HUD PD&R **Regional Reports**

Region 6: Southwest

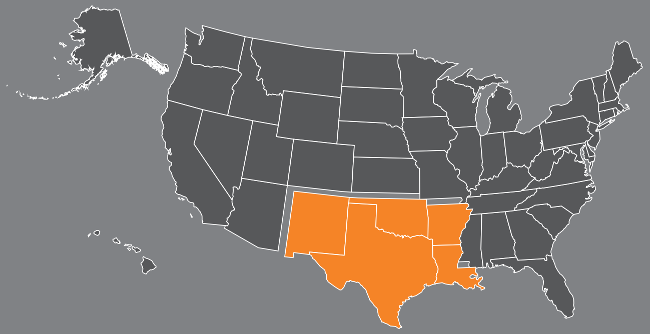
Fort Worth, Texas

By Robert Stephens | 2nd quarter 2018

Quick Facts About Region 6

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

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



Overview

The economic expansion in the Southwest region that began in 2011 continued in the second 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 all states 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 or remained unchanged 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 second quarter of 2018—

- Nonfarm payrolls increased by 421,800 jobs, or 2.4 percent, from the second quarter of 2017 to 18.36 million jobs. The level of job growth in the region was above the national average of 1.6 percent, in part, because of strong growth among energy-related industries.

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- Home sales and sales prices increased in all major metropolitan areas in the region, although the rate of price appreciation declined in many markets from the second quarter of 2017.
- Combined single-family and multifamily permitting activity in the Southwest region increased 17 percent from the second quarter of 2017 to 64,700.

Economic Conditions

Nonfarm payroll growth in the Southwest region was up during the second quarter of 2018 from the past year. Nonfarm payrolls increased 2.4 percent, or by 421,800 jobs, compared with the number of jobs during the same quarter a year earlier to 18.36 million jobs. By comparison, during the second quarter of 2017, nonfarm payrolls grew 1.3 percent, or by 233,000 jobs, from the second quarter of 2016. Job growth remained relatively strong in most service-providing sectors during the second 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 102,300 jobs, or 4.4 percent, and accounting for nearly one-fourth of the net gain. 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 122,000 jobs, a gain of 4.6 percent, during the second 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 47,700 jobs, or 4.6 percent. The mining and logging subsector increased by 35,800 jobs, or 10.9 percent, the highest 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 38,500 jobs, or 3.0 percent, from the second 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

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

	Second Quarter		Year-Over-Year Change	
	2017 (thousands)	2018 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,937.6	18,359.4	421.8	2.4
Goods-producing sectors	2,656.7	2,778.7	122.0	4.6
Mining, logging, and construction	1,363.0	1,446.5	83.5	6.1
Manufacturing	1,293.7	1,332.2	38.5	3.0
Service-providing sectors	15,280.9	15,580.6	299.7	2.0
Wholesale and retail trade	2,740.5	2,784.9	44.4	1.6
Transportation and utilities	761.2	788.7	27.5	3.6
Information	273.6	266.8	– 6.8	– 2.5
Financial activities	1,009.9	1,031.0	21.1	2.1
Professional and business services	2,300.3	2,402.6	102.3	4.4
Education and health services	2,542.1	2,579.4	37.3	1.5
Leisure and hospitality	1,959.4	2,020.7	61.3	3.1
Other services	653.1	663.5	10.4	1.6
Government	3,040.7	3,043.0	2.3	0.1

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

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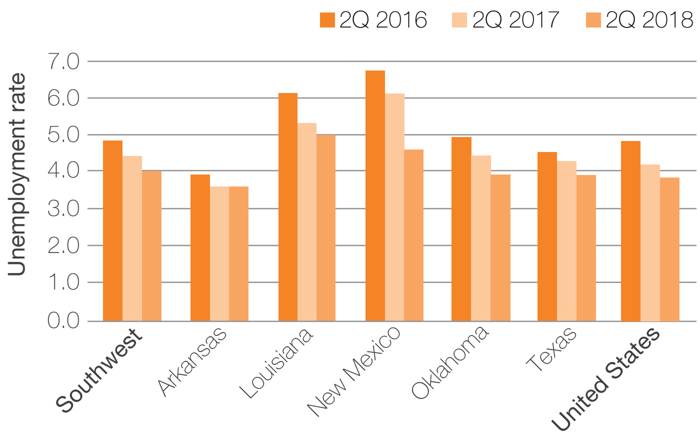
Louisiana—were particularly affected. However, crude oil production in the Southwest region surged in 2017, which led to an increase in hiring to bring new production online. In May 2018, field production of crude oil in the Southwest and Gulf Coast regions increased 18 percent, to 377.43 million barrels per day, from May 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 second quarter of 2018—

- Nonfarm payrolls increased 2.9 percent, or by 350,400 jobs, in Texas from the second 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 professional and business services and mining, logging, and construction sectors led growth, increasing by 83,200 jobs, or 5.0 percent, and 72,000 jobs, or 7.7 percent, respectively.
- Oklahoma had the highest rate of job growth in the region outside of Texas. Payrolls increased 1.8 percent, or by 30,500 jobs, from the second quarter of 2017. A gain of 6,500 jobs, or 5.3 percent, in the mining, logging, and construction sector led broad-based growth, with increases in every sector except for information.
- Arkansas had the lowest rate of job growth in the region, adding 8,100 jobs, an increase of 0.7 percent, from the second quarter of 2017. Gains of 4,500 jobs, or 3.1 percent, in professional and business services and 3,300 jobs, or 2.1 percent, in manufacturing were partially offset by declines in several sectors, including a decline of 600 jobs, or 1.0 percent, in the mining, logging, and construction sector—the only state in the region to lose jobs in this sector.
- Nonfarm payrolls grew by 12,400 and 20,300 jobs, or 1.5 and 1.0 percent, from the second quarter of 2017 in New Mexico and Louisiana, respectively. Mining, logging, and construction was among the fastest growing sectors in New Mexico, increasing by 3,000 jobs, or 4.5 percent; although, unlike elsewhere in the region, this growth was concentrated almost entirely in the construction subsector. More than 70 percent of the net job gains in Louisiana were concentrated in the service-providing sectors, particularly leisure and hospitality, professional and business services, and education and health services, which each added more than 5,000 jobs.
- The unemployment rate in the region was 4.0 percent, down 0.4 percentage point from the second quarter of 2017. Strong declines, ranging from 0.3 to 1.6 percentage points, occurred in all states in the region except for Arkansas. The rate in Arkansas increased 0.1 percentage point. In Arkansas, labor force growth slightly outpaced growth in resident employment.

The unemployment rate declined in four states in the Southwest region from the second quarter of 2017, but the regional rate remains above the national rate.



2Q = second 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 second quarter of 2018, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 9,250, or 3 percent, to 342,100 homes sold during the 12 months ending June 2018 (Real Estate Center at Texas A&M University). Annual sales growth averaged 4 percent from 2014 through 2016 after 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 June 2018 to $279,100, and the inventory of unsold homes remained unchanged at a 3.6-month supply. Home price growth averaged 7 percent annually from 2013 through 2015, a period during which sales market conditions in most major Texas

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The number of homes sold and home sales prices increased or remained unchanged 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)	May	11,400	12,000	5	AVG	226,600	236,300	4
Austin, TX (N&E)	June	33,300	34,550	4	AVG	359,900	374,800	4
Dallas-Plano-Irving, TX (N&E)	June	65,100	66,300	2	AVG	324,800	340,100	5
Fort Worth-Arlington, TX (N&E)	June	35,550	35,700	0	AVG	251,300	270,700	8
Houston, TX (N&E)	May	83,250	85,100	2	AVG	286,700	291,400	2
Little, Rock, AR (N&E)	May	10,100	10,600	5	AVG	181,300	189,900	5
New Orleans, LA (N&E)	June	12,650	12,650	0	AVG	251,700	265,800	6
Oklahoma City, OK (N&E)	June	22,450	23,450	4	AVG	189,300	194,500	3
San Antonio, TX (N&E)	June	32,100	33,150	3	AVG	242,700	253,100	4

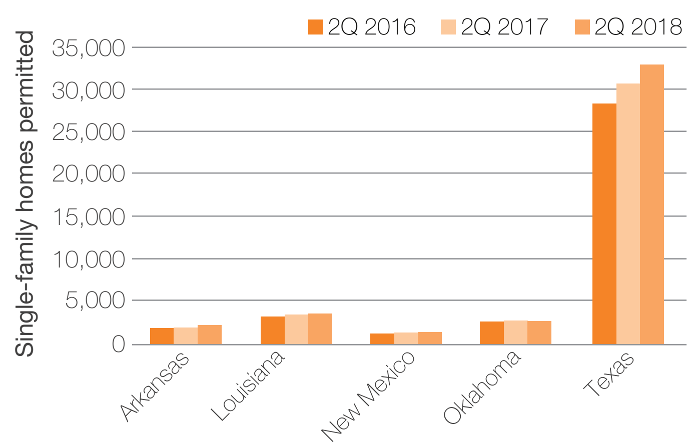
AVG = average. N&E = new and existing.
Notes: Data include single-family, townhouses, and condominiums.
Source: Arkansas Realtors® Association; Greater Albuquerque Association of Realtors®; New Orleans Metropolitan Association of Realtors®; Oklahoma City Metro Association of Realtors®; Real Estate Center at Texas A&M University

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 except New Orleans, where the number of homes sold remained unchanged at 12,650. 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; 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 8 and 5 percent to $270,700 and $340,100, respectively, during the 12 months ending June 2018. Demand for new homes in these divisions remains strong, but an increasing shortage exists of developed subdivisions and vacant developable land on which to build new subdivisions. The Fort Worth and Dallas metropolitan divisions averaged 2.2- and 2.5-month supplies of unsold homes during the same time, the lowest supplies of any major areas in Texas.

During the second quarter of 2018 (preliminary data)—

- Approximately 42,100 single-family homes were permitted in the region, up 7 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 11 percent a year from a second-quarter low of 23,450 homes in 2011.
- The number of single-family homes permitted in Texas increased by 2,200, or 7 percent, from the second quarter of 2017 to 32,800 homes permitted, accounting for approximately 78 percent of all homes permitted in the region. Permitting activity increased by 340, 180, and 80 homes, or 21, 6, and 7 percent, in Arkansas, Louisiana, and New Mexico, respectively, and declined by 40 homes, or 2 percent, in Oklahoma.
- The greatest increases in single-family homebuilding activity in the region occurred in the Texas markets of Austin and Houston, where the number of single-family homes permitted increased by 870 each, or 21 and 9 percent, from the second quarter of 2017 to 4,975 and 11,100, respectively.

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



2Q = second 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 second 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 the largest decline in vacancy rates among all major markets in the region, falling 1.3 percentage points, to 8.5 percent, from the second quarter of 2017. The average rent in Houston increased 5 percent during the same time, the most rent growth among all major markets in the region. Balanced conditions prevailed in other Texas markets, including Dallas and Fort Worth, which had rent growth rates of 4 percent each, two of the highest rates among all major markets in the region. Despite strong demand created by employment and population gains, the vacancy rate increased 0.4 percentage point, to 6.1 percent, in Dallas, in part, because of an increase in the volume of newly constructed units. Austin, which also had an uptick in new supply, recorded a modest vacancy-rate decline from 6.1 to 5.9 percent and rent growth of 2 percent. Rent growth in the Austin market area was slow during the past year despite balanced market conditions, in part, because the number of units entering the market in lower priced areas outside of downtown Austin and Travis County increased.

Outside of Texas, apartment market conditions were mixed during the second quarter of 2018. Apartment markets in New Orleans and Albuquerque were balanced, with rent growth of 3 percent each. The vacancy rate in New Orleans declined 0.4 percentage point, to 6.1 percent, and increased 0.3 percentage point, to 6.0 percent, in Albuquerque. In Little Rock, the apartment market was slightly soft, but improving, during the most recent quarter, with a vacancy-rate decline of 0.8 percentage point to 8.7 percent

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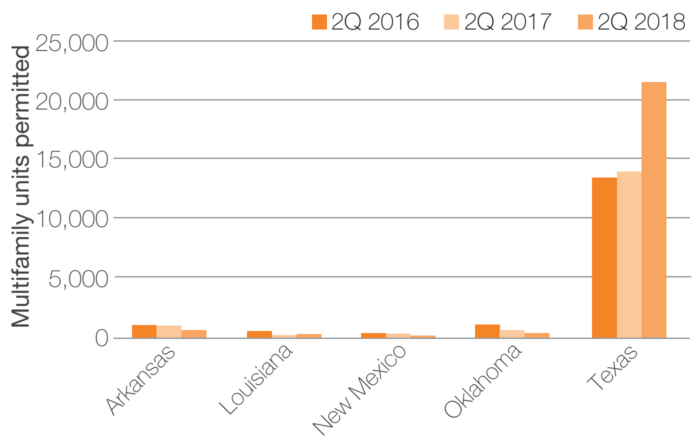
Multifamily permitting activity rose significantly in the Southwest region from the second quarter of 2017, almost entirely a result of gains in Texas.



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

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

	Market Condition	Vacancy Rate			Average Monthly Rent		
		2Q 2017 (%)	2Q 2018 (%)	Percentage Point Change	2Q 2017 ($)	2Q 2018 ($)	Percent Change
Albuquerque	Balanced	5.7	6.0	0.3	839	868	3
Austin	Balanced	6.1	5.9	– 0.2	1,252	1,283	2
Dallas	Balanced	5.7	6.1	0.4	1,137	1,178	4
Fort Worth	Balanced	5.3	5.2	– 0.1	1,022	1,059	4
Houston	Balanced	9.8	8.5	– 1.3	1,038	1,087	5
Little Rock	Slightly Soft	9.5	8.7	– 0.8	752	773	3
New Orleans	Balanced	6.5	6.1	– 0.4	960	988	3
Oklahoma City	Soft	10.7	11.1	0.4	759	777	2
San Antonio	Balanced	7.6	7.6	0	967	996	3

2Q = second quarter.
Note: Excludes units in initial lease-up.
Sources: market condition—HUD, PD&R, Economic and Market Analysis Division; vacancy rate and average monthly rent—ALN Apartment Data, Inc.

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and rent growth of 3 percent. In Oklahoma City, rent growth was 2 percent, and the vacancy rate rose 0.4 percentage point to 11.1 percent—the highest rate in the region. 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 second quarter of 2018 (preliminary data)—

- Approximately 22,600 multifamily units were permitted in the region, a 44-percent increase from the 15,750 units permitted during the second quarter of 2017 and the most units permitted during any second quarter in more than two decades. From the second quarter of 2014 through the second quarter of 2017, multifamily permitting fell from 21,300 units to 15,750 units in response to weak employment growth and generally soft apartment markets throughout much of the region; however, builders have responded to improved economic and apartment market conditions during the past year by increasing production.
- Multifamily permitting activity in Texas, which accounted for approximately 95 percent of all multifamily units permitted in the region, increased by 7,575 units, or 54 percent, from the second quarter of 2017 to 21,550 units. Permitting also increased in Louisiana, rising by 100 units, but declined elsewhere in the region, falling by 380, 200, and 210 units, respectively, in Arkansas, New Mexico, and Oklahoma from the second quarter of 2017.
- Almost all the increase in multifamily building activity since the second quarter of 2017 in the region occurred in the Austin, Dallas-Fort Worth, and Houston markets. The number of multifamily units permitted increased by 730, 3,975, and 4,350, or 17, 80, and 280 percent, respectively, to 5,000, 9,000, and 5,875 units. Building activity in Dallas and Tarrant Counties, the two primary counties in the Dallas-Fort Worth area, each nearly doubled from the second quarter of 2017 to 5,025 and 1,625 units, respectively. In Houston, the growth was concentrated almost entirely in Harris County, the primary county in the metropolitan area, which increased by 4,300 to 5,800 units.