

HUD PD&R Regional Reports

Region 3: Mid-Atlantic

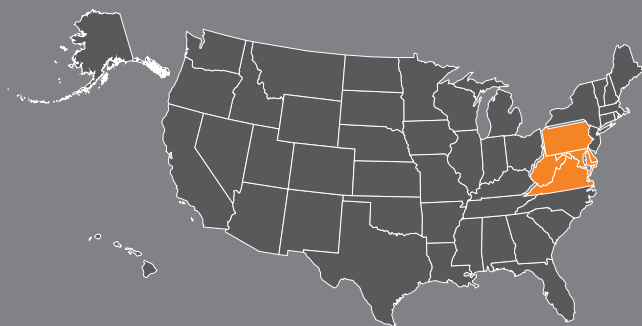


Philadelphia, Pennsylvania

By Benjamin Houck | 2nd quarter 2015

Quick Facts About Region 3

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



Overview

Economic conditions continued to strengthen in the Mid-Atlantic region during the second quarter of 2015. Nonfarm payroll jobs have expanded year-over-year in every quarter since the second quarter of 2010. Sales housing market conditions in the region remained balanced to slightly soft, unchanged from the range of conditions during the first quarter of 2015 and a year ago. Home sales increased or were unchanged throughout the region compared with an increase in only two states during the first quarter of 2015. Apartment market conditions ranged from slightly tight to balanced compared with slightly tight to soft conditions a year ago. Vacancy rates declined in most markets from a year ago, but the rate increased significantly in the District of Columbia because of a large number of apartment completions during the 12 months ending June 2015. Slightly tight-to-balanced apartment conditions contributed to an increase in multifamily construction activity throughout the region. The increase in multifamily construction activity in the District of Columbia accounted for 60 percent of the overall gain in the region.

During the second quarter of 2015—

- Nonfarm payrolls increased 1.1 percent, to 14.36 million jobs, from the second quarter of 2014, more than the 0.8-percent average annual increase during the previous 4 years. Payrolls increased in five of the six states in the region.

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- Apartment conditions tightened in most markets due in part to relatively higher job growth.
- Single-family construction activity declined 5 percent from a year ago, to a total of 12,350 homes permitted, because of declines in Pennsylvania and Virginia, which combined account

for 60 percent of single-family homes permitted in the region. A total of 8,850 multifamily units were permitted in the region, up 37 percent from a year earlier and approximately 4 percent less than the previous peak of 9,225 units during the third quarter of 2014.

Economic Conditions

Nonfarm payrolls in the Mid-Atlantic region averaged 14.36 million jobs during the second quarter of 2015, a gain of 155,100 jobs, or 1.1 percent, from the second quarter of 2014. Although lower than the national increase of 2.2 percent, growth was higher than the 0.8-percent expansion in the region during the second quarter of 2014 because of accelerated growth in most sectors of the economy. During the second quarter of 2015, the education and health services and the professional and business services sectors accounted for 45 percent of overall net job growth in the region. A slight increase of 1,300 government sector jobs reversed an average yearly decline of 22,800 jobs, or 0.9 percent, during the second quarters of 2011 through 2014. Job gains in the goods-producing sectors contributed to 15 percent of the overall net job growth during the second quarter of 2015. In the mining, logging, and construction sector, growth accelerated from an increase of 11,200 jobs, or 1.6 percent, during the second quarter of 2014 to an increase of 16,800 jobs, or 2.4 percent. Jobs in the manufacturing sector also increased at a faster pace, up from a gain of 900 jobs, or 0.1 percent, a year ago to a gain of 6,000 jobs, or 0.6 percent. Unemployment rates declined in four of the five states and the District of Columbia during the second quarter of 2015 compared with rates a year earlier. Unemployment rates ranged from an

average of 4.7 percent in Delaware to 7.1 percent in West Virginia compared with a national unemployment rate of 5.3 percent.

During the second quarter of 2015—

- In Pennsylvania, nonfarm payrolls increased by 58,600 jobs, or 1.0 percent. Pennsylvania accounted for approximately 40 percent of jobs in the region and 38 percent of regional growth. The education and health services sector in Pennsylvania led growth, adding 13,400 jobs, an increase of 1.1 percent. In May, The Children's Hospital of Philadelphia opened a \$65 million specialty pediatric care and surgery center in King of Prussia, adding 120 jobs to the sector.
- In Virginia, nonfarm payrolls increased by 44,400 jobs, or 1.2 percent. The manufacturing sector gained 2,700 jobs, or 1.2 percent, and accounted for 45 percent of the increase in the manufacturing sector in the region.
- In Maryland, nonfarm payrolls increased by 44,500 jobs, or 1.7 percent. The mining, logging, and construction sector gained 4,900 jobs, or 3.2 percent, and accounted for 30 percent of the sector growth in the region. Both residential and commercial construction activity contributed to the increase in jobs. The construction of

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Nearly every nonfarm payroll sector posted gains in the Mid-Atlantic region in the second quarter of 2015.

	Second Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	14,204.7	14,359.8	155.1	1.1
Goods-producing sectors	1,691.6	1,714.3	22.7	1.3
Mining, logging, and construction	713.9	730.7	16.8	2.4
Manufacturing	977.7	983.7	6.0	0.6
Service-providing sectors	12,513.1	12,645.5	132.4	1.1
Wholesale and retail trade	1,949.4	1,971.4	22.0	1.1
Transportation and utilities	493.3	500.8	7.5	1.5
Information	227.1	224.8	-2.3	-1.0
Financial activities	759.7	764.2	4.5	0.6
Professional and business services	2,152.1	2,180.9	28.8	1.3
Education and health services	2,423.4	2,463.6	40.2	1.7
Leisure and hospitality	1,399.6	1,424.5	24.9	1.8
Other services	710.0	715.3	5.3	0.7
Government	2,398.6	2,399.9	1.3	0.1

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

Source: U.S. Bureau of Labor Statistics



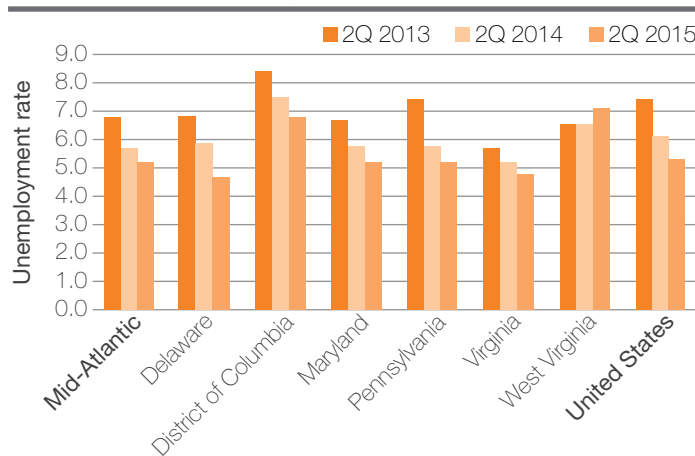
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the \$1.2 billion MGM National Harbor Resort in Prince George's County, which is slated to open in late 2016, has created 1,000 construction jobs since breaking ground in August 2014.

- Nonfarm payrolls in the District of Columbia increased by 9,200 jobs, or 1.2 percent. The federal government subsector, which accounts for 26 percent of payroll jobs in the District of Columbia, had declined by 17,900 jobs, or more than 8 percent, from the third quarter of 2011 through the second quarter of 2014 following the Budget Control Act of 2011. The federal government subsector has since stabilized, adding 1,400 jobs from the second quarter of 2014 through the second quarter of 2015, which contributed to the regional growth in the government sector.
- Total nonfarm payrolls in Delaware increased by 8,000 jobs, or 1.8 percent, the largest percentage increase of any state in the region. The professional and business services sector led overall job growth, increasing by 2,200 jobs, or 3.8 percent. In May, Solenis, a manufacturer of specialty chemicals, established its global headquarters in Wilmington, which will add approximately 120 jobs to the professional and business services sector by the end of 2017.
- In West Virginia, nonfarm payrolls declined by 9,600 jobs, or 1.2 percent, mostly because of a loss of 6,800 jobs in the mining, logging, and construction sector. Coal exports, which represent 40 percent of total exports from West Virginia, declined an

average of 35 percent annually during the first quarters of 2014 and 2015, in part because of competition from lower cost fuel sources. Murray American Energy, Inc., the sixth largest employer in West Virginia, announced plans in May to eliminate approximately 1,425 mining jobs across five sites in West Virginia.

The unemployment rate in the Mid-Atlantic region continued to decline during the second quarter of 2015, remaining slightly less than the national rate for the third consecutive year.



2Q = second quarter.

Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in the Mid-Atlantic region were mixed during the second quarter of 2015, ranging from balanced to slightly soft. Sales markets in Pennsylvania and Virginia were balanced

compared with slightly soft conditions a year ago, because of an increase in home sales and a decline in homebuilding activity in each state. In Pennsylvania, the increase in home sales (including

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Home sales increased or were unchanged in all 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)	March	12,950	13,100	1	AVG	250,100	265,600	6
District of Columbia (E)	June	7,725	7,750	0	AVG	612,800	628,700	3
Maryland (E)	June	60,950	68,100	12	AVG	311,200	304,800	-2
Pennsylvania (N&E)	June	142,300	152,600	7	AVG	207,200	210,800	2
Virginia (E)	June	98,000	103,000	5	MED	267,000	260,000	-3
West Virginia (N&E)	March	7,400	8,500	15	AVG	140,500	140,400	0
Baltimore metropolitan area (E)	June	27,950	31,850	14	AVG	286,800	278,600	-3
Philadelphia metropolitan area (E)	June	52,400	56,850	8	AVG	260,500	257,500	-1
Washington, D.C. metropolitan area (E)	June	70,800	73,300	4	AVG	437,800	444,200	1

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

Note: All figures are rounded. Average prices are for the 12 months ending March or June as indicated. Includes single-family homes, townhomes, and condominiums, except the Philadelphia metropolitan area, which excludes condominiums.

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



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single-family homes, townhomes, and condominiums) exceeded the increase in the number of homes available for sale, resulting in a decline in the months' supply of inventory from 9 months a year ago to approximately 8 months during the 12 months ending June 2015. The increase in existing home sales in Virginia was led by an increase of 12 percent in the Richmond metropolitan area (Metropolitan Regional Information Systems, Inc.). Sales markets remained balanced in the District of Columbia and Maryland and slightly soft in Delaware and West Virginia. The number of existing home sales in the District of Columbia was unchanged, in part because of a limited supply of homes available for sale. Existing condominium sales in the District of Columbia, which account for 48 percent of total existing sales, increased 1 percent, to 3,700 units sold during the 12 months ending June 2015, and the average sales price increased 5 percent, to \$493,300 (Metropolitan Regional Information Systems, Inc.). In Maryland, an increase in sales of real estate owned (REO) homes was a primary factor in the overall gain. Sales of REO homes in Maryland increased 28 percent and accounted for 17 percent of all existing sales during the 12 months ending June 2015, up from 11 percent during the previous 12 months (Metrostudy, A Hanley Wood Company). Average REO home prices in Maryland are approximately 40 percent less than the average price of regular existing homes, and, as a result, the average sales price for all existing homes declined. Home sales in West Virginia increased 15 percent, but they remain well below the number sold before the national housing crisis; sales activity during the past 12 months was 44 percent less than the average number of homes sold annually from 2007 through 2008. In June 2015, 4.3 percent of home loans in the region were seriously delinquent or transitioned into REO status, down from 4.9 percent a year earlier (Black Knight Financial Services, Inc.).

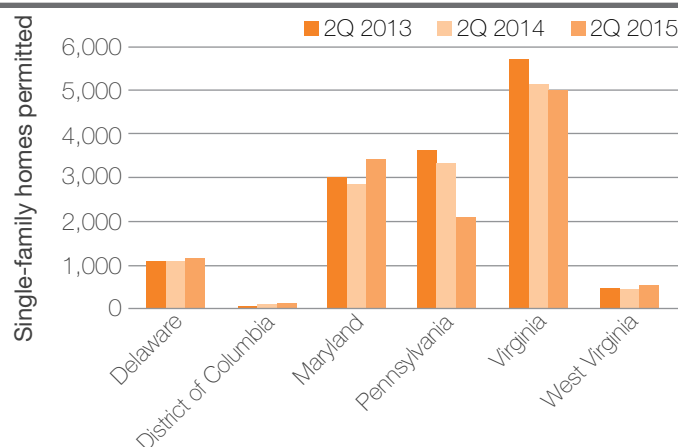
During the second quarter of 2015 (preliminary data)—

- Approximately 12,350 single-family homes were permitted in the region, a decline of 610 homes, or 5 percent, compared with the number permitted a year earlier. By comparison, permits for single-family homes increased 6 percent nationally.
- In Pennsylvania, single-family permits declined 36 percent, or by 1,200, to 2,125 homes permitted. Single-family permits also

declined in Virginia, where 5,050 homes were permitted, down 2 percent, or by 100, from a year earlier. Single-family construction activity declined in areas such as Pittsburgh and Northern Virginia, partly because the demand from early-career professionals and downsizing empty nesters is increasingly for apartments and condominiums.

- Permits were up 17 percent in Maryland, or by 500, to 3,375 single-family homes permitted. An increase in the rate of job growth contributed to the increase in construction activity.
- In Delaware, the number of single-family permits increased 7 percent, or by 70, to 1,125 homes permitted. The greatest number of new home starts in a single development in Delaware during the past four quarters was at Millville by the Sea in southern Delaware, with 310 three- and four-bedroom homes starting at \$255,900 (Metrostudy, A Hanley Wood Company).
- In West Virginia, single-family permits increased 20 percent, or by 90, to a total of 550 homes permitted. In the District of Columbia, the number of homes permitted totaled 100 homes, up by 30 homes from a year earlier.

Single-family home permitting activity in the Mid-Atlantic region declined during the past 2 years, mostly because of less construction activity in Pennsylvania and Virginia since 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 markets in the Mid-Atlantic region, in general, were tighter during the second quarter of 2015 compared with conditions a year ago. Annual growth in asking rents ranged from 2 to 4 percent, mostly unchanged from growth during the previous 12 months. Vacancy rates declined in the Philadelphia and Baltimore areas and have been at or below 4 percent in each area since the first quarter of 2013. The vacancy rate in the Pittsburgh area was the lowest in the region in each quarter from 2010 through 2014,

which prompted a significant increase in multifamily construction activity during the past 2 years. In the Washington, D.C. area, vacancy rates declined in suburban apartment markets but increased to 6.9 percent in the District of Columbia, where apartment completions increased 66 percent from an average of 2,300 units completed annually during the 3 years ending June 2014 to 3,825 units during the 12 months ending June 2015 (Delta Associates).

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During the second quarter of 2015, multifamily construction activity, as measured by the number of multifamily units permitted, increased 37 percent, or by 2,400 units, to 8,850 units, compared with the number permitted during the second quarter of 2014; the increase was equal to the percentage increase for the nation. The high volume of multifamily construction reflects, in part, strengthening demand for condominiums and apartments near major employment centers and with access to commuter rail service.

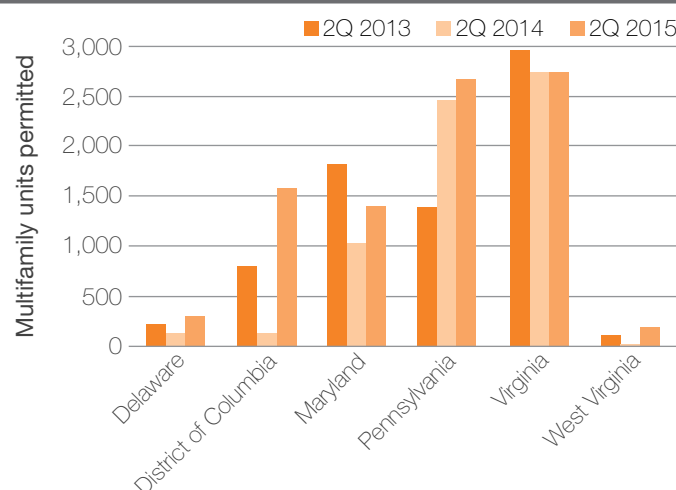
During the second quarter of 2015 (preliminary data)—

- Multifamily units permitted in the District of Columbia totaled 1,575 units, up from 120 units permitted a year earlier and up 51 percent from the average of 1,050 units permitted during corresponding periods from 2011 through 2013. Multifamily units permitted in May 2015 include 1001 4th Street SW, a 365-unit apartment building slated for completion in early 2017 and located adjacent to a commuter rail station in southwest District of Columbia.
- In Virginia, 2,725 multifamily units were permitted, unchanged from a year earlier. The number of units permitted in the four counties nearest the District of Columbia in Northern Virginia (Arlington, Fairfax, Loudoun, and Prince William) totaled 1,275 and accounted for 47 percent of the statewide total, up from a combined total of 790 units permitted and 29 percent of the statewide total a year earlier. Contributing to the increase in multifamily construction was the July 2014 opening of an extension of the Silver Line, a commuter rail line serving the Washington, D.C. area, and five new transit stations in Fairfax County.
- In Pennsylvania, multifamily permitting increased 9 percent, or by 220 units, to a total of 2,650 units. The total number permitted was 160 percent more than the average of 1,025 units permitted during corresponding periods from 2011 through 2013. The

number of units permitted in the Pittsburgh metropolitan area increased to 870 from 710 and 310 units permitted during the second quarters of 2014 and 2013, respectively.

- In Maryland, multifamily building activity increased 37 percent, or by 370 units, to 1,400 units permitted. The number of units permitted in June includes 46 luxury condominiums at Stonehall, located in Montgomery County between commuter rail stations that also serve the Washington, D.C. area. The units are expected to be complete in mid-2016.
- The number of multifamily units permitted in Delaware and West Virginia totaled 310 and 190, up from 120 and 30 units, respectively, permitted a year earlier.

Multifamily permitting activity increased throughout the Mid-Atlantic region during the second quarter of 2015.



2Q = second 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		
		2Q 2014 (%)	2Q 2015 (%)	Percentage Point Change	2Q 2014 (\$)	2Q 2015 (\$)	Percent Change
Baltimore	Slightly tight	3.9	3.7	-0.2	1,119	1,142	2
Philadelphia	Slightly tight	3.4	3.1	-0.3	1,134	1,164	3
Pittsburgh	Slightly tight	3.2	3.4	0.2	919	953	4
Richmond	Slightly tight	4.4	3.9	-0.5	854	871	2
Washington, D.C.— Maryland suburbs	Slightly tight	3.7	3.6	-0.1	1,407	1,434	2
Washington, D.C.— Virginia suburbs	Balanced	4.3	4.2	-0.1	1,623	1,659	2
Washington, D.C.— District of Columbia	Balanced	5.6	6.9	1.3	1,558	1,587	2

2Q = second quarter.

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