

How Long Can It Last?

Strong 2020 Housing Market Moves into Uncertain 2021

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Despite the onset of a pandemic, 2020 was an absolutely phenomenal year for Texas' housing market. Fourth quarter sales expanded after the third-quarter boom, and year-end sales capped off at 9.4 percent over 2019, which was already a record year.

Strong sales were accompanied by other strong growth numbers, notably home price appreciation (see table). Fourth-quarter price growth catapulted to almost 8 percent over fourth quarter 2019. Overall in 2020, the typical home sold much faster, and sellers made fewer price concessions. In the end, the market simply wasn't able to keep pace with demand, resulting in a massive housing shortage.

The Takeaway

The pandemic didn't slow Texas home sales in 2020. However, despite strong demographics, low housing supply could hamper growth in 2021.

What's even more impressive is that year-end figures were blunted by the massive two-month decline incurred during the pandemic's lockdown period. Comparing May-December 2020 with the same period in 2019 shows sales growth was actually closer to 13 percent.

2020 Texas Housing Market Performance (Percent Change from 2019 in Parentheses)

Median Close Price: \$259,000 (+7.9%)	Sales: 393,168 (+9.4%)
Median Close Price: (per square foot) \$129 (+6.2%)	Close/Ask Price Ratio: 97% (+1%)
Days on Market: 47 (-27.7%)	Months Inventory: 1.7 (-44%)

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

The last time Texas housing was this strong was in the early 2010s when the market finally began recovering from the Great Recession (Figure 1). Sales growth hit double digits in 2012 and made an even bigger leap the following year.

Unfortunately, following yesterday’s playbook won’t be enough to sustain today’s housing trend. Unlike in the early 2010s, when home sales clawed their way back from a recession, 2020’s sales growth was on top of an already hot housing cycle. Homeowners back then were anxious to buy homes again after waiting for both the housing and mortgage industries to get back on their feet.

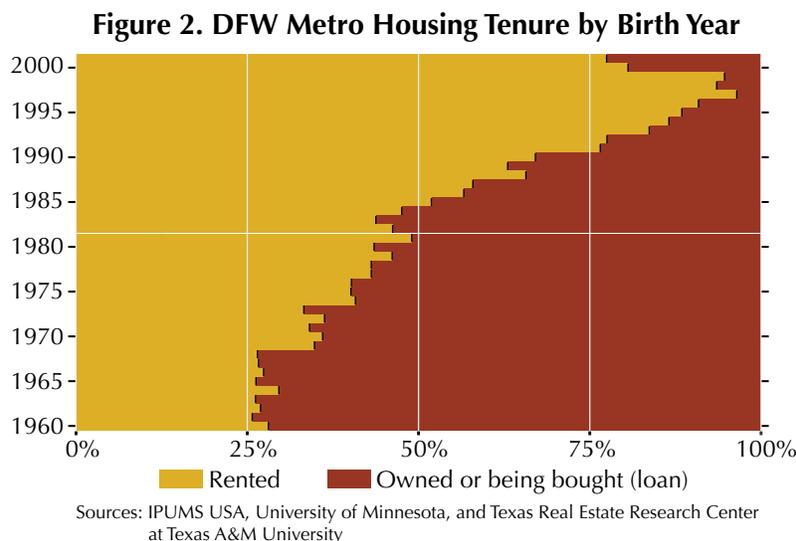
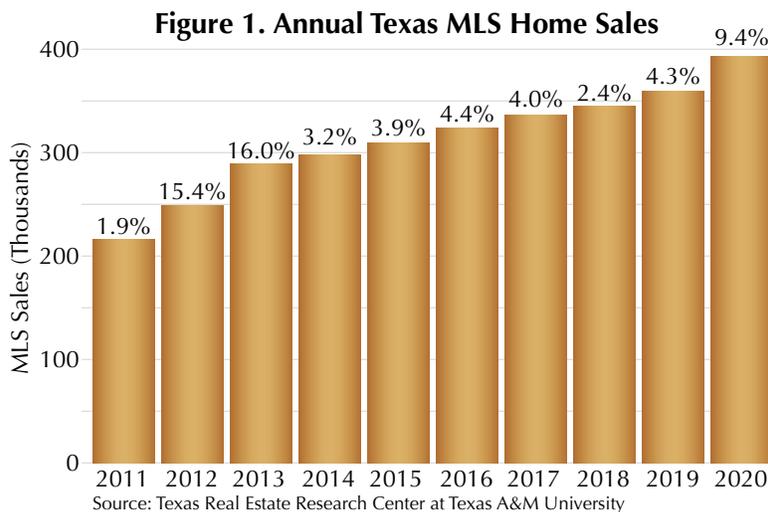
After years of pent-up demand and strong economic tailwinds, Texas’ housing market had plenty to look forward to. Those strong tailwinds may have disappeared for the time being, but the market stands to benefit from a surge in younger buyers.

The Millennial Wave

The age cohort of most interest in the current housing market are individuals born in the 1980s, or “older millennials,” according to the National Association of Realtors’ most recent “Home Buyers and Sellers Generational Trends Report.” These households took center stage in 2020 and propelled housing demand, but how deep is that well of potential homebuyers, and why are they relevant now?

In major markets like Dallas-Fort Worth, millennials in their mid 30s are more likely to own than rent (Figure 2). However, simply being born in the early to mid ‘80s doesn’t show the big picture of how they fit into the housing market. Many at this age cross several key milestones, pushing them closer toward homeownership.

The first milestone is simply dollars and cents. While millennials in general are highly educated, their income



levels haven't always matched up with their college degrees. After several years in the workforce, many are just now reaping the benefits of their education. According to U.S. Census Bureau data, older millennials in Dallas now have above-average earnings, which, when combined with today's mortgage rates, creates a lot of buying power.

Higher earnings coincide with other key life milestones as well, such as marriage and children. Older millennials are now hitting marriage rates comparable to Gen Xers and boomers. They also have the most kids per household of any age cohort, creating a need for more space.

That need goes against the stereotype that they prefer to live in dense urban areas. Make no mistake, many millennials still prefer the urban lifestyle, but a departure from this trend is clearly emerging. In 2019, older millennials were more closely aligned with older age cohorts than with younger millennials (those born in the '90s) when it came to neighborhood density (Figure 3). Whether it's by want or by need is debatable, but older millennials are making the push to less populated areas like the suburbs.

How many of these households are there? The biggest spike in births for this age cohort occurred in 1993, putting them in their late 20s. However, the Texas Demographer's 2019 estimates show the crest of the millennial wave is still ahead (Figure 4). In addition, geographic reshuffling caused by the pandemic could mean increased migration into Texas, bolstering the millennial head count.

Dallas isn't the only Texas market that could benefit greatly from the millennial demographic. Assuming the mid 30s is the new normal age to begin household formation, millennials could be a major market driver in Texas cities both big and small for years to come. But smooth sailing into an expanding housing market isn't as simple as that. A few factors could get in the way.

One is the possibility that 2020's strong sales may cannibalize future sales, at least in the short term. Essentially, did conditions in 2020 artificially accelerate the pace of home purchasing? Some households may have only been considering homeownership at the beginning

Figure 3. Population Density by Year Born

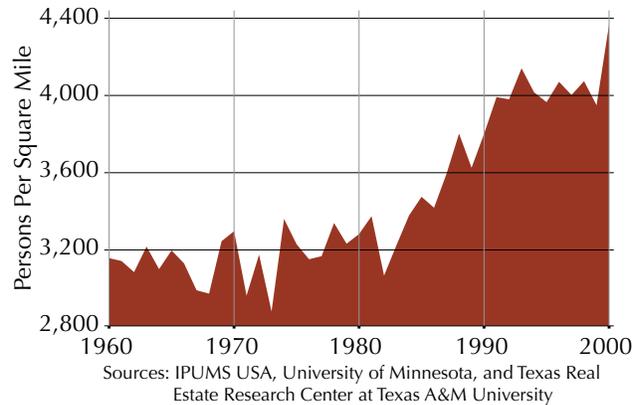
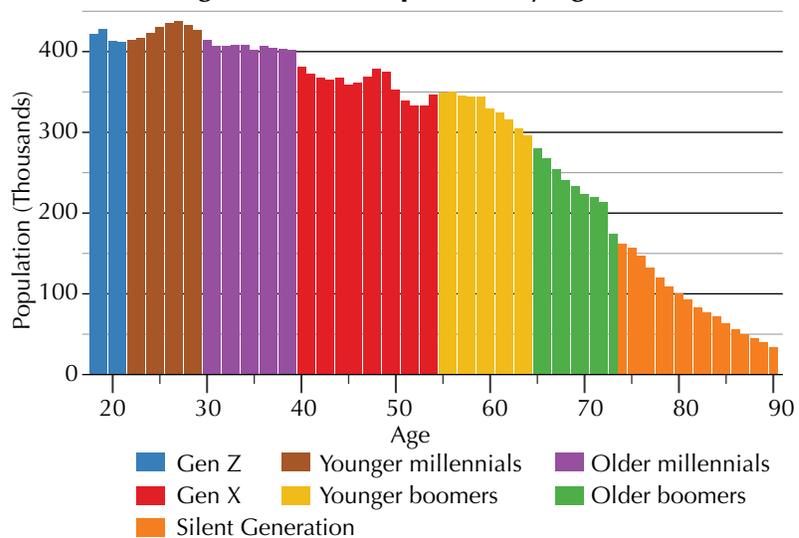


Figure 4. Texas Population by Age, 2019



of 2020, but then they sped up their schedule to take advantage of record-setting mortgage rates and perhaps satisfy their sudden need for additional space brought on by shelter-in-place restrictions.

If this is the case, then 2021 could experience a short-term lull in demand until the next wave of millennials enters the buyer's market. The general state of the economy and the management of virus cases are other demand-side risks, but the biggest hurdles may actually be on the supply side.

The Big Shortage

Housing shortage was already a problem in Texas before 2020, but the COVID pandemic pushed the shortage into an entirely new dimension.

Around a six-month supply of homes is the general rule of thumb for a balanced market. Most major Texas markets have operated below that for almost ten years. During that time, homeowners who couldn't find a home in denser areas could sprawl out to surrounding, less populated areas for more options. That may not be the case now.

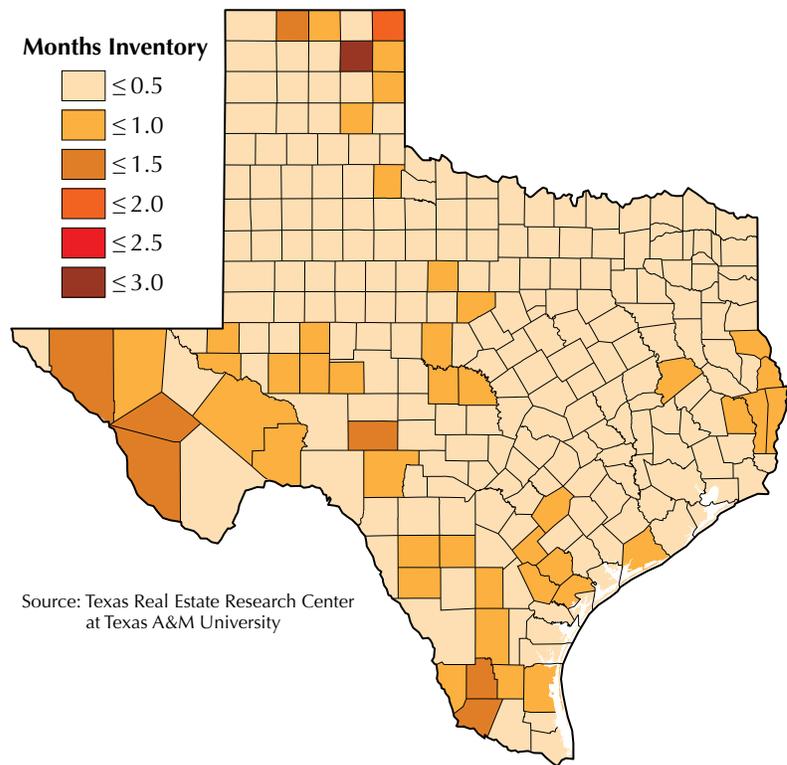
At the current sales pace, most Texas markets are nearly depleted of existing homes. Inside the Texas Triangle, the region located within the four major metros, inventories are at their lowest with little variance between core metro counties and beyond (see map). In other words, options continue to narrow. Other markets, such as Lubbock, El Paso, and Tyler, aren't faring much better.

Bricks and sticks aren't the only thing in short supply. Developable land is also much harder to come by with competition among builders intensifying. Once land is acquired, it takes time to push lots into the building pipeline, creating a lag to market. High housing demand in this environment drives up land prices, which typically gets passed on to homebuyers.

The current housing shortage places a lot of pressure on homebuilders' shoulders to deliver. As with existing homes, new-home inventories have dwindled, leading to a surge of new-home starts. Can builders meet demand?

In the early stages of the pandemic, construction employment took a tremendous spill (Figure 5). The low point for 2020 took construction employment to levels not seen since 2018. Fortunately for homebuilders, most of the decline was in the nonresidential sector, which slashed payrolls by at least 10,000 jobs in Texas during the second quarter alone. Still, residential construction

Single-Family Detached Home Supply, 4Q2020

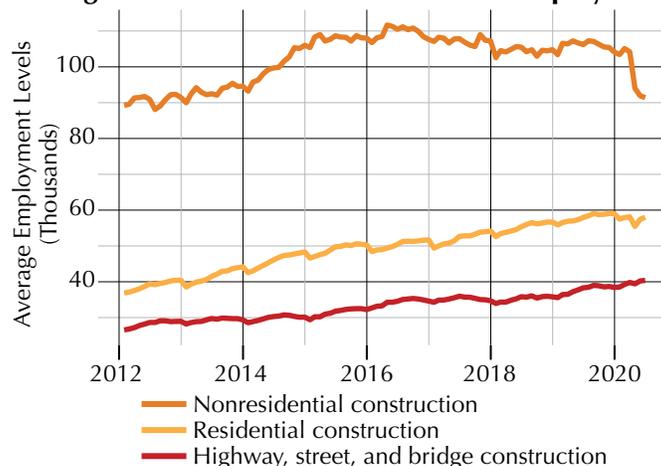


Source: Texas Real Estate Research Center at Texas A&M University

jobs did not emerge unscathed after shelter-in-place restrictions were lifted.

Heightened demand and a smaller workforce are hurdles that could slow new-home delivery. On top of that, home construction levels never fully recovered from the Great Recession of the mid 2000s and from the recent rise in home renovations. It's unlikely that the new wave of homes will be sufficient to restore balance to the housing market.

Figure 5. Texas General Contractor Employment



Sources: Quarterly Census of Employment and Wages and Texas Real Estate Research Center at Texas A&M University

Bright Spots Amid Uncertainty

Looking at the housing data, it's hard to reconcile how much has changed in such a short time. Despite 2020 being a rollercoaster year, the housing sector rose to the challenges and quickly adapted.

Going forward, traditional housing indicators are

still in flux. The oil market is hardly stable, the economy is still not back to full strength, and overall consumer confidence remains poor.

On the other hand, interest rates are expected to remain low for the time being, and homeowner migration is

accelerating, signifying some bright spots among the uncertainty. ➡

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