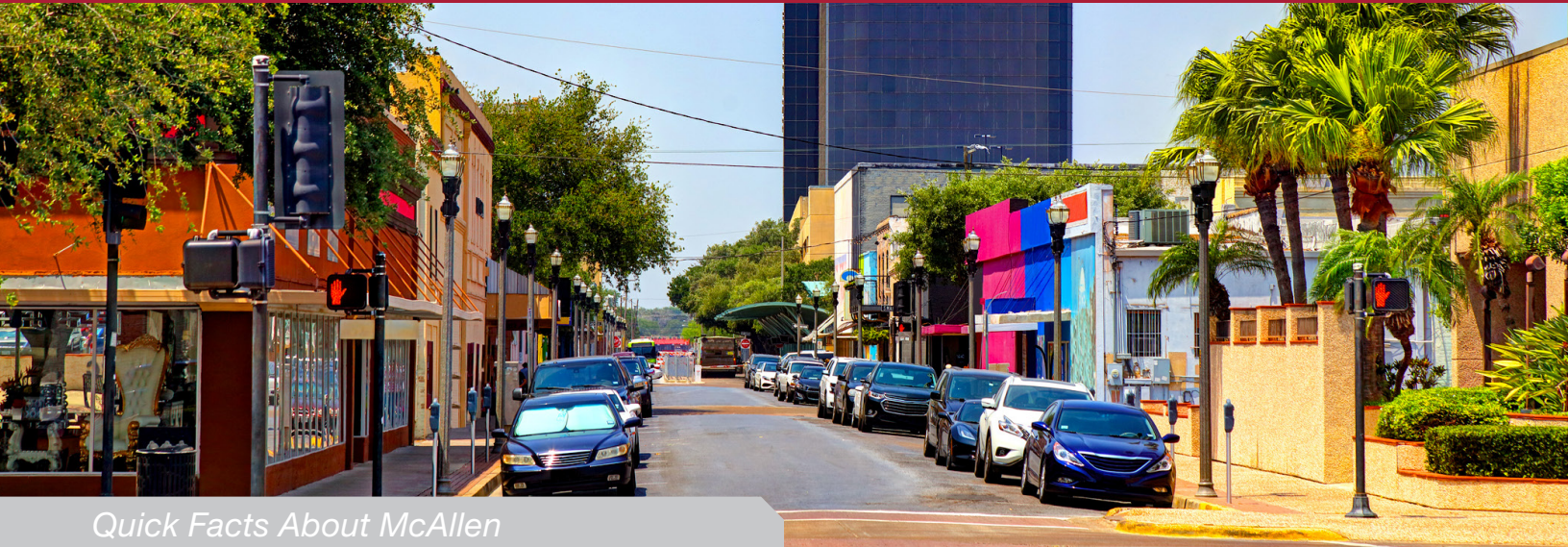


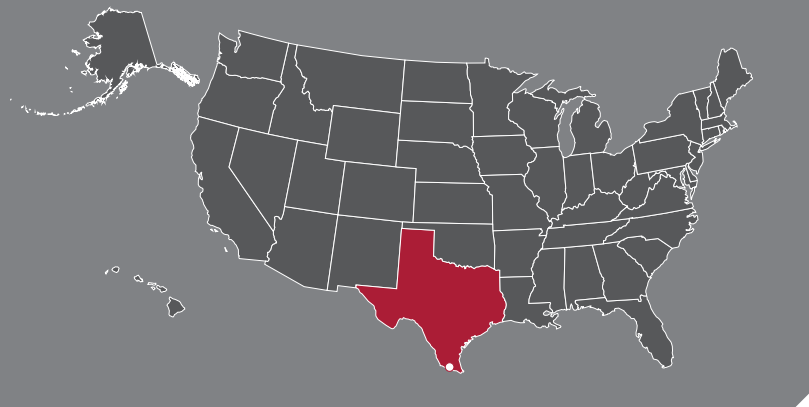
HUD PD&R Housing Market Profiles

McAllen-Edinburg-Mission, Texas



Quick Facts About McAllen

- **Current sales market conditions: balanced**
- **Current apartment market conditions: balanced**
- **The metropolitan area is the center for retail trade and health care in southern Texas on the U.S.-Mexico border and draws more than 10 million visitors annually from the surrounding area. Approximately 40 percent of sales tax revenue in the city of McAllen comes from shoppers crossing the border from Mexico (McAllen Chamber of Commerce estimates).**



By Cameron N. Ehrlich | As of October 1, 2020

Overview

The McAllen-Edinburg-Mission Metropolitan Statistical Area (hereafter, McAllen metropolitan area) is coterminous with Hidalgo County, Texas, one of four counties that constitute the Rio Grande Valley region of South Texas. The McAllen metropolitan area is anchored by the cities of McAllen, Edinburg, Pharr, and Mission and is bordered by Mexico to the south. The McAllen Foreign Trade Zone was created in 1973 as the first inland foreign trade zone in the United States. The metropolitan area established itself as a major hub for international trade and distribution. The Anzalduas International Bridge, built in 2009, directly connects the McAllen Foreign Trade Zone and more than 400 companies to Mexico and facilitates manufacturing, trade, and travel between the countries. The Anzalduas International Bridge commercial operations alone contributed to more than \$37 billion in trade flow in 2019 (U.S. Department of Commerce Bureau of the Census Foreign Trade Division). The education and health services sector is one of the fastest growing sectors in the metropolitan area. In recent years, it has surpassed the wholesale and retail trade sector as the largest payroll sector. The Doctors Hospital at Renaissance health system, McAllen Medical Center,

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Rio Grande Regional Hospital, Mission Regional Medical Center, and South Texas Health System, combined, account for more than 12,000 jobs in the McAllen metropolitan area.

- As of October 1, 2020, the population of the metropolitan area is estimated at 876,700, an increase of 9,700, or 1.2 percent, annually since April 1, 2010. McAllen and Edinburg are the most populous cities in the metropolitan area and account for nearly 30 percent of the total population.
- Since 2010, net out-migration from the metropolitan area has averaged 1,475 people annually (estimates from

analyst), a reversal from net in-migration of 7,150 people annually from 2000 to 2010 (Census Bureau decennial census counts).

- Lower levels of net natural increase (resident births minus resident deaths) since 2010 have occurred because of a decline in births and an aging population. From 2010 to 2019, the portion of residents under the age of 5 declined from 9.6 to 8.6 percent; at the same time, the share of residents ages 65 and older in the metropolitan area grew from 9.3 to 11.5 percent (American Community Survey [ACS], 1-year data).

Economic Conditions

Economic conditions in the McAllen metropolitan area deteriorated following the shelter-in-place order implemented in Hidalgo County on March 25, 2020, in response to the COVID-19 pandemic. As a result, during the second quarter of 2020, total nonfarm payrolls decreased by an average of 21,000 jobs, or 7.6 percent, to 254,000 jobs, compared with the average number of nonfarm payrolls reported during the first quarter of 2020. Nonfarm payrolls began to recover, albeit slowly, in the third quarter of 2020, and by the end of

September 2020, jobs had increased an average of 700 jobs, or 0.3 percent, from the previous quarter. Before the recent economic downturn, the economy was strong. From 2011 through 2019, nonfarm payroll growth in the metropolitan area outperformed the national average, increasing by 2.3 percent annually, compared with 1.6 percent nationally. The education and health services sector was the fastest growing nonfarm payroll sector in the metropolitan area from 2011 through 2019, averaging gains of 2,600 jobs, or 3.9 percent, annually.

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Nonfarm payrolls in the McAllen metropolitan area declined due to job losses in 10 of the 11 payroll sectors.

	3 Months Ending		Year-Over-Year Change	
	September 2019 (Thousands)	September 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	268.0	254.8	-13.2	-4.9
Goods-Producing Sectors	15.4	11.6	-3.8	-24.7
Mining, Logging, & Construction	8.6	6.8	-1.8	-20.9
Manufacturing	6.8	4.8	-2.0	-29.4
Service-Providing Sectors	252.6	243.2	-9.4	-3.7
Wholesale & Retail Trade	44.8	45.3	0.5	1.1
Transportation & Utilities	8.7	7.8	-0.9	-10.3
Information	2.9	2.8	-0.1	-3.4
Financial Activities	8.9	7.7	-1.2	-13.5
Professional & Business Services	17.4	17.0	-0.4	-2.3
Education & Health Services	80.1	79.5	-0.6	-0.7
Leisure & Hospitality	27.0	21.9	-5.1	-18.9
Other Services	5.9	5.5	-0.4	-6.8
Government	57.0	55.6	-1.4	-2.5
Unemployment Rate	6.5%	12.0%		

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics



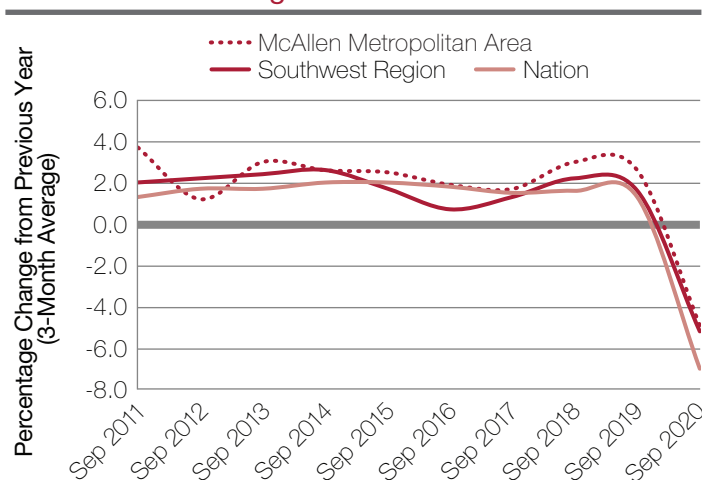
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During the 3 months ending September 2020—

- Nonfarm payrolls in the metropolitan area declined by an average 13,300 jobs, or 5 percent, to nearly 254,700, which follows an increase of 6,700 jobs, a 2.6-percent gain, during the 3 months ending September 2019.
- The leisure and hospitality sector led job losses, declining by 5,100 jobs, or 18.9 percent—a stark contrast from the 3 months ending September 2019, when jobs in the sector increased by 1,500 jobs, or 5.9 percent.
- The wholesale and retail trade sector was the only sector to add jobs, increasing by 500 jobs, or 1.1 percent, compared with a 0.2-percent, or 100-job, gain during the same period 1 year ago.
- The unemployment rate averaged 12.1 percent, up from the 6.5-percent rate recorded during the same period a year ago.

The education and health services sector is the largest payroll sector in the HMA, with 79,500 jobs, which accounts for more than 31 percent of all nonfarm payroll jobs, as demand for health care from an aging population has resulted in steady growth in this sector. Major employers in this sector include Doctors Hospital at Renaissance and the McAllen Medical Center, with 5,000 and 2,500 employees, respectively (McAllen Chamber of Commerce, 2020 estimates). To help meet the demand for medical professionals in the Rio Grande Valley in 2013, the Texas legislature approved the creation of the University of Texas Rio Grande Valley School of Medicine, which opened in the city of Edinburg in 2016.

During the 3 months ending September 2020, the decline in nonfarm payrolls in the McAllen metropolitan area was less severe than that of the Southwest region and the nation.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the McAllen Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Doctors Hospital at Renaissance	Education & Health Services	5,000
H-E-B, LP	Wholesale & Retail Trade	4,200
Hidalgo County	Government	3,300

Note: Excludes local school districts.

Source: McAllen Chamber of Commerce, 2020 estimates

Sales Market Conditions

The home sales market in the McAllen metropolitan area is currently balanced, with an estimated vacancy rate of 1.5 percent, down from 1.8 percent in April 2010. Very low levels of single-family home construction through the mid-2010s allowed excess vacancies to be absorbed and contributed to balanced market conditions. During the 12 months ending September 2020, home sales (including single-family homes, townhomes, and condominiums) totaled 10,050 homes, a 10-percent increase from a year earlier (Zonda, with adjustments by the analyst). As of September 2020, the metropolitan area had a 3.4-month supply of homes for sale, down from a 7-month supply in September 2019 (Texas A&M University, Real Estate Center). Despite the balanced market and low supply of homes for sale, the current economic downturn has caused a rise in mortgage delinquencies. The percentage of home loans in the McAllen metropolitan area

that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status increased to 9.1 percent during September 2020, up from 2.5 percent a year earlier (CoreLogic, Inc.). By comparison, the rates for Texas and the nation during August 2020 were 5.3 and 4.4 percent, respectively.

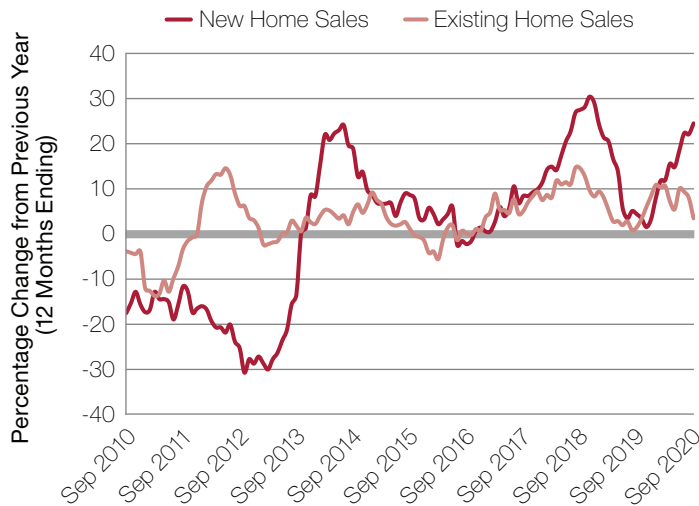
During the 12 months ending September 2020—

- New home sales totaled 1,250, an increase of 250 sales, or 25 percent, from the previous 12 months (Zonda, with adjustments by the analyst). New home sales accounted for 13 percent of all home sales in the metropolitan area.
- The average sales price of a new home was \$221,300, a 3-percent increase from \$215,900 during the previous 12 months.

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The rate of growth for new home sales has been accelerating since the end of 2019.



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

- Regular resale home sales increased approximately 3 percent, to 8,500 homes, and the average price for a regular resale home was \$153,700, down 2 percent from the previous year.
- REO sales accounted for nearly 20 percent of existing home sales, unchanged from a year ago and down from a peak of 63 percent in 2011.

Single-family homebuilding activity in the metropolitan area—as measured by the number of single-family homes permitted—decreased during the 12 months ending September 2020, as homebuilding slowed during February through May 2020. The COVID-19 shelter-in-place order led to delays in permitting, reviews, and inspections, ultimately resulting in a decrease in home construction activity, as supply chain disruptions and declines in construction employment were also realized. Single-family homebuilding has since moderated but remains well below the peak levels from 2000 through 2007. Approximately 990 single-family homes are currently under construction.

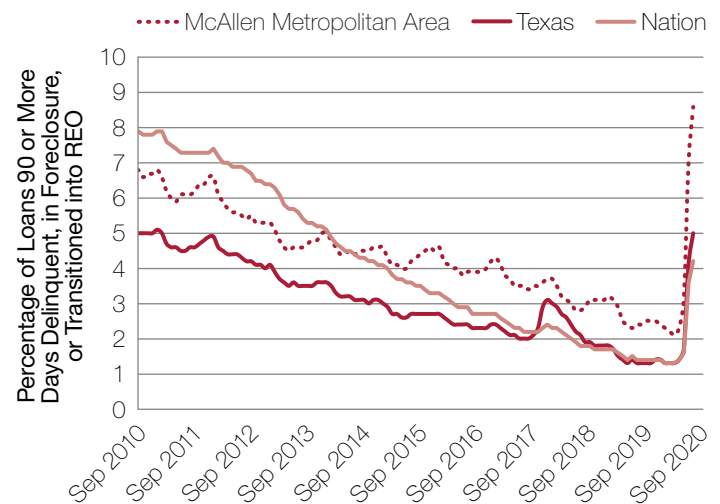
- The number of single-family homes permitted totaled 3,100 during the 12 months ending September 2020, down 175 homes, or 5 percent, from the previous 12 months (preliminary data, with adjustments by the analyst). The current level of single-family construction is 20 percent higher than the decade low of 2,575 homes permitted in 2013.
- During the second quarter of 2020, single-family home permitting totaled 680 homes, down 320 homes, or

Since the end of 2018, sales price increases for both existing and new homes were less than 6 percent annually in the McAllen metropolitan area.



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

The percentage of home loans 90 or more days delinquent, in foreclosure, or recently transitioned into REO status in the McAllen metropolitan area has been higher than or equal to the national average since July 2014.



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

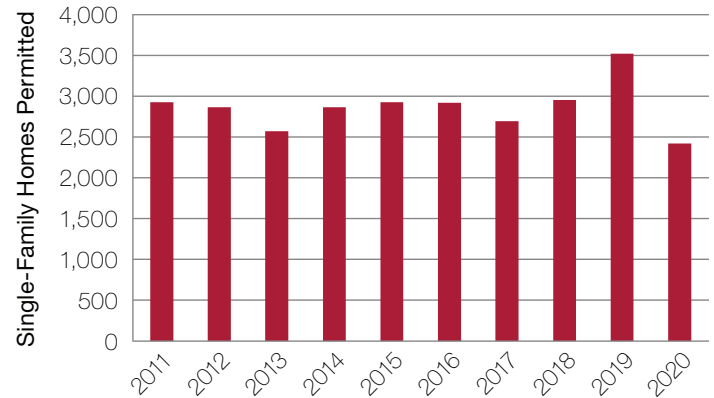
32 percent, after a gain of 220 homes, or 28 percent, during the second quarter of 2019. Permitting levels have since rebounded, and the number of single-family homes permitted during the third quarter of 2020 totaled 990 homes, up 1 percent from the 980 homes permitted during the third quarter of 2019 (preliminary estimates).

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- The largest concentrations of single-family homes were built in the cities of Edinburg and McAllen, which, combined, accounted for nearly 34 percent of all single-family homes permitted in the McAllen metropolitan area in 2019.
- Tres Lagos, a 2,500-acre master-planned community in the city of McAllen, includes single-family homes, multifamily homes, commercial and retail space, healthcare facilities, and schools. Developers plan to continue construction for the next 20 years, ultimately adding 5,000 new single-family homes with sales prices starting at \$220,000.

Single-family home permitting in the McAllen metropolitan area exceeded 3,500 during 2019, the highest number of homes permitted since 2007, when 5,100 single-family homes were permitted.



Note: Includes preliminary data from January 2020 through September 2020.

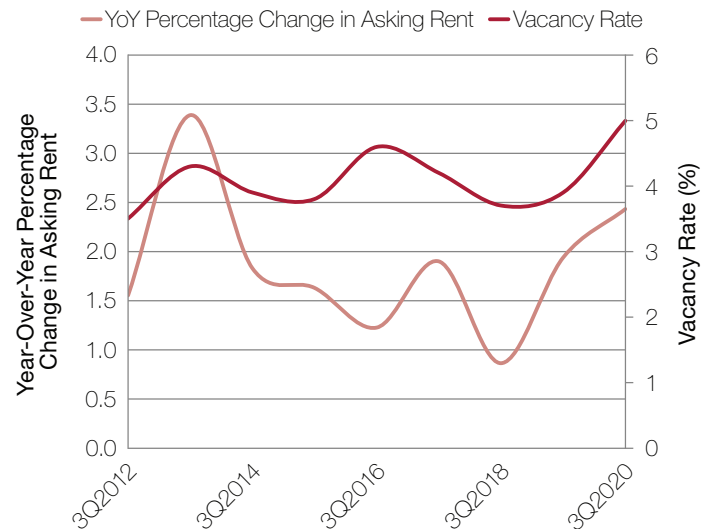
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

The apartment market in the McAllen metropolitan area is currently balanced, with a 5.0-percent vacancy rate, up from 3.9 percent 1 year earlier. The average asking rent for an apartment is currently \$770, an increase of \$18, or 2.4 percent, from 1 year ago (Reis, Inc.).

- As of September 2020, the average asking apartment rents, by number of bedrooms, in the metropolitan area were \$548, \$696, \$827, and \$840 for efficiencies, one-, two-, and three-bedroom units, respectively (ALN Apartment Data, Inc.).
- The apartment vacancy rate in the city of McAllen as of September 2020 was 6.6 percent, down from 7.5 percent a year ago. The average apartment rent in the city of McAllen is \$798, up \$8, or 1.0 percent, from a year ago.
- Student apartments represent 46 percent of all apartment units built in the metropolitan area since 2015, in part due to the nearly 11-percent annual increase in South Texas College enrollment during the same period (STC Student Affairs and Enrollment Management).
- Vacancy rates and rents are generally highest in and around Edinburg, where South Texas College is located. The student apartment vacancy rate in Edinburg was 15.1 percent as of September 2020, up from 9 percent a year ago, and the average rent for a student apartment was \$1,000, unchanged from a year earlier (ALN Apartment Data, Inc.). The vacancy rate increase was due to a decline

Rent growth and apartment vacancy rates have increased since 2014 due to new, higher priced units recently entering the market.



3Q = third quarter. YoY = year-over-year.

Source: Reis, Inc.

in enrollment of nearly 14 percent, or 4,550 students, from a year earlier (STC Student Affairs and Enrollment Management).

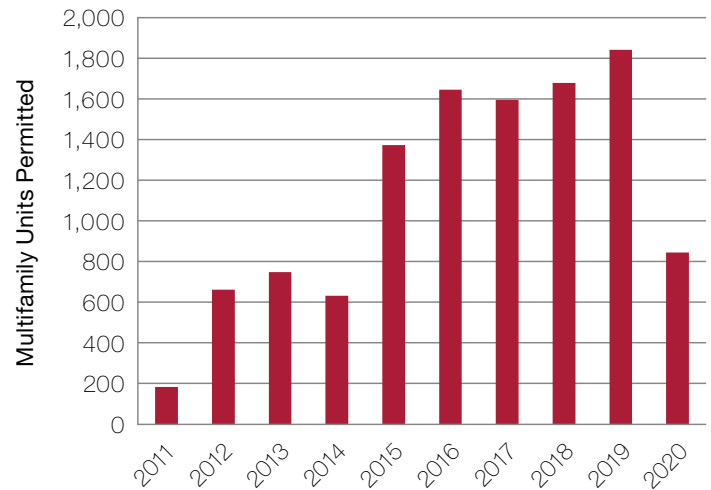
Multifamily construction activity in the McAllen metropolitan area, as measured by the number of multifamily units permitted, has generally been increasing since 2011.

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- During the 12 months ending September 2020, the number of multifamily units permitted totaled an estimated 1,725, a decline of 70 units, or 4 percent, from the previous 12 months (preliminary data, with adjustments by the analyst).
- Of the approximately 600 multifamily units under construction in the metropolitan area, approximately 77 percent are in the city of McAllen.
- Recently completed developments include the 120-unit Devon Place apartments in the city of Edinburg, offering studio, one-, two-, and three-bedroom units with monthly rents ranging from \$915 to \$1,399; the property is currently in lease up, with approximately 27 percent of units available to rent.
- The 122-unit Las Palomas development in downtown McAllen is currently preleasing. When completed in late 2020, the property will offer one-, two-, and three-bedroom units, with rents ranging from \$594 to \$810.

Multifamily units permitted averaged 560 from 2011 through 2014 but more than doubled, to an average of 1,625 units permitted annually from 2015 through 2019.



Note: Includes preliminary data from January 2020 through September 2020.

Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst