COMPREHENSIVE HOUSING MARKET ANALYSIS

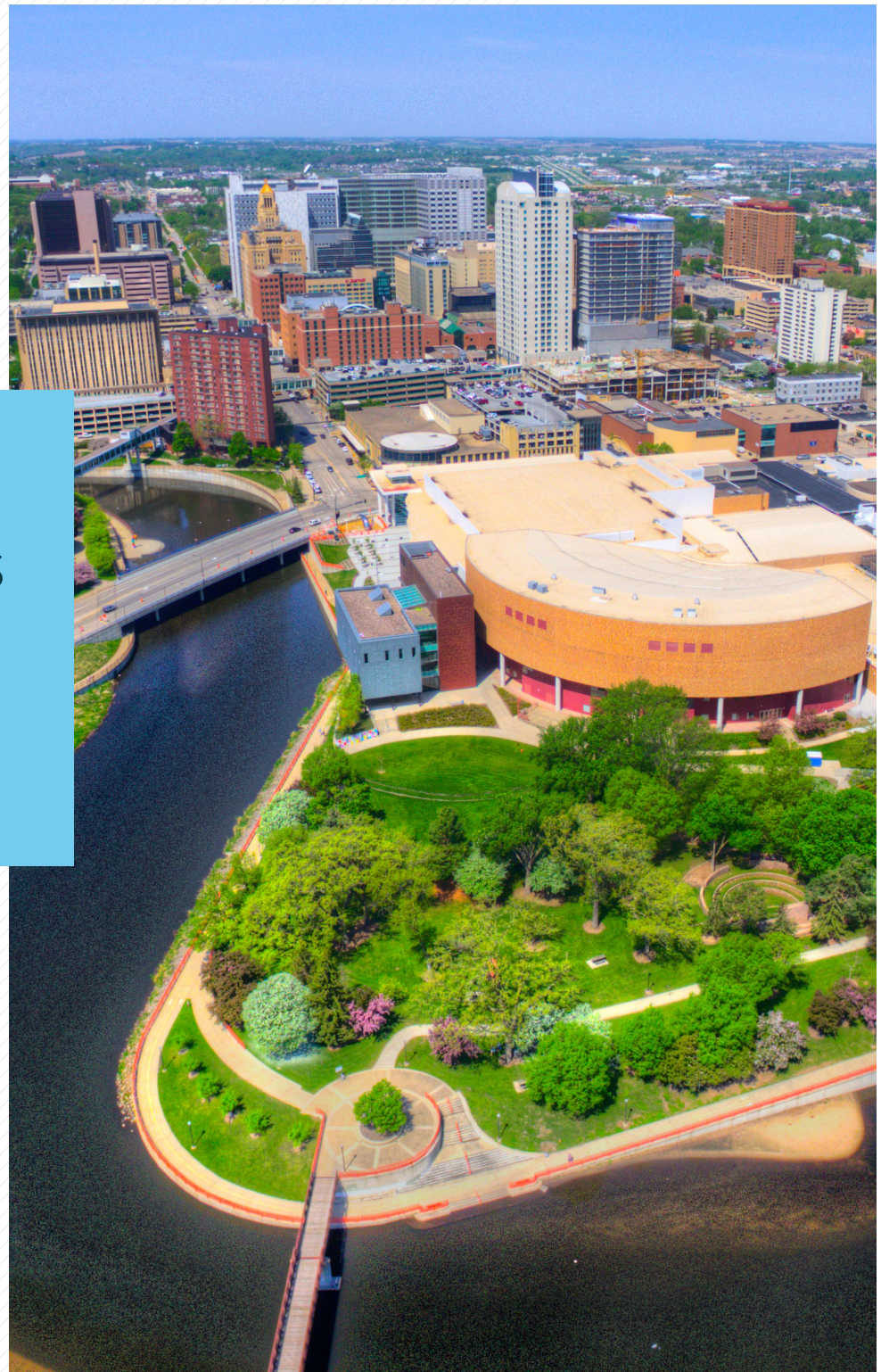# Rochester, Minnesota

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of August 1, 2022

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PD&R

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Executive Summary

Housing Market Area Description

The Rochester Housing Market Area (HMA) is coterminous with the Rochester Metropolitan Statistical Area (MSA) and includes Dodge, Fillmore, Olmsted, and Wabasha Counties in southeast Minnesota. The largest city in the HMA, Rochester, is approximately 75 miles southeast of Minneapolis and is home to the Mayo Clinic, the best hospital in the nation, as ranked by *U.S. News and World Report* in 2021.

The current population of the HMA is estimated at 228,800.

Rochester HMA
Urbanized Areas
Places of Interest
Major Roads
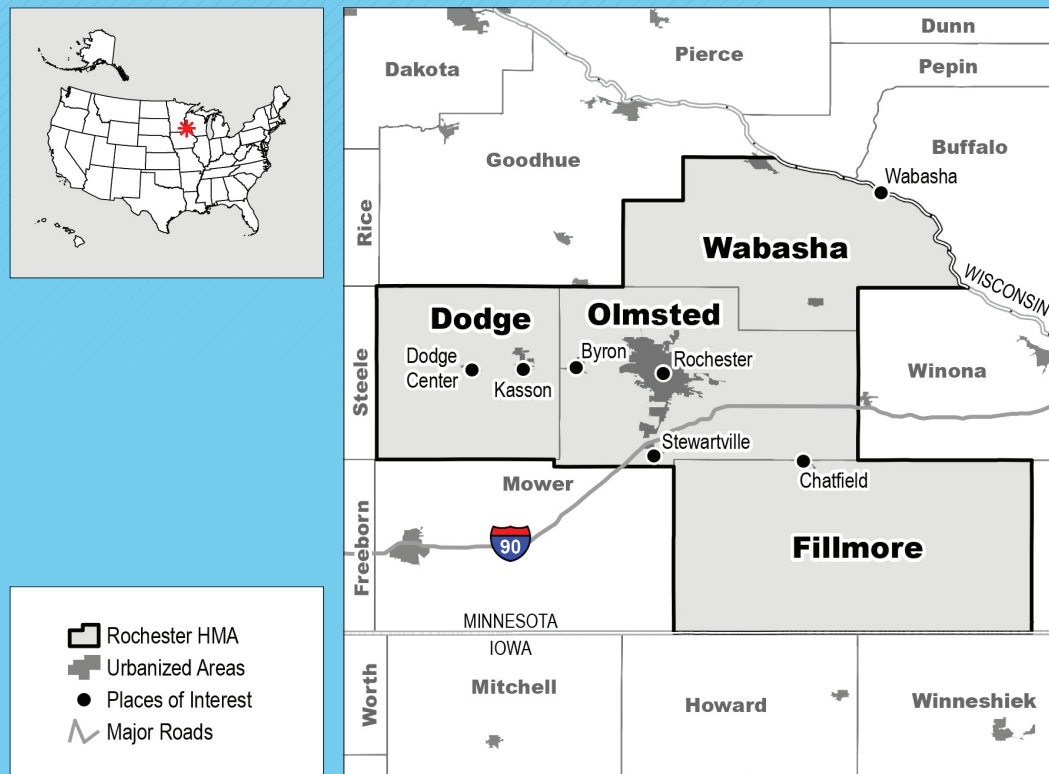
Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in this report's supplemental tables.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Strong: Job growth in the Rochester HMA was strong during the most recent 12 months, and nonfarm payrolls in July 2022 were 3.5 percent above the level in February 2020, before the onset of the COVID-19 pandemic (monthly data, not seasonally adjusted).

Economic conditions in the Rochester HMA were strong before the pandemic, with nonfarm payrolls increasing by an average of 1,900 jobs, or 1.6 percent, annually from 2015 through 2019, before contracting by 5,400 jobs, or 4.4 percent, in 2020. During the 12 months ending July 2022, nonfarm payrolls increased by 3,500 jobs, or 2.9 percent, compared with the 12 months ending July 2021. The unemployment rate decreased from 3.7 percent to 2.1 percent during the same period because growth in resident employment outpaced gains in the labor force. Nonfarm payrolls are expected to continue increasing during the 3-year forecast period at an average annual rate of 1.0 percent.

Sales Market

Slightly Tight: The HMA had a 1.6-month supply of homes during July 2022, down from a 2.1-month supply during July 2019, before the pandemic (Redfin, a national real estate brokerage).

The home sales market has a current estimated vacancy rate of 1.0 percent, down from 2.0 percent in April 2010. Total home sales prices increased 20 percent, to an average of $326,400, during the 12 months ending July 2022, following an increase of 11 percent during the previous 12-month period (Zonda). Due to a limited inventory of homes for sale, increasing home prices, and rising interest rates, the number of home sales fell 9 percent, to 4,425 home sales, during the 12 months ending July 2022 after rising 13 percent during the preceding 12 months. During the next 3 years, demand is expected for 2,200 new homes. The 460 homes under construction are expected to meet a portion of that demand during the first year of the forecast period.

Rental Market

Slightly Tight: The overall rental vacancy rate is estimated at 5.5 percent, down from 7.8 percent in April 2010.

Conditions in the apartment market are also slightly tight. During the second quarter of 2022, the apartment vacancy rate was 4.1 percent, down from 6.6 percent during the second quarter of 2021 (CoStar Group). During the same period, the average monthly rent increased 9 percent, to $1,427, following annual rent growth of 4 percent during the second quarter of 2021. By comparison, apartment rent growth averaged 1 percent annually from 2016 through 2019. During the 3-year forecast period, demand is expected for 1,275 rental units; the 850 units under construction will meet all of the demand during the first and second years of the forecast period.

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3-Year Housing Demand Forecast		
	Sales Units	**Rental Units**
Rochester HMA **Total Demand**	2,200	1,275
Under Construction	460	850

Notes: Total demand represents the estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of August 1, 2022. The forecast period is August 1, 2022, to August 1, 2025.
Source: Estimates by the analyst

Comprehensive Housing Market Analysis Rochester, Minnesota

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Economic Conditions

Largest Sector: Education and Health Services

Nonfarm payrolls in the HMA have fully recovered from COVID-19-related job losses and are growing at a faster pace than payrolls for the nation.

Primary Local Economic Factors

The Mayo Clinic, the highest ranked hospital in the nation during 2021 (*U.S. News and World Report*), is the largest employer in the Rochester HMA (Table 1). It has a significant impact on the local economy, directly employing one of every three workers in the HMA. The economic impact of the Mayo Clinic in Minnesota is $9.8 billion, accounting for 4 percent of the gross domestic product of the state, with the majority of that impact on the Rochester HMA. The education and health services sector, which includes the Mayo Clinic, accounts for 43 percent of all nonfarm payrolls (Figure 1).

Destination Medical Center (DMC) is a public-private partnership that started in 2013 between the Mayo Clinic and local businesses in the city of Rochester, Olmsted County, and the State of Minnesota; the center will invest $5.6 billion in the local economy between 2015 and 2035. The goal of DMC is to continue the development of Rochester as the premier medical destination in the nation by investing in the Mayo Clinic, hotels, apartments, and public infrastructure to support
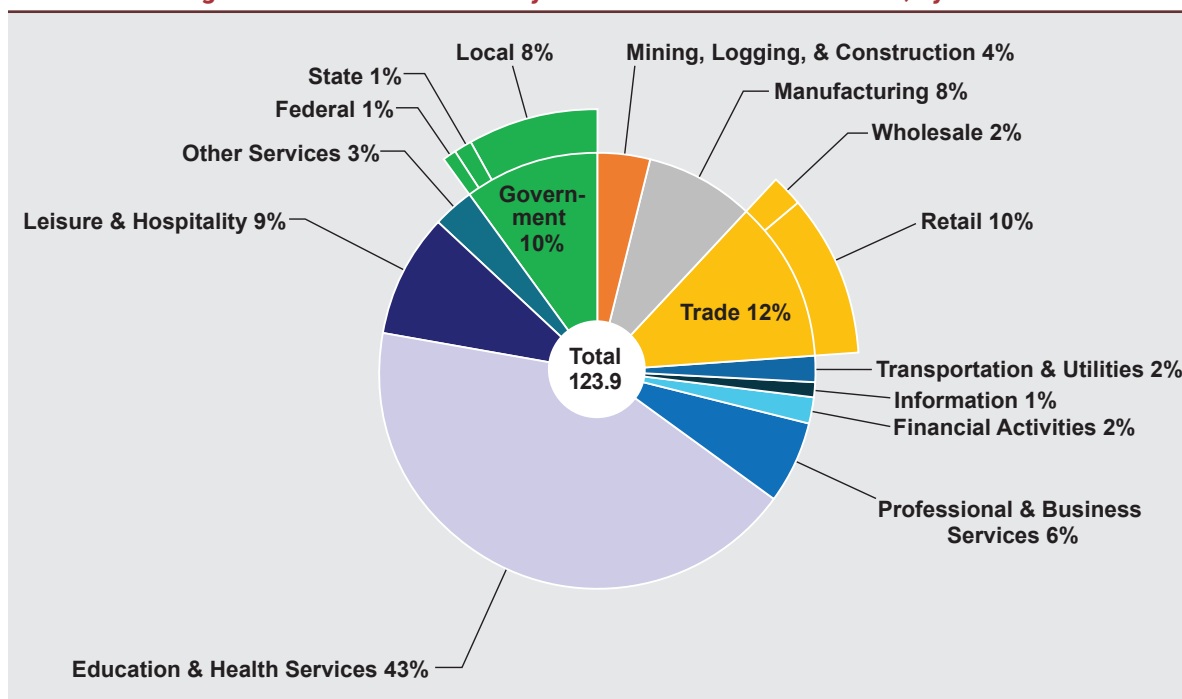
Table 1. Major Employers in the Rochester HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Mayo Clinic	Education & Health Services	40,950
International Business Machines Corporation (IBM)	Manufacturing	2,791
Olmsted Medical Center	Education & Health Services	1,268
McNeilus Truck and Manufacturing	Manufacturing	791
Charter Communications, Inc./Spectrum Community Center Assist	Information	672
Benchmark Electronics, Inc.	Manufacturing	495
McNeilus Steel, Inc.	Manufacturing	470
Federal Medical Center, Rochester	Government	451
Rochester Community and Technical College	Government	425
Cardinal of Minnesota, Ltd.	Education & Health Services	425

Note: Excludes local governments and school districts.
Source: Rochester Area Economic Development 2022

Figure 1. Share of Nonfarm Payroll Jobs in the Rochester HMA, by Sector

Local 8%
State 1%
Federal 1%
Other Services 3%
Leisure & Hospitality 9%
Government 10%
Mining, Logging, & Construction 4%
Manufacturing 8%
Wholesale 2%
Retail 10%
Trade 12%
Total 123.9
Transportation & Utilities 2%
Information 1%
Financial Activities 2%
Professional & Business Services 6%
Education & Health Services 43%

Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through July 2022.
Source: U.S. Bureau of Labor Statistics

Comprehensive Housing Market Analysis Rochester, Minnesota

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growth in the number of patients and healthcare jobs. Over the course of its 20-year life, DMC is expected to create 30,000 jobs in the HMA. From 2015 through 2021, $1.2 billion in private investment related to DMC occurred in the HMA, supported by $141 million in public funding.

COVID-19 and the 2020 Recession

Economic conditions in the Rochester HMA have improved significantly since May 2020, when businesses began to gradually reopen following measures taken to slow the spread of COVID-19. During April 2020, jobs were down by 11,500, or 9.3 percent, from February 2020 (monthly data, not seasonally adjusted). Nonfarm payrolls contracted slower than for the nation, where payrolls fell 13.1 percent between February and April 2020.

Although job losses occurred in every job sector from February to April 2020, declines were greatest in sectors in which jobs could not be performed remotely. Nonfarm payrolls fell the most in the leisure and hospitality sector, which declined by 5,000 jobs, or 45.9 percent, accounting for more than 45 percent of all job losses between February and April 2020. The wholesale and retail trade sector had the second largest decline in jobs, decreasing by 2,000 jobs, or 13.9 percent, with all job losses occurring in the retail trade subsector. Public health measures restricting indoor dining and nonessential business contributed to job losses in those sectors. The education and health services sector was the third largest source of job losses, declining by 1,700 jobs, or 3.2 percent, between February and April 2020, partially because nonessential medical procedures were curtailed to prevent the spread of COVID-19. Although the number of jobs lost in the education and health services sector was large, it was proportionately less than any other sector aside from mining, logging, and construction. Since 2000, the education and health services sector has helped support and stabilize the local economy during periods of economic contraction.

Supported by strong job growth, total payrolls in the HMA during July 2022 were 3.5 percent above levels in February 2020, with 7 of the 11 job sectors in the HMA recovering fully. By comparison, payrolls for the nation were

0.9 percent above levels from February 2020. Nonfarm payrolls in the HMA first exceeded February 2020 levels in June 2021. Payrolls in the leisure and hospitality, the wholesale and retail trade, and the education and health services sectors have fully recovered from job losses and were 8.3, 5.6, and 2.3 percent, respectively, above February 2020 levels in July 2022.

Current Conditions—Nonfarm Payrolls

During the 12 months ending July 2022, nonfarm payrolls in the Rochester HMA totaled 123,900, an increase of 3,500 jobs, or 2.9 percent, from the previous 12-month period, with only the manufacturing and the information sectors losing jobs (Table 2). The leisure and hospitality sector added the largest number of jobs, recovering 1,500 jobs, or 16.1 percent, as travel and in-person

Table 2. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Rochester HMA, by Sector

	12 Months Ending July 2021	12 Months Ending July 2022	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**120.4**	**123.9**	**3.5**	**2.9**
Goods-Producing Sectors	15.0	15.0	0.0	0.0
Mining, Logging, & Construction	5.1	5.3	0.2	3.9
Manufacturing	9.9	9.7	-0.2	-2.0
Service-Providing Sectors	105.5	108.9	3.4	3.2
Wholesale & Retail Trade	14.6	14.7	0.1	0.7
Transportation & Utilities	2.5	2.5	0.0	0.0
Information	1.3	1.2	-0.1	-7.7
Financial Activities	2.8	2.8	0.0	0.0
Professional & Business Services	6.4	6.9	0.5	7.8
Education & Health Services	52.6	53.5	0.9	1.7
Leisure & Hospitality	9.3	10.8	1.5	16.1
Other Services	3.6	3.8	0.2	5.6
Government	12.5	12.6	0.1	0.8

Notes: Based on 12-month averages through July 2021 and July 2022. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

dining increased, following a decline of 800 jobs, or 7.8 percent, during the 12 months ending July 2021. Year-to-date hotel occupancy was 52.6 percent during August 2022, up 13.8 percentage points from the same period in 2021 (Minnesota Department of Revenue). The second largest job gain was in the education and health services sector, which added 900 jobs, or 1.7 percent, to 53,500 jobs, compared with growth of 800 jobs, or 1.5 percent, during the preceding 12-month period. Although this sector added the second largest

number of jobs, it grew more slowly than the total number of payrolls, owing to its outsized share of jobs in the HMA. In percentage terms, the second fastest rate of job growth was in the professional and business services sector, which added 500 jobs, or 7.8 percent, during the 12 months ending July 2022, compared with growth of 900 jobs, or 15.1 percent, during the previous 12 months. Jobs in the professional and business services sector are disproportionately knowledge-based and can be performed remotely.

Economic Periods of Significance
Expansion: 2000 Through 2007

The Rochester HMA entered the 21st century with strong economic growth, adding an average of 1,200 jobs, or 1.1 percent, annually from 2001 through 2003. During this period, job growth in the HMA outpaced that of the nation, where nonfarm payrolls declined an average of 0.4 percent annually following the collapse of the dot-com bubble. Job growth in the HMA accelerated from 2004 through 2007, increasing by an average of 1,400 jobs, or 1.3 percent, annually, similar to the average national nonfarm payroll growth rate of 1.4 percent. The education and health services sector led job growth every year from 2001 through 2007 and added an average of 1,400 jobs, or 4.0 percent, annually. During this period, the Mayo Clinic opened several new buildings. Job losses in the manufacturing sector partially offset those job gains; from 2001 through 2007 the number of jobs in this sector fell by an average of 500, or 3.4 percent, annually. IBM, the second largest employer in the HMA, employed approximately 8,000 people in the late 1990s but reduced its workforce throughout the 2000s, going through six rounds of layoffs in the 2001-through-2007 period, as research and development supplanted manufacturing as the main activity at the Rochester IBM campus.

The Great Recession and Local Economic Downturn: 2008 Through 2010

Nonfarm payrolls in the HMA declined by an average of 1,700 jobs, or 1.5 percent, annually from 2008 through 2010, following the Great Recession and national housing crisis beginning in late 2007 (Figure 2). Job losses in

Figure 2. 12-Month Average Nonfarm Payrolls in the Rochester HMA
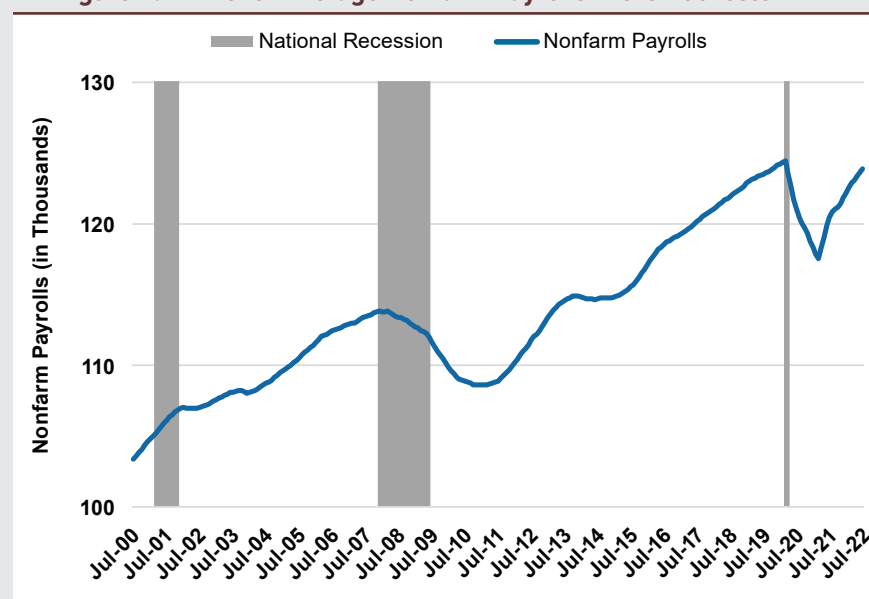
Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

the HMA were not as severe as those of the nation—where payrolls declined an average of 1.9 percent annually during this period—because of the relative stability of the large healthcare industry. Approximately 70 percent of the job losses in the HMA from 2008 through 2010 occurred in the goods-producing sectors, even though these sectors accounted for only 16 percent of all payrolls in 2007. The manufacturing sector declined by an average of 700 jobs, or

5.8 percent, annually from 2008 through 2010, partly due to additional layoffs at IBM. The mining, logging, and construction sector was the second largest source of job losses during the 2008-through-2010 period, declining an average of 10.9 percent, or 500 jobs, annually, because of falling levels of residential and commercial construction. The education and health services sector was the only sector that added a significant number of jobs during this period, increasing by an average of 300 jobs, or 0.8 percent, annually.

Economic Recovery and Expansion: 2011 Through 2019

Job growth resumed in the HMA in 2011, with the number of nonfarm payrolls rising by an average of 2,100, or 1.9 percent, annually from 2011 through 2013, and payrolls exceeded prerecession levels in 2013. Job growth continued to be led by the education and health services sector, which expanded by an average of 900 jobs, or 2.0 percent, annually during the 2011-through-2013

period. In 2014, nonfarm payrolls in the HMA contracted by 100, or less than 0.1 percent, partially because the education and health services sector declined by 400 jobs, or 0.9 percent—only the second year since 2001 in which this sector lost jobs. Payroll growth in 6 of the 10 other job sectors offset some of the losses in the education and health services sector. From 2015 through 2019, the economy of the HMA continued to expand, growing by an average of 1,900 jobs, or 1.6 percent, annually, with the education and health services sector adding an average of 1,400 jobs, or 2.9 percent, annually. In addition to growth at the Mayo Clinic, the Olmsted Medical Center completed a $25 million, 80,000-square-foot expansion during this period that nearly doubled the size of its hospital campus. Job growth in the HMA was similar to the national average during the 2011-through-2019 period, expanding an average of 1.5 percent annually, compared with 1.6-percent average annual national growth.

Unemployment Trends

The recovery of jobs lost after the onset of the COVID-19 pandemic contributed to a decline in the average unemployment rate during the 12 months ending July 2022. The average unemployment rate in the HMA decreased from 3.7 percent during the 12 months ending July 2021 to 2.1 percent during the 12 months ending July 2022; the national rate averaged 3.9 percent during the latter period. The average unemployment rate declined during the 12 months ending July 2022 because of strong growth in the number of employed residents in the HMA compared with growth in the labor force. By comparison, job losses related to public health measures taken to slow the spread of COVID-19 led to an elevated number of unemployed workers, contributing to the higher average unemployment rate during the 12 months ending July 2021.

Before the economic downturn that occurred in 2020, the average unemployment rate in the HMA had declined throughout the 2010s (Figure 3). Due in large part to job losses increasing the number of unemployed workers during the Great Recession, the unemployment rate in the HMA averaged 6.7 percent in 2009—up from 4.1 percent in 2007—but was lower than the national rate of 9.3 percent

Figure 3. 12-Month Average Unemployment Rate in the Rochester HMA and the Nation
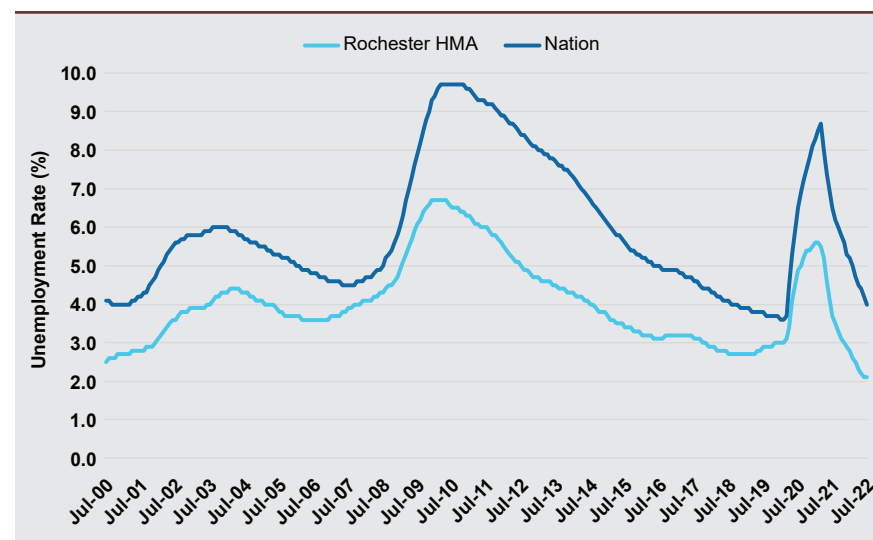
Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

in 2009. The unemployment rate in the HMA declined from 2010 through 2018, to a low of 2.7 percent in 2018, when the national rate was 3.9 percent.

Forecast

During the 3-year forecast period, the economy of the HMA is expected to expand, with nonfarm payrolls increasing an average of 1.0 percent annually.

The education and health services sector is expected to continue to be the largest source of job growth in the HMA, with a $200 million, 110,000-square-foot expansion of the Mayo Clinic Proton Beam Therapy Program expected to contribute to job growth in the HMA. In addition, the Mayo Clinic is expected to open the 11-floor, 176,000-square-foot Anna-Maria and Stephen Kellen Building in late 2023, which will help support continued growth of the sector in the HMA.

Population and Households

Current Population: 228,800

Consistent international in-migration to the HMA supported population growth from 2000 until the onset of the COVID-19 pandemic.

Population Trends

The population of the Rochester HMA has increased every year since 2000. From 2000 to 2008, population growth was higher than during later periods, increasing at an average annual rate of 2,350, or 1.2 percent, with net natural change accounting for two-thirds of population growth (U.S. Census Bureau decennial census count and population estimates as of July 1; Figure 4). Population growth slowed following the Great Recession and housing crisis, with the population of the HMA increasing by an average of 1,525, or 0.7 percent, annually from 2008 to 2015. Most of the slowdown in population growth was attributable to lower net in-migration, which decreased from an average of 780 people annually from 2000 to 2008 to 50 people annually from 2008 to 2015. In addition, net natural change slowed from an average increase of 1,570 people to 1,475 people annually. The status of the Mayo Clinic as one of the premier medical centers in the world attracts immigrants to the HMA. From 2000 to 2008, approximately

Figure 4. Components of Population Change in the Rochester HMA, 2000 Through the Forecast
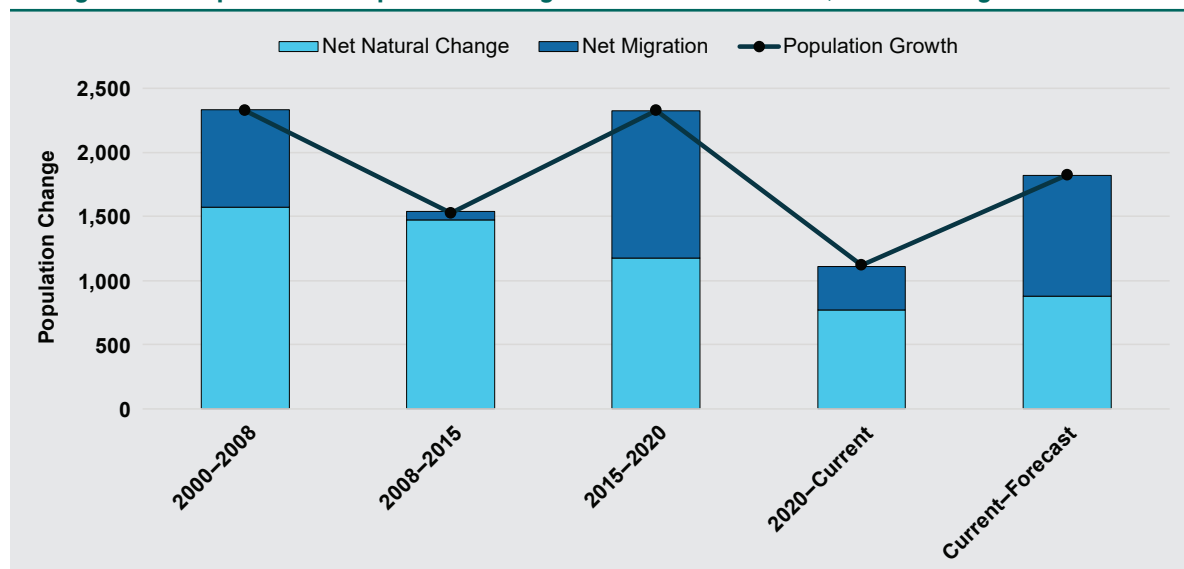
Notes: Data displayed are average annual totals. The forecast period is from the current date (August 1, 2022) to August 1, 2025.
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

64 percent of all net in-migration to the HMA was international. International in-migration did not slow from 2008 to 2015; all of the deceleration in overall net migration was caused by domestic out-migration from the HMA.

Because of several years of job growth, population growth accelerated from 2015 to 2020. During the period, the population of the HMA increased by an average of 2,325, or 1.1 percent, annually. Net in-migration increased by an average of 1,150 people annually, more than offsetting lower levels of net natural change, and was responsible for all of the increased population growth. International migration did not significantly change, but domestic in-migration increased substantially from 2015 to 2020, causing overall net migration to rise. By contrast, net natural change fell to an average of 1,175 people annually.

Domestic migrants to the Rochester HMA move from across the nation, primarily to work or train at the Mayo Clinic, and are not drawn disproportionately from any single area. From 2015 through 2019, the largest source of domestic migration to the HMA was from non-metropolitan areas, part of a nationwide pattern of movement away from rural areas (American Community Survey [ACS] 5-year data; Census

Bureau County-to-County Migration Flows). Conversely, the domestic out-migration disproportionately went to larger metropolitan areas; the largest destination for net out-migration is the nearby Minneapolis-St. Paul-Bloomington, MN-WI metropolitan area, where approximately 1,275 residents of the Rochester HMA relocated between 2015 and 2019. During this period, approximately 54 percent of all international migrants to the HMA moved from Asia, followed by Europe, at 19 percent of all international migrants.

The onset of the COVID-19 pandemic caused population growth in the HMA to slow to the lowest rate since 2000 because increased mortality lowered net natural change, and weak economic conditions depressed migration. Since 2020, the population of the HMA has increased by 1,125, or 0.5 percent, annually, to 228,800. During this period, net natural change and net in-migration have averaged 770 people and 360 people, annually, respectively. International in-migration fell to the lowest level since 2000 during 2021 as public health measures curtailed international immigration and travel.

Population by Geography

Olmsted County, which includes the city of Rochester and the Mayo Clinic, accounted for approximately 73 percent of the population of the HMA in 2020, with Dodge, Fillmore, and Wabasha Counties accounting for 9 percent of the population each. Between 2010 and 2020,

the population of Olmsted County grew at a rate of 1.2 percent annually and accounted for 96 percent of all population growth in the HMA. By comparison, the populations of Dodge, Fillmore, and Wabasha Counties grew at average annual rates of 0.4, 0.2, and 0.1 percent, respectively, during the same period. The shift of population from rural to urban areas in the HMA reflects decreasing agricultural employment, the growth of service-industry jobs concentrated in the city of Rochester, and broader national trends. Approximately 52 percent of the population of the HMA and 75 percent of the population of Olmsted County live in the city of Rochester. Households that include workers, residents, and students at the Mayo Clinic do not tightly cluster around the medical campus but are spread throughout the city of Rochester and Olmsted County.

Household Trends

As of August 1, 2022, the number of households in the HMA is estimated at 92,200, an average increase of 830 households, or 1.0 percent, annually since 2010 (Table 3). Household growth outpaced population growth, which has averaged 0.8 percent annually since 2010, because an aging population and strong economic conditions led to a decline in the average household size and increased household formation. By comparison, household growth averaged 1,125, or 1.5 percent, annually from 2000 to 2010. An estimated 73.6 percent of households, or 67,900 households, are currently homeowners, compared with a homeownership rate of 76.9 percent in 2010 (Figure 5). From 2010 to the current date, the number of owner households increased at an average annual rate of 0.6 percent, or 390 households, and renter households increased at an average annual rate of 2.1 percent, or 440 households. From 2000 to 2010, the number of owner households increased at an average annual rate of 1.3 percent, or 790 households, while renter households increased by an average annual rate of 2.0 percent, or 335 households.

Table 3. Rochester HMA Population and Household Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	206,877	228,800	234,300
	Average Annual Change	2,225	1,775	1,825
	Percentage Change	1.1	0.8	0.8

| Household Quick Facts		2010	Current	Forecast
	Households	81,907	92,200	94,750
	Average Annual Change	1,125	830	850
	Percentage Change	1.5	1.0	0.9

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (August 1, 2022) to August 1, 2025.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

Forecast

During the next 3 years, the population of the Rochester HMA is expected to increase by an average of 1,825, or 0.8 percent, a year—faster than growth during the 2020-to-current period but slower than growth during the 2015-to-2020 period. Net in-migration is expected to account for approximately 52 percent of population growth, with international in-migration recovering from its disruption from COVID-19. The number of households is expected to reach 94,750 by the end of the third year of the forecast period, with average growth of 0.9 percent annually. An estimated 41 percent of the additional households are expected to be renters, resulting in the homeownership rate falling to 73.2 percent at the end of the 3-year forecast period.

Figure 5. Households by Tenure and Homeownership Rate in the Rochester HMA
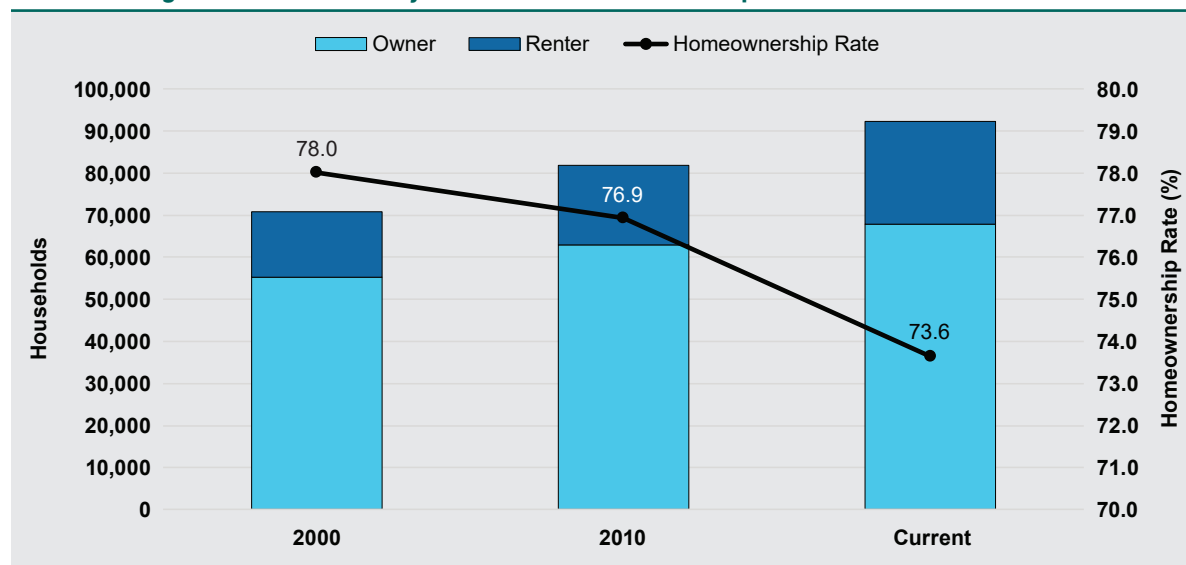
Note: The current date is August 1, 2022.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

Home Sales Market

Market Conditions: Slightly Tight

> The sales market in the HMA has tightened considerably since the beginning of the COVID-19 pandemic in March 2020.

Current Conditions

The sales housing market in the Rochester HMA is slightly tight, with robust demand and a limited inventory of available for-sale homes contributing to rising home prices. As of August 1, 2022, the overall sales vacancy rate is estimated at 1.0 percent (Table 4), down from 2.0 percent in 2010.

The sales market has moved from tight to slightly tight conditions in the past year but is still tighter than before the onset of the COVID-19 pandemic, when the market was balanced. During July 2022, the HMA had an inventory of 740 existing single-family homes, condominiums, and townhomes for sale, contributing to a 1.6-month supply, up from 700 homes for sale and a 1.1-month supply during July 2021 (Redfin, a national real estate brokerage). By comparison, 1,075 homes, a 2.1-month supply, were available for sale in

July 2019, before the beginning of the COVID-19 pandemic. The HMA has a proportionately lower supply of available homes than the nation, which had 2.2 months of supply during July 2022, up from a 1.4-month supply during July 2021. Although market conditions have tightened since 2019, the supply of available homes has been limited for many years, contributing to home sales price growth in the HMA. Since 2015, the HMA has had less than 3 months of supply of available for-sale inventory, often considered a metric indicating a tight sales market.

The current low level of for-sale housing inventory and robust demand for sales housing resulted in the average home sales price for new and existing homes increasing 20 percent, to $326,400, during the 12 months ending July 2022, compared with the preceding 12-month period, when home prices increased 11 percent (Zonda). Figure 6 shows the share of overall sales by price range during the 12 months ending July 2022. Because of low levels of

Table 4. Home Sales Quick Facts in the Rochester HMA

|		Rochester HMA	Nation
Home Sales Quick Facts	**Vacancy Rate**	1.0%	NA
	Months of Inventory	1.6	2.2
	Total Home Sales	4,425	5,904,000
	1-Year Change	-9%	-9%
	New Home Sales Price	$429,800	$481,900
	1-Year Change	8%	15%
	Existing Home Sales Price	$320,400	$441,800
	1-Year Change	24%	12%
	Mortgage Delinquency Rate	0.9%	1.4%

NA = data not available.
Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending July 2022; and months of inventory and mortgage delinquency data are as of July 2022. The current date is August 1, 2022.
Sources: Vacancy rate—estimates by the analyst; months of inventory and mortgage delinquency rate—Redfin, a national real estate brokerage; home sales and prices—Zonda

Figure 6. Share of Overall Sales by Price Range During the 12 Months Ending July 2022 in the Rochester HMA
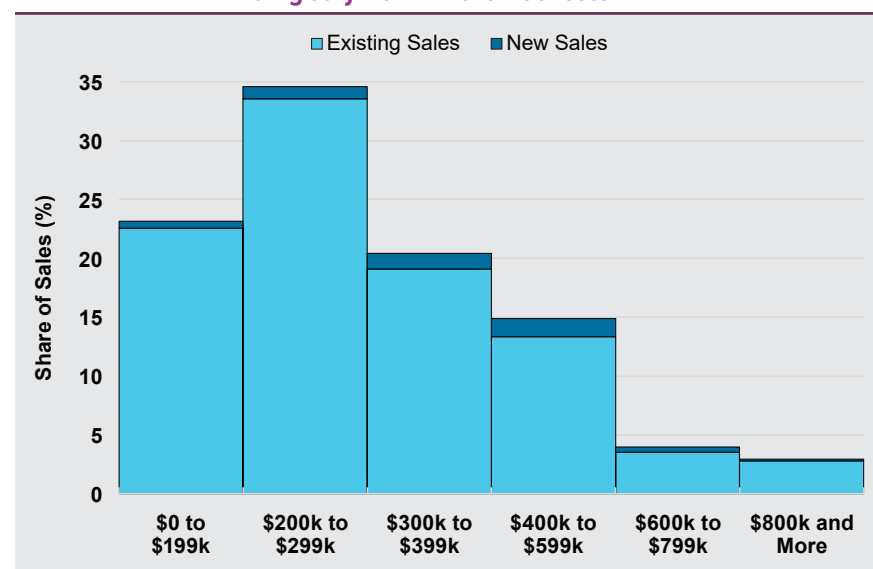
Note: New and existing sales include single-family homes, townhomes, and condominium units.
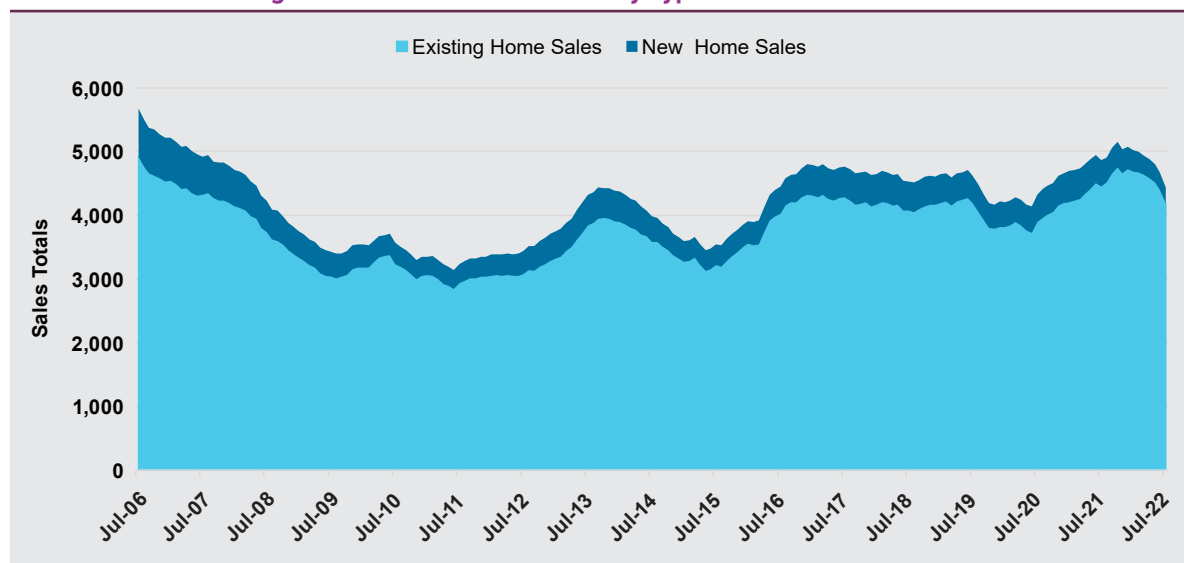Source: Zonda

available for-sale housing inventory, increasing home prices, and rising interest rates, the number of home sales decreased 9 percent, to 4,425, during the 12 months ending July 2022, following an increase of 13 percent during the 12 months ending July 2021.

Existing Home Sales and Price Trends

Existing home sales in the Rochester HMA fell during the late 2000s because of the housing crisis and the Great Recession. Before that decline, strong economic conditions and population growth contributed to a recent peak of 4,800 existing homes sold, on average, during 2005 and 2006. Existing home sales subsequently declined by an average of 450 homes sold, or 11 percent, annually from 2007 through 2009. Because of lower population growth from 2008 to 2015, existing home sales remained depressed from 2009 through 2015, averaging 3,325 homes sold annually (Figure 7). Existing home prices did not fall alongside home sales, averaging $165,300 from 2005 through 2013. The share of existing home sales that consisted of lower priced real estate owned (REO) sales rose during this period, contributing to the lack of growth in existing home sales prices. During 2005, REO sales made up only 3 percent of all existing sales, growing to 20 percent in 2011 and constituting 12 percent of home sales in 2013. In 2011, the average REO home sales price was $96,700, compared with $176,600 for regular resales.

Figure 7. 12-Month Sales Totals by Type in the Rochester HMA

Source: Zonda

As economic conditions in the HMA improved and the inventory of REO properties declined, existing home prices began to increase. From 2014 through 2020, the average sales price of an existing home increased an average of 6 percent annually (Figure 8). During this period, the percentage of REO home sales continued to decline, reaching pre-housing crisis levels in 2018. The number of existing home sales increased in 2016, as job growth continued and homebuyer sentiments improved. During 2016, the number of existing home sales increased 24 percent before stabilizing at an average of 4,075 home sales from 2017 through 2020.

The home sales market has tightened since the beginning of the COVID-19 pandemic. During the 12 months ending July 2021, approximately 4,450 existing homes were sold—more than any year since 2006—supported by increased demand for sales housing following the onset of the COVID-19 pandemic. However, existing home sales fell 6 percent to 4,200 existing home sales during the 12 months ending July 2022, partially because of rising interest rates and a limited supply of homes for sale. During the past 24 months, existing home prices in the HMA have increased more than in any comparable period since 2006. The average sales price of an existing home was $320,400 during the 12 months ending July 2022, up 24 percent from the 12 months ending July 2021, when existing home prices grew 13 percent.

Although historically high price growth has occurred during the past 24 months, signs indicate that the existing home sales market slowed in mid-2022 because of a steep rise in mortgage interest rates. During the 3 months ending July 2022, existing home sales fell 26 percent compared with the 3 months ending July 2021—a larger decline than in any comparable period since 2006. Existing home prices continued to increase during this period, rising 13 percent, but at a lower rate than the 12-month average.

New Home Sales and Price Trends

Although new home sales prices in the Rochester HMA have increased, new home sales are below levels in the mid-2000s. The number of new homes sold averaged 690 annually during 2005 and 2006; that number declined an average of 19 percent annually from 2007 through 2009, to an average low of 310 during 2010 and 2011, because of worsening economic conditions, decreased access to credit, and increasing inventories of lower priced REO homes. New home sales increased as economic conditions improved, rising to an average of 430 home sales from 2012 through 2020. During the 12 months ending July 2022, new home sales fell 42 percent, to 240 sales, compared with 420 sales during the 12 months ending July 2021.

Figure 8. 12-Month Average Sales Price by Type of Sale in the Rochester HMA
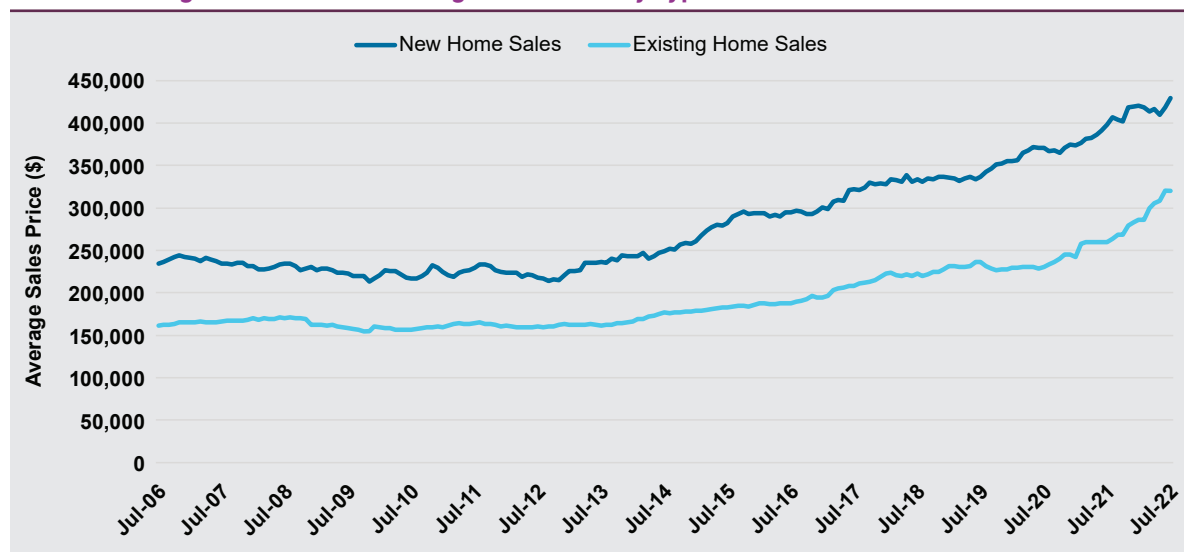
Source: Zonda

Home sales declined partly because of rising interest rates and because labor shortages and supply chain issues constrained home construction in the HMA in the past 12-month period.

New home prices have increased since 2013 because of increased competition among homebuyers and rising land, labor, and material costs. New home sales prices averaged $238,500 during 2005 and 2006, but they declined an average of 4 percent annually from 2007 through 2009, to an average of $223,900 from 2010 through 2012, as prices fell in response to slowing demand. From 2013 through 2020, new home prices increased an average of 7 percent annually. During the 12 months ending July 2022, the average new home sales price increased 8 percent to $429,800.

Sales Construction

Homebuilding activity, as measured by the number of single-family homes, townhomes, and condominium units permitted (building permits), has increased in the HMA since the end of 2012, but it is below the historically high levels reached during the housing boom in the mid-2000s. Homebuilding peaked from 2000 through 2005 at an average of 1,650 homes permitted annually (Figure 9), then declined by an

average of 200 homes, or 22 percent, annually, from 2006 through 2009, as demand for new homes fell. After reaching an average low of 370 homes permitted annually during 2010 and 2011, new home construction increased to an average of 620 homes permitted annually from 2012 through 2015, supported by improving economic conditions. Homebuilding increased further as population growth accelerated, and new home prices grew, with an average of 780 homes permitted annually during 2016 and 2017. From 2018 through 2021, homebuilding declined somewhat but remained above pre-2016 levels, averaging 670 homes permitted annually. During the 12 months ending July 2022, 570 homes were permitted, up from 370 homes during the previous 12-month period (preliminary data).

Current Home Construction Activity

About 60 percent of all new home construction is occurring in the city of Rochester, typically at small subdivisions on the urban edge. Hadley Creek Estates, in northeast Rochester, is one of the larger subdivisions of this type. Hadley Creek Estates has 54 lots, of which approximately 60 percent have been sold, with single-family homes available in the $400,000-to-$600,000 range. The subdivision is expected to be built out by the end of 2023. Centurion Ridge Villas, a 44-home subdivision in southwest Rochester, is another

Figure 9. Annual Sales Permitting Activity in the Rochester HMA
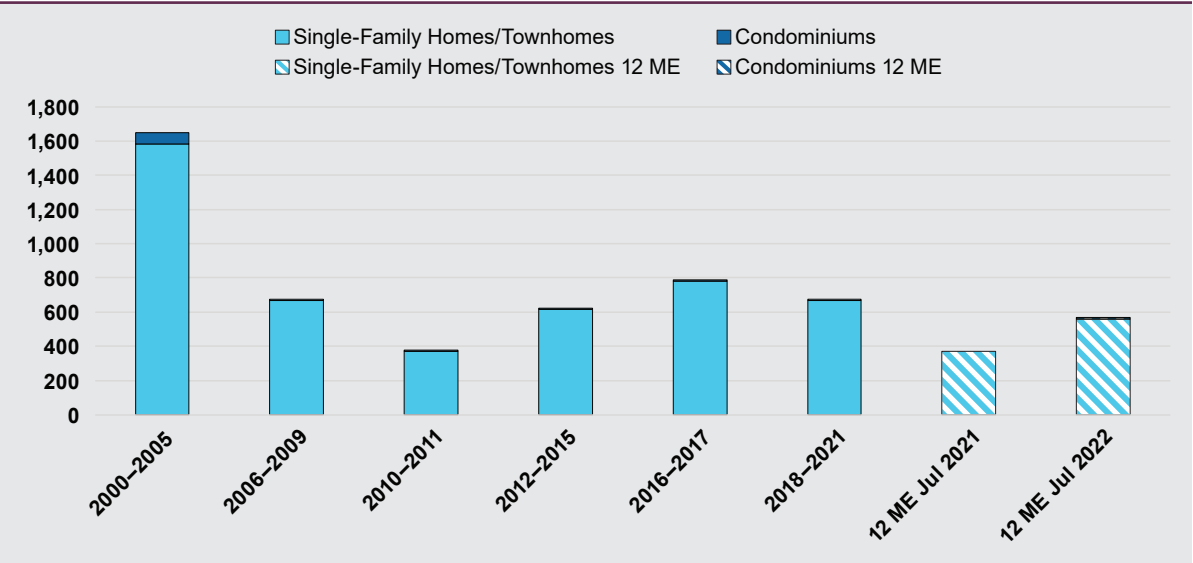
12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

typical development in the HMA. Centurion Ridge Villas is almost built out, with 38 lots sold and homes starting at approximately $400,000.

Forecast

Based on current and anticipated economic and population growth and the current slightly tight sales market conditions in the HMA, demand is estimated for 2,200 new homes during the next 3 years (Table 5). The 460 homes under construction are expected to meet a portion of demand during the first year of the forecast period. Demand for sales housing is expected to be steady throughout the forecast period, similar to expected trends in job growth.

Table 5. Demand for New Sales Units in the Rochester HMA During the Forecast Period

Sales Units	
Demand	2,200 Units
Under Construction	460 Units

Note: The forecast period is from August 1, 2022, to August 1, 2025.
Source: Estimates by the analyst

Rental Market

Market Conditions: Slightly Tight

Rent growth in the Rochester HMA has accelerated since the beginning of the COVID-19 pandemic.

Current Conditions and Recent Trends

The overall rental market in the Rochester HMA—including apartments, single-family homes, and other housing options available for rent—is slightly tight; the estimated 5.5-percent vacancy rate is down from 7.8 percent in April 2010, when rental conditions were soft (Table 6). Rental market conditions tightened during the past 2 years as apartment demand outpaced construction of rental units.

Apartment Market Conditions

The apartment market, which accounts for approximately 48 percent of renter-occupied units in the HMA (2021 ACS 1-year data), is slightly tight. The apartment market in the HMA is tighter than during the pre-COVID-19 period. During the second quarter of 2022, the average apartment vacancy rate in the HMA was 4.1 percent, down from 6.6 percent during the second quarter of 2021 (CoStar Group; Figure 10). Apartment market conditions were slightly soft before 2021. The vacancy rate was 11.4 percent during the second quarter of 2020, when the COVID-19 pandemic began, and 8.4 percent in the second quarter of

Table 6. Rental and Apartment Market Quick Facts in the Rochester HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	7.8	5.5
		2010 (%)	**2021 (%)**
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	27	36
	Multifamily (2–4 Units)	18	14
	Multifamily (5+ Units)	53	48
	Other (Including Mobile Homes)	2	2

		Q2 2022	YoY Change
Apartment Market Quick Facts	**Apartment Vacancy Rate**	4.1	-2.5
	Average Rent	$1,427	9%
	Studio	$1,176	9%
	One-Bedroom	$1,270	9%
	Two-Bedroom	$1,511	9%
	Three-Bedroom	$1,721	9%

Q2 = second quarter. YoY= year-over-year.
Notes: The current date is August 1, 2022. Percentages may not add to 100 due to rounding.
Sources: 2010 vacancy rate—2010 Census; current vacancy rate—estimate by the analyst; occupied rental units by structure—2010 and 2021 American Community Survey 5-year and 1-year data; apartment data—CoStar Group

Figure 10. Apartment Rents and Vacancy Rates in the Rochester HMA
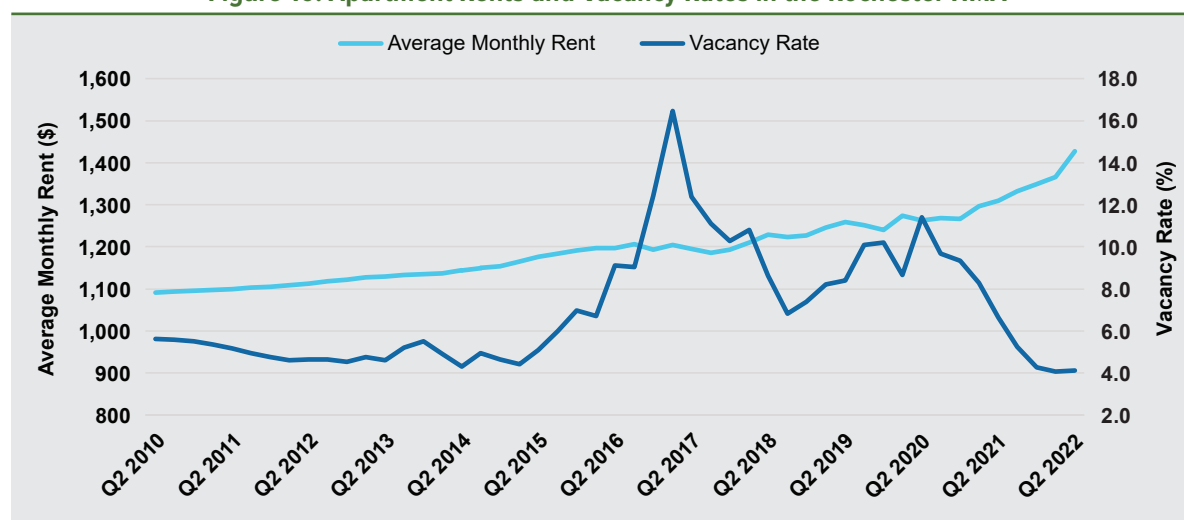
Q2 = second quarter.
Source: CoStar Group

2019, before the COVID-19 pandemic. The main cause of the elevated apartment vacancy rate in 2020 was an unusually large number of new apartment buildings undergoing lease up, not the pandemic. According to CoStar Group data for the second quarter of 2020, approximately 1,100 apartments units entered the market during the preceding 12-month period, more than reported during any other second quarter since 2010. By contrast, only an average of 75 units entered the apartment market annually during the most recent 24-month period.

During the second quarter of 2022, the average asking rent in the HMA was $1,427, up 9 percent on an annual basis—a larger annual increase than measured in any second quarter since 2010. By comparison, average asking rents increased 4 percent annually as measured in the second quarter of 2021 and less than 1 percent as measured in the second quarter of 2020. Elevated rent growth in the past 12 months was mostly caused by strong job growth and fewer numbers of apartment completions, leading to increased competition among renters.

Elevated rates of apartment construction contributed to high vacancy rates and limited rent growth from 2016 through 2020. During the second quarters of 2016 through 2020, the apartment vacancy rate was over 8.0 percent, with an average of 790 market-rate apartment units delivered annually. During this period, the average apartment asking rent increased

an average of 1 percent annually. From 2011 through 2015, when economic conditions were weaker but apartment construction was lower, rent growth averaged 2 percent annually, and the apartment vacancy rate was below 5.5 percent during every second quarter. During this period, less than 100 market-rate units entered the apartment market annually.

Rental Construction

Builders have responded to strong population and economic growth with high levels of rental construction since the mid-2010s. In addition, DMC attracted additional apartment development following its enactment in 2013 by improving public amenities and providing direct funding for apartments with below-market-rate rents. Rental construction, as measured by the number of units permitted, was moderate from 2000 through 2006, averaging 330 units annually (Figure 11). As the Great Recession began and population growth slowed, apartment construction declined to an average of 120 units annually from 2007 through 2014. Since 2015, rental construction levels have fluctuated from year to year, but construction levels have been above earlier periods. From 2015 through 2019, an average of 880 units were permitted annually,

Figure 11. Annual Rental Permitting Activity in the Rochester HMA
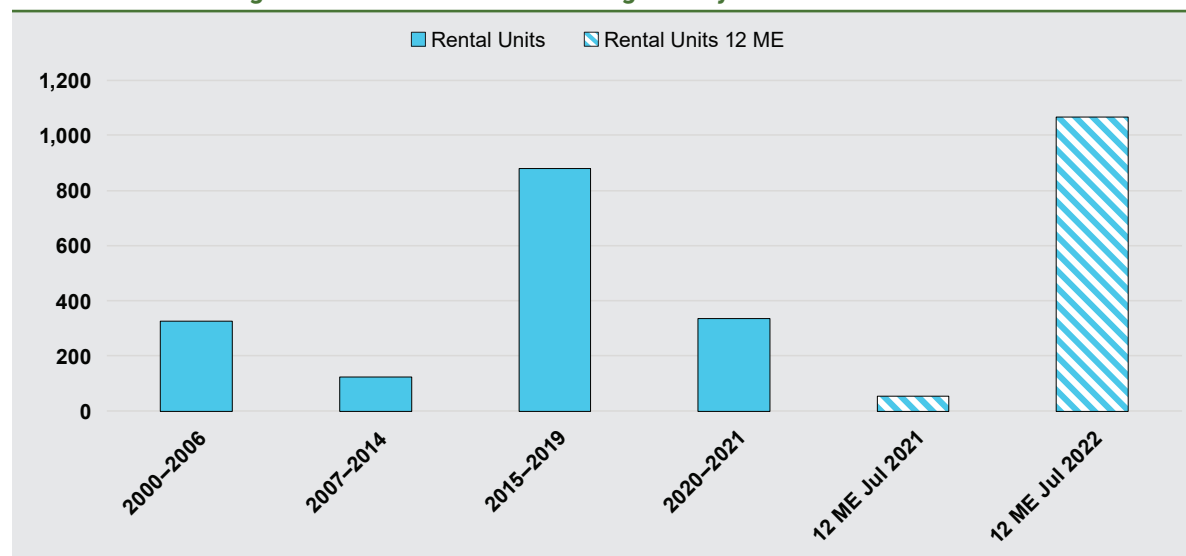
12 ME = 12 months ending.
Note: Includes apartments and units intended for rental occupancy.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

supported by strong economic conditions, increased population growth, and the investments made by DMC. During the COVID-19 pandemic, apartment construction slowed, partially in response to soft apartment market conditions, averaging 330 units permitted annually during 2020 and 2021. As the local economy recovered and the apartment market tightened, builders responded by increasing apartment production; during the 12 months ending July 2022, approximately 1,075 apartment units were permitted, up from 50 units during the 12 months ending July 2021 (preliminary data).

Current Rental Construction Activity

An estimated 850 apartments are under construction in the HMA, with more than 90 percent of this construction occurring in the city of Rochester. The Lodge at Overland Park, a 237-unit market-rate apartment property, is under construction in northwest Rochester. In downtown Rochester, the income-restricted 180-unit Bryk on Broadway is under construction. The apartment property will target households making less than 50, 60, and 80 percent of area median income, with 54, 18, and 108 units reserved for the respective

income limits. In addition to other private and public sources, $2.2 million of funding for Bryk on Broadway will come from DMC.

Forecast

During the 3-year forecast period, demand is estimated for 1,275 rental units in the HMA (Table 7). Demand is expected to be evenly distributed among all years of the forecast period, although the large current pipeline of approximately 850 units under construction will meet all demand during the first and second years. Consistent job and population growth alongside increased home prices and interest rates will support continued demand for rental units.

Table 7. Demand for New Rental Units in the Rochester HMA During the Forecast Period

Rental Units	
Demand	1,275 Units
Under Construction	850 Units

Note: The forecast period is August 1, 2022, to August 1, 2025.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

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 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.
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.
Existing Home Sales	Include regular resales and REO sales.
Forecast Period	8/1/2022–8/1/2025—Estimates by the analyst.
Home Sales/ Home Sales Prices	Includes single-family, townhome, and condominium sales.
Net Natural Change	Resident births minus resident deaths.
Regular Resales	These are home closings that have no ties to either new home closings (builders) or foreclosures. They are homes that were previously constructed and sold to an unaffiliated third party and include short sales.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units, such as single-family, multifamily, and mobile homes.

B.   Notes on Geography

1.	The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
2.	Urbanized areas are defined using the U.S. Census Bureau 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The census tracts referenced in this report are from the 2010 Census.

C.   Additional Notes

1.	The NAHB/Wells Fargo Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.
2.	This analysis has been prepared for the assistance and guidance of 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.
3.	The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. 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.

D.   Photo/Map Credits

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