HUD PD&R **Regional Reports**

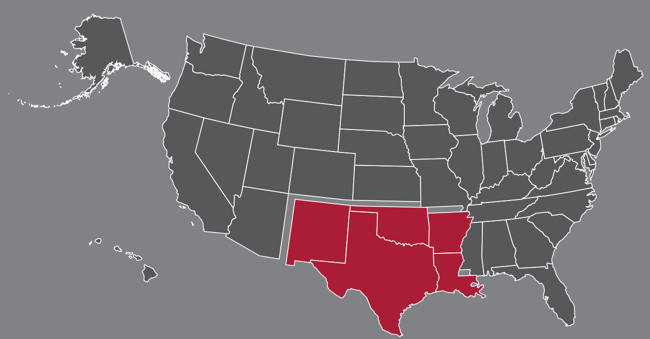
Region 6: Southwest

Little Rock, Arkansas

Quick Facts About Region 6

- **Sales market conditions—**
  Third quarter 2018: mixed (balanced to slightly tight).
  Second quarter 2018: mixed (balanced to slightly tight).
  Third quarter 2017: mixed (balanced to slightly tight).

- **Apartment market conditions—**
  Third quarter 2018: mixed (balanced to soft).
  Second quarter 2018: mixed (balanced to soft).
  Third quarter 2017: mixed (balanced to soft)



By Robert Stephens | 3rd quarter 2018

Overview

The economic expansion in the Southwest region that began in 2011 continued in the third quarter of 2018. The rate of job growth quickened during the past year, matching the strong 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 and home sales prices increased in all major markets and, despite a high level of multifamily completions in the region, average rents continued to grow, and vacancy rates remained stable or declined in most markets throughout the region.

During the third quarter of 2018—

- Nonfarm payrolls increased 2.7 percent from the third quarter of 2017 to 18.35 million jobs. The level of job growth in the region was above the national average of 1.8 percent, in part because of strong growth among energy-related industries.

continued on page 2

continued from page 1

- Home sales and sales prices increased in all major metropolitan areas in the region, although the rate of price appreciation slowed in most markets from the third quarter of 2017.
- Combined single-family and multifamily permitting activity in the Southwest region increased 9 percent from the third quarter of 2017 to 53,350.

Economic Conditions

Nonfarm payroll growth in the Southwest region accelerated during the third quarter of 2018 from the past year. Nonfarm payrolls increased 2.7 percent, or by 473,900 jobs, compared with the number of jobs during the same quarter a year earlier to 18.35 million jobs. By comparison, during the third quarter of 2017, nonfarm payrolls grew 1.2 percent, or by 218,500 jobs, from the third quarter of 2016. Job growth remained relatively strong in most service-providing sectors during the third quarter of 2018, with the only loss occurring in the information sector. The professional and business services sector led job growth in the region, increasing by 109,900 jobs, or 4.7 percent, and accounting for nearly one-fourth of the total net gain in nonfarm payrolls. Virtually all the growth occurred in the employment services industries in Texas, Oklahoma, and Louisiana, partly resulting from increased hiring of temporary workers among energy-related employers.

The goods-producing sectors, which declined in the region for most of the past 2 years from a contraction in energy-related industries, added 138,700 jobs, a gain of 5.2 percent, during the third quarter of 2018. Growth in the construction subsector continued, in part because residential building activity increased throughout much of the region; the subsector grew by 61,200 jobs, or 5.9 percent. The mining and logging subsector increased 12.5 percent, or 42,200 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 10.1 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 35,300 jobs, or 2.7 percent, from the third quarter of 2017 after falling by an average of 31,700 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. In August 2018, field production of crude oil in the Southwest and Gulf Coast regions increased 32 percent, to 416.34 million barrels per day, from August 2017; this was the largest year-over-year increase in production in more than 35 years (U.S. Energy Information Administration). By comparison, crude oil production declined an average of 2 percent a year in these regions in 2015 and 2016.

continued on page 3

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

	Third Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,878.3	18,352.2	473.9	2.7
Goods-producing sectors	2,683.5	2,822.2	138.7	5.2
Mining, logging, and construction	1,378.7	1,482.1	103.4	7.5
Manufacturing	1,304.8	1,340.1	35.3	2.7
Service-providing sectors	15,194.8	15,530.0	335.2	2.2
Wholesale and retail trade	2,744.8	2,799.7	54.9	2.0
Transportation and utilities	774.2	799.8	25.6	3.3
Information	269.8	261.1	-8.7	– 3.2
Financial activities	1,020.8	1,042.4	21.6	2.1
Professional and business services	2,321.8	2,431.7	109.9	4.7
Education and health services	2,533.8	2,583.1	49.3	1.9
Leisure and hospitality	1,960.4	2,022.1	61.7	3.1
Other services	650.0	666.0	16.0	2.5
Government	2,919.2	2,924.1	4.9	0.2

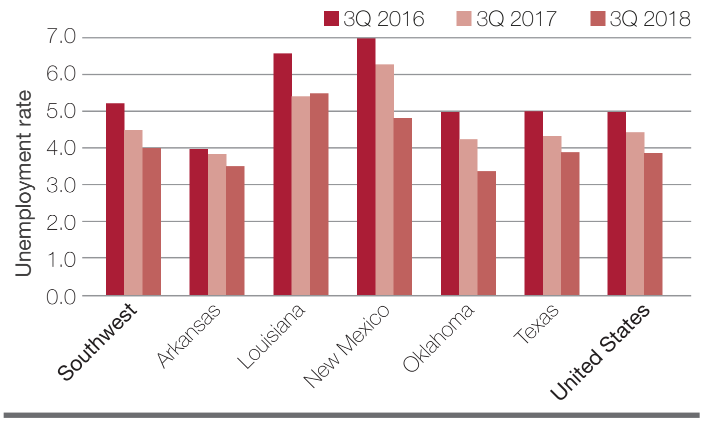
Source: U.S. Bureau of Labor Statistics

continued from page 2

During the third quarter of 2018—

- Nonfarm payrolls increased 3.2 percent, or by 391,400 jobs, in Texas from the third quarter of 2017, which accounted for approximately 83 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 all sectors except information. The mining, logging, and construction and the professional and business services sectors led growth, increasing by 90,200 jobs, or 9.6 percent, and 89,400 jobs, or 5.3 percent, respectively.
- New Mexico had the second fastest rate of job growth in the region, following Texas. Payrolls increased 2.3 percent, or by 18,900 jobs, from the third quarter of 2017. Unlike elsewhere in the region, job growth was not driven primarily by energy-related industries. The three largest sector or subsector gains, totaling 13,300 jobs, or 70 percent of net job gains, occurred in the leisure and hospitality and the professional and business services sectors and the construction subsector. Increasing tourism in popular travel destinations, such as Santa Fe, contributed to a portion of this growth.
- Arkansas had the slowest rate of job growth in the region, increasing by 0.9 percent, or by 11,500 jobs, from the third quarter of 2017. Gains of 6,900 jobs, or 4.8 percent, in professional and business services and 2,500 jobs, or 1.6 percent, in manufacturing were partially offset by declines in several sectors, including 400 jobs, or 6.7 percent, in the mining and logging subsector—the only state in the region to lose jobs in this subsector.
- Nonfarm payrolls grew by 32,900 and 19,200 jobs, or 2.0 and 1.0 percent, from the third quarter of 2017 in Oklahoma and Louisiana, respectively. Mining and logging was among the fastest growing sectors or subsectors in Oklahoma, increasing by 6,200 jobs, or 12.6 percent. The largest job gain in Louisiana was in the manufacturing sector, increasing by 5,400, or 4.0 percent, in part because of sector gains totaling 2,200 jobs in the Lafayette and New Orleans metropolitan areas.
- The unemployment rate in the region was 4.0 percent, down 0.5 percentage point from the third quarter of 2017. Strong declines, ranging from 0.3 percentage point in Arkansas to 1.5 percentage points in New Mexico, occurred in all states in the region except for Louisiana, which increased 0.1 percentage point. The large decline in New Mexico resulted from strong employment growth that outpaced more moderate gains in the labor force.

The unemployment rate declined in all but one state in the Southwest region from the third quarter of 2017 but the regional rate is above the national rate.



3Q = third 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 third quarter of 2018, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 13,550, or 4 percent, to 346,300 homes sold during the 12 months ending September 2018 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent from 2014 through 2016, slowing significantly from a peak of 16 percent during 2013. The average sales price of new and existing homes in Texas increased 4 percent during the 12 months ending September 2018 to $282,200, and the inventory of unsold homes declined to a 3.4-month supply from 3.6 months during the 12 months ending September 2017. 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 4 percent in 2016. Increases in home sales and home sales prices occurred in all major markets throughout the region during the past year. Homes sales increases were slowest, at less than 1 percent, in Fort Worth-Arlington and 1 percent each in Dallas-Plano-Irving and New Orleans. Despite the recent slowdown, the number of homes sold in New Orleans is well above the most recent low of 6,925 in 2010 and approximately equal to the average number of homes sold annually from mid-2005 through mid-2007; these were the 2 years immediately following Hurricane Katrina and prior to the nationwide housing market downturn. The largest home sales price increases in Texas occurred in the Fort Worth-Arlington and Dallas-Plano-Irving metropolitan divisions, rising 6 and 5 percent to $274,400 and $344,700, respectively, during the 12 months ending September 2018. Demand for new homes in these divisions remains strong despite relatively weak home sales growth

continued on page 4

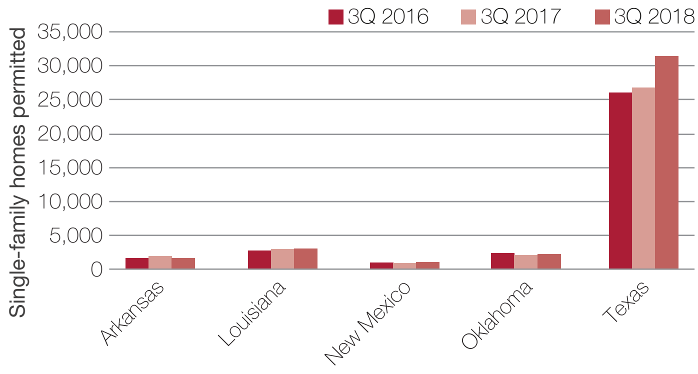
continued from page 3

because of an increasing shortage of developed subdivisions and vacant developable land on which to build new subdivisions. The Fort Worth and Dallas metropolitan divisions averaged 2.2- and 2.6-month supplies of unsold homes during the same time, among the lowest supplies of any major area in Texas.

During the third quarter of 2018 (preliminary data)—

- Approximately 39,100 single-family homes were permitted in the region, up 13 percent from the same quarter a year earlier. Following the housing market downturn, the number of single-family homes permitted in the region has risen an average of 12 percent a year from a third-quarter low of 19,950 homes in 2010.
- The number of single-family homes permitted in Texas increased by 4,550, or 17 percent, from the third quarter of 2017 to 31,350 homes permitted, accounting for approximately 80 percent of all homes permitted in the region. Permitting activity increased by 110 and 70 homes, or 12 and 3 percent, in New Mexico and Louisiana, respectively, and declined by 260 and 20 homes, or 14 and 1 percent, in Arkansas and Oklahoma, respectively.
- The greatest increases in single-family homebuilding activity in the region occurred in the Texas markets of Houston, Dallas-Fort Worth-Arlington, and Austin, where the number of single-family homes permitted increased by 1,650, 1,000, and 920 homes, or 19, 12, and 26 percent, from the third quarter of 2017 to 10,250, 9,700, and 4,475, respectively.

Single-family permitting activity increased in the Southwest region from the third quarter of 2017, led by growth in Texas.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey

The number of homes sold and home sales prices increased in all major metropolitan areas in the Southwest region.

	12 Months Ending	Number of Homes Sold			Price			
		2017	2018	Percent Change	Average or Median	2017 ($)	2018 ($)	Percent Change
Albuquerque, NM (N&E)	September	11,550	12,200	6	AVG	230,400	239,000	4
Austin, TX (N&E)	September	33,400	34,750	4	AVG	365,000	379,900	4
Dallas-Plano-Irving, TX (N&E)	September	65,350	65,800	1	AVG	329,800	344,700	5
Fort Worth-Arlington, TX (N&E)	September	35,700	35,850	0	AVG	258,300	274,400	6
Houston, TX (N&E)	August	82,300	88,150	7	AVG	288,200	293,700	2
Little, Rock, AR (N&E)	September	10,350	10,550	2	AVG	185,800	188,500	1
New Orleans, LA (N&E)	September	12,750	12,900	1	AVG	253,700	267,600	5
Oklahoma City, OK (N&E)	September	22,500	23,750	6	AVG	191,100	196,500	3
San Antonio, TX (N&E)	September	32,200	33,600	4	AVG	244,600	256,200	5

AVG = average. E = existing. N&E = new and existing.
Note: Data include single-family homes, 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 third quarter of 2018, although vacancy rates declined in most metropolitan areas. Among major Texas markets, Houston transitioned from slightly soft to balanced, as economic conditions strengthened and most of the large number of units completed during the past 3 years had been absorbed. Houston had one of the largest declines in vacancy rates among all major markets in Texas, falling 0.6 percentage point, to 8.5 percent, from the third quarter of 2017, with rent growth of 4 percent during the same time. Balanced conditions prevailed in other Texas markets, including Dallas and Fort Worth, which had rent growth rates of 4 percent each. Despite strong demand created by employment and population gains, the vacancy rate declined only 0.1 percentage point, to 6.2 percent, in Dallas, and remained unchanged at 5.6 percent in Fort Worth, in part because of an increase in the volume of newly constructed units. Austin recorded the largest vacancy rate decline in the state, from 6.4 to 5.5 percent, and rent growth of 4 percent despite also having an uptick in new supply.

Outside Texas, apartment market conditions were mixed during the third quarter of 2018. The apartment market in Albuquerque remained balanced with rent growth of 3 percent despite a 0.9-percentage-point increase in the vacancy rate, to 6.6 percent, the only increase among major markets in the region. In New Orleans, the apartment market transitioned from balanced to slightly soft despite a vacancy-rate decline of 0.6 percentage point, to 5.8 percent. Year-over-year rent growth slowed to 2 percent, among the lowest in the region, from 3 percent during the previous quarter. In Little Rock, the apartment market remained slightly soft during the most recent quarter, with a vacancy-rate decline of 0.2 percentage point to 8.9 percent and rent growth of 3 percent. In Oklahoma City, rent growth was 2 percent, and the vacancy declined 0.9 percentage point to 10.6 percent—the highest rate in the region despite the large decline. Nearly 5,000 new units have 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 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 third quarter of 2018 (preliminary data)—

- Approximately 14,200 multifamily units were permitted in the region, a less-than-1-percent increase from the 14,150 units permitted during the third quarter of 2017. By comparison, multifamily permitting in the region has slowed from an average 19,150 during the third quarters of 2014 through 2016.
- Multifamily permitting activity in Texas, which accounted for approximately 91 percent of all multifamily units permitted in the region, was relatively unchanged from the third quarter of 2017 at 13,000 units. An increase of 500 units in Louisiana, to 640 units, was mostly offset by declines elsewhere in the region. Permits fell by 250, 150, and 10 units, respectively, in Arkansas, New Mexico, and Oklahoma from the third quarter of 2017.

continued on page 6

Most major apartment markets in the Southwest region remained balanced during the third quarter of 2017.

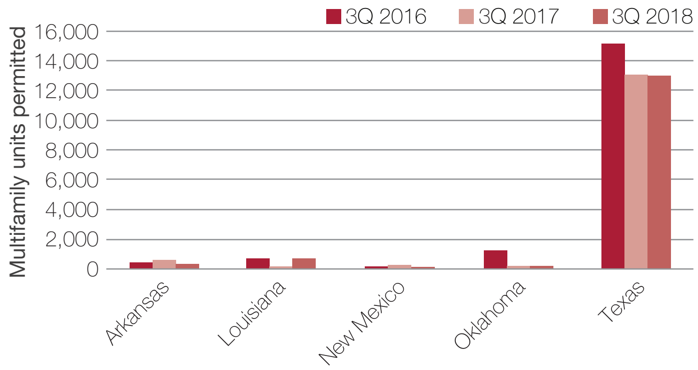
	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2017 (%)	3Q 2018 (%)	Percentage Point Change	3Q 2017 ($)	3Q 2018 ($)	Percent Change
Albuquerque, NM	Balanced	5.7	6.6	0.9	848	875	3
Austin, TX	Balanced	6.4	5.5	– 0.9	1,253	1,301	4
Dallas, TX	Balanced	6.3	6.2	– 0.1	1,151	1,193	4
Fort Worth, TX	Balanced	5.6	5.6	0	1,033	1,076	4
Houston, TX	Balanced	9.1	8.5	– 0.6	1,051	1,091	4
Little Rock, AR	Slightly Soft	9.1	8.9	– 0.2	756	777	3
New Orleans, LA	Balanced	6.4	5.8	– 0.6	967	988	2
Oklahoma City, OK	Soft	11.5	10.6	– 0.9	769	784	2
San Antonio, TX	Balanced	7.9	7.6	– 0.3	973	1,004	3

3Q = third 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.

continued from page 5

- In Louisiana, the majority of the increase occurred in Baton Rouge, where the number of units permitted rose by 280, to 290 units, from the third quarter of 2017. In New Orleans, multifamily permitting declined to 60 units from 85 units during the third quarter of 2017. However, during the past 12 months, 830 units have been permitted in New Orleans—the most during any 12-month period since the post-Katrina rebuilding in 2007 and 2008—contributing to recently softening apartment market conditions.
- In Texas, permits increased by 1,425 and 940 units, or 112 and 61 percent, to 2,725 and 2,500, in Houston and Austin, respectively. This increase was offset by a decline of 1,800 units, or 25 percent, to 5,475, in Dallas-Fort Worth-Arlington. Despite the recent increase, multifamily building activity in Houston remains relatively subdued. The 1,275 units permitted in Houston during the third quarter of 2017 was the lowest third quarter permitting total since 2009 and the second lowest in more than 20 years.

Multifamily permitting activity rose slightly in the Southwest region from the third quarter of 2017, entirely a result of gains in Louisiana.



3Q = third quarter.
Note: Based on preliminary data.
Source: U.S. Census Bureau, Building Permits Survey