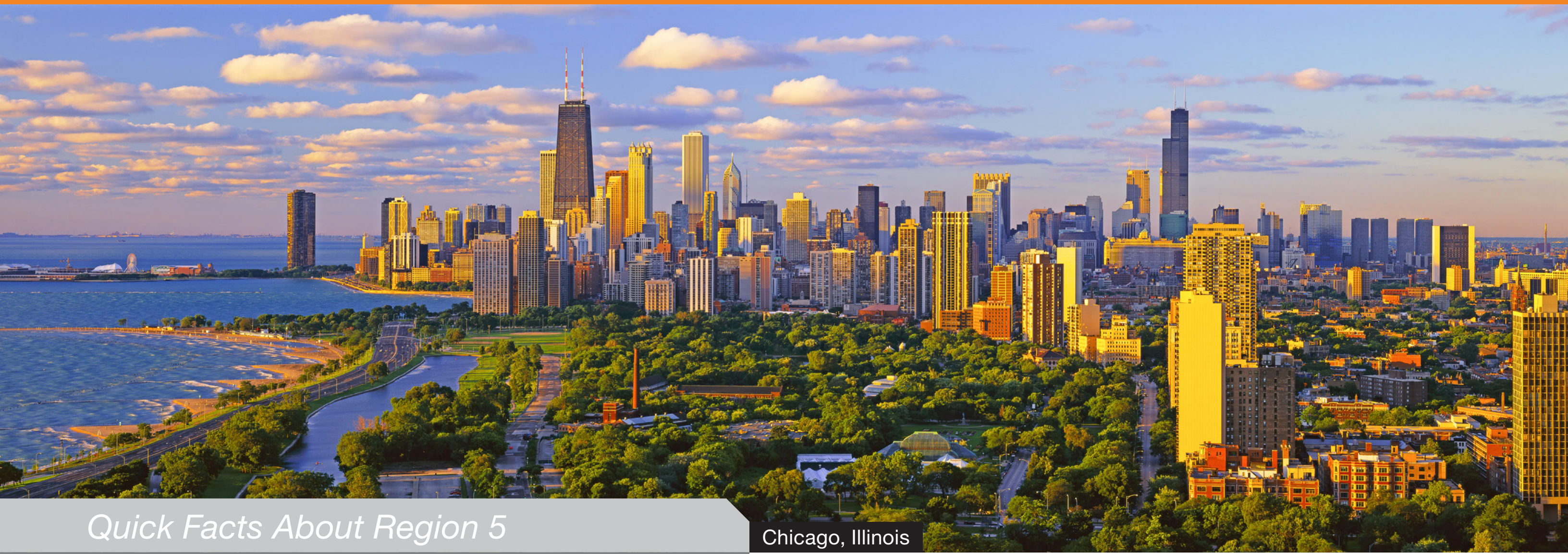
HUD PD&R **Regional Reports**

Region 5: Midwest

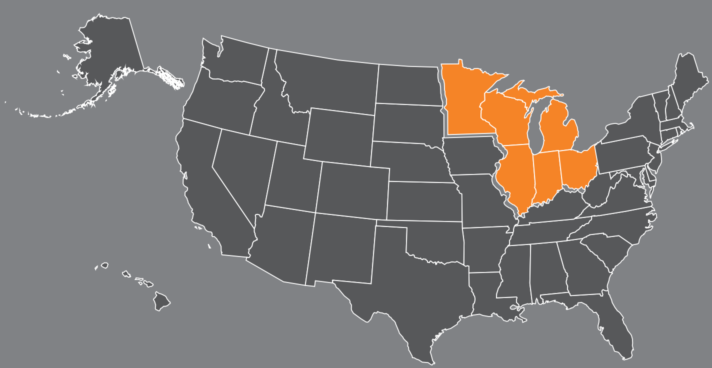


Chicago, Illinois

Quick Facts About Region 5

- **Sales market conditions—**
  Second quarter 2021: mixed (tight to very tight)
  First quarter 2021: mixed (slightly tight to tight)
  Second quarter 2020: mixed (balanced to tight)

- **Apartment market conditions—**
  Second quarter 2021: mixed (balanced to very tight)
  First quarter 2021: mixed (slightly soft to tight)
  Second quarter 2020: mixed (balanced to tight)



By Marissa Dolin | 2nd Quarter 2021

Overview

The second quarter of 2021 was the fifth full quarter since COVID-19 was declared a global pandemic and the first quarter in which to compare year-over-year pandemic-influenced conditions. Nonfarm payrolls in the Midwest region had the largest contraction in history during March and April 2020. Since May 2020, the economy has been recovering from the March and April 2020 recession caused by measures to limit the spread of COVID-19. Year-over-year job gains during the second quarter of 2021 are well above average but follow extremely large losses a year earlier. Monthly payrolls in June 2021 are 775,400 jobs below the prepandemic level in February 2020, but they are 80-percent recovered from losses that occurred during the 2020 recession (monthly data, non-seasonally adjusted). A year ago, housing construction moderated in response to the economic uncertainty, but construction has increased sharply during the current quarter. Single-family permitting is presently at the highest level since 2007. Multifamily permitting is mixed, partially because of a steep rise in the vacancy rates of apartments in the downtown areas of central cities, where multifamily construction had

continued on page 2

continued from page 1

been concentrated in the 2010s. Contributing to the economic recovery was the authorization of vaccines to protect against COVID-19. Vaccinations became available to healthcare workers and seniors in early 2021 and to the general public in April 2021, leading to a reduction in cases of COVID-19 and subsequent easing of measures to limit the spread of the virus.

- Home sales market conditions in the Midwest region have tightened from a year ago, partially because of the historically low inventory of homes for sale. Apartment market conditions are tight or very tight in six of the eight largest metropolitan areas and are balanced in the two highest cost metropolitan areas in the region.
- The unemployment rate in the Midwest region averaged 5.4 percent during the second quarter of 2021, down from 14.3 percent during the same quarter a year ago but above the 3.6-percent rate average during the second quarter of 2019. Minnesota currently has the lowest rate, at 4.1 percent, and Illinois has the highest, at 7.2 percent.
- As of June 30, 2021, approximately 27.36 million residents of the Midwest region, or 52.5 percent of the population, had received at least one dose of a COVID-19 vaccine—up from 15.83 million, or 30.1 percent of residents, as of April 1, 2021. Nationally, the vaccination rate was 55.0 percent on June 30—up from 30.3 percent on April 1.

Economic Conditions

Economic conditions in the Midwest region improved sharply during the second quarter of 2021 compared with a year earlier. The second quarter of 2020 was the first full quarter affected by measures to limit the spread of COVID-19. The job gains reported during the second quarter of 2021 represent a recovery from lows a year earlier but remain below levels from 2019. Nonfarm payrolls in the Midwest region averaged 24.00 million jobs during the second quarter of 2021, up by 1.97 million, or 8.9 percent, from a year earlier and larger than the average annual gain of 289,200, or 1.2 percent, from 2011 to 2019. Despite the large gains, payrolls are 1.39 million jobs, or 5.5 percent, below the second quarter of 2019. All states in the region have recovered a portion of the jobs lost in 2020, but none have fully recovered. Nationally, nonfarm payrolls are up 8.5 percent from a year ago, but they remain 3.7 percent below the rate during the second quarter of 2019.

Manufacturing sector jobs, a core part of the economy in the Midwest region, followed regional trends, with above-average year-over-year growth, but payrolls also remain below 2019 levels. Payrolls in the sector increased by 249,400, or 8.8 percent, from a year ago but are 195,500 jobs, or 6.0 percent, below 2019 levels. A global semiconductor chip shortage has constrained automobile manufacturing and is expected to result in 1.5 to 5.0 million fewer cars produced in 2021 than initially planned by manufacturers (*Washington Post*). The shortage has slowed recovery in the sector.

continued on page 3

Nonfarm payrolls in the Midwest region increased in all 11 sectors during the second quarter of 2021 compared with a year earlier.

	Second Quarter		Year-Over-Year Change	
	2020 (Thousands)	2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm	22,035.0	24,002.8	1,967.8	8.9
Goods-Producing Sectors	3,815.3	4,159.7	344.4	9.0
Mining, Logging, & Construction	986.6	1,081.6	95.0	9.6
Manufacturing	2,828.7	3,078.1	249.4	8.8
Service-Providing Sectors	18,219.8	19,843.1	1,623.3	8.9
Wholesale & Retail Trade	3,180.5	3,466.1	285.6	9.0
Transportation & Utilities	1,055.3	1,136.6	81.3	7.7
Information	307.0	309.4	2.4	0.8
Financial Activities	1,399.1	1,415.0	15.9	1.1
Professional & Business Services	3,001.1	3,249.8	248.7	8.3
Education & Health Services	3,692.3	3,883.3	191.0	5.2
Leisure & Hospitality	1,517.6	2,108.1	590.5	38.9
Other Services	813.2	944.2	131.0	16.1
Government	3,253.5	3,330.5	77.0	2.4

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

continued from page 2

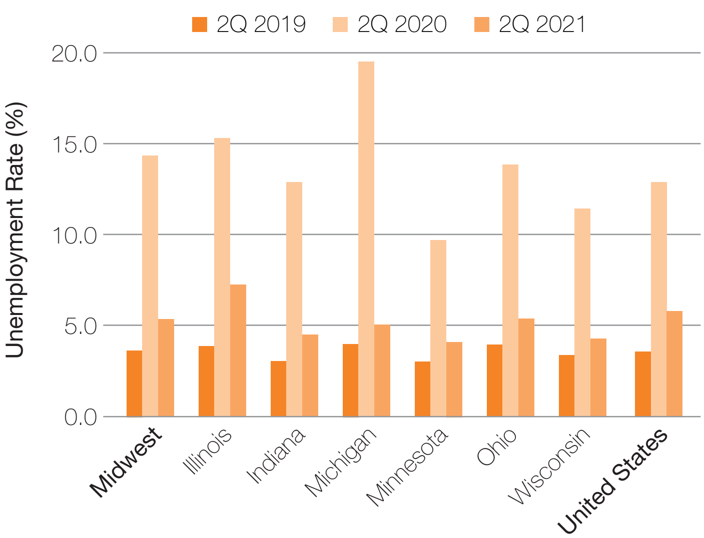
The leisure and hospitality sector had the largest loss a year ago and the largest gain during the most recent year. Indoor dining and large in-person gatherings were very limited during the second quarter of 2020, contributing to the sharp decline in jobs, but restrictions eased in 2021, supporting a partial recovery. The sector averaged 2.11 million jobs during the second quarter of 2021, up by 590,500 jobs, or 38.9 percent, from a year ago and a partial recovery from the 1.04 million jobs lost during the previous year.

The transportation and utilities sector is the only sector in the Midwest region with an increase in jobs compared with the second quarter of 2019. During the second quarter of 2021, the sector averaged 1.14 million jobs, up by 81,300 jobs, or 7.7 percent, from 2020 and 53,600 jobs, or 4.9 percent, above the level in 2019. The growth in e-commerce, which relies heavily on warehouse and transportation workers, and the partial recovery in airline travel contributed to the gain. During the second quarter of 2021, passenger counts at airports nationwide averaged 1.63 million, a five-fold increase from the 279,400 average daily passengers a year earlier but below the average of 2.44 million in 2019 (Transportation Security Administration). Retail sales through e-commerce platforms totaled $196.67 billion nationally during the first quarter of 2021, up 39 percent from a year earlier (U.S. Census E-Commerce Report) and are expected to have remained elevated during the second quarter of 2021.

During the second quarter of 2021—

- In Illinois, nonfarm payrolls increased by 374,300 jobs, or 6.9 percent, but remain 6.3 percent below the rate for the same quarter in 2019. All sectors recovered a portion of jobs lost in 2020 except for the financial activities sector, which declined by 1,800 jobs, or 0.4 percent.
- In Indiana, the transportation and utilities sector had a notable gain, up by 9,000 jobs, or 5.5 percent, continuing a period of year-over-year gains in the sector that began in 2018. The $1.5 billion, 7-year expansion project that began in 2018 at the FedEx Express Indianapolis Hub supported those gains.
- In Michigan, the manufacturing sector had the largest year-over-year gain in more than two decades, up by 97,800 jobs, or 20.8 percent, compared with an average gain of 20,300, or 3.9 percent, annually from 2010 to 2019. Payrolls in the sector, however, are 62,100 jobs, or 9.9 percent, below 2019 levels.
- In Minnesota, the government sector increased by 15,700 jobs, or 3.9 percent, following a loss of 34,700 jobs, or 8.0 percent, a year earlier, but the sector remains 19,000 jobs below 2019 levels. A $166 million budget shortfall at the University of Minnesota—which led to a hiring freeze, furloughs, and pay reductions—has slowed recovery in the sector.
- In Ohio, the construction subsector is nearly recovered from early-pandemic losses. The subsector expanded by 19,500 jobs, or 9.2 percent, and is only 400 jobs, or 0.2 percent, below 2019 levels. Single-family permitting in the state was at the highest level since 2007, supporting recovery in the sector.
- In Wisconsin, the leisure and hospitality sector added 64,600 jobs, a gain of 36.3 percent. The sector is 83 percent recovered from 2020 losses, compared with 82 percent recovered in the region. The 10 Milwaukee Bucks NBA home playoff games each generated an estimated $3 million in tourism spending in the city of Milwaukee, in addition to extra trips to bars and restaurants around the state to watch the games (Visit Milwaukee).

The unemployment rate declined in all states in the Midwest region during the second quarter of 2021 compared with the elevated rates a year earlier.



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

Sales Market Conditions

Home sales market conditions in the Midwest region are tight to very tight, a change from balanced to tight conditions a year ago. Factors that contributed to tighter conditions include low mortgage interest rates, further decline in the inventory of homes for sale, and increased opportunities to work from home relative to conditions before the pandemic. Low mortgage interest rates increased the number of homebuyers because of potential reductions in the cost of ownership. Rates averaged 3.00 percent during the second quarter of 2021, down 0.24 percentage point from a year ago and 1.01 percentage points from 2019. The limited inventory of homes for sale, which averaged 1.7 months during the 12 months ending May 2021, was down from 3.0 months during the previous 12-month period (CoreLogic, Inc.), contributing to increased home prices because of the dearth of available homes for sale relative to potential buyers. The need for an at-home workspace and where workers choose to live when not commuting regularly to an office have affected housing preferences for a portion of the 27 percent of households in the Midwest region with at least one adult who teleworked in mid-June 2021 (U.S. Census Pulse Survey, Week 32).

The average home sales price in the region, including new and existing homes, increased 12 percent during the 12 months ending May 2021, the largest year-over-year increase in more than a decade (Zonda). Previously, home sales prices increased an average of 4 percent annually from 2013 to 2020 and declined most years from 2007 to 2012. During the most recent 12 months, the average price increased in all states, with gains ranging from 8 percent in Minnesota to 15 percent in Indiana. The price increase was slightly faster in the eight largest metropolitan areas, with an average increase of 13 percent and gains ranging from 9 percent in the Milwaukee-Waukesha area to 16 percent in the Indianapolis-Carmel-Andersen area.

The rapid increase in home sales prices during the 12 months ending May 2021 has contributed to fewer households being able to afford to buy a home. During the second quarter of 2021, the share of homes for sale that were affordable to a median-income household in the metropolitan area declined in seven of the eight largest metropolitan areas in the Midwest region compared with the same quarter a year ago. Data in the Detroit-Dearborn-Livonia area were unavailable for year-over-year comparison but are estimated to have also declined. The largest decline was in the Columbus metropolitan area, down 5.2 percentage points, to 69.3 percent (NAHB/Wells Fargo Housing Opportunity Index). The area with the largest share of homes affordable to a median-income household is Indianapolis-Carmel-Anderson, at 87.2 percent, down from

continued on page 5

Home prices increased in all six states and the eight largest metropolitan areas in the Midwest region during the 12 months ending May 2021.

		Number of Homes Sold			Price			
	12 Months Ending	2020	2021	Percent Change	Average	2020 ($)	2021 ($)	Percent Change
Illinois	May	195,457	211,597	8	AVG	244,516	276,194	13
Chicago-Naperville-Elgin, IL-IN-WI	May	150,477	166,317	11	AVG	277,848	318,067	14
Indiana	May	157,562	170,935	8	AVG	181,629	209,768	15
Indianapolis-Carmel-Anderson, IN	May	49,114	55,012	12	AVG	213,454	247,830	16
Michigan	May	148,577	167,959	13	AVG	201,877	224,190	11
Detroit-Warren-Dearborn, MI	May	73,054	82,277	13	AVG	218,288	243,762	12
Minnesota	May	111,432	120,907	9	AVG	270,314	291,548	8
Minneapolis-St. Paul-Bloomington, MN-WI	May	72,846	76,652	5	AVG	312,786	342,790	10
Ohio	May	218,372	202,114	-7	AVG	180,988	202,861	12
Cincinnati, OH-KY-IN	May	43,708	41,298	-6	AVG	212,667	233,922	10
Cleveland-Elyria, OH	May	39,537	32,792	-17	AVG	180,478	205,073	14
Columbus, OH	May	41,595	41,504	0	AVG	238,616	273,405	15
Wisconsin	May	114,084	133,228	17	AVG	207,766	225,812	9
Milwaukee-Waukesha, WI	May	24,719	28,960	17	AVG	253,646	277,429	9

AVG = average.

Notes: Some metropolitan areas include counties in more than one state. Home sales and prices include new and existing homes. Data extracted August 3, 2021. The decline in home sales in Ohio may be attributed to a reporting lag.

Source: Zonda

continued from page 4

88.3 percent a year earlier. The area with the smallest share is Chicago-Naperville-Arlington Heights, at 61.7 percent, down from 65.5 percent; the national rate is 56.6 percent, down from 64.9 percent.

Total home sales in the region, including new and existing homes, increased 6 percent during the most recent 12 months—a reversal from the 2 previous years, when sales declined 2 and 1 percent, respectively (Zonda). Sales increased in five of the six states in the region during the most recent 12 months. The largest increase was in Wisconsin, up 17 percent. Among the eight largest metropolitan areas, the Milwaukee-Waukesha metropolitan area had the fastest increase, up 17 percent. Among areas covered in this report, only Ohio and the three largest metropolitan areas in the state—Cincinnati, Cleveland-Elyria, and Columbus—reported declining home sales; however, the decline in sales may be attributed to a data reporting lag. The Ohio Association of Realtors reported rising sales statewide and in the three Ohio metropolitan areas.

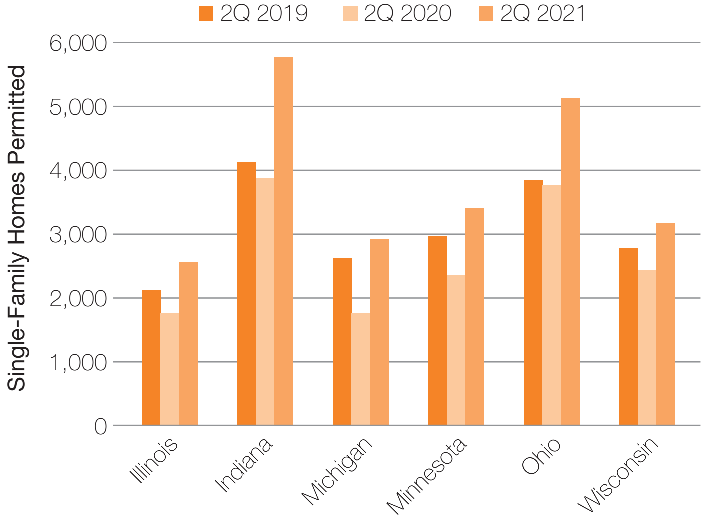
The rate of seriously delinquent mortgage loans (loans 90 or more days delinquent or in foreclosure) and REO (real estate owned) properties in the Midwest region is up from a year ago but is down from the recent peak in late 2020. In May 2021, the rate was 2.8 percent, up from 1.4 percent in May 2020 but below the peak of 3.6 percent in October 2020. A similar trend occurred nationally, with a rate of 3.3 percent in May 2021, up from 1.6 percent a year earlier but below the recent peak of 4.4 percent in August 2020. Improving economic conditions contributed to the decline because some homeowners who lost jobs at the onset of the pandemic have returned to work. Despite the elevated rate, policy changes enabled by the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted in March 2020 limited delinquent loans moving to foreclosure or REO status. The policy is currently set to expire later in 2021.

In response to rapidly rising home sales prices and a low inventory of homes for sale, the largest year-over-year increase in single-family permitting since 2004 occurred.

During the second quarter of 2021 (preliminary data)—

- Single-family home construction, as measured by the number of single-family homes permitted, totaled 22,900, up by 7,000, or 44 percent, from the same quarter a year ago—a reversal from a decline of 2,500, or 14 percent, in 2020. During the second quarters of 2016 through 2019, permitting averaged 18,800.
- By state, the fastest increase was in Michigan, up by 1,150, or 66 percent, to 2,900, and the largest increase was in Indiana, up by 1,900, or 49 percent, to 5,775. The remaining four states in the region also reported increases ranging from 30 percent in Wisconsin to 47 percent in Illinois.
- Among the eight largest metropolitan areas, the fastest increase was in the Columbus area, up by 840, or 75 percent, to 1,975, and the largest increase was in the Chicago-Naperville-Elgin area, up by 1,075, or 63 percent, to 2,800. The other six areas also had gains, ranging from 20 percent in the Cleveland-Elyria area to 74 percent in the Detroit-Warren-Dearborn area.
- Single-family construction has become a larger share of the total housing units permitted. Approximately 64 percent of housing units permitted were single-family homes, up from 59 percent a year earlier. In the eight largest metropolitan areas, the shift was even larger, with 66 percent of housing units permitted, up from 54 percent a year earlier.

During the second quarter of 2021, single-family permitting in all states in the Midwest region were above levels from the same quarter in 2019 and 2020.



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

Apartment Market Conditions

Apartment market conditions in the eight largest metropolitan areas in the Midwest region are mixed, ranging from balanced to very tight. In the two highest cost metropolitan areas, Chicago-Naperville-Elgin and Minneapolis-St. Paul-Bloomington, market conditions were balanced, whereas conditions in the other six areas were tight or very tight. The Detroit-Warren-Dearborn area had the fastest rent growth, up 7 percent during the second quarter of 2021 compared with a year earlier, and the lowest current vacancy rate among the largest metropolitan areas in the region.

The vacancy rate declined in seven of the eight largest metropolitan areas during the second quarter of 2021 compared with a year ago, partially because of improved economic conditions. The current vacancy rate is below 5.0 percent in all eight areas. The largest reductions in the vacancy rate were in the Detroit-Warren-Dearborn area, down 1.3 percentage points from a year ago, to 2.3 percent, and the Indianapolis-Carmel-Anderson area declined 0.9 percentage point, to 4.1 percent. The large reductions in the vacancy rates in the two areas have led to both areas reaching the lowest apartment vacancy rate in more than a decade. The only area with an increase in vacancy was the Minneapolis-St. Paul-Bloomington area, up 0.3 percentage point, to 4.0 percent. The current rate in Minneapolis is 1.3 percentage points above the rate 2 years earlier.

The temporary renter eviction moratorium issued by the Centers for Disease Control and Prevention (CDC)—enacted September 4, 2020, and set to expire later in 2021—contributed to the reduction in the vacancy rate by limiting evictions because of unpaid rent. To assist households financially with past-due rent and prevent eviction upon expiration of the moratorium, the Emergency Rental Assistance (ERA) Program was established in December 2020. Improvements in the economy and the ERA have contributed to fewer households being behind on rent compared with a year ago. As of mid-June 2021, only 15 percent of renter households were not currently caught up on rent, down from 18 percent a year earlier (U.S. Census Pulse Survey, Weeks 32 and 8).

The average rent increased in all eight metropolitan areas during the second quarter of 2021 compared with the same quarter a year ago. Rent growth was strongest in the Detroit-Warren-Dearborn area, up 7 percent, accelerating from a 3-percent increase a year earlier. Rent growth was slowest in the two areas with the highest average rent: Minneapolis-St. Paul-Bloomington, with a 1-percent increase, to $1,387, and Chicago-Naperville-Elgin, with a $1 increase, to $1,581.

Current apartment market conditions in the downtown portions of the eight largest metropolitan areas are weaker than current conditions in the respective metropolitan areas. Downtown apartment markets weakened in spring 2020 when the benefits of downtown living, such as proximity to offices and entertainment, were reduced because of telework policies and social distancing measures. The downtown apartment vacancy rate during the second quarter of 2021 was higher than that of the respective metropolitan area in all eight RealPage, Inc.-defined submarket areas, with the largest difference in Downtown Indianapolis, where the vacancy rate was 10.2 percent, or 6.1 percentage points, higher than that of the Indianapolis-Carmel-Anderson metropolitan area. The downtown apartment vacancy rate increased in seven of the areas and was unchanged in the Downtown Detroit/Midtown/Rivertown area from a year ago. The average rent declined

continued on page 7

The vacancy rate decreased in seven of the eight largest metropolitan areas in the Midwest region, and rent increased in all eight areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2020 (%)	2Q 2021 (%)	Percentage Point Change	2Q 2020 ($)	2Q 2021 ($)	Percent Change
Chicago-Naperville-Elgin, IL-IN-WI	Balanced	5.0	4.8	-0.3	1,580	1,581	0
Cincinnati	Tight	3.7	3.5	-0.2	1,011	1,065	5
Cleveland-Elyria	Tight	3.8	3.3	-0.5	984	1,029	5
Columbus	Tight	4.3	4.1	-0.2	1,011	1,076	6
Detroit-Warren-Dearborn	Very Tight	3.6	2.3	-1.3	1,016	1,089	7
Indianapolis-Carmel-Anderson	Tight	5.0	4.1	-0.9	944	1,001	6
Milwaukee-Waukesha-West Allis	Tight	3.4	3.2	-0.2	1,197	1,264	6
Minneapolis-St. Paul-Bloomington	Balanced	3.7	4.0	0.3	1,380	1,387	1

2Q = second quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

continued from page 6

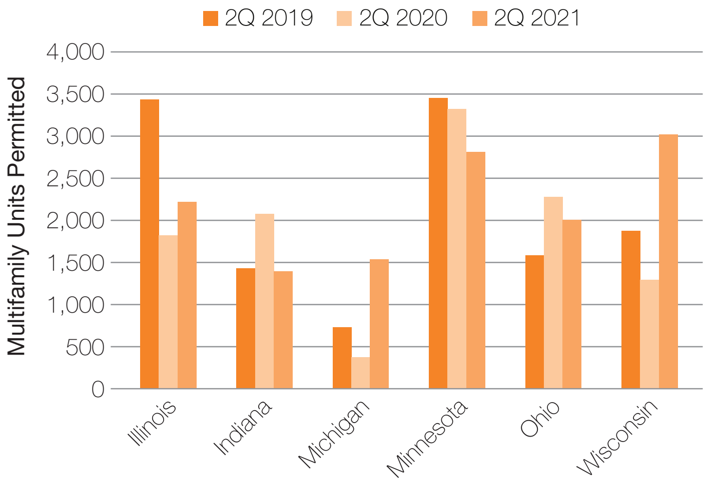
or was unchanged in seven of the eight downtowns, with the largest decline in the Downtown Minneapolis/University area, down 10 percent from a year ago. The Downtown Milwaukee/Shorewood area was the only downtown with an increase in rent, up 2 percent, as compared with the 6-percent increase in the overall Milwaukee-Waukesha-West Allis metropolitan area.

The direction of year-over-year trends in the 75 metropolitan areas in the Midwest region with available data was similar to the trends in the eight largest areas. The average asking rent increased in all but 3 areas, and 43 of the areas had an increase of 5 percent or more during the second quarter of 2021 compared with the same quarter a year ago. The vacancy rate declined in 59 areas, was unchanged in 2, increased in 14, and was unavailable in 1. Areas with an increase in the vacancy rate include Madison, WI, Bloomington, IN, and Ann Arbor, MI, all of which have relatively large university student populations.

During the second quarter of 2021 (preliminary data)—

- In the Midwest region, multifamily permitting increased by 1,825 units, or 16 percent, to 12,950, a reversal from the 11-percent decline in 2020. Permitting during the second quarter of 2021 was relatively on par with permitting during the second quarters of 2017 through 2019, when permitting averaged 12,950.
- Among Midwest region states, permitting trends were mixed. Illinois, Michigan, and Wisconsin each had gains, whereas permitting in Indiana, Ohio, and Minnesota declined.
- Combined, the eight largest metropolitan areas had a 5-percent decline in multifamily unit permitting. The Columbus metropolitan area had the largest decline, down by 1,425 units, or 72 percent. The Detroit-Warren-Dearborn area, which has a very tight apartment market, had the largest increase, up by 920 units to 1,100—more than five times the number of units permitted a year earlier.
- The Madison, WI metropolitan area had a notable increase in permitting, up by 1,100 units, to 1,650. Permitting in the Madison area, the second most populous metropolitan area in Wisconsin, accounted for 55 percent of units permitted in the state. The Milwaukee-Waukesha area, the most populous metropolitan area in the state, accounted for 11 percent of multifamily permitting statewide.

During the second quarter of 2021, multifamily permitting in the Midwest region was mixed: up in three states and down in three states from a year earlier.



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