

SOUTH FLORIDA REAL ESTATE Lower prices not helping affordability

News Date: 07/27/2008
Outlet: Miami Herald
Contact: ANDRON, SCOTT

Lyssa Fordin works two jobs so she can save up for a down payment on a home. Her husband, Greg, often works six-day weeks at a car dealership. But even after recent drops, she says, home prices in older neighborhoods of South Broward County remain out of reach for the couple who married. It doesn't look good anytime soon, said Lyssa Fordin, a teacher at Apollo Middle School in Hollywood. The prices combined with the taxes and the in-years old but living with Mommy.

The couple's example raises an important question about South Florida's housing market: How long can prices remain so high that most people can't? Broward and Miami-Dade County home prices are now down more than 20 percent from their 2005 peaks. But prices remain startlingly high in relation to what they were further to fall.

Experts agree: It's economically unreasonable for local home prices to remain for long at prices out of reach for most buyers. When most potential buyers see prices fall.

Local incomes are not the only factor that affects home prices, and at least one expert -- the economist for the national association of real-estate appraisers -- says prices higher in South Florida.

He's in the minority right now, however.

'AFFORDABLE' HOUSING

Consider history: From 1975 to 2000, the median American home price stayed squarely in the range of 3 to 3.5 times median household income, a price at which half the homes examined sold for more and half for less; median income is also the midpoint.

After 2000, however, interest rates fell sharply and lenders lowered their standards. These two factors effectively made homes affordable to people with more buyers competing for the available supply of homes, and therefore higher prices.

This, in turn, attracted speculation, inflating prices even more.

The result: By 2005, the median American home price peaked at 4.73 times median income.

Data for South Florida were not available before 1997. The ratios in Miami-Dade were a bit higher than the national average even then, with the median ratio at 5.4.

But after 2001, the relative cost of housing grew much more sharply here than in the nation as a whole. In 2005, the ratios peaked at a whopping 9.4 in Miami-Dade.

Such numbers are clearly untenable, said William Hardin, director of real-estate programs at Florida International University. Of eight experts interviewed for this article, all but the Realtors' economist had similar views, although the Realtors' economist was more optimistic.

Ultimately, people who live here and work here have to pay for the median house, Hardin said. The typical house has to have some connection to the local economy.

What's more, our high property taxes and insurance rates make the cost of ownership higher than the home price suggests.

PLAYING IT SAFE

As an example, consider Paul and Elodie Segarra of Kendall. Paul, 43, is a ramp agent for American Airlines. Elodie, 35, works in the reservations department. They make about \$76,000 a year -- about 160 percent of the median Miami-Dade household income. And they've managed to save \$15,000 for a down payment.

Based on those numbers, they should be able to afford a monthly house payment of about \$2,000, including taxes and insurance. That works out to about \$24,000 a year, depending on how much debt they're willing and able to take on.

Paul looks at all the families that overextended themselves during the boom, and figures it's best to play it safe.

Look at what happened to all these people. They borrowed the maximum. . . . All of a sudden, they owe more than their property is worth.

So, the Segarras' real-estate agent, Frank Pulles of Coldwell Banker, has been showing them foreclosure and short-sale properties. There are plenty of former occupants. And the short sales entail weeks or even months to complete a deal, because lenders must agree to accept less than the full amount owed.

Paul Segarra is optimistic in light of the falling prices.

I think it's a natural adjustment, he said. I've been here in Miami so long, and you kind of get a sense of what you can get for a certain amount of money. You gotta know something's wrong.

Professor Hardin thinks families will have more options in the months ahead.

He thinks, conservatively speaking, that prices will fall to about 4 to 4.5 times median income, which would put us at about the high end of historical ratios. In Miami-Dade, that's about \$225,000, or \$225,000 in Broward, assuming the higher ratio. That's a drop of about 30 percent from current levels.