

HUD PD&R Regional Reports

Region 5: Midwest

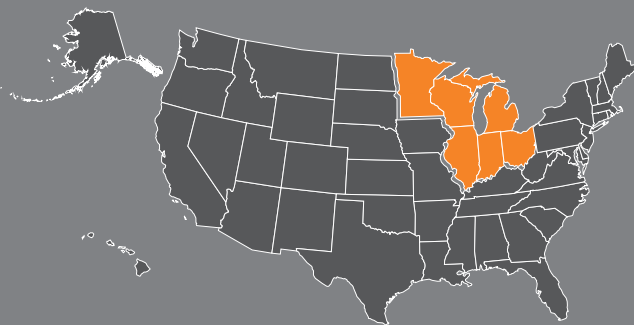


Chicago, IL

By Diana Villavicencio | 2nd quarter 2018

Quick Facts About Region 5

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



Overview

The economic expansion in the Midwest region that began in 2010 continued in the second quarter of 2018, but the pace of job growth has remained moderate since the second quarter of 2017, and the rate of job growth in the region was below the national average of 1.6 percent. Nonfarm payrolls grew in every state in the region, led by Ohio, Illinois, and Michigan, which accounted for 70 percent of net job gains. Continued economic expansion contributed to strong consumer confidence and led to rising home sales in nearly all states and major metropolitan areas in the region. A declining inventory of homes for sale and increased demand contributed to increased home sales prices. Apartment markets in major metropolitan areas in the region are balanced with some markets softening from slightly tight conditions during the second quarter of 2017. During the past year, increased delivery of new apartments, generally concentrated in the larger metropolitan areas of the region, has contributed to modest increases in apartment vacancy rates, and rents declined or

continued on page 2



continued from page 1

remained unchanged in seven of the eight major metropolitan areas referenced in this report. Single-family home construction increased modestly from a year earlier, while multifamily production declined significantly.

- During the second quarter of 2018, nonfarm payrolls grew 1.0 percent from a year earlier, unchanged from the growth rate during the previous year. The goods-producing sectors led payroll gains in the region and accounted for more than one-third of total job increases.

- Home sales in the region increased 1 percent during the 12 months ending April 2018 to 992,700 homes sold. The average home sales price in the region increased 4 percent, to \$188,100, compared with a 6-percent increase, nationally.
- Single-family homebuilding in the region during the second quarter of 2018 increased 3 percent from a year earlier, while multifamily construction declined 23 percent. By comparison, nationally, single-family home construction increased 6 percent, and multifamily construction decreased 5 percent.

Economic Conditions

Economic growth in the Midwest region continued at a modest pace during the second quarter of 2018. Nonfarm payrolls increased by 252,700 jobs, or 1.0 percent, to approximately 25.29 million jobs, unchanged from the growth rate during the second quarter of 2017. These are the lowest second-quarter rates since the economic recovery in the Midwest region began in 2010. The regional rate of job growth lagged the national rate of 1.6 percent during the second quarter of 2018, but every state in the region added jobs. Ohio had the largest and fastest growth in the region, with a gain of 69,700 jobs, or 1.3 percent. Nonfarm payrolls in Illinois and Michigan increased by 53,300 and 52,600 jobs, or 0.9 and 1.2 percent, respectively. In Minnesota and Wisconsin, payrolls increased 0.9 percent each, or by 27,500 and 25,600 jobs, respectively, and payrolls grew 0.8 percent in

Indiana, a gain of 23,900 jobs. The manufacturing sector continued to be an important part of the Midwest regional economy and, at 3.3 million jobs, accounted for nearly 13 percent of all nonfarm payroll jobs in the region, compared with less than 9 percent of all jobs in the nation. The Midwest region accounted for more than 25 percent of the 12.7 million manufacturing jobs in the nation. During the second quarter of 2018, the sector led job growth in the region, accounting for 21 percent of all jobs added. This was the first time during a second quarter that the sector led job growth in the region since job growth resumed in 2010. All states in the region added jobs in this sector, ranging from 4,000 jobs added in Michigan to 16,000 in Wisconsin, where manufacturing is the largest sector. Foxconn, a Taiwanese manufacturer of display screen equipment, broke ground in June on a new manufacturing

continued on page 3

Job growth in the Midwest region was broad-based, with gains in all but one nonfarm payroll sector.

	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	25,039.1	25,291.8	252.7	1.0
Goods-producing sectors	4,235.5	4,325.7	90.2	2.1
Mining, logging, and construction	1,037.6	1,075.0	37.4	3.6
Manufacturing	3,198.0	3,250.7	52.7	1.6
Service-providing sectors	20,803.6	20,966.1	162.5	0.8
Wholesale and retail trade	3,689.2	3,700.2	11.0	0.3
Transportation and utilities	999.6	1,027.3	27.7	2.8
Information	356.4	345.9	- 10.5	- 2.9
Financial activities	1,385.2	1,400.7	15.5	1.1
Professional and business services	3,357.5	3,382.5	25.0	0.7
Education and health services	3,978.3	4,006.4	28.1	0.7
Leisure and hospitality	2,518.2	2,552.2	34.0	1.4
Other services	1,035.6	1,046.0	10.4	1.0
Government	3,483.5	3,505.0	21.5	0.6

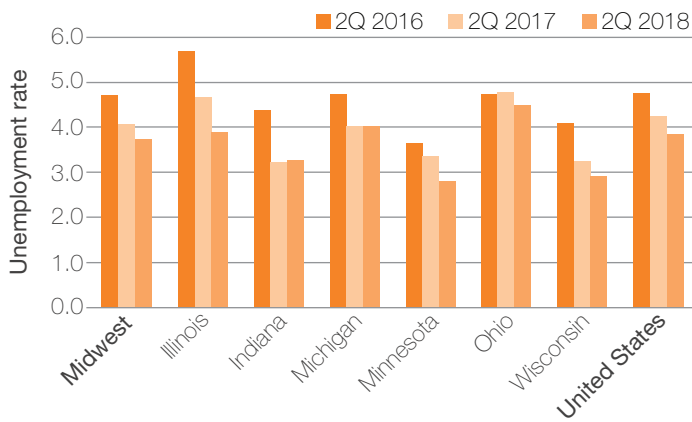
Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics



continued from page 2

The unemployment rate declined in all but two states in the Midwest region during the second quarter of 2018.



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

facility in Racine County, Wisconsin, and is expected to employ from 3,000 to 13,000 workers on completion in late 2019. During the second quarter of 2018, the unemployment rate in the region declined or remained unchanged in every state except Indiana, where the labor force grew faster than resident employment, causing the unemployment rate to rise 0.1 percentage point. Overall, the unemployment rate in the region averaged 3.7 percent during the second quarter of 2018, down from 4.1 percent a year earlier and slightly lower than the national average of 3.8 percent.

Sales Market Conditions

Sales housing market conditions in the Midwest region were mixed, ranging from balanced to slightly tight, unchanged from the previous quarter. Declining for-sale inventories and a decrease in distressed home sales (real estate owned [REO] and short sales) have contributed to rising home sales prices throughout the region since 2012. During the 12 months ending April 2018, the average sales price for new and existing single-family homes, townhomes, and condominiums in the region rose 4 percent from a year earlier, to \$188,100, compared with a 5-percent increase during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price in the nation rose 6 percent to \$287,700 during the 12 months ending April 2018, higher than the 4-percent gain during the previous year. Average home sales prices rose in all eight major metropolitan areas referenced in this report. Increases ranged from 2 percent in three metropolitan areas to 7-percent in the Detroit-Warren-Dearborn and the Minneapolis-St. Paul-Bloomington metropolitan areas, where the average home sales prices were \$174,900 and \$280,100, respectively. Sales demand in the Minneapolis-St. Paul-Bloomington metropolitan area is high, but relatively high home prices have limited lower-income

During the second quarter of 2018—

- The highest rate of job growth in the region occurred in the mining, logging, and construction sector, at 3.6 percent, adding 37,400 jobs, with increases ranging from a low of 1,300 jobs in Minnesota to a high of 12,100 jobs in Michigan. More than 95 percent of the jobs added in the sector were in the construction subsector, with Michigan contributing 12,000 of those jobs.
- Payrolls in the transportation and utilities sector grew 2.8 percent in the region, a gain of 27,700 jobs. Within the region, one-third of the jobs added in the sector were in Illinois, with more than half of those gains in the Chicago-Naperville-Elgin metropolitan area.
- Significant job growth in the region also occurred in the leisure and hospitality sector, up by 34,000 jobs, or 1.4 percent. Jobs in the sector increased in five of the six states in the region, with more than one-third of the growth concentrated in Ohio, where the accommodation and food services industry accounted for nearly all of the gain.
- Payrolls in the education and health services sector rose in each state in the region, increasing by 28,100 jobs, or 0.7 percent in the region; it is the largest sector in the Midwest region, comprising 16 percent of nonfarm payrolls. Nearly one-half of all jobs added in the sector were in Indiana and Ohio.
- Only one sector lost jobs in the region; the information sector fell by 10,500 jobs, or 2.9 percent. Information sector jobs fell in each of the Midwest region states and led declines in Illinois, Ohio, and Michigan.

households, including first-time buyers, from purchasing. In the Columbus and Milwaukee-Waukesha-West Allis metropolitan areas, sales price gains of 5 percent, in each, also exceeded the regionwide average growth, but sales prices were below the national average.

Total home sales (including new and existing single-family homes, townhomes, and condominiums) increased in most large metropolitan areas in the Midwest region. During the 12 months ending April 2018, home sales in the region totaled 992,700, up 1 percent from a year earlier, less than the 3 percent rate of increase during the 12 months ending April 2017 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally declined 1 percent during the 12 months ending April 2018, after a 4-percent increase 1 year earlier. Home sales increased in six of the eight largest metropolitan areas in the region, with increases ranging from 1 percent in the Cincinnati and the Detroit-Warren-Dearborn metropolitan areas to 8 percent in the relatively affordable Cleveland-Elyria metropolitan area. Inventory of homes for sale in the Cleveland-Elyria metropolitan area fell from 3.4 months of supply to 3.0 months from April 2017 to April 2018 (CoreLogic, Inc.). During the 12 months ending April 2018, home sales in the Chicago-Naperville-Elgin

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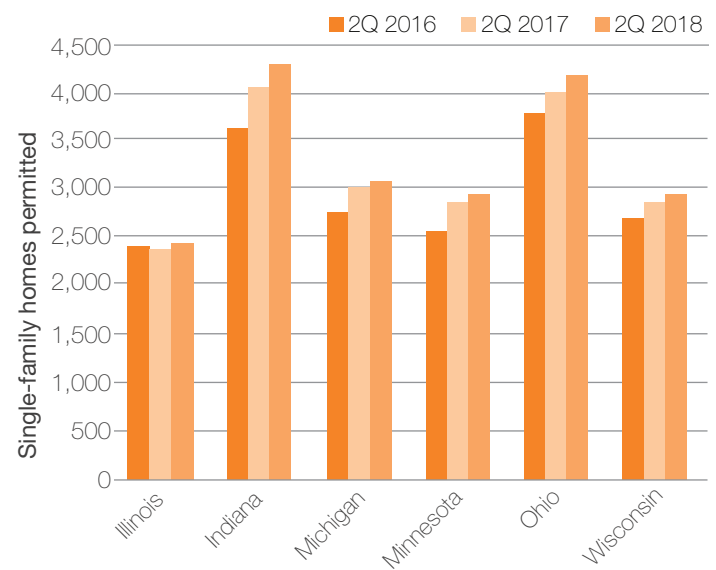
metropolitan area increased 3 percent; the inventory of homes for sale only fell 0.1 percentage point to 2.9 months of supply during April 2018 from the previous year. Home sales remained steady in the Milwaukee-Waukesha-West Allis metropolitan area. Home sales decreased only in the Minneapolis-St. Paul-Bloomington metropolitan area, down 4 percent, partly because of a low level of for-sale inventory. The inventory of homes for sale fell from 2.4 months of supply during April 2017 to 1.8 months of supply during April 2018 (Minneapolis Area Association of Realtors®).

In April 2018, 1.8 percent of home loans in the Midwest region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, down from 2.2 percent a year earlier (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state in the region, with the greatest decrease of 0.6 percentage point occurring in Illinois, to 2.2 percent. The percentage of seriously delinquent mortgage loans and REO properties was highest in Ohio at 2.4 percent and lowest in Minnesota at 0.9 percent. By comparison, the national rate was 2.1 percent during April 2018.

During the second quarter of 2018 (preliminary data) —

- Growth in single-family homebuilding activity in the region, as measured by the number of homes permitted, has slowed, increasing by approximately 630 homes, or 3 percent from a year ago, to 19,850, following an 8-percent increase during the second quarter of 2017. Nationally, growth in the number of single-family homes permitted also slowed, but the rate remained consistently above that of the region, increasing 6 percent during the second quarter of 2018, and 9 percent during the second quarter of 2017.
- Indiana and Ohio had the largest gain in single-family permitting, up approximately 220 and 160 homes, or 5 and 4 percent, respectively, from a year earlier. The two states combined comprise nearly two-thirds of the increase in the number of single-family homes permitted in the region.

Single-family construction was up in the Midwest region, led by gains in Indiana and Ohio, but homebuilding activity was relatively stable in other states in the region.



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

- Wisconsin recorded the next highest increase in single-family homes permitted, with an increase of 70 homes permitted, or 3 percent above the level a year earlier. Home permitting in the state increased the most in the Milwaukee-Waukesha-West Allis metropolitan area, just 25 miles north of the future Foxconn plant.
- Homebuilding activity was more subdued in the other states in the region. In Illinois, Michigan, and Minnesota single-family permitting increased 2 percent each, or by a combined total of 170 homes.

continued on page 5

Of these large Midwest region metropolitan areas, home prices rose in all eight, and home sales increased in most.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 (\$)	2018 (\$)	Percent Change
Chicago-Naperville-Elgin (N&E)	April	151,400	156,400	3	AVG	267,200	272,700	2
Cincinnati (N&E)	April	45,350	45,750	1	AVG	177,400	183,900	4
Cleveland-Elyria (N&E)	April	38,350	41,250	8	AVG	147,600	150,200	2
Columbus (N&E)	April	41,850	43,000	3	AVG	195,700	206,200	5
Detroit-Warren-Dearborn (N&E)	April	88,700	89,650	1	AVG	163,400	174,900	7
Indianapolis-Carmel-Anderson (N&E)	April	55,100	56,450	2	AVG	193,600	198,300	2
Milwaukee-Waukesha-West Allis (N&E)	April	26,550	26,500	0	AVG	206,200	216,300	5
Minneapolis-St. Paul-Bloomington (N&E)	April	74,200	71,000	-4	AVG	262,800	280,100	7

AVG = average. N&E = new and existing.
 Source: CoreLogic, Inc.



Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Midwest region were balanced during the second quarter of 2018, compared with tighter conditions during the previous quarter and a year ago. New apartment completions helped ease previously tight market conditions in many metropolitan areas, and the vacancy rate rose in six of the eight major metropolitan areas in the Midwest region. Average monthly apartment rents decreased or remained stable in six of the major metropolitan areas in the Midwest region, and the rate of decline in these areas was greater than the national average rent decrease of 1 percent (RealPage, Inc.).

Although the vacancy rate increased in six metropolitan areas in the Midwest, apartment vacancy rates were below the national average of 5.0 percent in five markets. Increases ranged from 0.2 percentage point in the Minneapolis-St. Paul-Bloomington metropolitan area, where multifamily construction increased, to 1.2 percentage points in the Cleveland-Elyria metropolitan area. The vacancy rates increased 0.3 percentage point each in the Chicago-Naperville-Elgin, Detroit-Warren-Dearborn, and Indianapolis-Carmel-Anderson metropolitan areas. In the Chicago-Naperville-Elgin metropolitan area, where the apartment vacancy rate is the second highest among large metropolitan areas in the Midwest region, nearly 1,275 new apartments entered the market during the second quarter of 2018. In downtown Chicago, in the two Realpage, Inc.-defined market areas of The Loop and Streeterville/River North, the vacancy rates were 5.9 and 5.7 percent, up from 5.0 and 5.5 percent a year earlier, respectively. In these two market areas, nearly 1,125 new units, or about 90

percent of the metropolitan area total, were completed during the second quarter of 2018 (RealPage, Inc.). At 3.6 percent, the vacancy rate remained unchanged from a year earlier in the Columbus metropolitan area because growth in renter demand helped the 1,600 units completed during the second quarter of 2018 to be absorbed. The apartment vacancy rate decreased 0.1 percentage point, to 4.8 percent, in the Cincinnati metropolitan area, despite the completion of approximately 1,200 units during the second quarter of 2018, up from zero units during the same period a year earlier.

Average monthly rents decreased in five of the large metropolitan areas in the region discussed in this report, reversing increases during the second quarter of 2017, when apartment conditions were tighter. Reductions ranged from 3 percent in the Cincinnati and the Milwaukee-Waukesha-West Allis metropolitan areas to 8 percent in the Cleveland-Elyria metropolitan area, where rents fell to \$933 partly because of increased home sales in the relatively affordable sales housing market. The average rent remained unchanged from the same quarter the previous year in the Detroit-Warren-Dearborn metropolitan area at \$973, compared with a 3-percent increase during the second quarter of 2017. Increases of 3 and 5 percent were recorded in the Indianapolis-Carmel-Anderson and the Columbus metropolitan areas, where the average rents rose to \$868 and \$940, respectively. The highest rents in the Midwest region were in the two largest Midwest region economies: the Chicago-Naperville-Elgin and the Minneapolis-St. Paul-Bloomington metropolitan areas, but asking rents in each area decreased 5 percent to \$1,490 and \$1,315, respectively.

continued on page 6

Despite rising apartment vacancy rates in nearly all large metropolitan areas in the Midwest region, market conditions were mostly balanced.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 (\$)	2Q 2018 (\$)	Percent Change
Chicago-Naperville-Elgin	Balanced	5.3	5.6	0.3	1,566	1,490	- 5
Cincinnati	Balanced	4.9	4.8	- 0.1	964	937	- 3
Cleveland-Elyria	Balanced	4.6	5.8	1.2	1,018	933	- 8
Columbus	Balanced	3.6	3.6	0.0	895	940	5
Detroit-Warren-Dearborn	Balanced	3.4	3.7	0.3	975	973	0
Indianapolis-Carmel-Anderson	Balanced	5.9	6.2	0.3	845	868	3
Milwaukee-Waukesha-West Allis	Balanced	2.9	3.7	0.8	1,163	1,133	- 3
Minneapolis-St.Paul-Bloomington	Balanced	2.7	2.9	0.2	1,385	1,315	- 5

2Q = second quarter.

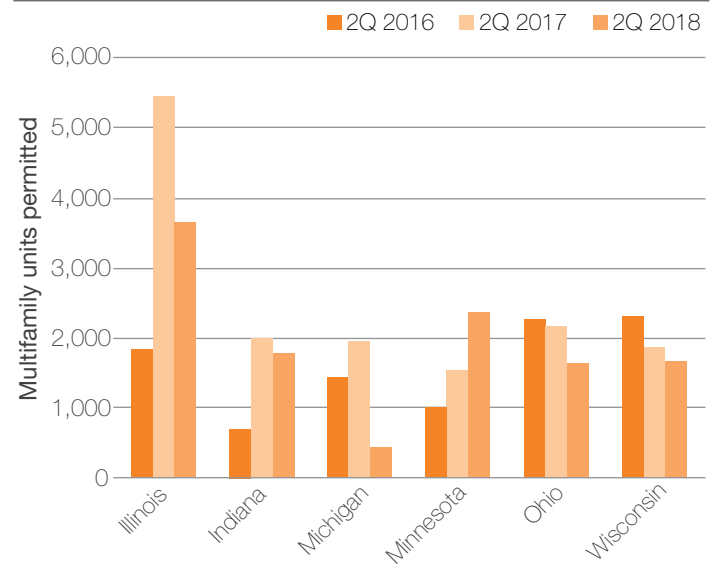
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.



During the second quarter of 2018 (preliminary data)—

- Multifamily permitting returned to normal in the Midwest region, with a decrease of 3,475 units, or 23 percent, to 11,500 multifamily units permitted, partly to allow for the absorption of previously completed units. The number of units permitted nationally decreased 5 percent from the second quarter of 2017.
- The decrease in multifamily permitting in the region was primarily because of declines in Illinois and Michigan, where the number of multifamily units permitted fell by 1,825 and 1,525, or 34 and 78 percent, respectively, reversing significant increases during the second quarter of 2017.
- Three other Midwest region states also reported declines in multifamily permitting; Ohio, Indiana, and Wisconsin declined by 570, 240, and 170 units, or 26, 12, and 9 percent, respectively.
- Multifamily permitting increased in Minnesota by 860 units, or 57 percent, to 2,375, following a 50-percent increase during the same quarter a year earlier. Nearly 90 percent of the multifamily units permitted in the state were in the Minneapolis-St. Paul-Bloomington metropolitan area, where home sales prices are relatively high and renter housing demand is strong.

Multifamily permitting declined in five of six Midwest region states, with the greatest decline in Illinois.



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

