HUD PD&R Regional Reports

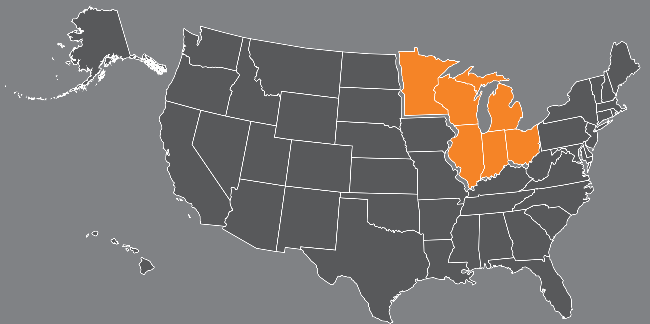
Region 5: Midwest

Cincinnati, Ohio

Quick Facts About Region 5

- **Sales market conditions—**
  Second quarter 2017: mixed (balanced to soft).
  First quarter 2017: mixed (balanced to soft).
  Second quarter 2016: mixed (balanced to soft).

- **Apartment market conditions—**
  Second quarter 2017: mixed (balanced to tight).
  First quarter 2017: mixed (balanced to tight).
  Second quarter 2016: mixed (balanced to tight).



By Gabriel Labovitz | 2nd quarter 2017

Overview

Economic conditions in the Midwest region remained positive during the second quarter of 2017, as nonfarm payrolls continued growth that began during 2010. Michigan led the six Midwest region states in job growth and has for the past 5 quarters; however, all six states in the region recorded higher payrolls compared with totals from the second quarter of 2016. Sales housing markets in the region ranged from balanced to soft, while single-family homebuilding increased in all six states of the region. Apartment market conditions in the region were mixed, ranging from balanced to tight, and multifamily construction, as measured by units permitted, increased strongly.

During the second quarter of 2017—

- Every nonfarm payroll sector expanded in the Midwest region, with the largest growth in the education and health services sector. The mining, logging, and construction sector recorded the fastest growth rate, as residential construction activity during the past year increased.
- Home sales in the region declined, at least partially, because of low inventories of homes for sale, which contributed to increasing average sales prices.

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- Apartment market conditions in the region, which are currently balanced to tight, have remained unchanged since 2012. Average monthly rents rose in all eight of the large metropolitan areas referenced in this report, led by growth in the Cincinnati metropolitan area, where rents rose 8 percent compared with a year earlier.
- Both single-family and multifamily residential building increased in the region. Single-family home construction rose nearly 8 percent, compared with a 9-percent expansion nationally, and multifamily permitting increased 52 percent in the region, compared with 3-percent growth nationally (preliminary data).

Economic Conditions

Nonfarm payrolls in the Midwest region continued to expand during the second quarter of 2017, reflecting consecutive quarterly year-over-year growth since the third quarter of 2010. Quarterly growth rates slowed, however, averaging 1.1 percent during the past four quarters, compared with an average of 1.4-percent growth during the previous four quarters. During the second quarter of 2017, nonfarm payrolls increased by 285,000 jobs, or 1.1-percent growth, to 25.08 million jobs. During the second quarter of 2016, nonfarm payrolls recorded a similar 1.1-percent growth rate. By contrast, nonfarm payroll growth was 1.5 percent, nationally, during the second quarter of 2017, down from 1.7-percent growth a year earlier. No nonfarm payroll sectors in the Midwest region lost jobs during the second quarter of 2017, and all six states recorded increased jobs. The education and health services, the professional and business services, and the leisure and hospitality sectors added the most jobs in the region, at 81,400, 59,500, and 37,100 jobs, or growth rates of 2.1, 1.8, and 1.5 percent, respectively, and combined to contribute more than 62 percent of the jobs added for the region. In five of the six Midwest region states, the education and health services and the professional and business services sectors gained the most jobs; in Wisconsin, the manufacturing sector led job growth. The fastest growing sector in the Midwest region, however, was the mining, logging, and construction sector, which added 22,700 jobs, growth of 2.3 percent. The construction subsector contributed to more than 90 percent of the total gains. Total residential permitting increased more than 23 percent in the region, including growth of 8 percent for single-family homes and 52 percent for multifamily units (preliminary data). The unemployment rate in the region declined from 4.7 percent during the second quarter of 2016 to 4.0 percent during the second quarter of 2017. The drop was because resident employment expanded 1.1 percent compared with a smaller gain of 0.3 percent in the labor force.

During the second quarter of 2017—

- Michigan led the region in job growth, adding 73,100 jobs, or growth of 1.7 percent, and contributed nearly 26 percent of nonfarm payroll job gains in the region during the past year. Increases in the professional and business services and leisure

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Nonfarm payroll growth of 1.1 percent in the Midwest region was below the national average of 1.5 percent; all sectors in the Midwest region expanded.

	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,796.6	25,081.6	285.0	1.1
Goods-producing sectors	4,168.3	4,211.2	42.9	1.0
Mining, logging, and construction	1,001.0	1,023.7	22.7	2.3
Manufacturing	3,167.3	3,187.5	20.2	0.6
Service-providing sectors	20,628.3	20,870.3	242.0	1.2
Wholesale and retail trade	3,686.2	3,689.1	2.9	0.1
Transportation and utilities	983.7	985.1	1.4	0.1
Information	360.7	361.4	0.7	0.2
Financial activities	1,356.3	1,385.0	28.7	2.1
Professional and business services	3,333.2	3,392.7	59.5	1.8
Education and health services	3,926.1	4,007.5	81.4	2.1
Leisure and hospitality	2,474.7	2,511.8	37.1	1.5
Other services	1,028.0	1,042.4	14.4	1.4
Government	3,479.5	3,495.3	15.8	0.5

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

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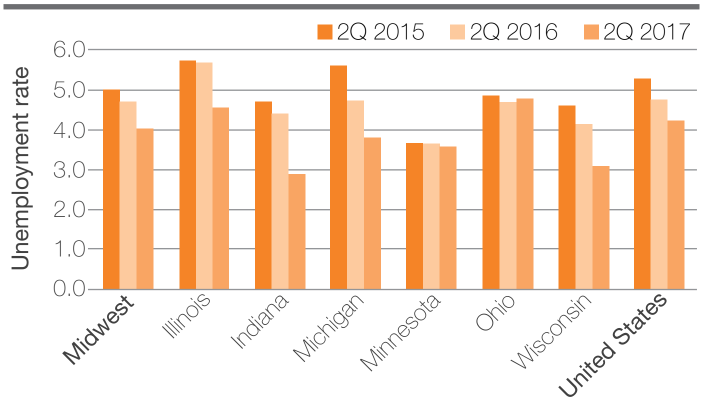
and hospitality sectors combined to produce 45 percent of job growth in the state, and 56 percent of new jobs in the state were in the Detroit metropolitan area. Recent job gains in Michigan have been relatively high paying. During 2016 (the most recent data available), the average annual salary rose 1.8 percent, compared with 1.3-percent salary growth nationally (Quarterly Census of Employment and Wages). Nearly one-half of the jobs added in the professional and business services sector during 2016 were in relatively higher-paying industries including the architectural, engineering, and related services, the computer systems design and related services, and the other professional, scientific, and technical services industries.

- In Minnesota, Ohio, and Indiana, job growth totaled 55,100, 47,300, and 44,100 jobs, respectively, or rates of 1.9, 0.9, and 1.4 percent. In all three states, the education and health services sector led job growth, contributing 40, 41, and 31 percent of nonfarm payroll increases, respectively. Recent and future new development in health care is occurring throughout the Midwest region. OhioHealth recently opened a Newborn Intensive Care unit at Riverside Methodist Hospital in the city of Columbus, and Indiana University Health is in the process of a $1 billion expansion in downtown Indianapolis.

Unemployment rates fell in all but one state in the Midwest region during the second quarter of 2017, and the regional rate dropped below the national rate.



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

- Job growth in Wisconsin and Illinois during the past year totaled 33,500 and 31,800 jobs, or rates of 1.1 and 0.5 percent, respectively. In Wisconsin, the manufacturing sector, which added 7,700 jobs, growth of 1.7 percent, led job growth. Nearly one-half of the manufacturing growth was in food manufacturing, and in January 2017, MillerCoors announced a $50 million investment in its 10th Street (Milwaukee) brewery, which will increase production and add approximately 65 jobs. In Illinois, jobs grew at the slowest pace out of all states in the region. Jobs in the professional and business services sector accounted for 54 percent of job growth in the state, and five sectors declined, including the wholesale and retail trade and the government sectors and the construction subsector.
- Unemployment rates declined in five of the six states of the region, rising only in Ohio. Rates ranged from 2.9 percent in Indiana, which registered the largest decline from 4.4 percent a year earlier, to 4.8 percent in Ohio, which increased from 4.7 percent a year ago.

Foxconn, a Taiwanese manufacturer of display screen equipment, selected southeast Wisconsin as the site for a new manufacturing facility that will create construction jobs during development and is expected to employ from 3,000 to 13,000 workers on completion. Jobs at the plant are expected to pay an average salary, with benefits, of $53,875. Wisconsin officials expect an announcement of the plant's proposed location, in either Racine or Kenosha counties, during August. The investment by Foxconn is contingent on Wisconsin agreeing to a large incentive package.

Sales Market Conditions

During the second quarter of 2017 sales housing market conditions in the Midwest region were mixed and ranged from balanced to soft, unchanged from a year earlier. As the economy in the Midwest region continues to grow, average home sales prices in the region also improved. The average home sales price for the region (including single-family homes, townhomes, and condominiums) increased nearly 5 percent to $180,800 during the 12 months ending May 2017, higher than the 4-percent price gain during the previous 12 months ending May 2016 (CoreLogic, Inc., with adjustments by the analyst). By contrast, the average home sales price for the nation rose nearly 6 percent to $278,300 following a 4-percent gain a year earlier. Average home sales prices rose in all eight of the large metropolitan areas referenced in this report, ranging from a nominal gain in the Indianapolis-Carmel-Anderson area, where conditions are slightly soft, to a 7-percent gain in the Detroit-Warren-Dearborn area, where conditions are balanced, to $164,900. In the Detroit area, average home sales prices are approaching the prerecession peak of $168,500 during 2005, up from the recessionary low of $81,050 during the fall of 2009.

During the 12 months ending May 2017, the number of home sales in the Midwest region fell 3 percent, following a 7-percent increase a year earlier. These data are similar to national sales statistics, where sales declined 4 percent, following a 7-percent increase a year earlier. Contributing to the decline in home sales in the region, real estate owned (REO) sales fell more than 27 percent, and short sales declined nearly 36 percent. Nationally, the declines in REO and short sales were 28 and 40 percent, respectively. REO and

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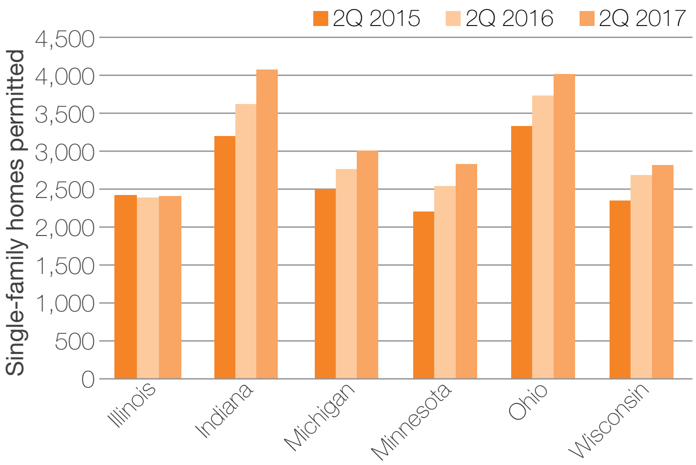
short sales also contributed to the declines reported in six of the eight large metropolitan areas referenced in this report. Declines in home sales in metropolitan areas in the Midwest region included an 8-percent drop in the Columbus area, where the Columbus Realtors® reported a 1.7-month supply of homes for sale as of May 2017, down from the 2.1-month supply a year earlier. In the Indianapolis-Carmel-Anderson and Milwaukee-Waukesha-West Allis areas, home sales declined 1 percent each. In the Minneapolis-St. Paul-Bloomington area, home sales rose negligibly, and in the Chicago-Naperville-Elgin area, home sales rose 1 percent from a year earlier.

The percentage of seriously delinquent mortgage loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties in the Midwest region was 2.1 percent as of May 2017, down from 2.7 percent during May 2016. The corresponding percent of seriously delinquent mortgages and REO properties nationally was 2.3 percent as of May 2017, down from 2.9 percent as of May 2016. The rate in the Midwest region has been below the national rate since December 2008. In both the Midwest region and the nation, the decline in seriously delinquent mortgage loans and REO properties was 0.6 percentage points from the level recorded during May 2016. The rates of seriously delinquent mortgage loans and REO properties among Midwest region states range from 1.2 percent in Minnesota to 2.8 percent in Ohio, and the declines range from 0.3 percentage point in Minnesota to 0.7 percentage point in both Illinois and Ohio.

Single-family home permitting rose 8 percent in the Midwest region during the second quarter of 2017, and permitting increased in each state.



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

Because of the ongoing economic recovery in the Midwest region and generally increasing home sales prices, builders increased single-family homebuilding (as measured by the number of single-family homes permitted) in every state in the region.

During the second quarter of 2017 (preliminary data)—

- The number of single-family homes permitted in the region increased by approximately 1,375 homes, or 8 percent, to 19,200, following an 11-percent increase during the second quarter of 2016.
- Indiana and Ohio each contributed approximately 21 percent of the homes permitted in the region, with 4,100 and 4,025 homes permitted, respectively, an increase of 13 percent in Indiana and 7 percent in Ohio from the previous 12 months. The increase in Indiana was also the highest-percent increase among the six Midwest region states.
- Michigan recorded the next-highest level of single-family homes permitted, with 3,000 homes, or 9 percent above the level of homes permitted a year earlier, which was, in turn, 11 percent above the level of permitting during the second quarter of 2015.

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Home sales declined in most large metropolitan areas in the Midwest region, while average sales prices rose in all eight large market areas.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	May	144,910	146,886	1	AVG	259,370	267,264	3
Cincinnati (N&E)[a]	April	34,457	32,514	– 6	AVG	167,431	173,745	4
Cleveland-Elyria (N&E)	May	35,475	34,349	– 3	AVG	142,412	147,400	4
Columbus (N&E)[a]	April	38,524	35,599	– 8	AVG	195,733	202,284	3
Detroit-Warren-Dearborn (N&E)	May	86,835	85,229	– 2	AVG	153,953	164,908	7
Indianapolis-Carmel-Anderson (N&E)	May	51,143	50,617	– 1	AVG	189,352	189,989	0
Milwaukee-Waukesha-West Allis (N&E)	May	25,122	24,796	– 1	AVG	201,871	205,741	2
Minneapolis-St. Paul-Bloomington (N&E)	May	70,453	70,785	0	AVG	255,003	264,896	4

AVG = average. N&E = new and existing.
Notes: Data for the Cincinnati, OH-KY-IN metropolitan area are for 14 of the 15 counties that comprise the MSA. Data for Warren County Ohio were excluded from the calculation due to missing values.
Sources: CoreLogic, Inc.; (a) Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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- In Minnesota and Wisconsin, approximately 2,850 and 2,825 homes were permitted, increases of 11 percent and 5 percent, respectively. In both states, the increase in permitting during the previous year was 15 percent.
- Illinois reported the lowest level of single-family homes permitted, with 2,425, an increase of 10 homes, or less than 1 percent above the level of permitting during the second quarter of 2016.

Apartment Market Conditions

Apartment housing market conditions were mixed but generally slightly tight to tight in large market areas throughout the Midwest region during the second quarter of 2017. Only in the Indianapolis-Carmel-Anderson area were conditions balanced. The nearly 7-year run of job growth contributed to tighter market conditions and rent increases in the region. The vacancy rate declined in five of the eight large markets in the region and remained below 5 percent in all metropolitan areas except Indianapolis. Average monthly rents rose 4 percent or more in all areas. By comparison, the national monthly apartment rent rose 4 percent during the second quarter of 2017 (MPF Research). Relatively large inventories of new apartments under construction in most areas suggest vacancy rates may rise modestly, and rent increases may slow in the near future.

Vacancy increased during the second quarter of 2017 in the Chicago-Naperville-Elgin and Milwaukee-Waukesha-West Allis areas, from 3.9 to 4.2 percent in the Chicago area and from 1.9 to 2.6 percent in the Milwaukee area. At the same time, rents rose 5 percent in each area, to $1,420 in the Chicago area and to $1,037 in the Milwaukee area. During the past year, approximately 9,475 new apartment units entered the market in the Chicago area, and 2,025 units began leasing in the Milwaukee area. In the Chicago area, approximately 19,300 new apartment units are under construction, more than 50 percent of which are in the two MPF Research-defined market areas of The Loop and Streeterville/River North, generally in downtown Chicago. Rents in these two downtown market areas are the highest in the Chicago area, averaging $2,288 and $2,256, respectively. The vacancy rate also increased in the Indianapolis-Carmel-Anderson area, from 5.1 to 5.2 percent. Although rents rose 6 percent in the Indianapolis area to $845, concessions became more prevalent, offered at 10 percent of apartments in the market, up from 3 percent a year earlier.

Vacancy rates declined in each of the other five large metropolitan areas of the Midwest region during the second quarter of 2017 and ranged from 2.3 percent in the Minneapolis-St. Paul-Bloomington area to 3.3 percent in the Cincinnati and Columbus areas. In the Minneapolis area, where the market is tight, rents rose 6 percent to $1,208. In Ohio, apartment vacancy rates in the Cincinnati and Columbus areas were 3.3 percent in each, and rents rose 8 percent in the Cincinnati area, to $931, and 6 percent in the Columbus area, to $899. Also in Ohio, in the Cleveland-Elyria metropolitan area, the vacancy rate declined from 3.3 to 3.0 percent, and the average apartment rent rose 4 percent to $891. In the Detroit-Warren-Dearborn area, where apartment market conditions are tight, the vacancy rate declined from 2.8 to 2.4 percent at the same time as the average rent grew 7 percent to $945. Approximately 1,475 new apartments entered the inventory in the Detroit area during the past year and

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Apartment markets were balanced to tight in larger metropolitan areas in the Midwest region during the second quarter of 2017; average rent growth equaled or exceeded the national average of 4 percent in all eight metropolitan areas referenced in this report.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 ($)	2Q 2017 ($)	Percent Change
Chicago-Naperville-Elgin	Slightly tight	3.9	4.2	0.3	1,355	1,420	5
Cincinnati	Tight	4.0	3.3	– 0.7	861	931	8
Cleveland-Elyria	Slightly tight	3.3	3.0	– 0.3	854	891	4
Columbus	Tight	3.8	3.3	– 0.5	846	899	6
Detroit-Warren-Dearborn	Tight	2.8	2.4	– 0.4	882	945	7
Indianapolis-Carmel-Anderson	Balanced	5.1	5.2	0.1	800	845	6
Milwaukee-Waukesha-West Allis	Tight	1.9	2.6	0.7	985	1,037	5
Minneapolis-St. Paul-Bloomington	Tight	2.4	2.3	– 0.1	1,141	1,208	6

2Q = second quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research

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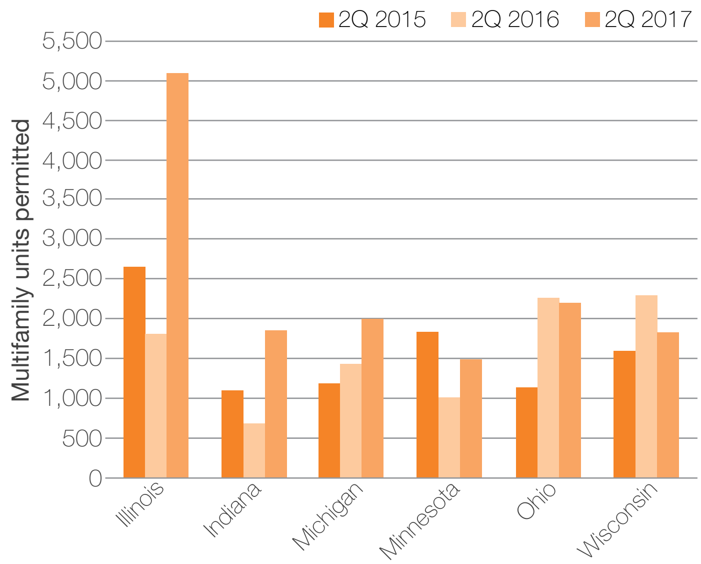
are impacting the older apartment stock. Concessions in the Class C apartment market are offered at 7 percent of units, up from 2 percent a year ago, although no concessions are reported in the Class A market.

Responding to balanced-to-slightly-tight apartment market conditions in the Midwest region, developers increased production of new apartments throughout much of the region. Multifamily units permitted rose in four of six states.

During the second quarter of 2017 (preliminary data)—

- The number of multifamily units permitted in the region rose to 14,500, an increase of nearly 52 percent from the previous 12 months.
- The increase in in the region was largely due to permitting in Illinois. The 5,100 units permitted was nearly three times the 1,800 units permitted a year earlier and contributed nearly two-thirds of the overall regional increase. In Illinois, 97 percent of the multifamily units permitted are in the Chicago area. In Cook County, the principal county of the Chicago area, multifamily units permitted totaled 4,000.
- The next highest number of multifamily units permitted were in Ohio, where 2,225 units were permitted, only slightly below the 2,275 units permitted a year earlier. In the Columbus area, where the vacancy rate declined to 3.3 percent from 3.8 percent a year earlier, multifamily permitting rose 32 percent to 1,650, contributing nearly three-fourths of the units permitted in Ohio.
- Multifamily units permitted in Michigan, Indiana, and Minnesota totaled 2,000, 1,850, and 1,500, respectively. The increase in Michigan was 38 percent, and the Detroit area, where permitting doubled from a year earlier, contributed nearly 70 percent of multifamily permits. In Indiana, multifamily units permitted nearly doubled, from a comparatively low level during the second quarter of 2016. Only 14 percent of the units permitted in Indiana were in the Indianapolis area. Allen and Tippecanoe Counties, which are included in the Fort Wayne and Lafayette/West Lafayette metropolitan areas, added another one-third of multifamily units permitted in the state. Multifamily units permitted in Minnesota rose 47 percent, following a 45-percent drop the previous year; 83 percent were in the Minneapolis metropolitan area.
- Wisconsin was the only state in the region to record a significant drop in multifamily units permitted. The 1,825 units permitted were down 21 percent from a year earlier, which was 45 percent above the number of units permitted during the second quarter of 2015. The Madison and Milwaukee areas contributed 82 percent of the multifamily units permitted in Wisconsin during the second quarter of 2017, compared with 63 percent during the second quarter of 2016 and 50 percent in 2015.

Multifamily permitting in the Midwest region rose because of significantly increased permitting activity in Illinois, primarily in the Chicago metropolitan area.



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