

HUD PD&R Regional Reports

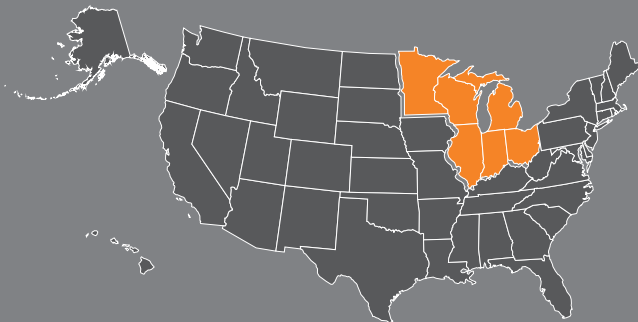
Region 5: Midwest



Indianapolis, Indiana

Quick Facts About Region 5

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



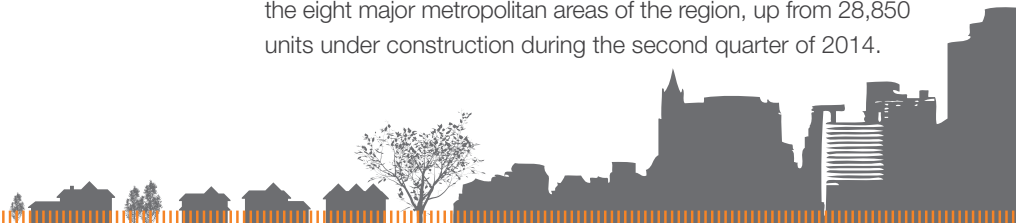
By Gabriel A. Labovitz | 2nd quarter 2015

Overview

Economic growth in the Midwest region is entering its fifth consecutive year. Every nonfarm payroll sector except one and every state in the region added jobs during the second quarter of 2015. The continued economic growth has contributed to tightening sales housing market conditions and to continued strength in apartment markets among major metropolitan areas in the region. Builders and developers remain cautious with new construction in the region, and the number of single-family homes and multifamily units permitted declined from the previous year. Single-family home construction has been moderate since 2009, when the region's economy reached its weakest point, and multifamily developers are cautious because of the large number of units currently under construction.

During the second quarter of 2015—

- Nonfarm payrolls increased 1.5 percent, to 24.48 million jobs. The second quarter total count of nonfarm payrolls is the highest second quarter average count since 2001.
- Home sales markets have moved from generally balanced conditions to balanced-to-tight conditions; sales increased in every state in the region, single-family home construction declined in four states, and prices increased 5 percent or more in every state.
- Apartment markets continue to be balanced to tight, with generally low or declining vacancy rates and increasing rents across major metropolitan areas in the region. An estimated 32,700 new apartment units are currently under construction in the eight major metropolitan areas of the region, up from 28,850 units under construction during the second quarter of 2014.



Nonfarm payrolls increased for the 20th consecutive quarter in the Midwest region.

	Second Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,117.0	24,479.8	362.8	1.5
Goods-producing sectors	4,040.2	4,126.4	86.2	2.1
Mining, logging, and construction	931.9	957.9	26.0	2.8
Manufacturing	3,108.3	3,168.5	60.2	1.9
Service-providing sectors	20,076.9	20,353.4	276.5	1.4
Wholesale and retail trade	3,603.8	3,650.0	46.2	1.3
Transportation and utilities	926.4	952.1	25.7	2.8
Information	365.7	365.1	- 0.6	- 0.2
Financial activities	1,318.7	1,331.2	12.5	0.9
Professional and business services	3,230.7	3,300.5	69.8	2.2
Education and health services	3,787.0	3,851.0	64.0	1.7
Leisure and hospitality	2,359.7	2,415.5	55.8	2.4
Other services	1,016.6	1,019.5	2.9	0.3
Government	3,468.2	3,468.4	0.2	0.0

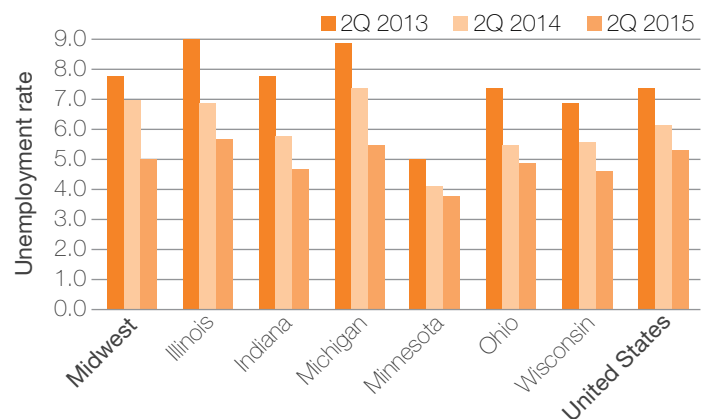
Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

Economic Conditions

The economy in the Midwest region continued to grow during the second quarter of 2015, a trend that began during 2010. Nonfarm payrolls in the region averaged 24.48 million jobs, an increase of 362,800 jobs, or 1.5 percent, from a year ago, when nonfarm payrolls increased by 355,000, a similar 1.5-percent expansion. The economy in the region has expanded steadily, averaging a 1.4-percent year-over-year quarterly growth since the third quarter of 2010, when the region emerged from the recession.

Nonfarm payroll growth in the region during the second quarter of 2015 was led by the professional and business services sector, which grew by 69,800 jobs, or 2.2 percent, followed by the education and health services sector, which increased by 64,000 jobs, or 1.7 percent. The professional and business services sector has led the economic expansion, averaging 3.3-percent growth annually, since the recovery began in 2010. The education and health services sector has averaged gains of 1.6 percent annually since 2010, only the fifth fastest average rate of growth, despite being the largest sector in the region. The construction subsector and the manufacturing sector have also grown rapidly, increasing at rates of 2.5 and 2.4 percent annually, respectively, since 2010. The manufacturing sector continued to improve, registering gains of 60,200 jobs, or 1.9 percent, during the second quarter of 2015, to 3.17 million jobs. From 2000 to 2010, manufacturing employment in the region declined by 165,600 jobs each year, equivalent to a 4.5-percent annual decline, to a low of 2.76 million jobs during the first quarter of 2010. The transportation equipment manufacturing

The unemployment rate declined in every state in the Midwest region, and the regional rate was below the national rate for the fourth consecutive quarter.



2Q = second quarter.
Source: U.S. Bureau of Labor Statistics

industry contributed nearly 40 percent of the increase, or 23,000 jobs, in the manufacturing sector during the second quarter of 2015. The seasonally adjusted annual rate (SAAR) of light vehicle sales in the United States was 17.1 million units during June 2015, and, together with the May SAAR of 17.7 million, the 2 months were the first time the SAAR has exceeded the 17 million mark in consecutive months since June and July 2005 (WardsAuto). The only nonfarm payroll sector to decline during the second quarter of 2015 was the information sector, which reported a loss of 600 jobs, or 0.2 percent. As a result of continued economic growth in the region, the unemployment rate declined to 5.0 percent during the second quarter of 2015, down from 6.1 percent a year earlier. This quarter is the fourth consecutive quarter in which the region's unemployment rate was less than the national rate, which was 5.3 percent.

continued on page 3



continued from page 2

During the second quarter of 2015—

- Each state in the region reported nonfarm payroll gains, led by Michigan, where the increase was 98,100 jobs, or 2.3 percent. In Michigan, growth was highest in the professional and business services sector, which expanded by 23,700 jobs, or 3.8 percent, followed by 22,800 jobs added in manufacturing, a gain of 4.0 percent.
- Ohio and Indiana reported the next largest nonfarm payroll increases of 73,500 and 57,600 jobs, or gains of 1.4 and 1.9 percent, respectively. In Ohio, the leisure and hospitality sector led job growth with a gain of 22,100 jobs, or 1.1 percent, including an increase of 16,600 jobs in the food services and drinking places industry. In Indiana, the manufacturing and the wholesale and retail trade sectors led job growth when the sectors added 12,800 and 12,600 jobs, increases of 2.5 and 2.9 percent, respectively.

- Nonfarm payrolls increased by 47,500, 44,100, and 41,900 jobs, respectively, in Illinois, Wisconsin, and Minnesota, or rates of 0.8 percent in Illinois and 1.5 percent each in Wisconsin and Minnesota. In Illinois, nearly one-half of the nonfarm payroll growth, or 21,600 jobs, was in the professional and business services sector. In Wisconsin, the manufacturing sector increased the most, by 8,500 jobs, or 1.8 percent, and in Minnesota, the education and health services sector reported the largest increase, a gain of 10,700 jobs.
- The average unemployment rate declined in each state in the region and was the lowest in Minnesota, at 3.8 percent, followed by Wisconsin and Indiana, at 4.6 and 4.7 percent, respectively. In Ohio, Michigan, and Illinois, unemployment rates averaged 4.9, 5.5, and 5.7 percent, respectively.

Sales Market Conditions

As the economy continues to improve in the Midwest region, home sales markets are tightening. Sales housing market conditions were balanced to tight in the region during the second quarter of 2015, and home sales and sales prices increased in every state in the region compared with sales and prices a year earlier. The increase in the number of homes sold during the past year ranged from 2 percent each in Michigan and Illinois, to 125,100 and 151,100 homes sold, respectively, to a 7-percent increase in Wisconsin, to 72,850 homes sold. Home sales prices also increased in every state in the region, with gains ranging from 5 percent in Indiana, to \$129,900, to 8-percent increases in both Illinois and Michigan, to \$194,200 and \$137,900.

The impact of the foreclosure crisis on sales housing markets in the region is also abating. Absentee owner purchases made during the 12 months ending June 2015 decreased 7 percent in the region, to 31 percent, and declined in each state compared with absentee purchases made during the 12 months ending June 2014. Real estate owned (REO) home sales also fell during the 12 months ending

June 2015, from 23 percent of all homes sales to 18 percent for the region, and declined in each state (MetroStudy, A Hanley Wood Company). Seriously delinquent loans (90 or more days delinquent or in foreclosure) and REO properties also continued to decrease in the region; each state reported a decline in the number of these loans and properties (Black Knight Financial Services, Inc.). In June 2015, about 4.3 percent of home loans in the region were seriously delinquent or transitioned into REO status, down from 5.1 percent in June 2014. By comparison, the national rate of seriously delinquent loans and REO properties in June 2015 was 4.1 percent, down from 4.9 percent in June 2014.

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 rose slightly, increasing 0.5 percent, to 107,900 sales during the 12 months ending June 2015. The median sales price in June 2015

continued on page 4

Home sales and sales prices increased in every state in the Midwest region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2014	2015	Percent Change		2014 (\$)	2015 (\$)	Percent Change
Illinois (N&E)	June	148,200	151,100	2	MED	179,000	194,200	8
Indiana (E)	June	73,900	78,450	6	MED	124,000	129,900	5
Michigan (N&E)	June	123,000	125,100	2	AVG	128,200	137,900	8
Minnesota (N&E)	June	73,500	77,800	6	MED	193,000	206,500	7
Ohio (N&E)	June	128,800	134,000	4	AVG	145,100	153,400	6
Wisconsin (E)	June	68,400	72,850	7	MED	159,000	169,000	6

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 June; 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



continued from page 3

was \$232,500, nearly 6 percent more than the median sales price a year earlier. In Ohio, new and existing home sales in the Cleveland metropolitan area increased more than 7 percent, to 43,500 sales, during the 12 months ending June 2015, from 40,600 sales a year earlier (home sales data for Cleveland includes an area larger than the 5-county Cleveland-Elyria, OH MSA). The average sales price for new and existing home sales during this period was \$141,400, approximately 3 percent more than the average sales price reported a year earlier (Ohio Association of Realtors®). In the Cincinnati area, new and existing home sales declined less than 1 percent, to 22,850 sales, during the 12 months ending June 2015, and, in the Columbus area, new and existing home sales increased 1 percent, to 27,000 sales, during the same time (data for both 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 to \$181,000 in Cincinnati and to \$188,900 in Columbus, increases of 8 and 6 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 7 percent, to 31,300 homes sold, during the 12 months ending June 2015 from a year earlier, and the median sales price in June 2015 was \$144,000, more than 5 percent above the median sales price reported in June 2014.

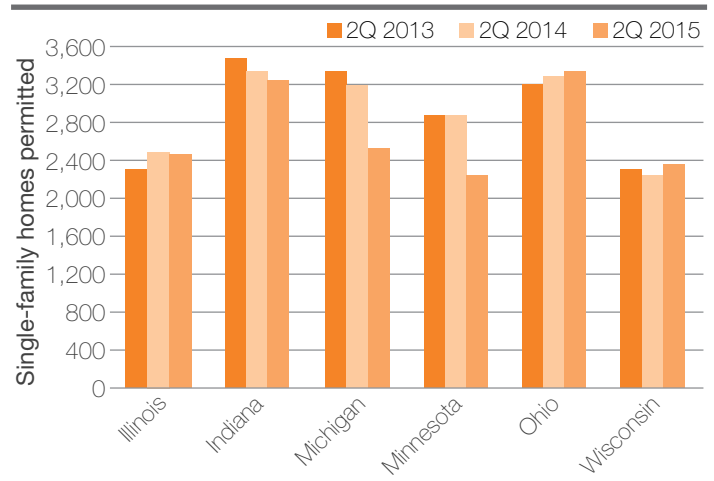
During the second quarter of 2015 (preliminary data)—

- Builders in the region remained cautious, permitting only 16,100 homes, approximately 7 percent fewer than were permitted during the second quarter of 2014 and nearly 8 percent fewer than were permitted during the second quarter of 2013.
- Single-family home construction remained well below previous levels, at 30 percent of the average of 54,350 homes permitted during the second quarters from 2001 through 2006. By comparison, as the region's economy contracted after 2006, the number of single-family homes permitted averaged 23,950

during the second quarters of 2007 and 2008; they declined again, to average 12,500 homes permitted during the second quarters from 2009 through 2012.

- Two states in the region reported increases in single-family permitting compared with the number of homes permitted a year earlier. In Ohio, single-family home permitting rose 2 percent, to 3,325 homes, and, in Wisconsin, the increase was nearly 6 percent, to 2,350 homes permitted.
- In the remaining four states, the number of single-family homes permitted declined compared with the number of homes permitted a year earlier. In Illinois and Indiana, the declines were small, at 3 percent in Illinois, to 2,425 homes permitted, and at 2 percent in Indiana, to 3,250 homes permitted. The declines were at 21 and 22 percent in Michigan and Minnesota, to 2,500 and 2,225 homes permitted, respectively.

Single-family permitting declined in four of the six states in the Midwest region and in the region compared with permitting activity in the second quarter of 2014.



2Q = second 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 second quarter of 2015, continuing a trend reported since 2011. Although the trends of homeowner foreclosures and stringent mortgage lending standards are slowing, they have contributed to continuing high occupancy levels and modest rent increases in local apartment markets. Significant new apartment construction is under way throughout the region, with thousands of new apartment units under construction.

In Chicago, the apartment market is tight, and rents increased 4 percent during the past year, to \$1,301, during the second quarter

of 2015. Approximately 11,500 units are under construction in the Chicago area, including 6,150 in The Loop and Streeterville/River North MPF Research-defined areas (MPF Research). Average apartment rents are \$2,163 and \$2,133 in these two areas, respectively, after increasing 8 and 6 percent during the second quarter of 2015. In Ohio, apartment market conditions are balanced in the Cincinnati and Columbus areas and tight in Cleveland. Rents increased to \$821 and \$833 in Cincinnati and Cleveland, increases of 2 and 4 percent, respectively, while the rent increase was 3 percent in Columbus, to \$800. Vacancy rates decreased 0.1 percentage points in Cleveland, to 3.3 percent, and increased slightly, to 4.8 percent,

continued on page 5



continued from page 4

in Cincinnati. In Columbus, the vacancy rate remained stable at 3.7 percent. In Detroit, the apartment vacancy rate declined from 3.9 percent during the second quarter of 2014 to 3.8 percent during the second quarter of 2015, and the average rent increased 3 percent, to \$845. An estimated 3,325 apartment units are currently under construction in Detroit. In Indianapolis, where the apartment vacancy rate remained stable at 6.8 percent during the second quarter of 2015 from a year earlier and the average rent increased 3 percent, to \$771, approximately 4,225 new apartment units are currently under construction. In the Minneapolis area, where apartment markets have been balanced to tight since at least 2009, the apartment vacancy rate increased slightly, to 2.7 percent, and average rents rose 4 percent, to \$1,077. Approximately 5,250 new apartment units are currently under construction in the Minneapolis area.

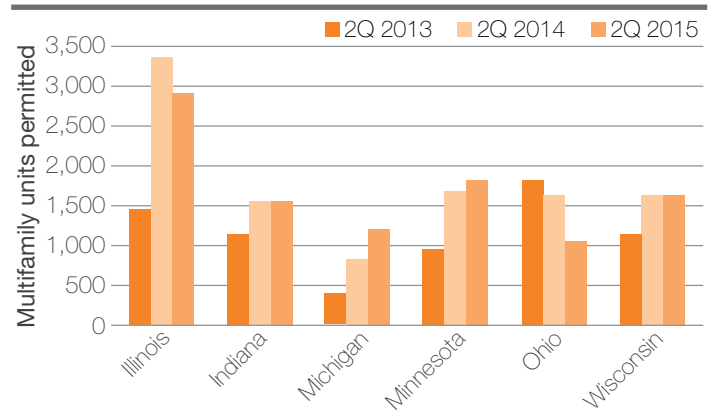
During the second quarter of 2015 (preliminary data)—

- Approximately 10,125 multifamily units were permitted in the region, nearly 5 percent less than during the second quarter of 2014, when 10,600 units were permitted; the second quarter 2014 total was the highest second quarter permitting total for multifamily units since the second quarter of 2006.
- By comparison, the number of multifamily units permitted averaged 13,800 units during the second quarters from 2001 through 2006, then declined to an average of 8,150 during the second quarters of 2007 and 2008. As the recession deepened in the region, the number of multifamily units permitted fell sharply, to an average of 3,925 during the second quarters from 2009 through 2012.
- Multifamily permitting was mixed among states in the region and declined in two states: Illinois and Ohio, where the declines were 13 and 36 percent, to 2,950 and 1,025 units permitted, respectively. The number of multifamily units permitted remained stable

in Indiana, at 1,525, and in Wisconsin, at 1,625 units. Multifamily permitting increased in Michigan and Minnesota, by 46 and 9 percent, to 1,200 and 1,800 units, respectively.

- In Illinois, Ohio, Indiana, and Minnesota, most multifamily units permitted were in major metropolitan areas. In Illinois, the Chicago area accounted for 87 percent of the 2,950 multifamily units permitted in the state during the second quarter of 2015. In Ohio, the Cincinnati, Cleveland, and Columbus areas accounted for 94 percent of the 1,025 units permitted statewide. Indianapolis contributed 70 percent of the 1,525 multifamily units permitted in Indiana during the second quarter of 2015, and the Minneapolis/St. Paul area included 1,350 multifamily units during the same period, or 75 percent of the 1,800 units permitted in Minnesota.

Multifamily permitting was mixed among states in the Midwest region, with Illinois accounting for the largest number of permits issued, most of which were in the Chicago area.



2Q = second quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

Apartment occupancy rates in metropolitan areas in the Midwest region were mixed, and conditions remained balanced to tight.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2014 (%)	2Q 2015 (%)	Percentage Point Change	2Q 2014 (\$)	2Q 2015 (\$)	Percent Change
Chicago ^a	Tight	4.3	3.8	-0.5	1,254	1,301	4
Cincinnati ^a	Balanced	4.6	4.8	0.2	805	821	2
Cleveland ^a	Tight	3.4	3.3	-0.1	802	833	4
Columbus ^a	Balanced	3.7	3.7	0	777	800	3
Detroit ^a	Balanced	3.9	3.8	-0.1	822	845	3
Indianapolis ^a	Balanced	6.8	6.8	0	752	771	3
Milwaukee ^b	Balanced	3.3	3.1	-0.2	899	922	3
Minneapolis-St. Paul ^a	Tight	2.5	2.7	0.2	1,031	1,077	4

2Q = second quarter.

Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) MPF Research; (b) Reis, Inc.

