

As Austin's home prices soar, housing experts don't fear bubble
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The white-hot housing market in the Austin area continues to blaze, with the median sale prices for homes hitting all-time highs in March — and real estate experts say that even as demand soars, the region is showing no warning signs that it's experiencing a housing bubble that is at risk of bursting.

For the five-county metro area — which runs from Georgetown to San Marcos — the median price for homes sold in March was a record \$425,000, up 28.8% from March 2020, according to the Austin Board of Realtors. That means half the homes sold for that amount and half sold for less.

Within Austin's city limits, the prices were even higher, with the median price at a record \$514,000, which was up 24.8% from March 2020.

Along with the price increases, homes sales in the five-county Austin region rose by double-digit percentages in March, the board said, as the market recovered some ground it lost due to February's winter storms.

Even as prices continue to climb, housing experts say they don't believe the area is experiencing a "housing bubble" — an industry term to describe a market that has become unstable because prices have risen significantly without the underlying fundamentals supporting the higher prices.

Housing experts say Austin's rising prices are based not on speculative buying, but on sound market fundamentals including job and population growth, low mortgage interest rates and high demand for housing that is outpacing supply.

Soaring prices, low supply: Austin's boom is straining its housing market

Austin's tiny home trend grows with new 66-home project

"Values rising over historical norms is not a definition of a bubble," Mark Sprague, director of information capital with Independence Title in Austin, wrote in a recent newsletter. "What Austin currently has is a greater demand than supply fueled by strong job creation, low rates and comparatively (to the national markets we compete against) undervalued housing."

Austin housing market not in bubble territory

Last year, the five-county region — Travis, Hays, Williamson, Bastrop and Caldwell — saw home prices rise by 9.2%. Over the past 30 years, it has averaged a 3.5% annual increase, Sprague said.

Warning signs of a real estate bubble, he said, would be something like annual price increases of 40% for over a decade, as happened in states like California, Nevada, Arizona and Florida before the last recession.

"Those markets did not have low rates, but they did have easy financing and high levels of speculation (35% to 45%)," Sprague wrote.

By contrast, in the Austin market the number of speculators is low (less than 10%), Sprague said.

Current conditions in the Austin market are rooted in supply-and-demand, not speculation, Bramlett said.

"Austin's real estate market is in a perfect storm of high job growth, increased demand due to COVID/home officing, and extremely low interest rates," Bramlett said.

The data seems to indicate demand has not slowed. Home sales across the metro area were up 13.1% year-over-year in March, while sales within Austin's city limits were up 11.6%, according to the Austin Board of Realtors.

Even as sales spiked, active listings plummeted 78.3%, keeping housing inventory at a record-low 0.4 months of supply. Housing experts say a supply of six to 6 1/2 months constitutes a balanced market, which is tipped in favor of neither buyers nor sellers. In March, pending sales in the Austin region were up 42.8%, signaling April likely will be another strong month for home sales.

For this year, Sprague said, Austin will be about 11,000 lots short of demand for new homes, and about the same amount or more for existing homes. Other Texas markets are in the same boat, he said.

With the cost of labor and materials going up 2% to 3% a month, and projected to do so for the next couple of years, "not only will the house you look at today be gone today, it will cost more," Sprague said.

With the summer months representing the time when most families with school age children move, I don't expect the sales pace to slow over the next few months," Rude said.

Austin housing market '100% a seller's market.

"It often takes five to 10 offers to get a buyer under contract, and you can expect to pay 15% to 25% above the asking price," Drewett said. "It's 100% a seller's market, and in order to be competitive that's what it takes in most neighborhoods."

Drewett recently listed a house at 1208 Travis Heights Boulevard that was built in 1952 and has 1,598 square feet. The property — listed at \$1.2 million — received multiple offers, including some for a direct cash purchase. It is now under contract, he said.

The market is just as tight in what have traditionally been lower-priced ZIP codes, Drewett said.

"It's across all geographical areas at all price points," he said. "We're seeing the end of the \$300,000 home — those are gone now. For a starter home in 78745 or 78748 you're looking in the \$400,000."

Jim Gaines, an economist at the Real Estate Research Center at Texas A&M University, said Austin's housing market is also benefiting from historically being less expensive than other major metro areas across the country.

"Austin real estate is still a bargain by national standards," Gaines said. "Compared to similarly competitive markets in cities like Denver and Atlanta, which are also experiencing rapid population and home price growth, Austin is coming from a stronger position in terms of affordability. There is a reason so many transplants, especially from the east and west coasts, are coming to Austin; they can buy more house for their money than what they could in the cities they are leaving behind."

Austin "has been a relative bargain for decades, and it looks like that is now correcting. To get a true perspective on our pricing, you have to look at comparable markets like Denver, Portland, or Seattle, and we're still cheaper than any of these metros," Bramlett said.

That being the case, the Austin region's soaring home prices still are creating concerns about affordability, with buyers being priced out of many neighborhoods.

"Our housing market is undergoing growing pains and creating a paradox — affordable from the outside looking in, but increasingly unaffordable for those who already call Austin home. While more homes are selling than ever before, it's more and more difficult to find one," said Susan Horton, president of the Austin Board of Realtors. "Austin is investing in infrastructure and businesses are working to harness this growth and opportunity, but with opportunity comes challenges," Horton said.