

HUD PD&R Regional Reports

Region 5: Midwest

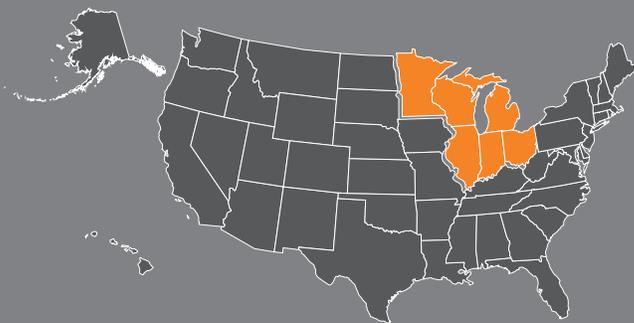


Indianapolis, Indiana

By Gabriel A. Labovitz | 2nd quarter 2014

Quick Facts About Region 5

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



Overview

Nonfarm payrolls in the Midwest region expanded at a 1.1-percent rate during the second quarter of 2014, unchanged from a year ago. Continued growth in employment resulted in housing markets maintaining balanced-to-tight conditions, with increasing sales prices and rents throughout the region. Home builders were cautious regarding the sales housing market, and single-family construction, as measured by the number of homes permitted, declined slightly during the second quarter of 2014. By contrast, in responding to tight apartment market conditions and rising rents, developers increased multifamily production significantly.

- Job gains were widespread, as employment in 6 of 11 nonfarm payroll sectors increased 1 percent or more; the 2 sectors to report declining jobs lost less than 1 percent each.
- Home sales prices increased and the rate of distressed mortgage loans and REO (Real Estate Owned) properties declined in every state in the region. For the region, in June 2014, the rate of distressed mortgage loans remained higher than the rate reported for the nation.
- Rents increased in every major metropolitan apartment market in the Midwest region, but the many units currently under construction and increasing number of units permitted indicate that some easing of tight apartment conditions may occur in late 2014 through 2015.



Nonfarm payrolls in the Midwest region increased for the 16th consecutive quarter.

	Second Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	23,760.0	24,018.1	258.1	1.1
Goods-producing sectors	3,934.3	4,016.3	82.0	2.1
Mining, logging, and construction	882.2	918.4	36.2	4.1
Manufacturing	3,052.1	3,097.9	45.8	1.5
Service-providing sectors	19,825.6	20,001.7	176.1	0.9
Wholesale and retail trade	3,562.1	3,581.1	19.0	0.5
Transportation and utilities	906.7	919.8	13.1	1.4
Information	365.3	362.5	- 2.8	- 0.8
Financial activities	1,328.1	1,316.6	- 11.5	- 0.9
Professional and business services	3,128.7	3,191.5	62.8	2.0
Education and health services	3,745.2	3,776.6	31.4	0.8
Leisure and hospitality	2,315.9	2,351.7	35.8	1.5
Other services	1,013.0	1,024.0	11.0	1.1
Government	3,460.6	3,477.9	17.3	0.5

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

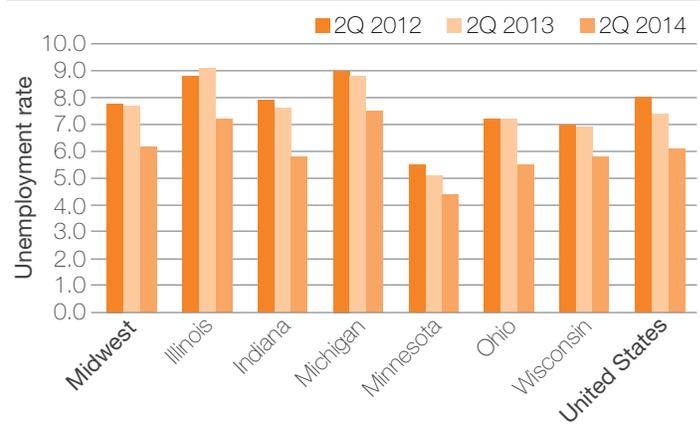
Economic Conditions

Year-over-year quarterly job growth in the Midwest region was 1.1 percent, a gain of 258,100 jobs, during the second quarter of 2014 after growth of 267,600 jobs, also a 1.1-percent increase, during the previous year. Nonfarm payrolls in the region averaged 24.02 million jobs during the second quarter of 2014, the most since the second quarter of 2008. Every state in the region registered increased payrolls during the second quarter of 2014, led by Indiana, where jobs increased by 58,100, or 2.0 percent, and followed by Wisconsin at 51,300 jobs, or 1.8 percent. Nonfarm payrolls increased by 45,600 jobs in both Minnesota and Ohio, or 1.6 and 0.9 percent, respectively. Job gains in Illinois and Michigan totaled 30,200 and 27,200, or 0.5 and 0.7 percent, respectively. The unemployment rate in the region averaged 6.2 percent, down from 7.7 percent a year earlier.

During the second quarter of 2014—

- The mining, logging, and construction sector led job growth rates with a 4.1-percent increase from the second quarter of 2013 by adding 36,200 jobs. Stable single-family home construction and an increase of more than 50 percent in the number of multifamily units permitted in the Midwest region led to greater construction employment. Nonresidential construction also increased in the region. Commercial, industrial, office, and hotel projects started during the first quarter of 2014 comprised an estimated 12.7 million square feet of new or expanded space, or 32 percent more square footage than was started during the first quarter of 2013.

During the second quarter of 2014, four of the six states in the Midwest region recorded unemployment rates below the national average.



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

- The professional and business services sector registered the next highest growth rate, 2.0 percent, adding 62,800 jobs, the greatest numerical gain.
- The financial activities and information sectors contracted 0.9 and 0.8 percent, or by 11,500 and 2,800 jobs, respectively.
- The government sector, which grew by 17,300 jobs, or 0.5 percent, reversed a streak of 15 consecutive quarters of annual payroll declines totaling 146,000 jobs beginning in the third quarter of 2010.

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- Among major metropolitan areas in the region, the Indianapolis and Milwaukee areas reported the greatest rates of nonfarm payroll growth, increasing 2.4 and 1.9 percent, respectively, from the second quarter of 2013. Other metropolitan areas that

exceeded the 1.1-percent nonfarm payroll growth rate for the region overall included the Cincinnati and Minneapolis-St. Paul areas, with rates of 1.8 and 1.5 percent, respectively.

Sales Market Conditions

Sales housing markets in the Midwest region were balanced during the second quarter of 2014; they have been balanced since 2012. During the 12 months ending June 2014, home sales were up in every state in the region except Michigan, and sales prices increased in every state. In Michigan, home sales declined 3 percent, to 121,700, but remained above the average annual level of 106,800 home sales reported in Michigan from 2007 through 2011. Home sales prices increased in every state in the region, led by a 10-percent increase in Michigan, to \$128,400; sales price appreciation in the other five states ranged from 1 percent in Wisconsin to 6 percent in Illinois. In June 2014, approximately 5.1 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 6.7 percent in June 2013 (Black Knight Financial Services, Inc.). Every state in the region reported declines in the distressed loan rate, and three states reported rates below the national average of 4.9 percent: Minnesota, Michigan, and Wisconsin, where the rates were 2.7, 4.1, and 4.4 percent, respectively.

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 rose 6 percent during the 12 months ending June 2014, to 107,100. The median

home sales price during June 2014 was \$175,000, 13 percent higher than a year earlier. In Ohio, new and existing home sales were stable in the Columbus metropolitan area, increasing less than 1 percent, to 25,550 sales, and the average home sales price rose 5 percent, to \$171,600. In the Cleveland and Cincinnati metropolitan areas, home sales increased 6 and 8 percent, to 40,600 and 22,500 sales, respectively. The average home sales prices in Cleveland and Cincinnati also increased: 3 percent in Cleveland, to \$137,000, and 4 percent in Cincinnati, to \$168,800 (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) increased 2 percent, to 29,200, during the 12 months ending June 2014. The median sales price during June 2014 was \$137,000, 5 percent higher than a year earlier.

During the second quarter of 2014 (preliminary data)—

- In the Midwest region, 17,250 single-family homes were permitted, approximately 1 percent less than were permitted during the second quarter of 2013 but 25 percent more than were permitted during the second quarter of 2012. The second quarter of 2008, when 17,700 homes were permitted, represented the previous second quarter peak.

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Home sales markets in the Midwest region have been balanced since the fourth quarter of 2012; during the most recent 12 months, sales prices increased in all states, and sales were higher in all states except Michigan.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2013	2014	Percent Change		2013 (\$)	2014 (\$)	Percent Change
Illinois (N&E)	June	141,200	147,900	5	MED	170,000	179,900	6
Indiana (E)	June	72,450	73,900	2	MED	131,000	134,000	2
Michigan (N&E)	June	126,100	121,700	-3	AVG	116,200	128,400	10
Minnesota (N&E)	June	74,500	74,350	0	MED	185,000	191,600	4
Ohio (N&E)	June	121,300	127,300	5	AVG	139,500	144,900	4
Wisconsin (E)	June	66,300	68,050	3	MED	159,000	159,900	1

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

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

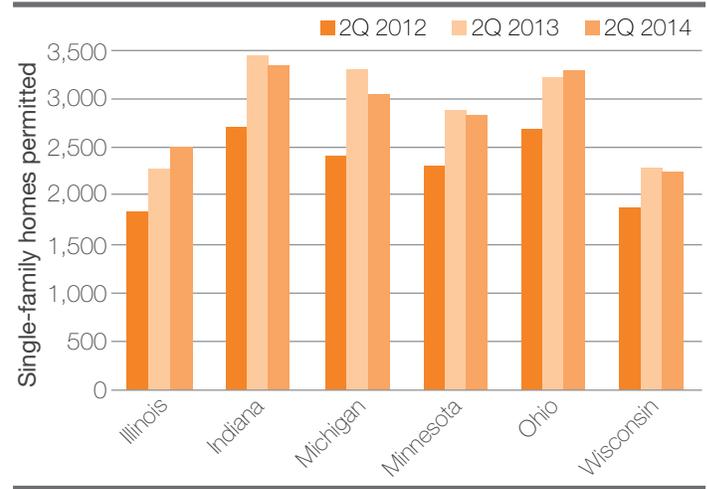
Sources: Illinois Association of REALTORS®; Indiana Association of REALTORS®; Michigan Association of REALTORS®; Minnesota Association of REALTORS®; Ohio Association of REALTORS®; Wisconsin REALTORS® Association



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- Illinois and Ohio were the only states to record increases in single-family permitting compared with the number of homes permitted a year earlier. In Illinois, single-family permitting rose 9 percent, to 2,475 homes, and in Ohio, the increase was 2 percent, to 3,300 homes. Compared with construction activity during the second quarter of 2012, the number of single-family homes permitted was 35 percent more in Illinois and 23 percent more in Ohio.
- Each of the remaining states in the region registered fewer single-family homes permitted than a year earlier. In Minnesota and Wisconsin, the decline was 2 percent, to 2,825 and 2,250 homes permitted, respectively. The decline in Indiana was 3 percent, to 3,350 homes permitted, and in Michigan was 8 percent, to 3,050 homes.
- The level of permitting activity remained much higher than the level of building activity in the second quarter of 2012, by approximately 26, 23, 22, and 20 percent, respectively, in Michigan, Indiana, Minnesota, and Wisconsin.

Single-family home permitting was down slightly in the Midwest region from the second quarter of 2013.



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 in the Midwest region are balanced to tight, and they have been balanced or balanced to tight since the first quarter of 2011, shortly after the economy in the region began to recover from the economic downturn in the third quarter of 2010. In the Chicago metropolitan area, the apartment market is balanced, with an apartment vacancy rate of 4.3 percent, unchanged from a year ago despite 4,625 rental units entering the market during 2013. Average apartment rents increased 3 percent from the second quarter of 2013 to the second quarter of 2014. An estimated 9,700 new rental units are currently under construction in the Chicago area (McGraw-Hill Construction

Pipeline database). In the Minneapolis-St. Paul metropolitan area, the average apartment vacancy rate ticked up 0.1 percentage point, to 2.5 percent, and average rents increased 2 percent despite approximately 5,275 new units entering the market. An estimated 9,150 rental units are under construction in the Minneapolis area. In Ohio, apartment market conditions were balanced in Cincinnati and tight in Cleveland and Columbus. The vacancy rate increased in Cincinnati, to 4.6 percent, and declined in Cleveland and Columbus, to 3.3 and 3.7 percent, respectively. The number of units under construction total 2,675 in Cincinnati, 1,675 in Cleveland, and 5,175 in Columbus. The Indianapolis metropolitan area reported

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Continued positive economic performance contributed to balanced and tight rental markets in the Midwest region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2013 (%)	2Q 2014 (%)	Percentage Point Change	2Q 2013 (\$)	2Q 2014 (\$)	Percent Change
Chicago	Balanced	4.3	4.3	0.0	1,221	1,260	3
Cincinnati	Balanced	4.2	4.6	0.4	783	805	3
Cleveland	Tight	4.4	3.3	-1.1	792	802	1
Columbus	Tight	4.0	3.7	-0.3	762	777	2
Detroit	Tight	3.9	3.9	0.0	808	822	2
Indianapolis	Balanced	7.3	6.8	-0.5	730	752	3
Minneapolis-St. Paul	Tight	2.4	2.5	0.1	1,010	1,031	2

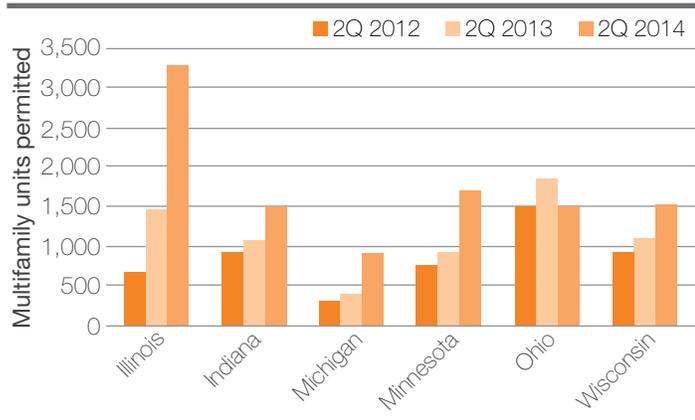
2Q = second quarter.
 Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research



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the highest apartment vacancy rate, currently 6.8 percent, down from 7.3 percent a year earlier. Rents increased 3 percent, to \$752, in Indianapolis, where an estimated 5,025 new rental units are currently under construction.

Strong rental markets, led by Illinois, Michigan, and Minnesota, resulted in an increased number of multifamily units permitted in the Midwest region.



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

During the second quarter of 2014 (preliminary data)—

- Approximately 10,400 multifamily units were permitted in the Midwest region, 53 percent more than the number permitted during the second quarter of 2013 and the most units permitted since the second quarter of 2006. During the economic recession, a low of 2,325 units were permitted during the second quarter of 2009.
- Multifamily permitting increased in every state in the region except Ohio, where the 1,500 units permitted represented a 19-percent decline from the second quarter of 2013.
- The number of units permitted more than doubled in Illinois and Michigan, to 3,275 and 920, respectively; the increases in Minnesota, Indiana, and Wisconsin were 84, 39, and 38 percent, to 1,700, 1,500, and 1,525, respectively.
- Multifamily permitting increased primarily because more units were permitted in the Chicago and Minneapolis areas, where 2,200 additional units were permitted, which was 61 percent of the entire increase recorded in the region.

