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Policy Development & Research

Analysis of the Bloomington- Normal, Illinois 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 also may 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 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 the demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Raynard L. Owens, the Division's Field Economist in the Illinois State Office, based on fieldwork conducted in May 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Owens at 312-353-6236, ext. 2665, and at raynard_l_owens@hud.gov.

Housing Market Area

The Bloomington-Normal, Illinois Housing Market Area (HMA) is coterminous with the Bloomington-Normal Metropolitan Statistical Area, defined as McLean County, Illinois. For purposes of this analysis the Bloomington-Normal HMA is divided into two submarkets: the cities of Bloomington and Normal, referred to as the Bloomington-Normal submarket, and the remainder of McLean County, referred to in this report as the Remainder of the HMA.

Summary

Since 2000, growth in the economy and population has slowed in the Bloomington-Normal HMA compared with the previous decade. Job losses in the manufacturing, information, and finance sectors since 2000 have led to increased unemployment. Employment is forecast to continue to decline as businesses reduce staffing levels. Population growth is also expected to decrease, reflecting the economic slowdown. State Farm Insurance and Illinois State University (ISU), two of the leading employers in the HMA, expect little growth during the 2-year forecast period. Mitsubishi Motors announced a 40,000-unit production cutback at its Normal plant; the company has not yet issued a formal announcement concerning layoffs. The information sector is expected to continue to add jobs; most of the gain, however, will be offset by continued job losses in the manufacturing sector. The unemployment rate of 2.8 percent remains one of the lowest in Illinois. The economic future of the HMA appears positive with minimal growth in nonfarm wage and salary employment.

Population in the Bloomington-Normal HMA increased steadily between 1990 and 2000. The drop in employment opportunities since 2000 resulted in an in-migration decline, which has slowed the population growth rate. During the 2-year forecast period, employment and population are expected to increase at rates slower than in 2000.

The slower rates of population and household growth mean demand for new rental housing in the area will continue to be relatively low. Since 2000, demand for rental housing in the Bloomington-Normal HMA has declined while demand for new sales housing has remained stable. During the forecast period, demand for new sales housing is expected to remain stable because of low mortgage interest rates and modest household growth. The rental market in the Bloomington-Normal HMA is expected to remain soft during the forecast period.

Over the 2-year forecast period, demand for 1,800 units of new sales housing is expected to reflect a stable sales market, and demand for 230 new rental units is expected to reflect a soft rental market in the HMA. Housing demand will be concentrated in the cities of Bloomington and Normal, the centers of job opportunity and population in the HMA.

Economy of the Area

State Farm Insurance, headquartered in the city of Bloomington, employs 14,100 people, or one out of 11 residents in the HMA, making it the area's leading employer with 15.5 percent of total resident employment. Other leading employers include Mitsubishi Motors, with 3,550 employees, and ISU, with 3,300 staff and faculty.

The economy in the Bloomington-Normal HMA grew steadily during the 1990s. During the last decade, the labor force and total resident employment grew at 3.0 percent and 3.2 percent per year, respectively. Consequently, the unemployment rate fell from 3.7 percent in 1990 to 2.5 percent in 2000, among the lowest rates of any metropolitan area in Illinois. Beginning in 2000, employment growth slowed, and by the end of 2003, nonfarm employment in the HMA declined by 1,500 jobs, or an average 1.5 percent annually. During the 12-month period ending March 2004, nonfarm employment in the HMA averaged 91,800, a 1.2-percent increase over the same period a year ago. Mitsubishi Motors anticipates restructuring to reduce production capacity at its Normal plant, which could result in layoffs. The state budget crisis resulted in a hiring freeze at ISU. During the 2-year forecast period, nonfarm wage employment is expected to increase only slightly. Labor force and total employment trends in the HMA from 1993 to the Current date are presented in Table 1.

Between 2000 and 2003, education and health services and finance employment sectors lost 1,700 and 1,200 jobs, respectively, due in part to the recession. State Farm's corporate restructuring accounted for half, or 600, of the jobs lost in the finance sector. By 2001, the unemployment rate was 2.5 percent and rose to 3.0 percent by 2003. During the 24-month period ending in March 2004, nonfarm employment fell by 0.5 percent per year due to declines in the service-producing and professional and business sectors. Average annual nonfarm employment from 1993 through the Current date is presented in Table 2.

Employment growth in the HMA will not return to the 1990s level during the forecast period, but a nominal recovery is expected. Nonfarm employment is expected to increase by 350 jobs a year through March 2006. Minimal labor force increases are forecast. Employment gains in the information and service sectors are expected during the 2-year forecast period.

Historically, the Bloomington-Normal HMA has had one of the lowest unemployment rates in Illinois. From 1992 through 2003, the unemployment rate remained below 4.5 percent and declined to 2.4 percent in 1999. The current unemployment rate in the HMA averaged 2.8 percent during the 12 months ending March 2004, still one of the lowest unemployment rates in the state.

Household Incomes

The 2004 HUD-estimated median family income in McLean County is \$68,900, an average annual increase of 1.95 percent since the 2000 Census. The rate of change in the

median family income during the past 4 years has declined significantly compared with the 5.9-percent annual change that occurred between 1990 and 2000.

Population

As of the 2000 Census, the Bloomington-Normal HMA population totaled 150,433, up an average of 1.6 percent annually from the 1990 Census. More than 70 percent of the population increase in the HMA during the last decade occurred in the cities of Bloomington and Normal. ISU student population in 2003 was 20,705, or 13.2 percent of the total HMA population, compared with 20,505 in 2000. The population of the HMA as of the Current date is estimated at 156,300, an average annual increase of 1.0 percent since the 2000 Census. Table 3 presents the trends in population change in the HMA from 1990 through the Forecast date.

During the forecast period, population is expected to reach 159,100, an average annual increase of 0.9 percent. This rate of growth is almost equal to the rate of change experienced from 2000 to the Current date, but is 1.2 percent less annually when compared with the previous decade. The lower rate of population growth reflects the slower rate of employment growth and the lack of growth in student enrollment.

Net natural change (resident births minus resident deaths) for the HMA averaged 950 people each year from 1990 through 2000. According to data from the Health Statistics Division at the Illinois Department of Public Health, net natural change has gradually increased since 1990. This trend is expected to continue. Net migration averaged more than 1,180 people annually from 1990 to 2000, but from 2000 to the Current date, net in-migration fell by more than half to 400 people annually; this decline is attributed to the slowdown in the rate of growth. As the economy continues to slow, net migration is also expected to decline to 275 people annually during the 2-year forecast period.

Because of the student population at ISU, the HMA nonhousehold population is large. As of the spring semester in 2003, 8,810 students lived in group quarters in the HMA, including 7,200 students attending ISU and 1,610 students enrolled at Illinois Wesleyan University. Nonhousehold population has remained stable since 1990 and currently totals 11,300. During the forecast period, nonhousehold population is expected to remain stable.

Households

Between 1990 and 2000, households in the HMA increased by 1,000 annually, or 2.1 percent, to 56,750. Since 2000, the rate of household growth has slowed, paralleling the declines in employment and in-migration. As of the Current date, the HMA has an estimated 60,220 households, indicating an average annual increase of 870 households, or 1.5 percent, since the 2000 Census. The household growth rate is anticipated to fall to 1.4 percent annually during the 2-year forecast period. Trends in household growth from 1990 through the Forecast date are presented in Table 3.

During the 1990s, employment and population growth fueled an increase in the number of households in the HMA. Approximately 75 percent of all household growth was concentrated in the Bloomington-Normal submarket. Following the trend in population and employment changes between 2000 and the Current date, the rate of increase in households in the HMA declined to an average of 1.5 percent annually. As a result of limited employment and population gains, total household growth in the HMA during the 2-year forecast period is estimated to be approximately 820 households annually. The number of households is forecast to increase by an average of 700 for owners and 120 for renters.

Housing Inventory

As of the 2000 Census, the housing inventory in the HMA totaled 59,980 units, an average annual increase of 1,080 units, or 2.2 percent, since the 1990 Census. During this time, owner-occupied units increased from 46,796 to 56,746 units, an annual average of 1.9 percent. In the same period, renter-occupied units increased by 1.1 percent annually from 17,100 to 19,036. The rate of growth in housing inventory from 2000 to the Current date slowed because of reduced housing demand resulting from the economic slowdown and a decline in population growth. Since 2000, inventory increased to 64,450, or an average of 1.8 percent annually. The trends in housing inventory, occupancy, and vacancy by tenure for the 1990 and 2000 Censuses and the Current date are presented in Table 4.

From January 2000 to April 2004, building permits were issued for 3,820 single-family and 2,140 multifamily units in the Bloomington-Normal HMA; single-family units accounted for 64 percent of the permits issued. New residential construction has occurred throughout the entire HMA, especially near shopping and employment centers and along highway corridors such as Interstate Highway 55 and Veterans Parkway.

Single-family building permits in the HMA totaled 580 units in 1990. By 1999, permits for single-family homes increased to 1,000 units. During this decade, the number of single-family permits averaged 830 units annually, paralleling the steady economic and demographic growth in the HMA. Permits issued in the major population and economic centers of Bloomington and Normal represented 76 percent of all single-family permit activity in the HMA. Single-family permit activity decreased to 665 units in 2000, but increased to an average of 975 units annually between 2001 and 2003. From 2000 through the Current date, the number of single-family permits averaged about 955 units each year in the HMA. The increased permit activity is largely the result of renters seeking homeownership because of low interest rates and affordable housing prices, as well as existing homeowners using equity to move into higher priced housing brackets.

During the decade, multifamily rental housing construction averaged 340 units per year. After declining to 245 units in 2000, multifamily permit activity increased to an average of 625 units annually between 2001 and the Current date, nearly double the rate of the 1990s. With the continued softening of the economy and rising vacancy rates, interest in multifamily construction has eased since the beginning of 2004.

As of the Current date, approximately 7,200 students reside in university housing at ISU. Currently, freshmen and sophomores are required to live in campus dormitories. At the time of this study, one dormitory—Wilkins Hall, with 420 beds—was vacant and undergoing renovation; however, this dormitory is scheduled to reopen before the end of the forecast period. According to ISU staff, Wilkins Hall is one of five dormitories to be renovated over the next 5 years. The university has no plans to increase the current capacity of student housing.

In addition, the university has 292 off-campus rental units for graduate students and their families. Occupancy rates for this housing are 95 percent or higher year round. The university has no plans to increase the number of units for graduate students and their families.

Housing Vacancy

According to the 2000 Census, the sales vacancy rate in the HMA was 1.8 percent. Since 2000, the sales market has remained stable. As of the Current date, the sales vacancy rate is estimated to be 2.1 percent.

Historically low interest rates and affordable home prices have resulted in a shift in tenure from renter to owner. This shift in tenure, in conjunction with the decline in employment opportunities that has led to reduced in-migration, has softened rental unit demand in the HMA. The homeownership rate increased from 64.0 percent in 1990 to 66.5 percent in 2000. From 2000 to the Current date, the rate continued to increase to 67.5 percent.

In 2000, the overall rental vacancy rate in the Bloomington-Normal HMA was 6.6 percent. Since then, property management companies have reported vacancy rate increases in the HMA. New multifamily properties have higher occupancy rates due to newer amenities and locations near ISU, shopping and population centers, and highways. Older properties have more vacancies due to fewer amenities. Since 2000, the rental vacancy rate has increased because of overproduction of multifamily rental units, the economic slowdown, and renters converting to homeownership.

Sales Market Conditions

Since 2000, demand for new sales housing in the HMA has been stable. Historically low interest rates have resulted in steady sales despite a slowdown in the economy. Production has outpaced demand since 2001, and vacancies have increased. Sales for new and existing homes reached 1,940 in 2000 and rose to 2,290 in 2003, an increase of 18 percent over the 3-year period. During this period, the median sales price of an existing home increased steadily from \$127,200 to \$138,800, a 2.8-percent average annual increase. Local homebuilders estimate the current average price for a new home in the HMA to be \$150,000.

New subdivisions are in the planning stages or under construction on the northeast side of Normal and southeast side of Bloomington. Infrastructure improvements such as sewers and roads have led to the planning and development of several subdivisions with residences priced between \$110,000 and \$300,000.

Rental Market Conditions

As of the Current date, the rental market in the Bloomington-Normal HMA is tight near the ISU campus and soft in older, general occupancy, market-rate apartments. A new Class A apartment complex with superior amenities, opened in November 2003. The 260-unit complex with one- and two-bedroom apartments has a lease-up occupancy of 45 percent as of the Current date. During the past year, as the rental market has softened, monthly rents in luxury apartments have decreased. To maintain occupancy, special promotions and concessions of 1 month's free rent are being offered for market-rate apartments. Current monthly rents for new apartments in the HMA are \$665 for a one-bedroom unit, \$760 for a two-bedroom unit, and \$850 for a three-bedroom unit.

Older properties lacking competitive amenities are reported to have occupancy rates of 85 percent or less. Overall, the rental vacancy rate in the HMA is estimated at 9.5 percent.

During the 1990s, steady employment growth and increasing enrollment at ISU supported increased multifamily rental construction. As of the 2000 Census, the rental market was balanced with a vacancy rate of 6.6 percent. Since 2000, both employment and ISU student enrollment have slowed, yet the rate of multifamily construction has increased. Approximately 1,960 rental units have been completed since the 2000 Census.

Forecast Housing Demand

Based on anticipated household growth and current market conditions, estimates indicate a demand for approximately 2,030 new housing units during the 2-year forecast period ending March 31, 2006. Demand would best be met by the construction of an average of 900 units of sales housing and 115 market-rate rental units annually. To facilitate absorption of the growing supply of vacant sales units in the market, most of the sales housing production should occur during the second year of the forecast period. This level of construction activity will help stabilize the sales market and balance the rental market during the forecast period. Sales housing demand, as a proportion of total demand, is expected to continue to increase based on a continued shift of renter households to homeownership as a result of low mortgage interest rates.

The Bloomington-Normal REALTORS® Association anticipates that much of the demand will be for new single-family homes priced less than \$150,000. Almost all 900 units of owner demand will be for single-family homes, with only a minimal demand for condominiums.

Rental qualitative demand for the Bloomington-Normal HMA is presented in Table 6. The distribution of demand by bedroom size is based on trends in production in the current construction pipeline in which the demand has been strongest for one- and two-bedroom units.

Table 1
Labor Force and Total Employment
Bloomington-Normal HMA
1992 to April 1, 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Labor Force	75,800	78,600	80,300	81,200	83,400	87,100	93,000	94,000	94,800	95,000	93,000	94,400	93,300
Employment	72,700	76,400	78,000	78,700	81,200	85,100	91,000	91,700	92,500	92,400	90,400	91,600	90,700
Unemployment	3,100	2,200	2,300	2,500	2,200	2,200	2,000	2,300	2,300	2,600	2,600	2,800	2,600
Rate (%)	4.1	2.8	2.9	3.1	2.6	2.3	2.2	2.4	2.4	2.7	2.8	3.0	2.8

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

Table 2
Nonfarm Employment by Industry
Bloomington-Normal HMA
1993 to April 1, 2004

Employment Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Previous 12 Mos.	Current 12 Mos.
Total Nonfarm	69.7	73.7	75.4	76.5	79.4	84.3	88.9	90.0	91.4	92.1	90.7	91.8	90.6
Goods-Producing	9.4	10.6	10.9	10.6	10.7	11.9	12.4	11.4	10.8	10.8	10.7	10.9	10.7
Mining & Construction	2.1	2.5	2.5	2.3	2.5	3.0	3.6	3.6	3.6	3.5	3.4	3.5	3.4
Manufacturing	7.2	7.3	8.1	8.3	8.2	8.9	8.8	7.6	7.2	7.3	7.3	7.3	7.3
Durable Goods	5.7	6.3	6.5	6.2	6.2	6.4	6.3	5.1	4.8	4.7	4.8	4.7	4.8
Trade, Trans., & Utilities ^a	11.8	12.8	12.8	12.8	13.0	13.5	14.0	14.2	13.9	14.0	14.0	14.0	14.1
Service-Producing	60.4	63.1	64.5	65.9	68.7	72.3	76.5	78.9	80.5	81.3	79.9	80.9	79.9
Information	1.7	1.5	2.1	3.8	4.6	5.3	5.8	6.4	7.9	8.6	8.9	8.7	8.9
Professional & Business Svcs	4.3	4.6	5.0	5.5	6.9	7.2	8.2	8.7	9.7	9.9	9.0	9.7	9.0
Leisure & Hospitality	6.2	6.5	6.9	6.8	6.8	7.5	8.1	8.7	8.6	9.2	9.4	9.2	9.4
Government	13.0	13.4	13.3	13.2	13.6	14.1	14.6	14.5	15.4	15.5	15.1	15.4	14.9
Federal	1.0	0.9	0.9	0.8	0.9	0.9	1.0	1.1	1.4	1.0	1.0	1.0	0.8
State	6.7	7.0	7.0	6.6	6.7	6.9	7.1	6.8	7.2	7.3	6.9	7.2	7.5
Local	5.4	5.4	5.5	5.8	6.0	6.2	6.5	6.6	6.9	7.2	7.2	7.2	7.2

^a Includes public utilities.

Notes: Data before 1994 not available by North American Industry Classification System (NAICS).
 Numbers may not add to totals due to rounding.

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

Table 3
Population and Household Trends
Bloomington-Normal HMA
1990 to April 1, 2006

	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										
Bloomington-Normal HMA	129,180	150,433	156,300	159,100	2,125	1.6	1,475	1.0	1,400	0.9
Bloomington-Normal submarket	91,995	110,194	115,100	117,400	1,820	2.0	1,225	1.1	1,150	1.0
Remainder of HMA submarket	37,185	40,239	41,200	41,700	305	0.8	250	0.6	250	0.6
Households										
Bloomington-Normal HMA	46,796	56,746	60,200	61,900	995	2.1	865	1.5	850	1.4
Bloomington-Normal submarket	33,336	41,799	45,050	46,300	846	2.5	810	1.9	625	1.3
Remainder of HMA submarket	13,460	14,947	15,150	15,600	149	1.1	375	0.3	225	1.5

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

Table 4
Housing Inventory, Tenure, and Vacancy
Bloomington-Normal HMA
1990 to April 1, 2004

	York HMA			City of York Submarket			Remainder of HMA Submarket		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	49,164	59,972	64,440	34,940	44,114	48,350	14,224	15,858	16,100
Occupied Units	46,796	56,746	60,220	33,336	41,799	45,050	13,460	14,947	15,150
Owners	29,696	37,710	40,600	19,040	25,166	27,750	10,656	12,544	12,900
%	63.5	66.5	67.4	57.1	60.2	61.6	79.2	83.9	84.8
Renters	17,100	19,036	19,600	14,296	16,633	17,300	2,804	2,403	2,300
%	36.5	33.5	32.6	42.9	39.8	38.4	20.8	16.1	15.2
Vacant Units	2,368	3,226	4,020	1,604	2,315	3,400	764	911	920
Available Units	1,291	2,055	3,020	996	1,595	2,550	295	460	470
For Sale	427	707	890	313	450	625	114	257	270
Rate (%)	1.4	1.8	2.2	1.6	1.8	2.2	1.1	2.0	2.1
For Rent	864	1,348	2,130	683	1,145	1,925	181	203	200
Rate (%)	4.8	6.6	9.8	4.6	6.4	10.0	6.1	7.8	8.0
Other Vacant	1,077	1,171	1,200	608	720	750	469	451	450

Note: Numbers may not add to totals due to rounding.
Sources: 1990 and 2000, U.S. Census Bureau
Current: Estimate by analyst

Table 5
Residential Building Permit Activity
Bloomington-Normal HMA
1993 to April 1, 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bloomington-Normal HMA											
Total	1,156	1,492	1,289	1,214	1,038	1,406	1,342	909	1,552	1,698	1,552
Single-family	877	876	734	736	769	880	961	650	990	942	952
Multifamily	279	616	555	477	269	526	381	259	560	756	600
Bloomington-Normal Submarket											
Total	885	1,197	1,076	975	883	1,224	1,139	762	1,402	1,535	1,469
Single-family	654	618	525	519	579	702	775	503	842	783	877
Multifamily	231	579	551	456	254	522	364	259	560	752	592
Remainder of HMA Submarket											
Total	271	295	213	239	155	182	203	147	150	163	83
Single-family	235	290	229	240	211	200	219	161	160	175	75
Multifamily	26	5	4	21	15	4	17	0	0	4	8

Source: U.S. Census Bureau, C40 Series Construction Reports

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Bloomington-Normal HMA
April 1, 2004 to April 1, 2006

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
665	30	760	55	850	30
715	30	815	45	900	25
765	25	865	40	950	20
815	25	935	35	1,000	20
855	20	985	30	1,050	20
905	15	1,035	25	1,100	15
955	15	1,085	20	1,150	15
		1,135	15	1,200	10
		1,185	10		

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