January Market Update for 2024
South West FL Single Family Housing

Written by
Ed Zoller
1-239-980-2792

"SW Florida's Housing Expert with over 6350 transactions and over $331mil+ in SOLD Real Estate"

2/1/2024

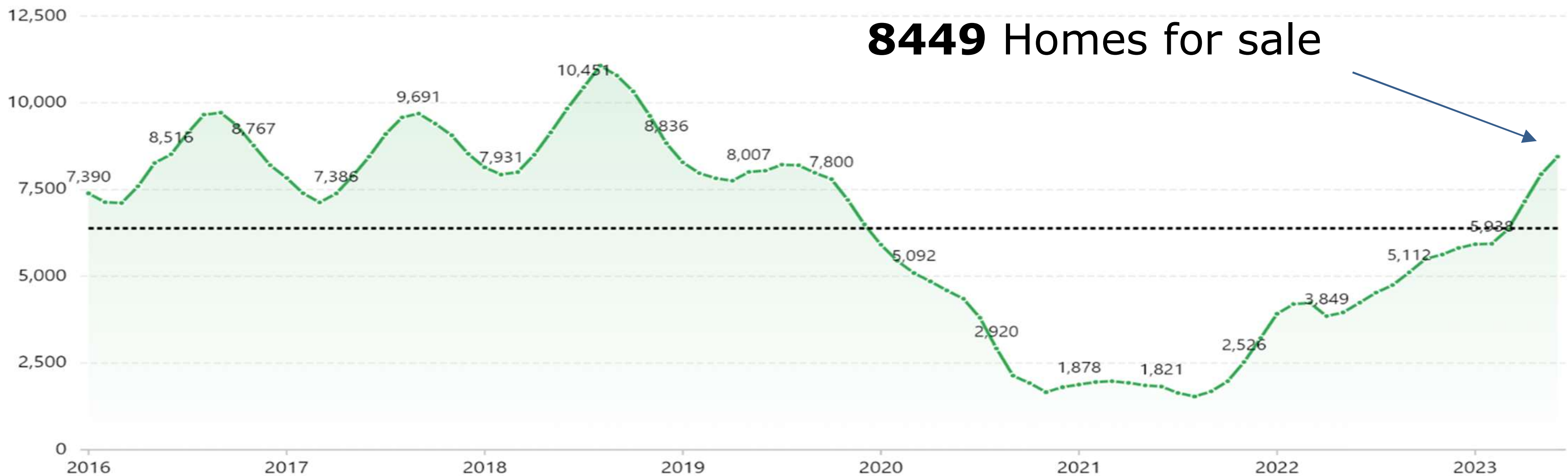
The 2^{nd} Market update is here

- Market updates can give you insight on the famous Rela Estate question of "How is the market" I usually reply with "how long do we have to talk?" My 15 second elevator speech is that "the market is in a transition phase that will probably last for 1 year until it stabilizes. We need a combination of interest rate decreases and price decreases so that the locals can afford a home" Did that take 15 sec? This update is if we had 20 minutes to discuss, and I can give research, data, and data comparisons that will indicate when is the good time to sell or buy a home. For those of you who missed last months update for 2023, let me highlight.
- In 2007, I wrote market updates monthly for over 10 years, and made them available via email to you, my most trusted clients, so you can make informed decisions about the market and your largest asset you want to buy or sell.
- Since this is the second market update, I can not only show data points and graphs from the past, but update the new stats for the month and compare them from 1 year ago, but also from month to month to show signs of stability in real time.
- I can also show data points that you, my clients, have asked me to add. This month I am adding rental rates and an analysis of rent growth as requested by you all since many of you have asked if data is showing rent rates going down and by how much

First data point: Supply and Demand

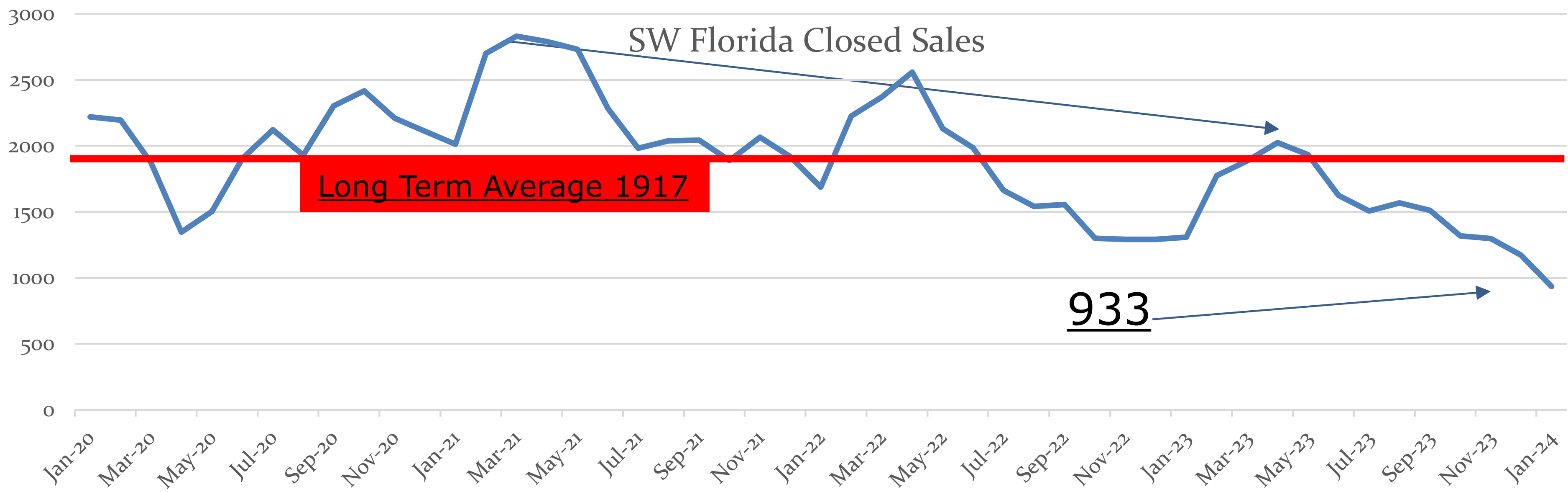
- Homes for sale and homes Sold shows current activity with the market. It is the 2 key pieces of data that give you a general idea of market conditions. Demand low, normally means increased supply.
- When inventory goes up, it normally shows signs of prices going down, and if demand goes down, prices also will tend to go down. Same thing happens in reverse. Increased demand normally lowers surplus and supply making prices go up. Of course we get a bit more detailed by comparing month over month and year over year to get some insight. Let look at supply

Supply of homes for sale in SW Florida



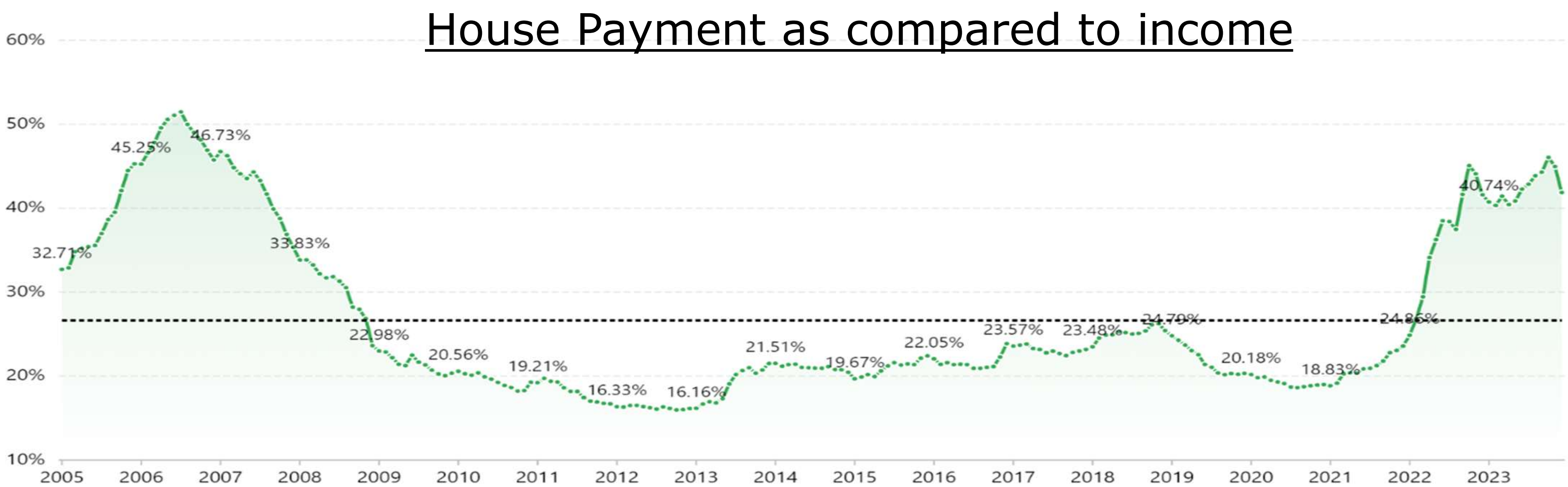
<u>As you can see our inventory is still rapidly climbing. Currently it is the highest we have had since June 2019 prior to the pandemic. Lee County is second to only Charlotte county, leading the state in year over year inventory growth of over 99% with Charlotte leading at 152% increase! Higher Year over Year growth usually means a greater likelihood of home values declining in the near future. When you see an increase this high. Compared to the long-term average of 6,198 homes we have a 36% surplus of inventory compared to last month at 28%. This too pinpoints to a price decrease next month. Lets look at demand now</u>

SW Florida Demand (Solds)



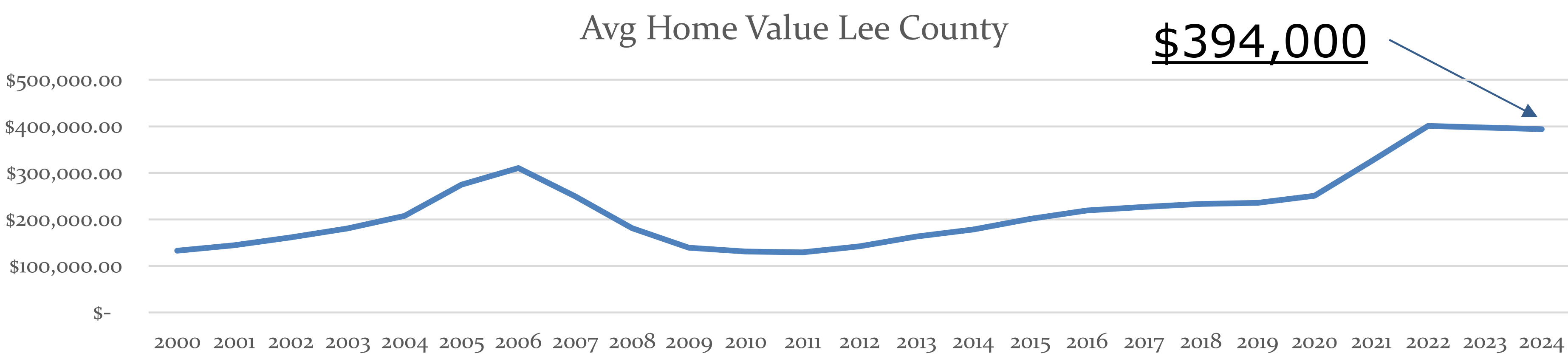
As you can see, the demand for homes has been depleting rapidly to an all new low again with only 933 homes sold. This is an over 10 year low! You can see the peaks of each of these occurring in March/April from 2020-2023 and in a downward sloap. Comparing this to long term average, it is histocially low demand, indicating a decrease of prices in the future. Next month, we should see this go up as it has for the last decade with sales in February always going higher than the lows of January. What happens next month is key to predicting the future for the entire year. So following last months graphs on why we are going down, lets see if Lee county has gotten slightly more affodable, but this time look at each month since 2005

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



<u>Compared to last month when our typical mortgage payement was at 45% of gross income, we are currently now at 42% of gross income for a typical mortgage. At least it went in the right direction, but compared to long term average, we have a lot of ways to go. To remind you from last months update, we have proven once before, back in 2006, if people cannot afford a home, they stop buying them. Specifically, if the payment is over 26% of their gross income, demand drops drastically. In 2006, after hitting above 45% last time, the market swiftly corrected to make its way toward 23% and below. Currently, Household income for Lee County is right at $73,914, so a homes monthly payment should be 26% of that/year or $19,217 a year or $1601/month. Remember these stats when we talk next about impact of interest rate, but first home prices…</u>

Average Home price



Compared to last month, average home value dropped .5% in just 1 month further showing a decrease in home values. To analyze the data so far, I do not expect prices to start going up, but data further supports that prices will continue to drop. Looking at the rate of price drops currently will better prepare sellers on how to stay ahead of the market. If the rate stays at -.5% per month then the average home price by end of year should be around $374,500 or a total drop Year over Year of 6%. Trouble is this rate never stays consistent. With Inventory soaring, and affordablility still over 40%, this should rise even further, but for now -.5% is the current drop in prices. Since the last crash the only years we ever saw a decrease in a home values was 2006-2011. Ever since 2012, we have seen an increase of 3-6% annually for 8 straight years, which is the long term average and is what I call a stable market. Appreciating over 25% in a year back to back has only been seen right before a market correction. Once in 2005/2006 and again in 2021/2022. Now I am going to discuss what would need to happen with price and rates for our market to stabilize.

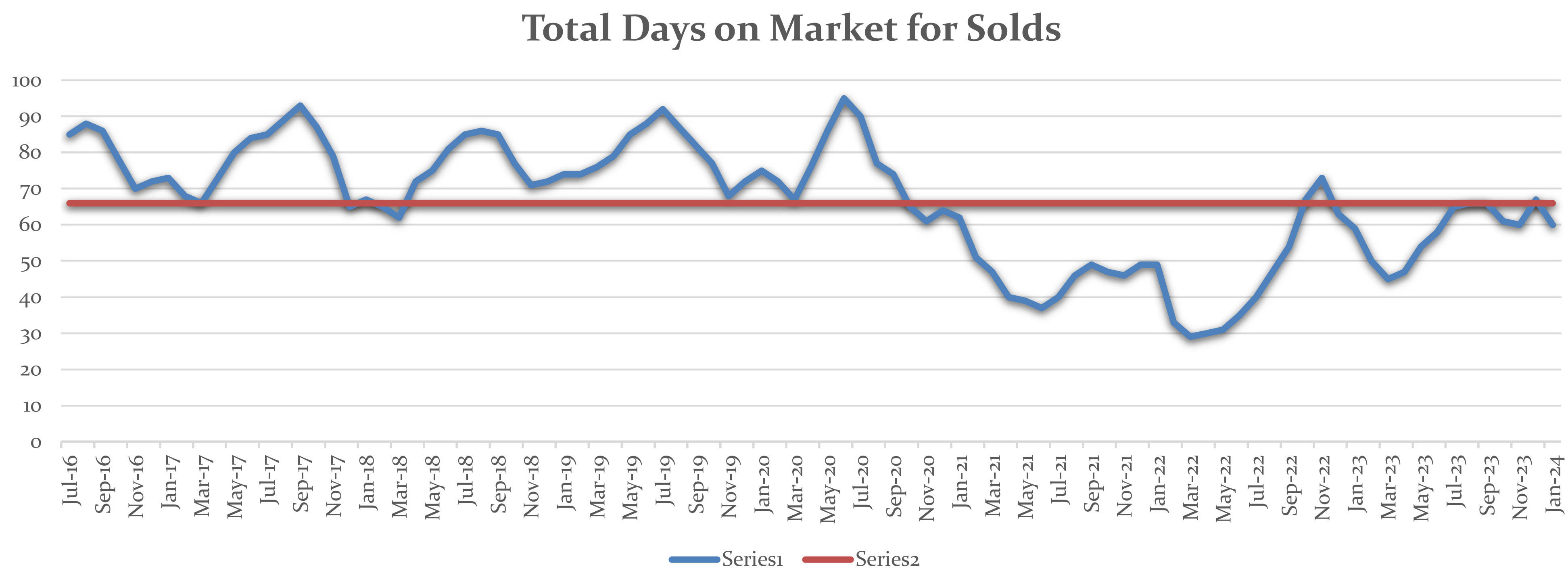
Payment and Interest rate Hypotheticals

- Many people have said to me that if the Feds drop rates, the market will come back. Lets look into how much would they need to drop it by to stabilize our current pricing and use the current market analysis from last month and over the course of over 20 years
- Currently if I take the average home price today ($394,000 down $4,500 from last month) and plug in todays interest rate going with an FHA loan, which is a 96.5% loan and has a current 6.2% interest rate, the following occurs:
- These figures makes the monthly payment $2902/month. Comparing this to last month of $2911.57/month for Principal, interest, taxes, and insurance shows a decrease in payment of $9. A step in the right direction, just a small one though.
- If you remember from 2 slides ago, that the average person, according to income, dictates we will stabilize when payments go to around $1600/month, 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% at .4% to make our $394,000 average price work. That will never happen!
- If we **only** dropped *price* and left interest rate alone at 6.2%, then we would have to drop the price of the average home by $197,000 to a base price of **$196,891 exactly a 50% drop in price.**
- The realistic approach is that both home prices and interest rates drop. Lets say interest rates **drop** to 5%. Then the home values would only lose $177,000 to a base price of **$217,000 which is $17,000 higher than last months projection**, and if we ever get to 4%, then the home prices would only lose $143,900 to a base price of **$250,100 which is $25,000 higher than last months projection.**
- Bottom line, this pinpoints to further price decreases

Bottom Line

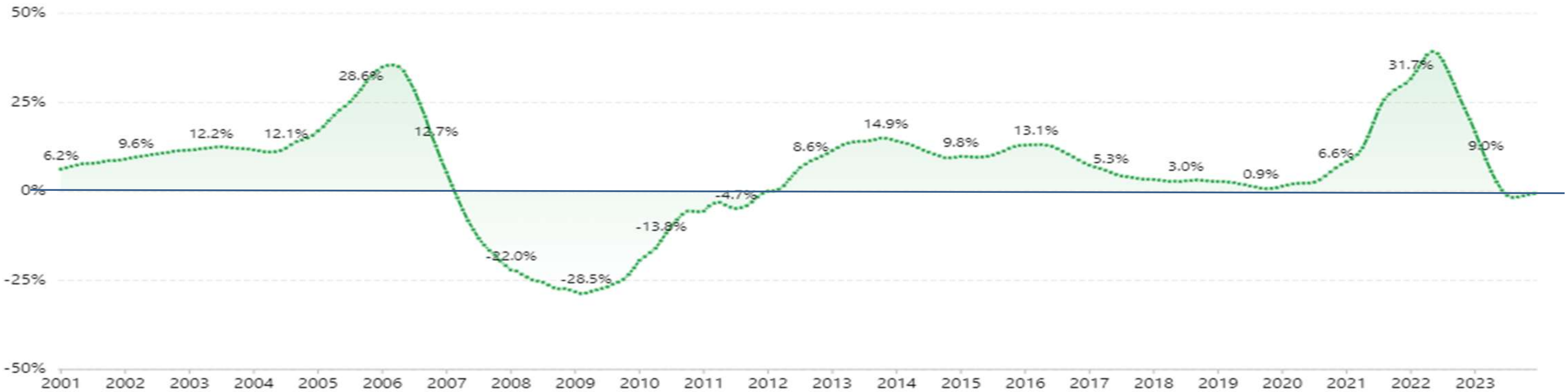
- The reason these figures change month over month is that as household income changes monthly, and as more data is entered into the mix, so does long term average, amongst other things. It is important to keep accurate data to understand the changing conditions. Last month I showed data supporting that our "Bubble" popped last year June and other data points must be viewed to anticipate the slowing or correction needed for our market to be sustainable. We will look at these same data points to see if we are still weakening. First up is the Total days on marke tit takes to sell a home.

Total Days on Market



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 60 days on market as the long term average with last months data showing 67 days on market to sell, This is a step in the right direction, but please note that historically our days on market go down during our season which goes from January to April.

Home Value Growth Month over Month for Lee County

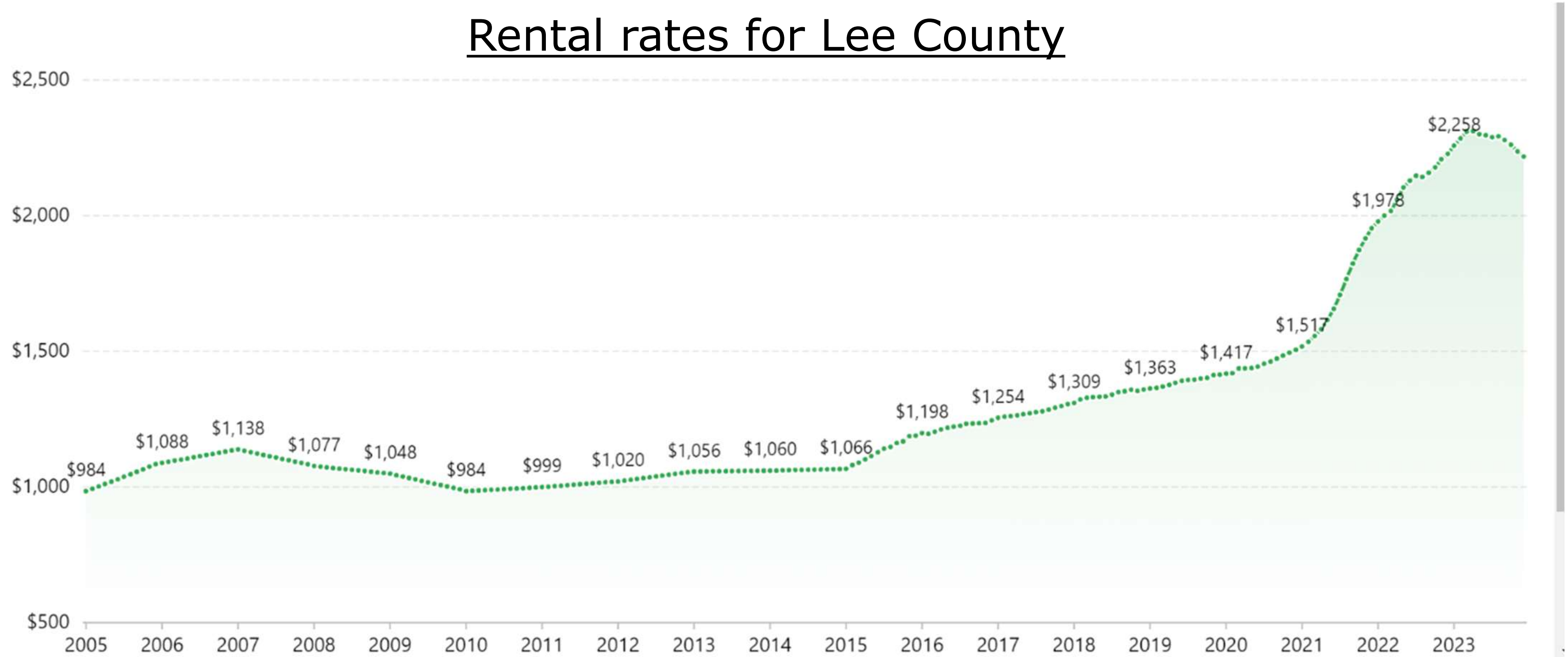


Tracking Month over Month home value growth helps pin point changes in and signals a crash and/or bottom. As you can see from this graph the years from 2013-2021 shows a steady line of positive growth with a rapid escalation in 2022 and part of 2023 which is almost identical to that seen in 2005-2006. When the bubble popped last time in February 2007 which signaled the start of the crash when this graph first hit negatives. It remained negative until Janaury 2012 or 59 consecutive months until it stabilized late 2012. Currently we are at -.5% and last month we were at -.8% so that is 6 consecutive months of negative home value so far.

Rental Outlook

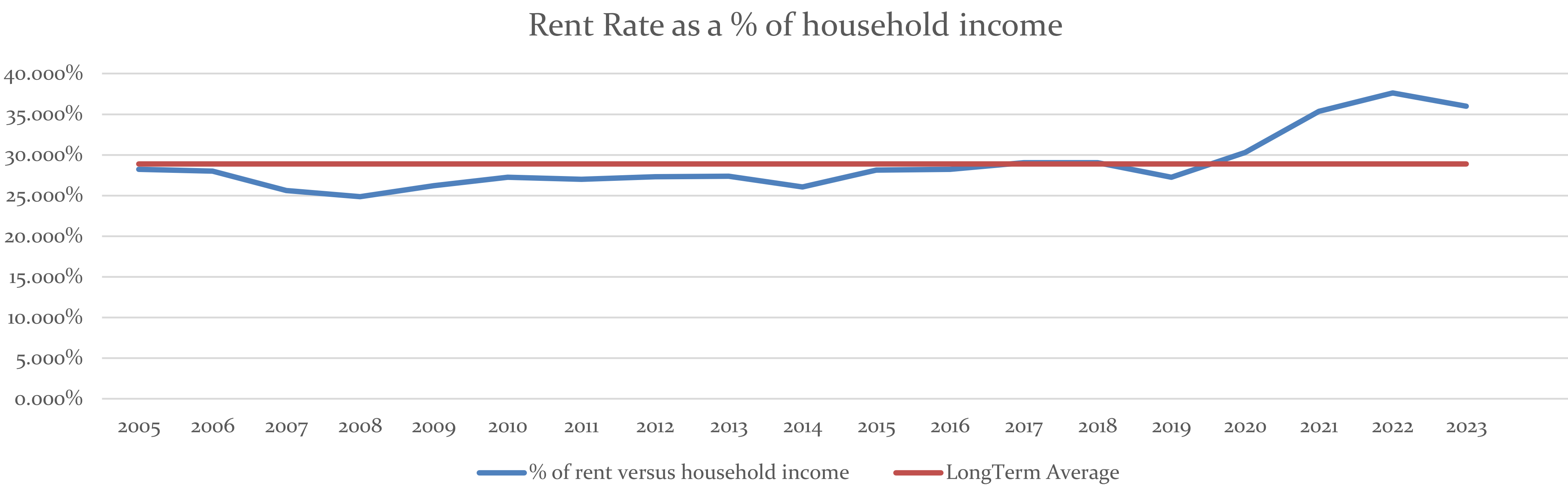
- Thank you for your feedback of last months update. I had many of you ask to see data on the current rental market so we can get an understanding of what is happening for those of you who want to rent for now. I also look at the rental market to give an indicator of what will happen to the housing market. Historically the rental market corrects first but does give signs of a housing market upturn. Bottom line is if the rental market corrects and stabilizes, then the housing market follows. Let us look at the first data point

Rental Rate fo Lee County



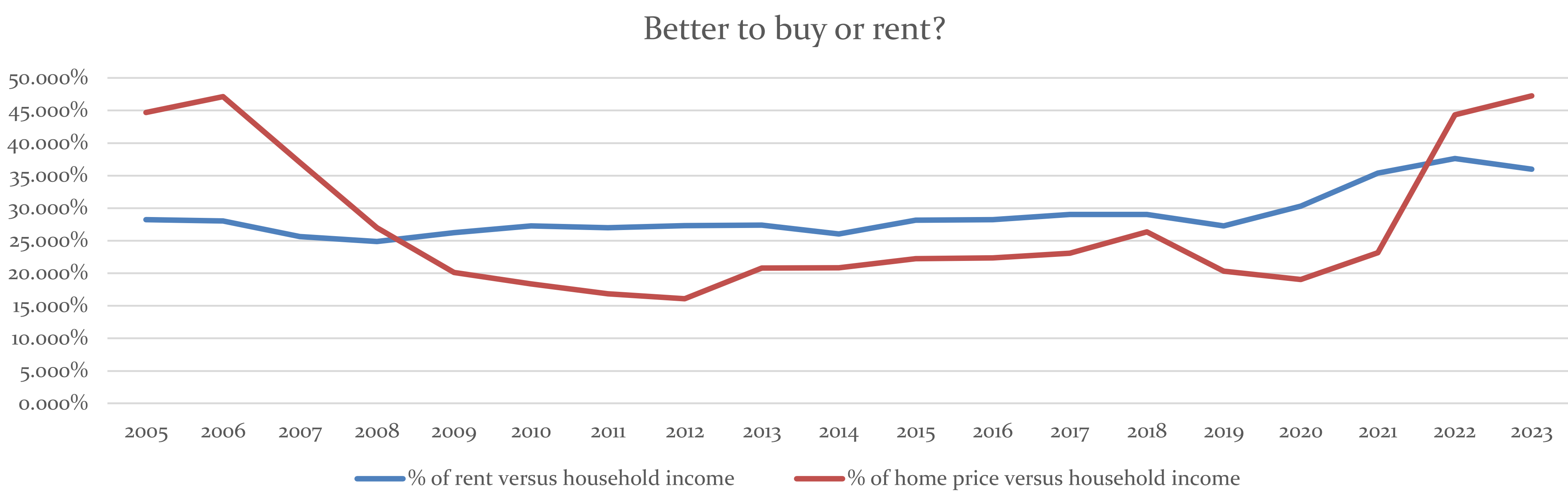
As you can see the rental market rates are going down. There is not a lot to go off of as you can see that rent never really fluctuated last market crash other than 10%. If 2007 was the signal for the crash, then yes rent rates did go down from $1,138 in 2007, to $984 in 2010. A decrease of 13%. So far current rental rate for Lee County is at $2217/month which has been dropping consistently since February 2023. Rent has always been a % of household income. Lets take a look at a comparison of household income increases over the years and compare that to rental increases.

Rent as a % of household income



<u>Do I think rent will go down? With this data set, yes. As you can see the long term sustainable average for Lee County's rental rate sits at around 28.9% of household income. As income rises, so does rent. Prior to 2020 these 2 lines stayed pretty straight. Taking the current household income of $73,900 and calculating where rent should be at 28.9% of someones income, then the average rent should be $1779/month, but currently it sits at $2217/month. 20% higher than it should. Just based on simple math, rental market will drop 20% before the real estate market even starts to stablilize based on past history. The graph above shows a downward trend so there is light at the end of the tunnel for renters out there. Our next graph combines 2 graphs we have done and puts them into one. This should answer the question should I buy or rent?</u>

Should I buy or just rent for now



<u>What this graph does is lok at average household income, and plug in the % of that income that it takes to rent and buy. Take a look at 2005. It took 45% of your income to buy a home as opposed to 27% of your income to rent. This means in that year it was better to rent than to buy. In 2009 it only took 20% of your income to buy a home as opposed to 27% of your income to rent. Cheaper to buy a home. This stayed true all the way until late 2021 when these 2 graphs criss crossed again. So currently it takes over 45% of your income to buy as opposed to 35% of your income to rent. To see stabilization, we would need to see these 2 graphs criss cross again the opposite way. This could be an indicator of a stabilization.</u>

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 rate coupled with rapid increase in home prices made homes unaffordable
  - The Average wage earner in Lee County has to spend over 45% of their gross income to afford a home currently
  - 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 a 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 at our long term average and will have to monitor if it continues to go up
  - Month over Month Sales Growth is currently in the negatives (currently -.8%) which has not happened since December 2010

Statistics as compared to last month

December 1st 2023		January 1st 2024	
Total Homes for sale	7943	Total Homes for sale	8157
Total Sold	1298	Total Sold	1173
Sales Pending	1247	Sales Pending	1119
New homes for sale	1413	New homes for sale	1640
Average Time on Market	67	Average Time on Market	68
Median Asking Price	$468,900	Median Asking Price	$457,500
Median Selling Price	$398,800	Median Selling Price	$397,700
% of asking price sold	97.62%	% 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 our after 18 consecutive months of dropping, when it finally plateaued, and I called it a sign of the bottom. This was back in 2010. Seems to be going in that direction

Breakdown

- 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.

Data acquired comes from the following sources

- US Census Bureau
- Zillow.com
- FRED
- Realtor.com
- SWFLMLS

Would love your Feedback

- If there is any data points you would want to see in this update, or anything you would like me to track, please do not hesitate to call me.
- I would love your feedback on this market update and any suggestions would be greatly appreciated
- If there is any metro area in the country you would like me to research, even giving me specific ZIP codes, please feel free to call me anytime or send me an email requesting this data or call me, and I will quickly send it out to you. I just gave info currently for areas of NY and Jacksonville.

Call me anytime to discuss anything!!!

Ed Zoller

Realtor Villa Realty Group/ Owner Teacherscanbuyhomes

E-mail ed@villarealty.com

www.teacherscanbuyhomes.com

Cell phone 1-239-980-2792

Look forward to hearing from you soon