



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.

Economic conditions in the Midwest region strengthened in 2011, as nonfarm payrolls increased during each quarter of the year. During the past year, nonfarm payrolls increased by 235,800, or 1 percent, to an average of 22.9 million jobs, the highest number of jobs in the region since 2008, when payrolls averaged 24.1 million jobs. Employment increased in both the goods-producing and service-providing sectors, with only three sectors reporting declining employment: the government, information, and financial activities sectors declined by 60,700, 6,100, and 3,800 jobs, or 1.7, 1.6, and 0.3 percent, respectively. In the government sector, declining revenues led to state and local government subsector layoffs in the region. Federal government employment declined by 25,400 jobs, or 7.4 percent, from 2010; many of those jobs lost were temporary, filled by

2010 Census workers. The professional and business services sector, which increased by 80,700 jobs, or 2.9 percent, led growth in the region in 2011, along with the education and health services and the manufacturing sectors, which increased by 78,200 jobs, or 2.2 percent, and 71,500 jobs, or 2.5 percent, respectively.

All six states in the region recorded increases in nonfarm payrolls in 2011. Nonfarm payroll job gains ranged from 2,700, or 0.1 percent, in Indiana to 68,800, or 1.4 percent, in Ohio. Payrolls in Wisconsin, Minnesota, Illinois, and Michigan increased by 22,000, 22,400, 58,900, and 61,000 jobs, respectively. During the same period, the average unemployment rate in the region declined from 10.1 to 8.8 percent and was down in each of the six states. Average unemployment rates ranged from 6.5 percent in Minnesota to 10.4 percent in Michigan.

Despite the strengthening economy in the Midwest region, home sales markets remain mixed from balanced to soft, with generally stable sales and stable or falling sales prices. Reluctance to purchase homes among buyers who believe prices may continue to fall and higher downpayment and credit-score requirements continue to limit home purchases. According to data from the Illinois Association of REALTORS®, home sales in the state remained relatively unchanged in 2011 at approximately 103,000



homes, but the median sales price declined 9 percent to \$137,500. In the Chicago metropolitan area, home sales increased 1 percent to 69,900 homes, and the median price declined by 12 percent to \$163,000. According to the Indiana Association of REALTORS®, home sales in Indiana remained relatively steady at 58,000 homes sold, but the median sales price increased by 1 percent to \$112,900. In Michigan, according to the Michigan Association of REALTORS®, home sales in 2011 declined 2 percent, to 105,400, and the average sales price increased 1 percent to \$107,300.

The Minnesota Association of REALTORS® reported a 3-percent increase in home sales, to 79,850, in 2011 compared with the number sold in 2010, but the median sales price declined by 8 percent to \$135,000. In Ohio in 2011, according to the Ohio Association of REALTORS®, home sales declined 1 percent to 97,700, and the average sales price fell almost 4 percent to \$128,500. In 2011, the Wisconsin REALTORS® Association indicated that home sales rose less than 1 percent to 51,550, but the median sales price decreased 6 percent to \$132,000. Home loans 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned) continued to decline in the region, according to LPS Applied Analytics. In December 2011, 8 percent of all home loans recorded in the region were distressed, down from 8.5 percent in December 2010. The corresponding national figure in December 2011 was 7.6 percent.

According to preliminary data, in 2011, 39,150 single-family home permits were issued in the region, 7 percent fewer than the 42,000 homes permitted in 2010. Single-family building permits were up 4 percent in 2010 compared with the 40,550 permits issued in 2009. In 2011, every state in the Midwest region but one reported declining numbers of single-family home permits. In Michigan, the number of homes permitted increased 4 percent to 6,350. Declines in single-family homes permitted in the other five states ranged from 4 percent each in Indiana and Minnesota, to 8,400 and 5,650 homes, respectively, to 15 percent in Wisconsin, where 5,325 homes were permitted. Single-family home permits declined 8 and 12 percent, to 5,375 and 8,025, respectively, in Illinois and Ohio.

Multifamily building activity, as measured by the number of units permitted, increased in the region. In 2011, according to preliminary data, approximately 17,800 multifamily units were permitted, a 10-percent increase compared with the 16,250 units permitted in 2010, and nearly 50 percent more than the 11,900 units permitted in 2009. During 2011, the change in the number of multifamily units permitted in the region's six states varied widely, from a 29-percent decline to 1,900 units in Minnesota to a 38-percent increase to 3,800 units in Ohio. The decline in multifamily units permitted in the Minneapolis-St. Paul-Bloomington metropolitan area drove the change

in Minnesota, accounting for 73 percent of the reported decline statewide. In Ohio, the increase of 1,050 units was entirely because of increased multifamily units permitted in the major metropolitan areas of Cincinnati, Cleveland, and Columbus, where 1,275 more multifamily units were permitted in 2011 than in 2010. Other states reported smaller changes in units permitted. Permits declined by 3 and 9 percent, to 2,950 and 1,150 units, respectively, in Indiana and Michigan, and increased in Wisconsin and Illinois by 11 and 33 percent, to 3,100 and 4,875 units, respectively. More than one-half of the increase in multifamily units permitted in Illinois was in the Chicago metropolitan area, where 3,625 units were permitted in 2011, an increase of 22 percent from 2010.

Rental housing markets in major metropolitan areas of the Midwest region are balanced to tight, with rent increases reported in all major markets, continuing a year-long trend of strengthening conditions. The apartment market in Detroit is balanced, with a fourth quarter 2011 vacancy rate of 5.4 percent, down from almost 7 percent in the fourth quarter of 2010, whereas average rents increased 2 percent, to \$830, according to Reis, Inc. In the Minneapolis metropolitan area, where the apartment market has been balanced to tight for more than 2 years, tight conditions continued with a metropolitan vacancy rate of 2.8 percent, down from 3.8 percent in the fourth quarter of 2010, and average rents rose 2 percent, to \$930, according to GVA Marquette Advisors. In downtown Minneapolis, the market is also tight, with a fourth quarter vacancy rate of 1.9 percent, down from 4.2 percent the previous year, and average rents increased slightly, to \$1,250. In Indianapolis, where the rental market is balanced, Reis, Inc., reports a fourth quarter, 2011 vacancy rate of 5.9 percent, down from 8 percent a year ago, whereas average rents rose 2 percent to \$680.

Rental market conditions are balanced to tight in the large metropolitan areas in Ohio. The markets in Columbus and Cincinnati are balanced, with Reis, Inc., reporting apartment vacancy rates of 7 and 5.3 percent, down from 8.8 and 6.7 percent, respectively, the year before. The apartment market is tight in Cleveland, with a reported vacancy rate of 4.4 percent, down from 5.6 percent. The average monthly rent rose by 1 percent to \$730 in Cincinnati, by 2 percent to \$750 in Cleveland, and by 3 percent to \$700 in Columbus. In Chicago, markets are balanced, and MPF Research reports fourth quarter 2011 apartment vacancy rates of 4.5 percent for the metropolitan area and 4.4 percent for the Intown Chicago submarket. Rents rose in both the metropolitan area and the Intown Chicago submarket, by 6 percent to \$1,150 and by 8 percent to \$1,675, respectively. Appraisal Research Counselors identifies eight properties currently under construction in the Downtown Chicago submarket; they are expected to deliver approximately 3,100 units in 2012 and 2013.