

COMPREHENSIVE MARKET ANALYSIS REPORTS



Policy Development & Research

**Analysis of the
Kalamazoo-Portage,
Michigan
Housing Market
As of January 1, 2006**



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 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.

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—January 1, 2006 (Current date)—and from the Current date to a Forecast date—January 1, 2009. In the analysis, 1990 and 2000 refer to the dates of the decennial census—April 1 unless specified otherwise. This 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 conditions on the as-of date of the analysis. This analysis was prepared by Sondra King, the Division's Field Economist in HUD's Ohio State Office, based on fieldwork conducted in October 2005. Questions regarding the findings and conclusions of the analysis may be addressed to Mrs. King at 614-469-5737, ext. 8135, and at sondra_king@hud.gov.

Housing Market Area

The Kalamazoo-Portage, Michigan, Housing Market Area (HMA) is defined as Kalamazoo and Van Buren Counties. The HMA is located in southwestern Michigan, 150 miles from both Detroit and Chicago, Illinois. Kalamazoo County includes the city of Kalamazoo, which is the main employment center and the fifth largest city in Michigan. Pfizer, Inc., and Western Michigan University (WMU), the two leading employers, are located in Kalamazoo County. Van Buren County is more rural, with 45 percent of the land used for agricultural purposes. The 13-mile shoreline of Lake Michigan in Van Buren County is the center for tourism in the area. For purposes of this report, the HMA is divided into two submarkets: Kalamazoo County and Van Buren County.

Summary

Through the 1990s, the Kalamazoo-Portage economy grew moderately, with increases in service-providing jobs offsetting losses in manufacturing and other goods-producing sectors. Employment continued to increase until the economic slowdown in 2001, which continued through 2004. In the past 12 months employment has begun to increase but has not exceeded the highest levels recorded in 2000. During the forecast period, employment is expected to continue to grow moderately.

Since 2000, the rate of population growth has slowed because of the slower economy. Between 1990 and 2000, 2,150 people were added annually, while 1,500 people have been added annually between 2000 and the Current date. Net natural change (resident births minus resident deaths) accounted for 90 percent of the growth through the 1990s and all of the growth since 2000. The current population of the HMA is 323,500. Net migration is expected to register gains as the economy expands, and the population is expected to increase by 1,775 people annually through the Forecast date.

Low mortgage interest rates have contributed to a healthy sales market in the Kalamazoo-Portage HMA. Since 2000, home sales and the median sales price have increased by approximately 4 percent annually. Because of the expected increase in employment growth, conditions in the sales market are expected to remain strong during the forecast period.

The Kalamazoo-Portage rental market is somewhat soft; however, conditions are expected to improve during the forecast period.

Demand for 3,975 new housing units, including 3,600 sales units and 375 rental units, is expected during the forecast period.

Economy of the Area

Unlike the economy in other Michigan employment centers that are tied to the domestic automobile industry, the economy of the Kalamazoo-Portage HMA is more diversified and the manufacturing sector is largely concentrated in the pharmaceutical industry. The

healthcare and education sector has been the primary source of growth of the economy in the past 6 years.

The leading employer in the HMA is Pfizer, Inc., an international pharmaceutical company with 6,000 employees. The pharmaceutical industry continues to employ a significant number of people in the HMA, but pharmaceutical employment has decreased since 2000 because of the purchase and restructuring of Pharmacia/Upjohn by Pfizer.

The largest academic institution in Kalamazoo is WMU, which employs a faculty and staff of 4,000 and has an enrollment of 27,000 students. Student enrollment in the past 2 years has been stable. The financial impact of WMU on the local economy is estimated to be more than \$600 million annually.

Two regional healthcare systems have updated and expanded their facilities in support of the growing healthcare industry: Borgess Health, a member of the largest nonprofit health system in the United States, and the Bronson Healthcare Group, a locally headquartered system. These two health systems currently employ more than 7,000 people in the HMA and are expected to grow in the near future.

Since 2000, the number of jobs in the leisure and hospitality sector has increased by 280 annually. Van Buren County, the major center of tourism in the HMA, includes a 13-mile shoreline of Lake Michigan with marinas, camping areas, and trails and more than 130 inland lakes.

Total nonfarm employment averaged 144,800 jobs in the Kalamazoo-Portage HMA in 2005, the first increase in annual nonfarm figures since 2000. Nonfarm job growth averaged 2,125 jobs annually throughout the 1990s as population and household growth stimulated expansion in several service-providing sectors. From 2000 to the Current date, however, nonfarm jobs have decreased annually by 1,050, primarily due to the loss of 6,300 jobs in the manufacturing sector.

Resident employment has paralleled nonfarm employment closely, with average yearly increases through the 1990s of 2,250 people and average yearly decreases of 400 people from 2000 through the current 12-month period. The decreases in resident employment are primarily attributable to manufacturing job losses. The unemployment rate is currently 5.7 percent. The trends in employment are presented in Tables 1 and 2.

Household Incomes

According to HUD's Economic and Market Analysis Division, the fiscal year 2005 median family income in the Kalamazoo-Portage HMA was \$59,550. The median income of the HMA has increased by 2.8 percent annually since 1999, when it was \$51,773.

Population

The current population of the Kalamazoo-Portage HMA is estimated to be 323,500, an annual gain of 1,500, or 0.5 percent, since the 2000 Census. From 1990 to 2000, the population grew by 2,150, or 0.7 percent, annually. By the Forecast date, the population is expected to reach 328,800, with an annual population increase of 0.5 percent annually. Population trends from 1990 through the Forecast date for the HMA are presented in Table 3.

Between 1990 and 2000, population growth attributable to net natural change averaged 1,900, or 89 percent of the annual increase in population. By the Current date, average annual net natural change had fallen to 1,550. The lower net natural change is primarily due to an increase in deaths.

In the 1990s, there was a net in-migration of population because of increased employment opportunities as well as an increase in commuters choosing to live in the HMA because of relatively affordable housing. Since 2000, job losses, particularly those related to manufacturing, have resulted in a negligible net out-migration of population of approximately 300.

Households

Between 1990 and 2000, the number of households increased by 1,250 annually. The rate of household growth, 1.1 percent annually, was greater than the rate of population growth during this period. Since 2000, household formation slowed slightly to 1,150 annually, or 0.9 percent. As of the Current date, an estimated 128,000 households are in the HMA.

Since 2000, most household growth in the HMA has been among owner households. The relatively low cost of homes and low mortgage interest rates have made homeownership a more affordable option. The growth of renter households in the HMA has been almost entirely in Kalamazoo County.

Basing calculations on the anticipated population growth, the number of households is expected to increase by 1,200 annually during the 3-year forecast period and total 131,600 by the Forecast date. Table 3 presents trends in households from 1990 through the Forecast date.

Housing Inventory

During the 1990s, employment growth and increased demand led to increased homebuilding in the Kalamazoo-Portage HMA. With population and household growth, the housing unit inventory in the HMA grew by 1 percent annually to 133,225 units. Currently, the HMA has an estimated 141,500 housing units. Table 4 presents housing inventory, tenure, and vacancy trends from 1990 to the Current date for the HMA.

Through the 1990s, single-family building permit activity averaged 1,150 units annually, peaking in 1999 at 1,380 homes. Homebuilding in 2000 and 2001 averaged 1,325 units

annually, then increased significantly from 2002 through 2004 to more than 1,500 homes annually due to increased demand aided by low mortgage interest rates. During 2005, however, with limited economic growth and reduced demand, the pace of homebuilding slowed. Through December 2005, permits were issued for 1,220 single-family homes.

Since 2000, approximately 70 percent of single-family home construction in the HMA has occurred in Kalamazoo County. Of the 24 governmental units with permit authority within Kalamazoo County, the city of Portage was the most active between 2000 and 2005, issuing an average of more than 230 single-family building permits annually. Because of its lack of infrastructure, large-scale single-family development in Van Buren County has been limited. Single-family home construction activity in Van Buren County has been relatively stable, averaging about 420 homes annually. Most single-family home construction is in the county's eastern townships, adjacent to Kalamazoo County. Trends in residential building permit activity from 1990 through the Current date are presented in Table 5.

The homeownership rate increased from 67.2 percent in 1990 to 68.9 percent in 2000. From 2000 to the Current date, the rate increased to 70.5 percent because of low interest rates and the availability of affordable homes in the HMA. The current homeownership rate in Kalamazoo County is 67.1 percent and the current homeownership rate in Van Buren County is 81.5 percent.

Multifamily development in the Kalamazoo-Portage HMA, as measured by building permits, averaged approximately 140 units a year from 1990 through 1993 but averaged 350 units a year from 1994 to the end of the decade. Responding to the tightening condominium and rental markets, average multifamily building activity increased to 400 units annually from 2000 to 2002. In 2003, permits were issued for more than 900 multifamily units, with nearly all these units targeted to university students. During the past 24 months, when most of these units were completed, the economy was relatively slow, the WMU student population declined, and the tenure shift to homeownership continued. As a result, the rental market has softened and recent multifamily permit activity has slowed.

Sales Market Conditions

With continuing low mortgage interest rates in the housing market, the sales market has remained strong. According to the Greater Kalamazoo Board of REALTORS[®], both annual sales volume and median sales price have increased significantly since 2000. The volume of total sales has increased an average of 3.8 percent annually. For 2005, total recorded sales were 4,735; more than 300 of the units, or approximately 7 percent of the sales, were condominiums.

Since 2000, the median sales price has increased for both single-family homes and condominiums. Between 2000 and 2005, the median price for a single-family home in the Kalamazoo-Portage HMA increased from \$111,000 to \$136,500, a 4.2-percent annual increase. In the same period, the median price of a condominium unit in the HMA increased from \$105,000 to \$152,000, an annual increase of close to 8 percent. Many of

the condominium sales are to active adults seeking low-maintenance housing options and buyers purchasing second homes. The more rapid increase in condominium prices is due to the increased proportion of sales in luxury lakeshore condominiums in Van Buren County.

The HMA has a varied stock of housing in a wide range of prices. The choices include units in inner-city historical districts, suburban single-family subdivisions, and lakeshore second-home and resort communities. Existing home prices in the HMA start around \$70,000. New single-family home prices start at \$100,000, with most of the market ranging between \$150,000 and \$300,000. New custom-built homes are priced in the \$400,000 to \$700,000 range.

The sales vacancy rate has remained essentially unchanged since 2000 and is estimated to be 1.6 percent as of the Current date. Since the late 1990s, sales housing construction has consistently kept pace with the changes in demand created by job growth and lower interest rates. Currently, Kalamazoo County has a sales vacancy rate of 1.5 percent and Van Buren County has a sales vacancy rate of 1.9 percent.

Rental Market Conditions

Conditions in the Kalamazoo-Portage HMA rental market are somewhat soft. Through the 1990s, the rental market strengthened in the HMA with moderate job growth and net in-migration of renter households. The rental vacancy rate at the time of the 1990 Census was 7.8 percent, declining to 6.9 percent by the 2000 Census. An increase in the number of student households during the 1990s contributed to the tightened rental market conditions. WMU continued to grow during the early 2000s and peaked at 30,000 students in 2003. In 2003, several projects targeted for students began construction; however, enrollment began to decline. WMU enrollment is currently 27,000 and is expected to remain near this level throughout the forecast period. Almost 1,000 units were added to the rental market in close proximity to WMU during the past 24 months. With former renters purchasing homes and the production of excess rental housing, the rental vacancy rate increased to a current rate of 8.1 percent.

More than 85 percent of the rental stock is located in Kalamazoo County. Since mid-2005, rents have been stable. Older properties that lack newer amenities charge monthly rents of approximately \$500, \$650, and \$800 for one-, two-, and three-bedroom units, respectively. Newer complexes, with larger units and modern amenities, rent for approximately \$600 for one-bedroom units, \$775 for two-bedroom units, and \$950 for three-bedroom units. Typical concessions include free cable or satellite hookups or reduced security deposits.

Multifamily rental construction in the HMA through 2005 has been minimal as the market continues to adjust, given the competitive situation.

Forecast Housing Demand

Based on anticipated household growth, replacement needs, and current market conditions, there is expected to be a demand during the 3-year forecast period for approximately 3,975 new housing units. Demand for sales housing is estimated to total 3,600 units.

Demand for 375 new rental units is expected in the 3-year forecast period. Much of this demand is expected to occur during the second half of the forecast period. The anticipated growth in the economy and subsequent growth in renter households is expected to absorb the current excess vacancy.

Estimates of qualitative demand for rental and sales housing are presented in Tables 6 and 7, respectively.

Table 1
Labor Force and Employment
Kalamazoo-Portage HMA
1990 to December 2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Labor Force	154,000	151,000	152,000	156,000	160,000	159,000	159,000	162,000	163,000	166,000
Employment	145,000	141,000	142,000	147,000	152,000	152,000	153,000	156,000	159,000	161,000
Unemployment	9,000	10,000	10,000	9,000	8,000	7,000	6,000	6,000	4,000	5,000
Rate (%)	5.8	6.6	6.5	5.8	5.0	4.4	3.8	3.7	2.5	3.0

	2000	2001	2002	2003	2004	2005
Labor Force	173,000	171,000	168,000	170,000	172,000	175,000
Employment	167,000	164,000	160,000	160,000	162,000	165,000
Unemployment	6,000	7,000	8,000	10,000	10,000	10,000
Rate (%)	3.5	4.1	4.8	5.9	5.8	5.7

Note: U.S. Bureau of Labor revisions through the Current date.
 Source: U.S. Bureau of Labor

Table 2
Nonfarm Employment by Industry
Kalamazoo-Portage HMA
1990 to December 2005 (1 of 2)

Employment Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total Nonfarm	128.8	129.7	131.9	133.7	136.6	139.7	141.3	142.3	143.8	146.2
Goods-Producing	36.4	36.1	36.6	36.6	36.7	37.5	37.1	36.9	37.1	37.3
Construction	4.2	4.4	4.6	4.8	5.1	5.5	5.7	6.1	6.1	6.4
Manufacturing	32.1	31.7	31.9	31.8	31.6	32.1	31.4	30.8	31.0	30.9
Service-Providing	92.4	93.6	95.3	97.1	99.9	102.2	104.2	105.4	106.7	108.9
Trade	18.2	18.3	18.7	19.1	19.5	20.0	20.3	20.1	19.9	20.7
Wholesale Trade	3.9	3.6	3.5	3.7	3.8	4.0	4.1	4.0	4.0	3.9
Retail Trade	14.3	14.7	15.2	15.4	15.7	16.0	16.2	16.1	15.9	16.8
Transport. & Utilities	2.5	2.5	2.6	2.6	2.7	2.8	3.0	3.2	3.5	3.6
Information	1.7	1.6	1.7	1.7	1.7	1.9	2.0	2.0	2.0	1.7
Financial Activities	6.1	6.2	6.3	6.4	6.4	6.4	6.6	6.6	6.5	6.7
Prof. & Bus. Svcs.	9.7	10.5	11.0	10.9	12.0	12.1	12.3	13.0	14.0	13.9
Edu. & Health Svcs.	14.8	14.9	15.2	16.0	16.8	16.8	16.7	16.6	16.3	16.7
Leisure & Hospitality	10.7	10.7	10.8	11.2	11.5	12.3	12.9	13.2	12.8	12.9
Government	23.2	23.3	23.4	23.4	23.2	23.6	23.9	24.1	25.2	26.2
Federal	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.6	1.7
State	9.5	9.4	9.5	9.3	8.9	9.1	9.0	9.2	9.7	10.4
Local	12.3	12.6	12.6	12.8	13.0	13.2	13.6	13.5	13.9	14.1

Notes: Figures are in thousands.

Numbers may not add to totals due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics—North American Industry Classification System (NAICS)

Table 2
Nonfarm Employment by Industry
Kalamazoo-Portage HMA
1990 to December 2005 (2 of 2)

Employment Sector	2000	2001	2002	2003	2004	2005
Total Nonfarm	150.0	147.1	147.0	145.2	144.3	144.8
Goods-Producing	37.4	35.3	34.0	32.6	31.0	30.8
Construction	6.7	6.9	7.2	6.8	6.5	6.4
Manufacturing	30.7	28.3	26.8	25.9	24.5	24.4
Service-Providing	112.6	111.8	113.0	112.6	113.3	113.9
Trade	21.1	20.8	21.2	22.1	21.6	21.8
Wholesale Trade	4.0	4.0	4.1	4.3	4.2	4.3
Retail Trade	17.1	16.8	17.1	17.8	17.4	17.5
Transport. & Utilities	3.8	3.9	3.9	3.9	3.9	3.9
Information	1.7	1.7	1.7	1.6	1.5	1.4
Financial Activities	6.9	7.1	7.4	7.5	7.6	7.9
Prof. & Bus. Svcs.	14.5	13.5	13.7	13.7	14.1	14.4
Edu. & Health Svcs.	17.5	17.7	18.7	19.0	19.8	19.9
Leisure & Hospitality	13.5	13.8	13.9	14.1	14.9	14.9
Government	27.0	26.6	25.6	23.9	23.3	23.3
Federal	1.7	1.4	1.4	1.3	1.3	1.3
State	10.9	10.6	9.5	7.5	7.1	7.0
Local	14.4	14.6	14.7	15.1	14.9	15.1

Notes: Figures are in thousands.
 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
Kalamazoo-Portage HMA
April 1, 1990 to January 1, 2009

	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										
Kalamazoo-Portage HMA	293,471	314,866	323,500	328,800	2,150	0.7	1,500	0.5	1,775	0.5
Kalamazoo County	223,411	238,603	244,400	247,650	1,525	0.7	1,000	0.4	1,075	0.4
Van Buren County	70,060	76,263	79,100	81,150	625	0.9	500	0.6	700	0.9
Households										
Kalamazoo-Portage HMA	109,104	121,461	128,000	131,600	1,250	1.1	1,150	0.9	1,200	0.9
Kalamazoo County	83,702	93,479	98,550	101,200	975	1.1	875	0.9	875	0.9
Van Buren County	25,402	27,982	29,450	30,400	275	1.0	275	0.9	325	1.1

Notes: Rate of change is calculated on a compound basis.
Average annual changes rounded for comparison.
Averages may not add to HMA total due to rounding.

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

Table 4
Housing Inventory, Tenure, and Vacancy
Kalamazoo-Portage HMA
1990, 2000, and January 1, 2006

	Kalamazoo-Portage HMA			Kalamazoo County			Van Buren County		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	120,485	133,225	141,500	88,955	99,250	105,800	31,530	33,975	35,700
Occupied Units	109,104	121,461	128,000	83,702	93,479	98,550	25,402	27,982	29,500
Owners	73,351	83,724	90,175	53,869	61,458	66,150	19,482	22,266	24,050
%	67.2	68.9	70.5	64.4	65.7	67.1	76.7	79.6	81.5
Renters	35,753	37,737	37,850	29,833	32,021	32,400	5,920	5,716	5,450
%	32.8	31.1	29.5	35.6	34.3	32.9	23.3	20.4	18.5
Vacant Units	11,381	11,764	13,425	5,253	5,771	7,225	6,128	5,993	6,200
For Sale	1,056	1,446	1,475	737	979	1,000	319	467	470
Rate (%)	1.4	1.7	1.6	1.4	1.6	1.5	1.6	2.1	1.9
For Rent	3,003	2,791	3,325	2,580	2,294	2,925	423	497	410
Rate (%)	7.8	6.9	8.1	8.0	6.7	8.3	6.7	8.0	7.0
Other Vacant	7,322	7,527	8,625	1,936	2,498	3,300	5,386	5,029	5,325

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

Table 5
Residential Building Permit Activity
Kalamazoo-Portage HMA
1990 to January 1, 2006

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Kalamazoo-Portage HMA										
Total	1,005	993	1,126	1,333	1,565	1,741	1,560	1,756	1,583	1,533
Single-family	849	898	994	1,169	1,195	1,221	1,261	1,227	1,326	1,382
Multifamily	156	95	132	169	370	520	299	529	257	151
Kalamazoo County										
Total	728	691	810	987	1,217	1,438	1,227	1,380	1,142	1,069
Single-family	658	637	682	825	875	918	928	853	895	918
Multifamily	70	54	128	162	342	520	299	527	247	151
Van Buren County										
Total	277	302	316	346	348	303	333	376	441	464
Single-family	191	261	312	344	320	303	333	374	431	464
Multifamily	86	41	4	2	28	0	0	2	10	0
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	2000	2001	2002	2003	2004	2005				
Kalamazoo-Portage HMA										
Total	1,934	1,623	1,710	2,462	1,867	1,239				
Single-family	1,319	1,351	1,420	1,532	1,558	1,220				
Multifamily	615	272	290	930	309	19				
Kalamazoo County										
Total	1,487	1,226	1,271	1,996	1,373	819				
Single-family	907	954	1,031	1,104	1,084	800				
Multifamily	580	272	240	892	289	19				
Van Buren County										
Total	447	397	439	466	497	420				
Single-family	412	397	389	428	474	420				
Multifamily	35	0	50	38	20	0				

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

Table 6
Estimated Qualitative Demand for New Market-Rate Rental Housing
Kalamazoo-Portage HMA
January 1, 2006 to January 1, 2009

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
700	130	830	170	950	75
750	120	880	140	1,000	70
800	110	930	130	1,050	60
850	100	980	110	1,100	55
900	85	1,030	95	1,150	45
950	75	1,080	85	1,200	40
1,000	60	1,130	70	1,250	35
1,100	50	1,230	55	1,350	25
1,200	40	1,330	35	1,450	20
1,300	30	1,430	25	1,550	15
1,400 and higher	25	1,530 and higher	15	1,650 and higher	10

Notes: Distribution above is noncumulative.
Demand shown at any rent represents demand at that level and higher.
Distribution excludes demand for dedicated student housing.
Source: Estimates by analyst

Table 7
Estimated Qualitative Demand for New Market-Rate Sales Housing
Kalamazoo-Portage HMA
January 1, 2006 to January 1, 2009

Price Range (\$)		Units of Demand
From	To	
100,000	149,999	550
150,000	199,999	725
200,000	249,999	1,250
250,000	299,999	725
300,000	499,999	250
500,000	and higher	100

Note: Data are rounded.
Source: Estimates by analyst