Livin' Large

Texas' Robust Luxury Home Market

Joshua G. Roberson
December 3, 2018

Publication 2217

High-priced homes have a unique place in the overall housing market. Their buyer pool, home characteristics, and supply fundamentals often differ considerably from the rest of the market. This can create a challenge when analyzing the market using aggregated market data. However, with high-end (or "luxury") housing activity on the rise nationally, the Real Estate Center looked at Texas' market.

The Takeaway

Texas boasts one of the largest luxury home markets in the country. High-end home sales have seen especially strong growth in the Lone Star State since early 2017. Possible reasons include new tax laws, general optimism about the economy, and a strengthening oil market.

Overall vs. High-End Markets

"Normal" price ranges can vary considerably by market. High-end homes are no exception.

Of the state's four major metros, Austin contains the highest overall prices in terms of both sale price and price per square foot. Two factors play into this. First is Austin's popularity as a place to live, which chronically squeezes supply and pushes up prices relative to the other three metros. Second is the size of the homes, which are smaller compared with the other metros. Of the four, Austin has by far the most active condominium market, specifically at the higher-priced cohorts. It accounts for 30 percent of the homes in the 95th percentile and 45 percent in the 99th percentile (percentiles that are generally considered the luxury market). This explains the drastic difference in price per square foot at the 99th percentile compared with other metros (Table 1).

After Austin, Houston edges out Dallas-Fort Worth in the 99th percentile closing-price and closing-price-per-square-foot breakpoints. San Antonio is the only one of the four metros to not reach $1 million, even at the 99th percentile. Homes in the $1-million-and-above range are typically recognized as the luxury market. While San

Table 1. 2017 Texas MSA Median Home Prices by Percentile

	Closing Price			Closing Price per SF		
	50th	95th	99th	50th	95th	99th
Austin-Round Rock	$295,000	$762,500	$1,490,600	$148	$355	$513
Dallas-Fort Worth-Arlington	$255,000	$650,000	$1,265,000	$120	$218	$323
Houston-The Woodlands-Sugar Land	$228,000	$642,325	$1,329,215	$105	$240	$373
San Antonio-New Braunfels	$211,000	$498,320	$825,000	$108	$180	$267

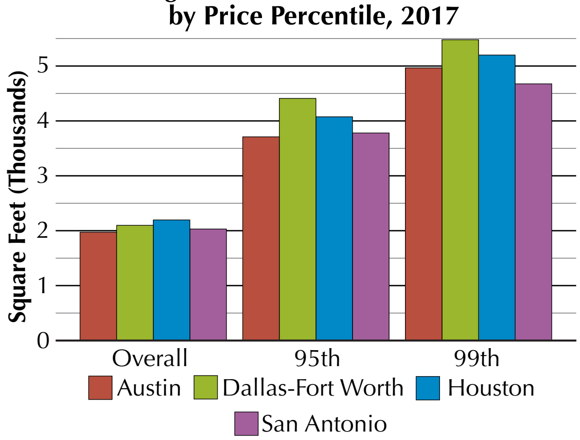
Source: Real Estate Center at Texas A&M University

Antonio's overall sales volume is comparable to Austin's, its luxury market is considerably smaller.

In 2017, Texas' median closing price was $223,000 with a median marketing period of 28 days and a closing-to-original-list-price ratio of 97 percent. Median square footage was 2,000.

Overall median home size does not vary much between the four metros (Figure 1). In fact the variance is less than 100 square feet with the average close to 2,000 square feet. Houston leads slightly in overall home size, but DFW takes over in the higher percentile groups. Despite having a much higher proportion of condominiums at the 99th percentile, Austin's median home size is still larger than San Antonio's at 4,966 versus 4,673 square feet.

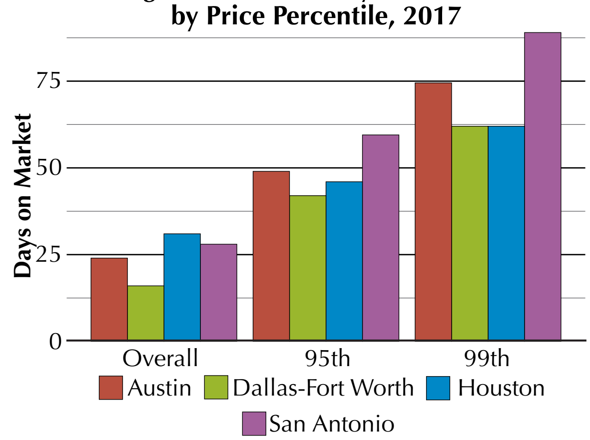
Figure 1. Median Home Sizes by Price Percentile, 2017



Source: Real Estate Center at Texas A&M University

Marketing expectations vary considerably between the tightly supplied overall markets and the higher-end markets in DFW, Houston, Austin, and San Antonio. Overall, DFW homes spent the least amount of time on the market in 2017 at a median of 16 days (Figure 2). The other cities hovered closer to one month. In the higher price cohorts, Houston aligned itself more with DFW at nearly 46 and 62 days for the 95th and 99th percentiles, respectively. At the 99th percentile, homes in both Austin and San Antonio spent over a month longer on the market at close to 75 and 89 days, respectively.

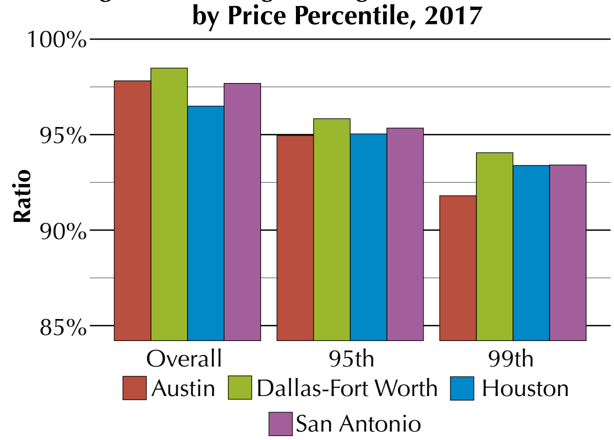
Figure 2. Median Days on Market by Price Percentile, 2017



Source: Real Estate Center at Texas A&M University

The ratio between the closing price and the original list price indicates how much negotiating occurred during the transaction (a higher ratio generally indicates less negotiating, although this varies by market). In the overall market in 2017, DFW had the highest ratio at 98 percent while Houston had the lowest at 96 percent (Figure 3). Moving into the 99th percentile, Houston followed closely behind DFW while Austin fell to 92 percent—the lowest ratio of the four metros. Given the higher percentage of condo sales in Austin's 99th percentile, it's tempting to attribute the lower ratio to the condominium market. However, single-family homes and condos each have a median ratio of 97 percent in the overall market.

Figure 3. Closing-to-Original-List-Price Ratio by Price Percentile, 2017



Source: Real Estate Center at Texas A&M University

Unexpected Luxury Home Boost

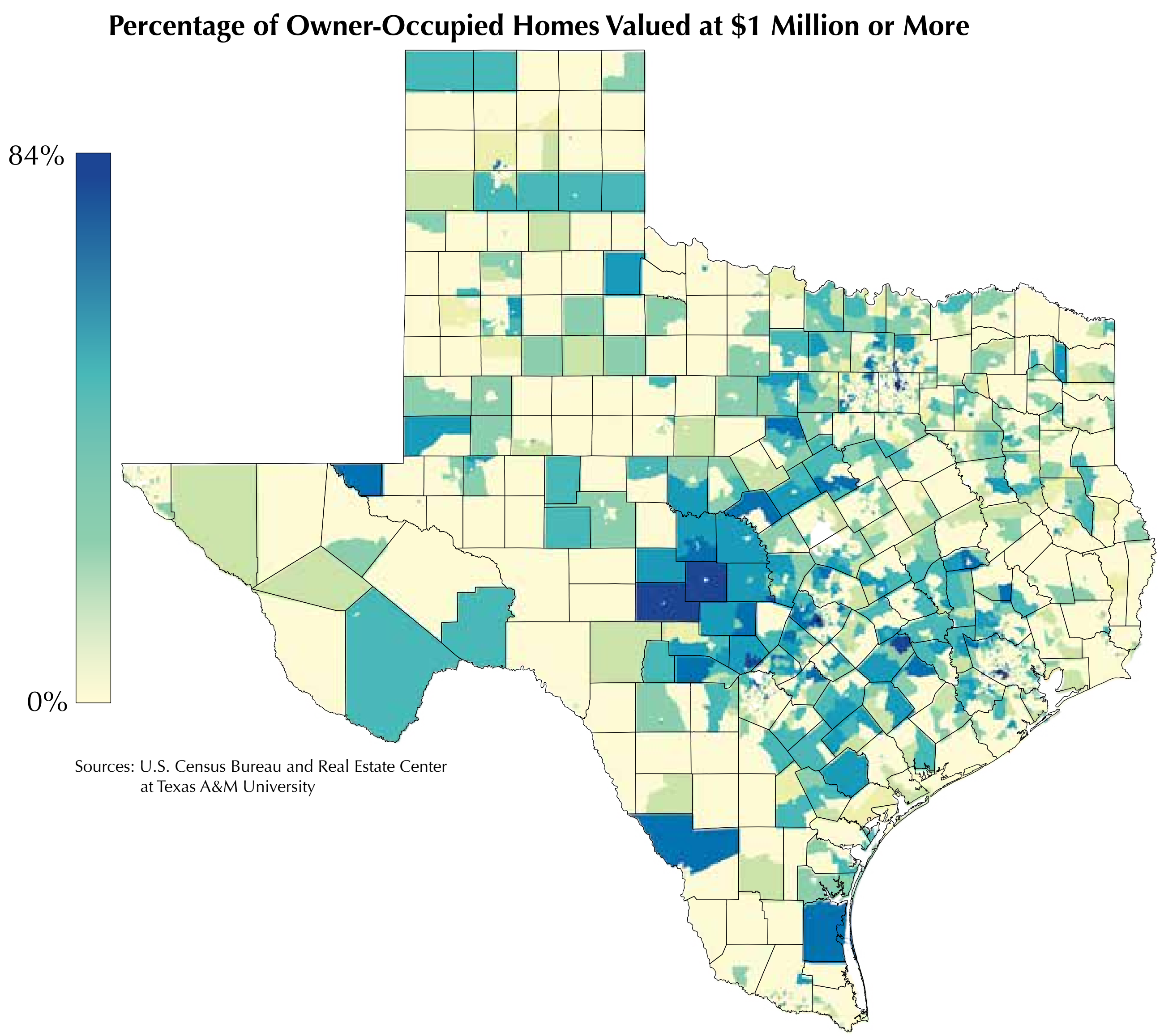
Once home prices reach the $1 million mark, the game changes entirely. Purchases are no longer based primarily on size and location but rather on unique amenities and premium materials. Also, the buyer pool is often national or even global.

Compared with other states, Texas has one of the largest supplies of million-dollar homes. Based on 2017 U.S. Census Bureau estimates, Texas has the fifth largest household count living in $1 million-or-more homes at just over 93,000 (Table 2). These upper-range homes make up only 1.6 percent of all owner-occupied homes, the lowest percentage among the top ten states by volume. Only California, New York, Florida, and Massachusetts are ahead of Texas. California's count of $1 million owner-occupied households represents 15 percent of its total market, dwarfing Texas.

Table 2. Ten Largest U.S. Markets for Luxury Homes

	$1 Million Homes	Percent of Total Homes
California	1,071,201	15
New York	309,274	7.9
Florida	126,302	2.5
Massachusetts	99,859	6.2
Texas	93,264	1.6
Washington	90,556	5.1
New Jersey	72,626	3.5
Virginia	57,842	2.8
Illinois	56,686	1.8
Colorado	46,715	3.3

Source: U.S. Census Bureau



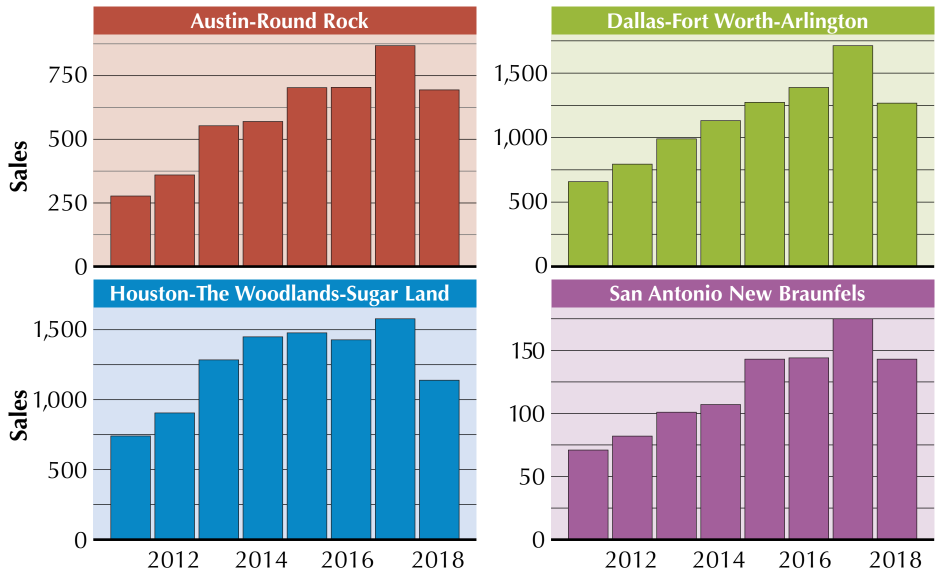
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Table 3. Texas Luxury Home Sales, 2017

	Sales Volume	Percent of Total Homes
Austin	868	2.5
Dallas-Fort Worth	1,713	1.7
Houston	1,579	1.8
San Antonio	175	0.5

Source: Real Estate Center at Texas A&M University

Figure 4. Luxury Home Sales, 2011–3Q2018



Source: Real Estate Center at Texas A&M University

Dallas and Houston were, by far, the largest Texas markets for million and multimillion-dollar homes by sales volume in 2017 (Table 3). Austin had the highest percentage of luxury homes at 2.5 percent. San Antonio, while similar in market size to Austin in overall sales, had only 0.5 percent.

Luxury home sales have grown considerably in the past year and a half within many of the nation's largest markets. Many experts attribute this growth spurt to the new Tax Cuts and Jobs Act passed in late 2017. Experts initially believed this law could be a detriment to the housing market, particularly at the higher-priced end because of reduced mortgage interest as well as state and local income tax deductions. The latter does not apply to Texas.

So far, though, the new tax law does not seem to have negatively impacted the luxury home market. Some experts now believe various other tax laws benefiting higher-net-worth households may have been enough to offset the loss in deductions. Perhaps some buyers wanted to take advantage of record-low mortgage rates while they lasted.

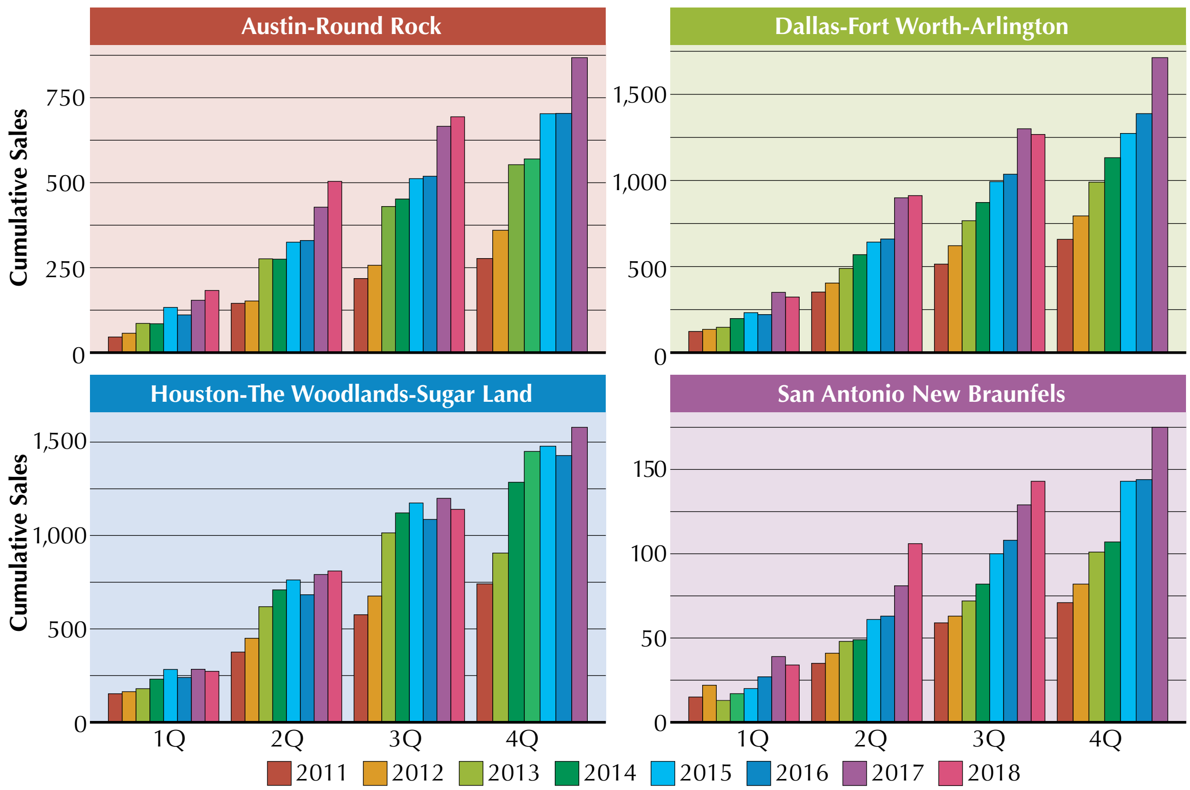
The uptick in sales within Texas' four major metros actually began much earlier in 2017. Figure 4 shows annual luxury home sales in those markets along with third-quarter year-to-date (YTD) sales for 2018. Each market showed a noticeable boost in luxury home sales in 2017. In each market except Houston, third quarter 2018 YTD sales matched total 2016 sales.

Figure 5 shows YTD benchmarks at each quarter from 2011–18. The chart illustrates luxury home sales picking up pace as early as second quarter 2017, several months before the new tax law was passed.

Reasons for the Luxury Surge

So why did Texas' luxury home market suddenly take off in 2017? One reason could be the general rise in optimism regarding the national economy. Stock prices

Figure 5. Quarterly Cumulative Luxury Home Sales, 2011–3Q2018



Source: Real Estate Center at Texas A&M University

have grown aggressively, since 2016 helping investor balance sheets. National and state consumer confidence and small business confidence are also on the rise.

Another reason could be changing market dynamics in the luxury sector. Although higher than the overall market, statewide average days on market for luxury homes has been shrinking gradually since 2011. This trend has held despite the significant rise in $1 million-and-higher listings.

Texas' luxury home market could simply be the result of opportunity combined with growing supply and pent-up demand. As the Texas economy, including oil, continues to grow, this home sector should be worth following for years to come.

Roberson (jroberson@mays.tamu.edu) is a senior data analyst with the Real Estate Center at Texas A&M University.