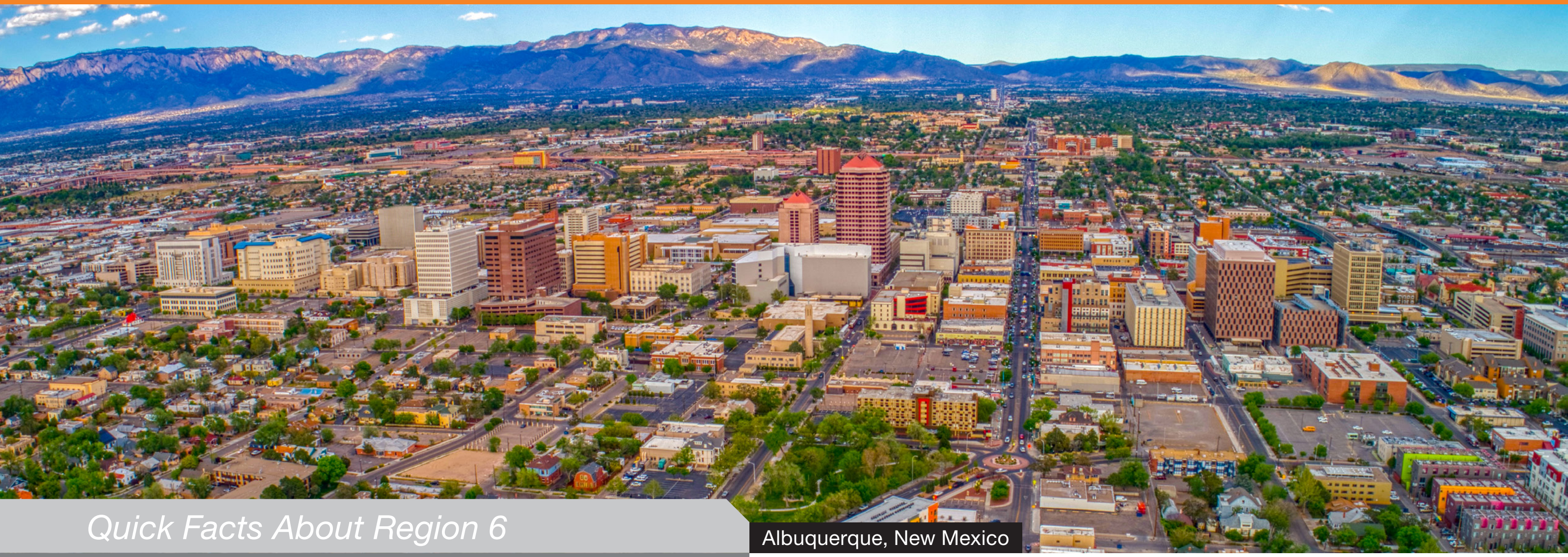
HUD PD&R Regional Reports

Region 6: Southwest

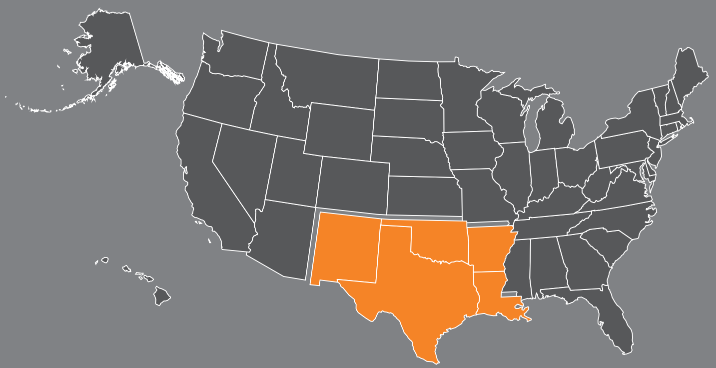


Albuquerque, New Mexico

Quick Facts About Region 6

- **Sales market conditions—**
  Second quarter 2020: mixed (balanced to slightly tight)
  First quarter 2020: mixed (balanced to slightly tight)
  Second quarter 2019: mixed (balanced to slightly tight)

- **Apartment market conditions—**
  Second quarter 2020: mixed (slightly tight to soft)
  First quarter 2020: mixed (balanced to soft)
  Second quarter 2019: mixed (slightly tight to soft)



By Robert Stephens | 2nd Quarter 2020

Overview

The economic expansion in the Southwest region that began in 2011 halted in the second quarter of 2020 in response to job losses caused by the outbreak of COVID-19 and state and local actions taken to limit contagion of the virus. Payrolls declined in every state in the region. Despite significant job losses, conditions remained balanced in most major sales and rental housing markets in the region. Home sales increased in most major metropolitan areas in the region, and average rents continued to grow despite increasing vacancy rates in most major markets.

During the second quarter of 2020—

- Nonfarm payrolls fell 7.6 percent from the second quarter of 2019 to 17.20 million jobs. The level of job decline in the region was below the national average of 11.3 percent.
- Home sales prices increased in major metropolitan areas in the region, although the rate of price growth slowed in most markets from the previous quarter.
- Combined single-family and multifamily permitting activity in the Southwest region was relatively unchanged from the second quarter of 2019 at 59,300 units.

Economic Conditions

Nonfarm payrolls in the Southwest region declined during the second quarter of 2020 from the second quarter of 2019. Measures taken to slow the spread of COVID-19 caused economic activity in the Southwest region to slow dramatically, ending the economic expansion that began in 2011. Nonfarm payrolls fell to 17.20 million jobs—a decline of 7.6 percent, or 1.42 million jobs, compared with the number of jobs during the same quarter a year earlier. By comparison, during the first quarter of 2020, nonfarm payrolls grew 1.5 percent, or by 267,400 jobs, from the first quarter of 2019. Job declines occurred in all payroll sectors and all states within the region. Job losses were greatest in sectors with a large concentration of jobs that rely on in-person interactions, whereas those that were more easily adapted to a telework model lost the least number of jobs. As such, the financial activities, the government, and the professional and business services sectors had among the lowest rates of job declines. Combined, those three sectors accounted for 37 percent of all payrolls in the region but contributed only 16 percent of the losses during the second quarter of 2020. By comparison, those sectors accounted for nearly 35 percent of all job gains in the Southwest region from the second quarter of 2018 to the second quarter of 2019.

Leisure and hospitality was the most heavily affected payroll sector, shedding 555,200 jobs, a decline of 27.1 percent, during the second quarter of 2020 from a year earlier. This sector was particularly hard hit because it relies heavily on in-person interactions and cannot easily adapt to social distancing guidelines. In addition, most localities in the region closed bars and restaurants for a period of time and, once reopened, instituted capacity restrictions. By comparison, the sector added jobs every year from 2011 through 2019, at an average annual rate of 2.2 percent. Other sectors that lost a large number of jobs include wholesale and retail trade, which declined by 161,000 jobs, or 5.9 percent, and education and health services, which declined by 159,000, or 6.1 percent. Those three sectors accounted for more than 60 percent of job losses in the region during the second quarter of 2020.

Other than leisure and hospitality, the sector or subsector with the greatest rate of decline during this period was the mining and logging subsector, which fell by 80,900 jobs, or 21.7 percent. Declines in this subsector were not entirely related to actions taken to limit the spread of COVID-19. During the first quarter of 2020, before the impact of COVID-19, payrolls in this sector declined by 32,300 jobs, or 8.6 percent, from the same quarter a year earlier. By comparison, the subsector added an average of 33,700 jobs a year from the fourth quarter of 2016 to the fourth quarter of 2018 and was one of the fastest growing subsectors in the region during that time. Beginning in 2017, crude oil production in the Southwest region surged in response to increasing oil and gas prices; that surge led to an increase in hiring to bring new production on line. Oil and gas prices have

continued on page 3

All sectors in the Southwest region lost jobs from the second quarter of 2019, with the largest decline in the leisure and hospitality sector.

	Second Quarter		Year-Over-Year Change	
	2019 (Thousands)	2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	18,616.8	17,198.2	-1,418.6	-7.6
Goods-Producing Sectors	2,850.1	2,627.4	-222.7	-7.8
Mining, Logging, & Construction	1,474.1	1,332.5	-141.6	-9.6
Manufacturing	1,376.0	1,294.9	-81.1	-5.9
Service-Providing Sectors	15,766.7	14,570.8	-1,195.9	-7.6
Wholesale & Retail Trade	2,735.0	2,574.0	-161.0	-5.9
Transportation & Utilities	816.0	807.8	-8.2	-1.0
Information	275.1	251.2	-23.9	-8.7
Financial Activities	1,067.4	1,060.2	-7.2	-0.7
Professional & Business Services	2,447.9	2,330.8	-117.1	-4.8
Education & Health Services	2,624.9	2,465.9	-159.0	-6.1
Leisure & Hospitality	2,048.5	1,493.3	-555.2	-27.1
Other Services	683.5	605.5	-78.0	-11.4
Government	3,068.5	2,982.1	-86.4	-2.8

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

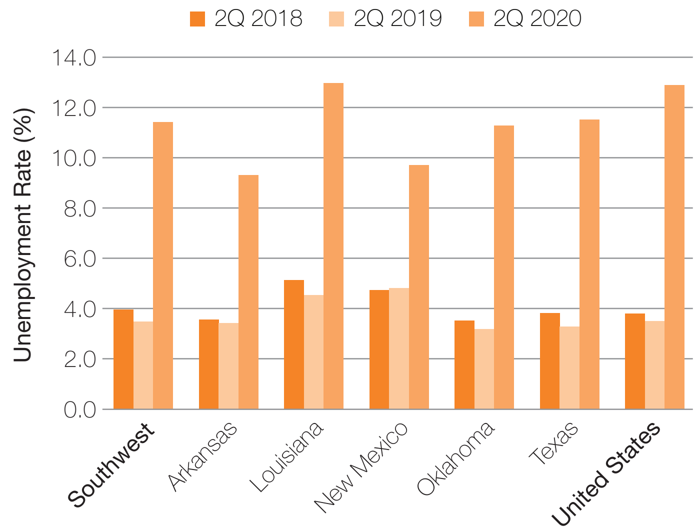
continued from page 2

recently begun to decline, which has led many energy-related companies to reduce workforces. 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—have been particularly affected. The Spot Price FOB of West Texas Intermediate Crude Oil (WTI) fell to $27.81 per barrel during the second quarter of 2020 (U.S. Energy Information Administration). By comparison, the Spot Price FOB of WTI averaged $59.78 per barrel during the second quarter of 2019 and $68.00 per barrel during the second quarter of 2018. The current price is the lowest level second-quarter average recorded since 2002. Nationwide, oil and gas production has been affected by COVID-19. In May 2020, the United States had 348 crude oil and natural gas rotary rigs in operation—down 65 percent from a year earlier and the lowest monthly level of active rigs since at least 1973. By comparison, in February 2020, before the impact of COVID-19, the nation had 790 active rigs—down 25 percent from a year earlier.

During the second quarter of 2020—

- Nonfarm payrolls declined 7.0 percent, or by 899,900 jobs, in Texas from the second quarter of 2019. Job losses occurred in all sectors except financial activities, which added 600 jobs, or an increase of 0.1 percent. The leisure and hospitality sector and the mining and logging subsector had the greatest rates of decline, falling 26.7 and 21.0 percent, or by 375,900 and 53,400 jobs, respectively, and accounting for nearly one-half of all jobs lost in the state.
- The largest job loss in the region, outside of Texas, occurred in Louisiana, where payrolls fell by 227,300, or 11.4 percent. Similar to the rest of the region, job declines were concentrated in the leisure and hospitality sector, which fell by 83,500 jobs, or 34.7 percent; however, in Louisiana, all sectors lost jobs from the second quarter of 2019, and 8 of 11 sectors declined more than 7 percent.

The unemployment rate increased throughout the Southwest region from the second quarter of 2019, although rates remained below the national level in all states except Louisiana.



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

- Nonfarm payrolls in New Mexico, Arkansas, and Oklahoma declined by 79,800 jobs, or 9.3 percent; 90,300 jobs, or 7.1 percent; and 121,300 jobs, or 7.1 percent, respectively, from the second quarter of 2019. In each state, the largest decline occurred in the leisure and hospitality sector; however, in New Mexico and Arkansas, losses were partially offset by small increases of 1,000 jobs or fewer in the wholesale trade and construction subsectors.
- The unemployment rate in the region was 11.4 percent; that rate was up 7.9 percentage points from the second quarter of 2019. The unemployment rate rose substantively in all states in the region; however, only the 13.0-percent rate in Louisiana was above the national unemployment rate of 12.9 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 2020; those conditions were unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 9,325, or 3 percent, to 354,400 homes sold during the 12 months ending June 2020 (Real Estate Center at Texas A&M University). The annual sales growth average of 4 percent from 2014 through 2018 was a significant slowdown from a recent 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 2020, to $294,800; the inventory of unsold homes declined slightly, to a 3.4-month supply from a 3.6-month 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 4 percent a year from 2016 through 2018.

Home sales and home sales prices increased in major markets throughout the region during the past year. The number of

continued on page 4

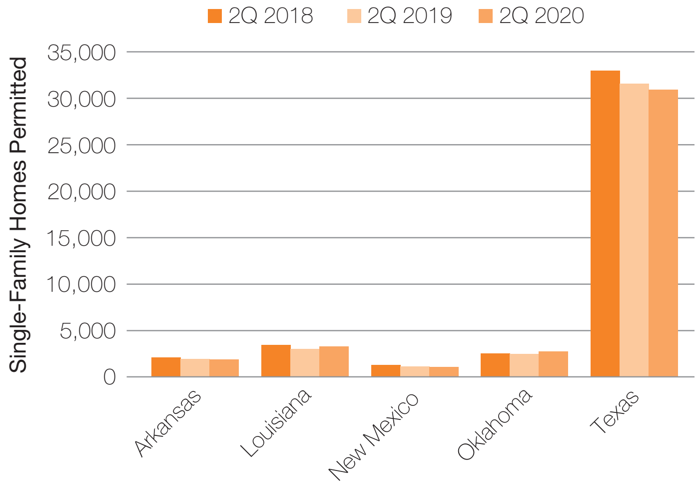
continued from page 3

homes sold and home sales prices increased 6 percent and 4 percent, respectively, in San Antonio. San Antonio averaged a 3.3-month supply of unsold homes during the 12 months ending June 2020—down from 3.5 months a year earlier. During the same period, the number of homes sold in Fort Worth-Arlington and New Orleans fell by 300 homes, or 1 percent, and 550 homes, or 3 percent, respectively. In New Orleans, much of the decline was among distressed sales, which fell by approximately 370 homes, or 33 percent, from a year earlier. Home sales prices rose at least 1 percent in all major metropolitan areas in the region during the most recent 12 months, although the rate of growth slowed from the previous quarter in every area except Fort Worth, New Orleans, and San Antonio, where the rate of growth remained unchanged.

During the second quarter of 2020 (preliminary data)—

- Approximately 39,900 single-family homes were permitted in the region—a 1-percent decline from the same quarter a year earlier. Despite the recent decline, the average of 40,700 homes permitted during the past three second quarters represent the most homes permitted during any three consecutive second quarters since an average of 46,300 homes were permitted during the second quarters of 2006 through 2008.
- The number of single-family homes permitted in Texas declined by 610, or 2 percent, from the second quarter of 2019 to 31,000 homes; that number accounted for approximately 78 percent of all homes permitted in the region. Permitting activity decreased by 50 and 70 homes, respectively, in Arkansas and New Mexico but increased by 280 and 320 homes, respectively, in Oklahoma and Louisiana.
- The number of single-family homes permitted rose slightly in most major metropolitan areas in the region; the largest increase of 270 homes, or 20 percent, was in Oklahoma City. Those increases were more than offset by declines elsewhere in the region, however, including a decrease of 590 homes, or 11 percent, in Austin.

The number of single-family homes permitted increased in most states in the Southwest region from the second quarter of 2019; the largest decline was in Texas.



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

Home sales and home sales prices increased in most major metropolitan areas in the Southwest region, although the rate of growth slowed throughout the region.

		Number of Homes Sold			Price			
	12 Months Ending	2019	2020	Percent Change	Average	2019 ($)	2020 ($)	Percent Change
Albuquerque, NM (N&E)	June	12,050	12,050	0	AVG	$251,700	$266,300	6
Austin, TX (N&E)	June	35,050	36,025	3	AVG	$384,600	$399,700	4
Dallas-Plano-Irving, TX (N&E)	June	64,400	66,750	4	AVG	$348,100	$352,300	1
Fort Worth-Arlington, TX (N&E)	June	35,450	35,150	-1	AVG	$278,700	$290,300	4
Houston, TX (N&E)	May	87,400	88,000	1	AVG	$300,700	$305,000	1
Little Rock, AR (N&E)	May	14,050	14,650	4	AVG	$186,600	$191,600	3
New Orleans, LA (N&E)	June	15,950	15,400	-3	AVG	$254,800	$266,000	4
Oklahoma City, OK (N&E)	June	23,850	24,600	3	AVG	$203,000	$213,100	5
San Antonio, TX (N&E)	June	34,100	36,000	6	AVG	$261,800	$273,100	4

AVG = average. N&E = new and existing.
Note: Data include single-family homes, townhomes, and condominiums.
Sources: Greater Albuquerque Association of Realtors®; Metrostudy, A Hanley Wood Company, with adjustments by the analyst; 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 slightly tight to soft during the second quarter of 2020. All major Texas markets except Houston were balanced. The vacancy rate in Houston, where apartment conditions remain slightly soft, declined by 0.2 of a percentage point, to 8.6 percent, from the second quarter of 2020. The average rent increased 2 percent during the same time—among the lowest rent growth in any major Texas market. The apartment market in Austin—which had the highest rent growth in the state at 4 percent—transitioned from slightly tight to balanced, as the vacancy rate increased from 5.6 to 6.9 percent. Rent growth has slowed and vacancy rates have risen in the suburban counties of Hays and Williamson. Fort Worth and Dallas had rent growth rates of 2 and 3 percent, respectively. Despite strong demand created by population and—until the most recent quarter—economic gains, the vacancy rate increased by 0.4 of a percentage point, to 7.0 percent, in Fort Worth and 0.6 of a percentage point, to 6.8 percent, in Dallas. The increased vacancies occurred primarily because of an increase in the volume of newly completed units.

Outside Texas, apartment market conditions were mixed during the second quarter of 2020. The apartment market in Albuquerque was slightly tight; rent growth was 3 percent, and the vacancy rate increased 0.1 of a percentage point, to 5.2 percent—still the lowest rate in the region. In New Orleans, the apartment market remained balanced; the vacancy rate increased 0.4 of a percentage point, to 6.8 percent, and the average rent increased 4 percent. In Little Rock, the apartment market was balanced during the most recent quarter; the vacancy rate increased 0.3 of a percentage point, to 8.3 percent, and rents grew 5 percent from the second quarter of 2019. In Oklahoma City, where the market is soft, rent growth was 2 percent and the vacancy rate declined 0.7 of a percentage point, to 9.4 percent—the highest rate in the region despite the large decline. The high vacancy rate is partly due to a plentiful supply of new apartment units that have been completed in Oklahoma City since 2015, almost one-fourth of it in and around the Central Business District. Most of the new supply entered the market at a time when energy-related job growth had slowed significantly.

During the second quarter of 2020 (preliminary data)—

- Approximately 19,400 multifamily units were permitted in the region—a 1-percent increase from the 19,200 units permitted during the second quarter of 2019. Permitting averaged 20,700 units during the second quarters of 2018 through 2020—the most units permitted during any three consecutive second quarters in more than 20 years.
- Multifamily permitting activity in Texas—which accounted for approximately 91 percent of all multifamily units permitted in the region—declined by 350 units, or 2 percent, from the second quarter of 2019 to 17,700 units. Permitting activity declined by 110 and 30 units, respectively, in New Mexico and Oklahoma and increased by 170 and 490 units, respectively, in Louisiana and Arkansas.
- Changes in multifamily permitting were mixed among major metropolitan areas in the region. In Austin and San Antonio,

continued on page 6

Most major apartment markets in the Southwest region remained balanced during the second quarter of 2020.

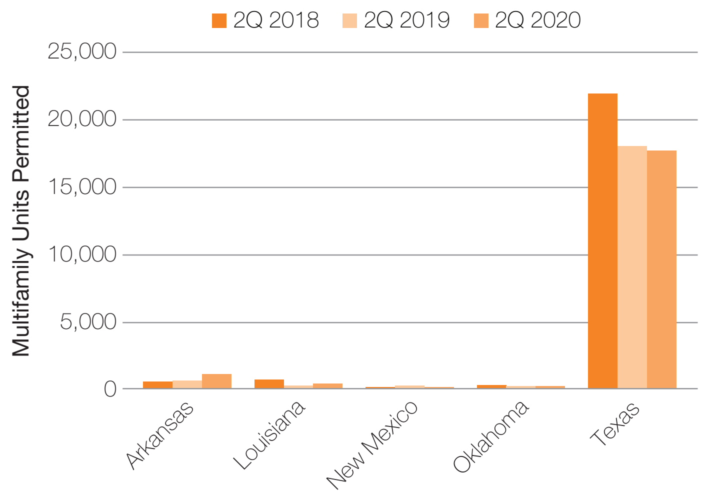
	Market Condition	Vacancy Rate 2Q 2019 (%)	Vacancy Rate 2Q 2020 (%)	Percentage Point Change	Average Monthly Rent 2Q 2019 ($)	Average Monthly Rent 2Q 2020 ($)	Percent Change
Albuquerque, NM	Slightly Tight	5.1	5.2	0.1	902	932	3
Austin, TX	Balanced	5.6	6.9	1.3	1,335	1,384	4
Dallas, TX	Balanced	6.2	6.8	0.6	1,228	1,260	3
Fort Worth, TX	Balanced	6.6	7.0	0.4	1,110	1,133	2
Houston, TX	Slightly Soft	8.8	8.6	-0.2	1,107	1,124	2
Little Rock, AR	Balanced	8.0	8.3	0.3	780	816	5
New Orleans, LA	Balanced	6.4	6.8	0.4	1,034	1,073	4
Oklahoma City, OK	Soft	10.1	9.4	-0.7	800	813	2
San Antonio, TX	Balanced	7.5	8.2	0.7	1,037	1,057	2

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

continued from page 5

permitting increased by 560 units, or 17 percent, and 620 units, or 46 percent, respectively, from the second quarter of 2019—the highest second-quarter total in more than 20 years in San Antonio. The largest decline occurred in Dallas-Fort Worth-Arlington, where permitting fell by 1,825 units, or 25 percent, from the second quarter of 2019.

The number of multifamily units permitted fell in most states in the Southwest region from the second quarter of 2019 despite increasing region-wide because of relatively large gains in Arkansas and Louisiana.



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