

# HUD PD&R Regional Reports

## Region 5: Midwest

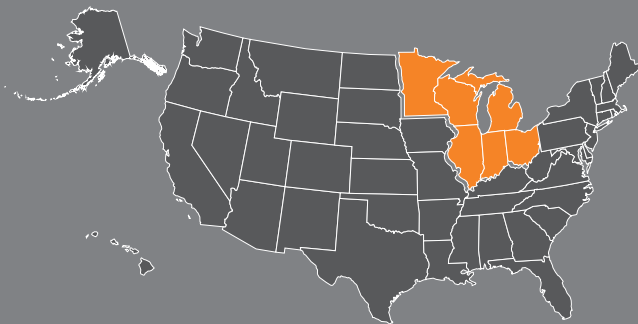


### Quick Facts About Region 5

Minneapolis, Minnesota

By Donald Darling | 2nd quarter 2016

- **Sales market conditions—**  
Second quarter 2016: mixed (balanced to soft).  
First quarter 2016: mixed (balanced to soft).  
Second quarter 2015: mixed (balanced to soft).
- **Apartment market conditions—**  
Second quarter 2016: mixed (balanced to tight).  
First quarter 2016: mixed (balanced to tight).  
Second quarter 2015: mixed (balanced to tight).



### Overview

Economic conditions in the Midwest region strengthened during the second quarter of 2016, continuing a growth trend that began in the third quarter of 2010. Sales housing market conditions in the major metropolitan areas in the region have remained balanced to soft since 2013, and single-family homebuilding activity has been more stable than during the Great Recession (December 2007 to June 2009). Apartment market conditions were tight or slightly tight in most major metropolitan areas in the Midwest region, except for balanced conditions in the Indianapolis metropolitan area. Apartment vacancy rates were down from a year ago in nearly all the major markets, despite a significant number of apartment construction completions since 2015.

During the second quarter of 2016—

- Nonfarm payrolls in the region increased from a year ago in 10 out of 11 sectors. In addition, payrolls were up in all six states in the region, continuing a trend of uninterrupted year-over-year job growth in every state since the third quarter of 2010.

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- The number of homes sold in the region fell 8 percent, partly because of significant declines in real estate owned (REO) and short sales, but the average home sales price was up 2 percent, which was less than the 5-percent increase for the nation.
- Single-family construction activity (as measured by the number of homes permitted) increased 10 percent from a year ago because builders responded to increasing demand for new homes. This gain more than offset a 3-percent decline in multifamily permitting, resulting in a net increase in total residential building activity of 1,375 units, or 5 percent.

## Economic Conditions

Economic conditions continued to strengthen in the Midwest region during the second quarter of 2016, leading to 6 consecutive years of nonfarm payroll gains. Nonfarm payroll jobs have posted continuous year-over-year gains since the third quarter of 2010. Since the beginning of the current expansion, more than 2 million jobs have been added in the region, a cumulative increase of 9.0 percent. During the second quarter of 2016, nonfarm payrolls rose by 319,900 jobs, or 1.3 percent, to approximately 24.82 million jobs. Michigan, and Ohio, with gains of 90,700 and 75,200, respectively, led growth in the region. Illinois and Wisconsin each added 42,000 jobs, and Indiana and Minnesota followed with 41,400 and 28,600 additional jobs, respectively. The 2.1-percent rate of growth in Michigan exceeded the 1.8-percent national rate of nonfarm payroll growth; rates in all other states were less than the national rate. Job growth rates in the other states ranged from 0.7 percent in Illinois to 1.5 percent in Wisconsin, including 1.0 percent in Minnesota and 1.4 percent in both Indiana and Ohio. Every state in the region, except Illinois and Ohio, recorded a lower unemployment rate compared with the second quarter of 2015. The unemployment

rate declined the most in Michigan, to 4.6 percent from 5.6 percent a year ago. In Ohio, the rate remained unchanged at 4.8 percent, but, in Illinois, unemployment increased to 5.9 percent from 5.7 percent; Illinois was the only state in the region with an unemployment rate greater than the national rate of 4.8 percent.

During the second quarter of 2016—

- A gain of 96,600 jobs, or 2.5 percent, in the education and health services sector led payroll growth and accounted for 30 percent of all jobs added in the region. All states in the region added jobs in that sector, ranging from 6,500 jobs in Wisconsin to 22,400 jobs in Ohio. Significant payroll increases also occurred in Indiana and Minnesota, with growth of 19,700 jobs each in the sector.
- The leisure and hospitality sector increased by 64,500 jobs, or 2.7 percent, in the region, with Ohio and Illinois adding the most jobs—18,700 and 18,500, respectively. Growth in Ohio was likely boosted by the NBA basketball playoff games and preparation for the Republican National Convention, both held in Cleveland.

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### Year-over-year job gains occurred in 10 of 11 sectors in the Midwest region during the second quarter of 2016.

	Second Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
<b>Total nonfarm payrolls</b>	24,503.2	24,823.1	319.9	1.3
Goods-producing sectors	4,139.5	4,173.2	33.7	0.8
Mining, logging, and construction	980.2	1,005.3	25.1	2.6
Manufacturing	3,159.3	3,168.0	8.7	0.3
Service-providing sectors	20,363.7	20,649.9	286.2	1.4
Wholesale and retail trade	3,650.7	3,693.3	42.6	1.2
Transportation and utilities	962.4	977.0	14.6	1.5
Information	363.5	358.2	- 5.3	- 1.5
Financial activities	1,342.5	1,362.2	19.7	1.5
Professional and business services	3,284.4	3,315.5	31.1	0.9
Education and health services	3,844.1	3,940.7	96.6	2.5
Leisure and hospitality	2,414.4	2,478.9	64.5	2.7
Other services	1,027.2	1,039.6	12.4	1.2
Government	3,474.5	3,484.4	9.9	0.3

Note: Numbers may not add to totals because of rounding.

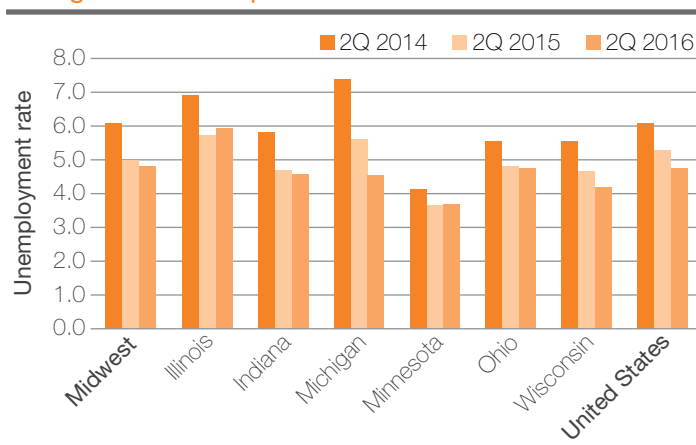
Source: U.S. Bureau of Labor Statistics



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- Nonfarm payrolls in the wholesale and retail trade sector rose in all states, up 42,600 jobs, or 1.2 percent, in the region. Gains ranged from 2,500 jobs in Minnesota to 15,200 in Indiana.
- In the mining, logging, and construction sector, a gain of 32,000 jobs, or 3.4 percent, in the construction subsector more than offset a loss of 6,900 jobs, or 13.7 percent, in the mining and logging subsector; every state in the region recorded declines in the mining and logging subsector because of lower oil prices.
- The information sector was the only sector to record a loss for the region as a whole, with payrolls decreasing by 5,300 jobs, or 1.5 percent, because of declines in Minnesota, Indiana, and Illinois of 1,400, 2,100, and 3,600 jobs, respectively.

**Unemployment rates in every state in the Midwest region except Illinois were at or below the national rate during the second quarter of 2016.**



2Q = second quarter.  
Source: U.S. Bureau of Labor Statistics

## Sales Market Conditions

During the second quarter of 2016, sales housing markets in the major metropolitan areas in the Midwest region were balanced to soft, unchanged from the conditions of a year earlier. Continued economic growth has contributed to rising home sales prices in most of the region since 2012. Home sales prices (including single-family homes, townhomes, and condominiums) in the region averaged \$178,700 during the 12 months ending May 2016, an increase of 2 percent from a year earlier after a 6-percent gain during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). By comparison, the average home sales price for the nation rose 5 percent, to \$265,700, during the 12 months ending

May 2016, after a 4-percent gain a year earlier. The average sales price rose in all eight major metropolitan areas from a year earlier, with increases ranging from 4 percent in Minneapolis-St. Paul-Bloomington to 25 percent in Detroit-Warren-Dearborn. The average sales price of \$174,200 in the Detroit-Warren-Dearborn metropolitan area was up 104 percent from the most recent low of \$85,600 in 2012, as the home sales market recovered from high foreclosure rates and the downward pressure on prices caused by distressed home sales (short sales and REO homes sales). Total sales in the Detroit-Warren-Dearborn metropolitan area were down 4 percent, but short sales and REO sales dropped 5 and 19

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**In the Midwest region, home sales increased in four of the eight largest metropolitan areas; home sales prices were up in all eight areas, ranging from 4 to 25 percent.**

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Chicago-Naperville-Elgin (N&E)	May	134,700	133,700	- 1	AVG	254,400	279,000	10
Cincinnati (N&E)	May	39,200	38,450	- 2	AVG	164,600	179,400	9
Cleveland-Elyria (N&E)	May	31,250	34,600	11	AVG	138,600	155,600	12
Columbus (N&E)	May	35,950	38,150	6	AVG	184,200	199,800	8
Detroit-Warren-Dearborn (N&E)	May	85,900	82,800	- 4	AVG	139,500	174,200	25
Indianapolis-Carmel-Anderson (N&E)	May	48,500	48,300	0	AVG	187,100	199,500	7
Milwaukee-Waukesha-West Allis (N&E)	May	22,650	23,950	6	AVG	196,300	217,500	11
Minneapolis-St. Paul-Bloomington (N&E)	May	61,550	67,700	10	AVG	248,500	259,600	4

AVG = average. N&E = new and existing.  
Source: CoreLogic, Inc., with adjustments by the analyst

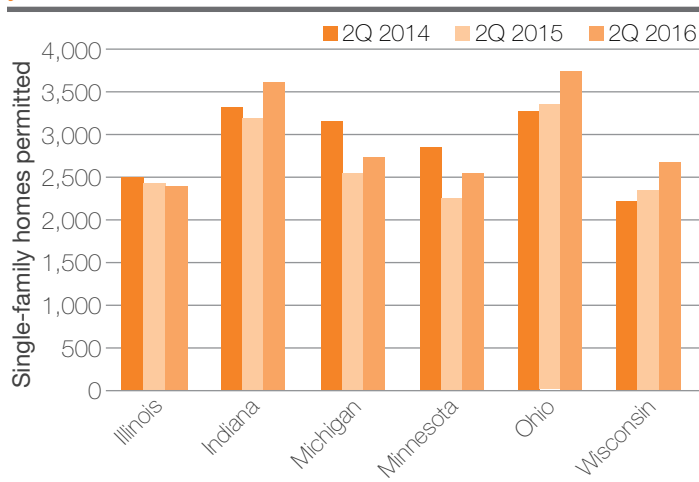


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percent, respectively. In the Indianapolis-Carmel-Anderson metropolitan area, the only major metropolitan area in the region in which the home sales price has increased every quarter since 2010, the average sales price was up 7 percent to \$199,500.

During the 12 months ending May 2016, the number of homes sold in the region fell 8 percent from a year earlier, following an increase of 11 percent during the 12 months ending May 2015. In the Chicago-Naperville-Elgin, Cincinnati, and Detroit-Warren-Dearborn metropolitan areas, sales were down 1, 2, and 4 percent, respectively, during the 12 months ending May 2016 compared with sales a year earlier. Home sales were unchanged in Indianapolis-Carmel-Anderson, up 6 percent each in Columbus and Milwaukee-Waukesha-West Allis, and up 10 percent in Minneapolis-St. Paul-Bloomington. For the region overall, sales decreased in all categories, with new home sales declining 9 percent and regular resales declining 8 percent. The declines in REO and short sales were even greater, decreasing 25 and 11 percent, respectively. By comparison, the number of REO sales fell 15 percent and short sales were down 11 percent nationwide

**Single-family permitting rose 10 percent in the Midwest region during the second quarter of 2016 after an 8-percent loss during the same period a year earlier.**



2Q = second quarter.  
 Note: Based on preliminary data.  
 Source: U.S. Census Bureau, Building Permits Survey

during the 12 months ending May 2016. The percentage of seriously delinquent mortgage loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties in the region declined 0.8 percentage point from May 2015, to 2.7 percent in May 2016 compared with a decline of 0.7 percentage point, to 2.9 percent, for the nation (CoreLogic, Inc.). The rate fell in every state in the region, with the greatest decrease in Illinois, where the rate declined 1.1 percentage points, to 3.4 percent, in June 2016. In Minnesota, the rate declined 0.5 percentage point, to 1.5 percent, among the lowest of any state in the nation.

During the second quarter of 2016 (preliminary data)—

- Single-family homebuilding activity, as measured by the number of homes permitted, totaled 17,730 homes in the region, up by 1,650 homes, or 10 percent, from a year earlier, when homebuilding had dropped by 1,250 homes permitted, or 7 percent. Sales markets in the metropolitan areas in the region improved and led to less fluctuation in single-family homebuilding activity during the past 3 years compared with 2008 through 2012.
- Indiana and Ohio each accounted for 20 percent of the single-family homes permitted in the region. The 3,775 single-family homes permitted in Ohio and the 3,625 permitted in Indiana were each 13 percent more than the number of homes permitted during the second quarter of 2015. The number of homes permitted increased 14 percent each in Wisconsin and Minnesota, to 2,675 and 2,550 homes, respectively. In Michigan, the number of homes permitted rose 9 percent, to 2,750.
- Single-family permitting was down only in Illinois, to 2,375 homes, or 2 percent less than the 2,425 homes permitted during the second quarter of 2015. Single-family permitting totaled 2,500 homes during the second quarter of 2014.
- Single-family permitting in the Illinois portion of the Chicago metropolitan area accounted for 72 percent, or 1,725, of the homes permitted in Illinois, down from 1,800, or 75 percent, from a year earlier. In the Minneapolis metropolitan area of Minnesota, the 2,125 homes permitted represent 83 percent of the single-family homes permitted in the entire state, up from 1,825, or 82 percent, from a year earlier.

## Apartment Market Conditions

Apartment markets were tight or slightly tight in seven of the eight major metropolitan areas included in this report, all of which had vacancy rates that were less than the national average of 4.7 percent during the second quarter of 2016 (Axiometrics, Inc.). Declines in apartment vacancy rates were recorded in all metropolitan areas in the Midwest region, except in Indianapolis-Carmel-Anderson and

Chicago-Naperville-Arlington Heights, where the rates increased 0.2 and 0.4 percentage point, to 6.4 and 4.6 percent, respectively. The decreases ranged from 0.2 percentage point in the Minneapolis-St. Paul-Bloomington metropolitan area to 1.1 percentage points in the Milwaukee-Waukesha-West Allis metropolitan area; both areas had tight apartment markets, with vacancy rates of 3.1 and 2.2

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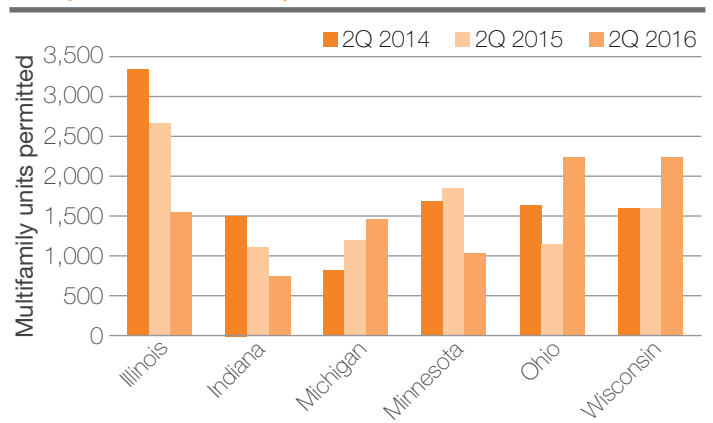
percent, respectively. Vacancy rates in the Cincinnati, Columbus, and Detroit-Warren-Dearborn metropolitan areas declined 0.7, 0.8, and 0.8 percentage points, to 4.2, 3.1, and 3.4 percent, respectively. The apartment market was tight in the Cleveland-Elyria metropolitan area, where the vacancy rate declined 1.8 percentage points to 3.0 percent from the second quarter of 2015. Conditions were balanced in Indianapolis, with a vacancy rate of 6.4 percent. Average rents rose throughout the major metropolitan areas in the region, except in Milwaukee, and ranged from 1 percent in Minneapolis-St. Paul-Bloomington to 8 percent in Chicago-Naperville-Arlington Heights. Average rents increased 5 percent in Columbus and 6 percent each in Cincinnati and Indianapolis-Carmel-Anderson. In the Milwaukee-Waukesha-West Allis metropolitan area, where significant apartment construction is under way, especially in downtown Milwaukee, average rents decreased 7 percent from the same period in 2015.

During the second quarter of 2016 (preliminary data)—

- Multifamily building activity in the region fell 3 percent from a year earlier, to 9,275 units permitted, after a 10-percent increase during the second quarter of 2015. By comparison, the number of units permitted nationwide fell 26 percent from the second quarter of 2015, after a 38-percent gain during the same period a year earlier. In the Midwest region, a significant number of apartment completions during the past 2 years led developers to slow multifamily construction while new units are absorbed.
- Multifamily permitting activity differed drastically among the states in the region, with three states recording declines of more than 30 percent but three states having gains that ranged from 20 to 98 percent. In Illinois and Indiana, multifamily permitting was down 41 and 34 percent, to 1,575 and 730 units, respectively. In Minnesota, multifamily permitting dropped 45 percent, to 1,025 units.

- Multifamily permitting increased 41 and 98 percent, respectively, to 2,250 units each in Wisconsin and Ohio and 20 percent, to 1,450 units, in Michigan.
- As with single-family permitting, the 1,125 multifamily units permitted in the Chicago metropolitan area in Illinois accounted for 75 percent of multifamily units permitted in the entire state. During the second quarter of 2015, the 2,175 multifamily units permitted in the Chicago metropolitan area accounted for 82 percent of the units permitted in Illinois. In the Minneapolis metropolitan area in Minnesota, the 760 multifamily units permitted represent 75 percent of all multifamily units permitted in the state, up from 72 percent in the second quarter of 2015, when 1,325 units were permitted.

**Multifamily permitting increased 3 percent in the Midwest region during the second quarter of 2016 compared with a 26-percent decline nationwide.**



2Q = second quarter.  
 Note: Based on preliminary data.  
 Source: U.S. Census Bureau, Building Permits Survey

**In six of eight major metropolitan areas of the Midwest region, apartment vacancy rates declined in the second quarter of 2016; average rents also increased in six areas.**

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2015 (%)	2Q 2016 (%)	Percentage Point Change	2Q 2015 (\$)	2Q 2016 (\$)	Percent Change
Chicago-Naperville-Arlington Heights	Slightly tight	4.2	4.6	0.4	1,391	1,509	8
Cincinnati	Slightly tight	4.9	4.2	- 0.7	890	945	6
Cleveland-Elyria	Tight	4.0	3.0	- 1.0	946	965	2
Columbus	Tight	3.9	3.1	- 0.8	822	865	5
Detroit-Warren-Dearborn	Tight	4.2	3.4	- 0.8	948	952	0
Indianapolis-Carmel-Anderson	Balanced	6.2	6.4	0.2	783	827	6
Milwaukee-Waukesha-West Allis	Tight	3.3	2.2	- 1.1	1,214	1,135	- 7
Minneapolis-St. Paul-Bloomington	Tight	3.3	3.1	- 0.2	1,315	1,334	1

2Q = second quarter.  
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Axiometrics, Inc.

