HUD PD&R **Regional Reports**

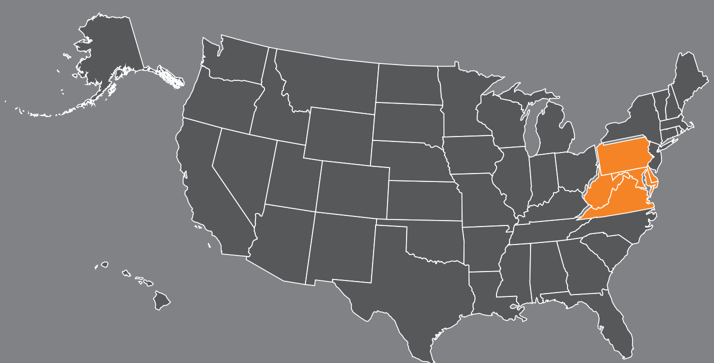
Region 3: Mid-Atlantic

Washington, D.C.

Quick Facts About Region 3

- **Sales market conditions—**
  Second quarter 2020: mixed (balanced to slightly tight)
  First quarter 2020: mixed (balanced to slightly tight)
  Second quarter 2019: mixed (balanced to slightly tight)

- **Apartment market conditions—**
  Second quarter 2020: mixed (balanced to tight)
  First quarter 2020: mixed (balanced to tight)
  Second quarter 2019: mixed (slightly tight to tight)



By Wendy Ip | 2nd Quarter 2020

Overview

During the second quarter of 2020, the economy of the Mid-Atlantic region contracted for the first time since the Great Recession. Interventions to slow the spread of COVID-19 since mid-March 2020, including enforcing physical distancing and discouraging nonessential travel, caused economic activity in the region to decline dramatically. The gradual reopening of businesses in all states in the region and the District of Columbia during the second quarter of 2020 had a minimal positive impact on nonfarm payrolls in the Mid-Atlantic region, and jobs decreased at a faster pace than for the nation. Nonfarm payroll losses in Pennsylvania and Virginia accounted for 70 percent of total job losses in the region during the second quarter of 2020. Despite the economic downturn, sales housing market conditions in major metropolitan areas and divisions in the Mid-Atlantic region ranged from balanced to slightly tight, unchanged from the same quarter a year earlier. Lower levels of for-sale inventory and mortgage forbearance under the Coronavirus Aid, Relief, and Economic Security (CARES) Act contributed to relatively stable market conditions. Overall, home sales prices rose at a faster rate than during previous years and the volume of sales declined, partly in response to reduced inventory.

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Single-family homebuilding activity decreased significantly because of lower construction levels in all states in the region and the District of Columbia. Apartment market conditions improved from a year ago in one-half of the major markets in the region during the second quarter of 2020, as those markets transitioned from generally tight conditions to more balanced conditions. Vacancy rates rose from very low levels and average rents increased at a moderate pace in nearly all major markets. Part of the moderation in rents resulted from several counties in the region implementing rent-growth caps during the pandemic. Overall, rent growth rates in one-half of the largest markets in the region were below the national growth rate of 2 percent.

- Year over year, nonfarm payrolls declined during the second quarter of 2020, mostly due to contractions in the leisure and hospitality and the education and health services sectors in both Pennsylvania and Virginia. Wholesale and retail trade sector jobs also declined notably in both states, continuing a period of losses that began during the third quarter of 2016.
- Home sales in nearly all markets and states in the region decreased during the 12 months ending May 2020, with the rate of decline in sales in the region matching that of the nation. The average home sales price rose in the region and at a faster pace than during the previous 12-month period.
- Multifamily construction declined in the region during the second quarter of 2020, mostly because of reduced development in Maryland and Pennsylvania. The region accounted for 7 percent of total multifamily development in the nation, down from 8 percent during the second quarter of 2019.

Economic Conditions

Nonfarm payroll jobs in the Mid-Atlantic region decreased during the second quarter of 2020, following nearly 11 consecutive years of moderate job growth. Nonfarm payrolls in the region averaged nearly 13.2 million jobs during the second quarter of 2020, declining sharply by more than 1.7 million jobs, or 11.5 percent, from the second quarter of 2019—slightly faster than the 11.3-percent decline nationally. The loss of nonfarm payrolls in the region contrasts with the moderate growth that prevailed from the second quarter of 2010 through the first quarter of 2020—when year-over-year job growth averaged 0.7 percent. Job losses in the region occurred in all sectors of the economy during the second quarter of 2020, with the greatest declines in those sectors that rely heavily on nonessential, in-person interactions because of the countermeasures to slow the spread of COVID-19. As a result, the leisure and hospitality and the education and health services sectors contracted more significantly, as sector jobs were not as easily adaptable to physical distancing. Regionwide job losses in both sectors were led by Pennsylvania and Virginia, accounting for more than two-thirds of the decline combined. In Pennsylvania and Virginia, more than 50 hotels and restaurants were either temporarily or permanently closed during the second quarter of 2020, leading to approximately 6,300 layoffs, at least 30 percent of which were permanent. In the education and health services sector, job losses occurred in virtually all subsectors and industries, with the greatest share of losses in the ambulatory

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Nonfarm payroll jobs in the Mid-Atlantic region declined in all 11 sectors during the second quarter of 2020.

	Second Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	14,917.8	13,196.8	-1,721.0	-11.5
Goods-Producing Sectors	1,783.2	1,628.0	-155.2	-8.7
Mining, Logging, & Construction	772.7	701.6	-71.1	-9.2
Manufacturing	1,010.5	926.4	-84.1	-8.3
Service-Providing Sectors	13,134.7	11,568.8	-1,565.9	-11.9
Wholesale & Retail Trade	1,896.3	1,676.0	-220.3	-11.6
Transportation & Utilities	583.9	542.3	-41.6	-7.1
Information	222.1	201.2	-20.9	-9.4
Financial Activities	792.1	778.0	-14.1	-1.8
Professional & Business Services	2,350.8	2,202.6	-148.2	-6.3
Education & Health Services	2,654.5	2,397.9	-256.6	-9.7
Leisure & Hospitality	1,519.0	866.9	-652.1	-42.9
Other Services	702.7	574.7	-128.0	-18.2
Government	2,413.3	2,329.2	-84.1	-3.5

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

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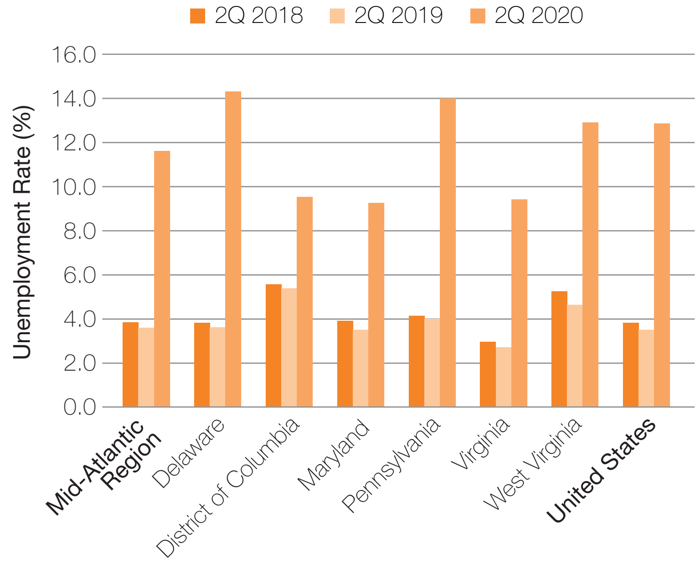
and healthcare services industry, which includes outpatient clinics, dentist offices, and private practice medical offices, all of which were limited to emergency response only. In Pennsylvania, the closure of Easton Hospital in June 2020 led to 694 jobs lost, whereas the closure of three First Home Care centers in Virginia led to 60 jobs lost. Maryland also contributed to significant job declines in the sector, as layoffs at 10 Capital Digestive Care, LLC offices throughout the state affected 160 employees.

The wholesale and retail trade sector also lost a significant number of jobs during the second quarter of 2020, continuing a period of decline that began during the third quarter of 2016. Greater demand for e-commerce was compounded by physical distancing measures and the temporary closures of nonessential brick-and-mortar retail. Multiple nationwide retailers in the region filed for bankruptcy during the second quarter of 2020, including department stores J.C. Penney Company, Inc., and Neiman Marcus Group LTD LLC, with Lord & Taylor expected to enter Chapter 7 proceedings in upcoming months. Approximately 85 percent of job losses in the wholesale and retail trade sector was due to declines in retail trade jobs, more than one-half of which occurred in Pennsylvania.

The least affected in terms of number of jobs lost were the financial activities and the information sectors. Banking institutions were declared essential, and most other employees in the financial activities sector have been able to work remotely. In addition, there was a large increase in demand for specific financial services during the second quarter of 2020, including the delivery of unemployment benefits for states and loan origination for the Paycheck Protection Program. Greater internet traffic at data centers, including those in Loudon County, Virginia, mitigated job losses in the information sector. Industry investments have also continued despite the pandemic, including the construction of the Amazon.com, Inc. HQ2 campus in Crystal City and the Virginia Tech Innovation Campus in the city of Alexandria. Both developments are expected to be completed in the next 3 to 4 years.

The average unemployment rate in the region rose to 11.6 percent during the second quarter of 2020, up from 3.6 percent a year earlier but lower than the national rate of 12.9 percent. Every state in the region and the District of Columbia had large increases in the unemployment rate. Areas with a greater proportion of residents with federal government jobs, including the District of Columbia and Maryland, had the smallest percentage point increases in the unemployment rate. The unemployment rate in the District of Columbia rose the least—by 4.1 percentage points, to 9.5 percent—followed by Maryland—by 5.8 percentage points, to 9.3 percent—the lowest unemployment rate among states in the region. Virginia had the second lowest unemployment rate in the region, at 9.4 percent, up 6.7 percentage points. West Virginia, Pennsylvania, and

The unemployment rate rose in all the states in the Mid-Atlantic region during the second quarter of 2020.



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

Delaware all had unemployment rates that either matched or exceeded the national rate, with rates of 12.9, 14.0, and 14.3 percent, respectively.

During the second quarter of 2020—

- Pennsylvania and Virginia lost 847,400 and 350,200 jobs, or 13.9 and 8.6 percent, respectively. The leisure and hospitality sector accounted for at least one-third of job losses in both states, where nonfarm payrolls in the sector were down by a combined 435,000 jobs, or 43 percent. The ambulatory and healthcare services industry contracted by 49,300 and 20,000 jobs, or 14.3 and 10.6 percent, in Pennsylvania and Virginia, respectively.
- Nonfarm payrolls in the District of Columbia and Maryland decreased by 61,300 and 314,500 jobs, or 7.7 and 11.3 percent, respectively. Job losses in the leisure and hospitality sector contributed to 37 percent of the decline in Maryland and nearly 75 percent of the decrease in the District of Columbia, which is one of the top 10 tourist destinations in the nation. Some of the jobs lost in the District of Columbia were offset by 600 jobs added in the finance and insurance industry.
- In Delaware and West Virginia, nonfarm payrolls declined by 65,300 and 82,400 jobs, or 14.1 and 11.4 percent. The decrease was led by the leisure and hospitality sector, accounting for more than one-third of job losses in both states. The accommodation and food services industry in both states was the most affected by the pandemic, as Delaware and West Virginia lost 19,800 and 26,200 jobs, or 44.4 and 38.7 percent, in the industry, respectively.

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight in the Mid-Atlantic region during the second quarter of 2020, unchanged from the second quarter of 2019. A low supply of homes on the market and mortgage forbearance under the CARES Act contributed to stable market conditions despite the contraction in the economy. During the 12 months ending June 2020, the inventory of homes available for sale in the Mid-Atlantic region declined 8 percent, to an average of 126,100 homes, a slightly faster rate of decline than the 7 percent for the nation (CoreLogic, Inc.). Overall, home sales prices rose at a faster rate than during the previous year and the volume of sales declined, partly in response to reduced inventory. The average home sales price (which includes single-family homes, townhomes, and condominiums) in the region increased 3 percent, to $310,000, during the 12 months ending May 2020, up from 1 percent growth during the previous 12-month period (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Most of the increase in sales prices resulted from accelerated price growth during the 3 months ending May 2020, when home prices rose by 9 percent compared with a year ago, partly in response to a 15-percent reduction in available inventory during the same period. Part of the sharp decrease in inventory occurred because physical distancing orders caused some sellers to take their homes off the market or postpone listing their homes. Despite the increase in home prices, the average home sales price in the region was 6 percent lower than the national average of $328,500. Average home sales prices increased during the 12 months ending May 2020 in four states of the region and the District of Columbia but declined 6 percent in West Virginia, where the average price was the lowest in the region, at $155,200. The District of Columbia had the highest average home price in the region, at $667,200—more than double the national average—but increased at a slow pace, up only 2 percent during the 12 months ending May 2020. Overall, average home prices rose in all metropolitan areas and divisions cited in this report, ranging from 2-percent gains in Morgantown and Pittsburgh to 5-percent increases in Baltimore and Virginia Beach.

The number of homes sold in the Mid-Atlantic region decreased 6 percent during the 12 months ending May 2020—the same rate of decline as the nation; this home sales rate followed a 3-percent decline in the region during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). The rate of decline in home sales during the 12 months ending May 2020 was greatest in the state of Pennsylvania: down 10 percent. Pennsylvania also accounted for the largest share, 72 percent, of the regionwide decrease. Virtually all the statewide decline in sales occurred in the Philadelphia and Pittsburgh metropolitan areas. The District of Columbia had the second fastest decline in home sales in the region, down 9 percent, and contributed to lower home sales in the Washington-Arlington-Alexandria metropolitan area, which includes the District of Columbia and portions of three states in the region. Home sales also declined at a fast pace in West Virginia and Maryland, down 8 and 5 percent, respectively. The 3-percent decrease in home sales in the Baltimore metropolitan area accounted for 28 percent of the net loss in Maryland, whereas the 4-percent increase in the

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Home prices increased in all major markets in the Mid-Atlantic region, whereas home sales decreased in all but three of those areas.

	12 Months Ending	Number of Homes Sold			Price			
		2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Morgantown	May	1,400	1,450	4	AVG	234,300	239,200	2
Dover	May	3,050	3,025	-1	AVG	228,900	236,800	3
Baltimore	May	50,350	48,750	-3	AVG	309,200	323,600	5
Philadelphia	May	94,050	82,100	-13	AVG	275,300	286,200	4
Pittsburgh	May	33,700	27,700	-18	AVG	209,000	213,700	2
Richmond	May	21,650	22,250	3	AVG	281,700	290,000	3
Virginia Beach	May	31,000	31,500	2	AVG	262,200	276,200	5
Washington-Arlington-Alexandria	May	106,600	98,800	-7	AVG	471,900	488,000	3

AVG = average.
Notes: All figures are rounded. Data include new and existing single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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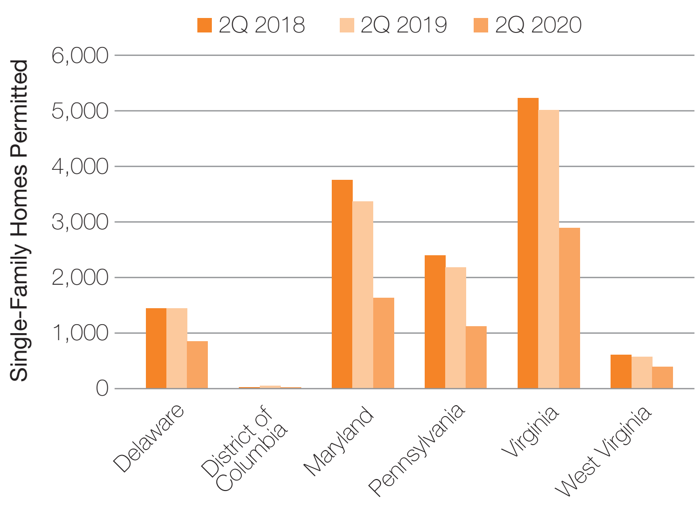
Morgantown metropolitan area partly offset losses that occurred throughout much of West Virginia. The 1-percent decline in the Dover metropolitan area accounted for almost one-half of the decrease in Delaware. Home sales in Virginia were unchanged from a year ago, as growth in both the Richmond and Virginia Beach metropolitan areas offset declines throughout the remainder of the state.

The number of distressed home sales (real estate owned [REO] and short sales) in the region declined during the past year, as stable sales market conditions led to fewer of those properties in the for-sale inventory. Distressed home sales fell 25 percent during the 12 months ending May 2020 after a 16-percent decrease during the previous 12-month period. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region was 1.9 percent in May 2020, up from 1.7 percent in May 2019 but down from 2.2 percent in May 2018. The national percentage increased from 1.4 percent in May 2019 to 1.6 percent in May 2020 but was still down from 2.0 percent in May 2018. In the region, the percentage of seriously delinquent mortgage loans and REO properties was highest in Delaware and Maryland, at 2.1 and 2.4 percent, respectively. The regional rate partly reflects a lower rate in Virginia and the District of Columbia, at 1.3 and 1.6 percent, respectively.

During the second quarter of 2020 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, was affected by countermeasures to limit the spread of COVID-19, decreasing 45 percent in the Mid-Atlantic region from a year ago, to 6,900 homes. Homebuilding in the nation also declined at the same rate.
- Approximately 37 percent of the decline in homebuilding in the region occurred in the state of Virginia, where single-family home construction was down the most, by 2,125 homes, or 42 percent. Construction in the Richmond and Virginia Beach metropolitan areas of the state of Virginia was down 38 and 30 percent, respectively, and accounted for more than one-third of the decline in the state.
- The number of single-family homes permitted decreased in Maryland and Pennsylvania by 1,750 and 1,050 homes, or 52 and 49 percent, respectively. Single-family construction was down in the Baltimore metropolitan area by 770 homes, or 54 percent, and by 430 homes, or 43 percent, in the portion of the Philadelphia metropolitan area that is within the state of Pennsylvania; construction in the Pittsburgh metropolitan area was down by 150 homes, or 52 percent.
- Single-family homebuilding in Delaware and West Virginia declined by 590 and 180 homes, or 41 and 32 percent, respectively. Reduced single-family home construction in the Dover metropolitan area accounted for nearly one-fourth of the loss in Delaware, whereas the decrease in West Virginia occurred broadly outside the larger metropolitan areas, as development in both Charleston and Morgantown was nearly unchanged.
- The District of Columbia had the smallest decline in single-family construction, down by 25 homes, or 52 percent, contributing slightly to reduced homebuilding in the Washington-Arlington-Alexandria metropolitan area, which declined by 1,825 homes, or 50 percent.

Homebuilding activity declined in the Mid-Atlantic region during the second quarter of 2020 due to lower construction levels in the District of Columbia and the five states in the region.



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 market areas in the Mid-Atlantic region ranged from balanced to tight during the second quarter of 2020. Apartment vacancy rates increased in all but two major market areas cited in this report, whereas rents generally increased. Vacancy rates for most areas were below the national rate of 4.6 percent during the second quarter of 2020 (RealPage, Inc.). Aside from the Central D.C. (District of Columbia) and Downtown Silver Spring market areas, average

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rents increased from 1 to 4 percent in all other major market areas in the region; the average rent for the nation rose 2 percent, to $1,431. The highest increases in the average rent in the Mid-Atlantic region were 4-percent gains in both the Dover and Philadelphia metropolitan areas. The Dover metropolitan area had the lowest vacancy rate in the region during the second quarter of 2020, at 2.3 percent, followed by Virginia Beach, at a 3.5-percent vacancy rate. Rents increased an average of 3 percent in the Virginia Beach area. In the remaining areas, the average rent rose moderately—1 to 2 percent—partly because of rent-growth caps in some areas during the pandemic and rising vacancies. Concessions as a percentage of asking rent increased in all areas cited in this report except for North Arlington, ranging from a 0.2-percentage point increase in Philadelphia to 6.2 percentage points in Dover. Concessions generally rose in the nation, averaging a 1.1-percentage point increase.

The number of apartment developments in the pipeline remained generally elevated in the Baltimore, Philadelphia, and Washington-Arlington-Alexandria metropolitan areas during the second quarter of 2020, a trend that had started in the early to mid-2010s. The number of multifamily units in planning in the Baltimore metropolitan area during the second quarter of 2020 totaled 9,250 units—a number that includes attrition and represents units in planning that are likely to be delivered—and remains elevated at 53 percent higher than during the second quarter of 2015, although it is down 15 percent from the second quarter of 2019 (Delta Associates). In the city of Philadelphia, where 40 percent of the Philadelphia metropolitan area apartment development is concentrated, units in planning increased 3 percent, to 10,550 units. The number of units in planning in the Washington-Arlington-Alexandria metropolitan area totaled 72,500 units as of the second quarter of 2020—up 6 percent from 68,350 units during the second quarter of 2019. The District of Columbia accounted for 24 percent, or 17,650 units, of the total pipeline in the Washington-Arlington-Alexandria metropolitan area, unchanged from a year ago. Developments in the pipeline encompass those in all stages of planning: from developments that are moving toward final approvals and that may begin construction within the next 36 months to those in the conceptual stage that may take several years to come to market.

During the second quarter of 2020 (preliminary data)—

- Multifamily construction activity, as measured by the number of multifamily units permitted, declined 47 percent, or by 4,200 units, in the Mid-Atlantic region, following a 66-percent increase during the second quarter of 2019, as numerous developments were delayed due to difficulties in obtaining financing during the pandemic.
- A decline in multifamily construction in Maryland and Pennsylvania, where permits were down by a combined 2,650 units, or 60 percent, contributed the most to the overall decrease in the region. Reduced construction in Maryland occurred outside the Baltimore metropolitan area, where construction was up by 140 units, or 25 percent. Decreased construction in Pittsburgh and the portion of

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Apartment vacancy rates increased in all but two major market areas in the Mid-Atlantic region during the second quarter of 2020, whereas rents increased in all but three areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2019 (%)	2Q 2020 (%)	Percentage Point Change	2Q 2019 ($)	2Q 2020 ($)	Percent Change
Dover	Tight	3.2	2.3	-0.9	1,120	1,169	4
Baltimore	Balanced	4.5	4.9	0.3	1,353	1,360	1
Philadelphia	Tight	3.5	3.7	0.2	1,358	1,407	4
Pittsburgh	Slightly Tight	4.0	4.1	0.1	1,148	1,174	2
Richmond	Slightly Tight	3.5	4.2	0.8	1,107	1,132	2
Virginia Beach	Tight	3.7	3.5	-0.2	1,091	1,125	3
Washington-Arlington-Alexandria	Slightly Tight	3.8	4.3	0.5	1,814	1,824	1
Washington, D.C.—Central D.C.	Balanced	3.8	5.4	1.6	2,520	2,507	-1
Washington, D.C.—Downtown Silver Spring	Balanced	4.3	4.8	0.5	1,886	1,872	-1
Washington, D.C.—North Arlington	Tight	3.1	4.3	1.2	2,402	2,413	0

2Q = second quarter. D.C. = District of Columbia.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

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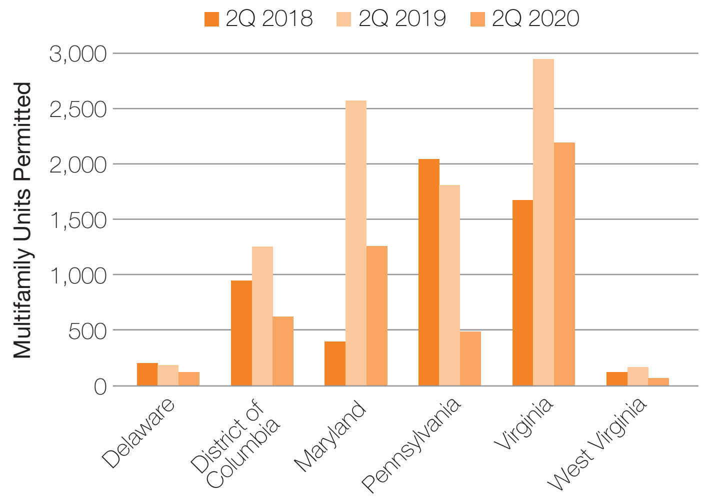
the Philadelphia metropolitan area that is within the state of Pennsylvania accounted for two-thirds of the statewide decline.

- Multifamily construction in the District of Columbia and Virginia was down by 630 and 760 units, or 50 and 26 percent, respectively. Construction in the Washington-Arlington-Alexandria metropolitan area decreased by 2,575 units, or 64 percent, and contributed to those losses. Building activity in the Virginia Beach metropolitan area was down by 400 units, or 45 percent, while construction increased slightly in the Richmond metropolitan area, up by 10 units, or 2 percent.
- In Delaware and West Virginia, multifamily construction declined by 70 and 110 units, or 36 and 61 percent, respectively. The reduction occurred broadly throughout both states, as the Dover metropolitan area decreased by only five units, whereas the Morgantown metropolitan area remained unchanged, with no units permitted.

Multifamily construction activity declined in the Mid-Atlantic region during the second quarter of 2020, mostly due to reduced construction in Maryland and Pennsylvania.



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Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey