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Looming Boom
Texas Through 2030

By James P. Gaines

The Lone Star State is being “discovered” by the rest of the country because of its affordable housing, lower cost of living and cost of business, greater employment opportunities and appealing lifestyle. Events and circumstances point toward a Texas-sized boom between 2005 and 2030.

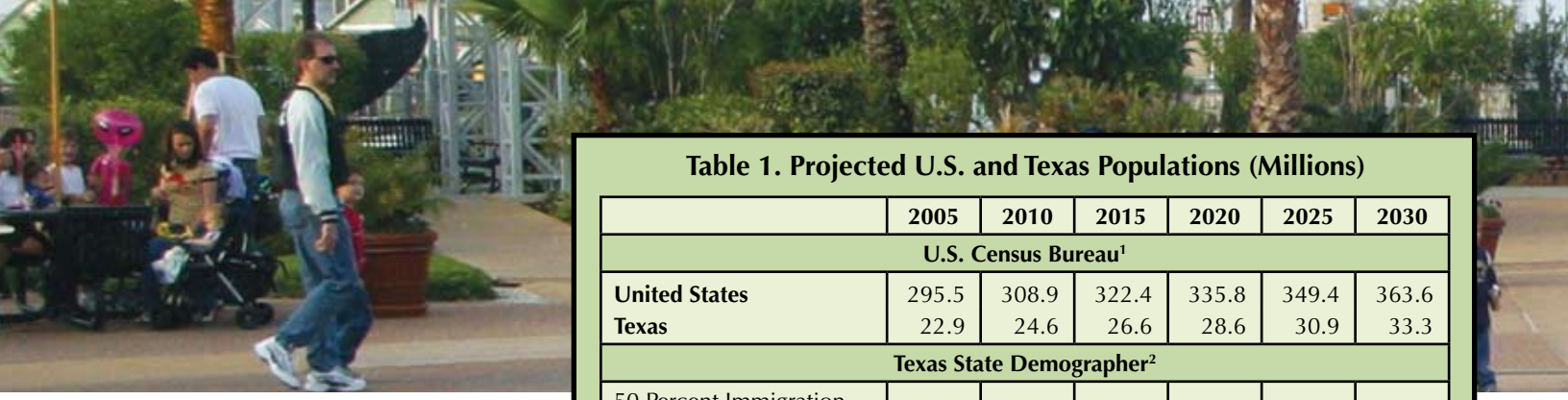


Table 1. Projected U.S. and Texas Populations (Millions)

	2005	2010	2015	2020	2025	2030
U.S. Census Bureau[1]						
United States	295.5	308.9	322.4	335.8	349.4	363.6
Texas	22.9	24.6	26.6	28.6	30.9	33.3
Texas State Demographer[2]						
50 Percent Immigration Scenario	22.6	24.3	26.2	28.0	29.9	31.8
100 Percent Immigration Scenario	23.3	26.1	29.2	32.7	36.7	41.1
2000–04 Immigration Scenario	22.9	25.1	27.6	30.3	33.2	36.3
Texas State Demographer's Average	22.9	25.2	27.7	30.3	33.2	36.4
Average Increase from 2005	–	2.4	4.9	7.5	10.4	13.6

Sources: [1]U.S. Census Bureau, Population Division, Interim State Population Projections.
[2]Texas State Data Center and Office of the State Demographer, 2006 Texas Population Projections Program, "Population Projections for the State of Texas." Projections are from the 2000 Census, thus 2005 is a projected population for the 50 percent and the 100 percent scenarios.

The state's population and economy as well as its housing and commercial real estate markets are poised to explode in volume and prices. Unless something as catastrophic as the 1980s oil bust occurs in the next couple of decades, the momentum born in the first five years of the new century should only get stronger.

The costs of growth and prosperity will be increasing congestion in urban areas, overburdened school districts that will require a greater percentage of the state's wealth, escalating demands on local and state infrastructure, and potentially rising levels of political activism with regard to local planning, growth policies, growth limits, regulatory controls, environmental concerns, taxes and development impacts. In short, things will change dramatically from what many Texans are used to.

Figure 1. Central Texas Triangle

Source: Real Estate Center at Texas A&M University

This discussion takes a "100,000-foot view" of the Texas economy and housing markets from 2005 to 2030 with simple trend extensions to lay out the possibilities for the next 25 years.

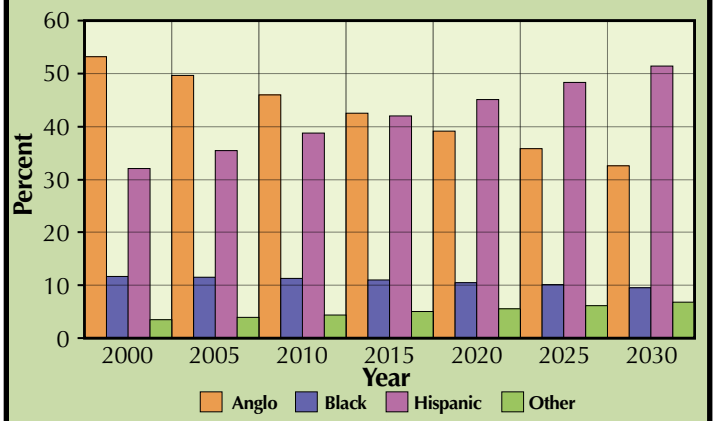
Population Growth

The U.S. Census Bureau projects the country will add 68 million people by 2030, growing from 296 million in 2005 to 364 million, a 23 percent increase or an average of slightly less than 1 percent per year (Table 1). Texas' population is projected to grow by ten million people, from about 23 million in 2005 to 33 million by 2030, a 43.5 percent increase or roughly 1.7 percent per year.

The Texas state demographer projects Texas' population will add between nine million and 18 million people, expanding to a total population between 32 million and 41 million (from 41 to 77 percent). The wide growth variance depends on the rate of population immigration, both domestic and foreign (Table 1). The projections reflect immigration rates equal to the 1990–2000 rate (100 percent case), half the 1990–2000 rate (50 percent case) and equivalent to the 2000–2004 immigration rate.

Averaging the state demographer's projections results in a projected 2030 population of 36.4 million people, an increase of 13.6 million or 59 percent. This is the equivalent of another Dallas–Fort Worth metropolitan area, another Houston metropolitan area and another San Antonio metropolitan area with enough left over to add another Corpus Christi.

Figure 2. Total Texas Population by Race



Sources: Texas State Data Center and Texas State Demographer, Average of Projections

Despite the popular images of Texas ranches and farmland, Texas' population is primarily urban. Nearly 64 percent of all Texans reside in one of the four major metropolitan statistical areas (MSAs), and nearly 87 percent live in one of the 25 MSAs in the state.

Approximately four out of every five Texans live within the "Central Texas Triangle" (Figure 1), which runs from the Dallas–Fort Worth MSA along I-45 to the Houston MSA (which includes Conroe and The Woodlands), along I-10 to the San Antonio MSA (which includes Seguin) and along I-35 (which includes San Marcos, Austin, Temple and Waco).

Growth and prosperity will spread throughout the state, but most of the growth will occur in the state's urban areas (Table 2). Future urban spatial design will be a key variable in the distribution of the expected population increase. For decades, primary growth has been in the suburbs of the major cities. This expansion has prompted a continual redefinition of the MSAs to include more suburban and formerly exurban counties within the metropolitan areas.

The racial and ethnic composition of the state's population will reverse by 2030. The Anglo population will decline from 53 percent in 2000 to 32.5 percent by 2030, while the Hispanic population will grow from 32 percent in 2000 to 51.3 percent by 2030 (Figure 2). During this period, the black population will decline slightly, and the "other" population group (primarily Asian) will double from 3.3 percent to 6.7 percent.

Table 3. Texas Employment Projections Based on Projected Population

Year	Projected Population	Projected Number of Jobs at Average Jobs/Pop Ratio	New Jobs Added Since 2005
U.S. Census Bureau			
2005	22,928,508	9,734,808	
2010	24,648,888	10,533,620	798,811
2015	26,585,801	11,361,353	1,626,544
2020	28,634,896	12,237,027	2,502,218
2025	30,865,134	13,190,111	3,455,303
2030	33,317,744	14,238,226	4,503,418
Texas State Demographer			
2005	22,928,508	9,734,808	
2010	25,164,941	10,754,153	1,019,345
2015	27,650,568	11,816,377	2,081,569
2020	30,331,673	12,962,139	3,227,330
2025	33,245,883	14,207,516	4,472,708
2030	36,427,031	15,566,969	5,832,161

Sources: U.S. Census Bureau, Texas State Data Center and Office of the State Demographer

Table 2. Texas Metropolitan Area Population Estimates

MSA	2005 Population (millions)	Percent of Total State Population
Austin	1.5	6.6
Dallas–Fort Worth	5.8	25.3
Houston	5.4	23.6
San Antonio	1.9	8.3
Total Four Major MSAs	14.6	63.8
Total All Texas MSAs	19.9	86.9
Texas	22.9	100.0

Source: Population Division, U.S. Census Bureau

Job Growth

Population and employment growth go hand in hand. Population grows because jobs are available, and jobs are created because of available low-cost labor produced by a growing population. If Texas maintains its average employment-to-population ratio as it is expected to during the next 25 years (around 42.7 percent), the state will add another 4.5 to 5.8 million jobs (Table 3).

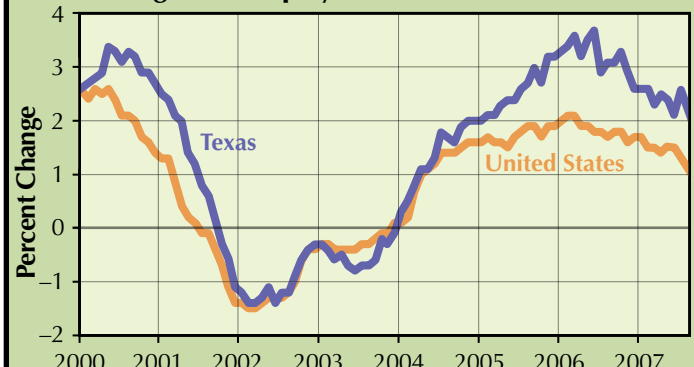
Job growth is expected to be stimulated by overall U.S. economic growth and enhanced by Texas' employment-friendly characteristics (compared with most other states):

- ample supply of relatively low-cost, nonunion labor;
- continued importance of the energy industry along with energy diversification across the state;
- relatively low business operating costs and taxes;
- nonobstructive, pro-business state and local business policies; and
- affordable housing.

Texas' current employment growth is roughly twice the national rate and should continue that pattern over the coming decades, barring any major upheavals (Figure 3).

Texas leads the nation in job creation. The Houston and Dallas metropolitan areas lead U.S. metro areas in creating jobs (Figures 4 and 5).

Figure 3. Employment Growth Rates



Source: Real Estate Center at Texas A&M University

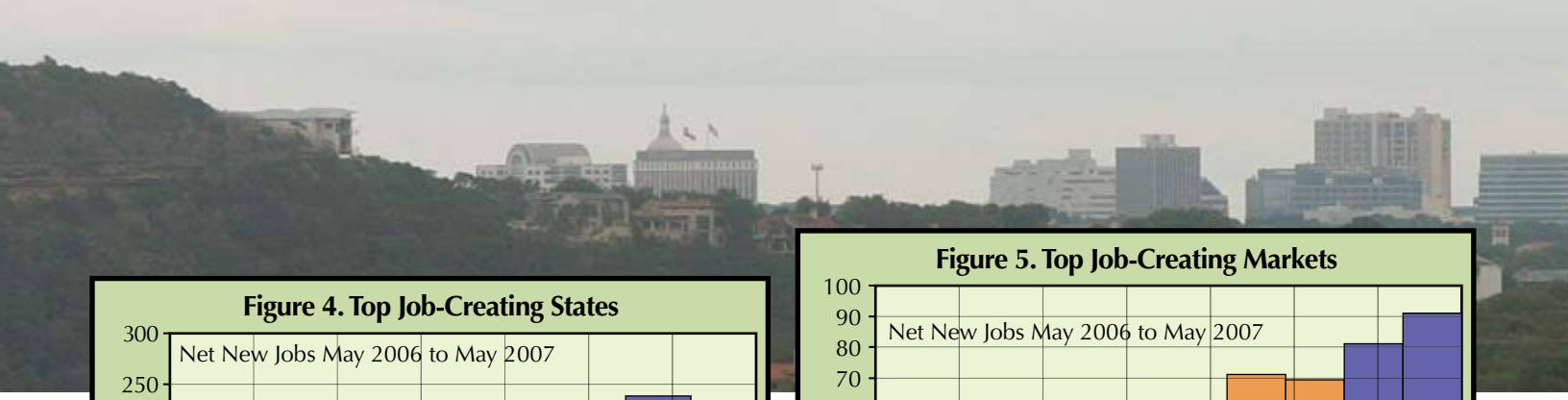
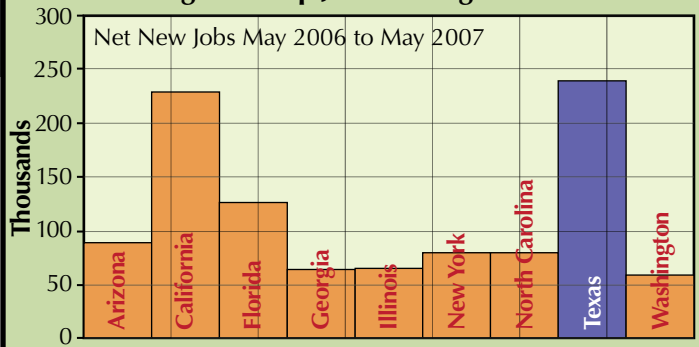
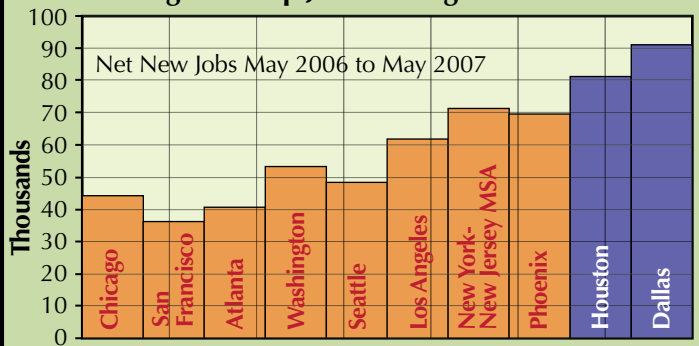


Figure 4. Top Job-Creating States



Source: Bureau of Labor Statistics

Figure 5. Top Job-Creating Markets



Source: Bureau of Labor Statistics

Just as population concentrates in urban areas, so will job formation. It is likely that new jobs will become available in suburban and exurban locations as well. It is likely that just as the population expands into the suburbs and exurbs, so too will many of the new jobs.

Income Growth

Texas' future prosperity will derive from more people, more jobs and expanded personal income. Increases in employment will result in growth in personal, per capita, household and family incomes. Between 1980 and 2005, Texas' total personal income grew by 422.8 percent, from $142 billion to $741 billion. By first quarter 2007, total personal income was up to $841 billion (Figure 6).

Extending the long-term trend in personal income since 1969 suggests that the state's total personal income could increase by $1 trillion by 2030. Household income would be expected to increase similarly. The 2005 Texas median household income of $42,139 could reach nearly $68,000 by 2030 (Figure 7).

House Prices and Housing Affordability

Housing affordability may be one of the most significant growth stimulants for Texas during the first half of this century. Historically, the Texas housing market has maintained a relative balance of supply and demand despite periods of accelerated growth (the oil boom) and significant decline (the oil bust). Texas is the most housing-affordable high-growth state in the nation.

So far, skyrocketing home prices common to fast-growing states like California and Florida have not occurred in Texas. In mid-2007, the state's median-priced home ($151,000) was about two-thirds the national median ($229,000) [Figure 8] and about 25 percent of California's median ($589,000).

The Texas Affordability Index measures the relationship between median family income and the ability to buy the median-priced home. Texas' current affordability index stands at 1.52 compared with the nation's 1.16. The index indicates that a family in Texas earning the statewide median family income has 152 percent of the income required to qualify for financing on the median-priced home. The national median family income is only 16 percent greater than the required income to purchase the national median-priced home.

Figure 6. Texas Personal Income 1969–2030

Sources: Federal Reserve Bank of Dallas and Real Estate Center at Texas A&M University

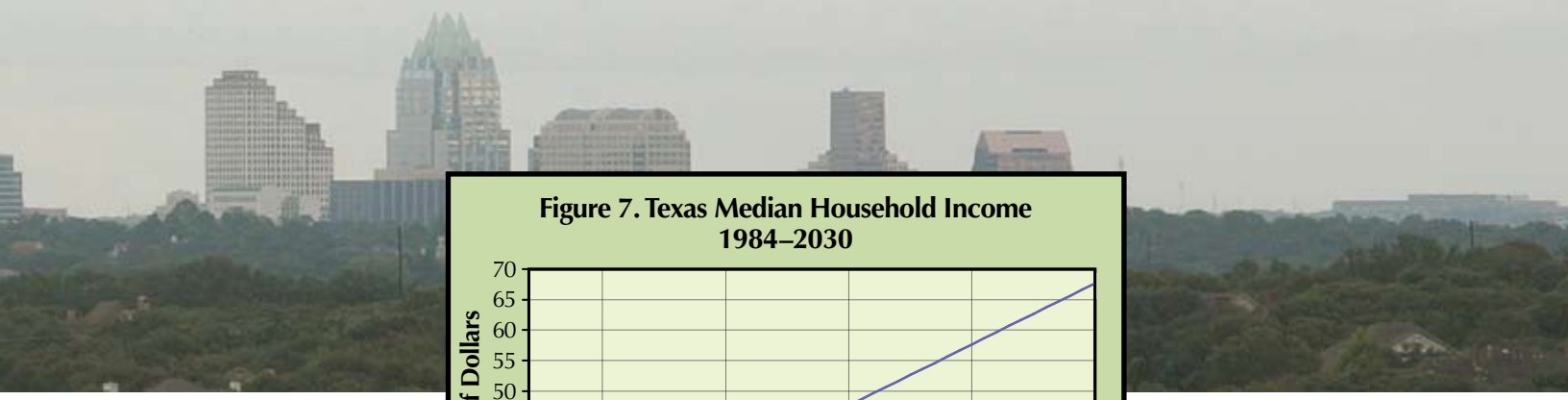
Table 4. Median House Value to Median Household Income Texas Housing Affordability

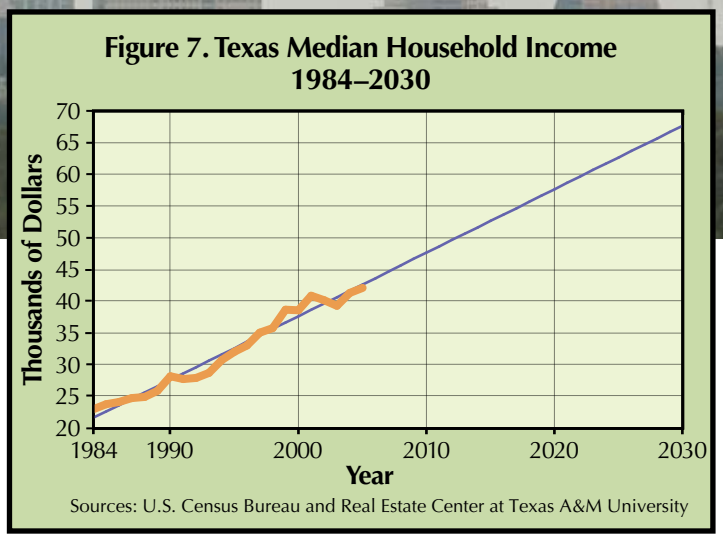
	1990		2000		2005	
	Ratio	State Rank	Ratio	State Rank	Ratio	State Rank
United States	2.48	–	2.85	–	3.62	–
Texas	2.18	41	2.76	50	2.52	44

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

A simple measure of home affordability expresses median house value as a multiple of median household income. More affordable housing is reflected by a lower multiple. The 2005 national median home value was 3.62 times the median household income (Table 4). In Texas, the median home value was only 2.52 times median household income.

Current median prices to median household income multipliers are even higher, and the difference between Texas and national levels are even





more pronounced (Figure 9). Texas' relative price-to-income ratio lags considerably behind the U.S. level (Table 4) and the levels of the other most populous states in the country.

What Could Disrupt Texas' Growth?

While growth potential clearly exists in Texas, so does the possibility of roadblocks. Foreseeable problems could arise from:

Insufficient Development Infrastructure

- **Transportation modes, costs and congestion.** Texas' cities lack adequate public transit systems, rely on roadways and interstate routes and suffer from growing congestion and commute times.
- **Water availability and cost.** Although not as severe a restriction within the Central Triangle, this will be evident elsewhere in the state.
- **Utilities.** The adequate supply and cost of delivery of water and sewer, natural gas, electricity and other basic services are potential problems.

Politics and Public Policies

- **No-growth, limited-growth local regulations.** As local communities experience accelerated population and housing growth, some will employ regulatory controls to limit or stop growth. Historically, this has occurred in almost every high-growth area in the United States.
- **State fiscal policies.** Property taxes are used to finance state and local services, especially public education. Texas's property tax rate is among the highest in the nation, and the state faces growing fiscal needs.
- **U.S. immigration restraint/reform.** These could limit the state's immigration growth.

Worldwide 1930s-Style Depression

This could be the single most significant constraint to Texas' future. Most of the other potential factors can be dealt with, but the state has no control over national and international economic circumstances.

This outlook assumes no catastrophic events or circumstances occur that would alter the state's long-term growth direction. Certainly, the path ahead will not always be smooth or unaffected by short-term declines or obstacles. The national and global economies will continue to experience cycles of growth and decline that will affect Texas, but these will be short-term interruptions over the course of long-term growth. Overall, the future looks bright for the Lone Star State.

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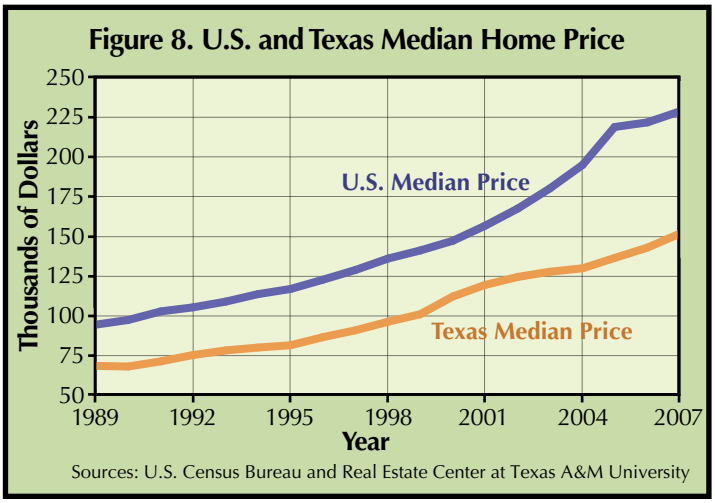

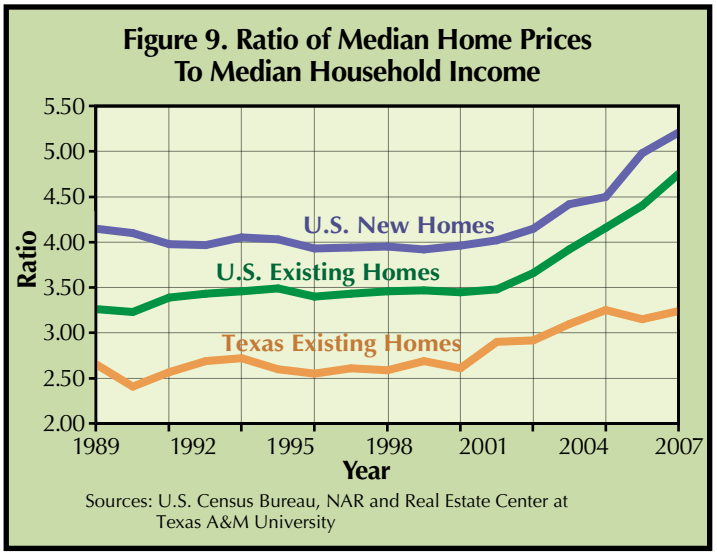

THE TAKEAWAY

The next quarter-century should be marked by prosperity in Texas, driven by population and job growth. By 2030, the state is expected to add 13.6 million people, the equivalent of adding another Dallas–Fort Worth, San Antonio, Houston and Corpus Christi.

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