



Housing Trends

America's Most Stable Housing Markets

Matt Woolsey, 10.01.07, 4:00 PM ET

Nationwide, home prices are falling, sales are sluggish and the number of foreclosures is mounting. Ask any economist and you'll hear that things are bad, and likely to get worse.

Unless you live in Seattle, where the market is slowing but fundamentals remain strong.

The Emerald City has experienced strong price appreciation over the last six quarters, and that's expected to continue in the new year, though at a slower pace. In addition to a very low housing inventory and a strong sales rate, there are few non-conforming and high-risk loans on the books than in other cities, which means the area will likely see fewer defaults in the coming months than the rest of the country's markets.

In Pictures: America's Most Stable Real Estate Markets

Also primed for a stable year are [Pittsburgh](#), [Columbus, Ohio](#), and [Dallas](#). They follow Seattle in our ranking of the country's 10 most stable markets. All are projected to have median home sale price increases next year, thanks to a combination of factors including lower-than-average inventory levels, little price volatility and high job growth.

To arrive at our list, we teamed with Moody's Economy.com to develop three prediction models based on a range of factors that affect how prices move. These include, among other things, the state of local economies, new construction contracts, foreclosure rates, local credit markets, sales rates, affordability and inventory. Each of America's 40 biggest cities was ranked on all three models, with price appreciation counting one half and sales rates and credit models accounting for the other half. Data were drawn from the U.S. Census Bureau, National Association of Realtors, Equifax, a credit-market tracking firm and Moody's Economy.com.

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Behind The Numbers

The first model looks at projected median existing home price growth from fourth-quarter 2007 to fourth-quarter 2008. Factors influencing this data include the market's inventory of unsold homes and the amount of new construction underway, both of which have obvious effects on supply. Housing affordability and local construction costs also play a role, acting as indicators of the market's ability to accommodate first-time buyers and new construction. Next is job growth, which attracts people to the area and increases their ability to buy a home.

Expensive markets like [Seattle](#) and [San Francisco](#), which have low housing inventories and low construction costs, do well by this measure. Most of the top performers, however, are affordable, high-job growth markets like Dallas and [San Antonio](#).

"It largely reflects that these markets never went through the boom and aren't going through the severe bust," says Mark Zandi, chief economist at Moody's Economy.com. "Price growth is not great, but [these markets] are not having house price declines. [All markets] are experiencing pricing problems, but in these markets it's less of a problem."

Moody's second predictive model examined market activity by calculating sales rate, which measures how quickly unsold inventory is expected to sell, and turnover, which measures how much of the overall housing stock those sales represent.

For example, the projected volume of home sales in San Francisco for the coming year represents a low 1.1% of the market's overall housing stock. In a market like Los Angeles, hamstrung by foreclosures and inventory glut, a 1% to 2% sales rate is potentially devastating--but given San Francisco's supply-side fundamentals and low foreclosure rates, prices are expected to modestly climb.

The last measure took into account delinquency and foreclosure predictions. By this model, adjusted-rate mortgage- and subprime mortgage-rich Detroit, Riverside, Calif., and Las Vegas got hammered, while Pittsburgh and Seattle performed well.

Regarding this measure, "it's important to differentiate between [delinquencies]: how many people are late relative to their most recent due date and how many people are in the process of losing their home," says Douglas Duncan, chief economist of the Mortgage Bankers Association. "Ninety percent of all 30-day late pays get fixed. Serious delinquencies are 90 days past current due dates."

When lending problems like this occur, the markets hit hardest are those with a high proportion of non-conforming loans. The most troublesome types are subprime mortgages and jumbo mortgages--those that are above the range of Fannie Mae and **Freddie Mac's** \$417,000 securitization limit. Because few banks eagerly take on mortgages that aren't backed by Freddie and Fannie, the spread on jumbo loan interest rates compared to those of regular loans is at an all time high, according to data from HSH Associates, a credit-market tracking firm.

With fewer lenders wanting to take on jumbos and no banks willing to securitize jumbos, that adds another barrier to sales, especially in an expensive market. In Atlanta, for example, where the median home-sale price is \$175,500, it's not an enormous setback, but when securitization stops in Los Angeles--where the median price is \$593,000--a greater chunk of market activity halts.

As a result, cheaper markets are more likely to be healthier, as loan activity is less constrained.

Still, no market finds itself in a boom. As Zandi points out, discussing which markets are the healthiest "is a relative term."

"It's not like any of these markets are going gangbusters," he says. "Even Seattle: It's been very strong, but conditions are weakening and this year, at best, will be an OK year."

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