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From: [BUILDER 2009](#) | Posted on: April 16, 2009

Five Housing Markets That Will Recover First

We asked five leading housing authorities for five markets they think will recover first. The results may surprise.

By:

[Boyce Thompson](#)

Given the difficulty of trending the home building market, it's only fitting that the five experts we asked for the first five housing markets to recover picked an ersatz grab-bag of markets from the Great Plains, the Deep South, and even the Industrial Midwest. There's something for nearly every builder in here.

That said, the esteemed prognosticators managed to agree on a few early bloomers. Several were bullish on Washington DC, where federal spending is likely to boost employment in the short run, and **Dallas, an affordable market that continues to churn out good jobs.**

The experts steered clear of bubble markets, for the most part, with the exception of one analyst who thought Sacramento would come back early since it dropped early. They looked for homes to industries—medical, energy, biotech—that are likely to benefit from stimulus or government spending. And they carefully considered whether home pricing in a market had “corrected.”

While several of the selected markets showed up on our list of [The Healthiest Housing Markets for 2009](#), published two months ago, others were conspicuously absent. Top-ranked Houston, for instance, [which appears to be going through a correction](#), didn't make anyone's list of the first to rebound.

Prognosticator: John Burns, CEO, [John Burns Real Estate Consulting](#)



John Burns always seems to be step ahead of the pack when it comes to forecasting the housing market, especially local demand. Among the first analysts to write that a major price correction was necessary before the market would rebound, Burns has since developed a local market forecasting tool.

Dubbed Housing Cycle GPA, the analytical model considers 29 years of history to determine a local market's health. The primary drivers are local demand, supply, and affordability, along with what's happening in the national economy. When two of the three local fundamentals rise, that usually means price appreciation is likely to occur, sometimes immediately, in other cases, over several years.

We asked the analysts at John Burns Associates to use the model to determine which five major home building markets might recover first. They produced a list that includes some metro areas with strong job formation, others where home builder competition is almost nil, and still others where price declines have made homes quite affordable.

1. Washington, DC. Burns' bullishness on this market boils down to a single word—jobs. “If a sector will be hiring, it will be the Federal government,” he says. [D.C. was also among the first markets to have a price correction.](#) “Within a reasonable commute of the Capitol, homes have become very affordable and supply is constrained.”

2. San Diego, Calif. “Most of the home builders and speculators have left town, and left a very supply-constrained market behind. The biotechnology sector is likely to lead an economic recovery that will be characterized by great affordability (by San Diego standards) and a lack of supply.”

3. Sacramento, Calif. “Although we expect housing demand in Sacramento to remain low due to state fiscal issues, much of the excess supply in both new and resale homes has been cleared out, and affordability is fantastic.”

4. Dallas, Texas. “Assuming mortgage rates remain low and GSE lending doesn't change, Dallas' housing market

should stabilize due to increased demand from people relocating from the west to one of the most affordable markets in the country. North Dallas should recover long before South Dallas.”

5. Denver, Colo. “One of the best places to live in the country, Denver was just recovering from the telecom bust when it got hit by the national economic downturn as well. Housing is extremely affordable and foreclosure activity, which used to lead the country, is now much lower than most other areas of the country.”

Prognosticator: David Crowe, chief economist, [The National Association of Home Builders](#)



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David Crowe prefers to analyze the housing recovery on a state-by-state basis. He was among the first housing economists to demonstrate that states benefiting from strength in the energy and agricultural sectors have outperformed others during the downturn. He thinks many of those same states will be among the first to recover.

Crowe recently completed a study for the NAHB Board of Directors that shows how far states have to go to return to “normal” levels. By normal, Crowe means the average level of starts from 2000 to 2003, the years before the housing boom and before subprime lending took off. In 2004, subprime mortgages rose from 8 to 20 percent of originations, distorting new-home pricing.

“The states that will recover first,” he says, “are the ones that did not experience abnormal growth (California, Nevada, Arizona, Florida) or structural economic change (Michigan, Ohio, Indiana) and have experienced some modest economic strength, such as states producing energy, especially petroleum-based, or agricultural products.”

1. Wyoming. Crowe’s strict statistical analysis reveals that Wyoming, one of the least populous states in the nation, may be the first to regain its former glory. It was the only one of the Mountain states that didn’t have job losses last year; its unemployment rate at year end was a scant 3.4 percent. It also recorded the smallest percentage decline in permits in the region. “It will be back to normal by the end of 2009,” Crowe says.

2. North Dakota. The Plains have been among the most stable regions during the downturn, with employment holding steady. North Dakota also ended the year with only 3.4 percent of the workforce unable to find work. Building permits declined only 7 percent in the state last year, one of the best rates in the country, though North Dakota still accounted for only 2,870. “By the end of the year, North Dakota will be about 90 percent of the way toward normal,” predicts Crowe.

3. Texas. Texas pulled off the Herculean feat of adding 155,000 jobs last year, many of them in the oil and gas industries, a growth rate of 1.5 percent. The job creation fueled some of the healthiest home building markets in the country. Also, the state’s population, 24.6 million at the start of the year, according to Census Bureau estimates, has been growing at better than a 2 percent clip for the last five years. “Texas will return to normal by the end of 2010. It will operate at only about 65 percent of normal by the end of the year,” says Crowe.

4. Alabama. There were 15,176 permits drawn in Alabama last year, a 37 percent decline over the previous year. But that still makes Alabama the “hottest” market in the East South Central region of the country, based on permits pulled per 1,000 residents. [Recent evidence indicates things are picking up.](#) Crowe says Alabama “will be the next closest to ‘normal’, 93 percent by the end of next year.”

5. Louisiana. Louisiana, which has low unemployment rates for its region, is another state that will benefit from energy industry muscle. But it will also receive a boost from post-Katrina rebuilding efforts. “Mississippi, Louisiana, and to a lesser extent Alabama, will recover sooner as they continue to build out of the hurricane experiences,” says Crowe.

Prognosticator: James Diffley, Group Managing Director, [IHS Global Insight](#)



Diffley heads the local forecasting group at IHS Global Insight, an international economics firm that has put the U.S. housing market under a microscope in recent years. He likes to think of the recovery question in terms of the first markets within regions.

Like several other economists interviewed for this survey, he thinks that Texas and Carolina markets that didn’t bear the full brunt of the downturn will return to health earlier. He picked several markets that out-performed others during the downturn, either because homes remained affordable, or because population and/or job growth outpaced the competition.

1. Washington, D.C. Diffley points out that Washington, D.C. took its hits early; it was one of the first markets to decline as the bubble burst. It was also among the first to adjust its pricing. "Now with the growing importance of the federal government in the economy, the local economy will be among the strongest, generating above average incomes," he says.

2. Atlanta, Ga. Can Atlanta regain its former glory as one of the top home building markets in the country? Diffley is reasonable optimistic. "The long term economic growth fundamentals continue to be very strong. Its home prices have over-corrected downward. With the troubles of Florida and Charlotte, it is clearly once again the South's leader."

3. San Antonio, Texas. It's hard to quibble with this pick, given that San Antonio actually managed to add jobs last year. Its population also grew last year. These factors along with home prices that grew modestly during the boom have prevented a collapse of home values. Existing home prices fell only 1 percent last year.

4. Raleigh, N.C. Diffley expects Raleigh to be among the first markets "to pick up where they left off." With a strong job base, a growing population, and home prices that didn't go wild during the boom, the market hasn't felt the pain that other markets did during the housing bust.

5. Minneapolis, Minn. The so-called Little Apple may be a big player in the fortunes of the midsection of the country. With steady population growth (one percent annually over the last five years) and stable existing home prices (they fell less than the national average last year), Diffley calls Minneapolis "the hope of the Midwest!"

Prognosticator: Jonathan Smoke, senior vice president, products and innovation, [Hanley Wood Market Intelligence](#)



Jonathan Smoke used to do this kind of analysis at Beazer Homes, where he helped with efforts to deploy resources to the best-performing markets. Though he now wears an analyst's cap, he still thinks like a home builder, dissecting the employment bases of local markets, looking for industries such as bio-tech and clean energy that may power home demand.

Though he follows the jobs, Smoke believes that a wide variety of complicated factors influence the health of housing markets, including affordability, demographic make-up, resale levels, and builder competition. As such, he's optimistic about several markets that didn't make the lists of others.

1. Dallas-Fort Worth, Texas. "The local housing market is relatively healthy, with strong economic fundamentals, and positive job growth. In addition, this market has very strong new home demand based on household formations in key home-buying segments."

2. Fort Collins-Loveland, Colo. "Not only is the housing market relatively healthy here, but the market can lay claim to biotech and clean energy industries that will benefit from government stimulus efforts. Given the positive job growth here, prospects for future price appreciation are strong."

3. Austin, Texas. "The housing market in this state capital is near equilibrium. Home prices never really got out of control, and as a result they actually rose last year. The area has very strong economic fundamentals, with diverse employment and job growth."

4. Indianapolis-Carmel, Ind. "The market has some auto exposure on the job front, but it's balanced by growth in services and bio-tech. New home demand here is good, and the area is nearly at the bottom of its home-price decline. Indy will be interesting to follow since C.P. Morgan dropped out and Pulte will merge with Centex. The market is moving rapidly toward consolidation."

5. Sacramento, Calif. "Existing home sales here are on the rebound, now that we've reached the bottom of home price declines and prices are affordable. There's strong new-home demand, with job weakness countered somewhat by home-buying incentives, low mortgage rates, and affordable prices."

Prognosticator: Ivy Zelman, principal, [Zelman & Associates](#)



Ivy Zelman's group produces a monthly survey of hundreds of private builder contacts who rate local markets. The group also closely analyzes government data releases, new home sales, and public builder reports.

Based on those surveys, coupled with the organization's own analysis, Zelman produces a Homebuilding Survey Market Summary. Most of these markets still get grades in the D-area. But several have risen to the top.

- 1. Salt Lake City, Utah.** Public builders may not like Salt Lake City—several have pulled out in recent years, unable to make money—but Zelman does. She expects it be more resilient than other markets because it has experienced fewer job losses than other Western markets. Also, her network of builder contacts reports a positive reaction to a new \$6000 tax credit to all buyers with income under \$75,000 (\$150,000 for joint filers) who purchase a primary, new home in the state.
- 2. Northern Virginia.** Zelman is bullish on the development-friendly Virginia side of the Washington, D.C. market, less so on the Maryland side. She recently released a report on D.C. saying its “fundamentals are among the best in the country. It is well positioned for sustainable recovery given incremental job growth and land constraints.”
- 3. San Diego, Calif.** “There’s no one left there,” says Zelman, listing all the public builders who have pulled out and the private ones who have gone out. Home price declines, coupled with the city’s fame as a great place to live, could prime the market for growth. “A strong military presence is another reason this market makes the list,” she says.
- 4. San Antonio, Texas.** San Antonio continues to rank high on Zelman’s Market Summary list, even as other markets fluctuate. “It has one of the ten highest rates of job growth in the country.”
- 5. Cleveland, Ohio.** “I’m not just putting this market on the list because I live there,” says Zelman, adding that demographic trends such as an aging population work to the market’s advantage. “Everyone comes back to Cleveland, and I think you are going to see more of that in the future. Housing here is under-valued, and there’s a strong health care industry.”

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