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# South Florida Enjoys Less Distress In Residential

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## Eric Kalis

As Broward County's property appraiser and a Davie homeowner, Lori Parrish can gauge the impact of foreclosures on Broward property values in multiple ways.

On a broader level, foreclosures are not slowing down the real estate recovery in Parrish's county. She reported a 4.4 percent countywide taxable value increase to \$132 billion, up from about \$126 billion. Official values are to be released July 1.

But Parrish cautions the overall value gains do not tell the entire story about the negative affect foreclosures continue to have on Broward.

"Foreclosures still represent about 15 percent of every neighborhood" in Broward, Parrish said. "One home in my neighborhood has been vacant for five years and had squatters. One next door is vacant, and the electric meter caught fire six months ago."

South Florida's residential and commercial real estate markets have recovered significantly from the recession. Like Broward, Miami-Dade and Palm Beach counties have reported year-over-year taxable property value increases.

Even with the worst seemingly behind the region, foreclosures linger as a potential roadblock to further recovery, particularly in the residential sector.

"There are still plenty of foreclosures out there," said John Thomas, director of residential appraisal services for the Palm Beach County property appraiser's office.

"Most of the foreclosures now are either properties in bad shape or average shape," Thomas said. "I would say there are certain pockets of the county where foreclosures are dragging the value down significantly."



## LESS DISTRESS

Foreclosures are not interfering with South Florida's resurgent residential market.

Miami-Dade has four months of single-family and condominium supply up for sale, according to Esslinger Wooten Maxwell Inc. Broward has a mere 2½ months of single-family and about 3??? months of condominium supply. A normal residential market has between six and 12 months of supply.

That short supply includes plenty of distressed properties, which account for 24 percent of Miami-Dade's single-family inventory and 13 percent of the county's condo inventory. In Broward, distressed properties account for 17 percent of the single-family and 16 percent of the condo supply. Esslinger does not track Palm Beach County.

With dwindling supply comes aggressive price appreciation, which is not necessarily healthy for the sector.

"Prices are increasing at a pretty rapid clip in both counties," Esslinger president Ron Shuffield said.

"Depending on the price range of homes, they are selling generally somewhere around a 1½- to 2 percent month-to-month increase from the median price," he said. "A lot of this is because the market overreacted to the downturn."

Shuffield is referring to the precipitous pricing plunge in the wake of the real estate and financial collapse. After steady increases from 2003 to 2006, home values dropped each year from 2007 to 2010.

"I believe prices are trying to work their way back up to the cost of replacement," Shuffield said. "This higher-than-normal appreciation is to rebalance the overcorrection that occurred in 2008 and 2009."

From the first quarter of 2012 to the first quarter of 2013, Miami-Dade median single-family prices rose from \$172,333 to \$203,000, according to Esslinger. Median condo prices jumped from \$129,667 to \$162,333.

Broward median single-family prices surged from \$186,667 to \$233,000 during that



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span. Condo prices increased from \$74,667 to \$95,000.

And homes that go on the market are not staying there very long.

As of May 31, single-family homes in Miami-Dade last an average of 84 days from listing to sale, down from 95 days a year before, according to Esslinger. Condos last an average of 86 days compared to 100 days a year ago.

In Broward, single-family homes last 71 days, down from 84 days in May 2012. Condos stay on the market for 77 days, a slight decline from 84 days a year ago.

Distressed properties are “moving very quickly,” Shuffield said. “As soon as it comes on the market, it’s gone. It sells for less than the median prices, but that’s more representative of the fact that those houses need additional repair.”

Values have recovered to the point where home buyers can now “borrow what they need to borrow,” said attorney Mark Meland, partner at Miami-based Meland Budwick, P. A.

“Several attorneys in our office handling either refinances or purchases were concerned about appraisals, but they all came out better than expected,” Meland said. “Several years ago you wouldn’t be able to replace financing on existing homes.”

## FORECLOSURE UPSURGE

A look at South Florida’s residential foreclosure pipeline could temper some of the enthusiasm over the sector’s recovery.

With one foreclosure filing for every 209 residential units in May, the tri-county area posted the nation’s highest foreclosure rate among metropolitan statistical areas with a population above 200,000, according to real estate research firm RealtyTrac.

South Florida foreclosure activity last month was up nearly 59 percent from May 2012 with 11,754 properties in some stage of foreclosure proceedings. RealtyTrac includes default notices, scheduled foreclosure auctions and bank repossessions in its reports.



“We have been seeing this trend in Florida since around January 2012, where the foreclosure numbers have been” rising, RealtyTrac vice president Daren Blomquist said. “This trend is a result of lenders having to play catch-up on a lot of delayed foreclosures. The new activity doesn’t represent new distress but old distress that is finally being dealt with.”

Blomquist noted the increase in foreclosure activity “all ties back to robo-signing.” He is referring to the scandal that penalized numerous large banks for submitting fraudulent documents when filing foreclosure actions. Many pending cases were suspended while the banks sorted out the mess.

The banks, including Bank of America, JPMorgan Chase and Wells Fargo, in January agreed to a settlement with the federal government. A total of \$9.3 billion in cash and loan balance decreases is to be paid by the financial institutions.

“I don’t think this should be alarming but it should give some folks pause that some of the rapid rise in real estate prices are somewhat artificially caused by the hold back of foreclosure inventory,” Blomquist said. “The market may not be as hot as they think it is.”

Palm Beach County is a local outlier when it comes to foreclosure activity. RealtyTrac’s report showed the county had a 1.28 percent year-over-year drop in activity to 2,316 properties.

“One of the factors in Florida that is different from some states is that it can become very county specific,” Blomquist said. “The capacity of the county court system to handle foreclosure cases can affect these numbers.”

New foreclosure filings are certainly on the upswing in Miami-Dade County. Foreclosure filings increased to about nearly 12,500 in the year ended in February from 11,000 in the previous year, according to a report by Miami-Dade Property Appraiser Carlos Lopez-Cantera. During that span, the average residential sale price remained relatively flat at just under \$350,000.

Parrish noted Broward Circuit Court has a judge exclusively handling foreclosure cases and multiple retired judges putting in part-time hours on the bench.

“The best thing that could happen to property values is to take all these and even if



they sell below market, get hard-working families” living in and fixing up the homes,” Parrish said.

## NO HOLDBACKS

Not all appraisers and residential observers share Parrish’s view that banks and other lenders should put their blocks of real estate owned, or REO, homes on the market.

“Banks understand if they unload all their inventory at once it would be economic suicide,” Thomas said. “So they are pacing it a little better.”

RealtyTrac’s Blomquist said only 15 percent to 20 percent of the national REO inventory is listed for sale.

“When I ask bankers up front, they will say they are not intentionally holding back,” he said. “For the most part that is probably true. We certainly see in our numbers evidence that, whether blatantly or intentional, they do not immediately list foreclosures for sale even when they complete the foreclosure process.”

Many bank asset managers still believe the REO homes currently on the books are “somehow less valuable” than the rest of the residential properties on the market, according to Shuffield.

“But once you get to these low levels of supply, you find those properties have the same value as non-distressed properties, provided they are in equivalent condition,” he said. “It seems to be taking longer than it should to get those properties to the market.”

Those who do test the waters with REO homes are poised to receive substantial buyer interest from cash-heavy and institutional investors.

For instance, New York private equity giant Blackstone Group LP has gobbled up distressed single-family homes nationally for the past year through its Invitation Homes venture, which works with property managers to rehabilitate and rent its homes. The fund has spent nearly \$5 billion on about 30,000 homes nationally.

The Invitation Homes website lists 380 single-family properties available for rent in South Florida.



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The institutional approach to acquiring large chunks of homes is another price appreciation driver for the residential sector.

Another large investor, Colony American Homes Inc., owns more than 12,000 single-family properties.

“Everybody is looking for alternative investments to the stock market today,” Shuffield said.

Blackstone and others “felt this is a good place to invest.”