

HUD PD&R Regional Reports

Region 6: Southwest



Quick Facts About Region 6

Houston, Texas

By Robert Stephens | 1st quarter 2015



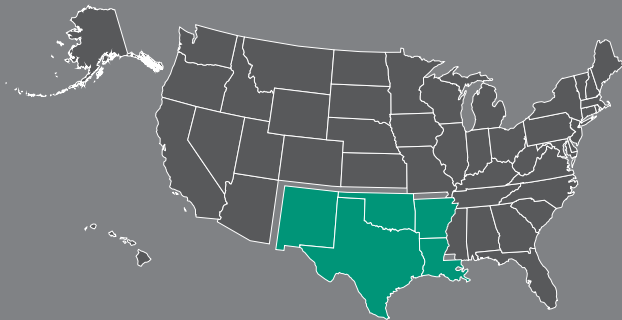
Sales market conditions—

- First quarter 2015: mixed (balanced to slightly tight).
- Fourth quarter 2014: mixed (balanced to slightly tight).
- First quarter 2014: mixed (balanced to slightly tight).



Apartment market conditions—

- First quarter 2015: mixed (slightly tight to slightly soft).
- Fourth quarter 2014: mixed (slightly tight to slightly soft).
- First quarter 2014: mixed (balanced to slightly soft).



Overview

Economic growth in the Southwest region that began in 2011 continued during the first quarter of 2015. Job gains occurred in every nonfarm payroll sector and every state in the region. Strong employment and population growth contributed to balanced conditions in most major sales housing and apartment markets in the region. Home sales and home sales prices increased in most markets, and apartment vacancy rates declined or remained low in several markets in the region.

During the first quarter of 2015—

- Nonfarm payrolls increased 2.6 percent, to 17.34 million jobs, from the first quarter of 2014, slightly below the 2.7-percent year-over-year job growth of the preceding quarter. Before this quarter, year-over-year payroll growth had accelerated each quarter since the first quarter of 2013.
- Home sales and prices increased in most major metropolitan areas in the region, led by strong growth in many Texas sales markets.
- Combined single-family and multifamily building activity in the region increased for the fourth consecutive year, to 48,850 units permitted, the highest first quarter level since 2007.



Nonfarm payroll growth in the Southwest region was broad based, with year-over-year growth in excess of 2 percent in most sectors.

	First Quarter		Year-Over-Year Change	
	2014 (thousands)	2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	16,898.0	17,340.3	442.3	2.6
Goods-producing sectors	2,697.5	2,772.2	74.7	2.8
Mining, logging, and construction	1,359.9	1,422.6	62.7	4.6
Manufacturing	1,337.7	1,349.7	12.0	0.9
Service-providing sectors	14,200.5	14,568.1	367.6	2.6
Wholesale and retail trade	2,622.1	2,694.0	71.9	2.7
Transportation and utilities	696.5	723.5	27.0	3.9
Information	273.8	279.5	5.7	2.1
Financial activities	940.9	964.8	23.9	2.5
Professional and business services	2,119.7	2,190.6	70.9	3.3
Education and health services	2,322.5	2,397.2	74.7	3.2
Leisure and hospitality	1,698.2	1,768.4	70.2	4.1
Other services	602.1	613.6	11.5	1.9
Government	2,924.7	2,936.3	11.6	0.4

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

Source: U.S. Bureau of Labor Statistics

Economic Conditions

Nonfarm payroll job growth in the Southwest region, which resumed in 2011 after 2 years of declines, accelerated during the first quarter of 2015. Nonfarm payrolls increased 2.6 percent, or by 442,300 jobs, to 17.34 million jobs compared with the number of jobs during the same quarter a year earlier. By comparison, during the first quarter of 2014, nonfarm payrolls grew 2.2 percent, or by 358,200 jobs, from the first quarter of 2013. The region has fully recovered from the national recession and surpassed the previous first quarter peak of 16.09 million jobs in 2008. Job growth occurred in every nonfarm payroll sector and several sectors experienced strong growth during the first quarter of 2015. The wholesale and retail trade, professional and business services, education and health services, and leisure and hospitality sectors each added in excess of 70,000 jobs. The highest rate of growth occurred in the mining, logging, and construction sector, which increased 4.6 percent, or by 62,700 jobs, and was helped by recent strength in the energy industry and increasing residential construction activity. Despite strong job growth during the most recent quarter, year-over-year gains in this sector slowed from a high of 6.4 percent during the preceding quarter, in part, because declining energy prices led some energy-related companies to reduce hiring.

During the first quarter of 2015—

- Nonfarm payrolls increased 3.2 percent, or by 360,600 jobs, in Texas, which accounted for more than 80 percent of job growth in the region. The construction subsector, boosted by a rising

The unemployment rate in the Southwest region declined for the third straight year and remained below the national rate.



1Q = first quarter.

Source: U.S. Bureau of Labor Statistics

number of statewide home sales during the past 3 years, grew at the highest rate, increasing by 43,500 jobs, or 7.0 percent.

- Nonfarm payrolls in Arkansas, Louisiana, New Mexico, and Oklahoma grew 2.2, 1.0, 1.6, and 1.4 percent, respectively. Approximately 90 percent of the growth in these states occurred in the service-providing sectors, led by the leisure and hospitality, education and health services, and professional and business services sectors.

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- Payroll growth in the mining and logging subsector, which has been affected by the recent declines in oil and gas prices, slowed in every state in the region from the first quarter of 2014, with payrolls in Arkansas and Louisiana, the only two states in the region to lose jobs in this subsector, declining by 200 and 3,600 jobs, or 1.9 and 6.6 percent, respectively.

Population

The population of the Southwest region increased by 502,900, or 1.3 percent, from July 2013 to July 2014, similar to the growth rates during the preceding 2 years (Census Bureau population estimates as of July 1). The region accounted for approximately 13 percent of the total population in the nation in July 2014 but 18 percent of the nation's total population growth from July 2010 to July 2014. Every state in the region except New Mexico added population during this time, but approximately 86 percent of the growth occurred in Texas, which experienced strong, sustained net in-migration resulting primarily from solid job gains that outpaced growth in much of the rest of the nation.

During the 12 months ending July 1, 2014—

- Texas added the most population of every state in the nation and had the third highest rate of population growth in the nation, behind only North Dakota and Nevada.
- New Mexico was the only state in the Southwest region and one of only six states in the nation to record a decline in population;

- The unemployment rate in the region declined to 4.8 percent compared with the rate of 5.7 percent recorded during the first quarter of 2014 and declined by at least 0.7 percentage points in every state in the region except Louisiana, where the rate increased by 0.9 percentage points because large increases in the labor force exceeded resident employment growth in most parts of the state.

net out-migration of 11,250 people, which was the third most in the nation, more than offset a net natural increase of 9,950 people.

- Net in-migration slowed for all states in the Southwest region from the previous year and accounted for 5, 38, and 54 percent of total population growth in Louisiana, Oklahoma, and Texas, respectively, down from 18, 46, and 56 percent a year earlier. Arkansas recorded modest net out-migration of 1,225 people that was offset by a net natural increase of 8,825.
- Austin, the fastest growing metropolitan area in the region, with a 3.0-percent population increase, is also the third fastest growing in the nation and the fastest among metropolitan areas with more than 500,000 people. Midland and Odessa, Texas, which have benefited from the recent strength in the oil and gas industry, are also among the 10 fastest growing metropolitan areas in the nation.

The population of Texas was the fastest growing in the Southwest region and third fastest growing in the nation.

	Population Estimate (as of July 1)			Percent Change	
	2012	2013	2014	2012 to 2013	2013 to 2014
United States	314,112,078	316,497,531	318,857,056	0.8	0.7
Southwest	39,550,119	40,033,699	40,536,626	1.2	1.3
Arkansas	2,949,300	2,958,765	2,966,369	0.3	0.3
Louisiana	4,604,744	4,629,284	4,649,676	0.5	0.4
New Mexico	2,084,594	2,086,895	2,085,572	0.1	- 0.1
Oklahoma	3,817,059	3,853,118	3,878,051	0.9	0.6
Texas	26,094,422	26,505,637	26,956,958	1.6	1.7

Source: U.S. Census Bureau

Sales Market Conditions

Sales housing market conditions ranged from balanced to slightly tight in most major metropolitan areas in the Southwest region during the first quarter of 2015. The number of new and existing home sales in Texas increased by 10,150, or 4 percent, to 287,800 homes sold during the 12 months ending March 2015 compared with the number sold during the same 12 months a year earlier. Growth slowed significantly from an average of 16 percent annually during the 12 months ending March 2013 and March 2014.

Despite the slowdown in new and existing home sales, the average sales price of new and existing homes in Texas increased 6 percent, to \$242,800, and the inventory of unsold homes declined from a 3.8- to a 3.5-month supply during the same period. Increases in home sales and prices occurred in most major markets throughout the region during the past year. Home sales prices increased most rapidly in Fort Worth, where prices rose 10 percent, to \$182,200, during the 12 months ending March 2015. Little Rock

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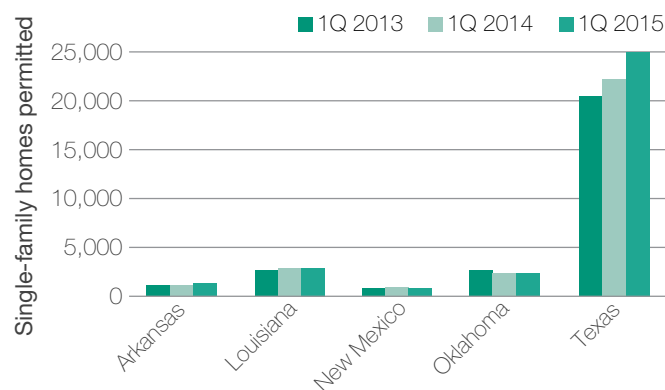
was the only major market in the region to record a decline in home sales prices; the average price fell 2 percent, to \$171,500, during the 12 months ending February 2015. Albuquerque was the only major market in the region to record a decline in the number of new and existing homes sold. Home sales declined by 180, or 2 percent, to 8,600 homes sold during the 12 months ending March 2015; despite accounting for only 9 percent of all homes sold, townhomes and condominiums accounted for approximately 40 percent of the recent decline in sales.

During the first quarter of 2015 (preliminary data)—

- Approximately 32,200 single-family homes were permitted in the region, a 9-percent increase compared with the number permitted during the first quarter of 2014. By comparison, the number of single-family homes permitted in the region averaged 49,800 during the first quarters of 2004 through 2007 before declining to average 22,150 homes during the first quarters of 2008 through 2014.
- Compared with permitting activity during the first quarter of 2014, the number of single-family homes permitted in Texas increased by 2,475, or 11 percent, to 24,850 homes. Permitting activity increased by 200, 50, and 110 homes, respectively, in Arkansas, Louisiana, and Oklahoma and declined by 100 homes in New Mexico from the first quarter of 2014.

- In response to strong employment growth, single-family building activity increased from the first quarter of 2014 in every major market in the Southwest region, except Albuquerque and New Orleans, and was led by an increase of 1,575 homes, or 30 percent, in the Dallas-Fort Worth-Arlington metropolitan area.

Gains in Texas led the increase in the number of single-family homes permitted in the Southwest region.



1Q = first quarter.

Note: Based on preliminary data.

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

Home sales and prices increased in most major metropolitan areas in the Southwest region, with the strongest price growth in the Texas and Oklahoma markets.

	12 Months Ending	Number of Homes Sold			Average or Median	Price		
		2014	2015	Percent Change		2014 (\$)	2015 (\$)	Percent Change
Albuquerque (N&E)	March	8,775	8,600	-2	AVG	211,000	214,200	2
Austin (N&E)	March	30,600	31,300	2	AVG	290,200	311,400	7
Dallas (N&E)	March	59,600	60,300	1	AVG	252,100	268,300	6
Fort Worth (N&E)	March	10,950	11,800	8	AVG	165,500	182,200	10
Houston (N&E)	March	81,650	83,400	2	AVG	250,600	268,400	7
Little Rock (N&E)	February	8,325	8,675	4	AVG	174,700	171,500	-2
New Orleans (N&E)	January	9,600	10,200	6	AVG	222,400	222,700	0
Oklahoma City (N&E)	March	19,600	20,650	5	AVG	173,100	184,500	7
San Antonio (N&E)	March	24,350	26,150	7	AVG	209,000	219,800	5

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

Note: Includes single-family homes, townhomes, 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

Apartment Market Conditions

Apartment market conditions in large metropolitan areas in the Southwest region ranged from slightly tight to slightly soft during the first quarter of 2015; however, most markets were balanced. Among major Texas markets, San Antonio remained slightly soft, with a vacancy rate of 10.5 percent during the first quarter of 2015,

up 0.7 percentage points from the first quarter of 2014. Rents in San Antonio increased 5 percent, to \$874, during the same period. The average rent in Austin was up 7 percent, to \$1,108, and the market was balanced, despite a vacancy rate increase of 1.4 percentage points, to 9.4 percent, caused in part by the many

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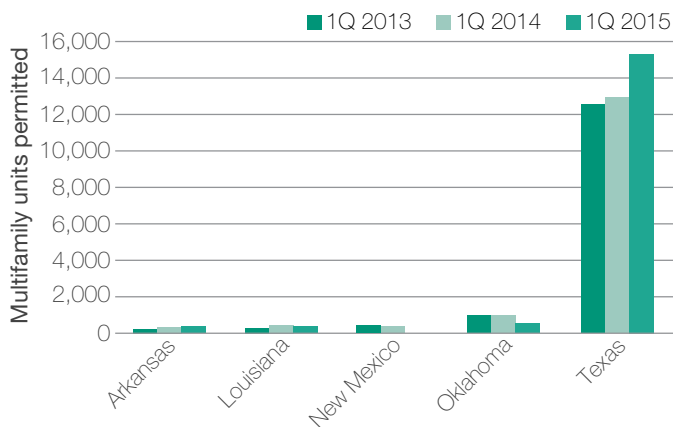
projects in lease up. Other Texas markets were balanced, including Houston, which experienced the most rent growth among all major markets in the region. Rents in Houston increased 8 percent despite a 0.3-percentage-point increase in the vacancy rate, to 8.7 percent, in part because of a large number of recently completed, higher priced units. Outside Texas, apartment vacancy rates declined in most major markets during the first quarter of 2015. Apartment market conditions are slightly tight in Albuquerque and are balanced in Little Rock, Oklahoma City, and New Orleans; rent growth in these four markets was modest and ranged from 1 to 2 percent.

During the first quarter of 2015 (preliminary data)—

- Approximately 16,650 multifamily units were permitted in the region, a 9-percent increase from the number of units permitted during the first quarter of 2014. By comparison, the number of multifamily units permitted averaged 6,125 during the first quarters from 2009 through 2011 before increasing to average 14,450 during the first quarters from 2012 through 2014.
- Multifamily permitting activity in Texas, which accounted for approximately 93 percent of all multifamily units permitted in the region, increased by 1,475 units, or 18 percent, from the first quarter of 2014, to 15,350 units. Permitting activity remained relatively unchanged in Arkansas at 410 units and declined in Louisiana, New Mexico, and Oklahoma by 150, 300, and 470 units, respectively, from the first quarter of 2014.

- Multifamily permitting activity declined or was relatively unchanged in most major markets in the Southwest region from the first quarter of 2014; the greatest decline, of 1,180 units, or 85 percent, occurred in San Antonio as builders responded to softening market conditions. These declines were more than offset by large increases in the number of multifamily units permitted in the Austin-Round Rock and Dallas-Fort Worth-Arlington metropolitan areas, which grew by 1,575 and 1,600 units, respectively.

Texas accounted for nearly all the increase in multifamily units permitted in the Southwest region.



1Q = first quarter.

Note: Based on preliminary data.

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

Apartment market conditions in major metropolitan areas in the Southwest region were mostly balanced but ranged from slightly tight to slightly soft.

	Market Condition	Vacancy Rate			Average Monthly Rent		
		1Q 2014 (%)	1Q 2015 (%)	Percentage Point Change	1Q 2014 (\$)	1Q 2015 (\$)	Percent Change
Albuquerque ^a	Slightly tight	3.9	2.7	- 1.2	759	769	1
Austin ^b	Balanced	8.0	9.4	1.4	1,035	1,108	7
Dallas ^b	Balanced	7.8	8.2	0.4	915	977	7
Fort Worth ^b	Balanced	7.8	7.6	- 0.2	798	852	7
Houston ^b	Balanced	8.4	8.7	0.3	904	979	8
Little Rock ^a	Balanced	6.7	6.6	- 0.1	699	712	2
New Orleans ^a	Balanced	5.9	5.4	- 0.5	919	936	2
Oklahoma City ^a	Balanced	5.2	5.2	0.0	600	612	2
San Antonio ^b	Slightly soft	9.8	10.5	0.7	835	874	5

1Q = first quarter.

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