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Analysis of the Toledo, Ohio Housing Market

As of April 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 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 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 on information available on the "as-of" date from 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 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 Ms. Sondra King, Economist in the Columbus Field Office, based on fieldwork conducted in May 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Ms. King at 614-469-5737, ext. 8135, and at sondra_king@hud.gov.

Housing Market Area

The Toledo Housing Market Area (HMA) comprises Lucas, Wood, Fulton, and Ottawa Counties in Ohio. For purposes of this analysis, the HMA has been divided into two submarkets: Lucas County and the Remainder of the HMA. Toledo, the central city of the HMA and the county seat of Lucas County, is the seventh largest city in Ohio.

Summary

During the 1990s, the economy of the Toledo HMA grew consistently. Gains occurred in every sector, led by construction, manufacturing, and professional and business services. Similar to the nation's economy as a whole, the Toledo area's economy slowed beginning in 2001, primarily due to declines in manufacturing. Nonfarm employment has registered widespread losses since 2001. Recent national and local trends, however, suggest that the economy will improve during the 3-year forecast period.

Population and households grew at a moderate pace overall during the 1990s, but growth was not spread equally throughout the HMA. The population in Lucas County actually declined, but it grew in the Remainder of the HMA. Consequently, only a small increase in households occurred in Lucas County; the Remainder of the HMA accounted for the majority of household growth. Lucas County's share of total households in the HMA declined from 72 percent in 1990 to 70 percent in 2000, a trend that has continued since 2000 and is expected to persist during the forecast period, but at a reduced rate.

Due to the combination of steady economic growth during the 1990s, relatively affordable home prices, and recent low mortgage interest rates, homeownership rates in the Toledo HMA have increased significantly. Homeowners accounted for 67 percent of the households in 1990 and represent 69 percent as of the Current date. Builders have responded to the demand for sales housing. Since 2000, approximately 80 percent of the total residential permit-based production has been owner units.

Sales market conditions in the HMA are generally balanced, a trend that should continue during the forecast period. Demand for new sales housing during the 3-year forecast period is estimated at 2,075 homes annually. Rental housing market conditions are currently somewhat soft but are expected to improve due to a stronger economy and a slower pace of new construction. Given the number of rental units currently under construction in the HMA and the expectation that economic gains will be greater during the latter part of the forecast period, most of the need for additional rental production to meet future demands will occur toward the latter part of the 3-year forecast period. Demand for additional market-rate rental housing in the second and third years is estimated to be approximately 500 units annually.

Economy of the Area

Toledo initially developed as a manufacturing center around glass industry innovations in the late 19th and early 20th centuries. As the 20th century proceeded and the Detroit

automotive industry territorially expanded, Toledo manufacturers focused on supplying parts to northern factories. In 1941, Toledo manufacturers began producing the city's most renowned commodity, the Jeep. Education and health services, as well as government, have become important growth sectors and have helped diversify the economy away from its dependence on manufacturing jobs. Current and historical employment trends are presented in Tables 1 and 2.

With the exception of one minor dip in 1998, total resident employment rose steadily from 1993 through 2000. During this period, the number of employed people in the HMA rose by an average of 2,900 a year, or 0.9 percent annually. Nonfarm jobs, or establishment employment, in the HMA rose by an average of 5,600 a year, or 1.8 percent annually, through 2000. The higher rate of growth in nonfarm jobs reflected the increasing number of commuters into the HMA from adjacent counties, including some in Michigan. Sustained new housing production and a well-developed highway system allowed job seekers to easily expand their potential commute area. Both total employment and nonfarm employment, however, have declined since 2001 and 2000, respectively, and total nonfarm jobs no longer exceed total employment, a 3-year trend that ended in 2001.

From 1993 to 2003, employment in the goods-producing sector rose by an average of 1,700 jobs a year, or 2.4 percent annually. The majority of gains were registered in construction and manufacturing, particularly transportation equipment. Employment in the service-providing sector rose by an average of 3,900 jobs a year, or 1.6 percent annually, due to strength in professional and business services as well as leisure and hospitality. From 2000 to 2003, employment in both major sectors declined. Goods-producing jobs declined by 5.3 percent, or 3,800 jobs annually, more than three-fourths of which was attributable to declines in manufacturing employment. Service-providing sector jobs declined by 1 percent, or 2,600 jobs annually, primarily because of losses in the trade, transportation, and utilities sector and professional and business services. In the 12 months ending April 2004, employment in the goods-producing sector was off 4.5 percent as a result of continued declines in manufacturing jobs. This decline caused the goods-producing sector's share of total nonfarm jobs to drop to 21 percent, down from a high of 23 percent in the late 1990s. Service-providing sector employment decreased 1.5 percent over the past 1-year period, with the only positive gains recorded in financial activities, information, and government.

Despite the recent declines in manufacturing employment, the sector may begin to add jobs in the near future. Daimler-Chrysler's Toledo Jeep assembly plant has plans for a \$2 billion expansion that could create as many as 1,000 additional jobs. The United Auto Workers Local 12 and community leaders have launched a campaign targeted at securing local construction contracts for the physical plant work. Currently, the two largest employers in the manufacturing sector are Daimler-Chrysler with 5,575 employees and General Motors with 3,850 employees.

Service-providing sectors that are vital employers in the Toledo HMA are health care and government. The HMA is the regional center for health care, an industry that has grown

significantly from 1993 to 2002, and state universities and local school systems continue to be a stable source of job opportunities in the Toledo area. Four of the area's five largest employers are in the health care and government sectors: ProMedica Health Systems with 10,739 employees, Mercy Health Partners with 6,566 employees, Bowling Green State University with 5,361 employees, and the University of Toledo with 5,000 employees. Although these sectors face such issues as the shortage of healthcare workers, particularly nurses, and the state budget cuts to higher education, they have generally grown or remained stable, helping to offset some of the major losses in manufacturing, construction, and retail trade that have occurred since 2000.

Since the economy of the HMA has been dominated by the manufacturing sector, which is susceptible to swings in the economy, the community is pushing for diversifying the economy as well as attracting an educated, higher income workforce. To this end, the Toledo Regional Growth Partnership has initiated the area's technology incubation and commercialization initiative. An \$800,000 state matching grant will help fund the initiative. Local educational organizations, economic development groups, and startup technology companies will shape the technological output.

Based on continued improvement in the national economy, the local economy is expected to improve during the forecast period, albeit more modestly due to the regional reliance on the manufacturing industry. Total employment in the HMA during the 3-year forecast period is expected to increase by 0.5 percent annually, and nonfarm jobs are expected to increase by 0.3 percent annually. Employment is expected to remain stable in the first year of the forecast period, increase 0.5 percent in the second year, and increase 1 percent in the third year.

Household Incomes

According to HUD's Economic and Market Analysis Division, the 2004 estimated median family income in the Toledo HMA is \$57,290. The median family income has risen 3.2 percent annually since the 2000 Census, less than the 3.3-percent average annual rate of increase between the 1990 and 2000 Censuses due in part to the loss of high-paying manufacturing jobs.

Population

As of April 1, 2004, the Toledo HMA had an estimated population of 661,000, a 0.3-percent increase from the 2000 Census. The annual average rate of increase slowed since 2000 compared with the annual average rate of growth from 1990 to 2000. The decline reflects an overall average net natural change (resident births minus resident deaths) that has fallen but continues to exceed out-migration. The trends in population through the Forecast date for the HMA and the two submarkets are presented in Table 3.

From 1990 to 2000, net out-migration for the HMA averaged approximately 2,800 people annually. Lucas County averaged a net out-migration of 3,275 during the 1990s, and the Remainder of the HMA averaged a net in-migration of 480. The pace of net out-

migration for the Toledo HMA has fallen to 2,300 annually for the 2000 to Current date period. Lucas County continues to have the larger average net out-migration of 2,600 annually, and the Remainder of the HMA averages net in-migration of 300. Population gains due to net natural change have been large enough to offset the out-migration during these periods in the HMA. The out-migration in Lucas County, however, has outpaced the net natural increase, causing the population in this submarket to decline by 2,400 since 2000. The net out-migration was caused by the slowdown in the economy, which discouraged people from moving to the HMA for jobs.

With the anticipated moderate economic recovery as well as a relatively constant net natural change, it is estimated that the population of the HMA will increase by 830 annually, or 0.13 percent a year, during the 3-year forecast period. All the population increase is expected to occur in the Remainder of the HMA; the Lucas County population is projected to decline by 1,500.

Households

Due to steady employment growth in the 1990s and an ample supply of affordable housing, the Toledo HMA registered positive household growth in each of the past 14 years. Between 1990 and 2000, the number of households increased by an average of 1,410 annually, or 0.56 percent. Even with the declines in manufacturing employment and the general slowdown in the economy, the rate of household growth has continued to be steady since 2000. An estimated 266,500 households reside in the Toledo HMA as of April 1, 2004, reflecting an average annual increase of 1,630 households since the 2000 Census. The trends in households from 1990 through the Forecast date for the HMA and the submarkets are presented in Table 3.

Because of the relatively affordable prices of homes in the HMA and the historically low interest rates since 2000, the proportion of owner households continued to increase in recent years. In 2000, 68 percent of the households in the HMA owned their homes. As of the Current date, that percentage had increased to approximately 69 percent. Low interest rates and a housing stock of older, existing units helped the Lucas County rate move from 65 percent in 2000 to 66 percent as of the Current date. The Remainder of the HMA has maintained a 75-percent homeownership rate over the past 4 years.

In the Toledo HMA, the number of households has increased at a faster rate than the population, leading average household size to drop from 2.59 persons in 1990 to 2.41 as of the Current date. This trend is expected to continue into the forecast period, and the average household size is anticipated to be 2.38 by April 1, 2007.

Based on projected increases in employment levels, estimates indicate that the number of households in the HMA will increase by 1,600 annually during the 3-year forecast period to total 271,300 households as of April 1, 2007.

Housing Inventory

As with the population and households in the HMA, the housing inventory has grown moderately since 1990. The inventory of owner units increased by 1,150 units annually from 1990 to 2000; the rental market inventory increased by 260 units annually during the same period. As of April 1, 2004, it is estimated that the Toledo HMA has approximately 293,300 housing units, or an average annual increase of 1,600 units since the 2000 Census. The counts of housing inventory, tenure ratios, and vacancy rates are presented in Table 4.

During the 1990s, single-family activity in the HMA increased significantly, paralleling the economic growth and increased demand for single-family housing. From 1990 to 1994, homebuilding activity averaged 1,300 units annually. Activity was greater during the latter half of the decade and averaged 2,000 units annually. From 2000 through 2003, single-family activity averaged 2,200 homes annually, 10 percent above the annual average for the 1990s. For the first quarter of 2004, single-family permit data is above the pace of permitting for the first quarters of 2002 and 2003 by 15 and 18 percent, respectively.

Development for the rental market was moderate during the 1990s, but has increased since 2000 due to the low interest rates available to multifamily developers. From 1995 through 1999, multifamily permits averaged 470 units a year, a 12-percent increase over the annual average of 415 units that occurred between 1990 and 1994. Current multifamily building permit activity has exceeded the pace of the late 1990s by 25 percent, averaging 590 units a year between 2000 and 2003. Since 2000, the rental vacancy rate has increased substantially, indicating that multifamily home production has exceeded the demand for new units. The trends in building permit activity from 1994 through March 2004 for single-family and multifamily housing in the HMA and the two submarkets are presented in Table 5.

Housing Vacancy

The sales market in the Toledo HMA has remained balanced since 1990. The sales vacancy rate was 6.4 percent in 1990 and 1.51 percent in 2000, and it is currently 1.50 percent. The fairly stable economic situation in the late 1990s and the low interest rates since 2000 have been major factors in maintaining the sound sales market.

Rental market conditions in the HMA have varied according to the state of the economy and the level of new multifamily unit development. In 1990, the rental vacancy rate was 8.25 percent. During the 1990s, the vacancy rate declined due to solid employment growth and an increased rate of household formation, despite the net out-migration that occurred in the HMA. By 2000, the rental vacancy rate had declined to 7.86 percent, but has currently risen to 8.55 percent due to an increased supply of new rental units combined with a tenure shift toward homeownership. Vacancy rates have risen most significantly where population declines and tenure shifts actually have caused a decline in renter households over the past 4 years. In Lucas County, the rental vacancy rate is

currently 9.45 percent, up from 8.31 percent in 2000. The trends in vacancy rates are presented in Table 4.

Sales Market Conditions

Consistent household growth and, more recently, low mortgage interest rates, have helped maintain a stable demand for homes in the Toledo HMA. According to information from the Toledo Association of REALTORS® and the Firelands Association of REALTORS, the median sales price of an existing home increased by 1.3 percent annually from 2000 to 2002 to \$128,400. During this period, sales volume grew 6.1 percent annually to a total of 8,520 homes sold. From 2003 through the Current date, the average single-family house price increased by 1.5 percent over the 2000–02 average to \$130,700. Single-family sales through the first quarter of 2004 are on an annual record pace, up 6 percent compared with the first quarter of 2003. Single-family detached homes continue to account for the dominant share of the sales market in the HMA.

Rental Market Conditions

The Toledo HMA rental market is somewhat soft as of the Current date. Reasons cited for the softness are lower interest rates that have caused a high rate of tenure shift to homeownership and the slowdown in the local economy that has resulted in continued net out-migration. In addition, average annual multifamily permit activity since 2000 measures 120 units above the prior 3-year annual average, creating a recent influx of new rental units. The softer market conditions are expected to improve toward the end of the forecast period with an improvement in the economy, especially if rental development is scaled back in the early part of the forecast period. The average gross rent for a two-bedroom/two-bath unit in a newly completed Class A development ranges from \$725 to \$795.

Forecast Housing Demand

The two major components of housing demand are household growth and the replacement of housing lost from the inventory. The forecast estimate in this analysis also incorporates a continued shift of renters to homeownership, but at a slightly lower rate than that of the past 4 years. Based on these factors, estimates indicate a demand for approximately 7,200 new housing units during the 3-year forecast period ending April 1, 2007. This demand could be successfully met by the construction of 6,200 units of sales housing and 1,000 rental units over the next 3 years. To achieve a balanced rental market, the bulk of the rental unit construction should occur toward the middle to end of the 3-year forecast period. In the first year of the forecast period, rental production should remain nonexistent to limited so that market conditions can become more balanced. A tabular summary of rental qualitative demand for the HMA is located in Table 6.

Table 1
Labor Force and Total Employment
Toledo HMA
1994 to April 1, 2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Labor Force	332,800	331,300	335,400	338,500	339,000	342,200	341,900	346,500	344,800	345,800	345,000	343,700
Employment	313,900	314,800	318,900	321,800	320,500	325,500	326,600	330,500	322,800	320,600	322,000	318,500
Unemployment	18,900	16,500	16,500	16,700	18,500	16,700	15,400	16,000	22,000	25,200	23,000	25,200
Rate (%)	5.7	5.0	4.9	4.9	5.5	4.9	4.5	4.6	6.4	7.3	6.7	7.3

Note: Numbers may not add to totals due to rounding.

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

Table 2
Nonfarm Employment
Toledo HMA
1994 to April 1, 2004

Employment Sector	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Total	303.7	308.2	313.4	317.2	321.8	328.3	331.0	327.5	318.1	311.7	316.3	309.5
Goods-Producing	68.6	71.2	74.2	74.7	74.5	76.1	76.0	73.0	68.2	64.6	67.2	64.2
Construction and Mining	12.3	12.8	14.5	14.8	15.1	16.4	16.6	16.7	15.3	14.3	14.8	14.2
Manufacturing	56.3	58.4	59.7	59.8	59.4	59.7	59.4	56.3	52.9	50.3	52.3	50.0
Durable Goods	42.4	44.1	45.2	44.8	44.1	44.3	43.9	41.5	38.6	36.4	38.1	36.1
Transportation Equip.	17.3	17.9	18.5	18.6	18.3	18.5	18.4	18.1	16.3	16.0	16.2	15.4
Nondurable Goods	13.9	14.3	14.5	15.0	15.3	15.4	15.5	14.8	14.3	13.9	14.2	14.0
Service-Providing	235.1	237.0	239.3	242.6	247.2	252.2	255.0	254.5	249.9	247.1	249.1	245.3
Trade, Trans., & Utilities	62.1	63.1	63.8	63.4	64.0	65.1	65.3	66.1	62.7	61.4	62.3	60.8
Information	4.0	3.9	3.8	3.9	4.2	4.4	4.5	5.0	4.6	4.6	4.5	4.6
Financial Activities	12.0	11.4	11.6	11.9	12.2	12.3	12.4	12.4	12.1	12.3	12.1	12.4
Professional & Business	29.6	30.3	29.7	31.0	33.5	36.1	36.8	35.5	33.1	32.2	32.9	31.9
Education and Health	42.0	42.2	42.8	43.5	43.8	43.9	44.1	43.4	44.5	44.3	44.6	44.0
Leisure and Hospitality	27.2	27.0	27.9	28.8	29.0	29.7	30.4	30.1	29.6	29.5	29.5	29.2
Other Services	12.9	13.2	13.5	13.3	13.5	13.5	13.9	14.4	14.6	14.1	14.6	13.9
Government	45.4	45.8	46.2	46.7	47.0	47.1	47.5	47.7	48.6	48.7	48.7	48.5

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

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

Table 3
Population and Household Trends
Toledo HMA
1990 to April 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										
Toledo HMA	654,157	659,188	661,000	663,500	503	0.08	453	0.07	833	0.13
Lucas County Submarket	462,361	455,054	452,700	451,200	- 731	- 0.16	- 589	- 0.13	- 500	- 0.11
Remainder of HMA Submarket	191,796	204,134	208,400	212,400	1,234	0.63	1,067	0.52	1,333	0.64
Households										
Toledo HMA	245,851	259,973	266,500	271,300	1,412	0.56	1,632	0.62	1,600	0.60
Lucas County Submarket	177,500	182,847	185,100	187,300	535	0.30	563	0.31	733	0.39
Remainder of HMA Submarket	68,351	77,126	81,400	84,000	878	1.22	1,069	1.36	867	1.05

Notes: Rate of change calculated on a compound basis.
 Numbers have been rounded for comparison.
 Source: 1990 and 2000: U.S. Census Bureau

Table 4
Housing Inventory, Tenure, and Vacancy
Toledo HMA
1990 to April 1, 2004

	Toledo HMA			Lucas County Submarket			Remainder of HMA Submarket		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	270,583	285,490	293,300	191,388	196,259	199,600	79,195	89,231	93,800
Occupied Units	245,851	259,973	266,500	177,500	182,847	185,100	68,351	77,126	81,400
Owners	165,601	177,122	184,100	115,364	119,492	122,800	50,237	57,630	61,300
%	67.4	68.1	69.1	65.0	65.4	66.3	73.5	74.7	75.3
Renters	80,250	82,851	82,400	62,136	63,355	62,300	18,114	19,496	20,100
%	32.6	31.9	30.9	35.0	34.6	33.7	26.5	25.3	24.7
Vacant Units	24,732	25,517	26,800	13,888	13,412	14,500	10,844	12,105	12,400
Available Units	9,980	9,789	10,500	8,048	7,482	8,400	1,932	2,307	2,175
For Sale	2,765	2,721	2,800	1,907	1,742	1,900	858	979	930
Rate (%)	1.64	1.51	1.50	1.63	1.44	1.52	1.68	1.67	1.50
For Rent	7,215	7,068	7,700	6,141	5,740	6,500	1,074	1,328	1,250
Rate (%)	8.25	7.86	8.55	8.99	8.31	9.45	5.60	6.38	5.83
Other Vacant*	14,752	15,728	16,300	5,840	5,930	6,100	8,912	9,798	10,200

* Includes seasonal units.

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

Table 5
Residential Building Permit Activity
Toledo HMA
1994 to April 1, 2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Toledo HMA											
Total	2,199	2,395	2,250	2,191	2,591	2,550	2,387	2,961	2,651	3,206	664
Single-family	1,788	1,751	1,982	1,768	1,829	2,082	1,847	2,257	2,179	2,566	606
Multifamily	411	644	268	423	762	468	540	704	472	640	58
Lucas County Submarket											
Total	1,128	1,178	1,122	1,006	1,188	1,535	1,227	1,752	1,229	1,681	313
Single-family	909	854	1,034	924	989	1,227	1,002	1,358	1,137	1,503	271
Multifamily	219	324	88	82	199	308	225	394	92	178	42
Remainder of HMA Submarket											
Total	1,071	1,217	1,128	1,185	1,403	1,015	1,160	1,209	1,422	1,525	351
Single-family	879	897	948	844	840	855	845	899	1,042	1,063	335
Multifamily	192	320	180	341	563	160	315	310	380	462	16

* Partial building permit activity through March 30, 2004.
Source: U.S. Census Bureau, C40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Toledo HMA
April 1, 2004 to April 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
650	203	725	250	875	38
700	174	775	208	925	31
750	160	825	186	975	28
800	141	875	159	1,025	25
850	119	925	131	1,075	22
900	96	975	105	1,125	19
950	75	1,025	83	1,175	17
1,050	58	1,125	65	1,275	15
1,150	44	1,225	51	1,375	13
1,250	34	1,325	39	1,475	0
1,350	25	1,425	30	1,575	0
1,450	18	1,525	0	1,675	0
1,550	13	1,625	0	1,775	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