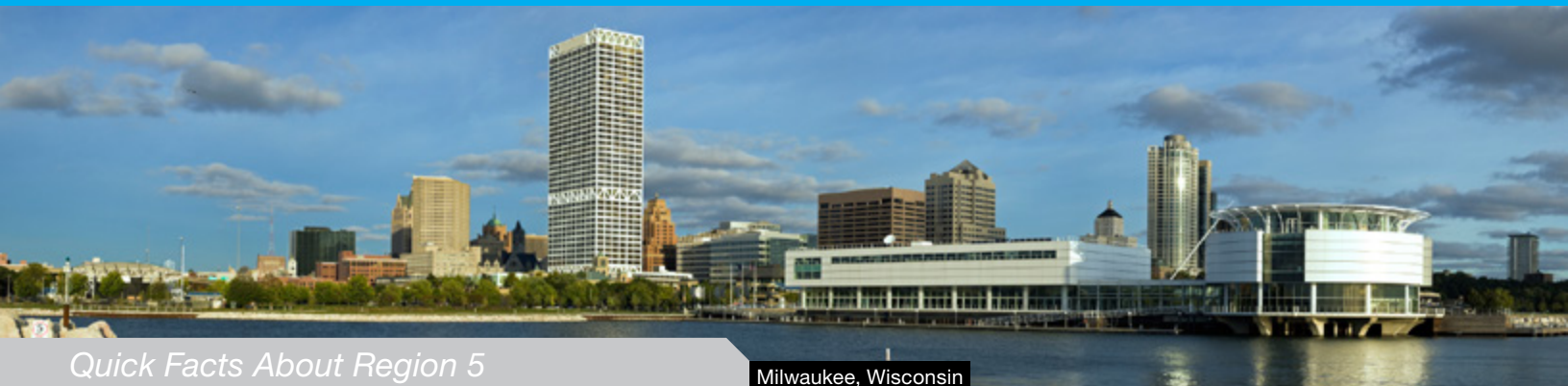


HUD PD&R Regional Reports

Region 5: Midwest

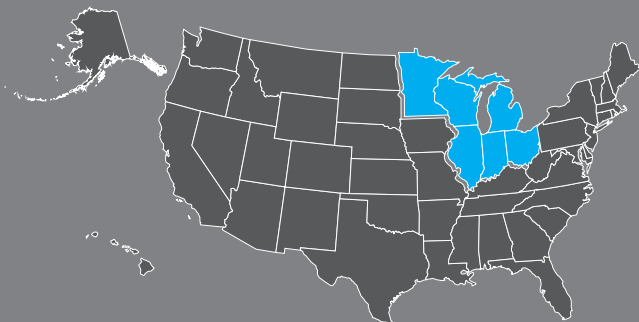


Quick Facts About Region 5

Milwaukee, Wisconsin

By Gabriel A. Labovitz | 4th quarter 2014

- Sales market conditions—**
Fourth quarter 2014: balanced.
Third quarter 2014: balanced.
Fourth quarter 2013: balanced.
- Apartment market conditions—**
Fourth quarter 2014: mixed (balanced to tight).
Third quarter 2014: mixed (balanced to tight).
Fourth quarter 2013: mixed (balanced to tight).



Overview

The economy in the Midwest region continued to expand, with nonfarm payrolls increasing for the 18th consecutive quarter. The region has regained nearly all the jobs lost in the most recent recession, after nonfarm payroll growth of 1.2 percent in the fourth quarter of 2014 brought the job count to 24.30 million nonfarm payrolls, the highest fourth quarter total since 2007. As a result of the improving economy, the unemployment rate declined in each state in the region, and the rate for the region was less than the national rate during the fourth quarter of 2014. Sales housing markets remained balanced, the 9th consecutive quarter of balanced sales market conditions. The number of home sales declined and sales prices increased in every state in the region. Single-family homebuilding remained stable, increasing 1 percent during the fourth quarter of 2014 compared with the number of homes permitted a year earlier. Apartment market conditions ranged from balanced to tight in major metropolitan areas in the region, continuing a trend that began in 2011. In response to the high levels of multifamily construction currently ongoing in many metropolitan areas, multifamily permitting is down for the region.

- Nonfarm payrolls in the region increased in every sector except the information, financial activities, and wholesale and retail trade sectors.
- Despite balanced home sales markets, contractors remain cautious with new home construction.
- Apartment vacancy rates are below 5 percent in all major markets except Indianapolis.



PD&R

Nonfarm payrolls increased in the Midwest region for the 18th consecutive quarter.

	Fourth Quarter		Year-Over-Year Change	
	2013 (thousands)	2014 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,013.6	24,302.1	288.5	1.2
Goods-producing sectors	3,981.1	4,093.3	112.2	2.8
Mining, logging, and construction	906.0	947.8	41.8	4.6
Manufacturing	3,075.1	3,145.5	70.4	2.3
Service-providing sectors	20,032.5	20,208.8	176.3	0.9
Wholesale and retail trade	3,660.0	3,658.2	- 1.8	0.0
Transportation and utilities	932.5	953.3	20.8	2.2
Information	366.4	361.8	- 4.6	- 1.3
Financial activities	1,323.9	1,317.8	- 6.1	- 0.5
Professional and business services	3,182.6	3,262.0	79.4	2.5
Education and health services	3,800.4	3,840.3	39.9	1.0
Leisure and hospitality	2,231.5	2,265.8	34.3	1.5
Other services	1,015.1	1,023.8	8.7	0.9
Government	3,520.1	3,525.9	5.8	0.2

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

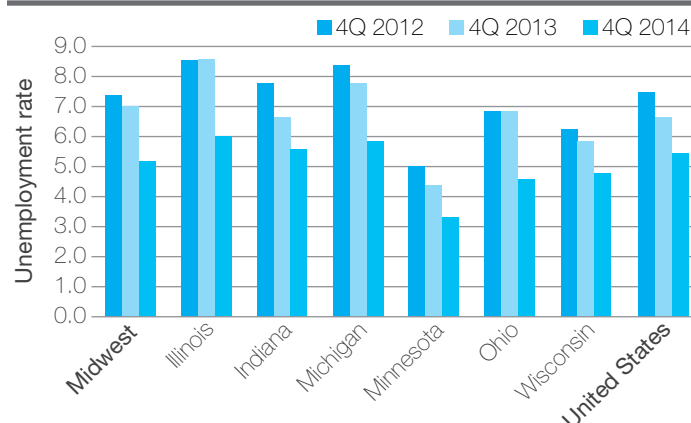
Source: U.S. Bureau of Labor Statistics

Economic Conditions

During the fourth quarter of 2014, the economy of the Midwest region continued to expand, a trend that began in the third quarter of 2010. In the fourth quarter of 2014, average nonfarm payrolls increased 1.2 percent, or by 288,500 jobs, from the fourth quarter of 2013, to 24.30 million jobs and every state in the region added jobs. By comparison, average nonfarm payrolls increased by a similar 290,600, also 1.2 percent, during the fourth quarter of 2013 from the same 3 months a year earlier. Since falling to the recent low of 22.14 million jobs during the first quarter of 2010, the region has added 2.16 million jobs, an increase of 9.8 percent.

During the past year, the professional and business services and the manufacturing sectors led growth in the region, increasing by 79,400 and 70,400 jobs, or 2.5 and 2.3 percent, respectively, and together accounted for 52 percent of the region's payroll gains. The national economic recovery and low gas prices are supporting the increase in motor vehicle sales at continued high rates, which contributed to the strength in the manufacturing sector in the region. During 2014, automobile sales in the United States totaled 16.5 million, nearly 6 percent more than during 2013 (*Automotive News*). The mining, logging, and construction sector recorded the highest rate of growth among nonfarm payroll sectors, at 4.6 percent, or 41,800 jobs. More than 90 percent of the increase, or 38,500 jobs, was in the construction subsector. Whereas residential construction remained generally stable, nonresidential construction, by dollar value of projects started, increased 51 percent from 2013 to 2014, to \$11.9 billion (McGraw-Hill Construction Pipeline database). The

Unemployment rates declined in every state in the Midwest region, and the regional rate was below the national rate.



4Q = fourth quarter.

Source: U.S. Bureau of Labor Statistics

education and health services sector, the largest nonfarm payroll sector in the region, with nearly 16 percent of all nonfarm payroll jobs, added 39,900 jobs, an increase of 1.0 percent. Nonfarm payrolls declined or remained flat in three sectors: the financial activities and information sectors declined by 6,100 and 4,600 jobs, or 0.5 and 1.3 percent, respectively, and employment in the wholesale and retail trade sector was relatively unchanged from a year ago. The improving economy contributed to a decline in the regional unemployment rate to 5.2 percent during the fourth quarter of 2014 from 7.1 percent a year earlier. The unemployment rate in the region was below the national rate of 5.5 percent during the fourth quarter of 2014, and the unemployment rate declined in each state in the region.

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During the fourth quarter of 2014—

- Indiana led nonfarm job growth in the Midwest region with a growth rate of 1.9 percent, or 56,400 jobs, and manufacturing sector jobs accounted for 41 percent of the increase.
- Ohio and Wisconsin followed Indiana, reporting job gains of 52,000 and 51,100, or 1.0 and 1.8 percent, respectively. In Ohio, the increase in nonfarm payrolls was led by the professional and business services sector, which grew by 27,400 jobs, or 4.1 percent, and, in Wisconsin, the increase in nonfarm payrolls was led by the manufacturing sector, which grew by 12,100 jobs, or 2.6 percent.

- In Illinois, Minnesota, and Michigan, nonfarm payroll growth was 44,200, 43,600, and 41,200 jobs, or 0.8, 1.6, and 1.0 percent, respectively. In all three states, the professional and business services sector led the growth, with increases of 22,500 jobs, 12,800 jobs, and 13,800 jobs, respectively.
- The unemployment rate declined in each state compared with the rate a year earlier; the rates ranged from 3.4 percent in Minnesota to 6.0 percent in Illinois.

Sales Market Conditions

Sales housing market conditions were balanced in the Midwest region during the fourth quarter of 2014, and home sales prices increased modestly in every state in the region compared with prices a year ago. The number of sales (including single-family homes, townhomes, and condominiums) declined in each state during 2014, partially because of a decline in the number of home sales to absentee owners (home purchasers who do not plan to live in the home). Absentee owner purchases declined 8 percent in the region and in every state in the region from 2013 to 2014 (Metrostudy, A Hanley Wood Company). The rate of seriously delinquent loans (loans that are 90 or more days delinquent or in foreclosure) and REO (Real Estate Owned) properties also continued to decline in the region; every state reported a decrease (Black Knight Financial Services, Inc.). In December 2014, about 4.8 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 5.9 percent in December 2013. By comparison, the national rate of seriously delinquent loans and REO properties in December 2014 was 4.6 percent, down from 5.6 percent in December 2013. Homeownership rates in the region during the fourth quarter of 2014 ranged from 64.8 percent in Illinois to 72.4 percent in Michigan, down in each state

from the fourth quarter of 2013 to 2014. Although homeownership estimates fluctuate, the rate generally has declined in Midwest region states since 2008 because of relatively high foreclosure rates and tighter lending practices after the recent recession.

In the Chicago metropolitan area (including only the 9 Illinois counties covered by the Illinois Association of Realtors® that are part of the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area [MSA]), the number of new and existing home sales declined nearly 7 percent during 2014, to 104,400. The median sales price during December 2014 was \$184,000, or 4 percent higher than the median sales price during December 2013. In Ohio, new and existing home sales in the Cincinnati metropolitan area declined 2 percent during 2014, to 22,450 sales, from 22,950 sales during 2013. (Home sales data for the Cincinnati area include more and different counties than comprise the Cincinnati OH-KY-IN MSA.) The average sales price for new and existing homes during 2014 was \$175,500, approximately 6 percent higher than the average sales price reported during 2013. In the Cleveland and Columbus areas, new and existing home sales also declined during 2014 compared with sales during 2013, to 42,250 and 26,650 sales, or by 1 and 2 percent, respectively. (Data for Cleveland and Columbus also

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Home sales declined in every state in the Midwest region, but sales prices showed modest gains.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2013	2014	Percent Change		2013 (\$)	2014 (\$)	Percent Change
Illinois (N&E)	December	153,900	146,700	- 5	MED	148,500	154,000	4
Indiana (E)	December	76,250	75,050	- 2	MED	118,800	125,000	5
Michigan (N&E)	December	128,000	120,800	- 6	AVG	123,300	129,700	5
Minnesota (N&E)	December	79,200	74,850	- 5	MED	170,000	179,000	5
Ohio (N&E)	December	129,100	127,400	- 1	AVG	142,100	149,200	5
Wisconsin (E)	December	69,750	68,750	- 1	MED	143,500	148,000	3

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

Notes: Includes single-family homes, townhomes, and condominiums. Median sales prices for Illinois and Indiana are for December; all other median and average sales prices are for the year.

Sources: Illinois Association of Realtors®; Indiana Association of Realtors®; Michigan Association of Realtors®; Minnesota Association of Realtors®; Ohio Association of Realtors®; Wisconsin Realtors® Association



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include areas larger than the 5-county Cleveland-Elyria, OH MSA and the 10-county Columbus, OH MSA.) The average home sales prices in Cleveland and Columbus increased to \$139,100 and \$183,100, or by 3 and 5 percent, respectively (Ohio Association of Realtors®). In Indianapolis, home sales in the 13 counties covered by the Metropolitan Indianapolis Board of Realtors® (an area larger than the Indianapolis-Carmel-Anderson, IN MSA) decreased 2 percent, to 29,650 homes sold, during 2014 compared with the number sold during 2013. During the same period, the average sales price was \$175,700, nearly 5 percent higher than a year earlier.

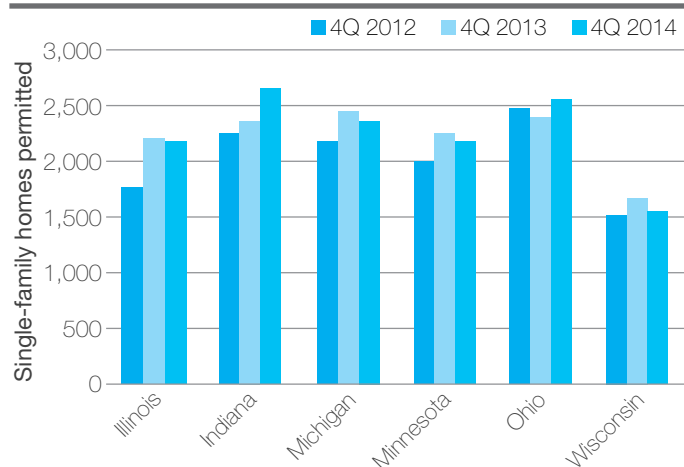
During the fourth quarter of 2014 (preliminary data)—

- Builders in the Midwest region were cautious, as single-family home construction totaled 13,350 homes permitted, up slightly more than 1 percent compared with the number of homes permitted during the fourth quarter of 2013 and approximately 10 percent more than were permitted during the fourth quarter of 2012.
- Indiana and Ohio were the only two states in the region to report increases in single-family permitting compared with the number of homes permitted a year earlier. In Indiana, single-family home permitting rose 12 percent, to 2,625 homes, and in Ohio, the increase was 6 percent, to 2,525 homes. Compared with construction activity in 2012, the number of single-family homes permitted was 18 percent more in Indiana and 3 percent more in Ohio.
- Each of the four remaining states in the region reported fewer single-family homes permitted than in the fourth quarter of 2013. In Wisconsin and Minnesota, the declines were 7 and 4 percent,

to 1,525 and 2,150 homes permitted, respectively. The declines in Michigan and Illinois were less, at 2 percent and 1 percent, respectively, to 2,350 and 2,175 homes permitted.

- The current level of permitting activity, although lower than in 2013, was approximately 24, 9, 7, and 1 percent higher in Illinois, Michigan, Minnesota, and Wisconsin, respectively, than the level in the fourth quarter of 2012.

Single-family permitting in the Midwest region during the fourth quarter of 2014 was mixed relative to 2013 but higher than the levels in 2012.



4Q = fourth quarter.

Note: Based on preliminary data.

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

Apartment Market Conditions

Apartment market conditions in the major metropolitan areas in the Midwest region ranged from balanced to tight in the fourth quarter of 2014 and have been balanced to tight since 2011. The continuing effects of tightening mortgage lending standards and impacts from home foreclosures contributed to the increased demand for rental units in the region. In the Chicago metropolitan area, the apartment market is balanced with a vacancy rate of 4.3 percent, down from 5.0 percent during the fourth quarter of 2013. Average apartment rents in the Chicago area increased 3 percent in the fourth quarter of 2014, to \$1,252, from the fourth quarter of 2013 (MPF Research). In the Chicago area, 10,600 new apartment units are under construction, with 6,200 of those units in the two downtown MPF Research-defined market areas of The Loop and Streeterville/River North. In Ohio, apartment markets in the three major metropolitan areas are balanced with vacancy rates of 4.5 percent in Columbus and 4.9 percent in both Cincinnati and Cleveland. Average apartment rents increased in each Ohio area, to \$812, \$810, and \$788 in Cincinnati, Cleveland, and Columbus, respectively, representing increases of 3, 2, and 3 percent. An estimated

8,775 new apartments currently are under construction in the three Ohio metropolitan areas, including 4,250 units in Columbus, 3,025 in Cincinnati, and 1,500 in Cleveland. In Detroit and Minneapolis, the apartment markets are tight. In Detroit, the vacancy rate declined from 4.4 to 3.5 percent from the fourth quarter of 2013 to the fourth quarter of 2014, and the average rent increased 2 percent, to \$828. In Minneapolis, the apartment vacancy rate edged downward to 3.1 percent during the fourth quarter of 2014, while the average rent increased more than 3 percent, to \$1,053.

Multifamily building activity, as measured by the number of units permitted, during the fourth quarter of 2014 was down for the region overall and mixed among the six states in the region compared with the number of units permitted a year earlier.

During the fourth quarter of 2014 (preliminary data)—

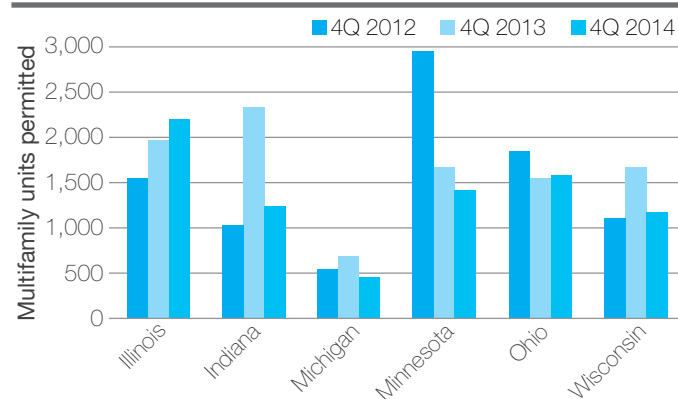
- Approximately 8,025 multifamily units were permitted in the Midwest region, a 19-percent decrease from the 9,925 units permitted during the fourth quarter of 2013 and 11 percent fewer than the 9,050 units permitted during the fourth quarter of 2012.

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- In Illinois, the only state with a significant increase in multifamily units, the 2,200 units permitted represented an increase of 11 percent from a year earlier; 89 percent of the multifamily units permitted in Illinois are in the Chicago metropolitan area.
- Multifamily permitting also increased in Ohio, by less than 1 percent, to 1,575 units; 89 percent of the multifamily units permitted in Ohio were in the three major metropolitan areas of Cincinnati, Cleveland, and Columbus, where balanced rental markets and increasing rents are encouraging new apartment development.
- All other states in the region reported declining levels of multifamily permitting—including declines of 47 percent in Indiana, 34 percent in Michigan, 31 percent in Wisconsin, and 17 percent in Minnesota—as developers exercise caution about developing new apartments, despite balanced to tight markets in major metropolitan areas.

Multifamily permitting was down from 2013 levels in every Midwest region state except Illinois and Ohio.



4Q = fourth quarter.

Note: Based on preliminary data.

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

Major apartment market conditions ranged from balanced to tight in the Midwest region, and the average rent increase was 3 percent.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2013 (%)	4Q 2014 (%)	Percentage Point Change	4Q 2013 (\$)	4Q 2014 (\$)	Percent Change
Chicago	Balanced	5.0	4.3	- 0.7	1,214	1,252	3
Cincinnati	Balanced	5.2	4.9	- 0.3	785	812	3
Cleveland	Balanced	5.5	4.9	- 0.6	795	810	2
Columbus	Balanced	4.6	4.5	- 0.1	763	788	3
Detroit	Tight	4.4	3.5	- 0.9	812	828	2
Indianapolis	Balanced	8.7	7.0	- 1.7	732	756	3
Milwaukee	Tight	4.1	3.0	- 1.1	915	937	2
Minneapolis-St. Paul	Tight	3.2	3.1	- 0.1	1,018	1,053	3

4Q = fourth quarter.

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