

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



Quick Facts About Region 3

Georgetown, Washington, D.C.

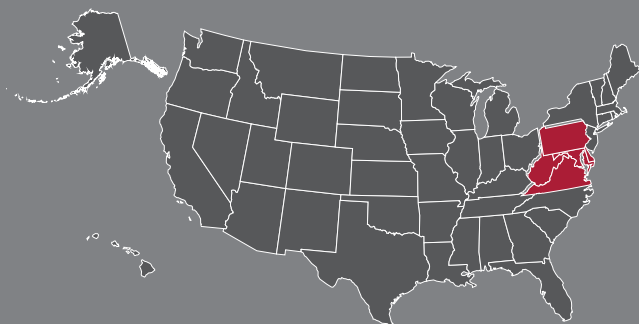
By Benjamin Houck | 3rd quarter 2018

Sales market conditions—

Third quarter 2018: mixed (slightly tight to tight).
Second quarter 2018: mixed (balanced to tight).
Third quarter 2017: mixed (balanced to tight).

Apartment market conditions—

Third quarter 2018: mixed (balanced to slightly tight).
Second quarter 2018: mixed (balanced to slightly soft).
Third quarter 2017: mixed (balanced to slightly tight).



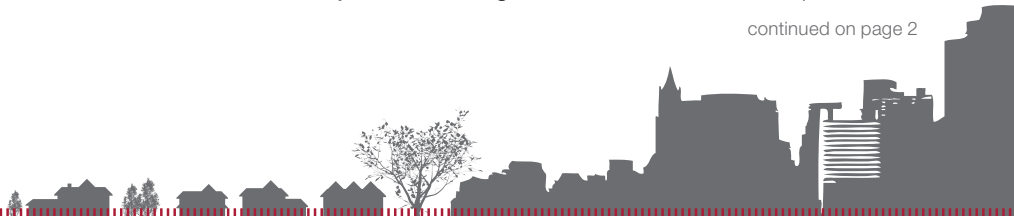
Overview

The economy of the Mid-Atlantic region increased 1.4 percent year-over-year during the third quarter of 2018. The expansion in the region accelerated from 0.9 percent a year ago primarily because of stronger growth in the education and health services and the professional and business services sectors. Unemployment rates declined in most states and the District of Columbia from a year earlier. Sales housing market conditions in major metropolitan areas in the region ranged from slightly tight to tight. Home sales increased throughout most of the region, but the gains were slower than a year earlier, in part because of the recent rise in mortgage interest rates. Average home sales prices increased throughout the region. Apartment markets in the Mid-Atlantic region ranged from balanced to slightly tight during the third quarter of 2018. Apartment vacancy rates and average rents increased in all the major market areas. Single-family construction activity in the region fell from a year ago, whereas multifamily construction activity increased.

During the third quarter of 2018—

- Nonfarm payrolls increased by 210,800 jobs from the third quarter of 2017 to 14.84 million jobs. Payrolls increased in every state in the region for the fifth consecutive quarter.

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- Single-family homebuilding activity contracted 6 percent in the region because declines in three states and the District of Columbia more than offset gains in two states.
- Multifamily construction activity increased 8 percent regionwide. Increases in four states more than offset declines elsewhere in the region, including a significant decline in the District of Columbia.

Economic Conditions

The economy of the Mid-Atlantic region expanded during the third quarter of 2018 with an increase of 210,800 jobs, or 1.4 percent, from the third quarter of 2017, continuing a period of growth that began during the second quarter of 2010. Although job growth in the region was the slowest of all the HUD-defined regions in the nation, the rate was up from 0.9 percent a year ago. The education and health services sector is the largest sector in the region and accounted for 31 percent of the overall growth during the third quarter of 2018. The increase of 64,700 jobs, or 2.5 percent, in the sector was more than the gain of 43,100 jobs, or 1.7 percent, during the third quarter of 2017. The professional and business services sector increased by 61,500 jobs, or 2.7 percent, more than doubling the gain of 25,900 jobs, or 1.1 percent, during the third quarter of 2017. In July 2018, employees of Comcast Corporation, who are primarily enumerated in the professional and business services sector, began moving into the Comcast Innovation and Technology Center, a \$1.5 billion office and hotel building under construction in the city of Philadelphia, PA. Approximately 4,000 employees are expected to work in the building by the end of construction in early 2019. The largest percentage gain in the region during the third quarter of 2018

was a 4.2-percent increase, or 22,800 jobs, in the transportation and utilities sector. The \$825 million PSEG Keys Energy Center, a natural gas-fired power plant in Prince George’s County, MD, was completed in July 2018, adding 30 jobs in the sector. Guinness Brewing Company opened a production facility in Baltimore County, MD in August 2018, adding 70 jobs in the manufacturing sector. The 15,500 jobs, or 1.6 percent, added in the manufacturing sector regionwide more than tripled the increase of 5,100 jobs, or 0.5 percent, a year earlier. Growth in the financial activities sector slowed, however, from a gain of 13,500 jobs, or 1.7 percent, during the third quarter of 2017, to 1,500 jobs, or 0.2 percent, during the third quarter of 2018. The recent rise in mortgage interest rates reduced the demand for lending services, contributing to the slower growth in the sector. The unemployment rate in the region averaged 4.0 percent during the third quarter of 2018, down from 4.5 percent a year ago, and was slightly above the national average of 3.9 percent. Unemployment rates declined in the District of Columbia and in most states in the region but rose slightly in Maryland. The lowest unemployment rate in the region was in Virginia, at 2.9 percent.

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Nonfarm payrolls increased in the Mid-Atlantic region during the third quarter of 2018, with gains in 8 of 11 sectors.

	Third Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	14,624.6	14,835.4	210.8	1.4
Goods-producing sectors	1,735.6	1,771.9	36.3	2.1
Mining, logging, and construction	755.8	776.6	20.8	2.8
Manufacturing	979.8	995.3	15.5	1.6
Service-providing sectors	12,889.0	13,063.5	174.5	1.4
Wholesale and retail trade	1,943.2	1,941.3	- 1.9	- 0.1
Transportation and utilities	548.2	571.0	22.8	4.2
Information	219.7	216.6	- 3.1	- 1.4
Financial activities	785.5	787.0	1.5	0.2
Professional and business services	2,285.1	2,346.6	61.5	2.7
Education and health services	2,549.1	2,613.8	64.7	2.5
Leisure and hospitality	1,513.0	1,549.8	36.8	2.4
Other services	729.8	738.1	8.3	1.1
Government	2,315.6	2,299.4	- 16.2	- 0.7

Source: U.S. Bureau of Labor Statistics



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During the third quarter of 2018—

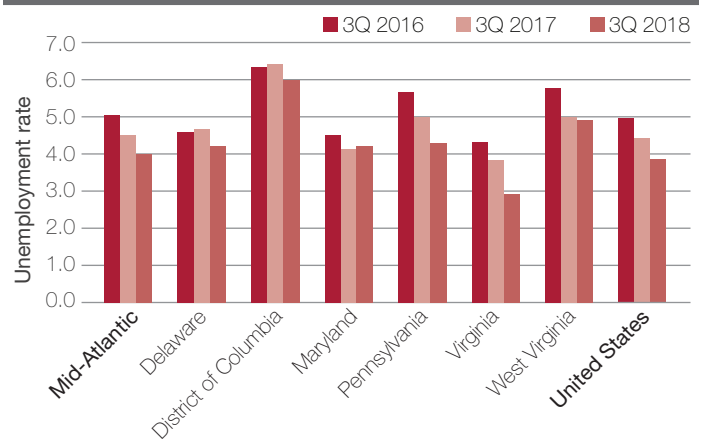
- Nonfarm payrolls increased 1.7 percent from a year earlier in both Virginia and Delaware, or by 65,800 and 7,900 jobs, respectively. The professional and business services sector led job growth in each state.
- Nonfarm payrolls increased 1.5 percent, or by 90,500 jobs, in Pennsylvania. The education and health services sector accounted for more than 41 percent of the total gain.
- Nonfarm payrolls increased 1.1 percent, or by 8,300 jobs, in the District of Columbia. More than 37 percent of the overall increase was in the leisure and hospitality sector, including 300 jobs at the \$65 million Entertainment and Sports Arena, which was completed in September 2018.
- Nonfarm payrolls also increased 1.1 percent in both Maryland and West Virginia, or by 30,000 and 8,300 jobs, respectively.

Sales Market Conditions

Sales housing market conditions in major metropolitan areas in the Mid-Atlantic region ranged from slightly tight to tight during the third quarter of 2018. Sales housing markets were tight in the Baltimore, Richmond, and Washington, DC metropolitan areas and slightly tight in the Philadelphia metropolitan area. A decline in the number of homes on the market throughout much of the region, combined with rising mortgage interest rates, resulted in existing homes sales slowing or declining in several metropolitan areas compared with the previous 12-month period. Home sales increased 4 and 2 percent, respectively, in the Richmond and Philadelphia metropolitan areas, down from increases of 9 percent each during the previous 12-month period. Existing home sales fell 1 percent in both the Baltimore and Washington, DC metropolitan areas, compared with 5-percent increases in both areas during the previous 12-month period. In the Washington, DC metropolitan area, home sales declined for the first time since mid-2014 when the area was beset by a slowdown in job growth and declines in federal government spending. In the eight-county West Virginia Eastern Panhandle, sales of existing homes increased 2 percent during the 12 months ending September 2018, compared with a 10-percent increase during the 12 months ending September 2017. Increases in average sales prices ranged from 3 percent in the Baltimore, Philadelphia, and Washington, DC metropolitan areas to 5 percent in the West Virginia Eastern Panhandle. By comparison, gains in average sales prices ranged from 3 to 6 percent during the 12 months ending September 2017.

Single-family construction activity, as measured by the number of single-family homes permitted, decreased 6 percent in the Mid-Atlantic region from a year ago, to 11,600 homes. The decline compared with an 8-percent increase during the third quarter of 2017. The decrease also coincided with a superregional trend extending through the North Atlantic coastal states—the number of single-family homes permitted declined 11 percent in the HUD-

Unemployment rates in the Mid-Atlantic region were above the national rate during the third quarter of 2018 except in Virginia.



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

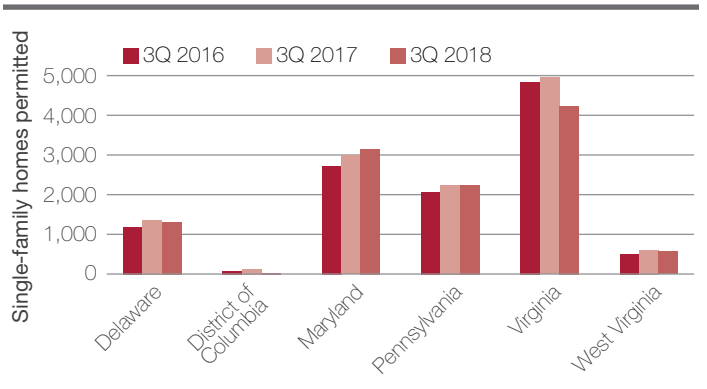
defined New England region and was down 13 percent in the New York/New Jersey region. Strong gains in the Southeast/Caribbean and Southwest regions led single-family homebuilding activity nationally, which increased 5 percent.

During the third quarter of 2018 (preliminary data)—

- In Virginia, homebuilding activity declined year-over-year for the second consecutive quarter and was down 14 percent, or by 710 homes, from the third quarter of 2017. Decreases were strongest in several outlying counties of the Washington, DC metropolitan area, including Loudoun and Prince William Counties, where the number of single-family homes permitted were down 25 and 34 percent, respectively.

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The number of single-family homes permitted in the Mid-Atlantic region declined 6 percent, with decreases in 3 states and the District of Columbia.



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



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- In Delaware and West Virginia, homebuilding activity declined by 40 homes each, or 3 and 7 percent, respectively, from a year earlier.
- In Pennsylvania, single-family construction activity was unchanged from a year earlier, at approximately 2,250 homes permitted.
- In Maryland, homebuilding activity increased 6 percent, or by 170 homes. The 3,150 homes permitted in Maryland was the greatest third-quarter total for the state since 2007.

Home sales and average sales prices increased in all states in the Mid-Atlantic region, with the exception of Maryland, where sales declined.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 (\$)	2018 (\$)	Percent Change
Delaware (N&E)	June	15,750	16,900	7	AVG	269,500	281,200	4
District of Columbia (E)	September	8,600	8,950	4	AVG	677,300	690,400	2
Maryland (E)	September	82,450	81,550	- 1	AVG	323,300	334,800	4
Pennsylvania (N&E)	June	201,200	206,900	3	AVG	191,800	197,700	3
Virginia (E)	August	121,200	122,900	1	AVG	337,600	347,200	3
West Virginia (N&E)	June	8,975	9,625	7	AVG	148,400	150,500	1
Baltimore metropolitan area (E)	September	40,000	39,500	- 1	AVG	299,600	307,300	3
Philadelphia metropolitan area (E)	September	71,450	72,700	2	AVG	221,800	228,900	3
Richmond metropolitan area (E)	September	18,500	19,200	4	AVG	271,200	280,900	4
Washington, D.C. metropolitan area (E)	September	85,350	84,650	- 1	AVG	462,200	\$478,100	3
West Virginia Eastern Panhandle (E)	September	3,825	3,900	2	AVG	191,700	\$201,600	5

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

Notes: All figures are rounded. Average prices are for the 12 months ending with the month 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 markets in the Mid-Atlantic region were mixed during the third quarter of 2018. Apartment market conditions in major metropolitan areas in the region, which include the Baltimore, Philadelphia, and Washington, DC metropolitan areas, were balanced during the third quarter of 2018. Conditions in the Baltimore and Philadelphia metropolitan areas and the Maryland suburbs of the Washington, DC metropolitan area were slightly tight a year ago but transitioned into balance during the third quarter of 2018. Conditions in the Virginia suburbs of the Washington, DC metropolitan area and the District of Columbia remained balanced compared with a year ago. Apartment markets in a few of the smaller metropolitan areas, including Charlottesville, VA, were slightly tight.

Apartment vacancy rates increased year-over-year for the third consecutive quarter in each of the major metropolitan areas in the region, contributing to slower rent growth in some areas. In the District of Columbia, the vacancy rate rose 1 percentage point, to 7.0 percent, because of a high level of apartment construction activity from 2015 through 2017. The average rent in the District

of Columbia increased 4 percent, although the increase was down from year-over-year gains that ranged from 5 to 7 percent during the past four quarters. Vacancy rates increased by slightly less than 1 percentage point in the Maryland and Virginia suburbs of the Washington, DC metropolitan area, although the 3-percent increases in the average rent in each area were similar to the rates of increase a year ago. In the Baltimore and Philadelphia metropolitan areas, apartment vacancy rates were 4.4 and 4.2 percent with increases of 3 and 4 percent, respectively, in average rents from a year ago. Strong levels of apartment development activity in the central portions of the cities in each of these areas contributed to the rise in vacancy rates and slower rent growth. In the RealPage, Inc.-defined Downtown Baltimore market area, the apartment vacancy rate increased from 5.2 to 5.9 percent, and the average asking rent decreased 3 percent from the third quarter of 2017 through the third quarter of 2018. In the Center City Philadelphia market area, the apartment vacancy rate increased from 4.9 to 5.2 percent, and the asking rent was unchanged, during the same period. As a result, growth in average rents was approximately one-half of a percentage point less than the

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Apartment markets in the Mid-Atlantic region ranged from balanced to slightly tight during the third quarter of 2018.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2017 (%)	3Q 2018 (%)	Percentage Point Change	3Q 2017 (\$)	3Q 2018 (\$)	Percent Change
Baltimore	Balanced	3.7	4.4	0.7	1,229	1,261	3
Charlottesville	Slightly tight	1.2	3.7	2.5	1,177	1,274	8
Philadelphia	Balanced	3.8	4.2	0.4	1,291	1,341	4
Washington, D.C.-Maryland suburbs	Balanced	3.5	4.3	0.8	1,528	1,577	3
Washington, D.C.-Virginia suburbs	Balanced	4.8	5.5	0.7	1,803	1,859	3
Washington, D.C.-District of Columbia	Balanced	6.0	7.0	1.0	1,814	1,888	4
Wilmington	Balanced	3.6	4.1	0.5	1,069	1,100	3

3Q = third quarter.

Sources: market condition: Economic and Market Analysis Division; vacancy rate and average monthly rent—Reis, Inc.

rates of growth a year ago in both the Baltimore and Philadelphia metropolitan areas (Reis, Inc.).

Despite the moderation in rent growth and rise in vacancy rates, additional units were added to the apartment pipeline in the Philadelphia and Washington, DC metropolitan areas in the past year. As of the third quarter of 2018, 70,350 apartment units were in planning in the Washington, DC metropolitan area, the second largest pipeline of any metropolitan area in the United States and up 7 percent from the third quarter of 2017 (McGraw-Hill Construction Pipeline database). During the same period, apartment units in planning increased 10 percent, to 18,650 units, in the Philadelphia metropolitan area and decreased 9 percent, to 15,750 units, in the Baltimore metropolitan area.

Multifamily construction activity, as measured by the number of multifamily units permitted, increased 8 percent in the Mid-Atlantic region from the third quarter of 2017, to 7,775 units permitted. By comparison, multifamily building activity rose 2 percent during the third quarter of 2017 compared with the third quarter of 2016. Nationally, multifamily construction activity decreased 7 percent, led by strong declines in the HUD-defined Northwest and Pacific regions.

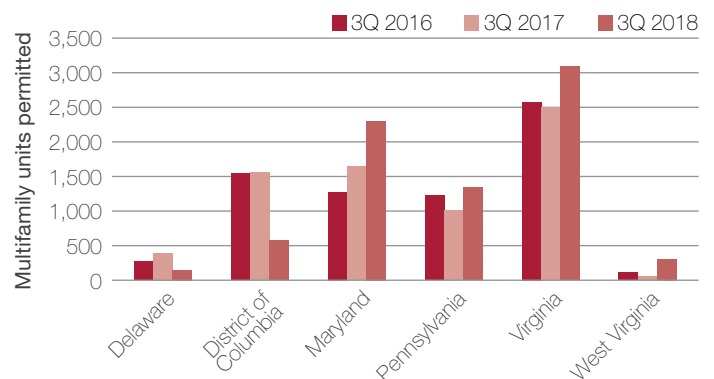
During the third quarter of 2018 (preliminary data)—

- In Maryland and Virginia, the number of units permitted increased by 660 and 590, or 40 and 24 percent, respectively, from a year earlier. Units permitted in September 2018 include Magnolia Green, with 248 apartment units in Chesterfield County, VA, expected to be completed in late 2019.
- In Pennsylvania, multifamily construction activity increased by 320 units, or 31 percent, from the third quarter of 2017.

Units permitted in July 2018 include Hanover Village, with 390 apartment units in Montgomery County expected to be completed in early 2020.

- In Delaware and the District of Columbia, multifamily construction activity declined 64 percent each, or by 240 and 990 units, respectively. The 570 multifamily units permitted in the District of Columbia was the lowest third-quarter total since 2010.
- In West Virginia, 310 multifamily units were permitted, up from 40 units permitted a year earlier, and included Black Bear Village, with 250 apartment units in Monongalia County expected to be completed in July 2019.

The number of multifamily units permitted increased 8 percent in the Mid-Atlantic region during the third quarter of 2018, with increases in four states.



3Q = third quarter.

Note: Based on preliminary data.

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

