Economic Pulse

Local Housing Outlook

by Jim Lee

The current construction boom affects the medium-term outlook of the Corpus Christi housing market. Since the last shale oil boom began in 2011, home demand in Corpus Christi and across much of Texas has outpaced market supply, leading to home price appreciation ahead of income growth.

Along with the new Harbor Bridge construction, an unprecedented number of large-scale industrial development projects underway are adding workforce demand particularly in the construction industry.

Expected increases in overall employment through 2022, when the current wave of construction activity is expected to subside, will likely further elevate housing demand. Moreover, the amount of housing stock has been substantially reduced by Hurricane Harvey, which severely damaged or destroyed more than 4,500 homes in the metro area.

If the housing supply fails to satisfy the anticipated increases in housing needs, upward pressures on local home prices will likely intensify.

Trends and Cycles

Since the end of the last housing boom in 2006, Corpus Christi has followed closely the statewide market. Growth in Corpus Christi and other metro areas in Texas has boosted housing demand.

Tight housing markets have generated upward pressures on home prices, while home prices nationwide have risen modestly.

Historically, new home construction and home sales in the Corpus Christi metro area exhibited cyclical patterns. Current local housing conditions reflect in part Texas statewide trends: An upward pressure on home prices due in part to robust demand, particularly for homes priced below $300,000.
Robust demand pressure, especially during the 2011-2014 shale oil boom period, reduced local inventory levels for existing homes to as low as four months. An inventory of six months is considered a balanced housing market. Instead the local housing inventory had reduced to around 5.2 months by the beginning of 2018.

Supply and Demand

The number of new home permits reflects residential construction activity. Historically the Corpus Christi metro area added roughly 2,000 homes per year, about 80% of which were built in Nueces County.

Since the most recent construction peak in 2014, the number of housing construction permits reduced over time while permits in Aransas and San Patricio continued their recent growth trends. However, Hurricane Harvey destroyed over 25% of existing homes across communities in Aransas County and Port Aransas in Nueces County. A significant number of homes across metro area were also damaged by the storm in August.

Despite a recent slowdown in new home construction due in part to rising material costs and skill-labor shortages, regional housing demand has been strong.

Even before Hurricane Harvey, growth in home purchases in Corpus Christi and across Texas has outpaced the national average.

Apartment Markets

Unlike the market for single-family homes, rental housing faced record high vacancy rates in early 2017 due to a surge in the supply of new apartment units that outpaced the absorption rate. Following Hurricane Harvey, however, residents displayed by damage to single- and multi-family housing units have turned to apartments around Corpus Christi.

According to the Costar research group, the vacancy rates for local apartments are expected to return to the historical trend around 8 percent.

Housing Affordability

Despite strong wage growth in recent years, household incomes in Corpus Christi have failed to keep pace with rising home values.

Between 2011 and 2017, the value of a typical home in the metro area appreciated more than 35 percent (from $137,500 to $186,500), while the income level of a typical household gained 20 percent (from $52,500 to $63,100). Corpus Christi’s median home price exceeded $209,000 by the end of 2017.

The Real Estate Center Home Affordability Index (THAI) tracks the ability of the typical household (earning the median income) to buy a house at the median home price. A lower THAI means relatively fewer households can afford a typical home, and thus the market has become less affordable.
Corpus Christi housing affordability remains favorable in comparison with the rest of the state and the nation, but it has exhibited a steady decline after 2011 due to rapid home price appreciation that has outpaced income growth.

Population
The historical trend of new home supply in Corpus Christi followed local population growth. The number of new home starts in the metro area averaged about 2,000 per year since 1990.

Population growth is affected by births, deaths, and the net number of migrants. Since 1980, the metro population has grown roughly 0.8% per year, and the difference between births and deaths has accounted for almost all of this population growth trend.

According to the 2016 Census, the metro area with 447,102 residents has a total of 188,648 housing units, or 2.37 persons per housing unit. And so trends in home sales follow the patterns of local population growth.

Market Outlook
The current outlook for the Corpus Christi housing market depends on three key factors, among other things. All these factors will likely result in a tight housing market in the near and medium term.

The first factor is a strengthening national economy that is widely expected to continue to expand and add jobs. The second factor is a solid statewide economy, which has contributed to a tight regional housing market in which Corpus Christi is part of. The third and last factor is a boom in construction activities and home demand locally.

Currently, about $50 billion of industrial projects are being developed in and around the Corpus Christi Ship Channel. The ongoing industrial construction activity is adding construction employment during the projects’ development phase, and permanent manufacturing jobs once those facilities become operational. Replacement of the Harbor Bridge by 2020 will add another 600 construction jobs during its peak time.

Meanwhile, Hurricane Harvey has significantly affected the regional housing market by destroying or damaging a significant amount of existing homes across the Coastal Bend region.

Given the historical average supply of 2,004 new homes annually in the metro area and the factors that are boosting home demand, the region is facing a tight housing market.

Notes: This is the second of the two-part series on the economic impacts of the current construction boom in the Coastal Bend. The first article covers the region’s workforce demand.
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