

**QUOTABLE** “Strong hiring pushed unemployment rates down in most Texas metros in 2006. The largest six metros reached five-year lows in their December unemployment rates.”

—D’Ann Petersen, Associate Economist

## APARTMENTS: Katrina Surge Beginning to Recede

Hurricane Katrina’s devastating blow in August 2005 forced a massive relocation from the Gulf Coast. The Texas Health and Human Services Commission estimates 251,000 people moved temporarily to Texas from New Orleans and other ravaged areas.

Houston welcomed 44 percent of the evacuees and Dallas/Fort Worth 26 percent.

The influx had a large impact on already improving apartment markets in these areas. Houston’s occupancy rate jumped from 88.4 percent in first quarter 2005 to 94 percent by year’s end, while D/FW’s rate rose from 89.6 percent to 92 percent, according to M/PF YieldStar.

The evacuees and robust job growth kept occupancy high in both metros for most of 2006, despite added supply. Toward year’s end, however, apartment markets softened as evacuees’ government-issued vouchers began expiring.

Houston’s apartment occupancy rate fell from 93.9 percent in the second quarter to 92.4 percent by year’s end. After climbing through September, D/FW’s rate slipped 0.9 percentage point to 92.8 percent in the fourth quarter.

While more evacuees are likely to leave, healthy job growth is expected to dampen the impact on Houston and D/FW apartment markets in 2007.

—D’Ann Petersen

## TRADE: New Facilities Diversifying Houston Port

Since opening in 1914, the Port of Houston has grown into a lynchpin of the mining and natural resources sector and one of the world’s largest petrochemical complexes, with more than 150 companies along the Houston Ship Channel.

In recent years, the port has become less reliant on energy and petrochemicals, growing into the nation’s second-largest in terms of tonnage. In 2005, it handled \$85.8 billion in cargo, more than 700 ships and 150,000 barges.

Increased traffic prompted the \$1.2 billion Bayport Expansion Project, which should generate 30,000 permanent jobs when completed in 15 years. The Bayport Container Terminal opened at the end of 2006, and it’s expected to gen-

erate 2,000 jobs in its first year and 9,800 by 2011.

Houston and its port have also benefited from Wal-Mart’s Baytown distribution center, opened in May 2005. The giant retailer will redirect more than 20 percent of its imports through Houston, and its market power is expected to attract other companies’ imports to the port.

These large projects, and the Port of Houston as a whole, have created jobs and helped diversify the region’s economy. They have even benefited the service sector through a cruise terminal that has boosted tourism enough to warrant plans for a new facility.

—Adriana Fernandez

## HOUSING: Prices Up, Affordability Down in El Paso

El Paso continues to absorb the shock of rising home prices, which are up 40 percent since 2003, exceeding the U.S. average.

The sharp appreciation is partly due to the metropolitan area’s job growth, fueled by rebounding U.S. industrial production and steady growth in Mexico’s economy and maquiladora industry.

Expectations for current and future housing demand have also been affected by the 2005 decision to double the size of El Paso’s largest employer, Fort Bliss.

Some analysts argue that El Paso’s home price increases are a correction in a historically underpriced market, while others say restrictions on local development are artificially inflating prices.

As prices have risen, affordability has fallen. Even so, an index comparing median family income with what’s needed to qualify for a conventional mortgage on a median-priced home remains within the range of recent experience.

El Paso’s current affordability index ranks among the lowest for Texas cities. Joining El Paso at the bottom are Brownsville and McAllen, suggesting that low median family incomes on the border factor heavily into these index levels.

The Dallas Fed’s *Crossroads* newsletter contains a more thorough analysis of El Paso’s housing market. It can be found on the Bank’s web site at [www.dallasfed.org/research/crossroads/index.html](http://www.dallasfed.org/research/crossroads/index.html).

—Jesus Cañas