

REGIONAL HIGHLIGHTS

Only Moderate Price Increases in North Carolina

At 4.96 percent annual appreciation, North Carolina ranks 43rd in house price growth. While not the lowest ranked state in terms of house price appreciation, North Carolina is notable for the fact the many of its metropolitan areas have consistently ranked in the bottom twenty metropolitan statistical areas. Statewide house price appreciation would be lower were it not for higher price growth in high-tourism regions.

The relatively weak housing markets in North Carolina during recent years mark a departure from the 1980s and 1990s, when the state benefited from a strong manufacturing economy. Until 2000, North Carolina's unemployment rate consistently fell far below the national average. However, since 2000, economic problems in three of the state's key industries, textiles, tobacco, and furniture, have contributed to weakness in the state's economy and its house prices.

Textiles combined with apparel accounted for around twenty percent of the state's gross state product in 1992. Now, they account for less than ten percent. Year-over-year textile employment fell 13.4 percent in June of 2004, a loss of 28,500 jobs. In the previous year, 27,600 textile jobs were lost in the state. This is a drag on places like **Charlotte-Gastonia-Concord, NC-SC**, which saw annual appreciation of only 3.42 percent. **Gaston County**, just west of **Charlotte**, was once known as the "Combed Yarn Capital" of the world. North of **Charlotte**, the city of **Kannapolis** is still recovering from the downfall of industry giant, Pillowtex Corporation, due in part to large debt service payments, in 2003. While cheap, foreign labor certainly negatively impacts the competitive advantage of the industry, other factors continue to play a role in determining its fate, and its future is not certain¹. However, The Agreement on Textiles and Clothing requires that World Trade Organization members eliminate textile and apparel quotas by 2005, so foreign competition may continue to be an important factor.

After textiles, furniture manufacturing comprises a major portion of North Carolina's gross state product – around ten percent. Here too, firms are outsourcing ever-widening segments of their product lines to countries like China and Mexico, where labor is less expensive. Cheaper transportation costs have also facilitated this. Employment in furniture manufacturing fell by about 25 percent between 2000 and 2003. **Davidson County**, just south of **Winston-Salem** in the northern part of North Carolina, where annual house price growth was 2.97 percent, is dependent on manufacturing. Much of the production also occurs in the western part of the state such as in **Hickory-Lenoir-Morganton**, where annual house price appreciation was 2.02 percent.

¹ Conway, P., Connolly, R., Field, A., and Longman, D., "The North Carolina Textiles Project," Journal of Textile and Apparel, Technology and Management, Vol. 3, Issue 3, Fall 2003.

Rural communities throughout the Tarheel state continue to contend with shocks to the tobacco industry, which produces around 40 percent of tobacco grown in the United States. Tobacco growing and manufacturing is widespread across the state, but the hub is generally considered to be **Winston-Salem**, a metropolitan area with annual percentage growth in house prices of 2.97 percent.

Along the Atlantic coast, house prices are appreciating strongly, due to strong tourism and the resulting demand for houses. **Virginia Beach-Norfolk-Newport News**, a metropolitan area which includes the northern part of North Carolina's Outer Banks, saw annual appreciation of 22.81 percent. **Wilmington**, on the southern tip of North Carolina's Atlantic coast, saw annual appreciation of 10.75 percent. **Jacksonville**, just south of the Outer Banks, had annual appreciation of 6.59 percent.

Asheville, located in the mountainous, western section of North Carolina has also benefited from tourism and retirement demand. Unemployment at the end of the third quarter was only 2.9 percent and annual house price growth in **Asheville** was 9.42 percent.

Globalization has introduced both opportunity and loss into North Carolina's economy. So far, as manufacturing declines have rocked much of the state, jobs and hence house prices have been negatively affected, but other industries in the state may be able to compensate for the void left by manufacturing. For instance, North Carolina's largest city, **Charlotte**, is home to two of the country's largest banks, Bank of America and First Union National Bank, as well as to a branch of the Federal Reserve. While outsourcing within the financial sector is a potential concern, the industry is still strong. Office vacancy rates in the Charlotte area eased significantly in the second quarter and remain below the U.S. average. In North Carolina's research triangle, manufacturing still dominates, but technology, biotechnology, and health also make strong contributions to the area's economy. **Raleigh-Cary** and **Durham** had respective annual appreciation rates of 3.49 percent and 4.44 percent. Some Silicon Valley firms in California have expanded business in the state or even moved there to take advantage of existing technology strengths and lower business and real estate costs.

The dichotomy between North Carolina's dependence in some areas on industries hard-hit by foreign competition, particularly from China, and the strength of tourism, technology, and the financial sector in other areas of the state makes it an interesting case study, since the relationship between the strength of different industries and home prices is fairly strong in North Carolina. Some relief to challenges posed by foreign imports of textiles and furniture can be found as new industries take advantage of North Carolina's good business climate. For instance Dell, recently announced plans to construct an assembly plant in the north central part of the state. The National Association of Realtors recently reported that for the third quarter of 2004, North Carolina had the third largest increase of any state in the number of existing home sales, so many transactions are occurring. According to the Census, building permits issued were up as well.

California – Silicon Valley Appreciation No Longer Flat, But Still Slower than Elsewhere in California

California continues to rank in the top five among states for annual appreciation. This quarter, it ranks third, with annual appreciation of 27.18 percent. The only two states to surpass California were Hawaii and Nevada. Metropolitan areas within California continually appear among the top twenty when ranked on annual house price growth. The metropolitan area with the highest annual growth in the second quarter was **Riverside-San Bernardino-Ontario**, with house price growth of 33.81 percent.

Since 2001, Silicon Valley has provided something of an exception to the stellar growth seen in the rest of California. Real inflation-adjusted prices in **San Francisco-Oakland-Fremont** and **San Jose-Sunnyvale-Santa Clara** (Figure 1) exhibited bubble behavior in the late 1980s and early 1990s². However, despite increases in the late 1990s comparable to the bubble-run up in the late 1980s, house prices did not fall in response to the dot-com bubble. Instead, prices in **San Jose-Sunnyvale-Santa Clara** remained almost flat from 2001. San Francisco's prices have not been flat, in part because they did not rise as quickly in 2001 as did San Jose area prices. Over the past year, unadjusted house prices in **San Francisco-Oakland-Fremont** and **San Jose-Sunnyvale-Santa Clara** rose 17.2 percent and 12.5 percent, respectively. Along with **Santa Cruz-Watsonville**, which borders **San Jose-Sunnyvale-Santa Clara** to the west and which had annual appreciation of 14.7 percent, these three metropolitan areas rank lowest in house price growth of all metropolitan areas in California.

San Jose's unemployment rate in September dropped to 5.5 percent from 7.9 percent a year earlier, the largest drop in any metropolitan area. Some reduction in the unemployment rate could be accounted for by job-seekers leaving the area, but Mountain View, California-based Google and its successful initial public offering serve as an example of the area's continued strength in technology.

Recent reports indicate that sales of office property in San Francisco were up considerably in the third quarter. The unemployment rate at the end of the third quarter fell to 4.2, from 5.5 one year earlier.

² The inflation adjustment is based on the seasonally adjusted Consumer Price Index for all urban consumers, all items less shelter, published by the Bureau of Labor Statistics.

Figure 1

