2nd Quarter 2009

U.S. Housing Market Conditions

MIDWEST REGIONAL REPORT

HUD Region V

2nd 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 second quarter of 2009, marking the fifth consecutive quarter of job losses. During the 12 months ending June 2009, nonfarm employment decreased by more than 757,000 jobs, or 3 percent, to an average of 23.5 million jobs compared with the number of jobs recorded during the previous 12-month period. Employment gains were recorded in the education and health services and the government sectors, which increased by 79,400 and 7,300 jobs, or 2.3 and 0.2 percent, respectively. Employment in all other sectors declined. The largest job losses occurred in the manufacturing sector, which declined by 309,700 jobs, or 9 percent, and in the construction sector, which declined by 109,300 jobs, or 11 percent. Nearly 35 percent of the manufacturing jobs lost were in the transportation equipment manufacturing industry. As Chrysler Group LLC and General Motors Corporation restructure, job dislocations in automotive-related employment are likely to continue. Other significant declines occurred in the professional and business services and the trade sectors, down 174,800 and 108,800 jobs, respectively.

Each of the six states in the Midwest region posted job losses during the second quarter of 2009; this is the third quarter in a row in which a state in the Midwest region has not recorded a net increase in jobs. The magnitude of employment decline ranged from 59,300 jobs lost in Minnesota to 215,500 jobs lost in Michigan, while Ohio and Illinois lost 168,800 and 153,800 jobs, respectively. In Michigan, during the 12 months ending June 2009, losses in the manufacturing sector totaled 81,900 jobs; 45,700 of the positions eliminated were in transportation equipment manufacturing. Indiana and Ohio also reported declines in transportation equipment manufacturing employment of 26,900 and 22,500 jobs, respectively. The unemployment rate in the region during the second quarter of 2009 rose from 5.7 to 8.6 percent. In each state, the rate rose, ranging from 6.8 percent in Wisconsin to 11.2 percent in Michigan.

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The slowing national and regional economies, tighter lending standards, and increasing numbers of foreclosures all contributed to continued weakness in the existing home sales market in the region during the first half of 2009. Conditions have been weak for the past 3 years, beginning with the second quarter of 2006. According to the NATIONAL ASSOCIATION OF REALTORS®, in the first quarter of 2009 (the most recent data available), the annual rate of existing home sales in the region declined by 11 percent to 823,200 homes from the rate reported in the first quarter of 2008. Sales were down in all states in the region except Minnesota, which reported a 12-percent increase in sales to 109,200 homes.

Local and state REALTOR® organizations report that home sales continued to slow throughout the region. In Illinois, existing home sales declined 20 percent to 97,000 for the 12 months ending June 2009 compared with the number of sales recorded for the same period a year earlier, and the $167,900 median sales price recorded for June 2009 was 16 percent lower than the median sales price recorded in June 2008. In the Chicago metropolitan area, which accounted for a typical 64 percent of the state's existing home sales during the most recent 12-month period, sales declined 21 percent to 61,800 homes. In Ohio, according to data from the Ohio Association of REALTORS®, during the 12-month period ending June 2009, existing home sales declined 16 percent to 101,000 homes compared with the number of homes sold during the previous 12-month period and the average price declined 10 percent to $130,100.

In Wisconsin, during the 12 months ending June 2009, existing home sales in the Milwaukee metropolitan area declined by 14 percent compared with the number of homes sold during the 12 months ending June 2008. The average sales price declined as well, by 13 percent to $189,000. In Minnesota, the Minneapolis Area Association of REALTORS® reports that existing home sales increased 8 percent to 40,550 homes during the 12 months ending June 2009, but the average sales price decreased 18 percent to $213,500. In Indiana, the Metropolitan Indianapolis Board of REALTORS® data indicate existing home sales declined 12 percent to 23,950 homes during the 12-months ending June 2009, and the average price declined 8 percent to $137,100. In Michigan, according to the Michigan Association of REALTORS®, existing home sales rose 4 percent to 104,900 but the average price of an existing home fell approximately 27 percent to $104,500. Foreclosed properties and the weak economy exerted downward pressure on existing home prices.

In response to soft sales housing market conditions, single-family construction, as measured by the number of building permits issued, fell by 41 percent during the 12 months ending June 2009 to 53,700 homes permitted in the region. The number of single-family homes permitted was the lowest annual figure in the past 24 years and represented only 30 percent of the average annual of 176,100 homes permitted during the previous five 12-month periods ending in June. Single-family construction activity declined in all states in the region during the 12 months ending June 2009, with declines in Illinois and Ohio of 48 and 40 percent, respectively, accounting for nearly one-half the regional decline. In Minnesota, single-family construction activity declined 37 percent to 6,825 homes permitted, the lowest level recorded since 1970. In Michigan, Indiana, and Wisconsin, 6,775, 9,850, and 8,550 new single-family homes were permitted, respectively, the lowest levels for those states in at least 7 years.

Major metropolitan areas in the region reported similar reductions in the number of single-family homes permitted, including a decline of 31 percent each in Cincinnati, Cleveland, and Columbus. In Chicago, activity was down 54 percent to 5,750 single-family homes permitted. Other metropolitan areas that recorded declines include Indianapolis, Minneapolis, and Detroit, which reported 35, 34, and 58 percent fewer single-family homes permitted, respectively, or 3,675, 3,600, and approximately 1,375 homes.

Multifamily construction activity, as measured by the number of units permitted, also continued to decline in the Midwest region through the second quarter of 2009. During the 12 months ending June 2009, the number of multifamily units permitted was down 42 percent to 19,600 units and down 62 percent from the average of 50,950 units permitted annually between 2003 and 2008. Multifamily construction activity, down in all states in the region, ranged from a 22-percent decline in both Minnesota and Ohio to a 63-percent decline in Illinois. The Chicago metropolitan area accounted for the entire decline in multifamily construction activity in Illinois. During the 12 months ending June 2009, the number of multifamily units permitted in the Chicago metropolitan area totaled 3,800, down 69 percent compared with the number of units permitted during the previous 12-month period and down 77 percent compared with the average number of units permitted during each of the previous 3 years.

Similar declines in the number of multifamily units permitted were recorded in metropolitan areas throughout the region, with Minneapolis down 32 percent to 1,300 units during the 12 months ending June 2009 compared with the number of units permitted during the previous 12-month period and down 59 percent compared with the average number of units permitted during the previous 3 years. Reductions in the number of multifamily units permitted in the region ranged from 9 percent in Indianapolis to 56 percent in Cincinnati.

Rental apartment market conditions are generally balanced in major metropolitan areas of the Midwest region but are softer than they were a year ago. According to Reis, Inc., the vacancy rate in the Chicago metropolitan area increased from 5.2 percent in the second quarter of 2008 to 6.7 percent in the second quarter of 2009, but the average market rent remained unchanged at approximately $1,075. In the Chicago Loop submarket, according to Reis, Inc., the vacancy rate increased to 13 percent in the second quarter of 2009 compared with 7 percent in the same quarter a year earlier, and the market rent increased almost 3 percent, to $1,800. Factors influencing the softer Chicago Loop rental market include new rental supply; the continued conversion of condominiums to rental units, which numbered approximately 1,375 units listed for rent in the first quarter of 2009; and weaker employment.

In the Minneapolis-St. Paul metropolitan area, Reis, Inc., reports the vacancy rate was 4.4 percent in the second quarter of 2009, up slightly from 4.1 percent in the same quarter a year earlier, but the market rent remained stable at approximately $950. In Ohio, rental markets softened in Cincinnati, Cleveland, and Columbus in the second quarter of 2009, with vacancy rates rising to 7.2, 6.7, and 8 percent, respectively, compared with rates of 6.6, 5.1, and 7.4 percent, respectively, recorded during the second quarter of 2008. The market rent rose slightly in Cincinnati, to $710, but remained generally stable in Cleveland and Columbus, at $730 and $680, respectively. According to Reis, Inc., the rental vacancy rate in the Detroit metropolitan area increased from 6.4 to 7.5 percent in the second quarter of 2009, but the market rent remained stable at $830. In the Indianapolis metropolitan area, the vacancy rate increased from 7.5 to 8.2 percent, but the average market rent remained stable at $675.