1st Quarter 2011

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.

In the Midwest region, employment levels increased during the first quarter of 2011, the first quarterly increase in nonfarm payroll jobs since 2007. For the 12 months ending March 2011, nonfarm payrolls gained almost 103,000 jobs, or 0.5 percent, to an average of 22.7 million jobs compared with a decline of 1.2 million jobs in the previous 12-month period. Sectors with job growth included the professional and business services, education and health services, and manufacturing sectors, which added 99,400, 61,700, and 47,300 jobs, or 3.7, 1.7, and 1.7 percent, respectively. These gains were partially offset by losses recorded in the construction, financial activities, and government sectors, which declined by 32,200, 21,800, and 21,200 jobs, or 3.9, 1.7, and 0.6 percent, respectively. Each of the six states in the region reported nonfarm payroll job increases, led by Michigan, which gained 30,500 jobs, or 0.8 percent, followed by Indiana, Ohio, and Illinois, which gained 27,900, 17,100, and 14,900 jobs, or 1.0, 0.3, and 0.3 percent, respectively. Wisconsin and Minnesota reported smaller nonfarm payroll increases of 8,600 and 3,800 jobs, or 0.3 and 0.1 percent, respectively. As a result of increasing employment, the average unemployment rate for the 12 months ending March 2011 was 9.5 percent, down from the 10.7-percent rate recorded for the 12 months ending March 2010. The unemployment rate, which dropped in each of the six Midwest region states, ranged from 7.0 percent in Minnesota to 11.7 percent in Michigan.

As economic conditions improved, home sales markets in the Midwest region strengthened, although conditions are still slightly soft as foreclosure activity and uncertain lending conditions continue to cause disruptions. State REALTOR® offices report declining sales and generally increasing prices for the 12 months ending March 2011. In Michigan, the Michigan Association of REALTORS® reported that, for the 12 months ending March 2011, sales declined 9 percent, to 105,700, and the average sales price increased 6 percent, to $106,900.

Declining sales and increasing prices also occurred in Indiana, where the Indiana Association of REALTORS® reported sales fell to 56,900, which represented a 9-percent decline from the previous year, and the average price rose almost 4 percent, to $133,100, for the 12 months ending March 2011. The home sales market was soft in Minnesota where, according to the Minnesota Association of REALTORS®, during the 12 months ending March 2011 there was a 12-percent drop in new and existing home sales, down to 62,200, and an 11-percent decline in the median price, down to $129,500, compared with the median sales price in March 2010. In Wisconsin, for the 12 months ending March 2011, the Greater Milwaukee Association of REALTORS® reported an 18-percent decrease in home sales for the four-county Milwaukee-Waukesha-West Allis metropolitan area, to 11,000 homes sold, and a 2-percent increase in the average sales price, to $207,000, compared with home sales and prices for the previous 12-month period.

In Ohio, the Ohio Association of REALTORS® reported that, for the 12 months ending March 2011, home sales declined by almost 26 percent, to 97,950, but the average sales price remained unchanged at $132,000 compared with home sales and prices for the 12 months ending March 2010. The Ohio Association of REALTORS® identified the slowly recovering economy and the end of the first-time homebuyers tax credit as contributing factors to the decline in home sales. In Illinois, home sales markets are soft in the state and in the Chicago metropolitan area. For the 12 months ending March 2011, the Illinois Association of REALTORS® reported a 10-percent decline in home sales for the state, to 101,100 homes, and a 12-percent drop in the median sales price, down to $130,000. In the Chicago metropolitan area, for the 12 months ending March 2011, home sales declined 8 percent, to 73,250 homes, and the median sales price in March 2011 was $158,000, 14 percent below the price in March 2010. According to LPS Applied Analytics, in February 2011, the number of home loans 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned) decreased to 516,900, or 8.4 percent of all loans recorded in the Midwest region. These numbers reflect an improvement from the 9.3-percent rate recorded in February 2010, when 550,700 loans were in this status.

Partly because of weakness in the home sales market and the slowly recovering economic conditions, single-family construction activity, as measured by the number of building permits issued, declined during the 12 months ending March 2011. During the 12 months ending March 2011, the number of single-family homes permitted fell nearly 8 percent, to 39,700 homes, following a 10-percent decline for the previous 12-month period, based on preliminary data. Single-family homebuilding in the region remains significantly below the recent 3-year average annual pace from 2007 through 2009 of 74,750 homes. Every state except Michigan reported a decline; the declines ranged from 10 percent, or 5,875 homes, in Wisconsin to 15 percent, or 8,050 homes, in Indiana. Permits in Illinois, Ohio, and Minnesota were lower by 11, 13, and 14 percent, to 5,600, 8,575, and 5,575, respectively. In Michigan, single-family construction activity increased by 12 percent, to 6,000 homes.

Multifamily construction, as measured by the number of units permitted, increased in the Midwest region by 39 percent, to 16,850 units, for the 12 months ending March 2011, according to preliminary data. Each state registered gains ranging from 630 to 2,925 units in Ohio to an increase of 1,000 units, to 3,200, in Wisconsin. In Ohio, the increase in multifamily construction was led by Columbus, where 250 more multifamily units were permitted during the 12 months ending March 2011 than during the previous 12-month period. Increases of 30 percent each were reported in both Illinois and Indiana, where permits increased to 3,475 and 3,300 units, respectively. The Chicago metropolitan area accounted for all of the increases in multifamily units permitted in Illinois, and the Indianapolis metropolitan area accounted for 36 percent of the increased multifamily units reported in Indiana. In Minnesota and Wisconsin, the increase in multifamily units permitted was 45 and 46 percent, to 2,525 and 3,200 units, respectively. The Milwaukee metropolitan area accounted for two-thirds of the increased multifamily units permitted in Wisconsin, and the Minneapolis metropolitan area accounted for 61 percent of the increased units permitted in Minnesota.

Conditions improved in major rental markets in the Midwest region during the first quarter of 2011, with lower vacancy rates and higher average rents compared with the first quarter of 2010. Apartment market conditions improved in all three major metropolitan areas in Ohio: Cincinnati, Cleveland, and Columbus. Conditions in Cincinnati and Cleveland are currently balanced, with vacancy rates reported by Reis, Inc., of 6.4 and 5.2 percent, respectively, down from 8.2 and 7.0 percent during the first quarter of 2010. The apartment market in Columbus remains soft, with an apartment vacancy rate of 8.6 percent, down from 9.5 percent a year earlier. Rents in the three Ohio metropolitan areas increased between the first quarter of 2010 and the first quarter of 2011 by 2 percent in Cincinnati, to $720, and by 1 percent in both Cleveland and Columbus, to $740 and $690, respectively. In Detroit, where conditions are balanced, Reis, Inc., reported the apartment vacancy rate was 6.6 percent, down from 8.1 percent in the first quarter of 2010, and the average rent rose 1 percent, to $830. In Minneapolis, the rental market is tight. According to Marquette Advisors, the estimated vacancy rate in Minneapolis was 3.1 percent in the first quarter of 2011, down sharply from 6.1 percent in the first quarter of 2010, and the average rent increased 2 percent, to $916. In downtown Minneapolis, the average rent increased 5 percent, to nearly $1,275, while the downtown Minneapolis apartment vacancy rate decreased from 8.4 to 3.5 percent.

In Milwaukee, the apartment market is balanced but tightening. According to Reis, Inc., the vacancy rate was 4.2 percent for the first quarter of 2011, down from the 5.2-percent rate reported in the first quarter of 2010, and the average rent increased 1 percent to $840. In Indianapolis, the market is improving but remains slightly soft, as the average rent rose 3 percent, to $690, and the apartment vacancy rate declined from 10.0 to 7.5 percent. In the Chicago metropolitan area, where conditions are balanced, Reis, Inc., reported the apartment vacancy rate for the first quarter of 2011 was 5.4 percent, down from 6.6 percent a year earlier, while the average rent increased 2 percent, to $1,075. The downtown Chicago rental market is balanced. According to Appraisal Research Counselors, for the fourth quarter of 2010, the vacancy rate was 6.4 percent, down from the 7.6-percent rate reported in the fourth quarter of 2009, with net effective rents up approximately 7 percent since last year, including rent increases and declining concessions.