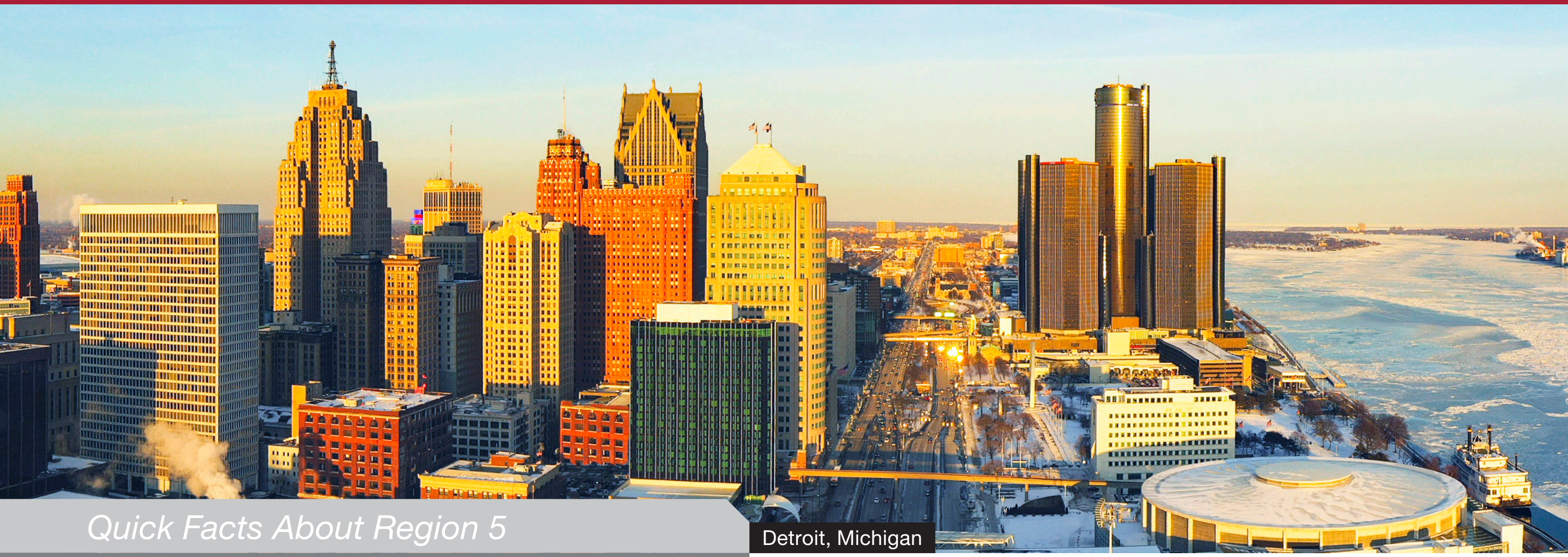
# HUD PD&R **Regional Reports**

## Region 5: Midwest

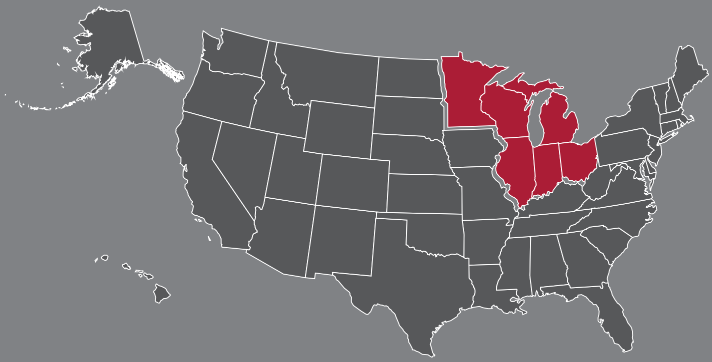


Detroit, Michigan

### *Quick Facts About Region 5*

- **Sales market conditions—**
  Third quarter 2020: mixed (balanced to tight)
  Second quarter 2020: mixed (balanced to tight)
  Third quarter 2019: balanced

- **Apartment market conditions—**
  Third quarter 2020: mixed (balanced to tight)
  Second quarter 2020: mixed (balanced to tight)
  Third quarter 2019: mixed (balanced to tight)



By Sam Young | 3rd Quarter 2020

## Overview

When the World Health Organization declared COVID-19 a pandemic on March 11, 2020, government responses to slow the spread of the virus—including enforcing social distancing and encouraging nonessential businesses to temporarily close—caused economic activity in the region to decline dramatically. The economic contraction that began during the second quarter of 2020 continued in the third quarter of 2020 despite Midwestern states beginning to reopen in phases. Consumer spending fell nearly 2 percent nationally to $14.39 trillion during the third quarter of 2020 from a year earlier but rose 10 percent from the second quarter of 2020 to the third quarter of 2020 (U.S. Bureau of Economic Analysis). The annual decline was concentrated on spending for consumer services, including transportation and recreation services and food services and accommodations. The trend was similar in the Midwest region, but despite the contraction of the regional economy, conditions in the sales and apartment markets ranged from balanced to tight, similar to conditions a year ago.

- During the third quarter of 2020, nonfarm payrolls in the Midwest region decreased 7.6 percent, the third-largest

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percentage decline among the 10 HUD-defined regions, and the number of jobs lost in the Midwest region accounted for 18 percent of the 10.58 million jobs lost nationally. Nonfarm payrolls declined in every state in the region; job losses were highest in Michigan, which accounted for 24 percent of the jobs lost in the region and accounted for 26 percent of the regional job gain from the second quarter of 2020 to the third quarter of 2020.

- During the 12 months ending August 2020, home sales price growth and new home construction increased, whereas home sales decreased partly due to declining for-sale inventory.
- Apartment vacancy rates increased in most of the markets cited in this report, despite a decline in new apartment completions from a year earlier; average apartment rents increased in the eight largest apartment markets in the region.

# Economic Conditions

Economic conditions in the Midwest region contracted during the third quarter of 2020, largely due to countermeasures employed to slow the spread of COVID-19. Nonfarm payrolls in the Midwest region declined by 1.92 million jobs, or 7.6 percent, from the third quarter of 2019 to the third quarter of 2020. Every nonfarm payroll sector declined from a year ago, and declines were led by the leisure and hospitality sector, which fell by 616,300 jobs, or 23.7 percent. Job losses in the region occurred at a faster pace than previous downturns. Nonfarm payrolls in the Midwest region declined by 2.58 million jobs from June 2007 to January 2010 and returned to the previous peak in June 2015. By comparison, regional nonfarm payrolls declined by 3.38 million jobs from a recent high during the fourth quarter of 2019 to the second quarter of 2020 but recovered more than 40 percent of the lost jobs during the third quarter of 2020. Additionally, the Midwest region had the largest job growth across HUD regions from the second quarter of 2020 to the third quarter of 2020, rising by 1.36 million jobs. This quarter-over-quarter increase constituted nearly 22 percent of the jobs gained nationally. Approximately 39 percent of the regional increase was in the leisure and hospitality sector.

During the third quarter of 2020—

- The leisure and hospitality sector was the hardest hit in the Midwest region and the nation, with sector losses accounting for approximately 32 and 37 percent, respectively, of total nonfarm payrolls. The accommodation and food services industry accounted for 80 percent of losses in the sector at the regional level. The leisure and hospitality sector gained 427,100 jobs from the second quarter of 2020 to the third quarter of 2020 but is still 24 percent lower than the level of jobs during the third quarter of 2019.

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## During the third quarter of 2020, nonfarm payrolls in the Midwest region declined significantly.

| | Third Quarter | | Year-Over-Year Change | |
|---|---|---|---|---|
| | 2019 (Thousands) | 2020 (Thousands) | Absolute (Thousands) | Percent |
| Total Nonfarm Payrolls | 25,335.5 | 23,413.6 | -1,921.9 | -7.6 |
| Goods-Producing Sectors | 4,409.7 | 4,148.7 | -261.0 | -5.9 |
| Mining, Logging, & Construction | 1,138.1 | 1,093.7 | -44.4 | -3.9 |
| Manufacturing | 3,271.7 | 3,055.0 | -216.7 | -6.6 |
| Service-Providing Sectors | 20,925.7 | 19,264.8 | -1,660.9 | -7.9 |
| Wholesale & Retail Trade | 3,583.3 | 3,421.5 | -161.8 | -4.5 |
| Transportation & Utilities | 1,102.5 | 1,066.8 | -35.7 | -3.2 |
| Information | 342.9 | 308.9 | -34.0 | -9.9 |
| Financial Activities | 1,446.5 | 1,406.0 | -40.5 | -2.8 |
| Professional & Business Services | 3,413.1 | 3,166.7 | -246.4 | -7.2 |
| Education & Health Services | 4,029.0 | 3,794.3 | -234.7 | -5.8 |
| Leisure & Hospitality | 2,602.5 | 1,986.2 | -616.3 | -23.7 |
| Other Services | 1,042.3 | 950.6 | -91.7 | -8.8 |
| Government | 3,363.7 | 3,163.7 | -200.0 | -5.9 |

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

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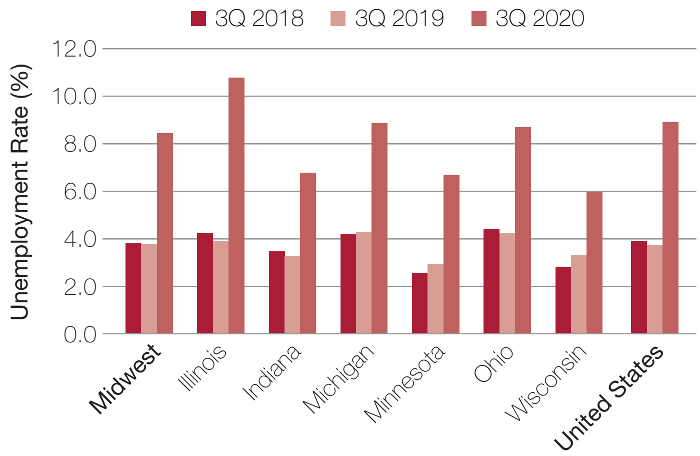
- The professional and business services sector—the third-largest payroll sector in the region—contracted by 246,400 jobs, or 7.2 percent, to 3.17 million jobs. Although many jobs in this sector can be done remotely, decreased demand for services in the administrative support services industry was partially responsible for the job losses.
- The manufacturing sector, an important part of the Midwest regional economy, fell by 216,700 jobs, or 6.6 percent, to 3.06 million jobs. Despite the loss, the sector accounted for approximately 13 percent of all nonfarm payroll jobs in the Midwest region and contributed nearly 25 percent of the 12.2 million manufacturing jobs in the nation.
- Job losses in the mining, logging, and construction sector were smaller than seven other sectors in the Midwest region, falling by 44,400 jobs, or 3.9 percent, from a year earlier. Nearly 85 percent of the losses were concentrated in the construction subsector, as many construction projects were paused to limit the spread of COVID-19, but the subsector only declined 3.4 percent from a year earlier.
- The average unemployment rate in the Midwest region more than doubled to 8.4 percent from the 3.8-percent rate during the same quarter a year earlier but was lower than the national average of 8.9 percent. The unemployment rate increased in every state and ranged from 6.8 percent in Indiana to 10.8 percent in Illinois; before the pandemic, the unemployment rate in the region had declined every third quarter since 2010.

During the third quarter of 2020, the unemployment rate rose in all six states of the Midwest region, but the regional rate was below the national rate.




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

# Sales Market Conditions

Sales housing market conditions ranged from balanced to tight across the Midwest region during the third quarter of 2020. Most nonessential residential construction projects were halted temporarily following the onset of the pandemic as one of the measures used to slow the spread of COVID-19, and weakening economic conditions caused some sellers to take their homes off the market or postpone selling. These factors contributed to a decline in for-sale inventory in five states in the region. Sales markets were tight in Minnesota and Michigan, where the supply declined in September 2020 to 1.9 and 2.3 months, respectively, from 2.5- and 3.6-months during September 2019 (CoreLogic, Inc.). Markets were slightly tight in Ohio, where the inventory decreased to a 2.4-month supply from 2.7 months. Market conditions were also slightly tight in Wisconsin, although the supply increased to 2.9 from 2.8 months. In Illinois, the supply decreased the most, to 3.0 from 4.3 months, and the market was balanced. The national for-sale inventory decreased to 2.3 months in September 2020 from 3.3 months in September 2019.

The decline in the supply of for-sale housing is reflected in decreased new and existing home sales (hereafter, home sales) and increased home sales prices. During the 12 months ending August 2020, home sales in the region decreased 12 percent from a year earlier, to approximately 808,200 homes sold, following a 2-percent decline during the previous year (Zonda, with adjustments by the analyst). Nationally, home sales decreased 5 percent. The rate of home sales declined in five states in the region, ranging from 5 percent in Minnesota to 19 percent in Michigan, and increased 5 percent in Wisconsin. Home sales in the eight largest metropolitan areas in the region contracted. The largest decrease in sales, 23 and 20 percent, occurred in the Detroit-Warren-Dearborn and the Chicago-Naperville-Elgin metropolitan areas, respectively. The decline in home sales ranged from 4 to 11 percent in the other six large markets.

During the 12 months ending May 2020, the average home sales price in the Midwest region rose 5 percent to $219,200, the same rate of growth as the national average and up from the regional growth rate of 3 percent during the previous year (Zonda, with adjustments by the analyst). The average home sales price in the region was 34 percent lower than the national average sales price of $331,200. Average home sales prices

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rose in all six states in the region, with the fastest gain of 10 percent occurring in Indiana, where homes are more affordable than other states in the region. Average home sales prices also increased in the eight major metropolitan areas cited in this report, ranging from a 4-percent increase in the Chicago-Naperville-Elgin metropolitan area to an 11-percent increase in the Milwaukee-Waukesha-West Allis metropolitan area.

In August 2020, 3.7 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, up dramatically from 1.4 percent a year earlier but below the national rate of 4.4 percent (CoreLogic, Inc.). The rate increased in all six states in the region. Increases may partly be from the expiration of the Coronavirus Aid, Relief, and Economic Security Act (or CARES Act) support, which included increased unemployment benefits. The percentage of adults who are experiencing housing insecurity in the Midwest region (persons not current on rent or mortgage payments, or those who have slight or no confidence that their household can pay rent or mortgage for the next month on time) has risen from 3.7 percent during the week ending July 7, to 6.2 percent during the week ending September 28 (U.S. Census Pulse Survey). Consequently, seriously delinquent loans in the region may remain elevated or increase in the upcoming months.

During the third quarter of 2020 (preliminary data)—

- Single-family homes permitted in the Midwest region increased by 3,350, or 19 percent, to 20,800 from the third quarter of 2019, compared with a 2-percent decrease a year earlier. Nationally, single-family home permitting increased approximately 21 percent, following a 4-percent gain during the second quarter of 2019.
- The number of single-family homes permitted increased in every state in the region, with one-third of the gain occurring in Ohio, where single-family permitting rose by 1,100 homes, or 31 percent, to 4,700 homes. Most of the state-wide gain was split between the Cincinnati and Columbus metropolitan areas, where permitting rose by 440 and 520 homes, or 39 and 48 percent, respectively.
- Single-family home permitting rose by 20 percent or more in three states in the Midwest region, in addition to Ohio. In Illinois, single-family home permitting increased by 390 homes, or 20 percent, to 2,350. In Indiana and Minnesota,

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## The number of homes sold decreased in five of the six states in the Midwest region, but the average home sales price rose in all of the states.

| | 12 Months Ending | Number of Homes Sold 2019 | Number of Homes Sold 2020 | Number of Homes Sold Percent Change | Average | Price 2019 ($) | Price 2020 ($) | Price Percent Change |
|---|---|---|---|---|---|---|---|---|
| Illinois (N&E) | August | 213,243 | 178,988 | -16 | AVG | 241,432 | 243,036 | 1 |
| Chicago-Naperville-Elgin (N&E) | August | 165,298 | 133,056 | -20 | AVG | 274,345 | 285,511 | 4 |
| Indiana (N&E) | August | 161,249 | 150,433 | -7 | AVG | 189,923 | 208,904 | 10 |
| Indianapolis-Carmel-Anderson (N&E) | August | 51,163 | 48,449 | -5 | AVG | 223,805 | 244,044 | 9 |
| Michigan (N&E) | August | 168,691 | 135,949 | -19 | AVG | 195,585 | 206,779 | 6 |
| Detroit-Warren-Dearborn (N&E) | August | 83,519 | 64,285 | -23 | AVG | 210,945 | 227,208 | 8 |
| Minnesota (N&E) | August | 112,377 | 106,634 | -5 | AVG | 261,485 | 273,795 | 5 |
| Minneapolis-St. Paul-Bloomington (N&E) | August | 73,430 | 69,116 | -6 | AVG | 302,134 | 317,271 | 5 |
| Ohio (N&E) | August | 232,577 | 211,543 | -9 | AVG | 173,623 | 184,901 | 6 |
| Cincinnati (N&E) | August | 45,923 | 41,101 | -11 | AVG | 204,283 | 215,546 | 6 |
| Cleveland-Elyria (N&E) | August | 41,755 | 39,596 | -5 | AVG | 172,165 | 183,664 | 7 |
| Columbus (N&E) | August | 44,031 | 40,108 | -9 | AVG | 226,952 | 246,914 | 9 |
| Wisconsin (N&E) | August | 111,690 | 117,010 | 5 | AVG | 195,914 | 210,561 | 7 |
| Milwaukee-Waukesha-West Allis (N&E) | August | 25,792 | 24,642 | -4 | AVG | 236,045 | 261,479 | 11 |

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

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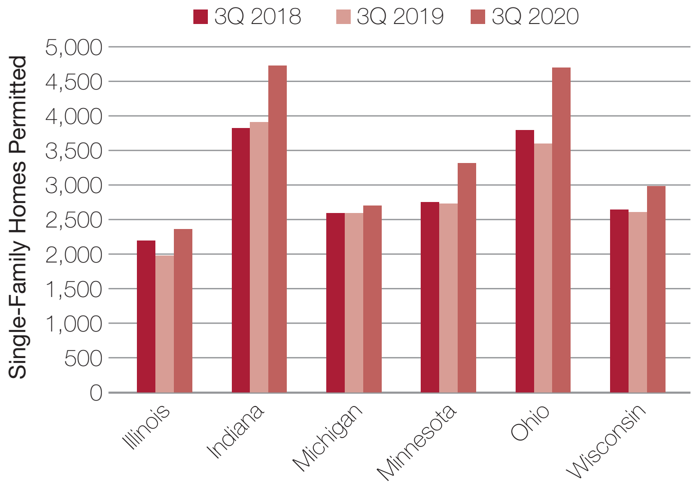
single-family permitting rose 21 percent each, or by 810 and 570 homes, respectively, to a combined 8,050 homes permitted. The state-wide gains in Illinois and Minnesota were concentrated in the Chicago-Naperville-Elgin and Minneapolis-St. Paul-Bloomington metropolitan areas and 35 percent of the increase in Indiana occurred in the Indianapolis-Carmel-Anderson metropolitan area.

- Increases in single-family home permitting were smaller in Wisconsin and Michigan, up by 360 and 110 homes, or 14 and 4 percent, respectively. Approximately one-third of the gain in Wisconsin occurred in the Milwaukee-Waukesha-West Allis metropolitan area. An increase of 100 homes in the Grand Rapids-Wyoming metropolitan area of Michigan offset a decline of 35 homes in the Detroit-Warren-Dearborn metropolitan area.

**During the third quarter of 2020, single-family permitting rose substantially in all six states in the Midwest region.**




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

# Apartment Market Conditions

Apartment market conditions in major metropolitan areas in the Midwest region ranged from balanced to tight during the third quarter of 2020, unchanged from both the previous quarter and a year earlier. The number of apartment units completed in the Midwest region totaled 10,700 during the third quarter of 2020, a 12-percent decrease from the 12,100 completions during the third quarter of 2019 (McGraw-Hill Construction Pipeline database). Ohio accounted for approximately 25 percent of all new apartment units completed in the region. An estimated 10,700 apartment units were under construction in the region at the end of the third quarter of 2020, with more than 40 percent of those units expected to be completed by the third quarter of 2021. The economic contraction that began in the second quarter of 2020 led many renters to search for more affordable rental housing or, for those with the means and long-term work-from-home options, to transition into homeownership. For example, from March 1 to September 30, 2020, approximately 52 percent of movers left the city of Chicago, while 48 percent moved into or changed homes within the city limits, compared with 50 percent each a year earlier (Updater.com).

Despite the decrease in new apartment completions during the third quarter of 2020, apartment vacancy rates increased in six of the eight major metropolitan areas referenced in this report. However, the vacancy rate for six of the metropolitan areas in the region was below the national rate of 4.1 percent (RealPage, Inc.).

The largest increases in the apartment vacancy rate in the region occurred in the Minneapolis-St. Paul-Bloomington and Chicago-Naperville-Elgin metropolitan areas, where the vacancy rate rose 1.0 percentage point each, to 3.6 and 5.2 percent, respectively. Smaller increases of 0.6, 0.4, and 0.2 of a percentage point occurred in the respective Cincinnati, Milwaukee-Waukesha-West Allis, and Columbus metropolitan areas, where apartment vacancy rates were 3.3, 3.1, and 3.8 percent, respectively. In the Detroit-Warren-Dearborn metropolitan area, the vacancy rate remained essentially unchanged at 2.6 percent. The vacancy rate decreased 0.2 and 0.4 percentage points in the Indianapolis-Carmel-Anderson and the Cleveland-Elyria metropolitan areas, to respective rates of 4.2 and 3.4 percent.

During the third quarter of 2020, average monthly rents rose in all eight major metropolitan areas referenced in this report. In seven of those areas, the rent increased faster than the national average increase of less than 1 percent. Average rents in seven of the eight metropolitan areas were less than the $1,432 average for the nation. The largest rent increases were in the Cincinnati, Cleveland-Elyria, and Columbus metropolitan areas, where the average rents rose 5 percent, to $1,020, $976, and $1,015, respectively. Rents rose 4 percent each in the Detroit-Warren-Dearborn and Indianapolis-Carmel-Anderson metropolitan areas to $1,029 and $954, respectively. Metropolitan areas in the Midwest region with higher average

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## During the third quarter of 2020, apartment vacancy rates in most major metropolitan areas in the Midwest region and average rents rose in nearly all metropolitan areas.

| | Market Condition | Vacancy Rate | | | Average Monthly Rent | | |
|---|---|---|---|---|---|---|---|
| | | 3Q 2019 (%) | 3Q 2020 (%) | Percentage Point Change | 3Q 2019 ($) | 3Q 2020 ($) | Percent Change |
| Chicago-Naperville-Elgin | Balanced | 4.2 | 5.2 | 1.0 | 1,557 | 1,562 | 0 |
| Cincinnati | Slightly Tight | 2.7 | 3.3 | 0.6 | 970 | 1,020 | 5 |
| Cleveland-Elyria | Tight | 3.8 | 3.4 | -0.4 | 931 | 976 | 5 |
| Columbus | Balanced | 3.6 | 3.8 | 0.2 | 970 | 1,015 | 5 |
| Detroit-Warren-Dearborn | Slightly Tight | 2.5 | 2.6 | 0.1 | 993 | 1,029 | 4 |
| Indianapolis-Carmel-Anderson | Slightly Tight | 4.4 | 4.2 | -0.2 | 920 | 954 | 4 |
| Milwaukee-Waukesha-West Allis | Slightly Tight | 2.7 | 3.1 | 0.4 | 1,157 | 1,192 | 3 |
| Minneapolis-St. Paul-Bloomington | Slightly Tight | 2.6 | 3.6 | 1.0 | 1,342 | 1,364 | 2 |

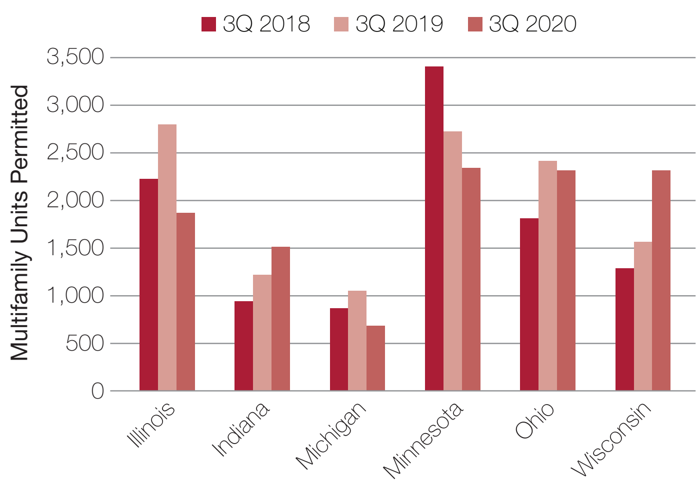
3Q = third quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

rents had lower average rent increases. In the Milwaukee-Waukesha-West Allis and Minneapolis-St. Paul-Bloomington metropolitan areas, rents rose 3 and 2 percent, respectively, to $1,192 and $1,364. Rents remained essentially flat in the Chicago-Naperville-Elgin metropolitan area at $1,562, where average rents are the highest in the Midwest region. Rents rose in 12 of the 20 RealPage, Inc.-defined market areas that compose the Chicago-Naperville-Elgin metropolitan area. The strongest gains were in suburban submarkets away from the urban core. Average asking rents rose nearly 9 percent each in the Merrillville/Portage/Valparaiso and Will County submarkets, but rents fell more than 8 percent to $2,149 in The Loop submarket in downtown Chicago.

During the third quarter of 2020 (preliminary data)—

- Multifamily construction, as measured by the number of multifamily units permitted, fell to 11,000 units in the Midwest region—down by 730 units, or 6 percent, from the same quarter a year earlier; nationally, multifamily construction also decreased 6 percent.
- The decrease in multifamily construction activity in the region primarily occurred because the number of multifamily units permitted in Illinois decreased 33 percent, to 1,875 units—down from 2,800 units during the third quarter of 2019. In the nine Illinois counties within the tri-state, 14-county Chicago-Naperville-Elgin metropolitan area, permitting decreased by 1,100, or 42 percent, but the nine counties accounted for 79 percent of units permitted in Illinois.
- Multifamily permitting also declined in Michigan and Minnesota, by 35 and 14 percent, respectively, or by a combined 740 units, to 3,025 units. In Ohio, multifamily permitting declined only 4 percent during the third quarter of 2020.
- Indiana and Wisconsin had increased multifamily construction activity; permitting increased 24 and 48 percent, to 1,500 and 2,325 units, respectively. In Indiana, multifamily permitting in the Indianapolis-Carmel-Anderson metropolitan area increased by 330 units. In Wisconsin, multifamily permitting in the Madison and Milwaukee-Waukesha-West Allis metropolitan areas nearly doubled to 1,275 and 250 units, respectively, more than offsetting a decline from 240 to 90 units permitted in the Green Bay metropolitan area.

## Multifamily permitting decreased in the Midwest region during the third quarter of 2020, with permitting down in all states except Indiana and Wisconsin.

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Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey