

North Dakota

HUD Region VIII

(U.S. Housing Market Conditions Report – 1st quarter 2011)

North Dakota, located in the Upper Midwest along the Canadian border, is the most rural of all states in the United States, with farmland covering 90 percent of the area. Agriculture, which is the largest industry in the state, directly contributed to nearly 10 percent of the gross state product in 2010 compared with 1.2 percent of the gross domestic product for the United States. As a result of new directional drilling techniques introduced in 2005, extracting oil from the large Bakken Field in western North Dakota has become an impetus for employment growth. According to a North Dakota State University study, in 2009, more than 65,000 direct and indirect jobs were generated in the state as a result of oil drilling and production, up nearly 70 percent from the 2007 estimate. As of April 1, 2011, the population of the state is estimated at 672,600, an average annual increase of 1.3 percent since 2007 compared with the 0.2-percent annual increase recorded from 2005 to 2007.

Economic conditions in North Dakota improved during the past year. During the 12 months ending February 2011, nonfarm payroll jobs in the state increased by 11,200 jobs, or 3 percent, to an average of 378,300 jobs compared with the 0.1-percent decrease in payroll jobs recorded during the previous 12 months. During the most recent 12-month period, employment in the mining and logging sector was up 62 percent, or 4,400 jobs, because of increased oil exploration and drilling. This sector now constitutes 3 percent of total nonfarm employment in the state compared with 2 percent a year earlier. The education and health services sector increased by 1,400 jobs, or 2.6 percent, as a result of hospital and school expansions. Government employment increased by 1,800 jobs, or 2.3 percent, with nearly all of the increase coming at the local level. For the 12 months ending February 2011, the unemployment rate averaged 3.8 percent, down from 4.2 percent a year earlier.

North Dakota's relatively strong economic performance during the past 2 years was driven primarily by energy industry growth but was also supported by a strong state banking system that helped stabilize its economy and housing markets during the national recession and credit crisis. From 2008 to 2010, the state-run Bank of North Dakota increased loans to businesses and private banks; the bank generated \$1.04 billion in new commercial loan volume per year, on average, which was almost double the \$562 million annual average between 2005 and 2007. A major expansion at Minot Air Force Base also contributed to the state's strong economic performance, and the base is now the largest employer in the state. The base added 1,100 airmen beginning in 2009, bringing the total number of civilian and military personnel stationed at the base to 6,800. For 2010, the base had a \$513.7 million economic impact on the state's economy, up 8 percent from 2009 and 38 percent from 2007. Other leading employers are the University of North Dakota and Altru Health System, both of which are in Grand Forks, with 5,200 and 3,850 employees, respectively.

Home sales markets improved and were generally balanced in North Dakota during the 12 months ending February 2011. Hanley Wood, LLC, reported that, during the 12 months ending February 2011, sales of new and existing single-family homes were up nearly 3 percent, to 8,135 homes sold compared with the number sold during the previous 12 months. The average prices of new and existing single-family homes in the state increased by 4 and 7 percent, to \$212,700 and \$173,600, respectively. According to the Federal Housing Finance Agency house price index, in 2010, home prices increased by 5 percent, the highest rate of any state in the nation. According to LPS Applied Analytics, in February 2011, 2 percent of all home loans in the state were 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned), down from 2.4 percent in February 2010. North Dakota had the lowest foreclosure rate in the nation, according to the same data.

The strongest increases in home sales activity occurred in western North Dakota markets as a result of the expanding oil industry in places such as Bismarck and of the military buildup in Minot. Hanley Wood, LLC, reported that, during the 12 months ending February 2011, sales of new and existing single-family homes increased in Bismarck by 18 percent, to nearly 2,050 homes sold, and in Minot by 10 percent, to 1,230 homes sold. Home sales activity in the eastern North Dakota markets of Grand Forks and Fargo was influenced more by national housing trends. During the 12 months ending February 2011, new and existing home sales in Grand Forks and Fargo were

down by 6 and 3 percent, to 880 and 3,100 homes, respectively. During the same period, the average price of new and existing single-family homes was up in all reported areas, with increases ranging from 3 percent, to \$179,700, in Bismarck to more than 12 percent, to \$175,400, in Grand Forks.

In response to the stronger home sales demand, single-family home construction in the state increased during the 12 months ending February 2011. Based on preliminary data, the number of single-family permits issued increased by 19 percent, to 1,460 homes permitted, compared with the number permitted a year earlier, but these numbers were still below the peak average of 2,400 units a year recorded from 2004 through 2006. The Fargo-Moorhead metropolitan area accounted for approximately one-half of the 1,460 homes permitted in the state for the current period. The city of West Fargo, adjacent to Fargo, is one of the fastest growing cities in the state and is where much of the new construction is taking place in the metropolitan area. One subdivision, West Port Beach, has added about 500 homes in the past 5 years. Prices for these homes ranged from about \$180,000 to \$220,000 for a four-bedroom, two-story house with a three-car garage. A more recently developed subdivision, the Reserve at Osgood, includes homes averaging from \$350,000 to \$450,000; 75 of the 270 available homes have been sold.

Rental market conditions in North Dakota range from balanced in the eastern parts of the state to extremely tight in the western parts, a situation that has persisted for the past 3 years. According to an Appraiser Services, Inc., survey, in the first quarter of 2011, the average apartment vacancy rate in the Fargo-Moorhead area fell to 6.2 percent compared with the 7.2-percent rate recorded in the first quarter of 2010. According to the survey, asking rents for apartments that have recently come on line averaged \$680 for a one-bedroom unit, \$780 for a two-bedroom unit, and \$980 for a three-bedroom unit, up 2 percent from a year earlier. According to the Greater Grand Forks Apartment Association, as of February 2011, the apartment vacancy rate was 5.4 percent, which was relatively unchanged from a year earlier. During the first quarter of 2011, according to local sources, vacancy rates in Minot and Bismarck ranged from 2 to 3 percent and in oil-impacted areas such as Dickenson and Williston in western North Dakota were below 2 percent. Because of a housing shortage in oil-impacted areas, many workers stay in hotels and trailers in and around those cities or commute as far as 100 miles to work.

Multifamily building activity, as measured by the number of units permitted, has increased in response to the tightening rental markets in North Dakota. According to preliminary data, during the 12 months ending February 2011, the number of multifamily units permitted increased by 20 percent, to 1,420 units, of which apartments accounted for 90 percent. By comparison, an average of 1,100 multifamily units a year were permitted from 2006 through 2008; during this period, apartments accounted for 60 percent of the units permitted. Since 2006, the Fargo-Moorhead area has accounted for approximately one-half of multifamily building activity in the state, largely because of growth in student enrollment at the three area universities: North Dakota State University, Minnesota State University at Moorhead, and Concordia College. The combined enrollment for the fall 2010 semester for the three schools was more than 24,700 students, up by more than 10 percent since the fall 2006 semester.