

HUD PD&R Regional Reports

Region 3: Mid-Atlantic



Quick Facts About Region 3

Baltimore, Maryland

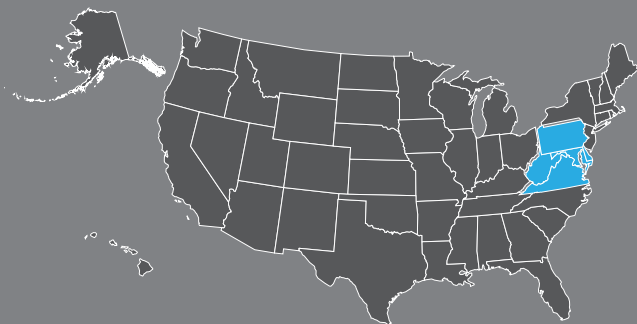
By Patricia Moroz | 4th quarter 2018

Sales market conditions—

Fourth quarter 2018: mixed (slightly tight to tight)
Third quarter 2018: mixed (slightly tight to tight)
Fourth quarter 2017: mixed (slightly tight to tight)

Apartment market conditions—

Fourth quarter 2018: balanced
Third quarter 2018: mixed (balanced to slightly tight)
Fourth quarter 2017: mixed (balanced to slightly tight)



Overview

The economy of the Mid-Atlantic region expanded at a faster rate than during the past 2 years, with job growth of 1.4 percent during the fourth quarter of 2018. The professional and business services sector led payroll increases in the region and accounted for the highest gains in several states. As a result of continued employment growth, unemployment rates declined in all states in the region and the District of Columbia from a year earlier. Sales housing market conditions in major metropolitan areas in the region ranged from slightly tight to tight. Home sales slowed or decreased throughout most of the region because of declining inventories and rising mortgage interest rates. Average home sales prices increased in most of the region. Apartment completions increased in the region, resulting in higher vacancy rates in many markets and allowing conditions that were slightly tight a year ago to become more balanced. The average apartment rent increased in all the major market areas. Single-family home construction activity decreased in the region overall, whereas multifamily construction activity increased compared with a year ago.

- Nonfarm payrolls increased by 209,500 jobs from the fourth quarter of 2017 to 14.97 million jobs. Payrolls increased in every state in the region for the sixth consecutive quarter.

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- Single-family homebuilding activity decreased 3 percent in the Mid-Atlantic region; declines in Virginia and the District of Columbia more than offset modest gains in four states.

- Multifamily construction activity increased 12 percent in the region. A significant increase in Maryland more than offset a notable decrease in Virginia, with minor changes throughout the rest of the region.

Economic Conditions

The economy of the Mid-Atlantic region expanded during the fourth quarter of 2018 with an increase of 209,500 jobs, or 1.4 percent, from the fourth quarter of 2017, continuing a trend that began during the second quarter of 2010. By comparison, during the fourth quarter of 2017, nonfarm payrolls increased by 110,100 jobs, or 0.8 percent, from the same period a year earlier. The faster rate of growth was largely attributed to greater gains in the professional and business services and the leisure and hospitality sectors, which were up by 65,800 and 40,200 jobs, or 2.9 and 2.8 percent, respectively, during the fourth quarter of 2018. The professional and business services sector added the most jobs in the region and in several states, including Virginia, Maryland, and Delaware. During the fourth quarter of 2018, Amazon.com, Inc. announced plans to develop a new headquarters in northern Virginia, adding 25,000 jobs by 2030. Education and health services accounted for the second largest job gain among sectors in the region, adding 56,100 jobs, or 2.1 percent; the sector accounted for the most jobs added in Pennsylvania and West Virginia, with gains of 26,100 and 2,200 jobs, or 2.0 and 1.6 percent, respectively. Mining, logging, and construction was the fourth fastest growing sector, but growth slowed compared with a year ago, adding 20,400 jobs, or 2.7 percent, during the fourth quarter of 2018, down from a gain of 26,700 jobs, or 3.7 percent, during the fourth quarter of 2017. The highest percentage

gain of any sector in the region of 4.3 percent occurred in the transportation and utilities sector, adding 24,800 jobs. The largest percentage gains in the sector were in Pennsylvania and the District of Columbia, with 4.8- and 8.2-percent increases, or 14,200 and 400 jobs, respectively. Nearly all the net increase in Pennsylvania was due to the expansion of warehouses and distribution centers as a result of e-commerce, primarily in the Allentown, Harrisburg, and Pittsburgh metropolitan areas because of proximity to highways and airports. An average of 15.32 million square feet of new warehouse space was completed annually in Pennsylvania in 2017 and 2018, up nearly 50 percent from an average of 10.25 million square feet a year from 2014 through 2016 (McGraw-Hill Construction Pipeline database). While nonfarm payroll growth increased, the unemployment rate in the region averaged 3.5 percent during the fourth quarter of 2018, down from 4.1 percent a year ago, and was slightly below the national average of 3.6 percent.

During the fourth quarter of 2018—

- The highest percentage gain among states in the Mid-Atlantic region was 1.8 percent in Virginia, with a job increase of 71,200, to 4.05 million jobs, up from a 0.6-percent gain a year earlier. The professional and business services sector accounted for 29 percent of the increase in the state.

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The professional and business services sector led nonfarm payroll growth in the Mid-Atlantic region during the fourth quarter of 2018.

| | Fourth Quarter | | Year-Over-Year Change | |
|----------------------------------|---------------------|---------------------|-------------------------|---------|
| | 2017 (thousands) | 2018 (thousands) | Absolute (thousands) | Percent |
| Total Nonfarm Payrolls | 14,764.3 | 14,973.8 | 209.5 | 1.4 |
| Goods-Producing Sectors | 1,726.1 | 1,763.9 | 37.8 | 2.2 |
| Mining, Logging, & Construction | 746.7 | 767.1 | 20.4 | 2.7 |
| Manufacturing | 979.4 | 996.7 | 17.3 | 1.8 |
| Service-Providing Sectors | 13,038.2 | 13,209.9 | 171.7 | 1.3 |
| Wholesale & Retail Trade | 1,968.7 | 1,963.6 | -5.1 | -0.3 |
| Transportation & Utilities | 583.2 | 608.0 | 24.8 | 4.3 |
| Information | 216.3 | 214.7 | -1.6 | -0.7 |
| Financial Activities | 779.6 | 783.3 | 3.7 | 0.5 |
| Professional & Business Services | 2,291.3 | 2,357.1 | 65.8 | 2.9 |
| Education & Health Services | 2,641.0 | 2,697.1 | 56.1 | 2.1 |
| Leisure & Hospitality | 1,414.9 | 1,455.1 | 40.2 | 2.8 |
| Other Services | 725.5 | 732.1 | 6.6 | 0.9 |
| Government | 2,417.7 | 2,399.0 | -18.7 | -0.8 |

Note: Numbers may not add to totals due to rounding.

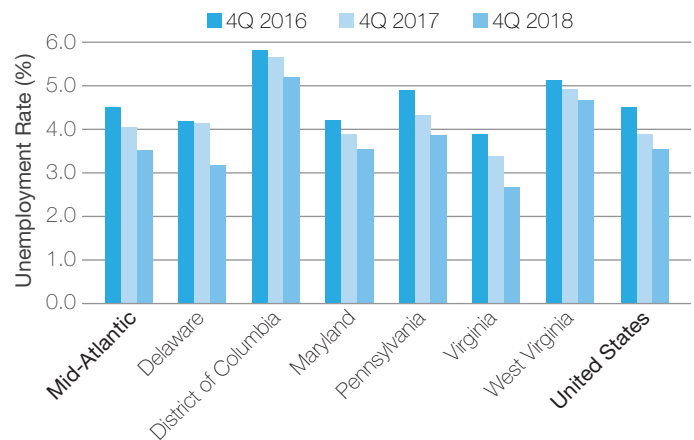
Source: U.S. Bureau of Labor Statistics



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- In Delaware and Maryland, jobs rose 1.7 and 1.5 percent, or by 7,700 and 40,300 jobs, respectively. Approximately 27 and 51 percent of the total job gains in Delaware and Maryland, respectively, were in the professional and business services sector.
- Jobs were up by 82,600, or 1.4 percent, in Pennsylvania, equal to the rate of increase in the Mid-Atlantic region; the state led total job growth and accounted for 39 percent of gains in the region. The Philadelphia metropolitan area grew at a faster rate than the region and the state, with a 1.6-percent increase, totaling 47,200 jobs.
- In West Virginia, jobs rose by 6,700, or 0.9 percent, up from an increase of 1,400 jobs, or 0.2 percent, during the fourth quarter of 2017. The government sector accounted for the second highest increase in the state, with 2,000 jobs, or 1.3 percent, with all the net gain in the local government subsector.
- Job growth slowed to 0.1 percent in the District of Columbia, with a gain of 1,100 jobs, compared with a 1.0-percent increase, or 7,800 jobs, a year earlier. The largest decline in payrolls was in the education and health services sector, which decreased by 1,900 jobs, or 1.4 percent; 63 percent of the net decline was in the healthcare and social assistance industry.

Unemployment rates declined throughout the Mid-Atlantic region during the fourth quarter of 2018, ranging from a low of 2.7 percent in Virginia to a high of 5.2 percent in the District of Columbia.



4Q = fourth quarter.

Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in major metropolitan areas in the Mid-Atlantic region ranged from slightly tight to tight during the fourth quarter of 2018. Sales housing markets were tight in the Baltimore, Richmond, and Washington, D.C. metropolitan areas and slightly tight in the Philadelphia metropolitan area, unchanged from a year ago. The inventory of homes on the market decreased throughout most of the region, with declines

in all states; in the District of Columbia, the inventory of homes for sale increased, but at a slower rate of 4 percent in 2018, compared with a 7-percent increase in 2017. In addition, higher mortgage interest rates also led to decreasing or slowing home sales across most of the region compared with the previous 12-month period. Home sales declined 5, 3, and 1 percent in

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Average sales prices increased throughout the Mid-Atlantic region, except for a slight decline in West Virginia.

| | 12 Months Ending | Number of Homes Sold | | | Average or Median | Price | | |
|--|------------------|----------------------|---------|----------------|-------------------|-----------|-----------|----------------|
| | | 2017 | 2018 | Percent Change | | 2017 (\$) | 2018 (\$) | Percent Change |
| Delaware (N&E) | September | 18,450 | 19,750 | 7 | AVG | 270,300 | 273,400 | 1 |
| District of Columbia (E) | December | 8,900 | 8,625 | -3 | AVG | 684,700 | 696,300 | 2 |
| Maryland (E) | December | 82,850 | 78,750 | -5 | AVG | 326,000 | 336,900 | 3 |
| Pennsylvania (N&E) | September | 204,100 | 207,900 | 2 | AVG | 192,800 | 199,300 | 3 |
| Virginia (N&E) | September | 160,600 | 159,600 | -1 | AVG | 306,200 | 316,000 | 3 |
| West Virginia (N&E) | September | 9,350 | 9,700 | 4 | AVG | 150,600 | 149,500 | -1 |
| Baltimore Metropolitan Area (E) | December | 40,050 | 38,000 | -5 | AVG | 300,400 | 309,600 | 3 |
| Philadelphia Metropolitan Area (N&E) | September | 102,400 | 104,200 | 2 | AVG | 242,800 | 249,600 | 3 |
| Richmond Metropolitan Area (E) | December | 19,050 | 18,900 | -1 | AVG | 273,800 | 283,500 | 4 |
| Washington, D.C. Metropolitan Area (E) | December | 85,700 | 83,200 | -3 | AVG | 467,200 | 479,700 | 3 |
| West Virginia Eastern Panhandle (E) | December | 3,850 | 4,400 | 14 | AVG | 194,600 | 208,000 | 7 |

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

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

Sources: CoreLogic, Inc., with adjustments by the analyst; Maryland Association of Realtors®; Bright MLS, Inc. (monthly reports)



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Maryland, the District of Columbia, and Virginia, respectively, from a year ago; home sales followed similar trends in the Baltimore, Washington, D.C., and Richmond metropolitan areas, down 5, 3, and 1 percent, respectively. Pennsylvania and West Virginia had slower rates of home sales compared with a year ago, with sales tapering from 6 to 2 percent and 10 to 4 percent, respectively. Similarly, growth in home sales slowed from 11 to 2 percent in the Philadelphia metropolitan area during the same period. Exceptions where home sales increased more rapidly compared with a year ago were Delaware, due to relatively strong population growth, and the West Virginia Eastern Panhandle, where the population increased in the eight-county area overall, unlike the remainder of the state, where the population decreased.

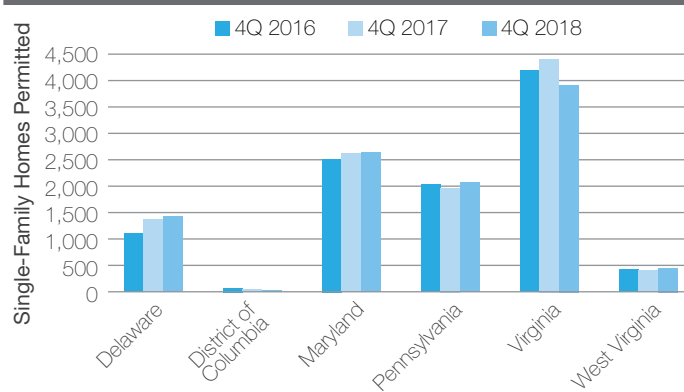
Average home sales prices rose more slowly in the Mid-Atlantic region compared with a year ago with increases of 3 to 4 percent in most areas, with a few exceptions. Average sales prices were up 1 to 7 percent in the Mid-Atlantic region compared with a year earlier, except for West Virginia, which had a slight 1-percent price decline. In the District of Columbia, the average price was up 2 percent, compared with 4 percent a year ago, and the average home price of \$696,300 in 2018 was the highest in the region. The greatest price increase of 7 percent was in the West Virginia Eastern Panhandle, up slightly from a 6-percent increase a year earlier. Prices also rose more rapidly in Pennsylvania, with a 3-percent increase, compared with 2 percent previously, and in Delaware, with a 1-percent gain, which was an improvement from a 1-percent decrease a year earlier.

Homebuilding (as measured by the number of homes permitted) declined 3 percent in the Mid-Atlantic region during the fourth quarter of 2018, compared with a 4-percent increase during the fourth quarter of 2017 (preliminary data).

During the fourth quarter of 2018 (preliminary data)—

- In Virginia, homebuilding activity declined year-over-year for the third consecutive quarter and was down 11 percent, or by

Single-family permitting declined slightly overall in the Mid-Atlantic Region during the fourth quarter of 2018, with most of the decrease in Virginia.



4Q = fourth quarter.

Note: Based on preliminary data.

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

500 homes, from the fourth quarter of 2017. The Richmond and Virginia Beach-Norfolk-Newport News metropolitan areas accounted for approximately one-half of the net decline in permitting.

- In the District of Columbia, permitting decreased to 20 homes, down from 45 homes during the fourth quarter of 2017.
- Single-family permitting rose a modest 1 percent in Maryland, 11 percent in West Virginia, and 5 percent in Delaware, or by 15, 45, and 65 homes, to 2,650, 460, and 1,425 homes permitted, respectively.
- The largest increase in homebuilding activity was in Pennsylvania, where permitting was up by 100 homes, or 5 percent, to 2,075 homes. Construction increased in the Philadelphia metropolitan area by 190 homes, or 12 percent, and nearly doubled in the Allentown metropolitan area, increasing by 60 homes.

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Mid-Atlantic region were balanced during the fourth quarter of 2018. Conditions in several metropolitan areas transitioned to balanced, compared with tighter conditions during the fourth quarter of 2017, because apartment completions in the region have increased. During 2018, approximately 32,700 apartment units were completed, up by 3,950 units, or 14 percent, from 2017 (McGraw-Hill Construction Pipeline database). The largest increases in the apartment vacancy rates occurred in the Baltimore and Philadelphia metropolitan areas, where the rates each rose one-half of a percentage point to 4.4 and 4.5 percent, respectively (Reis, Inc.). Both markets became balanced, a change from slightly

tight conditions a year ago; however, the average rent increased in each market due to stronger economic growth during the fourth quarter of 2018 compared with a year earlier. In the Baltimore metropolitan area, the average rent was up 3 percent, to \$1,268. More than 3,775 Class A apartment units were absorbed in the Baltimore metropolitan area in 2018, up 80 percent from 2017 (Delta Associates). In the Philadelphia metropolitan area, the average monthly rent rose 7 percent, to \$1,387, compared with a year ago, greater than the average increase of 5 percent for the nation (Reis, Inc.). During 2018, approximately 1,680 new apartment units were absorbed in the Philadelphia metropolitan area, up 25 percent compared with the number of units absorbed

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Average rents increased throughout the New York/New Jersey region, but vacancy rate changes varied during the fourth quarter of 2018.

| | Market Condition | Vacancy Rate | | | Average Monthly Rent | | |
|---------------------------------------|------------------|--------------|-------------|-------------------------|----------------------|--------------|----------------|
| | | 4Q 2017 (%) | 4Q 2018 (%) | Percentage Point Change | 4Q 2017 (\$) | 4Q 2018 (\$) | Percent Change |
| Baltimore | Balanced | 3.9 | 4.4 | 0.5 | 1,229 | 1,268 | 3 |
| Philadelphia | Balanced | 4.0 | 4.5 | 0.5 | 1,298 | 1,387 | 7 |
| Pittsburgh | Balanced | 5.4 | 4.9 | -0.5 | 1,056 | 1,104 | 5 |
| Richmond | Balanced | 3.9 | 4.1 | 0.2 | 963 | 1,007 | 5 |
| Washington, D.C.-Maryland Suburbs | Balanced | 4.0 | 4.4 | 0.4 | 1,535 | 1,583 | 3 |
| Washington, D.C.-Virginia Suburbs | Balanced | 5.2 | 5.2 | 0 | 1,796 | 1,870 | 4 |
| Washington, D.C.-District of Columbia | Balanced | 6.7 | 6.5 | -0.2 | 1,835 | 1,917 | 4 |

4Q = fourth quarter.

Sources: Market Condition—Economic and Market Analysis Division; Vacancy Rate and Average Monthly Rent—Reis, Inc.

during 2017 (Delta Associates). Units in lease-up included 279 units at The Hamilton in Center City, which was completed during the fourth quarter of 2018, with rents starting at \$1,550, \$1,750, and \$3,075 for studio, one-bedroom, and two-bedroom units, respectively.

In the Richmond and Pittsburgh metropolitan areas, rent growth was relatively strong at 5 percent. The apartment vacancy rate in the Richmond area increased moderately, from 3.9 to 4.1 percent; the market remained balanced despite a doubling of apartment unit completions, from 900 units in 2017 to nearly 2,000 apartment units in 2018 (McGraw-Hill Construction Pipeline database). In the Pittsburgh metropolitan area, the vacancy rate decreased from 5.4 to 4.9 percent, the largest decline in vacancy in the region. Although an average of 1,775 apartments a year were completed in the Pittsburgh area from 2016 through 2018 (McGraw-Hill Construction Pipeline database), the market was balanced because of strong job growth during the past 2 years. The District of Columbia and its suburban areas are the most expensive apartment housing markets in the Mid-Atlantic region. The average rent increased 4 percent each in the District of Columbia and the Virginia suburbs, to \$1,917 and \$1,870, respectively; market conditions remained balanced, whereas the vacancy rate decreased slightly from 6.7 to 6.5 percent in the District of Columbia and was unchanged in the Virginia suburbs, at 5.2 percent. In the Maryland suburbs, the average rent rose 3 percent, to \$1,583. The apartment vacancy rate increased from 4.0 to 4.4 percent, and market conditions transitioned from slightly tight to balanced.

During the fourth quarter of 2018, 7,600 multifamily units were permitted in the Mid-Atlantic region, an increase of 800 units, or 12 percent, from a year earlier. Permitting activity increased in Maryland and Pennsylvania, with the Baltimore-Columbia-Towson metropolitan area accounting for nearly all the net increase in the region.

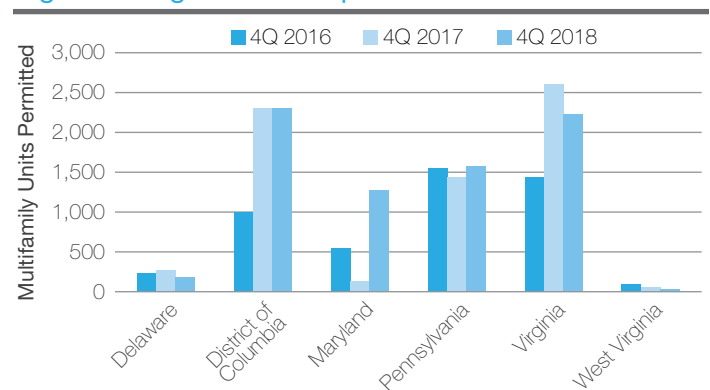
During the fourth quarter of 2018 (preliminary data)—

- In Maryland, the number of units permitted was up by 1,150, to 1,275 units permitted, up significantly from 130 units permitted a year earlier and from 550 units permitted during the fourth

quarter of 2016. Units permitted during the fourth quarter of 2018 include Willow Manor at Fairland, a 121-unit, mixed-income development for seniors in Montgomery County that is expected to be complete in late 2019.

- In Pennsylvania, multifamily construction activity increased to 1,575 units, up by 140 units, or 9 percent, from the fourth quarter of 2017. During the fourth quarter of 2018, permitting rose 10 percent in the Philadelphia metropolitan area, with 342 units permitted in Chester County at Hanover Exton Square; a completion date has not been determined.
- Multifamily construction activity was virtually unchanged at 2,300 units in the District of Columbia. Permits included the first new-construction buildings that are part of the redevelopment of the former Walter Reed Army Medical Center; The Vale, with 301 apartments, and The Brooks, with 89 condominiums, are expected to be complete in mid-2020.
- In Virginia, Delaware, and West Virginia, the number of multifamily units permitted decreased 14, 31, and 35 percent, to 2,225, 190, and 40 units, respectively.

Maryland and Pennsylvania accounted for all the increase in multifamily permitting in the Mid-Atlantic region during the fourth quarter of 2018.



4Q = fourth quarter.

Note: Based on preliminary data.

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