

HUD PD&R Regional Reports

Region 5: Midwest



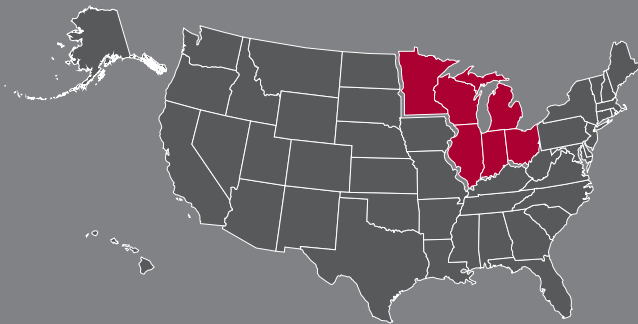
Indianapolis, Indiana

By Donald Darling | 3rd quarter 2016

Quick Facts About Region 5

- **Sales market conditions—**
Third quarter 2016: mixed (balanced to soft).
Second quarter 2016: mixed (balanced to soft).
Third quarter 2015: mixed (balanced to soft).

- **Apartment market conditions—**
Third quarter 2016: mixed (balanced to tight).
Second quarter 2016: mixed (balanced to tight).
Third quarter 2015: mixed (balanced to tight).



Overview

Economic conditions in the Midwest region strengthened during the third quarter of 2016, continuing a growth trend that began in the third quarter of 2010. Sales housing market conditions in the major metropolitan areas in the region have remained balanced to soft since 2013. Apartment market conditions were tight or slightly tight in most major metropolitan areas in the Midwest region, except for balanced conditions in the Indianapolis metropolitan area. Apartment vacancy rates were down from a year ago in nearly all the major markets and are the lowest since before the third quarter of 2013 in the Detroit-Warren-Dearborn, Minneapolis-St. Paul-Bloomington, Cincinnati, Cleveland-Elyria, and Columbus metropolitan areas.

During the third quarter of 2016—

- Nonfarm payrolls in the region increased from a year ago in 9 of 11 sectors. In addition, payrolls were up in all six states in the region, continuing a trend of uninterrupted year-over-year job growth in every state since the third quarter of 2010.
- The number of homes sold in the region fell 2 percent after an 8-percent decline during the previous year, partly because of fewer real estate owned (REO) and short sales. The average home sales price was up 3 percent after an increase of 4 percent a year ago.

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- Both single-family and multifamily construction activity (as measured by the number of homes and units permitted) increased from a year ago because builders responded to increasing

demand for new homes and apartment vacancy rates continued to decline. A total of 29,000 residential units were permitted in the region, up nearly 7 percent from a year ago.

Economic Conditions

Economic conditions continued to strengthen in the Midwest region during the third quarter of 2016, as the current economic expansion enters its sixth year. Nonfarm payroll jobs have posted consecutive year-over-year gains since the third quarter of 2010. Nonfarm payrolls in the region averaged 24.86 million jobs during the third quarter of 2016, a gain of 348,100, or 1.4 percent, from the third quarter of 2015. Payrolls increased in every state in the region during the third quarter of 2016, led by Michigan, where jobs grew by 93,200, or 2.2 percent, and which was the only state in the region to exceed the 1.7-percent national growth rate. Job gains in Ohio and Wisconsin totaled 81,600 and 46,900 jobs, or 1.5 and 1.6 percent, respectively. In Minnesota, Illinois, and Indiana, nonfarm payrolls increased by 42,600, 42,100, and 41,800 jobs, or 1.5, 0.7, and 1.4 percent, respectively. The unemployment rate in the Midwest region fell to 4.7 percent during the third quarter of 2016, down from 4.8 percent a year ago and below the national average of 5.0 percent. The rates in Illinois, Michigan, and Wisconsin declined from the third quarter of 2015; unemployment rates remained the same in Indiana and increased in Ohio and Minnesota.

During the third quarter of 2016—

- The leisure and hospitality sector recorded the highest rate of growth, at 2.9 percent, an addition of 72,300 jobs in the region. Job growth in this sector was led by increases of 22,500 in Illinois, 18,400 in Ohio, and 14,200 in Michigan.
- The largest number of jobs added was 87,700, or 2.3-percent growth, in the education and health services sector, accounting for more than 25 percent of nonfarm payrolls added in the region. Additions in the sector were spread throughout the states, ranging from 5,500 and 8,100 jobs in Wisconsin and Illinois, respectively, to 16,200 in Michigan, 17,100 in Ohio, 18,700 in Minnesota, and 22,100 in Indiana.
- Professional and business services sector jobs rose 1.6 percent, or by 52,000 jobs. A loss of 5,600 jobs in Indiana was more than offset by gains in Illinois and Michigan of 20,100 and 25,300 jobs, respectively. Smaller gains of 1,000, 4,500, and 6,600 jobs were recorded in Ohio, Minnesota, and Wisconsin, respectively.

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Year-over-year job gains occurred in 9 of 11 sectors in the Midwest region during the third quarter of 2016.

	Third Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,509.0	24,857.1	348.1	1.4
Goods-producing sectors	4,209.9	4,234.5	24.6	0.6
Mining, logging, and construction	1,031.5	1,060.7	29.2	2.8
Manufacturing	3,178.4	3,173.9	- 4.5	- 0.1
Service-providing sectors	20,299.0	20,622.6	323.6	1.6
Wholesale and retail trade	3,670.0	3,705.1	35.1	1.0
Transportation and utilities	967.3	986.4	19.1	2.0
Information	365.6	359.6	- 6.0	- 1.6
Financial activities	1,355.2	1,375.4	20.2	1.5
Professional and business services	3,300.3	3,352.3	52.0	1.6
Education and health services	3,823.0	3,910.7	87.7	2.3
Leisure and hospitality	2,470.5	2,542.8	72.3	2.9
Other services	1,029.5	1,046.8	17.3	1.7
Government	3,317.5	3,343.5	26.0	0.8

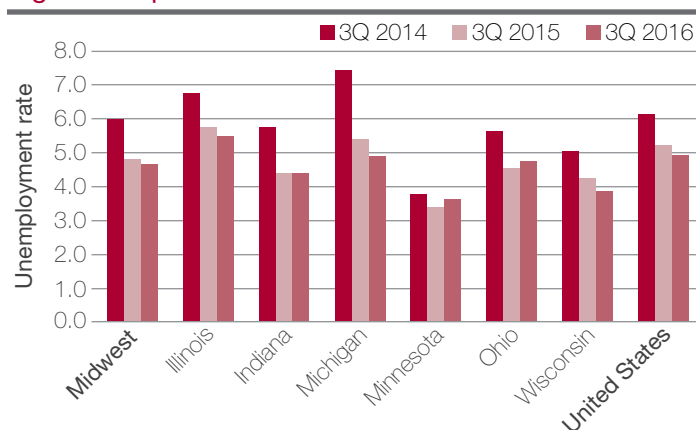
Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

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- In the mining, logging, and construction sector, a gain of 34,600 jobs, or 3.5 percent, in the construction subsector more than offset a loss of 5,400 jobs, or 11.0 percent, in the mining and logging subsector. As a result of lower oil prices, every state in the region recorded declines in the mining and logging subsector.
- Manufacturing and information were the only sectors to record losses in the region, with payrolls down by 4,500 and 6,000 jobs, or 0.1 percent and 1.6 percent, respectively.

Unemployment rates during the third quarter of 2016 were below the national rate in all states in the Midwest region except Illinois.



3Q = third quarter.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

During the third quarter of 2016, sales housing market conditions in the Midwest region ranged from balanced to soft, unchanged from the previous quarter and the previous year. Gains in the average home sales price for the region (including single-family homes, townhomes, and condominiums) slowed slightly to a 3-percent increase, to \$173,300, during the 12 months ending August 2016 after a 4-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price for the nation rose 5 percent, to \$269,600, during the 12 months ending August 2016, similar to price gains a year earlier. Despite the slowdown in price increases in the region, average home sales prices rose in all eight of the

major metropolitan areas referenced in this report. Average price changes ranged from a modest \$300 gain, to \$187,400, in the Indianapolis metropolitan area to an \$11,300, or 8-percent increase, to \$155,700 in the Detroit-Warren-Dearborn metropolitan area. The average sales price in the Detroit-Warren-Dearborn metropolitan area remained one of the lowest in the region. Four metropolitan areas recorded average sales price gains of 2 percent, and two metropolitan areas had price increases of 4 percent.

During the 12 months ending August 2016, the number of homes sold in the region declined 2 percent from a year ago, reversing an 8-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). One-half of the major

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In the Midwest region, home sales fell in four of the eight largest metropolitan areas during the past 12 months; home sales prices were up in all eight areas.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Chicago-Naperville-Elgin IL-IN-WI (N&E)	August	140,000	127,000	-9	AVG	255,200	260,600	2
Cincinnati, OH-KY-IN (N&E)	August	39,800	38,450	-3	AVG	165,800	169,900	2
Cleveland-Elyria, OH (N&E)	August	32,500	34,700	7	AVG	139,100	144,400	4
Columbus, OH (N&E)	August	37,250	37,400	0	AVG	186,500	189,300	2
Detroit-Warren-Dearborn, MI (N&E)	August	86,700	77,700	-10	AVG	144,400	155,700	8
Indianapolis-Carmel-Anderson, IN (N&E)	August	49,250	47,500	-4	AVG	187,100	187,400	0
Milwaukee-Waukesha-West Allis, WI (N&E)	August	23,450	24,450	4	AVG	197,900	201,100	2
Minneapolis-St. Paul-Bloomington, MN-WI (N&E)	August	65,800	66,900	2	AVG	248,700	259,200	4

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

Source: CoreLogic, Inc., with adjustments by the analyst

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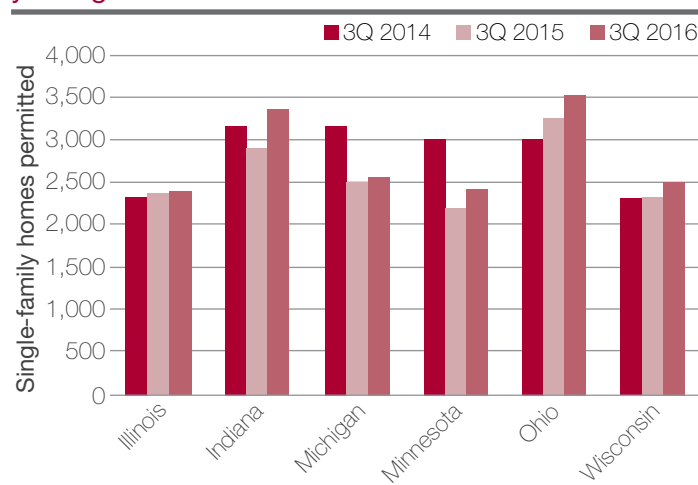
metropolitan areas in the region had declines in home sales, which ranged from 3 percent in the Cincinnati metropolitan area to 10 percent in the Detroit-Warren-Dearborn metropolitan area. Sales grew 2, 4, and 7 percent in the Minneapolis-St. Paul-Bloomington, Milwaukee-Waukesha-West Allis, and Cleveland-Elyria metropolitan areas, respectively. Average sales in the Columbus metropolitan area remained unchanged from the same period a year ago. By comparison, home sales nationwide declined nearly 3 percent during the 12 months ending August 2016, reversing the 8-percent growth from a year previous.

During the 12 months ending August 2016, REO and short sales fell 17 and 7 percent, respectively, compared with decreases of 18 and 7 percent during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the number of REO sales fell 21 percent and short sales fell 15 percent nationwide during the 12 months ending August 2016. The percentage of seriously delinquent mortgage loans (90 or more days delinquent or in foreclosure) and REO properties in the region declined by 0.8 percentage point, from 3.3 percent in August 2015 to 2.5 percent in August 2016, the same as the 0.8-percentage-point decline recorded nationally, to 2.7 percent. The percentage of seriously delinquent mortgage loans and REO properties declined in every state in the region, with the greatest decrease, of 1.1 percentage points, in Illinois, to 3.1 percent in August 2016. The percentage of seriously delinquent mortgage loans and REO properties was highest in Ohio, at 3.3 percent. The state had among the highest rates in the nation, partly because of the slow foreclosure process, which it is attempting to change. In June 2016, Ohio enacted a new law that is intended to reduce the foreclosure process to as little as 6 months.

During the third quarter of 2016 (preliminary data)—

- Single-family homebuilding activity in the region, as measured by the number of homes permitted, totaled 16,750, up by 1,200 homes, or 8 percent, from a year earlier after a decline of 1,450, or 9 percent, during the previous year.

Single-family permitting rose in all states in the Midwest region during the third quarter of 2016 from a year ago.



3Q = third quarter.

Note: Based on preliminary data.

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

- All states reported increased single-family home permitting from the same quarter a year earlier. The smallest increase was in Illinois, up 35 homes, or 1 percent, and the largest increase was in Indiana, up 15 percent, or 440 homes.
- Ohio continued to have the largest number of single-family homes permitted among states in the Midwest region, with the 3,525 homes—up from 3,250 during the third quarter of 2015—accounting for 21 percent of all homes permitted in the region, the same share as during the third quarter of 2015.
- The Milwaukee metropolitan area led growth (in percentage terms) in single-family permitting among large Midwest region metropolitan areas, with an increase of 24 percent, or 90 homes, from the third quarter of 2015. The Detroit metropolitan area and the Ohio portion of the Cincinnati metropolitan area had the slowest growth among large metropolitan areas, up only 4 percent each, or by 60 and 30 homes, respectively.

Apartment Market Conditions

Apartment markets were tight or slightly tight in seven of the eight major metropolitan areas included in this report. Only the Chicago-Naperville-Elgin metropolitan area, at 4.9 percent, and the Indianapolis-Carmel-Anderson metropolitan area, at 6.4 percent, had vacancy rates exceeding the national average of 4.8 percent during the third quarter of 2016 (Axiometrics, Inc.). Declines in apartment vacancy rates were recorded in all major metropolitan areas in the Midwest region except Chicago-Naperville-Elgin and Columbus, where the rates increased 0.6 and 0.3 percentage

point, to 4.9 and 4.3 percent, respectively. Decreases in apartment vacancy rates ranged from 0.1 percentage point in the Cincinnati, Indianapolis-Carmel-Anderson, and Milwaukee-Waukesha-West Allis areas to a 0.7-percentage-point drop in the Minneapolis-St. Paul-Bloomington metropolitan area. The Minneapolis-St. Paul-Bloomington market recorded the lowest vacancy rate in this report, at 2.8 percent, and the average rent fell 1 percent, to \$1,344. Average rents increased in six of the eight metropolitan areas, ranging from 2 percent in the Cleveland-Elyria area to 8 percent in the

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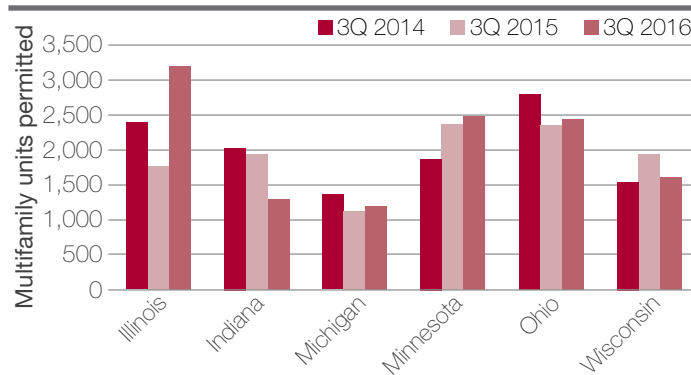
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Chicago-Naperville-Elgin area, where the average rent is the highest in the region, at \$1,532. Recent construction in the Chicago-Naperville-Elgin area is concentrated in downtown Chicago, where more than 6,000 apartment units are currently under construction.

During the third quarter of 2016 (preliminary data)—

- Multifamily building activity in the region rose 6 percent from a year earlier, to 12,300 units permitted, a reversal from the 4-percent decrease during the third quarter of 2015. By comparison, the number of units permitted nationwide decreased 1 percent from the third quarter of 2015 compared with an 8-percent increase during the same period a year earlier.
- Indiana recorded the largest decline in multifamily permitting, down one-third, or 660 units, from the third quarter of 2015; however, residential construction as a whole was down only slightly, as growth in single-family permitting of 440 partially offset the multifamily decline.
- In two states, Illinois and Minnesota, multifamily permitting increased in both the state and the largest metropolitan area. Since the 2014 completion of the of the \$957 million Green Line light-rail train, which links Minneapolis with downtown St. Paul, significant apartment construction has occurred along the rail line.

Multifamily permitting rose in four of six states in the Midwest region during the third quarter of 2016 from a year ago.



3Q = third quarter.

Note: Based on preliminary data.

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

- In two other states, Michigan and Ohio, multifamily permitting increased statewide but declined in one or more of the largest metropolitan areas in the state. In Wisconsin, multifamily permitting declined statewide but increased in Milwaukee, the largest metropolitan area in the state.

In six of eight major metropolitan areas of the Midwest region, apartment vacancy rates declined in the third quarter of 2016 and average rents increased in six areas.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2013 (%)	3Q 2014 (%)	Percentage Point Change	3Q 2013 (\$)	3Q 2014 (\$)	Percent Change
Chicago-Naperville-Elgin	Slightly tight	4.3	4.9	0.6	1,422	1,532	8
Cincinnati	Slightly tight	4.3	4.2	- 0.1	919	957	4
Cleveland-Elyria	Tight	4.1	3.5	- 0.6	945	964	2
Columbus	Slightly tight	4.0	4.3	0.3	837	877	5
Detroit-Warren-Dearborn	Tight	3.4	3.1	- 0.3	965	964	0
Indianapolis-Carmel-Anderson	Balanced	6.5	6.4	- 0.1	791	832	5
Milwaukee-Waukesha-West Allis	Tight	3.3	3.2	- 0.1	1,096	1,143	4
Minneapolis-St. Paul-Bloomington	Tight	3.5	2.8	- 0.7	1,355	1,344	- 1

3Q = third quarter.

Sources: Market condition—HUD, PD&R Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics, Inc.