

## Denver Metro Economic Summary

### Consumer spending driving Metro Denver's economic comeback

After numerous months of reserved spending, consumers are increasingly opening up their pocket books, according to data compiled by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its Monthly Economic Summary for May 2010.

According to the U.S. Bureau of Economic Analysis, household spending drove roughly 80 percent of the estimated first quarter growth in gross domestic product. Consumer confidence measures — while still below levels seen in a healthy economy — have improved, and a March gain in U.S. retail sales exceeded expectations.

Some of the robust year-over-year gains recently reported for retail metrics reflect the weakness of retail last spring, but many economists agree that the gains also show consumers' desire to start spending again.

"This mentality, however, could prove fickle unless hiring accelerates enough to reduce unemployment and boost incomes," stated Patricia Silverstein, chief economist for the Metro Denver EDC and president of Development Research Partners.

Metro Denver employers added 6,700 jobs between February and March. Like gains from prior months, though, the March gain was smaller than expected for this time of year. Revised unemployment figures show Metro Denver's unemployment rate measured 8.2 percent in March and in the prior two months.

However, the average weekly number of unemployment insurance claims filed in Metro Denver declined between February and March. The March average was the lowest reported for any month since October 2008, and the average number of

Metro Denver claims for the first quarter fell 21.7 percent below the average for the first quarter of 2009.

"In addition to retail sales and decreased unemployment claims, other fundamentals point to the fact that the economy is progressing. Consumers are increasingly buying houses as well as traveling," said Silverstein.

The number of homes sold in Metro Denver nearly doubled between February and March as local buyers rushed to take advantage of tax credits. The March sales total was 12.4 percent higher than last year's sales level, and the month's vigorous activity helped home sales rise 2.8 percent in the first quarter above sales from the first quarter of 2009.

Additionally, February passenger traffic at Denver International Airport rose 5.1 percent over-the-year. The higher February figure drove a four percent year-to-date increase in total passengers.

In another sign the economic rebound is imminent, Colorado was ranked as the nation's second-best state in economic outlook by the 2010 ALEC-Laffer State Economic Competitiveness Index.

Fourteen of 18 indicators moved in a positive annual direction this month, compared to 12 positive annual indicators in the previous report. Twelve indicators moved in a positive monthly direction, compared to thirteen indicators in the previous report.

### Consumer Sector

Metro Denver retail sales showed signs of improvement in early 2010. The region's total retail sales in January rose 0.5 percent above last year's sales total, and sales in five of the seven counties also increased

over-the-year. Statewide retail sales were still declining as of January, with sales for the month down 1.7 percent from the year-ago total.

The fundamentals in Metro Denver's hotel market continue to expand. The region's March average occupancy rate reached 58 percent, up from the year-ago level of 55.5 percent. The average occupancy rate for all of first quarter was 5.7 percent higher than the rate for the first quarter of 2009, although average room rates have yet to recover. The March average room rate (\$104.60) was 0.7 percent below the year-ago average, and the average rate for the entire first quarter was 4.1 percent lower than the average for the first quarter of 2009.

Stock markets ended an otherwise strong April on a weak note as first quarter estimates of GDP growth fell below some forecasts and financial market fraud investigations continued. Despite these challenges, the Bloomberg Colorado index showed a 19.8 percent gain year-to-date. Year-to-date gains for the major national indexes ranged from 5.6 percent for the Dow Jones Industrial average to 8.5 percent for the NASDAQ.

### Residential Real Estate

While many reports on home sales and prices have been positive, other data show foreclosures drifting higher. Metro Denver public trustees reported a 3.6 percent increase in foreclosure filings between the first quarters of 2009 and 2010.

The number of Metro Denver permits for single-family detached homes in February was nearly three times the total from February 2009, and the count of permits for condominiums and townhomes nearly doubled over-the-year.

Data from the Denver Metro Apartment Vacancy and Rent Survey show the region's average vacancy rate declined in the first quarter to 6.5 percent from 7.7 percent in the fourth quarter. The first quarter vacancy rate was also down nearly two percentage points from last year's level, and vacancy rates in the seven Metro Denver counties were down between one and three percentage points from vacancy rates for the first quarter of 2009.

### Commercial Real Estate

A first quarter Grubb & Ellis report suggests Metro Denver's office market is beginning to stabilize. Vacancy rates are still rising as corporate profits and the labor market continue to recover, but the pace of vacancy increases has slowed significantly. The decline in lease rates has also slowed and should be nearing bottom, particularly as property owners exhaust all available concessions. Overall, the report expects Metro Denver's office market will need 18 months to two years before vacancy and lease rates return to normal levels. In the meantime, Grubb & Ellis expects a diverse industry base — including aerospace, telecommunications, and other growing sectors — and continued interest from out-of-state companies will help the market rebound.

According to a first quarter report by Grubb & Ellis, Metro Denver's industrial market vacancy rates have outpaced the office market following each of the prior three recessions. The report expects the current recession will follow the same pattern and notes that the region's industrial market is already showing signs of strength. Metro Denver's industrial market vacancy rate declined in the first quarter, and low property prices have prompted many tenants to purchase space. These purchases, in turn, have helped drive positive absorption. Overall, the report expects Metro Denver will be one of the nation's most rapidly recovered industrial markets, although complete recovery for rental rates is likely several quarters away.

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