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Analysis of the Lancaster, Pennsylvania Housing Market

As of September 1, 2003

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 upon 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 demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by. Kevin P. Kane, one of the Division's Field Economists in the Pennsylvania State Office in Philadelphia, based on fieldwork conducted in August 2003. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Kane at 215–656–0604, ext. 3027, and at kevin_p._kane@hud.gov.

Housing Market Area

The Lancaster Housing Market Area (HMA) consists of Lancaster County, Pennsylvania, and is coterminous with the Lancaster metropolitan statistical area. Located in southeastern Pennsylvania, the HMA lies approximately 70 miles from Philadelphia and Baltimore and 30 miles from Harrisburg. This analysis examines two submarkets: the city of Lancaster, which is centrally located in the county, and the Remainder of the county.

Summary

The Lancaster HMA economy, characterized by agriculture, manufacturing, and service-providing industries, continues to outperform most market areas in the state. Lancaster County is the largest dairy producer in the state, and the local government has made the conservation of farmland and open space a top priority.

As the region attracts more elderly residents to its retirement communities, the healthcare industry will continue to grow. The trade, transportation, and utilities sector also will remain important because of the region's ideal location between Philadelphia, Baltimore, and Harrisburg.

The rates of population and household growth in recent years have declined compared with the rates during the 1990s, but are expected to remain constant during the next 2 years. Lancaster city continues to lose households, but the development of a minor league baseball stadium and the Lancaster County Convention Center during the next 2 years is expected to help revitalize the downtown area.

Demand for owner housing has slightly outpaced production, causing vacancy rates to decline from their 2000 level. Renter vacancy rates have remained relatively stable since 2000. It is estimated that there will be demand in the HMA for approximately 3,690 units of new sales housing and 670 additional rental units over the 2-year forecast period.

Economy of the Area

The Lancaster HMA has had greater economic success than have other market areas in Pennsylvania during the economic downturn of the early 2000s. Over the most recent 12-month period ending August 2003, the unemployment rate for the HMA averaged 4.1 percent, compared to 5.8 percent for the entire state. Much of strength in the economy of the HMA can be attributed to Lancaster's diverse economy led by agriculture, manufacturing, trade, health care, and tourism.

A strong agricultural region, the Lancaster HMA leads the state in dairy production, and is home to 10 percent of all farms in Pennsylvania. The service sector is gaining jobs, while the manufacturing sector loses them. Comparing the most recent 12-month average ending August 2003 with the previous 12-month average, the service sector gained 3,200 jobs, while manufacturing lost 1,500 jobs. During the last year, the trade, transportation, and utilities sector, the largest service-providing sector with 49,700 employees, gained

1,000 jobs. Education and health services, the second largest service sector, employs approximately 29,300 people, 2.5 percent more than a year ago. With the aging population in the HMA, this sector will continue to grow in importance. According to the Economic Development Company of Lancaster County, the largest employers in 2002 were Lancaster General Hospital, RR Donnelley, and Armstrong Holdings, which employed 5,221, 3,600, and 2,570 people respectively. Other top employers included the government, leisure and hospitality, and professional and business services sectors, averaging 20,400, 19,900, and 18,900 respectively during the last 12 months. Despite job losses in recent years, the manufacturing sector still averaged 50,000 employees over the most recent 12-month period. In 2005, Penn-Mar Ethanol LLC is planning to construct a new $80 million ethanol plant in Conoy Township, which will create an estimated 35 to 40 new jobs.

The HMA continues to grow as a bedroom community for several surrounding counties. According to the 1990 Census, net out-commutation from Lancaster was 6,000; in 2000, it was approximately 7,000. The Corridor One project, a 41-mile, $78 million, commuter rail project linking Lancaster to Mechanicsburg on the western side of Harrisburg, will enhance Lancaster's attractiveness as a bedroom community. Regular travel between Lancaster and Harrisburg is scheduled to begin in 2005. According to the Lancaster County Planning Commission, the stations in Elizabethtown Borough and Lancaster city will be redeveloped in 2004 and 2005 respectively. Mount Joy Borough and Paradise Township, which are on the Amtrak line to Philadelphia, will have new stations by 2006.

Two major construction projects should help revitalize Lancaster city: a minor league baseball stadium and a convention center. The 5,700-seat, $20 million ballpark to be located at North Prince Street and Harrisburg Pike is scheduled to open at the beginning of the 2005 season. The $62.75 million Lancaster County Convention Center will be constructed using the shell of the former Watt & Shand department store building and have an adjacent new 285-room Marriott hotel. The Convention Center Authority estimates that the project will create 500 short-term construction jobs and 300 to 400 full-time jobs when it opens in 2005. Trends in the labor force and employment since 1992 are presented in Table 1. Table 2 presents trends in nonfarm employment and industry-level employment since 1992.

Household Incomes

According to the 2000 Census, the median family income in the Lancaster HMA was $52,513, a 39 percent increase from the $37,391 reported in the 1990 Census. Median family income in the city of Lancaster rose by 28 percent from $27,002 in 1990 to $34,623 in 2000. The HUD-estimated median family income for the entire HMA, as of fiscal year 2003, is $61,100.

Population

During the 1990s, population in the HMA increased by an average of 4,780 people annually, increasing from 422,822 in 1990 to 470,658 in 2000. The growth occurred almost exclusively outside the city of Lancaster, where the population rose from 55,551 in 1990 to 56,348 10 years later, an average of 80 people each year. Growth in the Remainder of the county averaged 4,700 people annually, rising from 367,271 to 414,310.

Sixty-one percent of the growth in the HMA during the 1990s resulted from natural increase (resident births minus resident deaths), while the remaining growth came from in-migration. The rate of population growth slowed after 1995 because of a declining birth rate in the second half of the decade and a steady increase in the number of deaths since 1990. The decline in births resulted from the significant out-migration of the childbearing population during the 1990s. In 1990, the 18- to 39-year-old age group constituted 35.1 percent of the overall population but declined to 29.5 percent in 2000. In addition, migration into the county was higher during the early half of the 1990s than during the latter half.

From 2000 to the Current date, population in the HMA increased by an average of 4,470 people each year. The annual rate of natural change was 2,600 while the annual rate of net in-migration was 1,870. Lower interest rates, combined with the lower price of housing in Lancaster County, have contributed to higher levels of in-migration with nearly all growth occurring outside Lancaster city. The HMA has continued to grow as a bedroom community for Harrisburg and for Philadelphia's western suburbs. Many of the townships experiencing the most significant levels of growth are located in the northern part of Lancaster County, which provides easy access to those areas.

Population in the HMA is projected to increase by 4,520 people per year over the 2-year forecast period. The level of natural change is expected to remain relatively constant at 2,570, while in-migration is expected to continue to increase. The Corridor One project, minor league baseball stadium, and Convention Center all will attract new residents. Out-migration from Lancaster city is projected to be 20 people each year over the next 2 years. Growth in the Remainder of the county is projected to be 4,540 people each year.

During the 1990s, nonhousehold population increased by 1,300 people. The Lancaster County Prison, located in Lancaster city, expanded and the inmate population in the county nearly doubled. In addition, the number of students living in college dormitories in the HMA increased by almost 260. From 2000 to the Current date, the nonhousehold population increased by an estimated 170 people. The Lancaster County Prison added 100 inmates, and the newly constructed Lancaster Youth Intervention Center housed 30 residents. In addition, Elizabethtown College opened two new complexes housing 184 students. The county experienced a loss of about 140 people from its nursing homes because of declining utilization rates. Over the next 2 years, the nonhousehold population is estimated to increase by 230. Lancaster Bible College plans to open new housing designed for about 200 students. The prison population also is estimated to increase by about 30 new inmates. Utilization rates in nursing homes should stabilize as the elderly population grows. The 65-and-above age group constituted 13.1 percent of the total HMA population in 1990 and 14 percent in 2000, increasing by 19 percent during the decade. The trends in population and household changes from 1990 to the Forecast date for the HMA and the two submarket areas are presented in Table 3.

Households

From 1990 to 2000, households increased from 150,956 to 172,560, an annual average growth of 2,160. As with population growth, household growth was greatest in the early part of the decade. The city of Lancaster lost an average of 25 households annually, while the Remainder of the county gained 2,190 households a year. Since 2000, household growth has slowed to 2,120 per year. The city lost an average of 30 households a year while the rest of the county gained approximately 2,145 households annually. Over the next 2 years, household growth in the HMA is estimated to increase to 2,150 a year. The city will continue to lose approximately 35 households a year while annual growth in the rest of the county will increase to 2,185 due to a smaller average household size and a rising level of in-migration. At the end of the forecast period, an estimated 184,100 households will be in the HMA. The trends in population and household changes from 1990 to the Forecast date for the HMA and the two submarket areas are presented in Table 3.

Housing Inventory

From 1990 to 2000, the housing stock increased by an average of 2,350 units each year. Housing growth was slightly higher in the early part of the decade, with nearly all the growth occurring outside the city. In the early 1990s, the county implemented a growth management plan to preserve open space and farmlands and control sprawl by encouraging housing development in certain zones designated as urban growth areas (UGAs). The most recent available data from the Lancaster County Planning Commission, published in its November 2002 Growth Tracking Report, show that at the end of 2001, 35,145 acres of vacant and buildable land were located in the UGAs.

Since 2000, the net growth in the housing stock averaged approximately 2,140 units a year, reflecting the slowdown in both population and household growth. The current total number of housing units in the HMA is estimated to be 187,320. From 2000 to 2002, an average of 2,280 permits were issued each year, a higher rate than the 2,150 permits issued annually during the latter half of the 1990s, but not as high as the 2,640 permits issued each year in the early half of that decade. From 1990 through 1994, approximately 80 percent of new permits were issued for single-family units. Single-family permits rose to 83 percent of the total in the second half of the 1990s and have continued at this level to the Current date.

Several large retirement communities are located in the HMA. One of the largest lifecare facilities in the nation, Willow Valley, is expanding its facility by adding 210 new apartment homes during the forecast period. Table 4 presents the trends in housing inventory, housing occupancy, and vacancy rates for the HMA and the two submarkets as of 1990, 2000, and the Current date. Table 5 provides building permit data for the HMA and the submarkets since 1993.

Housing Vacancy

Vacancy rates for both sales and rental housing increased in the HMA from 1990 to 2000 as new construction outpaced household growth. The sales vacancy rate for the entire HMA rose from 1.1 to 1.4 percent. Of the additional vacant sales units, 43 percent were in the city of Lancaster, causing its vacancy rate to rise from 1.9 percent to 4.3 percent. In the Remainder of the county, the vacancy rate during the 1990s rose slightly from 1.0 percent to 1.1 percent, as the additions to the inventory were slightly higher than the gain in households. Current vacancy rates are estimated to be 1.2 percent, 5 percent, and 0.9 percent for the entire HMA, the city of Lancaster, and the Remainder of the county respectively.

The rental vacancy rate rose from 4.1 percent to 4.9 percent in the HMA from 1990 to 2000. The city of Lancaster had the largest vacancy rate increase, which rose from 5.7 percent to 8.5 percent, while the Remainder of the county rose from 3.6 percent to 3.8 percent. The current estimated vacancy rate is 9.6 percent for the city; the rate in the Remainder of the county has tightened to 3.6 percent. Other vacant units in the HMA increased by approximately 730 from 1990 to 2000. The number of homes that the census classified as "for seasonal, recreational, or occasional use" and "other vacant" increased because of the HMA's appeal as a tourism and recreation destination and because many older, dilapidated buildings throughout the city and county were not demolished given their classification as historic properties.

Sales Market Conditions

Demand for owner housing remains strong because of the attractiveness of the county, low housing prices, and record-low mortgage rates. According to the Lancaster County Association of Realtors® (LCAR), during the 12-month period ending October 2003 5,845 homes (new and existing) sold in the HMA, compared to 5,986 during the previous 12-month period, a 2 percent reduction. The average sale price increased 7.5 percent from \$136,194 to \$146,383 during that period. LCAR states in its November 2003 publication that a record 570 homes sold in October 2003, indicating continued high demand.

Rental Market Conditions

The rental market in the HMA has remained stable during the past few years, with a slight increase in the overall vacancy rate caused by increasing vacancy rates in Lancaster city. The market has tightened in the Remainder of the county as demand has outpaced supply. Renters constitute only 29 percent of overall households because people who locate to the HMA typically seek to buy rather than rent. The current gross rents for one-, two-, and three-bedroom apartments in the region are \$700, \$800, and \$950 respectively.

Forecast Housing Demand

Based on anticipated economic and demographic conditions in the Lancaster HMA, estimates indicate a demand for approximately 3,690 new sales units and 670 (335 per year) new rental units during the next 2 years. The number of owners is expected to continue to increase as new households seeking affordable homes locate in the area and existing renter households continue to shift to home ownership. An estimated 4,300 new households will be in the HMA over the 2-year forecast period, including 3,070 new owner households, and 1,230 renter households. The HMA has a stable economy that will continue to grow throughout the forecast period. Estimates of the annual qualitative demand for the HMA over the next 2 years, by bedroom size and rent range, is provided in Table 6.

Table 1
Labor Force and Total Employment
Lancaster HMA
1992 to September 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior[a] 12 Mos.	Current[b] 12 Mos.
Labor Force	227,600	227,900	228,000	231,600	236,000	242,100	241,700	243,800	250,200	255,400	260,100	258,600	261,000
Employment	216,700	218,300	219,500	223,400	228,300	234,900	234,700	237,200	244,000	247,300	250,200	249,200	250,400
Unemploy-ment	10,900	9,600	8,500	8,200	7,700	7,300	7,000	6,600	6,100	8,100	9,900	9,500	10,600
Rate (%)	4.8	4.2	3.7	3.5	3.3	3.0	2.9	2.7	2.4	3.2	3.8	3.7	4.1

[a] Ending August 2002
[b] Ending August 2003
Source: Bureau of Labor Statistics

Table 2
Total Wage and Salary Employment
Lancaster HMA
1992 to September 1, 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior[a] 12 Mos.	Current[b] 12 Mos.
Total Nonfarm	193.4	195.1	198.8	203.4	206.5	213.1	217.2	221.7	226.7	227.0	228.3	227.8	229.6
Goods Producing	67.5	67.3	67.7	68.3	68.2	69.5	69.9	70.2	70.7	67.9	65.9	66.5	65.1
Construction and Mining	11.0	11.2	11.3	11.5	11.7	12.3	12.8	13.8	14.4	14.8	15.1	15.0	15.1
Manufacturing	56.5	56.1	56.4	56.8	56.5	57.3	57.1	56.4	56.3	53.0	50.8	51.5	50.0
Durable Goods	26.8	26.6	27.1	27.5	27.2	27.5	27.9	28.2	28.3	26.3	25.1	25.4	24.7
NonDurable Goods	29.7	29.6	29.3	29.3	29.3	29.8	29.2	28.2	28.0	26.7	25.7	26.1	25.3
Service Providing	126.0	127.8	131.1	135.0	138.3	143.6	147.3	151.5	156.0	159.2	162.4	161.3	164.5
Trade, Transp., & Utilities	40.2	40.3	41.0	42.6	43.6	44.7	45.5	46.6	48.3	48.4	49.1	48.7	49.7
Wholesale & Retail Trade	33.8	34.2	34.8	35.9	36.8	38.0	38.7	39.9	41.5	41.1	41.2	40.9	41.9
Transportation & Utilities	6.4	6.1	6.3	6.7	6.8	6.7	6.8	6.8	6.8	7.3	7.9	7.8	7.8
Information	2.7	2.8	2.9	3.2	3.4	3.6	3.9	4.2	4.3	4.2	4.1	4.1	4.2
Financial Activities	9.3	9.5	9.3	9.3	9.5	9.9	10.3	10.6	10.5	11.1	11.4	11.4	11.5
Prof. & Business Services	10.4	11.0	12.8	13.0	13.9	15.7	16.2	17.2	17.8	18.7	18.5	18.5	18.9
Ed. and Health Services	21.6	21.9	22.6	23.3	23.6	24.4	25.2	25.5	26.3	27.5	28.9	28.6	29.3
Health Care and Social Ast.	18.9	19.3	19.7	20.3	20.5	21.1	21.8	22.2	23.0	23.9	25.0	24.8	25.5
Nursing and Resid. Care	6.0	6.0	6.3	6.5	6.7	7.0	7.3	7.5	7.5	7.8	8.3	8.2	8.4
Leisure and Hospitality	16.8	17.2	16.6	17.4	17.5	18.0	18.3	18.6	19.2	19.2	19.8	19.6	19.9
Other Services	7.5	7.6	7.9	8.3	8.4	9.0	9.5	10.0	10.3	10.3	10.5	10.4	10.7
Government	17.5	17.7	18.1	18.1	18.3	18.3	18.4	18.7	19.3	19.8	20.2	20.0	20.4

[a] Ending August 2002; [b] Ending August 2003
Note: Figures in thousands. Numbers may not add to totals due to rounding.
Source: Bureau of Labor Statistics

Table 3
Population and Household Trends
Lancaster HMA
April 1, 1990 to September 1, 2005

	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										
Lancaster HMA	422,822	470,658	485,935	494,975	4,785	1.1	4,470	0.9	4,520	0.9
Lancaster City	55,551	56,348	56,400	56,360	80	0.1	15	0.0	-20	0.0
Remainder of County	367,271	414,310	429,540	438,615	4,705	1.2	4,450	1.1	4,540	1.0
Households										
Lancaster HMA	150,956	172,560	179,800	184,095	2,160	1.3	2,120	1.2	2,150	1.2
Lancaster City	21,189	20,933	20,840	20,770	-25	-0.1	-30	-0.1	-35	-0.2
Remainder of County	129,767	151,627	158,960	163,325	2,190	1.6	2,145	1.4	2,185	1.4

Note: Numbers may not add to totals due to rounding.
Sources: U.S. Census Bureau, 1990 and 2000 Censuses
Current and Forecast: Estimates by analyst

Table 4
Housing Inventory Tenure and Vacancy
Lancaster HMA
1990 to September 1, 2003

	Lancaster HMA			Lancaster City Submarket Area			Remainder of County Submarket Area		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	156,462	179,990	187,320	22,468	23,024	23,155	133,994	156,966	164,165
Occupied Units	150,956	172,560	179,795	21,189	20,933	20,840	129,767	151,627	158,960
Owners	104,752	122,208	128,250	10,001	9,752	9,630	94,751	112,456	118,615
%	69.4	70.8	71.3	47.2	46.6	46.2	73.0	74.2	74.6
Renters	46,204	50,352	51,550	11,188	11,181	11,205	35,016	39,171	40,340
%	30.6	29.2	28.7	52.8	53.4	53.8	27.0	25.8	25.4
Vacant Units	5,506	7,430	7,525	1,279	2,091	2,320	4,227	5,339	5,205
Available Units	3,079	4,271	4,225	864	1,486	1,700	2,215	2,785	2,525
For Sale	1,109	1,688	1,530	193	442	510	916	1,246	1,020
Rate (%)	1.1	1.4	1.2	1.9	4.3	5.0	1.0	1.1	0.9
For Rent	1,970	2,583	2,695	671	1,044	1,190	1,299	1,539	1,510
Rate (%)	4.1	4.9	5.0	5.7	8.5	9.6	3.6	3.8	3.6
Other Vacant	2,427	3,159	3,300	415	605	620	2,012	2,554	2,680

Note: Numbers may not add to totals due to rounding.
Sources: U.S. Census Bureau, 1990 and 2000 Censuses
Current and Forecast: Estimates by analyst

Table 5
Residential Building Permit Activity
Lancaster HMA
1993 to September 1, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003[a]
Lancaster HMA											
Total	2,810	2,433	1,923	2,083	2,027	2,454	2,273	2,016	2,267	2,548	998
Single-family	2,258	2,160	1,656	1,748	1,679	1,915	1,986	1,704	1,871	2,077	706
Multifamily	552	273	267	335	348	539	287	312	396	471	292
City of Lancaster Submarket Area											
Total	9	15	25	18	27	24	17	14	14	20	12
Single-family	9	15	21	14	27	24	17	14	14	20	12
Multifamily	0	0	4	4	0	0	0	0	0	0	0
Remainder of County Submarket Area											
Total	2,801	2,418	1,898	2,065	2,000	2,430	2,256	2,002	2,253	2,528	986
Single-family	2,249	2,145	1,635	1,734	1,652	1,891	1,969	1,690	1,857	2,057	694
Multifamily	552	273	263	331	348	539	287	312	396	471	292

[a] Includes only jurisdictions reporting monthly through August 2003.
Source: U.S. Census Bureau, C-40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Lancaster HMA
September 1, 2003 to September 1, 2005

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
700	150	800	167	950	17
750	129	850	139	1,000	14
800	119	900	124	1,050	12
850	105	950	106	1,100	11
900	88	1,000	88	1,150	0
950	71	1,050	70	1,200	0
1,000	56	1,100	55	1,250	0
1,100	43	1,200	43	1,350	0
1,200	33	1,300	34	1,450	0
1,300	25	1,400	26	1,550	0
1,400	19	1,500	20	1,650	0
1,500	14	1,600	0	1,750	0
1,600	0	1,700	0	1,850	0
1,700 or more	0	1,800 or more	0	1,950 or more	0

Notes: Distribution above is noncumulative.
Demand of fewer than 10 units is shown as 0.
Numbers have been rounded for comparison.
Source: Estimates by analyst