

Housing Trends

Most Affordable U.S. Real Estate Markets

Matt Woolsey, 08.02.07, 12:01 AM ET

If you're not sweating your monthly mortgage payment and don't obsessively check refinancing rates, chances are you live in one of America's most affordable areas.

Homeowners in Indianapolis know what that's like. Its residents don't have to scrimp and save to afford a home at the median price. There, the bulk of the housing stock is well within reach of the average household. Savings depleted? According to our calculations, it would take just two years of gross salary to become a homeowner there.

Cleveland and Detroit are also reasonably priced. But affordability isn't limited to the Midwest. Pittsburgh, Atlanta and Greensboro, N.C., made our list as well.

Affordability is more complex than sinking a third of your take-home pay into real estate. Instead, we calculated our rankings by using two measurements and applying them to the nation's forty biggest metros.

Behind The Numbers

The first is a look at the ratio of median home price to median household salary, which determines how many years of gross salary the median household would have to spend to buy the median house. In Indianapolis, where the median household income is \$60,383, it would take just under two years of gross salary to buy.

That must sound pretty nice to the residents of Los Angeles, where the median household income is \$58,319, but housing is more than five times more expensive than in Indy.

"When you calculate that out, it's nearly 20 years more of mortgage payments," says Wendell Cox, founder of Demographia, a St. Louis-based research firm. "There has never been anything like the difference in housing affordability that exists today."

The second measure tracks the percentage of homes sold in the first quarter of this year that were affordable to the median income-earning household.

This metric illustrates what's at play in a market like San Diego. The city might be in the midst of a price slump, but that doesn't necessarily mean it has become significantly more affordable. Only 9% of San Diego homes sold in the first quarter of 2007 were within the reach of the median income-earning household, according to the National Association of Home Builders and the Wells Fargo affordability index, which assumes a 10% down payment and a market-rate mortgage.

Economists say this indicates the top of the market is moving, but the middle and bottom strata are having problems. In a market where housing is that unaffordable, buyers have to rely more heavily on credit. Potential future foreclosures can throw a market into stall--not a great sign for recovery.

"Affordable markets are in a better position for a strong recovery, because more buyers can come in once prices fall," says Mark Zandi, chief economist at Moody's Economy.com. "In markets that rely more on credit, any recovery will be more muted if lending standards remain tight or tighten."

Reasonable Real Estate

Compare San Diego's numbers to those of the country's most affordable areas. Almost 90% of Indianapolis sales in the first quarter of this year were affordable to the median income-earning household. In Cincinnati, that number was 78% and in Cleveland, 82%.

The skeptics might cry "Rust Belt!" here and point out that those cities' markets aren't exactly healthy. This is certainly the case in Cleveland and Detroit, which have suffered from massive subprime lending practices, emigration and poor local economics; prices there are affordable as a partial result.

Other areas on our list, however, such as Dallas and Atlanta, are experiencing growth, yet remain affordable.

Price-to-income affordability in Dallas was seventh best overall, and just under 70% of homes sold in Atlanta in the first quarter of this year were available to the median income-earning household. Prices can remain affordable in fast-growing cities when there are high rates of new-home construction and relaxed growth restrictions.

High demand doesn't necessarily impede affordability either.

Examine the difference between Boston and Raleigh, N.C.; since 2000, Boston has experienced steady emigration, while Raleigh has welcomed new residents.

But during that time, Boston home prices increased by 16.7%, and median income-earning households can afford about half of what they could seven years ago. In Raleigh, home prices have grown by 37%, but the share of median income earners who can afford homes has only dropped by 3%, all while the city underwent a population boom.

What gives? A high increase in new-home construction and growth policies not overburdened by regulation acted as price reliefs in Raleigh. Boston doesn't have such policies and hasn't seen a great deal of new-home construction.

Both Raleigh and Charlotte, N.C., just missed making the list, landing at Nos. 12 and 13, respectively.

"There are so many people moving [to Charlotte] now that everyone and their brother is a real estate agent," says Francine Dupont, a broker with Dupont Real Estate in Charlotte. "A lot of people are cashing in on their northeastern properties and moving down here because you can get so much more for your money."

Source: http://www.forbes.com/2007/08/01/homes-affordable-property-forbeslife-cx_mw_0802realestate.html