

HUD PD&R Regional Reports

Region 6: Southwest



Quick Facts About Region 6

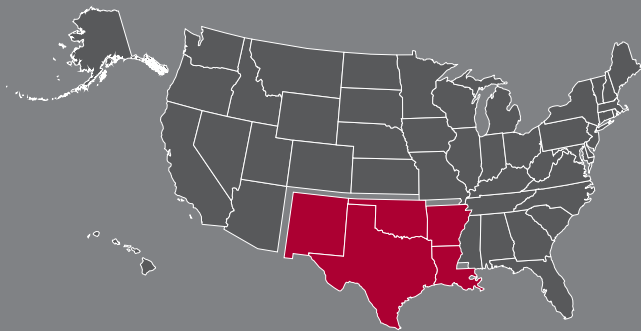
By Robert Stephens | 3rd quarter 2017

● Sales market conditions—

- Third quarter 2017: mixed (balanced to slightly tight).
- Second quarter 2017: mixed (balanced to slightly tight).
- Third quarter 2016: mixed (balanced to slightly tight).

● Apartment market conditions—

- Third quarter 2017: mixed (balanced to soft).
- Second quarter 2017: mixed (balanced to soft).
- Third quarter 2016: mixed (balanced to soft).



Overview

The economic expansion in the Southwest region that began in 2011 continued in the third quarter of 2017. The rate of growth quickened during the past year but remains somewhat subdued compared with conditions earlier in the decade. Payrolls increased in all states in the region, led by growth in Texas, 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 housing markets, although many rental markets began to soften despite conditions remaining balanced in most markets. Home sales, home sales prices, and average apartment rents increased in most major markets. Rent growth slowed and apartment vacancy rates rose, however, in several Southwest markets, in part, because of a high level of multifamily construction activity in 2014 and 2015.

During the third quarter of 2017—

- Nonfarm payrolls increased 2.0 percent from the third quarter of 2016 to 18.01 million jobs. Despite increasing during the most recent quarter, year-over-year job growth in the region slowed significantly from a recent peak of 3.0 percent during

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the fourth quarter of 2014. However, the rate of job growth in the region was above the national average of 1.4 percent, in part, because of resumed growth in the goods-producing sectors.

- Home sales and sales prices increased in most major metropolitan areas in the region, and the rate of price appreciation increased in many markets from the third quarter of 2016.

- Combined single-family and multifamily permitting activity in the Southwest region declined 6 percent from the third quarter of 2016 to 47,750 units. A decline in multifamily building activity to the lowest level in more than 5 years more than offset a modest increase in single-family homebuilding activity.

Economic Conditions

Nonfarm payroll growth in the Southwest region was up during the third quarter of 2017 from the past year. Nonfarm payrolls increased 2.0 percent, or by 348,700 jobs, compared with the number of jobs during the same quarter a year earlier to 18.01 million jobs. By comparison, during the third quarter of 2016, nonfarm payrolls grew 0.6 percent, or by 113,300 jobs, from the third quarter of 2015. Job growth remained relatively strong in most service-providing sectors during the third quarter of 2017, with the only losses occurring in the information sector and the retail trade subsector. The professional and business services and education and the health services sectors led job growth, increasing by 63,400 and 62,800 jobs, or 2.8 and 2.5 percent, respectively.

The goods-producing sector, which declined in the region for most of the past 2 years, added 104,000 jobs, a gain of 4.0 percent. Growth in the construction subsector continued, in part, because residential building activity continues to increase throughout much of the region; the subsector grew by 31,700 jobs, or 3.1 percent. The mining and logging subsector increased by 31,000 jobs, or

9.6 percent. This sector 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 before shedding 78,000 jobs, a decline of 19.5 percent between the third quarters of 2015 and 2016. Similarly, manufacturing sector payrolls increased by 41,300 jobs, or 3.2 percent, from the third quarter of 2016 after declining by 50,200 jobs, or 3.8 percent, between the third quarters of 2015 and 2016. Lower oil and gas prices led many energy-related companies to reduce workforces, which led to 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. However, crude oil production in Texas surged in recent months, which led to an increase in hiring to bring new production online. In August 2017, Texas field production of crude oil increased more than 6 percent, to 3.37 million barrels per day, from August 2016 (U.S. Energy

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

	Third Quarter		Year-Over-Year Change	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	17,660.8	18,009.5	348.7	2.0
Goods-producing sectors	2,631.1	2,735.2	104.1	4.0
Mining, logging, and construction	1,342.7	1,405.4	62.7	4.7
Manufacturing	1,288.5	1,329.8	41.3	3.2
Service-providing sectors	15,029.7	15,274.3	244.6	1.6
Wholesale and retail trade	2,748.6	2,746.9	- 1.7	- 0.1
Transportation and utilities	753.5	770.8	17.3	2.3
Information	273.7	260.9	- 12.8	- 4.7
Financial activities	992.2	1,021.0	28.8	2.9
Professional and business services	2,271.4	2,334.8	63.4	2.8
Education and health services	2,499.5	2,562.3	62.8	2.5
Leisure and hospitality	1,924.8	1,971.2	46.4	2.4
Other services	645.9	664.5	18.6	2.9
Government	2,920.1	2,942.0	21.9	0.7

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

Source: U.S. Bureau of Labor Statistics



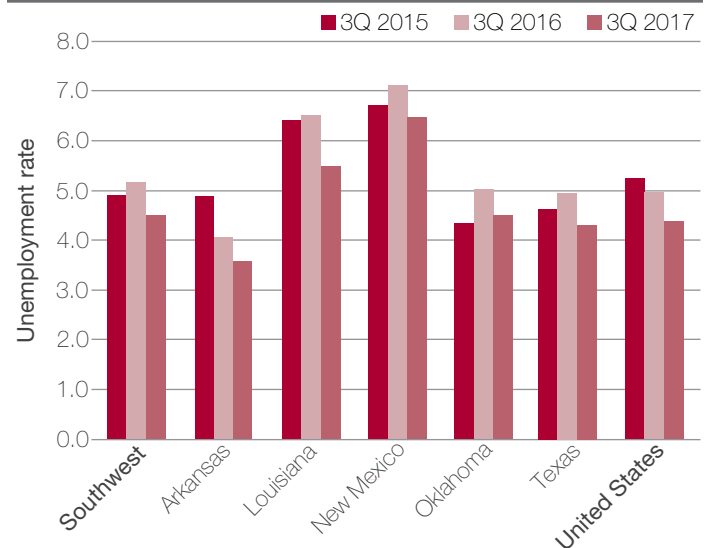
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Information Administration). By comparison, crude oil production declined nearly 7 percent from August 2015 to August 2016.

During the third quarter of 2017—

- Nonfarm payrolls increased 2.3 percent, or by 278,900 jobs, in Texas from the third quarter of 2016, which accounted for approximately 80 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 most sectors in the state—including the goods-producing sectors, which benefited from increasing crude oil production—but was led by the professional and business services and the education and health services sectors, which increased by 50,800 and 42,800 jobs, or 3.1 and 2.6 percent, respectively.
- In Texas, the effects of Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and produced rainfall totals exceeding 50 inches in parts of Houston during the next several days, somewhat dampened payroll growth. In Houston, payroll growth slowed to 19,500 jobs, or 0.7 percent, in September 2017 from a year earlier. By comparison, year-over-year payroll growth was 35,500 jobs, or 1.5 percent in August 2017. Similar trends were observed in other disaster-affected metropolitan areas in Texas.
- Arkansas had the highest rate of job growth in the region outside of Texas. Payrolls increased 2.1 percent, or by 25,700 jobs, from the third quarter of 2016. Gains in all other sectors, including growth of 6,800 jobs, or 3.8 percent, in the education and health services sector and 5,500 jobs, or 3.9 percent, in the professional and business services sector more than offset a decline of 1,100 jobs, or 0.6 percent, in the government sector and relatively small declines in the information sector.
- Louisiana had the lowest rate of job growth in the region, adding 18,300 jobs, an increase of 0.9 percent, from the third quarter of 2016. The most growth occurred in the construction subsector, which added 13,400 jobs, an increase of 9.5 percent, and a

The unemployment rate in every state in the Southwest region declined from the third quarter of 2016 but remained above the national rate.



3Q = third quarter.

Source: U.S. Bureau of Labor Statistics

notable change from the 1,100 jobs lost in the subsector a year earlier. Much of this growth occurred in Baton Rouge and Lake Charles along the Gulf Coast and was the result of the construction and expansion of several petrochemical plants and natural gas exporting facilities.

- Nonfarm payrolls grew by 8,500 and 17,200 jobs, or 1.0 percent each, from the third quarter of 2016 in New Mexico and Oklahoma, respectively.
- The unemployment rate in the region was 4.5 percent, down 0.7 percentage point from the third quarter of 2016. Strong declines, ranging from 0.5 to 1.0 percentage point, occurred in all states in the region.

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 2017, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 13,700, or 4 percent, to 333,400 homes sold during the 12 months ending September 2017 (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 6 percent during the 12 months ending September 2017 to \$272,400, and the inventory of unsold homes remained unchanged at a 3.7-month supply from a year earlier. Price increases accelerated from 3 percent during the previous 12 months but remain below the average of 7 percent from 2013 through 2015, a period during which sales market conditions in most major Texas 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 in home sales generally

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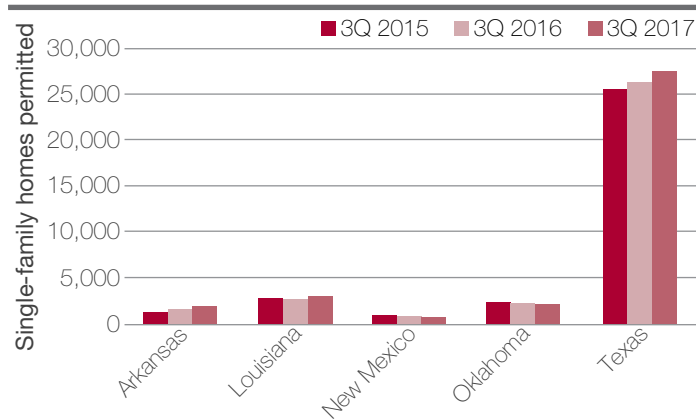
slowed by comparison with recent strong gains. Home sales prices increased the most in the Fort Worth-Arlington and Dallas-Plano-Irving metropolitan divisions, rising 11 and 9 percent to \$258,500 and \$329,900, respectively, during the 12 months ending September 2017, in part, because demand for new homes 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 2.4-month supplies of unsold homes during the same time, the lowest supplies of any major areas in Texas.

During the third quarter of 2017 (preliminary data)—

- Approximately 34,900 single-family homes were permitted in the region, up 4 percent from the 33,550 homes permitted during the third quarter of 2016. By comparison, after the housing market downturn, the number of single-family homes permitted in the region fell each year from a third-quarter peak of 56,800 in 2005 to a third-quarter trough of 19,950 in 2010, an average decline of 7,375 homes, or 13 percent, annually.
- The number of single-family homes permitted in Texas increased by 1,050, or 4 percent, from the third quarter of 2016 to 27,050 homes permitted, accounting for approximately 77 percent of all homes permitted in the region. Permitting activity increased by 220 homes each, or 13 and 8 percent, in Arkansas and Louisiana, respectively, and declined by 20 and 100 homes, or 2 and 5 percent, respectively, in New Mexico and Oklahoma.

- The greatest increases in single-family homebuilding activity in the region occurred in the Texas markets of Dallas-Fort Worth and San Antonio, where the number of single-family homes permitted increased by 870 and 470, or 11 and 31 percent, from the third quarter of 2016 to 8,675 and 1,975, respectively, the highest third-quarter permitting level in approximately a decade in both metropolitan areas.

Single-family permitting activity in the Southwest region increased from the second quarter of 2016, led by growth in Texas.



3Q = third quarter.

Note: Based on preliminary data.

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

The number of homes sold and home sales prices increased in all major metropolitan areas in the Southwest region.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2016	2017	Percent Change		2016 (\$)	2017 (\$)	Percent Change
Albuquerque (N&E)	September	10,900	11,550	6	AVG	220,100	230,400	5
Austin (N&E)	September	32,500	33,750	4	AVG	344,800	365,200	6
Dallas-Plano-Irving (N&E)	September	63,300	65,400	3	AVG	303,800	329,900	9
Fort Worth-Arlington (N&E)	September	34,150	35,700	5	AVG	233,700	258,500	11
Houston (N&E)	August	79,300	81,270	2	AVG	278,900	289,000	4
Little Rock (N&E)	September	9,475	9,875	4	AVG	206,700	219,400	6
New Orleans (N&E)	September	12,450	12,750	2	AVG	247,300	253,700	3
Oklahoma City (N&E)	September	20,900	22,500	8	AVG	185,600	191,100	3
San Antonio (N&E)	September	30,650	32,500	6	AVG	235,200	245,600	4
Tulsa (N&E)	September	13,900	14,150	2	AVG	176,500	185,500	5

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, Texas A&M University

Apartment Market Conditions

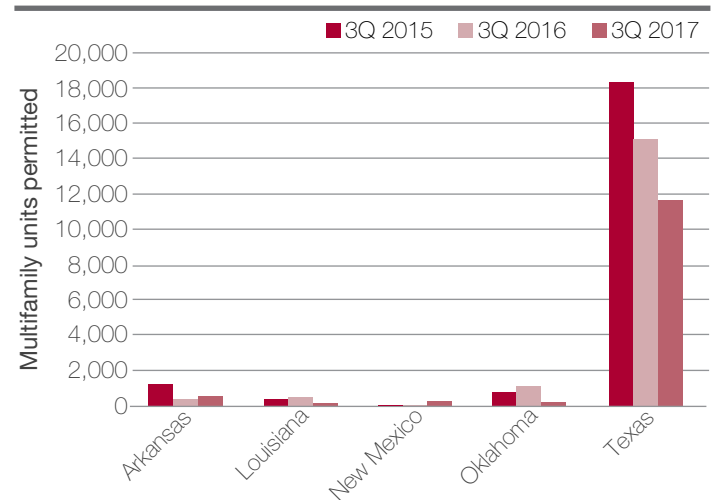
Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the third quarter of 2017, although rent growth slowed in most metropolitan areas. Among major Texas markets, Houston remained soft, with a vacancy rate of 11.2 percent during the third quarter of 2017, up 0.1 percentage point from the third quarter of 2016. The average rent in Houston increased 1 percent during the same time. The market in Houston remained soft, 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 rent growth rates of 5 percent each, the highest rates among all major markets in the region. Despite strong demand created by employment and population gains, the vacancy rate increased 1.7 percentage points in Fort Worth to 7.5 percent and 1.0 percentage point in Dallas to 9.2 percent, in part, because of an increase in the volume of new construction. Austin, which also had an uptick in construction activity, recorded a vacancy rate increase from 8.1 to 9.1 percent and rent growth of 1 percent. Softness in the Austin market is primarily concentrated in Williamson County in the north of the metropolitan area where most of the new construction has occurred. Travis County, the primary county of the metropolitan area, remains generally balanced.

Outside of Texas, apartment market conditions were mixed during the third quarter of 2017. Apartment markets in Albuquerque and New Orleans were balanced, with rent growths of 1 and 2 percent and vacancy rates that declined 0.8 and 2.6 percentage points,

respectively. In Little Rock, the apartment market was slightly soft during the most recent quarter, with a vacancy rate increase of 0.5 percentage point to 8.6 percent and rent growth of 1 percent. The apartment market is soft in Oklahoma City. Rent growth was 1 percent in Oklahoma City, and the vacancy rate rose 0.1 percentage point to 11.5 percent, the highest rate in the region.

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Multifamily permitting activity in the Southwest region fell from the second quarter of 2016, led by a decline in Texas.



3Q = third quarter.

Note: Based on preliminary data.

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

Apartment market conditions in the Southwest region were mixed. Rent growth slowed, and some markets began to soften as a result of increased building activity.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		3Q 2016 (%)	3Q 2017 (%)	Percentage Point Change	3Q 2016 (\$)	3Q 2017 (\$)	Percent Change
Albuquerque	Balanced	6.0	5.2	- 0.8	827	838	1
Austin	Slightly soft	8.1	9.1	1.0	1,219	1,229	1
Dallas	Balanced	8.2	9.2	1.0	1,098	1,155	5
Fort Worth	Balanced	5.8	7.5	1.7	974	1,025	5
Houston	Soft	11.1	11.2	0.1	1,049	1,059	1
Little Rock	Slightly soft	8.1	8.6	0.5	723	731	1
New Orleans	Balanced	9.0	6.4	- 2.6	961	981	2
Oklahoma City	Soft	11.4	11.5	0.1	729	733	1
San Antonio	Balanced	9.8	10.1	0.3	947	970	2

3Q = third quarter.

Note: Includes 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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During the third quarter of 2017 (preliminary data)—

- Approximately 12,850 multifamily units were permitted in the region, a 26-percent decline from the 17,450 units permitted during the third quarter of 2016. Multifamily permitting activity increased from a third-quarter low of 4,475 units in 2009 to a third-quarter peak of 21,000 units in 2015. By comparison, third-quarter permitting activity previously peaked at an average of 18,400 units during the construction boom in 2007 and 2008.
- Multifamily permitting activity in Texas, which accounted for approximately 91 percent of all multifamily units permitted in the region, declined by 3,475 units, or 23 percent, from the third quarter of 2016 to 11,675 units. Permitting fell by 480 and 980 units, or 77 and 84 percent, respectively, in Louisiana and Oklahoma from the third quarter of 2016. In Arkansas and New Mexico, the number of units permitted increased 190 and 150 units to 600 units and 260 units, respectively, during the same time.
- The greatest declines in multifamily permitting from the third quarter of 2016 occurred in the Austin and Houston markets, which fell by 1,525 and 1,125 units, or 50 and 47 percent, respectively. Both Austin and Houston have had large amounts of recent building activity, which has led to softening apartment markets accompanied by rising vacancy rates and low rent growth.
- Dallas-Fort Worth, where the apartment market remains balanced and rent growth remains strong, was the only major metropolitan area in the region in which multifamily permitting activity increased from the third quarter of 2016, up by 100 units, or 2 percent.