



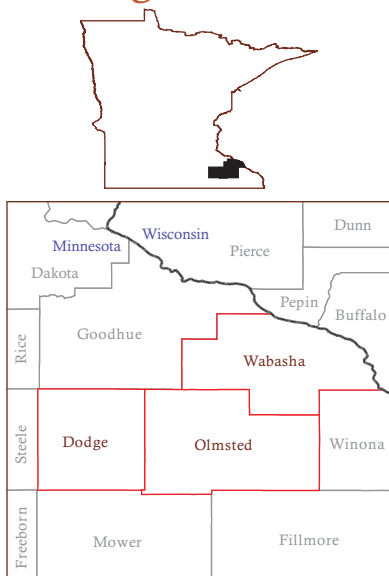
Rochester, Minnesota

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

PD&R

Summary

Housing Market Area



The Rochester Housing Market Area (HMA), consisting of Dodge, Olmsted, and Wabasha Counties in southeast Minnesota, is located about 70 miles south of Minneapolis-St. Paul. Rochester, the third largest city in Minnesota, with an estimated 108,600 residents, is the home of Mayo Clinic, which draws more than 2 million visitors a year, according to Mayo.

Economy

The economy of the Rochester HMA began to recover during the 12 months ending June 2011. During this time, nonfarm payrolls increased by 200 jobs, or 0.2 percent, to 102,600 jobs. By contrast, nonfarm payrolls decreased by an average of 1,625 jobs, or 1.5 percent, annually from 2007 through 2010. Nonfarm payroll jobs are expected to increase by an average of 0.6 percent annually during the 3-year forecast period.

Sales Market

The sales housing market in the HMA is currently soft. According to the Southeast Minnesota Association of REALTORS® (SEMAR), during the 12 months ending June 2011, sales of all homes fell 15 percent, but the average sales price increased by nearly 2 percent. Demand is expected for 2,200 new sales housing units during the forecast period, as shown in Table 1. Some of the estimated 2,500 other vacant units in the HMA may satisfy a portion of this demand.

Rental Market

The rental housing market in the HMA is currently soft. The overall rental vacancy rate is estimated at 8 percent, up from the 7.7-percent rate recorded in April 2010 (see Table DP-1). During the forecast period, demand is expected for 350 new rental units (see Table 1). The 200 units currently under construction will satisfy a portion of that demand.

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

	Rochester HMA	
	Sales Units	Rental Units
Total Demand	2,200	350
Under Construction	50	200

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of July 1, 2011. A portion of the estimated 2,500 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

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Economic Conditions

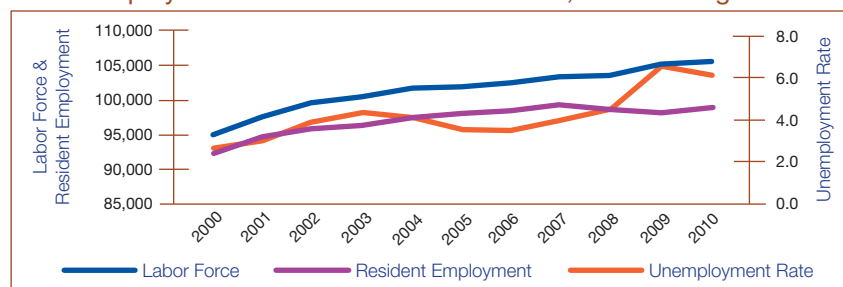
Economic conditions in the Rochester HMA have improved recently after 3 years of job losses. During the 12-month period ending June 2011, nonfarm payrolls averaged 102,600 jobs, an increase of 200 jobs, or 0.2 percent, compared with nonfarm payrolls during the previous 12-month period. This increase followed payroll decreases that averaged 1,625 jobs a year from 2007 through 2010. Current nonfarm payrolls are still down by 4,400 jobs, or 3.9 percent, from the peak of 107,000 jobs recorded in 2007. Nonfarm payrolls increased by an average of 1,350 jobs annually from 2002 through 2007. Recent job growth has resulted in a substantial decline in the unemployment rate, to an average of 5.7 percent during the 12-month period ending June 2011, compared with an average of 6.5 percent a year earlier. The current unemployment

rate remains significantly higher than the average annual rate of 4 percent recorded from 2000 through 2008. Figure 1 shows trends in labor force, resident employment, and unemployment rates from 2000 through 2010.

Since 2000, the education and health services sector has accounted for almost all nonfarm payroll growth in the HMA; the sector accounts for approximately 42,050 jobs, or 41 percent of total nonfarm payrolls. Mayo Clinic has been the primary source of economic growth in the area since its founding in the 19th century. Beginning in 1997, Mayo Clinic initiated an 8-year expansion program. As a result, payrolls in the education and health services sector increased by an average of 6 percent, or 1,525 jobs, annually from 1997 through 2002. Mayo Clinic, with 32,000 employees, is the largest employer (see Table 2) in the HMA, is the largest hospital in Minnesota, and had a \$1.3 billion impact on the HMA economy in 2008 (the latest data available), according to Battelle Memorial Institute.

During the 12 months ending June 2011, nonfarm payroll growth was weak in many service-providing sectors. The financial activities and the wholesale and retail trade sectors lost 150 and 100 jobs, declines of 5.3 and 0.7 percent, respectively (see Table 3). The losses in these two sectors were attributable to the weak economy and tight credit standards, which led to layoffs in banking, insurance, and retail services. Nonfarm payroll growth was essentially flat in the education and health services, the government, the information, and the transportation and utilities sectors, but the professional and business services sector added about 225 jobs, a 4.7-percent increase. Figure 2 shows percentage

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Rochester HMA, 2000 Through 2010



Source: U.S. Bureau of Labor Statistics

Table 2. Major Employers in the Rochester HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Mayo Clinic	Education & Health Services	32,000
IBM Corporation	Manufacturing	4,400
Olmsted County	Government	1,175
Olmsted Medical Center	Education & Health Services	1,075
McNeilus Truck and Manufacturing, Inc.	Manufacturing	850
City of Rochester	Government	830
Charter Communications, Inc.	Information	690
Crenlo, LLC	Manufacturing	640
Interstate Hotels & Resorts	Leisure & Hospitality	590
Rochester Community and Technical College	Education & Health Services	500

Notes: As of June 2011. Excludes local school districts.

Source: Rochester Area Economic Development, Inc.

growth for nonfarm payroll sectors from 2000 to the current date. Since 2000, the information sector has increased by 50 percent to about 1,500 jobs, which represents an average increase of about 50 jobs annually.

The government sector has remained stable during the past decade. In the fall of 2008, the University of Minnesota Rochester (UMR) opened a

downtown Rochester campus that currently employs 90 faculty and staff. UMR anticipates a 650-student total enrollment for the fall of 2011, with enrollment rising to about 1,300 in the fall of 2013. According to UMR estimates, the university has an annual economic impact on the city of Rochester of \$6–\$8 million.

During the 12-month period ending June 2011, payrolls in the goods-producing sectors averaged about 13,700 jobs, up 0.7 percent from payrolls during the previous 12 months (see Table 3). The manufacturing sector, the largest goods-producing sector, accounts for about 10 percent of total nonfarm payroll jobs in the HMA (see Figure 3). Manufacturing payrolls increased by about 150 jobs, or 1.3 percent, in the past 12 months. The largest manufacturer in the area is IBM Corporation (IBM), with 4,400 employees. At the Rochester facility, the largest IBM operation under one roof in the world, IBM

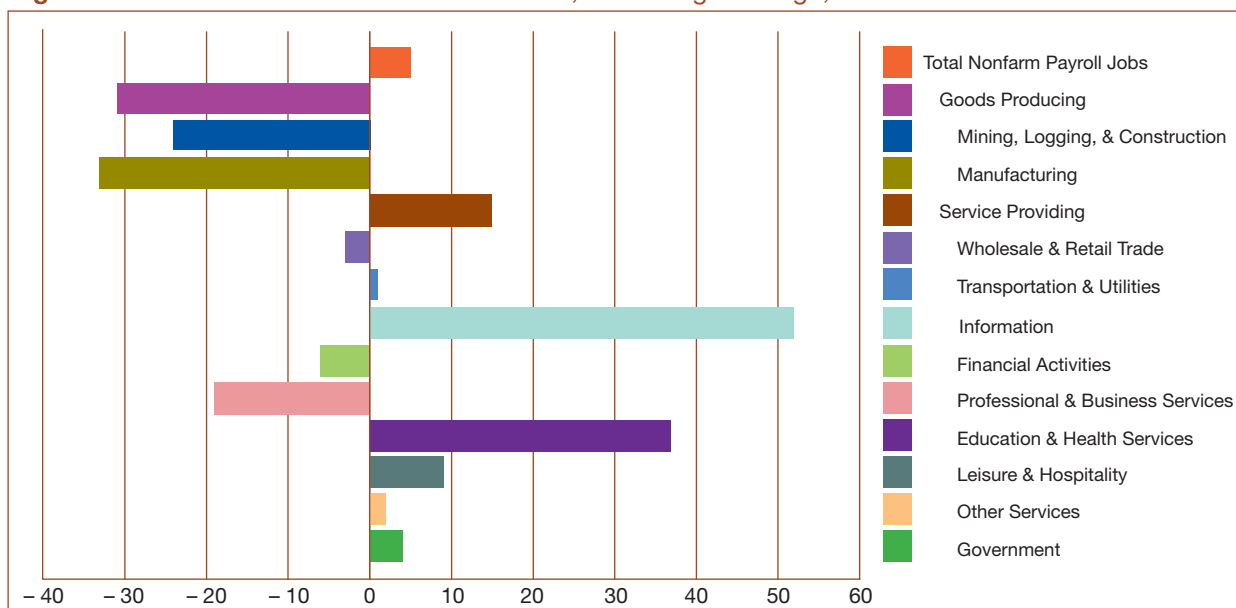
Table 3. 12-Month Average Nonfarm Payroll Jobs in the Rochester HMA, by Sector

	12 Months Ending June 2010	12 Months Ending June 2011	Percent Change
Total Nonfarm Payroll Jobs	102,400	102,600	0.2
Goods Producing	13,600	13,700	0.7
Mining, Logging, & Construction	3,125	3,100	-1.1
Manufacturing	10,450	10,600	1.3
Service Providing	88,750	88,900	0.2
Wholesale & Retail Trade	13,100	13,000	-0.7
Transportation & Utilities	2,325	2,325	0.0
Information	1,500	1,525	0.6
Financial Activities	2,675	2,525	-5.3
Professional & Business Services	4,400	4,625	4.7
Education & Health Services	41,950	42,050	0.3
Leisure & Hospitality	8,500	8,525	0.1
Other Services	3,450	3,475	0.5
Government	10,850	10,900	0.3

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

Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Rochester HMA, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through June 2011.

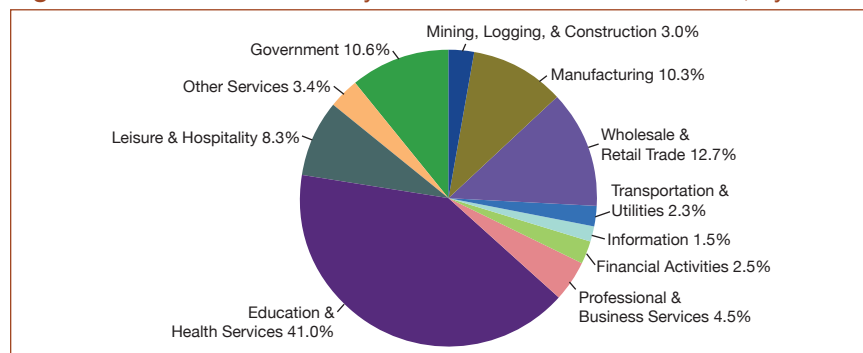
Source: U.S. Bureau of Labor Statistics

makes one of the world's most powerful computers, the Blue Gene/L super-computer.

Nonfarm payroll jobs are expected to increase by an average of 0.6 percent annually during the 3-year forecast

period. Payrolls are expected to increase by approximately 200 jobs in the first year, with payroll growth increasing to an average of 550 jobs annually during the second and third years of the forecast period.

Figure 3. Current Nonfarm Payroll Jobs in the Rochester HMA, by Sector



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

Source: U.S. Bureau of Labor Statistics

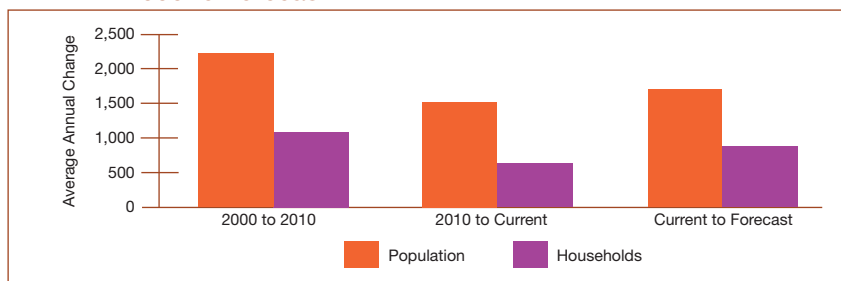
Population and Households

As of July 1, 2011, the population of the Rochester HMA was estimated at 187,900, an increase of about 1,500, or 0.8 percent annually from April 1, 2010. From 2000 through 2010, the population of the HMA increased by approximately 2,250, or 1.3 percent, annually (see Figure 4). The city of Rochester, in Olmsted County, has an estimated 108,600 residents, or 58 percent of the HMA

total, but, from 2000 to the current date, accounted for approximately 80 percent of the population growth in the three-county HMA.

From 2000 through June 2008, the population of the HMA increased by approximately 2,400 annually, but growth slowed to about 2,250 people annually during the past 3 years. More than 70 percent of the population growth since 2000 resulted from net natural increase (resident births minus deaths), which averaged about 1,550 people annually. Net in-migration averaged more than 830 people annually from 2000 through June 2008, with the rapidly expanding economy driving much of the growth. Net in-migration slowed considerably to an average annual 210 people in the past 3 years as a result of the economic

Figure 4. Population and Household Growth in the Rochester HMA, 2000 to Forecast



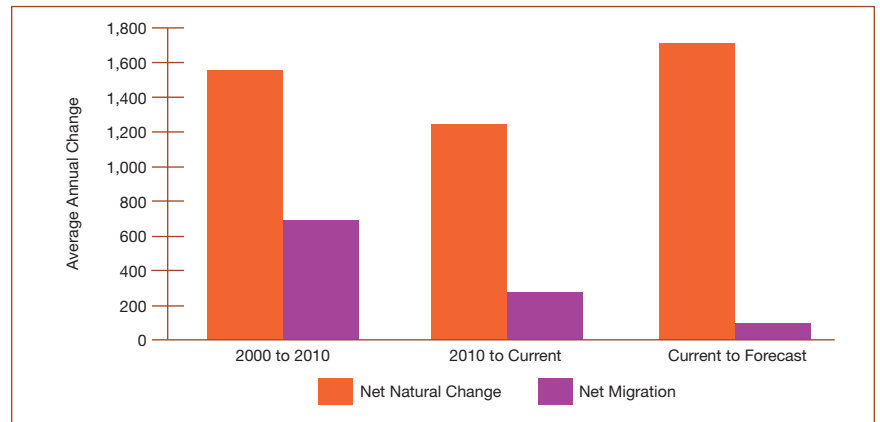
Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

downturn. Net in-migration is expected to increase during the next 3 years, but the rate is expected to remain below that of 2000 through 2008. The population of the HMA is expected to increase by 1,700, or 0.9 percent, a year during the 3-year forecast period. Figure 5 shows the components of population change in the HMA from 2000 to the forecast date.

Between 2000 and 2010, the number of households in the HMA increased

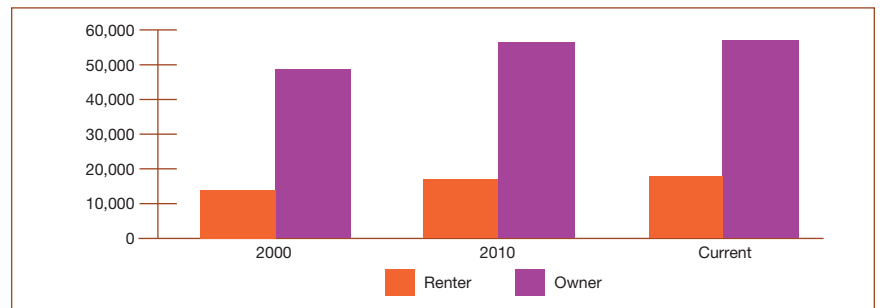
by about 1,075, or 1.6 percent, a year. From 2010 to the current date, household growth slowed to about 620 households, or 0.8 percent, annually. Currently, approximately 74,150 households reside in the HMA. Figure 6 shows the number of households by tenure in the HMA from 2000 to the current date. The number of households is expected to increase by approximately 880, or 1.2 percent, a year to 76,800 households by the end of the forecast period.

Figure 5. Components of Population Change in the Rochester 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 Rochester HMA, 2000 to Current



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

Housing Market Trends

Sales Market

The Rochester HMA sales housing market is currently soft, with an estimated 2.1-percent sales vacancy rate, nearly unchanged from April 2010. According to SEMAR, 2,200 new and existing homes sold in the HMA during the 12-month period ending June 2011, a 15-percent decline compared with the 2,600 sold during the 12-month period ending June 2010. Home sales have been slow for the past 3 years, with an average of 2,425 homes sold annually from 2008 through 2010 compared with average annual sales of 3,375 homes during the peak years of 2005 through 2007. Condominium and townhome sales totaled 280 units for the 12-month period ending June 2011, a 46-percent decline compared with 410 units sold during the previous year. Decreased demand from homebuyers, a result of slower employment growth and tighter mortgage lending standards, caused the sales decline.

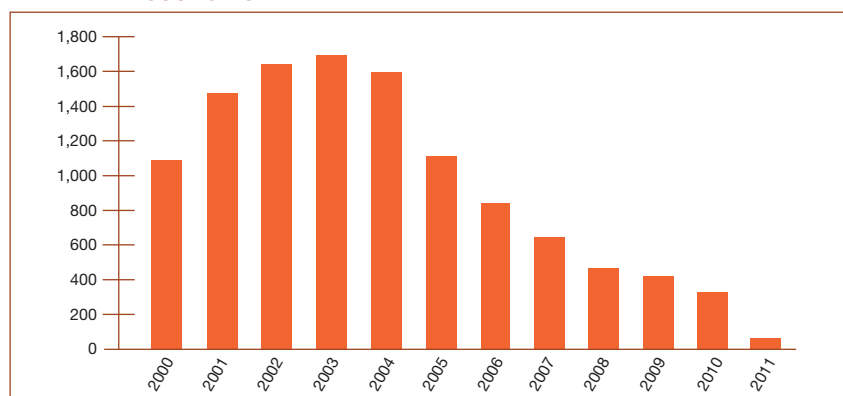
Homebuyer incentives, including sellers paying closing costs and free upgrades on new homes, are prevalent in the sales housing market. According to SEMAR, most home purchases in the HMA are contingent on the

seller agreeing to pay closing costs of between 3 and 5 percent of the sales price. During the 12-month period ending June 2011, the average sales price of new and existing homes was \$172,800 compared with \$169,900 a year ago, a 2-percent increase. During the same period, the average condominium sales price in the HMA increased from \$137,000 to \$143,700, or by 5 percent.

Despite the ongoing weakness in the sales housing market, the home foreclosure and delinquency rates declined in the past 12 months. According to LPS Applied Analytics, as of July 2011, 4.2 percent of home loans in the HMA were classified as 90 or more days delinquent, in foreclosure, or Real Estate Owned (REO), down from 4.5 percent in July 2010. This rate peaked at 5.2 percent in July 2009.

Builders have responded to the reduced number of home sales by decreasing new home construction, as measured by the number of single-family building permits issued. Based on preliminary data, during the 12-month period ending June 2011, about 280 single-family homes were permitted, down 24 percent from the 370 homes permitted during the previous 12-month period. Single-family construction activity peaked from 2002 through 2004, averaging more than 1,600 homes permitted annually, but activity dropped sharply in 2005. The number of single-family homes permitted has declined steadily each year since 2005, to an average of fewer than 375 homes in 2009 and 2010 (see Figure 7). New home development is concentrated primarily in Olmsted County, in northwest Rochester near recently constructed infrastructure

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



Notes: Includes townhomes. Includes data through June 2011.

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

and roads and in southwest Rochester near Rochester International Airport. The prices for new three-bedroom, two-bathroom, single-family homes start at about \$140,000. Newer single-family subdivisions include Harvestview and Pebble Creek, with 850 and 1,200 planned single-family homes, respectively. Development at both subdivisions is proceeding slowly because of the weak sales housing market.

Demand is expected for 2,200 new market-rate homes in the HMA during the 3-year forecast period. The

50 units currently under construction will meet a portion of this demand (see Table 1). In addition, some of the estimated 2,500 other vacant units in the HMA could become available for sale, satisfying part of the sales demand during the forecast period. Demand for new sales units is expected to be strongest in the \$140,000-to-\$249,999 price range, as shown in Table 4. Demand is expected for about 500 homes during the first year of the forecast period, increasing to an average of 850 homes a year during the final 2 years of the forecast period.

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

Price Range (\$)		Units of Demand	Percent of Total
From	To		
140,000	199,999	590	27.0
200,000	249,999	550	25.0
250,000	299,999	370	17.0
300,000	349,999	300	13.5
350,000	499,999	280	12.5
500,000	749,999	65	3.0
750,000	and higher	45	2.0

Note: The 50 homes currently under construction will satisfy some of the estimated demand. In addition, a portion of the estimated 2,500 other vacant units in the HMA will likely satisfy some of the forecast demand.

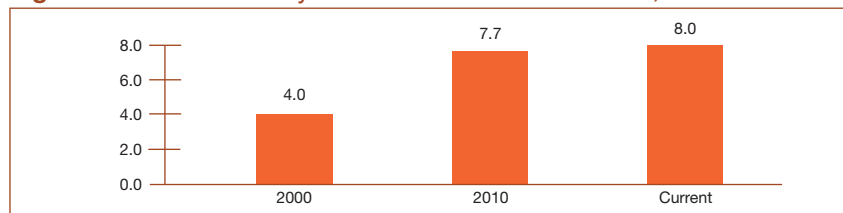
Source: Estimates by analyst

Rental Market

Rental housing market conditions in the Rochester HMA are currently soft, with an estimated 8.0-percent rental vacancy rate, up from the 7.7-percent rate recorded in April 2010 (see Figure 8). According to apartment managers at Class A properties in the HMA, the average vacancy rate for such projects

is currently 5 percent, improved from 7 percent a year ago. Rents for the same properties are estimated to have increased between 3 and 4 percent compared with rents a year ago. Apartment rents for recently completed Class A properties in the HMA currently average about \$950 for a one-bedroom unit, \$1,125 for a two-bedroom unit, and \$1,300 for a three-bedroom unit. Cascade Shores, a 90-unit apartment development that opened in October 2009, has two- and three-bedroom units with rents ranging from \$1,195 to \$1,295 and from \$1,325 to \$1,600, respectively.

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



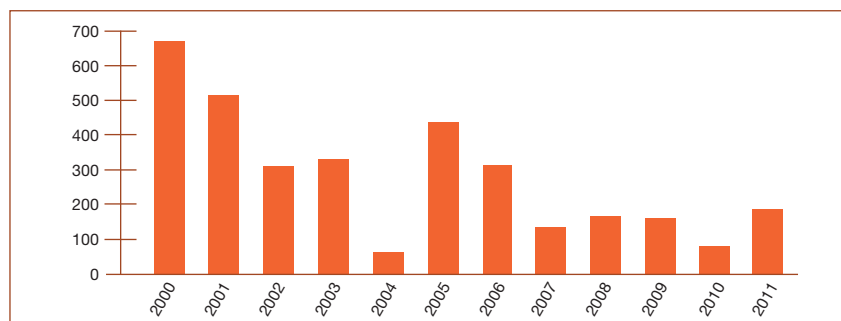
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Rental Market *Continued*

Based on preliminary data, multifamily construction, as measured by the number of multifamily units permitted, totaled 50 units during the 12 months ending June 2011 compared with 200 units permitted during the previous 12 months. During 2000 and 2001, multifamily construction averaged about 600 units annually; construction then declined to an average of 300 multifamily units annually from 2002 through 2006. Since 2007, multifamily construction has averaged fewer than 150 units a year. Figure 9 illustrates the number of multifamily building permits issued from 2000 to the current date. As of July 1, 2011, about 200 multifamily units were under construction, including the 159-unit Quarry Ridge Apartments Phase II located in northwest Rochester.

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



Notes: Excludes townhomes. Includes data through June 2011.

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

Phase I of the project was a 364-unit complex completed in 2000, with rents for one- and two-bedroom units currently ranging from \$960 to \$1,100 and from \$1,060 to \$1,100, respectively, and three bedroom units renting for \$1,230.

UMR anticipates its enrollment will nearly double within the next 2 years, and this growth is expected to increase demand in the rental housing market. Scheduled to open in August 2011, 318 Commons is a \$28 million, mixed-use retail and residential development that includes 98 apartment units. The complex will also include UMR office and classroom space. UMR arranged for most of the 98 apartments to be made available to its students, at a cost of \$1.4 million annually. UMR has no on-campus housing, and the university has no plans to develop or manage other student housing in the area.

During the 3-year forecast period, demand is estimated for 350 new market-rate rental units in the HMA. The approximately 200 units currently under construction will meet a portion of this demand (see Table 1). Table 5 shows estimated demand for new market-rate rental housing in the HMA categorized by rent level and number of bedrooms.

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

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
950 to 1,149	120	1,125 to 1,324	75	1,300 to 1,499	25
1,150 or more	20	1,325 to 1,524	70	1,500 or more	20
		1,525 or more	20		
Total	140	Total	160	Total	45

Notes: The 200 units currently under construction will satisfy some of the estimated demand. Numbers may not add to totals because of rounding.

Source: Estimates by analyst

Data Profile

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

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total Resident Employment	92,561	99,057	100,100	0.7	2.1
Unemployment Rate	2.7%	6.1%	5.7%		
Nonfarm Payroll Jobs	97,300	102,000	102,600	0.5	1.2
Total Population	163,618	186,011	187,900	1.3	0.8
Total Households	62,504	73,375	74,150	1.6	0.8
Owner Households	48,521	56,200	56,650	1.5	0.6
Percent Owner	77.6%	76.6%	76.3%		
Renter Households	13,983	17,175	17,550	2.1	1.7
Percent Renter	22.4%	23.4%	23.7%		
Total Housing Units	65,130	78,450	79,400	1.9	1.0
Owner Vacancy Rate	0.8%	2.0%	2.1%		
Rental Vacancy Rate	4.0%	7.7%	8.0%		
Median Family Income	NA	\$77,800	\$77,600	NA	- 0.3

NA = data not available.

Notes: Employment data represent annual averages for 2000, 2010, and the 12 months through June 2011. Median family incomes are for 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: 7/1/2011—Analyst's estimates

Forecast period: 7/1/2011–7/1/2014—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 are classified as commercial structures and 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_RochesterMN_11.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.