



# HOUSING MARKET RESILIENCE AND AFFORDABILITY IN HOUSTON, TEXAS

by Samuel R. Staley, Ph.D.

The housing industry in the Houston area is responsible for more than one-third of the permits issued in Texas, significantly higher than Dallas, Fort Worth, San Antonio or Austin. Moreover, Houston's housing industry appears to be much more resilient than in other major metropolitan areas, generating more housing and peaking later in the business cycle. In 2006 and 2007, almost 100,000 housing permits were issued, almost 25 percent more than in the Dallas-Fort Worth metropolitan area and more than three times the number issued in Austin and San Antonio. Nevertheless, the Houston region appears to face an emergent affordable housing challenge. While all major urban areas in Texas face a similar situation, trends in median home prices and household incomes suggest that Houston's challenge is lackluster performance in creating higher paying jobs rather than a failure to generate sufficient housing to meet local demand.

## OVERVIEW

Housing has emerged as a critical public policy issue in the United States. Federal policymakers have increasingly focused their attention on a national wave of foreclosures, passing the Housing and Economic Recovery Act in July 2008 in an attempt to provide

assistance to homeowners at risk of foreclosure and shore up major banks and lending institutions threatened with insolvency because of delinquent loans. President Barack Obama has also put aid to homeowners at risk of foreclosure near the top of his domestic policy agenda. The housing industry continues to be mired in a nationwide recession with little prospect for recovery until well into 2009.

Despite this dire economic environment, the housing industry in Texas has remained surprisingly resilient. A low-tax environment, general pro-business climate, abundant land and a prolonged energy boom have helped keep the Texas economy from faltering as quickly as other state economies. The Texas unemployment rate, at 6.0 percent in December 2008, was below the national average and significantly lower than other states hit hard by the housing crisis including Michigan, Ohio, Indiana, California and Florida. Despite soft economic forecasts for 2009 and into 2010, Texas was the only state to significantly add jobs (net of losses) between November 2007 and November 2008 according to the U.S. Bureau of Labor Statistics.

Houston's housing market, however, also fares well compared to other Texas cities. Notably, Houston's housing market is unique within the U.S. because the city has never adopted comprehensive land-use plan-

ning or zoning. A key policy question, then, centers on whether Houston’s unique housing market has either aided or hindered the city and its region’s ability to adapt to changing economic conditions. The answer to this question is important since it might have implications for other cities in Texas and as well as cities elsewhere.

## NON-ZONING IN HOUSTON

Land development in Houston is governed by private covenants that run with the land and subdivision regulations that specify streets widths, set backs, performance standards for infrastructure and other regulations. In effect, the city does not regulate land use as much as land development with a focus on how infrastructure is provided to new development. Many covenants allow a wide range of uses, and land use on some parcels is effectively unrestricted.

As a result, new development, particularly infill, can create substantial diversity in terms of density and mix. Perhaps not surprisingly, the Greater Houston Building Association (<http://www.ghba.org>) claims to be the nation’s ninth largest builders’ association with 1,863 members.

Houston is also the nation’s fourth largest city and the seventh largest metropolitan area. While the Dallas-Fort Worth metropolitan statistical area (MSA) is larger (the fifth largest in the U.S.), the city of Houston is one-third larger than the city of Dallas and 30 percent larger than San Antonio (see Table 1). Hous-

ton’s metropolitan area includes the largest amount of land, although the combined Dallas-Fort Worth metropolitan area comes in a close second. Notably, Houston’s metropolitan economy generates about the same level of economic output as the combined Dallas-Fort Worth MSA.

## SINGLE FAMILY HOUSING PERMIT TRENDS

Like the rest of the nation, Texas experienced dramatic growth in its residential housing market during the early part of this decade. But different regions of the state vary significantly in how they have weathered the downturn.

From 2000 to 2005, Texas issued housing permits for 771,888 single family homes. Average monthly housing permits grew 54.1 percent, peaking at 13,539 new permits issued in 2005 (see Figure 1). Once the housing “bubble” burst, Texas mirrored trends in the national housing market as monthly permits fell 28.1 percent statewide in just two years. Despite this fall, Texas’s housing production was impressive, issuing permits for 276,768 homes in 2006 and 2007 alone.

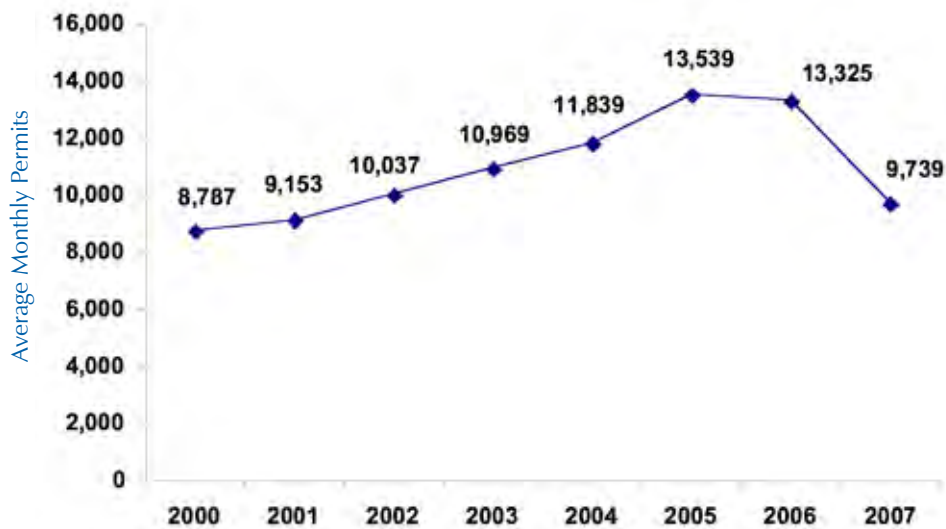
Statewide trends often hide more than they clarify. In truth, each of the state’s major urban areas performed differently, reflecting its own economic history and diversity. The Dallas-Fort Worth and Houston metropolitan areas, for example, were the state’s top producers of homes, adding about a quarter of a million homes each during the period of rapid growth.

Table 1: Comparison of Major Urban Metropolitan Cities in Texas

Urban Area	City Population (2005)	City Land Area (mi <sup>2</sup> )	Metro Population (2007)	Metro Land Area (mi <sup>2</sup> )	Housing Units (2004)	Metro GDP (\$Billion)
Austin	690,252	252	1,598,161	4,280	573,921	\$65.8
El Paso	598,590	249	734,669	1,015	240,600	\$22.0
Dallas	1,213,825	343	6,145,037	5,819	1,472,450	\$315.5
Fort Worth	624,067	293	(Dallas-Ft Worth)	3,464	729,375	(Dallas-Ft Worth)
Houston	2,016,582	579	5,628,101	10,062	1,987,809	\$316.3
San Antonio	1,256,509	408	1,990,675	7,385	701,046	\$67.0

Sources: Population data from U.S Bureau of the Census; Housing unit data from the State and Metropolitan Area Data Book; Gross Domestic Product from the U.S. Bureau of Labor Statistics.

Figure 1: Average Housing Permit Requests in Texas



Source: Federal Reserve Bank of Dallas

These metropolitan areas consistently account for about 60 percent of the statewide total, whether the industry is growing or declining statewide.

More interestingly, perhaps, Houston experienced steady growth in housing supply in the early part of the decade, but lagged Dallas-Forth Worth until 2005. In this year, both metropolitan areas produced about 50,000 housing units. The Dallas-Fort Worth metropolitan area issued permits for nearly 250,000 homes between 2000 and 2005, as its average monthly permits climbed to 4,000 per month (an increase of 38.5 percent). Houston, in contrast, produced about 225,000 permits during this period as its average monthly permits climbed steadily to the same level.

After 2005, however, permits issued in the Dallas-Fort Worth metropolitan area fell significantly. In 2007, the Dallas-Fort Worth area issued just 27,468 permits. Meanwhile, the greater Houston region issued 41,964 (lower than in 2005 but significantly higher than in the Dallas region). Housing permits in the Houston region averaged 4,249 per month in 2005 and 4,442 in 2006. Even after the housing bubble deflated, Houston issued permits for nearly 100,000 new homes in 2006 and 2007, significantly more than Dallas (or other major metropolitan areas in Texas). More recent

data indicate the same trends have continued as Houston continued to outpace Dallas-Fort Worth through the end of 2008. Thus, the Houston metropolitan area found its average monthly permits climb higher and peak later than the Dallas-Fort Worth region or other Texas cities.

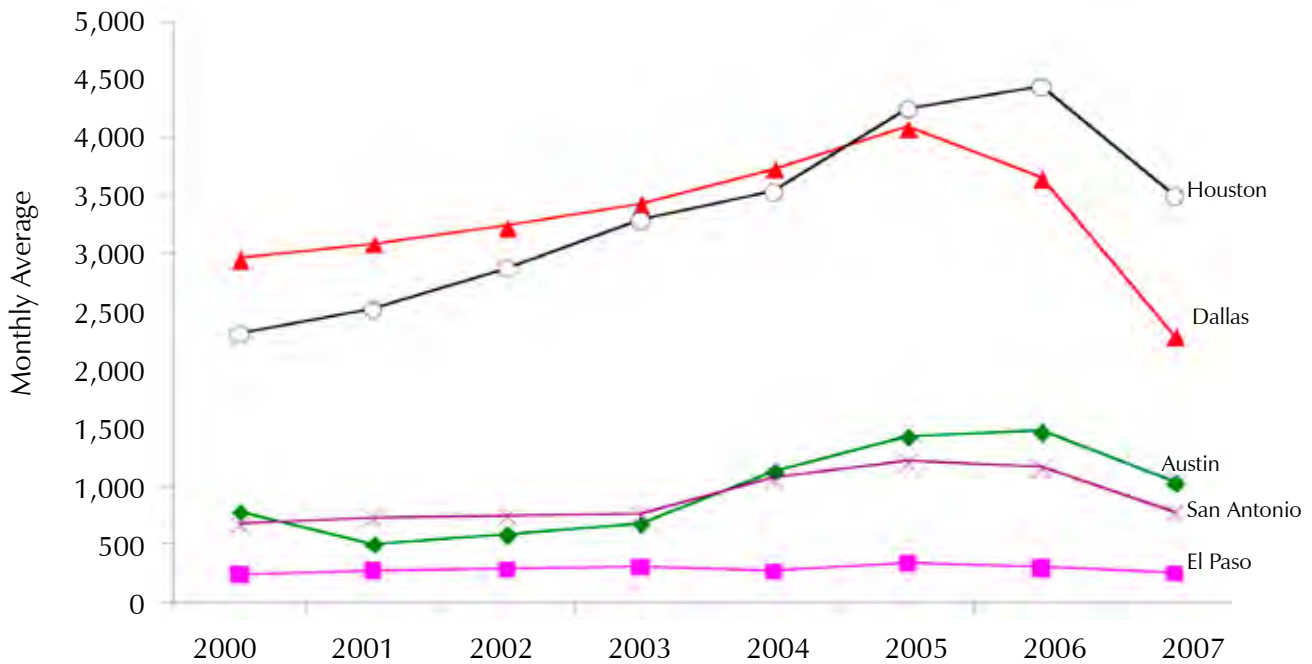
Thus, the individual experiences of urban areas are much more varied than the statewide trends suggest. While average monthly residential permits fell 17.7 percent from 2005 to 2007 in Houston, most other metropolitan area housing markets fared much worse. The Dallas-Fort Worth

market experienced a decline of 44 percent. San Antonio's average monthly permits fell 35.9 percent. Austin and El Paso housing market declines mirrored the statewide average of about 28 percent.

Indeed, as of December 2008, the Houston metropolitan area continued to average about 1,990 housing permits compared to just 1,277 for the Dallas-Fort Worth metropolitan area. This resilience means that Houston now accounts for 36.0 percent of the state's residential housing permits issued, a far higher share than Dallas-Fort Worth (23.1 percent) or Austin (8.0 percent). Notably, the large cities account for nearly 76.2 percent of the state's residential housing permits issued. While Houston and Dallas-Fort Worth contributed about equally to the state's residential permits issued in 2005, Houston has clearly pulled out ahead of all other Texas urban areas as the state's leader.

Importantly, much of the demand for this housing may well have been fueled by the energy boom. Indeed, economists at the Houston branch of the Dallas Federal Reserve Bank recently noted that "the most powerful force working in Houston's favor is that the metro remains a strong beneficiary of the current global commodity boom. As the seat of the U.S. energy industry, Houston is generating large numbers of jobs, and the

Figure 2: Housing Permits Issued in Major Texas Cities



Source: Real Estate Center, Texas A&M University, <http://recenter.tamu.edu>.

outlook for job growth remains good.” A key test of the Houston housing market is its ability to accommodate growth without reducing housing affordability.

## MULTIFAMILY HOUSING

A somewhat different story unfolded in the multifamily housing market. At the national level, the number of permits for multifamily housing fell dramatically from 471,770 issued in 2005 to 418,755 in 2007. In Texas, however, the number of multifamily housing permits increased. After a slight dip in 2004, the number of permits issued for multifamily housing increased from 44,431 in 2005 to 58,542 in 2007.

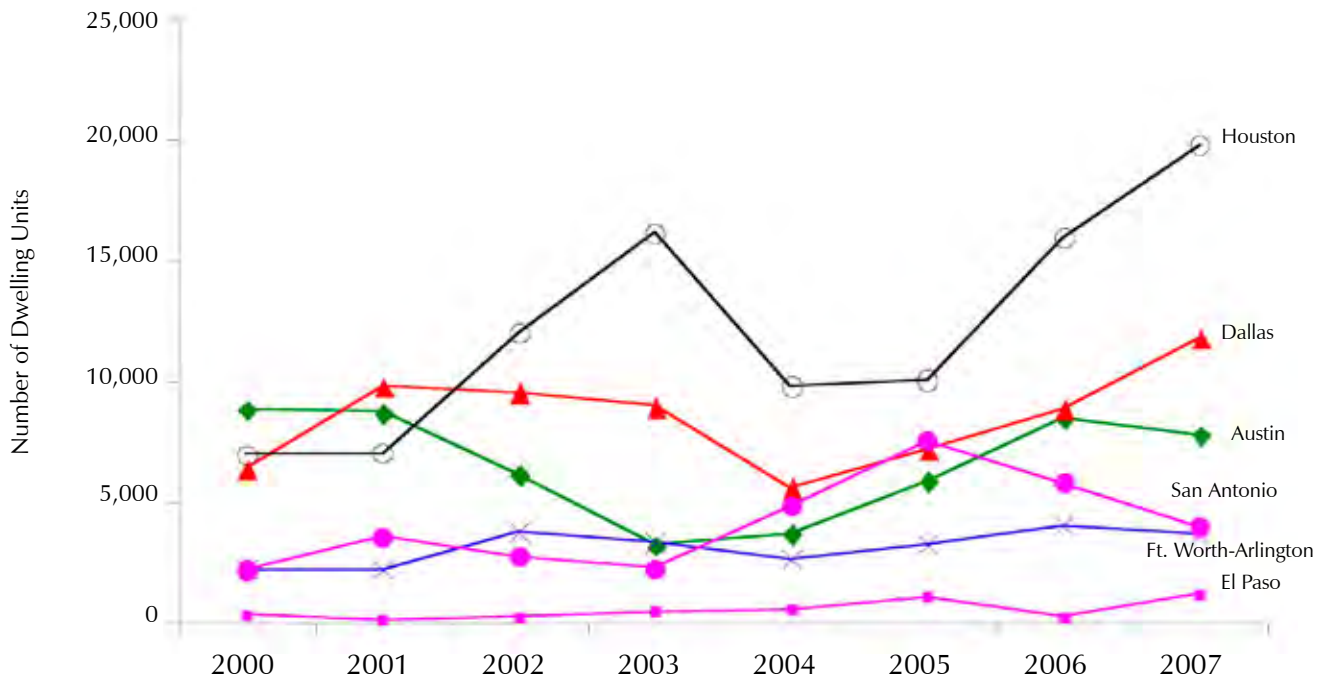
Individual metropolitan areas differed as well. San Antonio’s multifamily housing market appeared to track with national trends, falling from 7,543 permits issued in 2005 to just 3,939 in 2007. Multifamily housing permits also dipped in the Austin and Fort Worth metropolitan areas, although the drop was not as dramatic. Permits continued to increase in the Dallas area, rising from 6,950 permits issued in 2005 to 11,248 issued in 2007.

Houston, however, clearly stands out among the large Texas urban regions. Multifamily housing permits have ballooned from 9,653 in 2005 to 19,064 in 2007. The Houston metropolitan area accounts for one-third of all multifamily housing permits issued in the state of Texas in 2007. Perhaps more importantly, the Houston metropolitan area accounts for 27.6 percent of all multifamily housing produced in the state of Texas since 2000, higher than the combined total of the Dallas and Fort Worth metropolitan areas (26.4 percent). Houston has out-produced the Dallas metropolitan area in each of the last eight years except one, and the combined Dallas-Fort Worth metropolitan area in four of the last eight years.

## HOUSING AFFORDABILITY TRENDS

A larger question surrounds the issue of housing affordability. As one of the fastest growing urban areas in the nation, Houston is at risk of becoming unaffordable if housing supply does not keep pace with housing demand. An important component of the housing price inflation experience in Southern California, for exam-

Figure 3: Trends in Multifamily Residential Permits in Texas Cities: 2000 to 2007



Source: Real Estate Center, Texas A&M University, <http://recenter.tamu.edu>.

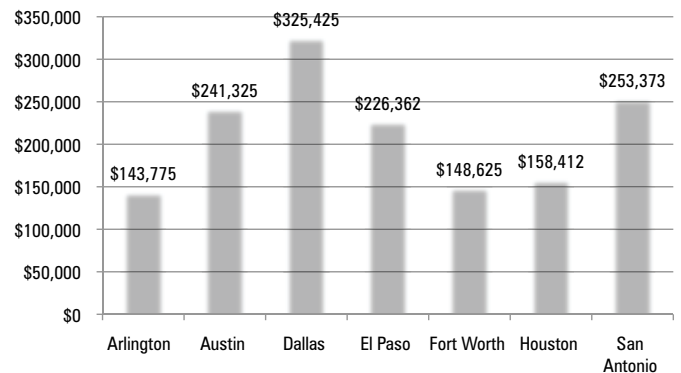
ple, was the private sector's inability to provide sufficient housing to meet demand. This market imbalance in California and elsewhere (e.g., Florida and the coastal Northeast) led to escalating home prices that, in turn, helped lay the foundation for the sub-prime credit crisis and the current nationwide housing market recession.

On one level, Houston's housing market remains affordable compared to other Texas urban areas as depicted in Figure 4. The Houston metropolitan area remains one of the nation's fastest growing, adding 887,678 people between 2000 and 2007 according to the U.S. Bureau of the Census. This is a higher growth rate than the consolidated Dallas-Fort Worth metropolitan area and more than twice the number of people added to the Austin and San Antonio metropolitan areas.

Coldwell Banker issues a Housing Price Comparison Index (HCPI) keyed to the "typical home" of a possible middle-management transferee. Rather than simply compare prices, the HCPI compares the same type and quality of home in different urbanized areas. Coldwell Banker assumes that the typical

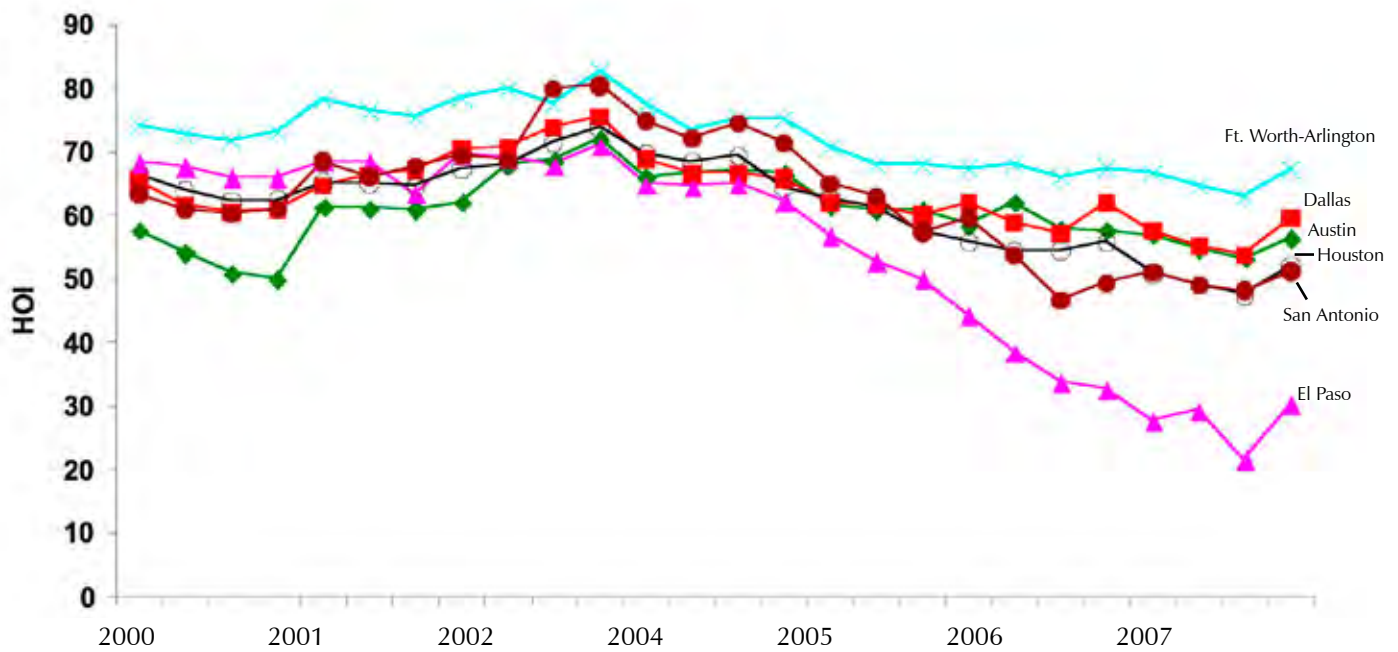
middle manager is buying a home with approximately 2,200 square feet, four bedrooms, 2.5 baths, separate family room, and a 2-car garage. In 2007, the average sales price for a home with these characteristics was \$158,412 in Houston. This was significantly less expensive than Austin, Dallas, and San Antonio. Of the major cities in Texas, only Fort Worth had a home price lower than Houston's.

Figure 4: Home Prices for Middle Income Corporate Transferees in Selected Texas Cities



Source: Coldwell Banker, [http://hpci.coldwellbanker.com/hpci\\_full.aspx](http://hpci.coldwellbanker.com/hpci_full.aspx).

Figure 5: Housing Opportunity Index: Major Texas Metropolitan Areas, 2000 to 2007



Source: National Association of Homebuilders, "Indianapolis Maintains Title of Nation's Most Affordable Housing Market," 19 February 2008, [http://www.nahb.org/news\\_details.aspx?sectionID=135&newsID=6228](http://www.nahb.org/news_details.aspx?sectionID=135&newsID=6228).

A more commonly accepted and used measure of housing affordability is the Housing Opportunity Index (HOI) calculated by Wells Fargo and the National Association of Home Builders in Washington, D.C. The HOI compares a region's median household income with average housing prices. Then, assuming standard rules of thumb for mortgage duration and interest rates, it estimates whether the median household can afford the median-priced house. An HOI of 60, for example, implies that 60 percent of the homes sold in a particular region were affordable to a household making the median income.

Based on the HOI, Houston's housing affordability has tended to lag other urban areas in Texas. Fort Worth-Arlington ranks as the most affordable region in Texas, followed by Dallas-Plano and Austin. Houston's housing affordability has tended to track more closely with San Antonio, while El Paso's HOI has declined precipitously since 2000. Notably, housing affordability has declined in all major Texas urban areas, although the HOI improved during the fourth quarter of 2007.

Taking a closer look at the HOI is useful. Unlike Coldwell Banker's HPCI, which compares similar houses

in different urban areas, the HOI does not hold housing quality constant. Economic fluctuations can have significant influences on the performance of the index. A strong economy, for example, can boost median household income and make housing more affordable.

In San Antonio, median income has increased steadily since 2000. In Houston, median household income rose slightly during the housing boom and then declined after the peak. Fort Worth has been able to maintain median income throughout the decade, helping keep housing affordable throughout its metropolitan area. As Table 2 shows, median home prices have outstripped median household income in all major cities in Texas. Even in San Antonio, home prices almost doubled the increase in median income even though the metropolitan area's income had increased steadily through this decade.

In Houston, home prices increased even more as the city's economy languished, boosting median household income by just 7.8 percent. Stronger urban economies in Austin and San Antonio appear to have helped those cities moderate trends toward lower housing affordability.

Table 2: Change in Housing Affordability: 1st Quarter 2000 to 3rd Quarter 2008

	Median Home Price	Median Income
Austin	23.3%	17.3%
Dallas-Plano	16.4%	6.9%
El Paso	62.2%	6.6%
Fort Worth –Arlington	19.5%	12.4%
Houston	30.8%	7.8%
San Antonio	47.1%	26.9%

## CONCLUSIONS

The Houston region has a robust housing industry, outstripping production in every other major metropolitan area in the state of Texas. The industry appears to be resilient as well, weathering the nationwide downturn in the housing market remarkably well and continuing to produce more than one-third of the state’s supply of housing. The multifamily housing market appears to be particularly robust in Houston. While the specific underlying reasons for this resilience are not a central focus on this report, Houston’s unique approach to land-use regulation, which maximizes flexibility and accommodates housing diversity, is likely a factor and should be the focus of further investigation. This may be particularly true for multifamily housing since this type of development often faces significant obstacles under conventional zoning and development review, yet Houston appears to have a robust multifamily housing market. Other factors important to the city’s real estate market success include the strength of the energy boom, increased international trade and generally strong statewide economic growth.

Housing affordability appears to be an emerging challenge in the region. A closer look at trends in median household income and housing prices suggests that a salient concern in the housing market is a weak overall economy. This might be a surprising observation given the recent rapid growth in the energy sector. While the region may be adding jobs, higher paying jobs will be necessary to ensure incomes keep pace with housing prices. Until the region generates jobs capable of boosting median household income, hous-

ing affordability issues are likely to remain a concern.

Policies that have the intended or unintended impact of restraining housing supply, or that create a wedge between the supply of certain types of housing and the demand for that housing, are likely to make Houston’s affordable housing challenges even greater.

## ABOUT THE AUTHOR

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