This is not a Housing Bubble! 

September 16, 2020

Here we go again. Many people have expressed concern about the growing housing "bubble." They say a record median home price of $444,900 for housing in Reno-Sparks is “not sustainable and will surely crash….” Wrong! The increase in our housing prices is a real-world example of the law of supply and demand. The more demand we have for our inadequate supply of housing, the higher the prices go. So why is this housing price spike so different than in those the past – spikes that ended badly, and why are we not likely to see prices drop as they did before?

This is not like prior housing booms. Previous booms (bubbles) were built off speculation, not real, sustainable job growth. According to the Bureau of Labor Statistics, the Reno-Sparks MSA has added over 8,000 new jobs per year in the past seven years (pre-COVID). During this same period, we only added 2,500 new housing units on average in the entire region. 2,500 units per year are far below the more than 5,000 housing units we need to accommodate our job growth (at a ratio of 1.4 jobs per housing unit customarily used). This growing shortfall in new housing units drives the prices up as demand increases, which results in median home price records and unaffordable housing. These record housing prices make homeownership impossible for many in our community and force them to rent. The increase in rental demand has driven multifamily rental prices up more than 62% over the same period.

This is what diversification looks like. Thankfully, our local economy is very different than it was ten years ago. We now have more than 200 new, advanced manufacturing, technology, logistics, and e-commerce companies that make our economy quite diversified. This diversification augments our visitor industry demand while protecting us from excessive job losses. In short, our local economy will not "crash" as it has in the past. This pandemic driven recession provides proof of our diversification. Compared to the Las Vegas visitor industry economy, the same economy we had ten years ago, we are practically unfazed by the current recession. Exceptions are brick and mortar retail and restaurants, and bars, all which have been heavily hit by the shutdowns. Several factors demonstrate this diversification: We hit a record in sales tax revenue in June, up 13% from a year ago (Las Vegas is down 13%); Our unemployment rate spiked during the initial lockdown, but has dropped to 8.1%, less than half of Las Vegas’s 16.4; and even our gaming revenue is only down 7.5% compared to Las Vegas at 39% year over year drop. We expect things to get even better in the months ahead.

Economic development indicators are positive. Fortunately, the pandemic has highlighted the many live-work-play advantages of our region to companies and employees alike, as evidenced by increased prospect activity and remote workers moving here. Last month we had a record number of new company leads at 46, three times our monthly average. Companies in high-cost environments and/or large, dense metro areas likely facing increasing taxes, COVID-19 operational restrictions, and a reluctant workforce, are looking at Reno-Sparks as a viable option. Additionally, there is an increased demand for on-shore manufacturing operations and supply chains, particularly for areas identified by the pandemic as problem areas: like medical supplies, pharmaceuticals, and medical devices. Finally, an increasing number of companies embrace remote working, enabling a workforce to consider Reno-Sparks to seek a better work-life balance and an improved quality of life.

So, a housing bubble, this is not! It should now be apparent that the current housing price increases are supported by sustainable jobs and real demand. The demand is growing, while the supply of housing continues to lag. There is no slowing down the expected job growth; in fact, the pandemic has accelerated it. Regardless, this is precisely the kind of job growth we need, "jobs of the future" with higher wages and generous benefits, to replace the jobs we will lose to the pandemic and automation. So, rather than waiting for the bubble to burst, we need to do everything we can to increase the housing supply, especially affordable housing. The long-term success of our community depends on it.