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Analysis of the Dover and Southern Delaware

Housing Market

As of April 1, 2005



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods 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 local and national sources. As such, 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—April 1, 2005 (Current date)—and from the Current date to a Forecast date—April 1, 2008. In the analysis, 1990 and 2000 refer to the dates of the decennial census—April 1 unless specified otherwise. This 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 purposes of this analysis, the forecast period is 36 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market conditions on the as-of date of the analysis. This analysis was prepared by Patricia Moroz, the Division's field economist in HUD's Philadelphia Regional Office, based on fieldwork conducted in April 2005. Questions regarding the findings and conclusions of the analysis may be addressed to Ms. Moroz at 215-356-0604, ext. 3031, and at patricia_c._moroz@hud.gov.

Housing Market Area

The Dover and Southern Delaware Housing Market Area (HMA) is composed of Kent and Sussex Counties in Delaware. The HMA is divided into two submarkets. The Kent County submarket includes the state capital, Dover, and the Dover Air Force Base (AFB). The Sussex County submarket is mainly agricultural and has more than 25 miles of beaches along its eastern border on the Atlantic Coast.

Summary

The sales market in the Dover and Southern Delaware HMA is strong, and the rental market is balanced. During the next 3 years, demand for new sales housing is expected to remain high as the area continues to attract new residents. Based on past production, much of the demand will be met by single-family homes. The volume of sales housing currently in the planning pipeline is expected to be enough to meet demand during the forecast period. The rental market also will remain in balance if construction continues at the current pace through the forecast period.

From 2000 to the Current date, the growing service-providing sector has been the primary source of new jobs in the Dover and Southern Delaware HMA. State government and military employment provides stability in the local economy. As tourism and services for the growing population expand, total employment is expected to increase 2.1 percent a year during the forecast period.

Since 2000, most of the rapid population and household growth has been the result of net in-migration to the HMA. Relatively affordable home prices and low taxes have attracted families and retirees at a steady pace. Over the next 3 years, population growth is expected to be 2.5 percent annually, and household growth is expected to be 2.8 percent a year.

During the 3-year forecast period ending April 1, 2008, demand for new market-rate sales units is estimated at 11,200, including demand for 4,425 units in Kent County and 6,775 units in Sussex County. Sales demand estimates are for year-round housing units. Demand for second homes, vacation homes, and investor-owned seasonal rental properties is not included. The demand for new market-rate rental housing is estimated at 700 units.

Economy of the Area

The economy of the Dover and Southern Delaware HMA has registered relatively strong growth since 2000. From 2000 to the Current date, total employment grew by an annual average of 2,750, or 1.9 percent. The unemployment rate has remained steady in recent years and is currently 3.6 percent.

Covered employment increased by 5,600 jobs, or 4.8 percent, during the most recent 12 months of available data ending in September 2004. More than 80 percent of jobs added in the past year were in the service-providing sector. During the 12-month period ending

September 2004, employment in the government and the leisure and hospitality sectors increased by more than 1,000 jobs, while the retail trade and transportation, utilities, and warehousing sectors both added 800 jobs.

State government and military employment gives a stable foundation to the economy of Kent County. In the 12 months ending September 2004, a total of 1,100 jobs were added to the government sector compared with an average of 230 annually during the preceding decade. Dover AFB employs approximately 3,850 military and civilian personnel, and employment is expected to remain unchanged in the future. The economic impact of Dover AFB on the local economy was approximately \$470 million in 2003.

Tourism and agriculture, mainly poultry processing, are important to the economy in Sussex County. According to the 2002 Census of Agriculture, Sussex County ranks first in the nation in the production of poultry, eggs, and broiler chickens. An estimated 5,350 workers are employed in poultry processing companies throughout the county. Tourism, a growing industry in Sussex County, contributes an estimated \$2 billion a year to the Delaware economy.

During the forecast period, total employment in the Dover and Southern Delaware HMA is expected to increase by 3,175, or 2.1 percent, annually, slightly higher than the rate of growth from 2000 to the Current date. Over the next 3 years, service-providing industries will continue to expand. Employment in the retail trade, leisure and hospitality, and education and health services sectors is expected to increase to serve the growing population. Trends in annual average civilian labor force, total employment, and covered employment by industry sector from 1990 through the Current date, or most recent date available, are presented in Tables 1, 2, and 3.

Household Incomes

HUD's Economic and Market Analysis Division estimates that the median family income in the HMA in 2005 is \$56,650 in Kent County and \$54,900 in Sussex County, an annual increase of 4.4 percent and 4.3 percent, respectively, since the 2000 Census.

Population

Since 2000, the population of the Dover and Southern Delaware HMA grew rapidly because net in-migration increased. Retirees and empty nesters from the neighboring states of Maryland, Pennsylvania, New York, and New Jersey are attracted, in part, because of low property tax rates and lack of a state sales tax. From 2000 to the Current date, population increased an average of 2.7 percent annually, or 8,300 people, compared with 2.3 percent annually, or 5,900 people, during the preceding decade. Net in-migration accounted for more than 85 percent of the population increase since 2000, while the remainder was from net natural change (resident births minus resident deaths). The population of the HMA is estimated to be 324,850 as of April 1, 2005.

Kent County is a bedroom community for Wilmington, Delaware, and a growing retirement location because of its affordable home prices. Net in-migration to Kent

County increased substantially to an average of 3,000 people a year from 2000 to the Current date, compared with an average of 660 a year during the 1990s.

The southeastern portion of Sussex County, which is beginning to attract more year-round residents to the beaches, is becoming increasingly popular as a retirement destination. Net in-migration to Sussex County averaged 4,200 people annually from 2000 to the Current date, compared with 4,025 annually during the preceding decade.

The population of the Dover and Southern Delaware HMA is expected to increase by 8,525 people a year during the forecast period to 350,400 as of April 1, 2008. Trends in population change for the HMA and its submarkets from 1990 to the Forecast date are presented in Table 4.

Households

As the population of the HMA grew from 2000 to the Current date, the number of households increased at a rapid pace, averaging 3.0 percent, or 3,500, annually. An increasing number of families purchased homes and as a result, owner tenure increased from 76 percent in 2000 to 79 percent as of the Current date. Household growth in Kent County nearly doubled to an average of 1,425 households a year since 2000, compared with an average of 760 households a year during the preceding decade. Since 2000, household growth in Sussex County increased slightly to an average annual rate of 2,075, compared with 1,900 during the 1990s. An estimated 127,300 households currently reside in the HMA.

As of the Current date, more than half of the estimated 4,600 students enrolled at Delaware State University and Wesley College reside in dormitories. The student population is projected to expand during the forecast period but will have a limited effect on the housing market. Construction of new dormitories and absorption of recently completed off-campus student apartments are expected to be sufficient to meet the growing demand for student housing. Household trends and forecasts are presented in Table 4.

Housing Inventory

Single-family units make up more than 95 percent of the building permits issued in the Dover and Southern Delaware HMA since 2000. From 2000 to the Current date, an average of 4,050 total permits were recorded annually in the HMA, a rate more than 75 percent higher than during the 1990s. Single-family permit activity in Kent County more than doubled to an average of approximately 1,400 a year since 2000. In Sussex County, single-family permits activity increased to an average of 2,500 homes annually from 2000 to the Current date, compared with an average of 1,350 annually during the preceding decade.

Since 2000, manufactured housing has become more common throughout the HMA because of its affordability. As manufactured housing has become increasingly popular among retirees, development of communities for residents age 55 and older has increased

in both Kent and Sussex Counties. Manufactured housing increased an average of 1,050 units a year in the HMA since 2000 compared with an average of 300 units a year during the preceding decade. More than 80 percent of the manufactured housing units added since 2000 are located in Sussex County.

Since 2000, developers have built large numbers of seasonal units in the beach communities in Sussex County. Condominiums account for a significant portion of seasonal units, including many that are investor owned and subsequently rented. Very little of this activity is reported in local building permit statistics. Trends for housing inventory, occupancy, and vacancy by tenure from 1990 to 2000, and from 2000 to the Current date, are presented in Table 5. Annual building permit activity from 1990 through the Current date is presented in Table 6.

Sales Market Conditions

The sales market is strong throughout the Dover and Southern Delaware HMA. Sales activity has increased each year since 2000, but the production of new homes has not kept up with demand. The sales vacancy rate declined from 1.9 percent in 2000 to an estimated 1.4 percent as of the Current date.

From 2000 to 2004, sales volume in Kent County nearly doubled to 2,580 homes, according to TReND Multiple Listing Service. During the same period, the median sales price in Kent County increased to \$167,600, or an average of 11.4 percent annually. Even with recent price increases, homes in Kent County are more affordable than in the Wilmington area. TReND Multiple Listing Service reports that the median sales price in New Castle County, which includes the city of Wilmington, was \$183,400 in 2004, or 9.4 percent higher than in Kent County.

According to the Sussex County Association of REALTORS[®], sales volume increased an average of 17.7 percent annually to more than 5,075 units from 2000 to December 2004. During the same period, the median sales price of homes in the county increased to \$239,900, or an average of 20.8 percent annually. Condominium sales expanded since 2000 and currently account for nearly one-third of sales in Sussex County. Median prices of condominiums in the beach areas rose more than 30 percent a year from 2000 to December 2004, including prices of \$575,000 in the Lewes and Rehoboth Beach area and \$449,500 in the Bethany Beach area.

The sales market is expected to remain strong during the forecast period. Responding to the high demand for new sales housing, developers have begun constructing single-family developments throughout the HMA. In Kent County, many of the planned developments, including an estimated 3,800 homes, are to be located in or near the city of Dover. In Sussex County, many of the developments are located near to and west of the beach areas. An estimated 7,500 to 10,500 homes are likely to be built throughout the county within 5 to 10 years. Several single-family developments on or near golf courses offer an additional attraction to retirees.

Rental Market Conditions

The rental market in the Dover and Southern Delaware HMA is currently balanced. Construction of new apartments has been limited over the past several years, so rental vacancy rates have declined since 2000. Vacancy rates decreased to an estimated 6.5 percent in Kent County and 12.0 percent in Sussex County as of the Current date. The high vacancy rate in Sussex County reflects many seasonal vacant units, which are not part of the year-round rental market. For consistency, the elevated vacancy rate was carried over into the Current estimate.

Few large-scale apartment complexes are currently under construction in the HMA; however, the first 35 units of a planned 200-unit apartment complex in Kent County were expected to open in July 2005. Approximately 300 apartment units are planned and will be completed within the forecast period. Most of the proposed rental units are to be located in Kent County. The average gross rent for a two-bedroom/two-bath unit in a newly constructed Class A development is \$950 in Kent County and \$710 in Sussex County.

Forecast Housing Demand

Taking into account current and anticipated market conditions and forecast household growth, estimates indicate that 11,200 new sales units and 700 rental units are needed over the 3-year forecast period to maintain a balanced market.

Sales demand includes 4,425 units in Kent County and 6,775 units in Sussex County. Demand estimates in Sussex County are for year-round housing, excluding units mainly occupied by seasonal residents. Prices also reflect year-round occupancy and exclude more expensive vacation homes, which are often investor owned and subsequently rented. Estimated qualitative demand for sales units over the next 3 years is presented in Table 8 for Kent County and in Table 9 for Sussex County.

Most of the demand for rental units in the HMA will occur in Kent County. Estimates of the forecast qualitative demand for rental housing in the HMA over the next 3 years are presented in Table 7.

Table 1
Labor Force and Employment
Dover and Southern Delaware HMA
1990 to March 31, 2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Labor Force	121,000	124,800	129,400	131,300	133,900	137,400	139,000	139,000	140,400	142,400
Employment	116,700	118,400	122,700	124,200	127,300	131,000	133,500	133,400	135,100	136,900
Unemployment	4,275	6,450	6,600	7,050	6,550	6,450	5,550	5,650	5,250	5,475
Rate (%)	3.5	5.2	5.1	5.4	4.9	4.7	4.0	4.1	3.7	3.8

	2000	2001	2002	2003	2004	Previous 12 Mos. ^a	Current 12 Mos. ^b
Labor Force	147,800	148,800	152,400	154,800	157,100	155,329	157,138
Employment	142,400	143,200	146,900	149,100	151,400	149,545	151,474
Unemployment	5,375	5,600	5,525	5,750	5,750	5,783	5,664
Rate (%)	3.6	3.8	3.6	3.7	3.7	3.7	3.6

^a Ending March 31, 2004.

^b Ending March 31, 2005.

Note: Numbers have been rounded for comparison.

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

Table 2
Covered Employment by Industry
Dover and Southern Delaware HMA
1990 to 2001

Employment Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Covered	87.6	89.1	91.5	93.6	95.6	99.1	101.9	102.7	105.6	108.5	110.9	110.8
Constr. & Mining	5.5	5.0	5.1	5.3	5.3	5.6	6.2	6.3	7.0	7.3	7.4	7.3
Manufacturing	19.1	18.5	18.5	18.3	18.7	19.4	18.5	17.7	18.0	17.9	17.8	17.9
Trade	22.8	23.7	24.5	25.3	26.2	27.8	28.8	29.2	29.1	29.9	30.5	30.0
Wholesale Trade	2.7	2.7	2.6	2.7	2.8	2.9	3.1	3.3	3.2	3.2	3.2	2.8
Retail Trade	20.1	21.0	21.9	22.5	23.5	24.8	25.6	26.0	25.9	26.8	27.3	27.3
Trans., Comm. & Util.	3.0	2.9	2.9	3.0	3.1	3.1	2.9	3.1	3.5	3.5	4.3	3.7
Fin., Ins., & Real Est.	4.6	4.7	5.0	5.1	5.1	5.3	6.4	6.4	6.4	6.7	6.7	6.9
Services	15.8	17.2	18.3	19.0	19.1	19.7	20.8	21.4	22.7	24.1	25.1	26.2
Government	16.9	17.1	17.2	17.7	18.1	18.3	18.4	18.5	18.9	19.1	19.0	18.8

Notes: Figures are in thousands.

Numbers may not add to totals due to rounding.

Source: Delaware Department of Labor, Office of Occupational and Labor Market Information—Standard Industrial Classification

Table 3
Covered Employment by Industry
Dover and Southern Delaware HMA
2002 to September 31, 2004

Employment Sector	2002	2003	Previous 12 Mos. ^a	Current 12 Mos. ^b
Total Covered	114.4	118.9	117.5	123.1
Goods-Producing	23.9	23.8	23.7	24.6
Constr. & Mining	7.4	7.9	7.7	8.7
Manufacturing	16.5	15.9	15.9	15.9
Service-Providing	90.5	95.2	93.8	98.5
Trade	20.5	21.2	21.0	21.9
Wholesale Trade	2.5	2.7	2.6	2.7
Retail Trade	18.1	18.5	18.4	19.2
Trans., Util. & Ware.	3.1	3.2	3.2	4.0
Information	1.1	1.1	1.1	1.1
Financial Activities	6.6	7.0	6.9	7.2
Prof. & Bus. Svcs.	8.1	7.2	7.5	7.2
Edu. & Health Svcs.	12.8	13.3	13.2	13.7
Leisure & Hospitality	15.1	15.5	15.2	16.5
Other Services	3.7	3.9	3.8	3.9
Government	19.4	22.7	21.9	23.0

^a Ending September 31, 2003.

^b Ending September 31, 2004.

Notes: Figures are in thousands.

Numbers may not add to totals due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics—North American Industry Classification System

Table 4
Population and Household Trends
Dover and Southern Delaware HMA
April 1, 1990 to April 1, 2008

	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										
Dover and Southern Delaware HMA	224,222	283,335	324,850	350,400	5,900	2.3	8,300	2.7	8,525	2.5
Kent County	110,993	126,697	145,900	157,750	1,575	1.3	3,850	2.8	3,950	2.6
Sussex County	113,229	156,638	178,950	192,650	4,350	3.2	4,450	2.7	4,575	2.5
Households										
Dover and Southern Delaware HMA	83,336	109,801	127,300	138,500	2,650	2.8	3,500	3.0	3,725	2.8
Kent County	39,655	47,224	54,375	59,250	760	1.7	1,425	2.8	1,625	2.9
Sussex County	43,681	62,577	72,925	79,250	1,900	3.6	2,075	3.1	2,100	2.8

Notes: Rate of change is calculated on a compound basis.
Average annual changes rounded for comparison.
Averages may not add to HMA total due to rounding.

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

Table 5
Housing Inventory, Tenure, and Vacancy
Dover and Southern Delaware HMA
1990, 2000, and April 1, 2005

	Dover and Southern Delaware HMA			Kent County			Sussex County		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	116,359	143,551	169,455	42,106	50,481	58,475	74,253	93,070	110,980
Occupied Units	83,336	109,801	127,300	39,655	47,224	54,350	43,681	62,577	72,950
Owners	61,773	83,524	100,850	27,448	33,040	39,600	34,325	50,484	61,250
%	74.1	76.1	79.2	69.2	70.0	72.9	78.6	80.7	84.0
Renters	21,563	26,277	26,450	12,207	14,184	14,750	9,356	12,093	11,700
%	25.9	23.9	20.8	30.8	30.0	27.1	21.4	19.3	16.0
Vacant Units	33,023	33,750	42,155	2,415	3,257	4,125	30,572	30,493	38,030
For Sale	1,818	1,645	1,455	397	541	525	1,421	1,104	930
Rate (%)	2.9	1.9	1.4	1.4	1.6	1.3	4.0	2.1	1.5
For Rent	2,039	2,895	2,625	643	1,018	1,025	1,396	1,877	1,600
Rate (%)	8.6	9.9	9.0	5.0	6.7	6.5	13.0	13.4	12.0
Other Vacant	29,166	29,210	38,075	1,411	1,698	2,575	27,755	27,512	35,500

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

Table 6
Residential Building Permit Activity
Dover and Southern Delaware HMA
1990 to March 31, 2005 (1 of 2)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Dover and Southern Delaware HMA										
Total	2,154	2,017	2,103	2,243	2,350	2,260	2,150	2,423	2,580	2,710
Single-family	1,749	1,686	1,871	2,012	2,096	1,989	2,043	2,003	2,322	2,549
Multifamily	405	331	232	231	254	271	107	420	258	161
Kent County										
Total	822	877	756	947	976	941	659	632	763	866
Single-family	528	637	674	806	740	709	613	626	675	705
Multifamily	294	240	82	141	236	232	46	6	88	161
Sussex County										
Total	1,332	1,140	1,347	1,296	1,374	1,319	1,491	1,791	1,817	1,844
Single-family	1,221	1,049	1,197	1,206	1,356	1,280	1,430	1,377	1,647	1,844
Multifamily	111	91	150	90	18	39	61	414	170	0

Source: U.S. Census Bureau, Building Permits Survey

Table 6
Residential Building Permit Activity
Dover and Southern Delaware HMA
1990 to March 31, 2005 (2 of 2)

	2000	2001	2002	2003	2004	2005	Current 12 Mos.
Dover and Southern Delaware HMA							
Total	2,280	2,948	4,076	5,351	5,655	1,353	5,786
Single-family	2,275	2,779	3,952	4,947	5,505	1,301	5,553
Multifamily	5	169	124	404	150	52	233
Kent County							
Total	858	1,018	1,452	2,167	2,178	537	2,331
Single-family	853	954	1,442	1,763	2,028	485	2,098
Multifamily	5	64	10	404	150	52	233
Sussex County							
Total	1,422	1,930	2,624	3,184	3,477	816	3,455
Single-family	1,422	1,825	2,510	3,184	3,477	816	3,455
Multifamily	0	105	114	0	0	0	0

Note: 2005 includes data through March 31, 2005.
Source: U.S. Census Bureau, Building Permits Survey

Table 7
Estimated Qualitative Demand for New Market-Rate Rental Housing
Dover and Southern Delaware HMA
April 1, 2005 to April 1, 2008

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
850	280	950	315	1,075	105
900	240	1,000	260	1,125	86
950	220	1,050	230	1,175	78
1,000	200	1,100	200	1,225	70
1,050	160	1,150	170	1,275	60
1,100	130	1,200	130	1,325	50
1,150	100	1,250	100	1,375	45
1,250	80	1,350	80	1,475	40
1,350	60	1,450	65	1,575	35
1,450	50	1,550	50	1,675	20
1,550 and higher	35	1,650 and higher	35	1,775 and higher	10

Notes: Distribution above is noncumulative.
Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

Table 8
Estimated Qualitative Demand for New Market-Rate Sales Housing
Kent County
April 1, 2005 through April 1, 2008

Price Range (\$)		Units of Demand
From	To	
100,000	149,999	620
150,000	199,999	980
200,000	249,999	1,310
250,000	299,999	890
300,000	374,999	530
375,000	and higher	110

Source: Estimates by analyst

Table 9
Estimated Qualitative Demand for New Market-Rate Sales Housing
Sussex County
April 1, 2005 through April 1, 2008

Price Range (\$)		Units of Demand
From	To	
100,000	149,999	750
150,000	199,999	1,630
200,000	249,999	1,530
250,000	299,999	1,290
300,000	374,999	820
375,000	449,999	580
450,000	and higher	200

Source: Estimates by analyst