Economic Pulse

TEXAS A&M UNIVERSITY CORPUS CHRISTI | SOUTH TEXAS ECONOMIC DEVELOPMENT CENTER

The State of Local Housing Affordability

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Photo Credit: TAMU Real Estate Center

TAKEAWAYS: The overall supply of homes in Corpus Christi seems adequate, and a typical resident is not spending too much on home ownership or rental housing. But the finding of overall housing affordability is not particularly helpful for understanding the housing needs of low-income groups. Most homes have been built for middle-income families in Southside; the supply of homes is virtually non-existent in the low-income neighborhoods.

This article first summarizes a recent presentation on the current housing conditions in Corpus Christi. Clare Losey and Gerald Klassen from the Real Estate Center at Texas A&M University presented the study to the general public in Corpus Christi City Hall on December 13, 2018. The title of the presentation is "Modeling Housing Affordability in Corpus Christi, Texas." Gary Maler and James Gaines from the Real Estate Center were also present for questions and discussions.

This event, "Shell Shocked: The State of Housing Affordability in Corpus Christi," was organized by the City of Corpus Christi's Planning Division.

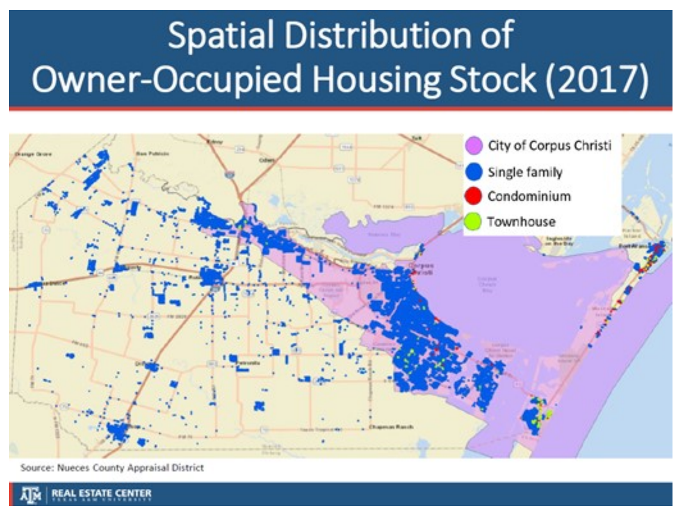
Demographic Characteristics

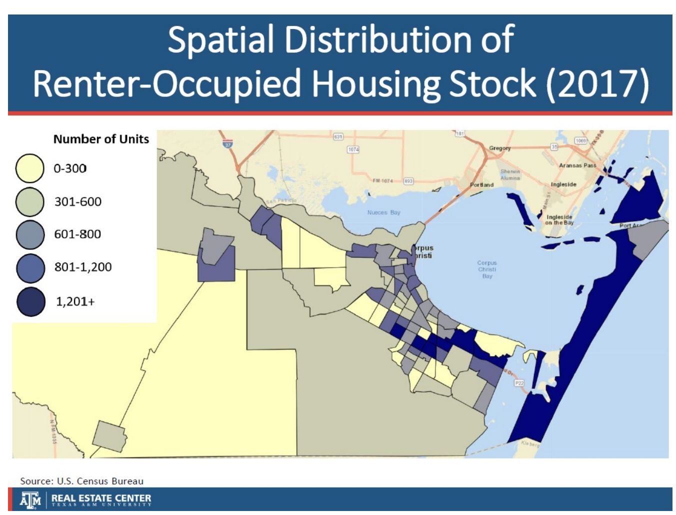
According to the latest Census data (2017), the city of Corpus Christi has a population of 325,600 and about 115,800 households. Corpus Christi is the largest city in Nueces County, making up about 90% of the county population and households. The median family income is $63,100, about 17% below the national level at $75,940. Within the city, 57% of housing units are occupied by home owners, and 43% are occupied by renters.

Housing Stock

Out of the total of roughly 90,000 owner-occupied housing units in Corpus Christi, the vast majority (92.6%) are single-family homes. A total of 6,662 units are condominiums and townhouses, located mostly south of Saratoga Boulevard and on North Padre Island. Despite the large number of these housing units, they together account for only 7.4% of the local housing stock.

There are roughly 50,000 rental homes. Nearly two-third (61.7%) of those residential properties are attached to no more than three other units. About 4,000 (8.1%) of those rental units are in much larger apartment complexes with 50 units or more. Rental properties are clustered in subdivisions between South Padre Island Drive and Saratoga Boulevard as well as in areas near the campus of Texas A&M University-





Corpus Christi.

Income Cohorts

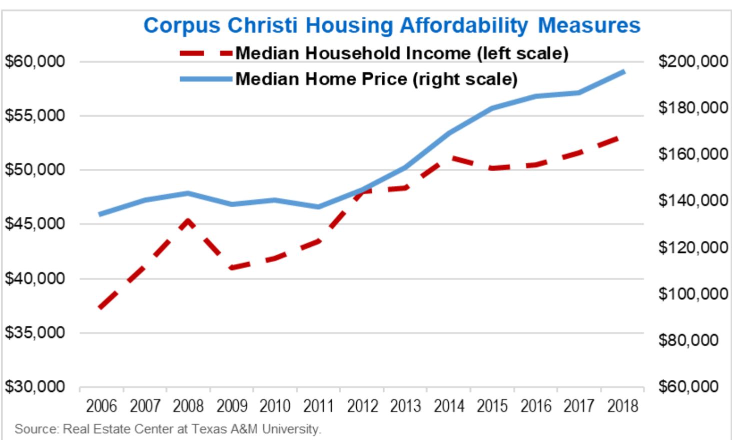
Income disparity in Corpus Christi is wide. While one in three (34.5%) of local families earns more than $76,000 annually, or at least 20% higher than the city's median income level, nearly one in four (22.9%) earns an income below 40% of the median, or no more than $24,600 per year.

Nearly half of the owner-occupied homes belong to the highest income group. This so-called market-rate tier consists of households earning more than $76,000, a level equivalent to 120% of the median family income but close to the nationwide level. The "extremely low income" households, which earn no more than $24,600 and make up 23% of the local population, occupy more than one in three (33.6%) rental units in the area.

Geographically speaking, the lowest-income families are concentrated in the downtown or Westside areas. The above median income groups are spread across the Census tracts near Ocean Drive, Southside, and North Padre Island.

Housing Affordability

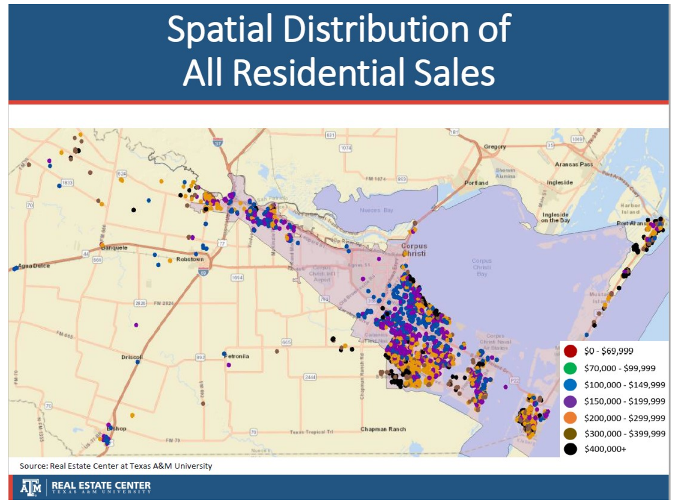
Housing affordability is a loose term that relates home price or rent to family income. The Real Estate Center has developed a Housing Affordability Index (HAI), which is the ratio between an area's median income and the required income to qualify for a mortgage. Corpus Christi's HAI is 1.8, meaning that the local median income is 80% higher than the required income to own a home.

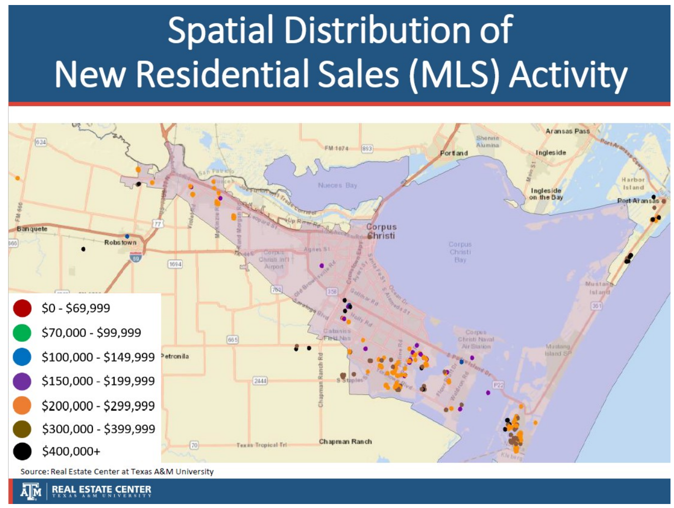


Since the end of the last housing boom about a decade ago, the affordability of owner-occupied homes has declined. The decline was the outcome of local home prices appreciating at a faster pace than family income. Since 2006, the median family income has risen 31%, but the median home price has risen 39%. The widening gap between the median income and home price has reduced housing affordability. Still the current HAI of 1.8 is far higher than 1.0, meaning that local homes remain relatively affordable, especially in comparison with the state average of 1.54.

High home price appreciation has been the key driver behind declining affordability for homes in Corpus Christi. Although the appreciation rate slowed down after 2014, home prices have risen at an annual rate of 3.5% on average since 2011, compared with the 2.7% historical average.

Sales Activity





At the relatively low price ranges, particularly those less than $70,000, the share of total homes sold dropped from above 15% in 2011 to about 5% in 2017. Between 2010 and 2017, the vast majority of home sales at above $200,000 were in Southside and North Padre Island.

The rise in sales of homes priced above $150,000 was straining home affordability for lower-income families. Within the Westside neighborhood, only two market transactions occurred during that same period, and they were priced below $70,000.

New home construction is responsible for the observed patterns in home sales. Most newly built homes are sold at prices above $200,000. Virtually no new construction occurred for homes priced less than $100,000. Even new homes in the middle price ranges ($100,000 to $200,000) saw a significant decline. Most new homes priced above $200,000 were built in the so-called Deep South area south of Saratoga Boulevard.

While housing in Corpus Christi remains relatively affordable, the decline in the supply of new homes at relatively low price ranges has been straining housing affordability, particularly for low-income families.

Over or Under Supply?

Given the standard assumptions of the housing market and the current mortgage rate of 4.28%, a family with an annual income of $24,600 can typically afford a home at slightly more than

$86,000. A family with an annual income more than $75,000 can afford a home at a price above $266,000. Using these benchmarks, we can find out whether excess supply or demand exists for households in different income ranges by comparing the numbers of homes at different price ranges with what the households in those income ranges can afford.

Supply and Demand of Owner-Occupied Housing in the City of Corpus Christi Based on Total Housing Stock (2017)

Income Cohort	Family Income	Range of Maximum Home Price Affordable	Percent of Owner-Occupied Households	Percent of Owner-Occupied Units	Over or (Under) Supply
Extremely Low Income	$0 - $24,600	$0 - $86,539	15.7%	21.6%	5,251
Very Low Income	$24,601 - $31,050	$86,540 - $109,229	4.7%	10.1%	4,804
Low Income	$31,051 - $49,700	$109,230 - $174,837	13.4%	32.8%	17,356
Workforce	$49,701 - $75,720	$174,838 - $266,372	19.4%	23.7%	3,915
Market-rate	$75,721+	$266,373+	46.8%	11.8%	(31,326)

Source: U.S. Department of Housing and Urban Development, CoreLogic, Nueces County Appraisal District, Real Estate Center at Texas A&M University

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The above table summarizes the results using the area's housing stock as a measure of home availability. Except for the high-income group earning more than $75,000, most income groups are facing over supply in the sense that the number of homes that the households can afford exceeds the number of those homes in Corpus Christi. For the "extremely low income" households earning no more than $24,600, there are in fact 5,251 more homes in the area than the number of homes they can afford to purchase.

Supply and Demand of Owner-Occupied Housing in the City of Corpus Christi Based on MLS Sales (2017)

Income Cohort	Family Income	Range of Maximum Home Price Affordable	Percent of Owner-Occupied Households	Percent of Owner-Occupied Units	Over or (Under) Supply
Extremely Low Income	$0 - $24,600	$0 - $86,539	15.7%	9.8%	(5,335)
Very Low Income	$24,601 - $31,050	$86,540 - $109,229	4.7%	6.7%	1,782
Low Income	$31,051 - $49,700	$109,230 - $174,837	13.4%	28.6%	13,624
Workforce	$49,701 - $75,720	$174,838 - $266,372	19.4%	34.7%	13,744
Market-rate	$75,721+	$266,373+	46.8%	20.2%	(23,815)

Source: U.S. Department of Housing and Urban Development, CoreLogic, Nueces County Appraisal District, Real Estate Center at Texas A&M University

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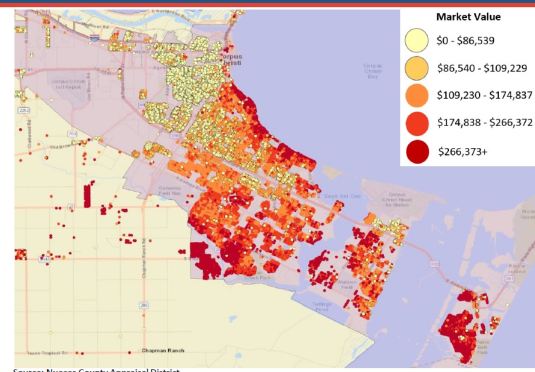
Most houses for those households, priced less than $86,000, are in the city's Westside. For the "market-rate" households, which earn more than $75,000, there are 31,326 fewer home units than what those households can afford. Those homes, priced above $266,000, can be found mostly in the city's Southside, North Padre Island, and along the Corpus Christi Bay front.

But the area's existing housing stock does not give an accurate picture about what is available to local residents. Another table compares what households can afford against the number of homes actually **sold** in 2017. While the extent of shortage (undersupply) is still evident for the households earning more than $75,000, now the lowest-tier income earners also face a shortage of 5,335 homes that they can afford. As the highest income group faces a shortage of homes they can afford, they tend to "buy down" in the sense of buying lower-priced homes. But within the lowest income group, home buyers must spend relatively more to purchase a home comparable to their income levels.

Spatial Distribution of Homes Affordable to Each Income Cohort (2017)



Source: Nueces County Appraisal District

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Market Failure

Home Purchase Originations in Nueces County by Income Category (2011-2017)

- Majority of home purchase originations are for market rate housing (households earning greater than 120% of the median family income)
- In essence, homeownership is not an option for extremely low or very low income households (households earning less than 50% of the MFI)

Income Cohort	Number of Home Purchase Originations	Percent of Home Purchase Originations
Extremely Low Income	24	0.1%
Very Low Income	375	1.8%
Low Income	2,308	11.2%
Workforce	5,447	26.4%
Market-rate	12,472	60.5%

Source: Consumer Financial Protection Bureau

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Since 2011, home sales have typically gone to "market-rate" households, which have purchased more than 60% of all homes in Corpus Christi. Sales of those homes occurred mostly in the relatively high home-price areas in Southside's new divisions. The next income group is called "workforce," which earns between approximately $50,000 and $75,000 and accounts 26.4%. Households in "extremely low income" tier have made only 24 home purchases, most of which occurred in areas west of Crosstown Expressway. In other words, home ownership is practically not an option for the very low or extremely low income families.

In the language of economists, this is a case of market failure for both the highest and lowest income households. An unfettered free market in Corpus Christi does not supply an adequate amount of homes for the very rich or very poor. Rather home builders have served mostly middle-income families. This is, of course, more an issue for the poor than for the rich, who can settle on homes cheaper than what they may otherwise prefer.

Rental Properties

Supply and Demand of Renter-Occupied Housing in the City of Corpus Christi (2017)

Income Cohort	Family Income	Monthly Rent Affordable	Percent of Renter-Occupied Households	Percent of Renter-Occupied Units	Over or (under)supply
Extremely Low Income	$0 - $24,600	$0-$615	32.3%	19.8%	(6,148)
Very Low Income	$24,601 - $31,050	$616-$776	8.9%	14.2%	2,619
Low Income	$31,051 - $49,700	$777-$1,243	21.7%	34.4%	6,216
Workforce	$49,701 - $75,720	$1,244-$1,893	18.6%	23.7%	2,469
Market-rate	$75,721+	$1,894+	18.4%	7.9%	(5,156)

Source: Department of Housing and Urban Development, U.S. Census Bureau

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The monthly rent of a typical housing unit in Corpus Christi is $970. According to the Department of Housing and Urban Development (HUD), a household is cost-burdened if it spends more than 30% of its income on rent. Following this definition, a typical market-rate household can afford slightly less than $1,900 in rent each month, and an extremely low income household can afford no more than $615.

When the number of rental units is compared with the number of homes that each income group can afford to rent, the supply is adequate for all but the highest and lowest income groups. The highest, or market-rate, income group faces a short supply of 5,156 units. The extent of shortage for the extremely low income group is even greater at 6,148.

Population Growth

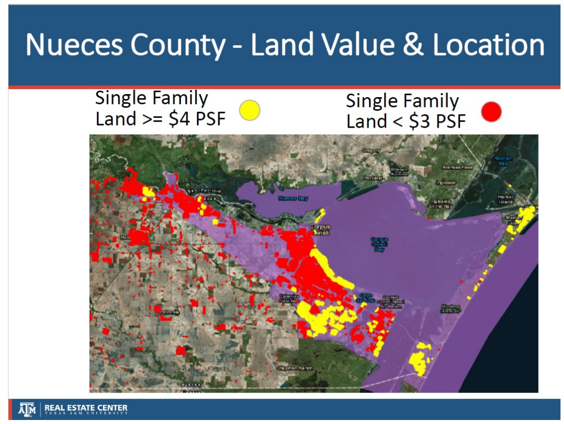
The housing condition is also affected by population growth. The average annual growth of Nueces County is 0.89%. Given the average household size of 2.71, the County needs to add 1,230 homes each year to keep pace with population growth. Since 2011, the area's building permits have averaged 1,441 per year, meaning that the local new home supply as a whole seems adequate in meeting demand growth.

Housing Quality

In addition to the number of homes available for purchase or rent, low-income households are more likely to face the issues of housing and neighborhood quality. Just because a home is affordable does not necessarily mean it is of adequate quality or it is located in a neighborhood with access to jobs, schools, healthcare, and amenities for the family.

A home's age is a common measure for its quality. Most homes that were built within the past 10 years are located in Southside, particularly south of Saratoga Boulevard. That's also an area with the most growth in new retail businesses, recreational facilities, and schools. Low-income households are less likely to be able to afford homes in those high-quality neighborhoods.

In Corpus Christi, relatively high-value homes are located near waterfront and in the suburb called Southside. The lowest-value homes are clustered near downtown and nearby Westside. Housing outcomes could improve particularly for low-income households by increasing access to economic opportunities, such as schools, jobs, and healthcare.



Hurricane Harvey

Harvey's Impact on Regional Housing, 2018

	Housing Units	% Damaged Units	Owner-Occupied Damaged Units	Renter-Occupied Damaged Units	Average Damage	Loss in Value
County:						
Aransas	16,002	74%	85%	46%	$41,331	16%
Bee	10,693	1%	39%	6%	$3,380	--
Kleberg	13,194	4%	61%	1%	$820	--
Nueces	146,962	11%	53%	8%	$18,243	--
Refugio	3,734	50%	79%	43%	$22,185	3%
San Patricio	27,492	31%	70%	29%	$52,372	2%
City:						
Port Aransas	4,550	77%	79%	63%	$13,031	13%
Aransas Pass	4,404	86%	80%	44%	$23,392	11%
Rockport	6,418	85%	86%	47%	$26,717	20%

Sources: Census Bureau's American Community Survey, FEMA, and county appraisal districts.

Governor Abbot recently wrote in a newspaper column, "You can't talk about homes in this state without talking about Hurricane Harvey." Although the share of homes in the Corpus Christi metro area totally destroyed by Harvey at 3% seems minimal, the storm has disproportionately devastated the region's coastal communities. Harvey damaged more than half of homes in Aransas and Refugio Counties, as well as Port Aransas and Aransas Pass within the metro area.

Prices of undamaged homes are rising after a sudden reduction in the regional housing stock due to Harvey. The amount of local housing inventory has dropped from slightly over 10 months in 2010 to 4.9 months today. Rebuilding activity is also straining the construction workforce, and adding pressure on labor and material costs.

In a nutshell, the overall supply of homes in Corpus Christi is adequate, and residents are not spending too much on home ownership or rental housing. But the finding of overall housing affordability is not particularly helpful for understanding the housing needs of low-income groups. Households earning less than $24,600 per year make up nearly one quarter of the local population. The region's housing issue is not so much about affordability as it is about the availability of rental units especially for the lowest-income households.

Declines in the construction of new homes that these households can afford are making the city more "divided" with more segregated neighborhoods. Improving the quality of low-income neighborhoods is crucial for offering them more opportunities for upward mobility on the economic ladder.