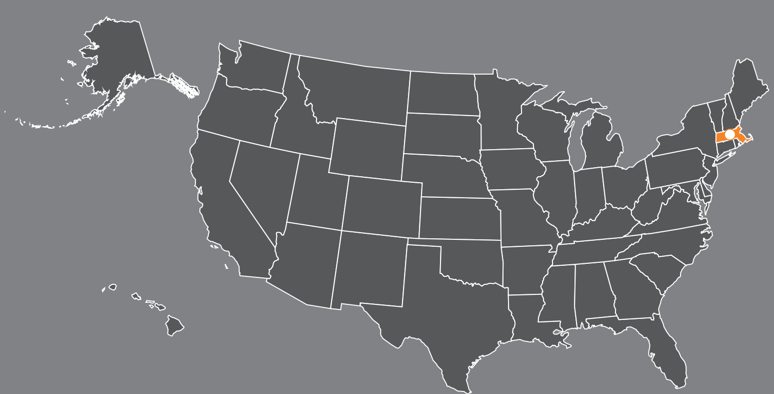
HUD PD&R Housing Market Profiles

Worcester, Massachusetts-Connecticut

Worcester, Massachusetts

Quick Facts About Worcester

- **Current sales market conditions: tight**
- **Current rental market conditions: slightly tight**
- **The Worcester metropolitan area is the third most populous metropolitan area in Massachusetts, and the city of Worcester is the second most populous city in the state after Boston. Population growth has been sustained largely through international migration, which is evident in the city of Worcester, where approximately 22 percent of the population was born outside of the United States, compared with 14 percent nationally (2021 American Community Survey 1-year estimates).**



By Jeremy Albright | As of July 1, 2023

Overview

The Worcester, MA-CT Metropolitan Statistical Area (hereafter, Worcester metropolitan area) consists of Worcester County in central Massachusetts and Windham County in northeast Connecticut and is located approximately 40 miles west of the city of Boston. The metropolitan area is a hub for education and health services, with nearly 37,400 students enrolled at eight major colleges and universities, and it is home to the University of Massachusetts (UMass) Chan Medical School.

- As of July 1, 2023, the population of the Worcester metropolitan area is estimated at 985,700, reflecting an increase of 3,625, or 0.4 percent, annually since 2021. During this period, net in-migration averaged 3,375 people annually.
- The city of Worcester is the population center of the metropolitan area, accounting for 21 percent of the metropolitan area population (U.S. Census Bureau population estimates as of July 1, 2022).
- Net natural change slowed in the metropolitan area in recent years, largely because of growth in the share of

continued on page 2

continued from page 1

senior residents and a falling birth rate. Net natural change averaged 1,550 people annually from 2010 to 2020 and fell to an average decrease of 100 people since 2020, partially because of increased mortality during the COVID-19 pandemic.

Economic Conditions

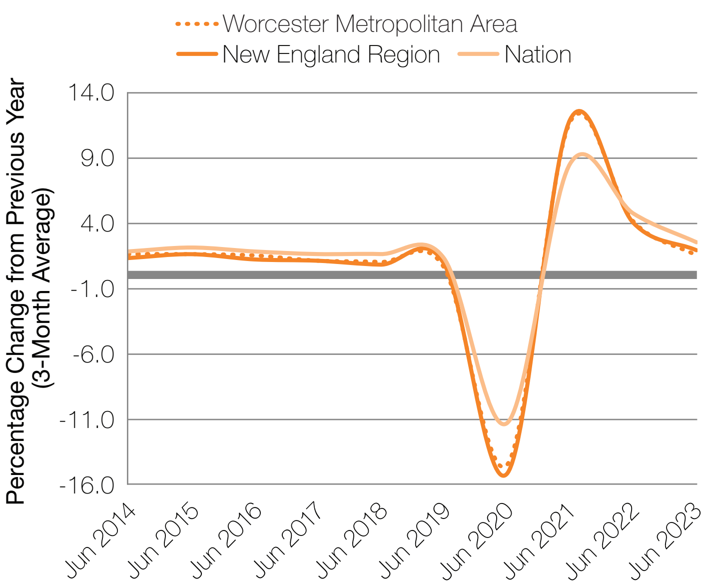
Both the Worcester metropolitan area and the nation have recovered all the jobs lost during the recent recession caused by the COVID-19 pandemic. The rate of economic recovery in the metropolitan area following the pandemic recession exceeded that of the nation, with nonfarm payrolls increasing 11.7 percent from the second quarter of 2020 to the second quarter of 2021, 3.2 percentage points faster than that of the nation. The magnitude of nonfarm payroll losses was larger in the Worcester metropolitan area during the recession than in the nation, partially due to the proportionally larger decline in the leisure and hospitality sector in the metropolitan area. From the second quarter of 2019 to the second quarter of 2020, nonfarm payrolls declined 14.5 percent in the Worcester metropolitan area, a more extensive decline than the 11.3-percent loss that occurred nationally during the same period.

As of the second quarter of 2023—

- Nonfarm payrolls averaged 349,400, reflecting an increase of 5,200 jobs, or 1.5 percent, from a year earlier, with gains in 5 of 10 sectors. Macroeconomic headwinds, including rising inflation and interest rates, have slowed year-over-year nonfarm payroll growth from 4.1 percent as of the second quarter of 2022.

continued on page 3

Nonfarm payroll losses were more severe in the Worcester metropolitan area than in the nation during the COVID-19-related downturn in 2020.



Source: U.S. Bureau of Labor Statistics

The education and health services sector, which added 3,100 jobs during the second quarter of 2023, led nonfarm payroll growth in the Worcester metropolitan area.

	3 Months Ending		Year-Over-Year Change	
	June 2022 (Thousands)	June 2023 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	344.2	349.4	5.2	1.5
Goods-Producing Sectors	49.0	49.1	0.1	0.2
Mining, Logging, & Construction	14.7	14.8	0.1	0.7
Manufacturing	34.3	34.3	0.0	0.0
Service-Providing Sectors	295.2	300.4	5.2	1.8
Trade, Transportation, & Utilities	63.4	62.8	-0.6	-0.9
Information	3.1	3.0	-0.1	-3.2
Financial Activities	15.8	15.5	-0.3	-1.9
Professional & Business Services	37.2	37.7	0.5	1.3
Education & Health Services	78.8	81.9	3.1	3.9
Leisure & Hospitality	31.1	31.1	0.0	0.0
Other Services	12.1	12.6	0.5	4.1
Government	53.7	55.8	2.1	4.0
Unemployment Rate	3.9%	2.7%		

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

continued from page 2

- The education and health services and the government sectors led job growth, expanding by 3,100 and 2,100 jobs, or 3.9 and 4.0 percent, respectively. Job losses were largest in the trade, transportation, and utilities sector, which declined by 600 jobs, or 0.9 percent.
- Resident employment in the Worcester metropolitan area has similarly recovered from the recent recession and has been affected by the macroeconomic headwinds of the past year. Employment averaged 498,800, representing a decrease of 2,875, or 0.6 percent, from a year earlier.
- The unemployment rate in the metropolitan area averaged 2.7 percent, down from the 3.9-percent rate during the same period a year ago. A decrease in the labor force outpaced the decline in employment, contributing to the falling unemployment rate.

In addition to having the fastest rate of job growth during the past year, the education and health services sector also has the largest number of nonfarm payrolls in the metropolitan area. During the second quarter of 2023, the education and health services sector accounted for 23 percent of all nonfarm payrolls. The colleges and universities in the higher education industry have an economic impact of $3.8 billion on the metropolitan area and support 18,800 jobs (Association of Independent Colleges and Universities in Massachusetts). Firms in the healthcare industry similarly play an essential role in the economy of the Worcester metropolitan area. With more than 780 beds and 16,350 employees, University of Massachusetts (UMass) Memorial Health is the third-largest hospital system in the state and the largest employer in the metropolitan area.

Largest Employers in the Worcester Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
UMass Memorial Health	Education & Health Services	16,350
UMass Chan Medical School	Government	6,000
Reliant Medical Group, Inc.	Education & Health Services	2,800

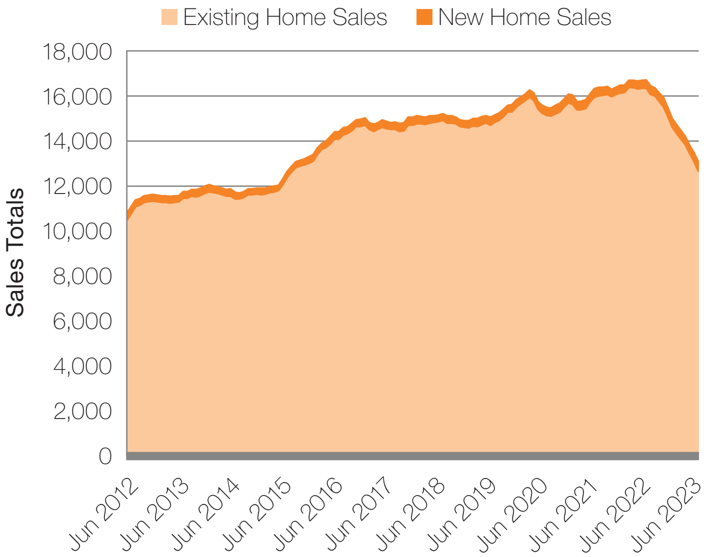
Note: Excludes local school districts.
Source: *Worcester Business Journal*

Sales Market Conditions

The sales housing market is tight in the Worcester metropolitan area but has eased in recent months. The vacancy rate of sales units is 0.8 percent as of July 1, 2023, down from 1.0 percent in 2020 and 1.8 percent in 2010. Strong net in-migration from 2010 to 2018 and low levels of residential construction following the Great Recession contributed to the decline in the vacancy rate. Following the onset of the COVID-19 pandemic, the home sales market also tightened. Supply chain bottlenecks affecting building materials and labor shortages constrained new home construction. Historically low mortgage interest rates, an improving job market, and increased adoption of remote work caused increased demand for sales housing. Since early 2022, however, increases in mortgage interest rates and tighter financial conditions, partially caused by reductions in the number of mortgage-backed securities held by the Federal Reserve, have reduced sales demand.

- During the 12 months ending June 2023, new and existing home sales in the Worcester metropolitan area decreased by 3,625 homes, or 22 percent, to 13,050 homes sold, compared with a 2-percent year-over-year increase during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst).
- The average price of new and existing homes increased by $28,850, or 7 percent, to $418,000 during the 12 months ending June 2023, slower than the 11-percent year-over-year increase during the 12 months ending June 2022.

During the 12 months ending June 2023, new and existing home sales in the Worcester metropolitan area decreased.



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

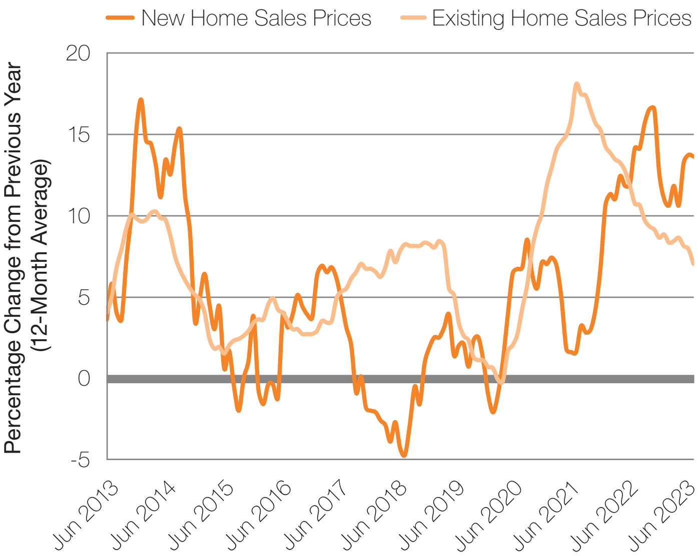
- In response to high demand and constrained single-family construction since the onset of the COVID-19 pandemic, the supply of available for-sale homes fell from 1.4 months in June 2022 to 1.1 months in June 2023.

continued on page 4

continued from page 3

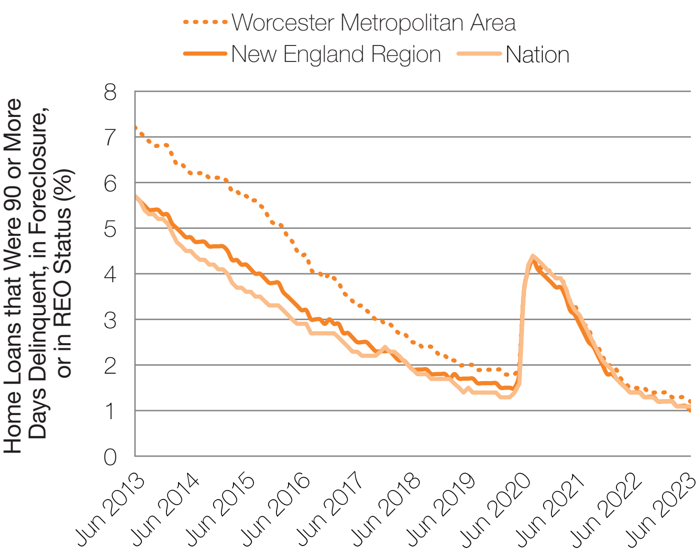
- The percentage of home loans in the Worcester metropolitan area that were seriously delinquent or had transitioned into real estate owned (REO) status was 1.2 percent in June 2023—below the prepandemic rate of 2.0 percent in June 2019 and down from 3.6 percent in June 2020, coinciding with the economic recovery in the metropolitan area.

Existing home sales price growth in the Worcester metropolitan area has moderated since peaking in June 2021.



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

After rising during 2020 and 2021, the percentage of home loans 90 or more days delinquent, in foreclosure, or in REO status in the Worcester metropolitan area has fallen below 2019 levels.

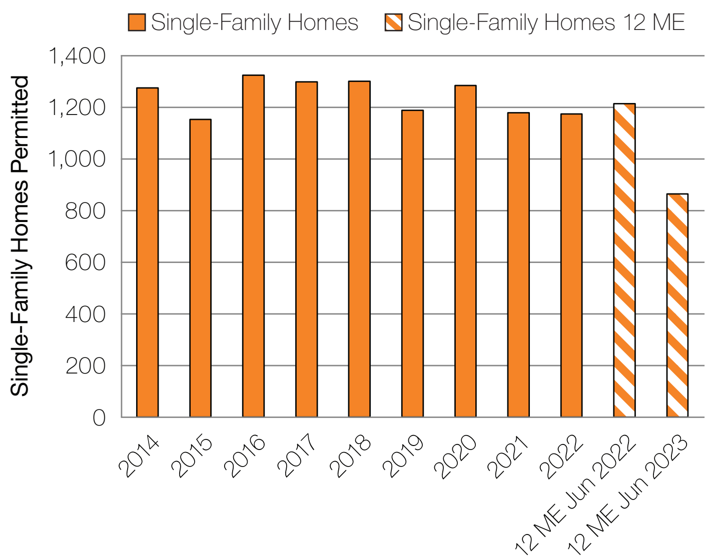


REO = real estate owned.
Source: CoreLogic, Inc.

Single-family homebuilding activity remained relatively flat since 2014, partially because of the high cost of new home construction in the Worcester metropolitan area. Homebuilding slowed during the past year in response to rising interest rates and slowing home sales.

- Approximately 860 single-family homes were permitted during the 12 months ending June 2023, reflecting a decrease of 350 homes, or 29 percent, from the previous 12 months (preliminary data). By comparison, an average of 1,250 single-family homes were permitted annually from 2014 through 2021.
- New home construction in the metropolitan area typically occurs in suburban jurisdictions. The share of new sales construction in the city of Worcester has been at or below 8 percent since 2011. Development has occurred primarily in jurisdictions including Shrewsbury, Milford, and Millbury.
- One of the largest developments currently underway in the metropolitan area is the Clearview Homes subdivision in the town of Millbury, Massachusetts. When complete later this year, the development will consist of 71 duplexes with 142 units (McGraw-Hill Construction Pipeline database). Prices will range from the mid $400,000s to the low $600,000s (Eastland Partners Inc.).

Single-family permitting in the Worcester metropolitan area slowed during the past year alongside slowing home sales and rising interest rates.



12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Rental Market Conditions

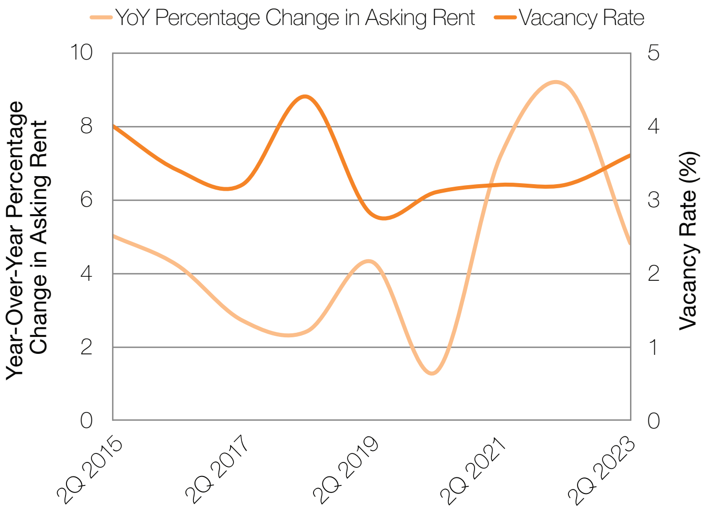
Overall rental housing market conditions in the Worcester metropolitan area are currently slightly tight. Rental construction during the late 2010s did not keep pace with renter household growth and contributed to low vacancy rates and strong rent growth since 2019. Apartment market conditions tightened further after 2020 as the economic recovery from the recession caused by the COVID-19 pandemic led to increased net in-migration, and supply chain disruptions constrained rental construction. Construction of rental units has generally increased since 2018.

- The overall rental vacancy rate is estimated at 4.8 percent as of July 1, 2023, up from 4.5 percent in April 2020.
- During the second quarter of 2023, the apartment market was also slightly tight, with a vacancy rate of 3.6 percent, up from 3.2 percent during the second quarter of 2022. Low levels of multifamily construction from 2014 through 2018 contributed to market conditions beginning to tighten.
- The average monthly apartment asking rent in the Worcester metropolitan area was $1,862 during the second quarter of 2023, representing an increase of 5 percent from the average asking rent of $1,776 during the second quarter of 2022.
- The apartment market was slightly soft during the early to mid-2010s as new rental construction and owner units that shifted into the rental market accommodated increases in rental households. From 2010 to 2014, the second quarter vacancy rate averaged 5.1 percent, and the average rent increased 2 percent a year. From 2015 to 2018, the second quarter vacancy rate fell to an average of 3.8 percent, and the average rent increased 4 percent a year.

Low vacancies and rapid rent growth during recent years, particularly in the apartment market, incentivized multifamily unit construction activity (as measured by the number of multifamily units permitted).

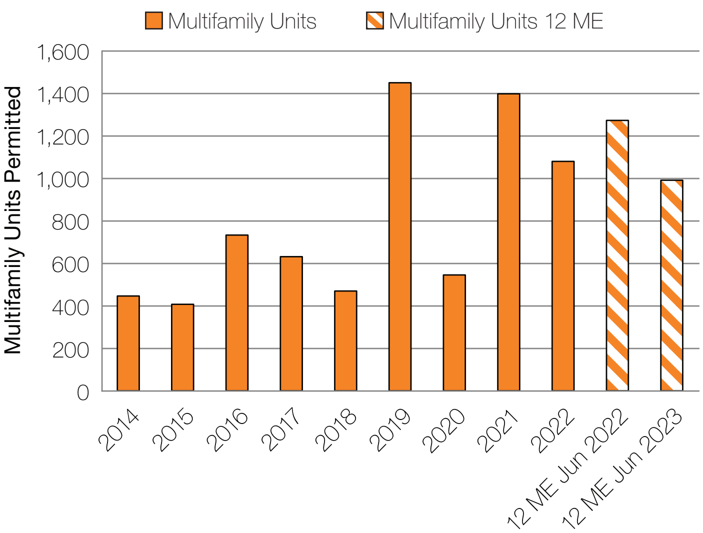
- During the 12 months ending June 2023, approximately 990 multifamily units were permitted, reflecting a decrease of 22 percent from the 1,275 units permitted during the 12 months ending June 2022 (preliminary data, with adjustments by the analyst).
- Multifamily unit construction was flat throughout most of the 2010s, averaging 540 units permitted annually from 2014 through 2018.
- Multifamily unit construction accelerated during 2021 to approximately 1,400 units permitted. Material shortages caused by the COVID-19 pandemic began to moderate, and builders responded to improving economic conditions and tight market conditions.

Rent growth in the Worcester metropolitan area slowed during the second quarter of 2023.



2Q = second quarter. YoY = year-over-year.
Source: CoStar Group

Tight market conditions following the economic recovery from the COVID-19 pandemic incentivized increased multifamily permitting since 2021 in the Worcester metropolitan area.



12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

- Commercial-to-residential conversions, often of schools and former factories, are common in the Worcester metropolitan area and are an additional source of new rental inventory. Since 2010, there have been approximately 15 conversions of this type (McGraw-Hill Construction Pipeline database).

continued on page 6

continued from page 5

One of the largest and most recent conversions was the Julia Bancroft Apartments in the city of Auburn, Massachusetts, for residents aged 62 and over, which was completed during 2022. The development converted a former elementary school into 35 one-bedroom units with rents averaging $1,191 and 25 two-bedroom units with rents averaging $1,507 (CoStar Group).

- Although most new construction has been outside the city of Worcester, the largest apartment property underway in the metropolitan area is Alta on the Row in the city of Worcester. Alta on the Row will be a 370-unit property with 120 one-bedroom units, 190 two-bedroom units, and 60 three-bedroom units, and it is expected to be complete in 2024 (CoStar Group).

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
Existing Home Sales	Includes resales, short sales, and real estate owned sales.
Home Sales/Home Sales Prices	Includes single-family home, townhome, and condominium sales.
Net Natural Change	Resident births minus resident deaths.
New England Region	Includes Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.
Seriously Delinquent Mortgages	Mortgages 90 or more days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area and the New England City and Town Area (NECTA) definitions noted in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018. The Leominster-Gardner, MA NECTA and Worcester, MA-CT NECTA exclude a portion of the rural areas of the Worcester metropolitan area. This analysis uses the combined Leominster-Gardner, MA NECTA and Worcester, MA-CT NECTA in the discussion of nonfarm payroll jobs in the Worcester metropolitan area because employment data for the NECTA are readily available from the U.S. Bureau of Labor Statistics.