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An Overview of the Rental Market in the

Grand Junction, Colorado
Metropolitan Statistical Area (MSA)

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The Grand Junction, Colorado MSA Rental Market

Introduction

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. It has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local 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. This 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 market area covered by this analysis consists of the Grand Junction Metropolitan Statistical Area (MSA) which is defined as Mesa County, Colorado. The report includes a discussion of the condition and outlook for the overall rental market and the market for projects financed under the Low Income Housing Tax Credit (LIHTC) program, including projects which provide income restricted units as a result of obtaining financing through issuance of tax exempt, Private Activity Bonds (PABs). It does not address specialized portions of the rental market such as congregate elderly housing or assisted living but it does include a brief review of the outlook for independent LIHTC units reserved for seniors. A brief review of sales market conditions and a discussion of subsidized housing needs are also included. Unless otherwise noted, the estimates and discussion of market conditions are as of July 2001.

Summary and Conclusions

The Grand Junction MSA economy continues to expand but growth rates are down from the 5 percent gains of the mid-1990s. Migration remains an important component of population growth but is down from its peak in 1994. The local rental housing market remains balanced and is expected to tighten this Fall. Occupancy remains high at most major projects but rent increases are sometimes difficult to sustain and concessions appear from time to time. Construction activity is limited and there is little likelihood of a major project starting before the end of the year. There is additional demand for apartments during the next two to three years but the level remains modest. At present, there are only 30 rental units under construction at Foresight Village and a small number of additional units in scattered duplexes and similar projects. Once these units are completed, the Foresight Village site will be built out and there are no other major projects likely to start soon. Although the market will not support a large number of units, there is an opportunity to produce a modern rental product in a small (50 to 75 units) market rate project or in a larger, mixed income project.

The current market for LIHTC units is strong and capture rates at most levels are low. There is an opportunity to produce and market additional units, particularly at the 40 and 50 percent of median income level. The elderly LIHTC market is untested but we anticipate some potential in this segment of the market. There is a strong demand and a substantial unmet need among both elderly and family households eligible for rental assistance such as that provided under HUD's Section 8 program.

Employment Trend

Grand Junction is the largest city and only metro area on Colorado's Western Slope. It is a regional retail trade and service center for much of western Colorado and eastern Utah. Almost 60 percent of the jobs located in Mesa County are in the trade and services sectors. The area is known for its orchards (and now its vineyards) but farm income accounts for just 0.2 percent of total personal income in the county, well below percentages for the state (0.7 percent) and the U.S. (0.6 percent). Mining has been steadily declining in influence since the early-1980s. This sector now accounts for only 0.7 percent of total jobs, very close to the state average of 0.6 percent. A significant proportion of income supporting the local economy comes from retirees. For example, social security payments represent 6.8 percent of total personal income in Mesa County, almost twice the statewide average of 3.5 percent. Similarly, 15.2 percent of the MSA population is age 65 or over, well above the 9.7 percent for the state as a whole. The largest employers in the metro area (excluding local government and school districts) include St. Mary's Hospital with almost 2,000 employees and City Markets, Inc. and Mesa State College, each with about 1,200 employees.

The average annual wage in Mesa County during 2000 was $26,224, 21st highest among Colorado's 63 counties and 10th highest among the 11 metropolitan counties in the state. The Mesa County average is well below that in most Front Range metropolitan counties (Pueblo is the one exception) but above the average in most non-metropolitan counties. Recent increases in the average wage in Mesa County have lagged those at the state level, particularly in the latter half of the past decade. The statewide wage was up an average of 6.5 percent per year in the past five years while Mesa County's wage grew by only 3.4 percent per year in the same time period. As a result, the ratio of Mesa County's wage to the state average has fallen steadily throughout the 1990s, dropping from .83 in 1990 to .71 in 2000.

The Grand Junction MSA employment growth rate steadily increased through the mid-1990s and peaked at 5.4% in 1996. Job gains slowed over the next few years. The annual growth rate remained in the 3 to 4 percent range until 2000, when it dipped to 2.5 percent. The labor market firmed up in the mid-and late-1990s. By 1999, the unemployment rate had dropped below 4 percent, where it has stayed for most of the past few years. The recent trend in the unemployment rate and covered employment for the MSA is presented below.

Table 1

Unemployment Rate and Covered Employment
Grand Junction, Colorado MSA
1990 - 2000

Year	Unemployment rate	Covered employment Number	Covered employment Change
1990	5.9%	34,222	na
1991	6.6%	34,998	2.3%
1992	7.9%	36,123	3.2%
1993	7.0%	37,351	3.4%
1994	5.6%	38,950	4.3%
1995	5.6%	40,979	5.2%
1996	5.4%	43,170	5.4%
1997	4.4%	45.214	4.7%
1998	5.0%	46,880	3.7%
1999	3.8%	48,724	3.9%
2000	3.7%	49,951	2.5%

Note: Covered employment represents the total number of jobs at employers in Mesa County who are covered by unemployment insurance.

Source: Colorado Department of Labor and Employment

Statewide, covered employment growth averaged 3.8 percent per year during the past five years (1996 through 2000). The Grand Junction MSA job growth rate was 4.0 percent per year over this same period, boosted by a gain of over 5 percent in 1996. The local growth rate remained close to the statewide average in the late-1990s, until dropping well below the state rate in 2000. The 2.5 percent increase in jobs in Mesa County during 2000 was considerably below the statewide gain of 3.9 percent. The drop in Mesa County's growth rate in 2000 was a result of a dramatic slowing in gains in trade and services. The services sector growth was less than 1 percent in 2000, well below its average of almost 5 percent per year in the past five years. Similarly, employment growth in trade dropped to 1.5 percent, about half the average rate during the past five years.

The Colorado Office of State Planning and Budgeting has forecast job growth for the state of 3.5 percent in 2001 and 3.2 percent in 2002. Similarly, the Legislative Council has forecast growth of 3.3 percent in 2001 and 3.0 percent in 2002. Both forecasts expect a modest slowing from the growth rates of the past few years. The Grand Junction area is unlikely to sustain employment growth rates above the 3 to 4 percent range if statewide job gains ease back close to 3 percent. For purposes of forecasting housing demand, we have used an annual job growth of 3.0 percent during the next two years, below the average during the late-1990s but above last year's increase of 2.5 percent. This forecast assumes a return to growth in trade and services at rates below the averages for the past five years but above the dip in 2000.

Mesa State College

Mesa State is an important employer in Mesa County and its 5,200 students represent a significant influence on the local economy and rental market. The trend in student enrollment is presented in the following table.

Table 2

Mesa State College Enrollment - Fall Semester
Grand Junction, Colorado
1992-2000

Year	Number of students	Annual change
1992	4.295	na
1993	4,384	2.1%
1994	4,638	5.8%
1995	4,723	1.8%
1996	4,724	0.0%
1997	4,695	-0.6%
1998	4,847	3.2%
1999	4,893	0.9%
2000	5,205	6.4%

Source: Mesa State College, Office of Institutional Research

Enrollment was up in the early-1990s and stable during the mid-1990s. Recent increases in 1998 and again in 2000 brought the total to over 5,000 students by the Fall of 2000. In each of the past two years, the number of freshmen increased dramatically, putting pressure on dormitory capacity. Mesa State enrollment should continue to grow somewhat faster than the 0.7 percent per year forecast by the Colorado Legislative Council for total higher education enrollment in the state but no major changes are expected.

Mesa State has a present dormitory capacity for just over 900 students. Most were built over 20 years ago but Walnut Ridge (capacity for 156 students) was added in the 1970s and Monument Hall (capacity for 176 students) has been open for three years. Dormitories have been full in each Fall semester for the past few years and almost 90 percent of the spaces available for Fall 2001 are spoken for. There are no immediate plans to construct new dorms or student apartments but long range plans call for the addition of 200 to 300 spaces over the next 10 years. The modest increases expected in enrollment will not put much additional pressure on the rental market but the area surrounding the campus will continue to feel the impact of 1,000 to 1,500 traditional age students seeking off-campus housing.

Population Trend

The population of the Grand Junction MSA has increased steadily throughout the 1990s. Gains were strongest in the 1993 through 1995 period and the pace of growth has eased only moderately since then. The recent trend is presented below.

Table 3

Population and Components of Change
Grand Junction, Colorado MSA
1990 - 2000

Date	Population	Net natural increase*	Migration	Population change: Number	Population change: Percent
July 1990	94,100	na	na	na	na
July 1991	96,000	500	1,400	1,900	2.0%
July 1992	97,400	400	1,000	1,400	1.5%
July 1993	99,900	500	2,000	2,500	2.6%
July 1994	102,800	400	2,500	2,900	2.9%
July 1995	105,400	300	2,300	2,600	2.5%
July 1996	107,500	400	1,700	2,100	2.0%
July 1997	109,800	300	2,000	2,300	2.1%
July 1998	112,300	400	2,100	2,500	2.3%
July 1999	114,600	400	1,900	2,300	2.0%
July 2000	116,800	300	1,900	2,200	1.9%

* Excess of resident births over deaths
Note: All numbers rounded to nearest 100 persons

Source: Colorado State Demographer and HUD Economist

Strong employment growth in the mid-1990s pushed inmigration up to 2,500 persons in 1994. Although the number of inmigrants has eased back to about 2,000 per year, inmigration still typically accounts for over 80 percent of the population gain in a given year. Inmigrants continue to exert a significant positive influence on the housing market. Migration to the Grand Junction area will continue in the near future but it will not match the record level of 1994. A continuation of the 1999 and 2000 levels of inmigration results in a current estimated population for the MSA of about 119,000 persons. An annual employment growth of 3.0 percent should result in an increase to a population of 124,000 persons by 2003.

Housing Inventory

The housing inventory in Mesa County expanded by over 9,200 units in the 1990s. These additions, coupled with a small decline in vacancies, resulted in a net gain of almost 9,600 households. The table below compares the inventory, tenure and vacancy data from the 1990 and 2000 Censuses.

Table 4

Housing Inventory, Tenure and Vacancy
Grand Junction, Colorado MSA
1990 and 2000

	April 1990	April 2000
Total Housing Inventory	39,208	48,427
Occupied Housing Units	36,250	45,823
Owner Occupied	23,534	33,313
Percent	64.9%	72.7%
Renter Occupied	12,716	12,510
Percent	35.1%	27.3%
Vacant Housing Units	2,958	2,604
For sale	526	563
Owner Vacancy Rate	2.2%	1.7%
For Rent	797	775
Renter Vacancy Rate	5.9%	5.8%
Other Vacant	1,635	1,266

Source: U.S. Bureau of the Census

The increase in the local homeownership rate was the most dramatic housing inventory change in the past decade. The Grand Junction MSA homeownership rate is the highest of any metro area in the state and among the highest (24th of 63) for all counties. It is well above the rate for the U.S. (64.2 percent) and the state of Colorado (67.3 percent). In contrast, the number of renter households actually declined in the 1990 to 2000 time period as modest home prices, favorable interest rates and a significant increase in mobile homes facilitated a major shift to homeownership.

Residential Building Trend

Total building activity peaked in 1999 at almost 1,362 units and stayed just below this level in 2000. Single family activity has steadily increased throughout the 1990s. By 1998, the single family permit total was over 1,000 units and was up to levels not seen since the early-1980s. In contrast, the multifamily sector remained virtually dormant for most of the late-1980s and early-1990s. Activity picked up in subsequent years but has never approached the levels of the early-1980s. For the first six months of 2001, total activity is up 13 percent from last year's level; both single family and multifamily activity are ahead of last year's pace. The trend of building permits issued in the 1990s is presented in the following table.

Table 5

Housing Units Authorized by Building Permits
Grand Junction, Colorado MSA
1990 - 2001

Year	Single Family	Multifamily	Total
1990	265	2	267
1991	343	0	343
1992	535	28	563
1993	773	18	791
1994	882	42	924
1995	832	109	941
1996	917	127	1,044
1997	961	98	1,059
1998	1,105	181	1,286
1999	1,232	130	1,362
2000	1,132	184	1,316
January-June 2001	641	71	712

Source: U.S Bureau of the Census Construction Reports

Multifamily construction was very limited in the early-1990s. Two senior housing projects were the first major rental projects completed in the 1990s. The Atrium of Grand Valley includes 127 apartments and 15 cottages. The apartments were completed in 1995 and the cottages soon followed. Monthly rent includes a meal package, housekeeping, utilities and other services. Grandview is a 60 unit, HUD Section 202 project completed in 1995. The project is limited to elderly persons with incomes below 50 percent of the median. Rent is subsidized to ensure that tenants pay no more than 30 percent of their income for rent. Neither of these projects are included in the above permit totals reported to the Census Bureau; apparently, they were not included in the regular multifamily totals because of their focus on seniors.

In 1995, the multifamily unit total went above 100 units for the first time since 1985. The totals for each subsequent year have been at about 100 units and above. This modest rebound in multifamily activity has been spurred by an increase in condominium construction; these have accounted for 50 to 60 percent of the multifamily units permitted since 1995. Apartment construction remains very limited. The major projects completed in the 1990s (other than the two senior projects mentioned above) are discussed below:

Crystal Brook (Grand Junction):

This 40 unit LIHTC project is located in the Orchard Mesa area and includes eight units which were built in 1978. The remaining units were completed in 1996 after the Grand Junction Housing Authority (GJHA) purchased the partially completed project. All units are restricted to households with incomes less than 55, 50, or 45 percent of the median. The project's low rents and support from housing vouchers have kept occupancy in the high-90s.

Bookcliff Station (Grand Junction):

This 54 unit project is located at 960 Bookcliff, just north of the Mesa State campus. Construction was completed in 1998. This FHA insured project offers two bedroom, two bath units for $550 per month (heat included). It has a high proportion of students and typically faces a seasonal dip in occupancy in the summer.

Grand Valley (Clifton):

This project of 50 units consists of 25 duplexes on about two blocks on Jaylee Street. It was financed with a HUD/CHFA risk-sharing loan and was completed in early-1999. It includes two and three bedroom units, all of which are targeted at 60 percent of income households. Its current rents are $475 for a two bedroom and $550 for a three bedroom unit, somewhat below the maximums permitted for LIHTC units.

Foresight Village (Grand Junction):

This project is located on 25 ½ Road, north of Patterson and is the only major market rate, non-student apartment completed in the Grand Junction area in the 1990s. This project has been built in phases of about 30 units each over the past six years. The first phase was completed in 1995; the final phase of 30 units is now under construction and should be complete by Fall. Upon completion, the project will include a total of 180 one and two bedroom units.

The site includes a clubhouse, pool and covered parking. One bedroom units rent for $525 and two bedroom rents range from $630 to $705.

Present Construction Activity

The last phase of Foresight Village mentioned above is the only major apartment project under construction at the present time. Assuming some scattered duplexes and homes intended for rent also under construction, the total is probably in the 30 to 40 unit range.

Proposed Construction Activity

The rental housing pipeline in Grand Junction is limited. There are projects proposed which could include apartments but none of these appear likely to start construction this summer. The status of three developments with some potential to include apartments is discussed below. There are several other smaller multifamily developments in various stages of planning and construction but these three are the largest and the most likely to include rental units.

Village Park – This mixed use development at 28 ½ Road and Patterson includes a parcel for 132 apartments. The developers of this project submitted a pre-application package for FHA insurance and were subsequently invited to submit a full application in April 2000. No application was received and this invitation has expired. The present status of this project is uncertain but it does have preliminary approval from the city of Grand Junction.

Hacienda/Homestead – This multifamily development at 24 ½ Road and F ¼ Road has been approved for a total of 368 units. Construction is underway on the second of six residential phases. There is some potential for future phases of this development to be built as rentals but units are only offered for sale at present.

Hall Subdivision – This site is located on 24 ½ Road at about where F ½ Road would intersect with 24 ½ Road. The site has been rezoned and developers have submitted a preliminary plan for 352 multifamily units. This development is early in the approval process; the timing of this development and whether any units will be built as rentals is uncertain at this time.

The Village Park project is the only one of these specifically designated as apartments. Unless plans change quickly for development at Hacienda/Homestead or the Hall Subdivision, there is little likelihood that a major apartment project will break ground this year.

Rental Market Conditions

The Grand Junction area rental market has been balanced to moderately tight through most of the 1990s. The trend in apartment vacancy rates from the Colorado Division of Housing survey is shown below. The survey was initiated in 1995 but the number of survey responses in Grand Junction was small in the first survey. Therefore, the table only includes data from 1996 to the most recent survey.

Table 6

Apartment Vacancy Rates
Grand Junction Market Area and State of Colorado
1996 - 2001

Survey Date	Grand Junction	Colorado
1st Quarter 1996	4.3%	4.7%
3rd Quarter 1996	2.5%	4.3%
1st Quarter 1997	2.9%	5.2%
3rd Quarter 1997	5.9%	4.4%
1st Quarter 1998	4.4%	4.8%
3rd Quarter 1998	3.6%	4.0%
1st Quarter 1999	7.3%	4.8%
3rd Quarter 1999	4.5%	3.7%
1st Quarter 2000	5.4%	4.9%
3rd Quarter 2000	4.7%	3.5%
1st Quarter 2001	3.5%	4.3%

Note: The Colorado rate is derived from the Denver Metro Survey and all market areas surveyed in respective quarters.

Source: "Multi-Family Housing Vacancy and Rent Survey", Colorado Division of Housing

The local vacancy rate was below, or close to, the statewide rate for most of the mid-1990s but jumped to over 7 percent in the 1st Quarter of 1999, following an increase in rental production in 1997 and 1998. The Grand Junction rate has dropped since then but remained above the state rate until the 1st Quarter of 2001. The decline to a very low 3.5 percent in this quarter followed two years of limited rental construction activity. Typically, the return of college students brings a decline in the vacancy rate each Fall. In view of the drop below 4 percent this Spring, the return of Mesa State students is likely to keep the market tight in Fall of 2001.

The average rent in the Grand Junction market area has remained well below the state average from this survey. The trend for this market area and the state is shown below.

Table 7

Average Apartment Rents
Grand Junction Market Area and State of Colorado
1996 - 2001

	Grand Junction		Colorado	
Survey Date	Rent	Change	Rent	Change
1st Quarter 1996	$426	na	$568	na
3rd Quarter 1996	$437	2.6%	$583	2.6%
1st Quarter 1997	$437	0.0%	$591	1.4%
3rd Quarter 1997	$436	-0.2%	$626	5.9%
1st Quarter 1998	$451	3.4%	$630	0.6%
3rd Quarter 1998	$450	-0.2%	$660	4.8%
1st Quarter 1999	$439	-2.4%	$669	1.4%
3rd Quarter 1999	$460	4.8%	$696	4.0%
1st Quarter 2000	$482	4.8%	$718	3.2%
3rd Quarter 2000	$494	2.5%	$731	1.8%
1st Quarter 2001	$482	-2.4%	$753	3.0%

Note: The Colorado rate is derived from the Denver Metro Survey and all market areas surveyed in respective quarters.

Source: "Multi-Family Housing Vacancy and Rent Survey", Colorado Division of Housing

The Grand Junction average has moved up in the past five years but the survey indicates small declines in some quarters. The state average has increased in each quarter but the magnitude of the increases has varied widely. These fluctuations probably reflect changes in survey participants and reporting as much as actual market changes. Nevertheless, the net increase in the average rent in Grand Junction during the past five years of 13 percent is well below the state increase of over 32 percent. As a result, the ratio of the Grand Junction rent to the state average has steadily declined from .75 in the first quarter of 1996 to .64 in the first quarter of 2001. The Grand Junction average rent is lower than that in all Front Range Metro areas except Pueblo.

Typical monthly rents for a one bedroom apartment fall in the $350 to $500 range while most two bedroom units are in the $375 to $525 range. Newer complexes (most of which were built in the early-1980s) offer two bedroom units for $600 to $650. Some rent for up to $700. Rent as this level begins to overlap with single family homes in the city. Rent concessions are not widespread but have been used by some of the larger complexes to bolster leasing. Similarly, some have pulled back rent increases after meeting some resistance to higher rents.

Sales Market

Home sales activity has stabilized in the past three years at just over 3,000 units per year. Price increases have moderated since a spike to over 10 percent in 1998 and the average remains modest. The recent trend is presented in the following table.

Table 8

Residential Home Sales
Grand Junction, Colorado MSA
1995 - 2000

Year	Number of Sales	Average Sales Price	Percent Change
1995	2,603	$100,791	na
1996	2,787	$107,365	6.5%
1997	2,804	$114,277	6.4%
1998	3,184	$126,256	10.5%
1999	3,209	$131,379	4.1%
2000	3,127	$138,775	5.6%

Source: Mesa State College Bureau of Economic and Business Research
Mesa County Association of REALTORS

Household Growth and Renter Demand Forecast

During the 1990 to 2001 time period, building permits were issued for 10,800 units in the Grand Junction. The vast majority of these (about 9,800 units) were single family homes. Of the 1,000 multifamily units permitted, we estimate that just over 600 were actually in projects for rent. The absorption of these units and a modest decline in renter vacancies has resulted in an average absorption of 80 rental units per year in the 1990s. Note that this total includes almost 200 units in projects for the elderly (Atrium and Grandview) and about 80 units in LIHTC projects (Grand Valley and Crystal Brook). The typical absorption of market rate, nonelderly, rental units has been between 30 to 40 units per year.

The dominance of single family homes in construction activity, coupled with completion of multifamily condominium units and a major increase in the manufactured home inventory, has resulted in a significant shift to homeownership in the area. The homeownership rate increased from 64.9 percent in 1990 to 72.7 percent in 2000. We estimate the current homeownership rate at 73.5 percent. A continuation of this shift will dampen the demand for rental units even if the unusually high rate of tenure shift slows in the future. Note that only about 6 percent of the units produced in this decade have been rental units. Therefore, we cannot expect the tenure of future demand to match the tenure of current occupied units.

We estimate that future employment gains of 3.0 percent per year will generate household growth of about 1,100 households per year. This level of household growth is virtually identical to the average for the past decade. It represents a significant increase from the limited gains in the early part of the decade but a slowing from the gains of the 1998-2000 period, a result of the anticipated slower employment growth during the next two years. After adjusting for tenure shift, the need to replace units lost from the inventory and manufactured home impact, this level of growth should allow absorption of 1,000 to 1,100 sales units and about 50 rental units per year. Note that this forecast does not anticipate a major change in demand for market rate, rental units. As long as the factors which favor a continued shift to homeownership (low home prices, manufactured home alternatives, moderate interest rates) remain, the demand for market rate rentals will be modest. Should home prices or interest rates increase dramatically, the demand for rental units would see a corresponding increase but our present forecast does not anticipate a major change in these factors.

At present, there are only 30 rental units under construction at Foresight Village and a small number of additional units in scattered duplexes and similar projects. Once these units are completed, the Foresight Village site will be built out and there are no other major projects likely to start soon. Although the market will not support a large number of units, there is an opportunity to produce a modern rental product in a small (50 to 75 units) market rate project or in a larger, mixed income project.

Subsidized Housing

There are about 1,150 units in HUD subsidized projects in the Grand Junction MSA. The great majority of these (900 plus units) are covered by Section 8 housing assistance payments contracts. This subsidy typically allows tenants to pay 30 percent of their income for rent. Participation in the Section 8 program is generally limited to households with incomes less than 50 percent of the median income for the Grand Junction MSA. At present, this income limit is $21,850 for a family of four and $15,300 for an individual. Just under half of the total HUD-subsidized inventory is in projects for the elderly. These projects are consistently full, experience low turnover and have waiting lists. The nonelderly projects also maintain waiting lists but are more likely to have vacancies at any given time due to the considerably higher turnover in these units.

There are also about 900 Section 8 Vouchers in use in the Grand Junction metro area; most are managed by the Grand Junction Housing Authority (GJHA). These are issued to eligible tenants who find their own units in the market and contribute 30 percent of their income for rent. Eligibility for vouchers is also limited to households with incomes less than 50 percent of the median but three-fourths of vouchers are targeted to households with incomes less than 30 percent of the median ($13,100 for a family of four, $9,200 for an individual). Utilization of vouchers is high and the GJHA maintains a waiting list of almost 900 households. Almost 70 percent of those on the waiting list have incomes less than 30 percent of the median. Some on this list are waiting for units at properties managed by the housing authority but most are seeking a Section 8 Voucher. We estimate there are about 3,000 renter households in Mesa County with income less than 50 percent of the median and paying more than 30 percent of income for rent. There remains a large unmet need for rental assistance in the Grand Junction MSA.

Low Income Housing Tax Credit (LIHTC) Rental Market

The LIHTC rental market has seen little activity. The two projects (Crystal Brook and Grand Valley) completed in the 1990s were discussed earlier. Both were well received by the market and have leased quickly. Section 8 vouchers are being used by about 40 percent of current tenants, a very high proportion when compared to Front Range markets. Project owners have kept their rents below the maximums permitted by the program. Rents, even at the 60 percent of income level, are below the present Section 8 Fair Market Rents. There are no LIHTC units under construction and there are no projects with tax credits awarded in recent competitive rounds. The only proposed addition to the LIHTC inventory is discussed below:

> Rocky Mountain Mutual Housing Association (RMMHA) has purchased Clifton Village (now called Willow Grove) and will offer 86 of these units to tenants at the 60 percent of income level. Thirty three of the units in this project will be covered by a Section 8 subsidy contract and five will be available at market rents. The 86 LIHTC units will represent an addition to the units aimed at 60 percent of income households but they are not a net addition to the rental inventory.

The table below summarizes the number of LIHTC units by bedroom size and income level targeted. This list includes projects with competitive (9 percent) credits and those who receive 4 percent credits on some or all units financed with PABs. It does not include market rate units in the following projects; nor does it include units/projects designated for elderly persons. These latter projects are discussed in a subsequent section of this report. Units targeted at 45 and 55 percent of income have been grouped with those at 50 percent.

Table 9

Income Targets, Bedroom Distribution and Status of Nonelderly LIHTC Projects
Grand Junction, Colorado MSA

July 2001

Completed:

	1 bedroom			2 bedrooms			3 bedrooms			4 bedrooms			
	40	50	60	40	50	60	40	50	60	40	50	60	Total
Bass Apartments		5			5								10
Crystal Brook		20			14			4			2		40
Grand Valley					1	25		1	23				50
Total	**0**	**25**	**0**	**0**	**20**	**25**	**0**	**5**	**23**	**0**	**2**	**0**	**100**

Proposed:

	1 bedroom			2 bedrooms			3 bedrooms			4 bedrooms			
	40	50	60	40	50	60	40	50	60	40	50	60	Total
Willow Grove						16			65				81
Grand Total	**0**	**25**	**0**	**0**	**20**	**41**	**0**	**5**	**88**	**0**	**2**	**0**	**181**

The 60 percent inventory will increase dramatically with the conversion of Willow Grove but since rents on these units are not expected to change significantly, the impact of this will be small.

Market Potential for Nonelderly LIHTC Units

The market potential for LIHTC units consists of households that are both income qualified and can afford the proposed rents. The following table illustrates the maximum incomes by bedroom size (assuming 1.5 persons per bedroom), maximum shelter rents (30 percent of the maximum income limit less a utility allowance) and estimated minimum incomes at the 40, 50 and 60 percent of income level (assuming a typical requirement that tenant income be at least 2.5 times monthly shelter rent). Households within these income ranges form the target market for any given project and/or units at that income level. These computations are based on HUD's Fiscal Year 2001 income limits for the MSA which were effective April 6, 2001. The utility allowances are those used by the GJHA.

Table 10

Target Resident Incomes and Rents by Bedroom Size
Grand Junction, Colorado MSA
Fiscal Year 2001

40 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$13,120	$15,720	$18,180	$20,280
Maximum monthly shelter rent	$278	$332	$385	$423
Minimum annual income	$8,340	$9,960	$11,550	$12,480

50 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$16,400	$19,650	$22,725	$25,350
Maximum monthly shelter rent	$360	$430	$498	$550
Minimum annual income	$10,800	$12,900	$14,940	$16,290

60 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$19,680	$23,580	$27,270	$30,420
Maximum monthly shelter rent	$442	$529	$612	$677
Minimum annual income	$13,260	$15,870	$18,360	$20,100

To estimate the potential market in each range, we updated 1990 Census data which presented incomes by household size and tenure for all households. We assumed a faster growth in these target renter households than in total renters since the shift to homeownership has lowered the proportion of higher income renters. Consequently, the proportion of lower income renters has actually increased. Households were allocated to bedroom sizes based on occupancy patterns derived from the American Housing Survey. By comparing the above income ranges to the updated income distribution, we computed the number of renter households in each range. We then compared this to the number of units for this target group to obtain capture rates. The results of this analysis are presented below. Note that we have derived two sets of capture rates for each income level. The first is based only on completed units in the present inventory (see Table 9). The second is derived from the total of completed, under construction and proposed units (see Table 9). This latter computation tells us the capture rates the LIHTC market will have to achieve to successfully absorb all units presently under construction and proposed.

Table 11

Nonelderly Market Potential and Capture Rates
Grand Junction, Colorado MSA
July 2001

40 Percent of Income:	Number by Bedroom Size One	Two	Three	Four	Total
Total Renter Households	4,250	4,270	2,270	890	11,680
Targeted Renter Households	470	480	260	130	1,340
Completed units	0	0	0	0	0
Capture rates:	**0%**	**0%**	**0%**	**0%**	**0%**
Completed, under constr., proposed	0	0	0	0	0
Capture rates:	**0%**	**0%**	**0%**	**0%**	**0%**

50 Percent of Income:	Number by Bedroom Size One	Two	Three	Four	Total
Total Renter Households	4,250	4,270	2,270	890	11,680
Targeted Renter Households	610	560	350	190	1,710
Completed units	25	20	5	2	52
Capture rates:	**4%**	**3%**	**1%**	**1%**	**3%**
Completed, under constr., proposed	25	20	5	2	52
Capture rates:	**4%**	**3%**	**1%**	**1%**	**3%**

60 Percent of Income:	Number by Bedroom Size One	Two	Three	Four	Total
Total Renter Households	4,250	4,270	2,270	890	11,680
Targeted Renter Households	660	630	390	240	1,920
Completed units	0	25	23	0	48
Capture rates:	**0%**	**4%**	**5%**	**0%**	**2%**
Completed, under constr., proposed	0	41	88	0	129
Capture rates:	**0%**	**6%**	**20%**	**0%**	**6%**

Source: Estimated by HUD Economist

The total capture rates which have been achieved for completed units are very small for each target group, ranging from 0 percent at the 40 percent level to 3 percent at the 50 percent level. The actual capture rates are further diluted by the high proportion of Section 8 Vouchers in these units. The capture rates required following the entry into the market of units proposed remain modest. The increase from 5 percent to 20 percent for three bedroom units at the 60 percent level is high but as discussed earlier, this impact is muted since the units are in an existing project.

For some market areas, capture rates of 20 to 25 percent are considered the limit. Others can accommodate higher rates, but generally not greater than 30 percent. We have observed a few areas with tax credit unit capture rates exceeding 30 percent, resulting in an extended soft market and/or an exceptionally long lease-up period. In one slow growing market area, rates approaching 20 percent resulted in rent concessions and a lengthy rentup. Another area which is attempting to move from rates of about 5 percent to the 25 to 30 percent range has seen widespread rent concessions and extended rentups for LIHTC projects. It should be noted that the movement in capture rates is equally, if not more, important than the absolute level of capture one is attempting to achieve. The more dramatic an increase required, the more time it takes the market to adjust.

The Grand Junction area faces an increase in capture rate for three bedroom units at the 60 percent of median income level with the transition of units at Willow Grove but since rents are not changing dramatically, it is likely that most present tenants who meet the LIHTC eligibility requirements will remain. Therefore, we do not anticipate difficulty in achieving a capture rate of 20 percent for these units. Capture rates for other income levels and bedroom sizes are very low, indicating some potential for additional LIHTC units, particularly at the 40 and 50 percent levels. For example, keeping capture rates at the 50 percent level below a relatively moderate 10 percent would support a project of 50 to 100 one, two and three bedroom units. Note that there is considerable overlap with market rents and rents at the 50 and 60 percent level. Although new LIHTC units may represent a significant upgrade in product, they face difficulty in achieving the maximum rents allowed in submarkets where the market rents are below these maximums.

There remains a strong demand from families who cannot afford the minimum rents at typical levels of LIHTC units without additional subsidy such as Section 8 or Rental Assistance. The majority (70 percent) of Section 8 voucher recipients in the area have incomes less than $10,000, an income group unable to afford any 50 or 60 percent LIHTC units and only a small portion of whom can afford 40 percent of income units.

Market Potential for Elderly LIHTC Units

There are several subsidized elderly housing projects for very low income households (50 percent of median income) in the MSA which were developed under the Section 8 or Section 202 programs but there are no LIHTC elderly projects without additional subsidy. At this point, there are none proposed. The potential market for these units is estimated using a methodology similar to that discussed in the previous section dealing with the nonelderly LIHTC market. The minimum income is based on a one bedroom rent of $300, not the maximum permitted of $360. This results in a minimum income of $9,000, equal to the one person income limit at the 30 percent of income level. The maximum limit are the one person income limits at the 50 percent level. The potential below is based on one person renter households in Mesa County but the adjusted capture rate accounts for some 2 person households (15 percent), some homeowners (10 percent) and some persons from outside of the MSA (10 percent). The capture rate shown has been adjusted to reflect these factors and represents the percentage of single person renters in the area needed to support a given number of units. The results for the 50 percent of income group are shown below as an example. We have not computed capture rates at other income levels.

Table 12

Elderly Market Potential and Capture Rates
Grand Junction, Colorado MSA
July 2001

50 Percent of Income:	Total
Elderly One Person Renter Households	1,510
Targeted Households	640
Completed	0
Capture rate:	**0%**
Hypothetical Project size	50
Adjustments:	
Single person (.85)	43
Renters (.90)	38
From market area (.90)	34
Single person renters needed from area	
Capture rate:	**5%**

The present rate is shown as zero since there are no comparable units in the inventory. Some of these targeted households are already being served in subsidized units but a large share (about 40 percent) of the HUD subsidized elderly residents in the MSA have incomes under $9,000, below the minimum for one bedroom units at the 50 percent level. Persons above this level can afford a rent of about $300 but may not chose to move. On the other hand, there are a number of income-eligible, elderly renters who are not in HUD-subsidized projects. Since there are no units under construction or proposed, we have inserted a hypothetical project of 50 units into the capture rate calculations. A project of this size would require a modest capture of about 5 percent. There appears to be potential to develop an elderly project of this size in view of the low capture rate required and the current strength of the elderly market.