

# Housing Market Profile



Southwest • HUD Region VI

## Houston-Sugar Land-Baytown, Texas

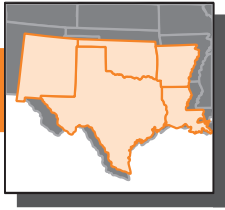
The Houston-Sugar Land-Baytown metropolitan area, which encompasses 10 counties in the Gulf Coast region of southeastern Texas, is the sixth largest metropolitan area in the United States. Among metropolitan areas with at least 1 million residents, it is the third fastest growing metropolitan area in the nation. As of July 1, 2010, the population of the metropolitan area was estimated at 6 million, which represents an average annual increase of 137,200, or 2.6 percent, since July 1, 2005. More than 55 percent of this population increase was due to net in-migration into the area. During the 12 months ending June 2010, population growth slowed to 118,100, or 2 percent, compared with 140,800, or 2.5 percent, during the previous 12-month period, due to continued job losses. Harris County, which contains the primary city of Houston, is home to approximately 70 percent of the metropolitan area's population.

Nonfarm employment began to decline in the metropolitan area in early 2009, after nearly 5 years of growth. Total nonfarm employment decreased by 78,700 jobs, or 3 percent, during the 12 months ending May 2010, after remaining unchanged during the previous 12 months. Job losses were widespread during the 12 months ending May 2010, with employment declining in most sectors. The largest job losses occurred in the mining, logging, and construction sector, which declined by 29,300 jobs, or 10.1 percent, as construction of new homes in the area slowed. The professional and business services sector also declined, losing 25,200 jobs, or 6.7 percent. Administristaff, Inc., an administrative staffing firm that serves as a full-service human resources department for small and medium-sized businesses and is the third largest employer in the area, recorded an employment decline of 15 percent to 17,500 employees, during the 12 months ending May 2010. Other sectors that declined by more than 10,000 jobs include the manufacturing sector, which lost 20,700 jobs, or 8.6 percent, and the trade sector, which lost 10,800 jobs, or 2.7 percent. Wal-Mart Stores, Inc., the largest employer in the area with 30,550 employees, recorded an employment decline of 4 percent during the 12 months ending May 2010. The only sector to record growth of more than 10,000 jobs was the education and health services sector, which grew by 12,700 jobs, or 4.4 percent. This sector includes, 3 of the 10 largest employers in the area, including the second largest

employer, Memorial Hermann Healthcare System, which grew by 4 percent to 21,000 employees during the past 12 months. Reflecting overall job losses, the unemployment rate increased from 5.9 to 8.3 percent during the 12 months ending May 2010.

Home sales market conditions in the Houston-Sugar Land-Baytown metropolitan area are soft. The sales vacancy rate is currently estimated at 3.5 percent, up from 2.9 percent in July 2008. Recent job losses in the metropolitan area and tight lending standards have combined to reduce demand for single-family homes. According to the Real Estate Center at Texas A&M University, during the 12 months ending May 2010, 62,650 homes were sold, representing a 6-percent increase from the 58,950 homes sold during the previous 12-month period. Home sales are still more than 20 percent below the peak level of 81,750 homes sold during the 12 months ending February 2007. During the past 5 years, home sales have averaged 70,650 homes annually. During the 12 months ending May 2010, the level of unsold housing inventory continued to increase slightly from a 6.4- to a 6.6-month supply. Unsold housing inventory is at the highest level since 2000 and is well above the 5.4-month supply average recorded between 2000 and 2007. Despite the soft home sales market, the average home sales price increased 2 percent to \$204,800 during the 12 months ending May 2010. The average sales price had declined by 2 percent during the 12-month period ending May 2009. The average current sales price remains approximately 2 percent below the peak level of \$208,000 recorded during the 12 months ending September 2008. According to Lender Processing Services Mortgage Performance data for May 2010, 5.6 percent of the total loans in the metropolitan area were in foreclosure, 90 days or more delinquent, or in REO (Real Estate Owned), representing an increase from the 4.6-percent rate recorded in May 2009.

Single-family home construction activity, as measured by the number of single-family building permits issued, has started to increase after a large decline as builders responded to decreasing sales. During the 12 months ending May 2010, permits were issued for 25,100 single-family homes, according to preliminary data, which is an increase of approximately 14 percent when compared with the number of permits issued during the previous 12 months. After peaking at 55,700 homes permitted during the 12 months ending September 2006, single-family home construction activity has steadily declined to a low of 20,800 homes permitted during the 12 months ending August 2009.



Several new subdivisions are currently under construction or in development in the metropolitan area. One of the fastest growing areas continues to be Cinco Ranch, a 7,600-acre, mixed-use master-planned community (MPC) in the Greater Katy area, located approximately 40 miles west of Houston. According to a survey by Robert Charles Lesser & Co., an independent real estate advisory firm, Cinco Ranch was the fastest growing MPC in the nation in 2009, with approximately 890 new home sales. Sales prices range from \$190,000 to \$1 million, with an average sales price of \$300,000. Other growing communities in the Houston area include The Woodlands, an MPC in Montgomery County (located about 30 miles north of downtown Houston) and Telfair, a 2,000-acre MPC in Sugarland (located about 20 miles southwest of Houston), which ranked as the second and fourth fastest growing communities in the nation, with approximately 630 and 450 new home sales, respectively.

The rental market in the metropolitan area is currently soft. Production of new multifamily units, as measured by the number of unit permitted, reached record highs in 2005 and 2006, when evacuees from Hurricane Katrina relocated to the area. Multifamily production peaked at 21,500 units during the 12 months ending October 2007 as economic growth

began to slow. Approximately 90 percent of multifamily units permitted in the metropolitan area since 2005 were estimated to be rental units. Since 2007, economic conditions have worsened and in-migration to the area has slowed as some of the Katrina evacuees have returned to Louisiana, which has reduced the demand for new rental units. According to ALN Systems, Inc., the apartment vacancy rate was 14.3 percent during the 12 months ending June 2010, which is up from 11.5 percent during the previous 12 months. The rental vacancy rate reached a low of 8.1 percent during the 12 months ending August 2006, when approximately 130,000 evacuees from Hurricane Katrina entered the rental market. Average monthly rents increased 1 percent to \$790 during the 12 months ending June 2010, which represents the smallest increase in any 12-month period since 2005.

Multifamily construction activity has slowed significantly in the past 2 years because builders responded to softening market conditions. Based on preliminary data, permits were issued for approximately 4,425 units during the 12 months ending May 2010, representing a decline of nearly 60 percent compared with the number of permits issued during the 12-month period ending May 2009.