Posted on: *June 08, 2015* 1 Like 15 3 14 32

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THE WINNERS AND THE LOSERS IN THE BIGGEST HOUSING MARKETS

As 2015 heats up, BUILDER's top Local Leaders markets are showing signs of growth

By Drew Vass

BUILDER is taking a 50-city tour of the largest housing markets, evaluating vital housing stats, employment information, and population numbers to find out what's good, what's bad, and what's the bottom line for housing going forward. We'll be rolling out 10 market summaries per day for the next week, so be sure to check back daily.

Are you building in one of the country's top 50 markets? Let us know if our analysis jibes with what you're seeing in the field.

By Katie Haugland (Flickr)\CC-BY, via Wikimedia Commons

1: Houston-The Woodlands-Sugar Land, Texas

Total new-home closings: 26,192

Population: 6,490,180

The good: Prices are on the increase, along with total number of closings for 13 straight quarters.
The bad: Slumping oil prices erode confidence among some buyers, while increased competition spurs higher material prices and labor shortages.
The bottom line: Oil and gas companies make up just 10% of the region's job gains, and lagging inventory among resale properties make this market an ongoing bull's-eye.

Houston's ground is producing more than just black gold lately. The city's ground also pumped out 6,383 new-home closings in the first quarter of 2015, marking the 13th quarter of steady increase for this market. As a result, sales roar at a rate that's only bested by the area's 2009 numbers (when builders discounted prices to dump inventories).

With increasingly high starts and development rates that are just now showing signs of catching up, builders spar over suitable lots and labor providers, while also contending with higher material costs. Nonetheless, with the first quarter of 2015 delivering roughly 1,000 more new lots than starts, lagging inventories among resale properties and rental rates rising in the region, builders continue to show confidence by putting up 6,655 starts in the first quarter of 2015, a slight increase over fourth quarter 2014. Add to that an unemployment rate that fell by nearly a full percentage point over the past year and this market proves it isn't phased by lower oil prices.

See complete Houston market data >

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2: Dallas-Fort Worth-Arlington, Texas

Total new-home closings: 19,719

Population: 6,954,330

The good: One of the hottest job markets in the nation outweighs the area's lot constraints.
The bad: Inflated prices force buyers out of choice areas, with no added inventory in sight.
The bottom line: Lot shortages in key areas spur growth in outer submarkets, keeping these areas on top.

While the Dallas-Fort Worth area has been plagued by new-home starts exceeding incoming lots since 2008, in mid-2014 the area posted a rebound—to the tune of a 63% increase in incoming lots over the same quarter in 2013. Unfortunately, the bulk of those newly available building sites aren't within the most desirable areas, which account for 75% of demand. But that hasn't stopped new-home buyers from pursuing homes in the area's farther out submarkets.

Increased competition for lots has forced median prices for new homes up by as much as 24% recently. That's beyond the reach of some buyers, steering them toward the resale market. However, one of the strongest job markets in the nation and unemployment levels that dropped by 1.2% year over year in March from 2014 to 2015 keeps buyers flowing into the region, making this a strong market for the foreseeable future.

See complete Dallas market data >

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3: Atlanta-Sandy Springs-Roswell, Georgia

Total new-home closings: 12,161
Population: 5,614,323

The good: Nearly 3% year-over-year job growth keeps starts high and vacancies low.
The bad: An expanding labor force outpaces the economy, keeping unemployment relatively high.
The bottom line: With median new-home prices increasing year over year for five straight years and spec houses sitting just 2.9 months on average, this remains a good spot for breaking ground.

With net jobs increasing year over year and record employment levels striking the region, it comes as no surprise that America's eighth most populous metropolitan statistical area (and home to "the Beverly Hills of the East") boasts a strong buying stream for new homes. According to the latest available data, speculative homes sit vacant for just 2.9 months, on average, amid this robust market—well below the historical norm of 3.5 months for the region.

Atlanta ranks third highest for single-family building permits, as annual construction starts in the region increased by 18% and new-home closings jumped by 23% as of February 2014. At the same time, new-home prices marked their fifth consecutive year-over-year increase, rising 4% over a one-year period and clocking in at an average of $271,700. Those are numbers worth building on.

See complete Atlanta market data >

By Andy Dunaway [Public domain], via Wikimedia Commons

4: Washington-Arlington-Alexandria, D.C.-Virginia-Maryland-West Virginia

Total new-home closings: 11,035
Population: 6,033,737

The good: The housing market (in general) is low on inventory, while both the number of employed and real estate prices are up.
The bad: While the number of employed people is up, ironically unemployment is back to where it was in 2013 (above 5%); permits are down slightly.
The bottom line: With a housing market that closed out strong in 2014 and the federal government—plus 15 Fortune 500 companies—driving employment, this market isn't expected to stall.

While the number of single-family permits dropped by 7% year over year in March 2015, gauging on the D.C.-area real estate market (in general), those numbers could rise in the face of low inventory and a market that closed out 2014 over the previous year across every indicator. Add to that median home prices reaching their highest December level ever in 2014 (at $408,000) and the number of employed people rising year over year in March 2015 to more than 3 million, and we expect a recipe that's spec home friendly, if you can find suitable lots to build on. With the federal government, defense contracting, and 15 Fortune 500 companies fueling annual mean wages of $64,930, this region should keep on trucking.

See complete Washinton D.C. market data >

By Ed Schipul (Flickr: Austin Texas)\CC-BY-SA-2.0, via Wikimedia Commons

5: Austin-Round Rock, Texas

Total new-home closings: 9,724

Total population: 1,943,299

The good: A growing population and workforce keep vacancies low and development surging.
The bad: As developers struggle to keep pace with demand, lot prices increase, conflicting with the sweet spot in the market that's around $200,000.

The bottom line: Even with signs of slowing in late 2014 and builders facing labor and lot shortages, a briskly growing population and less than two-month inventory among vacant units command attention.

Even though the Austin market displayed signs of possible slowing toward the end of 2014, a 16% year-over-year increase in permits in March 2015 proves that Austin remains a hot spot for more than just great music. Positive signs include a population that's grown by more than 200,000 since 2010, an unemployment rate that dropped by a full% year over year in March 2015, and a 1.8% increase among total civilian employees. Difficulties include a sweet spot in demand among entry-level homes (around $200,000) challenged by increasing lot prices, as developers struggle to keep pace with demand. That said, even as the number of vacant lots rose in the final months of 2014, those numbers equated to just a 1.7-month level of inventory, making this a sellers' market for spec homes.

See complete Austin market data >

By Alan Stark(Flickr)/CC-BY-SA-2.0, via Wikimedia Commons
Downtown Phoenix Skyline Lights

6: Phoenix-Mesa-Scottsdale, Arizona

Total new-home closings: 9,687

Population: 4,489,109

The good: The Southeast Valley fuels 40% of total starts, which clocked in at a 26.8% increase in the first quarter of 2015 compared with the first quarter of 2014.
The bad: New streets lead to plenty of empty subdivisions, as lot production outpaces demand.
The bottom line: Phoenix marks a prime spot to pick up lots, but it's currently a market to enter with some trepidation, as the market is slowing.

A red flag rose over Phoenix as the real estate market showed signs of contraction in March-April 2014. In the fourth quarter of 2015, starts slowed to the tune of 14% year over year, as MLS numbers showed the average days on market among all listings slowly exceeding 90-day listing agreements. For now, a large selection of new lots, an enticing market surrounding Silicon Valley, and increases in employment in the region may be the impetus behind an increase of 25% year over year among building permits in March 2015. No doubt, the Southeast Valley remains the place to be, where starts were up by 26.8% in first quarter of 2015, compared with the first quarter of 2014, proving that by picking the right locations, this market is still plenty viable.

See complete Phoenix market data >