HUD PD&R Regional Reports

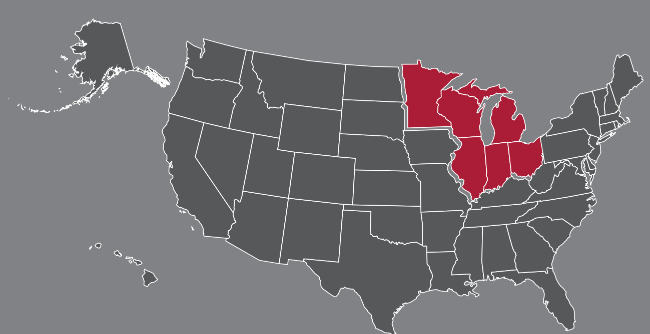
Region 5: Midwest

Cleveland, Ohio

Quick Facts About Region 5

- **Sales market conditions—**
  Third quarter 2018: balanced.
  Second quarter 2018: mixed (balanced to slightly tight).
  Third quarter 2017: mixed (balanced to soft).

- **Apartment market conditions—**
  Third quarter 2018: mixed (balanced to tight).
  Second quarter 2018: balanced.
  Third quarter 2017: mixed (balanced to tight).



By Gabe Labovitz | 3rd quarter 2018

Overview

The economic expansion in the Midwest region that began in 2010 continued in the third quarter of 2018, and the rate of job growth rose sharply. Additions in Ohio, Michigan, and Illinois, which combined to contribute nearly 64 percent of the region's job gains, led nonfarm payroll growth in every state of the region. Sales housing market conditions were balanced during the third quarter of 2018. Changes in home sales counts varied by metropolitan area, and average home sales prices rose throughout the region, although less than the national rate of home sales price appreciation in most cases. Apartment markets in major metropolitan areas throughout the region were balanced to tight, unchanged from a year earlier, but slightly tighter than conditions during the previous quarter. Strong economic growth supported tightening apartment market conditions in several major metropolitan areas despite a large supply of new units. In the past year, a significant number of new apartments have been completed in the larger metropolitan markets in the region, continuing a trend that began in 2014 and is likely to continue because many more units are currently under construction. During the third quarter of 2018, new housing production, as measured by units permitted, changed only slightly from the previous year; single-family permitting declined less than 1 percent, while multifamily permitting rose 2 percent.

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- During the third quarter of 2018, nonfarm payrolls rose 1.5 percent from a year ago, the highest growth rate since the first quarter of 2016 when growth was 1.6 percent. Nonetheless, the rate of job growth in the Midwest region trailed the national rate of 1.7 percent.
- Total home sales in the region fell less than 1 percent during the 12 months ending July 2018, largely because of steep declines in distressed home sales (real estate owned [REO] and short sales) that fell nearly 29 percent. By contrast, regular resales increased nearly 3 percent in the region and comprise 94 percent of all existing sales, up from 92 and 87 percent during the previous 2 years, respectively.
- New apartment production is concentrated in "downtown" areas of the major metropolitan areas in the Midwest region. Among the eight major metropolitan areas referenced in this report, the percentage of new apartments that opened during the past 12 months located in RealPage, Inc.-defined "central/downtown" areas ranged from 21 percent in the Chicago-Naperville-Elgin metropolitan area to 38 percent in the Columbus metropolitan area.

Economic Conditions

Year-over-year growth in nonfarm payrolls in the Midwest region accelerated during the third quarter of 2018, to 1.5 percent, compared with 1.0 and 0.8 percent growth during the previous quarter and year, respectively. Nonfarm payrolls rose by 365,300 jobs to reach 25.39 million and are 4 percent above the previous third-quarter high of 24.38 million jobs in 2007. Payrolls in the goods-producing sectors rose 2.8 percent, and job growth in both the mining, logging, and construction and the manufacturing sectors rose at a faster rate than total nonfarm payrolls. Goods-producing jobs in the Midwest region have outpaced overall nonfarm payrolls since the current expansion began during 2010, increasing an average of 2.1 percent annually compared with 1.4-percent average annual growth for nonfarm payrolls during the same period. Strong growth in the transportation equipment manufacturing industry, which averaged 5.0 percent, or 22,100 jobs, annually from 2010 through 2016 contributed to regional growth. Since 2016, job growth in the transportation equipment industry slowed to an average of 1.2 percent annually. From a low in 2009, domestic automobile and light truck sales rose to a recent high in 2016 and have since declined modestly. The construction subsector was the fastest growing sector or subsector in the Midwest region during the past year, and, since 2010, has increased by an average of 30,100 jobs, or 3.2 percent, annually. Non-residential construction, as measured by the value of construction starts, increased an average of 19 percent annually from the third quarter of 2012 through the third quarter of 2017, before a modest decline during the past year, and contributed to growth in the subsector (McGraw-Hill Construction Pipeline Database). Each of the six states in the region added jobs during the third quarter of 2018; Ohio had the largest and fastest increase

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Despite a significant increase in nonfarm payrolls, the regional rate of growth trailed the national increase during the third quarter of 2018.

	Third Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	25,025.5	25,390.8	365.3	1.5
Goods-producing sectors	4,297.0	4,416.7	119.7	2.8
Mining, logging, and construction	1,088.0	1,141.9	53.9	5.0
Manufacturing	3,209.0	3,274.8	65.8	2.1
Service-providing sectors	20,728.5	20,974.1	245.6	1.2
Wholesale and retail trade	3,695.1	3,714.9	19.8	0.5
Transportation and utilities	1,004.2	1,037.9	33.7	3.4
Information	353.5	345.1	– 8.4	– 2.4
Financial activities	1,395.8	1,413.1	17.3	1.2
Professional and business services	3,371.6	3,407.1	35.5	1.1
Education and health services	3,948.0	3,987.1	39.1	1.0
Leisure and hospitality	2,569.7	2,635.8	66.1	2.6
Other services	1,035.9	1,045.7	9.8	0.9
Government	3,354.7	3,387.4	32.7	1.0

Source: U.S. Bureau of Labor Statistics

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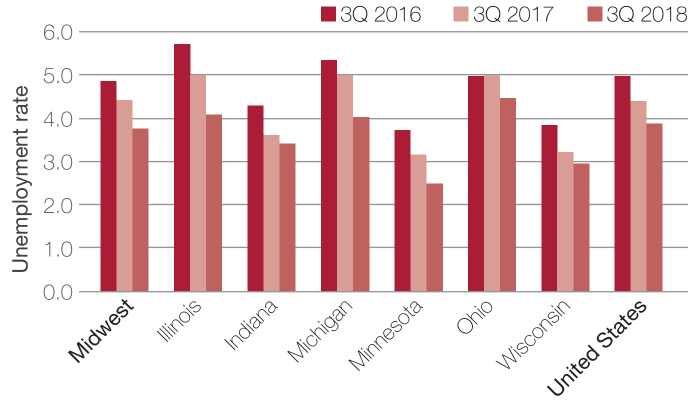
of 102,900 jobs, or 1.9 percent. In Michigan and Illinois, jobs rose by 68,300 and 61,800, or 1.6 and 1.0 percent, respectively, whereas the increases in Minnesota, Wisconsin, and Indiana were 48,900, 42,700, and 40,100 jobs, or 1.7, 1.4, and 1.3 percent, respectively. As a result of strong economic growth in the Midwest region, the unemployment rate during the third quarter of 2018 was 3.8 percent, a decline from the 4.4 percent rate a year earlier and nearly equal to the historically low average of 3.7 percent during the third quarter of 2000. By comparison, the national unemployment rate during the third quarter of 2018 was 3.9 percent, down from 4.4 percent a year earlier. In the region, unemployment rates declined in every state with the lowest rates in Minnesota and Wisconsin, at 2.5 and 2.9 percent, respectively. This was followed by Indiana and Michigan, where unemployment rates averaged 3.4 and 4.0 percent, respectively, and Illinois and Ohio, where unemployment rates averaged 4.1 and 4.5 percent, respectively.

During the third quarter of 2018—

- The mining, logging, and construction sector rose the fastest among nonfarm payroll sectors in the region, increasing by 53,900 jobs, or 5.0 percent. Nearly 97 percent of the sector's job growth was in the construction subsector.
- The payroll sector that added the most jobs from the third quarter of 2017 was the leisure and hospitality sector, which increased by 66,100 jobs, or 2.6 percent. Other than Indiana, leisure and hospitality jobs rose in the five remaining Midwest region states, with increases ranging from 8,900 jobs, or 3.0 percent, in Wisconsin to an increase of 22,900 jobs, or 3.9 percent, in Ohio.
- In Indiana, leisure and hospitality payrolls fell by 1,000 jobs, or 0.3 percent. The decline in Indiana was due to a loss of 2,400 jobs in the Indianapolis-Carmel-Anderson metropolitan area, primarily in the food services and drinking places industry.

The unemployment rate declined in all six states of the Midwest region during the third quarter of 2018 and the regional rate was below the national rate.



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

- The manufacturing sector added the next highest number of jobs, 65,800, or 2.1 percent; and every state in the region added jobs in this sector, ranging from increases of 2,800 jobs, or 0.5 percent, in Indiana to 20,100 jobs, or 4.2 percent, in Wisconsin. Despite recent growth in manufacturing sector jobs, the current regional total of 3.27 million is more than 5 percent below the third-quarter 2007 figure of 3.45 million jobs.
- The information sector was the only sector to lose jobs in the Midwest region overall and in each state of the region, declining by 8,400 jobs, or 2.4 percent. Since 2010, information sector jobs in the Midwest region have fallen by a cumulative 26,700 jobs and are currently 7.2 percent below the total during the third quarter of 2010.

Sales Market Conditions

Sales housing market conditions in the Midwest region were balanced in the third quarter of 2018. Fewer distressed home sales and a relatively low inventory of homes for sale contributed to rising home sales prices. During the 12 months ending July 2018, the average sales price for new and existing single-family homes, townhomes, and condominiums in the region rose 4 percent from a year earlier, to $190,500, compared with a 6-percent increase during the previous year (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average national home sales price rose 6 percent to $292,800 during the 12 months ending July 2018 following a 5-percent gain a year earlier. Average home sales prices rose in all eight major metropolitan areas referenced in this report, but only two recorded increases that equaled or exceeded the national rate. Average home sales prices rose the most in the Detroit-Warren-Dearborn and the Minneapolis-St. Paul-Bloomington metropolitan areas, gaining 7 and 6 percent, to $178,000 and $284,500, respectively. Home sales prices rose significantly in the Detroit-Warren-Dearborn metropolitan area, increasing at an average of 9 percent annually from the 12 months ending July 2009 when the average home sales price was $85,000. During this time, the average months of supply of homes for sale declined from approximately 10 months to 3 months (CoreLogic, Inc.). The average sales price in the Minneapolis-St. Paul-Bloomington metropolitan area was the highest among major metropolitan areas in the Midwest region. It was slightly higher than in the Chicago-Naperville-Elgin metropolitan area, where the average sales price rose 2 percent, to $274,000, the lowest rate among metropolitan areas in this report. Increases in the remaining metropolitan areas

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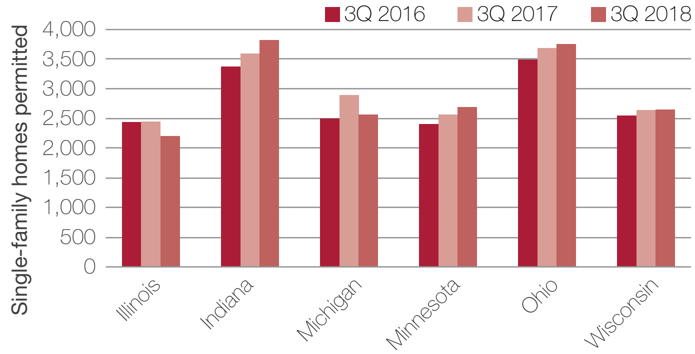
ranged from 3 percent in the Indianapolis-Carmel-Anderson and the Milwaukee-Waukesha-West Allis metropolitan areas, to $201,700 and $217,000, respectively, to 5 percent in the Cleveland-Elyria metropolitan area, where the average sales price was $154,100.

New and existing home sales in the region dropped slightly during the 12 months ending July 2018, to 987,500, down from 989,200 during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Home sales rose in four of the eight large metropolitan areas referenced in this report, ranging from gains of 1 percent each in the Indianapolis-Carmel-Anderson and the Milwaukee-Waukesha-West Allis metropolitan areas to 5 percent in the Cleveland-Elyria metropolitan area, which has the most affordable housing stock among the major metropolitan areas in the Midwest region. The other four metropolitan areas referenced in this report had declines in home sales, ranging from a decline of less than 1 percent in the Detroit-Warren-Dearborn metropolitan area to declines of 2 percent each in the Chicago-Naperville-Elgin and the Minneapolis-St. Paul-Bloomington areas, two of the most expensive markets in the region. Besides relatively low levels of for-sale inventory, decreasing distressed home sales have impacted total home sale counts. For the region, REO and short sales declined 26 and 41 percent, respectively, and rates of decline were in double digits in each metropolitan area referenced in this report. By contrast, regular resales rose 3 percent across the region and rose in 7 of the 8 metropolitan areas referenced in this report.

In July 2018, 1.6 percent of home loans in the Midwest region were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, down from 2.1 percent a year earlier (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties fell in each state in the region and ranged from 0.9 percent in Minnesota to 2.1 percent in Ohio. By comparison, the national rate was 1.8 percent during July 2018.

Despite increasing in four of six Midwest region states, overall single-family permitting fell in the region because of declines in Illinois and Michigan.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

During the third quarter of 2018 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, fell less than 1 percent, to 17,700, following a 6-percent increase a year earlier. By comparison, national single-family homebuilding activity rose 5 percent, following an 8-percent gain a year earlier.
- Despite the net decline, single-family permitting rose in four of the Midwest region states; in Indiana and Minnesota, single-family permitting rose 6 percent each, to 3,825 and 2,700 homes, respectively. The increases were smaller in Wisconsin and Ohio, rising 1 and 2 percent, to 2,650 and 3,750 homes, respectively.

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Sales housing markets in major metropolitan areas in the Midwest region were generally balanced as of the third quarter of 2018, and sales prices rose in all areas.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	July	154,700	152,100	– 2	AVG	268,100	274,000	2
Cincinnati (N&E)	July	46,600	46,300	– 1	AVG	179,100	187,000	4
Cleveland-Elyria (N&E)	July	39,650	41,450	5	AVG	147,300	154,100	5
Columbus (N&E)	July	42,000	43,250	3	AVG	199,900	208,100	4
Detroit-Warren-Dearborn (N&E)	July	90,400	90,100	0	AVG	165,900	178,000	7
Indianapolis-Carmel-Anderson (N&E)	July	56,300	56,850	1	AVG	195,300	201,700	3
Milwaukee-Waukesha-West Allis (N&E)	July	26,300	26,500	1	AVG	210,800	217,000	3
Minneapolis-St. Paul-Bloomington (N&E)	July	74,200	72,350	– 2	AVG	267,500	284,500	6

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

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- Declines in single-family permitting were pronounced in Illinois and Michigan, and contributed to the regionwide drop, falling 10 and 11 percent, to 2,200 and 2,575 homes, respectively. In Illinois, nearly two-thirds of the decline were in the Illinois counties of the Chicago-Naperville-Elgin metropolitan area. Similarly, three-fourths of the decline in single-family permitting in Michigan occurred in the Detroit-Warren-Dearborn metropolitan area.
- In contrast to the current year, during the third quarter of 2017, single-family permitting increased in all six states of the Midwest region compared with the third quarter of 2016, and Michigan recorded the largest increase, rising by more than 360 units, or 14 percent.

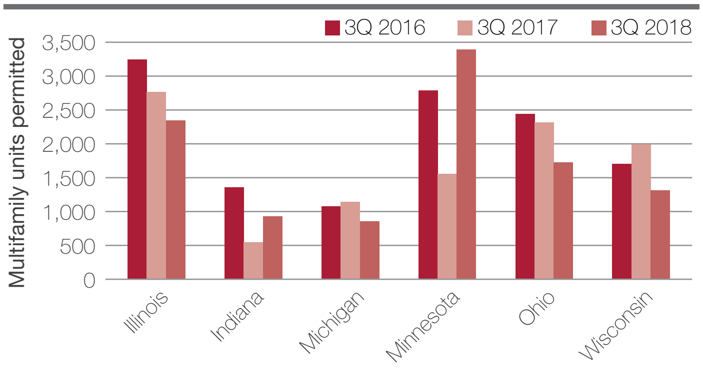
Apartment Market Conditions

Apartment market conditions in the largest metropolitan areas in the Midwest region were balanced to tight during the third quarter of 2018, unchanged from a year earlier, but generally tighter than the previous quarter. Despite significant new apartment completions during the past year, apartment vacancy rates fell in seven of the eight major metropolitan areas referenced in this report, and average monthly rents rose or remained the same in seven of the eight areas. The sharp increase in nonfarm payroll job growth contributed to the tightening of apartment market conditions during the third quarter of 2018.

The largest decline in apartment vacancy rates in the region occurred in the Indianapolis-Carmel-Anderson metropolitan area, where the rate fell from 5.9 to 5.1 percent (RealPage, Inc.). Even with this decline, however, the current rate was the highest among large metropolitan areas in the Midwest region. Smaller declines of 0.1 percentage point were reported in the Chicago-Naperville-Elgin, Columbus, and Detroit-Warren-Dearborn metropolitan areas, where apartment vacancy rates during the third quarter of 2018 were 4.9, 3.6, and 3.1 percent, respectively. The vacancy rate fell 0.2 percentage point in the Cleveland-Elyria metropolitan area and 0.5 percentage point in the Cincinnati and the Milwaukee-Waukesha-West Allis metropolitan areas. The only major metropolitan area in the region where the vacancy rate rose was in the Minneapolis-St. Paul-Bloomington metropolitan area, where the increase of 0.1 percentage point resulted in a third quarter 2018 rate of 2.5 percent, still the lowest rate among major metropolitan areas in the Midwest region. The national apartment vacancy rate during the third quarter of 2018 was 4.1 percent, down from 4.6 percent a year earlier.

Average monthly rents rose in all but one of the major metropolitan areas referenced in this report; however, only in two of those areas did the rent increase faster than the national average of 3 percent. The largest rent increase was in the Columbus metropolitan area, where average rents rose 6 percent, to $934. Nearly 4,350 new apartment units opened during the past year in the metropolitan area; 80 percent of which were in the RealPage, Inc.-defined Downtown Columbus/University District and Dublin/Hilliard market areas, where average rents were the highest in the metropolitan area. Rent increases were more modest elsewhere in the Midwest region, rising 4 percent in the Indianapolis-Carmel-Anderson

Multifamily units permitted rose slightly for the region because of increases in Indiana and Minnesota; the remaining four states reported declines in units permitted.



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Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

metropolitan area, to $865, and 3 percent each in the Detroit-Warren-Dearborn and the Minneapolis-St. Paul-Bloomington metropolitan areas, to $958 and $1,264, respectively. Rents rose 1 percent each in the Chicago-Naperville-Elgin and the Milwaukee-Waukesha-West Allis metropolitan areas, to $1,449 and $1,097, respectively. Average rents in the Chicago-Naperville-Elgin metropolitan area are the highest in the Midwest region; significant new apartment construction has been occurring in the RealPage, Inc.-defined market areas of The Loop and the adjacent Streeterville/River North areas, where approximately 3,125 and 5,800 new apartments have entered the markets during the past 2 years, respectively. These two areas have the highest average rents in the Chicago-Naperville-Elgin metropolitan area, averaging $2,310 and $2,384, respectively, during the third quarter of 2018. Average rents remained nearly unchanged in the Cincinnati metropolitan area, at $918, and fell 1 percent, to $913, in the Cleveland-Elyria metropolitan area.

Chicago-Naperville-Elgin, where approximately 9,600 new apartments are expected to enter the market during the next 12 months, leads the significant numbers of new apartments

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under construction in major metropolitan areas in the Midwest region (RealPage, Inc.). In the Minneapolis-St. Paul-Bloomington metropolitan area, an estimated 5,100 new apartments are under construction, 3,800 in the Columbus metropolitan area, and approximately 2,800 each in the Indianapolis-Carmel-Anderson and the Milwaukee-Waukesha-West Allis metropolitan areas. These additions, coupled with the large number of units already completed in most of these markets since 2014, may cause apartment market conditions in the Midwest region to soften in the next 12 months.

During the third quarter of 2018 (preliminary data)—

- Multifamily permitting in the Midwest region rose nearly 2 percent, to 10,500 units, following a decline of nearly 18 percent during the previous year. By contrast, multifamily permitting nationally fell 7 percent from the third quarter of 2017 to the third quarter of 2018, following a decline of 5 percent a year earlier.
- The increase in multifamily permitting in the Midwest region was primarily because multifamily units permitted in Minnesota more than doubled. During the third quarter of 2017, 1,550 multifamily units were permitted, the lowest third quarter total in the state since 2011. Multifamily permitting rose to 3,375 units during the third quarter of 2018, the highest third quarter total since at least 2001.
- Multifamily permitting rose in Indiana from 540 to 930 units, or 71 percent, compared with the third quarter of 2017. Nearly 60 percent of the increase occurred in the Indianapolis-Carmel-Anderson metropolitan area, where multifamily permitting rose from 180 units during the third quarter of 2017 to 410 units during the third quarter of 2018.
- The other four states in the Midwest region recorded declines in multifamily permitting, ranging from a decline of 16 percent in Illinois, or 440 fewer units permitted, to a decline of 35 percent in Wisconsin, or 710 fewer units permitted.

Vacancy rates fell in seven of eight large metropolitan areas in the Midwest region while average asking rents rose in all but one.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2017 (%)	3Q 2018 (%)	Percentage Point Change	3Q 2017 ($)	3Q 2018 ($)	Percent Change
Chicago-Naperville-Elgin	Balanced	5.0	4.9	– 0.1	1,433	1,449	1
Cincinnati	Balanced	4.4	3.9	– 0.5	915	918	0
Cleveland-Elyria	Balanced	5.0	4.8	– 0.2	919	913	– 1
Columbus	Tight	3.7	3.6	– 0.1	885	934	6
Detroit-Warren-Dearborn	Tight	3.2	3.1	– 0.1	928	958	3
Indianapolis-Carmel-Anderson	Balanced	5.9	5.1	– 0.8	833	865	4
Milwaukee-Waukesha-West Allis	Tight	3.8	3.3	– 0.5	1,087	1,097	1
Minneapolis-St. Paul-Bloomington	Tight	2.4	2.5	0.1	1,227	1,264	3

3Q = third quarter.
Sources: market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—RealPage, Inc.