

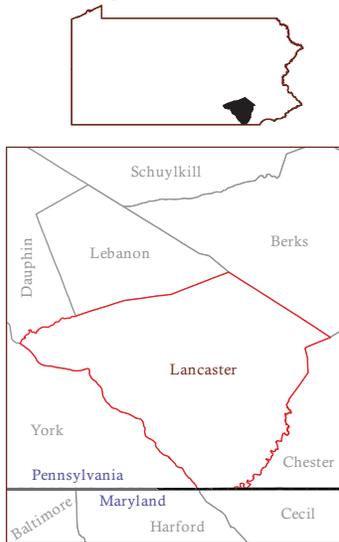


Lancaster, Pennsylvania

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of October 1, 2011



Housing Market Area



The Lancaster Housing Market Area (HMA), located 70 miles west of Philadelphia, is coterminous with Lancaster County, Pennsylvania. More than 5,400 farms in Lancaster County contribute to annual sales of approximately \$1.1 billion in agricultural products. The HMA is home to Amish and Mennonite communities that reside primarily in eastern and southern Lancaster County.

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Summary

Economy

The rate of job losses slowed in 2010 but economic growth in the Lancaster HMA remains flat. During the 12 months ending September 2011, total nonfarm payrolls declined by 100 jobs to a total of 226,600, remaining relatively unchanged compared with the number of jobs recorded during the previous 12-month period. The 300 jobs added in service-providing sectors were offset by the 400 jobs lost in goods-producing sectors. Total nonfarm payrolls are expected to increase by an average of 925 jobs, or 0.4 percent, annually during the 3-year forecast period.

Sales Market

The home sales market in the HMA is slightly soft. Sales of new and existing homes during the 12 months ending September 2011 declined by 11 percent compared with the number sold during the previous 12 months. Demand is expected for 3,275 new homes during the next 3 years (see Table 1). Approximately 660 homes are currently under construction and will satisfy a portion of that demand. In addition, a portion of the 4,000 other vacant units in the HMA may reenter the market and satisfy some of that demand.

Rental Market

Rental market conditions in the HMA are currently tight. The overall rental vacancy rate declined from 5.3 percent in 2010 to a current estimated rate of 3.8 percent. The average asking rent for apartments in September 2011 was \$870, indicating an increase of more than 1 percent compared with the asking rent a year earlier. During the next 3 years, demand is expected for 1,275 new rental units (see Table 1). Approximately 370 rental units are currently under construction and will satisfy a portion of the forecast demand.

Table 1. Housing Demand in the Lancaster HMA, 3-Year Forecast, October 1, 2011 to October 1, 2014

	Lancaster HMA	
	Sales Units	Rental Units
Total Demand	3,275	1,275
Under Construction	660	370

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of October 1, 2011. A portion of the estimated 4,000 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

The economy of the Lancaster HMA is slowly recovering from jobs lost in recent years. During the 12 months ending September 2011, total nonfarm payrolls declined by 100 jobs, remaining relatively unchanged from the number of jobs recorded during the previous 12-month period. Goods-producing sectors declined by 400 jobs, or 0.8 percent, led by a decrease of 500 jobs, or 1.4 percent, in the manufacturing sector (see Table 2). The contraction in the durable-goods manufacturing industry is because of ongoing contract negotiations at Armstrong World Industries, Inc.,

in Marietta that started in July 2011 resulting in 260 workers being laid off. In addition, the pending closure of SAFIC® Biosciences, a biopharmaceutical supplier, will result in a loss of approximately 80 jobs from the manufacturing sector in December 2011.

Service-providing sectors expanded by 300 jobs, or 0.2 percent, during the 12 months ending September 2011. The trade sector expanded by 800 jobs, or 1.9 percent. Jobs added in this sector were nearly equally divided between wholesale trade, which increased by 420 jobs, or 3.2 percent, and retail trade, which expanded by 380 jobs, or 1.3 percent. The leisure and hospitality sector increased by 300 jobs, or 1.4 percent, which includes the addition of 50 jobs when The Turkey Hill Experience in Columbia opened in June 2011. The education and health services sector increased by 150 jobs, or 0.3 percent. Lancaster General Health, with approximately 7,050 employees, is the largest employer in the HMA (see Table 3). Lancaster General Health broke ground on the \$44 million Ann B. Barshinger Cancer Center in September 2011. The center is intended to integrate existing cancer treatment services and is expected to open in late 2012 or early 2013. Despite the decline in total nonfarm payrolls in the HMA, the unemployment rate declined from an average of 7.7 percent during the 12 months ending September 2010 to an average of 6.9 percent during the 12 months ending September 2011.

The economy in the HMA is based on agriculture and tourism. Lancaster County is ranked first in Pennsylvania and 18th in the nation for total market value of agricultural products sold, with more than \$1.1 billion in annual sales. The 5,400 farms in the HMA

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Lancaster HMA, by Sector

	12 Months Ending September 2010	12 Months Ending September 2011	Percent Change
Total Nonfarm Payroll Jobs	226,700	226,600	-0.1
Goods Producing	50,500	50,100	-0.8
Mining, Logging, & Construction	14,400	14,500	0.6
Manufacturing	36,100	35,600	-1.4
Service Providing	176,200	176,500	0.2
Wholesale & Retail Trade	42,250	43,050	1.9
Transportation & Utilities	9,625	9,550	-0.8
Information	3,550	3,500	-1.4
Financial Activities	8,925	8,675	-2.8
Professional & Business Services	19,450	18,950	-2.6
Education & Health Services	39,350	39,500	0.3
Leisure & Hospitality	21,300	21,600	1.4
Other Services	10,500	10,550	0.6
Government	21,300	21,150	-0.6

Notes: Based on 12-month averages through September 2010 and September 2011. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Lancaster HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Lancaster General Health	Education & Health Services	7,050
Mutual Assistance Group	Education & Health Services	5,050
R.R. Donnelly and Sons Company	Manufacturing	3,000
Manheim, Inc.	Wholesale & Retail Trade	2,600
Lancaster County	Government	2,150
Ephrata Community Hospital	Education & Health Services	1,850
Turkey Hill Dairy	Manufacturing	1,500
Armstrong World Industries, Inc.	Manufacturing	1,400
Masonic Homes	Education & Health Services	1,375
Dart Container Corporation	Manufacturing	1,250

Notes: Excludes local school districts. Employment as of the fourth quarter of 2010.

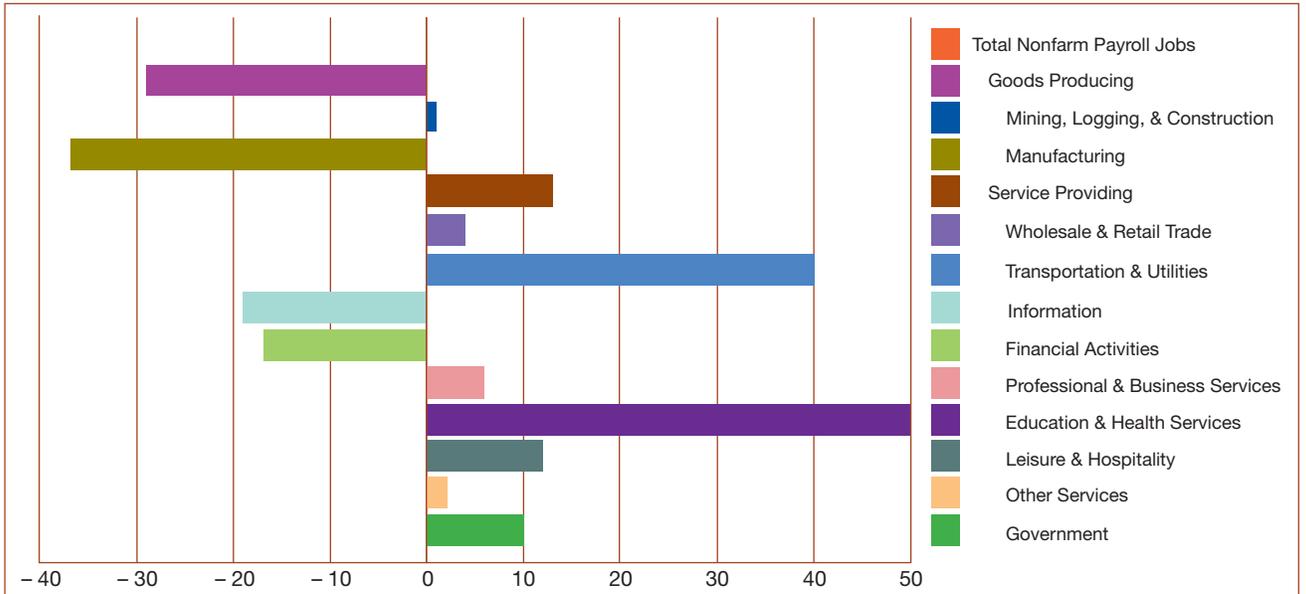
Source: Pennsylvania Department of Labor & Industry, The Center for Workforce Information and Analysis

also support small manufacturing enterprises, including the production of sheds, trailers, gazebos, and other products. With 85,500 acres of preserved farmland as of December 2010, the rural character of the HMA draws 11 million visitors each year, according to the Pennsylvania Dutch Convention & Visitors Bureau, and these visitors may stay at one of more than 150 bed and breakfast businesses in the HMA.

In 2000, the manufacturing sector was the largest sector in the HMA, with 56,300 jobs. By 2010, manufacturing employment had decreased by 20,300

jobs, or 36 percent. Job losses during the decade were widespread and included Armstrong World Industries, Inc., a producer of flooring, ceiling, and cabinet products, which closed two plants and laid off approximately 450 workers in 2005 and 2006. The manufacturing sector has declined the most of any sector since 2000 (see Figure 1) and is now the third largest sector in the HMA. The trade and the education and health services sectors are currently the largest sectors in the HMA with 43,050 and 39,500 jobs, respectively (see Figure 2).

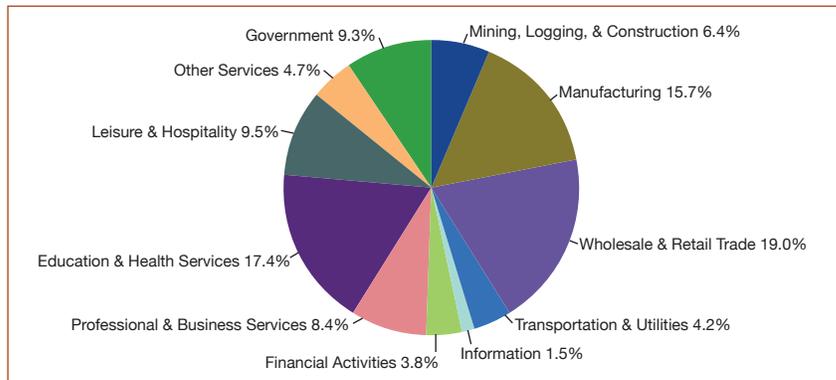
Figure 1. Sector Growth in the Lancaster HMA, Percentage Change, 2000 to Current



Notes: Current is based on 12-month averages through September 2011. During this period, total nonfarm payroll jobs showed no net change.

Source: U.S. Bureau of Labor Statistics

Figure 2. Current Nonfarm Payroll Jobs in the Lancaster HMA, by Sector



Note: Based on 12-month averages through September 2011.

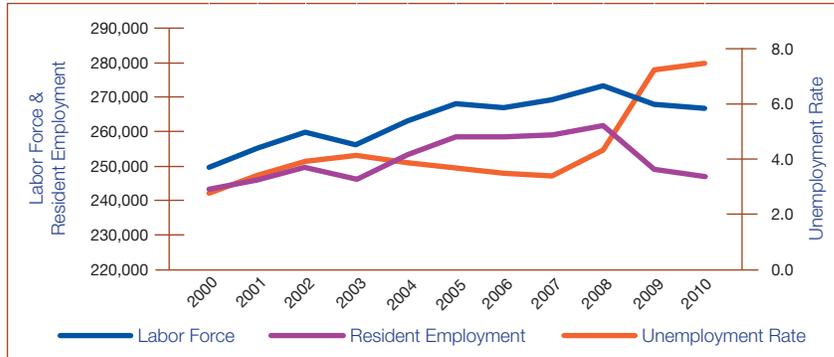
Source: U.S. Bureau of Labor Statistics

Despite significant losses in the manufacturing sector, the economy expanded steadily from mid-2004 through late 2008, adding an average of 2,050 jobs, or 1 percent, each year and maintaining a 12-month average unemployment rate below 4 percent (see Figure 3). Each year during this period the transportation and utilities sector expanded by an average of 500 jobs, or 5.9 percent, and the wholesale trade subsector expanded by an average of 440 jobs, or 3.2 percent,

as businesses took advantage of the proximity of the HMA to larger regional markets. Total nonfarm payrolls began contracting in early 2009 and declined by 10,200 jobs, or 4.3 percent, by the end of the

year. During 2010, total nonfarm payrolls declined by 1,100 jobs, albeit at a slower rate of 0.5 percent. The economy showed signs of improvement during the first quarter of 2011 as average payrolls for the 12 months ending February 2011 increased for the first time since 2008.

Figure 3. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Lancaster HMA, 2000 Through 2010



Source: U.S. Bureau of Labor Statistics

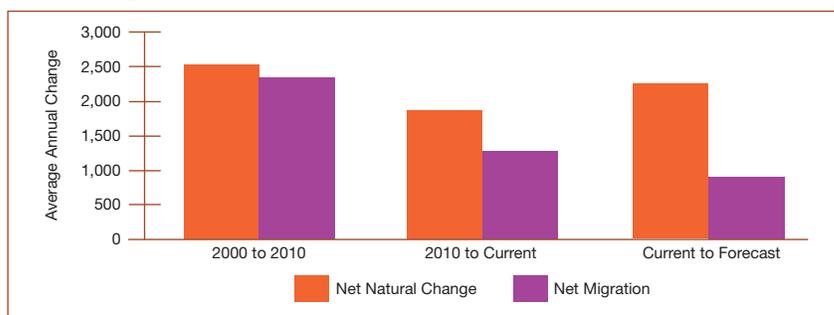
Although the economy declined by an average of 4,125 jobs each year since the peak of 239,300 jobs during the 12 months ending August 2008, total nonfarm payrolls are expected to increase by an average of 925 jobs, or 0.4 percent, annually during the 3-year forecast period. The sectors that will lead growth going forward include education and health services, trade, and leisure and hospitality.

Population and Households

As of October 1, 2011, the population of the Lancaster HMA is estimated at 524,200 (see Table DP-1 at the end of this report). From 2000 to 2003, the population increased annually by an average of 4,400, or 0.9 percent. The rate of population growth was higher from 2004 through 2008 during a period of steady

economic growth, when the population increased by an average of 5,375, or 1.1 percent, before slowing with the start of the recession to an average of 4,100, or 0.8 percent, from 2009 to 2010. With one of the highest birth rates in Pennsylvania, net natural change (resident births minus resident deaths) accounted for more than 50 percent of the population growth in the HMA from 2000 to 2010 (see Figure 4). Net in-migration resulted in an average increase of 2,350 residents each year during the past decade, partly because of the proximity of the HMA to other metropolitan areas, such as Harrisburg and Philadelphia, and partly because of the appeal the HMA has as a retirement and preretirement destination. According to the Census Bureau, the

Figure 4. Components of Population Change in the Lancaster HMA, 2000 to Forecast



Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

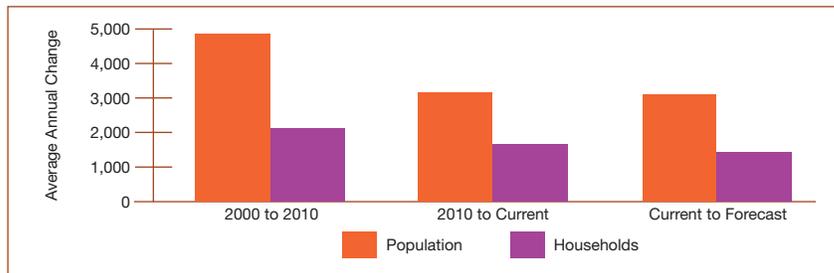
HMA added 48,622 residents between 2000 and 2010, and the population of residents between the ages of 55 and 64 increased the most among all age groups.

Population growth has slowed to an average annual rate of 3,175 people, or 0.6 percent, since 2010, and it is estimated that growth will continue at this same rate during the forecast period (see Figure 5). Although net

natural change is expected to average 2,250 people a year, net in-migration is expected to decline to 925 people a year because of slower job growth.

An estimated 196,100 households are currently in the HMA. The number of households increased by an average of 2,100, or 1.2 percent, from 2000 to 2010. Despite a homeownership rate of 70.8 percent in 2000, household growth during the past decade was equally divided between renter and owner households as each increased by an average of 1,050 annually. Household growth has declined to an average of 1,675, or 0.9 percent, annually since 2010. During the next 3 years, an estimated average of 1,425 households, or 0.7 percent, will be added to the HMA each year. Growth is expected to be concentrated in the northern and northwestern regions of the HMA.

Figure 5. Population and Household Growth in the Lancaster HMA, 2000 to Forecast



Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

Housing Market Trends

Sales Market

Sales market conditions in the Lancaster HMA are slightly soft. The vacancy rate increased slightly from 1.5 percent in April 2010 to an estimated 1.6 percent

currently. Tighter lending criteria for new mortgages and weaker economic conditions in recent years forced the homeownership rate down to 67.6 percent currently. Figure 6 illustrates households by tenure for 2000, 2010, and the current date.

Figure 6. Number of Households by Tenure in the Lancaster HMA, 2000 to Current



Sources: 2000 and 2010–2000 Census and 2010 Census; current—estimates by analyst

According to the Lancaster County Association of REALTORS®, 3,900 new and existing homes sold during the 12 months ending September 2011, down 11 percent compared with the number sold during the previous 12-month period. The slowdown in sales coincided with a decrease in sales prices. During the third quarter

of 2011, the median sales price for new and existing homes sold was \$165,000, a 9-percent decline from the median sales price of \$181,000 during the third quarter of 2010. Sales of foreclosed and bank-owned homes continue to affect home sales prices. According to Hanley Wood, LLC, approximately 16 percent of existing homes sold during the 12 months ending September 2011 were foreclosed or bank-owned properties, an increase compared with the previous 3-year period when the proportion of distressed sales to all resales averaged 12 percent. According to LPS Applied Analytics, 4 percent of mortgage loans in the HMA were in foreclosure, 90 or more days delinquent, or in REO (Real Estate Owned) in September 2011, unchanged from the rate recorded in September 2010 but lower than the statewide rate of 6 percent.

In response to soft sales market conditions, single-family home construction, as measured by the number of single-family building permits issued, has declined (see Figure 7). Based on preliminary data that accounts for roughly 60 percent of all permits issued, 630 single-family permits were issued during the 12 months ending September 2011, down 17 percent compared with the number permitted during the previous 12-month period. On average, from 2000 to 2006, 1,900 single-family homes were permitted

each year, while 1,150 homes were permitted each year from 2007 to 2010. Since 2006, in Cheltenham, a subdivision under construction in East Earl Township, 73 single-family detached homes have been completed, with an average sales price of \$307,200.

The number of residents between the ages of 55 and 64 increased significantly from 2000 to 2010, and growth in this age group resulted in new home construction marketed to active adults. According to data from Hanley Wood, LLC, new homes built in age-restricted subdivisions accounted for 13 percent of all new homes built in the HMA from 2005 to 2010. Since 2010, at Traditions of America at Mount Joy, 22 homes have been completed for an average price of \$292,700, and 21 homes have been completed at Home Towne Square for an average price of \$363,700. At least eight continuing care retirement communities are expanding by adding units for active seniors. At Landis Homes in Lititz, 95 cottage and duplex units are under construction, with completion expected in late 2012.

During the forecast period, demand is expected for 3,275 new homes. The 660 homes currently under construction will partially meet that demand (see Table 1). It is estimated that demand will be strongest for homes priced between \$200,000 and \$250,000 (see Table 4). Demand for homes priced above \$300,000 will be hampered by a more than 2-year supply of active listings above this price point. A portion of the 4,000 other vacant units may reenter the market and satisfy some of the forecast demand.

Figure 7. Single-Family Building Permits Issued in the Lancaster HMA, 2000 to 2011



Notes: Includes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Lancaster HMA, October 1, 2011 to October 1, 2014

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	149,999	300	9.2
150,000	199,999	750	22.9
200,000	249,999	820	25.1
250,000	299,999	660	20.0
300,000	399,999	520	15.8
400,000	499,999	160	5.0
500,000	and higher	65	2.0

Note: The 660 homes currently under construction and a portion of the estimated 4,000 other vacant units in the submarket will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Rental Market

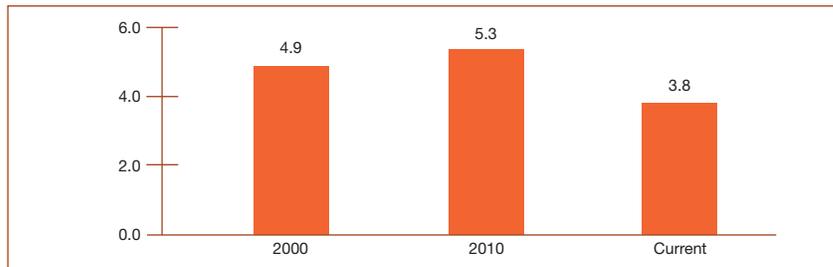
The rental housing market in the HMA is currently tight. The overall vacancy rate has declined from 5.3 percent in 2010 to 3.8 percent currently (see Figure 8). Apart from traditional renter groups, homeowners downsizing in either preretirement or retirement are increasing the demand for rental units.

According to The Apartment Association of Central Pennsylvania, during the third quarter of 2011, average market rents for apartments were \$770, \$880, and \$1,025 for one-, two-, and three-bedroom units, respectively. Concessions have become less prevalent in recent years because of the relatively low supply of new rental units coming on the market in the past few years. According to Reis, Inc., during the third quarter of 2011, the average asking rent for apartments was \$870, a 1.4-percent increase compared with the asking rent during the third quarter of 2010, and the vacancy rate for apartments was 1.7 percent, down from the 2.5-percent recorded during the third quarter of 2010.

According to the 2008-2010 American Community Survey 3-Year Estimates, single-family homes and townhomes accounted for approximately 40 percent of the rental market. Typical rents range from \$700 to \$1,400 for townhomes and from \$700 to \$2,000 for single-family detached homes.

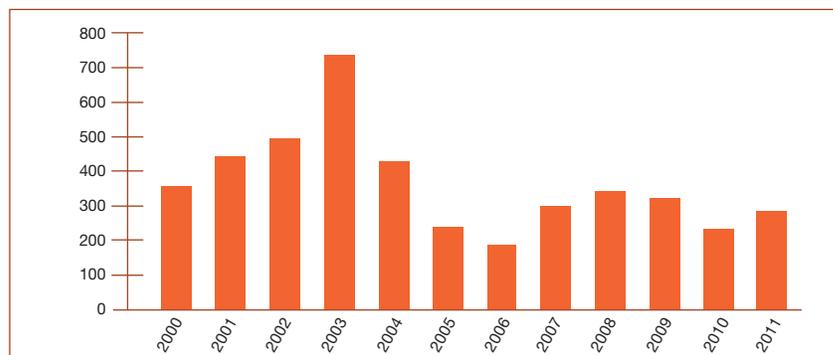
Multifamily construction activity, as measured by the number of units permitted, has increased in response to higher rental demand (see Figure 9).

Figure 8. Rental Vacancy Rates in the Lancaster HMA, 2000 to Current



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 9. Multifamily Building Permits Issued in the Lancaster HMA, 2000 to 2011



Notes: Excludes townhomes. Includes data through September 2011.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Rental Market *Continued*

Based on preliminary data, during the 12 months ending September 2011, 280 multifamily units were permitted compared with 170 units permitted during the previous 12-month period. On average, 370 multifamily units were permitted each year from 2000 to 2010; 50 percent of the units permitted during the decade were permitted from 2000 through 2003. Significant redevelopment has occurred in recent years in the city of Lancaster. Through private partnerships, Franklin & Marshall College, with an enrollment of approximately 2,200 students, developed the 400-bed Campus Crossings at College Row in 2007 and rehabilitated 35 campus-adjacent homes into college-controlled rental units for 240 students in 2009. Historic East Side Suites, a tax-credit-enhanced rehabilitation of five multistory buildings into commercial and retail space and 17 upscale apartments recently opened. Rents for the two- and three-bedroom apartments range from \$880 to \$2,150, and more than one-half of the apartments were preleased before opening in September. The largest proposal for additional rental units in the HMA is

the Cheswicke Towne Centre in East Hempfield Township, which includes 210 age-restricted apartments within a mixed-use development. Construction at the 56-acre site is expected to start in 2012. As of October 1, 2011, 370 multifamily units were under construction in the HMA, including 85 apartments at Shady Oaks in Mount Joy Township and 50 market-rate and 60 affordable apartments for seniors at The Long Community at Highland in Manheim Township.

During the forecast period, demand is estimated for 1,275 new rental units. The 370 units currently under construction will meet approximately 30 percent of the forecast demand (see Table 1). In addition, Featherton Crossing in Mount Joy Township is in the final planning stages and is expected to break ground soon. Upon completion, the new development will include 120 one- and two-bedroom apartments and will account for an additional 10 percent of the forecast demand. Table 5 shows estimated forecast rental demand by rent level and number of bedrooms.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Lancaster HMA, October 1, 2011 to October 1, 2014

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
600 or more	25	700 to 899	320	800 to 999	420	1,050 to 1,249	75
		900 or more	110	1,000 or more	280	1,250 to 1,449	40
						1,450 or more	15
Total	25	Total	420	Total	700	Total	130

Notes: Numbers may not add to totals because of rounding. The 370 units currently under construction will satisfy some of the estimated demand.

Source: Estimates by analyst

Data Profile

Table DP-1. Lancaster HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	243,458	247,065	247,500	0.1	0.2
Unemployment Rate	2.8%	7.5%	6.9%		
Nonfarm Payroll Jobs	226,700	227,000	226,600	0.0	- 0.2
Total Population	470,783	519,445	524,200	1.0	0.6
Total Households	172,560	193,602	196,100	1.2	0.9
Owner Households	122,208	132,703	132,600	0.8	- 0.1
Percent Owner	70.8%	68.5%	67.6%		
Renter Households	50,352	60,899	63,500	1.9	2.8
Percent Renter	29.2%	31.5%	32.4%		
Total Housing Units	179,990	202,952	204,800	1.2	0.6
Owner Vacancy Rate	1.4%	1.5%	1.6%		
Rental Vacancy Rate	4.9%	5.3%	3.8%		
Median Family Income	\$48,000	\$67,400	\$66,700	3.5	- 0.4

Notes: Employment data represent annual averages for 2000, 2010, and the 12 months through September 2011. Median family incomes are for 1999, 2009, and 2010.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 10/1/2011—Analyst's estimates

Forecast period: 10/1/2011–10/1/2014—
Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In HUD's analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_LancasterPA_12.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to
www.huduser.org/publications/econdev/mkt_analysis.html.