

Housing Bubble Unlikely in Texas

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RISMEDIA, Oct. 11, 2005 — It looks like all Texans can breathe a sigh of relief. The Texas housing market is stable and positive, with home-price appreciation expected to continue at a healthy pace. A statewide housing bubble appears highly unlikely, although the rate of price growth could slow if job market conditions unexpectedly weaken.

The median price of an existing home in Texas has risen nearly 25 percent in five years. The Texas labor market recovered from a recession with a net gain of more than 65,000 jobs in less than two years. The outlook for continued strong population growth is also good. With these fundamental market factors aligned, Texans can expect the housing demand to remain historically high. Even if the economy slows, the demand will remain.

"Based on demand and economic factors, there is virtually no risk of a housing bubble in Texas," said Texas Association of Realtors Chairman Lance Lacy. "These market extremes we're hearing about in the media tend to occur on the east and west coasts. Here in Texas, the real estate market is stable."

Though home prices in some areas have risen faster than income in recent years, a more relevant measure is the mortgage-servicing cost relative to income, which has been well within historic norms. This implies that there is no widespread financial overstretching to purchase a home in Texas.

David Lereah, chief economist for the National Association of Realtors, recently said that the strongest rates of home price growth tend to move geographically across the country.

"In examining the hottest markets for home-price appreciation, we see a rolling boom moving from one metro area to another over time, as well as a spillover effect into nearby areas with lower home prices," Lereah said. "That is spreading the wealth of housing returns, with a natural ease of appreciation in areas following a period of extraordinary price growth."

According to research conducted by the National Association of Realtors, no area in the United States that has experienced a sustained period of double-digit growth has later seen a price decline.