

HUD PD&R Regional Reports

Region 5: Midwest

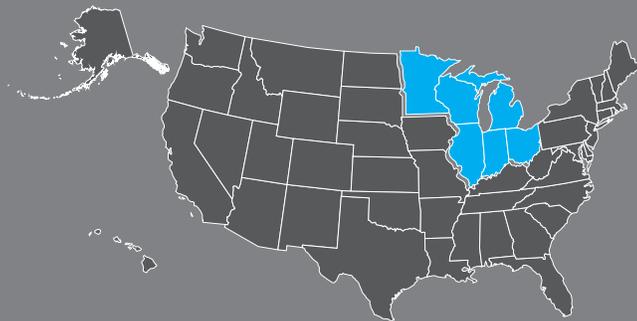


Quick Facts About Region 5

Milwaukee, Wisconsin

By Marissa Dolin | 4th quarter 2017

- **Sales market conditions—**
Fourth quarter 2017: mixed (balanced to slightly soft).
Third quarter 2017: mixed (balanced to soft).
Fourth quarter 2016: mixed (balanced to soft).
- **Apartment market conditions—**
Fourth quarter 2017: mixed (balanced to tight).
Third quarter 2017: mixed (balanced to tight).
Fourth quarter 2016: mixed (slightly soft to tight).



Overview

The economic expansion in the Midwest region that began in 2010 continued in the fourth quarter of 2017, but the rate of growth has slowed from a year ago. Nonfarm payrolls grew in every state in the region, led by Ohio and Michigan. Improved economic conditions contributed to rising demand for home sales, increasing average home sales prices in all states and major metropolitan areas in the region, and a declining inventory of homes for sale. The average home sales price in the region during the 12 months ending November 2017 exceeded the average price during the prerecessionary peak in 2006. Previously tight apartment market conditions have become balanced to slightly tight in many markets as vacancy rates rose from a year earlier and the number of apartment units completed increased, and average monthly rent growth slowed or remained unchanged in most major metropolitan areas in the region. Growth in single-family construction and a rising homeownership rate, 68.7 percent in the Census Bureau-defined Midwest region during the fourth quarter of 2017, up from 68.4 percent a year earlier, indicates increasing demand for owner housing.

- The unemployment rate in the Midwest region during the fourth quarter of 2017 fell 0.6 percentage point from a year earlier, to 3.9 percent, and the unemployment rate declined in all six states in the region. This rate is the lowest for the region since the fourth quarter of 2000.
- Home sales in the region rose 2 percent during the 12 months ending November 2017, to 974,600 homes sold, with sales

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increasing in each state except Minnesota. Average single-family home sales prices rose 4 percent in the Midwest to \$184,500, and prices increased in all states.

- Single-family construction activity (as measured by the number of homes permitted) increased 6 percent, to 14,750 homes

permitted, during the fourth quarter of 2017 as builders responded to rising home sales and declining inventory of homes for sale.

- Following relatively high production levels during the previous 2 years, multifamily permitting fell 14 percent, to 10,400 units, during the fourth quarter of 2017 compared with a 4-percent increase nationally.

Economic Conditions

Economic conditions continued to strengthen in the Midwest region during the fourth quarter of 2017, as the current economic expansion entered its eighth year. Nonfarm payroll jobs during the fourth quarter have had continuous year-over-year gains since 2010. Since the beginning of the current economic expansion, more than 2.0 million jobs have been added in the region, a cumulative increase of 8.7 percent. During the fourth quarter of 2017, nonfarm payrolls rose by 246,200 jobs, or 1.0 percent, to approximately 25.27 million jobs. Ohio and Michigan added the most jobs in the region, with gains of 51,000 and 49,700 jobs, or 0.9 and 1.1 percent, respectively. The 1.5-percent rate of job growth in Wisconsin matched the 1.5-percent national rate. Job growth rates in all other states were lower than the national rate, including in Illinois, with a 0.5-percent gain, the lowest rate of growth in the region. Nonfarm payrolls grew 1.4 and 0.9 percent, respectively, in Minnesota and Indiana, which added 41,300 and 28,900 jobs, respectively. Expansion of small to midsize businesses in suburban Indianapolis and

the opening of the \$225 million Hennepin County Medical Center in downtown Minneapolis contributed to job growth. Unemployment fell to the lowest levels in more than a decade in all states in the region. Unemployment rates in the region ranged from a low of 2.7 percent in Wisconsin to a high of 4.7 percent in Illinois. Averages for the region and nation were both 3.9 percent.

During the fourth quarter of 2017—

- A gain of 52,600 jobs, or 1.3 percent, in the education and health services sector led job growth and accounted for 21 percent of all jobs added in the region. Additions in the sector occurred in all states in the region, ranging from a low of 2,800 jobs added in Wisconsin to a high of 15,400 jobs in Ohio.
- The manufacturing sector recorded the second largest sector-level gain, up 42,000 jobs, or 1.3 percent. Increases ranged from a low of 3,100 jobs in Michigan to a high of 14,800 jobs in Wisconsin.

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Job growth was positive in 9 of the 11 nonfarm payroll sectors in the Midwest region during the fourth quarter of 2017.

	Fourth Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	25,022.4	25,268.6	246.2	1.0
Goods-producing sectors	4,167.0	4,240.9	73.9	1.8
Mining, logging, and construction	995.3	1,027.2	31.9	3.2
Manufacturing	3,171.7	3,213.7	42.0	1.3
Service-providing sectors	20,855.4	21,027.7	172.3	0.8
Wholesale and retail trade	3,743.2	3,738.6	- 4.6	- 0.1
Transportation and utilities	1,015.4	1,029.9	14.5	1.4
Information	360.5	355.0	- 5.5	- 1.5
Financial activities	1,363.3	1,389.5	26.2	1.9
Professional and business services	3,395.5	3,430.8	35.3	1.0
Education and health services	3,999.6	4,052.2	52.6	1.3
Leisure and hospitality	2,378.0	2,410.2	32.2	1.4
Other services	1,026.1	1,045.0	18.9	1.8
Government	3,573.8	3,576.4	2.6	0.1

Note: Numbers may not add to totals because of rounding.

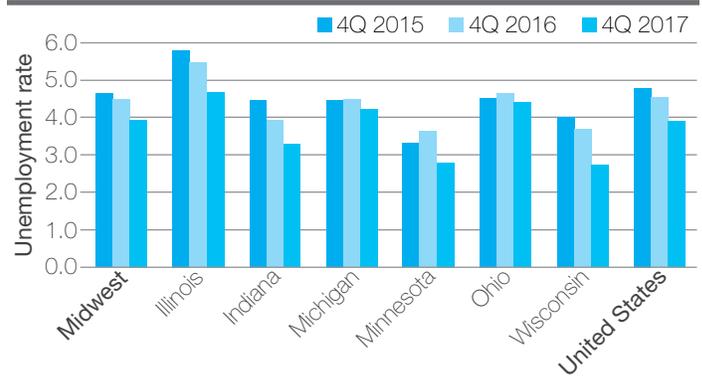
Source: U.S. Bureau of Labor Statistics



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- Nonfarm payrolls in the professional and business services sector grew in five states, totaling 35,300 additional jobs in the region, or 1.0-percent growth. Nearly two-thirds of the gains in the sector occurred in Michigan and Illinois, where sector payrolls expanded by 13,900 and 8,500 jobs, respectively.
- In the mining, logging, and construction sector, which recorded the highest rate of growth in the region at 3.2 percent, the natural resources and mining subsector expanded for the first time since 2014, with a gain of 1,400 jobs, or 3.2 percent, supported by rising base metals prices. The construction subsector increased by 30,500 jobs, or 3.2 percent. All states in the region recorded an increase in construction subsector jobs, except Ohio, where such jobs declined by 300.
- Two sectors declined in the region; the information sector fell by 5,500 jobs, or 1.5 percent, and the wholesale and retail trade sector declined by 4,600 jobs, or 0.1 percent. Wholesale and retail trade job losses in Illinois, Ohio, and Michigan of 11,400, 4,000, and 1,600 jobs, respectively, offset gains in Minnesota, Wisconsin, and Indiana of 6,100, 4,300, and 2,100 jobs. The

The unemployment rate fell in every state in the Midwest region during the fourth quarter of 2017.



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

closure of approximately 5,000 retail stores nationwide, including 10 Kmart, 7 Sears, 35 J.C. Penney, 13 Macy's, 10 H.H. Gregg, and 20 Payless Shoes stores in the Midwest region, contributed to the decline.

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly soft across the Midwest region, improving from the previous quarter and the previous year. During the 12 months ending November 2017, the number of homes sold in the region rose approximately 2 percent, lower than the 4-percent gain during the 12-month period ending November 2016 (CoreLogic, Inc. with adjustments by the analyst). A decline in inventory of existing homes for sale and decline in distressed sales contributed to slower home sales growth. Home sales in the region continued to increase, however, partially because of an increase in single-family homebuilding. Home sales increased in all eight of the largest metropolitan areas

in the region during past 12 months, with gains ranging from less than 1 percent in the Minneapolis-St. Paul-Bloomington metropolitan area to 10 percent in the Cleveland-Elyria metropolitan area. Home sales growth accelerated in the Chicago-Naperville-Elgin and Detroit-Warren-Dearborn metropolitan areas, up 5 and 6 percent, respectively, compared with a 4-percent increase and 3-percent decrease during the 12 months ending November 2016. By comparison, home sales nationwide declined less than 1 percent during the 12 months ending November 2017 compared with a 4-percent increase a year earlier.

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Economic growth in the Midwest region contributed to increased home sales and prices in all eight large metropolitan areas.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2016	2017	Percent Change		2016 (\$)	2017 (\$)	Percent Change
Chicago-Naperville-Elgin (N&E)	November	147,500	154,700	5	AVG	262,900	270,400	3
Cincinnati (N&E)	November	43,800	45,250	3	AVG	174,700	181,400	4
Cleveland-Elyria (N&E)	November	36,700	40,550	10	AVG	146,400	149,000	2
Columbus (N&E)	November	40,950	41,400	1	AVG	192,100	204,400	6
Detroit-Warren-Dearborn (N&E)	November	84,700	89,900	6	AVG	162,500	167,700	3
Indianapolis-Carmel-Anderson (N&E)	November	53,100	54,850	3	AVG	190,500	193,200	1
Milwaukee-Waukesha-West Allis ^a (E)	November	20,800	21,100	1	MED	188,800	199,700	6
Minneapolis-St. Paul-Bloomington ^b (E)	November	59,950	60,100	0	AVG	274,200	293,300	7

AVG = average. E = existing. MED = median. N&E = new and existing. Sources: (a) Wisconsin Realtors® Association; (b) Minneapolis Area Association of Realtors®; all others—CoreLogic, Inc.



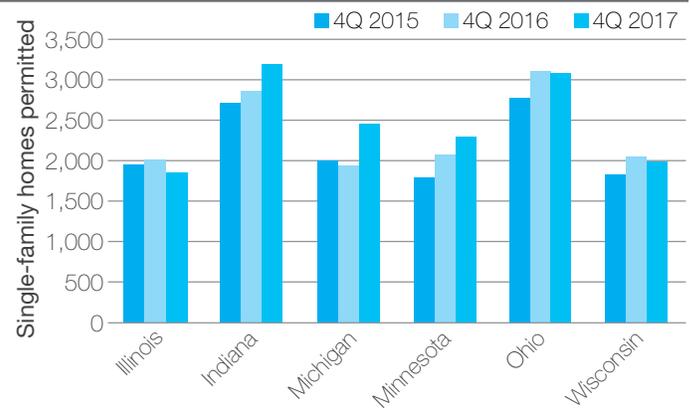
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In the region, the average home sales price (including single-family homes, townhomes, and condominiums) rose 4 percent to \$184,500, during the 12 months ending November 2017, lower than the national average increase of 6 percent, and the 5-percent gain in the region a year earlier. Home sales prices increased in each major metropolitan area of the region; the lowest gain was 1 percent in the Indianapolis-Carmel-Anderson metropolitan area, where the average home sales price was \$193,200, and the highest gain was 7 percent in the Minneapolis-St. Paul-Bloomington metropolitan area, with an average home sales price of \$293,300. Home sales prices in the Milwaukee-Waukesha-West Allis metropolitan area (median price) and the Columbus metropolitan area also increased faster than the 4-percent rate for the Midwest region, up 6 percent in each. In the Cincinnati metropolitan area, the increase matched the 4-percent increase recorded in the region. Among the major metropolitan areas in the Midwest, the average home sales price was the lowest in the Cleveland-Elyria and Detroit-Warren-Dearborn metropolitan areas at \$149,000 and \$167,700, respectively.

In November 2017, 2.0 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, and similar to levels from mid-2004 (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state in the region, with the greatest decrease of 0.7 percentage point each in Illinois, Indiana, and Ohio. The rate of seriously delinquent mortgage loans and REO properties was lowest in Minnesota, Wisconsin, and Michigan, at 1.0 percent, 1.4 percent, and 1.5 percent, respectively; these rates were below the average of 2.3 percent for the nation. Rates in the remaining three states in the region; Indiana, Illinois, and Ohio were at or above the national rate, with rates of 2.3 percent, 2.5 percent, and 2.6 percent, respectively. During the fourth quarter of 2017 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, totaled 14,750, up 820, or 6 percent from a year earlier, but slower than the gain of 920

Single-family permitting increased in three states in the Midwest region—Indiana, Michigan, and Minnesota—during the fourth quarter of 2017.



4Q = fourth quarter.

Note: Based on preliminary data.

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

homes, or 7 percent, during the previous year. By comparison, the number of homes permitted nationally increased 9 percent, up from 7-percent growth in the fourth quarter of 2016.

- The number of single-family homes permitted was up in Michigan, Indiana, and Minnesota by approximately 500, 350, and 220 homes, respectively, from a year ago. Increased permitting in these three states offset declines in other states in the region.
- Among the states in the Midwest region with fewer single-family homes permitted than a year earlier, Illinois had the largest decrease, down 170 homes. Limited job growth in the state during the fourth quarter of 2017 slowed demand for single-family homes.
- The largest increases in single-family homebuilding activity in the region among major metropolitan areas occurred in the Detroit-Warren-Dearborn and Indianapolis-Carmel-Anderson metropolitan areas, where single-family home permitting rose by 330 and 220 homes, or 26 and 19 percent, respectively; permitting declined in major metropolitan areas in Illinois, Ohio, and Wisconsin.

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Midwest region ranged from balanced to tight during the fourth quarter of 2017. The number of apartment units completed in the region rose during the 12 months ending December 2017 and was up from the previous year, contributing to modest increases in apartment vacancy rates. During 2017, approximately 72,000 apartment units were completed in the Midwest, an increase of 2,400 units, or 4 percent from a year earlier (McGraw-Hill Construction Pipeline database). Currently, an estimated 69,000 units are under construction

in the region, which are expected to enter the market during 2018. New construction has been concentrated in downtown areas, resulting in soft apartment market conditions in downtown submarkets of large metropolitan areas.

Apartment vacancy rates rose in all the major metropolitan areas in the region. The largest increases occurred in the Chicago-Naperville-Elgin and Cincinnati metropolitan areas where the rate rose 0.5 and 0.6 percentage points, respectively (Reis, Inc.). The smallest vacancy rate increase was in the Milwaukee-Waukesha-West Allis metropolitan area, up 0.1 percentage points to 4.0 percent, as conditions

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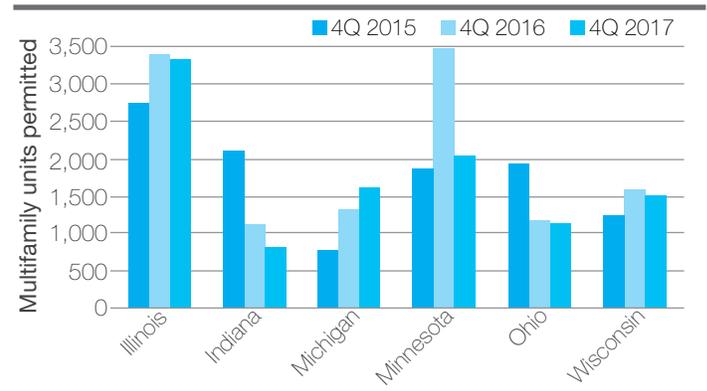
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remain tight in south suburban submarkets, including regions close to the expanding Foxconn manufacturing facility, despite elevated construction and soft conditions in downtown Milwaukee. Only two metropolitan areas, the Detroit-Warren-Dearborn and Cleveland-Elyria metropolitan areas, have tight apartment market conditions, with 2.7-percent and 3.3-percent vacancy rates.

The average rent also increased in all major metropolitan areas in the region. The smallest increase was in the Indianapolis-Carmel-Anderson metropolitan area, up 2 percent, to \$832, and the largest increases were in the Chicago-Naperville-Elgin and Minneapolis-St. Paul-Bloomington metropolitan areas, up 6 percent, and 5 percent, respectively, to \$1,371 and \$1,251. Average rent in the Chicago and Minneapolis metropolitan areas are also the highest in the region. In the Ohio metropolitan areas of Cleveland-Elyria, Cincinnati, and Columbus, where average rents tend to be lower than in other major metropolitan areas in the region, rents rose 3 percent, each, to \$869, \$874, and \$888, respectively. During the fourth quarter of 2017 (preliminary data)—

- The number of multifamily units permitted in the Midwest region declined to 10,400, down by 1,675 units, or 14 percent from the same quarter a year earlier, reversing from a 13-percent increase during the previous year. Permitting was lower in every state in the region except Michigan, where permitting activity rose by 300 units, or 22 percent compared with the fourth quarter of 2016.
- The largest declines in the region occurred in Minnesota and Indiana, where multifamily permitting fell by 1,475 and 300 units, or 42 and 27 percent, respectively, from the same quarter a year ago. Multifamily permitting in Minnesota recorded the highest levels in more than a decade during the fourth quarter of 2016, and permitting has slowed to allow for absorption of units recently completed and under construction.

Multifamily permitting declined in every state in the Midwest region except Michigan during the fourth quarter of 2017.



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

- Wisconsin and Illinois had smaller decreases in permitting, down 90 and 70 units, or 5 percent and 2 percent, respectively from the same quarter a year ago. Lower levels of permitting in the Milwaukee-West Allis-Waukesha metropolitan area and the Illinois portion of the Chicago-Naperville-Joliet metropolitan area, down 80 units each, or 21 and 3 percent, respectively, contributed to the statewide declines.
- Multifamily permitting decreased in Indiana and Ohio for the second consecutive year. Permitting in Indiana fell by 300 units, or 27 percent, compared with a decline of 1,000 units, or 48 percent, during the previous year. Permitting in Ohio fell by 40 units, or 4 percent, a smaller loss compared with the 760 units, or 39 percent decline, during the fourth quarter of 2016.

Previously tight conditions have become balanced in many markets, as vacancy rates rose across the Midwest region in all eight large metropolitan areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2016 (%)	4Q 2017 (%)	Percentage Point Change	4Q 2016 (\$)	4Q 2017 (\$)	Percent Change
Chicago-Naperville-Elgin	Balanced	4.1	4.6	0.5	1,299	1,371	6
Cincinnati	Balanced	4.1	4.7	0.6	847	874	3
Cleveland-Elyria	Tight	3.0	3.3	0.3	844	869	3
Columbus	Slightly tight	3.8	4.1	0.3	859	888	3
Detroit-Warren-Dearborn	Tight	2.4	2.7	0.3	962	987	3
Indianapolis-Carmel-Anderson	Balanced	5.2	5.5	0.3	812	832	2
Milwaukee-Waukesha-West Allis	Balanced	3.9	4.0	0.1	966	1,009	4
Minneapolis-St. Paul-Bloomington	Slightly tight	3.4	3.7	0.3	1,197	1,251	5

4Q = fourth quarter.
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Reis, Inc.

