

Oil Boom's Benefits and Burdens: Worker Influx Stresses Supply of Affordable Housing

By Roy Lopez

The Permian Basin oil industry is flourishing, and the unintended consequences of the economic infusion have been resonating for the past several months. Fueled by strong crude oil prices that keep rig counts high and by technology improvements that reduce oil exploration risk, boom times are back in this part of the state.

The Permian Basin is in West Texas, and the heart of the region is Midland–Odessa. The 20-county area has roughly 550,000 residents and is growing rapidly. Since 2000, the combined populations of Midland and Ector Counties alone have risen by more than 40,000 to roughly 280,500, according to census figures. Median family incomes have also increased by more than a third.¹

“This region has found its catalyst for creeping out of a recession, and once again, the driver is found right under our feet,” said Jill Miller of the Odessa Housing Finance Corporation.

The impact on housing, specifically workforce housing, has been especially striking. City and county officials, community development groups, developers and financial institutions are rallying to address the problems, but barriers and sheer demand are impacting progress. People from across the country are coming to this employment-rich area to locate or take work in the oil industry and are finding that housing comes at a premium—if at all.

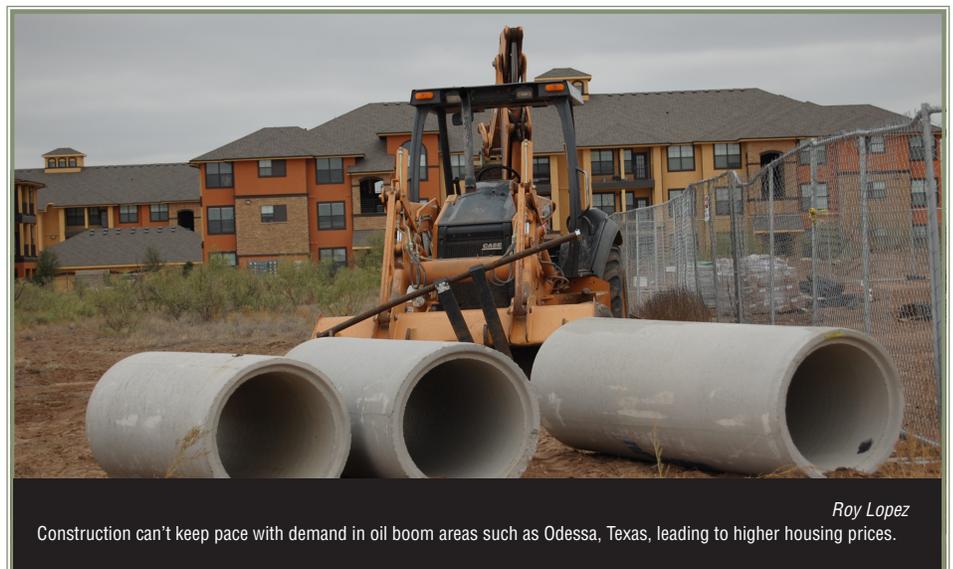
Inflated Prices, Scams

Word is spreading about the Permian Basin's boom and its enviable unemployment rate of around 3 or 4 percent. Forbes recently ranked Odessa and Midland first and second, respectively, on its list of best small cities for job growth. The energy sector is the vehicle, but multiplier effects on other local industries are growing and stretching human resources across the economy.

Anecdotes about housing in the region are becoming legendary. Miller tells of unimproved rental properties that three years ago leased for \$500 a month but today are renting for \$1,500 and have waiting lists of over eight months. Motels are at capacity and leasing for over \$500 a week, and housing scams have begun to surface.

Stories like these abound, and the ramifications are troubling, according to Odessa Salvation Army Lieutenant Joe Contreras. He reports that over 50 percent of those within his facility are working-homeless residents. “They have jobs, but once they get to town, they can't find housing ... and the situation is only getting worse,” Contreras said. The conditions have reached a critical juncture, he said, with reports of families living in cars and in storage units—not for lack of income, but for lack of affordable housing.

Reports of families doubling or even tripling up within a home are becoming more common. David Diaz, executive director of the Midland Community Development Corporation (CDC), said



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Construction can't keep pace with demand in oil boom areas such as Odessa, Texas, leading to higher housing prices.

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that “with limited lots to build on and strong population growth, the results are higher-priced and unorthodox housing solutions.”

“It’s a two-tiered problem: I not only see the shrinking inventory of workforce housing at affordable prices, I see a squeeze on traditional low- and moderate-income [LMI] residents who have been living here for years,” said city of Midland Community Development Manager Sylvester Cantu. The situation has been especially hard on LMI families, seniors and people with disabilities. Residents have seen their property values rise, but this is creating increased tax liabilities that place new burdens on homeowners and, indirectly, on renters. Renters are finding long-term leases scarce as landlords seek to increase rental rates more often.

Meanwhile, home prices are on the rise, with construction costs increasing due to such factors as the aggressive recruitment of construction workers into oil-related businesses. “Former construction workers are out in the oil patch, making twice as much as they used to make, which has created quite the demand for roofers, framers, handymen and general contractors,” noted Cantu.

More Homes Needed

According to city estimates, Midland alone needs 5,000 single-family and multifamily units to meet today’s demand. Private developers are responding, but, according to Shane Louder, senior vice president of Community National Bank, “those units tend to target a market that might be a bit out of reach for the average worker.”

“Our community needs affordable multifamily workforce housing,” Louder added. “Too much of our labor force living in hotels is unsustainable.”

Given average household income of just over \$50,000 for the counties of Midland and Ector, the estimated home price a family could reasonably afford

is between \$127,000 and \$143,000. “Our community’s biggest need is single-family homes priced between \$80,000 and \$140,000,” noted Cantu. “With the average starting home price in Midland well over \$240,000, there is a disconnect.”

“This has been a difficult situation. Too many residents are being priced right out of the market,” said Michael Marrero, assistant city manager for the city of Odessa.

Companies realize that many Permian Basin cities are not able to meet critical housing needs, so they develop their own temporary, self-contained units for workers. Some have begun to establish work camps for many of their oilfield staff. The camps are made up of single-resident occupancy units that house between 100 and 200 people, mostly men.

Infrastructure Development Behind

Many private sector single-family and multifamily developers are flocking to the area from Lubbock, Dallas and Austin in hopes of meeting part of the demand. However, housing development is increasingly delayed by the need for sewer and wastewater systems and roads.

“Private sector developers will be the primary partner in meeting the housing demand,” Marrero said. “The public sector’s role will be to annex, move the permitting process forward, fill financing gaps and develop infrastructure to expand the availability of developable land.”

The city of Odessa is undertaking \$65 million in capital improvements for water- and sewer-line extensions throughout the city, and several new multifamily low-income tax credit properties are under construction. In Midland, the city has been exploring density bonuses for developers. Density-bonus ordinances permit developers to increase the square footage or number of units allowed on a piece of property if they agree to restrict the rents or sales prices

of a certain number of the units for low-income or senior households.

The local banking industry also has been trying to respond to the need for housing. But competition is fierce, with private equity firms and banks looking to invest capital in this boom area.

“Our balance sheets are awash in liquidity because of the boom—we are always looking for opportunities,” said Community National Bank’s Louder.

In the past, Community National Bank partnered with Midland CDC on land assembly in South Midland, invested in low-income housing tax credits and provided interim construction financing for Midland CDC and Habitat for Humanity homes.

In the current environment, Louder said, the bank’s efforts to address housing needs have been held back by challenges that include a backlogged appraisal system.

Midland CDC has also felt the benefits and burdens of the current market. “Our entire housing inventory is presold. Our largest obstacle is finding available lots at reasonable prices,” said Diaz, noting that the CDC’s homes sell for an

average of \$119,000, up \$10,000 in one year. “However, the saving grace for our families has been historically low interest rates.”

Seeking Sustainable Solutions

The Permian Basin region is playing catch-up with housing as need far outpaces supply. The dynamics are evolving, but public and private partnerships are working to create sustainable solutions that address some of the demand. However, obstacles such as rising land prices and construction and utility costs threaten affordability. Other looming threats include mounting tax burdens to pay for infrastructure and schools.

Even with numerous barriers to overcome, the Permian Basin in many ways is well-positioned to manage growth. The area has become accustomed to boom-and-bust cycles. Banks and housing entities are cautious about overinflating the market. They learned that lesson the hard way in the 1980s when the area was left with a glut of housing after the bust.

Diaz said other areas of the state, notably the Eagle Ford Shale region, are struggling with similar housing shortages

and are looking to the Permian Basin for leadership on solutions. “We have been through this before,” he said. “We will roll up our sleeves and make affordable housing the area’s top priority again—it’s time.”

Note

¹ “Three Decades After Oil Bust, Permian Basin Booms Again,” by John MacCormack, *San Antonio Express-News*, Aug. 12, 2012.



Workers attracted to plentiful jobs in the Permian Basin often can't find affordable housing and must turn to motels such as this one in Odessa, Texas.

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