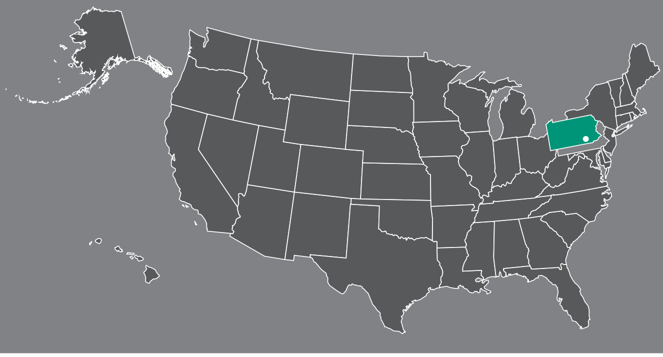
HUD PD&R **Housing Market Profiles**

Lancaster, Pennsylvania

Quick Facts About Lancaster

- **Current sales market conditions: balanced.**
- **Current rental market conditions: balanced.**
- **The Lancaster metropolitan area, at the heart of Pennsylvania Dutch Country, is known for its Amish community, farmland, and related tourism attractions.**



By Michael T. Flannelly | As of March 1, 2017

Overview

The Lancaster, PA Metropolitan Statistical Area (hereafter, Lancaster metropolitan area) is coterminous with Lancaster County, approximately 70 miles west of Philadelphia in southeast Pennsylvania. The Lancaster metropolitan area is known for its Amish population, Amish-related tourism, and agriculture industry. The economic impact of tourism in the metropolitan area was $2.64 billion in 2015 (the most recent data available), a nearly 3-percent increase from a year earlier (Tourism Economics). The agriculture industry, which includes approximately 5,700 farms (2012 Census of Agriculture), made up $781 million, or 3.0 percent, of the metropolitan area's gross domestic product, or GDP, in 2015 (Bureau of Economic Analysis). Pretzel shop Auntie Anne's, an internationally known staple of shopping malls, is headquartered in downtown Lancaster, and *Clipper Magazine*, known for its publication of coupons and advertisements, is headquartered in Mountville, a borough west of the city of Lancaster.

- As of March 1, 2017, the population of the Lancaster metropolitan area is estimated at 540,300, reflecting an average annual increase of 3,075, or 0.6 percent, since July 2008.
- Population grew at a faster rate of 1.1 percent, or by 5,200 people, from July 2001 to July 2008. The slowdown in population growth beginning in 2008 coincided with the start of a 2-year decline in nonfarm payrolls (Census Bureau population estimates, as of July 1).

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- Despite steady job growth since 2010, population growth has continued to lag the growth rate from July 2001 to July 2008, mostly due to a slowdown in net in-migration. Since 2008, net in-migration has averaged 880 people a year, fewer than the average of 2,675 people a year from July 2001 to July 2008.
- In 2015, 20.5 percent of the population in the metropolitan area was ages 62 years and older, an increase from 18.2 percent in 2010 (American Community Survey [ACS] 1-year data). By comparison, 18.3 percent of the U.S. population was ages 62 years and older in 2015, an increase from 16.3 percent in 2010.

Economic Conditions

Economic conditions in the Lancaster metropolitan area have improved since the end of 2010, following 2 years of job losses. The metropolitan area lost an average of 5,300 jobs, or 2.2 percent, annually during 2009 and 2010. The economy had recovered the jobs lost during this period by 2014, and nonfarm payrolls are currently 3.8 percent higher than the previous peak that occurred during the 3 months ending June 2008. The metropolitan area has added an average of 3,600 jobs, or 1.5 percent, annually since 2011. By comparison, from 2004 through 2007, nonfarm payrolls increased by an average of 2,400 jobs annually, or 1.0 percent.

During the 3 months ending February 2017—

- Nonfarm payrolls averaged 248,500, an increase of 3,200, or 1.3 percent, compared with nonfarm payrolls during the same period a year earlier. By comparison, the metropolitan area added 4,500 jobs, or a 1.9-percent gain, during the 3 months ending February 2016 compared with the nonfarm payrolls during the same period in 2015.
- Job growth was strongest in the leisure and hospitality sector, with nonfarm payrolls increasing by 1,000, or 4.6 percent, from the same period in 2016. The accommodation and food services industry accounted for 85 percent of all leisure and hospitality jobs, and it increased by 970 jobs, or 5.2 percent, from a year earlier. In 2015, visitor spending in the metropolitan area supported more than 24,000 jobs, including about 15,970 direct tourism industry jobs, such as those in restaurants and hotels (Tourism Economics).
- Jobs in the education and health services sector, which accounts for the most jobs in the metropolitan area at 17 percent, were virtually unchanged from a year earlier. The hospital industry, comprising 18 percent of all education and health services jobs, totaled 8,000 nonfarm payrolls, an increase of 330, or 4.3 percent, from the same period a year earlier. Lancaster General Health, the largest employer in the metropolitan area, is currently building

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In the Lancaster area, nonfarm payrolls were unchanged or increased in every sector except the professional and business services sector during the 3 months ending February 2017.

	3 Months Ending		Year-Over-Year Change	
	February 2016 (thousands)	February 2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	245.3	248.5	3.2	1.3
Goods-producing sectors	51.9	52.7	0.8	1.5
Mining, logging, and construction	15.6	16.1	0.5	3.2
Manufacturing	36.4	36.6	0.2	0.5
Service-providing sectors	193.4	195.8	2.4	1.2
Wholesale and retail trade	45.2	45.5	0.3	0.7
Transportation and utilities	12.6	13.1	0.5	4.0
Information	3.1	3.2	0.1	3.2
Financial activities	8.3	8.3	0.0	0.0
Professional and business services	24.2	23.8	– 0.4	– 1.7
Education and health services	44.4	44.4	0.0	0.0
Leisure and hospitality	21.9	22.9	1.0	4.6
Other services	13.8	14.1	0.3	2.2
Government	19.9	20.5	0.6	3.0
	(percent)	(percent)		
Unemployment rate	4.0	3.9		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

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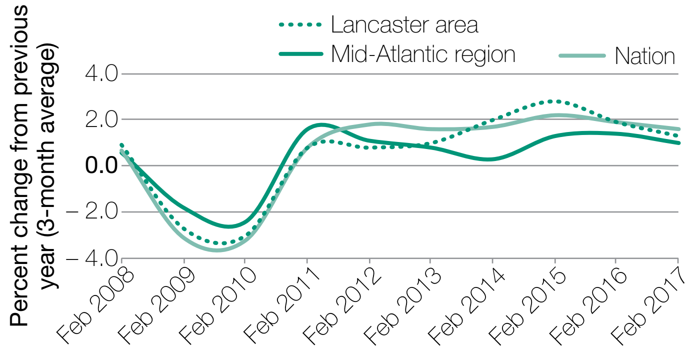
a $67 million expansion of its primary hospital in the city of Lancaster that will include 66 new private rooms and is expected to open in 2018.

- The manufacturing sector, which accounts for 15 percent of total nonfarm payrolls, down from 25 percent in 2000, had a 200-job, or 0.5-percent, increase in nonfarm payrolls. Jobs in this sector increased at an average annual rate of 400, or 1.0 percent, from 2014 through 2016, after declining every year from 2001 through 2011 at an average annual pace of 1,900 jobs, or 4.0 percent. This increase in jobs occurred while the number of manufacturing establishments in the metropolitan area increased from 882 in the third quarter of 2013 to 965 in the third quarter of 2016 (the most recent data available). By comparison, manufacturing establishments declined from 1,041 in the third quarter of 2001 to 882 in the third quarter of 2013.
- The unemployment rate was 3.9 percent, down from 4.0 percent a year ago. The unemployment rate in the metropolitan area reached a postrecession high of 8.2 percent during the 3 months ending February 2010.

Jobs in the retail trade subsector, which makes up about 12 percent of all jobs in the metropolitan area, averaged 28,700 during the 3 months ending February 2017, an increase of 130 jobs, or 0.4 percent, from the year before. In 2018, Crossings at Conestoga Creek, a mixed-used development, is scheduled to open. Wegmans Food Markets, Inc. will anchor the development, creating approximately 550 jobs. Another mixed-use development, the Shoppes at Belmont, which broke ground in September 2016, is expected to create 1,110 jobs during construction and 2,560 permanent jobs once completed in 2018.

Nonfarm payroll growth in the Lancaster area has exceeded the Mid-Atlantic growth rate since 2013.



Source: U.S. Bureau of Labor Statistics

Largest employers in the Lancaster area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Lancaster General Health/ Penn Medicine	Education and health services	7,300
Armstrong World Industries Inc.	Manufacturing	2,000
BB&T Corporation	Financial activities	1,000–2,000

Note: Excludes local school districts.
Source: Economic Development Company of Lancaster County

Sales Market Conditions

The sales housing market in the Lancaster metropolitan area is balanced, with an estimated sales vacancy rate of 1.0 percent, down from 1.5 percent in April 2010. The decline in vacancies reflects an improvement in the sales market due to an increased demand for homes. The metropolitan area's economy has improved, and much of the excess inventory that resulted from the foreclosure crisis has been absorbed. As of January 2017, 2.2 percent of home loans in the metropolitan area were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status, down from 2.6 percent in January 2016. The percentage of seriously delinquent loans and REO properties reached a high of 4.0 percent in February 2013; the national rate peaked earlier at 8.6 percent in January 2010 (CoreLogic, Inc.). Despite the decrease in seriously delinquent home loans and REO properties, the current rate is still above the average of 1.4 from January 2000 through December 2007. The metropolitan area had a 3.5-month supply of available inventory in January 2017, down from 5.1 months in January 2016 (CoreLogic, Inc.).

During the 12 months ending January 2017—

- New home sales (including single-family homes, townhomes, and condominiums) totaled 590, up 2 percent from 580 during the 12 months ending January 2016 (CoreLogic, Inc., with adjustments by the analyst). New home sales have increased an average of 6 percent a year since bottoming out at 450 homes sold during the 12 months ending January 2012. The current level of new home sales is one-half of the prerecession peak of 1,150 homes sold during the 12 months ending January 2004.
- The average sales price for a new home was $295,200, more than a 1-percent increase from a year ago but is approximately 13 percent above the prerecession high of $261,000 during the 12 months ending January 2007.
- Existing home sales totaled 7,650, up 10 percent from the same period a year earlier. Since reaching a low of 5,300 during the 12 months ending January 2012, existing home sales have increased roughly 9 percent annually and are below the peak of 9,075 homes sold during the 12 months ending January 2006.

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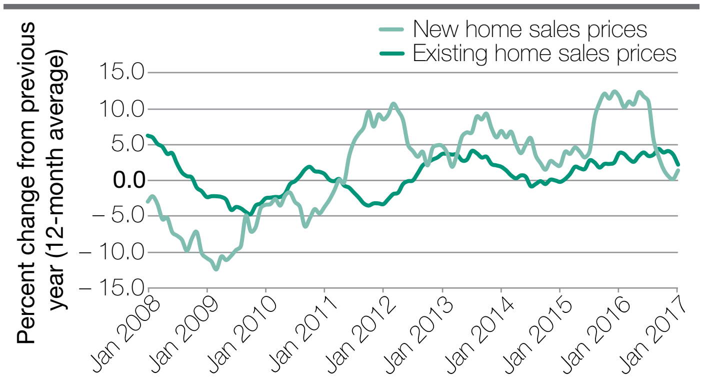
- The average sales price for existing homes was $188,400, a 2-percent year-over-year increase. The average price of an existing home is 4 percent above the previous high of $181,300 during the 12 months ending January 2008.

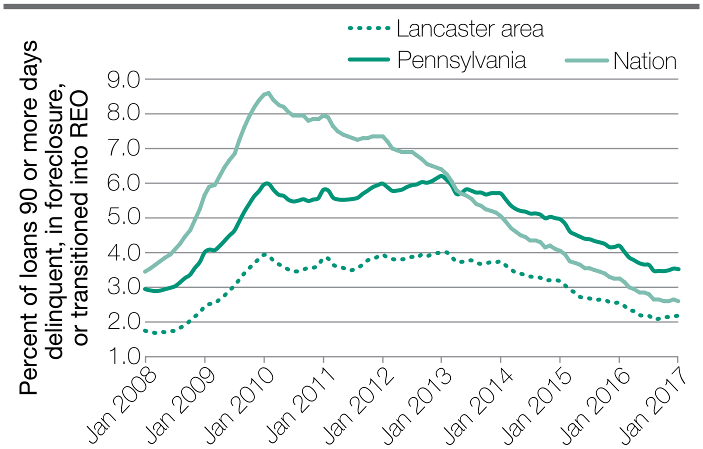
Single-family home construction, as measured by the number of single-family homes permitted, reached a 30-year low in 2011, when only 730 homes were permitted due to lack of demand for new homes stemming from job losses and slow job growth from 2008 through 2011. Building activity increased moderately from 2011 through 2015, when an average of 890 single-family homes were permitted annually. In contrast, an average of 2,025 single-family homes were permitted annually from 2002 through 2005, reaching a prerecession peak of 2,275 in 2004.

Average new home sales prices have consistently increased since mid-2011, while average existing home sales prices have mostly grown since mid-2012 in the Lancaster area.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

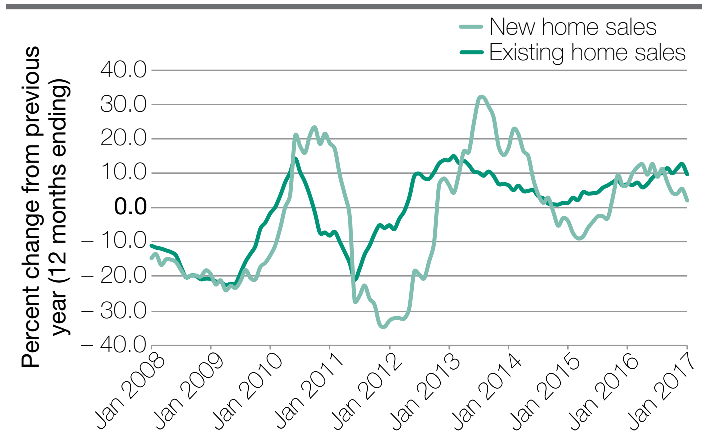
The percentage of seriously delinquent loans and REO properties in the Lancaster area is lower than the national and Pennsylvania averages.



REO = real estate owned.
Source: CoreLogic, Inc.

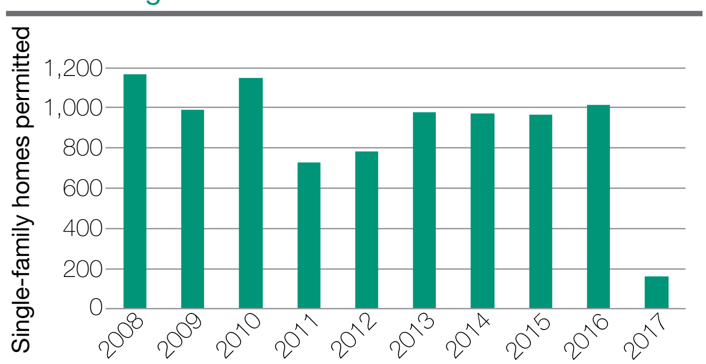
- During the 12 months ending February 2017, approximately 1,000 single-family homes were permitted, an increase of about 30 homes, or 3 percent, compared with average single-family home construction of 970 homes during the previous 2 years (estimates by the analyst).
- Since 2012, single-family home construction has been concentrated in the northern portion of the metropolitan area in Manheim, Rapho, and Warwick Townships, accounting for 29 percent of total single-family permitting in the metropolitan area. Construction has been robust in these townships because of available land for development.
- Recent construction activity includes Traditions of America at Lititz, an active-adult community for people ages 55 and over. Approximately 90 percent of the 244 planned single-family homes have been completed since development began in 2014. The rest of the planned homes are scheduled for construction in spring of 2018. Homes in this community range in price from $283,000 to $430,000.

The new home sales growth rate in the Lancaster area declined from a recent peak in the summer of 2013.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

The number of single-family homes permitted in the Lancaster area averaged 760 from 2011 through 2012, lower than the average of 980 homes permitted from 2013 through 2016.



Note: Includes analyst estimates from January through February 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by the analyst

Rental Market Conditions

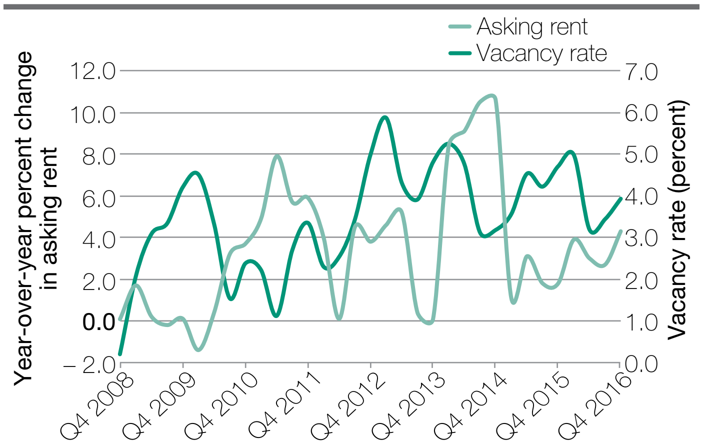
Rental housing market conditions in the Lancaster metropolitan area have improved from previously soft conditions in 2010, when demand for apartments and single-family homes for rent started to increase, because the recession and foreclosure crisis shifted household preferences toward renting.

- Overall rental housing market conditions in the metropolitan area are balanced, with a rental vacancy rate (including apartments, single-family rentals, and mobile homes) estimated at 4.5 percent as of March 1, 2017, down from 5.3 percent in April 2010.
- The apartment market is slightly tight, with a vacancy rate of 3.9 percent during the fourth quarter of 2016, down from 4.7 percent a year earlier (Axiometrics, Inc.).
- The average asking rent for apartments increased 4 percent, from $992 in the fourth quarter of 2015 to $1,034 in the fourth quarter of 2016.
- From the fourth quarter of 2010 to the fourth quarter of 2016, the average asking rent increased at an average annual rate of 4 percent because demand for rental housing increased. In contrast, the average asking rent grew at an average annual rate of 2 percent from the fourth quarter of 2004 to the fourth quarter of 2010.

Multifamily construction activity, as measured by the number of units permitted, averaged 280 units annually from 2010 through 2016. From 2001 through 2004, multifamily construction averaged 500 units annually, peaking at 740 units in 2003. Multifamily construction slowed in recent years while single-family homes for rent satisfied a portion of rental demand. Single-family homes comprised 42 percent of renter-occupied units in 2015 compared with 38 percent in 2010, and the percentage of rental units in multifamily structures decreased from 60 percent in 2010 to 57 percent in 2015 (ACS 1-year data).

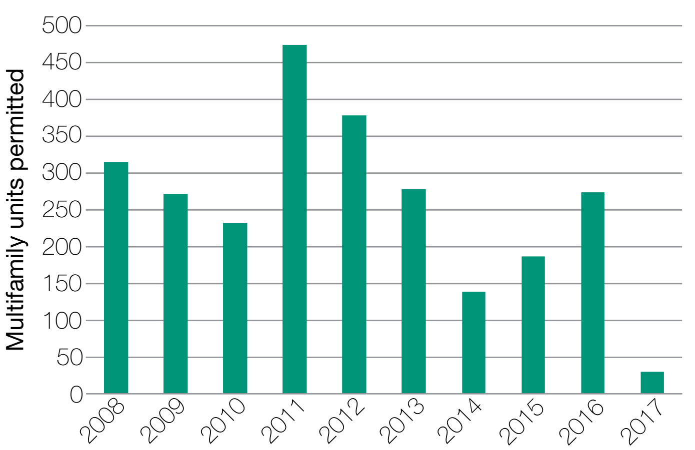
- During the 12 months ending February 2017, approximately 270 multifamily units were permitted, 42 percent higher than the 190 permitted a year earlier (estimates by the analyst).
- Most of the multifamily construction in the county is concentrated in Ephrata, Manor, and Mount Joy Townships and the city of Lancaster, municipalities the county designated as urban growth zones.
- Apartments in lease up include The Keppel Building, a 38-unit mixed-use development of one- and two-bedroom apartments with rents ranging between $850 and $1,950. The Keppel Building opened in the city of Lancaster in early 2017. This property, which was once home to a local candy manufacturer, is a recent example of the redevelopment and conversion of nonresidential commercial real estate to residential occurring in the metropolitan area. From 2000 through 2010, about 200 units were converted from nonresidential to residential, whereas roughly 140 units were converted from 2011 through 2016 (McGraw-Hill Construction Pipeline database, with estimates by the analyst).

Rent growth and vacancy rates have flucuated in the Lancaster area since 2008.



Q4 = fourth quarter.
Source: Axiometrics, Inc.

Multifamily permitting activity in the Lancaster area has increased since 2015.



Note: Includes analyst estimates from January through February 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by the analyst