HUD PD&R Regional Reports

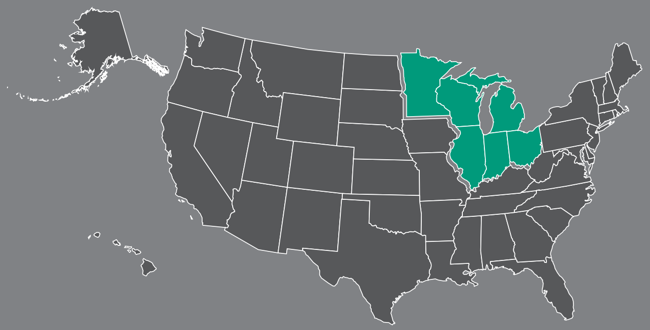
Region 5: Midwest

Detroit, Michigan

Quick Facts About Region 5

Sales market conditions—
First quarter 2019: mixed (balanced to slightly tight)
Fourth quarter 2018: mixed (balanced to slightly tight)
First quarter 2018: mixed (balanced to slightly tight)

Apartment market conditions—
First quarter 2019: mixed (balanced to slightly tight)
Fourth quarter 2018: mixed (balanced to tight)
First quarter 2018: mixed (balanced to slightly tight)



By Sam Young | 1st Quarter 2019

Overview

The economic expansion in the Midwest region is now entering the ninth year, although the rate of growth has slowed during the past 12 months. Nonfarm payrolls grew in every state in the region during the first quarter of 2019 and in all but three nonfarm payroll sectors. During the 12 months ending July 2018, population growth remained moderate in the Midwest region and the regional rate of growth remained lower than the national rate. Despite the economic growth, a shortage of for-sale inventory and declines in distressed home sales have contributed to the sales housing market conditions remaining balanced to slightly tight. Although home sales have declined, average home sales prices increased throughout the region. Apartment market conditions in major metropolitan areas in the region are generally balanced and have remained relatively unchanged from both the previous quarter and a year earlier. Despite increased delivery of new apartments concentrated in the larger metropolitan areas of the region, apartment vacancy rates declined in most areas and rents continue to rise. New construction of single-family homes, as measured by the number of single-family permits issued, declined from a year earlier, but this fall was offset by an increase in multifamily permitting.

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- During the first quarter of 2019, although nonfarm payrolls grew, it was the lowest first quarter growth rate since the economic recovery in the Midwest region began in 2010. Even so, at 24.93 million jobs, nonfarm payrolls exceeded the pre-recession first-quarter high of 23.88 million jobs in 2006.
- Population in the six-state Midwest region increased 0.2 percent from 2017 to 2018, unchanged from the average 0.2-percent rate during the previous 3 years and lower than the national rate of 0.6 percent averaged during the same respective time periods.
- Sales housing market conditions are balanced to slightly tight during the first quarter of 2019, as low inventories of homes for sale are keeping sales counts lower and contributing to increased prices. By contrast, despite increasing production of multifamily units, apartment market conditions remain balanced to slightly tight.

Economic Conditions

Economic growth continued in the Midwest region during the first quarter of 2019, with nonfarm payrolls expanding by 193,300 jobs, or 0.8 percent, from a year earlier. The rate of growth slowed from 1.0 percent during the first quarter of 2018 and was the lowest first quarter increase since the economic recovery began during 2010. In addition, job growth in the Midwest region has fallen behind national job growth, which increased 1.8 percent during the past year. Nonfarm payrolls in the Midwest region totaled 24.93 million during the first quarter of 2019, and job gains were led by the education and health services sector, which increased by 46,500 jobs, or 1.2 percent. Ohio and Indiana contributed 17,200 and 17,000 jobs, respectively, or a combined 73 percent of total education and health services sector gains in the region. Significant job growth also occurred in the manufacturing sector, the fifth largest sector of the region, with an addition of 36,600 jobs, or a 1.1-percent increase. Nearly 60 percent of the regional gains in this sector were in Michigan and Illinois, where 20,800 new manufacturing jobs were added. In January, Google's self-driving vehicle division, Waymo, announced it was opening the world's first factory to mass-produce autonomous vehicles in Detroit. The factory is expected to bring 400 jobs to the area when it is completed in 2024. Minnesota was the only state to lose manufacturing jobs, with a decline of 200 jobs, or 0.1 percent. The fastest-growing sector during the past year was the mining, logging, and construction sector which increased 3.4 percent, adding 32,200 jobs. More than 95 percent of the jobs added were in the construction subsector, spurred by a high level of residential construction activity during the past year. Three payroll sectors declined in the Midwest region during the first quarter of 2019: the information sector fell by 7,100 jobs, or 2.0 percent, and the wholesale and retail trade sector lost 600 jobs, or less than 0.1 percent. Information-sector jobs fell in four of the Midwest region states and was the largest-declining sector in Illinois. Government sector jobs fell in the region with 60 percent of the losses concentrated in the local government subsector. Declines in the government sector in Ohio, Michigan, Wisconsin, and Minnesota of 3,400, 1,800, 1,500, and 500 jobs, respectively, more than offset gains of 1,300 and 500 jobs in Illinois and Indiana, respectively.

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Declines in three sectors were more than offset by gains in all other sectors in the Midwest region during the first quarter of 2019.

	First Quarter		Year-Over-Year Change	
	2018 (Thousands)	2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	24,736.6	24,929.9	193.3	0.8
Goods-Producing Sectors	4,153.1	4,221.9	68.8	1.7
Mining, Logging, & Construction	933.6	965.8	32.2	3.4
Manufacturing	3,219.5	3,256.1	36.6	1.1
Service-Providing Sectors	20,583.5	20,708.0	124.5	0.6
Wholesale & Retail Trade	3,597.2	3,596.6	-0.6	0.0
Transportation & Utilities	1,043.9	1,072.6	28.7	2.7
Information	347.7	340.6	-7.1	-2.0
Financial Activities	1,388.1	1,401.0	12.9	0.9
Professional & Business Services	3,321.1	3,330.7	9.6	0.3
Education & Health Services	4,008.3	4,054.8	46.5	1.2
Leisure & Hospitality	2,356.0	2,383.5	27.5	1.2
Other Services	1,019.5	1,031.7	12.2	1.2
Government	3,501.8	3,496.5	-5.3	-0.2

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

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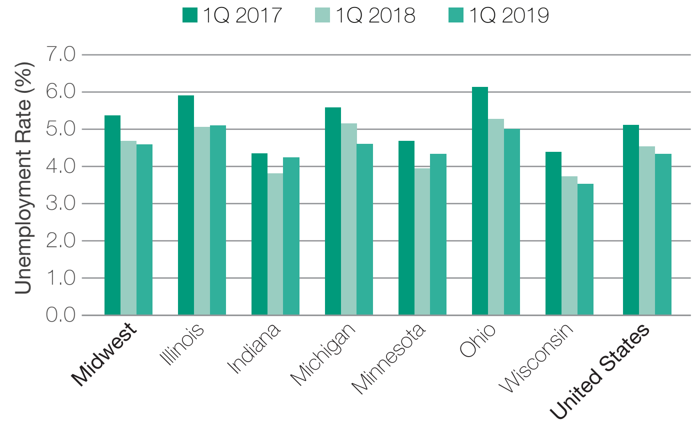
During the first quarter of 2019—

- All six states in the Midwest region added jobs; the last time any Midwest-region state failed to gain payrolls year over year was the third quarter of 2010. From the first quarter of 2010 through the first quarter of 2019, the region has gained a cumulative total of 2.51 million jobs, representing growth of nearly 13 percent.
- Job gains in the region were led by Illinois, Ohio, and Indiana, which added 59,900, 45,300, and 36,700 jobs, or 1.0, 0.8, and 1.2 percent, respectively. The rate of job growth increased in Indiana and Ohio from 0.7 and 1.1 percent a year earlier. Job growth in Illinois remained unchanged at 1.0 percent.
- Job growth was lower in Michigan, Wisconsin, and Minnesota, where 34,000, 12,500, and 5,000 jobs were added, representing growth rates of 0.8, 0.4, and 0.2 percent, respectively. In these three states, rates of job growth declined from 1.1, 1.1, and 0.9 percent, respectively, a year earlier.
- The education and health services sector, with 4 million jobs, was the largest nonfarm payroll sector in the Midwest region, accounting for more than 16 percent of the regional total. Since the first quarter of 2010, when it was the second-largest sector, the education and health services sector has grown by 55,800 jobs, or 1.6 percent, annually.
- The unemployment rate in the Midwest region was 4.6 percent, unchanged from a year earlier. The regional rate of 4.6 percent is slightly above the national rate of 4.3 percent; however, three of the six Midwest region states recorded first quarter unemployment rates equal to or below the national average.
- Unemployment rates ranged from a low of 3.5 percent in Wisconsin to 5.0 percent in Illinois and Ohio. The rate remained unchanged in Illinois and rose in Indiana because gains in the labor force matched or exceeded job growth.

The unemployment rate in the Midwest region remained above the national rate during the first quarter of 2019.



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

Population

The population of the Midwest region was estimated at 52.54 million during 2018 (Census Bureau population estimates as of July 1), an increase of 96,000, or 0.2 percent, from a year earlier. Although an increase from the previous year, this increase represents the second-lowest regional rate of growth among the 10 HUD regions after the New York/New Jersey region, and is well below the national rate of 0.6 percent. Currently, the Midwest region accounts for 16.1 percent of the national population, a ratio that has declined since July 2010 when it was 16.7 percent. Net natural change (resident births minus resident deaths) contributed to all the population growth during the past year due to net out-migration of 33,100 people; international net in-migration of 100,700 could not offset domestic net out-migration of 133,800. Five of the six Midwest region states grew during the past year, but only Minnesota, which added 43,000 people, a growth rate of 0.8 percent, exceeded the national growth rate. Illinois was one of only nine states nationally to lose population. With a loss of 0.4 percent or 45,100 people, Illinois recorded the second largest population decline and had a significantly larger decrease than the next-highest state total. Population declines in Cook County, the primary county in the Chicago metropolitan area, accounted for approximately 53 percent of the loss recorded in the state.

During the 12 months ending July 2018—

- Minnesota and Indiana had both domestic and international net in-migration, leading to the highest statewide net in-migration in the region, with 17,500 and 12,800 people added, respectively.
- Nationally, 54 metropolitan areas currently have populations above 1 million, of which eight are in the Midwest region. The Chicago and Cleveland metropolitan areas were the only metropolitan areas of the eight to have population declines, falling 0.2 and 0.1 percent, respectively. Three metropolitan areas in the Midwest region grew faster than the 0.6-percent national growth rate, led by Columbus, Ohio, which expanded 1.2 percent.

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Population growth in the Midwest region remains slow and continues to be below the national rate.

	Population Estimate			Percentage Change	
	2016	2017	2018	2016 to 2017	2017 to 2018
United States	323,071,342	325,147,121	327,167,434	0.6	0.6
Midwest Region	52,343,499	52,447,060	52,543,062	0.2	0.2
Illinois	12,826,895	12,786,196	12,741,080	-0.3	-0.4
Indiana	6,633,344	6,660,082	6,691,878	0.4	0.5
Michigan	9,951,890	9,976,447	9,995,915	0.2	0.2
Minnesota	5,523,409	5,568,155	5,611,179	0.8	0.8
Ohio	11,635,003	11,664,129	11,689,442	0.3	0.2
Wisconsin	5,772,958	5,792,051	5,813,568	0.3	0.4

Note: The population estimates are as of July 1.
Source: U.S. Census Bureau

- Ten counties in the United States with populations above 1 million had a net loss of residents, three of which were in the Midwest region. In Cook County, Illinois; Cuyahoga County, Ohio; and Wayne County, Michigan, the population fell 0.5, 0.4, and 0.1 percent, respectively. The loss of 24,000 people from Cook County was the largest decline of any county with a population above 1 million nationally.

Sales Market Conditions

Sales market conditions ranged from balanced to slightly tight across the Midwest region, unchanged from the previous quarter and year. Despite the continued economic growth in the Midwest region and a decline in the number of available homes for sale, modest population growth kept housing market conditions mostly balanced. During the 12 months ending February 2019, the number of homes sold in the region fell more than 3 percent, following a 1-percent growth a year earlier (CoreLogic, Inc., with adjustments by the analyst). Regular resales fell nearly 2 percent during the past 12 months, while real estate owned (REO) sales and short sales declined 28 and 6 percent, respectively. The decline in relatively lower-priced distressed sales helped increase the average home sales price for the region (including single-family homes, townhomes, and condominiums), which rose 4 percent to $194,800. By comparison, the average home sales price also increased 4 percent nationally, to $294,400 during the same time.

New home sales in the region fell more than 7 percent, in part, because new single-family home production declined during the past year. Low levels of homes for sale are impacting sales markets throughout the region; in the Chicago-Naperville-Elgin, Detroit-Warren-Dearborn, and Indianapolis-Carmel-Anderson metropolitan areas, 1.4, 1.0, and 2.0 months of supply are currently available, compared with 1.3, 1.1 and 1.9 months of supply a year ago, respectively (CoreLogic, Inc. and MIBOR Realtor® Association). The number of homes sold in the larger metropolitan areas in the Midwest region fell, ranging from minimal declines in the Cleveland-Elyria, Columbus, and Minneapolis-St. Paul-Bloomington areas to a decrease of 7 percent in the Chicago-Naperville-Elgin area, where 148,100 homes sold. Despite the declining number of sales, home sales prices rose in the larger metropolitan areas of the Midwest region, ranging from an increase of 1 percent in the Milwaukee-Waukesha-West Allis area to 7 percent in the Detroit-Warren-Dearborn area, where the current average price of $184,900 is well above the 2005 pre-recession high of $168,200. Price increases of 6 percent each in the Cincinnati and Indianapolis-Carmel-Anderson metropolitan areas and gains of 5 percent each in the Columbus and Minneapolis-St. Paul-Bloomington metropolitan areas, respectively, exceeded the region-wide average of 4 percent.

In February 2019, 1.6 percent of home loans in the region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, down from 2.0 percent a year earlier and the lowest rate since 2001 (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state of the region. The greatest decline, of 0.5 percent, occurred in Ohio, the state with the highest rate of seriously delinquent loans and REO properties in the region, at 2.0 percent. The lowest rates in the Midwest region are in Minnesota and Wisconsin, at 0.9 and 1.1 percent, respectively. By comparison, the national rate during February 2019 was 1.6 percent, down from 2.3 percent a year ago.

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Home sales fell but average sales prices rose in large metropolitan areas throughout the Midwest region during the 12 months ending February 2019.

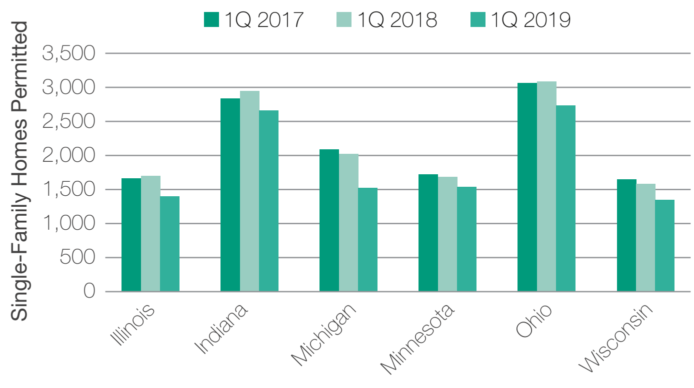
	12 Months Ending	Number of Homes Sold			Price			
		2018	2019	Percent Change	Average or Median	2018 ($)	2019 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	February	159,700	148,100	-7	AVG	272,000	276,500	2
Cincinnati (N&E)	February	47,600	45,550	-4	AVG	182,100	192,700	6
Cleveland-Elyria (N&E)	February	41,700	41,600	0	AVG	148,900	154,300	4
Columbus (N&E)	February	43,300	42,750	-1	AVG	204,900	215,700	5
Detroit-Warren-Dearborn (N&E)	February	90,900	85,050	-6	AVG	172,800	184,900	7
Indianapolis-Carmel-Anderson (N&E)	February	58,600	55,000	-6	AVG	196,800	209,400	6
Milwaukee-Waukesha-West Allis (N&E)	February	26,700	25,900	-3	AVG	215,200	217,400	1
Minneapolis-St. Paul-Bloomington (N&E)	February	73,500	72,400	-1	AVG	277,200	292,300	5

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

During the first quarter of 2019 (preliminary data)—

- Single-family homebuilding in the region, as measured by the number of homes permitted, totaled 11,300, a 14-percent decline from a year earlier, compared with no change from the first quarter of 2017 to the first quarter of 2018. By comparison, the number of single-family homes permitted nationally fell nearly 7 percent during the first quarter of 2019, following a 6-percent gain during the first quarter of 2018.
- The number of single-family homes permitted fell in every state of the region, with the largest declines in Michigan and Illinois of 24 and 18 percent, to 1,550 and 1,400 homes, respectively. Nearly 90 percent of the decline in Michigan was concentrated in Detroit, where permitting fell by 32 percent, to 910 homes. Similarly, a 22-percent decline in the Chicago-Naperville-Elgin metropolitan area accounted for all the loss in Illinois.
- Single-family permitting activity also declined in the four remaining states in the region, ranging from 9 to 15 percent, and totaled 2,750 in Ohio, 2,675 in Indiana, 1,550 in Minnesota, and 1,375 in Wisconsin.
- Condominium development is beginning to gradually resume in the region. In the downtown Chicago area, where condominium development averaged more than 3,100 units annually from 2005 through 2009, the number of units delivered fell to an average of 160 annually from 2009 through 2014 but has recently increased to an average of 390 units delivered annually from 2015 through 2018.

Year over year, single-family permitting fell in all six Midwest region states during the first quarter of 2019, with the greatest decline in Michigan.



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

Apartment Market Conditions

Apartment market conditions in the largest markets in the Midwest region ranged from balanced to slightly tight during the first quarter of 2019, remaining unchanged from a year earlier. Although new apartment construction remains elevated since 2013 from the average number built annually from 2010 through 2012, vacancy rates fell in six of the eight metropolitan areas discussed in this report. Average monthly rents rose in all eight areas, and the rate of increase in four of the areas was greater than the national average rent increase of 4.5 percent (RealPage, Inc.). Apartment construction activity continues to be high, as an estimated 45,300 new units are currently under construction in the eight metropolitan areas discussed in this report compared with 27,450 units that were delivered during the past year.

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Despite declining apartment vacancy rates in most large metropolitan areas in the Midwest region, market conditions remain mostly balanced.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2018 (%)	1Q 2019 (%)	Percentage Point Change	1Q 2018 ($)	1Q 2019 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	5.8	5.3	-0.5	1,399	1,470	5
Cincinnati	Balanced	5.3	4.2	-1.1	908	933	3
Cleveland-Elyria	Balanced	5.5	4.5	-1.0	899	907	1
Columbus	Balanced	4.3	4.3	0.0	902	947	5
Detroit-Warren-Dearborn	Balanced	4.0	3.7	-0.3	932	960	3
Indianapolis-Carmel-Anderson	Balanced	6.3	6.0	-0.3	842	881	5
Milwaukee-Waukesha-West Allis	Slightly Tight	4.4	3.2	-1.2	1,072	1,113	4
Minneapolis-St. Paul-Bloomington	Balanced	2.8	3.0	0.2	1,231	1,294	5

1Q = first quarter.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.

Although apartment vacancy rates fell, conditions are balanced in all but the Milwaukee-Waukesha-West Allis area, where conditions are slightly tight. The largest decreases in apartment vacancy rates were in the Milwaukee-Waukesha-West Allis, Cincinnati, and Cleveland-Elyria metropolitan areas, where rates decreased to 3.2, 4.2, and 4.5 percent, respectively. In the Chicago-Naperville-Elgin metropolitan area, where the apartment vacancy rate declined to 5.3 percent, nearly 9,825 new apartments entered the market during 2018, and 15,600 more units are under construction. In downtown Chicago, within the two RealPage, Inc.-defined areas of The Loop and Streeterville/River North, vacancy rates were 7.1 and 6.6 percent, up from 6.9 and 6.3 percent, respectively, a year earlier. In these two market areas, 4,550 new units entered the market during 2018 and 6,900 more were under construction (RealPage, Inc.). Smaller vacancy rate decreases of 0.3 percentage point each occurred in the Detroit-Warren-Dearborn and Indianapolis-Carmel-Anderson metropolitan areas. The lowest current average vacancy rate, but the only area in this report with an increase in vacancy rate, was the Minneapolis-St. Paul-Bloomington metropolitan area. The rate rose 0.2 percentage point, to 3.0 percent; the first increase in first quarter vacancy rates since 2016 (RealPage, Inc.).

Average apartment rents rose in all eight large metropolitan areas in the Midwest region discussed in this report. Increases ranged from 1 percent in the Cleveland-Elyria metropolitan area to $907, the second-lowest average asking rent among large metropolitan areas in the Midwest region, to 5 percent in the Chicago-Naperville-Elgin, Minneapolis-St. Paul-Bloomington, Columbus, and the Indianapolis-Carmel-Anderson areas, where the rents rose to $1,470, $1,294, $947, and $881, respectively. A 4-percent increase occurred in the Milwaukee-Waukesha-West Allis area, where rent averaged $1,113, followed by increases of 3 percent each in the Detroit-Warren-Dearborn and Cincinnati areas, where the average rents rose to $960 and $933, respectively.

During the first quarter of 2019 (preliminary data)—

- The number of multifamily units permitted in the Midwest region totaled approximately 9,075, more than 9 percent higher than the 8,275 units permitted a year earlier. Since a low of 2,175 multifamily units were permitted in the Midwest region during the first quarter of 2009, permitting increased an average of 15 percent annually through the first quarter of 2019.
- Increased multifamily permitting occurred in Michigan, Indiana, Illinois, and Minnesota, where permitting rose 49, 29, 21, and 20 percent to 800, 1,575, 1,750, and 2,850 units, respectively. These gains represent a reversal in Illinois and Indiana, where the number of multifamily units permitted fell by 44 and less than 1 percent, respectively, during the first quarter of 2018.

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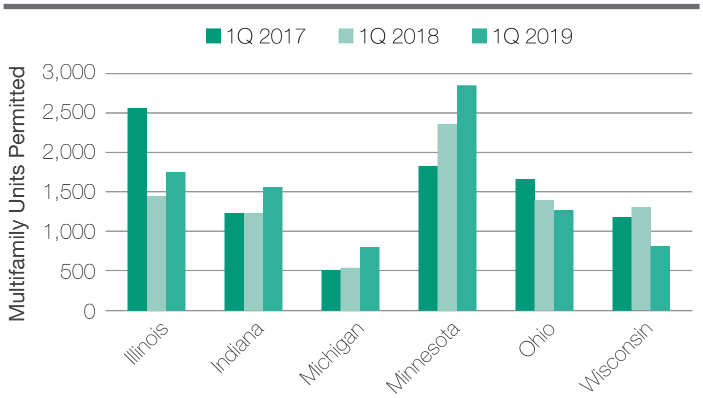
During the first quarter of 2019, multifamily permitting increased year over year in four of the six Midwest region states, with the greatest gain in Minnesota.



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

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- Two states in the Midwest region had decreased multifamily permitting: Ohio and Wisconsin, where permitting fell 9 and 37 percent, to 1,275 and 820 units, respectively. A decline in multifamily production in Ohio was concentrated in the Columbus metropolitan area, where permitting fell by 390 units. In Wisconsin, multifamily production in the Milwaukee-Waukesha-West Allis and Madison metropolitan areas decreased by 80 units each.
- Approximately 73 percent of all multifamily units permitted in the Midwest region were in the eight largest metropolitan areas; this figure was 68 percent during the first quarter of 2018 and 80 percent during the first quarter of 2017. By contrast, during the first quarters from 2012 through 2016, only 65 percent of all multifamily units permitted in the region were in the eight largest metropolitan areas.

Of the multifamily units permitted in the eight largest metropolitan areas in the Midwest region, an average of nearly 60 percent annually were condominiums from 2000 through 2007, before falling to an average of 24 percent annually from 2008 through 2011 and declining to an average of 9 percent annually from 2012 through 2018.