

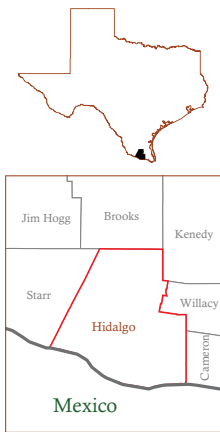


McAllen-Edinburg-Mission, Texas

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of October 1, 2006



Housing Market Area



The McAllen-Edinburg-Mission, Texas Housing Market Area (HMA), located approximately 5 miles north of Reynosa, Mexico, consists of Hidalgo County. More commonly known as the Rio Grande Valley, the HMA is the retail and healthcare center of southern Texas. *Money* and *Forbes* magazines have recently recognized the HMA for its rapid growth and business opportunities. In addition, based on housing costs, the HMA is one of the least expensive areas in the United States in which to live.

Market Details

- Economic Conditions 2
- Population and Households... 4
- Housing Market Trends 5
- Data Profile..... 8

Summary

Economy

Since the mid-1990s, employment growth in the McAllen-Edinburg-Mission HMA has been among the strongest in the United States at 4.1 percent annually. During the past 12 months, increases in employment were reported in every nonfarm sector with the exception of manufacturing, which remained unchanged. During the same period, the education and health services sector recorded the largest gain, adding more than 3,800 jobs, a 9.2-percent increase compared with the previous 12-month period. Nonfarm employment is expected to increase by an average of 4.5 percent annually during the forecast period. Employment data for the HMA is provided in Table DP-1 (at the end of the report).

Sales Market

The sales market for single-family homes in the HMA is tight because of significant increases in population, a result of the strong employment gains. Sales of existing homes for the 12 months ending September 2006 totaled 2,525 units, an increase of 17 percent compared with the previous 12 months. For the 12 months ending September 2006, the average home sales price increased to \$129,100, up 6 percent compared with the previous 12-month period. During the

3-year forecast period, demand for approximately 23,000 new homes is expected, as shown in Table 1.

Rental Market

The rental housing market in the HMA is soft. The vacancy rate has increased from 10.8 percent in April 2000 to 14.0 percent as of October 2006. The increase in the vacancy rate is attributed to a variety of factors, including a strong single-family home sales market, increases in the number of mobile homes available for rent, and overproduction of rental units in the market in recent years. The 700 units currently under construction are expected to meet the estimated demand through the forecast period.

Table 1. Housing Demand in the McAllen-Edinburg-Mission HMA, 3-Year Forecast, October 1, 2006 to October 1, 2009

	McAllen-Edinburg-Mission HMA	
	Sales Units	Rental Units
Total Demand	23,000	700
Under Construction	1,850	700

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of October 1, 2006.

Source: Estimates by analyst

Economic Conditions

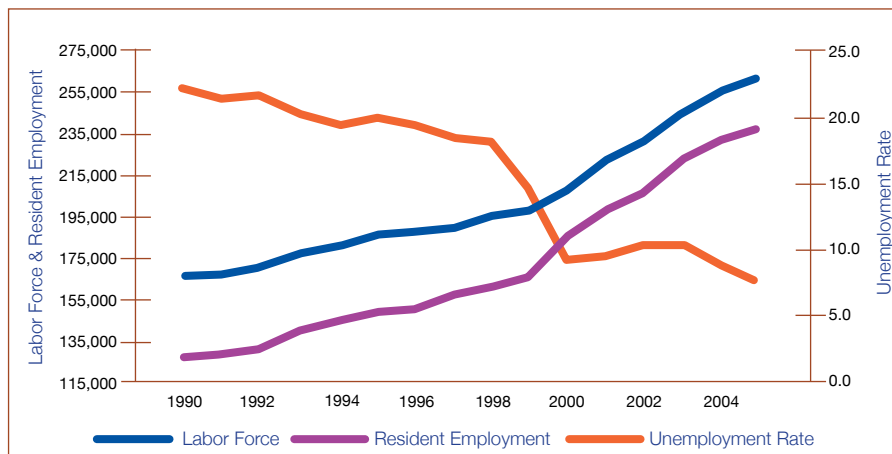
The economy of the McAllen-Edinburg-Mission HMA was very weak during the early 1990s with an unemployment rate in excess of 22 percent (see Figure 1). Before 1994, the economy of the metropolitan area was agricultural. At the same time, employment in the government sector accounted for 32 percent of the total service-providing jobs. Since 1994, when the North American Free Trade Agreement was ratified, economic growth has been significant. Numerous multinational corporations such as Nokia, General Electric Company, and Delphi Corporation established themselves near the McAllen HMA. Rapid employment growth during the latter half of the 1990s reduced the unemployment rate to 9.2 percent as of April 2000.

Since 2000, the economy of the HMA has continued to improve. Companies have relocated to the HMA because of favorable business conditions, such as low taxes, affordable housing, and a young trainable workforce. According to the 2006 American Community

Survey, the median age of a worker in the area is 26. The HMA is also favorable to businesses because of the McAllen Foreign Trade Zone (FTZ) #12. The McAllen FTZ #12, created more than 30 years ago, was the first inland nonseaport trade zone in the United States. Currently, FTZ #12 encompasses more than 775 acres and provides services to clients representing more than 40 countries. Representatives from the FTZ estimate that \$1.6 billion worth of product passed through the trade zone in 2005.

Although the wholesale and retail trade sectors made up a large portion of jobs in the HMA, the local government sector was the largest nonfarm sector through 2004, accounting for 20 percent of all jobs. Local government was the economic backbone for the HMA from 1990 through 2004, increasing by 4 percent annually with the addition of city services and public schools as the HMA experienced some of the fastest population growth in the nation. As of 2005, the education and health services sector surpassed local government as the largest employment sector in the HMA. Hospitals, health clinics, and other medical facilities accounted for the growth. Edinburg Regional Medical Center and McAllen Medical Center, two of the top five employers in the HMA (see Table 2), employ 3,000 and 2,800 people, respectively. Since 1990, the education and health services sector has grown by more than 400 percent, with double-digit rates of growth in nearly every year since 1993.

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the McAllen-Edinburg-Mission HMA, 1990 to 2005



Source: U.S. Bureau of Labor Statistics

Table 2. Major Employers in the McAllen-Edinburg-Mission HMA

Name of Employer	Employment Sector	Number of Employees
Edinburg Regional Medical Center	Health Services	3,000
The University of Texas-Pan American	Government	2,842
McAllen Medical Center	Health Services	2,800
Hidalgo County	Government	2,211
City of McAllen	Government	1,489
Columbia Rio Grande Regional Hospital	Health Services	975

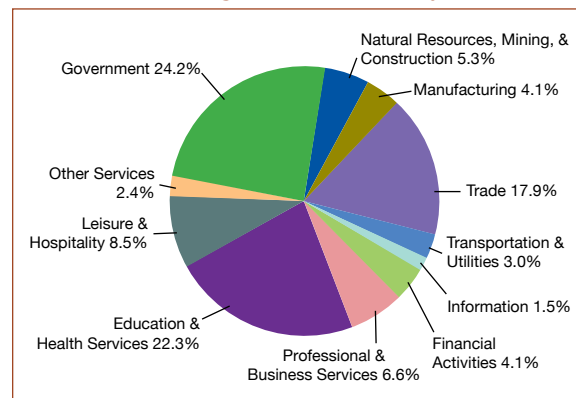
Sources: McAllen Chamber of Commerce, March 2005; Edinburg Chamber of Commerce, March 2005; Mission Economic Development Authority, February 2006

Table 3. 12-Month Average Employment in the McAllen-Edinburg-Mission HMA, by Sector

Employment Sector	12 Months Ending September 2005	12 Months Ending September 2006	Percent Change
Total Nonfarm Employment	192,400	202,400	5.2
Goods Producing	19,000	19,200	1.1
Natural Resources, Mining, & Construction	10,600	10,800	1.9
Manufacturing	8,400	8,400	0.0
Service Providing	173,400	183,300	5.7
Trade	34,300	36,200	5.5
Transportation & Utilities	5,700	6,000	5.3
Information	2,800	3,000	7.1
Financial Activities	8,000	8,400	5.0
Professional & Business Services	12,400	13,400	8.1
Education & Health Services	41,300	45,100	9.2
Leisure & Hospitality	16,800	17,200	2.4
Other Services	4,700	4,900	4.3
Government	47,400	49,100	3.6

Notes: Based on 12-month averages through September 2005 and September 2006. Numbers may not add to total because of rounding.

Source: U.S. Bureau of Labor Statistics

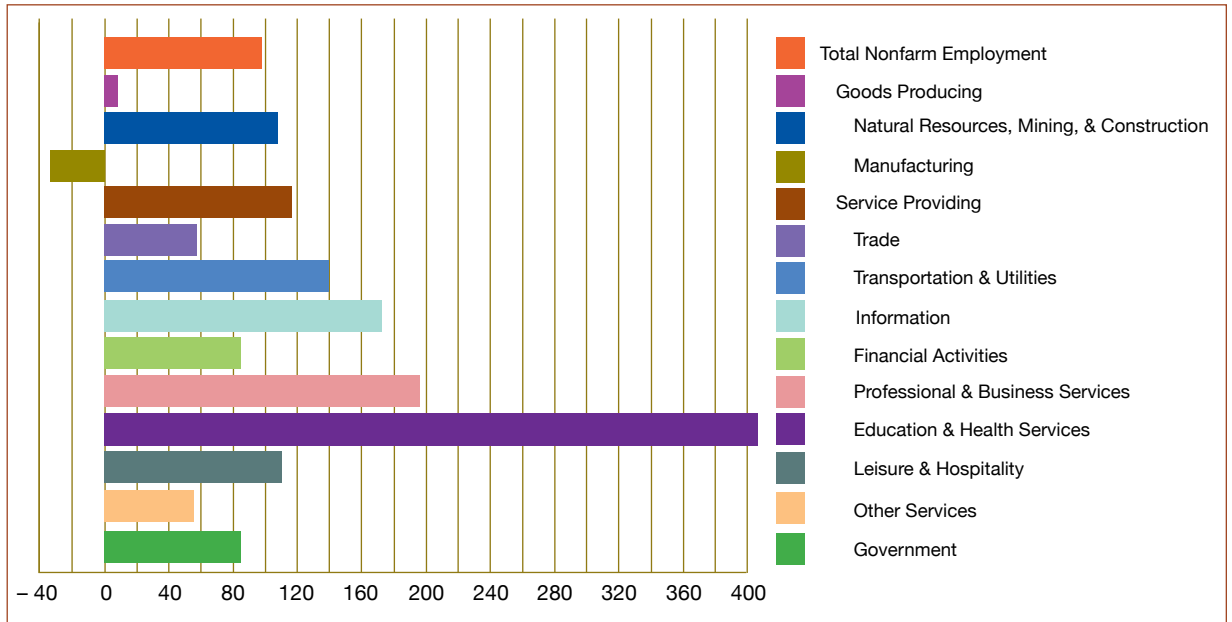
Figure 2. Current Employment in the McAllen-Edinburg-Mission HMA, by Sector

Note: Based on 12-month averages through September 2006.

Source: U.S. Bureau of Labor Statistics

During the 12 months ending September 2006, every nonfarm sector in the HMA experienced growth, with the exception of manufacturing, which remained unchanged (see Table 3). A total of 10,000 jobs were added, an increase of 5.2 percent compared with the previous 12 months. The education and health services sector recorded the largest gain during the past 12 months, adding more than 3,800 jobs, a 9.2-percent increase. Job gains in this sector were primarily in large-scale healthcare facilities but also occurred in private clinics focusing on specialized medicines and therapies and in outpatient surgical centers. Approximately 1,900 jobs were added in the wholesale and retail trade sectors combined, and 1,700 more jobs were added in local government. Figure 2 illustrates the percentage of employment in each sector during the 12 months ending September 2006. Combined, the trade sector and the education and health services sector account for approximately 81,300 jobs, or 45 percent of the service-providing jobs in the HMA. Growth by sector in the HMA from 1990 through the current period is illustrated in Figure 3.

During the forecast period, nonfarm employment is expected to increase 4.5 percent a year. The primary growth sectors are expected to be government, wholesale and retail trade, and education and health services.

Figure 3. Sector Growth in the McAllen-Edinburg-Mission HMA, Percentage Change, 1990 to Current

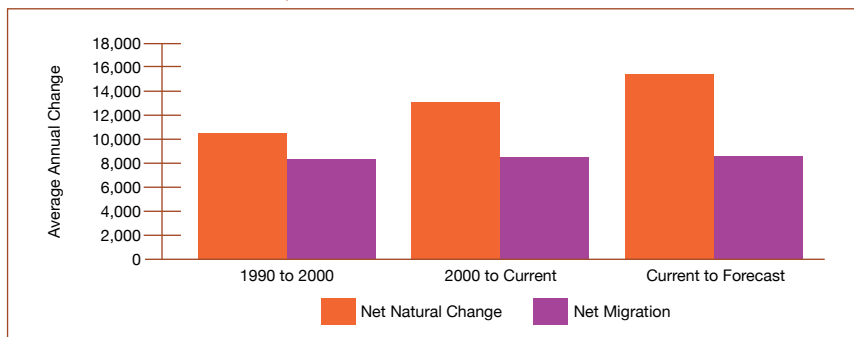
Note: Current is based on 12-month averages through September 2006.

Source: U.S. Bureau of Labor Statistics

Population and Households

According to the Census Bureau, from 1990 to 2000, the McAllen-Edinburg-Mission HMA was the fourth fastest growing metropolitan statistical area in the United States, with an average increase in population of 4 percent a year. The large increases in population can be

partially attributed to net in-migration as a result of extensive job gains. The leading factor in population growth for the area, however, was net natural increase (resident births minus resident deaths) (see Figure 4). During the decade, net natural increase accounted for 55 percent of total population growth.

Figure 4. Components of Population Change in the McAllen-Edinburg-Mission HMA, 1990 to Forecast

Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

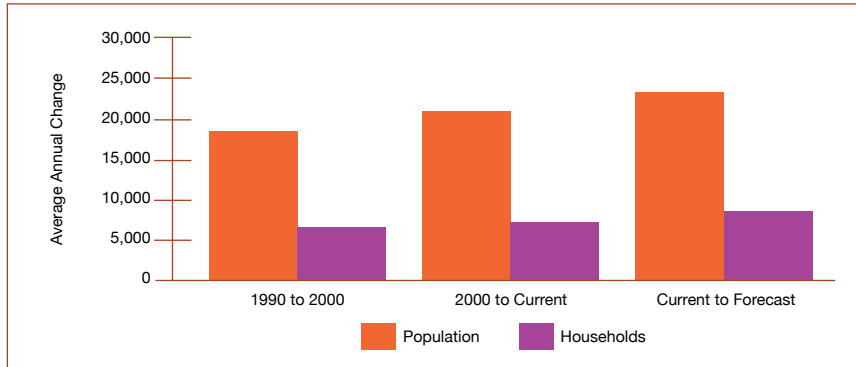
From 2000 to 2005, according to the Census Bureau, the HMA ranked 11th in population change nationally, with net natural increase accounting for nearly 65 percent of the growth. Net in-migration accounted for an addition of 7,600 people a year since 2000. As of October 1, 2006, the population of the HMA was estimated to be 710,000, an average annual increase of 21,650, or 3.5 percent, since 2000.

During the 1990s, the rate of household growth in the HMA increased more rapidly than the rate of population growth. During the

decade, the number of households expanded by approximately 4.3 percent annually.

During the forecast period, population and household growth are expected to remain strong because of continuing employment opportunities and increases in net natural change. Households are expected to increase annually by 8,500 units, a 4-percent increase, during the forecast period, as shown in Figure 5. The HMA will remain one of the fastest growing areas in the nation since population is expected to increase 3.3 percent annually, reaching 781,700 by October 2009.

Figure 5. Population and Household Growth in the McAllen-Edinburg-Mission HMA, 1990 to Forecast



Sources: 1990 and 2000—U.S. Census; current and forecast—estimates by analyst

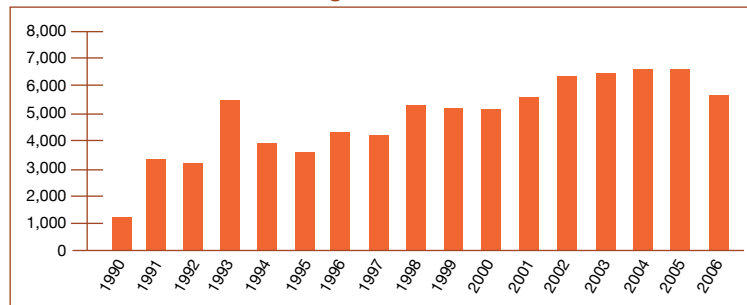
Housing Market Trends

Sales Market

The sales market for single-family homes in the McAllen-Edinburg-Mission HMA is tight, with a current estimated sales vacancy rate of 1.4 percent. Single-family home construction, as measured by the number of building permits issued, has increased every year since 2000 (see Figure 6) in response to

increased demand resulting from significant economic growth in the early part of the 2000s, strong employment growth, and very affordable housing prices. The sales housing market in the HMA, as with most large areas in Texas, has recorded relatively little price appreciation in recent years compared to other areas in the United States.

Figure 6. Single-Family Building Permits Issued in the McAllen-Edinburg-Mission HMA, 1990 to 2006

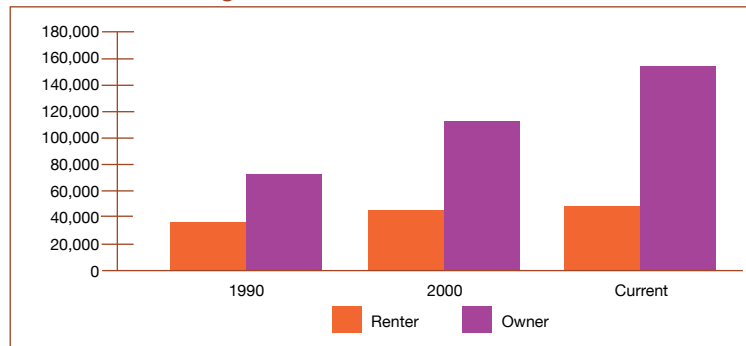


Notes: Includes only single-family units. Includes data through September 2006. Source: U.S. Census Bureau, Building Permits Survey

Since 2000, building permits in the HMA have been issued for 42,825 single-family homes, or an average of nearly 6,600 annually. During the 12 months ending September 2006, the increase in home construction slowed compared with previous years, as single-family permits issued increased only 1 percent to 7,200 compared with the previous 12-month period. Figure 6 illustrates

the number of single-family building permits issued from 1990 through September 2006. Building activity during 2007 is expected to outpace the trend of the previous

Figure 7. Number of Households by Tenure in the McAllen-Edinburg-Mission HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the McAllen-Edinburg-Mission HMA, October 1, 2006 to October 1, 2009

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	119,999	1,840	8.0
120,000	134,999	2,530	11.0
135,000	149,999	2,990	13.0
150,000	164,999	3,680	16.0
165,000	189,999	3,220	14.0
190,000	209,999	2,760	12.0
210,000	249,999	1,840	8.0
250,000	299,999	1,610	7.0
300,000	349,999	1,150	5.0
350,000	399,999	690	3.0
400,000	449,999	460	2.0
450,000	and higher	230	1.0

Source: Estimates by analyst

Rental Market

The McAllen-Edinburg-Mission HMA rental housing market is currently soft and has been for several years. During the early 1990s, the rental vacancy rate was a relatively balanced 9 percent as permits issued for multifamily units averaged 450 a year from 1990 to 1995. From 1996 to 1999, permits issued for multi-

year as new, lower priced subdivisions are developed in the outlying portions of the HMA, including the cities of Pharr and San Juan.

Currently, homeowners represent 76 percent of all households in the HMA (see Figure 7); however, they account for more than 85 percent of total household growth since 2000. According to the Real Estate Center at Texas A&M University, the average single-family home sales price for the HMA was \$129,100 for the 12 months ending September 2006 compared with \$122,000 for the 12 months ending September 2005, an increase of nearly 6 percent. Sales of existing homes during the 12 months ending September 2006 totaled 2,525 units, an increase of 17 percent compared with the previous 12 months.

Total forecast demand for single-family homes in the HMA is estimated to be 23,000 units. This figure does not include the estimated demand for 5,100 additional mobile home units. It is estimated that mobile homes make up approximately 22 percent of the total housing inventory in the HMA. See Table 4 for estimated demand for new market-rate sales housing by price range.

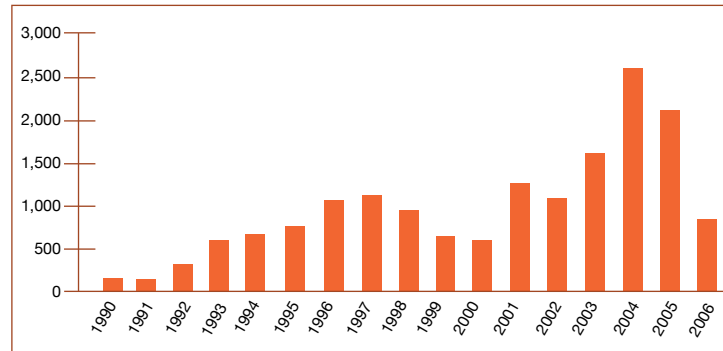
family units averaged 950 a year, exceeding the production rate of the previous 6 years (see Figure 8) and resulting in a 10.7-percent vacancy rate as of 2000 (see Figure 9).

Since 2000, the number of multifamily units permitted has averaged more than 1,600 annually. The

Housing Market Trends

Rental Market *Continued*

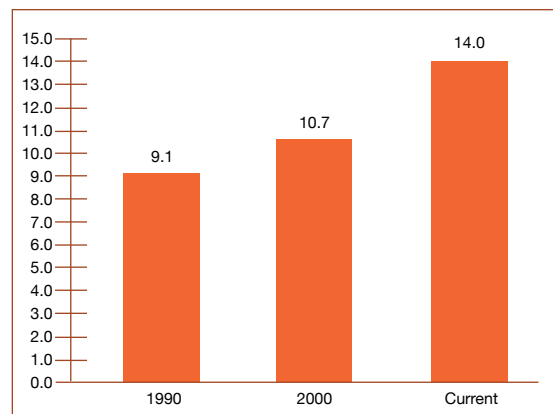
Figure 8. Multifamily Building Permits Issued in the McAllen-Edinburg-Mission HMA, 1990 to 2006



Notes: Includes all multifamily units in structures with two or more units. Includes data through September 2006.

Source: U.S. Census Bureau, Building Permits Survey

Figure 9. Rental Vacancy Rates in the McAllen-Edinburg-Mission HMA, 1990 to Current



Sources: 1990 and 2000—U.S. Census; current—estimates by analyst

Table 5. Estimated Demand for New Market-Rate Rental Housing in the McAllen-Edinburg-Mission HMA, October 1, 2006 to October 1, 2009

1 Bedroom		2 Bedrooms		3 or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
500	240	600	350	850	110
550	210	650	290	900	100
600	190	700	270	950	90
650	170	750	240	1,000	80
700	150	800	210	1,050	70
750	130	850	180	1,100	60
800	110	900	150	1,150	50
900	90	1,000	120	1,250	40
1,000	70	1,100	80	1,350	30
1,100	50	1,200	50	1,450	20
1,200	30	1,300	30	1,550	10
and higher		and higher		and higher	

Notes: Distribution above is noncumulative. Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

vacancy rate increased from 10.8 percent in April 2000 to 14 percent as of September 2006, according to a survey by the Rio Grande Valley Apartment Association. Concessions, which typically include 1 month's free rent, are prevalent in the market. Apartment rents in the HMA average \$500 for a one-bedroom unit, \$600 for a two-bedroom unit, and \$850 for a three-bedroom unit. Many of the single-family homes and mobile homes in the rental market are priced even lower due to age and lack of amenities. Single-family homes constitute approximately 40 percent of the current rental market units in the area, and mobile homes account for an additional 12 percent.

Apartment construction, as measured by the number of building permits issued, slowed considerably during the 12 months ending September 2006. The number of multifamily units permitted declined 45 percent to 1,300 units compared with the previous 12-month period. The decrease in permit activity is attributed to the soft rental housing market and the overproduction of units in recent years.

The rental housing market is expected to slowly improve during the forecast period as production is reduced. The 700 units under construction are expected to satisfy the rental demand during the forecast period. The construction of approximately 300 units should begin in the last year of the forecast period to meet expected demand in early 2010. Estimated rental demand during the forecast period by number of bedrooms and monthly gross rent is presented in Table 5.

Data Profile

Table DP-1. McAllen-Edinburg-Mission HMA Data Profile, 1990 to Current

	1990	2000	Current	Average Annual Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	128,092	191,542	250,200	4.1	4.2
Unemployment Rate (%)	22.7	9.2	7.2		
Nonfarm Employment	101,600	157,100	202,400	4.5	4.0
Total Population	383,545	569,463	710,000	4.0	3.5
Total Households	103,479	156,824	205,200	4.2	4.2
Owner Households	72,715	114,580	156,100	4.7	4.9
Percent Owner (%)	70.3	73.1	76.1		
Renter Households	30,764	42,244	49,100	3.2	2.3
Percent Renter (%)	29.7	26.9	23.9		
Total Housing Units	128,241	192,658	253,571	4.2	4.3
Owner Vacancy Rate (%)	2.0	1.4	1.5		
Rental Vacancy Rate (%)	9.1	10.7	14.0		
Median Family Income	\$17,619	\$26,009	\$30,800	4.0	2.6

Note: Median family incomes are for 1989, 1999, and 2006.

Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 10/1/2006—Analyst's estimates

Forecast period: 10/1/2006–10/1/2009—
Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_McAllen-Edinburg-MissionTX.pdf.

Contact Information

L. David Vertz, Field Economist
Fort Worth HUD Field Office
817-978-9414
leon_d._vertz@hud.gov

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to
www.huduser.org/publications/econdev/mkt_analysis.html.