



Year in Review and Look Forward

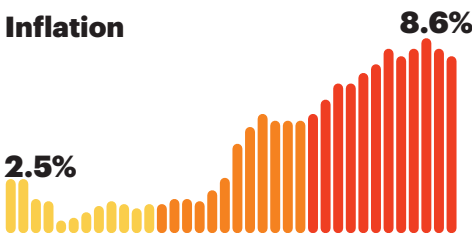
After two very odd, but exceptional years, Florida's residential real estate market is making its way back toward a more typical pace. Outsized demand for housing fueled by low interest rates, in-migration and Millennials dominating the market all came together to push the median sale price for all properties to record highs in 2020-2021.

2022, however, was a different year. Two main instruments of the economy, inflation and interest rates, took a bite out of growth throughout most sectors of the economy, but particularly real estate, which is more sensitive to upward pressure in lending costs.

2023 is expected to look more like 2018-2019, with supply and demand finding more of a balance. A major correction in pricing is not expected as there has not been any damage to fundamentals: Lending practices remained solid, and credit never froze up. Today's buyer is very well-qualified, and banks aren't taking on exceptional risk. Interest rates are expected to continue an upward march for a little while longer as efforts to curb inflation are just starting to show signs of working.

Affordability will continue to be a major issue, particularly for first-time home buyers. Entry into the market is even higher now and becoming out of reach for increasing number of Floridians. Homeowners insurance is also looming as a potential challenge to the industry in the coming year. •

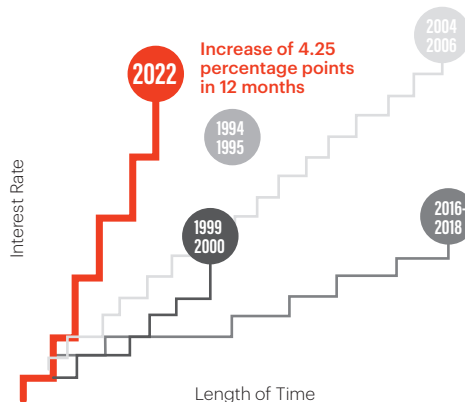
Inflation



Source: National Association of Realtors analysis of U.S. Bureau of Labor Statistics

Deep Dive—The I's Have It: Inflation and Interest Rates Impact Economy

Inflation, or the increase in prices and fall of the purchasing power of money, started heating up in the middle of 2021 as the economy continued to fully re-open throughout the country. Pent-up demand for goods and services deferred during the pandemic, plus a fair amount of savings and government stimulus, further fueled consumption. The economy turned white-hot on the demand side, but supply chain and employment issues kept the availability of products somewhat restrained. The result of this imbalance was increasingly higher prices, leading to somewhat historic levels of inflation.



Source: Wall Street Journal

The artificially low interest rates on the 30-year mortgage have disappeared in 2022. The year started at rates around 3.4% and have climbed steadily over the course of 12 months to around 7%. The Fed has raised the Federal fund rate seven times, raising the rate from 0.25% to over 4% in a very short period. The last several increases have been 75 basis points per increase¹, resulting in a very sharp elevation of rates.

1. December 14 was a 50 basis point increase.

STATE OF THE ECONOMY

Florida's economy is healthy and diverse, but not without unique challenges.

Headwinds:

- Florida employment growth exceeding U.S.
- Growth is driven by financial services, education and health services and state and local government
- Leisure and hospitality finally rebounding
- In-migration is leading to and the result of a diversifying workforce

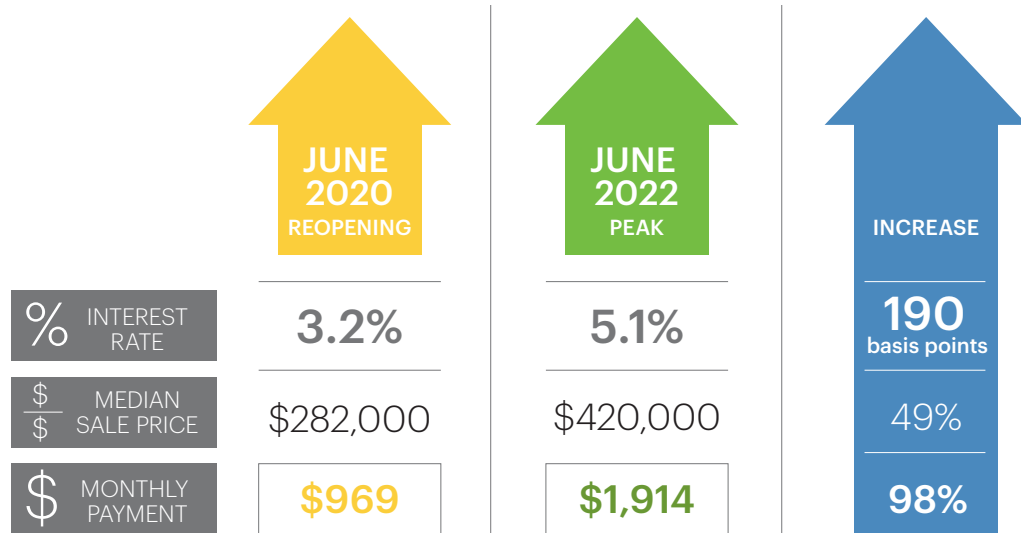
Tailwinds:

- Supply chain and labor market shortages
- High oil and gasoline prices
- High overall inflation
- Hurricane Ian and Nicole
- International tourism challenges

The last time the Fed increased rates to cool the economy, between 2004-2006, rates only went up 25 basis points per increase and took two full years to go from 1.25% to 5.25%.

It is not where rates are landing that are the problem. Historically, interest rates on mortgages have been much higher than where they are today. It's the pace of how we got here that is causing so much pain. The impact of such a rapid increase in borrowing costs has changed the math for borrowers, particularly first-time home buyers who saw their purchasing power diminished as prices peaked at the same time the cost of mortgages ran higher than they have since the late 90's. •

Low interest rates in 2020–2021 helped home buyers stomach increases in sale prices. As interest rates rose, the monthly cost rose faster than prices, toppling the equation for many potential buyers.



Source: Produced by Florida Realtors® Research with data provided by Florida's multiple listing services, Freddie Mac, and the US Bureau of Labor Statistics

METRICS TO WATCH

- **Dollar Volume**
 - > High but reflects higher prices
- **Closed Sales:**
 - > Lower overall
- **Median Sale Price**
 - > Peaked in mid-2022
- **Active Inventory**
 - > Higher overall but lower among upper price tiers
- What metrics tell us about 2023
 - > Fewer **Pending Sales;** **Closed Sales** leads to fewer closed sales, which may result in a potential softening in pricing
 - > **Dollar Volume** will likely dip as fewer first-time home buyers are able to transact
 - > Sellers may have to adjust pricing to accommodate higher interest rates for buyers
 - > Return of concessions, realistic offers



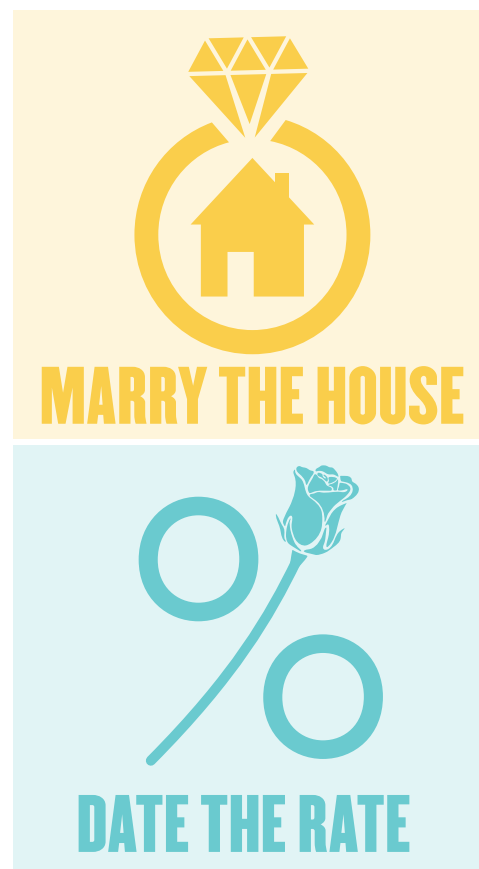
Roll Up Your Sleeves for 2023

2023 will likely have many challenges for everyone in residential real estate. Current homeowners who either purchased or refinanced between 2020–2021 are relatively deterred from listing their homes, as they are likely locked into an interest rate at or below 5%. This will choke the supply of active listings of existing homes for buyers, who are also still facing prices near the high-water mark set in mid-2022. Relief won't likely come from new construction, either, as a high cancellation rate among buyers has caused home builders to pull back and slow the already low level of supply coming on to the market.

Buyers are continuing to face a lack of availability, though some green shoots are appearing from people still looking to get significant cash-out equity. Their purchasing power, however, has dwindled significantly as high interest rates make the cost of borrowing significantly higher than in the two years prior.

The monthly payment is a significant source of concern for today's buyer. While the median sale price of a single-family home in Florida appears to have peaked at \$420,000 in June 2022, representing an increase of 49% from June 2020, the typical monthly payment on a mortgage for that priced home is up 98%.

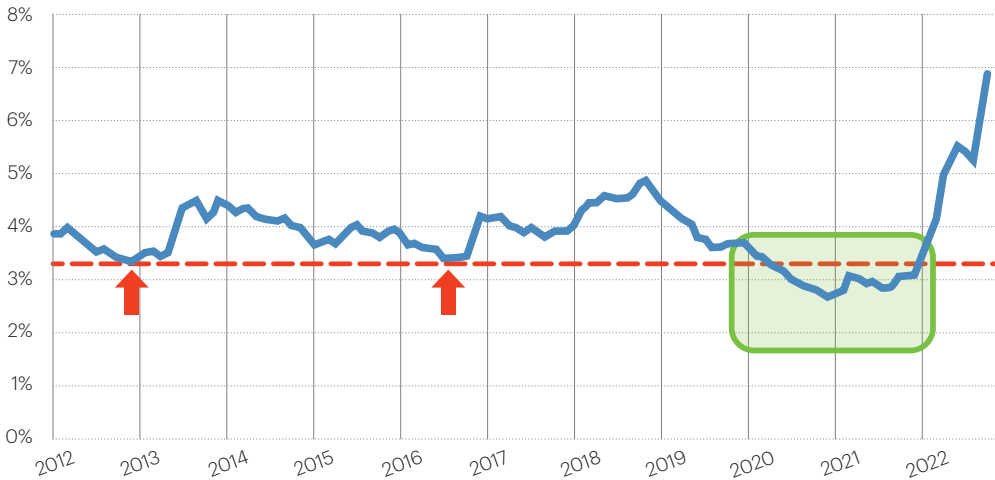
Experienced Realtors® will remember popular refrains from other high-interest rate environments, such as "Marry the House, Date the Rate." Remember that while the cost to borrow is currently high,



interest rates have room to move back down, at which point homeowners can refinance. Rental rates, however, rarely move down with any significance and don't offer any appreciation. Buying is still a good play long-term for those looking to establish roots and make an investment in their future. ●

30-Year Fixed Mortgage Interest Rate

U.S. Monthly Averages, Jan. 2012–Oct. 2022



Source: Produced by Florida Realtors® Research with data provided by Freddie Mac and the Fed Board of Governors

Put it in Perspective

Over the past 10 years, the interest rate on the 30-Year Fixed Rate Mortgage has hovered between 3 and 5%, hitting the lowest points in 2013 and again in 2016. In early 2020, interest rates fell below this threshold for the better part of two years, creating a magical time to transact. Purchasing power expanded as the monthly cost of a new mortgage was lower than when rates were higher. A flurry of deals—from new mortgages to refinancing of existing mortgages—resulted in approximately 85% of Americans with mortgages securing loans at 5% or less.

Rates sped up in early 2022 as the Federal Reserve sought to curb the impact of rampant inflation, hoisting rates well

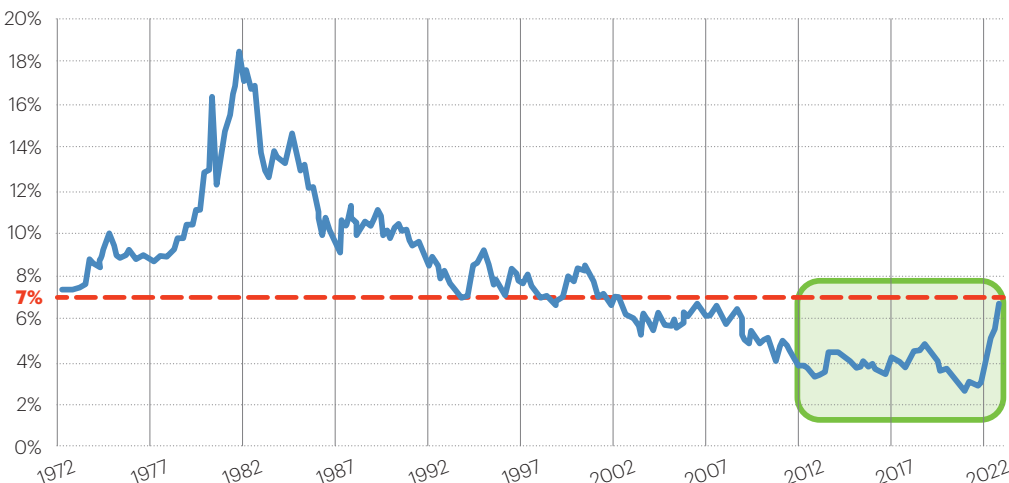
above the 10-year norm. Looking at the chart of this time, the rate hike looks like a steep climb up a tall mountain.

However, when you look to the chart below, which places the last 10 years into historical perspective, this hardly seems exceptional at all. The longer-term trend shows that rates are around 7% on average, and the low rates we've seen for the past decade were still a magical time to transact relative to history. That steep climb up a tall mountain seems more like a return to normal than a wild deviation.

Remind clients that comparing today's rate to 2020–2022 isn't helpful as it's comparing to an abnormal time. Reassure them that rates are still reasonable relative to history. •

30-Year Fixed Mortgage Interest Rate

U.S., Monthly Averages, Jan. 1972–Oct. 2022



Source: Produced by Florida Realtors® Research with data provided by Freddie Mac and the Fed Board of Governors



MARKET DYNAMICS: TAKEAWAYS

- We've landed in higher IR environments before—just not this quickly
- High inflation necessitated increases in levered debt
- Purchasing power of consumer diminished
- Psychological impact

Result

- People not willing to transact
- 85% of Americans with mortgages have IR sub 5%
- Buyers don't want to buy high at expensive rates, sellers don't want to let go of low rates
- Higher prices were offset by low IR—now it's a double whammy
- High Overall Inflation + High Prices

On the other hand...

- Resi RE not like most commodities
- Marry the house, date the rate
- Semi-creative financing (IR buy downs, reducing list to accommodate for IR monthly cost increases, ARMs) to get people to buy
- Prices are stabilizing
- Inflation is showing early stages of stabilization
- Recovery from natural disasters can be an economic engine

Comparing Apples to Oranges Tells an Inaccurate Year-Over-Year Story

Compare to a normal market for more accuracy

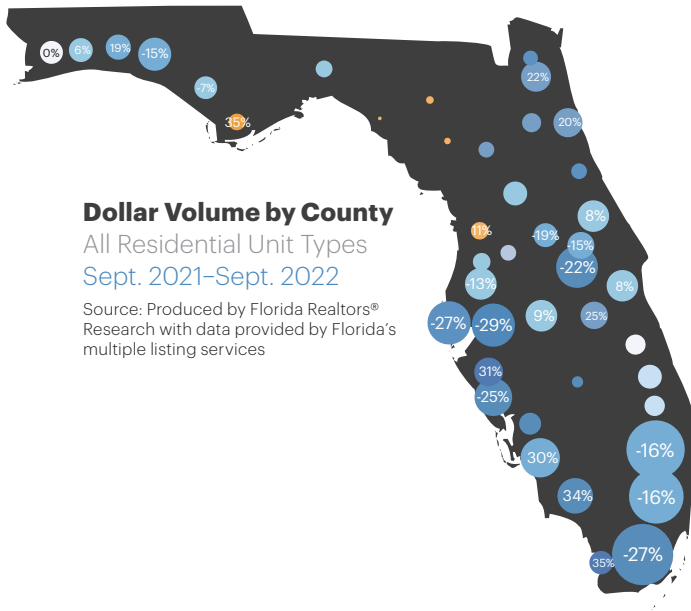
Statistics can often be misleading, particularly if they involve comparisons to outliers. Meaning—comparing Dollar Volume in 2022 to 2021, as shown in the image with the blue dots, it looks like dollar volume is down everywhere by a significant amount. And that's

true—but 2021 was an exceptional year. Making comparisons to this time is not telling the whole story.

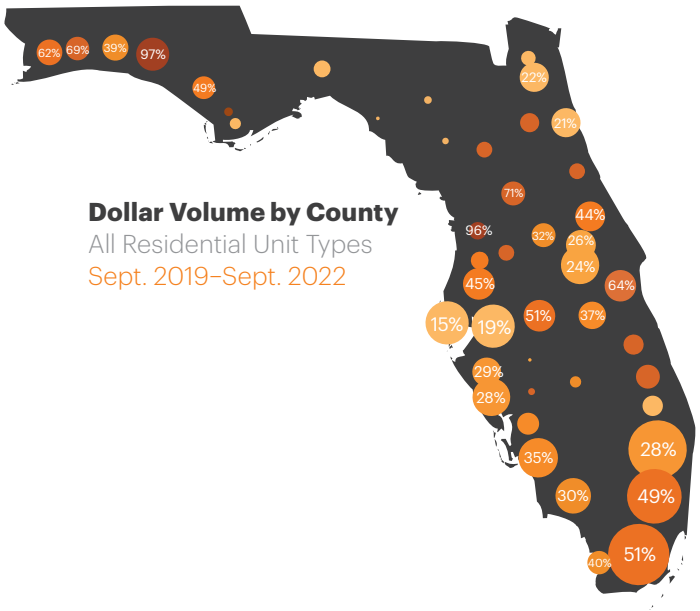
Take a look at the image with the orange dots. Here, we're looking at Dollar Volume in 2022 compared to 2019, before the market went haywire.

This is a more accurate depiction of where we are today. Dollar volume is actually up compared to that time, thanks in large part to the higher Median Sale Prices we have seen this year. Take heart—there are still plenty of transactions to go around. ●

Year-Over-Year



Normal Times vs. 2022



KEY: A **darker dot** shows a higher year-over-year percentage change. | The **bigger** the bubble the higher the volume of sales.

WHAT'S A REALTOR TO DO?

Be Weary of Comparisons to Boom Years

Instead of looking at year over year comparisons (where you're comparing anything to 2021) look instead to 2019 when the market was still somewhat normal. You can do this directly in SunStats by looking at monthly or annual numbers to get a broader picture of the marketplace.

Know What Normal Transaction Pacing Was

Median Time to Sale looks at the median amount of time it takes to go from list to close. We know that the pace of sales was astronomically fast in 2020–2021—almost too fast.

But if you look at the quarterly Median Time to Sale numbers in your area from 2018–2019, you can see what the

typical pace was. While homes are taking longer to sell today relative to that crazy pace, things are still closing faster today than they did in 2019. However, homes are still selling 31% faster than they did pre-pandemic.

Seller Discounts

Median Percent of Original List speaks to how close sellers are to achieving their list price. Take a look in your area to get the story, and again, walk your analysis back a few years.

After months of sellers achieving 100%, or higher, of their original list price, some softening is starting to show up in the data. Still, we're looking at a 2–3% discount in the Orlando MSA,

which is right around where we were in years past. While sellers aren't in as much of the drivers' seat, we are nowhere near seeing deep discounts reverberating through the marketplace.

Takeaway

Taking the time to understand your market will help ensure you know what's really going on in your area. Top of the fold headlines may not always be the story for you, and your clients will benefit from your local knowledge. Your local association is a key resource in understanding what's happening, so make sure to check in with them regularly for market updates in addition to doing the work yourself in SunStats. ●