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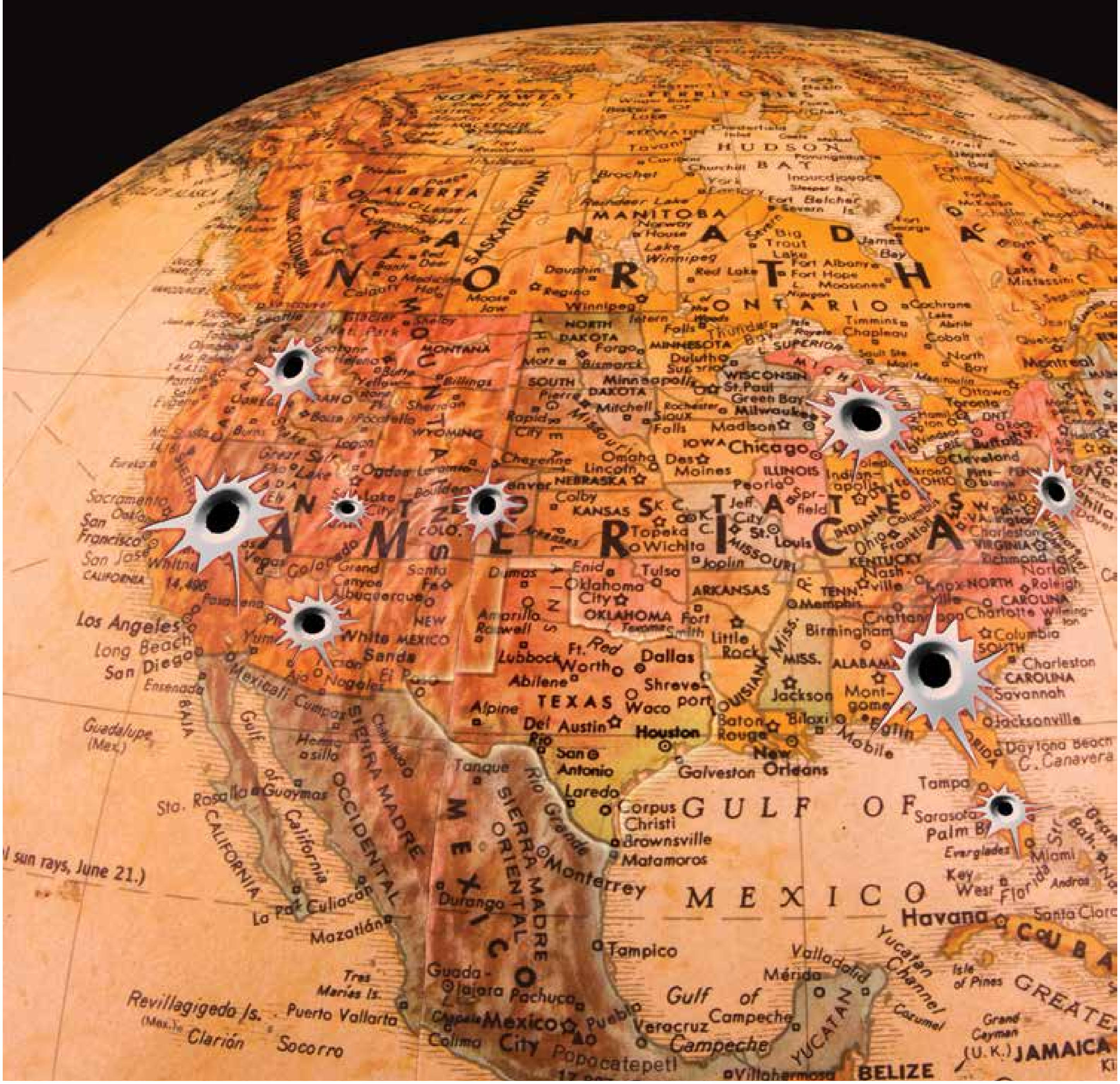
Dodging the Bullet

Texas Escapes Worst Foreclosure Hits

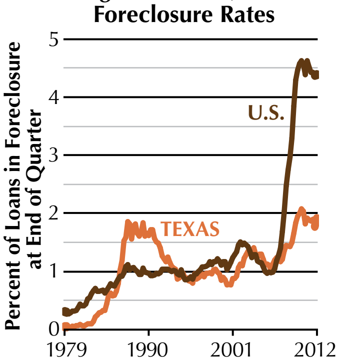
By James P. Gaines



The Great Recession made "foreclosure" a household word.

Massive job losses plus the unprecedented drop in home values produced record numbers of foreclosures. Nationally, loans in foreclosure surged from around 1 percent to more than 4.5 percent between 2007 and early 2012, according to the Mortgage Bankers Association (MBA). This impaired an already weak housing market (Figure 1).

Figure 1. Texas, U.S. Foreclosure Rates



Sources: Mortgage Bankers Association and Real Estate Center at Texas A&M University

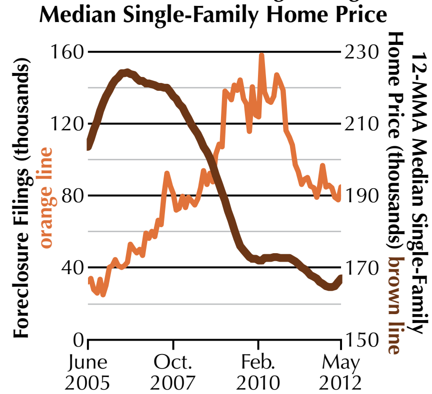
Texas weathered the foreclosure storm better than most other states. Here, foreclosures increased from a little more than 1 percent to just less than 2 percent. The absence of artificially inflated home prices in conjunction with a resilient job market buffered the negative effects on the state's economy and housing market. Despite foreclosure rates that equaled and even surpassed those of the mid 1980s, when Texas' housing market was devastated, the state generally suffered relatively minor damage.

Monthly foreclosure filings have followed a somewhat irregular pattern. The number of monthly foreclosure filings for the United States as reported by RealtyTrac Inc. exploded from less than 30,000 to nearly 160,000 per month from June 2005 through March 2010.

The fall in home prices starting in mid-2006 closely correlates with the initial upsurge in foreclosures (Figure 2). The ensuing loss of jobs starting in 2008 further accelerated the pace of foreclosure filings (Figure 3).

Since mid-2010, foreclosure fillings have decreased significantly because of federal programs that require loan servicers/lenders to use loan modifications, loan refinancing or both; increased use of short sales; and foreclosure moratoriums put in place pending resolution of the states' attorneys general suit against major lenders and servicers. Continued high levels of existing delinquencies reported by the MBA and other loan data providers, however, suggest that foreclosures will pick back up as overall market fundamentals remain fragile.

Figure 2. Monthly Foreclosure Filings and 12-Month Moving Average Median Single-Family Home Price



Sources: RealtyTrac Inc. and National Association of Realtors

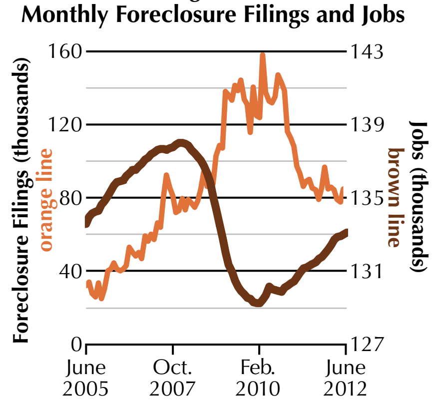
Note: Data include notices of trustee sales plus notices of foreclosure sale; 12-month moving average median price

Texas Foreclosure Levels

Foreclosures in Texas generally have not caused a problem in overall market balance. While the MBA's foreclosure rate (measured as percent of total loans) approached and even exceeded the record highs of the late 1980s, the market has been able to absorb the inventory of foreclosures relatively well. In 2011, RealtyTrac reported 89,675 foreclosure filings in Texas, which ranked seventh nationally, primarily because of the sheer size of the market (Figure 3). RealtyTrac's 2011 rate of foreclosure filings (measured as the percent of total housing units) of 0.89 percent, however, ranked 25th and was nearly 38 percent less than the national rate of 1.43 percent (Figure 3).

RealtyTrac reported one foreclosure filing for every 113 housing units in Texas in 2011 (Figure 4) compared with one filing per 70 units nationally. Year-to-date, 2012 Texas filings equal one per 214 units relative to one in every 131 units nationally.

Figure 3. Monthly Foreclosure Filings and Jobs

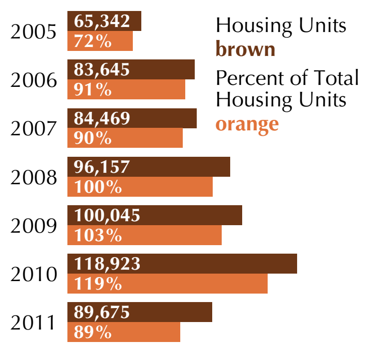


Sources: RealtyTrac Inc. and Bureau of Labor Statistics

Note: Data include notices of trustee sales plus notices of foreclosure sale

Foreclosure filings in 2011 totaled 25 percent fewer than those recorded in 2010 (see table). The year-to-date 2012 total number of recorded filings in Texas is down 15 percent from the corresponding 2011 level despite a surge in filings during the past several months. As the number of foreclosure filings may pick up somewhat during the rest of the year, the projected final 2012 total may be roughly equivalent to the 2009 level or more.

Figure 4. Texas Total Foreclosures and Rate per Total Housing Units

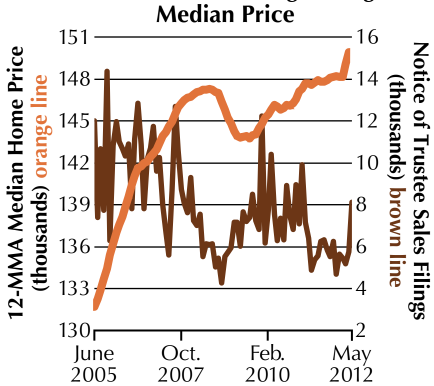


Sources: RealtyTrac Inc. and Real Estate Center at Texas A&M University

Fortunately, the Texas residential market is showing sufficient strength to handle an increase in foreclosures. Home sales in Texas for the first half of the year increased approximately 13 percent over last year, and median prices improved nearly 5 percent, so an increase in foreclosures should have a relatively minor impact on the market.

Each individual Texas metropolitan area had fewer foreclosure filings in 2011 than in 2010. In some metro areas, the decline was 75 percent or more; on average, it was 44 percent, ranging from a low of 6.5 percent in Waco to 85.9 percent in Wichita Falls.

Figure 5. Texas Monthly Foreclosures and 12-Month Moving Average Median Price



Sources: RealtyTrac Inc. and Real Estate Center at Texas A&M University
Note: Data include notices of trustee sales plus notices of foreclosure sale

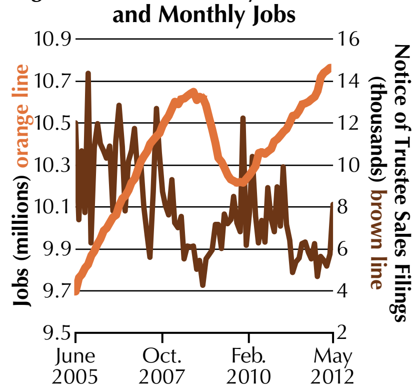
The change in number of foreclosure filings relative to changes in home prices and jobs in Texas is shown in Figures 5 and 6. Unlike the national experience, the positive influences of increasing home values and new job creation appear to mitigate the level of Texas foreclosures. It remains to be seen what increase in filings may arise from the settlement between the attorneys general and the largest mortgage loan servicers and providers. Even if foreclosures increase significantly for a few months, they should pose little problem for Texas overall. If new foreclosures cluster in specific neighborhoods, however, the impacts could be severe.

As a nonjudicial state and with the market able to absorb foreclosures relatively well, lenders/servicers have little reason to delay foreclosure actions. A recent report on actual days to foreclose shows the comparative advantage of Texas in this regard. Foreclosure actions in Florida and New York may take three years or more to process (Figure 7). Even in California, another nonjudicial state, the process takes nearly a year. The strength of the Texas market and the short processing time for foreclosures lead to a more sustainable market.

Sales, Inventory and Price Effect

So far, the Texas market has been able to absorb foreclosure and REO sales with little difficulty. Nationally, foreclosure sales account for 20 to 25 percent of total sales since January 2010. In Texas, foreclosure sales typically amount to less than 10 percent of total sales.

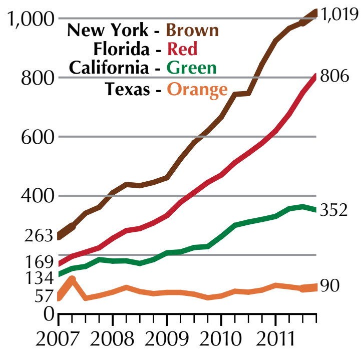
Figure 6. Texas Monthly Foreclosures and Monthly Jobs



Sources: Texas Workforce Commission and RealtyTrac Inc.

Foreclosure sales in Dallas and Houston, the two biggest markets, are somewhat higher, generally in the 15 to 18 percent range. In 2011, Dallas and Houston ranked 84th and 85th, respectively, by foreclosure rate among all U.S. MSAs. They were the only two Texas MSAs ranked in the top 100.

Figure 7
Actual Days to Foreclose



Sources: RealtyTrac Inc. and Real Estate Center at Texas A&M University

Number of Properties with Foreclosure Filing in Texas Metropolitan Areas

	Number of Properties		Percent Change
MSA	**2011**	**2010**	**2010–11**
Abilene	69	301	–77.1
Amarillo	465	1,162	–60.0
Austin-Round Rock	7,524	9,809	–23.3
Beaumont-Port Arthur	999	1,277	–21.8
Brownsville-Harlingen	409	1,656	–75.3
College Station-Bryan	112	191	–41.4
Corpus Christi	1,300	1,732	–24.9
Dallas-Plano	21,976	27,222	–19.3
Fort Worth-Arlington	10,229	14,103	–27.5
Houston	29,917	35,816	–16.5
Killeen-Temple-Fort Hood	1,215	1,851	–34.4
Laredo	246	755	–67.4
Longview	161	337	–52.2
Lufkin	31	136	–77.2
McAllen-Edinburg-Mission	2,334	2,775	–15.9
Midland	69	192	–64.1
Odessa	73	310	–76.5
San Angelo	235	322	–27.0
San Antonio	8,272	11,196	–26.1
Sherman-Denison	247	617	–60.0
Texarkana	98	138	–29.0
Tyler	230	471	–51.2
Victoria	49	194	–74.7
Waco	779	833	–6.5
Wichita Falls	79	562	–85.9

Source: RealtyTrac Inc.

Foreclosures have not added significantly to total for-sale inventory nor apparently created a substantial "shadow inventory." Indeed, as the number of foreclosures declined in 2011 and into early 2012, and with substantially diminished new construction, most Texas markets had significant declines in for-sale inventory.

The statewide estimate of months of inventory is around six, and 13 of the MLS areas tracked by the Center have fewer than five months. Austin, for example, currently measures about 4.5 months inventory of homes available and some markets are less than three. These inventory levels would normally indicate a strong housing market with anticipated healthy price increases. However, robust price increases have been spotty, occurring in particular submarkets but are not pervasive.

Some lenders/servicers may be holding REO properties for subsequent sale rather than releasing them all at once. This may actually be good for the overall market if, as seems likely, a substantial number of foreclosed properties cluster in specific neighborhoods or developments. Putting all of the properties on the market at once could severely damage those areas. Releasing properties to the market over time helps stabilize local prices and may, in the long run, be more beneficial to the lender as well.

Foreclosure sales and the price discounts they garner have no doubt limited overall annual price appreciation during the past four years. Some limited research in the major Texas markets found that the discounts paid for foreclosures were more than offset by price increases for nondistressed home sales. As compared with the nearly 25 percent decline in the median home price nationally, Texas' annual median home price remained essentially flat between 2007 and 2010, falling less than 1 percent from its peak. Texas' median home price in 2011 was the highest on record and surged to a new monthly record high during the summer of 2012. The current median prices in the five principal Texas metropolitan markets (Austin, Dallas, Fort Worth, Houston and San Antonio) are at or near all-time highs.

The 1986–89 housing bust crippled markets for years. The difference with the housing bust of the past few years is that the state's economy held up, with relatively modest job losses that for the most part have been recovered. Except for specific subdivisions or neighborhoods where foreclosures were excessive, by and large the dampening price effects were spread out and not long term. Repressed demand from tight mortgage credit underwriting and job insecurities have been the key drivers of the recent housing market, not undue foreclosure levels.

Dr. Gaines (jpgaines@tamu.edu) is a research economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Texas did not escape the negative effects of foreclosures resulting from the boom-bust housing market the past several years. But the stronger than average economy and fewer job losses meant the impact on the state was not as severe as in other areas.

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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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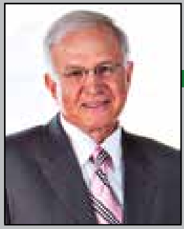

GARY MALER

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

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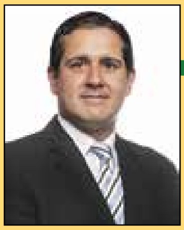

DR. LUIS TORRES

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 Tecnologico 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

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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