**Market Watch and Opportunities – June 2010**
**Economic Market Analysis Division (EMAD) - Denver**

The following information is intended to provide guidance to mortgagees and multifamily developers on present market conditions in the Rocky Mountain region (Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming) for proposed Section 221(d)(4) and Section 220 new construction and sub-rehab projects. This information does not apply to Section 232 applications and refinancing under Section 223f.

The information presented here will be updated as market conditions change. The name of the economist most familiar with a particular market is shown in parentheses for that area. The economists may be reached at (303) 672-5289 for further information. This information does not cover all market areas in the region; information is provided for an area if EMAD has recently reviewed the market or has current market/pipeline information. There will certainly be opportunities or potentially soft markets in areas not on either list.

**Market Watch**: These are areas with a large number of units in the pipeline and/or soft market conditions. We do not recommend scheduling pre-application meetings (TAP) or submitting pre-application packages (MAP) for new construction projects in these areas unless otherwise noted. Mortgagees may want to hold applications for these areas until the pipeline clears and/or market conditions improve, but additional applications should be discouraged in the short run. In addition, there may be limited opportunities for small and/or affordable projects in some of these areas, which can be addressed on a case-by-case basis.

**Market Opportunities:** These areas have strong markets, limited pipelines, or have recently been re-evaluated and removed from the "Market Watch" list. The market study required in these areas for TAP projects can be abbreviated and will usually focus on the submarket conditions, pipeline update, and product positioning in the market. A lengthy discussion of the overall economy, demographics, forecasts, etc. may not be required. MAP submissions should still include the full, independent study called for in the MAP Guide.

**Market Areas Not Listed:** EMAD does not have current market information on some areas. In some cases, our information is current but we do not have a strong opinion on the outlook for the market. In either case, we would recommend scheduling pre-applications and/or acceptance of pre-application packages in these areas, but only after receipt of a current, complete, independent market study. Whether we recommend inviting a full application in these areas will depend on our review of the study, our update/verification of market data, and a review of the information presented at the pre-application meeting or in the pre-application package.

**MARKET WATCH:** ***Colorado Springs, CO MSA*** (El Paso County) (Antoine)

The Colorado Springs economy has improved during the past few months. In the 12 months ending May 2010, however, average nonfarm employment declined by 2.0 percent from a year earlier, to 245,400 jobs. The unemployment rate increased from 7.0 to 8.4 during the same period. Job losses have begun to diminish during the past few months, as the national and local economies improved and the military build-up at Fort Carson Army Base neared completion. In total, about 6,500 soldiers were added to the base during 2009; however, ongoing deployments, transfer timing, and changing military strategies could mute some of the impact of the additional soldiers. Rental market conditions are now more balanced. Vacancy rates have declined and rents are beginning to increase. In a survey conducted by Apartment Insights in the second quarter of 2010, the vacancy rate was 6.2 percent, down from 8.5 percent a year earlier. The average effective monthly rent of $652 was up 3.5 percent from a year ago, which represents a 4-year high. There are no apartments under construction, but two projects with a total of 375 units are currently in FHA processing, and a third project with 240 units is expected soon. Although increased rental demand is already noted with the arrival of military transfers, uncertainty remains for both the economy and military personnel levels. **As a result of uncertainty surrounding military personnel, Colorado Springs remains on the watch list, and development of additional large market-rate and 60 percent tax credit projects should proceed cautiously until it becomes clear how the market progresses.** There are, however, opportunities for subsidized or tax credit developments at 50 percent of median income or lower.

**MARKET WATCH:** ***Denver, CO PMSA*** (Includes Adams, Arapahoe, Broomfield, Denver, Douglas and Jefferson Counties; excludes Clear Creek, Elbert, Gilpin and Park Counties) (Antoine)

Nonfarm employment for the Denver area during the 12 months ending May 2010 was down 2.1 percent from a year earlier, to 1,183,200 jobs. On the positive side, some small year-over-year job gains in the most recent months indicate that the economy has begun a turnaround. The average unemployment rate for the 12 months ending May 2010 was 6.4 percent, up from 8.0 percent a year earlier. Despite job losses, according to Apartment Insights the Denver metro area apartment vacancy rate in the second quarter of 2010 decreased by 0.56 percentage points from the previous quarter, to 6.38 percent, and is down from the 8.30 percent rate of a year ago. The average effective monthly rent increased to $809, up from $779 a year ago. The improvement in vacancy rates was particularly impressive given the roughly 3,000 units that entered the market in 2009, as well as approximately half of the 3,000 units that are slated for completion in 2010. Absorption has kept up with deliveries due to population growth and a shift in preference to apartments. The market is expected to remain somewhat balanced in 2010, or until the units currently under construction are absorbed. In 2011, the market should continue to tighten, with few deliveries slated for the year. In FHA processing, however, there are currently 9 applications, totaling 1,600 units. **As a result of these factors, Denver remains on the watch list, and development should proceed cautiously until it becomes clear how the market progresses.**

There is potential for market-rate development in some submarkets**.** There have been many inquiries; however, current rent levels and vacancy rates are making it difficult to support required pro-forma incomes. There remain, however, opportunities for subsidized or tax credit development at 50 percent of median income or lower.

**MARKET WATCH:** ***Fort Collins-Loveland, CO MSA*** (Larimer County) (Conner)

The Fort Collins area economy has continued to weaken. During the 12 months ending May 2010, nonfarm payrolls averaged 132,500, a decline of 3,900 jobs, or 2.9 percent, from a year earlier. The average unemployment rate for the 12 months ending May 2010 was 6.6 percent, up from 5.4 percent a year earlier. According to Apartment Insights, the apartment vacancy rate in Larimer County in the second quarter of 2010 was 4.5 percent, which is a significant improvement from the 8.6 percent rate of a year ago. Average rents rose slightly during the same period, from about $775 to $800 a month.

Vacancies are expected to remain stable or increase over the next several quarters as new units come online. One large market-rate complex, the 229-unit Settlers Creek Apartments in Fort Collins, began leasing in late 2009, and another large FHA-insured development in Loveland, the 303-unit Lake Vista Apartments, recently began construction. There is a 240-unit project currently in FHA processing, while another 3 projects with a total of about 600 units are in various stages of planning. **Even if some of those projects are abandoned, it appears likely that most of the demand for new construction for the foreseeable future will be met by developments currently in the pipeline.** In addition, the market for 60 percent tax credit units is currently soft. The number of investor-owned rentals in the metro area has increased, and some 60-percent rental units are now competing with mid-range market-rate units. Therefore, such projects are discouraged.

**MARKET WATCH:** ***Grand Junction, Colorado*** (Mesa County) (Antoine)

Nonfarm employment in the Grand Junction metro area averaged about 59,900 during the 12 months ending May 2010, a decrease of 5,500 jobs, or 8.4 percent, from a year earlier. The unemployment rate for the 12 months ending May 2010 averaged 9.5 percent, up from 5.8 percent a year earlier. Mesa County has experienced employment losses related to a cutback in energy exploration and residential construction. The rental market was very tight in 2007 and 2008, with vacancy rates often below 2 percent, but rental market conditions have softened considerably in the past year. According to the Colorado Division of Housing (DOH), in first quarter 2010 the rental vacancy rate in Grand Junction was 11.6 percent, up from 4.0 percent a year earlier. Average asking monthly rents declined slightly during the same period, from $680 to $663. Two 48-unit projects are currently in FHA processing. **For now, new market rate developments are discouraged in Mesa County until it becomes clear how the market progresses over the next few quarters.**

**MARKET WATCH:** ***Greeley, Colorado MSA*** (Weld County) (Antoine)

Economic conditions in the Greeley metro area have weakened in the past year. For the 12 months ending May 2010 nonfarm employment averaged about 77,400 jobs, a decline of 4,600 jobs, or 5.6 percent, from the previous 12 months. The unemployment rate for the 12 months ending May averaged 9.0 percent, up from 6.8 percent a year earlier. Despite the slower economy, according to the second quarter 2010 Apartment Insights survey, the apartment vacancy rate for Weld County was 6.9 percent, down from 8.4 percent a year earlier. In addition, the average effective monthly rent remained relatively unchanged during the same period, at $660. **For the time being, market-rate developments and 60 percent tax credit projects should precede cautiously until it becomes clear how the economy and rental market conditions evolve over the next few quarters.** Tax credit opportunities are limited to 50 percent of median income or lower.

**MARKET WATCH:** ***Pueblo, Colorado MSA*** (Pueblo County) (Antoine)

The Pueblo economy has improved during the past few months, but employment was still down for 12 months ending May 2010. Nonfarm employment averaged about 57,000 jobs, down 1,300 jobs, or 2.2 percent, from a year earlier. The average unemployment rate for the 12 months ending May 2010 was 8.8 percent, up from 7.5 percent a year ago. Rental vacancy rates have risen in the past year, a result of job losses as wells as competition from previously foreclosed homes which are now owned by investors. The State DOH survey for first quarter 2010 reported a vacancy rate of 12.6 percent, up from 7.4 percent a year ago. The average monthly rent rose from $529 to $547 during same period. For projects built after 1980 the vacancy rate is somewhat lower. One FHA-insured market-rate development with 112 units is nearing completion. **For now, until it becomes clear how market conditions progress, additional market-rate developments are discouraged**. The 60 percent tax credit rental units currently on the market are increasingly competing with mid-range market-rate units. Some opportunities remain, however, for tax credit developments at 50 percent of median income or lower.

**MARKET WATCH:** ***Cedar City, Utah*** (Iron County) (Ross)

Economic conditions have continued to weaken in Iron County. Resident employment decreased by 600, or 3 percent, to 19,700 during the 12 months ending May 2010. The unemployment rate continued to climb for a third straight year, from a low of 2.9 percent in 2006 to a current 12-month average of 8.2 percent. Home values have continued to drop during the same period. According to the Utah Association of Realtors®, after peaking at a record $251,700 in the 4th quarter of 2006, the average sales price for a single-family home in Iron County dropped by 22 percent in the 1st quarter of 2010 compared with the 1st quarter of 2009, to $149,100. The soft sales market has increased the number of single-family homes being offered as rental units. The rental market remains soft as the economy slows, with an estimated vacancy rate of about 12 percent. **In light of current market conditions, extreme caution is urged for market-rate projects until the area shows more strength**.

**MARKET WATCH:** ***Heber & Park City, Utah*** (Wasatch & Summit Counties) (Ross)

Economic conditions in the Wasatch-Summit Housing Market Area (HMA) have continued to weaken. Resident employment declined by 1,350, or 4.4 percent, to an average of 29,300 during the 12 months ending May 2010, compared with a slightly smaller loss of 880 jobs, or 2.8 percent, during the previous 12 months. From 2002 to 2006, resident employment in the Summit-Wasatch HMA increased by an average of 1,300 a year, or 5.1 percent, making it one of the fastest growing economies in Utah. Leisure and hospitality is the dominant employment sector in the HMA; the top three private employers are Deer Valley Resort, The Canyons Resort, and Park City Mountain Resort. For the 12 months ending May 2010 the unemployment rate averaged 7.3 percent, up from 5 percent during the previous 12 months. The rental market is currently tight due to a limited supply of new apartments since 2000. The market is expected to become more balanced as new units come on line. EMAD has received inquiries on 2 projects in Summit County, with a total of 250 units, and another 2 projects in Wasatch County, with a total of about 320 units. The Wasatch County projects, a 168-unit project in Heber, and a 156-unit project in Hideout, are already in FHA processing. **Although the market is currently tight, further development is discouraged in Wasatch County until the pipeline begins to clear. Limited opportunities are available in Summit County, especially for tax credit developments.**

**MARKET WATCH:** ***Ogden-Clearfield, Utah MSA*** (Davis, Morgan, and Weber) (Ross/Antoine)

Economic conditions in the Ogden-Clearfield metropolitan area have been weakening since 2007. During the 12 months ending May 2010, nonfarm payrolls declined by 5,800 jobs, or 2.9 percent, from a year earlier. The unemployment rate rose by 1.7 percentage points to 6.9 percent. The rental market has slowed, and conditions are now somewhat soft, compared with a more balanced market a year ago. According to Apartment Realty Advisors, in December 2009 (the most recent data available) the apartment vacancy rate in Weber County was 9 percent, up from 7.2 percent a year earlier. The Davis County apartment vacancy rate was 8 percent, up from 5.9 percent a year earlier. The increase in vacancy rates was primarily due to declining employment and slowing in-migration. According to data from the University of Utah, about 110 apartment units were permitted in Ogden-Clearfield during 2009, a 60-percent decline from the 270 units permitted in 2008. Fewer than 30 apartment units have been permitted through April 2010. As of December 2009, average effective apartment rents for Davis and Weber Counties were $639 and $701, respectively, a decrease of 2 percent each from a year earlier. EMAD has received inquiries on 5 projects with a total of about 750 units in Davis County, including a 324-unit project in Farmington which is currently in FHA processing. Developer interest has been expressed in the cities of Bountiful, Layton, and North Salt Lake. **Large market rate projects are discouraged due to deteriorating employment and rental market conditions, although there remains some potential for small market-rate projects for select submarkets in southern Davis County.** Conditions should be monitored over the next few quarters to see how local housing markets respond to the slowing economy.

**MARKET WATCH:** ***Salt Lake City, Utah*** (Salt Lake County) (Ross)

Economic conditions have continued to weaken in the Salt Lake City metropolitan area. During the 12 months ending May 2010, nonfarm employment fell by 27,000 jobs, or 4.3 percent, to 602,600 jobs. The average unemployment rate increased from 4.8 to 6.7 percent during the same period. The apartment market began to soften in mid-2009 due to the declining economy, a large number of new units coming online, and a surplus of unsold homes being temporarily rented. According to Reis, Inc., the 2nd Quarter 2010 vacancy rate in Salt Lake County increased to 7.1 percent, up from 5.9 percent a year ago. During the same period, the average apartment rent remained relatively unchanged at $747. There are currently about 3,200 rental units under construction, primarily in southern and western Salt Lake County. EMAD has received inquiries on 26 projects, with a total of 4,800 units, in Salt Lake County, including 4 projects with 700 units currently in FHA processing. Given that employment growth, if any, is expected to be slower in 2010, absorption is expected to fall short of deliveries. Effective rents are likely to stagnate or decline while vacancy rates are likely to increase, especially where new construction is concentrated. Interest has been high across the metro area, especially in the downtown submarket. **As a result, additional development is discouraged in Salt Lake County until the pipeline clears; however, there is very limited potential for market rate development for a few submarkets in the county, where construction and pipeline activity have been limited.**

**MARKET WATCH:** ***Tooele, Utah*** (Tooele County) (Ross)

Economic conditions in Tooele County recently turned negative, following decades of strong growth. During the 12 months ending May 2010, resident employment averaged 25,500, down 3.5 percent compared with the previous 12 months. The average unemployment rate rose from 5.5 percent to 7.6 percent during the same period, a significant increase, but still well below the national unemployment rate. The Tooele County rental market is currently tight with an estimated rental vacancy rate of 5 percent. However, 3 projects with a total of about 300 units are currently in FHA processing. These are expected to meet all demand for new rental housing in the near future. **Consequently, additional development in Tooele is discouraged until the current pipeline begins to clear**. Local conditions should be continuously reassessed over the next few quarters to see how the housing market responds to the weaker economy.

**MARKET WATCH: *St. George, Utah MSA*** (Washington County) (Ross)

Economic conditions have continued to deteriorate in the St. George area. Nonfarm employment declined by 2,900 jobs, or 5.9 percent, to 46,600 jobs during the 12 months ending April 2010. Even with a significant slowdown in apartment development over the past several years, the rental market in St. George has softened, with the current vacancy rate estimated at about 12 percent. According to the Utah Association of Realtors® the average sales price for a single-family home reached a record of $330,200 in the 4th quarter of 2006. Prices have been declining since then, and averaged $233,300 in the 1st quarter of 2010, down 11 percent from a year earlier. The soft sales market has increased the number of single-family homes and condominiums being offered as rental units, exacerbating the softness in the rental market. **In light of current conditions, large market-rate projects are strongly discouraged until the area market begins to stabilize**.

**MARKET WATCH: *Vernal, Utah*** (Uintah County) (Ross)

Economic conditions continued to slow in Uintah County through the 12 months ending May 2010. Resident employment decreased by 500, or 2.8 percent, to 17,700, while the unemployment rate increased from 4.0 to 7.9 percent during the same period. The county has experienced employment losses related to a cutback in energy exploration and residential construction. Although the rental market remains balanced, 2 Vernal projects in FHA processing will meet all of the expected demand for at least the next 3 years: a 128-unit project on the west side of the city and a 96-unit project on the south side of the city. **In light of current market conditions and the development pipeline, additional market rate projects are strongly discouraged until the pipeline clears.**

**MARKET WATCH: *Rock Springs, Wyoming*** (Sweetwater County) (Antoine)

Resident employment in Sweetwater County for the 12 months ending April 2010 was down 4.3 percent from the previous 12 months, and the unemployment rate increased from 3.6 percent to 7.6 percent during the same period, indicating that the economy is slowing. Despite this, in-migration of households to the area has continued, and the rental market in the county remains balanced. According to the Wyoming Community Development Authority, as of the fourth quarter of 2009, Sweetwater County had a rental vacancy rate of 7.1 percent. Currently, however, nearly 200 FHA-insured market-rate rental units are nearing completion. Rock Springs is temporarily on the Watch List to allow the new units to be absorbed, and to spread new development entering this relatively small market over a longer timeframe. As a general rule, market-rate development should be phased-in, due to the fluctuations in growth that are endemic to energy-producing areas such as this. **For the time being, market-rate projects are not encouraged until it becomes clear how rental market conditions will evolve over the next few quarters.** Nevertheless, some opportunities remain for tax credit development in the county.

**MARKET OPPORTUNITY: *Boulder city area, Colorado*** (Boulder County) (Conner)

Nonfarm payrolls in Boulder County for the 12 months ending May 2010 declined 3.6 percent from a year earlier, to 158,500 jobs. The average unemployment rate for the 12 months ending May 2010 was 6.3 percent, up from 5.3 percent for the previous 12-month period. Despite this, Boulder continues to have the lowest unemployment rate among metro areas in Colorado. Although rental conditions have softened, the market remains balanced. According to Apartment Insights, the apartment vacancy rate for Boulder County was 6.3 percent in the second quarter of 2010, up from 4.7 percent a year ago. In the south part of the city of Boulder, which includes the CU campus, the vacancy rate was 6.5 percent, an increase of nearly 2 percentage points from a year earlier. The northern part of the city had a vacancy rate of 6.3 percent, compared with 5.8 percent a year ago. The apartment vacancy rate in Longmont was 6.7 percent, down from 7.7 percent a year ago. Average monthly rents for Boulder County were about $900 in second quarter 2010, which was essentially unchanged from a year earlier.

A number of multifamily projects are currently under construction or in the development pipeline in Boulder County. One market-rate project insured by FHA, the 254-unit Prana Apartments in Lafayette, is under construction, and leasing should begin later this year. The 240-unit Residences at 29th Street in Boulder recently broke ground. Another project, the Violet Crossing Apartments in Boulder, with a possible 78 units, is currently under review. **Therefore, any additional large-scale development should be pursued cautiously. Nevertheless, continued opportunities exist for market rate and tax credit projects, especially within the city of Boulder and surrounding areas**.

**MARKET OPPORTUNITY: *Glenwood Springs, CO*** (Garfield County) (Antoine)

The rental market in Garfield County has been extremely tight in recent years. Previously strong employment growth and a lack of new construction put downward pressure on apartment vacancy rates. According to a survey by the Colorado Division of Housing, in first quarter 2010 the rental vacancy rate in Glenwood Springs was 3.2 percent, up from 1.5 percent a year earlier. The average monthly rent increased from $854 to $870 during the same period. Employment growth has been stagnant, however, during the past 12 months. Employment expanded in some sectors, but offsetting job losses have been concentrated in the energy exploration industry in western Garfield County. The unemployment rate for the 12 months ending May 2010 averaged 8.2 percent, up from 4.8 a year earlier. As a result of the slowing economy, rental market conditions may begin to ease slightly. **Nevertheless, there continue to be opportunities for market-rate and tax credit rental development in the area.**

**MARKET OPPORTUNITY: *Williston, North Dakota*** (Williams County) (Young)

The economy of the Williston micropolitan area remains strong. Resident employment in Williams County for the 12 months ending May 2010 was down 2.9 percent from a year ago, to about 14,000; however, the unemployment rate remains very low, at 2.5 percent, up from 2.1 percent a year ago. This is even lower than the 4.1% unemployment rate for the state as a whole. Median income in the second quarter of 2010 was $55,000 for Williams County, up from $45,801 in 2008. The current rental market in Williston is very tight, with the vacancy rate estimated at below 1 percent. One project is currently in FHA processing for 42 units, and a private market study reports an additional 123 units scheduled to be completed in the next three years. **In light of current market conditions, there is**

**market rate and tax credit development potential for smaller, targeted projects in this area.** Some caution may be warranted, however. Williston is a small housing market, and a rapid slowdown in energy-related activity could cause rental conditions to deteriorate suddenly.

**MARKET OPPORTUNITY: *Rapid City, South Dakota*** (Meade and Pennington Counties) (Ross)

The economy of the Rapid City metropolitan area has slowed slightly in the past year. Resident employment averaged 64,200 for the 12 months ending May 2010, a decline of about 900, or 1.3 percent, from the previous 12-month period. The unemployment rate averaged 4.8 percent, up from 3.8 percent a year ago; but this is still extremely low relative to the national unemployment rate. Despite the slowing economy, the rental market remains tight, with an estimated vacancy rate of 5 percent. The rental market has tightened slightly in recent years, due to limited apartment construction activity and a slight increase in personnel at Ellsworth AFB. A 180-unit project in Box Elder (Pennington County) is currently in FHA processing. **There exists some potential for limited development of market-rate and tax credit projects.**

**MARKET OPPORTUNITY: *Provo-Orem, Utah*** (Utah County) (Ross)

Although employment has declined, strong population growth and a slowdown in apartment construction activity since 2006 have allowed the rental market to remain tight. During the 12 months ending May 2010 nonfarm payrolls declined by 7,000 jobs, or 3.8 percent, compared with a year earlier, to 177,500 jobs. According to Reis, Inc., the 1st quarter 2010 vacancy rate in Utah County increased to 4.6 percent, up from 4.2 percent a year ago. During the same period, the average apartment rent remained relatively unchanged at $765. EMAD has received inquiries on 6 projects with a total of about 1,300 units in Utah County, including a 340-unit project in Lehi, a 240-unit Saratoga Springs project, and a 120-unit Payson project which are currently in FHA processing. Developer interest has been expressed for the cities of Highland, Payson, Provo, and Saratoga Springs. **Although development should be pursued cautiously, given current employment trends and the number of projects in the pipeline, there remain some opportunities for market-rate and tax credit developments in select submarkets.** Conditions should be monitored over the next few quarters to observe how local housing markets respond to the slowing economy.

**MARKET OPPORTUNITY: *Casper, Wyoming*** (Natrona County) (Antoine)

The rental market in Casper has eased from the tight conditions of a year ago, due to employment losses. Residential employment declined by 2,000, or 5 percent, during the past 12 months. The average unemployment rate for the 12 months ending May 2010 was 7.7 percent, up from 3.9 percent a year earlier. Nevertheless, net in-migration to the area has remained strong since 2004. According to a survey by the Wyoming Community Development Authority, as of fourth quarter 2009 Natrona County had a rental vacancy rate of 4.8 percent, up from 1 percent a year earlier. Currently, a 200-unit market-rate development is in the FHA pipeline. **There exist opportunities for some limited market rate and tax credit development throughout Natrona County.**