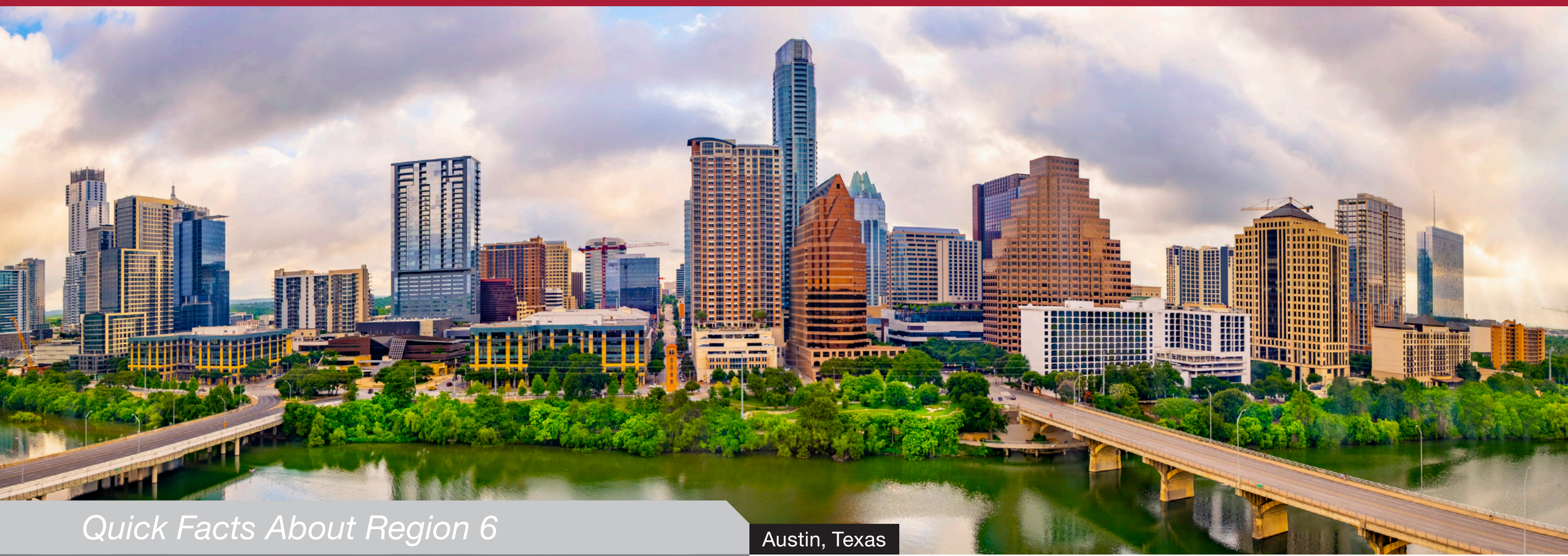
HUD PD&R **Regional Reports**

Region 6: Southwest

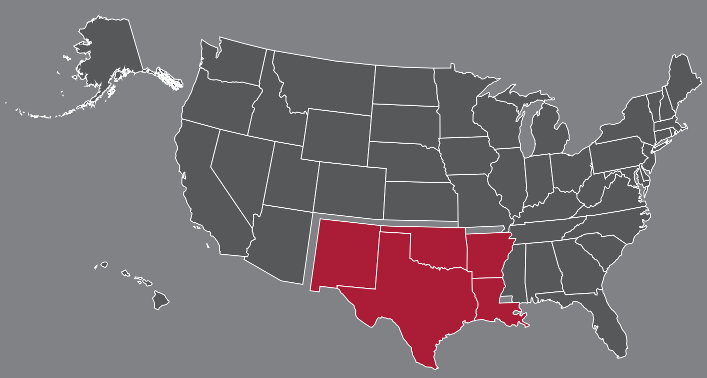


Austin, Texas

Quick Facts About Region 6

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

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



By Robert Stephens | 3rd Quarter 2019

Overview

The economic expansion in the Southwest region that began in 2011 continued in the third 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 while vacancy rates remained relatively stable, or declined, in most markets throughout the region.

During the third quarter of 2019—

- Nonfarm payrolls increased 2.0 percent from the third quarter of 2018 to 18.63 million jobs. The level of job growth in the region was above the national average of 1.5 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 third quarter of 2018.
- Combined single-family and multifamily permitting activity in the Southwest region increased 18 percent to 64,050 units from the third quarter of 2018.

Economic Conditions

Nonfarm payroll growth in the Southwest region slowed slightly during the third quarter of 2019 from the past year. Nonfarm payrolls increased to 18.63 million jobs—an increase of 2.0 percent, or 357,800 jobs, compared with the number of jobs during the same quarter a year earlier. By comparison, during the third quarter of 2018, nonfarm payrolls grew 2.1 percent, or by 371,300 jobs, from the third quarter of 2017. Despite recent gains, the rate of job growth remains less than the average annual 2.5-percent increase from 2012 through 2014. Job growth remained relatively strong in most service-providing sectors during the third quarter of 2019, with the only loss occurring in the information sector. The education and health services and the leisure and hospitality sectors led job growth in the region, increasing by 63,300 and 57,200 jobs, or 2.5 and 2.8 percent, respectively. The growth in these two sectors accounted for nearly one-third 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 83,700 jobs, a gain of 3.0 percent, during the third 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 47,900 jobs or 4.4 percent. Growth in the mining and logging subsector slowed considerably to 1.5 percent, or an increase of 5,600 jobs, from the third quarter of 2018. During the previous quarter, the mining and logging subsector had the fastest rate of growth of any sector or subsector in the region, growing 5.0 percent, or by 18,100 jobs, from the second quarter of 2018. Manufacturing sector payrolls increased by 30,200 jobs, or 2.2 percent, from the third 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. Beginning in 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 August 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 13 percent from the previous 12 months to 465.43 million barrels per day (EIA). By comparison, crude oil production declined an average of 2 percent a year in these regions in 2015 and 2016 before increasing an average of 24 percent a year in 2017 and 2018.

During the third quarter of 2019—

- Nonfarm payrolls in Texas increased 2.5 percent, or by 308,800 jobs, from the third quarter of 2018. Growth occurred in all sectors except information. The construction subsector led growth, increasing by 48,200 jobs, or 6.5 percent, while growth in the mining and logging subsector slowed to 5,500 jobs, or 2.2 percent.
- New Mexico had the second fastest rate of job growth in the region, following Texas. Payrolls increased 2.3 percent, or by 19,400 jobs, from the third quarter of 2018. Job growth was led, in part, by increasing tourism in popular travel destinations such as Santa Fe. The largest sector gains, totaling 11,900 jobs, occurred in the mining, logging, and construction and the leisure and hospitality sectors. Growth was partially offset by a decline of 1,800 jobs in the wholesale and retail trade sector.

continued on page 3

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

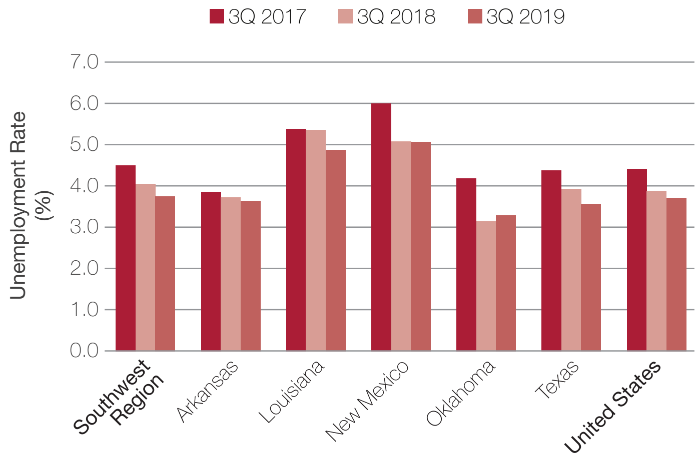
	Third Quarter		Year-Over-Year Change	
	2018 (Thousands)	2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	18,270.2	18,628.0	357.8	2.0
Goods-Producing Sectors	2,800.8	2,884.5	83.7	3.0
Mining, Logging, & Construction	1,451.7	1,505.2	53.5	3.7
Manufacturing	1,349.1	1,379.3	30.2	2.2
Service-Providing Sectors	15,469.4	15,743.5	274.1	1.8
Wholesale & Retail Trade	2,751.9	2,779.8	27.9	1.0
Transportation & Utilities	796.0	819.3	23.3	2.9
Information	268.7	264.6	-4.1	-1.5
Financial Activities	1,047.9	1,079.1	31.2	3.0
Professional & Business Services	2,409.7	2,452.1	42.4	1.8
Education & Health Services	2,578.4	2,641.7	63.3	2.5
Leisure & Hospitality	2,009.3	2,066.5	57.2	2.8
Other Services	667.1	688.5	21.4	3.2
Government	2,940.4	2,951.9	11.5	0.4

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

continued from page 2

- Payrolls in Arkansas increased by 17,100 jobs, or 1.4 percent, from the third quarter of 2018. Job growth was strongest in the leisure and hospitality sector, which increased by 5,100 jobs, or 4.2 percent.
- Nonfarm payrolls grew by 7,200 and 5,200 jobs, or 0.4 and 0.3 percent, from the third quarter of 2018 in Oklahoma and Louisiana, respectively. In Louisiana, a loss of 11,500 jobs, or 7.5 percent, in the construction subsector was more than offset by gains in most other sectors. Large-scale construction projects at several large petrochemical facilities throughout the state are nearing completion, thus reducing the demand for construction workers.
- The unemployment rate in the region was 3.7 percent, down 0.3 percentage point from the third quarter of 2018. The rate declined or remained unchanged in all states in the region except Oklahoma, the state with the lowest unemployment rate in the region, where it increased 0.2 of a percentage point to 3.3 percent.

The unemployment rate declined in most states in the region from the third quarter of 2018.



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 2019, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 4,800, or 1 percent, to 350,500 homes sold during the 12 months ending September 2019 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent from 2014 through 2017, slowing significantly 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 September 2019 to $289,100, and the inventory of unsold homes increased slightly to a 3.7-months' supply from a 3.4-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.

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 September 2019, coinciding with home sales price increases of 3 and 2 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,

continued on page 4

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

		Number of Homes Sold				Price		
	12 Months Ending	2018	2019	Percent Change	Average or Median	2018 ($)	2019 ($)	Percent Change
Albuquerque, NM (N&E)	September	12,100	12,250	1	AVG	239,500	255,500	7
Austin, TX (N&E)	September	34,800	35,800	3	AVG	377,700	388,500	3
Dallas-Plano-Irving, TX (N&E)	September	66,050	65,750	0	AVG	343,900	349,300	2
Fort Worth-Arlington, TX (N&E)	September	35,850	35,600	-1	AVG	272,600	281,700	3
Houston, TX (N&E)	August	88,050	87,950	0	AVG	293,500	303,200	3
Little, Rock, AR (N&E)	June	10,550	10,600	0	AVG	189,600	189,400	0
New Orleans, LA (N&E)	September	12,650	13,050	3	AVG	265,800	272,900	3
Oklahoma City, OK (N&E)	September	23,750	24,250	2	AVG	196,500	205,300	4
San Antonio, TX (N&E)	September	33,550	34,500	3	AVG	256,000	265,000	4

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

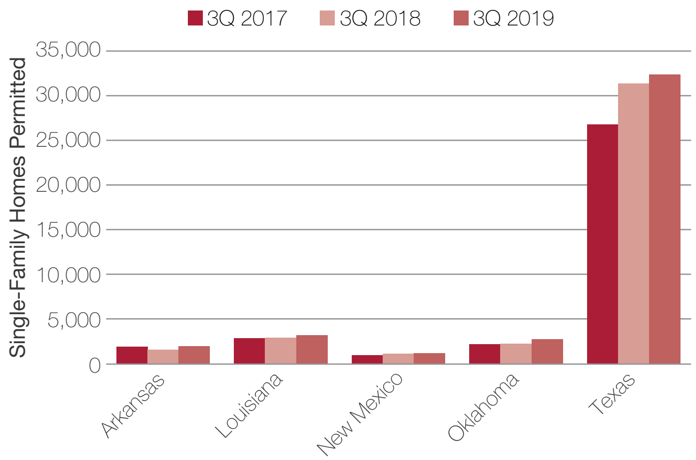
continued from page 3

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, respectively, during the 12 months ending September 2019, among the lowest supplies of any major area in Texas. The region's most rapid increase in home sales prices occurred outside of Texas in the Albuquerque metropolitan area, with a 7 percent rise during the 12 months ending September 2019. Home sales prices rose at least 2 percent in all major metropolitan areas in the region, except for Little Rock, where home sales and home sales prices were relatively unchanged during the 12 months ending June 2019.

During the third quarter of 2019 (preliminary data)—

- Approximately 41,450 single-family homes were permitted in the region, up 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 12 percent a year from a third-quarter low of 19,950 homes in 2010 to 39,150 homes in the third quarter of 2018.
- The number of single-family homes permitted in Texas increased by 1,025, or 3 percent, from the third quarter of 2018 to 32,400 homes, accounting for approximately 78 percent of all homes permitted in the region. Permitting activity rose in all other states in the region with increases ranging from 120 homes in New Mexico to 570 homes in Oklahoma.

The number of single-family homes permitted increased throughout the Southwest region from the third quarter of 2018, led by an increase in Texas.



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

- In Texas, increases in the number of homes permitted throughout most major metropolitan areas in the state were partially offset by a decline of 520 homes, or 7 percent, permitted in the Dallas-Plano-Irving metropolitan division.

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from slightly tight to soft during the third 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 apartment market in Austin, which had the highest rent growth in the state at 6 percent, remained slightly tight with a 5.6-percent vacancy rate. The vacancy rate in Houston fell by 0.5 of a percentage point to 8.0 percent from the third quarter of 2018, with rent growth at 2 percent during the same period. 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 1.2 percentage points, to 6.8 percent, in Fort Worth, and by 0.2 of a percentage point, to 6.4 percent, in Dallas. This was primarily because of an increase in the volume of newly constructed units.

Outside of Texas, apartment market conditions were mixed during the third quarter of 2019. The apartment market in Albuquerque remained balanced with rent growth of 3 percent and a 1.9-percentage-point decline in the vacancy rate, to 4.7 percent. In New Orleans, the apartment market remained balanced as the vacancy rate increased 0.4 of a percentage point to 6.2 percent and the average rent increased 6 percent. In Little Rock, the apartment market remained slightly soft during the most recent quarter. The vacancy rate declined 1.5 percentage points to 7.4 percent, and rents grew 1 percent from the third quarter of 2018—the lowest rate of growth in the region. In Oklahoma City, rent growth was 4 percent, and the vacancy rate declined 0.7 of a percentage point to 9.9 percent—the highest rate in the region despite the large decline. The high vacancy rate is due, in part, to a large supply of new apartment units that 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 2019 (preliminary data)—

- Approximately 22,600 multifamily units were permitted in the region, an approximately 50-percent increase from the 14,900

continued on page 5

continued from page 4

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

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2018 (%)	3Q 2019 (%)	Percentage Point Change	3Q 2018 ($)	3Q 2019 ($)	Percent Change
Albuquerque, NM	Balanced	6.6	4.7	-1.9	880	910	3
Austin, TX	Slightly Tight	5.5	5.6	0.1	1,300	1,375	6
Dallas, TX	Balanced	6.2	6.4	0.2	1,200	1,250	4
Fort Worth, TX	Balanced	5.6	6.8	1.2	1,075	1,125	5
Houston, TX	Balanced	8.5	8.0	-0.5	1,100	1,125	2
Little Rock, AR	Slightly Soft	8.9	7.4	-1.5	780	790	1
New Orleans, LA	Balanced	5.8	6.2	0.4	990	1,050	6
Oklahoma City, OK	Soft	10.6	9.9	-0.7	780	810	4
San Antonio, TX	Balanced	7.6	7.6	0	1,000	1,050	5

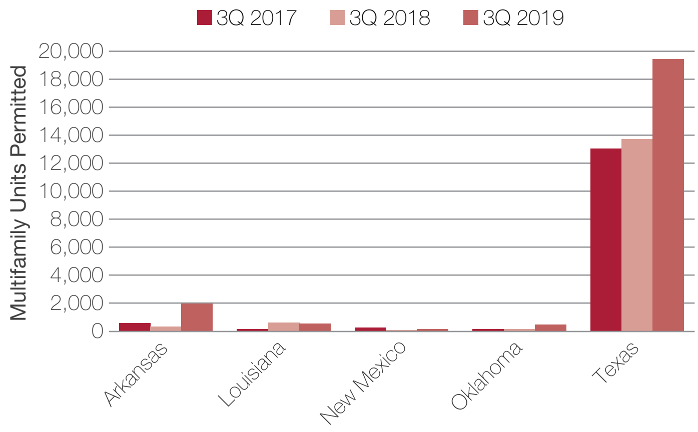
3Q = third quarter.
Note: Excludes units in initial lease-up.
Sources: Market condition—Economic and Market Analysis Division; vacancy rate and average monthly rent—ALN Apartment Data, Inc., with adjustments by the analyst

units permitted during the third quarter of 2018 and the most units permitted during any third quarter in at least 15 years. By comparison, multifamily permitting averaged 17,400 units during the third quarters of 2012 through 2017.

- Multifamily permitting activity in Texas, which accounted for approximately 86 percent of all multifamily units permitted in the region, increased by 5,725 units, or 42 percent, from the third quarter of 2018 to 19,400 units. Permitting activity increased by 1,675 units in Arkansas, 320 units in Oklahoma, and 75 units in New Mexico, but declined by 120 units in Louisiana.

- Multifamily permitting increased in all major metropolitan areas in the region with the exception of Albuquerque, where permitting declined by 25 units. The largest increases occurred in the Texas markets of Houston, San Antonio, and Austin, where permitting rose by 2,725; 1,325; and 1,250 units, or 100, 153, and 51 percent, respectively.

The number of multifamily units permitted increased in most states in the Southwest region from the third quarter of 2018, led by an increase in Texas.



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