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Rental Housing Slows, For-Sale Housing Continues to Grow

Maxfield Research's Insight

Maxfield Research has over 18 years of experience in market research. The expertise we have gained throughout the years enables us to offer solutions to the many issues cities & developers face. The relationship we develop with our clients is a critical component to the success of our approach to housing research and allows us to serve as a source of direction and information during development and planning.

Our involvement in the housing industry allows us to support our clients with valuable information regarding regulations and industry news that affect planning and development.

We also have the insight to determine viable solutions to the issues inherent to planning for growth. We provide research for smart development.

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Today's headlines are filled with stories about the current economic downturn. Company lay-offs, unemployment, weak stock performance, and declining 401Ks are all top stories. How are the housing markets in the Twin Cities performing amid all of this?

The answer: The for-sale housing market continues to be robust, but the overall rental housing market has slowed.

Despite the economic downturn, low mortgage rates have kept the for-sale housing market strong. Mortgage company Freddie Mac reported that the average interest rate on 30-year fixed-rate mortgages fell to 6.34% the last week in July, the lowest level since it began conducting its nationwide survey in 1971. Based on data from the Northstar MLS, the average price of homes in the Twin Cities Metro Area increased from \$200,900 the first half of 2001 to \$218,800 the first half of 2002.

While the low mortgage rates have benefited the for-sale market, they have hurt the rental market. Many renters have taken advantage of the rates and lender's requirements for less down payment to purchase homes. They have moved out of their rental units and caused vacancies to rise.

The downturn in the economy has also added to rental vacancies.

Until recently, the rental market benefited from strong growth of high paying technical jobs available to younger persons who are primarily renters. The downturn has either eliminated many of these technical jobs or caused average wages to decrease. The result is that younger renters affected by job cuts or pay reductions have moved from their apartments and in with roommates or family.

The overall rental vacancy rate in the Twin Cities increased from 2.2% in June 2001 to 5.1% in June 2002. Upper-end projects have been particularly affected (projects built since 1990 had an 8.1% vacancy rate in June 2002), while more affordable projects continue to have fewer vacancies.

We predict that projected household growth in the Twin Cities and an improved economy will strengthen the rental market during the next year. However, new upper-end projects scheduled to come on-line during the coming year will likely keep the overall vacancy rate near 5.0%.

Since 1983, Maxfield has been helping cities and municipalities throughout the upper midwest plan to meet their housing needs. If you would like information on how Maxfield can help you make your planning decisions, or if you would like to be excluded from future editions of Maxfax, contact Jay Thompson at 612.904.7973.