

Mortgage Bankers Association of Central Florida

Real Estate Appreciation in Single-Family Homes in Central Florida: December 2011 Update (November 29, 2011)

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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 have tight lending standards. Foreclosures are still high. 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 1,194.70 at the close on November 28, 2011, and 23.7% lower than the high of 1565.15 on October 9, 2007; however, it has increased 76.6% 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.

In the last report the mortgage rate on commitments for fixed-rate first mortgages on August 18, 2011 was 4.15%. The current rate on November 24, 2011 was 3.98%, at or near historical lows.

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 *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 80.1 in the third quarter of 2011. The composite 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 an average of 97.2 in the third quarter of 2011.¹

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.

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.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 most single-family homes for 2006 to the first nine months of 2011 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 limits for 2009 were \$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 (\$531,250), and Monroe County (\$729,750). The limits for 2010 were \$417,000 for all of Central Florida and the rest of Florida, except for Collier County (\$448,500), and Monroe County (\$529,000). The higher limits for the first nine months of 2011 are the same as 2009 and expired on October 1, 2011. The new loan limits from October 1, 2011 to December 31, 2012, are the same as 2010 and are \$417,000 for all of Central Florida and the rest of Florida, except for Collier County (\$448,500), and Monroe County (\$529,000). Once the higher loan limits expire on October 1, 2011, the maximum conforming loan limit for the Federal Housing Administration (FHA), Freddie Mac, and Fannie Mae will decline in some areas (Broward, Palm Beach, Miami-Dade, Manatee, Sarasota, Collier, and Monroe Counties) that have enjoyed the higher loan limits. 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.

² For those interested in examples of annual rates of appreciation and index levels for 1981 to 2009 as estimated at the end of the first quarter of 2010, see the *Appendix* at the end of the Report).

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 FHFA/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 FHFA Index are both repeated-sales indexes, there are differences in samples, even within the same area. See “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.

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 borrowers and lenders have to worry about the financial health of the builder. One should be careful about buying in a new subdivision if it is not almost fully 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. An article in the *Orlando Sentinel* shows that subprime loans and defaults have been 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) or condo fees, which puts a larger burden on the remaining members of the HOA or the condo association. The FHFA Index does not contain these subprime loans and may underestimate price declines in areas with larger than average numbers of subprime loans.

³ For those interested in recent examples of Realtor-related information, see Orlando Regional Realtor Association at www.orlrealtor.com.

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

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 (2009 Q4 – 2011 Q3) are provided. We can see that in general quarterly appreciation rates were negative in six of the last eight quarters. There is some positive news. The latest rates in the third quarter of 2011 are slightly positive in Orlando, Brevard, and Florida. The latest quarterly appreciation rates from the second quarter of 2011 to the third quarter of 2011 for Orlando, Brevard, and Volusia are 0.63%, 0.57%, and -1.35%, respectively, 1.54% for Florida and 0.94% for the U.S. (not reported in table). Hopefully, the latest positive rates are indicating a bottom in prices, but only time will tell.

Although they are not reported in Table 1, the latest *annual* appreciation rates from the third quarter of 2010 to the third quarter of 2011 for Orlando, Brevard, and Volusia are -10.85%, -8.02%, and -10.29%, respectively. The latest annual appreciation rates are -8.41% for Florida and -4.28% for the U.S.

The current FHFA 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 not performed as well as the S&P 500 Index for the same period (September 30, 2006 to September 30, 2011). For example, the most recent five-year appreciation rates for Orlando, Brevard, Volusia, and Florida are -44.83%, -48.22%, -48.67%, and -40.97%, respectively, while the national rate is -14.52%. All the areas of Florida and the U.S. have performed worse than the loss of 15.30% for the S&P 500 Index. These numbers also illustrate how all the boom these areas in Florida experienced during the last decade has been eliminated to the point that we are significantly underperforming the rest of the country.

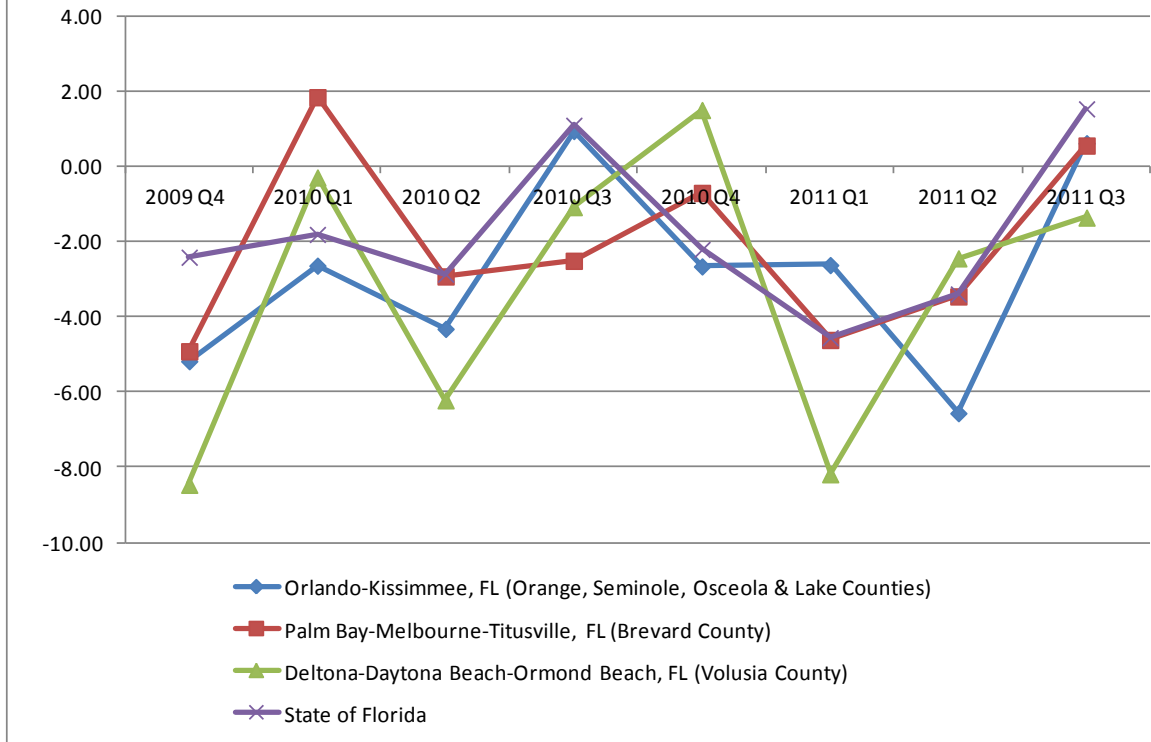
If we compare the current home price indexes (not reported in the paper) to the past indexes, current indexes are close to what they were in 2002 and 2003. The indexes for Orlando, Brevard, Volusia, and Florida are near their past indexes in Q1 2003, Q4 2002, Q3 2002, and Q3 2003, respectively. The current index for the nation is close to the Q3 2004 level. These numbers suggest that if you bought after those dates then your home is likely to be worth less than what you paid. If you bought during the peak periods your home may be underwater, i.e., your mortgage is higher than your home value.

The Appendix provides annual appreciation rates the home price indices from 1981 to 2009 for the 4th quarters.

Table 1: Last Eight Quarterly Appreciation Rates (%) as of 2011 Third Quarter (FHFA Repeated Sales Index for Single-Family Homes with Conforming Mortgages)

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
2009 Q4	-5.17	-4.91	-8.46	-2.41
2010 Q1	-2.63	1.85	-0.28	-1.80
2010 Q2	-4.31	-2.92	-6.21	-2.86
2010 Q3	0.95	-2.50	-1.07	1.10
2010 Q4	-2.65	-0.70	1.51	-2.20
2011 Q1	-2.61	-4.61	-8.18	-4.55
2011 Q2	-6.55	-3.45	-2.44	-3.38
2011 Q3	0.63	0.57	-1.35	1.54

Figure 1: FHFA Quarterly Appreciation Rates (%)

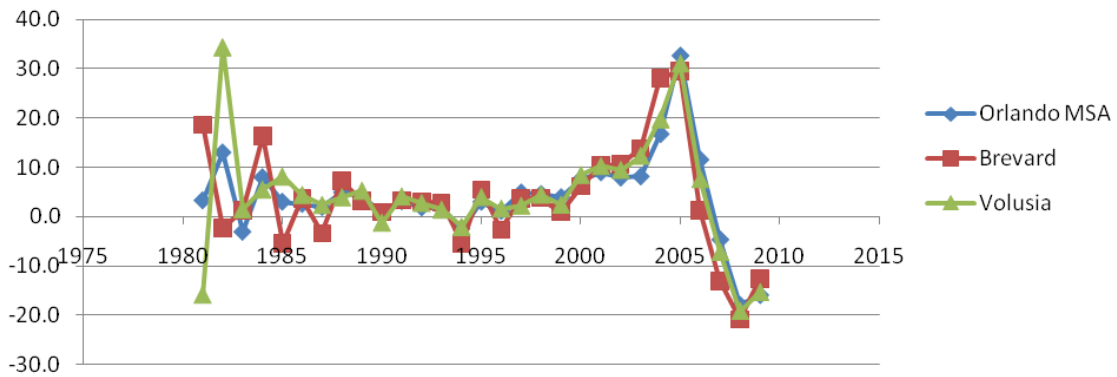


Appendix

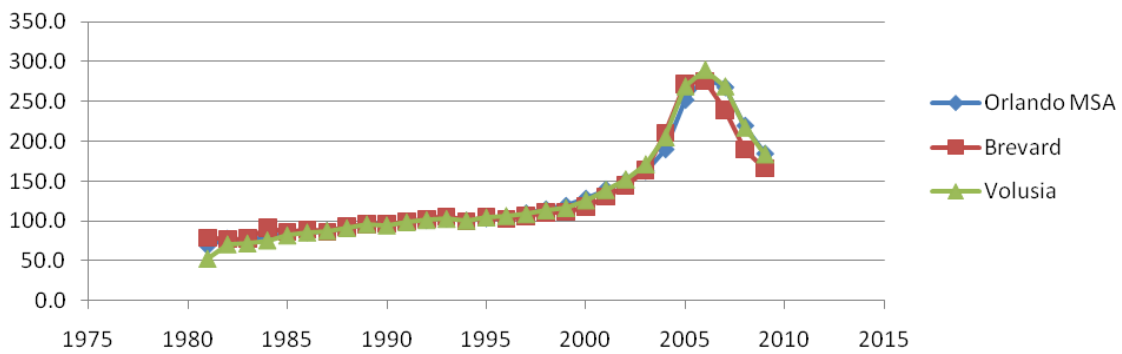
OFHEO Annual Appreciation Rates (1981-2009)			
Year	Orlando MSA	Brevard	Volusia
1981	3.2	18.6	-15.9
1982	13.0	-2.3	34.5
1983	-3.1	1.3	1.5
1984	7.9	16.3	5.5
1985	3.0	-5.4	8.1
1986	2.5	3.6	4.4
1987	1.9	-3.4	2.3
1988	4.9	7.3	3.9
1989	4.1	3.1	5.2
1990	0.7	0.9	-1.3
1991	3.1	3.3	4.1
1992	1.8	3.1	2.8
1993	1.7	2.8	1.4
1994	-2.4	-5.4	-2.1
1995	3.0	5.5	4.0
1996	1.1	-2.6	1.6
1997	4.9	3.7	2.2
1998	4.5	3.8	4.5
1999	3.9	0.9	2.4
2000	7.6	6.2	8.5
2001	8.9	10.4	10.3
2002	7.9	10.6	9.5
2003	8.1	13.8	12.4
2004	16.7	28.0	19.8
2005	32.6	29.5	31.2
2006	11.5	1.3	7.7
2007	-4.7	-13.1	-7.2
2008	-18.0	-20.9	-19.2
2009	-15.9	-12.5	-15.4
Average	3.9	3.7	4.4
Note: Based on 1st Quarter 2010 estimates			

OFHEO Annual Appreciation Rates (1981-2009)

**Averages: Orlando = 3.9%,
Brevard = 3.7%, Volusia = 4.4%**



OFHEO Home Price Index (1981-2009) (4th Quarters Based on 1st Quarter 2010 Estimates)



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The most current Update may be found at <http://mbacf.org>. The current and previous Updates published by the Mortgage Bankers Association of Central Florida since 2005 may also be found at Prof. Smith's web site:

<http://web.bus.ucf.edu/faculty/ssmith/page/Mortgage-Bankers-Association-of-Central-Florida-Quarterly-Reports-by-Stanley-Smith.aspx>.