

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



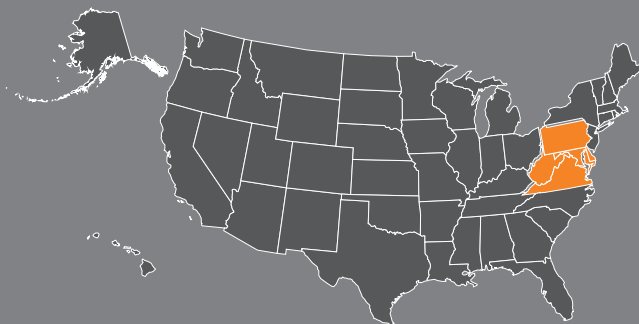
Quick Facts About Region 3

Philadelphia, Pennsylvania

By Benjamin Houck | 2nd quarter 2018

- **Sales market conditions—**
Second quarter 2018: mixed (balanced to tight).
First quarter 2018: mixed (slightly tight to tight).
Second quarter 2017: mixed (balanced to tight).

- **Apartment market conditions—**
Second quarter 2018: mixed (balanced to slightly soft).
First quarter 2018: balanced.
Second quarter 2017: mixed (balanced to slightly tight).



Overview

The economy of the Mid-Atlantic region expanded 1.2 percent during the second quarter of 2018 from the second quarter of 2017. The pace of job growth in the region increased from 1.0 percent a year ago primarily because of higher levels of growth in the education and health services and the transportation and utilities sectors, in addition to fewer jobs lost in the retail trade subsector. Unemployment rates declined in the region and in most states and the District of Columbia. Sales housing market conditions in major metropolitan areas in the region ranged from balanced to tight. The number of homes available for sale was down from a year ago throughout much of the region, restraining increases in home sales. Average home sales prices increased throughout the region. Apartment market conditions in major metropolitan areas were balanced to slightly soft during the second quarter of 2018, compared with conditions that ranged from balanced to slightly tight a year ago. Apartment vacancy rates and average rents increased in most areas. Single-family construction activity in the region declined slightly from a year ago, in part, because of rising mortgage interest rates. Multifamily construction activity also declined, partly because of tighter commercial lending standards.

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During the second quarter of 2018—

- Nonfarm payrolls increased by 171,500 from the second quarter of 2017, to 14.83 million jobs. Payrolls increased in every state in the region for the fourth consecutive quarter.
- Single-family homebuilding activity declined slightly in the region because increases in three states were more than offset by declines in two states and the District of Columbia.
- Multifamily construction activity declined 11 percent regionwide, but trends by state varied.

Economic Conditions

The economy of the Mid-Atlantic region expanded during the second quarter of 2018 with an increase of 171,500 jobs, or 1.2 percent, from the second quarter of 2017, continuing a period of growth that began during the second quarter of 2010. Although less than the national increase of 1.6 percent, growth in the Mid-Atlantic region was up from 1.0 percent a year ago. The education and health services sector is the largest sector in the region and accounted for one-third of the overall growth during the second quarter of 2018. The increase of 57,000 jobs, or 2.2 percent, in the sector was more than the gain of 43,000 jobs, or 1.7 percent, during the second quarter of 2017. The largest percentage gain during the second quarter of 2018 was a 4.4-percent increase, or 24,300 jobs, in the transportation and utilities sector, up from 2.0 percent, or 11,000 jobs, a year ago. Amazon, Inc., opened a new order fulfillment center in June 2018 in Frederick County, Virginia, adding approximately 1,000 jobs in the sector. The gain of 23,400

jobs, or 3.2 percent, in the mining, logging, and construction sector was supported by the start of construction during the second quarter of 2018 on at least 7 new data centers, with a combined 1.91 million square feet, in Loudoun County, Virginia. Nonfarm payrolls declined in three sectors. The loss of 1,700 jobs in the wholesale and retail trade sector was nearly evenly divided by losses in wholesale and retail trade. Fewer jobs were lost in wholesale and retail trade, however, compared with a year ago, particularly in the retail trade subsector. The loss of 800 jobs, or 0.1 percent, in the retail trade subsector was much less than the decline of 14,900 jobs, or 1.0 percent, during the second quarter of 2017, when the region was beset with a wave of store closures among national retailers. The unemployment rate in the region averaged 3.8 percent during the second quarter of 2018, down from 4.4 percent a year ago, and was equal to the national average. Unemployment rates declined in the District of Columbia and in all states in the region except Maryland and West Virginia, where increases in the labor force exceeded gains in resident employment.

During the second quarter of 2018—

- Nonfarm payrolls in Pennsylvania and Virginia increased by 81,600 and 52,100 jobs, or 1.4 and 1.3 percent, respectively. Growth in each state was slightly higher compared with increases of 1.0 and 1.1 percent a year ago, in part, because of stronger job growth in the education and health services sector.
- Nonfarm payrolls in Maryland and the District of Columbia increased by 13,300 and 5,300 jobs, or 0.5 and 0.7 percent, respectively. Growth was slower, however, in these two places from a year ago partly because of job losses in the federal

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Nonfarm payrolls in the Mid-Atlantic region increased during the second quarter of 2018, with one-third of the growth in the education and health services sector.

	Second Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	14,658.3	14,829.8	171.5	1.2%
Goods-producing sectors	1,713.6	1,748.2	34.6	2.0%
Mining, logging, and construction	736.0	759.4	23.4	3.2%
Manufacturing	977.6	988.8	11.2	1.1%
Service-providing sectors	12,944.7	13,081.6	136.9	1.1%
Wholesale and retail trade	1,941.1	1,939.4	- 1.7	- 0.1%
Transportation and utilities	549.0	573.3	24.3	4.4%
Information	221.1	215.9	- 5.2	- 2.4%
Financial activities	777.1	780.3	3.2	0.4%
Professional and business services	2,271.2	2,312.7	41.5	1.8%
Education and health services	2,564.7	2,621.7	57.0	2.2%
Leisure and hospitality	1,488.6	1,504.7	16.1	1.1%
Other services	727.5	735.8	8.3	1.1%
Government	2,404.4	2,397.8	- 6.6	- 0.3%

Source: U.S. Bureau of Labor Statistics

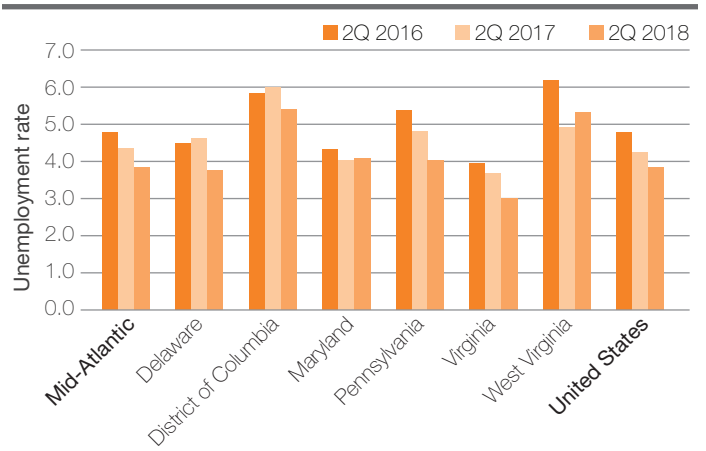


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government subsector, which declined 1.9 percent in both places, or by 2,700 and 3,900 jobs, respectively.

- In Delaware, nonfarm payrolls increased by 6,500 jobs, or 1.4 percent. In June 2018, GulfTainer, a port management company, announced plans to invest \$584 million during the next 10 years at the Port of Wilmington, adding an undetermined number of jobs in the transportation and utilities sector.
- In West Virginia, total nonfarm payrolls increased by 12,600 jobs, or 1.7 percent, including a gain of 3,300 jobs, or 10.5 percent, in the construction subsector. Construction began in June 2018 on a \$150 million production facility in Jefferson County for ROCKWOOL North America, contributing to the growth in the construction subsector and adding 150 jobs to the manufacturing sector upon completion in 2020.

Unemployment rates declined in most states in the Mid-Atlantic region during the second quarter of 2018 from a year ago.



2Q = second quarter. Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in major metropolitan areas in the Mid-Atlantic region ranged from balanced to tight during the second quarter of 2018. Sales housing markets were tight in the Richmond and Washington, D.C. metropolitan areas and balanced in the Baltimore and Philadelphia metropolitan areas. A decline in the number of homes on the market throughout much of the region, combined with rising mortgage interest rates, inhibited increases in existing home sales in several major metropolitan areas and, in some cases, contributed to a decline in home sales from levels a year ago. In Maryland, existing-home sales declined 1 percent in the Baltimore metropolitan area and were down 3 percent in the Silver Spring-Frederick-Rockville metropolitan division, which is part of the Washington, D.C. metropolitan area. Sales of existing homes were unchanged in the Washington, D.C. metropolitan area compared with a 6-percent increase during the second quarter of 2017. A 5-percent gain in sales in the District of Columbia was offset, in part, by declines in homes sales in Fairfax, Loudoun, and Prince William Counties in northern Virginia. Sales of existing homes rose 4 percent in the Richmond area, but the gain slowed from a 12-percent increase during the second quarter of 2017. The 3-percent increase in the Philadelphia area was slower than the 8-percent increase a year ago. Increases in average sales prices ranged from 3 percent in the Baltimore, Philadelphia, and Washington, D.C. metropolitan areas to 6 percent in the West Virginia Eastern Panhandle and were similar to increases that ranged from 3 to 5 percent during the second quarter of 2017.

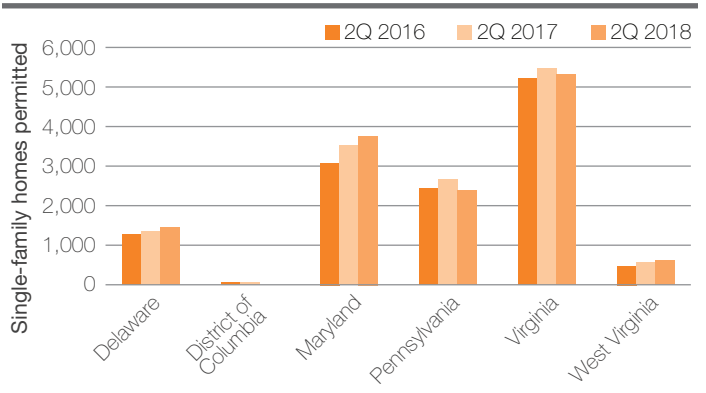
In May 2018, 2.2 percent of home loans in the region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status, down from 2.7 percent a year earlier (CoreLogic, Inc.). The rate for the

region was higher than the 2.0-percent national rate and only Virginia, which had a rate of 1.3 percent, was below the national average. Rates, however, were down in all states and the District of Columbia from a year ago.

Homebuilding activity, as measured by the number of single-family homes permitted, declined slightly in the Mid-Atlantic region from a year ago. The decline followed nine consecutive quarters of year-

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Homebuilding activity increased in Delaware, Maryland, and West Virginia during the second quarter of 2018, but declined elsewhere in the Mid-Atlantic region.



2Q = second quarter. Note: Based on preliminary data. Source: U.S. Census Bureau, Building Permits Survey



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over-year increases and was primarily a result of decreases in the number of homes permitted in Pennsylvania and Virginia.

During the second quarter of 2018 (preliminary data)—

- Approximately 13,550 single-family homes were permitted in the Mid-Atlantic region, a decline of less than 1 percent from 13,650 single-family homes permitted during the second quarter of 2017.
- The number of single-family homes permitted in Virginia and Pennsylvania totaled 5,325 and 2,400 homes, respectively, down 3 and 10 percent from a year ago.

- Nearly 25 single-family homes were permitted in the District of Columbia, down from 60 homes permitted a year ago. Condominium construction activity increased, however, by a nearly equal amount, from 150 units permitted during the second quarter of 2017 to 190 units permitted during the second quarter of 2018.
- Homebuilding activity in Maryland, Delaware, and West Virginia totaled 3,775, 1,425, and 620 homes, respectively, increases of 7, 6, and 8 percent from a year ago.

Home sales and average home sales prices increased in most states and major markets in the Mid-Atlantic region during the second quarter of 2018.

	12 Months Ending	Number of Homes Sold				Price		
		2017	2018	Percent Change	Average or Median	2017 (\$)	2018 (\$)	Percent Change
Delaware (N&E)	March	16,050	14,250	- 11%	AVG	\$269,200	\$281,000	4%
District of Columbia (E)	June	8,550	8,975	5%	AVG	\$678,400	\$687,400	1%
Maryland (E)	June	82,300	81,800	- 1%	AVG	\$320,400	\$331,000	3%
Pennsylvania (N&E)	March	197,500	205,600	4%	AVG	\$190,500	\$196,700	3%
Virginia (E)	June	121,100	122,100	1%	AVG	\$334,600	\$345,600	3%
West Virginia (N&E)	March	8,625	9,675	12%	AVG	\$146,200	\$150,500	3%
Baltimore metropolitan area (E)	June	39,950	39,550	- 1%	AVG	\$296,200	\$303,900	3%
Philadelphia metropolitan area (E)	June	70,150	72,450	3%	AVG	\$220,100	\$226,600	3%
Richmond metropolitan area (E)	June	18,350	19,100	4%	AVG	\$266,300	\$279,100	5%
Washington, D.C. metropolitan area (E)	June	85,400	85,300	0%	AVG	\$458,400	\$473,900	3%
West Virginia Eastern Panhandle (E)	June	3,725	3,875	4%	AVG	\$187,700	\$198,800	6%

AVG = average. E = existing. N&E = new and existing.

Notes: All figures are rounded. Average prices are for the 12 months ending June or March as indicated. Includes single-family homes, townhomes, and condominiums, except the Philadelphia metropolitan area which excludes condominiums.

Sources: CoreLogic, Inc., with adjustments by the analyst; Maryland Association of Realtors®; Bright MLS, Inc. (monthly reports); TREND MLS; Virginia Association of Realtors®

Apartment Market Conditions

Apartment market conditions in major metropolitan areas in the Mid-Atlantic region ranged from balanced to slightly soft during the second quarter of 2018. Conditions in the Philadelphia and Richmond metropolitan areas and the Maryland suburbs of the Washington, D.C. metropolitan area were slightly tight a year ago but transitioned into balance during the second quarter of 2018, in part, because of fewer apartment units completed in each area from a year ago. The apartment market in the Baltimore metropolitan area softened from slightly tight a year ago to slightly soft during the second quarter of 2018 because of overbuilding in the city of Baltimore. The overall vacancy rate for Class A units, including units in lease-up, was 10.6 percent in the Baltimore metropolitan area and 12.0 percent in the city of Baltimore during

the second quarter of 2018 (Delta Associates). Conditions in other major metropolitan areas in the region remained balanced compared with a year ago. In the District of Columbia, the vacancy rate rose 1.1 percentage points, to 7.0 percent, because of a high level of apartment construction activity from 2015 through 2017. The average rent increased 5 percent, however, because of private-sector job growth and strong demand for apartments in rapidly-developing neighborhoods of Capitol Riverfront and NoMa. The vacancy rate in the Virginia suburbs of the Washington, D.C. area increased 0.9 percentage point because the number of apartment units completed during the second quarter of 2018—including the 402-unit Rivergate North in Prince William County and the 385-unit VY/Reston Heights in Fairfax County—was nearly

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Apartment vacancy rates and average rents increased in most major metropolitan areas in the Mid-Atlantic region during the second quarter of 2018.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 (\$)	2Q 2018 (\$)	Percent Change
Baltimore ^a	Slightly soft	7.6%	10.6%	3.0	\$1,702	\$1,704	0%
Norfolk/Hampton Roads ^b	Balanced	4.9%	4.6%	-0.3	\$1,027	\$1,053	3%
Philadelphia ^b	Balanced	3.7%	4.3%	0.6	\$1,265	\$1,317	4%
Richmond ^b	Balanced	3.7%	4.0%	0.3	\$944	\$987	5%
Washington, D.C.—Maryland suburbs ^b	Balanced	3.7%	4.4%	0.7	\$1,521	\$1,568	3%
Washington, D.C.—Virginia suburbs ^b	Balanced	4.7%	5.6%	0.9	\$1,778	\$1,832	3%
Washington, D.C.—District of Columbia ^b	Balanced	5.9%	7.0%	1.1	\$1,760	\$1,854	5%

2Q = second quarter.

Note: Based on preliminary data.

Sources: Market Condition: Economic and Market Analysis Division; Vacancy Rate and Average Monthly Rent: (a) Delta Associates (b) Reis, Inc.

double the number of units completed a year earlier (Reis, Inc.). The slowdown in job growth in both Maryland and the District of Columbia factored into the increase in the vacancy rate in the Maryland suburbs of the Washington, D.C. area. The vacancy rate in the Philadelphia metropolitan area was above 4.0 percent for only the second time since the first quarter of 2016. Apartment market conditions in the Richmond and Norfolk/Hampton Roads areas are balanced; the changes in vacancy rates in these metropolitan areas were smaller relative to other metropolitan areas in the region because of a general slowdown in apartment construction activity in both areas since 2014. Average rents increased in most major metropolitan areas in the region.

Building activity, as measured by the number of multifamily units permitted, totaled 5,450 units in the Mid-Atlantic region during the second quarter of 2018, a decrease of 660 units, or 11 percent, from a year ago. The decline followed an average-annual decrease of 1,575 units, or 19 percent, during corresponding periods in 2016 and 2017. A tightening of commercial lending standards for multifamily residential properties since 2016 contributed to the decline.

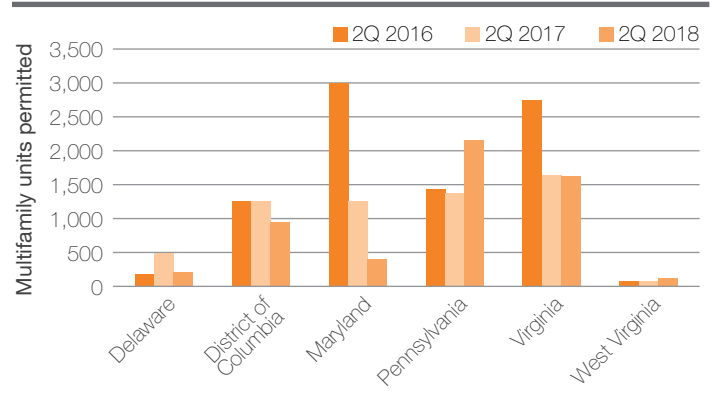
During the second quarter of 2018 (preliminary data)—

- The greatest decline in building activity was in Maryland, where the 410 units permitted was down 68 percent from a year ago.
- Construction activity also decreased in Delaware and the District of Columbia. The 950 units permitted in the District of Columbia was a 24-percent decline from a year ago, and the 210 units permitted in Delaware was down 58 percent compared with the second quarter of 2017.
- The number of units permitted in Virginia was relatively unchanged compared with a year ago, at 1,625. Units

permitted during the quarter include Allure at Jefferson, with 232 units in Spotsylvania County expected to be complete in late 2018, and the first phase of Price Street Apartments, with 152 units in Virginia Beach City expected to be completed in early 2019.

- Approximately 2,150 units were permitted in Pennsylvania, a 56-percent increase from a year ago. Units permitted in the Philadelphia suburbs include Keva Flats, with 241 units in Chester County expected to be completed in late 2018, and Madison Lansdale Station, with 181 units in Montgomery County expected to be completed in mid-2019.

Multifamily construction activity declined in most states in the Mid-Atlantic region during the second quarter of 2018.



2Q = second quarter.

Note: Based on preliminary data.

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

