

**FISHKIND
& ASSOCIATES**



Housing Markets Peak Out

June 16, 2004

Orlando's housing market is one of the strongest in the United States. Sales of new single-family homes topped 15,250 over the last twelve months, and the sales pace is a whopping 16 percent ahead of last year.

The average price of a new single-family home has jumped to \$217,000, and resales remain strong as well. Over 40,000 existing homes were sold over the last year, with the sales volume soaring by 18 percent. The average price for an existing home has also risen strongly, to \$171,751. This strength is particularly apparent in Orlando's burgeoning condominium market, where sales are up 50 percent over last year, totaling 777 with an average price of over \$230,000.

This strong upsurge in sales volume and in pricing in Orlando is consistent with housing market all across Florida – indeed, all over the U.S. There are a number of reasons for the housing boom. First, of course, are historically low interest rates. Low rates have allowed more people to qualify to purchase more homes; this has stimulated both the new marketplace and resales. Second, the rebounding economy has generated jobs, incomes, and improvements in consumer confidence. Third, people are increasingly realizing that their homes are good investments, especially compared to the low rates of interest available on savings accounts or on bonds. Even the stock market has not performed as well as housing over the last eighteen months.

That said, we are at the top of the housing cycle now. Mortgage interest rates have already risen significantly, and the rate of growth in housing sales and in home prices is slowing. However, I do not see any evidence of a housing bubble in Orlando or anywhere else in Florida. Only in California is there real potential for a housing bust. Consider that in Los Angeles County the average sale price of a home has escalated over 20 percent per year in each of the last two years, reaching \$406,000; or Orange County, California, where the average price paid

shot up to \$735,000 last month. These types of escalations are dangerous. But there is nothing like this sort of speculation and frenzy in Florida's housing markets.

What will happen is that as interest rates rise, home prices will peak out. They won't fall, but they will stop rising, and the time it takes to sell a home will increase significantly. In Orlando the danger lies in income-producing properties. They are selling at very high prices today, based on current interest rates and current levels of net operating incomes. As interest rates rise, the net operating incomes will not be able to keep pace. This means that the value of the buildings, which is based on the relationship between net operating income and interest rates, will fall. But for homeowners, this is not a concern.

This is Hank Fishkind for 90.7 FM, WMFE News.

<http://www.fishkind.com>