



Policy Development & Research

Analysis of the Reading, Pennsylvania Housing Market

As of October 1, 2003



ECONOMIC RESEARCH

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 be useful also to builders, mortgagees, and others concerned with local housing 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 upon information available on the "as-of" date from both 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 the 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 demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Patricia Moroz, the Division's Field Economist in the Pennsylvania State Office, based on fieldwork conducted during the first 9 months of 2003. Questions regarding the findings and conclusions of the analysis may be addressed to Ms. Moroz at 215-656-0604, ext. 3031 and at Patricia_C._Moroz@hud.gov.

Housing Market Area

The Reading, Pennsylvania Housing Market Area (HMA) is composed of Berks County. For the purpose of this analysis the HMA has been divided into two submarkets: the city of Reading and the Remainder of the HMA.

Summary

The economy of the Reading HMA grew steadily during the 1990s as growth in service-producing industries was greater than losses in goods-producing industries. The area economy has slowed since 2000, however, as manufacturing losses increased and services growth declined. The economy is expected to improve during the forecast period, with a higher rate of resident employment growth than has been the average annual gain since 2000.

During the 1990s the population and households in the HMA grew both as a result of increasing employment opportunities and availability of affordable single-family housing for workers in other metropolitan areas. In 2000, homeowners accounted for 74 percent of the households in the HMA. Approximately 98 percent of the total residential production in the HMA since 2000 has occurred outside the city of Reading. The rates of growth in population and households have increased in recent years, but are expected to decline slightly during the forecast period.

The current demand-supply conditions in the Reading HMA's housing market are described as balanced. Demand for new sales housing is strong because of the availability of affordably priced homes and low interest rates. Production of multifamily units keeps pace with demand. Conditions in the sales and rental housing markets are expected to remain balanced during the forecast period.

Demand for new sales housing during the 2-year forecast period ending September 2005 is estimated at 1,300 homes annually. Demand for new market-rate rental housing during the period is estimated at 215 units annually. Demand for additional sales and rental housing production will occur primarily in the Remainder of HMA.

Economy of the Area

Employment in the Reading HMA includes a diversified mix of agriculture, manufacturing, and services industries. The HMA's largest agricultural product is mushrooms, which accounted for 61.3 percent of total crop sales in the Reading HMA, as of the 1997 Census of Agriculture. The area's traditional industries—iron and metal fabrication and textile and apparel manufacturing—have declined and been replaced by industries that produce batteries, specialty steel, candies, and snack foods. Hospitals provide a significant number of jobs in the HMA, including Reading Hospital and Medical Center, the area's largest employer.

From 1990 to 2000, nonfarm employment increased at an annual rate of 1.0 percent, or by approximately 13,900 jobs a year, primarily driven by increases in the service and trade sectors, while the manufacturing sector lost jobs. Between 1994 and 1999, nonfarm wage and salary employment grew more rapidly, by 1.6 percent annually, as employers such as hospitals and local colleges and universities added workers. Both service-producing industries and retail trade expanded to meet the needs of the HMA's growing population. The trends in annual average civilian labor force and total employment and nonfarm wage and salary employment by industry sector, from 1992 through the Current date, are presented in Tables 1 and 2 respectively.

From 1990 to 2000, manufacturing employment in the HMA declined approximately 0.8 percent a year. Offsetting the losses in the manufacturing sector, employment in the service-producing sector increased an average of 1.7 percent annually from 1990 to 2000, with greater increases of 2.4 percent a year occurring from 1995 to 1999. Employment in the professional and business services sector influenced the gains, increasing by 1.5 percent annually during the first half of the decade, and by a rapid 5.2 percent a year during the second 5 years. Throughout the 1990s, education and health services also increased steadily by 2.6 percent annually. Retail trade grew by 0.6 percent a year from 1990 to 1994, increasing to 2.5 percent annually from 1995 through 1999.

In the 12 months ending September 2003, nonfarm wage and salary employment in the Reading HMA averaged 166,900 persons, or a 0.7 percent decline from the comparable period ending September 2002. Gains in the service-producing sector could not compensate for losses in the manufacturing sector, which declined by 5.5 percent annually from 2000 to the Current date. Since 2000, a number of the HMA's largest manufacturers closed or laid off significant numbers of employees, including job losses of 2,200 at Agere Systems (telecommunications equipment); 1,425 at Dana Corporation (truck bodies); and 850 at Carpenter Technology Corporation (specialty steel). On the other hand, the HMA's largest manufacturing firm, East Penn Manufacturing Company (batteries), increased employment by approximately 650 workers from 2000 to the Current date. Since 2000, service-producing employment increased at a slower pace than it did during the 1990s, averaging 1.0 percent annually, as the information and financial activities sectors lost 950 banking jobs when Wachovia Corporation merged with First Union Corporation.

The Reading HMA provides jobs for approximately 26,250 workers who commute into Berks County for employment. At the same time, more than 37,000 persons residing in the HMA commute to jobs outside the area, resulting in a net out-commutation of 10,750 people. The number of out-commuting workers will continue to increase over the forecast period as the HMA's affordable home prices continue to attract residents from the nearby larger metropolitan areas of Philadelphia and Allentown-Bethlehem-Easton.

From 1990 to 2000, total resident employment increased an average of 0.6 percent annually. In the 12 months ending September 2003, resident employment declined 1.4 percent. Throughout the 2-year forecast period the regional economy is expected to recover as the service-producing sector increases hiring. Retail employment is expected

to expand with the fall opening of Cabela's outdoor supply superstore and its related restaurants and retail stores, located in the northern portion of the Remainder of the HMA. During the next 2 years total resident employment is forecast to increase more rapidly than it did in the past 24 months by 0.8 percent, or 1,450 jobs, as those employed outside the HMA continue to migrate to the area for affordable housing.

Household Incomes

The Economic and Market Analysis Division of HUD estimated the median family income in the Reading HMA to be \$61,200 in 2003. As of the 2000 Census, the median family income in the Reading HMA was \$52,997, or an average annual increase of 4.0 percent annually since the 1990 Census. The city of Reading's median family income was \$31,067 as of the 2000 Census, increasing 1.4 percent a year over the decade.

Population

As of October 1, 2003 the population of the Reading HMA was estimated to be 386,900, or an average annual gain of 1.2 percent since 2000, which is greater than the average annual increase of 1.0 percent recorded from 1990 to 2000. The increase reflects a rising birth rate and increased in-migration. Trends in population change for the HMA and the submarkets from 1990 to the Forecast date are presented in Table 3.

More than 92 percent of the population growth during the 1990s occurred outside the city of Reading. In-migration primarily drove the population growth in the HMA from 1990 to 2000, accounting for 71 percent of the increase. Net natural change (resident births minus resident deaths) accounted for 29 percent. During the previous decade, in-migration averaged approximately 2,625 persons annually. From 2000 to the Current date, in-migration increased to an estimated annual average of 2,675 persons as the HMA became a bedroom community for the Philadelphia metropolitan area.

Between 1990 and 2000, population change as a result of net natural increase averaged approximately 1,075 persons a year. Annual data from the Pennsylvania Department of Health indicated an overall increase in net natural change since 1997. From 2000 to the Current date, net natural increase averaged 1,100 persons annually, and is expected to continue at this pace during the forecast period.

The HMA's five colleges and universities contribute to the population increase and currently have a combined student population of more than 18,950. The largest, Kutztown University, enrolls approximately 8,800 students as of the Current date. Student enrollment in the Reading HMA is expected to continue increasing by approximately 2.7 percent annually through the forecast period. The student population has little impact on the housing market in the HMA, as the construction of dormitory housing has kept pace with rising enrollment.

Based on the level of economic growth, in-migration, and net natural increase anticipated during the 2-year forecast period, population growth is expected to continue at a slightly

slower rate than previously. As of the Forecast date of October 1, 2005 the population of the Reading HMA will be an estimated 394,600 persons.

Households

In 2000 the Reading HMA included 141,570 households. As of the Current date it includes an estimated 148,400 households, or an average annual increase of 1.6 percent since the 2000 Census. Because of migration of households from Central America and the Caribbean, the rate of increase is greater than the 1.0 percent annual growth that occurred during the 1990 to 2000 period. The current rate of household growth is expected to slow during the next 2 years. It is estimated that the number of households in the HMA will increase by 1,450 annually to approximately 151,300 households as of the end of the forecast period. Table 3 presents the trends in household growth from 1990 through the Forecast date for the HMA and the submarkets.

Housing Inventory

From 1990 to 2000, the housing inventory increased by an average of 1,575 units annually. From 2000 to the Current date, the inventory increased by 1,925 units annually to 157,000 units by the end of the period. Approximately 90 percent of the change in inventory since 2000 has been in sales housing, predominantly single-family homes located in the Remainder of the HMA. The counts of housing inventory, occupancy, and vacancy by tenure for 1990, 2000, and the Current date are presented in Table 4. The trends in building permit activity from 1993 through the Current date for single-family and multifamily housing in the HMA and the submarkets are presented in Table 5.

From 1990 to 1999, single-family permit activity averaged approximately 1,500 a year. As migration to the Reading HMA increased from 2000 to the Current date, new home construction has grown to an average of 1,700 annually, or 13.3 percent more than the annual activity during the 1990s. Over the past few years the townships of Spring, Exeter, and Amity have grown the most rapidly. Mobile homes account for approximately 6 percent of new units added to the inventory each year. The development of condominium communities is less than 1.0 percent of the annual growth in the housing inventory.

Construction of multifamily units during the 1990s averaged 140 units annually. Since 1995, multifamily rental activity has been steadily increasing to an average of approximately 290 units a year from 2000 to the Current date. Approximately 90 percent of multifamily permits issued from 2000 to the Current date have been located in the Remainder of the HMA.

Housing Vacancy

Since 1990, vacancy rates in the Reading HMA have been relatively stable. As of 1990 the sales vacancy rate was 1.4 percent. As the local economy slowed because of layoffs among the HMA's largest manufacturing firms during the latter part of the 1990s, the

sales vacancy rate increased slightly to 1.8 percent as of 2000. The rental vacancy rate also increased slightly from 6.1 percent in 1990 to 6.3 percent in 2000. With increased migration to the area since 2000, both the sales and rental vacancy rates declined to 1.4 percent and 6.1 percent respectively as of October 1, 2003.

The city of Reading's sales and rental vacancy rates increased from 1990 to 2000 as lower interest rates and affordable single-family homes attracted city residents to the Remainder of the HMA. Since 2000, international migration to the city of Reading increased, resulting in a decline in vacancy rates to 4.0 percent for sales and 9.0 percent for rental housing as of the Current date. Vacancy trends between 1990 and the Current date for the HMA and the submarkets are presented in Table 4.

Sales Market Conditions

A strong sales market exists throughout the Reading HMA. Growth in households from 2000 to the Current date increased demand for new single-family homes. The recent economic slowdown has not reduced demand for sales housing, and the market remains tight. The HMA's supply of relatively affordable housing is expected to continue to attract residents who work in larger metropolitan areas such as Philadelphia and Allentown-Bethlehem-Easton.

According to the Reading-Berks Association of REALTORS[®], the median sales price of an existing home in the HMA increased an average of 5.2 percent annually since 2000 to approximately \$117,900 in 2002. During the same period, sales volume increased an average of 3.3 percent annually to 5,307 units as of the end of 2002. The median sales price of an existing single-family home in the city of Reading declined 0.1 percent annually since 2000 to \$29,900 in 2002. The low sales price is due to an abundant supply of smaller attached row homes in the city, which have been vacated by those migrating to the Remainder of the HMA for larger, more desirable single-family homes. Sales volume in the city has increased 6.6 percent annually, averaging approximately 870 units a year from 2000 to 2002.

Rental Market Conditions

The Reading HMA rental market is balanced as of the Current date. With additional households moving into the HMA since 2000, apartment construction has increased to meet the additional demand. Approximately 200 apartment units are under construction and expected to be completed within the next year in the Remainder of the HMA. A relatively soft rental market in the city of Reading can be attributed to lower interest rates, enabling a larger segment of the rental market to become first-time homebuyers.

The average gross rent for a two-bedroom/two-bath unit in a newly completed Class A development in the Reading HMA is \$1,020.

Forecast Housing Demand

Based on anticipated household growth and current market conditions, estimates indicate a demand for approximately 2,625 new sales units and 430 rental units during the 2-year forecast period ending October 1, 2005. This level of construction will allow for a balanced market condition. Given current market conditions and recent trends, it is anticipated that much of the future demand for new rental housing will occur in the suburbs. Table 6 presents a summary of the annual rental qualitative demand for the entire HMA.

Table 1
Labor Force and Total Employment
Reading HMA
1992 to October 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior 12 Mos. ^a	Current 12 Mos. ^b
Labor Force	178,100	177,300	175,600	177,300	180,100	184,600	182,600	183,200	183,900	189,800	192,000	191,400	189,400
Employment	166,200	166,900	167,100	168,900	172,400	176,700	174,700	175,700	176,400	180,500	179,500	179,600	177,100
Unemploy- ment	11,900	10,400	8,500	8,400	7,700	7,900	7,900	7,400	7,400	9,300	12,500	11,700	12,400
Rate (%)	6.7	5.9	4.9	4.8	4.3	4.3	4.3	4.1	4.1	4.9	6.5	6.1	6.5

^aEnding September 2002

^bEnding September 2003

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

Table 2
Total Wage and Salary Employment
Reading HMA
1992 to October 1, 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior 12 Mos.^a	Current 12 Mos.^b
Total	152,400	153,400	155,800	158,500	160,600	165,000	166,200	168,400	171,500	170,000	167,900	168,100	166,900
Construction and Mining	6,300	6,200	6,500	6,700	6,900	7,200	7,100	7,600	8,100	8,400	8,200	8,200	8,100
Manufacturing	42,700	41,900	42,900	42,800	42,000	42,700	41,800	41,400	41,500	39,000	35,300	36,100	33,500
Trade, Transportation, and Utilities	30,200	31,000	31,000	31,900	33,400	34,800	34,700	34,900	34,800	33,500	32,900	33,000	32,900
Information	2,000	2,000	1,900	2,000	2,100	2,500	2,400	2,300	2,000	2,100	2,000	2,000	2,000
Financial Activities	8,800	8,700	9,100	9,000	8,900	8,600	8,600	8,800	8,700	8,800	8,500	8,500	8,300
Professional and Business Services	11,900	12,200	12,900	13,000	13,300	14,100	15,500	16,600	18,200	18,800	19,400	19,200	19,600
Education and Health Services	15,600	15,900	16,100	16,600	17,100	17,800	18,400	18,400	19,000	19,500	20,400	20,200	21,100
Leisure and Hospitality	10,800	11,000	10,900	11,300	11,500	11,900	12,000	12,200	12,300	12,400	13,000	12,900	13,100
Other Services	6,400	6,500	6,600	6,700	6,800	6,900	7,100	7,200	7,600	7,700	7,900	7,800	8,000
Government	17,500	18,000	18,000	18,600	18,700	18,600	18,700	19,000	19,300	19,800	20,300	20,300	20,300

^a Ending September 2002

^b Ending September 2003

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

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

Table 3
Population and Household Trends
Reading HMA
April 1, 1990 to October 1, 2005

	April 1, 1990	April 1, 2000	Current Date ¹	Forecast Date ²	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Reading HMA	336,523	373,638	386,900	394,600	3,712	1.0	3,789	1.2	3,850	1.0
City of Reading	78,380	81,207	82,350	83,100	283	0.4	327	0.5	375	0.5
Remainder of HMA	258,143	292,431	304,500	311,500	3,429	1.2	3,448	1.3	3,500	1.1
Households										
Reading HMA	127,649	141,570	148,400	151,300	1,392	1.0	1,951	1.6	1,450	1.0
City of Reading	31,403	30,113	30,100	30,200	-129	-0.4	-4	0.0	50	0.2
Remainder of HMA	96,246	111,457	118,300	121,100	1,521	1.5	1,955	2.0	1,400	1.2

¹ October 1, 2003

² October 1, 2005

Note: Rates of change are calculated on a compound basis; numbers have been rounded for comparison.

Sources: 1990 and 2000—U.S. Census Bureau

Current and Forecast—Estimates by analyst

Table 4
Housing Inventory Tenure and Vacancy
Reading HMA
1990 to October 1, 2003

	Reading HMA			City of Reading Submarket Area			Remainder of HMA Submarket Area		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	134,482	150,222	157,000	34,276	34,314	34,350	100,206	115,908	122,700
Occupied Units	127,649	141,570	148,400	31,403	30,113	30,100	96,246	111,457	118,300
Owners	94,336	104,719	110,800	17,559	15,355	15,400	76,777	89,364	95,450
%	73.9	74.0	74.7	55.9	51.0	51.2	79.8	80.2	80.7
Renters	33,313	36,851	37,550	13,844	14,758	14,700	19,469	22,093	22,800
%	26.1	26.0	25.3	44.1	49.0	48.8	20.2	19.8	19.3
Vacant Units	6,833	8,652	8,650	2,873	4,201	4,215	3,960	4,451	4,440
Available Units	3,484	4,321	4,025	1,506	2,270	2,090	1,978	2,051	1,940
For Sale	1,314	1,862	1,600	377	787	640	937	1,075	960
Rate (%)	1.4	1.8	1.4	2.1	4.9	4.0	1.2	1.2	1.0
For Rent	2,170	2,459	2,425	1,129	1,483	1,450	1,041	976	980
Rate (%)	6.1	6.3	6.1	7.5	9.1	9.0	5.1	4.2	4.1
Other Vacant	3,349	4,331	4,625	1,367	1,931	2,125	1,982	2,400	2,500

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

Table 5
Residential Building Permit Activity
Reading HMA
1993 to April 1, 2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Reading HMA											
Total	1,722	1,766	1,378	1,553	1,707	1,778	1,834	1,809	2,032	2,121	768
Single-family	1,606	1,728	1,359	1,457	1,553	1,603	1,567	1,595	1,711	1,775	635
Multifamily	116	38	19	96	154	175	267	214	321	346	133
City of Reading Submarket Area											
Total	20	14	4	43	6	102	97	7	15	97	8
Single-family	18	14	4	5	1	16	4	1	7	7	3
Multifamily	2	0	0	38	5	86	93	6	8	90	5
Remainder of HMA Submarket Area											
Total	1,702	1,752	1,374	1,510	1,701	1,676	1,737	1,802	2,017	2,024	760
Single-family	1,588	1,714	1,355	1,452	1,552	1,587	1,563	1,594	1,704	1,768	632
Multifamily	114	38	19	58	149	89	174	208	313	256	128

* Includes only jurisdictions reporting monthly through September 30, 2003.
Source: U.S. Census Bureau, C—40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Reading HMA
October 1, 2003 to October 1, 2005

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
820	73	995	82	1,160	60
870	63	1,045	68	1,210	49
920	58	1,095	61	1,260	45
970	51	1,145	52	1,310	40
1,020	43	1,195	43	1,360	36
1,070	35	1,245	34	1,410	31
1,120	27	1,295	27	1,460	27
1,220	21	1,395	21	1,560	23
1,320	16	1,495	17	1,660	20
1,420	12	1,595	13	1,760	12
1,520 or more	0	1,695 or more	0	1,860 or more	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