



# 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 decreased in the Midwest region during the second quarter of 2010, which is the ninth consecutive quarter of job losses. In the 12 months ending June 2010, nonfarm employment decreased to 22.6 million jobs, down nearly 878,000 jobs, or 3 percent, compared with the number of jobs during the previous 12-month period, and down 7 percent below the recent peak of 24.3 million jobs in 2007. During the past 12 months, only the education and health services sector added jobs, increasing by 1.3 percent, or 44,700 jobs, to 3.6 million jobs. Employment levels in all other sectors declined, led by a loss of 305,000 jobs, or 10 percent, in the manufacturing sector during the 12 months ending June 2010. For the same period, the

manufacturing sector had about 2.8 million jobs, which are approximately two-thirds of the 4.1 million manufacturing jobs the sector had a decade ago. Job losses in the manufacturing sector for the 12 months ending June 2010 were more than twice the losses in the next most affected sector, the professional and business services sector, which lost 133,000 jobs, or 4.7 percent. Other significant job declines occurred in the trade sector and the construction sector, down 132,000 and 123,000 jobs, or 3.6 and 13.3 percent, respectively.

Each of the six states in the Midwest region posted job losses in the second quarter of 2010, which is the seventh consecutive quarter without job gains in any of the six states. The magnitude of employment declines during the 12 months ending June 2010 ranged from 3.0 percent in Minnesota to 4.2 percent in Michigan. The unemployment rate in the region rose from 8.5 percent for the 12 months ending June 2009 to 10.7 percent for the 12 months ending June 2010. The unemployment rate rose in each state, ranging from 7.5 percent in Minnesota to 14 percent in Michigan.

The market for existing home sales in the Midwest region improved during the 12 months ending March 2010 but remained soft as states and metropolitan



areas posted increases in the number of home sales compared with the number sold during the same period a year earlier, although home prices continue to fall in many areas. According to the NATIONAL ASSOCIATION OF REALTORS®, the number of annualized regional existing home sales for the first quarter of 2010 (the latest data available) increased 13 percent from the first quarter of 2009, to 896,400 existing homes sold. Home sales prices fell in many areas, however, influenced by an increase in the number of homes in the foreclosure process. According to Lender Processing Services Mortgage Performance Data, in June 2010, the percentage of home loans in foreclosure, 90 days or more delinquent, or in REO (Real Estate Owned) was 8.6 percent, an increase from the 7.3-percent rate recorded in June 2009.

State and local REALTOR® organizations report rising home sales figures, with mixed trends in home sales prices. In Illinois, home sales increased 9 percent, to 111,100 homes, for the 12 months ending March 2010 (the latest data available), but the average sales price declined almost 13 percent, to \$207,200. In the Chicago metropolitan area, existing home sales increased nearly 13 percent to 73,250 and the average sales price declined 16 percent, to \$250,600. In Michigan, the Michigan Association of REALTORS® reported a 22-percent increase in existing home sales for the 12 months ending June 2010 compared with sales for the same period in the previous year, to 124,400 homes sold and a drop in the average sales price of less than 1 percent, to \$103,200. The Indiana Association of REALTORS® reported an increase in home sales of 8 percent, to 65,700 homes, and a 5-percent increase in the median sales price, to \$109,900, for the 12 months ending June 2010. The Ohio Association of REALTORS® reported that both home sales and the average sales price increased by 10 and 3 percent, respectively, to 110,900 home sales and an average sales price of \$134,200. REALTOR® associations in both Minneapolis and Milwaukee reported increased home sales and declining sales prices during the 12 months ending June 2010. In Minneapolis, home sales increased nearly 12 percent, to 46,550, but the average sales price declined 3 percent, to \$207,300. In Milwaukee, home sales increased nearly 16 percent, to 13,850 homes, and the average sales price declined almost 4 percent, to \$203,000.

Single-family homebuilding activity, as measured by the number of building permits issued, stabilized in the Midwest region during the 12 months ending June 2010, reversing the trend of more than 5 years of decline. During the 12 months ending June 2010, based on preliminary data, the number of single-family homes permitted increased by 7 percent to 44,950 homes compared with the number permitted during the same period a year earlier but remained about 14 percent below the average of 52,400 single-family

homes permitted annually during the previous 3 years. Single-family home construction activity increased in all states in the region, except in Illinois, where the decline was 8 percent, to 6,375. In Michigan, during the 12 months ending June 2010, single-family homes permitted increased by nearly 18 percent from the same period a year earlier, to 5,775 homes. Minnesota and Indiana reported increases of 11 and 10 percent, to 6,700 and 9,525 homes permitted, respectively. In Ohio and Wisconsin, single-family permits increased 9 and 5 percent, to 9,750 and 6,850 homes, respectively.

Major metropolitan areas in the region reported increased single-family homebuilding activity during the 12 months ending June 2010, with the exception of Chicago, where the number of single-family homes permitted declined nearly 13 percent, to 4,700 homes, according to preliminary data. The three largest Ohio metropolitan areas of Cincinnati, Cleveland, and Columbus all reported increases in the number of single-family homes permitted, up 18, 8, and 19 percent, respectively, to 3,350, 2,025, and 2,925 homes permitted. Single-family homebuilding in Detroit increased 30 percent, to 1,775 homes permitted, which remains below the average of 2,000 single-family homes permitted annually over the past 3 years. In Minneapolis and Milwaukee, the number of homes permitted was up 17 and 3 percent, to 4,175 and 980 homes permitted, respectively; in Indianapolis, the number of single-family homes permitted increased nearly 10 percent, to 4,050 homes.

Multifamily construction activity, as measured by the number of units permitted, continued to decline in the Midwest region during the 12 months ending June 2010. The number of multifamily units permitted was down 22 percent, to 14,000 units, 33 percent fewer than the average of 20,950 units permitted during the previous three 12-month periods, based on preliminary data. During the 12 months ending June 2010, multifamily construction activity decreased in each Midwest state, except in Minnesota, where the number of multifamily units permitted increased nearly 16 percent, to 2,250 units. In each of the other five states, the decline in multifamily units permitted was significant, ranging from a decrease of 16 percent in Wisconsin, to 2,750 units, to a 37-percent decrease in Michigan, to 750 units. The number of multifamily unit permits issued declined 33 percent in Ohio, 28 percent in Illinois, and 24 percent in Indiana.

In the Midwest metropolitan areas, multifamily construction activity was mixed during the 12 months ending June 2010. In Chicago, the number of multifamily units permitted continued to decline, to 3,225 units, which is 28 percent fewer than the number permitted during the 12 months ending June 2009, according to preliminary data. In Ohio, the number of multifamily units permitted increased from 1,475 to



1,525 units in Columbus and decreased in Cincinnati and Cleveland, from 500 to 320 units and from 520 to 85 units, respectively. The number of multifamily units permitted increased in other metropolitan areas in the Midwest region, ranging from a 6-percent increase in Minneapolis, to 1,325 units, to a 15-percent increase in Detroit, to 400 units. Increases in Indianapolis and Milwaukee were 7 and 9 percent, respectively.

Rental market conditions were mixed in the major metropolitan areas of the Midwest region during the second quarter of 2010, although most markets were softer than they were during the same period a year earlier. According to Reis, Inc., the apartment vacancy rate in the Chicago metropolitan area decreased slightly, from 6.7 percent in the second quarter of 2009 to 6.6 percent in the second quarter of 2010, and the average rent declined 2 percent, to \$1,050. The downtown Chicago rental market strengthened during the 12 months ending June 2010. According to Appraisal Research Counselors, the vacancy rate for the second quarter of 2010 was 6.3 percent, down from 7.2 percent in the second quarter of 2009. During the 12 months ending June 2010, net effective rents in downtown Class A properties rose 2.3 percent from the previous 12-month period and rose 2.6 percent in Class B properties. Concessions were 1.5 months of free rent with a 12-month lease, down from 2 months or more of free rent offered previously.

Rental market conditions were balanced in the Minneapolis-St. Paul metropolitan area, where Reis, Inc., reported a 5.1-percent apartment vacancy rate in the second quarter of 2010, up from the 4.4-percent rate in the second quarter of 2009. The average rent remained unchanged at \$950. During the second quarter of 2010, the major metropolitan markets in Ohio were soft, because Cincinnati and Columbus both reported weaker conditions than in the second quarter of 2009, with 7.7- and 9.7-percent apartment vacancy rates, respectively, while the average rent remained at \$710 in Cincinnati and increased 1 percent, to \$690, in Columbus. In Cleveland, Reis, Inc., reported the vacancy rate and average rent were unchanged, at 6.7 percent and \$730, respectively.

The rental market in Indianapolis was soft during the second quarter of 2010. In the second quarter of 2010, the apartment vacancy rate was 9.6 percent, up from 8.2 percent for the second quarter of 2009, while the average rent remained at \$675, according to Reis, Inc. In Detroit, the market softened slightly when the vacancy rate increased from 7.5 to 7.9 percent while the average rent declined from \$830 to \$820. The market remained balanced in Milwaukee, where the vacancy rate and average rent were unchanged at 5 percent and \$830, respectively.