1st Quarter 2010

# 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 continued to decline in the Midwest region during the first quarter of 2010, extending job losses that began in 2007. In the 12 months ending March 2010, nonfarm employment decreased by nearly 1.2 million jobs, or 5 percent, to an average of 22.6 million jobs compared with a decline of 501,000 jobs in the previous 12-month period. The loss of jobs over the past 12 months is the largest in at least 5 years. The only sector to grow during the 12 months ending March 2010 was the education and health services sector, which added 50,700 jobs, an increase of 1.4 percent. Losses recorded in the manufacturing, professional and business services, and trade sectors led the region, decreasing by 431,300, 218,000, and 176,100 jobs, or 13.4, 7.4, and 4.8 percent, respectively. Transportation equipment manufacturing accounted for one-fifth of the losses in the manufacturing sector. Each of the six states in the region lost jobs. The most significant nonfarm employment declines occurred in Illinois, Ohio, and Michigan, which lost 284,300, 273,300, and 241,800 jobs, respectively. The rates of declines ranged from 3.9 percent in Minnesota to 5.9 percent in Michigan. The continued declines in employment in the Midwest region contributed to an average unemployment rate for the 12 months ending March 2010 of 10.7 percent, the highest rate recorded in more than a decade. The rate during the previous 12-month period ending March 2009 averaged 7.4 percent. Unemployment rates increased in each of the six states and ranged from 7.8 percent in Minnesota to 14.1 percent in Michigan.

Sales market conditions in the Midwest region are generally soft, with average sales price declines reported in most markets. During 2009, sales of existing homes in the Midwest region increased because of continued low mortgage interest rates, the federal homebuyer tax credit program, and declining sales prices in much of the region. According to the NATIONAL ASSOCIATION OF REALTORS®, regionwide sales activity in 2009 (the most recent data available) increased by nearly 27 percent to 1 million existing

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homes sold compared with the number sold in 2008. Contributing to price declines, foreclosure activity in the Midwest region increased between March 2009 and March 2010. According to Lender Processing Services Mortgage Performance Data, in March 2010, the percentage of mortgage loans in foreclosure, 90 days or more delinquent, or in REO (real estate owned) was 9.1 percent, an increase from the 6.5-percent rate recorded in March 2009. In Michigan, during the 12 months ending March 2010, market conditions were soft as the average sales price de-clined by 9 percent to $100,100, but sales increased by 11 percent to 114,000 homes, according to the Michigan Association of REALTORS®. The Illinois Association of REALTORS® reported that, for 2009, statewide existing home sales declined 1 percent from 2008, to 107,600 homes, and the average sales price declined 16 percent to $206,300. In the Chicago area, which includes nine Illinois counties, sales remained stable at 69,400 homes, but the average sales price declined 19 percent to $252,400. The percentage of mortgage loans in foreclosure, 90 days or more delinquent, or in REO in the Chicago area was particularly high at 10.9 percent, up from the 6.8-percent rate recorded a year earlier. The Ohio Association of REALTORS® reported a decline in statewide sales of 2 percent to 104,100 new and existing properties sold, and a 1-percent decline in average sales prices to $132,100. In the Cincinnati and Columbus metropolitan areas, sales increased 2 and 5 percent, respectively, and each registered a decline in average prices of 2 percent to $154,300 and $159,000, respectively.

Sales market conditions are generally balanced in Indiana. For the 12 months ending March 2010, the Metropolitan Indianapolis Board of REALTORS® reported a 1-percent increase in existing home sales compared with the number of homes sold during the previous 12 months, up to 25,100 homes sold, but the average sales price remained stable at $140,300. The Minneapolis Area Association of REALTORS® identified a 16-percent increase in existing home sales for the 12 months ending March 2010, or 45,550 homes sold, but a decrease in the average price of 11 percent to $202,600. In Wisconsin, both Milwaukee and Madison registered increased home sales and decreased sales prices. Data from Multiple Listing Service, Inc. indicate that, for the 12 months ending March 2010, sales in Milwaukee increased 3 percent to 12,550 homes, but the average price declined nearly 9 percent to $201,900. In Madison, the South Central Wisconsin Multiple Listing Service indicated sales increased 12 percent to 9,550 homes sold, but the average sales price decreased 8 percent to $186,300.

Homebuilding, as measured by the number of building permits issued, continued to decline in the region (a trend that began in 2005), albeit at a decreasing rate, in response to the job losses and weak demand for new homes. During the 12 months ending March 2010, based on preliminary data, the number of single-family homes permitted fell 8 percent to 44,000 homes compared with a 42-percent decline recorded during the same period a year earlier. In Michigan, single-family permits declined by 10 percent to 5,300 homes, largely because of a 26-percent decline in the number of permits issued in the Detroit metropolitan area. In Illinois, the number of single-family permits issued decreased to 6,300 homes, a decline of almost 25 percent. In Wisconsin, the number of single-family homes permitted declined by nearly 12 percent to 6,600 homes, with Milwaukee recording a 15-percent decline to 950 homes.

In Ohio, during the 12 months ending March 2010, homebuilding activity remained stable at 9,800 homes permitted. Cincinnati and Columbus each reported increases of 15 percent in the number of single-family permits issued, likely because of the relatively stable market conditions in these metropolitan areas. Single-family construction activity declined by 2 percent to 9,500 homes in Indiana and by 3 percent to 6,500 homes in Minnesota.

Multifamily construction, as measured by the number of units permitted, declined in the Midwest region by 47 percent to 12,200 units for the 12 months ending March 2010. Each state registered declines in the level of multifamily construction activity, ranging from 27 percent, or a decrease of 925 units, in Ohio to 65 percent, or a decline of 825 units, in Illinois. Although the number of units permitted in Ohio declined, activity in the Columbus metropolitan area increased 16 percent to 1,700 units because of the relatively tight rental market conditions. The 65-percent decline in Illinois was mainly because of reduced activity in the Chicago metropolitan area, where the number of multifamily units permitted declined by 70 percent to 1,850 units. Although the weak condominium sales market slowed activity, the Chicago metropolitan area still accounted for approximately 75 percent of the 2,525 multifamily units permitted in Illinois during the past 12 months.

Multifamily construction activity during the 12 months ending March 2010 in Wisconsin, Indiana, and Minnesota declined by 47, 44, and 27 percent, respectively compared with construction activity over the same period a year earlier. In Wisconsin, units permitted totaled 2,175, down 1,900 units; in Indiana, permit volume was 2,500 units, a 1,950-unit decrease; and, in Minnesota, the number of units permitted declined by 630 units to 1,750. In Michigan, the weak economy contributed to a 56-percent decline in multifamily units permitted; the 650 units permitted represent the lowest number permitted in more than 16 years.

Conditions in major apartment markets in the region were generally mixed between balanced and soft in the first quarter of 2010. According to Reis, Inc., in the first quarter of 2010, the apartment market in the

Chicago metropolitan area softened slightly but was still considered balanced. The apartment vacancy rate rose to 6.6 percent from the 6.0-percent rate recorded in the first quarter of 2009, and the average contract rent decreased 1 percent to $1,053 from $1,066. The downtown Chicago rental market was slightly soft as of the first quarter of 2010, with a vacancy rate of approximately 8 percent, down from 8.5 percent a year earlier, based on data from Reis, Inc.; concessions of 1 to 2 months' free rent were typical. Appraisal Research Counselors estimates 2,250 rental units are expected to enter the downtown Chicago market in 2010 compared with nearly 950 units in 2009.

In Indianapolis in the first quarter of 2010, market conditions were soft as the apartment vacancy rate increased to 10 percent from the 8.4-percent rate recorded in the first quarter of 2009, according to Reis, Inc., and the average rent decreased less than 1 percent to an average of $670. In Minneapolis, the apartment market softened slightly but remained balanced. GVA Marquette Advisors reported a rise in the vacancy rate in Minneapolis, from 4.9 percent in the first quarter of 2009 to 6.1 percent in the first quarter of 2010, and a decrease in the average rent by less than 1 percent to approximately $900. According to GVA Marquette Advisors, fewer than 500 new rental units are expected to enter the Minneapolis market in 2010, mainly due to lack of financing. Major Ohio rental markets were generally soft as of the first quarter of 2010. In Cincinnati, according to Reis, Inc., the rental vacancy rate was approximately 8.2 percent, up from 7.5 percent a year earlier, and the rent averaged $700. In Cleveland, the vacancy rate was approximately 7.0 percent, up from 6.4 percent in the first quarter of 2009. Rents in Cleveland averaged $725 in the first quarter of 2010, down slightly from the average of $735 recorded a year earlier. The Columbus rental market is soft. According to Reis, Inc., in the first quarter of 2010, the vacancy rate was approximately 9.5 percent, up from 8.3 percent in the first quarter of 2009, and the average rent remained unchanged at approximately $680. The Milwaukee area rental market is balanced, with an estimated vacancy rate of 5.2 percent for the first quarter of 2010, and the Detroit metropolitan area rental market is soft, reporting a vacancy rate of 8.1 percent compared with the 7.6-percent rate recorded in the first quarter of 2009.