

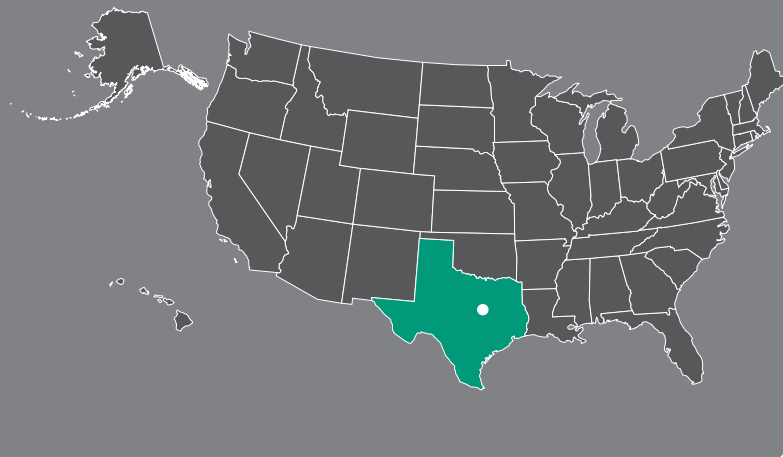
HUD PD&R Housing Market Profiles

Waco, Texas



Quick Facts About Waco

- Current sales market conditions: balanced
- Current apartment market conditions: slightly tight
- The oldest soft drink in the United States, Dr Pepper, was invented in the city of Waco in the 1880s by local pharmacist Charles Alderton. In homage to the drink, the city is home to the Dr Pepper Museum & Free Enterprise Institute.



By Andrew Cross | As of April 1, 2023

Overview

The Waco metropolitan area is in central Texas and consists of McLennan and Falls counties. The city of Waco, located in McLennan County, is halfway between Dallas and Austin and a 90-minute drive from both cities. The Magnolia Market, the home décor shop owned by Chip and Joanna Gaines, stars of the HGTV show *Fixer Upper*, is located in Waco and is a major tourist destination attracting numerous visitors each year. Waco is also home to Baylor University, with 20,700 students enrolled during the fall of 2022.

- As of April 1, 2023, the population of the Waco metropolitan area is estimated at 286,300, representing an average increase of 2,900 people, or 1.0 percent, annually since April 2020, with net in-migration averaging 2,450 people annually.
- By comparison, from July 2014 through April 2020, population growth averaged 2,950 people, or 1.1 percent, annually, with net in-migration averaging 1,625 people annually. The advent of remote work and relatively affordable housing contributed to increased in-migration since 2020 because demand was elevated during the pandemic.

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- Baylor University, the oldest continually operating university in Texas, is the largest employer in the Waco metropolitan area, with 5,700 employees, an estimated \$84.5 million

spent in the local economy, and \$325 million in salary and wages for faculty and staff during 2022 (Baylor University Social and Economic Impact Report 2021–2022).

Economic Conditions

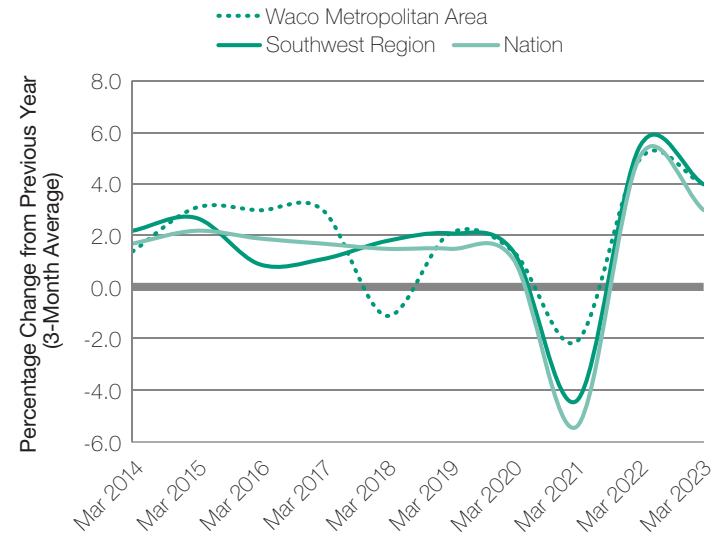
Economic conditions in the Waco metropolitan area are currently strong. During the first quarter of 2023, nonfarm payrolls totaled 134,500, increasing by 5,200, or 4.0 percent, from 1 year ago. Nonfarm payrolls have increased following a sharp decline of 10,500 jobs in April and May 2020 due to the COVID-19-related downturn. The metropolitan area quickly recovered all jobs lost due to COVID-19 by the third quarter of 2021, with the first quarter of 2023 representing the highest number of nonfarm payrolls since 2000, which was 7 percent above the number of jobs during the fourth quarter of 2019.

During the first quarter of 2023—

- The education and health services sector added 1,400 jobs, or 5.6 percent, from a year earlier, and it is the largest employment sector in the metropolitan area, accounting for nearly 20 percent of all nonfarm payrolls.
- The leisure and hospitality sector added 1,000 jobs, or 8.1 percent, representing the largest growth in percentage terms compared with a year ago.

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Nonfarm payroll job loss in the Waco metropolitan area was much less severe than in the region and the nation during the COVID-19-related downturn.



Source: U.S. Bureau of Labor Statistics

The education and health services sector, which added 1,400 jobs during the first quarter of 2023, led nonfarm payroll growth in the Waco metropolitan area.

| | 3 Months Ending | | Year-Over-Year Change | |
|----------------------------------|---------------------------|---------------------------|-------------------------|---------|
| | March 2022 (Thousands) | March 2023 (Thousands) | Absolute (Thousands) | Percent |
| Total Nonfarm Payrolls | 129.3 | 134.5 | 5.2 | 4.0 |
| Goods-Producing Sectors | 23.4 | 24.2 | 0.8 | 3.4 |
| Mining, Logging, & Construction | 8.1 | 8.3 | 0.2 | 2.5 |
| Manufacturing | 15.3 | 15.9 | 0.6 | 3.9 |
| Service-Providing Sectors | 105.9 | 110.3 | 4.4 | 4.2 |
| Wholesale & Retail Trade | 19.4 | 19.7 | 0.3 | 1.5 |
| Transportation & Utilities | 4.2 | 4.2 | 0.0 | 0.0 |
| Information | 1.0 | 1.0 | 0.0 | 0.0 |
| Financial Activities | 8.0 | 8.3 | 0.3 | 3.8 |
| Professional & Business Services | 12.8 | 13.2 | 0.4 | 3.1 |
| Education & Health Services | 25.1 | 26.5 | 1.4 | 5.6 |
| Leisure & Hospitality | 12.4 | 13.4 | 1.0 | 8.1 |
| Other Services | 3.6 | 3.7 | 0.1 | 2.8 |
| Government | 19.6 | 20.3 | 0.7 | 3.6 |
| Unemployment Rate | 3.9% | 4.2% | | |

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics

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- The government sector added 700 jobs, or 3.6 percent, compared with the previous year, supported by hiring in the Department of Veterans Affairs (VA) Regional Office in response to the PACT Act, which expanded VA health care and benefits for veterans.
- The average unemployment rate was 4.2 percent, representing an increase from 3.9 percent a year ago.

During the summer of 2022, L3Harris Technologies, Inc. secured a \$40 million permit to build a complex near TSTC Waco Airport to support operations for a \$3 billion contract to modify the AT-802U Sky Warden from an agricultural and wilderness firefighting aircraft to a sky patrol vehicle used in isolated areas by the U.S. military. The expansion in operations required the support of an additional 150 jobs in engineering, operations, production, manufacturing, and finance. In the fall of 2022, Waco Family Medicine broke ground on a \$61 million

facility to better support the local community. The new facility will be a four-story building at the same location as its current facility, and it will expand patient capacity while providing space for supplemental community services to help meet the healthcare needs of the community. Construction will take place in phases to allow continued patient services at the current building, and completion is expected in 2024.

Largest Employers in the Waco Metropolitan Area

| Name of Employer | Nonfarm Payroll Sector | Number of Employees |
|---|-----------------------------|---------------------|
| Baylor University | Education & Health Services | 5,700 |
| Ascension Providence Hospital | Education & Health Services | 2,525 |
| Baylor Scott & White Medical Center – Hillcrest | Education & Health Services | 2,275 |

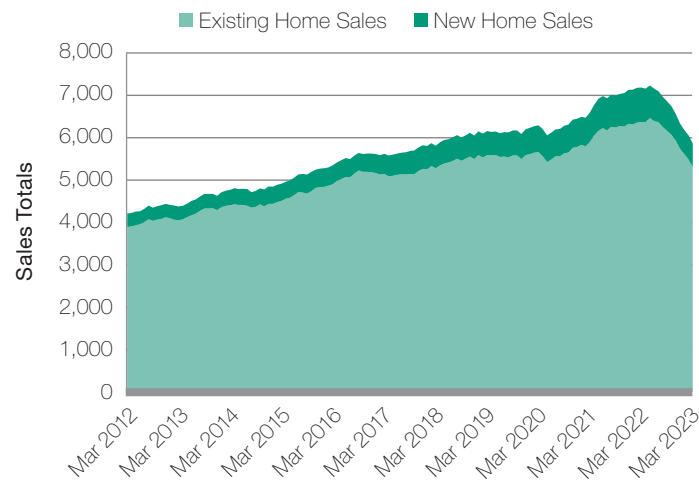
Note: Excludes local school districts.

Source: Greater Waco Chamber of Commerce

Sales Market Conditions

Sales market conditions in the Waco metropolitan area are currently balanced, with an estimated vacancy rate of 2.0 percent, the same as in April 2010. Sales conditions have eased during the past year as the inventory of for-sale homes has increased, and the number of sales has decreased as mortgage rates have risen. During March 2023, a 2.9-month supply of for-sale inventory was available in the metropolitan

After peaking in 2022, home sales in the Waco metropolitan area have slowed to pre-pandemic levels as the available inventory for sale has increased.



Note: Sales are for single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc., with adjustments by the analyst

area, compared with a 0.8-month supply in March 2022 (Real Estate Center at Texas A&M). During the 12 months ending March 2023, home sales totaled 5,850, representing a decrease of 1,325, or 18 percent, from the 12 months ending March 2022 (CoreLogic, Inc., with adjustments by the analyst). The sales market remains strong, however, evidenced by a decrease in mortgage delinquencies. The percentage of home loans in the Waco metropolitan area that were seriously delinquent or had transitioned into real estate owned (REO) status dropped to 1.2 percent in March 2023 from 1.5 percent during March 2022 (CoreLogic, Inc.). The current rate is identical to the 1.2-percent rate for Texas but greater than the 1.1-percent rate for the nation.

During the 12 months ending March 2023—

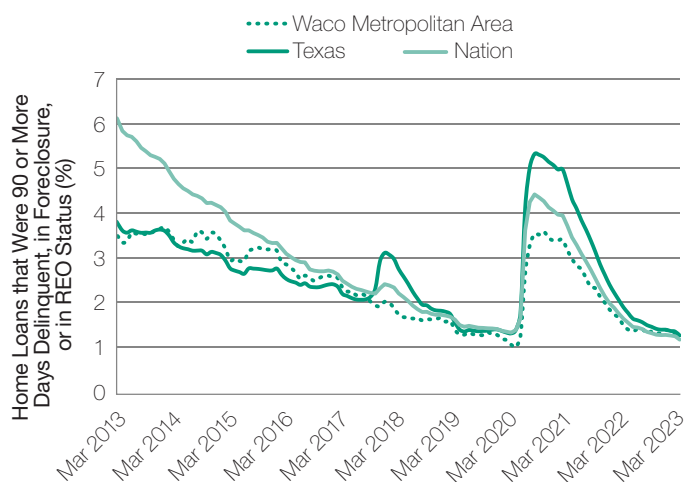
- New home sales totaled more than 550, reflecting a decrease of 250, or 31 percent, from the previous 12 months because of rising prices and mortgage interest rates.
- The average sales price of a new home was \$348,000, representing an increase of \$48,600, or 16 percent, from 1 year earlier.
- Existing home sales totaled 5,300, reflecting a decrease of 1,075, or 17 percent, from the previous 12 months, when existing home sales peaked.
- The average sales price of an existing home increased by \$19,300, or 8 percent, to \$269,000 from a year earlier.

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Single-family homebuilding activity, as measured by the number of single-family homes permitted, averaged 640 homes annually from 2014 through 2016 before increasing to an average of 820 homes permitted annually from 2017 through 2019 as population growth accelerated during the same period. From 2020 through 2022, single-family home permitting increased to an average of 980 homes annually as population growth and demand remained high.

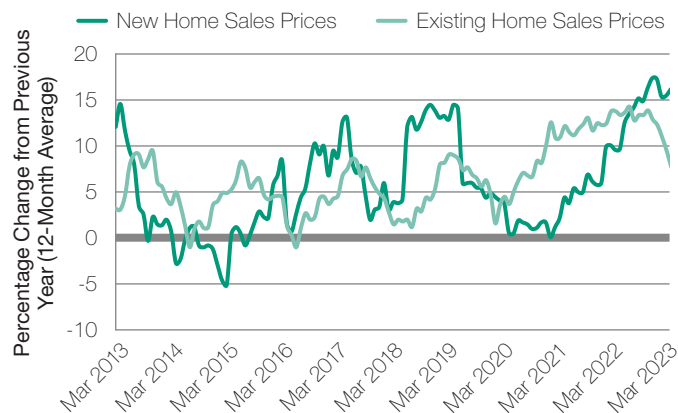
The percentage of home loans 90 or more days delinquent, in foreclosure, or in REO status in the Waco metropolitan area has remained below the state rate since September 2017.



REO = real estate owned.

Source: CoreLogic, Inc.

New home prices in the Waco metropolitan area have continued to rise and existing home prices have slowed since late 2022.

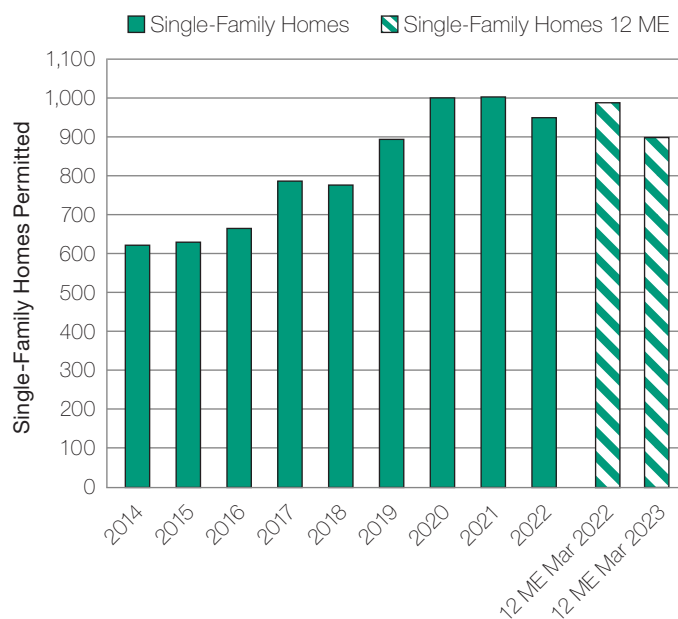


Note: Prices are for single-family homes, townhomes, and condominiums.

Source: CoreLogic, Inc.

- Based on preliminary data, 900 homes were permitted in the Waco metropolitan area during the 12 months ending March 2023, representing a decrease of 90 homes, or 9 percent, from the previous 12 months.
- South Fork is a housing development near Baylor University in the city of Waco that opened a new phase of development of 80 lots, with homes ranging in size from 1,266 to 2,041 square feet and prices ranging from \$250,900 to \$315,900. Currently, 12 homes and 53 lots are available for sale, with additional move-in-ready homes to be available beginning in the summer of 2023. The development is expected to be complete by 2025.
- The Lakes at University Parks is a housing development in the city of Waco that has entered a new phase of development that will include 100 lots, with homes ranging in size from 1,415 to 2,341 square feet and prices ranging from \$270,900 to \$363,200. Six homes and 70 lots are currently available for sale, and additional move-in-ready homes will be available near the end of 2023. Construction is expected to be complete by 2025.

Despite slowing home sales, the number of single-family homes permitted in the Waco metropolitan area remain well above the number permitted before 2019.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Apartment Market Conditions

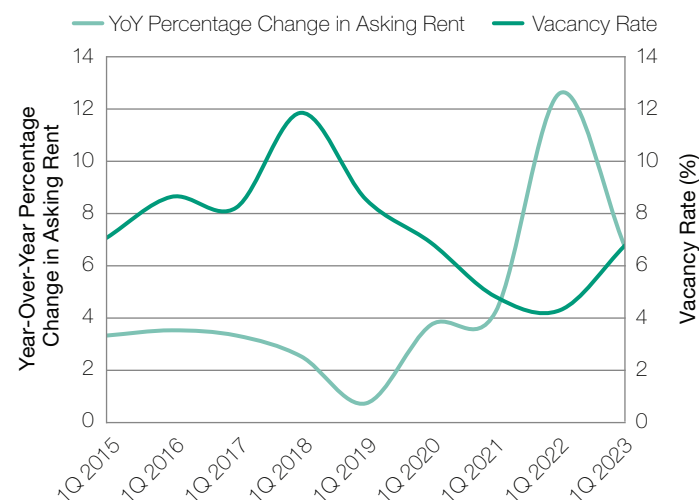
Apartment market conditions in the Waco metropolitan area are currently slightly tight following 2 consecutive years of historically low vacancy rates. By comparison, soft apartment market conditions prevailed from 2015 through 2019 after a period of increased building activity. The apartment vacancy rate has remained below 7 percent since the first quarter of 2020, reaching a first quarter low of 4.3 percent during 2022, the lowest first quarter apartment vacancy rate since 2001.

During the first quarter of 2023—

- The apartment vacancy rate was 6.8 percent, representing an increase from 4.3 during the first quarter of 2022 (CoStar Group).
- The average rent for an apartment was \$1,160, reflecting an increase of \$75, or 7 percent, from the first quarter of 2022.
- The average asking rents were \$1,037, \$1,239, and \$1,326 for one-, two-, and three-bedroom apartments, respectively.
- The vacancy rates for one-, two-, and three-bedroom apartments were 6.9, 6.7, and 6.1 percent, respectively, up from 4.0, 4.1, and 5.0 percent during the first quarter of 2022.

Construction of multifamily units was elevated from 2014 through 2016, averaging 1,075 multifamily units permitted annually, as the local economy recovered from the Great Recession. With so many units permitted, vacancies began

Multifamily permitting in the Waco metropolitan area slowed significantly beginning in 2017 following a decade-high level in 2015 and 2016, resulting in declining apartment vacancy rates as excess units were absorbed.

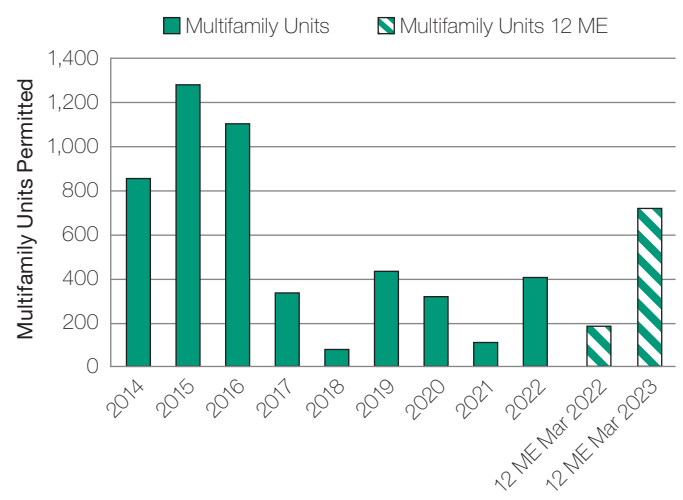


1Q = first quarter. YoY = year-over-year.
Source: CoStar Group

to increase in 2015 and accelerated through the first quarter of 2018 as a large number of units came online. Builders responded to the increased vacancies by drastically reducing multifamily construction, with no more than 430 units permitted in a single year since 2016.

- Multifamily permitting averaged 280 units annually from 2017 through 2022, the lowest number of units permitted since the housing market crash of 2008, when multifamily permitting averaged 200 units annually from 2009 through 2013.
- During the 12 months ending March 2023, multifamily permitting in the Waco metropolitan area totaled 720 units, representing an increase of 540 units, or 290 percent, from the previous 12 months.
- Zoe Luxury Apartments in the city of Waco is currently under construction and projected to open in the summer of 2023. The 216-unit property will consist of 110 one-bedroom units and 106 two-bedroom units, with monthly asking rents ranging from \$1,225 to \$1,500, respectively, and floor plans ranging from 690 to 927 square feet.
- Riverfront Lofts in downtown Waco opened in the fall of 2022. The 266-unit property consists of studio, one-bedroom, and two-bedroom units, and it is currently 56 percent occupied, with asking rents ranging from \$1,306 to \$1,988 per month. Floor plans range from 526 to 1,172 square feet.

Multifamily construction increased in 2022 in response to the lowest apartment vacancy rates since 2006, but the number of units permitted remained below the levels of 2014 through 2016.



12 ME = 12 months ending.

Sources: U.S. Census Bureau, Building Permits Survey; 2014–22—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Terminology Definitions and Notes

A. Definitions

| | |
|--|---|
| Apartment Market/ Apartment Vacancy Rate | Includes apartments and other rental units, such as single-family, multifamily, and mobile homes. |
| Building Permits | Building permits do not necessarily reflect all residential building activity. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits. |
| Existing Home Sales | Includes resales, short sales, and REO sales. |
| Home Sales/Home Sales Prices | Includes single-family home, townhome, and condominium sales. |
| Seriously Delinquent Mortgages | Mortgages 90 or more days delinquent or in foreclosure. |

B. Notes on Geography

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|----|---|
| 1. | The metropolitan statistical area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018. |
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