

A Reprint from *Tierra Grande*

By James P. Gaines

Despite massive Federal efforts to stimulate the housing market, including prolonged, historically low interest rates, direct tax incentives to selected buyers, and mortgage modification and refinance programs, the national housing market remains stalled.

Home sales and new home construction may have bottomed in 2011 but still are significantly lower than their long-term averages. Home prices nationally may decline further, although at a slower rate than the last three years. But overall performance will stay close to current levels as excess inventory and an increased number of foreclosures forestall the overall recovery. Real estate markets are local, so the rocky road to recovery will differ significantly from area to area.

Since 2008, Texas, the second largest housing market in the country, fared much better than most other states. During the

next couple of years, the state's housing markets should record a slow upturn.

Significant uncertainties, including national, state and local elections, federal government policies and actions and the European debt workout, are a cloud on the U.S. economy. Fueled primarily by strength in the oil and gas industries, professional and business services, trade, and health care, Texas continues to lead the country in new job creation. But another national or global recession or a falloff in the energy sector could seriously affect Texas' economic climate and the housing market.

Home Sales Volume

Annual home sales in Texas fell 30 percent from 2006 through 2011, less than the 37.4 percent that U.S. total sales declined

Table 1. Texas Home Sales, Average and Median Prices

Year	Sales	Average Price	Median Price	Year-Over-Year Percent Change			Percent Change Since Peak		
				Sales	Average Price	Median Price	Sales	Average Price	Median Price
1990	100,047	87,300	68,100						
1991	99,619	89,300	71,200			-0.4	2.3	4.6	
1992	107,107	93,400	75,200	7.5	4.6	5.6			
1993	116,604	99,300	78,200	8.9	6.3	4.0			
1994	122,134	102,400	80,000	4.7	3.1	2.3			
1995	121,823	104,400	81,600	-0.3	2.0	2.0			
1996	138,123	110,800	86,400	13.4	6.1	5.9			
1997	146,395	117,900	90,700	6.0	6.4	5.0			
1998	170,638	124,700	96,200	16.6	5.8	6.1			
1999	184,056	132,200	100,900	7.9	6.0	4.9			
2000	188,738	146,100	112,100	2.5	10.5	11.1			
2001	196,401	150,100	119,400	4.1	2.7	6.5			
2002	201,528	155,600	124,500	2.6	3.7	4.3			
2003	216,147	159,400	127,700	7.3	2.4	2.6			
2004	241,020	164,300	130,100	11.5	3.1	1.9			
2005	266,842	174,400	136,800	10.7	6.1	5.1			
2006	292,805	183,800	142,900	9.7	5.4	4.5	100.0		
2007	275,584	192,600	147,300	-5.9	4.8	3.1	94.1	100.0	100.0
2008	232,381	191,600	146,900	-15.7	-0.5	-0.3	79.4	99.5	99.7
2009	213,334	185,400	145,800	-8.2	-3.2	-0.7	72.9	96.3	99.0
2010	203,610	192,300	147,600	-4.6	3.7	1.2	69.5	99.8	100.2
2011	208,000	196,100	148,800	2.2	2.0	0.8	71.0	101.8	101.0
2012p	215,000	\$200,000	\$152,000	3.4	2.0	2.2	73.4	103.8	103.2

Source: Real Estate Center at Texas A&M University

The substantial sales decline that started in 2007 was mostly interrupted by the tax credit inducement programs roughly between June 2009 and June 2010. The downward trend of home sales, however, appears to have reversed during spring 2011. A gradual improvement in monthly sales moving toward the long-term norm (as estimated by the 1991–2003 trend line) is expected to continue into 2013.

Texas home sales are projected

to grow to plus-or-minus 212,000 units in 2012, an increase of 3 to 3.5 percent for 2012.

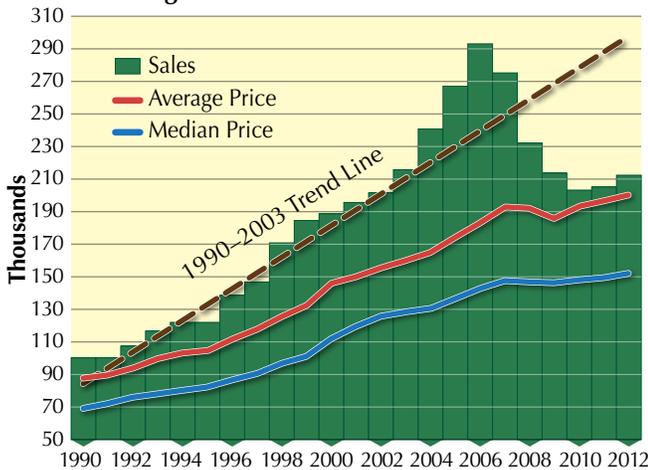
The projected 2012 level of sales is consistent with the historical rate of statewide sales per 1,000 households.

The three-year trend in the rate of sales since 2010 reflects a reversion to the 1997–98 pace of sales, indicating a significant shift toward a more “normal” and sustainable market (Figure 3).

The housing market remains somewhat precarious and could change, perhaps dramatically, as a result of small macroeconomic factors. Europe’s financial markets continue to be unstable, with no plan to fix the debt glut. A European recession could well trigger a U.S. retrenchment or outright recession.

The credit squeeze makes new mortgages difficult to obtain, and appraisals often fail to support contract prices for new or existing home purchases. These two factors have caused contract cancellations to accelerate. Historically low mortgage interest rates have done little to attract buyers. Many buyers are postponing home purchases because of lack of confidence in the market and concern that prices may not have bottomed.

Figure 1. Annual Texas Home Sales



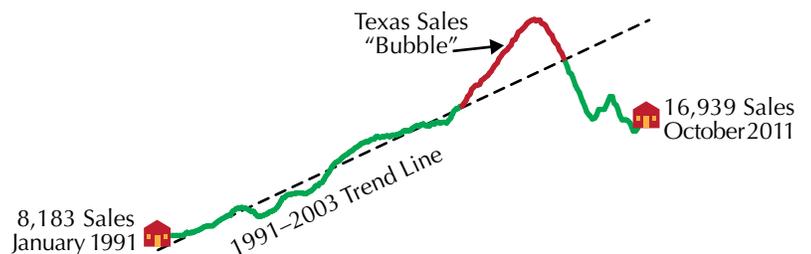
Source: Real Estate Center at Texas A&M University

from their 2005 peak. Texas sales fell by 4.5 percent in 2010, despite the federal tax credit incentive during the first half of the year, but rebounded by a very modest 0.7 percent in 2011 (Figure 1, Table 1).

Barring any unforeseen economic or market shocks, U.S. home sales are expected to record around 4.4 million units of total existing home sales and 325,000 units of new home sales for the next couple of years.

The general pattern of home sales is indicated by the 12-month moving average, which smooths reported monthly sales for seasonal variations (Figure 2). Texas home sales experienced a sharp sales “bubble” from 2004 through 2006 that proved unsustainable into 2007 and 2008.

Figure 2. Texas Home Sales 12-Month Moving Average



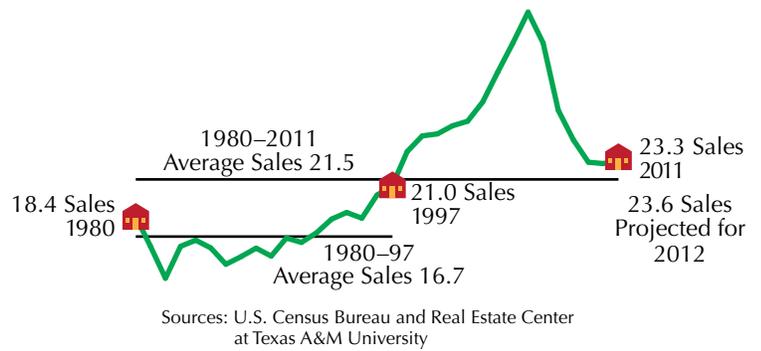
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Texas Home Prices

The good news for sellers so far is that home prices continue to appreciate. The National Association of Realtors (NAR) reported that the U.S. median home price fell a cumulative 22.4 percent from 2007 through 2009, increased less than 1 percent in 2010, and fell another 4 percent in 2011. The 2007–09 declines were the first losses since the 1960s, when NAR began tracking the data.

Texas' median home price dropped less than 1 percent in both 2008 and 2009, increased by 1.2 percent in 2010 and then by 0.7 percent in 2011. Despite the small rate of improvement, the 2011 median price of \$148,700 established a record high. Texas home prices remain attractive relative to

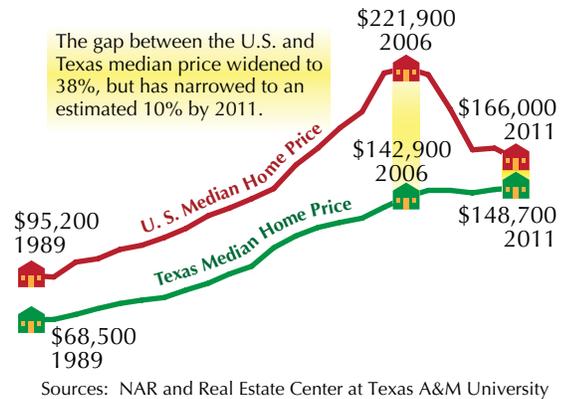
Figure 3. Texas Home Sales per 1,000 Households



the national median, but the gap between the two has narrowed significantly as the national median price has fallen (Figure 4).

Maintaining home values throughout the state has been critical in lowering the impact of mortgage loan defaults and foreclosures. NAR reports that nationally, foreclosure-distressed

Figure 4. United States and Texas Median Home Prices



sales account for as much as 33 percent of total sales. Texas' distressed sales run 10 to 20 percent of total sales volume, much lower in some communities. Texas borrowers who experience difficulties have some chance of refinancing or selling

Figure 5. Texas Median Home Prices



prior to being foreclosed rather than their mortgage being "upside down" or having "negative equity."

Texas' statewide median home price demonstrated relatively stable growth

between 1989 and 2007 (Figure 5). The median price increased an average of 4.4 percent annually between 1990 and 2007, then stayed relatively flat during the housing bust. As there was no statewide price bubble during the boom, there was no statewide price bust. For 2012, the statewide median price is expected to increase 1 to 2 percent to between \$150,000 and \$152,000, less than half the historical average rate of appreciation.

Texas' four major metropolitan areas' home prices have held steady (Figure 6). Dallas' and Houston's median home prices were flat while Austin's and San Antonio's median prices have shown some upward movement.

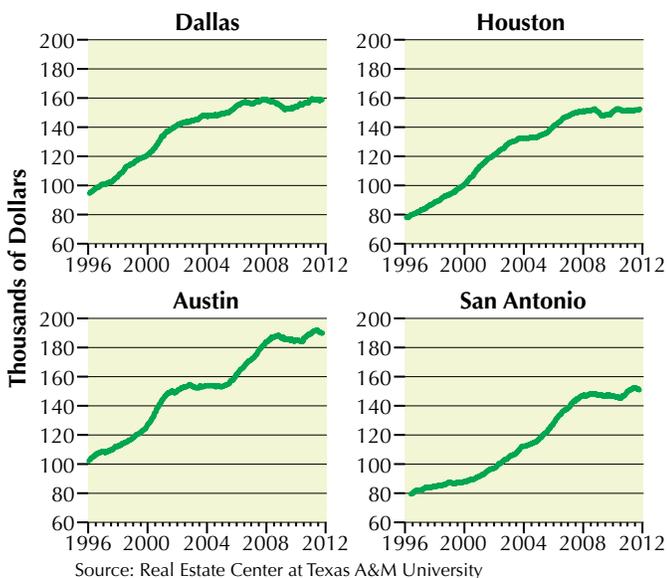
Table 2. Median Price Change in Texas Metropolitan Areas

MLS Area	2011 Median Price	Year-Over-Year Percent Change
Abilene	\$118,000	6
Amarillo	\$128,000	2
Arlington	\$125,400	-4
Austin	\$191,200	1
Bay Area	\$154,400	-1
Beaumont	\$128,900	0
Brazoria County	\$122,300	-2
Brownsville	\$93,300	-2
Bryan-College Station	\$150,600	-1
Collin County	\$209,300	1
Corpus Christi	\$135,000	-1
Dallas	\$158,500	0
Denton County	\$159,400	-2
El Paso	\$131,300	-1
Fort Bend	\$198,200	0
Fort Worth	\$110,500	-3
Galveston	\$171,000	4
Garland	\$91,200	-8
Harlingen	\$88,000	7
Houston	\$153,200	1
Irving	\$132,800	-4
Kerrville	\$154,400	-7
Killeen-Fort Hood	\$122,300	1
Laredo	\$123,300	6
Longview-Marshall	\$131,100	3
Lubbock	\$117,000	2
Lufkin	\$105,800	-13
McAllen	\$104,400	2
Midland	\$183,600	5
Montgomery County	\$184,200	3
Nacogdoches	\$130,000	2
Northeast Tarrant County	\$167,200	-1
Odessa	\$140,700	10
Palestine	\$90,300	6
Paris	\$88,000	-9
Port Arthur	\$106,300	2
San Angelo	\$122,100	4
San Antonio	\$151,000	1
San Marcos	\$150,000	10
Sherman-Denison	\$87,300	-1
South Padre Island	\$173,600	-10
Temple-Belton	\$129,600	6
Texarkana	\$104,000	-5
Tyler	\$137,200	1
Victoria	\$128,100	5
Waco	\$120,700	4
Wichita Falls	\$94,400	-4
Texas	\$148,600	1

Source: Real Estate Center at Texas A&M University

The change in the median price in individual Texas metropolitan areas was mixed in 2011 (Table 2). Nineteen areas experienced median price declines, three areas were flat, and 25 metro areas reported higher median prices.

Figure 6. Texas Metropolitan Home Prices



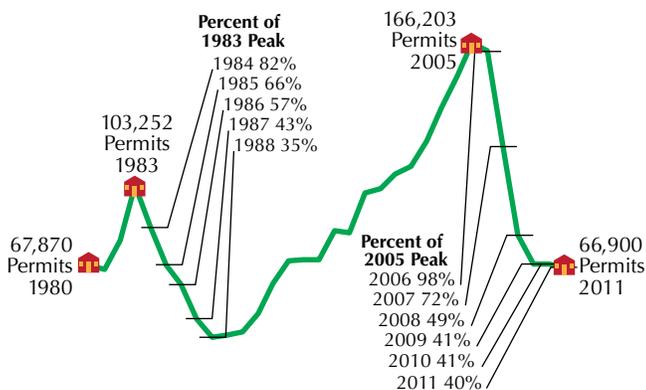
New Home Construction

Texas single-family home permitting dropped about 60 percent between 2005 and 2011. Statistically, the current decline closely replicates the 1984–88 collapse in construction, and the pattern of recovery could also mirror the subsequent decade. Despite the drop, Texas leads the nation in new home permits, and the Houston and Dallas metro areas rank one and two nationally in single-family home building activity in the United States.

In 2011, Texas issued the fewest residential unit permits since 1992. While single-family permits in 2009 and 2010 were virtually constant, 2011 permits declined by 2 percent. Texas' single-family construction levels for 2009 through 2011 are roughly equal to those of 1993–95 at around 70,000 units per year (Figure 7).

The monthly permit numbers suggest that home construction in Texas may have bottomed at around 5,000 units per month (Figure 8). The tax credit programs created an artificial rebound in 2010. It appears that new home construction may

Figure 7. Texas Single-Family Building Permits

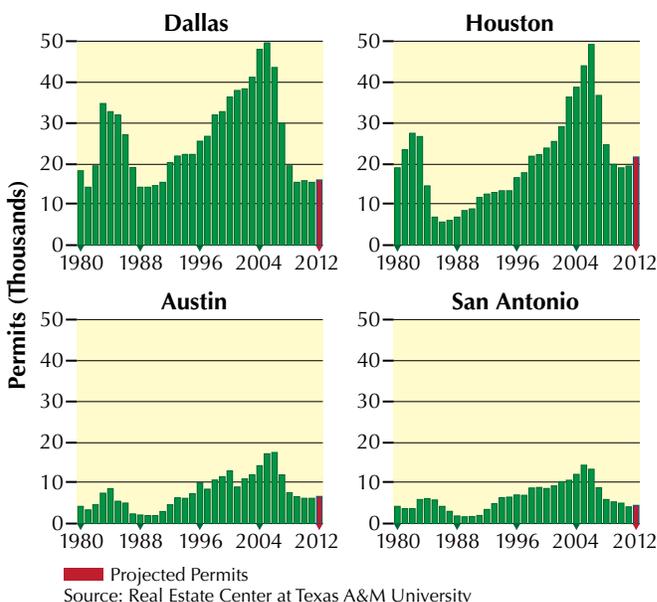


Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

linger at or near the current bottom for another year or so before registering a significant recovery. But any improvement will be modest and limited. Nationally, the differential between new home and existing home prices is at a historic high and qualifying for home loans remains difficult.

Homebuilding will not stop as there is always demand for new homes versus existing homes. Overbuilding and excess inventories within the major Texas urban markets tended to be localized in specific neighborhoods rather than across the whole market. Single-family construction in the major Texas metro markets generally followed the same pattern as for the whole state. The pace of recovery may be similar to the 1980s, when it took several years for new home construction to approach a reasonably strong level, much less to equal the prior peak. At present, it appears that the level of new single-family construction has bottomed and should experience an uptick in 2012 in each of the major metro areas.

Figure 8. Texas Metros Single-Family Home Permits



What Lies Ahead

There is reason to expect that the remainder of 2012 will be the beginning of a general economic and housing upturn. Sales and new construction should be showing signs of expanding and prices should stabilize. By year end, most of the major economic indices should be registering modest but positive increases.

These gains should carry into 2013, indicating sustained market improvement, which should prevail in most local Texas markets. ➡

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THE TAKEAWAY

Recovery in the Texas housing market is occurring slowly, much like the pace of recovery after the housing market crashed in the early 1980s. For the rest of 2012 and into 2013, sales and new construction should expand and prices should stabilize. Major economic indices should show sustained improvement.



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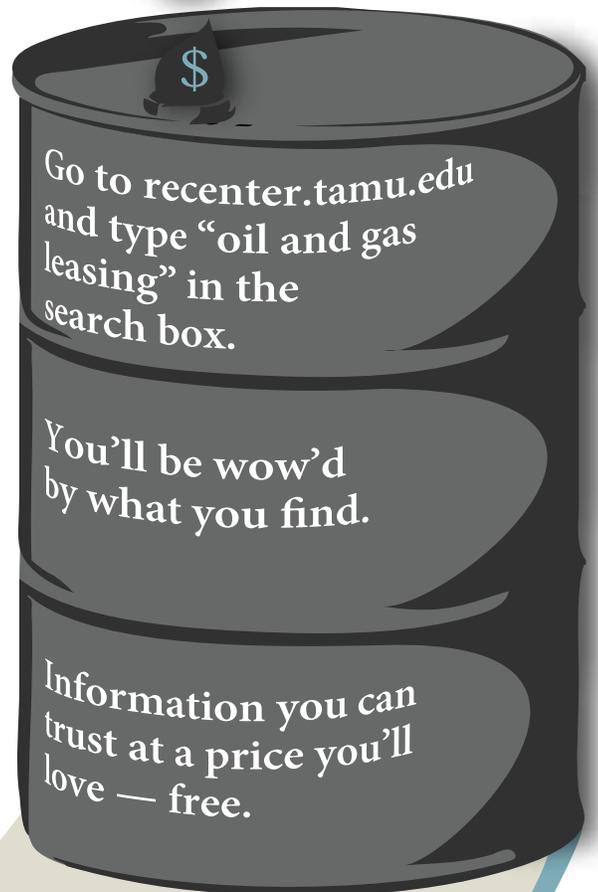
*Amount of oil and natural gas drilling in Texas.

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