HUD PD&R **Regional Reports**

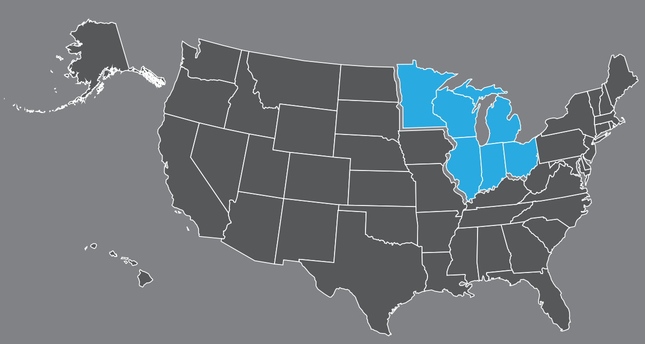
Region 5: Midwest

St. Paul, Minnesota

Quick Facts About Region 5

- **Sales market conditions—**
Fourth quarter 2018: mixed (balanced to slightly tight)
Third quarter 2018: balanced
Fourth quarter 2017: mixed (balanced to slightly soft)

- **Apartment market conditions—**
Fourth quarter 2018: mixed (balanced to tight)
Third quarter 2018: mixed (balanced to tight)
Fourth quarter 2017: mixed (balanced to tight)



By Diana Villavicencio | 4th quarter 2018

Overview

The economic expansion in the Midwest region that began in 2010 continued in the fourth quarter of 2018, and the pace of job growth increased from the fourth quarter of 2017. Nonfarm payrolls grew in every state in the region and in all but one nonfarm payroll sector. The largest increase and fastest rate of growth in the region occurred in the mining, logging, and construction sector. Since 2010, job growth in this sector has been supported by ongoing development of commercial and residential projects, despite slower single-family and multifamily permitting activity during the fourth quarter of 2018. Continued economic growth and lower single-family permitting activity during the fourth quarter of 2018 have contributed to tightening sales housing market conditions, with generally declining inventories and rising home sales prices in the eight major metropolitan areas referenced in this report. Apartment market conditions tightened throughout much of the region. Continued economic growth supported stable or falling apartment vacancy rates in all major metropolitan areas cited in this report. Average rents rose in all but one of the eight major metropolitan areas in the region.

- During the fourth quarter of 2018, nonfarm payrolls rose 1.3 percent from a year earlier, faster than the 0.8-percent growth rate during the previous year. Nonetheless, the rate of job growth in the Midwest region trailed behind the national rate of 1.7 percent.

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- Home sales in the region declined 3 percent during 2018, while the average home sales price increased 4 percent to $194,300. Single-family homebuilding in the region during the fourth quarter of 2018 decreased 3 percent from a year earlier, compared with a decline of less than 1 percent nationally.
- Multifamily construction in the region declined 4 percent during the fourth quarter of 2018. Permitting increases in Indiana, Minnesota, and Ohio were more than offset by declines in Illinois, Michigan, and Wisconsin; nationally, multifamily construction increased 5 percent.

Economic Conditions

The pace of economic growth in the Midwest region accelerated during the fourth quarter of 2018. Nonfarm payrolls increased by 338,900 jobs, or 1.3 percent, to approximately 25.54 million jobs, higher than the 0.8-percent growth rate during the fourth quarter of 2017. Although every state in the region added jobs during the fourth quarter of 2018, the regional rate of job growth lagged behind the national rate of 1.7 percent. Ohio had the largest and fastest growth in the region, with a gain of 112,900 jobs, or 2.0 percent. Nonfarm payrolls in Illinois and Michigan increased by 60,800 and 55,200 jobs, or 1.0 and 1.2 percent, respectively. Payrolls grew 1.4 percent, a gain of 41,500 jobs, in Wisconsin and increased 1.1 percent each in Indiana and Minnesota, or by 34,700 and 33,800 jobs, respectively.

Payrolls in the goods-producing sectors rose 2.7 percent, and job growth in both the mining, logging, and construction and the manufacturing sectors rose at a faster rate than total nonfarm payrolls. Growth in goods-producing jobs in the Midwest region have outpaced overall nonfarm payrolls since the current expansion began during 2010, increasing an average of 2.0 percent annually compared with 1.3-percent average annual growth for nonfarm payrolls during the same period. During the fourth quarter of 2018, the mining, logging, and construction sector had the largest and fastest job gains in the region, adding 56,600 jobs, or 5.5 percent, with increases ranging from 6,000 jobs in Illinois to 12,400 jobs in Indiana. More than 98 percent of the jobs added in the sector were in the construction subsector, with Indiana contributing 12,100 of those jobs. The manufacturing sector continued to be an important part of the Midwest regional economy during the fourth quarter of 2018, expanding by 56,200 jobs, or 1.7 percent. The 3.3 million jobs in the sector accounted for nearly 13 percent of all nonfarm payroll jobs in the Midwest region and contributed more than 25 percent of the 12.8 million manufacturing jobs in the nation. All states in the region added manufacturing jobs, with growth ranging from 1,800 jobs in Indiana to 18,900 jobs in Wisconsin, where manufacturing is the largest sector. InSinkErator, a waste disposal manufacturer, with its headquarters in Wisconsin, completed the construction of a new $34 million headquarters, south of the Milwaukee-Waukesha-West Allis metropolitan area, in November 2018, adding approximately 180 engineering and professional jobs.

During the fourth quarter of 2018—

- Significant job growth in the region occurred in the leisure and hospitality sector, up by 46,800 jobs, or 1.9 percent, with jobs

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Despite a significant increase in the rate of nonfarm payroll growth, the regional rate of growth trailed behind the national rate during the fourth quarter of 2018.

	Fourth Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total Nonfarm Payrolls	25,203.8	25,542.7	338.9	1.3
Goods-Producing Sectors	4,252.9	4,365.8	112.9	2.7
Mining, Logging, & Construction	1,036.3	1,092.9	56.6	5.5
Manufacturing	3,216.7	3,272.9	56.2	1.7
Service-Providing Sectors	20,950.9	21,176.9	226.0	1.1
Wholesale & Retail Trade	3,742.6	3,752.9	10.3	0.3
Transportation & Utilities	1,040.4	1,079.8	39.4	3.8
Information	351.5	346.3	-5.2	-1.5
Financial Activities	1,387.4	1,405.3	17.9	1.3
Professional & Business Services	3,384.8	3,411.2	26.4	0.8
Education & Health Services	4,026.6	4,073.3	46.7	1.2
Leisure & Hospitality	2,419.6	2,466.4	46.8	1.9
Other Services	1,031.5	1,038.9	7.4	0.7
Government	3,566.6	3,602.9	36.3	1.0

Source: U.S. Bureau of Labor Statistics

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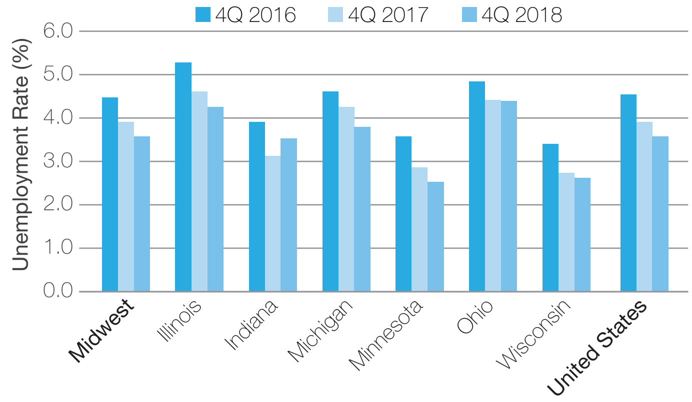
increasing in five of the six states in the region. More than one-third of the sector growth was concentrated in Ohio, where the accommodation and food services industry accounted for two-thirds of the sector gain, partly because at least five new hotels, with approximately 550 rooms, were completed in the Cincinnati, Cleveland-Elyria, and Columbus metropolitan areas.

- The education and health services sector, the largest sector in the Midwest region, comprising 16 percent of nonfarm payrolls, grew by 46,700 jobs, or 1.2 percent. Jobs rose in five of six states in the region, and nearly one-half of all job growth in the sector was in Ohio, partly because The Ohio State University Wexner Medical Center added approximately 50 of the 500 clinician and research scientist jobs that are expected by 2023.
- Payrolls in the transportation and utilities sector grew 3.8 percent in the region, a gain of 39,400 jobs. One-third of the jobs added in the sector were in Ohio, and all those gains were in the transportation and warehousing industry. Amazon.com, Inc., which operates three fulfillment centers in the state, providing more than 6,000 jobs, will open a fourth fulfillment center north of Cincinnati in early 2019, adding approximately 1,000 new sector jobs.
- Only one sector in the region lost jobs; the information sector fell by 5,200 jobs, or 1.5 percent. Information sector jobs declined in four Midwest region states but rose in Minnesota and Wisconsin.

During the fourth quarter of 2018, unemployment rates in the Midwest region declined or remained unchanged in every state except Indiana.



4Q = fourth quarter.
Source: U.S. Bureau of Labor Statistics

- As a result of economic growth in the Midwest region, the unemployment rate was 3.7 percent, a decline from the 3.9-percent rate a year earlier and higher than the national average of 3.6 percent. Unemployment rates declined or remained unchanged in every state in the Midwest region except Indiana, where the labor force grew faster than resident employment, causing the unemployment rate to rise 0.4 percentage point.

Sales Market Conditions

Sales housing market conditions in the Midwest region were mixed, ranging from balanced to slightly tight, compared with balanced to slightly soft conditions during the fourth quarter of 2017. Generally 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 2018, the average sales price for new and existing single-family homes, townhomes, and condominiums in the region rose 4 percent to $194,300, slower than the 6-percent increase recorded a year earlier (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price in the nation rose 5 percent to $294,600 during 2018, slower than the 6-percent increase the previous year. Average home sales prices rose in all eight major metropolitan areas referenced in this report, and six recorded increases that equaled or exceeded the national rate. Home sales prices rose significantly in the Detroit-Warren-Dearborn metropolitan area, increasing an average of 9 percent during 2018. In the Cleveland-Elyria metropolitan area, the average home sales price increased 7 percent, to $159,100. Average home sales price growth rates in the Cincinnati, Indianapolis-Carmel-Anderson, and Minneapolis-St. Paul-Bloomington metropolitan areas rose 6 percent each, to $192,000, $206,800, and $290,600, respectively. The average sales price in the Minneapolis-St. Paul-Bloomington metropolitan area is the highest among the major metropolitan areas in the Midwest region. The average home sales price gain in the Columbus metropolitan area was equal to the national average. Increases in the remaining metropolitan areas were smaller, at 2 percent each, in the Chicago-Naperville-Elgin and the Milwaukee-Waukesha-West Allis metropolitan areas.

Total home sales (including new and existing single-family homes, townhomes, and condominiums) decreased or remained unchanged in the eight largest metropolitan areas in the Midwest region. During 2018, home sales in the region totaled 962,800, down 3 percent from a year earlier, compared with a 1-percent increase during 2017 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales nationally declined 2 percent during 2018, after a 3-percent increase a year earlier. Declines in the number of homes sold in the region ranged from 1 percent in the Cleveland-Elyria and Milwaukee-Waukesha-West Allis metropolitan areas, to 8 percent in the Detroit-Warren-Dearborn metropolitan area. Home sales in the Minneapolis-St. Paul-Bloomington metropolitan area decreased 2 percent and fell 4

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Home sales declined or remained unchanged in all eight major metropolitan areas in the Midwest region.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	December	158,800	148,300	-7	AVG	269,800	276,300	2
Cincinnati (N&E)	December	47,300	45,100	-5	AVG	181,600	192,000	6
Cleveland-Elyria (N&E)	December	41,450	41,150	-1	AVG	148,500	159,100	7
Columbus (N&E)	December	42,700	42,700	0	AVG	204,000	214,000	5
Detroit-Warren-Dearborn (N&E)	December	91,000	83,350	-8	AVG	170,400	186,300	9
Indianapolis-Carmel-Anderson (N&E)	December	58,250	55,850	-4	AVG	196,000	206,800	6
Milwaukee-Waukesha-West Allis (N&E)	December	26,350	26,000	-1	AVG	213,300	218,500	2
Minneapolis-St. Paul-Bloomington (N&E)	December	73,550	72,350	-2	AVG	274,400	290,600	6

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

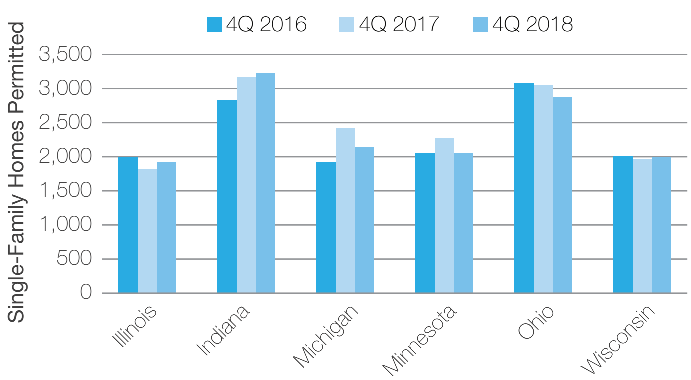
and 5 percent in the Indianapolis-Carmel-Anderson and Cincinnati metropolitan areas, respectively. Home sales remained steady only in the Columbus metropolitan area, where there was no change in sales from the previous year.

In the past year, the number of distressed sales in the region declined, resulting from fewer distressed properties on the market. During 2018, REO sales fell 29 percent and short sales declined 8 percent. Nationwide, by comparison, the number of REO sales fell 25 percent and short sales fell 14 percent during 2018. The percentage of seriously delinquent home loans (90 or more days delinquent or in foreclosure) and REO properties in the Midwest region declined to 1.6 percent in December 2018, down from 2.0 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 0.5 percentage point occurring in Illinois and Ohio, to 2.0 and 2.1 percent, respectively. The percentage of seriously delinquent mortgage loans and REO properties was highest in Ohio at 2.1 percent and lowest in Minnesota at 0.9 percent. By comparison, the national rate was 1.7 percent during December 2018.

During the fourth quarter of 2018 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, decreased by approximately 500 homes, or 3 percent, from a year ago, to 14,250, following a 6-percent increase during the fourth quarter of 2017. By comparison, national single-family homebuilding activity declined less than 1 percent, following a 9-percent gain a year earlier.
- Michigan and Minnesota had the largest decrease in single-family permitting, down approximately 280 and 220 homes, or 11 and 10 percent, respectively, from a year earlier. Homebuilding activity decreased in the Detroit-Warren-Dearborn and the Minneapolis-St. Paul-Bloomington metropolitan areas, by 210 and 120 homes, or 14 and 6 percent, respectively.
- In Ohio, single-family permitting declined by 180 homes, or 6 percent. Homebuilding activity decreased in the Cincinnati and the Columbus metropolitan areas by 100 and 60 homes, or 10 and 7 percent, respectively, and increased by only 10 homes, or 2 percent, in the Cleveland-Elyria metropolitan area.
- Homebuilding activity increased in the three other states in the region. Single-family permitting increased 1 and 2 percent, respectively, in Wisconsin and Indiana and 6 percent in Illinois, or by a combined total of 190 homes.

Single-family construction activity decreased from a year ago in the region because of declines in Michigan, Minnesota, and Ohio.



4Q = fourth quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Midwest region were balanced to tight during the fourth quarter of 2018, unchanged from the previous quarter and a year earlier. Continued economic growth contributed to tight apartment market conditions in some metropolitan areas during the fourth quarter of 2018.

Apartment vacancy rates in the eight large metropolitan areas discussed in this report decreased or remained unchanged, and in five of those areas, the vacancy rate was below the national apartment vacancy rate of 4.5 percent. The largest decline in apartment vacancy rates in the region occurred in the Milwaukee-Waukesha-West Allis metropolitan area, where the rate fell from 4.6 to 3.3 percent, despite approximately 720 new apartments entering the market during the fourth quarter of 2018 (RealPage, Inc.). Smaller declines of 0.8 percentage point, each, occurred in the Cincinnati and the Cleveland-Elyria metropolitan areas, where apartment vacancy rates during the fourth quarter of 2018 were 4.2 and 4.8 percent, respectively. The vacancy rate fell 0.6 percentage point each in the Detroit-Warren-Dearborn and the Indianapolis-Carmel-Anderson metropolitan areas. Even with this decline, however, the fourth-quarter 2018 rate of 5.5 percent in the Indianapolis-Carmel-Anderson metropolitan area was the highest among large metropolitan areas in the Midwest region. In the Chicago-Naperville-Elgin metropolitan area, where approximately 2,850 new apartments entered the market during the fourth quarter of 2018, the vacancy rate declined 0.4 percentage point, to 5.3 percent. The vacancy rate remained unchanged from a year earlier, at 4.1 percent, in the Columbus metropolitan area and at 2.9 percent in the Minneapolis-St. Paul-Bloomington metropolitan area, where home sales prices are relatively high and renter housing demand is strong.

Average monthly rents rose or remained unchanged in the eight large metropolitan areas in the region discussed in this report, and in five of those areas, the rent rose at the same rate as the national average of 4 percent; average rent growth rates in the region did not surpass the national growth rate average, however. 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, where asking rents in each area increased 4 percent to $1,459 and $1,271, respectively. Rents also rose 4 percent in the Columbus, Detroit-Warren-Dearborn, and Indianapolis-Carmel-Anderson metropolitan areas, increasing to $936, $961, and $870, respectively. Rent increases were more modest in the Cincinnati and the Milwaukee-Waukesha-West Allis metropolitan areas, rising 1 and 3 percent, respectively, to $923 and $1,103. The average rent remained unchanged from the fourth quarter a year earlier in the Cleveland-Elyria metropolitan area at $905, the lowest average rent of the eight large metropolitan areas in the region discussed in this report.

During the fourth quarter of 2018 (preliminary data)—

- Multifamily permitting in the Midwest region fell nearly 4 percent to 10,000, following a decline of nearly 14 percent a year earlier. The number of units permitted nationally increased 5 percent from the fourth quarter of 2017, compared with an increase of 4 percent the previous year.
- The decrease in multifamily permitting in the region was primarily because of declines in Michigan, Wisconsin, and Illinois, where the number of multifamily units permitted fell by 850, 530, and 150 units, or 53, 35, and 5 percent, respectively. The number of multifamily units permitted decreased in the Detroit-Warren-Dearborn and Chicago-Naperville-Elgin metropolitan areas by 910 and 320 units, or 82 and 10 percent, respectively, but increased by 70 units, or 25 percent, in the Milwaukee-Waukesha-West Allis metropolitan area.

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Rent growth in five of the eight major metropolitan areas in the Midwest region increased at the same rate as the national average of 4 percent.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2017 (%)	4Q 2018 (%)	Percentage Point Change	4Q 2017 ($)	4Q 2018 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	5.7	5.3	-0.4	1,405	1,459	4
Cincinnati	Balanced	5.0	4.2	-0.8	910	923	1
Cleveland-Elyria	Balanced	5.6	4.8	-0.8	905	905	0
Columbus	Balanced	4.1	4.1	0	897	936	4
Detroit-Warren-Dearborn	Tight	3.9	3.3	-0.6	928	961	4
Indianapolis-Carmel-Anderson	Balanced	6.1	5.5	-0.6	834	870	4
Milwaukee-Waukesha-West Allis	Tight	4.6	3.3	-1.3	1,074	1,103	3
Minneapolis-St. Paul- Bloomington	Tight	2.9	2.9	0	1,224	1,271	4

4Q = fourth quarter.
Sources: Market Condition—Economic and Market Analysis Division; Vacancy Rate and Average Monthly Rent—RealPage, Inc.

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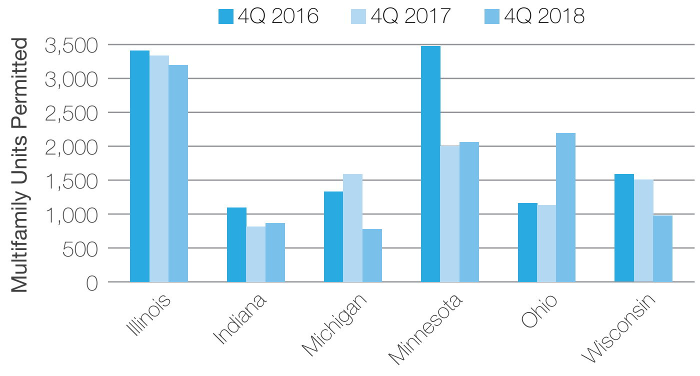
- Multifamily permitting increased in Minnesota and Indiana by 40 and 60 units, or 2 and 8 percent, respectively, following 42- and 27-percent decreases during the same quarter a year earlier. More than two-thirds of the multifamily units permitted in these states during the fourth quarter of 2018 were in the large metropolitan areas cited in this report.
- The number of multifamily units permitted also increased in Ohio, up by 1,050 units, or 94 percent, reversing the 4-percent decline during the fourth quarter of 2017. Of the three large metropolitan areas in the states discussed in this report, multifamily permitting increased by 450 and 700 units, or 128 and 102 percent, in the Cincinnati and Columbus metropolitan areas, respectively, but decreased by 30 units, or 32 percent, in the Cleveland-Elyria metropolitan area.

Multifamily permitting decreased in Illinois, Michigan, and Wisconsin, more than offsetting increases in Indiana, Minnesota, and Ohio.



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