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Summary of Findings

At the request of the Board of County Commissioners, staff provided an assessment of the impacts from foreign investor participation in the local real estate market and the access to homeownership for first-time buyers.

The key findings from the analysis indicate that: 1) domestic first-time buyers are currently at a competitive disadvantage in the residential market; 2) a widening gap has emerged between the volume of sales to domestic first-time homebuyers and sales to mainly foreign investors, and 3) investors' participation in the residential market has supported the recovery of the real estate sector at a critical time for the sector and the broader economy.

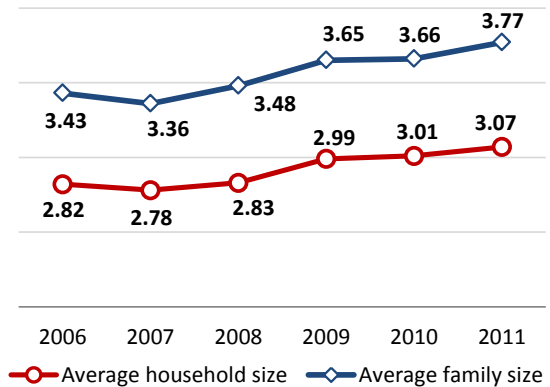
Florida has the largest volume of international buyers of all the states in the nation – nearly \$16 billion in home sales to foreign buyers for the year ending March 2013, accounting for 23 percent of U.S. sales to foreign non-residents or recent immigrants.¹ Foreign investment in residential real estate has played a very important role in the recovery of the local housing market and supporting the general economic recovery in Miami-Dade, even as their presence in the market has made buying a home more difficult for young, first-time purchasers. As the economy improved and interest rates declined to very low levels, domestic residents entered the market searching for their first home. That trend continues despite the recent appreciation in local home values, but in the short-term domestic buyers returning to the market are likely continue to be confronted by the difficulties of securing a mortgage loan and competition with buyers that are able to purchase homes with cash and no need to seek financing. The influence of factors that have contributed to the growing gap between first-time buyers and investors should begin to gradually

diminish, leading to a more normal balance between home purchases by residents versus investors.

Analysis

Miami-Dade has seen the average household size increase since 2008 when the economic recession and the large number of foreclosures were driving adult children to return to their parents' home, postpone plans to establish their own household, or share housing with relatives or friends. The average family size in Miami-Dade rose from 2.78 persons per household in 2007 to 2.99 in 2009 and 3.07 in 2011.

Average Household Size



Data Source: American Community Survey 2011

The recent increase in home sales suggest the trend leveled off in 2012 and may be reversing in 2013 as local economic conditions improve and the demand for housing is rising. Significant impediments to homeownership for potential domestic buyers, however, remain. University of Florida's Bureau of Economic and Business Research estimated that average household size in Miami-Dade remain unchanged between 2011 and 2012. Population growth decelerated in 2012, while home sales increased at a faster pace.

¹ National Association of Realtors, *2013 Profile of International Home Buying Activity*, June 2013.

The home ownership rate in Miami-Dade fell to 56 percent of all households in 2011 from 60 percent in 2007 and the decline appears to continue into 2013. The home ownership rate among households headed by persons between the ages of 25 and 44 is lower at 42 percent. Although housing prices are recovering from the 2008-09 collapse in values, low interest rates have kept homeownership *financially* accessible for a large number of households headed by 25 to 44 year olds. Households with incomes at the median for this age group, may be able to afford the median priced home, but may not satisfy other loan qualification standards.

The median income of Miami-Dade households within the ages of 25 and 44 is estimated at approximately \$50,000 per year, while the median value of a single-family home sold in May was \$222,000.² The current average mortgage interest rate for borrowers with excellent credit is 3.63 percent. Approximately half of households headed by 25 to 44 year olds earn incomes above the \$50,000 threshold of affordability and sufficient to pay a conventional mortgage loan and property taxes for a single-family home at the median price.³ The current median price of a condominium sold in Miami-Dade is \$180,000 and the annual income threshold for a conventional mortgage loan on a condominium unit

valued at the median price is approximately \$40,100 per year. Approximately 60 percent of households headed by 25 to 44 year olds have annual incomes above the \$40,100 threshold.

Even though affordability does not appear to be a major constraint on home ownership for young, first-time homebuyers, they still face significant financial challenges in purchasing a home. The most difficult challenge is the limited availability of mortgage credit compared to the years before 2007. Although credit availability has been improving gradually over the past 12 months, obtaining a mortgage remains very difficult even when a potential buyer has the income capacity to cover the monthly mortgage payments and reserves for property taxes. The average (FICO) credit score for mortgages approved by lenders in the first quarter of 2013 was 746 with an average down payment of 19 percent. The average credit score of mortgages denied was 702 in March with borrowers offering 15 percent down payments.⁴ A measure for tracking mortgage credit availability developed by the U.S. Mortgage Bankers Association indicates that the likelihood of obtaining a mortgage loan has diminished by 86 percent since early 2007.⁵

Domestic purchasers of residential property as their primary residence are not only challenged in obtaining a mortgage loan, they are also at a significant competitive disadvantage in the marketplace if they are unable to offer an *all-cash* transaction. This disadvantage emerged in part from broad economic trends, but also from the unintended

² American Community Survey, 2011 One-Year Estimates. Census Bureau.

³ The calculated income threshold is based on a formula established by the Federal Housing Administration (FHA). The estimated income thresholds are determined using Miami-Dade median home values reported by the Miami Association of Realtors for single-family or condo units, respectively. The income threshold is based on a 10% down payment, financed with a 30-year fixed rate mortgage at 3.63%. The estimation of the income required to afford a home includes consideration of property taxes and non-mortgage debt payments (e.g. cars, credit cards, student loans, etc.). http://www.fha.com/calculator_afford

⁴ Inman News, April 18, 2013.

<http://www.inman.com/2013/04/18/ellie-mae-mortgage-credit-continues-to-ease/>

⁵ Mortgage Bankers Association, *Mortgage Credit Availability Index*, found at

<http://www.mortgagebankers.org/ResearchandForecasts/>

consequences of state government policy in the early stages of the housing recovery. The primary competitive advantage of foreign investors over potential domestic homebuyers is they typically purchase residential units with all cash and no mortgage financing. The cash transaction provides the seller a shorter time lag between purchase offer and transfer of title. More recently, foreign investors are reportedly also offering sellers other inducements such as waivers of inspections. Lenders are also in a stronger financial position than at the height of the foreclosure crises. They have more options in managing their portfolio of non-performing loans, and, therefore, can negotiate better terms when selling their foreclosed properties.

Approximately 30 percent of national sales are cash transactions, but nearly two-thirds of Miami-Dade homes sold in the first three months of 2013 were cash sales, reflecting the strong presence of foreign buyers.⁶ While the proportion of cash purchases among foreign buyers in Miami-Dade is not reported, 90 percent of purchases by foreign buyers in Florida are all-cash transactions. In Miami-Dade cash sales accounted for 43 percent of single-family home sales and cash transactions reflect 78 percent of condominium and townhouse closings. A large share of those sales was likely to have been to foreign buyers and investors.⁷

State legislative policy has also played a role in the sale of distressed residential properties to investors. At the peak of the foreclosure crisis, the Florida legislature responded with legislation that reduced the risks for investors purchasing large pools of foreclosed condominiums in an effort to reduce the number of vacant or abandoned units. In

2010 the Florida Legislature passed legislation with the goal of accelerating the purchase of properties already foreclosed or in the foreclosure process, and effectively incentivized the bulk purchase and sales of condominiums beginning in 2011. Beyond the strong demand from foreign buyers and their competitive advantage, state legislation provided an incentive available to foreign investors but not to domestic first-time buyers. This relatively small change in Florida real estate law supported the emergence of a formidable competitor to first-time homebuyers at a time when the pace of transactions was accelerating and home values were rapidly appreciating.

The “Distressed Condominium Relief Act” of 2010 provided bulk buyers of more than seven condominiums or their assignees with limited liability from any claims that originated with the original condo developer.⁸ The Act shielded bulk buyers from successor liabilities involving past-due assessments, unfunded working capital contributions, and honoring warranties on individual condominium units, as well as other potential liabilities. As a “bulk buyer or assignee,” an investor has the right to conduct sales, leasing, and marketing activities within the condominium. The Act provided investors an exemption from any rights of first refusal which may be held by the condominium association and would otherwise be applicable to subsequent transfers of title from the bulk buyer to a third party purchaser.

Despite the competitive challenges presented by foreign buyers, their robust participation in Miami-Dade’s residential real estate market represents an important component of the local recovery in the housing sector. The market value of

⁶ *The New York Times*, June 8, 2013

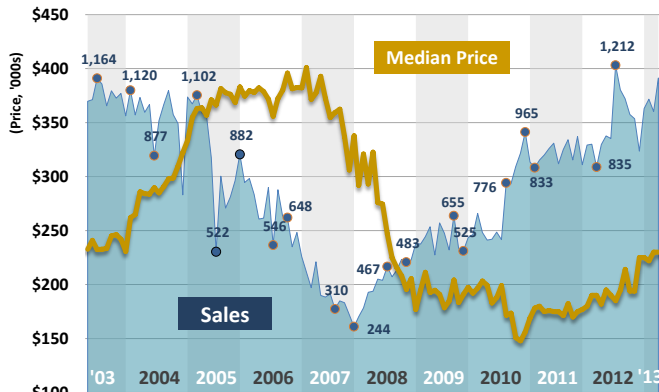
⁷ StreetInsider.com, posted July 22, 2013. Condominium units have been the primary focus of foreign investors.

⁸ Florida Statutes F.S.718.701-708. The provisions of the statute were extended to July 1, 2015 at the end of the 2012 legislative session.

residential properties in Miami-Dade County increased significantly over the past two years, with a positive effect on the net worth of existing property owners. Miami-Dade home prices experienced double digit appreciation consistently during this period and the inventory of homes listed for sale represent less than a six month's supply, signaling a healthy residential market. Relatively low inventory tends to support home price appreciation.

improved processing of short sales has resulted in rapid absorption of distressed listings and contributed to price appreciation. The strong demand for housing has also resulted in higher rental rates. Favorable market conditions are supporting an increase in residential construction activity reflected in a higher volume of construction permits, especially for multi-family units.

Single-Family Home Market
Median Price & Seasonally Adj. Sales



Data Source: Florida Realtors.

Monthly Residential Building Permits

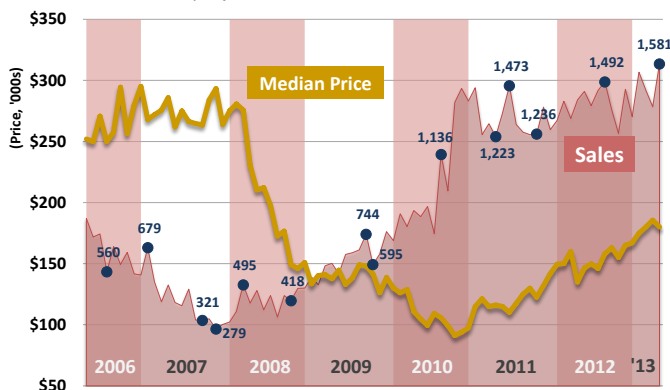
(Seasonally Adjusted 3-Month Moving Average)



Data Source: US Census Bureau

Condominium Market

Median Price & Seasonally Adj. Sales



Data Source: Florida Realtors.

The increase in property values and sales volume have been welcomed support for Miami-Dade's recovery in the residential real estate market. Strong demand for bank owned (REO) properties and


Notwithstanding the competitive advantages of foreign buyers in the market for existing residential properties, developers of new units are requiring deposits in the 50 percent to 80 percent range. They have aggressively pursued foreign buyers, however, by providing the option of all-cash purchases in installments, with foreign buyers asked to provide a 20 percent as a down payment, an additional 20 percent installment when construction begins and 40 percent during the construction process. At build-out, these buyers have 20 percent remaining to pay before owning the unit outright. Foreign buyers are apparently more likely to meet those high deposit requirements conditions, making potential domestic purchasers less attractive to

developers by comparison. New condos in pre-development or under development, however, are beyond the financial grasp of most potential local first-time buyers, and not effectively providing an impediment to them.

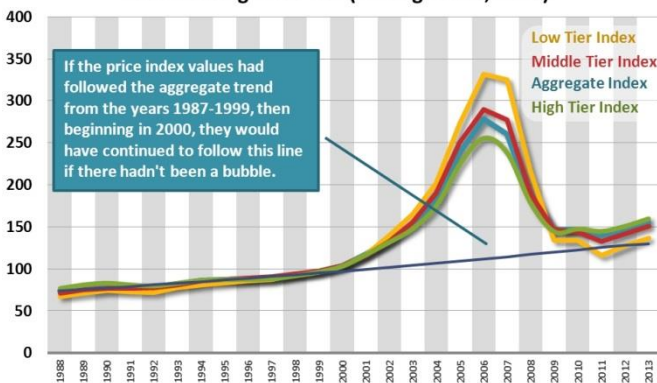
Looking Ahead

The major factors supporting the growing gap between potential first-time homebuyers and investors (i.e., difficulty in qualifying for mortgage loans despite sufficient income and “good but not excellent credit”, lenders requiring relatively large down payments, and consistently robust appreciation in property values that attract investors) are likely to diminish over time. As these factors abate, the relative participation of foreign investors and domestic buyers in the local housing market will reflect the changes in underlying market conditions. Strong gains in the U.S. equity markets, if they continue as expected, make stocks an increasingly attractive alternative to investments in residential real estate.

of current prices of recently sold homes to their long run trend suggests that some sectors of the market for existing homes are becoming overvalued.

A decline in the pace of growth in home values reduces the demand from investors, and when coupled with a rise in confidence of mortgage lenders in the sustainability of Miami-Dade’s housing recovery, should lead to an increase in the number of first-time buyers qualifying for mortgage loans on primary residences and restore a more balanced distribution in sales of primary residences versus residential properties for investment purposes. 

Case-Shiller Index - Deviation from the Long Term Trend* of Each Housing Price Tier (Through June, 2013)



* Long run trend based on data from Jan 1987 through December 1999.
Data Source: S&P Case-Shiller; R.E.R. Economic Policy & Analysis.

Some analysts believe the number of foreclosures that have not yet been placed on the market is great, suggesting that a large *shadow inventory* will dampen the pace of property appreciation over the next year or two. A comparison

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