



# Advances

The source for current housing trends

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## Economic Indicators

• Unemployment	↔
• Colorado Jobs	↓
• Home Values	↑
• Delinquencies	↑
• Rents	↔
• Vacancy Rates	↑

## U.S. Housing Markets Market Hotness Market Hotness

U.S.	5.9
Colorado	12.1
Denver	10.1
Colorado Springs	13.0

*Building permits per 1000 residents  
During previous 12 months*

## Investor Hotness

U.S.	-0.43
Denver	-0.71
Colorado Springs	-0.19

*12 month demand vs. supply ratio  
(1.0 or more indicates demand exceeds supply)*

*Myers U.S. Housing Markets  
Third Quarter 2002 data*

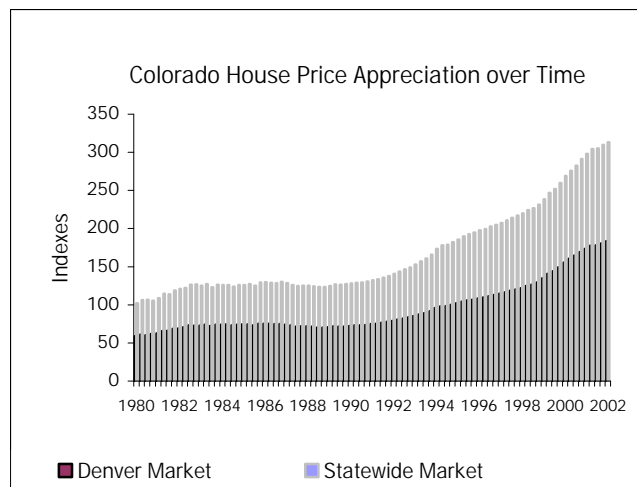
## IS COLORADO EXPERIENCING A PRICE BUBBLE?

After a period of double digit growth, could Colorado home prices be in for a sharp downturn? Active listings are up in Denver, and average price increases have slowed. But do these two factors signal the beginning of an 80s era adjustment?

Housing bubbles have historically been a local phenomenon, occurring in areas where supply is slow to respond to changes in demand. Using information provided by Fannie Mae and Freddie Mac, the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index tracks changes in the value of single-family homes over time. This index is a weighted repeat sales index that measures average price changes in repeat sales or refinancing on the same properties. The index is important because it tracks price increases for the same unit in the same location. This means that rises in the index are due to overall appreciation in the market, whereas a market wide average or median price increase could be

due to the fact that many sales are for homes that are larger or have more amenities than others, or are in different parts of the market area.

Looking back at Colorado and Denver's OFHEO indexes over time compared to other markets that have "bubbled" in the past 10 years, the 80s and early 90s brought more of a small dip or plateau to resale prices in Colorado than a true bubble. Many real estate professionals do not expect Colorado's market to fall like it did during this period. The OFHEO agrees, and recently reported in an analysis of bubble areas that most metropolitan areas of the country should not experience a housing bubble as a result of the recent economic downturn.



There are more homes on the market in Colorado than in the past few years. Active listings in the Denver metro area grew 21.8% from September 2001 to September 2002, according to the Denver Metro Area Multiple Listing Service.

*(Continued on page 3)*

## VACANCY RATES AND RENTS A MIXED BAG

The September Colorado Division of Housing Vacancy and Rental Survey reports that vacancy rates and rents are down in some areas, up in others and holding steady elsewhere. Vacancies are extremely low in mountain areas such as Eagle County, where the rate stands at 1.2%. Rates rose from 1.4% to 10.1% in Glenwood Springs. Three other areas had vacancy rates above 10% - Fort Collins/Loveland, Lake County and Greeley. The latest reported Denver metro rate was above 9%.

The statewide vacancy rate in September 2002 stood at 9.1%, an increase of 2.9% over last year. The rate for the non-metro areas of the state stood at 8.3% in September, up from 7.3% in February of 2002. The statewide rate is driven up by the front range. A weaker employment market has taken a toll on the apartment market, especially in higher rent buildings.

Vacancy rates in the rural areas of the state are again lower than the rates in the urban areas.

*(Continued on page 4)*

## IN THE PIPELINE

*In 2002, the people of Colorado, through the Division of Housing funded*

*176 Homeless Beds*

*51 Transitional Units*

*147 Rentals at 30% AMI*

*103 Rentals at 40%AMI*

*863 Rentals at 50% AMI*

*1,443 Rentals at 60% AMI*

*262 Homebuyers*

*Opportunities at 80% AMI*

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*"The economic slowdown is finally impacting demand for rental housing in Eagle County and other resort communities in Colorado --- we are seeing our first significant vacancies in over 10 years. Construction, development and related businesses contribute greatly to our local economy and have slowed considerably. A normal winter season will help, but I don't believe it will offset the overall economic slowdown"*

*Gerry Flynn, Principal*

*Polar Star Development*

The Colorado Division of Housing State Housing Board (SHB) recommended funding for the following projects during the period of July through December of 2002.



**Gibson Heights Homes in Summit County**

The **Boulder Shelter for the Homeless** received a grant of \$342,000 to construct a homeless shelter with the capacity to house between 126 to 160 beds. A full range of basic services (food & clothing), medical & mental health services, and job counseling will be available to the residents.

**Colorado Homeless Families**, a non-profit housing organization serving Jefferson County, received a grant of \$80,000 to construct six new transitional housing units in Arvada. HomeAid, an affiliate of the Colorado Home Builders Association, will construct these units.

**Caring Ministries** received a grant of \$60,000 to construct an emergency homeless shelter in Fort Morgan. This shelter is designed to house up to sixteen individuals for up to thirty days.

**Colorado Creekside Housing Development** will receive a \$400,000 loan to assist in the construction of the Shadow Mountain Apartments in Colorado Springs. The apartment complex will have 144 units, 86 serving households at 40% and 50% of AMI, and 58 with market rents.

**Thistle Community Housing Inc.** received grants for two projects. The first grant of \$350,000 will be used to acquire fifty affordable rental units in the cities of Longmont and Boulder over the next twelve months. The second grant of \$300,000 will be used to acquire a 286-unit apartment complex in Northglenn. These units will remain affordable in perpetuity through a deed restriction.

The **Boulder County AIDS Project** received a grant of up to \$45,000 for the construction of Eaton House, a four-bedroom house for lower income persons with AIDS.

The **Upper Arkansas Area Development Corporation**, an affiliate of the Upper Arkansas COG, received a predevelopment loan of \$7,500 to contract for a market feasibility study of an affordable family rental project in Salida.

The **Town of Fowler and Tri-County Housing Inc.** received a grant of \$283,000 to continue their single-family housing rehabilitation program. This local program operates in three counties in Southeast Colorado: Otero, Bent, and Crowley counties.

**Colorado Bluesky Enterprises, Inc.** received a grant of to \$86,000 to help construct 12 affordable rental units in Pueblo, primarily for persons with developmental disabilities.

The **San Luis Valley Housing Coalition** will receive \$66,000 to continue their homeownership program by providing downpayment loans to 12 new homeowners in Alamosa, Costilla, Conejos, and Saguache counties, and the City of Monte Vista.

The **Greeley Center for Independence** received an \$80,000 grant to construct ten affordable rental units. Residence of these units will be very low-income persons impaired by brain injuries.

**Larimer County** will receive a grant of \$138,400 to continue their homeownership program by providing downpayment loans to at least 45 new homeowners.

*(Continued on page 3)*

(Continued from page 1 - Price Bubble)

ing to the Denver Board of Realtors. Yet the number of sales during the same period has dropped only 1.7% and the average price is up 4.5%.

Demand is not as strong as in 2000 or 2001, but there is not a large exodus from the market due in large part to low interest rates. Reductions in interest rates have kept median priced homes affordable to households earning 80% of the median income. The gap between what households earning 80% of the statewide median income can afford and the median priced home in the state has shrunk since 2001.

Active listings have grown. But what about the supply of new homes? Is it slowing to respond to market demands, or could an oversupply of new units for sale cause a housing bubble?

Building permit data for Colorado shows that indeed builders are slowing the release of new homes dramatically and are reducing the number of speculative homes they have on the market. According to data collected by the Census

Bureau there was a 16.5% decrease in the number of new privately owned housing units authorized between September 2001 and September 2002. The rate of decline for single unit homes was 7.1%, while the rate for buildings with five or more units was 38.3%.

In a recent Rocky Mountain News article, the National Association of Realtors economist David Lereah states that often bubble stories are exaggerated. He does not think that the real estate bubble will burst. In fact he estimates that a record number of homes will sell in the U.S. in 2002, and that 2003 will be the third-best year ever in home sales.

If interest rates remain low while the Colorado economy recovers and builders keep the supply of newly constructed units down, Colorado should not experience the dip in prices and weak sales market of the 80s and early 90s. At most, price adjustments may make some homes more affordable to the moderate income household as Colorado's market stabilizes.

**2002 Housing Colorado: The Challenge for a Growing State now available**  
Find it on our website at [www.dola.state.co.us/doh/publications.htm](http://www.dola.state.co.us/doh/publications.htm)

(Continued from page 2 - Pipeline)

**Turning Point Center for Youth and Family Development**, received an \$80,000 grant to acquire and rehabilitate a six-unit apartment building in Fort Collins. This property will be home to ten youths and young adults.

**Northeast Colorado Housing, Inc.** received \$76,288 to assist with the purchase and rehabilitation of Fort Morgan Townhomes, a 25-unit rental property in Fort Morgan.

**Delta County and West Central Housing Development Corporation** received \$264,400 to continue their homeownership program by providing at least 48 downpayment assistance loans in Delta, Montrose, Gunnison, San Miguel, Hinsdale, and Ouray counties.

**Delta County and West Central Housing Development Corporation** also received a grant of \$180,000 to continue their single family owner occupied rehabilitation program in Delta, Montrose, Gunnison, San Miguel, Hinsdale, and Ouray counties.

**The City of Durango and Mercy Housing Durango** received a grant of \$450,000 to construct 45 rental units for families and persons with special needs. Units will be affordable at 30%, 40%, 50% and 60% of AMI and have rental assistance.

**The Littleton Housing Authority** received a grant of \$200,000 for the acquisition of the Allyson Court Apartments. This senior rental project has 10 one bedroom apartments at 30% AMI and 50 at 50% AMI.

**Eagle County** received a grant of \$310,000 to purchase the Golden Eagle Apartments, an RD 515 senior rental project. Six units will be at 30% AMI and 30 will be at 50% AMI.

**Eagle County** also received a grant of \$90,000 to continue their homeownership program by providing downpayment assistance loans.

**Affordable Community Housing Trust—Zeta** received a grant of \$300,000 to purchase the Woodside Village Apartments in Greeley. The project will have 16 step-up units at 30% AMI, and 144 units at 50% AMI all with project based rental assistance.

**Las Animas County** received a grant of \$329,049 to continue their single family owner occupied rehabilitation program for Huerfano and Las Animas Counties.

**Fremont County and the Upper Arkansas COG** received a grant of \$283,461 to continue their single family owner occupied rehabilitation program.

*"The Highland Garden Village (HGV) project in northwest Denver is a mixed income development with a strong sense of community. Affordable housing is an important component of the HGV project. The 74 unit Trocadero Apartments is a mixed income rental project that is 91% leased in only 6 months. I think that our lease-up success is due to the strong sense of community at HGV. Co-housing residents, townhome owners, and senior apartment residents have welcomed the new Trocadero residents into the community and have engaged them in community events such as gardening, the Eddison school fall festival, and concerts in the park. I think that HGV demonstrates that diverse communities are healthy communities and the affordable housing components of our project add to the neighborhood's diversity and viability."*

*Chuck Perry*

*Perry Rose Affordable Housing, Inc.*

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## Households by Income, Type and Tenure for Colorado and Its Regions 2002

Now available on the DOH Website under publications!

### DOH Housing Forecast

Rents	↔
Vacancies	↑
Interest Rates	↔
Foreclosures	↑
Delinquencies	↑
Sales Prices	↔
Affordable Rental Need	↑

*"The industry needs to identify leaders who will push on the national and local levels to create an environment that will foster housing development for all income brackets, therefore making the issue an economic development issue rather than a handout to a certain class of people."*

Bill Sullivan, Director

Rocky Mountain Mutual  
Housing

## DIRECTOR'S NOTE

TOM HART, DIRECTOR

For more than a decade the housing industry has lead the way to a robust economy in Colorado and the nation. During the present downturn, the housing economy continues to provide well paying jobs and consumer wealth through equity growth. Like any other sector of a dynamic economy, housing experiences cycles of expansion and contraction. While we have recently seen steep declines in the value of equities and other paper investments, the value of real estate has increased.

We are entering a period of slowing growth both in the demand for home purchases and rental apartments. In some areas of the Front Range, we are experiencing a greater supply of rentals than the demand can absorb. This has resulted in some easing of rent rates and may help employed renters save money for down payments on a home purchase.

From the perspective of economic growth, it is clear that public and private institutions should do whatever is feasible to encourage homeownership. For those households who are able to qualify for a home, stabilizing shelter costs and building equity from market appreciation are two benefits that are largely unavailable to renters.

Some speculate that we are in a bubble housing economy. If one examines the information contained on the cover page of this publication, it is apparent that in Colorado, housing has been a solid, stable investment that hasn't been subject to rapid deflation as the bubble theory promotes. For lower income households, gaining a foot up on the housing ladder means having the opportunity to increase net worth not only for moving up the housing ladder but for affording those other life necessities such as education expenses and a retirement nest egg.

Homeownership isn't just for the middle class. Homeownership is the critical pathway for entry to the middle class. Encouraging homeownership is critical for those who already own their homes. Without a vigorous demand for the larger more expensive houses, current homeowners won't be able to access their equity for retirement and estate building. There won't be continued demand for Colorado's "move up" housing if young families are not able to start on the housing ladder and move up during their working years.

We hope you find this edition of our housing Advances stimulating. If you have ideas for future topics, please pass them on to us.

*(Continued from page 1 - Vacancy Rates)*

The vacancy rate in rural areas of Colorado dropped from the first quarter of 2002 – from 7.3% to 5.2%. Rates in 6 of the 19 areas surveyed had vacancy rates at or below 5% - which is market equilibrium. Another four had rates slightly above 5%.

The average rent in the state dropped to \$766.53. Average rents in many areas did not decrease. A slight decline in rents and more choice in a place to live is welcome relief to many Colorado households.

The average statewide rent is not affordable to many working people in our state. It takes an hourly wage of \$14.75 to afford the average statewide rent. There is pent up demand for apartments affordable to those earning \$6 to \$10 an hour. Vacancy rates for units with affordable rents are much lower than for higher cost units. Outside the metro Denver area, there is a 3.0% vacancy rate for units affordable to someone making \$6 an hour.

Caution should be exercised in certain markets over new market rate rental development. In many areas new units must be absorbed and the market must rebound before there is a need for additional units.

Alamosa	6.3%	\$ 479.93
Aspen	9.7%	\$ 1,027.08
Buena Vista	5.2%	\$ 521.41
Canon City	5.1%	\$ 535.45
Colorado Springs	8.2%	\$ 643.61
Durango	3.3%	\$ 713.92
Eagle County	1.2%	\$ 968.98
Fort Collins/Loveland	13.1%	\$ 729.51
Fort Morgan/Sterling	6.8%	\$ 345.54
Glenwood Springs	10.1%	\$ 731.34
Grand Junction	5.5%	\$ 486.82
Greeley	11.7%	\$ 598.86
Gunnison	1.2%	\$ 524.75
Lake County	14.2%	\$ 564.67
Montrose	2.4%	\$ 504.90
Pueblo	3.9%	\$ 460.23
Salida	3.9%	\$ 467.61
Steamboat Springs	4.0%	\$ 757.66
Summit County	5.3%	\$ 805.41

### Vacancy Rates and Rents by Survey Area Colorado Division of Housing Multi-Family Housing Vacancy & Rental Survey September 2002

[www.dola.state.co.us/doh/publications.htm](http://www.dola.state.co.us/doh/publications.htm)