

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



Harrisburg, Pennsylvania

By Joseph Shinn | 3rd quarter 2017

Quick Facts About Region 3

- **Sales market conditions—**
Third quarter 2017: mixed (balanced to tight).
Second quarter 2017: mixed (balanced to tight).
Third quarter 2016: mixed (slightly soft to tight).
- **Apartment market conditions—**
Third quarter 2017: mixed (balanced to slightly tight).
Second quarter 2017: mixed (balanced to slightly tight).
Third quarter 2016: mixed (balanced to slightly tight).

Overview

The economy of the Mid-Atlantic region continued to grow during the third quarter of 2017, and year-over-year job gains were the strongest since the third quarter of 2005. More than 50,000 jobs each were added in the education and health services, the professional and business services, and the leisure and hospitality sectors. The regional unemployment rate was down for the seventh consecutive year, but rates increased in Delaware and the District of Columbia because of strong gains in the labor force. In response to steady job growth, home sales and average prices were up in the District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia. Home sales, however, were down in Delaware, resulting in the average sales price remaining relatively unchanged. Apartment market conditions in the major metropolitan areas in the Mid-Atlantic region ranged from balanced to slightly tight. Conditions were unchanged in most major metropolitan areas from a year ago, but the apartment market in the District of Columbia transitioned from slightly tight to balanced because of a large number of additions to the supply.

During the third quarter of 2017—

- Nonfarm payrolls in the region increased 1.5 percent, to 14.72 million jobs, from the third quarter of 2016. Year-over-year, nonfarm payrolls increased in every state and the District of Columbia for the first time since 2013.
- Single-family construction in the region was up 10 percent from a year ago, and homebuilding activity increased throughout the region. Multifamily construction activity was down 10 percent in the region, with declines in the District of Columbia, Pennsylvania, Virginia, and West Virginia more than offsetting increases in Delaware and Maryland.



Nonfarm payrolls increased in the Mid-Atlantic region during the third quarter of 2017, led by the education and health services and the professional and business services sectors.

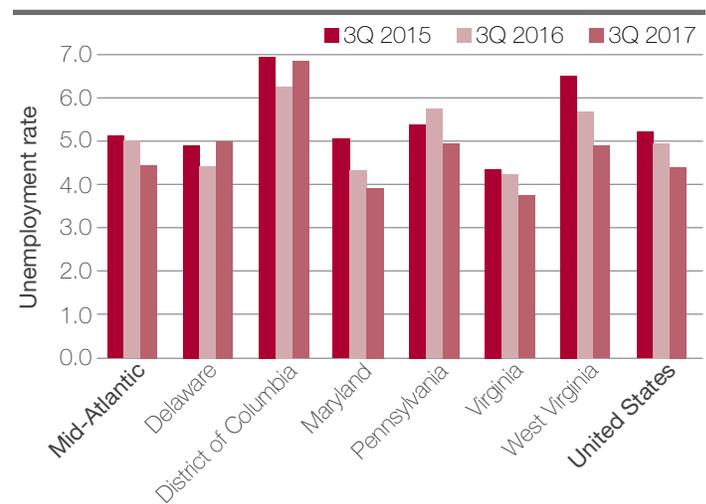
	Third Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	14,506.2	14,718.6	212.4	1.5
Goods-producing sectors	1,698.5	1,716.2	17.7	1.0
Mining, logging, and construction	727.6	750.4	22.8	3.1
Manufacturing	970.8	965.8	- 5.0	- 0.5
Service-providing sectors	12,807.7	13,002.4	194.7	1.5
Wholesale and retail trade	1,963.6	1,952.9	- 10.7	- 0.5
Transportation and utilities	533.5	544.4	10.9	2.0
Information	223.5	215.4	- 8.1	- 3.6
Financial activities	777.0	782.6	5.6	0.7
Professional and business services	2,259.5	2,327.6	68.1	3.0
Education and health services	2,521.2	2,590.2	69.0	2.7
Leisure and hospitality	1,492.7	1,544.4	51.7	3.5
Other services	722.0	726.5	4.5	0.6
Government	2,314.9	2,318.6	3.7	0.2

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

Economic Conditions

The economy of the Mid-Atlantic region continued to expand during the third quarter of 2017, and job growth accelerated. During the third quarter of 2017, nonfarm payrolls in the region averaged 14.72 million jobs, up by 212,400 jobs, or 1.5 percent, from the third quarter of 2016. By comparison, during the third quarter of 2016, nonfarm payrolls increased by 132,200 jobs, or 0.9 percent, from the same period a year earlier. During the past year, gains were strongest in the education and health services, the professional and business services, and the leisure and hospitality sectors, which increased by 69,000, 68,100, and 51,700 jobs, or 2.7, 3.0, and 3.5 percent, respectively. Growth accelerated in all three sectors compared with the same period a year earlier, when payrolls were up 2.4, 1.8, and 1.8 percent, respectively. Nonfarm payrolls in the mining, logging, and construction sector increased by 22,800 jobs, or 3.1 percent, during the past year compared with a decline 11,500 jobs, or 1.6 percent from the third quarter of 2015 to the third quarter of 2016. This turnaround is most notable in West Virginia, where payrolls in the sector increased by 4,000 jobs, or 7.9 percent, compared with a decline of 8,600 jobs, or 14.5 percent, during the same period a year ago. Losses in the retail trade subsector and information sector, which declined by 11,300 and 8,100 jobs, or 0.8 and 3.6 percent, respectively, partially offset recent gains in the region. In the retail trade subsector, the losses are partially attributed to increased competition from online retailers, many of which are

The average unemployment rate in the Mid-Atlantic region declined during the third quarter of 2017, although rates were up in Delaware and the District of Columbia.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

outside the region. The average unemployment rate for the region was 4.5 percent during the third quarter of 2017, down from 5.0 percent during the third quarter of 2016 and an average rate of 7.7 percent during corresponding periods from 2009 through 2011. The unemployment rates were down in Maryland, Pennsylvania, Virginia, and West Virginia; the largest decline was in West Virginia, where the unemployment rate decreased by 0.8 percentage points. In Delaware and the District of Columbia, the unemployment rates increased, but these increases were because of strong gains to the labor force in response to continued job growth.

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During the third quarter of 2017—

- In Pennsylvania, nonfarm payrolls increased by 79,300 jobs, or 1.3 percent, accounting for approximately 37 percent of all nonfarm payroll growth in the region. Nearly two-thirds of the net job growth was in the education and health services and the leisure and hospitality sectors, which increased by 27,400 and 25,200 jobs, or 2.3 and 4.3 percent, respectively, including Thomas Jefferson University and Thomas Jefferson University Hospitals expanding by approximately 4,000 jobs from 2016 to 2017 (*Philadelphia Business Journal*).
- Nonfarm payrolls increased at the fastest pace in Maryland, up 2.3 percent, or by 62,300 jobs, compared with a year ago. Construction recently began on the new \$5.6 billion Purple Line in Prince George's County, which is expected to initially open in 2022 and, once completed, will create 52,000 direct and indirect jobs (Maryland Department of Transportation).
- In Virginia and the District of Columbia, nonfarm payrolls increased by 52,700 and 11,900 jobs, or 1.3 and 1.5 percent,

respectively. Payroll growth accelerated in both areas compared with a year ago, when nonfarm payrolls were up 1.2 and 1.3 percent, respectively, from the third quarter of 2015 to the third quarter of 2016.

- In West Virginia, nonfarm payrolls increased by 3,400 jobs, or 0.5 percent, compared with average payroll declines of 0.9 percent annually in corresponding periods during the previous 3 years. Hino Motors Manufacturing U.S.A. is expected to add approximately 250 jobs during the next 3 years as a result of the company expanding its manufacturing and assembly operations in Wood County.
- Payrolls in Delaware increased by 2,900 jobs, or 0.6 percent, compared with payroll growth of 4,300, or 1.0 percent, in corresponding periods from 2015 to 2016. The slowdown was due, in part, to declines in the transportation and utilities, wholesale and retail trade, and professional and business services sectors, which were down by 1,000, 600, and 600 jobs, or 6.2, 0.9, and 1.0 percent, respectively.

Sales Market Conditions

Sales housing market conditions in the major metropolitan areas in the Mid-Atlantic region ranged from balanced to tight during the third quarter of 2017. Conditions were balanced in the Philadelphia metropolitan area and tight in the Baltimore, Richmond, and Washington, D.C. metropolitan areas. In the Baltimore metropolitan area, conditions tightened during the past year because of strong home sales and decreased levels of homes available for sale. During the 12 months ending September 2017, the area had 3.2 months of available inventory, down from 3.9 months of inventory during the previous 12-month period (Metropolitan Regional Information Systems, Inc. [MRIS]). Home sales activity in all major metropolitan areas continued to increase at strong paces during the past year, ranging from a 3-percent increase in the Washington, D.C. metropolitan area to a 9-percent increase in the Richmond metropolitan area (MRIS). The increase in sales also resulted in average sales prices increasing at faster paces compared with a year ago. Average sales prices in the Richmond and Baltimore areas increased 5 and 4 percent, respectively, during the past year, compared with 3-percent increases for each area during the previous 12-month period (MRIS). In the Philadelphia and Washington, D.C. areas, average sales prices increased 3 percent each compared with relatively unchanged prices during the previous year (TREND MLS; MRIS). Similar to a year ago, home sales increased in the District of Columbia, Maryland, Pennsylvania, and Virginia; increases ranged from 3 to 5 percent. Improving economic conditions in West Virginia resulted in a 1-percent increase in home sales compared with a

4-percent decline during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). In Delaware, home sales were down 6 percent compared with a 9-percent increase a year ago, partially because of slower job growth. Average sales prices were up between 2 and 4 percent in all states and the District of Columbia, except Delaware, where decreased sales activity resulted in little change to the average sales price.

In August 2017, 2.6 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 status, down from 3.1 percent in August 2016 (CoreLogic, Inc.). The rate was higher than the national rate of 2.2, but rates were down in every state and the District of Columbia during the past year, including Maryland, where the rate declined from 3.8 percent to 3.1 percent, which was the largest decrease in the region.

During the third quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased by 1,175 homes, or 10 percent, in the Mid-Atlantic region from a year earlier to 12,600 homes permitted. The rate of increase is up compared with a 4-percent increase during the same period a year earlier, and the current level is the highest third-quarter level since the third quarter of 2007, when 16,900 homes were permitted.
- Single-family construction activity in Virginia increased by 310 homes, or 6 percent, to 5,175 homes permitted, which is the

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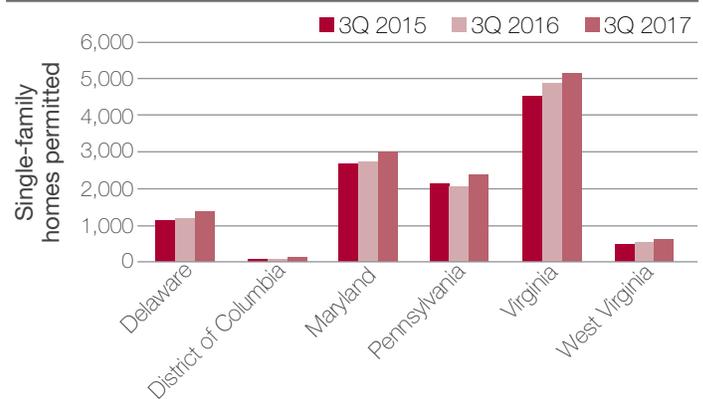


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largest increase and greatest number of homes permitted in the region. More than three-fourths of the statewide gain was in the Richmond metropolitan area, which is attributed to strong net in-migration; permitting activity was up by 240 homes, or 20 percent, from the same period a year earlier.

- In the District of Columbia and Pennsylvania, building activity increased 56 and 14 percent, or by 40 and 290 homes, to 110 and 2,350 homes permitted, respectively. By comparison, during the third quarter of 2016, homebuilding activity was relatively unchanged in the District of Columbia and down 4 percent in Pennsylvania.
- Construction activity in Maryland, Delaware, and West Virginia totaled 3,000, 1,375, and 610 homes permitted, up 9, 14, and 20 percent, respectively, from a year ago. In Maryland, tightening sales market conditions in the Baltimore metropolitan area resulted in single-family homebuilding increasing by 100 homes, or 9 percent, from a year ago.

Single-family construction activity in the Mid-Atlantic region increased in every state and the District of Columbia compared with a year ago.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

Home sales and average sales prices increased throughout the Mid-Atlantic region, except in Delaware.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 (\$)	2017 (\$)	Percent Change
Delaware (N&E)	June	15,450	14,600	-6	AVG	264,500	265,200	0
District of Columbia (E)	September	8,350	8,600	3	AVG	500,800	511,200	2
Maryland (E)	September	78,750	82,350	5	AVG	311,200	323,500	4
Pennsylvania (N&E)	June	189,800	197,000	4	AVG	188,000	191,900	2
Virginia (E)	September	113,400	119,600	5	AVG	324,600	337,000	4
West Virginia (N&E)	June	8,600	8,675	1	AVG	144,400	149,600	4
Baltimore metropolitan area (E)	September	37,350	39,050	5	AVG	285,700	298,000	4
Philadelphia metropolitan area (E)	September	65,800	71,100	8	AVG	262,700	270,900	3
Richmond metropolitan area (E)	September	16,900	18,500	9	AVG	257,200	271,200	5
Washington, D.C. metropolitan area (E)	September	81,400	83,700	3	AVG	447,100	460,500	3
West Virginia Eastern Panhandle (E)	September	3,450	3,825	11	AVG	169,400	179,800	6

AVG = average. E = existing. N&E = new and existing.
 Notes: All figures are rounded. Average prices are for the 12 months ending September or June as indicated. Data include 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®; Metropolitan Regional Information Systems, Inc.; TREND MLS; Virginia Association of Realtors®

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Mid-Atlantic region ranged from balanced to slightly tight during the third quarter of 2017, unchanged compared with the range of conditions during the third quarter of 2016. Conditions in the District of Columbia, however, transitioned from slightly tight to balanced during the past year. During this period, the vacancy rate increased from 5.1 to 5.9 percent, including an increase in the vacancy rate for Class A units from 6.7 to 8.0 percent, which is attributed to

a large number of additions to the supply (Reis, Inc.). During the 12 months ending September 2017, approximately 3,675 new apartment units were absorbed in the District of Columbia, up 47 percent from the 2,500 units absorbed during the previous 12-month period (Delta Associates). Despite the increased vacancy rate, however, the average rent increased 4 percent during the past year to \$1,792, which was among the fastest rates of growth of all major metropolitan areas in the region. Conditions in the Maryland and Virginia suburbs of Washington, D.C. were slightly tight and

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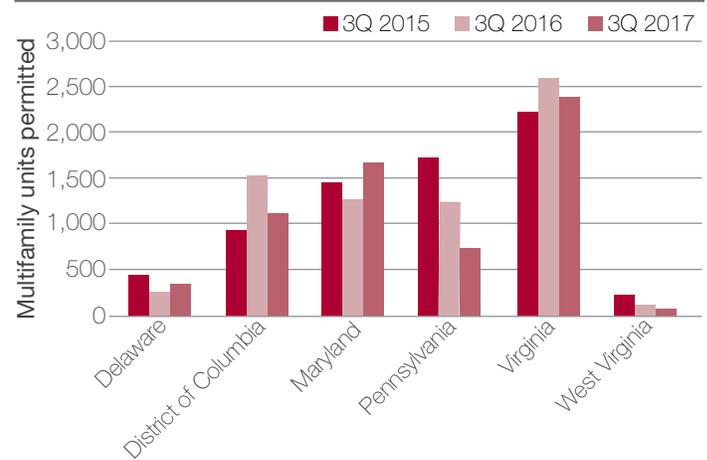
balanced, respectively, unchanged from a year ago. The vacancy rates in the Maryland and Virginia suburbs were 3.6 and 4.9 percent, respectively, and rents increased 2 and 3 percent from a year ago, respectively (Reis, Inc.). Conditions were also unchanged in the Baltimore, Philadelphia, and Richmond metropolitan areas; conditions in all three areas were slightly tight. In the Philadelphia and Richmond metropolitan areas, vacancy rates slightly increased 0.2 percentage points each to 3.8 and 3.7 percent, respectively, and the average rent increased 4 and 2 percent to \$1,284 and \$933, respectively. The vacancy rate in the Baltimore metropolitan area decreased from 3.8 to 3.4 percent, which is attributed to a slowdown in apartment construction activity, and the average rent increased 2 percent from a year ago. In the Pittsburgh metropolitan area, conditions remained balanced with a 5.3-percent vacancy rate and a 4-percent increase in the average apartment rent.

Multifamily building activity, as measured by the number of multifamily units permitted, totaled approximately 6,325 units in the region, down 10 percent compared with the number of units permitted during the third quarter of 2016 (preliminary data). Declines were especially notable in the major metropolitan areas in the region, including the Washington, D.C., Virginia Beach, and Philadelphia metropolitan areas, where permitting activity was down by 380, 340, and 320 units permitted, or 11, 46, and 27 percent, respectively.

During the third quarter of 2017 (preliminary data)—

- In Pennsylvania, multifamily permitting activity declined by 490 units, or 40 percent, to 740 units permitted, and the current level of building activity is down 66 percent compared with the 2,175 units permitted during the third quarter of 2014, which was a 10-year peak. During the third quarter of 2017, units permitted include 279 units in the first phase of the Hamilton Court apartment community in the city of Philadelphia, which is expected to be complete in summer 2018.
- Construction activity in the District of Columbia decreased by 430 units, or 28 percent, to 1,100 units permitted, which is

Multifamily building activity in the Mid-Atlantic region was down during the third quarter of 2017, although activity was up in Delaware and Maryland.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

partially attributed to rising apartment vacancy rates. By comparison, during the third quarter of 2016, permitting activity was up 66 percent compared with the same period a year earlier.

- In Virginia and West Virginia, building activity totaled 2,400 and 60 units permitted, down by 210 and 55 units, or 8 and 49 percent, respectively, from a year ago. In Virginia, 169 units were permitted for the first phase of Orchard Ridge at Jackson Village, which will be immediately outside the city of Fredericksburg, in Spotsylvania County, and is expected to be complete in late 2018.
- Building activity in Maryland and Delaware increased by 410 and 95 units, or 32 and 35 percent, to 1,675 and 360 units permitted, respectively. In Maryland, the 384-unit Allure Apollo was permitted, which will be in the Camp Springs area of Prince George’s County, and is expected to be complete by mid-2019.

Average apartment rents were up in all major market areas in the Mid-Atlantic region during the third quarter 2017.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2016 (%)	3Q 2017 (%)	Percentage Point Change	3Q 2016 (\$)	3Q 2017 (\$)	Percent Change
Baltimore	Slightly tight	3.8	3.4	-0.4	1,191	1,215	2
Pittsburgh	Balanced	5.4	5.3	-0.1	1,015	1,055	4
Philadelphia	Slightly tight	3.6	3.8	0.2	1,234	1,284	4
Richmond	Slightly tight	3.5	3.7	0.2	917	933	2
Washington, D.C.—Maryland suburbs	Slightly tight	4.1	3.6	-0.5	1,495	1,527	2
Washington, D.C.—Virginia suburbs	Balanced	4.8	4.9	0.1	1,741	1,801	3
Washington, D.C.—District of Columbia	Balanced	5.1	5.9	0.8	1,719	1,792	4

3Q = third quarter.
 Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Reis, Inc.

