



Housing Faces Uneven Recovery in Southeast

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The housing market is showing signs of improvement, but rising prices are putting homes out of reach for many buyers, according to researchers at the Atlanta Fed. A divide is also becoming apparent, with some neighborhoods seeing surges in home buying and selling while others struggle to recover.

Existing home sales have risen from a year ago, but new home construction is down as builders face difficulty obtaining lots, loans, and labor.

"We've seen improvement in the housing market, but it's not as robust as you would think nine or 10 years after the decline," said Domonic Purviance, a senior analyst in the risk analysis unit of the Atlanta Fed's Supervision and Regulation Division (see the chart).

Factors converge for impact on housing

Around the Southeast, the robust U.S. economy is fueling demand in Nashville, and foreclosure levels continue declining in Florida. Still, concerns loom on the region's horizon. The decline in energy prices is bringing relief to consumers, but it could cool markets like Louisiana that have benefited from strong oil and gas activity in recent years. Already, there are signs that lower oil prices could be having a dampening effect on home prices and housing demand in areas like New Orleans, Purviance said.

Stagnant wage growth is also hindering the housing market. Although hiring has picked up and U.S. unemployment has fallen to its lowest rate since early 2008, many new jobs are in service industries, which tend to pay lower wages, Purviance noted. In markets such as Fort Lauderdale, Florida, many new jobs in the leisure and hospitality sectors don't pay enough to support home purchases.

"We haven't seen as much wage growth as we'd like, and wage growth creates demand for housing," Purviance said.

Affordability problems persist, but unevenly

Another wrinkle in housing is that affordability is becoming a problem for many buyers, particularly in high-demand areas with good school districts. In those communities, the scarcity of available houses exacerbates the affordability problem. The problem is becoming evident in the South, where sales of existing homes dropped 3.2 percent in October (the latest month reported to date). The median home price in the region for that month was \$188,800, 6.2 percent higher than a year earlier, the National Association of Realtors reported.

In the metro Atlanta suburb of Cumming, for instance, the median home price is now \$337,000, up from \$297,000 in 2010, Purviance said. Other sought-after Atlanta communities such as the eastern portion of Cobb County, Georgia, have strong competition among buyers, with houses selling at or above their asking prices.

Still, in many other parts of metro Atlanta, homes are available and more affordable, Purviance said. In Clayton County to the south of Atlanta, for example, home values are still 20 to 30 percent below their peaks, underscoring the relatively low levels of housing demand in these areas.

Elora Raymond, a research associate at the Atlanta Fed, says well-to-do areas are definitely faring better in the current housing market. "The wealthy neighborhoods have come out of the crisis, and the poor ones are still stuck in it," she added. "There's something about the recovery that is uneven."

Homebuilders also face unique challenges at this stage in the housing recovery, such as the difficulty of finding desirable places to build. "The concern is that there aren't enough available lots in the right places," said Jessica Dill, an economic policy analysis specialist at the Atlanta Fed.

Acquisition, development and construction (ADC) financing has been harder to come by in the wake of the financial crisis, another factor restraining construction of single-family homes. The community banks that are the financing vehicle for the typical small-volume builder haven't been lending as much.

The tighter lending conditions have made it difficult for small builders, said Dill. "Larger private and public builders have seen their market share slowly but steadily increase throughout this recovery," she added, a difficulty that may have implications for the overall U.S. housing market since most of the homes built in the United States are constructed by smaller firms, not the bigger ones that can more easily access funding through equity markets.

In addition to problems obtaining lots and loans, builders are also grappling with labor shortages.

"Consistently in our surveys, builders complain about the availability of labor," said Robert Dietz, a spokesman for the National Association of Home Builders. The homebuilding industry shed 1.5 million jobs during the most recent recession and recovered only a half-million jobs since then, he said. Builders are having to pay workers more in general, he said.



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