

# Housing Market Profile



Pacific • HUD Region IX

## Modesto, California

The Modesto metropolitan area, which is coterminous with Stanislaus County, California, is directly east of San Jose in the San Joaquin Valley. As of October 1, 2012, the population of the metropolitan area was estimated at 522,300, reflecting an average annual increase of 3,150, or 0.6 percent, since April 2010. By comparison, annual population growth averaged 2,625 people, or 0.5 percent, from July 2006 to April 2010. Net natural change (resident births minus resident deaths) has accounted for all the population growth in the metropolitan area since 2006 because of weak economic conditions. The metropolitan area benefits substantially from agriculture, which generated \$3.1 billion of revenue in 2011, including 203 million pounds of almonds, or 10 percent of the world's total production.

Continuing a downward trend that began in 2008, total nonfarm payrolls in the metropolitan area declined to 143,400 jobs during the 12 months ending August 2012, down 1,600 jobs, or 1.1 percent, from 145,000 jobs during the previous 12-month period. The government and manufacturing sectors lost the most jobs, decreasing by 830 and 420 jobs, or 3.2 and 2.1 percent, respectively. Nearly all government sector job losses during the period were because of local government sector budget cutbacks. Layoffs in the food manufacturing industry, including the closure of three Dawn Food Products, Inc. plants in March 2012, accounted for most of the decline in the manufacturing sector. The wholesale and retail trade and the mining, logging, and construction sectors were the only sectors to add jobs, increasing by 220 and 180 jobs, or 0.9 and 3.0 percent, respectively. E.&J. Gallo Winery is the largest employer in the metropolitan area, with 3,175 workers. Memorial Medical Center and Seneca Foods Corporation are the second and third largest employers, with 3,025 and 2,100 employees, respectively. Upcoming expansions include those of Amazon.com Inc., which plans to add at least 1,000 full-time jobs to the metropolitan area by opening a new distribution center in the city of Patterson in 2013. During the 12 months ending August 2012, the unemployment rate declined to 15.9 percent, down from 17.1 percent during the previous 12-month period.

The home sales market in the Modesto metropolitan area is currently soft, with an estimated vacancy rate of 2.2 percent, down from 2.7 percent in April 2010. According to Hanley Wood, LLC, during the 12 months ending

August 2012, 7,475 new and existing homes sold, down 3 percent compared with the 7,725 sold during the previous 12 months and down 20 percent from an average of 9,325 sold annually from 2008 through 2010. The average home sales price in the metropolitan area was \$162,000 during the 12 months ending August 2012, a 4-percent increase from \$155,300 during the 12 months ending August 2011 but an 8-percent decrease from an average of \$176,800 recorded from 2008 through 2010. A decrease in the number of REO (Real Estate Owned) property sales has caused the average home sales price to increase since 2011. REO sales accounted for 50 percent of all existing home sales during the 12 months ending August 2012, down from 61 percent during the previous 12-month period. The average sales price of an REO property was \$134,600 during the 12 months ending August 2012, 28 percent less than an average regular resale property. According to LPS Applied Analytics, as of August 2012, 7.5 percent of home loans in the metropolitan area were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 9.6 percent in August 2011.

Based on preliminary data, home construction activity, as measured by the number of single-family building permits issued, increased to 110 homes permitted in the metropolitan area during the 12 months ending August 2012, up from the 90 homes permitted during the previous 12 months. By comparison, an average annual 300 homes were permitted from 2008 through 2010. After peaking at an average of 4,000 homes permitted annually from 2003 through 2005, single-family home construction activity declined in each successive year through 2011.

Because of strong household growth, multifamily construction activity, as measured by the number of units permitted, peaked at an average of 460 units per year from 2004 through 2007. Multifamily construction decreased to an average of 80 units per year from 2008 through 2010, however, as net out-migration slowed household formation. Based on preliminary data, during the 12 months ending August 2012, 80 multifamily units were permitted, up from the 50 permitted during the previous 12-month period. All the multifamily units permitted during the 12 months ending July 2012 were associated with the Avena Bella Apartments, an 80-unit low-income housing tax credit project that is currently under construction in the city of Turlock.

The rental housing market in the Modesto metropolitan area is currently balanced because relatively low levels of multifamily construction have caused declining vacancy



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rates and increasing rents since 2010. As reported by Axiometrics Inc., the apartment vacancy rate was 3.9 percent in the third quarter of 2012, up from 3.6 percent in the third quarter of 2011 but down from 4.7 percent in the third quarter of 2010. The average effective rent increased to \$870 in the third quarter of 2012, up 9 percent from \$790 during the third quarter of 2011 and up

12 percent from \$770 during the third quarter of 2010. As of October 1, 2012, the overall rental vacancy rate was estimated at 5.6 percent, down from 8.4 percent in April 2010. According to the 2010 American Community Survey 1-year data, single-family homes accounted for approximately 59 percent of all rental units in the metropolitan area.