



U.S. Housing Market Conditions



SOUTHWEST REGIONAL REPORT HUD Region VI

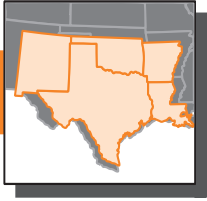
2nd Quarter Activity

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 conditions in the Southwest region were flat during the second quarter of 2009. During the 12 months ending June 2009, average nonfarm employment decreased by 5,000 jobs, virtually unchanged at 16.1 million jobs. In contrast, during the 12 months ending June 2008, nonfarm employment in the region grew by 2.5 percent, or 394,000 jobs. During the past year, gains in four employment sectors, totaling 156,000 jobs, were offset by losses in eight sectors, totaling 161,000 jobs. The education and health services sector recorded the largest growth among employment sectors in the region, adding 70,000 jobs, an increase of 3.5 percent, led by the gain in Texas of 52,000 jobs, or 4.1 percent. The government sector was up 54,000 jobs, or 1.9 percent,

and all states in the region recorded increased employment in the sector. Employment in the leisure and hospitality sector increased by 18,000 jobs, or 1.2 percent, and the natural resources and mining sector added 14,000 jobs, a gain of 4 percent. Nearly every state recorded job gains in both of these sectors, but growth was concentrated in Texas, which added more than 11,000 jobs in each sector. During the past 12 months, softening housing and commercial markets have resulted in a decrease of 23,000 jobs, or 2.3 percent, in the construction sector, compared with a gain of 46,000 jobs, or 5 percent, during the previous 12 months. The manufacturing sector lost 66,000 jobs, or 4.5 percent; every state in the region recorded declining employment in the sector.

Despite overall job losses in the Southwest region, during the 12 months ending June 2009, employment remained relatively stable in Texas, where employers added only 9,000 jobs. During the same period, employers in Louisiana added 8,000 jobs, a 0.4-percent gain compared with the number of jobs in the state during the previous 12-month period. In Louisiana, job gains of more than 3 percent each in the construction and the education and health services sectors nearly offset losses of 11,000 jobs combined in the manufacturing



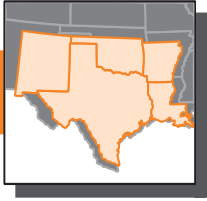
and trade sectors. In Oklahoma, during the 12 months ending June 2009, employment also remained relatively stable, increasing by a net of only 2,000 jobs, led by the addition of 3,500 jobs in the leisure and hospitality sector and 5,300 jobs in the government sector, which offset losses in other sectors. During the same period, employment in New Mexico decreased by 9,700 jobs, or 1.1 percent; the decline was a continuation from the first quarter of 2009, which represented the first period of job loss recorded in the state during this decade. In Arkansas, employment declined by 14,800 jobs, mostly in the manufacturing, trade, and transportation and utilities sectors, which accounted for nearly 80 percent of the loss. For the 12 months ending June 2009, the region recorded a significant increase in the unemployment rate to 5.9 percent compared with 4.3 percent for the previous 12 months. In the region, average unemployment rates ranged from a low of 5.1 percent in Oklahoma to a high of 6.1 percent in both Arkansas and Texas; New Mexico and Louisiana recorded rates of 5.3 and 5.7 percent, respectively.

Sales housing markets in the Southwest region were soft during the second quarter of 2009 as slowing economic conditions led to declines in the number of homes sold and an increase in the inventory of unsold homes. During the same quarter, home sales continued to decline in Texas 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 June 2009, approximately 207,500 homes were sold in Texas, down 19 percent from the number sold during the previous 12 months and down 29 percent from the decade-high sales volume level recorded during 2007. During the past 12 months, the number of homes sold declined in all major Texas markets and the number of months of unsold inventory in the state increased approximately 12 percent, from 6.2 to 6.9. During the 12 months ending June 2009, the average home sales price in the state decreased 3 percent to \$187,200, accelerating price declines that began in late 2008. In Dallas, which recorded the largest drop in average home price among major Texas markets, the average price fell 5 percent to \$204,000 and continued a trend of price declines that began in mid-2008. The average price decreased by 4 percent in Fort Worth to \$140,300, by 3 percent in Austin to \$240,100, and by 2 percent in both El Paso and Houston to \$156,900 and \$200,200, respectively. Despite the overall price decline in the state, both the Bryan-College Station and Beaumont areas recorded home price increases of 4 percent to \$169,100 and \$151,400, respectively. The average price of homes sold in San Antonio remained essentially unchanged at \$181,600.

Home sales decreased by double-digit percentages in a number of markets elsewhere in the region. According to the New Orleans Metropolitan Association of REAL-

TORS®, during the 12 months ending June 2009, sales in New Orleans were down 22 percent to 7,800 homes and the average price dropped approximately 2 percent to \$202,900. Based on data from the Greater Baton Rouge Association of REALTORS®, during the 12 months ending June 2009, the number of sales in Baton Rouge decreased 24 percent to 6,525 homes and the average price declined approximately 5 percent to \$193,800. The Greater Albuquerque Association of REALTORS® reports that, during the 12 months ending June 2009, the number of sales in Albuquerque was down 22 percent to 6,150 homes, approximately 50 percent below the peak sales level recorded in mid-2006, and the average price declined by 9 percent to \$220,000, continuing a pattern of accelerating decreases that began in mid-2008. According to the Arkansas REALTORS® Association, during the 12 months ending May 2009, home sales in the state declined by 16 percent to 22,700 homes and the average price dropped by 2 percent to \$151,200. Home prices were down by approximately 3 percent in Little Rock to \$160,700 and by 9 percent in Fayetteville to \$174,000. According to the Oklahoma City Metropolitan Association of REALTORS®, during the 12 months ending June 2009, the number of homes sold in Oklahoma City was down 15 percent to 15,350 and the average price declined 2 percent to \$150,700. According to the Greater Tulsa Association of REALTORS®, home sales in Tulsa declined 10 percent to 10,700 and the average price decreased 3 percent to \$151,700. 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 June 2009, 83,350 single-family homes were permitted in the region, a decline of 48,350 homes, or 37 percent, compared with the number permitted during the previous 12 months. Texas recorded a decrease of 37 percent in the number of single-family homes permitted, down 34,850, to 60,600 homes. In other states in the region, declines ranged from 34 percent in New Mexico to 39 percent in Louisiana. Oklahoma and Arkansas recorded declines of 36 and 37 percent, respectively.

During the past year, rental housing market conditions continued to soften in the largest metropolitan areas in Texas because builders only recently responded to declining job growth by reducing construction activity. According to ALN Systems, Inc., the apartment vacancy rate in Austin was 10.9 percent for the 12 months ending June 2009, up from 7 percent for the 12 months ending June 2008. During the most recent 12-month period, the average rent in Austin increased 4 percent to \$870. During the same period, in Dallas, the apartment vacancy rate increased from 9.2 to 10.6 percent and the average rent increased 3 percent to \$820. Rental markets in Fort Worth and Houston remain very soft, with vacancy rates of 11.9 and 11.7 percent, respectively.



The average rent increased by 2 percent in Fort Worth to \$720 and by 4 percent in Houston to \$780. The rent increase in Houston is partly due to the more than 19,000 rental units completed there during the past 12 months, generally leasing at rents well above the average. During the 12 months ending June 2009, the vacancy rate in San Antonio rose to 11.3 percent from 9.5 percent during the previous 12-month period and the average rent increased 3 percent to \$730. During the past year, Corpus Christi had one of the lowest vacancy rates in Texas, at 8.2 percent, and had an average rent of \$710.

Rental housing market conditions were soft 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., during the second quarter of 2009, the apartment vacancy rate in Albuquerque increased to 7.1 percent, from 5.5 percent during the same quarter a year earlier, and the average rent increased 1 percent to \$710. In Little Rock, during the second quarter of 2009, the apartment vacancy rate was 8.7 percent, up from 6.9 percent a year ago and the average rent increased by 1 percent to \$640. In Oklahoma City, during the second quarter of 2009, the apartment vacancy rate rose to 9.6 percent, up from 8.1 percent during the same quarter a year earlier, and the average rent increased 2 percent to \$540. In Tulsa, the vacancy

rate increased to 8.9 percent, up from 8.1 percent a year ago, and the average rent rose by 1 percent to \$580. According to the *Greater New Orleans Multi-Family Report*, rental market conditions in New Orleans changed substantially during the second quarter of 2009; the apartment rental vacancy rate increased to 13 percent, more than double the 6-percent rate recorded during the same quarter a year ago, due to the completion of up to 3,000 newly constructed and substantially rehabilitated apartment units. During the past year, the average rent in New Orleans decreased 2 percent to \$842.

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 June 2009. The 41,150 units permitted during the past 12 months reflect a 38-percent decline compared with the number of units permitted during the previous 12-month period. The number of multifamily units permitted in Texas declined 41 percent, down 22,900 units to 32,450. Louisiana recorded a decline of 38 percent, or 1,850 units, to 3,025 units permitted. In the other states in the region, declines in the number of multifamily units permitted ranged from 5 percent in Oklahoma to 12 and 36 percent in Arkansas and New Mexico, respectively.