

HUD PD&R Regional Reports

Region 6: Southwest

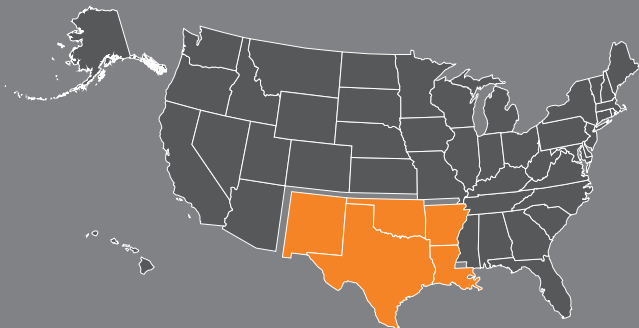


Quick Facts About Region 6

Dallas, Texas

By Robert Stephens | 2nd Quarter 2019

- **Sales market conditions—**
Second quarter 2019: mixed (balanced to slightly tight)
First quarter 2019: mixed (balanced to slightly tight)
Second quarter 2018: mixed (balanced to slightly tight)
- **Apartment market conditions—**
Second quarter 2019: mixed (slightly tight to soft)
First quarter 2019: mixed (balanced to soft)
Second quarter 2018: mixed (balanced to soft)



Overview

The economic expansion in the Southwest region that began in 2011 continued in the second quarter of 2019. The rate of job growth quickened during the past year but remains below the strong rate of growth that occurred earlier in the decade. Texas led payroll increases in the region, with gains in both the goods-producing and the service-providing sectors. Continued employment growth in the region contributed to balanced conditions in most major sales and rental housing markets. Home sales prices increased in most major markets and, despite a high level of multifamily completions in the region, average rents continued to grow, and vacancy rates remained relatively stable or declined in most markets throughout the region.

During the second quarter of 2019—

- Nonfarm payrolls increased 2.0 percent from the second quarter of 2018 to 18.63 million jobs. The level of job growth in the region was above the national average of 1.6 percent, in part because of strong growth among energy-related industries.
- Home sales prices increased in most major metropolitan areas in the region, although the rate of price appreciation slowed in most markets from the second quarter of 2018.
- Combined single-family and multifamily permitting activity in the Southwest region declined 11 percent, to 58,700, from the second quarter of 2018.



Economic Conditions

Nonfarm payroll growth in the Southwest region accelerated during the second quarter of 2019 from the past year. Nonfarm payrolls increased 2.0 percent, or by 359,700 jobs, compared with the number of jobs during the same quarter a year earlier to 18.63 million jobs. By comparison, during the second quarter of 2018, nonfarm payrolls grew 1.7 percent, or by 308,000 jobs, from the second quarter of 2017. Despite recent gains, the rate of job growth remains less than the 2.5-percent increase averaged annually from 2012 through 2014. Job growth remained relatively strong in most service-providing sectors during the second quarter of 2019, with the only loss occurring in the information sector. The education and health services, leisure and hospitality, and professional and business services sectors led job growth in the region, increasing by 64,600, 57,600, and 55,800 jobs, or 2.5, 2.9, and 2.3 percent, respectively, and accounting for nearly one-half of the total net gain in nonfarm payrolls.

The goods-producing sectors, which declined in the region in 2015 and 2016 because of a contraction in energy-related industries, added 85,400 jobs, a gain of 3.1 percent, during the second quarter of 2019. Growth in the construction subsector continued in part because residential building activity remains high throughout much of the region; the subsector grew by 34,700 jobs or 3.2 percent. The mining and logging subsector increased 5.0 percent, or by 18,200 jobs, the fastest rate of growth of any sector or subsector in the region. Mining and logging had been one of the fastest growing subsectors in the region, increasing at an average annual rate of 10.0 percent from 2011 through 2014, before shedding an average of 72,200 jobs, or 15.5 percent, annually in 2015 and 2016. Similarly, manufacturing

sector payrolls increased by 32,500 jobs, or 2.4 percent, from the second quarter of 2018 after falling by an average of 31,600 jobs, or 2.3 percent, annually in 2015 and 2016. Lower oil and gas prices led many energy-related companies to reduce workforces, which led to overall 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. By 2017, crude oil production in the Southwest region surged, which led to an increase in hiring to bring new production online. During the 12 months ending May 2019, field production of crude oil in the five states that make up the HUD-defined Southwest region and the Gulf Coast, as defined by the U.S. Energy Information Administration (EIA), increased 20 percent, to 452.02 million barrels per day, from the previous 12 months (EIA). By comparison, crude oil production declined an average of 2 percent a year in these regions in 2015 and 2016.

During the second quarter of 2019—

- Nonfarm payrolls increased 2.5 percent, or by 312,900 jobs, in Texas from the second quarter of 2018. Growth occurred in all sectors except information. The professional and business services sector and the mining, logging, and construction sector led growth, increasing by 51,600 and 50,300 jobs, or 3.0 and 5.1 percent, respectively.
- New Mexico had the second-fastest rate of job growth in the region, following Texas. Payrolls increased 1.7 percent, or by

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Job growth in the Southwest region was broad-based with gains in all but one nonfarm payroll sector.

	Second Quarter		Year-Over-Year Change	
	2018 (Thousands)	2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	18,272.0	18,631.7	359.7	2.0
Goods-Producing Sectors	2,767.7	2,853.1	85.4	3.1
Mining, Logging, & Construction	1,431.9	1,484.8	52.9	3.7
Manufacturing	1,335.8	1,368.3	32.5	2.4
Service-Providing Sectors	15,504.3	15,778.6	274.3	1.8
Wholesale & Retail Trade	2,740.4	2,768.4	28.0	1.0
Transportation & Utilities	786.9	809.2	22.3	2.8
Information	271.5	265.2	-6.3	-2.3
Financial Activities	1,037.8	1,061.2	23.4	2.3
Professional & Business Services	2,380.1	2,435.9	55.8	2.3
Education & Health Services	2,569.8	2,634.3	64.5	2.5
Leisure & Hospitality	2,003.6	2,061.1	57.5	2.9
Other Services	666.0	684.8	18.8	2.8
Government	3,048.1	3,058.5	10.4	0.3

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

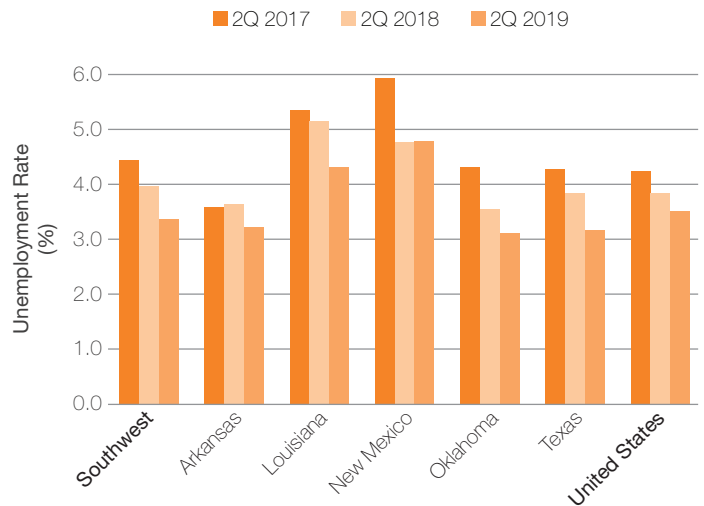


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14,400 jobs, from the second quarter of 2018. Job growth was driven, in part, by increasing tourism in popular travel destinations such as Santa Fe. The largest sector gains, totaling 9,900 jobs, occurred in the mining, logging, and construction and the leisure and hospitality sectors. Growth was partially offset by a decline of 2,300 jobs in the wholesale and retail trade sector.

- Arkansas added the second most jobs in the region, following Texas. Payrolls increased by 16,000 jobs, or 1.3 percent, from the second quarter of 2018. Job growth was strongest in the manufacturing sector, which increased by 3,700 jobs, or 2.3 percent.
- Nonfarm payrolls grew by 12,700 and 3,700 jobs, or 0.8 and 0.2 percent, from the second quarter of 2018 in Oklahoma and Louisiana, respectively. In Oklahoma, job gains were widespread, with growth in most payroll sectors. In Louisiana, a loss of 10,500 jobs in the mining, logging, and construction sector was more than offset by gains in most other sectors.
- The unemployment rate in the region was 3.4 percent, down 0.6 percentage point from the second quarter of 2018. The rate declined or remained unchanged in all states in the region during this time.

The unemployment rate declined or remained unchanged in all states in the region from the second quarter of 2018.



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

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 2019, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 3,100, or 1 percent, to 346,100 homes sold during the 12 months ending June 2019 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent from 2014 through 2017, slowing significantly from a peak of 16 percent during 2013. The average sales price of new

and existing homes in Texas increased 3 percent during the 12 months ending June 2019 to \$288,200, and the inventory of unsold homes increased slightly to a 3.7-months' supply from 3.5 months' supply during the previous 12 months. Home price growth averaged 7 percent annually from 2013 through 2015, a period during which sales market conditions in most major Texas markets were generally tightening, before slowing to an average of 5 percent in 2016 and 2017.

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Home sales prices increased in most major metropolitan areas in the Southwest region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2018	2019	Percent Change		2018 (\$)	2019 (\$)	Percent Change
Albuquerque, NM (N&E)	June	12,000	12,050	0	AVG	236,400	251,900	7
Austin, TX (N&E)	June	34,700	35,150	1	AVG	374,100	385,700	3
Dallas-Plano-Irving, TX (N&E)	June	66,600	64,500	-3	AVG	339,800	349,100	3
Fort Worth-Arlington, TX (N&E)	June	35,850	35,650	-1	AVG	270,700	280,700	4
Houston, TX (N&E)	May	85,050	87,450	3	AVG	291,400	300,900	3
Little Rock, AR (N&E)	May	10,600	10,600	0	AVG	189,900	188,800	-1
New Orleans, LA (N&E)	June	12,650	13,050	3	AVG	265,800	272,900	3
Oklahoma City, OK (N&E)	June	23,450	23,850	2	AVG	194,500	203,000	4
San Antonio, TX (N&E)	June	33,200	33,800	2	AVG	253,000	262,600	4

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

Note: Data include single-family homes, townhomes, 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



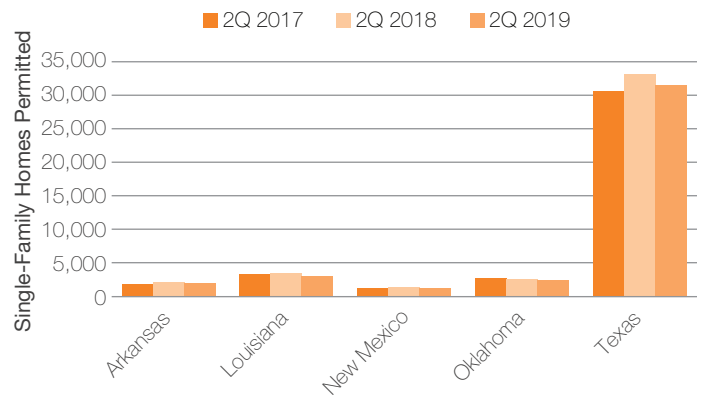
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Home sales trends were mixed, and home sales prices increased in most major markets throughout the region during the past year. The number of homes sold declined modestly in the Fort Worth-Arlington and Dallas-Plano-Irving metropolitan divisions during the 12 months ending June 2019 despite home sales price increases of 4 and 3 percent, respectively. Demand for new homes in these metropolitan divisions remains strong, but there is an increasing shortage of new homes for sale and vacant developable land on which to build new homes. The Fort Worth and Dallas metropolitan divisions averaged 2.5- and 3.2-months' supplies of unsold homes during the same time, among the lowest supplies of any major area in Texas. The most rapid increase in home sales in the region occurred outside of Texas in the Albuquerque metropolitan area, rising 7 percent during the 12 months ending June 2019. Home sales prices rose at least 3 percent in all major metropolitan areas in the region, except for Little Rock, where home sales were relatively unchanged and home sales prices declined less than 1 percent during the 12 months ending May 2019.

During the second quarter of 2019 (preliminary data)—

- Approximately 39,750 single-family homes were permitted in the region, down 6 percent from the same quarter a year earlier. Following the housing market downturn, the number of single-family homes permitted in the region rose an average of 11 percent a year from a second-quarter low of 23,450 homes in 2011 to a second-quarter peak of 42,200 homes in 2018.
- The number of single-family homes permitted in Texas declined by 1,650, or 5 percent, from the second quarter

The number of single-family homes permitted fell throughout the Southwest region from the second quarter of 2018, led by a decline in Texas.



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

- of 2018 to 31,350 homes permitted, accounting for approximately 79 percent of all homes permitted in the region. Permitting activity fell in all other states in the region with declines ranging from 120 homes in Oklahoma to 400 homes in Louisiana.
- In Texas, an increase of 180 homes permitted, or 4 percent, in the Austin metropolitan area was more than offset by declines of 1,175 homes, or 10 percent, in the Houston metropolitan area and 860 homes, or 9 percent, in the Dallas-Fort Worth metropolitan area.

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from slightly tight to soft during the second quarter of 2019, although vacancy rates declined or remained relatively unchanged in most metropolitan areas. All major Texas markets except for Austin were balanced. The vacancy rate in Houston fell by 0.2 percentage point, to 8.3 percent, from the second quarter of 2018, with rent growth of 2 percent during the same time. Fort Worth and Dallas had rent growth rates of 5 and 4 percent, respectively. Despite strong demand created by employment and population gains, the vacancy rate increased by 1.4 percentage points, to 6.6 percent, in Fort Worth, and by 0.1 percentage point, to 6.2 percent, in Dallas in part because of an increase in the volume of newly constructed units. Austin, which transitioned from balanced to slightly tight market conditions during the previous quarter, recorded the largest vacancy rate decline in the state, from 5.9 to 5.6 percent, and rent growth of 4 percent.

Outside of Texas, apartment market conditions were mixed during the second quarter of 2019. The apartment market in Albuquerque remained balanced with rent growth of 3 percent and a 0.9-percentage-point decline in the vacancy rate, to 5.1 percent. In New Orleans, the apartment market remained balanced as the vacancy rate increased 0.3 percentage point, to 6.4 percent, and the average rent increased 4 percent. In Little Rock, the apartment market remained slightly soft during the most recent quarter. The vacancy rate declined 0.7 percentage point, to 8.0 percent, and rents grew 1 percent from the second quarter of 2018, the lowest rate of growth in the region. In Oklahoma City, rent growth was 3 percent, and the vacancy rate declined 1.0 percentage point to 10.1 percent—the highest rate in the region despite the large decline. A large supply of new apartment units has been completed in Oklahoma City since 2015, with almost one-fourth of the supply concentrated in and around the Central Business District. Most of this new supply

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Most major apartment markets in the Southwest region remained balanced during the second quarter of 2019.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2018 (%)	2Q 2019 (%)	Percentage Point Change	2Q 2018 (\$)	2Q 2019 (\$)	Percent Change
Albuquerque, NM	Balanced	6.0	5.1	-0.9	870	900	3
Austin, TX	Slightly Tight	5.9	5.6	-0.3	1,275	1,325	4
Dallas, TX	Balanced	6.1	6.2	0.1	1,175	1,225	4
Fort Worth, TX	Balanced	5.2	6.6	1.4	1,050	1,100	5
Houston, TX	Balanced	8.5	8.3	-0.2	1,075	1,100	2
Little Rock, AR	Slightly Soft	8.7	8.0	-0.7	770	780	1
New Orleans, LA	Balanced	6.1	6.4	0.3	990	1,025	4
Oklahoma City, OK	Soft	11.1	10.1	-1.0	780	800	3
San Antonio, TX	Balanced	7.6	7.5	-0.1	1,000	1,050	5

2Q = second quarter.

Note: Excludes units in initial lease-up.

Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—ALN Apartment Data, Inc., with adjustments by the analyst

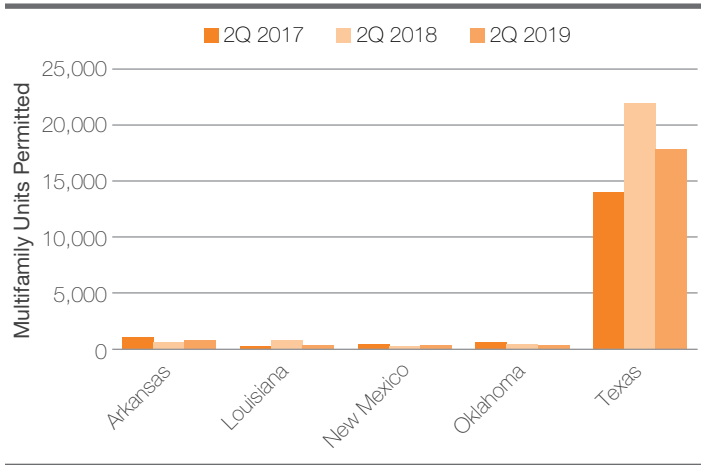
entered the market at a time when energy-related job growth slowed significantly. Despite recent improvement in the energy sector, apartment market conditions in Oklahoma City remain soft.

During the second quarter of 2019 (preliminary data)—

- Approximately 18,950 multifamily units were permitted in the region, a 19-percent decline from the 23,450 units permitted during the second quarter of 2018, which was the largest second-quarter permitting total since at least 2001. By comparison, multifamily permitting averaged 15,300 during the second quarters of 2012 through 2017.
- Multifamily permitting activity in Texas, which accounted for approximately 94 percent of all multifamily units permitted in the region, declined by 4,150 units, or 19 percent, from the second quarter of 2018 to 17,800 units. Permitting activity increased by 100 and 130 units in Arkansas and New Mexico, respectively, but declined by 80 and 490 units in Oklahoma and Louisiana, respectively.
- In Texas, multifamily permitting more than doubled in the San Antonio metropolitan area, increasing by 780 units, to 1,375 units permitted. This increase was more than offset by declines of 920 units, or 16 percent, in the Houston

metropolitan area, 1,775 units, or 35 percent, in the Austin metropolitan area, and 2,575 units, or 27 percent, in the Dallas-Fort Worth metropolitan area.

The number of multifamily permits fell in the Southwest region from the second quarter of 2018, led by a decline in Texas.



2Q = second quarter.

Note: Based on preliminary data.

Source: U.S. Census Bureau, Building Permits Survey

