



Real Estate

## Where Home Prices Are Likely To Rise

Matt Woolsey, 08.25.08, 8:00 PM ET

Believe it or not, in the future people will be buying and selling homes. Some of them will even make a profit.

It's not so crazy an idea. Consider [Albuquerque, N.M.](#) The mid-sized Southwestern city has experienced housing price declines since a peak in the third quarter of 2007, job growth has been flat, and housing starts are expected to fade by 45% through the end of 2008. Nevertheless, it's a city that home builders and economists are bullish about for 2010 and beyond.

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According to analysts at Moody's Economy.com, Albuquerque's job growth through 2012 is projected at an average annual rate of 1.6%, fueled in large part by its low costs and local business expansion. Housing starts in the city are expected to reverse course in 2009, growing by 26.6%, according to the National Association of Home Builders (NAHB). This means builders have high hopes for 2010 and 2011, when those homes will be completed and on the market.

It's the same story in several other cities: more tough times to come in the short term, but potential for a recovery and a rise in prices in the long term.

### Behind The Numbers

To determine where house prices are expected to rise next, Forbes.com looked at projections for housing starts from the NAHB and job-growth figures from Moody's Economy.com, for the 100 largest metro areas in the U.S. The estimates are based on the cost structures of business in the respective cities and the composition of the local economies.

Housing start projections from the NAHB may seem like wishful thinking. Trade-association economists often view their own industry through rose-colored lenses. The National Association of Realtors (NAR), for example, has developed a reputation for its positive outlooks despite negative numbers.

But the NAHB data are filled with laggards, signifying some realistic thinking. Housing starts in Las Vegas are expected to drop by 32% in 2008 and actually get worse in 2009, falling by a further 43%. In overbuilt, highly leveraged Phoenix, starts are predicted to fall 50% this year and descend another 11% more in 2009.

Because houses take six months to two years to build, that means home builders aren't expecting profits in the Vegas or Phoenix market until past 2011.

"These are some of the most overbuilt markets," says Robert Denk, an economist at the NAHB. "There are some markets that got really out of hand and they're going to be in trouble for a couple years still." He cites Cape Coral, Fla., as the poster child of overbuilding exuberance. "They built 10 years of housing in two years."

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The prognosis isn't as bad elsewhere.

### **Texas On The Rise?**

Centex, one of Texas' largest homebuilders, has been stung by overextension into Michigan and Colorado, as well as big bets on the vacation-home market in Texas. In July, the builder reported losses of \$150 million. There's a bright spot, however.

[San Antonio](#) and [Austin, Texas](#), have largely avoided the real estate crash, with price increases of 2.5% and 4.1% in year-over-year terms, respectively, according to the NAR. This is driven in part by the fact that the two markets are expecting building slowdowns of 24.7% and 28.2%, respectively, through the end of the year, as home builders are bearish about the remainder of 2008 and 2009 in the sales market or cannot find financing. Builders as a whole are taping their wounds and cutting back production, adopting a wait-and-see approach to home prices in the coming year.

But for the start of 2010 and into 2011, builders expect a more vibrant market for sellers. For homes built in 2009, which would come off the conveyor belt in 2010 and 2011, the NAHB forecasts a 9.6% increase in Austin and a 20.9% increase in San Antonio above 2008 levels. Much of that has to do with expected job growth in all non-farm sectors.

### **Recovery In Obvious Places**

At this point, it's clear the subprime contagion won't be contained in the next year, based on the acceleration of home price drops and foreclosures nationwide. But when the bad vintages of loans finally come off the books, the cities where prices are expected to rebound are largely those with vibrant economies.

"The logic is pretty straightforward," says Mark Zandi, chief economist at Moody's Economy.com. "People will spend as much on housing as their income will allow them. House prices are very closely tied to household income over the long run when you look at business cycles."

*Do you think recovery is in the cards after 2010? Or more of the same? Add your thoughts in the Reader Comments section below.*

This means that recovery is likely in the cards for even the hardest-hit spots. Cities like [Atlanta](#) and [Colorado Springs, Colo.](#), may be reeling from high defaults and foreclosures, but from 2007 through 2012, their economies are expected to experience 2% and 1.6% average annual job growth. That means more in-migration and more money in the economy, factors that help businesses grow and profit--and put more money in residents' pockets.

As local economies grow bigger and more dynamic, land values increase because the value of what can be produced on that land increases. When land prices go up, home values go up.

Home prices moving up; it sort of makes one nostalgic.

### **In Depth: Where Home Prices Are Likely To Rise**