4th Quarter 2012

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 strengthened in the Midwest region during 2012 for the second consecutive year; the region has added nearly 500,000 nonfarm payroll jobs since 2010. During 2012, nonfarm payrolls averaged 23.2 million jobs, up 246,200, or 1.1 percent, compared with nonfarm payrolls during 2011. The job gains were widespread. Only the government sector and the construction subsector, which fell by 23,000 and 4,800 jobs, or 0.7 and 0.6 percent, respectively, reported declining employment. The state government subsector added 10,400 jobs during 2012, but losses of 8,500 and 24,900 jobs, respectively, in the federal government and local government subsectors more than offset those gains. During 2012, the manufacturing sector led job growth, adding 86,200 jobs, a 3.0-percent increase. Employment in the manufacturing sector, which averaged approximately 3 million jobs during 2012, remains 1.4 million jobs below the level recorded in 2000. Payrolls in the manufacturing sector declined each year from 2000 through 2010 before beginning to expand in 2011. The professional and business services and the education and health services sectors also recorded substantial gains of 78,600 and 61,900 jobs, or 2.7 and 1.7 percent, respectively.

Five of the six states in the Midwest region recorded increases in nonfarm payrolls from 2011 to 2012. Nonfarm payroll job gains ranged from 35,100, or 1.3 percent, in Minnesota, to 84,000, or 1.7 percent, in Ohio. Payrolls in Illinois, Michigan, and Indiana increased by 36,100, 47,300, and 56,600 jobs, or 0.6, 1.2, and 2.0 percent, re-spectively. Wisconsin, the only state in the region that reported a decline in nonfarm payrolls, lost 13,000 jobs, or 0.5 percent. Employment in the manufacturing sector increased by 5,800 jobs, or 1.3 percent, in Wisconsin, but job losses in the leisure and hospitality sector, government sector, and construction subsector, of 8,900, 6,200, and 4,900 jobs, or 3.6, 1.5, and 5.4 percent, respectively, offset those gains. The average unemployment rate in the region during 2012 was 7.8 percent, down from 8.9 percent in 2011. Average unemployment rates declined in each state in the region and ranged from a low of 5.7 percent in Minnesota to a high of 8.9 percent in Michigan.

Home sales markets in the Midwest region continue to strengthen and are generally balanced; state and local REALTOR® associations reported increasing numbers of home sales and stable-to-increasing home sales prices. In Michigan, existing home sales increased 10 percent, to 123,900, and the average sales price rose nearly 6 percent, to $110,700. In Ohio, new and existing home sales increased 13 percent, to 112,100, and the average home sales price was $135,300, nearly 6 percent more than in 2011. Existing home sales increased 15 percent in Indiana, to 66,500, and 8 percent in Minnesota, to 86,050, and median sales prices were up 5 percent in Indiana, to $118,000, and 10 percent in Minnesota, to $149,000. In Illinois, the number of existing home sales increased 23 percent during 2012, to 128,400, and the median sales price rose 1 percent, to $139,000. In the Chicago metropolitan area, in 2012, existing home sales increased nearly 27 percent, to 90,350, compared with sales in 2011, and the median sales price declined 2 percent, to $160,000. In Wisconsin, the multiple listing service for the four-county Milwaukee area reported 14,850 existing home sales, 26 percent more than a year ago, and a 1-percent decline in the median sales price, to $163,000. According to LPS Applied Analytics, as of December 2012, 7.5 percent of home loans in the region were 90 or more days delinquent, were in foreclosure, or transitioned into REO (Real Estate Owned), down from 8.0 percent of home loans in December 2011. By state, the rate ranged from 4.1 percent in Minnesota to 10.0 percent in Illinois.

The improving economy and sales housing markets in the Midwest region caused home builders to increase single-family home construction, as measured by the number of homes permitted, in 2012. According to preliminary data for the region, approximately 48,300 new single-family homes were permitted during 2012, up 23 percent compared with the 39,150 single-family homes permitted during 2011. During the past 12 months, single-family home construction activity increased in each state in the region. The number of homes permitted increased 13 percent in Indiana, to 9,475; 16 percent in Wisconsin, to 6,150; 19 percent in Ohio, to 9,500; 27 percent in Illinois, to 6,825; 34 percent in Michigan, to 8,500; and 39 percent in Minnesota, to 7,850.

The larger metropolitan areas in the region also reported increased single-family homebuilding activity during 2012. In Cincinnati, the number of single-family homes permitted rose 7 percent, to 2,675. Indianapolis, Milwaukee, and Columbus reported increases of 11, 16, and 19 percent, to 4,000, 1,025, and 2,900 homes permitted, respectively, according to preliminary data. In Cleveland, the increase was 23 percent, to 1,950 single-family homes. Chicago, Detroit, and Minneapolis reported greater growth rates of 36, 44, and 50 percent, to 5,675, 4,100, and 5,600 homes permitted, respectively.

Multifamily construction activity, as measured by the number of units permitted, increased 40 percent, to 24,900 units permitted, in the Midwest region during 2012, according to preliminary data. Every state in the region except Illinois reported greater multifamily permitting activity. The increases ranged from 2 percent each in Indiana and Michigan, to 3,025 and 1,175 units, respectively, to more than triple in Minnesota, where 6,750 units were permitted during 2012 compared with 1,900 units permitted in 2011. In Wisconsin and Ohio, the number of multifamily units permitted rose 23 and 44 percent, to 3,800 and 5,475 units, respectively. Illinois was the only state in the region where the number of multifamily units permitted declined, falling 5 percent, to 4,650. Multifamily permitting declined in two metropolitan areas in the region during 2012—Indianapolis and Detroit—where the number of units permitted fell 37 and 17 percent, to 990 and 420, respectively. All other large metropolitan areas in the region reported increased multifamily permitting activity during 2012. In Minneapolis, developers received permits for 5,825 units, more than four times the number of units permitted in 2011, in response to continued tight apartment market conditions. Developers also expanded building activity in Cleveland and Columbus, more than doubling the number of units permitted in Cleveland, to 410, and increasing permitting in Columbus 62 percent, to 3,650 units. In Cincinnati and Milwaukee, the growth was 7 and 12 percent, to 940 and 760 units, respectively. In Chicago, multifamily construction activity increased 4 percent, to 3,750 units permitted. An estimated 2,600 new apartment units will be completed in downtown Chicago during 2013.

Apartment markets were balanced to tight in the larger metropolitan areas of the Midwest region during the fourth quarter of 2012. Conditions have been generally balanced since the first quarter of 2011; the continued economic improvement and historically low construction levels helped keep inventory growth relatively slow and contributed to strong apartment market conditions. According to Reis, Inc., in Detroit, Indianapolis, and Milwaukee, apartment markets were balanced to tight, with fourth quarter 2012 apartment vacancy rates of 4.2, 5.6, and 3.8 percent, respectively, down from fourth quarter 2011 rates of 5.4, 5.9, and 3.9 percent, and rents rose approximately 3 percent in each metropolitan area, to $870, $700, and $850, respectively. The apartment market in Cleveland was tight, with a 3.5-percent vacancy rate, down from 4.4 percent a year ago. In Columbus, the apartment market was balanced, with a 5.2-percent vacancy rate compared with the 7.0-percent rate recorded a year ago. Average rents rose 2.0 percent in Cleveland, to

$760, and 3.0 percent in Columbus, to $725. In Cincinnati, according to MPF Research, the average vacancy rate in the fourth quarter of 2012 was 5.1 percent, down from 6.0 percent a year ago, and the average rent rose more than 2.0 percent, to $760.

In Minneapolis, according to data from MPF Research, the apartment market remains tight, with an estimated vacancy rate in the fourth quarter of 2012 at 3.2 percent, up from 2.2 percent a year ago, and the average apartment rent increasing 2 percent, to $980. In Chicago, MPF Research reported the average vacancy rate in the fourth quarter of 2012 as approximately 4.7 percent, up slightly from 4.5 percent a year ago, and the average rent increasing 3 percent, to $1,170. In the downtown Loop submarket in Chicago, the apartment vacancy rate remained stable in the fourth quarter of 2012 at 4.6 percent, the same rate as a year earlier, and the average rent rose more than 7 percent, to $1,925.