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Atlanta housing market remains healthy
Nationwide slump not felt much yet

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Metro Atlanta's relatively dynamic housing market makes the city a mecca for home builders, even in the midst of a worrisome national slump in home sales.

New first-time home buyers arrive in the city every day, generating a lucrative pool of potential new home sales. This and factors such as inexpensive land and affordable homes make Atlanta's housing market something of a national anomaly.

But Atlanta is prone to some of the same contractions that have beleaguered the national housing scene. Foreclosures are putting more homes on the market, houses are taking longer to sell and builders are dropping prices to generate more sales.

"Atlanta still has solid fundamentals," said economist Patrick McPherron of Economy.com. "But I think Atlanta will be facing some problems as well. There is no market that is safe."

Unlike most metro areas around the country, Atlanta supports a panoply of home builders who jockey aggressively for buyers of starter houses under \$250,000, which account for a majority of home sales here.

Real estate analyst Steve Palm of Smart Numbers, a database that provides information to home builders, called Atlanta's home market "extremely fragmented."

"The builder with the most market share has about 3 percent," Palm said. "It's not like that in other markets."

David Ellis, executive vice president of the Greater Atlanta Home Builders Association, said the top 10 builders in metro Atlanta control about 18 percent of the new-home market. In other markets, he said, the market share of top companies is much higher.

In Orlando, the top 10 builders command almost 50 percent of the market and the top builder controls almost 12 percent of the market, according to the latest figures from the National Association of Home Builders.

But in Atlanta, where 2,000 builders provide housing for a growing population, small, local builders hold their own against the national companies like Pulte, D.R. Horton and Centex.

"There are lots of smaller builders taking up market share," Ellis said.

Atlanta-based Beazer Homes, the nation's ninth-largest home builder among public companies, doesn't even appear in the list of the metro area's top 10 builders, while regional companies such as John Wieland Homes and Neighborhoods and McCar Homes do.

Atlanta still affordable

Nationally, the housing picture has been grim. And only the most stubbornly optimistic analysts say the worst is over.

New home sales in February were down 18.3 percent from a year ago — the lowest pace since August 2000. More ominously, the slide has been accelerating: In the past three months, sales have been plummeting at a 43 percent annual pace and single-family housing starts in February were 33 percent below February 2006.

About 177,000 "housing-related" jobs evaporated in the past year, McPherron said. "And we are expecting to keep giving back jobs."

Roughly 400,000 jobs will be lost by the time housing bottoms out sometime in 2008, he predicted.

Still, Atlanta has been a popular destination with a growing economy.

Prices in places such as San Diego have put homes beyond the reach of ordinary home buyers, while Atlanta is still viewed as affordable.

Palm of Smart Numbers said the bulk of metro Atlanta's new single-family, detached homes sold for \$250,000 or less in 2006. Of about 40,000 such houses built last year, about 23,500 fell into the starter-home price range.

Atlanta's hip, youthful image among young professionals is also helping to drive its growth with potential homeowners, said Chris D'Amico, corporate director of marketing for Alpharetta-based McCar Homes.

"Atlanta is a great city to live in," D'Amico said. "There are job opportunities and there's a lot to do."

What hurts the market is that demand is falling behind supply. Even in Atlanta, the backlog of unsold houses now averages more than eight months of sales — and it is much worse in places such as Las Vegas and Washington.

Nationwide, the new home market is overbuilt by about 200,000 houses, said analyst Gregory Gieber of A.G. Edwards & Sons. Toss in existing homes and the surplus is more than four times that.

McPherron of Economy.com said increased foreclosures are throwing houses back on the market, while the tightening of lending standards will likely shrink the pool of buyers.

"It is going to get worse. This problem isn't even beginning to get out of control yet," he said. "I don't see this getting worked off in a year."

With so many houses on the market, many builders are pressuring their salespeople to do what is needed to move houses. Some builders need cash flow — even if the price of a home is lower.

"I think you are going to see price drops," Gieber said. "The question is, what price will it take to move them? I think they haven't been cutting enough."

The big builders should survive the slump, he said. "But several will see their credit ratings significantly downgraded. And some will have to scrape for cash flow."

Economy slowing but still growing

Economic growth, which slowed to 2.5 percent in last year's fourth quarter, will likely slow more, McPherron said. "We are not heading for recession, but we are going to see subpar growth. It's like swimming and getting caught in a riptide."


The economy still has a lot of positive momentum, said Emily Sanders, president and CEO of Sanders Financial Management in Norcross.

Unemployment is low. Inflation has been relatively modest. Corporate profits have been robust. And growth has been steady, if modest.

"Overall, I'd give recession a low probability," she said. "There are so many other pockets of the economy that are strong."

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