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An Overview of the Rental Market in the

Colorado Springs, Colorado Metropolitan Statistical Area (MSA)

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Denver, Colorado
The Colorado Springs, 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 that may be under consideration in this market area.

The market area covered by this analysis consists of the Colorado Springs Metropolitan Statistical Area (MSA) which is defined as El Paso County, Colorado. The report includes a discussion of the condition and outlook for the overall rental market and the market for income restricted projects financed under the Low Income Housing Tax Credit (LIHTC) program and the Resolution Trust Corporation (RTC), 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, assisted living or the outlook for independent LIHTC units reserved for seniors. The analysis does include a brief discussion of the home sales market. Unless otherwise noted, the estimates and discussion of market conditions are as of September 2000.

Summary and Conclusions

Colorado Springs' strong economy continues to grow. Employment during the 12 month period ending in July 2000 was 4.2 percent above the level recorded during the previous 12 month period. The 12 month average unemployment rate in July was down by over a half a percent to 3.1 percent from a similar period a year ago. The outlook during the next few years is for continued strong growth, although some slowdown is expected because of the area's low unemployment rate and slightly slower inmigration. The MSA's population surpassed the 500,000 person mark in 1999 and growth should continue. El Paso County is expected to the most populated county in the state within the next 10 years.

The general rental market continues to strengthen; the vacancy rate has slipped below 4 percent and average rent has increased by 7 percent from a year ago. A cutback in apartment construction in 1998 and 1999, coupled with the inflow of new worker households migrating to the area, tightened the market. This tightening is likely to continue through this year in most submarkets and into the first part of 2001 because of the modest number of units coming on line. Demand for new units is estimated at 1,000 units a year over the next two years. The nearly 1,350 units currently under construction are slightly above the expected absorption level, but will help bring the market into balance. There is an opportunity for additional market rate rentals in the short run but most new starts over and above the immediate pipeline should be timed to begin during the second half of 2001, with units coming on line during 2002. The luxury/class A product in the northeast submarket will be vulnerable to a construction "bubble", although any extended softening is not expected.

The current market for nonelderly LIHTC units is strong; existing projects (including RTC) are full and new projects lease-up quickly. LIHTC projects under construction and in the pipeline will keep capture rates at modest levels. Future development should be encouraged in two, three and four bedroom units for all income levels. There is 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

Colorado Springs economy is largely based on military activity, which includes Fort Carson Army Base, Peterson Air Force Base complex, the U.S. Air Force Academy, Shriever Air Force Base, and defense research and contracting. Since the 1970s, growth in advanced technology manufacturing, nonprofit organizations and tourism have diversified the economy. Direct and indirect military and defense expenditures, in total, are now about 40 percent of the economy, which is down from an estimated 60 percent of the economy a decade ago. Private sector companies with over a thousand employees are Agilent Technologies, Atmel, Current, Checks Unlimited, Compaq, Eagle-Picher Technologies, Electronic Data Systems, Lockheed Martin Mission Systems, SCI, USAA and Western Forge.

Entering the 1990s, the local economy was recovering from layoffs in the computer industry, a weak state-wide economy and the aftermath of the local saving and loan industry collapse (see Table 1). Foreclosures brought about by overbuilding and anemic employment growth forced the construction industry to a standstill as prices and rents declined or stagnated. The economy began to turn around in 1992 when Apple Computer and MCI communications located in the area, sparking local confidence in the economy and housing markets. At the same time, related firms began to locate in the area and a build-up at the military bases occurred. The recent trend in the civilian unemployment rate and wage and salary employment for the MSA is presented in the following table.

Table 1

Unemployment Rate and Wage and Salary Employment
Colorado Springs, Colorado MSA
1990 - 2000

Year	Unemployment rate	Wage and salary employment Number	Change
1990	7.0%	153,900	na
1991	6.7%	156,100	1.4%
1992	7.2%	163,200	4.6%
1993	6.3%	172,200	5.5%
1994	4.9%	185,300	7.6%
1995	4.6%	197,400	6.5%
1996	4.6%	208,200	5.5%
1997	3.6%	217,500	4.5%
1998	4.5%	224,100	3.0%
1999	3.3%	234,600	4.7%
July 1999*	3.8%	229,177	na
July 2000*	3.1%	238,754	4.2%

* 12 months ending July.

Source: Colorado Department of Labor and Employment

The robust economic growth persisted into 1998 largely because of the strength in the local advanced technology industry, construction and a build up of the trade and service sectors. Growth occurred despite downsizing at Digital Equipment, Apple Computer, Quantum and notwithstanding a highly volatile semiconductor industry, loss of troops at Fort Carson and the pullout of Western Pacific Airlines. More than compensating for these setbacks was growth in software/systems/research and information processing firms such as MCI, Electronic Data Systems, Compaq, Current Inc., etc. Colorado Springs has become a software center, ranking among the highest in job concentration per capita of cities in the U.S. Trade and service employment also surged with the construction of new shopping centers, arenas, hotels, etc. In 1998, the economy slowed as demand for some of the area's exports weakened because of the "Asian flu." Resulting layoffs at exporting firms, such as SCI, LSI Logic and Rockwell dampened growth during that year. The final closure of the Western Pacific Airline's reservation center and operations at the airport was also a factor.

The economy picked up in 1999 with the continual flow of new firms locating in the area and a recovery in the semiconductor market. Ford Credit, Oracle, Compaq, T. Rowe

Price, among others, located in the area adding hundreds of new jobs with the prospects of thousands more over the next several years. Atmel and Vitesse semiconductor firms added hundreds of jobs to existing facilities and Intel will open the previously vacant Rockwell building this year, eventually employing over 2,000 workers. The outlook over the next few years is for much of the same. Several new firms have already announced their intention to locate in the area, including Intel, RockShox, FedEx and VoiceStream. Existing businesses will persist in adding jobs to the area. Military expenditures and strength levels will likely be stable. The military's influence on the local economy will continue to diminish as the civilian economy grows, although the impact is still huge. Military personnel, military connected civilians and contractors still number over 40,000 at the four bases, representing about 14 percent of total employment in 1999. The low area unemployment rate and labor shortages for some trades will slow growth to the 3 to 4 percent range in the near future.

Beyond the next few years, the outlook for the area is good. The area's amenities and favorable business climate will continue to attract growth. While the bargains for commercial buildings and residential housing have long passed, the area still competes well with many other areas of the country. These factors will continue to appeal to inmigrant workers, retirees and businesses relocating from higher cost areas.

Population Trend

Fueled by a booming economy, average population growth from 1992 to 1995 accelerated to a strong 3.6 percent a year. The loss of the 2nd Brigade at Fort Carson slowed population growth in 1996 to 1.4 percent. Growth increased over the next three years to an average of over 2 percent a year, slightly down from the earlier boom period but still very strong. The population and migration trend is presented in the following table.

Table 2

Population and Components of Change
Colorado Springs, Colorado MSA
1990 - 1999

Date	Population	Net natural increase*	Migration	Population change Number	Percent
July 1990	397,887	5,209	402	5,843	1.5%
July 1991	405,225	4,983	2,129	7,338	1.8%
July 1992	421,451	5,326	11,243	16,226	4.0%
July 1993	435,101	5,065	8,324	13,650	3.2%
July 1994	453,726	5,396	13,560	18,625	4.3%
July 1995	466,172	5,134	7,050	12,446	2.7%
July 1996	472,739	5,086	1,433	6,567	1.4%
July 1997	481,780	4,991	3,955	9,041	1.9%
July 1998	492,180	5,074	5,409	10,400	2.2%
July 1999	501,987	5,255	4,733	9,807	2.0%

* Excess of resident births over deaths.

Source: Colorado State Demographer

Inmigration accounted for over one half of the population gain over the past decade. Assuming continuation of the 1999 level of inmigration to Colorado Springs results in a current estimated population for the MSA of about 512,800 persons or a 2.2 percent increase from last year. This is below the decade annual average of 2.5 percent. This population movement to the Colorado Springs area will likely continue, but at a slightly slower pace in 2001 and 2002. An annual employment growth of 3.5 percent should result in a population increase of 2.0 percent a year to 533,500 persons by 2002. The total number of military personnel, connected civilians and their dependents should remain stable, but as a percentage of total population, it will continue to decline as the civilian population grows.

Residential Building Trend

The decade began with a soft market, which contributed to single family permit activity recording its decade low of 745 units in 1990 (see Table 3). Construction picked up dramatically since 1990 because of lower interest rates, strong employment growth and the absence of foreclosed properties. The number of units produced between 1993 and 1997 hovered between 3,300 and 4,000 units, then jumped up to over 4,200 units in 1998 and to nearly 4,600 units in 1999. This is still below the record set in 1986 when over 5,300 units were produced. The year 2000 is on track to approximate last year's decade high level; through August, 3,310 units have been permitted or 2.3 percent ahead of last year's pace. Many of the new single family homes are located on the eastern edge of the city. The core price range is at the entry or first time move-up range of between $125,000 to $200,000; sixty percent of all new construction falls in this price range. The trend in new construction permits is presented in the following table.

Table 3

Housing Units Authorized by Building Permits
Colorado Springs, Colorado MSA
1990 - 2000

Year	Single Family (a)	Multifamily (b)	Total
1990	745	304	1,049
1991	1,182	50	1,232
1992	2,851	4	2,855
1993	3,625	85	3,710
1994	3,620	183	3,803
1995	3,338	1,420	4,758
1996	4,064	1,381	5,445
1997	3,514	1,090	4,629
1998	4,213	1,001	5,214
1999	4,587	1,354	5,941
Jan-Aug 1999	3,236	531	3,767
Jan-Aug 2000	3,310	988	4,298

(a) Single family permits include all structures of one unit and townhouses. This excludes manufactured homes placed on foundation or pads (estimated to be about 2,000 units in total since 1990.)

(b) Multifamily permits include all structures with 2 or more units (including condominiums).

Source: Pikes Peak Regional Building Department; Pikes Peak Area Council of Governments

The trend in multifamily construction parallels single family permit activity going into the 1990s, only the recovery period extended a few years longer. At the start of the decade, extremely low rents, high vacancies and uncertainty regarding the future of Fort Carson stymied new construction until these factors improved and the uncertainty reduced. The small number of multifamily permits recorded from 1990 to 1994 were nearly all in retirement or subsidized projects.

Beginning in 1995, construction picked up dramatically, increasing by nearly 700 percent from the previous year. Apartment construction continued at a brisk pace until 1998 and 1999. The number of new general occupancy apartment units (after subtracting out elderly retirement projects and owner occupied units) fell from nearly 1,300 units in 1995 to 640 units in 1998 and 700 in 1999. Building increased considerably in 2000 with about 900 apartment units breaking ground through August. Since 1995, 5,300 units in 29 apartment projects have opened or are under construction. Twenty-two of the projects (six FHA and one HUD elderly) are open and have rented up, including five LIHTC projects. Of the remaining seven projects, one is an FHA insured market rate project located in the south central submarket. Rounding out the projects under construction are three privately financed market rate projects (two in the northeast and one southwest), one city bond project (northeast) and the first phase of the U.S. Department of Defense's (DOD) Military Family Housing Privatization Initiative at Fort Carson. As of August 2000, there were about 1,350 apartment units under construction.

The Fort Carson project will be phased over four years and will add 840 new units to the on base housing stock. The post's existing 1,824 units will be rehabilitated. Approximately 20 units have started or will start each month beginning August 2000, with the first units coming on line in early-2001. Initially, the new units will be rented to military families displaced from existing on base housing that is undergoing rehabilitation. By the second half of 2001, the civilian housing market, especially in the southwest/airport area, could begin to feel some marginal impact from Army households moving on base. This will be somewhat mitigated by troops returning to Fort Carson from deployment in Bosnia.

There are 14 projects with about 2,800 units in the total pipeline, including one half of the 840 units at Fort Carson. Nine of these projects, containing about 1,100 units, should begin construction within the next several months. Most of these projects in the immediate pipeline are LIHTC, market rate elderly and HUD subsidized elderly projects; only one is a market rate apartment project. Another five developments (containing 1,300 units) are market rate projects in the early planning stages; when and if they start construction is unknown at this time.

More recent LIHTC projects range in size from 36 units at Fountain Ridge, 100 units at Lynmar, 101 units at Sandcreek, 120 units at Green Valley and 120 units at Cottonwood Park (formerly Eldorado Apartments). The largest market rate apartment complexes range from 140 units at the Arbors (FHA financed) to 440 units at the Grand River Canyon Apartments.

Present Multifamily Construction Activity

The six projects (excluding Fort Carson units) currently under construction are described below:

The Peaks, 300 units :

This project is located on Rangewood off of Austin Bluffs Road in northeast Colorado Springs. All of its one, two and three bedroom units are market rate. The Class A project includes washer/dryer in each unit, clubhouse, business center, exercise room, pool, fireplaces and garages for some units. The first building is expected to open for occupancy in November 2000.

The Willows at Printers Park, 220 units :

Located in the old printers' park area in south central Colorado Springs, this FHA financed project is expected to open in September 2000. Near the U.S. Olympic Training Center and downtown area, it will be the first new close-in project to open in the area. Amenities include washer and dryer in each unit, clubhouse, exercise room, pool, business center and fireplaces.

Ridge Point at Gleneagle, 240 units:

This class A project is located just off of Interstate 25, opposite the north U.S. Air Force Academy exit, in the far northeast submarket. Gleneagle is a subdivision located in the unincorporated part of the county, just north of the city limits. The first units should come on line in January 2001.

Creekside at Norwood, 80 units:

This 80 unit housing authority project is located in the in the northeast submarket. Construction should be completed by Spring 2001. Forty percent of its one, two and three bedroom units are restricted to households earning less than 60 percent of median income. The project will target both military households at Peterson AFB and low income civilian households throughout the area.

Classic Apartments, 208 units

This 208 unit project is located in the southwest area of town off of Academy Boulevard and West Meadow, and just north of Fort Carson. All of its units are market rate and the first units should come on line in the Spring 2001. Pool, clubhouse, exercise room, business center and unit washer/dryer are among the project amenities.

Pine Creek Apartments, 314 units:

Located on Briargate Parkway and off of Chapel Hills Drive, this class A project broke ground in August 2000 in the northeast submarket. The first building should come on line during the Spring of 2001. Pool, clubhouse, exercise room, business center and unit washer/dryer are among the project amenities.

In total, there are 1,363 apartment units under construction; most are luxury/class A product in the northeast submarket. About one half of the units should be coming on line beginning in the Fall 2000/Winter 2001, while the second half will start opening in the Spring/Summer 2001. The spreading out of projects will help the northeast submarket absorb the number of units coming on line.

Proposed Multifamily Construction Activity

Projects that are likely to start construction within the several months include five LIHTC (two FHA), two HUD subsidized elderly, an FHA elderly and one market rate project (FHA). The projects are described below:

Rockrimmon Apartments, 72 units:

This project is located on Rockrimmon Boulevard in northwest Colorado Springs. Sixty percent of the, two and three bedroom units will be restricted at 40 and 50 percent of area median income. Amenities include washer and dryer in each unit, community room and playground.

Rockrimmon Vista Elderly, 82 units:

This project is located on Rockrimmon Boulevard in northwest Colorado Springs. It will be the first LIHTC, RTC or bond financed elderly project in the area. Sixty percent of the one and two bedroom units will be restricted at 40 and 50 percent of area median income. Amenities include washer and dryer in each unit and community room.

NBA Lifestyles Elderly Apartments, 102 units:

This potentially FHA financed elderly project is located on American Drive and Academy on the northeast side of town. Construction should begin in the Fall 2000; it will be the first new elderly market rate apartment project since the 1980s. Geared for the elderly market, each unit includes extra storage, washer/dryer and emergency pull cord. An activity room and outside walking paths are among the common area features.

Vineyards at Briargate, 300 units:

This 300 unit, potentially FHA financed project, is located at Woodman and Rangewood in northeast Colorado Springs. Property amenities include clubhouse, business center, fitness center, pool and secured entry, while washers and dryers will be in each unit. Construction is expected to begin within several months.

Constitution and Canada Apartments, 180 units:

This FHA financed project is located on the east side of town near Powers Boulevard. Forty-five percent of its units will be restricted to incomes below 60 percent of median income. Construction should begin in October 2000 and will be the first new large project in the Powers Boulevard area. Pool, clubhouse, exercise room, business center and unit washer/dryer are among the project amenities.

Fountain Ridge South Apartments, 75 units:

This potentially FHA financed project is located in Fountain next to the Fountain Ridge apartments described above. Amenities offered will be the same as in phase I plus pool, clubhouse and washer and dryer in each unit Forty-five percent of the project is proposed to be restricted to households earning less than 60 percent of the median income level.

VOA Elderly Apartments, 51 units

Located on Mallard, just off of Fountain Drive, this project is a HUD Section 202 elderly project. In the southeast part of town, it will offer rental subsidy for age 62 and over households earning less than 50 percent of area median income. Construction is expected to begin sometime during the Fall 2000.

NBA Lifestyles Elderly Apartments, 51 units

Located next to the NBA market rate elderly project described above, this is another HUD Section 202 elderly project. It will offer rental subsidy for age 62 and over households earning less than 50 percent of area median income. Construction is also expected to begin in the Fall 2000.

Stetson Hills Apartments, 160 units:

This housing authority LIHTC project is located on Tutt near Powers Boulevard in east Colorado Springs. All of the units are aimed at households earning less than 60 percent of area median income. The project will include 80 two bedroom and 80 three bedroom units, with pool and clubhouse as common area amenities.

In total, the nine apartment projects account for 1,073 units. Nearly 800 of these units are elderly market rate, LIHTC or rent subsidized units in four of the projects. The four family LIHTC projects are mixed income (40, 50 and 60 percent, and market rate) and are scattered throughout the area. Of the 487 units in these LIHTC projects, 317 are income restricted. There is one general occupancy market rate apartment project in the immediate pipeline, accounting for only 300 units of the 1,073 units. These projects offer a wide variety of product types and target markets.

Home Sales Market

The existing single family sales market has improved dramatically since 1990; the trend for the 1990s is presented in the following table:

Table 4

Existing Single Family Sales
Colorado Springs, Colorado MSA
1990 - 2000

Year	Number of Sales	Average Sales Price	Percent Change
1990	4,153	$93,172	na
1991	4,885	$96,643	3.7%
1992	7,620	$101,259	4.8%
1993	8,625	$111,164	9.8%
1994	8,276	$123,381	11.0%
1995	7,980	$130,202	5.5%
1996	7,991	$140,326	7.8%
1997	7,715	$149,229	6.3%
1998	8,532	$159,452	6.9%
1999	8,869	$168,981	6.0%
Jan-Aug 1999	6,244	$166,908	na
Jan-Aug 2000	6,361	$185,077	10.9%

Source: Pikes Peak Association of Realtors

Average sales price increased at an annual average rate of nearly 7 percent and the sales volume has more than doubled in the past decade. The largest increase in activity occurred in 1992 when the area recorded a 56 percent increase in the number of homes sold from the previous year. This was fueled by increasing confidence in the economy, both locally and from the outside, following the announcement of MCI and Apple locating in the area. Attracted by the area's relatively low housing prices and abundance of employment prospects, a surge of inmigration between 1992 and 1994 stimulated double digit price increases and the jump in sales activity. Since 1994, the market has recorded steady increases in price and sales volume that eventually (in 1999) exceeded the previous high recorded in 1993.

Sales of existing single family homes have not slowed down in 2000. Through August, total sales are slightly ahead of last year's record breaking level, while the average sales price has jumped by 10.9 percent to nearly $185,100. At the same time, active listings are down by nearly 9 percent from one year ago. Homes priced below $200,000 are in short supply, despite competition from new construction. Above $300,000, the market is still strong but homes take a little longer to sell.

New homes make up 32 percent of the total market and the average sale price approximates the existing home sales market. About 60 percent of new homes sold through August 2000 are in the $125,000 to $200,000 price range; the most popular range is between $125,000 to $150,000. Less than 6 percent are under $125,000, while homes priced over $300,000 make up more than 13 percent of the total.

Rental Market Conditions

The surplus of units at the start of the decade (the vacancy rate was estimated to be 16 percent) was absorbed by the market in a few years. Extremely tight conditions prompted double digit rent increases from 1993 to 1995 until a surge of new units hit the market in 1996 and 1997. The market returned to more balanced conditions (see table below) from 1996 into 1998 and the first half of 1999. The trend in apartment vacancy rates from a survey begun in 1995 for the first and third quarters of each year, which was subsequently supplemented (by the same survey) to include the second quarter 1999 and 2000 is shown in the following table.

Table 5

Apartment Vacancy Rates
Colorado Springs MSA
1995 - 2000

Survey Date	Vacancy Rate
3rd Quarter 1995	2.7%
1st Quarter 1996	3.8%
3rd Quarter 1996	3.6%
1st Quarter 1997	6.0%
3rd Quarter 1997	4.7%
1st Quarter 1998	5.8%
3rd Quarter 1998	5.3%
1st Quarter 1999	5.7%
2nd Quarter 1999	4.3%
3rd Quarter 1999	4.1%
1st Quarter 2000	4.4%
2nd Quarter 2000	3.9%

Source: Colorado Division of Housing; Apartment Association of Colorado Springs

The rental housing market tightened the past year because of the cutbacks in apartment construction activity in 1998 and 1999, and continued renter household growth. The second quarter 2000 vacancy rate declined to 3.9 percent and average rent increased by 7.1 percent from a similar period in 1999. All submarkets report low vacancies with the south (Security, Widefield and Fountain) recording the lowest rate followed by the northwest, southwest, northeast, central and finally the southeast/airport area. Concessions have all been eliminated by recently opened projects, many of whom are achieving higher than anticipated rents. Recent projects generally lease up quickly.

We expect the market to remain tight through the end of 2000 and into the beginning of 2001 because of the relatively few units coming on line. By mid-year 2001 many of the 1,350 apartment units currently under construction will have opened. There are also 1,100 units that will likely begin construction over the next several months. However, these projects are a much needed mix of market rate, LIHTC projects, market rate elderly and HUD Section 202 projects. Except for the luxury/class A product in the northeast submarket, the units under construction and in the pipeline are scattered reasonably well throughout the market area. Because of the concentration of luxury/class A product in the northeast, this submarket can be expected to feel some easing. Some competitiveness also will be felt in the Southeast/airport area by the end of 2001 and into 2002 as the Fort Carson units come on line. On the other hand, these Fort Carson units will free up moderately priced housing units in strong demand by the civilian population. In general, the market will be more balanced by next year, with some submarket adjustments the year after next.

Household Growth and Renter Demand Forecast

During the 1990 through August 2000 time period, building permits were issued for about 42,900 units in the Colorado Springs MSA. The vast majority of these (about 35,000 units) were single family homes and townhouses. Of the 7,900 multifamily units permitted, we estimate that just under 7,000 were actually in rental projects (including over 500 retirement units). Owner occupied condominiums and duplexes accounted for the balance of multifamily units permitted. The absorption of the new rental units and a significant decline in renter vacancies have resulted in an average absorption of over 1,200 rental units per year in the 1990s.

The dominance of single family homes in construction activity, coupled with low priced housing, resulted in a significant shift to homeownership in the area. We estimate that the homeownership rate has risen from about 57 percent in 1990 to about 68 percent at present. A continuation of this shift will dampen the demand for rental units. Note that about 15 percent of the units produced in this decade have been rental units. The relatively low proportion of rental units can mostly be accounted for by a surplus of rental units in 1990 and the low apartment rents that prevailed from 1990 1995 until new construction was feasible. Also, the uncertain future of the area military delayed some earlier construction starts. We cannot expect the tenure of future demand to match the tenure of current occupied units. However, assuming a slower tenure shift, rental demand will easily surpass the average production performance of the 1990s. We estimate that future employment gains of 3.5 percent per year will generate household growth of just over 5,100 households per year. After adjusting for tenure shift, units under construction and mobile home impact, this level of growth should support production of an average of 1,000 rental units per year over the next two years. This is well above the average production level of the 1990s of about 700 rental units a year.

At present, there are about 1,350 rental units under construction. This level of construction, while exceeding the expected absorption level, will help relieve the current shortage of rental units and bring the market into balance. There are 2,800 units in various stages of planning, including about half of the 840 units expected to start at Fort Carson Army Base (AB) under the Military Family Housing Privatization Initiative. Of this total pipeline, there are nearly 1,100 units in projects actually expected to begin construction in the next several months. The balance of the pipeline projects (containing 1,300 units) are in the early development stage; when and if they begin construction is unknown.

About 800 of the 1,100 units in the immediate pipeline are either LIHTC or elderly units. The presence of below market rents, focus on elderly households and/or rent subsidy in these latter units will boost rental absorption in the short run above the level one would expect if all were market rate, general occupancy projects. The limited number of market rate units in the immediate pipeline leaves some opportunity for this type of project in the short run but most should be timed to begin in the second half of 2001, with units coming on line in 2002. This level of construction will keep the rental market in balance over the next two years

The only caution is in the northeast luxury/class A submarket; four large projects are either under construction or about to begin. This submarket will feel some competitiveness and projects can expect a longer than normal lease-up period, but no extended softening is expected. Also, the southeast/airport submarket will begin to experience some easing by the end of 2001 because of the new Fort Carson units coming on line. Therefore, any future starts should be encouraged in other submarkets, including the city's eastern edge, far south (Security, Widefield and Fountain), northwest and southwest. Mixed income, LIHTC and/or class B product would be well received in all submarkets.

Household Growth and Owner Demand Forecast

We estimate that the demand for owner occupied units to be about 4,200 units a year over the next few years. The majority of the demand will be for single family detached homes, although we expect that 15 to 20 percent of the demand will be met by manufactured homes in parks (and lots), townhouses, duplexes and condominiums. The proportion of townhouses and condominiums has crept up in the latter part of the 1990s.

Low Income Housing Tax Credit (LIHTC) and RTC Rental Market

The LIHTC and RTC rental market is strong. Recently completed LIHTC projects have been well received by the market and have leased up immediately. RTC properties are full and maintain significant waiting lists. In general, Colorado Springs' market has been underserved by the current supply of LIHTC and RTC income restricted units relative to the potential. Therefore, nearly all projects face consistently strong demand for all unit types and income levels. Section 8 vouchers are being used by a small portion of current tenants. Rents are generally kept at or slightly below the maximum allowed under the program and are well below market rents and the Section 8 Fair Market Rents. LIHTC and RTC projects compete well with the general rental stock, given their rent levels and amenities.

RTC properties were acquired following the collapse of the savings and loan industry in the late 1980s and early 1990s. In total, there are 18 of these properties that fell under its Affordable Housing Program and, as a condition of their sale by the RTC, a portion of their units must be affordable to households earning 50 and 60 percent of median income. The restrictions under this program are similar to the LIHTC program. There are five existing LIHTC projects. In total, there are about 1,140 income restricted units in 23 RTC and LIHTC projects in the area. The vast majority of the units are one and two bedroom units and at the 50 and 60 percent income limit. There are very few three bedroom units and no four bedroom units. There are currently no 40 percent units.

The present inventory of 1,140 units entered the market over a 9 year period, beginning in 1992. There is an 80 unit (32 income restricted) bond project currently under construction that should be on the market by next Spring 2001. The project will be subject to the same income restriction as if it were a LIHTC project. In the immediate pipeline there are 317 LIHTC units in four different nonelderly projects that could break ground within the next several months. The first 40 percent of median income units will be in this group.

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. Table 6 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 (assuming a typical requirement that tenant income be at least 2.5 times monthly shelter rent) at the 40, 50 and 60 percent of income level. 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 Fiscal Year 2000 income limits for the MSA that were effective March 9, 2000. The utility allowances have been estimated by the Colorado Department of Human Services for this area.

Table 6

Target Resident Incomes and Rents by Bedroom Size
Colorado Springs, Colorado MSA
Fiscal Year 2000

40 Percent of Median Income:

	Number of Bedroom: One	Two	Three	Four
Maximum annual income	$15,380	$18,480	$21,340	$23,800
Maximum monthly shelter rent	$333	$395	$453	$494
Minimum annual income	$9,990	$11,850	$13,590	$14,820

50 Percent of Median Income:

	Number of Bedroom: One	Two	Three	Four
Maximum annual income	$19,225	$23,100	$26,675	$29,750
Maximum monthly shelter rent	$429	$511	$586	$643
Minimum annual income	$12,870	$15,330	$17,580	$19,290

60 Percent of Median Income:

	Number of Bedroom: One	Two	Three	Four
Maximum annual income	$23,070	$27,720	$32,010	$35,700
Maximum monthly shelter rent	$525	$626	$719	$792
Minimum annual income	$15,750	$18,780	$21,570	$23,760

To estimate the potential market in each range, we updated 1990 Census data that 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. The second is derived from the total of completed, under construction and proposed units. This later computation tells us the capture rates the LIHTC market will have to achieve to successfully absorb all units presently under construction and proposed. The results of this analysis are presented in Table 7.

Table 7

Nonelderly Market Potential and Capture Rates
Colorado Springs, Colorado MSA
July 2000

	Number by Bedroom Size				
40 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	22,970	22,580	12,170	4,530	62,250
Targeted Renter Households	2,140	2,080	1,480	660	6,360
Completed units	0	0	0	0	0
Capture rates:	**na**	**na**	**na**	**na**	**na**
Under construction, proposed	0	9	17	0	26
Capture rates:	**na**	**0.4%**	**1.1%**	**na**	**0.7%**

	Number by Bedroom Size				
50 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	22,970	22,580	12,170	4,530	62,250
Targeted Renter Households	3,170	3,120	2,070	910	9,270
Completed units	466	253	34	0	753
Capture rates:	**14.7%**	**8.1%**	**1.6%**	**na**	**9.0%**
Completed, under constr., proposed	467	261	47	0	775
Capture rates:	**14.7%**	**8.4%**	**2.3%**	**na**	**9.3%**

	Number by Bedroom Size				
60 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	22,970	22,580	12,170	4,530	62,250
Targeted Renter Households	4,070	3,850	2,600	1,150	11,670
Completed units	140	156	95	0	391
Capture rates:	**3.4%**	**4.1%**	**3.7%**	**na**	**3.7%**
Completed, under constr., proposed	194	302	196	0	692
Capture rates:	**4.8%**	**7.8%**	**7.5%**	**na**	**6.6%**

Source: Estimated by HUD Economist

The total capture rates achieved for completed units are modest for each target group, ranging from zero at the 40 percent level to 9.0 percent at the 50 percent level. The one bedroom size at the 50 percent of median is the only capture rate in double digits. These rates are consistent with the healthy state of the present LIHTC/RTC market. The capture rates required following the entry into the market of all units under construction and proposed increase only modestly. The largest increases are from 4.1 to 7.8 percent and 3.7 to 7.5 percent for the two and three bedroom units, respectively, at the 60 percent level. Rates at the 40 and the 50 percent level increase but they remain modest. The required capture rates are well within a reasonable level.

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 that 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 may be 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.

In view of the high market rents and strong growth in the Colorado Springs area, we expect the market to support relatively high capture rates. Over time, these rates may increase in strong markets like Colorado Springs. At present, capture rates remain well below the 20 percent level and we anticipate that the market should easily absorb the units under construction or proposed.

There can be considerable overlap between various income levels. For example, a family needing a two bedroom unit with an income of $23,100 can afford the minimum rent in a 60 percent unit but is below the maximum income limit for a 50 percent unit (refer to the income levels in Table 7). Since there is this overlap, we have produced estimated 50 and 60 percent capture rates for these units in the aggregate. These results are presented in Table 8.

Table 8

Nonelderly Market Potential and Capture Rates
Colorado Springs, Colorado MSA
September 2000

	Number by Bedroom Size				
50 & 60 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	22,970	22,580	12,170	4,530	62,250
Targeted Renter Households	5,300	5,230	3,430	1,490	15,450
Completed units	606	409	129	0	1,144
Capture rates:	**11.4**	**7.8%**	**3.8%**	**na**	**8.2%**
Completed, under constr., proposed	661	563	243	0	1,467
Capture rates:	**12.5%**	**10.8%**	**7.1%**	**na**	**10.5%**

These estimates show that the capture rates, while the one bedroom is lower, increase for the two and three bedroom units. The estimated 2,000 households who have incomes above the 60 percent minimum and below the 50 percent limit will almost all prefer to rent a unit at the 50 percent level since the rent on these units will typically be lower than those at the 60 percent level. For example, the two bedroom family unit with an income of $23,100 mentioned above will be eligible to rent a 50 percent unit at $511 and can afford rent of $626 on a 60 percent unit. To the extent 50 percent units are available and families chose the lower rent, the capture required among remaining households not eligible for 50 percent units rises accordingly.

Considering the modest capture rates necessary to absorb all units types at the 50 and 60 percent level, this will not be a problem for over the next few years. While the capture rates are low across the board, more emphasis should given for two, three and four bedroom units at the 50 and 60 percent of income because the need is greater in these unit types. There remains considerable potential for additional 40 percent units in all units sizes and, of course, a strong demand from families who cannot afford the minimum rents at typical levels of LIHTC units without additional subsidy such as Section 8. The vast majority of Section 8 voucher recipients in the area have incomes less than $12,000, an income group unable to afford any 50 or 60 percent LIHTC units and only a small portion of who can afford 40 percent of income units.

In summary, there is considerable potential for developing additional LIHTC units at any income range and unit type, and capture rates are very modest. Especially low capture rates are noted in the two, three and four bedroom units. No units have been completed at 40 percent of median, with only a few proposed.