

Clearer Skies on Horizon

Housing market: With its robust growth rate, Atlanta is set to bounce back sooner, stronger than many areas.

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The reports of the demise of Atlanta's housing market have been greatly exaggerated.

The much publicized housing bubble was never more than a small bump here in Atlanta. In parts of Florida, California and Nevada, housing prices doubled and tripled between 2001 and 2006. During the same period, home prices in Atlanta increased a slightly higher than normal 4 percent to 5 percent per year. Price increases in other parts of the country were unsustainable, and what went up eventually came down. Not surprisingly, where prices went up the most, they also came down the most. For all the bad press about housing, home prices in the Atlanta region fell less than 5 percent over the last year.

While fear and uncertainty have caused the number of overall home sales to fall sharply in Atlanta and around the country, home prices here have not fallen anywhere near as much. This is because while housing is a commodity, it is also a place where people live. The majority of home moves are discretionary. If the market is unfavorable, discretionary buyers and sellers sit on the sidelines. This can cause a decline in the number of homes sold without having much of an effect on prices.

Home prices in the Atlanta region are somewhat immune to a large price drop because we benefit from a wonderful safety net. Our metro region adds about 150,000 people per year. Between 2000 and 2006, our region added 856,266 people, a growth rate that was the highest in the nation. Almost 2 million additional people are expected to move here over the next 12 years. With so many new families moving to Atlanta, the demand for housing will remain strong.

While there are more than 100,000 homes on the market today, it will not take long to absorb them based on our current rate of growth. This is particularly the case since homebuilders started cutting back on new construction three years ago and permits for new homes have now fallen dramatically.

Home buyers are confused about getting a mortgage and the large number of homeowners at risk of being foreclosed. Despite all the hoopla about a credit crunch, it is surprisingly easy to get a mortgage if you have decent credit. While the same cannot be said for buyers with bad credit, this represents less than 10 percent of the market.

The degree to which foreclosures will stress our local market will depend on what actions our federal government takes to solve the problem. However, foreclosures are highly concentrated in certain neighborhoods rather than being evenly distributed throughout the metro region. As a result, housing markets in desirable neighborhoods with low foreclosure rates are already showing signs of strengthening.

Less desirable neighborhoods hard hit by foreclosures may limp along for years in a recurring tale of rich neighborhoods getting richer and poor ones getting poorer.

Smart housing decisions tend to boil down to a focus on location. While there are many factors that make a neighborhood desirable, the more important ones include quality homes, good schools, low tax rates, low crime rates and good access to work centers and shopping. Driven by traffic congestion, an aging population and changes in consumer preferences, what is considered a good location is also changing. There is a reason that all those condominiums and mixed-use developments are being built — they are filling a demand from aging baby boomers and young professionals. While developers may have gotten a bit ahead of themselves in this area, the smart money is on the demand for this type of housing to grow exponentially over the next decade.

Housing prices in Atlanta, not having fallen much, should not have far to go to predictably rebound. In a few years, due to the health of our local economy, housing prices should be higher than at the peak of the previous cycle.

Sellers whose homes are worth less than they were a year ago and who psychologically feel poor should not have to wait too long to feel better about their circumstances. Of course, rather than waiting to sell until prices recover, savvy sellers have figured out that if they can get an equally good deal in purchasing another home, they are still ahead of the game.

A \$200,000 home in Atlanta in 2001 was likely worth \$260,000 in 2006. With a 5 percent drop in housing prices, that house today would be worth \$247,000. While a \$47,000 increase may not seem like much, as a rate of return on the typical buyer's cash investment, it is very healthy. Housing is and will continue to be a tremendous builder of wealth for buyers who can ride out the periodic cycles in the market.

A strong buyer's market and low interest rates are allowing buyers to get great deals on housing. As the spring market gains momentum, the best deals are being snapped up. The advice of "buy low, sell high" has never been more apt. Buyers should act accordingly.

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