ECONOMY & BUSINESS

THE DIVIDED AMERICAN DREAM

In Charlotte's uneven housing recovery, the rich get richer

BY JIM TANKERSLEY AND TED MELLNIK

PHOTOS BY TRAVIS DOVE FOR THE WASHINGTON POST

Jeff and Kelly Hickman make breakfast in their recently renovated home in Charlotte, shown below. Jeff Hickman's previous home in Charlotte nearly tripled in value in 14 years.

CHARLOTTE — Jeff Hickman's marriage was breaking up, the North Carolina housing market was melting down, and he was underwater on his four-bedroom home. He could have sold it at a loss. Instead, he kept the house in the divorce, and when the recession ended and the housing market started to heal, he remodeled it.

"It was," he said, "one of the best decisions I ever made."

His home, after all, was located in one of the city's most sought-after neighborhoods.

When Hickman finally sold in 2014, the house was worth nearly triple what he paid for it in 2000. His neighbors also did well. Over the full course of the past housing cycle, from the bubble through the bust and back into recovery, homes in his Zip code have gained 37 percent in value. That's more than twice the national average.

The secret to Hickman's success was that old real estate axiom: location, location, location. The axiom has become even more true in the wake of the nation's great housing bust and recovery. By buying in an exclusive neighborhood, Hickman earned a much greater return than owners of similar homes elsewhere.

As a result, the recovery of housing markets such as Charlotte's has not only left in place big wealth disparities in America, it has widened them, according to a Washington Post analysis of how home values have changed over the past 12 years.

The analysis, based on data from Black Knight Financial Services, shows that nationally the housing recovery looks like a staircase, with the lowest average price growth in the lowest-value areas.

Between 2004 and the end of 2015, the average home price rose 21 percent in the most expensive Zip codes of major U.S. cities. The average home price in the rest — the bottom 90 percent of Zip codes — rose 13 percent.

The shows how rising income inequality has fed higher wealth inequality, as high-income Americans earn still higher amounts of money, which they can then use to bid on homes. That, in turn, allows them to earn even higher returns than housing does for everyone else.

Indeed, research released this year suggests that the primary driver of higher housing prices in well-off neighborhoods is not bigger homes or renovations but simply people bidding against one another to live in those areas.

"People are paying more to be segregated, is the dark way of looking at it," said David Albouy of the University of Illinois, who, along with the University of Michigan's Mike Zabek, showed that inequality of housing values has reached its highest point since World War II. Home values at the high and low ends of the market are now further apart than they've ever seen over this time.

Albouy and Zabek worry that an increased concentration of very rich people into super-desirable neighborhoods could hamper the ability of children born poor or middle class to get ahead as adults.

"If there is less income mixing, perhaps that would lead to less equality of opportunity," Albouy said. Neighborhood house bidding wars "are basically pushing the rungs of the ladder farther apart."

Across the country, the growth in home values in some cities, such as Austin and Denver, has been relatively even, from the lowest price tiers to the top. But most of the nation's most dynamic urban areas have experienced housing recoveries that deliver more benefits to better-off people.

In the Los Angeles area, median prices have risen 43 percent in the Zip codes with the most-expensive houses, compared with 20 percent everywhere else. In San Francisco, top prices are up 62 percent; everywhere else, it's 36 percent. In Boston, prices in top neighborhoods are up 30 percent and the rest are up 10 percent.

These disparities in how home values changed are rooted in both the bubble and the crash. In the buildup to the bust, U.S. home prices across all value tiers rose together by double-digit rates, with the increase in lower-price neighborhoods often larger on a percentage basis. In the first years of the crash, homes from top to bottom went together into free fall.

By the end of the crash, however, homes in higher-priced neighborhoods had managed to hold some of their gains. In contrast, lower-priced neighborhoods tended to lose all of their increase in value and then some, going below 2004 values. That's the difference that still persists.

In Hickman's Zip code, 28211, part of a sought-after neighborhood called Cotswold, home values are more than twice those of the region overall. They never fell below 2004 levels during the crash, and by the end of last year, they had risen to more than 37 percent above 2004 levels.

Six miles east, in the 28227 Zip code, the recovery has been far less impressive. The leafy enclave of Mint Hill is a fairly typical suburb in the region, with sizable red-brick homes and a median income that matches the Charlotte metro area's. But there, home values are just 9 percent above 2004 prices.

Overall, in Charlotte, market values in Zip codes that already had the most-expensive homes have risen 31 percent since 2004. In the other nine-tenths of Zip codes, values are up by half that — 15 percent.

"It's not about the house," said Daniel Cottingham, a real estate agent who lives in one of those select neighborhoods in Charlotte. "It's about dirt. The only thing that gains value is the dirt."

Jeff Hickman was a beneficiary of the uneven performance. When he moved to North Carolina from Atlanta in late 1999, he was an executive at an energy services company.

He bought a home in Cotswold, which had become one of the city's most exclusive Zip codes — close to downtown and high-end shopping centers, and rapidly filling up with young professionals. He paid $209,000.

The house was a bluish-gray Colonial on a half-acre of land. The neighbors were mostly mid-level executives in banking, insurance or other service industries. Charlotte is a financial services hub, and for years in the mid-2000s, real estate agents recall, bonus time for bank executives would drive up prices in neighborhoods such as Cotswold.

The bubble burst late in 2007, just as Hickman and his wife decided to separate.

By the time Hickman and his wife divorced the next year, prices had fallen so much that Hickman estimated he would lose money if he sold the house. He sat tight.

Meanwhile, a couple of miles south of Cotswold, another Charlotte couple were breaking up in the midst of the meltdown.

Kelly Sercer and her husband had bought their house, an all-brick four-bedroom that backed up to a creek, at the height of the bubble.

Now it was worth less than they owed, and they couldn't afford to move out. So until they divorced, she lived upstairs and he lived in the basement.

When they tried to sell the house again in 2010, no bids met their asking price. They rented the house and waited, with Sercer's share in the home ultimately being bought out by her ex-husband.

Sercer and Hickman became friends after his divorce. Eventually they started dating. In 2011, Hickman began a two-year, $220,000 remodeling of his house in Cotswold. He ripped out the floors, knocked down walls and added beams. He installed a wet bar, a beer cooler and a wine fridge.

"I was renovating it for me, for my lifestyle," Hickman said.

But after Hickman and Sercer married in 2013 — design degree in hand, she designed the upstairs bedrooms — they realized something: The house didn't fit the lifestyle they wanted, one that would hopefully include children.

So in 2014, they sold it for $618,000. Hickman earned a $189,000 profit, a 44 percent return after accounting for the remodeling costs.

Then they bought her old house from her ex-husband, for 9 percent less than Sercer and her then-husband paid for it. Their house was also in an exclusive Zip code, but in a less desirable corner of it.

The Hickmans have no plans to sell their new home anytime soon. They recently gutted it and installed new floors, Italian marble countertops, and a six-burner stove that cost more than either of their cars.

"We overspent," Kelly Hickman said earlier this year, smiling, but they're betting it's worth it: They're watching young professionals begin to buy homes around them. This could be the next hot neighborhood.

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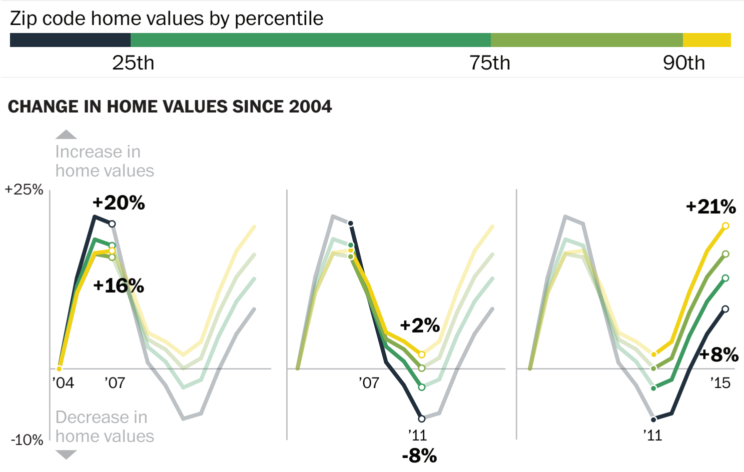
Mellnik reported from Washington.

Expensive homes gained the most in value since 2004

Neighborhoods that already had their metro area's most expensive homes have gained the most value since 2004.



Bubble, 2004 to 2007 Homes rose in value across all price tiers. In many cases, lower-price homes rose most on a percentage basis.

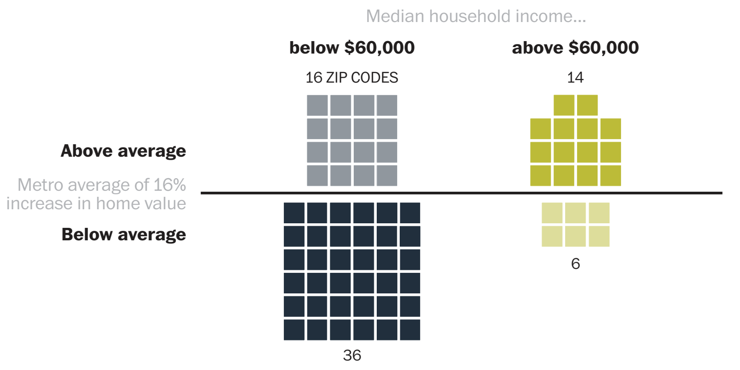
Crash, 2008 to 2011 The crash began with home values in free fall across the board. But in top-value Zip codes, homes never slipped below their 2004 levels. Middle- and lower-value homes fell much further.

Recovery, 2012 to 2015 The gap between upper- and middle-range home values that developed during the crash has persisted.

Source: Black Knight Financial Services, Census Bureau, ESRI
TED MELLNIK AND DENISE LU/THE WASHINGTON POST

Income and home-value disparity in Charlotte

Zip codes in the Charlotte region with above-average income are more likely to see top gains in home value.



Source: Black Knight Financial Services, Census Bureau, ESRI
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DIGEST

MORTGAGE FINANCING

Freddie Mac swings to first-quarter loss

Freddie Mac won't make a dividend payment to the Treasury Department after declining interest rates and wide spreads on investments triggered a $354 million first-quarter loss for the mortgage-finance giant.

Because the company's net worth stood at $1 billion as of March 31, it will escape having to draw on its government line of credit, according to a regulatory filing.

The company, which got $71.3 billion in Treasury aid during the financial crisis, has paid $98.2 billion to the government since regaining profitability in 2012, the filing said.

— Bloomberg News

RETAIL

Sports Authority has no liquidation plan

Sports Authority, still seeking a buyer, has no current plan to liquidate, an attorney for the bankrupt retailer said.

"Liquidation is not in our vocabulary," Robert Klyman, who represents the ailing sporting-goods chain, told U.S. Bankruptcy Judge Mary Walrath on Tuesday in Wilmington, Del. The company is seeking a buyer for some of its more than 450 locations.

Saddled with debt piled up from a $1.3 billion buyout 10 years ago, the retailer filed for bankruptcy protection in March.

— Bloomberg News

ALSO IN BUSINESS

● **Specialty drugs** and retail expansions boosted CVS Health's first-quarter revenue by 18.9 percent, helping to offset higher costs. First-quarter profit fell 6.1 percent during the period, to $1.15 billion, or $1.04 per share, mainly because of higher acquisition-related costs.

— From news services

COMING TODAY

● **8:30 a.m.:** Commerce Department releases international trade data for March.

● **8:30 a.m.:** Labor Department releases first-quarter productivity data.

● **10 a.m.:** Institute for Supply Management releases its service-sector index for April.

● **10 a.m.:** Commerce Department releases factory orders for March.

● **Earnings:** Tesla, Whole Foods.

— From news services