

The State of Housing in the State of Texas

During the past three years, there has been a global boom in housing prices, sales volume and construction. According to reports in the Wall Street Journal and other media, home prices in Shanghai surged 26 percent last year and 90 percent since 2000. In the past year, prices climbed 19 percent in Hong Kong, 48 percent in Bulgaria and France, 63 percent in Spain and nearly 100 percent in South Africa.

In the United States, the median home price rose nearly 33 percent during the past three years and 13 percent in 2005, according to the Office of Federal Housing Enterprise Oversight (OFHEO). The National Association of Realtors (NAR) reports the number of homes sold increased from 5.6 million in 2002 to an annualized level of nearly 7.1 million in 2005. The number of new single-family dwellings built increased 6.7 percent over the past year, from 1.531 million in 2004 to 1.635 in 2005.

Texas' housing boom reflects an active and growing housing market, but one experiencing a much slower rate of increase than the rest of the country. From 2002 to 2005, the Texas median-priced home increased from \$124,500 to an estimated \$136,500, a modest 9.6 percent. The average house price grew from \$155,600 in 2002 to \$174,100 in 2005, an 11.9 percent increase. MLS sales during that period increased from 201,422 to 265,886, a 32 percent increase.

National media have portrayed the rapid appreciation of housing as a price "bubble" that could suddenly and dramatically burst, leaving homeowners and the market reeling. But here in Texas, is a housing bubble fact or fiction? Could the housing market explode like an overinflated balloon? Probably not.

Several factors indicate that while Texas' housing market is doing well by historical standards, it is not experiencing a price bubble. Important indicators include:

- *Texas' home prices have appreciated at rates significantly less than the national rate.
- *Texas' current rate of home price increase is about equal to the "normal" rate of the past 15 years.
- *Across the country and around the globe, lower mortgage interest rates and easy mortgage credit are primary reasons for home price increases.
- *The median-price-to-median-family-income ratio in Texas is not disproportionate to the historical norm.
- *Residential construction in the state has maintained a reasonable balance between supply and demand, avoiding a shortage or excess supply situation.
- *The inventory of houses for sale is only slightly less than "normal," reflecting relative balance between supply and demand in the marketplace.
- *The national housing bubble, to the extent it exists, appears to be localized to several states and specific metropolitan areas with extraordinarily high rates of home appreciation.

Markets continually change and adjust to the primary factors that impact them. Some factors become more important at certain times, and other factors may have surprising effects, either good or bad. The economic outlook for the rest of 2006 includes modestly higher interest rates and continued increases in employment and personal income levels. These factors are among the most important to the housing market and housing prices.

If the rate of new home construction continues at the current pace with small-to-modest cost increases, there is no reason to anticipate a housing shortage that would drive prices up. If mortgage interest rates increase, as is generally regarded as probable, sales volume may decline somewhat, leading to more modest price gains.

As the overheated coastal housing markets begin to cool, Texas may see increased investor enthusiasm as focus shifts to Texas where price appreciation has been more moderate.

Source: Texas Real Estate Center

Posted by Christina Whipple in San Antonio Real Estate at 13:40