Florida TaxWatch

ECONOMIC COMMENTARY

Beyond the Pandemic: Long-Term Changes and Challenges for Housing in Florida

COVID-19 LEGACY SERIES PT.6

OCTOBER 2021

Note: This economic commentary is one of a multi-part "COVID-19 Legacy Series" discussing the long-term changes brought on by the COVID-19 pandemic and the challenges facing the state of Florida in the years to come. Each installation will examine a particular focus area and describe how the changes will impact the Florida economy.

AS UNEXPECTED AND UNPREDICTABLE AS COVID-19 HAS BEEN, FEW COULD HAVE PREDICTED THE HOUSING BOOM THAT THE PANDEMIC IGNITED ACROSS THE NATION. The U.S. housing market—notoriously known for its role in the 2007-2009 Great Recession—defied expectations and experienced record price growth over the past year as demographic trends, government policies, and basic supply and demand all coalesced. In the short term, soaring home prices have been well-documented both analytically and anecdotally. Yet beyond the pandemic, the housing market will be front and center in issues ranging from affordable housing and economic development to demographic change and generational wealth. For a state like Florida, a proper discussion on the state's long-term economic recovery cannot be decoupled from a fundamental understanding of the housing market's future impacts.

THE COVID-19 HOUSING MARKET: A STORY OF SUPPLY AND DEMAND

At its worst moments, the pandemic plunged the national economy into a steep recession, leaving millions of Americans unemployed and severely undermining consumer confidence. Yet despite the extensive labor market crisis, the housing market appeared to boom and by the summer of 2021, homeowners across the nation accumulated nearly $2.9 trillion in additional home equity since the beginning of the pandemic.[1] At direct odds with the housing crisis witnessed during the Great Recession, the housing market has been turbocharged throughout COVID-19, begging the question: what factors have driven the tremendous climb in housing activity despite an economic downturn?

The answer boils down to simple supply and demand. Mortgage rates fell throughout the past year, at one point reaching a record low in January 2021 of 2.65 percent for a 30-year fixed mortgage and making the cost of borrowing cheaper for many people.[2] Historically low mortgage rates also converged with longstanding demographic trends to induce many Millennials into the housing market for the first time.[3] Noted in past economic commentaries, the pandemic led to an influx of remote workers, which provided many individuals with greater flexibility on where to live and shifted consumer preferences. Newly untethered workers sought out new homes, further influencing demand to rise.[4] On the supply side, low inventory and construction across the U.S.—a legacy of the Great Recession—meant many areas had an insufficient supply of housing to meet rising demand. Combined with supply chain shortages, increased production costs, and hesitant sellers, supply became an issue for many communities. By the end of 2020, the nation had a housing supply deficit of 3.8 million units, up significantly from 2.5 million in 2018.[5]

1 CoreLogic, Homeowner Equity Insights: Data Through Q2:2021, Sept. 23, 2021.

2 FreddieMac, Mortgage Rates Data, Sept. 23, 2021.

3 Federal Reserve Board of Governors, "Housing Market Tightness During COVID-19: Increased Demand or Reduced Supply?" Jul. 8, 2021.

4 Forbes, "The Effects of Remote Work on Real Estate Across the U.S.," Apr. 23, 2021.

5 FreddieMac, "Housing Supply: A Growing Deficit," May 2021.

Considered together, excessive demand and truncated supply caused home prices to soar and competition to be fierce. In many anecdotal examples, prospective buyers have been observed bidding well above the asking price in regionally hot markets across the U.S. and many have even opted to purchase homes without viewing them beforehand. According to the Federal Reserve Bank of St. Louis, the nationwide median home sales price was $374,900 as of the second quarter in 2021.[6] As will be discussed later, even though rising home prices is usually a signal of a robust economy, prices that have risen too fast and too high can have harmful secondary effects on the economy in long-term ways that may not be readily apparent.

Table 1. Top 10 Most Popular Homebuying Areas in Florida

Cities	Avg. list price	Avg. price / sq. ft	Avg. days on market
1. Tampa	$384,450	$207	21
2. Orlando	$349,945	$191	23
3. Miami	$530,000	$304	69
4. Sarasota	$599,000	$235	19
5. Boca Raton	$525,000	$244	49
6. Fort Lauderdale	$498,000	$297	62
7. Naples	$699,900	$268	35
8. Jacksonville	$269,900	$167	27
9. St. Petersburg	$367,150	$259	21
10. West Palm Beach	$356,500	$214	48
Source: Redfin -- Note: Data are as of October 1, 2021.			

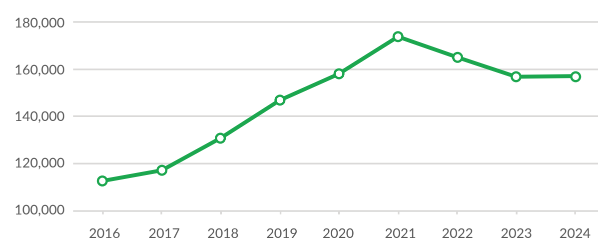
THE SUNSHINE STATE'S "HOT" HOUSING MARKET

Florida's housing market mirrors larger national trends, albeit with some regional variation. An imbalance between demand and supply has fueled rapid home appreciation across the state. In August 2021, the statewide median sales price for single-family homes hovered around $354,000, representing an 18 percent growth from the previous year.[7] If home prices continue to rise at this accelerated rate, projections suggest Florida's average home price may reach $438,000 by 2030.[8]

There is also wide variation between different regions in Florida. Regional markets, such as Tampa, Orlando, and Miami lead the list in popular and expensive homebuying markets in the state, commanding average list prices well above $350,000 (See Table 1). Based on data from Florida Atlantic University (FAU), homes in Florida are overpriced, selling for more than 21.8 percent over long-term pricing trends through the summer of 2021.[9]

Although it is quite difficult to forecast future housing trends (i.e., the experience in 2020 is a testament to this reality), it can be reasonably expected that prices will remain fairly high in the near future. Housing starts are a prime leading economic indicator for signaling future supply. More housing starts usually signal more economic activity on the horizon and reflect growing consumer sentiment. Based on current forecasts, housing starts in Florida will likely peak around 174,000 in 2021 before dropping in the following years to an average of 157,000 new houses in 2023 and beyond (See Figure 1).[10] Even though predicting future housing demand is tenuous given constantly shifting preferences, the low number of housing starts suggests there may continue to be an insufficient supply of housing in the years ahead regardless of what demand may be.

Figure 1. Projected Housing Starts in Floida through 2024[10]



DEMOGRAPHIC CHANGES AND HOMEOWNERSHIP RATES

Even before the pandemic, a tailwind of demographic changes partially set the stage for today's experience with the housing market. Millennials, ages 23 to 38 in 2019, surpassed the Baby Boomers as the nation's largest adult generation, and many began moving into their prime homebuying years.[11] For some, taking advantage of record-low mortgage rates during the pandemic allowed many Millennial families to become first-time homebuyers; however, as home prices rapidly appreciated, many younger families increasingly began to find themselves exclusively shut out of the housing market.[12]

In the long term, these trends could spell trouble for the future economy. Homeownership is often viewed as a critical tool for building wealth and economic self-sufficiency. Yet according

6 Federal Reserve Bank of St. Louis, Median Sales Price of Houses Sold for the United States, Accessed Sept. 29, 2021.

7 Florida Realtors, Monthly Market Detail – August 2021: Single Family Homes, Aug. 2021.

8 RenoFi, Projecting the Value of Homes in the US in 2030, Oct. 7, 2020.

9 Florida Atlantic University (FAU), "Study Shows Florida Homes Overpriced by More than 20 Percent," Jul. 22, 2021.

10 UCF Institute for Economic Forecasting, 2021-2024 Florida & Metro Forecast, Jul. 2021

11 Pew Research Center, "Millennials overtake Baby Boomers as America's largest generation," Apr. 28, 2020.

12 CNBC, "Many older millennials are burdened by housing costs, and it could keep them from reaching other financial goals," Apr. 1, 2021.

to one study, if the nation's housing trends continue, the U.S. homeownership rate may decline from around 65 percent to 62 percent with losses most concentrated in younger adults and minority populations.[13] Young millennials will likely have a lower homeownership rate than Baby Boomers when they were around the same age, making it more difficult to attain financial goals.[14] Even though low homeownership rates cannot be entirely attributable to COVID-19, the pandemic's economic effects have made the situation even more pronounced and dire.

For Florida specifically, the state has often been viewed as a prime destination for attracting older adults and retirees, often conferring a large economic and fiscal benefit for local areas. Net migration numbers for those older than 50 have been sizeable in past years. For younger adults, however, a different pattern emerges. Migration data from the U.S. Census Bureau show that right before the pandemic, Florida adults between the ages of 20 and 34 (comprising many younger Millennials) had a net migration that was either negative or close to net-zero (See Table 2).[15]

Table 2. Net Migration in Florida by Age Group

Age Group	Moved In	Moved Out	Net Migration
1 to 4 years	29,652	21,323	8,329
5 to 17 years	62,657	54,659	7,998
18 to 19 years	23,148	25,073	-1,925
20 to 24 years	57,766	59,622	-1,856
25 to 29 years	59,797	59,932	-135
30 to 34 years	44,624	43,780	844
35 to 39 years	43,591	29,972	13,619
40 to 44 years	34,519	24,047	10,472
45 to 49 years	27,893	18,743	9,150
50 to 54 years	35,510	20,007	15,503
55 to 59 years	36,830	21,612	15,218
60 to 64 years	39,550	18,960	20,590
65 to 69 years	42,687	18,430	24,257
70 to 74 years	26,745	14,109	12,636
75 years+	36,642	27,032	9,610

Source: U.S. Census Bureau, 2019 American Community Survey (ACS) 1-Year Estimates. For more information, reference Tables B07001 and B07401. Note: The table only considers domestic migration within the U.S.

Higher home prices due to the pandemic may be one of many contributing factors that continue the pattern and potentially drive out-migration for this age group in future years. It should be noted that without definitive migration data for 2020 and beyond, there is no solid evidence as to whether these migratory trends have persisted and whether housing is particularly to blame. But with an expensive housing market, labor market difficulties, and shifting consumer preferences, out-migration of younger adults may be a troublesome sign for Florida's economic future and generational wealth accumulation.

AFFORDABLE HOUSING AND SOCIOECONOMIC IMPACTS

Rapidly rising home prices—exacerbated by the pandemic—also have a significant long-term impact on affordable housing[16] in Florida. Well-documented in previous Florida TaxWatch research, Florida currently struggles with a lack of affordable housing, which disproportionately impacts vulnerable populations, such as the poor, children, elderly, and persons with disabilities.[17] According to one report, Florida only has 28 available and affordable units for every 100 extremely low-income renter households.[18] For those who do have housing, many are overburdened with excessive housing costs—more than 531,000 extremely low-income renters are cost-burdened throughout the state.[19]

The rising cost of housing has also continued to negatively impact Florida's front-line workers. For example, based on state median salaries, many healthcare workers such as nurses, paramedics, and emergency medical technicians (EMTs), cannot afford a median-priced home in Florida.[20] For healthcare workers, a lack of affordable housing options is another prominent factor worsening projected nursing shortages in future years. Estimates suggest Florida may experience a shortfall of 60,000 nurses by 2035—a figure that will surely rise if affordable housing issues worsen.[21]

To be clear, Florida's affordable housing situation predates the pandemic, but COVID-19 has certainly amplified the issue and future consequences. Many low-income families were disproportionately affected by the pandemic, often facing the brunt of unemployment challenges and experiencing housing insecurity. Healthcare workers faced unprecedented challenges in the workplace, leading to immeasurable emotional and

13 Urban Institute, The Future of Headship and Homeownership, Jan. 22, 2021.

14 Urban Institute, The Future of Headship and Homeownership, Jan. 22, 2021.

15 U.S. Census Bureau, 2019 American Community Survey (ACS) 1-Year Estimates: Florida, Accessed Oct. 1, 2021.

16 "Affordable housing" is generally considered affordable if it costs no more than 30 percent of a household's income.

17 Florida TaxWatch, The Legislature Must Stop Diverting Affordable Housing Funding," Apr. 2019.

18 National Low Income Housing Coalition, The Gap: A Shortage of Affordable Homes, Mar. 2021.

19 National Low Income Housing Coalition, The Gap: A Shortage of Affordable Homes, Mar. 2021.

20 The Capitolist, "Florida Realtors: Front-line workers should be able to live where they work," Sept. 30, 2021.

21 IHS Markit, Florida Nurse Workforce Projections: 2019 to 2035, Jul. 27, 2021. Prepared for the Florida Hospital Association and the Safety Net Hospital Alliance of Florida.

financial strain. Beyond just service workers and nurses, attainable workforce housing[22] is an issue that affects all industries of varying income levels. As such, these discussions on affordability are incomplete if only referring to low-income communities and not acknowledging the struggles for other income groups.

Fewer affordable options in Florida produce significant downstream societal costs, including poorer physical and mental health outcomes and fewer employment opportunities for individuals.[23] For communities, lower consumer spending results when cost-burdened residents have highly constricted budgets and spend less on discretionary items. High home prices can also discourage some individuals from living and working in the community, leading to outbound migration. Additionally, with virtual work becoming such a dominant part of the workplace, higher home prices may prevent Florida from attracting remote workers from other states. Taxpayers also incur a future cost since a lack of affordable houses increases the need for institutional care settings, which are significantly more expensive to maintain.[24] By addressing the issue, affordable housing can become an essential tool for long-term economic mobility in Florida, granting families greater ability to achieve autonomy, contribute to the local economy, and reduce intergenerational poverty. There is also a more immediate, direct benefit of affordable housing by spurring local jobs while construction projects are underway.

CONCLUSION

Florida's housing market has experienced a whirlwind of developments in the past year, facing historic price increases as low supply and high demand permeate the real estate markets. Most attention is focused on the prices and whether a housing bubble is on the horizon. Yet as discussed in this commentary, long-term discussions about the housing market implicate considerations about potential secondary effects. Historically, Florida has often relied on its temperate climate, low tax environment, and natural amenities to attract would-be residents; however, all these alluring factors are blunted if affordable housing issues continue to persist across the state. If Florida is to remain competitive in a post-pandemic world, it must wrestle with the fact that expensive housing can, in some ways, be a hindrance to economic growth with disparate impacts on important subsets of the population.

22 "Attainable workforce housing" generally refers to housing that is largely attainable to many low- and middle-income homebuyers. The term acknowledges that housing affordability is inexplicably tied to workforce expansion and affects many career fields.

23 Florida TaxWatch, The Legislature Must Stop Diverting Affordable Housing Funding," Apr. 2019.

24 Florida Housing Coalition, Home Matters, 2020.

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