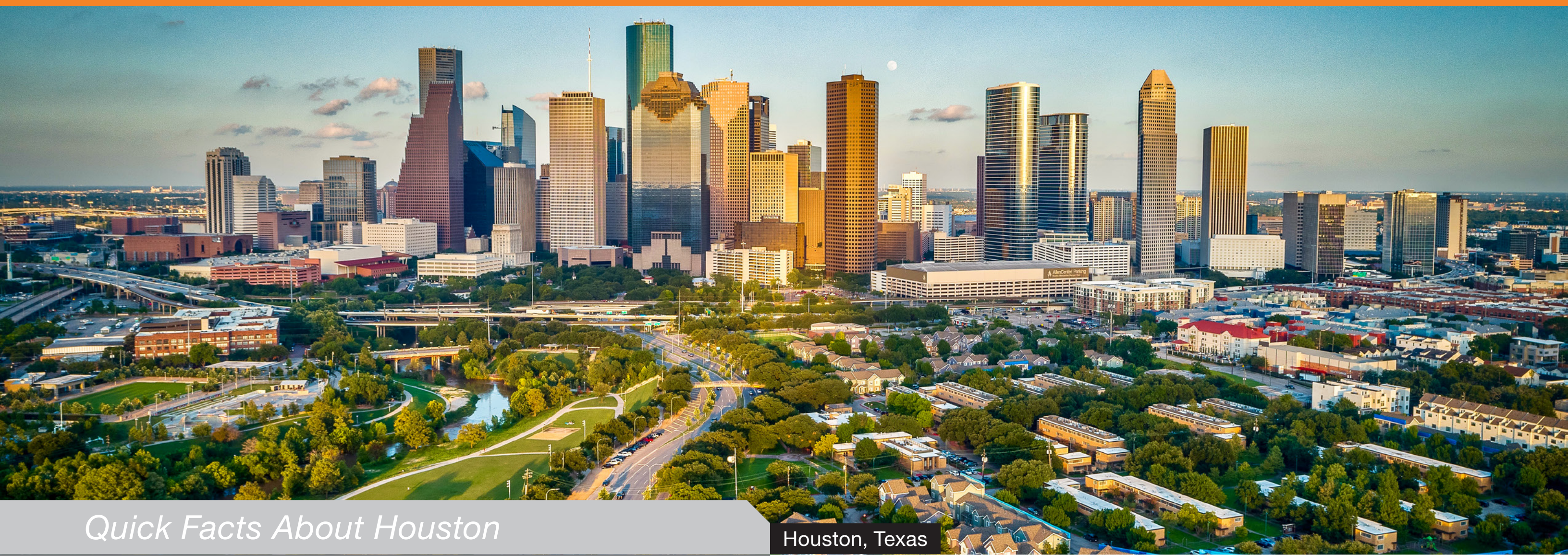
HUD PD&R **Housing Market Profiles**

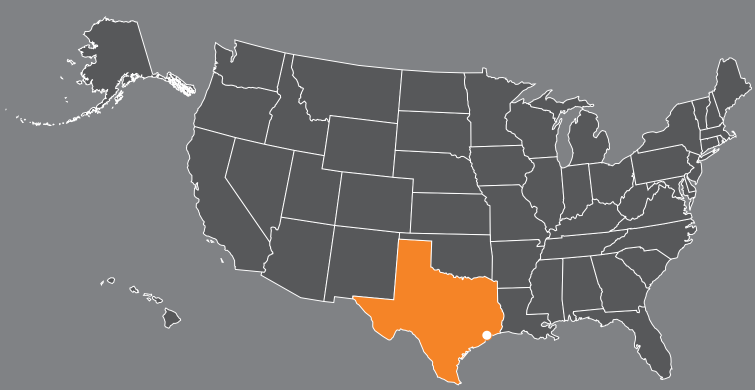
Houston-The Woodlands-Sugar Land, Texas



Houston, Texas

Quick Facts About Houston

- **Current sales market conditions: tight**
- **Current apartment market conditions: balanced**
- **The Texas Medical Center, in the city of Houston, is the largest medical complex in the world.**



By Tim McDonald | As of July 1, 2021

Overview

The Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA) (hereafter, Houston metropolitan area) is the fifth largest MSA in the nation and is located on the Gulf of Mexico in southeastern Texas. The metropolitan area consists of nine counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller Counties. With many domestic and international energy companies having a presence in the area, the Houston metropolitan area is an international center for global energy markets. The city of Houston is also home to the Lyndon B. Johnson Space Center, which is the NASA human spaceflight center and attracts more than 1 million visitors annually (Space Center Houston).

- As of July 1, 2021, the population of the Houston metropolitan area was estimated at nearly 7.24 million people, an average increase of 116,900 people, or 1.8 percent, annually since 2010, with net in-migration averaging 60,600 people per year.
- The Houston metropolitan area attracts migrants from abroad, primarily because of its importance as an

continued on page 2

continued from page 1

international center for the energy industry. Since 2010, international net in-migration has averaged 32,700 people per year and accounted for nearly 54 percent of total net in-migration.

- The decline in domestic oil prices in 2015 and the resulting lower levels of job growth contributed to a slowdown in population growth in the Houston metropolitan area. From 2010 through 2015, population growth averaged 143,100, or 2.3 percent, per year, but since then, growth has slowed to an average of 93,900, or 1.4 percent, annually.

Economic Conditions

Economic conditions in the Houston metropolitan area have been improving during the past year as the economy recovers from the impacts of the COVID-19-related downturn. The Houston metropolitan area has recovered slightly more than 59 percent of all nonfarm payroll jobs lost during March and April 2020. Before March 2020, job growth in the Houston metropolitan area was positive but well below rates of growth earlier in the decade due to a downturn in energy-related industries, which has a larger impact on the Houston metropolitan area than on the other large Texas metropolitan areas (including Austin, Dallas-Fort Worth, and San Antonio). Twenty-four Fortune 500 companies are headquartered in the Houston metropolitan area, 15 of them in energy-related industries. When the price of West Texas Intermediate (WTI) oil declined in 2015, it caused a slowdown in job growth. From 2011 through 2014, with the price of WTI trading at more than $90 a barrel, nonfarm payroll growth in the Houston metropolitan area was strong, averaging 93,000 jobs, or 3.4 percent, annually. During those years, the Houston metropolitan area had the second fastest rate of job growth among the large Texas metropolitan areas, trailing only Austin, where the job growth rate was 4.1 percent. With the price of WTI trading near or less than $50 a barrel from 2015 through 2017, job growth slowed significantly in the Houston metropolitan area as nonfarm payrolls increased by an average of 26,900 jobs, or 0.9 percent, annually. In 2018, as the price of WTI climbed above $60 a barrel, the rate of nonfarm payroll growth in the Houston metropolitan area accelerated and from 2018 through 2019 averaged 69,850, or 2.3 percent, annually.

During the 3 months ending June 2021—

- Nonfarm payrolls averaged more than 3.03 million jobs, an increase of 142,800 jobs, or 4.9 percent, from the 3 months ending June 2020, when nonfarm payrolls declined by 268,800 jobs, or 8.5 percent.
- Job growth was led by the leisure and hospitality sector, which added 71,400 jobs, or an increase of 29.3 percent, from the same period a year ago. Job gains in this sector resulted from people returning to travel and dining out.

continued on page 3

During the second quarter of 2021, 8 of 11 payroll sectors added jobs.

	3 Months Ending		Year-Over-Year Change	
	June 2020 (Thousands)	June 2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	2,890.6	3,033.4	142.8	4.9
Goods-Producing Sectors	503.5	482.2	-21.3	-4.2
Mining, Logging, & Construction	283.1	274.6	-8.5	-3.0
Manufacturing	220.5	207.6	-12.9	-5.9
Service-Providing Sectors	2,387.0	2,551.1	164.1	6.9
Wholesale & Retail Trade	434.1	458.2	24.1	5.6
Transportation & Utilities	153.6	168.1	14.5	9.4
Information	28.4	28.6	0.2	0.7
Financial Activities	162.1	163.6	1.5	0.9
Professional & Business Services	475.4	492.7	17.3	3.6
Education & Health Services	380.9	400.2	19.3	5.1
Leisure & Hospitality	243.4	314.8	71.4	29.3
Other Services	94.4	110.6	16.2	17.2
Government	414.7	414.4	-0.3	-0.1
Unemployment Rate	12.8%	7.1%		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

continued from page 2

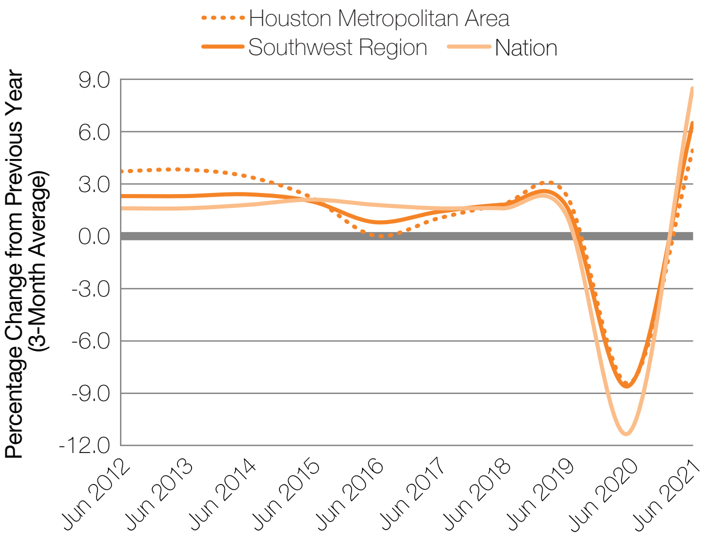
The leisure and hospitality sector was the hardest hit sector in the initial COVID-19 mitigation efforts, declining by 94,500 jobs, or 28 percent, during the 3 months ending June 2020, year-over-year.

- Only the transportation and utilities sector—which increased by 14,500 jobs, or 9.4 percent, year-over-year, to 168,100 jobs—exceeded levels from the 3 months ending June 2019. Increased employment at Amazon.com, Inc. distribution centers in the Houston metropolitan area led growth in this sector.
- The unemployment rate averaged 7.1 percent, down from 12.8 percent 1 year earlier. The unemployment rate in the Houston metropolitan area is the highest of all of the large Texas metropolitan areas.

Although the energy-related industries play a large role in the Houston economy, the education and health services sector is also significant. The Houston metropolitan area is world-renowned for its medical facilities. According to *U.S. News & World Report*, The University of Texas MD Anderson Cancer Center is the top-ranked hospital in the nation for the treatment of cancer. The MD Anderson Cancer Center is part of the Texas Medical Center complex. The complex has more than 100,000 employees working at various healthcare facilities on the campus and treats more than 10 million patients annually.

Because the Houston metropolitan area is on the Gulf of Mexico, shipping also plays an important role in the local economy. The Port of Houston is the largest port in the United States in terms of foreign waterborne tonnage moving through the port (Port of Houston Authority). According to a 2018 study commissioned by the Port Authority, the Port of Houston has an annual economic impact on the state of Texas of more than $300 billion and directly employs more than 67,000 people.

Nonfarm payroll growth in the Houston metropolitan area lagged behind the national and regional averages during the second quarter of 2021.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the Houston Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
H-E-B, LP	Wholesale & Retail Trade	32,000
Memorial Hermann Health System	Education & Health Services	28,800
Houston Methodist	Education & Health Services	25,800

Note: Excludes local school districts.
Source: *Houston Chronicle*

Sales Market Conditions

The home sales market in the Houston metropolitan area is currently tight, with an estimated vacancy rate of 1.4 percent, down from 2.2 percent in 2010. New and existing home sales totaled 176,400 during the 12 months ending June 2021, up by 29,200, or more than 20 percent, from the previous 12 months (Zonda, with adjustments by the analyst). According to data from the Texas A&M Real Estate Center, 1.6 months of inventory was on the market during June 2021, down from 3.0 months during June 2020. Although the months of inventory on the market has declined in the past year in the Houston metropolitan area, it is the highest level of any of the large Texas metropolitan areas. According to data from the Houston Association of Realtors®, the number of active listings during June 2021 was 13,700, down by 36 percent from the 21,500 active listings in June 2020. With higher demand, homes have been selling at a much faster pace during the past year. The average number of days on the market during June 2021 for single-family homes was 29, down from 57 days in June 2020, as homebuyers moved quickly to purchase homes. The rapid increase in sales and the reduction of inventory have contributed to a declining number of home loans that are seriously delinquent (90 or more days delinquent or in foreclosure) because homeowners are more likely to sell their house if they cannot make their payments. The percentage of home loans in the Houston metropolitan area that were seriously delinquent or real estate owned (REO) declined to 4.5 percent during June 2021—down from 4.8 percent a year earlier (CoreLogic, Inc.). In June 2021, the rate in the Houston

continued on page 4

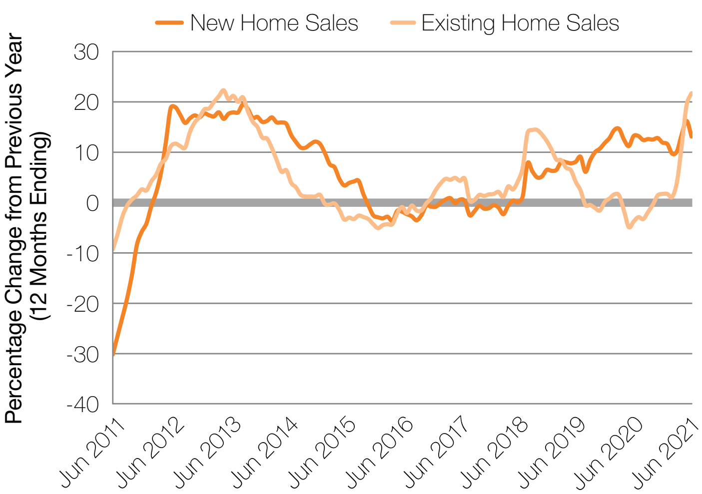
continued from page 3

metropolitan area was higher than the Texas or national averages of 3.8 and 3.1 percent, respectively.

During the 12 months ending June 2021—

- The average sales price of an existing home in the Houston metropolitan area was $292,200, an increase of $25,000, or 10 percent, from a year ago, as increased demand and limited inventory for sale combined to push prices higher (Zonda, with adjustments by the analyst).

Existing home sales have increased rapidly during the past 12 months, as lower interest rates have allowed more people to purchase homes.



Note: Sales include single-family homes, townhomes, and condominiums.
Source: Zonda, with adjustments by the analyst

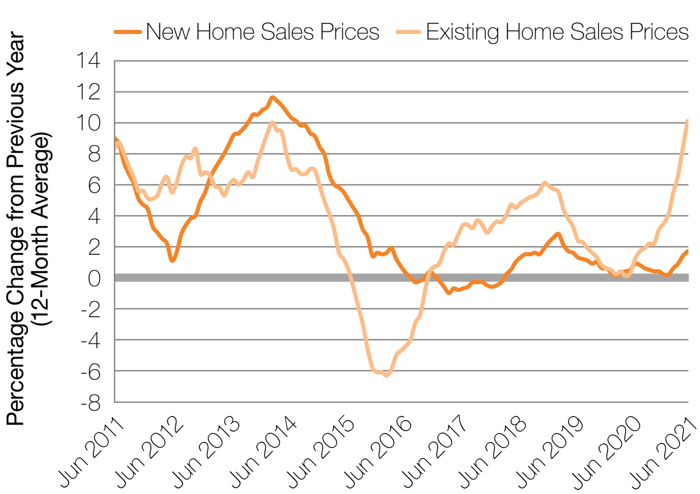
- Existing home sales totaled 139,900, an increase of 24,900, or nearly 22 percent, from the previous 12 months. Existing home sales reached an all-time high in the past 12 months, surpassing the previous record of 119,800 sales during 2006 by nearly 17 percent.
- The average sales price of a new home in the Houston metropolitan area was $320,200, an increase of $5,500, or slightly less than 2 percent, from 1 year earlier.
- New home sales totaled 36,500, an increase of 4,200, or 13 percent, from the previous 12 months. New home sales are still below previous peak levels from 2006, when new home sales totaled 52,700.

New home construction activity, as measured by the number of single-family homes permitted, has recently increased sharply, because low interest rates have helped to increase demand for new homes. During 2020, single-family home construction in the Houston metropolitan area exceeded 50,000 homes for the first time since 2006, and that pace has accelerated during the first half of 2021.

- During the 12 months ending June 2021, single-family permitting totaled 55,000 homes, an increase of 13,700, or more than 33 percent, from the previous 12 months.
- During the 12 months ending June 2021, Harris County permitted the most homes (22,900), accounting for nearly 42 percent of all single-family homes permitted in the metropolitan area. Montgomery and Fort Bend Counties

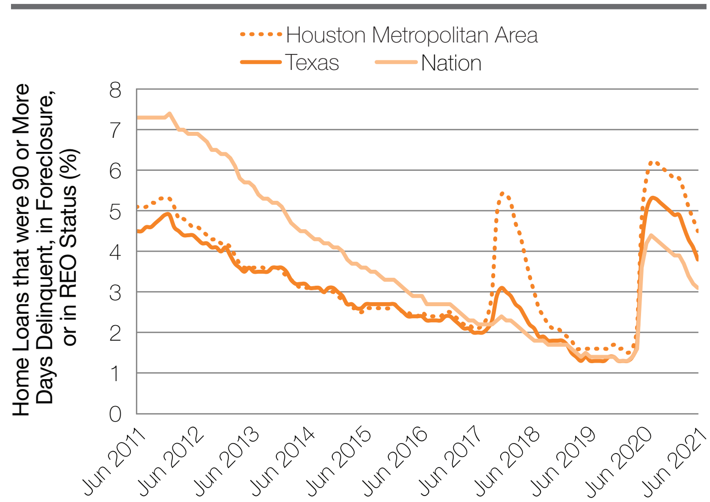
continued on page 5

Existing home sales prices increased 10 percent during the past year for the first time since 2014, when the local economy was expanding rapidly due to high energy prices.



Note: Prices include single-family homes, townhomes, and condominiums.
Source: Zonda, with adjustments by the analyst

The percentage of home loans that were seriously delinquent or in REO status in the Houston metropolitan area has been above both the state and national rates since Hurricane Harvey in 2017.



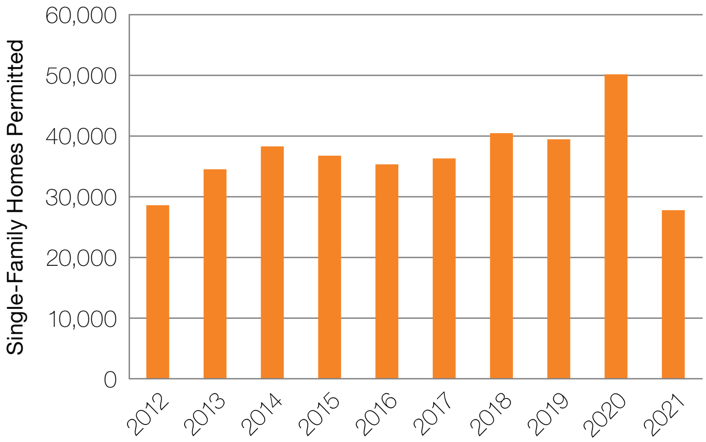
REO = real estate owned.
Source: CoreLogic, Inc.

continued from page 4

permitted the second and third most single-family homes, with 11,700 and 11,200 homes, accounting for 21 and 20 percent of all single-family homes permitted in the metropolitan area, respectively.

- Not all new single-family homes are constructed for owner occupancy. In December 2020, D.R. Horton, Inc., which typically only builds for owner occupancy, completed the Amber Pines at Fosters Ridge subdivision, with 124 single-family rental homes. Those rental homes are now owned by a real estate investment firm—a growing trend in Texas of investment firms buying up new single-family homes to rent.

The rate of single-family home permitting since 2019 has been much greater than during 2012 through 2014, even though job and population growth were much higher in the previous period.



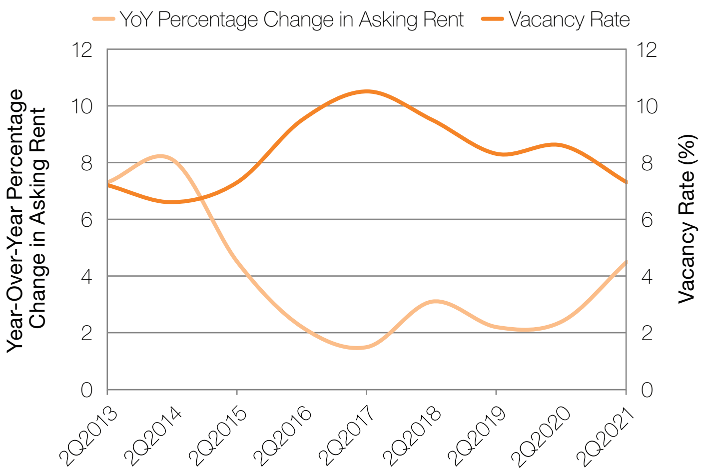
Note: Includes preliminary data from January 2021 through June 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

Apartment market conditions in the Houston metropolitan area are currently balanced, with a 7.3 percent vacancy rate during the second quarter of 2021, down from 8.6 percent during the second quarter of 2020 (ALN Apartment Data, Inc.—hereafter, ALN). The current vacancy rate is the lowest the apartment vacancy rate has been in the Houston metropolitan area since the second quarter of 2015, when the economy began to slow due to a decline in the price of WTI.

- During the second quarter of 2021, the average rent for an apartment was $1,172, an increase of $51, or nearly 5 percent, from the second quarter of 2020. That increase was the largest yearly rent increase in the Houston metropolitan area since 2014, when high energy prices were creating jobs at a much faster pace, causing significantly faster population growth.
- During the 12 months ending June 2021, absorption of apartment units averaged nearly 2,600 units per month in the metropolitan area, up from an average of 1,450 units per month during the previous 12 months.
- Of the 42 ALN-defined submarkets in the Houston metropolitan area, the 1960 West submarket had the lowest vacancy rate, at 4.8 percent, and the Lake Jackson submarket had the highest, at 17.1 percent.
- The ALN-defined Midtown submarket has the highest average rent in the Houston metropolitan area, with an average rent of $1,949, which is up by $68, or nearly 4 percent, from last year. Conversely, the ALN-defined Westwood submarket has the lowest average rent, at $755, which is up by $26, or nearly 4 percent, from last year.

Since the second quarter of 2013, whenever the apartment vacancy rate has been below 8 percent, rent growth has been higher than 4 percent annually.



2Q = second quarter. YoY = year-over-year.
Source: ALN Apartment Data, Inc., with adjustments by the analyst

Multifamily building activity reached a low of production in 2017, as the metropolitan area suffered through depressed energy prices. The impact of Hurricane Harvey in August 2017 caused

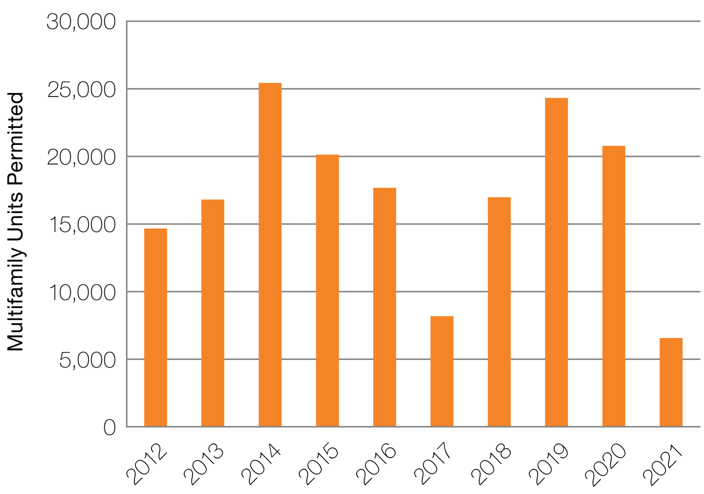
continued on page 6

continued from page 5

delays in multifamily building production. Multifamily production increased rapidly in 2018 and 2019 to compensate for the units lost as a result of the hurricane, but since 2019, multifamily building production has declined from the peaks of the post-Hurricane Harvey recovery.

- During the 12 months ending June 2021, multifamily construction in the Houston metropolitan area totaled 15,400 units, a decline of 7,000 units, or 31 percent, from the previous 12 months.
- Harris County was the most active county in terms of building activity during the past 12 months, with 11,700 multifamily units permitted, accounting for nearly 76 percent of all multifamily units permitted in the metropolitan area during the past 12 months.
- According to data from ALN, the Midtown submarket is the most active submarket, with more than 8,800 units either in lease up, under construction, or in planning. Developments under construction in this submarket include Block 98, a 43-story high-rise luxury apartment building with 303 units, and the 341-unit Modera Washington, a luxury mixed-use apartment community in a 10-story mid-rise building.
- Since 2010, more than 50 percent of all apartment units built in the Houston metropolitan area have been in mid-rise or high-rise structures (four stories or taller), compared with just under 7 percent before 2010. As people desire more dense urban living, the building of traditional garden-style apartments has declined in the Houston metropolitan area; increasing land costs in the dense urban centers has made building up more economically feasible.
- In the 2000s, apartment units with one or fewer bedrooms constituted 52.3 percent of the apartment inventory, but since 2010, as more young professionals move to the urban core, 60.2 percent of all new apartment units constructed have been studios or one-bedroom units (ALN Apartment Data, Inc.).

The number of multifamily units permitted reached a recent peak in 2014 as high energy prices contributed to strong job growth and in-migration.



Note: Includes preliminary data from January 2021 through June 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst