Rental Market Outlook

for the

Salt Lake City-Ogden, Utah Housing Market Area

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The Salt Lake City, Utah HMA Rental Market

Introduction

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. The report is an update of our initial overview of the rental market, dated December 2000. 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. The report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing, which may be under consideration in this market area.

The housing market area (HMA) covered by this analysis consists of the former Salt Lake City-Ogden Metropolitan Statistical Area (MSA), which is defined as Davis, Salt Lake and Weber Counties, Utah. 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, 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. The analysis also includes a brief discussion of the home sales market. Unless otherwise noted, the estimates and discussion of market conditions are as of January 2004.

Summary and Conclusions

The economy of the Salt Lake City-Ogden area is stabilizing after the Olympics “bubble” and a weak high technology sector, but employment growth is struggling to break into positive territory. Average nonfarm employment for 2003 was 0.4 percent below the level recorded a year earlier, yet an improvement from 1.4 percent decline recorded for 2002. The unemployment rate in December 2003 was 4.7 percent, down by over a full percentage point from a year ago. Modest growth is projected for the next two years, but annual job gains will not match the 4 percent annual pace of the 1990s. Stimulated by increased tourism, growth in education and health services and a strong defense sector, employment growth should average about 2 to 2.5 percent a year over the next two years. As of January 2004, there are an estimated 1,397,000 persons in the HMA.

The rental market is highly competitive but has improved from the weak conditions present at the beginning of the year. This earlier weakness resulted from the culmination of layoffs in the area’s high technology sector, completion of construction projects timed for the 2002 Olympics and record low interest rates that allowed many renters to purchase homes. Contributing to the improvement are cutbacks in apartment construction and growth in renter households. The fourth quarter 2003 vacancy rate of 9.9 percent was down from the 10.9 percent recorded at the end of 2002. At the same time, rents are slightly lower while concessions remain in place, a situation that that has persisted during the past year. Newer and larger projects have fared better than older and smaller projects. There are approximately 2,300 surplus vacant units in the current market plus another 1,200 units under construction. Together the 3,500 units will meet demand in 2004 and 2005. Balanced market conditions should return by the end of 2005 and construction can resume in 2005 so that projects are timed to meet demand for 1,700 units in 2006. To the extent additional units come on line over the next 24 months beyond those discussed above, a longer adjustment period will required to achieve a balanced market. There are 1,000 units in 10 projects that are in the late planning stages and potentially could start in 2004. Many of these are LIHTC projects located in the stronger submarket areas of downtown Salt Lake City, West Jordan, South Davis County, and along the light rail corridors south to Sandy and east to the University areas. All the same, units coming on line too early will correspondingly reduce the need for starts in 2005.

The current market for nonelderly 60 percent LIHTC units is very competitive, while the 40 and 50 percent market is generally tight. With the weakening in the general rental market, market rents are close to or at the 60 percent rent level. To be competitive, many 60 percent LIHTC projects have lowered rents to as low as the 50 percent level. The 60 percent capture rates, while not excessive compared to other areas, are pushing the upper limits given the current market weakness. This situation should improve as the general market improves. Davis and Weber Counties ought to recover sooner than Salt Lake County because of few projects currently under construction or in the immediate pipeline. Therefore, 60 percent LIHTC development should be discouraged in the short term unless rents are close to or below the 50 percent level and/or located in a niche market area. While we expect the 60 percent market to remain competitive, strong demand will remain for all unit types at the 40 and 50 percent of income level. The elderly LIHTC market parallels the nonelderly market; the 60 percent market is competitive, while the under-50 percent market is tight. Future development of elderly projects should be encouraged at the 40 and 50 percent income levels. There is a substantial unmet need among elderly and family households eligible for rental assistance such as that provided under HUD’s Section 8 program.

Employment Trends

Salt Lake City-Ogden is the major financial, transportation and service center for the intermountain west. Major sources of employment include higher education (the University of Utah), federal and state agencies, manufacturing, high-tech and biotechnology research. Salt Lake City is the capitol of Utah and is the headquarters of the Mormon Church. The local economy is well diversified and is still growing in many sectors, especially education and health services. The largest primary employers (excluding local government and school districts) are Intermountain Health Care, Hill Air

Force Base, the University of Utah, the Mormon Church, Internal Revenue Service, Delta Airlines, PacificCorp.-Utah, Convergys, Autolive, IOMEGA and Frenseius USA Manufacturing Inc. The recent trend in civilian labor force, total employment, unemployment rate and nonfarm employment for the MSA is presented in the following table:

Table 1

Labor Force, Employment, Unemployment Rate and Nonfarm Employment
Salt Lake City-Ogden, Utah, HMA
1995 – 2003

Year	Labor Force	Employed	Unemployment Rate	Nonfarm Employment Number	Nonfarm Employment Change
1995	635,358	614,447	3.3%	611,800	5.6%
1996	651,020	630,241	3.2%	642,900	5.1%
1997	669,354	649,671	2.9%	668,700	4.0%
1998	681,456	656,960	3.6%	687,000	2.7%
1999	695,121	670,312	3.6%	701,800	2.2%
2000	731,331	708,299	3.1%	718,200	2.3%
2001	739,510	707,479	4.3%	719,400	0.2%
2002	747,174	701,377	6.1%	709,400	-1.4%
2003	765,129	722,046	5.6%	707,300	-0.4%

Source: U.S. Bureau of Labor Statistics; Utah Department of Workforce Services

Entering the 1990s, the local economy was still recovering from a weak state economy and overbuilt residential and commercial markets. This situation was short-lived as new firms were attracted to the area's low costs. Growth initially occurred in trade and services, which was followed by a surge in high technology manufacturing and research. The flourishing high technology sector fueled an economic boom during the mid-1990s. As neighboring states' economies improved, especially in California, and the cost/wage differential lessened, employment growth began to slow. By 1998, the Asian economic crisis hurt the state's export industries and dampened growth in the aerospace, computer, biomedical and primary metals sectors. Employment growth slowed from over 5 percent a year in the mid-1990s to 2 to 3 percent in 1998 where it hovered until 2000.

The economy slowed dramatically in 2001. Construction employment declined significantly as nearly $4.5 billion in construction projects were completed to coincide with the start of the 2002 Winter Olympics. At the same time, the national recession hit the area's high-technology sector hard; an estimated 8,000 high technology jobs were lost in the HMA in 2001 and 2002. The large, but temporary, economic boost of the games during the first quarter of 2002 helped ease some of these losses. Despite the boost by the Olympics, nonfarm employment fell by 1.4 percent in 2002. Layoffs subsided in 2003 and for the year nonfarm employment was off by 0.4 percent. The unemployment rate for 2003 improved to 5.6 percent compared with 6.1 percent for 2002. During the past three months, the rate improved even more dramatically, reaching 4.7 percent in December 2003 or over a 1 percent improvement from one year ago. This rate is well below the U.S. rate and about equal to the state rate.

Driven by improved conditions in the U.S. economy, the outlook for 2004 and 2005 is for moderate employment growth. Growth will be stimulated in a variety of areas. Increased tourism resulting from the Olympics exposure and infrastructure improvements is predicted to stimulate the economy for years to come. Augmented defense expenditures at Hill AFB are expected to continue, although no additional personnel are expected at the base. Health and education services are expected to continue to grow. The advanced technology sector should improve, but not to the level of the 1990s. Many high technology companies have downsized, moved from the area and shifted production to overseas. All in all, the growth rate is expected to be about 2 percent in 2004 and 2.5 percent in 2005. This is consistent with the state Office of Management and Budget projections for the state.

Population Trend

The population of the HMA was 1,333,914 persons as of the 2000 Census. The HMA ranked 36th largest out of 318 MSAs in the nation. Salt Lake County had the largest population among the 29 counties in Utah, while Davis and Weber ranked 3rd and 4th, respectively.

Population growth in the Salt Lake City HMA accelerated in the early 1990s but has eased considerably since then. This early surge was fueled by a weak California (and U.S.) economy that sent many residents to other western states, including Utah. Migration to the HMA was at its highest in 1991 and 1992 when these factors were the strongest. Sustained employment growth kept inmigration in positive territory until 2002 when it turned to the negative side and has remained since. Several factors contributed to the shift from net inmigration to outmigration. Slower employment growth in the late-90s, although still at a respectable pace, was not strong enough to absorb the area's population increase due to the high natural increase in population. This situation was further aggravated when employment barely grew in 2001 and fell in 2002 and 2003. Population and migration trends are presented in the following table:

Table 2

Population and Components of Change
Salt Lake City-Ogden, Utah HMA
July 1994 – July 2003

Date	Population	Net Natural Increase*	Migration	Population Change Number	Population Change Percent
July 1994	1,198,200	16,000	15,000	31,000	2.7%
July 1995	1,221,500	16,400	7,300	23,300	1.9%
July 1996	1,242,400	17,000	4,500	20,900	1.7%
July 1997	1,269,700	17,800	10,200	27,200	2.2%
July 1998	1,289,700	18,400	2,300	20,100	1.6%
July 1999	1,314,100	18,900	6,000	24,400	1.9%
July 2000	1,340,500	19,700	7,500	26,400	2.0%
July 2001	1,363,700	19,800	3,400	23,200	1.7%
July 2002	1,373,800	19,500	-9,800	10,100	0.7%
July 2003	1,387,200	19,500	-6,100	13,500	1.0%

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

Source: Utah Office of Management and Budget; HUD Economist

Inmigration accounted for over one fifth of the population gain over the past 10 years. Population increases of 0.7 percent and 1.0 percent for the HMA, respectively, in 2002 and 2003 are well below the 2 percent average of the past decade. An annual employment growth of 2.0 percent in 2004 and 2.5 percent in 2005 should result in population increasing annually by approximately 1.6 percent. Population is forecast to be 1,442,400 persons by January 2006. Positive inmigration returns in 2004 and 2005, but is still well below the levels achieved during the 1990s. The vast majority of population gains will be from the excess of births over deaths.

Housing Inventory

The total housing inventory saw significant gains during the 1990s. The Census 2000 recorded a 23 percent gain in housing units (84,589 total units) from the 1990 Census. The largest increase was in owner occupied units, which saw a gain of approximately 31 percent or about 73,900 units; renter occupied units increased by about 10,600 units or approximately 9 percent. Vacant housing units, including owner vacancies, rental vacancies and other vacant units, grew only slightly. The 4 percent tenure shift from renter to owner status during this same time increased the homeownership rate to 71.3 percent. The homeownership rate in 2000 for the HMA is well above the 66.2 percent rate for the U.S and is in line with the 71.5 rate for Utah

Table 3 compares the inventory, tenure and vacancy data from the 1990 and 2000 Censuses and our estimates for 2004.

Table 3

Housing Inventory, Tenure and Vacancy
Salt Lake City-Ogden, Utah HMA
1990, 2000 and 2004

	April 1990	April 2000	Jan 2004
Total Housing Units	370,967	455,556	488,800
Occupied Housing units	347,561	432,040	461,100
Owner Occupied	234,098	307,982	337,240
Percent	67.4%	71.3%	73.1%
Renter Occupied	113,433	124,058	123,900
Percent	32.6%	28.7%	26.9%
Vacant Housing Units	23,436	23,516	27,700
For Sale	5,734	5,724	7,230
Owner Vacancy Rate	2.4%	1.8%	2.1%
For Rent	10,223	8,798	11,060
Rental Vacancy Rate	8.3%	6.6%	8.2%
Other Vacant	7,479	8,994	9,390

Note: Subtotals may not add to totals because of rounding.

Source: U.S. Bureau of the Census; HUD Economist

From 2000 to 2004, total housing inventory increased by an estimated 7.3 percent or 33,200 units. As in the past decade, owner occupied units accounted for nearly all of the gain. Because of an increase in renter vacancies, the number of renter occupied units fell slightly during the same time period. Total vacant housing units, including owner vacancies, rental vacancies and other vacant units, grew by approximately 4,200 units. The 2 percent tenure shift from renter to owner status during this same time increased the homeownership rate to 73.1 percent. The homeownership rate in 2004 for the HMA remains well above the 68.3 percent rate estimated for the U.S. in the third quarter of 2003.

Residential Building Trends

The 1990s began with a soft market because of earlier overbuilding. Construction picked up dramatically in subsequent years because of lower interest rates and strong employment growth. Building activity peaked in 1996 when 12,850 units were permitted and then dropped by 4,800 to about 8,000 units by 2000. The number of single-family detached units hit the highest level in 1996 with 9,160 units permitted and then declined to 6,620 by 2000. The trend in new construction permits is presented in the following table:

Table 4

Housing Units Authorized by Building Permits
Salt Lake City-Ogden, Utah HMA
1990 - 2003

Year	Single Family	Multifamily	Total
1990	3,544	285	3,829
1991	4,566	199	4,765
1992	6,038	367	6,405
1993	7,081	1,756	8,837
1994	7,108	1,636	8,744
1995	7,641	3,006	10,647
1996	9,161	3,689	12,850
1997	7,913	2,710	10,623
1998	8,062	2,391	10,453
1999	7,564	1,975	9,539
2000	6,619	1,388	8,007
2001	7,047	2,194	9,241
2002	7,600	1,984	9,584
2003	9,147	2,442	11,468

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

Single-family permits includes all structures of one unit and townhouses.

Source: U.S Bureau of the Census and University of Utah Construction Reports; HUD Economist.

Since 2000, activity again picked up in each of the subsequent years, reaching 11,470 units by 2003 but fell short of the record set in 1996. Single-family building began to pick up beginning in 2001, despite the slow economy, and in 2003 nearly equaled the peak year of 1996. Many of the new single-family detached homes are located in southwest Salt Lake, north Davis and south Weber Counties where most of the available land is located. According to a University of Utah study, the average new home sale price for 2003 came in at between $230,000 and $240,000. This is higher than the Utah Housing Corporation's purchase limit of $171,000 for first time homebuyer and average existing sales price of $175,000 for 2003. Contributing to higher new home prices are impact, hook-up and building permit fees that, according to the same study, have increased by 85.3 percent between 1997 and 2002. Since 1993, Salt Lake County's portion of the HMA's single-family construction declined from approximately 65 percent of the total to 55 percent. Conversely, Davis County's piece increased from about 20 to 30 percent, while Weber County maintained a steady 15 percent. The recent start of a 100,000-acre development near Magna in Salt Lake County will help ensure the county's future dominance of single-family development. Located on the western edge of the county, a build out of 15,000 units is expected over a 20-year period.

Multifamily building parallels single-family going into the 1990s, but the recovery period extended a few years longer because of the extent of earlier overbuilding. The turnaround began in 1993 when activity increased by 380 percent from 1992, then doubled again by 1995. The decade high of 3,689 units was reached in 1996. Activity gradually declined in each of the following years and by 2000, was down to one half the peak year's level. Approximately 50 percent of the decade total of 18,000 units was built during the 1995 to 1997 period. With the Olympic games approaching, building spiked again in 2001 when 2,194 units were started. Activity retreated in 2002 by nearly 10 percent as builders postponed starts in response to a weakened market. Building activity in 2003 is 23 percent above 2002's level. Salt Lake County accounted for a steady 75 percent of the HMA's multifamily permit totals since 1990.

The type of multifamily construction has shifted over the past 10 years. During the first half of the building cycle (1993 to 1997), much of the new construction consisted of class A rental product in south Salt Lake County. Complicated by Interstate15 reconstruction and a weakening market brought about by a slowing economy and a surge in new units, building shifted to predominantly class B and LIHTC product in west Salt Lake, north Davis and south Weber Counties. In addition, downtown Salt Lake County received a dosage of Olympics related construction in 2001 when 700 units were started. In 2002 and 2003, stimulated by low interest rates, condominium units, as a percent of multifamily permits, increased dramatically. We estimate that for the 2000 to 2003 period about 30 percent of multifamily construction was in owner-condominium units.

Home Sales Market

Single-family home sales activity and average price increases have moderated from the rapid increases of the early and mid-1990s. From 1990 to 2000, the average single-family home sales price approximately doubled with over 70 percent of this increase occurring during the first half of the decade. This was initially fueled by the area's low prices and a surge in inmigration, especially from California. As the area's economy boomed, a healthy move-up market followed, stimulating double-digit price increases from 1992 to 1995. Conversely, as the economy and inmigration slowed beginning in 1998, average price increases also cooled. The trend since 1996 is presented in the following table (complete data is not available prior to 1996):

Table 5

Single Family Sales
Salt Lake City-Ogden, Utah HMA
1996 - 2003

Year	Number of Sales	Average Price	Percent Change
1996	12,977	$140,203	Na
1997	12,643	$149,969	7.0%
1998	13,502	$158,117	5.4%
1999	14,264	$162,902	3.0%
2000	14,274	$168,181	3.2%
2001	15,355	$169,832	1.0%
2002	15,619	$171,302	0.9%
2003	17,863	$174,989	2.2%

Source: Salt Lake Board of Realtors; Greater Ogden Board of Realtors

Since 2000, the relative stability in the sales market, despite a large volume of building and weak economy, has been helped by the persistence of low interest rates. Activity increased slightly but the inventory of unsold homes continues to remain high or at twice the level of the early 1990s. The market is more of a buyers' market than in the past. Nonetheless, existing home sales activity in 2003 was up by 14.4 percent from 2002 even as the average sales price increased by a modest by 2.2 percent to $175,000. The market is strongest in the first time buyer range of under $160,000 while the market becomes more competitive in the move-up price range of between $160,000 and $300,000. The high-end market, homes priced above $300,000, is the weakest. For the first nine months of 2003, average single-family sales price in Salt Lake County came in at $186,900, followed by Davis County ($170,700) and Weber County ($132,200).

New construction accounts for about 25 to 30 percent of the home sales market. We estimate that demand for new owner occupied units at about 7,600 units a year over the next two years. Demand in 2004 is lower at 6,600 units because of the slight surplus of units in the current market, while demand increases in 2005 to 8,600 units in 2005. Most of these units should be 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. As land becomes more expensive and single-family units become less affordable, the multifamily portion of owner units should continue to increase.

Present Multifamily Construction Activity

More recently completed (in 2003) LIHTC projects range in size from 48 units at Jordan River Senior Apartments in West Jordan, 88 units at Coppertree Apartments in Magna, 155 units at Citifront in Salt Lake City and 168 units at the FHA-insured Bluffs Apartments in Bluffdale. The largest market rate apartment projects completed in 2003 range from 258 units at the Allegro at Corner Canyon in Draper to 288 units at the Falls at Canyon Rim in South Ogden. Except for the Falls, all of these projects are in Salt Lake County.

Seven projects currently under construction as of this report date report are described below:

Coppergate Apartments, 192 units:

Located at 8800 South State Street in downtown Sandy, the 192-unit project will be restricted to households earning less than 60 percent of area median income. The site will have easy access to employment centers and the north-south light rail line that connects to downtown Salt Lake City. Amenities include a swimming pool, spa, clubhouse, exercise facility, playgrounds, while washer/dryer hookups, exterior storage and carports will be provided for each unit. The first building opened in December and project completion date is expected by June 2004.

Willow Park Apartments, 88 units:

Located in the in the Harvey Street redevelopment area of West Valley City, this project opened in November 2003 and is expected to be completed by January 2004. All of its units are income restricted to households earning between 35 and 50 percent of area median income. Amenities include a washer and dryer in each unit, clubhouse and off-street parking.

Legacy West Apartments, 144 units:

This elderly LIHTC project is located in Taylorsville at Bangerter Highway and 6200 South. The elevator project will include unit washer/dryer hook-ups, patios/balconies, exercise room, business center, community room and a social director. Seventy percent of the 144 units are income restricted to households earning 40 percent (41 units) and 55 percent (60 units) of area median income. The first building of this FHA-insured project should be on line in January 2004 with completion scheduled for Spring 2004.

Sunset Ridge Apartments, 240 units:

This FHA-insured project is located in on the western edge of West Jordan, at 5500 West 9000 South. The first of the 20 three-story buildings opened in

December and completion is expected by August 2004. All of its two and three bedroom units are restricted to households earning less than 60 percent of median income. The project includes a washer/dryer hook-ups in each unit, covered parking, clubhouse, pool, spa and exercise room.

Liberty Hills Townhouse Apartments, 250 units:

This FHA-insured market rate project is located on the southern edge of Salt Lake County along the northeastern foothills of Draper. The townhouse style project includes attached garages, clubhouse, spa, business center, swimming pool, exercise room, and unit washer/dryer. Construction began in August 2003 and the first buildings are expected to come on line in May 2004 with final completion by November 2004.

Village at Rivers Edge, 244 units:

Located in West Valley City, the FHA-insured market rate project is adjacent to the city's new cultural center along the Jordan River. The site was a former meat processing plant that stood vacant for several years. The mixed-use project will include 20,000 square feet of retail space along the highly traveled 3300 South corridor. Construction began in September 2003 and the first buildings should come on line in January 2004. Final completion is scheduled for Fall 2004. Amenities include clubhouse, pool, exercise facility, sport court and unit washer/dryer.

Gerald L. Wright Elderly Apartments, 80 units

This Section 202 Section 8 "deep subsidy" project began construction in November 2003. The HUD project is targeted to households earning less than 50 percent of median income; tenant contribution to rent is based on approximately 30 percent of income. The project is located in the Harvey Street redevelopment area of West Valley City.

In total, there are about 1,200 apartment units under construction as of January 2004; about 50 percent are market rate and 50 percent are family/elderly LIHTC/HUD units. About one half of the units should be coming on line within the next six months and the second half by Fall 2004. There is some concentration in south Salt Lake County. Lower rents have hampered construction activity in North Davis County and Weber County. These projects coming on line will face stiff competition and may take longer to lease-up than is typical.

Proposed Multifamily Construction Activity

The pipeline of projects not yet under construction but in the later planning stages includes about 1,000 units in ten projects. Nine of the projects are in Salt Lake County; these contain a mix of family market rate/LIHTC mix, elderly LIHTC and market rate units. The tenth project is a family LIHTC/market rate mixed income project in Davis County. These projects are expected to start construction within the next six to 12 months and are described below:

Liberty Metro SRO Apartments, 95 units:

This project is located downtown Salt Lake City at 200 East and 500 South. Eighty of the 95 units are income restricted to single-person households earning between 30 and 50 percent of medium income. Units are small studios that target the lower-income working person in the downtown area. Amenities in the five-story elevator project include common laundry, community rooms and balconies. Construction should begin in early 2004.

Foxboro Apartments, 180 units:

Foxboro Apartments is located at approximately 600 North and Redwood Road in a new master planned community in North Salt Lake City. This possible FHA-insured project will have 160 of its 180 units affordable to households earning less than 60 percent of medium income with rents at the 55 percent level. Amenities include a pool, clubhouse, tot lot and access to community trails. Construction should begin by mid-2004.

Parkgate at Murray Cove, 80 units:

This potential FHA-insured project is located in Murray at 100 East and 5400 South. Located near the north-south light rail line, the LIHTC family project has all two-bedroom units. Incomes are restricted to households earning less than 60 of area medium income. Amenities include pool, clubhouse, covered parking and unit washer/dryer hook-ups. Construction is expected to begin by Fall 2004.

Sugar House Apartments, 115 units:

Located at 1200 East and 2100 South in Salt Lake City, this mixed income is expected to begin construction sometime in 2004. This project is located in an older neighborhood that has been redeveloped in a warehouse type style. Income restrictions have not been set as of the date of this report.

Jefferson II School Apartments, 54 units:

This housing authority LIHTC project is located about a mile south of downtown Salt Lake City on South Temple. Sixty percent of the units will be aimed at households earning less than 60 percent of area median income. The project will include 25 one-bedroom and 90 two-bedroom units. The phase II development will share common area amenities already located in the first phase, including a pool and clubhouse. Construction should begin by Fall 2004.

<u>Liberty Wells Elderly Apartments, 51 units:</u>

This LIHTC project is located at 800 South and 300 East in Salt Lake City. All of the units are income restricted to households earning 35 to 45 percent of income. The four-story elevator building will have underground parking, community room, computer room, beauty shop and common laundry. Construction should begin sometime in 2004.

<u>Westgate II Apartments, 36 units</u>

Located at 1520 West and 300 South in Salt Lake City, this family LIHTC project is a 36-unit addition to an existing project. Thirty-two of the units are income restricted to households earning less than 45 percent of median income. The phase II addition should begin sometime in 2004.

<u>Jordan Hills, 220 units</u>

Located on the western edge of West Jordan, this project is located at 7800 South and 6500 West. Expected to start construction sometime in 2004, this market rate project includes a clubhouse, exercise room, business center and unit washer/dryer hook-ups.

<u>Midvale Junction, 106 units:</u>

This project is located in Midvale at 205 West and 7200 South. Located near the north-south light rail line, the LIHTC family project will have all its units affordable to households earning less than 60 percent of median income. Construction is expected to begin in 2004.

In total, the ten proposed apartment projects account for about 1,000 units. Nine are LIHTC projects located in Salt Lake City or in nearby suburbs. Of the 800 units in these LIHTC projects, 680 are restricted to a mix of households earning less than 40, 50 and 60 percent of area median income and approximately 120 units are market rate. The remaining project is 100 percent market rate (220 units) and is located in West Jordan. There are another 2,500 units in 17 projects that are in early planning stages; when and if they start construction is unknown at this time.

<u>Subsidized Housing</u>

There are about 4,900 units in HUD subsidized projects in the HMA. Nearly all of these are under public housing or come with project based Section 8 subsidy. This subsidy typically allows tenants to pay 30 percent of their income for rent. Participation in the public housing and Section 8 programs is generally limited to households with incomes less than 50 percent of the median income for the Salt Lake-Ogden area. At present, this income limit is $30,550 a family of four and $21,400 for an individual. About two thirds of the total HUD-subsidized inventory are in projects for the elderly. These projects are generally full and maintain waiting lists. Occupancy has been bolstered by a significant number of handicapped and disabled persons that have located in the Salt Lake area. With few exceptions, family projects are also full and maintain waiting lists but are more likely to have vacancies at any given time due to the considerably higher turnover in these units.

There are about 5,000 Section 8 vouchers in the Salt Lake City HMA. The Salt Lake City and Salt Lake County Housing Authorities (HA) manage about two-thirds of this inventory; HAs in Ogden, Davis County and West Valley City account for the balance. Section 8 vouchers are issued to eligible tenants who find their own unit in the market and contribute 30 percent of their income for rent. Eligibility for vouchers is also limited to households with incomes less than 50 percent of the median but three-fourths of vouchers are targeted to households with incomes less than 30 percent of the median ($18,350 for a family of four, $12,850 for an individual). The FY 2004 Fair Market Rents for the HMA are: Studio/efficiency $514, one-bedroom $595, two-bedroom $756, three-bedroom $1,052 and four bedroom $1,232. Including income, tenant contribution to rent is based on these limits. Utilization of vouchers is high and local HAs have combined waiting lists numbering nearly 14,000 households, including over 4,000 disabled and elderly households. The majority of these households are seeking the use of Section 8 vouchers because the subsidy is not tied to a specific project. We estimate there are over 36,000 renter households in the Salt Lake City HMA with income less than 50 percent of the median and paying more than 30 percent of income for rent. There remains a large unmet need for rental assistance in the Salt Lake City HMA.

Rental Market Conditions

The 1990 to 2000 period began with a surplus of units that was absorbed by the market in a few years. Extremely tight conditions prompted double-digit rent increases from 1992 to 1993 until new units began to hit the market beginning in 1993. Moderate rent increases continued during the mid-1990s and the vacancy rate moved up slightly from this earlier tightness. As a surge of new units came on line in 1996 and 1997, the rental market began to weaken. Simultaneously, low interest rates prompted a shift to homeownership and slower employment growth extended the competitive market period through 1999. The recent trend in apartment vacancy rates from a local survey is shown in the following table:

Table 6

Apartment Vacancy Rates
Salt Lake City-Ogden, Utah HMA
1994 -2003

Survey Date	Vacancy Rate
December 1994	3.1%
December 1995	3.5%
December 1996	4.3%
July 1997	4.7%
December 1997	3.8%
June 1998	6.4%
December 1998	6.8%
June 1999	6.9%
December 1999	7.7%
June 2000	7.0%
December 2000	6.3%
June 2001	5.8%
December 2001	7.1%
June 2002	9.3%
December 2002	10.9%
June 2003	9.5%
December 2003	9.9%

Source: EquiMark Properties Inc.

The rental market improved in 2000 due to an earlier cutback in apartment construction and Olympics-related activity picked up momentum as the games neared. This balanced-to-tight market continued through the games that ended in February 2002. The market immediately softened after the games as a result of the release of units held for the games plus the brunt of high technology layoffs began to take hold. This softening was further aggravated by record low interest rates that allowed many renters to become homeowners. The rental vacancy rate jumped from the 6 to 7 percent level in 2001 to 10.9 percent by December 2002. At the same time, average rent flattened and rent concessions mounted. In the December 2002 EquiMark survey, seventy percent of properties were offering concessions compared with 33 percent one year earlier. Concessions consist of a combination of reduced deposits, cash discounts and one or two months free rent. Improvement was noted in the June 2003 EquiMark survey when the average vacancy rate fell to 9.5 percent; RealFacts and Hendricks & Partners surveys also showed vacancy rates declining in both June and September. By December 2003 the EquiMark survey indicated that the market had lost ground; the vacancy rate increased to 9.9 percent and average rent declined by 1.4 percent from June. RealFacts also verified this December trend in their 4th quarter survey. We expect that seasonal variation played a major role in the weaker December results and the market has still improved from one year ago. The downtown Salt Lake City, Midvale/Sandy and the Bountiful/North Salt Lake City submarket areas have shown the most strength in the face of the weak general rental market.

The market will remain competitive in 2004 and 2005 because of the surplus of units in the current market and the 1,200 units currently under construction. By the end of 2005, as the market returns to a balance market, the vacancy rate should decline to the 6 to 7 percent range and rents should begin to increase. However, the timing of this depends to the extent of any additional units on top of those discussed above enter the market prior to 2006.

Household Growth and Renter Demand Forecast

The number of households has increased by approximately 29,100 since the 2000 Census or an annual average increase of 1.8 percent. It is estimated that there are 461,100 households in the HMA as of January 2004. Tenure estimated for January 2004 is 73 percent owner and 27 percent renter, compared to the 71 percent owner and 29 percent renter recorded in the 2000 Census. The shift in tenure from renter to owner equates to approximately .5 percent per year, which is slightly above the average annual tenure shift between the 1990 and 2000 Census. The average household size decreased from 3.04 in 2000 to 2.98 as of January 2004. The number of households is expected to grow at a rate of 2.0 percent a year over the forecast period. As of January 2006, it is estimated that the total number of households in the HMA will reach 479,400.

The shift to homeownership is expected to continue assuming the mortgage interest rates do not change significantly. With a relatively stable interest rate, the split between owner and renter tenure is expected to be approximately 74 and 26 percent, respectively, by the end of our two-year forecast period. If mortgage rates begin to rise, fewer renters will be able to purchase a home. Should this occur the demand for rental units will increase and, vice versa, lower interest rates will decrease the demand for rental units. Even with a moderate increase in interest rates from the near record lows of the past year, homeownership will likely continue to increase.

During the 1990 through 1999 time period, building permits were issued for about 86,700 units in the Salt Lake City HMA or an annual average of 8,700 units. For the 2000 to January 2004 period, nearly 38,400 units were permitted or an average of 9,600 units a year. In total, 125,100 units were built since 1990. The vast majority of these (about 99,100 units) were single-family homes and townhouses. Of the 26,000 multifamily units permitted, about 22,000 were actually in rental projects. Owner occupied condominiums and duplexes account for the balance of these multifamily permits. Absorption of new rental units and a significant decline in renter vacancies resulted in an average absorption of nearly 1,700 rental units per year for the 1990 and 2000 period. For the 2000 through January 2004 period, absorption dropped to 760 rental units a year. The market was unable to absorb the number of units produced and, as a result, vacancies increased during this period.

We forecast employment gains of 2 percent for the first year and 2.5 percent for the second year of our forecast period. This will generate average household growth of just over 9,150 households per year. Based on the renter portion of household growth, adjusting for tenure shift, units under construction and mobile home impact, there is no demand for new rental units over the two-year period. Demand over the next two years will be met by will be met by 2,300 surplus vacancies currently available in the market and another 1,200 units under construction. Demand for new units should return by the end of 2005. Therefore, construction can resume in 2005 so that projects are timed to meet demand for 1,700 units expected in 2006.

There are approximately 3,500 units in various stages of planning. Of this total pipeline, there are 1,000 units in projects actually expected to begin construction in the next six to 12 months. The balance of pipeline projects (containing approximately 2,500 units) is in the early development stage; when and if they begin construction is unknown at this time. To the extent additional units come on line over the next 24 months beyond those discussed above, a longer adjustment period will required to achieve a balanced market.

About 70 percent of the 1,000 units in the later planning stages but not yet under construction are LIHTC family or elderly units. The presence of below market rents and/or focus on elderly households 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. However, low market rents in the current market will still compete with LIHTC units until the market rate/LIHTC rent differential increases. The limited number of market rate units in the immediate pipeline leaves some opportunity for this type of product to begin in 2005. Most of the demand will be for affordable market rate and 40 and 50 percent LIHTC units. As mentioned above, the only caution is to time starts so that construction begins so that units are delivered in 2006. This timing of construction will allow the rental market to balance by the end of 2005.

Low Income Housing Tax Credit (LIHTC) Rental Market

The LIHTC non-elderly rental market is mixed; the 60 percent LIHTC market has softened, while the 40 and 50 percent market remains strong. Contributing to the weaker 60 percent market are lower market rents, rising incomes and a prevalence of new 60 percent units. The 60 percent LIHTC rental market began to ease following the completion of the Olympics in 2002 and has not fully recovered. Lower rents and move-in specials are being offered and vacancies are evident throughout most 60 percent LIHTC projects in the MSA. The 40 and 50 percent LIHTC markets are much stronger because of the lack of new product for these income groups and a larger LIHTC/market rent differential, which provides an incentive for tenants to reside in below market tax credit projects. As the rent approaches 50 percent, even these projects must market well or add move-in specials.

Additions to the LIHTC inventory since January 2000 are listed below in Table 7, which provides the year completed or expected completion date, location and number of units for each of the family projects. Excluded are the acquisition and rehabilitation of existing of projects.

Table 7

New Additions to Non Elderly LIHTC Inventory
Salt Lake City-Ogden, Utah HMA
January 2000 – January 2004

	Location		Month/Year	Total Number of
	City	County	Completed	LIHTC Units
Heritage	West Valley	SL	Jun 2000	80
Country Oaks	Clearfield	Davis	Sep 2000	72
Ridge at Jordan Landing	West Jordan	SL	Jan 2001	276
Jefferson School I	Salt Lake City	SL	Dec 2001	48
Northgate	Salt Lake City	SL	Dec 2001	166
Bridge	Salt Lake City	SL	Dec 2001	62
Haven Pointe	West Haven	Weber	Nov 2002	168
Bluffs	Bluffdale	SL	Jun 2003	168
Coppertree	Magna	SL	Sep 2003	88
Citifront	Salt Lake City	SL	Dec 2003	93
Willow Park	West Valley	SL	Dec 2003	88
Coppergate	Salt Lake City	SL	June 2004	192
Sunset Ridge	West Jordan	SL	Sep 2004	240
Total				**1,741**

Source: Utah Housing Corporation

Projects that opened prior to the 2002 Olympics were generally well received by the market and usually at the maximum rent allowable under the LIHTC program. Heritage, Country Oaks and the Ridge at Jordan Landing were the first of these post-2000 projects, while Jefferson School, Northgate and the Bridge Apartments were initially built to serve as Olympics-worker housing. Following the games, these projects came back on line, releasing nearly 500 units to the market and contributing to the competitive LIHTC market. The market remained competitive when Haven Pointe, followed by the Bluffs, Coppertree, Citifront and Willow Park entered the market in 2003. Coppergate and Sunset Ridge have only recently opened their first buildings and will remain under construction well into next year. These recent projects have leased up slowly, while offering lease-up incentives including lower rents.

In general, the 60 percent market is weak, but some submarkets are in better shape than others. South Davis County has performed well because of a lack of new product in the area. The western edge of Salt Lake County has been stronger because of recent highway improvements and the resulting employment and population growth that accompanied these improvements. Downtown Salt Lake City going south along the light rail corridor to Sandy has drawn tenants because of easy access to services and employment centers. Elsewhere in the HMA, newer, more competitive 60 percent projects have an easier time attracting tenants than older, more modest projects. Although LIHTC rents are below the present Section 8 Fair Market Rents (FMRs), voucher holders account for only a small portion of current tenants and are concentrated in the 40 percent or below units. Even 60 percent rents are generally below the FMRs because projects, out of necessity, have lowered rents to compete with the current low market rents.

The present inventory of new units built under the LIHTC program beginning in the late-1980s numbers about 3,600 units. In addition, there are approximately 500 units in three projects that are under construction and another 400 units (excluding Liberty Metro SRO Apartments) in the late planning stages; all but one is located in Salt Lake County. While there are some 40 and 50 percent units in these projects, the vast majority of new units under development remain at the 60 percent level. In addition to new construction, another 1,300 existing units were acquired and rehabilitated plus another 600 units currently planned for acquisition. Higher construction costs and a weak rental market have made the acquisition program increasingly popular.

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 8 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. As mentioned earlier, actual 60 percent tax credit rents are below the maximum allowable under the program. Therefore, we have also shown the minimum incomes needed to afford these lower rent levels; households within these income ranges form the target market for any given project and/or units at that income level. For example, the target income level for a 60 percent two-bedroom unit would be for households with incomes range from $20,250 to $33,000. These computations are based on fiscal year 2003 income limits for the HMA that were effective February 20, 2003. Households within these income ranges form the target market for any given project and/or units at that income level. Local housing authorities throughout the HMA have estimated the utility allowances. The following table shows income levels and maximum shelter rents that are considered under the LIHTC program:

Table 8

Target Resident Incomes and Rents by Bedroom Size
Salt Lake City-Ogden, Utah HMA
January 2004

40 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$18,340	$22,000	$25,420	$26,360
Maximum monthly shelter rent	$405	$479	$548	$603
Minimum annual income	$12,150	$14,370	$16,440	$18,090
50 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$22,925	$27,500	$31,775	$35,450
Maximum monthly shelter rent	$519	$617	$706	$780
Minimum annual income	$15,700	$18,510	$21,180	$23,400
60 Percent of Median Income:	Number of Bedrooms			
	One	Two	Three	Four
Maximum annual income	$27,510	$33,000	$38,130	$42,540
Maximum Monthly Shelter rent	$634	$754	$865	$1,064
Minimum annual income	$19,020	$22,620	$25,950	$28,740
Estimated actual shelter rent	$575	$675	$775	$850
Minimum annual rent	$17,250	$20,250	$23,250	$25,500

Source: HUD Economist

To estimate the potential market in each range, we updated 2000 Census data that presented incomes by household size and tenure for all households. 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. Both sets of capture rates and units have been adjusted to reflect tenants expected from outside the market area, estimated to be approximately 20 percent. The results of this analysis are presented in Table 9.

Table 9

Non Elderly Market Potential and Capture Rates
Salt Lake City-Ogden, Utah HMA
January 2004

	Number by Bedroom Size				
40 Percent of Income	One	Two	Three	Four	Total
Total Renter Households	38,600	40,300	23,200	10,200	112,400
Targeted Renter Households	4,380	4,240	3,040	1,370	13,000
Existing units	86	37	28	3	154
Adjusted Capture Rates:	**1.6%**	**0.7%**	**0.7%**	**0.2%**	**0.9%**
Adjusted existing units, under construction and proposed	88	73	48	3	212
Adjusted Capture Rates:	**1.6%**	**1.4%**	**1.3%**	**0.2%**	**1.3%**

	Number by Bedroom Size				
50 Percent of Income	One	Two	Three	Four	Total
Total Renter Households	38,600	40,300	23,200	10,200	112,400
Targeted Renter Households	5,440	6,050	3,790	1,690	17,000
Existing units	56	354	111	104	625
Adjusted Capture Rates:	**0.8%**	**4.7%**	**2.3%**	**4.9%**	**2.9%**
Adjusted existing units, under construction and proposed	72	396	161	104	733
Adjusted Capture Rates:	**1.1%**	**5.2%**	**3.4%**	**4.9%**	**3.5%**

	Number by Bedroom Size				
60 Percent of Income	One	Two	Three	Four	Total
Total Renter Households	38,600	40,300	23,200	10,200	112,400
Targeted Renter Households	8,170	8,700	5,500	2,550	25,000
Existing units	603	875	1256	80	2,814
Adjusted Capture Rates:	**5.9%**	**8.0%**	**18.2%**	**2.5%**	**9.0%**
Adjusted existing units, under construction and proposed	603	1,371	1,446	80	3,500
Adjusted Capture Rates:	**5.9%**	**12.6%**	**21.0%**	**2.5%**	**11.2%**

Note: Capture rates adjusted 20 percent for out area tenants.

Source: Estimates by HUD Economist

Total capture rates achieved for completed units are modest for the 40 and 50 percent target group, ranging from 0.9 and 3.5 percent. However, these rates are misleading since there is considerable overlap with the 60 percent market (see discussion in paragraph below). There are only a few existing 40 percent or lower units in the market area as well as a modest number of 50 percent units. These 40 and 50 percent rates are consistent with the strong state of the LIHTC market for these units. For the 60 percent target group, the overall capture rate of 9.0 percent, although reasonable, is considerably higher than the 40 and 50 percent group. By bedroom size, the 60 percent three-bedroom rate at 18.2 percent is the only rate in double digits. While the 60 percent one, two and four-bedroom capture rates are reasonable at the actual rent being charged, the weak general rental market has pressured all unit types at the 60 percent level.

The capture rates required following the market entry of all units under construction and proposed increase modestly, but again the majority of new units are at the two and three-bedroom 60 percent level. The capture rates for these units increase from 8.0 to 12.6 percent and 18.2 to 21.0 percent for the two and three-bedroom units, respectively. Rates at the 40 and the 50 percent level increase only slightly. The increase in the 60 percent two and three-bedroom capture rates, while not excessive compared to other areas, may be approaching the upper limit, at least in the short run, given the weak rental market.

There can be considerable overlap between various income levels. For example, a family needing a two-bedroom unit with an income of $20,250 can afford the minimum rent of in a 60 percent unit but is below the maximum income limit for a 50 percent unit (refer to the income levels in Table 8). Since there is such a large overlap, we have produced estimated 50 and 60 percent capture rates for these units in the aggregate. These results are presented in Table 10.

Table 10

Non Elderly Market Potential and Capture Rates
Salt Lake City-Ogden, Utah HMA
January 2004

	Number by Bedroom Size				
50 & 60 Percent of Income	One	Two	Three	Four	Total
Total Renter Households	38,600	40,300	23,200	10,200	112,400
Targeted Renter Households	9,360	9,740	6,230	2,840	28,200
Existing units	659	1,229	1,367	184	3,439
Adjusted Capture Rates:	**5.6%**	**10.1%**	**17.6%**	**5.2%**	**9.8%**
Existing units, under construction and proposed	675	1,767	1,607	184	4,233
Adjusted Capture Rates:	**5.8%**	**14.5%**	**20.6%**	**5.2%**	**12.0%**

Note: Capture rates adjusted 20 percent for out area tenants.

Source: Estimates by HUD Economist

These estimates show that the capture rates are similar or increase slightly (from Table 9) for the 60 percent two and three bedroom units when including all 50 percent renter households and the 60 percent units. This indicates that the actual 60 percent rents are low enough to target most of the 50 percent households, while there are very few completed or proposed 50 percent units.

Excluded from the inventory are 1,300 existing acquisition/rehabilitation units mentioned above and another 600 in the acquisition planning stage. We have excluded these units in the above analysis under that assumption that rents in existing projects, when converted to LIHTC will remain at approximately the same level and most residents are likely to be income qualified. Nevertheless, these projects still compete for the same target market, as do new construction projects over the long term. Including these units to the inventory shown above results in higher capture rates across the board (see Table 11), especially for the two-bedroom units. Capture rates for two-bedroom units increase from 10.1 percent for new units (see Table 10) to 15.9 percent when acquisition type units are included. Including units under construction and in the planning stages, the two-bedroom capture rate increases to 21.4 percent. Capture rates for the three-bedroom units increase only modestly, but at 22.3 percent the rate still exceeds the two-bedroom rate.

Table 11

Non Elderly Market Potential and Capture Rates (including existing acquisitions)
Salt Lake City-Ogden, Utah HMA
January 2004

	Number by Bedroom Size				
50 & 60 Percent of Income	One	Two	Three	Four	Total
Total Renter Households	38,600	40,300	23,300	10,200	112,400
Targeted Renter Households	9,360	9,740	6,230	2,840	28,200
Existing units	1,113	1,938	1,492	184	4,727
Adjusted Capture Rates:	**9.5%**	**15.9%**	**19.2%**	**5.2%**	**13.4%**
Existing units, under construction and proposed	1,314	2,604	1,732	192	5,842
Adjusted Capture Rates:	**11.2%**	**21.4%**	**22.3%**	**5.4%**	**16.6%**

Note: Capture rates adjusted 20 percent for out area tenants.

Source: Estimates by HUD Economist

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 rent-up period. 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 rent-ups for LIHTC projects. It should be noted that the movement in capture rates may be equally 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 past experience, and growth in the Salt Lake area, we anticipate that the two and three-bedroom market appears to be pushing upper limits, given the current market weakness. However, as the general rental market recovers and the LIHTC/Market rent differential increases, we expect that rates could exceed 20 percent and possibly higher. The underserved 40 and 50 percent markets are well below this level. Conversely, the 60 percent market must contend with competition from market rate product that has seen flat or rent declines over the past few years. At the same time, production of 60 percent units continues to increase. While the required one and four bedroom 60 percent capture rates are below the upper limit, these unit types also face competition from market rate units and also must offer lower rents and concessions to stay occupied. The 60 percent two and three-bedroom rates are close to their potential. This assessment is supported by 60 percent projects struggling to maintain full occupancy and slower lease-up rates for projects just coming on line, especially for two and three-bedroom units. The increase in capture rates of 4.5 percent and 2.9 percent for two and three bedroom units, respectively, is moderate but this market still must contend with a weak general rental market that is not expected to come back into balance in 24 months. This will continue to exert pressure on the 60 percent market. Over the long term, as the LIHTC and market rents begin to diverge, capture rates could go higher. In the short term, development should be directed towards the 40 and 50 percent or below market.

In summary, there is considerable potential for developing additional LIHTC units at the 40 and 50 percent income range. Of course, there is 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. The 60 percent market, where the vast majority of production has occurred, faces stronger competition from market rate projects. While the one and four bedroom 60 percent capture rates are reasonable, the market, in general, remains highly competitive. There is some variability depending on project age and submarket area. The 60 percent two and three-bedroom market is closest to its upper potential and faces the greatest competition. The four-bedroom 60 percent capture rate is very modest and we would encourage development of this unit type. Therefore, over the short term, we encourage more production emphasis on all 40 and 50 percent unit types and 60 percent four bedroom, while the one, two and three bedroom 60 percent production could wait until the market absorbs projects in the pipeline.

Market Potential for Elderly LIHTC Units

There are numerous subsidized elderly housing projects for very low-income households (50 percent of median income) in the HMA that were developed under the Low Rent Public Housing program or the Section 8 program. While there is some overlap with the LIHTC market (more likely at 40 percent), it is very small because tenant incomes in these projects are usually too low to afford the tax credit rent. Very low-income elderly households can use vouchers in LIHTC projects, but account for a modest portion of occupancy (estimated at 20 percent).

The present inventory of new LIHTC elderly units entered the market beginning in the late 1980s and numbers about 900. Additionally, there are approximately 140 units in projects under construction and another 50 units in the late planning stages; all of these are in Salt Lake County. In general, the elderly LIHTC is balanced, but as with the nonelderly market, the 60 percent market is the most competitive. Of the 1,100 total units, including units planned or under construction, about 400 were completed or started since January 2000. These recent projects are listed below in Table 12, which provides the year completed or expected completion date, location and number of units for each of the elderly projects.

Table 12

New Additions to Elderly LIHTC Inventory
Salt Lake City-Ogden, Utah HMA
January 2000 – January 2004

	Location		Month/Year	Total Number of
	City	County	Completed	LIHTC Units
Silver Pines	Sandy	SL	May 2001	108
Rose Cove	Farmington	Davis	Jun 2002	124
Jordan River	West Jordan	SL	Oct 2003	48
Legacy West	West Jordan	SL	Jun 2004	101
Total				**381**

Source: Utah Housing Corporation

These projects are specifically designed for seniors and include elevators. The unit mix consists of 60 percent one-bedroom and 40 percent two-bedroom units. Even though these projects compete well in the market, lease up has been slow. A weak general rental market and the reluctance of seniors to move contribute to the slower lease-up period. Also contributing to the slower lease-up is the large percentage of two-bedroom units; these can be difficult to market to single-person households because of higher rents. Nevertheless, when projects eventually do lease up occupancy stays at a high level.

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 8) 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 one-person households occupy about 85 percent of the elderly LIHTC units. We have also adjusted the inventory by 20 percent for Section 8 vouchers whose incomes are typically below the LIHTC limits. The units and capture rates shown in Table 13 have been adjusted to allow for these adjustments. The results for the 40, 50 and 60 percent of income group are shown below.

Table 13

Elderly Market Potential and Capture Rates
Salt Lake City-Ogden, Utah HMA
January 2004

	Number by Bedrooms Size		
40 Percent of Income	One	Two	Total
Total Renter Households	8,830	2,840	11,700
Targeted Renter Households	1,680	340	2,020
Existing units	133	26	159
Adjusted Capture Rates:	**4.4%**		**4.3%**
Existing, under construction and planned	217	33	250
Adjusted Capture Rates:	**6.8%**		**6.6%**
	Number by Bedrooms Size		
50 Percent of Income	One	Two	Total
Total Renter Households	8,830	2,840	11,700
Targeted Renter Households	1,430	470	1,900
Existing Units	257	108	365
Adjusted Capture Rates	**11.7%**		**10.3%**
Existing units construction and planned	284	120	404
Adjusted Capture Rates:	**12.9%**		**11.4%**
	Number by Bedrooms Size		
60 Percent of Income	One	Two	Total
Total Renter Households	8,830	2,840	11,700
Targeted Renter Households	1,420	630	2,040
Existing units	209	155	364
Adjusted Capture Rates	**11.8%**		**9.7%**
Existing, under construction and planned	241	183	424
Adjusted Capture Rates:	**13.8%**		**11.2%**

Note: Capture rates adjusted 20 percent for out of the area tenant, by 20 percent for Section 8 Vouchers and 10 percent for owners.

Source: Estimates by HUD Economist

Total capture rates achieved for completed units are modest for all income levels, ranging from 4.3 to 10.3 percent. The 50 and 60 percent capture rate are near or at the double-digit level. While not excessive, the present competitive market indicates that these rates may be close to the upper limits at this time. The increases in capture rates following completion of units under construction or in the planning stages is also modest, ranging from 6.6 to 11.4 percent. We have not adjusted for the possibility that some of these targeted households are already being served in Section 8 projects, but the majority of these tenants have incomes under $10,000, below all minimum incomes. This would only marginally impact the 40 and 50 percent LIHTC capture rates. We have also adjusted for a small portion (approximately 10 percent) of homeowners and lowered capture rates. In view of the modest capture rates in this segment of the market there is some potential to develop elderly LIHTC units at all income levels. However, given the present competitive market conditions for the 60 percent, until the general market conditions improve, this market should be watched closely before proceeding with new projects.