

HUD PD&R Regional Reports

Region 8: Rocky Mountain

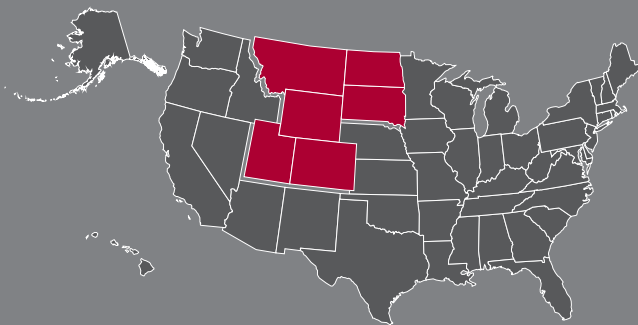


Fargo, North Dakota

By James Conner | 3rd quarter 2016

Quick Facts About Region 8

- **Sales market conditions—**
Third quarter 2016: tight.
Second quarter 2016: tight.
Third quarter 2015: tight.
- **Apartment market conditions—**
Third quarter 2016: mixed (slightly soft to tight).
Second quarter 2016: mixed (soft to tight).
Third quarter 2015: mixed (balanced to tight).



Overview

The economy in the Rocky Mountain region continued expanding at a steady rate in the third quarter of 2016. Nonfarm payrolls were up by 109,600 jobs, or 2.0 percent, from a year earlier, comparable to the 2.0-percent average growth during the past 2 years. Continued job losses in the energy industry were offset by strong growth in the construction, tourism, and healthcare industries. Job growth was particularly strong in Colorado and Utah, but payrolls declined in North Dakota and Wyoming. The unemployment rate in the region remained unchanged from a year ago, at 3.4 percent. Sales housing markets remained tight in many areas in the region. The Denver, Salt Lake City, Colorado Springs, and Ogden metropolitan areas all had less than a 3.0-month supply of homes for sale in September 2016. The low number of active listings caused home sales to decline in some metropolitan areas, however, and in most of the larger metropolitan areas in the region the year-over-year home price increases ranged from 5 to 10 percent. Apartment market conditions in the major metropolitan areas in the region ranged from slightly soft to tight. Conditions have eased in many metropolitan areas because of a surge in apartment completions; nevertheless, demand was sufficiently strong in some metropolitan areas that most new units were absorbed quickly. Residential construction in the region during the third quarter of 2016, as measured by the number of housing units permitted, was up nearly 7 percent from a year earlier.

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During the third quarter of 2016—

- Nonfarm payrolls in the education and health services sector, the leisure and hospitality sector, and the construction subsector in the region were up by 25,300, 23,500, and 19,000 jobs, respectively; these gains more than offset losses in the mining and logging subsector and the transportation and utilities sector of 14,700 and 3,000 jobs, respectively.
- Sales of new and existing homes in the region totaled approximately 268,000 during the 12 months ending August 2016, up 1 percent from a year earlier. Declines in North Dakota and Wyoming were offset by increased sales in Colorado, Utah, and Montana.

- Apartment market conditions in most of the large metropolitan areas in the region ranged from slightly soft to slightly tight, despite recent increases in supply. Although rent growth was strong in the Colorado Springs and Provo metropolitan areas, year-over-year rent growth declined to less than 6 percent in most other major metropolitan areas in the region.
- Permitting of single-family homes in the region increased 4 percent from a year ago, to approximately 10,750 homes, and multi-family construction increased 11 percent from a year ago, to about 6,575 units permitted. Residential permitting increased in Colorado, Utah, Montana, and South Dakota but declined in North Dakota and Wyoming.

Economic Conditions

In the third quarter of 2016, nonfarm payrolls in the Rocky Mountain region expanded at a steady pace, increasing by 109,600 jobs, or 2.0 percent, from a year earlier, to 5.69 million jobs. Annual payroll growth in the region has averaged 2.0 percent since mid-2015. Job losses in the energy industry continued because of low oil prices, with payrolls in the mining and logging subsector declining by approximately 14,700 jobs, or 15.0 percent. An average of 61 drilling rigs were active in the region during the third quarter of 2016, down 55 percent from a year earlier (Baker Hughes, Inc.). Declining energy activity also contributed to a decline of 3,000 jobs, or 1.4 percent, in the transportation and utilities sector. These losses were more than offset by job gains in the tourism, healthcare, and construction industries.

The greatest payroll increases in the region were in the education and health services and the leisure and hospitality sectors, both of which were up 3.5 percent from a year earlier, gains of 25,300 and 23,500 jobs, respectively. The top six National Park Service areas in the region received nearly 11.9 million visitors in the third quarter of 2016, an increase of 7 percent, or nearly 800,000 visitors, compared with the number of visitors a year earlier. In addition, construction subsector payrolls in the third quarter of 2016 were up by approximately 19,000 jobs, or 5.4 percent, because of increased residential and commercial building activity. The region's unemployment rate was 3.4 percent in the third quarter of 2016, unchanged from a year earlier.

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Payroll growth continued in the Rocky Mountain region, led by gains in the tourism, healthcare, and construction industries.

	Third Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,583.1	5,692.7	109.6	2.0
Goods-producing sectors	814.2	824.0	9.8	1.2
Mining, logging, and construction	450.6	455.0	4.4	1.0
Manufacturing	363.6	369.0	5.4	1.5
Service-providing sectors	4,768.8	4,868.7	99.9	2.1
Wholesale and retail trade	847.9	857.6	9.7	1.1
Transportation and utilities	208.4	205.4	- 3.0	- 1.4
Information	128.7	129.7	1.0	0.8
Financial activities	329.5	338.9	9.4	2.9
Professional and business services	730.7	744.5	13.8	1.9
Education and health services	720.5	745.8	25.3	3.5
Leisure and hospitality	662.2	685.7	23.5	3.5
Other services	204.5	207.4	2.9	1.4
Government	936.5	953.7	17.2	1.8

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics



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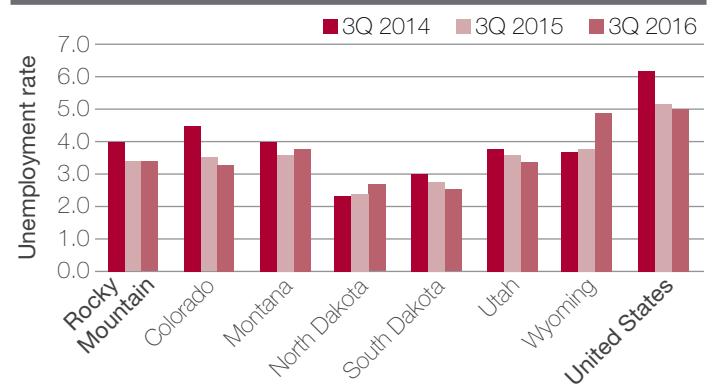
Within the region, state unemployment rates ranged from 2.5 percent in South Dakota to 4.9 percent in Wyoming, and all states in the Rocky Mountain region had rates below the 5.0-percent national average.

During the third quarter of 2016—

- Colorado had the greatest job gain in the region, with nonfarm payrolls increasing by 72,600 jobs, or 2.8 percent, from a year earlier. Payrolls in the construction subsector were up by 18,400 jobs, or 12.0 percent, helped by increased homebuilding activity and major nonresidential projects, including a new \$315 million hospital and medical campus for UCHHealth in Highlands Ranch.
- Utah had the highest rate of job growth in the region, with nonfarm payrolls increasing by 42,200 jobs, or 3.1 percent, from a year ago. The greatest gains were in the education and health services and the financial activities sectors, which added 8,300 and 5,900 jobs, increases of 4.6 and 7.4 percent, respectively.
- Job growth was also relatively strong in South Dakota, where nonfarm payrolls were up by 10,800 jobs, or 2.5 percent, from a year ago. The leisure and hospitality and the wholesale and retail trade sectors increased by 2,400 and 2,600 jobs, or 4.8 and 3.5 percent, respectively. Job growth was slower in Montana, where nonfarm payrolls increased by 1,900 jobs, or 0.4 percent, from a year ago. Although payrolls in the education and health services sector were up by 2,800 jobs, or 3.9 percent, payrolls in the mining, logging, and construction and the transportation and utilities sectors declined by 2,100 and 600 jobs, or 5.7 and 3.3 percent, respectively.

- North Dakota and Wyoming are among the states hit hardest by low oil prices. Nonfarm payrolls were down by 9,000 and 8,700 jobs, or 2.0 and 2.9 percent, respectively, from a year ago. The mining, logging, and construction sectors in North Dakota and Wyoming declined by 6,800 and 6,200 jobs, or 11.5 and 12.9 percent, respectively, and the transportation and utilities sectors declined by 3,800 and 1,400 jobs, or 14.6 and 8.9 percent, respectively.

Unemployment rate declines in Colorado, South Dakota, and Utah offset increases in Montana, North Dakota, and Wyoming in the Rocky Mountain region.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in the third quarter of 2016 remained tight in many areas in the Rocky Mountain region. Although single-family construction increased in the past 2 years, the supply of homes for sale remained low in most major metropolitan areas in the region. In the Denver metropolitan area, the number of active listings represented a 1.7-month supply in September 2016, down from a 2.1-month supply a year earlier (Colorado Association of Realtors®). In the Colorado Springs metropolitan area, the number of active listings declined from a 2.5- to a 1.7-month supply during the same period (Pikes Peak Association of Realtors®). In the Salt Lake City, Ogden, and Provo metropolitan areas, the number of homes for sale represented 2.3-, 2.5-, and 3.0-month supplies in September 2016, down from 3.3-, 3.4-, and 3.7-month supplies, respectively, a year earlier (Utah Association of Realtors®). In the Sioux Falls metropolitan area, the inventory of homes for sale declined from a 4.8- to a 3.6-month supply during the same period (Realtor® Association of the Sioux Empire, Inc.). Partly because of limited supplies, sales were flat in the region overall. In Utah and Montana, new and existing home sales during the 12 months ending

September 2016 were up 3 and 4 percent from a year earlier, to approximately 74,650 and 21,650 homes sold, respectively (MetroStudy, A Hanley Wood Company, with adjustments by the analyst). In Colorado, however, sales were unchanged at about 137,800 homes, and, in Wyoming and North Dakota, sales decreased 8 and 13 percent from a year ago, to about 9,225 and 14,200 homes, respectively. New and existing home sales in the Salt Lake City, Sioux Falls, and Colorado Springs metropolitan areas were up 1, 2, and 12 percent from a year earlier. In the Denver metropolitan area, however, sales were flat, and in the Provo, Fort Collins, and Fargo metropolitan areas, sales were down 1, 2, and 9 percent, respectively, from a year ago. Home sales also decreased in metropolitan areas influenced by declining energy activity, such as Billings and Casper.

Strong demand and limited supply caused home prices to increase throughout the region. Average home sales prices during the 12 months ending September 2016 were up 1 percent from a year earlier in North Dakota and Montana, to about \$219,300 and \$256,300, respectively, and were up 3 and 6 percent, to about \$289,300 and \$353,900, respectively, in Utah and Colorado (MetroStudy, A Hanley Wood Company, with adjustments by the analyst). Home prices were

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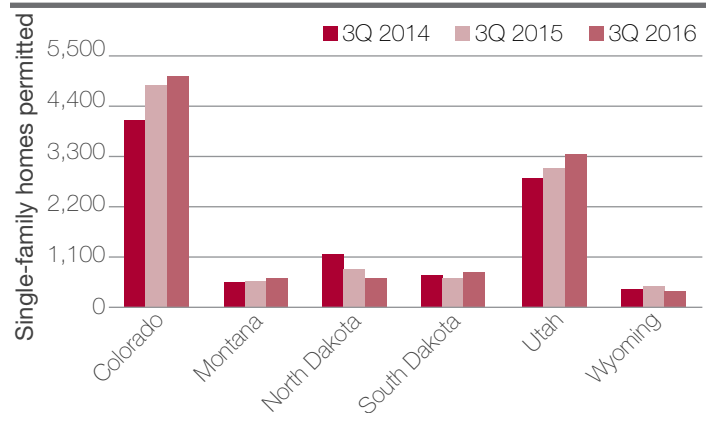
up in most of the metropolitan areas in the region. Although prices in the Casper metropolitan area were flat, year-over-year increases in average home prices ranged from 3 percent in the Billings metropolitan area to 10 percent in the Denver and Fort Collins metropolitan areas. Rising home prices caused the rates of seriously delinquent (90 or more days delinquent or in foreclosure) mortgages and real estate owned (REO) properties to decline in most areas in the region. In September 2016, 1.5 percent of mortgages in the region were seriously delinquent or had transitioned into REO status, down from 2.1 percent a year earlier (Core Logic, Inc.). Within the region, seriously delinquent mortgage and REO property rates ranged from 1.3 percent in Colorado to 2.5 percent in Wyoming. The rates declined in all states in the region except North Dakota, where the rate remained unchanged, at 1.5 percent, and all states in the region had rates below the 3.7-percent national average.

Builders responded to the tight home sales market conditions with increased single-family home construction. During the third quarter of 2016 (preliminary data)—

- Approximately 10,750 single-family homes were permitted in the Rocky Mountain region, up 4 percent from the 10,300 homes permitted during the same period a year earlier.
- The greatest increase in the region occurred in Utah, where single-family permitting was up 11 percent, to approximately 3,325 homes. In the Provo metropolitan area, nearly 1,175 homes were permitted, a 43-percent increase from a year earlier. In Colorado, single-family permitting increased 4 percent, to about 5,050 homes. Although single-family permitting was up nearly 9 percent in the Denver metropolitan area, to approximately 2,700 homes, homebuilding activity in the Fort Collins and Greeley metropolitan areas declined 15 and 17 percent, to about 420 and 440 homes permitted, respectively.

- In Montana and South Dakota, single-family permitting increased 6 and 29 percent, to about 620 and 750 homes, respectively. In the Sioux Falls metropolitan area, permitting nearly doubled, to about 420 homes, but in the Billings and Great Falls metropolitan areas permitting declined 42 and 25 percent, to approximately 95 and 40 homes, respectively.
- Homebuilding activity in Wyoming and North Dakota declined 20 and 21 percent, to approximately 350 and 640 homes permitted, respectively. Although single-family permitting was up 3 percent in the Fargo metropolitan area, to 400 homes, construction decreased 21, 25, and 36 percent, respectively, in the Casper, Cheyenne, and Grand Forks metropolitan areas.

Single-family homebuilding in the Rocky Mountain region was up from a year ago, led by gains in Colorado, South Dakota, and Utah.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

Strong home sales demand led to rising prices in most of the major metropolitan areas in the Rocky Mountain region, but home sales declined in some areas.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Billings (N&E)	September	4,075	3,950	- 3	AVG	230,800	238,300	3
Casper (N&E)	September	2,225	1,775	- 20	AVG	240,600	241,700	0
Colorado Springs (N&E)	September	17,100	19,200	12	AVG	248,900	262,100	5
Denver (N&E) ^a	September	59,200	59,250	0	AVG	352,500	388,000	10
Fargo (N&E)	September	5,550	5,075	- 9	AVG	217,100	227,900	5
Fort Collins (N&E)	September	8,825	8,625	- 2	AVG	317,600	349,900	10
Provo (N&E) ^b	September	8,575	8,475	- 1	AVG	262,600	282,900	8
Salt Lake City (N&E) ^b	September	17,050	17,300	1	AVG	281,700	298,400	6
Sioux Falls (N&E) ^c	September	4,475	4,550	2	AVG	192,600	205,900	7

AVG = average. N&E = new and existing.
 Notes: All figures are rounded. Salt Lake City data are for Salt Lake County only; Ogden data are for Davis, Morgan, and Weber Counties only.
 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.



Apartment Market Conditions

Apartment market conditions in the third quarter of 2016 were mixed in the Rocky Mountain region, ranging from slightly soft to tight in the largest metropolitan areas. The apartment market in the Denver metropolitan area remained slightly tight, with a 5.0-percent vacancy rate, up from 4.2 percent a year earlier (*Apartment Insights*). The rise in vacancy was largely because of new supply, with more than 9,000 new units entering the market in the past 12 months. The average rent was up 4 percent from a year ago, to \$1,329. In the Colorado Springs metropolitan area, conditions were tight, with a 3.6-percent vacancy rate, down from 4.7 percent a year ago, and the average apartment rent increased 9 percent, to \$948. Although approximately 700 units were completed in the past 12 months, absorption surpassed the increase in supply.

In the Salt Lake City metropolitan area, apartment conditions were slightly tight, with a 3.6-percent vacancy rate, down from 3.9 percent a year earlier, and apartment rents were up 6 percent, to an average of \$917 (Reis, Inc.). Although the growth in apartment supply was strong, with approximately 3,000 units a year completed in the past 2 years, growth in demand allowed for the units to be absorbed quickly. In the Provo metropolitan area, however, a recent surge in new apartment completions outpaced demand, and conditions are currently slightly soft. The apartment vacancy rate spiked to 9.2 percent in the third quarter of 2016, up from 4.3 percent a year earlier. Despite the increase in vacancies, the average apartment rent was up 8 percent, to \$935.

An increase in supply also caused apartment conditions in the Fargo metropolitan area to become slightly soft, with a 7.7-percent

vacancy rate in the third quarter of 2016, up from 5.8 percent a year earlier (Appraisal Services, Inc.). Approximately 1,450 new units were completed during the past 12 months. Apartment conditions continued softening in the energy-producing areas in the region because of declining demand; those markets are generally soft. In the Williston area and the Casper metropolitan area, vacancies more than doubled in the past year; in the third quarter of 2016, the apartment vacancy rates were estimated at 30 and 15 percent, respectively.

Despite softer apartment market conditions in some areas in the region, multifamily construction activity remained strong. During the third quarter of 2016 (preliminary data)—

- Approximately 6,575 multifamily units were permitted in the region, an 11-percent increase from a year earlier. Increased construction in Colorado and Montana offset declines in North Dakota, South Dakota, and Utah.
- The greatest increase in the region occurred in Colorado, where approximately 3,600 units were permitted, up from 2,750 units during the same period a year ago. Strong growth in multifamily construction in the Denver and Fort Collins metropolitan areas offset declines in the Boulder, Colorado Springs, and Greeley metropolitan areas. In Montana, nearly 600 units were permitted, up from 365 units a year earlier. Most of the increase in construction in the state occurred in the Missoula metropolitan area, where 380 units were permitted, up from 50 units a year earlier.

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An increase in apartment completions caused vacancies to rise in much of the Rocky Mountain region, but conditions remained somewhat tight in many metropolitan areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2015 (%)	3Q 2016 (%)	Percentage Point Change	3Q 2015 (\$)	3Q 2016 (\$)	Percent Change
Cheyenne	Balanced	NA	NA	NA	NA	NA	NA
Colorado Springs ^a	Tight	4.7	3.6	- 1.1	869	948	9
Denver ^a	Slightly tight	4.2	5.0	0.8	1,280	1,329	4
Fargo ^b	Slightly soft	5.8	7.7	1.9	NA	NA	NA
Missoula ^c	Slightly tight	3.5	3.1	- 0.4	1,040	1,041	0
Provo ^d	Slightly soft	4.3	9.2	4.9	866	935	8
Rapid City ^d	Balanced	4.4	4.0	- 0.4	795	797	0
Salt Lake City ^d	Slightly tight	3.9	3.6	- 0.3	864	917	6

3Q = third quarter. NA = data not available.

Note: Fargo apartment vacancy rates as of March 1.

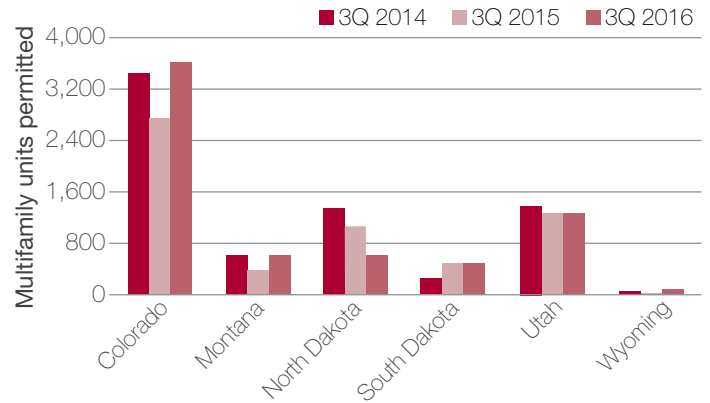
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) *Apartment Insights*; (b) Appraisal Services, Inc.; (c) Axiometrics, Inc. (d) Reis, Inc.



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- In Utah, construction activity slowed slightly, to approximately 1,250 units permitted, a 1-percent decrease from a year earlier. Multifamily construction activity was down from a year ago in the Salt Lake City and Ogden metropolitan areas, but multifamily permitting more than tripled, to about 310 units permitted, in the Provo metropolitan area despite the softer apartment conditions in that market.
- In North Dakota, multifamily building activity was down 44 percent from a year earlier, to 580 units permitted, and, in South Dakota, multifamily building activity was down 2 percent, to about 470 units permitted. In the Fargo and Sioux Falls metropolitan areas, multifamily permitting declined 25 and 43 percent, to about 570 and 230 units permitted, respectively. In Wyoming, multifamily construction remained relatively subdued, with only about 60 units permitted statewide during the most recent quarter, up from 20 units a year earlier.

Multifamily construction in the Rocky Mountain region was up from a year ago, with a sharp rebound in Colorado offsetting declines in other areas.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

