Austin Home Price Illusion

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March 29, 2023

Homebuyers consider many characteristics of a home before deciding on such a big-ticket item. These can include square footage of both the home and the lot, location, quality of finishes, and age.

When comparing closing prices for new and existing homes in Texas' major metropolitan regions, the Texas Real Estate Research Center (TRERC) discovered a wide price discrepancy (Figure 1). A positive ratio represents more expensive *new* homes, while a negative ratio represents more expensive *existing* homes. This ratio began trending downward statewide in 2015, indicating the price for a typical new home has now fallen below the price for a typical existing home.

In November 2018, Austin became the first major Texas metro where the median price of new homes sold fell below that of existing homes. This suggests Austin's new homes generally cost less than existing homes. Multiplying the average ratio for the seven months ending with June 2022's negative 14 percent by the seasonally adjusted median closing price showed a net price difference

> ### Takeaway
> Taken at face value, data suggest Austin homebuyers generally pay more for existing homes than they do for new homes. However, that's an illusion caused by differences in location, house size, and lot size.

Figure 1. 12-Month Centered Moving Average of Ratio of New Home vs. Existing Home Median Closing Prices

Source: Texas Real Estate Research Center at Texas A&M University
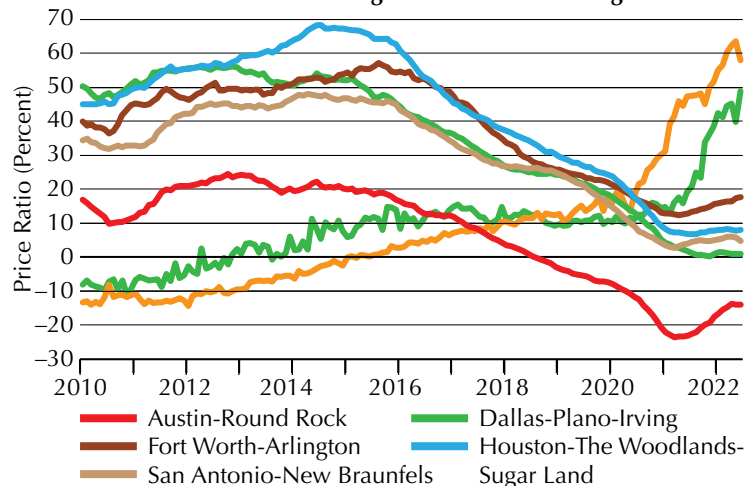
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of over $75,000 in the heated housing market (Figure 2). Buyers usually regard a home's newness as a positive. Is this no longer true in Austin?

Do Austin Buyers Prefer Older Homes?

To explore this question, TRERC used a dataset of Austin houses sold in 2019. This removed any interference by changing market conditions resulting from the COVID-19 pandemic.

Generating a grid of local market areas where at least five new and five existing homes were sold within a two-mile radius, TRERC's study calculated the ratio of median closing price for new homes to that of existing homes. A limited density of new home sales in the more rural parts of the region, where existing home sales remain common but new construction is sparse, prevents some of these new and existing home sales from being translated into local market areas.

Map 1 shows where in the Greater Austin area new homes are more expensive than existing homes, and vice versa. This first look controlled for location, asking if new-home prices are lower because they are more likely to be built on less expensive land in lower-value areas. The local market area cells of Austin proper are largely green, indicating areas where new homes are mostly more expensive than existing homes.

Farther from the City of Austin, in the western and northern parts of the region, are larger collections of local market areas where existing homes were, on average, more expensive than new homes.

To measure typical homes, the study limited the dataset to sales of homes ranging from 1,750 to 2,250 square feet. Again, the study controlled for location. When plotting median home closing price versus distance from downtown, controlling for a home's square footage, the average absolute price of existing homes in the

Figure 2. Austin Seasonally Adjusted Home Prices (Absolute Value)
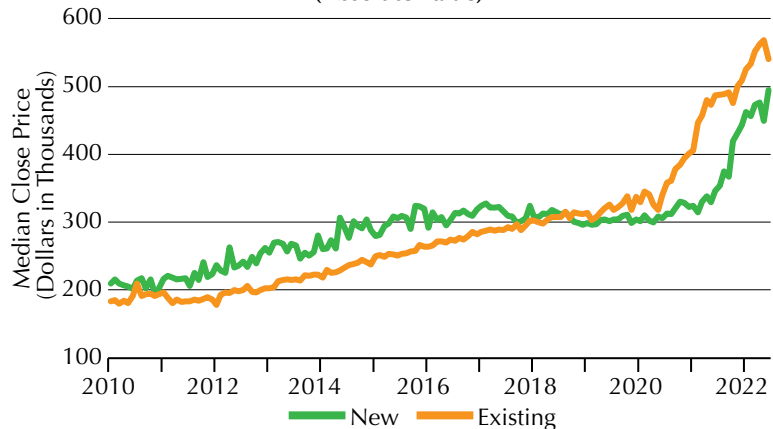
Source: Texas Real Estate Research Center at Texas A&M University
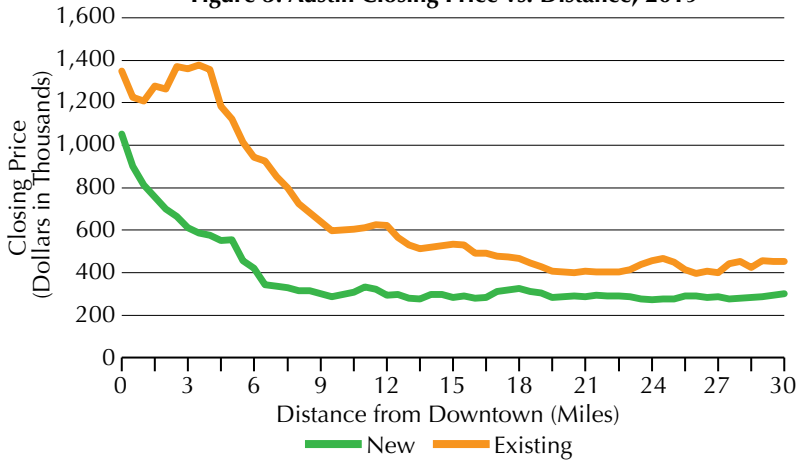
Map 1. Austin Home Sales Pricing Distribution (Unadjusted), 2019
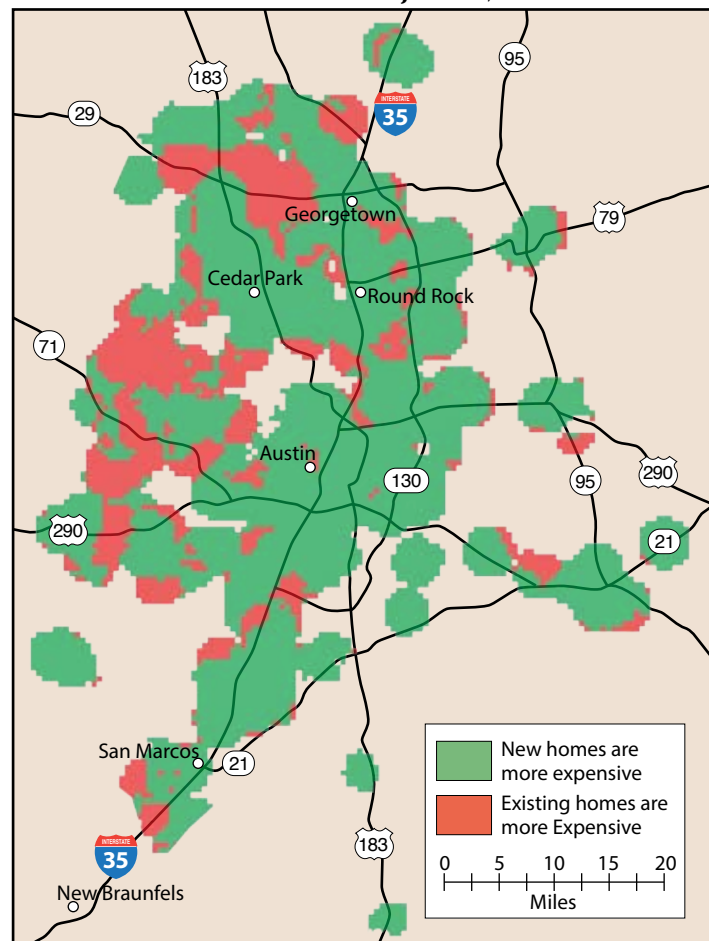
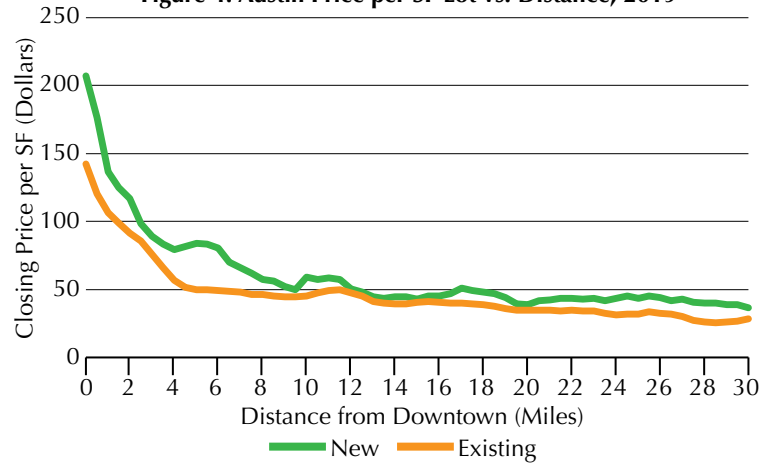Note: Map uses local market area median closing price.
Sources: Texas Real Estate Research Center at Texas A&M University, U.S. Census Bureau, Austin Community College, Texas Parks and Wildlife, CONANP, Esri, HERE, Garmin, SafeGraph, FAO, METI/NASA, USGS, EPA, NPS, and NGA

## Figure 3. Austin Closing Price vs. Distance, 2019

Note: Among houses with 1,750-2,250 SF living area.
Source: Texas Real Estate Research Center at Texas A&M University

Figure 4. Austin Price per SF Lot vs. Distance, 2019

Note: Among houses with 1,750-2,250 SF living area.
Source: Texas Real Estate Research Center at Texas A&M University

Map 2. Austin Home Sales Pricing Distribution (Adjusted), 2019
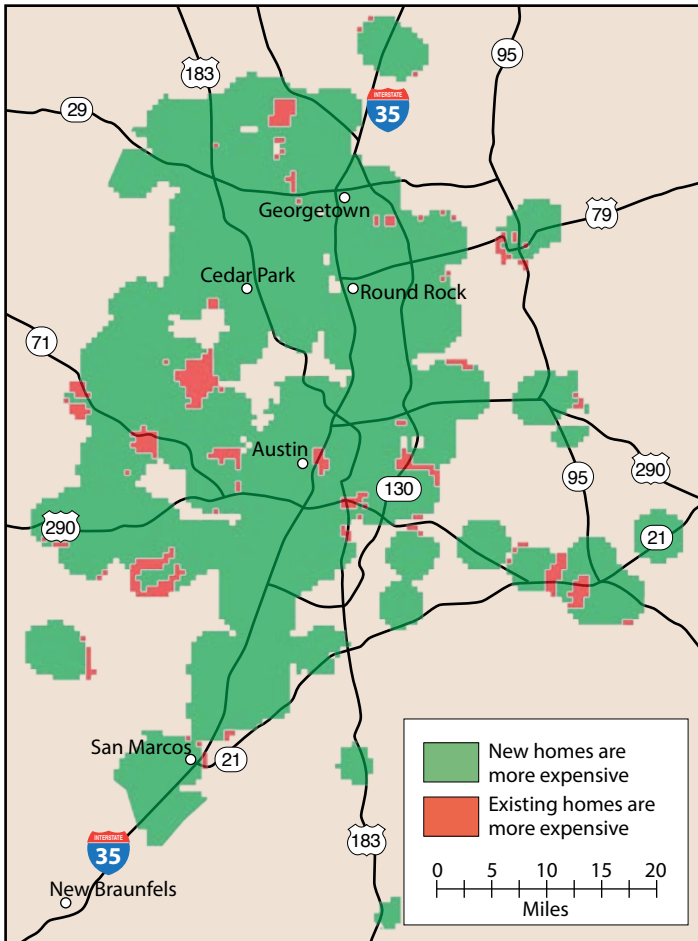
Note: Map uses local market area median price per square foot of lot area.
Sources: Texas Real Estate Research Center at Texas A&M University, U.S. Census
Bureau, Austin Community College, Texas Parks and Wildlife, CONANP, Esri,
HERE, Garmin, SafeGraph, FAO, METI/NASA, USGS, EPA, NPS, and NGA

Greater Austin area remained consistently higher than that of new homes in 2019 at every distance (Figure 3).

To account for any price differences resulting from lot size rather than living area, the study then further controlled for the price per square foot of lot area, plotting this against distance from downtown (Figure 4). This revealed that, at nearly every distance from Austin's downtown, new homes were more expensive per square foot of land than existing homes, reversing the trend seen in Figure 3.

Echoing the findings of Figure 4, Map 2 shows buyers paid more for new homes in 2019 than they did for existing homes in a vast majority of Austin's local market areas when adjusted for price per square foot of lot size.

In short, the lower absolute closing price for new homes in Austin, taken as a whole, is an illusion caused by differences between new and existing homes. After accounting for location, house size, and lot size, new homes are more expensive than existing homes in the majority of the city's local market areas. ⬥

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