

South Florida real estate paradox: High volume cuts inventory but prices stay low

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New data released on home sales looks at trends that shouldn't co-exist: rising sales/falling inventory and plunging prices. Fort Lauderdale Realtor Michael Elliott puts a SOLD sign on the shingle outside a home in Wilton Manors that sold recently after a short time on the market, June 21, 2011.

South Florida's logic-defying housing market continued to embrace peculiar trend lines in May — sales soared, slashing down the inventory even further, but overall prices fell once again.

Market trends in Miami-Dade and Broward counties diverge from the national housing story, for better and for worse. Local sales are increasing while the national market slumps, but local prices are falling faster than the national average.

The region's real estate narrative is also at odds with traditional market economics. The coexistence of shrinking supply, rising demand and falling prices has left analysts with a number of questions: How long can this frenzied sales pace — fueled by Latin American and cash investors' appetite for discounted real estate — continue? With inventory shrinking rapidly, when will the

strong sales activity translate into price stability and appreciation, as market economics dictate? How large is the “shadow inventory,” and how will those unlisted bank-owned homes affect the recovery?

“It's an odd time,” said Ron Shuffield, president of Esslinger-Wooten-Maxwell Realty. “We're able to say we're selling more homes and condos than we've ever sold in history, but at the same time 61 percent of our sales are short sales and foreclosures.”

In May, home sales continued to rise, keeping South Florida on track to have its best year on record, according to data released Tuesday by the Miami Association of Realtors.

In Miami-Dade, there were 875 sales of existing single-family homes and 1,420 condo sales, increases of 20 percent and 46 percent from last May, respectively. Compared to April, home sales were up 5.4 percent and condo sales were up 1.1 percent.

In Broward County, 1,142 single-family sales and 1,537 condo sales represented increases of 6 percent and 14 percent over last May, respectively.

In the first five months of the year, more than 23,000 homes and condos have traded hands in South Florida, one of the strongest five-month runs on record. Nationally, 2011 has been a poor

year for sales, with double-digit declines nearly each month.

South Florida's rapid sales pace has helped reduce the region's housing inventory, which has gone from severely bloated to suddenly lean over the last couple of years.

There are now 31,659 homes and condos for sale in South Florida, down from 61,755 in May 2009.

The crucial "months-of-inventory" figure has slimmed to 7.2 months in Miami-Dade and 5.5 months in Broward, both down to a fraction of their peaks. Economists say that six months of housing inventory is indicative of a healthy market.

So why hasn't the shrinking supply of homes led to price stabilization?

"We have a whole bunch of pent-up supply," said William Hardin, professor of real estate and finance at Florida International University. "There's a squeeze play going on because no one is going to sell a house in today's market unless they have to."

The majority of homes that are selling are under distressed circumstances —either a foreclosure sale, or a short sale that doesn't cover the cost of the mortgage. Those properties — popular among cash investors and foreign buyers — sell at deep discounts, dragging down overall prices in the market.

In the single-family market, May median prices fell 8 percent to \$180,200 in Miami-Dade. Broward suffered a particularly large decrease, with single-family prices falling 17 percent to \$188,500.

There are some signs that prices may be beginning to stabilize, specifically in the condo market, where sales have been the most rapid.

In Miami-Dade, median condo prices slipped just 1 percent, to \$124,300. In Broward County's condo market, there was a 9 percent year-over-year increase, with median prices reaching \$80,400.

Year-to-date, median prices are up across the market: Miami-Dade condos (36.2 percent), Miami-Dade single-family homes (19.4 percent), Broward condos (16.5 percent) and Broward single-family homes (14.2 percent). While prices are up since January, the year-over-year figures provide a more reliable barometer of values, since they compare the same time periods in the region's seasonally driven market. It's too soon to say if sustained appreciation is here to stay, although industry insiders are pitching that message.

"Price drives [sales] traffic until traffic drives price," said Mike Pappas, CEO of Keyes Realty. "Traffic is beginning to drive prices."

But even as South Florida's market looks to rebound from its worst bust in history, a number of troubling issues threaten to drag out the recovery.

The region's shadow inventory, homes that banks have repossessed but have not yet put on the market, is estimated to be one of the largest in the nation. In addition to the 31,000 homes currently listed for sale, thousands more are expected to join them, once banks complete foreclosures and put the properties on the market.

"That's keeping the pressure on prices," Shuffield said of the shadow inventory. "We have seven months of inventory in single-family and six months of condo. Any other time in my 30 years of

doing this, when we get into levels of six or seven months, prices would be increasing more than they are today. The fear of the unknown is keeping a lid on prices.”

With few nondistressed sellers listing their homes for sale because of the depressed market, and more and more bank-owned homes coming onto the market, prices could continue to see downward pressure for many months to come.

Additionally, two of the factors that normally support a healthy housing industry — a strong job market and significant home equity — are painfully absent in South Florida. In Miami-Dade County, unemployment sits at record high 13.4 percent. Nearly half of all South Florida homeowners with mortgages owe more on their homes than the current value, one of the highest underwater rates in the country.

Stricter lending standards have made it difficult for many potential buyers to obtain a mortgage. In May, 60 percent of home sales were completed without a mortgage, as all-cash investors made a disproportionate impact on the market.

With the housing market at the mercy of investors, who thrive on bargain basement prices, the path to sustained appreciation remains unclear.

“I think the investor activity is putting a floor on some of the pricing,” Hardin said. “But it doesn’t show that the market is stabilizing until you have end users. Right now, the investors are the ones that have capital and are willing to put it in the market.”