HUD PD&R **Regional Reports**

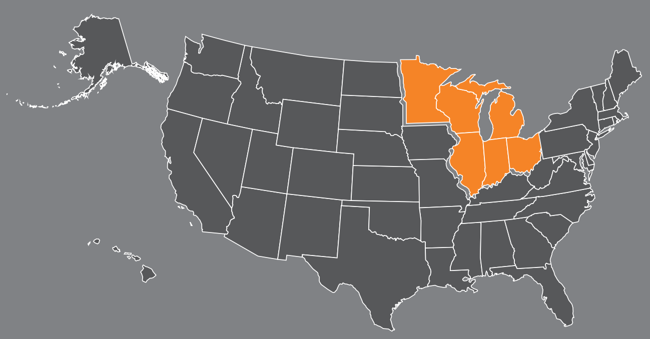
Region 5: Midwest

Milwaukee, Wisconsin

Quick Facts About Region 5

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

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



By Marissa Dolin | 2nd Quarter 2019

Overview

The economic expansion in the Midwest region that began in 2010 continued during the second quarter of 2019, and the rate of job growth remained steady from a year ago. Job growth in the eight largest metropolitan areas in the region constituted 78 percent of added nonfarm payrolls in the Midwest region. The Chicago-Naperville-Elgin metropolitan area led job gains, accounting for 38 percent of regional job growth. Sales housing market conditions are balanced during the second quarter of 2019, softer than a year ago when some markets were slightly tight. A relatively low inventory of homes for sale contributed to rising sales prices; but fewer home sales, including a decline in new home sales, have slowed price growth compared with a year ago. Coinciding with fewer home sales, new home construction, as measured by the number of single-family homes permitted, fell. Apartment market conditions in major metropolitan areas ranged from balanced to tight, compared with balanced conditions during the second quarter of 2018. The number of units absorbed exceeded the number of units completed, resulting in declining vacancy rates and accelerating rent growth in most major metropolitan areas throughout the region.

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- During the second quarter of 2019, nonfarm payrolls rose 0.8 percent from a year ago, matching the year-over-year growth rates from the first quarter of 2019 and the second quarter of 2018. The 198,300 jobs added in the Midwest region accounted for approximately 8 percent of all jobs added in the nation during the most recent quarter.
- Total home sales in the region fell 4 percent during the 12 months ending May 2019. In addition to fewer distressed home sales, which have been declining since 2014, a decline in regular resale and new home sales, which had been rising or stable each year since 2012 and 2013, respectively, contributed to fewer sales.
- In response to low apartment vacancy rates and rising rents, multifamily permitting during the second quarter of 2019 increased 6 percent from a year earlier. By comparison, multifamily permitting fell 24 percent from the second quarter of 2017 to the second quarter of 2018.

Economic Conditions

Economic growth continued in the Midwest region during the second quarter of 2019, with nonfarm payrolls expanding by 198,300 jobs, or 0.8 percent, from a year earlier. The rate of growth is unchanged from 0.8 percent during the second quarter of 2018, but below the year-over-year rate of growth during the second quarters from 2011 through 2017, which averaged 1.4 percent, annually. In addition, the current rate of job growth in the Midwest region is lower than the national rate, which was 1.6 percent during the past year.

Although the rate of growth is the same as a year ago, the sectors with the largest gains have shifted. Among the 11 payroll sectors, six grew faster compared with a year ago and five grew slower or declined from a year earlier. Job gains were led by the leisure and hospitality sector, which increased by 53,300 jobs, or 2.1 percent, compared with an increase of 14,000 jobs, or 0.6 percent, a year earlier. During the past year, 130 hotels with approximately 15,600 rooms opened in the region, up from 110 hotels with 13,100 rooms during the previous year, supporting the stronger growth (Dodge Data & Analytics LLC). The sector that added the most jobs a year ago, the manufacturing sector, added fewer jobs during the most recent year. The sector increased by 19,300 jobs, or 0.6 percent, well below the 61,300 jobs, or 1.9 percent, growth from the previous year. Closure of the General Motors Company (GM) plant in Lordstown, Ohio, which resulted in a layoff of 1,600 workers, partially offset gains at other companies in the manufacturing sector. Significant job growth occurred in the education and health services sector, the largest sector in the region, with an addition of 42,900 jobs, or a 1.1-percent increase, similar to the gain of 43,900 jobs, or 1.1 percent, during the previous year. The subsector with the largest loss a year ago, the retail trade subsector, continued to lose jobs during the second quarter of 2019. The subsector declined by 27,800 jobs, or 1.1 percent, following a loss of 23,900 jobs, or 0.9 percent, during the second quarter of 2018. During the first two quarters of 2019, retail companies announced the closure of approximately 7,050 stores nationwide, exceeding the 5,875 announced store closures during 2018 (Coresight Research).

Nonfarm payrolls in the Midwest region totaled 25.45 million during the second quarter of 2019, or 17 percent of all jobs in the nation.

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Expanding payrolls in 8 out of 11 sectors supported job growth in the Midwest region during the second quarter of 2019.

	Second Quarter		Year-Over-Year Change	
	2018 (Thousands)	2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	25,249.9	25,448.2	198.3	0.8
Goods-Producing Sectors	4,314.6	4,360.0	45.4	1.1
Mining, Logging, & Construction	1,059.6	1,085.8	26.2	2.5
Manufacturing	3,255.0	3,274.3	19.3	0.6
Service-Providing Sectors	20,935.3	21,088.2	152.9	0.7
Wholesale & Retail Trade	3,642.6	3,626.9	-15.7	-0.4
Transportation & Utilities	1,052.1	1,076.8	24.7	2.3
Information	347.1	341.5	-5.6	-1.6
Financial Activities	1,404.9	1,415.0	10.1	0.7
Professional & Business Services	3,394.5	3,431.2	36.7	1.1
Education & Health Services	4,023.4	4,066.3	42.9	1.1
Leisure & Hospitality	2,535.7	2,589.0	53.3	2.1
Other Services	1,037.6	1,048.1	10.5	1.0
Government	3,497.4	3,493.6	-3.8	-0.1

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

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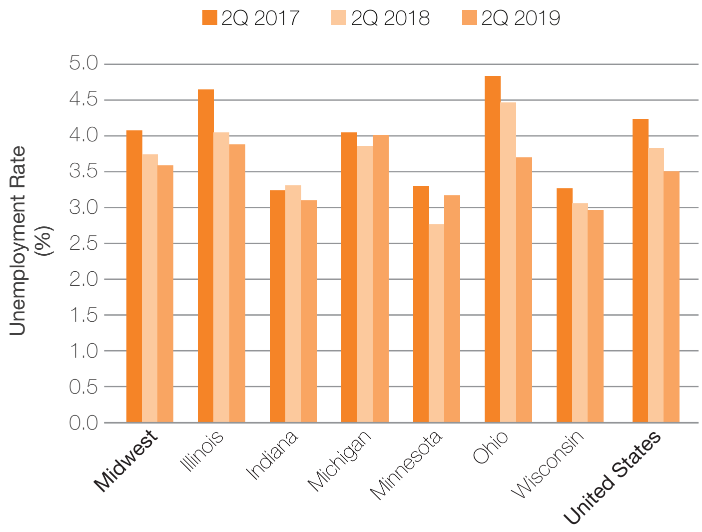
Nonfarm payrolls in all states in the Midwest region increased, with job gains in Illinois accounting for 42 percent of the regional growth, followed by Ohio with 19 percent. Wisconsin comprised the smallest share of job growth, with 5 percent of gains in the Midwest.

During the second quarter of 2019—

- Among the six states in the region, payrolls expanded faster than the region overall in two states and slower than the region in four states. The state with the fastest-growing payrolls was Illinois, where payrolls grew 1.4 percent, or by 84,000 jobs, followed by Indiana, with an increase of 0.9 percent, or 27,300 jobs. Ohio, with an increase of 37,200 jobs, or 0.7 percent, added the second most jobs among states in the region.
- Among the eight largest metropolitan areas in the region, nonfarm payrolls increased faster than the region overall in six of the areas. Job growth was fastest in the Cincinnati metropolitan area, increasing 2.0 percent. Payrolls in the Detroit-Warren-Dearborn and the Minneapolis-St. Paul-Bloomington metropolitan areas expanded slower than the region overall, rising 0.5 and 0.1 percent, respectively.
- Among all 66 metropolitan areas in the region, 29 grew at a faster rate than the region and 52 added jobs. Payrolls in the Carbondale-Marion metropolitan area grew the fastest, up 2.8 percent, or by 1,600 jobs. The Chicago-Naperville-Elgin metropolitan area added the most jobs, up by 75,400 jobs, or 1.6 percent.
- The unemployment rate for the region fell to 3.6 percent, the lowest rate since 2000 because resident employment growth outpaced growth in the labor force.

The unemployment rate fell in four states and rose in two states in the Midwest region during the second quarter of 2019.



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

- Among the six states in the region, the unemployment rate declined in four of the states. The rate in Ohio declined the most, down 0.8 percentage point to 3.7 percent. The unemployment rate increased in Minnesota, by 0.4 percentage point to 3.2 percent, and Michigan, by 0.1 percentage point to 4.0 percent.

Sales Market Conditions

Sales market conditions in the Midwest region are currently balanced compared with balanced to slightly tight conditions a year ago. Despite the ongoing economic expansion, home sales have declined, and price growth has slowed during the 12 months ending May 2019. The number of homes sold in the region fell 4 percent, following growth of less than 1 percent a year earlier (CoreLogic, Inc., with adjustments by the analyst). Existing home sales fell nearly 4 percent during the past 12 months, while new home sales fell nearly 9 percent. The decline in new home sales, which have an average sales price 71 percent above the average sales price of an existing home, slowed total average home sales price growth in the region (including single-family homes, townhomes, and condominiums). The average home sales price rose only 3 percent to $196,300. By comparison, the average home sales price increased 5 percent during the 12 months ending May 2018.

Despite declining home sales, a relatively low inventory of homes for sale is contributing to increasing home sales prices in metropolitan areas where inventory is lowest. In the Midwest region, a 3.1-month supply of homes is currently available, up slightly from 3.0 months a year ago. In the Columbus metropolitan area, the inventory of homes for sale is the lowest among large metropolitan areas at 1.8 months of supply, contributing to a 7-percent increase in home sales prices, the greatest increase among large metropolitan areas. Home sales prices in the Cincinnati and Indianapolis-Carmel-Anderson metropolitan areas also increased faster than the region overall and inventory was 2.0 and 2.2 months, respectively. Conversely, the Chicago-Naperville-Elgin metropolitan area has a 3.9-month supply, the greatest supply among major metropolitan areas in the region, and had the smallest home sales price increase, rising only 1 percent. In the Milwaukee-Waukesha-West Allis and Cleveland-Elyria metropolitan areas, where home sales prices also rose at rates at or below the regional average, inventory was also relatively higher, at 2.8 and 2.9 months, respectively.

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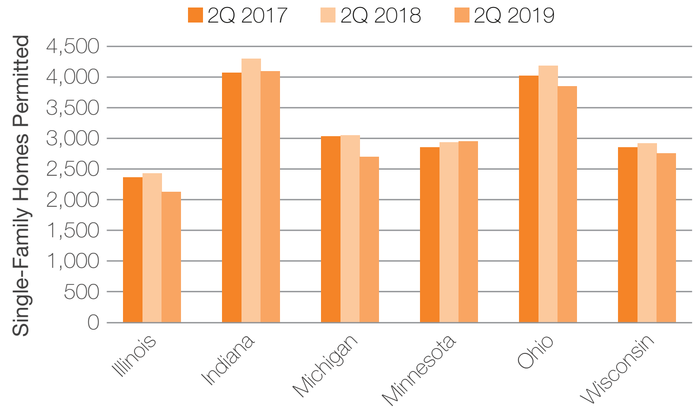
In May 2019, 1.4 percent of home loans in the region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status, down from 2.0 percent a year earlier and the lowest rate since 2001 (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state of the region. The greatest decline, 0.5 percentage point, occurred in Ohio, one of two states with the highest rate of seriously delinquent loans and REO properties in the region, at 1.8 percent. The lowest rate in the Midwest region was in Minnesota at 0.8 percent. By comparison, the national rate during May 2019 was 1.4 percent, down from 2.0 percent a year ago.

During the second quarter of 2019 (preliminary data)—

- The number of single-family homes permitted in the Midwest region totaled 18,450, down 7 percent, or 1,350 homes, from a year earlier, and the first year-over-year decline since 2015. By comparison, single-family permitting declined 5 percent nationally.
- Only one state in the region, Minnesota, had an increase in homes permitted, rising less than 1 percent, or by 15 homes. The Minneapolis-St. Paul-Bloomington area was the only major metropolitan area with an increase in permitting, up by 100 homes, or 4 percent.
- In the five states with fewer units permitted compared with a year ago, reductions ranged from 5 percent in Indiana to 13 percent in Illinois. The decline in the number of homes permitted is a change for all five states, each of which had an increase in homes permitted during the second quarter of 2018.
- The number of single-family homes permitted in major metropolitan areas fell 8 percent, slightly faster than the rate of decline for the region overall. Permitting in these areas accounted for 65 percent of all single-family homes permitted in the region, down from 66 percent a year ago.

Single-family permitting declined in the Midwest region during the second quarter of 2019, with permitting down in all states except Minnesota.



2Q = second quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

Home sales fell or were relatively unchanged while home sales prices rose in large metropolitan areas throughout the Midwest region during the 12 months ending May 2019.

		Number of Homes Sold			Price			
	12 Months Ending	2018	2019	Percent Change	Average or Median	2018 ($)	2019 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	May	157,700	146,300	-7	AVG	273,400	276,500	1
Cincinnati (N&E)	May	47,500	45,300	-5	AVG	184,900	194,200	5
Cleveland-Elyria (N&E)	May	42,000	41,900	0	AVG	150,900	155,100	3
Columbus (N&E)	May	44,000	43,200	-2	AVG	205,400	218,800	7
Detroit-Warren-Dearborn (N&E)	May	90,900	83,800	-8	AVG	175,300	186,000	6
Indianapolis-Carmel-Anderson (N&E)	May	58,500	55,000	-6	AVG	200,600	213,500	6
Milwaukee-Waukesha-West Allis (N&E)	May	26,900	25,300	-6	AVG	217,700	222,600	2
Minneapolis-St. Paul-Bloomington (N&E)	May	73,100	71,800	-2	AVG	282,900	296,500	5

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

Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Midwest region were mixed, with most markets tightening from a year ago as vacancy rates fell or remained relatively unchanged and rents rose in all areas. Current conditions range from balanced to tight during the second quarter of 2019. The vacancy rate fell in six of the eight largest markets as the number of units absorbed exceeded the number of units completed. In the remaining two metropolitan areas, absorption was relatively similar to the number of units completed as the vacancy rate rose only 0.1 percentage point in each area. The average asking rent in all major metropolitan areas increased during the past year, with faster rent growth in most areas compared with a year ago (RealPage, Inc.).

Apartment vacancy rates in most major metropolitan areas in the Midwest region declined faster than the nation, which fell 0.6 percentage point from a year earlier to 3.9 percent during the second quarter of 2019. The metropolitan area with the largest decline in the vacancy rate was Cincinnati, falling 1.3 percentage points to 3.2 percent. In Cincinnati, nearly 1,075 apartments entered the market during the past 12 months, but demand met or exceeded the supply of available apartments in all RealPage, Inc.-defined areas, resulting in a decline in the vacancy rate throughout the metropolitan area. The vacancy rates in the Chicago-Naperville-Elgin, Cleveland-Elyria, Milwaukee-Waukesha-West Allis, and Detroit-Warren-Dearborn metropolitan areas also declined faster than the nation. With a decline of 0.4 percentage point, slightly slower than the national rate, the Indianapolis-Carmel-Anderson area declined to the lowest vacancy rate in more than a decade at 5.1 percent. The metropolitan area with the lowest rate in the region during the past three years, Minneapolis-St. Paul-Bloomington, was relatively unchanged at 2.6 percent, compared with 2.5 percent a year ago. During the most recent four quarters, 2,950 units were absorbed, and 3,275 apartment units entered the market. An additional 7,200 units are expected to enter the market during the next four quarters.

Rent growth matched or exceeded the national rate of 5 percent in one-half of the large metropolitan areas in the region. In the Minneapolis-St. Paul-Bloomington area, average rent increased the fastest, rising 6 percent to $1,314. Within the metropolitan area, rent growth ranged from 10 percent in the RealPage, Inc.-defined North Minneapolis area to 1 percent in the Bloomington area. Average rent growth matched the national rate in the Chicago-Naperville-Elgin, Indianapolis-Carmel-Anderson, and Milwaukee-Waukesha-West Allis metropolitan areas. In the remaining four major metropolitan areas, the average rent increased, but at rates slower than the nation, with the average rent in the Cleveland-Elyria metropolitan area rising 2 percent to $919, the slowest increase among major metropolitan areas in the region. Within the Cleveland-Elyria metropolitan area, rent growth was strongest in the RealPage, Inc.-defined Beechwood/Mayfield area, up 4 percent, to $1,018.

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Average rents rose and vacancy rates fell or remained relatively unchanged in all eight large metropolitan areas in the Midwest region.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2018 (%)	2Q 2019 (%)	Percentage Point Change	2Q 2018 ($)	2Q 2019 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	5.4	4.5	-0.8	1,435	1,504	5
Cincinnati	Slightly Tight	4.5	3.2	-1.3	906	941	4
Cleveland-Elyria	Balanced	5.1	4.1	-1.0	900	919	2
Columbus	Slightly Tight	3.5	3.6	0.1	923	962	4
Detroit-Warren-Dearborn	Tight	3.5	2.8	-0.7	945	976	3
Indianapolis-Carmel-Anderson	Slightly Tight	5.5	5.1	-0.4	857	897	5
Milwaukee-Waukesha-West Allis	Tight	3.7	2.8	-0.9	1,086	1,143	5
Minneapolis-St. Paul-Bloomington	Tight	2.5	2.6	0.1	1,241	1,314	6

2Q = second quarter.
Sources: Market conditions—HUD, Office of Policy Development and Research, Economic and Market Analysis Division; vacancy rates and average monthly rents—RealPage, Inc.

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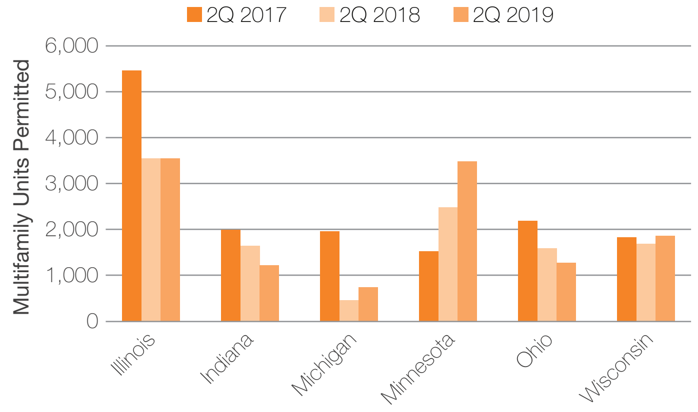
During the second quarter of 2019 (preliminary data)—

- The number of multifamily units permitted was 12,100, up 6 percent from a year earlier and a shift from a 24-percent decline during the previous year. Nationally, the number of multifamily units permitted increased 3 percent, slowing from a 7-percent increase during the previous year. Multifamily units permitted in the Midwest region accounted for approximately 10 percent of all multifamily units permitted in the nation.
- In three states, multifamily permitting increased; Michigan, Minnesota, and Wisconsin, rising 58 percent, 40 percent, and 10 percent, respectively, or 270, 1,000, and 170 units above the number of units permitted during the second quarter of 2018. In Minnesota, multifamily permitting has been rising since 2017, while the number of units permitted in Wisconsin and Michigan fell during the previous year.
- In Illinois, Ohio, and Indiana, permitting fell less than 1, 20, and 26 percent, respectively, or approximately 15, 310, and 440 units fewer compared with a year ago. Permitting in large metropolitan areas accounted for 86 percent of units permitted in Illinois, 77 percent of units in Ohio, and 66 percent of units in Indiana.
- In response to rapidly rising rents and a low apartment vacancy rate, the number of multifamily units permitted in the Minneapolis-St. Paul-Bloomington metropolitan area increased 70 percent, or by 1,475 units, the greatest increase among large metropolitan areas in the region.
- Multifamily permitting in the eight largest metropolitan areas in the region comprised 80 percent of all multifamily units permitted, up from 65 percent during the second quarter of 2018.

Multifamily permitting rose year over year in the Midwest region, supported by an increasing number of units permitted in three states.



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