HUD PD&R **Regional Reports**

Region 5: Midwest

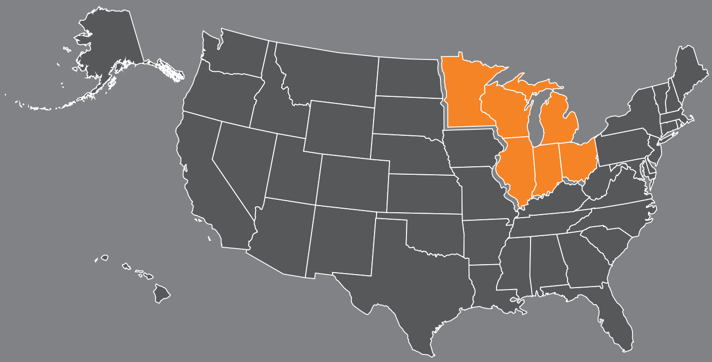

Indianapolis, Indiana

By Diana Villavicencio | 2nd Quarter 2020

Quick Facts About Region 5

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

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



Overview

The economic expansion in the Midwest region that began during the third quarter of 2010 ended in the second quarter of 2020. When the World Health Organization declared COVID-19 a pandemic on March 11, 2020, government responses to slow the spread of COVID 19—including enforcing social distancing and encouraging nonessential businesses to temporarily close—caused economic activity in the region to decline dramatically. During the second quarter of 2020, substantial job losses that occurred in April were not offset by job gains in May and June when Midwestern states began to reopen in phases. Despite the economy contracting, conditions in the sales and apartment markets ranged from balanced to tight, similar to conditions a year ago. The Coronavirus Aid, Relief, and Economic Security (CARES) Act may have partially mitigated the full effect of the countermeasures used to slow the spread of COVID-19 on sales and apartment markets during the second quarter of 2020. The act includes providing mortgage forbearance through August 2020 for homeowners with mortgages that are backed or funded by the federal government or Government Sponsored Enterprises (GSEs) and a moratorium on evictions from rental units with federally backed mortgages through July 24, 2020.

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- During the second quarter of 2020, nonfarm payrolls in the Midwest region decreased the most among the 10 HUD-defined regions, and the number of jobs lost in the Midwest region accounted for 19 percent of the 17.10 million jobs lost nationally. Nonfarm payrolls declined in every state in the region; job losses were highest in Michigan, which accounted for 25 percent of the 3.32 million jobs lost in the region.
- Job losses occurred in every nonfarm payroll sector in the Midwest region and the nation during the second quarter of 2020. The leisure and hospitality sector accounted for more than 30 percent of the decline in both the region and the nation.
- During the 12 months ending May 2020, home sales price growth increased, whereas new home construction and home sales decreased. Apartment vacancy rates increased in most of the markets cited in this report, partly because new apartment completions increased from a year earlier; average apartment rents increased in the eight largest apartment markets in the region.

Economic Conditions

Economic conditions in the Midwest region contracted significantly during the most recent quarter, largely due to the countermeasures to slow the spread of COVID-19. Before the pandemic, the economy in the region had expanded since economic recovery began during the third quarter of 2010, although the rate of job growth moderated during the four most recent second quarters. Second-quarter nonfarm payroll growth averaged 1.5 percent, annually, from 2011 through 2015 and slowed to an average annual rate of 1.0 percent from 2016 through 2018. During the second quarter of 2020, nonfarm payrolls decreased 13.1 percent, or by 3.32 million jobs, to approximately 22.07 million jobs, compared with the 0.5-percent growth rate during the second quarter of 2019. Nationally, jobs declined by 17.10 million, or 11.3 percent. Jobs declined in every nonfarm payroll sector for the first time since the second quarter of 2009 in the Midwest region.

During the second quarter of 2020, substantial job losses in the region that occurred in April were not offset by job gains in May and June, when Midwestern states began phased reopening, which allowed nonessential businesses to reopen if they adhered to social distancing and sanitation requirements. In early-to-mid May, Indiana, Minnesota, Ohio, and Wisconsin began reopening; Illinois and Michigan began reopening in late May and early June, respectively. Overall, nonfarm payrolls declined in all states in the region during the second quarter of 2020. The greatest job losses in the region, in numerical and percentage terms, occurred in Michigan, where nonfarm payrolls fell by 819,300 jobs, or 18.4 percent; payrolls in Michigan declined at the fastest rate of any state in the country. In Ohio and Illinois, the number of jobs decreased by 733,700 and 708,100, or 13.1 and 11.5 percent, respectively. Payrolls contracted by 389,500, 346,100, and 323,100 jobs, or 13.0, 11.6, and 10.2 percent, respectively, in Wisconsin, Minnesota, and Indiana. During the week ending June 27, 2020, approximately 209,100 initial unemployment claims were filed in the region, nearly seven times higher than the 30,475 claims filed during the same week a year earlier but less than the 1.16 million initial claims filed during the first week of April 2020 (United States Department of Labor).

During the second quarter of 2020—

- The leisure and hospitality sector was among the hardest hit in the Midwest region and the nation, with sector losses accounting for approximately 33 and 38 percent, respectively, of total nonfarm payrolls. In the region, the sector declined year-over-year by 1.09 million jobs, or 42.7 percent, to 1.47 million jobs—the lowest number of jobs since before 1990. The accommodation and food services industry accounted for nearly 82 percent of losses in the sector, and the arts, entertainment, and recreation industry accounted for the remainder; nearly all the jobs in this sector involve in-person interactions, which were hard to maintain even when social distancing requirements were eased.
- The education and health services sector—the largest payroll sector in the region—contracted by 391,900 jobs, or 9.7 percent, to 3.67 million jobs; this contraction occurred mostly because hospitals were temporarily unable to provide elective services, leading to furloughs among healthcare providers. The sector had added jobs every second quarter since at least 1990.
- The manufacturing sector, an important part of the Midwest regional economy, fell by 388,000 jobs, or 11.9 percent, to 2.89 million jobs. Despite the loss, the sector accounted for approximately 13 percent of all nonfarm payroll jobs in the Midwest region and contributed nearly 25 percent of the 11.7 million manufacturing jobs in the nation.
- Job losses in the transportation and utilities sector, which includes companies that deliver goods purchased online, were smaller than in other sectors, declining by 52,400 jobs,

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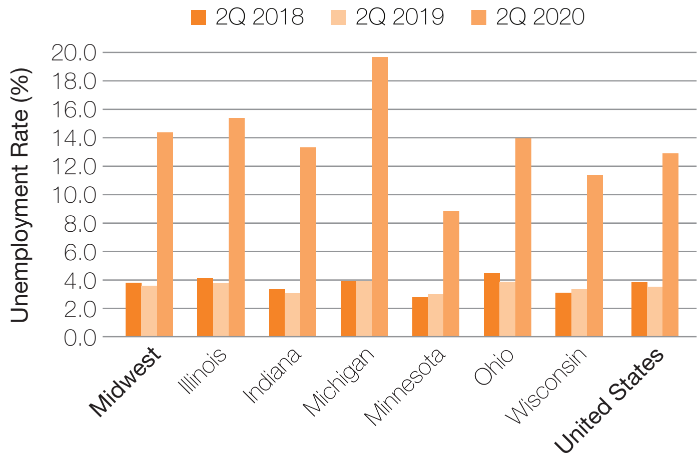
or 4.8 percent. Many delivery companies were considered essential businesses and remained open in the early months of the pandemic. Among these companies is Amazon.com, Inc., which has two new fulfillment centers under construction, one in Ohio and one in Wisconsin, with expected completion during the third and fourth quarters of 2020, respectively; the company operates 31 fulfillment centers in the Midwest region.

- The average unemployment rate in the Midwest region soared to 14.3 percent from the 3.6-percent rate during the same quarter a year earlier and was higher than the national average of 12.9 percent. The unemployment rate increased in every state and ranged from 8.8 percent in Minnesota to 19.7 percent in Michigan; before the pandemic, the unemployment rate in the region had declined every second quarter since 2014.

During the second quarter of 2020, the unemployment rate rose in all six Midwest region states, and the regional rate was above the national rate for the second consecutive second quarter.



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

During the second quarter of 2020, nonfarm payrolls in the Midwest region declined significantly for the first time in more than 9 years.

	Second Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	25,385.0	22,065.3	-3,319.7	-13.1
Goods-Producing Sectors	4,362.0	3,872.2	-489.8	-11.2
Mining, Logging, & Construction	1,088.4	986.7	-101.7	-9.3
Manufacturing	3,273.6	2,885.6	-388.0	-11.9
Service-Providing Sectors	21,023.1	18,193.1	-2,830.0	-13.5
Wholesale & Retail Trade	3,591.2	3,245.1	-346.1	-9.6
Transportation & Utilities	1,084.7	1,032.3	-52.4	-4.8
Information	342.6	309.1	-33.5	-9.8
Financial Activities	1,434.8	1,389.9	-44.9	-3.1
Professional & Business Services	3,404.1	3,006.7	-397.4	-11.7
Education & Health Services	4,057.4	3,665.5	-391.9	-9.7
Leisure & Hospitality	2,558.7	1,465.0	-1,093.7	-42.7
Other Services	1,043.0	839.3	-203.7	-19.5
Government	3,506.5	3,240.2	-266.3	-7.6

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

Sales Market Conditions

Sales housing market conditions ranged from balanced to tight across the Midwest region during the second quarter of 2020. Most nonessential residential construction projects were halted following the onset of the pandemic as one of the measures used to slow the spread of COVID-19, and weakening economic conditions caused some sellers to take their home off the market or postpone selling. These factors contributed to a decline in for-sale inventory in five states in the region. Sales markets were tight in Minnesota and Indiana, where the months' supply declined in May 2020 to 1.8 and 1.9 months, respectively, from

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2.3 months each during May 2019 (CoreLogic, Inc.). Markets were slightly tight in Ohio, where the months' supply decreased to 2.0 from 2.5 months, and in Michigan, where the months' supply decreased to 2.3 from 3.0 months. Market conditions were also slightly tight in Wisconsin, although the months' supply increased to 2.5 from 2.4 months. In Illinois, the months' supply decreased the most, to 3.2 from 4.0 months, and the market was balanced. In the nation, the months' supply decreased to 2.5 months in May 2020 from 3.3 months in May 2019.

The decline in months' supply of for-sale housing is reflected in decreased new and existing home sales (hereafter, home sales) and increased home sales prices. During the 12 months ending May 2020, home sales in the region decreased 8 percent from a year earlier, to approximately 796,100 homes sold, following a 2-percent decline during the previous year (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Nationally, home sales decreased 6 percent. The rate of home sales declined in four states in the region, ranging from 6 percent in Indiana to 16 percent in Michigan, remained relatively unchanged in Minnesota, and increased 7 percent in Wisconsin. Home sales in almost all the eight largest metropolitan areas in the region contracted. The largest decrease in sales—19 and 11 percent—occurred in the Detroit-Warren-Dearborn and the Cincinnati metropolitan areas, respectively. The decline in home sales ranged from 2 to 8 percent in five of the other six large markets, whereas sales remained relatively unchanged in the Minneapolis-St. Paul-Bloomington metropolitan area.

During the 12 months ending May 2020, the average home sales price in the Midwest region rose 4 percent to $219,900, the same rate of growth as the national average and unchanged from the regional growth rate during the previous year (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). The average home sales price in the region was 49 percent lower than the national average sales price of $328,500. Average home sales prices rose in all six states in the region, with the fastest gain of 7 percent occurring in Indiana, where homes are affordable relative to homes in other states in the region. Average home sales prices also increased in the eight major metropolitan areas cited in this report, ranging from 2-percent increases in the Chicago-Naperville-Elgin and the Cincinnati metropolitan areas to a 7-percent increase in the Milwaukee-Waukesha-West Allis metropolitan area.

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The number of homes sold decreased in all six states in the Midwest region, but the average home sales price rose in all the states.

	12 Months Ending	Number of Homes Sold 2019	Number of Homes Sold 2020	Number of Homes Sold Percent Change	Price Average	Price 2019 ($)	Price 2020 ($)	Price Percent Change
Illinois (N&E)	May	186,962	169,645	-9	AVG	242,973	246,512	1
Chicago-Naperville-Elgin (N&E)	May	151,252	146,284	-3	AVG	274,306	280,317	2
Indiana (N&E)	May	138,280	129,693	-6	AVG	191,949	204,653	7
Indianapolis-Carmel-Anderson (N&E)	May	46,148	44,262	-4	AVG	225,314	239,007	6
Michigan (N&E)	May	152,733	128,729	-16	AVG	198,609	206,350	4
Detroit-Warren-Dearborn (N&E)	May	78,133	63,557	-19	AVG	212,265	221,345	4
Minnesota (N&E)	May	99,373	99,061	0	AVG	261,453	275,779	5
Minneapolis-St. Paul-Bloomington (N&E)	May	68,552	68,324	0	AVG	297,463	314,589	6
Ohio (N&E)	May	187,344	174,138	-7	AVG	180,393	185,477	3
Cincinnati (N&E)	May	40,019	35,779	-11	AVG	206,219	210,312	2
Cleveland-Elyria (N&E)	May	33,692	33,019	-2	AVG	174,418	182,193	4
Columbus (N&E)	May	38,544	35,462	-8	AVG	229,277	239,288	4
Wisconsin (N&E)	May	88,511	94,843	7	AVG	205,792	216,607	5
Milwaukee-Waukesha-West Allis (N&E)	May	21,822	21,201	-3	AVG	243,391	260,497	7

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

Note: The number of homes sold and price data during the 12 months ending May 2020 are incomplete for the Detroit-Warren-Dearborn metropolitan area because April 2020 data were not reported for Wayne County.

Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

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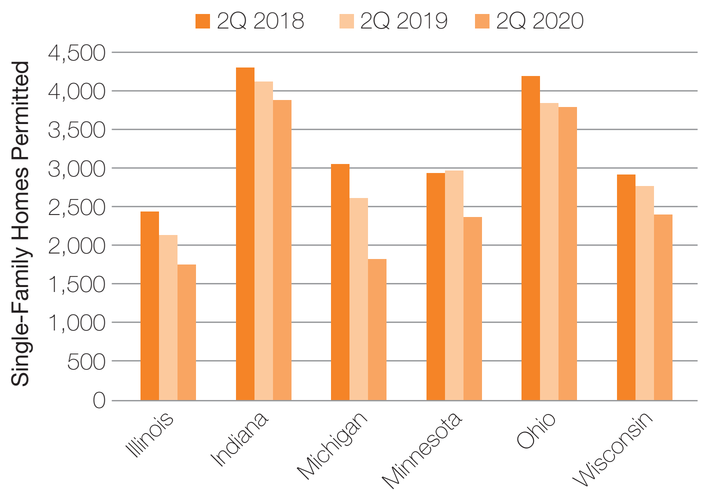
In May 2020, 1.6 percent of home loans in the region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned status, up slightly from 1.4 percent a year earlier and equal to the national rate (CoreLogic, Inc.). The rate increased in five states in the region and remained unchanged from a year earlier, at 1.0 percent, in Wisconsin. Increases were subdued in the region partly because of the CARES Act.

During the second quarter of 2020 (preliminary data)—

- Single-family home permitting in the Midwest region decreased by 2,425, or 13 percent, to 16,000 from the second quarter of 2019, compared with a 7-percent decrease a year earlier. Nationally, single-family home permitting decreased approximately 9 percent, following a 5-percent decline during the second quarter of 2019.
- The number of single-family homes permitted decreased in every state in the region, with one-third of the decline occurring in Michigan, where single-family permitting dropped by 800 homes, or 31 percent, to 1,825 homes. More than two-thirds of the decrease in Michigan was concentrated in the Detroit-Warren-Dearborn metropolitan area, where permitting declined 35 percent, to 990 homes.
- In Minnesota, single-family home permitting decreased by 600 homes, or 20 percent, to 2,375. In Illinois and Wisconsin, single-family permitting was down by 380 and 370 homes, respectively, or 18 and 13 percent, to a combined 4,150 homes permitted. Nearly all the decline in Minnesota and Illinois occurred in the Minneapolis-St. Paul-Bloomington and Chicago-Naperville-Elgin metropolitan areas, whereas only 23 percent of the decrease in Wisconsin occurred in the Milwaukee-Waukesha-West Allis metropolitan area.
- Declines in single-family home permitting were smaller in Indiana and Ohio, down by 240 and 50 homes, or 6 and 1 percent, respectively. Indiana and Ohio were the first and second states in the Midwest region to begin reopening their economies.

During the second quarter of 2020, single-family home permitting fell in all six states in the Midwest region.



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

Apartment Market Conditions

Apartment market conditions in major metropolitan areas in the Midwest region ranged from balanced to tight during the second quarter of 2020, unchanged from both the previous quarter and a year earlier. The number of apartment units completed in the Midwest region totaled 19,100 during the second quarter of 2020, a 25-percent increase from the 15,300 completions during the second quarter of 2019 (McGraw-Hill Construction Pipeline database). Minnesota accounted for nearly two-thirds of all new apartment units completed in the region. An estimated 45,500 apartment units were under construction in the region at the end of the second quarter of 2020, with more than 80 percent of those units expected to be completed by the second quarter of 2021. Approximately 22 percent of adults relocated or knew someone that did from the beginning of the pandemic through June 10, 2020 (Pew Research Center). That percentage increased to 37 percent for respondents aged 18 to 29 years, an age cohort more likely to live in apartments than own a home. Although it takes renter households less time to move than homeowners, the full impact of COVID-19 may not be evident because of a federal moratorium on evictions that began in March 2020.

The increase in new apartment completions during the second quarter of 2020, coupled with some households relocating, caused apartment vacancy rates to increase in six of the eight major metropolitan areas referenced in this report, but the vacancy rate for six of the metropolitan areas in the region was below the national rate of 4.5 percent (RealPage, Inc.). The largest increase in the apartment vacancy rate in the region occurred in the Minneapolis-St. Paul-Bloomington metropolitan area, where the vacancy rate rose 0.9 percentage point, to

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3.5 percent, partly because 4,050 new apartments entered the market during the second quarter of 2020. The vacancy rate increased 0.6 of a percentage point, to 3.5 and 4.1 percent, in the Detroit-Warren-Dearborn and the Columbus metropolitan areas, respectively. Smaller increases of 0.5, 0.4, and 0.3 of a percentage point occurred in the respective Milwaukee-Waukesha-West Allis, Cincinnati, and Chicago-Naperville-Elgin metropolitan areas, where apartment vacancy rates were 3.3, 3.6, and 4.8 percent, respectively. The vacancy rate decreased 0.1 and 0.4 of a percentage point in the Indianapolis-Carmel-Anderson and the Cleveland-Elyria metropolitan areas, respectively. Despite declining during the second quarter of 2020, the 5.0-percent vacancy rate in the Indianapolis-Carmel-Anderson metropolitan area was the highest among the large metropolitan areas in the region.

During the second quarter of 2020, average monthly rents rose in all eight major metropolitan areas referenced in this report, and in six of those areas, the rent increased at the same rate or faster than the national average increase of 3 percent. Average rents in seven of the eight metropolitan areas were less than the $1,428 average for the nation. The largest rent increase was in the Cincinnati metropolitan area, where the average rent rose 6 percent, to $1,002. Despite 4-percent increases in average rents in the Indianapolis-Carmel-Anderson and Columbus metropolitan areas, to $939 and $997, respectively, the average rents were among the lowest of the eight major metropolitan areas. Rents rose 3 percent each in the Cleveland-Elyria, Minneapolis-St. Paul-Bloomington, and Chicago-Naperville-Elgin metropolitan areas, increasing to $951, $1,361, and $1,560, respectively. In the Chicago-Naperville-Elgin metropolitan area, where average rents are the highest in the Midwest region, rents rose in 12 of the 20 RealPage, Inc.-defined market areas that compose the metropolitan area, ranging from 1 percent in the Streeterville-River North market area to 8 percent in the Evanston-Rogers Park-Uptown market area. At $2,455, the average monthly rent in the Streeterville-River North market area was the highest in the region. Rents declined or remained unchanged in the remaining eight market areas. Rent increases were more modest in the Detroit-Warren-Dearborn and Milwaukee-Waukesha-West Allis metropolitan areas, rising 2 percent each, to $1,004 and $1,174.

During the second quarter of 2020 (preliminary data)—

- Multifamily construction, as measured by the number of multifamily units permitted, fell to 11,050 units in the Midwest region—down by 1,425 units, or 11 percent, from the same quarter a year earlier; nationally, multifamily construction decreased 9 percent. The decline occurred primarily as a result of the pause in nonessential residential construction projects in April 2020.
- The decrease in multifamily construction activity in the region occurred primarily because the number of multifamily units permitted in Illinois decreased 49 percent, to 1,750 units—down from 3,425 units during the second quarter of 2019. In the 9 Illinois counties within the tri-state, 14-county Chicago-Naperville-Elgin metropolitan area, permitting decreased by 1,675, or 57 percent, but the 9 counties accounted for 73 percent of units permitted in Illinois.

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During the second quarter of 2020, apartment vacancy rates increased in most major metropolitan areas in the Midwest region, and average rents rose in all metropolitan areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2019 (%)	2Q 2020 (%)	Percentage Point Change	2Q 2019 ($)	2Q 2020 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	4.5	4.8	0.3	1,510	1,560	3
Cincinnati	Slightly Tight	3.2	3.6	0.4	946	1,002	6
Cleveland-Elyria	Tight	4.1	3.7	-0.4	923	951	3
Columbus	Balanced	3.5	4.1	0.6	963	997	4
Detroit-Warren-Dearborn	Slightly Tight	2.9	3.5	0.6	985	1,004	2
Indianapolis-Carmel-Anderson	Slightly Tight	5.1	5.0	-0.1	903	939	4
Milwaukee-Waukesha-West Allis	Slightly Tight	2.8	3.3	0.5	1,148	1,174	2
Minneapolis-St. Paul-Bloomington	Slightly Tight	2.6	3.5	0.9	1,326	1,361	3

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

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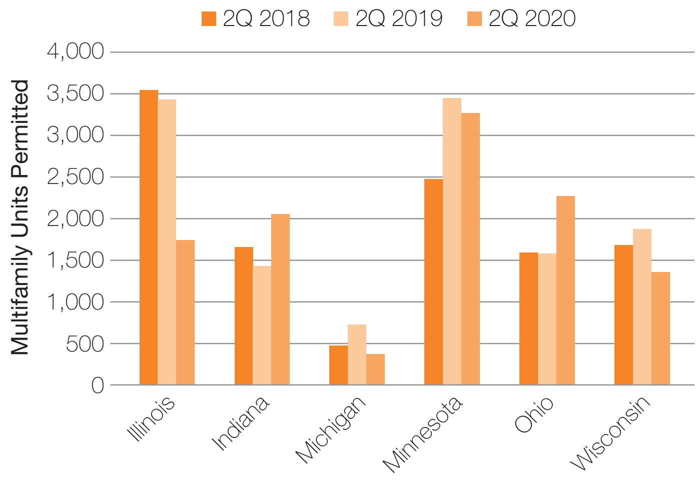
- Multifamily permitting also declined in Michigan and Wisconsin, by 49 and 28 percent, respectively, or by a combined 880 units, to 1,725 units. In Minnesota, multifamily permitting declined only 5 percent during the second quarter of 2020; the state accounted for 30 percent of units permitted in the Midwest Region, compared with 28 percent of all units permitted during the second quarter of 2019.
- Indiana and Ohio had increased multifamily construction activity; permitting increased 44 and 43 percent, to 2,050 and 2,275 units, respectively. In Indiana, multifamily permitting in the Indianapolis-Carmel-Anderson metropolitan area increased by 420 units, and in Ohio, multifamily permitting in the Columbus metropolitan area rose by 1,125 units, offsetting decreased construction throughout the state and in the other two major metropolitan areas referenced in this report.

Multifamily permitting decreased in the Midwest region during the second quarter of 2020, with permitting down in all states except Indiana and Ohio.



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