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## Healthiest Housing Markets 2009: Fall Update

Hanley Wood Market Intelligence's new and improved Market Health Index now accounts for a market's median income growth.

By:

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Much has changed since February, when we published [our first list of the healthiest housing markets for 2009](#).

The federal government's \$8,000 tax credit for first-time home buyers spurred sales around the country. Companies with cash are buying land again. A handful of builders have begun emerging from Chapter 11 bankruptcy.

But the housing downturn surely is not over yet, despite economists' assertions that statistics will show that the recession ended in June. Home values have fallen dramatically this year, and some believe prices still haven't hit bottom. In terms of employment (a key factor for home sales), all but three of the top 100 housing markets have lost jobs since we published our February story.

Given these factors, we decided to revisit our list and see how individual markets have fared this year—and where builders need to be in the months to come.

We took advantage of this occasion to improve the metric by which we rank the markets by adding more data to the calculations. Now we're ranking markets not just by what's happened with home price appreciation (or depreciation), job growth, household growth, and unemployment. We're also considering median income growth as well.

"These are the economic factors that are most correlated to strong home sales," says Jonathan Smoke, director of research for [Hanley Wood Market Intelligence](#), which compiled the rankings for BUILDER Online. "In the best of times, earlier this decade, many markets had high marks on all these factors, making them the perfect markets for home sales."

Today, as Smoke points out, the reverse is true. In nearly every market, most of the key home building drivers have turned negative. As a result, virtually no market today is truly healthy, though some are faring better than others. For that reason, the recovery, when it comes in earnest, is likely to be more pronounced in the markets that head our list.

Each market on the list received a Market Health Indicator score, with a score of 50 or more considered healthy. Only one market on this list surpassed 50.

To give more builders across the country a sense of where an individual market stands nationally, we've expanded the list to include the 100 largest home building markets, ranked by permit volume. Interestingly, many smaller markets showed up on our list of the healthiest, in part because they didn't have big run-ups in housing appreciation during the boom. Many of them also benefit from more diversified economies than other formerly booming metros.

We've also improved the Market Health Index to make it timelier and more consistent. We've included forecasts, where appropriate, so that all the data, with the exception of building permits, is good through August.

Again, our list should help identify the markets that are likely to recover first from the downturn. Some are already on their way up. In Washington, D.C., for instance, new home sales were up 17% through June, and builders there have been able to pass through some price increases.

If you would like a broader and more detailed ranking of the top 200 markets, you can click on this [link](#) to purchase the Market Health Report from Hanley Wood Market Intelligence.

Here, in ascending order, are the 20 healthiest housing markets in the country.



### **#20 Killeen-Temple-Fort Hood, Texas**

**Market Health Indicator: 28.7**

Home building in Killeen, home to Fort Hood, is down, to be sure. In fact, the central Texas metro area experienced a 33% decline in building permit activity during the first half of the year. With an unemployment rate hovering around 7.2%, Killeen has fared better than most markets around the country. Employment has helped prop up median home prices, which have barely fallen with just a 2.2% decline in the last year. They don't have far to go, since the median price of a home here is an ultra-affordable \$89,450. Killeen's relative health has single-family builders betting conditions will improve. They pulled 12% more permits in the second quarter of the year, compared to a year earlier, though multifamily permit activity plummeted.



### **#19 Raleigh-Cary, N.C.**

**Market Health Indicator: 30.1**

Though unemployment woes have arrived in Raleigh, home prices have held steady during the last year, dropping a mere 1.6%, in part because the city has added so much population in recent years (roughly 5% growth annually). Builders in Raleigh, which is home to the Research Triangle, multiple universities, and the

state capital, have successfully pushed entry-level housing this year, taking advantage of the \$8,000 federal tax credit. Raleigh added more households on a percentage basis than any other top 20 city on the list in the last year. Existing home sales in August were running only 1% below levels of a year earlier. As a result of the market's relative strength, median home prices--\$218,000 in August—were holding up well compared to other parts of the country.

**Busiest builders:** Pulte Homes, KB Home, Centex Homes, Atreus Homes & Communities, Standard Pacific Homes.

**Courtesy:** [Hanley Wood Market Intelligence](#).



### #18 Fayetteville-Springdale-Rogers, Ark./Mo.

**Market Health Indicator: 30.3**

During the first eight months of the year, the economic recession finally caught up with Fayetteville, which dropped several notches in our rankings. Located in the foothills of the Ozarks and within an easy drive of Wal-Mart's Bentonville, Ark., corporate headquarters, this metro has recently been named one of the best places to live (by Kiplinger) and to do business (by Inc.). During the first nine months of the year, employment declined just 1.1% and median household income slipped only 2.3% compared to the same period a year earlier. Unemployment here (6.4%) is still well below the national average, and median home prices are a very affordable \$106,000. Bentonville, which accounts for about half the activity in the MSA, is also the hottest part of the market, thanks to a flurry of multifamily activity.



### #17 Provo-Orem, Utah

**Market Health Indicator: 30.5**

Home to Brigham Young University and great skiing, fundamentals in Provo have held up better than most during the housing recession, due in part to strong in-migration to this metro during most of the decade. Even so, with Moody's Economy.com expecting less than a thousand permits to be pulled here this year, Provo is operating at about 20% of the production it maintained in the 2005-2007 period. Housing prices in Provo, which seemed to escape deflation during much of 2007 and 2008, finally fell 18.4% during the first nine months of 2009. Foreclosures are certainly a factor; [Provo has the highest foreclosure rate in Utah, which itself has one of the higher foreclosure rates in the country.](#)



### **#16 Little Rock-North Little Rock-Conway, Ark.**

**Market Health Indicator: 30.7**

Little Rock is rockin' the recovery. Moody's Investor Services recently announced this Arkansas city has the second most diverse economy in the nation. An Associated Press report in August named Little Rock as a "resurgent" Southern market, thanks to a 5% increase in existing home sales in July, data that came from the Arkansas Realtors Association. The next month the group reported that existing home prices rose 8%. Job losses haven't increased much during the year in Fayetteville, which also benefits from a very affordable median existing home price of \$126,000. Still not convinced? Try this: Little Rock was ranked by the Brookings Institute as the seventh-best metro economy in the country this year, with the second-best overall growth from 2008 to 2009.



### **#15 Charleston-North Charleston-Summerville, S.C.**

**Market Health Indicator: 31.1**

The recession settled into Charleston this year, as unemployment nearly doubled to 11%. This happened even as the attractive port city continued to add population at a 2% annual rate. Home prices, which held pretty steady in 2008, took a tumble this year, falling 10.9% during the first nine months of 2009. At \$180,000, the median price of an existing home is now below 2004 levels. Rising joblessness has led to a 33% decline in permit activity through June of this year. Even so, the city's long-term prospects have to be considered good. Two of the four biggest employers here are military bases, and the health sector accounts for the other two.

**Busiest builders:** Centex Homes, KB Home, The Ryland Group, Beazer Homes USA, Lennar Corp.

**Courtesy:** [Hanley Wood Market Intelligence](#).



### #14 Omaha-Council Bluffs, Neb./Iowa

**Market Health Indicator: 32.4**

While other housing markets have swung to extremes in recent years, a strong and diversified economy has helped Omaha remain steady during the last nine months. Median home prices remained in the mid-\$130,000s in the 2nd quarter of 2009, not far from where they stood during the housing “boom.” One of the biggest beneficiaries of Omaha’s stability has been its biggest builder, [HearthStone Homes](#), which hopes to equal in 2009 the 882 single family closings it achieved in 2008. The company has benefited from a four-year contract (which ends next year) to build homes at Offutt Air Force Base. With about 11,000 employees, Offutt qualifies as the single biggest employer in Omaha. The most famous firm with an Omaha office? Warren Buffett’s Berkshire Hathaway holding company, which owns Johns Mansville and Shaw Industries, among others.

**Busiest Builders:** HearthStone Homes, Celebrity Homes, Charleston Homes, Lane Building Corp., Barr Homes.

**Courtesy:** [Hanley Wood Market Intelligence](#).



### #13 Denver-Aurora-Broomfield, Colo.

**Market Health Indicator: 32.5**

People are still moving to Denver, which remains a place where many people would like to live. The city’s popularity has helped keep median home prices at a rather lofty \$179,850, which is still down 15% in the last year. Jobs certainly aren’t the main draw; unemployment in the Denver metro area stands at 9.4%. Such trends have forced builders to respond with new product offerings. While Arcadia Properties has seen success [with an infill project](#), most of the leading builders in Denver have introduced smaller, more affordable homes to compete with foreclosures, which have steadily declined during the last year.

**Busiest builders:** Richmond American Homes, D.R. Horton, Oakwood Homes, KB Home, Century Communities.

**Courtesy:** [Hanley Wood Market Intelligence](#).



## #12 Des Moines-West Des Moines, Iowa

**Market Health Indicator: 32.8**

With many economists suggesting that unemployment will continue to rise into 2010, Des Moines boasts an unemployment rate of 5.5%, half the national number and the lowest among its fellow 20 healthiest housing markets. The top two employers here are financial institutions Wells Fargo and Principal Financial Group, and this sector of the economy contributes about a quarter of the region's income. With a median existing-home price of about \$140,000, prices are still running at 2004 levels after hitting a high-water mark of \$152,000 last year. Des Moines had the best growth rate among all metropolitan economies during 2008-2009, according to The Brookings Institution. But that didn't stop building permit levels from dropping 42% during the first half of the year.



## #11 Madison, Wis.

**Market Health Indicator: 33.0**

Madison is another one of those markets lucky to be the state capital and have a major university, the University of Wisconsin. Together, these businesses have helped keep unemployment at a low 7.4% through August 2009. One of the fastest growing portions of Wisconsin, the Madison MSA had an estimated population of 562,000 in 2008. It also has one of the most educated workforces in the nation, and consistently ranks among the best places to live and work in the country. Even so, 2009 permit levels in Madison are running at half of 2008 rates, thanks to a big slide in multifamily activity. The median home price, which dropped 5.9% in the first nine months of the year, currently stands at \$211,000.



## #10 Olympia, Wash.

**Market Health Indicator: 33.3**

With a population of nearly a quarter million, Olympia is one of the smallest of the top 100 markets. But the state capital, located about 60 miles from Seattle, is also among the strongest. Olympia's housing correction has been a mild one; at \$184,000, existing home prices remain above 2004 levels. Even so, a state government hiring freeze, enacted in 2008, has curtailed employment here, and the unemployment rate is now running at 9.9%. Though new households are still forming, median income levels have fallen 8.5% during the last year. Olympia also happens to be the home of Scott Homes, named Builder of the Year by the NAHB Research Center [for its work building energy-efficient homes](#).

**# 9 Dallas-Fort Worth-Arlington, Texas****Market Health Indicator: 34.2**

Though Dallas is now shedding jobs—it managed to increase them last year because of its attractiveness as a business center—home prices here have held steady; they are down less than 6% year-over-year. Because builders have refrained from building speculative inventory, local [housing forecasters believe the housing market seems to have reached bottom](#). With the median price of a home holding at \$135,000, Mark Dotzour, chief economist at the Real Estate Center at Texas A&M University, believes that there isn't much risk of further price decline. David Brown, of housing analysis firm Metrostudy, added that there's only a three months' supply of new homes left in this major housing market.

**Busiest builders:** D.R. Horton, Highland Homes, Centex Homes, David Weekley Homes, Meritage Homes.  
**Courtesy:** [Hanley Wood Market Intelligence](#).

**#8 Salt Lake City, Utah****Market Health Indicator: 34.3**

With a relatively low unemployment rate of 6.3%, resilient resale pricing, and strong population growth, Salt Lake City hasn't felt the same pain as other markets. Even so, Salt Lake, which is home to the University of Utah, has lost some jobs during the last nine months, mostly in construction. Existing home prices, which were \$212,000 in September, didn't decline much during the downturn; they still run above 2006 levels, propped up by strong household formation. Interestingly, 75% of the permit activity during the first half of the year in Salt Lake has

been in multifamily, reversing a four-year trend in this past Olympic host city.

**Busiest builders:** Ivory Homes, Richmond American Homes, Woodside Homes, Garbett Homes, Trophy Homes.

**Courtesy:** [Hanley Wood Market Intelligence](#).



### #7 Tulsa, Okla.

**Market Health Indicator: 36.4**

Though Tulsa largely avoided the housing bubble, this Great Plains market has not escaped the recession. As Tulsa lost jobs in manufacturing, energy, and other sectors, new-home construction slowed. [Construction starts were off 29% during the first eight months of the year compared to a year earlier, according to local reports](#). But with unemployment a low 7.2%, and housing prices a very affordable \$128,000 (down only 3% in the last year), Tulsa appears poised to recover before many other markets.



### #6 Baton Rouge, La.

**Market Health Indicator: 38.6**

For a short time following Hurricane Katrina, Baton Rouge became the largest city in Louisiana. Since then, many of those temporary residents have moved back to New Orleans, but the metro area's housing market has remained in decent shape. A port city that is home to the second largest oil refinery in the country, Baton Rouge is also the state capital and home of Louisiana State University (LSU). Its strong and diversified employment base has contributed to a jobless rate of only 6.7%. It is one of only three top 100 markets to have added jobs during the first nine months of the year. Permits, though, are off 46% during the first six months, with most of the decline in multifamily.



## #5 Oklahoma City, Okla.

**Market Health Indicator: 38.7**

In Oklahoma City, another oil patch market that never hit pay dirt in housing, the median price of an existing home is \$126,000, the lowest of the top 10 markets on this list. Home prices in Oklahoma City, which is situated in the middle of an oil field, have barely budged in the last year. [The city has even seen the development of loft and condominium projects.](#) Though Oklahoma City, which houses both the University of Oklahoma and Tinker Air Force Base, has shed some jobs in the last nine months, its unemployment rate, 6.45%, stands well below the national average. Finally, foreclosures haven't been the problem in Oklahoma City that they have been in other markets.

**Busiest builders:** Ideal Homes of Norman, Home Creations, D.R. Horton, Rausch Coleman Homes, Sooner Traditions.

**Courtesy:** [Hanley Wood Market Intelligence.](#)



## #4 Houston-Sugar Land-Baytown, Texas

**Market Health Indicator: 39.3**

Inexpensive labor and land costs have always made Houston an extremely affordable housing market. Even so, softness in the energy sector put a dent in Oiler country this year. The city lost 2.6% of its jobs in the first nine months of the year, compared to a similar period last year, though its unemployment rate, 7.8%, remains below the national average. Though building permits are running 46% below last year's levels through June, activity picked up in August compared to the prior year, according to David Jarvis, director of Metrostudy's Houston region. At a recent housing forecast conference, Jarvis [predicted that permits would be up in the second half of the year](#) on a year-over-year basis.

**Busiest builders:** Lennar Homes, Perry Homes, Long Lake, Ltd., MHI/McGuyer Homebuilders, and David Weekley Homes.

**Courtesy:** [Hanley Wood Market Intelligence.](#)



### #3 Washington-Arlington-Alexandria, D.C./Va./Md./W.Va.

**Market Health Indicator: 40.2**

Washington, D.C., is one of the few major markets to actually record an increase in new home sales this year; sales were up 17% through June, according to Hanley Wood Market Intelligence, though the market slowed in September. The federal government appears to be living up to its reputation as a counter-cyclical buffer, though many of the jobs in the nation's capital are now in the tech sector. Home prices in this high-priced region seemed to correct early. Median home prices fell 20% in 2008 and have fallen another 21% through September of this year. But in a research note, market researcher Dan Fulton recently asserted that home prices probably won't decline further. In his opinion, Northern Virginia doesn't have enough housing, while Maryland's Prince George's and Charles counties continue to suffer from oversupply. Washington qualifies as one of the most affluent markets in the country with a median income of \$83,500.

**Busiest builders:** Ryan Homes, Centex Homes, K. Hovnanian Homes, Beazer Homes, The Ryland Group.  
**Courtesy:** [Hanley Wood Market Intelligence](#).



### #2 San Antonio, Texas

**Market Health Indicator: 41.2**

The recession arrived in San Antonio earlier this year, when employment finally turned negative due to weakness in the manufacturing sector. But with military bases as three of its top four employers, this Texas city may see better employment numbers next year, potentially fueling housing growth. Housing here remains affordable at a median of \$148,000, with prices declining a mere 1.6% during 2009. In addition, San Antonio routinely ranks among the best cities for relocation, and has been gaining population at a rate of 2.8% annually, a trend that continued even this year. Despite favorable trends, though, San Antonio housing permits have fallen 54% so far this year, and comparisons may wind up even lower before the year is over. A full 72% of the action is in single-family rather than multifamily permits.

**Busiest builders:** D.R. Horton, Centex Homes, KB Home, Fieldstone Communities, Pulte Homes.  
**Courtesy:** [Hanley Wood Market Intelligence](#).



## #1 Austin

**Market Health Indicator: 50.3**

Even though it took a step backward during the last six months, Austin happens to be the only market on our list that is genuinely close to healthy. Home prices, which rose in 2008, finally declined this year—they are down 4.6% through September—as this Texas metro ended a long run of employment growth and lost some jobs. But its population has expanded by 4.3% during the first half of 2009, which should add housing demand and help firm up home pricing. It was the same story with Austin-area employment numbers, which remained in positive territory until mid-2009, when its manufacturing segment began losing jobs. Still, unemployment in this progressive city runs only about 7%, significantly below the national average. Dell Computer is Austin's largest employer, with about 17,000 jobs. Austin continues to draw population, especially retirees, with its low cost of living, inexpensive housing, and warm-weather climate. The city had the third highest household growth rate in percentage terms among the top 100 market. Even so, permit activity fell by 38% during the first half of the year.

**Busiest builders:** D.R. Horton, Centex Homes, Pulte Homes, Lennar Homes, KB Home.

**Courtesy:** [Hanley Wood Market Intelligence](#).

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