

Housing Strength Shifts to New Markets

As Real-Estate Boom Slows on the Coasts, Texas and Other Overlooked Areas Gain Heat

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As home sales cool on the East and West coasts, some cities that missed out on the real-estate boom are becoming the strongest markets.

A look at inventories of unsold homes, prices and employment trends points to generally positive signs in Houston, Dallas and Atlanta -- cities that have seen only modest home-price gains in recent years.

Metropolitan areas whose housing markets look less healthy, at least in the short term, include Boston, Los Angeles, Miami, Minneapolis, New York, Philadelphia and San Francisco. All of them have growing inventories of homes and relatively weak job growth. As a result, houses that a year or two ago might have sold in hours now are languishing on the market for months, and some sellers are cutting prices.

To produce a snapshot of residential real-estate prospects for 18 major metro areas, The Wall Street Journal examined inventories of homes for sale at the end of the first quarter from a variety of local sources; pricing trends based on surveys of real-estate agents by Daniel Oppenheim, an analyst at Banc of America Securities in New York; and projections of job creation by Moody's Economy.com, a research firm in West Chester, Pa. Inventory data provide a broad picture of the overall supply of housing, while job trends are the biggest driver of demand. The pricing data show how markets are adjusting to recent shifts in supply and demand.

Texas has been a laggard in recent years, partly because job markets were weak in some cities and land for new houses is plentiful. Now, the state's job market is strong, as cities there are benefiting from the oil boom and an influx of people from abroad and elsewhere in the U.S., and housing demand is keeping up with the relentless spread of new subdivisions as Texas cities sprawl. Investors, many from California, are adding to the demand.

Texas home prices could rise 6% to 9% annually over the next several years, up from an average of

Where Housing Is Headed

A look at fundamental indicators in 18 major real-estate markets.

METRO AREA	CHANGE IN HOUSING INVENTORY ¹	RECENT PRICE TREND ²	EMPLOYMENT OUTLOOK ³
Atlanta	▲ 15%	▲	Strong
Boston	▲ 91%	NA	Weak
Chicago	▲ 28%	▲	Average
Dallas	0%	▲	Very strong
Denver	▲ 19%	▼	Strong
Detroit	▲ 46%	▼	Very weak
Houston	▼ 3%	▲	Very strong
Las Vegas	▲ 24%	▼	Very strong
Los Angeles	▲ 149%	Flat	Weak
Miami	▲ 236%	Flat	Weak
Minneapolis	▲ 43%	▼	Weak
New York	▲ 70%	▼	Weak
Philadelphia	▲ 39%	Flat	Weak
Phoenix	▲ 282%	▼	Very strong
San Diego	▲ 91%	NA	Strong
San Francisco	▲ 65%	NA	Weak
Seattle	▲ 5%	▲	Very strong
Washington, D.C.	▲ 230%	Flat	Strong

Note: NA—not available

¹ Change from a year ago in the number of single-family homes and condos offered in multiple-listing services as of late March or early April. In some cases includes townhouses and other types of housing. Los Angeles includes only data from the Multi-Regional MLS. New York includes Manhattan, Queens, northern New Jersey and Long Island. San Francisco includes the city plus Santa Clara, San Mateo, Santa Cruz, Monterey and San Benito counties. Washington includes the city plus Maryland and Virginia suburbs.

² Price trend compared with prior month, based on a March survey of real-estate agents by Banc of America Securities.

³ Job growth projections by Moody's Economy.com for the three years ending Dec. 31, 2008.

Sources for inventory: SmartNumbers, MLS Property Information Network, MLS of Northern Illinois, Texas A&M Real Estate Center, Denver Board of Realtors, Real Estate One, Houston Association of Realtors, Greater Las Vegas Association of Realtors, MRMLS, Esslinger-Wooten-Maxwell, Minneapolis Area Association of Realtors, Corcoran Group, Otteau Appraisal Group, Consolidated MLS, Prudential Fox & Roach, Arizona Regional MLS, Cal State University San Marcos, San Francisco Association of Realtors, REInfolink, Northwest MLS, MRIS.

4.5% over the past 15 years, says James P. Gaines, an economist at Texas A&M University's Real Estate Center in College Station. He says the state is attracting residents and employers because its housing remains very affordable by national standards.

"I don't see a slowdown coming," says Lorraine Abercrombie, chairwoman of the Houston Association of Realtors and director of marketing for Greenwood King Properties. Last week, Greenwood listed a five-bedroom home in Houston's Wilchester West neighborhood. Within three days of the first showing, the home was under contract for \$465,000, well above the asking price of \$449,000.

Atlanta also benefits from a healthy job market, due partly to the city's role as a regional hub and a magnet for immigrants and conventions. J. Lewis Glenn, president of Harry Norman Realtors, says the total value of homes sold by the big local firm in March was up more than 10% from a year earlier. Unlike Dallas and Houston, though, Atlanta's inventory also is up substantially -- 15% -- from a year earlier, according to SmartNumbers LLC, a local research firm. That bulge should restrain price increases.

For the nation as a whole, many real-estate executives and economists continue to predict a fairly soft landing for the housing market. Among those taking this view are Ronald J. Peltier, chief executive of HomeServices of America, a chain of real-estate brokerage firms owned by Warren Buffett's **Berkshire Hathaway** Inc. But Mr. Peltier warns that prices in parts of Southern California could fall as much as 5% to 10% this year.

One coastal market that remains strong is Seattle, where jobs are plentiful and home inventories remain lean, though they have crept up from a year earlier. But many other coastal markets are suffering hangovers from the boom of recent years. Rising interest rates have priced some buyers out of these expensive markets and deterred speculators, who no longer can count on fast profits and are dumping properties on the market.

One of the weakest markets is Boston, where inventories have nearly doubled from a year ago and the job market is soft. The median price of homes listed for sale in the Boston area has fallen 3.3% from a year earlier to \$579,000, according to MLS Property Information Network Inc. in Shrewsbury, Mass. For condos, the median asking price is down 6% to \$375,000.

Sonia Hernández Diaz, an assistant professor at the Harvard School of Public Health, has had her two-bedroom condo in Brookline, near Boston, on the market for only a month, but already has lowered the price to \$449,000 from \$469,000. She says there have been lots of people looking at the condo, featuring "gleaming" hardwood floors and an eat-in kitchen, but no offers yet.

In New Jersey, a market highly dependent on people who commute to other states, prices are likely to be flat to slightly higher this year, down from the double-digit pace of recent years, says Jeffrey G. Otteau, president of Otteau Appraisal Group in East Brunswick, N.J. Next year, he thinks prices could fall 5% or so in the state.

"We think that we're going to be in a flat holding pattern for the next several years," Mr. Otteau says, though at the top end of the market, there is "an extreme oversupply" of houses. In Spring Lake, N.J., known for expensive homes, there is a three-year supply of homes at the current rate of sales, and Upper Saddle River has a 21-month supply, Mr. Otteau estimates. He blames the state's loss of high-paying jobs in such industries as

telecommunications and pharmaceuticals.

The picture is mixed in Phoenix, Las Vegas, San Diego and Washington, D.C. Inventories have surged in all four cities, particularly in Phoenix, as sales have slowed. But job growth is well above the national norm, and that should soften the landing. The Las Vegas market has "normalized," says Linda Rheinberger, president of the Greater Las Vegas Association of Realtors. Prices there are likely to rise 5% to 10% this year after jumping about 49% in 2004 and 14% in 2005, she says.

In Miami, a building boom has more than tripled the inventory in the past year. Even so, population growth should absorb any excess supply within 12 to 18 months, says Ronald A. Shuffield, president of Esslinger-Wooten-Maxwell Realtors, a big real-estate brokerage firm there.

The Detroit area, which missed the boom, is now being mauled by job cuts in the auto industry. "We haven't quite hit the bottom yet," says Dan Elsea, president of brokerage services at Real Estate One, a large brokerage firm in Michigan. For houses in the range of \$400,000 to \$1 million, he says, prices are down about 10% from a year ago. He calls it a good opportunity for investors.