



# TEXAS HOUSING INSIGHT

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REPORTING SEPTEMBER 2018 DATA

**TECHNICAL REPORT**

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## 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](mailto:info@recenter.tamu.edu).

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Data current as of November 1, 2018

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## September 2018 Summary

Texas housing sales fell 2.5 percent in the third quarter despite a record-breaking July. The shortage of homes priced below \$300,000 and rising interest rates continued to weigh on overall activity. Homes continued to fly off the market at an average of under 60 days, and mortgage applications for purchases held steady, corroborating the strength of demand. On the supply side, inventories inched forward as developers rushed to satisfy the market. The number of newly developed vacant lots for homes in the \$200,000-\$300,000 price range increased in all the major metros, pushing single-family permits upward. These gains should stimulate housing starts, which stepped back during the third quarter. The supply expansion calmed home-price appreciation after an extended hot streak. Despite a recent bump in real wages, rising interest rates hindered affordability across the state, particularly at the lower end of the market.

### Supply\*

The Texas **Residential Construction Cycle (Coincident) Index**, which measures *current* construction activity, reached its highest level since 2008 as construction wages continued to elevate. This momentum, however, may moderate in the fourth quarter as the Texas **Residential Construction Leading Index (RCLI)** ticked down for the first time this year. Rising interest rates and a slowdown in housing starts weighed on the residential construction outlook, but robust economic growth upheld a sturdy lower bound.

Supply activity remained stable at the earliest stage of the construction cycle as the number of new **vacant developed lots** (VDLs) hovered around a cycle high. Dallas-Fort Worth (DFW) led the way with more than 32,000 VDLs established year to date (YTD), its strongest three-quarter stretch since 2006. San Antonio's 8,845 new VDLs YTD also reached a decade high. Austin and Houston developed 11,339 and 21,933 new lots, respectively, through the third quarter and showed signs of trending upward. All of the major metros accelerated VDL creation for the \$200,000-\$300,000 home-price range, but developers in Austin and DFW continued to focus on higher cohorts.

**Single-family housing construction permits** followed VDLs upward, increasing 5.1 percent quarter over quarter (QOQ) after strong gains in July. Texas remained the U.S. leader in permits issued, accounting for 16 percent of the national total. Houston and DFW topped the metropolitan rankings, issuing 3,061 and 2,912 nonseasonally adjusted permits in September, respectively. Fort Worth alone issued 819 permits as North Texas growth extended to the suburbs. In Austin and San Antonio, permits fell to 1,187 and 631, respectively, after a strong start to the summer.

Despite increased VDLs and building permits, total **housing starts** dropped 13.5 percent QOQ as builders grappled with labor shortages and elevated input costs. The multifamily residential sector retracted large gains earlier this year, while single-family housing starts fell by double digits QOQ across the major metros. Austin and Houston, however, maintained positive YTD growth at 4.0 and

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\* All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month over month, unless stated otherwise.

10.9 percent, respectively. In DFW and San Antonio, single-family starts of homes priced below \$200,000 accounted for most of the quarterly contraction. Rising lot development in this cohort should help starts rebound in coming months.

Single-family **private construction values** ticked up 2.6 percent QOQ as activity flowed out of the bottom price cohort. San Antonio posted the largest quarterly increase at 14.4 percent, followed by Austin and DFW at 3.5 and 1.0 percent, respectively. Houston's construction values leveled off after peaking in July.

The Texas **months of inventory** (MOI) maintained its slow and steady climb to 3.6 months after bottoming out at 3.3 MOI in February. Around six months of inventory is considered a balanced housing market. Upward pressure, however, may dissipate as new MLS listings settle around more typical levels after spiking in the first half of the year.

Listing inventories expanded across the price spectrum with large gains occurring at the high-end market (homes priced more than \$500,000), where the MOI rose above nine months. In the \$200,000-\$300,000 range, the MOI reached an annual high of 3.2 months. The market for homes priced less than \$200,000 remained the exception, where the MOI sank below 2.8 months and will likely drop further.

The MOI reached YTD highs in all the major metros except Fort Worth but remained well below equilibrium levels. A dip in sales lifted the MOI up to 2.6 and 2.9 months in Austin and Dallas, respectively. In Houston and San Antonio, the MOI ticked up to 3.8 and 3.4 months, respectively. In Fort Worth, the supply of active listings receded below 2.4 months after six straight monthly increases. The MOI for homes priced below \$200,000 held at under 1.2 months.

## **Demand**

Third-quarter housing sales fell 2.5 percent after a lackluster end to the summer season. Transactions declined in both the new- and existing-home markets. Rising interest rates and supply shortages continued to hinder activity on homes priced below \$300,000, which accounts for nearly 70 percent of sales through an MLS.

Softened demand in this price cohort weighed heavily on the Dallas market, pulling total sales down 5.3 percent QOQ. The search for lower-priced housing pushed activity outside the city's core into surrounding counties and the Fort Worth metropolitan division. Affordability issues at the lower end of the market pulled Austin and San Antonio's sales down 2.5 and 0.8 percent, respectively. New-home sales flattened in both central Texas markets. Sales of homes priced more than \$300,000 cooled in Houston, pulling total transactions down 3 percent QOQ. The current boom in new-home sales, however, continued to trend near a cycle-high.

Despite the drop in sales, Texas' economic expansion strengthened housing demand. The **average days on market** (DOM) dropped below 58 days as homes continued to sell at a rapid clip. The Austin and San Antonio DOM trended at a similar 58-day average, while homes sold slightly faster

in Houston at an average of 55 days. Dallas demand methodically softened over the past year after averaging below 40 DOM between 2015 and 2017. The DOM, however, remained stable for homes priced more than \$300,000. Fort Worth demand showed slight signs of easing but maintained a DOM below 40 days.

Statewide, the demand for homes priced under \$200,000 remained robust as the DOM balanced at a record-low 58 days. This cohort accounted for the largest proportion of sales through an MLS at 37 percent but was remarkably lower than its 72 percent share in 2011. Demand was strongest in the \$200,000-\$300,000 range (52 DOM), which encompasses more activity in the major metros. Healthy economic growth heightened demand in the high end of the market, where the average home sold after 82 days, a full week faster than in 2017.

The sales slowdown pulled Texas' **homeownership rate** below 63 percent after a year-long positive stretch, but the trend points upward after bottoming out at 61 percent in 3Q16. Texas remained 1.5 percent below the national homeownership rate. Austin maintained the lowest rate of the major metros at 56.2 percent, followed by Houston at 61.8 percent. Houston's rate, however, reached the highest level since the oil downturn in 2015. In San Antonio, homeownership dropped 3 points to 63.1 percent, while Dallas balanced above 62 percent for the third consecutive quarter.

Interest rates jumped to a seven-year high amid a booming national economy and should continue to rise more with rising inflation. The **ten-year U.S. Treasury bond yield** reached 3 percent for the first time since 2011, while the **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** elevated above 4.6 percent. Higher interest rates disproportionately affected refinance mortgage applications in Texas, which declined 34.1 percent since January. Mortgage applications for new-home purchases maintained steady monthly growth around 2 percent.

## Prices

Upticks in inventory moderated home-price gains after substantial appreciation since the Great Recession. The **Texas Repeat Sales Indices** dropped to 3.3 and 5.0 percent YOY in Dallas and Fort Worth, respectively, the slowest North Texas growth rate in six years. The current trajectory is much more sustainable than peak levels obtained between 2015 and 2017, reducing pressure on affordability. Austin prices balanced around their year-long trend at 3.8 percent growth YOY, while the San Antonio indexed jumped 4.5 percent. Houston prices increased 3.2 percent YOY but were biased upward from Hurricane Harvey's impact in 2017. On a quarterly basis, home-price appreciation slowed to 0.8 percent in the third quarter.

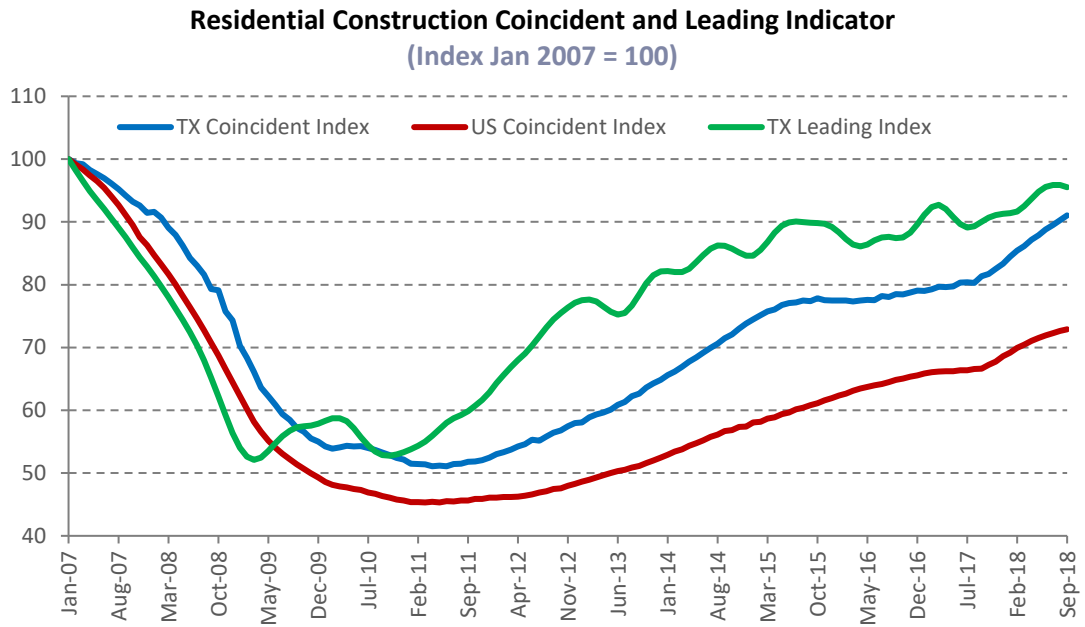
The **Texas median home price** reached a record high in September at \$231,900. Dallas and Fort Worth also broke record levels with a median price of \$289,500 and \$234,700, respectively. Houston's median fell below Fort Worth's at \$232,500 amid a break in demand for higher-priced homes. The median price in Austin (\$309,900) and San Antonio (\$222,000) balanced in September but trended upward as steady population growth continued to drive demand.

Texas' housing affordability remained favorable compared with other states but reached a decade low. The state's booming economy and population growth combined with relatively stagnant wages pulled the **Texas Housing Affordability Index** below 1.5 for the second straight quarter. The index indicated that a family earning the median income in Texas could afford a home 50 percent more than the median sale price. For much of the past decade, Texans enjoyed the capability of affording homes priced nearly twice that of the median. The period of explosive home-price appreciation, however, has moderated and should reduce downward pressure on the state's affordability decline. Regionally, the Dallas index dropped to 1.3, the lowest of the major metros, followed by Austin at 1.4. Fort Worth's affordability fell for the fifth consecutive quarter, equaling Houston's level of 1.6, while the San Antonio index matched the Texas average at 1.5.

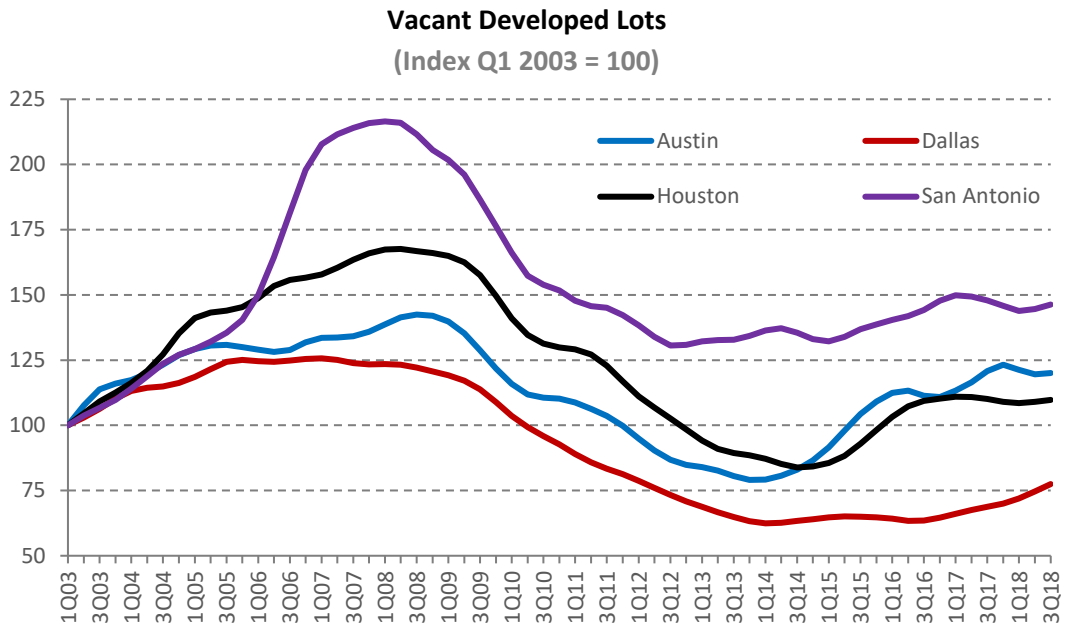




**Supply**

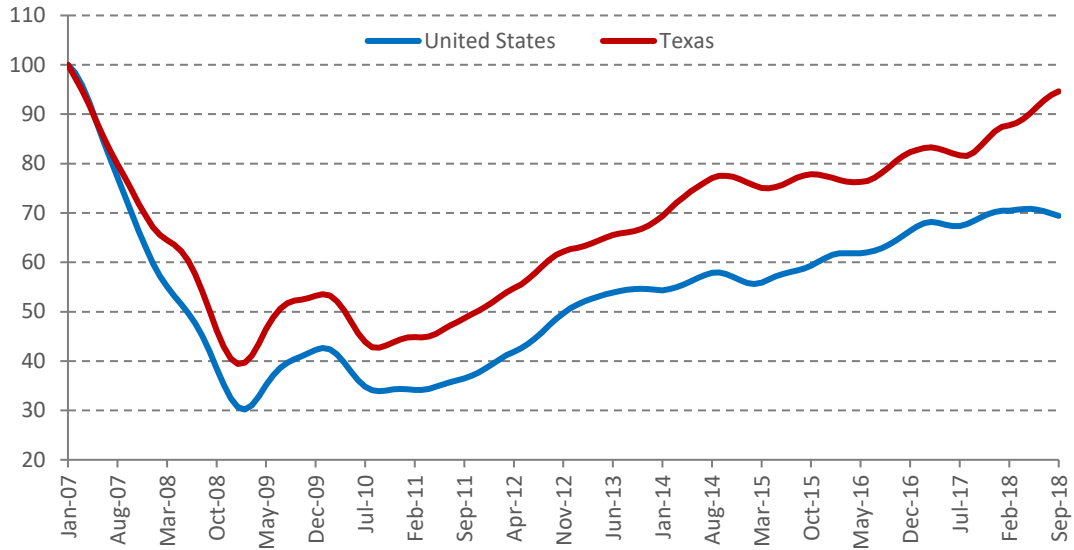


Note: Trend-Cycle Component.  
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas



Note: Trend-Cycle Component.  
Source: Metrostudy

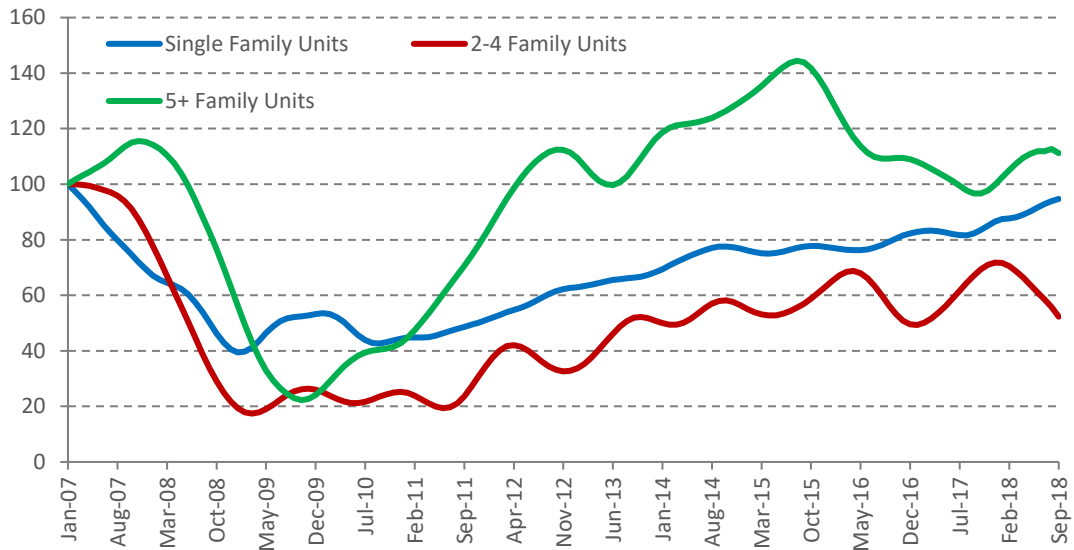
### Single-Family Housing Construction Permits (Index Jan 2007 = 100)



Note: Trend-Cycle Component.

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

### Texas Housing Construction Permits (Index Jan 2007 = 100)

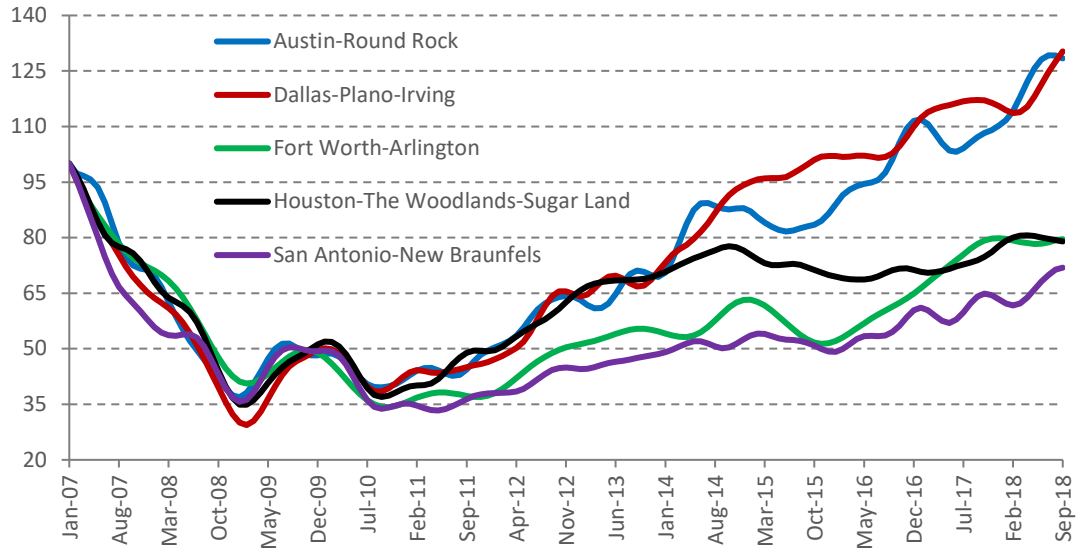


Note: Trend-Cycle Component.

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

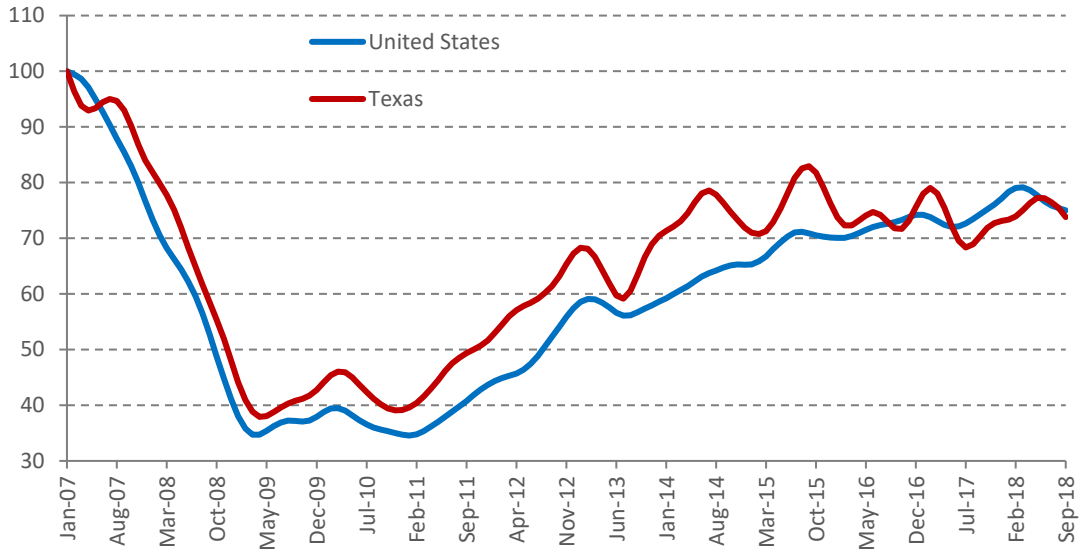


**Major Metros Single-Family Housing Construction Permits**  
(Index Jan 2007 = 100)



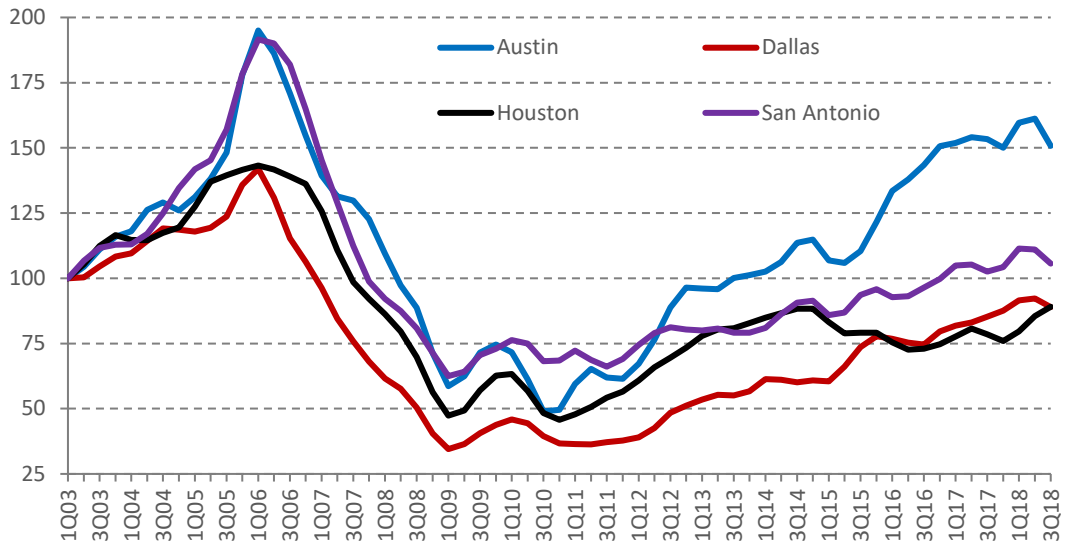
Note: Trend-Cycle Component. Fort Worth is missing data for Somervell County.  
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

**Total Housing Starts Per Capita**  
(Index Jan 2007 = 100)



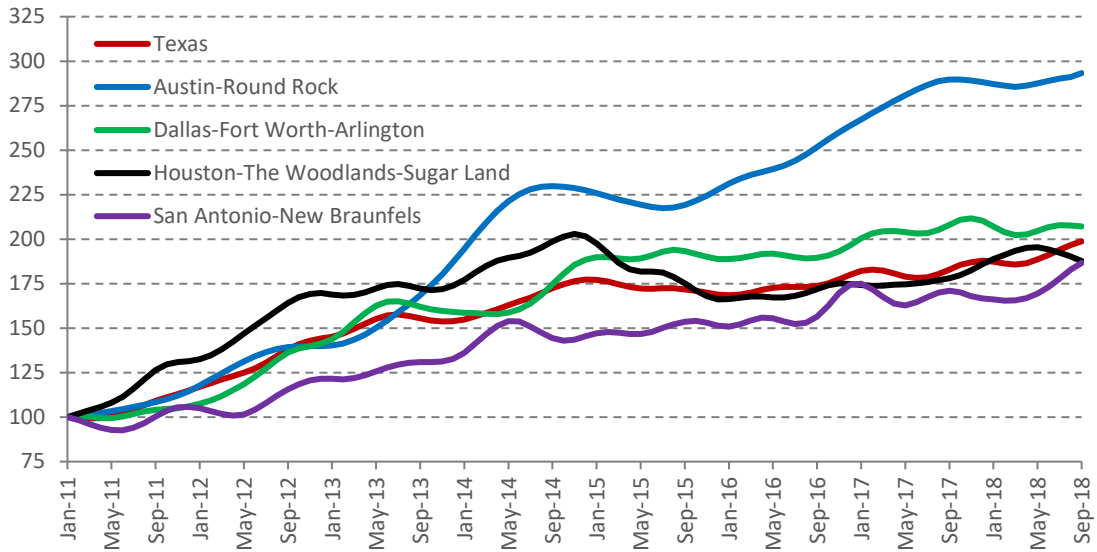
Note: Trend-Cycle Component.  
Source: U.S. Census Bureau and Bank of Tokyo-Mitsubishi UFJ

### Major Metros Single-Family Starts (Index Q1 2003 = 100)



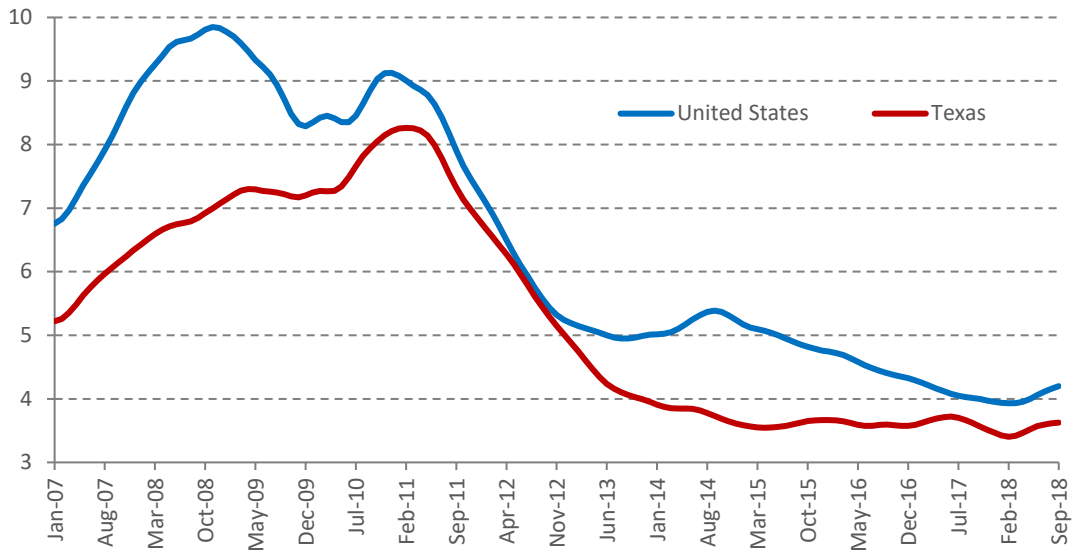
Note: Trend-Cycle Component.  
Source: Metrostudy

### Total New Private Single-Family Construction Value (Index Jan 2011 = 100)



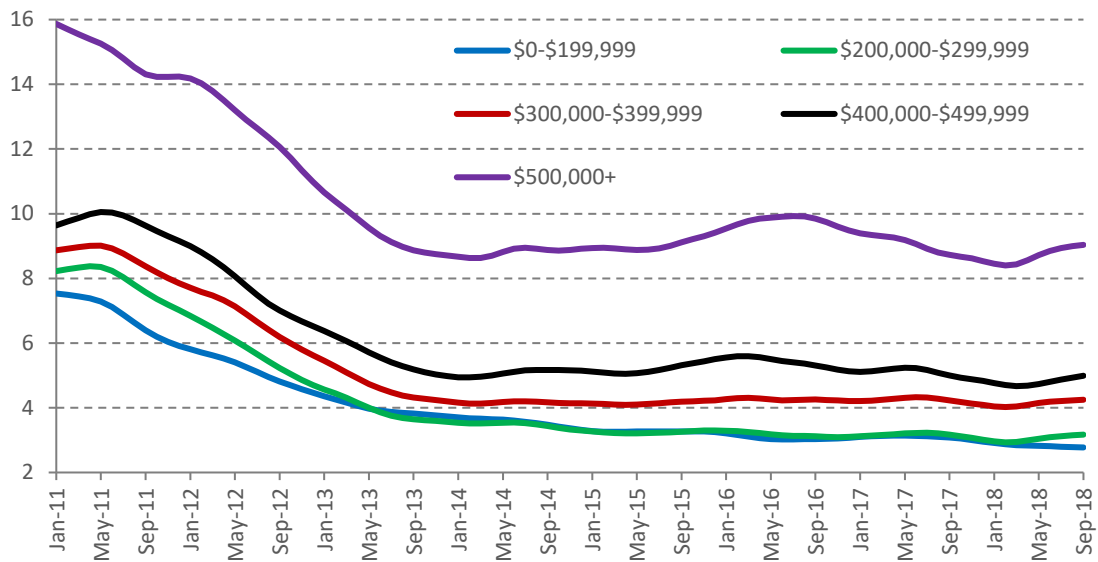
Note: Inflation adjusted. Trend-Cycle Component.  
Source: Dodge Analytics

### Total Months of Inventory (Months)



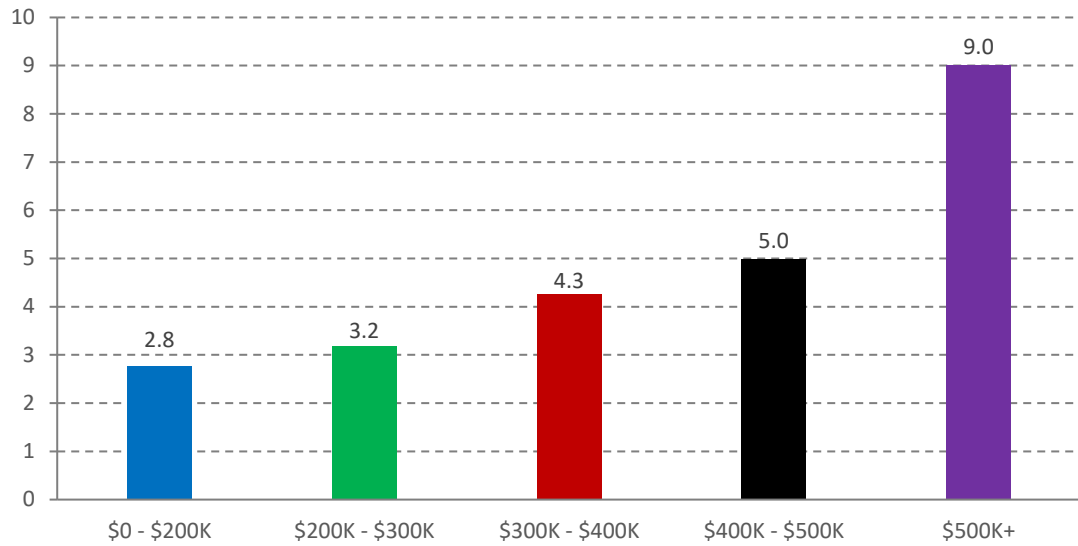
Note: Trend-Cycle Component. Months of inventory for the United States is estimated using weights for all existing homes and new single-family homes; new nonsingle-family homes are not included. Texas includes all existing and new homes. For more information, see [Months of Inventory](#).  
Sources: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

### Texas Months of Inventory by Price Cohort (Months)



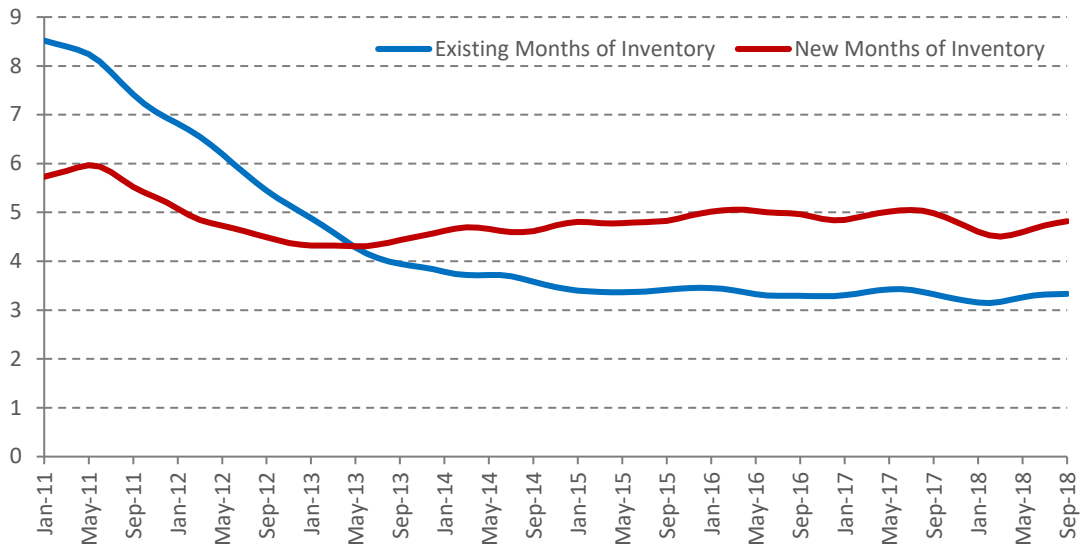
Note: Trend-Cycle Component.  
Source: Real Estate Center at Texas A&M University

**Texas Current Months of Inventory by Price Cohort  
(September 2018)**



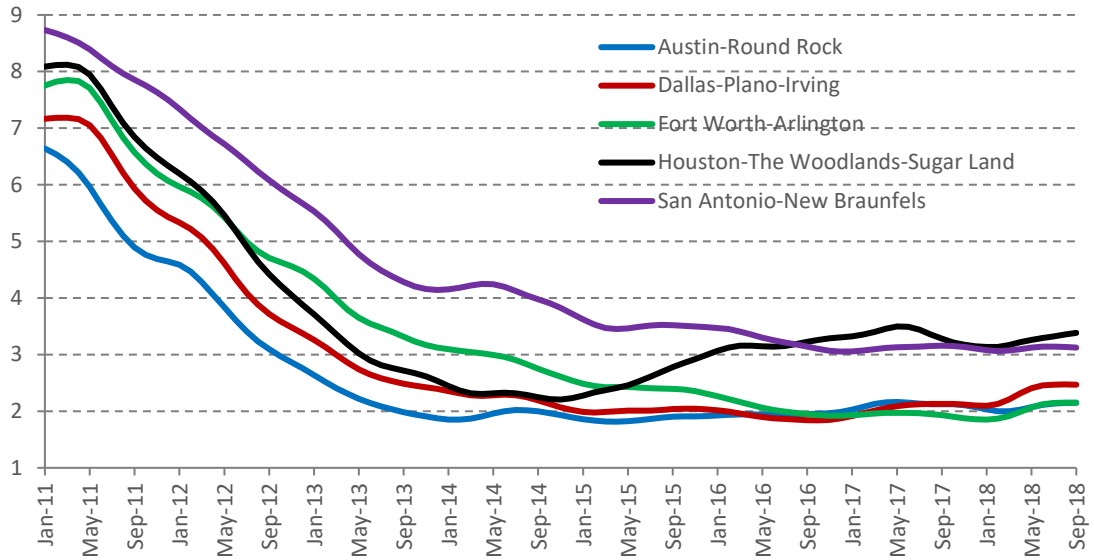
Note: Seasonally adjusted.  
Source: Real Estate Center at Texas A&M University

**Texas Existing and New Home Months of Inventory  
(Months)**



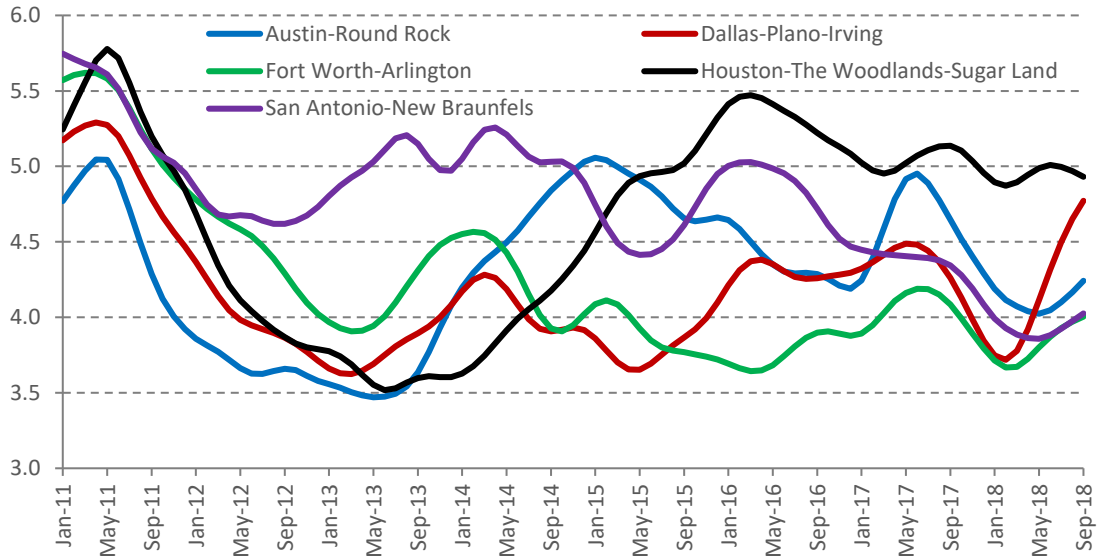
Note: Trend-Cycle Component.  
Source: Real Estate Center at Texas A&M University

### Major Metros Existing Home Months of Inventory (Months)



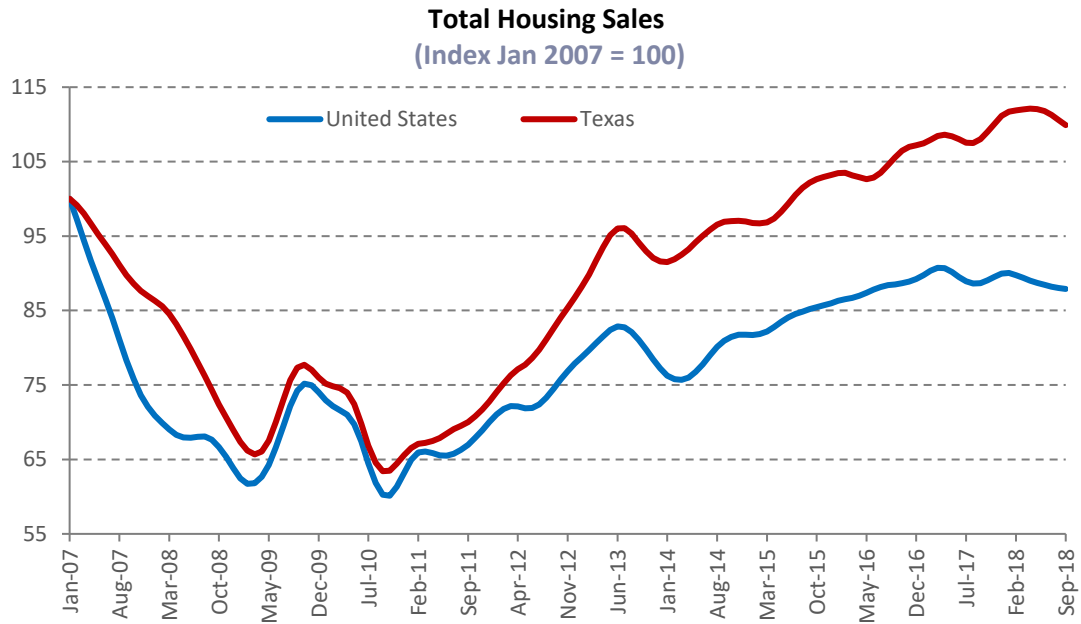
Note: Trend-Cycle Component.  
Source: Real Estate Center at Texas A&M University

### Major Metros New Home Months of Inventory (Months)



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

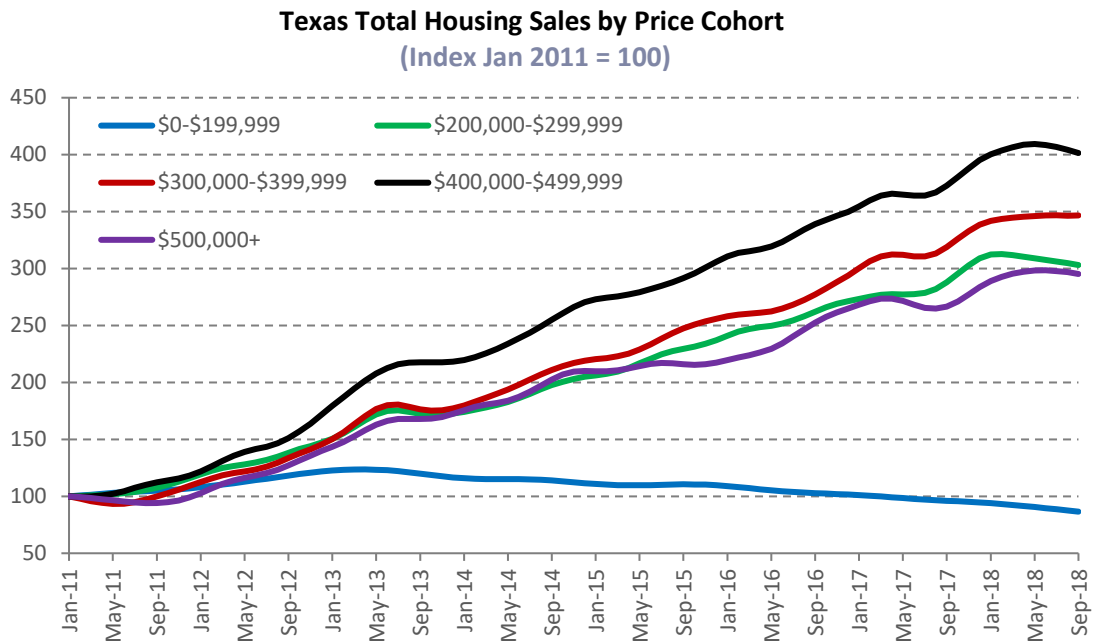
## Demand



Note: Trend-Cycle Component. Sales for the United States include all existing homes and new single-family homes sold through an MLS; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information see [Housing Sales](#).

Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University



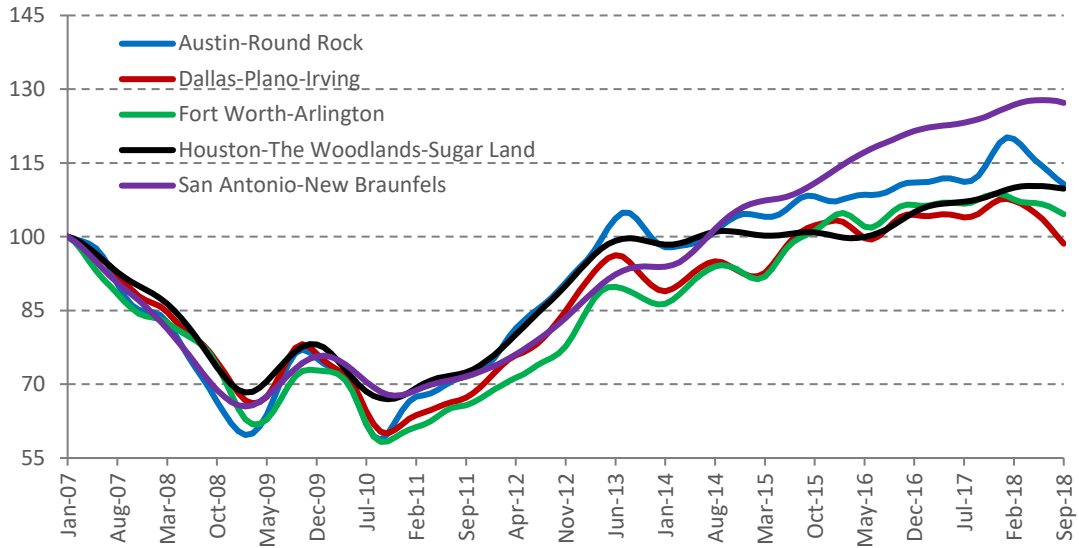
Note: Trend-Cycle Component.

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



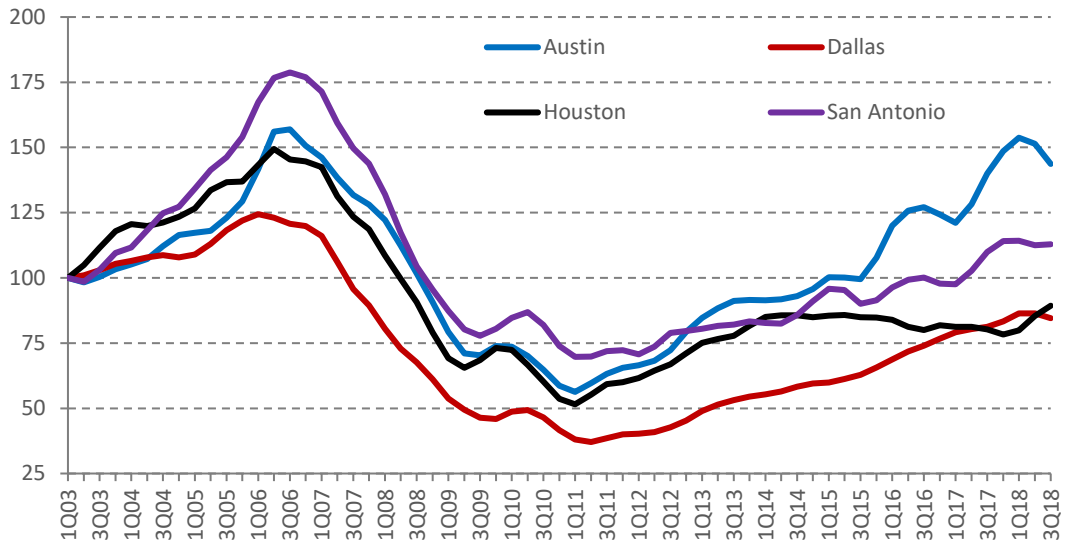


### Major Metros Total Housing Sales (Index Jan 2007 = 100)



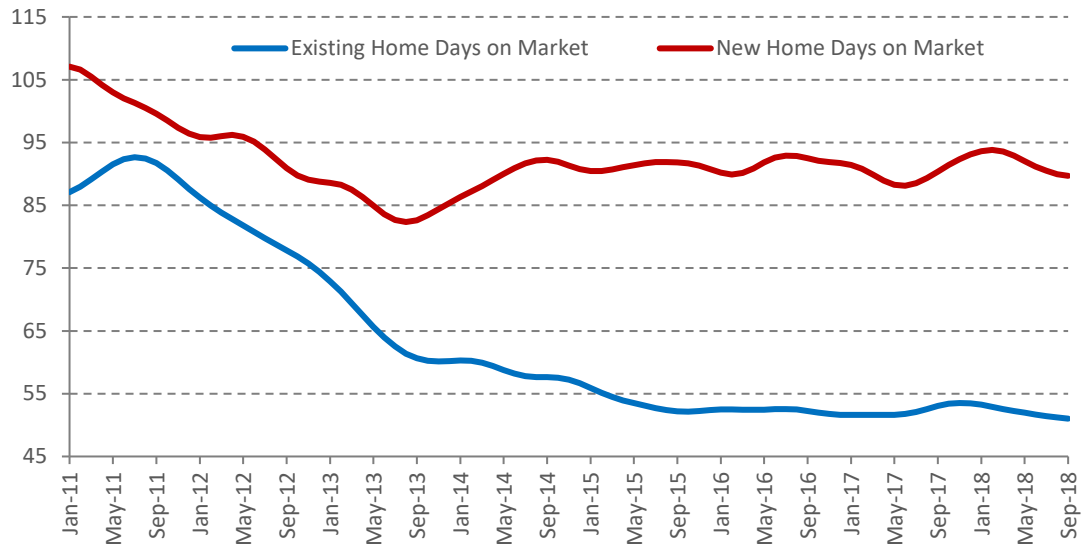
Note: Trend-Cycle Component.  
Source: Real Estate Center at Texas A&M University

### Major Metros New-Home Sales (Index 1Q2003 = 100)



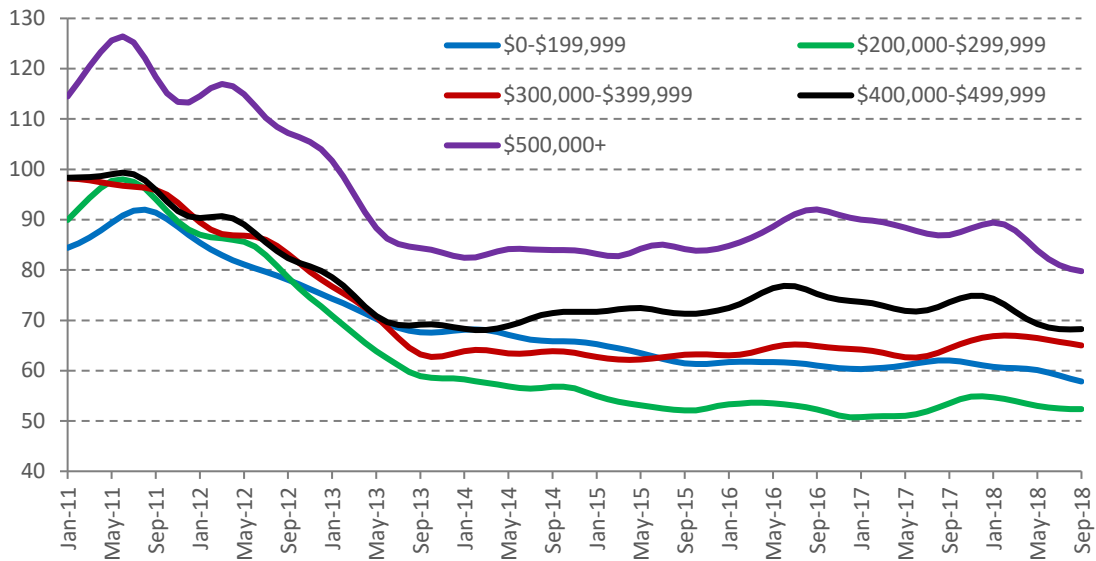
Note: Trend-Cycle Component.  
Source: Metrostudy

### Texas Homes Days on Market (Days)



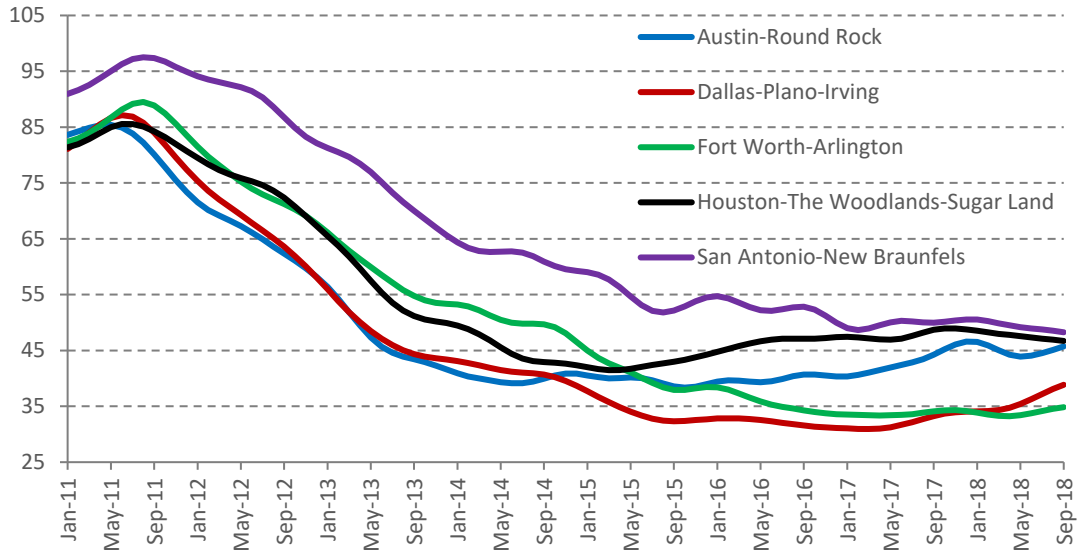
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Texas Home Days on Market by Price Cohort (Days)



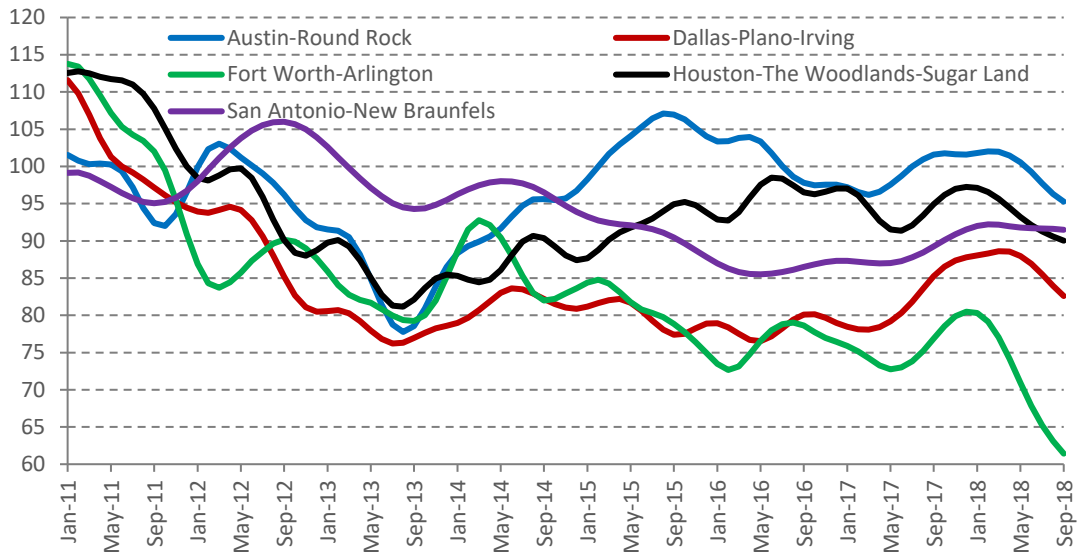
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Major Metros Existing Homes Days on Market (Days)



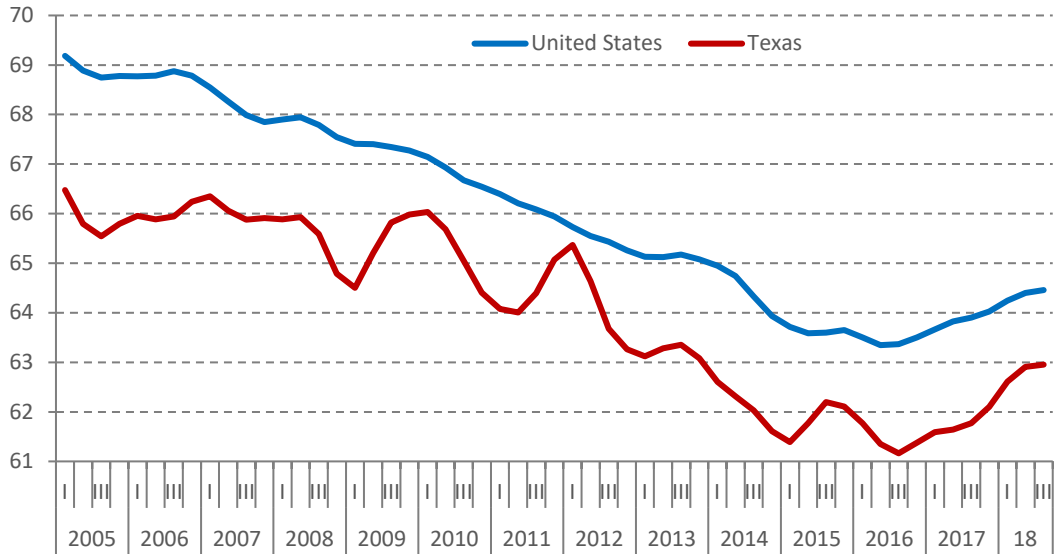
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Major Metros New Homes Days on Market (Days)



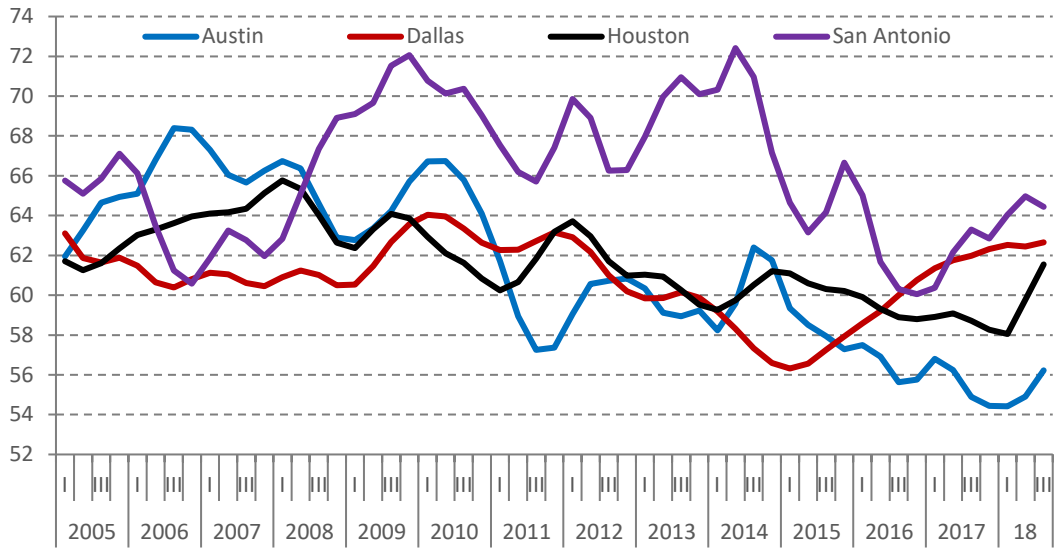
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Home Ownership Rate (%)



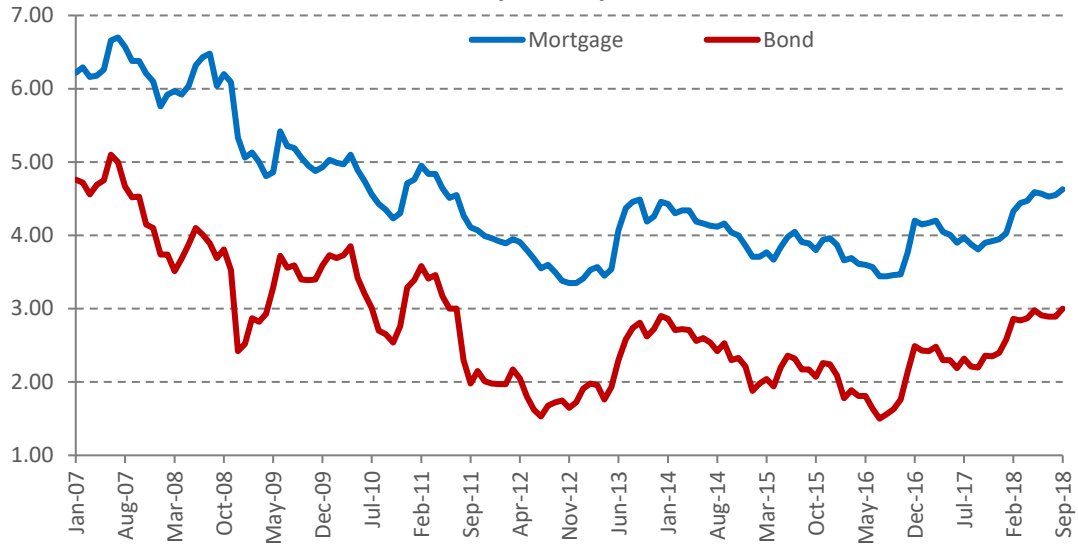
Note: Trend-Cycle Component.  
Source: United States Census Bureau

### Major Metros Home Ownership Rate (%)



Note: Trend-Cycle Component.  
Source: United States Census Bureau

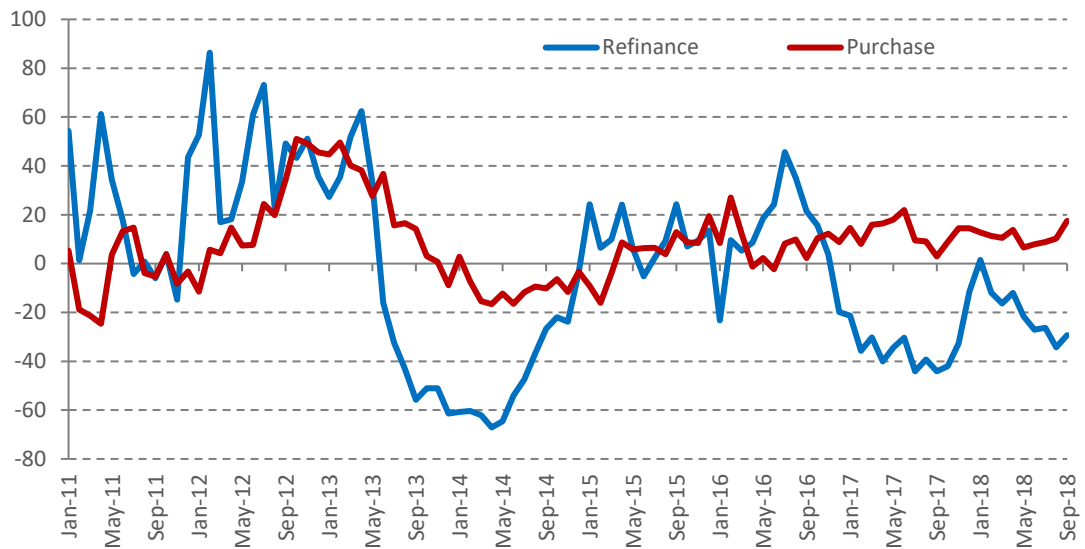
### 30-Year Mortgage Rate and 10-Year Treasury Yield (Percent)



Note: Seasonally adjusted.

Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

### Texas Mortgage Applications (Year-over-Year Percentage Change)

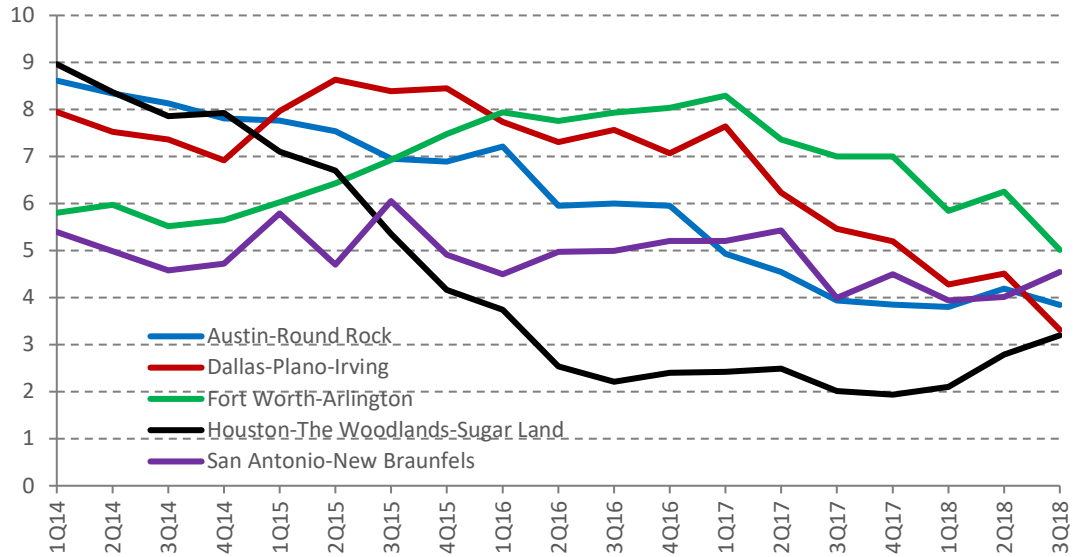


Source: Mortgage Bankers Association



## Prices

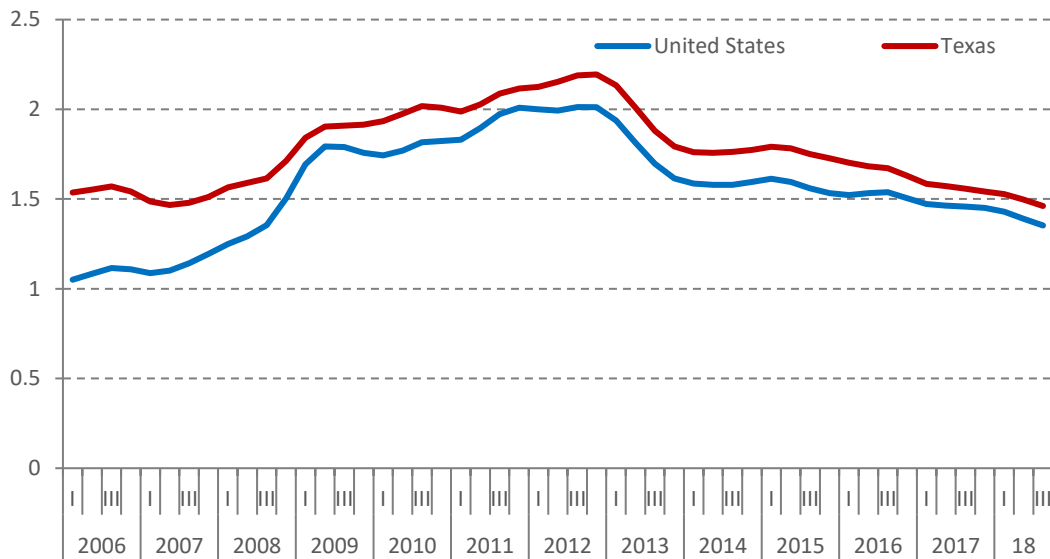
**Real Estate Center Repeat Sales Housing Price Index  
(Year-over-Year Percentage Change)**



Note: Trend-Cycle Component. 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

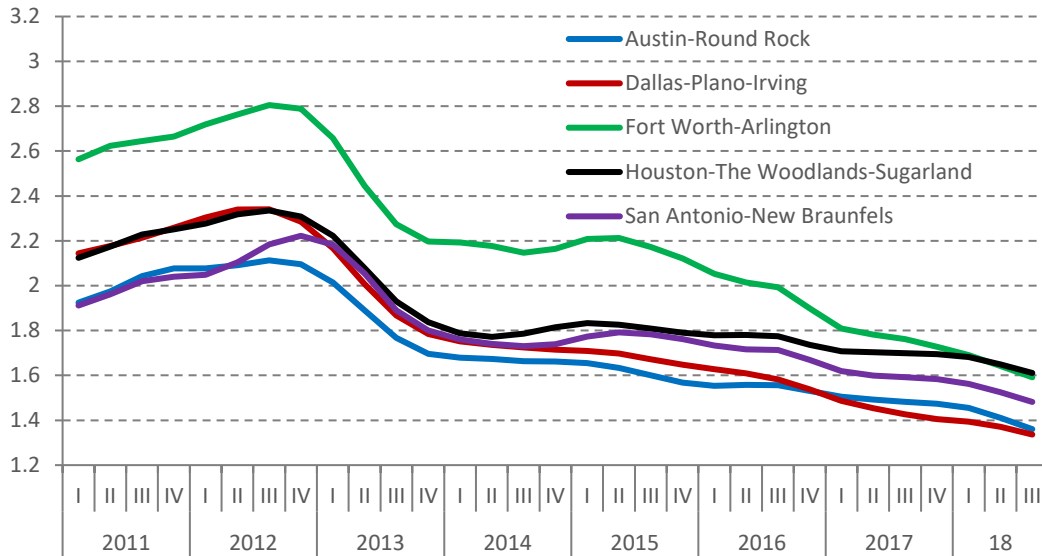
**Real Estate Center Housing Affordability Index  
(Index)**



Note: Trend-Cycle Component. The Texas Housing Affordability Index (HAI) reflects the relationship between the current median family income in a locale and the computed amount required to purchase a median priced home.

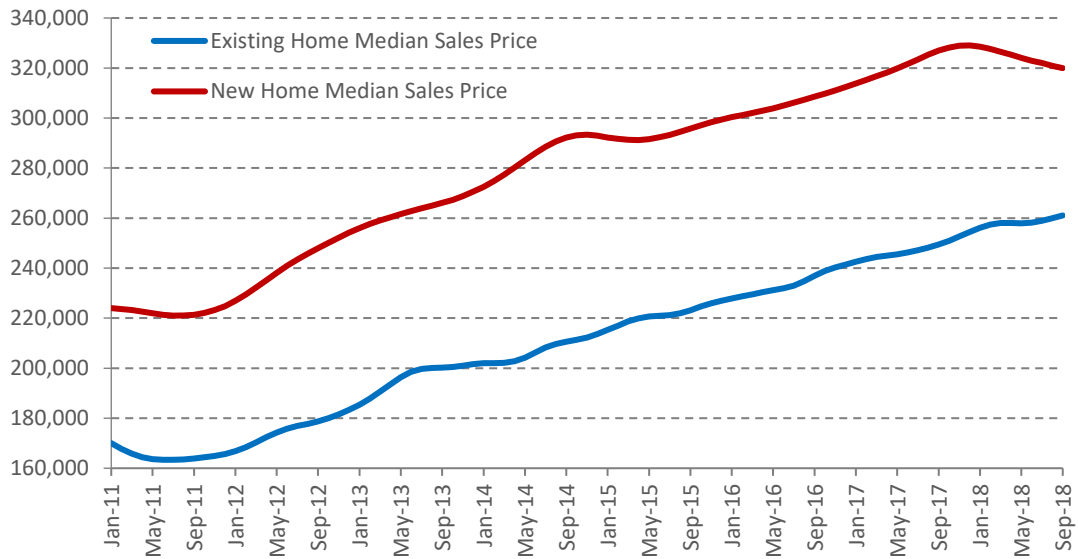
Source: Real Estate Center at Texas A&M University

### Real Estate Center Major Metros Housing Affordability Index (Index)



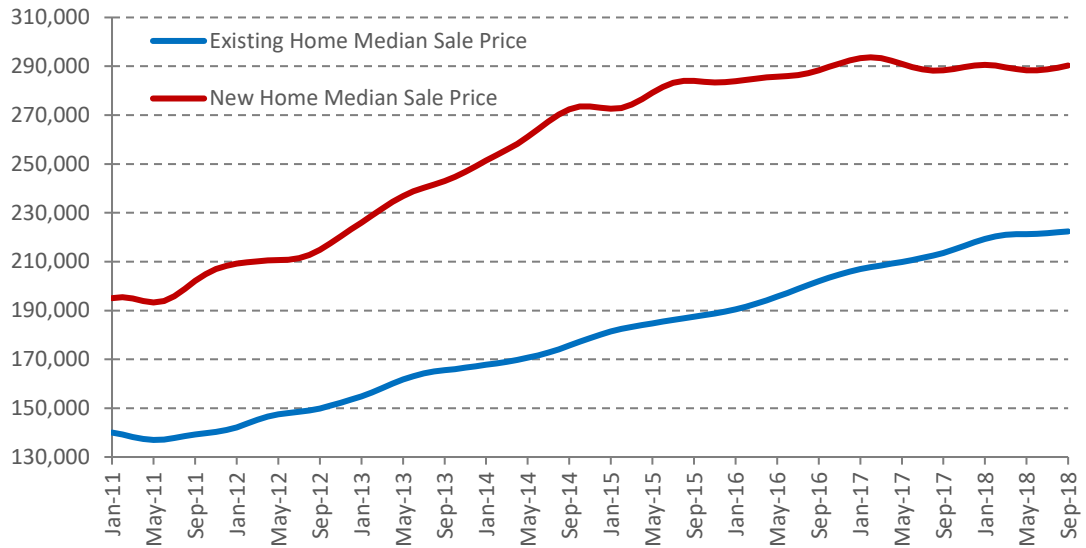
Note: Trend-Cycle Component. The Texas Housing Affordability Index (HAI) reflects the relationship between the current median family income in a locale and the computed amount required to purchase a median priced home.  
Source: Real Estate Center at Texas A&M University

### United States Existing and New Home Median Sales Price (\$)



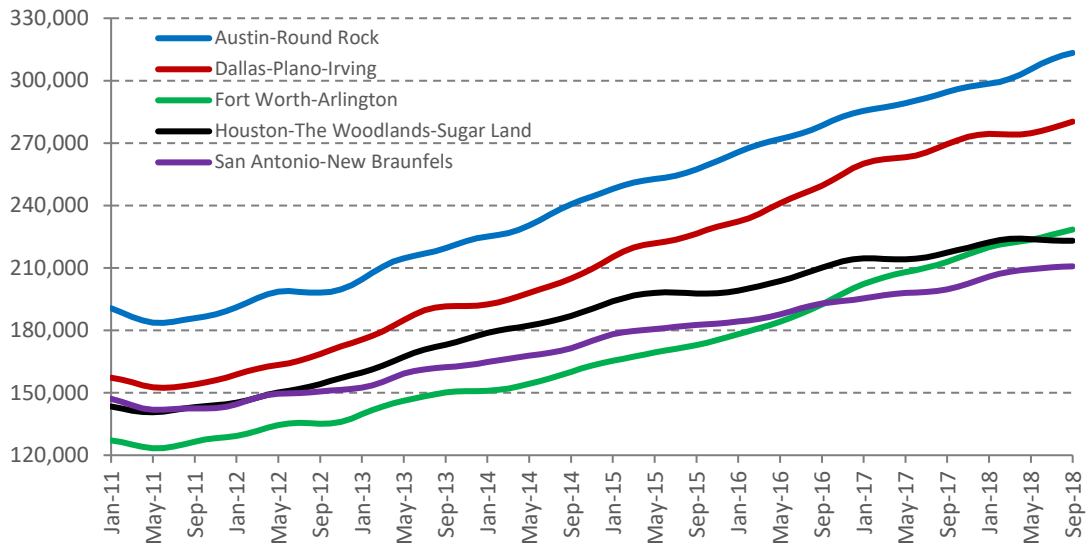
Note: Trend-Cycle Component. For single-family homes.  
Source: Federal Reserve Bank of St. Louis

### 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

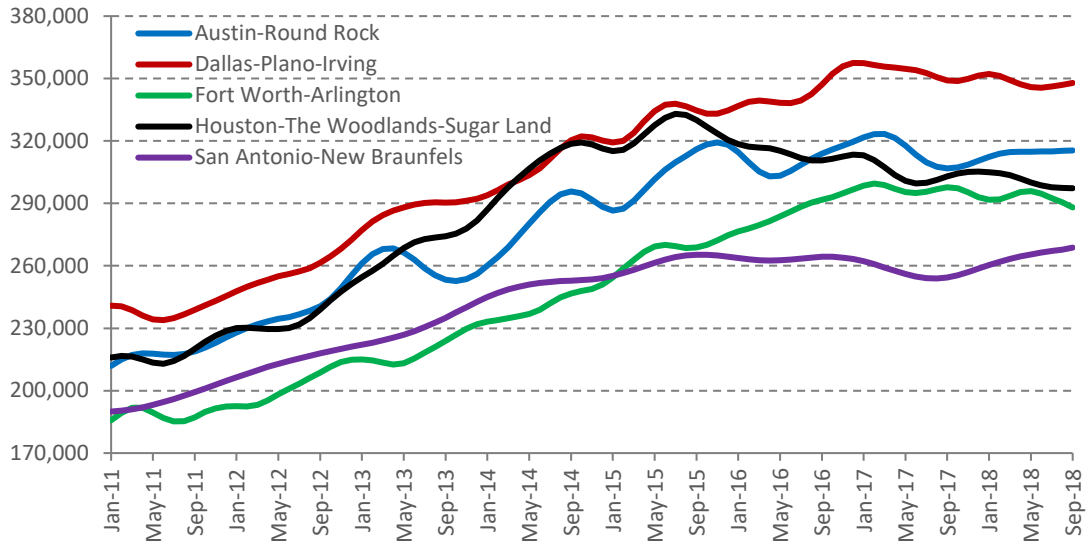
### Major Metros Existing Home Median Sales Price (\$)



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

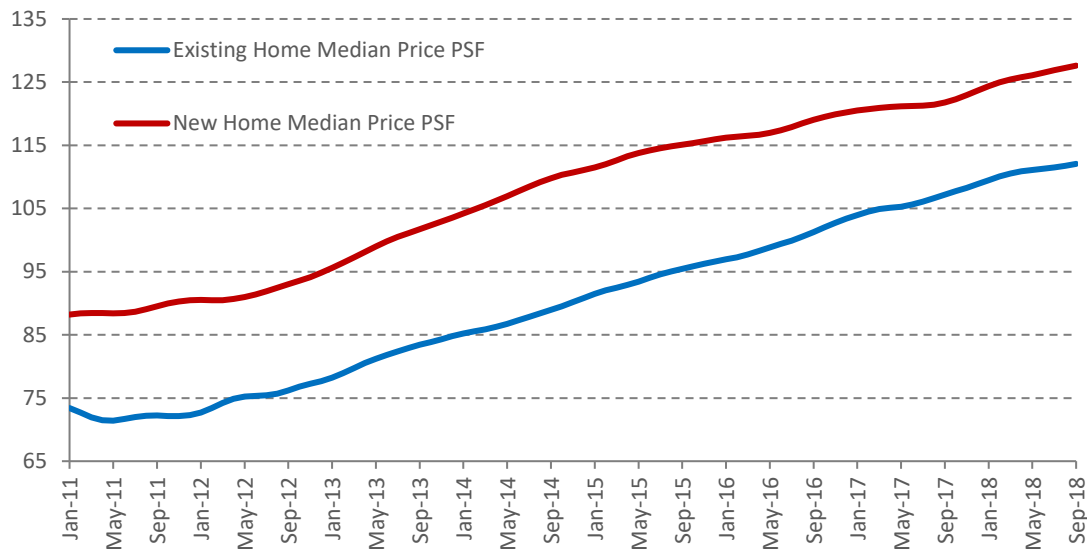


### Major Metros New Home Median Sales Price (\$)



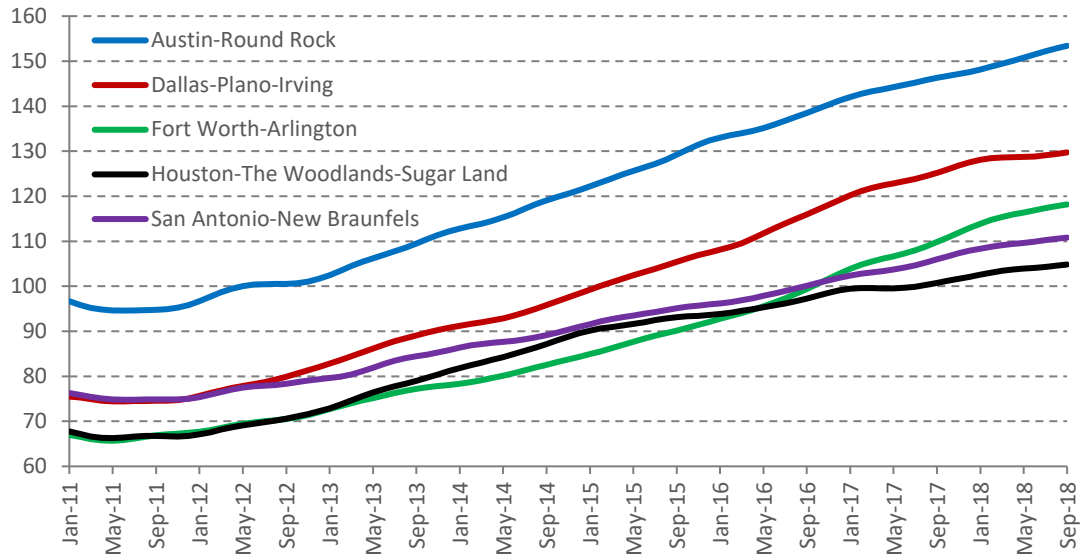
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Texas Home Median Price Per Square Foot (\$)



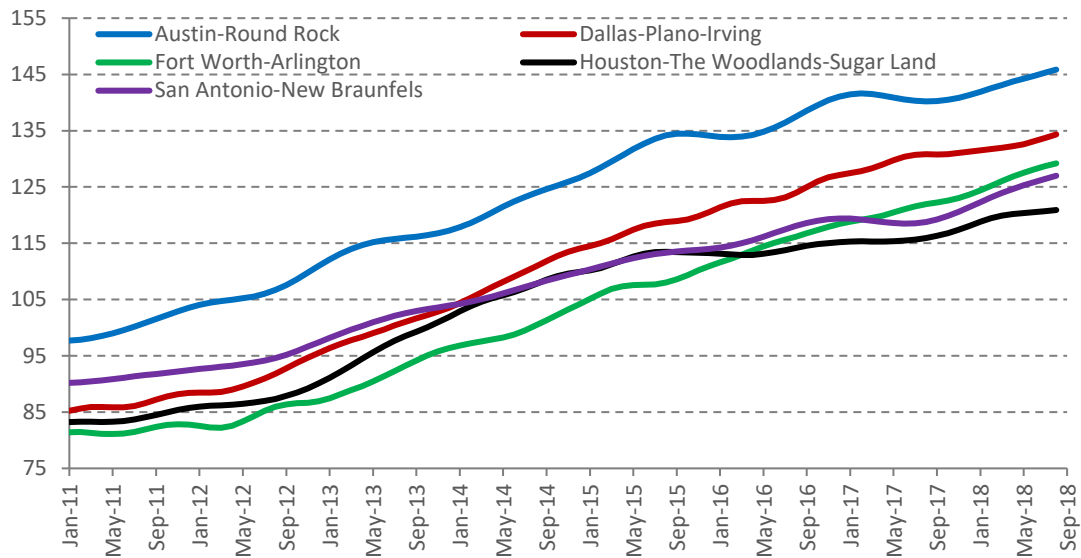
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Major Metros Existing Home Median Price Per Square Foot (\$)



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

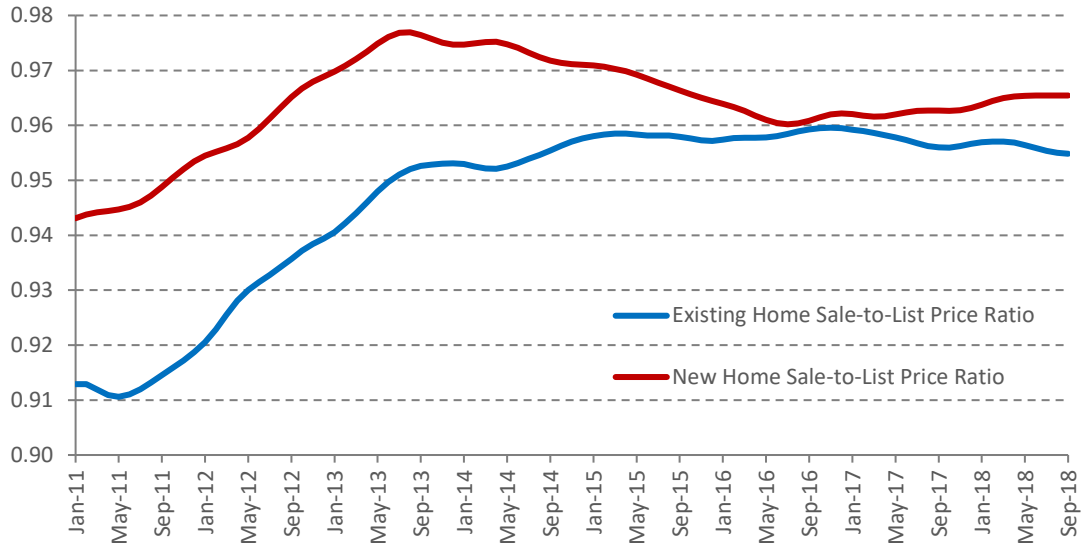
### Major Metros New Home Median Price Per Square Foot (\$)



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

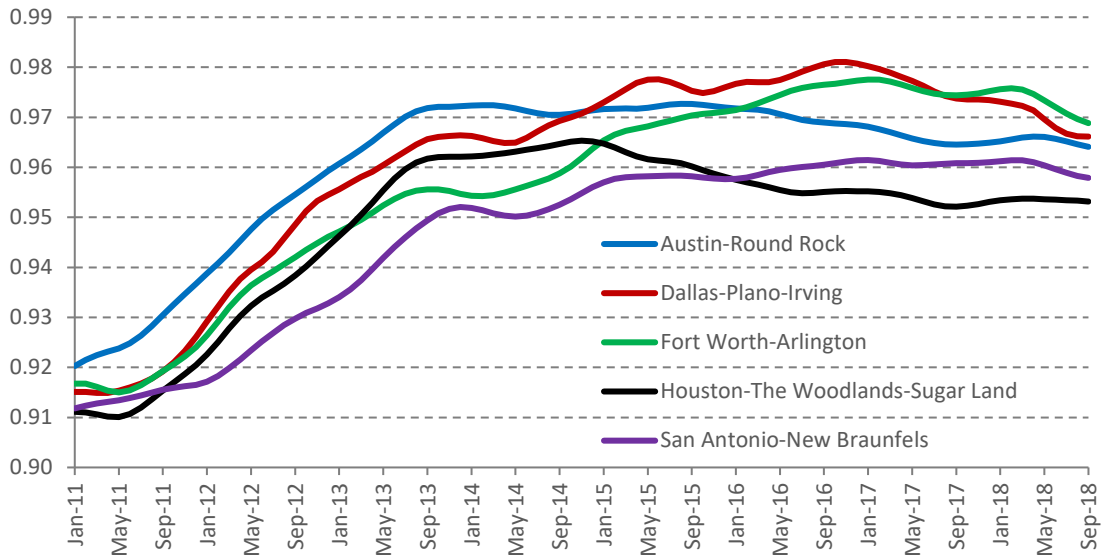


### Texas Home Sale Price to List Price (Ratio)



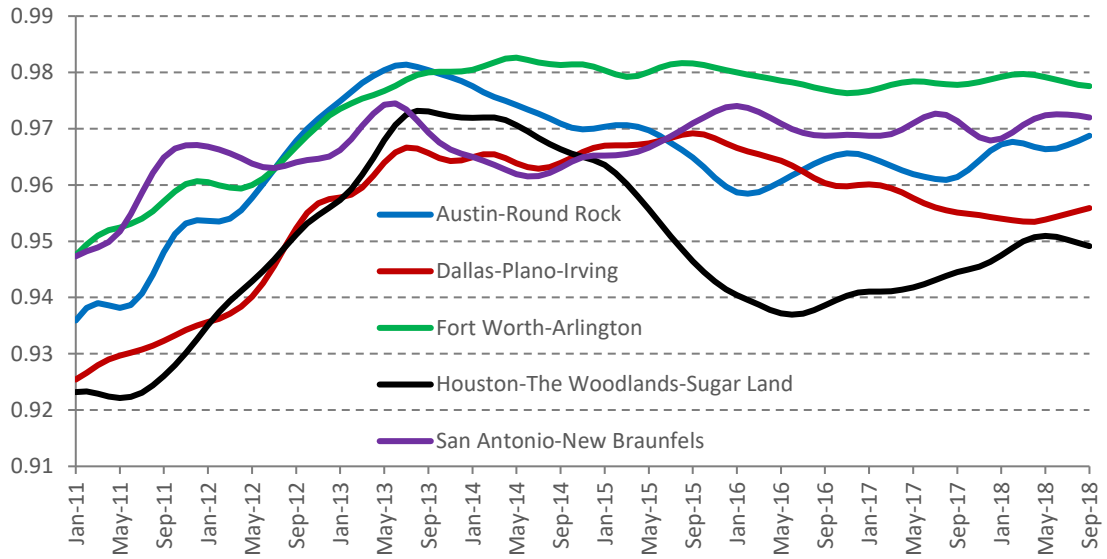
Note: Trend-Cycle Component. For single-family homes.  
Source: Real Estate Center at Texas A&M University

### Major Metros Existing Home Sale Price to List Price (Ratio)



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

### Major Metros New Home Sale Price to List Price (Ratio)



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





MAYS BUSINESS SCHOOL

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College Station, TX 77843-2115

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979-845-2031

**DIRECTOR**

GARY W. MALER

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