



HOME IMPROVEMENT

By Mark G. Dotzour

America's housing market is rebounding.

This is a true recovery from the bottom. In economic cycle analysis, a contraction is followed by a bottom, which is followed by a new expansion cycle. The data indicate that Texas has clearly moved from the bottom of the last cycle to the early stages of expansion. The U.S. housing market is improving as well. Several indicators are signaling this.

Buyer Psychology Improving

Americans have been skittish about buying homes for the past few years in light of negative economic news. Their two key worries have been whether or not they will have jobs, and, in Arizona, California, Nevada, Florida and Georgia, significantly declining home prices.

But recent news indicates that residential markets in California and Arizona are rebounding. California sales in May were up more than 11 percent from May 2011. The Phoenix market has strengthened as well, with fewer distressed sales and sales prices up 25.3 percent from a year earlier. May home prices in Orlando were 9 percent higher than a year earlier. The National Association of Realtors reported that nationwide, May sales were up 9.2 percent from May 2011.

Fannie Mae's national housing survey in May reflected brightened consumer sentiment toward housing. In that survey, 73 percent of respondents said that now is a good time to buy a house. This is the highest level since the survey was inaugurated two years ago. Fully 69 percent said they would buy if they were going to move, an increase of 6 percent from the previous month. The percentage of respondents who said they would rent dropped from 32 percent to 27 percent, the lowest in the survey's history.

Home Prices Have Stabilized

Home prices as measured by the Standard & Poor's (S&P)/Case-Shiller Home Price Indices were up 1.3 percent in the 20-city composite index in June. David Blitzer with S&P referred to

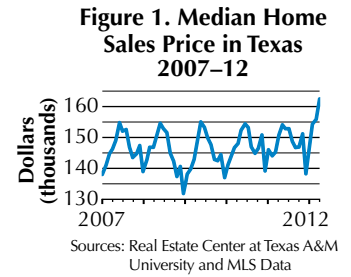


HOME BUILDER CONFIDENCE is up, as are building permits. New home construction is a "must-have" element for economic recovery. Texas' positive job growth is already boosting home sales.

this increase as a "spike" in prices. Blitzer said, "We are coming back, and this looks like a solid turn."

Lender Processing Services reported in June that home sales prices were essentially flat. Managing Director Kyle Lundstedt said, "There may be reason to be cautiously optimistic, since we've now seen three consecutive months of minor appreciation."

The median price of homes in Texas has been virtually stable for the past five years. But prices have broken out on the upside in the most recent period, reaching \$162,400 in May 2012 (Figure 1).

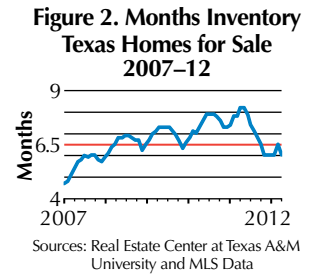


Inventory Normal

Real Estate Center research has determined that for Texas, 6.5 months of inventory of homes for sale is a stable market. When inventory is below 6.5 months, prices increase more rapidly. Inventory greater than 6.5 months causes price increases to slow (Figure 2). When inventory gets into the nine- to 12-month range, prices start falling.

Texas' inventory of unsold homes stood at six months in May. This suggests stable or even increasing prices going forward.

The number of Texas homes for sale declined significantly in the past two years, from a peak of 147,170 in May 2008 to 108,594 in May 2012. Limited supply can result in competing offers on the same home.

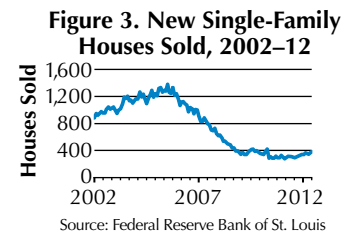


New Home Sales Up Nationally

Lennar Corporation CEO Stuart Miller in June said, "Evidence from the field suggests that the 'for sale' housing market has, in fact, bottomed and that we have commenced a slow and steady recovery process."

The company's new home orders nationally were up 40 percent in the second quarter.

Sales of newly built homes were at a two-year high in May; 369,000 are expected to sell in 2012 (Figure 3). The *Wall Street Journal* reported in July that the home builder confidence survey recorded the biggest jump since September 2002. New single-family home sales in the United States were up 19.8 percent for the first six months of 2012, compared with the same period in 2011.



Building Permits Up

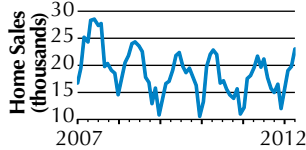
Nationally, single-family building permits were up 21.7 percent through May 2012 compared with the same time last year (see table). Texas posted a 20.5 percent

increase during that time. New home construction is important to the economic recovery of both Texas and the United States. As home-building increases, the economy will continue to recover. Construction jobs have a huge multiplier effect, with positive impacts on retail sales, car sales and industrial warehouse demand.

Existing Home Sales Volume Up

Center research indicates that three variables correlate with home sales volume: job growth, interest rates and home price appreciation.

Figure 4. Monthly Home Sales Reported in Texas



Sources: Real Estate Center at Texas A&M University

In the past four years, mortgage rates have never been lower, but job growth and home price appreciation prospects have been uncertain. Texas recorded positive job growth, low interest rates and virtually stable prices for the past two years. This resulted in increasing home sales volume, a trend that is continuing in 2012 (Figure 4). For the first five months of 2012, home sales were 13.3 percent higher than the same period in 2011.

Building Permits Issued, First Five Months of 2011, 2012

Region	2011	2012	Percent Increase
United States	151,564	184,396	21.7
Texas	26,174	31,540	20.5
Austin-San Marcos	2,799	3,281	17.2
Dallas	3,900	4,961	27.2
Fort Worth-Arlington	1,951	2,151	10.2
Houston	7,898	10,347	31.0
Odessa-Midland	339	514	51.6
San Antonio	1,668	2,014	20.7

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

What Next?

After languishing for several years, Texas and U.S. housing markets have finally turned the corner. The rebound is likely to be gradual, spanning several years.

Three things have to happen before the housing market grows at a faster pace. First, Congress has to set tax policy so that employers will hire more workers. Second, the pace of foreclosure sales has to pick up. The faster the “shadow inventory” of homes with delinquent mortgages is sold, the better. Third, financial regulators need to tweak Dodd-Frank mortgage regulations so that qualified Americans with less-than-perfect credit can buy homes again. ➔

Dr. Dotzour (dotzour@tamu.edu) is chief economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Texas' housing market, and the U.S. market as well, have hit bottom and rebounded. Consumer interest in buying is on the rise, home prices have leveled out, and inventory of homes for sale is stable.



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Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

Director, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Managing Editor**, Nancy McQuiston; **Associate Editor**, Bryan Pope; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann; **Typography**, Real Estate Center.

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Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Robert Beals II, pp. 1, 2.



About the Real Estate Center

The Real Estate Center at Texas A&M University is the nation's largest publicly funded organization devoted to real estate research. The Center was created by the Texas Legislature in 1971 to conduct research on real estate topics to meet the needs of the real estate industry, instructors and the public.

Most of the Center's funding comes from real estate license fees paid by more than 135,000 professionals. A nine-member advisory committee appointed by the governor provides research guidance and approves the budget and plan of work.

Learn more at www.recenter.tamu.edu

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hired



DR. LUIS TORRES

Dr. Luis Torres has joined the Center staff as an associate research scientist. Dr. Torres comes to the Center from Banco de Mexico where he was an economist and communications analyst. He is an author, lecturer and researcher who has extensively studied the Mexican regional economy and U.S.- Mexico issues.

Dr. Torres received a master of economics in 2006 and a Ph.D. in economics from the University of Colorado in 2011.

Born in California, he has a master of science degree from the University of Texas at El Paso (2002). He received a bachelor of arts degree in economics from the Instituto Tecnológico de Estudios Superiores in Monterrey, Mexico (1995).

The new Center researcher is fluent in written and spoken English and Spanish.

To read more on Dr. Torres, go to:
<http://recenter.tamu.edu/staff/ltorres>

honored



GARY MALER

Gary Maler, Real Estate Center director, is one of nine 2012 Outstanding Alumni for the College of Architecture at Texas A&M University. Maler received a master of architecture degree in 1974. He lifted the Real Estate Center to global prominence after a private-sector career spearheading some of Houston's most notable developments.

"Under his leadership, the Center has become one of the most highly respected and trusted sources of research and information that is heavily relied on by members of the legislature, the governor's office, state agencies and the business community," said Susan Combs, Texas comptroller of public accounts.

More on Maler's award can be found at
<http://recenter.tamu.edu/news/pdf/NewsRel27-0812.pdf>

published



DR. CHARLES GILLILAND

A book by Dr. Charles Gilliland — *Buying Rural Land in Texas* — will be released by the Texas A&M University Press this month. In it, Dr. Gilliland demonstrates that buyers can and should arm themselves with knowledge of the land-buying process, potential problems and available resources.

Dr. Gilliland has been with the Center since 1977. He is a clinical professor of finance, research economist and the Helen and O.N. Mitchell Fellow for the Mays Business School. He is a recognized authority on property taxation and appraisal, but it is his rural land expertise that he called on to complete his latest major undertaking.

Buying Rural Land in Texas is \$25 and is available from the Texas A&M University Press Consortium at <http://www.tamupress.com>

See more on Dr. Gilliland at
<http://recenter.tamu.edu/staff/cgilliland>



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