



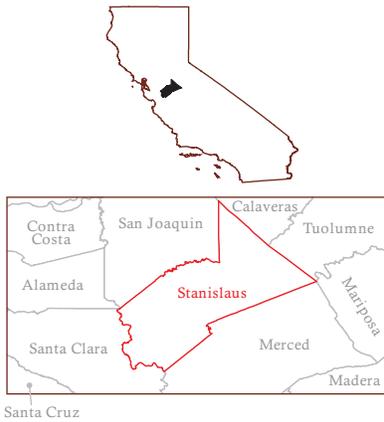
Modesto, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of April 1, 2012



Summary

Housing Market Area



The Modesto Housing Market Area (HMA), which is coterminous with Stanislaus County, is directly east of San Jose in the San Joaquin Valley. The HMA is notable as home to the headquarters of E.&J. Gallo Winery, the largest family-owned wine company in the world. In 2010, 199 million pounds of almonds, or 11 percent of the world's total production, were harvested in the HMA.

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Economy

Economic conditions in the Modesto HMA are currently weak because of job losses that began in 2008. Non-farm payrolls averaged 143,400 jobs during the 12 months ending March 2012, a decline of 3,000 jobs, or 2.1 percent, compared with nonfarm payrolls during the previous 12-month period. Job losses were greatest in the government and manufacturing sectors, which decreased by 1,050 and 750 jobs, or 4.0 and 3.7 percent, respectively. The unemployment rate averaged 16.5 percent during the 12-month period ending March 2012, down from 17.2 percent during the previous 12 months. Modest job growth is expected during the next 3 years.

Sales Market

The sales housing market in the HMA is currently soft. During the 12 months ending March 2012, 7,600 new and existing homes sold, a 5-percent decrease compared with the 8,000 homes sold during the previous 12-month period. The average home sales price remained unchanged at \$157,200. Demand is expected for 850 new homes during the 3-year forecast period (Table 1). A portion of the estimated

5,100 other vacant units may return to the sales market and satisfy some of the demand.

Rental Market

The rental housing market in the HMA is currently soft, with an estimated 8.0-percent overall vacancy rate, down from 8.5 percent in 2010. Despite slow population growth, rental market conditions have improved because of an increase in rental households and a lack of multi-family construction. The current supply of excess vacant available units and the 130 units under construction will meet all of the anticipated rental demand during the forecast period (Table 1).

Table 1. Housing Demand in the Modesto HMA, 3-Year Forecast, April 1, 2012 to April 1, 2015

	Modesto HMA	
	Sales Units	Rental Units
Total Demand	850	0
Under Construction	30	130

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of April 1, 2012. A portion of the estimated 5,100 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

The economy of the Modesto HMA is currently weak after experiencing steady growth from 2000 through 2006, when nonfarm payrolls expanded from 144,200 to 159,800 jobs, an average annual increase of 2,600 jobs, or 1.7 percent. The construction sub-sector and service-providing sectors drove job gains during that period, when the relatively affordable housing in the HMA attracted new residents, particularly from neighboring Alameda and Santa Clara Counties. During the 2000-through-2006 period, job growth was greatest in the education and health services, the mining, logging, and

construction, and the transportation and utilities sectors, which expanded by annual averages of 580, 570, and 230 jobs, or 3.3, 5.1, and 5.4 percent, respectively. Nonfarm payrolls increased 0.2 percent, to 160,100 jobs, in 2007. Primarily because of declining construction activity and decreased consumer spending, however, nonfarm payrolls in the HMA declined by an average annual rate of 2.6 percent, or 4,075 jobs, from 2007 through 2011. The mining, logging, and construction sector lost the most jobs during the period, declining by an average of 1,350 jobs, or 15.2 percent, per year because of significant cutbacks in housing production. The manufacturing and the wholesale and retail trade sectors also experienced significant job losses, declining by averages of 750 and 630 jobs, or 3.4 and 3.0 percent, per year, respectively. Nonfarm payrolls averaged 143,400 jobs during the 12 months ending March 2012, a decrease of 3,000 jobs, or 2.1 percent, compared with the 146,400 jobs averaged during the 12 months ending March 2011 (Table 2). During the same period, the unemployment rate averaged 16.5 percent, down from 17.2 percent during the previous 12-month period but much greater than the 8.8-percent average from 2000 through 2007. Figure 1 shows trends in the labor force, resident employment, and unemployment rate from 2000 through 2011.

The wholesale and retail trade sector is the largest in the HMA, accounting for nearly 18 percent of total nonfarm payrolls during the 12 months ending March 2012 (Figure 2). From 2000 through 2006, the sector expanded from 25,500 to 28,400 jobs, an average annual increase of 480 jobs, or 1.8 percent. The retail trade subsector

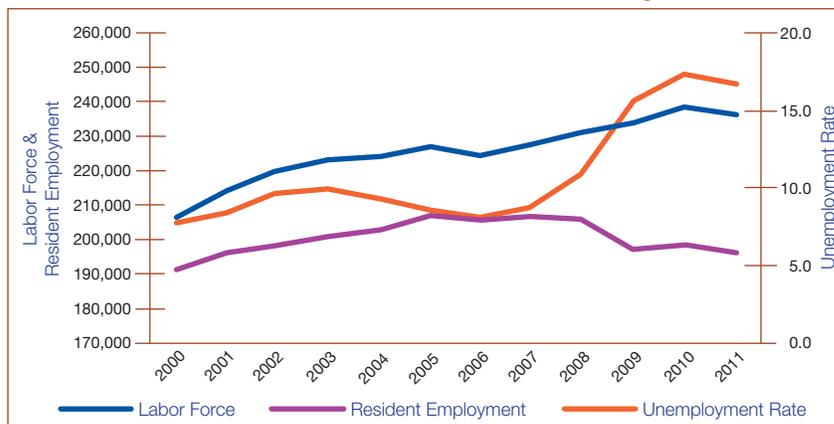
Table 2. 12-Month Average Nonfarm Payroll Jobs in the Modesto HMA, by Sector

	12 Months Ending March 2011	12 Months Ending March 2012	Percent Change
Total Nonfarm Payroll Jobs	146,400	143,400	-2.1
Goods Producing	26,500	25,650	-3.2
Mining, Logging, & Construction	5,925	5,825	-1.5
Manufacturing	20,600	19,850	-3.7
Service Providing	119,900	117,700	-1.8
Wholesale & Retail Trade	25,300	25,500	0.8
Transportation & Utilities	6,200	6,200	0.0
Information	1,175	1,100	-6.4
Financial Activities	5,425	5,400	-0.3
Professional & Business Services	12,300	11,850	-3.7
Education & Health Services	23,450	23,450	-0.1
Leisure & Hospitality	14,550	14,150	-2.7
Other Services	5,050	4,650	-7.8
Government	26,450	25,400	-4.0

Notes: Based on 12-month averages through March 2011 and March 2012. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Modesto HMA, 2000 Through 2011



Source: U.S. Bureau of Labor Statistics

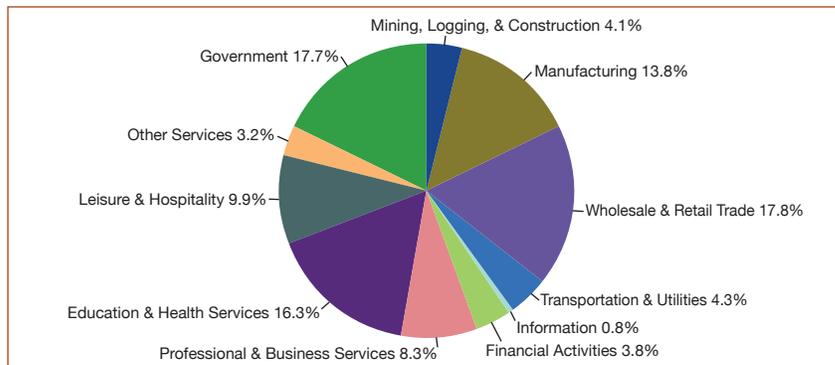
accounted for 83 percent of the job gains in the sector during that period, increasing from 20,100 to 22,500 jobs, an average annual gain of 400 jobs, or 1.9 percent. According to the California State Board of Equalization, taxable sales in the HMA increased from \$5.2 billion in 2000 to \$7.4 billion in 2006, a 42-percent increase. From 2006 through 2010, however, the wholesale and retail trade sector declined by an average of 750 jobs, or 2.8 percent, per year as economic conditions in the HMA weakened. The retail trade sub-sector accounted for the entire net decline in nonfarm payrolls in the sector during the period, and taxable sales declined from \$7.4 billion in 2006 to \$6.1 billion in 2010, an 18-percent decrease. The sector averaged 25,500 jobs during the 12-month period ending March 2012, an increase of 200 jobs, or 0.8 percent, from the 12-month period ending March 2011. With approximately 1,650 employees, Save Mart Supermarkets, headquartered in the city of Modesto since 1986, is the largest employer in the sector. The sector also benefits from commerce associated with Interstate 5 (I-5) and California Highway 99, both of which run through the HMA and are heavily traveled corridors between the northern and southern parts of California. Wal-Mart Stores, Inc., which currently

employs approximately 1,400 people in the HMA, plans to complete construction of two new stores by 2014, which will add approximately 300 jobs.

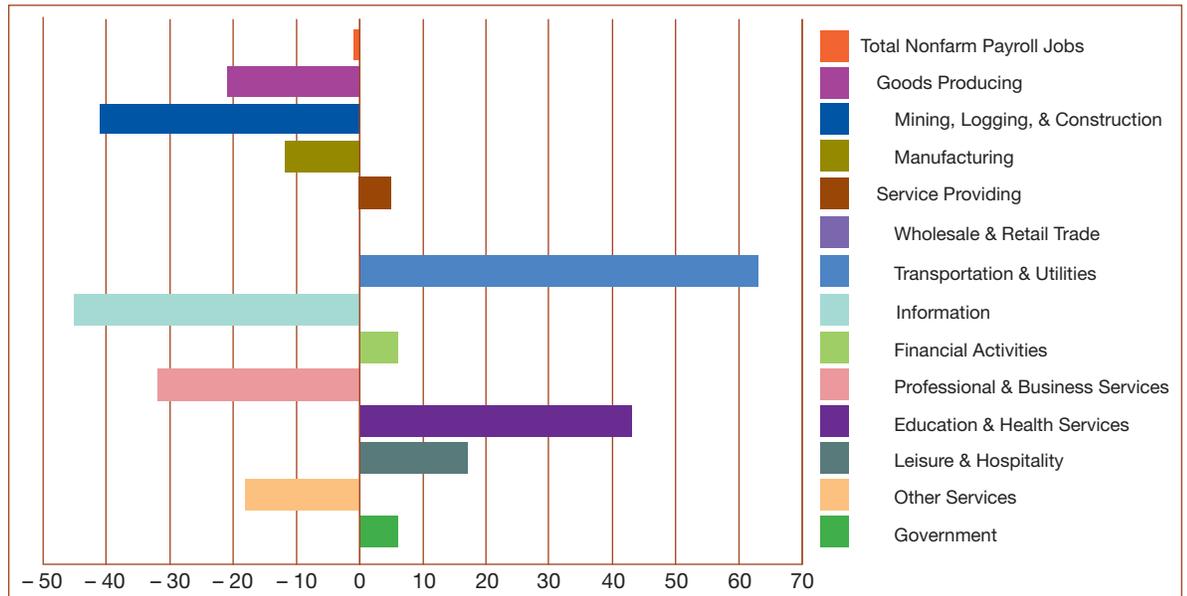
The education and health services sector is the only sector in the HMA to have increased employment every year since 2000. From 2000 through the 12 months ending March 2012, the sector expanded from 16,400 to 23,450 jobs, increases of 43 percent overall and 3 percent annually on average (Figure 3). After completing a 112-bed, 18-operating room expansion in 2007, Memorial Medical Center is the largest employer in the sector, with approximately 3,025 employees. Kaiser Permanente®, which opened a 670,000-square-foot medical facility in October 2006, accounts for an additional 1,750 jobs, and Emanuel Medical Center, Inc., currently accounts for 1,400 nonfarm payrolls after opening a new emergency room and critical-care center in the city of Turlock in 2007. Increased demand for health care associated with population growth in the HMA has, in part, driven job growth in the sector. The ongoing development of residency and clinical training programs in the HMA also suggests future growth in the sector, although no official expansion plans have been announced. During the 12 months ending March 2012, the sector averaged 23,450 nonfarm payroll jobs, unchanged from the previous 12-month period.

Despite job losses that began in 2007, the manufacturing sector remains a significant part of the economy in the HMA. The sector expanded moderately from 22,600 jobs in 2000 to 22,900 jobs in 2007 but lost an average of 750 jobs, or 3.4 percent, per year from 2007 through 2011. The losses were,

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



Note: Based on 12-month averages through March 2012.
 Source: U.S. Bureau of Labor Statistics

Figure 3. Sector Growth in the Modesto HMA, Percentage Change, 2000 to Current

Notes: Current is based on 12-month averages through March 2012. During this period, jobs in the wholesale and retail trade sector showed no net change.

Source: U.S. Bureau of Labor Statistics

in part, because of closures by Indalex Inc., which displaced 150 employees after shuttering an aluminum plant in the city of Modesto in 2008, and The Hershey Company, which vacated a facility in the city of Oakdale in 2009, resulting in a loss of 600 jobs. The sector lost an additional 190 jobs when Trim Masters, Inc., an automotive door panel manufacturer, stopped production at a facility in the city of Modesto in 2010. The manufacturing sector averaged 19,850 jobs during the 12 months ending March 2012,

a decrease of 750 jobs, or 3.7 percent, from 20,600 jobs during the 12 months ending March 2011. Food production, particularly of fruit, almonds, wine, and poultry, anchors the sector and accounted for 48 percent of all manufacturing jobs in the HMA in 2010. E.&J. Gallo Winery, with 3,175 employees, is the largest private employer in the HMA. Seneca Foods Corporation, Stanislaus Food Products Company, and Del Monte Corporation account for 2,100, 1,775, and 1,700 jobs, respectively (Table 3). Job losses in the sector are expected to continue in the near future; Patterson Vegetable Company and Dawn Food Products, Inc., recently announced upcoming layoffs of 350 and 270 workers, respectively. The completion of a new, 200,000-square-foot Blue Diamond Growers plant in Turlock, however, will at least partially offset these losses. Hiring for a currently undisclosed number of jobs at the facility is projected to begin in late 2012, with production scheduled to start in early 2013.

Table 3. Major Employers in the Modesto HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
E.&J. Gallo Winery	Manufacturing	3,175
Memorial Medical Center	Education & Health Services	3,025
Seneca Foods Corporation	Manufacturing	2,100
Doctors Medical Center	Education & Health Services	1,950
Stanislaus Food Products Company	Manufacturing	1,775
Kaiser Permanente®	Education & Health Services	1,750
Del Monte Corporation	Manufacturing	1,700
Save Mart Supermarkets	Wholesale & Retail Trade	1,650
Foster Farms®	Manufacturing	1,625
Modesto Junior College	Education & Health Services	1,475

Note: Excludes local school districts.

Source: Stanislaus Economic & Workforce Development Alliance

Agriculture is also an important component of the HMA economy. Sales of produce, milk, livestock, poultry, and eggs combined to generate \$2.6 billion of revenue in 2010. According to data from the California Employment Development Department, during the 12 months ending March 2012, agricultural employment (which is not included in nonfarm payroll job totals) averaged 13,100 jobs, a 3-percent increase from 12,725 jobs during the previous 12-month period.

Nonfarm payrolls are expected to increase by an average annual 0.6

percent over the next 3 years. Further job losses remain possible, particularly in the government sector, but the addition of 1,000 full-time jobs at a new Amazon.com Inc. distribution facility in Patterson and the opening of the Blue Diamond Growers plant in Turlock are expected to create net job gains in the HMA during the next 2 years. Job growth in the wholesale and retail trade and the education and health services sectors will likely result from accelerating population growth by the third year of the forecast period.

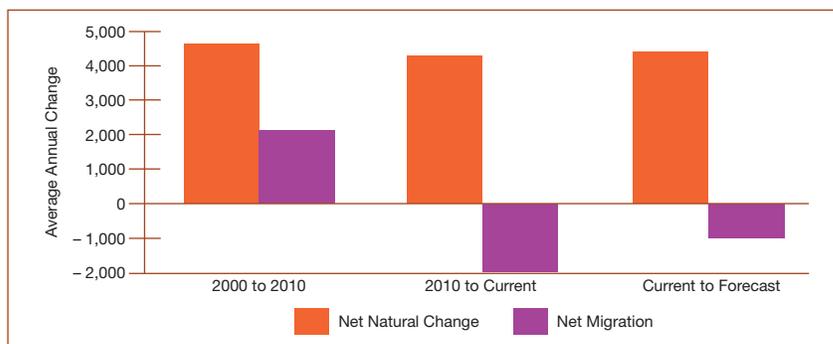
Population and Households

From 2000 through 2010, the population of the Modesto HMA expanded from 446,997 to 514,453, an average annual increase of approximately 6,750, or 1.4 percent. The HMA experienced moderate population growth from 2000 through 2006, when relatively affordable housing attracted residents from the more expensive housing markets in the San Francisco Bay Area. In 2006, the average home sales prices in Alameda and Santa Clara Counties were \$633,100 and \$754,500, approximately 57 and

87 percent, respectively, more than in the HMA. During this period, population growth averaged 9,200 people, or 1.9 percent, per year. Net in-migration averaged 4,850 people annually and accounted for 53 percent of population growth. From 2006 through 2010, however, population growth slowed to an average of 2,700 people, or 0.5 percent, per year. During that period, job losses in the HMA, particularly in the construction subsector and wholesale and retail trade sector, combined with soft housing market conditions in Alameda and Santa Clara Counties to produce average net out-migration of 2,050 people annually. Net natural change (resident births minus resident deaths) accounted for approximately 68 percent of population growth from 2000 through 2010 (Figure 4).

The city of Modesto, the largest population center in the HMA, accounted for 39 percent of all residents in 2010. Between 2000 and 2010, the city's population expanded from 188,856 to 201,165, an average annual increase

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



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

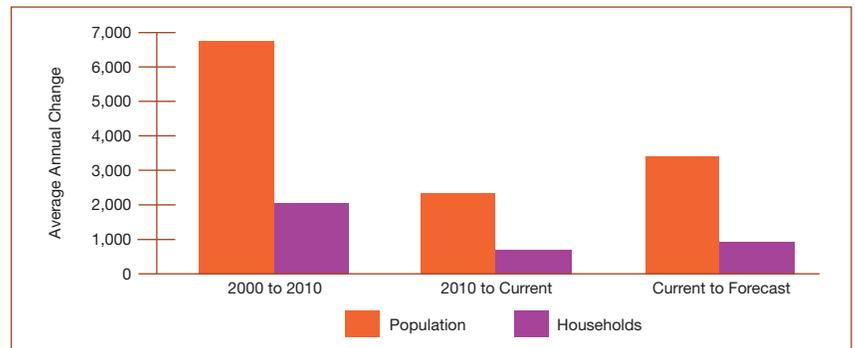
of 1,225, or 0.6 percent. The cities of Patterson and Newman were the fastest growing population centers in the HMA during the period, however, expanding their populations by averages of 5.8 and 3.7 percent, respectively, per year. Both cities developed into popular bedroom communities during the period, in part because of their close proximity to I-5.

As of April 1, 2012, the population of the HMA was estimated at 519,100, an average annual increase of 2,325, or 0.5 percent, since 2010. Average annual net out-migration of 3,925 people partially offset the net natural increase of 8,575 people per year during the period. Weak economic conditions are projected to curb population gains during the next 2 years. Modest job growth in the HMA and improving housing market conditions in the San Francisco Bay Area are expected to contribute to net

in-migration and accelerating population growth in the third year of the forecast period. Population growth in the HMA is expected to average 3,400 people, or 0.7 percent, during the next 3 years (Figure 5).

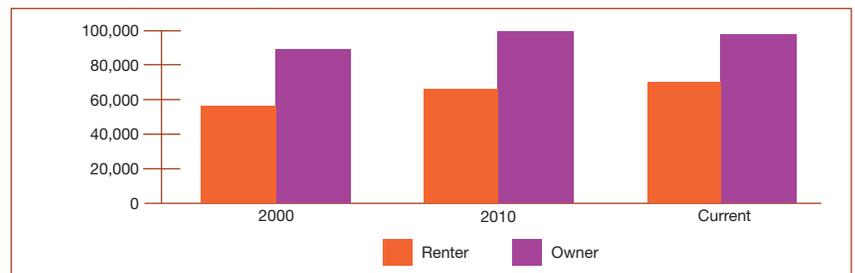
From 2000 through 2010, the number of households in the HMA increased from 145,146 to 165,180, an average annual increase of 2,000 households, or 1.3 percent. Weak economic conditions caused household growth to slow, however, to an average annual increase of 660 households, or 0.4 percent, from April 2010 through April 2012. The number of households in the HMA is expected to increase by an average of 930, or 0.6 percent, annually during the forecast period. Table DP-1 at the end of this report shows household growth in the HMA by tenure from 2000 through the current date. Figure 6 shows the number of households by tenure since 2000.

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



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

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



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

Housing Market Trends

Sales Market

The home sales market in the Modesto HMA is currently soft because of weak economic conditions, tighter lending requirements, and household growth that has been slow since 2007. The sales vacancy rate is currently estimated at 2.1 percent, down from 2.7 percent in 2010. According to Hanley Wood, LLC, during the 12 months ending March 2012, new home sales decreased to 110, down 25 percent from the 150 homes sold during the previous 12-month period and down 77 percent from an average of 470 new homes sold annually from 2008 through 2010. During the same period, the average new home sales price decreased to \$231,900, down 2 percent from \$236,900 during the 12 months ending March 2011 and down 15 percent from an average of \$273,000 from 2008 through 2010.

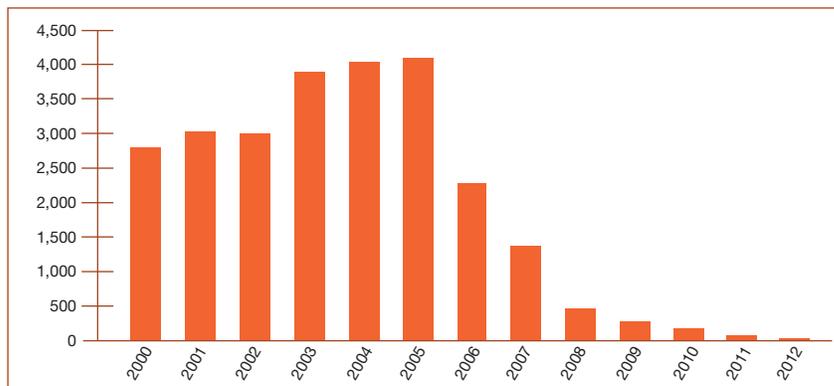
Existing home sales totaled 7,475 during the 12 months ending March 2012, down 5 percent compared with the 7,850 existing home sales reported during the previous 12-month period and down 15 percent compared with the average of 8,850 homes sold per year from 2008 through 2010. The average existing home sales price increased 1 percent, to \$156,900, from

\$155,300 during the 12 months ending March 2011 but decreased 9 percent from the average sales price of \$171,100 from 2008 through 2010. The sales price increase during the past 12 months was largely because of a significant decline in the number of sales of REO (Real Estate Owned) homes, which, on average, sold for \$52,200, or 28 percent, less than the sales price of regular existing homes during the period. REO sales totaled 4,200 homes during the 12 months ending March 2012, a 12-percent decline from 4,775 during the previous 12-month period. REO activity accounted for 56 percent of existing home sales during the 12 months ending March 2012, down from 61 percent during the 12 months ending March 2011. According to LPS Applied Analytics, in March 2012, 9.1 percent of home loans in the HMA were 90 or more days delinquent, in foreclosure, or in REO, down from 12.5 percent as of March 2011 but more than the 7.8-percent national average.

In response to softening market conditions, single-family home construction activity, as measured by the number of single-family building permits issued, has slowed since 2005 (Figure 7).

Based on preliminary data, during the 12 months ending March 2012, the number of single-family homes permitted declined to approximately 75 compared with the 130 homes permitted during the previous 12-month period. Single-family building permitting averaged 300 homes each year from 2008 through 2010 after averaging 1,800 homes per year in 2006 and 2007 and 3,475 homes each year from 2000 through 2005. The weak housing market has resulted in few new single-family home developments,

Figure 7. Single-Family Building Permits Issued in the Modesto HMA, 2000 to 2012



Notes: Includes townhomes. Includes data through March 2012.

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

but, in 2011, the city of Patterson issued permits for the completion of a 47-home subdivision that was abandoned because of the housing market decline.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Modesto HMA, April 1, 2012 to April 1, 2015

Price Range (\$)		Units of Demand	Percent of Total
From	To		
125,000	174,999	95	11.0
175,000	224,999	140	16.0
225,000	274,999	210	25.0
275,000	324,999	180	21.0
325,000	374,999	120	14.0
375,000	424,999	70	8.0
425,000	and higher	45	5.0

Note: The 30 homes currently under construction and a portion of the estimated 5,100 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

During the 3-year forecast period, demand is estimated for 850 new homes in the HMA (Table 1). The 30 homes under construction will meet a portion of this demand, and some of the estimated 5,100 other vacant units in the HMA may return to the sales housing market and satisfy a portion of the demand. Demand is expected to be slow during the first 2 years of the forecast period but to increase in the third year. Demand is projected to be greatest in the \$225,000-to-\$274,999 price range (Table 4).

Rental Market

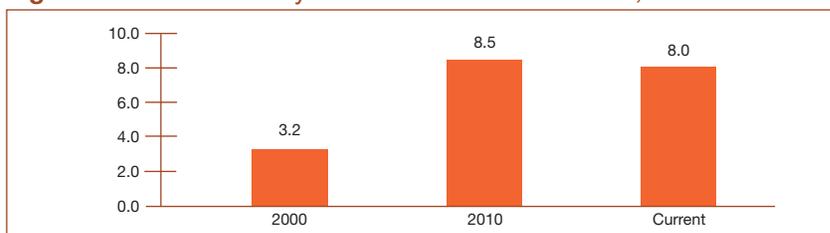
Despite relatively low levels of multifamily construction since 2008, the rental housing market in the Modesto HMA is currently soft because of slow household growth that began in 2007 and an abundance of single-family home conversions from ownership to rental units. According to the 2010 American Community Survey, single-family homes accounted for approximately 59 percent of rental units in the HMA compared with the 54-percent rate recorded in the 2000 Census. As of April 1, 2012, the overall rental vacancy rate was estimated at 8.0 percent, down from 8.5 percent in 2010 (Figure 8).

The apartment vacancy rate decreased to 5.6 percent during the first quarter

of 2012, down from 6 percent in the first quarter of 2011, according to AXIOMETRICS, Inc. The average asking rent increased to \$830, up 1 percent from \$820 a year earlier. As of April 1, 2012, average apartment rents were estimated at \$850 for a one-bedroom unit, \$1,000 for a two-bedroom unit, and \$1,150 for a three-bedroom unit.

Multifamily construction, as measured by the number of multifamily units permitted, totaled 130 units during the 12 months ending March 2012 compared with no units permitted during the 12 months ending March 2011, based on preliminary data. An average of 80 units was permitted each year from 2008 through 2010 (Figure 9). The Riverbank Family Apartments, a 65-unit apartment project in Riverbank targeted at applicants between 30 and 60 percent of the Area Median Income, and the renovation of the Valley Manor Apartments, a 68-unit Section 8 apartment complex in Newman, accounted

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



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

Housing Market Trends

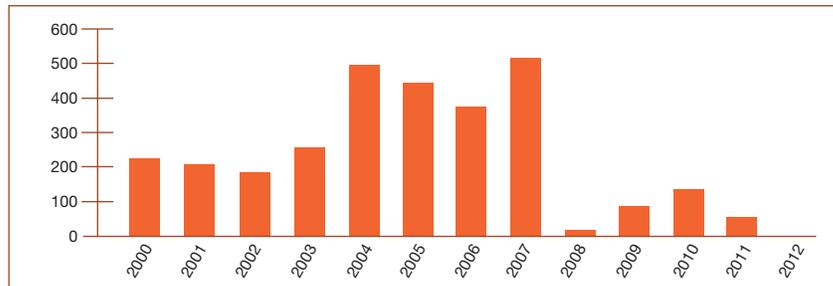
Rental Market *Continued*

for all of the multifamily units permitted in 2010. Heritage Oaks, a low-income housing tax credit (LIHTC) project for senior citizens in Oakdale, accounted for all of the multifamily

units permitted in 2011. The Avena Bella Apartments, an 80-unit LIHTC project in Turlock, broke ground in March 2012, with completion scheduled for early 2013. Archway Commons, a 76-unit LIHTC project in the city of Modesto, is also scheduled to start construction in late 2012.

The existing supply of vacant available units is expected to satisfy all the demand for rental units in the HMA during the 3-year forecast period (Table 1). The construction of additional units during this time would only prolong the current soft rental market conditions.

Figure 9. Multifamily Building Permits Issued in the Modesto HMA, 2000 to 2012



Notes: Excludes townhomes. Includes data through March 2012.

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

Data Profile

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

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	191,613	198,151	196,900	0.3	- 0.5
Unemployment Rate	7.8%	17.3%	16.5%		
Nonfarm Payroll Jobs	144,200	146,300	143,400	0.1	- 1.6
Total Population	446,997	514,453	519,100	1.4	0.5
Total Households	145,146	165,180	166,500	1.3	0.4
Owner Households	89,886	99,364	97,500	1.0	- 0.9
Percent Owner	61.9%	60.2%	58.6%		
Renter Households	55,260	65,816	69,000	1.8	2.4
Percent Renter	38.1%	39.8%	41.4%		
Total Housing Units	150,807	179,503	179,700	1.8	0.1
Owner Vacancy Rate	1.3%	2.7%	2.1%		
Rental Vacancy Rate	3.2%	8.5%	8.0%		
Median Family Income	\$43,100	\$59,600	\$59,500	3.3	- 0.2

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through March 2012. 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: 4/1/2012—Analyst’s estimates
Forecast period: 4/1/2012–4/1/2015—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 the U.S. Department of Housing and Urban Development’s (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_ModestoCA_12.pdf.

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This analysis has been prepared for the assistance and guidance of 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.