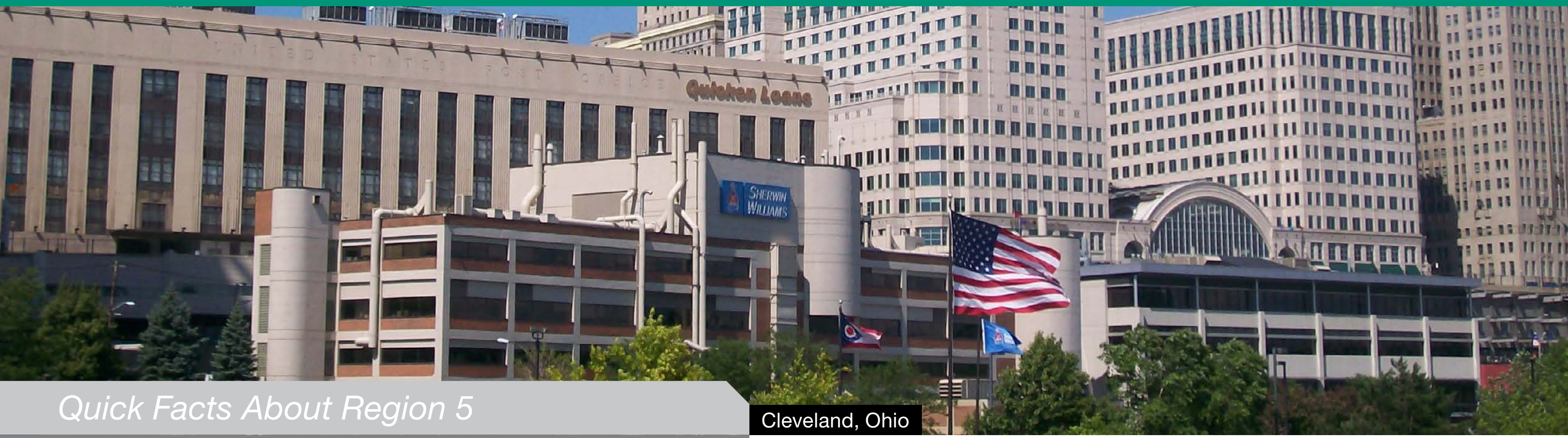
HUD PD&R **Regional Reports**

Region 5: Midwest

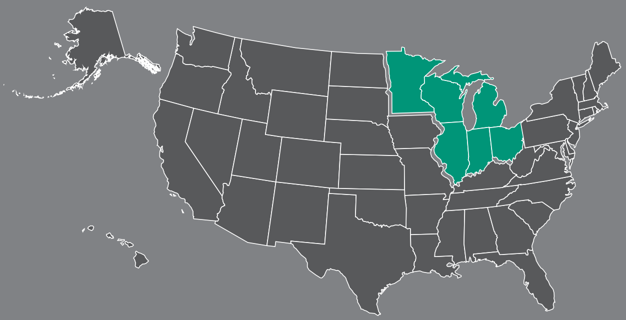


Cleveland, Ohio

Quick Facts About Region 5

- **Sales market conditions—**
  First quarter 2017: mixed (balanced to soft).
  Fourth quarter 2016: mixed (balanced to soft).
  First quarter 2016: mixed (balanced to soft).

- **Apartment market conditions—**
  First quarter 2017: mixed (balanced to tight).
  Fourth quarter 2016: mixed (slightly soft to tight).
  First quarter 2016: mixed (balanced to tight).



By EMAD Region 5 staff | 1st quarter 2017

Overview

Economic conditions in the Midwest region strengthened during the first quarter of 2017, continuing an expansion that began during the third quarter of 2010. However, the rate of job growth slowed during the past year. The education and health services and the professional and business services sectors led growth, and each state in the region had an increase in nonfarm payrolls. Sales housing market conditions range from balanced to soft in the major metropolitan areas of the region, and builders are cautiously expanding production of single-family homes. Apartment market conditions range from balanced to tight in major metropolitan areas of the region, unchanged from a year earlier. Increased multifamily permitting, primarily in Minnesota and Ohio, offset a decline in multifamily permitting in Illinois and Wisconsin; overall multifamily permitting rose a modest 5 percent compared with permitting levels a year ago (preliminary data).

- During the first quarter of 2016, nonfarm payrolls expanded year over year in every sector in the Midwest region for only the second quarter since the economic expansion began during the third quarter of 2010.
- Population in the Midwest region increased 0.1 percent from 2015 to 2016, the same rate of growth recorded from 2014 to 2015. By contrast, the national population growth rate was 0.7 percent; the Midwest region reported the second lowest population growth rate among the 10 HUD regions in the country.

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- Sales housing markets in the Midwest region ranged from balanced to soft, and apartment markets in major metropolitan areas ranged from balanced to tight. The economic expansion in the Midwest region is starting to slow, and the pipeline of new apartments under construction is likely to lead to some softening in apartment market conditions during the next year.
- Residential building permitting increased in the Midwest region, with increases in both single-family and multifamily permitting. All six states in the region reported increased single-family home permitting, and all but two states had higher multifamily unit permitting.

Economic Conditions

Economic conditions in the Midwest region continued the expansion that began in the third quarter of 2010. All six states in the region added jobs during the first quarter of 2017, and the total count of nonfarm payrolls in the Midwest region was 24.49 million, a gain of 1.0 percent from a year earlier. By contrast, the national rate of nonfarm payroll growth during the first quarter of 2017 was 1.6 percent. Since emerging from the recent recession, a cumulative 1.74 million jobs have been added in the region, an increase of 7.7 percent since 2010. During the first quarter of 2017, job gains in the education and health services, professional and business services, and financial services sectors accounted for nearly 60 percent of all nonfarm payroll gains in the region, with increases of 81,400, 34,500, and 30,500 jobs, or 2.1, 1.1, and 2.3 percent, respectively. In addition, the mining, logging, and construction sector expanded 2.1 percent, adding 18,000 jobs, because the construction subsector added 18,300 jobs, offsetting slight losses in the mining and logging subsector. Increased construction occurred in both residential and nonresidential development. The education and health services sector is the largest employment sector in the Midwest region, accounting for 16 percent of all nonfarm payroll jobs. The unemployment rate in the region was 5.2 percent, down from 5.5 percent during the first quarter of 2016. Minnesota and Wisconsin were the only states in the region with unemployment rates below the national average of 4.9 percent. In Wisconsin, the unemployment rate declined to 4.4 percent from 4.8 percent a year earlier. The rate in Minnesota rose from 4.6 to 4.7 percent, because gains in the state labor force were higher than gains in resident employment. Similarly, the unemployment rate was up in Michigan, Ohio, and Indiana from a year earlier to 5.4, 5.7, and 5.4 percent, respectively. In Illinois, a 1.1-percent decline in the labor force caused the unemployment rate to drop a full percentage point to 5.6 percent.

During the first quarter of 2017—

- Michigan led job growth in the region with a gain of 78,000 jobs, or 1.8 percent, and was the only state in the region to exceed the national nonfarm payroll growth rate of 1.6 percent. Significant gains occurred in the professional and business services and the leisure and hospitality sectors, which expanded 2.9 percent each, or by 18,400 and 11,700 jobs, respectively.

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Nonfarm payrolls increased in each sector and each state of the Midwest region during the first quarter of 2017.

	First Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,241.0	24,494.9	253.9	1.0
Goods-producing sectors	4,020.4	4,052.7	32.3	0.8
Mining, logging, and construction	876.5	894.5	18.0	2.1
Manufacturing	3,143.9	3,158.1	14.2	0.5
Service-providing sectors	20,220.5	20,442.3	221.8	1.1
Wholesale and retail trade	3,618.3	3,642.2	23.9	0.7
Transportation and utilities	976.4	976.7	0.3	0.0
Information	358.2	359.1	0.9	0.3
Financial activities	1,337.6	1,368.1	30.5	2.3
Professional and business services	3,247.2	3,281.7	34.5	1.1
Education and health services	3,901.5	3,982.9	81.4	2.1
Leisure and hospitality	2,281.0	2,298.4	17.4	0.8
Other services	1,012.7	1,023.8	11.1	1.1
Government	3,487.6	3,509.4	21.8	0.6

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

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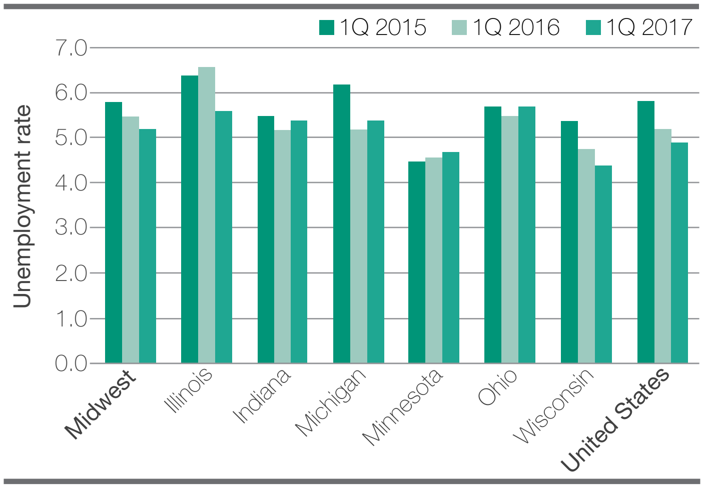
- In Minnesota, net nonfarm payroll gains totaled 43,100, or 1.5 percent, with new jobs in the education and health services sector accounting for nearly 40 percent of the increase. By contrast, education and health services job gains contributed 31 percent of nonfarm payroll expansion during the first quarter of 2016 and 19 percent during the first quarter of 2015. In 2016, the Mayo Clinic in Rochester was the largest employer in the state with nearly 41,900 employees (Minnesota Employment and Economic Development).
- Indiana and Ohio recorded the next highest levels of job growth with 41,600 and 39,300 jobs added, rates of 1.4 and 1.5 percent, respectively. In Indiana, job growth in the education and health services, manufacturing, and professional and business services sectors contributed nearly 60 percent of nonfarm payroll gains in the state. In Ohio, the education and health services sector accounted for nearly one-half of the state's increase in nonfarm payrolls but were partially offset by a decline of 5,000 jobs, or 0.6 percent, in the government sector.
- In Wisconsin, the government and education and health services sectors combined to add more than one-half of the state's payroll gains of 26,500 jobs, 0.9 percent growth. The slowest rate of job growth in the region and the fewest payrolls added occurred in Illinois, where nonfarm payrolls grew by 25,400 jobs, or 0.4 percent.

Unemployment rates increased in four states and decreased in two of the Midwest region, and the regional rate remained above the national rate for the second consecutive year.



1Q = first quarter.
Source: U.S. Bureau of Labor Statistics

Population

The population of the Midwest region was estimated at 52.28 million during 2016, representing growth of 0.1 percent from a year ago, the same growth rate recorded a year earlier (Census Bureau population estimates as of July 1). By contrast, the national growth rate from 2015 to 2016 was 0.7 percent, also unchanged from the previous year. Since the economy began to recover during 2010, nonfarm payrolls in the Midwest region have expanded by 1.1 percent annually; by contrast, nonfarm payrolls for the nation have grown 1.6 percent annually. The slower economic growth in the Midwest region influenced migration patterns and contributed to slow population growth. The rate of population growth in the Midwest region was the ninth lowest among 10 HUD regions because of significant domestic out-migration. Of the six Midwest region states, only Minnesota ranked in the top one-half of the

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Population in the Midwest region rose at the same rate as a year ago, significantly below the national growth rate.

	Population Estimate (as of July 1)			Percent Change	
	2014	2015	2016	2014 to 2015	2015 to 2016
United States	318,563,456	320,896,618	323,127,513	0.7	0.7
Midwest region	52,184,438	52,224,946	52,275,925	0.1	0.1
Illinois	12,867,544	12,839,047	12,801,539	– 0.2	– 0.3
Indiana	6,595,233	6,612,768	6,633,053	0.3	0.3
Michigan	9,915,767	9,917,715	9,928,300	0.0	0.1
Minnesota	5,453,109	5,482,435	5,519,952	0.5	0.7
Ohio	11,594,408	11,605,090	11,614,373	0.1	0.1
Wisconsin	5,758,377	5,767,891	5,778,708	0.2	0.2

Source: U.S. Census Bureau

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fastest-growing states in the county; and Illinois, one of seven states and territories to lose population, had the third highest rate of decline. Population growth in the region was entirely from net natural change (resident births minus resident deaths), because net out-migration totaled 90,100. Domestic out-migration in the Midwest region totaled 195,800 people from 2015 to 2016, not enough to offset 105,700 international immigrants.

During the 12 months ending July 1, 2016—

- Minnesota and Indiana had the highest population growth rates among states in the Midwest region, increasing 0.7 and 0.3 percent, respectively. Only Minnesota had net in-migration, with net international in-migration of 13,650 offsetting net domestic out-migration of 1,750. All other Midwest region states had net out-migration.
- Population grew 0.2 percent in Wisconsin and 0.1 percent in both Michigan and Ohio. In Ohio and Wisconsin, the rate of growth was unchanged from the previous year; in Michigan, the 0.1 percent growth rate was an increase from stable population the previous year.
- In Illinois, the population fell by 37,500, or 0.3 percent, from 2015 to 2016, and the decline accelerated from a rate of 0.2 percent a year earlier. Cook County, including the city of Chicago, makes up nearly 41 percent of the population of Illinois and contributed 57 percent of the population loss in the state. Population loss in Illinois was widespread because of the ongoing budget issues in the state; only 13 of 102 counties in Illinois gained population.

Sales Market Conditions

During the first quarter of 2017, sales housing market conditions in the Midwest region ranged from balanced to soft, unchanged from the previous year. Sales market conditions remain balanced to soft because economic growth in the region slowed. The average home sales price for the region (including single-family homes, townhomes, and condominiums) rose 4 percent, to $178,100, during the 12 months ending February 2017, the same growth rate recorded a year earlier (CoreLogic, Inc., with adjustments by the analyst). The average home sales price in the nation rose 6 percent during the 12 months ending February 2017, up from a 5-percent increase a year earlier. Average home sales prices increased in all eight major metropolitan areas in the Midwest region, ranging from a neglible change in the Indianapolis-Carmel-Anderson metropolitan area to growth of 8 percent in the Detroit-Warren-Dearborn metropolitan area. Average home sales prices in the region ranged from $147,400 in the Cleveland-Elyria metropolitan area to $266,900 in the Chicago-Naperville-Elgin metropolitan area, all of which were less than the national average sales price of $276,300.

During the 12 months ending February 2017, the number of home sales in the region fell modestly to 907,700, a 2-percent reduction, after a 9-percent increase during the previous 12-month period. By comparison, home sales nationwide decreased 5 percent during the 12 months ending February 2017, following an 8-percent increase a year earlier. Home sales fell in five of the eight major metropolitan areas in the region, ranging from 1-percent declines in the Columbus, Indianapolis-Carmel-Anderson, and Minneapolis-St. Paul-Bloomington metropolitan areas to a 6-percent decrease in the Detroit-Warren-Dearborn metropolitan area. In four of the five metropolitan areas where home sales fell, the decline was because of declining real

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Economic growth below the national average contributed to a decline in home sales in the Midwest region, and average sales prices rose 4 percent, which is below the national increase of 6 percent.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 ($)	2017 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	February	142,008	138,154	– 3	AVG	257,983	266,893	3
Cincinnati (N&E)	February	40,904	40,912	0	AVG	166,693	175,414	5
Cleveland-Elyria (N&E)	February	34,058	34,553	1	AVG	140,836	147,442	5
Columbus (N&E)	February	38,692	38,257	– 1	AVG	185,718	193,330	4
Detroit-Warren-Dearborn (N&E)	February	85,659	80,690	– 6	AVG	150,828	162,157	8
Indianapolis-Carmel-Anderson (N&E)	February	49,506	49,118	– 1	AVG	188,195	188,915	0
Milwaukee-Waukesha-West Allis (N&E)	February	24,435	25,366	4	AVG	201,889	207,104	3
Minneapolis-St. Paul-Bloomington (N&E)	February	69,197	68,773	– 1	AVG	252,553	262,078	4

AVG = average. N&E = new and existing.
Source: CoreLogic, Inc., with adjustments by the analyst

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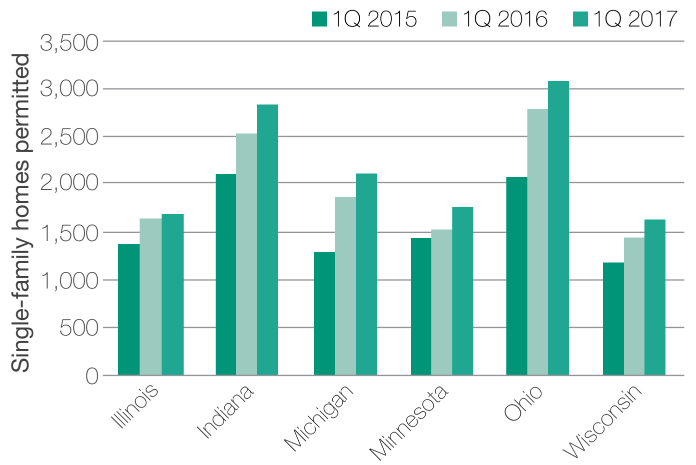
estate owned (REO) and short sales (distressed sales); regular resales rose. The one difference was the Detroit-Warren-Dearborn metropolitan area, where regular resales contracted less than 1 percent, combined with larger declines in distressed sales. By comparison, sales increased 1 and 4 percent in the Cleveland-Elyria and Milwaukee-Waukesha-West Allis metropolitan areas, respectively; in the Cincinnati metropolitan area, home sales remained stable.

During the 12 months ending February 2017, home sales in the Midwest region declined for all sales types except for regular resales, which increased 2 percent and accounted for nearly 85 percent of total home sales in the region, up from 82 percent during the 12 months ending February 2016. Regular resales, as a share of total sales, have increased each year since the recent low rate of 67 percent during the 12 months ending February 2010. The largest reduction in home sales occurred in REO sales, down 23 percent, following an 11-percent decline in REO sales during the previous year. Short sales fell by 17 percent, following a 1-percent increase the previous year. By contrast, the national rates of decline were 9 percent for REO sales and 8 percent for short sales. The percentage of mortgage loans that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status in the region declined 0.5 percentage points to 2.4 percent during February 2017, similar to the 0.7 percentage point decline to 2.5 percent for the nation. In the region, rates of seriously delinquent loans and REO properties declined in every state, with the greatest decrease occurring in Illinois, down 0.7 percentage points to 3.0 percent in February 2017; however, the rate of seriously delinquent loans and REO properties in Illinois is the second highest in the region, below the 3.1 percent figure in Ohio.

Single-family home permitting rose in each state of the Midwest region during the first quarter of 2017, following similar increases in each state during the first quarter of 2016.



1Q = first quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the first quarter of 2017 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, increased 11 percent in the region to 13,100 homes, well below the 25-percent rate of growth a year earlier. By comparison, the number of homes permitted nationally rose more than 13 percent during the first quarter of 2017, following a 12-percent expansion during the previous year.
- Nearly one-fourth of all single-family homes permitted in the region were in Ohio, where permitting rose to 3,075, a 10-percent gain, after a 35-percent gain during the same period a year earlier. A similar 25-percent of single-family homes were permitted in Ohio during the first quarter of 2016, up from 22-percent during the first quarter of 2015.
- The fastest growth in single-family homebuilding activity was in Minnesota, where the number of homes permitted increased 15 percent, to 1,750, compared with a 7-percent increase during the same period a year earlier. Homebuilding activity in Michigan and Wisconsin grew 13 percent each to 2,100 and 1,625, respectively, compared with 45- and 21-percent increases during the first quarter of 2016, respectively.
- Homebuilding activity rose 2 and 12 percent in Illinois and Indiana to 1,675 and 2,850 homes permitted, respectively.

Apartment Market Conditions

Apartment market conditions in the largest market areas in the Midwest region ranged from balanced to tight during the first quarter of 2017; a year earlier, conditions were also balanced to tight. Despite unchanged overall conditions, the vacancy rate rose in three of the eight large metropolitan areas discussed in this report, primarily because of a significant number of newly constructed apartments opening during the past year and slowing economic growth. Average monthly rents rose in all eight metropolitan areas in the Midwest region, and, in seven of the eight metropolitan areas, the increases were greater than the 4-percent increase reported nationally (MPF Research). In the Chicago-Naperville-Elgin metropolitan area, the apartment market is balanced, unchanged from a year earlier; and average monthly rents grew 6 percent, to $1,388, as the vacancy rate increased modestly to 4.9 percent. Approximately 9,175 new apartments entered the market in the Chicago metropolitan area during the past year, contributing to the increased vacancy rate;

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51 percent of the new apartments were in the MPF Research-defined market areas of The Loop and Streeterville/River North, where rents average $2,200 and $2,206, respectively. An estimated 11,100 new apartment units are expected to come online in the Chicago metropolitan area during the next 12 months. The vacancy rate rose in the Milwaukee-Waukesha-West Allis metropolitan area to 3.4 percent and was unchanged in the Minneapolis-St. Paul-Bloomington metropolitan area at 2.6 percent; average monthly rents increased 6 percent in each area to $1,039 and $1,186, respectively. In the two metropolitan areas, approximately 2,250 and 4,250 new apartments, respectively, entered the markets during the past 12 months, and approximately 4,900 and 5,550 additional new apartments are expected to begin leasing during the next year.

In Ohio, apartment markets in the three largest metropolitan areas of Cincinnati, Cleveland-Elyria, and Columbus are balanced to slightly tight, and apartment vacancy rates declined in each metropolitan area to 4.0, 3.5, and 4.1 percent, respectively. Average monthly rents increased in each large Ohio metropolitan area, from the smallest increase among major metropolitan areas in the Midwest region—3 percent in the Cleveland-Elyria metropolitan area, to $867—to the largest increase—8 percent, to $918, in the Cincinnati metropolitan area. In the Cincinnati area, the average monthly rent rose 25 percent in the MPF Research-defined area of North Central Cincinnati to $1,023 during the past year; nearly 650 units began leasing in the Central Cincinnati area, which has the highest average rent in the metropolitan area, $1,379. In the Detroit-Warren-Dearborn metropolitan area, the average monthly rent rose 6 percent to $925 as the vacancy rate fell to 2.9 percent. Approximately 2,100 new apartment units entered the market in the Detroit area during the past year, and 2,400 are expected to begin marketing during the next year. In the Indianapolis-Carmel-Anderson metropolitan area, apartment market conditions are balanced, and the vacancy rate was 6.5 percent during the first quarter of 2017, down from 6.7 percent a year earlier, and the average monthly rent rose 5 percent to $830.

During the first quarter of 2017 (preliminary data)—

- Multifamily permitting in the region rose to 8,275 units, an increase of 410 units, or 5 percent, compared with a year earlier. Permitting rose in four of six states in the Midwest region, excluding Illinois and Wisconsin.
- Despite a decline of nearly 40 percent from the previous year, Illinois had the most multifamily units permitted in the region, with 2,050 units. The Chicago metropolitan area, with counties in Illinois, Indiana, and Wisconsin, accounted for 1,950 units, or nearly 24 percent of the regional total, down from 42 percent of the regional total a year earlier and similar to the 27-percent contribution during the first quarter of 2015.

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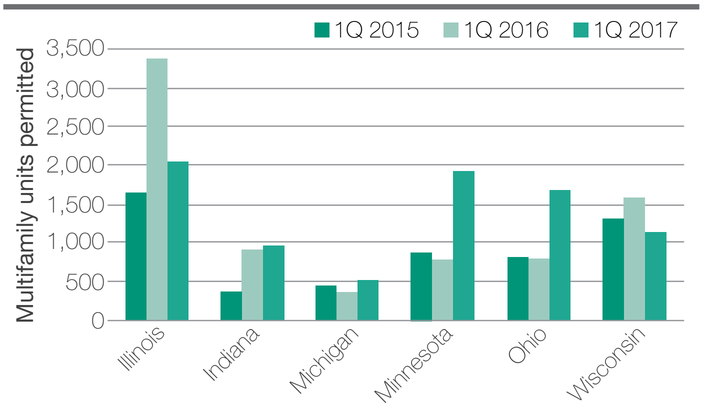
Multifamily units permitted in the Midwest region fell in Illinois and Wisconsin but rose in the other four states during the first quarter of 2017.



1Q = first quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Vacancy rates declined in five major metropolitan areas in the Midwest region during the first quarter of 2017, and average rent increases in seven areas were higher than the national increase of 4 percent.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2016 (%)	1Q 2017 (%)	Percentage Point Change	1Q 2016 ($)	1Q 2017 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	4.5	4.9	0.4	1,314	1,388	6
Cincinnati	Slightly tight	4.2	4.0	– 0.2	848	918	8
Cleveland-Elyria	Balanced	3.7	3.5	– 0.2	844	867	3
Columbus	Balanced	4.4	4.1	– 0.3	828	868	5
Detroit-Warren-Dearborn	Slightly tight	3.3	2.9	– 0.4	871	925	6
Indianapolis-Carmel-Anderson	Balanced	6.7	6.5	– 0.2	791	830	5
Milwaukee-Waukesha-West Allis	Balanced	2.7	3.4	0.7	977	1,039	6
Minneapolis-St. Paul-Bloomington	Tight	2.6	2.6	0.0	1,121	1,186	6

1Q = first quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research

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- Indiana, Michigan, Minnesota, and Ohio had increased multifamily permitting. Gains were modest in Indiana at 7 percent, to 975 units, and larger in Michigan at 39 percent, to 520 units permitted; in Ohio and Minnesota, the number of multifamily units permitted more than doubled from a year earlier, to 1,675 and 1,925 units, respectively.
- In Wisconsin, permitting fell by 450 units, or 29 percent from the same quarter a year earlier, to 1,125 units. A decline in permitting in the Milwaukee and Madison metropolitan areas, down 77 and 27 percent, respectively, contributed to the statewide decline.