

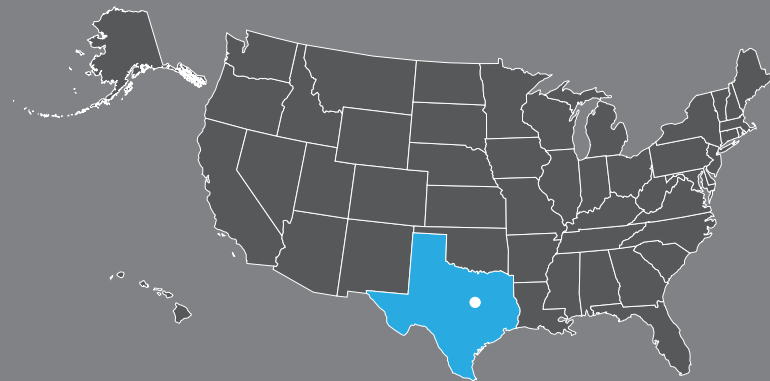
# HUD PD&R Housing Market Profiles

## Waco, Texas



### Quick Facts About Waco

- Current sales market conditions: tight
- 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 Tim McDonald | As of January 1, 2022

### Overview

The Waco metropolitan area is coterminous with the Waco Metropolitan Statistical Area (MSA) in central Texas and consists of two counties: McLennan and Falls Counties. The city of Waco is located halfway between Dallas and Austin, and it is a 90-minute drive from both cities. Baylor University, which won the 2021 NCAA basketball championship for men, is located in Waco. Baylor Athletics attract many visitors for games from other metropolitan areas across the state of Texas. The city of Waco is also home to the Magnolia Market, the home décor shop owned by Chip and Joanna Gaines, the stars of the HGTV show “Fixer Upper.” The Magnolia Market is a major tourist destination attracting numerous visitors each year.

- The population of the Waco metropolitan area is currently estimated at 284,000 people, making it the 12th largest MSA in Texas.
- From 2010 to 2016, population growth averaged 1,950 people, or 0.7 percent, annually, with net in-migration of 430 people annually; however, since 2016, population growth has averaged 3,500 people, or 1.3 percent, annually, with net in-migration of 2,200 people annually

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(Census Bureau population estimates as of July 1, 2021, and analyst estimate).

- From 2010 to 2016, enrollment growth at Baylor University averaged 340 students, or 2.2 percent, per year, but since

2016, enrollment growth has increased to an average of 730 students, or 4.0 percent, annually (Baylor University fall headcount enrollment).

## Economic Conditions

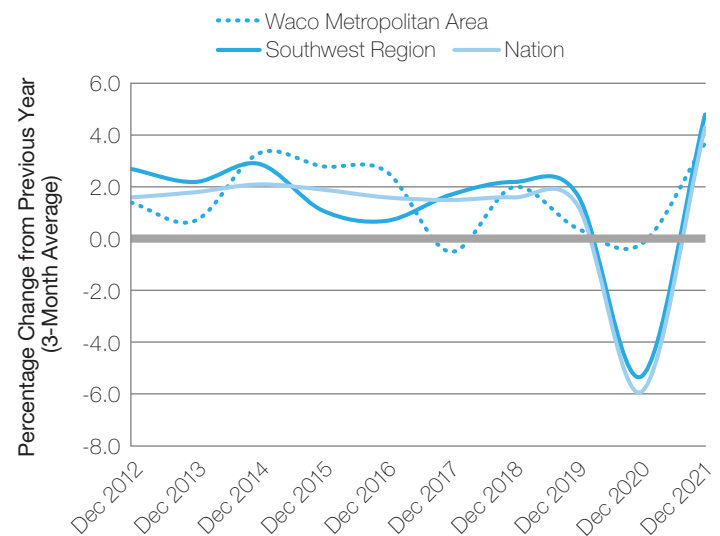
Economic conditions in the Waco metropolitan area have fully recovered following a sharp downturn in jobs during March and April 2020 due to the impacts of the COVID-19 pandemic. During December 2021, nonfarm payrolls totaled 128,100 (not seasonally adjusted), which is 4,500 jobs, or 3.6 percent, above the number of jobs reached in February 2020 before the downturn. The manufacturing sector, which is still down 100 jobs (not seasonally adjusted), is the only sector in the Waco metropolitan area to not return to the number of nonfarm payroll jobs that existed in February 2020.

During the 3 months ending December 2021—

- Nonfarm payrolls averaged 127,600, an increase of 4,600, or 3.7 percent, from the 3 months ending December 2020.
- Job growth was led by the professional and business services sector, which increased by 1,600 jobs, or 11.4 percent.
- The mining, logging, and construction sector added 900 jobs, an increase of 11.3 percent, due in part to S2A Modular beginning construction on its new 200,000 square foot factory. S2A Modular manufactures luxury, modular smart homes.

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**Nonfarm payroll job loss was much less severe in the Waco metropolitan area than the nation as a whole during the COVID-19-related downturn.**



Source: U.S. Bureau of Labor Statistics

**During the 3 months ending December 2021, job growth occurred in 7 of the 11 payroll sectors.**

	3 Months Ending		Year-Over-Year Change	
	December 2020 (Thousands)	December 2021 (Thousands)	Absolute (Thousands)	Percent
<b>Total Nonfarm Payrolls</b>	123.0	127.6	4.6	3.7
Goods-Producing Sectors	23.0	24.0	1.0	4.3
Mining, Logging, & Construction	8.0	8.9	0.9	11.3
Manufacturing	15.0	15.1	0.1	0.7
Service-Providing Sectors	99.9	103.6	3.7	3.7
Wholesale & Retail Trade	18.5	19.0	0.5	2.7
Transportation & Utilities	3.7	4.2	0.5	13.5
Information	0.9	0.8	-0.1	-11.1
Financial Activities	7.5	7.8	0.3	4.0
Professional & Business Services	14.0	15.6	1.6	11.4
Education & Health Services	20.7	20.6	-0.1	-0.5
Leisure & Hospitality	11.4	12.3	0.9	7.9
Other Services	3.4	3.4	0.0	0.0
Government	20.0	19.9	-0.1	-0.5
<b>Unemployment Rate</b>	5.5%	3.8%		

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

Source: U.S. Bureau of Labor Statistics



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- The education and health services sector is the largest payroll sector in the metropolitan area, with more than 16 percent of all nonfarm payroll jobs. This sector declined by 100 jobs, or 0.5 percent, to 20,600 jobs.

Baylor University is the largest employer in the metropolitan area, with 3,250 employees. Enrollment at Baylor University for graduate and undergraduate students exceeded 20,000 for the first time in the fall of 2021. Baylor University has a significant impact on the Waco economy, and according to their *2020-21 Social and Economic Impact Report*, the university spent more than \$61 million in the local economy and paid \$317 million in wages to faculty and staff during that school year.

### Largest Employers in the Waco Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Baylor University	Education & Health Services	3,250
Ascension Health Alliance	Education & Health Services	3,075
H-E-B, LP	Wholesale & Retail Trade	2,000

Note: Excludes local school districts.

Source: Greater Waco Chamber of Commerce

## Sales Market Conditions

The home sales market is currently tight, with a vacancy rate estimated at 1.0 percent, down from 2.0 percent in 2010 because increasing rates of population growth have led to the absorption of excess vacant units. During December 2021, there was a 1-month supply of inventory on the market, down from 1.2 months in December 2020 (Texas Real Estate Research Center at Texas A&M University). Since 2014, the supply of inventory for sale has been under 4 months, but from 2004 through 2013, it never dropped below 4 months; an increasing pace of home sales has driven this number down. Home sales during the 12 months ending November 2021 totaled 6,775, an increase of 475, or more than 7 percent, from the 12 months ending November 2020, setting a new all-time record high level of sales (CoreLogic, Inc. with adjustments by analyst). The percentage of home loans in the

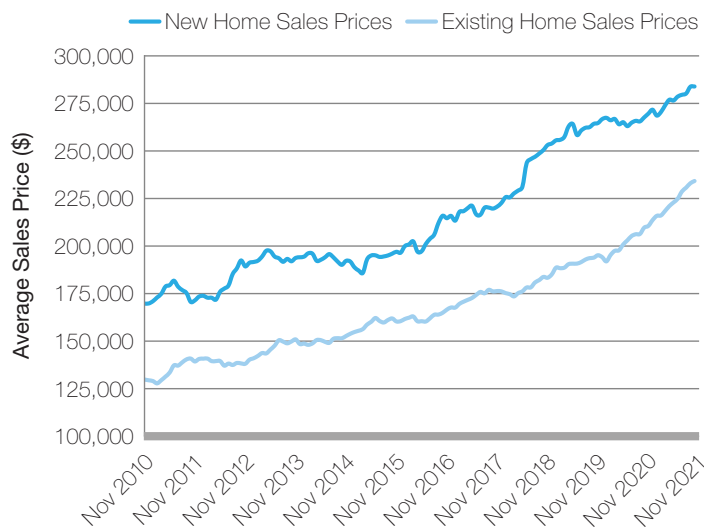
Waco metropolitan that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status dropped to 2.0 percent in November 2021 from 3.4 percent in November 2020 (CoreLogic, Inc.). The current rate is below the 2.6-percent rate for Texas and the 2.1-percent rate for the nation.

During the 12 months ending November 2021 —

- New home sales totaled 750, an increase of 90, or more than 14 percent, as increasing in-migration is spurring demand for new housing.
- The average sales price of a new home was \$285,100, an increase of \$15,400, or nearly 6 percent, from 1 year earlier.
- Existing home sales totaled 6,025, an increase of 375, or nearly 7 percent, from the previous 12 months.

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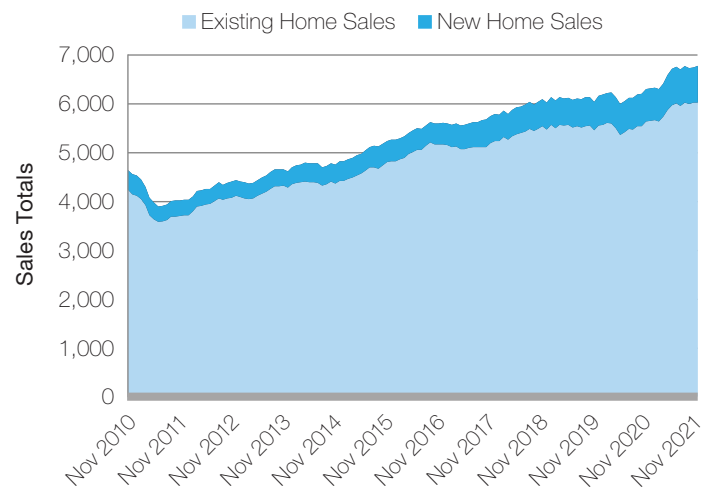
### New and existing home sales prices have trended upward in the Waco metropolitan area since 2010.



Note: Home prices include single-family, townhomes, and condominiums.

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

### Home sales in the Waco metropolitan area have been generally trending up since 2011 as more affordable home prices attract residents to the metropolitan area.



Note: Sales include single-family, townhomes, and condominiums.

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



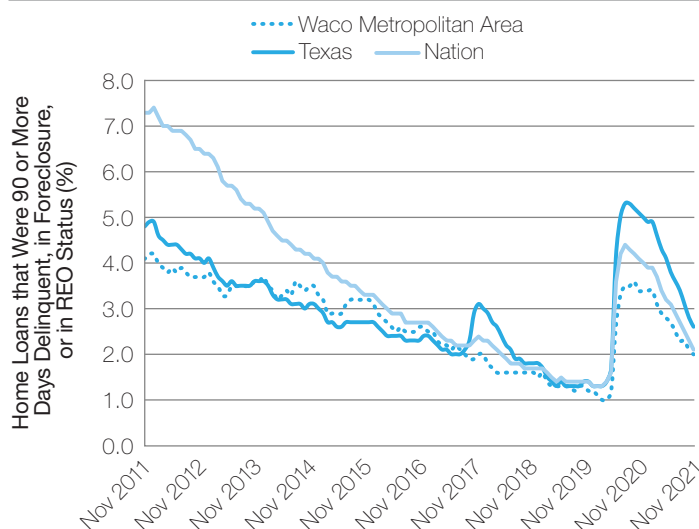
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- The average sales price of an existing home increased by \$27,000, or nearly 13 percent, to \$237,800.

The construction of sales units has been elevated since 2017 in response to an increased rate of population growth in the metropolitan area. About 99 percent of all sales units built in the metropolitan area since 2017 were built in McLennan County.

- During 2021, based on preliminary data, construction of sales units totaled nearly 1,000, essentially unchanged from 2020.

In the Waco metropolitan area, the percentage of home loans 90+ days delinquent, in foreclosure, or recently transitioned to REO has been below the state and national rate since the end of 2017.

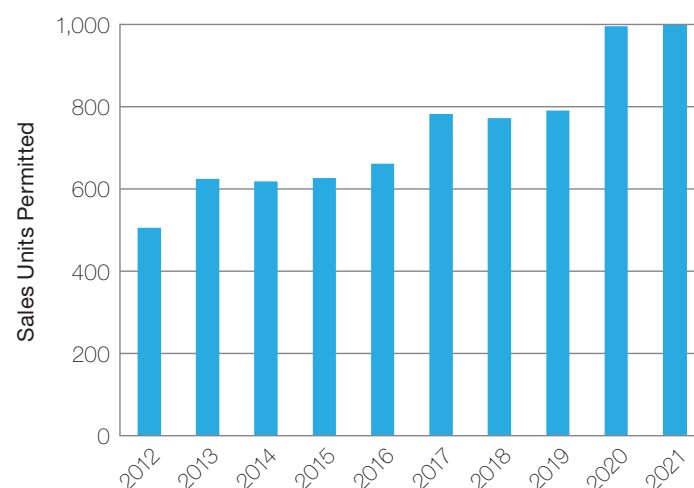


REO = real estate owned.

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

- From 2013 through 2016, construction of sales units averaged 630 units annually, but from 2017 through 2019, production increased to an average of 780 units per year, as increasing rates of population growth spurred demand for new housing.
- The Southfork subdivision, in the city of Waco, opened a new phase for development in the fall of 2021 for 47 new homes that range in price from \$232,000 to \$289,000 for three- and four-bedroom homes. Buildout is expected by the spring of 2023.

With an increasing rate of in-migration since 2017, developers in the Waco metropolitan area have responded by increasing production of new sales units.



Sources: U.S. Census Bureau, Building Permits Survey; 2012 through 2020—final data with estimates by the analyst; 2021—preliminary data with estimates by the analyst

## Apartment Market Conditions

Apartment market conditions in the Waco metropolitan area are currently slightly tight, a significant improvement from the soft conditions that existed from 2015 through 2018. Increased levels of in-migration since 2017 and a slowdown in the production of rental units in 2018 and 2019 allowed the excess vacant units to be absorbed.

During fourth quarter of 2021—

- The apartment vacancy rate was 4.3 percent, down from 5.6 percent during the fourth quarter of 2020 (CoStar Group).
- The average rent for an apartment was \$1,011, an increase of \$108, or nearly 12 percent, from the fourth quarter of 2020.
- The market for student apartments was even tighter than the overall market, with a 1.3-percent vacancy rate, down

from 12.2 percent during the fourth quarter of 2020 (ALN Apartment Data, Inc.).

- The average rent for a student apartment was \$1,569, up by \$25, or less than 2.0 percent, from 1 year earlier.

Construction of rental units has fluctuated since 2017, but it remains well below the peak of 1,150 rental units that were permitted in 2016.

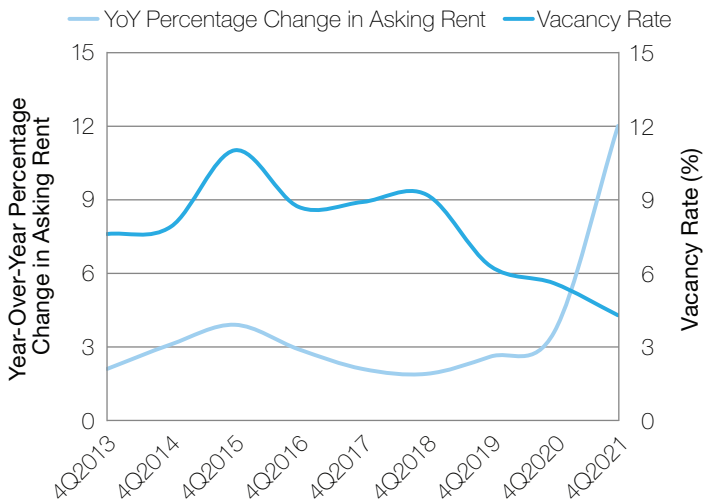
- During 2021, based on preliminary data, there were 120 rental units permitted, a decline of 450, or nearly 79 percent, from 2020.
- Since 2017, construction of rental units has averaged 330 units annually, very close to the average of 320 units permitted annually from 2000 through 2013.

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- Construction of rental units surged from 2014 through 2016, with an average of 1,000 units permitted annually. This was the highest level of production for any 3-year span in the Waco metropolitan area since the years of 1983 through 1985, when an average of 1,500 units were permitted annually.

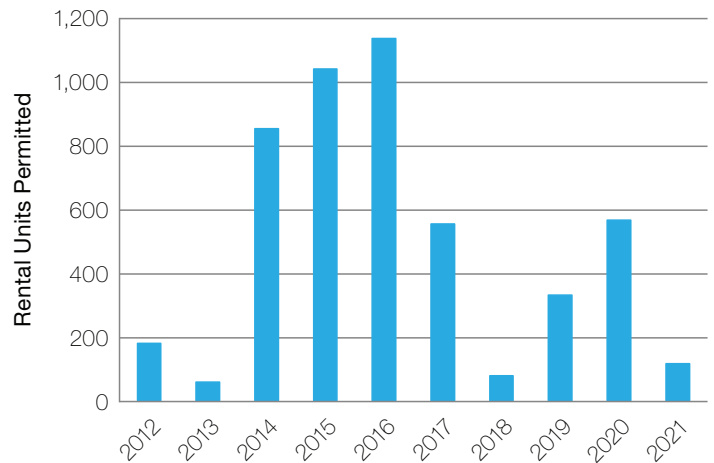
As the apartment vacancy rate fell below 5 percent during 2021, the growth in the average rent accelerated.



4Q = fourth quarter. YoY = year-over-year.  
Source: CoStar Group

- The most recently completed apartment community in the Waco metropolitan area is Bend at New Road Apartments. This is a 252-unit property which opened in the fall of 2020 and is currently 97-percent occupied, with rents ranging from \$1,239 to \$1,809 per month for one- and two-bedroom units.

As production of rental units has slowed from the pace during the years of 2014 through 2016, market conditions have tightened.



Sources: U.S. Census Bureau, Building Permits Survey; 2012 through 2020—final data with estimates by the analyst; 2021—preliminary data with estimates by the analyst