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AP

# Smaller Cities Buck Housing Slump

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By Aaron Clark, Associated Press Writer

## AP Centerpiece: Some Smaller Towns Buck National Housing Slump, Homes Appreciate

SALEM, Ore. (AP) -- Aside from being Oregon's capital city, Salem doesn't have much to boast about. Most downtown restaurants close by 7:00 p.m. and Lefty's -- the only cool bar in town, according to local college students -- is known for its karaoke fundraisers.

But the real estate market here is buzzing. For-sale signs litter front yards and the local paper is fat with ads for homes.

The community of 150,000 or so souls is a prime example of an overlooked phenomenon in the country's overheated housing market: While demand for homes has nose-dived from Florida to California, some smaller metropolitan pockets continue to thrive.

Sleepy towns like Salem, Ore.; Wenatchee, Wash.; and Provo-Orem, Utah may lack glamor but they are among the few places in the country where housing prices are growing at double-digit rates, according to a recent federal study.

Experts say population growth and job growth are one reason. Local factors -- like proximity to ski slopes, mountain bike trails, or nearby cities -- are also helping some Western markets escape one of the nation's worst housing downturns in years. And most of these small-to-mid-size cities weren't a part of the original housing boom and speculation that followed, so many of them are still playing catch-up.

"The Pacific Northwest was a little bit late coming to the party," said Andrew Leventis, an economist with a federal housing agency. "The extreme appreciation over the past five or six years in the country only just began in the Northwest a few years ago."

In Wenatchee, Wash., a 30,000-resident town east of the Cascade Mountains, homes appreciated an average of 25 percent between the first quarter of 2006 and the first quarter of 2007, according to a recent study by the Office of Federal Housing Enterprise Oversight. The agency tracks average home appreciation for mortgages and refinancings not greater than \$417,000, on single-family properties.

Bob Seltzer, a local real estate agent, said the boom there is being fueled by an influx of retirees from rain-plagued Seattle who are looking for warmer weather.

"The economy here does not support high-paying jobs," said Seltzer. But "people can come from Seattle and buy an equivalent house for half the price."

But it's not just the Pacific Northwest that's seeing double-digit home appreciation. While some of the worst hit housing markets include cities in California, Nevada and Arizona, many of the remaining strong markets are also clustered west of the Rocky Mountains.

Fifteen out of 20 metropolitan areas with the highest rates of home appreciation in the country were in Washington,

Idaho, Utah, Oregon, Colorado or New Mexico, according to the federal study, which looked at markets with at least 15,000 transactions over the last 10 years.

Between the first quarters of 2006 and 2007 homes in Salem appreciated 13.4 percent, 14.5 in Boise City-Nampa, Idaho, and 16.8 percent in Grand Junction, Colo.

Nationwide house prices, based on sales and refinancing data, rose only 0.5 percent the first quarter of this year above the fourth quarter of last year -- the lowest rate in the past decade, according to the federal study. Meanwhile, Oregon had 10.77 percent growth in home price appreciation over the past year.

"Our corner of the world has really held up pretty well," said John Mitchell, an economist for U.S. Bancorp, based in Portland. "We've got very strong population growth, we've got good employment growth and we didn't have the kind of speculation you saw elsewhere."

In Portland, Oregon's largest city, the median home price climbed from \$169,000 in 2001 to \$270,500 in 2006, according to a local real estate association. Average home price appreciation grew by 11 percent between the first quarter of 2006 and the same quarter this year, according to the federal agency.

Just 40 minutes to the south, prices in Salem are rising faster and closing in on Portland's. That's because until recently the capital city has been overlooked and bargains are still easy to find.

The median price for a home in Salem was \$221,600 at the beginning of this year, according to the National Association of Realtors. Still, that's one of the cheapest buys along Oregon's heavily populated I-5 freeway corridor, real estate agents say.

"The \$185,000 range is actually not bad at all," said Ben Brubaker, 24, who along with his wife, Chantle, 23, is planning to buy his first house in the area.

On a recent sunny afternoon a real estate agent showed the couple a three-bedroom, two-bathroom, pale-blue home in a subdivision in south Salem, with a list price of \$184,500. A small but trim backyard, large living room and kitchen tiles caught the couple's eye.

"You'll be able to be there for a few years, turn it around and make some money out of it," said, Sylvia Perry, a real estate agent for RE/MAX equity group.

Young, first-time homebuyers like the Brubakers are also triggering demand in Utah, said a state economist, Mark Knold.

Utah, which has the highest job growth rate in the country this year at 4.5 percent, has the youngest work force in the country with 48 percent under the age of 35. Knold said over the last few years low interest rates have turbocharged that demand.

"We had a spike of young people hitting the market" the past few years, said Knold. "A 23-year-old who might have waited until they were 28 to buy a house may have jumped on and bought one."

The Provo-Orem metro area was ranked second in the nation in house price appreciation with nearly 20 percent between the first quarters of 2006 and 2007 in the federal study.

Still, some observers caution smaller Western markets are far from immune from the same forces that have tanked housing markets across the country.

"It's pretty plain to me that the same patterns that have played out in all these other inflated markets are playing out in the Northwest," said Ben Jones, a consultant who runs <http://www.thehousingbubbleblog.com>. "It's almost unavoidable. They (builders) are going to continue to build until there is no longer any profit in it."

In Portland the amount of time it would take to sell homes on the market at the most recent month's rate of sales increased from 2.6 months in June 2006 to 5 months in June of this year. In the western half of Washington where 80 percent of the state's population lives, the number of homes and condos available to buy is up 51 percent from a year

ago -- an all-time high.

But Brubaker said he's not too concerned about a Salem housing bubble and he expects to turn a profit if he sells his new home five years from now.

Besides, he added, it's time for a change: "Quite honestly, I'm tired of living in a rental."

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