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Analysis of the Lincoln, Nebraska 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 purpose 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, which 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. James P. Laakso, the Economist in the Omaha State Office, based on fieldwork conducted in April 2003. If there are questions regarding the findings and conclusions of the analysis, he may be reached at (402) 492-3111 and at Jim_P._Laakso@hud.gov.

Housing Market Area

The Housing Market Area (HMA), for the purpose of this housing market analysis, shall be the same as the 1999 definition of the Lincoln, Nebraska, Metropolitan Statistical Area by the U.S. Office of Management and Budget. The single-county metropolitan area consists of Lancaster County, Nebraska.

Summary

Lancaster County, Nebraska, is located in the southeast quadrant of the state, approximately 50 miles southwest of Omaha via Interstate 80. Lincoln is the state capital of Nebraska, the county seat for Lancaster County, and home of the University of Nebraska–Lincoln. The economy of the Lincoln HMA is focused on state government, health care, education, and university-affiliated business development.

Nonagricultural employment in the 1990s grew by approximately 2.4 percent per year, but slowed during the past 3 years to 0.6 percent annually. During the past 12 months ending December 2002, nonagricultural wage and salary employment in the HMA declined 0.5 percent because of a slowdown in the general economy. Hundreds of manufacturing jobs were lost when local manufacturers eliminated production lines or closed.

The downturn is expected to be temporary with moderate growth in the local economy anticipated for the forecast period. Nonagricultural employment is projected to grow at a 1.0-percent annual rate during the forecast period.

Household growth during the 2-year forecast period is expected to remain moderate, averaging 2,030 new households annually. The change in households is expected to follow the anticipated moderate employment growth forecast. Residential construction throughout the past 3 years has averaged 1,780 units.

The sales market is currently somewhat tight, however, balance is expected by the end of the forecast period. The rental market in Lincoln is balanced with some softness noted in certain segments. The overall rental vacancy rate is currently estimated to be 6.1 percent.

Based on the analysis of current and anticipated economic and demographic changes, it is estimated that there will be a demand for approximately 4,200 additional housing units throughout the 2-year forecast period: 3,150 units of sales housing and 1,050 units of market-rate rental housing. This demand forecast is consistent with recent years' activity, and reflects the assumption that there will be no significant changes in the local economy during the forecast period.

Economy of the Area

The economy of the Lincoln HMA—dominated by state government, education, and medicine—is strong and stable. In 2002 the unemployment rate in the area averaged 3.3 percent.

The stability of the local economy is the result of the area's major economic sectors: government and education. Lincoln is the state capital for Nebraska and the home of the main campus for the University of Nebraska. Throughout the past 4 years, enrollment at the University of Nebraska–Lincoln has increased steadily. For the 2002–03 school year enrollment totaled approximately 23,000 students. The Lincoln HMA is also the location of Nebraska Wesleyan University, Union College, Doane College, Southeast Community College, the Lincoln School of Commerce, and the College of St. Mary.

As of 2002 employment in the state government sector averaged 20,400 persons. Within this sector the University of Nebraska–Lincoln is the largest employer with approximately 6,000 faculty and staff. The second largest employer is the State Department of Health and Human Services with approximately 5,800 workers. Other public employers include Lincoln Public Schools, which employs 4,970, the city of Lincoln with 2,070 workers, and Lancaster County with 1,188 employees. Lincoln has developed into a regional medical center, with Bryan Lincoln General Hospital Medical Centers' East and West campuses employing 4,100 people, and Catholic Health/Saint Elizabeth Regional Medical Center, with its 2,500 employees.

The two largest manufacturing firms in the Lincoln HMA are Goodyear Tire & Rubber Company, which manufactures V-belts, radiator hoses, and belts for transmissions; and Kawasaki Motors, which produces passenger cars for light-rail systems, jet skis, and motorcycles. Each of these firms employs approximately 2,000 workers. Goodyear, however, is currently reducing its workforce (mainly through attrition), while Kawasaki, which recently won two new contracts to provide light-rail and subway cars for the Massachusetts Bay Transit Authority and the New York City Transit Authority, has increased its workforce by approximately 300 employees.

Nonagricultural employment in the 1990s increased by approximately 2.4 percent a year, from 121,700 persons in 1990 to 154,300 by 2000. The average increase during the past 3 years has been only 0.6 percent annually to 154,800 as of 2002. For the 12 months ending December 2002, nonagricultural wage and salary employment in the HMA declined 0.5 percent as a result of the slowdown in the general economy. Hundreds of manufacturing jobs were lost when two major local employers, Square D and Textron, eliminated production lines. Textron closed its factory and moved its production to other domestic locations. Throughout the past 3 years growth within the major employment sectors was mixed. Employment within Finance, Insurance, and Real Estate (FIRE) and the government sectors each grew by 1,000 workers. However, declines in the Manufacturing, Construction, and Services sectors offset much of the increase.

Being the seat of state government tends to stabilize the Lincoln economy, therefore, the downturn is expected to be temporary, with moderate growth in the local economy anticipated for the forecast period. Nonagricultural employment is projected to grow at a 1.0-percent annual rate during the forecast period.

Local government in the Lincoln HMA places a strong emphasis on planned growth and infrastructure improvement. One example is the Antelope Valley project, which broke ground in July 2002. The project, expected to take up to 10 years, will provide flood control along Antelope Creek as well as neighborhood revitalization and 6 miles of new and improved roadways within Lincoln's central business district.

Household Incomes

In 1990 the median family income in the Lincoln HMA was \$36,467. By 2000 the median family income had increased to \$54,676. HUD estimates that the median family income for the HMA as of fiscal year 2003 was \$62,400.

Population

The population of the Lincoln HMA grew by approximately 1.7 percent annually from 1990 to 2000. In 2000 the population of the HMA was 250,291. Approximately 90 percent of the population resides in the city of Lincoln. In-migration accounted for approximately 54 percent of the total increase of 36,650 persons between 1990 and 2000. A significant portion of this growth was the result of international immigration. During the last half of the 1990s, Lutheran Family Services sponsored the Heartland Refugee Resettlement program, resettling thousands of immigrants, mainly from Bosnia but also from the Sudan and Vietnam, to the Lincoln area. However, this in-migration has virtually ceased following September 11.

As of January 1, 2003 the Lincoln HMA had an estimated population of 261,500. Net migration during this period represented only 36 percent of the growth, as compared to 54 percent during the 1990s.

The net natural increase (resident births minus resident deaths) in the Lincoln HMA from 1990 to 2000 averaged 1,690 persons per year. Since 2000 the rate of net natural has increased some 16 percent. A part of the increase can be attributed to the increased international in-migration of families. From 1990 through 1999 births within the Lincoln area averaged 3,240 annually. From 2000 to the Current date births have averaged 3,760 annually.

Overall population growth in the Lincoln HMA has slowed since 2000 with the slowdown in the economy. The lower rate of population increase is expected to continue during the forecast period. For the forecast period migration is projected to account for 30 percent of the population growth. At the end of the forecast period the HMA is forecast to have a population of 269,700.

Households

The annual average change in households in the Lincoln HMA from 2000 to the Current date was slightly higher than during the period from 1990 to 2000. Between 1990 and 2000 the number of households in the Lincoln HMA increased by 1,640 per year, reaching 99,200 households in 2000. As of the Current date there are 104,300 households in the Lincoln HMA, or a increase of 1,850 annually since the 2000 Census. Owner households accounted for 60 percent of the total gains. Approximately 90 percent of the increase in owner households occurred in the city of Lincoln.

While the total number of renter households in the HMA increased by 1,100 between 2000 and the Current date, renters in the city of Lincoln increased by 1,450. The difference is primarily the result of the annexation of several apartment developments into the city of Lincoln.

The change in households during the forecast period is expected to follow the anticipated moderate employment growth. The forecasted household growth is projected to be 2,050 households per year through January 1, 2005.

Housing Inventory

The housing inventory in the HMA increased by an average of 1,750 units annually during the previous decade to 104,200 units in 2000. Residential construction averaged almost 1,900 units annually during the 1990s. Currently the housing inventory totals 109,250 units. This is a net increase of 5,050 units since the 2000 Census or 1,850 units annually. Residential construction from 2000 to the Current date has averaged 1,780 units. Most of the increase was in single-family sales housing. The city of Lincoln accounted for 91 percent of the growth in the inventory.

As a result of a relatively strong and stable economy from 1990 through 1999, residential construction activity, as indicated by building permits issued, averaged approximately 1,900 units per year. Construction of sales housing accounted for an estimated 1,150 units annually. In 1999 permits were issued for 1,234 single-family homes for sale. Since then single-family building permit activity has increased by 8 percent or more each year. Since 2000 building permits for sales housing have averaged 1,450 units annually.

From 1990 through 1999 building permits for rental housing averaged 750 units per year. From 2000 through 2002 multifamily building activity has averaged 360 units annually. The significant decline in rental production since 2000 is the result of two things. First, the cutback reflects the continued correction in the market due to prior overbuilding and soft market conditions that began in the last part of the 1990s when some 1,000 units entered the market each year. With the softer rental market the vacancy rate increased to more than 8.5 percent. Secondly, with low mortgage interest rates, a relatively affordable sales housing stock, and a generally stable economy, an increasing number of renters are becoming first time home buyers, freeing up more rental inventory.

Housing Vacancy

As a result of the increased production of homes and apartments to meet the growing demand from new households, vacancy rates increased slightly from 1990 to 2000. The owner vacancy rate increased from 1.1 percent to 1.2 percent and the rental vacancy rate increased from 5.8 to 6.2 percent. Currently there are an estimated 3,300 vacant available housing units in the HMA: 700 homes for sale and 2,600 rental units. The owner vacancy rate is currently estimated to be 1.1 percent, while the renter vacancy rate is estimated to be 6.1 percent.

Sales Market Conditions

The sales market in the Lincoln HMA has been strong for the past 3 years. A total of 3,843 single-family homes were sold in 2001, 10 percent greater than the sales volume in 2000. Sales activity for 2002 totaled 4,112 homes, a 7 percent increase over 2001. According to the Lincoln Association of REALTORS[®], the average sales price for all homes, new and existing, was \$135,915 in 2002, up 5.4 percent from average sales price recorded in 2001. The average price in 2001 was 5.1 percent greater than that for 2000. The average sales price for a new home increased 3.1 percent in 2002 to \$180,346. The average price of an existing home increased 4.6 percent in 2002 to \$125,089.

First time home buyers have fueled much of the existing sales activity during 2002. Sales have been particularly strong in the \$100,000 to \$125,000 range, which includes the \$117,000 maximum set by the Nebraska Investment Finance Authority for loans to first time home buyers. New home sales, not built under contract, were particularly brisk in 2002, with sales up 19.5 percent from 696 in 2001 to 832 in 2002. While the demand for high-end custom-built homes is expected to remain high, sales for speculative homes in the upper price ranges is expected to slow during the forecast period.

The construction of new homes, particularly in the lower price ranges, are expected to be affected by the cost of available lots due to a recently enacted "Impact Fee Ordinance," which will take effect on June 2, 2003. The fees are expected to add \$2,500 to the cost of a single-family home and \$1,960 to the cost of a multifamily unit, if separately metered. The city of Lincoln enacted impact fees because traditional fees and taxes were not covering the increased cost of providing public facilities to serve new developments.

Rental Market Conditions

The current occupancy rate in the rental housing market is essentially unchanged from the 2000 Census. As of 2000 the rental vacancy rate in the HMA was 6.2 percent. At the same time a survey, conducted April 1, 2000, by the Lincoln Association of REALTORS[®] reported a 6.1-percent vacancy rate in the apartment complexes participating in the survey. Similar surveys by the REALTORS[®] Association reported a rate of 5.1 percent in 2001 and 5.4 percent in 2002. It is estimated that as of the Current date the overall rental vacancy rate in the Lincoln HMA was 6.1 percent.

The more competitive, and slightly softer conditions in the rental market have kept rent increases low during the past 2 years. According to the Multi-Family Rental Property Report, prepared by the Lincoln Association of REALTORS[®], the average contract rent for all multifamily units surveyed was \$537 in 2000. As of their 2002 survey the average contract rent had risen to \$554, a 1.6-percent annual increase. Two-bedroom contract rent had risen from \$585 in 2000 to \$607 in the 2002 survey, a 1.9-percent annual increase. One-bedroom multifamily rentals averaged contract rents of \$461 in the 2000 survey, and \$477 in the 2002 survey, an average annual increase of 1.7 percent. One-bedroom units make up 43 percent of the multifamily rental inventory for the units surveyed. Rental increases are expected to remain relatively low during the forecast period.

Forecast Housing Demand

It is estimated that there will be a demand for 4,200 new housing units during the 2-year forecast period, or an annual average demand for 1,575 units of sales housing, of which 1,300 will be single-family detached; and 525 units of market rate rental housing. The principal factor of demand is household growth, which is forecasted to add 2,030 households per year to the Lincoln HMA. Need to replace units lost from the inventory are estimated at 500, consisting of 100 units of sales housing and 400 rental units. 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.

Table 1
Labor Force and Total Employment
Lincoln HMA
1992 to January 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Labor Force	127,245	130,193	132,768	136,373	140,868	141,152	142,910	142,514	144,259	145,823	153,020
Total Employment	123,764	127,182	129,579	133,301	137,272	137,994	139,706	139,103	140,454	141,672	148,013
Unemployment	3,481	3,011	3,189	3,073	3,596	3,158	3,203	3,411	3,804	4,151	5,007
Rate (%)	2.7	2.3	2.4	2.3	2.6	2.2	2.2	2.4	2.6	2.8	3.3

Source: Nebraska Department of Labor

Table 2
 Nonagricultural Employment
 Lincoln HMA
 1992 to January 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	125,948	128,672	132,884	137,285	142,671	145,580	148,067	152,291	154,298	155,511	154,801
Construction and Mining	4,687	5,184	5,490	5,568	6,013	6,379	6,753	7,346	7,509	7,480	6,928
Manufacturing	14,987	15,454	16,165	17,059	16,733	17,235	18,154	18,278	18,197	17,892	16,909
Durable Goods	6,984	7,389	7,888	8,527	8,819	9,356	9,820	9,798	9,843	9,654	8,904
Nondurable Goods	8,003	8,065	8,227	8,532	7,914	7,879	8,334	8,480	8,354	8,238	8,005
Service Producing	106,274	108,034	111,229	114,658	119,925	121,966	123,160	126,667	128,592	130,139	130,964
Trans., Comm., & Public Utilities	7,417	7,605	7,559	7,692	9,072	9,304	9,628	9,314	8,387	8,581	8,434
Trade	27,019	26,670	28,502	29,449	30,578	30,592	31,027	32,102	32,263	32,531	32,864
Wholesale Trade	5,524	5,144	5,418	5,755	5,828	5,875	5,696	5,755	5,746	5,662	5,807
Retail Trade	21,495	21,526	23,084	23,694	24,750	24,717	25,331	26,347	26,517	26,869	27,057
Finance, Insurance, & Real Estate	8,682	8,875	8,676	8,786	8,950	9,237	9,982	10,755	11,028	11,302	12,064
Services	29,634	30,812	32,431	34,191	35,947	37,775	39,535	40,929	42,170	42,383	41,830
Government	33,522	34,072	34,062	34,541	35,378	35,057	32,987	33,569	34,744	35,343	35,772
Federal	2,766	2,799	2,593	2,504	2,484	2,520	2,559	2,522	2,861	2,839	2,853
State	18,344	18,614	18,817	19,002	19,109	19,118	18,946	19,257	19,852	20,368	20,358
Local	12,412	12,659	12,652	13,035	13,784	13,416	11,482	11,790	12,031	12,136	12,561

Source: Nebraska Department of Labor

Table 3
 Population and Household Trends
 Lincoln HMA
 April 1, 1990 to January 1, 2005

	April 1, 1990	April 1, 2000	Current Date ^a	Forecast Date ^b	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
<u>Population</u>										
Lincoln, Nebraska HMA	213,641	250,291	261,500	269,700	3,665	1.7	4,070	1.6	4,100	1.6
City of Lincoln	191,972	225,581	235,850	243,400	3,360	1.8	3,730	1.7	3,775	1.6
<u>Households</u>										
Lincoln, Nebraska HMA	82,759	99,187	104,300	108,340	1,640	2.0	1,850	1.9	2,050	1.9
City of Lincoln	75,402	90,485	95,550	98,890	1,510	2.0	1,850	2.0	1,660	1.7

Notes: ^a January 1, 2003.

^b January 1, 2005.

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

Table 4
 Housing Inventory Tenure and Vacancy
 Lincoln HMA
 1990 to January 1, 2003

	Lincoln, Nebraska HMA			City of Lincoln Submarket Area		
	1990	2000	Current	1990	2000	Current
Total housing inventory	86,734	104,217	109,250	79,079	95,199	99,900
Occupied units	82,759	99,187	104,300	75,402	90,485	95,500
Owners	50,104	59,990	64,000	43,818	52,448	56,000
%	60.5	60.5	61.4	58.1	58.0	58.6
Renters	32,655	39,197	40,300	31,584	38,037	39,500
%	39.5	39.5	38.6	41.9	42.0	41.4
Vacant units	3,975	5,030	5,000	3,677	4,714	4,400
Available units	2,575	3,327	3,300	2,474	3,207	3,200
For sale	574	757	700	525	700	650
Rate (%)	1.12	1.2	1.1	1.2	1.3	1.2
For rent	2,001	2,570	2,600	1,949	2,507	2,550
Rate (%)	5.8	6.2	6.1	5.8	6.2	6.1
Other vacant	1,400	1,703	1,700	1,203	1,507	1,200

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

Table 5
Residential Building Permit Activity

Lincoln HMA

1992 to 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Lincoln, Nebraska HMA											
Total	1,426	1,645	1,955	1,951	2,321	2,236	2,139	1,686	1,744	2,028	1,902
Single-family	1,151	1,063	1,153	980	1,047	1,095	1,274	1,3120	1,411	1,183	1,534
Multifamily	275	582	802	971	1,274	1,141	865	385	333	845	368

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

Table 6
 Estimated Qualitative Annual Demand for
 New Market Rate Rental Housing

Lincoln 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
500	470	700	300	900	280
550	400	750	280	950	270
600	370	800	250	1,000	250
650	350	850	220	1,050	230
700	300	900	180	1,100	200
750	250	950	140	1,150	160
800	200	1,000	110	1,200	120
850	150	1,050	80	1,250	80
900	100	1,100	60	1,300	50
950	50	1,150	40	1,350	20
1,000	0	1,200	20	1,400	10

Source: Estimates by Analyst