

1st Quarter 2009



# U.S. Housing Market Conditions

## SOUTHWEST REGIONAL REPORT HUD Region VI



### 1st Quarter Activity

The following summary of the Southwest region's housing market conditions and activities has been prepared by economists in the U.S. Department of Housing and Urban Development's (HUD's) field offices. The report provides overviews of economic and housing market trends within the Southwest region. The report is based on information obtained by HUD economists from state and local governments, from housing industry sources, and from their ongoing investigations of housing market conditions carried out in support of HUD's programs.

Economic expansion in the Southwest region, which began in 2004, slowed significantly during the first quarter of 2009. During the 12 months ending March 2009, average nonfarm employment increased by 157,000 jobs, or 1 percent, to 16.2 million jobs, compared with a growth rate of 421,000 jobs, or 2.7 percent, during the 12 months ending March 2008. The education and health services sector recorded the largest job growth among employment sectors in the region, adding 65,000 jobs, or 3.3 percent, led by the gain in Texas of 45,000 jobs, or 3.6 percent. The government sector was up 55,000 jobs, or 1.9 percent, and all states recorded increased employment in the sector. Employment in the natural resources

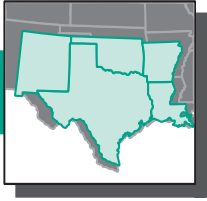
and mining sector rose by 29,000 jobs, or 8.3 percent, and the leisure and hospitality sector added 28,000 jobs, a gain of 1.8 percent. Gains in both sectors were recorded in nearly every state but were concentrated in Texas, which added more than 20,000 jobs in each sector. During the past 12 months, softening housing and commercial building markets have resulted in an increase of only 7,000 jobs in the construction sector, up less than 1 percent compared with a gain of more than 47,000 jobs, or 5 percent, during the previous 12 months. The manufacturing sector lost 40,000 jobs; every state in the region recorded declining employment in the sector. Employment in the information sector was down by nearly 7,000 jobs.

Texas employers added 130,000 jobs, an increase of 1.2 percent, during the 12 months ending March 2009, accounting for more than 80 percent of the total growth in nonfarm employment in the region. During the same period, employers in Louisiana added 20,000 jobs, a 1-percent gain compared with the number of jobs during the previous 12-month period. Job gains of more than 3 percent each in the construction and the education and health services sectors more than offset losses in the manufacturing and trade sectors. Employment in Oklahoma increased



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by 17,000 jobs, or 1.1 percent, led by the addition of 4,200 jobs in the education and health services sector and 3,700 jobs in the leisure and hospitality sector. The natural resources and mining, construction, and government sectors also added more than 3,000 jobs each during the past 12 months. During the same period, employment in New Mexico decreased by 2,300 jobs, or less than 1 percent; the decline was the first loss recorded in the state during this decade, and most employment sectors recorded a small decrease. Employment in Arkansas fell by 7,400 jobs, mostly in the manufacturing, trade, and transportation and utilities sectors. Arkansas is the only state in the region where employment in the manufacturing sector has been steadily declining for more than 5 years. For the 12 months ending March 2009, the region recorded a significant increase in unemployment to 5.3 percent up from 4.2 percent for the previous 12 months. Within the region, average unemployment rates ranged from 4.4 percent in Oklahoma to 5.6 percent in Arkansas, with New Mexico, Louisiana, and Texas at 4.6, 5.0, and 5.5 percent, respectively.

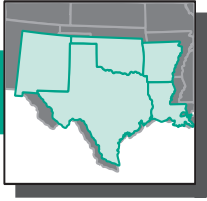
Home sales continued to decline in Texas from the record highs recorded during 2006 and 2007 and are currently at their lowest levels since mid-2004. According to data from the Real Estate Center at Texas A&M University, during the 12 months ending March 2009, approximately 219,500 homes were sold in Texas, down 19 percent from the number sold during the previous 12 months and down 25 percent from the record-setting level recorded during the 12 months ending February 2007. During the 12 months ending March 2009, the average home sales price in the state declined 2 percent to \$189,900, the first statewide decline recorded in the decade. Prices increased by 1 percent in San Antonio and Beaumont to \$183,000 and \$148,300, respectively. Bryan-College Station recorded a home price increase of 4 percent to \$168,100, while Dallas recorded a decrease of 4 percent to \$210,200. The average price declined by 1 percent in both Houston and Fort Worth to \$202,600 and \$142,600, respectively. The average price also decreased 1 percent in Austin but remains the highest in the region, at \$243,800. The average price fell by more than 3 percent in both McAllen and Harlingen, to \$124,700 and \$107,400, respectively. During the past year, the average price dropped nearly 19 percent to \$122,600 in Brownsville but remained virtually unchanged at \$133,500 in El Paso.

Home sales declined by double-digit percentages in a number of markets elsewhere in the region. According to the New Orleans Metropolitan Association of REALTORS®, during the 12 months ending March 2009, the number of homes sold in the metropolitan area was down by 25 percent to 8,100 and the average

price was down approximately 2 percent to \$204,400. In Baton Rouge, based on data from the Greater Baton Rouge Association of REALTORS®, the number of homes sold also decreased by 25 percent, to 6,900, but the average price was unchanged at \$199,300. The Greater Albuquerque Association of REALTORS® reports that the number of homes sold in Albuquerque was down 27 percent to 6,400 homes, nearly 50 percent below the peak sales level recorded in mid-2006. Although Albuquerque recorded a decline of nearly 7 percent from the average home price for the previous year, the city's \$227,600 average home price for the 12 months ending March 2009 is the second highest average price in the Southwest region. According to the Arkansas REALTORS® Association, during the 12 months ending February 2009, the number of homes sold in the state declined by 17 percent to 23,500 and the average price declined by 3 percent to \$150,000. Home price declines were even more significant in the major metropolitan areas in Arkansas, falling by approximately 5 percent in both Little Rock and Fayetteville to \$161,600 and \$180,500, respectively. According to the Oklahoma City Metropolitan Association of REALTORS®, during the 12 months ending March 2009, the number of homes sold in Oklahoma City was down 18 percent to 15,750, and the average price was relatively unchanged at \$152,400. In Tulsa, according to the Greater Tulsa Association of REALTORS®, the number of homes sold declined by 13 percent to 10,950, but the average price increased 2 percent to \$158,200.

In the Southwest region, declining demand and an increased inventory of unsold homes resulted in decreased single-family construction activity, as measured by the number of building permits issued. During the 12 months ending March 2009, a total of 96,550 single-family permits were issued in the region, a decline of 48,700 permits, or 34 percent, compared with the number issued during the 12 months ending March 2008. Declines ranged from 32 percent in Arkansas and Louisiana to 42 percent in New Mexico. Oklahoma and Texas both recorded declines of approximately 34 percent.

Rental housing market conditions remained soft in the largest metropolitan areas in Texas. According to ALN Systems, Inc., during the 12 months ending March 2009, the apartment vacancy rate in Austin was 9.8 percent, up from 6.6 percent during the 12 months ending March 2008. During the most recent 12-month period, the average rent in Austin increased by 5 percent to \$866. In Dallas, the apartment vacancy rate increased from 9.4 to 10 percent and the average rent increased by 3 percent to \$818. In Fort Worth and Houston, rental housing markets remain very soft, with vacancy rates of 11.5 and 11.6



percent, respectively. During the 12 months ending March 2009, the average rent increased by 3 percent to \$721 in Fort Worth and by 6 percent to \$775 in Houston; the rent increase in Houston reflected a large number of recent apartment completions. In San Antonio, the vacancy rate was 10.6 percent and the average rent increased by 3 percent to \$723 during the 12 months ending March 2009. Corpus Christi had one of the lowest vacancy rates in Texas, at 8 percent, and an average rent of \$712 during the period.

Rental housing market conditions remained mixed in other large metropolitan areas throughout the Southwest region. The rental market in Albuquerque has begun to soften in recent months. According to Reis, Inc., the apartment vacancy rate in Albuquerque increased to 6.6 percent in the first quarter of 2009, up from 5.1 percent in the first quarter of 2008, and the average rent increased 3 percent to \$709. Rental market conditions in New Orleans have changed substantially. During the first quarter of 2009, the apartment rental vacancy rate increased to 9.3 percent, nearly double the 4.9-percent rate recorded during the first quarter of 2008, because nearly 2,500 newly constructed and substantially rehabilitated apartment units entered the market. During the past year, the average rent in New Orleans was flat at \$858. In Little Rock, for the first quarter of 2009, the apartment

vacancy rate was 7.2 percent, up from 6.8 percent for the first quarter of 2008, and the average rent increased by 2 percent to \$639. In Oklahoma City, for the first quarter of 2009, the apartment vacancy rate rose to 8.9 percent from 8.2 percent for the first quarter of 2008 and the average rent increased by 3 percent to \$545. In Tulsa, during the first quarter of 2009, the vacancy rate declined to 8.3 percent from 8.5 percent during the same quarter a year ago, but the average rent increased by 4 percent to \$580.

As a result of soft apartment markets in many large metropolitan areas, multifamily construction activity, as measured by the number of units permitted, decreased in the Southwest region during the 12 months ending March 2009. The 49,000 units permitted during the period reflect a 31-percent decrease compared with the number of units permitted during the previous 12-month period. During the past 12 months, Arkansas was the only state in the region to record an increase in the number of multifamily units permitted, up 5 percent, or 170 units, to 3,350. Texas recorded a 32-percent decrease in the number of multifamily units permitted, down 18,350 units to 40,000. In the other states in the region, declines in the number of units permitted ranged from 24 percent in New Mexico to 35 and 54 percent in Louisiana and Oklahoma, respectively.