

Monthly Economic Summary – JAN 2012

Decreasing unemployment rates and an improving housing market to help shape Metro Denver economy in 2012

The final months of 2011 showed signs of improvement-such as a drop in unemployment to 7.7 percent and an increase in home sales and residential building permits-in the Metro Denver economy. However, indicators such as the still-stabilizing commercial real estate market and an unchanged hiring outlook in the first months of 2012 continue to keep the economy from recovering at a rapid pace, according to data compiled by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its **Monthly Economic Summary for January 2012**.

"While there are still factors holding back significant growth, there are plenty more that are helping kick-start the economy. Consumer confidence is on the rise and the University of Colorado Boulder Leed's Business Confidence Index indicates promising expectations from Colorado business leaders for 2012," notes Tom Clark, CEO of the Metro Denver EDC. "Additionally, our housing market is on the upturn, and OwnAmerica.com CEO Greg Rand [cited Denver](#) as *the* place to invest in housing, due to the area's quality of life, young and educated residents, and high in-migration patterns."

Metro Denver's travel and tourism industry also continues to thrive. Air passenger traffic at Denver International Airport broke records in August and September, and total 2011 passenger traffic is on-track to surpass the 2010 total even after slightly slower activity in October. November year-to-date average occupancy and room rates for Metro Denver hotels rose over comparable 2010 averages, and several Metro Denver establishments-the Oxford Hotel, Hotel Teatro, Hotel Monaco, and the Denver Ritz-Carlton-were recently named among the world's finest by *Travel + Leisure* and *Condé Nast Traveler* magazines. Metro Denver's hotel community is poised to expand even further with a recently approved development plan for Union Station, which will place a 130-room hotel on the upper floors of the redesigned historic landmark.

Indicators for travel and tourism were among 14 that moved in a positive annual direction in this month's report. In the previous report, 15 moved in a positive annual direction. Nine indicators moved in a positive monthly direction this month, compared to 12 indicators in the previous report.

The **Monthly Economic Summary** provides a snapshot of metro area economic activity, as well as its relationship to national and regional economic trends. Key highlights include:

Labor and Employment

Total Metro Denver employment across all industries was up 0.5 percent year-to-date in November. Employment statewide rose 0.8 percent year-to-date, and national average employment was up one percent year-to-date.

Results of the most recent Manpower Employment Outlook Survey suggest most U.S. employers will maintain current staffing levels as 2012 begins. Fourteen percent of employers that participated in the survey said they would add staff in the first quarter, compared to 16 percent who planned to hire in the previous quarter and 14 percent who planned hiring in first quarter of 2011. Nine percent plan to reduce headcount over the next three months, and the vast majority- 70 percent-plan no changes in staffing.

Similar responses are seen in the Denver-Aurora-Broomfield MSA, where the share of first quarter survey respondents planning to hire (16 percent) was essentially the same share reported in the prior quarter's survey (16 percent) and last year's survey (17 percent). Nine percent of Denver area employers said they would trim jobs over the next three months, and 70 percent said they would maintain current staff levels.

Metro Denver's November unemployment rate (7.7 percent) was 1.1 percentage points lower than last year's rate. The Colorado and national average rates followed the same trend, as the statewide average for November (7.8 percent) and the national average (8.2 percent) were both down 1.1 percentage points.

While unemployment insurance filings remain elevated from a historic perspective, numbers of new filings continue to decline from recession highs. The November average weekly number of claims filed in Metro Denver was 20 percent lower than last year's average, and the November average filed statewide was down 18.5 percent since last year.

Consumer Sector

The Conference Board's U.S. Consumer Confidence Index increased for the second consecutive month in December. While the number of households anticipating improvements in business conditions, job availability, and income over the next six months all improved in December, a stubborn majority of households expect conditions will remain unchanged. Seventy percent of households that responded to the December survey said business conditions would stay the same over the next six months, 67 percent said job availability would remain unchanged, and 69 percent said their incomes would stay the same.

The Mountain Region index increased between November and December, but the improvement was somewhat smaller than the gain reported in the nationwide index. Mountain Region survey respondents gave a slightly better assessment of current conditions in December, but their six-month expectations deteriorated somewhat.

The over-the-year gain in total Metro Denver retail sales for July (+7.9 percent) was healthy, albeit slightly less than gains reported in the prior few months. Total sales through the first seven months of the year were 9.2 percent higher than the comparable 2010 total. Total retail sales statewide rose 10.4 percent year-to-date in July.

December ended a turbulent year for stock markets. Returns on the national indexes varied widely: the Dow Jones Industrial Average posted a 5.5 percent return in 2011, while the S&P 500 yielded no annual return and the NASDAQ lost 1.8 percent. The Bloomberg Colorado Index fell 3.6 percent in 2011.

Metro Denver average monthly hotel occupancy in November (57.2 percent) was slightly below last year's level (59.4 percent), and the November average room rate (\$107.17) was down six percent over-the-year. Some of the year-over-year difference in November trends could reflect new hotel openings-including the debut of the Four Seasons Hotel Denver-that skewed occupancy and room rates in late 2010.

Denver International Airport (DIA) passenger traffic in October was 2.4 percent lower than the traffic count reported in October 2010. Airport spokespeople say a slowdown in traffic between summer and winter is not unusual, although August and September traffic totals broke records. Some of the October decline could also reflect capacity reductions related to the United and Continental merger, airport officials say.

Total DIA passenger traffic through the first 10 months of the year was 1.6 percent higher than the comparable 2010 total.

Residential Real Estate

About four percent more existing homes sold in Metro Denver during the month of December than sold one year prior. Total sales through all of 2011 were 1.5 percent higher than sales reported in 2010, but 2011 average sales prices for detached homes and condominiums fell 0.8 percent and 1.2 percent over-the-year, respectively. Slow buyer traffic, price competition from the lingering supply of distressed homes, and general economic uncertainty clearly affected price trends last year.

Uncertainty also diminished the region's housing inventory. As of December, Metro Denver's total unsold inventory of existing homes was nearly 40 percent smaller than the inventory available in December 2010 and was less than half of the inventory available when the recession began in December 2007.

The total count of Metro Denver foreclosures reported through the first 11 months of the year was 28.8 percent lower than the count reported for the same months in 2010. Spokespeople for Colorado's Division of Housing say much of the significant decline in filings reflects bank delays related to foreclosure litigation, but they note that Colorado's lower-than-average delinquency rate has also helped reduce filings.

Metro Denver counties and municipalities issued nearly 69 percent more residential building permits in November 2011 than they did in November 2010. Total issuance of detached home permits was up 3.8 percent year-to-date in November, issuance of permits for condominiums and townhomes was up 8.9 percent, and issuance of apartment permits was up 41.4 percent.

Commercial Real Estate

Data from CoStar Realty Information, Inc. show direct vacancy in Metro Denver's office market during the fourth quarter (12.7 percent) was the lowest rate reported since the third quarter of 2008. Vacancy is still not as low as it was before the recession took hold, but it continues to move in a positive direction.

Despite lower vacancy, average lease rates have yet to stabilize. The direct average rate for the fourth quarter (\$19.78 per square foot) was 0.6 percent lower than last year's average and more than nine percent below the most recent peak rate (\$21.82 per square foot). Because lease rates continue to lag, office market construction activity remains slow. New Metro Denver office space completed throughout 2011 totaled roughly 494,500 square feet, less than one-quarter of the total completed in 2008.

Data from CoStar show the Metro Denver industrial market vacancy fluctuated slightly during 2011, but remained generally higher than it was in 2010. The fourth quarter direct vacancy rate (6.1 percent), for example, was higher than last year's rate (5.6 percent). Unstable vacancy has kept industrial lease rates low. The direct average lease rate for industrial property in the fourth quarter (\$4.56 per square foot) was 2.8 percent lower than last year's average and 12.1 percent lower than the most recent peak rate (\$5.19 per square foot).

While tight industrial inventory may be setting the stage for more construction in a select few submarkets, industrial construction activity is generally slow. Throughout 2011, builders completed about 315,200 square feet of industrial space, or roughly 13 percent of the total completed in 2008.

CoStar data show direct vacancy in Metro Denver's flex market was almost one percentage point lower in the fourth quarter (12.9 percent) than it was one year before. Partly because flex market vacancy is still higher than the sub-12 percent rates reported before the recession, average lease rates remain low. The fourth quarter direct average rate (\$8.86 per square foot) was down two percent over-the-year and was 6.7 percent lower than the most recent peak rate (\$9.50 per square foot).

Low lease rates and stiff competition from other property types have dampened flex market construction. No flex market construction was completed in 2011, but builders were working on a 4,900-square-foot flex property as the fourth quarter ended.

CoStar data show Metro Denver's direct retail market vacancy rate in the fourth quarter (6.8 percent) was the lowest rate reported since the third quarter of 2007. Largely because the retail outlook remains uncertain, though, lease rates are still falling. The fourth quarter direct average lease rate (\$14.59 per square foot) was down 1.8 percent over-the-year and was nearly 18 percent below the most recent peak rate (\$17.70 per square foot).

The pace of retail construction has lagged with low lease rates: builders in 2011 completed slightly more than one million square feet of Metro Denver retail space, while they completed twice and even four times that amount in 2009 and 2008.

**A full report is available to Metro Denver EDC investors.*