

HUD PD&R Regional Reports

Region 8: Rocky Mountain

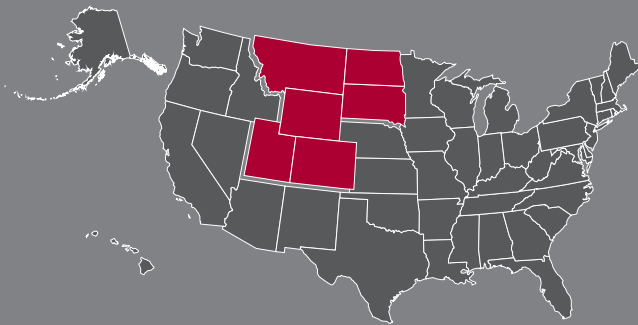


Fargo, North Dakota

By James Conner | 3rd quarter 2015

Quick Facts About Region 8

- **Sales market conditions—**
Third quarter 2015: tight.
Second quarter 2015: tight.
Third quarter 2014: slightly tight.
- **Apartment market conditions—**
Third quarter 2015: mixed (balanced to tight).
Second quarter 2015: slightly tight.
Third quarter 2014: tight.



Overview

The economy expanded in the Rocky Mountain region in the third quarter of 2015, continuing a growth trend that began in the third quarter of 2010, but the rate of job growth has declined in the past 6 months. Nonfarm payrolls increased 2.0 percent from a year earlier in the third quarter of 2015 compared with 2.9-percent growth from the third quarter of 2013 to the third quarter of 2014. Labor market conditions remained tight, however, and every state in the region had an unemployment rate of 3.7 percent or less. Home sales demand remained strong, with sales of new and existing homes in the region up 10 percent from a year earlier, despite a low inventory of homes for sale in many metropolitan areas. Sales prices for new and existing homes were up from a year earlier in every state in the region during the 12 months ending September 2015, and single-family homebuilding in the third quarter was up 7 percent. Apartment market conditions ranged from balanced to tight in the major metropolitan areas in the region. Although many new apartments were completed in the 12 months ending September 2015, the units were absorbed quickly, and in most metropolitan areas vacancies increased only moderately. Permitting of multifamily units was down 7 percent from a year earlier in the third quarter of 2015, so the recent easing in apartment markets may be temporary.

- Growth in the tourism, healthcare, and construction industries led the payroll gains in the region during the third quarter of 2015. The leisure and hospitality sector, education and health

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services sector, and construction subsector, combined, increased by more than 69,000 jobs. This growth was partly offset by a loss of 8,500 jobs in the mining and logging subsector.

- Home sales in Utah, Colorado, and Montana were up 17, 11, and 11 percent, respectively, from a year earlier during the 12 months ending September 2015, offsetting declines in North Dakota and South Dakota of 5 and 2 percent, respectively.

Single-family home construction was also up strongly in Utah, Colorado, and Montana but down in North Dakota and South Dakota.

- Apartment market conditions eased slightly in some metropolitan areas as new units were completed, but market conditions in most parts of the region remained tight or slightly tight during the third quarter of 2015. Multifamily construction activity increased in Utah and South Dakota but declined elsewhere in the region.

Economic Conditions

The economy in the Rocky Mountain region continued to expand in the third quarter of 2015 after more than 5 years of growth, but the rate of growth slowed. Nonfarm payrolls increased by 111,200 jobs, or 2.0 percent, from a year earlier, to 5.58 million jobs. By comparison, nonfarm payroll growth averaged nearly 3.0 percent a year from 2012 through 2014. The slowdown in job growth was largely because of lower oil prices, which led to reduced oil exploration and drilling activity in parts of the region. Approximately 440 drilling rigs were active in the region in the third quarter of 2015, a 60-percent decrease from a year earlier (RigData). Payrolls in the mining and logging subsector in the third quarter of 2015 were down by approximately 8,500 jobs, or 7.1 percent, from a year earlier in the region, with more than 90 percent of the job losses occurring in North Dakota and Wyoming.

Job growth in the region remained strong, however, in the leisure and hospitality and the education and health services sectors, with increases of 29,500 and 26,100 jobs, or 4.6 and 3.8 percent, respectively. Growth in tourism contributed to expansion in the

hospitality industry. More than 35 new hotels, containing more than 3,400 rooms, opened in the region in the first 9 months of 2015. In addition, hiring is under way at more than a dozen hotels nearing completion, including the 170-room Courtyard by Marriott at Union Station in downtown Salt Lake City, the 361-room Hyatt House in downtown Denver, and the 519-room Westin at Denver International Airport. Population growth and rising demand for healthcare services in the region have led to the construction of new hospitals, including the \$80 million Mountain Point Medical Center in Lehi, Utah, and the \$623 million Saint Joseph Hospital in Denver. These projects contributed to gains in the construction subsector of 13,600 jobs, or 4.0 percent. Labor market conditions continued to tighten in the third quarter of 2015. The unemployment rate in the region averaged 3.6 percent, its lowest third quarter rate since 2007 and down from 4.0 percent a year earlier. The unemployment rate for every state in the region in the third quarter of 2015 was much less than the 5.2-percent national average, ranging from 2.4 percent in North Dakota to 3.7 percent in Colorado and Utah.

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Nonfarm payroll growth continued in the Rocky Mountain region in the third quarter of 2015.

	Third Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,464.7	5,575.9	111.2	2.0
Goods-producing sectors	820.4	835.0	14.6	1.8
Mining, logging, and construction	463.1	468.2	5.1	1.1
Manufacturing	357.3	366.7	9.4	2.6
Service-providing sectors	4,644.3	4,740.9	96.6	2.1
Wholesale and retail trade	825.8	835.8	10.0	1.2
Transportation and utilities	206.2	208.2	2.0	1.0
Information	127.4	126.5	-0.9	-0.7
Financial activities	320.7	330.4	9.7	3.0
Professional and business services	708.7	717.6	8.9	1.3
Education and health services	694.0	720.1	26.1	3.8
Leisure and hospitality	639.7	669.2	29.5	4.6
Other services	201.0	202.1	1.1	0.5
Government	920.9	930.9	10.0	1.1

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

Source: U.S. Bureau of Labor Statistics



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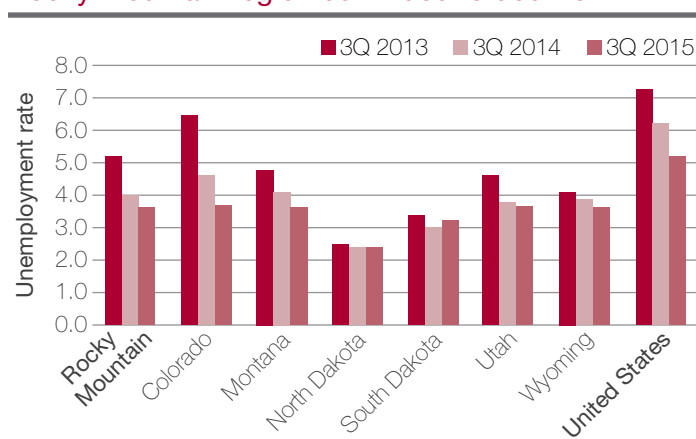
During the third quarter of 2015—

- Nonfarm payrolls in North Dakota and Wyoming decreased by 4,700 and 400 jobs, or 1.0 and 0.1 percent, respectively, largely because of mining and logging subsector payroll declines of 3,400 and 4,500 jobs, or 11.1 and 16.3 percent, respectively. Despite the job losses, North Dakota's unemployment rate remained unchanged at 2.4 percent, the lowest rate in the nation. Although resident employment decreased 2.2 percent, the labor force declined at a corresponding rate, in part because some workers began leaving the state.
- Utah had the highest rate of job growth in the nation in the third quarter of 2015, at 4.2 percent, an increase of 55,400 jobs from a year earlier. The greatest gains occurred in the leisure and hospitality, professional and business services, and education and health services sectors, which grew by 11,800, 10,800, and 9,400 jobs, or 9.0, 5.8, and 5.5 percent, respectively.
- In Colorado, nonfarm payrolls were up by 47,700 jobs, or 1.9 percent, from a year earlier, led by growth in the leisure and hospitality and the education and health services sectors and the construction subsector of 14,100, 14,000, and 9,500 jobs, or 4.5, 4.7, and 6.4 percent, respectively. These gains were partly offset by declines in the professional and business services and the information sectors of 3,200 and 2,500 jobs, or 0.8 and 3.5 percent, respectively.
- In Montana, nonfarm payrolls were up by 4,500 jobs, or 1.0 percent. Although payrolls declined in the mining and logging subsector and the leisure and hospitality sector by 300 and 900 jobs, or 3.2 and 1.4 percent, respectively, these losses

were more than offset by gains in the wholesale and retail trade, professional and business services, and education and health services sectors of 2,400, 800, and 800 jobs, or 3.2, 2.0, and 1.2 percent, respectively.

- The rate of job growth increased in South Dakota, surpassing the national average growth rate for the first time in nearly 4 years. Nonfarm payrolls in South Dakota were up by 8,800 jobs, or 2.0 percent, led by gains in the education and health services and the professional and business services sectors and the construction subsector of 1,400, 700, and 1,200 jobs, or 2.1, 2.3, and 6.3 percent, respectively.

Unemployment rates in nearly every state in the Rocky Mountain region continued to decline.



3Q = third quarter.

Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Home sales demand remained strong in the Rocky Mountain region in the third quarter of 2015, and sales housing market conditions were tight. The supply of homes for sale remained low in many metropolitan areas in the region. In the Ogden, Provo, and Salt Lake City metropolitan areas of Utah, combined, the number of active listings in August 2015 represented a 3.3-month supply at the current sales rate, down from a 4.8-month supply a year earlier (Utah Association of Realtors®). The Sioux Falls metropolitan area had a 4.0-month supply of homes for sale in September 2015, down from a 6.3-month supply a year earlier (Realtor® Association of the Sioux Empire, Inc.). The Colorado Springs metropolitan area had a 2.7-month supply of homes for sale in September 2015, up from a 2.0-month supply a year earlier (Pikes Peak Association of Realtors®), and the Denver metropolitan area had a 2.0-month supply of homes for sale in September 2015, down from a 2.7-month supply a year earlier (Colorado Association of Realtors®).

Despite the limited number of active home listings, home sales and prices were up in most parts of the region. Sales of new and existing

homes in the region during the 12 months ending September 2015 were up 10 percent from a year earlier, to approximately 258,000 homes sold (Metrostudy, A Hanley Wood Company, and adjustments by the analyst). Although home sales in North Dakota and South Dakota declined 5 and 2 percent, to approximately 15,000 and 9,900 homes sold, respectively, sales activity increased strongly in other parts of the region. In Colorado and Utah, new and existing home sales increased 11 and 17 percent, to 133,200 and 70,500 homes sold, respectively. In Montana and Wyoming, sales increased 11 and 7 percent, to 19,950 and 9,350 homes sold, respectively. Average sales prices for new and existing homes were up in every state in the region. In South Dakota, home prices were up 2 percent, to approximately \$176,900. Prices increased 3 percent in North Dakota, Montana, and Utah, to \$218,800, \$245,300, and \$272,300, respectively. In Colorado and Wyoming, home sales prices were up 8 and 9 percent, to \$330,800 and \$282,000, respectively. Home sales and average prices for homes sold also increased in nearly all the major metropolitan areas in the region.

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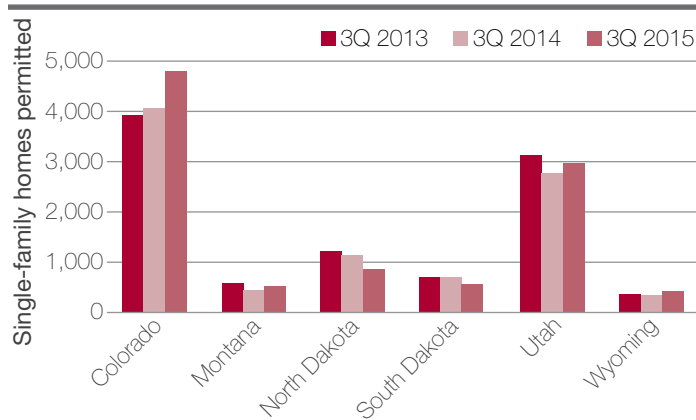
The strong home sales demand and continued price increases in the region contributed to declines in the rates of seriously delinquent mortgages (those 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties. In September 2015, 1.9 percent of mortgages in the region were seriously delinquent or had transitioned into REO status, down from 2.2 percent a year earlier (Black Knight Financial Services, Inc.). Seriously delinquent and REO property rates declined in nearly every state in the region and ranged from 1.3 percent in North Dakota to 2.4 percent in Utah; every state in the region had a rate much less than the 4.2-percent national average.

Continued economic growth and strong home sales demand led to increased single-family construction activity for the region, despite declines in some areas. During the third quarter of 2015 (preliminary data)—

- Construction of single-family homes, as measured by the number of homes permitted, was up 7 percent in the region from a year earlier, to approximately 10,250 homes.
- Colorado, where single-family permitting was up 18 percent from a year earlier, to approximately 4,850 homes, had the greatest increase in homebuilding in the region. In the Denver and Colorado Springs metropolitan areas, permitting of single-family homes increased 26 and 46 percent, to approximately 2,475 and 880 homes, respectively.
- In Utah, single-family homebuilding activity increased 8 percent from a year earlier, to approximately 3,000 homes permitted. In the Ogden, Salt Lake City, and Provo metropolitan areas, permitting of single-family homes increased 17, 15, and 4 percent, to about 480, 1,110, and 640 homes, respectively.

- In Wyoming and Montana, single-family homebuilding was up 19 and 9 percent from a year ago, to approximately 430 and 540 homes permitted, respectively. Homebuilding was down 29 and 6 percent in the Casper and Billings metropolitan areas, respectively, but construction increased 84 and 76 percent in the Cheyenne and Missoula metropolitan areas, respectively.
- Homebuilding activity in North Dakota and South Dakota declined 26 and 15 percent, to approximately 860 and 580 homes permitted, respectively. In the Fargo, Sioux Falls, and Bismarck metropolitan areas, permitting of single-family homes decreased 21, 28, and 31 percent, respectively, from a year ago.

Single-family construction activity increased in the Rocky Mountain region, with strong growth in Colorado and Utah offsetting declines in some other states.



3Q = third quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

Home sales and prices increased in most major metropolitan areas in the Rocky Mountain region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2014	2015	Percent Change		2014 (\$)	2015 (\$)	Percent Change
Billings (N&E)	September	3,525	3,925	11	AVG	228,100	229,200	0
Casper (N&E)	September	2,125	2,150	1	AVG	239,300	240,500	1
Colorado Springs (N&E)	September	13,750	16,650	21	AVG	238,700	249,000	4
Denver (N&E)	September	63,000	67,200	7	AVG	315,400	346,900	10
Fargo (N&E)	September	5,025	4,900	-2	AVG	210,400	216,900	3
Fort Collins (N&E)	September	8,200	8,525	4	AVG	287,800	318,000	10
Provo (N&E)	September	11,300	14,650	30	AVG	262,500	275,300	5
Salt Lake City (N&E)	September	22,550	25,750	14	AVG	274,200	279,900	2
Sioux Falls (N&E)	September	4,000	4,450	11	AVG	178,300	192,700	8

AVG = average. N&E = new and existing.

Note: All figures are rounded.

Sources: Sioux Falls—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 demand is currently strong in the Rocky Mountain region. Despite the completion of many new apartments, market conditions in most metropolitan areas in the region ranged from slightly tight to tight in the third quarter of 2015, although vacancies in the Fargo metropolitan area increased significantly because of apartment completions, and that market is currently balanced. Apartment market conditions remained tight in the Denver metropolitan area, with a 4.2-percent vacancy rate in the third quarter of 2015, up slightly from 4.0 percent a year earlier (*Apartment Insights*). Nearly 8,300 new apartments were completed in the Denver metropolitan area during the first 9 months of 2015, but most of the units were absorbed quickly. Monthly apartment rents averaged approximately \$1,280 in the third quarter of 2015, a 12-percent increase from a year earlier. In the Colorado Springs metropolitan area, apartment market conditions remained slightly tight, with a 4.7-percent vacancy rate, down from 4.8 percent a year earlier, and average apartment rents increased 5 percent, to \$869. In the Greeley and Fort Collins metropolitan areas, apartment market conditions remained tight in the third quarter of 2015, with vacancy rates of 3.1 and 3.9 percent, respectively, and with year-over-year increases in apartment rents of 14 and 7 percent, respectively. In the Salt Lake City metropolitan area, more than 1,700 new apartments were completed during the past 12 months. The tight apartment market conditions of a year ago eased somewhat, but conditions remained slightly tight. The vacancy rate in the third quarter of 2015 was 4.0 percent, up from 3.1 percent a year earlier, and average monthly rents increased nearly 6 percent, from \$875 to \$925 (MPF Research). Nearly 2,900 apartments now under construction are expected to be complete within the next 12 months,

so market conditions in the Salt Lake City metropolitan area could ease further in the coming months. Apartment market conditions remained tight in the Ogden metropolitan area, with a 3.6-percent vacancy rate in the third quarter of 2015, unchanged from a year earlier. Apartment rents increased 5 percent from a year earlier, to approximately \$795.

In the Fargo metropolitan area, more than 1,100 new apartments were completed during the third quarter of 2015. Apartment market conditions eased significantly, and the market is currently balanced. The apartment vacancy rate in the third quarter of 2015 was 5.8 percent, up from 3.9 percent a year earlier (Appraisal Services, Inc.). The number of units under construction has declined about 50 percent during the past 12 months, however, to approximately 1,300 units in the third quarter of 2015; the apartment market may tighten again after the recent wave of newly completed units are absorbed. In the Rapid City metropolitan area, apartment market conditions remained slightly tight, with a vacancy rate of 4.4 percent, down from 4.8 percent a year earlier. The average apartment rent increased only 2 percent from a year ago, however, to \$795 (Reis, Inc.). Apartment market conditions in the areas of western North Dakota near the Bakken Formation continued to weaken in the third quarter of 2015 because of low oil prices and the decline in drilling activity, and the market is currently soft. The apartment vacancy rate among newer, stabilized properties was 18 percent in the third quarter of 2015, up from 6 percent in the first quarter of 2015 (analyst estimates). During the same 6-month period, average apartment rents decreased from about \$2,250 to \$1,500 a month, or more than 15 percent each quarter.

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Although many new apartments were completed in the Rocky Mountain region, market conditions remained slightly tight or tight in most metropolitan areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2014 (%)	3Q 2015 (%)	Percentage Point Change	3Q 2014 (\$)	3Q 2015 (\$)	Percent Change
Billings	Tight	NA	NA	NA	NA	NA	NA
Cheyenne	Slightly tight	NA	NA	NA	NA	NA	NA
Colorado Springs ^a	Slightly tight	4.8	4.7	-0.1	825	869	5
Denver ^a	Tight	4.0	4.2	0.2	1,144	1,280	12
Fargo ^b	Balanced	3.9	5.8	1.9	NA	NA	NA
Ogden ^c	Tight	3.6	3.6	0.0	760	797	5
Rapid City ^d	Slightly tight	4.8	4.4	-0.4	777	795	2
Salt Lake City ^c	Slightly tight	3.1	4.0	0.9	875	925	6

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

Note: Fargo apartment vacancy rates as of September 15.

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) MPF Research; (d) Reis, Inc.



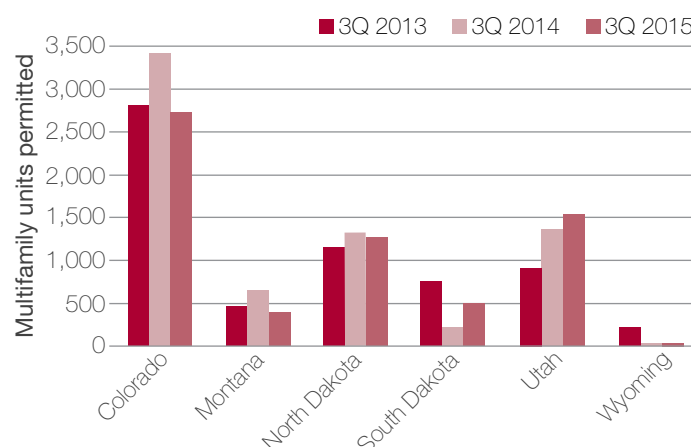
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Multifamily construction in the Rocky Mountain region declined from a year ago. During the third quarter of 2015 (preliminary data)—

- Approximately 6,475 multifamily units were permitted in the region, a 7-percent decrease from a year earlier. By comparison, multifamily permitting in the third quarter of 2014 was up nearly 11 percent from a year earlier, reaching its highest level in 30 years. After surging in 2014, building activity began declining in 2015, in part because the units under construction were expected to meet most of the demand in the near term.
- Multifamily construction declined in every state in the region except Utah and South Dakota. In Utah, multifamily permitting was up 14 percent from a year earlier, to approximately 1,550 units permitted. Although building activity declined more than 80 percent in the Provo metropolitan area, construction increased 81 and 73 percent in the Salt Lake City and Ogden metropolitan areas, respectively. In South Dakota, multifamily construction more than doubled, to about 500 units permitted, with all the increase occurring in the Sioux Falls metropolitan area.
- In Colorado, multifamily permitting was down 20 percent from a year earlier, to approximately 2,750 units permitted. Although multifamily activity was up 18 percent in the Colorado Springs metropolitan area, construction was down 25 percent in both the Boulder and Denver metropolitan areas and down 80 percent in the Fort Collins metropolitan area.

- Multifamily permitting in Montana, Wyoming, and North Dakota decreased 38, 26, and 4 percent from a year ago, to approximately 380, 20, and 1,275 units, respectively. Construction activity in the Fargo, Missoula, and Bismarck metropolitan areas declined 2, 12, and 47 percent, respectively, from a year earlier.

Multifamily construction decreased in most states in the Rocky Mountain region, offsetting increases in Utah and South Dakota.



3Q = third quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey