HUD PD&R **Regional Reports**

Region 5: Midwest

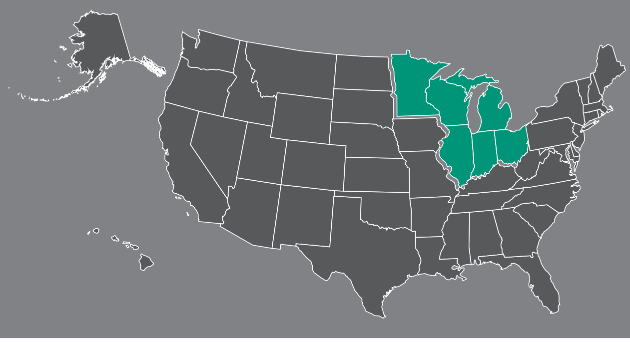
Minneapolis, Minnesota

By Gabriel A. Labovitz | 1st quarter 2018

Quick Facts About Region 5

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

- **Apartment market conditions—**
  First quarter 2018: mixed (balanced to slightly tight).
  Fourth quarter 2017: mixed (balanced to tight).
  First quarter 2017: mixed (balanced to tight).



Overview

The economic expansion in the Midwest region, now in its eighth year, continues to slow, a trend that began in 2010. Nonfarm payrolls grew in every state in the region and in all but two nonfarm payroll sectors. During the 12 months ending July 2017, population growth accelerated in the Midwest region from a year earlier, but the regional rate of growth remains lower than the national rate. Increased population and the economic expansion, along with a shortage of for-sale inventory and sharp declines in distressed home sales, have contributed to tightening sales housing market conditions. Home sales and average sales prices increased throughout the region. Apartment market conditions in major metropolitan areas in the region are generally balanced but have softened slightly from both the previous quarter and a year earlier. Increased delivery of new apartments, concentrated in the larger metropolitan areas of the region, has contributed to modest increases in apartment vacancy rates, although rents continue to rise. New construction of single-family homes declined slightly from a year earlier, while the decline in multifamily production was more pronounced.

- During the first quarter of 2018, nonfarm payrolls grew, but at the lowest first quarter rate since the economic recovery in the Midwest region began in 2010. Even so, at 24.70 million jobs, nonfarm payrolls exceeded the prerecession first quarter high of 23.88 million jobs in 2006.

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- Population in the six-state Midwest region increased 0.3 percent from 2016 to 2017, above the average 0.2-percent rate during the previous 3 years but lower than the average national rates of 0.7 and 0.8 percent, respectively, during the same periods.
- Sales housing market conditions are balanced to slightly tight, as low inventories of homes for sale are keeping sales counts lower and contributing to increased prices. By contrast, increasing production of multifamily units has eased apartment market conditions, which remain balanced to slightly tight.

Economic Conditions

Economic growth continued in the Midwest region during the first quarter of 2018, with nonfarm payrolls expanding by 212,000 jobs, or 0.9 percent, from a year earlier. The rate of growth slowed from 1.1 percent during the first quarter of 2017 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 1.5 percent during the past year. From the first quarter of 2010 through the first quarter of 2013, nonfarm payrolls expanded 1.6 percent annually in the Midwest region and 1.4 percent annually nationally; from the first quarter of 2013 through the first quarter of 2018, this trend reversed, and annual growth rates were 1.3 and 1.8 percent for the Midwest region and the nation, respectively. Nonfarm payrolls totaled 24.70 million in the region during the first quarter of 2018, and the manufacturing sector, which increased by 50,300 jobs, or 1.6 percent, led job gains. Illinois and Wisconsin contributed 18,200 and 12,100 jobs, respectively, or a combined 60 percent of total manufacturing sector gains in the region. Significant job growth also occurred in the education and health services sector, the largest sector in the region, with an addition of 44,500 jobs, a 1.1-percent increase. Two-thirds of the regional gains in this sector were in Ohio, Michigan, and Indiana, which contributed a combined 31,500 jobs. The fastest-growing sector during the past year was the mining, logging, and construction sector, which increased 3.5 percent, adding 31,600 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. Only two payroll sectors declined in the Midwest region during the first quarter of 2018; the information sector fell by 12,600 jobs, or 3.5 percent, and the wholesale and retail trade sector lost 5,400 jobs, or 0.1 percent. Information sector jobs fell in each of the Midwest region states and led declines in Illinois, Indiana, and Michigan. Wholesale and retail trade sector jobs fell for the fourth consecutive quarter in the region, due in part to consolidation among national retailers including Sears, Kmart, J.C. Penney Company, and Macy's, Inc. In addition, the recently announced bankruptcy of Toys "R" Us will result in store closings that will impact approximately 125 locations in the six Midwest region states.

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Declines in the wholesale and retail trade and the information sectors were offset by gains in all other sectors in the Midwest region during the first quarter of 2018.

	First Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,490.5	24,702.5	212.0	0.9
Goods-producing sectors	4,062.0	4,143.9	81.9	2.0
Mining, logging, and construction	902.9	934.5	31.6	3.5
Manufacturing	3,159.1	3,209.4	50.3	1.6
Service-providing sectors	20,428.5	20,558.6	130.1	0.6
Wholesale and retail trade	3,642.4	3,637.0	– 5.4	– 0.1
Transportation and utilities	992.1	1,014.3	22.2	2.2
Information	357.4	344.8	– 12.6	– 3.5
Financial activities	1,368.6	1,382.7	14.1	1.0
Professional and business services	3,268.1	3,280.7	12.6	0.4
Education and health services	3,955.8	4,000.3	44.5	1.1
Leisure and hospitality	2,329.5	2,348.0	18.5	0.8
Other services	1,017.5	1,027.7	10.2	1.0
Government	3,497.1	3,523.1	26.0	0.7

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

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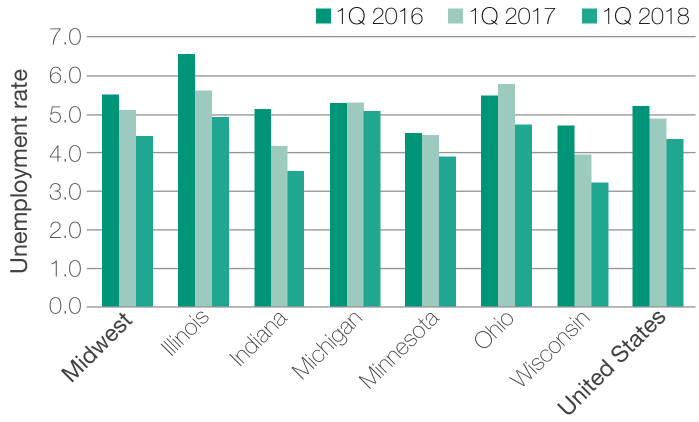
During the first quarter of 2018—

- 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 2018, the region has gained 2.57 million jobs, or growth of nearly 12 percent.
- Ohio, Michigan, and Illinois, which added 50,400, 49,100, and 45,200 jobs, or 0.9, 1.1, and 0.8 percent, respectively, led job gains in the region. The rate of job growth slowed in both Ohio and Michigan, from 1.1 and 1.6 percent, respectively, a year earlier, whereas in Illinois the current rate of job growth is higher than the 0.6-percent rate recorded a year ago.
- Job growth was lower in Wisconsin, Minnesota, and Indiana, which added 24,900, 22,800, and 19,700 jobs, growth rates of 0.9, 0.8, and 0.6 percent, respectively. In Wisconsin, the current rate of job growth is slightly above the 0.8-percent rate recorded a year earlier; in Minnesota and Indiana, rates of job growth declined from 1.7 and 1.1 percent, respectively, a year earlier.
- The education and health services sector included 4 million jobs and was the largest nonfarm payroll sector in the Midwest region, providing more than 16 percent of the regional total. Since 2010, when it was the second largest sector, the education and health services sector has added 56,000 jobs, or 1.5 percent growth annually.
- The unemployment rate in the Midwest region was 4.4 percent, down from 5.1 percent a year earlier; the current unemployment rate is the lowest first quarter rate since 2000. The regional rate of 4.4 percent is slightly above the national rate of 4.3 percent; however, three of the six Midwest region states recorded first quarter unemployment rates below the national average.
- Unemployment rates ranged from a low of 3.2 percent in Wisconsin to 5.0 percent in Michigan and declined in all six states of the region. The largest decline occurred in Ohio, where the rate fell from 5.8 to 4.7 percent.

Despite declining in all six states, the unemployment rate in the Midwest region remained above the national rate during the first quarter of 2018.



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

Population

The population of the Midwest region was estimated at 52.46 million during 2017 (Census Bureau population estimates as of July 1), an increase of 138,200, or 0.3 percent, from a year earlier. Although an increase from the previous year, this rate represents the second lowest regional rate of growth among the 10 HUD regions and is well below the national rate of 0.7 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 because of net out-migration of 15,650 people; international in-migration of 115,150 could not offset domestic out-migration of 130,800. Five of the six Midwest region states grew during the past year, but only Minnesota, which added 51,550 people, or 0.9 percent, exceeded the national growth rate. Illinois was one of only eight states in the nation to register population loss. With a loss of 0.3 percent, or 33,700 people, Illinois recorded the third largest population decline nationally and had a significantly larger decrease than the next-highest state total. Illinois, as well as the city of Chicago and Cook County, continue to struggle with budget problems, contributing to elevated net out-migration. Population declines in Cook County, the primary county in the Chicago metropolitan area, accounted for 60 percent of the loss recorded in the state.

During the 12 months ending July 2017—

- Population in the Chicago and Cleveland metropolitan areas fell 0.1 percent each from a year earlier, two out of only four metropolitan areas in the nation with populations above 1 million to have recorded population declines. Of the 10 slowest-growing metropolitan areas in the nation, 4 were in the Midwest region; however, 5 metropolitan areas in the Midwest region grew faster than the 1.0-percent average growth rate of all large metropolitan areas in the nation, led by Columbus, Ohio, which expanded 1.6 percent.
- Only six counties in the nation with populations above 1 million recorded declines, three of which were in the Midwest region. In Wayne County, Michigan, Cook County, Illinois, and Cuyahoga

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County, Ohio, the population fell 0.2, 0.4, and 0.4 percent, respectively. The loss of 20,100 people from Cook County was more than the combined loss of the other five counties.

- Even while some large metropolitan areas in the Midwest region are declining, many downtowns are expanding. Among the three Midwest metropolitan areas showing the greatest population loss, 3 ZIP Codes in downtown Cleveland, 4 ZIP Codes in downtown Detroit, and 12 ZIP Codes in downtown Chicago averaged respective population growth rates of 2.6, 2.7, and 2.8 percent annually from 2011 to 2016 (2007–2011, 2012–2016 American Community Survey 5-year data).

Population growth in the Midwest region increased from a year ago but remained below the national rate.

	Population Estimate (as of July 1)			Percent Change	
	2015	2016	2017	2015 to 2016	2016 to 2017
United States	321,039,839	323,405,935	325,719,178	0.7	0.7
Midwest region	52,239,826	52,323,699	52,461,850	0.2	0.3
Illinois	12,862,051	12,835,726	12,802,023	– 0.2	– 0.3
Indiana	6,610,596	6,634,007	6,666,818	0.4	0.5
Michigan	9,918,170	9,933,445	9,962,311	0.2	0.3
Minnesota	5,483,238	5,525,050	5,576,606	0.8	0.9
Ohio	11,606,027	11,622,554	11,658,609	0.1	0.3
Wisconsin	5,759,744	5,772,917	5,795,483	0.2	0.4

Source: U.S. Census Bureau

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight across the Midwest region compared with softer conditions during the previous quarter and year. Despite modest population growth, the continued economic recovery in the Midwest region and a decline in the number of homes available for sale led to tighter sales housing market conditions. During the 12 months ending February 2018, the number of homes sold in the region rose 1.4 percent, following 4.0-percent growth a year earlier (CoreLogic, Inc., with adjustments by the analyst). Regular resales rose more than 6 percent during the past 12 months, while real estate owned (REO) sales and short sales declined 30 and 58 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 5 percent to $186,900. By comparison, the average home sales price increased 6 percent nationally to $285,400 during the same time. New home sales fell nearly 4 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 Minneapolis-St. Paul-Bloomington and Columbus metropolitan areas, 1.7 and 1.3 months of supply are currently available, down from 2.2 and 1.6 months of supply a year ago, respectively

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Home sales and average sales prices rose in large metropolitan areas throughout the Midwest region during the first quarter of 2018.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Chicago-Naperville-Elgin (N&E)	February	148,500	156,900	6	AVG	265,300	271,300	2
Cincinnati (N&E)	February	45,000	46,050	2	AVG	176,300	182,200	3
Cleveland-Elyria (N&E)	February	37,750	39,150	4	AVG	147,000	151,700	3
Columbus (N&E)	February	41,950	42,600	2	AVG	193,400	205,000	6
Detroit-Warren-Dearborn (N&E)	February	87,950	89,150	1	AVG	161,300	173,700	8
Indianapolis-Carmel-Anderson (N&E)	February	53,700	55,550	3	AVG	191,500	196,600	3
Milwaukee-Waukesha-West Allis[a] (E)	March	20,850	21,300	2	AVG	189,700	201,700	6
Minneapolis-St. Paul-Bloomington[b] (E)	March	60,450	60,600	0	AVG	277,800	297,700	7

AVG = average. E = existing. N&E = new and existing.
Sources: (a) Wisconsin Realtors® Association; (b) Minneapolis Area Association of Realtors®; all others—CoreLogic, Inc.

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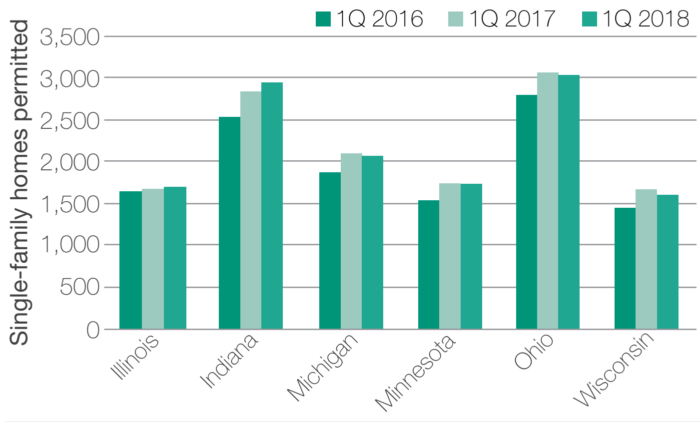
(Minneapolis Area Association of Realtors®; Columbus Realtors®). Many other large metropolitan areas in the region recorded similar declines in the available supply of homes for sale during the past 12 months. The number of homes sold in the larger metropolitan areas in the Midwest region rose, ranging from minimal gains in the Minneapolis-St. Paul-Bloomington and Detroit-Warren-Dearborn metropolitan areas to an increase of 6 percent in the Chicago-Naperville-Elgin metropolitan area, where the 156,900 homes sold during the past year represents the highest annual sales count since 2007. Home sales prices also rose in the larger metropolitan areas of the Midwest region, with increases ranging from 2 percent in the Chicago-Naperville-Elgin metropolitan area to 8 percent in the Detroit-Warren-Dearborn metropolitan area, where the current average price of $173,700 is above the 2005 prerecession high of $168,200. In the Columbus, Milwaukee-Waukesha-West Allis and Minneapolis-St. Paul-Bloomington metropolitan areas, sales price gains of 6, 6, and 7 percent, respectively, exceeded the regionwide average.

In February 2018, 1.9 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 2.4 percent a year earlier and the lowest rate recorded since 2003 (CoreLogic, Inc.). The percentage of seriously delinquent mortgage loans and REO properties declined in every state of the region. The greatest declines, of 0.7 percent each, occurred in Illinois and Ohio, the two states that also reported the highest rates in the region, at 2.4 and 2.5 percent, respectively. The lowest rates in the Midwest region are in Minnesota and Wisconsin, at 1.0 and 1.3 percent, respectively. By comparison, the national rate during February 2018 was 2.3 percent, down from 2.6 percent a year ago.

During the first quarter of 2018 (preliminary data)—

- Single-family homebuilding in the region, as measured by the number of homes permitted, totaled 13,050, relatively unchanged from a year earlier following an 11-percent increase from the first quarter of 2016 to the first quarter of 2017. By comparison, the number of single-family homes permitted nationally rose 6 percent during the first quarter of 2018 and 12 percent during the first quarter of 2017.

Changes in single-family home permitting in the Midwest region were mixed but mostly stable during the first quarter of 2018, with changes of 5 percent or less in all six states.



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

- The number of single-family homes permitted in Illinois and Indiana rose 1 and 3 percent, to 1,700 and 2,950 homes, respectively, following increases of 2 and 12 percent a year earlier. The 2,950 homes permitted in Indiana represented nearly one-fourth of all single-family homes permitted in the region, up from 22 and 21 percent, respectively, during the first quarters of 2017 and 2016.
- In the four remaining states in the region, single-family permitting activity declined from 1 to 5 percent and totaled 1,575 homes in Wisconsin, 1,725 homes in Minnesota, 2,050 homes in Michigan, and 3,025 homes in Ohio. Each of the four states had recorded double-digit increases in homes permitted a year earlier, ranging from 10 percent in Ohio to 15 percent in Wisconsin.
- Condominium development is gradually beginning to 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 during 2015 through 2017.

Apartment Market Conditions

Apartment market conditions in the largest market areas in the Midwest region were mostly balanced during the first quarter of 2018 compared with tighter conditions during the previous quarter and year. Continued new apartment production is easing previously tight market conditions in many large areas, and the vacancy rate rose in all eight metropolitan areas discussed in this report. Average monthly rents also rose in all eight areas, but the rate of increase in five of the eight areas was below the national average rent increase of 4.4 percent (Reis, Inc.). Apartment construction activity continues to be high, as an estimated 39,150 new units are currently under construction in the eight metropolitan areas discussed in this report compared with 22,250 units that were delivered during the past year.

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Although apartment vacancy rates rose, conditions are balanced in all but the Detroit-Warren-Dearborn metropolitan area, where conditions are slightly tight. The largest increases in apartment vacancy rates were 0.6 percentage point each in the Chicago-Naperville-Elgin, Cincinnati, and Milwaukee-Waukesha-West Allis metropolitan areas, where rates increased to 6.0, 4.5, and 4.4 percent, respectively. In the Chicago metropolitan area, where the apartment vacancy rate is the highest among large metropolitan areas in the Midwest region, nearly 8,800 new apartments entered the market during the past year, and 11,550 more units are under construction. In downtown Chicago, within the two Realpage, Inc.-defined market areas of The Loop and Streeterville/River North, vacancy rates are 7.5 and 6.9 percent, up from 6.4 and 5.6 percent a year earlier, respectively. In these two market areas, nearly 4,000 new units entered the market during the past 12 months, and 5,500 more are under construction (RealPage, Inc.). Smaller vacancy rate increases of 0.2 to 0.3 percentage point were reported in the other large metropolitan areas in the Midwest region. The lowest current average vacancy rate was in the Detroit-Warren-Dearborn metropolitan area, where the rate rose 0.3 percentage point, to 2.8 percent; the vacancy rate has been below 5 percent since 2011 (Reis, Inc.).

Average apartment rents rose in all eight large metropolitan areas discussed in this report. Increases ranged from 2 percent in the Indianapolis-Carmel-Anderson metropolitan area to $838, the lowest average asking rent among large metropolitan areas in the Midwest region, to 6 percent in the Minneapolis-St. Paul-Bloomington metropolitan area, where the rents rose to $1,263. Increases of 5 percent each were recorded in the Columbus and Milwaukee-Waukesha-West Allis metropolitan areas, where the average rents rose to $905 and $1,020, respectively. The highest rents in the Midwest region are in the Chicago-Naperville-Elgin metropolitan area, where asking rents rose 4 percent to $1,420.

During the first quarter of 2018 (preliminary data)—

- The number of multifamily units permitted in the Midwest region totaled approximately 8,125, nearly 10 percent fewer than the 9,000 units permitted a year earlier and the first year-over-year decline to have occurred during the first quarter in the past 8 years. Since a low of 2,175 multifamily units were permitted in the Midwest region during the first quarter of 2009, permitting has increased an average of 19 percent annually through the first quarter of 2017.
- Two states in the Midwest region reported increased multifamily permitting: Minnesota and Wisconsin, where permitting rose 28 and 5 percent, to 2,350 and 1,250 units, respectively. Three-fourths of the increased multifamily production in Minnesota was in the Minneapolis-St. Paul-Bloomington metropolitan area, and, in Wisconsin, multifamily production in the Milwaukee area increased by over 200 units.

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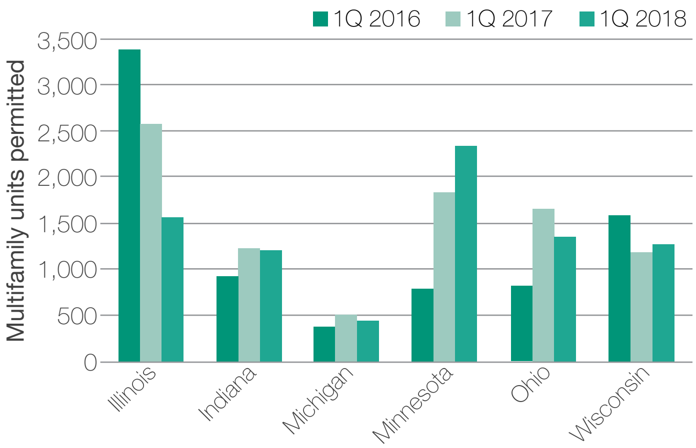
Multifamily permitting declined in four of six Midwest region states, with the greatest decline in Illinois.



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

Despite rising apartment vacancy rates in all large metropolitan areas in the Midwest region, market conditions were mostly balanced.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2017 (%)	1Q 2018 (%)	Percentage Point Change	1Q 2017 ($)	1Q 2018 ($)	Percent Change
Chicago-Naperville-Elgin[a]	Balanced	5.4	6.0	0.6	1,366	1,420	4
Cincinnati	Balanced	3.9	4.5	0.6	848	885	4
Cleveland-Elyria	Balanced	3.1	3.4	0.3	850	881	4
Columbus	Balanced	4.0	4.3	0.3	866	905	5
Detroit-Warren-Dearborn	Slightly tight	2.5	2.8	0.3	963	995	3
Indianapolis-Carmel-Anderson	Balanced	5.2	5.5	0.3	820	838	2
Milwaukee-Waukesha-West Allis	Balanced	3.8	4.4	0.6	974	1,020	5
Minneapolis-St. Paul-Bloomington[a]	Balanced	2.7	2.9	0.2	1,188	1,263	6

Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) RealPage, Inc.; all others, Reis, Inc.

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- Decreased multifamily permitting was reported in Indiana, Michigan, Ohio, and Illinois, where permitting fell 3, 14, 19, and 39 percent to 1,200, 440, 1,350, and 1,550 units, respectively. These declines are a reversal of trend in Indiana, Michigan, and Ohio, where multifamily permitting rose 35, 37, and more than 100 percent, respectively, during the first quarter of 2017.
- Approximately 68 percent of all multifamily units permitted in the Midwest region were in the eight largest metropolitan areas; this figure was 80 percent during the first quarter of 2017 and 68 percent during the first quarter of 2016. By contrast, during the first quarters from 2012 through 2015, only 64 percent of all multifamily units permitted in the region were in the eight largest metropolitan areas.