

# Forbes

## Why Is Austin's Housing More Expensive Than Other Texas Cities?

Scott Beyer

August 31, 2016

There is a similar narrative driving all four of Texas' big metros, and it is a positive one. Dallas, Houston, Austin and San Antonio have, since 2000, been among the nation's leading major metros for economic and population growth. But, surprisingly, this growth has severely influenced housing prices in only one of them. Median home values in metro Houston, Dallas-Fort Worth and San Antonio, while increasing, remain, according to Zillow, below or just above the national median of \$187,300. The Austin metro, however, has median home values of \$254,500, and the city proper is Texas' 2nd most expensive home-buying market, trailing only the beach town of Galveston. Austin's median housing prices have also grown far faster in net total than the others, increasing by \$80,000 since 2011. Why the difference? The reasons vary, but boil down to Austin's relative unwillingness—thanks to NIMBYism and regulations—to build more housing.

But before getting to that, let's address the popular explanation for the discrepancy. Locals often blame the rise of Austin's tech industry for driving housing prices above the other Texas markets. However, one look at Dallas and Houston—if not San Antonio, which remains behind the others on various economic indicators—dismantles that argument. Dallas is one of America's leaders for business relocation, and Houston for energy and health. Both metros have educated populations and a dramatically larger corporate presence than Austin, including far more Fortune 500s. Dallas' and Houston's median household incomes are around \$59,000, compared to \$63,572 in Austin, meaning that all three metros are wealthier than the U.S. average, but not that different from each other. The housing price variation, then, seems to result from their differing styles of governance.

Dallas and Houston are known for their pro-growth, pro-business attitudes, highlighted by Houston's lack of a formal zoning code, and the explosive town-center growth throughout the suburban municipalities of both metros. According to data from BuildingHunter.com, the Houston metro area between 2008 and 2012 granted between 21,000 and 28,000 building permits annually, and these figures were above 50,000 before the recession. Dallas-Fort Worth saw between 14,000 and 18,000 annual building permits over that time, and was well over double or triple this before the recession. But the Austin metro area had under 10,000 permits annually between 2008 and 2012, and even before the recession, permits were well under half of

either Dallas or Houston. This is despite the fact that the metro routinely ranks at or near the top in population growth rate. A local real estate group determined this May that 15,000 new units are needed annually in the city limits alone to meet this demand—something that’s obviously not happening now.

The devil of this lagging construction is in the details of how Texas’ capital city is regulated. Density is limited in the interior neighborhoods through a variety of laws—such as minimum lot sizes and height limits—that prevent high-rise construction. Most of the rest of the city is dominated by single-family residential zoning that limits density even more. The Austin area also has a high intensity of preservation reserves, meaning nothing can get built in some places.

Beyond just the zoning is the approval process, which further inhibits construction even where it is allowed. A 2015 paper by University of Texas graduate student Megan Shannon found that:

As regulatory delays have increased remarkably since 2009, strong rent growth has compensated for this growing uncertainty throughout the Austin market. If regulatory delays are eliminated and developers receive approvals for multifamily projects within the 120 day mandate instead of the 223 day average, renters could see relief of 4-5% on their rent, or an average of \$60 per month or \$720 annually in Central Austin.

While there is minimal literature comparing the regulatory climate for housing between metros, the best report was one written in 2006 by the Cato Institute’s Randal O’Toole, called “The Planning Penalty.” It calculated the average costs added to homes by government regulation in every metro area. The worst offenders were the prototypical coastal metros like New York City and San Francisco. In Texas, none of the large metros were significantly affected by regulation except Austin, which O’Toole determined was overpriced by 7%. Of course, regulations here have only strengthened since that study.

But these regulations are only part of the story. The other part is the organized resistance against development that exists above and beyond anything formally written in the code.

“Large or small, neighborhood groups in Austin,” writes the Austin Business Journal, “are not shy about flexing their political muscle to prevent development they do not like — even if existing rules permit it.”

This NIMBYism manifests itself via the Austin Neighborhood Council, a collection of neighborhood associations. It is particularly strong among homeowners on the northwest side, which contains some of Austin’s richest zip codes. Chuck DeVore, who is vice president of the Austin-area Texas Public Policy Foundation and a fellow *Forbes* contributor, says this NIMBYism has—in one of the great ironies of modern urban affairs—arisen because of the city’s liberal politics. While the other Texas metros are more conservative, and thus maintain a relatively hands-off approach to regulation and property rights, Austin’s government reminds him of California, where he was previously a state legislator.

“Of all major Texas cities, Austin comes the closest to imitating California’s regulatory stranglehold on housing development,” he wrote by email. “This results in government-induced artificial scarcity in the housing market which drives up prices as builders can’t meet demand.”

Shannon, the author of the University of Texas report, concurs that this political climate has inflated prices:

Between 2004 and 2013 average rents in the Austin area increased by 50%, while median incomes increased by just 9%...Regulatory factors such as significant delays in the city's permit review processes, lack of developable land zoned for high density residential development, minimal "by-right" entitlements, and fierce neighborhood opposition to density and affordable housing also contribute to increasing housing prices in Austin.

This is unfortunate, as it has tangible effects on multiple city demographics, many of whom don't own housing. I've met University of Texas students here who want to rent near campus, but can't because there isn't enough housing within walking distance, forcing them to bus in from other neighborhoods. Austin, amazingly enough, is also the only fast-growing U.S. city whose black population is shrinking, as East Austin gentrifies and black households are pushed to northern suburbs. And the "Keep Austin Weird" moniker, which aims to preserve the city's artistic and musical appeal, has increasingly become a bootless cry, as high prices expel that group too.

One may intuit that Austin is so expensive because all these groups are fighting—along with the techies, the immigrants, the retirees, the state government workers, and so forth—to live in the same city. Perhaps there just isn't enough housing to go around. But Dallas and Houston, just down the road, serve as the ultimate rebuttal to this sentiment—they have even greater net population growth, yet greater housing growth also, and therefore a cheaper stock. Austin should look to these Texas rivals for lessons.