Unit 14

Florida Population Growth and Housing Affordability

In This Unit

Population Growth Overview • The Effects of Interest Rates on Housing • Housing in Florida • Driving Housing Costs • Legislative Updates

Learning Objectives

When you have successfully completed this unit, you will be able to accomplish the following.

- Identify reasons why Florida has experienced a rapid increase in residents and why it continues to be a popular destination for visitors.
- Examine the impact of rising mortgage interest rates on home values and how rates can affect home affordability.
- Identify the effects of gentrification in lower income areas and identify programs designed to help struggling households with rent and downpayment assistance.
- Describe legislative updates impacting Florida.

POPULATION GROWTH OVERVIEW

Florida has experienced a sharp increase in population since 2020. What are the reasons for such a pronounced surge? Will the population continue to expand at this rate? What are the ramifications for home prices and rent rates? In addition to major population increases in Florida, the U.S. economy has experienced rapid inflation, as well as the steepest and fastest increase in interest rates in the history of the Federal Reserve. How has this increase affected Florida homeowners, renters, and prospective buyers and what is being done about housing affordability for Florida residents? Real estate professionals should be familiar with the challenges renters and home buyers face, what measures are being taken to help curtail further affordability issues, and be able to identify some resources that may be available for home buyers and renters facing affordability challenges.

While it has long been a destination for retirees relocating from other states, the migration into Florida during the COVID and post-COVID era has increased dramatically. Florida's growth over the years is the result of its mild winters, warm weather, lack of state income tax, leisurely lifestyle, and its more than 825 miles of picturesque, sandy beaches. Truly an angler's paradise, water sports haven, and sun lovers' refuge, Florida is also a major theme park vacation destination. The Greater Orlando area is rightly known as "The Theme Park Capital of the World." In 1996, Visit Florida, a not-for-profit public/private corporation, was created by the Florida Legislature out of necessity for the state's ongoing tourism demand. It reported that tourism was responsible for over 137 million visitors in 2022, a nearly 13% increase over.

Pre- and Post-Pandemic Populations

According to the U.S. Census, Florida is the third most populous state behind California and Texas, with more than 22 million residents in 2022. During the pandemic, population growth rose slowly in Florida to 1.10% from 2020, but the state only experienced a 0.45% growth in 2020. Lower net migration numbers during 2020 can be attributed to the nationwide quarantine during the early stages of the pandemic. By late 2020, Florida public schools, government buildings, and businesses had all been reopened.

According to the Demographic Estimating Conference, during the 5-year period from April 1, 2023 to April 1, 2027, Florida's population is projected to grow by nearly 6.5% (approximately 304,000 new residents per year). To put this into perspective, the city of Orlando had a population of nearly 309,000 in 2021. Thus, an annual net migration of new residents into Florida could essentially populate another city the size of Orlando, Florida's fourth largest city, each year for the next five years!

Practice Question

1. During the pandemic, populations in Florida drastically boomed.
   a. True
   b. False

Inflation Impacts on Interest Rates

Another post-pandemic issue, not only for Floridians, but across the U.S. economy, is the rapid increase in inflation. As a result, interest rates have increased significantly. The Federal Reserve Board (also known as "the Fed"), hopes to promote a stable U.S. economy by using its monetary policy to reach a target of 2% inflation.

The federal funds rate (Fed funds rate) is the interest rate set by a branch of the Federal Reserve Board called the Federal Open Market Committee (FOMC). This is the rate at which commercial banks borrow and lend their excess reserves to each other overnight. As part of the Fed's responsibility to help stave off inflation and maintain price stability, adjustments to the Fed funds rate are imposed, as needed, as a type of counterbalance. The Fed does not set interest rates directly. Rather, the Fed influences short-term interest rates by affecting the amount of cash in circulation by buying or selling government securities.

The Fed funds rate is likely to affect, more directly, adjustable-rate mortgage interest rates than fixed-rate mortgage interest rates. Fixed-rate mortgage interest rates are influenced more by the inflation rate and a perception of where inflation rates are headed. Nevertheless, the Fed has an indirect effect on fixed rates through their monetary policies to either reduce inflation by raising the Fed funds rate or stimulate economic growth by lowering the Fed funds rate.

Practice Question

2. The Federal Reserve's decisions indirectly impact mortgage rates.
   a. True
   b. False

THE EFFECTS OF INTEREST RATES ON HOUSING

Mortgage interest rates can have a huge impact on a buyer's purchasing power; specifically, the purchase price will be affected since that is usually determined by the monthly payment for which the borrower qualifies.

In January 2020, the average home value in Miami-Dade County was just over $300,000. By April 2023, Zillow reported that values had climbed to just over $500,000, an increase of 67% in only three years. Data from Redfin shows that from 2021 to 2022, the number of homes sold over the same period declined by 31.4%. For context, 30-year interest rates were at a near all-time low of 2.87% at the beginning of September 2021, but by the end of September 2022 rates had risen to 6.70%.

Housing affordability is a major issue in Miami-Dade County. In the first quarter of 2023, fewer than 17 percent of homes sold there could be purchased by a median income family, according to the National Association of Home Builders and Wells Fargo Housing Opportunity Index. Contrast those figures with Jacksonville, where 47 percent of homes were affordable for median-income families.[1]

Struggling to Find Housing

Working hard, but barely making ends meet: this is what it looks like to be ALICE (Asset Limited, Income Constrained, Employed). Unfortunately, the housing market, inflation, rising rental costs, and interest rates have negatively impacted Floridians. According to United Way, 32% of Florida households were considered ALICE households in 2021 and 13% were under the federal poverty level. This leaves 45% of Floridians under the ALICE threshold. United Way defines an ALICE household as a family of four with earning less than $66,324, in 2021. The federal poverty level for a family of four was defined as earning less than $26,500 in 2021, per the U.S. Department of Health and Human Services. ALICE households often work more than one job and are still struggling to make ends meet, often living paycheck-to-paycheck. Should an illness, layoff, or some other unforeseen misfortune befall the household that interrupts even just a paycheck or two, the domino effect of late fees, missed payments, and mounting bills amplifies the possibility of homelessness.

To put this into context, ALICE could be a child's bus driver, an essential nurse's assistant, a day care worker, and or a hospitality worker. However, the rising costs of childcare, food prices, healthcare, gasoline, rent, housing costs, and the rapid inflation rate have been devastating for all workers. Furthermore, ALICE households work very hard; yet, they are not able to earn enough money to be comfortable, while simultaneously making too much money to qualify for nearly all subsidies and government aid.

Practice Questions

3. ALICE stands for All Limited Income Consumers Employed.
   a. True
   b. False

4. 45% of Floridians are ALICE households.
   a. True
   b. False

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1. https://commercialobserver.com/2023/08/mixed-signals-amid-economic-boom-south-florida-population-shrinks/

DRIVING HOUSING COSTS

Now, let's take a closer look at housing: the population growth, housing boom, the inventory shortage, and the increases in rental rates and home sales prices. Florida has long been a hot spot for tourists, retirees, and anyone looking to enjoy the sunny, warm weather, mild winters, sandy beaches, and a lower cost of living in a state with no income tax. In 2022, Florida became the fastest growing state in population, per the U.S. Census Bureau. The rapid increase in the housing demand, causing the prices of for-sale properties (condos, single-family homes, townhomes, etc.) to increase by as much as 70%. The effect cascaded throughout the rental market as well. We'll discuss the rental market later in this unit.

Early in the pandemic, many homeowners had built up sufficient equity in their home and could obtain a new historically low mortgage interest rate, making it feasible to move. Of course, we all remember growing tired of staring at the same walls during quarantine! Households started to live differently during the lockdown days of the pandemic, and many spent more time at home and needed things like a dedicated home office and more outdoor space. These changing wants and needs were another force driving people into the home buyer market, adding to the already historic demand from new residents migrating to Florida.

As a result, the Florida housing market exploded. Even though the cost of a replacement home was rapidly increasing, the value of a seller's Florida home was also increasing. These homeowners faced a quandary, making it difficult to actually buy a replacement home. A large influx of buyers migrated to Florida from other states, which dramatically increased buyer competition; this further hampered a Florida homeowner's ability to buy a replacement property. Many competitive buyers were using all cash for their purchase. Thus, buyers were avoiding financing contingencies, often foregoing appraisal contingencies, and decreasing durations between contract signing and closing: all favorable points of negotiation for sellers.

In addition, new construction across the country had not fully recovered from the Great Recession. Especially in high-demand states like Florida, both rental and for-sale housing inventory levels were low, with new construction struggling to keep up with demand even before the beginning of the pandemic. When interest rates rose, they rose fast. At no other time in the history of the United States had interest rates risen faster and more sharply than in the post-pandemic era. 30-year mortgage rates neared 7%.

For a $300,000 mortgage, the monthly principal and interest payment for a 30-year fixed rate mortgage at 3% is $1,265. When rates got to 7%, the monthly payment would be $1,996. That's $731 higher. Owners who have an old 3% mortgage resist selling their home if they'll have to pay 7% for a new home loan. This helps to explain why the resale inventory of housing is so low.

A Real Life Experience

To help illustrate the effect of rising interest rates on home affordability, let's meet Francine. She has $15,000 in savings and a small 401(k). Keep in mind the following:

FIGURE 14.1 FRANCINE'S QUALIFYING INFORMATION

Francine's Qualifying Information	
Gross Monthly Income	$ 8,000
Required Debt-to-Income Ratio	43%
Required Down Payment	3%
Car Payment	$ 590
Credit Cards	$ 300
Student Loans	$ 400
Maximum Qualifying Monthly PITI Payment	$ 2,150
Insurance, PMI, and Taxes (T&I) as % of PITI Payment	36%
Maximum Monthly P&I Payment (Before T&I)	$ 1,376

Francine found her perfect home listed at $327,500 on January 6, 2022. On that date, the interest rate for a Freddie Mac 30-year FRM was 3.22% with 70 basis points for fees and points. The conventional loan she sought required a minimum 3% downpayment and a maximum debt-to-income ratio of 43%. Assuming the insurance and taxes (TI) components of a monthly principal, interest, taxes, and insurance (PITI) mortgage payment account for approximately 36% of the total PITI payments, we can calculate the maximum monthly P&I payment for which Francine could qualify (see Figure 14.1).

Using the maximum monthly P&I payment, we can determine the maximum loan amount for which Francine can qualify at the given interest rate of 3.22%. With a calculated maximum allowable P&I payment of $1,376, the maximum allowable loan amount for which Francine could qualify would be $317,370 (see Figure 14.2). This would require a down payment of $10,130 (or 3.09%), which is the difference between the purchase price and the maximum loan amount. Freddie Mac points fees total $2,222, plus Francine will incur other due diligence and closing costs. Although she qualifies for the home loan and has enough money to pay the purchasing costs, she doesn't really want to dig deeply into her savings, leaving very little for emergencies, so she decided to wait.

FIGURE 14. 2 FRANCINE'S LOAN QUALIFICATION

Qualification	Amount
Maximum Qualifying Monthly PITI Payment	$2,150
Taxes and Insurance (T&I) at 36% of Total PITI	$774
Max Qualifying Monthly P&I	$1,376
Loan Term	30 Years
Note Rate	3.22%
Max Loan Amount (Rounded)	$317,370

Francine put off buying until May 5, 2022, 5 months later, as it gave her time to get her tax refund, sell some items, and live frugally to put more money into savings. Because of the hot real estate market, the other home got quickly snapped up by someone else. There was another home in the same neighborhood that just came on the market, and it was priced at $327,500. Although, it was a little bit smaller and not updated, Francine was nonetheless excited because she now had $19,000 in savings, giving her a little more of a cushion for emergencies. Her income and expenses had not changed since January and her maximum qualifying P&I payment remained the same at $1,376. So, she believed she was ready to become a homeowner!

However, the interest rates for 30-year FRM loans as of this date had climbed to 5.27% in those five short months, with fees and points now at 90 basis points. The change in interest rate from 3.22% to 5.27% caused the maximum loan amount to decrease significantly from $317,370 to $248,625, using Francine's maximum qualifying P&I payment of $1,376 in the calculation (See Figure 14.3).

FIGURE 14.3 MAXIMUM LOAN PER INTEREST RATE

	Amount by Rate	Amount by Rate
30-Year Note Rate	3.22%	5.27%
Maximum Monthly Qualifying P&I	$1,376	$1,376
Maximum Loan Amount (Rounded)	$317,370	$248,625
Purchase Price	$327,500	$327,500
Down Payment (price–max loan amount)	$10,130	$78,875

Even though the purchase price remained the same, the increase in the interest rate caused her qualifying mortgage amount to decrease by $68,745. Considering the downpayment required to purchase the second house, even with the same purchase price as the first house, the downpayment would now be a staggering $78,875 ($327,500 – $248,625)! And this doesn't include the discount points and fees, plus the buyer's other purchasing costs she would also have to pay upfront. The sharp rise in interest rates made it impossible for Francine to purchase the type of home she otherwise qualified for only a few months earlier. In an environment of rising home prices and mortgage interest rates increasing at a historic high, where wage rates are not growing anywhere near the same rate, the disparity of affordability grows exponentially. This disparity is burdening Florida residents and making it harder for ALICE homebuyers to be able to buy a home.

Impacts of Inflation on Rental Properties

For renters, the story is much the same. Record numbers of people have been migrating to Florida, and many start their move in rental units first. This demand created an urgent need for new apartments as well as an opportunity to renovate the existing inventory of units. Construction overhead for developers and stricter building codes and requirements, increased impact fees, shortages of workers and supplies made new building projects less attractive to developers. In a recent joint research effort by the National Association of Home Builders (NAHB) and the National Multifamily Housing Council (NMHC), an average of 40.6% of development costs can be attributed to complying with regulations imposed by all levels of government (i.e., zoning approvals, site work fees, studies, land dedicated to the government, or reserved for conservation/preservation, building permits, affordability mandates, etc.).

As inflation revs up, so does maintenance and repair costs for existing units, not to mention ever-increasing insurance premiums and property taxes. Landlords also face increased debt service costs from rising interest rates on their adjustable-rate mortgages. Landlords often pass all these rising costs along to the tenants to maintain positive net cash flows, or in some cases, to minimize net losses. Fortunately for landlords, the demand for rental units has been increasing at such a rate that rents could rise, concurrently, without any downward pressure. In many Florida markets from 2021–2022, rent increases were 10% or more year-over-year and by 2022 and into 2023, some rents had actually doubled in lower-end apartments.

Multifamily brokers have reported that sales of existing multifamily properties increased considerably in 2022 and 2023, causing gentrification in the areas of these properties. Gentrification is the process whereby the character of a low-income neighborhood is changed by redevelopment or new development by improving housing and attracting new businesses. This typically causes rents and prices to rise, displacing the current residents who cannot afford the price increases. As the demand for apartment units continues to climb, gentrification of will exacerbate the affordability issues for renters.

The rising costs, coupled with higher demand made for rental units, caused a significant increase in rents. Tenants were, and continue to be, stuck in a tough position: pay the increased rental rate at the lease renewal or be forced to move. South Florida has experienced some of the highest year-over-year rent increases. According to report released in early May 2023 from Zumper, an apartment listing company, year-over-year rent increases from April 2022 to April 2023, for one-bedroom apartments, the median rent rose 17.2% in Lake Worth and Sunrise, 24.2% in Hollywood, and 28.8% in Hialeah.

In a tough spot to begin with, these harsh realities push ALICE households closer to the edge and potentially into homelessness. A 2020 report from the U.S. Government Accountability Office found that even a $100 increase in median rent is associated with a 9% increase in the estimated homelessness rate. Rental assistance programs that existed during the pandemic have dried up and ALICE households make too much to qualify for most other assistance or subsidy programs. Thus, ALICE families are caught in a vicious cycle. Rental rates in many parts of Florida even exceeded the cost of a mortgage because demand was so high. So, why not end the rental roller coaster of uncertainty and aggravation and buy? Many renters, already finding it challenging to bear all the costs of relocating to a less expensive rental unit, would not be able to come up with the down payment and closing costs needed to buy a home. Some also struggle with high credit card debt as they try to stay afloat.

LEGISLATIVE UPDATES

Property insurance costs continue to increase at alarming rates due to recent insurance claims from hurricanes and other devastating storms. These storms have resulted in numerous lawsuits filed against property insurers by contractors and attorneys. Senate Bill 2-A was signed into law to curtail unnecessarily high claims and expensive lawsuits by third parties. The law prohibits assignment of benefits by insureds to third parties, such as contractors who perform work on damaged properties. This bill prohibits the assignment, in whole or in part, of any post-loss insurance benefit under any residential or commercial property insurance policy issued on or after January 1, 2023. Although this law was aggressively lobbied for by insurance companies, the idea behind it was to remove financial incentives for third-party benefit assignees and their attorneys to essentially make a practice of suing insurance companies.

Prices in the housing market and rental market are starting to stabilize. Population growth is steady and new development has been increasing inventory to help meet the demand. Supply chain shortages and associated costs have diminished, although they are not back to pre-pandemic levels.

Web.Link

For home buyers needing down payment and closing costs assistance to purchase a home, there are programs like Hometown Heroes created and funded with $100M in 2022 and administered by the Florida Housing and Finance Corporation. This program offers up to 5% of the purchase price toward a buyer's closing costs and down payment for eligible front-line workers who are first-time home buyers, some of which are ALICE households. While this is not a forgivable loan, it is a 0% interest second mortgage and is not due until a buyer sells or transfers ownership, by which time the equity in the home should have grown to help offset any out-of-pocket cost. For full details on this program and others, visit floridahousing.org.

Another piece of state legislation passed in 2023 is the Senate Bill 102, known as the "Live Local Act" in part. This bill authorizes "the Governor, under the Florida Job Growth Grant Fund, to approve state or local public infrastructure projects to facilitate the development or construction of affordable housing, etc. APPROPRIATION: $711,000,000" per the Florida Senate website. The bill also aimed to restrict municipalities from overlaying rental restrictions that drive rental prices up, offer solutions such as land grants to inventory and affordability, and ban rent control, among other things.

Positive Programs

Though the population surges and housing affordability have taken a volatile turn throughout the pandemic and post-pandemic time, there is some good news for Floridians. The Hometown Hero program was granted an additional $100M in funding starting in July 2023 and the eligibility requirements were expanded along with some income restrictions to help those most in need.

Given the recent data on population migration, interest rates and inflation as of May 2023, it seems Florida may be past the worst part of the post-pandemic surges. Nonetheless, economic, employment, and financial pressures continue to plague many Florida residents. Many other programs are available throughout Florida at the federal, state and local levels. Licensees can get involved by becoming committee members of their local Affordable Housing Advisory Committees, which create projects and programs using State Housing Initiatives Partnership (SHIP) funds. The program provides funds to local governments as an incentive to create partnerships that produce and preserve affordable homeownership and multifamily housing that serve very low to moderate income families.

According to the Florida Housing Finance Corporation, the SHIP funds "may be used to fund emergency repairs, new construction, rehabilitation, down payment and closing cost assistance, impact fees, construction and gap financing, mortgage buy-downs, acquisition of property for affordable housing, matching dollars for federal housing grants and programs, and homeownership counseling."

Ways to Be Involved

Web.Link

For more information, visit the Florida Housing Finance Corporation website https://www.floridahousing.org/programs/special-programs/ship---state-housing-initiatives-partnership-program. Serving as board members on the local Housing Authority Board is another way to become involved locally. Numerous other organizations, such as the ones listed below, offer opportunities to become involved by volunteering and/or donating. Some real estate firms host fundraising drives for specific organizations, while others earmark a certain percentage (often 5% to 10%)

of all sales and/or lease commissions to fund an account reserved for causes that the voted on by the licensees within the firm. Even a small donation or offering some volunteer time by many can make a big difference in the effort to help address housing affordability and curb homelessness. Here are some organizations in which real estate professionals can get involved and help their communities:

- Continuum of Care https://www.hudexchange.info/programs/coc/
- Churches
- Civic groups such as Rotary Club or Kiwanis
- Community foundations
- Family Promise https://familypromise.org/
- Florida Community Loan Fund https://fclf.org/
- Habitat for Humanity https://www.habitat.org/
- HUD Resources for Seniors https://www.hud.gov/states/florida/homeownership/seniors
- HUD Rental Help: Florida https://www.hud.gov/states/florida/renting
- Rebuilding Together https://rebuildingtogether.org/
- St. Francis House
- The Salvation Army https://www.salvationarmyusa.org/usn/rent-mortgage-and-utility-assistance/

Find local organizations in your area such as:

- Hillsborough County Affordable Housing Services https://www.hillsboroughcounty.org/en/government/departments/affordable-housing
- The local housing authority
- Neighborhood Housing and Development Corporation https://gnhdc.org/
- United Way of Palm Beach County https://unitedwaypbc.org/alice/

Case Study

RENT CONTROL ORDINANCE DENIED BY APPELLATE COURT, FLORIDA SUPREME COURT DECLINES FURTHER APPEAL

Facts: In August 2022, the Orange County Commission adopted an ordinance that would prevent landlords from increasing the rent of a residential tenant more than once in a 12-month period. It would also prohibit rent increases from exceeding the rate of the Consumer Price Index, which is considered a fair return on investment for owners. Included in the ordinance were processes by which landlords could request exceptions to "receive a fair and reasonable return on investment." Finally, the ordinance provided for civil and criminal penalties ranging from $500 to $15,000 and up to 60 days in jail for violations of the ordinance.

The ordinance was placed on the November 8, 2022 General Election ballot with a summary that titled "Rent Stabilization Ordinance to Limit Rent Increases for Certain Residential Rental Units." It read as follows:

> "Shall the Orange County Rent Stabilization Ordinance, which limits rent increases for certain residential rental units in multifamily structures to the average annual increase in the Consumer Price Index."

The results of the election determined that 59% of the voters supported the ballot initiative, thus approving the rent stabilization ordinance.

Practice Question:

5. What is considered a fair and reasonable return on investment for owners of multifamily rental units?
   a. The Federal Funds Rate
   b. The Consumer Price Index
   c. The Federal Cost of Funds Index (COFI)
   d. This term is too vague and leaves room for differing interpretations.

What Really Happened? Six days after the August 2022 meeting, when the ordinance was adopted, the Florida Association of REALTORS®, joined by the Florida Apartment Association (referred to as the Association) filed suit against the County and the Orange County Supervisor of Elections. The trial court denied the request by the Association for injunctive relief, despite noting that the County had, in fact, violated the law. Thus, the ballot measure was permitted to advance to the General Election. Upon appeal, by the fifth district court, the court sided with the Association noting an existing 1977 law (Section 125.0103(2)), which addresses three requirements before a county may adopt rent control measures:

> No law, ordinance, rule, or other measure which would have the effect of imposing controls on rents shall be adopted or maintained in effect except as provided herein and unless it is found and determined, as hereinafter provided, that such controls are necessary and proper to eliminate an existing housing emergency which is so grave as to constitute a serious menace to the general public.

The DCA found several issues with the proposed ordinance and concluded that the county had not met the standard of a housing emergency. On October 27, 2022, the DCA filed its opinion granting injunctive relief to the Association. Thus, the rent control measures proposed by Orange County failed.