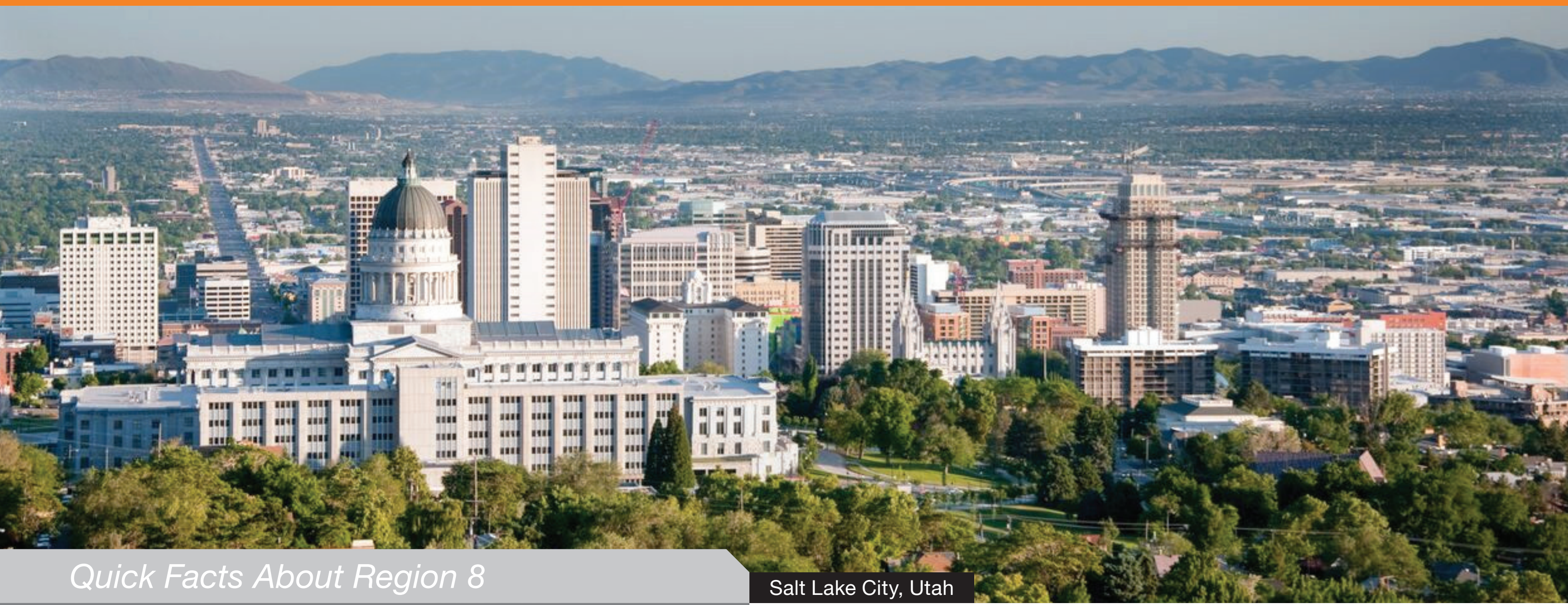
HUD PD&R Regional Reports

Region 8: Rocky Mountain



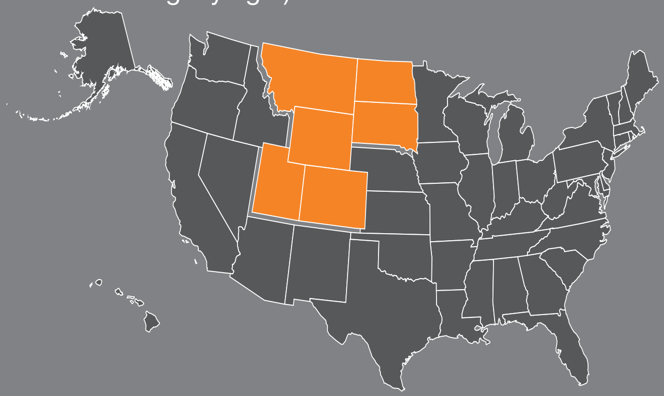
Salt Lake City, Utah

By Katharine Jones | 2nd quarter 2018

Quick Facts About Region 8

- **Sales market conditions—**
  Second quarter 2018: tight.
  First quarter 2018: tight.
  Second quarter 2017: tight.

- **Apartment market conditions—**
  Second quarter 2018: mixed (slightly tight to soft).
  First quarter 2018: mixed (balanced to soft).
  Second quarter 2017: mixed (slightly soft to slightly tight).



Overview

Economic growth in the Rocky Mountain region accelerated during the past year compared with growth a year earlier. Nonfarm payrolls in the second quarter of 2018 increased by 132,000 jobs, or 2.3 percent from a year earlier; by comparison, in the second quarter of 2017, nonfarm payrolls increased 2.0 percent. The professional and business services, the mining, logging, and construction, and the leisure and hospitality sectors led growth; combined, those sectors comprised 55 percent of the job growth. Increases in single-family homebuilding activity in Colorado and Utah, as well as large nonresidential projects, supported payroll growth in the mining, logging, and construction sector. Home sales market conditions remained tight in much of the region, with strong demand and growth in home prices. A large number of new apartment completions led to the easing of previously tight apartment conditions in some market areas during the past year. Apartment market conditions in most large metropolitan areas are currently balanced with moderate rent growth. In Utah, however,

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markets are slightly tight as strong job growth has contributed to net in-migration and demand for apartments. Some areas more reliant upon energy-related jobs, such as in parts of Montana and North Dakota, have soft apartment market conditions.

- Increases in nonfarm payrolls in the region outpaced the nation, with the largest number of job gains in Colorado and the fastest rate of growth in Utah.
- Low inventory and strong demand for homes have contributed to the persistent tight sales market conditions; most metropolitan areas have less than 3 months of supply of for-sale inventory, and the average home sales price in the region increased 7 percent from a year ago.
- Easing apartment market conditions throughout the region led to a 28-percent decline in multifamily permitting, with the most pronounced decrease in Colorado.

Economic Conditions

Job gains in the Rocky Mountain region outpaced the nation during the second quarter of 2018; nonfarm payrolls in the region increased 2.3 percent compared with 1.6 percent nationally. The professional and business services, the mining, logging, and construction, and the leisure and hospitality sectors led job growth in the region, adding 29,900, 21,600 and 21,500 jobs, respectively, from a year earlier, up 4.0, 4.9, and 3.2 percent. Nearly two-thirds of the mining, logging, and construction jobs added were in the construction subsector. Colorado and Utah led the region in construction gains, adding 8,000 and 6,900 jobs, respectively, or 4.9 and 7.1 percent from a year ago. In addition to residential construction, other notable construction projects are under way in the region, primarily in Colorado and Utah, including a $3.2 billion project to renovate the Denver International Airport and add 39 gates and a $3.6 billion project to rebuild the Salt Lake City International Airport. The $530 million, 1,500-room Gaylord Rockies Resort and Convention Center, near Denver International Airport, is expected to be complete by the end of 2018. A $125 million United Parcel Service package distribution warehouse is under way in Salt Lake City and is expected to be complete by the end of 2018. In the mining and logging subsector, Colorado led gains with an addition of 3,800 jobs, and North Dakota and Wyoming added 2,500 and 1,500 jobs, respectively. Oil prices during the second quarter of 2018 were 41 percent higher than a year earlier, averaging $68 a barrel. In response to the higher oil prices, North Dakota and Wyoming, which account for two-thirds of the oil rigs in the region, have led the 12-percent increase in the number of active drilling rigs in the region. The unemployment rate in the region averaged 2.9 percent during the second quarter of 2018, down slightly from 3.0 percent a year earlier but well below the 3.8-percent national jobless rate. State unemployment rates in the region ranged from 2.7 percent in Colorado and North Dakota to 3.9 percent in Wyoming.

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Payrolls increased in the region, helped by strong growth in the business services, healthcare, tourism, energy, and construction industries.

	Second Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,752.4	5,884.4	132.0	2.3
Goods-producing sectors	809.5	840.1	30.6	3.8
Mining, logging, and construction	439.5	461.1	21.6	4.9
Mining and logging	83.2	91.1	7.9	9.5
Construction	356.4	370.0	13.6	3.8
Manufacturing	370.0	379.0	9.0	2.4
Service-providing sectors	4,942.9	5,044.3	101.4	2.1
Wholesale and retail trade	852.0	865.8	13.8	1.6
Transportation and utilities	209.5	215.7	6.2	3.0
Information	131.7	134.7	3.0	2.3
Financial activities	339.7	344.6	4.9	1.4
Professional and business services	744.1	774.0	29.9	4.0
Education and health services	769.7	781.2	11.5	1.5
Leisure and hospitality	664.7	686.2	21.5	3.2
Other services	215.7	215.4	– 0.3	– 0.1
Government	1,015.7	1,026.8	11.1	1.1

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

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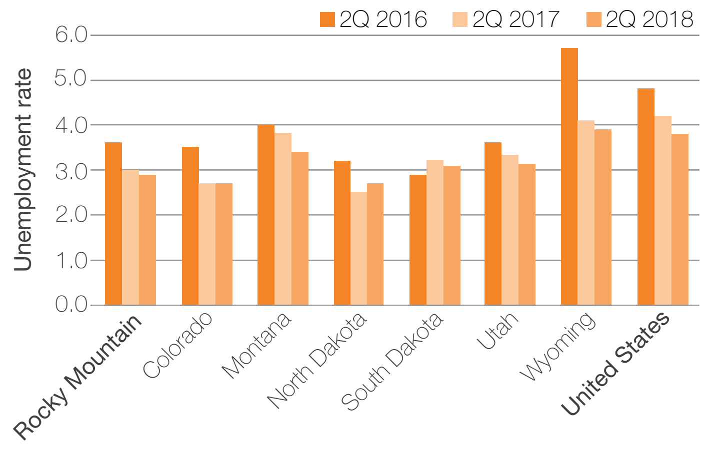
During the second quarter of 2018—

- In Colorado, the professional and business services and the leisure and hospitality sectors led job growth, adding 17,600 and 15,200 jobs, respectively, or 4.3 and 4.6 percent. In June, the Colorado Tourism Office reported that Colorado ranked 8th nationally for tourism; visits to the state in 2017 numbered a record 84.7 million and contributed $20.9 billion to the state economy.
- In Utah, the 3.2-percent increase in jobs was the fastest rate of growth in the nation. The professional and business services sector, which added 8,800 jobs, or 4.3 percent, from a year earlier, led nonfarm payroll growth in Utah.
- Nonfarm payrolls in Montana increased by 3,600 jobs, or 0.8 percent from a year earlier. The professional and business services and the leisure and hospitality sectors led job growth, each of which added 1,300 jobs, or 4.1 and 2.0 percent, respectively. Visits to Yellowstone National Park, located in southwest Montana and northwest Wyoming, increased 2 percent compared with a year ago, to 1.3 million visitors during the second quarter of 2018.
- In South Dakota, nonfarm payrolls increased by 6,200 jobs, or 1.4 percent, from a year earlier. The manufacturing sector, which increased by 1,800 jobs, or 4.2 percent, led job growth. Three cheese manufacturing plants in the state are undergoing expansions, including the Agropur plant in Lake Norden, Dimock Cheese in Dimock, and Valley Queen Cheese in Milbank.

Labor market conditions remained tight in the Rocky Mountain region, with nearly all states having unemployment rates well below the national average.

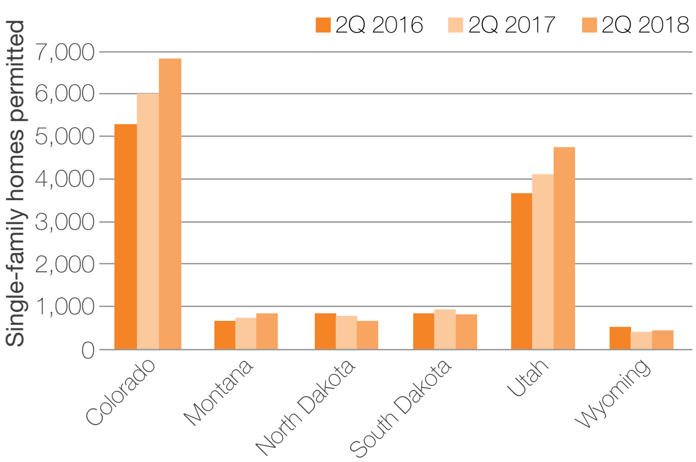


2Q = second quarter.
Source: U.S. Bureau of Labor Statistics

Partially offsetting gains elsewhere in the region, North Dakota lost 3,300 jobs, or 0.8 percent of nonfarm payrolls, which was the greatest decline nationally. Despite recent increases in energy production, the economy continues to face strong headwinds; the addition of 2,500 mining and logging subsector jobs from a year earlier was not enough to offset the loss of 4,400 jobs, combined, in the construction subsector and the government sector.

Sales Market Conditions

Single-family construction was up in the Rocky Mountain region, led by sizeable gains in Colorado and Utah, but homebuilding activity was relatively stable in most other states in the region.



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

Sales housing market conditions were tight in the Rocky Mountain region in the second quarter of 2018. Prices for new and existing homes in the region averaged $356,900 during the 12 months ending June 2018, a 7-percent increase from a year earlier (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Colorado, Montana, and Utah led price gains, with prices increasing 7, 8, and 8 percent, respectively. Price appreciation was slower in North Dakota, increasing 2 percent from the previous 12-month period, and prices were unchanged in South Dakota and Wyoming. Most major metropolitan areas had rapid home price appreciation and low inventories of homes for sale. In the Denver metropolitan area, new and existing home prices averaged $445,500, up 8 percent from a year earlier (Colorado Association of Realtors®). The inventory of active home listings represented 1.8 months of supply for sale in June 2018, down from 2.2 months of supply a year earlier. In the Colorado Springs and Fort Collins metropolitan areas, the average home sales prices increased 10 and 7 percent, respectively, from a year ago, to $316,600 and $397,700, respectively (Pikes Peak Realtor Association of Realtors® and Metrostudy, A Hanley Wood Company). In the Salt Lake City and Provo metropolitan areas, the average price of a home sold increased 9 percent from a year earlier, to $348,700, and

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$323,100, respectively (Utah Association of Realtors®). In Sioux Falls, the average home price increased 5 percent to $225,200, and the inventory of homes for sale decreased to 3.4 months of supply compared with 4.5 months of supply a year earlier (Realtors Association of the Sioux Empire®).

The low inventory of homes for sale across the region stymied sales growth, despite strong demand. During the 12 months ending June 2018, home sales in the region were unchanged from the previous 12 months at about 289,100 homes sold (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). In Colorado and Utah, home sales decreased 1 percent from a year ago, and sales decreased 3 percent in South Dakota. Offsetting decreased sales in these states, home sales in the energy-dependent states of Montana, North Dakota, and Wyoming increased 2, 11, and 16 percent, respectively. Despite lackluster growth in sales statewide in the region, most metropolitan areas recorded increased sales. In the Denver metropolitan area, the number of homes sold increased 7 percent from a year earlier to 68,550 during the 12 months ending June 2018 (Colorado Association of Realtors®). Home sales in Colorado Springs increased 4 percent, to 18,750 homes sold (Pikes Peak Realtor Association of Realtors®). The number of homes sold in the Salt Lake City metropolitan area increased 4 percent from a year earlier, to 18,050, and in Provo, sales increased 8 percent to 9,425 (Utah Association of Realtors®). Sales in the Billings metropolitan area increased 4 percent to 4,200 homes sold, but in Sioux Falls, sales decreased 1 percent to 4,750 (Metrostudy, A Hanley Wood Company, and Realtor Association of the Sioux Empire®).

Strong home price appreciation contributed to declining rates of seriously delinquent mortgages (those 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties throughout the region. In May 2018, 0.7 percent of mortgages in the region were seriously delinquent or had transitioned into REO status, down from 1.0 percent a year earlier (Core Logic, Inc.). The rate remained flat at 1.0 percent in North Dakota but declined in every other state in the region, with rates ranging from 0.6 percent in Colorado to 1.3 percent in Wyoming. The rates for all states in the region remained well below the 2.0-percent national average.

Tight sales market conditions and strong demand for homes led to an 11-percent increase in single-family construction, as measured by the number of homes permitted, with increases in most of the states in the Rocky Mountain region.

During the second quarter of 2018 (preliminary data)—

- Colorado led single-family homebuilding activity in the region, with 6,825 homes permitted, an increase of 14 percent from a year earlier. Increases in the Denver, Colorado Springs, and Greeley metropolitan areas more than offset the 30-percent decrease in the Fort Collins area.
- Tight sales market conditions in the major metropolitan areas in Utah, and strong job growth contributed to demand for additional new homes. Construction increased 15 percent in Utah, where 4,750 new homes were permitted. Permits increased 24 percent in Salt Lake City and 26 percent in the Ogden metropolitan area, to 1,550 and 795 homes permitted, respectively. Provo had the greatest number of homes permitted in Utah during the second quarter, with nearly 1,650 homes, which comprised 35 percent of units permitted in the state.
- In Montana and Wyoming, permitting increased to 845 and 440 homes, respectively, up 17 and 4 percent. An increase of 120 homes permitted in Billings accounted for nearly all of the increase in Montana, while in Wyoming, the Cheyenne and Casper metropolitan areas comprised most of the increases.
- In North and South Dakota, permitting decreased 13 and 10 percent, respectively, to 660 and 810 homes. More than half of the decline in North Dakota was in the Bismarck metropolitan area, which decreased 28 percent to 140 homes permitted, and Sioux Falls led the declines in South Dakota, with 460 homes permitted, down from 500 a year earlier.

Home prices were up throughout most of the region because of strong demand.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Billings (N&E)	June	4,050	4,200	4	AVG	247,500	258,300	4
Bismarck (N&E)	June	2,475	2,500	1	AVG	253,300	268,100	6
Casper (N&E)	June	1,750	2,000	14	AVG	233,700	243,100	4
Colorado Springs (N&E)[a]	June	18,000	18,750	4	AVG	287,000	316,600	10
Denver (N&E)[b]	June	64,250	68,550	7	AVG	414,400	445,500	8
Fort Collins (N&E)	June	9,000	9,025	0	AVG	371,700	397,700	7
Provo (N&E)[c]	June	8,700	9,425	8	AVG	296,200	323,100	9
Salt Lake City (N&E)[c]	June	17,350	18,050	4	AVG	321,000	348,700	9
Sioux Falls (N&E)[d]	June	4,775	4,750	– 1	AVG	213,900	225,200	5

AVG = average. N&E = new and existing home sales.
Notes: All figures are rounded. Salt Lake City data is for Salt Lake County only.
Sources: (a) Pikes Peak Association of Realtors®; (b) Colorado Association of Realtors®; (c) Utah Association of Realtors®; (d) Realtor® Association of the Sioux Empire, Inc.; all other metropolitan areas: Metrostudy, A Hanley Wood Company, and adjustments by the analyst

Apartment Market Conditions

Apartment market conditions in the second quarter of 2018 were mixed across the Rocky Mountain region. Most large metropolitan markets were balanced, but areas in Utah were slightly tight, and the energy-dependent areas in Montana and North Dakota remained soft. The vacancy rates in some metropolitan areas increased during the past year, because of a surge in apartment completions during the past 2 years. Despite the slight increase in vacancy rates, absorption was sufficient that rent growth remained relatively strong in most metropolitan areas.

In the Denver metropolitan area, the apartment market is balanced. The vacancy rate decreased slightly to 5.2 percent during the second quarter of 2018 compared with 5.4 percent a year earlier *(Apartment Insights)*. Contributing to the decline in the vacancy rate, absorption of units increased 40 percent in the past year, with 9,900 apartment units absorbed in the Denver metropolitan area during the 12 months ending June 2018. The average rent increased 4 percent from a year earlier to $1,426 during the second quarter of 2018. Rent growth throughout most of the Rocky Mountain region is also moderate. The average rent increased 4 percent in Colorado Springs to $1,040, despite the vacancy rate increasing to 5.5 percent, from 4.5 percent a year earlier. In Utah, strong job growth contributed to slightly tight rental market conditions, as more people moved to the metropolitan areas for jobs. Rent growth in Salt Lake City and Ogden each averaged 5 percent from a year ago, to $1,118 and $972, respectively (Real Data, Inc.). The vacancy rate was 4.1 percent in Salt Lake City and 3.4 percent in Ogden.

Apartment market conditions in the Billings metropolitan area are slightly soft, but improving. The vacancy rate was 7.1 percent during the second quarter of 2018, down from 8.8 percent a year earlier, and the average rent decreased 4 percent from a year earlier to $936 (Real Data, Inc.). As a result of weak economic conditions, apartment market conditions in much of North Dakota are also soft. The apartment vacancy rate in Fargo increased to 8.8 percent compared with 8.4 percent a year earlier (Appraisal Services, Inc.). In response to soft market conditions, builders are decreasing construction; approximately 740 apartment units were under construction in the Fargo metropolitan area in June 2018, compared with 1,275 units a year earlier.

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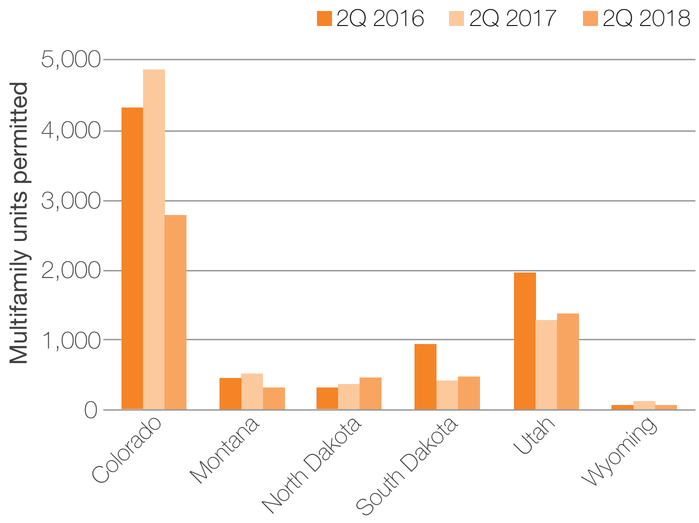
Multifamily permitting plummeted in Colorado, more than offsetting slight increases in most other states in the region.



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

Apartment market conditions ranged from slightly tight in Utah with strong job growth to soft in markets in energy-impacted states.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 ($)	2Q 2017 ($)	Percent Change
Billings	Slightly soft	8.8	7.1	– 1.7	975	936	– 4
Cheyenne	Balanced	2.7	4.1	1.4	886	890	0
Colorado Springs[a]	Balanced	4.5	5.5	1.0	1,000	1,040	4
Denver[a]	Balanced	5.4	5.2	– 0.2	1,372	1,426	4
Fargo[b]	Soft	8.4	8.8	0.4	NA	NA	NA
Ogden	Slightly tight	3.6	3.4	– 0.2	928	972	5
Salt Lake City	Slightly tight	3.9	4.1	0.2	1,068	1,118	5
Rapid City	Soft	3.4	2.6	– 0.8	925	932	1

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; all other areas: Real Data, Inc.

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During the second quarter of 2018 (preliminary data)—

- In response to balanced apartment market conditions and a large number of multifamily units already under construction, permitting in Colorado declined 43 percent from a year earlier to 2,775 units. In addition, an unseasonably warm winter allowed some multifamily projects in Colorado planned for the second quarter of 2018 to begin earlier in the first quarter. The increase of 840 units in Colorado Springs was not enough to offset the 2,600-unit decrease in the Denver metropolitan area that led declines in all the other metropolitan areas in the state.
- In Utah, permitting increased 5 percent from a year ago to 1,350 units; the increase of a combined 275 units in the Provo and Salt Lake City metropolitan areas more than offset the decline of 190 units, combined, in the St. George, Ogden, and Logan metropolitan areas.
- In South Dakota, multifamily permitting increased 17 percent to 440 units. An increase in the Rapid City metropolitan area offset a decline in the Sioux Falls metropolitan area. Multifamily permitting in North Dakota increased 26 percent to 440 units, led by an 82-percent increase in the Fargo metropolitan area, to 510 units.
- In addition to the sharp drop in Colorado, multifamily permitting also declined in Montana and Wyoming. In Montana, the number of units permitted decreased 40 percent to 290. Multifamily construction in Wyoming decreased 26 percent to 70 multifamily units permitted; the 40-percent decrease in units permitted in the Cheyenne metropolitan area led the decline.