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THE H FACTORS

Household income and age of the housing stock are the most important factors in determining the value of Texas homes according to an ongoing research program at the Real Estate Center at Texas A&M University.

The study used a cross section of data on median home values, median family income, and median ages of homes in Texas and its metro areas in 2007 (Table 1). The same data for the United States were used for comparison.

The median value of the state's owner-occupied homes that year was \$120,900, or 62.2 percent of the median value of owner-occupied homes nationwide. Austin-Round Rock had the most expensive homes (median \$177,500) followed by Dallas-Fort Worth-Arlington (\$145,400) and Houston-Sugar

Land-Baytown (\$135,800). Next were College Station-Bryan (\$126,900), Tyler (\$120,200), San Antonio (\$119,200) and Midland (\$111,300). McAllen-Edinburg-Mission had the least expensive homes (median \$69,700) followed by Odessa (\$70,300), Brownsville-Harlingen (\$74,300) and Abilene (\$75,900).

Median annual household or family income for owner-occupied homes was \$61,346, or 97.2 percent of national average (Table 1). Among the state's metro areas, Austin-Round Rock had the largest annual household income (median \$77,939). Next were Dallas-Fort Worth-Arlington (\$72,565), Houston-Sugar Land-Baytown (\$71,297), Midland (\$65,650), College Station-Bryan (\$60,527), San Antonio (\$59,935) and Killeen-Temple-Fort Hood (\$59,151).

BY ALI ANARI

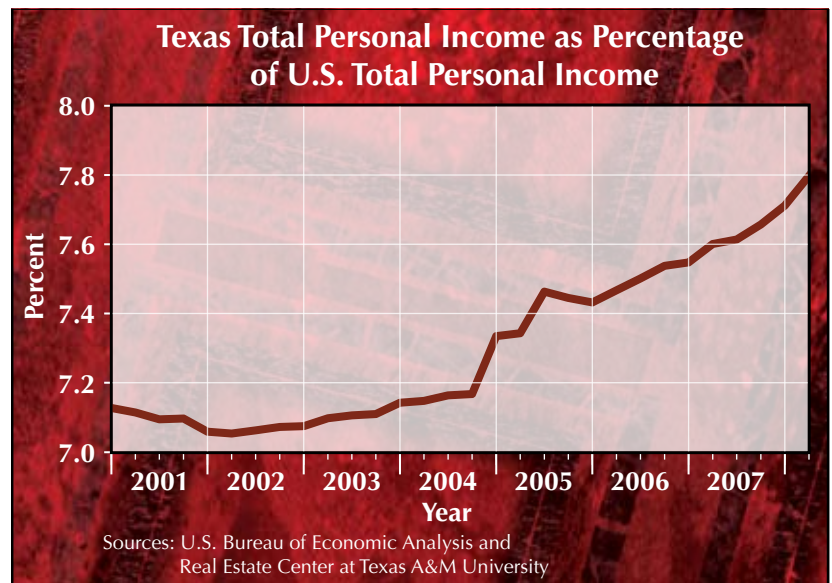


Table 1. Median Home Value, Household Income, House Age, 2007

Region	Home Value	Household Income	Home Price to Income Ratio	Year House Built	House Age
United States	\$194,300	63,059	3.1	1975	32
Texas	120,900	61,346	2.0	1982	25
Abilene	75,900	50,060	1.5	1971	36
Amarillo	101,900	52,569	1.9	1970	37
Austin–Round Rock	177,500	77,939	2.3	1990	17
Beaumont–Port Arthur	83,600	54,184	1.5	1973	34
Brownsville–Harlingen	74,300	37,755	2.0	1986	21
College Station–Bryan	126,900	60,527	2.1	1986	21
Corpus Christi	99,500	52,211	1.9	1975	32
Dallas–Fort Worth–Arlington	145,400	72,565	2.0	1985	22
El Paso	98,500	45,930	2.1	1980	27
Houston–Sugar Land–Baytown	135,800	71,297	1.9	1984	23
Killeen–Temple–Fort Hood	107,500	59,151	1.8	1987	20
Laredo	104,800	45,071	2.3	1992	15
Longview–Marshall	96,700	52,445	1.8	1976	31
Lubbock	96,500	55,420	1.7	1975	32
McAllen–Edinburg–Mission	69,700	37,943	1.8	1990	17
Midland	111,300	65,650	1.7	1977	30
Odessa	70,300	54,306	1.3	1970	37
San Angelo	84,300	50,225	1.7	1971	36
San Antonio	119,200	59,935	2.0	1983	24
Sherman–Denison	98,800	55,508	1.8	1977	30
Tyler	120,200	56,034	2.1	1983	24
Victoria	95,600	53,356	1.8	1977	30
Waco	98,300	54,250	1.8	1975	32
Wichita Falls	84,800	53,389	1.6	1970	37

Source: U.S. Census Bureau

Brownsville–Harlingen had the lowest annual household income (median \$37,755), followed by McAllen–Edinburg–Mission (\$37,943), Laredo (\$45,071) and El Paso (\$45,930).

The ratio of median home values to median family income indicates how many years income it takes to buy a house. For Texans, two years of the median annual household income can buy a house. It takes more than three years for the United States as a whole. Austin–Round Rock and Laredo have the largest home-price-to-income ratio (2.3) followed by College

Station–Bryan, El Paso and Tyler (2.1). Odessa has the most affordable homes in terms of home price to income ratio (1.3) followed by Abilene and Beaumont–Port Arthur (1.5).

Subtracting the median year homes were built from 2007 yields the median age of housing stocks in the United States, Texas and its metro areas. The median age of Texas homes is 25 years compared with 32 for the United States. Laredo has the “youngest” stock of owner-occupied housing units (15 years) followed by Austin–Round Rock and McAllen–

Table 2. Growth Rates of Home Sales and Home Prices in Texas

Year	Home Sales	Home Price
2000	2.5	10.5
2001	4.1	2.7
2002	2.6	3.7
2003	7.3	2.4
2004	11.5	3.0
2005	10.7	6.2
2006	8.9	5.6
2007	-5.8	4.8
2008	-8.3	1.4

Source: Real Estate Center at Texas A&M University

Table 3. Contribution of Income by Industry to Percent Change in Total Income from First to Second Quarter 2008

Total Income	Texas	U.S.
	1.36	0.56
Farm	-0.06	-0.02
Forestry and Fishing	0.00	0.00
Mining	0.22	0.03
Utilities	0.00	0.00
Construction	0.11	-0.06
Manufacturing—durable goods	0.06	0.00
Manufacturing—nondurable goods	0.08	0.03
Wholesale Trade	0.09	0.01
Retail Trade	0.01	-0.02
Transportation and Warehousing	0.07	0.02
Information	0.00	0.02
Finance and Insurance	0.09	0.05
Real Estate, Rental, Leasing	0.02	0.00
Professional and Technical Services	0.25	0.15
Management of Companies and Enterprises	0.03	0.04
Administrative and Waste Management	0.05	0.00
Educational Services	0.00	0.00
Health Care and Social Assistance	0.10	0.10
Arts, Entertainment, Recreation	0.00	0.01
Accommodation and Food Services	0.04	0.02
Other Services, except Public Administration	0.01	0.01
Federal Government	0.04	0.05
State and Local Governments	0.14	0.11

Source: U.S. Bureau of Economic Analysis

Edinburg-Mission (17 years) and Killeen-Temple-Fort Hood (20 years). Amarillo, Odessa and Wichita Falls have the oldest stocks (37 years) followed by Abilene and San Angelo (36 years).

Using Texas data and applying regression analysis shows that about 87 percent of variations in home values are explained by median household incomes and median age of housing unit stocks. Every \$1,000 increase in the median household income adds \$2,088 to the median value of Texas homes. By contrast, for each year the housing stock ages, median value of homes is reduced by \$1,419.

The high correlation between home values and personal income explains why average Texas home prices have been so strong as home sales fell over the past two years (Table 2).

Texas personal income has increased from 7.1 percent of the nation's total personal income in 2003 to 7.9 percent in second quarter 2008 (see figure). To project whether Texans will continue to enjoy higher than national average income growth, it is necessary to look at which Texas industries are generating more income.

Texas total income grew 1.36 percent from first to second quarter 2008 compared with a national average of 0.56 percent (Table 3). The state's professional and technical services industry contributed 0.25 percent of the growth rate of total income followed by the mining industry (0.22 percent), state and local government (0.14 percent), the construction industry (0.11 percent) and health care (0.10 percent).

The large contribution of the state's mining industry, mainly oil and gas, can be attributed to higher crude oil prices. The price per barrel of West Texas intermediate crude oil, which peaked at \$139.93 in June 2008, has fallen to \$53.62 per barrel at the time of this writing.

The state's finance and insurance industry, which contributed 0.09 percent of the state's income growth, is unlikely to maintain its

current contribution level given the turmoil in the nation's financial industry. The state's total income growth in 2009 will depend on growth in state's construction, professional and business services, and health care and social assistance industry. ➤

Dr. Anari (m-anari@tamu.edu) is a research economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Center research findings indicate that household income and age of the housing stock are the most important factors in determining Texas home prices.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

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