

HUD PD&R Regional Reports

Region 6: Southwest

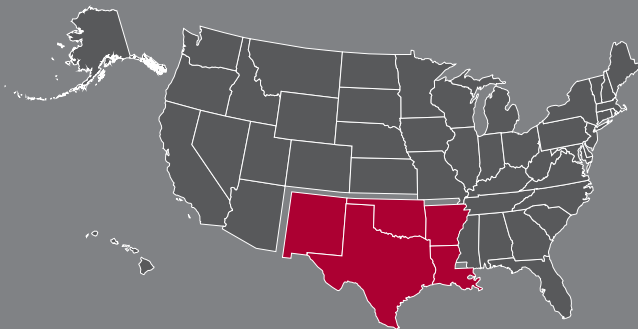


Little Rock, Arkansas

By Robert Stephens | 3rd quarter 2016

Quick Facts About Region 6

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



Overview

The economic expansion in the Southwest region that began in 2011 continued in the third quarter of 2016, but growth slowed from a year ago. Payrolls increased in three 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, although apartment vacancy rates increased in several Southwest markets, in part because of a high level of multifamily construction activity since 2014.

During the third quarter of 2016—

- Nonfarm payrolls increased 1.1 percent from the third quarter of 2015, to 17.69 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 is currently less than the national average of 1.7 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 except Fort Worth and Austin, where sales market conditions remain slightly tight.
- Combined single-family and multifamily permitting activity in the Southwest region declined to 51,000 units after reaching a third quarter peak of 54,100 in 2014 and remained well below the average of 66,550 units permitted annually from 2004 through 2006, before the housing market downturn.



Economic Conditions

The rate of nonfarm payroll growth in the Southwest region remained unchanged during the third quarter of 2016 compared with the rate during the preceding quarter but slowed significantly during the past year. Nonfarm payrolls increased 1.1 percent, or by 185,000 jobs, compared with the number of jobs during the same quarter a year earlier, to 17.69 million jobs. By comparison, during the third quarter of 2015, nonfarm payrolls grew 1.7 percent, or by 297,000 jobs, from the third quarter of 2014. Job growth remained relatively strong in most service-providing sectors during the third quarter of 2016. The education and health services, leisure and hospitality, and wholesale and retail trade sectors led growth, increasing by 88,300, 62,700, and 42,700 jobs, or 3.6, 3.4, and 1.6 percent, respectively. The goods-producing sectors continued declines that began during the second quarter of 2015. Mining, logging, and construction sector payrolls declined by 49,000 jobs, or 3.5 percent, and manufacturing sector payrolls declined by 49,800 jobs, or 3.7 percent. The slowdown in the mining, logging, and construction sector was entirely the result of a decline of 62,000 jobs, or 15.7 percent, in the mining and logging subsector, which, until recently, 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 mining, logging, and construction and the manufacturing 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, were particularly affected.

During the third quarter of 2016—

- Nonfarm payrolls increased 1.6 percent, or by 191,500 jobs, in Texas from the third quarter of 2015, which accounted for most of the job growth in the region; however, payroll growth in Texas was at its lowest rate in more than 5 years. 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 leisure and hospitality sectors. An increase of 6,800 jobs, or 1.0 percent, in construction sector payrolls from the third quarter of 2015 was more than offset by large declines in payrolls in the mining and logging subsector and the manufacturing sector.
- Arkansas had the highest rate of job growth in the region outside of Texas. Payrolls increased 1.5 percent, or by 17,500 jobs, from the third 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 approximately 40 percent of job gains in the state occurring in the Fayetteville metropolitan area. Recent growth in the Fayetteville metropolitan area is broad based but is 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 increased from the third quarter of 2015 in New Mexico by 2,700 jobs, or 0.3 percent, but declined in Louisiana and Oklahoma by 13,800 jobs, or 0.7 percent, and

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

	Third Quarter		Year-Over-Year Change	
	2015 (thousands)	2016 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,508.6	17,693.6	185.0	1.1
Goods-producing sectors	2,738.9	2,640.1	- 98.8	- 3.6
Mining, logging, and construction	1,402.0	1,353.0	- 49.0	- 3.5
Manufacturing	1,336.9	1,287.1	- 49.8	- 3.7
Service-providing sectors	14,769.8	15,053.4	283.6	1.9
Wholesale and retail trade	2,749.7	2,792.4	42.7	1.6
Transportation and utilities	737.9	731.8	- 6.1	- 0.8
Information	274.2	275.4	1.2	0.4
Financial activities	978.5	999.8	21.3	2.2
Professional and business services	2,240.0	2,270.4	30.4	1.4
Education and health services	2,429.1	2,517.4	88.3	3.6
Leisure and hospitality	1,871.2	1,933.9	62.7	3.4
Other services	633.6	640.0	6.4	1.0
Government	2,855.5	2,892.4	36.9	1.3

Note: Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

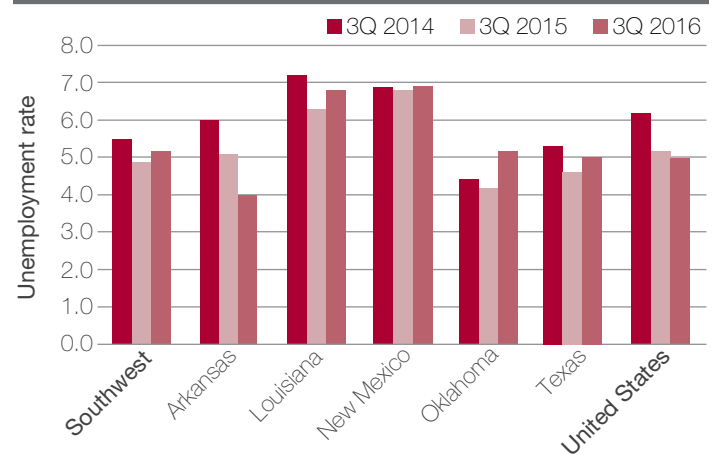


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13,000 jobs, or 0.8 percent, respectively. The education and health services sector was among the fastest-growing sectors in all three states.

- Payrolls in the mining and logging subsector fell sharply in every state in the region from the third quarter of 2015. Declines in the number of jobs ranged from 1,200 jobs, or 15.8 percent, in Arkansas to 37,600 jobs, or 14.3 percent, in Texas. Mining and logging subsector payrolls in Oklahoma, Louisiana, and New Mexico declined by 8,700, 7,700, and 6,800 jobs, or 16.6, 16.3, and 27.1 percent, respectively, and contributed to a lower level of job growth or overall payroll declines in these states.
- The unemployment rate in the region was 5.2 percent compared with 4.9 percent during the third quarter of 2015. Unemployment rates increased in every state in the region except Arkansas, where strong job growth led to a 0.4-percentage-point decline, to 4.0 percent, the lowest third quarter unemployment rate in the state in more than 40 years.

The unemployment rate in the Southwest region increased to higher than 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 2016, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 9,100, or 3 percent, to 318,800 homes sold during the 12 months ending September 2016 (Real Estate Center at Texas A&M University). Annual sales growth slowed significantly from a peak of 16 percent during 2013. Home sales have surpassed the

previous 12-month peak of 306,200 homes sold in February 2007, before the housing downturn. The average sales price of new and existing homes in Texas increased 3 percent during the 12 months ending September 2016, to \$260,300, and the inventory of unsold homes rose slightly to a 3.7-month supply from a 3.6-month supply a year earlier. Price increases slowed from an average of 7 percent from 2013 through 2015, a period when sales market conditions in most major Texas markets were generally tightening. Increases in

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The number of homes sold and home sales prices increased in five of the eight 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)	September	9,500	10,750	13	AVG	215,400	219,900	2
Austin (N&E)	September	31,425	32,475	3	AVG	323,800	344,900	7
Dallas-Fort Worth-Arlington (N&E)	September	92,850	97,500	5	AVG	263,800	279,400	6
Dallas (N&E)	September	11,800	11,800	0	AVG	347,100	359,000	3
Fort Worth (N&E)	September	11,700	11,950	2	AVG	195,600	208,700	7
Houston (N&E)	August	79,900	79,200	-1	AVG	278,900	278,900	0
Little Rock (N&E)	August	9,075	9,950	10	AVG	173,500	172,800	0
New Orleans (N&E)	September	12,100	12,450	3	AVG	237,300	247,500	4
Oklahoma City (N&E)	September	20,850	20,950	0	AVG	186,100	185,600	0
San Antonio (N&E)	September	28,600	30,650	7	AVG	227,500	235,500	4

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

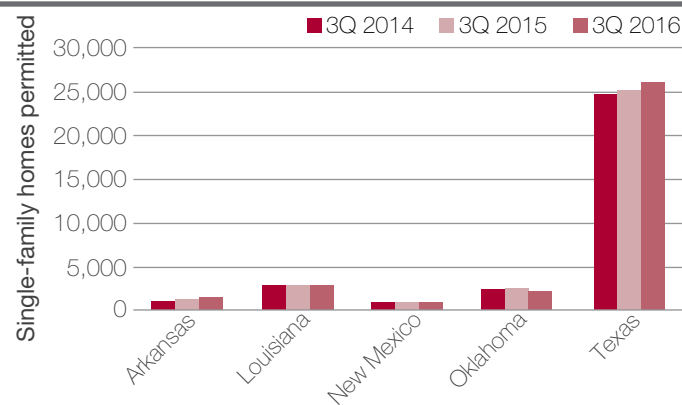
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home sales and home sales prices occurred in most major markets throughout the region during the past year, although the rate of growth generally slowed in comparison with recent strong gains. Home sales prices increased the most in the Austin and Dallas-Fort Worth metropolitan areas, where prices rose 7 and 6 percent, to \$344,900 and \$279,400, respectively, during the 12 months ending September 2016. Dallas-Fort Worth and Austin averaged a 2.2- and 2.4-month supply of unsold homes, respectively, during the 12 months ending September 2016, the lowest supplies of any major metropolitan areas in Texas.

During the third quarter of 2016 (preliminary data)—

- Approximately 33,950 single-family homes were permitted in the region, up 3 percent from the 33,100 homes permitted during the third quarter of 2015. By comparison, the number of single-family homes permitted in the region averaged 48,700 during the third quarters of 2003 through 2007 before declining to an average of 26,000 homes during the third quarters of 2008 through 2014.
- The number of single-family homes permitted in Texas increased by 930, or 4 percent, from the third quarter of 2015, to 26,200 homes permitted, and accounted for approximately 77 percent of all homes permitted in the region. Permitting activity increased by 230 homes, or 17 percent, in Arkansas, was unchanged in Louisiana, and declined by 50 homes, or 5 percent, and 240 homes, or 10 percent, in New Mexico and Oklahoma, respectively.

Single-family permitting activity increased moderately in the Southwest region from the third quarter of 2015; growth in Texas and Arkansas offset declines elsewhere in the region.



3Q = third quarter.

Note: Based on preliminary data.

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

- Single-family building activity remained relatively unchanged from the third quarter of 2015 in many major metropolitan areas in the region. The greatest changes in single-family homebuilding activity in the region occurred in the Austin and Oklahoma City metropolitan areas, where the number of single-family homes permitted increased by 760, or 28 percent, and declined by 280, or 18 percent, respectively, from the third quarter of 2015.

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the third quarter of 2016; however, most markets were balanced. Among major Texas markets, San Antonio remained slightly soft and Houston transitioned from slightly soft to soft, with respective vacancy rates of 9.8 and 11.1 percent during the third quarter of 2016, up 0.4 and 2.5 percentage points from the third quarter of 2015. The average rents in San Antonio and Houston increased 5 and 3 percent, respectively, during this time. The market in Houston softened, in part, from a combination of the large 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, which had an 8-percent rent growth, the highest rate among all major markets in the region, and Dallas, which had a 7-percent rent growth. Demand created by employment and population gains resulted in a vacancy rate decline of 0.9 percentage point in Fort Worth, but the vacancy rate in Dallas

increased 1.0 percentage point, in part because of a significant increase in the volume of new construction in 2015. Austin, which has also had a recent uptick in construction activity, recorded the largest vacancy rate increase in the region, from 4.6 to 8.1 percent; however, rent growth remained strong at 5 percent and the market remains balanced. Outside Texas, most major apartment markets were balanced during the third quarter of 2016. Rent growth in these markets ranged from 1 percent 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—to 4 percent in New Orleans. Vacancy rates ranged from 3.3 percent in Albuquerque to 11.4 percent in Oklahoma City. The Oklahoma markets of Tulsa and Oklahoma City are two of the only major markets in the Southwest region outside Texas that are not balanced.

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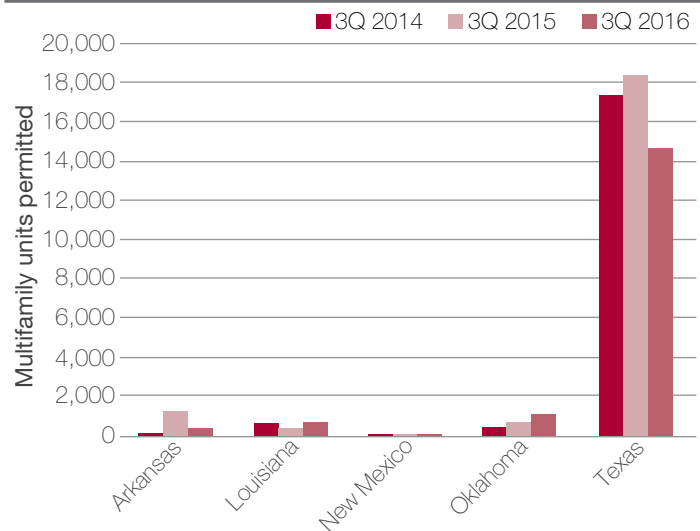
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During the third quarter of 2016 (preliminary data)—

- Approximately 17,050 multifamily units were permitted in the region, a 19-percent decline from the 21,000 units permitted during the third quarter of 2015. Before the most recent period, multifamily permitting activity had increased each year since reaching a third quarter low of 4,475 units in 2009. By comparison, third quarter permitting activity previously peaked at an average of 18,200 units annually during the construction boom in 2007 and 2008.
- Multifamily permitting activity in Texas, which accounted for approximately 86 percent of all multifamily units permitted in the region, declined by 3,725 units, or 20 percent, from the third quarter of 2015, to 14,700 units. Permitting declined by 870 units in Arkansas but increased by 320, 270, and 35 units, respectively, in Oklahoma, Louisiana, and New Mexico from the third quarter of 2015.
- Changes in multifamily permitting activity varied significantly among major metropolitan areas in the Southwest region. From the third quarter of 2015, permitting activity declined in Austin, Dallas-Fort Worth, Houston, and Little Rock but increased in Albuquerque, New Orleans, Oklahoma City, and San Antonio.
- The greatest declines in multifamily permitting from the third quarter of 2015 occurred in the Texas markets of Dallas-Fort Worth and Houston, which fell by 2,425 units, or 27 percent, and 2,100 units, or 46 percent, respectively. Building activity in

both areas remains elevated, however; 2014 and 2015 represented the largest number of multifamily units permitted during any 2-year period in both areas since the mid-1980s.

Multifamily permitting activity in the Southwest region fell nearly 20 percent from the third quarter of 2015; large declines in Texas and Arkansas offset growth elsewhere in the region.



3Q = third 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 during the third quarter of 2016.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2015 (%)	3Q 2016 (%)	Percentage Point Change	3Q 2015 (\$)	3Q 2016 (\$)	Percent Change
Albuquerque ^a	Balanced	3.6	3.3	- 0.3	784	804	3
Austin ^b	Balanced	4.6	8.1	3.5	1,161	1,219	5
Dallas ^b	Balanced	7.2	8.2	1.0	1,027	1,098	7
Fort Worth ^b	Balanced	6.7	5.8	- 0.9	900	974	8
Houston ^b	Soft	8.6	11.1	2.5	1,015	1,049	3
Little Rock ^b	Balanced	8.7	8.1	- 0.6	711	723	2
New Orleans ^a	Balanced	5.2	5.2	0.0	976	1,012	4
Oklahoma City ^b	Soft	9.7	11.4	1.7	707	729	3
San Antonio ^b	Slightly soft	9.4	9.8	0.4	903	947	5
Tulsa ^b	Slightly soft	7.1	9.3	2.2	683	688	1

3Q = third quarter.

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