

HUD PD&R Regional Reports

Region 6: Southwest

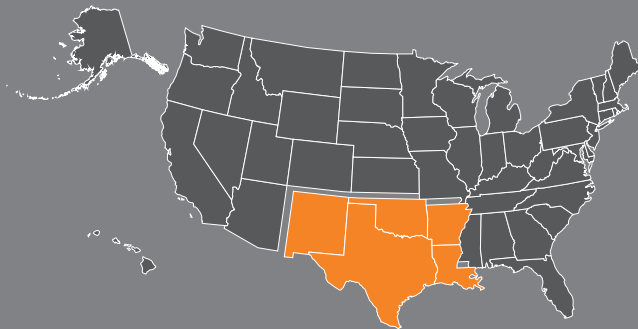


Quick Facts About Region 6

Albuquerque, New Mexico

By Robert Stephens | 2nd quarter 2017

- **Sales market conditions—**
 - Second quarter 2017: mixed (balanced to slightly tight).
 - First quarter 2017: mixed (balanced to slightly tight).
 - Second quarter 2016: mixed (balanced to slightly tight).
- **Apartment market conditions—**
 - Second quarter 2017: mixed (balanced to soft).
 - First quarter 2017: mixed (balanced to soft).
 - Second quarter 2016: mixed (balanced to slightly soft).



Overview

The economic expansion in the Southwest region that began in 2011 continued in the second quarter of 2017, although growth remained subdued compared with conditions earlier in the decade. Payrolls increased in all states in the region, led by growth in Texas, with gains concentrated among the service-providing sectors. Continued, albeit reduced, employment growth in the region contributed to balanced conditions in most major sales housing markets, although many rental markets began to soften despite conditions remaining balanced in most markets. Home sales, home sales prices, and average apartment rents increased in most major markets. Rent growth slowed and apartment vacancy rates rose, however, in several Southwest markets, in part, because of a high level of multifamily construction activity in 2014 and 2015.

During the second quarter of 2017—

- Nonfarm payrolls increased 1.8 percent from the second quarter of 2016 to 18.04 million jobs. Despite increasing during the most recent quarter, year-over-year job growth in the region slowed significantly from a recent peak of 3.0 percent during the fourth quarter of 2014. However, the rate of job growth in the region was above the national average of 1.5 percent, in part, because of resumed growth in the goods-producing sectors.

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- Home sales and sales prices increased in most major metropolitan areas in the region, although the rate of home sales slowed significantly in many markets from the second quarter of 2016.
- Combined single-family and multifamily permitting activity in the Southwest region rose 6 percent to 55,300 units, returning to the level during the second quarter of 2014, but well below the second-quarter peak of 76,800 units permitted in 2006 prior to the housing market downturn.

Economic Conditions

Nonfarm payroll growth in the Southwest region was up during the second quarter of 2017 from the past year. Nonfarm payrolls increased 1.8 percent, or by 327,000 jobs, compared with the number of jobs during the same quarter a year earlier, to 18.04 million jobs. By comparison, during the second quarter of 2016, nonfarm payrolls grew 0.8 percent, or by 132,500 jobs, from the second quarter of 2015. Job growth remained relatively strong in most service-providing sectors during the second quarter of 2017, with the only losses occurring in the wholesale and retail trade and the information sectors. The education and health services sector led job growth, increasing by 75,300 jobs, or 3.0 percent, and accounted for approximately 23 percent of the total nonfarm payroll change. The professional and business services and the leisure and hospitality sectors grew by 65,800 and 46,400, or 2.9 and 2.4 percent, respectively, accounting for approximately a combined 34 percent of the total nonfarm payroll change.

The goods-producing sector, which had been declining since the second quarter of 2015, added 59,500 jobs, a gain of 2.3 percent. Growth in the construction subsector continued, in part, because

residential building activity continues to increase throughout much of the region; the subsector grew by 26,600 jobs, or 2.6 percent. The mining and logging subsector increased by 11,100 jobs, or 3.4 percent. This sector had been one of the fastest-growing subsectors in the region, increasing at an average annual rate of 9.2 percent from 2010 through 2014, before shedding 87,800 jobs, a decline of 21.1 percent between the second quarters of 2015 and 2016. Similarly, manufacturing sector payrolls increased by 21,800 jobs, or 1.7 percent, from the second quarter of 2016 after declining by 56,000 jobs, or 4.2 percent, between the second quarters of 2015 and 2016. Lower oil and gas prices led many energy-related companies to reduce workforces, which led to job losses in the goods-producing sectors in 2015 and 2016. Parts of the region involved in the extraction of oil and gas—such as the Eagle Ford Shale region of south Texas—and in the processing, refining, and transportation of crude oil—such as the Gulf Coast regions of Texas and Louisiana—were particularly affected. However, crude oil production in Texas surged in recent months, which led to an increase in hiring to bring new production online.

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Year-over-year nonfarm payroll growth in the Southwest region increased to 1.8 percent, from 1.4 percent a year ago, during the second quarter of 2017, in part, because of resumed growth in the goods-producing sectors.

	Second Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,709.7	18,036.7	327.0	1.8
Goods-producing sectors	2,631.7	2,691.2	59.5	2.3
Mining, logging, and construction	1,339.3	1,377.0	37.7	2.8
Manufacturing	1,292.4	1,314.2	21.8	1.7
Service-providing sectors	15,078.0	15,345.6	267.6	1.8
Wholesale and retail trade	2,740.6	2,738.2	- 2.4	- 0.1
Transportation and utilities	746.0	768.5	22.5	3.0
Information	274.5	264.1	- 10.4	- 3.8
Financial activities	984.7	1,009.9	25.2	2.6
Professional and business services	2,251.6	2,317.4	65.8	2.9
Education and health services	2,483.1	2,558.4	75.3	3.0
Leisure and hospitality	1,927.7	1,974.1	46.4	2.4
Other services	644.2	659.9	15.7	2.4
Government	3,025.6	3,055.0	29.4	1.0

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

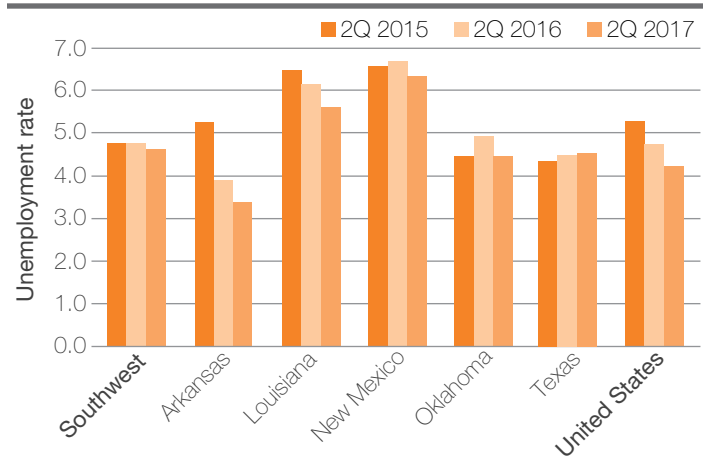


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During the second quarter of 2017—

- Nonfarm payrolls increased 2.3 percent, or by 279,600 jobs, in Texas from the second quarter of 2016, which accounted for approximately 85 percent of the job growth in the region, although Texas accounts for less than 70 percent of the total jobs in the region. Growth occurred in every sector in the region—including the goods-producing sectors, which benefited from increasing crude oil production in the state—but was concentrated in the education and health services and the professional and business services sectors, which increased by 56,400 and 54,500 jobs, or 3.5 and 3.4 percent, respectively.
- Arkansas had the highest rate of job growth in the region outside of Texas. Payrolls increased 1.8 percent, or by 22,400 jobs, from the second quarter of 2016. A decline of 1,800 jobs, or 0.8 percent, in the government sector and relatively small declines in the information sector and the mining and logging subsector were more than offset by gains in all other sectors, including growth of 7,100 jobs, or 5 percent, in the professional and business services sector and 6,700 jobs, or 3.7 percent, in the education and health services sector.
- New Mexico added 11,600 jobs, an increase of 1.4 percent, from the second quarter of 2016, continuing a long-term trend of modest job gains. The most growth occurred in the leisure and hospitality sector, which added 4,900 jobs, an increase of 5.1 percent. Five consecutive years of record-breaking tourism levels helped to boost job creation among hotels and restaurants.
- Nonfarm payrolls grew by 8,200 and 5,200 jobs, or less than 1 percent each, from the second quarter of 2016 in Louisiana

The unemployment rate declined or remained unchanged from the second quarter of 2016 in all states in the Southwest region but remains above the national rate.



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

and Oklahoma, respectively. Both states lost jobs in the trade and the transportation and utilities sectors, and Louisiana was one of only two states in the region to continue losing jobs in the manufacturing sector and the mining and logging subsector.

- The unemployment rate in the region was 4.7 percent, down 0.1 percentage point from the second quarter of 2016. Modest declines ranging from 0.3 to 0.5 percentage points in Arkansas, Louisiana, New Mexico, and Oklahoma were partially offset by Texas, which remained unchanged at 4.5 percent.

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight in most major metropolitan areas in the Southwest region during the second quarter of 2017, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 14,400, or 5 percent, to 333,700 homes sold during the 12 months ending June 2017 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent from 2014 through 2016 after slowing significantly from a peak of 16 percent during 2013. The average sales price of new and existing homes in Texas increased 6 percent during the 12 months ending June 2017, to \$268,700, and the inventory of unsold homes increased slightly to a 3.7-month supply from a 3.6-month supply a year earlier. Price increases accelerated from 3 percent during the previous 12 months but remain below the average of 7 percent from 2013 through 2015, a period when sales market conditions in most major

Texas markets were generally tightening. Increases in home sales and home sales prices occurred in most major markets throughout the region during the past year, although the rate of growth in home sales generally slowed by comparison with recent strong gains. Home sales prices increased the most in the Dallas-Fort Worth metropolitan area, rising 9 percent to \$298,900 during the 12 months ending June 2017 despite a slower increase in the number of homes sold relative to the past 2 years. The Dallas-Fort Worth metropolitan area averaged a 2.2-month supply of unsold homes during the same time, the lowest supply of any major metropolitan area in Texas.

During the second quarter of 2017 (preliminary data)—

- Approximately 40,000 single-family homes were permitted in the region, up 10 percent from the 36,350 homes permitted during the second quarter of 2016. By comparison, after the housing

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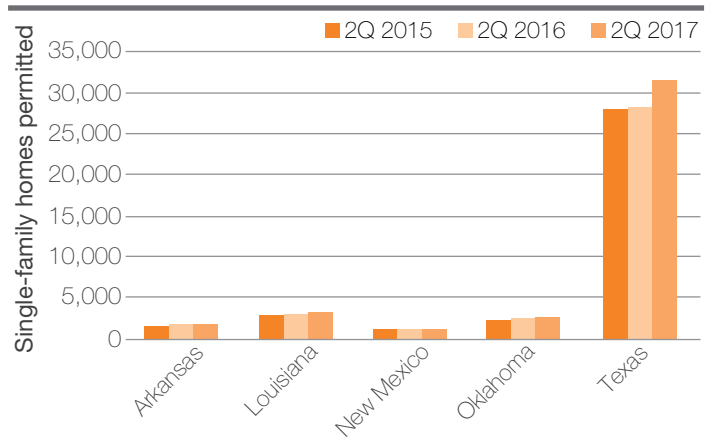


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market downturn, the number of single-family homes permitted in the region fell each year from a second quarter peak of 61,350 in 2006 to a second quarter trough of 23,450 in 2011, an average decline of 7,575 homes, or 12 percent, annually.

- The number of single-family homes permitted in Texas increased by 3,175, or 11 percent, from the second quarter of 2016, to 31,350 homes permitted, accounting for approximately 78 percent of all homes permitted in the region. Permitting activity increased by 15, 60, 170, and 220 homes, or 1, 3, 7, and 7 percent, in New Mexico, Arkansas, Oklahoma, and Louisiana, respectively.
- The greatest increases in single-family homebuilding activity in the region occurred in the large Texas markets of Houston and Dallas-Fort Worth, where the number of single-family homes permitted increased by 1,600 and 1,150, or 17 and 14 percent, from the second quarter of 2016, to 11,225 and 9,375, respectively; the highest second quarter permitting level in more than decade in both metropolitan areas.

Single-family permitting activity increased from the second quarter of 2016 in all states in the Southwest region, with Texas leading growth.



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

The number of homes sold and home sales prices continued to increase in most major metropolitan areas in the Southwest region.

	12 Months Ending	Number of Homes Sold			Price			
		2016	2017	Percent Change	Average or Median	2016 (\$)	2017 (\$)	Percent Change
Albuquerque (N&E)	June	10,584	11,444	8	AVG	218,302	227,598	4
Austin (N&E)	June	32,617	33,605	3	AVG	339,120	359,933	6
Dallas-Fort Worth-Arlington (N&E)	June	97,545	100,574	3	AVG	273,501	298,924	9
Dallas (N&E)	June	12,001	12,108	1	AVG	351,705	387,291	10
Fort Worth (N&E)	June	12,061	12,175	1	AVG	203,812	226,146	11
Houston (N&E)	May	79,552	82,659	4	AVG	278,819	287,164	3
Little Rock (N&E)	March	9,668	10,099	4	AVG	171,741	181,048	5
New Orleans (N&E)	June	12,679	12,669	0	AVG	245,244	251,685	3
Oklahoma City (N&E)	May	20,733	22,251	7	AVG	186,584	188,710	1
San Antonio (N&E)	June	30,097	32,277	7	AVG	232,935	243,144	4
Tulsa (N&E)	May	13,622	14,381	6	AVG	176,344	182,709	4

AVG = average. N&E = new and existing.

Note: Data include single-family, townhouses, and condominiums.

Sources: Arkansas Realtors® Association; Greater Albuquerque Association of Realtors®; New Orleans Metropolitan Association of Realtors®; Oklahoma City Metro Association of Realtors®; Real Estate Center at Texas A&M University

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the second quarter of 2017, although rent growth slowed in most metropolitan areas. Among major Texas markets, Houston remained soft, with a vacancy rate of 7.1 percent during the second quarter of 2017, up 1.0 percentage point from the second quarter of 2016. The average rent in Houston increased 2 percent during the same time. The

market in Houston softened, in part, from a combination of the high number of units recently completed and declining demand caused by weakness in the energy industry. Balanced conditions prevailed in other Texas markets, including Fort Worth and Dallas, which had rent growth rates of 4 and 5 percent, respectively, the highest rates among all major markets in the region. Despite strong demand created by employment and population gains, the vacancy rate

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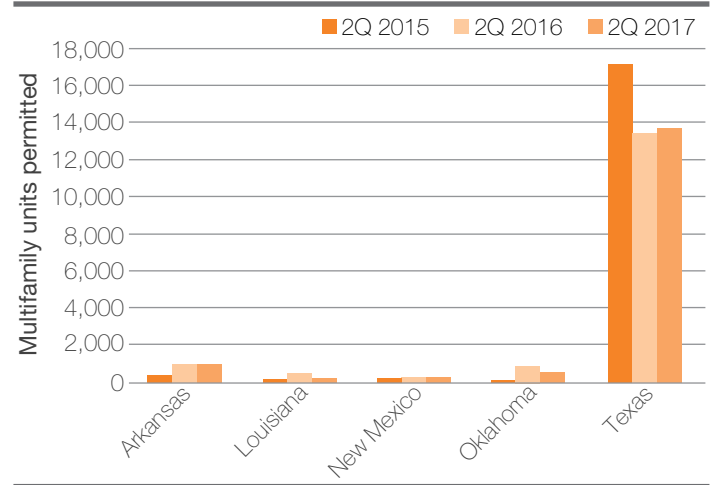
increased 0.5 percentage point in Dallas to 4.8 percent, in part, because of an increase in the volume of new construction. Austin, which also had an uptick in construction activity, recorded a vacancy rate increase from 5.3 to 6.1 percent but remains balanced despite a slowdown in rent growth to 2 percent from 5 percent a year earlier that was caused, in part, by the completion of a large number of income-restricted and affordable units.

Outside of Texas, apartment market conditions were mixed during the second quarter of 2017. Apartment markets in Albuquerque and New Orleans were balanced with rent growths of 3 percent each and vacancy rates that declined 0.2 and 0.5 percentage points, respectively. In Little Rock, the apartment market was slightly soft during the most recent quarter, despite a 0.7-percentage-point decline in the vacancy rate, to 5.9 percent, from the second quarter of 2016. Rents were unchanged during the same time. The apartment market is soft in Oklahoma City. Rent growth slowed to 2 percent in Oklahoma City, and the vacancy rate rose 0.9 percentage points to 7.5 percent, the highest rate in the region.

During the second quarter of 2017 (preliminary data)—

- Approximately 15,650 multifamily units were permitted in the region, a 3-percent decline from the 16,000 units permitted during the second quarter of 2016 and the third consecutive second-quarter decline. Multifamily permitting activity increased from a second-quarter low of 6,900 units in 2010 to 21,300 units in 2014. By comparison, second-quarter permitting activity previously peaked at an average of 16,000 units during the construction boom from 2006 through 2008.

Multifamily permitting activity in the Southwest region fell slightly from the second quarter of 2016, with declines in Louisiana and Oklahoma.



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

- Multifamily permitting activity in Texas, which accounted for approximately 88 percent of all multifamily units permitted in the region, declined by 230 units, or 2 percent, from the second quarter of 2016, to 13,700 units. Permitting fell by 280 and 370 units, or 66 and 40 percent, respectively, in Louisiana and Oklahoma, from the second quarter of 2016. In Arkansas and New Mexico, the number of units permitted increased 10 and 20 units to 960 units and 280 units, respectively, during the same time.

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Most apartment markets in the Southwest region remained balanced despite slowing rent growth, although some markets began to soften as a result of increased building activity.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2016 (%)	2Q 2017 (%)	Percentage Point Change	2Q 2016 (\$)	2Q 2017 (\$)	Percent Change
Albuquerque	Balanced	3.9	3.7	-0.2	798	820	3
Austin	Balanced	5.3	6.1	0.8	1,112	1,139	2
Dallas	Balanced	4.3	4.8	0.5	1,035	1,090	5
Fort Worth	Balanced	4.0	3.6	-0.4	871	909	4
Houston	Soft	6.1	7.1	1	982	1,000	2
Little Rock	Slightly Soft	6.6	5.9	-0.7	744	742	0
New Orleans	Balanced	5.1	4.6	-0.5	1,003	1,034	3
Oklahoma City	Soft	6.6	7.5	0.9	645	658	2
San Antonio	Balanced	6.1	5.2	-0.9	859	886	3

2Q = second quarter.
 Note: Class A units only.
 Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—Reis, Inc.



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- The greatest declines in multifamily permitting from the second quarter of 2016 occurred in the Houston, Dallas-Fort Worth, and Oklahoma City markets, which fell by 1,600, 510, and 350 units, or 51, 11, and 66 percent, respectively. Both the Houston and Oklahoma City apartment markets were affected by recent weakness in energy-related industries and are currently soft, with the largest vacancy rate increases in the region and among the lowest rent growth.
- The greatest increase in multifamily permitting, from the second quarter of 2016, occurred in the Austin market, where permitting grew by 2,175 units, or more than 100 percent, to 4,250 units; approximately 55 percent more multifamily units than permitted during any second quarter since at least 2001.

