# HUD PD&R **Regional Reports**

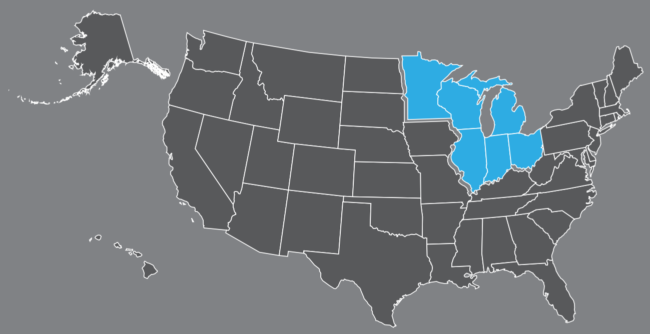
## Region 5: Midwest


Cincinnati, Ohio

*Quick Facts About Region 5*

- **Sales market conditions—**
  Fourth quarter 2019: balanced
  Third quarter 2019: balanced
  Fourth quarter 2018: mixed (balanced to slightly tight)

- **Apartment market conditions—**
  Fourth quarter 2019: mixed (balanced to tight)
  Third quarter 2019: mixed (balanced to tight)
  Fourth quarter 2018: mixed (balanced to tight)



By Marissa Dolin | 4th Quarter 2019

## Overview

Economic expansion in the Midwest region continued during the fourth quarter of 2019 but at a more moderate rate of growth. The leisure and hospitality sector, which accounted for 49 percent of the gain in the region, led nonfarm payroll additions. A decline in manufacturing jobs, the first decrease in the sector since 2009, partially offset gains in the other sectors. Sales housing conditions were balanced during the fourth quarter of 2019. Home sales prices continued to rise in all states, with slowing or steady price growth in all states except Wisconsin. In Wisconsin, prices increased faster during the 12 months ending November 2019 compared with the previous 12 months. Total home sales declined in all states. Home sales have been declining since late 2018 in Illinois, Indiana, Michigan, and Wisconsin and since early 2019 in Minnesota and Ohio. Apartment market conditions remained mixed, ranging from balanced to tight—relatively unchanged from the previous quarter and a year earlier. Continued economic expansion supported an increase in housing construction, with 1,250 more single-family homes and 3,125 more multifamily units permitted during the fourth quarter of 2019 compared with the fourth quarter of 2018.

continued on page 2

continued from page 1

- During the fourth quarter of 2019, nonfarm payrolls increased at the slowest rate since the end of the Great Recession in 2009. Growth in the region was the slowest among all 10 regions in the nation, and the number of jobs added in the Midwest region accounted for only 5 percent of the 2.18 million jobs gained nationally.
- The inventory of homes for sale in the region increased slightly from a year ago but has remained less than 4.0 months since 2016. Home sales prices increased 4 percent, and total home sales decreased 4 percent from a year ago, partially because of limited inventory.
- Multifamily construction, as measured by the number of units permitted, increased 31 percent in the region compared with the number of units permitted during the same quarter a year ago, shifting from a 4-percent decrease a year earlier.

# Economic Conditions

Economic growth continued in the Midwest region during the fourth quarter of 2019 with an additional 115,200 jobs, or a 0.5-percent increase, compared with a year ago—slowing from a 0.8-percent increase during the previous year. Since 2015, the number of jobs added has been falling year over year, and the growth rate has been decelerating. Job growth also slowed in the nation during the fourth quarter of 2019, with nonfarm payrolls expanding 1.4 percent compared with a 1.6-percent gain a year earlier.

The leisure and hospitality sector added the most jobs among all sectors in the region—up by 56,900 jobs or 2.3 percent. Payrolls in the sector expanded in five of the six states in the region. Illinois, which gained 17,600 jobs, or 2.9 percent, led job growth in the sector. Two large office-tower redevelopments with onsite dining and entertainment—the Old Chicago Main Post Office and the Willis Tower Catalog—along with five new hotels with a combined 1,350 rooms opened in downtown Chicago in 2019, supporting job growth. In Indiana, the only state to lose jobs in the sector, payrolls declined by 3,200 jobs or 1.1 percent.

The transportation and utilities sector, which includes companies that deliver goods purchased online, has grown, making up for some of the jobs lost in the wholesale and retail trade sector. During the fourth quarter of 2019, payrolls in the transportation and utilities sector expanded by 9,800 jobs, or 0.9 percent, continuing a period of expansion that began in 2010. Amazon.com, Inc. opened four new fulfillment centers during 2019 in the Midwest region, one each in the Akron, Toledo, Indianapolis-Carmel-Anderson, and Milwaukee-Waukesha-West Allis metropolitan areas. The company operates 31 fulfillment centers in the Midwest region. By contrast, payrolls in the wholesale and retail trade sector fell by 6,000 jobs, or 0.2 percent, during the fourth quarter of 2019—continuing a period of decline that began in 2017. Nationwide, retailers announced plans to close 9,300 stores in 2019, up 59 percent from the 5,850 store closures announced in 2018.

continued on page 3

## Nonfarm payrolls in the Midwest region expanded in eight sectors during the fourth quarter of 2019, but losses in three sectors partially offset total gains.

| | Fourth Quarter | | Year-Over-Year Change | |
|---|---|---|---|---|
| | 2018 (Thousands) | 2019 (Thousands) | Absolute (Thousands) | Percent |
| Total Nonfarm Payrolls | 25,417.5 | 25,532.7 | 115.2 | 0.5 |
| Goods-Producing Sectors | 4,344.1 | 4,314.2 | -29.9 | -0.7 |
| Mining, Logging, & Construction | 1,072.2 | 1,074.4 | 2.2 | 0.2 |
| Manufacturing | 3,272.0 | 3,239.8 | -32.2 | -1.0 |
| Service-Providing Sectors | 21,073.4 | 21,218.5 | 145.1 | 0.7 |
| Wholesale & Retail Trade | 3,690.3 | 3,684.3 | -6.0 | -0.2 |
| Transportation & Utilities | 1,103.3 | 1,113.1 | 9.8 | 0.9 |
| Information | 345.3 | 341.7 | -3.6 | -1.0 |
| Financial Activities | 1,406.4 | 1,419.9 | 13.5 | 1.0 |
| Professional & Business Services | 3,429.5 | 3,437.2 | 7.7 | 0.2 |
| Education & Health Services | 4,076.0 | 4,106.5 | 30.5 | 0.7 |
| Leisure & Hospitality | 2,442.1 | 2,499.0 | 56.9 | 2.3 |
| Other Services | 1,032.7 | 1,037.6 | 4.9 | 0.5 |
| Government | 3,547.8 | 3,579.2 | 31.4 | 0.9 |

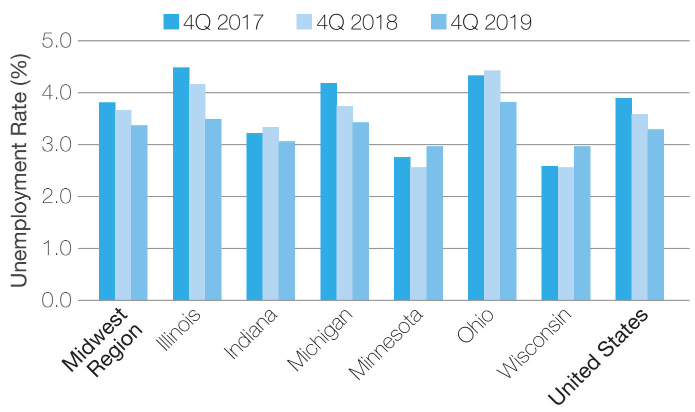
Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

During the fourth quarter of 2019—

- All six states in the Midwest region gained jobs. Payroll expansions ranged from 50,300 jobs, or 0.8 percent, in Illinois to 6,900 jobs, or 0.2 percent, in Minnesota.
- Job growth slowed in all states in the region compared with a year ago. The largest slowdown was in Michigan, where payrolls expanded by 10,900 jobs, or 0.2 percent, compared with 44,300 jobs, or 1.0 percent, added during the previous year; a declining number of jobs in the manufacturing sector offset a portion of the gains in other sectors in the state.
- Nonfarm payrolls in the manufacturing sector declined for the first time since 2009 in the Midwest region, down by 32,200 jobs, or 1.0 percent, compared with a gain of 54,200 jobs, or 1.7 percent, a year ago. The number of manufacturing jobs fell in every state in the region, with losses concentrated in Michigan, which had a decline of 13,600 jobs, or 2.1 percent; layoffs in the state included a combined 5,100 jobs at Ford Motor Company, General Motors, and Fiat-Chrysler facilities.
- Six of the eight largest metropolitan areas in the Midwest region gained jobs. The Chicago-Naperville-Elgin metropolitan area added the most jobs, increasing by 40,400 jobs or 0.8 percent. The Detroit-Warren-Dearborn and Minneapolis-St. Paul-Bloomington metropolitan areas lost jobs, down by 4,700 and 800 jobs, or 0.2 and less than 0.1 percent, respectively.
- The unemployment rate in the Midwest region fell to 3.4 percent, down from 3.7 percent a year earlier and the lowest level since 2000. The unemployment rate has been declining year over year since 2010.

### The unemployment rate declined in the nation and four of the six states in the Midwest region.




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

# Sales Market Conditions

The home sales market in the Midwest region was balanced during the fourth quarter of 2019. A relatively low inventory of homes for sale, continued decline of distressed sales (including short sales and real estate owned [REO] sales), and moderate economic expansion supported rising home sales prices. During the 12 months ending November 2019, the average home sales price (including new and existing homes) in the Midwest region rose to $201,000 up 4 percent from a year earlier but slowed from a 5-percent increase during the previous 12 months when economic conditions were stronger (CoreLogic, Inc., with adjustments by the analyst).

In seven of the eight largest metropolitan areas in the region, gains in home sales prices matched or exceeded the regional average rate. The Indianapolis-Carmel-Anderson metropolitan area had the fastest increase, up 7 percent, to $224,000, and the average price in the Chicago-Naperville-Elgin metropolitan area increased slower than the regional average, rising only 1 percent, to $281,800.

The number of months of available for-sale inventory in the Midwest region rose slightly from a year earlier but remains relatively low. During the 12 months ending November 2019, 3.1 months of inventory was for sale, up from 3.0 months during the previous 12 months. The number of months of inventory has been less than 4.0 months since 2016 and less than 6.0 months since 2013. The relatively low inventory has contributed to rising prices and fewer home sales.

Total home sales in the Midwest region continued a period of decline that began in late 2018. During the 12 months ending November 2019, home sales totaled 971,800, down 4 percent from a year earlier, following a 2-percent decline during the previous 12 months. Regular resales declined 3 percent, compared with an increase of less than 1 percent during the previous 12 months. New and distressed home sales declined 9 and 18 percent, respectively—each continuing a period of declining sales.

Total home sales declined in seven of the eight largest metropolitan areas in the Midwest region. The fastest decline was in the Detroit-Warren-Dearborn metropolitan area, where sales fell 9 percent to 80,400 homes sold in response to slower job growth in the metropolitan area. Sales declined relatively quickly in the two metropolitan areas with the highest average home sales prices—down 7 percent in the Minneapolis-St. Paul-Bloomington metropolitan area and down 5 percent in the Chicago-Naperville-Elgin metropolitan area. The Cleveland-Elyria metropolitan area was the only large metropolitan area in the region with an increase in the number of homes sold, rising 2 percent, supported by an increase in the number of regular resales.

In November 2019, 1.4 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 1.6 percent a year earlier and the lowest rate since 2000 (CoreLogic,

continued on page 4

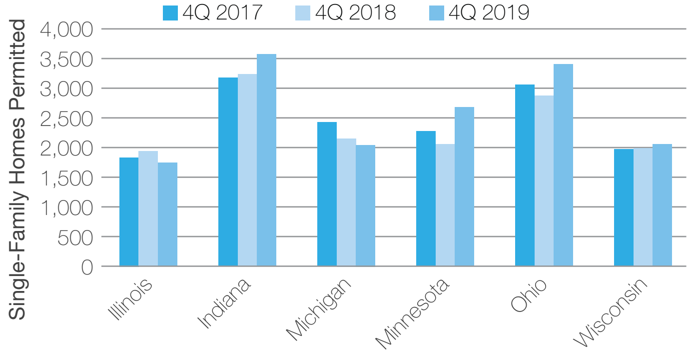
continued from page 3

Inc.). The percentage of seriously delinquent mortgage loans and REO properties fell in each state in the region and ranged from 0.8 percent in Minnesota to 1.8 percent each in Illinois and Ohio. By comparison, the national rate was 1.4 percent during November 2019, down from 1.7 percent a year earlier.

During the fourth quarter of 2019—

- Single-family homebuilding, as measured by the number of homes permitted, increased 9 percent, to 15,500 homes permitted—shifting from a 3-percent decline a year earlier. By comparison, single-family home permitting in the nation increased faster, up 11 percent—improving from a decline of less than 1 percent a year earlier.
- The number of single-family homes permitted increased in four states. The largest increases were in Minnesota and Ohio, with 630 and 530, or 31 and 18 percent, more homes permitted compared with the same quarter a year ago. Permitting in the Minneapolis-St. Paul-Bloomington, Cincinnati, and Columbus metropolitan areas increased, contributing to the statewide gains, whereas permitting in the Cleveland-Elyria metropolitan area decreased.
- The number of homes permitted declined in Illinois and Michigan. The larger decline was in Illinois, where the number of homes permitted fell by 190 homes, or 10 percent, to 1,750 homes permitted, shifting from an increase in permitting a year earlier. Permitting in Michigan fell by 110 homes, or 5 percent, to 2,050, continuing a period of year-over-year decline that began in 2018.
- Single-family homes have become a smaller portion of all housing—including single-family homes, townhomes, condominiums, and apartments—permitted in the region, accounting for 54 percent of all dwelling units permitted. By comparison, single-family homes accounted for 59 percent of all housing units permitted during the same quarter a year ago and 73 percent during the fourth quarter of 2005.

## Single-family home permitting increased in four of the six states in the Midwest region during the fourth quarter of 2019.




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

## The average home sales price increased in all large metropolitan areas in the Midwest region, whereas the number of homes sold declined in all but one of those areas.

| | 12 Months Ending | Number of Homes Sold | | | Price | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2018 | 2019 | Percent Change | Average | 2018 ($) | 2019 ($) | Percent Change |
| Chicago-Naperville-Elgin (N&E) | November | 154,100 | 146,400 | -5 | AVG | 278,300 | 281,800 | 1 |
| Cincinnati (N&E) | November | 47,200 | 45,500 | -4 | AVG | 191,200 | 201,100 | 5 |
| Cleveland-Elyria (N&E) | November | 41,950 | 42,800 | 2 | AVG | 154,000 | 161,000 | 5 |
| Columbus (N&E) | November | 43,850 | 43,000 | -2 | AVG | 211,800 | 224,200 | 6 |
| Detroit-Warren-Dearborn (N&E) | November | 87,900 | 80,400 | -9 | AVG | 183,300 | 190,600 | 4 |
| Indianapolis-Carmel-Anderson (N&E) | November | 58,400 | 54,800 | -6 | AVG | 209,900 | 224,000 | 7 |
| Milwaukee-Waukesha-West Allis (N&E) | November | 26,550 | 25,400 | -4 | AVG | 221,200 | 230,900 | 4 |
| Minneapolis-St. Paul-Bloomington (N&E) | November | 75,300 | 69,750 | -7 | AVG | 291,900 | 305,100 | 5 |

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

# Apartment Market Conditions

Apartment market conditions ranged from balanced to tight in the largest metropolitan areas in the Midwest region during the fourth quarter of 2019. The average rent increased in all metropolitan areas, ranging from 3- to 7-percent growth—accelerating from gains of 0 to 4 percent a year earlier. The vacancy rate declined in five of the eight metropolitan areas cited in the report, with current vacancy rates ranging from 3.2 to 5.1 percent compared with rates of 2.8 to 5.6 percent a year ago. Nationally, the average apartment rent increased 5 percent to $1,417, accelerating from a 4-percent increase a year ago, and the vacancy rate fell 0.4 percentage point to 4.1 percent (RealPage, Inc.).

The apartment market was tight in three of the largest metropolitan areas in the Midwest region; Cincinnati, Detroit-Warren-Dearborn, and Minneapolis-St. Paul-Bloomington. The vacancy rate in all three metropolitan areas was 3.2 percent, the lowest vacancy rate among large metropolitan areas in the region. The Cincinnati metropolitan area had one of the steepest declines in vacancy rate—down 0.9 percentage point—and the fastest rent increase—up 7 percent, to $977—accelerating from a 1-percent increase a year earlier. In the Detroit-Warren-Dearborn metropolitan area, the vacancy rate continued a period of decline that began in 2017, down 0.1 percentage point. The average rent in the metropolitan area increased 3 percent to $992. All but one of the 14 market areas in the Detroit-Warren-Dearborn metropolitan area recorded rent growth, with the fastest increase in the Southfield market area—up 9 percent. In the Minneapolis-St. Paul-Bloomington metropolitan area, conditions have eased relative to a year ago but remain tight. The vacancy rate increased 0.4 percentage point, with declines in the downtown Minneapolis and Central St. Paul market areas that were offset by increases in many of the suburban areas. The average rent rose 5 percent, to $1,341—slightly faster than the 4-percent increase a year earlier.

In the Indianapolis-Carmel-Anderson and Milwaukee-Waukesha-West Allis metropolitan areas, apartment market conditions are slightly tight. In the Indianapolis metropolitan area, the vacancy rate declined 0.5 percentage point, to 5.1 percent—the lowest fourth-quarter vacancy rate in the metropolitan area in more than a decade but the highest vacancy rate in the Midwest region. Rent growth was also relatively strong—up 6 percent, to $924—following a 4-percent increase during the previous year. In the Milwaukee-Waukesha-West Allis metropolitan area, the vacancy rate increased 0.2 percentage point to 3.5 percent, easing from tighter conditions a year ago but lower than the average vacancy rate of 4.1 percent from 2015 through 2017. Rent in the metropolitan area was $1,157, up 5 percent, and equal to the national rate of growth.

The remaining large metropolitan areas—Cleveland-Elyria, Chicago-Naperville-Elgin, and Columbus—have balanced apartment markets, with relatively slower rent growth and relatively higher vacancy rates compared with the other large metropolitan areas in the region. In the Cleveland-Elyria metropolitan area, the decline in the vacancy rate was among the steepest in the region—down 0.9 percentage point, to 3.8 percent—but rent growth was among the slowest in the region—rising only 3 percent, to $932. The vacancy rate in the Chicago metropolitan area also declined—down 0.4 percentage point, to 4.8 percent—and rent increased 5 percent. In the Columbus metropolitan area, the vacancy rate increased 0.1 percentage point, to 4.1 percent, and rent growth was 4 percent—unchanged from a year earlier and relatively slow compared with that of the nation.

continued on page 6

## Average rents increased in all large metropolitan areas in the Midwest region, and the vacancy rate fell in most areas during the fourth quarter of 2019.

| | Market Condition | Vacancy Rate | | | Average Monthly Rent | | |
|---|---|---|---|---|---|---|---|
| | | 4Q 2018 (%) | 4Q 2019 (%) | Percentage Point Change | 4Q 2018 ($) | 4Q 2019 ($) | Percent Change |
| Chicago-Naperville-Elgin | Balanced | 5.2 | 4.8 | -0.4 | 1,462 | 1,535 | 5 |
| Cincinnati | Tight | 4.1 | 3.2 | -0.9 | 916 | 977 | 7 |
| Cleveland-Elyria | Balanced | 4.7 | 3.8 | -0.9 | 905 | 932 | 3 |
| Columbus | Balanced | 4.0 | 4.1 | 0.1 | 936 | 971 | 4 |
| Detroit-Warren-Dearborn | Tight | 3.3 | 3.2 | -0.1 | 962 | 992 | 3 |
| Indianapolis-Carmel-Anderson | Slightly Tight | 5.6 | 5.1 | -0.5 | 875 | 924 | 6 |
| Milwaukee-Waukesha-West Allis | Slightly Tight | 3.3 | 3.5 | 0.2 | 1,097 | 1,157 | 5 |
| Minneapolis-St. Paul-Bloomington | Tight | 2.8 | 3.2 | 0.4 | 1,275 | 1,341 | 5 |

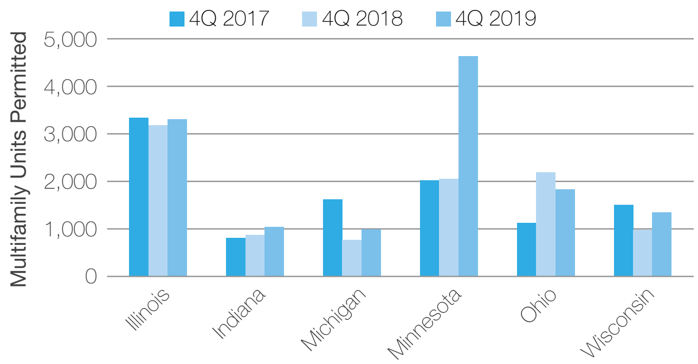
4Q = fourth quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

continued from page 5

During the fourth quarter of 2019 (preliminary data)—

- Multifamily construction, as measured by the number of multifamily units permitted, in the Midwest region increased to 13,150. Multifamily construction was up 31 percent from the number of units permitted during the same quarter a year ago and shifted from a 4-percent decline in permitting during the fourth quarter of 2018. By comparison, the number of multifamily units permitted in the nation rose 16 percent, accelerating from a 5-percent increase a year earlier.
- Permitting increased in five of the six states in the region. The largest gain was in Minnesota, with 4,625 units permitted—up by 2,575 units, or more than double the number of units permitted a year ago. Most of the state-level increase in permitting was in the Minnesota portion of the Minneapolis metropolitan area, where permitting was up by 2,175 units or 110 percent.
- Ohio was the only state in the Midwest region with a decline in permitting, with 350 fewer units permitted than in the fourth quarter of 2018. The decline was concentrated in the Columbus metropolitan area, which was down by 350 units, or 25 percent. Permitting increased by 30 and 90 units—or 58 and 18 percent, respectively—in the Cleveland metropolitan area and the Ohio portion of the Cincinnati metropolitan area, but declines in Columbus and smaller areas in the state offset those gains.
- In Illinois, Indiana, and Michigan, the state and the largest metropolitan area in the state followed the same permitting trends. The Illinois portion of the Chicago-Naperville-Elgin metropolitan area and the state of Illinois increased by 95 and 130 units, or 3 and 4 percent, respectively. The Indianapolis-Carmel-Anderson metropolitan area and the state of Indiana increased by 65 and 170 units, or 22 and 20 percent, respectively. Finally, the Detroit-Warren-Dearborn metropolitan area and the state of Michigan increased by 410 and 230 units, or 209 and 30 percent, respectively.
- In Wisconsin, statewide permitting increased by 360 units, or 37 percent, while permitting in the largest metropolitan area in the state, Milwaukee-Waukesha-West Allis, decreased by 280 units, or 76 percent. An increase in multifamily permitting in smaller metropolitan areas, including the Janesville-Beloit, Madison, and Wausau metropolitan areas, which were up by 170, 160, and 95 units, respectively, contributed to the increase statewide.

## Multifamily permitting increased in five of the six states in the Midwest region during the fourth quarter of 2019; the largest gain was in Minnesota.




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