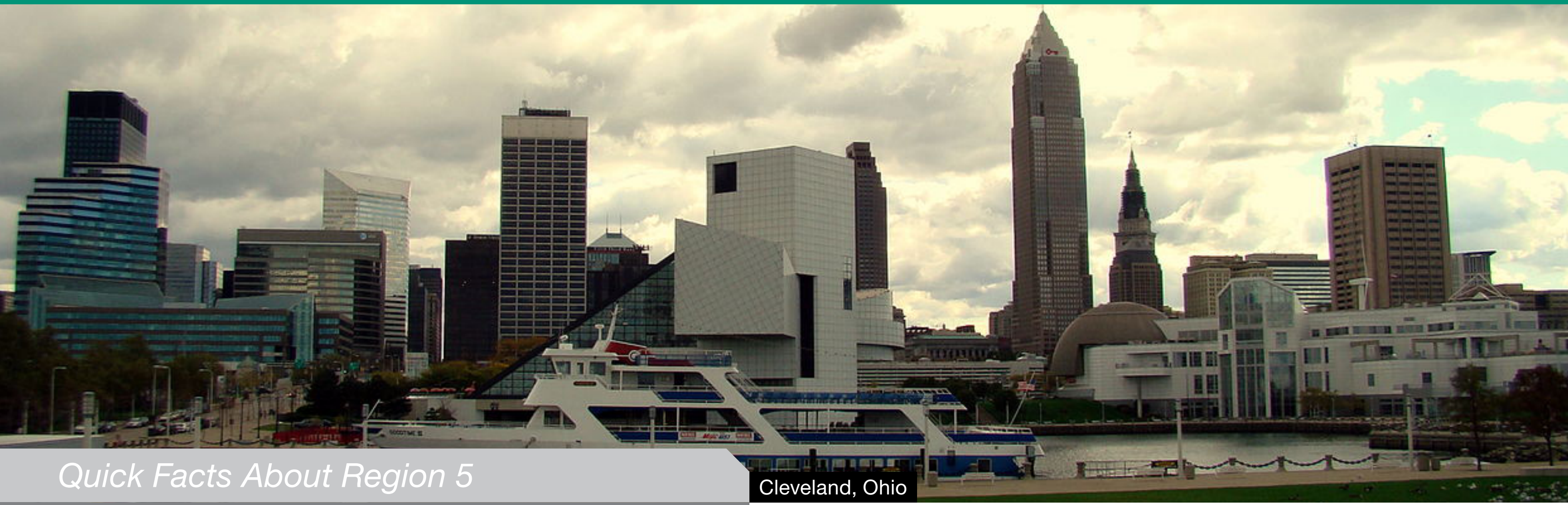
HUD PD&R **Regional Reports**

Region 5: Midwest

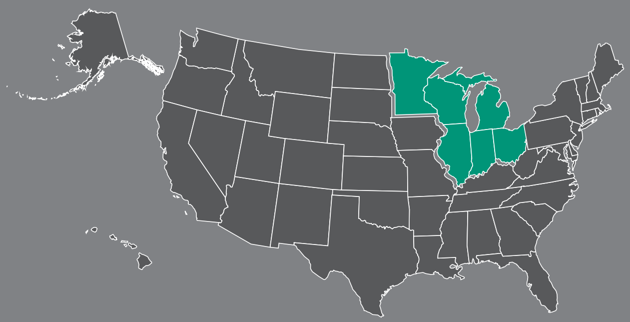


Cleveland, Ohio

Quick Facts About Region 5

- **Sales market conditions—**
  First quarter 2015: balanced.
  Fourth quarter 2014: balanced.
  First quarter 2014: balanced.

- **Apartment market conditions—**
  First quarter 2015: mixed (balanced to tight).
  Fourth quarter 2014: mixed (balanced to tight).
  First quarter 2014: balanced.



By Gabriel A. Labovitz | 1st quarter 2015

Overview

Economic growth in the Midwest region that began in 2010 continued during the first quarter of 2015. Job gains in the region occurred in every nonfarm payroll sector and in every state in the region. Continued economic growth helped to maintain balanced sales housing market conditions in Midwest region states. Single-family home construction, as measured by the number of single-family homes permitted, remained subdued, decreasing 2 percent during the first quarter of 2015 from a year earlier. Apartment market conditions in major Midwest region metropolitan areas ranged from balanced to tight during the first quarter of 2015, and rents rose from 1 to 4 percent compared with rents a year earlier. Multifamily construction, as measured by the number of units permitted, declined nearly 10 percent from a year ago.

During the first quarter of 2015—

- Nonfarm payrolls increased 1.7 percent, to 23.86 million jobs, during the first quarter of 2015, the highest first quarter nonfarm job total since 2007.
- Sales markets remain balanced; sales were mixed and prices increased from 4 to 11 percent in the six Midwest region states.
- Much of the new apartment construction is concentrated in downtown neighborhoods within major metropolitan areas, many of which registered more rent growth than other localities within the metropolitan areas.

Nonfarm payrolls in the Midwest region increased by the greatest number since 2012.

	First Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	23,468.8	23,859.1	390.3	1.7
Goods-producing sectors	3,861.4	3,960.1	98.7	2.6
Mining, logging, and construction	796.7	826.5	29.8	3.7
Manufacturing	3,064.7	3,133.6	68.9	2.2
Service-providing sectors	19,607.4	19,898.9	291.5	1.5
Wholesale and retail trade	3,524.8	3,577.5	52.7	1.5
Transportation and utilities	913.1	930.3	17.2	1.9
Information	362.0	363.6	1.6	0.4
Financial activities	1,303.8	1,317.0	13.2	1.0
Professional and business services	3,120.9	3,198.0	77.1	2.5
Education and health services	3,768.5	3,830.5	62.0	1.6
Leisure and hospitality	2,157.4	2,210.3	52.9	2.5
Other services	994.6	1,005.1	10.5	1.1
Government	3,462.5	3,466.7	4.2	0.1

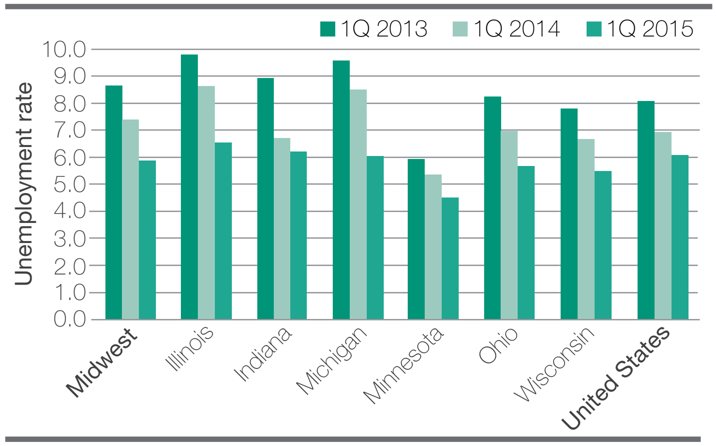
Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

Economic Conditions

The economy in the Midwest region recorded its 19th consecutive quarter of expansion, and the rate of growth increased. Nonfarm payrolls in the region averaged 23.86 million jobs, an increase of 390,300, or 1.7 percent, from a year ago, when nonfarm payrolls increased by 271,400 jobs, or 1.2 percent, from the first quarter of 2013. The first quarter 2015 year-over-year increase in nonfarm payrolls is the greatest since the second quarter of 2012, when the region added 396,200 jobs.

Every nonfarm payroll sector reported job growth in the Midwest region during the first quarter of 2015, led by the professional and business services sector, which increased by 77,100 jobs, or 2.5 percent, from a year ago. The manufacturing sector added the second most nonfarm payroll jobs in the region, reporting a gain of 68,900 jobs, or 2.2 percent. One-third of the increase in manufacturing jobs in the Midwest region was in the transportation equipment manufacturing subsector, which accounted for 22,600 new jobs. U.S. light vehicle sales totaled 3.94 million during the first quarter of 2015, nearly 6 percent more than the sales total for the first quarter of 2014, and the seasonally adjusted annual sales volume in March totaled 17.1 million units, more than the seasonally adjusted annual volume of 16.4 million units sold in March 2013 (WardsAuto). Job gains in two other manufacturing subsectors, the fabricated metal products and the machinery manufacturing subsectors, combined to contribute an additional 26 percent of the manufacturing sector job gain, with increases of 9,700 and 8,500 jobs, or 2.2 and 2.3 percent, respectively. The mining, logging, and construction sector reported the highest rate of growth, at 3.7 percent, or 29,800 new jobs. Nearly 94 percent of the job growth in this sector, or 27,900 jobs, were in the construction subsector. Whereas residential construction remains relatively stable, nonresidential construction, by dollar value of projects started, totaled $11.4 billion during the 12 months ending March 2015, nearly 28 percent more than the value of construction projects started during the previous 12-month period (McGraw-Hill Construction Pipeline database). As a result of the improving economy in the Midwest region, the unemployment rate declined to 5.9 percent during the first quarter of 2015 from 7.4 percent a year earlier and below the national rate of 6.1 percent for the first quarter of 2015.

The unemployment rate in the Midwest region has declined for seven consecutive quarters and is below the national rate for the third consecutive quarter.



1Q = first quarter.
Source: U.S. Bureau of Labor Statistics

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During the first quarter of 2015—

- Each state in the Midwest region reported increasing nonfarm payrolls, led by Michigan, where the increase was 83,500 jobs, or 2.0 percent. Ohio and Illinois reported the next highest rates of job growth, increasing by 80,200 and 72,400 jobs, or 1.5 and 1.3 percent, respectively.
- Nonfarm payrolls increased by 58,800 jobs in Indiana, 50,900 jobs in Wisconsin, and 44,500 jobs in Minnesota, gains of 2.0, 1.8, and 1.6 percent, respectively.
- The professional and business services sector led nonfarm payroll gains in Illinois, Michigan, and Minnesota; the manufacturing sector accounted for the most nonfarm payroll growth in Indiana, Ohio, and Wisconsin.
- The unemployment rate declined in each Midwest region state. The unemployment rate for the region first declined to below the national rate in the third quarter of 2014 and is now below the national rate for the third consecutive quarter.

Population

In 2014, the population of the Midwest region was estimated to be 52.20 million, a 0.2-percent increase from a year earlier, slightly below the 0.3-percent rate of growth reported from 2012 to 2013 (Census Bureau population estimates as of July 1). The 0.2-percent rate of growth from 2013 to 2014 was the lowest rate among the 10 HUD regions, and two Midwest region states, Illinois and Michigan, were among the 10 slowest growing states in the nation during that time. The population of the region grew an average of 0.3 percent annually from 2000 to 2010, but growth slowed each year, from 0.5 to 0.2 percent. The economic recovery in the region, which began during 2010, has led to significant decreases in the unemployment rate rather than increases in the rates of population growth in the region.

During the 12 months ending July 1, 2014—

- The 52.20 million residents in the Midwest region accounted for 16.4 percent of the national population estimate of 318.9 million. This proportion continues a downward trend. The region accounted for 17.8 percent of the national population in 2000 and 16.8 percent in 2010.
- Net population growth for the region was the result of net natural change (resident births minus resident deaths). Net out-migration from the region totaled 76,350 people, because domestic out-migration more than offset international in-migration.
- Indiana and Minnesota reported net in-migration of 1,150 and 5,850 people, respectively. Every other state in the region reported net out-migration, led by Illinois, with net out-migration of 63,550 residents.
- Contributing to the region's 0.2-percent rate of population growth, five states reported increasing population, ranging from 0.1 percent in Michigan to 0.6 percent in Minnesota. Only Illinois lost population from 2013 to 2014, declining 0.1 percent, or by 9,975 residents.

The population in the Midwest region grew 0.2 percent from 2013 to 2014, the lowest growth rate in the nation.

	Population Estimate (as of July 1)			Percent Change	
	2012	2013	2014	2012 to 2013	2013 to 2014
United States	314,112,078	316,497,531	318,857,056	0.8	0.7
Midwest	51,952,580	52,096,476	52,196,212	0.3	0.2
Illinois	12,873,763	12,890,552	12,880,580	0.1	– 0.1
Indiana	6,537,632	6,570,713	6,596,855	0.5	0.4
Michigan	9,884,781	9,898,193	9,909,877	0.1	0.1
Minnesota	5,380,615	5,422,060	5,457,173	0.8	0.6
Ohio	11,550,901	11,572,005	11,594,163	0.2	0.2
Wisconsin	5,724,888	5,742,953	5,757,564	0.3	0.3

Source: U.S. Census Bureau

Sales Market Conditions

Sales housing market conditions were balanced in the Midwest region during the first quarter of 2015, and home sales prices increased compared with prices a year ago in every state in the region. The change in number of homes sold (including single-family homes, townhomes, and condominiums) during the 12 months ending March 2015 was mixed among the six states in the region, with Indiana, Ohio, and Wisconsin reporting increasing home sales and Illinois, Michigan, and Minnesota reporting decreasing home sales. No change in the number of sales was greater than 3 percent when compared with sales a year ago. Home sales prices increased in every Midwest region state, ranging from 4 percent in Michigan to 11 percent in Illinois. Absentee owner purchases made during the 12 months ending March 2015 declined 8 percent in the region and in each state compared with absentee purchases during the 12 months ending March 2014 (Metrostudy, A Hanley Wood Company). Seriously delinquent loans (loans that are 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties also continued to decline in the region; each state reported a decrease in the number of these loans and properties (Black Knight Financial Services, Inc.). In March 2015, about 4.5 percent of home loans in the region were seriously delinquent or had transitioned into REO status, down from 5.4 percent in March 2014. By comparison, the national rate of seriously delinquent loans and REO properties in March 2015 was 4.3 percent, down from 5.2 percent in March 2014. Homeownership rates in the region during the first quarter of 2015, which ranged from 65.6 percent in Illinois to 74.9 percent in Michigan, declined in each state except Michigan from the respective rates a year ago. The influence of mortgage delinquency, which contributed to a shift from owning to renting, is slowly easing in the region. Continued tight lending standards during mortgage underwriting are still prevalent in the mortgage industry, however, leading to additional downward pressure on homeownership rates.

In the Chicago metropolitan area (including only the 9 Illinois counties covered by the Illinois Association of Realtors® that are part of the 14-county Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area [MSA]), the number of new and existing home sales declined nearly 5 percent during the 12 months ending March 2015, to 104,400. The median sales price in March 2015 was $204,000, nearly 17 percent higher than the median sales price reported a year earlier. In Ohio, new and existing home sales in the Cleveland metropolitan area increased nearly 3 percent during the 12 months ending March 2015, to 42,000 sales, from 40,950 sales a year earlier (home sales data for Cleveland include an area larger than the 5-county Cleveland-Elyria, OH MSA). The average sales price for new and existing home sales during this time was $140,500, nearly 3 percent higher than the average sales price reported a year earlier (Ohio Association of Realtors®). In the Cincinnati and Columbus areas, new and existing home sales declined 1 and 3 percent during the 12 months ending March 2015, to 22,500 and 26,100 sales, respectively (data for Cincinnati and Columbus also differ from the 15-county Cincinnati, OH-KY-IN and the 10-county Columbus, OH MSAs). Average home sales prices increased in Cincinnati and Columbus, to $177,800 and $185,600, up 7 and 5 percent, respectively. In Indianapolis, home sales in the 13 counties covered by the Metropolitan Indianapolis Board of Realtors® (an area larger than the 11-county Indianapolis-Carmel-Anderson, IN MSA) increased 2 percent, to 30,350 sales, and the median sales price in March 2015 was $140,000, approximately 4 percent higher than the median sales price reported a year earlier.

During the first quarter of 2015 (preliminary data)—

- Builders in the Midwest region remain cautious. Single-family home construction totaled 9,375 homes permitted, 2 percent fewer than were permitted during the first quarter of 2014 and 6 percent fewer than were permitted during the first quarter of 2013.

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Home sales were mixed but mostly stable in Midwest region states, and prices increased in all six states.

	12 Months Ending	Number of Homes Sold			Price			
		2014	2015	Percent Change	Average or Median	2014 ($)	2015 ($)	Percent Change
Illinois (N&E)	March	150,300	146,800	– 2	MED	148,000	165,000	11
Indiana (E)	March	74,600	76,300	2	MED	119,500	126,900	6
Michigan (N&E)	March	124,700	122,000	– 2	AVG	125,700	130,800	4
Minnesota (N&E)	March	77,750	75,700	– 3	MED	168,000	184,000	10
Ohio (N&E)	March	129,300	130,000	1	AVG	143,600	151,000	5
Wisconsin (E)	March	68,850	69,600	1	MED	137,000	149,000	9

AVG = average. E = existing. MED = median. N&E = new and existing.
Notes: Includes single-family homes, townhomes, and condominiums. All median sales prices are for March; all average sales prices are for the year.
Sources: Illinois Association of Realtors®; Indiana Association of Realtors®; Michigan Association of Realtors®; Minnesota Association of Realtors®; Ohio Association of Realtors®; Wisconsin Realtors® Association

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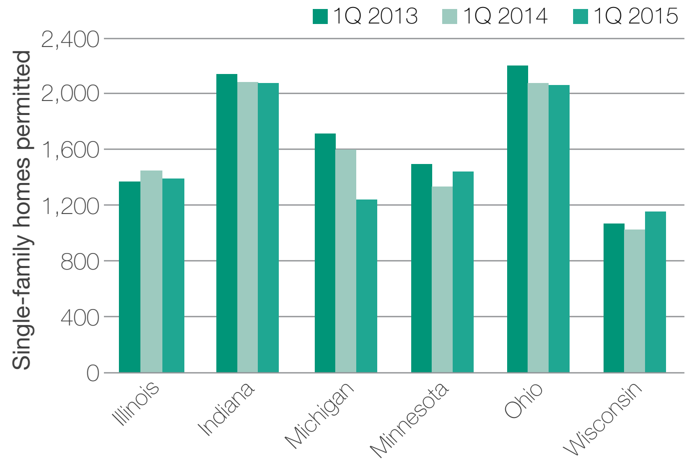
- Single-family home construction remains well below the average of 35,500 homes permitted during the first quarters from 2001 through 2006. By comparison, as the region's economy contracted after 2006, the number of single-family homes permitted averaged 15,250 during the first quarters of 2007 and 2008 before falling to 5,800 during the first quarter of 2009 and remaining relatively stable at 8,225 homes permitted, on average, during the first quarters from 2010 through 2012.
- Two states in the region reported increases in single-family permitting compared with the number of homes permitted a year earlier. In Minnesota, single-family home permitting rose 9 percent, to 1,450 homes, and in Wisconsin, the increase was 12 percent, to 1,150 homes.
- In four states, the number of single-family homes permitted declined compared with the number of homes permitted a year earlier. In Illinois, Indiana, and Ohio, the declines were minimal, at 4 percent in Illinois, to 1,400 homes permitted, and less than 1 percent each in Indiana and Ohio, to 2,075 homes permitted in each state. In Michigan, the decline was 23 percent, to 1,250 homes permitted.

Single-family permitting in the Midwest region during the first quarter of 2015 was down slightly from the past two first quarter totals.



1Q = first quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas of the Midwest region ranged from balanced to tight in the first quarter of 2015, relatively unchanged since 2011. The continuing effects of stringent mortgage lending standards and foreclosures in the region helped maintain occupancy and sustained rent increases for apartments. Significant new apartment construction is under way in many downtowns in Midwest region metropolitan areas. In the Chicago metropolitan area, the apartment market is balanced, with a vacancy rate of 4.4 percent in the first quarter of 2015, down from 5.1 percent in the first quarter of 2014. Average monthly apartment rents increased 4 percent during this time, to $1,254. Approximately 11,050 new apartments are under construction in the Chicago area, more than 60 percent of which are in two downtown MPF Research-defined market areas, The Loop and Streeterville/River North. Average rents in these two market areas rose more than the 4-percent increase in the larger Chicago area, increasing 5 percent in each, to $2,015 in

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Major apartment markets in the Midwest region ranged from balanced to tight, with rent growth of between 1 and 4 percent.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2014 (%)	1Q 2015 (%)	Percentage Point Change	1Q 2014 ($)	1Q 2015 ($)	Percent Change
Chicago	Balanced	5.1	4.4	– 0.7	1,206	1,254	4
Cincinnati	Balanced	5.0	5.7	0.7	796	812	2
Cleveland	Balanced	4.5	3.9	– 0.6	807	816	1
Columbus	Balanced	5.5	4.8	– 0.7	769	788	2
Detroit	Tight	4.4	3.6	– 0.8	817	831	2
Indianapolis	Balanced	8.6	7.0	– 1.6	735	757	3
Milwaukee	Tight	4.1	2.9	– 1.2	940	948	1
Minneapolis-St. Paul	Tight	2.7	2.9	0.2	1,023	1,063	4

1Q = first quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research

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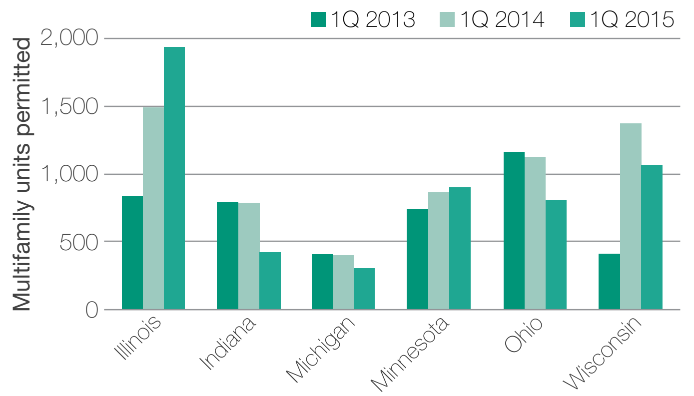
The Loop and to $2,039 in Streeterville/River North. In Columbus, where the apartment market is balanced, the vacancy rate was 4.8 percent during the first quarter of 2015, down from 5.5 percent a year earlier and the average rent increased 2 percent, to $788. Approximately 4,075 new apartments are under construction in Columbus, with 34 percent of those units in the Downtown/University District area, where rents increased more than 9 percent from a year ago, to $1,096 during the first quarter of 2015. In Detroit, the apartment market is tight, with an estimated vacancy rate of 3.6 percent, down from 4.4 percent a year earlier, and the average rent increased 2 percent, to $831. New apartment construction in Detroit totaled approximately 2,525 units, and about 37 percent of the new apartments under construction are in the Downtown/Midtown/Rivertown market area. This downtown Detroit area reported a 1.5-percent increase in apartment inventory during the past year compared with 0.1-percent growth for the overall Detroit area. In Minneapolis-St. Paul, where apartment market conditions are currently tight and have ranged from balanced to tight since at least 2009, the vacancy rate increased slightly, to 2.9 percent, and the average rent rose 4 percent, to $1,063. In Minneapolis, 46 percent of the approximately 5,625 apartments under construction are in the Downtown Minneapolis/University area.

Multifamily building activity during the first quarter of 2015 was down for the region overall and mixed for the six states in the region compared with the number of units permitted a year earlier.

- Approximately 5,475 multifamily units were permitted in the Midwest region during the first quarter of 2015, a 10-percent decrease from the 6,075 units permitted during the first quarter of 2014—which represented the highest first quarter permitting total since 2007—but 25 percent more than the 4,375 units permitted during the first quarter of 2013.
- Multifamily permitting, which averaged 10,500 units each first quarter from 2000 through 2007, declined to 5,725 units permitted during the first quarter of 2008 and fell again, to an average of 2,775 units, each first quarter from 2009 through 2012.
- Multifamily permitting increased 30 percent in Illinois during the first quarter of 2015, to 1,950 units permitted, from the first quarter of 2014, and all that increase was in the Chicago area. In Minnesota, multifamily permitting increased 5 percent, to 910 units, during the same time.
- The other Midwest region states reported significant declines in multifamily permitting during the first quarter of 2015 compared with permitting a year earlier. Declines were 22, 25, and 28 percent in Wisconsin, Michigan and Ohio, to 1,075, 300, and 820 units, respectively.
- In Indiana, the decline was 46 percent, from 790 units permitted during the first quarter of 2014 to 430 units permitted during the first quarter of 2015. The number of multifamily units permitted declined in Indianapolis, but only by 20 units, to 240. The overall decline was mostly because of declines in smaller metropolitan areas throughout the state, including Bloomington, where the number of multifamily units permitted declined from 124 to 8; Evansville, where the number of multifamily units permitted declined from 94 to 4; and South Bend-Mishawaka, where the number of multifamily units permitted declined from 152 to 0.

Multifamily permitting in the Midwest region during the first quarter of 2015 was down from the first quarter of 2014 but up from the first quarter of 2013.



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