

COMPREHENSIVE MARKET ANALYSIS REPORTS



Policy Development & Research

**Analysis of the
Killeen-Temple, Texas
Housing Market
As of January 1, 2006**

ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

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.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis—January 1, 2006 (Current date)—and from the Current date to a Forecast date—January 1, 2009. In the analysis, 1990 and 2000 refer to the dates of the decennial census—April 1 unless specified otherwise. This analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 36 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market conditions on the as-of date of the analysis. This analysis was prepared by Dennis Shegos, the Division's Economist in HUD's Minnesota State Office, based on fieldwork conducted in September 2005. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Shegos at 612-370-3000, ext. 2283, and at dennis_shegos@hud.gov.

Housing Market Area

The Killeen-Temple, Texas Housing Market Area (HMA) is located in central Texas, 60 miles north of Austin and 125 miles south of Dallas. The HMA is defined as Bell, Coryell, and Lampasas Counties. The cities of Killeen and Temple are located in Bell County. Killeen, the largest city in the HMA, is in western Bell County adjacent to Fort Hood Army Base (AB), while Temple is 25 miles to the east next to Interstate 35.

Summary

The major influence on the economy of the HMA is Fort Hood AB. A substantial population of military retirees and their dependents also has a large impact on the local economy.

Nonfarm employment increased by 2,600 jobs during the previous 12 months. Most of the new jobs were in the service-providing sectors, with the largest gains recorded in the leisure and hospitality and the education and health services sectors.

Since 1990, the rate of population growth in the HMA has been relatively steady, averaging approximately 2.0 percent annually. Since 2000, net natural change (resident births minus resident deaths) has accounted for 70 percent of the increase in population.

Since 1997, the number of building permits for single-family homes has increased every year. The high level of building is a result of growing population and low mortgage interest rates. A record 2,710 units were permitted during 2005, a 7-percent increase over the previous year.

Since 2000, multifamily building permit activity has been very strong, averaging 770 units annually. More than 80 percent of this activity has been in structures of two to four units.

The market for existing sales in the HMA remains robust. For 2005, in both the Killen and Temple areas, sales were significantly greater than during the previous year. The forecast demand for new sales housing for the next 3 years is estimated to be 6,500 homes.

Current conditions in the Killen-Temple rental market are balanced. A demand for approximately 1,930 new rental units in the HMA is estimated during the next 3 years.

Economy of the Area

As the major influence on the economy of the Killeen-Temple HMA, Fort Hood AB, which encompasses 327 square miles, is the largest armored training installation in the country. The Texas State Comptroller estimates that the base has a \$6 billion impact on the economy of Texas, much of which is centered in the HMA. Fort Hood AB has a current military strength of approximately 49,000, with 11,000 civilian and contract personnel employed on the base.

In addition to its training mission, the base is home to the 1st Cavalry and 4th Infantry Divisions, which currently are alternating tours of duty in the Middle East. The 2005 Base Realignment and Closure Commission recommended the transfer of the 4th Infantry Division Headquarters and a brigade combat team to Fort Carson AB, Colorado. During 2006, troop strength is expected to increase to more than 50,000 with the temporary deployment of additional troops to the base; however, during the remaining 2 years of the forecast period, troop levels are expected to drop back to approximately 45,000.

Medical facilities play a significant role in the economy of the HMA, particularly in the city of Temple. Scott & White Hospital and Clinic is one of the largest medical centers in the state, with more than 6,000 employees. It collaborates as a teaching hospital with the College of Medicine at Texas A&M University. The hospital operates 19 satellite offices and clinics in the metropolitan area and surrounding region. The Olin E. Teague Veterans Center employs more than 2,800 people and recently built a 300-bed acute care hospital and a 60-bed nursing home. The campus also has an independent living residence for income-qualified veterans. Other major private-sector employers in the HMA include Wilsonart International, a producer of plastic laminates, with 1,700 employees, and McLane Company, a provider of computer software and distribution services, with 1,500 employees.

With the return in 1992 of deployed troops from the Gulf War to Fort Hood AB, employment in the HMA increased at a relatively rapid pace. Between 1990 and 1999, nonfarm employment increased by approximately 2,600 jobs annually, or 3.5 percent. From 2000 through 2005, resident employment growth in the HMA averaged 2,800 jobs annually, or 2.2 percent. In recent years, family members of deployed troops have chosen to stay in the area in greater numbers than during past conflicts, resulting in a more stable economy and housing market. Approximately 85 percent of the recent increase in nonfarm employment in the HMA has been in the service-providing sector. An estimated 900 jobs were added in the past 12 months in the leisure and hospitality and the education and health services sectors. Data on labor force, total employment, and nonfarm employment trends are presented in Tables 1 and 2.

Household Incomes

The estimated 2005 median family income in the Killeen-Temple HMA was \$47,500, compared with \$40,882 in 1999.

Population

Although the rate of civilian employment growth since 2000 has been slower than during the 1990s, the population has continued to increase at about the same rate. As of the Current date, the population of the Killeen-Temple HMA is estimated to be 369,500, an average annual increase of 6,750, or 2.0 percent, since 2000. The current population of the city of Killeen is estimated to be 103,300, an increase of 2,850 annually since 2000. The population of the city of Temple increased by 750 a year since 2000 to an estimated 58,800 as of the Current date.

The largest factor in population growth in the HMA has been net natural change. Since 1990, net natural change accounted for approximately 70 percent of the increase in population. Since 2000, net in-migration has averaged 2,000 people a year, approximately the same annual volume as occurred during the 1990s.

As of the Current date, military personnel, civilian federal government employees, defense contractors, and their dependents number an estimated 110,000 people, or 30 percent of the total population of the HMA. With the increased growth in civilian employment expected in the HMA during the forecast period, the population is expected to increase as well. As of the Forecast date, the population of the HMA is forecast to be 391,200, or an annual average increase of 7,225, or 1.9 percent. Trends in population from 1990 through the Forecast date are presented in Table 3.

Households

The trend in household growth in the HMA parallels the change in population. Between 1990 and 2000, the number of households increased at an annual rate of 2,300, or 2.3 percent. Since 2000, the number of households has been growing at an average rate of 2,675 annually. More than 60 percent of the increase in households has occurred in the cities of Killeen and Temple. As of the Current date, it is estimated that 127,400 households are in the HMA. Household growth is expected to continue at an annual rate of 2.3 percent during the forecast period, reaching approximately 136,400 by the Forecast date. Table 3 presents trends in household change from 1990 through the Forecast date.

Military Housing

Fort Hood AB contains 6,200 units of military-family housing. The housing for families of officers and enlisted personnel ranges from two bedrooms to five bedrooms, with an estimated 23,000 military personnel and their dependents occupying this housing. In 2001, these units were privatized under the Army Residential Communities Initiative and are now privately owned and managed. Many of the units and communities have undergone extensive rehabilitation, including the addition of playgrounds, community centers, and recreational facilities. Demand for on-base family housing is reported to be very high because of the low cost and proximity to work. Vacancies occur only when units turn over and waiting periods of 1 year or more are common for some of the larger units.

An additional 15,000 soldiers live in traditional dormitories on the post and 30,000 soldiers, along with their dependents, live off base. Most of these military households live within 10 miles of Fort Hood, in Killeen, Copperas Cove, and Harker Heights. Approximately 50 percent of these military residents are estimated to be homeowners.

Housing Inventory

The supply of housing in the HMA has continued to increase to accommodate household growth and increased demand. Since 2000, the inventory has increased an average of

2,875 units annually. Table 4 presents housing inventory, tenure, and vacancy trends from 1990 to the Current date for the HMA.

The trend in residential building activity parallels the changes in force strength at Fort Hood AB and the local economy. Except for the first 2 years of the 1990s, homebuilding has been relatively strong. With the deployment of troops to the Middle East in 1990 and 1991, demand for new homes in the HMA was quite low. In those 2 years, permits were issued for fewer than 700 single-family homes. As the economy improved nationally and locally and the troops returned, homebuilding increased significantly in response to increased demand. Between 1992 and 1999, single-family building permit activity averaged 1,425 annually. Since 2000, activity has steadily increased each year, averaging 2,025 annually.

The recent strength of the new sales market and homebuilding is attributable, in large part, to low mortgage interest rates, which have made homeownership more affordable. A record 2,710 units were permitted during 2005, a 7-percent increase over the previous year. Since 2000, more than 55 percent of the new single-family homes in the HMA have been built in the city of Killeen, followed by approximately 15 percent each in the cities of Temple and Harker Heights. Trends in residential building permit activity from 1990 through December 31, 2005, are presented in Table 5.

An increasing number of renter households are moving to homeownership because of low mortgage rates, the relatively low cost of sales housing in the HMA, and the healthy local economy. In 1990, 53 percent of the households in the HMA were owners. By 2000, the homeownership rate increased to 57 percent and currently is 60 percent. The shift to homeownership is anticipated to continue during the forecast period, even with the expected rise in interest rates projected by some analysts.

From 1990 through 1994, multifamily construction activity was extremely low because of the soft rental market conditions. During that period, permits were issued for only 131 multifamily units. Activity increased between 1995 and 1999 to an average of 525 units annually due to increased demand and improving conditions. Apartment production since 2000 has increased even more, with 775 units permitted annually. Activity in 2005 was down to 489 units; however, the decline is explained by the record 1,125 units permitted in 2004. Since 2000, nearly 70 percent of the multifamily activity in the HMA occurred in the city of Killeen. More than 80 percent of the apartment construction in the HMA since 2000 has been in structures of two to four units, with three or more bedrooms in an apartment. The atypical number of units with a large number of bedrooms reflects the substantial demand for rental housing by military families with dependents.

Manufactured housing as a share of the housing inventory has increased steadily since 1990. Between 1990 and 2000, 3,450 manufactured homes were added to the inventory. The current inventory of manufactured homes is 13,850.

Sales Market Conditions

Conditions in the sales market are heavily influenced by demand from military-connected households. The relatively lower cost of existing and new homes in the HMA and longer

tours of duty for the military, which have increased to between 5 and 7 years, make homeownership an affordable and attractive option, particularly for first-time buyers. The 2005 annual Coldwell Bankers Home Price Comparison Index ranked the single-family housing market in the Killeen-Temple HMA as the most affordable out of 344 areas surveyed nationally. Most existing single-family homes in the HMA are priced between \$70,000 and \$140,000.

Many military retirees choose to stay in the area because of the affordable housing costs and the availability of military-related services. The sales market is currently balanced with a sales vacancy rate of 2.0 percent.

Sales in the HMA remain robust. Beginning in March 2005, after the 1st Cavalry Division returned from deployment, the market became very active, with multiple sales bids commonplace. The Fort Hood Board of REALTORS[®] reported the sale of 2,870 existing homes during 2005, a 50-percent increase over the previous year. The median sales price increased by 10 percent to \$103,000.

During this period, the market in the Temple area was also strong, with a 22-percent increase in the number of properties sold. The average sales price increased 5 percent, reaching \$125,500. According to the Temple-Belton Board of REALTORS[®], the market for existing homes in the area is not affected by the troop movements at Fort Hood.

The market for new homes is also strong. Most new homes are priced between \$120,000 and \$180,000. Typically, these homes have three bedrooms and two baths and are between 1,600 and 2,300 square feet in size. Common features include vaulted ceilings, fireplaces, and attached two-car garages. Custom homes in Morgan's Point Resort City, located west of Temple on Belton Lake, are priced from \$250,000 to \$500,000. Salado, located in southern Bell County, also has many upscale homes, with many of its residents making the 45-minute commute to Austin.

Rental Market Conditions

Historically, the rental market in the HMA has had a relatively high vacancy rate, reflecting the high turnover of military-connected households. As of April 1990, with the deployment of a large number of troops to the Middle East, the vacancy rate was 13.7 percent. In 2000, the vacancy rate was 8.2 percent and conditions were relatively balanced. Rents have been increasing by 1 or 2 percent annually in recent years. It is estimated that the current rental vacancy rate is approximately 9 percent. With two divisions alternating deployments, the rental market has been relatively stable. In recent years, more spouses of deployed military personnel have remained in the area. Conditions are expected to remain balanced in the short term given the current levels of apartment construction and anticipated increase in renter households.

Apartments in recently constructed developments rent for \$700 and \$800 a month for one- and two-bedroom units, respectively. Rent for a three-bedroom unit starts at approximately \$850. Standard features include a full range of appliances, air

conditioning, ceiling fans, and cable hookup. Amenities often include pools, fitness centers, community rooms, and play areas for children.

Most of the newly built rental inventory tends to be modest in design, although some developments are more upscale. Lease-up in these higher rent developments has taken longer than normal. Given the level of incomes locally, fewer households can afford rents at these levels. In addition, at these higher rent levels, sales housing is an affordable competitive option. Single-family housing makes up approximately one-third of the rental inventory, with structures of two to four units accounting for another 20 percent. Two- and three-bedroom units in these multifamily structures typically have rents ranging from \$600 to \$1,000.

Forecast Housing Demand

Basing estimates on anticipated household growth and current market conditions, a demand for approximately 6,500 new sales housing units and 1,930 new rentals units is estimated during the 3-year forecast period. Most of the demand for sales units is expected to be met by single-family detached homes. Manufactured homes are anticipated to account for approximately 10 percent of new home sales.

Most of the demand for rental housing is expected to be for larger size units with three bedrooms, reflecting the continued demand by military-connected families with dependents. Estimates of qualitative demand for rental and sales housing are presented in Tables 6 and 7, respectively.

Table 1
Labor Force and Employment
Killeen-Temple HMA
1990 to December 31, 2005

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Labor Force	100,700	99,300	104,200	110,500	113,200	117,600	120,300	121,900	122,400	123,800
Employment	93,200	92,400	97,100	104,100	106,900	111,700	114,400	115,700	117,100	119,400
Unemployment	7,500	6,825	7,075	6,375	6,225	5,875	5,975	6,225	5,375	4,350
Rate (%)	7.4	6.9	6.8	5.8	5.5	5.0	5.0	5.1	4.4	3.5

	2000	2001	2002	2003	2004	2005
Labor Force	134,000	135,800	141,000	143,400	146,000	150,200
Employment	128,000	128,900	132,400	134,100	137,600	142,100
Unemployment	5,975	6,975	8,575	9,325	8,350	8,075
Rate (%)	4.5	5.1	6.1	6.5	5.7	5.4

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 2
Nonfarm Employment by Industry
Killeen-Temple HMA
1990 to December 31, 2005 (1 of 2)

Employment Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total Nonfarm	76.6	77.2	80.4	85.7	90.0	94.9	97.6	100.6	103.6	106.3
Goods-Producing	11.5	11.3	11.9	13.2	14.0	14.6	14.4	14.0	14.0	14.7
Nat. Res., Mining & Construction	2.8	2.6	3.0	3.6	4.1	4.4	4.4	4.6	4.9	5.1
Manufacturing	8.8	8.7	8.9	9.5	9.8	10.2	10.0	9.4	9.2	9.6
Service-Providing	65.1	66.0	68.5	72.5	76.1	80.3	83.2	86.6	89.6	91.6
Trade	12.6	12.5	13.2	14.0	14.7	16.4	16.8	17.1	16.5	17.1
Wholesale Trade	2.3	2.5	2.8	3.4	3.3	3.5	3.3	3.6	3.6	3.8
Retail Trade	10.3	10.0	10.4	10.6	11.4	12.9	13.5	13.5	12.9	13.3
Transport. & Utilities	1.5	1.5	1.7	1.7	1.7	1.9	2.3	2.5	2.6	2.7
Information	1.5	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Financial Activities	3.7	3.5	3.8	4.1	4.1	4.5	4.6	4.8	4.8	4.9
Prof. & Bus. Svcs.	3.5	3.6	3.4	3.5	3.8	4.1	5.4	6.3	8.1	9.0
Edu. & Health Svcs.	10.3	10.8	11.2	12.1	12.8	13.3	13.3	13.9	14.4	14.2
Leisure & Hospitality	6.0	6.0	6.5	7.3	8.1	8.5	8.5	8.8	9.1	9.4
Other Services	2.7	3.0	3.0	3.1	3.6	3.7	3.8	3.9	4.0	4.1
Government	23.3	23.8	24.5	25.4	26.0	26.6	27.2	28.0	28.7	28.8
Federal	8.5	8.5	8.4	8.5	8.3	8.2	8.5	8.3	8.3	8.2
State	3.2	3.3	3.3	3.3	3.4	3.5	3.5	3.8	3.9	3.9
Local	11.6	12.0	12.9	13.6	14.3	14.9	15.3	15.9	16.4	16.6

Notes: Figures are in thousands.
 Numbers may not add to totals due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics—North American Industry Classification System (NAICS)

Table 2
Nonfarm Employment by Industry
Killeen-Temple HMA
1990 to December 31, 2005 (2 of 2)

Employment Sector	2000	2001	2002	2003	2004	2005
Total Nonfarm	108.5	109.0	110.5	109.8	112.2	114.8
Goods-Producing	14.9	14.5	14.3	13.4	13.8	14.2
Nat. Res., Mining & Construction	5.0	5.2	5.5	5.3	5.7	6.0
Manufacturing	9.8	9.2	8.8	8.1	8.1	8.2
Service-Providing	93.6	94.5	96.2	96.3	98.3	100.6
Trade	17.8	18.0	17.5	16.7	16.7	16.9
Wholesale Trade	4.1	4.0	3.6	3.4	3.5	3.6
Retail Trade	13.7	14.0	13.9	13.3	13.2	13.4
Transport. & Utilities	3.0	3.5	3.8	3.8	3.9	3.9
Information	1.4	1.4	1.4	1.4	1.5	1.6
Financial Activities	4.9	5.0	5.3	5.3	5.8	6.0
Prof. & Bus. Svcs.	9.5	8.6	8.7	8.5	8.8	8.9
Edu. & Health Svcs.	14.6	15.0	15.3	15.5	15.8	16.2
Leisure & Hospitality	9.5	9.6	9.7	9.8	10.1	10.8
Other Services	4.1	4.1	4.2	4.3	4.5	4.7
Government	28.8	29.3	30.3	30.5	30.9	31.6
Federal	8.0	8.0	8.0	7.6	7.8	8.3
State	3.9	3.8	4.0	4.0	3.9	3.9
Local	17.0	17.5	18.3	18.8	19.2	19.4

Notes: Figures are in thousands.

Numbers may not add to totals due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics—NAICS

Table 3
Population and Household Trends
Killeen-Temple HMA
April 1, 1990 to January 1, 2009

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Killeen-Temple HMA	268,822	330,714	369,500	391,200	6,175	2.1	6,750	2.0	7,225	1.9
Households										
Killeen-Temple HMA	88,985	112,011	127,400	136,400	2,300	2.3	2,675	2.3	2,975	2.3

Notes: Rate of change is calculated on a compound basis.
 Average annual changes rounded for comparison.
 Averages may not add to HMA total due to rounding.

Sources: 1990 and 2000—U.S. Census Bureau
 Current and Forecast—Estimates by analyst

Table 4
Housing Inventory, Tenure, and Vacancy
Killeen-Temple HMA
1990, 2000, and January 1, 2006

	Killeen-Temple HMA		
	1990	2000	Current
Total Housing Inventory	101,120	122,159	138,700
Occupied Units	88,985	112,011	127,425
Owners	47,365	63,421	75,675
%	53.2	56.6	59.4
Renters	41,620	48,590	51,750
%	46.8	43.4	40.6
Vacant Units	12,135	10,148	11,275
For Sale	1,515	1,439	1,550
Rate (%)	3.1	2.3	2.0
For Rent	6,594	4,338	5,025
Rate (%)	13.7	8.2	8.9
Other Vacant	4,026	4,371	4,700

Sources: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by analyst

Table 5
Residential Building Permit Activity
Killeen-Temple HMA
1990 to January 1, 2006

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Killeen-Temple HMA										
Total	261	454	1,314	1,799	1,608	2,195	2,216	1,836	1,678	1,515
Single-family	259	445	1,310	1,769	1,522	1,608	1,495	1,177	1,247	1,277
Multifamily	2	9	4	30	86	587	721	659	431	238

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

	2000	2001	2002	2003	2004	2005
Killeen-Temple HMA						
Total	1,897	2,325	2,984	2,687	3,651	3,199
Single-family	1,411	1,613	1,873	1,977	2,534	2,710
Multifamily	486	712	1,111	710	1,117	489

Note: Data for 2005 includes permits through December.
 Source: U.S. Census Bureau, Building Permits Survey

Table 6
Estimated Qualitative Demand for New Market-Rate Rental Housing
Killeen-Temple HMA
January 1, 2006 to January 1, 2009

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
600	590	750	390	900	950
650	500	800	280	950	840
700	450	850	230	1,000	750
750	390	900	180	1,050	620
800	320	950	130	1,100	490
850	250	1,000	70	1,150	420
900	180	1,050	20	1,200	350
		and higher			
1,000	110			1,300	220
1,100	60			1,400	120
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

Table 7
Estimated Qualitative Demand for New Market-Rate Sales Housing
Killeen-Temple HMA
January 1, 2006 to January 1, 2009

Price Range (\$)		Units of Demand
From	To	
100,000	119,999	350
120,000	139,999	800
140,000	159,999	1,600
160,000	179,999	1,950
180,000	199,999	1,100
200,000	219,999	500
220,000	239,999	150
240,000	and higher	50

Source: Estimates by analyst