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# An Overview of the Rental Market in the

# Pueblo, Colorado
# Metropolitan Statistical Area (MSA)

**As of**
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**Prepared by**

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# The Pueblo, Colorado MSA Rental Market

## Introduction

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. It has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local rental market. The estimates, opinions and forecasts in this report are solely those of the Economists in the Office of Policy Development and Research in the Rocky Mountain Office and do not represent HUD Departmental or Rocky Mountain Office policy. This report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing that may be under consideration in this market area.

The market area covered by this analysis consists of the Pueblo Metropolitan Statistical Area (MSA) which is defined as Pueblo County, Colorado. The report includes a discussion of the condition and outlook for the overall rental market and the market for projects financed under the Low Income Housing Tax Credit (LIHTC) program, including projects which provide income restricted units as a result of obtaining financing through issuance of tax exempt, Private Activity Bonds (PABs). It does not address specialized portions of the rental market such as congregate elderly housing, assisted living or the outlook for independent LIHTC units reserved for seniors. The analysis does include a brief discussion of the home sales and manufactured home markets. Unless otherwise noted, the estimates and discussion of market conditions are as of January 2000.

## Summary and Conclusions

Pueblo's economy has slowed because of layoffs at Rocky Mountain Steel and QualMed Health Insurance company, formerly two of the area's largest area employers. Employment growth dipped slightly below 2 percent for the first time since the early 1990s. Most of the impact from these layoffs has already been absorbed by the economy and growth should increase slightly over the next few years. Migration will remain an important component of population growth and is expected to continue at strong levels.

The general rental market is showing signs of improvement, but remains very competitive. A surge in four-plex apartment construction in 1995 and 1996, a loss of renters to homeownership and a slowdown in the economy originally weakened the market. Beginning during the Fall 1999, this trend began to reverse itself. Rents for some properties have increased and vacancies are down from earlier in the year. Because of a cutback in construction and an improved economy, the market should continue to strengthen. There is additional demand for apartments in 2001, but the current surplus and units under construction will meet demand in 2000.

The current market for LIHTC units is strong; existing projects are full and new projects lease-up quickly. LIHTC projects under construction and in the pipeline, while adding competitiveness to the market, should not push required capture rates beyond an acceptable level. However, the 50 and 60 percent three bedroom required capture rate is pushing the upper limit and future development should be encouraged in other income levels and unit sizes. While we expect the two and three bedroom 50 and 60 percent market to be competitive, strong demand will remain for units at the 40 percent of income level and four bedroom units for all income groups. There is a substantial unmet need among both elderly and family households eligible for rental assistance such as that provided under HUD's Section 8 program.

## Employment Trend

The recent trend in the unemployment rate and wage and salary employment for the MSA is presented below:

*Table 1*

Unemployment Rate and Wage and Salary Employment
Pueblo, Colorado MSA
1990 - 1999

| Year | Unemployment rate | Wage and salary employment Number | Change |
|---|---|---|---|
| 1990 | 7.1% | 44,490 | na |
| 1991 | 7.6% | 44,340 | -0.3% |
| 1992 | 9.3% | 44,760 | 1.0% |
| 1993 | 8.3% | 45,550 | 1.8% |
| 1994 | 5.8% | 48,000 | 5.4% |
| 1995 | 6.0% | 50,010 | 4.2% |
| 1996 | 6.0% | 51,620 | 3.2% |
| 1997 | 4.7% | 54,140 | 4.9% |
| 1998 | 7.6% | 55,660 | 2.8% |
| Sep. 1998* | 7.4% | 55,241 | na |
| Sep. 1999* | 5.3% | 56,273 | 1.9% |

* 12 months ending September.

Source: Colorado Department of Labor and Employment

Pueblo's economy displayed considerable resilience following a few economic setbacks of the past few years. Rocky Mountain Steel (formerly Colorado Fuel & Iron) did not return to its original employment level following a devastating strike. Approximately, 500 plant workers lost their jobs with traditionally one of the area's largest employers. This continues a trend that began decades ago when the plant declined to a fraction of its peak employment of 8,000 workers. A second blow to the economy occurred when QualMed Health Insurance company, after a rapid employment buildup, eventually closed last year, affecting about 600 workers. Despite these setbacks, the area's employment growth recorded a respectable 2.8 percent in 1998 and 1.9 percent so far in 1999. The average annual unemployment rate climbed to above 7 percent in 1998 for the first time since the early 1990s, but fell to 5.3 percent for the twelve months ending in October 1999.

Helping the economy grow despite the layoffs are for a variety of factors. Tourism and convention activity are already heating up following completion of the Pueblo Convention Center and a San Antonio style river walk. The river walk was created following the diversion of an Arkansas River channel through downtown Pueblo. This has opened up opportunities for commercial and residential development along the walk's edge. QualMed's departure has freed up 400,000 square feet of renovated downtown office space that will market well to new businesses locating in Pueblo. Already, TPA, Inc. a health care administrator, has occupied some of the vacated space. They currently employ nearly 300 workers, many of which were former QualMed employees. A wide variety of small businesses, including several manufacturing firms, have announced their intentions to locate in the area. Pueblo will continue to grow as a regional trade and service center that includes much of southern Colorado, far northern New Mexico and into the panhandle of Oklahoma.

Overall, the economy should stay in a healthy 2 to 3 percent growth range over the next few years, or about equal to the projections for the state. Statewide, nonagricultural employment growth averaged 4.2 percent per year during the past five years (1994 through 1998). The Pueblo MSA job growth rate was 3.8 percent per year over this same period. The Colorado Office of State Planning and Budgeting has forecast job growth for the state of 2.9 percent in 2000 and 2.4 percent in 2001. Similarly, the Legislative Council has forecast growth of 3.0 percent in 2000 and 2.6 percent in 2001. The Pueblo area is likely to sustain employment growth rates similar to statewide growth because of the area's positive economic outlook and available labor supply. For purposes of forecasting housing demand, we have used an annual job growth of 2.5 percent in 2000 and 2001. This annual gain will approximate the average for the state over these two years.

## Population Trend

Population growth in the Pueblo MSA accelerated in the second half of the 1990s. Sustained employment growth and retirees moving to the area have pushed inmigration to the highest levels in decades. Over four-fifths of the population gain last year came from inmigration. This reverses the trend of the 1980s and early 1990s when the area experienced considerable outmigration. This population movement to the Pueblo area will likely continue. A continuation of the 1998 level of inmigration to Pueblo results in a current estimated population for the MSA of about 138,100 persons. An annual employment growth of 2.5 percent should result in an increase to a population of just over 143,000 persons by 2001. The population and migration trend is presented in the following table.

*Table 2*

Population and Components of Change
Pueblo, Colorado MSA
1990 - 1998

| Date | Population | Net natural increase* | Migration | Population change Number | Population change Percent |
|---|---|---|---|---|---|
| July 1990 | 123,051 | 551 | (535) | (69) | -0.1% |
| July 1991 | 123,339 | 530 | (263) | 288 | 0.2% |
| July 1992 | 124,144 | 567 | 275 | 805 | 0.7% |
| July 1993 | 125,958 | 543 | 1,247 | 1,814 | 1.5% |
| July 1994 | 128,203 | 493 | 1,702 | 2,245 | 1.8% |
| July 1995 | 130,181 | 442 | 1,485 | 1,976 | 1.5% |
| July 1996 | 131,714 | 397 | 1,091 | 1,533 | 1.2% |
| July 1997 | 133,714 | 408 | 1,603 | 2,000 | 1.5% |
| July 1998 | 135,934 | na | 1,812 | 2,220 | 1.7% |

* Excess of resident births over deaths.

Source: Colorado State Demographer

## Residential Building Trend

Driven by employment growth and low interest rates, construction of new single family units broke the thousand unit mark for the first time in 1998; this level was repeated again in 1999. This is a substantial jump from the previous decade when the average was less than 200 units a year. Most of the new construction is located in subdivisions outside the city limits. There has been a shift to more modest priced housing. Nearly 60 percent of the new construction is priced between $90,000 and $120,000 with some as low as $70,000. About 75 percent of all single family construction has been located outside the city limits, primarily in Pueblo West. Manufactured homes placed on lots account for an increasing portion of total single family permits, accounting for about 20 percent of units in 1998 and 1999. The following is the number of new units permitted in Pueblo County since 1990:

*Table 3*

Housing Units Authorized by Building Permits
Pueblo, Colorado MSA
1990 - 1999

| Year | Single Family (a) | Multifamily (b) | Total |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1990 | 156 | 97 | 253 |
| 1991 | 140 | 50 | 190 |
| 1992 | 220 | 26 | 246 |
| 1993 | 359 | 83 | 442 |
| 1994 | 558 | 106 | 664 |
| 1995 | 764 | 179 | 943 |
| 1996 | 896 | 356 | 1,252 |
| 1997 | 955 | 204 | 1,159 |
| 1998 | 1,079 | 274 | 1,353 |
| 1999 | 1,107 | 248 | 1,355 |

(a) Single family permits include all structures of one unit excluding manufactured homes placed on foundation or pads (estimated to be about 1,300 units in total since 1990.)

(b) Multifamily permits include all structures with 2 or more units.

Source: Pueblo Regional Building Department; City of Pueblo Planning & Development Department

Multifamily production, while below the levels recorded in the 1970s, picked up in the latter part of the 1990s. Low interest rates encouraged a shift to homeownership and multifamily overbuilding in 1995 and 1996 softened the rental market, a situation that has been prolonged because of employee layoffs. In 1998 and 1999, several tax credit projects and the first large market rate project since the 1970s broke ground.

Since 1990, about 20 percent of the multifamily building activity in the MSA consisted of for sale units. The City of Pueblo has accounted for about half of the multifamily activity since 1990 and Pueblo West captured the other half. The preponderance of construction completed between 1994 and 1996 were four-plexes in Pueblo West and two large Section 202 elderly projects in the city. More recently, tax credit projects have added to construction activity, including developments ranging in size from 28 units at Baltimore Court, 35 units at Rood Candy to 54 units at Stonegate Village. By the far the largest market rate apartment complex (96 units) is the HUD/FHA insured Preserve at Belmont, which opened in the Fall 1999. The status of these recently built larger multifamily projects (except for the two Section 202/8 projects) is outlined below:

<u>Baltimore Apartments:</u>

This 28 unit project is located on Baltimore Avenue just south of Highway 50 west of Interstate 25. Completed earlier in 1999, all units are restricted to households earning either less than 40 or 50 percent of area median income. The townhouse design proved very popular and units leased rapidly, with sustaining occupancy reached immediately after completion. Each unit includes a patio, washer/dryer hookups and central air conditioning. A new community building and 12 unit expansion should start in early 2000.

Clarion Apartments:

This 24 unit project is located in Pueblo West just off of Highway 50. Construction was completed in March 1999. All units are restricted to households earning less than either 40 or 50 percent of median income level. Amenities include large units, attached garage and washer/dryer hook-ups. This project was fully leased at completion.

The Preserve at Belmont:

This 96 unit FHA financed project was completed in September 1999. It is the first more upscale general occupancy apartment project in Pueblo. Amenities include a clubhouse, business center, exercise area, outdoor pool, hot tub and play areas. The project is still in the lease-up stage.

## Present Multifamily Construction Activity

There are approximately 120 units under construction, including 89 units in two LIHTC projects. The remaining units are a mix of duplex and four-plex market rate projects. The two LIHTC projects are described below:

Rood Candy Apartments:

This 35 unit project is located on the corner of 4th Ave. and 7th Street in the downtown area of Pueblo. The building is former manufacturing plant. Construction will be completed in early 2000. All units are restricted to households earning less than 40 or 50 percent of the area median income.

Stonegate Village:

This 54 unit LIHTC project is located in Pueblo West, just off of highway 50. Construction should be completed by summer of 2000. All of its one, two and three bedroom units are restricted to households earning less than 40, 50 and 60 percent of income.

**Proposed Multifamily Construction Activity**

Three additional projects (two tax credit and one market rate) that are in the development pipeline. When and if they will break ground is unknown at this time. These are described below.

Hunter Creek Apartments, 108 units :

This project is located on Jerry Murphy Boulevard in northeast Pueblo. It has been delayed because of design and other problems. The original design consisted of one, two and three bedroom units, all income restricted at 60 percent of area median income. For purposes of our analysis of capture rates, the same unit mix and income restrictions were used.

Eagle Ridge Apartments, 300 units:

This proposed project is located on the north side of town on the west side of Interstate 25. It is in the very preliminary stages of development and still requires a rezoning application to the city. There is little information on the project other than it will be market rate and likely phased over a several years.

Hyde Park Apartments, 56 units:

This LIHTC project is located at Scott and 16th street on the city's Westside (Hyde Park area). Fifty-four units are aimed at 60 percent and two units at 50 percent of area median income households. The project will include 24 two bedroom and 32 three bedroom units. A second phase will eventually bring the project total to 100 units.

The projects listed above include nearly 300 market rent units and 176 LIHTC/income restricted units (including the 12 unit expansion at Baltimore Court). There are no other large multifamily projects in the active pipeline as of this time.

## Home Sales Market

Conditions in the sales housing market are now relatively balanced. Resale activity and active listings have held steady during the past few years. This is following extremely tight conditions of the mid-1990s. The average existing home sale price increased by 4.4 percent from 1998 to $104,600 in 1999. Homes priced in the first time home buyer range of under $100,000 move a little quicker, while there is some buildup of inventory for homes priced over $180,000. There is strong demand for homes priced under $80,000. The following table summarizes sales activity and prices for existing homes (including manufactured homes on land) during the 1990s:

*Table 4*

Existing Single Family Sales
Pueblo, Colorado MSA
1990 - 1999

| Year | Number of Sales | Average Sales Price | Percent Change |
|---|---|---|---|
| 1990 | 1,120 | $53,381 | na |
| 1991 | 1,145 | $55,719 | 4.4% |
| 1992 | 1,282 | $60,311 | 8.2% |
| 1993 | 1,382 | $61,524 | 2.0% |
| 1994 | 1,187 | $72,468 | 17.8% |
| 1995 | 1,477 | $79,694 | 10.0% |
| 1996 | 1,541 | $88,783 | 11.4% |
| 1997 | 1,514 | $96,103 | 8.2% |
| 1998 | 1,740 | $100,402 | 4.5% |
| 1999 | 1,814 | $104,844 | 4.4% |

Source: Pueblo Association of Realtors

New homes make up about 40 percent of the total market and sell for about $20,000 higher than existing homes. About 60 percent of new homes sold in 1999 are in the $90,000 to $120,000 price range, while the next most popular range is between $120,000 to $150,000. The Laredo subdivision in south Pueblo offers new "stick built" homes for between $65,000 and $80,000, otherwise there are few new homes under $90,000. To help address the shortage of affordable new homes, the Pueblo Housing Authority is expected to begin construction this year on a phased 200 unit single family subdivision. These homes are expected to sell for between $60,000 and $70,000.

## Manufactured Home Market

Existing manufactured homes on lots sell for considerably less than a "stick built" home. The average price of a home either for sale or currently listed on land is between $65,000 and $70,000. The vast majority of these homes are of post-1980 construction and typically placed on large lots. Used homes in parks (not on permanent foundation) sell for between $8,000 and $45,000 a unit. Many of these homes are older and smaller units.

Most new manufactured homes are placed on in-fill sites in the city and Pueblo West, although some are scattered throughout the county. Lots in the city and county can vary in size from 5,000 square feet to several acres in the rural areas of the county. In Pueblo, a 6,000 to 8,000 square foot lot sells for between $12,000 to $15,000 and a new home can be placed, including the land, can be priced for under $90,000. In Pueblo West, total cost is in the high $90,000s for a 7,000 square foot lot. There are some architectural restrictions that prevent manufactured homes from being placed in many neighborhoods. Pueblo West and Pueblo's Westside (Hyde Park area) are the areas where most of the in-fill sites are located. Available lots for manufactured homes are limited. There are two new manufactured home subdivisions under development.

West Valley Estates

This development is located on Pueblo Boulevard and $24^{th}$ street and should be completed early this year. Lots in the 93 unit development will range in size from 6,000 to 8,000 square feet. Each lot is expected to sell for between $17,900 and $22,500, depending on size and location. Home prices, including land and improvements, are projected to be under $90,000. There are no common area amenities.

Foothills Residential Community

The second development is in the very beginning stages of development. Foothills Residential Community is a proposed 439 lot master planned community next to West Valley Estates. Each lot, at 5,000 square feet, is proposed to sell for about $20,000. There are no common area amenities.

## Manufactured Home Park Market

There are a several manufactured home parks in Pueblo. In general, they are fully occupied and are able to routinely increase rents, albeit slightly. Current pad rents range from $205 to $270 a month. Tenant commonly pays for water, sewer and electricity. Amenities vary but some large parks include a clubhouse, swimming pool and playgrounds. Most smaller parks have no common area amenities. New homes can be placed in these parks for between $40,000 and $65,000. Lot sizes vary considerably but 4,000 to 5,000 square feet is the most common. Nearly all of Pueblo parks are at least 20 to 30 years old. There is one large park in the development stage:

Sun Communities

The developer is proposing a 419 pad park in northwest Pueblo. The project will offer considerable amenities including a clubhouse, pool, playgrounds, 7,000 square foot lots, etc. This development group has built other upscale parks in Colorado.

## **Rental Market Conditions**

The Pueblo rental market has shown some signs of improvement following a softening period. The trend in apartment vacancy rates from a survey begun in 1995 is shown below.

*Table 5*

Apartment Vacancy Rates
Pueblo MSA
1995 - 1999

| Survey Date | Vacancy Rate |
|---|---|
| 3rd Quarter 1995 | 1.4% |
| 1st Quarter 1996 | 2.3% |
| 3rd Quarter 1996 | 3.4% |
| 1st Quarter 1997 | 5.2% |
| 3rd Quarter 1997 | 2.8% |
| 1st Quarter 1998 | 5.5% |
| 3rd Quarter 1998 | 3.0% |
| 1st Quarter 1999 | 6.0% |
| 3rd Quarter 1999 | 5.0% |

Source: Colorado Division of Housing

The rental market softened the past few years because of new construction, low interest rates and a slowdown in the economy. Low interest rates and first time home buyer programs that have allowed many renters to purchase a home. This shift to homeownership has pulled higher income renters out of the apartment market. At the same time, a surge of new four-plex rentals came on line in 1995 and 1996 in Pueblo West. These factors were too much for the market to stay in balance; rents flattened or slightly declined and vacancies increased.

Despite a very competitive market, there are some signs that the market is slowly improving. Property managers have been able to slightly raise rents on select properties and there are fewer properties available for rent compared to a year ago. The third quarter 1999 state survey showed the vacancy rate declining by one percent from the previous quarter.

## Household Growth and Renter Demand Forecast

During the 1990 to 1999 time period, building permits were issued for about 7,900 units in the Pueblo MSA. The vast majority of these (about 6,400 units) were single family homes and townhouses. Of the 1,600 multifamily units permitted, we estimate that just over 1,200 were actually in projects for rent. Owner occupied condominiums and duplexes accounted for the balance of multifamily units permitted. The absorption of the new rental units and a modest decline in renter vacancies has resulted in an average absorption of 140 rental units per year in the 1990s.

The dominance of single family homes in construction activity, coupled with low priced housing, has resulted in a significant shift to homeownership in the area. We estimate that the homeownership rate has risen from about 68 percent in 1990 to about 73 percent at present. A continuation of this shift will dampen the demand for rental units. Note that about 15 percent of the units produced in this decade have been rental units. The relatively low proportion of rental units can partially be accounted for by a surplus of rental units in 1990 and the low apartment rents that have prevailed since 1990. We cannot expect the tenure of future demand to match the tenure of current occupied units. However, assuming a slower tenure shift, rental demand should surpass the production performance of the 1990s, but is not likely to exceed 20 percent of future production. We estimate that future employment gains of 2.5 percent per year will generate household growth of about 1,050 households per year. After adjusting for tenure shift and mobile home impact, this level of growth should allow absorption of up to 200 rental units per year. This is slightly above the average for the 1990s because the economy and population growth, on average, will be higher than the past decade.

At present, there are 120 rental units under construction (discussed earlier). This level of construction plus a decline in vacancies approximates the expected first year absorption level for a net result of no demand for new units in 2000. By the second year as the market firms up, about 200 new units will be needed to meet the expected demand. Therefore, the absorption potential for the year 2000 is approximately met by the units under construction and the current surplus in rental units. Future starts should be timed to meet apartment demand in the year 2001, implying a late-2000 or early-2001 construction start.

As mentioned earlier, there is little chance that the 300 market rate project and 164 LIHTC units in two projects all would begin this year. More likely one or two of the tax credit projects could start this year, while the market rate project could start this year, but would likely be phased over several years.

## Household Growth and Owner Demand Forecast

We estimate that the demand for owner occupied units to be about 850 units a year over the next few years. The majority of the demand will be for single family detached homes, although we can expect that some of the demand will be met by manufactured homes in parks, townhouses, duplexes and condominiums. Typically, between 15 and 20 percent of owner units can be expected to be provided by these structure types. Single family detached construction will be split between “stick built” and manufactured homes on land. Manufactured homes on individual sites have increased to approximately 20 percent of total single family units. Lots that can accommodate manufactured homes have become short in supply, but will be given a boost with the new subdivisions coming on line or in the development stage.

## Low Income Housing Tax Credit (LIHTC) Rental Market

The LIHTC rental market is strong. Recently completed projects have been well received by the market and have leased quickly. Most face a consistently stronger demand for two bedroom units because of the lack of supply in the present inventory. Section 8 vouchers are being used by a small portion of current tenants. Rents are generally kept at or slightly below the maximum allowed under the program. LIHTC projects market well compared to the general rental stock because of their new construction quality and superior amenities. For all unit sizes, even at the 60 percent of income level, rents are below the present Section 8 Fair Market Rents.

LIHTC projects offer a wide variety of bedroom sizes at various income levels. Nearly all have income restrictions on 100 percent of units. The table below summarizes the number of LIHTC units by bedroom size and income level targeted. This list includes projects with competitive (9 percent) credits and those who receive 4 percent credits on some or all units financed with PABs. It excludes Mesa Gardens, a 140 unit LIHTC project since it is nearly all occupied with Section 8 voucher holders.

*Table 6*

Income Targets, Bedroom Distribution and Status of Nonelderly LIHTC Projects
Pueblo, Colorado MSA
January 2000

**Completed:**

| | 1 bedroom | | | 2 bedrooms | | | 3 bedrooms | | | 4 bedrooms | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | Total |
| Milzio Pioneer | | | | | | | | | 8 | | | | 8 |
| JNRC Low Inc. | | | | | | | | 4 | | | | | 4 |
| Miscellaneous | | | | | 7 | 7 | | 8 | 8 | | | | 30 |
| Hillville Heights | | | | | | 12 | | | 12 | | | | 24 |
| Baltimore Court | | | | | | | 6 | 22 | | | | | 28 |
| Clarion Apts. | | | | | | | 10 | 14 | | | | | 24 |
| **Total** | | | | | **7** | **19** | **16** | **48** | **28** | | | | **118** |

**Under Construction:**

| | 1 bedroom | | | 2 bedrooms | | | 3 bedrooms | | | 4 bedrooms | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | Total |
| Rood Candy | | 20 | | 7 | 8 | | | | | | | | 35 |
| Stonegate | | | | 6 | 2 | 6 | 8 | 11 | 13 | 2 | 3 | 3 | 54 |
| **Total** | **0** | **20** | **0** | **13** | **10** | **6** | **8** | **11** | **13** | **2** | **3** | **3** | **89** |

**Proposed:**

| | 1 bedroom | | | 2 bedrooms | | | 3 bedrooms | | | 4 bedrooms | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | 40 | 50 | 60 | Total |
| Baltimore Court | | | | 12 | | | | | | | | | 12 |
| Hyde Park | | | | | 1 | 23 | | 1 | 31 | | | | 56 |
| Hunter Creek | | | 28 | | | 66 | | | 14 | | | | 108 |
| **Total** | **0** | **0** | **28** | **12** | **1** | **89** | **0** | **1** | **45** | **0** | **0** | **0** | **176** |
| | | | | | | | | | | | | | |
| **Grand Total** | **0** | **20** | **28** | **25** | **18** | **114** | **24** | **60** | **86** | **2** | **3** | **3** | **383** |

The present inventory of 118 units entered the market over a period of 10 years, beginning in 1989 with Milzio Pioneer and ending with the completion of the Clarion Apartments in 1999. The 89 units currently under construction should be on the market by this Fall. The 12 unit addition to Baltimore Court should begin construction shortly, while the 56 units at Hyde Park and 108 units at Hunter Creek could come on line within 24 months.

## Market Potential for Nonelderly LIHTC Units

The market potential for LIHTC units consists of households that are both income qualified and can afford the proposed rents. The following table illustrates the maximum incomes by bedroom size (assuming 1.5 persons per bedroom), maximum shelter rents (30 percent of the maximum income limit less a utility allowance) and estimated minimum incomes (assuming a typical requirement that tenant income be at least 2.5 times monthly shelter rent) at the 40, 50 and 60 percent of income level. Households within these income ranges form the target market for any given project and/or units at that income level. These computations are based on Fiscal Year 1999 income limits for the MSA that were effective January 27,1999. The utility allowances have been estimated by the Colorado Department of Human Services for this area.

*Table 7*

Target Resident Incomes and Rents by Bedroom Size
Pueblo, Colorado MSA
Fiscal Year 1999

| | Number of Bedrooms | | | |
|---|---|---|---|---|
| **40 Percent of Median Income:** | One | Two | Three | Four |
| Maximum annual income | $12,140 | $14,560 | $16,800 | $18,760 |
| Maximum monthly shelter rent | $258 | $307 | $351 | $384 |
| Minimum annual income | $7,500 | $9,000 | $10,350 | $11,400 |
| **50 Percent of Median Income:** | One | Two | Three | Four |
| Maximum annual income | $15,150 | $18,200 | $21,000 | $23,450 |
| Maximum monthly shelter rent | $334 | $398 | $456 | $501 |
| Minimum annual income | $10,020 | $11,940 | $13,680 | $15,030 |
| **60 Percent of Median Income:** | One | Two | Three | Four |
| Maximum annual income | $18,180 | $21,840 | $25,200 | $28,140 |
| Maximum monthly shelter rent | $410 | $489 | $561 | $619 |
| Minimum annual income | $12,300 | $14,670 | $16,830 | $18,570 |

To estimate the potential market in each range, we updated 1990 Census data that presented incomes by household size and tenure for all households. We assumed a faster growth in these target renter households than in total renters since the shift to homeownership has lowered the proportion of higher income renters. Consequently the proportion of lower income renters has actually increased. Households were allocated to bedroom sizes based on occupancy patterns derived from the American Housing Survey.

By comparing the above income ranges to the updated income distribution, we computed the number of renter households in each range. We then compared this to the number of units for this target group to obtain capture rates. The results of this analysis are presented below. Note that we have derived two sets of capture rates for each income level. The first is based only on completed units in the present inventory (see Table 6). The second is derived from the total of completed, under construction and proposed units (see Table 6). This later computation tells us the capture rates the LIHTC market will have to achieve to successfully absorb all units presently under construction and proposed.

*Table 8*

Nonelderly Market Potential and Capture Rates
Pueblo, Colorado MSA
January 2000

| | Number by Bedroom Size | | | | |
|---|---|---|---|---|---|
| **40 Percent of Income:** | One | Two | Three | Four | Total |
| Total Renter Households | 4,510 | 4,460 | 2,770 | 1,200 | 12,940 |
| Targeted Renter Households | 540 | 600 | 460 | 190 | 1,830 |
| Completed units | 0 | 0 | 16 | 0 | 16 |
| **Capture rates:** | **na** | **na** | **3%** | **na** | **1%** |
| Under construction, proposed | 0 | 25 | 24 | 2 | 51 |
| **Capture rates:** | **na** | **4%** | **5%** | **1%** | **3%** |

| | Number by Bedroom Size | | | | |
|---|---|---|---|---|---|
| **50 Percent of Income:** | One | Two | Three | Four | Total |
| Total Renter Households | 4,510 | 4,460 | 2,770 | 1,200 | 12,940 |
| Targeted Renter Households | 660 | 660 | 450 | 220 | 1,990 |
| Completed units | 0 | 7 | 48 | 0 | 55 |
| **Capture rates:** | **na** | **1%** | **11%** | **na** | **5%** |
| Completed, under constr., proposed | 20 | 18 | 60 | 3 | 101 |
| **Capture rates:** | **3%** | **3%** | **13%** | **1%** | **5%** |

*Table 8 (continued)*

| 60 Percent of Income: | One | Two | Three | Four | Total |
|---|---|---|---|---|---|
| | Number by Bedroom Size | | | | |
| Total Renter Households | 4,510 | 4,460 | 2,770 | 1,200 | 12,940 |
| Targeted Renter Households | 740 | 790 | 480 | 240 | 2,250 |
| Completed units | 0 | 19 | 28 | 0 | 47 |
| **Capture rates:** | **na** | **2%** | **6%** | **na** | **4%** |
| Completed, under constr., proposed | 28 | 114 | 86 | 3 | 231 |
| **Capture rates:** | **4%** | **14%** | **18%** | **1%** | **10%** |

Source: Estimated by HUD Economist

The total capture rates that have been achieved for completed units are modest for each target group, ranging from 3 percent at the 40 percent level to 10 percent at the 60 percent level. The three bedroom at 50 percent level is the only capture rates in double digits. These rates are consistent with the healthy state of the present LIHTC market. The capture rates required following the entry into the market of all units under construction and proposed increase substantially in most cases. The largest increases are from 2 to 14 percent and 6 to 18 percent for the two and three bedroom units, respectively, at the 60 percent level. Rates at the 40 and the 50 percent level increase but they remain modest. Despite these large increases, the required capture rates are within a reasonable level, but some caution is urged given the magnitude of the gain.

For some market areas, capture rates of 20 to 25 percent are considered the limit. Others can accommodate higher rates, but generally not greater than 30 percent. We have observed a few areas with tax credit unit capture rates exceeding 30 percent, resulting in an extended soft market and/or an exceptionally long lease-up period. In one slow growing market area, rates approaching 20 percent resulted in rent concessions and a lengthy rentup. Another area 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 rentups for LIHTC projects. It should be noted that the movement in capture rates may be equally, if not more, important than the absolute level of capture one is attempting to achieve. The more dramatic an increase required, the more time it takes the market to adjust.

Establishing attainable capture rates is imprecise but in view of the low market rents and moderate growth in the Pueblo area, we anticipate that the market should not exceed the 20 percent level in the short term. The three bedroom at the 60 percent level will be almost there following completion of units under construction and in the pipeline.

There can be considerable overlap between various income levels. For example, a family needing a two bedroom unit with an income of $17,000 can afford the minimum rent in a 60 percent unit but is below the maximum income limit for a 50 percent unit (refer to the income levels in Table 7). Since so many of the under construction and proposed units in the MSA are at the 50 and 60 percent levels, we have produced estimated capture rates for these units in the aggregate.

*Table 9*

Nonelderly Market Potential and Capture Rates
Pueblo, Colorado MSA
January 2000

| | Number by Bedroom Size | | | | |
|---|---|---|---|---|---|
| **50 & 60 Percent of Income:** | One | Two | Three | Four | Total |
| Total Renter Households | 4,510 | 4,460 | 2,770 | 1,200 | 12,940 |
| Targeted Renter Households | 940 | 990 | 670 | 320 | 2,920 |
| | | | | | |
| Completed units | 0 | 26 | 76 | 0 | 102 |
| **Capture rates:** | **na** | **3%** | **11%** | **na** | **6%** |
| | | | | | |
| Completed, under constr., proposed | 48 | 132 | 146 | 6 | 322 |
| **Capture rates:** | **5%** | **13%** | **22%** | **2%** | **11%** |

Not surprisingly, these estimates show that a higher capture rate will be necessary to absorb the three bedroom units. While this will impact absorption at both income levels, it should have the most dramatic impact on the 60 percent of income units. The estimated 300 households who have incomes above the 60 percent minimum and below the 50 percent limit will almost all prefer to rent a unit at the 50 percent level since the rent on these units will typically be lower than those at the 60 percent level. For example, the two bedroom family with an income of $17,000 mentioned above will be eligible to rent a 50 percent unit at $398 and can afford rent of $489 on a 60 percent unit. To the extent 50 percent units are available and families chose the lower rent, the capture required among remaining households not eligible for 50 percent units rises accordingly.

Considering the high capture rates necessary to absorb the three bedroom units at the 50 and 60 percent level, development of additional units in these categories should be postponed until present units under construction and proposed are completed and absorbed. Where possible, projects in the pipeline should be encourage to give more emphasis to two and four bedroom rather than three bedroom units. There remains some potential for additional 40 percent units and, of course, a strong demand from families who cannot afford the minimum rents at typical levels of LIHTC units without additional subsidy such as Section 8 or Rental Assistance. The vast majority 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.