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Dallas housing market: nation's most stable

Prices, job growth and location prop up sector

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With news of the Federal Reserve rate cut, anxieties about a declining housing market and a possible recession are spreading across the country. The good news for Dallasites is that the Dallas housing market is the strongest of any major city in the United States.

A recent PMI Group study reported that the risk of U.S. housing price declines remained low in many areas of the South, Midwest and Northwest. Among the 50 largest metropolitan statistical areas, Texas cities were the lowest and most stable in risk outlook during 2007.

Home prices in Dallas have avoided the speculative bubble that rapidly drove so much of America's real estate to record prices and record unsold inventory levels. To this point, home prices in the Dallas area increased a steady 17% over the last five years, while the U.S. averaged an extreme 53.5% increase during the same time period, according to the Office of Federal Housing Enterprise Oversight. Inevitably, the rest of the country now suffers from rising mortgage foreclosures, falling housing prices and weekly real estate auctions.

Dallas has consistently outpaced the rest of the country on nearly every important economic stability indicator and is currently running counter to national housing trends. There are three reasons why.

- First, prices have remained stable in Dallas because the Metroplex has both favorable zoning regulations and an ample land supply, factors that allow the market to keep up with demand. Few restrictions and land availability give builders easy access to enter or leave the market depending on changing market conditions. This competition has proven to be highly responsive to the market and therefore effective in creating price and supply stability.
- A second factor that supports the continued housing demand and stable home prices is that Dallas continues to experience a robust job market. For a city's housing growth to be stable and healthy, the demand must be reflective of internal job and income growth. Texas is adding jobs at the rate of almost 250,000 per year -- nearly double the rates of Florida, Arizona and New York. The Dallas metro area alone added more than 90,000 jobs last year, leading the nation as one of the top 10 cities in employment growth. An influx of jobs, incomes and availability of living space helps keep new and used house prices in the Metroplex safe from excessive price increases and corrections.

- The third reason Dallas has avoided the current housing crisis is its physical location, central to both U.S. coasts and Mexico. The Dallas/Fort Worth International Airport, mild climate and prime location have helped attract diverse industries and a number of major corporate relocations. The Texas economy is one of the most diverse in the country, with major players in key long-term growth sectors, notably transportation, aerospace and defense, financial services, high-tech electronics, retail and wholesale trade.

To ensure that strong housing trends continue here, proactive steps have been initiated that keep our city's housing supply aligned with new consumer demands. For example, the Uptown housing landscape now accommodates buyers with many new housing options. Twenty years ago, few condos or high-end rentals were offered because there was inadequate infrastructure to support demand. As demand increased, zoning expanded to permit much higher densities with a mix of commercial, rental and retail properties in the area, transforming Uptown into an exciting urban experience.

Dallas developers have demonstrated real responsiveness to the needs of the market. Condo ownership and high-end apartment rentals are now a convenient alternative to single-family homes. Baby boomers who want to downsize and young adults who want to be close to Dallas' cultural offerings are creating a need for new development opportunities.

The Dallas residential market, especially for condominiums, is still emerging: Dallas is the fourth largest city in the country, but only the 16th largest condominium market. Condominiums typically account for 7.7% of the housing stock in the top 50 U.S. markets. In Dallas, however, they represent only 4.4% of available housing.

Condos eventually will be one of the strongest sectors in the marketplace, but the housing slowdown has affected the middle-market condo and luxury condo market, although some of the slowdown appears to be psychological.

Condos selling for less than \$400,000 have been affected by the tightening mortgage supply, but decreasing rates should provide some relief. Condos priced at \$650,000 to more than \$1 million also have slowed as buyers sit on the sidelines. Drexel Development Co. continues to sell about three condos a month, compared to four a month in 2007.

Dallas, by virtue of its robust job growth, land resources and location, has avoided the major housing problems that beset other U.S. cities and can leverage continued economic success by viewing its land as a reusable resource and evolving its housing market to keep up with changing lifestyle demands.

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