MSF, 40 Bldgs	0.86 MSF, 31 Bldgs

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

A Grubb & Ellis report suggests Metro Denver's industrial market is weathering the recession somewhat better than the region's office market, although increasingly available office properties are putting more pressure on flex space. Several large deals helped overall industrial vacancy decline slightly in the second quarter, although Grub & Ellis analysts say third quarter move-outs will likely make for negative absorption in the coming months.

A report by Frederick Ross Company also describes the impact of the recession on Metro Denver's industrial market as moderate, although specific sections of the market have reported more difficulties. Closures and consolidations have heavily affected small warehouse tenants, for example, and the leasing advantage of better-featured warehouse properties has increased as lower asking rates allow tenants to afford higher quality.

A second quarter report by CB Richard Ellis also observes a "flight to quality" driven by lower lease rates in Metro Denver's industrial market. Vacancy rates have risen as tenants downsize and close, but the region's industrial market is nonetheless in a stronger position than many other markets in the West. Even in stronger markets, though, capital constraints and economic uncertainties are restricting development. The report suggests that build-to-suit projects will dominate what little development might occur in the near term.

According to data from CoStar Realty Information, Inc., Metro Denver's direct industrial market vacancy rate rose in the second quarter of 2009 to 7.2 percent. Average industrial market lease rates declined slightly to $5 per square foot in the second quarter, and industrial construction halted. The Denver Business Center on East 55th Avenue is the largest Metro Denver industrial property completed so far this year.

Trends in Metro Denver's flex market were flat between the first and second quarters of 2009, according to data from CoStar Realty Information, Inc. *The region's direct flex market vacancy rate was unchanged between the first and second quarter at 14.5 percent, and average lease rates declined slightly to $9.52 per square foot.* Second quarter flex market construction volume was roughly 42 percent of the volume in progress at the same time last year, and newly completed construction represented roughly 27 percent of last year's volume. So far this year, flex projects have been completed only in Adams, Boulder, and Jefferson Counties.

Industrial Market Statistics

	Quarter 2 2009	Quarter 1 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005
Number of Buildings	6,581	6,564	6,541	6,492	6,443	6,396
Existing Square Feet (millions)	212.6	212.4	210.8	208.4	206.2	203.9
Vacant Square Feet (direct, millions)	15.3	15.2	13.7	13.0	15.4	15.8
Vacancy Rate (direct)	7.2%	7.1%	6.5%	6.3%	7.5%	7.8%
Vacancy Rate (with sublet)	7.4%	7.5%	6.9%	6.4%	7.8%	8.3%
Avg. Lease Rate (direct, per square foot, NNN)	$5.00	$5.11	$5.18	$4.97	$4.86	$4.64
New Construction Completed (year-to-date)	0.19 MSF, 4 Bldgs	0.11 MSF, 2 Bldgs	0.32 MSF, 12 Bldgs	0.65 MSF, 8 Bldgs	1.08 MSF, 14 Bldgs	0.27 MSF, 13 Bldgs
Currently Under Construction	0 MSF, 0 Bldgs	0.06 MSF, 1 Bldg	1.16 MSF, 20 Bldgs	1.87 MSF, 22 Bldgs	1.35 MSF, 14 Bldgs	0.73 MSF, 18 Bldgs

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

Flex Space Statistics

	Quarter 2 2009	Quarter 1 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005
Number of Buildings	1,338	1,335	1,315	1,294	1,277	1,250
Existing Square Feet (millions)	37.7	37.6	36.9	36.3	35.9	35.4
Vacant Square Feet (direct, millions)	5.5	5.4	4.7	4.3	4.6	5.0
Vacancy Rate (direct)	14.5%	14.5%	12.8%	11.9%	12.9%	14.1%
Vacancy Rate (with sublet)	15.2%	15.1%	13.4%	12.5%	13.5%	15.4%
Avg. Lease Rate (direct, per square foot, NNN)	$9.52	$9.58	$9.89	$9.04	$8.49	$8.19
New Construction Completed (year-to-date)	0.10 MSF, 5 Bldgs	0.06 MSF, 3 Bldgs	0.37 MSF, 8 Bldgs	0.14 MSF, 5 Bldgs	0.29 MSF, 8 Bldgs	0.10 MSF, 5 Bldgs
Currently Under Construction	0.20 MSF, 4 Bldgs	0.22 MSF, 5 Bldgs	0.48 MSF, 19 Bldgs	0.14 MSF, 7 Bldgs	0.23 MSF, 9 Bldgs	0.22 MSF, 11 Bldgs

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

A report by CB Richard Ellis says vacancy rates in Metro Denver's retail market rose to record highs in both the first and second quarters of 2009. The pace of rising rates, however, is slowing. The report also notes that retail investment – while down considerably – has not halted altogether. Retail development is also lagging, but analysts still expect several newly developed projects to perform well.

A second quarter report by Grubb & Ellis also shows Metro Denver retail markets under strain. Vacancy increased and lease rates declined in the second quarter, and retail foreclosures began to surface. As commercial foreclosures are expected to continue over the next year, prevailing lease rates in some markets could reset to lower levels.

Like commercial foreclosures, lower consumer demand is a factor analysts say could delay a retail market recovery. A report by Frederick Ross Company, for example, notes that some changes in consumer spending habits could endure for years after economic recovery. *As difficult conditions persist, landlords have increased concessions and the pace of retail development has slowed considerably. Retail vacancy has also increased, but vacancy rates remain below 10 percent in all but two Metro Denver submarkets.*

Vacancy and lease rates in Metro Denver's retail market weakened further in the second quarter of 2009, according to data from CoStar Realty Information, Inc. The direct retail vacancy rate rose in the second quarter to 9.2 percent, or a rate roughly one-percentage point above the year-ago level. Average lease rates fell to $17.05 per square foot in the second quarter from $17.11 per square foot in the first quarter and are now down $0.88 per square foot from the year-ago level. As is the case with other property types, construction in the retail market has slowed considerably. Specifically, retail construction volume in the second quarter was roughly 20 percent of the volume in progress in the second quarter of 2008. The largest retail projects completed so far this year include space at the River Point development in Sheridan and portions of the Streets of Southglenn development in Centennial.

Retail Market Statistics

	Quarter 2 2009	Quarter 1 2009	Quarter 2 2008	Quarter 2 2007	Quarter 2 2006	Quarter 2 2005
Number of Buildings	7,404	7,325	7,224	7,126	7,007	6,849
Existing Square Feet (millions)	148.1	146.6	144.0	140.5	137.1	132.2
Vacant Square Feet (direct, millions)	13.6	13.2	11.5	10.3	10.5	8.1
Vacancy Rate (direct)	9.2%	9.0%	8.0%	7.3%	7.7%	6.2%
Vacancy Rate (with sublet)	9.6%	9.5%	8.3%	7.6%	7.9%	6.5%
Avg. Lease Rate (direct, per square foot, NNN)	$17.05	$17.11	$17.93	$17.29	$16.45	$16.19
New Construction Completed (year-to-date)	1.05 MSF, 37 Bldgs	0.68 MSF, 27 Bldgs	1.56 MSF, 33 Bldgs	0.67 MSF, 16 Bldgs	N/A	N/A
Currently Under Construction	0.62 MSF, 24 Bldgs	0.33 MSF, 15 Bldgs	3.15 MSF, 58 Bldgs	5.90 MSF, 71 Bldgs	N/A	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 increased by 3,000 jobs May to Jun; YTD emp. down 3.6% through Jun 2009.
% Companies Hiring (Denver Area)	⇓	⇓	9% of companies expect to add workers in Q3 2009 and 77% expect no change.
Unemployment Rate	⇑	⇑	Metro rate 7.8% in Jun; YTD avg. rate of 7.5% up from 4.6% in 2008.
Initial Unemployment Insurance Claims	⇑	⇑	Claims increased May to Jun; YTD claims up 94.5% through Jun 2009.
Total Retail Sales	⇓	⇓	Metro retail sales decreased Mar to Apr; total sales down 11.3% YTD through Apr 2009.
Consumer Confidence Index	⇓	⇓	Mountain Region down to 53.0 in Jul from 68.3 in Jun; index down 44.7% YTD through Jul 2009.
Hotel Occupancy	⇑	⇓	Hotel occupancy increased from 58.8% in May to 68.9% in Jun; occupancy down 12% YTD.
DIA Passengers	⇑	⇓	Traffic increased Apr to May; traffic down 5.3% YTD through May 2009.
Bloomberg Colorado Index	⇑	⇑	Bloomberg Colorado Index up 9% from Jun to Jul; year-to-date return at 25.6%.
Dow Jones Industrial Average	⇑	⇑	DOW increased 8.6% Jun to Jul; year-to-date return at 4.5%.
Home Sales (closed)	⇑	⇓	Home sales increased 15.4% May to Jun; YTD sales down 17.5% through Jun.
Median Home Price (Denver-Aurora MSA)	⇓	⇓	Median home price in Denver MSA down 3.9% Q4 to Q1 2009; YTD price down 13.7%
Foreclosures	⇑	⇓	Foreclosures increased 15.5% May to Jun; YTD down 10.2% through Jun 2009.
Residential Building Permits (Total)	⇓	⇓	Total permits decreased between Apr and May; YTD down 67.7% through May 2009.
Apartment Vacancy Rate	⇑	⇑	Vacancy rate increased from 8.4% in Q1 to 9% in Q2; avg rental rate at $870 per month.
Office Vacancy Rate (with Sublet)	⇐⇒	⇑	Vacancy rate steady at 14.8% in Q1, Q2 2009; avg lease rate up to $21.04/sq.ft.
Industrial Vacancy Rate (with Sublet)	⇓	⇑	Vacancy rate decreased from 7.5% in Q1 to 7.4% in Q2; avg lease rate down to $5.00/sq. ft. (NNN)
Retail Space Vacancy Rate (with Sublet)	⇑	⇑	Vacancy rate up from 9.5% in Q1 to 9.6% in Q2; avg. lease rate down to $17.05/sq. ft. (NNN)
Positive Changes	**7 of 18**	**3 of 18**	

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