HUD PD&R **Regional Reports**

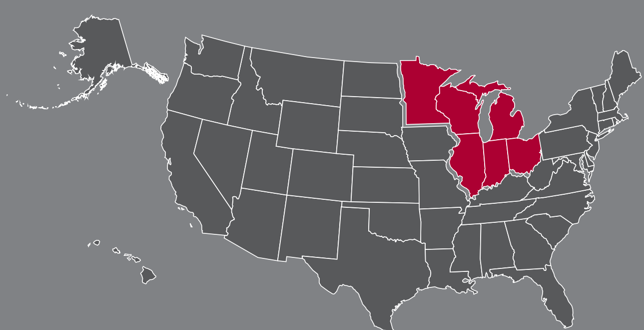
Region 5: Midwest


Chicago, Illinois

Quick Facts About Region 5

- **Sales market conditions—**
  Third quarter 2015: mixed (balanced to tight).
  Second quarter 2015: mixed (balanced to tight).
  Third quarter 2014: balanced.

- **Apartment market conditions—**
  Third quarter 2015: mixed (balanced to tight).
  Second quarter 2015: mixed (balanced to tight).
  Third quarter 2014: mixed (balanced to tight).



By Gabriel A. Labovitz | 3rd quarter 2015

Overview

The economic expansion in the Midwest region is into the fifth consecutive year. All but two nonfarm payroll sectors added jobs during the third quarter of 2015. Every state in the region has recorded nonfarm payroll gains continuously since the third quarter of 2010. Economic growth and modest single-family home permitting have contributed to stable sales housing market conditions, which remain balanced to tight from the previous quarter but are tighter than during the previous year, when the markets were balanced. Apartment market conditions in major Midwest region metropolitan areas are also balanced to tight, with increasing rents.

During the third quarter of 2015—

- Nonfarm payrolls increased 1.5 percent, to 24.5 million jobs. Growth was reported in every nonfarm payroll sector but two: the information and other services sectors, which declined modestly, by 2,600 and 1,600 jobs, or 0.7 and 0.2 percent, respectively.
- Home sales and sales prices increased in every state in the region. Builders are cautious, however, as single-family home permitting declined for the second consecutive year.
- Balanced-to-tight apartment markets among major metropolitan areas in the Midwest region have attracted developers to these areas; the eight metropolitan areas highlighted in this report account for 70 percent of multifamily units currently under construction in the region.

Nonfarm payrolls in the Midwest region were at their highest level in 14 years.

	Third Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	24,132.8	24,503.4	370.6	1.5
Goods-producing sectors	4,139.8	4,194.6	54.8	1.3
Mining, logging, and construction	1,003.5	1,011.0	7.5	0.7
Manufacturing	3,136.3	3,183.6	47.3	1.5
Service-providing sectors	19,993.0	20,308.8	315.8	1.6
Wholesale and retail trade	3,624.7	3,668.8	44.1	1.2
Transportation and utilities	931.0	959.0	28.0	3.0
Information	367.2	364.6	– 2.6	– 0.7
Financial activities	1,331.0	1,352.6	21.6	1.6
Professional and business services	3,252.7	3,321.3	68.6	2.1
Education and health services	3,752.6	3,830.4	77.8	2.1
Leisure and hospitality	2,411.9	2,480.7	68.8	2.9
Other services	1,016.9	1,015.3	– 1.6	– 0.2
Government	3,305.0	3,316.1	11.1	0.3

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

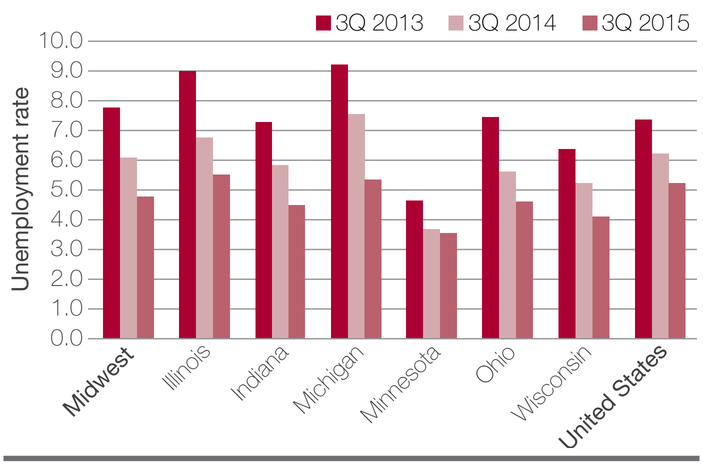
Economic Conditions

The economy in the Midwest region continued to expand during the third quarter of 2015. Total nonfarm payroll jobs have increased in the region each quarter since the third quarter of 2010. Nonfarm payrolls in the region averaged 24.5 million jobs, a gain of 370,600, or 1.5-percent growth from a year ago, when nonfarm payrolls increased by 346,900 jobs, a similar 1.5-percent expansion. The third quarter of 2015 had the highest third quarter average nonfarm payroll total since 2001. Because of continuing improvement of economic conditions in the Midwest region, the average unemployment rate for the six states declined to 4.7 percent during the third quarter of 2015, from 6.0 percent during the same period a year earlier. This quarter is the fifth consecutive quarter that the average unemployment rate in the Midwest region was below the national average, which was 5.2 percent during the third quarter of 2015.

Nonfarm payroll growth in the region during the third quarter of 2015 was led by the education and health services sector, which grew by 77,800 jobs, or 2.1 percent. The education and health services sector, the largest sector in the Midwest region with nearly 16 percent of all nonfarm payroll jobs, has registered 1.6-percent annual growth since the third quarter of 2010, when the region emerged from the recession.

Before the education and health services sector became the largest sector in the Midwest region, manufacturing was the largest payroll sector, with nearly 18 percent of all nonfarm payrolls in 2000. From 2000 to 2010, manufacturing jobs declined at a 4.5-percent rate. The reasons for the decline in manufacturing employment in the

The unemployment rate declined in every state in the Midwest region, and the rates in four of the six states were below the national rate.



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

Midwest region during the previous decade were many, but the transfer of production capacity out of the United States to other countries was significant. From the third quarters of 2010 through 2014, manufacturing jobs recovered at a rate of 2.3 percent annually, slowing to a 1.5-percent increase during the past year. Nearly one-half of the manufacturing jobs added during the past year were in the transportation equipment manufacturing industry, which includes motor vehicle manufacturing. The seasonally adjusted annual rate of light vehicle sales in the United States reached a record 18.1 million during September 2015the highest monthly level of sales in 10 years (WardsAuto).

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During the third quarter of 2015—

- Nonfarm payroll growth in Michigan accounted for more than 27 percent of new jobs in the Midwest region with an increase of 101,600 jobs, or 2.4 percent. The professional and business services and the manufacturing sectors provided nearly one-half of the added nonfarm payrolls in Michigan during the past year, gaining 24,600 and 21,700 jobs, increases of 4.0 and 3.7 percent, respectively.
- Indiana and Ohio recorded the next highest levels of job growth, with 71,600 and 65,400 jobs added, rates of 2.4 and 1.2 percent, respectively. In Indiana, job growth was greatest in the education and health services, wholesale and retail trade, and manufacturing sectors, which together provided 60 percent of the state's nonfarm payroll gains. In Ohio, the leisure and hospitality sector accounted for nearly one-third of the state's increase in nonfarm payrolls.
- Job growth in Wisconsin was 2.0 percent, or 57,100 jobs, with gains in the education and health services and the leisure and hospitality sectors providing nearly 40 percent of the increase. Growth occurred primarily in smaller and midsize areas such as the Appleton, Green Bay, Janesville-Beloit, and Madison metropolitan areas, which all registered nonfarm payroll gains above the 2.0-percent statewide rate. The larger Milwaukee-Waukesha-West Allis metropolitan area recorded nonfarm payroll growth of 1.4 percent.
- Job gains in Minnesota and Illinois were less than elsewhere in the region. In Minnesota, nonfarm payrolls increased by 39,600 jobs, or 1.4 percent, with the education and health services and the professional and business services sectors accounting for 63 percent of the total nonfarm payroll increase in the state.
- In Illinois, the education and health services and the professional and business services accounted for 80 percent of the state's nonfarm payroll growth. Nearly one-half of all nonfarm payroll sectors in Illinois declined during the past year. Since the recovery in the Midwest region began during the third quarter of 2010, nonfarm job growth in Illinois has averaged 1.1 percent annually, the lowest rate of growth among the six states in the region; growth in the other states ranged from 1.3 percent in Wisconsin to 2.1 percent in Michigan.

Sales Market Conditions

Continued strong economic conditions in the Midwest region have contributed to tightening sales housing markets in the past year. Sales markets continued to be balanced to tight in the region during the third quarter of 2015, unchanged from the previous quarter, but have tightened since the sales market was balanced during the third quarter of 2014. Home sales and sales prices increased in every state in the region from the 12 months ending September 2014 to the 12 months ending September 2015.

Measures of distress in the sales housing market improved in the Midwest region during the third quarter of 2015. The number of seriously delinquent loans (those 90 or more days delinquent or in foreclosure) and real estate owned (REO) properties continued to decrease in the region; each state reported a smaller number of these loans and properties (Black Knight Financial Services, Inc.). In September 2015, about 4.0 percent of home loans in the region were seriously delinquent or had transitioned into REO status, down from 4.4 percent in September 2014. By comparison, the national rate of seriously delinquent loans and REO properties in September 2015 was 4.2 percent, down from 4.7 percent in September 2014. In the Midwest region, the share of REO sales also fell during the 12 months ending September 2015, to 17 percent of existing home sales, down from 22 percent during the previous

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Home sales increased in every Midwest region state for the second consecutive quarter, and sales prices increased in every state for the 12th consecutive quarter.

	12 Months Ending	Number of Homes Sold			Price			
		2014	2015	Percent Change	Average or Median	2014 ($)	2015 ($)	Percent Change
Illinois (N&E)	September	146,300	153,900	5	MED	162,000	172,000	6
Indiana (E)	September	74,150	79,800	8	MED	128,000	132,500	4
Michigan (N&E)	September	122,200	129,200	6	AVG	132,100	141,600	7
Minnesota (N&E)	September	72,700	80,900	11	MED	182,000	196,000	8
Ohio (N&E)	September	127,700	139,000	9	AVG	147,500	154,700	5
Wisconsin (E)	September	68,150	75,550	11	MED	149,000	155,300	4

AVG = average. E = existing. MED = median. N&E = new and existing.
Notes: Includes single-family homes, townhomes, and condominiums. All median sales prices are for September, all 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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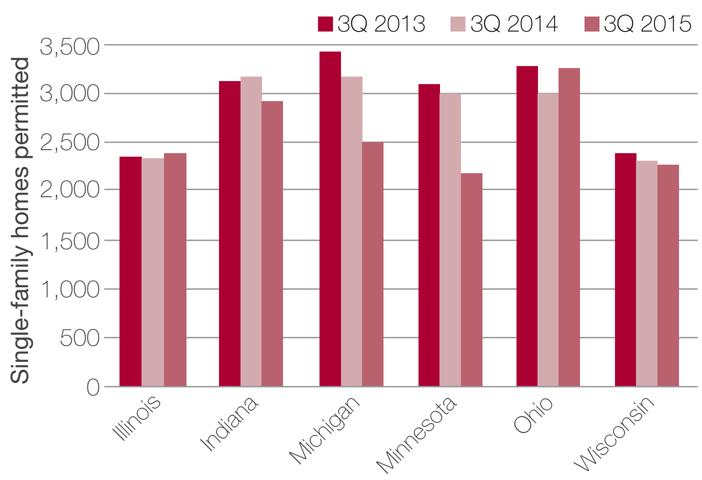
12-month period. The rate of REO home sales also fell in each state during the same time period. In the Midwest region, investor home purchases mostly comprise REO properties. Absentee owner purchases (a measure of investor purchases) during the 12 months ending September 2015 decreased more than 15 percent from the previous 12 months, accounting for 31 percent of total sales, and declined in five of six Midwest region states (Metrostudy, A Hanley Wood Company, with adjustments by the analyst).

In the Chicago metropolitan area (including only the 9 Illinois counties covered by the Illinois Association of Realtors® that are part of the 14-county Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area [MSA]), the number of new and existing home sales increased nearly 7 percent, to 33,000 sales, during the 12 months ending September 2015. The median sales price in September 2015 was $207,600, more than 6 percent above the median sales price in September 2014. In Ohio, new and existing home sales in the Cleveland metropolitan area (an area larger than the 5-county Cleveland-Elyria, OH MSA) increased nearly 12 percent, to 45,650 sales, during the 12 months ending September 2015 from 40,800 sales a year earlier. The average sales price for new and existing homes during this period was $142,900, more than 3 percent above the average sales price reported a year earlier (Ohio Association of Realtors®). New and existing home sales also increased, by lower rates, in the Cincinnati and Columbus areas, and the average home sales prices in Cincinnati and Columbus also increased. In the Cincinnati area, new and existing home sales increased 4 percent, to 23,550, from a year earlier and, in the Columbus area, home sales increased 6 percent, to 28,000, during the same time. (Data for both Cincinnati and Columbus also differ from the 15-county Cincinnati, OH-KY-IN and the 10-county Columbus, OH MSAs.) Average home sales prices grew to $180,700 in Cincinnati and to $191,900 in Columbus, increases of 5 and 6 percent, respectively. In Indianapolis, home sales in the 13 counties covered by the Metropolitan Indianapolis Board of Realtors® (an area larger than the 11-county Indianapolis-Carmel-Anderson, IN MSA) increased more than 9 percent, to 31,900 homes sold, during the 12 months ending September 2015. The median sales price in the Indianapolis area during September 2015 was $145,500, more than 5 percent above the median sales price of $138,300 reported in September 2014.

During the third quarter of 2015 (preliminary data)—

- Builders in the region remained cautious, despite gains in home sales and prices, and 15,500 homes were permitted, nearly 9 percent fewer than were permitted during the third quarter of 2014 and 12 percent fewer than were permitted during the third quarter of 2013.
- The number of single-family homes permitted was up from the average of 12,900 during the third quarters from 2008 through 2012, when the economy in the Midwest region was weak, but down significantly from the average of 50,000 homes permitted during the third quarters of 2001 through 2006, before the housing downturn.
- Two states in the region reported higher levels of single-family permitting compared with the number of homes permitted a year earlier. In Illinois, the increase was modest, at 2 percent, or 50 additional homes permitted; in Ohio, the increase was approximately 8 percent, to 3,250 homes permitted, close to the 3,300 single-family homes permitted during the third quarter of 2013.
- In the remaining four states, the number of single-family homes permitted declined compared with the number of homes permitted a year earlier. The decline was small in Wisconsin—approximately 25 homes, or 1 percent, to 2,275 homes permitted. In Indiana, the drop was 8 percent, to 2,900 homes permitted, and in Michigan and Minnesota, 21 and 28 percent fewer homes were permitted, totaling 2,500 and 2,175 homes permitted, respectively.

The number of single-family homes permitted declined in four of the six Midwest region states despite tighter sales markets.



3Q = third 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 during the third quarter of 2015, continuing a trend since 2011. Although homeowner foreclosures have declined and the effects of tightened mortgage underwriting requirements have lessened, households continued to shift to renter status, resulting in high occupancy levels and rent increases in local apartment markets. Among the eight metropolitan areas referenced in this report, vacancy rates ranged from 2.2 percent in Minneapolis-St. Paul to 6.5 percent in Indianapolis (MPF Research). In the Chicago area, the apartment market was tight; the vacancy rate for apartments in the Chicago area has been above 5 percent during only one quarter since the second quarter of 2011. Approximately 11,250 units are under construction in the Chicago area, including 6,225 in The Loop and Streeterville/River North MPF Research-defined market areas, where rents are the highest (MPF Research). In The Loop area, rents during the third quarter averaged $2,172, or 6 percent more than a year earlier, and in the Streeterville/River North area, the average rent was $2,149, or 3 percent more than the rent a year earlier. In Ohio, apartment markets in the three major metropolitan areas are balanced to tight, and two, Cleveland and Columbus, report vacancy rates below 4 percent. In Cincinnati, the highest rents are in the Central Cincinnati market area, where the monthly rent averaged $1,350 during the third quarter of 2015, more than 7 percent above the level of a year earlier. The lowest vacancy rate was south of Cincinnati in Kentucky, where the Campbell/Kenton Counties area reported a rate of 3.3 percent, down from 4.7 percent a year earlier. An estimated 2,725 new units are under construction in the Cincinnati area.

The apartment market in Detroit was also tight during the third quarter of 2015, and the vacancy rate is 2.6 percent, down from 3.6 percent a year earlier. With an average increase in rents of 4 percent in Detroit, to $858 in the third quarter of 2015, developers have started an estimated 3,275 new units, including 1,200 in the Downtown/Midtown/Rivertown area. The Indianapolis area reported the highest vacancy rate during the third quarter of 2015 among major metropolitan areas, of 6.5 percent, down slightly from 6.8 percent a year earlier, and the average rent increased 4 percent, to $778. Approximately 4,275 units are under construction in the Indianapolis area, up 29 percent from the 3,325 units that were under construction a year earlier. In the Minneapolis-St. Paul area, where the apartment market vacancy rate has been below 5 percent since the first quarter of 2010, vacancy rates among 14 MPF Research-defined market areas ranged from 1.1 percent in the South Minneapolis/Richfield area to 3.4 percent in the Uptown/St. Louis Park area, and average rents ranged from $877 in the North Minneapolis area to $1,428 in the Downtown Minneapolis/University area. Approximately 5,475 new apartment units are under construction in the Minneapolis-St. Paul area.

During the third quarter of 2015 (preliminary data)—

- Approximately 11,450 multifamily units were permitted in the region, 5 percent fewer than were permitted a year earlier but nearly 20 percent more than were permitted during the third quarter of 2013.
- The level of multifamily permitting was less than the high period of building during the third quarters from 2001 through 2005, when multifamily permitting averaged 16,000 units. In the third quarter of 2006, the number of multifamily units permitted began to decline until bottoming out at 3,700 during the third quarter of 2009. During 2009, the economy in the Midwest region was

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In major Midwest region metropolitan areas, vacancy was below 5 percent in most areas and rent increases ranged from 2 to 5 percent.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2014 (%)	3Q 2015 (%)	Percentage Point Change	3Q 2014 ($)	3Q 2015 ($)	Percent Change
Chicago	Tight	4.1	3.5	– 0.6	1,256	1,314	5
Cincinnati	Balanced	4.3	4.5	0.2	812	832	2
Cleveland	Tight	3.4	3.4	0.0	809	836	3
Columbus	Tight	4.2	3.6	– 0.6	784	813	4
Detroit	Tight	3.6	2.6	– 1.0	827	858	4
Indianapolis	Balanced	6.8	6.5	– 0.3	751	778	4
Milwaukee	Tight	3.6	2.8	– 0.8	942	962	2
Minneapolis-St. Paul	Tight	2.7	2.2	– 0.5	1,032	1,084	5

3Q = third quarter.
Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—MPF Research

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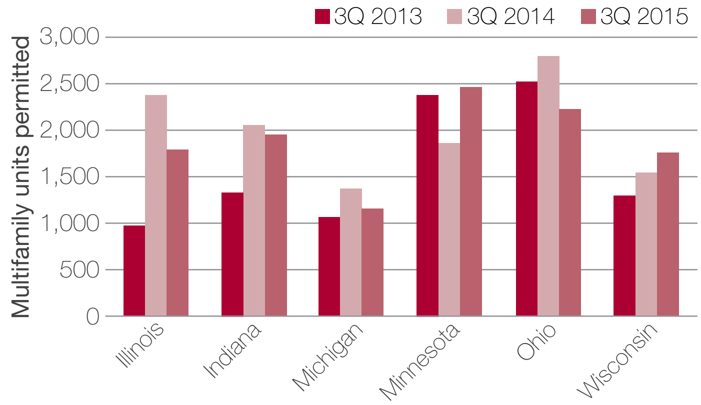
extremely weak, marked by a loss of 1.28 million nonfarm payroll jobs, a 5-percent decline, and the unemployment rate increased 4.1 percentage points, to 10.4 percent, from the previous year.

- Multifamily permitting was mixed in the region; it declined in four states and increased in two. In Indiana, multifamily permitting declined 4 percent, to 1,975 units. The declines were larger in Michigan, Ohio, and Illinois, declining 15, 20, and 25 percent to 1,175, 2,250, and 1,800 units, respectively. More multifamily units were permitted in Wisconsin and Minnesota, where third quarter units permitted totaled 1,775 and 2,475 units respectively, increases of 14 and 32 percent from a year earlier.
- In Illinois, the Chicago metropolitan area provided 96 percent of all multifamily units permitted in the state, and the three largest metropolitan areas in Ohio—Cincinnati, Cleveland, and Columbus—accounted for a similar 96 percent of the multifamily units permitted in Ohio. In Indiana and Minnesota, the Indianapolis and Minneapolis/St. Paul metropolitan areas accounted for identical 76-percent contributions to their respective states' multifamily permitting totals.

Multifamily permitting fluctuated among the six Midwest region states, and the regional total was down slightly from a year ago.



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