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The Housing Affordability Challenge

Table of Contents

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Executive Summary

Texas, generally well regarded for its low cost of living, is facing the pressures of a decline in housing affordability as the state's population and demand for housing rise. Since 2008, Texas has been the No. 1 state for new building permits for privately owned housing units. However, the state's population, particularly in the major metropolitan areas, is growing at a quicker pace than housing is being built.

At the center of the housing affordability issue is a small supply of housing at price points available to middle- and lower-income earners.

This report examines the factors contributing to the housing affordability crisis across the U.S., how the crisis is affecting Texans and how the state is faring in comparison to the rest of the country.

Key Findings:

- Housing affordability – the ability of someone with a median family income to afford median-priced housing – is at its lowest level in the U.S. since 1985, according to the National Association of Realtors (NAR).
- Texas' median home prices rose by *40 percent* between 2019 and 2023. A rapid upswing in prices in Texas and the U.S. began in 2020 due to increased opportunities to telework, federal stimulus and unemployment payments, low mortgage rates, a surging stock market and accelerating domestic migration to the state, according to the Federal Reserve Bank of Dallas.
- Texas is a top destination for domestic migration, putting acute pressure on the state's housing affordability. The Dallas-Fort Worth-Arlington area led all U.S. metro areas in population growth and in net domestic migration between 2020 and 2023.
- A study by the Federal Reserve Bank of San Francisco estimated that work-from-home policies accounted for *more than half* of U.S. home price increases from November 2021 to November 2023.
- Between 2021 and 2023, the U.S. experienced its fastest-ever deterioration in housing affordability, due to the surge in home prices and rapidly rising interest rates.
- These housing price pressures were exacerbated by years of under-investment in the U.S. housing supply following the 2007-08 financial crisis. Though building permits in Texas fell substantially following the financial crisis, the decline was less pronounced compared to other states.
- In 2023, Texas was 306,000 homes short of what was needed, according to an analysis by *Up for Growth*, a nonprofit organization that focuses on housing policy. The NAR analysis, meanwhile, shows the greatest shortage is in homes that middle-income buyers can afford.
- Average homeowners insurance rates have increased sharply in recent years in Texas and the U.S., impacting housing costs and affordability.
- There is bipartisan support to build more housing and improve affordability at the federal, state and local levels, including efforts to relax zoning regulations. Zoning determines the type of housing that can be built in certain locations. Zoning opponents argue that these regulations drive up home prices and rents by limiting housing development in areas where people most want to live.

Introduction

Homeownership is considered an effective means of building wealth and helps to shape communities. For many, the ability to buy a home is a meaningful achievement. A 2023 survey by Bankrate.com, a consumer financial services company, found that 74 percent of respondents valued homeownership more than other key indicators of economic stability, such as a college degree, a successful career and the ability to retire comfortably. Its benefits include income tax breaks as well as the opportunity to build credit, equity and generational wealth. It also affords homeowners the peace of mind that comes with having stable monthly payments that are not vulnerable to future inflation and housing shortages – an advantage not enjoyed by renters.

Nationwide, homeownership has become increasingly inaccessible since 2020, the beginning of the pandemic due to the shortage of available homes and building materials, inflation, high interest rates and the tightening of mortgage credit rates. Those who manage to buy a home often find themselves stretched to the limit financially as they struggle to balance the cost of owning a home with costs for food, utilities, health care and other basic needs.

For many years, Texas has seen an influx of residents attracted to its thriving economy and low cost of living. However, the state's reputation for low-cost housing is diminishing, as the housing affordability gap – the difference between the cost of a home and the amount a household can pay – increases. According to the Federal Reserve Bank of Dallas, "Housing affordability has declined in Texas, a top destination for domestic and international migrants drawn by its historically low cost of living."[1]

For most Texans – regardless of income level or whether they are homeowners or renters – housing costs comprise the largest portion of the household budget. Due to the high costs associated with owning a home, there has been an increase in the number of renters, thus creating higher demand for rental housing units.

Many barriers to housing affordability are location-specific, and the availability and cost of homes can vary widely among urban metropolitan areas and rural regions of the state. Understanding the conditions and challenges faced across the state's vastly different regions is an important step to addressing the housing affordability concern.

The question of whether Texas can maintain its affordability advantage will depend on a number of factors, including the supply of available housing, local and state efforts to incentivize housing development and the continued strength of the state's economy.

There are various ways to measure housing affordability. One standard used by NAR measures whether a family earning the median income can qualify for a mortgage on a median-priced home. Another common standard of affordability used by the U.S. Department of Housing and Urban Development (HUD) is that housing costs should not exceed 30 percent of a family's income; this ensures a family has ability to pay for other nondiscretionary costs.

Home Prices Surge Across Texas Metros

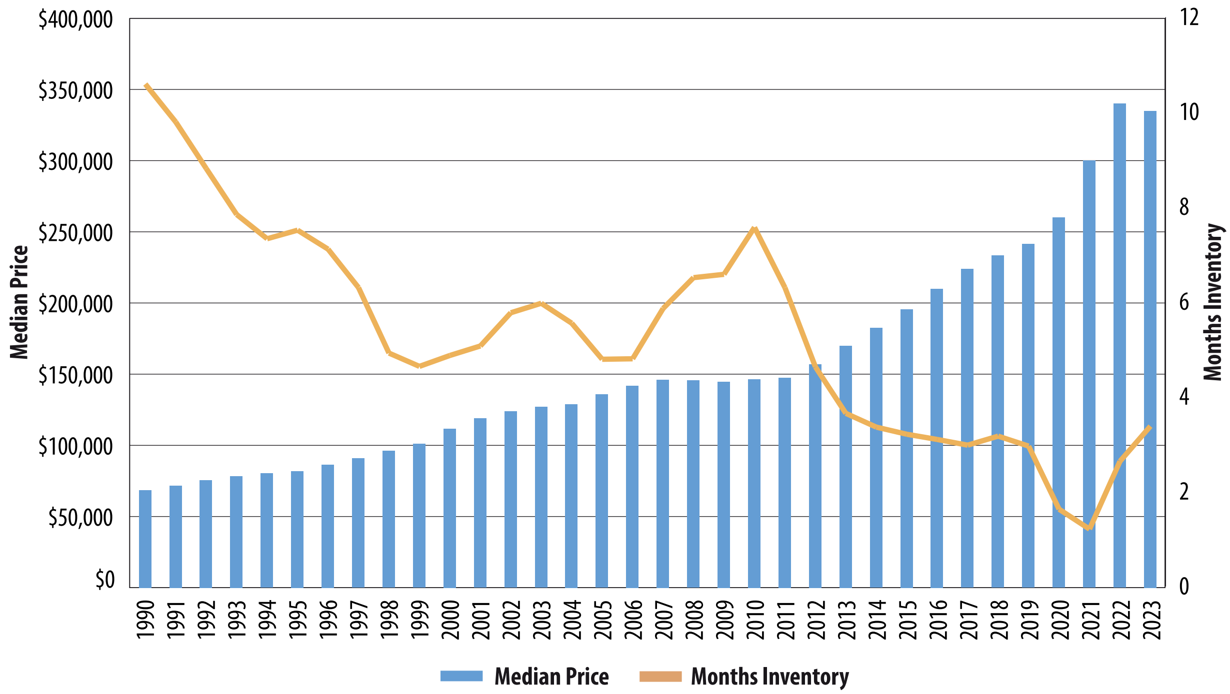
Median home prices in Texas rose by an average annual rate of 5.9 percent between 2010 and 2020, more than double the 2.7 percent average annual gains between 2000 and 2010, according to home price data from the Texas A&M Real Estate Research Center. Median home prices accelerated even more following the pandemic, rising by 15.4 percent in 2021 and 13.4 percent in 2022, reaching a peak of $340,000 in 2022. The rise in prices coincided with sharply declining levels of housing inventory, a measure of the amount of time it would take to deplete all housing supply at the current sales pace. While an inventory of six months is historically associated with moderate price appreciation, Texas inventory levels have remained below six months since 2011 and fell to as low as 1.2 months in 2021 before increasing to 3.3 months in 2023 (**Exhibit 1**).

Home prices rose sharply across Texas metropolitan areas between 2019 and 2023, led by gains of 73 percent in Brownsville-Harlingen and 66 percent in Sherman-Denison. In Austin-Round Rock – with median home prices of $450,000 in 2023, the highest among Texas metros – home prices rose by 43 percent. The statewide median home value rose by 39 percent.

Notably, home prices in 2023 fell by 10.4 percent in Austin-Round Rock and by 1.5 percent in Texas when compared to 2022 (**Exhibit 2**).

EXHIBIT 1

Median Home Prices and Months of Inventory, Texas, 1990-2023



Source: Texas A&M Real Estate Research Center

EXHIBIT 2

Median Home Prices by Texas Metropolitan Statistical Area, 2019-2023

Metropolitan Statistical Area	2019	2020	2021	2022	2023	Percent Change, 2022-2023	Percent Change, 2019-2023
Brownsville-Harlingen	$150,000	$173,000	$215,000	$249,900	$260,000	4.0%	73.3%
Sherman-Denison	$185,750	$203,000	$250,000	$299,000	$308,268	3.1%	66.0%
Killeen-Temple	$168,000	$190,000	$225,000	$265,000	$267,500	0.9%	59.2%
El Paso	$162,950	$177,900	$200,000	$237,000	$254,375	7.3%	56.1%
McAllen-Edinburg-Mission	$155,000	$170,000	$194,500	$220,000	$235,000	6.8%	51.6%
Waco	$186,000	$210,000	$244,200	$270,000	$280,000	3.7%	50.5%
Tyler	$209,500	$230,000	$264,250	$305,000	$315,000	3.3%	50.4%
Eagle Pass	$157,500	$167,000	$179,450	$212,000	$235,000	10.8%	49.2%
Wichita Falls	$128,700	$145,000	$163,850	$180,000	$189,500	5.3%	47.2%
Dallas-Fort Worth-Arlington	$275,000	$294,000	$347,000	$400,000	$395,312	-1.2%	43.7%
Longview	$168,950	$179,900	$210,000	$235,000	$241,500	2.8%	42.9%
Austin-Round Rock-San Marcos	$315,000	$345,000	$451,735	$502,000	$450,000	-10.4%	42.9%
Corpus Christi	$200,000	$225,000	$255,000	$280,000	$285,000	1.8%	42.5%
Amarillo	$172,000	$192,500	$215,500	$237,500	$241,500	1.7%	40.4%
Lubbock	$172,000	$190,000	$212,000	$239,500	$239,000	-0.2%	39.0%
Texas	**$241,358**	**$259,990**	**$300,000**	**$340,000**	**$335,000**	**-1.5%**	**38.8%**
College Station-Bryan	$220,000	$229,900	$250,000	$288,000	$302,153	4.9%	37.3%
San Antonio-New Braunfels	$230,000	$248,000	$283,000	$320,000	$311,200	-2.8%	35.3%
San Angelo	$185,000	$200,000	$225,000	$245,000	$250,000	2.0%	35.1%
Houston-Pasadena-The Woodlands	$245,000	$260,000	$300,000	$335,000	$330,000	-1.5%	34.7%
Abilene	$175,000	$189,900	$210,200	$235,000	$229,900	-2.2%	31.4%
Laredo	$175,000	$186,250	$204,000	$225,000	$228,500	1.6%	30.6%
Texarkana	$145,000	$159,800	$186,900	$200,000	$188,000	-6.0%	29.7%
Victoria	$189,900	$194,950	$220,000	$239,000	$239,900	0.4%	26.3%
Beaumont-Port Arthur	$164,900	$175,000	$195,000	$206,000	$205,000	-0.5%	24.3%
Midland	$300,000	$299,900	$310,000	$323,412	$335,000	3.6%	11.7%
Odessa	$227,000	$228,000	$223,912	$246,000	$247,500	0.6%	9.0%

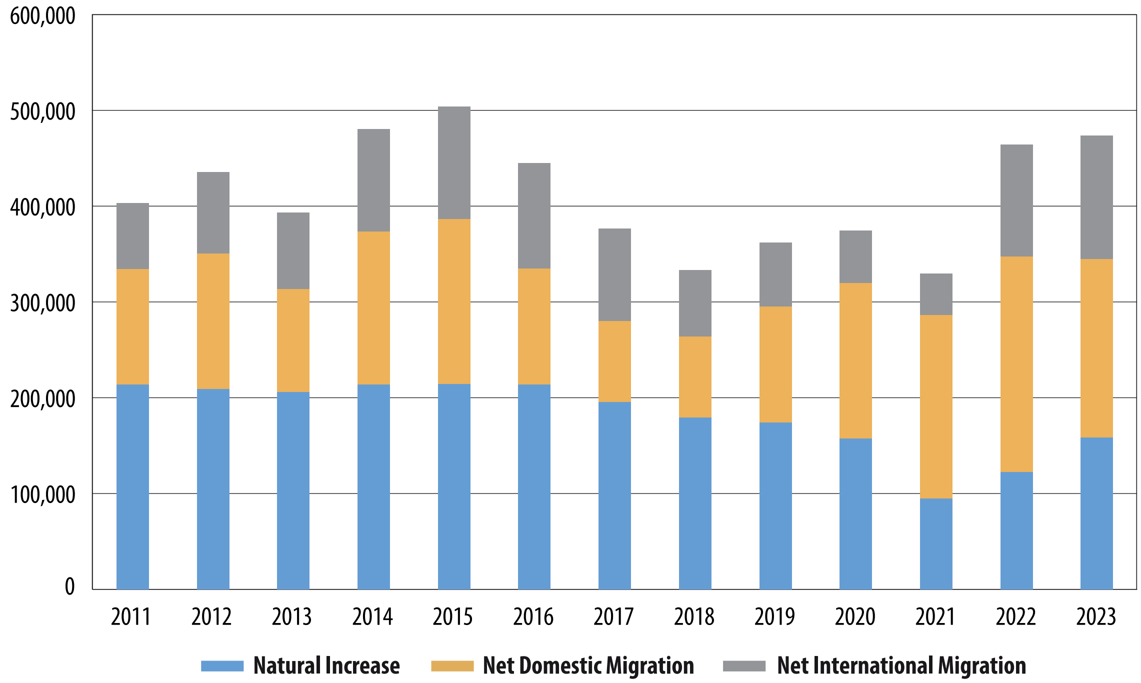
Source: Texas A&M Real Estate Research Center

Strong Population Gains Add to Home Supply Pressures

The home price surge coincided with strong population growth in Texas and a large influx of domestic migration to the state. Between 2021 and 2022, net domestic migration to Texas was nearly 225,000, far exceeding any annual domestic migration gains from the previous decade. Net gains of about 128,500 people from international migration in 2023 also exceeded typical annual gains (**Exhibit 3**).

Texas metropolitan areas had some of the strongest population growth in the U.S. between 2020 and 2023. The Dallas-Fort Worth-Arlington area led all U.S. metropolitan areas in total population gains and in gains from net domestic migration (**Exhibit 4**).

EXHIBIT 3
Components of Annual Population Change, Texas, 2011-2023



Source: U.S. Census Bureau Population Estimates Program; Texas Comptroller of Public Accounts analysis

EXHIBIT 4

Components of Cumulative Population Change, 2020-2023

Metropolitan Area	Total Population Change	U.S. Metro Rank - Total Population Change	Natural Increase	U.S. Metro Rank - Natural Increase	Net International Migration	U.S. Metro Rank - Net International Migration	Net Domestic Migration	U.S. Metro Rank - Net Domestic Migration
Dallas-Fort Worth-Arlington	462,639	1	138,239	2	92,983	6	232,619	1
Houston-Pasadena-The Woodlands	360,649	2	131,792	3	118,487	3	110,672	5
Austin-Round Rock-San Marcos	189,896	5	47,227	7	24,775	20	118,411	4
San Antonio-New Braunfels	145,884	7	28,680	16	13,404	32	102,504	6

Source: U.S. Census Bureau Population Estimates Program; Texas Comptroller of Public Accounts analysis

High Prices Lead to Historic Housing Affordability Concerns Across Texas

The Texas Housing Affordability Index

Housing affordability levels have fallen in all Texas metropolitan areas since 2019, according to Texas A&M's Texas Housing Affordability Index (THAI), which measures the ability of a household earning the median family income (MFI) to qualify to purchase a median-priced home. A value of 1.0 indicates the MFI is equal to the amount needed to qualify for a mortgage loan for a median-priced home. The higher the ratio, the more affordable the housing market is in the area.[2]

In 2019, the statewide THAI value was 1.62, meaning that the MFI was 62 percent higher than the amount needed to purchase the median-price home in the state of Texas, assuming a down payment of 20 percent and a qualifying ratio of 25 percent of income.[3] This value has since decreased to 1.07 in 2023, meaning that the MFI is now just 7 percent above than the necessary income to purchase a median-price home in the state and signaling a decrease in a household's ability to afford a home (**Exhibit 5**).[4]

EXHIBIT 5

Texas Housing Affordability Index by Metropolitan Statistical Areas, Selected Years

MSA	2011	2015	2019	2022	2023
Brownsville-Harlingen	1.68	1.58	1.61	1.00	0.95
McAllen-Edinburg-Mission	1.58	1.63	1.49	1.10	0.96
El Paso	1.57	1.83	1.70	1.17	0.99
Dallas-Plano-Irving (Metropolitan Division)	2.19	1.67	1.56	1.07	1.00
College Station-Bryan	1.93	1.84	1.71	1.35	1.06
Sherman-Denison	3.36	2.65	1.99	1.22	1.06
Texas	**2.04**	**1.76**	**1.62**	**1.17**	**1.07**
Austin-Round Rock	1.99	1.61	1.67	1.03	1.08
Corpus Christi	1.94	1.79	1.82	1.35	1.08
Tyler	2.04	1.93	1.86	1.26	1.08
Laredo	1.56	1.50	1.27	1.37	1.09
Fort Worth-Arlington-Grapevine (Metropolitan Division)	2.61	2.18	1.70	1.18	1.10
Houston-The Woodlands-Sugar Land	2.17	1.81	1.71	1.26	1.13
Killeen-Temple	2.24	2.30	2.09	1.30	1.13
Odessa	2.08	2.04	1.79	1.76	1.13
San Antonio-New Braunfels	1.98	1.78	1.70	1.22	1.13
Victoria	2.12	1.98	1.97	1.46	1.16
Waco	2.20	2.08	1.88	1.26	1.18
Abilene	2.14	2.13	1.97	1.53	1.23
Midland	1.81	1.65	1.45	1.72	1.27
Longview	2.09	2.15	1.95	1.37	1.28
San Angelo	2.22	2.07	1.93	1.66	1.28
Lubbock	2.35	2.22	1.95	1.56	1.41
Amarillo	2.23	2.11	2.29	1.52	1.44
Texarkana	2.35	2.25	2.07	1.66	1.45
Beaumont-Port Arthur	2.40	2.38	2.18	1.82	1.71
Wichita Falls	2.77	3.15	2.54	2.04	1.76

Source: Texas A&M University Texas Real Estate Research Center

Cost Burdens of Households

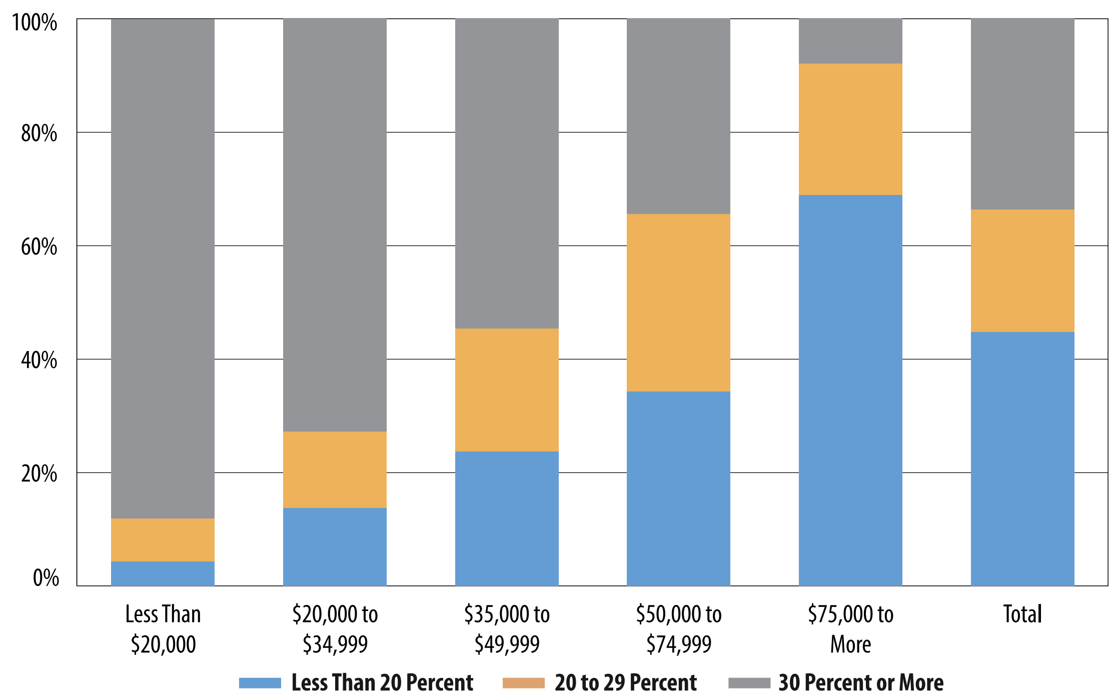
The number of cost-burdened homeowners – those with housing costs comprising 30 percent or more of their income – in the U.S. reached 19 million during the pandemic, according to the Joint Center for Housing Studies (JCHS) at Harvard University. Of the total, 8.7 million were severely cost burdened, meaning at least 50 percent of the household's income is used for housing.[5]

The number of cost-burdened renters reached a record high of 21.6 million households between 2019 and 2021, according to the JCHS report. Of these, 11.6 million were defined as being severely cost burdened.[6]

In 2022, about 39 percent of Texas households were cost burdened. Cost burdens are particularly acute in lower-income households – 88 percent of households with annual incomes less than $20,000 were cost burdened, compared to 8 percent of households with incomes of $75,000 or more (**Exhibit 6**).

EXHIBIT 6

Monthly Housing Costs by Level of Household Income, Texas, 2022



Source: U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates, Table ID: S2503; Texas Comptroller of Public Accounts analysis

Housing Shortages: How Did We Get Here?

Today's high housing prices and low supply levels stem from a dearth of housing investment following the housing bust and financial crisis of 2007-08. According to the Federal National Mortgage Association (commonly known as Fannie Mae), the U.S. experienced a drastic decrease in new home construction starting in 2008, resulting in fewer new homes built in the 10 years ending in 2018 than in any decade since the 1960s. Fannie Mae estimates the shortage of housing units for sale or rent was approximately 3.8 million in 2019.[7]

Research from the Federal Home Loan Mortgage Corporation (Freddie Mac) indicates there has been severe underbuilding at the price point at which the most demand exists — entry-level homes.[8] Similarly, analysis from NAR indicates the largest shortage of homes in the U.S. is at the price point that middle-income buyers can afford.

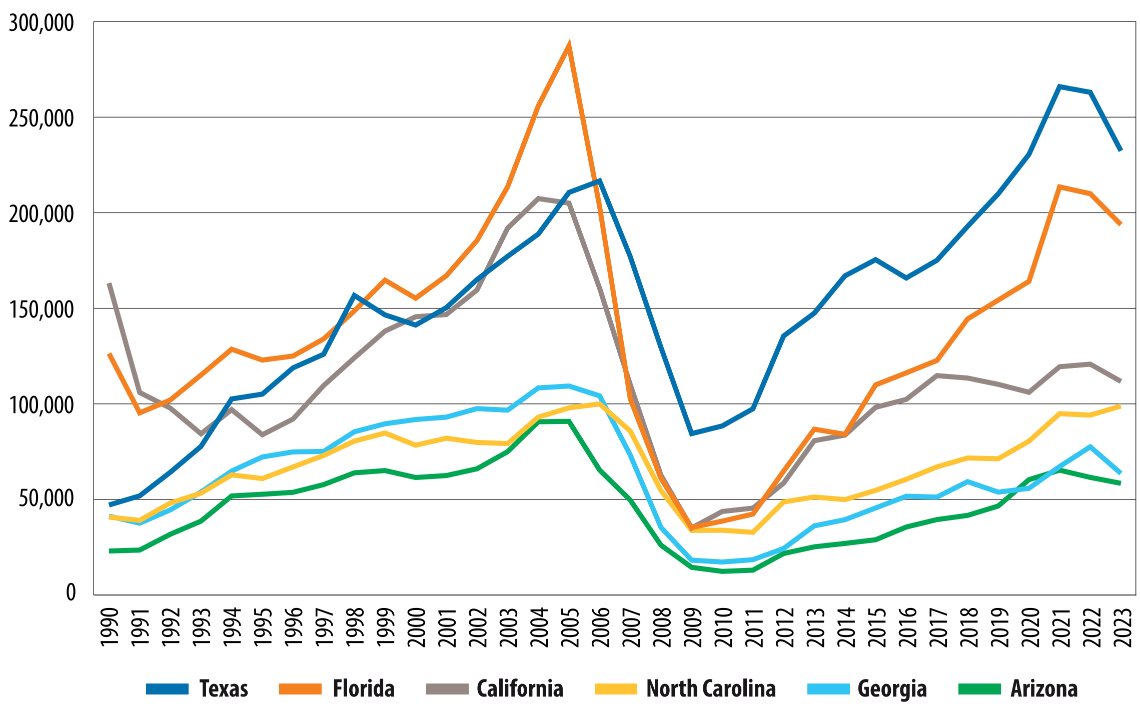
According to another analysis by *Up for Growth*, Texas is second only to California in housing underproduction, falling 306,000 homes short of what was needed as of 2023.[9]

Texas saw a sharp decline in building permits following the financial crisis, falling from 216,642 in 2006 to 84,440 in 2009, a 61 percent drop. Yet this decline was less pronounced than in other large states. In Florida, the center of the housing-led financial crisis, permits fell by 83 percent; in California, by 78 percent. Texas' housing permits reached a high of about 266,000 in 2021, before falling slightly in 2022 and 2023.

Texas not only saw a smaller decline in building permits during the financial crisis, but it also experienced a more resilient recovery in the years after. Among states with the greatest number of building permits in 2023, Texas was the only state to see an increase in building permits in 2023 compared to pre-financial crisis levels. Notably, Texas doubled the number of permits California issued in 2023 (**Exhibit 7**).

EXHIBIT 7

Housing Permits by Six States with Largest Number of 2023 Building Permits, 1990-2023



Note: These data reflect only new private construction authorizations.
Source: U.S. Census Bureau, Building Permits Survey

COVID-19 Pandemic Exacerbates Supply Challenges

The lack of housing investment over many years set the stage for lower inventories and rising home prices, especially when demand went through the roof during the COVID-19 pandemic. Texas experienced a surge in home prices during the pandemic beginning in summer 2020.[10] The Federal Reserve Bank of Dallas attributed this upswing to factors such as increased opportunities to telework, federal stimulus and unemployment payments, low mortgage rates, a surging stock market and accelerating domestic migration to the state.

In addition to supply strains, home price pressures were worsened by the multitude of economic shocks and changes in consumer behavior spurred by the pandemic, creating a "perfect storm" that rapidly reduced affordability levels. Among the conditions:

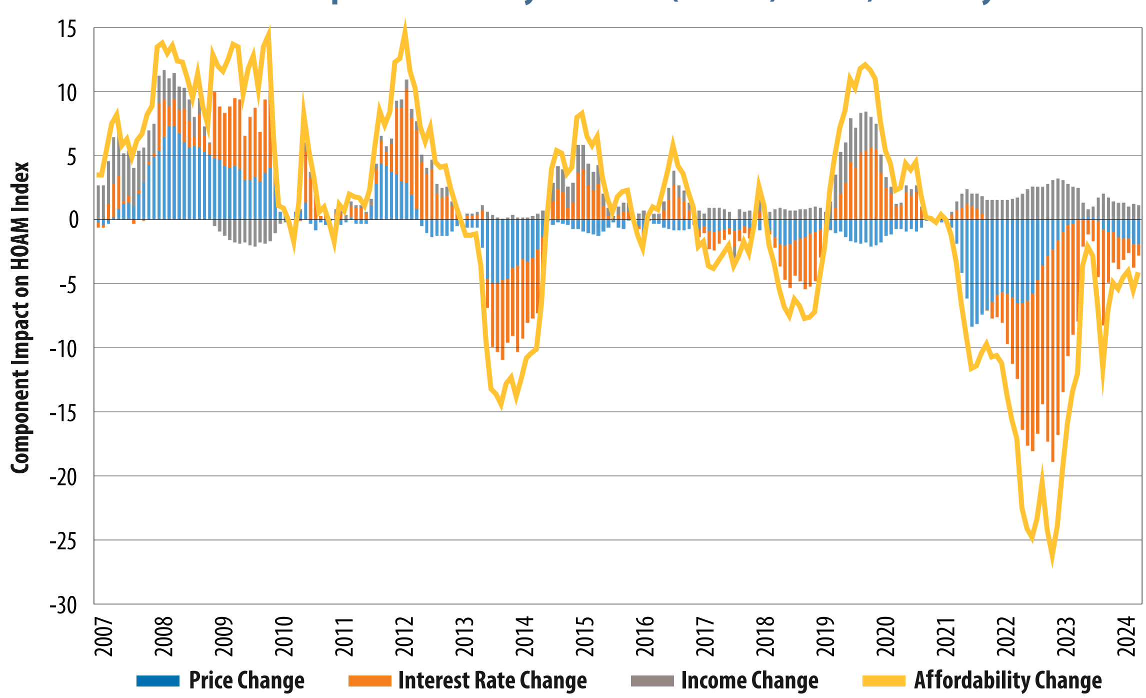
- Work-from-home policies increased domestic migration and allowed workers to relocate to areas with better affordability, a consequential development for several Texas metro areas that saw some of the nation's strongest domestic migration gains since 2020. A study by the Federal Reserve Bank of San Francisco estimated that work-from-home policies accounted for more than half of overall home price increases between November 2019 and November 2021.
- Supply chain shocks caused inflation rates in 2022 to rise to their highest levels in 40 years, forcing the Federal Reserve to raise interest rates; in turn, mortgage rates rose to a 23-year high of 7.79 percent in October 2023.
- Existing homeowners locked in at lower mortgage rates are unwilling to sell when it would otherwise make sense to sell or move, resulting in lower inventory and higher prices.

The surge in U.S. home prices, coupled with the rapid rise of mortgage rates from about 3 percent to nearly 8 percent, caused the fastest-ever deterioration in U.S. housing affordability in the period between 2021 and 2023, according to *ResiClub*, a housing market research company.

Surging home prices were the initial driver of the deteriorating affordability in the U.S. As price pressures tempered, rising mortgage rates put more pressure on affordability. The Federal Reserve Bank of Atlanta's National Home Ownership Monitor Index shows that October 2023 was the least affordable month for U.S. housing this century (**Exhibit 8**).

EXHIBIT 8

National Home Ownership Affordability Monitor (HOAM) Index, January 2007-March 2024



Source: Federal Reserve Bank of Atlanta

Housing Affordability Challenges

Texas's fast-growing population will require an increased housing supply across many regions in the state. As the state's population and housing demand continue to grow, state leaders and potential homebuyers alike are paying special attention to the Texas housing supply and affordability.

Affordability Challenges for Homebuyers

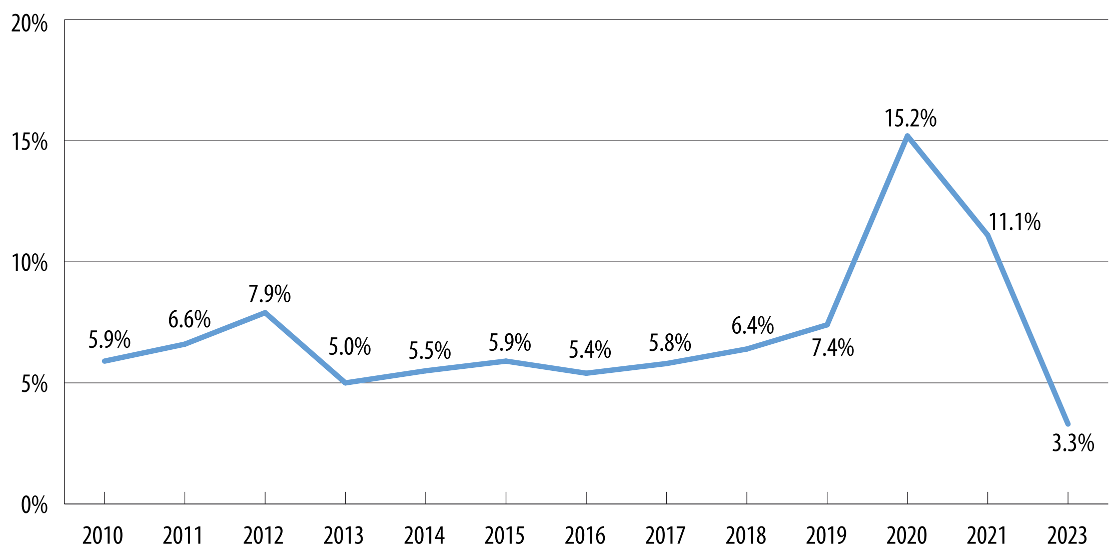
Household income and total monthly ownership costs are the basis of determining homeownership affordability. To purchase a home, most homebuyers use a mortgage, a loan for the purchase of a home or real estate. Factors such as the federal funds rate and an individual's personal credit score, associated with the cost of borrowing for a home purchase, can serve as a barrier for many prospective buyers.

Mortgage rates can be an obstacle for prospective homebuyers, as higher rates can significantly increase the cost of ownership. Additionally, mortgage rates can impact the demand for homes. Low mortgage rates may enable buyers who would otherwise not be able to afford a home to enter the market and lock in a fixed low interest rate. Demand in these conditions would likely be high. Higher mortgage rates, on the other hand, might discourage new purchases due to the higher monthly costs, resulting in lower demand.

Among the greatest challenges to potential homebuyers — particularly new and young homebuyers — are the down payment and closing costs. Younger and first-time homebuyers typically lack the equity from a previous home sale and may not have substantial savings. Inflationary strains can make it more difficult for any buyer to accumulate adequate savings. Personal savings rate, a measure of disposable personal income, has declined significantly following pandemic-related economic relief spikes. At the end of 2023, the personal savings rate remains below 2019 levels (**Exhibit 9**).

EXHIBIT 9

U.S. Personal Savings Rate 2010-2023



Source: U.S. Bureau of Economic Analysis, Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis

Homebuyers with less than a 20 percent down payment are typically required to purchase private mortgage insurance (PMI), increasing the cost of the mortgage. PMI protects the lender on a conventional mortgage in the event the borrower defaults and the lender forecloses on the property. The cost of PMI can be anywhere from 0.5 percent to nearly 6 percent of the principal amount.[11]

Additional affordability challenges potential homeowners must consider include the cost related to property tax bills, homeowners insurance, homeowners association costs, inspection fees associated with the buying process and reserves for potential repairs.

Property Tax Costs

One Texas quality that draws potential homebuyers and business owners to the state is the lack of a personal state income tax. However, local taxing units such as counties, cities, school districts, community colleges and other special purpose districts instead rely heavily on property taxes as a significant source of funding for essential public services. Homeowners face the potential of higher property tax rates to support the expanding demands of a growing population —maintenance and improvement of infrastructure, expanding services, and delivering amenities. Research by the Tax Foundation finds that in calendar year 2021, Texas had the 6th highest effective tax rate on owner-occupied property in the U.S. at 1.68 percent.

Increases in property values in many areas in Texas are no longer a guarantee of a higher property tax bill as they were prior to 2019. However, it is still possible that some homeowners will see higher tax bills even if property tax rates decline. An increase in their tax bill can significantly alter the budget of a household confronting affordability challenges.

State leaders and lawmakers have taken a number of steps since 2019 to remedy the burden of increasingly high property taxes. This relief has been provided in several forms. For instance, the residence homestead exemption was increased from $25,000 in 2020 to $100,000 by 2024 and school district tax rates have been compressed downwards to account for statewide property value growth since 2019. Additionally, the Legislature has ensured that the increase in the homestead exemption and the effects of school district tax rate compression are applied to homeowners who have an age 65 or older or disabled tax ceiling. Most cities, counties, and special districts are generally not able to increase their property tax revenue by more than 3.5 percent without voter approval. The Legislature also created a pilot "circuit breaker" program that provides a 20 percent limitation on the appraised value of many types of real property (homesteads and property subject to special appraisal were excluded).

Homeowners insurance

Homeowners insurance provides protection if a home or property is damaged or destroyed, contingent on what is covered by the policy. While there is no law requiring the purchase of homeowners insurance, lenders often will require borrowers to have it while they owe money on their home. The cost of protecting their investment can be an expensive hurdle for many buyers due to the rising cost of homeowners insurance premiums, the amount a policyholder pays for insurance. According to the Texas Department of Insurance, from 2015 to 2022, the statewide average premium per policy went up 33 percent. Premium costs have risen sharply in recent years, up about 7 percent in 2021 and 12 percent in 2022 (**Exhibit 10**).

EXHIBIT 10
Average Cost of Homeowners Insurance, Premium per Policy in Texas, 2015-2022

Year	Average Premium	Annual Percent Change
2015	$1,782	
2016	$1,791	0.5%
2017	$1,860	3.8%
2018	$1,916	3.0%
2019	$1,961	2.3%
2020	$1,987	1.3%
2021	$2,124	6.9%
2022	$2,374	11.8%

Source: Texas Department of Insurance

Challenges for Renters

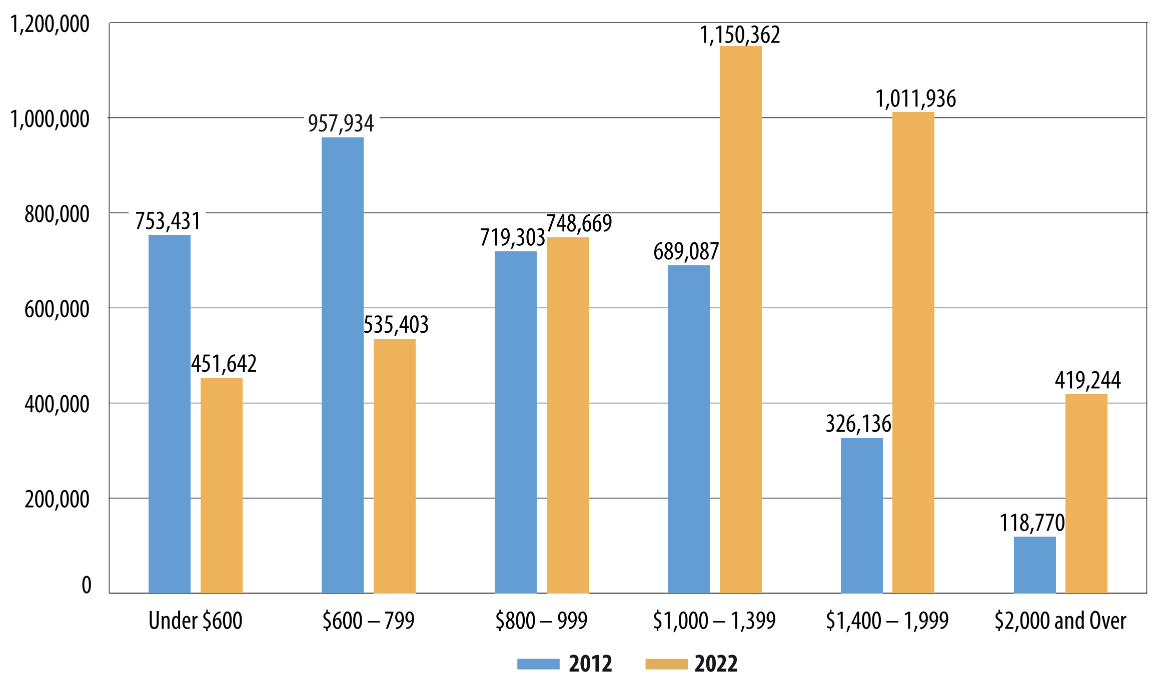
Affordability challenges in rental housing are not unique to Texas, as the number of cost-burdened and severely cost-burdened renters has grown nationwide. According to a report by the Joint Center for Housing Studies of Harvard University, "at last measure in 2022, a record-high 22.4 million renter households spent more than 30 percent of their income on rent and utilities."[12] Additionally, "among cost-burdened households, 12.1 million had housing costs that consumed more than half of their income, an all-time high for severe burdens," according to the report. High demand for rental housing, coupled with limited supply, poses a significant challenge to affordability, as renter-occupied households historically have lower incomes than owner-occupied households and may be more affected by changes in household income and rental prices. The shrinking supply of low-rent units is among the greatest challenge to renters (**Exhibit 11**).

According to a study by the National Low Income Housing Coalition (NLIHC), no state in the U.S. has an adequate supply of rental units for families who have extremely low incomes (ELI).[13] ELIs are characterized by having an income at or below the poverty line or below 30 percent of their area median income (AMI). Texas ranks 46 out of 51 on the national scale (including the District of Colombia) with only 25 affordable and available rental homes per 100 ELI renter households, which is lower than the national average of 33 per 100.[14]

There is a significant disparity in affordable rental units available to households in different income brackets. One-quarter of the rental population, or 11 million households, earn below 30 percent of the AMI. Based on the current housing supply, only 7 million units are attainable for the households falling into this category, representing a shortage of approximately 4 million units. Households defined as ELI are the only group facing an absolute shortage of

EXHIBIT 11

Number of Rental Units by Price Range, Texas, 2012 vs. 2022



Source: Harvard Joint Center for Housing Studies tabulations of U.S. Census Bureau, American Community Survey 1-Year Estimates available units. Due to their income restraints, they cannot rent units outside of the qualifying income threshold, while households in a higher income bracket can rent cheaper units, thus leaving fewer available for ELI households. Approximately 3.3 million of the rental units accessible to ELI households are being rented by households in a higher income bracket, leaving only 3.7 million units available for 11 million households.[15] The desirability of housing markets in many regions in the state places great strain on low income earning renters and elderly households who are in affordable housing and have static incomes because an increase in fair market rent values poses a challenge for these households and their budgets.

Rental prices can be disproportionately high compared to household incomes depending on the region. To manage the cost of housing, many renters may relocate from metro areas to outlying areas. According to the U.S. Census Bureau Household Pulse Survey and the Urban Institute, a think tank that conducts economic research and social policy research, 44 percent of renter households reported feeling pressure to move out of their current home, with 22 percent having acted on this pressure.[16] Rent increases and missing rent payments accounted for nearly half of instances in which the renter felt pressured to move (**Exhibit 12**).

EXHIBIT 12
Renter's Reasons for Moving, U.S. and Texas

	Rent Increase Forced Move	Missed Rent Payment	Landlord Didn't Make Repairs	Threatened With Eviction	Locks Changed/ Possessions Removed/ Utilities Off	Unsafe Neighborhood	Other Pressure to Move
Texas	1,399,034 (36%)	363,055 (9%)	799,764 (21%)	238,182 (6%)	36,520 (1%)	399,225 (10%)	646,594 (17%)
U.S.	13,844,545 (35%)	3,917,681 (10%)	8,742,708 (22%)	2,524,097 (6%)	208,956 (1%)	4,442,916 (11%)	5,921,991 (15%)

Source: U.S. Census Bureau

Housing Cost Burdens in Urban and Rural Texas

In 2022, homeowners comprised 62.5 percent of Texas households, while renters accounted for 37.5 percent. These shares differ greatly between urban and rural areas. In rural areas, owners comprised 83.5 percent of households, much higher than urban areas, where owners accounted for 58.5 percent of total households (**Exhibit 13**).

Rural communities are defined by the U.S. Census Bureau as "all population, housing, and territory not included within an urban area" or an area with a population of less than 5,000 or having less than 2,000 housing units.[17]

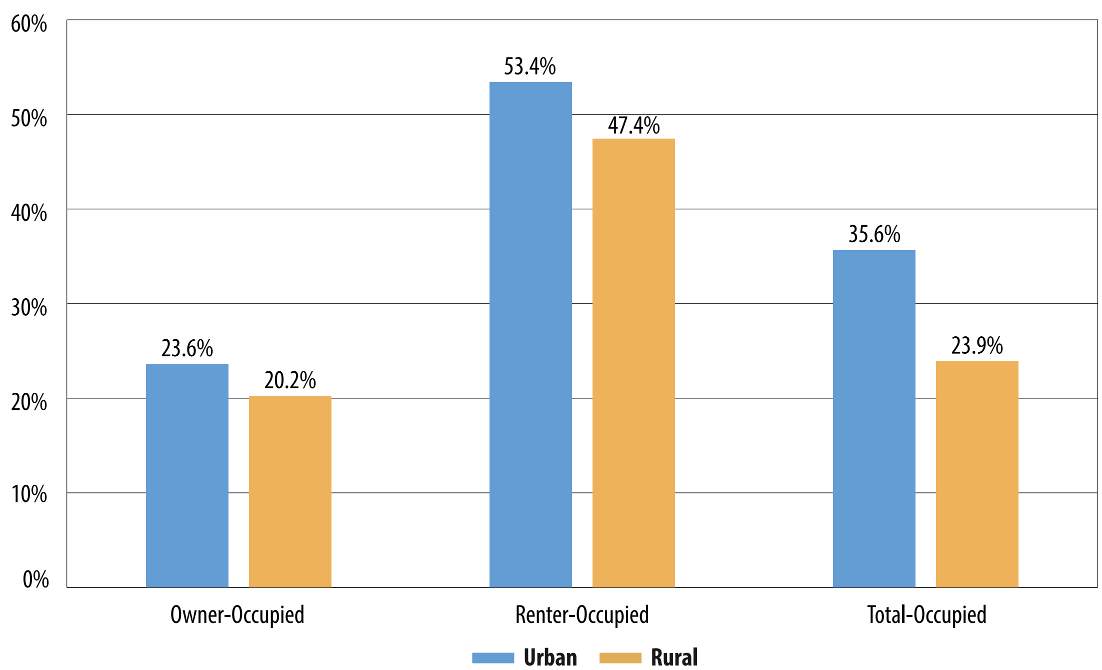
In 2022, about 36 percent of urban households spent at least 30 percent of their income on housing, compared to 24 percent of rural areas (**Exhibit 14**).

EXHIBIT 13
Occupied Housing in Texas, Urban vs. Rural Areas, 2022

Type	Share of Occupied Housing in Rural Areas	Rural - Total	Share of Occupied Housing in Urban Areas	Urban - Total	Share of Total Occupied Housing	Total Occupied Housing
Owner-occupied	83.5%	1,471,683	58.5%	5,454,933	62.5%	6,926,616
Renter-occupied	16.5%	291,140	41.5%	3,869,952	37.5%	4,161,092
Occupied housing units		1,762,823		9,324,885		11,087,708

Source: U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates, Table ID: S2503; Texas Comptroller of Public Accounts analysis

EXHIBIT 14
Housing Cost Burden, Urban vs. Rural Areas, 2022



Source: U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates, Table ID: S2503; Texas Comptroller of Public Accounts analysis

Improving Housing Affordability

Housing supply is the crux of the affordability issue, and there are no easy, clear-cut fixes to this challenge. State government's ability to improve housing affordability may be limited, but there are possible actions that can be taken to alleviate the financial burden. For state government, these improvements may include additional relief from the property tax burden, more funding for low- to moderate-income housing programs or incentives to increase the supply of housing at the price range where it is most needed. Local governments may take steps to streamline the permitting process or bolster housing affordability through more public-private partnerships.

To improve housing affordability, some employers have used housing incentives as a perk to attract and retain employees. In a recent Texas example, several school districts offered housing benefits to staff.

Building More Housing in High Demand Areas

Local Efforts

Finite land availability, zoning and land-use regulations can be impediments to new home building in high-demand areas. Zoning is the process by which a city prescribes regulations to promote public health, safety, morals or general welfare and to protect and preserve places and areas of historical, cultural, or architectural importance and significance.[18] These regulations include limiting the occupancy, location and size of buildings and the use of buildings and land.

Lot-size restrictions set a minimum size for a lot to qualify for certain usage. Reducing the minimum lot size for housing projects can reduce the cost and increase the supply of homes available. For example, some cities have looked at initiatives intended to increase the housing supply and provide more types of housing within zones that are dedicated for single-family homes through a series of updates to their land development code. The objective is to increase the maximum number of homes allowed on a single-family lot to three units, creating incentives for those who choose to conserve existing homes and encourages the creation of smaller "starter" homes.

These proposals, however, are not without opposition. Housing serves as both a consumption good and an investment. Homeowners want to maintain high property values to earn the greatest return on their investments, and they may oppose projects they believe may de-value their property. This resistance can result in project delays, increased costs and even cancellation of new housing projects, exacerbating housing shortages and affordability issues.

Institutional Investors and Housing Affordability

The impact of institutional investors in the purchasing and sale of single family homes requires further examination. According to the Urban Institute, "a lack of clarity around who institutional investors are and how they should be measured and tracked poses a challenge" to understanding local investor behavior and designing policies to better manage it.[19]

Institutional investors may pose a challenge to housing affordability for first time-homebuyers, low-income individuals and communities, and they may impact supply and demand in both the buyer and renter housing markets. Large-scale investment in residential real estate affects both supply and demand in the housing market. Large-scale investors have capital readily available and can present higher cash offers than the average buyer, which drives up property prices and creates more competition for available housing stock, reducing affordability for individual homebuyers or renters. Alternatively, institutional investors can serve as a driving force to contribute to the housing supply as they may be better suited to engage in development and redevelopment projects.

HUD User, an information source for the U.S Department of Housing and Urban Development, defines institutional investors as "investors with portfolios containing more than 1,000 units, [those that] are nonindividual investors and can include limited liability corporations, limited liability partnerships, real estate investment trusts, and other entities."[20]

In 2022, institutional buyers accounted for 28 percent of total residential sales in Texas, the largest share of any state and more than double the national share of 13 percent, according to NAR (**Exhibit 15**).[21] According to *HUD User*, single family rental properties within institutional portfolios accounted for just 3 percent of investor-owned homes nationwide as of August 2022.[22]

EXHIBIT 15
Share of Residential Purchases by Institutional Buyers, Top Five States, 2021

State	Market Share
Texas	28%
Georgia	19%
Oklahoma	18%
Alabama	18%
Mississippi	17%
U.S.	13%

Source: National Association of Realtors

The Texas housing market is a highly attractive market for institutional homebuyers. According to NAR, institutional buyers are most attracted to areas with:[23]

- Higher household formation
- High density of minority groups, especially Black households
- High density of renters
- High density of the millennial 28-43 age group
- High income and education
- Many people moving into the area
- Fast rent growth
- Fast home appreciation
- Fast sales growth
- Lower rental vacancy rate

Housing Market Stabilizes but Strains Remain

Following the turmoil caused by COVID-19, the housing market is slowly approaching market trends seen prior to the pandemic. Homes are beginning to stay on the market longer, and there appears to be a more competitive environment for potential buyers as opposed to buyers being outbid by all-cash offers. In June 2021, the median number of days a house stayed on the market nationwide was 33 days; this rose to 44 days by June 2023, approaching the pre-pandemic number of 53 days in June 2019.[24]

Texas markets have seen a drastic increase in both the number of active listings and housing inventory from 2021 to 2023. According to data from the Texas A&M University Real Estate Research Center, in 2021, there were 48,346 active listings in Texas with just 1.21 months of inventory. In 2023, these figures began to approach 2019 levels with active listings growing to 88,743 and inventory rising to 3.38 months.

This trend of reaching pre-pandemic levels is consistent across various sectors of Texas' economy.[25] Texas continues to increase the number of available jobs, with the addition of 402,000 in fiscal year 2023 for a total of nearly 14 million. Unemployment in Texas also has continued to decrease following the pandemic shutdown, with a rate of 4 percent in fiscal year 2023, nearly reaching the 2019 average of 3.6 percent. Both factors have contributed to a 6.8 percent increase in personal income in fiscal year 2023. These changes are expected to slow over the coming years, balancing out following the sharp decline after the onset of COVID-19 and the subsequent surge.[26] This period of slow economic growth will likely correspond to a cooling housing market.[27]

Appendix 1:
Federal Housing Affordability Programs

Several programs address the housing affordability crisis for individuals and cities including, but not limited to:

- **Self-Help Homeownership Opportunity Program (SHOP):** This federal grant program provides nonprofits with funds to develop affordable housing for low-income buyers.[28] The current limit on the amount a recipient can spend on a single housing unit is $25,000 for fiscal year 2022. From fiscal year 2011 to fiscal year 2020, SHOP funds were used to construct homes across more than 40 states and 140 metropolitan areas.[29]
- **Housing Choice Voucher Program (HCV):** Commonly referred to as Section 8, HCV is a federal program that supplies housing vouchers to very low-income families, the elderly and individuals with disabilities to ensure safe, sanitary and affordable housing.[30] These funds are distributed locally and allow the household to choose the location of the rental, provided the unit meets the established criteria.[31] The Texas Department of Housing and Community Affairs is one of several public housing authorities that run HCV programs across the state.
- **U.S. Department of Housing and Urban Development's Housing Trust Fund:** This federal program supplies funding to states to create affordable rental housing communities. In 2022, Texas received approximately $47.4 million from the Housing Trust Fund, the third-highest amount in the nation, behind only California and New York.[32] In 2023, Texas saw a reduction in trust fund allocations, down to nearly $22.4 million.[33]
- **Home Investment Partnerships Program (HOME):** A federal program afforded annually to states and localities in partnership with local nonprofits, HOME aims to assist in the building, buying and/or rehabilitating of rental units and to provide direct rental assistance to low-income households.[34] This program stipulates that participating jurisdictions match funds at a rate of 25 cents for every dollar awarded.[35]
- **Community Development Block Grant Program:** This federal program provides grants to states and localities to develop urban communities through the addition of affordable housing and economic opportunities for moderate- to low-income individuals.[36] In FY 2022, Texas received nearly $54 million to be dispersed to projects among six subsections, namely economic development, housing, public facilities and improvements, public services, general administration and planning and miscellaneous.[37]
- **Low-Income Housing Tax Credit:** This federal program provides tax credits in states for the acquisition, rehabilitation or new construction of rental housing targeted to lower-income households. Through this program, states award credits to private developers of affordable rental housing projects. The program is intended to improve housing supply in lower-income price ranges.

Appendix 2: Affordability Aid for Veterans

Texas is home to 14 active-duty military installations, with many veterans calling the state home after they have completed their service obligations. There are several housing assistance and loan benefit programs available to veterans and their families to help alleviate the housing affordability challenge:[38]

- **Texas Veterans Land Board (VLB):** The VLB operates programs within the Texas General Land Office to provide benefits and services for Texas veterans, military members and their families. Services include low-interest land, home loans and home improvement loans.
  - **The Veterans Land Board Program** offers Texas veterans the opportunity to purchase land at competitive interest rates.
  - **Texas Veterans Home Improvement Program** provides below-market interest rate loans to qualified Texas veterans for home repairs and improvements to their existing homes.
  - **Veterans Housing Assistance Program** assists eligible Texas veterans in purchasing a home with a competitive, low-interest loan with little or no down payment.
- **Homes for Texas Heroes Program:** Offered through the Texas State Affordable Housing Corp., the program provides veterans access to fixed-rate mortgage financing, down payment assistance grants and mortgage credit certificates to low- and moderate-income veteran households.[39]
- **Property Tax Exemptions:** Partially disabled veterans are eligible for a partial property tax exemption based on their disability rating. 100 percent disabled veterans and their surviving spouses are eligible for a total property tax exemption.
- **U.S. Department of Veterans Affairs:** This department provides a wide range of benefits, including home loan guaranty programs.

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PUBLICATION #96-1999
AUGUST 2024

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