HUD PD&R Regional Reports

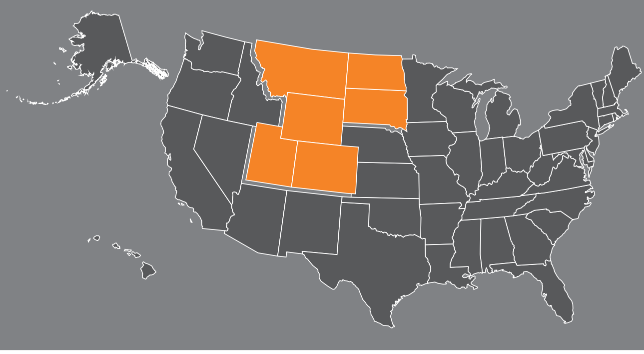
Region 8: Rocky Mountain

Denver, Colorado

Quick Facts About Region 8

- **Sales market conditions—**
  Second quarter 2016: tight.
  First quarter 2016: tight.
  Second quarter 2015: tight.

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



By Sam Young | 2nd quarter 2016

Overview

The economy in the Rocky Mountain region continued its sixth year of expansion during the second quarter of 2016, with nonfarm payrolls increasing 1.7 percent from a year earlier. Although recent job growth was less than the 2.6-percent average annual rate of the past 3 years, payrolls in the region continued to grow at a solid pace. As a result of continued job growth, labor market conditions are somewhat tight in some parts of the region. The unemployment rate in the region averaged 3.8 percent in the second quarter of 2016, unchanged from a year ago, and was the lowest second quarter rate since 2008. Home sales demand is strong and sales housing market conditions were tight in most metropolitan areas in the region. In the second quarter of 2016, prices for existing homes within the states in the region increased at rates ranging from 1 to 10 percent. Apartment conditions ranged from tight to soft in most metropolitan areas in the region. A significant number of new apartments were completed in the past 12 months, and new supply has outstripped demand in the short term in some markets.

During the second quarter of 2016—

- Growth in the healthcare and tourism industries led regional payroll gains. Job growth was particularly strong in Utah, which tied with Oregon for the greatest rate of nonfarm payroll growth in the nation. Offsetting this increase, North Dakota and Wyoming led the nation with the greatest rates of payroll declines, led by losses in the mining and logging subsector.

continued on page 2

continued from page 1

- Single-family home construction was up nearly 8 percent from a year ago, and existing home sales increased in many metropolitan areas, where economic conditions continued to improve. Strong home sales market conditions and continued sales demand caused home prices to increase in most major metropolitan areas in the region.
- Apartment market conditions eased in some metropolitan areas in the past 12 months as new units were completed. Multifamily construction activity was up in the Denver and Salt Lake City metropolitan areas and increased significantly in some of the smaller metropolitan areas of the region.

Economic Conditions

The economy of the Rocky Mountain region continued to grow at a steady rate in the second quarter of 2016 as the current economic expansion entered its sixth year. Nonfarm payrolls increased by 96,000 jobs, or 1.7 percent, from a year earlier, to 5.65 million jobs, led by growth in the tourism and healthcare industries. The education and health services and the leisure and hospitality sectors had the strongest payroll growth, increasing by 27,400 and 21,700 jobs, or 3.8 and 3.4 percent, respectively. These gains were partially offset by declines in the mining, logging, and construction and the transportation and utilities sectors. Declines of 18,700 jobs, or 15 percent, in the mining and logging subsector offset construction job gains of 11,100, or 3.5 percent. Increased commercial construction, including the anticipated completion of 3.1 million square feet of office space in Salt Lake City and 2.5 million square feet in Denver during 2016, is supporting regional construction employment, as is increasing single-family and multifamily construction (Marcus & Millichap). The continued job growth in the region led to further tightening in the labor market. The unemployment rate in the region averaged 3.8 percent in the second quarter of 2016, equal to the rate of a year ago. All states in the region, excepting Wyoming, had unemployment rates that were less than the 4.8-percent national average in the second quarter of 2016.

During the second quarter of 2016—

- Colorado had the greatest job gain in the region. Nonfarm payrolls were up by 65,200 jobs, or 2.6 percent, led by growth in the education and health services sector and the construction subsector of 14,500 and 11,800 jobs, or 4.7 and 7.9 percent, respectively. The state received a record 77.7 million visitors in 2015, up 31 percent from 2014, and the fifth consecutive record-setting year (Colorado Tourism Office). In addition, the construction subsector grew by 12,000 jobs, or 8.5 percent, partly because of increased homebuilding activity.

continued on page 3

Nonfarm payrolls expanded in the Rocky Mountain region in the second quarter of 2016, with growth occurring in nearly every sector.

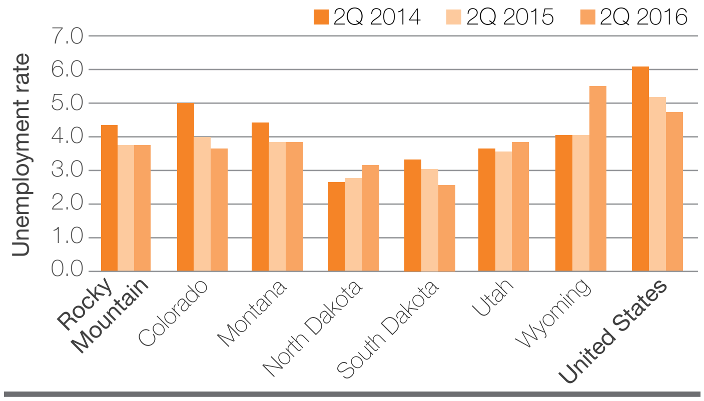
	Second Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,556.0	5,652.0	96.0	1.7
Goods-producing sectors	801.6	798.0	– 3.6	– 0.4
Mining, logging, and construction	440.7	433.1	– 7.6	– 1.7
Manufacturing	360.9	364.9	4.0	1.1
Service-providing sectors	4,754.4	4,854.0	99.6	2.1
Wholesale and retail trade	838.8	849.7	10.9	1.3
Transportation and utilities	207.2	203.7	– 3.5	– 1.7
Information	127.0	128.7	1.7	1.3
Financial activities	325.1	332.4	7.3	2.2
Professional and business services	718.2	731.9	13.7	1.9
Education and health services	720.0	747.4	27.4	3.8
Leisure and hospitality	631.7	653.4	21.7	3.4
Other services	202.6	204.6	2.0	1.0
Government	983.8	1,002.2	18.4	1.9

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

continued from page 2

- Utah tied with Oregon for the greatest rate of nonfarm payroll growth in the nation, at 3.4 percent. Payrolls in Utah increased by 46,700 jobs from a year earlier. The greatest gains occurred in the education and health services and the leisure and hospitality sectors, which grew by 9,600 and 8,100 jobs, or 5.3 and 6.0 percent, respectively.
- Recent declines in oil prices led to sharp payroll declines in North Dakota and Wyoming. Both states now lead the nation with the greatest rate of payroll declines, falling by 16,100 and 9,200 jobs, or 3.5 and 3.2 percent, respectively. The mining and logging subsector in North Dakota and Wyoming declined by 7,300 and 5,000 jobs, or 30.7 and 20.9 percent, respectively, continuing a decline from the peak in December 2014.
- Job growth rates in South Dakota and Montana were also less than the national average of 1.7 percent, with nonfarm payrolls increasing by 6,000 and 3,500 jobs, or 1.4 and 0.8 percent, respectively. In South Dakota, payroll increases in the retail trade subsector and the education and health services sector were partly offset by decreases in the manufacturing sector. In Montana, job gains in the education and health services sector were partly offset by job losses in the mining and logging subsector.

The unemployment rate in the Rocky Mountain region remained flat in the second quarter of 2016.



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

Sales Market Conditions

Continued job growth in the Rocky Mountain region contributed to strong home sales demand. Sales housing market conditions were tight in the second quarter of 2016 and home sales prices increased in all states in the region. In Colorado, existing home prices in May 2016 were up 9 percent from a year earlier, and, in Utah, Montana, and Wyoming, existing home prices increased 8, 5, and 4 percent, respectively (CoreLogic, Inc. Home Price Index). In South Dakota and North Dakota, prices for existing homes were up 3 and 1 percent, respectively, from a year earlier.

The supply of homes for sale was low in many metropolitan areas in the region. In the Denver metropolitan area, the number of homes listed for sale in June 2016 represented a 2.7-month supply at the current sales rate, down from 3.5 months of supply a year earlier (Colorado Association of Realtors®). The Colorado Springs metropolitan area had a 1.2-month supply of homes for sale in June 2016, down slightly from a 1.3-month supply a year earlier (Pikes Peak Association of Realtors®). In the Wasatch Front metropolitan areas of Utah, the number of active listings in May 2016 represented a 3.1-month supply, down from 4.5 months of supply a year earlier (Utah Association of Realtors®), and the Sioux Falls metropolitan area had a 2.8-month supply of homes for sale in June 2016, down from a 4.8-month supply a year earlier (Realtor® Association of the Sioux Empire, Inc.). The limited inventory of active home listings and sharp declines in relatively high-paying jobs in the mining and logging subsector contributed to a decline in home sales in some states and metropolitan areas in the region. In North Dakota and Wyoming, during the 12 months ending May 2016, existing home sales declined 11 and 8 percent, to approximately 12,000 and 9,375 homes sold, respectively. In Colorado and Utah, however, sales of existing homes were up 6 percent each from a year earlier, to approximately 124,200 and 60,000 homes sold, respectively (CoreLogic, Inc.). In the Colorado Springs, Salt Lake City, and Denver metropolitan areas, home sales increased 17, 10, and 4 percent, to 15,850, 23,225, and 63,150 homes sold, respectively, but, in the Fargo and Cheyenne metropolitan areas, existing home sales decreased 7 and 1 percent, to 4,425 and 2,350 homes sold, respectively.

Continued home price increases in the region contributed to declines in the rates of seriously delinquent mortgages (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties. In May 2016, 1.3 percent of mortgages in the region were seriously delinquent or had transitioned into REO status, down from 1.6 percent a year earlier (CoreLogic, Inc.). Seriously delinquent mortgage and REO property rates declined in Colorado, Montana, South Dakota, and Utah, and ranged from 1.1 percent in Colorado to 1.4 percent in Utah. Rates remained flat in Wyoming and increased in North Dakota. The rates for all states in the region were much less than the 2.9-percent national average.

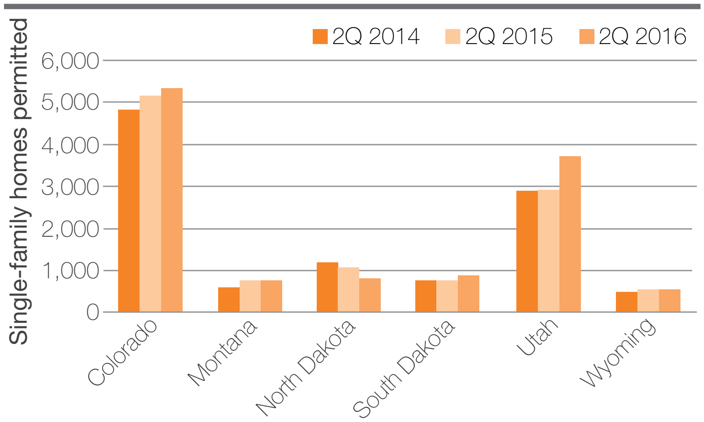
continued on page 4

continued from page 3

The strong home sales demand led to increased single-family homebuilding activity in the Rocky Mountain region. During the second quarter of 2016 (preliminary data)—

- Single-family home construction, as measured by the number of homes permitted, was up nearly 8 percent from a year earlier in the region, to approximately 11,850 homes permitted.
- The greatest increase in single-family homebuilding in the region occurred in Utah, where single-family permitting was up 26 percent from a year ago, to approximately 3,700 homes permitted. In the Provo, Salt Lake City, and Ogden-Clearfield metropolitan areas, permitting of single-family homes increased 46, 26, and 11 percent, to approximately 1,275, 1,250, and 650 homes, respectively.
- In Montana, Colorado, Wyoming, and South Dakota, permitting of single-family homes increased 2, 3, 3, and 11 percent, to approximately 680, 5,350, 500, and 820 homes, respectively. In the Cheyenne, Colorado Springs, Sioux Falls, and Denver metropolitan areas, single-family home permitting increased 80, 24, 24, and 1 percent, to 170, 1,100, 460, and 2,650 homes, respectively.
- In North Dakota, single-family homebuilding activity decreased nearly 21 percent from a year earlier, to 810 homes permitted. Single-family permitting in the Bismarck metropolitan area remained flat, at 250 homes. In the Fargo metropolitan area, single-family permitting declined nearly 11 percent, to 450 homes permitted.

Single-family home construction increased in the Rocky Mountain region overall, with the only decline in North Dakota.



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

Home sales were mixed, but prices increased in nearly all the major metropolitan areas in the Rocky Mountain region.

	12 Months Ending	Number of Homes Sold			Price			
		2015	2016	Percent Change	Average or Median	2015 ($)	2016 ($)	Percent Change
Cheyenne (E)	May	2,375	2,350	– 1	AVG	221,800	232,050	5
Colorado Springs (E)	May	13,550	15,850	17	AVG	232,400	243,400	5
Denver (E)	May	60,800	63,150	4	AVG	322,250	350,900	9
Fargo (E)	May	4,750	4,425	– 7	AVG	180,800	198,900	10
Missoula (E)	May	2,025	2,200	9	AVG	260,400	263,800	1
Ogden (E)	May	12,175	13,025	7	AVG	228,450	236,050	3
Salt Lake City (E)	May	21,200	23,225	10	AVG	278,400	291,400	5
Sioux Falls (N&E)	June	3,425	3,400	– 1	AVG	174,700	183,200	5

AVG = average. E = existing. N&E = new and existing.
Notes: All figures are rounded. Sales data include single-family homes, townhomes, and condominiums.
Sources: Sioux Falls—Realtor® Association of the Sioux Empire, Inc.; all other metropolitan areas—CoreLogic, Inc., with adjustments by the analyst

Apartment Market Conditions

Apartment market conditions in the Rocky Mountain region in the second quarter of 2016 ranged from tight to soft in most metropolitan areas of the region. Approximately 26,800 new apartment units were completed during the past 12 months compared with an annual average of 18,000 units from 2010 through 2013, outstripping rental demand and slightly easing tight apartment market conditions in some metropolitan areas. In the Denver metropolitan area, apartment conditions improved slightly in the second quarter of 2016 but remain slightly tight, with the vacancy rate rising to 5.1 percent from 4.2 percent a year earlier, as the completion of more than 7,300 new apartments during the past 12 months outstripped demand (Apartment Insights). Nearly 46,000 apartments are under

continued on page 5

continued from page 4

construction or in various stages of planning in the Denver metropolitan area, including nearly 20,700 units expected to be complete by the end of 2017, so it appears likely the apartment vacancy rate will continue to rise in the coming months as the number of units in lease up increases. In the Colorado Springs metropolitan area, strengthening economic conditions and net in-migration are leading to increased apartment absorption, which was nearly double the number of apartments completed during 2015 and the first 6 months of 2016. As a consequence, the vacancy rate fell to 4.0 percent and apartment market conditions are tight. Average monthly apartment rents in the Denver and Colorado Springs metropolitan areas rose 7 and 6 percent from a year ago, to $1,345 and $911, respectively.

In the Salt Lake City metropolitan area, the construction of more than 2,800 new apartments was completed during the past 12 months. Nevertheless, the tight apartment market conditions eased only slightly, to a 4.0-percent vacancy rate in the second quarter of 2016, up from 3.7 percent a year ago (Reis, Inc.). In the Ogden metropolitan area, approximately 700 units were completed in the past 12 months. Apartment conditions remained slightly tight, with the vacancy rate increasing from 4.1 to 4.2 percent. Average monthly apartment rents increased 4 and 2 percent from a year earlier in the Salt Lake City and Ogden metropolitan areas, to $893 and $801, respectively. Balanced apartment conditions in the Sioux Falls metropolitan area eased in the second quarter of 2016 because of a large number of recent apartment completions, and conditions are now slightly soft, with a 7.6-percent vacancy rate, up from 5.5 percent a year earlier. The average monthly apartment rent increased 6 percent from a year earlier, however, to $824. In the Fargo metropolitan area, approximately 1,400 apartment units were completed in 2015, and apartment conditions eased somewhat, leading to slightly soft market conditions. The apartment vacancy rate in March 2016 was 6.7 percent, up from 4.5 percent a year earlier (Appraisal Services, Inc.). In the areas of western North Dakota near the Bakken Oil Shale Formation, apartment conditions continued to soften considerably because of falling oil prices and declines in drilling and exploration activity. The apartment vacancy rate in Williston was estimated at 29 percent in the second quarter of 2016 compared with about 6 percent a year earlier (analyst's estimates). During the same period, average apartment rents declined from approximately $2,250 to $1,025 a month.

Multifamily construction, as measured by the number of units permitted, in the Rocky Mountain region increased from a year ago, with large gains concentrated in the smaller metropolitan areas of states in the region. During the second quarter of 2016 (preliminary data)—

- Approximately 8,200 multifamily units were permitted in the region, up 12 percent from a year earlier. Increased multifamily construction activity in Colorado and South Dakota offset declines in the other states in the region.
- In Colorado, multifamily permitting was up 31 percent from a year earlier, to approximately 4,375 units permitted. Nearly 70 percent of statewide activity was in the Denver metropolitan area, but the strongest increases were concentrated in Boulder and Colorado Springs. Activity in Denver increased 30 percent, to 3,025 units permitted, and permitting more than tripled in Colorado Springs and nearly doubled in Boulder, to 450 and 410 units, respectively. Multifamily permitting was down from a year earlier, however, in the Fort Collins and Grand Junction metropolitan areas.

continued on page 6

Many new apartments have been completed in the past 12 months, and conditions in some metropolitan areas in the Rocky Mountain region are softening.

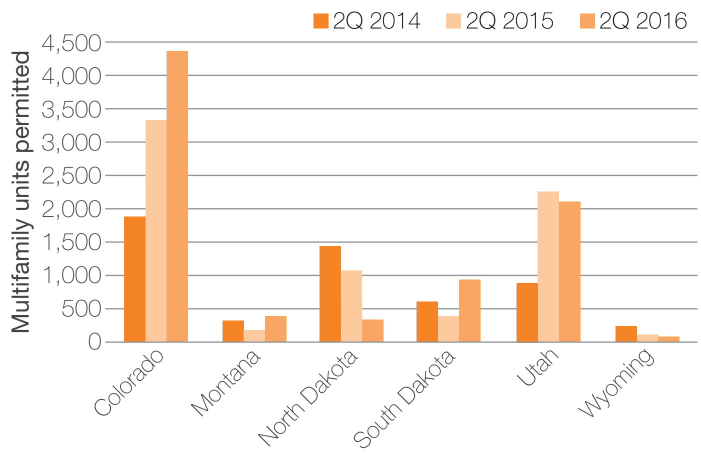
	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2015 (%)	2Q 2016 (%)	Percentage Point Change	2Q 2015 ($)	2Q 2016 ($)	Percent Change
Billings	Tight	NA	NA	NA	NA	NA	NA
Casper	Soft	NA	NA	NA	NA	NA	NA
Colorado Springs[a]	Tight	5.3	4.0	– 1.3	859	911	6
Denver[a]	Slightly tight	4.2	5.1	0.9	1,260	1,345	7
Fargo[b]	Slightly soft	4.5	6.7	2.2	NA	NA	NA
Ogden[c]	Slightly tight	4.1	4.2	0.1	785	801	2
Salt Lake City[c]	Tight	3.7	4.0	0.3	860	893	4
Sioux Falls[c]	Slightly soft	5.5	7.6	2.1	775	824	6

2Q = second 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) Reis, Inc.

continued from page 5

- In Utah, multifamily permitting was down 6 percent from a year earlier, to approximately 2,150 units permitted. In the Salt Lake City metropolitan area, however, multifamily activity increased more than 11 percent from a year earlier, to approximately 1,450 units permitted, and, in the Ogden metropolitan area, multifamily permitting increased more than fourfold, to approximately 400 units permitted compared with 75 units a year earlier. These gains offset steep declines in Provo, where multifamily permitting fell from 840 units to 210 units during the period.
- Multifamily permitting more than doubled in South Dakota and increased 85 percent in Montana, to 930 and 360 units, respectively. Offsetting these gains, permitting in North Dakota and Wyoming declined 68 and 43 percent, to 350 and 50 units, respectively. Although construction activity sharply increased in the Cheyenne, Missoula, Rapid City, and Sioux Falls metropolitan areas, multifamily permitting decreased in the Bismarck, Casper, and Fargo metropolitan areas from a year earlier.

Multifamily construction increased strongly in Colorado and South Dakota, offsetting declines in some other states of the Rocky Mountain region.



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