

## Episode Summary

In this episode of Driving It Home, Dr. Clare Knapp and Danielle Hammett address the sensationalist media coverage of the Austin housing market and the frustration over misleading headlines that suggest the market is tanking, clarifying that there's no housing bubble and no glut of inventory. To set the record straight, Dr. Knapp explains the true nature of a housing bubble, driven by speculation and unsustainable increases in home prices, and contrasts it with the current Austin market, which is experiencing a healthy adjustment rather than a bubble.

Dr. Knapp elaborates on the factors influencing the Austin housing market, noting that the dramatic increases in home prices during the COVID-19 pandemic were due to low mortgage rates, a national phenomenon. The influx of buyers relocating to Austin for primary residences, rather than speculative investments, distinguishes the local market. She highlights the significant increase in active listings in Austin, a unique situation compared to the national level where inventory remains insufficient, stabilizing home prices.

Despite the market adjustments, Dr. Knapp emphasizes that Austin's housing market remains strong, with continued job and population growth supporting demand. Sellers are still benefiting from substantial equity gains, and although price moderation is necessary to balance buyer purchasing power, the overall outlook is positive. The episode wraps up with a preview of upcoming topics, including a focus on sellers, new construction stats, and rental market trends, and an invitation to the [Diversity Summit](#) on **August 15**.

## Links Mentioned

[ABOR Diversity Summit – August 15](#)  
[ABOR Events](#)

## Episode Transcript

[00:00:05] **Danielle Hammett:** Hey, y'all. Welcome to this week's Driving It Home. My name is Danielle Hammett and I'm your deputy director of communications here at ABOR & Unlock MLS. Good morning, Dr. Knapp.

[00:00:15] **Dr. Clare Knapp:** Good morning, Danielle. How are you?

[00:00:18] **Danielle Hammett:** I'll be honest. I'm a little frustrated right now.

[00:00:21] **Dr. Clare Knapp:** Why is that?

[00:00:22] **Danielle Hammett:** There's been just the media right now on the Austin Area Housing market, which has been really special. It's another way to put it. There's just been a wave of stories recently that have been just super sensationalist, not telling the full story about how our market is adjusting.

And I'm over it. And folks, this is why you may be feeling the same way too. If your clients have been seeing the same stories if you've been seeing them. So, folks, this is why we have a housing economist here at Unlock MLS. To help explain fact versus fiction when these sensationalist headlines, which honestly are just really unfortunate and kind of lazy reporting.

When those are published and make your Facebook feed, our sales are not tanking. We're not in a housing bubble. There's not a glut of inventory. Our market is shifting, and Dr. Knapp, if you could just, first, let's just, we're going to take the whole episode to just set the record straight, but if you could just start with, are we in a bubble? Is the Austin market in a bubble?

[00:01:30] **Dr. Clare Knapp:** That's a great question. And before I answer that question, I just want us to back up and really define what a housing bubble consists of. So, when we talk about a housing bubble, there are a variety of ways to think about it. But what we're talking about here is just the idea that there's this period of time in which home prices have increased dramatically.

The key point here is that the increases in home prices have been driven by speculation or, at least to a certain degree, by speculative investing. Then, in the second phase of the bubble, i.e., when the bubble bursts, you see home prices really decline. Dramatically. So the classic example of a housing bubble is, of course, what we saw in the immediate wake, the run-up to the Great Recession.

And when you think about the underlying fundamentals that really contributed and perhaps even drove the Great Recession, some would argue, was just the speculative lending. That was an instance, that's an example in which we certainly did see, large amounts of loans being underwritten to borrowers who could not necessarily afford to repay their loans. I. e., there is this key mismatch between what borrowers could reasonably afford to pay and what the home price was worth. So overall, you know, again, thinking back to that kind of classic example of a housing bubble, I would argue that the conditions which we have seen in the Austin Housing Market over the last several years, you know, in this post-pandemic period we haven't in my stance seen this unwieldy speculation, of course, there's always to some degree speculation within any given housing market, but it's not that our housing market has been or is being driven by speculation if that makes sense.

[00:03:40] **Danielle Hammett:** Right. So, just to recap, we still have people moving here at a healthy clip. We still have a healthy housing development, and there is still a strong amount of demand based on those people moving here and the jobs that are being created here, to what you would consider to be a healthy pace of real estate demand and not demand that's driven by speculation.

[00:04:04] **Dr. Clare Knapp:** Right. And I think we need to be very clear here, too, that the most significant underlying factor behind that precipitous surge, you know, that very considerable surge that we saw in home sales and that substantial increase in home prices as well during the initial stages of COVID, and into sort of the mid half of 2022, it was being driven by a national factor. That was, of course, just a very low mortgage rate environment. So it's not as if the conditions underlying a lot of these changes within the Austin Housing Market again, either during the pandemic or in its aftermath, were driven by local factors, right? Low mortgage rates were a national phenomenon.

What we saw here in Austin was, of course, just as a city encapsulated, as a part of a broader state, right, with policies that a lot of people saw as being more friendly to businesses et cetera during the initial stages you know, that attracted a larger number of buyers than we otherwise would have seen from out of state.

So it's not; you know, there wasn't speculation in the sense that these buyers from out of state were purchasing properties under the assumption that these properties would increasingly appreciate and they wanted to turn it into an investment property. They were actually moving here, right? The majority of them were actually purchasing their homes as their primary residence. They were relocating. So, you know, and we saw this in other markets as well, Austin's not alone in this factor, but Austin's, I think, in a lot of ways being singled out because it was the leader on that forefront, you know, it was really on the forefront of that kind of pandemic era. Large increase in demand.

[00:06:01] **Danielle Hammett:** Well, and that's just a good thing, too. Another thing that national outlets especially like to do is compare Austin to other markets at large, like affordability. Austin's local housing affordability challenges may not make sense if you're coming from a much higher-priced market like San Francisco or New York, but that's still a very critical issue here. Let's talk about some of that comparison. Dr. Knapp, how does Austin's housing market right now compare to markets at large?

[00:06:39] **Dr. Clare Knapp:** So overall, Austin is, of course, similar to all other markets in the US in the sense that what we were just talking about earlier, mortgage rates change on a national basis, right? You know, the effects are broad-sweeping. So, it's not as if mortgage rates are localized. So, of course, that's a phenomenon across housing markets throughout the U.S.. But what is unique to the Austin market is that not only have we seen that decline in demand from homebuyers due to higher rates, but here in Austin, we've seen such a considerable uptick in active listings. You know, our listeners will recall

that really during the height of the COVID pandemic when the Austin housing market was really peaking, you know, kind of late 2020 moving into 2021, active listings in any given month were hovering around two to 3000. Now, you know, in June, close to 13,000. So, you know, that's obviously, if you do the math, that's about a sixfold increase, depending on which month you're comparing it to. But, you know, just to highlight the fact that there is so much more inventory on the market, and that's something that has not been seen at the national level. You know, what's really allowing prices at the national level to stabilize is the fact that there still is insufficient inventory on average. You know, buyers nationally, again, are having more difficulty finding that inventory for sale. Whereas, again, we're seeing a much different phenomenon here in Austin.

[00:08:23] **Dr. Clare Knapp:** So that's really the key differentiator.

[00:08:26] **Danielle Hammett:** Well, and being unique to Austin. I mean, that's a plus, really. It's easy to see that six-fold increase in inventory and think, Oh, no, that means that's a bad thing; that means the market has slowed. But the truth is that homes that are priced appropriately are still selling at 95, almost 96 percent of the list price. And if you think about your point, Dr. Knapp, about where we were during the pandemic, And if you're a buyer's agent right now listening to this, you are vigorously nodding your head, but it was not a picnic in any way, shape, or form. If you were trying to buy a home in this region during 2020 and 2022, I mean, it was just there; there was no inventory that drove prices up. You had to have so much cash on hand to be able to bid over the asking price. None of those things are healthy. And so, you know, it could be argued, and I'd be interested in your opinion what space does that create? What cushion does that create? If you're a buyer in this market now to have that broader range of options to choose from.

[00:09:34] **Dr. Clare Knapp:** Yeah. So I think it's important to remember that there's the right now, but then there's also the five years from now, ten years from now. You know, IE is thinking short-term versus long-term. So, of course, if you're a buyer right now, having more inventory across the board that's available for sale is beneficial to you, and you have a little bit more negotiating power with sellers.

You know, of course, there're just going to be more options that are affordable to you as a buyer. But I would argue that for sellers, while I realize it's not a fun environment for them to be in necessarily, you know, given what we've seen over the past several years, you know, they still are benefiting from those tremendous gains in home equity that we saw during the pandemic.

And two, we have to remember that it's really important to think about affordability over the long run, right? It's a long-term game. And if we don't see some sort of increase in active listings, which we have seen, but, you know, say we hadn't seen that, and if we don't see a little bit of moderation, continued moderation in home prices, which I imagine we'll see over the next, six months, i. e. the back half of 24. If we don't see those

two phenomena coming into play, then we're just going to end up in a scenario in which the gap between home prices and household income continues to widen. And, of course, that just means that affordability becomes an issue of increasing concern. And by the dimension, you're potentially, you know, you're significantly reducing your potential buyers, right? Who would otherwise be able to step into the market five years from now or ten years from now? So again, while we realize it's not necessarily a fun environment for sellers to be in right now, it's very important to remember that stabilization is absolutely imperative for us to position ourselves as a housing market for a scenario in which we're better able to meet the needs of both buyers and sellers, again, you know, over the long term, five years, ten years, et cetera.

[00:11:46] **Danielle Hammett:** And that's really important. I mean, I imagine that I don't have hard data to back this up. I'm not the economist, but I would imagine that most of the sellers, a vast majority, are also then turning around and becoming buyers, and likely in this market and just something else that you said that was really important that I wanted to call attention to was the other, one of the other myths that's been floating around recently in headlines is that this market is terrible news for homeowners. Again, we can understand why all this market adjustment, especially from a sales price standpoint, can be a tough pill for sellers to swallow, but you're still gaining equity. This is not like 2008 when you were underwater in your home. Dr. Knapp, if you could, like, I mean, can you expand a little bit on that? I mean, this is just such a different environment from what the nation experienced in the housing collapse in 2008.

[00:12:38] **Dr. Clare Knapp:** Oh, absolutely. You know, when you think about, as you may have mentioned, Danielle, just the tremendous gains in home equity that sellers are still benefiting from, you know, we're talking about home prices that were approximating, you know, median sales price that was approximating, anywhere between about \$300,000 and \$350,000. You know, now we're solid \$150,000 above that, right in June of this year. So that's a pretty significant increase for sellers to see in terms of gains and home prices. For example, if you're looking at June of this year, relative to June of 2019, that's about a 40 percent increase in the median sales price. So just within that five-year span, although, you know, as a seller, you may not necessarily be seeing what you otherwise would have seen at the height of the market, you know, in April and May of 2022, you're still seeing a 40 percent increase you know, on average with respect to that median sales price.

So, of course that's. That's a really tremendous surge and something that, you know, sellers should kind of take heart in, I think, even amid the fact that there is a little bit more negotiating that may need to go on between the buyer and the seller.

[00:14:05] **Danielle Hammett:** Exactly. And if you're again at this inventory level, this needed range of options to give buyers more breathing room and negotiating power, which builds more equanimity in the market. Suppose you're a buyer versus a seller. You

know, that all helps to offset the pain that buyers are feeling from this high interest rate environment.

Hopefully, and Dr. Knapp, I'd like your take, but hopefully, we may see some sort of lessening in that. And so there are rumors now that the Fed may cut interest rates later this year. Inflation is cooling. So it's kind of pointing signs in that direction. You've been predicting that there's an interest rate cut coming, but help us understand, should that happen, how that will impact buyers purchasing power, and if sellers need to be prepared for more moderation along the way.

[00:15:03] **Dr. Clare Knapp:** This is a great question and so important, especially for buyers' agents to understand, but also sellers' agents, as they are educating sellers on what their, you know, buyers are reasonably able to afford. So if we're thinking about a decline in buyers purchasing power, you know, if we're thinking about it over the long term, we're essentially right now only about 10 to 15 percent down in terms of where we were with buyers purchasing power at the height of that mortgage rate peak versus that, you know, kind of 6.7, 6.8 percent range in which we find ourselves currently. But if we were to move, say, from a rate of about 6.75 percent to 6.25%, you know, that's essential if you're thinking about it, really an increase in buyer's purchasing power to the tune of about 4 to 5%.

If mortgage rates decline from, say, 6.75 percent to about 6%, that's an increase in buyer's purchasing power of about 5 to 6%, depending on whether it's a repeat or a first-time buyer. So overall, you know, we're not talking with the expectation that the Fed Fund's rate decreases, the target rate decreases by, you know, 25 basis points or maybe 50 basis points, i.e., that there's one or two rate cuts in 2024, the first of which will most likely be in September. You know, pricing that into mortgage rates is not really going to necessarily increase buyers' purchasing power all that much. Again, the maximum I'm thinking would be about 5%. I think that home prices, depending on where mortgage rates end up, right now, with mortgage rates hovering around that 6.7 to 6.8 percent range, need to come down by about another 10%. Should that rate end up closer to, say, 6.25 percent by the end of this year, that decline in home prices would need to be somewhere a little bit more like 7%. So, we're not talking about a huge decline in home prices.

That's really important to highlight, but just, again, a little bit more slack to help offset, again, that decline in buyers purchasing power as we move from the ultra-low rates of 3 percent or less than 3 percent to, you know, now close to 7%.

[00:17:38] **Danielle Hammett:** That's extremely helpful. We've talked on this podcast before about those changes in interest rates and the lack thereof up to this point. About how it's, you kind of have this standoff in between sellers and buyers where, yeah, that seller may be sitting on a 2 percent interest rate, and if they don't have to sell, they might be more akin to not take their agent's advice and kind of rest on their laurels and just list,

like, leave something on the market and see what bites. And then you have the buyer, which has all the constraints of the reduced purchasing power from the high mortgage rate environment that we've already impacted. But what's it going to take?

Here's my question. What is it going to take to bring more buyers to the table? We've already got the inventory. What, specifically for interest rates, you mentioned it's only going to get us so far this year. What's that number in your head of interest rates that needs to be used to get some of this pent-up demand that buyers may be not acting on or not motivated to act on? What's going to get them to the table?

[00:18:47] **Dr. Clare Knapp:** Really, just think right off the bat, both intuitively and after running the math several times, multiple different ways, I really think it's, low 5 percent range, if not slightly under 5%, or even mid 4's. I think 4.5 percent would be a very conservative number. I think 5.25 percent would be, you know, kind of the most optimistic read.

So we're talking at this point about a decline in mortgage rates to the tune of at least 1.5 percentage points, if not, you know, a little over two percentage points to meaningfully induce an uptick in buyer demand. And that's based on where home prices currently sit. I should add that as a caveat. You know, again, if we see a continued moderation in home prices, then that mortgage rate figure is closer to that 5.25 percent figure. Right?

[00:19:51] **Danielle Hammett:** Yeah, so let me say this back to you. Make sure I get it. So basically, until mortgage rates hit that 5.25 percent number, we can expect here in Austin some continued moderation and list price that needs to happen on the seller's side to kind of help bring some equilibrium in that buyer purchasing power. Yes?

[00:20:14] **Dr. Clare Knapp:** Yes, given, and I should add that's assuming the factors that we're seeing right now continue, i.e., assuming the active listings remain, you know, quite robust assuming that 5.25 percent number again is kind of contingent upon a slight, continued slight decline in median sales prices.

But yeah, you know, essentially assuming the market and Austin doesn't really change all that much. Yeah, I think we really need to hit at least the low fives, 5 percent range for buyers to really come off the sidelines in ways that we have not yet seen.

[00:20:48] **Danielle Hammett:** Right. And so if we're taking all of that and putting in the lens of sales, which were down considerably in June, what is that telling you in terms of how sellers are putting their properties on the market?

[00:21:03] **Dr. Clare Knapp:** Well, I think it's pretty simple. Prices are still too darn high, so to speak, and there's just a little bit of slack. Again, you know, we're not talking

tremendous moderation at home prices. Really, even 10%, I think, would really help a lot of those properties get off the shelves, so to speak. But it's really indicating to us that sellers need to price their homes a little bit lower on average than they currently are. You know, obviously, it's very much case-by-case dependent, but we're talking, you know, overall, you know, homes on average, right, need to be priced a little bit lower than what we're currently seeing for buyers to feel like they want to move.

[00:21:51] **Danielle Hammett:** But to connect it back earlier, as someone who sold or bought their home, what did you say, like, five years ago? It's still had a 40 percent gain in your equity, lowering it down 10 percent in your list price. We'll get offers to the table. It's not going to sit on the market again. It's a 95 percent list-to-sell price right now for the homes that are priced appropriately and are selling, but you're still just looking at the initial numbers, still like a 30 percent gain in equity, which is great for when you want to go make your next move and buy your next home after you sell your current one.

[00:22:28] **Dr. Clare Knapp:** Yeah, exactly. And I think too, you know if you're thinking about where buyers are coming from and kind of just more context about the changes that I think we need to see in both home prices and arguably probably mortgage rates as well. You know, we're still in a period in which we aren't necessarily sufficiently past the COVID pandemic in the sense that, again, we pulled forward a certain percentage of home buyers during the pandemic who otherwise would have delayed that home purchase until 2023 or 2024. Right. So we're still, you know, we're still in my opinion, in a period in which there's necessarily going to be fewer buyers again, you know, fewer labor market is slowing down their fewer buyers from out of state, you know, those pandemic level conditions have gone away. So, Sales are going to stagnate just from that alone, regardless of where mortgage rates or home prices are.

We've said it before; we'll say it again. There are only so many buyers who can purchase a home within any given year, right? We know that homeowners tend to stay in their properties on average for nine to ten years. Again, that's an average figure. Obviously, it depends on a case-by-case basis, but you know, that would imply that there's just necessarily going to be fewer buyers in the market in the years following, you know, any sort of considerable uptick in sales activity.

[00:24:07] **Danielle Hammett:** Right. And just so we're clear, just because something is slowing, the labor market is slowing, sales are adjusting, Dr. Knapp, economist, is that necessarily a bad thing? Like, do you see these trends as a negative right now?

[00:24:24] **Dr. Clare Knapp:** I don't see them as a negative, no, and I think it's really important, and I should be mindful of my own rhetoric, but when we use words like slowing, it's not that the year over year change in jobs has turned negative, right? It's just that job growth is still positive, but the rate of, you know, growth is decelerating, right?



So it's important to differentiate along those lines. So, you know, we're still seeing positive job growth, but what we are seeing is that those more interest rate sensitive sectors, i.e., information, financial activities, and professional business services, especially are seeing, you know, a little bit of a reckoning, right?

And this is happening on a broader level as well, you know, across other metros in Texas. The state as a whole, and even the nation, right? You know, these sectors are slowing their pace of hiring, again, just amid higher interest rates across the board. So, you know, it is very important to remember that these factors are not necessarily hyper-local or, you know, localized to the Austin market and were very much encompassed in a broader national market that is trying to reckon with a still elevated mortgage rate environment and again, somewhat of a slowing labor market.

[00:25:45] **Danielle Hammett:** That was super helpful, Dr. Knapp. And thank you for bearing with my frustration today. I probably have an Austin Board of REALTORS® member or two who might be feeling the same way from some of these headlines, but for the people in the back, let's just recap. Dr. Knapp, is our housing market tanking?

[00:26:05] **Dr. Clare Knapp:** No,

[00:26:07] **Danielle Hammett:** Are we in a bubble?

[00:26:09] **Dr. Clare Knapp:** Absolutely not.

[00:26:11] **Danielle Hammett:** Fantastic. Do homeowners still have Good equity? When the equity gains, when they sell their home?

[00:26:18] **Dr. Clare Knapp:** Yes,

[00:26:20] **Danielle Hammett:** Is there still healthy job growth, population growth, and demand on all sides of the market?

[00:26:27] **Dr. Clare Knapp:** Absolutely.

[00:26:28] **Danielle Hammett:** See, don't buy the headlines, guys. And I understand, especially if you're a listing agent, you might be rolling your eyes at me right now.

Cause you're like, that's fine. I have to talk to my client now. Hey, next week's episode, it's all for you, listing agents. We're going to talk about how you can do that. We're also going to talk about some new construction stats and some rental market stats. We did not have time to get into all that today, but all it's to say, if you want to know how to talk to your clients about this market, just keep dialing into Driving It Home. Keep staying plugged

into our classes and events. We also have one coming up on **August 15th**. Clare, do you want to tell us a little bit about that one?

[00:27:11] **Dr. Clare Knapp:** Absolutely. So it's our **Diversity Summit**. As Danielle mentioned, now is an especially good time for agents and real estate professionals at large to really educate themselves on what's happening in the market to better understand the demographics of both your buyers and your sellers. And the Diversity Summit is a great opportunity in which to accomplish those goals because we'll have folks from a variety of different organizations who represent buyers and sellers of all demographics, educating us on their findings from their annual reports, you know, kind of giving us the lowdown on, you know, the types of homebuyers that we're currently seeing in the market, home sellers, et cetera.

So it's just a really great opportunity for you to learn more about the local factors that are affecting our housing market in particular. You know, we talk quite a bit on this podcast about more of the national factors, of course, a lot on mortgage rates and affordability, but you know, again, this is a great opportunity for you to get hyper-local and figure out how to better optimize your business amid this kind of demographic trends.

[00:28:30] **Danielle Hammett:** That's awesome, Dr. Knapp. And so if you think buyer purchasing power is, you think you've got your head wrapped around it, and you definitely want to dig into that further and how that impacts our different communities of buyers, especially our communities of color. So you're going to get to know all that and more with Dr. Knapp and our city demographer presenting together. So, that **Diversity Summit**, again, is **August 15th**; register at [ABoR.com/Events](https://ABoR.com/Events). Tune in next week for part two of this episode that talks more about sellers, new construction, and leasing, and we will see you next week.

[00:29:06] **Dr. Clare Knapp:** Thanks, guys, and take care.