

A Reprint from *Tierra Grande*

New Jobs Keep Texas Housing Going

By James P. Gaines

Significantly tighter mortgage underwriting coupled with falling home prices and overbuilding in some of the larger markets have dragged the U.S. housing market downward. Foreclosures are high and rising.

So far, Texas, the second-largest housing market in the country, has fared much better than most states, but it is not immune to national and global economic and capital market pressures. While the state led the country in new job creation in 2007, an overall recession, especially a falloff in the energy sector, could seriously affect Texas' housing market.

Home Sales Volume

Annual home sales in Texas fell 6.4 percent in 2007 from 2006, the peak year in the current housing cycle. This was the first annual decline since the beginning of the century. Nationally, existing home sales dropped 13 percent and new home sales declined 26 percent. The months inventory of available existing homes for sale increased from 6.4 months to 8.7 months between 2006 and 2007 and currently hovers around ten months. The inventory of new homes for sale increased from 7.6 months to 11.4 months from 2006 to 2007 after varying between 3.8 and 4.8 months from 1997 through 2005.

Texas home sales experienced a sharp increase from 2004–2006 that has proven to be unsustainable into 2007 and 2008 (Figure 1). Texans, like other Americans, found mortgage credit readily available at substantially lower interest rates and rushed into homeownership or moved up in home quality or

price. The booming economy and rapidly expanding population further fueled sales volumes.

The general trend of home sales prior to 2004–2006 is indicated by the 2003 trend line (Figure 1). The 12-month moving average smooths the sales for seasonal variations, but the curve clearly demonstrates how sales significantly exceeded expected levels and are now reverting to “norm.”

Sales in 2007 moved back toward expectations, and 2008 is continuing in that direction. It may be that 2009 sales will dip slightly below norm as in past years.

Following the 2003 trend, home sales in Texas in 2008 would total about 262,000, or 10,000 less than in 2007, representing a 4 percent decline. Total sales volume for 2009 could be about 272,000 units, about equal to the 2007 level if they do not dip below norm because of general economic declines (Figure 2).

If market conditions continue to deteriorate, if a recession materially affects Texas or if the credit squeeze continues to make mortgages more difficult to get, sales in both years could be lower than indicated by the long-term trend.

Texas Home Prices

The good news for Texas so far is that home prices continue to appreciate, unlike in other areas of the country. The National Association of Realtors (NAR) reports that the national median home price in 2007 declined for the first time since the 1960s, when they began tracking the data. By contrast, Texas’ median home price increased by 3.1 percent. The Office of Federal Housing Enterprise Oversight (OFHEO) reported an annual increase of 2.5 percent for Texas in first quarter 2008 versus a 3.1 percent national decline in its purchase-only housing index.

Maintaining home values throughout the state has been critical in minimizing the impact of mortgage loan defaults and foreclosures. Other areas of the country with significant home price declines are, not surprisingly, leading the country in foreclosures. In Texas, borrowers who experience financial difficulties at least have some chance of refinancing the loan or selling the house before foreclosure rather than finding themselves “upside down” on the value relative to the loan.

Home value appreciation occurred uniformly across the state, with Midland and Odessa leading the way (Figure 3). A sign of the future, however, is that the rate of increase in appreciation fell significantly from the fourth

Figure 1. Texas Home Sales
12-Month Moving Average

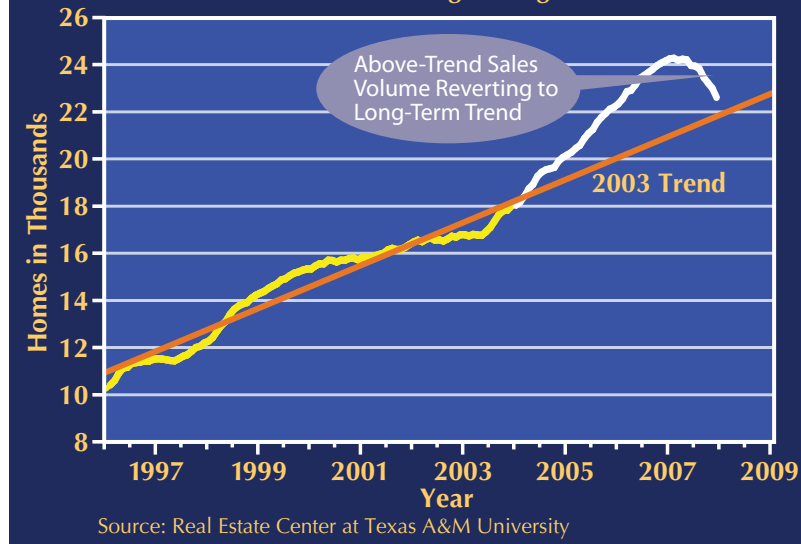
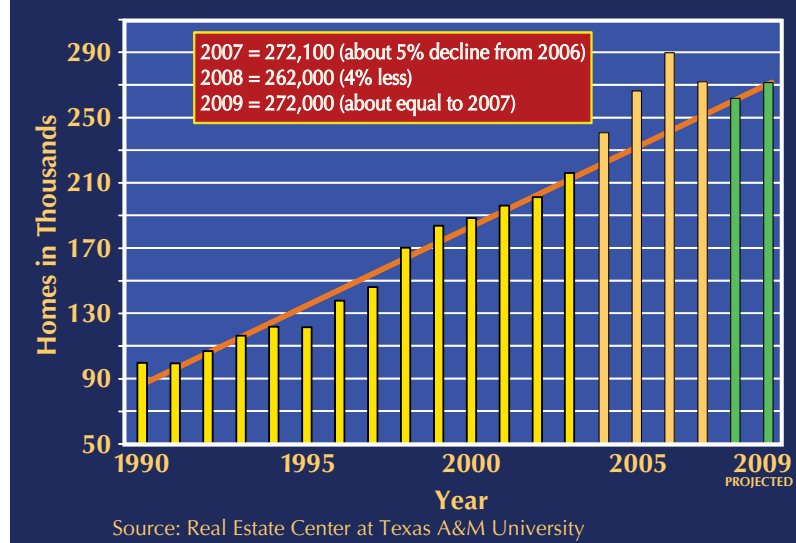


Figure 2. Annual Texas Home Sales
2003 Trend



**Figure 3. Texas Home Appreciation
Annual Percent Increase
1Q07 to 1Q08**

Abilene	2.79%	Fort Worth	2.59%	San Angelo	6.39%
Amarillo	4.93%	Houston	4.38%	San Antonio	3.47%
Austin	7.73%	Killeen	1.52%	Sherman	0.19%
Beaumont	6.29%	Laredo	4.34%	Texarkana	4.13%
Brownsville	5.69%	Longview	2.92%	Tyler	7.36%
College Station	4.22%	Lubbock	4.56%	Victoria	8.91%
Corpus Christi	2.36%	McAllen	1.83%	Waco	2.43%
Dallas	3.76%	Midland	11.40%	Wichita Falls	3.07%
El Paso	6.30%	Odessa	13.04%		

Source: OFHEO, 1Q2008

quarter of 2007. Home value appreciation in Texas for the rest of the year may be fairly minimal except in a few areas.

The national home price bubble sprang a sizable leak. The U.S. median home price fell in 2007 and almost certainly will fall further in 2008. The NAR-reported national median home price peaked in July 2006 at \$230,900 and has fallen every month since on an annual percentage basis.

NAR reported a 2007

median of \$217,900, 1.8 percent less than the 2006 median price of \$221,900 and 5.6 percent lower than the peak. The current median price of \$200,700 is 13 percent less than the peak price.

Texas' statewide median home price demonstrates relatively stable growth over nearly 20 years (Figure 4). The median price increased an average of 4.4 percent annually since 1990 and did not significantly exceed the trend even during the 2004–2006 period. Extrapolating the 2007 trend line suggests that the 2008 statewide median price should reach around \$150,000, a 1.7 percent increase over 2007's \$147,500. By 2010, the median price could increase by 7.8 percent to around \$159,000 if the fundamental trend of increase continues.

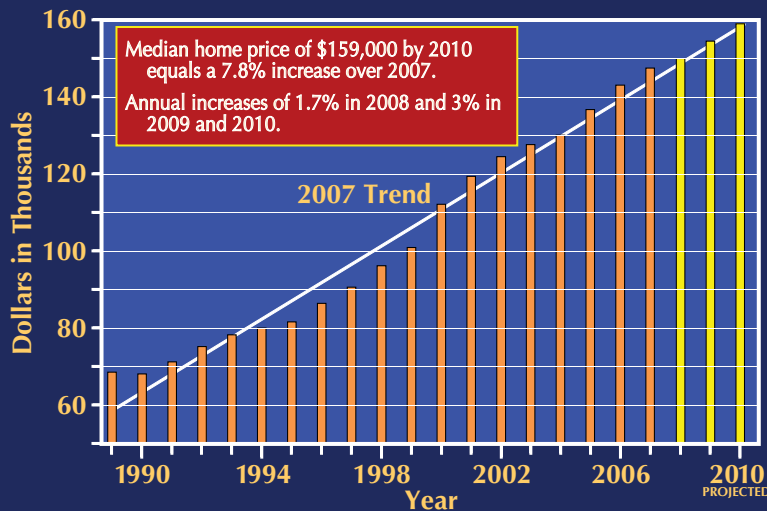
If the future median home price follows the 2003 trend (Figure 5), as anticipated for sales volume and construction, rather than the 2007 trend,

the statewide median price could fall 1.3 percent in 2008 to \$145,650. The statewide median price would not reach the \$150,000 level until 2009 and around \$154,500 by 2010, a 4.8 percent increase over 2007.

Hence, Texas' projected 2008 median home price may decrease or increase somewhere between –1.3 percent and 1.7 percent, essentially remaining relatively flat this year and not experiencing any significant increase until 2010.

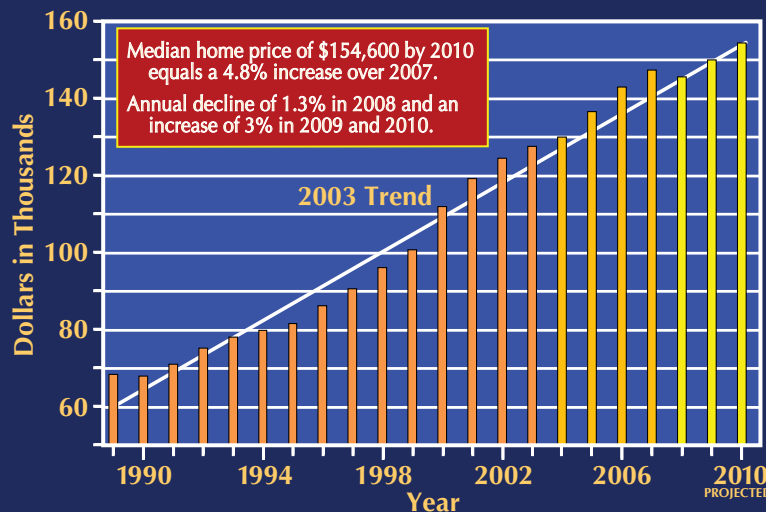
By contrast, the national housing price bubble that emerged between 2001 and 2006 is easy to see graphically as well as the direction the median price is moving in 2008. Figure 6 shows the run-up in median price to the peak in July 2006 and the subsequent run-down toward the long-term, 2001 trend line. Since

**Figure 4. Texas Median Home Prices
2007 Trend**



Source: Real Estate Center at Texas A&M University

**Figure 5. Texas Median Home Prices
2003 Trend**



Source: Real Estate Center at Texas A&M University

the national housing boom started in 2002, the 2001 trend line indicates the pre-boom direction of prices.

The 2007 reported U.S. median home price was \$217,000. If the 2008 median home price reverts completely to the indicated 2001 trend level of around \$187,500, it would represent a 14 percent decline. If the annual median price stabilizes around \$200,000, for example, it would still represent an 8.5 percent decline from the 2007 level. Unless the housing market reverses fairly quickly over the summer, which does not appear likely, the national median price will probably sustain a significant decline, potentially between 8.5 and 14 percent. Through May, the national median price was down 6.8 percent.

New Home Construction

Nationally and within Texas, new home construction was down significantly in 2007 and is likely to be down further in 2008. During the 2002–2006 boom, homebuilders overestimated the demand for new homes and built significantly more units than could be absorbed, creating a glut in the supply.

Annual new home sales (Figure 7) increased from 877,000 units in 2000 to 1.283 million units in 2005 after averaging 700,000 annually in the 1990s. Sales for 2008 appear headed toward the 500,000 to 600,000 range, not nearly enough to absorb the inventory of unsold units.

New home sales, like existing home sales, exploded with the advent of easy credit, easy terms and new mortgage products aimed at making homeownership easier. As the market cooled in 2006 and 2007, home builders were slow to adjust inventory levels and new construction.

The fall-off in new home construction has been dramatic, as indicated by the severe drop in the number of new home starts reported by the Census Bureau (Figure 8).

For 2008 and 2009, the new home construction market is not promising in the aggregate. The Census Bureau estimates a 10.6-month inventory of new homes available nationally (a balanced market typically has between three and four months inventory). In 2007, new home starts reported by the U.S. Census Bureau averaged 87,200 per month. At the current rate of 40,000 to 50,000 sales per month (500,000 to 600,000 annually), starts will have to fall to less than 50,000 per month for the market to recover. Even then, it would take several years to clear the existing inventory of unsold units.

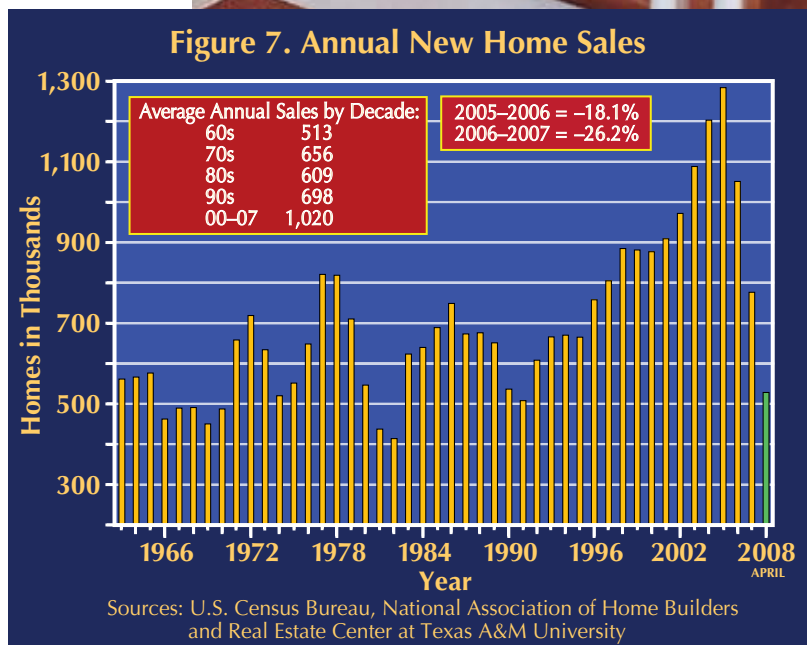
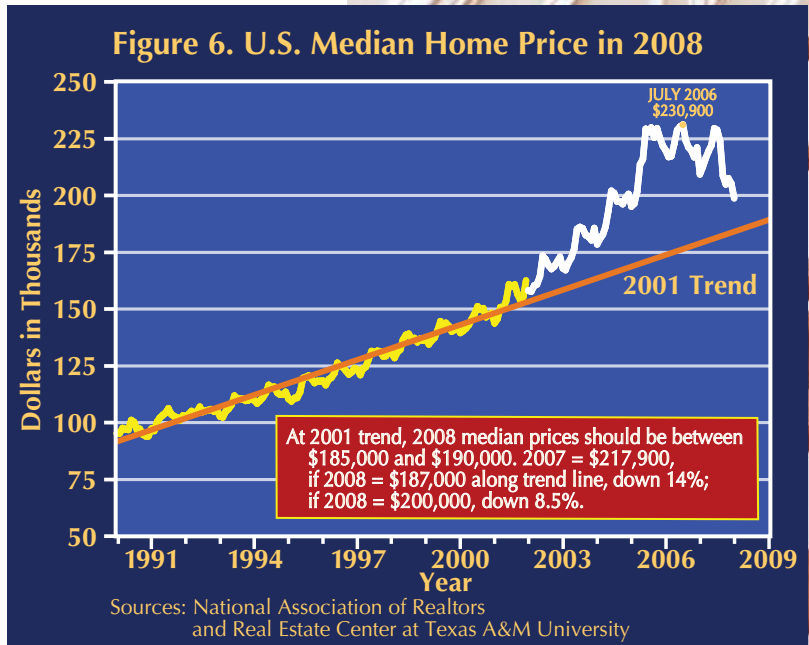
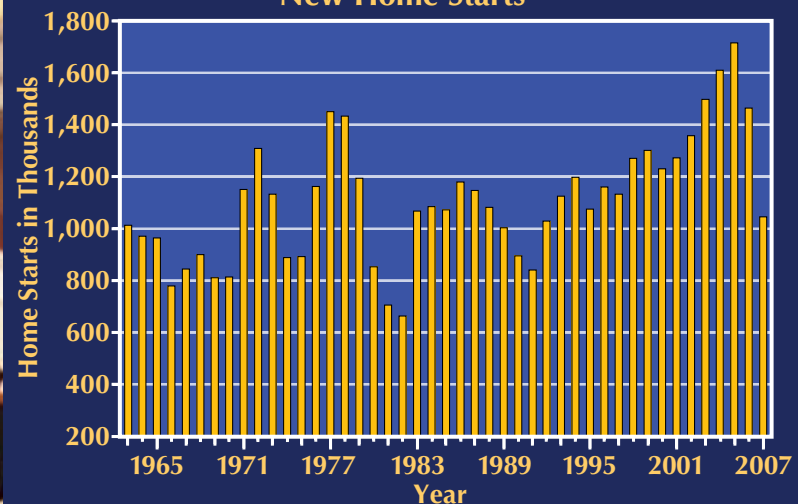


Figure 8. U.S. Annual Single-Family New Home Starts



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

Because real estate housing markets are local, these numbers do not apply everywhere. Some areas will see improvement more quickly, and others may take years to balance new home inventory and sales.

Texas' new home construction market generally followed a pattern similar to the national experience, with rapidly increasing activity between 2001 and 2005 followed by a gradual decline in 2006 and a more severe decline in 2007 (Figure 9).

The average number of new homes permitted in Texas may fall by more than 5,000 units per month from the peak in 2005 to the projected number for 2008.

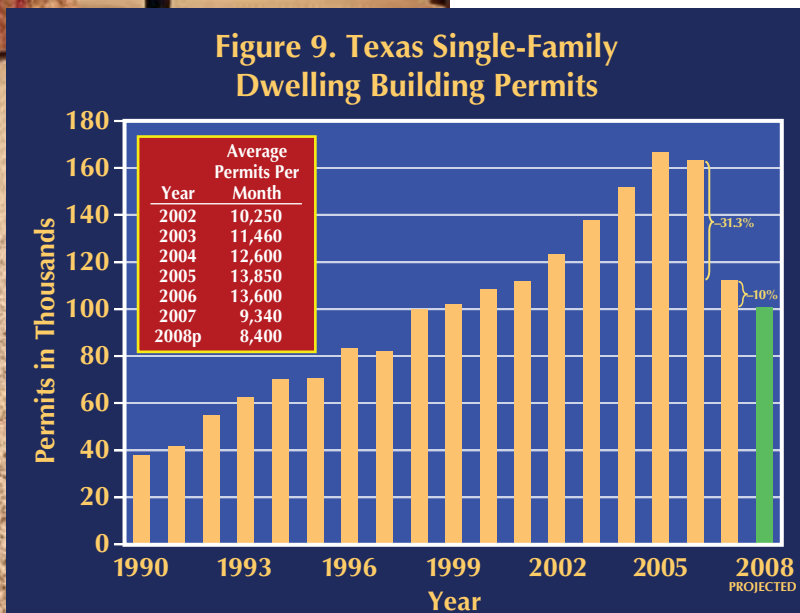
The 101,000 permits projected for 2008 is roughly equal to the number issued in 1998–1999. That number should be even lower for the market to adjust more quickly. Homebuilding, however, will not stop, thereby delaying recovery.

Again, overbuilding and excess inventories tend to be localized even within the major urban markets in Texas. Dallas–Fort Worth, for example, is generally considered to have an oversupply of new, vacant units, but these tend to be concentrated primarily in the northern suburbs and exurbs. Other local submarkets within the Metroplex do not suffer from oversupply. Overall, housing demand in the Dallas–Fort

Worth market is still relatively strong, but home builders will need to be careful not to make the situation more serious. 📌

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Figure 9. Texas Single-Family Dwelling Building Permits



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

THE TAKEAWAY

Texas' housing market continues to be significantly stronger than the national market. Home sales will probably decline but prices should be flat. New home construction will remain soft until the market finds balance.



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