

End of Year Market Update for 2023 South West FL Single Family Housing

Written by
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“SW Florida’s Housing Expert with over 6350 transactions
and over \$331mil+ in SOLD Real Estate”

1/1/2024

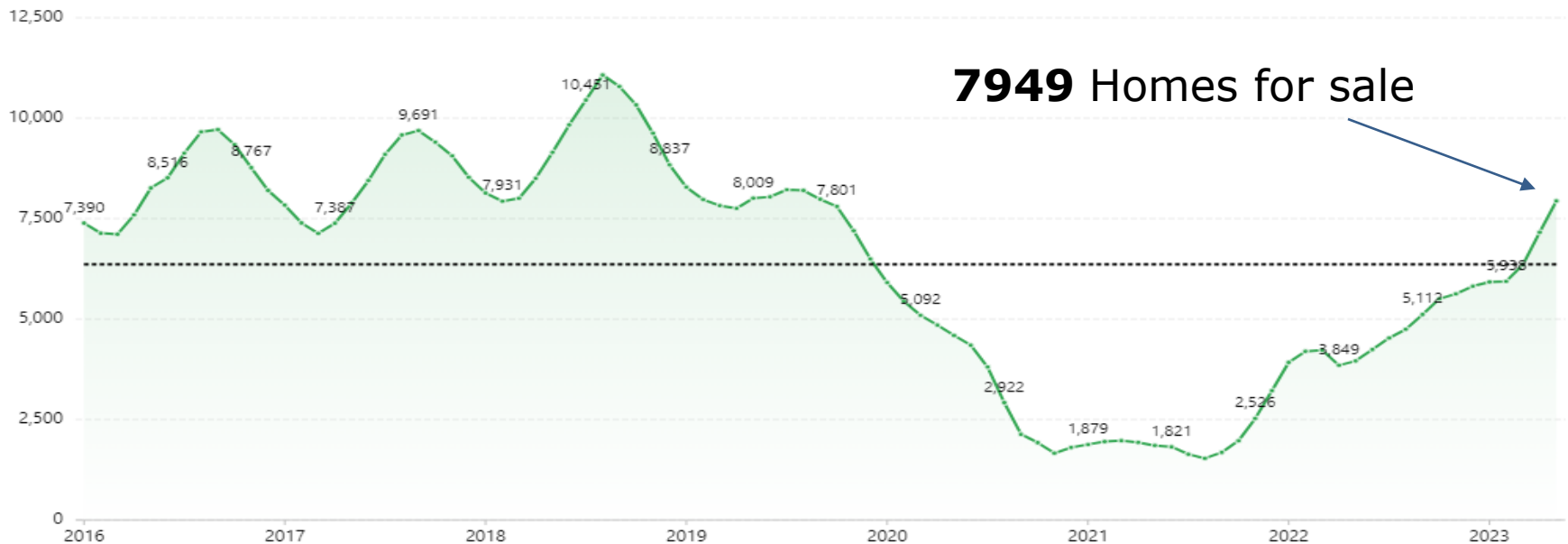
The First of Many to Come

- Back in 2007, I wrote market updates monthly for over 10 years in this format and released these updates via email. I make it available to you, my most trusted clients, so you can make informed decisions about the market and your largest asset you want to buy or own. Deciding to buy or sell can be very tough decisions to make, BUT when you have data such as this, you can make a more informed decision. I have always said an educated client is the best client. These market updates, which will go out monthly, will provide you with insight and data as to the current condition of the market, and data backed predictions of what will happen in the near future. In order to accurately predict a markets stability we look at many factors but first we look at the Supply and Demand

Supply and Demand

- The law of supply and demand has 1 basic premise: That Demand levels for homes will decline as prices rise, and rise as prices drop. Also, as prices rise, so does Supply and a lowering of price, drops Supply.
- Demand we can track with the amount of Sales in Lee County as compared to long term averages and Supply can be monitored by looking at Homes for sale.
- Supply and Demand are inversely related and the market fluctuates based on these 2 laws. Lets take a look at SW Florida's Supply and Demand graphs so we can see where we are at currently.

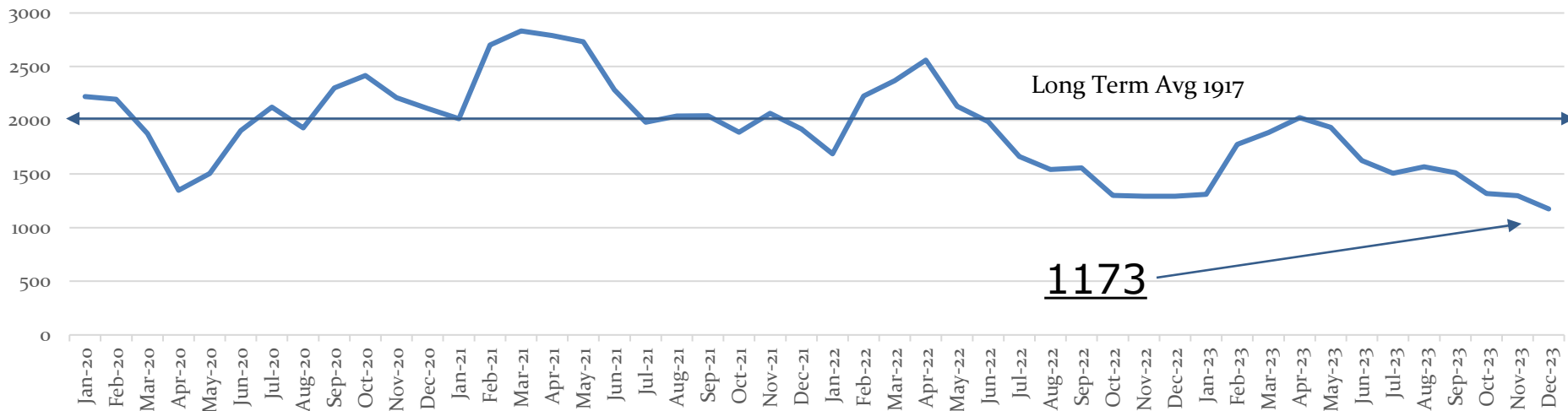
Supply of homes for sale in SW Florida



As you can see our inventory is rapidly climbing. In fact, it is back to the levels last seen prior to the pandemic. Lee County is second to only Charlotte county, leading the state in year over year inventory growth of over 100% with Charlotte leading at 129%! This usually means a greater likelihood of home values declining when you see an increase this high. Compared to the long-term average of 6,198 homes we have a 28% surplus of inventory meaning our prices should go down. Lets look at demand now

SW Florida Demand Solds

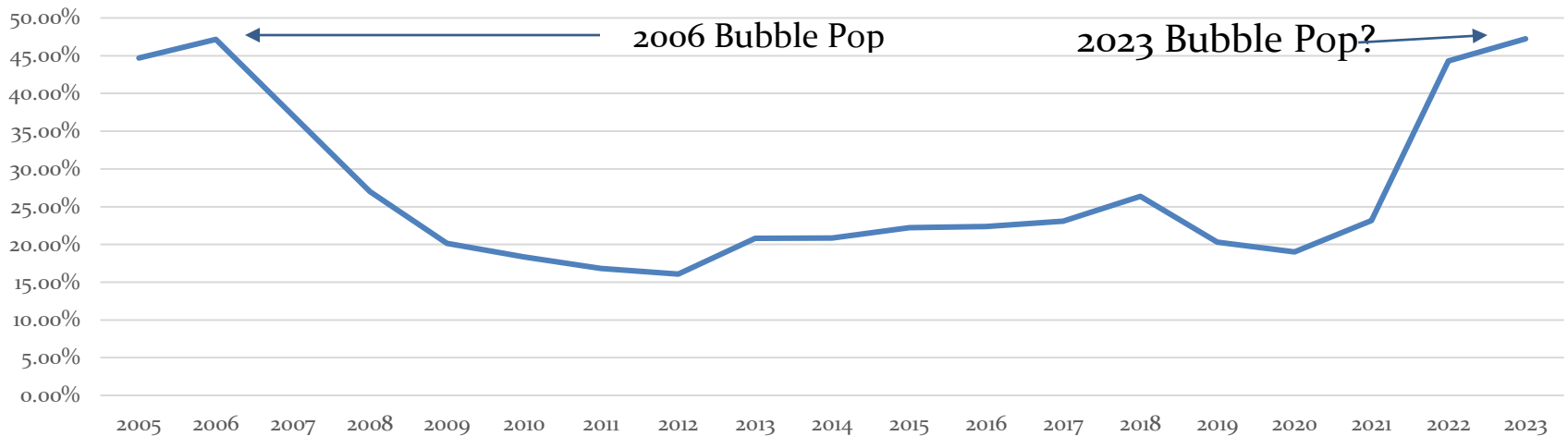
SW Florida Closed Sales



As you can see, the demand has been quickly been depleted to an all new low in the last 10 years. You can see the peaks of each of these occurring in March 2020 and 2021 and in April 2022 and April 2023 with the last one barely reaching long term average. This is what we call season in which we see rapid increase in demand starting in January and reaching a peak in March/April then depleting again until January of the following year. So why is demand at such a low? Lets look at the next graph to see!

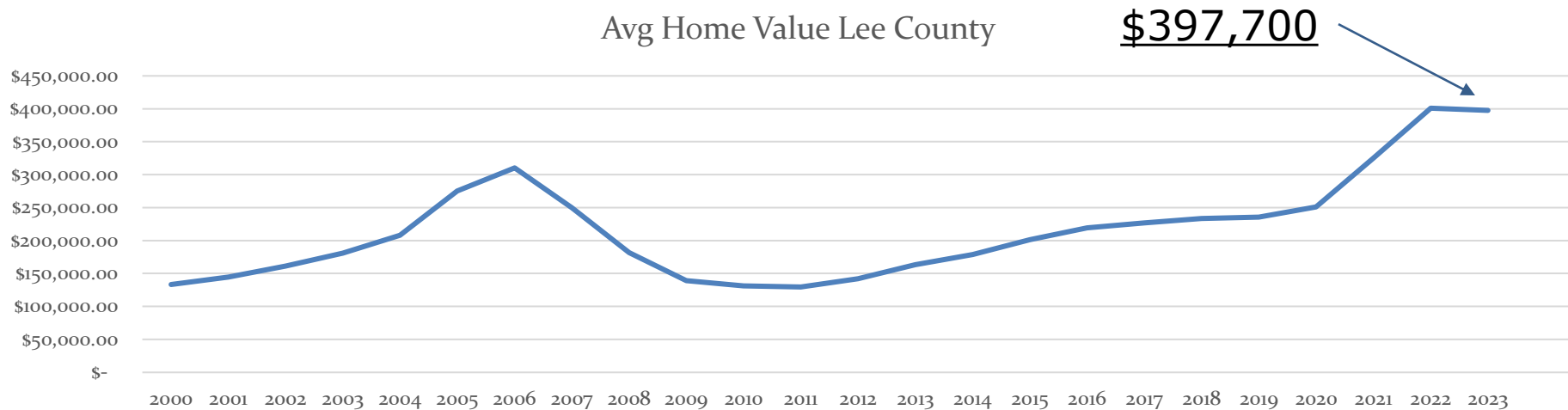
Home Payment as a % of SW Florida's Average Household income

Home Payment as a % of Income



As we have proven once before, people cannot afford a home if the payment is over 23% of their gross income, and definitely not if it exceeds over 40% like it did in 2005/2006 and as it did in 2022/2023. Shortly after hitting that mark last time, the market swiftly corrected to make its way not toward 23% but it dipped under it, until it hit a median of 23%. Currently, Household income for Lee County is right at \$74,000, so a homes monthly payment should be 23% of that/year or \$17,000 a year or \$1425/month. Remember these stats when we talk next about impact of interest rate, but first home prices...

Average Home price



As you can see just after COVID, we experienced a rapid increase in home value, which was mainly due to rapid decrease of inventory because of COVID. This was further impacted when investors bought 19% of all homes off the market, further escalating the prices even further. Now we are stuck with these prices, but with rapid demand decreases we are starting to see home values decrease. In 2023, home values compared to the same time last year are down 1%. Since the last crash the only years we ever saw a decrease in home values was 2006-2011. Ever since 2012, we have seen an increase of 3-6% annually which is the long term average. Now I am going to discuss what would need to happen with price and rates for our market to stabilize.

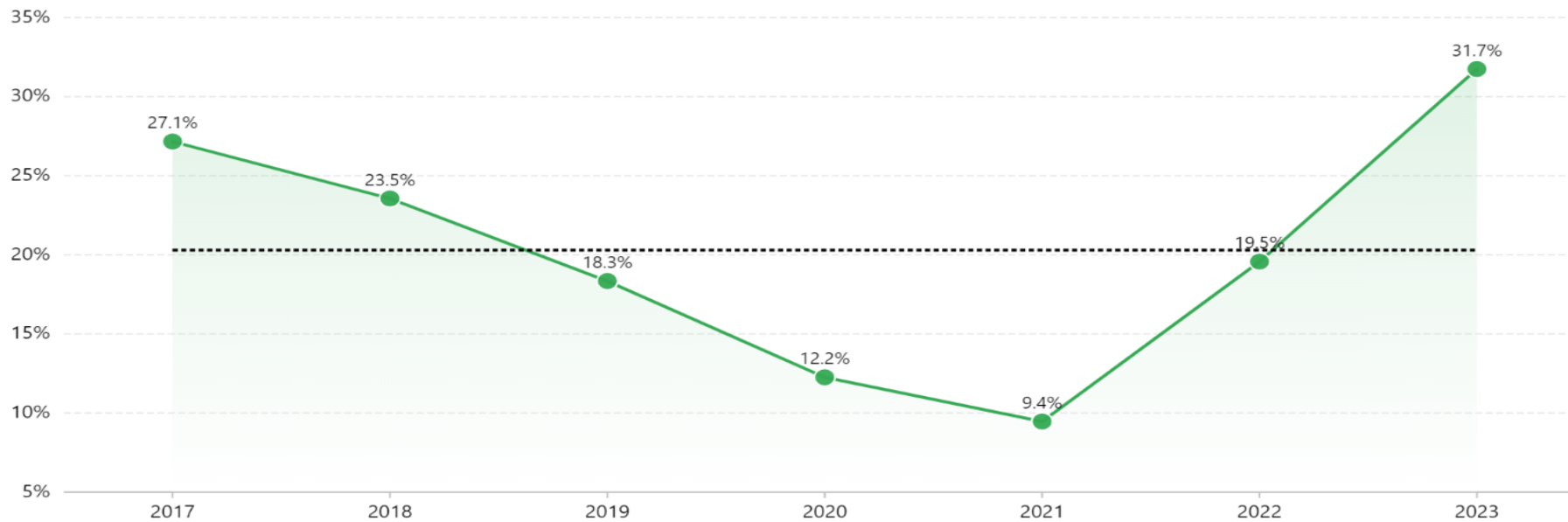
Payment and Interest rate Hypotheticals

- Currently if I take the average home price today \$397,000 and plug in today's interest rate going with an FHA loan, which is a 96.5% loan and sits at 6.25% interest rate, the following occurs
- Monthly Payment is \$2911.57/month for Principal, interest, taxes, and insurance.
- If you remember from 2 slides ago, that the average person, according to income, dictates we will stabilize when payments go to around \$1400/month, we are double that here! There are 2 ways for this payment to go down: Interest rate decreases and price drops.
- If we **only** dropped *interest rates*, we would have to have rates drop below **1%** to make this price work. That will never happen!
- If we **only** dropped *price* and left interest rate alone at 6.25%, then we would have to drop the price of the average home by \$200,000 to a base price of **\$175,000**.
- The realistic approach is that both home prices and interest rates drop. Let's say interest rates **drop** to 5%. Then the home values would only lose \$175,000 to a base price of **\$200,000**, and if we ever get to 4%, then the home prices would only lose \$160,000 to a base price of **\$227,500**.

Bottom Line

- Bottomline is that prices will go down to stabilize this dynamic. How far they go down, depends on how fast interest rates go down. This is not just a SW Florida thing. Numerous counties and states are all experiencing this from Texas, to Idaho, California, and Georgia. How I can say for sure that the “Bubble” has popped? Easy! Just look at the data. To say we are in a pop, we have to look at specific data points to come up with this statement. What we learned in 2006/2007, is when a market starts to crash you will see a few data points start to trend in a certain direction. Those data points are % of price cuts, Total days it takes to sell a home, and Home Value growth Year over Year.

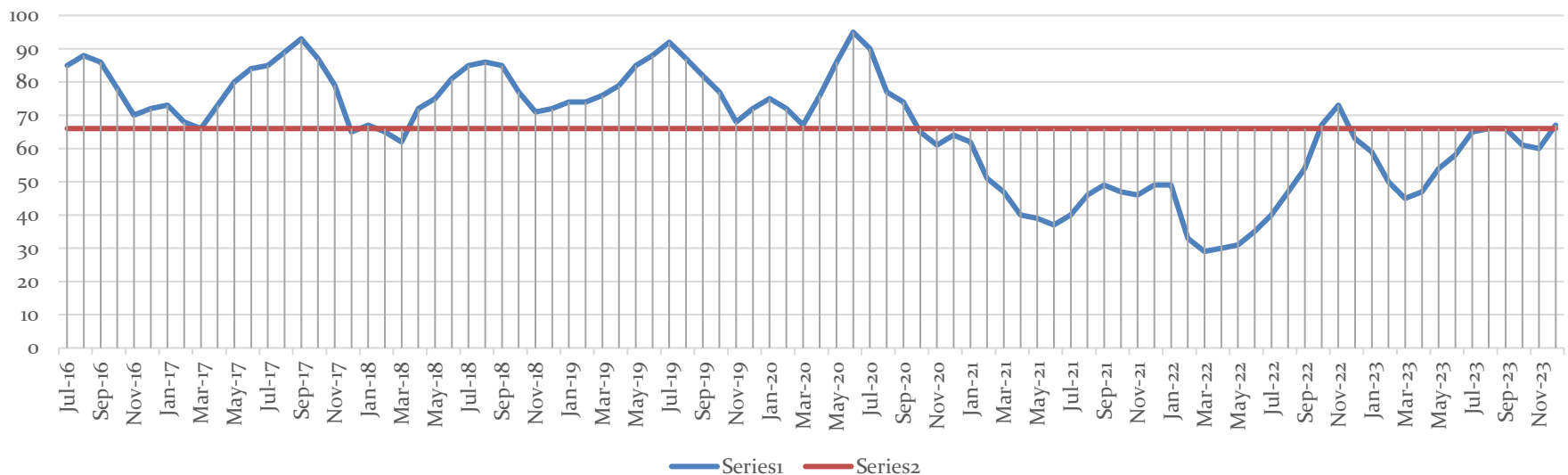
Price Cuts



When the market slows, sellers are left with 1 main thing to do , and that is dropping their asking price. A drop in asking price normally indicates a slow down in the market. The long term Average is 20% so when it exceeds that average, a slow down is occurring, and if it drops below the long term average, the market is normally rallying. As you can see, the rally stopped in 2022 and now price drops are abundant. The current rate so far including all of December and parts of January are at 34.7%. This only supports a drop in House prices in the near future. When this level starts to drop closer to 20% we should see signs of stabilizing.

Total Days on Market

Total Days on Market for Solds



Another indicator of whether we are in a stable or chaotic market is how long it takes to sell a home. This is called Days on Market or DOM. As you can see homes took less than 30 days to close in April of 2022. Since then, it has drastically gone up meaning homes sit longer than they did. Currently we are at 67 days on market as the long term average, but the trend is starting to climb.

Sales Growth Month over Month for Lee County



Tracking Month over Month sales growth helps pin point changes in both a negative and positive. As you can see from this graph the years from 2013-2021 shows a steady line of positive growth with a rapid escalation in 2022 and part of 2023 which is almost identical to that seen in 2005-2006. When the bubble popped last time sales growth went into the negatives until it stabilized late 2012. Currently we are at -.8% so we have hit the negatives for now.

Year 2023 Recap!!









- Summary:
 - Supply has doubled in the last year and is currently 28% higher than our long term average.
 - Buyer demand has hit a 10 year low for us
 - Mortgage applications are at a 40 year low as the increased interest rates made home unaffordable
 - The Average wage earner in Lee County has to spend over 45% of their gross income to afford a home
 - Average Home prices are far higher than they should with a price of \$397,000
 - A small drop in interest rate will not fix this market. It will take a combination of both price drops and interest rate decreases to stabilize this market
 - Price cuts are at an 9 year high at 31%
 - Days on the market went from a record low of 30 days to now over 60 days and continuing in an upward trend currently, although we are not at our long term average days on market
 - Month over Month Sales Growth is currently in the negatives (currently **-0.8%**) which has not happened since December 2010

Statistics as compared to last month

December 1st 2023

- Total Homes for sale 7943
- Total Sold 1298
- Sales Pending 1247
- New homes for sale 1413
- Average Time on Market 67
- Median Asking Price \$468,900
- Median Selling Price \$398,800
- % of asking price sold 97.62%

January 1st 2024

- Total Homes for sale 8157 
- Total Sold 1173 
- Sales Pending 1119 
- New homes for sale 1640 
- Average Time on Market 68 
- Median Asking Price \$457,500 
- Median Selling Price \$397,700 
- % of asking price to sold 95.32% 

In Summary: Inventory went up, Solds went down to a record low in over 10 years. Pending sales dropped 10% since last month, The % of new homes for sale is roughly 20% of our total inventory and their inventory has increased by 27% in 1 month alone! This trend seems to be continuing. Average time on market is practically the same but remember it was at 30 days about 12 months ago so it has doubled. Median asking price is down 2% this month, but selling price is slightly down. % of asking price has been a slow decline from last year and has consistently been dropping ever so slowly. All of this points to a decline in the market after last years bubble popped. In the future we will look to see if any of these start to show signs of stabilization. I remember like it was yesterday the market update I put out after 18 consecutive months of dropping, when it finally plateaued and I called it a sign of the bottom. This was back in 2010. It will happen again

Breakdown

- Turn off the lights...the party has come to an end. Its last call!!! At least if you are a seller. All data points to a turn of the market that happened mid term last year, and it wasn't a big surprise. Demand dropped suddenly, Inventory soared, homes are taking longer to sell, and selling for less than asking price. Some would call this a buyers market, BUT I call it a transition market. It is neither a buyers or sellers market. To my sellers out there thinking it is too late, or thinking of selling, remember that we are still way over Pre-COVID levels in price, so this "Fake Equity" you gained artificially in 2021-2022 is still there, just losing more and more of it every month. SW Florida is the most predictable market if you just look at the data. So buyers get ready. Your time is coming and soon. I will be putting these updates out monthly. We will keep tracking each graph month by month to look for the changes to indicate that the transition market has turned into either a buyers or sellers market.

Call me anytime to discuss anything!!!

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Look forward to hearing from you soon