As Florida continues to grow, the development of infrastructure (e.g., roads, water and wastewater systems, parks, etc.) must keep pace. In January 2023, Florida TaxWatch released “Economic Commentary: An Update on Florida’s Housing Rental Market,” which evaluated the troubles Florida has experienced with the ever-rising cost of rent. In Florida, the cost of rent has jumped by 36 percent since 2020, with much of the increase occurring in 2021 alone.¹

Rent is not the only portion of Florida’s housing market to feel the pressure of increasing prices. The cost to purchase a house has also increased over the past couple of years. The median price of single-family houses purchased in November 2022 sold for nearly ten percent more than the year prior.²

With the constant creep of inflation, living expenses such as housing are expected to rise over time, but the exceptional growth in rental leases and housing purchases is a tell-tale sign of a stressed housing market. The prices of the housing market are dependent upon the balance—or imbalance—of supply and demand. The supply of housing units has grown slowly since the start of the decade, making the state ill-equipped to satisfy the increased demand. If demand continues to outgrow supply, Floridians will feel the consequences of the intensifying imbalance.

SLOWLY DEVELOPING SUPPLY

The slow growth of Florida’s housing supply relative to Florida’s continued growth is part of a national trend. Nationwide, the 2010s constructed significantly fewer housing units than previous decades. The slow development of housing units is largely due to the following events:

• **Early 2000s Housing Boom:** In the early 2000s, the nation experienced a housing boom, resulting in more housing stock than demand required. Creating housing stock without demand results in a limited return on investment, which disincentivizes developers from pursuing additional projects.

• **The Great Recession of 2008:** The Great Recession of 2008 caused the construction of new housing units to steeply drop. The financial crisis made it difficult for developers to secure financing or investments for projects. High production costs (labor and building materials) further contributed to the financial burden of new constructions. The reduced construction activities following the Great Recession resulted in long-term impacts upon the labor supply. In 2006, the American construction industry had about 11 million workers and by 2011, the number dropped to about 8.5 million. Although the number of laborers has risen, highly skilled trades such as electricians and inspectors still have shortages.³

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• The COVID-19 Pandemic: Following COVID-19, high demand for housing encouraged greater investment in construction; however, the quick influx of demand placed pressure upon the construction sector’s supply chains. Delayed shipping and reduced production capacities resulted in material shortages.4

The impact of these events can be observed through Florida’s permit records (Figure 1). Since 2000, the greatest number of housing units were under construction in 2005, with 209,162 permits open for single family units and 78,088 permits open for multi-family units. At the start of the Great Recession, construction drastically fell and slow growth characterized most of the following decade.5

Within the past couple of years, construction of housing units has begun to make a comeback in Florida. In 2021, a total of 213,500 housing units were authorized for construction, a 30.1 percent increase from the prior year.6 This number is high, second only to Texas,7 but the number is still less than the peak construction witnessed in 2005.

Although recent growth is promising, a legacy of high construction costs and supply chain disruptions continues to impede builder confidence. Using a monthly survey, the National Association of Home Builders/Wells Fargo Housing Market Index gauges whether builders think new single-family homes will have buyers within the next six months. In 2022, builder confidence dropped every month, and by December 2022, builder confidence reached its lowest level since 2012.8 In February 2023, home builder sentiment rose to 42 points, but anything under 50 points indicates a negative outlook.9

Difficulty developing housing stock has been felt nationwide, but supply is also influenced by local circumstances. Land use laws, such as exclusionary zoning or height restrictions, can limit the availability of land that can be developed for residential use. Certain policies and regulations, such as review processes or permit requirements, can increase the costs of construction, which in turn discourages developers from starting new projects.

GROWING DEMAND
As Florida’s population grows, demand for housing units will continue to grow. The growing demand, however, is not equally spread among all available housing units. The preferences associated with current demographic trends is causing a small portion of Florida’s housing supply to carry the brunt of demand.

Many Baby Boomers—ages 59 to 74—are entering the age of retirement. Upon retirement, many residents choose to downsize, looking for smaller homes better suited for a changing income and lifestyle. As a popular home for retirees, Florida typi-

5 U.S. Census Bureau, 2021 Annual Building Permits.
6 U.S. Census Bureau, 2021 Annual Building Permits.
7 U.S. Census Bureau, 2021 Annual Building Permits.
ically has a greater share of older homebuyers than other states. In 2021, about 35 percent of Florida homebuyers were more than 64 years old. Nation-wide, this age group only composed 21 percent of homebuyers. 10

Meanwhile, most Millennials (ages 27 to 42) have reached the median age for first-time homebuyers (33 years old). 11 As the nation’s largest demographic group enjoys prime homebuying age, record low mortgage rates during the COVID-19 pandemic encouraged earlier participation in the homebuying market than anticipated. In a survey conducted within the first quarter of 2021, about 53 percent of surveyed first-time homebuyers responded that low interest rates moved forward the timing of their home purchase. 12

Historically, emerging generations entered the housing market with the purchase of “starter homes.” Starter homes are short-term, small housing units that are purchased by first-time homebuyers for their affordability and potential return on investment. Whether due to limited inventory or changing preferences, these houses are no longer the common purchase among first-time homebuyers. 13

Rather, the first-time buying Millennials and the repeat-buying Baby Boomers often find themselves looking for similarly sized homes in the same locations. In 2021, among all first-time homebuyers and repeat buyers, houses purchased had a median of three bedrooms and two bathrooms. Sixty-three percent of first-time buyers and 61 percent of repeat buyers purchased homes between 1,501 to 2,500 square feet. 14

Amid a limited supply, the high demand for these houses leads to higher prices. When the prices rise, repeat buyers often have the advantage. With greater age, the repeat buyers are more likely to have a longer-standing career with greater compensation than the young first-time homebuyers. In 2021, the median income of all repeat buyers was $103,300 and the median income of all first-time buyers was $81,900. 15

The competitive housing market causes some would-be-homebuyers to remain renters. Like house purchases, however, rental leases face scarcity after a decade of slow housing development. The extra pressure upon the rental market leads to higher prices.

THE CONSEQUENCES OF HIGH HOUSING AND RENTAL PRICES
While some households are able to keep pace with the ever-rising costs of housing, others cannot. Fast growing prices make it increasingly difficult for lower-earning households to secure housing. Usually, rent is viewed as the most affordable housing option, but many households living in rentals are currently cost burdened. 16

Households with lower incomes are especially susceptible to becoming cost burdened. According to the Shimberg Center, about 68 percent of renters with incomes below 60 percent of the state’s average median income (AMI) are cost burdened (paying 40 percent or more on housing). 17 Such households may have to compromise other needs, such as health care or utilities; obtain housing subsidies; move far from their place of work; or maintain a large household size to ensure they can pay their rent each month. If housing costs continue to increase, these households may even risk eviction. To alleviate the cost burden of Florida’s lowest earners alone—those earning below 30 percent of AMI—the state needs an additional 323,219 available units. 18

Limited housing options also hurt Florida’s ability to attract and retain young professionals. Even when individuals have high earning potentials, they typically start their careers with entry-level wages. While the median income of Florida’s experienced employees ($65,312) exceeds the state’s average median household income ($61,777), the same is not true for the median income of entry-level em-

12 Fannie Mae, “Financial Benefits Motivated Homebuying During the Pandemic, More So Than Space or Location Preferences,” January 2023.
14 Fannie Mae, “Financial Benefits Motivated Homebuying During the Pandemic, More So Than Space or Location Preferences,” January 2023.
16 The U.S. Department of Housing and Urban Development considers households spending 30 percent or more of their income on housing to be cost burdened and those spending 50 percent or more to be severely cost burdened. In their analysis, the Shimberg Center for Housing Studies considers households spending 40 percent or more on their gross rent to be cost burdened.
ployees ($25,210). Some young professionals may choose to live with parents or roommates until they can afford their own home; however, others may be more inclined to find a job in a different community, or even a different state, to attain the living arrangements they prefer.

As Florida’s population continues to age, attracting young professionals will become even more crucial to maintaining Florida’s regular business activities. Young professionals fulfill entry-level roles; contribute new talent, skills, and ideas to the workplace; and ultimately become integral members of Florida’s experienced workforce. If young professionals are not retained, their departure weakens Florida’s workforce.

LOOKING AHEAD
As Florida leaders attempt to resolve the tensions of the housing market, they should focus upon methods of expanding the housing supply. More specifically, Florida needs to develop multi-family units with rent that would be attainable to working Floridians and single family units that would be attainable to first-time homebuyers and retirees.

Florida does not need a one-time influx of housing units but rather policies that encourage continual development of housing units as Florida’s population continues to grow.

There is a chance that Floridians will soon see changes to the state’s housing policies. During the 2023 Legislative Session, legislators are considering SB102, which could change current zoning requirements, provide incentives for property development, expand ad valorem property tax exemptions, and add funding to a number of housing programs. As policymakers consider the best ways to add stability to Florida’s housing market, it is important that the key issue of growing supply is addressed.

19 Department of Economic Opportunity, Occupational Employment and Wage Statistics (OEWS), 2021. Median hourly wages multiplied by 40 hour work week and 52 weeks in a year.