

MEMORANDUM

To: David Fine, MPA, Economic Development Manager
Renata Munfrada, Community Housing Program Coordinator
City of Bozeman

From: Brian Duffany, Principal
Keely Maher, Associate

Subject: Multifamily Market Conditions; EPS #233073

Date: March 4, 2024

The Economics of Land Use



The City of Bozeman asked Economic & Planning Systems (EPS) to prepare an analysis of market conditions for multifamily housing, including market rate and affordable multifamily housing, to inform allocations from the 4.0% Low Income Housing Tax Credit (LIHTC) program.

There are approximately 1,300 new units of housing proposed in 2024 that will use 4.0% LIHTC funding. We do not know yet if all of these projects will be constructed in 2024; we think it is more likely that they will be spread out over at least two years due to the capacity of general contractors and construction labor in the Bozeman area.

This memorandum contains four main sections outlined below.

- **Proposed Projects** – An overview of the new 4% LIHTC developments being considered in Bozeman.
- **Market Conditions and Absorption Indicators** – Reviews trends in multifamily construction (unit deliveries), vacancy rates, and rents.
- **Household Income and Capture Rate** – Compares the number of households at or below 60% of AMI to the current and proposed LIHTC inventory.
- **Recent LIHTC Property Data** – Presents information on wait lists and vacancy rates for LIHTC properties built over about the past 10 years.

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Proposed Projects

The list, to date, of projects being considered in the city are listed in **Table 1**. Five projects are proposed to be income limited at or below 60% of AMI. Two projects are proposing to use income averaging and open to households earning between 50% and 70% of AMI. At this planning stage, HRDC is a potential partner in three of the projects. HRDC is nonprofit housing development and property manager, and service provider in the region. HRDC maintains wait lists and interest lists across numerous properties it manages in the region and will be able to draw from those lists to help with initial lease up.

Table 1. Proposed 4% LIHTC Projects

Project	Units	Proposed Income Limits	Non-profit partner?
14th & Patrick	155	<=60% AMI	HRDC
N. 3rd Apartments	216	<=50-70% AMI	Hearthstone
Midtown Aspen	40	<=50-70% AMI	HRDC
Aspen 8	126	<=60% AMI	HRDC
Aaker	146	<=60% AMI	TBD
Rocky Mountain Flats	300	<=60% AMI	TBD
Roehrs Construction	300	<=60% AMI	TBD
Total	1,283		
Boundary Development	TBD	<=60% AMI	TBD

Source: Economic & Planning Systems

Market Conditions and Absorption Indicators

This section of the memorandum compares trends in the multifamily inventory growth to vacancy rates and rents. Since 2014, the Bozeman market has added over about 3,000 multifamily units or just over 300 units per year (**Table 2**). The Bozeman market area includes the city limits and some areas outside the city between Belgrade and Bozeman to about Four Corners. These data reflect almost entirely market rate projects. The years with the largest supply increases were 2015 with 333 units, 2020 with 678 units, 2022 with 485 units, and 2023 with 787 units.

Table 2. Multifamily inventory and new unit deliveries, 2014-2023

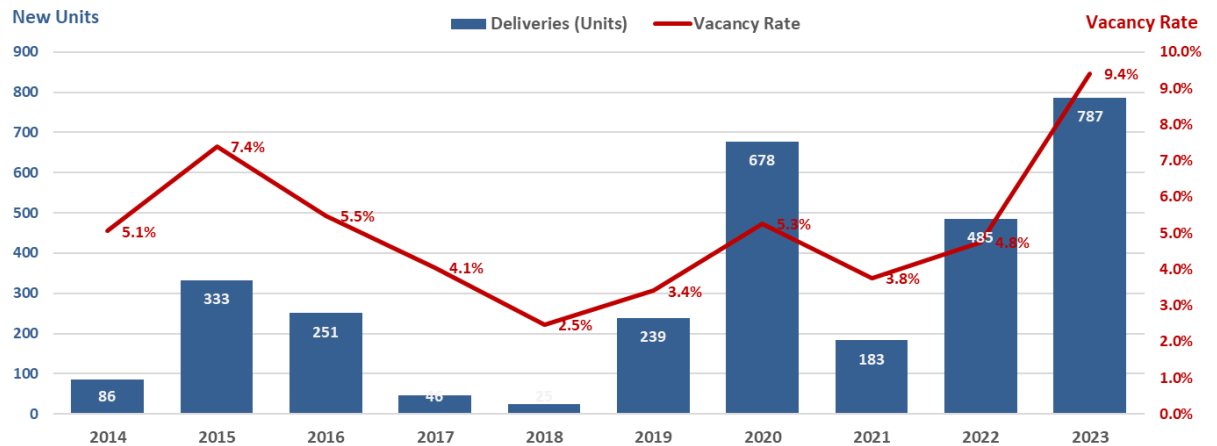
Inventory (units)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Change 2014-2023	
											Total	Ann. #
Inventory (units)	3,158	3,491	3,742	3,788	3,813	4,052	4,730	4,913	5,398	6,185	3,027	336
Deliveries (units)	86	333	251	46	25	239	678	183	485	787	3,113	311

Source: CoStar; Economic & Planning Systems

When new supply is brought to the Bozeman market it is absorbed at a reasonable pace. In 2015, the 333 new units resulted in an increase in the vacancy rate from 5.1 percent to 7.4 percent. By the end of 2016, the vacancy rate dropped back to 5.5 percent. In 2016, another 251 units were added and the vacancy rate continued to drop to a low of 2.5 percent in 2018 — a level that indicates a shortage of supply. During much of the period between 2018 and 2022, the vacancy rate was below 5.0 percent. Market analysts generally consider 5.0 to 7.0 percent to be an indicator of a balanced market.

In 2019 and 2020, 918 units were added and the vacancy rate only reached 5.3 percent in 2020. In 2021, the vacancy rate dropped back to 3.8 percent when 183 more units were brought to the market. Some of the largest supply increases in the past 10 years were in 2022 and 2023 when a total of just under 1,300 new units were developed. The vacancy rate at the end of 2023 was 9.4 percent. Given past trends and the historic strength of the Bozeman market, we expect this supply to also be absorbed within a year or two.

Figure 1. New Unit Deliveries vs. Vacancy Rate, 2014-2023



The shortage of supply has allowed property owners to raise rents, particularly between 2020 and 2022. From 2020 through 2021, rents increased by 8.8 percent while the vacancy rate dropped from 5.3 to 3.8 percent. From 2021 through 2022, average rents increased by 7.5 percent while 485 new units were delivered with the market vacancy rate at 4.8 percent. The increases in supply in 2022 and 2023 reduced the upward pressure on rents, as rents only increased by 0.3 percent. The average apartment rent is now at approximately \$1,944 per month.

Table 3. Average Monthly Rent, 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023	
											Change	Ann. %
Avg. Monthly Rent	\$1,472	\$1,480	\$1,523	\$1,560	\$1,589	\$1,618	\$1,656	\$1,803	\$1,938	\$1,944	\$472	3.1%
Ann. % Change		0.6%	2.9%	2.4%	1.9%	1.8%	2.4%	8.8%	7.5%	0.3%		

Source: CoStar; Economic & Planning Systems

Household Income and Capture Rate

EPS estimated the market share of renters that the current and projected LIHTC inventory captures. The first step in that analysis is tabulating the number of renter households in the market area, comprised of the Bozeman and Belgrade Census County Divisions (**Figure 2**). From the Census’ 5-year ACS estimates, this area has approximately 16,600 renter households that comprises nearly 90 percent of all renter households in Gallatin County (**Table 4**). The proposed LIHTC projects will be available to households earning 60% of AMI or less, and there are about 7,400 renter households at or below 60% of AMI in the market area, or 45 percent of all renter households.

These 5-year ACS household estimates undercount the actual number of households. The 5-Year ACS data are a rolling 5-year average and not a point in time estimate. So, the market share calculations that follow somewhat overstate actual market share. We have also not factored in the potential for these properties to draw people from other areas of Gallatin County and surrounding counties that also have housing shortages.

Figure 2. Market Area Map: Bozeman and Belgrade Census County Divisions

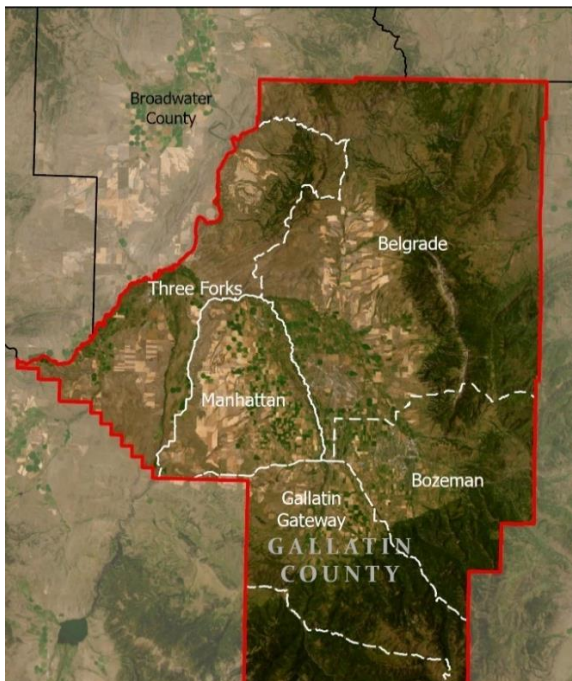


Table 4. Renter Households By Area Median Income Range, 2022 (ACS 5-Year Estimates)

Renter Households	Gallatin County	Market Area		Total Market Area
		Bozeman CCD	Belgrade CCD	
Households				
Less than 30% AMI	3,669	2,826	601	3,427
31% to 60% AMI	4,548	3,298	726	4,024
61% to 80% AMI	2,767	2,048	369	2,417
81% to 100% AMI	2,054	1,356	495	1,851
101% to 120% AMI	1,527	1,034	345	1,379
121% to 150% AMI	1,518	1,212	128	1,340
Greater than 150% AMI	2,419	1,829	357	2,186
Total	18,502	13,603	3,021	16,624
	100.0%	73.5%	16.3%	89.8%
60% AMI or Less	8,217	6,124	1,327	7,451
% of Total				
Less than 30% AMI	19.8%	20.8%	19.9%	20.6%
31% to 60% AMI	24.6%	24.2%	24.0%	24.2%
61% to 80% AMI	15.0%	15.1%	12.2%	14.5%
81% to 100% AMI	11.1%	10.0%	16.4%	11.1%
101% to 120% AMI	8.3%	7.6%	11.4%	8.3%
121% to 150% AMI	8.2%	8.9%	4.2%	8.1%
Greater than 150% AMI	13.1%	13.4%	11.8%	13.1%
Total	100.0%	100.0%	100.0%	100.0%
60% AMI or Less	44.4%	45.0%	43.9%	44.8%

Source: US Census ACS; Economic & Planning Systems

From the HUD database of tax credit properties, EPS identified 1,517 housing units income restricted at or below 60% of AMI (**Table 5**). These roughly 1,500 units represent a market share of 20 percent of the 7,451 renter households in the eligible income ranges. The nearly 1,300 units that are being considered in Bozeman would bring the total inventory to 2,800 units and the market share of 60% of AMI renter households to approximately 38 percent. That still leaves a substantial number of renter households – over 60 percent and 4,600 households – that would also qualify for these properties. At the property level, no individual proposed project would have more than 4.0 percent market share.

Table 5. 60% AMI LIHTC Market Share, Current and Projected

Description	Gallatin County		Market Area	
	Units and Households	Market Share	Units and Households	Market Share
Renter Households 60% AMI or Less	8,217		7,451	
Current Market Share				
<60% AMI LIHTC Units	1,517	18.5%	1,517	20.4%
Projected Market Share				
Existing <60% AMI LIHTC Units	1,517		1,517	
<u>Proposed <60% AMI LIHTC Units</u>				
14th & Patrick	155	1.9%	155	2.1%
N. 3rd Apartments	216	2.6%	216	2.9%
Midtown Aspen	40	0.5%	40	0.5%
Aspen 8	126	1.5%	126	1.7%
Aaker	146	1.8%	146	2.0%
Rocky Mountain Flats	300	3.7%	300	4.0%
Roehrs Construction	300	3.7%	300	4.0%
Subtotal	1,283	15.6%	1,283	17.2%
Total	2,800	34.1%	2,800	37.6%

Source: HUD LIHTC Database; Economic & Planning Systems

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Many renter households are in unaffordable living situations. Half of renters in the Bozeman CCD are cost burdened (paying more than 30 percent of income in rent), including about 25 percent who are severely cost burdened (paying 50 percent or more of income in rent). The figures are similar in the Belgrade CCD where just over 40 percent are cost burdened including just over 20 percent who are severely cost burdened.

Recent LIHTC Property Data

EPS contacted property managers for LIHTC projects built in the past 10 years to obtain information on vacancy rates and wait lists. All properties are essentially full with the only vacancies being for units that are turning over to be re-leased to new tenants (**Table 6**). Most properties report less than 5.0 percent vacancy. Boulevard Apartments and Darlington Manor noted that their vacancies are largely in tenant turnover and readying units for new tenants. Property managers indicated that most tenants stay for many years once they find secure housing. This does not allow for much mobility in the market for new tenants to find housing, hence the need to add new supply.

Table 6. Newer LIHTC Property Vacancy Rates and Wait Lists

Project Name	Year Built	AMI Range	# Units	Vacancy Rate	Waitlist
Arrowleaf Park	2022	60% AMI	136	1.3%	15 interest list
Baxter Apartments (Rehab)	2022	60% AMI	48	0.1%	20 people per bedroom size waitlist
Boulevard Apartments (Rehab)	2021	60% AMI	41	Approx. 5%	111 on waitlist
Comstock Apartments (Rehab)	2022	60% AMI	86	0.1%	20 people per bedroom size waitlist
Darlington Manor (Rehab)	2020	60% AMI	100	Approx. 5%	72 on waitlist (elderly and disabled)
Larkspur Commons	2016	60% AMI	136	2.9%	9 people on waitlist
Perennial Park	2021	60% AMI	96	1.0%	12 on interest list
Stoneridge Apartments	2016	60% AMI	48	2.5%	2-2.5 yr. wait
Timber Ridge Apartments	2023	60% AMI	30	3.4%	2-2.5 yr. wait
Total			721		

Source: Economic & Planning Systems

Conclusions

The proposed LIHTC properties represent a substantial increase in housing supply for low income renters. EPS' opinion is that this supply will be absorbed by the current demand from renters, and the expected continued growth of this region. Several points noted below summarize the demand for affordable housing.

- The Bozeman market has seen several cycles where large amounts of new supply are added, the vacancy rate rises, and then stabilizes within a year or two.
- The median home price in the Bozeman area is over \$800,000, and nearly \$600,000 in the Belgrade area. This is out of reach for most people, making renting the only other option.
- The household income limits for qualification purposes in this area are high, which opens up the LIHTC property market to more people. The median family income for a family of 4 is \$126,400 (100% of AMI). For a 2-person household at 60% of AMI it is \$50,500. That is equivalent to two people earning \$12.00 per hour or one person earning \$24.00 per hour. The current average wage in retail trade is \$21.40 per hour and is one of the largest and fastest growing industries in this region.
- The Gallatin County economy continues to add jobs, approximately 90 percent of which are in the Bozeman and Belgrade area. From 2022-2023Q2, jobs grew by 5.1 percent or 2,200 jobs. Retail, accommodations, and food services sectors—typically lower wage industries—accounted for about half of the new jobs during this period.