

# South stands out for home value

Buyers seeking a bargain should evaluate housing affordability, the potential for appreciation and an area's underlying economy.

*By Maya Roney, BusinessWeek*



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You may have heard that now is the time to buy real estate -- if you can afford to. As contrarians point out, demand is weak, sales are slow and inventory is high. Homeowners and home builders are slashing prices desperately, and savvy investors are snatching up cheap foreclosure properties. The real-estate market is teeming with bargain-priced homes, just waiting for that next lucky buyer to come along.

Or so it seems. Most experts agree the era of home flipping is over and believe homes should be looked at foremost as shelter and secondarily as a long-term investment. But, as always, there are some areas of the country where homes are affordable, price appreciation is imminent, and the underlying economy is strong. In these places, you might just have an easy time finding a great bargain.

Along with economists at Fiserv, Lending Solutions and Moody's Economy.com, BusinessWeek put together a list of the best metropolitan areas for bargain homes by looking at affordability, forecasts for price appreciation and job growth, and recent price fluctuations. These areas are not for high-risk investors; they are perfect hunting grounds for smart buyers looking for decent home-price appreciation and a pleasant place to live at a discount.

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### Shopping around

Why is affordability important? "A very unaffordable area suggests that prices are too high to be supported by the local economy," says Celia Chen, an economist at Economy.com. "If you have an affordable home area, the demand supports the housing market." In the same way, forecasts for strong job growth ensure that home prices will continue to appreciate.

While you might be inclined to look for bargains in areas that have seen big price corrections over the past two years, watch out -- prices are still expected to fall much further over the next two years. The researchers at Economy.com and Fiserv expect national home prices to decline 4.9% in 2007 and 2.8% in 2008. "Many markets are still overvalued," says David Stiff, chief economist at Fiserv. "The increases were just so meteoric they need a larger correction."

In the worst markets for bargain buying right now, affordability is low (meaning a higher ratio of median home price over median home value), home prices are expected to see double-digit declines in the next two years, and job-growth forecasts are less than spectacular. Miami; Reno, Nev.; Los Angeles and a slew of other California metropolitan areas fall into this category.

And there is no guarantee that home prices in areas of high speculation such as California and Florida will ever rebound to boom levels. "Where prices are falling are where flippers built up artificial prices," says Jim Gillespie, chief executive of Coldwell Banker in Parsippany, N.J. "Now they're coming back to where they should be." Normal appreciation, Gillespie notes, is between 5% and 6% annually.

### Southern comfort

**For undervalued, affordable housing with a good outlook for home-price and job-market growth, there's one region of the country that stands out: the South. Metro areas such as Austin, Texas; Baton Rouge, La.; Durham, N.C.; and Houston are all expected to see home prices increase more than 5% over the next two years -- a big figure in a country where home prices are expected to trend downward overall.**

"If you exclude Florida, the one area of the country that has a good outlook with respect to affordable housing and job growth is really the South," says Stiff. "There are other places in the country that have one of those things, but not both." The Midwest, for instance, has affordable housing but increasing unemployment, while the West has job growth but very expensive housing.

It's true -- you can find bargains in any area of the U.S. these days, though it helps to have a starting point. "Right now, across the country, this is a good time to buy," says Gillespie, citing the usual three incentives: lower prices, high inventory and relatively low mortgage rates.

Gillespie recently purchased an investment property in Fayetteville, Ark., home to the University of Arkansas. "College towns and state capitals are typically good places to invest, because real estate there just doesn't go down in value," he says. "People don't always think about that, but you need to do your homework."

[See a slideshow](#) of the best and worst markets for real-estate bargains.

<b>Sampling of best bargain real-estate markets</b>	
City	Median home price
<a href="#">Austin-Round Rock, Texas</a>	\$186,600
<a href="#">Baton Rouge, La.</a>	\$174,700
<a href="#">Birmingham-Hoover, Ala.</a>	\$164,900
<a href="#">Corpus Christi, Texas</a>	\$130,000
<a href="#">Durham, N.C.</a>	\$180,100
<b>Sampling of worst bargain real-estate markets</b>	
City	Median home price
<a href="#">Fresno, Calif.</a>	\$297,000
<a href="#">Miami</a>	\$384,400
<a href="#">Modesto, Calif.</a>	\$360,000
<a href="#">Los Angeles-Long Beach, Calif.</a>	\$593,000
<a href="#">Merced, Calif.</a>	\$336,000

Courtesy of JB Goodwin