Midwestern winners

Thriving metros show the region is more than a Rust Belt

by Stewart Rubin

Midwestern cities are frequently imagined as a series of beleaguered economies cascading down the crumbling scaffolding of a declining, century-old industrial complex. This certainly rings true as a portrayal of many metro areas across the region. Yet, despite declining demographics, harsh winters and fiscal profligacy in its largest state, some large Midwestern conurbations are thriving, while certain sections of hard-hit metros are flourishing.

The Midwest transmogrified from a vibrant middle-class job mecca to the center of U.S. deindustrialization as the share of the national population working in manufacturing declined from 30 percent in 1950 to approximately 8.5 percent in 2017. The number of manufacturing jobs in the 14 largest Midwestern metros declined 41 percent between 1970 and 2017, while the share of Midwesterners employed in manufacturing declined from 26 percent to 10 percent during the same time period. More recently, the number of manufacturing jobs in those same 14 MSAs declined 29 percent between 2000 and 2017. (During the recovery from the global financial crisis, the number of manufacturing jobs in those markets increased 10.85 percent between 2010 and 2017.) The loss of manufacturing jobs had a devastating impact on the economies of many of the region's cities and, as a consequence, their urban cores declined. Numerous Midwestern cities that tried to reinvent their downtowns as replicas of successful coastal urban centers have succeeded only in resembling each other.

Successful Midwestern metro exceptions usually include several of the following characteristics: being a state capital; hosting a large university; never having had a heavy industrial focus; having a concentration of professional or

Prime working-age 25–64 population growth					
Metro	Population age 25–64, 2017	Population growth, 2010–2017	Population growth (incl. geographic redelineation), 2010–2017	Population growth projection, 2017–2022	Core city population growth, 2010–2017
Columbus, Ohio	1,098,058	8.3%	12.1%	3.4%	13.3%
Omaha	480,897	7.1%	7.1%	1.5%	15.0%
Indianapolis	1,060,684	6.3%	14.2%	2.9%	5.4%
Minneapolis	1,924,687	6.0%	8.1%	1.8%	9.1%
Grand Rapids, Mich.	534,025	5.4%	32.1%	3.5%	6.3%
United States	**168,539,255**	**4.7%**	**4.7%**	**1.5%**	**4.7%**
St. Louis	1,497,055	4.5%	0.4%	–1.5%	4.8%
Kansas City, Mo.	1,113,699	4.3%	3.0%	–0.6%	5.5%
Milwaukee	834,635	2.2%	2.2%	–1.8%	3.8%
Cincinnati	1,134,690	1.7%	1.0%	0.1%	–0.1%
Chicago	5,142,014	1.6%	1.6%	–1.3%	3.2%
Pittsburgh	1,253,004	–0.1%	–0.1%	–3.3%	3.5%
Dayton, Ohio	409,962	–1.6%	–6.7%	–3.1%	–4.2%
Detroit	2,293,792	–2.1%	–2.1%	–1.5%	–9.6%
Cleveland	1,080,268	–2.6%	–2.6%	–4.3%	–4.5%

Sources: U.S. Census Bureau American Community Survey 5-Year Estimates; Moody's Analytics; CoStar Portfolio Strategy, 2018

business services, and financial activities; offering a relatively low tax regime; and providing certain quality-of-life factors.

To identify Midwestern winners, we analyzed metros in the region across four categories: demographics, economy, cost structure and quality of life. Our analysis is limited to Midwestern metros with more than 750,000 people, including Chicago; Cincinnati; Cleveland; Columbus, Ohio; Dayton, Ohio; Detroit; Grand Rapids, Mich.; Indianapolis; Kansas City, Mo.; Milwaukee; Minneapolis; Omaha; Pittsburgh; and St. Louis.

Demographics

The demographic decline of the Midwest relative to the rest of the United States seems axiomatic; however, certain sections are outperforming national population and education growth rates. Even in a demographically struggling region, many bright spots exist.

Our model considered population growth overall, and as bracketed by age and for people with a college degree, and net domestic and international migration. Among Midwestern metros with more than 750,000 people, Columbus, Indianapolis, Minneapolis and Omaha all exceeded the national population growth rate.

Grand Rapids' increase is primarily attributable to the expansion of its geographic statistical area by the U.S. Census Bureau. (The increase is due to growth and changes to federal boundaries. In 2013, Ottawa and Montcalm counties were added to the metro area, while Ionia and Newaygo counties were subtracted from it.) Although not nearly as important as a pure population increase, it nevertheless reflects the inclusion and, to a certain degree, integration of additional people within the metro area. Core city growth was most pronounced in Columbus, Indianapolis, Minneapolis and Omaha.

The U.S. prime working-age population growth rate has been anemic over the past six years and is expected to slow further over the next 10 years. Working-age population growth should come to a virtual halt within the next five years. The Midwest has performed particularly poorly in this category. Nevertheless, some heartland metros outperformed despite national and regional trends. Grand Rapids recorded exceptional growth at 32 percent, primarily due to geographic expansion, while Indianapolis (14 percent), Columbus (12 percent), Minneapolis (8 percent) and Omaha (7 percent) outperformed. In terms of pure population increase, Columbus, Omaha and Indianapolis led the way. Grand Rapids, Columbus, Indianapolis and Minneapolis are expected to outperform over the next five years. The core cities of Omaha and Columbus experienced the greatest growth. (See "Prime working-age 25–64 population growth," above.)

Age 25–34 population growth					
Metro	Population age 25–34, 2017	Population growth, 2010–2017	Population growth (incl. geographic redelineation), 2010–2017	Population growth projection, 2017–2022	Core city population growth, 2010–2017
Pittsburgh	305,803	14.4%	14.4%	–1.7%	31.4%
Columbus, Ohio	311,608	12.6%	15.7%	5.1%	18.6%
Grand Rapids, Mich.	143,771	11.4%	37.5%	4.8%	19.9%
St. Louis	380,123	10.8%	5.3%	–0.1%	11.9%
Omaha	134,546	10.2%	10.2%	3.4%	19.5%
United States	**44,044,173**	**9.6%**	**9.6%**	**2.8%**	**9.6%**
Minneapolis	518,268	9.5%	11.5%	–0.5%	17.4%
Indianapolis	282,020	7.9%	15.0%	7.7%	9.0%
Milwaukee	219,580	7.6%	7.6%	–4.0%	4.9%
Kansas City, Mo.	293,920	6.9%	5.8%	0.3%	12.2%
Dayton, Ohio	103,526	6.0%	1.2%	–1.3%	6.7%
Cincinnati	284,090	5.1%	4.4%	2.5%	11.0%
Cleveland	253,493	4.4%	4.4%	–2.5%	6.2%
Detroit	539,092	2.3%	2.3%	–0.4%	–0.5%
Chicago	1,371,840	1.3%	1.3%	1.1%	6.1%

Sources: U.S. Census Bureau American Community Survey 5-Year Estimates; Moody's Analytics; CoStar Portfolio Strategy, 2018

The 25- to 34-year age category is an embodiment of the long-term future demographic health of a metro area. It reflects the decisions of a relatively mobile cohort to remain or relocate to a particular metro area. Grand Rapids leads when geographic expansion is considered; however, Pittsburgh and Columbus lead when only population is measured. Indianapolis, Columbus, Grand Rapids (not based on geographic expansion) and Omaha are projected to outperform the nation over the next five years in the 25- to 34-year age category as well. Despite the overall poor Pittsburgh demographic profile — population declined between 2010 and 2017 — the Steel City has excelled in attracting those age 25 to 34 to its core city. (See "Age 25–34 population growth," above.)

College-education attainment. Metros and cities compete based on their attractiveness to businesses — particularly those that depend on an educated work force. In the 21st-century economy, human capital is the greatest local resource. Metro areas with high education-attainment levels have experienced much more economic growth than those with significantly below-average education rates. College-educated people tend to self-sort into metro areas in which there are opportunities. In turn, companies locate in places they can hire educated employees. This circle of opportunity becomes self-perpetuating as jobs are created in these metros. Accordingly, metros with high college-education-attainment rates are favored. Some of the nation's highest educational-attainment levels are in the major market metro areas. The highest are Washington, D.C. (50.8 percent); San Jose (50.3 percent); Bridgeport-Stamford-Norwalk, Conn. (48.9 percent); Boston (48.7 percent); San Francisco (48.6 percent); Raleigh, N.C. (46.7 percent); Austin (42.7 percent); Denver (42.3 percent); Minneapolis (42.0 percent); and Seattle (41.3 percent). The national average is 32 percent.

College-educated millennials will not begin retiring until 2045. Employers favor locating and expanding operations in metro areas that have a young, highly educated, and growing workforce. Accordingly, we consider which metro areas have an increasing level of educated young people.

Twelve of the 14 Midwestern metros with more than 750,000 people have an education attainment higher than the U.S. prime-working-age average of 32 percent, with the same number exceeding the 34 percent average in the 25-to-34 age category. Minneapolis and Chicago are the top markets for those age 25 to 64, and Pittsburgh and Minneapolis amongst those 25 to 34 years of age. Except for Detroit and Dayton, all major Midwestern metros have college-education-attainment rates higher than the national average. In terms of recent growth, Columbus,

Working-age 25-64 population with four-year degree		
Metro	% of population with degree, 2017	Population with degree growth, 2010–2017
Minneapolis	42.5%	14.1%
Chicago	38.9%	10.1%
Kansas City, Mo.	37.6%	12.5%
Pittsburgh	37.5%	19.7%
Columbus, Ohio	37.2%	15.0%
Omaha	37.2%	14.7%
Milwaukee	36.6%	11.6%
St. Louis	35.6%	15.4%
Indianapolis	35.3%	18.0%
Cincinnati	34.4%	13.8%
Grand Rapids, Mich.	33.4%	18.6%
Cleveland	32.6%	6.6%
United States	**32.3%**	**13.6%**
Detroit	32.0%	6.9%
Dayton, Ohio	30.0%	6.0%

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

Age 25–34 population with four-year degree		
Metro	% of population with degree, 2017	Population with degree growth, 2010–2017
Pittsburgh	46.2%	30.8%
Minneapolis	45.5%	17.5%
Chicago	44.1%	14.1%
Columbus, Ohio	41.5%	22.6%
Omaha	40.8%	21.6%
Milwaukee	40.4%	22.5%
Kansas City, Mo.	39.5%	16.8%
St. Louis	38.9%	17.8%
Indianapolis	37.9%	21.1%
Cincinnati	37.5%	17.9%
Grand Rapids, Mich.	37.0%	31.4%
Cleveland	36.6%	15.6%
United States	**34.4%**	**21.7%**
Detroit	34.1%	14.1%
Dayton, Ohio	31.6%	14.7%

Source: U.S. Census Bureau American Community Survey 5-Year Estimates

Grand–Rapids and Indianapolis are the top metros. Core city growth was led by Grand Rapids and Pittsburgh. (See "Working-age 25–64 population with four-year degree," top.)

Millennials are the most educated generation in U.S. history. The share of the Young College Educated population with a four-year degree in 2017 was 34.4 percent in the United States. In the educated 25-to-34 age cohort, Pittsburgh jumps to first place, followed by Minneapolis, Chicago and Columbus. Markets that exceed the national growth of 21.7 percent between 2010 and 2017 portend future economic growth and demand for office space relative to other markets. Five Midwestern metros exceeded the national average. (See "Age 25–34 population with four-year degree," below left.)

In the Young College Educated 25-to-34 age category, Grand Rapids experienced the greatest growth because of internal increase as well as geographic expansion, while the Steel City had notable outperformance amongst old-guard industrial metros that suffer from overall poor demographic profiles. In addition, we note, almost without exception, the metros on the list perform better amongst the Young College Educated than in the general population for the same age category of 25 to 34 years.

Children between the ages of 5 and 19. Markets with high growth in the number of children between the ages of 5 and 19 are noted. In addition to these children representing future demographic growth, the parents of this age group have usually set down roots at this point, establishing a demographic base. A metro cannot rely solely on relocations to perpetuate itself. In the United States, the population share of children ages 5 to 19 declined from 29.5 percent in 1970 to a projected 18.6 percent in 2020. Omaha, Indianapolis and Columbus recorded the greatest growth in this area in the Midwest between 2010 and 2017, while Minneapolis, Columbus, Omaha and Grand Rapids are projected to have the greatest growth over the next five years.

Net domestic and international migration. The three sources of population change tracked by the U.S. Census Bureau are natural increase (births less deaths), domestic migration and international migration. Net domestic migration reflects the amount of people that moved into a metro area less those that moved out. It does not take into consideration international migrants or natural growth. It reflects U.S. residents gravitating to areas with the best economic opportunities relative to cost of living. The only Midwestern metros with more than 750,000 people that experienced positive net domestic migration were Columbus, Indianapolis, Grand Rapids, Kansas City, Omaha and Minneapolis. (See "Net migration, domestic and international," page 64.)

Net international migration typically benefits gateway cities such as New York and Los Angeles. The Midwest does not excel in this

Net migration, domestic and international			
Metro	**Net domestic migration, 2010–2017**	**Metro**	**Net international migration, 2010–2017**
Columbus, Ohio	2.3%	Minneapolis	2.5%
Indianapolis	1.6%	Columbus, Ohio	2.4%
Grand Rapids, Mich.	1.2%	**United States**	**2.3%**
Kansas City, Mo.	0.8%	Detroit	2.0%
Omaha	0.6%	Chicago	1.9%
Minneapolis	0.0%	Omaha	1.7%
United States	**0.0%**	Indianapolis	1.6%
Cincinnati	–1.0%	Cleveland	1.5%
Pittsburgh	–1.0%	Milwaukee	1.5%
Dayton, Ohio	–2.1%	Dayton, Ohio	1.4%
St. Louis	–2.4%	Grand Rapids, Mich.	1.4%
Cleveland	–3.1%	Cincinnati	1.3%
Milwaukee	–3.3%	Pittsburgh	1.2%
Detroit	–3.3%	Kansas City, Mo.	1.1%
Chicago	–5.1%	St. Louis	1.0%

Source: U.S. Census Bureau

category, and even Chicago underperforms the national average. The Twin Cities and Columbus are the only Midwestern metros to outstrip the national average.

Economics

Several metrics were used to measure the economic prowess of metro areas. Gross domestic product for each metro area (GDPMA), as calculated by the Bureau of Economic Analysis (BEA), as well as job preponderance and growth in certain key employment sectors are analyzed.

GDPMA. The term "Rust Belt" entered demotic usage in the early 1980s as the Midwest was deindustrializing. Nevertheless, Midwest GDPMA per capita is still higher than that of most of the United States. In addition, five Midwestern metros experienced faster GDPMA growth than the nation between 2010 and 2017. The Chicago area has the largest Midwestern economy, followed by Detroit and Minneapolis. (See "Gross domestic product by metro area," page 66.)

Demographic growth typically results in higher gross GDPMA but does not necessarily translate into higher per-capita GDPMA. (See "Gross domestic product by metro area, per capita," page 66.)

In terms of GDPMA per capita, Minneapolis and Indianapolis are higher than Chicago; Grand Rapids tops the GDPMA growth chart, followed by Columbus and Kansas City. While GDPMA per capita is important, one cannot lose sight of the size of the overall metro economy, and the opportunity and liquidity it affords.

Professional and business services. According to the Quarterly Census of Employment and Wages published by the U.S. Bureau of Labor Statistics, professional and business services is the largest high-wage job sector in the United States (16.6 percent of total non-farm private sector employment), with an annual average salary of $61,591, compared with $48,924 for the average private sector job. With the exception of Dayton, all of the Midwestern metros have professional and business services location quotients (LQ) greater than 1. The highest concentrations are in Detroit at 1.4, Kansas City (1.3), Chicago (1.2), Indianapolis (1.2), Columbus (1.2) and Minneapolis (1.1).

Financial activities. One of the highest-wage job categories in the United States is financial activities, with an annual average salary of $69,130, compared with $48,924 per year for the average private-sector job, according to the Bureau of Labor Statistics report.

With the exception of Detroit, Grand Rapids and Dayton, all of the Midwestern metros have financial activities LQs greater than 1. The highest concentrations are in Omaha at 1.5, Columbus (1.4), Kansas City (1.3) and Minneapolis (1.3).

Financial-activities jobs in Columbus grew by 23 percent between 2010 and 2017, the fastest in the Midwest. Both JPMorgan Chase & Co. and Nationwide Mutual Insurance Co. have large footprints in Columbus.

Gross domestic product by metro area

Metro	GDP, 2017 ($m)	Real growth, 2010–2017
United States	**$19,485,394**	**15.7%**
Chicago	$679,699	11.6%
Detroit	$260,612	16.2%
Minneapolis	$260,106	15.5%
St. Louis	$161,281	4.1%
Pittsburgh	$147,367	17.1%
Indianapolis	$143,873	11.6%
Cleveland	$138,980	15.4%
Cincinnati	$138,034	12.7%
Columbus, Ohio	$136,296	24.4%
Kansas City, Mo.	$131,092	11.6%
Milwaukee	$105,427	5.7%
Omaha	$65,053	18.8%
Grand Rapids, Mich.	$60,529	28.2%
Dayton, Ohio	$41,111	7.2%

Source: U.S. Bureau of Economic Analysis

Gross domestic product by metro area, per capita

Metro	GDP per capita, 2017	Real growth, 2010–2017
Minneapolis	$73,765	8.0%
Indianapolis	$72,333	3.7%
Chicago	$71,178	9.7%
Omaha	$71,159	9.9%
Cleveland	$67,376	16.8%
Columbus, Ohio	$67,350	14.5%
Milwaukee	$66,933	3.4%
Cincinnati	$64,002	9.4%
Pittsburgh	$62,759	17.6%
Kansas City, Mo.	$62,759	5.4%
United States	**$60,701**	**9.6%**
Detroit	$60,542	17.3%
Grand Rapids, Mich.	$58,247	21.3%
St. Louis	$57,498	–1.4%
Dayton, Ohio	$51,331	7.2%

Source: U.S. Bureau of Economic Analysis

Manufacturing. With the notable exception of Grand Rapids, the metros with the lowest concentration of manufacturing jobs are the ones that have enjoyed the greatest demographic growth over the past seven years. Columbus, with its concentration of financial activities, professional and business services, and government jobs, has the lowest manufacturing LQ at 0.8, similar to Omaha and Kansas City. Pittsburgh's transformation from the steel capital of the United States to an innovation hub built around its two world-class universities — Carnegie Mellon University and the University of Pittsburgh — is reflected in its low 0.85 LQ.

Conversely, struggling metros, such as Milwaukee, Detroit, Cleveland and Dayton, are near the top of the list at 1.6, 1.5, 1.4 and 1.3, respectively. Grand Rapids tops the list at 2.4 and is in a unique position because it is retaining manufacturing jobs, while also topping the list for growth in the general and college-educated 25-to-34 age category, and coming in sixth place in the Midwest for overall population growth. The number of manufacturing jobs in the 14 largest Midwestern metros declined 28.7 percent between 2000 and 2017.

Technology. Technology has been a driving force for U.S. regional economies. Strong tech skills are commonly seen as a key to becoming employable. Frequently, a relatively small portion of the region's tech workforce are technical workers at tech companies, with the majority spread amongst non-tech employers such as hospitals, law firms and banks. The LQ for this category is highest for Minneapolis at 1.37, followed by Kansas City at 1.24, St. Louis at 1.21 and Indianapolis at 1.13.

Cost structure

Differences in cost of living within the United States are primarily attributable to housing costs and local tax levels. Workers are attracted to metro areas with job opportunities, affordable housing and relatively lower taxes. Housing affordability is important for employers because then wages can be lower and young families can purchase homes for less. The intersection of relatively high wages and affordable housing is a desirable address for most of the U.S. population, and most Midwestern metros inhabit that space. The country's fastest-growing cities are now those where housing is more affordable than average. In a survey conducted by Wendell Cox of Demographia, most Midwestern metros ranked more affordable relative to income than the median U.S. market from among the 175 top U.S. metros. Many of them counted among the more affordable.

Tax burden. The other major difference in cost of living across the United States is state and local taxes. The 2017 federal tax law change, which capped state income and real estate tax deductions at $10,000 and increased the standard deduction to $24,000 for couples, exacerbated those differences.

We examined the highest marginal tax rate in each state. Although this tax bracket affects a small number of taxpayers, it accounts for a disproportionate share of revenues. It also has a consequential impact on business owners and job creators. Illinois, Indiana, Michigan, Ohio and Pennsylvania have individual tax rates lower than the national average.

Corporate tax levels are an important consideration for businesses' relocation and expansion decisions. (Many times, tax incentives and abatements override actual tax levels.) Amongst the Midwestern states with metros of 750,000 people or more, Indiana has the lowest tax at 4 percent. Ohio has no corporate tax, but it does have a business tax levied on the gross taxable income of most businesses and corporations.

Fiscal health. The fiscal health of states and municipalities is becoming increasingly important for corporate relocation and retention. The lack of fiscal health may lead to the vicious cycle of higher levels of taxation, service cuts, corporate and demographic exodus, and, in turn, even higher levels of taxation.

The costs of legacy pensions and other retiree benefits have weighed heavily on the budgets of several Midwestern states. Illinois, in particular, is hard hit. Moreover, Illinois and Michigan have a constitutional provision prohibiting pensions from being diminished or impaired. States have limited agency to extricate themselves from hefty pension obligations promised by previous administrations to state and local employees and retirees. Ironclad legal barriers were erected to protect those benefits, and the political will or ability to curtail those benefits may not exist. Successful legislative reform may not survive judicial challenges.

Missouri and Indiana are rated Aaa by Moody's Investors Service, while most of the other Midwestern states are rated Aa. Illinois is rated Baa, the lowest in the United States. Columbus is rated Aaa. Except for Detroit and Chicago, all the other primary Midwestern cities are investment grade.

Quality of life. Certain quality-of-life factors may not be apparent to some investors, but this underlying consideration is important to the overall desirability of a metro area. Few factors impact quality of life and, as a corollary, economic expansion as much as a high violent crime rate. New York City's favorable commercial real estate performance is heavily correlated with the reduction of violent crime over the past several decades. Six Midwestern metros have violent crime rates close to or lower than the national average including Cincinnati, Pittsburgh, Minneapolis, Columbus, Dayton, Grand Rapids and Omaha.

Traffic congestion, good-quality mass transit, walkable cities and proximate green spaces are also factors of consequential importance. The Midwest has some of the least sclerotic traffic arteries in the nation. According to the TomTom Traffic Index, with the exception of Chicago, all of the top Midwestern metros have congestion levels lower than the average of top U.S. metros. Growing economies that have low traffic-congestion rates are attractive. Certain quality-of-life factors help undergird the desirability of certain cities. According to Walkscore.com, Chicago and Minneapolis are among the most walkable and transit-friendly cities in the Midwest. According to ParkScore.com published by the Trust for Public Land, these cities also excel in terms of acreage, investment and amenities offered to residents in their park systems.

Conclusion

Total population growth in the Midwest has been anemic, but select metros are growing. Most are growing slower than the United States as a whole, and others actually are declining, such as Pittsburgh, Detroit, Cleveland and Dayton. Certain key ingredients are mostly or partially present in the Midwestern metros that have grown even as most have stagnated or declined. Some metros include state capitals, including Columbus, Indianapolis and Minneapolis's Twin City of St. Paul. Others never were heavily dependent on the declining manufacturing sector, including Columbus, Kansas City and Omaha. Some are in relatively low-tax states (Indianapolis) or have a high-tech concentration (Kansas City). Cities such as Chicago, Columbus, Indianapolis, Minneapolis and Pittsburgh benefit from the presence of large and/or top-rated universities. Detroit and Cleveland continue to suffer the most from deindustrialization. Two metros, Columbus and Indianapolis, made the final-20 list for Amazon.com Inc.'s second headquarters.

The Midwest has worn the Rust Belt moniker as a poisonous Tunic of Nessus for numerous decades. Several Midwestern metros have achieved the supra-Herculean task of shedding that description, including Columbus, Indianapolis, Minneapolis, Kansas City, Omaha and Grand Rapids. Sections of several other large Midwestern metros also offer attractive investment opportunities, including, but not limited to, sections of demographically challenged metro areas such as Chicago and Pittsburgh. ❖

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