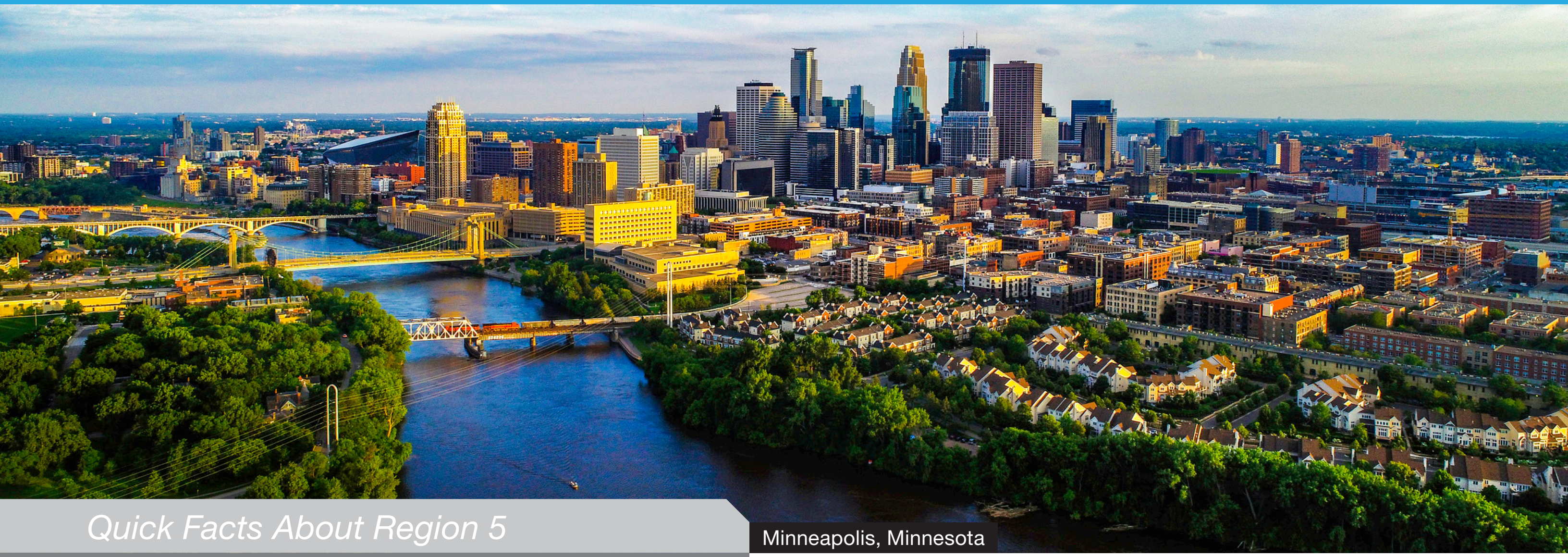
HUD PD&R **Regional Reports**

Region 5: Midwest

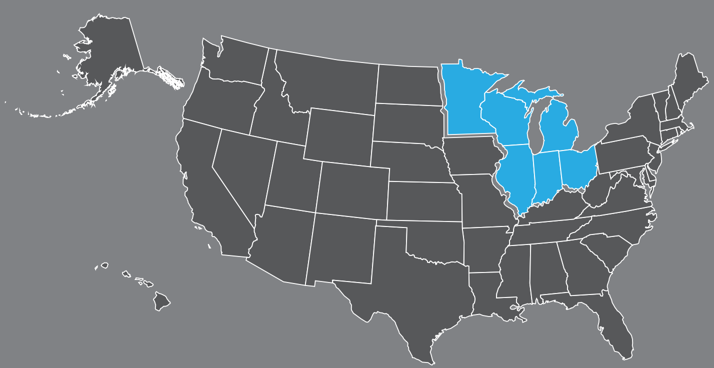


Minneapolis, Minnesota

Quick Facts About Region 5

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

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



By Marissa Dolin | 4th Quarter 2020

Overview

The economy in the Midwest region continues to recover from the initial shock and changes to work, travel, and consumer spending that began in March 2020 when the World Health Organization (WHO), declared COVID-19 a global pandemic. Restrictions intended to slow the spread of the virus by reducing the frequency of in-person interactions contributed to a sharp contraction in the economy during the second quarter of 2020. During the third quarter of 2020, the economy regained some of the jobs lost, as restrictions eased. Rising or elevated case counts since October have slowed the economic recovery during the fourth quarter of 2020 because consumers and businesses continue to limit in-person interactions. The sales housing market in the Midwest region has tightened from a year ago partially because the inventory of homes for sale is at the lowest level in more than a decade. In addition, the average home sales price rose at the fastest rate in more than 15 years. Historically low mortgage interest rates and the increased use of telework have partially incentivized homebuying. Conditions in the apartment market remain mixed. In the highest cost major metropolitan areas in the region, conditions have softened, whereas conditions remain balanced or slightly tight in more moderate cost areas.

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- Nonfarm payrolls in the Midwest region averaged nearly 23.74 million jobs during the fourth quarter of 2020, a reduction of 1.7 million jobs, or 6.7 percent, from the same quarter a year ago. Current payrolls had improved from the second quarter of 2020, when payrolls were down by 3.3 million jobs, or 13.1 percent.
- The average home sales price in the Midwest region increased 10 percent during 2020. Most states in the region had record or near-record price increases.
- Rent growth in nearly every major metropolitan area in the Midwest region slowed from a year ago. The two metropolitan areas with the highest average rent, Chicago-Naperville-Elgin and Minneapolis-St. Paul-Bloomington, reported declines in average rent of 3 percent and less than 1 percent, respectively.

Economic Conditions

Economic recovery from losses sustained during the second quarter of 2020 continued during the fourth quarter of 2020, but the rate of job recovery slowed. Since the second quarter of 2020, approximately 1.6 million of the 3.3 million jobs lost in the Midwest region have returned. Quarter over quarter, approximately 1.4 million jobs were added during the third quarter of 2020 and 220,700 jobs were added during the fourth quarter of 2020. An increase in the number of cases of COVID-19 during the fourth quarter of 2020 reduced the willingness of some consumers to return to in-person activities; that factor has contributed to slowing payroll recovery. Despite those job gains, nonfarm payrolls during the fourth quarter of 2020 remain 6.7 percent below levels a year ago.

Comparing the most recent month of payroll data, December 2020, to February 2020—the month before the WHO declared COVID-19 a global pandemic—nonfarm payrolls in the Midwest region were 5.5 percent below pre-pandemic levels (not seasonally adjusted). For context, payrolls during April 2020, when restrictions were tightest, were down 14.9 percent from February 2020.

The economic recovery has been unevenly divided between low- and high-wage workers. The employment of high-wage workers—those earning more than $60,000 annually—was up in all states in the Midwest region from January 2020 to mid-November 2020, with increases ranging from 1.4 percent in Indiana to 6.0 percent in Michigan (*Opportunity Insights*). The employment of low-wage workers—those earning less than $27,000 annually—is down in all states in the region, with decreases ranging from 16.2 percent in Ohio to 29.5 percent in Minnesota.

Nonfarm payrolls in all states in the Midwest region remain down from a year ago but have improved since the second quarter of 2020. Current payrolls in Indiana are closest to the levels from a year ago, down by 95,900 jobs, or 3.0 percent, compared with deficits of 10.1 percent during the second quarter and 4.0 percent during the third quarter of 2020. Four states in the region—Illinois, Minnesota, Ohio, and Wisconsin—are at levels relatively close to the Midwest average; those levels range from a deficit of 6 to 7 percent during the fourth quarter of 2020 but are improved from the 7- to 8-percent rates during the third quarter and the 11- to 13-percent rates during the second quarter of 2020. Payrolls in Michigan were down substantially more than the regional average during the second quarter of 2020 and have been slower to recover. During the second quarter of 2020, payrolls in the state were down 18.6 percent but improved to a deficit of 11.5 percent during the third quarter and 9.6 percent during the fourth quarter of 2020.

During the fourth quarter of 2020—

- The leisure and hospitality sector declined the most among all sectors in the Midwest region. Payrolls averaged 1.83 million jobs during the fourth quarter of 2020, a reduction of 616,000 jobs, or 25.2 percent, compared with the same quarter a year ago. Jobs in the sector are up from the low of 1.46 million during the second quarter of 2020 but down from 1.99 million during the third quarter of 2020. The onset of cold weather, which limited outdoor dining, and the closure of indoor restaurant service in most states in the region during the latter part of the fourth quarter contributed to the reduction in jobs compared with the third quarter of 2020.
- The transportation and utilities sector is the sector that is the closest to pre-pandemic payroll levels among all sectors in the region, down by only 14,000 jobs, or 1.2 percent, from a year ago. A portion of the loss was attributed to the nationwide layoff of 35,000 workers at passenger airlines on October 1, 2020. An increase in package-delivery jobs added in response to the rise in online shopping, which increased 22 percent nationally during 2020 (U.S. Census Bureau) partially offset layoffs in other industries within the sector.
- Payrolls in the financial activities and the professional and business services sectors have a relatively smaller rate of payroll deficit than that of payrolls in the region overall.

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Nonfarm payrolls in the Midwest region were significantly lower during the fourth quarter of 2020 than a year ago.

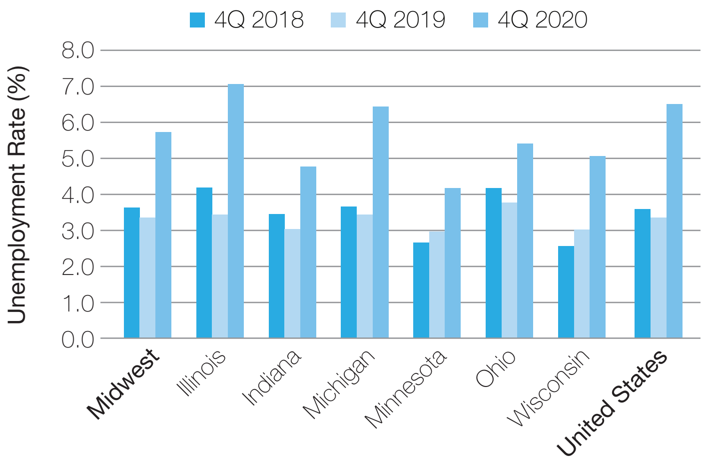
	Fourth Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	25,431.7	23,736.0	-1,695.7	-6.7
Goods-Producing Sectors	4,326.0	4,124.9	-201.1	-4.6
Mining, Logging, & Construction	1,081.2	1,058.0	-23.2	-2.1
Manufacturing	3,244.8	3,066.9	-177.9	-5.5
Service-Providing Sectors	21,105.7	19,611.1	-1,494.6	-7.1
Wholesale & Retail Trade	3,619.3	3,512.5	-106.8	-3.0
Transportation & Utilities	1,139.6	1,125.6	-14.0	-1.2
Information	342.3	307.8	-34.5	-10.1
Financial Activities	1,437.1	1,405.3	-31.8	-2.2
Professional & Business Services	3,406.3	3,245.0	-161.3	-4.7
Education & Health Services	4,108.0	3,877.5	-230.5	-5.6
Leisure & Hospitality	2,447.1	1,831.1	-616.0	-25.2
Other Services	1,032.0	956.7	-75.3	-7.3
Government	3,574.0	3,349.6	-224.4	-6.3

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

Payrolls in those two sectors, which have a large share of jobs that can be shifted to telework, are down by 31,800 and 161,300, or 2.2 and 4.7 percent, respectively, from a year ago.

- In the manufacturing sector, payrolls averaged 3.07 million jobs, approximately 177,900 jobs, or 5.5 percent, below the average from a year ago, partially recovering from the low of 2.89 million jobs during the second quarter of 2020.
- The unemployment rate fell to 5.7 percent, improving from 8.4 percent during the third quarter of 2020 and a recent high of 14.3 percent during the second quarter of 2020. The unemployment rate for the nation was 6.5 percent during the fourth quarter of 2020, down from 12.9 percent during the second quarter of 2020.

Unemployment rates in the Midwest region and in five of the six states were below the national rate during the fourth quarter of 2020.



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

Sales Market Conditions

Home sales market conditions tightened throughout the Midwest region during the fourth quarter of 2020, ranging from slightly tight to tight compared with balanced conditions a year ago. Home sales prices have increased sharply, whereas the inventory of homes for sale continued a downward trend that began before the pandemic. Public health concerns and weak economic conditions contributed to caution among potential sellers, limiting the number of homes for sale, while historically low interest rates and an increase in telework contributed to an increased interest from homebuyers. Builders responded to tightening market conditions by increasing single-family home construction.

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In the Midwest region, the inventory of homes for sale has been declining since 2011, below 6 months since 2015 and at or below 4 months since 2017 (CoreLogic, Inc.). During the fourth quarter of 2020, the inventory of homes for sale averaged 2.0 months, down from 3.7 months during the same quarter a year earlier. Michigan and Indiana had the sharpest reductions in inventory, each down by 2.5 months, to 1.8 and 2.8 months, respectively.

Home sales prices in the region had record increases during 2020. Including new and existing homes, prices in the Midwest region rose 10 percent from a year earlier, slightly faster than the 9-percent increase for the nation (Zonda). The average prices for new, regular resale, and real estate owned (REO) homes in the region increased 1, 10, and 13 percent, respectively. At the state level, Indiana had the fastest price increase, 18 percent, and Minnesota had the slowest, 6 percent. In the eight major metropolitan areas in the Midwest region with 1 million or more residents, prices increased slightly faster than the region overall, rising 12 percent.

Total home sales in the Midwest region are down from a year ago. Sales during 2020 declined 11 percent, compared with sales during 2019, accelerating from the 1-percent average annual decline from 2017 through 2019. Non-economic factors affected sales in 2020. Every state in the Midwest region was under a stay-at-home order for at least 30 days between late March and early May 2020, reducing the opportunity for home showings. Also, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted in March 2020, placed a moratorium on the foreclosure of homes with federally insured mortgages. Distressed sales, which include foreclosures and REO sales, were down 46 percent, compared with declines of 7 percent for regular resale sales and 6 percent for new home sales. The decline was steepest in Michigan, where sales fell 22 percent; in particular, the Detroit-Warren-Dearborn metropolitan area had a 28-percent decrease in home sales. One state, Wisconsin, recorded an increase in sales, up 7 percent, which is a reversal from the previous 3 years, when sales were declining. Sales in the Milwaukee-Waukesha metropolitan area were down 6 percent, but higher sales elsewhere in Wisconsin offset the reduction.

The rate of seriously delinquent mortgage loans (loans 90 or more days delinquent or in foreclosure) has increased. The delinquency rate in the Midwest region was 3.5 percent in November 2020, up from 1.4 percent a year earlier. The national delinquency rate was 4.1 percent in November 2020. Policy

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The average home sales price increased in all states and major metropolitan areas in the Midwest region in 2020.

		Number of Homes Sold			Price			
	12 Months Ending	2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Illinois	December	213,100	187,900	-12	AVG	244,400	267,900	10
Chicago-Naperville-Elgin, IL-IN-WI	December	164,900	143,100	-13	AVG	275,700	314,700	14
Indiana	December	161,800	153,200	-5	AVG	177,300	209,800	18
Indianapolis-Carmel-Anderson, IN	December	51,150	50,500	-1	AVG	204,900	240,000	17
Michigan	December	169,800	133,000	-22	AVG	199,800	215,500	8
Detroit-Warren-Dearborn, MI	December	84,200	61,000	-28	AVG	216,000	236,200	9
Minnesota	December	114,000	110,000	-3	AVG	266,700	282,400	6
Minneapolis-St. Paul-Bloomington, MN-WI	December	74,350	70,150	-6	AVG	308,900	330,400	7
Ohio	December	235,600	194,900	-17	AVG	177,000	193,200	9
Cincinnati, OH-KY-IN	December	46,500	37,350	-20	AVG	208,200	222,000	7
Cleveland-Elyria, OH	December	42,800	34,000	-20	AVG	176,200	194,300	10
Columbus, OH	December	44,600	40,050	-10	AVG	232,200	261,100	12
Wisconsin	December	114,700	122,900	7	AVG	203,300	220,900	9
Milwaukee-Waukesha, WI	December	26,000	24,400	-6	AVG	245,400	280,600	14

AVG = average.
Notes: Some metropolitan areas include counties in more than one state. Home sales and prices include new and existing homes.
Source: Zonda

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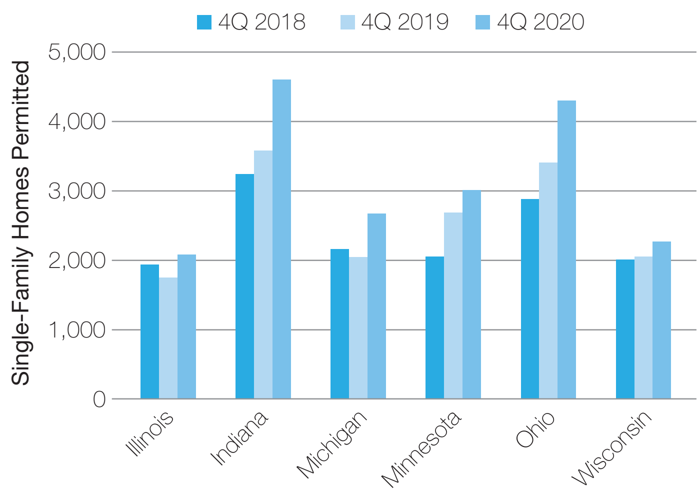
changes enabled by the CARES Act have limited foreclosures. Although the mortgage delinquency rate has increased mostly due to weak economic conditions, foreclosures are down from a year ago.

In response to rapidly rising homes sales prices and a low inventory of homes for sale, single-family construction, as measured by the number of homes permitted, increased during the fourth quarter of 2020 compared with the same quarter a year ago.

During the fourth quarter of 2020—

- In the Midwest region, the number of single-family homes permitted totaled 18,900; that number is an increase of 3,425, or 22 percent, from the same quarter a year ago, which is an acceleration from a 9-percent gain a year earlier. Trends in the region are consistent with trends in the nation; single-family permitting increased 27 percent in the nation—an acceleration from an 11-percent gain a year earlier.
- All states in the Midwest region had an increase in single-family home construction. The fastest gains were in Michigan and Indiana, where construction increased 31 and 29 percent, respectively. The slowest gains were in Minnesota and Wisconsin, where construction increased 12 and 11 percent, respectively.
- In the eight major metropolitan areas, single-family permitting totaled 12,750, up 26 percent from a year ago. The fastest increases were in the Indianapolis-Carmel-Anderson and Columbus metropolitan areas, each up 39 percent. The slowest increases were in the Minneapolis-St. Paul-Bloomington and Milwaukee-Waukesha metropolitan areas, up 12 and 14 percent, respectively.
- Single-family homes have become a larger portion of all housing construction in the region, accounting for 58 percent of total home construction compared with 54 percent during the same quarter a year ago. Nationally, single-family homes accounted for 66 percent of all housing construction during the fourth quarter of 2020, up from 58 percent a year earlier.

The number of single-family homes permitted increased in all states in the Midwest region in the fourth quarter of 2020 compared with a year ago.



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

Apartment Market Conditions

Apartment market conditions during the fourth quarter of 2020 in the eight major metropolitan areas in the Midwest region have shown greater variation than in previous quarters; conditions currently range from slightly soft to tight, compared with balanced to tight conditions a year ago. The two areas with the highest rents also had softening conditions, with declining average rents and rising vacancy rates. The other six areas were either balanced or had tightened, with rising rents and falling or modestly increasing vacancy rates. The average rent for the nation increased by less than 1 percent, and the apartment vacancy rate increased 0.2 percentage point (RealPage, Inc.). In most major metropolitan areas in the Midwest region, the average rent increased faster than that of the nation.

The vacancy rate declined the fastest in the Detroit-Warren-Dearborn metropolitan area, down 0.7 percentage point, to 2.6 percent. The Detroit metropolitan area, which has both accelerating rent growth and a relatively low vacancy rate, is the only major metropolitan area in the Midwest region with currently tight market conditions. By comparison, a year ago, three of the eight major metropolitan areas in the region had tight market conditions. The vacancy rate also declined substantially in the Indianapolis-Carmel-Anderson metropolitan area, down 0.6 percentage point, to 4.6 percent. Smaller declines of 0.1 to 0.2 percentage point were reported in the Cleveland-Elyria, Columbus, and Milwaukee-Waukesha metropolitan areas, and a modest increase of 0.3 percentage point was reported in the

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Cincinnati metropolitan area. The largest increases in the vacancy rate were in the Chicago-Naperville-Elgin and Minneapolis-St. Paul-Bloomington metropolitan areas, up 0.9 and 1.0 percentage point, respectively.

Rent growth slowed in nearly all major metropolitan areas in the Midwest region compared with a year ago. The most recent rent changes ranged from a 6-percent increase to a 3-percent decrease; by comparison, average rent increases ranged from 3 to 6 percent a year earlier. The Detroit-Warren-Dearborn metropolitan area was the only area in the Midwest region with faster rent growth compared with a year earlier; the area had a rise of 6 percent, up from a 3-percent gain a year earlier. Partially in response to rising vacancy rates, the average rent declined in two metropolitan areas—a reversal from rent increases a year earlier. The average rent in the Chicago-Naperville-Elgin metropolitan area fell 3 percent, and the average rent in the Minneapolis-St. Paul-Bloomington metropolitan area fell less than 1 percent, down from the 4- and 5-percent gains, respectively, during the previous year. Rent growth in the other five major metropolitan areas ranged from 3 to 4 percent, slowing by 1 to 2 percentage points compared with the previous year.

The apartment market has also been affected by the Centers for Disease Control (CDC) order intended to limit the spread of COVID-19 by temporarily halting evictions for nonpayment of rent. The order, issued September 4, 2020, is currently set to expire on March 31, 2021 and may affect the apartment vacancy rate in upcoming quarters. During mid-December 2020, approximately 17 percent of renter households in the Midwest region were not current on rent, up slightly from 16 percent at the end of August (U.S. Census Pulse Survey, weeks 21 and 13).

Regionwide, the number of apartment completions has slowed. During the fourth quarter of 2020, approximately 14,050 apartment units were completed, down 12 percent from 15,950 units a year earlier (McGraw-Hill Construction Pipeline database). Although most apartments completed during the current quarter began construction in 2019, social distancing measures to maintain worker health and challenges in procuring building materials slowed the completion of some properties. An additional 62,000 apartment units are under construction in the Midwest region, with expected completion in 2021.

During the fourth quarter of 2020 (preliminary data)—

- Multifamily construction in the Midwest region, as measured by the number of multifamily units permitted, increased modestly from a year ago. The number of units permitted totaled 13,550, up by 430, or 3 percent, from the same quarter a year ago. Nationally, multifamily construction declined 11 percent during the same period.
- In the eight major metropolitan areas in the Midwest region, 9,825 units were permitted, up by 20 units, or less than 1 percent. Construction increased in four of those metropolitan areas—Detroit-Warren-Dearborn, Cleveland-Elyria, Columbus, and Milwaukee-Waukesha—and decreased in the other four.
- Multifamily permitting by state in the Midwest region was mixed, with increases in four states—Indiana, Michigan, Ohio, and Wisconsin—and decreases in two—Illinois and Minnesota. The two states with a decline in construction

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In the two highest cost metropolitan areas in the Midwest region, the vacancy rate increased and the average rent decreased, whereas the vacancy rate decreased and rent increased in most of the lower cost metropolitan areas, during the fourth quarter of 2020.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2019 (%)	4Q 2020 (%)	Percentage Point Change	4Q 2019 ($)	4Q 2020 ($)	Percent Change
Chicago-Naperville-Elgin	Slightly Soft	4.8	5.8	0.9	1,565	1,518	-3
Cincinnati	Slightly Tight	3.2	3.5	0.3	992	1,027	4
Cleveland-Elyria	Slightly Tight	3.7	3.5	-0.2	954	995	4
Columbus	Balanced	4.2	4.1	-0.1	990	1,033	4
Detroit-Warren-Dearborn	Tight	3.3	2.6	-0.7	1,003	1,062	6
Indianapolis-Carmel-Anderson	Slightly Tight	5.2	4.6	-0.6	928	958	3
Milwaukee-Waukesha-West Allis	Slightly Tight	3.4	3.3	-0.2	1,173	1,205	3
Minneapolis-St. Paul-Bloomington	Balanced	3.3	4.2	1.0	1,365	1,364	0

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

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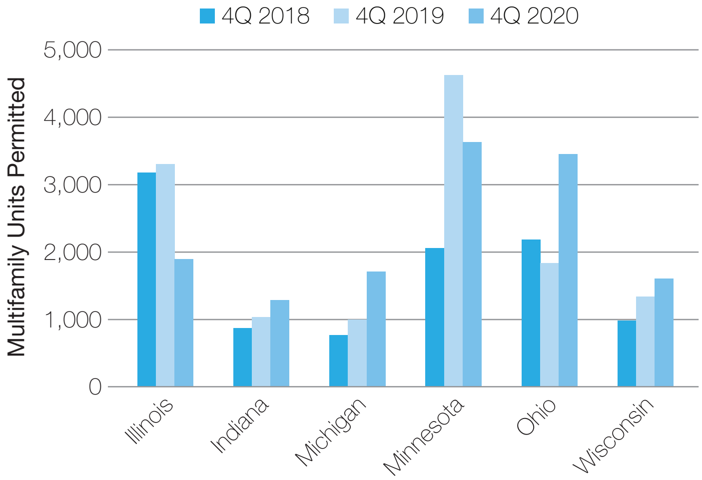
also had balanced or slightly soft apartment market conditions in their largest metropolitan areas.

- The largest increase in construction was in the Columbus metropolitan area, up by 1,375 units, to 2,425 units, and the largest decrease in construction was in the Chicago-Naperville-Elgin metropolitan area, down by 1,200 units to 1,675 units. The largest increase and decrease by state were in Ohio and Illinois, respectively.

During the fourth quarter of 2020, multifamily permitting increased in four states and decreased in two compared with a year earlier.



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