

HUD PD&R Regional Reports

Region 6: Southwest



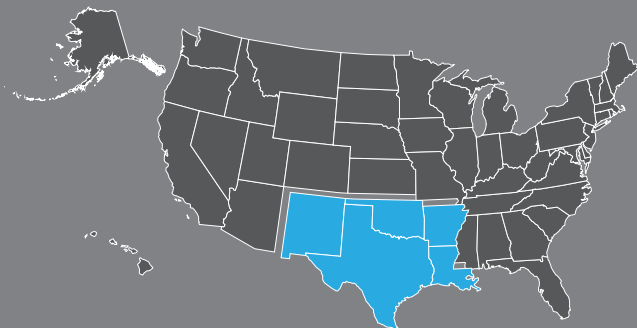
Quick Facts About Region 6

New Orleans, Louisiana

By Robert Stephens | 4th quarter 2018

Sales market conditions—
Fourth quarter 2018: mixed (balanced to slightly tight)
Third quarter 2018: mixed (balanced to slightly tight)
Fourth quarter 2017: mixed (balanced to slightly tight)

Apartment market conditions—
Fourth quarter 2018: mixed (balanced to soft)
Third quarter 2018: mixed (balanced to soft)
Fourth quarter 2017: mixed (balanced to soft)



Overview

The economic expansion in the Southwest region that began in 2011 continued in the fourth 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 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 fourth quarter of 2018—

- Nonfarm payrolls increased 2.5 percent from the fourth quarter of 2017 to 18.63 million jobs. The level of job growth in the region was above the national average of 1.7 percent, in part because of strong growth among energy-related industries.
- Home sales prices increased in all major metropolitan areas in the region, although the rate of price appreciation slowed in most markets from the fourth quarter of 2017.
- Combined single-family and multifamily permitting activity in the Southwest region increased 2 percent from the fourth quarter of 2017 to 50,350.



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Economic Conditions

Nonfarm payroll growth in the Southwest region accelerated during the fourth quarter of 2018 from the past year. Nonfarm payrolls increased 2.5 percent, or by 457,000 jobs, compared with the number of jobs during the same quarter a year earlier to 18.63 million jobs. By comparison, during the fourth quarter of 2017, nonfarm payrolls grew 1.7 percent, or by 308,000 jobs, from the fourth quarter of 2016. Job growth remained relatively strong in most service-providing sectors during the fourth 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 84,200 jobs, or 3.6 percent, and accounting for nearly one-fifth 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 145,700 jobs, a gain of 5.4 percent, during the fourth 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 55,300 jobs, or 5.1 percent. The mining and logging subsector increased 13.3 percent, or by 45,700 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 44,700 jobs, or 3.4 percent, from the fourth 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 November 2018, field production of crude oil in the Southwest and Gulf Coast regions increased 24 percent, to 423.43 million barrels per day, from November 2017 (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.

During the fourth quarter of 2018—

- Nonfarm payrolls increased 3.0 percent, or by 377,300 jobs, in Texas from the fourth quarter of 2017. Growth occurred in all sectors except information. The mining, logging, and construction and the professional and business services sectors led growth, increasing by 86,100 jobs, or 9.0 percent, and 73,000 jobs, or 4.3 percent, respectively.
- New Mexico had the second fastest rate of job growth in the region, following Texas. Payrolls increased 2.5 percent, or by 20,700 jobs, from the fourth quarter of 2017. Job growth was driven, in part, by increasing tourism in popular travel destinations such as Santa Fe. The three largest sector or subsector gains, totaling 14,600 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.
- Oklahoma added the second most jobs in the region, following Texas. Payrolls increased by 26,000 jobs, or 1.5 percent, from

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

	Fourth Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total Nonfarm Payrolls	18,172.1	18,629.1	457.0	2.5
Goods-Producing Sectors	2,702.9	2,848.6	145.7	5.4
Mining, Logging, & Construction	1,396.4	1,497.4	101.0	7.2
Manufacturing	1,306.5	1,351.2	44.7	3.4
Service-Providing Sectors	15,469.2	15,780.5	311.3	2.0
Wholesale & Retail Trade	2,794.2	2,852.4	58.2	2.1
Transportation & Utilities	793.6	826.6	33.0	4.2
Information	267.0	261.3	-5.7	-2.1
Financial Activities	1,026.4	1,050.9	24.5	2.4
Professional & Business Services	2,358.7	2,442.9	84.2	3.6
Education & Health Services	2,565.6	2,621.9	56.3	2.2
Leisure & Hospitality	1,955.0	1,999.3	44.3	2.3
Other Services	647.7	662.9	15.2	2.3
Government	3,060.9	3,062.4	1.5	0.0

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

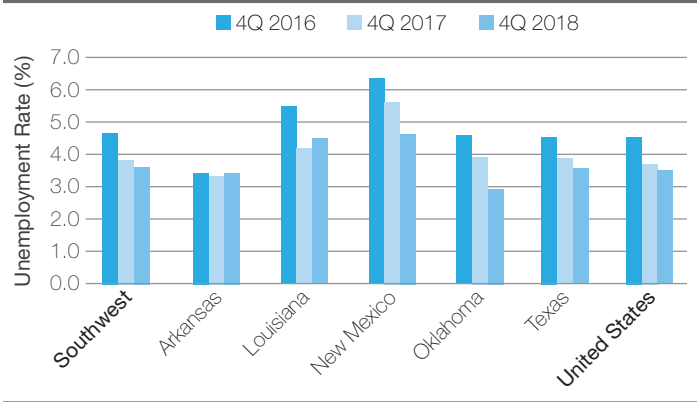


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the fourth quarter of 2017. Nearly two-thirds of the net gains, or 17,400 jobs, were concentrated in the professional and business services and wholesale and retail trade sectors and the mining and logging subsector.

- Nonfarm payrolls grew by 12,900 and 20,100 jobs, or 1.0 percent each, from the fourth quarter of 2017 in Arkansas and Louisiana, respectively. In Arkansas, job gains were widespread, with growth in most payroll sectors. In Louisiana, job losses of 3,600 and 2,600, respectively, in the professional and business services and government sectors were more than offset by gains in all other sectors.
- The unemployment rate in the region was 3.6 percent, down 0.3 percentage point from the fourth quarter of 2017. Declines of 1.0 and 0.9 percentage point, respectively, in New Mexico and Oklahoma were partially offset by small increases in Arkansas and Louisiana.

The unemployment rate declined in most states in the region from the fourth quarter of 2017.



4Q = fourth 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 fourth quarter of 2018, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 5,775, or 2 percent, to 344,000 homes sold during the 12 months ending December 2018 (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 4 percent during the 12 months ending December 2018 to \$284,000, and the inventory of unsold homes remained unchanged at 3.6 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.

Increases in home sales and home sales prices occurred 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 December 2018 despite home sales price increases of 3 and 6 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

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

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2017	2018	Percent Change		2017 (\$)	2018 (\$)	Percent Change
Albuquerque (N&E)	December	11,750	12,250	4	AVG	233,700	240,500	3
Austin (N&E)	December	33,950	34,450	1	AVG	366,700	381,600	4
Dallas-Plano-Irving (N&E)	December	66,350	64,400	-3	AVG	334,600	346,100	3
Fort Worth-Arlington (N&E)	December	35,850	35,450	-1	AVG	261,900	276,900	6
Houston (N&E)	December	84,350	87,150	3	AVG	289,300	297,000	3
Little Rock (N&E)	October	10,450	10,500	0	AVG	186,400	188,200	1
New Orleans (N&E)	December	12,700	12,950	2	AVG	256,800	270,900	5
Oklahoma City (N&E)	December	22,750	23,800	5	AVG	191,800	197,000	3
San Antonio (N&E)	December	32,500	33,400	3	AVG	247,000	257,500	4

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

Note: Data include single-family, 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



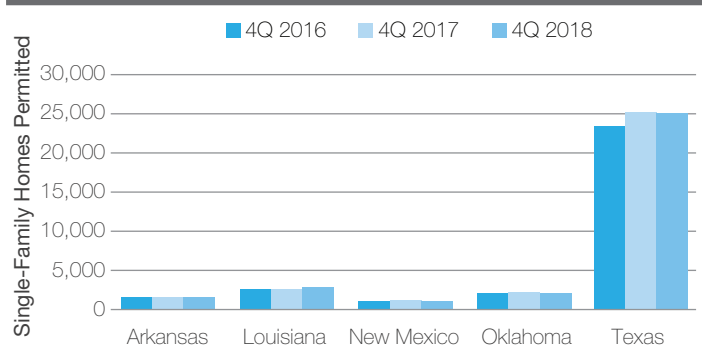
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metropolitan divisions averaged 2.3- and 2.8-month supplies of unsold homes during the same time, among the lowest supplies of any major area in Texas. The most rapid increases in home sales in the region occurred outside of Texas in the Oklahoma City and Albuquerque metropolitan areas, rising 5 and 4 percent, respectively, during the 12 months ending December 2018. Home sales prices rose at least 3 percent in all major metropolitan areas in the region, with the exception of Little Rock, where home sales were relatively unchanged and home sales prices rose less than 1 percent.

During the fourth quarter of 2018 (preliminary data)—

- Approximately 32,200 single-family homes were permitted in the region, down less than 1 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 fourth-quarter low of 19,950 homes in 2010 to a fourth-quarter peak of 32,300 homes in 2017.
- The number of single-family homes permitted in Texas declined by 160, or less than 1 percent, from the fourth quarter of 2017 to 25,050 homes permitted, accounting for approximately 78 percent of all homes permitted in the region. Permitting activity increased by 230 homes, or 9 percent, in Louisiana but declined by less than 100 homes in all other states in the region.

An increase in the number of single-family homes permitted in Louisiana from the fourth quarter of 2017 was more than offset by declines in all other states.



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

- Approximately three-fourths of the net increase in single-family homebuilding activity in Louisiana occurred in the Baton Rouge and New Orleans metropolitan areas. Outside of Louisiana, an increase of 570 homes permitted, or 6 percent, in the Dallas-Fort Worth metropolitan area was more than offset by declines in most other major markets in the region—including a decline of 500 homes, or 4 percent, in the Houston metropolitan area.

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the fourth quarter of 2018, although vacancy rates declined or remained unchanged in most metropolitan areas. Among major Texas markets, Houston transitioned from slightly soft during the fourth quarter of 2017 to balanced, as economic conditions strengthened and most of the large number of units completed during from 2015 through 2017 have been absorbed. The vacancy rate in Houston fell by 0.4 percentage point, to 8.3 percent, from the

fourth quarter of 2017, with rent growth of 2 percent during the same time. Balanced conditions prevailed in other Texas markets, including Fort Worth and Dallas, which had rent growth rates of 5 and 4 percent, respectively. Despite strong demand created by employment and population gains, the vacancy rate increased by 0.2 percentage point, to 5.9 percent, in Fort Worth, and remained unchanged at 6.5 percent in Dallas, in part because of an increase in the volume of newly constructed units. Austin recorded the

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Most major apartment markets in the Southwest region remained balanced during the fourth quarter of 2018.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2017 (%)	4Q 2018 (%)	Percentage Point Change	4Q 2017 (\$)	4Q 2018 (\$)	Percent Change
Albuquerque	Balanced	6.1	6.4	0.3	850	880	4
Austin	Balanced	6.6	5.6	-1	1,250	1,300	4
Dallas	Balanced	6.5	6.5	0	1,150	1,200	4
Fort Worth	Balanced	5.7	5.9	0.2	1,025	1,075	5
Houston	Balanced	8.7	8.3	-0.4	1,075	1,100	2
Little Rock	Slightly Soft	9.5	9.5	0	760	770	1
New Orleans	Balanced	7.2	5.9	-1.3	960	990	3
Oklahoma City	Soft	11.7	10.6	-1.1	770	790	3
San Antonio	Balanced	8.3	7.8	-0.5	970	1,000	3

4Q = fourth 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



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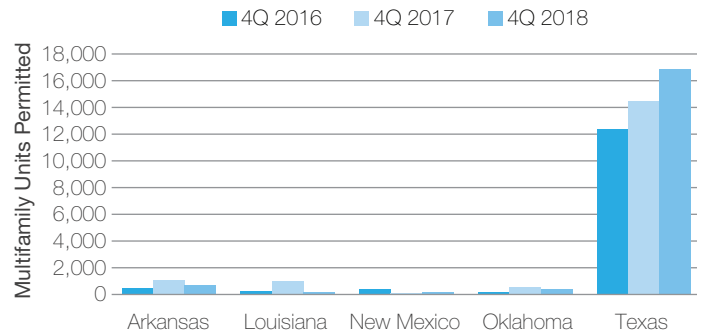
largest vacancy rate decline in the state, from 6.6 to 5.6 percent, and rent growth of 4 percent despite also having an uptick in new supply.

Outside of Texas, apartment market conditions were mixed during the fourth quarter of 2018. The apartment market in Albuquerque remained balanced with rent growth of 4 percent despite a 0.3-percentage-point increase in the vacancy rate, to 6.4 percent. In New Orleans, the apartment market remained balanced as the vacancy rate declined 1.3 percentage points, to 5.9 percent, the largest vacancy rate decline in the region, and the average rent increased 3 percent. In Little Rock, the apartment market remained slightly soft during the most recent quarter. The vacancy rate remained unchanged at 9.5 percent, and rents grew 1 percent from the fourth quarter of 2017, the lowest rate of growth in the region. In Oklahoma City, rent growth was 3 percent, and the vacancy rate declined 1.1 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 fourth quarter of 2018 (preliminary data)—

- Approximately 18,150 multifamily units were permitted in the region, a 7-percent increase from the 16,950 units permitted during the fourth quarter of 2017. By comparison, multifamily permitting increased 26 percent from the fourth quarters of 2016 to 2017. Despite the recent increases, multifamily permitting in the region is below the average of 20,600 during the fourth quarters of 2013 through 2015.
- Multifamily permitting activity in Texas, which accounted for approximately 93 percent of all multifamily units permitted in the region, increased by 2,425 units, or 17 percent, from the fourth quarter of 2017, to 16,900 units. Permitting activity increased by 85 units in New Mexico but declined in all other states in the region, including a decline of 820 units

The number of multifamily units permitted increased in the Southwest region from the fourth quarter of 2017, led by growth in Texas.



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

in Louisiana where permitting fell to 90 units from 900 units during the fourth quarter of 2017.

- In Louisiana, most of the decline occurred in the Lake Charles metropolitan area, where the number of units permitted fell by 760, to 10 units, from the fourth quarter of 2017. In 2017, 850 multifamily units were permitted in the Lake Charles area, the largest number of units permitted annually in more than 35 years.
- In Texas, most of the increase in multifamily permitting was concentrated in the Houston metropolitan area, where the number of units permitted increased by 5,450 from the fourth quarter of 2017, to 7,725 units, representing the most units permitted during the fourth quarter in this market in more than 20 years. This increase was partially offset by declines of 2,200 and 1,050 units, respectively, in the Dallas-Fort Worth and San Antonio metropolitan areas.

