

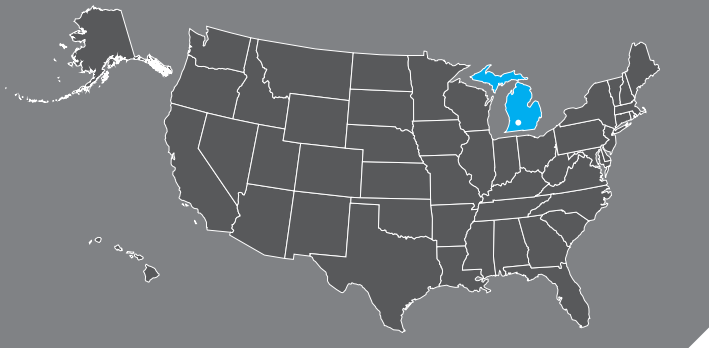
HUD PD&R Housing Market Profiles

Kalamazoo-Portage, Michigan



Quick Facts About Kalamazoo-Portage

- **Current sales market conditions: soft.**
- **Current apartment market conditions: tight.**
- **The city of Kalamazoo is home to the Kalamazoo Promise, the first program in the nation to provide up to 100 percent funding for college tuition, which has received \$67 million in scholarships from private donors since its inception in 2005. The scholarship program has become a blueprint for cities across the United States. Of the top 50 best beers in the United States in 2015 (American Homebrewers Association), 2 are made by Bell's Brewery, Inc., headquartered in the city of Kalamazoo. The brewery is the eighth largest craft brewing company in the nation by sales.**



By Diana Villavicencio | As of October 1, 2015

Overview

The Kalamazoo-Portage (hereafter, Kalamazoo) metropolitan area, in southwest Michigan, includes Kalamazoo and Van Buren Counties. The westernmost county, Van Buren, includes 13 miles of Lake Michigan shoreline. The metropolitan area was once a center for paper and automotive-part manufacturing because of its proximity to Chicago and Detroit, but plant closures in the early 2000s to mid-2000s reduced the manufacturing presence. The manufacturing sector currently accounts for 15 percent of total nonfarm payrolls compared with 20 percent in 2000. The sector has recently re-emerged because of plant expansions in various manufacturing industries. Since 2011, economic growth has been led by the education and health services sector, which accounts for 16 percent of total nonfarm payrolls, partly because of expansions in the medical research industry.

- As of October 1, 2015, the estimated population of the metropolitan area is 336,200.
- Since 2012, the population has increased by an average of 1,825, or 0.6 percent, annually compared with an average annual increase of 1,700, or 0.5 percent, from 2008 to 2011. Population growth was the slowest from 2000 to 2007, averaging 970 people, or 0.3 percent, each year.
- Improving economic conditions since 2012 have nearly doubled net in-migration to an average of 480 people annually compared with an average of 250 people annually from 2008 to 2011. From 2000 to 2007, the metropolitan area had net out-migration averaging 630 people annually.



Despite payroll losses in three sectors, overall nonfarm employment increased in the Kalamazoo area during the third quarter of 2015.

	3 Months Ending		Year-Over-Year Change	
	September 2014 (thousands)	September 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	139.1	142.1	3.0	2.2
Goods-producing sectors	25.6	26.9	1.3	5.1
Mining, logging, and construction	5.2	5.7	0.5	9.6
Manufacturing	20.4	21.1	0.7	3.4
Service-providing sectors	113.5	115.2	1.7	1.5
Wholesale and retail trade	21.8	21.3	-0.5	-2.3
Transportation and utilities	3.4	3.3	-0.1	-2.9
Information	1.0	0.9	-0.1	-10.0
Financial activities	8.0	8.2	0.2	2.5
Professional and business services	16.2	16.6	0.4	2.5
Education and health services	22.1	22.7	0.6	2.7
Leisure and hospitality	15.8	16.7	0.9	5.7
Other services	5.7	5.7	0.0	0.0
Government	19.7	19.8	0.1	0.5
	(percent)	(percent)		
Unemployment rate	6.1	4.4		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

Economic Conditions

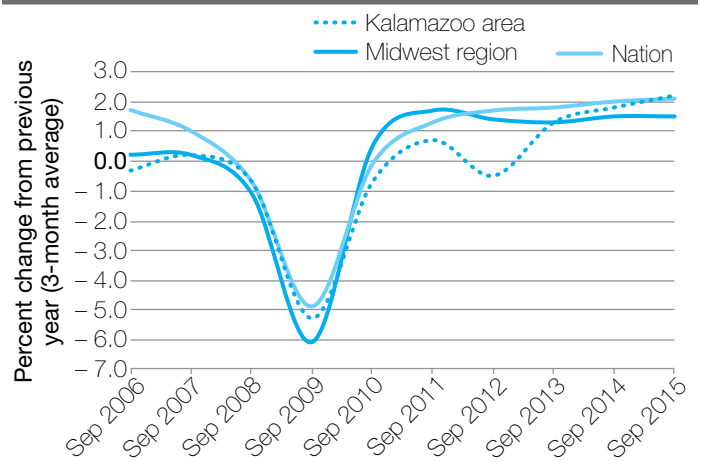
Economic conditions in the Kalamazoo metropolitan area have strengthened since 2012, after the number of nonfarm payrolls declined by 2,500 jobs, or 1.8 percent, annually from 2008 through 2011. From 2012 through 2014, nonfarm payrolls expanded at an average annual rate of 1,400 jobs, or 1.0 percent, partly because of job growth in the manufacturing sector. Previously, in the 2000s, the manufacturing sector was a drag on the local economy and caused economic trends to differ in the metropolitan area from the nation as a whole. The previous peak in nonfarm payrolls for the metropolitan area was in 2000, whereas payrolls for the nation generally continued to grow to a peak in 2007 before the Great Recession.

During the third quarter of 2015—

- Nonfarm payrolls increased by 3,000 jobs, or 2.2 percent, compared with nonfarm payrolls during the third quarter of 2014, to 142,100; however, payrolls remained below the 2000 peak of 150,200.
- The most significant job gains were in the leisure and hospitality sector, which increased by 900 jobs, or 5.7 percent. Employment growth in the sector was supported by the completion of the 50-room Affordable Suites of America hotel in the city of Portage and the 97-room Homewood Suites by Hilton Kalamazoo/Portage. Both properties opened in November.

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Nonfarm payrolls in the Kalamazoo area have increased at a higher rate than in the Midwest region since September 2014.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Largest employers in the Kalamazoo area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Bronson Healthcare Group	Education and health services	8,975
Pfizer Inc.	Manufacturing	6,000
Western Michigan University	Government	4,050

Note: Excludes local school districts.
Sources: Southwest Michigan First; City of Portage



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- The manufacturing sector added 700 jobs, an increase of 3.4 percent, less than the 800 jobs added during the third quarter of 2014 but in sharp contrast with the third quarters from 2008 through 2011, when the manufacturing sector lost an average 1,000 jobs, or 1.8 percent, annually. In 2015, a \$40 million expansion at a Bell's Brewery production facility increased production capacity to 1 million barrels annually.
- The education and health services sector increased by 600 jobs, or 2.7 percent, to 22,700. Gilden Woods, a childcare center, added 30 teacher positions when it opened in 2015, contributing to job growth in the sector.
- The unemployment rate averaged 4.4 percent, down from 6.1 percent during the third quarter of 2014. The current unemployment rate is significantly lower than the average annual rate of 10.8 percent recorded from 2009 through 2010.

Within the government sector, Western Michigan University (WMU), the largest university in the metropolitan area, is the third largest employer in the area, with 4,050 employees. The university had an annual economic impact of \$819 million on the local economy in 2010 (the most recent data available from WMU). Since then, WMU opened the private nonprofit Homer Stryker M.D. School of Medicine in 2014, completed a new dormitory in the fall of 2015, and is constructing a \$36 million dining hall. In addition, WMU Business Technology and Research Park is currently at full capacity and therefore plans to develop 44 acres of WMU land to house additional research and development companies. Kalamazoo Valley Community College (KVCC), which is in the local government subsector and enrolls approximately 10,000 students, teamed up with WMU to offer the nation's first higher education program in sustainable brewing at a new \$45 million campus. The KVCC Bronson Healthy Living Campus will open in 2016.

Sales Market Conditions

The sales housing market in the Kalamazoo metropolitan area is soft, with an estimated vacancy rate of 2.5 percent, a slight decrease from 2.6 percent in 2010. Stronger economic conditions and increased population growth since 2012 have supported the improvement in existing home sales, including the absorption of distressed properties. The percentage of home loans that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status declined from 3.7 percent in September 2014 to 3.3 percent in September 2015 (Black Knight Financial Services, Inc.). The current rate is lower than the 3.5-percent rate for Michigan and the 4.2-percent rate for the nation. The number of seriously delinquent loans and

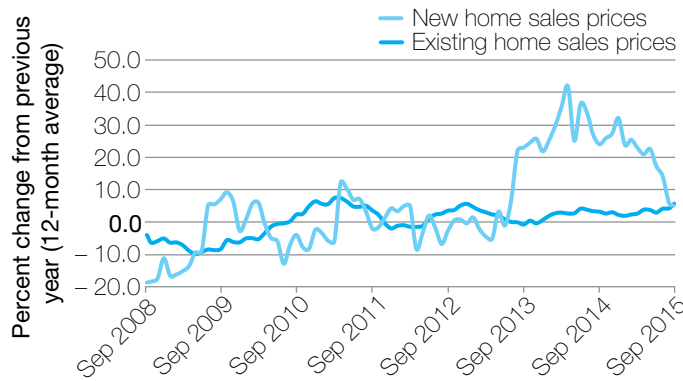
REO properties was 930 in September 2015, a decrease of 170, or 15 percent, compared with the number in September 2014. New home sales remained steady from a year ago, and new home prices increased partly because of increased in-migration.

During the 12 months ending September 2015—

- Existing home sales (including single-family homes, townhomes, and condominiums) totaled nearly 4,800, an increase of 300 homes sold, or 6 percent, from the 4,500 sold during the 12-month period ending September 2014 and up 38 percent from the average of 3,475 homes sold annually from 2008 through 2011 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst).

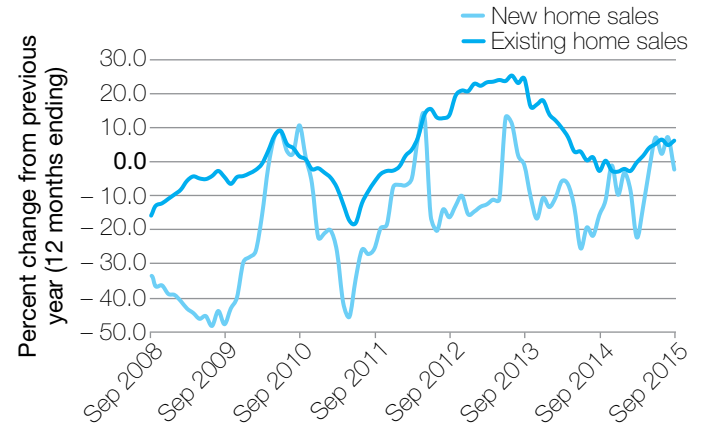
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Average new home sales prices in the Kalamazoo area increased faster than existing prices beginning in 2013 but have slowed recently.



Note: Includes single-family homes, townhomes, and condominiums. Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

New home sales have fluctuated more than existing home sales since the end of 2009 in the Kalamazoo area.



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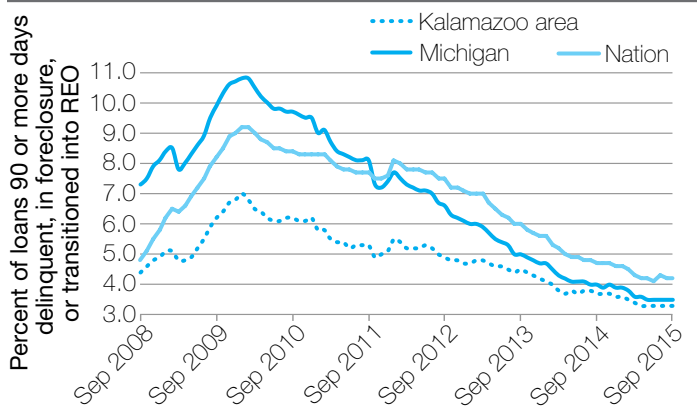


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- The average sales price of an existing home increased 6 percent, to \$151,100, from a year earlier. The increase in existing home sales prices partly resulted from a decline in REO sales, which have lower average prices.
- New home sales were relatively unchanged, down 2 percent from 85 units sold during the 12 months ending September 2014. The average annual number of new home sales is down from 140 homes from 2009 through 2013 and 340 homes from 2007 through 2008.
- The average new home sales price was \$222,300, an increase of 5 percent compared with the average price during the previous 12 months but well below the 24-percent increase from the 12 months ending September 2013 to the 12 months ending September 2014.

Although single-family homebuilding activity, as measured by the number of single-family homes permitted, has increased since 2011, it remains below prerecessionary levels.

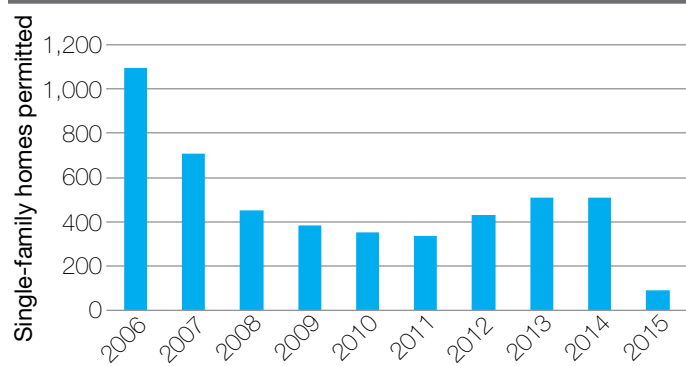
The percentage of seriously delinquent loans and REO properties in the Kalamazoo area has been below the Michigan and national rates since 2008.



REO = real estate owned.
Source: Black Knight Financial Services, Inc.

- During the 12 months ending September 2015, single-family home construction activity slowed to 150 homes compared with 310 homes permitted a year earlier (preliminary data).
- From 2006 through 2007, permitting averaged 900 units annually. Permitting decreased to an average of 370 units annually from 2008 through 2011, during the housing crisis, but increased slightly to 490 units a year from 2012 through 2014, when the metropolitan area began gaining jobs.
- New single-family home construction is predominantly occurring near the border of Kalamazoo and Van Buren Counties. Barrington Shores, an upscale custom-home community in Texas Township, opened Phase 6 in June 2015. Prices range from \$85,000 to \$200,000 per lot. In Oshtemo Township, Walden Woods, a 138-duplex condominium subdivision with prices starting at \$219,000, has 30 units under construction and 38 units already complete. Other single-family home construction is occurring at the Homestead, Hidden Lake, Tammarron, Grand Colony, and Cranes Pond subdivisions.

After a steady decline from 2006 through 2011, single-family home construction in the Kalamazoo area trended upward from 2012 through 2014.



Note: Includes preliminary data from January 2015 through September 2015.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

The apartment market in the Kalamazoo metropolitan area is currently tight. An increase in net in-migration and lower levels of multifamily construction activity since 2009 have contributed to the tightening of the apartment market.

During the third quarter of 2015—

- The apartment vacancy rate was 3.8 percent, down from 5.5 percent in the third quarter of 2014 (Reis, Inc.).

- The average apartment rent was \$700 a month, up 2.1 percent from a year ago.
- Asking rents in the metropolitan area averaged \$600, \$750, and \$930 for one-, two-, and three-bedroom units, respectively.
- The apartment market in downtown Kalamazoo had a 2.0-percent vacancy rate and rents that ranged from \$490 for a studio unit to \$3,500 for a three-bedroom unit (Zimmerman/Volk Associates, Inc.).

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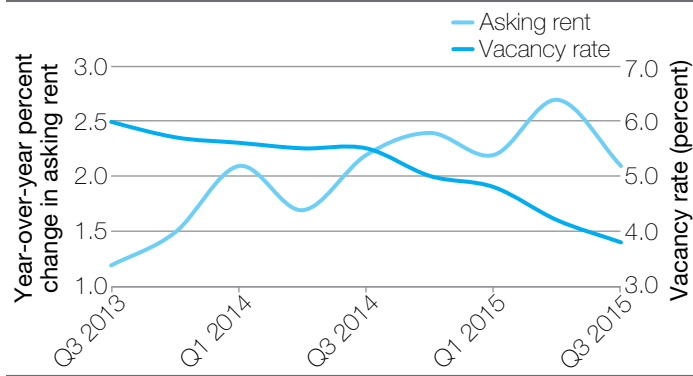


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Despite tight apartment market conditions, multifamily construction activity, as measured by the number of units permitted, continued to be significantly lower than the levels seen before the Great Recession.

- During the 12 months ending September 2015, 5 multifamily units were permitted, down from 90 units during the same period a year earlier (preliminary data).
- The number of multifamily units permitted averaged 270 units each year from 2006 through 2008 before declining to an average of 15 units annually from 2009 through 2011. Multifamily construction activity increased to an average of 50 units a year from 2012 through 2014.

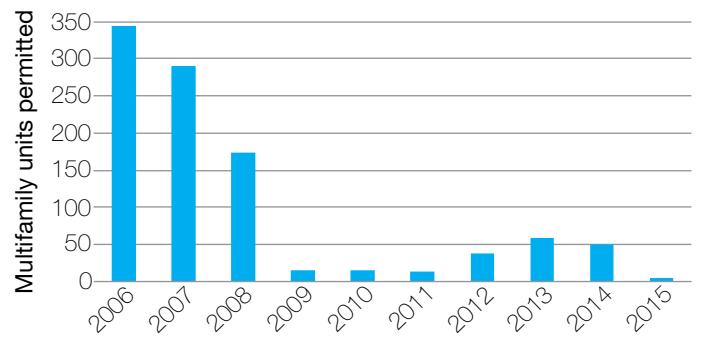
Apartment market conditions have tightened since late 2014 in the Kalamazoo area, as indicated by a decline in the vacancy rate and an increase in rents.



Source: Reis, Inc.

- Multifamily construction is concentrated in downtown Kalamazoo. The developments since 2005 have mostly been conversions of warehouse buildings to mixed-use structures with apartments and retail.
- Walbridge Common is currently in planning and is expected to start construction at the end of 2015 on the northeast side of downtown Kalamazoo. When the project is complete in the spring of 2016, it will include 48 apartments with rents ranging from \$500 to \$1,600.

Despite tightening rental market conditions in the Kalamazoo area, multifamily construction activity remained significantly below peak levels during the mid-2000s.



Note: Includes preliminary data from January 2015 through September 2015. Source: U.S. Census Bureau, Building Permits Survey