U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
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CURRENT HOUSING MARKET CONDITIONS

EAGLE COUNTY, COLORADO
HOUSING MARKET AREA (HMA)
As of April 1, 2004

INTRODUCTION

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. The report has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local sales and rental market. The estimates, opinions and forecasts in this report are solely those of the Economists in the Office of Policy Development and Research in the Rocky Mountain Office and do not represent HUD Departmental or Rocky Mountain Office policy. The report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing, which may be under consideration in this market area.

The HMA is defined as Eagle County, Colorado, which includes the towns of Vail, Avon, Minturn, Edwards, Eagle and Gypsum, and is the dominant portion of the Edwards Micropolitan Statistical Area. Unless otherwise noted, the estimates and discussion of market conditions are as of April 1, 2004. Questions or comments regarding the findings and conclusions of this report may be addressed to George H. Antoine, Field Economist, Denver Regional Office, at (303) 672-5289 and at George_H._Antoine@hud.gov.

SUMMARY

The economy of the HMA has stabilized and has shown signs of a slight recovery during the past year. Total employment grew moderately in 2003 following a decline in 2002. The decline in 2002 ended a 12-year boom period that made the HMA one of the fastest growing economies in the U.S. The recent return to positive growth was driven by the recovery of the U.S. economy and renewed travel to ski and resort areas. With prospects for continued improvement in the U.S. economy, local employment growth will also continue to improve. In-migration will gradually increase but will remain well below the average recorded during the prior decade.

A dramatic cutback in new home construction in 2003 and low mortgage interest rates have reawakened the existing home sales market. Sales activity in 2003 was up by 11 percent from the previous year, while the average sales price was up by 6 percent to over $680,000. February 2004 marked the seventh straight month that real estate sales and volume have surpassed those posted in

comparable months over the last three years. Powered by high-end properties and pent-up demand, sales activity during the first two months of 2004 was up by 23 percent from a similar period one year ago, while average sales price was up by 34 percent. Home sales in 2004 should continue to improve over last year's performance but will likely retreat from the torrid pace of past two months.

The rental market has shown signs of improving from the soft conditions of the past year. The otherwise tight market was soft as a result of a significant increase in homeownership because of low interest rates, the large volume of new rental units coming online and slow employment growth. In the most recent Eagle County Housing Department apartment survey, the end of year vacancy rate of 7.8 percent was an improvement from the 14.6 percent recorded in September 2003. The survey conducted in September was taken during the "shoulder" period between the peak summer/winter tourist seasons when the market is the weakest. Still, the vacancy rate stabilized, according to the survey, despite the introduction of a large mixed-income project during the fall. Our estimates indicate that the rental market should return to balanced conditions by mid-2006 after absorbing approximately 80 surplus vacant units in the current market plus another 142 units in a mixed-income project currently under construction. Therefore, we suggest that the start of new units be postponed until mid-2005 so that units can come on line in mid-2006.

The current market for non-elderly 60 percent Low Income Housing Tax Credit (LIHTC) units is competitive, while the 50 percent market is tight. This situation should improve as the general market improves. Therefore, additional non-elderly LIHTC units should be encouraged at the 50 percent or lower level, while development of 60 percent units should be approached with caution until the market further recovers. While there are no elderly LIHTC projects in the HMA, there is only limited potential for a small mixed-income project.

ECONOMY

The ski and resort industries are the dominant influence on the local economy. Two ski areas, Vail and Beaver Creek, together represent nearly 20 percent of all skier visits to Colorado. At the peak of ski season, Vail Associates (owner and operator of both resorts) directly employs about 5,000 persons, of which about 2,000 are permanent year round workers. Although skier visits and related activity have been the major stimulus for past economic growth, the development of the summer resort economy and the attraction of higher income permanent and occasional residents have been responsible for the more recent growth.

Virtually all of the recent growth has occurred in the trade, services and construction sectors. The largest individual industries in the services sector are accommodations and food services. Average employment in the first quarter of the year, when the ski season is in full throttle, has been about 11 percent greater than the annual average over the past 2 years. This is much lower than ten years ago when the first quarter was typically 16 percent above the annual average. The second home industry has had a profound impact on the economy. According to Levy Consulting nearly 40 percent of county's basic jobs can be attributed to second homeowner expenditures during construction and purchases of goods and services following occupancy. While the local economy remains seasonal, the increasing year-round work force is dampening much of the seasonal swing in employment.

Fueled by strong U.S. and state economies, the HMA's employment growth averaged nearly 7 percent a year during the past decade. This rapid growth came to an abrupt halt with the start of the U.S. recession in 2001 and the terrorist attacks of September 11th that put a crimp on travel and tourism.

Uncertainty gripped the residential and nonresidential markets; some projects were put on hold or postponed. Construction employment fell by 11 percent in 2002 and 14 percent in 2003. Total employment fell by 0.2 percent in 2002. As the U.S. economy began to recover and confidence returned to the travel industry, employment growth turned the corner in 2003 and grew by 1.6 percent. Because of the mobility of the workforce and preference to live in Eagle County, the unemployment rate remained low during this time period; the February 2004 the rate declined slightly to 3.8 percent from the 4.0 percent recorded one year ago.

The outlook is for moderate employment growth as the U.S. economy continues to improve and tourism continues to rebound. Construction employment will also pick up with the homes sales market heating up and $1 billion worth of redevelopment projects slated to start over the next 4 years. Some examples of these projects include streetscape improvements worth $14 million at Vail Village, construction of a $40 million conference center and another $45 million worth of improvements in the Lionshead gondola area. Private developers are expected to redevelop several older condominium and commercial buildings in the heart of Vail, including the Crossroads shopping center and the buildings surrounding the Vista Bahn express lift. Inspired by a much stronger construction sector and renewed tourism, total employment should grow by between 2.5 and 3 percent a year over the next 2 years.

POPULATION AND HOUSEHOLDS

The trend in population growth in the Eagle County HMA paralleled the strong economy during the past decade. The population of 41,659 persons in the 2000 Census was nearly double the count recorded in 1990. Net in-migration accounted for over 70 percent of the gain. We estimate the current population at 47,700, up 3.4 percent a year since the 2000 Census or well below the 6.6 percent annual gain of the past decade. The relatively slower population growth since 2000 is consistent with the slower economy. The average annual increase in population due to in-migration is now about equal to the population gains from net natural increase. A forecast annual employment growth of 2.5 percent in 2004 and 3 percent in 2005 should result in population increasing annually by approximately 2.7 percent. In-migration should increase in 2004 and 2005, but is expected to remain well below the levels achieved during the 1990s. The forecast population as of April 1, 2006 is 50,300. Most of the growth will continue to be down valley from the ski areas towards Eagle and Gypsum, where most of the developable land is available and year-round worker households are likely to locate.

As with population growth, household growth has slowed since 2000. The current estimate of households residing in the HMA is 16,930 or an annual increase of 2.8 percent since 2000. This is well below the 6.1 percent annual rate of the past decade. Helping prop up household growth is the in-migration of commuter worker households from adjacent counties. The easing of the HMA's housing market allowed some households to locate in the HMA that previously could not afford the cost. Based on an estimated household growth rate of 2.7 percent for the next 12 months and 2.9 percent during the following 12 months, the number of households should reach approximately 17,890 by April 1, 2006.

HOUSING MARKET TRENDS AND CONDITIONS

Residential Building Trends

Building activity slowed from the record set during the 1990 to 2000 period. The average number of new units in the HMA fell from approximately 900 a year during this decade to nearly 600 a year since 2000. Reflecting the weak market, the number of permits fell in 2003 to about 400 units. About 60 percent of total permits since 2000 are in single-family structures, while the balance are attached townhouse, condominium and apartment units. Most of the multifamily units are time-share condominiums, second-home seasonal units or owner occupied. Recent single-family detached and condominium construction has largely consisted of sales units built down valley from Vail in the unincorporated subdivision areas of Eagle County and the towns of Avon, Eagle and Gypsum. These homes are mostly used as primary residences for locals and new residents as an alternative to the high cost Vail area and/or for secondary homes for persons living outside of Eagle County. Very few of these units are used for long-term rentals. Condominiums built in or near Beaver Creek in Avon and Vail are primarily used for short-term rentals or are held for occasional use by the owner. Newly developed deed-restricted owner units include single-family, condominium and townhouse homes at Two Rivers Ranch in Dotsero and the Miller Ranch in Edwards.

Apartment construction picked up starting in the mid-1990s in response to rental shortages throughout the HMA. However, as a percent of total multifamily units built since 1995, apartment construction represents only about 40 percent of the total. Nearly all the larger apartment projects have been developed through nonprofit organizations, agencies encouraged by a combination of efforts through federal, state, county and city governments, and Vail Associates. These include the use of IRS code 63-20 bonds, LIHTC and private financing. Projects built since 1995 include Eaglebend (240 units) in Avon, Lake Creek Village (270 units) in Edwards, Eagle Villas (120 units) in Eagle, Holy Cross Village (60 units) and Mountain Glen (72 units) in Gypsum, River Edge (104 units) in Beaver Creek, The Tarnes II (76 units) in Beaver Creek and Kayak Crossing (50 units) and Buffalo Ridge (244 units) in Avon. Buffalo Ridge Apartments, an FHA-insured mixed-income project, was the most recent to open, leasing up when it came on line last fall. Middle Creek Apartments (142 units) is a mixed-income project that is under construction in Vail; its first units should come on line in September 2004, while construction should be finished by November in time for the ski season.

Since 1995, there have been 870 units developed with 63-20 bonds, 390 LIHTC units and 180 seasonal worker units. There are no large apartment projects in the current planning pipeline, but Timber Ridge Apartments (198 units), an older market rate project, permanently closed several buildings due to mold problems. The town of Vail now owns the project and is expecting to replace the 102 condemned units sometime in the not too distant future. As part of the Lionshead redevelopment, Vail Associates is planning to demolish the Sunbird Apartments, a 30-unit seasonal worker project. Current plans are not to replace these units.

Home Sales Conditions

Existing home sales activity and prices rallied from a slow start during the first half of 2003 to finish the year well ahead of the previous year’s level. The Vail Board of REALTORS® reported 2,597 single-family, townhouse and condominium units were sold during 2003 or up 11 percent from the level recorded in 2002. Average sales price for all units in 2003 was $680,405, up 6 percent from the

2002 average. The average single-family price was about $921,700, while condominiums came in at $456,200 and townhouses at $445,200. This upward price trend accelerated during the first two-months of 2004 when average sales price increased by 34 percent and sales activity recorded a 23 percent jump. February 2004 was the seventh straight month of sales activity and volume exceeding the level for the same comparable month during the past 3 years.

Contributing to the improvement was a dramatic cutback in new home construction in 2003 and low mortgage interest rates. Previously, real estate sales were slow because of 9/11, the war in Iraq and a national recession. Those anxieties caused people to put off buying second homes. As these worries abated with the improved economy and a rally in the stock market, second homebuyers jumped back into the market. The Eagle County Assessor's office reported that there were over 300 sales of homes priced over $1 million in 2003. This trend accelerated in 2004 when over 70 transactions priced over $1 million were recorded in just the first two months. These numbers indicate an extremely high-priced market that is out of the reach for most renters, especially in Vail. The home sales market in 2004 should continue to improve over last year's performance but will likely retreat from the rapid pace of past 2 months.

Rental Market Conditions

The rental market has shown signs of improving following the soft conditions of the past year. The Eagle County Housing Department reported a 7.8 vacancy rate at the end of the year or an improvement from the 14.6 percent recorded in September 2003. This compares with vacancy rates of below 2 percent for the previous several years. The softness in the market that began in 2002 was the result of job losses due to the poor U.S economy, low interest rates and new units coming on line. In response to a declining tourism, many local employers downsized their staff, especially seasonal workers, in both the 2001/2002 and the 2002/2003 seasons. Area employers dropped master leases with several large apartment projects.

The long-term rental market was impacted by low interest rates that, coupled with the introduction of county affordable housing developments, allowed some renters to purchase a home. Also, the condominium market opened up as some investors tried to sell their unit(s) in response to weakness in both the short-term and long-term rental markets; this helped ease price pressures. With average rents hovering around $1,000, renters found it both feasible and desirable to purchase a home. The market remained much more balanced in Vail and Avon because of their close proximity to the ski areas and the concentration of employment in these areas. Down valley towns of Edwards, Eagle and Gypsum were hit the hardest. This "perfect storm" of events has shown signs of tapering off, a result of the stronger economy, renewed interest in tourism and a strong recovery in the second-home market.

FORECAST HOUSING DEMAND

Based on anticipated household growth, replacement needs, and the current market conditions there is demand during the next 2 years for approximately 950 units. All of this demand will be for sales housing units with a mix of single-family detached homes, townhouses, condominiums and manufactured homes. The annual volume (475 units) of owner demand forecast is below the annual absorption of the last decade and slightly above the average since 2000. This excludes demand for second-home and other seasonal units used for occasional use or as short-term rentals, but may include some units that are used for seasonal part-time residents.

The demand for new non-subsidized rental housing during the next 2 years will be met by the 80 surplus vacancies currently available in the market and the 142 units now under construction. Absorption of market rate rental units will pick up in 2004 and 2005 but the rental market will remain soft. Our present forecast anticipates recovery of the local rental market sometime in mid-2006, indicating a need to postpone the start of new market rate units until mid-2005. If there are changes in the market outlook such as a significant increase or decrease in employment or a substantive increase in mortgage interest rates, we will re-evaluate and revise our estimates accordingly.

Overall LIHTC capture rates are under 20 percent for one, two and three bedroom units but the current market for non-elderly 60 percent LIHTC units is competitive. The 50 percent and below market is tight. With the softening in the general rental market and the introduction of a large mixed-income project, the 60 percent market went from extremely tight conditions to some weakness. This situation should improve as the general market improves. The 50 percent market is tight because of the lack of product at that income level. Therefore, additional non-elderly LIHTC units should be encouraged at the 50 percent or lower level, while development of 60 percent units should be approached with caution until the market further recovers. There are no LIHTC elderly projects in the HMA, but the potential is small and only a small mixed-income project would be feasible.