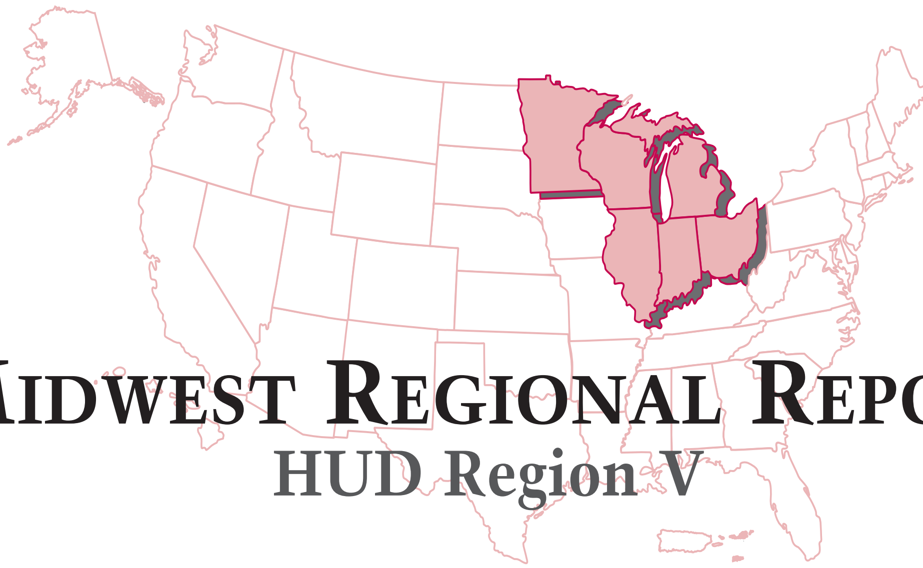
3rd Quarter 2009

U.S. Housing Market Conditions



Midwest Regional Report

HUD Region V

3rd 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.

Economic conditions in the Midwest region continued to slow during the third quarter of 2009, marking the sixth consecutive quarter of job losses. During the 12-month period ending September 2009, nonfarm employment decreased by 998,000 jobs, or 4.1 percent, to an average of 23.2 million jobs. Job losses were widespread, with only the education and health services sector recording job growth, with the addition of 71,400 jobs, an increase of 2.1 percent. Sectors with significant job losses included manufacturing, professional and business services, and construction, which declined by 396,000, 162,700, and 131,900 jobs, respectively, or 11.7, 5.4, and 12.9 percent. In the manufacturing sector, 30 percent of the loss was attributed to declines in transportation equipment manu-facturing. Every state in the region lost jobs, ranging from 85,300 jobs, or 3.1 percent, in Minnesota to 263,100 jobs, or 6.3 percent, in Michigan. Illinois job losses totaled 219,300, or 3.7 percent, while 217,700 jobs, or 4.0 percent, were lost in Ohio. For the 12 months ending September 2009, the average unemployment rate in the region was 9.6 percent, up from 6.1 percent for the 12-month period ending September 2008. Unemployment rates ranged from 7.8 percent in Wisconsin to 12.8 percent in Michigan.

Slow economic growth contributed to weakness in the existing home sales market in the Midwest region. According to data from the NATIONAL ASSOCIATION OF REALTORS®, during the second quarter of 2009, the annual rate of existing home sales in the region declined by nearly 4 percent to 829,600 homes compared with the rate of sales during the second quarter of 2008. The annual rate of existing home sales activity was stabilizing in some states, with gains of 10.0 and 12.7 percent reported in Michigan and Minnesota, respectively, but declines continued in the other states. Foreclosures continued to affect the home sales market in the region, according to data from RealtyTrac®, with every state except Michigan recording a higher rate of foreclosure activity than the national average foreclosure rate recorded during the third quarter of 2009.

Home sales markets, in general, are soft but appear to be stabilizing in most major metropolitan areas of the Midwest region. According to data from the Ohio Association of REALTORS®, during the 12-month period ending September 2009, existing home sales declined 15 percent in Ohio to 98,800 homes compared with the number of homes sold during the 12-month period ending September 2008; the average sales price declined 9 percent to $128,400. In Cincinnati, during the 12 months ending September 2009, home sales declined 8 percent from the 12-month period ending September 2008 to 17,900 homes and the average sales price declined 10 percent to $150,200. In Columbus, home sales declined 11 percent to 19,000 and the average sales price declined 6 percent to $157,500. According to the Illinois Association of REALTORS®, during the 12 months ending September 2009, the number of existing homes and condominiums sold declined by 14 percent in the state to 97,700 and the average sales price declined by almost 17 percent to $212,100. In the Chicago metropolitan area, the number of existing home sales, including condominiums, was 62,650, a decline of 14 percent, and the average sales price declined nearly 19 percent to $261,900, reflecting a market that is still soft.

In Indiana, data from the Metropolitan Indianapolis Board of REALTORS® indicate that, during the 12 months ending September 2009, existing home sales declined 12 percent to 23,550 homes and the average sales price declined 6 percent to $136,300. Similarly, in Wisconsin, during the 12 months ending September 2009, existing home sales in major metropolitan areas decreased compared with the number sold during the 12 months ending September 2008. According to multiple listing services (MLSs) in Milwaukee and Madison, sales of existing homes in the metropolitan areas fell by 9 and 7 percent, respectively, and average sales prices fell by 13 and 8 percent, respectively.

Home sales in Michigan and Minnesota rose, despite weak economic conditions in each state, partly due to incentive programs and seller price reductions, reflecting stabilizing markets. According to the Michigan Association of REALTORS®, during the 12 months ending September 2009, approximately 108,400 existing homes were sold statewide, an increase of nearly 9 percent compared with the 99,850 existing homes sold in the 12-month period ending September 2008. The average sales price in Michigan, for the 12 months ending September 2009, was approximately $99,450, 20 percent less than the average sales price recorded in the 12 months ending September 2008. In Minnesota, during the 12 months ending September 2009, the Minneapolis-St. Paul metropolitan area recorded an 11-percent increase in existing home sales, to 42,300, and the average sales price declined 18 percent to $203,300.

In response to declining home sales, single-family home construction, as measured by the number of building permits issued, decreased in the Midwest during the 12 months ending September 2009, falling by 34 percent to 39,800 homes permitted, based on preliminary data. The number of single-family homes permitted was the lowest annual figure in the past 24 years and represented only 40 percent of the average annual figure of 99,700 single-family homes permitted during the previous three 12-month periods ending in September. Single-family construction activity declined in all states in the region during the 12 months ending September 2009, with declines in Illinois and Michigan of 48 and 39 percent, respectively, accounting for nearly one-half of the 20,900 fewer homes permitted in the region. In Chicago, the number homes permitted declined by 70 percent to 5,680 homes. In Detroit, 1,185 homes were permitted, 52 percent fewer than the number permitted during the 12 months ending September 2008.

Declines in the number of single-family homes permitted also occurred in the other states in the Midwest region during the 12 months ending September 2009, with Wisconsin down 33 percent to 6,225 homes, Indiana down 31 percent to 8,275, Minnesota down 28 percent to 5,725, and Ohio down 27 percent to 8,825. Major metropolitan areas registered similar declines, with Minneapolis down 36 percent and Cleveland, Cincinnati, and Columbus down 37, 26, and 20 percent, respectively.

In the Midwest region, multifamily construction, as measured by the number of units permitted, declined by 55 percent to 13,400 units during the 12 months ending September 2009, based on preliminary data. The number of multifamily units permitted during the past 12 months was down 74 percent from the average of 50,950 units permitted annually between 2003 and 2008. Multifamily production was down in all states in the region, ranging from a 39-percent decline in Indiana and Ohio to a 72-percent decline in Illinois. The decline in Illinois was entirely due to activity in the Chicago metropolitan area, where the number of multifamily units permitted declined 82 percent from 10,650 during the 12 months ending September 2008 to 1,925 during the 12 months ending September 2009. Most other metropolitan areas in the Midwest region reported declines in the number of multifamily units permitted, including a decline of 61 percent to 730 units in the Minneapolis metropolitan area and declines of 70 and 51 percent in Cincinnati and Columbus, respectively. In Detroit and Milwaukee, the declines were 82 and 68 percent, respectively, to 130 and 530 units. In Cleveland, the number of multifamily units permitted increased by 20 percent to 450 units for the 12 months ending September 2009; nearly all of the units contributing to the increase were apartments.

Apartment market conditions, in general, have been balanced in major metropolitan areas of the Midwest region but have been 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 third quarter of 2008 to 6.7 percent in the third quarter of 2009, while the average market rent decreased 1 percent to approximately $990. In the Chicago Loop submarket, the vacancy rate increased to 12 percent in the third quarter of 2009 compared with 7.6 percent for the third quarter of 2008, while the market rent decreased almost 5 percent to $1,525. Conditions softened in the Chicago Loop submarket as a result of the addition of 1,250 newly constructed apartments and an increase in condominium conversions. Appraisal Research Counselors reported more than 1,600 condominium units for rent in the submarket on the MLS as of the second quarter of 2009, approximately 70 percent more than in the second quarter of 2008. The job losses in downtown Chicago are also influencing the rental market in the Chicago Loop.

Rental housing market conditions in Minneapolis have softened during the past year but remain relatively balanced. According to GVA Marquette Advisors, the Twin Cities metropolitan area vacancy rate was 6.4 percent in the third quarter of 2009 compared with 4.1 percent in the third quarter of 2008, while the average rent was approximately $910, down from $920. In the downtown Minneapolis submarket, the average rent was reported at $1,150 during the third quarter of 2009, compared with $1,175 reported in the third quarter of 2008, while the vacancy rate increased from 4.5 percent to nearly 8 percent. Other metropolitan areas in the region reported softening in the apartment market as well. Data from Reis, Inc., indicated va-cancy rates rose in Columbus, Cincinnati, and Cleveland to 8.5, 7.6, and 6.8 percent, respectively, in the third quarter of 2009, compared with rates of 7.6, 6.4, and 5.3 percent in the third quarter of 2008. The market rent remained stable in Cincinnati and Columbus at $710 and $680 but decreased in Cleveland to $735, down from $740. The apartment vacancy rate in Detroit, where conditions have been softening, increased from 6.6 to 7.6 percent and the market rent decreased from $840 to $830. The market in Indianapolis has been soft; the vacancy rate increased from 7.2 to 9.2 percent and the average market rent declined 1 percent to $670.