



Real estate professionals see no signs of bubble during current period of growth

By Stuart Korfhage
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Heard this one before? Housing prices are going up and up while construction cranks up to record levels.

That's the current situation in St. Johns County and also the way it was 12 to 13 years ago right before the housing market completely fell away.

Yet just because one scenario led to another more than a decade ago that doesn't mean history is simply about to repeat itself, real estate experts say.

First, those in the industry say, the two markets include many factors that go beyond the simple rise in prices and building activity. In other words, it's a different world at the close of 2017 compared to 2004 or 2005.

Victor Raymos, CEO and association executive for the St. Augustine & St. Johns County Board of Realtors, said one of the many differences is the lending climate.

In the early 2000s, mortgages were relatively easy to obtain, and too many consumers ended up taking on debt they could not manage. As those buyers defaulted, foreclosures climbed and values declined, and a whole mess of economic problems ensued.

"A lot of people say the market's headed for another crash because the growth is just too great and can't be sustained, and all the sudden we're going to find ourselves back when (what) happened when the market crashed," Raymos said. "I don't think so. I think there have been enough safeguards put in place to avoid duplicating what happened at that time."

There are plenty who share Raymos' assessment at the local and national level.

A report from Freddie Mac in November directly addressed the concerns of many who wonder whether a bubble is imminent. (Freddie Mac is the Federal Home Loan Mortgage Corporation that operates in the secondary mortgage market.)

First, it pointed out that even experts at the Federal Reserve failed to recognize any warning signs last time. That can be taken as a good or bad sign, depending on one's perspective.

Also, the report noted that home prices have been growing about twice as fast as the long-run average in the last five years and that home price growth has outpaced income growth by a cumulative 42 percent over the last 17 years.

And yet, there is no obvious sign that a serious drop is about to take place.

The Freddie Mac report, jibing with what Raymos observed, said the primary reason for the rising home prices is the shortage of houses for sale. Second, easy credit is not fueling housing demand. And buyers are not finding themselves quickly owing more than their homes are worth.

However, the report concludes with the fact that there is an imbalance between lack of inventory and increasing demand. There are also concerns about the rate of home building and the country's wealth imbalance.

"Another bubble appears to be a less probable scenario, but not an impossible one," the report concludes.

For Marc Jernigan, president of the Northeast Florida Association of Realtors (NEFAR), one of the reasons he's convinced that the market is not currently in a bubble is the rate of appreciation.

"Homes in general are appreciating at 3 to 5 percent a year, and it's a steady curve and that's the way it's supposed to be," Jernigan said. "Back then, we had that, bam, straight up prices went through the roof."

Of course prices are relative to each market and each neighborhood.

According to NEFAR stats in November, the median home price in St. Johns County for the year was \$310,000, compared to \$295,000 year-to-date in November 2016 — an increase of about 5 percent. The median price increased about 4 percent from 2015 to 2016 and about 3.5 percent the previous year.

By contrast, the median home price (single-family, not including condominiums) here increased by more than 18 percent from 2004 to 2005. By 2006, the median price was up again to \$360,000 (not including condominiums).

Another measure of growth that shows a little more consistency is the permits issued for single-family homes.

For fiscal years 2013-2015, the numbers were nearly identical, between 2,619 and 2,693. The numbers have gone up more quickly since then, to 3,215 in FY 2016 and then 3,755 in FY 2017, which ended in September.

Before the housing crash, permitting for single-family homes was very high FY 2003-06. The number of permits issued were, respectively, 3,501; 4,089; 4,828; and 3,249. By FY 2009, the activity had dropped to just more than 1,000.

With inventory low, Jernigan said there is reason to believe the current building pace is sustainable in this region.

"The builders are going very strong right now, so everybody seems to be going pretty darn strong," he said. "(Real estate activity) is not slowing down in the least yet."

Added Raymos: "I see the business for real estate, both commercial and residential, as at a minimum keeping up with the steady growth. At a maximum, I can see it upticking more because of the demand and all of the market factors that are there."