

THE IndependenceVoice

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As the national and local metro markets continue to appreciate in price, more attention is being paid to the cost of shelter for first time homebuyers. Despite an improving job market and the lowest interest rates in decades, a recent survey released this month by the National Association of Realtors shows the first-time buyers share of the market fell to its lowest point in nearly three decades.

All across the nation the cost of housing has increased in proportion to wage growth as well as inflation. That's good news for those that own real estate, but presents a challenge for those who don't. Rental costs have far outpaced incomes over the last four decades, particularly for low and moderate income families. For example, over the last ten years in Austin, rents have appreciated 65%, home values 35%, while wages increased just 10%. Many pre-recession, entry level buyers in the Texas region are feeling their budgets squeezed by higher tax bills on their rapidly appreciating homes. Builders in the region are having difficulty delivering new product under the \$200,000 mark due to the cost of materials, land, and labor costs.

A look at the median and average home prices in Texas metros shows the challenge entry level buyers face.

	Median	Average
Fort Worth	\$162,000	\$209,408
San Antonio	\$184,700	\$220,366
Dallas	\$172,950	\$265,532
Houston	\$196,000	\$269,440
Austin	\$240,000	\$308,514

Like all goods, housing is subject to the laws of supply and demand. We have seen greatly increased demand, with very little increase in supply. Why has demand increased? Job creation! Throw in the lack of new development and supply has suddenly become constricted. Realize though that all these issues are signs of a good real estate market. Additionally, stringent credit standards, competition from investors, and high mortgage insurance premiums make underwriting an entry level homebuyer difficult. This too is a concern because you can't have move-up buyers without first time home buyers. For most of us, our first time home purchase stretched us to our financial limits. When we sold, the equity was a valuable tool in buying the next home.

The lack of an entry level home market has potential short and long term implications. In the short term, construction and related industries aren't able to have the economic impact they've had in previous economic recoveries. Long term, the renters of today are hopefully the buyers of tomorrow. However many of those entry level buyers are currently dealing with rapidly rising rents and repaying student loan debt, which makes saving for a down payment of any size difficult. This is even harder for young adults who've experienced limited job prospects and flat wage growth since entering the work force. Unlike their parents, the last 5 to 10 years have not allowed them to get the economic traction of a recovering economy.

Although there has been a lot of political rhetoric about lower down payment programs (FNMA, etc.), the reason for harsher lending standards is because lenders are being held liable in perpetuity for the life of the loan. The idea is that lenders will have to be more cautious when deciding who to lend to.

However there is a need to release the originating underwriter from liability at some point to allow easing of credit standards. Subprime loans are risky, but shouldn't be illegal, and should lenders wish to include them as part of their lending portfolio, let them do so with proper regulation and financial responsibility. Subprime lending needs to be outside the parameters of a government guarantee.

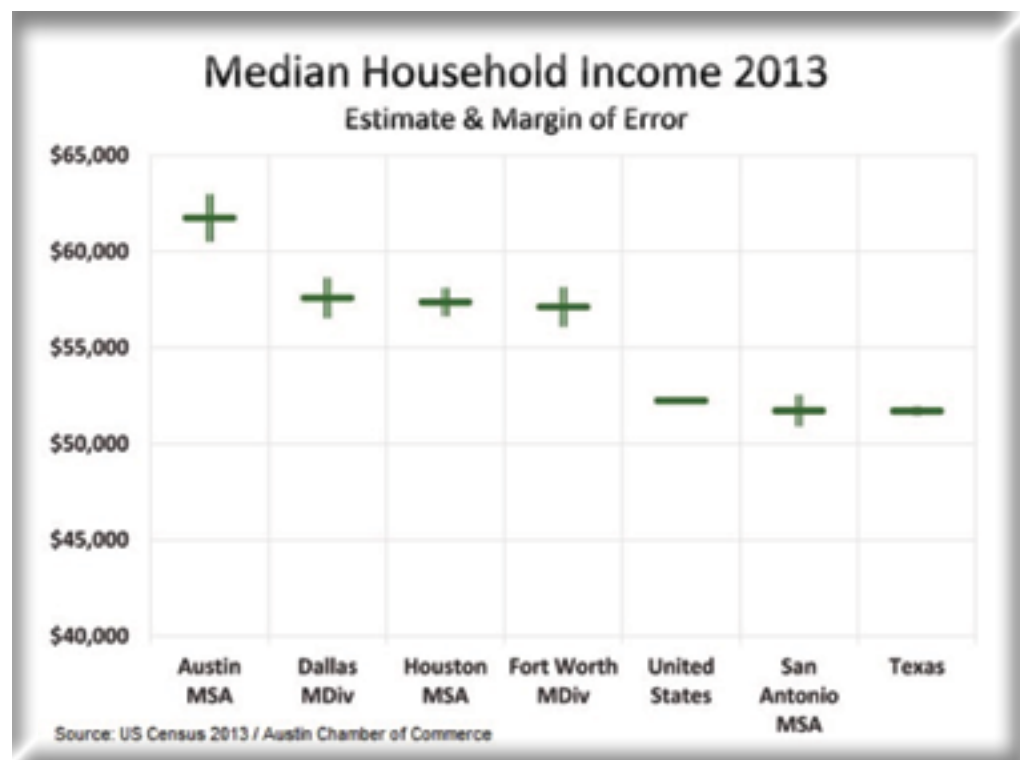
Better education is also needed for entry level consumers on what is required to purchase a home. The biggest misconception for buyers is the amount of a down payment required. Recent surveys from FNMA show that over 40% of respondents believed that a 20% down payment was required. In actuality, mortgages are available with as little as 5% down (and even 3% in certain situations). The same survey showed that 30% of respondents believe that only individuals with 'high incomes' can obtain a mortgage. In actuality, there are several programs that help moderate income families buy a home of their own (look at the FHA program for example). It is also becoming easier for home buyers to get approved for an FHA-backed home loan. Major lenders are approving FHA mortgage applications for borrowers with credit scores of 580 or better, a 60-point buffer as compared to last year when FHA lenders required credit scores of at least 640. A 3.5% down payment requirement is among the most lenient for today's home buyers.

Local governments also have the power to make entry level housing more affordable. Land use rules that allow greater density and smaller lot sizes can increase the supply of available housing. From my view the lack of focus on improving density and harsher regulation has made it harder for builders to address the need for entry level housing. Increased regulation fees, unnecessary permit approval delays, anti-development and anti-growth attitudes have had the opposite effect and have made values rise. Think about it; the more I restrict the use of properties, the more valuable it makes housing and development that is already in place.

Remember, in all Texas metros it is cheaper to buy than rent currently. In Austin it is 30% cheaper to buy, San Antonio is 38% cheaper to buy than rent, Dallas/Fort Worth 42%, and Houston 43%, all based on ownership of 5 years or longer.

Household income

Austin's median household income exceeds all other Texas metros, except Midland. Median household incomes are 7- 8% lower in Dallas, Houston and Fort Worth and 16% lower in San Antonio than they are in Austin. Median household income was \$51,704 in Texas in 2013, approximately 1% below the national median of \$52,250. In comparison to the rest of the country, Texas paychecks go the third farthest over other states due to the low cost of living.



Closing thoughts

Home ownership is not always the best option for everybody. Historically, over 35% of the population will never own a home, either by choice or involuntary factors. However, there needs to be a cohesive thought process from all involved to help first time home buyers. In order for that to happen, municipalities need to look at the economic impact of regulations and zoning (those outside of the health, safety and local guidelines protecting the identity of the area). Government entities need to incentivize lenders to address the needs of first time home buyers.

Look at allowing higher density, whether it is vertical or horizontal. If consumers want more space, they can look to the suburbs. Large minimum lot sizes artificially inflate home prices out of the reach of the average buyer.

Consumers need to realize that entry level housing in the core of most cities is unattainable. Home prices are lower in the suburbs, and that is where most consumers usually start with their first homes. My first home was in the mid \$30's off Kramer Lane, and there was nothing but dairy farms all the way to Round Rock. I know that shows my age but the point is you need to start somewhere.

Remember, with rates and values where they are today, there has never been a better time to buy. The delay or anxiety of getting with a mortgage professional to find out if you qualify (or not) will cost you thousands. With the Federal Reserve allowing rates to take a natural progression, rates are set to rise and with every 1% rise in rates you lose 12% of your buying power.

So if you are even thinking about buying, get the facts from a trained professional. You may be pleasantly surprised by what you find out. The home you look at today will not be there tomorrow.



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