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# *American Real Estate Markets in Flux*

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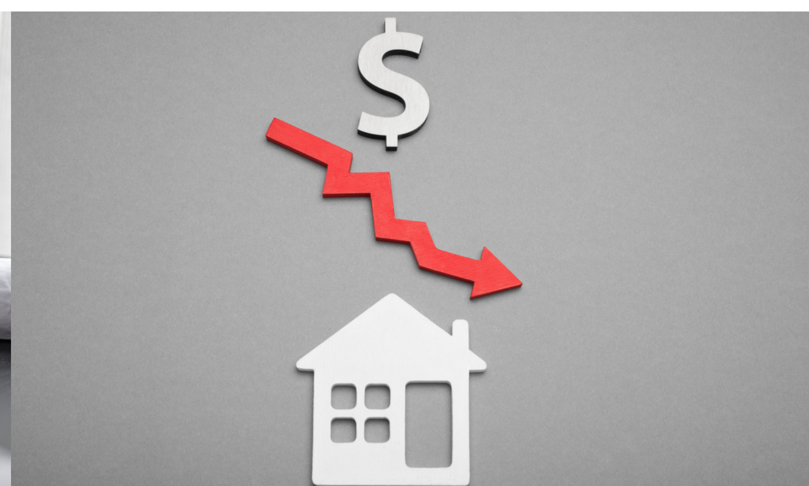
# AMERICAN REAL ESTATE MARKETS IN FLUX

It might seem the US housing market is turned every which way but loose – overcrowded yet underbuilt, unaffordable but still at "historically low" mortgage rates, perhaps even a "softening" market while at record prices. In prior real estate analyses, Farm Credit of Central Florida has highlighted the market volatility across the country. Imbalances remain endemic, and while median prices for new and existing home sales are at record highs, not every market is smoking hot. While dispensing with the negativity a multi-year pandemic has brought would be ideal, the ramifications are impossible to ignore: consumer choices have been impacted. The expansion of "work-from-home" (WFH) has and will continue to revolutionize where people choose to live and has added a layer of agency to millions of lives nationwide. An extended period of lower mortgage interest rates over the past few years has incentivized home buying. America's retiree population continues to grow, spurring demand for living accommodations in the most comfortable locales. Not to be ignored, the proliferation of central air conditioning in the 1960s has directed more than half of development during the last 50 years to the South. Sure, there are a multitude of other factors at play, but these primary elements are helping to drive a hyper-discombobulated housing industry.

Some folks love city life, a few prefer the rural countryside, and others a suburban neighborhood next to Ward and June Cleaver. There is no "correct" answer as to the best home location, but there certainly are popular characteristics attractive to large swathes of individuals. Over the course of the pandemic, for example, more families (mainly those able to WFH) desired increased space and, especially, a pool. Retirees generally prefer warm climates (i.e. "snowbirds") with developed healthcare infrastructure. Most citizens, regardless of age, are partial to paying less in taxes. Though this might be considered stating the obvious, it is necessary to point out that there is a limited quantity of homes available in desirable locations that can be purchased by retirees, those with flexible work situations, and, of course, all the other working folks chasing the American dream in that area. Thus, while markets in warm, sunny regions of Arizona, Texas, and Florida have experienced the strongest growth for decades, this has only increased over the past two years, with outsized price increases skewing the national median and average.

**-10,000**

Decline in new home sales from May to June according to the US Census Bureau

**-9.5%**

The drop in median sale price for new homes from May to June according to the US Census Bureau

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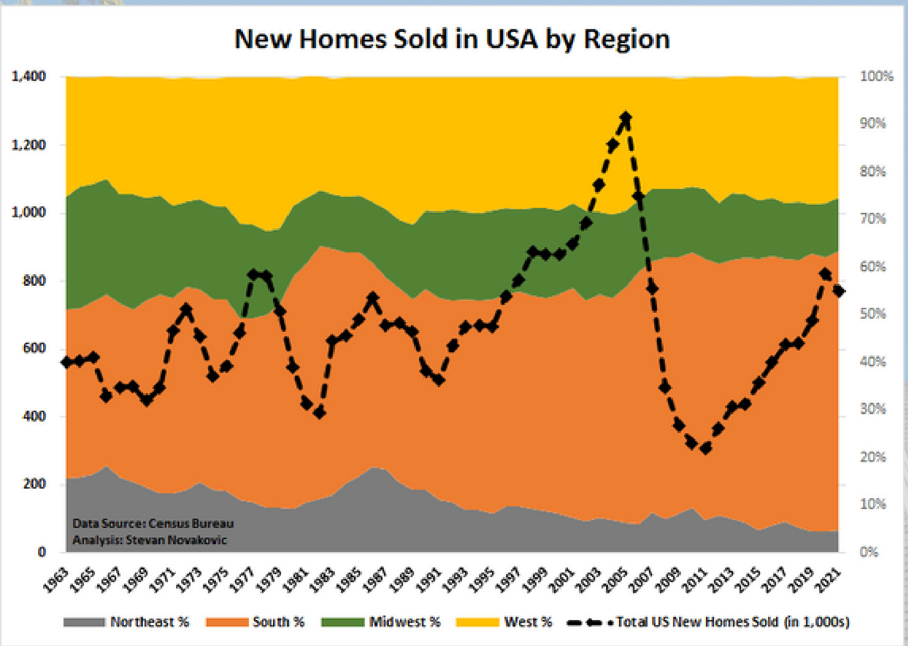
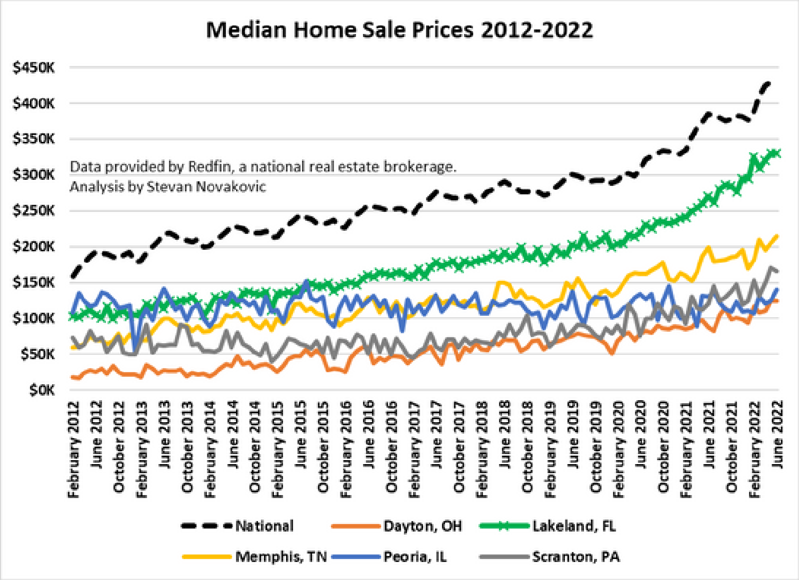



Why dive into so much background? Well, it's beneficial to understand the foundation of the market if we consider a forward look. In June 2022, more than 52% of new home building permits were granted in the South, only about 22% in the Northeast and Midwest combined. Correlation and causation: the most desirable geographies experience the largest share of development, which cannot keep up with demand, but in many cases those regions have been responsible for the majority of builds for decades – leaving less room for new projects.

Let's take a quick look at affordability. Overall, the US has underbuilt new homes since the subprime mortgage collapse of the mid-2000s, and, as a result, while there are plenty of deficits, there are also surpluses. The median sale price for the country in June was $428,000 (according to Redfin.com), and for Lakeland, FL, where FCCF is headquartered was $330,000, a whopping 61% increase from before the pandemic. Plenty of areas, however, have not undergone this shift. For example, Dayton, OH has a median price of $124,000; Peoria, IL $140,000; Scranton, PA $166,000; and even though Memphis, TN has jumped 57% the median is only $215,000.




## +61%

Increase in home prices for Lakeland, FL compared with pre-pandemic levels (according to Redfin.com, a national real estate brokerage).

## $428,000

The US median home price for June (according to Redfin.com, a national real estate brokerage).

## AFFORDABILITY EXAMPLES:

| US - Nationwide | Pre-Covid: February 2020 |
|---|---|
| Median Family Income (through March 2020) | $69,560 |
| Median Home Price (NAR) | $270,100 |
| Average 30-yr Mortgage Rate | 3.45% |
| 20% Down | $54,020 |
| Estimated Cash-to-close (@4.5% closing costs) | $66,174.50 |
| Annual Income to Money Down Ratio | 95% |
| Monthly Payment before Ins/Taxes | **$964.27** |

| US - Nationwide | Update: June 2022 |
|---|---|
| Median Family Income (through March 2021) | $67,521 |
| Median Home Price (NAR) | $416,000 |
| Average 30-yr Mortgage Rate | 5.54% |
| 20% Down | $83,200 |
| Estimated Cash-to-close (@4.5% closing costs) | $101,920 |
| Annual Income to Money Down Ratio | 151% |
| Monthly Payment before Ins/Taxes | **$1,897.96** |

| Florida - Statewide | Pre-Covid: February 2020 |
|---|---|
| Median Family Income (through March 2020) | $59,097 |
| Median Sale Price (Florida Realtors) | $270,000 |
| Average 30-yr Mortgage Rate | 3.45% |
| 20% Down | $54,000 |
| Estimated Cash-to-close (@4.5% closing costs) | $66,150.00 |
| Annual Income to Money Down Ratio | 112% |
| Monthly Payment before Ins/Taxes | **$963.92** |

| Florida - Statewide | Update: June 2022 |
|---|---|
| Median Family Income (through March 2021) | $57,435 |
| Median Sale Price (Florida Realtors) | $420,000 |
| Average 30-yr Mortgage Rate | 5.54% |
| 20% Down | $84,000 |
| Estimated Cash-to-close (@4.5% closing costs) | $102,900 |
| Annual Income to Money Down Ratio | 179% |
| Monthly Payment before /Ins/Taxes | **$1,916.21** |

| Polk County | Pre-Covid: February 2020 |
|---|---|
| Median Family Income (through March 2020) | $51,817 |
| Median Home Price (Redfin) | $210,000 |
| Average 30-yr Mortgage Rate | 3.45% |
| 20% Down | $42,000 |
| Estimated Cash-to-close (@4.5% closing costs) | $51,450 |
| Annual Income to Money Down Ratio | 99% |
| Monthly Payment before Ins/Taxes | **$749.71** |

| Polk County | Update: June 2022 |
|---|---|
| Median Family Income (through March 2021) | $54,591 |
| Median Home Price (Redfin) | $342,000 |
| Average 30-yr Mortgage Rate | 5.54% |
| 20% Down | $68,400 |
| Estimated Cash-to-close (@4.5% closing costs) | $83,790 |
| Annual Income to Money Down Ratio | 153% |
| Monthly Payment before Ins/Taxes | **$1,560.34** |

In each of these hypothetical cases, the median family income is below the “Payment less than/equal to 3 x Gross Income” ratio generally preferred by lenders. Ignoring taxes and home insurance, monthly disbursements for households have nearly or more than doubled in all three scenarios. What this means is that for everyday workers, nationally as a whole, in the state of Florida, and even in Polk county, the American dream is out of reach. In a typical environment, we would expect the market to reach an equilibrium or that folks would rent temporarily while they save to buy a home.

Unfortunately, the underlying conundrum at the foundation of US shelter is the fact that historically it has been cheaper to buy than to rent in most metros. Nationwide and in the FCCF territory, folks are struggling, and for a larger and larger swath of the population, the necessity of putting a roof overhead is unaffordable.

| June 2022 Monthly Payment (Principal + Interest) vs pre-Covid | |
|---|---|
| US Nationwide | **Up 97%** |
| Florida Statewide | **Up 99%** |
| Polk County | **Up 108%** |

## CONCLUSION

Is there a solution? The market always comes to a form of equilibrium, though that might not be the desired outcome for most participants. Everything that rises must converge, and the trauma of the housing collapse of the mid-2000s lingers in the minds of many builders and real estate professionals to this day. The resulting risk-averse mindset that affected some, however, reduced speculative building, likely intensifying the crisis which Florida faces today. We could also consider California's affordability issues as a harbinger of things to come in the Sunshine State and that the inflated costs are simply the new normal. Some central Florida leaders have stated publicly that higher prices are a good thing, as they infer metros have become higher income. Others in positions of political power have pushed to safeguard and expand affordable housing, but that is often labeled "market interference" or opposed by "NIMBY"-ism ("Not In My Back Yard").


The Sunshine State's heightened desirability has not abated, and inventories remain near record lows. So, in a market where homes might receive 20 bids within two days of being listed, a 75% reduction in the number of tenders would result in five contract offers over the course of a weekend. For the near future in Florida and especially FCCF territory, we can expect the volume of potential purchasers to be reduced as more potential buyers are priced out of the market by rising mortgage interest rates, larger down-payment requirements, increased insurance/tax burdens, and inflationary pressures on everyday spending obligations. A significant portion of shoppers, however, are using cash, especially at the upper price echelons (over $1,000,000). Overall, we can expect the high price environment to remain short-term, with fewer purchasers in the market until new supply in the pipeline begins to come online.

# ABOUT OUR ECONOMIST

## STEVAN NOVAKOVIC

Stevan Novakovic holds an M.S. in Public Policy from Georgetown University with a focus in econometrics. Prior to joining Farm Credit of Central Florida he conducted economic research on agricultural commodities for IHS Market (previously Informa Economics Group), and spent time in hedging/risk management and as a commodities trader for Central States Enterprises, Inc. Stevan also earned an M.A. from Columbia University and undergraduate degrees from the Moore School of Business at the University of South Carolina, where he triple-majored in International Business, Global Supply Chain and Operations Management, and Finance.

# ABOUT FARM CREDIT OF CENTRAL FLORIDA

Farm Credit of Central Florida is the local association for the region adjacent to the I-4 corridor and serves those in the following thirteen counties: Citrus, Hernando, Pasco, Pinellas, Hillsborough, Polk, Sumter, Lake, Osceola, Orange, Seminole, Volusia and Brevard. Farm Credit borrowers have long enjoyed the benefits of doing business with local offices, where people know their business, their community, and their market. We are headquartered in Lakeland and have brick and mortar locations in Apopka, Brooksville, and Plant City. Our affiliation is with AgFirst Farm Credit Bank in Columbia, South Carolina. Local service with national stability. We are Farm Credit.