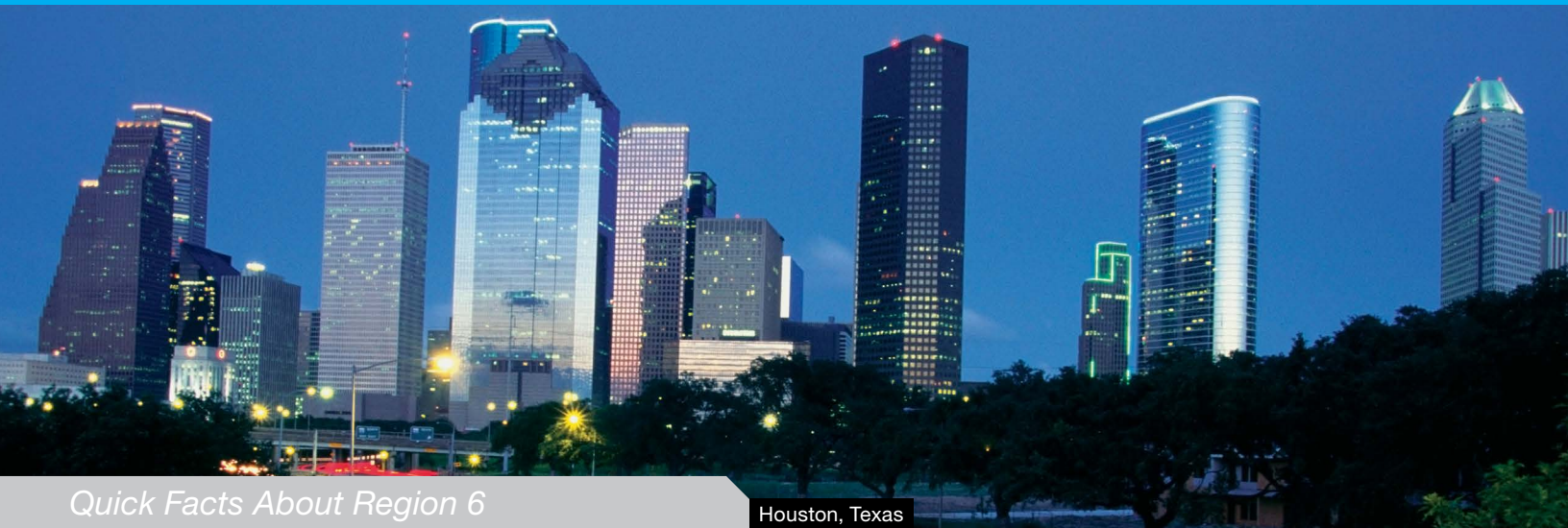


# HUD PD&R Regional Reports

## Region 6: Southwest



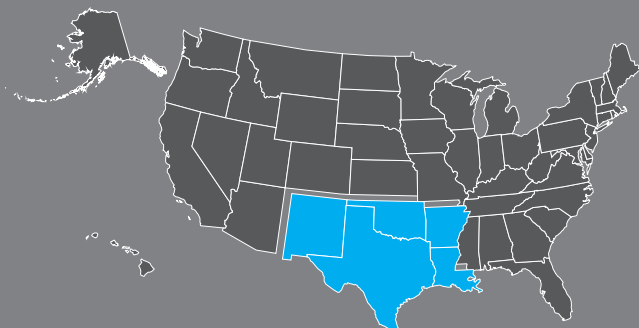
### Quick Facts About Region 6

Houston, Texas

By Robert Stephens | 4th quarter 2017

- Sales market conditions—**
  - Fourth quarter 2017: mixed (balanced to slightly tight).
  - Third quarter 2017: mixed (balanced to slightly tight).
  - Fourth quarter 2016: mixed (balanced to slightly tight).

- Apartment market conditions—**
  - Fourth quarter 2017: mixed (balanced to soft).
  - Third quarter 2017: mixed (balanced to soft).
  - Fourth quarter 2016: mixed (balanced to soft).



### Overview

The economic expansion in the Southwest region that began in 2011 continued in the fourth quarter of 2017. The rate of job growth quickened during the past year but remains somewhat subdued compared with growth earlier in the decade. Payrolls increased in all states in the region, with Texas leading growth, and 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, home sales prices, and average apartment rents increased in all major markets. Although average rents increased, the rate of growth slowed; apartment vacancy rates rose in several Southwest region markets, in part, because of a high level of multifamily completions.

During the fourth quarter of 2017—

- Nonfarm payrolls increased 2.1 percent from the fourth quarter of 2016 to 18.29 million jobs. Despite increasing during the most recent quarter, year-over-year job growth in the region remains below the recent peak of 3.0 percent during the fourth quarter of 2014. However, the rate of job growth in the region was above the national average of 1.5 percent, in part, because of resumed growth in the goods-producing sectors.

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- Home sales and sales prices increased in all major metropolitan areas in the region, and the rate of price appreciation increased in many markets from the fourth quarter of 2016.
- Combined single-family and multifamily permitting activity in the Southwest region increased 12 percent from the fourth quarter of 2016 to 49,250 units.

## Economic Conditions

Nonfarm payroll growth in the Southwest region was up during the fourth quarter of 2017 from the past year. Nonfarm payrolls increased 2.1 percent, or by 381,600 jobs, compared with the number of jobs during the same quarter a year earlier, to 18.29 million jobs. By comparison, during the fourth quarter of 2016, nonfarm payrolls grew 0.8 percent, or by 150,700 jobs, from the fourth quarter of 2015. Job growth remained relatively strong in most service-providing sectors during the fourth quarter of 2017, with the only losses occurring in the information sector. The professional and business services, leisure and hospitality, and education and health services sectors led job growth, increasing by 63,700, 52,800, and 51,400 jobs, or 2.8, 2.8, and 2.0 percent, respectively.

The goods-producing sector, which declined in the region for most of the past 2 years, added 130,300 jobs, a gain of 4.9 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 45,500 jobs, or 4.4 percent. The mining and logging subsector increased by 37,200 jobs, or 11.6 percent, the highest rate of growth of any sector or subsector in the region. This sector had been one of the fastest-growing

subsectors in the region, increasing at an average annual rate of 8.6 percent from 2010 through 2014 before shedding an average of 68,100 jobs, or 14.6 percent, annually in 2015 and 2016. Similarly, manufacturing sector payrolls increased by 47,600 jobs, or 3.7 percent, from the fourth quarter of 2016 after declining by 35,600 jobs, or 2.7 percent, between the fourth 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. These job losses particularly affected 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. However, crude oil production in the Southwest region surged in 2017, which led to an increase in hiring to bring new production online. In November 2017, field production of crude oil in the Southwest region increased 22 percent, to 151.92 million barrels per day, from November 2016 (U.S. Energy Information Administration). By comparison, crude oil production declined 6 percent in the Southwest region from November 2015 to November 2016.

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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	
	2016 (thousands)	2017 (thousands)	Absolute (thousands)	Percent
<b>Total nonfarm payrolls</b>	17,911.0	18,292.6	381.6	2.1
Goods-producing sectors	2,632.9	2,763.2	130.3	4.9
Mining, logging, and construction	1,345.8	1,428.5	82.7	6.1
Manufacturing	1,287.1	1,334.7	47.6	3.7
Service-providing sectors	15,278.1	15,529.4	251.3	1.6
Wholesale and retail trade	2,791.2	2,797.3	6.1	0.2
Transportation and utilities	778.1	786.9	8.8	1.1
Information	272.6	259.1	- 13.5	- 5.0
Financial activities	997.5	1,028.3	30.8	3.1
Professional and business services	2,295.2	2,358.9	63.7	2.8
Education and health services	2,540.2	2,591.6	51.4	2.0
Leisure and hospitality	1,897.1	1,949.9	52.8	2.8
Other services	642.7	663.2	20.5	3.2
Government	3,063.5	3,094.0	30.5	1.0

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

Source: U.S. Bureau of Labor Statistics



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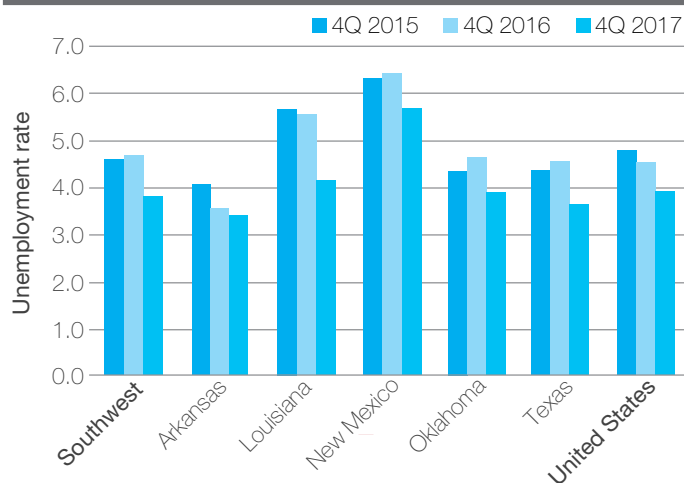
During the fourth quarter of 2017—

- Nonfarm payrolls increased 2.6 percent, or by 317,400 jobs, in Texas from the fourth quarter of 2016, which accounted for more than 80 percent of the job growth in the region, although Texas accounts for less than 70 percent of the total jobs in the region. The mining, logging, and construction sector, which benefited from increasing crude oil production and increased by 55,200 jobs, or 6.0 percent, led the growth that occurred in most sectors in the state.
- Arkansas had the highest rate of job growth in the region outside of Texas. Payrolls increased 1.6 percent, or by 19,900 jobs, from the fourth quarter of 2016. A gain of 5,400 jobs, or 3.5 percent, in the manufacturing sector led growth; year-over-year payroll gains have accelerated in this sector each quarter since the second quarter of 2016.
- Louisiana had the lowest rate of job growth in the region, adding 11,400 jobs, an increase of 0.6 percent, from the fourth quarter of 2016. The most growth occurred in the construction subsector, which added 9,700 jobs, an increase of 6.7 percent. Much of this growth occurred in the cities of 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 11,500 and 21,500 jobs, or 1.4 and 1.3 percent, from the fourth quarter of 2016 in New Mexico and Oklahoma, respectively. Job gains in New Mexico were highest

in the leisure and hospitality sector while more than 75 percent of the net job gains in Oklahoma were concentrated in the goods-producing sectors.

- The unemployment rate in the region was 3.8 percent, down 0.9 percentage point from the fourth quarter of 2016. Strong declines, ranging from 0.7 to 1.4 percentage points, occurred in all states in the region except for Arkansas. The rate in Arkansas fell only 0.2 percentage point; however, Arkansas has the lowest unemployment rate in the region at 3.4 percent.

**The unemployment rate declined in every state in the Southwest region from the fourth quarter of 2016 and fell below the national rate.**



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 2017, unchanged from the previous quarter. The number of new and existing home sales in Texas increased by 12,850, or 4 percent, to 336,500 homes sold during the 12 months ending December 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 December 2017 to \$274,600, and the inventory of unsold homes increased slightly to a 3.7-month supply from a 3.6-month supply a year earlier. Home price growth was up from 4 percent in 2016 but below the average annual increase 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 all major markets throughout the

region during the past year. Home sales prices increased the most in the Fort Worth-Arlington (Fort Worth) and Dallas-Plano-Irving (Dallas) metropolitan divisions, rising 9 and 8 percent to \$262,000 and \$334,700, respectively, during the 12 months ending December 2017. 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 2.4-month supplies of unsold homes during the same time, the lowest supplies of any major regions in Texas. During the fourth quarter of 2017 (preliminary data)—

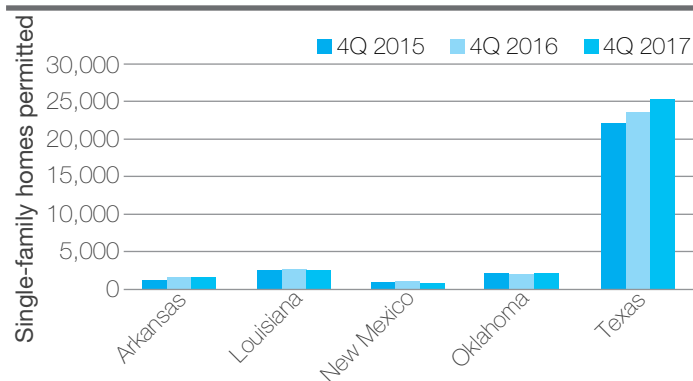
- Approximately 32,300 single-family homes were permitted in the region, up 6 percent from the same quarter a year earlier. By comparison, following the housing market downturn, the number of single-family homes permitted in the region rose an average of 13 percent a year from a low of 16,900 homes during the fourth quarter of 2010 to 30,400 homes during the fourth quarter of 2016.

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- The number of single-family homes permitted in Texas increased by 1,750, or 7 percent, from the fourth quarter of 2016 to 25,200 homes permitted, accounting for approximately 78 percent of all homes permitted in the region. Permitting activity increased by 70 and 100 homes, or 3 and 11 percent, in Oklahoma and New Mexico, respectively, and declined by 10 and 20 homes, respectively, or less than 1 percent each, in Arkansas and Louisiana.
- The greatest increases in single-family homebuilding activity in the region occurred in the Texas markets of Dallas-Fort Worth and Houston, where the number of single-family homes permitted increased by 750 and 800, or 11 and 10 percent, from the fourth quarter of 2016 to 7,550 and 8,850, respectively, the highest fourth-quarter permitting level in approximately a decade in both metropolitan areas.

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



4Q = fourth quarter.

Note: Based on preliminary data.

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

**Home sales 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)	December	11,050	11,750	6	AVG	222,100	233,700	5
Austin (N&E)	December	32,700	33,900	4	AVG	347,700	367,200	6
Dallas-Plano-Irving (N&E)	December	63,900	66,200	4	AVG	309,900	334,700	8
Fort Worth-Arlington (N&E)	December	34,850	35,900	3	AVG	239,400	262,000	9
Houston (N&E)	November	80,550	82,650	3	AVG	280,800	291,100	4
Little Rock (N&E)	October	9,900	10,450	6	AVG	174,100	186,400	7
New Orleans (N&E)	September	12,450	12,750	2	AVG	247,300	253,700	3
Oklahoma City (N&E)	December	21,600	22,750	5	AVG	185,900	191,800	3
San Antonio (N&E)	December	31,300	32,450	4	AVG	237,500	247,300	4

AVG = average. N&amp;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&amp;M University

## Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from balanced to soft during the fourth quarter of 2017, although vacancy rates rose in most metropolitan areas. Among major Texas markets, Houston transitioned from soft to slightly soft as economic conditions strengthened and many of the large number of units completed during the past 3 years were absorbed. Houston was the only major market in the Southwest region where vacancy rates declined; they fell 1.6 percentage points, to 10.4 percent, from the fourth quarter of 2016. The average rent in Houston increased 4 percent during the same time. Balanced conditions prevailed in other Texas markets, including Dallas and Fort

Worth, which had rent growth rates of 6 and 4 percent, respectively, 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 1.3 percentage points, to 9.7 percent, in Dallas and 1.5 percentage points, to 8.1 percent, in Fort Worth, in part because of an increase in the volume of newly constructed units. Austin, which also had an uptick in new supply, recorded a vacancy rate increase from 9.1 to 9.5 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.

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Outside of Texas, apartment market conditions were mixed during the fourth quarter of 2017. Apartment markets in Albuquerque and New Orleans were balanced, with rent growths of 2 percent each and vacancy rates that increased 0.4 and 0.1 percentage point to 6.0 percent and 7.2 percent, respectively, the lowest rates in the region. In Little Rock, the apartment market was slightly soft during the most recent quarter, with a vacancy rate increase of 1.3 percentage points to 9.8 percent and rent growth of 2 percent. The apartment market is soft in Oklahoma City. Rent growth was 2 percent, and the vacancy rate rose 0.6 percentage point to 12.1 percent, the highest rate in the region.

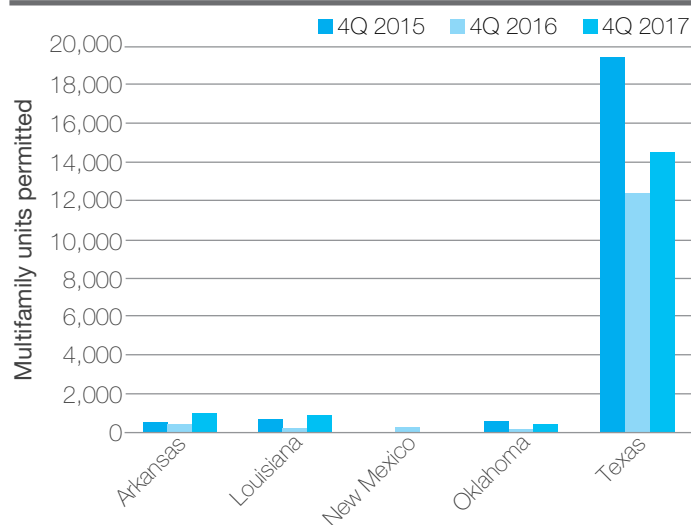
During the fourth quarter of 2017 (preliminary data)—

- Approximately 16,950 multifamily units were permitted in the region, a 26-percent increase from the 13,500 units permitted during the fourth quarter of 2016. Multifamily building activity has fallen from a recent average high of 20,600 units permitted annually during the fourth quarters of 2013 through 2015; however, building activity during the most recent quarter was above the prior fourth-quarter peak of 16,650 units permitted in 2006 just before the housing market downturn.
- Multifamily permitting activity in Texas, which accounted for approximately 85 percent of all multifamily units permitted in the region, increased by 2,125 units, or 17 percent, from the fourth quarter of 2016 to 14,475 units. Permitting increased by 310, 580 and 660 units, respectively, in Oklahoma, Arkansas, and Louisiana from the fourth quarter of 2016. In New Mexico, the number of units permitted fell by 220 units, to 80 units, during the same time.
- The greatest increases in multifamily permitting from the fourth quarter of 2016 occurred in the Austin and San Antonio markets,

which rose by 1,000 and 1,175 units, or 70 and more than 100 percent, respectively. Building activity in the Austin and San Antonio metropolitan areas has been generally elevated since 2012 and 2014, respectively, which has, in part, led to rising vacancy rates and rent growth that was the slowest among all major Texas metropolitan areas.

- The non-Texas metropolitan areas of Albuquerque, New Orleans, and Oklahoma City were the only major areas in the region in which multifamily permitting activity declined from the fourth quarter of 2016, down by 60, 5, and 70 units, respectively.

### Multifamily permitting activity in the Southwest region increased from the fourth quarter of 2016, led by Texas.



4Q = fourth quarter.

Note: Based on preliminary data.

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

### Despite increasing vacancy rates, most major apartment markets in the Southwest region remained balanced.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		4Q 2016 (%)	4Q 2017 (%)	Percentage Point Change	4Q 2016 (\$)	4Q 2017 (\$)	Percent Change
Albuquerque	Balanced	5.6	6.0	0.4	820	836	2
Austin	Balanced	9.1	9.5	0.4	1,201	1,214	1
Dallas	Balanced	8.4	9.7	1.3	1,095	1,159	6
Fort Worth	Balanced	6.6	8.1	1.5	979	1,019	4
Houston	Slightly soft	12.0	10.4	- 1.6	1,037	1,080	4
Little Rock	Slightly soft	8.5	9.8	1.3	723	735	2
New Orleans	Balanced	7.1	7.2	0.1	961	983	2
Oklahoma City	Soft	11.5	12.1	0.6	724	736	2
San Antonio	Balanced	10.4	10.9	0.5	945	973	3

4Q = fourth 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.