Housing Affordability in Texas and Nationwide

Federal Reserve Bank of Dallas
February 23, 2018

Granger MacDonald
Immediate Past Chairman
National Association of Home Builders
Millennial Homeownership Rates Tick Up

Rates grew from 34.7% in 2016 to 36% in 2017.
Owner Occupied Households

Younger households now account for smallest portion.
Mismatch
Buyers’ expectations not well matched with prices of homes started.

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Percentage of Homes Started</th>
<th>Percentage of Buyers Expect to Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100,000</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>$100,000 - $149,999</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>$150,000 - $249,999</td>
<td></td>
<td>29%</td>
</tr>
<tr>
<td>$250,000 - $349,999</td>
<td></td>
<td>28%</td>
</tr>
<tr>
<td>$350,000 - $499,999</td>
<td></td>
<td>18%</td>
</tr>
<tr>
<td>$500,000 - $999,999</td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>$1 million and over</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Medians
Expect to Pay: $219,896
2015 SF Starts: $298,800

Sources: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau and HUD
2015 Home Buyer Preference Survey, NAHB
Housing Affordability

Affordability has eroded across Texas, but most housing markets remain affordable.
Regulatory Overload

Regulations, on average, account for almost 25% of the price of a new single-family home.
Supply-side Challenges

Top 10 Significant Problems Builders Faced in 2017 and Expect to Face in 2018

- Cost/availability of labor: 82% Faced, 84% Expect
- Building material prices: 77% Faced, 84% Expect
- Cost/availability of developed lots: 58% Faced, 62% Expect
- Impact/hook-up/inspection or other fees: 57% Faced, 60% Expect
- Inaccurate appraisals: 47% Faced, 42% Expect
- Federal environmental regulations and policies: 44% Faced, 42% Expect
- Local/state environmental regulations and policies: 40% Faced, 45% Expect
- Difficulty obtaining zoning/permit approval: 40% Faced, 42% Expect
- Gridlock/uncertainty in Washington making buyers cautious: 39% Faced, 42% Expect
- Development standards (zoning, setbacks, etc.): 38% Faced, 38% Expect

Source: HMI Special Survey, NAHB EcHp.
Availability of Labor

Share of Single-Family Builders Reporting Labor Cost/Availability Problems

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>13%</td>
</tr>
<tr>
<td>2012</td>
<td>30%</td>
</tr>
<tr>
<td>2013</td>
<td>53%</td>
</tr>
<tr>
<td>2014</td>
<td>61%</td>
</tr>
<tr>
<td>2015</td>
<td>71%</td>
</tr>
<tr>
<td>2016</td>
<td>78%</td>
</tr>
<tr>
<td>2017</td>
<td>82%</td>
</tr>
</tbody>
</table>

Source: HMI Survey, NAHB EcHr.
Single-family Starts

Single-family starts are expected to grow.

Thousands of units, SAAR

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
<th>&quot;Normal&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-03</td>
<td>1,343,000</td>
<td>&quot;Normal&quot;</td>
</tr>
<tr>
<td>2014</td>
<td>647,000</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>712,000</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>784,000</td>
<td>10%</td>
</tr>
<tr>
<td>2017</td>
<td>861,000</td>
<td>8%</td>
</tr>
<tr>
<td>2018</td>
<td>893,000</td>
<td>5%</td>
</tr>
<tr>
<td>2019</td>
<td>943,000</td>
<td>6%</td>
</tr>
</tbody>
</table>

2017Q4: 66% of "Normal"
2019Q4: 73% of "Normal"

Trough to Current:
Mar 09 = 353,000
Dec 17 = 836,000
+137%
Single-family Permits in Texas and Nationwide

The local recovery is ahead of the nation, but production has not fully recovered.
Tax Reform

Tax reform legislation preserved the Low Income Housing Tax Credit.
Affordable Housing Credit Improvement Act

Bipartisan legislation would help builders provide affordable housing units.
Supply-side Challenges

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- Cost/availability of developed lots: 58% (2017), 62% (2018)
- Impact/hook-up/inspection or other fees: 57% (2017), 60% (2018)
- Inaccurate appraisals: 47% (2017), 42% (2018)
- Federal environmental regulations and policies: 44% (2017), 42% (2018)
- Local/state environmental regulations and policies: 40% (2017), 45% (2018)
- Difficulty obtaining zoning/permit approval: 40% (2017), 42% (2018)
- Development standards (paring, setbacks, etc.): 38% (2017), 38% (2018)

Source: HMI Special Survey, NAHB EcHiP.
Housing Finance Reform

Part of housing affordability is ensuring creditworthy buyers can access mortgage credit.
Political Environment

NAHB is working with President Trump and policymakers to foster a pro-housing climate.