

Denver South Quarterly Economic Report - First Quarter

The Denver South Economic Development Partnership (Denver South EDP or DSEDP) Quarterly Economic Report is a comprehensive analysis of economic conditions in the region served by the Denver South EDP that includes the parts of Arapahoe, Denver, and Douglas Counties located along the south I-25 corridor. Data is reported for the Denver South region, which consists of eight zip codes (80111, 80112, 80124, 80126, 80129, 80130, 80134, and 80237), whenever possible. When zip code-level data is not available, the report may include data for cities, counties, metropolitan statistical areas, or broader geographies. The analysis includes four main sections: employment activity, consumer activity, residential real estate, and commercial real estate.

The Denver South region's economic picture continued to brighten in the first quarter. Persistent job gains and declining unemployment are indicative of the Denver South region's improving labor market, and several announcements of company relocations and expansions will boost future employment. Further, consumer sentiment rebounded and boosted the Denver South region's retail trade sales. Data also suggest that the Denver South region's housing market is strengthening. First quarter housing trends revealed an increase in existing home sales that mirrored housing trends across Metro Denver.¹ Building officials in many parts of the Denver South region also issued significantly more permits for condominiums, townhomes, and detached homes than they did one year prior. While the number of new foreclosure filings in the Denver South region decreased in the first quarter, new foreclosure inventory was shrinking at a much slower pace than last year. While there is still room for improvement, the Denver South region's commercial real estate markets continue to heal as vacancy rates are trending lower.

As the fragile economic recovery continues, the biggest risks for the Denver South region's economic expansion and growth include the European debt crisis, slow economic growth in some of the world's stronger economies including China and Brazil, and uncertainty around U.S. political and fiscal issues. While many businesses remain cautious about hiring and uncertain about the future, the Denver South region's economic recovery is gaining traction.

Denver South EDP Economic Headlines

- The TriZetto Group Inc., a healthcare information technology company, is building a 165,000-square-foot headquarters in Douglas County's Meridian International Business Center. Company spokespeople say TriZetto will move from its current headquarters in Greenwood Village to accommodate growth, and they expect the company will add up to 750 jobs at the new headquarters over the next five years. The new facility will open in early 2013.
- Blockbuster spokespeople say the video rental chain – purchased last year by Douglas County-based DISH Network – will relocate from Texas to the DISH campus this summer. The move will reportedly create 150 management jobs, some of which may be filled by relocating Blockbuster employees. Company spokespeople say the move will allow DISH and Blockbuster to better leverage their resources.

¹ Throughout this report, Metro Denver refers to the region consisting of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties.

- The Wings Over the Rockies Air and Space Museum unveiled plans for the Exploration of Flight facility at Centennial Airport. The Exploration of Flight will focus on the future of aerospace and aviation research and provide flight- and experience-based activities, including observation decks and a flight tower. Building completion is slated for mid-2015.
- Clean coal technology company ADA-ES Inc. relocated its Littleton headquarters to Highlands Ranch to accommodate recent rapid growth. The company plans to hire additional staff to expand its various control technologies to meet new regulations imposed by the Environmental Protection Agency.
- Spokespeople for HealthONE's Sky Ridge Medical Center in Lone Tree recently unveiled plans for a 90-bed expansion. The \$107 million project will also include a new parking structure, operating rooms, and a women's health center.
- Nebraska-based outdoor retailer Cabela's Inc. will begin work this fall on its first of two Metro Denver stores, one of which will be located at Interstate 25 and RidgeGate Parkway in Lone Tree. The 110,000-square-foot store will open next year and is expected to employ 150 workers.
- Children's Hospital Colorado broke ground on a new \$100 million South Campus in Highlands Ranch. The South Campus is slated for completion in late 2013 and will include an emergency room, diagnostic equipment, various clinics, and inpatient and outpatient facilities. Spokespeople for the hospital say they will consolidate their existing south Metro Denver facilities to the South Campus including their Outpatient Specialty Care and Orthopedic Care clinics in Centennial and the Center for Cancer and Blood Disorders and the Outpatient Specialty and Therapy Care centers in Littleton.

Employment Activity

- The picture of local employment trends improved significantly when analysts released a scheduled revision to employment data in March. The revised data show Metro Denver's employment recovery has occurred more quickly than preliminary data suggested, and job growth accelerated between the fourth quarter of 2011 and the first quarter of 2012. Specifically, Metro Denver employment in the first quarter was up 2.3 percent over-the-year, while fourth quarter employment was up 1.6 percent. Jobs in natural resources and construction, wholesale and retail trade, professional and business services, and education and health services accounted for the vast majority of Metro Denver's total employment gain between the first quarters of 2011 and 2012.

Total statewide employment in the first quarter was up 2.1 percent over-the-year, and employment nationwide was up 1.6 percent. (Sources: Colorado Department of Labor and Employment, Labor Market Information, Current Employment Statistics (CES); U.S. Bureau of Labor Statistics.)

- Covered² employment data suggests employment in the Denver South region continued to gain momentum in the fourth quarter of 2011. Total fourth quarter employment was four percent higher than employment reported one year earlier. Twelve of the Denver South region's 13 industry supersectors recorded job growth that was higher than year-ago levels and professional and business services – the largest supersector in the region – expanded 3.4 percent over-the-year. Notably, job growth was highest in two of the Denver South region's smaller industries: mining and logging (+22.6 percent) and manufacturing (+10.6 percent). The only sector to report fourth quarter employment below year-ago levels was government (-0.4 percent).

Like the Denver South region, Metro Denver's job growth accelerated in the fourth quarter of 2011. Total Metro Denver covered employment in the fourth quarter was 2.2 percent higher than employment reported one year earlier. The transportation, warehousing, and utilities industry was the only metro-wide sector to shed jobs in the fourth quarter of 2011 (-1.0 percent), while job counts in 12 of the region's 13 supersectors were higher than year-ago levels. Jobs in professional and business services, education and health services, leisure and hospitality, and retail trade accounted for the vast majority of Metro Denver's total employment gain between the fourth quarters of 2010 and 2011. (Source: Colorado Department of Labor and Employment, Labor Market Information, Quarterly Census of Employment and Wages (QCEW).)

	<u>DSEDP Region</u>		<u>Metro Denver</u>	
	4Q11 Total	Yr/Yr % Change	4Q11 Total	Yr/Yr % Change
Total All Industries	188,347	4.0%	1,356,352	2.2%
Private Sector				
Mining & Logging	1,320	22.6%	12,150	10.2%
Construction	7,443	0.3%	63,500	0.1%
Manufacturing	3,908	10.6%	78,409	2.1%
Wholesale Trade	11,477	5.8%	67,960	2.0%
Retail Trade	17,434	7.5%	142,194	2.2%
Transportation, Warehousing, and Utilities*	2,081	0.1%	45,243	-1.0%
Information	19,356	3.6%	53,339	0.0%
Financial Activities	31,729	3.9%	95,235	0.6%
Professional & Business Services	44,955	3.4%	243,452	4.4%
Education & Health Services	15,487	6.4%	168,806	3.8%
Leisure & Hospitality	16,953	2.0%	142,830	2.9%
Other Services	4,013	2.8%	40,862	2.2%
Government*	12,168	-0.4%	200,928	0.1%

Some data for this industry are suppressed to protect confidentiality. As a result, year-over-year growth comparisons may be distorted.

Note: Industry data may not add to all-industry total due to rounding, suppressed data, and employment that cannot be assigned to an industry.

Source: Colorado Department of Labor and Employment, Labor Market Information, QCEW.

² Jobs covered by unemployment insurance as reported in the QCEW. These positions represent the vast majority of total employment, although the self-employed, some agricultural workers, some domestic workers, and several other categories workers are excluded. This data series lags the CES series by about six months and is available for the nation, states, MSAs, and counties.

- The first quarter unemployment rate in the Denver South region’s city of Centennial was 7.7 percent. This rate was roughly one percentage point below the national average and was below the first quarter average for seven-county Metro Denver (eight percent). The labor force in Centennial grew between the first quarters of 2011 and 2012, and the ranks of the unemployed shrank. First quarter unemployment in the city and county of Denver was 9.1 percent and was above the metro-wide and nationwide averages. Higher-than-average unemployment rates are common in central cities.

Unemployment Rates

	1Q2012	1Q2011
Arapahoe County	8.0%	8.7%
Centennial	7.7%	8.5%
City & County of Denver	9.1%	9.9%
Douglas County	6.2%	6.8%
Metro Denver	8.0%	8.8%
Colorado	8.3%	9.0%
U.S.	8.6%	9.5%

Sources: Colorado Department of Labor and Employment, Labor Market Information; U.S. Bureau of Labor Statistics.

The statewide unemployment rate in the first quarter (8.3 percent) was down seven-tenths of a percentage point over-the-year. *(Note: Centennial and Denver are the only cities in the Denver South region for which the U.S. Bureau of Labor Statistics publishes unemployment data. Sources: Colorado Department of Labor and Employment, Labor Market Information; U.S. Bureau of Labor Statistics.)*

- Results of the most recent Manpower Employment Outlook Survey suggest more U.S. employers will add jobs in the second quarter than added positions during the first three months of the year. Eighteen percent of employers that participated in the survey said they would hire between April and June, while 14 percent said they would hire in last quarter’s survey and 16 percent reported hiring plans in the year-ago survey. Well more than two-thirds said they would maintain current staffing levels.

The share of Metro Denver employers that plan to maintain current staffing levels is also quite high. In fact, the share with no plans for hiring or firing in the second quarter (78 percent) was the highest share reported since at least the third quarter of 2000. This inertia, however, is not an entirely bad sign: the survey data suggest more employers may be abandoning plans for layoffs in favor of a “wait-and-see” approach to staffing. Eighteen percent of Metro Denver employers that participated in the most recent *Manpower Survey* said they would hire in the second quarter. *(Source: Manpower Inc.)*

Consumer Activity

- While weak job growth and an unstable global economy left consumers worried in late 2011, their confidence rebounded in the first quarter to levels not seen since 2008. The Conference Board's Consumer Confidence Index reading for the first quarter (67.5) exceeded the reading reported one year prior (66.9) and was almost 26 percent higher than the index level reported during the fourth quarter of 2011.

The average first quarter 2012 reading for the Mountain Region index (72.8) was almost 49 percent higher than the fourth quarter reading and was up 10 percent over-the-year. (*Source: The Conference Board.*)

- Fourth quarter retail trade sales in the Denver South region's principal cities were anywhere from 0.7 percent below to 9.7 percent above year-ago levels. (*Note that changes in the tax base – such as store openings or closings – can cause unusual fluctuations in sales for these smaller geographies.*)

Retail Trade Sales by Industry & Municipality, Fourth Quarter 2011

Sales in \$000s					
Industry	Centennial	Greenwood Village	Highlands Ranch	Lone Tree	Metro Denver
Motor Vehicles & Auto Parts	180,981	8,172		36,570	2,038,068
Furniture & Home Furnishings	16,079	2,084	3,500	21,940	352,409
Electronics & Appliance Stores	13,233	5,133	1,479	32,370	428,961
Building Materials & Nurseries	48,484	11,048			627,931
Food & Beverage Stores	95,671	38,998	56,967	12,491	2,337,697
Health & Personal Care Stores	13,819	695	12,558	10,141	422,556
Service Stations	9,772	5,569	9,209		654,543
Clothing & Accessory Stores	14,314	17,215	5,906	88,586	696,497
Sports Goods, Hobby, Book & Music Stores	9,370	6,288	3,701	21,703	412,023
General Merchandisers & Warehouse Stores	29,326		50,130	129,415	1,829,210
Miscellaneous Stores	14,900	16,163	8,550	6,802	552,990
Non-Store Retailers	3,859		1,726	493	232,760
Food & Drinking Services	30,416	37,259	21,388	35,923	1,350,623
Total Retail Trade Sales, 4Q2011	480,224	201,544	212,279	371,171	11,936,277
<i>Total Retail Trade Sales, 4Q2010</i>	<i>461,729</i>	<i>183,733</i>	<i>194,426</i>	<i>373,704</i>	<i>11,365,672</i>

Note: Data for blank categories are suppressed to maintain confidentiality.

Source: Colorado Department of Revenue.

- Centennial:** Fourth quarter sales in the city's two largest retail trade categories, auto dealers and grocery stores, were up 15.8 percent and 4.2 percent over-the-year, respectively. Total sales for the city rose four percent over-the-year.
- Greenwood Village:** Sales in the city's two largest retail trade categories, grocery stores and restaurants, were up 8.6 percent over-the-year. Total citywide sales rose 9.7 percent over-the-year.

- **Highlands Ranch:** Sales in the two largest categories, grocery stores and general merchandisers, were up 4.2 percent and 2.6 percent over-the-year, respectively. Total sales rose 9.2 percent over-the-year.
- **Lone Tree:** Sales in the city's two largest retail trade categories, general merchandisers and clothing and accessory stores, rose 7.4 percent and 16.2 percent over-the-year, respectively. Total sales fell 0.7 percent over-the-year.

Total retail trade sales throughout seven-county Metro Denver were five percent higher in the fourth quarter than they were one year prior. (*Source: Colorado Department of Revenue.*)

- First quarter hotel occupancy in the South and Southeast Denver submarket – which includes several suburban areas and the I-225 corridor – was higher in the first quarter (56.8 percent) than it was one year prior (55.3 percent). The first quarter average nightly room rate (\$98.13) was up 0.8 percent over-the-year.

The first quarter average room rate across Metro Denver (\$104.08) was up 1.2 percent over-the-year, and the average occupancy rate for the quarter (60.2 percent) was up seven-tenths of a percentage point. (*Source: Colorado Hotel and Lodging Association, Rocky Mountain Lodging Report.*)

Residential Real Estate

- The total count of existing homes sold in the Denver South region during the first quarter (765) was three percent higher than the count sold one year prior. First quarter condominium sales were unchanged over-the-year, but sales of detached homes were up 3.9 percent. The first quarter average sales price for condominiums in the Denver South region (\$182,479) was 1.9 percent lower than the year-ago average, but the first quarter average detached home price (\$357,267) was up 5.1 percent over-the-year.

The total count of existing homes sold throughout seven-county Metro Denver during the first quarter (7,626) was up 10.3 percent over-the-year. The region-wide average condominium sales price (\$181,402) was 8.1 percent higher than the year-ago average, while the average detached home price (\$286,836) was up 1.4 percent. (*Source: Colorado Comps.*)

Existing Home Sales in the Denver South Region, First Quarter 2012

	Denver South Region			Metro Denver		
	1Q2012	1Q2011	Yr/Yr % Ch	1Q2012	1Q2011	Yr/Yr % Ch
Condominiums/Townhomes						
Sold During Quarter	175	175	0.0%	1,775	1,547	14.7%
Average Sales Price	\$182,479	\$186,103	-1.9%	\$181,402	\$167,813	8.1%
Average Price per Sq. Ft. *	\$130	\$134	-2.6%	\$149	\$139	7.4%
Detached Single-Family Homes						
Sold During Quarter	590	568	3.9%	5,851	5,364	9.1%
Average Sales Price	\$357,267	\$339,824	5.1%	\$286,836	\$282,891	1.4%
Average Price per Sq. Ft. *	\$153	\$150	1.8%	\$157	\$154	1.9%
Total Home Sales	765	743	3.0%	7,626	6,911	10.3%

*Note: Data could include a small number of new home sales.
*Excludes homes where total square footage was not reported.
Source: Colorado Comps.*

- The pace of improvement in foreclosure filing activity slowed considerably in the first quarter. The total number of new filings in Arapahoe County (979) was down just 1.1 percent over-the-year, and the filings total in Douglas County (434) was down 5.2 percent. Just one year earlier, filings totals in the two counties were down 33.6 percent and 30.1 percent over-the-year, respectively. A multi-year trend of falling foreclosure totals actually reversed itself in the City and County of Denver in the first quarter: the county's new filings count (841) was 1.3 percent higher than the count reported one year prior.

In each of the three counties, monthly foreclosure filings totals were climbing by the end of the first quarter. While not encouraging, these increases were partly expected: because the largest lawsuits against lenders are now resolved, many are proceeding with the backlog of filings they accumulated in 2011.

Like filings in the Denver South region, monthly new foreclosure filings throughout Metro Denver were rising as first quarter ended. The total metro-wide count of new filings reported in the first quarter (4,105) was 1.8 percent lower than the total reported one year earlier. (Source: Colorado Division of Housing.)

- Officials in many parts of the Denver South region issued more residential building permits in the first quarter of 2012 than they did one year prior. This was particularly true in Lone Tree and unincorporated Douglas County, where first quarter permit counts were more than double the counts reported one year prior. In both Lone Tree and unincorporated Douglas County, new apartment projects accounted for the vast majority of the increase in permit issuance between the first quarters of 2011 and 2012. First quarter permit issuance in both Centennial and Greenwood Village was limited, as it was in the first quarter of 2011.

Building officials throughout Metro Denver issued 40 percent more permits for residential construction in the first quarter than they did one year prior. The count of permits issued for detached homes was up 44.4 percent over-the-year, the count issued for condominiums and townhomes rose 27.3 percent, and the count issued for apartments rose 34.8 percent. These significant gains suggest the housing market continues to recover, but note that total permit issuance in the first quarter was still only a fraction of the first quarter issuance that was typical before the recession. (Source: Home Builders Association of Metro Denver.)

Residential Building Permits for Cities Included in the Denver South Region First Quarter 2012

Area	Single Family			Total Residential Permits	
	Detached	Attached	Multi-Family	1Q2012	1Q2011
Centennial	6	-	-	6	7
Greenwood Village	-	-	-	-	1
Lone Tree	6	30	36	72	27
Douglas County*	70	32	60	162	78
City & County of Denver	173	56	87	316	390
Metro Denver	1,038	191	329	1,558	1,113

Note: Permit counts are for entire cities, not just the portion included in the Denver South region.

*Data for the unincorporated portion of Douglas County, much of which is Highlands Ranch.

Source: Home Builders Association of Metro Denver.

- First quarter apartment vacancy rates varied across the Denver South region. Vacancy in northern Douglas County (five percent) was fourth-tenths of a percentage point below the year-ago rate, while vacancy rates in southern Arapahoe County (3.9 percent) and far southeast Denver (5.6 percent) were higher than rates reported for the first quarter of 2011. First quarter average monthly rents in the region ranged from \$872 in far southeast Denver to \$1,121 in northern Douglas County.

Average first quarter rent across Metro Denver (\$953) rose 4.5 percent over-the-year as first quarter vacancy fell to a level (4.9) that was the lowest reported for a first quarter since 2001. (Source: Apartment Association of Metro Denver, Denver Metro Apartment Vacancy and Rent Survey.)

Apartment Vacancy Rates and Average Rents

	Vacancy		Avg. Rent
	1Q2012	1Q2011	1Q2012
Arapahoe County	6.3%	6.4%	\$910
Arapahoe County - South	3.9%	2.8%	\$1,049
City & County of Denver	4.2%	4.8%	\$973
Denver - Far Southeast	5.6%	4.3%	\$872
Douglas County	4.9%	5.3%	\$1,110
Douglas County - North	5.0%	5.4%	\$1,121
Metro Denver	4.9%	5.5%	\$953

Source: Apartment Association of Metro Denver, Denver Metro Apartment Vacancy and Rent Survey.

Commercial Real Estate

Note: lease rates for industrial, flex, and retail property are triple-net; office rates are full-service.

- Direct vacancy in the Denver South office market declined for the fourth consecutive time in the first quarter. The first quarter vacancy rate (14.2 percent) was still noticeably above the 12 percent rate reported just before the recession began but was down almost one-and-a-half percentage points over-the-year. The first quarter direct average lease rate (\$19.51 per square foot) was up 2.5 percent over-the-year after several quarters of modest increases.

The Metro Denver direct average lease rate in the first quarter (\$19.82 per square foot) was down 0.4 percent over-the-year, but the direct office market vacancy rate fell to 12.6 percent in the first quarter from 13.2 percent in the first quarter of 2011. (*Source: CoStar Realty Information, Inc.*)

- After several quarters of positive net absorption, first quarter direct average vacancy in the Denver South industrial market (4.6 percent) fell to a pre-recession level. While the first quarter direct average lease rate (\$7.01 per square foot) was more than 10 percent below pre-recession rates, it was up 1.7 percent over-the-year.

A slight increase in Metro Denver industrial vacancy over the past year has kept downward pressure on lease rates: the first quarter direct average rate (\$4.55 per square foot) was 3.2 percent lower than the year-ago average. The region-wide direct vacancy rate in the first quarter (6.3 percent) was slightly higher than the year-ago average rate (6.2 percent). (*Source: CoStar Realty Information, Inc.*)

- The first quarter direct vacancy rate in the Denver South flex market (14.5 percent) was down almost two percentage points over-the-year and was close to rates reported just before the recession began. Lease rates, however, have been slow to respond to lower vacancy: the first quarter direct average rate (\$8.62 per square foot) was down 0.8 percent over-the-year and was more than eight percent lower than the average reported before the recession started.

The first quarter direct average lease rate for flex property throughout Metro Denver (\$8.94 per square foot) was essentially unchanged from the year-ago average. Direct vacancy in the region-wide flex market fell to 13 percent in the first quarter from 13.8 percent in the first quarter of 2011. *(Source: CoStar Realty Information, Inc.)*

- Denver South's direct retail market vacancy rate in the first quarter (6.2 percent) was eight-tenths of a percentage point below the year-ago average but was still noticeably higher than the rates – between four and 5.5 percent – common before the recession. Likewise, lease rates have yet to return to pre-recession highs. The first quarter direct average rate (\$19.20 per square foot) was up 5.8 percent over-the-year but was more than 15 percent lower than the pre-recession peak rate (\$22.62 per square foot).

The first quarter direct average lease rate for retail property throughout Metro Denver (\$14.79 per square foot) was up 0.5 percent over-the-year. The first quarter vacancy rate, however, fell almost a full percentage point to 6.8 percent from 7.7 percent in the first quarter of 2011. *(Source: CoStar Realty Information, Inc.)*

Denver South Region Commercial Vacancy and Lease Rates by Property Type

		Total Existing Square Footage (Millions of sq. ft.)		Vacancy Rate		Ave. Lease Rate (per sq. ft.)	
		1Q2012	1Q2011	1Q2012	1Q2011	1Q2012	1Q2011
Office	DSEDP Region	40.7	40.7	14.2%	15.6%	\$19.51	\$19.03
	Metro Denver	169.0	168.5	12.6%	13.2%	\$19.82	\$19.90
Industrial	DSEDP Region	9.6	9.6	4.6%	5.6%	\$7.01	\$6.89
	Metro Denver	223.3	222.9	6.3%	6.2%	\$4.55	\$4.70
Flex	DSEDP Region	7.8%	7.8%	14.5%	16.4%	\$8.62	\$8.69
	Metro Denver	39.1	39.1	13.0%	13.8%	\$8.94	\$8.93
Retail	DSEDP Region	18.0	17.6	6.2%	7.0%	\$19.20	\$18.15
	Metro Denver	160.9	159.9	6.8%	7.7%	\$14.79	\$14.71

Notes: Vacancy rate and average lease rate are for direct space only (excludes sublet space).

Industrial, flex, and retail lease rates are triple-net; office rates are full-service.

Source: CoStar Realty Information, Inc.

Nonresidential Development Activity

- Several non-residential construction projects were either planned or underway in the Denver South region as of early 2012. They included:
 - The 60,000-square-foot Hampton Inn and Suites in Lone Tree will include 76 standard rooms and 30 suites, a swimming pool, fitness facility, and lounge. Developers say the hotel will be completed in late 2012 and will service the expanding RidgeGate community and the growing Sky Ridge Medical Center.
 - Construction on the 55,400-square-foot space is transforming the site of the former Country Dinner Playhouse in Greenwood Village to Restaurant Depot. Restaurant Depot is a wholesale cash and carry foodservice supplier and will serve restaurants, non-profit groups, and other business owners. The facility will create 60 new jobs when it opens in the summer of 2012.
 - More than 17,000 square feet of retail space in three buildings is under construction on Sergeant Jon Stiles Drive. Legend Retail Group is leading the projects, which will offer various spaces for retail tenants.
 - Builders have broken ground on the new 5,000-square-foot Denny's Restaurant in the Highlands Ranch Town Center North retail center. The center is anchored by Super Target and includes ample parking, pedestrian walkways, and convenient access to other retailers.

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