

## Healthiest Housing Markets: Mid-2011 Update

It's time to take a second look at the healthiest housing markets for this year and next.

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What can you say about the fickle economic forces that drive the home building industry? Markets that were among the healthiest six months ago have lost favor, due to weakness in the oil and gas sector of the economy. They've been replaced in some cases by unexpected markets that have worked through job losses and foreclosures to reach a much brighter place.




Twice annually, Builder works with Hanley Wood Market Intelligence to compile a list of the healthiest housing markets in the United States, based on forward projections for the metrics that drive housing production--jobs, price appreciation, population growth, and income growth. The projections come from Moody's Economy.com.

Earlier this year, markets in Texas and the Carolinas dominated the list looking at 2011 market-level forecasts, thanks to growth in the oil economy in the case of Texas, and strong population growth in the case of the Carolinas. Both regions also had on their side a recovery in home prices as they worked through foreclosure issues.

Economic conditions in the oil patch aren't quite as favorable today. And some bloom has come off the rose in the Carolinas, where home prices in some markets have double-dipped. As a result, our forward-looking view of the 20 healthiest markets is a little different today.

A lot has happened in the housing market since we last compiled this list in February. We had a double-dip in home prices. Only a small improvement in employment occurred on a national basis. And the long-vaunted housing recovery, which most housing economists pegged for late this year, hasn't materialized.

Rising home prices, job gains, and improvement in median incomes will drive the healthiest markets over the next year and a half. Moody's projects that permit activity may double in some of the very hottest of these markets, as the long-awaited housing recovery takes hold.

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Markets that benefit from military spending, or major universities, once again crowd the top of our list. Some markets hit the trifecta with military bases, big universities, and strong private sector employment. But several of the state capitals that appeared on previous versions of the list have dropped to the bottom due to fiscal problems that resulted in layoffs.

Here, without further ado, are the 20 healthiest housing markets based on forecasts through 2012. Though permits weren't used to produce the market health calculations, we've included forecasts for total housing permits in 2011 and 2012 to give you a sense of how big the market is and how much it's expected to grow over the next 18 months.

## **20: Greeley, Colo.**

- **Health Index: 72**
- **2010 Population Forecast: 252,825**
- **2011 Total Building Permit Forecast: 1,532**
- **2012 Total Building Permit Forecast: 2,510**

The forces lifting the housing market along Colorado's Front Range are spilling into Greeley, located about an hour's drive northwest of Denver. Home prices here never got out of control during the housing boom and reset early in the housing recession. Also, the region dealt early and effectively with its foreclosure situation.

Now, positive economic forces are taking hold along Colorado's Front Range. In fact, all the main drivers of new home construction, home prices, jobs, population, and incomes, are expected to turn solidly positive in Greeley next year.

Home to Northern Colorado University and the North Colorado Medical Center, Greeley is projected to have some of the strongest population growth (1.8%) in the country. With a median home price of about \$140,000 this summer, Greeley is an affordable alternative to Denver. A strengthening local economy will lift the median income here by 4.2%.

## **19. Houston-Sugar Land-Baytown, Texas**

- **Health Index: 72.1**
- **2011 Population Forecast: 6,084,200**
- **2011 Total Building Permit Forecast: 19,613**
- **2012 Total Building Permit Forecast: 25,746**

Houston may have dropped from the very top of our list, but it remains a much better place to build homes than most cities. One reason is that, with more than 25,000 permits expected to be pulled next year, there's more opportunity here than in any other market in the country.

Median home prices, which held at about \$148,000 through the housing recession, are expected to rise 1.9% next year based on continued growth in population and employment. Houston continues to add about 2% to its population every year, about double the national average. New residents are drawn by the prospect of jobs in energy and manufacturing in particular.

## **18: Austin-Round Rock, Texas**

- **Health Index: 72.2**
- **2011 Population Forecast: 1,828,700**
- **2011 Total Building Permit Forecast: 5,537**
- **2012 Total Building Permit Forecast: 5,628**

Austin is no longer the strongest housing market in the country, but it's still plenty healthy. Home prices have been stable in Austin for several years; they are expected to rise less than 1% next year. Employment growth will be among the strongest on the list as a diverse economy continues to attract new businesses.

The unemployment rate fell below 7% earlier this year as area startup firms began hiring. Thanks to a decade of strong population growth, Austin is now the 15th largest city in the nation. Building permit activity rose 38% in the first half of the year, led by a big surge in multifamily activity, but it is expected to finish the year close to where it started.

Austin is such an attractive place to live that home prices rose through the housing recession. They are projected to rise slightly this year and next now that foreclosures are receding. RealtyTrac reports that foreclosure filings are down 47% from a year ago. They have declined for each of the last seven months.

## **17: Kennewick-Richland-Pasco, Wash.**

- **Health Index: 73.1**
- **2011 Population Forecast: 253,540**
- **2011 Total Building Permit Forecast: 1,244**
- **2012 Total Building Permit Forecast: 1,099**

The Tri-City region, located in the southeastern part of Washington, is a center for nuclear energy research. Home to the Hanford nuclear site, Richland's major employers include Bechtel, the Battelle Memorial Institute, and Lockheed Martin.

The lack of new homes coming on the market, combined with a paucity of foreclosures, has helped keep the housing market strong. Home prices are expected to rise a robust 3.8% over the next year as the population grows and unemployment declines.

Local real estate agents estimate that there was only four and a half months of housing inventory for sale this summer, including only a handful of foreclosures. Inventory constraints have kept home prices firm in the Richland area over the last three years.

## **16: Lexington-Fayette, Ky.**

- **Health Index: 73.4**
- **2010 Population Forecast: 472,099**
- **2011 Total Building Permit Forecast: 1,152**

- **2012 Total Building Permit Forecast: 1,663**

Lexington, the second largest city in Kentucky, avoided many of the problems of the housing recession. Home prices never got too high during the housing boom and remained stable through the housing recession. The median price of an existing home was about \$153,000 this summer, according to Trulia.

Now things are looking up. Home prices are expected to rise slightly (1.3%) next year. And the home to the University of Kentucky and the country's first urban growth boundary, enacted in 1958, may witness a 50% increase in building permit activity.

An abundance of government, technology, and educational jobs has helped keep the local economy relatively strong. Headquarters of Lexmark International, the public printer and imaging company, Lexington is projected to have a 3.5% increase in median incomes next year, coupled with a 2.7% increase in employment.

### **15: Richmond, Va.**

- **Health Index: 73.8**
- **2011 Population Forecast: 1,256,600**
- **2011 Total Building Permit Forecast: 2,542**
- **2012 Total Building Permit Forecast: 4,447**

Median home prices in Richmond, the capital of Virginia and home to several major universities, have been very stable throughout the housing recession. From a peak of \$230,000 in 2007, they have fallen only to roughly \$203,000 this year.

An unemployment rate of only 7.1% provides a partial explanation. Richmond is home to two military bases, Fort Lee and Dahlgren AFB. Three of its seven major employers are health care providers. Employment is expected to rise 1.8% next year.

Moody's is projecting that total permit activity will nearly double next year. It is down this year, due to a drop off in multifamily permits. But the single-family sector, which historically accounts for about 80% of activity, has been stable.

### **14: Milwaukee-Waukesha-West Allis, Wisc.**

- **Health Index: 73.8**
- **2010 Population Forecast: 1,555,908**
- **2011 Total Building Permit Forecast: 875**
- **2012 Total Building Permit Forecast: 1,790**

Finding Milwaukee so high on our list may come as a surprise. The market has been pilloried in recent years for having one of the weakest housing markets. But the analysis may have been unfair given that Milwaukee didn't share in the spoils of the housing boom.

Median home prices didn't go bananas during the housing boom. As a result, they haven't fallen as far as they have in most markets either. Home prices are expected to rise 3.8% next year as the housing market begins its climb from the bottom. Permits, which have fallen from roughly 5,500 in 2005, are projected to more than double to 1,790 next year.

Unemployment in Milwaukee is below the national average. Much of job growth in the last five years has been concentrated in education and health services, followed by government and leisure and hospitality. Milwaukee is home to 14 Fortune 1000 companies, including Harley-Davidson, Johnson Controls, and Northwestern Mutual.

### **13: Washington-Arlington-Alexandria, D.C.-Va.-Md.-W.Va.**

- **Health Index: 74.7**
- **2011 Population Forecast: 5,597,200**
- **2011 Total Building Permit Forecast: 10,548**
- **2012 Total Building Permit Forecast: 15,947**

The second biggest market on our list after Houston, Washington, D.C. has been one of the best housing markets for the last two years, though most local builders will tell you the market took a small step backward this year. In fact, if you look at what has happened to prices, it has double-dipped.

Median home prices rose 5% in 2010, but are on track to give it all back this year. D.C. remains one of the most expensive housing markets in the country, with a median price of about \$325,000, well below the peak of \$458,000 in 2007.

Moody's expects permit activity to pick up substantially in 2012, partly due to a strong jobs market. With an unemployment rate well below the national average, D.C. is expected to add 40,000 jobs this year. The region's population continues to grow at about 1.2% annually.

### **12: Virginia Beach-Norfolk-Newport News, Va.-N.C.**

- **Health Index: 75.8**
- **2011 Population Forecast: 1,690,400**
- **2011 Total Building Permit Forecast: 3,246**
- **2012 Total Building Permit Forecast: 4,842**

Virginia Beach is slated to have some of the strongest home price appreciation (4.3%) and income growth (4.7%) during the next year and a half.

Home prices will stabilize this year and rise slightly over the next two. Building permits levels were buttressed by a big increase in multifamily. But single-family will be the engine for robust permit growth over the next two years.

The Norfolk Naval Station employs 64,000. Virginia Beach has a low unemployment rate of only 7.1%. But cutbacks in military spending have been weakening the economy.

## **11: San Antonio, Texas**

- **Health Index: 76.3**
- **2011 Population Forecast: 2,183,800**
- **2011 Total Building Permit Forecast: 4,126**
- **2012 Total Building Permit Forecast: 6,976**

Thanks to some of the biggest military installations in the country, and a diversifying economic base drawn by a low cost of doing business, San Antonio has seen some of the best job growth. Employment is expected to increase by 3% next year.

A continued rise in BRAC military spending activities partially explains the trend. Military bases, Lockland AFB, Fort Sam Houston, and Randolph AFB, account for three of the top four employers. San Antonio is also home to insurance powerhouse USAA. They've contributed to a population that has been growing at slightly better than 2% annually, a trend that's expected to continue through 2013.

Median home prices, at \$143,400, have been rising, ever so slightly; they remain within \$2,000 of where they were in 2007. They are held down by a low per capita income of \$33,900, below the state and national average. Building permit activity fell 20% during the first half of 2011. Moody's expects permits to finish the year down about 20%, but regain all of the loss and much more next year.

## **10: Denver, Colo.**

- **Health Index: 76.7**
- **2011 Population Forecast: 2,611,500**
- **2011 Total Building Permit Forecast: 3,801**
- **2012 Total Building Permit Forecast: 7,548**

A housing recovery is blooming in Denver, where permit activity is expected to nearly double in 2012. Decent job growth--the metro area is on a pace to add 20,000 jobs this year--will contribute to strong income growth of 3.6% next year. Chase Bank, Pricewaterhouse Coopers, and New York Life all recently announced new hiring plans here.

Denver dealt early with the foreclosure crisis and has had a significant decline in new foreclosure filings this year. That's helped keep home prices pretty stable here, even during the housing recession. 2011's median price, \$223,100, is only \$20,000 below 2006 levels.

Multifamily construction is on the rise in Denver, which can now boast of a vibrant downtown district. Vacancy rates on downtown apartments have dipped below 3%. Also, the city's public transit system, FasTracks, continues to expand, creating new development opportunities all over town.

## **9: Bradenton-Sarasota-Venice, Fla.**

- **Health Index: 79.5**
- **2011 Population Forecast: 697,300**
- **2011 Total Building Permit Forecast: 789**
- **2012 Total Building Permit Forecast: 1,373**

Sarasota, a seaside metro area with affordable housing stock, is one of three Florida markets to make our top 20. The area is south of Tampa Bay and North of Fort Myers.

Though permit activity nosedived last year, it regained forward momentum this year on the strength of a pick-up in the multifamily market. Most of the permit activity is in Manatee County, which was up strongly in the first half of the year. Pulte, D.R. Horton, and Lennar are active in Sarasota, along with local powerhouses Neal Communities and Lee Wetherington Homes.

Local real estate agents, whose blogs might have you believe there was never a housing recession here, will be happy to hear that home prices are expected to rise 2.8% next year on the strength of some of the strongest employment growth on a percentage basis (3.7%) in the country.

## **8: Oklahoma City, Okla.**

- **Health Index: 80.5**
- **2011 Population Forecast: 1,242,300**
- **2011 Total Building Permit Forecast: 3,417**
- **2012 Total Building Permit Forecast: 5,284**

Oklahoma City, which has one of the lowest unemployment rates in the country at 6.1%, managed to add another 9,400 jobs in the last year. Though energy-related companies are the biggest employers, the region has benefited from growth in bioscience and IT sectors as well. A strong job market is projected to lift incomes 3% next year.

Income growth will, in turn, help a housing market that appears poised for a breakout year. Home prices, which dropped earlier this year, appear to have turned the corner; they are forecast to increase 2.6%. The median price of an existing home stood at a very affordable \$130,000 this summer. Moody's is calling for a sizeable increase in permit activity, with 80% in single-family.

Oklahoma City's low cost of living continues to attract businesses and new households, which are projected to increase another 1.8% next year. Devon Energy is building a \$750 million, 50-story headquarters building, and the largest in Oklahoma City. And the city has a \$777 million downtown renovation project underway that includes a new convention center, rail transit, and a 70-acre park.

## **7: Colorado Springs, Colo.**

- **Health Index: 80.9**

- **2011 Population Forecast: 642,200**
- **2011 Total Building Permit Forecast: 2,099**
- **2012 Total Building Permit Forecast: 3,639**

There's light at the end of the housing market tunnel in Colorado Springs. The three biggest employers here, by far, are military bases, and the fourth biggest is the Air Force Academy. The return of troops from Afghanistan may further stimulate the housing market.

Moody's expects housing metrics to be up across the board in 2012, with home prices climbing 2.6%, employment rising 1.4%, households increasing 1.8%, and median incomes rising a hefty 2.9%.

The market has thrown off mixed signals this year. Existing home sales were up 12% year over year in July. Unsold housing inventory has been dropping and the foreclosure situation is improving. But median home prices fell 5.2% in the year that ended in July.

## **6: Charlottesville, Va.**

- **Health Index: 81.0**
- **2010 Population Forecast: 201,599**
- **2011 Total Building Permit Forecast: 634**
- **2012 Total Building Permit Forecast: 798**

Charlottesville isn't a very big housing market, but it's a pretty strong one. Home to the University of Virginia, the region has benefited from some strong household growth in recent years. It continues to attract second-home buyers from Washington, D.C.

Bargains are tough to come by in Charlottesville, where the median home price in August stood just below \$300,000, according to local real estate agent reports. Though prices are down so far this year, Moody's expects them to rise 1% next year.

The region has had some strong household growth in recent years, a trend expected to continue through 2012. It will also benefit from strong growth in median income--3.7%.

## **5: Miami-Fort Lauderdale-Pompano Beach, Fla.**

- **Health Index: 82.0**
- **2011 Population Forecast: 5,524,600**
- **2011 Total Building Permit Forecast: 2,708**
- **2012 Total Building Permit Forecast: 7,522**

The Miami housing market, which draws buyers from throughout the world, is set to take off in 2012. As the number of jobs here grows 2.7%, and home prices stabilize, permit activity is forecasted to more than double. Roughly half the permit activity in Miami is traditionally multifamily.

Home prices, which fell by double digits through the first half of the year, are expected to turn the corner next year. Though unemployment remains high, 11.8%, Miami has been adding jobs at a slow rate. Two big upcoming projects, the CitiCentre and Resorts World Miami, are expected to add tens of thousands of jobs in coming years.

The Port of Miami is also planning three projects that will prepare the port to handle bigger ships and more cargo. Dredging, a port tunnel, and rail projects will total an estimated \$850 million.

#### **4: Jacksonville, Fla.**

- **Health Index: 84.0**
- **2011 Population Forecast: 1,343,300**
- **2011 Total Building Permit Forecast: 2,284**
- **2012 Total Building Permit Forecast: 4,363**

Seeing a Florida market so high on our list of healthy markets may be a surprise to some. But the city's strong employment base has helped it come back before many of the services-dependent housing markets to the south. A strong military presence has always anchored the economy. But a growing financial services sector has added employment in recent years. Employment is expected to rise 3.2% next year. Median income is projected to rise 3.3%.

Thanks to job growth and a diminished supply of foreclosures, home prices have stabilized; they are slated to rise nearly 5% next year. It helps matters that Duval County, home to Jacksonville, has the highest average annual wages in Florida, according to the U.S. Bureau of Economic Analysis. In 2009, wages stood at \$58,505.

Builders and developers must sense the market is poised to recover. They have pulled 28% more permits through the first half of this year than last. Moody's expects that growth to accelerate in 2012, with permit activity nearly doubling. Roughly 70% of the action is in single-family housing.

#### **3: Salt Lake City, Utah**

- **Health Index: 88.9**
- **2011 Population Forecast: 1,163,600**
- **2011 Total Building Permit Forecast: 1,294**
- **2012 Total Building Permit Forecast: 1,181**

After more than one false start, the housing market in Salt Lake appears poised to turn the corner, though builders there are expected to take a wait-and-see attitude.

The housing fundamentals in Salt Lake are strong. The metro area, which has attracted its share of high-tech businesses in recent years, is projected to have some of the strongest income growth in the country. Employment gains this year have been broad-based, led by increases in the manufacturing sector. Unfortunately, the state capital is still experiencing heavy job losses in the government sector.

Home prices declined through the first half of this year, but they are expected to reverse course next year and rise a welcomed 4.7%. Permit activity has fallen sharply in the last two years, dragged down by big declines in multifamily activity. It's expected to hold pretty steady for the next 18 months.

## **2: Fort Collins-Loveland, Colo.**

- **Health Index: 89.4**
- **2010 Population Forecast: 299,630**
- **2011 Total Building Permit Forecast: 1,004**
- **2012 Total Building Permit Forecast: 1,650**

The word is out about Fort Collins, which is regularly ranked among the best places to live in the country. Moody's projects that the number of households in Colorado's fourth most populous metro region will grow a hefty 2.7% next year, the highest on our Top 20 list.

Many new residents will be drawn by the prospect of jobs. Employment is projected to grow 2.6% next year, lifting median incomes 3.3%. Colorado State University is the biggest employer here. Most of the new jobs in recent years have come from the education and health services sectors. But high-tech firms such as Hewlett Packard and Eastman Kodak also employ thousands of people.

Housing production will receive a boost from these strong demographic forces. Moody's projects that permit levels will rise 50%.

## **1: Minneapolis-St. Paul-Bloomington Minn.-Wisc.**

- **Health Index: 91.6**
- **2011 Population Forecast: 3,326,400**
- **2011 Total Building Permit Forecast: 4,511**
- **2012 Total Building Permit Forecast: 10,118**

If home prices are an indicator of market health--and some would say they are the best indicator--then Minneapolis is very healthy indeed. Home prices are expected to rise 8% next year, the highest rate among the 100 largest housing markets, and a big reason that Minneapolis finishes atop our healthy markets list.

A major hub for medical technology and the headquarters for many large corporations, Minneapolis appears poised for a big rebound in housing. One reason is that employment is forecasted to grow 2.5% next year. Building permit activity fell 21% in the first half of 2011, but it's expected to more than double in 2012.

One negative in the market is that home prices plunged during the first half of 2011. Median home prices, \$147,300 after the first half of the year, are down from \$229,200 in 2006, a 36% drop that is close to the national average. Home prices have fallen 13% this year due to an

increase in foreclosure sales. But Hanley Wood Market Intelligence expects prices to rebound next year.

The apartment market has been particularly strong in Minneapolis. As vacancy rates fell from 5% to 2.4%, developers started new projects, many aimed at a growing millennial (18-to-30 years old) population. Vacant units are reportedly hard to find in downtown Minneapolis and St. Paul.