Ten years ago, the United States was in the midst of a subprime-mortgage and ensuing housing crisis. Recessionary pains from the worst downturn since the Great Depression reverberated throughout the country, but a multitude of factors shielded most of the Texas housing market.

In terms of housing finance, Texas’ relatively conservative lending standards allayed somewhat the number of foreclosures and strengthened underlying market fundamentals. The state was relatively slow to allow home-equity lending. Home-equity lending increased in national popularity in the late 1980s and 1990s. Texas, however, first allowed home-equity lending in 1997 and restricted the total of all mortgage debt (not just the home equity loan) from exceeding 80 percent of the home’s fair-market value. In contrast, many of the most afflicted states placed no such restrictions.

Texas’ relatively abundant supply of land combined with liberal zoning and building restrictions kept supply in balance with demand. The laissez-faire emphasis to urban development deterred market distortions and artificial price appreciation that propagated elsewhere. Texas home prices rose steadily in the early 2000s but trailed the ballooning national average. A prolonged statewide recession between 2001 and 2003 further hindered Texas home price appreciation prior to the 2008–09 housing crisis.

‘Pop’ Goes the Bubble

When the housing bubble burst in late 2007, Texas prices had less distance to fall and benefitted from stronger market fundamentals. The state recovered before most of the nation, thanks to the energy sector boom in 2011. Rapid economic growth continued through 2014 until the price of oil collapsed amid global crude surpluses. Unlike the 1985 oil bust, the state’s economic diversity cushioned the slowdown, thereby allowing the housing market to maintain its steady march.

As the business-cycle expansion advances, it is useful to consider the progress made, as well as the problems developed since the housing crisis. The post-recession performance of the Texas housing market is further considered in the following analysis.
Home Sales Plummet and Rebound

Texas housing sales began falling in January 2007, crashing 27 percent before the implementation of the “Making Homes Affordable” mortgage modification program in 2009. The stimulus artificially lifted sales for seven months before reverting to its downward trend for an additional year. After a 32 percent aggregate decline, sales hit bottom in December 2010.

The 2011 shale oil boom sparked Texas’ economic revival, propelling home sales for 18 months. Rapid growth continued until the Federal Reserve’s tapering policy spiked mortgage rates in summer 2013. Following the market adjustment, sales embarked on their current long-run expansion, displaying impressive resilience despite affordable housing shortages and falling oil prices in 2015 and 2016. However, housing sales per capita remained 7 percent below pre-recessionary levels as the Texas homeownership rate hit an all-time low in 2017.

Homeownership Falls, Foreclosures Rise

The Great Recession coincided with a national decline in the rate of homeownership. However, this secular downturn stemmed more from an overall aging population and obstacles hindering first-time homebuyers (e.g. student debt, strict lending requirements, and a shortage of entry-priced homes).

Texas homeownership varied widely during the recession but continued the overall downward trend. This trend continued during the recovery phase of the business cycle, sinking below 62 percent in 2014—the lowest since 1999—as more young people moved to the state and became renters.

The number of foreclosures peaked in first quarter 2010 but were 2.5 percent lower than the national rate. The Texas
rate remained elevated until 2012 and now sits around 1980s levels of less than 0.6 percent.

**Diminished Purchasing Power**

Job losses and wage reductions during the recession drove up foreclosures as more Texans struggled to stay afloat. After a year-and-a-half contraction, the business cycle turned and accelerated during the fracking boom. Texas income per capita fully recovered by the end of 2011 and shifted into second gear in 2014. However, an oil price collapse late in the year shocked income growth, and today’s prolonged period of income stagnation began.

Housing prices flattened for three years during the recession, an amazing fact given the 21 percent national contraction. In the recovery phase, income growth outpaced home prices, adding to the state’s affordability advantages. Surprisingly, price appreciation kept pace despite the 2015-16 economic stumble, which diminished much of Texans’ purchasing power. The divergence of incomes and home prices presents real challenges to future growth in Texas’ housing markets.

**Housing Stock Rocked**

An unprecedentedly low housing supply contributed to rapid home price appreciation. Prior to the recession, the Texas housing market was stable at around five to six months of inventory. Inventories peaked before the economic boom in 2011. By 2014, the supply of active listings was below four months. The months of inventory for homes priced under $300,000 averaged just 3.1 months. This price range accounts for 70 percent of homes sold through Multiple Listing Services and highlights the severity of today’s shortages.

Homebuilders have responded to market imbalances but output remains far below its pre-crisis peak in per-capita terms. Rising land, labor, and input costs strain builders’ ability to build homes in the most-demanded price range. That said, Texas per-capita permits reached 58 percent of its peak level in 2017, while national permits failed to issue half the pre-crisis amount.

**Summary: Unsustainable Divergence**

The Texas housing market successfully weathered the Great Recession and the housing bubble burst that tormented regional economies across the nation. In 2011, technological advancements in the energy sector propelled the Texas market forward, but supply-side constraints have prevented a full-scale recovery.

Texas’ affordability advantage contracted as inventory shortages elevated home prices, thereby straining stagnant incomes. The divergence between home prices and incomes is unsustainable and will become increasingly problematic if unresolved. Improvements must be made in suppliers’ ability to build homes priced between $200,000 and $300,000. On the demand side, the state must continue to foster economic and technological innovation to boost Texans’ productivity and incomes. The simultaneous growth of the housing market and the economy remains critical to Texas’ overall prosperity.

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Dr. Torres (ltores@tamu.edu) is a research economist and Wesley Miller (wamiller@tamu.edu) a research associate with the Real Estate Center at Texas A&M University.

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