



FISCAL NOTES

A Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts



BY CORY CHANDLER

In the Permian Basin, where oil and gas workers have snatched up nearly every available house and apartment, the real estate market is seeing a bizarre bit of irony — the energy boom has both drained the pool of local construction workers and made it almost impossible for any new ones arriving to find homes.

“If there were more houses available, we could build more houses,” says Javier Gonzales of Gonzales Construction in Odessa.

Gonzales’ pithy statement encapsulates the real estate market in Odessa and across much of the state: As housing prices spike and home inventories plunge, there’s plenty of demand for dwelling spaces. The problem is meeting it.

Worker shortages, lagging infrastructure and a lack of ready-for-building lots have combined to hamstring homebuilders struggling to keep pace with the very definition of a seller’s market.

It seems the biggest impediment to future population growth in Texas may be... our *current* population growth.

Help Wanted, Not Always Found

In Odessa and other booming areas, aggressive energy industry hiring represents one of the biggest hurdles to new construction. Contractors are hard-pressed to pry able bodies away from the lucrative salaries offered in the oil patch.

“There’s too much money in the field,” Gonzales says. “You can’t keep good workers.”

And importing *more* construction workers can be difficult, because there’s no place to house them once they arrive. In the Permian Basin and the Eagle Ford Shale, makeshift trailers and even hotel rooms serve for housing.

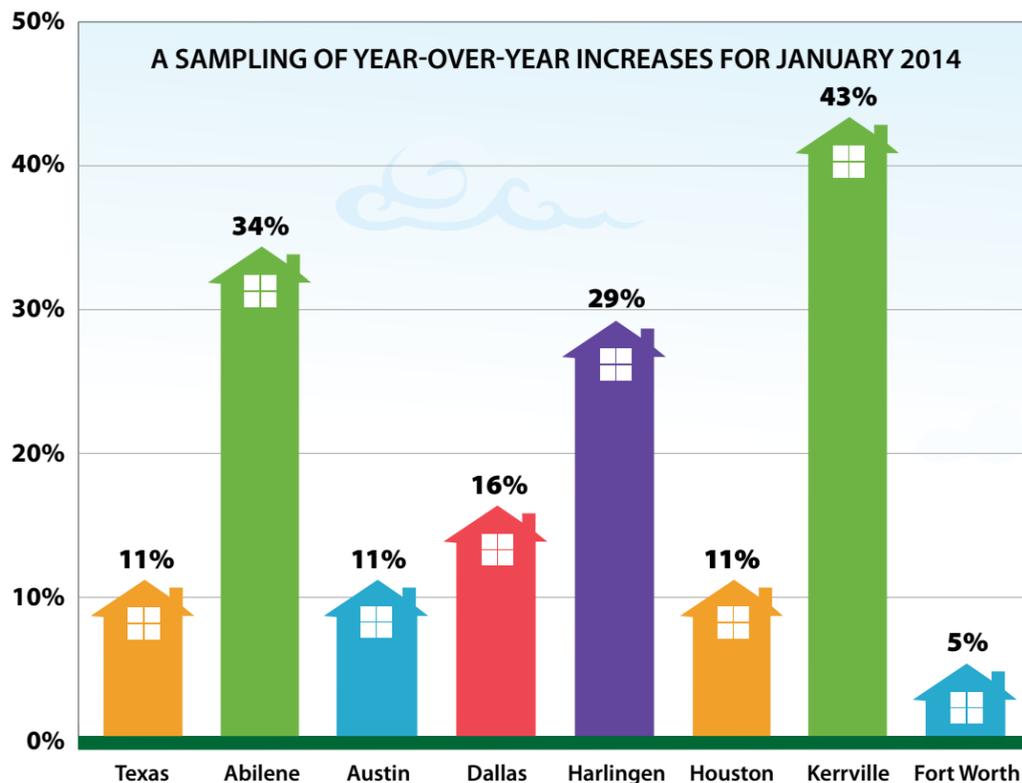
As Gonzales says: There aren’t enough houses to build more houses.

“We have talked to contractors who can’t even get the foundations poured,” says Jim Gaines, research economist for the Texas A&M Real Estate Center.



JIM GAINES,
Texas A&M
Real Estate
Center research
economist

RECENT GROWTH IN HOME SALES



Source: Texas A&M Real Estate Center

Tight Supplies, Plenty of Demand

And while the oil patch may be the hottest area for real estate, Texas as a whole is sizzling.

Affordable housing prices, a relatively low cost of living and strong job growth have fermented into a heady brew that is expanding Texas home prices at a double-digit clip.

New arrivals are driving sales volume. According to government estimates, Texas added more than a thousand residents *each day* between July 2012 and June 2013.

“The entire state is doing well,” Gaines says, “and some areas are doing extremely well.”

Texans sold 17,779 single-family homes in February 2014 alone, 5.4 percent more than in the same month of 2013.

At this writing, the statewide home inventory — the time it would take for homes on sale to dry up, without new construction — stands at 3.6 months, a much slimmer margin than the six to seven months that Gaines says is preferable to maintain equilibrium between supply and demand.

And inventories in our largest cities are scraping the barrel. Dallas, Houston and San Antonio would run out of available homes in as little as two months without new construction.

Competitive Prices

Of course, we *are* building more homes, but demand is still driving prices steadily upward.

Building permits for single-family homes in Texas rose by 7.9 percent from February 2013 to February 2014, according to a Comptroller analysis. In the same period, the median sale price for existing single-family homes increased by 10.7 percent.

But it's not likely that the rise in home prices will cool the demand for Texas homes, or the interstate migration fueling much of it. Even at their current rate of growth, Texas home prices remain relatively low compared to those in many other states.

In Zillow Real Estate's March Home Value Index, Texas, with a midpoint home value of \$139,400, ranked 35th nationally. California, frequent departure point for new Texans, weighed in at above \$408,000.

“We can compete with any of the major metropolitan areas in the world,” Gaines says. “Most of them can't touch us.”

Pinched Infrastructure

One issue contributing to Texas' low inventory rates is the slowdown in development that occurred in the recession. The infrastructure needed to support so many new homes just isn't always there.



YOUNG BUYERS FEELING THE SQUEEZE

Oh, to be young again?

Not if you're home shopping.

First-time buyers are perhaps the biggest victims of Texas' housing pinch, says Jim Gaines, research economist for the Texas A&M Real Estate Center.

They'll have an increasingly difficult time finding new, entry-level properties typically available for them.

The culprit? More stringent lending practices that have prompted builders to focus on pricier homes that cater to more established buyers.

And the economic resurgence has resulted in a feverish game of catch-up.

“Generally you think that having a hot real-estate market is a good problem to have,” Gaines says, “and it is — until it gets out of hand.”

Swelling numbers of residents have piled fresh demands on already strained infrastructure such as roads, energy and water supplies.

Take Austin, for example. A recent Texas A&M Transportation Institute study found that the capital city and its neighboring Hill Country communities could be doomed to gridlock. According to the report, a 12-mile trip up I-35 from Buda to Austin could soon take two hours, even if every project in Central Texas’ \$28.4 billion transportation plan gets a green light.

(To see how population growth and drought conditions are straining Texas’ water supplies, visit www.TXWaterReport.org.)

New Homes, or Red Tape?

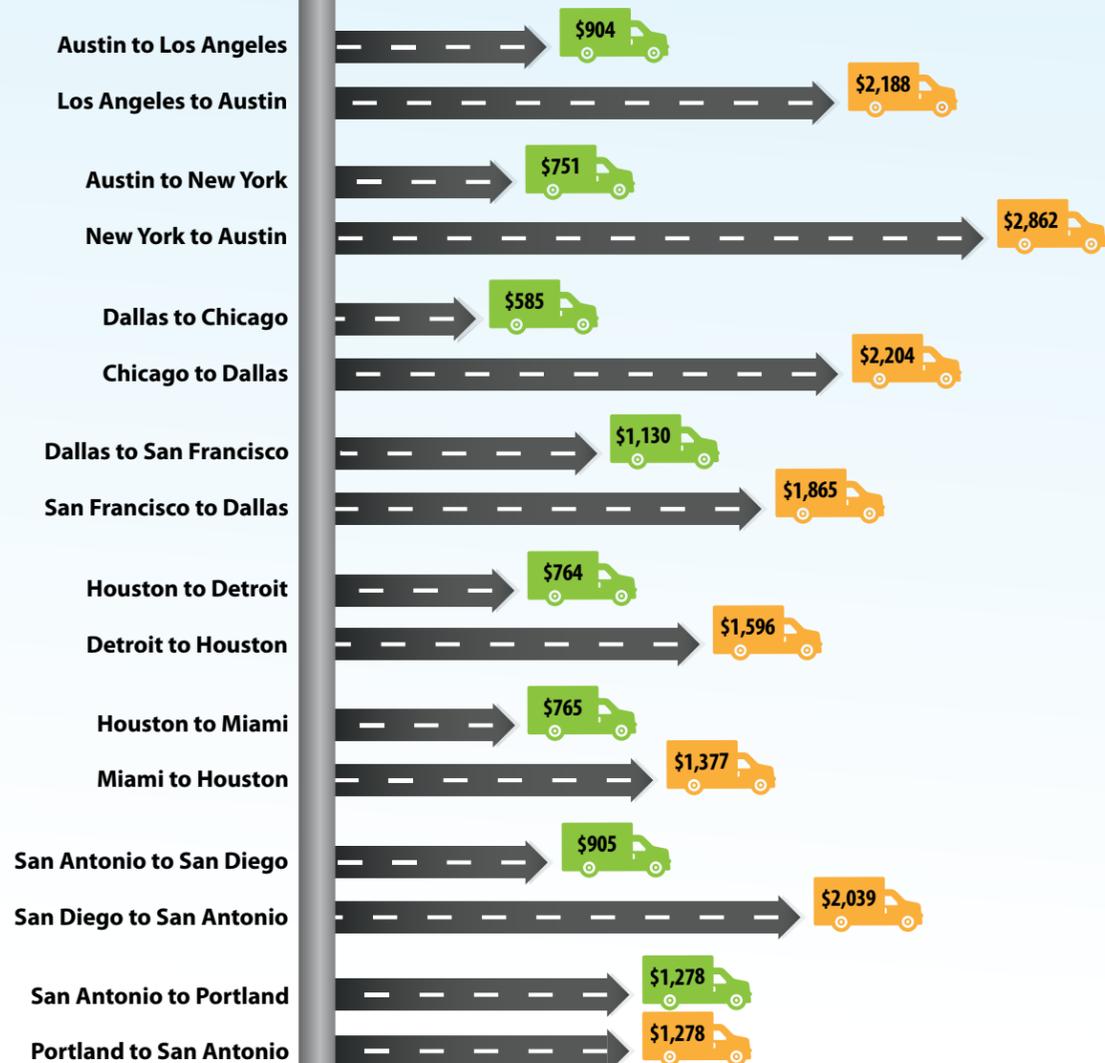
Gaines sees another threat to home sales volume — increasing regulation that can strangle housing growth.

VOTING WITH THEIR WHEELS

Where are people moving?

Where are people moving? One popular if informal measure is the U-Haul Index, first publicized by economist Mark Perry, which gauges the relative popularity of housing markets via the cost of one-way truck rentals. (U-Haul prices one-way rentals based largely on relative demand.)

The following are estimated prices to rent a 20-foot truck on March 22, 2014, by pickup and drop-off locations:



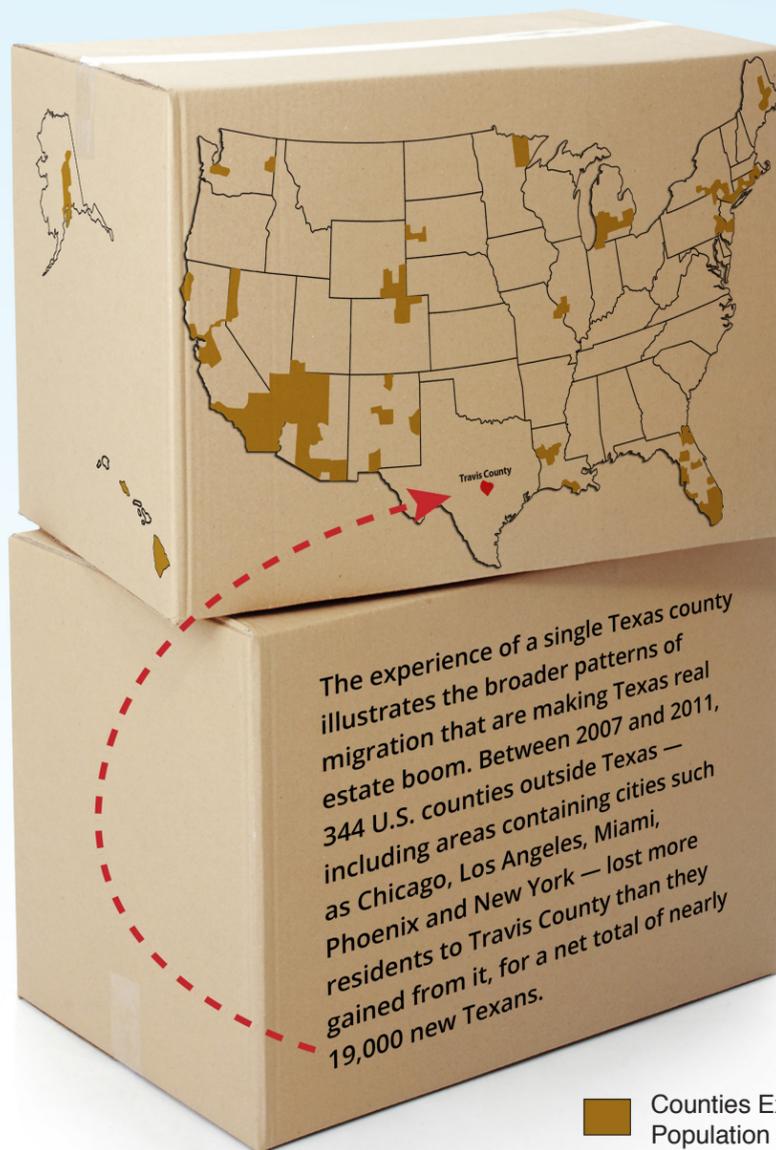
“Ten years ago, a real estate developer in Texas could go out into the suburbs, acquire land and generally within a year be permitted, platted and having streets cut,” he says.

But that’s begun to change, especially in the last year or so, as added fees and requirements have slowed the process.

“Any time you add time to the process, you create costs, and those costs are passed on to the buyer,” Gaines says. “If this continues, we risk losing our competitive advantage.”

For monthly updates on Texas home sales and building permits as well as other important economic indicators, visit the [Comptroller’s Economic Outlook](#).

GONE TO TEXAS



Source: United States Census Bureau.