

Housing Market Profile

Midwest • HUD Region V



Rochester, Minnesota

The Rochester metropolitan area consists of Olmsted, Dodge, and Wabasha Counties, and is located in southeast Minnesota. As of July 1, 2010, the population of the metropolitan area was estimated at 187,700, an increase of 2,100, or 1.1 percent, from July 1, 2009, which is slower than the average annual growth rate of 1.3-percent recorded since 2005. Rochester, the largest city in the metropolitan area with an estimated 103,500 residents, is the home of the Mayo Clinic, which draws more than 2 million patients (and visitors) a year, and is the leading employer with 31,700 employees. The Mayo Clinic had a \$1.3 billion economic impact on the local economy in 2008, according to Battelle Memorial Institute. International Business Machines Corp. is the second leading employer with 4,400 employees.

The Rochester metropolitan area's economy has mirrored the national downturn during the past 2 years. Nonfarm employment declined by 2,200 jobs, or 2.0 percent, to an average of 103,300 jobs, during the 12 months ending May 2010 compared with the previous 12 months when employment decreased by 2.2 percent. During the 12 months ending May 2010, the professional and business services sector and the construction sector led all losses with declines of 1,100 jobs, or 9.3 percent, and 500 jobs, or 14 percent, respectively. Education and health services was the only sector to record growth with a gain of 500 jobs, or 1.1 percent. The addition of 1,650 jobs during the past 12 months at the Mayo Clinic more than offset losses elsewhere in the education and health services sector. During the 12 months ending May 2010, the average unemployment rate increased to an average of 6.2 percent, up from 5.6 percent during the previous 12 months.

As a result of the slow economy and tightened mortgage lending standards, the sales market for single family homes is soft; however, sales increased as a result of lower prices and the first-time homebuyer tax credit. According to data from the Southeast Minnesota Association of REALTORS®, during the 12 months ending May 2010, approximately 2,475 existing homes were sold in the Rochester metropolitan area, up nearly 7 percent from the previous 12 months. The average number of days a home remained on the market decreased from 150 days during the 12 months ending May 2009 to 140 days during the 12 months

ending May 2010. For the 12 months ending May 2010, the median sales price of an existing home was \$151,500, a 4-percent decline compared with the median price recorded during the same period a year earlier.

Despite the overall softness of the housing market, builders responded to the increase in home sales by increasing new home construction, as measured by the number of single-family building permits issued. During the 12 months ending May 2010, a total of 400 single-family homes were permitted, up 21 percent compared with the number permitted during the previous 12 months, based on preliminary data. Single-family construction peaked in 2003, with 1,700 homes permitted, and has averaged approximately 700 homes during the past 5 years. New home development is primarily concentrated in northwest and southwest Rochester near the Rochester International Airport. Prices for new single-family three-bedroom, two-bathroom homes start at \$140,000. New single-family developments include Harvest View and Pebble Creek, with 850 and 1,200 planned single-family homes, respectively. Elk Run, an estimated \$1-billion, 2,325-acre, mixed-use, master-planned community, located 15 miles north of Rochester, has begun construction on a 200-acre bioscience park that is expected to include both residential and office components when completed 2028.

Rental housing market conditions in the Rochester metropolitan area are soft. The current rental vacancy rate is estimated at 9 percent, up from 8.0 percent in 2008. For the 12-month period ending June 2010, the average monthly rent for a two-bedroom unit was \$1,116, down nearly 2 percent compared with the rent during the same period a year earlier. Rent specials once absent from the market are now prevalent in virtually all existing and newly leasing complexes. Concessions include 1 or 2 months of free rent, reduced security deposits, and no application fees. Multifamily construction, as measured by the number of multifamily units permitted, totaled 200 units during the 12 months ending May 2010, unchanged compared with the number permitted during the previous 12 months, based on preliminary data. Cascade Shores, with 90 rental townhomes, is currently in lease-up, offering two- and three-bedroom units with monthly rents of \$1,240 and \$1,295, respectively. The complex 318 Commons is currently under construction with 98 apartments and is expected to open in August 2011.