HUD PD&R **Regional Reports**

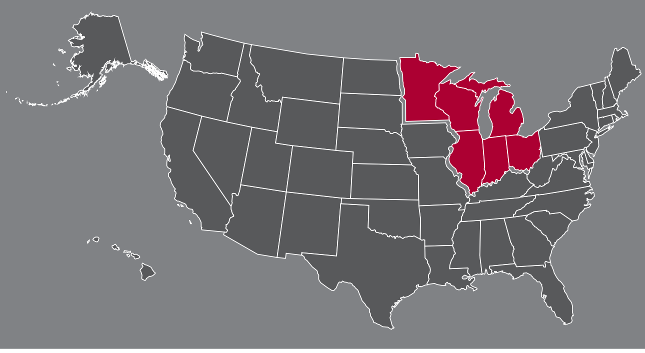
Region 5: Midwest

Chicago, Illinois

Quick Facts About Region 5

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

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



By Tomasz Kukawski | 3rd quarter 2017

Overview

The economic expansion in the Midwest region that began in the third quarter of 2010 continued in the third quarter of 2017, with the rate of growth unchanged from a year ago. Nonfarm payrolls grew in every state in the region led by Michigan. Because of continued economic stability, sales housing market conditions remained balanced to soft and apartment market conditions balanced to tight in major apartment markets in the region. Home sales, home sales prices, and average apartment rents rose in most major markets. Apartment vacancy rates increased in all the major markets primarily because of elevated multifamily production in the past 2 years. Most recently, multifamily construction declined in every state in the region during the third quarter of 2017, except Michigan, compared with the same quarter a year earlier.

During the third quarter of 2017—

- The unemployment rate in the Midwest region fell one-half percentage point from a year earlier to 4.4 percent, and the unemployment rate declined for every state in the region, except Ohio. This is the lowest rate for the region since the third quarter of 2000.
- Home sales in the region rose less than 1 percent during the 12 months ending July 2017 to 945,800 homes sold. Average single-family home sales prices rose in every state in the Midwest, and sales increased in Illinois, Ohio, and Wisconsin but declined in Minnesota, Michigan, and Indiana.

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- Single-family construction activity, as measured by the number of homes permitted, increased 5 percent to 17,650 homes permitted, as builders responded to increasing demand for new homes.
- Following relatively high-production levels during the previous 2 years, multifamily permitting fell 20 percent to 9,950 units compared with a 9-percent decline nationally.

Economic Conditions

Economic conditions continued to strengthen in the Midwest region during the third quarter of 2017, as the current economic recovery and expansion entered its seventh year. Nonfarm payroll jobs have posted continuous year-over-year gains since the third quarter of 2010. During the third quarter of 2017, nonfarm payrolls in the Midwest region averaged 25.12 million, a gain of 289,800 jobs, or 1.2 percent, from the third quarter of 2016. Payrolls increased in every state in the region during the third quarter of 2017, led by Michigan where jobs grew by 68,900, or 1.6 percent. Job gains in Ohio and Minnesota totaled 64,300 and 51,200 jobs, or 1.2 and 1.8 percent, respectively. In Indiana and Wisconsin, nonfarm payrolls rose by 47,200 and 33,000, or 1.5 and 1.1 percent, respectively, and Illinois gained 25,200 jobs, or 0.4 percent growth. The payroll growth rates in Michigan, Minnesota, and Indiana exceeded the 1.4-percent national rate of nonfarm payroll growth; job growth in the other states was below the national rate. The education and health services sector is the largest employment sector in the region with nearly 4 million jobs and accounts for 16 percent of all nonfarm payroll jobs in the Midwest. The education and health services sector is the largest employment sector in Michigan, Ohio, and Minnesota. The professional and business services sector is the leading sector in Illinois with more than 962,000 jobs, accounting for 16 percent of all nonfarm payroll jobs in the state. In Indiana and Wisconsin, the manufacturing sector is the largest employment sector with 532,000 and 479,600 jobs, respectively. The manufacturing sector continues to be an important part of the economy in the Midwest and, during the third quarter of 2017, totaled 3.2 million jobs, accounting for nearly 13 percent of all nonfarm payroll jobs in the region. By comparison, the sector represents less than 9 percent of all nonfarm payroll jobs in the nation. The Midwest region accounts for more than 25 percent of the 12.5 million manufacturing jobs in the nation, approximately the same share as in 2010 but up from 23 percent in 1990. During the third quarter of 2017, the unemployment rate in the region declined in every state except Ohio, where the labor force grew faster than resident employment, causing the unemployment rate to rise. Overall, the unemployment rate in the region averaged 4.4 percent during the third quarter of 2017, down from 4.9 percent a year earlier.

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Job growth was positive in all but two nonfarm payroll sectors in the Midwest region during the third quarter of 2017.

	Third Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,829.3	25,119.1	289.8	1.2
Goods-producing sectors	4,225.5	4,283.3	57.8	1.4
Mining, logging, and construction	1,045.4	1,078.3	32.9	3.1
Manufacturing	3,180.1	3,205.0	24.9	0.8
Service-providing sectors	20,603.8	20,835.8	232.0	1.1
Wholesale and retail trade	3,700.5	3,692.2	– 8.3	– 0.2
Transportation and utilities	989.0	996.4	7.4	0.7
Information	362.3	358.2	– 4.1	– 1.1
Financial activities	1,370.3	1,399.6	29.3	2.1
Professional and business services	3,366.3	3,416.6	50.3	1.5
Education and health services	3,909.1	3,973.1	64.0	1.6
Leisure and hospitality	2,528.1	2,581.5	53.4	2.1
Other services	1,031.6	1,046.6	15.0	1.5
Government	3,346.5	3,371.8	25.3	0.8

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

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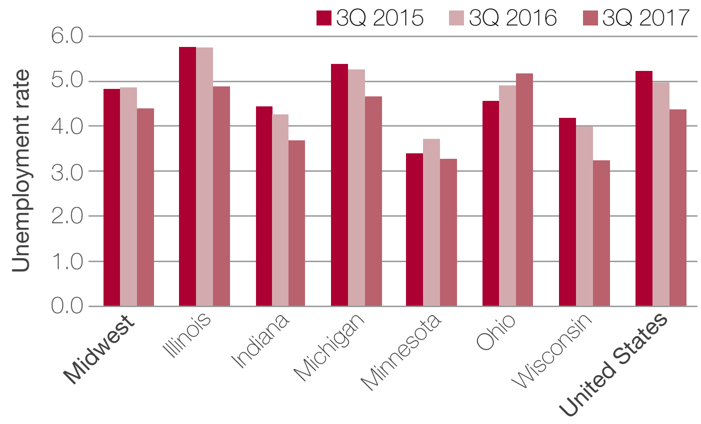
During the third quarter of 2017—

- A gain of 64,000 jobs, or 1.6 percent, in the education and health services sector led job growth and accounted for nearly 22 percent of all jobs added in the region. Additions in the sector were spread throughout the states from 18,400, 17,500, and 11,700 jobs in Minnesota, Ohio, and Indiana, respectively, to 7,000 jobs in Illinois, 5,400 in Wisconsin, and 3,900 jobs in Ohio.
- The leisure and hospitality sector recorded the second largest growth of 53,400 jobs, or 2.1 percent. Most job gains in the sector occurred in Ohio, Michigan, and Wisconsin, up by 18,700, 12,200, and 8,800 jobs, respectively.
- Nonfarm payrolls rose in all states in the professional and business services sector, up 50,300 jobs in the region, or 1.5 percent. In the Midwest, nearly two-thirds of the gains in the sector occurred in Illinois and Michigan, where the sector expanded by 17,000 and 14,600 jobs, respectively.
- In the mining, logging, and construction sector, the natural resources and mining subsector in the region expanded for the first time since 2014, with a gain of nearly 2,000 jobs, or 4.4 percent, while the construction subsector rose by 30,900 jobs, or 3.1 percent. Every state in the region recorded increases in the mining and logging subsector; however, nearly 40 percent of growth in the subsector occurred in Minnesota, where iron ore production increased because of rising global demand for steel.
- The trade and information sectors were the only sectors to decline in the region, decreasing by 8,300 and 4,100 jobs, or 0.2 and 1.1 percent, respectively. In the information sector, losses in Wisconsin, Indiana, and Minnesota of 2,600, 2,100, and 600 jobs, respectively, offset gains in other states in the region, led by Illinois, where 700 jobs were added.

Ohio was the only state in the Midwest region in which the unemployment rate rose during the third quarter of 2017, and the regional rate was the same as the national rate.



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

Sales Market Conditions

Sales housing market conditions ranged from balanced to soft across the Midwest region, unchanged from the previous quarter and the previous year. During the 12 months ending July 2017, the number of homes sold in the region rose by less than 1 percent compared with a more than 3-percent gain during the previous 12-month period (CoreLogic, Inc. with adjustments by the analyst). Home sales in the region slowed largely due to a low inventory of available homes. Sales fell in the Minneapolis-St. Paul-Bloomington and Milwaukee-Waukesha-West Allis metropolitan areas, declining 3 and 2 percent, respectively, and remained unchanged from a year earlier in the Cincinnati metropolitan area. Sales increased in the remaining major metropolitan areas and ranged from 1 percent in the Detroit-Warren-Dearborn metropolitan area to nearly 8 percent in the Cleveland-Elyria metropolitan area. By comparison, home sales nationwide declined more than 1 percent during the 12 months ending July 2017, reversing the near 4-percent growth a year earlier.

In the region, the average home sales price (including single-family homes, townhomes, and condominiums) rose 5 percent to $182,500 during the 12 months ending July 2017, lower than the national average growth of 6 percent but above the 4-percent gain in the region a year earlier. Each major metropolitan area in the region recorded an increase in home sales prices, from 2 percent in the Indianapolis-Carmel-Anderson and Milwaukee-Waukesha-West Allis areas, where the average home sales price was $192,450 and $205,600, respectively, to 8 percent in the Detroit-Warren-Dearborn area, with an average home sales price of $167,100. Among the major metropolitan areas in the Midwest, the average home sales price was the lowest at $147,550 in the Cleveland-Elyria metropolitan area, while the Minneapolis-St. Paul-Bloomington area overtook the Chicago-Naperville-Elgin area as the metropolitan area with the highest average sales housing prices in the region. During the 12 months ending July 2017, the average home sales price in the Minneapolis-St. Paul-Bloomington area rose 5 percent to $268,800.

In August 2017, 2.1 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 (REO) status, down from 2.5 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 each in Illinois and Ohio. The percentage of seriously

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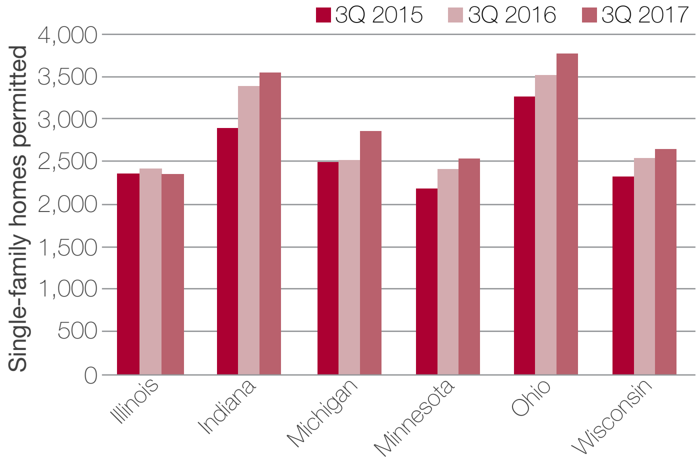
delinquent mortgage loans and REO properties was highest in Ohio, Illinois, and Indiana at 2.7, 2.6, and 2.4 percent, respectively. These rates were higher than the average of 2.2 percent for the nation.

During the third quarter of 2017 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, totaled 17,650, up by 870, or 5 percent, from a year earlier compared with a rise of 1,250, or 7 percent, from the previous year. By comparison, the number of homes permitted nationally increased nearly 8 percent from a year earlier after a 5-percent gain in the third quarter of 2016.
- Michigan and Ohio had the largest net gain in single-family permitting, up approximately 330 and 240 homes, respectively, from a year ago. The two states combined to contribute two-thirds of the increase in all homes permitted in the region.
- Among the states in the Midwest, the only decline in single-family homebuilding activity during the third quarter of 2017 occurred in Illinois, where permitting fell by 75 homes, or 3 percent. Limited job gains in the state during the third quarter of 2017 slowed demand for single-family homes.
- The largest increases in single-family homebuilding activity in the region occurred in the Cincinnati, Detroit-Warren-Dearborn, and Minneapolis-St. Paul-Bloomington metropolitan areas, in which single-family home permitting rose by 220, 210, and 210, or 23, 13, and 10 percent, respectively. The three areas accounted for 82 percent of the gain in single-family homebuilding activity among the major metropolitan areas in the Midwest.

Single-family permitting increased in every state in the Midwest region, except Illinois, during the third quarter of 2017.



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

Economic growth in the Midwest region contributed to a rise in home sales in most large metropolitan areas, while 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)	July	144,745	150,166	4	AVG	260,300	268,400	3
Cincinnati (N&E)	July	41,704	41,548	0	AVG	170,050	174,900	3
Cleveland-Elyria (N&E)	July	35,722	38,573	8	AVG	143,450	147,550	3
Columbus (N&E)	July	39,736	40,586	2	AVG	188,400	200,850	7
Detroit-Warren-Dearborn (N&E)	July	87,207	88,072	1	AVG	155,400	167,100	8
Indianapolis-Carmel-Anderson (N&E)	July	51,197	52,042	2	AVG	189,600	192,450	2
Milwaukee-Waukesha-West Allis (N&E)	July	25,128	24,543	– 2	AVG	200,950	205,600	2
Minneapolis-St. Paul-Bloomington (N&E)	July	71,368	68,994	– 3	AVG	256,700	268,800	5

AVG = average. N&E = new and existing.
Source: CoreLogic, Inc. with adjustments by the analyst

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Midwest region ranged from balanced to tight during the third quarter of 2017. The number of apartment units completed in the region rose during the previous 12 months, leading to increased vacancy rates in the metropolitan areas included in this report. During the 12 months ending September 2017, approximately 41,350 apartment units were completed in the Midwest, an increase of 4,650 units, or 13 percent from the previous 12 months (McGraw-Hill Construction Pipeline database). Currently, an estimated 37,000 units are under construction in the region compared with 40,800 units under construction at the end of third quarter in 2016.

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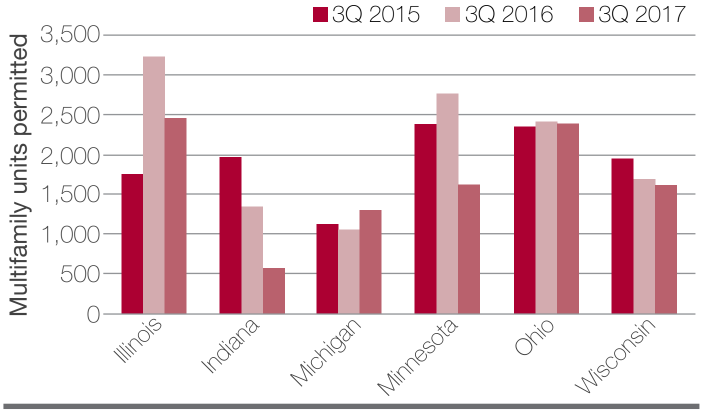
The largest increase in the apartment vacancy rate occurred in the Chicago-Naperville-Elgin area where the rate rose 1.3 percentage points from 3.4 to 4.7 percent (MPF Research). The vacancy rate in the Chicago-Naperville-Elgin metropolitan area increased because of a high level of multifamily completions during the past 2 years combined with a slow rate of population growth. The metropolitan area remains the most expensive apartment housing market in the Midwest, and the average rent rose 3 percent to $1,409 from the third quarter of 2016. Tight apartment market conditions prevailed in the Minneapolis-St. Paul-Bloomington and Detroit-Warren-Dearborn metropolitan areas, where vacancy rates were 2.7 and 2.8 percent, and rents rose 7 and 5 percent, respectively. In Ohio, improving economic conditions in the Columbus and Cincinnati metropolitan areas contributed to slightly tight apartment market conditions with vacancy rates of 3.7, and 4.0 percent, respectively. Rent growth in these areas was relatively strong; rents in each rose 5 percent from a year earlier. Among the metropolitan areas in this report, average monthly rent grew at the slowest rate in the Cleveland-Elyria metropolitan area, up 1 percent from a year earlier, where rent growth has been limited because of declining population and competition from an affordable sales housing market. The apartment market in the Cleveland-Elyria and Milwaukee-Waukesha-West Allis metropolitan areas remains slightly tight with a vacancy rate of 3.8 and 3.3 percent, but these rates are 0.9 and 0.4 percent above the rates a year earlier.

During the third quarter of 2017 (preliminary data)—

- The number of multifamily units permitted in the Midwest region fell to 9,950, down by 2,550 units, or 20 percent compared with the same quarter a year earlier.
- The largest declines in the region occurred in Minnesota, Indiana, and Illinois, where multifamily permitting fell by 1,150, 780, and 780 units, or 41, 58, and 24 percent, respectively, from the same quarter a year ago, largely because developers sharply reduced production of luxury apartment units in major metropolitan areas.
- Illinois and Ohio had the highest number of multifamily units permitted in the Midwest, with 2,450 and 2,400 units, respectively; the combined 4,850 accounted for nearly one-half of multifamily units permitted in the region. In Illinois, 90 percent of the units permitted in the state were in the Illinois portion of the Chicago metropolitan area. In Ohio, more than 80 percent of the multifamily units permitted were in the Columbus and the Ohio portion of the Cincinnati metropolitan areas.
- Offsetting declines in other states, multifamily permitting in Michigan rose by 240 units, or 23 percent, from the same period a year earlier. Approximately one-half of the multifamily units permitted in the state were in the Detroit-Warren-Dearborn metropolitan area.

During the third quarter of 2017, multifamily permitting declined in every state in the Midwest region except Michigan.



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

Apartment market conditions remained tight to balanced across the Midwest region, and rent growth was the highest in the Minneapolis-St.Paul-Bloomington metropolitan area.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2016 (%)	3Q 2017 (%)	Percentage Point Change	3Q 2016 ($)	3Q 2017 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	3.4	4.7	1.3	1,372	1,409	3
Cincinnati	Slightly tight	3.0	4.0	1	878	919	5
Cleveland-Elyria	Slightly tight	2.9	3.8	0.9	870	876	1
Columbus	Slightly tight	3.1	3.7	0.6	859	901	5
Detroit-Warren-Dearborn	Tight	2.2	2.8	0.6	909	956	5
Indianapolis-Carmel-Anderson	Balanced	5.1	6.1	1	814	832	2
Milwaukee-Waukesha-West Allis	Slightly tight	2.9	3.3	0.4	1,000	1,038	4
Minneapolis-St. Paul-Bloomington	Tight	2.0	2.7	0.7	1,147	1,227	7

3Q = third quarter.
Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research