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# Texas Market Snapshot

# Housing Affordability Remains Tight

First-time homebuyers will continue to struggle to break into the housing market in 2022.

## INFLATION

Annual [inflation](#) reached a 41-year high of 8.6% in May 2022, and its impact on the housing market could be significant.

Inflation raises the price of everyday items, effectively tightening buyers' pursestrings. Experts are attributing this bout of inflation to scrambled supply chains and the impact of the war in Ukraine.

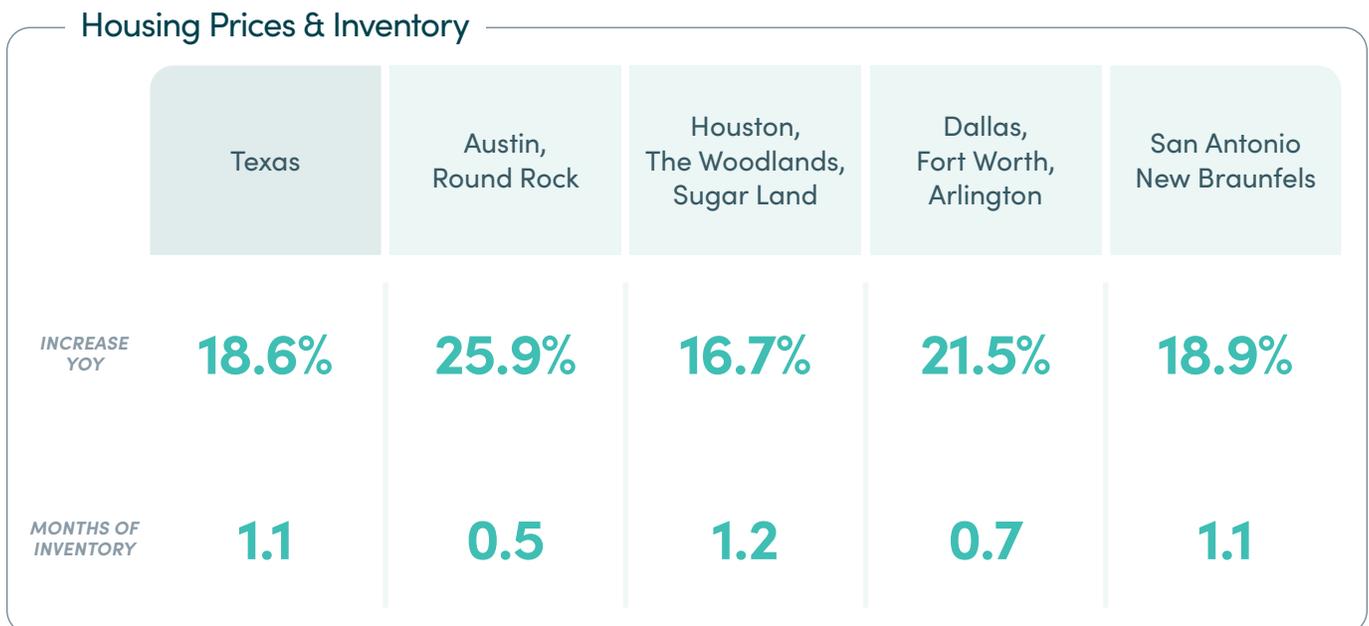
Texans have been feeling the brunt of this, with statewide gas prices up \$1.28/gallon year-over-year in May 2022. In [Dallas-Fort Worth](#), inflation has crept even higher than the national average, peaking at 9% in March.

## RISING MORTGAGE RATES

Then, there's been a sharp jump in interest rates — first to over 5%, the sharpest increase since 2000, then by [another 0.75%](#), the largest move the Federal Reserve has made in a single meeting since 1994. Buyers are now having to find the budget for higher mortgage payments.

In Houston, housing payments are up [nearly 50%](#) year-over-year due to the higher mortgage rates. And the Fed is expected to [continue raising interest rates](#) throughout the rest of the year.

## INVENTORY STILL VERY TIGHT



Right now, there are simply not enough homes available on the market to meet demand. Across the state, only [1.1 months](#) of inventory are available on the market, dipping to just 0.7 months and 0.5 months in red-hot markets like Dallas-Fort Worth-Arlington and Austin-Round Rock.

The United States has been chronically under-building for decades, with Zillow estimating a shortfall of [1.35 million](#) homes across just the 35 largest U.S. metros since 2008. Of those 35 metros, Dallas-Fort Worth was found to have the largest post-recession shortfall of building permits. With homebuilders currently facing the [highest costs seen in 50 years](#), Texas is unlikely to significantly reduce the housing shortage any time soon.

## HOME PRICES REMAIN HIGH

Finally, while signs indicate the market is approaching a correction — with [Redfin](#) reporting that 19% of sellers dropped prices in May — that doesn't mean much relief for buyers in the short-term. In April, [Fannie Mae](#) forecast that home price appreciation is expected to cool in the coming year, dropping from 19.8% in Q1 2022 to 6.5% in Q1 2023. Prices will continue to increase, albeit by smaller amounts.

But even though appreciation is dropping, prices themselves are not. In the first quarter of 2022, home prices in Texas were up 18.6% year-over-year, higher than the national average of [15.7%](#). In Austin-Round-Rock, prices were up a remarkable 25.9% year-over-year. A recent study listed Austin as the [second-most overvalued housing market](#) in the nation, right behind Boise, Idaho.

These high housing prices, combined with inflation and the higher mortgage rates, make this a challenging market for homebuyers — particularly first-time homebuyers — to break into.

### *Main Takeaway*

Long-term, high housing costs will likely lead to a reduction in demand, which will in turn lead to a [market correction](#) that lowers prices. But in the short-term, it's likely to remain a difficult market for buyers for the rest of the year. And homeowners who want to sell at the peak may not have very much longer to do so.

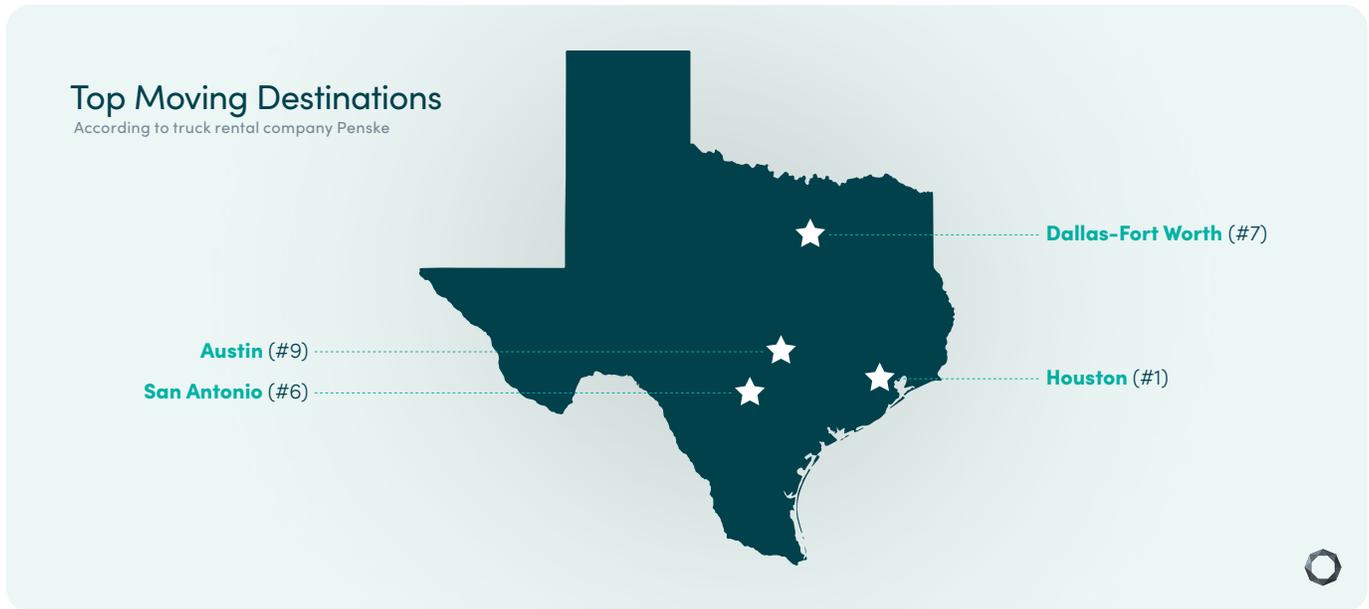
## Texas Continues to Grow

Texas has been growing significantly over the past decade and shows no signs of slowing down in the near future.

### MIGRATION TO TEXAS

Texas is attracting more [net domestic migrants](#) (i.e., the number of people moving into a state minus those moving out) than any other state in the nation. That's due in no small part to the pandemic, which spurred many residents of [coastal metropolitan areas](#) to relocate to Texas, drawn by the promise of more space.

[Six of the top 10 cities](#) that gained the most movers during the first year of the pandemic were in Texas (Katy, Richmond, Frisco, Georgetown, Leander, Cypress). In 2021, Houston was ranked the #1 moving destination according to truck rental company [Penske](#), with San Antonio (#6), Dallas-Fort Worth (#7), and Austin (#9) on its tail.



But these patterns actually began long before the pandemic. In the last 10 years, Texas has experienced [significant population growth](#) across Dallas (1.2 million), Houston (1.1 million) and Austin (0.5 million) – accounting for nearly 10% of the state’s total population.

Consequently, these same metros keep topping the lists of fastest-growing housing markets in the country. The National Association of REALTORS® named the [Dallas-Fort Worth-Arlington](#) region as one of the markets most poised for growth during the post-pandemic outlook. This steady growth is forecast to continue for at least the next few years.

## AUSTIN BECOMING A TECH HUB

One reason Texas metros are in high demand is the [major companies](#) that have announced plans to open headquarters in the Lone Star State. The list includes CBRE, Charles Schwab, Tesla, and Oracle, among many others.

These new headquarters bring with them high-income job opportunities that are attractive to both in- and out-of-state workers (particularly those who seek to escape high-cost-of-living tech hubs like Seattle and San Francisco).

Most of these companies are headquartered in Austin, dubbed “[Silicon Hill](#)” – which is starting to experience a Silicon Valley-esque housing market. Not only are prices extremely high versus the rest of the state, but from May 2021 to May 2022, nearly [25%](#) of all home and condo purchases in Austin were made with cash, making the market even more competitive for those obtaining financing.

## *Main Takeaway*

With more people continuing to move to the Lone Star State, the Texas housing market should remain hot in the short-term. But if Texas is unable to build enough housing to accommodate its many new residents, it could become even less affordable – and as a result, less attractive to potential movers – down the line.

### Sources:

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