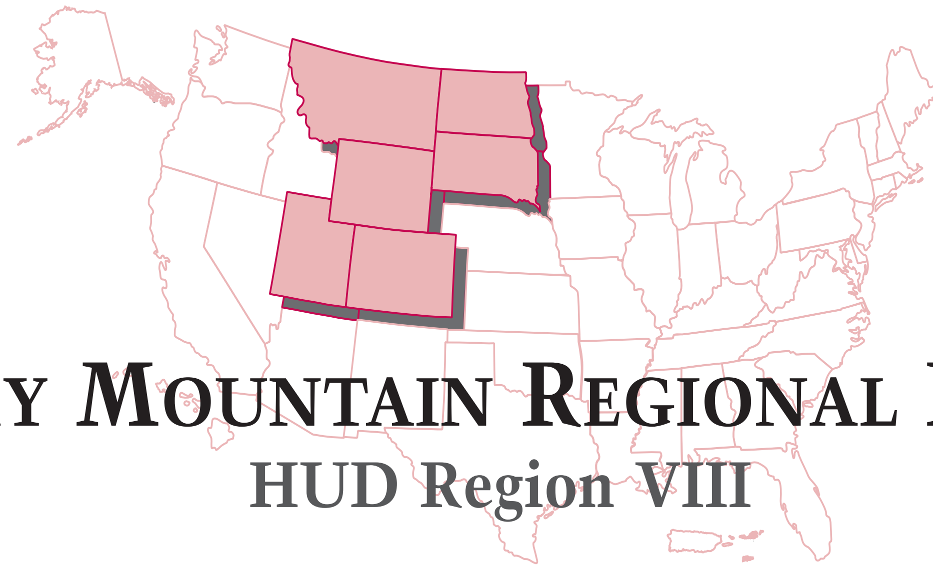
3rd Quarter 2011

U.S. Housing Market Conditions



Rocky Mountain Regional Report

HUD Region VIII

3rd Quarter Activity

The following summary of the Rocky Mountain region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Rocky Mountain region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

After 2 years of job losses in the Rocky Mountain region, nonfarm payroll growth resumed in early 2011. Growth was helped by strong energy demand and a recovery in the manufacturing sector. For the 12 months ending September 2011, nonfarm payrolls averaged about 4.9 million jobs, an increase of 58,700 jobs, or 1.2 percent, from the previous 12 months. By contrast, nonfarm payrolls for the 12 months ending September 2010 were down by 93,400 jobs, or 1.9 percent, from a year earlier. The sector with the largest employment gain in the past 12 months was the leisure and hospitality sector, which added 17,700 jobs, a 3.3-percent increase. The education and health services and professional and business services sectors followed; both grew by 2.6 percent, gaining 16,200 and 15,200 jobs, respectively. Reversing a trend, manufacturing sector payrolls grew by 5,900 jobs, or 1.8 percent, after falling by 19,200 jobs, or 5.6 percent, in the previous 12 months, and mining and logging subsector payrolls grew by nearly 13,000 jobs, or 16 percent, after falling by about 4,000 jobs, or 5 percent, in the previous 12 months. The recent payroll growth was partly offset by continued losses in the financial activities sector and the construction subsector, which declined by 6,300 and 8,500 jobs, or 2.1 and 3.2 percent, respectively.

Within the region, North Dakota had the fastest rate of job growth, with nonfarm payrolls increasing by 16,100 jobs, or 4.3 percent, from a year earlier. North Dakota continued to have the fastest rate of job growth among all states in the nation, much of it driven by energy-related activity. In the past 12 months, mining and logging subsector payrolls in the state increased by 5,200 jobs, or 57 percent, from a year earlier. In Utah and Wyoming, nonfarm payrolls grew by 1.7 percent, gaining 19,900 and 4,900 jobs, respectively. The manufacturing and the professional and business services sectors, which increased by 3,600 and 8,400 jobs, or 3.2 and 5.6 percent, respectively, led job growth in Utah. In Wyoming, much of the payroll growth was in the mining and logging subsector, which increased by 2,400 jobs, or 9.8 percent. In South Dakota,

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Montana, and Colorado, nonfarm payrolls increased by 3,200, 3,100, and 11,400 jobs, or by 0.8, 0.7, and 0.5 percent, respectively. In Colorado, mining and logging subsector payrolls increased by 12 percent, but this increase was offset by losses in the construction subsector and the financial activities sector, which declined by 7.3 and 2.8 percent, respectively. Recent payroll growth, as expected, has caused the unemployment rate in the region to decline. During the 12 months ending September 2011, the unemployment rate in the region averaged 7.5 percent, down from an average of 7.7 percent in the previous 12 months. Within the region, unemployment rates for the past 12 months ranged from 3.5 percent in North Dakota to 8.8 percent in Colorado, but all states in the region remained below the 9.2-percent national average.

Despite recent employment gains and low interest rates, the sales housing market in the Rocky Mountain region remains soft. According to the NATIONAL ASSOCIATION OF REALTORS®, in the second quarter of 2011 (the most recent data available), home sales in the region fell 14 percent from a year earlier, to an annual average of 176,400 homes sold. While home sales in Wyoming were up 9 percent, declines in other states ranged from 11 percent in Colorado to 30 percent in North Dakota. The fall in the number of home sales is partly a result of the expiration of the homebuyer tax credit in April 2010. Home sales prices were also down for most states in the region. Based on the Federal Housing Finance Agency home price index, prices in the region in the second quarter of 2011 were down 2.8 percent from a year ago. Although home prices in North Dakota were up 4.5 percent, prices remained flat in South Dakota. Home prices fell 3.2 percent in both Montana and Wyoming and 3.5 and 6.1 percent, respectively, in Colorado and Utah.

Home sales for the 12 months ending August 2011 were down in most metropolitan areas of the Rocky Mountain region, but home prices were up in a few areas. Based on data from Hanley Wood, LLC, the number of existing homes sold in the Denver-Aurora, Colorado Springs, and Fort Collins-Loveland metropolitan areas of Colorado was down 11, 12, and 7 percent from a year earlier, to about 35,600, 8,400, and 4,800 homes sold, respectively. In Grand Junction, contrary to trends in other parts of Colorado, the number of existing home sales was up 11 percent, to about 2,300 homes sold. Much of that increase, however, consisted of REO (Real Estate Owned) transactions. In the 12 months ending August 2011, the number of REO sales in the area doubled from a year earlier, to about 900 homes sold. As a result, existing home sales prices in Grand Junction fell by 12 percent, to about $184,200. Average sales prices in Denver-Aurora and Fort Collins-Loveland were up by 2 and 3 percent, respectively, to $249,600 and $242,600, but declined by 1 percent, to $207,000, in Colorado Springs. In the major metropolitan areas of Utah, home sales and prices both have declined. In the 12 months ending August 2011, sales of existing homes in Salt Lake City, Ogden-Clearfield, and Provo-Orem were down by 10, 16, and 7 percent, to 16,300, 6,700, and 6,800 homes sold, respectively. Average prices for existing homes were down 2, 1, and 5 percent in Salt Lake City, Ogden-Clearfield, and Provo-Orem, respectively, to $241,700, $196,100, and $210,600. Elsewhere in the region, home sales were down, but average prices were up in some areas. In the 12 months ending August 2011, existing home sales in Fargo, Billings, and Cheyenne were down 23, 17, and 1 percent from a year earlier, to about 2,500, 1,800, and 1,550 homes sold, respectively, but average prices were up by 5, 1, and 4 percent, to $167,000, $202,400, and $196,900, respectively.

Home sales markets in the Rocky Mountain region may be stabilizing because the rate of mortgage delinquencies has declined in the past year. Based on data from LPS Applied Analytics, 4.8 percent of home mortgage loans in the region were delinquent 30 days or more in September 2011, down from 5.3 percent a year ago. Delinquencies in the region peaked in early 2010, at 6.4 percent, but declined in 2010 and 2011. Within the region, mortgage delinquency rates in September 2011 ranged from 2.9 percent in North Dakota to 6.5 percent in Utah, but all states in the region were below the 7.2-percent national average.

Continued softness in the home sales market has caused single-family homebuilding activity in the Rocky Mountain region to decline. Based on preliminary data, in the 12 months ending August 2011, single-family construction, as measured by the number of permits issued, was down 7 percent compared with a year earlier, to about 19,100 homes. By comparison, from 2004 through 2006, single-family construction in the region averaged more than 72,000 homes a year. In the 12 months ending August 2011, single-family construction in North Dakota and Wyoming was up by 5 and 4 percent, to 1,700 and 1,200 homes permitted, respectively; in Colorado, Utah, Montana, and South Dakota, however, single-family activity fell by 5, 9, 18, and 19 percent, to 7,700, 6,000, 1,000, and 1,500 homes permitted, respectively.

Multifamily construction, as measured by the number of permits issued, is showing signs of strengthening for the region overall, but construction activity remains weak in some areas. Multifamily construction activity in the region increased by 32 percent in the 12 months ending August 2011, to about 9,900 units permitted. In Colorado, multifamily activity more than doubled, to 3,900 units permitted, with more than one-half of the construction, or 2,300 units, occurring in the Denver-Aurora metropolitan area. In Utah, Montana, and North Dakota, multifamily construction activity increased by 10, 44, and 54 percent, to 2,600, 600, and 1,900 units permitted, respectively. In South Dakota and Wyoming, however, multifamily construction declined by 37 and 59 percent, to 600 and 350 units permitted, respectively.

Rental housing markets in the Rocky Mountain region have tightened in the past year, a result of growth in the number renter households. In addition, rental construction in many areas has not kept pace with demand. Rental market conditions now range from balanced to tight in most areas. Based on data from Apartment Insights, Inc., in the third quarter of 2011, the Denver-Aurora, Fort Collins-Loveland, and Boulder markets were tight, with apartment vacancy rates of 5.0, 3.8, and 3.7 percent compared with 5.5, 3.6, and 4.2 percent, respectively, a year ago. In the Denver-Aurora and Boulder areas combined, about 1,700 units are expected to be completed in 2011, down from an average of about 4,300 units annually for 2008 and 2009. In 2012, however, completions in the Denver-Aurora area are expected to increase. The Colorado Springs rental housing market is somewhat tight, with a 5.2-percent vacancy rate, down from 6.6 percent a year ago. The Colorado Springs rental market is expected to reach a more balanced state, however, when an estimated 650 units are completed during the next 12 to 18 months, the largest number of completions in the past 8 years. Apartment rents in the Fort Collins-Loveland area increased by 8 percent, to an average of $920 a month. In both the Colorado Springs and Boulder areas, rents increased by 4 percent, to $740 and $1,000 a month, respectively, while rents in the Denver-Aurora area increased by 5 percent, to $900 a month. Based on data from Reis, Inc., apartment markets in the Salt Lake City and Ogden-Clearfield areas are somewhat tight, with third quarter 2011 vacancy rates of 5.4 and 4.4 percent, down from 6.8 and 5.0 percent, respectively, a year ago. Average rents increased by 2 and 1 percent, to about $770 and $700 a month, respectively. In Salt Lake City and Ogden-Clearfield, based on the number of units in the pipeline, it appears that construction is keeping pace with demand. In the Provo-Orem area the apartment market is tight, with a 3.6-percent vacancy rate, down from 5.5 percent a year ago, but rents remain stable at about $770 a month. In the past 12 months, fewer than 250 multifamily units were permitted in Provo-Orem, and supply does not appear to be keeping pace with demand. Based on data from Appraisal Services, Inc., as of the second quarter of 2011, the Fargo rental housing market was balanced to tight, with a 5-percent vacancy rate, down from 6 percent a year ago. Recent flooding of the Red River resulted in the loss of hundreds of homes in the area, which is expected to lead to tightening in the Fargo rental housing market.