

COMPREHENSIVE HOUSING MARKET ANALYSIS



Modesto, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of April 1, 2006

PD&R



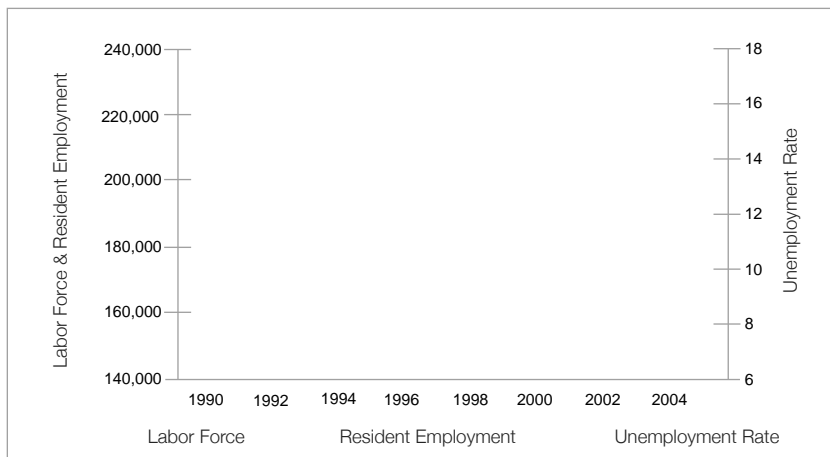
Economic Conditions

The economic base of the Modesto HMA traditionally has been based on agriculture and food-processing manufacturing. In 1990, the dominant industry sectors were manufacturing, government, and retail trade; these sectors accounted for 20, 17, and 14 percent, respectively, of nonfarm jobs. As farming operations consolidated

and agricultural land was sold for residential development, the HMA began to move toward more of a service-based economy to meet the needs of the increasing population. By 2000, manufacturing accounted for 16 percent of the total nonfarm jobs. As agriculture, with its high seasonality, diminished within the HMA, the unemployment rate decreased from the mid-teens range that prevailed during most of the 1990s. Since 2000, the unemployment rate has averaged 8.9 percent. See Figure 1 for trends in the labor force, resident employment, and unemployment rate and Figure 2 for sector growth from 1990 to the current date.

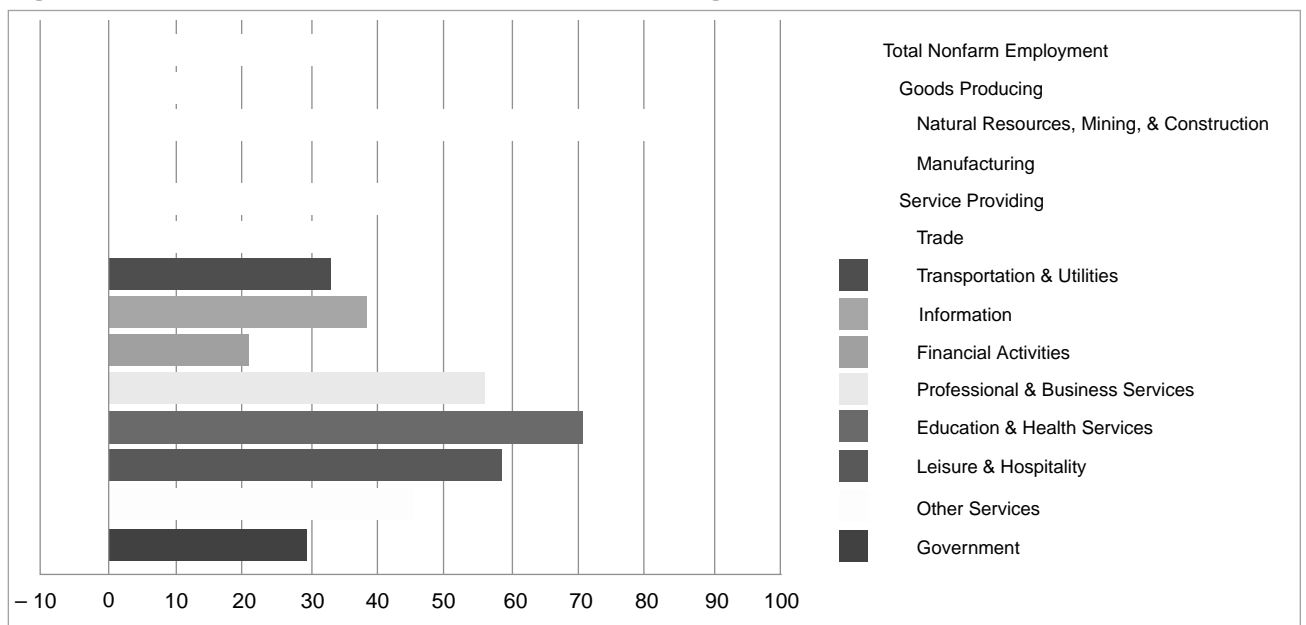
Since 2000, the population of the HMA has increased more rapidly than it did during the 1990s, creating new employment opportunities, predominantly in the service-providing sectors and construction industry. In the 12 months ending

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Modesto HMA, 1990 to 2005



Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Modesto HMA, Percent Change, 1990 to Current



Note: Current is based on 12-month averages through March 2006.

Source: U.S. Bureau of Labor Statistics

March 2006, nonfarm employment totaled 160,500 jobs, a 2.9-percent increase of 4,575 jobs from the previous 12-month period. During the most recent 24 months, three sectors—natural resources, mining, and construction; retail trade; and leisure and hospitality—accounted for nearly 70 percent of all new jobs in the HMA. Construction was a key source of growth, with 26 percent of the new jobs created during the past 24 months. The higher level of construction activity is due to both an increase in the production of

single-family homes and the building of numerous large-scale nonresidential projects, including the new \$460 million Kaiser Permanente campus, the \$160 million expansion of Memorial Medical Center, the \$72 million enlargement of Doctors Medical Center, and the new \$40 million Gallo Center for the Arts. The leisure and hospitality sector has accounted for 14 percent of the new nonfarm jobs in response to the strong population growth. The unemployment rate decreased from 9.0 percent in the 12 months ending March 2005 to 8.0 percent in the 12 months ending March 2006. See Table 2 for nonfarm employment change by sector in the past 24 months.

Table 2. 12-Month Average Employment in the Modesto HMA, by Sector

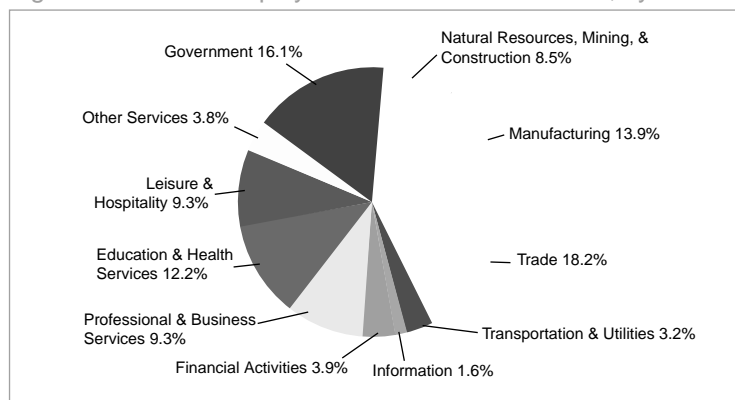
Employment Sector	12 Months Ending March 2005	12 Months Ending March 2006	Percent Change (%)
Total Nonfarm Employment	155,900	160,500	3.0
Goods Producing	35,200	35,900	2.0
Natural Resources, Mining, & Construction	12,500	13,600	8.8
Manufacturing	22,700	22,300	-1.8
Service Providing	120,700	124,600	3.2
Trade	27,700	29,300	5.8
Transportation & Utilities	4,900	5,200	6.1
Information	2,500	2,500	0.0
Financial Activities	6,100	6,200	1.6
Professional & Business Services	14,400	15,000	4.2
Education & Health Services	19,300	19,600	1.6
Leisure & Hospitality	14,300	15,000	4.9
Other Services	6,200	6,100	-1.6
Government	25,200	25,800	2.4

Notes: Numbers may not add to total due to rounding. Based on 12-month averages through March 2005 and March 2006.

Source: U.S. Bureau of Labor Statistics

As of the 12 months ending March 2006, the largest industrial sectors are trade, government, and manufacturing, with shares of jobs in the HMA of about 18, 16, and 14 percent, respectively, of jobs in the HMA (see Figure 3). Many government jobs are in education. The California State University, Stanislaus, which currently employs nearly 1,000 people, has been expanding a campus in Turlock adding 22 new faculty members this year. Food-processing firms continue to dominate the manufacturing sector and remain some of the largest employers in the HMA led by E.&J. Gallo Winery, Foster Farms, Del Monte Foods and Hunt Wesson Foods. The government and retail trade sectors have provided relatively constant shares of employment in the HMA since 2000 as both have kept pace with the needs of the expanding population. See Table 3 for details on the top 10 private employers in the HMA.

Figure 3. Current Employment in the Modesto HMA, by Sector



Note: Based on 12-month averages through March 2006.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Modesto HMA

Name of Employer	Employment Sector
Del Monte Foods	Manufacturing
Doctors Medical Center	Health Services
E.&J. Gallo Winery	Manufacturing
Emanuel Medical Center	Health Services
Foster Farms	Manufacturing
Hunt-Wesson Foods, Inc.	Manufacturing
Memorial Medical Center	Health Services
The Modesto Bee	Information
Patterson Frozen Foods, Inc.	Manufacturing
Stanislaus Food Products	Manufacturing

Note: Data on number of employees not available.

Source: California Employment Development Department

Job growth is expected to remain strong during the next 3 years. Nonfarm employment is forecast to increase at an average annual rate of 2.4 percent, or 4,000 jobs, to 172,500 by April 1, 2009. Employment gains are anticipated

in the service-providing sectors, primarily in education and health services and in retail trade. Construction and food-processing manufacturing are expected to decrease within the next 3 years.

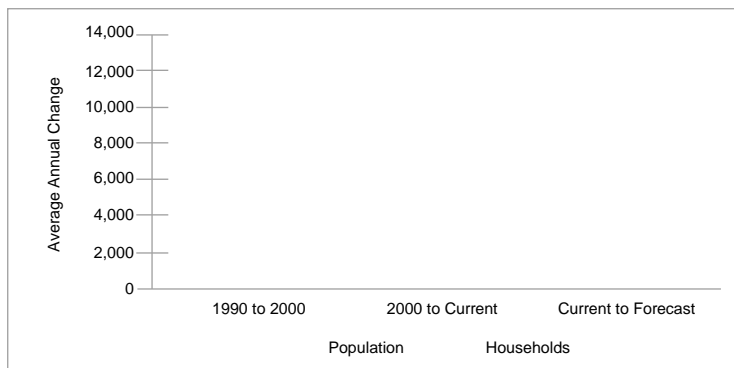
Population and Households

With the lure of relatively more affordable housing than in the nearby San Francisco Bay Area and neighboring San Joaquin County, the population of the Modesto HMA has grown more rapidly since 2000 than it did during the 1990s. From 1990 to 2000, the population increased on average by 7,650 a year, or 1.9 percent, to approximately 447,000. Net natural increase (resident births minus resident deaths) accounted for 55 percent of this increase. This population growth was primarily concentrated in the city of Modesto and neighboring Ceres and Riverbank. During this period, the number of households grew by 1,975 a year, or 1.5 percent, to total 145,146. Between 2000 and the current date, the population increased an average of

11,950 a year, or 2.5 percent, to total 518,700. Since 2000, the number of households has grown rapidly by 3,050 a year, or 2.0 percent, to total 163,400. Figure 4 illustrates population and household growth in the HMA from 1990 through the forecast period.

As housing prices escalated in the San Francisco Bay Area during the late 1990s and early 2000s, many buyers moved further inland seeking more affordable areas. Net migration, primarily domestic, has accounted for 65 percent of the population gain in the HMA since 2000. During the 1990s, net migration constituted only 45 percent of the population growth. Most of the new residents moved from the three adjacent counties of Santa Clara, San Joaquin, and Alameda. Compared with the growth in the 1990s, the population growth since 2000 has been more dispersed throughout the HMA as homebuilders have focused on cities beyond the central core. The city of Modesto's share of the total population growth in the HMA declined from 32 percent during the 1990s to 29 percent between 2000 and the current date. Patterson had the most dramatic growth as the population nearly doubled from 11,600 in 2000 to 20,000 currently,

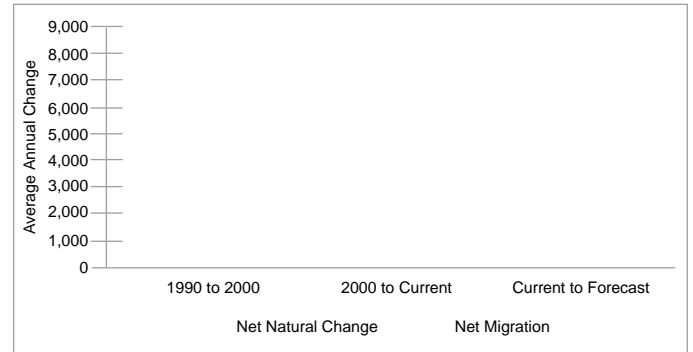
Figure 4. Population and Household Growth in the Modesto HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

a 9-percent average annual growth rate. Patterson's location along a major highway that provides relatively quick access to the San Francisco Bay Area has served as an attractive amenity. Figure 5 illustrates the components of population change in the HMA from 1990 through the forecast period.

Figure 5. Components of Population Change in the Modesto HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

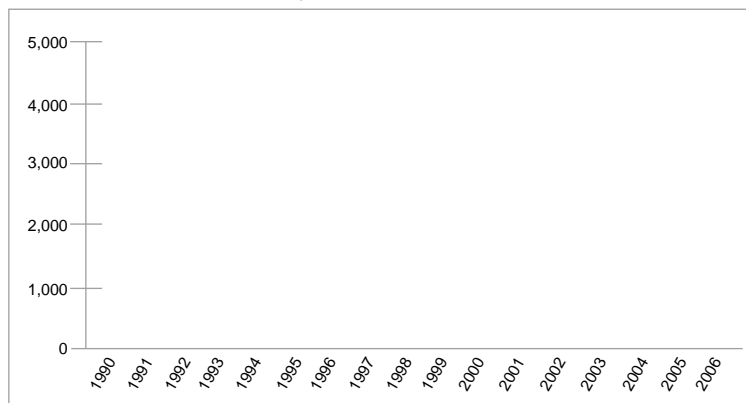
Housing Market Trends

Sales Market

At the beginning of the 2000s, new construction activity was greatest in the city of Modesto. In 2002 and 2003, developers began to build larger developments in Patterson, Turlock, and Riverbank. The Cross Roads subdivision in Riverbank, approved in 2003, is nearing completion. Turlock approved two master-planned communities that are now being developed, which

will include homes with sales prices averaging in the \$500,000s. New condominiums in Turlock start in the \$200,000s. The Walker Ranch community in Patterson, estimated to have more than 3,000 housing units upon completion, has been developing quickly since 2002 and is nearly 90-percent complete. Prices in the community currently start in the \$500,000s. See Figure 6 for the number of single-family building permits that have been issued in the HMA since 1990.

Figure 6. Single-Family Building Permits Issued in the Modesto HMA, 1990 to 2006



Notes: Includes only single-family units. Includes data through March 2006.

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

The sales market is nearing the end of a 9-year trend of increasing sales volume, according to information from DataQuick. From 2000 through 2005, an average of 2,825 new homes and 7,450 existing homes were sold each year. Sales volume peaked in 2005 with 12,700 homes sold. During the 12 months ending March 2006, 12,175 homes were sold, 3 percent fewer than in the

previous 12-month period. During the 12 months ending March 2006, sales of new homes totaled 3,725, an increase of more than 7 percent from the previous 12 months. The market for existing homes began to slow in the fourth quarter of 2005. In the 12 months ending March 2006, 8,450 existing homes were sold, a decrease of almost 7 percent from the previous 12-month period. The median sales price of an existing home increased at an average annual rate of 21 percent from \$126,100 in 2000 to \$342,300 in the 12 months ending March 2006.

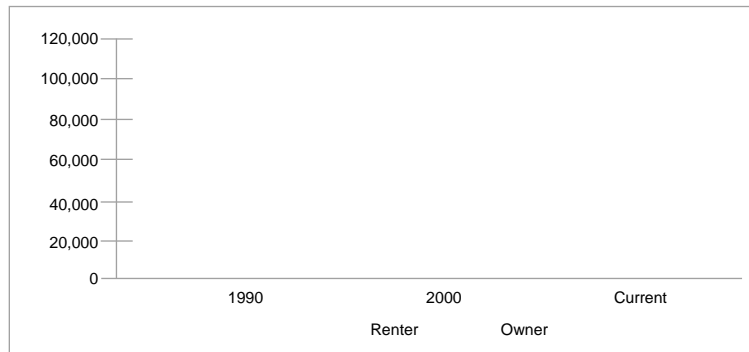
The median sales price of a new home increased from \$176,700 in 2000 to \$430,200 in the 12 months ending March 2006, or 18 percent a year. The higher median price of new housing in part reflects the larger share of move-up houses that have been built recently. Until 2002, builders focused on the first-time buyer segment, which included a significant number of households moving into the HMA from the more expensive San Francisco Bay Area counties. Local residents have been the primary buyers in the move-up

market. Figure 7 shows the growth in owner-occupied households since 1990. Builders have reported that sales traffic has slowed recently and that the lottery system, common earlier in the decade, is no longer necessary to allocate units.

Since 2005, as a result of the strong demand for homeownership, two apartment complexes with a total of 200 units have been converted into condominiums. Four or five more conversion projects, involving at least 300 units, are anticipated this year. Prices for converted units start in the mid-\$100,000s for one-bedroom units and from the high \$100,000s to low \$200,000s for two-bedroom units.

During the next 3 years, sales activity is expected to decrease from recent record levels but remain strong. With continued population growth, demand is anticipated for 11,150 new housing units during the 3-year forecast period. Table 4 provides an estimated distribution of demand by price range for new market-rate sales housing in the HMA during the 3-year forecast period.

Figure 7. Number of Households by Tenure in the Modesto HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Modesto HMA, April 1, 2006 to April 1, 2009

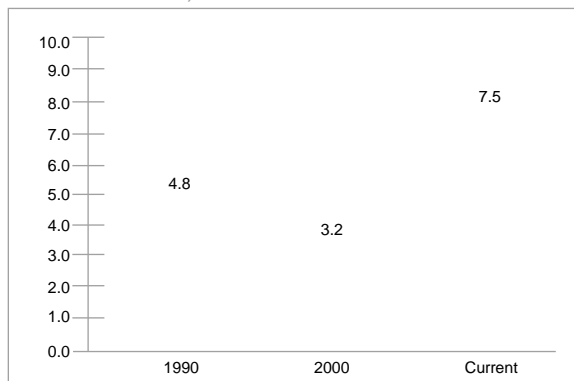
Price Range (\$)		Units of Demand	Percent of Total
From	To		
200,000	224,999	340	3.0
225,000	249,999	450	4.0
250,000	274,999	670	6.0
275,000	299,999	1,350	12.1
300,000	324,999	1,900	17.0
325,000	349,999	1,750	15.7
350,000	374,999	1,450	13.0
375,000	399,999	900	8.1
400,000	449,999	780	7.0
450,000	499,999	560	5.0
500,000	549,999	450	4.0
550,000	599,999	220	2.0
600,000	and higher	330	3.0

Source: Estimates by analyst

Rental Market

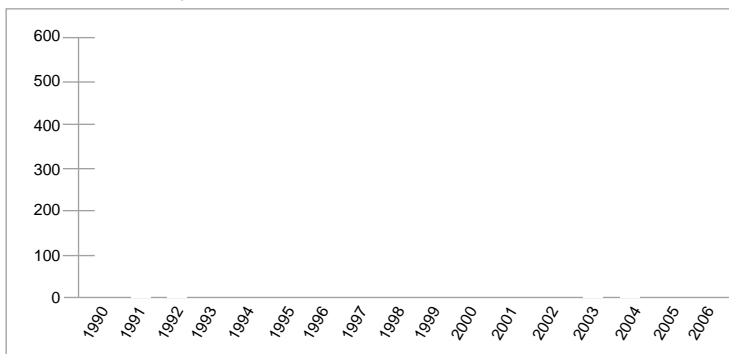
Relatively low mortgage rates have enabled a greater number of tenants to become homeowners, which has contributed to a softening of the rental market in the Modesto HMA since 2004. From 2000 to the current date, the rental vacancy rate increased from an unusually tight 3.2 percent to 7.5 percent. The

Figure 8. Rental Vacancy Rates in the Modesto HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

Figure 9. Multifamily Building Permits Issued in the Modesto HMA, 1990 to 2006



Notes: Includes all multifamily units in structures with two or more units. Includes data through March 2006.

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

construction of new multifamily housing has been low since 2000. The average rent for all apartment units increased at an average annual rate of 4.4 percent from \$630 in 2000 to \$790 currently. Current average rents are \$710 for a one-bedroom unit; \$790 for a two-bedroom, one-bathroom unit; and \$1,100 for a three-bedroom, two-bathroom unit. See Figure 8 for details on rental market vacancy rates from 1990 to the current date. See Figure 9 for the number of multifamily building permits issued in the HMA since 1990.

Three new apartment complexes are currently in the lease-up phase. One, in Turlock, offers 84 townhouses with two-bedroom units renting for \$1,195 and three-bedroom units starting at \$1,345. This project has leased an average of eight new units a month since opening for initial occupancy in October 2005. The other two complexes, with a total of 328 one- and two-bedroom units, are in Modesto. At the larger complex, rents start at \$990 for a one-bedroom unit and \$1,100 for a two-bedroom unit.

Although condominium conversion has not been a dominant trend in the HMA, the conversions that have occurred since 2005 together with the slower rate of new construction and the slowing tenure shift of renters to owners due to affordability constraints are all anticipated to cause the rental market to tighten in the next 3 years. Demand is anticipated for 700 new market-rate rental units during the 3-year forecast period. Table 5 provides an estimate of the noncumulative distribution of demand for new market-rate rental housing in the HMA by rent levels and the number of bedrooms during the 3-year forecast period.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Modesto HMA, April 1, 2006 to April 1, 2009

1 Bedroom		2 Bedrooms		3 or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
950	240	1,100	360	1,300	100
1,000	210	1,150	290	1,350	90
1,050	200	1,200	260	1,400	80
1,100	180	1,250	240	1,450	70
1,150	160	1,300	200	1,500	60
1,200	130	1,350	170	1,550	50
1,250	110	1,400	150	1,600	50
1,350	90	1,500	120	1,700	30
1,450	70	1,600	80	1,800	30
1,550	60	1,700	50	1,900	20
1,650 and higher	40	1,800 and higher	40	2,000 and higher	20

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

Source: Estimates by analyst

Data Profile

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	1990	2000	Current	Annual Average Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	159,100	180,700	212,000	1.3	2.7
Unemployment Rate (%)	11.9	10.6	7.8		
Nonfarm Employment	117,500	141,700	160,500	1.9	2.1
Total Population	370,522	446,997	518,700	1.9	2.5
Total Households	125,375	145,146	163,400	1.5	2.0
Owner Households	76,129	89,886	108,050	1.7	3.1
Percent Owner (%)	60.7	61.9	66.1		
Renter Households	49,246	55,260	55,350	1.2	0.0
Percent Renter (%)	39.3	38.1	33.9		
Total Housing Units	132,027	150,807	173,150	1.3	2.3
Owner Vacancy Rate (%)	2.2	1.3	2.0		
Rental Vacancy Rate (%)	4.8	3.2	7.5		
Median Family Income	\$32,923	\$44,703	\$48,800	3.1	1.5

Note: Median family income data are for 1989, 1999, and 2006.

Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 4/1/2006—Analyst's estimates

Forecast period: 4/1/2006–4/1/2009—Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_ModestoCA.pdf .

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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.