



Rocky Mountain Economic and Market Analysis Section (EMAS) **“Market Watch” and “Market Opportunities” – March 2007**

The following lists are intended to provide guidance to mortgagees and developers on the present condition of markets in the Rocky Mountain region (Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming). These will be updated as market conditions change. The name of the economist most familiar with a particular market area is shown in parentheses by each area. Please contact them at 303-672-5289 for further information. These lists do not include all market areas in the region; only areas where EMAS has recently reviewed the market or has current market/pipeline information are included. There are certainly “opportunities” and potential soft markets in areas not on either list.

Market Watch:

This list includes areas with a large number of units in the pipeline and/or soft market conditions. We do not recommend scheduling of pre-application meetings (TAP) or submission of pre-application packages (MAP) for new construction projects in these areas unless otherwise noted. Mortgagees may wish to hold applications in these areas until the pipeline clears and/or market improves but additional applications should be discouraged in the short run. This list does not apply to refinancing under 223f. In addition, there may be limited opportunities for small and/or affordable projects in some of these areas, which will be addressed on a case-by-case basis.

Market Opportunities:

Areas on this list 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. will not be required. MAP submissions should still include the full, independent study called for in the MAP Guide.

Market Areas Not Listed:

EMAS typically does not have current market information on areas not on these lists. 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 will 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 this study, our update/verification of market data, and review of the information presented at the pre-application meeting or in the pre-application package.

Market Watch – March 2007

Section 221(d)(4), 220 Family Apartments:

Boulder-Longmont, Colorado PMSA (Boulder County) (Antoine)

Rental market conditions have sufficiently improved to remove the PMSA from market watch status.

Colorado Springs, Colorado MSA (El Paso and Teller Counties) (Antoine) – Colorado Springs economy continues to grow; nonfarm employment 12-month average growth ending March 2007 is 1.9 percent. Expansion of trade, service and construction sectors was aided by increased defense spending and military activity at the four bases located in the area. Military strength at Fort Carson AB is expected to expand by another 6,000 soldiers over next few years; however, ongoing deployments will mute the impact of new transfers. Rental market conditions are soft. In a vacancy survey conducted by Reis, Inc., the first quarter of 2007 rate was 10.6 percent, up from 10.2 percent recorded one year ago, while average rent slightly increased. With the reduced level of apartment construction and expected increase in renter households, the rental market should improve more markedly and come into balance over next 1 to 2 years. Because of the current surplus vacancies and instability in the rental market, market rate and large 60 percent tax credit elderly and nonelderly projects are on hold. There are opportunities for 40 and 50 percent affordable product in some submarkets. The market will continue to be reassessed over the next few quarters.

Denver, Colorado PMSA (Adams, Arapahoe, Broomfield, Denver, Douglas, Jefferson Counties, excluding Clear Creek, Elbert, Gilpin and Park Counties) (Antoine) – Note that overall market conditions have improved and balance has returned to all submarkets. Rent concessions are beginning to retreat, but are still at a significant level in most submarkets. **There is development potential in all submarkets.** Metro area stays on the “watch list” as precaution to emphasize that there is still general competitiveness, especially as it impacts 60 percent tax credit developments.

Denver area’s nonfarm job growth slowed slightly but is up by an average of 2 percent over the preceding 12-months. The Denver metro area apartment vacancy rate (excluding Boulder) has improved to 7.4 percent in the first quarter of 2007, a 0.3-percentage point improvement from a year ago. The improvement in the vacancy rate is due to absorptions exceeding deliveries. The average rent increased slightly to \$834, while average value of concessions from last year and the average value of concessions improved to 12 percent. Construction is expected to pick up but demand should continue to exceed new supply. Vacancy rates should continue to slide and as concessions melt away. There is opportunity for new market rate product in most submarket areas.

The market for tax credit projects is also improving but at heavily discounted rents on 60 percent units due to low market rents. Although the vacancy rate (now 5.2 percent) for the tax credit market is low, rent increases have been slow to materialize. There are opportunities for 40 and 50 percent affordable units market wide. Except in the strongest of submarkets, discourage development of 60 percent product until there is greater difference between market rate and tax credit rents. Continue to reassess situation over next few quarters as general market continues to improve.

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Fort Collins-Loveland, Colorado MSA (Larimer County) (Russell) – Nonfarm employment has continued to post monthly gains. For the 12-month period ending March 2007, employment averaged 134,100 compared with previous 12-month average of 131,800, an increase of 1.7 percent. Unemployment for the same period was 3.9 percent, down from 4.3 percent a year ago.

Fort Collins: The rental market has shown signs of improving, but remains soft. According to the Colorado Division of Housing (DOH) fourth quarter 2006 survey, the renter vacancy rate was 8.3 percent, down from 9.0 percent reported a year earlier. In a new affordable apartment survey by the DOH indicates that, while still competitive, vacancy rates for tax credit housing are decreasing, and the market is becoming stronger. Increased competition has put downward pressure on area rents. The median rent for an market rate apartment in the area is approximately \$680, leaving many market rate units priced in the affordable range. The market is still somewhat soft for 60 percent units, balanced at 50 percent units, and tight for 40 percent units. There is opportunity for a moderate size market rate and/or tax credit project at 40 and 50 percent of median income.

Loveland: The rental market vacancy rate has increased. According to the DOH, the rental vacancy rate was 10.6 percent in the fourth quarter 2006, up from approximately 7 percent a year earlier. The median monthly rent for the same period increased from \$790 to \$820. A 200-unit, Class A market rate project has begun leasing and meets most of the current demand. Extended lease-up of the development during construction has resulted in a temporary surplus of market rate units. Additional market rate projects are not encouraged until we see how lease-up of this project goes. The 60 percent market remains highly competitive. There is opportunity for a modest size affordable project (one and two bedrooms only) at 40 and 50 percent of median income; however, an extended lease-up period can be expected in either case.

Greeley, Colorado PMSA (Weld County) (Russell) –The Greeley economy has continued to improve. For the 12-month period ending March 2006, nonfarm employment was approximately 80,000 jobs, up 3.8 percent over the previous 12-month period. The rental market vacancy rate has improved and average monthly rents have increased. DOH indicated a drop in the vacancy rate to 7.2 percent in the fourth quarter 2006, down from approximately 8 percent a year earlier reaching a relatively balanced market. A new 192-unit apartment development targeted at students began construction in the first quarter and is expected to be completed by fall 2007. For the time being, new market-rate and 60 percent tax credit projects are not encouraged until we see how the market progresses. Affordable opportunities are limited to modest sized projects at 40 and 50 percent of median income.

Pueblo, Colorado MSA (Pueblo County) (Russell) – The economy continues to improve in 2007. Nonfarm employment averaged 57,100 for the 12 months ending March 2007, up 2.5 percent compared with the pervious 12-months. Total residential employment grew even faster because of job opportunities in neighboring counties. The unemployment rate in Pueblo averaged 5.6 percent over the same period.

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Section 221(d)(4), 220 Family Apartments (Pueblo continued):

DOH quarterly vacancy rates have fluctuated greatly over the last two years, being the highest in the spring quarter. Local sources indicate that the vacancy rate, including single-family rentals, is currently close to 7.5 percent. The vacancy rate in subsidized apartment developments is considerably lower, at approximately 4 percent. Competition among rental developments has kept area rents low since 2000. As the Pueblo rental market has become more balanced rent concessions are lessening and renter turnover is allowing for increases in rental prices.

Currently, there are no apartment developments under construction in the area. There are, however, a couple larger market rate developments in the FHA production pipeline. One 100-unit development is expected to begin construction during the first half of 2007. A second market rate could potentially begin construction later in 2007 or early 2008. Given the competitive conditions and low rents in the market, further market rate development should be postponed at this time until we see how these developments progress.

Market Watch – March 2007

Section 232 Assisted Living:

None specifically designated at this time.

Market Opportunities – March 2007

Section 221(d)(4), 220 Family Apartments:

Glenwood Springs, Colorado (Garfield County) (Russell)-The rental market in Garfield County is extremely tight. Robust employment growth and very low rental vacancy rates have put upward pressure on area rents. There is an opportunity for market rate and tax credit rental development throughout the county.

Grand Junction, Colorado (Mesa County) (Crain) – Based on anticipated household growth and current market conditions, there is opportunity for a moderate size market rate development.

Provo-Orem, Utah (Utah County) (Antoine) – A strengthening economy and an influx of workers and retirees have quickly turned the previously soft market to tight conditions. Opportunity for both market rate and tax credit developments.

St. George, Utah (Washington County) (Antoine) – Opportunity for a few market rate and tax credit projects in this high growth area.

Salt Lake City, Utah (Davis, Salt Lake, and Tooele Counties) (Antoine) – Strong economy and cutback in construction helped market return to balanced conditions. The market is still very competitive. Rent increases are modest but latest EquiMark survey show concessions are disappearing. Look for the market to strengthen significantly over the next 24 months. Opportunity for a market rate and tax credit developments in most submarkets.

Casper, Wyoming (Natrona County) (Russell) - There is opportunity for limited market rate and tax credit development throughout the county.

Gillette, Wyoming (Campbell County) (Russell) – Strong employment growth and increased in-migration of households has left the rental market in Campbell County extremely tight. There is opportunity for market rate and limited subsidized development. Phased development is preferred in this area due to historical fluctuations in demand related to the energy industry.

Rock Springs, Wyoming (Sweetwater County) (Russell) – There is opportunity for limited market rate and tax credit development throughout the county.

Section 232 Assisted Living:

None specifically designated at this time.