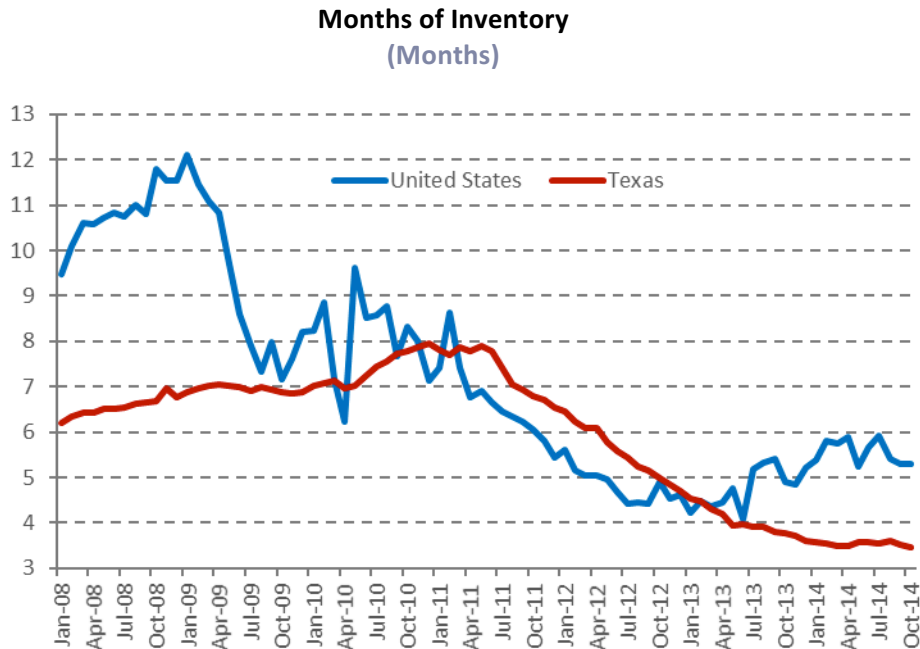


About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

Dr. Luis Torres and Wayne Day



Note: Seasonally adjusted.

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

The Real Estate Center at Texas A&M University estimates the housing months of inventory by dividing the number of active listings in the Multiple Listings Service (MLS) by the average number of sales per month during the prior 12 months. For example, if there are 1,000 homes listed for sale and an average of 200 homes sold per month during the immediate past 12 months, months inventory equals $1,000/200$ or five months. In short, months of inventory is the current supply of homes offered for sale relative to the number of homes being purchased. The result indicates the number of months it would take to sell all properties currently for sale at the average monthly sales pace.

If inventory levels are around 6.5 months, there is a balanced housing market. This is the historical statewide benchmark for the monthly supply-of-home inventory available for sale. Actual equilibrium in any local market can differ slightly, usually between five and seven months. Housing prices in a balanced market are stable, perhaps rising slightly, and influenced more by inflation than by an increase in demand.

When inventory levels exceed seven months, the demand for housing is low, and prices are likely to fall. A high number of homes for sale creates a buyers' market, allowing buyers to dictate price and terms to the majority of sellers if a seller wants to make a deal.

When inventory levels fall to less than six months, sellers have more control over price and terms, often resulting in a more significant rise in housing prices, also known as a seller's market.

Since late 2013, months of inventory has been less than four months in Texas, indicating a very tight housing market that puts upward pressure on home prices. The demand for homes has far outpaced the supply, especially in the major MSAs such as Austin and Houston. The development of lots and limited labor for new home construction have affected the supply of Texas homes for sale.

Source: "Balancing Act: What is a Normal Market" by James Gaines, Real Estate Center at Texas A&M University <http://www.recenter.tamu.edu/pdf/1897.pdf>