

HUD PD&R Regional Reports

Region 8: Rocky Mountain

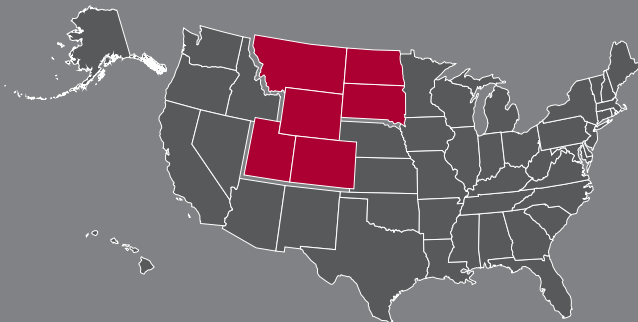


Fargo, North Dakota

By James Conner | 3rd quarter 2014

Quick Facts About Region 8

- **Sales market conditions—**
Third quarter 2014: slightly tight.
Second quarter 2014: slightly tight.
Third quarter 2013: balanced.
- **Apartment market conditions—**
Third quarter 2014: tight.
Second quarter 2014: slightly tight.
Third quarter 2013: mixed (balanced to tight).



Overview

Economic growth in the Rocky Mountain region gained momentum in the third quarter of 2014, with nonfarm payrolls up 2.8 percent from a year earlier. The unemployment rate in the region averaged 4.1 percent in the third quarter of 2014, the lowest rate in 6 years, and down from 5.3 percent a year ago. Home sales demand was strong and market conditions were tight in many metropolitan areas in the region. Within the states in the region, yearly sales price gains for existing homes ranged from 4 to 8 percent in the third quarter of 2014. Rental housing demand remained strong and apartment market conditions were tight in most of the major metropolitan areas in the region.

During the third quarter of 2014—

- Growth in the energy, construction, tourism, and healthcare industries contributed to job gains in the region. The greatest increases occurred in the mining, logging, and construction, the leisure and hospitality, and the education and health services sectors.
- Payrolls in North Dakota increased 4.9 percent, the highest rate of job growth in the nation, a result of energy-related activity. Colorado had the greatest increase in nonfarm payrolls in the region, gaining nearly 62,000 jobs.

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- Existing home sales prices were up in most metropolitan areas in the region, but a lack of for-sale inventory in many metropolitan areas led to declines in the number of homes sold.
- Apartment market conditions remained tight in many metropolitan areas in the region, as growth in apartment demand outpaced construction of new units.
- Despite the strong housing demand, the number of single-family homes and multifamily units permitted in the region was essentially unchanged from a year ago. Although construction of multifamily units increased, single-family permitting was down slightly.

Economic Conditions

Economic growth in the Rocky Mountain region accelerated in the third quarter of 2014. Nonfarm payrolls were up by 148,200 jobs, or 2.8 percent, from a year earlier, to 5.46 million jobs. By comparison, year-over-year job growth averaged 2.5 percent in the two previous quarters. All nonfarm sectors in the region posted job gains during the third quarter of 2014, with the greatest increases occurring in the mining, logging, and construction, the leisure and hospitality, and the education and health services sectors, which grew by 31,600, 23,200, and 20,200 jobs, increases of 7.4, 3.7, and 3.0 percent, respectively. The unemployment rate in the region averaged 4.1 percent in the third quarter of 2014, down from 5.3 percent a year earlier. As a result of the tightening labor market, the unemployment rate reached its lowest level since the third quarter of 2008. Within the region, the greatest declines occurred in Colorado, Montana, and Utah, where unemployment rates fell 1.9, 1.0, and 0.8 percentage points, respectively. During the third quarter

of 2014, state unemployment rates in the region ranged from 2.4 percent in North Dakota to 4.7 percent in Colorado, and all were less than the 6.2-percent national average.

- North Dakota continued to lead the nation with the highest rate of job growth, a result of oil exploration and drilling activity, with nonfarm payrolls up by 21,900 jobs, or 4.9 percent, from a year earlier. The greatest gain occurred in the mining and logging subsector, which grew by 7,300 jobs, or 27.5 percent, and the energy-led growth led to increases in the construction subsector and the transportation and utilities sector of 4,000 and 3,200 jobs, or 10.8 and 12.2 percent, respectively.
- Colorado had the greatest total job gain in the region. Nonfarm payrolls grew by 61,600 jobs, or 2.6 percent, led by increases in the leisure and hospitality, professional and business services, and education and health services sectors of 14,800, 13,600,

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Payrolls in the third quarter of 2014 were up in all nonfarm sectors in the Rocky Mountain region.

	Third Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	5,313.4	5,461.6	148.2	2.8
Goods-producing sectors	777.5	820.0	42.5	5.5
Mining, logging, and construction	428.9	460.5	31.6	7.4
Manufacturing	348.7	359.5	10.8	3.1
Service-providing sectors	4,535.9	4,641.6	105.7	2.3
Wholesale and retail trade	806.8	825.2	18.4	2.3
Transportation and utilities	197.2	203.7	6.5	3.3
Information	126.3	127.9	1.6	1.3
Financial activities	312.9	313.2	0.3	0.1
Professional and business services	683.1	702.4	19.3	2.8
Education and health services	675.3	695.5	20.2	3.0
Leisure and hospitality	621.3	644.5	23.2	3.7
Other services	197.4	201.3	3.9	2.0
Government	915.6	928.0	12.4	1.4

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

Source: U.S. Bureau of Labor Statistics

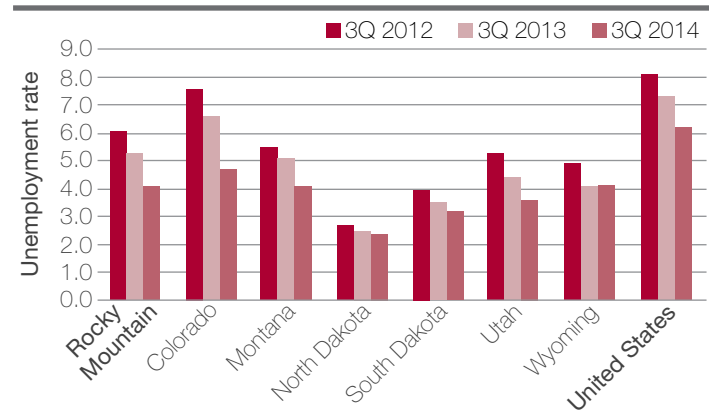


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and 13,100 jobs, or 4.9, 3.6, 4.6 percent, respectively. In the Denver metropolitan area, four of the top five companies listing job openings in September 2014 were in the healthcare industry (Simply Hired, Inc.).

- Utah had the third highest rate of job growth in the nation, with nonfarm payrolls increasing 3.6 percent. Payrolls in the construction subsector were up 11.0 percent, a result of increased residential and nonresidential building activity, and leisure and hospitality sector payrolls increased 4.8 percent, helped by growth in tourism. Lodging tax revenues in Utah for the 3 months ending August 2014 were up 10 percent from a year earlier (Utah State Tax Commission).
- Although job growth also accelerated in the other states in the region, their growth rates remained less than the regional average. Nonfarm payrolls in Montana, Wyoming, and South Dakota increased 2.0, 1.8, and 1.0 percent, respectively.

In the third quarter of 2014, unemployment in the Rocky Mountain region declined to its lowest rate in 6 years.



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

Sales Market Conditions

The strengthening economy led to increased home sales demand in the Rocky Mountain region and home sales prices posted solid increases. Prices for existing homes in September 2014 were up 10 percent in Montana from a year earlier and were up 7 percent in Colorado, North Dakota, and South Dakota from a year earlier (CoreLogic, Inc. Home Price Index). In Utah and Wyoming, existing home prices in September 2014 increased 5 and 4 percent, respectively, from a year earlier. Home prices also increased in most metropolitan areas in the region. Despite strong demand, sales of existing homes declined, in part because of a limited inventory of existing homes for sale in many areas. During the 12 months ending August 2014, approximately 110,200 and 52,400 existing homes sold in Colorado and Utah, decreases of 1 and 7 percent, respectively, from a year

earlier (CoreLogic, Inc.). In Montana, North Dakota, and Wyoming, sales were down 4, 7, and 7 percent, to 17,000, 12,900, and 8,200 homes, respectively. In the Denver metropolitan area, the inventory of homes for sale at the end of the third quarter of 2014 represented a 2.1-month supply, down from a 3.4-month supply a year earlier (Colorado Association of REALTORS®). In Salt Lake County, Utah, which includes Salt Lake City, the inventory of homes for sale at the end of August 2014 represented a 4.8-month supply, up slightly from the 4.6-month supply of a year earlier (Utah Association of REALTORS®).

The improving economy and increases in home sales prices contributed to decreases in the rates of distressed mortgages and

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Prices for existing homes were up, but sales of existing homes were down in most metropolitan areas in the Rocky Mountain region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2013	2014	Percent Change		2013 (\$)	2014 (\$)	Percent Change
Billings (E)	August	3,425	3,150	- 8	AVG	220,250	227,600	3
Cheyenne (E)	August	2,225	2,125	- 4	AVG	209,475	208,850	0
Colorado Springs (E)	August	12,900	12,325	- 4	AVG	214,550	222,050	3
Denver (E)	August	57,500	57,925	1	AVG	285,775	301,825	6
Fargo (E)	August	4,350	4,150	- 5	AVG	173,925	183,375	5
Greeley (E)	August	5,375	5,850	9	AVG	215,200	238,050	11
Provo (E)	August	9,525	9,025	- 5	AVG	247,125	256,150	4
Salt Lake City (E)	August	22,425	20,625	- 8	AVG	260,775	271,850	4

AVG = average. E = existing.
Source: CoreLogic, Inc.

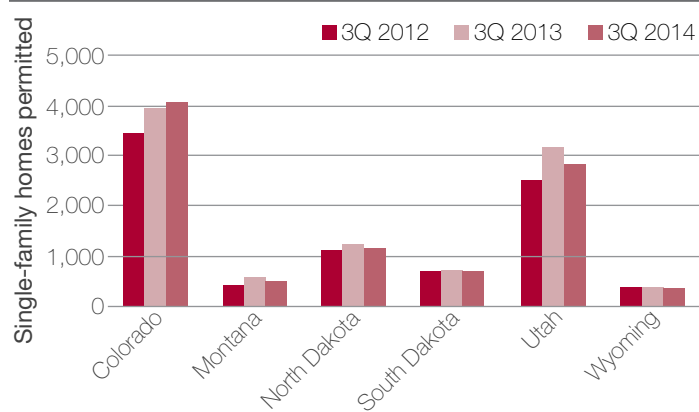


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REO (Real Estate Owned) properties in every state in the region. In September 2014, 2.2 percent of mortgages in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 2.8 percent a year earlier (Black Knight Financial Services, Inc.). Distressed mortgage and REO property rates ranged from 1.3 percent in North Dakota to 2.9 percent in Utah, and the rates for all states in the region were less than the 4.9-percent national rate.

Despite the strong sales demand, single-family homebuilding activity decreased in most states in the Rocky Mountain region, partially because of construction worker shortages.

Single-family construction activity declined in every state in the Rocky Mountain region except Colorado.



3Q = third quarter.

Note: Based on preliminary data.

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

During the third quarter of 2014 (preliminary data)—

- Single-family home construction, as measured by the number of homes permitted, was down 5 percent from a year ago in the region, to approximately 9,550 homes permitted.
- Colorado was the only state in the region that recorded growth in single-family construction, with 4,050 homes permitted, an increase of 2 percent from a year earlier. In the Denver, Greeley, and Fort Collins metropolitan areas, single-family permitting was up 5, 8, and 18 percent, respectively, from a year ago, but in the Boulder, Colorado Springs, and Pueblo metropolitan areas, single-family permitting declined 6, 17, and 31 percent, respectively.
- In Utah, single-family homebuilding declined 11 percent, to approximately 2,800 homes permitted. In the Salt Lake City metropolitan area, the number of single-family homes permitted was up 5 percent from a year ago, but in the Provo and Ogden metropolitan areas, the number of homes permitted declined 8 and 29 percent, respectively, from a year ago.
- In South Dakota, North Dakota, Wyoming, and Montana, single-family construction declined 3, 5, 10, and 13 percent, to approximately 700, 1,150, 350, and 500 homes permitted, respectively. In Sioux Falls, Fargo, Casper, and Missoula, the number of single-family homes permitted decreased 9, 30, 32, and 39 percent, respectively, from a year ago.
- In some parts of the region, tight labor markets led to a shortage of construction workers. In Colorado and North Dakota, 66 and 73 percent of construction firms reported difficulties in filling some or all open positions in the third quarter of 2014 (Associated General Contractors of America).

Apartment Market Conditions

Apartment demand remained strong in the Rocky Mountain region in the third quarter of 2014, and market conditions ranged from slightly tight to tight in most metropolitan areas in the region. Although apartment construction activity was strong in most states in the region, continued job growth and net in-migration caused new units to be quickly absorbed. Apartment conditions in the Denver metropolitan area remained tight, with a 4.0-percent vacancy rate, down from 4.1 percent a year ago (*Apartment Insights*). The average apartment rent increased 11 percent to \$1,144. More than 18,000 units are under construction in the Denver metropolitan area, so the tight market conditions may begin to ease as new units come on line. In the Colorado Springs metropolitan area, apartment conditions were slightly tight, with a 4.8-percent vacancy rate, down from 5.9 percent a year ago, and the average apartment rent increased 6 percent, to \$825. More than 900 apartment units were absorbed during

the 12 months ending September 2014 compared with fewer than 400 units during the previous 12 months. In the Fort Collins metropolitan area, apartment market conditions remained tight, with a 4.0-percent vacancy rate, up from 3.3 percent a year earlier, and rents increased 7 percent, to \$1,119.

In the Salt Lake City metropolitan area, apartment conditions remained tight, despite the addition of nearly 1,200 new apartment units during the 12 months ending September 2014. The apartment vacancy rate in the third quarter of 2014 was 3.9 percent, essentially unchanged from a year earlier, and the average apartment rent increased 3 percent, to \$842 (Reis, Inc.). In the Provo metropolitan area, apartment conditions eased considerably as new units came on line. The apartment vacancy rate was 6.7 percent in the third quarter of 2014, up from 5.7 percent a year earlier, and the average apartment rent increased 2 percent, to \$826.

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In the Fargo metropolitan area, more than 1,500 apartment units were completed during the 12 months ending September 2014. Apartment conditions eased slightly but remained tight. The apartment vacancy rate in September 2014 was 3.9 percent, up from 2.6 percent a year earlier (Appraisal Services, Inc.). In the Rapid City metropolitan area, apartment market conditions were tight, with a 3.4-percent vacancy rate in the third quarter of 2014, down from 4.6 percent a year earlier. The average apartment rent increased 1 percent, to \$777 (Reis, Inc.).

Multifamily construction in the Rocky Mountain region remained strong in the third quarter of 2014, reflecting the continued growth in rental demand.

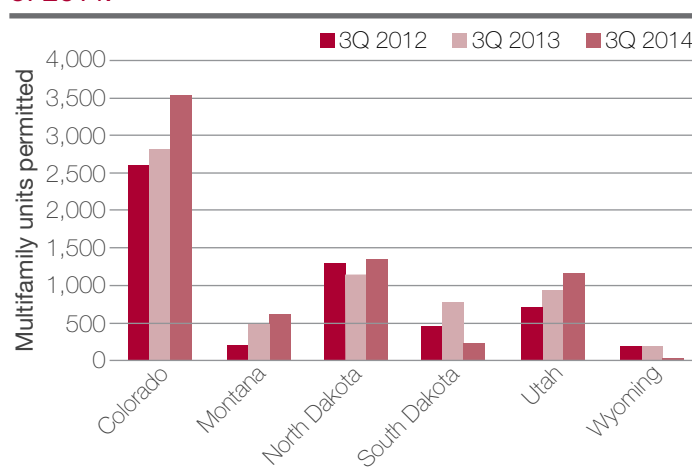
During the third quarter of 2014 (preliminary data)—

- Approximately 6,900 multifamily units were permitted in the region, a 9-percent increase from a year earlier.
- The greatest increase in multifamily building activity occurred in Colorado, where more than 3,500 units were permitted, a 26-percent increase. In the Denver metropolitan area, approximately 2,400 units were permitted, a 22-percent increase from a year earlier.
- In Utah, approximately 1,150 units were permitted, up 25 percent from a year ago. Although multifamily construction declined 27 percent in the Salt Lake City metropolitan area, to 370 units permitted, multifamily building activity more than doubled in the Ogden and Provo metropolitan areas, to about 210 and 490 units permitted, respectively.
- In Montana, approximately 600 multifamily units were permitted, a 28-percent increase from a year earlier. In North Dakota,

approximately 1,350 multifamily units were permitted, a 17-percent increase from a year earlier. Nearly 800 units were permitted in the Fargo metropolitan area, up 43 percent from a year ago.

- South Dakota and Wyoming were the only states in the region that recorded declines in multifamily construction, with 225 and 30 units permitted, decreases of 71 and 86 percent, respectively, from a year ago. In the Sioux Falls metropolitan area, multifamily permitting declined 71 percent from a year earlier, to approximately 100 units.

For the Rocky Mountain region overall, multifamily construction activity increased in the third quarter of 2014.



3Q = third quarter.

Note: Based on preliminary data.

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

Despite increased supply, apartment markets in most of the major metropolitan areas in the Rocky Mountain region remained tight.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2013 (%)	3Q 2014 (%)	Percentage Point Change	3Q 2013 (\$)	3Q 2014 (\$)	Percent Change
Billings	Tight	NA	NA	NA	NA	NA	NA
Cheyenne	Tight	NA	NA	NA	NA	NA	NA
Colorado Springs ^a	Slightly tight	5.9	4.8	- 1.1	779	825	6
Denver ^a	Tight	4.1	4.0	- 0.1	1,031	1,144	11
Fargo ^b	Tight	2.6	3.9	1.3	NA	NA	NA
Ogden ^c	Balanced	5.7	6.7	1.0	813	826	2
Rapid City ^c	Tight	4.6	3.4	- 1.2	768	777	1
Salt Lake City ^c	Tight	3.8	3.9	0.1	816	842	3

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

Note: Fargo vacancy data are 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) Reis, Inc.