

HUD PD&R Regional Reports

Region 6: Southwest



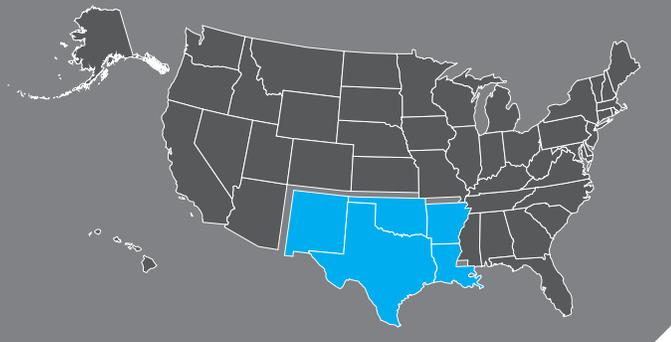
Quick Facts About Region 6

Houston, Texas

By Robert Stephens | 4th quarter 2016

- **Sales market conditions—**
 - Fourth quarter 2016: mixed (balanced to slightly tight).
 - Third quarter 2016: mixed (balanced to slightly tight).
 - Fourth quarter 2015: mixed (balanced to slightly tight).

- **Apartment market conditions—**
 - Fourth quarter 2016: mixed (balanced to soft).
 - Third quarter 2016: mixed (balanced to soft).
 - Fourth quarter 2015: mixed (balanced to slightly soft).



Overview

The economic expansion in the Southwest region that began in 2011 continued in the fourth quarter of 2016, although growth remained subdued compared with conditions earlier in the decade. Payrolls increased in only two of the five states in the region, with growth among the service-providing sectors partially offsetting losses in the energy-related sectors. Continued, albeit reduced, employment growth in the region overall contributed to balanced conditions in most major sales housing and apartment markets in the region. Home sales, home sales prices, and average apartment rents increased in most major markets apartment vacancy rates, however, increased in several Southwest markets, in part because of a high level of multifamily construction activity in 2014 and 2015.

During the fourth quarter of 2016—

- Nonfarm payrolls increased 1.2 percent from the fourth quarter of 2015 to 17.93 million jobs. Year-over-year job growth in the region slowed significantly from a peak of 3.0 percent during the fourth quarter of 2014, and the rate of job growth in the region currently is less than the national average of 1.6 percent.
- Home sales and sales prices increased in most major metropolitan areas in the region, although the rate of price appreciation slowed significantly in most markets from the previous 3 years.
- Combined single-family and multifamily permitting activity in the Southwest region declined to 43,900 units after reaching a fourth quarter peak of 49,950 in 2015 and was much less than the average of 58,500 units permitted annually from 2004 through 2006, before the housing market downturn.



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Nonfarm payroll growth in the Southwest region was concentrated in the service-providing sectors.

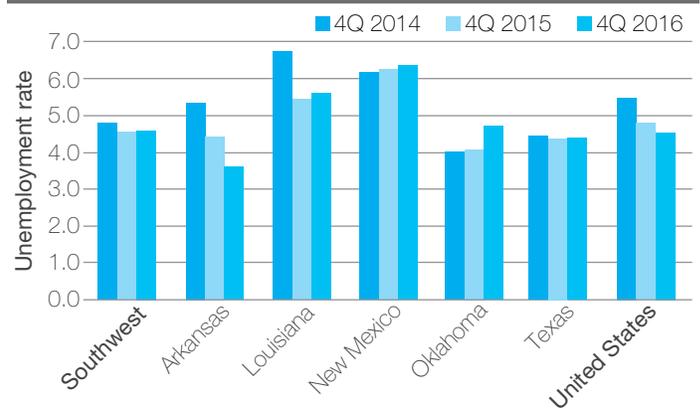
	Fourth Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,721.1	17,929.7	208.6	1.2
Goods-producing sectors	2,720.0	2,640.4	- 79.6	- 2.9
Mining, logging, and construction	1,396.5	1,353.8	- 42.7	- 3.1
Manufacturing	1,323.5	1,286.6	- 36.9	- 2.8
Service-providing sectors	15,001.2	15,289.3	288.1	1.9
Wholesale and retail trade	2,801.9	2,844.9	43.0	1.5
Transportation and utilities	746.1	746.6	0.5	0.1
Information	271.6	275.3	3.7	1.4
Financial activities	983.0	1,005.2	22.2	2.3
Professional and business services	2,252.2	2,283.4	31.2	1.4
Education and health services	2,469.5	2,567.0	97.5	3.9
Leisure and hospitality	1,854.4	1,899.9	45.5	2.5
Other services	629.5	638.8	9.3	1.5
Government	2,993.1	3,028.1	35.0	1.2

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

Economic Conditions

Nonfarm payroll growth in the Southwest region remained subdued during the past year. Nonfarm payrolls increased 1.2 percent, or by 208,600 jobs, compared with the number of jobs during the same quarter a year earlier, to 17.93 million jobs. By comparison, during the fourth quarter of 2015, nonfarm payrolls grew 1.1 percent, or by 190,700 jobs, from the fourth quarter of 2014. Job growth remained relatively strong in most service-providing sectors during the fourth quarter of 2016. The education and health services, leisure and hospitality, and wholesale and retail trade sectors led growth, increasing by 97,500, 45,500, and 43,000 jobs, or 3.9, 2.5, and 1.5 percent, respectively. The goods-producing sectors continued declines that began during the second quarter of 2015. Mining, logging, and construction sector payrolls declined by 42,700 jobs, or 3.1 percent, and manufacturing sector payrolls declined by 36,900 jobs, or 2.8 percent. The slowdown in the mining, logging, and construction sector was entirely the result of a decline of 47,400 jobs, or 12.4 percent, in the mining and logging subsector, which 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. Lower oil and gas prices led many energy-related companies to reduce workforces, which led to job losses in the goods-producing sectors. 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 during the past year.

The unemployment rate in the Southwest region remained unchanged and the declining national rate fell below the regional rate.



4Q = fourth quarter.
Source: U.S. Bureau of Labor Statistics

During the fourth quarter of 2016—

- Nonfarm payrolls increased 1.8 percent, or by 216,300 jobs, in Texas from the fourth quarter of 2015, which accounted for most of the job growth in the region. Nearly all the growth in Texas during the most recent quarter occurred in the service-providing sectors, primarily in the education and health services and the wholesale and retail trade sectors, which grew by 70,800 jobs, or 4.4 percent, and 45,600 jobs, or 2.4 percent, respectively. A small increase of 700 jobs, or 0.1 percent, in construction subsector payrolls from the fourth quarter of 2015 was more than offset by significant declines in payrolls in the mining and logging subsector and the manufacturing sector.

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- Arkansas had the highest rate of job growth in the region outside of Texas. Payrolls increased 0.7 percent, or by 8,300 jobs, from the fourth quarter of 2015. Growth in service-providing sectors more than offset relatively small declines in the goods-producing sectors. Much of the recent growth was concentrated in north-west Arkansas, with nearly 40 percent of job gains in the state occurring in the Fayetteville metropolitan area. Recent growth in the Fayetteville metropolitan area was broad-based but partly driven by the three Fortune 500 companies headquartered in the area: Wal-Mart Stores, Inc.; Tyson Foods, Inc.; and J.B. Hunt Transport, Inc.
- Nonfarm payrolls declined from the fourth quarter of 2015 in Louisiana, New Mexico, and Oklahoma by 6,500, 200, and 9,400 jobs, or 0.3, less than 0.1, and 0.6 percent, respectively. The mining, logging, and construction and the manufacturing sectors shed jobs in all three states.
- Payrolls in the mining and logging subsector fell sharply in every state in the region from the fourth quarter of 2015. Declines in the number of jobs ranged from 1,200 jobs, or 15.4 percent, in Arkansas to 28,800 jobs, or 11.3 percent, in Texas. Mining and logging subsector payrolls in Oklahoma, Louisiana, and New Mexico declined by 6,300, 5,600, and 5,600 jobs, or 12.6, 12.6, and 23.7 percent, respectively.
- The unemployment rate in the region was 4.6 percent, unchanged from the fourth quarter of 2015. Unemployment rates increased in every state in the region except Texas, where the rate remained unchanged at 4.4 percent, and Arkansas, where strong job growth led to a 0.8-percentage-point decline, to 3.6 percent, the lowest fourth quarter unemployment rate in the state in more than 40 years.

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight in most major metropolitan areas in the Southwest region during the fourth quarter of 2016, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 13,700, or 4 percent, to 323,600 homes sold during 2016 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent in 2014 and 2015 after slowing significantly from a peak of 16 percent during 2013. Home sales have

surpassed the previous peak of 306,200 homes sold during the 12 months ending February 2007, before the housing downturn. The average sales price of new and existing homes in Texas increased 4 percent during 2016, to \$260,600, and the inventory of unsold homes was unchanged at a 3.6-month supply from 2015. Price increases slowed from an average of 7 percent from 2013 through 2015, a period when sales market conditions in most major Texas

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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			Average or Median	Price		
		2015	2016	Percent Change		2015 (\$)	2016 (\$)	Percent Change
Albuquerque (N&E)	December	9,875	11,025	12	AVG	214,700	214,200	0
Austin (N&E)	December	31,550	32,950	4	AVG	331,500	348,000	5
Dallas-Fort Worth-Arlington (N&E)	December	94,050	98,650	5	AVG	267,000	285,300	7
Dallas (N&E)	December	11,850	11,800	0	AVG	349,200	365,900	5
Fort Worth (N&E)	December	11,750	12,050	3	AVG	197,300	214,600	9
Houston (N&E)	November	78,950	80,350	2	AVG	279,400	280,800	1
Little, Rock (N&E)	December	9,425	10,050	7	AVG	174,400	176,000	1
New Orleans (N&E)	December	12,550	12,400	- 1	AVG	240,000	248,800	4
Oklahoma City (N&E)	December	20,400	21,600	6	AVG	187,400	185,900	- 1
San Antonio (N&E)	December	28,900	31,550	9	AVG	229,800	238,000	4
Tulsa (N&E)	December	13,350	14,100	6	AVG	176,800	177,900	1

AVG = average. 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



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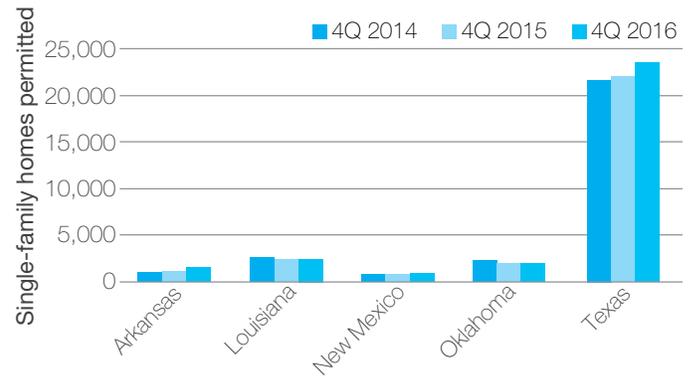
markets were generally tightening. Increases in home sales and home sales prices occurred in most major markets throughout the region during the past year, although the rate of growth generally slowed in comparison with recent strong gains. Home sales prices increased the most in the Dallas-Fort Worth and Austin metropolitan areas, where prices rose 7 and 5 percent, to \$285,300 and \$348,000, respectively, during 2016. Dallas-Fort Worth and Austin averaged 2.2- and 2.4-month supplies of unsold homes, respectively, during 2016, the lowest supplies of any major metropolitan areas in Texas.

During the fourth quarter of 2016 (preliminary data)—

- Approximately 30,400 single-family homes were permitted in the region, up 6 percent from the 28,700 homes permitted during the fourth quarter of 2015. By comparison, the number of single-family homes permitted in the region averaged 45,050 during the fourth quarters of 2004 through 2006 before declining to an average of 22,150 homes during the fourth quarters of 2007 through 2014.
- The number of single-family homes permitted in Texas increased by 1,400, or 6 percent, from the fourth quarter of 2015, to 23,450 homes permitted and accounted for approximately 77 percent of all homes permitted in the region. Permitting activity declined by 90 homes, or 4 percent, in Oklahoma and increased by 40, 40, and 340 homes, or 2, 4, and 29 percent, in New Mexico, Louisiana, and Arkansas, respectively.

- Single-family building activity increased from the fourth quarter of 2015 in many major metropolitan areas in the region. The greatest increases in single-family homebuilding activity in the region occurred in the markets with the greatest home price appreciation, the Dallas-Fort Worth and Austin metropolitan areas, where the number of single-family homes permitted increased by 690, or 11 percent, and by 510, or 20 percent, respectively, from the fourth quarter of 2015.

Single-family permitting activity increased in the Southwest region from the fourth quarter of 2015, with growth in all states except Oklahoma.



4Q = fourth quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the fourth quarter of 2016; however, most markets were balanced. Among major Texas markets, San Antonio remained slightly soft and Houston remained soft, with respective vacancy rates of 10.0 and 11.8 percent during the fourth quarter of 2016, down 0.2 and up 2.7 percentage points, respectively, from the fourth quarter of 2015. The average rents in San Antonio and Houston increased 4 and 2 percent, respectively, during the fourth quarter of 2016. 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 respective rent growth rates of 7 and 6 percent, the highest rates among all major markets in the region. Demand created by employment and population gains resulted in a vacancy rate decline of 0.6 percentage point in Fort Worth, to 6.2 percent, but the vacancy rate in Dallas

increased 1.1 percentage points, to 8.5 percent, in part because of a significant increase in the volume of new construction in 2015. Austin, which has also had an uptick in construction activity since 2012, recorded a vacancy rate increase from 7.6 to 8.8 percent; however, with continued rent growth of 4 percent, the apartment market remains balanced.

Outside Texas, most major apartment markets were balanced during the fourth quarter of 2016. Rents were relatively unchanged in Tulsa, where weakness is concentrated primarily in the Class A apartment market, in part because worsening economic conditions have caused renters to seek lower-cost housing options, and some newer apartment complexes have begun to reduce rents. Albuquerque, Little Rock, New Orleans, and Oklahoma City had rent growth rates of 2 percent each. Vacancy rates ranged from 3.5 percent in Albuquerque to 11.2 percent in Oklahoma City. The Oklahoma markets of Tulsa and Oklahoma City are the only two major markets in the Southwest region outside Texas that are not balanced.

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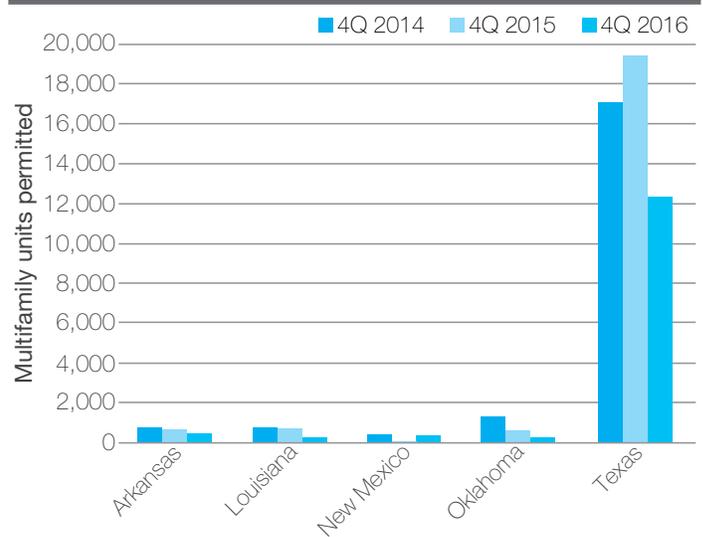
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During the fourth quarter of 2016 (preliminary data)—

- Approximately 13,500 multifamily units were permitted in the region, a 37-percent decline from the 21,250 units permitted during the fourth quarter of 2015. Multifamily permitting activity had increased during most of the years after 2009, when it reached a fourth quarter low of 3,150 units; multifamily permitting activity exceeded 20,000 units during each of the previous three fourth quarters. By comparison, fourth quarter permitting activity previously peaked at an average of 16,600 units annually during the construction boom in 2006 and 2007.
- Multifamily permitting activity in Texas, which accounted for approximately 91 percent of all multifamily units permitted in the region, declined by 7,100 units, or 37 percent, from the fourth quarter of 2015, to 12,350 units. Builders responded to slowing employment growth in several metropolitan areas throughout the state by reducing building activity from the very high levels recorded in 2014 and 2015, which represent the 2 years with the highest permitting levels in Texas since the mid-1980s. Permitting increased by 250 units in New Mexico but declined by 410, 400, and 110 units, respectively, in Oklahoma, Louisiana, and Arkansas from the fourth quarter of 2015.
- Multifamily permitting activity declined among major metropolitan areas in Texas but increased in other major markets in the Southwest region. From the fourth quarter of 2015, permitting activity declined in Austin, Dallas-Fort Worth, Houston, and San Antonio but increased in Albuquerque, Little Rock, New Orleans, and Oklahoma City.
- The greatest declines in multifamily permitting from the fourth quarter of 2015 occurred in the Texas markets of Houston and

Austin, where permitting fell by 3,150 units, or 66 percent, and 1,775 units, or 56 percent, respectively, in part because builders are responding to increasing vacancy rates and slowing rent growth. Building activity in both market areas has been elevated recently; 2012 through 2015 represented the highest number of multifamily units permitted during any 4-year period in both market areas since the mid-1980s.

Multifamily permitting activity in the Southwest region fell significantly from the fourth quarter of 2015, with declines in all states except New Mexico.



4Q = fourth quarter.
 Note: Based on preliminary data.
 Source: U.S. Census Bureau, Building Permits Survey

Apartment market conditions in most major metropolitan areas in the Southwest region ranged from balanced to soft.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2015 (%)	4Q 2016 (%)	Percentage Point Change	4Q 2015 (\$)	4Q 2016 (\$)	Percent Change
Albuquerque ^a	Balanced	3.6	3.5	- 0.1	785	804	2
Austin ^b	Balanced	7.6	8.8	1.2	1,169	1,211	4
Dallas ^b	Balanced	7.4	8.5	1.1	1,038	1,097	6
Fort Worth ^b	Balanced	6.8	6.2	- 0.6	916	978	7
Houston ^b	Soft	9.1	11.8	2.7	1,017	1,041	2
Little Rock ^b	Balanced	9.1	8.2	- 0.9	709	720	2
New Orleans ^a	Balanced	4.8	5.0	0.2	982	1,002	2
Oklahoma City ^b	Soft	11.0	11.2	0.2	714	725	2
San Antonio ^b	Slightly soft	10.2	10.0	- 0.2	909	944	4
Tulsa ^b	Slightly soft	8.2	9.6	1.4	681	679	0

4Q = fourth quarter.

Sources: Market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—(a) Reis, Inc.; (b) ALN Apartment Data, Inc.

