Florida Realtors' Residential Price Index 1995-2013: Rise, Fall and Recovery

Introduction

The Florida Realtors' Residential Price Index measures the course of residential property prices from 1995 through April 2013. It is derived from parcel data maintained by the Florida Department of Revenue and covers all sales of real property transacted during that period. The index is derived by tracking the consecutive sales of specific properties. As such, the index gives a map of the ups and downs of Florida real estate over the last two decades.

The index shows a real estate market that spun out of control in late 2003, peaked in price in the middle of 2006 and then plummeted. Stabilization in prices was achieved by the beginning of 2009, but not until prices had fallen far below what would have been expected had there not been the speculative bubble that actually occurred. Between 2000 and 2006, actual prices rose 144 percent; between mid-2006 and early 2009, they fell by 47 percent. Neither of these numbers should occur in a well-functioning market.

Following price stabilization in 2009, the graph of prices looks a great deal like an unpaved road: flat but with lots of ruts and bumps. In January 2012, the market began to turn up. The remainder of this report shows the course of prices over the eighteen years for which we have data. In the future, we will tie this index to MLS data to create quarterly updates, as well as create a similar index for commercial real estate.

What is a Residential Price Index?

In constructing an accurate residential price index, one needs actual sales data for a given house over a period of time. This is commonly referred to as a "same sale" index. Tracking average or median sales prices in an area over time does not necessarily describe what is happening to the value of housing; rather it merely describes what is currently happening in the market now. This is because the quality of housing stock changes over time, making comparisons across periods misleading, and because the sales prices only reflect values of those properties which are selling. For example, when the median sales price in an area goes up, the overall value of housing maybe increasing, or it's just larger or higher quality properties are selling. It is unclear, from the price change measure which of these is the case. For accuracy, house price indexes should:

- **Follow individual properties over time ("Same Sales")**
- **Utilize statistical methods to take into account the characteristics of homes which are selling**
- **Provide a clearer picture of what is happening to the value of the housing stock**

What Indices Are Out There?

There are three major indices of residential prices that are the subject of periodic public reports:

S&P/Case-Shiller Composite Indexes

- **Case-Shiller uses repeat sales data from county records. It is a same sales index.**
- **It uses a highly refined and effective statistical algorithm to calculate the index, and so is inclusive of quality changes in residential real estate.**
- **But, as reported on a monthly basis, the index covers only 20 (out of nearly 400) U.S. metropolitan areas. Only two of these—Miami and Tampa—are in Florida (which has 20 metropolitan areas).**
- **The index is reported with a three month lag, meaning that it can't pick up current changes in real estate prices.**

FHFA (formerly OFHEO) House Price Index

- **The index is produced by the office that has oversight responsibility for Fannie Mae and Freddie Mac, and thus uses data on mortgages bought and sold by those agencies.**
- **It is a same sales index.**
- **Because it is tied to Fannie and Freddie, the index excludes jumbo mortgages and condos, and is therefore not comprehensive.**

NAR Median Sales Price

- **Uses MLS data, and measures median prices. This is a measure of the mix of homes selling in the market and is not a measure of value. It is not a same sales price index.**

Our Methodology

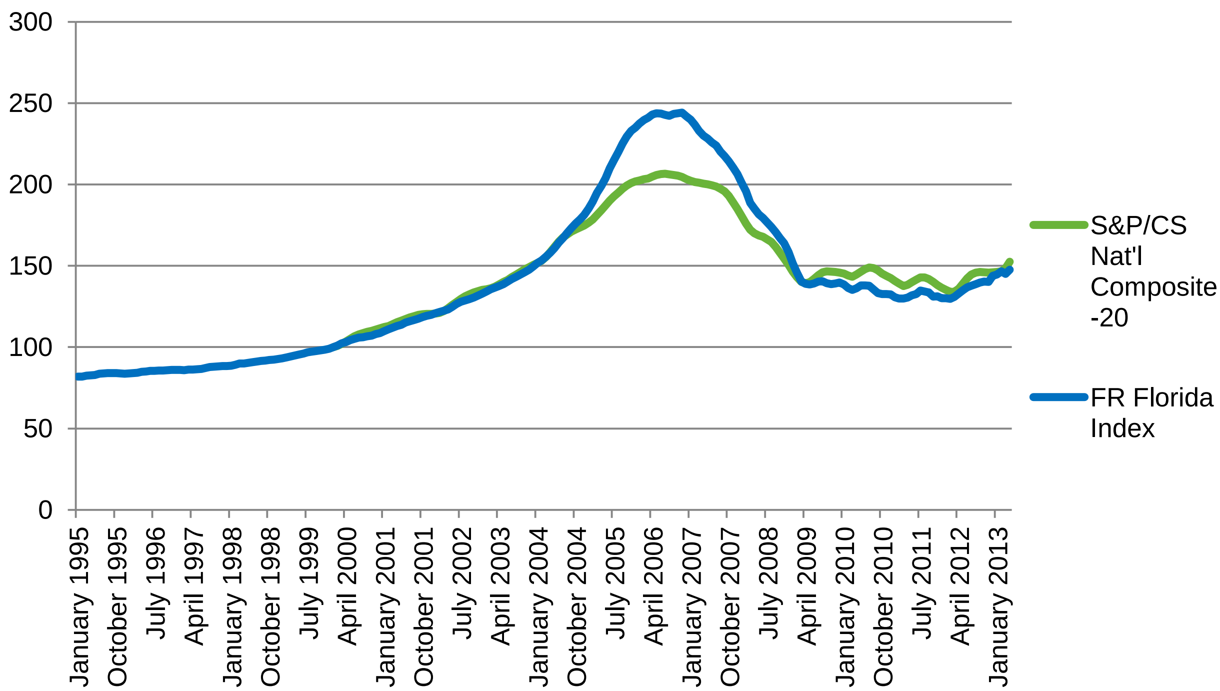
In constructing the residential price index for Florida, we follow the methodology used by Case-Shiller closely. To begin with, we use sales data from county property appraisers, as compiled and reported by the Florida Department of Revenue. We then look at homes which have sold more than once, creating "sales pairs." If, for example, a house sold in 1996 and then again in 2000, it generates a "sales pair." If the house sells again in 2004, another "sales pair" is created (2000 and 2004) and so on. We have applied several filters to the data to remove sales that are not arms-length (e.g. a transaction between family members at a price below the market value of the unit). We also filter out sales pairs in which the unit has undergone significant physical change between sales. Using the resulting sales pairs, we construct the index using standard statistical techniques.

Results

Chart 1 compares the Florida Realtors' Residential Price Index to Case-Shiller's 20 metropolitan area index. Although both Florida and the nation began experiencing the rapid run-up of price at about the same time, and have wound up in essentially the same place since the beginning of 2009, it is clear that Florida rose higher and fell farther than the nation as a whole. It is also interesting that prices are now behaving essentially the same for the state and the country. This suggests that Florida is no longer "exceptional" in its real estate market behavior.

Chart 1

Florida Residential Price Index vs. Case-Shiller



The interesting news in Chart 1 is that the market began to turn up in January 2012. Between then and March 2013, single family prices rose 11.6 percent and condo prices rose 13.1 percent. This represents a real turnaround from the prior six years.

Chart 2 presents a comparison between the actual behavior of real estate prices in Florida and what would have been the course of prices if the trend line established between 1995 and 1998 had simply continued. Clearly, and as expected, the exuberance of the market between 2004 and 2006 moved prices far above the trend line, and then plunged them below the trend. Now, with prices essentially actually rising, the gap between actual prices and trend is shrinking. It is this gap that has encouraged investors to buy real estate in Florida, looking at a holding period of 5-10 years when that gap will close because of price growth in the market. That process is starting and we expect that investor activity in the Florida real estate market will begin to slack off.

Chart 2

Actual Price Behavior and Prior Trends

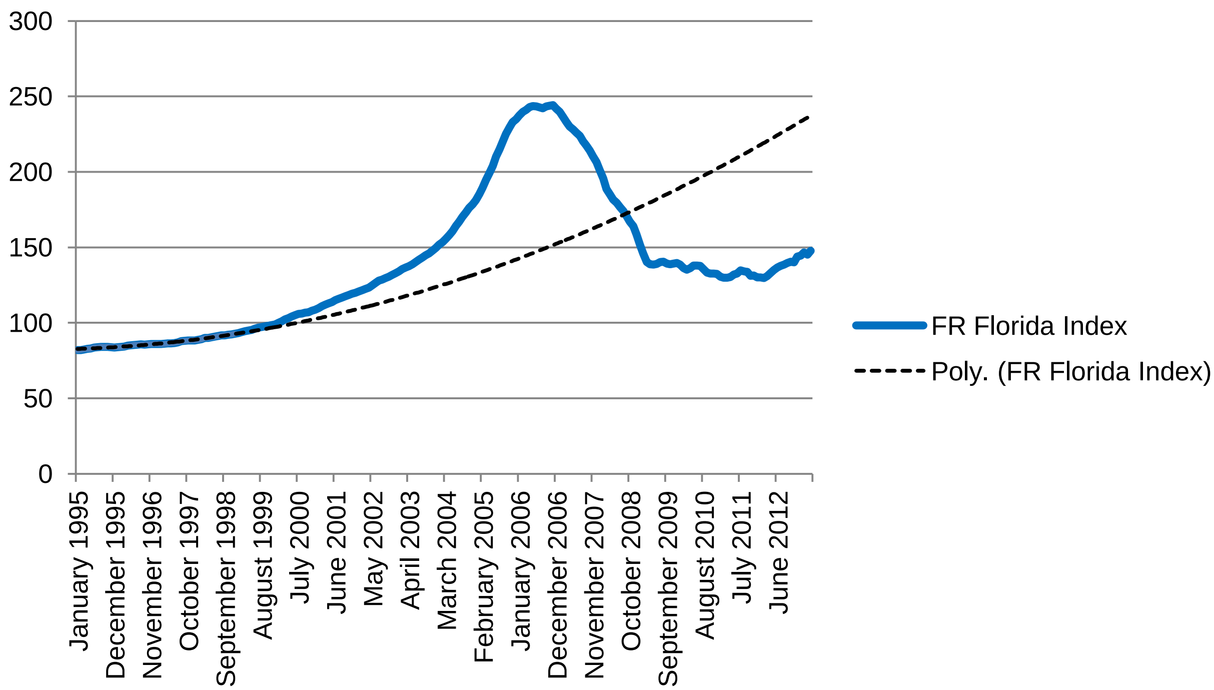
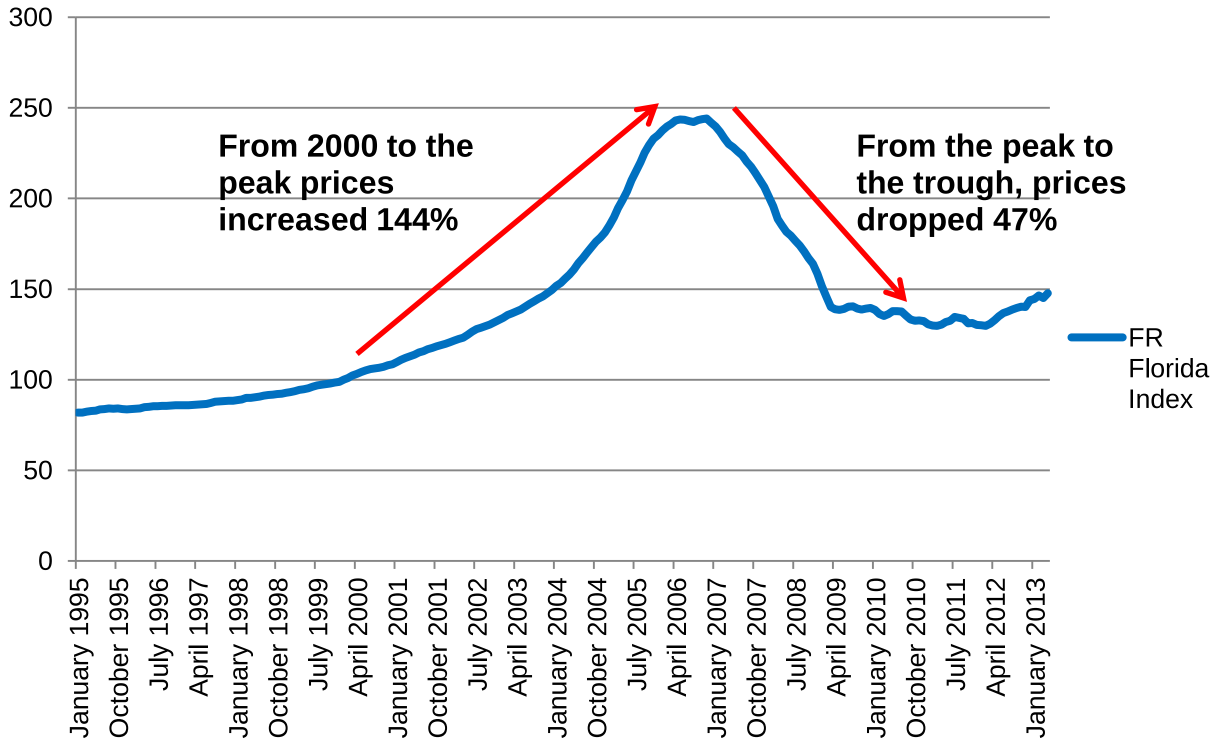


Chart 3 measures the dimensions of the rise and fall of prices. From 2000 to the peak in 2006, residential prices rose 144 percent, and from the peak in 2006 to the trough in 2009, they fell 47 percent. Since the beginning of 2012, prices have risen again (see above). As prices rise, the percentage of home owners "underwater" in their mortgages will fall, reducing the pressures of distressed properties on the market and increasing the supply of homes for sale.

Chart 3

The Rise and Fall of Florida Residential Prices



Conclusions and Next Steps

The Florida Realtors' Residential Real Estate Index is the first of its kind in the real estate industry. No one has yet produced as accurate or as comprehensive a measure of how prices in the Florida real estate market have actually behaved. There are, of course, drawbacks. Owing to the lagged release of Department of Revenue data, our index ends in April 2013. Data for the rest of 2013 will not be available until the middle of 2014. However, we are adjusting for this through use of the MLS. By matching addresses from the MLS to Department of Revenue files, we hope to produce sale pairs that cover the period to the present. In addition, we will then be able to produce an updated quarterly price index that will be current in real time.

The index includes metropolitan areas, and is available to members of Florida Realtors on www.floridarealtors.org/Research. Finally, residential real estate is only one side of the market. The Department of Revenue data include commercial real estate statistics, although these are subject to more frequent quality changes, and thus present a larger challenge in developing sale pairs. We are currently investigating the ways in which we can produce a commercial real estate price index analogous to the residential index.