



Real Estate

## Best And Worst U.S. Housing Markets

Matt Woolsey, 08.16.07, 1:30 PM ET

National housing prices continued to slide last quarter, dropping an average of 1.5% over the year before, according to the latest report by the National Association of Realtors.

But things are looking up for two-thirds of the country's big cities where median home sale prices rose.

Leading the charge was [Seattle](#), where prices increased 8.9%; in [San Jose, Calif.](#), they rose 8.8%; and in [Raleigh](#) and [Charlotte, N.C.](#), prices jumped 8.3% and 8.4% respectively.

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Compare that to [Detroit](#) and [Cleveland](#). In these metros, prices fell 7.1%. Skies aren't much sunnier in the West. Median home sale numbers in [Sacramento, Calif.](#), [Las Vegas](#) and [Phoenix](#) dropped 6.3%, 3.6% and 2.7%, respectively.

### What Gives?

Economists fault the country's mortgage crisis for these cities' slumping numbers. Those most exposed to fallout from risky loans failed last quarter to post the price improvements that could rejuvenate their markets. Based on figures from the Mortgage Bankers Association (MBA), the largest share of the country's risky loans and foreclosures are in California, Florida, Nevada, Arizona, Ohio, Indiana and Michigan. In these markets, appreciation for the most part stayed flat or sank.

This means more bad news for already weak markets.

"Significant house price declines constrain options for consumers," says MBA Chief Economist Doug Duncan, of the tightening of credit in home mortgage lending. "Credit markets today on the securitization side have simply stopped other than [Freddie Mac] and [Fannie Mae]. Investors have to regain confidence in mortgage related assets; otherwise much of the market is going to be illiquid."

Taking a deeper look at specific markets also helps explain the numbers.

### The Wild West

In Southern California, speculative buying in Los Angeles and San Diego has helped the region become one of the hardest hit by foreclosures. While both posted year-over-year price gains--2.9% in Los Angeles and 0.2% in San Diego--the condo market in both places fared worse: up only 0.7% in L.A. and down 1.4% in San Diego.

In this market, these numbers should be welcomed. But when you look at the area's sales volume, things aren't so rosy.

Between 2000 and 2005, Los Angeles saw average spring season sales rates of 13,000 and 15,000; in San Diego, those numbers over the same time period were between 4,200 and 5,200, according to Radar Logic, a housing analytics and research company.

By the spring of 2006, prices and sales were plummeting. And this spring, sales in Los Angeles were under 5,000 and in San Diego transactions climbed just above 2,000.

This is due to skittishness brought on by the weak housing market.

"It's psychologically hard to take a loss and people will hold on to [a house] longer and wait for the market to stabilize before they sell," says Kermit Baker a senior research fellow at Harvard University's Joint Center for Housing Studies. "There's no sense that we're near the bottom here in terms of the market beginning to recover. The question is how much stickiness will we see on this downward trajectory."

### New York Housing

Understanding which markets are the stickiest--or most resistant to downward pricing thanks in part to robust sales--has a lot to do with understanding what kind of money fueled the run-up of the last five years.

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Take the [New York](#) metro area, where the \$557,500 median home price increased 6.3% last quarter.

"Activity levels in Manhattan are still elevated... Long Island is continuing to slip, but at a modest amount," says Jonathan Miller, president of Miller Samuel, a New York-based real estate appraisal and consultancy firm. "In [Long Island] the upper-end market was the market of choice for speculation and tear downs. In [New York City] the market is more closely aligned with Wall Street and bonus compensation."

Where the money comes from dictates stability. Markets where new development was fueled by flippers and investors are more volatile because such buyers are more likely to take out risky loans and to walk away from a property when the market sours.

Not so in the Big Apple. "In New York City ... new development was fueled by second home buyers and primary home buyers," says Miller. "There's still a lot of product coming off the conveyor belt, but fortunately the market demand has been there."

#### **Midwest Markets**

When you turn your gaze to the Midwest, the issue becomes where the money is not coming from. Based on MBA calculations, Ohio, Indiana and Michigan account for 8.7% of the nation's loans but account for 20% of all loans in foreclosure nationwide. The reason this is happening is because people are losing their jobs and leaving the area.

And this trend should continue into next year.

"We expect another two to four quarter of modest rises in delinquencies," says Duncan. "And foreclosures lag one to two quarters behind that."

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