

HUD PD&R Regional Reports

Region 5: Midwest

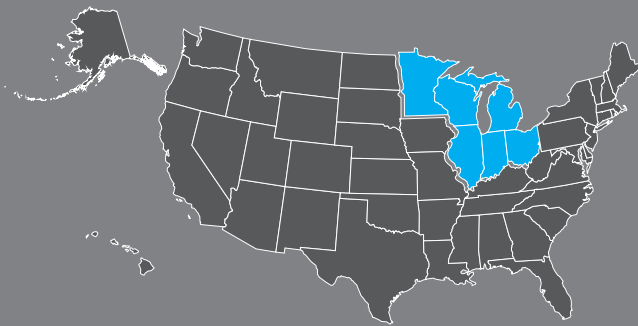


Quick Facts About Region 5

Cincinnati, Ohio

By Gabriel A. Labovitz | 4th quarter 2013

- **Sales market conditions—**
Fourth quarter 2013: balanced.
Third quarter 2013: balanced.
Fourth quarter 2012: balanced.
- **Apartment market conditions—**
Fourth quarter 2013: mixed (balanced to tight).
Third quarter 2013: mixed (balanced to tight).
Fourth quarter 2012: mixed (balanced to tight).



Overview

The economy in the Midwest region continued to improve during the fourth quarter of 2013, with employment gains reported in each nonfarm payroll sector except the government sector. Each state in the region reported nonfarm payroll growth. Continued steady economic improvement contributed to strengthening of the sales housing and apartment markets. Sales markets in the region are balanced, unchanged from a year ago. Apartment markets are balanced to tight in major metropolitan areas throughout the region, with increasing rents in most areas. Residential construction activity, although historically minimal, increased in five of the six states in the region for single-family housing and increased in four of the six states for multifamily housing.

- Nonfarm payrolls increased 1.2 percent, to 23.92 million jobs, in the fourth quarter of 2013, the fourth consecutive year of increasing fourth quarter payrolls.
- Home sales and prices increased in each state in the region for the fourth consecutive quarter and were up in many of the large metropolitan areas.
- The permitting of multifamily units has recovered from the depressed levels reported during the housing downturn that began in 2007 but has not reached the levels reported earlier in the decade.



PD&R

Nonfarm payrolls increased in every sector but one in the Midwest region during the fourth quarter of 2013.

| | Fourth Quarter | | Year-Over-Year Change | |
|------------------------------------|---------------------|---------------------|-------------------------|---------|
| | 2012 (thousands) | 2013 (thousands) | Absolute (thousands) | Percent |
| Total nonfarm payrolls | 23,626.5 | 23,918.2 | 291.7 | 1.2 |
| Goods-producing sectors | 3,901.7 | 3,932.2 | 30.5 | 0.8 |
| Mining, logging, and construction | 866.5 | 868.8 | 2.3 | 0.3 |
| Manufacturing | 3,035.2 | 3,063.4 | 28.2 | 0.9 |
| Service-providing sectors | 19,724.9 | 19,985.9 | 261.0 | 1.3 |
| Wholesale and retail trade | 3,608.8 | 3,665.4 | 56.6 | 1.6 |
| Transportation and utilities | 919.3 | 936.4 | 17.1 | 1.9 |
| Information | 361.2 | 361.4 | 0.2 | 0.1 |
| Financial activities | 1,315.3 | 1,318.5 | 3.2 | 0.2 |
| Professional and business services | 3,074.9 | 3,158.3 | 83.4 | 2.7 |
| Education and health services | 3,752.8 | 3,797.5 | 44.7 | 1.2 |
| Leisure and hospitality | 2,181.6 | 2,237.2 | 55.6 | 2.5 |
| Other services | 985.9 | 994.1 | 8.2 | 0.8 |
| Government | 3,525.1 | 3,517.1 | - 8.0 | - 0.2 |

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

Source: U.S. Bureau of Labor Statistics

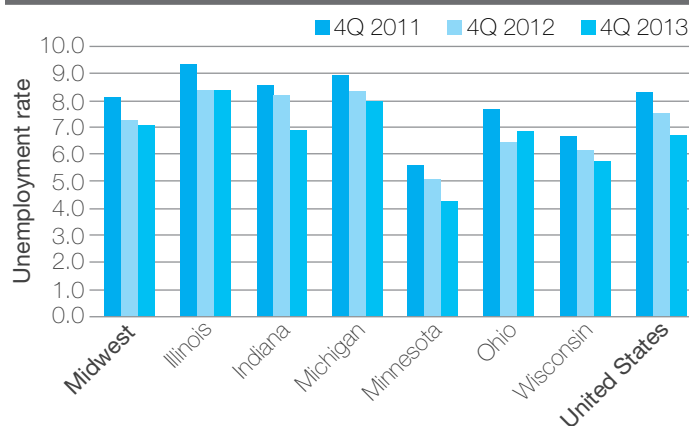
Economic Conditions

Nonfarm payroll job growth in the Midwest region, which resumed in 2010 after declines in 2008 and 2009, continued during the fourth quarter of 2013. During the fourth quarter of 2013, nonfarm payrolls increased 1.2 percent, or by 291,700 jobs, to 23.92 million jobs. By comparison, during the fourth quarter of 2012, nonfarm payrolls increased a similar 1.2 percent, or by 270,700 jobs. Despite the recent gains, nonfarm payrolls remain less than the previous peak of 24.52 million, reported during the fourth quarter of 2007. During the fourth quarter of 2013, the government sector was the only sector in the region to lose jobs. Increased hiring in the state government subsector was insufficient to counter job losses in the federal government and local government subsectors, and overall government sector payrolls declined by 8,000 jobs, or 0.2 percent. The professional and business services sector reported the most growth, of 83,400 jobs, or 2.7 percent. Led by increased automobile production, manufacturing sector payrolls grew by 28,200 jobs, or 0.9 percent. Manufacturing sector payrolls have grown for 4 consecutive years, by an average of 2.3 percent annually, but payrolls remain less than the previous peak of 4.4 million jobs during the fourth quarter of 2000.

During the fourth quarter of 2013—

- Michigan and Illinois, which reported gains of 64,000 and 61,300 jobs, or 1.6 and 1.1 percent, respectively, led job growth in the Midwest region. Together, job growth in Michigan and Illinois accounted for 43 percent of the region's reported nonfarm payroll growth.

Unemployment rates declined in four of the six Midwest region states, but the national rate recently declined to less than the regional rate.



4Q = fourth quarter.

Source: U.S. Bureau of Labor Statistics

- The other four states in the region also reported job growth, ranging from a gain of 25,000 jobs, or 0.5 percent, in Ohio to an increase of 52,600 jobs, or 1.8 percent, in Indiana. In Wisconsin and Minnesota, the increases were of 42,600 and 46,300 jobs, or 1.5 and 1.7 percent, respectively.
- The unemployment rate in the region declined to 7.1 percent from 7.3 percent during the fourth quarter of 2012. The unemployment rate in the region was less than the national average during the fourth quarters of 2011 and 2012 but surpassed it during the fourth quarter of 2013.

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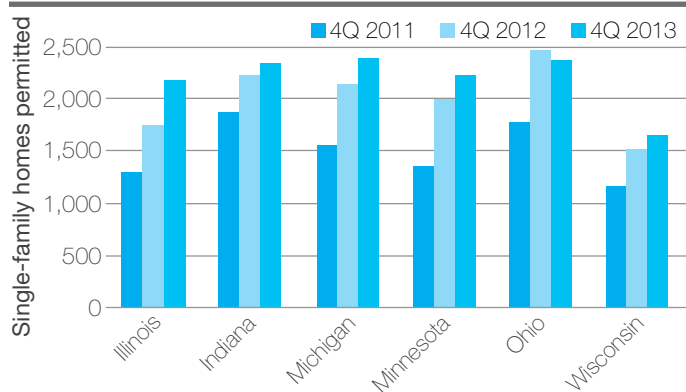
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- Four states in the region reported declining unemployment rates: Indiana, Michigan, Minnesota, and Wisconsin, where rates were 6.9, 8.0, 4.3, and 5.8 percent, respectively.
- The unemployment rate remained the same, 8.4 percent, in Illinois from the fourth quarter of 2012, but the rate increased from 6.5 to 6.9 percent in Ohio.

Sales Market Conditions

Sales housing markets were balanced in the Midwest region, with increasing home sales and prices reported in all six states and in most major metropolitan areas. In Ohio, new and existing home sales increased 19, 13, and 17 percent in Cincinnati, Cleveland, and Columbus, respectively, to 22,600, 41,050, and 26,050 homes in 2013 compared with home sales in 2012. During the same period, the average home sales price increased in all three metropolitan areas: 6 percent each in Cincinnati and Cleveland and 4 percent in Columbus, to \$165,500, \$136,000, and \$174,700, respectively (Ohio Association of REALTORS®). In Indianapolis, for Marion County (the principal county of the Indianapolis-Carmel metropolitan area),

Single-family permitting increased in five of the six states in the Midwest region.



4Q = fourth quarter.

Note: Based on preliminary data.

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

existing home sales increased 15 percent during 2013, to 12,150 homes sold, compared with the 2012 figure, and the median sales price for the year was \$111,000, nearly 6 percent more than in 2012 (Indiana Association of REALTORS®). In the nine Illinois counties in the Chicago metropolitan area, the number of new and existing home sales during 2013 increased 23 percent compared with sales during 2012, to 111,400 homes sold. The median sales price in the Chicago area in December 2013 was \$177,000, 18 percent more than in December 2012 (Illinois Association of REALTORS®). In Minnesota, new and existing home sales in the Minneapolis metropolitan area increased nearly 9 percent, to 53,200 homes, during 2013 compared with the number sold during 2012, and the average sales price during 2013 was \$236,200, 12 percent more than the average sales price reported in 2012 (Minneapolis Area Association of REALTORS®).

The percentage of distressed mortgages declined during the past year throughout the region. In December 2013, 5.9 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO (Real Estate Owned), down from 7.5 percent a year earlier (Black Knight Financial Services, Inc.). Distressed mortgage rates, which declined in every state in the region, ranged from 3.1 percent in Minnesota to 7.5 percent in Illinois. In December 2013, the rate in the United States was 5.6 percent, and three states in the region reported rates lower than the national average: Minnesota, Michigan, and Wisconsin, with rates of 3.1, 4.7, and 5.2 percent, respectively. Three states in the Midwest region reported rates higher than the national average: Indiana at 6.2 percent, Ohio at 7.0 percent, and Illinois at 7.5 percent.

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Home sales and prices showed continued strength in the Midwest region.

| | 12 Months Ending | Number of Homes Sold | | | Average or Median | Price | | |
|-----------------|------------------|----------------------|---------|----------------|-------------------|-----------|-----------|----------------|
| | | 2012 | 2013 | Percent Change | | 2012 (\$) | 2013 (\$) | Percent Change |
| Illinois (N&E) | December | 129,100 | 153,500 | 18.9 | MED | 131,000 | 149,000 | 13.7 |
| Indiana (E) | December | 66,500 | 75,850 | 14.1 | MED | 118,000 | 122,000 | 3.4 |
| Michigan (N&E) | December | 125,100 | 126,600 | 1.2 | AVG | 110,200 | 124,100 | 12.6 |
| Minnesota (N&E) | December | 74,450 | 77,800 | 4.5 | MED | 150,500 | 170,000 | 13.0 |
| Ohio (N&E) | December | 112,700 | 129,300 | 14.7 | AVG | 135,400 | 142,200 | 5.0 |
| Wisconsin (E) | December | 62,750 | 69,600 | 10.9 | MED | 132,000 | 139,000 | 5.3 |

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

Notes: Includes condominiums. Median sales prices in Illinois, Minnesota, and Wisconsin are reported for December 2012 and 2013.

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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During the fourth quarter of 2013 (preliminary data)—

- Approximately 13,200 single-family homes were permitted in the region, a 9-percent increase compared with the number permitted during the fourth quarter of 2012.
- By comparison, the number of single-family homes permitted in the region averaged 43,150 during the fourth quarters from 2001 through 2005 and averaged 21,050 during the fourth quarters in 2006 and 2007. From 2008 through 2011, the corresponding figure was 9,225 single-family homes permitted, on average, in the fourth quarter.

Apartment Market Conditions

Apartment market conditions in most large metropolitan areas in the Midwest region were balanced to tight during the fourth quarter of 2013. Stronger economic conditions in the region contributed to tightening apartment market conditions. In the three largest Ohio metropolitan areas, vacancy rates decreased between 0.3 and 0.9 percentage points from the fourth quarter of 2012 to the fourth quarter of 2013, to 3.3 percent in Cincinnati, 3.2 percent in Cleveland, and 4.5 percent in Columbus (Reis, Inc.). During the same period, average rents increased 2 percent in Cincinnati and Cleveland, to \$763 and \$778, respectively, and 3 percent in Columbus, to \$743. The apartment vacancy rate declined in Detroit, from 4.2 to 3.7 percent, but increased in Indianapolis, from 5.6 to 6.0 percent (Reis, Inc.). Average rents in Detroit and Indianapolis increased 2 and 3 percent, to \$886 and \$735, respectively. In Chicago, the apartment market is balanced. The vacancy rate increased slightly, from 4.7 percent in the fourth quarter of 2012 to 5.0 percent in the fourth quarter of 2013, and the average rent increased 4 percent, to \$1,214 (MPF Research). An estimated 7,000 new apartments are currently under construction in the Chicago metropolitan area, 4,675 of which are in the city of Chicago. The vacancy rate in Minneapolis during the fourth quarter of 2013 was 3.2 percent, unchanged from the fourth

Major metropolitan apartment markets in the Midwest region ranged from balanced to tight.

| Metropolitan Area | Market Condition |
|-------------------|------------------|
| Chicago | Balanced |
| Cincinnati | Tight |
| Cleveland | Tight |
| Columbus | Balanced |
| Detroit | Tight |
| Indianapolis | Balanced |
| Minneapolis | Tight |

Source: HUD, PD&R, Economic and Market Analysis Division

- Compared with permitting activity during the fourth quarter of 2012, the number of single-family homes permitted increased in each state in the region except Ohio. Illinois and Michigan, where single-family home permitting increased 25 and 12 percent, to 2,175 and 2,400 homes, respectively, led the increase in single-family home permitting activity.
- In Ohio, the number of single-family homes permitted during the fourth quarter of 2013 declined by 90 homes, or 3 percent, to 2,375.

quarter of 2012, and the average rent increased nearly 4 percent, to \$1,018 (MPF Research). Because of continuing tight apartment market conditions in Minneapolis, developers began construction on approximately 6,100 new apartment units, of which 2,925 are in the Downtown Minneapolis/University submarket.

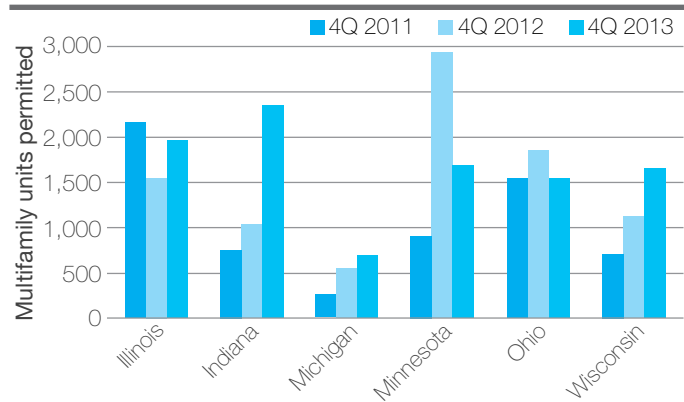
Multifamily building activity, as measured by the number of units permitted, increased modestly in the Midwest region during the fourth quarter of 2013 from the fourth quarter of 2012.

During the fourth quarter of 2013 (preliminary data)—

- Approximately 9,925 multifamily units were permitted in the region, a 10-percent increase from the 9,050 units permitted during the fourth quarter of 2012. By comparison, the number of multifamily units permitted in the region averaged 16,200 during the fourth quarters from 2001 through 2005, decreased to an average of 8,925 units in the fourth quarters of 2006 and 2007, and fell further to average 5,000 units during the fourth quarters from 2008 through 2011.

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Multifamily permitting trends exhibited continued volatility in the Midwest region.



4Q = fourth quarter.

Note: Based on preliminary data.

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

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- Multifamily permitting activity increased in four states in the region: Illinois, Indiana, Michigan, and Wisconsin. In Michigan and Illinois, the increases were 26 and 28 percent, to 700 and 1,975 units permitted, respectively. The increases were greater in Wisconsin and Indiana: 48 percent in Wisconsin, to 1,650 units permitted, and more than 100 percent in Indiana, to 2,350 units permitted.
- Multifamily permitting declined in Minnesota and Ohio during the fourth quarter of 2013 compared with the permitting during the fourth quarter of 2012. In Minnesota, the decline was 43 percent, to 1,675 units; the decline in the Minneapolis metropolitan area, which typically accounts for more than 80 percent of multifamily units permitted in the state, was 45 percent, from 2,650 to 1,450 from the fourth quarter of 2012 to the fourth quarter of 2013. In Ohio, the decline was 15 percent, to 1,550 units.