End of October Real Estate Market Update for 2024
South West FL Housing

Written by

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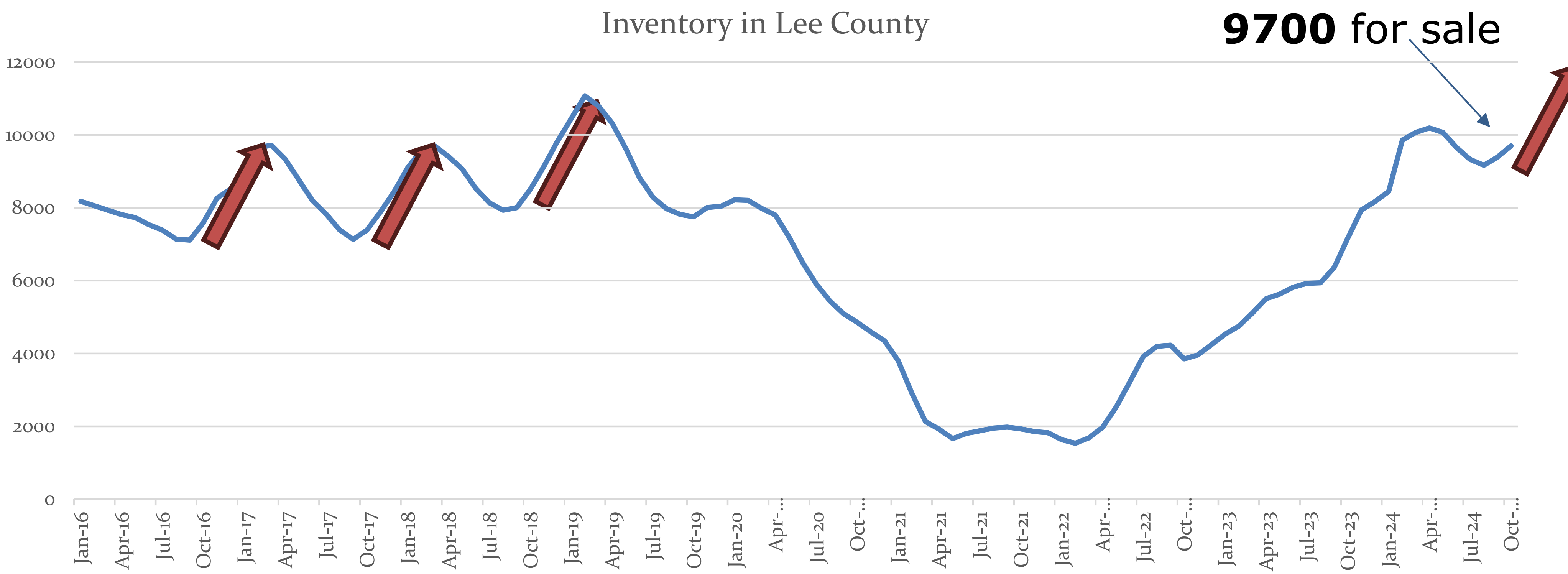
"SW Florida's Housing Expert with over 6365 transactions and over $335mil+ in SOLD Real Estate"

11/1/2024

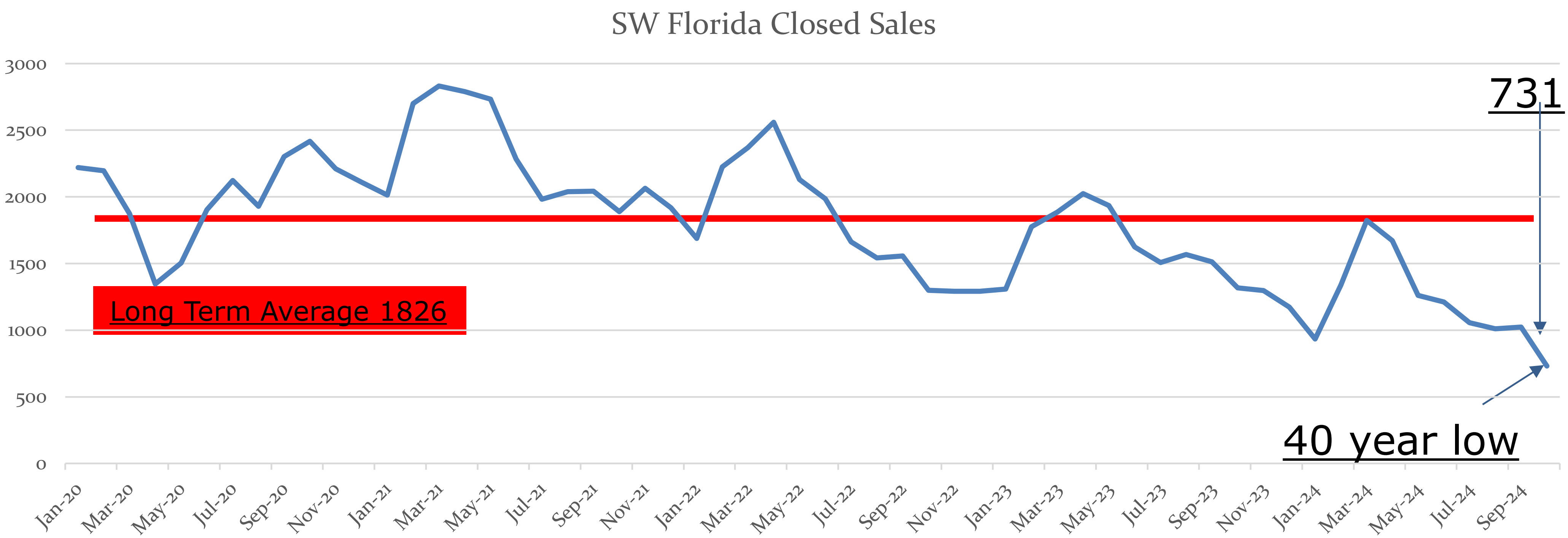
www.Leecountymarketupdate.com

Supply of Inventory for sale in SW Florida



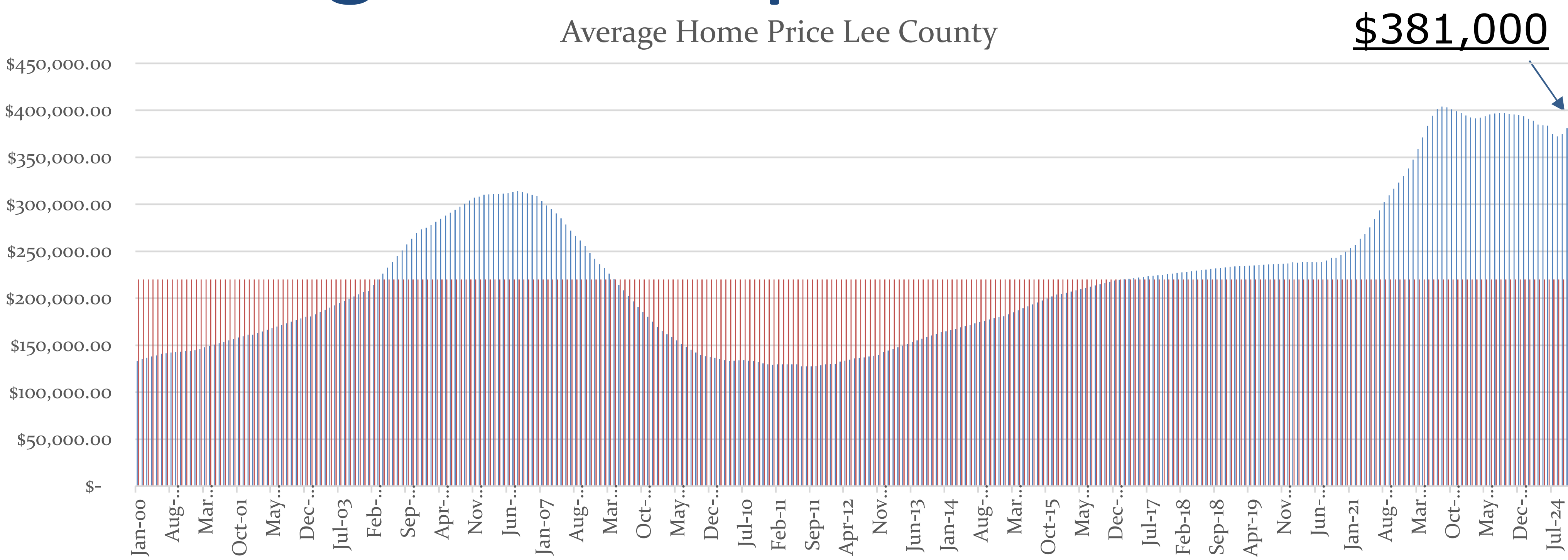
Inventory went up in October as expected **3.1%** month over month. Historically, it should as it has in the past, continue to climb all the way to January. Year over Year **our inventory is 35% higher than last year for October which is down from 48% from last month.** Rapid increase in inventory normally means prices are likely to continue to go down. Our long term 10 year average is at 6500 housing units for sale, so comparing the current inventory to that, means we have a Surplus of homes of over 40% more than needed. This too pinpoints to a price decrease next month as well. **Normally our inventory goes up in October and runs all the way until March.** It looks even more promising to buyers for the near future. MORE INVENTORY MEANS LOWER PRICES and Price reductions, BUT also normally means lower demand.

SW Florida Demand (Solds)



October Sales Plummeted 28% this month creating a NEW LOW IN 4 DECADES!!!!. It isn't a shock given the environment we are in and looking at past data. It should keep going down until season which starts to pop in January. What is really interesting is that the 4 worst months of sales in the last 40 years have all occurred this year. #1 is now with 731 sales, #2 is January 2024 with 933 sales, #3 is August of 1010 sales, and #4 is September. The graph also shows the historic demand peaks in March, which are progressively getting lower every year since 2020. Looking at past data helps us predict the next months results. The increase of Interest Rates MAY cause this number to drop further. We will see. I expect next month to be even slower until season begins in January/February making a new low of the decades! Lower Demand normally means lower price.

Average Home price



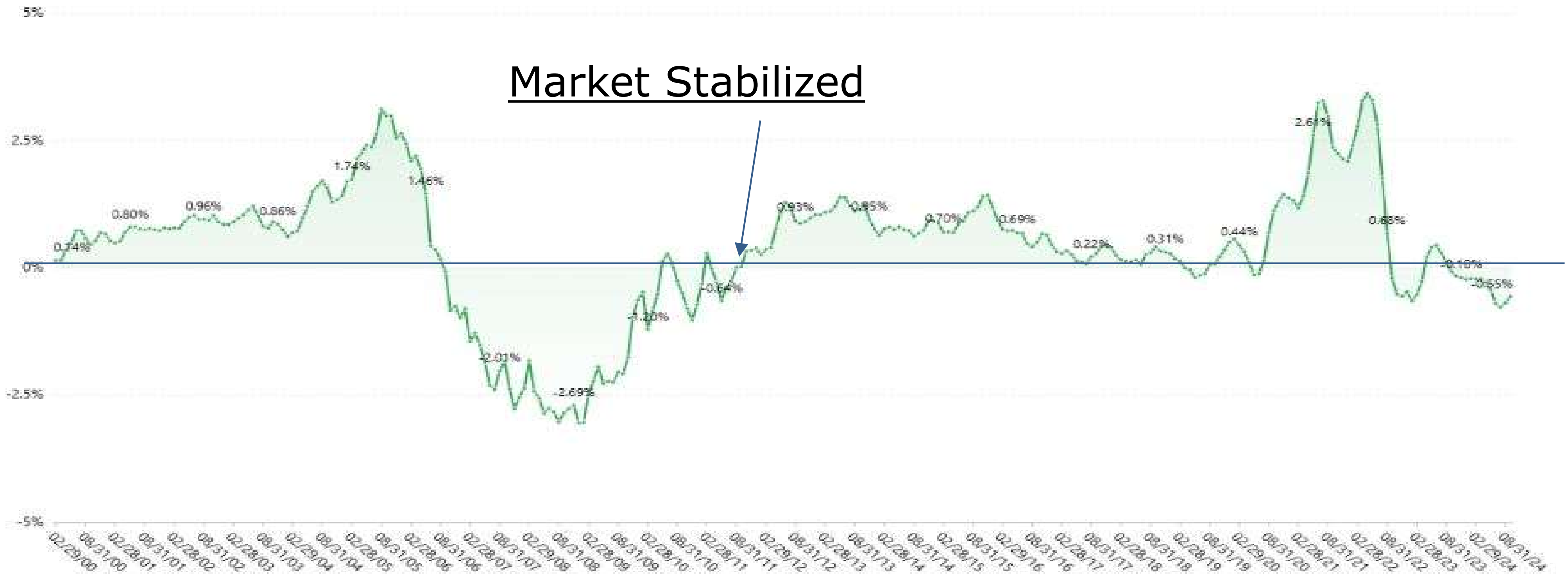
Compared to last month, average home value went up 1.6% to the Average home price being $381,000. With record low sales though, this number is not as relevant as to when we sell 2x to 3x as much normally. There were quite a few $1mil+ homes that sold this month inflating this number a bit. Over 250 home sales were new construction. Super Stubborn graph, but this is also due to builders offering incentives. Over 25% of our sales are brand new construction, but Unlike last time, this time builders are trying like mad to keep price points higher by offering up MEGA incentives totaling over **$50k-$90k** to buy down rates. Sell for higher price but offer up interest rates so low that the monthly payment would be identical as if the house did drop $80k in price. With an inflated amount of inventory, and affordability still over 40%, prices should decrease even further. By monitoring this rate of decrease, sellers can have a better understanding on how to stay ahead of the curve as opposed to always chasing the market. At this price, are the homes affordable?

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

<u>House Payment as compared to income</u>

<u>NO! This graph factors in the mortgage payment which includes Property Taxes, insurance, interest rate, and average home price for the month and divides the areas median household income. This is a measure of relatively homebuyer affordability given the prevailing home values and current rates. Last month we were at 38.35% of a households gross income going toward mortgage. **This month it went UP SLIGHTLY to 38.4%!.** This is due to the interest rate going up from 6.25% to 6.625%, with a slight uptick in home price, AND an increase in household income going from $72,506 to **$72,627.** The way you figure out what home mortgage prices should be is taking household income and multiplying it by long term average which for us is 26%. To reach affordability off of these new numbers, the average monthly payment that is affordable is $1573 a month. Right now the mortgage payments for the average home is $2328/month or 32% overinflated. Looking at this graph at least shows steps in a positive direction for affordability, just has a way to go still.</u>

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. 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 January 2012 or **59 consecutive months** until it stabilized late 2012. Currently **The Zillow Home Value index** is at -.55% and last month we were at -.68%, so that is **15 consecutive months of negative home value** so far. This retracement gets back what the market lost last month much like another data point Home Price. This graph will tell you when the bottom is over when you see consecutive months of growth. So if people ask me how long the bottom will last, you can look right here to find out. Answer is not even bottomed yet and has a long way to go.

Price Cut % Lee County

<u>Current % of sellers cutting their price compared to historic norms. This % is calculated taking current inventory and % of those houses who dropped their price in that month. Currently we are at 22.2% which is OUR LONG TERM AVERAGE! This was expected as the inventory grows and more people put themselves on the market, they understand that we are not the crazy market we were last year. Historically, the graph highlights when price cuts normally go up during the year. This is a great step in the right direction, but corrections take time.</u>

Statistics as compared to last month

October 1 1st 2024

- Total Homes for sale 9389
- Total SF Homes Sold 1023
- Total Sales Pending 1264
- **New construction 4sale 2009**
- Average Time on Market 67
- Median Asking Price $389,900
  Median Selling Price $379,000
- % of asking price sold 97.23%

November 1st 2024

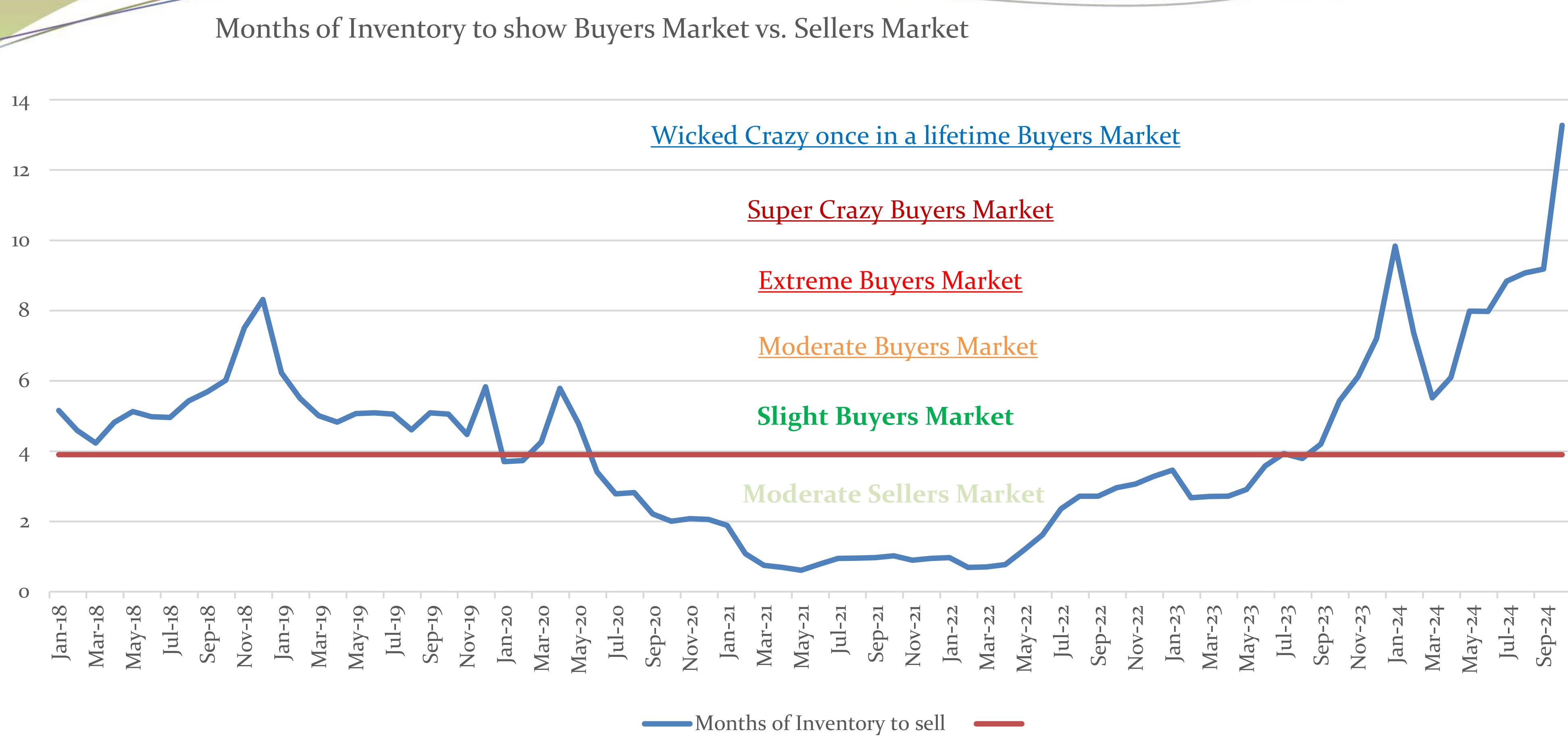
- Total Housing for sale 9700 3%
- Total SF Homes Sold 731 28%
- Sales Pending 1353 7%
- Total New construction 2070 3%
- Average Time on Market 82 22%
- Median Asking Price $397,000
- Median Selling Price $381,000
- % of asking price to sold 96.00%

In Summary: Inventory increased 3% this months showing a steady increase of inventory. Sold inventory hit a 40 YEAR LOW!!!. Pending sales ticked up a bit 7%. The % of new homes for sale is 21% of our total inventory which is the same percentage than last month. Average time on market went up drastically 22%! With low sales this number is not as relevant. It was at 30 days about a year ago, so it has almost tripled. Median asking price went back to the month prior numbers up $8k, Median Selling stayed roughly the same, and asking price to sold went down a bit, which tells you the price reductions we are experiencing are finally catching up with real market value. All of this points to a diminishing market and what we expected in the coming Winter. In the future, we will look to see if any of these start to show signs of stabilization, which unfortunately we are not seeing any except the price going up a bit. Big news is we have the lowest sales in over 4 decades which means more inventory hitting our market. For now all these data points point to a declining market.

New Graph: Salary needed to Afford a home

Repeat of last months graph. This time we are tracking the salary it takes to afford our homes with current rates, prices, and insurance. This assumes that a household spends 30% of their gross income on their total house payment including taxes and insurance. This months salary needed to buy the average home is **$93,155**. Last month was **$97,247** salary. Compared to the median income of Lee County, it is still in need of a correction since Average Household income is **$72,600**. 2023 was the worst unaffordability we have ever seen since the 2006 crash. Only thing that makes these 2 graphs merge is if people make more money, or interest rates, insurance rates, and prices drop. So with the average person not being able to afford the average home, do you think it is a buyers or sellers market?

Buyers or Sellers Market?



WICKED CRAZY ONCE IN A LIFETIME BUYERS MARKET. I had to make 2 more brackets! With record low sales and over 9700 homes for sale in Lee County it would take over 13 months to get through it all, IF no one else came on ever again. Total Buyers market! Super Extreme Wicked Crazy One at that. Not stabilizing yet. Inventory going up, and price being stubborn, we hoped interest rates dropping would have helped but it did the opposite and interest rates went up. A buyer's market occurs when supply exceeds demand. When inventory is high, and there are plenty of homes for sale, but there is a low number of interested home buyers, then we call that a buyers market. Anytime we hit over 3.9 months of standing inventory, then I call that a buyers market. Currently, we have over 13 months of inventory. That is a signal we have not had nationwide since 2006 and of course COVID. The higher the severity, the more leverage buyers have over Sellers who really need to sell.

Where have all the buyers gone?

- This is a easy question to answer. Back last year I posed a question to all of you.

At what time in Lee Counties history did we have the most investor purchases:

A. During the RE crash of 2009 when homes were $70k

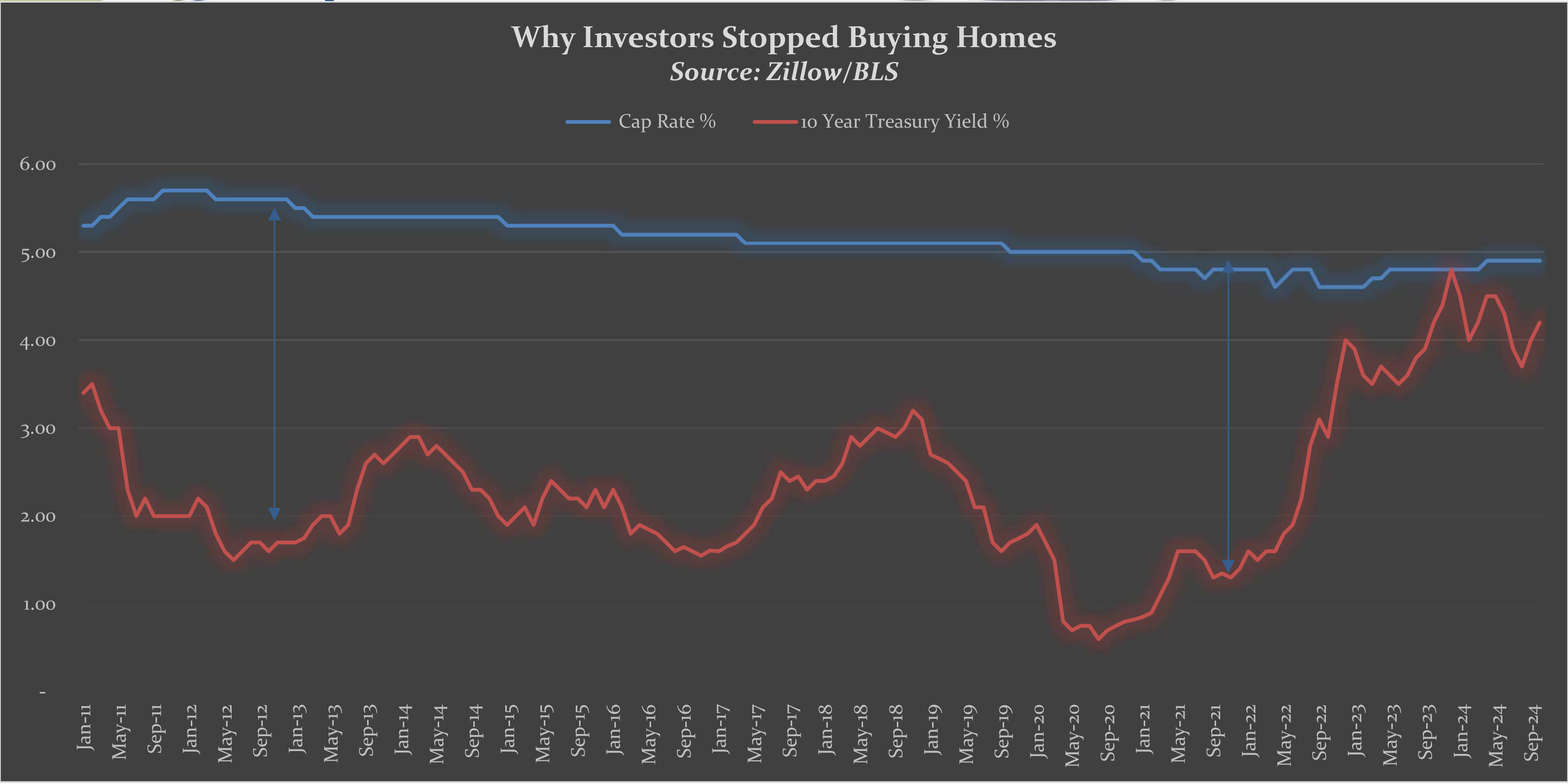
B. The building boom of 2005 when you could leverage 10 homes for the price of 1

C. When interest rates were 3% and home prices were less than $200k?

D. 2023 at the peak of pricing history when homes were at their highest

The Answer is D. Think on that for a second. 25% of all purchases made in 2023 were from financial institutions and investors. Those levels were never seen during the previous times. So to better understand why investors purchase real estate, and why demand spiked during the pandemic and is all but gone today, you need to learn the phrase “THE SPREAD” What is it? Next Slide

The Spread



The spread is the difference between the expected rate of return on investment in a piece of real estate compared to the safe investment into the 10 year Treasury Bond. As you can see these 2 graphs, the further apart the lines the more prone investors would be to buy. There was huge Hype in 2012 to 2013 as treasury yields paid 2% and Real Estate cap rate was paying almost 6%. Also after COVID 2020 the gap was even greater, but look what happened in 2023. at one point the graphs touched…OUCH

The Spread (cont.)

- Wall street investors look for big returns and from 2011-2021 the spread you got as an investor was 2 to 3X more than bond yields, which is why the investors all piled in. Real estate out earned bonds, and now there is no spread. When you buy an investment property there are risks to these greater gains like when properties need repairs and maintenance, insurance can go up, taxes can go up, and tenants could stop paying rent, etc. All this risk normally means big rewards but now there is no Spread so why not just buy a safe investment like Treasury Notes.
- Hype is what also drives pricing and demand, and right now our market has stalled and is correcting so far to the tune of $100,000, We got 2 hurricanes that hit SW Florida, and insurance rates are skyrocketing. Safe to say that the hype of Florida RE is at an all time low and explains the rapid decrease of buyer demand.

Mortgage rates increasing?

So with last months Fed Rate cut, everyone thought interest rates would go down, BUT THEY DID Not! They did the opposite. When the rate cut happened FHA interest rate was at 5.75%. Today as I am writing this, interest rate according to Freddie Mac is currently at 6.5% and increase of over 13% after the cut. Understand that the feds do not set interest rates, but can influence it. The rate is really set by the banks and it has tends to trend with the 10 year treasury. Normally its Fed Rate+10 year treasury dictating interest rate. So the Feds are just one aspect of it. This is why watching the 10 year treasury is so important. If it is rising, demand for housing will drop for 2 reasons. Investors will gravitate toward Treasuries, AND it makes interest rates increase dropping demand. The ole 1-2 punch.

Overview of these data points

- October is the end of our Hurricane season and we saw 2 hit near us this season. We saw a huge gap up of inventory, and a huge drop off of demand. This has created a Crazy Wicked Extreme buyers market. Prices are still being stubborn and remaining too high also explaining the lack of demand. Builders are continuing to run the show with their 3-4% interest rate buy downs and price reductions. That also coupled with the fact that investors who purchased a majority of our homes are now starting to dump these properties a major losses. Builder inventory is also at an all time high. If you asked me what my buyers are buying, I would tell you builder products but only when they are at their most vulnerable (i.e. end of month and quarters when sales matter the most.)
- **Inventory went up 3%** in the month of October. In perspective, normally during this time of year our inventory normally goes up .5% from the beginning of October to November.
- **Demand decreased 28%** in the month of October
- **Pending sales increased 7%.** Meaning we expect sales to increase based on these numbers, BUT it also remains at a very low number compared to previous months this year except for last month.
- Home Value growth year over year is still under the stabilization line showing 15 consecutive months of negative home value growth.
- Interest rates went up after the Fed Rate cut. This impacts both supply and demand negatively.

Data acquired comes from the following sources

- US Census Bureau
- Zillow.com
- FRED (Federal Reserve Economic Data)
- Realtor.com
- SWFLMLS (Our local board of realtors)
- Mortgage Brokers Association or MBA
- Bureau of Labor Statistics BLS.GOV
- Zillow
- Reventure APP
- Investing.com

Call me anytime to discuss anything!!!

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Look forward to hearing from you soon