About this Report

Real Estate Center economists continuously monitor many facets of the global, national, and Texas economies. Texas Housing Insight is a summary of important economic indicators that help discern trends in the Texas housing markets. All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

This monthly publication provides data and insights on the Texas housing markets. We hope you find them useful. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

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October 2018 Summary

Texas housing sales rebounded 11.8 percent in October but remained on a flat trajectory. The shortage of homes priced below $300,000 and rising interest rates continued to weigh on overall activity. Inventories inched forward but at an insufficient rate relative to demand, and housing starts fell for the fifth time in six months. Despite stability in lot development and single-family building permits, new construction appears incapable of relieving the prolonged shortage of lower-priced homes. Housing demand showed signs of normalization, particularly in North Texas, after a multiyear period of unsustainable growth. Steady population and job growth, however, suggest healthy demand for the duration of the current economic expansion. The recent pause in sales activity calmed home-price appreciation, but rising interest rates hindered affordability across the state.

Supply*

The Texas Residential Construction Cycle (Coincident) Index, which measures current construction activity, reached its highest level since 2007 as construction employment and wages continued to elevate. This momentum, however, may moderate in the fourth quarter as the Texas Residential Construction Leading Index (RCLI) declined for the second straight month. Rising interest rates, a dip in housing starts, and fewer multifamily permits weighed on the residential construction outlook, but robust economic growth upheld a strong foundation.

Single-family housing construction permits hovered near a cycle-high as builders scrambled to meet demand. Texas remained the leader in permits issued with 9,418 (nonseasonally adjusted), accounting for 15 percent of the national total. Dallas overtook Houston’s top ranking with more than 3,000 permits issued, led by growth in Collin and Tarrant Counties. Houston permits fell below 3,000 for the first time this year as the summer building season came to a close. Austin fell to seventh in the national rankings with 1,275, while San Antonio issued 707 permits, a YTD-high after seasonal adjustment.

Despite increased lot development and building permits, total housing starts fell for the fifth time in six months, erasing most of the first-quarter gains. Growth in earlier stages of the construction-cycle should pressure starts upward, but the current pace is insufficiently matching population growth and deepening housing affordability problems. Single-family private construction values declined across the Texas Urban Triangle and exhibited an overall flat trend. In the multifamily sector, starts recovered most of last quarter’s losses despite flattening rent growth.

A recent sales slowdown provided some breathing room for the supply of active listings, but the Texas months of inventory (MOI) remained suppressed below four months. Around six months of inventory is considered a balanced housing market. A spike of new listings to start the year also provided upward pressure, but the impact is dissipating. Listing inventories of single-family homes

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priced more than $400,000 exhibited the largest uptick this year, reaching 6.4 MOI after bottoming out below 5.9 MOI in February. In the $200,000-$300,000 range, the MOI reached an annual high of more than 3.2 months. The market for homes priced less than $200,000 remained the exception, where the MOI held at 2.8 months with constant pressure downward.

The MOI reached YTD highs in all the major metros except Fort Worth but remained well below equilibrium levels. A steady stream of new MLS listings lifted the MOI up to 3.8 and 3.4 months in Houston and San Antonio, respectively. On the other hand, Austin and Dallas MOI reached 2.7 and 3.0 months, respectively, amid a recent sales dip. The Fort Worth MOI fell below 2.4 months after six straight monthly increases.

**Demand**

**Total housing sales** rebounded 11.8 percent but remained on a flat trajectory. Rising interest rates, declining affordability, and supply shortages continued to hinder activity on homes priced less than $300,000, which accounts for nearly 70 percent of sales through an MLS. Despite the housing market’s moderation, closed listings above the bottom price cohort ($200,000) hovered around record highs.

Sales in North Texas rebounded in October but remained negative YOY as the market adjusted after multiple years of explosive growth. Decreased housing affordability weakened demand at the lower end of the market. In Austin and San Antonio, YOY growth inched into positive territory after slipping in September. Houston surpassed 7,500 monthly sales for the first time this year, led by gains in the $200,000-$300,000 range.

Robust economic growth and the healthy labor market held Texas’ **average days on market** (DOM) below two months as homes continued to sell at a rapid clip. The DOM trended similarly at 59 days in Austin, while averaging 57 and 56 days in Houston and San Antonio, respectively. Dallas demand methodically softened over the past year, particularly in the lower end of the market, pushing the DOM closer toward 50 days. Fort Worth demand showed slight signs of easing but maintained a DOM at 40 days.

Statewide, the demand for homes priced under $200,000 remained robust as the DOM balanced at a record-low 57 days. This cohort accounted for the largest proportion of sales through an MLS at 38 percent but was remarkably lower than its 72 percent share in 2011. Demand was strongest in the $200,000-$300,000 range (54 DOM), which encompasses more activity in the major metros. Demand for homes priced above $500,000, however, inched above 86 days after sinking below 80 days in June.

Interest rates jumped to a seven-year high amid a booming national economy and rising inflation-expectations. The **ten-year U.S. Treasury bond yield** reached 3.15 percent for the first time since 2011, while the **Federal Home Loan Mortgage Corporation’s 30-year fixed-rate** elevated to more than 4.8 percent. Higher interest rates disproportionately affected Texas refinance mortgage
applications, which slid 38 percent since January. Rising rates also pulled down mortgage applications for new-home purchases, but YOY growth remained positive.

**Prices**

Upticks in inventory moderated home-price gains after substantial post-recession appreciation. The Repeat Sales Indices for the major metros continued to converge following the North Texas boom and Houston’s slowdown after the 2014 oil bust. In Dallas and Fort Worth, the repeat sales indices stabilized at 4.0 and 5.2 percent YOY growth, respectively. Annual price growth decelerated in Austin and San Antonio to 3.3 and 3.2 percent, respectively, while dipping below 2.6 percent in Houston.

Despite the moderation, the Texas median home price increased to $235,200. Every major metro except Dallas broke record levels, led by Austin at $314,900. The San Antonio median price jumped $5,300 from September to October to a total of $227,400, while Houston’s median reached $237,400. The Dallas median price dipped below $281,600 after breaking record levels in September. In Fort Worth, the median home price inched closer to $236,700 amid major supply shortages. The median price per square foot elevated across the metros as consumer preferences shifted toward smaller homes to combat declining affordability.
Supply

Residential Construction Coincident and Leading Indicator
(Index Jan 2007 = 100)

Note: Trend-Cycle Component.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

Single-Family Housing Construction Permits
(Index Jan 2007 = 100)

Note: Trend-Cycle Component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University
Note: Trend-Cycle Component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University
Note: Trend-Cycle Component.
Sources: U.S. Census Bureau and Bank of Tokyo-Mitsubishi UFJ

Note: Inflation adjusted. Trend-Cycle Component.
Source: Dodge Analytics
Note: Trend-Cycle Component. Months of inventory for the United States is estimated using weights for all existing homes and new single-family homes; new nonsingle-family homes are not included. Texas includes all existing and new homes. For more information, see Months of Inventory.
Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

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Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University
Texas Current Months of Inventory by Price Cohort
(October 2018)

Texas Existing and New Home Months of Inventory
(Months)

Note: Seasonally adjusted.
Source: Real Estate Center at Texas A&M University

Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University
Major Metros Existing Home Months of Inventory

Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University

Major Metros New Home Months of Inventory

Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University
Demand

Total Housing Sales
(Index Jan 2007 = 100)

Source: Real Estate Center at Texas A&M University.

Texas Total Housing Sales by Price Cohort
(Index Jan 2011 = 100)

Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University.
**Major Metros Total Housing Sales**
*(Index Jan 2007 = 100)*

- Austin-Round Rock
- Dallas-Plano-Irving
- Fort Worth-Arlington
- Houston-The Woodlands-Sugar Land
- San Antonio-New Braunfels

Note: Trend-Cycle Component.
Source: Real Estate Center at Texas A&M University.

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**Texas Homes Days on Market**
*(Days)*

- Existing Home Days on Market
- New Home Days on Market

Note: Trend-Cycle Component. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Trend-Cycle Component. For single-family homes.

Source: Real Estate Center at Texas A&M University
Note: Trend-Cycle Component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Note: Seasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board
Texas Mortgage Applications
(Year-over-Year Percentage Change)

Source: Mortgage Bankers Association

Prices

Real Estate Center Repeat Sales Housing Price Index
(Year-over-Year Percentage Change)

Note: The Repeat Sales Housing Price Index tracks real home price appreciation for residential single-family homes.
Source: Real Estate Center at Texas A&M University
United States Existing and New Home Median Sales Price

Note: Trend-Cycle Component. For single-family homes.
Source: Federal Reserve Bank of St. Louis

Texas Existing and New Home Median Sales Price

Note: Trend-Cycle Component. For single-family homes.
Source: Real Estate Center at Texas A&M University
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