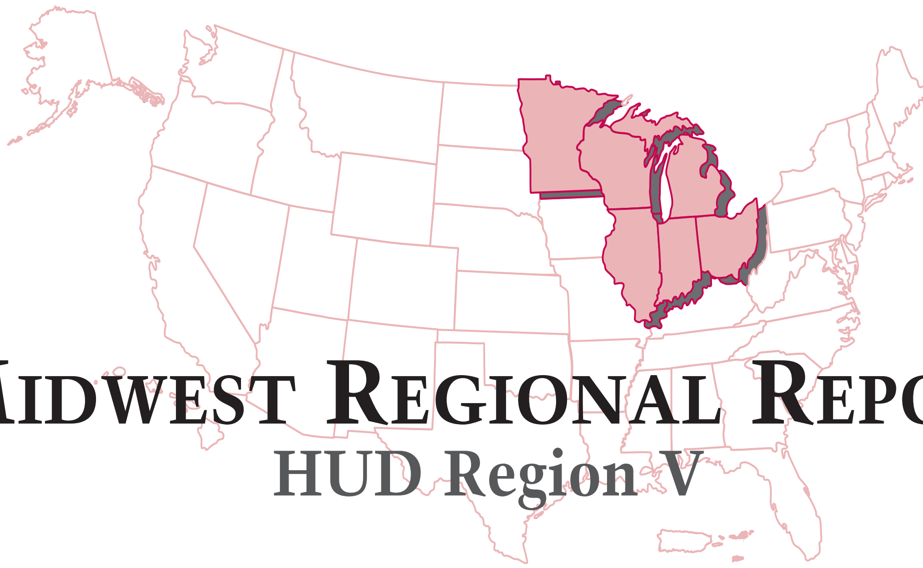
3rd Quarter 2010

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 2010, the 10th consecutive quarter of nonfarm payroll job losses. During the 12-month period ending September 2010, nonfarm payrolls decreased by almost 492,000 jobs, or 2.1 percent, to an average of 22.6 million jobs, the lowest annualized rate of quarterly job loss since the first quarter of 2009. Job losses in the region remained widespread, and only one sector—education and health services—recorded job growth, gaining 43,600 jobs, an increase of 1.2 percent. Sectors with significant job losses included the manufacturing, construction, and trade sectors, which declined by 163,400, 89,600, and 78,000 jobs, or 5.5, 10.2, and 2.2 percent, respectively. Job losses by state ranged from a decline of 38,800 jobs, or 1.4 percent, in Indiana to a decline of 138,000 jobs, or 2.4 percent, in Illinois. Nonfarm payroll job losses in the other states included 39,200 in Minnesota, 65,900 in Wisconsin, 87,800 in Michigan, and 122,100 in Ohio, or declines of 1.5, 2.4, 2.2, and 2.4 percent, respectively. For the 12 months ending September 2010, the average unemployment rate in the region was 10.5 percent, up from 9.5 percent for the 12-month period ending September 2009. Unemployment rates ranged from 7.2 percent in Minnesota to 13.7 percent in Michigan and rose in each state except Minnesota, where the rate declined to 7.2 percent for the 12 months ending September 2010 from 7.6 percent during the previous 12-month period.

The federal homebuyer tax credit and a reduced rate of job declines helped increase the number of home sales in the Midwest region during the second quarter of 2010. According to data from the NATIONAL ASSOCIATION OF REALTORS®, during the second quarter of 2010, the most recent information available, the annual rate of existing home sales in the region increased by 14 percent to 966,400 homes sold compared with the annual rate of home sales during the second quarter of 2009. Five of the six states in the region reported increases in the annual rate of home sales, with the number of home sales in Michigan remaining relatively

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stable. Increases ranged from 6 percent in both Indiana and Minnesota to 27 percent in Illinois. According to Lender Processing Services, Inc., Mortgage Performance Data, as of September 2010, the percentage of home loans 90 days or more delinquent, in foreclosure, or in REO (Real Estate Owned) was 8.6 percent, an increase from the 8.4-percent rate recorded in September 2009.

Home sales markets, although soft, are improving in many states and metropolitan areas in the Midwest region according to state and local REALTORS® data. The Ohio Association of REALTORS® reported a rising number of existing home sales and increasing home sales prices, with the number of existing home sales for the 12 months ending September 2010 up nearly 6 percent to 104,700 homes sold, and the average home sales price up nearly 4 percent to $133,300. In Indiana, data from the Indiana Association of REALTORS® show improved rates and prices of home sales, up 6 percent to 62,850 homes sold and median home sales price gains of 3 percent to $111,500. In the Indianapolis metropolitan area, data from the Metropolitan Indianapolis Board of REALTORS® indicate an increase in the rate of home sales by 6 percent to 24,250 homes sold and an increase in the average home sales price, up nearly 6 percent to $149,300. The Michigan Association of REALTORS® data show a strengthening market with the number of home sales up nearly 12 percent to 120,900 homes sold, during the 12 months ending September 2010, compared with the number sold during the previous year, and an increase in the average home sales price of existing homes of more than 6 percent to $105,600.

In Milwaukee, Multiple Listing Service, Inc., data for the 12-month period ending September 2010 indicate the number of existing home sales declined 2 percent to 12,150 and the average home sales price declined less than 1 percent to $205,400. Data from the Minneapolis Area Association of REALTORS® indicate that in Minneapolis, for the 12-month period ending September 2010, the number of home sales declined 2 percent from the year before, but the average home sales price increased nearly 4 percent to $210,900. The Illinois Association of REALTORS®, reporting on data through June of 2010 (the latest data available), shows the number of existing home sales increased, statewide by 22 percent to 119,200 homes sold and the average price declined almost 7 percent to $209,100. In the Chicago metropolitan area, the number of home sales increased 28 percent to 79,300 homes sold, and the average home sales price declined 7 percent to $252,100.

In response to the increased number of home sales, single-family home construction, as measured by the number of building permits issued, increased in the Midwest region during the 12 months ending September 2010, up 10 percent to 44,200 homes permitted, based on preliminary data. This figure is 59 percent below the average annual of 107,300 homes permitted during the past 5 years ending September 2010. Single-family construction activity increased in five states in the region during the 12 months ending September 2010; in Illinois, 6,300 homes were permitted, unchanged from the previous year. Increases in the number of homes permitted in the other five states ranged from 5 percent in Wisconsin, or 6,575 homes, to 25 percent in Michigan, or 5,950 homes.

Among most major metropolitan areas in the Midwest region, single-family homebuilding activity increased during the 12 months ending September 2010, based on preliminary building permit data. The one exception was in the Chicago metropolitan area, where the number of single-family homes permitted declined by 2 percent to 4,625 homes permitted. In all other metropolitan areas, the number of single-family home permits increased. In Ohio, increases ranged from 6 percent in Cincinnati, or 3,100 homes permitted, to 14 percent in Columbus, or 3,000 homes permitted. In the Detroit metropolitan area, the increase in single-family homes permitted was nearly 69 percent, or 2,150 single-family homes permitted, but it was still approximately 34 percent below the average of 6,275 single-family homes permitted during the previous 5 years. In Indianapolis and Milwaukee, the increases in single-family homes permitted were much smaller, at 10 and 4 percent, respectively, or 3,925 and 900 homes permitted. In Minneapolis, during the 12 months ending September 2010, single-family homebuilding activity, at 4,175 homes permitted, was nearly 23 percent above the number permitted during the previous year.

In the Midwest region, multifamily construction activity, as measured by the number of units permitted, increased by 1 percent to 14,600 units permitted during the 12 months ending September 2010, based on preliminary data. For the 12 months ending September 2010, the number of units permitted is only 39 percent of the 37,250 multifamily units permitted in the region, on average, each year during the past 5 years. The six states in the region reported mixed figures for multifamily construction, with Illinois, Indiana, and Ohio reporting declines in the number of multifamily units permitted, and Michigan, Minnesota, and Wisconsin reporting increases in the number of multifamily units permitted.

In Illinois, during the 12 months ending September 2010, the number of multifamily units permitted declined by 5 percent to 3,075 units permitted. The Chicago metropolitan area reported an increase in the number of multifamily units permitted of nearly 17 percent to 2,600 units. The number of multifamily units permitted for both Illinois and the Chicago metropolitan area were down significantly from the recent 5-year average annual change of 14,200 in Illinois and 13,000 in Chicago. In Indiana, during the 12 months ending September 2010, the number of multifamily units permitted declined by more than 8 percent from the previous year; Indianapolis reported an 11-percent decline in the number permitted. The decline in the number of multifamily units permitted in Indianapolis accounted for almost the entire 250-unit decline in multifamily units permitted in Indiana.

Multifamily construction activity in Michigan and Minnesota increased during the 12 months ending September 2010 compared with activity during the previous year, up by 24 and 30 percent, respectively, to 1,025 and 2,400 units permitted. These totals remain below the recent 5-year average annual number of 3,275 units permitted in Michigan and 4,025 units permitted in Minnesota. In Ohio, multifamily construction declined by 175 units permitted, or 6 percent, with decreases in Cincinnati and Cleveland offset by increased production in Columbus. In Wisconsin, multifamily construction increased by 75 units to 2,725 units permitted.

Apartment market conditions in major metropolitan areas in the Midwest region, in general, are balanced, and most markets have tightened during the 12 months ending September 2010. According to Reis, Inc., the vacancy rate in the Chicago metropolitan area declined from 6.7 percent in the third quarter of 2009 to 5.9 percent in the third quarter of 2010; the average market rent remained the same at $1,075. The downtown Chicago rental market is strong with an overall rental vacancy rate below 5 percent for the third quarter 2010, down from 7 percent in the third quarter of 2009, according to Appraisal Research Counselors. Approximately 2,300 new rental units will enter the market during 2010 and Appraisal Research Counselors anticipates growing demand and rent increases in 2011. For the third quarter, 2010, net effective rents in Class A properties increased nearly 6 percent since 2009, and the increase was almost 8 percent for Class B properties. Concessions in the downtown Chicago rental market remain at 1.5 months free with a 12-month lease, which Appraisal Research Counselors considers normal for this market. In Ohio, mixed rental market conditions exist, with lower vacancy rates in Cincinnati and Cleveland of 6.9 and 6.1 percent, respectively, for the third quarter of 2010 compared with 7.6- and 6.8-percent rates, respectively, for the third quarter of 2009. The average rent in Cincinnati remained at $710, and the average rent in Cleveland declined slightly to $730, according to Reis, Inc. In Columbus, soft market conditions continued as the vacancy rate increased from 8.5 to 8.9 percent, but the average rent increased from $680 to $690. In Michigan, Reis, Inc., data show that, in Detroit, the vacancy rate decreased to 7.1 percent, down from 7.6 percent, and the average rent declined from $830 to $820, as rental market conditions remained soft. In Indianapolis, the rental market remained soft, with a reported vacancy rate of 8.3 percent; the average rent increased from $670 to $680. In Minneapolis, the rental market remained tight, as the apartment vacancy rate decreased from 4.9 to 4.3 percent; the average rent was unchanged over the period at $950.