

## ***Mortgage Bankers Association of Central Florida***

### **Real Estate Appreciation in Single-Family Homes in Central Florida: December 2008 Update (November 25, 2008)**

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One of the biggest questions facing the U.S. economy now is, “what is going to happen in our real estate markets?” In states, such as Florida, where real estate boomed in recent years, this question is even larger. The subprime real estate lending market has sent shocks through the national and international financial markets. Financial institutions are taking huge losses due to the mortgage loan losses and lenders are tightening lending standards. Foreclosures have been rising. Fannie Mae and Freddie Mac, which at the end of 2007 backed or held 38% of outstanding single-family mortgages, are in conservatorship. Job losses and unemployment are rising nationally. The stock market, as measured by the S&P 500 Index, is near five-year lows with a loss of 33% during the last three months. With losses on many assets and job uncertainty, these factors may slow a recovery in the housing market. Many analysts think it will get worse before it gets better. As inventories of new and existing homes have increased or stayed at high levels many people wonder how long this slump will last.

One positive development was announced by the Federal Reserve on November 25, 2008. They announced that they were initiating a program to purchase the direct obligations of housing-related government enterprises (GSEs)—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—and mortgage-backed securities (MBS) backed by Fannie Mae, Freddie Mac, and Ginnie Mae. They will purchase up to \$600 billion of the securities to bring down the interest rates on these securities, which should lower rates for new mortgages.

Higher property insurance and property taxes have also raised questions about the attractiveness and affordability of living in Florida. The current prospects of lower state and local tax revenues and the corresponding lower quality of government services will affect Florida’s attractiveness. With school enrollments in many large districts flat or declining, one has to wonder if Florida is still attractive to families. One piece of evidence suggests that our relative affordability is becoming attractive again. The ACCRA Cost of Living Index, used by chambers of commerce in the U.S., illustrates that compared to a national average of 100, Orlando’s housing cost increased from a below-average 87.8 in the third quarter 2004 to 105.9 in the third quarter 2006, an increase of 20.6% in two years. During the last two years that index has declined to 88.6 in the third quarter 2008. The composite index behaved in a similar manner, increasing from 97.7 in the third quarter 2004 to 106.6 in the third quarter 2006, and decreasing back to 101.3 in the third quarter 2008.<sup>1</sup>

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<sup>1</sup> For more detailed recent and past estimates see the source at the Huntsville, AL Chamber of Commerce at [http://www.huntsvillealabamausa.com/new\\_exp/community\\_data/econ\\_performance/accra.html](http://www.huntsvillealabamausa.com/new_exp/community_data/econ_performance/accra.html).

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To understand the local real estate market it is useful to examine the most recent and past experience in the State of Florida and the Central Florida area: the Orlando-Kissimmee Metropolitan Statistical Area (MSA) (Orange, Seminole, Osceola, and Lake Counties) and Brevard and Volusia Counties. My purpose here is to show how single-family homes have appreciated or declined during the most recent eight quarters to see what expectations we may draw from that experience.<sup>2</sup> The basis for the analysis is the Housing Price Index provided by the Federal Housing Finance Agency (FHFA) which now contains the former Office of Federal Housing Enterprise Oversight (OFHEO), the regulator of the government-sponsored enterprises, Fannie Mae and Freddie Mac. The estimated index is based on repeated sales on the same property over time on single-family properties that were financed or refinanced by Fannie Mae or Freddie Mac. The Index attempts to keep constant the quality of construction by looking at the experience on the same homes. The Index is re-estimated quarterly; therefore, the estimates for the same quarter or year may vary by estimation period. These mortgages are conventional conforming mortgages which means that they are not insured by FHA, VA, or other federal entity and the mortgage falls under a certain limit which changes over time. The conforming mortgage loan limit for single-family homes in 2005 was \$359,650 and the loan limit for 2006 to 2008 is \$417,000. The conforming loan limit is set by legislation and has received a lot of attention very recently because loans over \$417,000, also referred to as jumbo loans, have had rates for new loans increase over what they have been in the past relative to conforming loans. One estimate is that about 20% of all mortgages are above the conforming loan limits. In February 2008 President Bush signed the economic stimulus package that includes the provision raising the conforming loan limit to the higher of “125 percent of the area median price for a residence of the applicable size, but in no case to exceed 175 percent of the limitation for 2008” for 2008 only. That formula creates a new conforming loan threshold of \$729,750 or 1.75 times \$417,000 in some areas.<sup>3</sup> The new limits for 2009 in Florida are \$417,000, except for Collier County (\$448,500) and Monroe County (\$529,000). As single-family loans in a high-priced area go above the loan limits, the results may be less reflective of homes in that area. No condominium sales, condo conversions, or multi-family units are included in the sample. It is important to recognize that the markets for condos and single-family homes in the same area may be very different.

Other commonly used sales prices for the area are by the Orlando Regional Realtor Association, the Florida Association of Realtors, and the National Association of Realtors.<sup>4</sup> The sales by Realtors in these time periods are not necessarily from the same types of houses or in the same locations in these areas. Sales outside these areas by Realtors based in the respective metro area are reflected in the sales numbers. This data is easily collected by the Realtors and is useful but one has to recognize the limitations of

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<sup>2</sup> For those interested in examples of annual rates of appreciation for 1985 to 2007 as estimated at the end of 2007, see the *Appendix* at the end of the Report).

<sup>3</sup> Some areas in Florida are affected for 2008 and their single-family limits are Key West (\$729,750), Naples MSA (\$531,250), Sarasota MSA (\$442,500), and Miami MSA (\$423,750).

<sup>4</sup> For those interested in a discussion of a recent examples of Realtor-related information, see the *March 2007 Update* at ([www.bus.ucf.edu/ssmith/mbacf2007Mar.pdf](http://www.bus.ucf.edu/ssmith/mbacf2007Mar.pdf)).

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this data in comparing sales or prices from one period to another period. In addition, sales not made through these Realtors are not reflected in the sales numbers. The data limitations are why many economists prefer to use the OFHEO Index for price comparisons.

Another repeated-sales index, the S&P/Case-Shiller Composite of 20 Home Price Index, is a value-weighted average of the 20 metro area indices and receives a lot of attention, too. Although this index and the OFHEO Index are both repeated-sales indexes, there are differences in samples, even within the same area. See a recent article, “When Home Values Don’t Mesh,” by David Wessel in the February 14, 2008 issue of the *Wall Street Journal*, page A2, for examples of differences within the same market. The OFHEO Index excludes loans above the conforming loan limit and risky loans, e.g. subprime loans that are not guaranteed by Fannie Mae or Freddie Mac. The Case/Shiller Index includes those loans but its data are limited to 20 major markets. Miami and Tampa MSAs are included but the Central Florida markets are not included in the Case/Shiller Index; therefore, it is not appropriate for the analysis of this area. The differences in the indexes can be shown by looking at Miami and Tampa MSAs. The Case/Shiller Index showed annual price changes for the 4<sup>th</sup> quarter of 2007 of -17.5% and -12.4%, respectively, while the OFHEO Index showed annual price changes of +0.27% and -4.57%, respectively, in the estimates for that period. These are huge differences for the two indexes.

As an analyst I often note that I segment the residential market into three areas, the existing single-family market, the new single-family market, and the condo market. The markets may differ considerably. I know from past experience that the condo market may be flat or declining while the existing single-family market may be appreciating. If we look at the Orlando MSA we will see that much of the new home construction is in the outlying areas. In today’s market you have to worry about the financial health of the builder. One should be careful about buying in a new subdivision if it is not nearly built out because the risk to the buyer is very high if the builder goes into bankruptcy. The completion of any new amenities and the upkeep of the existing amenities become more uncertain. A recent article in the *Orlando Sentinel* shows that subprime loans and defaults are much higher in the areas with a lot of new construction.<sup>5</sup> The risk in these new areas with more subprime loans is higher because more properties are likely to be for sale or under foreclosure. In addition, during the foreclosure process the owner/borrower is less likely to pay his or her homeowner association (HOA) fees which puts a larger burden on the remaining members of the HOA. The OFHEO Index does not contain these subprime loans and may underestimate price declines in areas with larger than average numbers of subprime loans.

A detailed analysis is shown in Table 1 on page 5 and Figure 1 on page 6. The *quarterly* appreciation rates for the last eight quarters (2006 Q4 – 2008 Q3) are provided. We can see that in general quarterly appreciation rates were the highest in the 4th Quarter of 2006 and have decreased in all areas to increasingly negative levels. These quarterly

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<sup>5</sup> “The Subprime Mess: It’s All Around You,” Vicki McClure and Mary Shanklin, *Orlando Sentinel*, May 18, 2008, pp. A1, A14, A15.

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appreciation rates are consistent with many analyses that suggest that price increases have turned negative. The latest quarterly appreciation rates from the 2nd quarter of 2008 to the 3rd quarter of 2008 for Orlando, Brevard, and Volusia were -6.74, -6.80, and -7.25%, respectively, -6.14% for the State and -2.7% for the U.S. Unfortunately, in the latest quarter the rate of decline has increased with all four groups in Florida.

Although they are not reported in Table 1, the latest *annual* appreciation rates from the third quarter of 2007 to the third quarter of 2008 for Orlando, Brevard, and Volusia are -15.4, -19.2, and -17.5%, respectively. The latest annual appreciation rates are -16.0% for the State and -4.0% for the U.S. Orlando has done slightly better than the state with a lower decrease in price, while Brevard and Volusia have done worse than the State. Other states with large annual decreases include Nevada (-20.9%), California (-20.8%), Arizona (-13.5%), and Rhode Island (-8.0%). The Orlando Regional Realtor Association's ([www.orlrealtor.com](http://www.orlrealtor.com)) numbers for the Orlando MSA show a decline of approximately 22% for the median price during the same period. As prices declined the affordability index improved from 100.13% in June 2008 to 123.74% in September 2008. An affordability index that is over 100 means that median-income earners make more than is necessary to qualify for a median-priced home

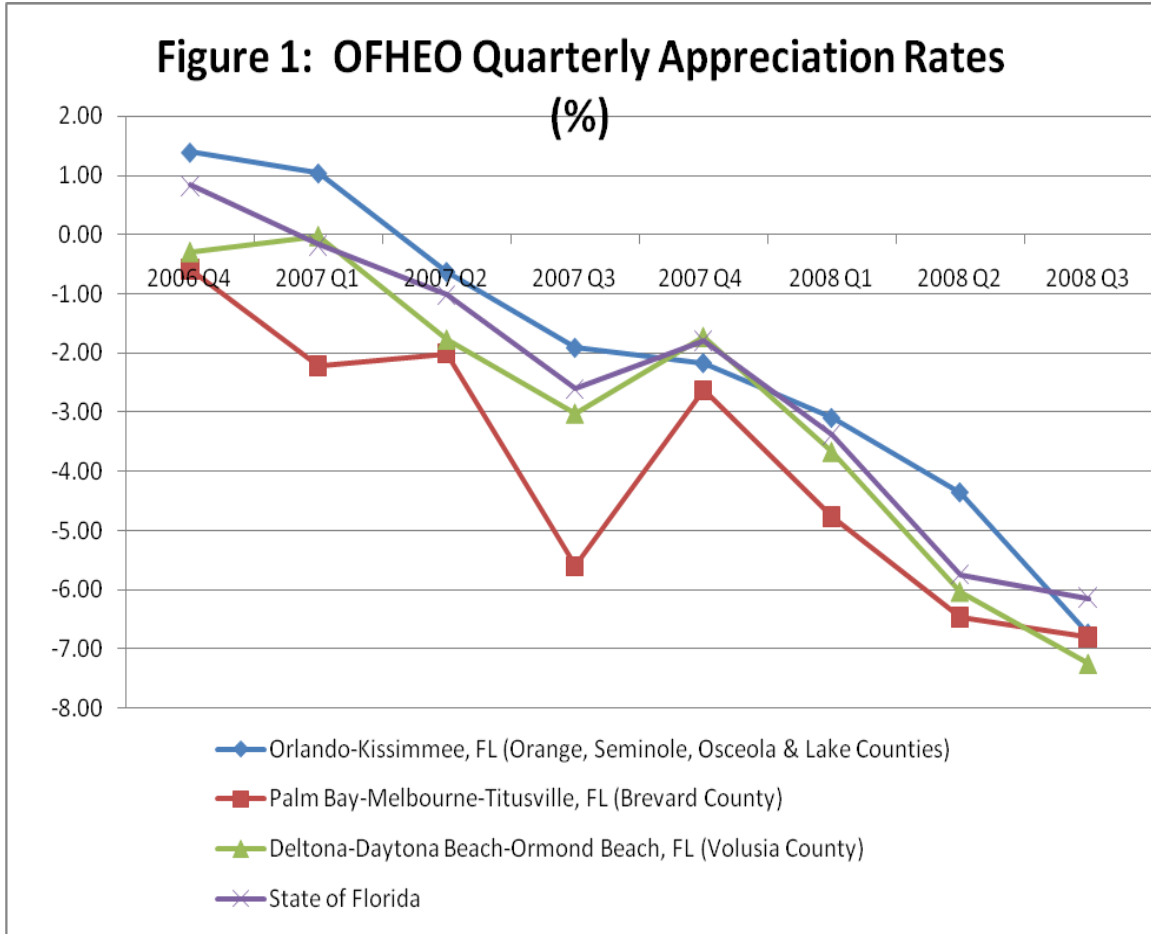
Although no numbers are available for the Central Florida market, the common incentives or sweeteners by new home sellers are probably being used more by existing-home sellers. Examples include sellers paying a year of association fees, annual property taxes, or closing costs. To the extent that the incentives are being used, actual home prices overestimate the "true price" of the home. This bias may be reflected in Realtor-related information and the OFHEO data used for this report. I am not aware of any reason why the bias would be different for Realtor-related information and the OFHEO data.

The current OFHEO numbers suggest that in general Central Florida housing markets are currently experiencing the recent decline in prices we have seen throughout Florida and some other states where overbuilding occurred. This report focuses on the last two years because in such an uncertain market we tend to focus on the latest changes. The problem with the short-term focus is that most or many home purchases are for longer than two years. If we look at the appreciation rates for the last five years, real estate has been an excellent investment for most of us. For example, the most recent five-year appreciation rates for Orlando, Brevard, Volusia, and Florida are 49%, 30%, 41%, and 40%, respectively, while the national rate is 29%. If we compare the last five years with other states, Orlando, Volusia, and the State have done better than the national average.

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<b>Table 1: Last Eight Quarterly Appreciation Rates (%) as of 2008 3rd Quarter (OFHEO Repeated Sales Index for Single-Family Homes with Conforming Mortgages)</b>				
<b>Quarter</b>	<b>Orlando-Kissimmee, FL (Orange, Seminole, Osceola &amp; Lake Counties)</b>	<b>Palm Bay-Melbourne-Titusville, FL (Brevard County)</b>	<b>Deltona-Daytona Beach-Ormond Beach, FL (Volusia County)</b>	<b>State of Florida</b>
2006 Q4	1.39	-0.59	-0.29	0.84
2007 Q1	1.04	-2.23	-0.02	-0.18
2007 Q2	-0.63	-2.01	-1.77	-1.01
2007 Q3	-1.91	-5.60	-3.02	-2.60
2007 Q4	-2.17	-2.63	-1.73	-1.78
2008 Q1	-3.10	-4.77	-3.67	-3.37
2008 Q2	-4.36	-6.45	-6.03	-5.74
2008 Q3	-6.74	-6.80	-7.25	-6.14

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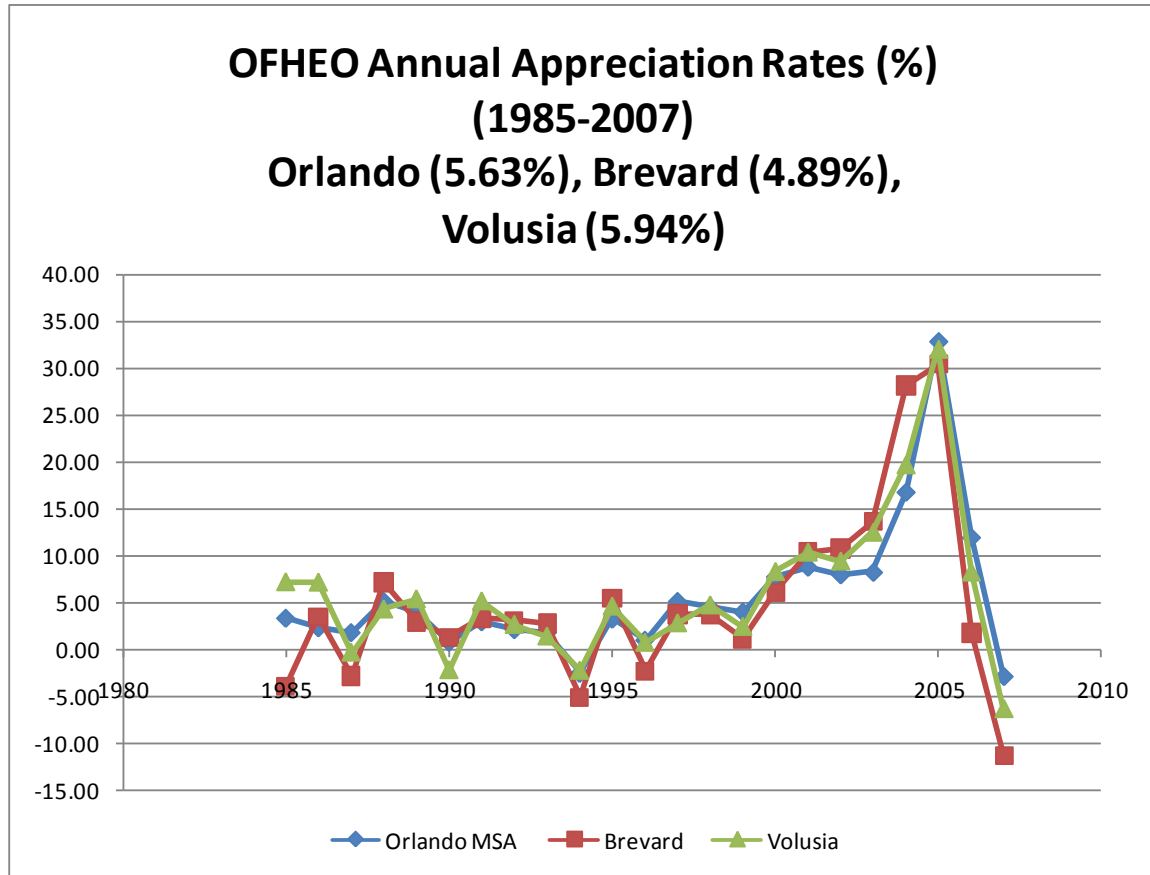


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**Appendix**

<b>OFHEO Annual Appreciation Rates (1985-2007)</b>			
<b>Year</b>	<b>Orlando MSA</b>	<b>Brevard</b>	<b>Volusia</b>
1985	3.28	-3.96	7.14
1986	2.25	3.43	7.11
1987	1.74	-2.91	-0.39
1988	5.07	7.09	4.23
1989	3.87	2.92	5.32
1990	0.71	1.23	-2.26
1991	2.89	3.26	5.10
1992	2.06	3.06	2.58
1993	1.72	2.71	1.34
1994	-2.62	-5.21	-2.34
1995	3.18	5.36	4.54
1996	0.93	-2.40	0.67
1997	5.07	3.69	2.75
1998	4.44	3.61	4.67
1999	3.94	0.99	2.37
2000	7.69	6.00	8.25
2001	8.73	10.39	10.32
2002	7.91	10.71	9.37
2003	8.17	13.58	12.44
2004	16.74	28.11	19.66
2005	32.84	30.37	32.02
2006	11.89	1.72	8.18
2007	-2.95	-11.36	-6.43
<b>Average</b>	<b>5.63</b>	<b>4.89</b>	<b>5.94</b>
<b>Note: Based on 4th Quarter 2007 estimates</b>			

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Previous updates published by the Mortgage Bankers Association of Central Florida may be found at Prof. Smith's web site:

2005 Q2 ([www.bus.ucf.edu/ssmith/mbacf2005Q2.pdf](http://www.bus.ucf.edu/ssmith/mbacf2005Q2.pdf)),  
2005 Q3 ([www.bus.ucf.edu/ssmith/mbacf2005Q3.pdf](http://www.bus.ucf.edu/ssmith/mbacf2005Q3.pdf)),  
2006 March ([www.bus.ucf.edu/ssmith/mbacf2006Mar.pdf](http://www.bus.ucf.edu/ssmith/mbacf2006Mar.pdf)),  
2006 June ([www.bus.ucf.edu/ssmith/mbacf2006Jun.ppt](http://www.bus.ucf.edu/ssmith/mbacf2006Jun.ppt)),  
2006 September ([www.bus.ucf.edu/ssmith/mbacf2006Sep.pdf](http://www.bus.ucf.edu/ssmith/mbacf2006Sep.pdf)),

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2006 December ([www.bus.ucf.edu/ssmith/mbacf2006Dec.pdf](http://www.bus.ucf.edu/ssmith/mbacf2006Dec.pdf)),  
2007 March ([www.bus.ucf.edu/ssmith/mbacf2007Mar.pdf](http://www.bus.ucf.edu/ssmith/mbacf2007Mar.pdf)),  
2007 June ([www.bus.ucf.edu/ssmith/mbacf2007Jun.pdf](http://www.bus.ucf.edu/ssmith/mbacf2007Jun.pdf)),  
2007 September ([www.bus.ucf.edu/ssmith/mbacf2007Sep.pdf](http://www.bus.ucf.edu/ssmith/mbacf2007Sep.pdf)),  
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