

10 Cities for Real Estate Steals

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The real estate crisis has gutted house prices, tipped millions into foreclosure, and rattled the global economy to its core. But for many would-be home buyers, the historic boom and bust have been a blessing in disguise. During the first half of the previous decade, easy credit and speculative excitement worked to make houses increasingly expensive. By the fourth quarter of 2005, median home prices had reached 2.77 times median household incomes. That is sharply higher than the 1.92 average of the 15 years ending in 2003 and too expensive for many families. But the subsequent crash in home prices—values have fallen roughly 30 percent at the national level from their 2006 peaks—has helped restore affordability to this once inflated market. By the third quarter of 2009, the price-to-income ratio—a key measure of housing affordability—had fallen below its 15-year average, to 1.84 for the nation as a whole.

[\[Slide Show: 10 Cities for Real Estate Steals\]](#)

But not all markets have come back to earth with equal velocity. Home prices in many areas remain overvalued when compared with their longer-term averages, while others have become undervalued. To get a better sense where home buyers are most likely to find houses that are undervalued when compared with their longer-term averages, *U.S. News* turned to Moody's Economy.com. The economics firm provided average and quarterly price-to-income data for each of the nation's 384 distinct metropolitan statistical areas. By comparing the most recent figures with longer-term averages, we were able to compile a list of 10 cities for real estate steals. (It's important to note, however, that many experts believe home prices have yet to hit bottom. For that reason, real estate values in many of the flowing markets could decline further before rebounding.)

1. Memphis: Higher home values pushed the price-to-income ratio in Memphis to nearly 5 in the first quarter of 2006—sharply above its 2.13 average for the 15 years ending in 2003. But the subsequent 17.5 percent decline in home prices has restored affordability to the market. Through the third quarter of 2009, the price-to-income ratio in Memphis was just 1.17, which is significantly below its 15-year average. But while the Memphis market appears to be stabilizing, prices may not have reached bottom yet, according to Moody's Economy.com. A large number of mortgage delinquencies threaten to bring additional inventory to the market through foreclosure. That, in turn, may drag prices still lower.

2. Salinas, Calif.: As in many other markets in California, in the agricultural basin of Salinas, home prices have been hammered by the real estate bust. Home values jumped more than 70 percent from 2002 to 2006. But as the bubble deflated, real estate values plummeted some 65 percent from their peaks. This rapid decline has made houses more affordable to would-be buyers in the area. Through the third quarter of 2009, the price-to-income ratio in Salinas fell to 2.3, significantly below its average of 3.54 for the 15 years ending in 2003. While that's still above the national average of 1.84, it's a steep decline from Salinas's 2005 peak of 7.09. But despite this drop, homes in Salinas are expected to become even cheaper this year as foreclosures exert additional downward pressure on prices, according to Moody's Economy.com.

3. Medford, Ore.: The national housing bust has hit the outdoor wonderland of Medford, Ore., with a one-two punch. Because its timber industry is crucial to the local economy—wood-processing jobs represent at least a quarter of all manufacturing positions—the collapse of the new-home building market triggered higher unemployment in the area.

Meanwhile, after moving significantly higher during the first half of the previous decade, home prices have dropped more than 23 percent in recent years. As a result, Medford's already affordable housing market has become even more so. Its price-to-income ratio stood at just 1.01 through the third quarter of 2009, well below its average of 1.46 for the 15 years ending in 2003. Moody's Economy.com expects home prices to hit bottom this year.

4. Washington: As the federal government scrambles to undo the damage of the nastiest recession in decades, home prices in the Washington area have grown increasingly affordable. (This metropolitan statistical area includes portions of Maryland and Virginia as well.) House prices jumped nearly 86 percent from 2002 to 2007 before taking a 31 percent dive. As a result, the price-to-income ratio of the Washington area fell to 1.12 through the third quarter of 2009. That is significantly less than the area's average price-to-income ratio of 1.69 for the 15 years ending in 2003. Still, Moody's Economy.com projects that home prices in the area will continue declining into 2011 before they begin to climb higher.

5. Mobile, Ala.: After increasing during the first half of the previous decade, home prices in Mobile, Ala., have dropped about 7 percent in recent years. At the same time, the area's price-to-income ratio has fallen to 1.52 through the third quarter of 2009. That is significantly less than its average price-to-income ratio of 2.18 for the 15 years ending in 2003. Home prices in Mobile are projected to bottom this year before rising modestly, as the local economy gets help from its competitive port and an abundance of government jobs, according to Moody's Economy.com.

6. Las Cruces, N.M.: The housing market in Las Cruces, N.M., has become increasingly undervalued in recent years when compared with historical averages. The area's price-to-income ratio has fallen from 3.03 in the first quarter of 2006 to 1.37 through the third quarter of 2009. Growing affordability is one reason for the increase in home sales in the area in the third quarter. And aided by government jobs and healthcare employment, Las Cruces's population is expected to grow twice as fast as the rest of the country's. That will help Las Cruces emerge as one of the most rapidly expanding areas in the country over the next half decade, according to Moody's Economy.com.

7. Fayetteville, N.C.: The housing market in the military town of Fayetteville, N.C., also successfully avoided wild price swings that devastated other parts of the country. Rather than surging, home prices remained largely flat for most of the previous decade. Today, house prices in Fayetteville remain undervalued when compared with longer-term averages. The area's price-to-income ratio dropped to 1.23 through the third quarter of 2009, which is notably lower than its average ratio of 1.52 for the 15 years ending in 2003. Moody's Economy.com expects home prices in Fayetteville to bottom out in 2010, before moving slightly higher in subsequent years.

8. Phoenix: After jumping more than 85 percent from 2002 to 2006, home prices in the Phoenix area have crashed by 52 percent in recent years. The plunge has helped restore affordability to this warm, sunny location. From the fourth quarter of 2005 to the third quarter of 2009, the price-to-income ratio was cut in half. It now stands at just 1.52, notably lower than its 1.74 average for the 15 years before 2003. Even though the market may be relatively affordable, those buying property in the area should not expect a quick turnaround. Home prices in the Phoenix area aren't expected to move markedly higher until 2012, according to Moody's Economy.com.

9. Fort Worth/Arlington, Texas: In recent years, home prices in the Fort Worth and Arlington, Texas, area have also grown increasingly undervalued when compared with longer-term averages. The area's price-to-income ratio fell from 3.95 in the fourth quarter of 2005 to 1.89 through the third quarter of 2009. Compared with an average price-to-income ratio of 2.02 for the 15 years before 2003, house prices in the Fort Worth/Arlington area are now relatively undervalued. And with a labor market that is projected to perform better than the national average, home prices in this region are

expected to hit bottom in 2011 and begin moving higher, according to Moody's Economy.com.

10. Cincinnati: Home prices in Cincinnati have remained relatively affordable throughout the nation's recent boom-and-bust cycle. The area's price-to-income ratio actually increased from 2006 to the third quarter of 2009. Its most recent reading of 1.41 is slightly below the 1.46 average ratio of the 15 years before 2003. Although home price declines have moderated in recent months, Moody's Economy.com believes further drops may be in store as additional houses go into foreclosure. Home prices in Cincinnati are expected to bottom out this year before creeping higher.

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