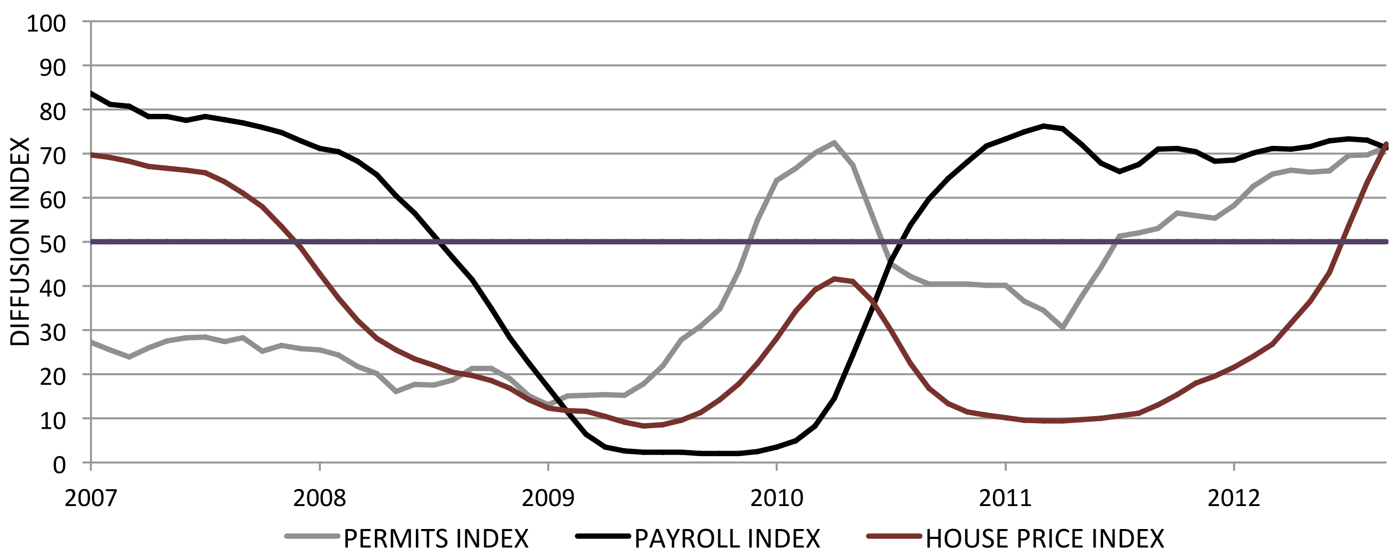
Boom, Bust, and Beyond: A Look at Housing Market Data in Florida

Douglas Holtz-Eakin & Andrew Winkler l November 2012

Overview

Summer and early fall of 2012 have been marked by noted improvements in housing markets across the United States. Many markets, despite fragility in the national economic recovery, seem as if they are beginning to improve now, more than five years after the housing price bubble and collapse began. The housing crisis resulted in a nearly unprecedented loss of household wealth that, while widespread, hit a handful of states particularly hard. Congress now turns to address a grim fiscal outlook and a housing finance system burdened with uncertainty. In Florida, prices statewide fell 52.7 percent from the peak of the market in April 2006 to the trough in October 2011, according to Zillow. As a large, diverse state with over 19 million people, the pace of the recovery has varied among its metropolitan areas. Yet Florida's narrative is defined by high foreclosure rates, lengthy foreclosure timelines, and steep jobs losses in the construction industry. For sustained improvement across the state, Florida must quickly clear the inventory of distressed properties, i.e. foreclosed homes, and pursue stronger job and wage growth.[1]

FIGURE 1. AAF HOUSING RECOVERY INDICES (THREE MONTH MOVING AVERAGE)



Source: U.S. Census Bureau, Bureau of Labor Statistics, & Freddie Mac; Based on Author's Calculations

According to the American Action Forum's Housing Recovery Indices – three diffusion indices that track the improvement of housing indicators in more than 350 metropolitan markets – permits, payrolls, and house prices are all improving in a majority of the country's metro areas (See Figure 1). House prices, which previously lagged the other indices, are now improving. Notably, the payroll index has been essentially moving

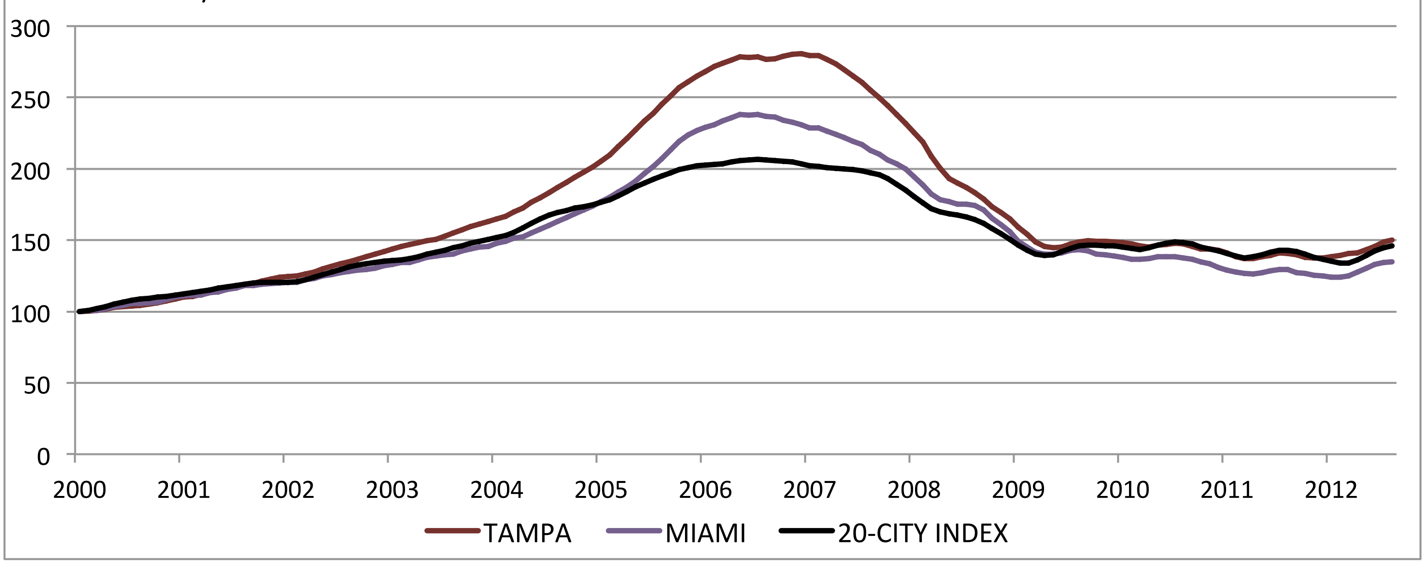
[1] See "The U.S. Housing Market: Metrics of Recovery & Links to Economic Growth," http://americanactionforum.org/topic/us-housing-market-metrics-recovery-links-economic-growth

sideways for quite some time now. This shows the continued weakness of the jobs recovery. Improvements in housing markets remain threatened by that weakness and by a potential slowdown in economic growth. Along with threats from Europe and the looming fiscal cliff at home, housing recoveries are further jeopardized by slowdowns in the foreclosure process and restricted credit resulting from a new regulatory regime.

The Trajectory of House Prices

As shown in Figure 2, Tampa and Miami, tracked using a repeat sale methodology by S&P/Case-Shiller, have had characteristically different price bubbles and busts when compared with an average of 20 large cities across the country. (Orlando is not tracked by S&P/Case-Shiller.) Generally, the bubbles in Tampa and Miami rose and fell more dramatically than the 20-City Index, although Miami's bubble is notably less pronounced.

FIGURE 2. S&P/CASE-SHILLER HOME PRICE INDICES



Source: S&P/Case-Shiller

Prices in Tampa and Miami rose 180.9 percent and 138.1 percent respectively from January 2000 to the peaks of their markets in 2006. Since reaching their individual market peaks, prices have fallen 51 percent in Tampa and 48 percent in Miami. However, prices hit a market bottom much earlier in Tampa than in Miami, April 2011 for the former and February 2012 for the latter. Prices improved marginally from July to August this year in both metros. Since January, prices improved 9.6 percent in Tampa and 8.9 percent in Miami, on par with the 8.8 percent improvement in prices seen this year in the 20-city index.

Zillow, which calculates home values by generating valuations for all homes in a region and not just repeat sales, shows even greater variation in the characteristics of the recoveries in metro areas around the state (See Table 1). By their calculations, values in northern Florida rose and

TABLE 1. SUMMARY OF HOME VALUES

	M-O-M % Change	Y-O-Y% Change	January 2000 to Peak	Peak to Trough	YTD
Florida	0.47%	4.16%	176.36%	-52.67%	3.66%
Miami	0.81%	7.85%	208.44%	-55.47%	6.02%
Tampa	0.54%	4.03%	158.56%	-51.42%	3.74%
Orlando	0.57%	2.94%	165.89%	-55.30%	4.97%
Jacksonville	-0.67%	-4.28%	121.13%	-42.81%	-2.71%
Sarasota	0.60%	6.58%	178.22%	-55.21%	5.24%
Cape Coral	1.08%	10.08%	188.40%	-59.49%	7.37%
Pensacola	0.79%	-1.71%	93.80%	-30.50%	1.32%
Gainesville	-0.08%	-4.96%	124.64%	-36.34%	-3.59%
Tallahassee	-0.62%	-3.44%	101.11%	-28.85%	-1.67%

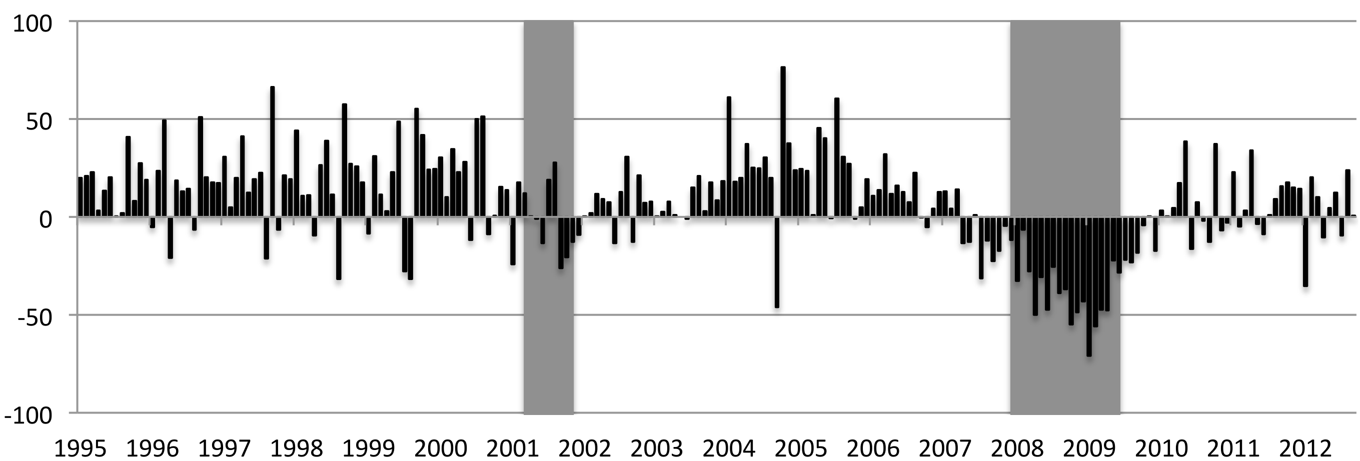
Source: Zillow

fell less dramatically than other metro areas. Yet these same cities, like Tallahassee, Jacksonville, and Pensacola, have seen year-over-year declines in home values. In Table 1, values have increased in central and southern Florida since the beginning of the year, though not with uniform strength. The recovery in Florida has been slightly different depending on metro area.

Economic Overview & Effect on Housing

Markets around Florida have been susceptible to weak job and wage growth, like much of the United States. The state has added a net 115,100 jobs since the end of the recession in June 2009 (See Figure 3)[2]. Yet during the recession, Florida lost more than 726,800 jobs. Job growth has been inconsistent, but overall positive this year with 16,600 net jobs added. In September, Florida added only 800 jobs, though this number may be revised after this printing. The unemployment rate dropped by only one-tenth of a percentage point. Currently at 8.7 percent, Florida's unemployment rate is more than a percentage point higher than the national average of 7.8 percent. Currently, there are 725,000 fewer people working than at Florida's peak level of employment in March 2007.

FIGURE 3. FLORIDA MONTHLY JOB GROWTH (IN THOUSANDS)



Source: Bureau of Labor Statistics

To put these numbers in perspective, Florida would need to add about 23,500 jobs each month on average to simply recover all of the jobs lost in the recession by 2015. In total, only 8 of the 39 months since the end of the recession have posted job growth larger than that barometer. This does take not into account state population growth, which has consistently outpaced the national growth rate. Unemployment is directly tied to the overall health of the housing market and stronger job growth is necessary for its recovery.

Of particular note when considering the labor market is the number of jobs lost in the construction industry. In September 2012, there were 374,500 fewer people employed throughout Florida in construction than at the peak of building in June 2006, a 54.1 percent decline. This represents a sizeable portion of the labor market in Florida and highlights the contribution of building to both employment and the overall economy. This loss of construction jobs is also sizeable in the Orlando metro area which has lost approximately 38,300 construction jobs since the beginning of the recession, roughly half of 75,400 jobs lost in the metro area.

Shown in Table 2, unemployment rates vary considerably around the state. Cities like Gainesville and Tallahassee are unique among Florida's metro areas with local economies buoyed by education and government spending and unemployment rates actually below the national average (See Table 2). On a

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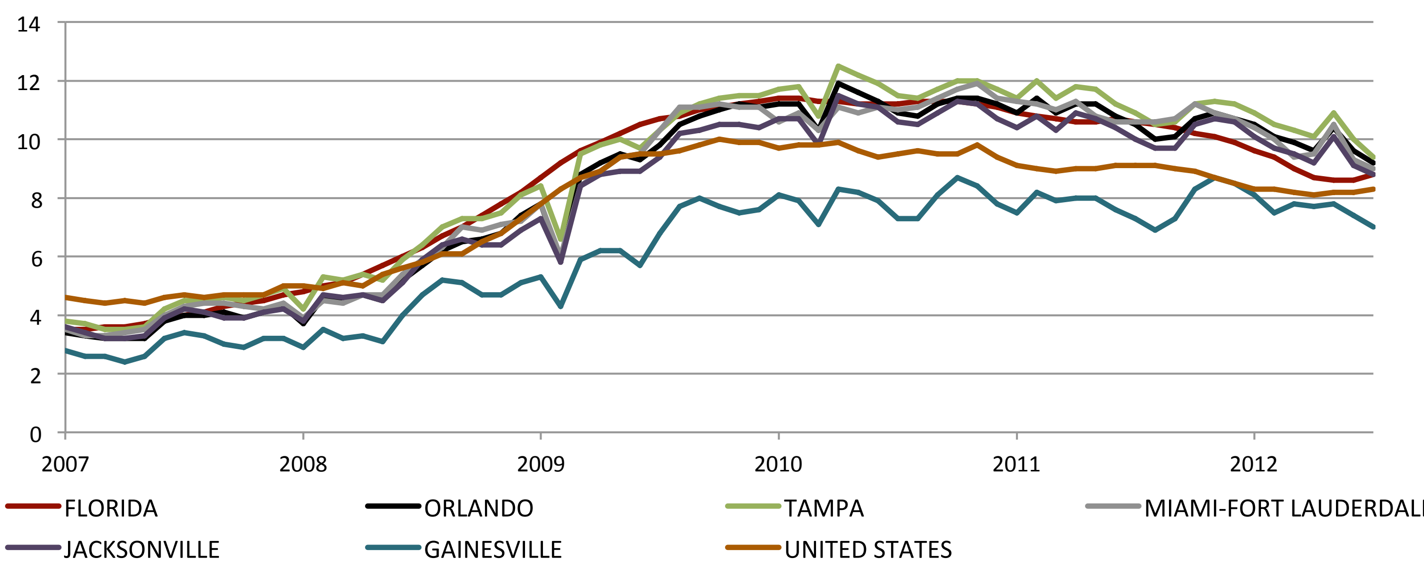
[2] Recession dates according to NBER, "US Business Cycle Expansions and Contractions," http://www.nber.org/cycles/cyclesmain.html

positive note, unemployment rates have uniformly fallen in the past year in all of the state's largest metro areas. Apart from Panama City, unemployment rates ticked down very slightly from August to September across the board.

TABLE 2. UNEMPLOYMENT BY METRO AREA			
	Unemployment Rate (09/2012)	Y-O-Y Change in Rate	M-O-M Change in Rate
Cape Coral-Fort Myers	9.1	-2.2	-0.4
Deltona-Daytona Beach-Ormond Beach	8.8	-2	-0.3
Gainesville	6.9	-1.2	-0.2
Jacksonville	8.2	-1.9	-0.5
Lakeland	9.9	-2.2	-0.4
Miami-Fort Lauderdale	8.4	-2	-0.5
Naples-Marco Island	9.3	-1.7	-0.4
Ocala	9.8	-2.6	-0.3
Orlando-Kissimmee	8.4	-2.1	-0.3
Palm Bay-Melbourne-Titusville	9.1	-2.4	-0.4
Panama City-Lynn Haven	8	-1.9	0.1
Pensacola-Ferry Pass-Brent	8.2	-1.6	-0.2
Port St. Lucie-Fort Pierce	10.9	-1.9	-0.5
Punta Gorda	9	-2.1	-0.3
Sebastian-Vero Beach	11.3	-2.1	-0.6
Tallahassee	7.3	-1.4	-0.1
Tampa-St. Petersburg-Clearwater	8.7	-2.2	-0.4

Source: Bureau of Labor Statistics

FIGURE 4. UNEMPLOYMENT RATES



Source: Bureau of Labor Statistics

Note: Metropolitan area statistics are not seasonally adjusted.

While there has been largely positive news in the past few months regarding the job and housing recoveries, continued growth remains threatened. A recent AAF study concluded that the fiscal cliff alone would cost

Florida between 166,558 and 594,850 jobs if Congress does nothing.[3] Such job losses, even at the low end of predictions, would erase all net job growth since the end of the recession. Additionally, AAF found that impending housing regulations—QM, QRM, and Basel III—may become a drag on the economy if too narrowly written by requiring banks to hold more considerably more capital.[4] AAF found using conservative economic assumptions that proposed regulations would result in 20 percent fewer loans nationally, resulting in 600,000 fewer home sales. In turn, the resulting tightened lending and reduced sales are estimated to cost up to 1,010,000 housing starts, 3.9 million fewer jobs, and a loss of 1.1 percentage points from GDP growth over the next three years. Though policies related to foreclosure certainly affect the housing recovery, federal policies can just as easily jeopardize the overall economic recovery and recent improvements in housing conditions.

Foreclosures and Market Indicators

The recent improvements in home prices around Florida, including the Orlando metro area, come later than similarly hard hit areas around the country. Foreclosure activity remains highly elevated above national averages and the foreclosure process is the third longest in the country (See Table 3).

TABLE 3. FORECLOSURE PROCESS INDICATORS					
	90+ Days Delinquent	Foreclosure Inventory	Completed Foreclosures This Year	Foreclosure Timeline	Month's Supply of Distressed Homes
United States	7.20%	3.30%	794,744	382 Days	9.07
Florida	16.20%	11.50%	118,424	858 Days	14.3

Source: CoreLogic; RealtyTrac

Foreclosure activity remains high and sales of distressed properties remain a significant portion of total sales. The time it takes to complete a foreclosure in Florida is longer than both the national average and similarly hard hit states (See Figure 5). The average foreclosure in Florida takes 858 days compared to the national average of 382 days. The state's judicial foreclosure process and sheer number of defaults has created a backlog of cases in Florida's courts. States with similar laws have longer foreclosure timelines than the national average and additionally have seen a slight delay in house price appreciation.

Legislative efforts to change this process have yet to pass. However, extensions in the foreclosure timeline may prevent the timely clearing of distressed properties from the market and dampen further price increases.[5] Arizona, with a process that takes roughly 200 days, has seen the largest price increases out of those states hit hardest by the housing crisis.[6] Metro Phoenix, in particular, has cleared excess inventory more rapidly, lowered unemployment more quickly, and therefore shown a more accelerated recovery in home values than comparable areas like Las Vegas, Tampa, and Los Angeles.

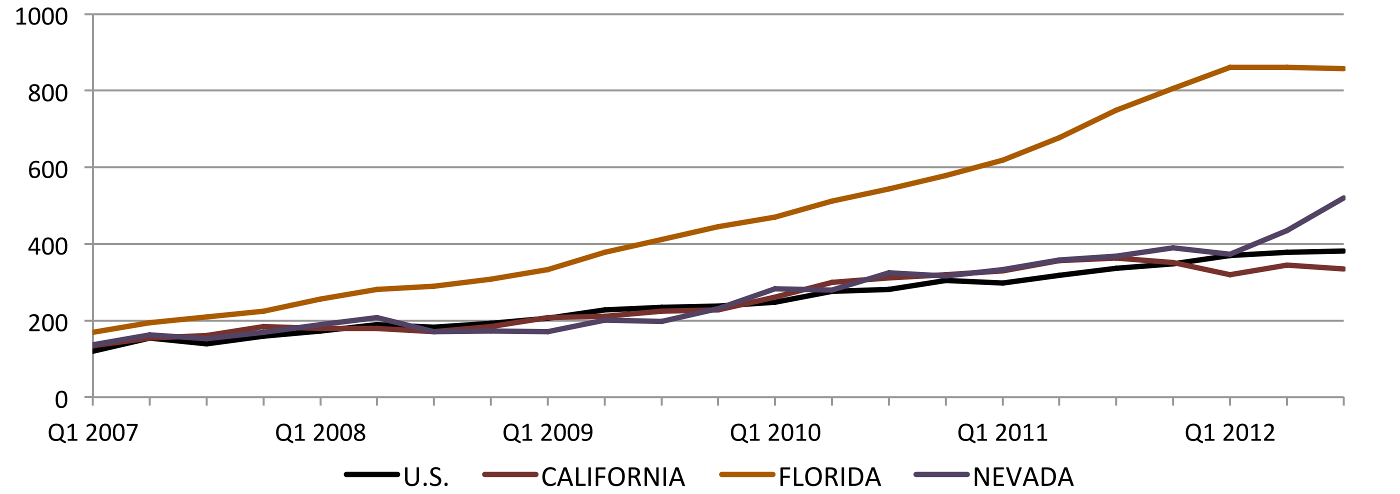
[3] See Ike Brannon and Douglas Holtz-Eakin, "The Economic Effects of the Fiscal Cliff," (July 8, 2012); http://americanactionforum.org/topic/new-study-examines-economic-effects-fiscal-cliff

[4] Holtz-Eakin, Douglas, Cameron Smith & Andrew Winkler, "Regulatory Reform and Housing Finance: Putting the 'Cost' Back in Benefit-Cost," (October 2012), http://americanactionforum.org/sites/default/files/Regulation_and_Housing.pdf

[5] See Douglas Holtz-Eakin and Andrew Winkler, "Foreclosures & the Housing Market Recovery: Focus on Ohio," (July 23, 2012); http://americanactionforum.org/topic/foreclosures-housing-market-recovery-focus-ohio

[6] See Douglas Holtz-Eakin and Andrew Winkler, "Boom, Bust, and Beyond: A Look at Housing Market Data in Arizona," (August 15, 2012); http://americanactionforum.org/topic/boom-bust-and-beyond-look-housing-market-data-arizona

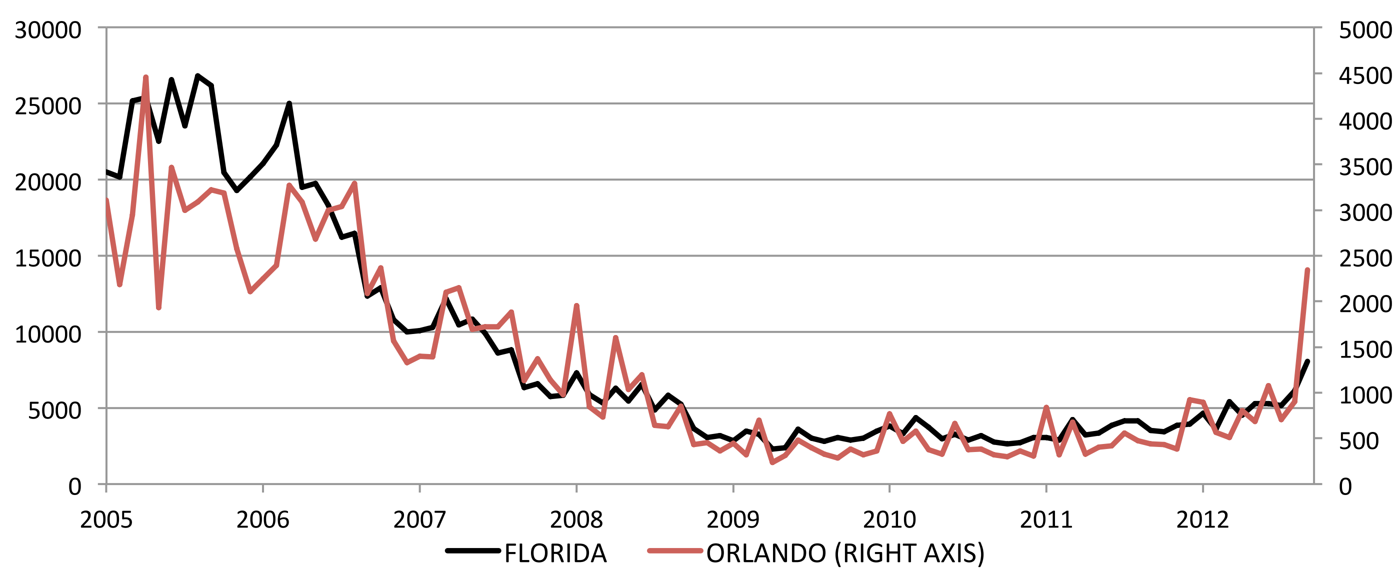
FIGURE 5. FORECLOSURE TIMELINES (IN DAYS)



Source: RealtyTrac

Laws that delay foreclosure, such as those that exist in Florida, often delay the process without reducing the number of foreclosures in the long run.[7] The depreciating effect foreclosed properties have on house prices is a significant detriment to market recoveries. Though foreclosures are painful and preventing them is often well intentioned, keeping a borrower in a home he cannot afford and will not be able to afford does little to improve the situation. Policies that work to grow jobs and incomes are the most sustainable way of helping a borrower continue making payments and avoid foreclosure. They are also the best way to ensure that more people can pursue homeownership.

FIGURE 6. PERMITS IN UNITS (NOT SEASONALLY ADJUSTED)



Source: U.S. Census Bureau

Moving forward, low levels of inventory and job growth will help to increase demand and encourage greater homebuilding, which has cumulative positive effects throughout the economy. Issuance of housing permits in

[7] Gerardi, Kristopher, Lauren Lambie-Hanson, & Paul S. Willen, "Do Borrower Rights Improve Borrower Outcomes? Evidence from the Foreclosure Process," (December 7, 2011); http://www.bostonfed.org/economic/ppdp/2011/ppdp1109.htm

both Florida and the Orlando area though are still well below their bubble peaks (See Figure 6) and will likely not reach that level anytime soon. As foreclosure inventory continues to clear and the employment situation around the state improves, demand should increase and permits should begin rising. Even in the past couple months, there have been significant gains in the permit issuance, especially in the Orlando metro.

As shown in Table 4, borrowers in Florida continue to have more negative equity in their homes than the average American. While negative equity can prevent a borrower from moving and work to limit inventory, the only real solution is growth in incomes. Negative equity will continue to decrease with continued price appreciation around the state. The average borrower in Florida additionally has a loan-to-value ratio above the national average (See Table 5).

TABLE 4. MORTGAGES AND HOUSING EQUITY

	Mortgages	Negative Equity Mortgages	Negative Equity Share
United States	48,372,070	10,778,556	22.3%
Florida	4,222,134	1,804,276	42.7%

Source: CoreLogic

TABLE 5. HOME VALUES & NET WORTH ($ Billions)

	Property Value	Mortgage Debt Outstanding	Net Homeowner Equity	Loan-to-Value Ratio
United States	12,448.2	8,666.4	3,781.9	69.6%
Florida	792.9	682.2	110.7	86.0%

Source: CoreLogic

Conclusion

While housing markets across Florida were hit hard by the housing bubble and bust, certain parts of the state are improving. Florida has seen heavy job losses in its construction industry, though trends have been largely positive in the last few months. Housing markets across the country, the majority of which are now improving, remain threatened by policies in Washington. The next Congress will have to address a debt the size of the U.S. economy and decide what to do with government-sponsored enterprises Fannie Mae and Freddie Mac, whose profits now flow directly to the U.S. Treasury. The key to sustained growth is to eschew heavy-handed interventions and instead pursue an agenda of job and income growth. Unemployment is still highly elevated in parts of Florida and the state’s laws have delayed the clearing of foreclosures from the market. While the benefits of strong growth and the timely clearing of distressed properties has been evident in cities like Phoenix, Arizona, Florida faces significant roadblocks, many of them self-induced, before an accelerated path to recovery can be consistently achieved around the state. The threats stemming from federal fiscal and regulatory policy should also not be underestimated.