TEXAS HOUSING INSIGHT

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Major Metros Existing Home Sale Price to List Price Ratio

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Real Estate Center Housing Affordability Index

Real Estate Center Major Metros Housing Affordability Index
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 measurements are calculated annually, 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.

Dr. James Gaines, Dr. Luis Torres, Wesley Miller, and Bailey Cuadra
2017 Annual Summary

The Texas housing market held steady as sales rose 4 percent, maintaining the current four-year average. Demand remained robust, particularly in the resale market as buyers searched for affordable housing. Rapid home price increase and stagnant wages pared Texas’ affordability advantage, presenting a growing problem throughout the state. Supply conditions showed signs of improvement but failed to relieve pronounced market imbalances, particularly for homes priced below $300,000. Marked shortages will likely continue unless builders shift construction toward this price cohort, a difficult task amid rising land cost and skilled-labor shortages.

In 2018, single-family housing sales are projected to reach 6.6 percent growth before moderating in 2019. Economic acceleration and employment growth in Texas bodes well for housing demand. Price pressures are projected to ease slightly as homebuilders stretch to increase production in the entry- and first move-up markets, where houses generally range between $150,000 and $250,000.

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Note: Estimated with November/December 2017 data.
Source: Real Estate Center at Texas A&M University
Supply*

The Texas Residential Construction Cycle (Coincident) Index, which measures current construction activity, accelerated 3.8 percent annually as residential construction values and industry employment advanced. Growth in weighted building permits and housing starts pushed the Texas Residential Construction Leading Index (RCLI) up 3.6 percent, signaling increased residential construction activity in early 2018.

In response to market imbalances, developers accelerated building activity at the earliest stage of the construction cycle. The number of vacant developed lots (VDLs) in the Texas Urban Triangle reached its highest level since 2011, continuing a four-year climb after bottoming out in 2014. In Dallas-Fort Worth (DFW) and Austin, the number of VDLs increased 6.1 and 6.6 percent, respectively, as builders scrambled to satisfy housing demand. San Antonio VDLs reached 2010 levels during steady 3.3 percent growth. Houston also posted 3 percent growth amid a fourth quarter recovery following Hurricane Harvey. Despite recent increases, VDLs were nowhere near pre-recessionary levels in actual or per capita terms.

Similarly, Texas single-family housing construction permits (unweighted) grew 8.2 percent annually but lagged well below their 2006 peak. Permits in Dallas and Fort Worth increased 12.1 and 26.3 percent, respectively, after marginal gains in 2016. Austin recorded similar permit growth at 12 percent. San Antonio permits slid in the fourth quarter but maintained 16.3 percent annual growth. Houston remained the national leader in single-family permits issued, despite more moderate 3.4 percent growth.

Upward trending supply factors supported 4.6 percent growth statewide in single-family private construction values. The boost in VDLs and single-family permits materialized into 11.4 and 7.6 percent growth in Austin and DFW construction values. A sluggish fourth quarter weighed on San Antonio, but early gains led to 6.4 percent growth annually. Houston single-family construction values stabilized, ticking up 1.2 percent after two straight annual contractions. Residual building stimulus from the hurricane recovery should support further growth into 2018.

After dipping in 2016, total Texas housing starts finished the year up 3 percent—slightly above the 2.4 percent national rate. Market forces pulled construction activity from the saturated multifamily sector to the undersupplied single-family industry. At the national level, housing starts fell 9.3 percent for multifamily homes, while rising 8.4 percent in single-family construction. In DFW, the building boom continued as single-family starts rose 10.8 percent, the sixth-straight year of double digit growth. Single-family starts in San Antonio and Houston posted their strongest gains since 2014 at 10 and 8.2 percent, respectively. After spiking 29.5 percent last year, Austin maintained elevated single-family start levels, leading the state in per capita terms. Despite these supply-side shifts, builders struggled to fully satisfy single-family demand amid rising costs and skilled-labor shortages.

* All measurements are annually, unless stated otherwise.
Growth in supply factors did not keep pace with housing demand, thereby magnifying market imbalances. The Texas months of inventory (MOI) settled at 3.7 months after a 9 percent slide in the second half of the year; a MOI around six months is considered a balanced housing market. Fewer active listings combined with constant demand pressure prevented inventory levels from expanding. The MOI remained particularly constrained for homes priced under $300,000, where the supply of active listings bottomed out around three months, marking the closest resemblance to stabilization this decade. Consequently, rampant demand spilled over to the higher-end markets, where inventory levels were more sustainable.

Inventories stabilized in both the new and existing home market. The Texas MOI for existing homes ticked up to 3.4 months, its first annual increase since the data series began in 2011. In the new home market, the MOI held steady around its three-year trend of five months. However, the current balancing could be transitory as inventories in trended downward in both markets during the second half of the year.

Statewide, North Texas observed the tightest housing supply. Fort Worth maintained the lowest inventories at 1.9 and four months for existing and new homes, respectively, followed by Dallas at 2.1 and 4.4 months. Austin inventories showed signs of improving, surpassing 8 percent growth for both resale (2.1 months) and new home MOI (4.7 months), respectively. In contrast, inventory levels continued to decline in San Antonio to 3.1 and 4.5 months in the existing and new home markets, respectively. The supply of resale homes was similarly constrained in Houston at 3.4 months, while the new home MOI remained at more balanced levels above five months.

**Demand**

Total Texas housing sales managed 4 percent annual growth, outpacing the national rate for the second straight year. Sales increased uniformly across the state, rising between 3 and 4 percent in all the major metros except Houston. Sales in Houston slowed abruptly during the summer months and after the hurricane but recovered enough to match last year’s growth rate at 2.6 percent.

In the new home market, disappointing fourth quarter sales volume drove Houston’s annual growth rate below zero for the third straight year. On the other hand, positive year-end performance in DFW and San Antonio pushed annual new home sales up 12.7 and 6.1 percent, respectively. In Austin, new home sales activity decelerated but maintained 6.1 percent annual growth.

Rapid price increase and supply constraints shifted the sales distribution away from the lowest price cohort (homes priced under $200,000), where sales accounted for 41 percent of homes sold through a Multiple Listing Service (MLS)—down from 68 percent in 2011. Every other price cohort posted double-digit annual growth, led by homes priced $300,000–$400,000 at 16.3 percent.

After sinking to a record low last year, the homeownership rate in Texas and the nation ticked up to 63.8 and 61.7 percent, respectively. The recent rise in home purchases by Millennials relieved some of the downward pressure associated with an aging population. Of the Texas major metros, San
Antonio maintained the highest homeownership rate at 62.3 percent, followed by Dallas at 61.8 percent. Homeownership in Austin and Houston dwindled to record lows of 55.6 and 58.9 percent, respectively.

Texas housing demand remained robust as the average days on market (DOM) hovered at 58 days for the third consecutive year. Homes priced $200,000–$300,000 sold the fastest, averaging 52 days on the market, while homes under $200,000 averaged just over 60 days. Demand was softer in the top price cohort (homes priced above $500,000), where homes sold on average after 88 days, down from 118 days in 2011.

Resale demand reached an all-time high as homebuyers searched for lower-priced alternatives. The existing home days on market remained historically low at just 52 days. Rising prices pulled many prospective buyers into the resale market. In Dallas and Fort Worth, the resale DOM settled at 32 and 34 days, respectively, amid soaring home values. In San Antonio, the average existing home sold after 50 days, nearly half the average in 2011. In contrast, the resale DOM in Austin and Houston expanded for the second straight year to 43 and 48 days respectively, indicating a slight softening of demand.

New home demand balanced on a three-year trend in Texas, averaging 90 days on the market. The lack of new home inventory and rising prices challenged the Austin market, holding the DOM at 99 days. Despite higher inventory levels in Houston, new home demand was also soft with an annual DOM of 95 days. New home demand eased in San Antonio, particularly late in the year, pushing the DOM up to 86 days. New homes sold fastest in Dallas and Fort Worth, averaging 82 and 76 days on the market, respectively.

Interest rates closed the year on a high note after U.S. legislators passed tax legislation, and the Federal Reserve raised the federal funds rate for a third time in 2017. Investors sold off bonds in expectation of rising inflation and further interest rate increases. The ten-year U.S. Treasury bond yield increased nearly half a percent annually, settling at 2.33 percent. As expected, the Federal Home Loan Mortgage Corporation 30-year fixed-rate ticked up similarly to 3.99 percent, mirroring changes in the ten-year bond yield. Rates remained low by historical standards but showed signs of trending upward.

Prices

The health of the Texas economy combined with housing supply constraints elevated home prices to record levels. The median sale price increased by more than $13,000 to an annual average of $222,106, with home values appreciating across the state. Most of the price pressure occurred in the resale market, where the statewide median jumped 6.8 percent to $211,844. The resale median price was highest in Austin at $291,904, but North Texas posted the largest percentage growth. In Dallas ($266,775) and Fort Worth ($210,100), the median resale price rose 9.3 and 11.9 percent, respectively, as single-family demand boomed. Price increase was more modest in Houston and San Antonio, but they also recorded annual records with a median resale price of $216,467 and $199,583, respectively.
Softer demand and more sustainable inventory levels held new home prices to moderate growth. The **median price for new homes** sold through an MLS ticked up only 1.4 percent to $290,662. Similarly, new home prices in the major metros increased modestly compared to the resale market. Dallas maintained the highest median price at $351,559, up 2.2 percent over the year, while the Fort Worth median approached $300,000. The median price for new homes in Austin rose to $316,088, just $15,000 higher than the resale median. In Houston and San Antonio, new home prices actually depreciated, falling to $305,422 and $257,635, respectively.

In terms of **price per square foot (ppsf)**, the new home median rose 3.2 percent as homebuilders reduced square footage amid rising land costs and burdensome regulations. The median lot size for new homes fell for the third consecutive year to 2,373. In contrast, the statewide median ppsf for existing homes accelerated 6.3 percent, surpassing $106 for the first time in series history.

At the metro level, Austin led the state in median ppsf for both new and existing homes at $140.94 and $145.04 ppsf, respectively, and was the only major metro to pay a premium for existing-home square footage. However, the median ppsf for existing homes in Dallas jumped 9.3 percent to $123.87, a little less than six dollars below the new home ppsf. The spread between new and existing ppsf was wider in the remaining metros but continued to converge. The median new home ppsf settled at $121.15 and $119.23 in Fort Worth and San Antonio, respectively, while the resale ppsf rose to $108.04 and $104.79. The median ppsf was lowest in Houston at $116.03 and $100.21 for new and resale homes, respectively.

The Texas **sale-to-list price ratio** hovered around 0.96 in both the new and resale home market. New home ratios inched down in all major metros except Houston, indicating slightly weaker demand. For existing homes, Dallas and Fort Worth recorded sale-to-list price ratios around 0.98 as homes continued to fly off the market. Austin and Houston posted slight dips to 0.97 and 0.95, respectively, but remained historically high. In general, elevated sale-to-list price ratios across the state indicated a continuing sellers’ market across the housing spectrum.

Texas housing affordability remained favorable compared to other stats but continued the steady decline that began in 2013. Rapid price increase, fueled by shortages of homes priced under $300,000, challenged Texas buyers. Stagnant wages failed to keep pace with home values, driving the **Real Estate Center Affordability Index** to 1.5, its lowest level since the housing crisis. The index indicated that a family earning the median income 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 twice that of the median. Fort Worth and Houston boasted the highest affordability conditions at 1.8 and 1.7, respectively, but had substantial declines over the past year. In Austin and Dallas, affordability fell below 1.5 amid rampant home price increases. San Antonio fared similarly with a significant drop in the affordability index from 2.4 to 1.6.
Furthermore, the **Explosive Behavior Map** indicated a misalignment in North Texas home prices relative to their fundamental-based normative values. This behavior stretched south into Waco and College Station-Bryan. Recent price movements in the remaining major metros, as well as in Midland, also warrant careful attention.

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**MSAs Exhibiting Explosive Behavior**

3Q2016 to 3Q2017


Sources: Freddie Mac, BLS, and authors' calculations.
Supply

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

Note: Seasonally adjusted and detrended.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

Vacant Developed Lots
(Index 2003 = 100)

Note: Annual sum.
Source: Metrostudy
Single-Family Housing Construction Permits
(Index 2007 = 100)

Texas Housing Construction Permits
(Index 2007 = 100)

Note: Annual sum.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended. Fort Worth is missing data for Somervell County.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Note: Annual sum.
Source: Dodge Analytics
Note: Annual sum.
Source: U.S. Census Bureau and Bank of Tokyo-Mitsubishi UFJ

Note: Annual sum.
Source: Metrostudy
Note: Annual average. 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
(Dec 2017)

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

Texas Existing and New Home Months of Inventory
(Months)

Note: Annual average.
Source: Real Estate Center at Texas A&M University
Major Metros Existing Home Months of Inventory
(Months)

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

Major Metros New Home Months of Inventory
(Months)

Note: Annual average.
Source: Real Estate Center at Texas A&M University
Demand

Note: Annual sum. Sales for the United States include all existing homes and new single-family homes; 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: Annual sum.
Source: Metrostudy
Texas Housing Sales by Price Cohort
(Index Jan 2011 = 100)

Home Ownership Rate (%)

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

Note: Annual average.
Source: United States Census Bureau
Texas Homes Days on Market
(Days)

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

Texas Home Days on Market by Price Cohort
(Days)

Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
30-Year Mortgage Rate and 10-Year Treasury Yield

(Percent)

Note: Annual average.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Prices

United States Existing and New Home Median Sales Price

($)

Note: Annual average. For single-family homes.
Source: Federal Reserve Bank of St. Louis
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
Texas Home Sale Price to List Price Ratio

%)

Existing Home Sale-to-List Price Ratio
New Home Sale-to-List Price Ratio

Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

Major Metros Existing Home Sale Price to List Price Ratio

%)

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

Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

Note: Annual rate. 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
Note: Annual rate. 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
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