

Charlotte's ongoing job growth is helping region avoid the downturn most U.S. cities are seeing

LAURA WILLIAMS-TRACY

New-home starts have fallen in five of the past six months nationally. Home prices have been steadily declining in many markets as the time it takes to sell a home grows.

In other words, the news in the housing market is generally bad. Except in Charlotte.

Why is the Queen City maintaining a steady pace?

The short answer is because the Queen City has maintained a steady pace.

While homes in the hottest urban markets such as Las Vegas or Northern Virginia have been rising in value some 20% or even 40% per year, Charlotte real estate moved up at about 6% and, at best, 8% annually.

Avoiding the euphoric highs means local homeowners are now sidestepping the depressed lows.

In fact, Charlotte's market is gaining strength, with values rising and builders on track to break another record of new-home starts.

That makes Charlotte one of the healthiest housing markets in the country, says Mark Vitner, Wachovia Corp. chief economist. "The number of markets nationally

where demand is actually strengthening is small," he says. "Charlotte is one of them."

Charlotte's ability to skirt, so far, any impact of a bursting housing bubble is a result of three basic economic realities:

- Builders haven't exceeded the market's capacity.

- Job and population growth have been strong.

- Speculators didn't drive up prices as they did in many markets such as California.

Those components have worked together to keep supply and demand in balance, economists and analysts say.

For example, a flood of national builders that entered the market in the past decade have battled fiercely for market share, building enough units to meet demand but keeping prices in check.

That, in turn, has kept speculators out of the market, Vitner says.

The impact: In the second quarter, home prices rose 8% in Charlotte compared with last year, according to the federal bureau of Housing Enterprise Oversight. That rate was under the 10% national average and well below places such as Boston and

MARKET: Gains in jobs, population continue to fuel new-home development

FROM PAGE 25

southern California, where home prices reached their peak in 2005.

Investors in other markets like to buy homes in tract developments only to resell them before they are finished for a profit. But if new-home prices are rising only 4% per year, there's no profit to be had.

Homes are being built here as fast as in almost any market in the country, with the number of units breaking a record in 2005 as 18,000 new homes closed, a 17% increase over 2004.

Chad Dreier, chief executive of Ryland Homes, a Fortune 500 company that builds in 28 cities around the nation, said recently that while investor speculation overhangs markets such as Washington, markets in Florida, Texas, Atlanta and Charlotte remain healthy. Other healthy markets include Raleigh, Houston, Dallas, Salt Lake City and Seattle.

"I don't hear many discouraging words from builders yet," says Chuck Graham, a real estate analyst with Newton Graham Consultants. "But we have to realize that the national builders are pressuring their Charlotte divisions to make up units here that they are losing in other markets. That's great for the buyer."

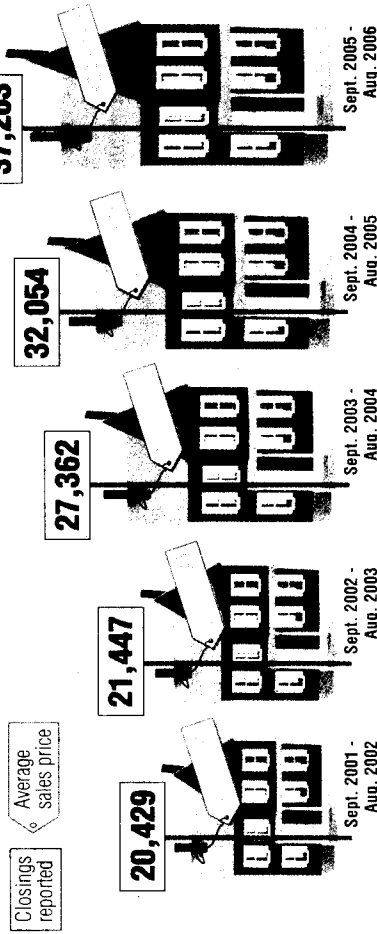
And fortunately for builders, there are plenty of those buyers.

The Charlotte region, the 13th-largest housing market in the country, has added 100,000 residents in the last two years. "That was our two best years in the region's history," Vitner says.

Steady job expansion has fueled much of that growth, supplemented by a steady stream of retirees. Mark Bald-

HOUSING MARKET STAYS ON RECORD PACE

Experts say Charlotte is benefiting from its steady growth trend.



Source: Carolina Multiple Listing Services Inc.

win, president of the Charlotte Home Builders Association, says Charlotte continues to benefit from the half-back trend, in which Northerners move to Florida for retirement, don't like the heat, high cost of living and hurricanes, and move halfway back to the North, relocating to Charlotte and other mid-Atlantic states.

"We keep thinking that things are going to slow down, but they haven't yet," says Gay Dillashaw, a real estate agent with the Allen Tate Co. and president of the Charlotte Regional Realtors Association. "June and July were very strong for us."

Charlotte is still seeing a surge in new housing units. New-home closings were up 22% in the second quarter, compared with the same period in 2005. New residential permits were up 26%.

But over the same time frame, the median new-home closing price was up

14%, a much higher rate than the typical 6% rate of increase of recent years. At the same time, the median resale closing price in the second quarter rose just 1% over last year.

"Typically when a market softens it first shows in resale home prices," Graham says.

Early, and admittedly not highly reliable, job-growth numbers show a widening gap with housing starts, he adds.

Preliminary numbers show the Charlotte region has gained 17,000 jobs in the past 12 months, whereas that number had been closer to 24,000 in recent years. As a rule of thumb, in a healthy market in equilibrium, Graham says, 1.2 new jobs need to be created in a community to require one new housing unit.

When you divide 17,000 new jobs by 26,341 new housing permits, that's an

employment to permit ratio of 0.64, well below the 1.2 Graham is comfortable with.

"You have to remember that employment numbers are very iffy, and the government continues to revise them for months," he says, noting such a ratio can be a long-term predictor of a softening housing market.

Graham says builders have 7½ months of unsold housing starts, with 2½ months of projects completed and unsold. While those are healthy inventory levels, the inventory in the region has been closer to five months.

Builders may let it grow a bit, he predicts, but will pull back production if the inventory rises much more.

While Vitner says most analysts predict the national housing market will bottom out in mid-2007 before the effects hit Charlotte, slowing national demand will eventually trickle down here. If it becomes increasingly difficult to sell a home in, say, Cincinnati to support a move to Charlotte, that will hinder the purchase of a home here, he says.

But Vitner adds there is no down side to Charlotte's being a secure, stable market that's not likely to face its own huge market correction.

"Having modest appreciation for the last few years makes our market more attractive to relocating businesses," he says. "When companies know their employees can buy homes, they have a more stable and productive work force, and that's not true in many parts of the country."

Laura Williams-Tracy is a Charlotte-based freelance writer who can be reached at laura@lwt-communications.biz.