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Analysis of the St. Cloud, Minnesota Housing Market

As of January 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 be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis 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 (Current date), and from the Current date to a Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory, as of the 1990 Census, 2000 Census, Current date, and Forecast date. For the purposes of this analysis the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production 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 Rodney Johnson, one of the Division's Field Economists in the Minneapolis Field Office, based on fieldwork conducted in May 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Johnson at 612-370-3000, ext. 2281, and at Rodney_Johnson@hud.gov.

Housing Market Area

The St. Cloud, Minnesota Housing Market Area (HMA) is defined as Benton and Stearns counties and that portion of Sherburne County in the limits of the city of St. Cloud. Portions of the city are located in all three counties.

Summary

During the 1990s, growth in employment, population, and households in the St. Cloud HMA led to substantial expansion of the housing inventory, with especially strong growth in sales housing. Increases in the number of households outpaced housing construction, and vacancy rates for both sales and rental housing were far lower in 2000 than in 1990.

Since 2000 the local economy has registered little growth. Employment actually declined from 2001 through 2003. Demand for housing, however, particularly sales housing, has remained high due to the affordable housing cost in the HMA compared to the adjacent Twin Cities (Minneapolis-St. Paul) market. Economic expansion is expected to resume during the 2-year forecast period, with the rate of growth increasing during the second year.

The rental market, however, has moved from relatively tight conditions in 2000 to much softer conditions as of the Current date. An increased number of new rental units has entered the market at the same time that large numbers of renters have opted for homeownership, and renter household growth is down.

Demand for sales housing will remain strong, estimated at 2,525 units during the forecast period. Continued movement of renter households to ownership as well as ongoing growth in households will support sales housing demand. Should interest rates rise significantly during the forecast period, the shift to ownership is expected to slow to some extent.

With continued household growth and renewed growth in renter households, the rental market is forecast to improve, which should prove sufficient to generate limited demand for additional market-rate rental housing.

While conditions in the market-rate segment of the rental market are soft, conditions in the affordable portion of the market remain relatively tight, with strong demand for rental units at below-market rents.

Economy of the Area

The HMA is located in south-central Minnesota, northwest of the adjacent Minneapolis-St. Paul metropolitan area. The HMA has a variety of manufacturing firms and a diversified economy. The St. Cloud HMA, situated on the Mississippi and Sauk Rivers, is the regional center for political, economic, educational, and cultural activity in Central

Minnesota. Trends in labor force and total employment from 1992 to the Current date are presented in Table 1. The trends in nonagricultural employment for the same period are presented in Table 2.

The economic history of the area goes back to the mid-19th century, when the Mississippi River and local tributaries were relied on to transport raw materials and finished goods and to power equipment for raw material processing. Quarrying became an important industry, with locally produced building stone and monuments supplied to all parts of the country, leading to the designation of St. Cloud as “Granite City.” Meanwhile, the rural portions of the HMA were settled by farmers attracted by the area’s rich soil and now host the state’s foremost dairy industry. Thriving post-secondary educational institutions developed as well, represented today by St. Cloud State University (SCSU) in St. Cloud, St. John’s University in Collegeville, and the College of St. Benedict in St. Joseph, along with technical and specialized vocational schools.

Between 1992 and 2003, resident employment increased by an average of 1,700 annually, or 2.1 percent; and nonfarm employment grew by 1,680 jobs a year, or 2.3 percent. Nonfarm employment, however, has declined since 2001, an average of 450 jobs a year, or 0.4 percent, to 94,350 in 2003. At the same time, resident employment increased an average of 200 jobs a year from 2001 to 2003 for a total of 101,300 in 2003. At least 7,000 workers are estimated to commute from the HMA to jobs in the Minneapolis-St. Paul area.

Although service-providing industries account for 77 percent of the employment in the St. Cloud HMA, manufacturing maintains a strong presence. Factories in St. Cloud, the principal manufacturing center in the HMA, produce a variety of goods, including truck bodies, boats, wire products, tools, freezers, refrigerators, wood products, sporting goods, printed matter, feeds, meat products, optical lenses, and corrugated boxes.

Manufacturing sector jobs increased by an annual average of 540 from 1992 to a peak of 17,900 in 2000. A decline in jobs followed, averaging a loss of 420 jobs a year to 16,650 in 2003. In the service-providing sector, employment in financial activities grew from 2,400 jobs in 1992 to 4,050 in 2003, an annual average of 150; in professional and business services, employment rose from 3,400 in 1992 to 7,000 in 2003, an annual average of 330 jobs; and in education and health, employment increased from 9,500 to 13,600 over the same period, an increase averaging 370 a year. The leisure and hospitality sector is another growth area, with employment expanding from 5,900 in 1992 to 8,100 in 2003, an average of 200 a year.

SCSU, with a student body of approximately 16,000, has a major impact on the local economy. A 1999 SCSU study concluded that with approximately 1,400 faculty and staff, the university was the fifth largest employer in the HMA. Based on direct and indirect effects of SCSU expenditures, its employees, students, and visitors, SCSU was responsible for 33,500 jobs and around \$600 million in spending in the area annually.

Economic recovery and expansion indications in the HMA and other employment centers point to growth prospects in nonfarm jobs and resident employment. Resident

employment is forecast to increase by an average of 2,080 a year during the period. The expected employment gains will support the continued population and household growth, strengthening the already-healthy sales market while helping reduce excess vacancies in several segments of the rental market.

Household Incomes

The median family income in the St. Cloud metropolitan area is estimated to be \$58,900 in 2004.

Population

During the 1990s, the population of the HMA increased an average of 1,915, or 1.2 percent annually, to 173,374 in 2000. The population in the city of St. Cloud grew an average of 1,030, or 2.1 percent, a year. Much of the increase was due to annexation. The annexation of St. Cloud Township, completed in 1996, was responsible for much of the population gain in the city. Adjacent suburbs, such as Sauk Rapids, Sartell, and Waite Park, have registered much of the actual population growth in the HMA. The population of the HMA has continued to grow since 2000 at an average of 1,950 people annually, a rate slightly ahead of the 1990s rate, to an estimated 180,700 as of the Current date. Net natural increases accounted for 58 percent of population growth in the HMA in the 1990s, and nearly 59 percent of the increase from 2000 to the Current date.

The nonhousehold portion of the population increased by an average of nearly 100 people annually from 1990 to 2000, attributed almost entirely to college dormitories, nursing homes, and senior housing. Since the 2000 Census, the nonhousehold population has continued to grow at an average of 180 people annually, again led by increases at college dormitories and other noninstitutional facilities. During the forecast period, nonhousehold population is expected to grow at a slower rate of 100 people a year.

Total population of the HMA is expected to increase by an average of 2,150 annually during the forecast period and reach a total of 185,000 by the Forecast date. Detailed data on population trends from 1990 to the Forecast date are presented in Table 3.

Households

Changes in households in the St. Cloud HMA since 1990 have paralleled the changes in population and the local economy. From 1990 to 2000, the number of households in the area increased an average of 1,041 a year, or 2.0 percent. Since 2000, the number of households has grown by an estimated 1,150 annually, or 1.8 percent, tracking with the increases in population and resident employment during the period. As with jobs and population, household growth has been concentrated primarily in the city of St. Cloud and nearby communities. Again, increases in households are expected to continue at nearly the same pace as that from 2000 to the Current date. Detailed data on household trends are presented in Table 3.

Housing Inventory

Housing production and subsequent inventory changes for sales and rental housing have kept pace with trends in the local economy and population growth. During the 1990s, the housing inventory grew by an average of 888 units annually. From 2000 to the Current date, the housing inventory increased by an estimated average of 1,495 units a year, to 71,200 units. As of the Current date, an estimated 67,100 occupied units and 4,100 vacant units exist, of which 1,800 are available for sale or rent. Since 1990, homeowners have accounted for a growing share of the households in the St. Cloud HMA, increasing from 69.9 percent in 1990 to 71.5 percent in 2000 and to an estimated 73.7 percent as of the Current date. Trends in housing inventory, tenure of occupancy, and housing vacancy from 1990 to the Current date are presented in Table 4.

The trends in residential building permit activity in the HMA from 1993 through 2003 are presented in Table 5. Except for an off year in 1997, single-family building permit activity in the St. Cloud area registered a relatively steady increase from 1993 through 1999, averaging 921 units a year. During the same period, multifamily permit activity demonstrated a more cyclical pattern, peaking at 567 units in 1995 and dipping to 213 in 1999. From 2000 through 2003, single-family permit activity rose sharply, rising from 1,125 homes in 2000 to 1,581 in 2003. Multifamily unit permits averaged 270 a year, accounting for 16 percent of all units, down from 29 percent for the preceding 7 years. The increased single-family permit activity was in response to strong demand for new homes stimulated by population and employment growth, the shift of renter households to ownership, and near-record low interest rates.

Much of the new home construction during the past 4 years has been in St. Cloud and nearby communities of Sartell, Sauk Rapids, Waite Park, St. Joseph, and Cold Spring, where residents live close to jobs in the HMA or in reasonable commuting distance to employment in the Minneapolis-St. Paul area to the southeast.

Housing Vacancy

As presented in Table 4, the vacancy rate for sales housing was 1.3 percent in 1990 and declined to 0.7 percent in 2000 due to the steady increase in demand for homes during the decade. The rental vacancy rate declined from 6.1 percent in 1990 to 3.4 percent in 2000. Housing production since 2000 has eased the sales and rental housing shortages. As a result, the sales vacancy rate is currently estimated to be 1.0 percent and the rental vacancy rate at 7.0 percent.

Sales Market Conditions

Conditions in the St. Cloud sales market continue to be very strong for both new and existing homes. Much of the demand, especially since 2000, has been the result of large numbers of renters taking advantage of low interest rates and the relatively affordable prices in the HMA to move to homeownership. Since 2000, an estimated 400 renter households have moved to homeownership each year.

In 2003, the average sales price for an existing home in the HMA was approximately \$160,000. Demand is strongest for homes priced below \$130,000. Homes at this price are typically sold in fewer than 2 weeks. New homes built in the city of St. Cloud typically start at \$160,000. In the outer suburbs of St. Joseph, St. Augusta, and Sartell, starter homes are being built for \$130,000 to \$140,000. Homes for move-up buyers are being built in the \$180,000 to \$260,000 range. Little significant demand exists for homes priced above \$500,000.

To expand the supply of affordable housing and help foster economic growth in the HMA, the local Builders Association has established an agreement with the communities of Sartell, Sauk Rapids, St. Cloud, Waite Park, and St. Joseph. Under the agreement, participating builders commit to including affordable housing priced no higher than \$135,000 in a proposed new development, facilitating homeownership for first-time homebuyers and others meeting income restrictions and provisions concerning equity limitations. The goal is for 15 percent of new homes purchased under the agreement to meet the affordability requirements.

Other affordable homeownership initiatives include Westwood Village, a project developed by the city of St. Cloud's Housing and Redevelopment Authority on the west side of St. Cloud. The project includes 80 single-family homes and 84 townhouses to be affordable to households with incomes below 70 percent of the statewide median family income. Assistance is available as needed to help with downpayments and mortgage financing.

Rental Market Conditions

SCSU has a major impact on the local economy. An estimated 12,000 of the 16,000 SCSU students live in off-campus housing, mostly in rental units in the city of St. Cloud. Student households occupy an estimated 3,400 rental units, or about 30 percent of the city's rental units.

As of the Current date, the rental market was balanced overall with a vacancy rate of approximately 7 percent. Conditions in the upper rent ranges, however, are slightly soft and competitive. Rental vacancy rates are highest in St. Cloud and several adjacent suburbs, where several new apartment developments are currently in initial lease-up. Although some of these new high-rent, high amenity developments have proven successful, others have experienced renting up difficulties. In addition, some established projects have been losing tenants to ownership or job loss. The rise in vacancies in the city of St. Cloud and surrounding suburbs is attributed to the 1,200 new units added to the market from mid-2002 to mid-2003. At the same time, demand slackened because of job losses and the shift of renters to the sales market. To compete, managers are offering concessions along with lower rents on average. Conditions are expected to improve during the forecast period as the local economy improves, hiring picks up, and renter household growth increases.

Forecast Housing Demand

Demand for sales housing during the 2-year forecast period ending January 1, 2006, is expected to total 2,125 homes, based on continued growth in population and an improving economy. In addition, as a result of the lower cost of sales housing in the St. Cloud HMA, the area will continue to attract workers with jobs in Minneapolis-St. Paul. Demand for new market-rate rentals during the forecast period is estimated at 400 units. Much of this demand is expected in the second year (2005) as the economy builds momentum and hiring increases. The rental market demand during the forecast period includes 160 one-bedroom units with monthly gross rents starting at \$625, 180 two-bedroom units with gross rents starting at \$800, and 60 three-bedroom or larger units with gross rents starting at \$975. Efficiency units could satisfy, in part, the demand for one-bedroom units, especially if offered at rents below the one-bedroom unit starting rents. Detailed data on rental demand for the forecast period, by bedroom size and rent, are presented in Table 6.

A number of vacant market-rate rental units must be absorbed, however, before conditions become favorable for new unit absorption. Rental demand is forecast to total approximately 400 units during the 2-year forecast period, with most of the demand occurring toward the end of the period. Demand is expected to be primarily for one- and two-bedroom units. Demand for larger size units exists, however, to meet the needs of college students living off campus. There may also be some demand for a small number of studio units priced well below one-bedroom unit rents.

Table 1
Labor Force and Total Employment
St. Cloud HMA
1992 to 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labor Force	85,300	88,300	91,800	93,700	94,650	94,050	95,900	99,750	101,500	105,100	106,700	106,100
Employment	80,850	83,700	88,000	89,800	89,900	90,150	93,050	96,750	97,950	100,900	101,900	101,300
Unemployment	4,475	4,575	3,775	3,900	4,750	3,875	2,850	2,950	3,575	4,200	4,800	4,750
Rate (%)	5.2	5.2	4.1	4.2	5.0	4.1	3.0	3.0	3.5	4.0	4.5	4.5

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

Sources: Minnesota Department of Employment and Economic Development
U.S. Department of Labor, Bureau of Labor Statistics

Table 2
Nonfarm Employment by Industry
St. Cloud HMA
1992 to 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Nonfarm Employment	74,200	76,600	79,300	82,400	83,900	84,600	87,600	91,800	94,600	95,250	94,750	94,350
Goods-Producing	16,600	17,100	17,800	18,600	18,700	19,300	20,500	21,400	22,100	21,900	21,550	21,550
Nat. Res./Const./Mining	3,000	3,100	3,200	3,400	3,500	3,800	3,900	4,000	4,200	4,500	4,800	4,900
Manufacturing	13,600	13,900	14,600	15,200	15,100	15,500	16,500	17,300	17,900	17,400	16,750	16,650
Service-Providing	57,500	59,500	61,400	63,800	65,100	65,200	67,100	70,400	72,400	73,350	73,250	72,800
Trade/Transportation/Utilities	19,500	20,000	20,800	22,100	22,100	21,500	21,900	22,700	23,300	22,300	21,450	20,850
Wholesale Trade	3,200	3,400	3,500	3,800	3,900	4,100	4,200	4,300	4,500	4,475	4,400	4,475
Retail Trade	13,700	14,000	14,600	15,700	15,400	14,600	14,800	15,300	15,600	14,800	14,050	13,300
Transp./Warehousing/Utilities	2,500	2,600	2,600	2,600	2,600	2,600	2,800	3,000	3,100	3,050	2,975	3,050
Information	1,100	1,000	1,000	1,100	1,100	1,200	1,200	1,200	1,300	1,525	1,625	1,400
Financial Activities	2,400	2,600	2,700	2,800	3,000	3,200	3,400	3,400	3,400	3,625	3,900	4,050
Prof. & Business Services	3,400	3,600	3,800	4,100	4,500	4,600	5,000	6,000	6,600	6,950	6,700	7,000
Education & Health	9,500	9,800	9,900	10,300	10,600	10,800	11,400	12,300	12,800	13,700	13,750	13,600
Leisure & Hospitality	5,900	6,200	6,500	6,500	6,900	7,100	7,200	7,400	7,500	7,550	7,950	8,100
Other Services	3,600	3,700	3,800	3,900	3,900	4,000	3,900	4,000	4,100	4,250	4,125	4,450
Government	11,900	12,200	12,500	12,600	12,700	12,600	12,800	12,900	13,200	13,450	13,450	13,350
Federal	1,600	1,600	1,500	1,600	1,600	1,600	1,500	1,500	1,600	1,625	1,525	1,525
State	3,400	3,500	3,500	3,600	3,500	3,500	3,600	3,500	3,600	3,800	3,775	3,650
Local	6,900	7,100	7,300	7,400	7,500	7,500	7,500	7,800	7,900	8,050	8,150	8,150

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

Sources: Minnesota Department of Employment and Economic Development; U.S. Department of Labor, Bureau of Labor Statistics

Table 3
Population and Household Trends
St. Cloud HMA
April 1, 1990 to January 1, 2006

	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 (%)
Population										
St. Cloud HMA	154,222	173,374	180,700	185,000	1,915	1.2	1,950	1.1	2,150	1.2
Households										
St. Cloud HMA	52,370	62,776	67,100	69,250	1,041	2.0	1,150	1.8	1,075	1.6

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

Table 4
Housing Inventory Tenure and Vacancy
St. Cloud HMA
April 1, 1990 to January 1, 2004

	St. Cloud HMA		
	1990	2000	Current
Total Housing Inventory	57,041	65,919	71,200
Occupied Units	52,370	62,776	67,100
Owners	36,616	44,886	49,450
%	69.9	71.5	73.7
Renters	15,754	17,890	17,650
%	30.1	28.5	26.3
Vacant Units	4,671	3,143	4,100
Available Units	1,499	960	1,800
For Sale	475	333	500
Rate (%)	1.3	0.7	1.0
For Rent	1,024	627	1,325
Rate (%)	6.1	3.4	7.0
Other Vacant	3,172	2,183	2,300

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
St. Cloud HMA
1993 to 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
St. Cloud HMA											
Total	1,221	1,363	1,538	1,347	1,174	1,170	1,272	1,370	1,488	1,850	2,096
Single-family	919	872	971	913	778	934	1,059	1,125	1,325	1,476	1,581
Multifamily	302	491	567	434	396	236	213	245	163	374	515

Sources: U.S. Census Bureau, C-40 Construction Series
Local building inspectors

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
St. Cloud HMA
January 1, 2004 to January 1, 2006

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
625	160	800	180	975	60
675	140	850	150	1,025	50
725	125	900	130	1,075	45
775	110	950	110	1,125	40
825	95	1,000	95	1,175	35
875	75	1,050	75	1,225	30
925	60	1,100	60	1,275	25
1,025	45	1,200	45	1,475	20
1,125	35	1,300	35	1,575	10
1,225	25	1,400	30		
1,325	20	1,500	20		
1,425	15				
1,525	10				

Notes: Distribution above is noncumulative.
 Numbers have been rounded for comparison.

Source: Estimates by analyst