

COMPREHENSIVE MARKET ANALYSIS REPORTS



Policy Development & Research

**Analysis of the
Milwaukee-Waukesha,
Wisconsin
Housing Market
As of October 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 mortgage insurance proposal that may be under consideration.

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 October 1, 2004 as-of date of the analysis (Current date), and from the Current date to an October 1, 2007 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 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's condition on the as-of date of the analysis. This analysis was prepared by Dennis Shegos, one of the Division's Field Economists in the Minneapolis Field Office, based on fieldwork conducted in June 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Shegos at 612-370-3000, ext. 2283, and at dennis_shegos@hud.gov.

Housing Market Area

The Milwaukee-Waukesha Housing Market Area (HMA) is defined as the Milwaukee-Waukesha Metropolitan Statistical Area that includes Milwaukee, Waukesha, Ozaukee, and Washington Counties. For purposes of this analysis, the HMA has been divided into two submarkets: the City of Milwaukee and the remainder of the metropolitan area, referred to in this report as the Remainder of the HMA.

Summary

Between 1990 and 2000, the Milwaukee-Waukesha HMA had steady economic growth, adding 110,400 jobs, most of which were in the service-providing sector. These additions represented an annual increase in nonfarm employment of 1.5 percent. Between 2000 and 2003, the HMA lost 12,300 jobs annually, an annual decline of 1.4 percent. During the most recent 12-month period, however, the HMA added 2,800 jobs compared with the previous 12-month period.

Since 1990, the population of the HMA increased at an annual rate of approximately 0.5 percent, reaching 1,525,300 as of the Current date. During this same period, the City of Milwaukee lost population at a rate of 0.4 percent annually, reaching 593,200 as of the Current date. The City of Milwaukee has lost population because the rate of out-migration has exceeded the net natural change (resident births minus resident deaths). The rate of out-migration from the City of Milwaukee has slowed from 9,100 people annually between 1990 and 2000 to 6,600 people annually since 2000.

The loss of jobs in the HMA has reduced the rate of household formation. Since 1990, households in the HMA increased at an annual rate of slightly less than 1 percent, reaching 610,100 as of the Current date. Between 1990 and 2000, the City of Milwaukee lost more than 800 households annually; since 2000, that rate of loss has dropped to fewer than 100 a year.

Despite a weakening job market, historically low mortgage interest rates have resulted in a very strong market for both existing and new homes in the HMA. The percentage of owner-occupied units increased from 59.4 percent in 1990 to 61.8 percent as of the Current date.

Through October 1, 2007, the demand for new sales housing is estimated at approximately 4,000 homes annually. With mortgage interest rates at historically low levels, the tenure shift toward homeownership should continue, which will keep the demand for new sales housing strong through the forecast period. Annual demand for rental units will be 1,500 units during the forecast period.

Economy of the Area

The economy of the Milwaukee-Waukesha HMA historically has been dominated by the manufacturing sector, especially in the production of durable goods. Major manufacturers include Harley-Davidson, Johnson Controls, Rockwell Automation, and A.O. Smith

Corporation. Between 1990 and 2003, the number of manufacturing jobs in the HMA declined by more than 25,000. In addition, many manufacturing jobs moved within the HMA from the City of Milwaukee to suburban locations, especially Waukesha County. Although still dependent on high-paying manufacturing jobs, the HMA has become more diversified with nearly 80 percent of the jobs located in the service-providing sectors. The retail trade, professional and business services, educational and health services, and government sectors all account for nearly 50 percent of the nonfarm jobs in the HMA. Between 1990 and 2003, nearly 90 percent of the net job growth occurred in professional and business services and in educational and health services. Major service sector employers include Marshall & Ilsley Corporation, U.S. Bank, Kohl's Department Stores, and Northwestern Mutual Life Insurance Company.

The HMA mirrored the national economy with strong job growth between 1990 and 2000, followed by 3 years of job losses. During the past 12 months, the HMA experienced modest growth in employment. From 1990 to 2000, total resident employment increased at a rate of slightly more than 1.0 percent annually. Since 2000, resident employment has declined at an annual rate of 0.4 percent. Between 1992 and 1996, resident employment increased on average by 16,100 a year, but declined by 1,000 annually from 1997 to 2003. During the latest 12-month period, average resident employment in the HMA increased by 2,800 compared with the previous 12-month period. Between 1993 and 2000, the unemployment rate in the HMA fluctuated very little, moving between 3.1 and 4.6 percent. In 2001, because of the recession, unemployment climbed to 4.7 percent and reached 6.0 percent the following year. During the past 12 months, unemployment averaged 5.5 percent.

Between 1990 and 2000, nonfarm employment increased every year except 1991. During this period, the HMA added 110,400 nonfarm jobs, or an annual increase of 1.5 percent. From 2000 to 2003, however, the HMA lost 12,300 jobs annually, an annual decline of 1.4 percent. During the most recent 12-month period, the HMA added 2,800 jobs compared with the previous 12-month period. This growth parallels employment trends in the national economy over the same period. Table 1 shows trends in the labor force and total employment from 1993 to the Current date; Table 2 presents the nonfarm employment trends for the same period.

Household Incomes

The estimated median family income for the Milwaukee-Waukesha HMA was \$63,800 in 2004, an 11.8-percent increase over the \$57,061 figure for 1999. The HMA has the second highest median family income of any metropolitan area in the state behind Madison.

Population

Between 1990 and 2000, the population in the Milwaukee-Waukesha HMA increased at an annual rate of 0.5 percent, reaching 1,500,741 in 2000. Since that time, because of the slowdown in the economy, population has grown at a slightly lower annual rate of 0.4 percent, reaching an estimated 1,525,300 as of the Current date. The City of Milwaukee,

which has experienced significant job losses, especially in manufacturing, continues to lose population. Between 1990 and 2000, the City of Milwaukee lost 5 percent of its population, declining to 596,974 in 2000. Over the same period, the population for the Remainder of the HMA grew by 10.2 percent, reaching 903,767 in 2000. As of the Current date, it is estimated that the City of Milwaukee has a population of 593,200, an annual loss of 0.1 percent since 2000. The Remainder of the HMA continues to add population at an annual rate of 0.7 percent and currently stands at 948,600.

During the 1990s, an annual net natural increase of approximately 9,400 occurred in the HMA, which helped to offset annual out-migration of slightly more than 2,500 people. Between 2000 and the Current date, net migration increased to 2,800 people annually and net natural increase declined to 8,300 people. Since 2000, the City of Milwaukee has shown an annual net natural increase of 5,800, less than the 6,650 people lost to out-migration.

Two universities—the University of Wisconsin-Milwaukee and Marquette University—are located in the City of Milwaukee. Neither university has had a major impact on population growth. The University of Wisconsin, which is located northeast of downtown Milwaukee near the shores of Lake Michigan, has experienced modest enrollment growth in recent years; enrollment currently stands at approximately 26,000 students. About 2,700 students are housed on campus, with the remainder living in nearby private housing or commuting by car. Marquette University had an enrollment of 10,800 students in the spring of 2004 compared with 10,200 in the spring of 2000. The campus houses about 3,100 students and another 1,400 live in apartment buildings owned by the university in the surrounding neighborhood. Freshmen and sophomores are required to live on campus while upper-classmen can live off campus, with a small percentage of students commuting. Table 3 presents population change trends from 1990 to the Forecast date for the HMA and the two submarkets.

Households

The number of households in the HMA has increased faster than the rate of population growth because of a decrease in average household size. Current household size in the HMA is estimated at 2.44 persons, compared with 2.60 persons in 1990, which follows the national trend toward smaller families. Between 1990 and 2000, the number of households in the HMA increased at an annual rate of 0.9 percent. Since 2000, the rate of household growth has declined to approximately 0.8 percent and is projected to maintain that rate during the forecast period. Households in the HMA have increased from 537,722 in 1990 to an estimated 625,100 as of the Current date. The City of Milwaukee, which lost an average of more than 800 households between 1990 and 2000, has lost fewer than 100 households annually since 2000 and is projected to gain 1,650 households during the forecast period. Table 3 presents trends in households from 1990 through the Forecast date for the HMA and the two submarkets.

Housing Inventory

The housing inventory has followed a pattern similar to that of employment, population, and households. Between 1990 and 2000, the number of housing units in the HMA increased by 5,600 annually, or a rate of 1.0 percent a year. Since 2000, the inventory has increased annually by 5,100 units, or an annual rate of 0.8 percent. As of the Current date, an estimated 641,100 housing units are in the HMA. Of an estimated 31,000 vacant units, 18,650 are available for sale or rent, with the remaining 12,500 kept off the market for various reasons. In 1990, housing tenure was 59.4 percent owner and 40.6 percent renter. It is estimated that, as of the Current date, ownership has increased to more than 62 percent. This shift toward homeownership is due in large part to historically low interest rates and a healthy economy during the 1990s. Table 4 presents trends in housing inventory, tenure of occupancy, and housing vacancy from 1990 to the Current date.

From 1990 through 1999, single-family permits averaged 3,911 a year in the HMA, although permits varied considerably by year, ranging from a low of 3,351 in 1997 to a high of 4,583 in 1992. Between 2000 and 2003, single-family permits averaged 3,635 a year, peaking at 3,939 in 2003. Between 1990 and 2000, on average, only 92 permits a year were issued in the City of Milwaukee. Since that time, the City of Milwaukee has issued an average of 168 permits annually. The increase in activity can be attributed in large measure to construction occurring near the city's downtown on land that became available when deteriorated structures were demolished.

Between 1990 and 2000, multifamily building permit activity averaged 3,000 units annually in the HMA. The average number of permits decreased to 2,350 units from 2000 through 2003. Most multifamily activity occurred in the Remainder of the HMA, with the City of Milwaukee accounting for 11.8 percent since 1990. Much of the activity in the City of Milwaukee was due to the construction of condominiums, many of which are located northeast of downtown near the University of Wisconsin-Milwaukee campus. Table 5 presents trends in building activity from 1990 through the Current date for single-family and multifamily housing in the HMA and both submarkets.

Housing Vacancy

The vacancy rate for owner-occupied units in the HMA declined from 1.3 percent in 2000 to an estimated 1.0 percent as of the Current date. The City of Milwaukee currently has an owner vacancy rate of 1.5 percent, which is down from 2.0 percent in 2000. Because of a weaker economy and the shift toward homeownership, the rental vacancy rate in the HMA has increased from 5.7 percent in 2000 to an estimated 6.0 percent as of the Current date. The City of Milwaukee has demonstrated a similar trend, with the rental vacancy rate increasing from 6.2 percent in 2000 to a current rate of 6.5 percent.

Sales Market Conditions

Despite a sluggish economy, low mortgage interest rates resulted in record existing home sales during 2003, with the first 9 months of 2004 on pace to set another record. According to the Metro Multiple Listing Service, 19,358 existing homes were sold in the

HMA during 2003, compared with the previous high of 18,479 in 2002. Existing home sales have set a record in every year since 1999 and the market remains strong as of the Current date. Prices in 2003 were 7 to 9 percent higher than a year earlier, with the average price ranging from \$145,000 in Milwaukee County to \$266,100 in Ozaukee County. In Ozaukee County, which has many high-end homes, prices were down 1.6 percent from 2002, but are up nearly 30 percent over the past 6 years. The City of Milwaukee and some of the older suburbs, with modestly priced housing stocks, are experiencing strong sales for homes priced in the mid \$100,000s. In other areas of the HMA, few existing homes sell for less than \$175,000. The demand for homes priced at more than \$500,000 has been soft, with sales times increasing upward to 6 months and prices edging down in some areas.

According to MTD Marketing Services, the average price for a newly constructed home in the HMA in 2003 was \$224,861, up 5.2 percent from 2002. Rising material costs have pushed the average new home price during the first 9 months of 2004 to \$259,000. The primary market for new single-family homes is between \$175,000 and \$350,000. New homes are typically at least 2,000 square feet, with many homes being more than 3,000 square feet. In 2003, the HMA had its best year for single-family construction since 1999. Washington County had a 28-percent increase in permits compared with 2002 due in part to the search for lower land costs and home prices, although people would face longer commutes.

Activity continues to be strong in the downtown Milwaukee condominium market. In 2001 there were 128 condominium units built in the downtown area. Since that time, more than 2,300 units have either been built or proposed. Empty nesters, who are selling their large suburban homes to escape maintenance and yard work and want to enjoy the Lake Michigan shoreline and other downtown amenities, are buying condominiums. Young professionals who work downtown and have previously been renting are also purchasing such units. According to Mandel Group, single, young professionals are purchasing units in the \$170,000 to \$275,000 range, while affluent empty nesters, who tend to be business owners, managers, and professionals, are purchasing more expensive units. Some members of the latter group live in warmer climates during the winter months.

Rental Market Conditions

The rental market has suffered since the 1990s due largely to low mortgage interest rates that have resulted in a tenure shift from renter to homeownership. The market is also still absorbing a large number of new units that entered the market in the late 1990s. Since 2000, the rental vacancy rate for the HMA has steadily increased from 5.7 percent to an estimated 6.0 percent as of the Current date. Although the overall rental market is soft, several areas such as the east side of Milwaukee and the northern suburbs along Lake Michigan have balanced to tight markets.

According to REIS, Inc., the average rent in Milwaukee and Waukesha Counties increased from \$729 in 2000 to \$768 in 2003, or an annual increase of 1.8 percent. Concessions are common, with 1 or more months of free rent being offered in apartments

that are undergoing initial occupancy. The higher end market, with rents more than \$1,000 a month, is very soft and is attempting to retain tenants by offering amenities such as health clubs or high-speed Internet access. Even more modest apartments are adding in-unit washers and dryers, exercise rooms, community rooms, and swimming pools. In buildings in which amenities cannot be added, property managers are offering such incentives as health club memberships or discount coupons to restaurants and other businesses.

Forecast Housing Demand

Based on anticipated household growth and current market conditions, estimates indicate a demand for an estimated 16,650 new housing units during the 3-year forecast period ending October 1, 2007. Sales housing will account for 12,050 units of the total demand. With mortgage interest rates rising slightly, but low by historical standards, the tenure shift from renter to homeowner should continue, which will keep demand for new sales housing strong through the forecast period. Rental housing demand during the forecast period will be 4,600 units. Annual demand is projected for 620 one-bedroom units with monthly gross rents starting at \$600, 775 two-bedroom units with gross rents beginning at \$700, and 155 three-bedroom units with rents starting at \$850. Table 6 presents detailed data on rental demand for the forecast period by bedroom size and rent.

Table 1
Labor Force and Employment
Milwaukee-Waukesha HMA
1993 to October 1, 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Labor Force	761.6	776.6	783.9	805.5	810.8	810.0	795.9	813.0	823.0	816.7	824.2	822.8	830.7
Total Employment	727.7	741.2	756.8	777.7	781.7	783.1	771.2	782.2	784.5	768.0	773.8	772.1	784.7
Unemployment	33.9	35.4	27.1	27.8	29.1	26.9	24.7	30.8	38.5	48.7	50.4	50.6	46.0
Rate (%)	4.5	4.6	3.5	3.5	3.6	3.3	3.1	3.8	4.7	6.0	6.1	6.2	5.5

Notes: Numbers may not add to totals due to rounding.
 Figures are in thousands.

Source: State of Wisconsin Department of Workforce Development

Table 2
Nonfarm Employment by Industry
Milwaukee-Waukesha HMA
1993 to October 1, 2004

Employment Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Total	772.7	788.8	804.0	812.9	827.8	846.0	862.1	867.9	856.9	839.5	831.0	833.2	836.0
Goods-Producing	183.8	187.5	192.2	191.8	197.4	201.2	200.8	198.7	188.7	177.2	169.6	171.7	166.6
Nat. Res./Construction/Mining	28.6	28.9	28.7	29.5	30.8	31.5	33.7	34.2	34.6	33.8	33.3	33.7	31.7
Manufacturing	155.1	158.6	163.6	162.3	166.6	169.7	167.1	164.5	154.2	143.4	136.2	138.0	134.9
Service-Providing	589.0	601.3	611.8	621.1	630.4	644.8	661.4	669.2	668.1	662.4	661.4	661.5	669.4
Trade, Trans. & Utilities	143.8	147.6	152.4	153.2	154.0	155.9	160.1	160.6	159.6	154.5	151.9	152.6	152.5
Wholesale Trade	36.3	37.0	39.1	40.2	41.4	42.2	42.9	43.0	42.3	40.7	39.9	40.0	40.5
Retail Trade	77.8	78.8	80.1	81.1	81.5	82.1	84.6	84.3	84.6	83.7	81.5	82.2	81.0
Trans. & Utilities	29.7	31.9	33.1	31.9	31.1	31.6	32.7	33.3	32.7	30.1	30.5	30.4	31.0
Information	18.5	18.6	18.3	18.7	19.0	19.9	20.2	20.4	19.9	19.2	18.8	18.6	19.4
Financial Activity	52.8	53.1	52.9	53.8	54.3	56.1	57.4	57.6	58.1	57.7	59.2	58.5	61.5
Professional & Bus. Services	84.9	91.5	94.7	96.2	100.6	105.2	110.5	111.0	105.3	104.1	103.2	103.6	105.1
Education & Health Services	102.6	103.6	105.4	111.2	113.9	117.2	120.9	124.3	126.3	126.4	129.8	128.2	133.8
Leisure & Hospitality	57.7	57.1	58.5	59.2	59.8	60.7	62.1	63.0	64.3	64.2	65.0	64.9	66.8
Other Services	40.2	40.1	39.9	39.9	40.0	39.9	39.7	40.1	41.1	41.3	40.9	41.2	39.5
Government	88.5	89.6	89.7	89.0	88.8	90.0	90.5	92.3	93.6	94.9	92.6	93.8	90.8
Federal	-	-	-	-	-	-	-	-	11.3	11.3	11.3	11.3	10.9
State	-	-	-	-	-	-	-	-	11.3	11.7	11.7	11.7	11.7
Local	67.4	68.3	68.5	67.6	66.7	67.7	67.7	69.8	70.9	71.9	69.7	70.8	68.2

Notes: Figures are in thousands.

Numbers may not add to totals due to rounding.

Source: State of Wisconsin Department of Economic Development

Table 3
Population and Household Trends
Milwaukee-Waukesha HMA
April 1, 1990 to October 1, 2007

	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										
Milwaukee-Waukesha HMA	1,432,149	1,500,741	1,525,300	1,540,300	6,860	0.5	5,460	0.4	5,000	0.3
City of Milwaukee	628,088	596,974	593,200	591,700	-3,110	-0.5	-840	-0.1	-500	-0.1
Remainder of HMA	804,061	903,767	932,100	948,600	9,970	1.2	6,300	0.7	5,500	0.6
Households										
Milwaukee-Waukesha HMA	537,722	587,657	610,200	625,100	4,995	0.9	4,985	0.8	5,000	0.8
City of Milwaukee	240,540	232,178	231,800	233,400	-835	-0.3	-85	0.0	550	0.2
Remainder of HMA	297,182	355,479	378,300	391,700	5,830	2.0	5,070	1.4	4,450	1.2

Notes: Rate of change is calculated on a compound basis.
 Annual average changes are rounded for comparison.

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

Table 4
Housing Inventory, Tenure, and Vacancy
Milwaukee-Waukesha HMA
1990 to October 1, 2004

	Milwaukee-Waukesha HMA			City of Milwaukee			Remainder of HMA		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	562,031	618,244	641,100	254,204	249,215	249,100	307,827	369,029	392,300
Occupied Units	537,722	587,657	610,100	240,540	232,178	231,900	297,182	355,479	378,400
Owners	319,660	359,082	377,200	107,682	105,186	105,900	211,978	253,896	271,400
%	59.4	61.1	61.8	44.8	45.3	45.7	71.3	71.4	71.7
Renters	218,062	228,575	232,900	132,858	126,992	126,000	85,204	101,583	107,000
%	40.6	38.9	38.2	55.2	54.7	54.3	28.7	28.6	28.3
Vacant Units	24,309	30,587	31,000	13,664	17,037	17,200	10,645	13,550	13,900
Available Units	13,267	18,654	18,650	7,887	10,564	10,400	5,380	8,090	8,300
For Sale	2,731	4,743	3,800	1,283	2,187	1,625	1,448	2,556	2,200
Rate (%)	0.9	1.3	1.0	1.2	2.0	1.5	0.7	1.0	0.8
For Rent	10,536	13,911	14,850	6,604	8,377	8,750	3,932	5,534	6,100
Rate (%)	4.6	5.7	6.0	4.7	6.2	6.5	4.4	5.2	5.4
Other Vacant	11,042	11,933	12,350	5,777	6,473	6,800	5,265	5,460	5,600

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

Table 5
Residential Building Permit Activity
Milwaukee-Waukesha HMA
1994 to 2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Milwaukee-Waukesha HMA											
Total	6,945	6,160	6,446	6,429	7,141	7,173	5,631	5,879	5,936	6,467	4,684
Single-family	4,386	3,532	3,693	3,351	3,844	4,200	3,581	3,564	3,456	3,939	2,902
Multifamily	2,559	2,628	2,753	3,078	3,297	2,973	2,050	2,315	2,480	2,528	1,782
City of Milwaukee											
Total	203	387	182	387	595	204	342	560	724	906	734
Single-family	66	78	72	94	73	93	112	154	150	254	155
Multifamily	137	309	110	293	522	111	230	406	574	652	579
Remainder of HMA											
Total	6,742	5,773	6,264	6,042	6,546	6,969	5,289	5,319	5,212	5,561	3,950
Single-family	4,320	3,454	3,621	3,257	3,771	4,107	3,469	3,410	3,306	3,685	2,747
Multifamily	2,422	2,319	2,643	2,785	2,775	2,862	1,820	1,909	1,906	1,876	1,203

* Permits through September 2004.

Note: Multifamily is defined as two or more units per structure.

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

Table 6
Estimated Qualitative Annual Demand for
New Market-Rate Rental Housing
Milwaukee-Waukesha HMA
October 1, 2004 to October 1, 2007

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
600	620	700	775	850	155
650	530	750	645	900	125
700	490	800	575	950	115
750	430	850	495	1,000	105
800	365	900	405	1,050	90
850	295	950	325	1,100	80
900	230	1,000	255	1,150	70
1,000	180	1,100	200	1,250	60
1,100	135	1,200	155	1,350	50
1,200	105	1,300	120	1,450	30
1,300 or more	75	1,400 or more	90	1,550 or more	15

Note: Distribution above is noncumulative.
 Source: Estimates by analyst