

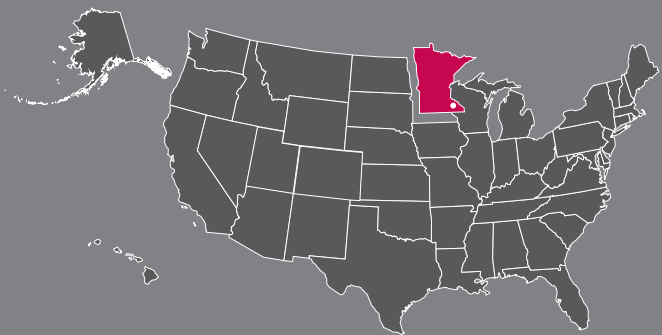
# HUD PD&R Housing Market Profiles

## Rochester, Minnesota



### Quick Facts About Rochester

- Current sales market conditions: slightly tight.
- Current rental market conditions: soft.
- The Mayo Clinic, the top-ranked healthcare provider in the country by *U.S. News and World Report* in 2017, is the largest employer in the metropolitan area, with nearly 35,000 employees. Systemwide, including satellite facilities in Arizona and Florida, the Mayo Clinic served more than 1.3 million patients during 2015 and had an annual economic impact of \$28 billion nationwide (Mayo Clinic).



By Marissa Dolin | As of October 1, 2017

### Overview

The Rochester, MN Metropolitan Statistical Area (hereafter, Rochester metropolitan area) comprises Dodge, Fillmore, Olmsted, and Wabasha Counties in southeastern Minnesota. The economy in the Rochester metropolitan area is dominated by the education and health services sector. The sector comprises more than 40 percent of total nonfarm payrolls in the metropolitan area, the second largest share of education and health services jobs of all metropolitan areas in the nation behind only the Ithaca, NY metropolitan area. The Rochester metropolitan area was previously also a center for manufacturing, led by IBM, but declines since the early 2000s have reduced the significance of the manufacturing sector in the local economy.

- As of October 1, 2017, the estimated population of the Rochester metropolitan area is 218,400. Population has risen by an average of 1,500, or 0.7 percent, a year since 2009, slower than the average of 2,300, or 1.2 percent, a year from 2000 to 2009. Lower net in-migration since 2009 contributed to slower overall population growth.

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- The recent slowdown in population growth is partially because of a shift from domestic net in-migration during the early-to-mid 2000s to domestic net out-migration since 2009. From 2000 to 2009, domestic net in-migration averaged 200 people a year, but since 2009 domestic net out-migration has averaged approximately 500 people a year because of a wider variety of job opportunities elsewhere. International net in-migration has remained relatively steady since 2000, averaging approximately 500 people a year.
- Approximately 5 percent of the population turns over (moves in or out of the metropolitan area) each year, higher than the 3-percent turnover rate for the nearby Minneapolis-St. Paul-Bloomington, MN metropolitan area and the 4-percent turnover rate for metropolitan areas in the Midwest region. The healthcare training programs at the Mayo Clinic contribute to the higher population turnover rate because of the temporary nature of these programs.

## Economic Conditions

The effects of the Great Recession were less severe in the Rochester metropolitan area than in the rest of the country, and recovery was faster. Nonfarm payrolls in the metropolitan area exceeded prerecessionary levels during 2013, 1 year earlier than the nation. Year-over-year payroll growth in the Rochester metropolitan area averaged 1.5 percent annually from 2011 through 2016, faster than the previous period of job growth, when payrolls rose an average of 1.2 percent a year from 2000 through 2007.

During the 3 months ending September 2017—

- Nonfarm payrolls averaged 121,700, up 1.2 percent, or 1,500 jobs, from a year earlier, similar to the increase of 1.3 percent, or 1,500 jobs, during the same period the previous year and continuing 7 years of year-over-year payroll gains.

- The education and health services sector, the largest sector in the Rochester metropolitan area, added the most jobs, increasing by 700 jobs, or 1.4 percent. Expansion of Saint Mary's Hospital, a Mayo Clinic facility, contributed to the gain.
- The mining, logging, and construction sector had the largest year-over-year rate of growth, up by 300 jobs, or 6.1 percent. The job growth is partially because of downtown development supported by the Destination Medical Center initiative.
- The unemployment rate declined from 3.1 percent a year ago to 2.8 percent during the 3 months ending September 2017, less than the recent high of 6.3 percent during the 3 months ending September 2009.

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**Seven sectors expanded, three remained steady, and one declined in the Rochester area during the 3 months ending September 2017.**

	3 Months Ending		Year-Over-Year Change	
	September 2016 (thousands)	September 2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	120.2	121.7	1.5	1.2
Goods-producing sectors	15.9	16.2	0.3	1.9
Mining, logging, and construction	4.9	5.2	0.3	6.1
Manufacturing	11.0	11.1	0.1	0.9
Service-providing sectors	104.3	105.5	1.2	1.2
Wholesale and retail trade	15.4	15.4	0.0	0.0
Transportation and utilities	2.8	2.7	-0.1	-3.6
Information	1.9	1.9	0.0	0.0
Financial activities	2.7	2.8	0.1	3.7
Professional and business services	5.6	5.8	0.2	3.6
Education and health services	48.5	49.2	0.7	1.4
Leisure and hospitality	11.0	11.0	0.0	0.0
Other services	4.0	4.1	0.1	2.5
Government	12.5	12.6	0.1	0.8
	(percent)	(percent)		
Unemployment rate	3.1	2.8		

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics



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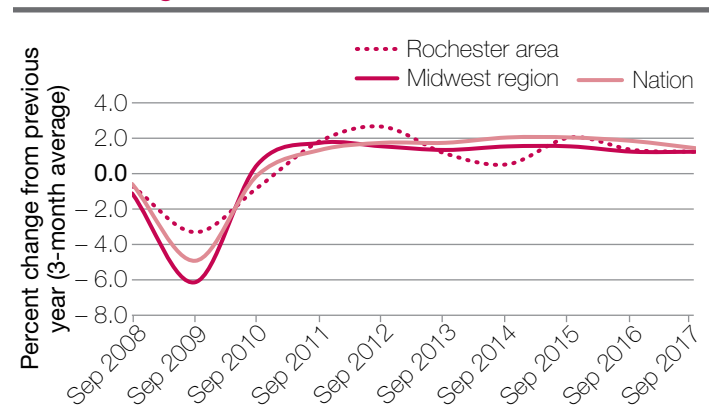
Destination Medical Center (DMC), a public-private partnership between the City of Rochester, State of Minnesota, and Mayo Clinic, began in 2015. The partnership is intended to support development in and around downtown Rochester, including expansion and upgrades to Mayo Clinic buildings, additional housing, infrastructure improvements, and expansion of hospitality services. Since 2015, more than \$200 million of private funds have been invested; more than \$5.6 billion in capital investment and more than 26,000 additional jobs are expected through 2035 (DMC).

## Largest employers in the Rochester area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Mayo Clinic	Education and health services	34,660
IBM	Manufacturing	2,500
City of Rochester	Government	1,291

Notes: Excludes local school districts. Employee count at IBM is estimated.  
Source: Rochester Area Economic Development, Inc., 2017

Nonfarm payroll growth in the Rochester area during the 3 months ending September 2017 remained relatively steady from a year ago, a similar trend as in the Midwest region.



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

## Sales Market Conditions

The sales housing market in the Rochester metropolitan area currently is slightly tight, with an estimated sales vacancy rate of 1.3 percent, down from 2.0 percent in 2010, when conditions were soft. A declining inventory of homes for sale and insufficient additional sewer capacity in portions of the city of Rochester, which limits the amount of developable land, contributed to a tightening of the home sales market. The inventory of homes for sale was 2.9 months during August 2017, down from 3.4 months a year earlier (Southeast Minnesota Realtors®). The decline in inventory contributed to rising sales prices and fewer home sales.

A relatively large share of jobs in the healthcare industry, one that was less negatively impacted by the Great Recession, is one of the reasons the local home sales market fared better than the national market during the housing crisis. The percentage of home loans in the Rochester metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status peaked in early 2010 at 3.9 percent, well below the 5.8-percent peak for Minnesota and the 8.6-percent peak for the nation (CoreLogic, Inc.). The rate of seriously delinquent mortgages and REO properties in the Rochester metropolitan area was 0.8 percent during August 2017 compared with a 2.2-percent rate for the nation.

During the 12 months ending August 2017—

- Total home sales, including new and existing homes, fell to 3,325 homes sold, down 3 percent from the 12 months ending August 2016. Current home sales are above the average of

3,275 homes sold from 2002 through 2007 but below the recent peak of 3,600 homes sold during 2015. (Southeast Minnesota Realtors®, with adjustments by the analyst).

- Distressed sales (REO and short sales) comprised 3 percent of total home sales, down from 6 percent during the previous 12 months and well below the peak of 25 percent during 2011.
- The average new home sales price was \$238,300, an increase of \$22,650, or 11 percent, compared with the average price during the previous year, exceeding the 2006 prerecessionary peak price of \$187,200 by 27 percent.

Despite rising homes sales prices and a low inventory of homes for sale, single-family home construction, as measured by the number of single-family homes permitted, declined during the 12 months ending September 2017 from the previous 12 months. Limited availability of developable land and strong demand for construction labor from multifamily and nonresidential projects resulted in labor shortages and contributed to lower levels of single-family home permitting.

- The number of single-family homes permitted during the 12 months ending September 2017 fell to 740 homes, down from 800 homes during the previous 12 months (preliminary data, with adjustments by the analyst).
- Single-family home construction activity increased by an average of 80 homes a year from 2012 through 2016 to 740 homes permitted during 2016, up from a low of 350 homes permitted during 2011.

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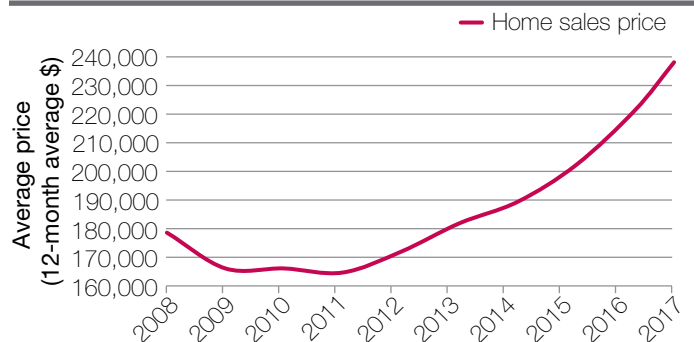


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- New home construction is concentrated on the northwestern and southern edges of the city of Rochester and in the smaller towns of Byron, Kasson, Oronoco, and Stewartville. Construction is under way at the Foxfield Luxury Townhomes in northwest Rochester and, when fully built out, the development is expected to have approximately 110 homes. As of the end of the third

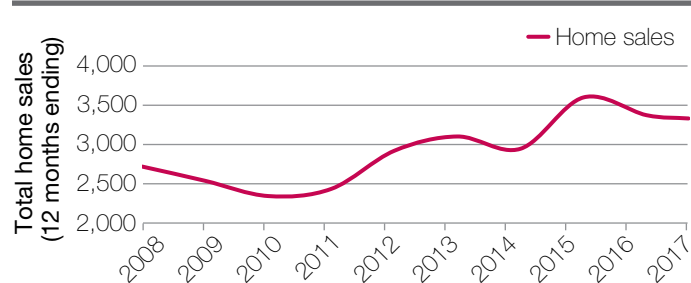
quarter of 2017, approximately 50 homes have been built and lots for an additional 60 homes are available. Prices for townhomes in the development range from \$180,000 to \$220,000 for two- and three-bedroom homes. Prices for detached single-family homes in the Rochester metropolitan area begin at \$240,000.

The average home sales price, including new and existing homes, in the Rochester area has been increasing since 2012.



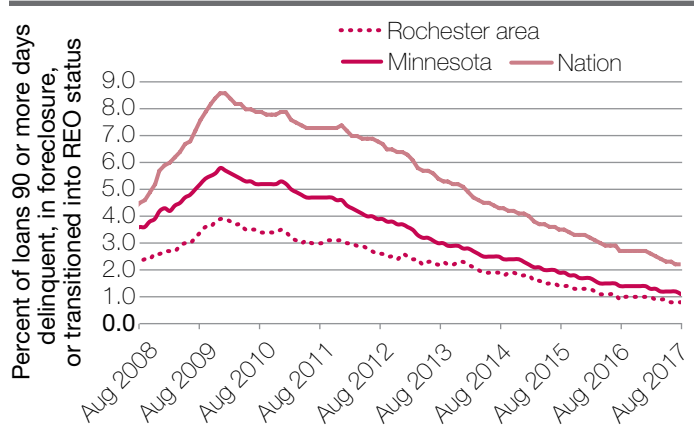
Notes: Includes single-family homes, townhomes, and condominiums. 2008-2016 annual data; 2017 data for 12 months ending August 2017.  
Source: Southeast Minnesota Realtors®

Home sales in the Rochester area have declined since peaking in 2015 because of lower inventory of homes for sale.



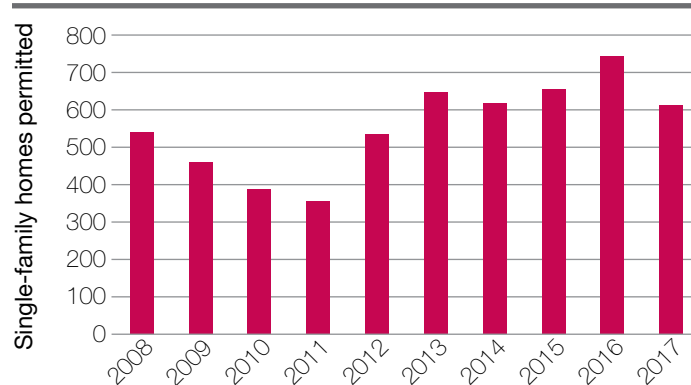
Notes: Includes single-family homes, townhomes, and condominiums. 2008-2016 annual data; 2017 data for 12 months ending August 2017.  
Source: Southeast Minnesota Realtors®

The rate of seriously delinquent mortgages and REO properties in the Rochester area has been below 1 percent since mid-2017 and has remained below both the state and the national rates.



REO = real estate owned.  
Source: CoreLogic, Inc.

Single-family home permitting in the Rochester area has increased or remained steady each year since a recent low of 350 homes in 2011.



Note: Includes preliminary data with adjustments by the analyst from January 2017 through September 2017.  
Source: U.S. Census Bureau, Building Permits Survey

## Rental Market Conditions

Rental housing market conditions in the metropolitan area are currently soft. An increase in apartment construction since 2015 has returned the rental housing market in the Rochester metropolitan area to soft conditions, approaching conditions during 2010.

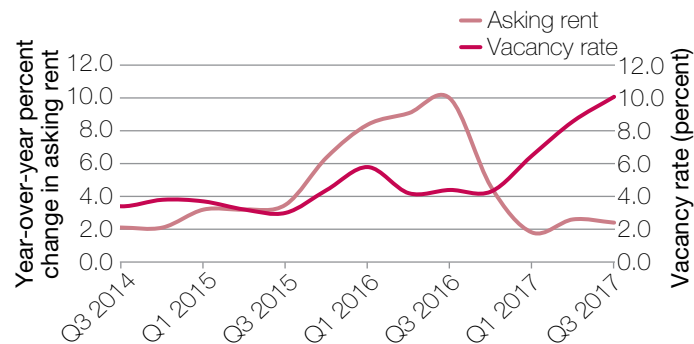
Approximately one-half of all rental housing consists of apartments and renter-occupied condominiums in buildings with five or more units, and the other one-half are in buildings with four or fewer units.

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- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and multifamily rentals) in the Rochester metropolitan area is 7.0 percent as of October 1, 2017, a decrease from 7.8 percent in April 2010.
- The apartment market is soft, with a vacancy rate of 10.1 percent during the third quarter of 2017, up from 4.4 percent a year earlier (Reis, Inc.). More than 950 units have entered the market since 2015, more than nine times the average number of units completed from 2012 through 2014, contributing to the rise in vacancy. The apartment market was relatively balanced from 2012 through 2016.
- The average monthly apartment asking rent was \$1,075 during the third quarter of 2017, an increase of \$25, or 2 percent, from the third quarter of 2016, slowing from a 10-percent gain a year earlier.

Builders responded to the DMC initiative and financial incentives announced during 2015 to encourage development in downtown Rochester City with increased multifamily construction. Construction has slowed during the past 12 months to allow for absorption of recently completed multifamily projects but remains well above levels from the early 2010s.

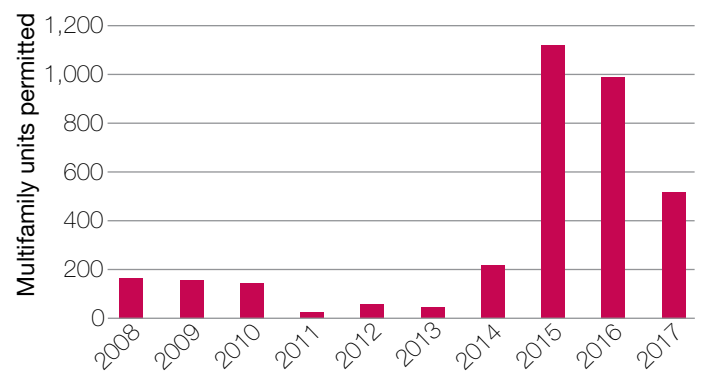
### Vacancy rates rose and rent growth slowed in the Rochester area during 2017, following elevated apartment construction during 2015 and 2016.



Q1 = first quarter. Q3 = third quarter.  
Source: Reis, Inc.

- During the 12 months ending September 2017, multifamily construction, as measured by the number of units permitted, totaled 690 units, down from the 1,175 units permitted during the previous 12-month period (preliminary data).
- Multifamily construction averaged 1,055 units a year during 2015 and 2016, more than 10 times the average of 110 units permitted from 2012 through 2014, when apartment market conditions were balanced.
- During 2000 and 2001, multifamily construction averaged 630 units permitted annually, the previous high for a 2-year period.
- Although the DMC incentivizes investment in downtown Rochester, new apartments have been built throughout the metropolitan area. Recently completed apartments include the 205-unit Preserve on Maine on the southern edge of the city of Rochester and the Nicholas Apartments, an 83-unit building in downtown Rochester. The average rent at market-rate new construction apartments tends to exceed \$1,000 for one-bedroom units and \$1,100 for two-bedroom units.

### Multifamily permitting in the Rochester area was significantly elevated during 2015 and 2016.



Note: Includes preliminary data with adjustments by the analyst from January 2017 through September 2017.

Source: U.S. Census Bureau, Building Permits Survey