

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



Pittsburgh, Pennsylvania

By Joseph Shinn | 1st quarter 2015

Quick Facts About Region 3



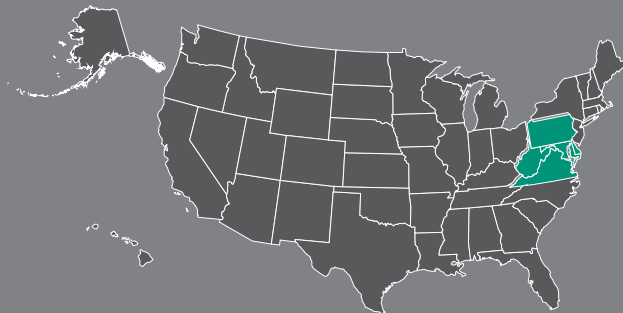
Sales market conditions—

- First quarter 2015: mixed (balanced to slightly soft).
- Fourth quarter 2014: mixed (balanced to slightly soft).
- First quarter 2014: mixed (tight to slightly soft).



Apartment market conditions—

- First quarter 2015: mixed (slightly tight to balanced).
- Fourth quarter 2014: mixed (balanced to soft).
- First quarter 2014: mixed (slightly tight to soft).



Overview

The economy of the Mid-Atlantic region continued to expand after nonfarm payrolls reached their prerecession peak level during the second quarter of 2014. Nonfarm payrolls increased in five of the six states (including the District of Columbia) in the region, with a decline in payrolls in West Virginia. From 2013 to 2014 (the most recent data available), the population in the region increased by 116,400, or 0.4 percent, to 30.53 million (Census Bureau population estimates as of July 1). Population growth slowed from 0.5 percent during the previous 12 months as the economy continued to recover from the national recession. Sales housing market conditions during the first quarter of 2015 were unchanged from a quarter ago in all states in the region, ranging from balanced to slightly soft. A decrease in investor purchases and fewer lower priced homes for sale led to a reduction in the volume of home sales in Pennsylvania and Delaware, whereas activity was unchanged or moderated in Virginia, the District of Columbia, and Maryland compared with activity the previous year. West Virginia was the only state in the region where the growth rate of home sales increased as sales market conditions continue to recover at a lower rate than the other states in the region. Apartment market conditions ranged from slightly tight to balanced compared with slightly tight to soft conditions a year ago, although most markets were balanced. Multifamily construction activity was mixed, but decreased in the region overall because of declines in Maryland, Virginia, Pennsylvania, and the District of Columbia.

- Nonfarm payrolls in the Mid-Atlantic region totaled 14.03 million jobs, with payrolls increasing an average of 1.0 percent annually during the past 5 years.

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- Decreased sales activity in the largest states in the region partially led to a 7-percent decrease in overall single-family homebuilding activity, where a decline in construction activity in three states more than offset an increase in the remaining states.

Economic Conditions

Economic conditions in the Mid-Atlantic region continued to strengthen during the first quarter of 2015 after fully recovering from the national recession during the second quarter of 2014. Job growth, however, was lower than the national rate of 2.3 percent and was the lowest among the 10 HUD-defined regions in the nation. During the first quarter of 2015, nonfarm payrolls averaged 14.03 million jobs, a net increase of 157,200 jobs, or 1.1 percent, from a year ago. By comparison, nonfarm payroll growth during the first quarter of 2014 was 0.2 percent. Recent gains in the region were greatest in the education and health services and the professional and business services sectors, which increased by 40,100 and 31,100 jobs, or 1.7 and 1.5 percent, respectively. In the education and health services sector, nearly 90 percent of the gains were in the health care and social assistance industry, which was up by 35,800 jobs, or 1.9 percent. During the first quarter of 2015, approximately 87 percent of the net job gains in the region were in Pennsylvania, Maryland, and Virginia, but nonfarm payrolls increased at the highest rates in Delaware and the District of Columbia at 2.1 and 1.8 percent, respectively. The unemployment rate in the region averaged 5.6 percent, down from 6.4 percent a year earlier. The decline in the unemployment rate was because of

a 0.6-percent increase in resident employment and a 0.3-percent decline in the labor force. The unemployment rate declined in every state in the region for the second consecutive year.

During the first quarter of 2015—

- Job gains were greatest in Pennsylvania, where the number of nonfarm payrolls increased by 60,800 jobs, or 1.1 percent, accounting for nearly 40 percent of the net payroll growth in the region. Approximately 43 percent of the job gains in the state were in the education and health services and the professional and business services sectors, which were up by 15,700 and 10,300 jobs, or 1.3 and 1.4 percent, respectively. The transportation and utilities sector gained 6,100 jobs, or 2.5 percent, and is expected to continue increasing with the completion of two Wal-Mart, Inc. order fulfillment centers that are expected to add 650 jobs in mid-2015.
- In Delaware, nonfarm payrolls increased by 8,900 jobs, or 2.1 percent. The rate of job growth was the highest in the region for the second consecutive year. The greatest gains during the most recent period were in the professional and business services and the financial activities sectors, which increased by 3,100

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Nonfarm payrolls increased in every sector, except the information sector, in the Mid-Atlantic region.

	First Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	13,875.3	14,032.5	157.2	1.1
Goods-producing sectors	1,622.5	1,644.2	21.7	1.3
Mining, logging, and construction	654.2	670.9	16.7	2.6
Manufacturing	968.3	973.3	5.0	0.5
Service-providing sectors	12,252.8	12,388.5	135.7	1.1
Wholesale and retail trade	1,919.5	1,941.5	22.0	1.1
Transportation and utilities	487.0	500.0	13.0	2.7
Information	226.3	222.4	- 3.9	- 1.7
Financial activities	751.8	756.1	4.3	0.6
Professional and business services	2,093.1	2,124.2	31.1	1.5
Education and health services	2,422.3	2,462.4	40.1	1.7
Leisure and hospitality	1,272.5	1,290.6	18.1	1.4
Other services	695.3	703.2	7.9	1.1
Government	2,385.0	2,388.1	3.1	0.1

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

Source: U.S. Bureau of Labor Statistics



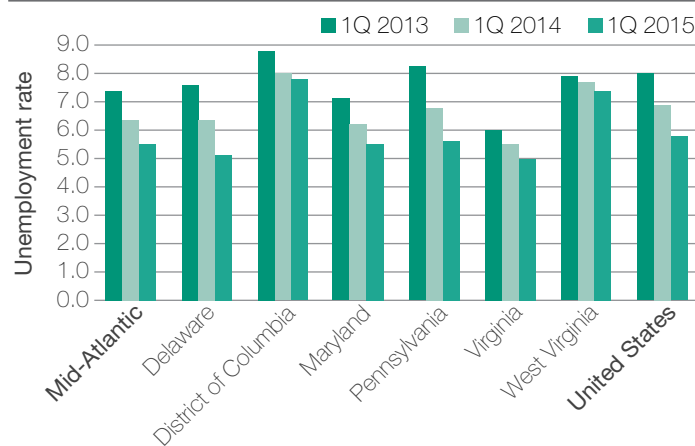
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and 2,200 jobs, or 5.3 and 4.9 percent, respectively. JPMorgan Chase & Co. has added approximately 1,100 jobs in Delaware since March 2014, partially from a \$44 million expansion in New Castle County in mid-2014.

- Nonfarm payrolls in the District of Columbia increased by 13,300 jobs, or 1.8 percent; job growth in the District was stronger than in any state in the region during the past 5 years, averaging 1.6 percent annually. Approximately 44 percent of the net nonfarm payroll growth was in the professional and business services sector, which added 5,800 jobs, a 3.8-percent increase. The unemployment rate in the state was the highest in the region, however, averaging 7.8 percent. The rate remained elevated because of a 3.6-percent increase in the labor force in response to strong job growth.
- Maryland and Virginia added 41,400 and 33,800 jobs, increases of 1.6 and 0.9 percent, respectively. The education and health services sector was the largest contributor to net job growth in both states, accounting for 29 and 25 percent of the net job gains, respectively. In Maryland, job growth was strong in the Baltimore-Columbia-Towson metropolitan area, where nonfarm payrolls were up 1.6 percent; job growth in the metropolitan area equaled or exceeded the statewide rate for the fifth consecutive year.
- In West Virginia, nonfarm payrolls declined by 1,000 jobs, or 0.1 percent; payrolls were down for the third consecutive year after exceeding prerecession levels during the first quarter of

2012. The greatest decline occurred in the mining, logging, and construction sector, which was down by 3,100 jobs, or 5.2 percent. More than 70 percent of the decline in the sector was in the construction subsector, which decreased by 2,200 jobs, or 7.4 percent. The declines in the construction subsector were because of decreased commercial construction activity, whereas residential construction activity increased during the past year.

The unemployment rate declined in the Mid-Atlantic region from the first quarter of 2014 and remained below the national rate in four of the six states in the region.



1Q = first quarter.

Source: U.S. Bureau of Labor Statistics

Population

The population of the Mid-Atlantic region increased by approximately 116,400, or 0.4 percent, from 2013 to 2014, and net natural change (resident births minus resident deaths) accounted for 70 percent of the net population growth (Census Bureau population estimates as of July 1). By comparison, the population nationwide increased 0.7 percent; however, growth in three states in the region was equal to or higher than the national average. The rate of growth in the region decreased from 0.5 percent a year earlier because of a slowdown in population growth in four states in the region and a slight population decline in West Virginia. In Delaware, the rate of population growth increased from 0.9 to 1.1 percent. Net in-migration in the region totaled approximately 30,200 people compared with 66,100 people during the previous 12 months. In the region, population growth and net in-migration have slowed every year since 2010 as the economy has recovered gradually from the effects of the national recession.

During the 12 months ending July 1, 2014—

- The population in the District of Columbia increased by approximately 9,775, or 1.5 percent, compared with 14,050, or

2.2 percent, a year earlier. Despite the lower growth rate, the District of Columbia had the highest rate of population growth in the region and fifth highest in the nation, resulting from strong economic conditions during the past 5 years.

- Delaware was the only state in the region where the population growth accelerated from the previous year, from 0.9 percent to 1.1 percent. Net in-migration totaled approximately 7,525 people, accounting for 70 percent of the total population growth. Net in-migration was the most in 6 years, which was partially because of strong economic growth and retirees moving to the state from nearby states because of relatively low retirement income tax rates.
- In Virginia and Maryland, the populations increased by approximately 55,950 and 37,650, or 0.7 and 0.6 percent, respectively, compared with population growth of 0.9 and 0.8 percent respectively during the previous year. Lower levels of net in-migration to the two states accounted for nearly 80 percent of the overall slowdown in net in-migration in the region.

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- Pennsylvania had net out-migration of approximately 7,525 people, which was the second consecutive year of net out-migration from the state and more than the net out-migration during the previous year of 3,425. By comparison, from 2010 to 2012, net in-migration averaged 13,600 people annually.
- The population of West Virginia declined by approximately 3,275, or 0.2 percent; weak economic conditions during the past 2 years led to net out-migration of 2,000 people. West Virginia was the only state in the region with population decline, and the rate of the decrease was higher than any state in the nation.

Population growth slowed in most areas of the Mid-Atlantic region during the 12 months ending July 1, 2014.

	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
Mid-Atlantic	30,263,518	30,418,324	30,534,738	0.5	0.4
Delaware	916,881	925,240	935,614	0.9	1.1
District of Columbia	635,040	649,111	658,893	2.2	1.5
Maryland	5,891,819	5,938,737	5,976,407	0.8	0.6
Pennsylvania	12,770,043	12,781,296	12,787,209	0.1	0.0
Virginia	8,193,422	8,270,345	8,326,289	0.9	0.7
West Virginia	1,856,313	1,853,595	1,850,326	-0.1	-0.2

Source: U.S. Census Bureau

Sales Market Conditions

Sales housing market conditions in the Mid-Atlantic region ranged from balanced to slightly soft during the first quarter of 2015, unchanged from the previous quarter. Conditions remained balanced in the District of Columbia, Maryland, and Virginia and slightly soft in Delaware, Pennsylvania, and West Virginia. As of March 2015, 4.4 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 5.1 percent in March 2014 (Black Knight Financial Services, Inc.). The rates were the lowest in Virginia, the District of Columbia, and West Virginia, at 2.7, 3.9, and 3.9 percent, respectively. Foreclosure laws in those states allowed for a more expedited foreclosure process, which reduced the number of seriously delinquent loans and REO properties in these states at a higher rate than in the other states in the region. The number of seriously delinquent loans and REO properties declined in every state in the region for the second consecutive year, and the proportion of REO sales to existing sales declined in four of the six states during the past year (CoreLogic, Inc., with adjustments by the analyst). New and existing home sales activity (including the sales of single-family homes, townhomes, and condominiums) improved during 2012 and 2013 because of strengthening economic conditions throughout most of the region, which enabled more people to purchase a home. During the past 12 months, however, activity moderated or declined in five of the six states in the region because of decreased investor activity and a declining number of lower priced REO homes for sale. Sales of existing homes increased 6 percent in Maryland during the 12 months ending March 2015 compared with an 11-percent increase

a year earlier (Maryland Association of Realtors®). In Virginia and the District of Columbia, existing home sales were relatively unchanged at 99,050 and 7,675 homes, respectively (Virginia Association of Realtors®; Metropolitan Regional Information Systems, Inc.). In Pennsylvania and Delaware, sales activity was down 2 and 1 percent, respectively, after increases that ranged from 9 to 11 percent during the previous year (CoreLogic, Inc., with adjustments by the analyst). West Virginia was the only state in the region where home sales increased at a higher rate than a year ago; new and existing home sales increased 13 percent compared with a 6-percent increase during the previous year (CoreLogic, Inc., with adjustments by the analyst). The continued improvements in home sales activity in West Virginia is because the market is recovering from the housing crisis more gradually than in other states in the region; sales activity during the past year was 38 percent less than the average number of homes sold annually from 2006 through 2008. Home sales prices decreased in West Virginia and Maryland but increased in the other four states because of a decline in the number of lower priced short sales and REO sales. In the District of Columbia, fewer low-priced short sales and REO sales led the average sales price of existing homes to increase 6 percent, to \$628,700, the highest sales price of any state in the region (Metropolitan Regional Information Systems, Inc.).

Decreased sales activity in three of the four most populous states in the region led to an overall decline in homebuilding activity. Decreased construction activity in Pennsylvania, Virginia, and the District of Columbia more than offset slight increases in Maryland, West Virginia, and Delaware.

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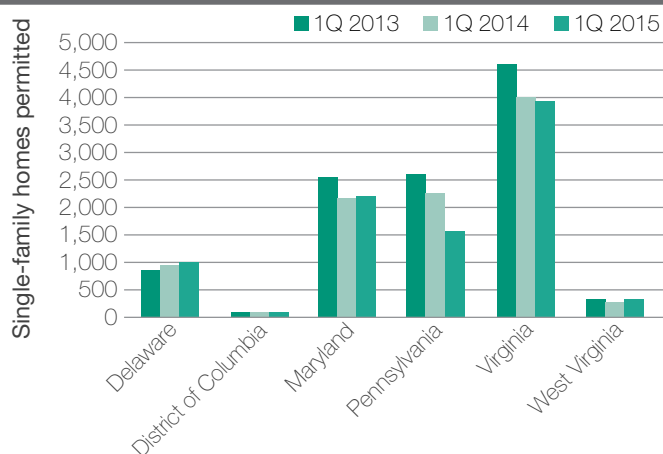
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During the first quarter of 2015 (preliminary data)—

- Single-family homebuilding, as measured by the number of homes permitted, decreased in the Mid-Atlantic region by approximately 650, or 7 percent, to 9,050 homes permitted compared with a 12-percent decline during the same period a year earlier. The region is one of four HUD-defined regions in the nation that recorded decreased single-family construction activity.
- Driven by decreased sales activity, the greatest declines in construction activity occurred in Pennsylvania, where the number of homes permitted was down by 710, or 31 percent, to 1,550 homes permitted.
- In the District of Columbia and Virginia, the number of homes permitted declined by approximately 55 and 45 homes, or 49 and 1 percent, to 60 and 3,950 homes permitted, respectively. Homebuilding activity declined after a 16-percent increase during the same period a year earlier in the District, and construction activity was down in Virginia for the second consecutive year.
- Partially offsetting the overall declines in the region, the number of single-family homes permitted in Delaware, West Virginia, and Maryland increased by 65, 50, and 40 homes, or 7, 18, and 2 percent, to 970, 330, and 2,200 homes permitted, respectively. The increase in construction activity in Maryland and West Virginia was because of continued increased sales activity.

Construction activity in Delaware includes Spring Arbor, an active-adult retirement community; construction of this community began in 2012 with nearly 320 single-family homes planned after the community is finished in 2018.

Single-family permitting activity declined in the Mid-Atlantic region because slight increases in Delaware, Maryland, and West Virginia were more than offset by decreased activity in the remaining states.



1Q = first quarter.

Note: Based on preliminary data.

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

Home sales declined or were unchanged in four of the six states in the Mid-Atlantic region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2014	2015	Percent Change		2014 (\$)	2015 (\$)	Percent Change
Delaware (N&E)	January	12,250	12,100	- 1	AVG	248,800	265,100	7
District of Columbia (E)	March	7,675	7,675	0	AVG	595,700	628,700	6
Maryland (E)	March	61,000	64,850	6	AVG	311,400	305,800	- 2
Pennsylvania (N&E)	January	156,800	153,800	- 2	AVG	182,000	183,600	1
Virginia (E)	March	99,250	99,050	0	MED	243,000	246,700	2
West Virginia (N&E)	January	6,925	7,850	13	AVG	143,300	139,900	- 2
Baltimore metropolitan area (E)	March	27,900	30,150	8	AVG	286,700	280,400	- 2
Philadelphia metropolitan area (E)	March	53,200	54,550	3	AVG	261,200	261,400	0
Washington, D.C. metropolitan area (E)	March	71,450	70,150	- 2	AVG	435,700	445,800	2

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

Notes: All figures are rounded. Average prices are for the 12 months ending January or March as indicated. Includes single-family homes, townhomes, and condominiums.

Sources: CoreLogic, Inc., with adjustments by the analyst; Maryland Association of Realtors®; Metropolitan Regional Information Systems, Inc.; TREND; Virginia Association of Realtors®

Apartment Market Conditions

Apartment market conditions in the Mid-Atlantic region ranged from slightly tight to balanced during the first quarter of 2015, an improvement from a year ago, when conditions were slightly tight to soft. Compared with the vacancy rate in the first quarter of 2014,

the apartment vacancy rate declined or was unchanged in 13 of the 25 Reis-defined market areas in the region (Reis, Inc.). In the Philadelphia and Pittsburgh metropolitan areas, where job growth was strong, vacancy rates were among the lowest in the region at

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3.1 and 3.2 percent, respectively. The average asking rent in both areas increased approximately 3 percent during the past year, to \$1,154 and \$940, respectively. Major apartment markets in Virginia were balanced, including the Richmond metropolitan area, where the vacancy rate declined to 4.1 percent from 4.6 percent a year earlier. The vacancy rate declined despite new apartment completions totaling 1,800 units during 2014 compared with an average of 1,250 apartments completed annually during the previous 3 years (Real Data). In the District of Columbia, the apartment vacancy rate rose from 5.6 to 6.6 percent, partially because of the completion of 3,700 apartment units during 2014, up from approximately 2,700 apartment units completed during 2013 (Reis, Inc.).

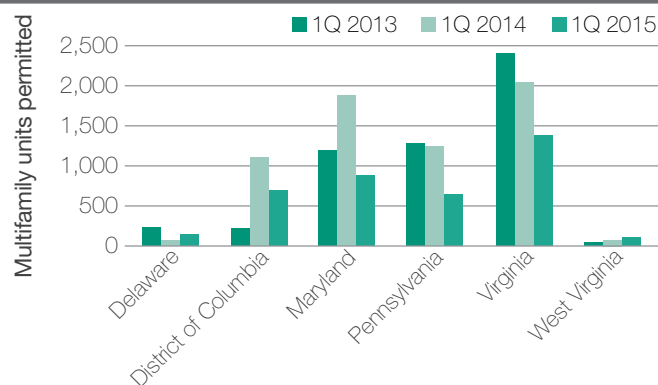
By contrast with the nation as a whole, multifamily building activity in the region declined compared with activity during the first quarter of 2014. The decline from higher levels of construction activity during the first quarters of 2012 through 2014 was to allow for the absorption of units as the population growth slowed. Increased activity in Delaware and West Virginia was more than offset by significant declines in the other four states in the region.

During the first quarter of 2015 (preliminary data)—

- Multifamily building activity in the region, as measured by the number of units permitted, decreased by approximately 2,550 units, or 40 percent, to 3,875 units permitted compared with a nationwide increase of 8 percent. By comparison, during the corresponding periods from 2012 through 2014, multifamily construction activity in the region increased an average of 19 percent annually.
- The greatest decline occurred in Maryland, where the number of units permitted declined by 1,025, or 54 percent, to 870 units permitted compared with a 58-percent increase during the same period a year earlier. The decline is because of a 1,675-unit, or 94-percent, decrease in building activity in the Silver Spring-Frederick-Rockville metropolitan division.

- Decreased net in-migration to Virginia and net out-migration from Pennsylvania partially led to declines in multifamily building activity, similar to recent trends in single-family construction activity, of 32 and 48 percent, to 1,375 and 640 units permitted, respectively.
- In the District of Columbia, increasing apartment vacancy rates led to a 36-percent decline in the number of units permitted, to 710, after building activity more than tripled during the previous year. Current construction activity includes the 430-unit Apollo H Street apartment complex, which began construction in late 2014; the first residents are expected to move in by late 2016, with substantial completion estimated by mid-2017.
- Partially offsetting the losses were gains in West Virginia and Delaware, where the number of units permitted increased by 55 and 50, or 90 and 50 percent, to 120 and 140 units permitted, respectively. Construction activity was up in these states in response to a lack of activity during the same period a year earlier.

Multifamily permitting activity in the Mid-Atlantic region declined 40 percent, and nearly 40 percent of the net decrease occurred in Maryland.



1Q = first quarter.

Note: Based on preliminary data.

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

Apartment market conditions were mixed in the Mid-Atlantic region, ranging from slightly tight to balanced.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2014 (%)	1Q 2015 (%)	Percentage Point Change	1Q 2014 (\$)	1Q 2015 (\$)	Percent Change
Baltimore	Balanced	3.8	3.9	0.1	1,108	1,136	3
Philadelphia	Slightly tight	3.4	3.1	- 0.3	1,123	1,154	3
Pittsburgh	Slightly tight	3.1	3.2	0.1	909	940	3
Richmond	Balanced	4.6	4.1	- 0.5	849	863	2
Washington, D.C.—Maryland suburbs	Slightly tight	3.7	3.7	0.0	1,395	1,427	2
Washington, D.C.—Virginia suburbs	Balanced	4.2	4.4	0.2	1,615	1,646	2
Washington, D.C.—District of Columbia	Balanced	5.6	6.6	1.0	1,547	1,576	2

1Q = first quarter.

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

