

Mortgage Bankers Association of Central Florida

Real Estate Appreciation in Single-Family Homes in Central Florida: June 2009 Update (May 27, 2009)

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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. Job losses and unemployment are rising nationally and unfortunately are expected to continue to rise or stay at high levels. The stock market, as measured by the S&P 500 Index, is currently near seven-year lows; however, it has increased 34.6% as of the close on May 26, 2009, since a recent low of 676.53 on March 9, 2009. With losses on many assets and job uncertainty, these factors may slow a recovery in the housing market. 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 is that mortgage rates on commitments for fixed-rate first mortgages have stayed low and decreased from 5.15% on March 5, 2009, to 4.82% on May 21, 2009. Another positive development is that more than 90 percent of leading forecasters in a survey by the National Association for Business Economics predict the U.S. recession will end this year, although the recovery is likely to be bumpy. It is generally in line with the outlook from Federal Reserve Chairman Ben Bernanke and his colleagues.

Higher property insurance and property taxes have also raised questions about the attractiveness and affordability of living in Florida. The recent decision by State Farm Insurance to request to leave the state for home insurance purposes has caused questions about the future integrity of home insurance 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; however, the recent federal stimulus plan should temporarily lower some of the negative impact.

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 *affordability relative to the rest of the country* 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 a high of 115.6 in the fourth quarter 2005, an increase of 31.7% in five quarters. That index has declined to 86.7 in the first quarter 2009. The composite

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index behaved in a similar manner, increasing from 97.7 in the third quarter 2004 to 107.3 in the fourth quarter 2005, and decreasing back to 98.2 in the first quarter 2009.¹

In terms of *affordability relative to local incomes*, it is also improving. According to the Orlando Regional Realtor Association, as the median sales price decreased by 37% from April 2008 to April 2009 the area's affordability index rose to a near record high of 194%. An affordability index that is over 100 means that median-income earners make more than is necessary to qualify for a median-priced home. Buyers who earn the reported median income of \$52,307 can qualify to purchase a home that is 194% of the median value of \$132,900 or approximately \$258,000.

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.² 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 2009 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. President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The new limits for 2009 are \$417,000 for all of Central Florida and the rest of Florida, except for Broward, Palm Beach, and Miami-Dade Counties (\$423,750), Manatee and Sarasota Counties (\$442,500), Collier County (\$531,20), and Monroe County (\$729,750). 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.

¹ 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.

² 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).

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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.³ 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 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 4th 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. The Case/Shiller Index showed annual price changes for Miami and Tampa MSAs for the 4th quarter of 2008 of -28.8% and -22.0%, respectively, while the OFHEO Index showed annual price changes of -24.2% and -18.8%, respectively, in the estimates for that period. The differences for 2008 are not as large as 2007. Most recently the Case/Shiller Index showed annual price changes for Miami and Tampa MSAs for the 1st quarter of 2009 of -28.7% and -22.4%, respectively, while the OFHEO Index showed annual price changes of -25.4% and -13.9%, respectively, in the estimates for that period.

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

³ 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).

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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.⁴ 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 homeowners 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 (2007 Q2 – 2009 Q1) are provided. We can see that in general quarterly appreciation rates were the highest or less negative in the 2nd Quarter of 2007 and have generally decreased in all areas through the 3rd quarter of 2008. These quarterly appreciation rates are consistent with many analyses that suggest that price increases turned negative during that period. The latest quarterly appreciation rates from the 4th quarter of 2008 to the 1st quarter of 2009 for Orlando, Brevard, and Volusia were -0.15, +1.32, and -0.01%, respectively, +2.00% for the State and +0.42% for the U.S. In the last quarterly report I wrote, “The one glimmer of hope is that the latest quarterly decline is less than the previous quarterly decline in Orlando MSA and less than the previous two quarterly declines in Brevard and Volusia Counties and the State. We saw a similar situation in Q3 2007 where we hoped that the declines would decrease and turn positive in the future, but that did not happen. When the bottom or turnaround occurs it will look like the latest quarter. Only time will tell if this is the bottom or near bottom or the quarterly rates will continue to decline more.” The latest quarterly reports of positive appreciation or losses close to zero reinforce the possibility that the losses are at or near the end. The latest quarterly reports are a stronger glimmer of hope.

Although they are not reported in Table 1, the latest *annual* appreciation rates from the 1st quarter of 2008 to the 1st quarter of 2009 for Orlando, Brevard, and Volusia are -14.97, -16.03, and -16.28%, respectively. The latest annual appreciation rates are -14.57% for the State and -3.35% for the U.S. Orlando has done slightly worse than the state with a higher decrease in price, while Brevard and Volusia have done worse than the State. The Orlando Regional Realtor Association’s (www.orealtor.com) numbers for the Orlando MSA show a decline of approximately 35.0% for the median price during the same period. The difference in rates shows a much different picture and should primarily be related to the potential sample differences discussed earlier in the report.

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

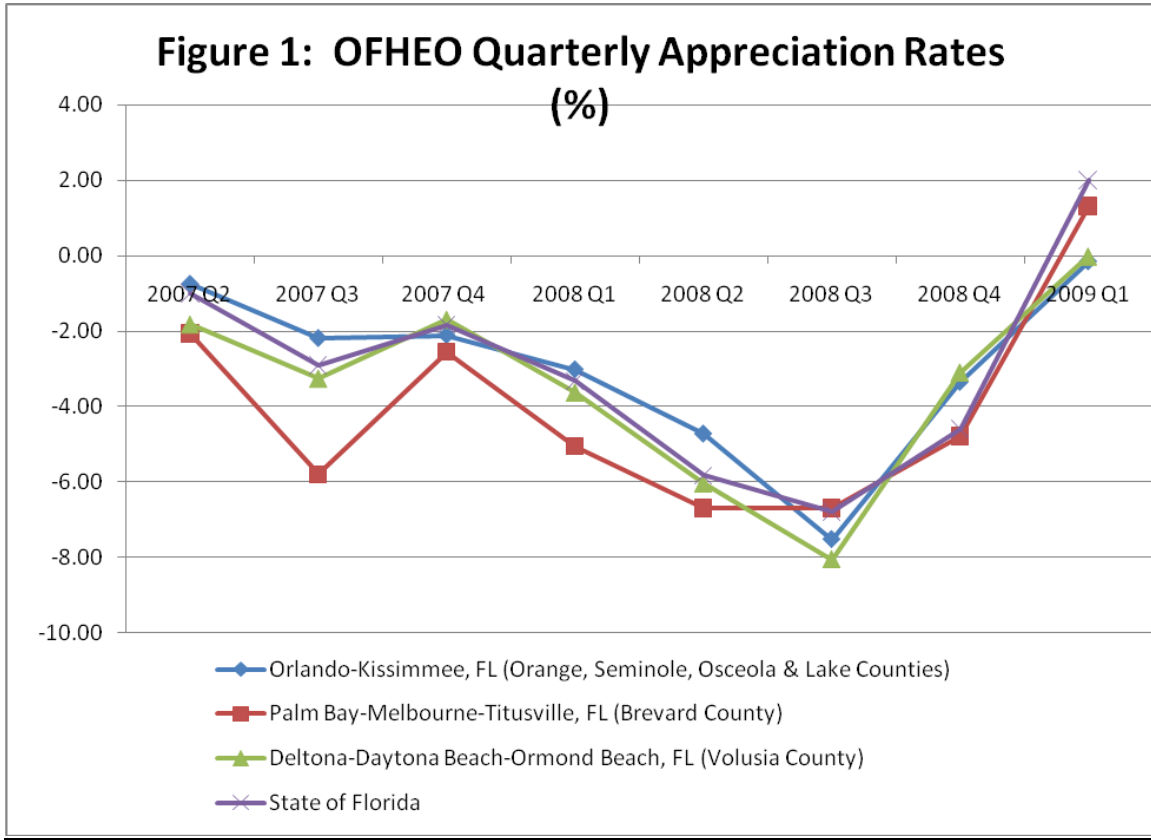
⁴ “The Subprime Mess: It’s All Around You,” Vicki McClure and Mary Shanklin, *Orlando Sentinel*, May 18, 2008, pp. A1, A14, A15.

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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 a good to reasonable investment for many of us, particularly when compared with the loss of 18.8% for the S&P 500 Index for the same period. For example, the most recent five-year appreciation rates for Orlando, Brevard, Volusia, and Florida are 33.5%, 12.7%, 24.0%, and 25.1%, respectively, while the national rate is 23.4%. If we compare the last five years with other states, Orlando done better than the national average by 10.1% while Volusia and the State have done slightly better than the national average. Brevard has underperformed the national average by 10.7%. These numbers also illustrate how most of the boom these areas experienced during the last five years has been eliminated back to a closer performance with the rest of the country.

Quarter	Orlando-Kissimmee, FL (Orange, Seminole, Osceola & Lake Counties)	Palm Bay-Melbourne-Titusville, FL (Brevard County)	Deltona-Daytona Beach-Ormond Beach, FL (Volusia County)	State of Florida
2007 Q2	-0.75	-2.07	-1.82	-0.99
2007 Q3	-2.19	-5.80	-3.25	-2.91
2007 Q4	-2.11	-2.56	-1.69	-1.83
2008 Q1	-3.02	-5.06	-3.63	-3.33
2008 Q2	-4.72	-6.70	-6.04	-5.83
2008 Q3	-7.52	-6.70	-8.05	-6.79
2008 Q4	-3.35	-4.79	-3.09	-4.59
2009 Q1	-0.15	1.32	-0.01	2.00

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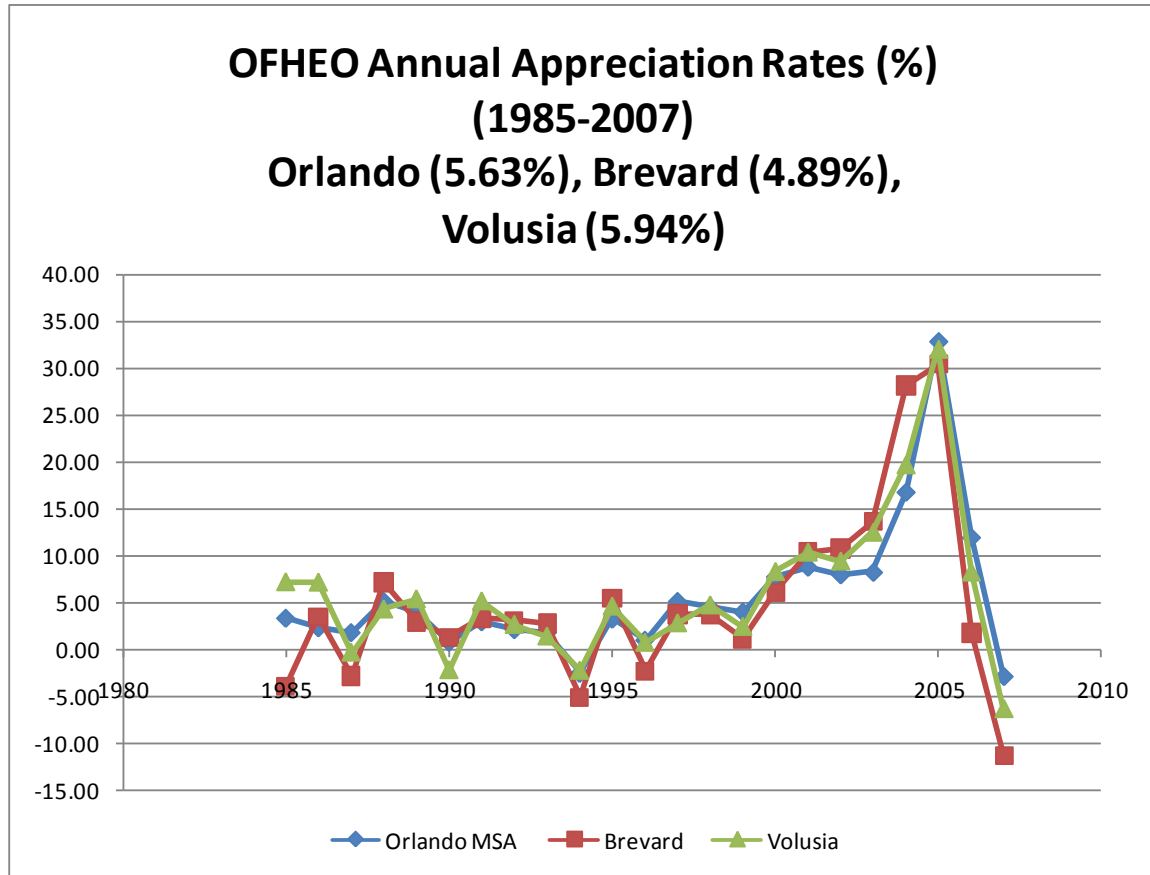


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Appendix

OFHEO Annual Appreciation Rates (1985-2007)			
Year	Orlando MSA	Brevard	Volusia
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
Average	5.63	4.89	5.94
Note: Based on 4th Quarter 2007 estimates			

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Author Contact: Stan Smith may be reached at ssmith@bus.ucf.edu or 407-823-6453. He would appreciate any questions or comments on what types of information would be useful to the mortgage banking community. His web page, www.bus.ucf.edu/ssmith, contains a lot of current information on residential and commercial real estate lending and the mortgage markets. Prof. Smith has an extensive background in real estate finance with publications in leading professional publications (*Mortgage Banking*, *The Appraisal Journal*, *Real Estate Appraiser and Analyst*, *Property Tax Journal*, *Assessment Digest*, *American Banker*, *Journal of Retail Banking*, *Magazine of Bank Administration*, *Federal Home Loan Bank Board Journal*, and *Credit Union Executive*) and in major academic journals (*American Real Estate and Urban Economics Association Journal*, *Journal of Real Estate Finance and Economics*, *Journal of Real Estate Research*, *Housing Finance Review*, *Urban Studies*, and *Journal of Financial and Quantitative Analysis*).

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),
2005 Q3 (www.bus.ucf.edu/ssmith/mbacf2005Q3.pdf),
2006 March (www.bus.ucf.edu/ssmith/mbacf2006Mar.pdf),
2006 June (www.bus.ucf.edu/ssmith/mbacf2006Jun.ppt),
2006 September (www.bus.ucf.edu/ssmith/mbacf2006Sep.pdf),

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2006 December (www.bus.ucf.edu/ssmith/mbacf2006Dec.pdf),
2007 March (www.bus.ucf.edu/ssmith/mbacf2007Mar.pdf),
2007 June (www.bus.ucf.edu/ssmith/mbacf2007Jun.pdf),
2007 September (www.bus.ucf.edu/ssmith/mbacf2007Sep.pdf),
2007 December (www.bus.ucf.edu/ssmith/mbacf2007Dec.pdf),
2008 March (www.bus.ucf.edu/ssmith/mbacf2008Mar.pdf),
2008 June (www.bus.ucf.edu/ssmith/mbacf2008Jun.pdf),
2008 September (www.bus.ucf.edu/ssmith/mbacf2008Sep.pdf),
2008 December (www.bus.ucf.edu/ssmith/mbacf2008Dec.pdf), and
2009 March (www.bus.ucf.edu/ssmith/mbacf2009Mar.pdf).