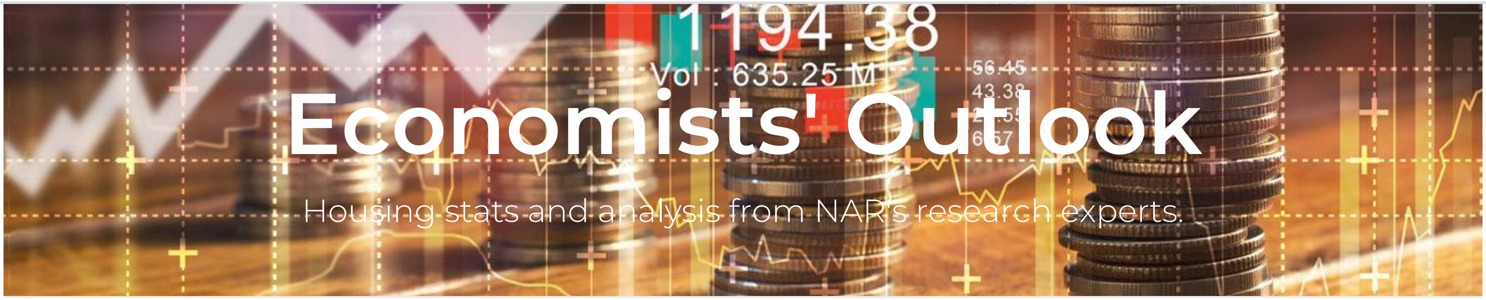

Top 10 Hidden Gems of the Housing Market in 2022

December 16, 2021 By: Scholastica (Gay) Cororaton

In 2021, single-family existing-home prices rose at the fastest pace in five decades at an average year-over-year pace of 18%, driven by strong job growth, historically low mortgage rates, a post-pandemic recovery in household formation, and inadequate housing construction and pandemic-induced supply bottlenecks. At the metro area level, the differences in price appreciation were heavily driven by job growth and by businesses and people moving into the area, especially among workers with the ability to work fully remotely.

Are there markets where home prices are still undervalued relative to the market fundamentals' underlying home prices? In its latest report, 2022 Housing Market Hidden Gems, the National Association of REALTORS® identified the top 10 markets with strong underlying housing market fundamentals but where home prices are still undervalued and relatively affordable. As such, these hidden gem markets are expected to experience stronger price appreciation in 2022.

In alphabetical order, the hidden gem markets are as follows:

- Dallas-Fort Worth, Texas
- Daphne-Fairhope-Farley, Alabama

- Fayetteville-Springdale-Rogers, Arkansas-Missouri
- Huntsville, Alabama
- Knoxville, Tennessee
- Palm Bay-Melbourne-Titusville, Florida
- Pensacola-Ferry Pass-Brent, Florida
- San Antonio-New Braunfels, Texas
- Spartanburg, South Carolina
- Tucson, Arizona

Descriptive

What is a hidden gem market?

NAR considered a market a hidden gem if its median home price to median family income ratio is at the lower end of the distribution of 379 metro areas relative to the distribution of a combined set of seven indicators that drive housing demand and supply:

- 3-year wage growth (BLS average weekly wage, 2018 Q2–2021 Q2)

- 3-year job growth (BLS nonfarm payroll employment, 2018 Q3–2021 Q3)
- Ratio of the 3-year change in population (2020 vs. 2017) to the sum of housing permits over a 3-year period (2018-2020)
- 3-year population growth (US Census Bureau, 2017-2020)
- Net domestic migration as a percent of population (U.S. Census Bureau, 2020)
- Percent of population 25 to 44 years old (U.S. Census Bureau American Community Survey, 2019)
- Percent of household with broadband service (U.S. Census Bureau American Community Survey, 2019)

The median value of the property as of 2021 Q2 was estimated based on the median value of the property in 2019 based on the U.S. Census Bureau's American Community Survey and the change in home prices using the FHFA Home Price Index.[1] The median family income as of 2021 Q2 was estimated based on the median family income in 2019 from the U.S. Census Bureau's American Community Survey and the change in average weekly wages using the Bureau of Labor Statistics Establishment Survey. A z-score of the median home value to the median family income for each metro area as of 2021 Q2 for 378 markets was then generated. Similarly, z-scores were estimated for each of the seven indicators and an average z-score was derived.

A metro area with a ratio of the median home value to the median family income that was at the lower half of the distribution (z-scores are below 0 so home prices are relatively affordable) and an average z-score of the seven explanatory variables that was at the upper half of the distribution (z-scores are above 0, so market fundamentals are relatively stronger) was considered an undervalued market, or a hidden gem. In identifying the final top 10 hidden gem markets, NAR considered only metro areas with a population of at least 200,000 and metro areas with positive job growth, positive wage growth, and positive net domestic migration.

Top 10 hidden gem markets

The top 10 hidden gem markets turned out to all be located in the "Sunbelt" area. In alphabetical order, the hidden gem markets are as follows:

Dallas–Fort Worth, Texas

Dallas-Fort Worth remains an undervalued market, with a home value-to-income ratio of 3.0 compared to the U.S. ratio of 3.3. Its home-to-income ratio is lower than that of Austin (4.0) and that of major metros such as San Francisco (6.0), San Jose (7.3), Los Angeles (7.9), New York-Newark-Jersey City (4.9), Boston (4.1), or Washington DC (3.7). Located in a state with no state tax and with affordable home prices, the U.S. Census Bureau estimated that about 58,000 people moved to the Dallas-Fort Worth on a net basis from other states in 2020, a pandemic year. Among the top 10 undervalued markets, it has the highest share of the population that is aged 25 to 44 years old, making up 29.1% of the population compared to the national average of 26.7%. Strong migration into the area will continue to create upward pressure for home values to increase further in 2022.

Daphne–Fairhope–Farley, Alabama

This metro area is the fastest-growing area in terms of population growth, with a 7.8% rise in population from 2017 through 2020 compared to the U.S. rate of 1.3%. It also had the highest increase in average weekly wages with a cumulative increase of 36.6% during 2018 Q2—2021 Q2 while home prices rose by just 17.7%. Over a 3-year period from 2018 Q3 through 2021 Q3, nonfarm payroll employment rose at the second-highest pace of 5.7% compared to the overall decline in jobs of 1.4%. However, access to broadband services is relatively low, with just 64.2% of households having broadband services; improving access to broadband services will help attract more businesses and workers into the area.

Fayetteville–Springdale–Rogers, Arkansas–Missouri

This metro area experienced the highest cumulative job growth in 2018 Q3—2021 Q3, at 7.2%, and the second highest increase in population from 2017 to 2020, at 6.3% (tied with Spartanburg, SC). Home prices rose at a cumulative rate of 19.1% during 2018 Q2—2021 Q2, about the same pace as the 21% gain in average weekly wages. The strong job growth could push wages up further in 2022, which could boost home demand and therefore also home prices.

Huntsville, Alabama

This metro area experienced the highest cumulative 3-year gain in home prices, at 24.6%, outpacing wage gains of 13.4%. Over a 3-year period, jobs increased by 4.7% and its population rose 5.6%, outpacing the national rates. It has the second-highest fraction of households with access to broadband services, at 75.8%. Its strong job growth and good infrastructure such as broadband services are likely to attract businesses and workers into the area, boosting housing demand and home prices in 2022.

Knoxville, Tennessee

This metro area has one of the most affordable home prices, with the median value of property at $228,878, so it is attracting movers into the area. In 2020, nearly 10,000 people moved into the area. Home prices are rising fast at a cumulative 3-year pace of 22.4% as of 2021 Q3, outpacing the cumulative wage growth of 16.5%. Like the Daphne metro area, access to broadband services is relatively low, with just 66.6% of households with broadband services; improved opportunity to access broadband services can encourage more businesses and workers to relocate to the area, especially those wanting to work from home.

Palm Bay–Melbourne–Titusville, Florida

With a home-to-income ratio of 2.9 (the same as Pensacola), it is affordable compared to other Florida metro areas of Miami-Kendall (4.7), Orlando–Kissimmee–Sanford (3.9), North Point–Bradenton–Sarasota (3.8), Port St. Lucie (3.5), Cape Coral–Fort Myers (3.7), or Tampa–St. Petersburg (3.5). This metro area had the second-highest pace of wage growth over a 3-year period, at 27.2% (next to the Daphne metro area). It has the highest share of households with broadband services, at 78.3%, making it an attractive place to live for workers who want to work from home. Its population is relatively older, with the population ages 25–44 years old making up just 22.2%, which is below the U.S. share of 26.7%. The influx of retirees and workers is expected to bolster the demand for housing and home prices for this metro area in 2022.

Pensacola–Ferry Pass–Brent, Florida

Like the Palm Bay metro area, Pensacola has a home-to-income ratio of 2.9 which makes it affordable compared to other Florida metro areas of Miami–Kendall (4.7), Orlando–Kissimmee–Sanford (3.9), North Point–Bradenton-Sarasota (3.8), Port St. Lucie (3.5), Cape Coral–Fort Myers (3.7), or Tampa–St. Petersburg (3.5). A high fraction of the population has broadband service, at 74.2%, and with its beautiful beaches and good broadband service, it will tend to attract homebuyers who desire to enjoy their leisure time at its beaches.

San Antonio-New Braunfels, Texas

This metro area had the second-highest net domestic migration in 2020, at 25,798 (next to Dallas). It is affordable, with an estimated median home value of $227,684, the second-lowest among the top 10 undervalued markets (next to Spartanburg). It is much more affordable compared to other Texas metros like Austin ($410,653), Dallas ($293,976), and Houston ($245,098). Because of its affordability, its population rose 4.8% over a 3-year period as of 2020. However, housing supply is very tight, with the highest ratio of the change in population from 2017 through 2020 per housing permit, at 3 persons per housing permit.

Spartanburg, South Carolina

This metro area is located between Charlotte and Greenville and is more affordable, with an estimated median home value as of 2021 Q2 of $181,571 compared to the Charlotte metro area ($280,645) and Greenville ($217,459). This metro area experienced the second highest cumulative population growth rate from 2017—2020 of 6.3% (tied with Daphne and second to Fayetteville). Over a 3-year period from 2018 Q3—2021 Q3, jobs rose 3.9%. However, a lower fraction of households has access to broadband services (69.2%) compared to the national U.S. rate (70.8%) as of 2019, so increasing access to and availability of broadband services will be key to attracting business and workers into the area.

Tucson, Arizona

Tucson is very affordable compared to Phoenix. As of 2021 Q2, the median property value was $261,046, which is equivalent to 3 times the median family income compared to the median property value in Phoenix, $364,186, which is 4.3 times the median family income. Among the top 10 undervalued markets, Tucson had the third-largest net domestic migration in 2020, at 10,778 (next to Dallas and San Antonio). Due to strong population growth and net domestic migration, home prices rose at a 3-year cumulative rate from 2018 Q2—2021 Q2 of 23.6%, outpacing wage gains of 15.6%.

[1] The 2019 ACS was the latest available data as of the time the analysis was undertaken.

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