1st Quarter 2009

# U.S. Housing Market Conditions

## Midwest Regional Report
## HUD Region V

### 1st Quarter Activity

The following summary of the Midwest region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Midwest region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

Employment levels declined sharply in the Midwest region during the first quarter of 2009. In the 12 months ending March 2009, nonfarm employment decreased by 483,300 jobs, or 2 percent, to an average of 23.8 million jobs compared with a gain of 5,600 jobs in the previous 12-month period. Despite the overall loss of jobs, some employment sectors reported increases in the number of jobs during the past 12 months. The education and health services and the government sectors increased by 89,400 and 6,100 jobs, respectively. These gains were not enough to overcome employment losses in the manufacturing sector, which declined by nearly 209,000 jobs, or more than 6 percent. Nearly 41 percent of the manufacturing sector losses were in the transportation equipment manufacturing industry. Other sectors with significant losses include professional and business services, construction, and trade, which fell by 99,900, 87,900, and 84,400 jobs, respectively. Employment declines occurred throughout the region, with each of the six states registering net nonfarm job losses, ranging from 35,000 in Minnesota to 155,700 in Michigan. Continued restructuring in the automobile industry and continued weakness in the construction industry are likely to extend job losses in the region. During the 12 months ending March 2009, the unemployment rate in the Midwest increased from 5.5 to 7.4 percent. Unemployment rates ranged from 5.6 percent in Wisconsin to 9.7 percent in Michigan.

During 2008, sales of existing homes in the Midwest region declined for the third consecutive year because of the slow economy and tighter lending practices. According to the NATIONAL ASSOCIATION OF REALTORS®, in 2008, sales activity decreased by nearly 15 percent to 867,700 existing homes compared with the number sold in 2007. Activity was down in all states in the region, ranging from a decline of 4 percent in Minnesota to a decline of 24 percent in Illinois. According to RealtyTrac®, Inc., in the first quarter of 2009, the number of homes in the foreclosure process increased in five of six Midwest region states compared with the number undergoing foreclosure in the first quarter of 2008., The number of foreclosed properties was up by 69 and 68 percent, respectively, in Minnesota and Illinois and was down by nearly 11 percent in Indiana.

Existing home sales declined in most areas of the region during the first quarter of 2009. In Michigan, the economic slowdown continued to affect existing home sales. According to the Michigan Association of REALTORS®, during the 12 months ending March 2009, sales totaled 102,400 homes, 7 percent fewer than the number sold during the same period a year ago, while the average sales price declined by 17 percent to $113,100. In Ohio, similar economic weakness slowed existing home sales and lowered the average price. The Ohio Association of REALTORS® reported that, during the 12 months ending March 2009, the number of home sales declined by 15 percent to 106,200 and the average price declined by 10 percent to $133,600.

The Illinois Association of REALTORS® reported that, during the 12-month period ending March 2009, approximately 101,900 existing homes were sold in the state, 23 percent below the number sold during the previous 12-month period. In March 2009, the median price of an existing home in Illinois was $150,000, 7 percent higher than the median price in February 2009 but 21 percent lower than the median price in March 2008. In the Chicago metropolitan area, home sales declined by 25 percent to 65,000 units during the 12 months ending March 2009. In March 2009, the median price of an existing home in the Chicago metropolitan area was $194,000, 6 percent higher than the median price recorded in February 2009 but 22 percent lower than the median price reported in March 2008. In Indianapolis, the Metropolitan Indianapolis Board of REALTORS® reported that, during the 12 months ending March 2009, existing home sales totaled 24,500, a 16-percent decline compared with the number of existing homes sold during the 12 months ending March 2008, while the average price declined by 8 percent to $139,600.

In Wisconsin, the Greater Milwaukee Association of REALTORS® indicated that, for the 12 months ending March 2009, existing home sales in Milwaukee totaled 13,150, a 16-percent decline compared with the number of homes sold for the 12 months ending March 2008. In the Madison area, the South Central Wisconsin Multiple Listing Service reported 8,525 existing homes were sold in the 12 months ending March 2009, a 26-percent decrease from the number sold in the previous 12-month period, and the average price remained steady at $203,500. In Minneapolis, the Minneapolis Area Association of REALTORS® recorded 39,200 existing home sales during the 12 months ending March 2009, a 1-percent increase from the number sold during the same period in 2008, while the average price decreased 16 percent to $227,600. The price drop is attributed to increasing numbers of short or foreclosed home sales.

Homebuilding in the region, as measured by the number of building permits issued, continued to decline during the first quarter of 2009 in response to the softening economy and weak demand for new homes, a trend that began in 2005. During the 12 months ending March 2009, the number of single-family permits issued fell 40 percent to 62,900 and was down more than 60 percent from the average of 158,800 single-family permits issued during the previous 3 years. In Illinois, single-family permits declined by 48 percent to 11,300, driven by a 54-percent decline in the number of permits issued in the Chicago metropolitan area. In Michigan, the number of single-family permits issued decreased by 44 percent to 8,300. In Minnesota, the number of single-family permits issued declined by nearly 39 percent to 7,800, led by a 41-percent decline in the Minneapolis/St. Paul area, where 3,975 permits were issued.

In Ohio, during the 12 months ending March 2009, homebuilding activity declined by 37 percent to 14,800 permits issued. Cincinnati, Cleveland, and Columbus, reported declines of 34, 35, and 35 percent, respectively, in the number of single-family permits issued. The declines in the three metropolitan areas accounted for 47 percent of the decline for the state. Single-family activity declined by 38 percent to 10,950 permits issued in Indiana and by 36 percent to 9,825 permits issued in Wisconsin.

Multifamily construction in the Midwest region, as measured by the number of units permitted, declined by 28 percent to 25,050 units for the 12 months ending March 2009. Each state had declines in the level of multifamily construction activity, ranging from 1 percent in Indiana to 48 percent in Illinois. During the period, the number of multifamily units permitted increased by 63 percent to 2,125 units in the Indianapolis metropolitan area, while the remainder of Indiana had a decline of 32 percent to 1,850 units permitted. The increase in the number of multifamily units permitted in Indianapolis is primarily a result of builders responding to a tightening rental housing market in the area. The 48-percent decline in Illinois is mainly due to reduced activity in the Chicago metropolitan area, where, during the 12 months ending March 2009, the number of multifamily units permitted declined by 49 percent to 6,500, largely due to the weak condominium market. Despite the decline, the 6,500 units permitted in the Chicago metropolitan area still accounted for more than 85 percent of the 7,625 multifamily units permitted in Illinois during the past 12 months.

The declines in multifamily construction activity were less severe in Wisconsin, Minnesota, and Ohio, where 9, 14, and 18 percent fewer units, respectively, were permitted during the 12 months ending March 2009. In Michigan, the weaker economy contributed to a decline of 38 percent to 1,650 multifamily units permitted, the lowest number permitted in more than 16 years.

Conditions in major apartment markets in the region were generally balanced in the fourth quarter of 2008. According to Reis, Inc., in the first quarter of 2009, the apartment market in the Chicago metropolitan area softened somewhat as the vacancy rate rose to 6 percent from 4.7 percent in the first quarter of 2008 and the average contract rent increased to $1,066, from $1,054. The downtown Chicago rental market is slightly softer, with a vacancy rate of approximately 8.5 percent, up from 5 percent a year ago, and rent concessions of 1 to 1.5 months' free rent are offered at most properties, according to Appraisal Research Counselors. Approximately 950 rental units will enter the downtown Chicago market in 2009, compared with the nearly 2,000 units that entered the market in 2008. Two additional rental properties totaling approximately 450 units have broken ground; the units are expected to enter the market in 2010. Vacancies have risen in the downtown rental market due to the increased leasing of condominium units by developers, investors, and owners who are unable to sell. Appraisal Research Counselors estimates that, in the fourth quarter of 2008, 47 percent more condominiums were available for rent on the multiple listing service in downtown Chicago than in the fourth quarter of 2007.

In Indianapolis, the vacancy rate remained stable at 8.2 percent in the first quarter of 2009 compared with a vacancy rate of 8.1 percent in the first quarter of 2008, according to Reis, Inc. Contract rents increased slightly to an average of $673 during the same period. Until recently, the economy in Indianapolis has remained relatively strong, generating demand for more rental units. In Minneapolis, the apartment market softened slightly but remained balanced; GVA Marquette Advisors reported a rise in the vacancy rate from 4.2 percent in the fourth quarter of 2007 to 4.9 percent in the fourth quarter of 2008. The average rent increased slightly to $906. According to GVA Marquette Advisors, fewer than 500 new rental units are expected to enter the Minneapolis market in 2009 due to lack of financing and concerns about the market. In contrast, approximately 1,200 new rental units entered the market in 2008. Major Ohio rental markets are generally balanced as well. According to Reis, Inc., in Cincinnati, the rental vacancy rate was approximately 7.3 percent in the first quarter of 2009, up from 7.1 percent during the same quarter a year ago, and the contract rent averaged $709. In Cleveland, the vacancy rate was approximately 6.4 percent in the first quarter of 2009, up from 5.4 percent in the first quarter of 2008 but lower than the 7.6-percent rate reported during 2003. Rents in Cleveland averaged $735 in the first quarter of 2009, up slightly from the $727 average rent recorded during the same quarter a year ago. The Columbus rental market is slightly soft; according to Reis, Inc., in the first quarter of 2009, the vacancy rate was approximately 8.3 percent, up from 7.4 percent in the first quarter of 2008, and the average rent increased from $671 to $679. The Milwaukee area rental market is balanced, with an estimated vacancy rate of 4.3 percent for the first quarter of 2009, while the Detroit metropolitan area rental market is generally balanced, reporting a vacancy rate of 7.4 percent for the same period.