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Analysis of the Lafayette, Indiana Housing Market

As of January 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 with respect to 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 was developed by HUD's Economic and Market Analysis Division as thoroughly as possible on the basis of information available on the "as-of" date from both local and national sources. As such, they may be modified by subsequent developments. We wish to express our appreciation to those industry sources and 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: 1990 to 2000, 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 and 2000 Censuses, the 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 Ms. Kristin M. Padavick, the Division's Field Economist in the Columbus, Ohio Field Office, based on fieldwork conducted in November 2003. If there are questions regarding the findings and conclusions of the analysis, she may be reached at (614) 469-5737, extension 8134 and at Kristin_Padavick@hud.gov.

Housing Market Area

The Lafayette, Indiana Housing Market Area (HMA) is coterminous with the definition of the Lafayette Metropolitan Statistical Area (MSA), which consists of Tippecanoe County and Clinton County. The Lafayette HMA is the employment and trade center of a six-county area consisting of approximately 250,000 people. Lafayette is the largest city in the region, and the 11th largest city in Indiana. Its neighboring city, West Lafayette, home of Purdue University, is located on the opposite side of the Wabash River. The remaining towns and villages within the MSA are suburban or rural in nature.

For purposes of this study the HMA is divided into two submarkets: the cities of Lafayette and West Lafayette, and the Remainder of the HMA.

Summary

Between 1990 and 2000 the economic base of the Lafayette HMA grew considerably due to significant gains in both manufacturing and government employment. However, the annual rate of growth in the HMA since 2000 has declined due to continuing losses in manufacturing employment. During the 2-year forecast period employment growth is expected to increase slightly.

Strong economic growth between 1990 and 2000 supported significant in-migration. From 2000 to the Current date the rate of growth has slowed but is expected to increase during the forecast period.

The slowing economy has had a nominal effect on the market for sales housing. The effect of the economy on the rental market has been more significant. Currently, the overall rental market in the Lafayette area is balanced, but some segments are soft.

Based upon current conditions and anticipated trends, it is estimated that there will be a demand for approximately 1,500 units of sales housing and 1,000 rental units in the Lafayette HMA over the 2-year forecast period. It is also expected that housing currently in the construction pipeline and available vacancies in the existing sales and rental inventories will satisfy much of this demand.

Economy of the Area

Lafayette HMA has one of the most stable economies in Indiana due to Purdue University and the number of manufacturing plants. Its location on I-65 between Chicago and Indianapolis has given it a locational advantage as a transportation center. Strong employment growth during the late 1990s resulted in significant population in-migration, supporting substantial growth in the housing market. However, the recent recession has led to employment cutbacks and slower growth.

Between 1990 and 2000 nonagricultural employment grew at an average annual rate of 1.7 percent, led by significant gains in durable manufacturing. From 2000 to the Current date growth averaged 0.4 percent, principally due to declines in durable manufacturing. The unemployment rate averaged 3 percent between 1990 and 2000. Since 2000 unemployment has increased to 3.8 percent. Labor force, employment, and unemployment trends are presented in Table 1. Annual statistics for nonagricultural wage and salary employment is included in Table 2.

Government employment, including Purdue University, has accounted for approximately 27 percent of area employment since 1990, averaging 25,900 jobs in 2002. Purdue University, the area's largest employer with more than 14,000 workers, continues to add faculty and other support employment even though the state has capped undergraduate enrollment due to insufficient classroom space. The university recently invested more than \$100 million in new infrastructure and renovation of existing facilities, and plan to invest another \$400 million. Purdue-sponsored incubators and its research park have stimulated several high-technology businesses.

Subaru-Isuzu, Lafayette's second largest employer, leads the area's manufacturing sector with more than 3,000 employees. It was recently announced that the Isuzu portion of the plant would close, but most workforce would be transferred to Subaru. Five of the area's top 10 employers are manufacturing firms, including Wabash National (truck trailers) and Caterpillar. Combined, these 5 firms employ more than 10,000 persons. Between 1990 and 2000 manufacturing employment increased almost 15 percent, peaking at 22,500 jobs in 2000. However, many firms downsized and manufacturing employment declined to 20,400 in 2002.

Household Incomes

The median family income in the HMA increased 42 percent between 1990 and 2000. Since 2000 local median family income grew 14.5 percent. The HUD-estimated median family income as of fiscal year 2003 is \$58,500.

Population

The population in the Lafayette HMA grew by an average of 2,125 persons annually, or 1.2 percent, between 1990 and 2000. The increasing enrollment at Purdue University and added in-migration of new employees to the expanding manufacturing sector were the primary forces behind the population growth to 182,821 as of the 2000 Census. During the period a majority of the population gain occurred in the cities of Lafayette and West Lafayette.

Since 2000 cutbacks by major employers and an enrollment cap at Purdue have reduced the rate of population growth slightly. From 2000 to the Current date the population has increased an average of 2,029 annually. Net in-migration, which averaged 1,150 persons annually between 1990 and 2000, has fallen since 2000 to approximately 830 annually.

While the rate of in-migration has slowed net natural change has increased, from 976 persons annually between 1990 and 2000 to 1,216 from 2000 to the Current date. The population of the Lafayette HMA as of the Current date is estimated at 188,400.

Lafayette's population is expected to increase by approximately 2,200 persons annually during the forecast period, to 192,800 by January 2005. There are indications that a recovery has begun in the manufacturing sector. In addition, the cap of undergraduate enrollment at Purdue is expected to be lifted as the university continues to convert other facilities and dormitories to classroom space.

In recent years much of growth in the HMA has shifted to the suburbs. Between 1990 and 2000 population growth in Lafayette and West Lafayette accounted for 82 percent of the area's total population growth. Since 2000 only 54 percent of the growth in the HMA has occurred in the cities. It is expected that growth during the forecast period will continue to be greater in the suburbs than in the central cities. Population trends from 1990 through the Forecast date are presented in Table 3.

Households

Between 1990 and 2000 the number of households in the HMA increased an average of 1,070 annually, or 1.7 percent. There are an estimated 70,900 households in the Lafayette HMA as of the Current date. This represents an average annual increase of 1,150 households or 1.7 percent since the 2000 Census. Trends in household growth are presented in Table 3.

Although population gains have slowed, the pace of household growth has remained fairly steady due to the presence of the university. The trends in household growth in the HMA submarkets parallel the change in population. From 1990 to 2000 more than two-thirds of the annual growth occurred in Lafayette and West Lafayette. Since 2000 less than 50 percent of the gains have been in the central cities.

The availability of new housing in the HMA suburbs is attracting more households to this submarket. In addition, expansions at Purdue University have had an impact on the trend in household growth. To provide land for classroom construction and other facilities the university has begun to eliminate some of its on-campus housing, some of which is in West Lafayette. Much of the private sector housing built to satisfy the increased student housing demand is being built in the suburbs.

Household growth during the 2-year forecast period is expected to average approximately 1,200 annually, slightly exceeding the rate in recent years. It is forecast that there will be an estimated 73,300 households in the Lafayette HMA by January 2005. The increase is attributed to a continued recovery and increasing economic stability as well as expansion of enrollment at Purdue. The non-household population will continue to fall as more students seek off-campus housing.

Housing Inventory

Between 1990 and 2000 the housing inventory in the Lafayette HMA increased 1.7 percent annually to 71,610 units. More than two-thirds of the inventory gains during the period occurred in the cities of Lafayette and West Lafayette. Some of the increase was the result of annexation. During the period the inventory in the Lafayette-West Lafayette submarket increased 2.4 percent annually. The slower growth in the HMA suburbs was partly the result of difficulties providing infrastructure and utilities in this submarket, limiting the amount of construction. The trends in housing inventory, tenure, and vacancy for 1990, 2000, and the Current date are presented in Table 4.

Between 1990 and 2000 the homeownership rate in the HMA declined to 59 percent. The decline was the result of demand for rental housing exceeding that for new sales housing, due to increased demand from university students and new entry level employees migrating to the HMA. In addition to the increase in new multifamily construction, units shifted from ownership to rentals as owners seeking to move up offered units for rent rather than selling them.

There are currently 75,550 housing units in the Lafayette HMA. This represents a net increase of 1,450 units annually since the 2000 Census compared to a household growth of 1,150 annually. As a result of supply growing faster than demand vacancy rates in the HMA increased. Following the trends in population and household growth, approximately 47 percent of the housing built in the HMA during the period was in Lafayette and West Lafayette. Approximately 680 units were added annually in this submarket compared with 757 units in the Remainder of the HMA.

Developers have continued to build or renovate properties in West Lafayette to house the university population. As a result rental units comprise an increasing portion of the housing inventory in the central cities submarket. Conversely, the share of owner units in the inventory in the Remainder of the HMA has increased significantly over the past 13 years. This is due to the ready supply of affordable sales housing in the Remainder of the HMA and low interest rates and land costs.

Residential construction in the HMA, as measured by building permit activity, recorded a steady increase almost every year between 1990 and 2000 as developers responded to the accelerating demand for both new sales and rental housing. By 2000 the number had increased to 2,010 units. However, with the slow down in the economy activity since 2000 has declined to a relatively stable 1,700 units annually.

Considering current conditions in both sales and rental markets, construction levels are expected to remain about the same during the forecast period. Statistics on annual permit activity, both single-family and multifamily, from 1992 through 2002 are presented in Table 5.

Housing Vacancy

Between 1990 and the Current date the sales vacancy rate in the Lafayette HMA increased from 1.4 percent to 1.6 percent in 2000 to 1.7 percent currently. The rental vacancy rate declined from 6 percent in 1990 to 5.6 percent as of 2000, but increased to an estimated 7.4 percent as of the Current date. Much of this increase is due to overbuilding and the decline in growth of rental demand particularly since 2000.

Current vacancy rates for both sales and rental housing are higher in the Remainder of the HMA than in the central cities, reflecting the production levels in the two submarkets. The sales vacancy rate in the Remainder increased from 1.6 percent in 2000 to an estimated 1.9 percent as of the Current date. The increase is a reflection of the increased production of new homes and should not be seen as evidence of declining conditions.

The increase in the rental vacancy rate in the suburban submarket since 2000 is due to both a decline in the growth of rental demand following layoffs in manufacturing in the HMA as well as the increase in rental housing inventory in the central cities closer to the Purdue campus, which has pulled students from suburban properties.

In Lafayette and West Lafayette the sales vacancy rate has remained relatively constant since 2000. The rental vacancy rate in the central cities submarket has also held reasonably steady since 1990, compared to the Remainder of the HMA. The rental vacancy rate in the central cities is currently an estimated 6.5 percent, reflecting the impact of the increased student demand.

Sales Market Conditions

The slowing economy has had only a nominal effect on conditions in the existing sales market. Sales activity in 2000 totaled almost 2,200 homes, up approximately 6 percent compared with 2001. The average time on the market increased slightly and the median sale price declined an estimated 1.3 percent to \$107,500. The availability of low mortgage interest rates, a relatively stable economy, and affordable prices for new homes continue to support a healthy sales market. As many homeowners move up and first-time buyers can afford new homes, many lower-priced, smaller homes in the central cities have been shifted to the rental market. This is especially the case in West Lafayette, near Purdue University, where demand by students remains high.

Due to demand from faculty and staff at Purdue University homes in West Lafayette continue to sell for more than in other parts of the HMA. In 2002 the median sales price in the city was \$148,500. Some of the highest prices are in the Harrison School district in northwestern Tippecanoe County. The median sales price in 2002 in this developing suburb was \$150,000.

Rental Market Conditions

Rental market conditions in the submarkets of the HMA are mixed. In the Lafayette-West Lafayette area conditions are generally balanced with some softness evident in certain segments. As of the Current date conditions in the Remainder of the HMA are best described as soft. Much of the recent multifamily development was built to meet increased demand from students and workers in a growing economy. However, with the cap on enrollment at the university and the economic slowdown demand has not kept pace with supply. The construction of more than 1,600 new rental units in the HMA since 2000 has resulted in slower than normal absorption and higher vacancy rates throughout the HMA. Overall apartment occupancy in the HMA for the first quarter 2003 is less than 90 percent. Near the university, where vacancy rates are traditionally very low, occupancy is reported at 94 percent. Very few suburban properties have increased rents over the last 12 months, and rent increases have been well below the average. In both the central cities and the suburbs rent concessions are widespread for both new and existing properties.

Forecast Housing Demand

During the 2-year forecast period there will be demand for approximately 1,500 units of sales housing and 1,000 rental units. The demand estimate is based on the expectation that the Lafayette economy will recover slowly as demand for durable goods rebounds, and the enrollment cap at Purdue is lifted and there is a further reduction in on-campus housing. Much of the demand for additional rental housing will be met by the current level of rental vacancies and volume of multifamily development in the pipeline. It is estimated that two large rental properties in Lafayette, one property in West Lafayette, two properties in suburban Tippecanoe County, and several smaller properties near the university will add approximately 1,400 rental units to the Lafayette HMA inventory during the next 2 years.

Table 1
Labor Force and Total Employment
Lafayette HMA
1992 through 2002

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Labor Force	80,100	83,500	85,600	88,800	88,200	89,000	89,400	89,900	89,400	90,400	93,500
Total Employment	77,000	80,700	82,600	86,200	85,600	86,800	87,400	87,900	87,300	87,500	90,000
Unemployment	3,100	2,900	3,000	2,500	2,500	2,200	2,000	2,000	2,100	3,000	3,500
Rate (%)	3.8	3.4	3.5	2.9	2.8	2.5	2.2	2.2	2.4	3.3	3.8

Note: Data do not add because of rounding.

Source: Bureau of Labor Statistics

Table 2
 Nonagricultural Employment
 Lafayette HMA
 1992 through December 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	81,600	83,800	85,200	88,800	90,500	92,000	93,600	95,300	96,200	96,800	96,900
Mining and Construction	2,900	2,900	3,100	3,400	3,400	3,700	3,800	3,700	3,800	4,000	3,900
Manufacturing	19,600	19,800	19,700	20,900	21,500	22,100	22,400	22,400	22,500	21,600	20,400
Durables	14,200	14,400	14,400	15,400	15,900	16,500	16,900	17,100	17,300	16,400	15,300
Machinery Manufacturing	2,200	2,400	2,500	2,700	2,900	3,200	3,300	3,300	3,300	3,300	3,100
Nondurables	5,400	5,300	5,200	5,500	5,600	5,600	5,400	5,300	5,200	5,200	5,100
Transportation and Public Utilities	1,700	1,800	1,700	1,600	1,700	1,700	1,800	1,800	1,900	1,700	1,800
Wholesale and Retail	10,000	10,400	10,400	11,000	11,700	11,700	11,900	12,100	12,500	12,900	12,800
Finance, Insurance, Real Estate	4,800	4,900	4,900	5,000	5,000	5,200	5,300	5,000	4,900	5,800	5,800
Services	19,400	21,000	22,100	23,500	23,500	24,300	25,000	26,300	26,200	26,100	26,300
Government	22,600	22,700	22,800	22,900	23,100	23,000	22,900	23,400	23,900	24,700	25,900
Percent Change (%)	N/A	2.70	1.67	4.23	1.91	1.66	1.74	1.82	0.94	0.62	0.10

Notes: N/A = not available.
 Data may not add due to rounding.

Source: Bureau of Labor Statistics

Table 3
Population and Household Trends
Lafayette HMA
1990 to January 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										
Lafayette MSA	161,572	182,821	188,400	192,800	2,125	1.2	2,029	1.10	2,200	1.16
Cities of Lafayette & W. Lafayette	69,671	85,175	88,300	90,600	1,550	2.0	1,136	1.32	1,150	1.29
Remainder	91,901	97,646	100,200	102,300	575	0.6	929	0.94	1,050	1.04
Households										
Lafayette MSA	57,068	67,771	70,900	73,300	1,070	1.73	1,138	1.65	1,200	1.68
Cities of Lafayette & W. Lafayette	27,227	34,522	36,000	37,300	730	2.40	537	1.54	650	1.79
Remainder	29,841	33,249	34,900	36,000	341	1.09	600	1.78	550	1.56

Notes: *January 1, 2003.

**January 1, 2005.

Rates of change calculated on a compound basis.

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
 Lafayette HMA
 1990 to January 1, 2003

	Lafayette HMA			Lafayette & W. Lafayette Submarket Area			Remainder Submarket Area		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total housing inventory	60,234	71,610	75,550	28,724	36,421	38,300	31,510	35,189	37,250
Occupied units	57,068	67,771	70,850	27,227	34,522	36,000	29,841	33,249	34,850
Owners	34,303	40,032	42,050	13,795	16,087	16,750	20,508	23,945	25,300
%	60.1	59.1	59.3	50.7	46.6	46.5	68.7	72.0	72.6
Renters	22,765	27,739	28,850	13,432	18,435	19,300	9,333	9,304	9,550
%	39.9	40.9	40.7	49.3	53.4	53.5	31.3	28.0	27.4
Vacant units	3,166	3,839	4,700	1,497	1,899	2,300	1,669	1,940	2,175
Available units	1,927	2,292	3,025	1,025	1,268	1,600	902	1,024	1,425
For sale	479	634	740	177	256	270	302	378	480
Rate (%)	1.4	1.6	1.7	1.3	1.6	1.6	1.5	1.6	1.9
For rent	1,448	1,658	2,300	848	1,012	1,350	600	646	940
Rate (%)	6.0	5.6	7.4	5.9	5.2	6.5	6.0	6.5	9.0
Other vacant	1,239	1,547	1,650	472	631	900	767	916	760

Note: Numbers have been rounded for comparison.

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

Table 5
Residential Building Permit Activity
Lafayette HMA
1992 to 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Lafayette HMA											
Total	1,013	1,074	1,140	1,249	1,521	1,680	1,444	1,705	2,010	1,690	1,665
Single-family	752	783	842	779	868	793	879	915	826	946	1,024
Multifamily	261	291	298	470	652	887	564	789	1,184	744	646
Lafayette & West Lafayette											
Total	347	285	390	333	419	857	719	979	664	826	644
Single-family	228	144	202	148	96	145	227	306	280	270	284
Multifamily	119	141	188	185	323	712	492	673	384	556	360
Remainder											
Total	666	789	750	916	1,101	823	724	725	1,346	864	1,026
Single-family	524	639	640	631	772	648	652	609	546	676	740
Multifamily	142	150	110	285	329	175	72	116	800	188	286

Source: U.S. Census Bureau, C-40 Series and Tippecanoe County Planning Commission