

COMPREHENSIVE MARKET ANALYSIS REPORTS



Policy Development & Research

Analysis of the Champaign-Urbana Housing Market

As of January 1, 2003



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

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 be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations with respect to the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis was developed by HUD's Economic and Market Analysis Division as thoroughly as possible on the basis of information available on the "as-of" date from both local and national sources. As such, they may be modified by subsequent developments. We wish to express our appreciation to those industry sources and government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: 1990 to 2000, 2000 to the as-of date of the analysis ("Current date"), and from the Current date to a "Forecast date." The analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 and 2000 censuses, the Current date, and Forecast date. For the purposes of this analysis the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Mr. Joseph P. McDonnell, the Division's Supervisory Economist in the Illinois State Office, based on fieldwork conducted in September 2002. If there are questions regarding the findings and conclusions of the analysis, he may be reached at (312) 353-6236, extension 2663 and at Joe_McDonnell@hud.gov.

Housing Market Area

The definition of the Champaign-Urbana, Illinois Housing Market Area (HMA) is the same as the 1999 definition of the Champaign-Urbana Metropolitan Statistical Area by the U.S. Office of Management and Budget. The metropolitan area includes Champaign County. For purposes of this study, Champaign County is divided into two housing submarket areas: the cities of Champaign and Urbana, and the remainder of the county.

Summary

Champaign County, Illinois is located in East Central Illinois at the intersection of two interstates, about 2 hours south of Chicago and 2 hours west of Indianapolis. The city of Champaign had a 2000 census population of 67,500, the adjacent city of Urbana had a population of 36,595, and the county as a whole had a population of 180,000. It is home to the University of Illinois, which is its major employer. Much of the county is still agricultural, although there has been more university-affiliated business development in recent years that may become a source of future growth.

Nonagricultural employment in the past decade grew by approximately 1.4 percent a year. The average increase during the past 3 years has been less than 1 percent annually. In the 12 months ending December 2002 employment growth in the HMA stalled because of the slowdown in the local economy. This condition is judged to be temporary, and a continuation of normal area slow growth patterns is expected to resume over the forecast period. Nonagricultural employment is projected to continue to slightly decline during the 2-year forecast period.

The annual average change in households in the HMA from 2000 to present was slightly higher than during the period from 1990 to 2000. The rate of growth over the 2-year forecast period is expected to remain moderate, approximately 700 households annually. The change in households is expected to almost mirror the anticipated growth in employment during the forecast period. Residential construction activity has been strong for the past 5 years.

Residential construction activity in the next 2 years is likely to be around 850 units annually. The sales market is balanced to tight, and is expected to remain that way through the forecast period. The rental market in the HMA is balanced overall, but there has been some softening during the 12 months ending on the Current date. Despite the apartment market's loosening, rental-housing production has continued at a relatively even pace.

Based on the analysis of current and anticipated economic and demographic changes, it is estimated that there will be a demand for approximately 1,720 additional housing units over the 2-year forecast period: 965 units of sales housing and 755 units of market-rate rental housing. This demand forecast is consistent with recent years' activity, and reflects the assumption there will be no significant changes in the local economy during the forecast period.

Economy of the Area

Champaign-Urbana is a modest-growth, single-county metropolitan area in East Central Illinois, home to the University of Illinois' 16 colleges and professional schools with 38,000 students. In the past decade, the local economy grew at a rate of 1.4 percent annually. In the past 3 years the local economy grew at a rate of 2.1 percent annually. Between 1999 and 2001 nonagricultural employment averaged 103,600 jobs annually, compared with 97,300 jobs a year in the previous 3-year period. Reflecting the area's diversified economy, all major sectors recorded employment gains. Services, government, and wholesale and retail trade reported the biggest increases with 1,800 jobs, 1,000 jobs, and 700 jobs, respectively. Local and state government increased employment by 600 and 400 jobs, respectively, in the past 3 years. In the 12 months ending December 2002 employment growth stalled because of the slowdown in the local economy.

The University of Illinois at Urbana-Champaign is the area's largest employer, accounting for one in every five jobs. Employment has been relatively steady at the university during the past 10 years. In 2002 the university employed approximately 20,000 persons. A new University of Illinois Research Park started construction in 2000, with plans to develop 139 acres and more than 1 million square feet of high technology office space. Recent completion of the Research Park's South Center has resulted in 9 new tenants with approximately 500 employees. The new tenants include the National Center for Supercomputing Applications, Motorola, and Caterpillar.

Next to the university, the Carle Clinic Association and Hospital Foundation is the next largest employer with approximately 5,000 workers, followed by the local school district and a major Kraft Foods' processing plant, each with approximately 1,300 employees. Meijer, Inc. (grocery/general merchandise store), Parkland College, and U.S. Arcerl (a construction engineering research laboratory), are also significant employers.

The local economy is dominated by the university, which has been and will continue to be a stable source of employment. Stable employment for the area's largest employer and moderate job growth in other sectors kept the area's unemployment rate in the 2 percent to 4 percent range since 1990. The unemployment rate was 2.9 percent as of October 2002, one of the lowest in the nation. Currently, the labor force is increasing at about the same annual rate as during the 1990s. The labor force as of the Current date was estimated to total 99,300 persons, compared to the 97,600 persons as of the 2000 census. This amounts to an increase of 680 a year during the period, compared with 665 annually from 1990 to 2000. The labor force is expected to continue increasing at a moderate rate of 700 persons annually over the 2-year projection period because of net natural gains in population of 1,200 persons a year.

Household Incomes

Incomes in the area are also increasing moderately. During the 1990 to 2000 period incomes increased at about the same rate as for the nation as a whole. The current median family income estimate for 2003 by HUD is almost 11 percent above the 2000 census

median, which again is similar to national trends. The estimated 2003 median family income is \$58,700, as compared with the 2000 census figure of \$52,946 (which should be thought of as a mid-1999 income level).

Population

Population in the Champaign-Urbana area has had moderate growth in the past 2-1/2 years, from 179,669 in 2000 to an estimated 181,400 in 2002. This growth is due entirely to the net natural increase of the resident population. The cities of Champaign and Urbana together account for approximately 58 percent of the 1,731-person increase; the remainder of Champaign County for 42 percent. The University of Illinois' student population in 2002 totaled 38,300 at the Urbana-Champaign campus, compared with 35,800 in 1992, an increase of about 250 students annually during the 10-year period.

The net natural increase for the Champaign-Urbana area averaged 1,236 persons annually between 1990 and 2000. The absolute annual net natural increase remained fairly steady throughout the decade at 1,100 to 1,300 persons a year. On net, the net impact of migration on this area's population is negative. Migration experienced a net decline of 571 annually during the 10-year period. Out-migration between 2000 and the Current date slowed to 450 annually because of the strengthening economy. This annual rate of out-migration is expected to hold steady during the forecast period. The cities of Champaign and Urbana accounted for 55 percent of the out-migration, and the remainder of the county for 45 percent.

Champaign-Urbana's population is expected to continue growing at a moderate rate during the next two years. While the university accounts for a significant part of the area's population, it is not expected to be a significant source of growth over the next 2 years. Based on the level of economic growth and net migration anticipated during the 2-year forecast period, population in the area is projected to grow from an estimated 181,400 in January 2003 to 182,900 by January 2005. This is equal to an annual rate of 750 in the 2-year forecast period, up slightly from 703 annually between 2000 and the Current date. The net natural increase in population will fuel this growth. The cities of Champaign and Urbana are likely to continue to account for more than half of the forecasted growth in population.

Households

Household numbers are currently estimated at 72,450. Households increased by 744 a year between 2000 and the present. The HMA gained 1,853 households, or 2.6 percent, between 2000 and the present. The cities of Champaign and Urbana, with 1,002 additional households, and the remainder of Champaign County, with 851 households, share about equally in this growth. The opening of the University of Illinois' South Campus Research Park in 2001 is spurring residential growth in the south Champaign area, whereas the city of Urbana is encouraging residential development in the downtown and southeast part of the community.

Households increased by 670 a year between the 2 censuses, reaching 70,597 in 2000. Owner households accounted for two-thirds of the gain in the metropolitan area. The majority of the growth occurred in Champaign and Urbana, where the two cities grew from 37,383 in 1990 to 41,398 in 2000. The remainder of the county added 2,682 households; owner households accounted for all the gain. Coupled with modest population gains during the decade, the growth in households reflects a continuing decline in household size within the HMA. Student population of 36,000 to 37,000 was relatively stable during the period.

Households are projected to grow at about the same rate during the next 2 years as they did in the past decade, with about an additional 700 persons a year. This is estimated to be slightly slower growth than the 744 household annual increase in the 2000 to current period because of slower growth in the local economy.

Housing Inventory

Currently, the housing inventory stands at 77,300 units. Since the 2000 census 2,020 units were added to the inventory. Housing units grew by 806 units a year between 2000 and the Current date. Most of these additions were in sales housing. The cities of Champaign and Urbana are responsible for the majority of the growth, with an increase of 1,230 units over the previous 2-1/2 years. The remainder of Champaign County also showed moderate growth of 785 units during the period. Losses due to demolitions or other causes amounted to 738. Rental housing accounted for 498 units of that loss. The number of mobile homes in the county dropped from 3,695 in 2000 to 3,523 in 2002.

Between the last two census counts, the inventory grew by about 686 units a year. The housing inventory increased from 68,416 units in 1990 to 75,280 units in 2000. This growth was fueled by the healthy local economy and construction activity throughout the HMA. The cities of Champaign and Urbana and the remainder of the county showed modest growth of 1 percent annually. In Champaign and Urbana the increased demand for new sales and rental housing boosted construction of new homes and apartments, whereas the remainder of the county grew because of increased construction of sales housing only.

Residential construction activity in the HMA has been strong for the past 5 years. Builders took out permits for 5,116 new homes and apartments since 1997, compared with 4,012 units in the previous 5-year period. This is equal to an annual rate of 1,023 units between 1997 and 2001, up from 802 units a year in the 1992 through 1996 period. Rental construction activity increased more than 66 percent due in large part to the healthy local economy. Building permits averaged 450 rental units annually in the 1997 to 2001 period, compared with 270 units a year in the 1992 to 1996 period. The cities of Champaign and Urbana accounted for all the gain in rental housing. Despite the local economy's slowdown in 2002 rental-housing construction showed no sign of slowing. Building permits were issued for 538 multifamily units in Champaign County during the year, compared with 564 units in 2001. As a result, rental vacancies in 2002 increased to an estimated 7 percent, up from 6.8 percent in 2000.

Residential construction activity in the next 2 years is expected to be moderate because of the slowdown in local economic growth. Activity is likely to slow to around 850 units annually, down from 1,023 units a year between 1997 and 2001, but approximately equal to construction activity in the 1990 to 2001 period. Rental and sales construction will both moderate during the 2-year forecast period.

Currently, renters comprise 44 percent of all occupied units. The tenure of occupancy for renters and owners has remained stable from 1990 to present. Steady growth in the student population and a significant amount of rental housing construction in Champaign and Urbana targeted to students have allowed the HMA to continue to have a relatively large percentage of renter occupied housing.

Housing Vacancy

Between the last two census counts the residential market in the HMA tightened because of moderate economic growth in Champaign County and the increased demand for sales and rental housing. The vacancy rate for sales housing fell from 2.2 percent in 1990 to 1.6 percent in 2000. The vacancy rate in rental housing during the 10-year period dropped from 7.9 percent to 6.9 percent.

Champaign and Urbana, where demand for housing was particularly strong, recorded larger-than-average declines in vacancies for sales and rental housing during the decade. The sales vacancy rate fell to 1.5 percent by 2000; the rental vacancy rate fell to 6.0 percent, down from 6.7 percent in 1990. The remainder of Champaign County's sales and rental market also tightened during the decade.

Responding to moderate household growth and tighter market conditions, builders increased construction of new homes and apartments. Vacancies in sales housing are holding steady at approximately 1.6 percent, whereas vacancies in rental housing increased from 6.9 percent in 2000 to 7.0 percent currently.

The number of current available vacancies in the HMA is estimated at 3,050 housing units. Vacancies in sales housing amounted to 660, whereas rental vacancies were estimated at 2,400 units.

Sales Market Conditions

The sales housing market in Champaign-Urbana has been strong for the past 4 years because of the healthy local economy and low mortgage interest rates. The Champaign County Association of Realtors[®] reported that new and existing home sales in 2001 totaled more than \$300 million in the county compared with \$252 million in 1998. Most homes sold quickly and close to the asking price. During the past 2 years existing homes took 60 to 70 days to sell, down from 120 to 130 days on the market in the previous 2-year period. More than 2,700 homes sold in the metropolitan area last year, compared with 2,555 in 2000, a 2.8 percent gain annually. The median sales price was \$99,900 in 2001, up 3.5 percent from the previous year.

Sales of new and existing homes in the HMA remained strong this year. Home sales held steady at 2,100 in the first 9 months of 2002, whereas the median sales price increased by 7.7 percent to \$107,125. Single-family homes represented 88 percent of total home sales in the HMA; townhouses and condominium sales accounted for 12 percent. The median sales price of single-family homes and condominiums and townhouses was \$117,500 and \$95,000, respectively.

As a result of increasing demand for new homes, building permit activity increased to 2,307 new homes during the 1998 to 2001 period, compared with 2,143 homes in the previous 4-year period. Construction activity in 2002 continued at a healthy pace, with 538 building permits for new homes. Home construction in the city of Urbana was double activity in 2001, whereas activity in the city of Champaign was up 39 percent for 2002.

One builder reported that demand is strong for new single-family homes priced between \$120,000 and \$150,000. A new subdivision planned for 120 homes near Urbana sold its 40 homes in 3 to 4 months, whereas new condominium units in the city of Urbana also sold quickly at prices between \$77,000 and \$83,000. In Champaign several new condominium projects are planned for downtown. The redevelopment of 5 warehouse buildings is expected to have 50 units selling for \$125,000 to \$225,000, whereas a mixed-use project with retail and office space, and 20 to 30 new condominiums for sale are planned nearby.

Rental Market Conditions

The rental market in Champaign County is balanced overall, but vacancies trended upward during the past year because of the slower economy and increased construction of new apartments for students and general occupancy. Apartment vacancies in 2002 are in the 6 to 8 percent range for market-rate apartments, compared with 5 to 7 percent in 2001. An owner of 2,000 new and existing apartments reported that vacancies were 3 percent or less in units close to the University of Illinois, whereas vacancies were in the 5 to 10 percent range in projects further away from campus. In north Urbana apartment occupancy in a 270-unit project was 83 percent as of September 2002, down from 90 percent in August 1998 when the project opened. While low vacancy rates are typical near the university, one moderate-priced project visited in north Urbana, which is outside of normal student commuting ranges, had a vacancy rate in the 15-percent range in the fall of 2002. By contrast, occupancy in the University of Illinois' 2,439 private certified apartments near campus was 95 percent for the 2002–03 year, up from 93 percent in the 2001–02 year.

Rents are increasing 3 to 5 percent annually, but are expected to moderate next year. One apartment developer will hold rents steady in 2003 because of the continued high levels of multifamily construction and growing competition in the market. Some rental properties are offering concessions for the first time. Currently, rents in existing two-bedroom units are \$600 to \$700 a month, plus utilities, and increase to \$800 to \$850 a month near campus. New two-bedroom units rent for \$750 to \$950 a month.

Despite the apartment market's loosening, rental-housing production has remained strong. Approximately 400 new units are under construction in the HMA. Half are estimated for general occupancy and the remainder for students. In Urbana new apartments and condominiums are planned as part of the city's downtown revitalization plan. There is a concern by local builders and property managers about an oversupply of newer, higher-end apartments for students renting for \$1,800 to \$2,000 a month in four-bedroom projects. Several complexes with three- and four-bedroom units were built for students during the past 6 years, and several more are planned.

Forecast Housing Demand

It is estimated that there will be demand for approximately 1,720 new units during the 2-year forecast period, or an average annual demand 485 units of sales housing and 375 units of market rate rentals. The principal factor of the demand estimate is a forecast of approximately 1,400 additional households in the HMA. In addition, there will be a need to replace housing lost from the inventory to maintain a balanced market. It is estimated that 70 sales units and 250 rental units will be lost from the inventory over this period. A tabular summary of qualitative rental demand is presented in Table 6.

Table 1
 Labor Force and Employment Trends
 Champaign-Urbana HMA
 1992 to January 1, 2003

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	Prior 12 Mos.	Current 12 Mos.
Labor Force	93,550	92,300	92,000	92,600	94,250	93,750	93,750	97,600	99,250	99,100	100,300
Employment	89,525	87,725	88,775	89,875	91,300	91,025	91,125	95,150	96,825	96,350	97,075
Unemployment	4,025	4,575	3,225	2,725	2,950	2,725	2,625	2,450	2,425	2,750	3,225
Rate	4.3%	5.0%	3.5%	2.9%	3.1%	2.9%	2.8%	2.5%	2.4%	2.8%	3.2%

Source: Illinois Department of Employment Security

Table 2
 Nonagricultural Wage and Salary Employment
 Champaign-Urbana HMA
 1992 to January 1, 2003

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	Prior 12 Mos.	Current 12 Mos.
Total	91.6	91.2	93.0	94.5	96.7	96.8	98.4	101.5	104.1	105.2	104.8
Manufacturing	9.9	10.2	11.7	11.5	11.9	11.6	11.5	12.0	12.9	12.4	11.8
Service Producing	79.0	78.3	78.5	79.9	81.6	82.2	83.4	85.7	87.3	89.0	89.1
Transportation	2.4	2.6	2.6	2.5	2.5	2.6	3.0	3.5	3.7	4.0	4.1
Wholesale and Retail	20.0	19.5	19.6	21.1	21.4	21.4	21.5	22.0	22.3	22.2	22.1
Finance, Insurance, and Real Estate	3.1	3.2	3.5	3.2	3.4	3.7	3.8	3.9	4.0	4.3	4.3
Services	18.9	19.8	19.7	19.4	20.2	21.0	21.6	22.3	22.8	23.0	22.4
Government	34.6	33.2	33.1	33.7	34.1	33.4	33.5	34.0	34.5	35.5	36.2
Federal	2.6	1.8	1.6	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.4
State	25.0	24.5	24.4	24.9	25.2	24.3	24.2	24.5	24.8	25.5	26.2
Local	7.0	6.9	7.1	7.4	7.6	7.8	7.9	8.1	8.3	8.6	8.6

Note: Numbers may not add up to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

Table 3
 Population and Household Trends
 Champaign-Urbana HMA
 1990 to January 1, 2005

	April 1, 1990	April 1, 2000	October 1, 2002	October 1, 2004	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate	Number	Rate	Number	Rate
<u>Population</u>										
Champaign-Urbana MSA	173,025	179,669	181,400	182,900	664	0.38%	703	0.39%	750	0.41%
Champaign and Urbana	99,846	103,913	104,900	105,750	406	0.41%	411	0.40%	420	0.40%
Remainder of County	73,179	75,756	76,500	77,150	257	0.35%	292	0.39%	330	0.44%
<u>Households</u>										
Champaign-Urbana MSA	63,900	70,597	72,450	73,800	669	1.05%	744	1.05%	670	0.9%
Champaign and Urbana	37,383	41,398	42,400	43,200	401	1.07%	412	1.0%	380	0.94%
Remainder of County	26,517	29,199	30,050	30,600	268	1.01%	335	1.15%	290	0.91%

Source: 1990 and 2000—U.S. Census Bureau
 Current and Forecast—Estimates by Analyst

Table 4
 Housing Inventory Tenure and Vacancy
 Champaign-Urbana HMA
 1990 to January 1, 2003

	Market Area			Champaign and Urbana			Remainder of County		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing									
Inventory	68,416	75,280	77,300	40,002	43,867	45,100	28,414	31,413	32,200
Occupied Units	63,900	70,597	72,450	37,383	41,398	42,450	26,517	29,199	30,050
Owners	34,857	39,329	40,650	16,624	18,128	18,700	18,233	21,201	21,950
%	54.5%	55.7%	56.1%	44.5%	43.8%	44.1%	68.8%	72.6%	73.1%
Renters	29,043	31,268	31,800	20,759	23,270	23,700	8,284	7,998	8,075
%	45.5%	44.3%	43.9%	55.5%	56.2%	55.9%	31.2%	27.4%	26.9%
Vacant Units	4,516	4,682	4,850	2,619	2,469	2,675	1,897	2,213	2,150
Available Units	3,263	2,959	3,050	1,909	1,742	1,925	1,354	1,217	1,125
For Sale	778	653	660	410	266	270	368	387	380
Rate	2.18%	1.63%	1.60%	2.41%	1.45%	1.40%	1.98%	1.79%	1.70%
For Rent	2,485	2,306	2,400	1,499	1,476	1,650	986	830	750
Rate	7.88%	6.87%	7.0%	6.73%	5.96%	6.50%	10.6%	9.40%	8.50%
Other Vacant	1,253	1,723	1,775	710	727	750	543	996	1,025

Note: Data do not add because of rounding.

Source: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by Analyst

Table 5

Residential Building Permit Activity

Champaign-Urbana HMA

1990 to January 1, 2003

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Champaign-Urbana HMA													
Total	529	450	680	1,126	987	655	654	1,397	798	999	1,049	873	1,130
Single-family	218	395	538	545	580	512	475	497	515	548	594	564	538
Multifamily	311	55	142	581	407	143	179	900	283	451	455	309	592
Champaign and Urbana													
Total	369	140	220	540	457	191	217	955	407	644	620	485	931
Single-family	94	107	116	99	92	77	69	123	157	222	253	217	387
Multifamily	275	33	104	441	365	114	148	832	250	422	367	268	544
Remainder of County													
Total	160	310	460	586	530	464	437	442	391	355	429	388	199
Single-family	124	288	422	446	488	435	406	374	358	326	341	377	151
Multifamily	36	22	38	140	42	29	31	68	33	29	88	41	48

Source: U.S. Census Bureau, C-40 Series

Table 6

Estimated Qualitative Annual Demand for
New Market Rate Rental Housing

Champaign-Urbana HMA

January 1, 2003 to January 1, 2005

One Bedroom		Two Bedrooms		Three+ Bedrooms	
Monthly Gross Rent	Units of Demand	Monthly Gross Rent	Units of Demand	Monthly Gross Rent	Units of Demand
\$800	130	\$1,000	150	\$1,300	100
\$850	110	\$1,050	130	\$1,400	75
\$900	100	\$1,100	110	\$1,500	60
\$950	90	\$1,200	80	\$1,600	45
\$1,000	75	\$1,300	50	\$1,700	40
\$1,050	60	\$1,400	40	\$1,800	35
\$1,100	50	\$1,500	30	\$1,900	20
\$1,200	35	\$1,600	25	\$2,000	10
\$1,300	30	\$1,700	20	\$2,100	0
\$1,400	20	\$1,800	10	\$2,200	0
\$1,500	15	\$1,900	0	\$2,300	0
\$1,600	10	\$2,000	0	\$2,400	0
\$1,700	0	\$2,100	0	\$2,500	0
\$1,800	0	\$2,200	0	\$2,600	0
\$1,900 or more	0	\$2,300 or more	0	\$2,700 or more	0

Note: Distribution above is noncumulative. Demand of less than 10 units is shown as 0.
Numbers have been rounded for comparison.

Source: Estimates by Analyst