

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

### **Real Estate Appreciation in Single-Family Homes in Central Florida: March 2010 Update (February 25, 2010)**

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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 and busted 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. The unemployment rate unfortunately is expected to continue at a high level. The stock market, as measured by the S&P 500 Index, is at 1,105.24 at the close on February 24, 2010, and 29.4% lower than the high of 1565.15 on October 9, 2007; however, it has increased 63.4% since a recent low of 676.53 on March 9, 2009. With losses on many assets and job uncertainty, these factors may affect 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 very positive development is the extension of the \$8,000 tax credit to homes under a sales contract by April 30, 2010. It also expands to include a new \$6,500 credit for owners of existing homes who are purchasing a new principal residence (an existing homeowner can claim the \$6,500 tax credit if they lived in their principal residence for five consecutive years out of the last eight). It raises income eligibility limits to claim the full credit for both groups of homebuyers to \$125,000 for individuals and \$225,000 for married couples (effective Dec. 1, 2009). Another positive development is that mortgage rates on commitments for fixed-rate first mortgages have stayed low and are at 4.93% on February 18, 2010.

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; 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 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 an average of 87.5 in 2009. The composite index

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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 an average of 98.4 in 2009.<sup>1</sup>

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 30.4% to \$103,000 from January 2009 to January 2010 the area's affordability index increased to a very high 247%. 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 \$52,820 can qualify to purchase a home that is 247% of the median value of \$103,000 or approximately \$254,410. However, that \$103,000 median price encompasses all types of sales situations and home types (including the enormous percentage of condos sold for less than \$50,000). The median price for "normal" sales was \$169,990. The median price for bank-owned sales was \$69,550, and the median price for short sales was \$115,000. It is important to recognize that many of the short sales and bank-owned sales may have damage and may need a lot of repairs or additional investment. Even if we use normal sales of \$169,990 as our basis the affordability index is still about 150%.

The inventory of homes also decreased by 29.61% from January 2009 (22,613 homes available) to 15,911 homes available in January 2010. The inventory level is a 9.13 month supply for January 2010, down from a 21.54 month supply in January 2009. A general rule of thumb is that below a six month supply is a seller's market and above a six month supply is a buyer's market. However, these numbers may not fully reflect the "shadow inventory" of foreclosed or future short sales that may come on the market.

To understand the local real estate market it is useful to examine the most recent and past experience in 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

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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).

<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).

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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.

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>3</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 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. The Case/Shiller Index showed annual price changes for Miami and Tampa MSAs for the 4<sup>th</sup> quarter of 2008 of -28.8% and -22.0%, respectively, while the OFHEO

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<sup>3</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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Index showed annual price changes of -24.2% and -18.8%, respectively, in the estimates for that period. Recently, the Case/Shiller Index showed annual price changes for Miami and Tampa MSAs for the 4th quarter of 2009 of -9.9% and -11.0%, respectively, while the OFHEO Index showed annual price changes of -14.0% and -10.7%, respectively, in the estimates for that period. The differences for 2008 and 2009 are not as large as 2007.

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>4</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 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 (2008 Q1 – 2009 Q4) are provided. We can see that in general quarterly appreciation rates were negative in most of the last eight quarters. High negative rates were found around the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2008. In the 1<sup>st</sup> quarter of 2009 we saw some hope in that the rates were positive or slightly negative. The latest quarterly reports for the last three quarters of 2009 present a less positive picture with an average quarterly loss of approximately 5%. The latest quarterly appreciation rates from the 3rd quarter of 2009 to the 4th quarter of 2009 for Orlando, Brevard, and Volusia are -5.07%, -5.24%, and -7.18%, respectively, -2.90% for Florida and -0.73% for the U.S (not reported in table). The latest quarterly reports for the three Central Florida MSAs demonstrate that the decline in prices continued instead of prices leveling off or increasing.

Although they are not reported in Table 1, the latest *annual* appreciation rates from the 4th quarter of 2008 to the 4th quarter of 2009 for Orlando, Brevard, and Volusia are -15.88%, -13.38%, and -15.36%, respectively. The latest annual appreciation rates are -10.97% for Florida and -4.66% for the U.S. Orlando, Brevard, and Volusia have done worse than the state with a higher decrease in price than the state. The Orlando Regional Realtor Association's ([www.orlrealtor.com](http://www.orlrealtor.com)) numbers for the Orlando MSA show a

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<sup>4</sup> "The Subprime Mess: It's All Around You," Vicki McClure and Mary Shanklin, *Orlando Sentinel*, May 18, 2008, pp. A1, A14, A15.

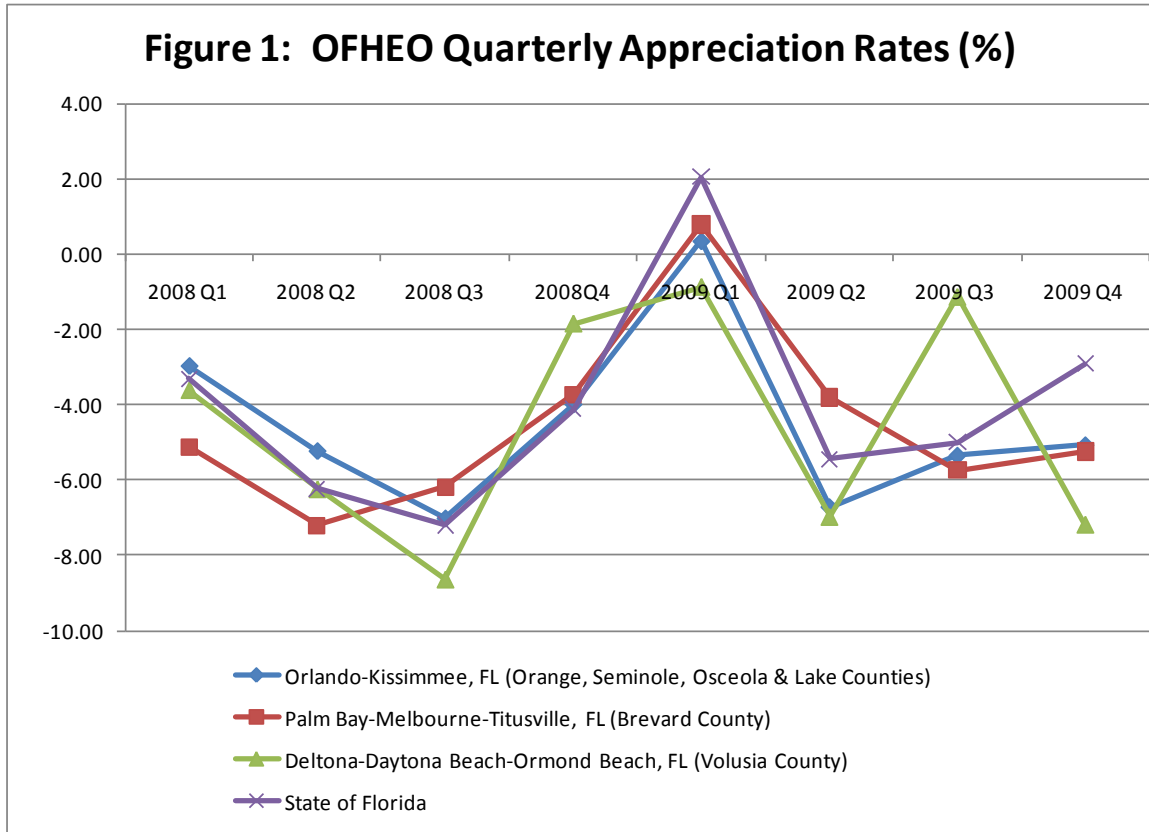
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decline of approximately 30.4% for the median price during a similar period of January 2009 to January 2010. The difference in rates shows a much different picture and should primarily be related to the potential sample differences discussed earlier 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 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 Orlando when compared with the loss of 8.0% for the S&P 500 Index for the same period (December 31, 2004 to December 31, 2009). For example, the most recent five-year appreciation rates for Orlando, Brevard, Volusia, and Florida are -2.58%, -21.25%, -9.88%, and -7.11%, respectively, while the national rate is 6.38%. Florida's return is slightly better than the S&P 500 Index, Volusia is slightly worse, and Brevard is much worse. If we compare the last five years with the real estate returns for other states, all areas have underperformed the national average. Brevard in particular has performed much worse than the nation. These numbers also illustrate how all the boom these areas experienced during the last five years has been eliminated to the point that we are underperforming the rest of the country.

<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>
2008 Q1	-2.96	-5.11	-3.60	-3.30
2008 Q2	-5.23	-7.20	-6.24	-6.22
2008 Q3	-7.02	-6.17	-8.63	-7.19
2008Q4	-3.98	-3.72	-1.84	-4.11
2009 Q1	0.37	0.79	-0.86	2.07
2009 Q2	-6.72	-3.80	-6.97	-5.43
2009 Q3	-5.35	-5.73	-1.13	-5.00
2009 Q4	-5.07	-5.24	-7.18	-2.90

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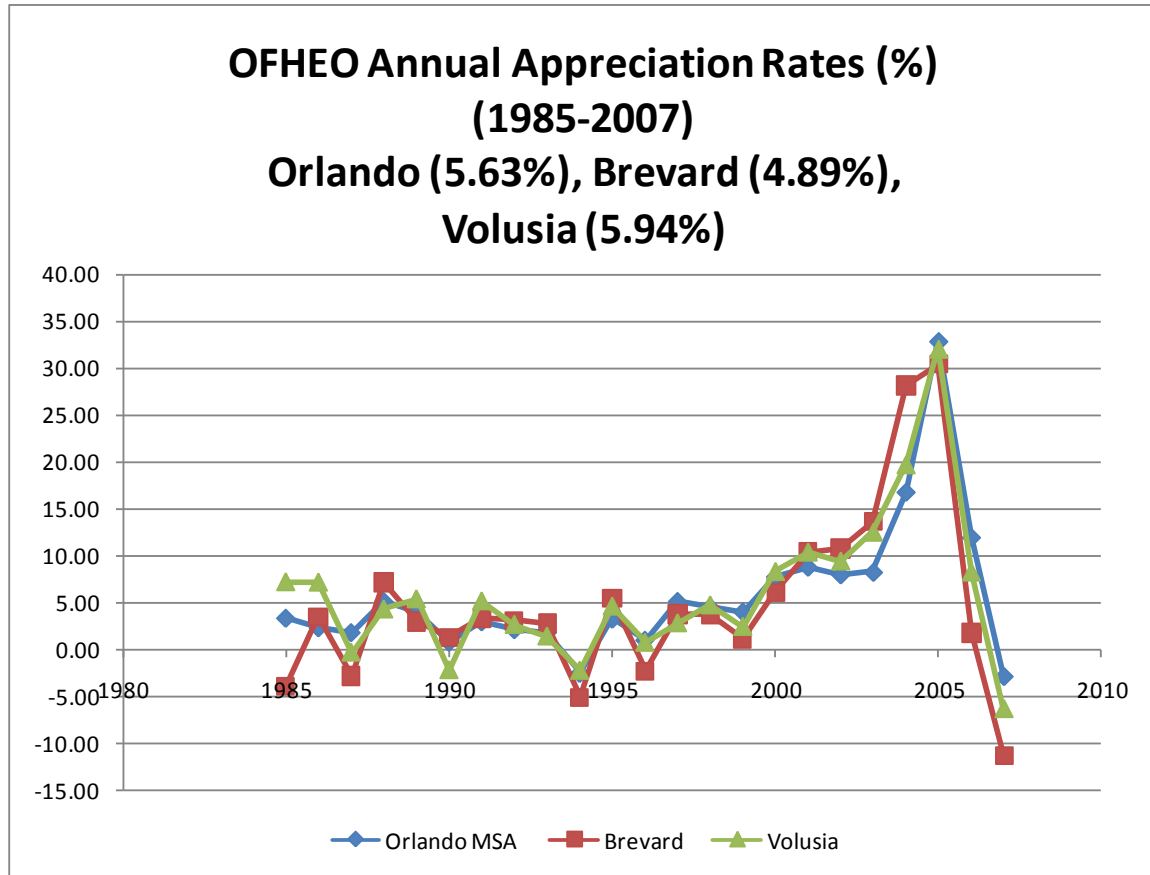


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**Appendix**

<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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**Author Contact:** Stan Smith may be reached at [ssmith@bus.ucf.edu](mailto: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](http://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](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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