

## Regional Economic Review - Metro Denver

The metro-Denver economy in the last twelve months has succumbed to the national economic slowdown. Layoffs in the technology services and telecommunications sectors, combined with the slow growth in manufacturing, has brought employment growth to perhaps its lowest rate since 1992. Still, the unemployment rate has been below the national level and, until recently, statewide figures. Inflationary pressures increased in the first half of 2001, as consumer prices increased 5.4% over the first half of 2000. Residential home prices continued to rise, though not as strongly as the last few years. Large development projects continue to suggest a strong nonresidential market at the former Stapleton International Airport, Lowry Air Force Base, and much of Douglas County.

### Population and Income

Based on data from the state demographer and the 2000 Census, the metro-Denver area's population increased 2.7% from 1999 to 2000, about the same rate as the compound average annual growth rate of 2.7% from 1990 to 2000. Douglas County led metro growth over the past decade. Though its population

base was still the smallest in the region, representing 8.3% of the Denver area population in 2000, the addition of over 115,000 new residents in Douglas County over the past ten years accounted for an 11.1% compound average annual growth rate over the last decade (see Table 2).

Personal income steadily increased throughout most of the 1990s. Inflation-adjusted per capita personal income for the metro-Denver region increased at a compound annual average of 2.2% from 1990 to

**Table 2. Metro-Denver Population  
By County**

County	Total Population (2000)	Percent of Population (2000)	Percent of Population (1990)	Average Annual Growth Rate (1990-2000)
Adams	365,863	17.3%	16.3%	3.3%
Arapahoe	490,650	23.1%	24.2%	2.2%
Denver	557,690	26.3%	28.7%	1.8%
<b>Douglas</b>	<b>176,728</b>	<b>8.3%</b>	<b>3.8%</b>	<b>11.1%</b>
Jefferson	529,958	25.0%	27.0%	1.9%
Region	2,120,889			2.7%

*Source: Colorado Department of Local Affairs, Demography Division.*

**Table 1. Metro-Denver Economic Indicators at a Glance**

	Metro Denver	Colorado
Population Growth		
1990-2000 Compound Average Annual Growth Rate (CAAGR)	2.7%	2.7%
1999-2000 Growth Rate	2.7%	2.6%
Nonfarm Employment Growth		
1990-2000 CAAGR	3.5%	3.8%
1999-2000 Growth Rate	3.8%	3.9%
2000-2001 Year to Date Growth Rate	3.2%	2.6%
Unemployment Rate (seasonally adjusted)		
1990-2000 Average	3.8%	4.2%
September 2001	3.7%	3.7%
Retail Trade Sales Growth		
1990-2000 CAAGR	8.0%	7.7%
1999-2000 Growth Rate	12.7%	11.5%
2000-2001 Year to Date Growth Rate	1.1%	1.7%
Year-to-date Nonresidential Construction (Permit Values)	0.9%	-1.7%
Year-to-date Residential Construction (Units Permitted)	3.7%	8.7%

*Sources: Colorado Department of Local Affairs, Demography Division; Colorado Department of Labor and Employment; Colorado Department of Revenue, Office of Tax Analysis; F.W. Dodge 2001 year-to-date data through September; U.S. Census 2001 year-to-date data through August.*

1999. The largest jumps occurred in the last four years, in part due to the abundance of high-paying advanced technology jobs available in the region. Income growth is expected to slow, however, as employers in the Denver area cut back their demand for high-skilled labor.

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In November 2000, the Census Bureau reported that Douglas County earnings were the highest in the nation, based on 1997 *median* household income. The median Douglas household income was \$77,513 in 1997, meaning that half of the households earned more and half earned less. In comparison with other Colorado counties, Jefferson ranked third (\$54,175) and Arapahoe ranked seventh (\$50,748). Based on 1999 *average* household income, Arapahoe ranked second, Douglas ranked fourth, Jefferson ranked sixth, and Denver ranked eighth in the state.

## Employment

From 1990 to 2000, overall employment in the metro-Denver region grew by 3.5% annually. Though a bit weaker than the statewide growth rate of 3.8% during that period, it is still more than twice the metro growth rate in the 1980s. However, 2001

has thus far revealed the effects of a nationwide economic slowdown. Metro-Denver nonagricultural employment grew by 3.2% through September, slower than the average growth rate from 1995 to 2000. However, the pace of employment growth has steadily slowed throughout the year, from a 4.4% rate in January to 1.4% in September. The manufacturing, transportation/communication, and finance services sectors were furthest from their average growth rates. Table 3 illustrates the average growth rate from 1995 to 2000 and the year-to-date growth rates in 2001.

According to wage and salary data collected by the Department of Labor and Employment, there are between 5,000 and 6,000 jobs in the *mining* sector in the metro-Denver area. Over the past ten years, the sector's presence diminished in the metro area. In 2000, the sector comprised just 0.5% of the region's work force, falling from 1.3% in 1990 and 2.7% in 1985. The sector tapered off at an annual average rate of 5.3% from 1995 to 2000. In the past year, national industrial news was dominated by mergers and consolidating measures as energy firms attempted to streamline costs. In September 2000, for instance, Marathon Oil announced plans to close a research and development center in Littleton, eliminating 150 jobs.

While employment in the sector declined 3.4% in 2000, it almost recovered the loss with a 2.3% in-

**Table 3. Metro-Denver Employment Trends**

Sector	1990-1995 Average Annual Growth Rate	1995-2000 Average Annual Growth Rate	2000-2001 YTD Growth*
Construction	10.3%	10.6%	8.8%
Manufacturing	-1.6%	0.8%	-2.4%
Transportation, Communication, Public Utilities	3.5%	4.4%	0.6%
Wholesale	2.4%	2.4%	3.9%
Retail	3.8%	2.9%	3.4%
Finance, Insurance, Real Estate	2.6%	4.4%	1.1%
Services	4.5%	4.9%	4.6%
Government	1.8%	1.7%	2.8%
<b>GOODS PRODUCING **</b>	<b>1.4%</b>	<b>4.5%</b>	<b>3.0%</b>
<b>SERVICE PRODUCING</b>	<b>3.4%</b>	<b>3.7%</b>	<b>3.3%</b>
<b>TOTAL</b>	<b>3.1%</b>	<b>3.8%</b>	<b>3.2%</b>

\* Through September.

\*\* Goods producing sectors include mining, construction and manufacturing. All other sectors are service producing.

Source: Colorado Department of Labor and Employment.

crease through September 2001. The energy sector was given a boost this year by rising energy prices. The price hikes caused suppliers to ratchet up extraction and production earlier in the year.

By September 2001, the **construction** sector, which was the fastest growing sector in the metro economy during the 1990s, increased 8.8% through September 2001 compared with the same period a year ago. While the sector underwent the most growth of any sector year-to-date, this year's employment gains fall below prior growth periods, following double-digit employment increases of 12.5% in 2000, 13.5% in 1999 and 11.7% in 1998. In fact, the sector grew at an average annual rate of 10.6% from 1995 to 2000. This pace inflated the sector from 3.9% of the work force in 1990 to 7.5% in 2000.

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The employment trend for the **manufacturing** sector was not as positive as other goods-producing industries. Through September 2001, employment fell 2.4% over the same period last year. Meanwhile, the average annual growth rate from 1995 to 2000 hovered at 0.8% growth per year. Weak growth in manufacturing employment during the 1990s caused the sector to shrink from 11.4% of the work force in 1990 to only 7.8% in 2000. The decline in the share of total employment is mirrored by state and national statistics. Three factors have contributed to the manufacturing decline over the past ten years: increased worker productivity, an Asian economic slump in the later part of the decade, and most recently, a significant inventory stockpile as a result of weakening demand and durable goods orders.

Until recently, there was little good news for the local manufacturing industry. The astronautics division of Lockheed Martin, based in Jefferson County, announced a work force reduction of 600 jobs by the end of 2001. The latest reduction, part of a \$2.8 billion restructuring plan, reduced the company's local work force to its lowest level in decades. Lockheed Martin's employment pattern is highly volatile, based, in part, on the number of defense contracts

available. Recently, however, Lockheed Martin secured a record-high \$200 billion contract from the Department of Defense to develop the Joint Strike Fighter jet. As many as 100 engineering jobs may be created in the Denver area, in addition to the retention of jobs at Lockheed Martin.

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The economic slowdown was responsible for layoffs and plant closures in several manufacturing industries other than advanced technology. In April 2001, nearly 350 employees at Samsonite's manufacturing plant in Denver were laid off as the company restructured to meet shifting consumer preferences. NBTY, one of the largest vitamin and supplement manufacturers, has laid off 285 employees after purchasing a NatureSmart plant in Thornton. A Keebler plant closure put 470 employees out of work in May. After a 50-year presence in Wheat Ridge, Jolly Rancher announced it would close its plant there and move operations to Pennsylvania, eliminating 240 workers. Denver-based Titanium Metals Corp. announced it would lay off 50 people at its melting operations in response to the downturn in the commercial aerospace business. Volant Sports, a Wheat Ridge-based ski manufacturer, failed to secure additional financing and closed its plant and released all 95 employees.

The **transportation, communications, and public utilities** sector increased at a faster rate than total metro area employment in the last five years. The sector increased at an average annual rate of 4.4% from 1995 to 2000, compared with a 3.8% growth rate for all industries. However, year-to-date figures for 2001 through September suggested that the growth in this industry remained nearly flat at a 0.6% rate.

Major news items suggest that this sector may have been the hardest hit this past year. The telecommunication industry was responsible for most of the employment cuts. In the last few years, technological developments in communications sparked several new companies. As the economic conditions weak-

ened over the past 12 months and venture capital funding dried up, these firms had difficulty staying afloat. While some were acquired by larger businesses, some made job cuts in order to streamline operations, and several filed for bankruptcy.

Nearly a year after Qwest cut 12,800 jobs (approximately 3,000 in Colorado) upon completing its acquisition of US West, the telecom giant announced a second significant round of layoffs, totaling 4,000 state jobs by the end of 2002 first quarter. This will reduce Qwest's overall employment from 66,000 to 62,000. It is estimated that 1,300 of the recent Qwest layoffs will take place in the metro-Denver area. While 20% of the total job cuts should occur through attrition, the rest of the cuts will involve job elimination.

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AT&T Broadband announced over 300 layoffs in the state as a result of its acquisition of MediaOne Group. Most of these jobs were eliminated in the Arapahoe County headquarters. The broadband division of AT&T employs 50,000 nationally and 6,000 in Colorado. Meanwhile, Time Warner Telecom announced cuts in the Pacific Northwestern part of the country and expects that 65 of the eliminated positions will be relocated or rehired in the Arapahoe County headquarters.

Level 3 Communications announced plans to cut 750 of 4,500 jobs in order to trim costs and reduce debt. This second announcement followed an earlier paring of 500 local jobs in order to boost cash flow. The company hopes to reach break-even cash flow by 2004.

In another effort to streamline costs and increase profitability, Lucent Technologies laid off 16,000 employees nationally, 13% of its total work force. The job cuts in Colorado were expected to total 250, 10% of Lucent's employees in the state. Most of these employees worked in sales and customer support.

Avaya Inc., a communications systems and software company spun off from Lucent, announced plans to

lay off 100 workers in Colorado by year-end when it closes its global in-house training program. The company had already cut 833 Colorado employees at mid-year at its offices in Westminster and Highlands Ranch.

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Several smaller telecommunications providers downsized or liquidated in the past twelve months. Englewood-based ICG Communications laid off 800 employees. New Global Telecom, a long-distance telecom firm based in Golden, eliminated 40 of its 150 jobs. Rhythms NetConnections, a DSL Internet service provider based in Arapahoe County, filed for bankruptcy and released 900 local employees. Greenwood Village-based Jato Communications ended business late last year, after laying off more than 500 people since September. Convergent Communications laid off 149 Colorado workers in mid-April. The remaining staff of 150 was less than 10% of last year's work force. Integra Telecom shut down its Denver business in mid-March, idling 40 workers. Verizon Wireless transferred 170 jobs to Utah from its Englewood-based call center. Denver's higher-cost environment was cited as one reason for the departure.

There was some news regarding expansion in the telecommunications industry. Expanets, a communications company, will move up to 70 employees to its new headquarters in the Meridian Office Park in northern Douglas County. The company will create as many as 190 additional jobs at the 40,000-square-foot facility in the next three years. The company plans to immediately hire up to 40 employees from the local work force. In addition, the company could double the size of its regional office, also located in Meridian, in the next 18 months.

The September 2001 terrorist attacks created significant ripple effects in the transportation industry. The September 11<sup>th</sup> attack on the World Trade Center brought the *airline* industry to a screeching halt. Since the attack, United Airlines announced that it would cut back the number of flights departing from Denver International Airport by 32%, reflecting re-

duced demand for airline travel. Frontier Airlines, the second-largest local carrier behind United, reduced its flights by 18%.

United Airlines originally estimated that 20% of its work force would have to be let go in order to reduce costs. In November, United announced that 4,600 employees nationwide chose to accept early retirement, voluntary furloughs, and other incentive packages terminating their employment. While these still represent employment reductions, this means that fewer layoffs will occur. Including the volunteers, the impact upon the local work force of 9,300 workers is estimated at 1,800.

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As a result of reduced demand for airline travel, travel-dependent industries have sustained a minor economic shock. TG Worldwide, a metro area travel agency, closed its corporate services division and eliminated 30 jobs. Arapahoe County-based Navigant International, a travel management firm, announced it will eliminate 60 workers in the Denver area. Adams Mark hotel cut 22 management employees and initiated a hiring freeze soon after September 11<sup>th</sup>.

Employment in the *trade* industries increased at an annual average rate of 2.8% between 1995 and 2000. September 2001 figures indicate that employment in the trade industries increased 3.5% over the first nine months of last year, maintaining the growth rates of 2000 and 1999. The sector employed 23.9% of the work force in 2000.

As a result of an economic slowdown and increased competition for consumer spending, several retailers closed businesses in the metro area. HomeBase, a home improvement and home furnishings chain, was forced to close five metro area stores and layoff 700 in the state. A similar home furnishing store, HomePlace closed a location in Denver after filing for bankruptcy protection. Longs Drugs closed six stores in the Denver area and Phar-Mor will close two metro area stores as it restructures under bank-

ruptcy protection. J.C. Penney Company closed several stores nationwide and Montgomery Wards filed for bankruptcy early last year, closing five stores in the Denver area. As a result of poor economic conditions, the Villa Italia Mall in Lakewood shut down by mid-year.

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Eagle Automotive, Inc. announced that it will move its corporate headquarters from Denver to Tennessee in the summer of 2001. Approximately 350 employees will either be laid off or relocated. In June, Payless Cashways, the parent company of Hugh M. Woods hardware stores, filed for bankruptcy. As a result of poor retail sales and inadequate financing from investors, Payless Cashways announced a liquidation of all 18 hardware stores in Colorado. A Hugh M. Woods store typically employed between 30 and 60 employees.

There were some positive job announcements in this sector. ESPN Zone will open a sports bar and restaurant in the Tabor Center on downtown Denver's 16<sup>th</sup> Street Mall. The restaurant will offer 250 jobs, all of which are part-time, when the project is operating in November. The Aspen Grove shopping area in Littleton opened in early November and will eventually have a peak work force of 2,000 during the holiday season.

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***“Until recently, the finance, insurance, and real estate sector enjoyed consistent growth over the last few years.”***

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Until recently, the *finance, insurance, and real estate* sector enjoyed consistent growth over the last few years. Between 1995 and 2000, the sector experienced average annual growth of 4.4%. However, this sector has been hit hard by the weakness in the stock market and the economic slowdown of 2001. Through September 2001, the sector increased employment by 1.1% over the same period a year ago.

Janus Capital Corporation, a Denver-based mutual fund investment firm, cut 40% of its 1,875 employ-

ees in Denver. Charles Schwab Corporation, the nation's largest discount brokerage, laid off 395 jobs in Colorado in its service operations. Schwab operates six retail brokerage locations along the Front Range and one regional service center. U.S. Bancorp will merge with Firststar Corp. leading to the elimination or transfer of about two dozen local jobs. However, Colorado could ultimately gain jobs from Salt Lake City or Idaho later this year. MassMutual Life Insurance closed its Greenwood Village call center in order to centralize its operations in Springfield, Massachusetts. Safeco, an insurance provider, cut about 60 positions at its Lakewood commercial and business insurance underwriting operations.

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Thus far in 2001, the services sector showed little deviation from its five-year trend. The sector is the largest in the local economy, employing over 30% of the local work force. The sector grew at an average annual rate of 4.9% from 1995 to 2000. However, service employment increased at a slightly slower pace, 4.6%, during the first three quarters of 2001 as the recent economic downturn forced several firms to cut costs and streamline operations.

Small startup companies were also hurt by the softening economic conditions and sinking financial markets. Evoke Communications cut 43 of its 145 Colorado jobs as part of a restructuring plan in order to see a profit by 2002. Mshow.com, cut back its total work force by 58%, including 120 jobs in Colorado. IXL Enterprises, an Internet-commerce consulting firm, will close its Denver office and release 135 workers in early December.

Software developers underwent restructuring in the last twelve months. J.D. Edwards, a Denver software maker, laid off 128 local employees at the beginning of May in an effort to reduce operating expenses. Overall, layoffs totaled 374 or 7% of the company's nationwide work force. The company plans to streamline its business operations and realign its sales force to increase market penetration. New Era of Networks announced plans to cut 150 of 990 jobs nationally. Of the 250 positions in the Den-

ver office, the company estimated 25 positions would be eliminated. Within a month of announcing the cutback, NEON tentatively agreed to an acquisition by Sybase Inc., a Silicon Valley e-business company. It is not known at this time how the merger will affect employment.

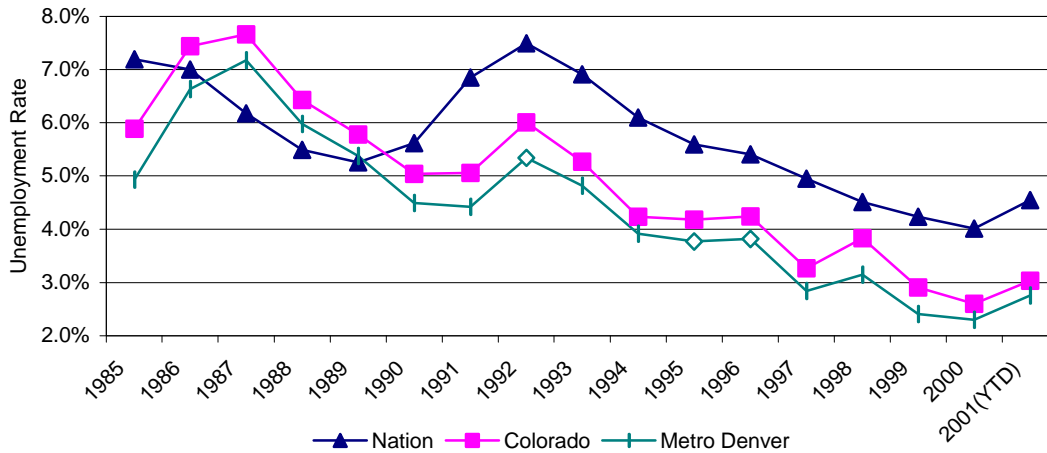
Avolent Inc., an electronic billing systems provider, laid off an undisclosed number of employees at the Westminster branch in order to focus on core markets and to increase profitability. Requisite Technology, located in the Westmoor Technology Park in Westminster, eliminated 50 positions at the end of April due to market conditions and restructuring. Restructuring also caused Arapahoe County-based application services provider, Agilera Inc., to lose about 80 employees or 32% of its work force. Agilera reduced the number of computer applications it made available via the Internet which affected positions within the company's business development unit. Relera Inc., an Internet start-up service, laid off 60 employees at the beginning of May, including 40 at its Denver headquarters. The company discontinued all construction and eliminated jobs related to the expansion. Relera announced it would cut 198 out of 260 metro-area jobs in an effort to restructure the company toward a new business model, away from website management and toward Internet access and warehousing space for Internet hosting.

Denver-based Verado Holdings, a data-center company, shut six of its eight data centers across the country and reduced its local work force by 64. The layoffs are a result of cutting costs and will only affect non-core business operations. Verado Holdings later announced another set of layoffs by letting go 59 of its 130 employees in the Denver area.

Ereo Inc., a company which created a technology for searching images on the Web, laid off 40 employees when the company closed its Westminster office due to a loss of online advertisers and investors. In closing its Castle Rock plant, Entegris Inc. will eliminate about 170 full-time positions as of June 1, although eight employees will be offered the chance to transfer to the Colorado Springs plant.

MatchLogic, an online marketer based in Westminster, was forced to close as the company's parent, Ex-

**Figure 1. Unemployment Rate Comparison**  
**Seasonally-Adjusted, 1985-2001 (through September)**



Source: U.S. Bureau of Labor Statistics, Colorado Department of Labor and Employment.

citeAtHome, a high-speed internet access provider, struggled to reach profitability by selling operations. All 200 employees, mostly located in Westminster, were laid off. ExciteAtHome Corp., laid off an additional 380 workers mid year. The layoffs were due to the fallout in Internet advertising.

Due to a tumultuous telecommunications market, New Global Telecom Inc. underwent a second round of layoffs in April since the beginning of the year, culminating in the elimination of 46 worldwide positions. An undisclosed number of employees were laid off from the headquarters in Golden, although the number of remaining employees has decreased from 160 in January to less than 100 in May.

In some good news, InPhase Technologies, a spinoff of Lucent specializing in storage technology, announced plans to hire 100 additional employees in the next two years. The company hopes to hire primarily engineers and product developers.

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According to the Colorado Front Range High-Tech Job Vacancy Survey, an estimated 3,500 jobs were offered by technology sector employers in the Front Range during the two-week survey period of June 21

to July 3, 2001. Employers in the Denver Metro/ Boulder area accounted for 80% of all high-tech vacancies. The survey revealed the degree of a labor shortage for high-tech jobs. According to employers' responses, 60% of job openings were either "very difficult" or "somewhat difficult" to fill.

In *medical* services, there was mixed news through the year. Sulzer Medica, a biomedical technology company, closed its orthopedics research office in Wheat Ridge. The closing released 60 employees. In some positive news, Apria Healthcare will be building a \$7 million, 100,000-square-foot regional headquarters in the Ken Caryl Business Center. The company expects to add 210 jobs to Jefferson County by the time the construction is complete.

The *government* sector grew at a 1.7% annual average rate from 1995 to 2000. The sector has grown 2.8% through September 2001. The U.S. Postal Service in Colorado announced it would hire 1,300 temporary employees to work through the holiday season. This is fewer than the 1,500 to 2,000 the service usually hires. The less-than-expected additional number of temporary employees is due to the reduced use of mail in the past few months and the economic slowdown.

The unemployment rate for the Denver region continued to stay below both the state and national levels since 1990. Unemployment rates for both the state and region remain among the lowest in the country.

In metro Denver, the September 2001 seasonally-adjusted unemployment rate was 3.7%, equal to the statewide unemployment rate. Meanwhile, the national unemployment rate was 5.4% in October and 4.9% in September.

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## **Tourism**

The tourism industry represents a vital contribution to the Denver-area economy. According to the Denver Metro Convention and Visitors Bureau, there were 9.6 million overnight business and pleasure trips spent in Denver. Of the business visitors, the bureau estimated that \$219.3 million was spent by delegates to the Colorado Convention Center in 1999 and a projected \$188.6 million was spent in 2000.

The Denver Metro Convention and Visitors Bureau estimated 6.9 million overnight non-business trips to metro Denver in 2000, 7.8% more than 1999. Metro area retail sales for lodging increased 18.1% in 2000 and restaurant spending increased 11.1%. Through August 2001, however, consumer spending by tourists has not kept pace with earlier figures. Lodging revenue has decreased 6.2% below the sales in the first eight months of 2000. Restaurant spending has only increased 4.6% in the same period.

The Colorado Convention Center expansion project has begun with the demolition of Currigan Hall. The project will add 292,000 square feet of new exhibit space, 35,000 square feet of new meeting space, a 50,000-square-foot ballroom, a 5,000-seat auditorium, and a 1,000-space parking garage. The project should be complete by 2004.

Hyatt Hotels announced the construction of an 1,100-room hotel across the street from the Colorado Convention Center. The hotel project, with an estimated cost of \$211 million, will include 85,000 square feet of meeting space and ballrooms.

## **Nonresidential Construction**

According to F.W. Dodge, the value of nonresidential construction permits in metro Denver through September 2001 remained relatively stagnant at a 0.9% rate of growth over the first three quarters of 2000. The value of construction contracts remained high, bringing in over \$1.5 billion. While contracts for office projects were down 39.4% over last year's value, the value of retail construction increased 60.4% and the value of manufacturing plant construction increased 132.5% through September.

## **Retail**

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The Denver retail market has been negatively affected by the recent slump in consumer spending. Through June 2001, 1.45 million square feet were vacated, mostly attributable to the 1.1 million square feet formerly occupied by Montgomery Wards and HomeBase. This caused the vacancy rate to increase from 5.7% to 8.1%. However, with several large retail projects on the horizon, 2.1 million square feet is expected to enter the market before the end of 2001 and another 5.6 million square feet is expected in 2002 and early 2003. However, some projects are still in a preliminary phase and may be cut back if the economy continues to slide.

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Retail sales in the metro-Denver area grew by an average of 8.0% during the 1990s, pushed by a 12.7% gain in 2000. Through August 2001, the weak employment gains, combined with consumer uncertainty, led to an anemic sales gain of 1.1%. The largest growth over the last several years has come in Douglas County, matching its increasing population base. Douglas County has enjoyed eight consecutive

years of retail sales growth near or above 20%. Figure 2 illustrates the metro Denver retail sales from 1990 to 2000 and a year-to-date comparison of January through August of 2001 with the same period in 2000.

There were several large-scale retail projects announced in the last 12 months. The 1.2 million-square-foot Colorado Mills Mall in Lakewood, a \$250 million retail and entertainment complex, had a formal groundbreaking ceremony in late April. The mall will include more than 200 tenants, but will not have major anchor stores. The mall is scheduled to open in late 2002. Depending on market conditions, the center could also include office space and residential areas.

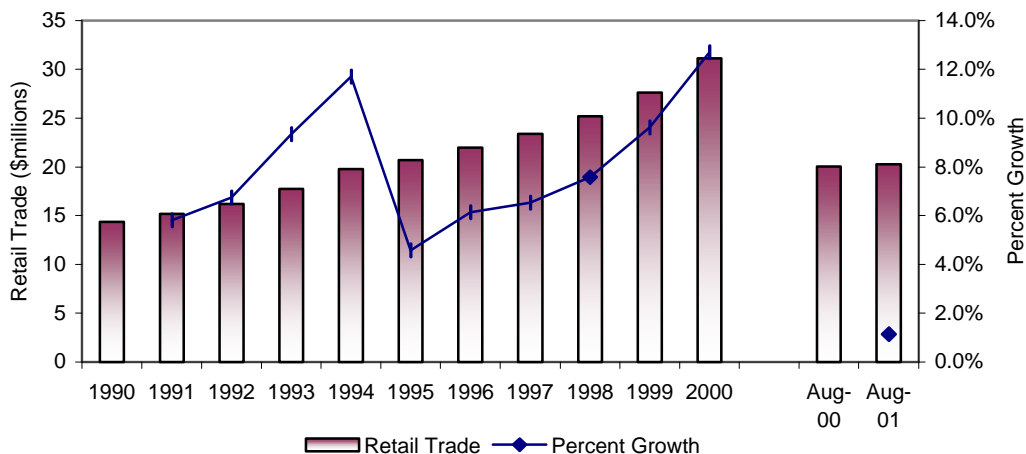
Stapleton redevelopment plans were announced involving three anchor stores of Home Depot, Sam's Club, and a Super Wal-Mart occupying 750,000 square feet at the old airport site. Another mega-retail center was announced at E-470 and Smoky Hill Road. The Southlands Project will develop 1.7 million square feet of retail on 276 acres. An outdoor events center is included in the preliminary plan.

The Aspen Grove shopping mall, a 300,000-square-foot retail center, in Littleton, opened its first stores in early November 2001. The retail center will contain approximately 50 upscale stores and restaurants. The development is next to the southern terminus of the southwest light-rail line at Mineral Ave. and Santa Fe Drive.

There were indicators of retail saturation in the area. A study by Torto Wheaton Research found that the Denver area has 23.65 square feet of retail shopping per resident. This was the second-highest ratio in the fifty markets monitored by the research firm. Only Charlotte, North Carolina had more shopping space per person. Another firm, The International Council of Shopping Centers, found that the Denver area had over 50% more square feet of shopping space per person than the national average.

Other relatively smaller projects, albeit significant, were also announced this past year. The University Park shopping center in Highlands Ranch was announced early this year offering 100,000 square feet of retail. The Hampden Town Center, a mixed-use project in southeast Denver, announced plans to anchor a 207,000-square-foot Super Wal-Mart. Plans were announced to redesign the Shops at the Tabor Center in downtown Denver. The \$25 million renovation will add an additional 26,000 square feet of retail space to the current 110,000-square-foot center. In Castle Pines Village, north of Castle Rock, plans have been made to develop a \$20 million, 115,000-square-foot retail town square scheduled to open in fall 2002. The development will include a health club, gourmet grocery store, a wine shop, a cooking school, a five-star restaurant, and a service station. In Littleton, the \$3.2 million Shops at River-Bend project will include 16,000 square feet of retail space near Arapahoe Community College. The shops, already 50% pre-leased, are expected to be completed by the first quarter of 2002.

**Figure 2. Metro Denver Retail Sales**



Source: Colorado Department of Revenue, Office of Tax Analysis.

## Office

The Denver office market was hit hard by the economic slowdown of 2001. According to Frederick Ross, during the first six months of 2001, the office market could not absorb nearly 1.3 million square feet while adding new supply of 2.4 million square feet to its inventory. As a result, the metro area office vacancy rate shot up from 7.3% in 2000 to 9.5% through June 2001, according to CB Commercial Real Estate Group.

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According to F.W. Dodge, \$319.6 million in office development was added to the metro area through September 2001, down 39.4% from the value added in the first three quarters of 2000. The number of contracted projects is also down 11.6% from the same period a year ago.

Due to the number of closures and layoffs in the technology sector, Denver's office vacancy rate jumped to above 10% earlier in the year for the first time since the mid-1990s. The hardest hit areas were in the southeast and northwest suburbs, according to commercial broker Fuller and Company, with the northwest vacancy rate reaching 32%.

In spite of the office market development moving to the suburban metro area, downtown Denver still witnessed some activity. Brookfield Properties pro-

posed construction of a 14-story office building stacked on an 11-level parking garage on 15<sup>th</sup> St. in downtown. Brookfield expects to lease up to 70% of the office space before construction begins.

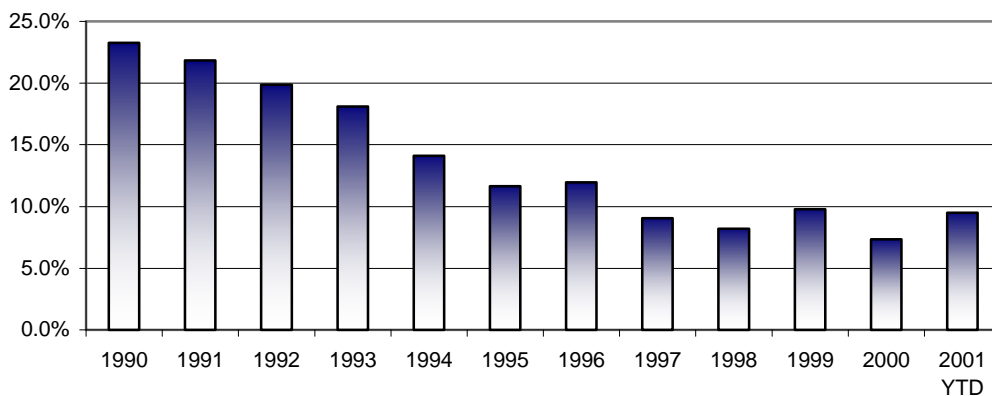
Legacy Partners began groundbreaking on a 10-story office tower at the end of 16<sup>th</sup> Street between lower downtown and the Central Platte Valley. Legacy Plaza will be the largest private office building to be developed downtown since 1986. Construction on the 290,000-square-foot building began in October and will be complete by mid-2002.

Construction on the 12-story, \$131 million Civic Center Office Building in downtown Denver began this year. Upon completion in late 2002, 2,200 employees will be consolidated from 16 office locations, most of which are rented. This will become one of the largest buildings in downtown Denver, with 690,000 square feet of office space and a 630-space underground parking garage.

Forest City Stapleton Inc. will begin construction in the first quarter of 2002 on The Town Square Building, a 168,000-square-foot, five-story office building to be built on the former Stapleton Airport site. Completion of the building and occupancy are planned for the first quarter of 2003.

Janus Capital Corporation abandoned its plans to build a 35-acre campus for up to 3,000 workers in the Lowry Business Park. Citing a decline in demand and increased automation, the mutual fund company decided it no longer needed the 800,000 to

**Figure 3. Office Vacancy Rates, 1990-2001 YTD**



Source: CB Commercial Real Estate Group. 2001 YTD figures are through the second quarter.

1.2 million square feet of offices it planned to build at Lowry.

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***“There were several large office complex developments announced during the past year.”***

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There were several large office complex developments announced during the past year. The Prairie Center in Brighton will bring over 8 million square feet of construction to a 1,400-acre site over the next 10 to 15 years. The site will include office, light-industrial, manufacturing, retail, and residential buildings, as well as almost 300 acres of open space. The early stages of the project will emphasize facilities that produce jobs as nearly 70% of Brighton’s residents currently commute to jobs outside of the city.

Construction began at the end of July on a new Aurora municipal building to open in early 2003. The \$66.5 million building will be 280,000 square feet and will consolidate most of the city’s offices, saving about \$450,000 a year in lease payments. Also in Aurora, TRW began construction in early August on a 103,800-square-foot office building to be built on 13.6 acres. Construction should be completed in about a year.

The construction of an interchange at Alameda Avenue and Interstate-225 is helping push the construction of two business parks on Sixth Avenue near the Aurora City Center. The first, Corporate Center 225, will be anchored by a \$23.5 million office complex. The second, Business Center 225, will have an \$8 million flex-space building. Both sites will have additional commercial building spaces available.

Several expansion projects began along the U.S. 36 corridor last year. Avaya Communications, formerly part of Lucent Technologies, announced an expansion at its Westminster facility by 480,000 square feet for a total campus size of 1.7 million square feet. Current plans may be cut back in light of the economic conditions for technology firms such as Avaya. However, across the street from the Avaya complex, North Ridge Investment purchased 105 acres to develop an estimated 1 million square feet of office space. North Ridge plans to develop the land

and sell some parcels to builders, keeping some land for an \$150 million anchor office project. Meanwhile, a 426,000-square-foot office park will be built at the site of the old Lange ski boot factory at U.S. 36 and 96<sup>th</sup> street in Broomfield. The first phase of the \$50 million, 23-acre development will be completed by the end of this year.

Douglas County continues to be a center for new office development. Transwestern Commercial Services and MONY Real Estate will team up on a 350,000-square-foot office development in the Compark Business Park. The project is adjacent to E-470 and initial construction will begin in late 2001 with initial occupancy occurring in mid-2002. Plans were also made for a new business center, the Prairie Trail Business Park, to be constructed on 7.92 acres at the Compark Business Campus. The plan consists of three buildings totaling 83,000 square feet which are expected to be completed by summer 2002.

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***“Douglas County continues to be a center for new office development.”***

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Shea Properties began construction on an 161,000-square-foot office complex in Highlands Ranch. Visa USA will occupy the building for its debit processing center. The \$24 million, 15.4-acre project includes a one-story, 50,000-square-foot data center and a three-story, 111,000-square-foot office building. Construction should be completed by mid-2002. White Lodging Services Corp. plans to build a \$39 million, 278-room Marriott Hotel in the Park Ridge Corporate Center. The six-story hotel will be on an 8-acre site with construction to begin late this summer. Upon completion in late 2002, the hotel will have a restaurant, fitness center, business offices, and 12,500 square feet of meeting space.

In order to consolidate its three offices in southeast Denver, CH2M Hill, an engineering firm, plans to construct a \$53 million corporate headquarters on a 17-acre site in the Meridian International Business Center. Construction of the two-building, 250,000-square-foot complex began in early August and should be completed by the end of 2002. Future plans may include three more office buildings on an additional 8 acres.

Several projects were announced in the hospital and health treatment sector in 2001. Centura Health announced plans to build a full-service hospital with up to 200 beds on 40 acres, located on the southeast corner of Parker Road and E-470, to be completed by 2004. Adjacent to the hospital will be 180,000 square feet of medical office space. Platte Valley Medical Center in Brighton plans to purchase property for an expansion at E-470 and I-76. Construction is proceeding on a \$38 million expansion of the Centura Health Littleton Adventist Hospital near C-470 and Broadway. HealthOne recently broke ground on a hospital at I-25 and Lincoln Avenue in Lone Tree with up to 335 beds, scheduled for completion in 2003.

900,000-square-foot hospital to be complete by 2006.

Construction will begin on the first of a 180,000-square-foot, three-building office complex in the Ken Caryl Business Park near C-470 southwest of Denver. Each building will be three stories and contain 60,000 square feet of office space.

A \$24 million, 174-room Embassy Suites Hotel will be built near DIA. The seven-story hotel will have a restaurant, business center, fitness center, 5,000 square feet of meeting space, and a 4,000-square-foot ballroom. The hotel should be open in late 2002.

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***“Several projects were announced in the hospital and health treatment sector in 2001.”***

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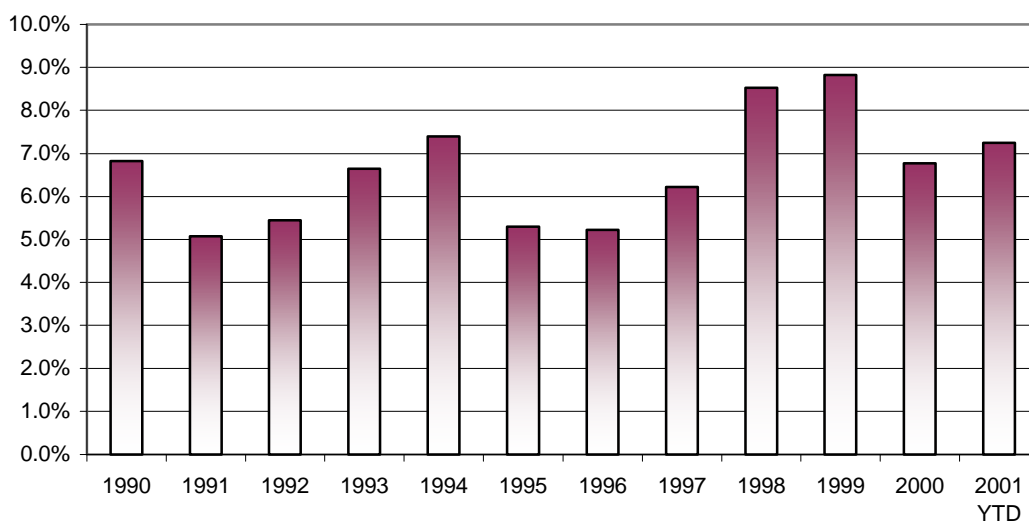
Another large infill project involved the move of the University of Colorado Hospital and Health Sciences Center to 217 acres at the old Fitzsimmons Army Hospital location. In September, the hospital began construction of a \$147 million, 12-story hospital. The Anschutz Inpatient Pavilion will be ready for use by late 2003. The University of Colorado will spend \$1.3 billion in the move over the next ten years. Recently, the Children's Hospital agreed to join CU, spending \$400 million to move its campus. It will begin construction in 2003 on a 270-bed,

**Industrial**

Denver’s industrial sector has also felt the impacts of the economic slowdown. The first half of 2001 saw 2 million square feet of space added to the market, according to Frederick Ross Research Services. About a third of this has remained vacant and absorption so far has been in negative territory. As a result, the vacancy rate, as measured by CB Commercial Real Estate Group, increased from 6.8% to 7.3% during the first six months of 2001.

According to F.W. Dodge, \$15.5 million in factory and warehouse construction was added to the metro area through September 2001. Although this repre-

**Figure 4. Industrial Vacancy Rates, 1990-2001 YTD**



Source: CB Commercial Real Estate Group. 2001 YTD figures are through the second quarter.

sents a similar number of projects, it is almost 50% more than the value added through September 2000.

### **Other Nonresidential Construction**

Mixed-use projects have been on the rise as large parcels became available for development, commensurate with the population growth in suburban areas. After five years of negotiations between the city of Thornton, Adams County, and Gateway American Properties, public hearings began on the annexation of 1,900 acres for residential and commercial development. The proposed annexation comes with a comprehensive plan including the construction of 5,000 homes, an 18-hole golf course and a 942-acre business park. The planned community, called Centricom-Colorado, will offer 1,500 single-family homes and 3,500 multi-family units. The business park will be accessible to E-470, which is nearing its final construction phase through Thornton. E-470 should be complete by June 2003.

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***“There were some significant infill redevelopment multi-use projects announced this year.”***

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There were some significant infill redevelopment multi-use projects announced this year. Lakewood announced the mixed-use redevelopment of the Villa Italia mall site featuring retail stores, office space, and residential. Lakewood envisions that the area will become the city’s downtown. Project completion could take as long as 10 years. The Lakewood City Common shopping area across from Villa Italia was completed earlier this year. Colfax Avenue will be revitalized with the Vance Street Promenade, a mixed-use development with apartments, townhomes, a park, movie theater, and retail and office space.

One of the largest mixed-use redevelopment areas continues to be the 4,700-acre Stapleton Airport in Denver. Last year, Forest City Corporation announced plans to construct 1.3 million square feet of retail and office space. In the first phase, over 800 single- and multi-family homes, the town center, and a retail center should be completed by 2003. Plans

were unveiled in June for the centerpiece of the redevelopment activities at the former Stapleton airport. An 80-acre park will anchor the over 1,100 planned acres of parks and open space. The \$44 million parks project will include a nature center, regional recreation and aquatic center, walking and biking trails, and plant nursery.

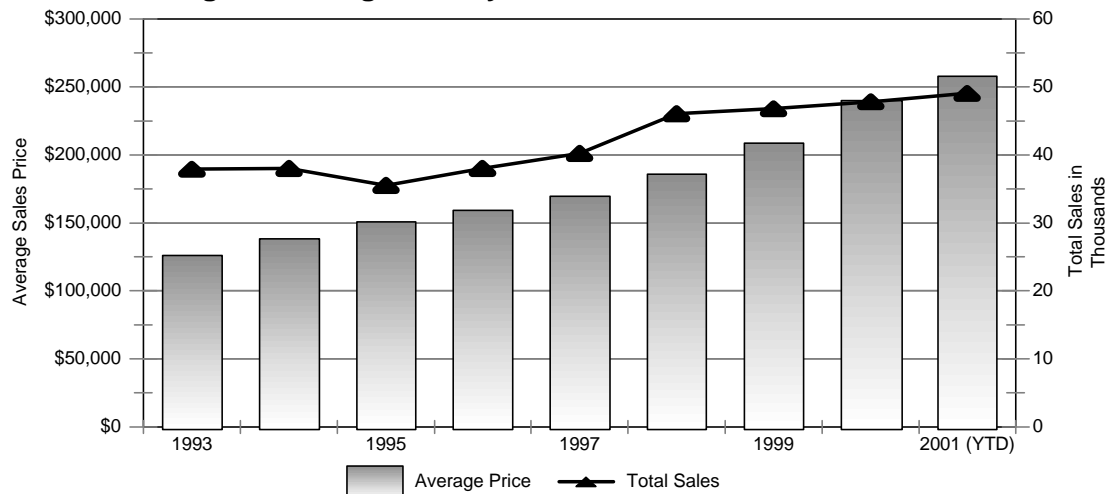
The \$110 million renovation of the Executive Tower Inn in downtown Denver will result in 130 condominium units and 321 luxury hotel rooms. Ten percent of the owned units will be made available to people making 80% of the median income. The Denver Urban Renewal Authority is expected to provide as much as \$20 million to subsidize the low-income residential plan. The project will be complete by late 2004, at which time it is expected the hotel will employ 250 workers, up from the current 50 to 75 workers.

The City of Denver also recently announced that it will pour \$22 million into the renovation of the Red Rocks Amphitheater in Morrison beginning in fall 2001. The project, to be completed by 2002, will include updating infrastructure and constructing a restaurant plaza above the seating area, as well as a new history and information center. Denver also opened its new South Platte River park system on July 30. The parks extend 1½ miles along the river from the Children’s Museum to North 20<sup>th</sup> Ave., and include hiking, biking, and skating trails amongst the seven current and future park spaces.

Crown Point, a 285-acre mixed-use development in Parker, is expected to be built over the next three to five years with a value of \$300 to \$350 million. The project, which will include Class A office space, lodging and retail space, and 660 multi-family residences, will have over 1.64 million square feet of space when completed.

Clear Creek Square in Golden will mix office, retail, and residential space into a pedestrian-friendly project near Coors Brewery. The \$25 million project on 5 acres will include 60,000 square feet of office space, 20,000 square feet of retail space, 72 residences, and 300 parking spaces. The office space will be occupied primarily by 250 employees of New Global Telecom, the developer of the project.

**Figure 5. Single Family Home Sales, 1993-2001 YTD**



Source: Coldwell Banker Residential Brokerage. Current year based on year-to-date through September.

The Westminster Building Authority and the Westminster City Council approved the development of a public safety center which will consist of a 73,000-square-foot, \$18.8 million facility that will house the Fire Department's administrative offices and the Police Department. Construction began in June and will be completed by November 2002. The Westminster City Council also approved the 120-acre Bradburn "New Urbanism" mixed-use project. The project will include 157,000 square feet of retail, office, and restaurant space, 805 residential units, public parks, and open space.

Brighton will be the home to a 1,400-acre mixed-use development that includes 3,000 housing units, 8-million-square-foot of offices, parks, and a major mall. Construction on Prairie Center will begin later this year beginning with water lines, roadways, and other infrastructure. The \$1 billion development should be complete within 10 to 20 years.

The northeast corridor to Denver International Airport is one of the few remaining available undeveloped areas in the city and county of Denver. Plots are becoming even more scarce as 1,300 acres were swallowed by a plan to create a mixed-use area of office, industrial, residential, and retail in the Parkfield Area of northeast Denver. Parkfield Partners also announced plans to develop 300 acres just southwest of the airport for residential and commercial uses. As many as 950 homes could be built.

## Residential Construction

According to the U.S. Bureau of the Census, the number of residential building permits for metro-Denver residences increased 3.7% through August 2001, compared with a 6.5% decrease in 2000. Adams, Arapahoe, and Denver counties, responsible for over 70% of metro area permits, had significantly increased activity in 2001 year-to-date, up 53.4%, 26.9% and 27.0% respectively. Meanwhile, Douglas, and Jefferson counties had decreases (-10.5% and -22.5%) through August.

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***"...the number of existing home sales in metro Denver was down 3.3% through September 2001..."***

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According to Coldwell Banker Residential Brokerage, the number of existing home sales in metro Denver was down 3.3% through September 2001, compared with the first three quarters of 2000. The median price of an existing single-family home in September 2001 was \$215,000, representing a 7.9% increase over September 2000. Until this year, strong demand and an income boom fueled rising home prices. Since incomes have tapered from employment and financial market woes, prices increases have somewhat settled and homes have stayed on the market longer. Figure 5 shows the trend in metro area single-family home average prices and number of properties closed.

According to a report by the Apartment Association of Metro Denver, the metro-area apartment vacancy rate topped at 6.8% in the third quarter 2001, the highest rate in 11 years. A year ago, the apartment vacancy rate was 3.7%. The average rent increased to \$827 in the third quarter, up 8.5% from a year ago. Douglas County had the highest average rent of \$1,040, while Denver had the lowest average rent of \$778.

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***“...the metro-area apartment vacancy rate topped at 6.8% in the third quarter 2001, the highest rate in 11 years.”***

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The Lowry Redevelopment Authority revealed plans to build 950 homes on 233 acres of the converted Lowry Air Force Base. Over the next three years, several projects will create a range of home types and prices. McStain Enterprises will build 400 homes, each around 1,000 square feet, in the \$125,000 to \$150,000 range. Stites Development will also build 18 duplexes with prices starting at \$200,000. Three developers will begin construction on another 270 homes with prices beginning in the high \$200,000s. Braiman Properties will offer 30 townhouses starting at \$300,000. There will also be several custom homes starting at \$500,000 and estate-size lots for homes priced at \$800,000 and higher. The Denver City Council recently approved a change to the plan involving 70 more townhomes priced from \$125,000 to \$150,000 and 24 single-family homes priced from \$400,000 to \$600,000.

First Creek Farm will represent one of the first high-density residential projects near Denver International Airport. The \$39 million development will include 320 condominium units on 16 acres. Prices will range from under \$100,000 for a one-bedroom unit to \$129,000 for a two-bedroom unit.

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***“There were several residential projects announced in the Central Platte Valley last year.”***

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There were several residential projects announced in the Central Platte Valley last year. Gart Properties announced an 152-unit, \$45 million project early in the year. Prices at the WaterTower Lofts will range

from \$150,000 to \$600,000 for each unit. Ninety-six of the units will be the result of the renovation of the 108-year old Benedict Warehouse. The remaining 56 units will be added in an adjacent building. Also in the Central Platte Valley, an \$105 million apartment project was proposed involving 643 units. The first phase is expected to be completed early in 2002. Another project began groundbreaking late last year, in which 266 studios and townhomes will become available by late 2002. The \$50 million project will offer apartment units with rents from \$1,100 to \$2,900 a month. Zoning requirements mandate that at least 37 of the units be affordable to families earning between 50% and 100% of the area's median income. The developer plans to eventually convert the apartments to owned condominiums.

In nearby lower downtown Denver, plans were announced for the ShoShone Lofts, a \$9 million, 29-unit complex at West 32<sup>nd</sup> Avenue and Shoshone Street. The units will range in size from 984 to 1,732 square feet, and will cost between \$220,000 and \$520,000. The first floor of the complex will include 40 parking spaces. The project is close to two separate condominium complexes currently under development — the \$30 million, 104-unit, Highland Crossing development and the \$12 million, 56-unit, Highland Terrace Lofts development.

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***“The former Fitzsimons Army Medical Center has several residential redevelopment projects.”***

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The former Fitzsimons Army Medical Center has several residential redevelopment projects. However the residential projects have not been as visible as the medical center projects. A \$45 million apartment complex will include 345 luxury units on 28 acres. The typical unit will rent for about \$1,200 per month and the project will include 40,000 square feet of retail space. The \$36 million Monterey Pointe Apartment project will include 176 one-bedroom units, 146 two-bedroom units, 32 three-bedroom units in 20 two- and three-story buildings. In addition, a 5,000-square-foot club house and 1,500-square-foot exercise center will be constructed.

DPC Development and C&A Holding announced a joint venture to build 500 multi-family units at the

1,400-acre Stonegate, near E-470 and Jordan Road in southeast metro Denver. The housing project, consisting of condominiums and townhomes, will take up 28 acres and units are expected to be sold for between \$100,000 to \$200,000. The project should be complete by mid-2002.

The Denver Housing Authority (DHA) announced a \$12.3 million residential development plan in Denver's East Village. The city will redevelop the existing residences and construct additional units. The existing low-income housing units will be maintained, while new units for market rate renters will be added. Up to \$1.5 million will be spent to bring the existing units up to code.

Plans were announced to start construction on two residential projects in the Denver neighborhoods of Whittier and Lincoln Park. The Lincoln Park project will convert a 20,000-square-foot warehouse into 32 studio condominiums. Units will range in size from 730 to 1,200 square feet and will range in price from \$130,000 to \$250,000. While these units are not designated as affordable housing, the developers hope to fill strong demand for homes priced under \$300,000. The Whittier development will offer 33 housing units and 10,000 square feet for retail space and parking. Each of the 33 units will be 1,000 square feet and will be priced from \$154,000 to \$300,000. Eight of the units will be offered through an affordable housing program administered by the Northeast Denver Housing Center.

As part of the ongoing redevelopment, the Lowry Redevelopment Authority agreed to allow higher density housing in order to accommodate an additional 37 units, nine of which will be affordable housing. Other affordable housing will be built just north of Commerce City through \$570,000 in funding approved by the Colorado Division of Housing. The 156-unit project, named Belle Creek, will be completed in May 2002.

## Summary

Metropolitan Denver continues to be the economic leader in Colorado. Accounting for over half of the state's employment, the metro area continues to lead the state in employment, specifically communications, advanced technologies, and construction. Recent economic downturns in financial markets have prompted mergers and acquisitions of large companies and bankruptcy filings among small startup companies in the region. The economy in the short-term is tenuous and is dependent upon financial markets to jumpstart business investment and consumer spending to ignite retail, tourism, and travel. Ultimately, however, Denver remains one of the fastest growing metropolitan areas in the country. Due to a growing diversity in economic sectors and a preference for a quality of life that balances open space, residential, and commercial development, metro Denver is poised to bounce back from the current slowdown and continue its vibrant growth.