Real Estate Feature

America's Best & Worst Housing Markets

Matt Woolsey, 01.25.07, 3:00 PM ET

Talk about being in the right place at the right time.

While speculators and flippers in places such as Boston and San Diego are running for cover, in other parts of the country they are basking in robust residential sales. Third-quarter median home prices last year climbed 14.6% in Seattle, Wash.; 14.3% in El Paso, Texas; and 12.3% in Portland, Ore.

They also increased by roughly 5% in Houston, Texas; Los Angeles, Calif.; Austin, Texas; Jacksonville, Fla.; and Charlotte, N.C., over the year before, according to the National Association of Realtors.

In Pictures: Best-Performing Metro Areas
In Pictures: Worst-Performing Metro Areas

Prices also jumped along the Gulf Coast, a good sign for Post-Katrina economic recovery efforts. Median home prices increased by 15.5% in Gulfport-Biloxi, Miss.; 14.1% in Baton Rouge, La.; and 7.6% in New Orleans, La.

Price figures are based on total metropolitan areas as defined by the United States Office of Management and Budget. So, while the New York City metro area grew at a solid, but not blockbuster, rate of 3.6%, officials from New York's Finance Department say the five boroughs grew at 19% in 2006--twice the 2005 figure--with prices in Brooklyn and the Bronx swelling 27.6% from the previous year.

In the rest of the country, median home prices on average dropped 1.2%. The most affected area was the Northeast, where median home prices plunged 4.8% over the last year.

Those homeowners would be better off heading west where realtors expect prices to continue to rise.

"There are still plenty of people out there looking to buy homes, our local economy is holding strong and there are a lot of people moving into the city," says Kristine Losh, a broker with Ewing & Clark. "Geographically, Seattle is long and thin and surrounded by water. There's not much room, so you've got a lot of people trying to get the same small amount of land."

Behind The Numbers

Cities showing gains exhibited high job growth and positive net migration figures. They were also areas in which home affordability remained close to national averages through the boom, making them less prone to the corrections and adjustments seen in overheated markets.

Cities most affected by the downturn were old-line industrial markets such as Detroit or Lansing, where local economies are suffering the effects of mass layoffs in the auto industry.

In the Northeast, the number of jobs created last year grew only 0.8%, according to the New England Economic Partnership (NEEP), versus the 1.3% national growth rate. If that's not bad enough, NEEP's projections for increases in gross regional product and per capita income also lag significantly behind national averages.

As a result, people are leaving the area. The latest United States Census net migration figures indicate that 4.6% more people left the region than entered it last year. The regional real estate market also experienced a 4.8% drop in median prices. On the flipside, the South's economic conditions lead to the nation's best migration rate (3.4 %) and subsequently, at -.1%, the nation's best median home price growth figures.

Fools Rush In

From 2004 to 2005, median homes prices in most of the cities that are now resisting downturn, such as Austin and Charlotte, grew at slower rates than the national average.

This made them less susceptible to the sudden swings of a high-flying, highly speculative market such as Miami. In this area, median home price exploded from $232,000 in 2003, to $391,000 at the end of 2005, driven by a market in which builders couldn't keep pace with demand. Miami's real estate market has since corrected, moving down 5.6% from its peak.

"In the highest growth markets, there were a lot of folks who panicked when they saw prices going up by 8, 10 or 12% a year and rushed to buy in," says Kermit Baker, a senior research fellow at Harvard University's Joint Center for Housing Studies.

"Once prices started to fall [in high growth markets], speculators got an itchy trigger finger because prices went up so high that it was very difficult to buy; affordability had gotten out of hand and people worried that if they waited six to eight months to sell, they'd be left holding the bag. The result is a short-term adjustment."

Steadier, more tempered growth translates into a stable real estate conditions because affordability remains in line with local economic conditions.

"In markets with sharp transitions, there was a lot of speculative, short-run buying" says Lawrence Yun, a senior economist with the National Association of Realtors. "In places like Texas or North Carolina, home prices are affordable and there is a good job creating the environment. In Seattle, the job market is strong and while home prices are above the national average, they are affordable by West Coast standards."

What's more, when home values grow too quickly, builders rush to keep up and when the party is over, construction slows and there is excess inventory. For example, this week the nation's largest home builder, D.R. Horton, reported a 60% quarterly drop in earnings.

Add to the mix speculators anxious to dump property and the result is a jump in residential vacancy rates. Since the end of 2005, when the housing bubble began to pop, nationwide vacancy rates have jumped to 2.5%, a nearly 50% increase from the 10-year average. Higher vacancy rates give buyers leverage in negotiating price because sellers have excess supply.

Cautious Optimism

Despite the numbers, some in sluggish areas remain hopeful.

In cities such as Boston, where median sales prices were beaten down 4.3% from the 2005 peak of $431,000, realtors say the market is still strong.

"The biggest difference from 2004 and 2005 is that sellers are willing to negotiate on their prices--bidding wars aren't taking place," says David Green, a broker at Otis & Ahearn. "The bottom line is, if you price your home right, it will move; you would not see that happening in a downward market."

Economists are similarly optimistic for the coming year.

"There's no urgency right now because people think that if they wait six months, they can get a cheaper price," says Baker. "When they think the market has bottomed out, they'll buy back in."

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