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An Overview of the Rental Market in the

Fort Collins-Loveland, Colorado Metropolitan Statistical Area (MSA)

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The Fort Collins-Loveland, 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 Fort Collins-Loveland Metropolitan Statistical Area (MSA) which is defined as Larimer 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. Unless otherwise noted, the estimates and discussion of market conditions are as of January 2000.

Summary and Conclusions

The Fort Collins-Loveland MSA economy continues to expand but growth rates are slowing. Migration remains an important component of population growth but is down from its peak in 1994. The local rental housing market remains balanced. A surge in rental production in 1997 brought a temporary easing of the rental market but occupancy remained high at most major projects. Continued local employment growth and a lull in apartment construction until 1999 brought a quick recovery to the market. Construction activity has increased dramatically in 1999. The market is faced with an unprecedented level of market rate and LIHTC units under construction and in various stages of planning. There is additional demand for apartments during the next two to three years but present number of apartment units under construction and proposed is above our forecast of absorption in the short run. Some easing of the market is likely by late-2000; if construction activity continues at its present level during the next two years, there is a strong potential for a more prolonged softening of the rental market.

The current market for LIHTC units is strong but this inventory is expected to double within the next 18 to 24 months. The capture rates required to absorb this increase will be difficult to achieve, particularly among two and three bedroom units at the 60 percent of income level and three bedroom units at the 50 percent level. An extended rentup is expected for projects which contain units of this type. On the other hand, a strong demand remains for units at the 40 percent of income level and 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. The elderly LIHTC market faces a surge in units in the short run and should be approached with caution.

Employment Trend

The Fort Collins-Loveland MSA employment growth rate jumped to over 6 percent in 1996, the strongest gain of the 1990s. Growth slowed to 3.2 percent in 1997 and was back up to 4.8 percent in 1998. Wage and salary employment data for 1999 is not yet available but other indicators indicate a slowing in growth. Covered employment (based on place of work) in the first quarter of 1999 was up about 2 percent from the first quarter of 1998. Total employment (based on place of residence) was up 2.7 percent from one year ago as of November 1999. Both of these latter indicators point to a moderately strong job gain in 1999 but the final estimate is likely to show a slowing from 1998. The labor market remains tight; the unemployment rate has stayed below 4 percent since 1994 and was close to 3 percent for the past 12 months. The recent trend in the unemployment rate and wage and salary employment for the MSA is presented below.

Table 1

Unemployment Rate and Wage and Salary Employment
Fort Collins-Loveland, Colorado PMSA
1990 - 1999

Year	Unemployment rate	Wage and salary employment Number	Change
1990	4.8%	78,970	4.8%
1991	4.6%	81,610	3.3%
1992	5.1%	84,780	3.9%
1993	4.5%	89,700	5.8%
1994	3.6%	94,690	5.6%
1995	3.9%	99,470	5.0%
1996	3.8%	105,860	6.4%
1997	3.2%	109.240	3.2%
1998	3.8%	114,540	4.8%
1999	3.2%	na	na

Source: Colorado Department of Labor and Employment

Employment growth should remain above the state average even as it slows from the surge in the 1993 through 1996 time period. Statewide, nonagricultural employment growth averaged 4.2 percent per year during the past five years (1994 through 1998). The Fort Collins-Loveland MSA job growth rate was 5.0 percent per year over this same period. The Colorado Office of State Planning and Budgeting has forecast job growth for the state of 2.9 percent in 2000 and 2.4 percent in 2001. Similarly, the Legislative Council has forecast growth of 3.0 percent in 2000 and 2.6 percent in 2001. The Fort Collins area is unlikely to sustain employment growth rates of 5 percent if statewide job gains ease back to 3 percent or below. Nevertheless, we expect that the local economy will continue to expand faster than the state as a whole. For purposes of forecasting housing demand, we have used an annual job growth of 3.5 percent in 2000 and 2001. This annual gain will be 0.7 to 0.8 percentage points above the average for the state in these two years.

Colorado State University (CSU)

CSU is one of the largest employers in Larimer County. Its 23,000 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

Colorado State University Enrollment - Fall Semester
Fort Collins, Colorado
1990-1999

Year	Number of students	Annual change
1990	20,793	na
1991	20,967	0.8%
1992	21,210	1.2%
1993	21,110	-0.5%
1994	21,461	1.7%
1995	21,914	2.1%
1996	21,970	0.3%
1997	22,344	1.7%
1998	22,523	0.8%
1999	22,782	1.1%

Source: Colorado State University, Office of Budgets and Institutional Analysis

CSU enrollment has increased steadily over the past five years. The Legislative Council and Office of State Planning and Budgeting have forecast average annual increases of 1.7 percent and 1.6 percent, respectively, in total public higher education enrollment through the year 2004. CSU enrollment growth should be close to this rate; we do not anticipate major increases in the near future.

CSU has a present dormitory capacity for 4,500 students. Dormitories have been full or slightly over capacity in each Fall semester for the past several years. Last Fall, dormitory capacity was expanded through use of study halls as residences to meet demand for on campus housing. CSU owns and manages 910 student apartments; 40 are presently not available and are being renovated. Apartment occupancy was 98 percent in November 1999 and is usually at, or above, this level for the entire academic year. At present, there are no plans to construct new dorms or student apartments. Even modest increases in enrollment will put pressure on the rental market in the future since the vast majority of students will continue to seek housing off-campus.

Population Trend

Population growth in the Fort Collins-Loveland MSA accelerated in the early-1990s but has eased moderately since then. The recent trend is presented below.

Table 3

Population and Components of Change
Fort Collins-Loveland, Colorado MSA
1990 - 1998

Date	Population	Net natural increase*	Migration	Population change Number	Population change Percent
July 1990	187,100	1,600	1,900	3,500	1.9%
July 1991	192,600	1,700	3,800	5,500	2.9%
July 1992	197,900	1,600	3,700	5,300	2.8%
July 1993	204,200	1,600	4,700	6,300	3.2%
July 1994	211,400	1,600	5,600	7,200	3.5%
July 1995	217,100	1,600	4,100	5,700	2.7%
July 1996	221,800	1,600	3,100	4,700	2.2%
July 1997	226,300	1,500	3,000	4,500	2.0%
July 1998	231,500	1,500	3,700	5,200	2.3%

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

Source: Colorado State Demographer

The sustained employment growth in the 1990s pushed inmigration in 1994 to a record level, accounting for over three-fourths of the population gain in this year. In

1995, inmigration eased and the total growth rate dropped back below 3 percent. Despite this slowing, population growth has been strong in the MSA and inmigrants continue to exert a significant positive influence on the housing market. Inmigration to the Fort Collins and Loveland areas will continue in the near future but it will not match the record level of 1994. A continuation of the 1998 level of inmigration results in a current estimated population for the MSA of about 239,500 persons. An annual employment growth of 3.5 percent should result in an increase to a population of just over 250,000 persons by 2001.

As commuting among Front Range communities continues to expand, a portion of this population gain will come from residents who are not employed locally. This impact is difficult estimate but our population forecast does incorporate some growth that is not derived form local employment growth. The above forecast results in a growth rate of 2.3 percent per year, above the average of the past three years. Therefore, population and household growth will continue at a level somewhat above that one would expect from a slowing of employment growth to 3.5 percent per year.

Residential Building Trend

Total building activity peaked in 1996 at almost 3,500 units and was bolstered by a surge to almost 1,100 multifamily units. A cutback to under 500 multifamily units in 1997 brought the total for this year below 3,000 units. A strong single family gain, coupled with a modest multifamily increase, pushed the 1998 total to over 3,200 units. For the first 11 months of 1999, total activity is very close to the 1998 pace, a result of a cutback in single family permits and a resurgence in the multifamily sector. The trend of building permits issued in the 1990s is presented in the following table.

Table 4

Housing Units Authorized by Building Permits
Fort Collins-Loveland, Colorado MSA
1990 - 1999

Year	Single Family	Multifamily	Total
1990	1,017	219	1,236
1991	1,266	277	1,543
1992	1,740	188	1,928
1993	2,274	344	2,618
1994	2,505	671	3,176
1995	2,186	611	2,797
1996	2,426	1,065	3,491
1997	2,293	484	2,777
1998	2,647	575	3,222
Jan.-Nov. 1999	2,278	770	3,048

Source: U.S Bureau of the Census Construction Reports

In any given year, one-third to one-half of multifamily building activity in the MSA consists of for sale units. The City of Fort Collins has accounted for over three-fourths of the multifamily activity since 1990 and Loveland has captured just under 15 percent of the total. Apartment construction was very limited until 1994. Most of the recently completed large apartment complexes (over 100 units) have been HUD/FHA insured. Pinecone, a 195 unit, Section 221d4 project completed in late-1994, was the first major apartment built in Larimer County in the 1990s. This was followed by The Preserve, a 276 unit, 221d4 project completed in early-1995; Miramont, a 210 unit, 221d4 project completed in July 1996; and Woodland Apartments, a 116 unit, Section 542c project completed in 1997. These Fort Collins projects were joined by The Buttes in Loveland, a 221d4 completed here in late-1997. Rose Tree Village, a 120 unit, LIHTC project built in 1995, College Park (Jefferson Commons), a 192 unit student housing project completed in 1997 and Argyle at Willow Springs, a 280 unit luxury project just completed in November 1999, were the only major, non-HUD/FHA projects completed so far in the 1990s.

The surge in construction activity in 1996 brought several major apartment projects to the market in 1997. Over 500 rental units in five projects were completed in 1997 in Larimer County. This total included a variety of products (student housing, LIHTC units) and a major family apartment in Loveland, the first to be built here since the 1970s. The experience and status of these projects is outlined below.

Woodland Apartments (Fort Collins):

This 116 unit project is located on the corner of Shields and Harmony Road and is a LIHTC, Section 542c Risk Sharing project. All units are restricted to households with incomes less than 60 percent of the median; some are restricted to those under 50 percent. Construction began in July 1996 and was completed in July 1997. Units leased rapidly; sustaining occupancy was reached within a month of completion. Woodlands has maintained occupancy and kept its rents at the maximums allowed under LIHTC guidelines.

Springfield Court (Unincorporated Larimer County):

This 63 unit project is located at 3750 South Taft Hill Road, just outside the city limits of Fort Collins. Construction started in November 1996 and was completed in the Summer of 1997. It is also a LIHTC project and was developed by Mercy Housing, a nonprofit sponsor. All units are income restricted; 22 are targeted to households under 40 percent of median income, 26 to those under 50 percent and 14 to those under 60 percent. This project was fully leased by the time the final C.O. was issued in August 1997. Rents have been increased very little since this project opened and are well below the maximums permitted.

Lone Tree (Estes Park):

This 57 unit project received its LIHTC reservation in the 1995 round. It includes one, two, and three bedroom units, three fourths of which are targeted at 50 percent of income households. This project was completed in the second half of 1997 and leased quickly. Its current rents are at the maximums permitted.

The Buttes (Loveland):

This 111 unit Section 221d4 project is located at Wilson and Eisenhower Boulevard in Loveland. The site includes a clubhouse, pool and 69 garages. Individual units have gas fireplaces and washers and dryers. Not only was this the first major apartment built in Loveland in decades, it was the first with this level of amenities. Construction began in December 1996 and was complete in late-1997. This project was well received and reached sustaining occupancy in early-1998.

College Park/Jefferson Commons (Fort Collins):

This 192 unit project has capacity for 660 students and is located at 2250 West Elizabeth. Bedrooms are leased individually; students share a living room, kitchen and laundry in each unit. The units are furnished and each bedroom can be locked for privacy. Most rent for $400 to $450 per person per month. These rents do not include utilities. The site includes a clubhouse, pool, jacuzzi, and volleyball, tennis and basketball courts. Construction began in December 1996 and the was completed in August 1997. This project leased up for the Fall 1997 semester and has maintained consistently high occupancy since then.

Following completion of these projects, apartment construction came to a virtual standstill. The only major apartment completed since the above projects entered the market in 1997 was the Argyle at Willow Springs, discussed more fully below.

Argyle at Willow Springs (Fort Collins):

This 280 unit project is located in southeast Fort Collins, just west of Timberline Road on Battlecreek Drive. This conventionally financed project was started in late-Spring of 1998. The first units were completed in December 1998; additional units were brought on-line throughout 1999 until the final C.O. was issued in November 1999. Units are large and the project has an extensive amenity package. Some units include washer and dryers; others have hookups. Garages and storage units are also available. One bedroom rents range from about $750 to over $900; two bedroom rents range from about $900 to almost $1,100. This project is still in initial rentup and should reach sustaining occupancy in early-2000.

Present Construction Activity

The lull in apartment construction activity changed abruptly in 1999. There are six projects containing almost 900 units now under construction. This number is actually higher than the number of multifamily building permits issued through November in the MSA because some of these projects have obtained footing and foundation permits but not building permits. We have counted these projects as under construction since site work has begun and the issuance of a building permit should follow shortly. We anticipate that permit totals for the period from February 1999 through February 2000 will show that almost 1,000 apartment units were started in this time period, an unprecedented level of activity for the Fort Collins-Loveland MSA. The apartments now under construction are described below.

Buffalo Run, 144 units:

This LIHTC project is located at East Lincoln and Lemay. Sixty percent of the units are income and rent restricted; most of these are aimed at 50 percent of median income households. The project will include 64 two bedroom and 80 three bedroom units. Construction began in February 1999 and the first units were available in October 1999. This project is about two-thirds completed at present and is very early in its initial rentup. All units should be completed by late January or February 2000.

Eagle Ridge, 168 units:

This is a Section 221d4 project located north of Highway 34 on Rocky Mountain Avenue in Loveland. It includes 56 one bedroom and 112 two bedroom units, all at market rents. Units will include washers and dryers; some will have attached garages. Construction began in March 1999. No units are ready for occupancy at this time but some should become available soon.

Four Seasons, 208 units:

This is a conventionally financed, market rate project located just east of Shields on Arbor. The developers originally planned this as a condominium project but have now decided to rent the units, at least initially. This project may be converted to condominiums at some time in the future but in the short run, it will be competing for tenants in the rental market. It includes a mix of one, two and three bedroom units and will offer detached garages for most of the units. Units range in size from just over 700 square feet to almost 1,400 square feet; rents will be around $1.00 per square foot. Construction began in the summer of 1999 and the first units should be ready for occupancy soon; remaining units will come on the market through the first half of 2000.

Country Ranch, 118 units:

This project was financed with PABs and 4 percent tax credits. The site is southeast of Harmony Road and Corbett at 2921 Timberwood Drive. It includes 52 two bedroom units and 66 three bedroom units; all will be restricted to 60 percent of median income households. Construction began in September 1999; no units are ready for occupancy at present.

Bull Run Townhomes, 176 units:

This project is located northwest of Vine and Summit View Drive/County Road 9 in northeast Fort Collins. It will consist of two, three and four bedroom townhomes. All units will be income restricted; most are aimed at

60 percent of median income. This project was also financed with PABs and 4 percent credits. It has just started construction; footing and foundation permits were issued in November 1999.

JFK Senior Apartments, 72 units:

This project is located southeast of JFK Boulevard and Troutman Parkway in south central Fort Collins. It will include one and two bedroom units and will be specifically for elderly households. This project received an award of 9 percent, competitive tax credits in 1998. All units are income restricted; most will be aimed at the 40 percent of income group. Site work just began in December 1999.

Proposed Construction Activity

Several additional projects are proposed in Fort Collins and Loveland. Some have been awarded tax credits or a PAB allocation, some will seek FHA financing and some will be financed conventionally. The projects discussed below are the most likely to start in the coming year.

Huntington Hills, 224 units:

This project is east of College Avenue on Fossil Creek Parkway in Fort Collins. Its final development plan has been approved. The sponsor also developed Argyle and units and amenities will likely be similar to this project. Construction has not begun but a Spring 2000 start is likely.

Pine Tree Village, 48 units:

This project is located at East 1st Street and Denver Avenue in Loveland. It received a competitive LIHTC award in the 1998 round. It includes 24 two and 24 three bedroom units; all are restricted to the 40 percent of income level. Final development plan approval is expected shortly and this project should be under construction sometime in the first quarter of 2000.

Windsong, 224 units:

This project is located near Sun View Drive and 42nd Street in north Loveland. Windsong has an approved development plan and only needs a building permit before construction can begin. It includes one, two and three bedroom units, all at market rents, with an above average amenity package. Units will have washers and dryers; detached garages will be offered for about half of the units. This development was invited to apply for a HUD/FHA insured mortgage but did not submit a loan application for firm commitment. This project is the furthest along of all major apartments in the city of Loveland's planning process but its present status and timing of construction start is uncertain.

Stone Meadows, 252 units:

This site is on the northeast corner of Eisenhower Boulevard and Denver Avenue in Loveland. It will be conventionally financed and is nearing approval of a final development plan. If the project proceeds as planned, it will start in the Spring of 2000.

CARE @ Wind Trail, 50 units:

This project will be the fourth LIHTC project developed by this local nonprofit group and is located on the northeast corner of Rowland Moore Drive and Bridgefield in Fort Collins. The 40 two bedroom and 10 three bedroom units here will be primarily restricted to 40 and 50 percent of median income households. Ten of these will be offered to seniors. The sponsor received a 1999 award of tax credits and expects to start in the Spring of 2000.

Eagle View, 160 units:

This development is adjacent to the Rocky Mountain Factory Stores in eastern Loveland at the intersection of McWhinney Boulevard and Eisenhower. It has a conditional commitment from the Colorado and Housing and Finance Authority for PAB financing. The project will provide 100 two bedroom and 60 three bedroom units; all will be restricted to 60 percent of median income households. It still needs final development plan approval from Loveland but is a likely late-Spring or Summer 2000 start.

Preserve at the Meadows, 216 units:

This site is at the northwest corner of Horsetooth and McClelland in south central Fort Collins. The development plan is still under review at the city and approval is actively being sought. This market rate project was invited to apply for a HUD/FHA insured mortgage but did not submit a loan application for firm commitment. The developers intend to start in 2000 but the lack of loan commitment and need for final city approval make the timing of this project uncertain.

Fox Meadows, 138 units:

This development is located on the southeast corner of Horsetooth and Timberline in Fort Collins. A final development plan has been approved. This project was invited to apply for a HUD/FHA insured mortgage but did not submit a loan application for firm commitment. At the time of invitation, all units were proposed at market rents. The sponsors are reviewing options for

PAB financing with a mix of market rate and income restricted units. The final composition is not known at this time.

Redwood Apartments (Drycreek), 150 units:

This site is on the southeast corner of Redwood and Conifer in northern Fort Collins. This project has an allocation for PAB financing and will restrict occupancy to 50 and 60 percent of median income households. It includes 40 two bedroom and 110 three bedroom units. It is expected to begin the approval process within a month or two. Construction start is not likely until the second half of 2000.

Elizabeth Street Senior Apartments, 50 units:

This is another LIHTC senior project being developed by the same group developing the JFK Senior project. The site is at 1600 West Elizabeth in western Fort Collins. Most units will be restricted to 40 percent of income households. This was another 1999 tax credit award.

Northern Hotel, 47 units:

This project is an existing hotel which will be rehabilitated into LIHTC apartments for seniors. All are restricted to 40 percent of income households; this project also received its tax credit award in the 1999 round.

Thompson Valley, 96 units:

This site is at 14th and Taft in Loveland. It is part of a larger, primarily commercial, development which is under construction. A final development plan approval would be necessary before construction can begin on the apartments.

The projects listed above include over 900 market rent units and over 500 LIHTC/income restricted units. There are also several multifamily units in various stages of planning review in Fort Collins and Loveland. Many of these will be built as condominiums but a significant number may be apartments, particularly in Loveland. There has been some concern in the development community that the new Fort Collins City Plan may limit future development but at present, there is a substantial pipeline of pending apartment developments in the MSA.

Rental Market Conditions

The Fort Collins-Loveland rental market has been tight through most of the 1990s. The trend in apartment vacancy rates from a survey begun in 1995 is shown below.

Table 5

Apartment Vacancy Rates
Fort Collins and Loveland
1995 - 1999

Survey Date	Vacancy Rate
3rd Quarter 1995	2.7%
1st Quarter 1996	3.3%
3rd Quarter 1996	2.1%
1st Quarter 1997	5.2%
3rd Quarter 1997	3.8%
1st Quarter 1998	5.3%
3rd Quarter 1998	2.2%
1st Quarter 1999	4.4%
3rd Quarter 1999	2.9%

Source: Colorado Division of Housing

The return of college students results in a consistent decline in the vacancy rate each Fall. The increase in the inventory in 1997 pushed the rate up moderately but by late-1998, the seasonal pressure from CSU brought the rate back below 3 percent. The seasonal increase in the Spring of 1999 was modest and the rate was back below 3 percent in the most recent survey.

Most major market rate projects which were completed in the 1990s offered some rent concessions during initial rentup. These were typically removed as projects reached sustaining occupancy. Most projects have been able to increase rents consistently during the past several years, although these have slowed from the early-1990s. The moderate easing of the market in early-1997 brought some concessions at many existing projects early in the year. By 1998, most of these had disappeared; there are virtually no concessions offered at the present time.

Household Growth and Renter Demand Forecast

During the 1990 to 1999 time period, building permits were issued for over 26,000 units in the Fort Collins-Loveland MSA. The vast majority of these (about 20,600 units) were single family homes. Of the 5,000 plus multifamily units permitted, we estimate that just over 3,600 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 410 rental units per year in the 1990s.

The dominance of single family homes in construction activity, coupled with completion of multifamily condominium units, has resulted in a significant shift to homeownership in the area. We estimate that the homeownership rate has risen from about 63 percent in 1990 to about 74 percent at present. A continuation of this shift will dampen the demand for rental units. Note that only about 12 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. Rental demand will not exceed 10 to 15 percent of future production even if the tenure shift slows. We estimate that future employment gains of 3.5 percent per year will generate household growth of about 2,600 households per year. After adjusting for tenure shift and mobile home impact, this level of growth should allow absorption of up to 400 rental units per year. This estimate is not conservative; it is equal to the average for the 1990s and assumes that rental production will remain high as the overall economy slows.

At present, there are 800 rental units under construction in the six projects discussed earlier. This represents about two years worth of absorption and is above the level we would like to see to maintain a balanced market. A level of 400 to 500 units under construction at any given time would keep the level of activity closer to annual absorption potential. The units under construction now will actually meet the absorption potential for the years 2000 an 2001. Therefore, future starts should be timed to meet apartment demand in the year 2002, implying a 2001 or late-2000 construction start.

As discussed earlier, there are 900 market rate and 500 LIHTC units with a reasonable chance of starting in 2000. Even if only half of these actually start in the first half of 2000 and if most of the units now under construction are completed in the first six months of the year, the market will still face a similar level (700 to 800 units) of construction activity by the middle of this year. We do not expect the Fort Collins-Loveland market to support this level of apartment construction indefinitely. If activity slows in the second half of the year, we expect a moderate softening of the rental market with some recovery in 2001. If, on the other hand, the apartment market is faced with an addition of 800 units in each of the next two to three years, we will likely see a more serious surplus develop.

The Fort Collins-Loveland rental market has been strong for a number of years and recovered quickly from the increase in activity in 1997 but the market situation today carries an increased risk of a significantly more competitive rental market in the next few years. Since most of the projects now under construction are at least partially income and rent restricted and many of these are further limited to elderly households, the impact of this increase in construction activity on market rate apartments is lessened. Nevertheless, the level of construction and market acceptance of units as they are completed over the next 18 months should be carefully monitored to avoid creating a major softening of the market.

Low Income Housing Tax Credit (LIHTC) Rental Market

The LIHTC rental market has remained balanced; a moderate easing in the Spring of 2000 did not last through the summer. Projects completed during the past few years have been well received by the market and have leased quickly. Most face a consistently stronger demand for units at the 40 and 50 percent of income level than at the 60 percent level. At the same time, one and two bedroom units have been much easier to keep full than three bedroom units. As expected, a large portion of tenants are single parents and single persons. Section 8 vouchers are being used by about 5 to 10 percent of current tenants. Most profit motivated developers have kept rents at, or close to, the maximums allowed. In contrast, nonprofit sponsors have kept their rents well below the maximums. For most unit sizes, even at the 60 percent of income level, rents are below the present Section 8 Fair Market Rents.

The experience of the Woodlands and Springfield Court was discussed earlier. The most recent addition to the LIHTC inventory is another project sponsored by CARE Housing, Inc., the local nonprofit who successfully developed two earlier projects. It is discussed below.

CARE @ Eagle Tree, 36 units:

This LIHTC project is located at East Trilby and South Lemay and includes 18 two bedroom and 18 three bedroom units. The income targets are similar to previous CARE projects at Greenbriar and Swallow Road. Most are aimed at the 40 and 45 percent of median income level. Tenants must have a minimum income of 30 percent of the median but rent is set at 30 percent of a tenant's income instead of a fixed monthly charge. Construction began in November 1997 and was completed in October 1998. Units leased rapidly and the project has stayed full since opening.

LIHTC projects in the MSA offer a wide variety of bedroom sizes at various income levels. Most have income restrictions on all units but some also contain units at market rents. 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 excludes two LIHTC projects (Trail Ridge and South St. Vrain) completed in Estes Park since both are fully subsidized with Rental Assistance from Rural Development. 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 and 60 percent, respectively.

Table 6

Income Targets, Bedroom Distribution and Status of Nonelderly LIHTC Projects
Fort Collins-Loveland, Colorado MSA
January 2000

Completed:

	1 bedroom			2 bedrooms			3 bedrooms			4 bedrooms			
	40	50	60	40	50	60	40	50	60	40	50	60	Total
Willow Grove			24			30							54
Hickory Hill			14			78							92
CARE Greenbriar					16	4		15	5				40
Rose Tree		6	14		17	67		4	12				120
CARE Swallow				7	10	3	6	10	4				40
Meadows		10		7	16	2	2	21	2				60
Springfield Court	7			9	5	6	4	18	2	2	3	6	62
Woodlands		3	11		14	52		7	29				116
Lone Tree		5	1		25	9		12	5				57
Madison Avenue			11			35			10				56
CARE Eagle Tree				8	10		6	12					36
Total	**7**	**24**	**75**	**31**	**113**	**286**	**18**	**99**	**69**	**2**	**3**	**6**	**733**

Under Construction:

	1 bedroom			2 bedrooms			3 bedrooms			4 bedrooms			
	40	50	60	40	50	60	40	50	60	40	50	60	Total
Buffalo Run				6	32		7	41					86
Country Ranch						52			66				118
Bull Run					16	64		16	62		3	15	176
Total	**0**	**0**	**0**	**6**	**48**	**116**	**7**	**57**	**128**	**0**	**3**	**15**	**380**

Proposed:

	1 bedroom			2 bedrooms			3 bedrooms			4 bedrooms			
	40	50	60	40	50	60	40	50	60	40	50	60	Total
Pine Tree				23			24						47
Eagle View						100			60				160
CARE Windtrail				15	11	40	5	5					40
Redwood					25	5		35	35				100
Total	**0**	**0**	**0**	**38**	**36**	**109**	**29**	**40**	**95**	**0**	**0**	**0**	**347**
Grand Total	**7**	**24**	**75**	**75**	**197**	**511**	**54**	**196**	**292**	**2**	**6**	**21**	**1,460**

The present inventory of 733 units entered the market over a period of eight years, beginning in 1991 with the completion of Willow Grove. In contrast, the 727 units under construction and proposed are expected to be on the market within 18 to 24 months. The LIHTC market is facing a virtual doubling of its inventory within a relatively short period of time.

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 (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 1999 income limits for the MSA which were effective January 27,1999. The utility allowances have been estimated by the Colorado Department of Human Services for this area.

Table 7

Target Resident Incomes and Rents by Bedroom Size
Fort Collins-Loveland, Colorado MSA
Fiscal Year 1999

40 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$15,980	$19,200	$22,180	$24,720
Maximum monthly shelter rent	$360	$428	$493	$540
Minimum annual income	$10,800	$12,840	$14,790	$16,200

50 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$19,975	$24,000	$27,725	$30,900
Maximum monthly shelter rent	$459	$548	$631	$695
Minimum annual income	$13,770	$16,440	$18,930	$20,850

60 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$23,970	$28,800	$33,270	$37,080
Maximum monthly shelter rent	$559	$668	$770	$849
Minimum annual income	$16,770	$20,040	$23,100	$25,470

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 6). The second is derived from the total of completed, under construction and proposed units (see Table 6). 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 8

Nonelderly Market Potential and Capture Rates
Fort Collins-Loveland, Colorado MSA
January 2000

	Number by Bedroom Size				
40 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	9,400	9,340	3,960	1,440	24,140
Targeted Renter Households	1,130	1,180	520	190	3,020
Completed units	7	31	18	2	58
Capture rates:	**1%**	**3%**	**4%**	**1%**	**2%**
Completed, under constr., proposed	7	85	54	2	148
Capture rates:	**1%**	**7%**	**10%**	**1%**	**5%**

	Number by Bedroom Size				
50 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	9,400	9,340	3,960	1,440	24,140
Targeted Renter Households	1,380	1,430	660	280	3,750
Completed units	24	113	99	3	239
Capture rates:	**2%**	**8%**	**15%**	**1%**	**6%**
Completed, under constr., proposed	24	197	196	6	423
Capture rates:	**2%**	**14%**	**30%**	**2%**	**11%**

Table 8 (continued)

60 Percent of Income:	Number by Bedroom Size One	Two	Three	Four	Total
Total Renter Households	9,400	9,340	3,960	1,440	24,140
Targeted Renter Households	1,530	1,620	780	320	4,250
Completed units	75	286	69	6	436
Capture rates:	**5%**	**18%**	**9%**	**2%**	**10%**
Completed, under constr., proposed	75	511	292	21	899
Capture rates:	**5%**	**32%**	**37%**	**7%**	**21%**

Source: Estimated by HUD Economist

The total capture rates which have been achieved for completed units are modest for each target group, ranging from 2 percent at the 40 percent level to 10 percent at the 60 percent level. The three bedroom at 50 percent and the two bedroom at the 60 percent level are the only capture rates in double digits. These rates are consistent with the healthy state of the present LIHTC market. In contrast, the capture rates required following the entry into the market of all units under construction and proposed jump dramatically in most cases. The most extreme example is the leap from 9 to 37 percent for three bedroom units at the 60 percent level. Rates for two bedroom units at this level and three bedroom units at the 50 percent must also rise substantially to absorb these units and not adversely affect the existing inventory. Rates at the 40 percent level increase but they remain modest. Even at this level, a rather large increase is required for three bedroom units. We recognize that the use of Section 8 vouchers and the fact that the present nonprofit sponsors have generally kept rents below the maximums has helped reach some households below the minimum incomes listed in Table 7. We also note that Eagle View's location (with ready access to Interstate 25) places it in a position to capture households from outside of Larimer County. Nevertheless, we do not expect these influences to offset the major increases in capture rates which will be necessary in the near future in the local market.

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 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.

Establishing attainable capture rates is imprecise but in view of the high market rents and strong growth in the Fort Collins-Loveland area, we anticipate that the market could exceed the 20 percent level. The two bedroom at the 60 percent level is almost there already. However, even in a fast growing area, jumping above the 30 percent level will create a highly competitive marketplace. Capture rates of this magnitude may be achievable in the long run but expecting this large a change in the next 18 to 24 months is, at a minimum, aggressive and could portend an extended soft market. The potential for some softening in the market rate rental market in the area heightens this concern.

There can be considerable overlap between various income levels. For example, a family needing a two bedroom unit with an income of $22,000 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 so many of the under construction and proposed units in the MSA are at the 50 and 60 percent levels, we have produced estimated capture rates for these units in the aggregate.

Table 9

Nonelderly Market Potential and Capture Rates
Fort Collins-Loveland, Colorado MSA
January 2000

	Number by Bedroom Size				
50 & 60 Percent of Income:	One	Two	Three	Four	Total
Total Renter Households	9,400	9,340	3,960	1,440	24,140
Targeted Renter Households	2,190	2,310	1,090	450	6,040
Completed units	99	399	168	9	675
Capture rates:	**4%**	**17%**	**15%**	**2%**	**11%**
Completed, under constr., proposed	99	708	488	27	1,322
Capture rates:	**4%**	**31%**	**45%**	**6%**	**22%**

Not surprisingly, these estimates show that very high capture rates will be necessary to absorb the two and three bedroom units at these income levels. While this will impact absorption at both income levels, it should have the most dramatic impact on the 60 percent of income 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 with an income of $22,000 mentioned above will be eligible to rent a 50 percent unit at $548 and can afford rent of $668 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.

Based on the high capture rates necessary to absorb the two and three bedroom units at the 60 percent level and the three bedroom units at the 50 percent level, development of additional units in these categories should be postponed until present units under construction and proposed are completed and absorbed. There remains some potential for additional 40 percent units 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 or Rental Assistance. The vast majority (80 plus percent) of Section 8 voucher recipients in the area have incomes less than $15,000, 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 Low Rent Public Housing program or the Section 8 program but there are none developed as LIHTC projects with no additional subsidy. This will change in the near future. One LIHTC project for elderly has broken ground and two more are planned. A fourth project intends to reserve 10 of its units for elderly. The status of these project is presented in the following table.

Table 10

Income Targets, Bedroom Distribution and Status of Elderly LIHTC Projects
Fort Collins-Loveland, Colorado MSA
January 2000

Under Construction:

	One bedroom 40	50	60	Two bedrooms 40	50	60	Total
JFK Senior	34	14		16	7		71

Proposed:

	One bedroom 40	50	60	Two bedrooms 40	50	60	Total
Elizabeth St.	36			8			44
Northern Hotel	44			3			47
CARE Windtrail				10			10
Total	**80**	**0**	**0**	**21**	**0**	**0**	**101**
Grand Total	**114**	**14**	**0**	**37**	**7**	**0**	**172**

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 incomes are equal to those in the previous section (see Table 7) but the maximum limits are the one and two person income limits for the appropriate level. The total potential below includes both one and two person households. Our experience indicates that about 85 percent of elderly LIHTC units are occupied by one person households. The capture rate shown has been adjusted to reflect this. For example, the 151 units proposed at the 40 percent level will have to rent to about 130 one person households to be absorbed (.85 times 151). The capture rate of 24 percent represents the proportion this 130 units represents of eligible single person households. In this case, the capture rate is identical to that derived by dividing the total proposed by the total number of one and two person households. The results for the 40 percent of income group are shown below. We have not computed capture rates at other income levels since virtually all proposed units are targeted at 40 percent of median income households.

Table 11

Elderly Market Potential and Capture Rates
Fort Collins-Loveland, Colorado MSA
January 2000

40 Percent of Income:	Total
Total Elderly Renter Households	3,700
Targeted Elderly Renter Households	640
Completed	0
Capture rate:	**0%**
Under constr., proposed	151
Capture rate:	**24%**

The present rate is shown as zero since there are no comparable units in the inventory. This does not preclude the possibility that some of these targeted households are already being served in subsidized units but a majority (60 to 70 percent) of the Section 8 subsidized elderly residents in the MSA have incomes under $10,000, below the minimum for one bedroom units at the 40 percent level. The capture rate required is also somewhat aggressive but should be easier to achieve than some of the nonelderly rates discussed previously. Nevertheless, this does imply that production of future units for elderly should be viewed with caution in the short run, particularly since HUD just approved a 60 unit, Section 202 subsidized elderly project in Fort Collins in 1999. The site for this project is at 1401 West Horsetooth Road. These units are limited to elderly persons with incomes below the 50 percent limit; tenants will pay 30 percent of income for rent.

The market may support more LIHTC units in the long run but sponsors would be well advised to postpone applying for more elderly LIHTC units until the units listed above have been absorbed or indicated strong pre-leasing. As with the nonelderly market, the high occupancy and waiting lists at existing subsidized projects indicates an ongoing need for more units with a deep rent subsidy.