2nd Quarter 2011

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.

Nonfarm payrolls increased in the Midwest region during the second quarter of 2011, the second consecutive quarter of job gains. In the 12 months ending June 2011, nonfarm payrolls increased 1.0 percent to 22.8 million jobs, a gain of nearly 189,000 jobs and only 6 percent below the 2007 peak of 24.3 million jobs. The professional and business services sector, up 3.9 percent, or 106,400 jobs, led the gains along with the manufacturing and the education and health services sectors, which increased by 2.4 and 2.0 percent, or 67,800 and 71,400 jobs, respectively. The construction subsector, down 2.2 percent or 17,300 jobs, the government sector, down 1.2 percent or 44,100 jobs, and the financial activities sector, down 1.2 percent or 15,000 jobs, showed the largest decreases in the region.

Each of the six states in the Midwest region posted job gains in the second quarter of 2011. Nonfarm payroll increases ranged from 13,100 jobs, or 0.5 percent, in Minnesota to 48,300 jobs, or 1.3 percent, in Michigan. Nonfarm payroll gains measured 18,500 jobs, or 0.7 percent, in Wisconsin and 22,400 jobs, or 0.8 percent, in Indiana. Two states reported larger gains: 42,100 jobs, or 0.8 percent, in Illinois and 44,200 jobs, or 0.9 percent, in Ohio. Stronger economic conditions led to lower unemployment rates in all six states, with rates ranging from 7.7 percent in Wisconsin to 11.1 percent in Michigan. For the region, the average unemployment rate for the 12 months ending June 2011 was 9.2 percent, down from the 10.6-percent rate reported for the 12 months ending June 2010.

Despite the stronger economy, home sales markets, which are soft in all six states, have softened since the previous quarter as new and existing home sales continue to decline. The Michigan Association of REALTORS® reported that, for the 12 months ending May 2011, home sales in the state fell 12 percent to 103,000 (the latest data available), but the average sales price increased 5 percent to $107,100. In Indiana, home sales declined by 18 percent to 53,650 for the 12 months ending June 2011, while the average sales price increased 3 percent to $133,900. In Wisconsin, the multiple listing service reported a 28-percent decrease in home sales for the four-county Milwaukee metropolitan area, to 10,250 sales, and the average sales price declined slightly, to $202,700 from $203,400, also for the 12 months ending June 2011. The Ohio Association of REALTORS® reported an 18-percent decrease in home sales to 91,250 and a 3-percent decline in the average sales price to $129,700.

In Illinois and the Chicago metropolitan area, home sales and prices declined in the 12 months ending June 2011, according to the Illinois Association of REALTORS®. For the state, sales declined 21 percent to 94,850, and the median sales price dropped 12 percent to $150,000 compared with sales and prices the previous year. In the nine-county Chicago metropolitan area, sales were down almost 20 percent, to 63,650, and the median sales price declined by 13 percent to $180,000. In Minnesota, approximately 60,650 homes sold during the 12 months ending June 2011, down nearly 20 percent from the 75,600 homes sold the previous year, according to the Minnesota Association of REALTORS®, while the average sales price declined 3 percent to $129,700. Foreclosure activity in the Midwest region was lower in June 2011 than in the previous year, with approximately 8 percent of home mortgages 90 or more days delinquent, in foreclosure or in REO (Real Estate Owned), according to LPS Applied Analytics, down from 8.6 percent of all home loans in June 2010.

Single-family homebuilding, as measured by the number of building permits issued, declined in the Midwest region, based on preliminary data. The number of single-family homes permitted decreased by 14 percent to 38,500 compared with the number permitted during the 12 months ending June 2010. During the 12 months ending June 2011, single-family home construction activity declined in every state in the region except Michigan, where single-family homes permitted increased 6 percent to 6,125. In Illinois, Indiana, and Ohio, the number of homes permitted decreased by 16 percent each, to 5,325, 8,025, and 8,200 homes, respectively. In Wisconsin and Minnesota, the single-family homebuilding declines were 19 and 21 percent, to 5,550 and 5,275, respectively, for the 12 months ending June 2011.

Major metropolitan areas in the region also reported decreased single-family homebuilding activity during the 12 months ending June 2011, with the exception of Detroit, where the number of single-family homes permitted increased 49 percent, to 2,650 homes, according to preliminary data. Elsewhere in the region, declines in single-family construction activity ranged from 8 percent, to 900 homes, in Milwaukee, to 25 percent, to 2,500 homes, in Cincinnati. Compared with totals for the previous year, homes permitted declined 13 percent each in Columbus and Indianapolis, to 2,550 homes and 3,525 homes, respectively; declined 17 percent to 3,875 homes in Chicago; declined 19 percent to 3,425 homes in Minneapolis; and declined 20 percent to 1,625 homes in Cleveland.

Multifamily construction activity, as measured by the number of units permitted, increased by 6 percent to 15,400 units for the Midwest region during the 12 months ending June 2011, according to preliminary data. Multifamily construction in Michigan increased 83 percent, to 1,400 units, but remains below the 1,725-unit average annual change from 2007 through 2009. Multifamily construction also increased in Wisconsin, by 20 percent to 3,100 units; in Ohio, by 15 percent to 2,750 units; and in Illinois, by 4 percent to 3,500. Multifamily units permitted declined in both Minnesota and Indiana, by 4 and 21 percent, to 2,200 and 2,450 units, respectively. Metropolitan areas in the Midwest region reported increased construction activity for the 12 months ending June 2011, except for Indianapolis, where multifamily units permitted declined by 41 percent to 1,375 units. According to preliminary data, reported gains were 4 percent, to 2,600 units, in Chicago; 7 percent, to 1,650 units, in Columbus; 14 percent, to 880 units, in Milwaukee; 59 percent, to 130, in Cleveland; 63 percent, to 660, in Detroit; and 91 percent, to 580, in Cincinnati.

Rental market conditions were balanced in most major metropolitan areas of the Midwest region during the second quarter of 2011 and were stronger than during the first quarter of 2011 in all metropolitan areas. In Cleveland and Cincinnati, in the second quarter of 2011, apartment vacancy rates were 5.1 and 6.0 percent, down from 6.7 and 7.7 percent, respectively. During the same period, average rents rose by 1 and 2 percent, to $740 and $720, respectively, according to Reis, Inc. In Detroit, the apartment vacancy rate was 6.2 percent, down from 7.9 percent a year earlier, and the average rent rose 1 percent to $830. The Columbus market was soft, with a vacancy rate of 8 percent, down from 9.7 percent the previous year, and the average rent rose almost 2 percent, to $700, according to Reis, Inc. The Indianapolis market was also slightly soft; the apartment vacancy rate was 6.9 percent, down from 9.6 percent a year earlier, and the average rent rose 2 percent to $690. In Chicago, Reis, Inc., estimates the second quarter 2011 apartment vacancy rate at 5.1 percent, down from 6.6 percent the previous year, and the average rent at $1,076, up almost 2 percent. The downtown Chicago rental market is balanced, according to Appraisal Research Counselors, with a 6.1-percent first quarter 2011 vacancy rate, compared with a 6.2-percent rate during the first quarter of 2010. The rental market in Chicago absorbed approximately 480 units during the first quarter of 2011, and net effective rents increased 6 percent compared with rents during the first quarter of 2010.

The apartment market is tight in Milwaukee, with an apartment vacancy rate of 4.0 percent, down from the

5.0-percent rate as of the second quarter of 2010, according to Reis, Inc. During the same period, the average rent rose almost 2 percent to $840. Rental market conditions are tight in Minneapolis, according to GVA Marquette Advisors, with an estimated vacancy rate of 2.4 percent during the second quarter of 2011, down from 5.0 percent a year earlier, and the average rent is $920, up 2 percent from the same period. In downtown Minneapolis, the vacancy rate is 1.2 percent, down from 6.0 percent a year earlier, and the average rent increased 7 percent to $1,225.