Mortgage Bankers Association of Central Florida

Real Estate Appreciation in Single-Family Homes in the Orlando MSA:
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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 sent shocks through the national and international financial markets. Financial institutions have had huge losses due to the mortgage loan losses and lenders have relatively tight lending standards. Foreclosures are still high. The unemployment rate has generally declined, but unfortunately it is at a higher than desired level.

In the last report the mortgage rate on commitments for fixed-rate first mortgages on November 20, 2014 is 3.99%. **The current mortgage rate on February 19, 2015 is 3.76%.** This rate is relatively low compared to the average rate of 4.17% for 2014. A higher rate makes it harder for loan applicants to qualify for mortgages and decreases the level of refinancing while a lower rate will make it easier to qualify for mortgages and refinancing. Higher rates may also slow any increases in real estate prices.

Higher property insurance and property taxes have also raised questions about the attractiveness and affordability of living in Florida. The current prospects of low state and local tax revenues and the corresponding lower quality of educational and government services will affect Florida's attractiveness; however, the economy in Orlando and in Florida does appear to be improving recently.

With recent school enrollments in many large districts starting to increase again, one has to wonder how attractive Florida is 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 is now below the national average at 94.1 for the third quarter of 2014. 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 99.8 in the third quarter of 2014.[1]

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[1] For more detailed recent and past estimates see the source at the Huntsville, AL Chamber of Commerce at http://www.huntsvillealabamausa.com/index.php?option=com_content&view=article&id=297:accra-cost-of-living-index&catid=56:locate-expand-a-business&Itemid=372 .

To understand the local real estate market it is useful to examine the most recent and past experience in Florida and the Orlando-Kissimmee Metropolitan Statistical Area (MSA) (Orange, Seminole, Osceola, and Lake Counties). In previous updates before September 2013 analyses for Brevard and Volusia Counties were included. They are no longer included because I am currently using a different data set for the Orlando MSA and it is not available for those counties. The previous data sets included refinancings and the expanded data set does not.

The approach to estimating the expanded-data HPI was detailed in the Highlights article published with the 2011Q2 HPI. In general, the methodology is the same as is used in the construction of the standard purchase-only HPI, except a supplemented dataset is used for estimation. The augmented data include sales price information from Fannie Mae and Freddie Mac mortgages as well as two new information sources: (1) transactions records for houses with mortgages endorsed by FHA and (2) county recorder data licensed from DataQuick Information Systems. The licensed county recorder data do not include records in many U.S. counties—particularly rural ones. To ensure that the addition of the DataQuick data to the estimation sample does not unduly bias index estimates toward price trends in urban areas, the expanded-data index for certain states is estimated by weighting price trends in areas with DataQuick coverage and other areas. Details on this sub-area weighting can be found in the text of the Highlights piece referenced above.

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. 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 by Fannie Mae or Freddie Mac. The Index attempts to keep the quality of construction constant 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. The previous data set included mortgages that 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 (one unit) homes for 2006 to 2015 is $417,000. The conforming loan limit is set by legislation[2] and has received a lot of attention very recently because

[2] 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, 2015, 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 expired on October 1, 2011, the maximum conforming loan limit for the Federal Housing Administration (FHA), Freddie Mac, and Fannie Mae declined in some areas (Broward, Palm Beach, Miami-Dade, Manatee, Sarasota, Collier, and Monroe Counties) that have enjoyed

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. In addition, in updates prior to September 2013 the FHFA Index does not contain as many subprime loans as other indexes and may underestimate price declines in areas with larger than average numbers of subprime loans. The expanded data should override some of the previous data limitations.

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. These data are easily collected by the Realtors and are useful but one has to recognize the limitations of these 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 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. The Case/Shiller Index is limited to 20 major markets. Miami and Tampa MSAs are included but the Orlando MSA is not included in the Case/Shiller Index; therefore, it is not appropriate for the analysis of this area.

A detailed analysis is shown in Table 1 and Figure 1 on pages 4 and 5. **The *quarterly* appreciation rates** for the last eight quarters (2013 Q1 – 2014 Q4) are provided. We can see that in general quarterly appreciation rates are positive but the rate of growth generally declines until the latest quarter. The latest quarterly appreciation rates from the third quarter of 2014 to the fourth quarter of 2014 for Orlando and Florida are 1.25% and 2.06%, respectively, and 1.27% for the U.S. (not reported in table).

Although they are not reported in Table 1, the latest ***annual*** **appreciation rates** from the fourth quarter of 2013 to the fourth quarter of 2014 for Orlando and Florida are 8.66% and 8.30%, respectively. The latest annual appreciation rate is 6.01% for the U.S.

The current FHFA numbers suggest that in general the Orlando housing market experienced a decline in prices we have seen throughout Florida and some other states where overbuilding occurred; however, the most recent general trend is very positive.

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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.

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

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 ***five-year*** **appreciation rates, real estate has not performed as well as the S&P 500 Index** for the same period (December 31, 2009 to December 31, 2014). For example, the most recent five-year appreciation rates for Orlando and Florida are 24.83% and 20.63%, respectively, while the national rate is 11.84%. All the areas of Florida and the U.S. have performed much worse than the five-year gain of 84.64% for the S&P 500 Index.

If we compare the current Orlando home price index (not reported in the paper) to the past indexes **before the boom, the current index is close to what it was in 2004 Q2**. The indexes for Florida and the nation are near their past indexes in 2004 Q1 and 2005 Q1, respectively. However, with the recent price increases the Orlando, Florida and national indexes are also close to what they were in 2008 Q4, 2008 Q3, and 2008 Q2, respectively. These numbers suggest that if you bought between 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 Orlando price index in Figure 2 illustrates that most house prices peaked around 2006. If you bought after the later dates then you may have a "paper" gain on your home. Figure 2 on page 5 presents a graph of the Orlando MSA Index from Q4 1991 to Q4 2014.

Table 1: Last Eight Quarterly Appreciation Rates (%) as of 2014 Fourth Quarter (FHFA's Seasonally-Adjusted Expanded-Data Indexes (Estimated using Enterprise, FHA, and Real Property County Recorder Data Licensed from DataQuick))

Quarter	Orlando-Kissimmee, FL MSA (Orange, Seminole, Osceola & Lake Counties)	State of Florida
2013 Q1	4.79	4.04
2013 Q2	3.60	2.90
2013 Q3	3.97	2.97
2013 Q4	2.45	2.28
2014 Q1	2.64	2.16
2014 Q2	1.84	1.62
2014 Q3	2.67	2.21
2014 Q4	1.25	2.06

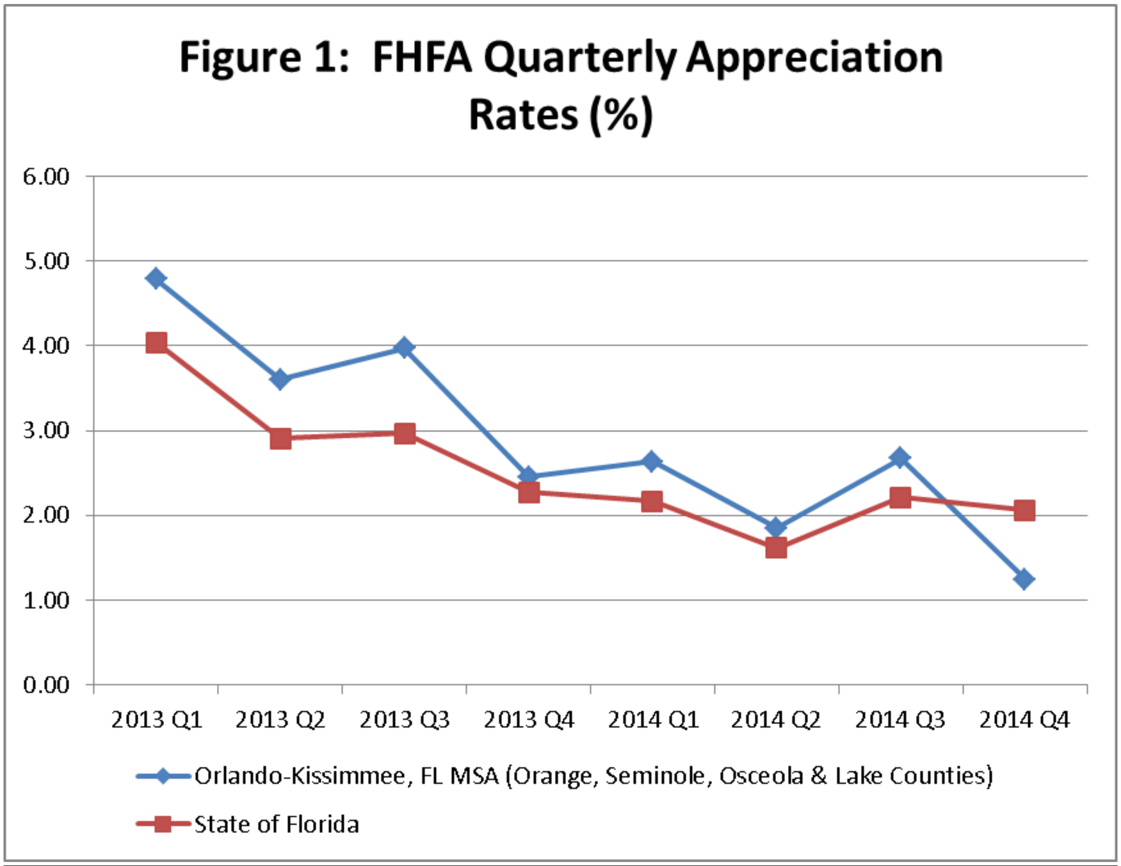
Figure 1: FHFA Quarterly Appreciation Rates (%)
6.00
5.00
4.00
3.00
2.00
1.00
0.00
2013 Q1
2013 Q2
2013 Q3
2013 Q4
2014 Q1
2014 Q2
2014 Q3
2014 Q4
Orlando-Kissimmee, FL MSA (Orange, Seminole, Osceola & Lake Counties)
State of Florida

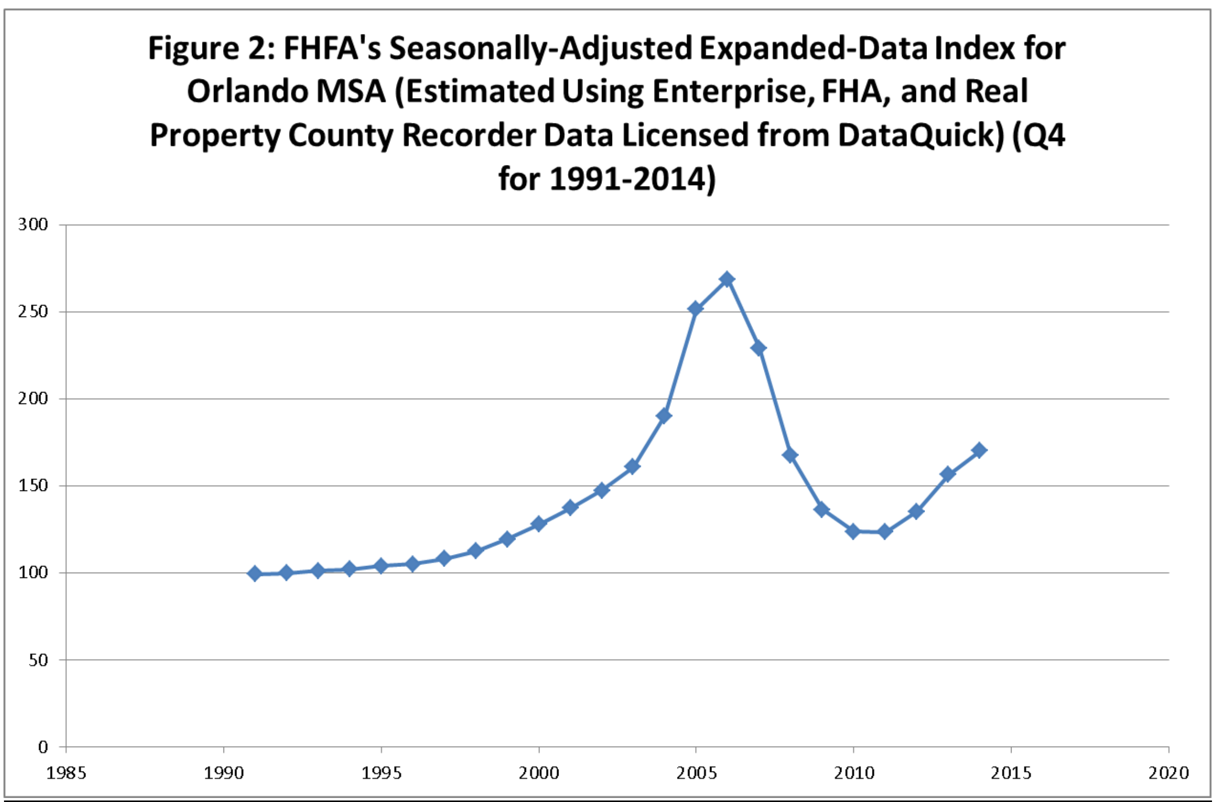
Figure 2: FHFA's Seasonally-Adjusted Expanded-Data Index for Orlando MSA (Estimated Using Enterprise, FHA, and Real Property County Recorder Data Licensed from DataQuick) (Q4 for 1991-2014)
300
250
200
150
100
50
0
1985
1990
1995
2000
2005
2010
2015
2020

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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 be requested from Dr. Smith at stan.smith@ucf.edu.