Before the 2007-2009 recession, residential housing construction and the housing market experienced strong growth across the nation. The demand for housing increased home ownership rates and investment potential. Then the housing bubble burst. Alison Felix, economist and Denver branch executive, and Sam Chapman, assistant economist, recently studied the housing market’s boom, bust and recovery in the Tenth Federal Reserve District’s mountain states—Colorado, New Mexico and Wyoming.

THE BOOM, BUST AND RECOVERY OF HOUSING MARKETS IN THE MOUNTAIN STATES

CONSTRUCTION BOOM

In the mountain states, residential construction growth varied during the last two decades. Colorado experienced a slight slump in residential construction during the 2001 recession, but after a few volatile years, residential construction activity grew quickly. The value of residential construction peaked in November 2005 in both the United States and Colorado after having tripled between 1994 and 2005. The growth in residential construction activity in New Mexico and Wyoming was slower than that of the United States and Colorado between 1994 and 2001. Between 2001 and year-end 2005, residential construction increased at an average annual rate of more than 20 percent in both New Mexico and Wyoming.

A GOOD INVESTMENT


THE BUST

Near year-end 2005, the value of residential construction reached its peak and began to decline, with construction levels eventually falling more than 70 percent in the United States and the mountain states.
DECREASING PRICES
Home prices fell 20.1 percent across the nation on average between the first quarter of 2007 and the second quarter of 2011. The mountain states fared better than the nation, with home-price declines of 8.4, 16.6 and 6.4 percent in Colorado, New Mexico and Wyoming, respectively.

For many households, the decline in home prices led to a decline in household wealth, leaving many homeowners “underwater”—owing more on their mortgage than the new value of their home. This led to an increase in mortgage defaults.

MULTIFAMILY OUTPACES SINGLE-FAMILY CONSTRUCTION
Residential construction and permitting activity has gradually increased, particularly in Colorado and the nation. Residential permitting has been slower to pick up in New Mexico and Wyoming. Across the three states and nation, however, residential permitting activity remains well below pre-recession levels, and single-family construction has been slower to bounce back than multifamily construction.

A DROP IN HOME OWNERSHIP
One reason for the strong increase in multifamily construction is the decline in homeownership rates across the United States and the mountain states since the housing market began to cool.

As of the second quarter 2014, homeownership rates for the United States, Colorado and New Mexico have continued to decline from pre-recession levels. Wyoming, however, has recently experienced an uptick in homeownership rates.

Home ownership rates

For more information about the economic conditions in the mountain states, read The Rocky Mountain Economist at www.KansasCityFed.org/publications/research.