Real Estate Feature

Best And Worst U.S. Housing Markets

Matt Woolsey, 05.15.07, 4:00 PM ET

Live in Seattle? If you own your home, chances are you're celebrating.

That's because the city's median home price in the first quarter of this year hit $380,200, an increase of 12.3% from a year earlier, according to data from the National Association of Realtors (NAR). Median home prices in the Pacific Northwest as a whole soared; in Portland, Ore., prices jumped 8.9%, and in Salem, Ore., they grew 15.6%.

Southern metros also boasted gains. In San Antonio, prices went up 11.2%, and Austin, Tex., prices climbed 5.4%. Charlotte, N.C., and Raleigh, N.C., rose 6.4% and 6.3%, and Richmond, Va., and Norfolk, Va., improved 6.2% and 5.9%.

In Pictures: Best U.S. Housing Markets

In Pictures: Worst U.S. Housing Markets

"What we're seeing now are the areas which still have a strong economy, but didn't have the overheated prices [during the housing boom], are the ones holding on strong now," says Kermit Baker, a senior research fellow at Harvard University's Joint Center for Housing Studies.

In the Northeast, the New York City metropolitan area turned in a steady 1% growth rate, and smaller metros like Albany, N.Y.; Trenton, N.J.; and Allentown Pa.--which improved by 6.3%, 7.1% and 5.8% respectively--helped overcome Boston's continuing slump to lift the Northeast to a 1.2% overall price growth, making it the only region in the black.

Now the bad news.

Cloudy Skies

Median home prices in Florida are down, according to NAR: Tampa by 2%, and Sarasota, Palm Bay and Daytona by an average of 9%. Overall, Florida prices plunged 25%, making the Sunshine State not so sunny. Miami, however, which had been hamstrung early in the housing downturn, improved by 2%. The rally may be tenuous however, as 23% of Miami housing loans are subprime, according to First American LoanPerformance, a mortgage data provider.

"We've had 30 subprime lenders go under, which leads to a tightening of credit," says Jonathan Miller, president of Miller Samuel, a New York-based real estate appraisal and consultancy firm of lenders nationwide. "That adds one more barrier to transactions, something that couldn't have come at a more delicate time for the housing market. On a national level, there are a lot of markets which are going to have some problems."

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The Gulf Coast, where home prices had roared back at a double-digit clip the year following Hurricane Katrina, is one such market. Biloxi, Miss., grew by 15.7%, and Baton Rouge, La., by 9.7%, but the subprime hammer came down on New Orleans, where a 20% delinquency rate on subprime loans contributed to an 11% drop in home values, the NAR reports.

Worse News To Come?

For many markets, things may get worse before they get better. Nationwide, prices fell by 6.6%, a number that makes sense at this point in the housing cycle, experts say.

"When housing prices slip, nothing really changes until you try to sell, which is what we've had happen in the last couple of months," says Miller. "I don't think the housing slowdown has fully hit the national economy yet."

Overexpansion was a problem for most metro areas. Homeowner vacancy rates stood at 2.8% in the first quarter of this year, a statistically significant rise from the 2.1% rate a year ago and the 1.7% average between 1995 and 2005, according to the U.S. Census Bureau.

Those high inventory numbers flatten prices and make new development less lucrative.

"It's becoming more difficult to put together financing for new development projects," says Miller. "That'll actually provide some constraint on supply, but that's a couple years down the road. You figure the lead on new development is probably two years, so it's going to be a couple years before units stop coming off the conveyor belt."

Moving forward, there is concern surrounding the strength of the national macro economy. In the first quarter of 2007, growth came in at a disappointing 1.3%--hampered by 4% inflation--but the Federal Reserve predicts growth between 2.5% and 3% for the remainder of 2007.

"We do have a massive inventory correction, which will happen a lot easier and a lot less painfully if it continues to happen during an economic expansion," says Baker. "The fear is now that even though the direct housing hit was absorbed, the indirect hit could be serious too. We're into that now, but it doesn't look like it's enough to throw the economy into recession."

Some might disagree. Fears about the ripple effect of the housing market have traders particularly bearish.

The S&P/Case-Shiller housing futures market on the Chicago Mercantile Exchange is based on repeat sales of homes across 10 markets ranging from Boston to San Diego. There, traders are betting on a 4.5% decline from now until next year.

"There's a limitation to the futures market, because it only trades one year forward," says Fritz Siebel, a broker with Traditional Financial Services, the largest trader of housing futures. "For 2007 to 2008, the market doesn't look good, but it doesn't mean there's not a bottom around the corner."

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