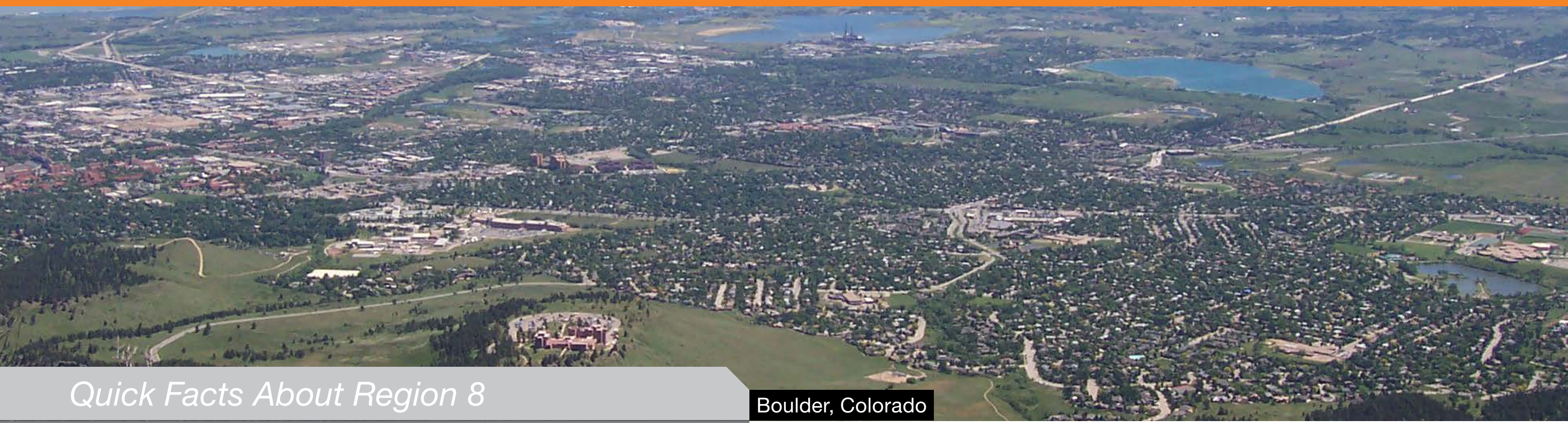
HUD PD&R Regional Reports

Region 8: Rocky Mountain

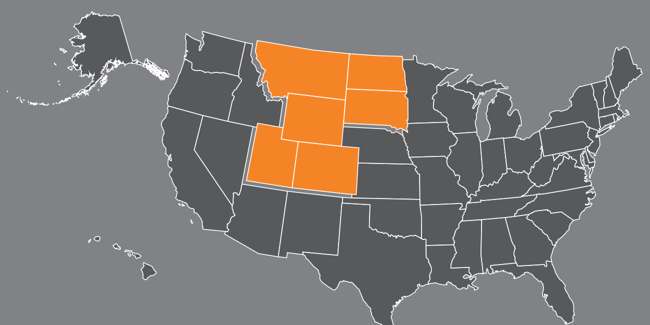

Boulder, Colorado

By James Conner | 2nd quarter 2017

Quick Facts About Region 8

- **Sales market conditions—**
  - Second quarter 2017: tight.
  - First quarter 2017: tight.
  - Second quarter 2016: tight.

- **Apartment market conditions—**
  - Second quarter 2017: mixed (slightly soft to slightly tight).
  - First quarter 2017: mixed (slightly soft to slightly tight).
  - Second quarter 2016: mixed (soft to tight).



Overview

The economy in the Rocky Mountain region continued to expand in the second quarter of 2017, with nonfarm payrolls increasing by 113,600 jobs, or 2.0 percent, from a year ago. This increase was stronger than the 1.6-percent average annual growth during the preceding 6 quarters but weaker than the 2.8-percent average annual growth during 2012 through 2014. Payrolls in the energy industry recently stabilized after 2 years of job losses caused by oil price declines. Job growth in the region was strongest in the professional and business services, the education and health services, and the leisure and hospitality sectors. Home sales market conditions remained tight in the region, with most metropolitan areas having low inventories of homes for sale and strong home price appreciation. Apartment conditions in the region softened somewhat because of increased apartment completions, but absorption remained strong, and vacancies increased only modestly. Apartment market conditions ranged from slightly soft to slightly tight in most major metropolitan areas in the region. Based on the number of housing units permitted, residential construction in the region during the second quarter of 2017 was up 1 percent from a year ago, with a decline in multifamily construction more than offset by an increase in single-family construction.

- The education and health services, the professional and business services, and the leisure and hospitality sectors accounted for more than 50 percent of the payroll growth in the region, increasing by a combined 59,500 jobs, or 2.8 percent.

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- Home price increases ranged from 6 to 10 percent in most metropolitan areas in the region, but sales declined or remained flat throughout much of the region, in part, because of limited supplies of homes for sale.
- Apartment vacancy rates were up in many metropolitan areas in the region, but the increases were typically less than 1 percent. The recent additions to the apartment supply caused rent growth to moderate, however.
- Multifamily permitting was down 11 percent from a year earlier in the second quarter of 2017, following 5 quarters of strong year-over-year increases in multifamily construction; however, single-family permitting in the region was up nearly 10 percent from a year ago.

Economic Conditions

The economy in the Rocky Mountain region grew at a strong pace in the second quarter of 2017. Nonfarm payrolls were up by 113,600 jobs, or 2.0 percent, from a year earlier, to 5.76 million jobs. This increase was an improvement from the 1.6-percent average annual growth during the previous 6 quarters, and the difference was largely because of job gains in the energy industry, which had been losing jobs until recently. In the second quarter of 2017, payrolls in the mining and logging subsector in the region were up by approximately 2,200 jobs, or 2.8 percent, from a year earlier. By contrast, from the second quarter of 2015 through the first quarter of 2017, payroll declines in the subsector averaged nearly 21,000 jobs, or 19 percent, a year. Oil prices peaked in mid-2014 at nearly $106 a barrel but subsequently fell sharply; oil prices stabilized in the past 12 months at nearly $50 a barrel (U.S. Energy Information Administration).

Every payroll sector in the region increased in the second quarter of 2017, but the greatest job gains continued to be concentrated in the professional and business services, the education and health services, and the leisure and hospitality sectors, which added 23,700, 19,000, and 16,800 jobs, or 3.2, 2.5, and 2.6 percent, respectively, from a year ago. The University of Colorado Health System (UCHealth) recently announced plans to hire 200 healthcare providers to coincide with the opening of two new hospitals in Broomfield and Colorado Springs. In Deadwood, South Dakota, Cadillac Jack's Gaming Resort recently broke ground on a $28 million expansion that will include 108 hotel rooms. Hiring remained strong in the region despite tight labor market conditions in some states. The unemployment rate in the region was 2.9 percent in the second quarter of 2017, down from 3.6 percent a year earlier.

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Job growth in the Rocky Mountain region strengthened in the second quarter of 2017, with payroll gains occurring in every nonfarm sector.

	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,642.8	5,756.4	113.6	2.0
Goods-producing sectors	789.1	800.5	11.4	1.4
Mining, logging, and construction	426.4	435.9	9.5	2.2
Mining and logging	77.4	79.6	2.2	2.8
Construction	349.0	356.3	7.3	2.1
Manufacturing	362.7	364.7	2.0	0.6
Service-providing sectors	4,853.6	4,955.9	102.3	2.1
Wholesale and retail trade	850.3	864.4	14.1	1.7
Transportation and utilities	204.4	209.6	5.2	2.5
Information	130.7	131.6	0.9	0.7
Financial activities	331.3	337.8	6.5	2.0
Professional and business services	731.5	755.2	23.7	3.2
Education and health services	748.2	767.2	19.0	2.5
Leisure and hospitality	648.3	665.1	16.8	2.6
Other services	206.7	211.8	5.1	2.5
Government	1,002.2	1,013.2	11.0	1.1

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

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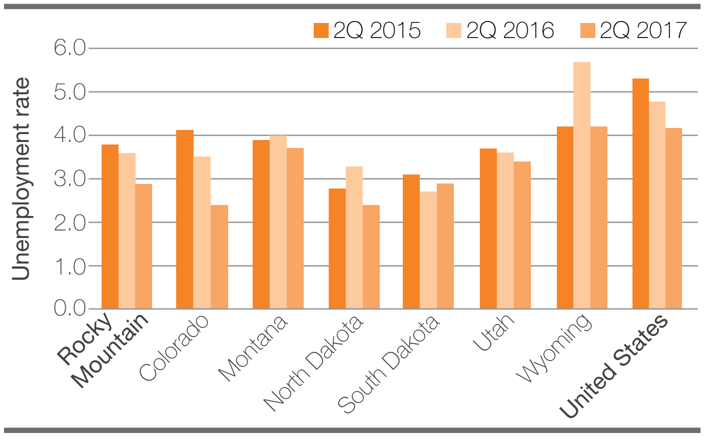
Within the region, the state unemployment rates ranged from 2.4 percent in Colorado—the lowest rate in the nation—to 4.2 percent in Wyoming. All states in the region had unemployment rates at or below the national average rate of 4.2 percent.

During the second quarter of 2017—

- Nonfarm payrolls in Colorado were up by 52,800 jobs, or 2.0 percent, from a year earlier, led by gains in the professional and business services and the leisure and hospitality sectors of 11,300 and 9,400 jobs, or 2.8 and 2.9 percent, respectively. Demand for office space increased strongly; office construction projects under way in Colorado in the second quarter of 2017 totaled more than $2 billion, nearly double the amount under construction in the second quarter of 2016 (CBRE).
- Utah had the second highest rate of job growth in the nation, with nonfarm payrolls increasing by 47,600 jobs, or 3.3 percent, from a year earlier, led by gains in the professional and business services and the wholesale and retail trade sectors of 10,800 and 7,900 jobs, or 5.4, and 3.7 percent, respectively.
- In Montana, South Dakota, and North Dakota, job growth was moderate, with payrolls increasing by 7,400, 5,100, and 4,600 jobs, or 1.6, 1.2, and 1.1 percent, respectively, from a year ago. In Montana, the education and health services sector increased by 3,000 jobs, or 4.1 percent. In South Dakota, the leisure and hospitality sector increased by 2,200 jobs, or 4.6 percent, but the manufacturing sector declined by 800 jobs, or 1.9 percent. In North Dakota, payrolls in the mining and logging subsector were up by 2,600 jobs, or 17.7 percent, but payrolls declined in the manufacturing and the wholesale and retail trade sectors by 500 and 2,400 jobs, or 2.0 and 3.2 percent, respectively.
- In Wyoming, nonfarm payrolls were down by 3,800 jobs, or 1.3 percent. Mining and logging subsector payrolls were up by 1,200 jobs, or 6.5 percent, but these gains were offset by decreases in the wholesale and retail trade and the professional and business services sectors of 1,200 and 800 jobs, or 3.1 and 4.5 percent, respectively.

Labor market conditions remained tight as the unemployment rate in the Rocky Mountain region fell below 3 percent in the second quarter of 2017.



2Q = second quarter.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Home sales market conditions in the Rocky Mountain region remained tight in the second quarter of 2017. Home price appreciation was strong, but sales decreased in some metropolitan areas because of a limited supply of homes for sale. In the Denver metropolitan area, the number of active home listings represented 1.8 months of supply in June 2017, down from 2.7 months of supply a year earlier (Colorado Association of Realtors®). Home prices during the 12 months ending June 2017 averaged about $410,500, up 9 percent from a year earlier, and sales were up 4 percent to approximately 62,600 homes sold. In the Salt Lake City metropolitan area, active listings represented 2.1 months of supply in June 2017, down from 2.6 months of supply a year earlier (Utah Association of Realtors®). Home prices during the 12 months ending June 2017 averaged $320,900, up 9 percent from a year earlier, but home sales declined 3 percent to 17,150 homes sold. The Colorado Springs metropolitan area had a 1.2-month supply of homes for sale in June 2017, down from a 1.5-month supply a year earlier (Pikes Peak Association of Realtors®). Home prices during the 12 months ending June 2017 averaged $282,100, up 10 percent from a year earlier, and sales increased 7 percent to about 20,200 homes sold. In the region overall, home prices during the 12 months ending June 2017 averaged nearly $319,000, up 6 percent from a year earlier, but home sales remained essentially flat, at approximately 281,800 homes sold (CoreLogic, Inc., with adjustments by the analyst). Colorado and Utah had the greatest home price increases in the region, up 7 and 6 percent, to about $369,000 and $298,900, respectively. Home sales were up 4 percent from a year earlier in Utah, but sales declined 10 percent in North Dakota and Wyoming, and sales were virtually unchanged in the other states in the region.

During the second quarter of 2017, the Colorado legislature passed a measure intended to reduce construction-related lawsuits against condominium builders; however, it is too soon to tell whether the legal change will lead to increased condominium construction in the state. Previously, the Construction Defect Action Reform Act (revised 2007) expanded the ability of condominium owners to sue developers as part of a class-action lawsuit, but builders argued

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the law increased their risks and costs, including insurance requirements, to the point that condominium construction was feasible only at the highest price points. In the Denver metropolitan area, from 2000 to 2007, condominiums accounted for nearly 20 percent of multifamily construction; since 2010, that share has declined to less than 4 percent.

Rising home prices, leading to increased homeowner equity, contributed to declines in the rates of mortgages that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) properties in most states in the region. In May 2017, 1.3 percent of mortgages in the region were seriously delinquent or in REO status, down from 1.7 percent a year earlier (CoreLogic, Inc.). Although the rate edged up slightly in North Dakota, from 1.5 to 1.6 percent, the rates of seriously delinquent mortgages and REO properties remained steady or declined in every other state in the region and ranged from 1.0 percent in Colorado to 2.4 percent in Wyoming. In Colorado and Utah, the rates were down 0.5 percentage points from a year ago. The rates of seriously delinquent mortgages and REO properties for states in the region were all well below the 3.2-percent national average.

In response to the strong home sales demand, single-family construction, as measured by the number of homes permitted, increased in most states in the Rocky Mountain region. During the second quarter of 2017 (preliminary data)—

- Approximately 12,850 single-family homes were permitted in the region, up 10 percent from a year earlier. Colorado and Utah accounted for nearly 80 percent of the building activity in the region, with about 6,025 and 4,075 single-family homes permitted, increases of 14 and 11 percent, respectively, from a year earlier.
- Within Colorado, approximately 3,050 single-family homes—or about one-half of the statewide total—were permitted in the Denver metropolitan area, up 19 percent from a year earlier. In Utah, two-thirds of the single-family construction was in the Provo and Salt Lake City metropolitan areas, where approximately 1,400 and 1,300 homes were permitted, increases of 10 and 6 percent, respectively, from a year earlier.

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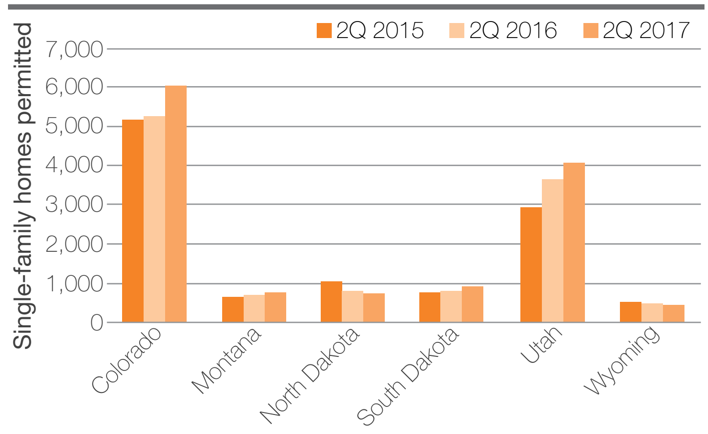
Single-family permitting increased in the Rocky Mountain region, led by gains in Colorado and Utah.



2Q = second quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Home prices increased throughout most of the Rocky Mountain region, but sales declined in some metropolitan areas because of low for-sale inventories.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Cheyenne (N&E)	June	2,650	2,750	4	AVG	252,600	245,800	– 3
Colorado Springs (N&E)	June	18,850	20,200	7	AVG	256,800	282,100	10
Denver (N&E)[a]	June	60,450	62,600	4	AVG	375,300	410,500	9
Fargo (N&E)	June	5,500	5,425	– 1	AVG	230,100	243,500	6
Missoula (N&E)	June	2,475	2,625	6	AVG	261,800	279,100	7
Ogden (N&E)[b]	June	10,000	9,625	– 4	AVG	239,600	258,200	8
Provo (N&E)[b]	June	8,700	8,575	– 1	AVG	274,900	296,300	8
Salt Lake City (N&E)[b]	June	17,750	17,150	– 3	AVG	293,400	320,900	9
Sioux Falls (N&E)[c]	June	4,500	4,725	5	AVG	201,000	214,000	6

AVG = average. N&E = new and existing home sales.
Notes: All figures are rounded. Salt Lake City data is for Salt Lake County only; Ogden data is for Davis, Morgan, and Weber Counties only. Sales data include single-family homes, townhomes, and condominiums.
Sources: (a) Colorado Association of Realtors®; (b) Utah Association of Realtors®; (c) Realtor® Association of the Sioux Empire, Inc.; all other metropolitan areas: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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- In South Dakota and Montana, single-family permitting increased 8 and 6 percent from a year earlier, to about 890 and 720 homes, respectively. In the Sioux Falls, Billings, and Missoula metropolitan areas, approximately 500, 150, and 145 homes were permitted, increases of 10, 20, and 26 percent, respectively, from a year earlier.
- In North Dakota and Wyoming, single-family permitting declined 11 and 13 percent from a year earlier, to about 710 and 420 homes permitted, respectively. In the Fargo, Bismarck, and Cheyenne metropolitan areas, single-family permitting fell 15, 25, and 41 percent, to about 380, 200, and 100 homes, respectively.

Apartment Market Conditions

Apartment market conditions ranged from slightly soft to slightly tight in most major metropolitan areas in the Rocky Mountain region in the second quarter of 2017. Apartment completions remained elevated in many metropolitan areas, but absorption of the new units was strong enough that market conditions did not soften significantly. The increased supply limited rent growth, however; in most major metropolitan areas in the region, year-over-year rent increases ranged from 2 to 6 percent. In the Denver and Colorado Springs metropolitan areas, apartment conditions remained balanced, with vacancy rates of 5.4 and 4.5 percent, respectively, in the second quarter of 2017, up from 5.0 and 4.0 percent, respectively, a year earlier (Apartment Insights). Average apartment rents in the Denver and Colorado Springs metropolitan areas were up 4 and 10 percent from a year earlier, to $1,372 and $1,000, respectively. Conditions were also balanced in the Salt Lake City metropolitan area, with a 4.3-percent apartment vacancy rate, up from 3.3 percent a year earlier, and apartment rents increased 6 percent to $958 (Reis, Inc.). Conditions were slightly tight in the Ogden metropolitan area, with a 3.7-percent vacancy rate, unchanged from a year earlier, and apartment rents were up 4 percent from a year earlier to $980 (Axiometrics, Inc.). In the Sioux Falls and Fargo metropolitan areas, however, supply outpaced demand, and apartment conditions were slightly soft, with vacancy rates of 6.6 and 8.4 percent, up from 6.1 and 6.4 percent, respectively, a year ago (Reis, Inc.; Appraisal Services, Inc.). Market conditions remained soft in energy-producing areas in the region, such as the cities of Casper and Williston, with vacancy rates of 14.8 and 14.0, respectively, in the second quarter of 2017 (Axiometrics, Inc.). Apartment rents were down 8 and 32 percent, respectively, from a year earlier.

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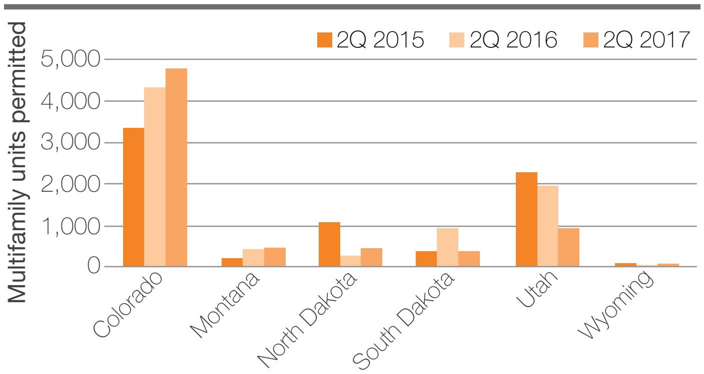
Multifamily construction was down in the Rocky Mountain region, with increased activity in Colorado offset by declines in Utah and South Dakota.



2Q = second quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Despite an increase in completions, apartment markets remained balanced or nearly balanced in most major metropolitan areas in the Rocky Mountain region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 ($)	2Q 2017 ($)	Percent Change
Casper	Soft	14.4	14.8	0.4	981	906	– 8
Colorado Springs[a]	Balanced	4.0	4.5	0.5	911	1,000	10
Denver[a]	Balanced	5.0	5.4	0.4	1,313	1,372	4
Fargo[b]	Slightly soft	6.4	8.4	2.0	NA	NA	NA
Ogden	Slightly tight	3.7	3.7	0.0	941	980	4
Provo	Balanced	6.2	5.5	– 0.7	1,078	1,122	4
Salt Lake City[c]	Balanced	3.3	4.3	1.0	901	958	6
Sioux Falls[c]	Slightly soft	6.1	6.6	0.5	827	844	2

2Q = second quarter. NA = data not available.
Note: Fargo apartment vacancy rates as of June 1.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) *Apartment Insights*; (b) Appraisal Services, Inc.; (c) Reis, Inc.; all other metropolitan areas: Axiometrics, Inc.

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After posting strong year-over-year increases in the previous 5 quarters, multifamily construction activity slowed in the Rocky Mountain region. During the second quarter of 2017 (preliminary data)—

- Approximately 7,125 multifamily units were permitted in the region, an 11-percent decline from the second quarter of 2016. Decreases in Utah and South Dakota offset increased construction in the other states in the region.
- In Utah, multifamily permitting fell more than 50 percent to approximately 950 units. Although permitting was up in the Provo, St. George, and Logan metropolitan areas, in the Ogden metropolitan area, the number of multifamily units permitted declined from about 440 in the second quarter of 2016 to 210 in the most recent quarter, and in the Salt Lake City metropolitan area, multifamily permitting declined from about 1,250 to 260 units. The recent pause in Salt Lake City followed a surge in building activity during the preceding 12 months, when approximately 4,650 multifamily units were permitted in the metropolitan area, a 45-percent increase from the previous 12 months.
- In South Dakota, approximately 390 multifamily units were permitted, a 59-percent decrease from a year earlier. In the Sioux Falls and Rapid City metropolitan areas, multifamily permitting was down by 425 and 225 units, or 65 and 93 percent, respectively, from a year earlier.
- In Montana and North Dakota, multifamily permitting increased 18 and 50 percent from a year earlier, to about 490 and 430 units, respectively, and in Wyoming, multifamily construction increased from about 55 to 85 units permitted. In the Fargo metropolitan area, multifamily permitting increased from 245 to 340 units, and in the Cheyenne metropolitan area, multifamily permitting increased from 35 to 50 units.
- Multifamily building activity remained strong in Colorado, with nearly 4,800 units permitted, an 11-percent increase from a year earlier. Although multifamily permitting declined in the Boulder, Colorado Springs, and Fort Collins metropolitan areas, permitting more than doubled in the Greeley metropolitan area to about 325 units, and permitting increased 29 percent in the Denver metropolitan area, from about 2,850 to 3,700 units.

During the 12 months ending June 2017, nearly 13,400 multifamily units were permitted in the Denver metropolitan area, up from 9,100 units in the previous 12 months, and more than 20,000 apartments are expected to be completed during the next 24 months. In recent years, apartment absorption in the Denver metropolitan area typically averaged less than 7,500 units annually, however, suggesting that in some areas (particularly within the city of Denver) vacancies may increase significantly as deliveries outpace demand.