

Hibbs Newsletter

Hibbs Institute for Business & Economic Research

May 2021

This issue of the **Hibbs Newsletter** complements the past issue of the **Hibbs Brief, The Housing Market: Will It Crash or Boom in 2021?**, with recent figures related to the U.S. mortgage rates and some of the most relevant housing market indicators for the East Texas area.

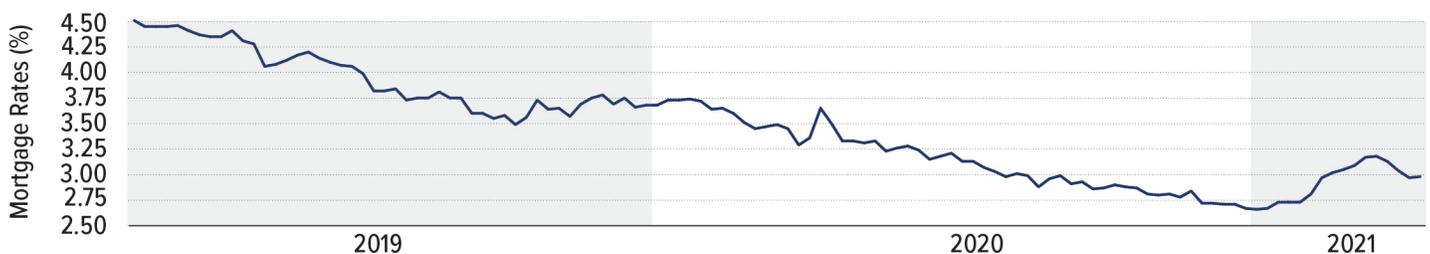
Mortgage rates fell below 3% after a slight cool down of the housing market.

The 30-year fixed mortgage rate (FMR) reached a historic low of 2.66% by the end of December 2020, which added fuel to the booming housing market currently observed nationwide. Although the rate gradually climbed back earlier this year as the economy's rebound exceeded February and March expectations, average mortgage rates fell for three consecutive weeks in late April reaching levels below 3%¹ [Check the Technical Box below for more detail].

A record increase in home prices resulting from an unprecedented imbalance in home supply and demand, and the mortgage rates progressively increasing in February and March, discouraged some potential buyers from getting a home, which slightly cooled down the housing market. Sales of existing homes slowed for two consecutive months in February and March. Seasonally adjusted existing home sales fell by 6.7% in February and by 3.7% in March.²

The national housing market will depict interesting changes in the following months as opposing forces are continuously adjusting. On the demand side, the recent reversal of the uptrend of mortgage rates, which are expected to stay around 3% for several months, should encourage potential buyers to enter the housing market. On the supply side, home building is working at an accelerated pace to fill the hole by providing new homes soon, while many homeowners are still in tension with an economic rebound that has not fully recovered the massive loss of jobs during the pandemic.

Figure 1. United States 30-year Fixed Mortgage Rate, by week (January 3, 2019 – April 29, 2021)



Source: Freddie Mac U.S., weekly average survey.

Technical Box

Mortgage interest rates are influenced by the FRED funds' rates, but this is not the only factor that affects these rates. Other important factors are bond yields and inflation (because inflation leads to higher bond yields). The 10-year Treasury note, a very popular type of bond, is considered a good indicator of the investor's confidence in economic growth. As the economy's rebound exceeded the February and March expectations, the Treasury note yield raised over these months, pulling the FMRs up, too.

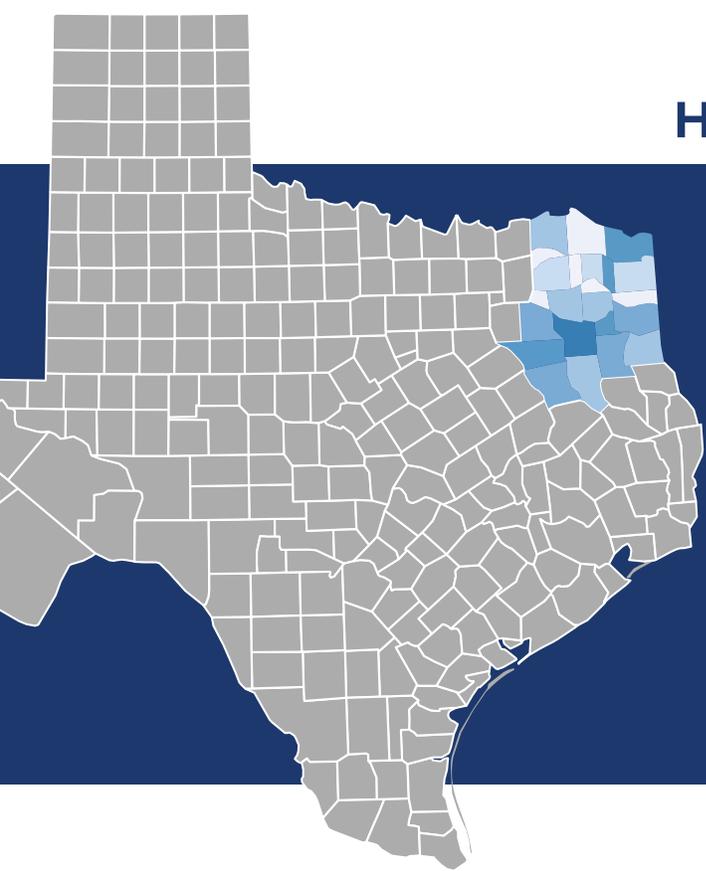
Mortgages are considered investments to some people who purchase mortgage-backed securities, a type of security asset that is backed by the value of a home loan. Therefore, FMRs and bonds compete to attract investors. As Treasury notes (risk-free bonds guaranteed by the U.S. government) are safer, mortgages and other loan rates will always be higher than Treasury notes because they must compensate investors for their higher risk of default and account for any loan processing fees.³

¹Freddie Mac U.S. weekly average survey, <http://www.freddiemac.com/pmms/#>

²Federal Reserve Economic Database (FRED), Existing Home Sales, <https://fred.stlouisfed.org/series/EXHOSLUSM495S>

³This is a simplified narrative on complicated financial terms. For a more detailed explanation please refer to: The Balance; Economic Terms, <https://www.thebalance.com/economy-glossary-4073945>

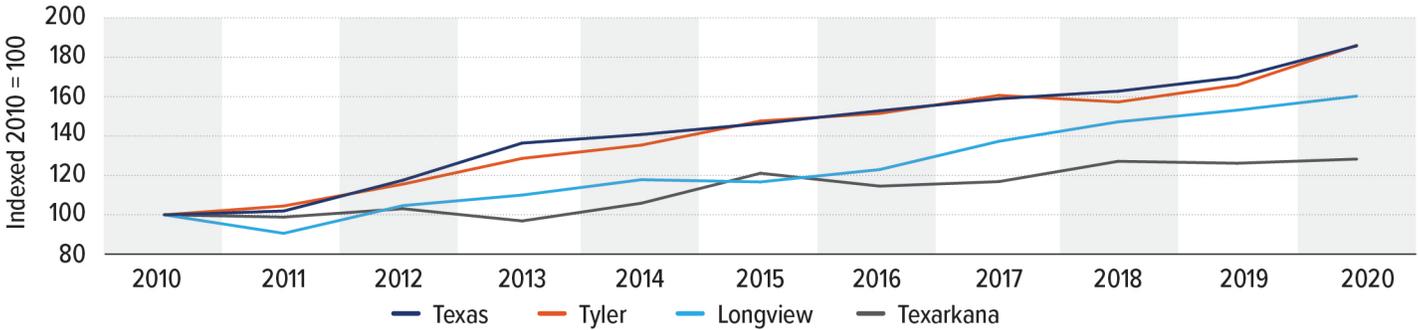
HOUSING MARKET IN EAST TEXAS



Unit sales may vary widely from location to location due to differences in population size and other factors. Thus, the use of an index is recommended to “standardize” the volume of unit sales during a period. Unit sales in the Tyler MSA and overall Texas have increased similarly over the past 10 years, proportionally. Both the Tyler MSA and overall state increased their number of single-family homes sold by over 85% in 10 years. Annual unit sales of single-family homes in the Longview MSA depict a consistent growth since 2011. After 2015, this growth steepens slightly over the following years. Sales of single-family homes increased 60% over a 10-year period. The number of unit sales per year in the Texarkana MSA has been more modest. With a noticeable peak in 2015 and mild growth after 2018, the Texarkana MSA increased their volume of single-unit home sales by 28% in a 10-year period (Figure 2).

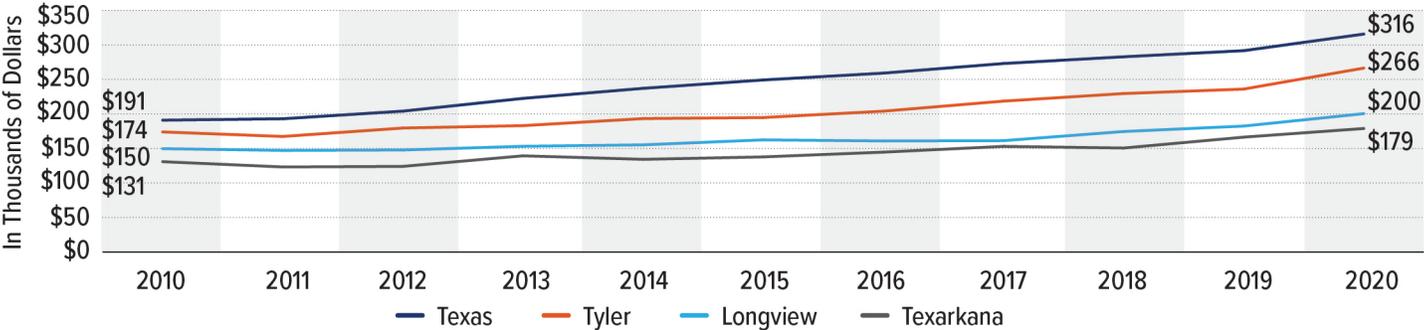
In consistence with the increase in demand of homes, prices have also increased over the last 10 years in the overall state, and specifically, in the East Texas MSAs. Annual average prices of homes increased 65.3% in the overall state from 2010 to 2020. Although lesser, East Texas MSAs show considerable home price increases in the same period; Tyler MSA of 53.2%, Longview MSA of 33.9% and Texarkana MSA of 36.8% (Figure 3).

Figure 2. Annual Unit Sales of Single-Family Residential Housing in Texas, Tyler MSA, Longview MSA and Texarkana MSA Indexed 2010 = 100 (2010–2020)



Source: Real Estate Center at Texas A&M University.

Figure 3. Annual Average Prices of Home Sales in Texas, Tyler MSA, Longview MSA and Texarkana MSA (2010–2020)



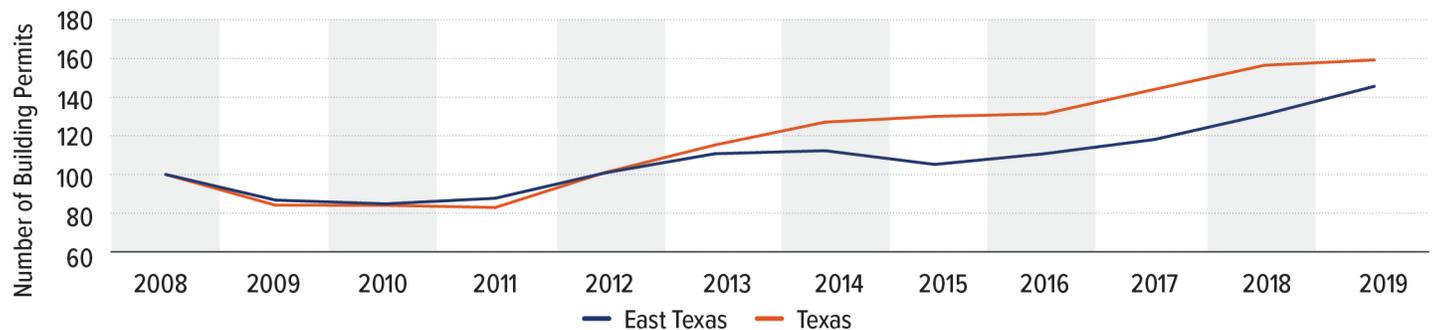
Source: Real Estate Center at Texas A&M University.

HOUSING MARKET IN EAST TEXAS (CONTINUED)

The housing market in overall East Texas is intensely linked to counties with substantially higher levels of economic activity and building development (e.g. Smith, Bowie and Gregg), compared to other counties in rural or less developed areas in the region. This is typically measured by the number of building permits issued in an area.⁴ In terms of residential developments, building permits are typically classified into three categories: 1) single-family units, 2) 2–4 family units and 3) 5-plus family units, residential apartment complexes. **Figure 4** depicts the single-family housing building permits since 2008 for East Texas and the state of Texas using an index (2008 = 100). Since the regions are widely different to be compared with raw numbers, the use of a calculated index is a common practice to produce comparable figures. Although this index shows that the number of building permits in Texas is proportionally higher than East Texas, East Texas is growing faster (at a higher rate) since 2018. **Table 1** details the number of building permits by category for all 23 counties in East Texas from 2015 to 2019, the most recent year available.

⁴ A building permit is an official approval issued by a local government, which allows a contractor to develop a construction project on a certain property.

Figure 4. Building Permits of Single-Family Housing in East Texas and Texas; Indexed 2008 = 100 (2008–2019)



Source: Real Estate Center at Texas A&M University.

Table 1. Building Permits in East Texas by Category and County (2015–2019)

County	2015			2016			2017			2018			2019		
	Single	2–4	5-Plus	Single	2–4	5-Plus	Single	2–4	5-Plus	Single	2–4	5-Plus	Single	2–4	5-Plus
Anderson	7	-	-	13	-	-	14	-	-	24	-	9	20	-	136
Bowie	25	4	256	73	-	-	53	-	100	52	2	100	50	-	-
Camp	8	-	-	6	-	-	7	-	-	9	4	-	7	2	-
Cass	16	-	-	5	-	-	14	8	-	11	4	-	16	8	-
Cherokee	5	-	-	6	-	-	7	-	-	16	-	-	17	-	-
Delta	3	-	-	-	-	-	5	-	-	3	-	-	7	-	-
Franklin	1	-	-	-	-	-	2	-	-	6	-	-	2	-	-
Gregg	206	8	15	157	-	-	160	20	-	169	-	74	192	10	12
Harrison	34	2	18	40	4	24	44	16	-	28	2	-	56	-	-
Henderson	47	-	-	40	-	54	95	-	-	138	-	-	66	7	-
Hopkins	10	6	-	10	-	-	21	8	-	26	20	-	26	16	-
Lamar	20	20	-	26	20	-	26	20	-	34	14	-	31	64	-
Marion	1	-	-	8	-	-	2	2	-	1	4	-	4	-	-
Morris	-	-	-	4	-	-	2	-	-	-	-	-	1	-	-
Panola	7	-	-	6	-	-	3	-	-	6	-	-	8	-	-
Rains	2	-	-	1	-	-	4	-	-	7	-	-	18	-	-
Red River	9	-	-	6	2	-	-	-	-	1	-	-	6	-	-
Rusk	13	-	-	2	-	-	2	-	-	9	2	-	-	-	-
Smith	420	50	-	454	103	24	472	64	142	478	177	5	592	60	5
Titus	20	2	120	19	-	-	26	-	-	22	4	-	34	-	-
Upshur	2	4	-	5	-	-	5	-	-	5	-	-	6	-	-
Van Zandt	17	-	-	28	-	-	13	-	-	31	-	-	32	4	-
Wood	-	-	23	10	2	-	3	2	-	11	2	-	17	24	42
Total	873	96	432	919	131	102	980	140	242	1,087	235	188	1,208	195	195

Source: Real Estate Center at Texas A&M University.

HOUSING MARKET IN THE TYLER MSA

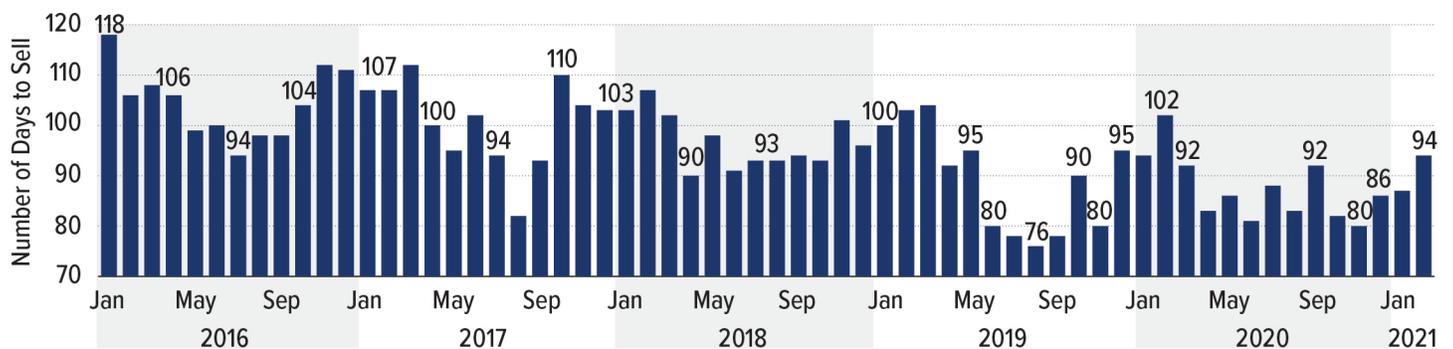
The housing market in the Tyler MSA is booming. Sales, by unit and dollar value, rose substantially in summer 2020 as part of the pandemic effect. In July (frequently the highest month in trade activity), sales increased about 15% with respect to the previous two years, 2018 and 2019, and reached a maximum amount in dollar value at \$109.1 million (Figure 5). The number of days to sell a single-family home during the summer in the Tyler MSA has been below 90 days for the last two years, even before the pandemic (Figure 6). Median prices of single-family homes in the Tyler MSA increased from \$176,500 in January 2016 to \$243,250 in February 2021, which is a 38% increase in five years. Median prices in Texas increased 46% in the same period. The gap between median prices in the Tyler MSA and overall Texas has widened over the past five years. While the difference was 7% in January 2016, it increased to 13% in February 2021 (Figure 7).

Figure 5. Monthly Sales in Dollar Volume and in Units of Single-Family Housing in the Tyler MSA (January 2016–February 2021)



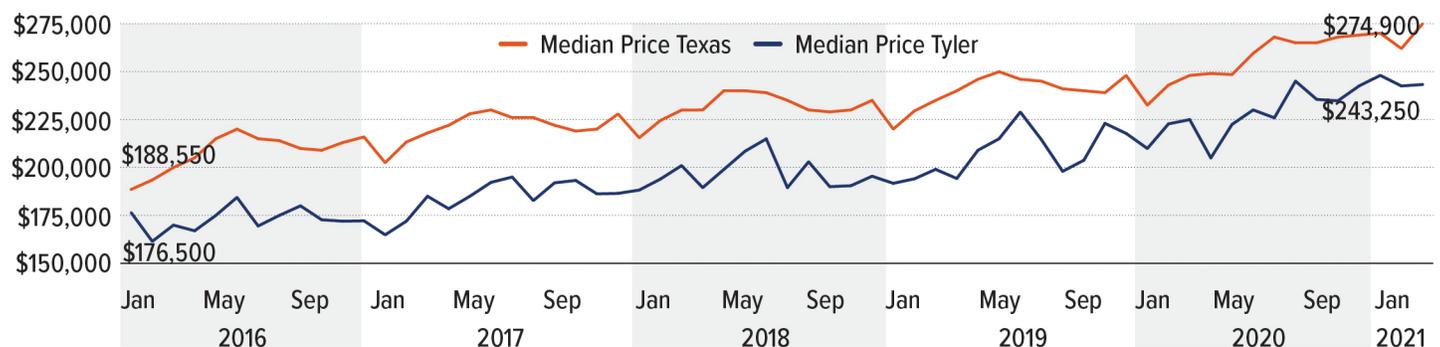
Source: Real Estate Center at Texas A&M University.

Figure 6. Days to Sell by Month for Single-Unit Residential Housing in the Tyler MSA (January 2016–February 2021)



Note: Days to Sell = Days on Market + Days to Close. Source: Real Estate Center at Texas A&M University.

Figure 7. Median Close Price of Single-Family Homes in Texas and the Tyler MSA (January 2016–February 2021)



Source: Real Estate Center at Texas A&M University.

HOUSING MARKET IN THE LONGVIEW MSA

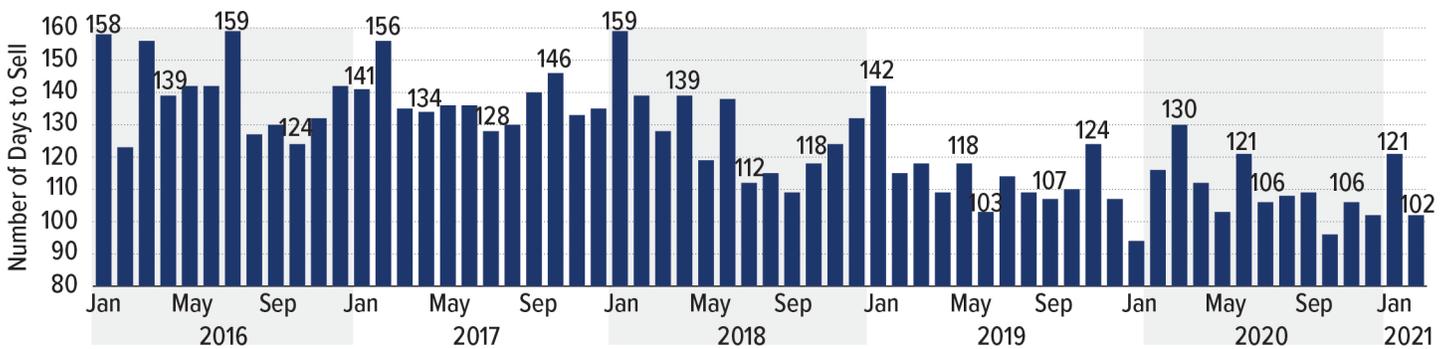
The housing market in the Longview MSA is doing fairly well. Sales are typically higher in warmer months (June, July and August). The sum of unit sales during these three months increased about 12% in 2019 and 2020, with respect to 2017 and 2018. The pandemic effect of 2020 was not as evident and strong in the Longview housing market as in other MSAs (Figure 8). Nevertheless, July 2020 observed a maximum in sales (245 units and \$51.6 million), about 47% of the trade activity in dollar volume in Tyler MSA in that same month. Although some slow months are observed in Figure 9, in general, the number of days to sell a single-family home has decreased over the past five years. Median prices of single-family homes in the Longview MSA increased from \$136,500 in January 2016 to \$195,000 in February 2021 – a 43% increase in five years. Median prices in overall Texas increased 46% during the same period (Figure 10).

Figure 8. Monthly Sales in Dollar Volume and in Units of Single-Family Housing in the Longview MSA (January 2016–February 2021)



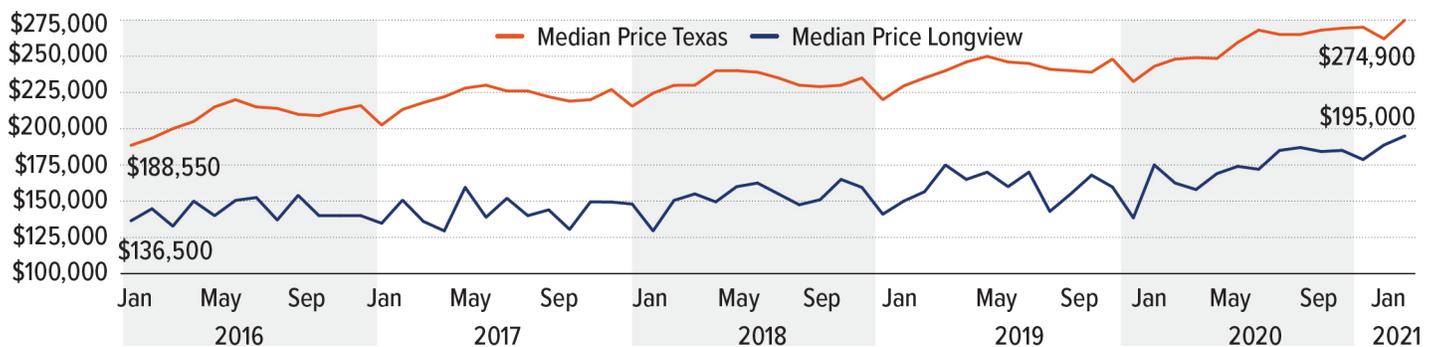
Source: Real Estate Center at Texas A&M University.

Figure 9. Days to Sell by Month for Single-Unit Residential Housing in the Longview MSA (January 2016–February 2021)



Note: Days to Sell = Days on Market + Days to Close. Source: Real Estate Center at Texas A&M University.

Figure 10. Median Close Price of Single-Family Homes in Texas and the Longview MSA (January 2016–February 2021)



Source: Real Estate Center at Texas A&M University.

HOUSING MARKET IN THE TEXARKANA MSA

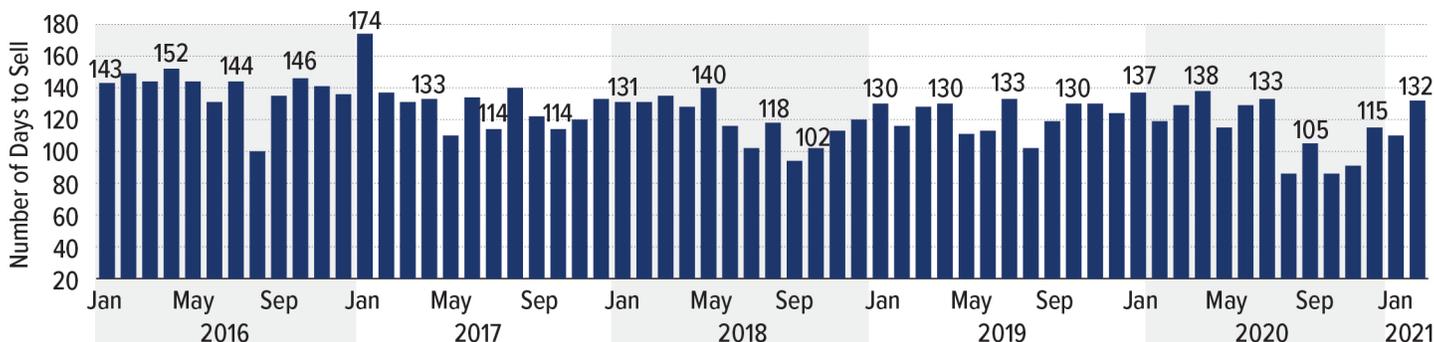
The housing market in the Texarkana MSA is fairly stable. Sales volume has increased gradually over the past few years. The pandemic effect of 2020 (which resulted in a higher number of buyers) was not reflected in the Texarkana housing market (Figure 11). Housing market indicators, such as sales and the number of days to sell, appear to be stable over the years, with some seasonal peaks and troughs (Figure 12). Median prices of single-family homes in the Texarkana MSA increased from \$120,000 in January 2016 to \$177,450 in February 2021 – a 48% increase in five years. This percentage is slightly higher than what was seen in the overall state of Texas, at 46%, during the same period (Figure 13).

Figure 11. Monthly Sales in Dollar Volume and in Units of Single-Family Housing in the Texarkana MSA (January 2016–February 2021)



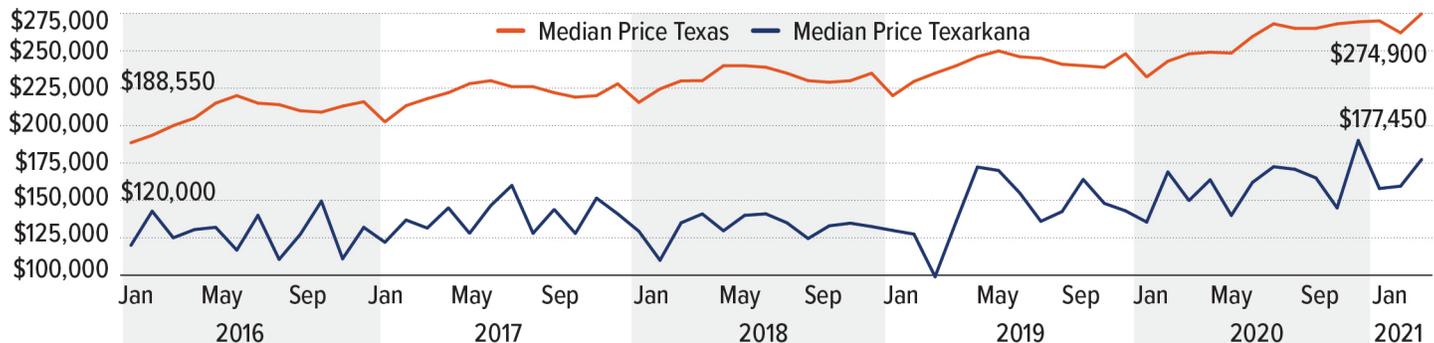
Source: Real Estate Center at Texas A&M University.

Figure 12. Days to Sell by Month for Single-Unit Residential Housing in the Texarkana MSA (January 2016–February 2021)



Note: Days to Sell = Days on Market + Days to Close. Source: Real Estate Center at Texas A&M University.

Figure 13. Median Close Price of Single-Family Homes in Texas and the Texarkana MSA (January 2016–February 2021)



Source: Real Estate Center at Texas A&M University.



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