

Real Estate

America's Best Housing Markets For Investors

Francesca Levy, 09.10.10

Home buyers and sellers can take heart: Companies of all stripes are investing in real estate again. While the actions of big Wall Street funds and global corporations might seem to matter little to families choosing cities and towns in which to live, consumers can learn a lot by following which investing markets heavy hitters are focusing on--and which ones they're avoiding.

The housing health of a city is affected by a lot of factors including the jobs picture and the rate of vacancies and foreclosures. But some cities where home prices have been battered look like great buys for investors, a good sign that in spite of deep declines, they might turn around dramatically.

Two years ago the idea of putting money behind real estate ventures seemed too risky for even the most reckless of capitalists. But investor skittishness about the real estate market is slipping away, and speculators are seeing value in distressed markets.

But in a housing market this volatile, it can be hard to tell when low sales prices on property indicate a market that has bottomed or one with little hope of a turnaround any time soon. We asked Cary, N.C.-based Local Market Monitor (LMM), a real estate research firm, to identify the markets that were the best bet for residential real estate investing.

[In Pictures: America's Best Housing Markets For Investors](#)

Raleigh, N.C.; McAllen, Texas; and Austin led the list. These cities didn't see the same dramatic run-ups in prices as many Sand State cities did between 2001 and 2006. As a result, they were spared a corresponding bust. They are also buoyed by a mix of jobs that's weighted toward growth industries like government and education.

"Markets with a high percentage of jobs in those categories tend to be more or less stable markets," says LMM president Ingo Wizner. "Then there are the categories you want to stay away from, like construction and finance."

LMM wasn't looking for markets that had come back--this list identified where they think the housing market will come back, with the greatest chance for price appreciation.

"We're not trying to predict which markets will all of a sudden have double-digit growth in home prices again," says Wizner. "We won't know that until the economy starts recovering again."

But investors aren't just looking at the jobs picture, and neither should families seeking promising cities in which to live. One of the characteristics of a city poised for a comeback is a population that was booming before tough economic times made relocating difficult for most Americans. Raleigh saw its population expand by 18% in the first half of the last decade, and McAllen and

Austin each had 16% population growth during those five years.

That's the story for other cities on the list, like Nashville, Tenn. It had a 10% population surge. San Antonio, Texas; Colorado Springs, Co.; and Albuquerque, N.M., all on the list, grew by 9% each before the downturn hit.

"These are markets that in the past year have had sharp turndowns but we think they have longer-term potential," says Wizner. "Markets with longer-term prospects in general have had above-average population growth between 2000 and 2005."

At the other end of the spectrum, Lakeland, Fla.; Reno, Nev.; and Orlando are the absolute worst real estate markets into which you could put your money, with LMM calling them "frankly dangerous." Home prices in these metros have dropped to dramatic lows--in Lakeland, they fell 18% between the second quarters of 2009 and 2010. Worse yet, they are forecast to continue declining.

To select the best markets for investing, LMM analyzed the 145 [Metropolitan Statistical Areas](#) with populations over 400,000 on a variety of factors, including historic population growth, job growth, housing price changes and the mix of jobs in an area, using data through Sept. 1. The investing sweet spot is a market where strong job growth is predicted over the next three years, the population was expanding rapidly before the recession began and home prices are at or near their bottom.

Although much of the housing crisis fallout has already occurred, investing in residential real estate is still dicey, and valuations are trickier than ever. Wizner says that's exactly why real estate is becoming exciting again.

"You tend to get the best bargains in the market when nobody knows where price ought to be," he says. "The question is no longer which are the risky markets. Now that that adjustment has taken place, it's what's going to happen from here on in."

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Courtesy of JB Goodwin