4th Quarter 2009

U.S. Housing Market Conditions

Midwest Regional Report

HUD Region V

4th 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 2009, a trend that began in 2007. During the past year, nonfarm employment decreased by 1.1 million, or 4.6 percent, to an average of 22.9 million jobs compared with a decrease of 255,600 jobs in 2008. Employment declined in every sector except the education and health services sector, which increased by 54,300 jobs, or 1.5 percent. The manufacturing, professional and business services, and construction sectors lost significant numbers of jobs, declining by 449,300, 231,100, and 133,500 jobs, or 13.5, 7.7, and 13.4 percent, respectively. The largest decline in the manufacturing sector occurred in the transportation equipment manufacturing industry, which lost 123,500 jobs, or 25 percent.

All six states in the region recorded decreases in nonfarm employment in 2009. Michigan reported the highest decline, with a net loss of 279,200 jobs, or 6.7 percent, including the loss of 109,800 manufacturing jobs and 24,700 construction jobs. Illinois and Ohio lost 258,800 and 238,000 jobs, respectively, or 4.4 percent in both states; decreases in the manufacturing sector were 27 and 46 percent, respectively, of the total nonfarm jobs recorded for each state. Jobs were down by 4.6, 3.5, and 4.0 percent in Indiana, Minnesota, and Wisconsin, respectively. As a result of job losses across the region, the unemployment rate rose in all six states during 2009. The average unemployment rate in the region was 10.4 percent, up from 6.5 percent in 2008, with state averages ranging from 7.8 percent in Minnesota to 14 percent in Michigan.

Weak economic conditions have continued to negatively affect existing home sales prices in the Midwest region. In the third quarter of 2009, sales market conditions for existing homes were soft in much of the region. Some areas reported increased sales, which resulted primarily from lower home prices, low interest rates, and the $8,000 tax credit for first-time homebuyers. All areas reported decreased prices, partly because of job losses and increased foreclosure rates. In Michigan during 2009, existing home sales increased 10 percent to 113,400, while the average price declined 16 percent to $99,100, according to the Michigan Association of REALTORS®. In Detroit, sales declined 1 percent to 11,300, while the average sales price dropped 29 percent to $12,500; in Grand Rapids, home sales increased 16 percent to 11,050, while the average sales price declined 12 percent to $108,000. In Wisconsin, existing home sales increased in both Madison and Milwaukee. In the Madison area, the South Central Wisconsin Multiple Listing Service reported that sales increased nearly 6 percent to 11,600 and the average sales price decreased 9 percent to $178,900. In the Milwaukee area, home sales increased 6 percent to 14,350. In Minnesota, the Minneapolis Area Association of REALTORS® reported a 17-percent increase in sales to 45,200 compared with the number of sales in 2008, although this number is still slightly below the recent 5-year average of 45,800 homes sold annually for the Minneapolis-St. Paul area; the average sales price was down 16 percent to $199,400 in 2009 compared with the average sales price in 2008.

The Ohio Association of REALTORS® reported that, in 2009 the number of new and existing homes sold in the state totaled 104,000, 8 percent below the 113,200 sold a year earlier and that the average price in 2009 was $129,500, approximately 5 percent below the average sales price reported in 2008. In Cleveland and Columbus, home sales declined 19 and 2 percent, respectively, while in Cincinnati, home sales were unchanged from the number sold in 2008. All three metropolitan areas experienced declines in average sales prices, down 8 percent to $119,400 in Cleveland, 4 percent to $157,300 in Columbus, and 7 percent to $150,700 in Cincinnati. In the Indianapolis metropolitan area, existing homes sales were down 4 percent to 24,950 and the average sales price declined 3 percent to $137,800.

In Illinois, existing home sales declined in 2009 because of weak economic conditions. The Illinois Association of REALTORS® reported that 107,500 existing homes were sold in the state in 2009, down nearly 2 percent from the 109,200 existing homes sold in 2008. The median sales price also fell by 15 percent from $183,900 to $157,000. The Chicago metropolitan area accounted for 65 percent of the existing homes sold in Illinois in 2009, down slightly from the average of 69 percent for the previous 5 years. Existing home sales in the Chicago area were flat, at 69,200, in 2009 and the median sales price declined 18 percent to $196,000 compared with the median sales price in 2008.

According to RealtyTrac® Inc., the number of properties in the foreclosure process increased in 2009 by 13 percent to 459,400 properties compared with the number of filings in the region in 2008. Minnesota and Wisconsin reported 1.4 percent of housing units in the foreclosure process in 2009, Indiana reported 1.5 percent, and Ohio reported 2 percent. Illinois and Michigan reported 2.5 and 2.6 percent of housing units in foreclosure status, respectively.

In response to continued slow economic growth in the Midwest region and declining demand for new homes, single-family construction activity in the region, as measured by the number of building permits issued, continued to decrease during 2009. Between 2002 and 2006, an average of 206,700 permits for single-family homes were issued annually in the Midwest region. In 2009, only 40,550 single-family permits were issued in the region, 23 percent below the number of permits issued in 2008 and 56 percent below the number issued in 2007, according to preliminary data. All states in the Midwest reported declines in single-family construction activity, ranging from 16 percent in Ohio to 38 percent in Illinois. The decline in the number of single-family homes permitted in Illinois accounted for more than 30 percent of the total decline reported for the Midwest region between 2008 and 2009.

The volume of multifamily building activity in the Midwest region, as measured by the number of units permitted, also was down in 2009, reflecting soft apartment rental market conditions. Approximately 11,900 multifamily units were permitted, according to preliminary data, 55 percent below the 26,550 units permitted in 2008 and 67 percent below the 36,450 units permitted in 2007. Activity was down in all six states in the region, with declines ranging from 20 percent in Minnesota to 73 percent in Illinois. The decline of multifamily permits issued in Illinois accounted for 47 percent of the regional decline, nearly all of which occurred in the Chicago metropolitan area. The Chicago area reported approximately 1,725 multifamily units permitted in 2009, 6,625 fewer units permitted than in 2008. All major metropolitan areas in the region reported fewer multifamily units permitted between 2008 and 2009. Detroit reported a decline of nearly 90 percent, from 680 units in 2008 to approximately 80 units in 2009. Milwaukee reported a decline of 57 percent, to 540 units, and Cincinnati reported a decline of 47 percent, to 440 units.

Rental housing market conditions in major metropolitan areas in the Midwest region were, in general, soft to balanced as of the fourth quarter of 2009. According to Reis, Inc., the apartment market in Indianapolis was soft because the vacancy rate increased from 7.7 to 10.1 percent, while the average contract rent declined 1 percent to $670. In Minneapolis-St. Paul, the apartment market was balanced, with an estimated vacancy rate of 5.4 percent for the fourth quarter of 2009, up from the 4.4-percent rate reported in the fourth quarter of 2008; the average contract rent declined 1 percent to $950. In Milwaukee, the apartment market was balanced, with a 5-percent vacancy rate, and rents declined nearly 2 percent to $826.

Slow economic conditions in Michigan contributed to continuing softness in the apartment market in the Detroit metropolitan area, where Reis, Inc., reported a fourth quarter 2009 apartment vacancy rate of 8 percent, up from 7 percent a year earlier, while rents declined 2 percent to $820. The Chicago metropolitan area also reported an increase in apartment vacancies in the fourth quarter of 2009, with a rate of nearly 7 percent, up from 5.4 percent in the fourth quarter of 2008, reflecting softer current conditions. The market softened in downtown Chicago because condominiums continue to enter the rental market; Appraisal Research Counselors reported the vacancy rate for Class A properties increased to 8 percent for the third quarter of 2009, up from 7 percent in the third quarter of 2008. Concessions in the downtown Chicago rental market, valued at approximately 7 percent of gross rents, are now prevalent. The three largest markets in Ohio are all soft, with increases in the apartment vacancy rate reported for Cleveland, Cincinnati, and Columbus of approximately 1 percent each, to 7, 8, and 9 percent, respectively, for the fourth quarter of 2009. Average contract rents declined in Cleveland and Cincinnati by 2 and 1 percent to $720 and $710, respectively, but the rent increased by 1 percent in Columbus to $680.