

# COMPREHENSIVE MARKET ANALYSIS REPORTS



Policy Development & Research

## **Analysis of the State College, Pennsylvania Housing Market As of December 1, 2004**



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 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 proposal that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis follows the guidelines 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 both local and national sources. As such, any findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local 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: from 1990 to 2000, from 2000 to the as-of date of the analysis—December 1, 2004 (Current date)—and from the Current date to December 1, 2007, the Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory, as of the 1990 Census, the 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 36 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 the demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Patricia C. Moroz, one of the Division's Field Economists in the Philadelphia Regional Office, based on fieldwork conducted in September 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Ms. Moroz at 215-656-0604, ext. 3031, and [patricia\\_c.\\_moroz@hud.gov](mailto:patricia_c._moroz@hud.gov).

## **Housing Market Area**

The State College, Pennsylvania Housing Market Area (HMA) is defined as the State College Metropolitan Statistical Area and is coterminous with Centre County. For purposes of this analysis, the State College HMA has been divided into two submarkets: State College Borough and the remainder of Centre County, referred to in this report as the Remainder of the HMA. State College Borough includes Pennsylvania State University's main campus, University Park, referred to in this report as Penn State.

## **Summary**

During the 1990s, the economy of the State College HMA grew steadily. Growth in service-providing industries was greater than losses in goods-producing industries. Since 2000, however, the area's economy has slowed as manufacturing losses increased and the rate of growth in services declined. The economy is expected to remain stable during the forecast period, with a modest rate of resident employment growth that will be lower than the average annual gain from 1990 to 2000.

During the 1990s, growth in the population and households in the HMA resulted from increasing employment opportunities and availability of relatively affordable single-family housing. Since 2000, in-migration has increased as the small-town, college atmosphere of State College Borough has attracted retirees to the HMA. The rates of growth in population and households have remained stable in recent years, a trend that is expected to continue during the forecast period.

The current demand-supply conditions in the HMA are balanced, and conditions in the sales and rental housing markets are expected to remain balanced during the forecast period. Demand for new sales housing is strong due to the availability of affordably priced homes and low interest rates. Production of multifamily units is keeping pace with demand.

During the 3-year forecast period ending December 1, 2007, demand for new market-rate sales housing is estimated at 530 homes annually; the demand for new market-rate rental housing is estimated at 200 units annually.

## **Economy of the Area**

From 1990 through 1999, nonfarm employment in the State College HMA increased by 8,300 jobs, or by an average of 1.5 percent annually. Total (resident) employment increased at a slower average rate of 1.2 percent annually, or 6,500 jobs, a year. The HMA economy was strong during the 1990s, as employment growth in service-providing industries more than compensated for job declines in the goods-producing sector. Trends in annual average civilian labor force and total employment and in nonfarm wage and salary employment by industry sector from 1990 through the Current date, December 1, 2004, are presented in Tables 1 and 2, respectively.

Total (resident) employment has increased by a rate of 1.1 percent annually. Since 2000, nonfarm employment has increased at a much slower rate of 0.5 percent annually, totalling 71,200 jobs as of the Current date. Part of the difference in the rates of growth is due to the fact that a large number of workers who lost their jobs live outside the HMA. From 2000 to the Current date, fewer service jobs have been created and job losses have increased in the manufacturing sector. Approximately 1,000 positions were eliminated in 2003 with the closure of the Corning Asahi Video Products plant, which produced glass for television picture tubes.

Since 2000, more than one-half of the jobs added in the service-providing sector have been in government, particularly state government, which includes employees of Penn State, the leading employer in the HMA. University employment increased an average of 260 positions, or 2 percent, annually to a total of more than 14,700 faculty and nonstudent staff as of the Current date. Compared with the 1990s, the leisure and hospitality sector has also increased more rapidly by adding 170 jobs a year, or an average annual rate of 2.9 percent, as additional hotels have been built in the HMA. Employment in the educational and health services sector, including Mount Nittany Medical Center, continues to add jobs, but at approximately one-half the pace of the previous decade, increasing an average of 100 jobs, or 1.8 percent, annually as of the Current date.

The HMA is a regional employment center. As of the 2000 Census, an estimated 13,750 workers residing outside the HMA commute to jobs in it. At the same time, more than 5,275 people residing in the HMA commute to jobs outside the HMA, for a net in-commutation of 8,475 people. The number of workers commuting into the HMA for employment increased by an average of 175 jobs, or 2.6 percent, annually from 1990 to 2000. This rate of in-commutation has remained unchanged since 2000 and is expected to continue during the forecast period.

The State College economy is expected to remain stable throughout the 3-year forecast period. Total resident employment is forecast to increase by a moderate rate of 0.9 percent, or 630 jobs, annually, as employment gains in the service-providing sector continue to offset losses in the goods-producing sector.

## **Household Incomes**

HUD's Economic and Market Analysis Division, estimate the median family income in the State College HMA to be \$59,100 in 2004. As of the 2000 Census, the median family income was \$50,557, which is an average annual increase of 4.7 percent from its 1990 value of \$34,313.

## **Population**

As of December 1, 2004, the population of the State College HMA was estimated to be 146,250, which is an average annual gain of 1.1 percent since the 2000 Census. The population continues to increase at the same rate recorded from 1990 to 2000. Trends in

population change for the HMA and its submarkets from 1990 to the Forecast date are presented in Table 3.

Increased in-migration has been the major factor of the population growth in the HMA. Net natural change (resident births minus resident deaths) accounted for 26 percent of the increase from 1990 to 2000. During the 1990s, in-migration averaged 818 people annually. From 2000 to the Current date, in-migration increased to an estimated average of 1,115 people annually, as relatively affordable prices and the small-town, college atmosphere in the HMA have become increasingly attractive to retirees.

Annual data from the Pennsylvania Department of Health indicate population change as a result of net natural increase averaged nearly 576 people a year from 1990 to 2000. The number of births decreased, particularly during the first half of the 1990s, as a result of out-migration of the younger population in search of employment opportunities outside the HMA. The 18- to 39-year-old age group constituted 51.7 percent of the overall population in 1990. This age group constituted 46.8 percent of a larger population in 2000. Since 2000, net natural change has declined to an average of 390 people annually. During the forecast period, net natural change is expected to continue declining, but at a slower rate than previously.

Students at Penn State account for more than one-quarter of the population of the HMA but represent less than 20 percent of the area's population growth. Enrollment has risen by approximately 250 students annually since 1990 and totals more than 41,200 as of fall 2004. Students have had a significant impact on the local housing market; approximately one-third of Penn State's students reside in university housing, and the remaining two-thirds, or 27,900 students, are absorbed by the State College housing market. Enrollment at Penn State is expected to reach 42,000 by the end of the forecast period.

A comparison of census data and additional information from Penn State suggests that a significant undercount of the nonhousehold population occurred in 2000, which was carried over into the total population count for the HMA. The population estimates shown in Table 3 have been adjusted to account for the difference between reported nonhousehold population living in dormitories as of the 2000 Census and the university's records of the number of students living in residence halls and fraternities in 2000. Table 3 also includes an adjustment for a minor undercount of nonhousehold population in dormitories as of the 1990 Census, which was also carried over into the total population count for the area.

Based on the level of economic growth, in-migration, and net natural increase anticipated during the 3-year forecast period, population growth is expected to continue at the same rate that occurred from 1990 to the Current date. The population of the State College HMA is estimated to be 150,950 as of December 1, 2007.

## **Households**

The rate of increase in the number of households in the State College HMA has been greater than the rate of increase in the area's population. Between 1990 and 2000,

households grew by 1.4 percent, or 670 households, annually, as people migrated to the area for employment. Although the economy has slowed since 2000, the rate of increase in households has remained constant, as more households have relocated to the HMA for retirement. As of December 1, 2004, an estimated 52,540 households reside in the HMA.

With two-thirds of university students living off campus in privately owned housing units, student housing represents a major component of demand for rental units in State College Borough. Between 1990 and 2000, the number of households grew by 0.9 percent, or 110 households, annually. The rate of growth in the number of households in the Borough slowed to 0.1 percent annually from 2000 to the Current date, because the completion of a new apartment building on campus in 2004 provided additional housing for 808 students.

The current annual rate of household growth of 1.4 percent is expected to slow slightly during the next 3 years. Estimates suggest that the number of households in the HMA will increase by 670 annually to approximately 54,525 households as of the end of the forecast period. Table 3 presents the trends in household growth from 1990 through the Forecast date for the HMA and its submarkets.

## **Housing Inventory**

Just as the population and number of households changed, the housing inventory increased at a moderate pace during the 1990s, with 660 units added annually. Since 2000 and as the area has become known as a retirement destination, the housing inventory has increased by an estimated 1.6 percent, or 830 units, annually. As of the Current date, the HMA has a total of 56,750 units. Approximately 86 percent of the change in inventory since 2000 has been in sales housing, predominantly single-family homes located in the Remainder of the HMA. The counts of housing inventory, occupancy, and vacancy by tenure for 1990, 2000, and the Current date are presented in Table 4.

From 1990 to 1999, single-family building permit activity averaged more than 500 a year, increasing steadily during the latter part of the decade. As migration to the HMA increased from 2000 to the Current date, new home construction has increased to an average of approximately 700 homes annually, or 39 percent more than the annual activity during the 1990s.

Construction of multifamily units averaged approximately 150 annually during the 1990s but varied considerably from year to year. Approximately 70 percent of the construction of multifamily units occurred in the Remainder of the HMA because private and national college-housing developers constructed apartments with amenities near public transportation that were attractive to students. Multifamily rental permit activity has declined slightly to an average of approximately 120 units a year from 2000 to the Current date; most units constructed have been townhomes located in the Remainder of the HMA. The trends in building permit activity from 1990 through the Current date for single-family and multifamily housing in the HMA and its submarkets are presented in Table 5.

## **Housing Vacancy**

As of the 1990 Census, the sales vacancy rate in the HMA was 1.1 percent, and the rental vacancy rate was 5.3 percent, both indicative of a relatively balanced market for an area with a low-to-moderate rate of population growth. During the latter part of the 1990s, construction of single-family homes increased to meet the growing demand in the area, and the sales vacancy rate increased slightly to 1.2 percent in 2000. Construction of multifamily units did not keep pace with Penn State's increased enrollment during the mid-to-late 1990s, however, and the rental vacancy rate declined to 3.8 percent as of 2000. As of the Current date, the sales vacancy rate is estimated to be 1.1 percent, a slight decline since 2000. The rental vacancy rate is estimated to have increased to 4.6 percent. Vacancy trends between 1990 and the Current date for the HMA and its submarkets are presented in Table 4.

## **Sales Market Conditions**

The sales market is balanced throughout the State College HMA. According to the Centre County Association of REALTORS<sup>®</sup>, the median sales price of homes in the HMA increased an average of 7.5 percent annually since 2000 to approximately \$156,000 as of the end of 2004. During the same period, sales volume increased an average of 6.8 percent annually to 1,514 units. The highest home prices in the HMA are located in State College Borough and the surrounding five townships, where the median sales price increased an average of 8.3 percent annually since 2000 to approximately \$179,000 by the end of 2004. During the same period, sales volume also increased 4.0 percent annually to 923 units. Single-family, detached homes continue to dominate the sales market in the Remainder of the HMA, with average new home prices ranging from \$200,000 to \$250,000. In the areas closer in to State College Borough, townhouses are a more prominent construction type, with prices averaging \$100,000 to \$150,000.

A planned residential community, The Village at Penn State, is currently under construction in the Remainder of the HMA and, at completion, will consist of 376 traditional and condominium-style single-family homes, townhomes, and duplex and quadraplex units. As of December 1, 2004, a total of 70 units have been completed and 20 units are under construction. The sales prices in the community have been attractive to retirees, with prices ranging from \$240,000 to \$375,000 for single-family homes and \$160,000 to \$225,000 for townhomes. A separate life care retirement community, with 138 apartments, 12 cottages, and assisted-living and nursing facilities, which was completed in 2003, is also part of this community.

## **Rental Market Conditions**

The rental market in the State College HMA is currently balanced. Vacancy rates have increased slightly throughout the area because historically low interest rates have enabled more renters to become homeowners. Students have been attracted to larger units with more amenities and have filled some of these vacancies in the Remainder of the HMA.

As students have relocated to the suburbs and to the new apartments on campus, vacancy rates have risen in State College Borough.

No large-scale apartment complexes are currently under construction in the HMA. Approximately 300 units are planned, however, and are likely to be constructed during the next 3 years. All of these planned units are located in the Remainder of the HMA. In addition to these units, several student housing developments are planned during the forecast period, which could accommodate 1,000 to 1,300 students, depending on enrollment levels at Penn State. Three-quarters of these planned units are to be located in State College Borough, including 135 apartments to be located on campus.

The average gross rent for a two-bedroom/two-bath unit in a newly constructed Class A development in the State College HMA is \$1,150. It is estimated that rent level would be affordable to approximately 30 percent of all renter households in the HMA as of the Forecast date.

## **Forecast Housing Demand**

Based on anticipated household growth and current market conditions, estimates indicate a demand for approximately 1,600 new sales units and 600 rental units during the 3-year forecast period ending December 1, 2007. A portion of the rental demand may be met by the estimated 300 units currently in planning, which are likely to be completed during the forecast period. This level of construction will allow for a balanced market condition. Estimates of the annual qualitative demand in the HMA over the next 3 years for rental and sales housing are presented in Tables 6 and 7, respectively.

**Table 1**  
**Labor Force and Total Employment**  
**State College HMA**  
**1990 to December 1, 2004**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos. <sup>a</sup>	Current 12 Mos. <sup>b</sup>
Labor Force	60,600	61,000	62,500	63,200	62,300	63,600	66,000	67,000	66,500	66,400	66,300	68,800	70,500	68,700	68,800	70,100
Total Employment	58,100	58,300	59,700	60,500	60,100	61,500	64,100	65,000	64,600	64,600	64,700	66,800	68,100	66,400	66,400	67,600
Unemployment	2,500	2,700	2,800	2,700	2,200	2,100	1,900	2,000	1,900	1,800	1,600	2,000	2,400	2,300	2,400	2,500
Rate (%)	4.2	4.4	4.6	4.3	3.6	3.3	2.9	3.0	2.8	2.7	2.4	2.9	3.4	3.4	3.4	3.6

<sup>a</sup> Ending November 2003.

<sup>b</sup> Ending November 2004.

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Table 2**  
**Nonfarm Employment by Industry Sector**  
**State College HMA**  
**1990 to December 1, 2004**

Industry Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos. <sup>a</sup>	Current 12 Mos. <sup>b</sup>
Total Employment	60,000	59,900	61,000	61,700	62,200	64,000	65,600	67,100	67,900	68,300	69,700	71,100	71,800	71,000	71,000	71,200
Goods-Producing	10,600	10,100	10,500	10,400	10,300	10,400	10,500	10,400	10,400	10,000	10,500	10,400	9,600	8,700	8,800	8,100
Constr. & Mining	2,700	2,300	2,400	2,400	2,100	2,200	2,400	2,200	2,200	2,300	2,400	2,700	3,000	3,000	3,000	3,100
Manufacturing	7,900	7,800	8,100	8,000	8,200	8,100	8,100	8,200	8,200	7,700	8,100	7,500	6,600	5,700	5,800	5,100
Service-Providing	49,300	49,800	50,500	51,200	52,000	53,700	55,100	56,700	57,500	58,200	59,200	61,000	62,200	62,300	62,300	63,100
Trade	6,900	7,000	7,000	7,100	7,400	7,500	8,000	8,300	8,300	8,300	8,400	8,500	8,900	8,900	8,800	9,100
Transport. & Utils.	1,100	1,100	1,200	1,200	1,300	1,400	1,500	1,500	1,500	1,500	1,600	1,600	1,600	1,400	1,400	1,400
Information	900	800	800	800	800	1,000	1,000	1,000	1,000	1,100	1,200	1,300	1,200	1,300	1,200	1,300
Financial Activities	2,000	2,000	2,000	2,100	2,000	2,000	2,100	2,100	2,200	2,300	2,300	2,300	2,400	2,400	2,400	2,500
Prof. & Bus. Svcs.	4,100	4,300	4,700	4,500	4,400	4,700	5,000	5,200	5,200	5,100	5,100	5,100	4,800	4,800	4,800	4,800
Edu. & Health Svcs.	4,000	4,000	4,400	4,600	4,800	5,300	5,400	5,400	5,600	5,800	5,900	6,200	6,600	6,600	6,600	6,400
Leis. & Hospitality	5,800	5,900	5,700	5,800	5,700	6,000	6,000	5,900	6,200	6,200	6,000	6,400	6,600	6,500	6,500	6,800
Other Services	1,900	1,900	1,800	1,800	1,900	2,000	2,000	1,900	1,900	1,900	2,000	2,100	2,200	2,200	2,200	2,200
Government	22,700	22,800	23,000	23,200	23,600	24,000	24,100	25,300	25,600	26,000	26,800	27,400	28,000	28,400	28,300	28,800
Federal	500	400	500	500	500	500	500	500	500	500	600	500	400	500	500	500
State	18,600	18,600	18,800	19,000	19,300	19,600	19,700	20,800	20,900	21,300	21,800	22,400	23,000	23,200	23,100	23,500
Local	3,600	3,700	3,700	3,700	3,800	3,900	4,000	4,000	4,200	4,200	4,400	4,500	4,600	4,700	4,700	4,800

<sup>a</sup> Ending November 2003.

<sup>b</sup> Ending November 2004.

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

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Table 3**  
**Population and Household Trends**  
**State College HMA**  
**April 1, 1990 to December 1, 2007**

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
<b>Population</b>										
State College HMA	125,286	139,223	146,250	150,950	1,400	1.1	1,500	1.1	1,575	1.1
State College Borough	40,423	41,885	42,400	42,725	150	0.4	110	0.3	110	0.3
Remainder of the HMA	84,863	97,338	103,850	108,225	1,250	1.4	1,400	1.4	1,450	1.4
<b>Households</b>										
State College HMA	42,683	49,323	52,540	54,525	670	1.4	690	1.4	670	1.2
State College Borough	10,938	12,024	12,070	12,150	110	0.9	10	0.1	30	0.2
Remainder of the HMA	31,745	37,299	40,470	42,450	560	1.6	680	1.7	660	1.6

Notes: Rates of change are calculated on a compound basis.  
Annual average numbers have been rounded for comparison.  
Population for 1990 and 2000 is based on U.S. Census Bureau data and additional information.

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

**Table 4**  
**Housing Inventory, Tenure, and Vacancy**  
**State College HMA**  
**1990, 2000, and December 1, 2004**

	State College HMA			State College Borough			Remainder of HMA		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
<b>Total Housing Inventory</b>	46,195	53,161	56,750	11,623	12,488	12,600	34,572	40,673	44,150
Occupied Units	42,683	49,323	52,550	10,938	12,024	12,050	31,745	37,299	40,450
Owners	25,531	29,678	32,450	2,603	2,743	2,750	22,928	26,935	29,700
%	59.8	60.2	61.8	23.8	22.8	22.8	72.2	72.2	73.4
Renters	17,152	19,645	20,100	8,335	9,281	9,300	8,817	10,364	10,750
%	40.2	39.8	38.2	76.2	77.2	77.2	27.8	27.8	26.6
Vacant Units	3,512	3,838	4,225	685	464	520	2,827	3,374	3,700
Available Units	1,229	1,129	1,325	475	299	380	754	830	950
For Sale	274	364	350	60	21	20	214	343	330
Rate (%)	1.1	1.2	1.1	2.3	0.8	0.8	0.9	1.3	1.1
For Rent	955	765	970	415	278	360	540	487	620
Rate (%)	5.3	3.8	4.6	4.7	2.9	3.7	5.7	4.5	5.4
Other Vacant	2,283	2,709	2,900	210	165	150	2,073	2,544	2,775

Note: Numbers have been rounded for comparison.  
Sources: 1990 and 2000—U.S. Census Bureau  
Current and Forecast—Estimates by analyst

**Table 5**  
**Residential Building Permit Activity**  
**State College HMA**  
**1990 to December 1, 2004**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 <sup>a</sup>
<b>State College HMA</b>															
Total	807	452	615	602	541	872	516	679	687	837	653	778	995	1,022	404
Single-family	408	433	533	506	481	460	495	527	599	647	554	734	877	742	376
Multifamily	399	19	82	96	60	412	21	152	88	190	99	44	118	280	28
<b>State College Borough</b>															
Total	223	1	71	58	28	8	20	86	15	64	10	5	93	22	6
Single-family	20	1	5	6	2	8	20	2	13	49	8	5	42	12	4
Multifamily	203	0	66	52	26	0	0	84	2	15	2	0	51	10	2
<b>Remainder of HMA</b>															
Total	584	451	544	544	513	864	496	593	672	773	643	773	902	1,000	398
Single-family	388	432	528	500	479	452	475	525	586	598	546	729	835	730	372
Multifamily	196	19	16	44	34	412	21	68	86	175	97	44	67	270	26

<sup>a</sup> Includes only jurisdictions reporting monthly through November 30, 2004.  
 Source: U.S. Census Bureau, Building Permits Survey

**Table 6**  
**Estimated Qualitative Demand for New Market-Rate Rental Housing**  
**State College HMA**  
**December 1, 2004 to December 1, 2007**

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,050	150	1,150	300	1,500	150
1,100	130	1,200	250	1,550	120
1,150	120	1,250	225	1,600	115
1,200	105	1,300	190	1,650	100
1,250	90	1,350	155	1,700	90
1,300	70	1,400	125	1,750	80
1,350	55	1,450	100	1,800	70
1,450	45	1,550	80	1,900	60
1,550	35	1,650	60	2,000	50
1,650	25	1,750	45	2,100	30
1,750	20	1,850	35	2,200	15
1,850	15	1,950 and higher	10	2,300 and higher	10
1,950 and higher	10				

Note: Distribution above is noncumulative.  
 Source: Estimates by analyst

**Table 7**  
**Estimated Qualitative Demand for New Market-Rate Sales Housing**  
**State College HMA**  
**December 1, 2004 to December 1, 2007**

<b>Price Range (\$)</b>	<b>Units of Demand</b>
Less than 120,000	240
120,000–159,999	255
160,000–199,999	290
200,000–249,999	370
250,000–299,999	225
300,000–349,999	110
350,000–399,999	60
400,000–499,999	30
500,000 and higher	20
Total	1,600

Source: Estimates by analyst