

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



Baltimore, Maryland

By Joseph Shinn | 4th quarter 2017

Quick Facts About Region 3



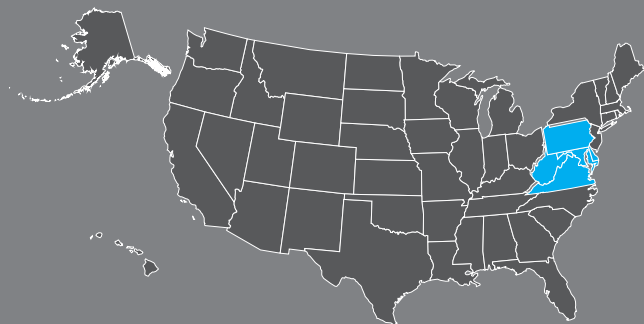
Sales market conditions—

Fourth quarter 2017: mixed (slightly tight to tight).
Third quarter 2017: mixed (balanced to tight).
Fourth quarter 2016: mixed (balanced to tight).



Apartment market conditions—

Fourth quarter 2017: mixed (balanced to slightly tight).
Third quarter 2017: mixed (balanced to slightly tight).
Fourth quarter 2016: mixed (balanced to slightly tight).



Overview

Economic conditions in the Mid-Atlantic region strengthened during the fourth quarter of 2017, continuing a trend that began in the second quarter of 2010. Job increases in the region accelerated during the fourth quarter of 2017 relative to gains during the same period a year earlier, led by the payroll growth rate doubling in Maryland. The unemployment rate decreased in the region and in four states. Sales market conditions in the major metropolitan areas in the region ranged from slightly tight to tight, and conditions tightened compared with a year ago because of declining for-sale inventories. Home sales and average prices increased throughout most of the region, but declined in Delaware. Apartment market conditions ranged from balanced to slightly tight in the major metropolitan areas, and vacancy rates were relatively unchanged in most areas. In the District of Columbia, however, the apartment vacancy rate increased in response to elevated levels of new apartment units coming online during the past year.

During the fourth quarter of 2017—

- Nonfarm payrolls in the region increased 1.1 percent, to 14.83 million jobs, compared with the fourth quarter of 2016. Payrolls were up in every state and the District of Columbia except West Virginia, where the number of jobs decreased slightly.
- Single-family permitting activity in the region increased 4 percent as gains in Delaware, Maryland, and Virginia more than offset declines in the District of Columbia, Pennsylvania, and West Virginia.
- Multifamily building activity increased 40 percent, led by strong gains in the District of Columbia and Virginia.



Nonfarm payrolls in the Mid-Atlantic region increased during the fourth quarter of 2017, and approximately two-thirds of the net gain was in the education and health services and the professional and business services sectors.

	Fourth Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	14,667.8	14,833.5	165.7	1.1
Goods-producing sectors	1,678.3	1,704.4	26.1	1.6
Mining, logging, and construction	712.4	739.5	27.1	3.8
Manufacturing	965.8	964.9	-0.9	-0.1
Service-providing sectors	12,989.6	13,129.2	139.6	1.1
Wholesale and retail trade	1,988.4	1,978.5	-9.9	-0.5
Transportation and utilities	568.6	573.0	4.4	0.8
Information	221.1	214.7	-6.4	-2.9
Financial activities	772.3	780.9	8.6	1.1
Professional and business services	2,267.1	2,319.5	52.4	2.3
Education and health services	2,619.4	2,679.1	59.7	2.3
Leisure and hospitality	1,408.0	1,441.4	33.4	2.4
Other services	718.1	721.5	3.4	0.5
Government	2,426.6	2,420.6	-6.0	-0.2

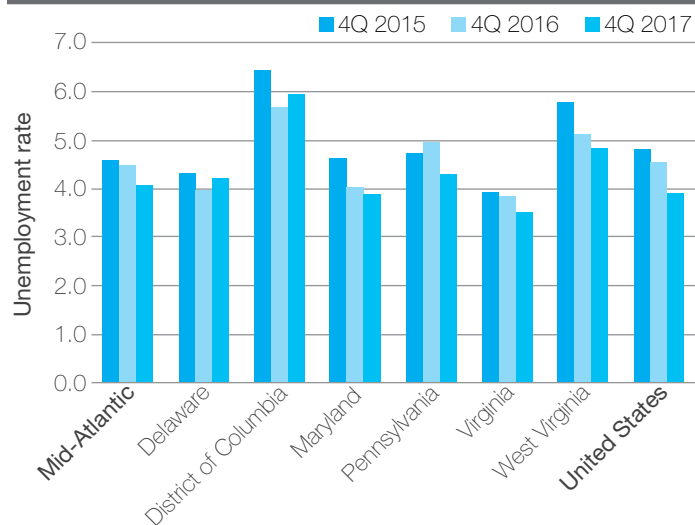
Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Economic Conditions

The economy of the Mid-Atlantic region continued to expand during the fourth quarter of 2017, and job growth accelerated during the past year. During the fourth quarter of 2017, nonfarm payrolls in the region averaged 14.83 million jobs, up by 165,700 jobs, or 1.1 percent, from the fourth quarter of 2016. By comparison, during the fourth quarter of 2016, nonfarm payrolls increased by 107,400 jobs, or 0.7 percent, from the same period a year earlier. The faster rate of growth was largely attributed to greater gains in the professional and business services, leisure and hospitality, and financial activities sectors, which were up by 52,400, 33,400, and 8,600 jobs, or 2.3, 2.4, and 1.1 percent, respectively. By comparison, during the fourth quarter of 2016, nonfarm payrolls in these sectors increased by 14,400, 22,300, and 3,600 jobs, or 0.6, 1.6, and 0.5 percent, respectively. For the second consecutive year, the largest gain in the region was in the education and health services sector, which increased by 59,700 jobs, or 2.3 percent; nearly two-thirds of the gain was in Pennsylvania and Virginia. Losses in the wholesale and retail trade and the information sectors, which decreased by 9,900 and 6,400 jobs, or 0.5 and 2.9 percent, respectively, partially offset these job gains. Nearly 30 percent of the losses in the wholesale and retail trade sector were in West Virginia, where payrolls declined by an average of 1,500 jobs, or 1.4 percent, annually since the fourth quarter of 2013. Additional layoffs in the

The unemployment rate in the Mid-Atlantic region declined during the fourth quarter of 2017, but rates slightly increased in Delaware and the District of Columbia because of strong labor force gains.



4Q = fourth quarter.

Source: U.S. Bureau of Labor Statistics

state are expected in early 2018, when three Kmart Corporation stores are scheduled to close, resulting in an unspecified number of job losses. The average unemployment rate in the Mid-Atlantic region during the fourth quarter of 2017 was 4.1 percent, down from 4.5 percent during the fourth quarter of 2016 and an average rate of 7.5 percent in corresponding periods during 2009 and 2010. Unemployment rates were down in Maryland, Pennsylvania, Virginia,

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and West Virginia, including a 0.7 percentage-point decline in Pennsylvania, which was the largest decline in the region. In Delaware and the District of Columbia, the unemployment rates rose because labor force gains were stronger than modest increases in resident employment.

During the fourth quarter of 2017—

- Nonfarm payrolls in Pennsylvania were up by 73,500 jobs, or 1.2 percent, the largest increase in the region for the second consecutive year. Approximately 93 percent of the net gains were in the education and health services, professional and business services, and leisure and hospitality sectors, which were up by 23,900, 22,400, and 21,800 jobs, or 1.9, 2.8, and 4.0 percent, respectively.
- Payrolls in Maryland increased by 48,500 jobs, or 1.8 percent; job growth was double the 0.9-percent rate a year earlier. Black & Decker Corporation recently announced plans to expand its workforce by approximately 400 in Baltimore County in a yet-to-be-determined time frame; added positions will focus on marketing, human resources, finance, and engineering.
- In Virginia and the District of Columbia, nonfarm payrolls were up by 35,600 and 7,700 jobs, or 0.9 and 1.0 percent, respectively. In Virginia, Global Technical Systems, a producer of systems for national defense, recently announced plans to build a new manufacturing facility in the city of Virginia Beach, which is expected to add 1,100 jobs once completed in 2019.
- Nonfarm payrolls in Delaware were up by 600 jobs, or 0.1 percent, compared with the fourth quarter of 2016. Payroll growth averaged 0.2 percent annually during the past 2 years compared with a higher average growth rate of 2.3 percent during corresponding periods from 2013 through 2015.
- In West Virginia, nonfarm payrolls decreased by 200 jobs, relatively unchanged—an improvement from a decline of 7,300 jobs, or 1.0 percent, from the fourth quarters of 2015 to 2016. Nonfarm payrolls in the mining, logging, and construction and the education and health services sectors were up by 3,800 and 3,300 jobs, or 7.4 and 2.5 percent, respectively.

Sales Market Conditions

Sales housing market conditions in the major metropolitan areas in the Mid-Atlantic region ranged from slightly tight to tight during the fourth quarter of 2017. Conditions were slightly tight in the Philadelphia metropolitan area and tight in the Baltimore, Richmond, and Washington, D.C. metropolitan areas. In the Philadelphia metropolitan area, conditions tightened compared with balanced conditions

during the fourth quarter of 2016 because of significant declines in the for-sale inventory. During 2017, the metropolitan area had 3.1 months of available inventory, down from 4.5 months of inventory during 2016. Inventory levels were lowest in the Montgomery-Bucks-Chester metropolitan division, where 2.3 months of inventory was available, down from 2.7 months of inventory a year ago.

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

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2016	2017	Percent Change		2016 (\$)	2017 (\$)	Percent Change
Delaware (N&E)	September	15,550	13,100	- 16	AVG	265,800	262,700	- 1
District of Columbia (E)	December	8,300	8,900	7	AVG	656,900	685,300	4
Maryland (E)	December	102,900	107,500	4	AVG	299,200	307,200	3
Pennsylvania (N&E)	September	190,000	199,700	5	AVG	190,800	194,200	2
Virginia (E)	December	115,000	121,500	6	AVG	326,000	339,100	4
West Virginia (N&E)	September	8,475	9,250	9	AVG	145,700	152,200	4
Baltimore metropolitan area (E)	December	38,900	40,050	3	AVG	290,500	300,400	3
Philadelphia metropolitan area (E)	December	67,500	72,300	7	AVG	215,878	223,431	3
Richmond metropolitan area (E)	December	17,300	19,050	10	AVG	259,000	273,800	6
Washington, D.C. metropolitan area (E)	December	82,500	85,700	4	AVG	448,300	467,300	4
West Virginia Eastern Panhandle (E)	December	3,525	3,850	9	AVG	183,000	194,500	6

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

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

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



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Home sales activity increased in most states and major metropolitan areas during the past year, but growth rates slowed for the second consecutive year. During the past year, home sales increases ranged from 3 percent in the Baltimore metropolitan area to 10 percent in the Richmond metropolitan area, compared with growth exceeding 10 percent in all metropolitan areas during 2015. Despite the slowdown, home sales prices were up in all four metropolitan areas, ranging from 3-percent gains in Baltimore and Philadelphia to a 6-percent increase in Richmond. Home sales increased at modest paces in the District of Columbia, Maryland, Pennsylvania, and Virginia; increases ranged from 4 to 7 percent. In West Virginia, home sales rose 9 percent compared with a year ago; the strong increase is attributed to a slowdown in job losses. As a result of the higher levels of sales activity, average sales prices were up in all of these states and the District of Columbia; increases ranged from 2 to 4 percent. In Delaware, home sales were down 16 percent, and the average sales price declined 1 percent; the declines are partially attributed to a significant slowdown in job gains during the past 2 years.

In November 2017, 2.5 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 3.0 percent a year earlier (CoreLogic, Inc.). The rate for the region was higher than the 2.3-percent national rate and only Virginia, which had a rate of 1.5 percent, was below the national average. Rates, however, were down in all areas in the region compared with a year ago, led by Delaware, where the rate declined 0.8 percentage points, to 3.0 percent.

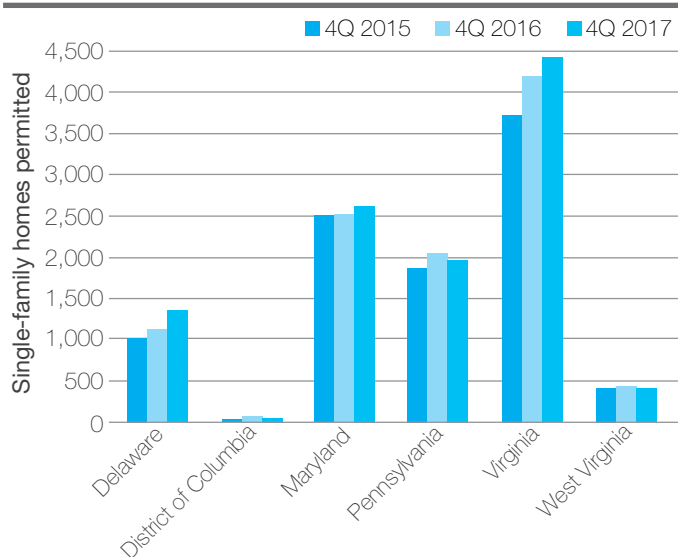
During the fourth quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased by 450 homes, or 4 percent, in the Mid-Atlantic region from the fourth quarter of 2016, to 10,850 homes permitted. By comparison, permitting activity during the fourth quarter of 2016 was up 9 percent compared with the same period a year earlier.
- Gains were largest in Delaware and Virginia, where permitting activity was up by 240 and 230 homes, or 21 and 5 percent, to 1,350 and 4,425 homes permitted, respectively. Homebuilding in

Virginia was the highest in the region, comprising more than 40 percent of all permitting activity in the region, while construction activity in Delaware was at its highest fourth-quarter level in 12 years.

- Declines in Pennsylvania, where permitting activity was down by 75 homes, or 4 percent, to 1,950 homes permitted, partially offset these gains in permitting activity. Construction activity in the state declined an average of 10 percent annually during the past 4 years, which is attributed to net out-migration.
- The largest gains in homebuilding activity within the region were in the Richmond and Salisbury metropolitan areas, where the number of homes permitted increased by 170 and 140 homes, or 21 percent each, to 990 and 810 homes permitted, respectively. These gains were partially offset by a decline of 150 homes, or 54 percent, to 130 homes permitted in the Harrisonburg metropolitan area.

Homebuilding activity in the Mid-Atlantic region was up from a year ago, led by gains in Delaware and Virginia.



4Q = fourth quarter.

Note: Based on preliminary data.

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

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Mid-Atlantic region ranged from balanced to slightly tight during the fourth quarter of 2017. Conditions in most metropolitan areas were unchanged compared with the fourth quarter of 2016, but apartment completions in the region have increased. During the 12 months ending December 2017, approximately 32,950 apartment units were completed, up by 2,950 units, or 9 percent, from the

previous 12-month period (McGraw-Hill Construction Pipeline database). Approximately 57,000 units are under construction in the region, down 5 percent compared with the 60,000 units under construction during the fourth quarter of 2016. In the District of Columbia, conditions were balanced, but the apartment vacancy rate rose from 5.2 percent to 6.6 percent from the fourth quarters of 2016 to 2017, largely because of a significant number of newly

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constructed apartment units coming online. During 2017, approximately 3,625 new apartment units were absorbed, up 41 percent compared with the number of units absorbed during 2016 (Delta Associates). The average rent in the District of Columbia increased 7 percent, which was the largest increase in the region. The rise was largely attributed to new high-rent apartment units coming on-line at District Wharf, a multi-billion dollar residential and entertainment development on the waterfront, which opened in late 2017. The average rent increase in the district was also the only increase in the region greater than the average 4.0-percent rise nationally (Reis, Inc.). Conditions in the Virginia and Maryland suburbs of the Washington, D.C. metropolitan area were balanced and slightly tight, respectively, with vacancy rates of 5.1 and 3.8 percent, respectively. Average rents in these metropolitan areas increased 3 and 2 percent, to \$1,792 and \$1,534, respectively, from a year ago. In the Baltimore metropolitan area, the vacancy rate declined 0.3 percentage point, to 3.7 percent, which was the largest decrease of all major metropolitan areas. Conditions were balanced in the Pittsburgh and Norfolk/Hampton Roads metropolitan areas and slightly tight in the Philadelphia metropolitan area. Vacancy rates in all three metropolitan areas—Pittsburgh, Norfolk/Hampton Roads, and Philadelphia—were up 0.1 percentage point, to 5.3, 4.5, and 3.9 percent, respectively. The average rents increased 3 percent each in the Pittsburgh and Norfolk/Hampton Roads metropolitan areas, to \$1,053 and \$1,033, respectively. In the Philadelphia metropolitan area, the average rent was up nearly 4 percent, to \$1,290, compared with a year ago.

During the fourth quarter of 2017 (preliminary data)—

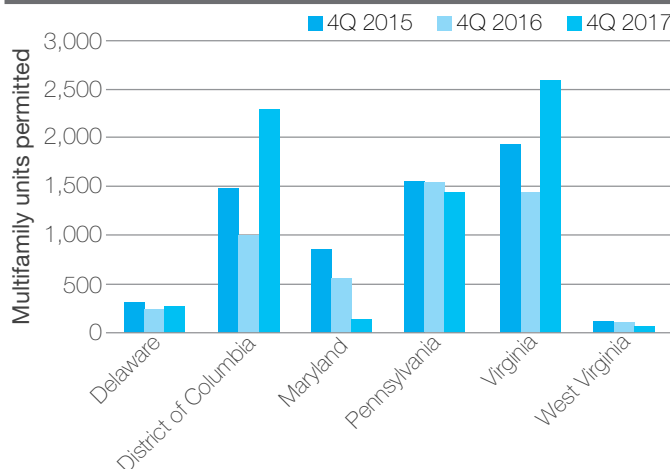
- Building activity, as measured by the number of multifamily units permitted, totaled approximately 6,800 units in the Mid-Atlantic region, up by 1,950 units, or 40 percent, compared with the

number of units permitted during the fourth quarter of 2016. By comparison, during the fourth quarter of 2016, permitting activity was down 22 percent compared with the same period a year earlier.

- Gains were largest in the District of Columbia and Virginia; permitting activity in the District of Columbia was up by 1,300 units, more than double, and multifamily building activity in Virginia increased by 1,175 units, or 82 percent, compared with a year ago. Overall, permitting activity in the Washington, D.C. metropolitan area increased by 1,950 units, or 94 percent, to approximately 7,000 units permitted.

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Multifamily building activity in the Mid-Atlantic region increased during the fourth quarter of 2017, led by gains in the District of Columbia, where permitting activity more than doubled.



4Q = fourth quarter.

Note: Based on preliminary data.

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

Apartment vacancy rates were little changed in most major market areas in the Mid-Atlantic region during the fourth quarter of 2017, and average rents were up in all major areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2016 (%)	4Q 2017 (%)	Percentage Point Change	4Q 2016 (\$)	4Q 2017 (\$)	Percent Change
Baltimore	Slightly tight	4.0	3.7	- 0.3	1,192	1,226	3
Norfolk/Hampton Roads	Balanced	4.4	4.5	0.1	1,005	1,033	3
Philadelphia	Slightly tight	3.8	3.9	0.1	1,241	1,290	4
Pittsburgh	Balanced	5.2	5.3	0.1	1,023	1,053	3
Washington, D.C.—Maryland suburbs	Slightly tight	3.9	3.8	- 0.1	1,501	1,534	2
Washington, D.C.—Virginia suburbs	Balanced	4.9	5.1	0.2	1,736	1,792	3
Washington, D.C.—District of Columbia	Balanced	5.2	6.6	1.4	1,705	1,820	7

4Q = fourth quarter.

Sources: Market condition—HUD, PD&R Economic and Market Analysis Division; vacancy rate and average monthly rent—Reis, Inc.

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- In Delaware, approximately 270 units were permitted, up by 40 units, or 18 percent, from the fourth quarter of 2016. By comparison, permitting activity declined an average of 21 percent annually in corresponding periods from 2014 through 2016.
- Permitting activity was down in Maryland, Pennsylvania, and West Virginia, where the number of units permitted declined by

420, 110, and 40 units, or 76, 7, and 41 percent, to 130, 1,450, and 60 units permitted, respectively. In Maryland, approximately 57 percent of the decrease was in Frederick County, where the number of units permitted totaled 20 units, down from 260 units during the fourth quarter of 2016.