

HUD PD&R Regional Reports

Region 5: Midwest

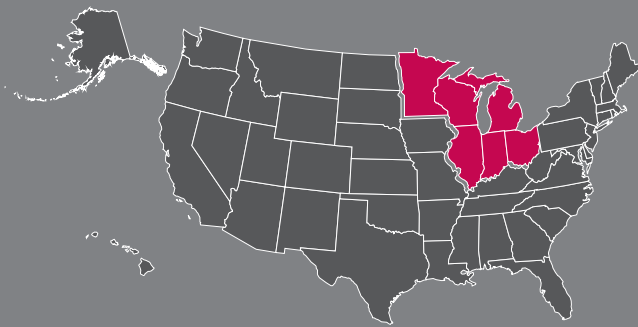


Minneapolis, Minnesota

By T. Michael Miller | 3rd quarter 2014

Quick Facts About Region 5

- **Sales market conditions—**
Third quarter 2014: balanced.
Second quarter 2014: balanced.
Third quarter 2013: balanced.
- **Apartment market conditions—**
Third quarter 2014: mixed (balanced to tight).
Second quarter 2014: mixed (balanced to tight).
Third quarter 2013: mixed (balanced to tight).



Overview

Nonfarm payrolls in the Midwest region expanded at a 1.3-percent rate to 24.07 million jobs during the third quarter of 2014, the same rate of change as a year ago. Payroll gains were reported in every state in the region, with growth rates ranging from 0.8 to 2.3 percent. Improved economic conditions resulted in continued balanced sales housing market conditions in the region. Average home sales prices increased in every state in the region and the number of new and existing home sales declined, a result primarily of a decrease in the number of absentee owner purchases in response to a decline in the number of distressed loans and REO (Real Estate Owned) properties in the region. Apartment vacancy rates declined or remained unchanged in nearly every major metropolitan area in the region and average monthly apartment rents increased in all areas from 1 to 4 percent relative to a year ago.

During the third quarter of 2014—

- Nonfarm payrolls in the region increased in every sector except the financial activities and information sectors.
- Sales markets are currently balanced in all six states in the region.
- Apartment market conditions ranged from balanced to tight, and multifamily permitting increased in each state in the region except Minnesota.



Nonfarm payrolls in the Midwest region have increased for more than 4 years.

	Third Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	23,766.1	24,074.2	308.1	1.3
Goods-producing sectors	4,021.6	4,132.7	111.1	2.8
Mining, logging, and construction	951.9	997.5	45.6	4.8
Manufacturing	3,069.7	3,135.1	65.4	2.1
Service-providing sectors	19,744.5	19,941.5	197.0	1.0
Wholesale and retail trade	3,588.7	3,597.3	8.6	0.2
Transportation and utilities	909.2	935.2	26.0	2.9
Information	366.3	364.6	- 1.7	- 0.5
Financial activities	1,338.4	1,325.7	- 12.7	- 0.9
Professional and business services	3,157.8	3,219.5	61.7	2.0
Education and health services	3,713.9	3,745.1	31.2	0.8
Leisure and hospitality	2,371.5	2,409.8	38.3	1.6
Other services	1,017.0	1,027.1	10.1	1.0
Government	3,281.6	3,317.2	35.6	1.1

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

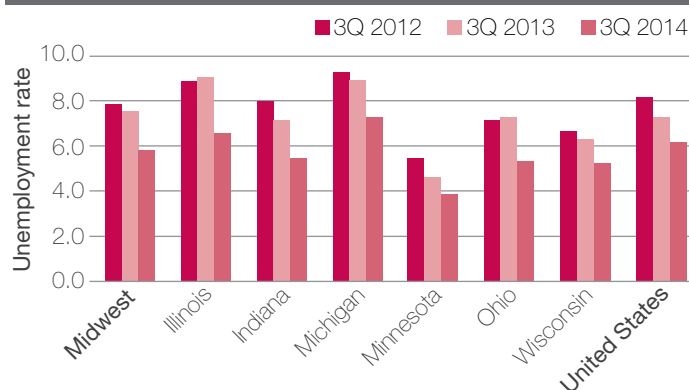
Economic Conditions

Nonfarm payrolls in the Midwest region averaged 24.07 million jobs during the third quarter of 2014, a gain of 308,100 jobs, or 1.3 percent, from the third quarter of 2013. Payrolls increased in every state in the region during the third quarter of 2014, led by Indiana, where jobs increased by 67,500, or 2.3 percent. Job gains in Minnesota and Wisconsin totaled 58,900 and 54,900 jobs, or 2.1 and 1.9 percent, respectively. Nonfarm payrolls increased 0.8 percent in Illinois and Ohio, gains of 44,600 and 41,100 jobs, respectively, and increased 1.0 percent in Michigan, a gain of 41,000 jobs. The most significant gains in the region were in the manufacturing sector, which increased by 65,400 jobs, or 2.1 percent. The manufacturing sector led job growth in Indiana and Wisconsin, with gains of 22,700 and 10,600 jobs, or 4.6 and 2.3 percent, respectively, and was one of the three fastest growing sectors in Ohio, Michigan, and Minnesota, with gains of 14,800, 11,100, and 10,100 jobs, or 2.2, 2.0, and 3.3 percent, respectively. Illinois was the only state in the region to incur job losses in the manufacturing sector, which declined by 4,000 jobs, or 0.7 percent. The unemployment rate in the region averaged 5.9 percent during the third quarter of 2014, down from 7.6 percent a year earlier.

During the third quarter of 2014—

- The second highest increase in payrolls occurred in the professional and business services sector, increasing by 61,700 jobs, or 2.0 percent, compared with the third quarter of 2013. The sector increased in every state, with the most gains in Illinois and Ohio, up 21,500 and 16,600 jobs, respectively, or 2.4 percent each.

The unemployment rate declined relative to a year ago in every state in the Midwest region during the third quarter of 2014.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

- The construction subsector added 42,700 jobs, or 4.7 percent. The subsector increased in every state, with the largest gains in Illinois and Minnesota, up 11,900 and 7,300 jobs, or 5.7 and 6.4 percent, respectively. The construction subsector has increased an average of 1.7 percent annually, since 2010.
- The financial activities and information sectors were the only sectors to decline, with losses of 12,700 and 1,700 jobs, or 0.9 and 0.5 percent, respectively. The financial activities sectors declined in every state except Indiana, where the sector added 2,100 jobs, an increase of 1.6 percent. Declines in the financial activities sector were largest in Michigan and Ohio, where losses totaled 4,900 and 4,600 jobs, or 2.4 and 1.6 percent, respectively. Both sectors continued declines that started in the fourth quarter of 2013.

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- Among major metropolitan areas in the region, the greatest rates of nonfarm payroll growth occurred in the Milwaukee, Minneapolis-St. Paul, and Indianapolis areas, increasing 2.4, 2.3, and 2.1 percent, respectively, from the third quarter of 2013.
- Unemployment rates declined in every state in the region because employment increased at 7 times the rate of the labor

force. The largest decrease in the unemployment rate was in Illinois, where the rate declined 2.5 percentage points, to 6.6 percent. Unemployment rates ranged from 3.9 percent in Minnesota to 7.3 percent in Michigan.

Sales Market Conditions

Sales housing markets in the Midwest region were balanced during the third quarter of 2014, when home sales prices increased in every state in the region compared with prices during the third quarter of 2013. As home prices increased, home sales declined in every state in the region, primarily because of a decline in the sale of homes to absentee owners (home purchasers who do not plan to live in the home). Absentee owner purchases declined 23 percent in the region and in every state in the region during the 12 months ending August 2014 compared with purchases during the previous 12 months (Metrostudy, A Hanley Wood Company). Every state in the region reported declines in the distressed loan and REO property rates, with the rate for the region decreasing 1.3 percentage points, a greater decline than all regions except the Southeast region (Black Knight Financial Services, Inc.). In September 2014, 5.0 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 6.3 percent in September 2013.

In the Chicago metropolitan area (including only the nine Illinois counties covered by the Illinois Association of REALTORS® that are part of the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area), the number of new and existing home sales declined 5 percent during the 12 months ending September 2014, to 104,100. The median home sales price during September 2014 was \$195,000, 5 percent higher than a year earlier. In Ohio, new and existing home sales in the Cleveland metropolitan area increased 2 percent, to 40,800 sales, and the average home sales price rose 1 percent, to \$138,000. In the Cincinnati and Columbus metropolitan areas, home sales decreased 1 and 7 percent, to 22,150 and 25,400 sales, respectively. The average home sales prices in Cincinnati and Columbus each increased 3 percent, to \$172,700 and \$181,800, respectively (Ohio Association of REALTORS®). In Indianapolis, home sales in the 13 counties covered by the Metropolitan Indianapolis Board of REALTORS® (an area larger than the Indianapolis-Carmel-Anderson, IN Metropolitan Statistical Area) decreased 3 percent, to 29,100 homes sold, during the 12 months ending September 2014. During the same period, the average sales price was \$174,300, 5 percent more than a year earlier.

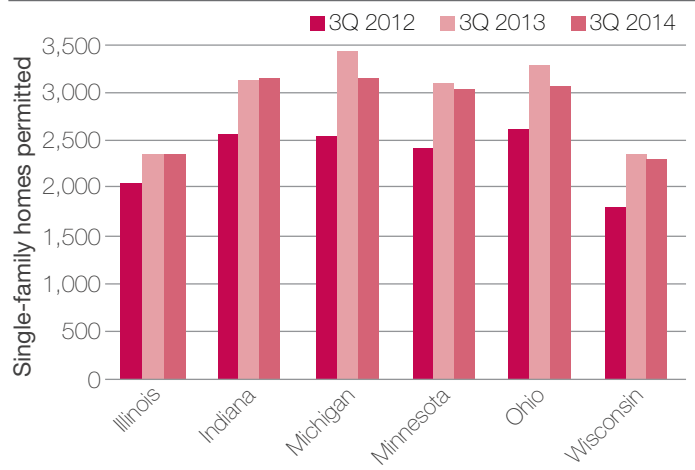
During the third quarter of 2014 (preliminary data)—

- Builders responded to slower sales activity in the region by reducing single-family home construction to 17,050 homes

permitted, nearly 4 percent less than were permitted during the third quarter of 2013, but 22 percent more than were permitted during the third quarter of 2012.

- Illinois and Indiana were the only states to record increases in single-family permitting compared with the number of homes permitted a year earlier. In Indiana, single-family permitting rose 0.8 percent, to 3,150 homes, and in Illinois, the increase was 0.3 percent, to 2,375 homes. Compared with construction activity during the third quarter of 2012, the number of single-family homes permitted was 23 percent higher in Indiana and 15 percent higher in Illinois.
- Each of the remaining states in the region recorded fewer single-family homes permitted than a year earlier. In Michigan and Ohio, the declines were 8 and 7 percent, to 3,150 and 3,075 homes permitted, respectively. The declines in Minnesota and Wisconsin were 3 percent each, to 3,025 and 2,300 homes permitted, respectively.
- The level of permitting activity remained much higher than the level in the third quarter of 2012, approximately 28, 25, 24, and 18 percent, respectively, in Wisconsin, Minnesota, Michigan, and Ohio.

Single-family permitting was relatively unchanged in two states in the Midwest region and declined in the remaining four states relative to a year ago.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey



Sales markets were balanced and prices increased in every state in the Midwest region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2013	2014	Percent Change		2013 (\$)	2014 (\$)	Percent Change
Illinois (N&E)	September	150,100	145,600	-3	MED	155,000	161,900	4
Indiana (E)	September	75,600	73,900	-2	AVG	144,700	150,700	4
Michigan (N&E)	September	128,200	120,700	-6	AVG	120,800	131,300	9
Minnesota (N&E)	September	78,600	74,850	-5	AVG	201,800	214,700	6
Ohio (N&E)	September	127,200	126,700	0	AVG	141,400	147,400	4
Wisconsin (E)	September	69,450	67,850	-2	MED	144,300	148,500	3

AVG = average. E = existing. MED = median. N&E = new and existing.

Notes: Includes single-family homes, townhomes, and condominiums. Median sales prices for Illinois and Wisconsin are for September 2013 and 2014. All sales are reported to state and local REALTOR® associations.

Sources: Illinois Association of REALTORS®; Indiana Association of REALTORS®; Michigan Association of REALTORS®; Minnesota Association of REALTORS®; Ohio Association of REALTORS®; Wisconsin REALTORS® Association

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Midwest region ranged from balanced to tight in the third quarter of 2014, although overall conditions have been tightening as economic conditions have become stronger in the region. In the Chicago metropolitan area, the apartment market is balanced, with an apartment vacancy rate of 4.1 percent, down from 4.2 percent during the third quarter of 2013. Average apartment rents increased 4 percent in the third quarter of 2014, to \$1,258, from the third quarter of 2013 (MPF Research). Of the major metropolitan areas in the region, the Chicago area accounts for the most new rental units currently under construction. The approximately 5,800 units under construction in the Chicago area represent less than 1 percent of the existing apartment units in the Chicago area (McGraw-Hill Construction Pipeline database). In the Cincinnati metropolitan area, where conditions are balanced, the vacancy rate remained unchanged at 4.3 percent but average rents increased 4 percent, to \$812. Conditions are tight in

the other two major metropolitan areas in Ohio; vacancy rates declined 0.3 and 0.9 percentage points in the Columbus and Cleveland areas, to 4.2 and 3.8 percent, respectively. Average rents in Detroit (tight) and Indianapolis (balanced) increased 2 and 3 percent, but vacancy rates declined to 3.6 and 6.8 percent, respectively. Increased multifamily building activity in the Indianapolis area since 2013 has provided a steady supply of new apartment units to the market, but has decreased the absorption of less competitive units. During the past year, 80 percent of the units absorbed were categorized as Class A units (Reis, Inc.).

Multifamily building activity, as measured by the number of units permitted, increased in the region and in every state in the region except Minnesota during the third quarter of 2014 from the third quarter of 2013.

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Metropolitan apartment market conditions in the Midwest region ranged from balanced to tight during the third quarter of 2014.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2013 (%)	3Q 2014 (%)	Percentage Point Change	3Q 2013 (\$)	3Q 2014 (\$)	Percent Change
Chicago	Balanced	4.2	4.1	-0.1	1,215	1,258	4
Cincinnati	Balanced	4.3	4.3	0.0	784	812	4
Cleveland	Tight	4.7	3.8	-0.9	796	807	1
Columbus	Tight	4.5	4.2	-0.3	753	785	4
Detroit	Tight	4.1	3.6	-0.5	813	828	2
Indianapolis	Balanced	7.8	6.8	-1.0	730	752	3
Minneapolis-St. Paul	Tight	2.2	2.5	0.3	1,011	1,034	2

3Q = third quarter.

Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research

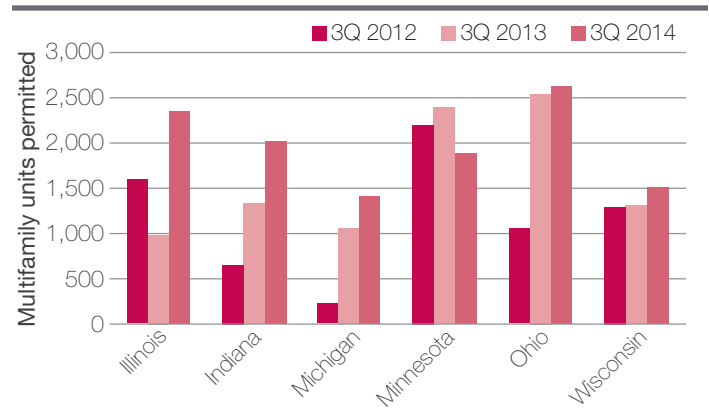


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During the third quarter of 2014 (preliminary data)—

- In the region, approximately 11,850 multifamily units were permitted, a 24-percent increase compared with the number of units permitted during the third quarter of 2013.
- In Minnesota, the number of multifamily units permitted declined 21 percent, to 1,900 units and builders were completing more than 4,800 units currently under construction; 4,400 of the units currently under construction will be completed in the Minneapolis-St. Paul area, where multifamily permitting declined 23 percent, to 1,575 units.
- In Illinois, the number of multifamily units permitted increased 144 percent, to 2,350 units. More than 70 percent of the multifamily permitting in Illinois occurred in the Chicago area, where multifamily permitting increased 110 percent compared with permitting during the third quarter of 2013.
- The second highest increase in multifamily permitting occurred in Indiana, where the number of multifamily units permitted increased 52 percent, to 2,025 units. The Indianapolis area accounted for nearly 76 percent of the permitting in Indiana, with an increase of 155 percent, to 1,525 units permitted.

Relative to a year ago, multifamily permitting increased during the third quarter of 2014 in every state in the Midwest region except Minnesota.



3Q = third quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

