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## Florida Realtors® Real Estate Trends: Housing Supply, Affordability Key in 2021

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**ORLANDO, Fla., Feb. 5, 2021** – Homebuilding experienced “a surprise year of growth” in 2020 despite the pandemic, but new home construction this year will be constrained by supply side factors like higher lumber costs, a shortage of lots and regulatory issues, according to Dr. Robert Dietz, chief economist and senior vice president for economics and policy for the National Association of Home Builders (NAHB). Dietz was one of several real estate economic experts who spoke to 424 Realtors® and attendees during Florida Realtors®’ virtual 2021 Florida Real Estate Trends summit on Feb. 4.

He said, “We expect the COVID-19 crisis to continue through February 2021, with a 50% vaccination rate by the end of April and a 75% rate by the end of October – we anticipate accelerating economic growth later in 2021. The new-home construction industry will grow in 2021, but at a lower rate, especially as interest rates will trend higher with the recovery, thanks to aggressive action by the Federal Reserve. Housing affordability will be key – we risk pricing households out of the market due to rising interest rates and higher construction costs.”

Supply side issues continue to impact homebuilding and affordability, especially for millennials seeking entry-level homes in suburban areas to raise growing families. Dietz predicted older millennials now ready to buy their first home – and looking for single-family homes they can afford – will be a leading demographic for residential real estate this year and in the years to come.

“The limiting factor for builders has been the roller-coaster ride for lumber prices,” he said. “In talking to builders, rising lumber costs for a newly built home could be pushing prices up \$15,000 or more. And, about 24% of the cost of a new home comes from the cost of regulatory requirements, during both the development and construction. We need to see what can be done in regulatory costs to keep down what we call ‘death by a thousand cuts’ in the new-home market.”

However, Dietz noted that Florida, in particular, showed strong growth in new construction last year, with building permits in the state in 2020 up “an incredible 30% year-over-year.”

The NAHB chief economist said that he tracked data to look at the often-cited “shift to the suburbs” for housing in the latter part of 2020 due to COVID-19. Large metro areas with high density in the urban core still experienced a year-over-year growth rate of about 5.7% in 3Q 2020, but the lower-density, lower-cost suburbs out from the cities reported a growth rate of about 15%. He added that, looking even further out from the urban core in Florida at communities known for second homes, investment homes or for retirement, those areas reported a year-over-year growth rate of about 23.2% in 3Q 2020.

Turning to multifamily construction and commercial construction, Dietz said he expects an 11% decline in apartment construction growth in 2021, but multifamily construction to stabilize headed into 2022. Nonresidential building will feel more pain from a lack of commercial investment due to the pandemic and economic weakness, he noted.

Taking a look at Florida’s residential real estate sector, Florida Realtors Chief Economist Dr. Brad O’Connor said the lack of for-sale inventory continues to constrain Florida’s housing market in 2021, and

it appears new-home construction “isn’t going to bail us out of our home shortage on the market” anytime soon.”

Wrapping up 2020, he noted that by the end of the year, the drop-off in Florida’s housing market from February into early May – due to COVID-19 – had reversed to the point where, overall, north of 300,000 sales of single-family homes were reported for 2020, a rise of almost 6% compared to 2019. Meanwhile, close to 120,000 sales of condos and townhouses were reported for 2020, for a 2.5% increase compared to 2019.

Most of the counties in the state saw a year-over-year increase in overall closed housing sales, said O’Connor, though that wasn’t the case in Orange, Miami-Dade and Broward counties. In Orlando, the drop in closed sales was in large part due to the loss of jobs during the pandemic, especially in the areas of entertainment, leisure and hospitality, hotels and restaurants. Meanwhile, South Florida, especially the cities of Miami and Fort Lauderdale, was hit hard by the early wave of COVID-19 cases and then had a second hit again when the state experienced a second wave of cases in the summer of 2020.

“The highest closed home sales in 2020 tended to occur in the state’s smaller coastal communities, which draw retirees and second-home buyers,” O’Connor said. “A lot of that growth was in sales of homes at \$400,000-plus. The homes listed at \$1 million or more did even better, with 100-plus percentage growth in many markets across the state, including some large metro areas.”

Florida Realtors chief economist noted this kind of information came from the Research department’s analysis of what’s currently driving housing sales around the state.

“What we have tended to find so far is that density is not one of the most important factors driving sales growth,” O’Connor said. “It turns out that buyer wealth, and the amount of available inventory tend to matter a whole lot more. So, I would hypothesize that’s why you’re seeing a suburban shift in new home sales. And, why you’re seeing an overall greater surge in sales of upper-priced and luxury homes in Florida is that these kinds of homes are more freely available, and because many of the folks who are able to afford these kinds of properties also tend to be those who will be most able to work from home going forward.”

What’s ahead for the next several months in 2021? O’Connor said: “I expect to see the recent trends from the end of 2020 to continue. I think we will continue to have robust sales growth, and as we get closer to vaccination really making a dent in the threat from COVID-19, we might see more people starting to

consider upgrading or changing to a different home to take advantage of interest rates while they remain in the low to mid-3% range, which is what most forecasters currently are predicting. I think there are a lot of people right now dreaming of maybe trading in their home for another one that better suits their tastes, which I believe are shifting.

“Even if it’s not a work-from-home situation for you, all of us have been in our homes a lot more than ever before recently, and some of us are getting a little bit sick of our current arrangements. Maybe a change of scenery would be quite nice. I see a lot of residential real estate activity in general for the next couple of years at least. And if new construction slows back to the recent rates from before the pandemic, as Dr. Dietz suggested, then that’s only going to continue boosting sales and prices in the resale market.”

The event concluded with experts addressing “What Happens When the Office and Store Move Home?” Moderated by Jennifer Quinn, economist and director of economic development for Florida Realtors, the panel included Kristine Smale, senior vice president, Zonda Advisory; Chris Owen, director, Florida research, Cushman & Wakefield, and Nancy Muscatello, managing consultant, CoStar Advisory Services, CoStar Group.

The three panelists agreed that migration trends to Florida already occurring accelerated in 2020 because of the pandemic, with some people able to work remotely at second homes or at a vacation rental, while others moved up plans to retire here. The Sunshine State consistently ranks high for people moving here from other states, as migration data from moving companies and real estate analysis firms shows. Corporate relocations to Florida are also currently on the rise, they said.

“Lower costs, lower taxes, a large and talented workforce and a business-friendly climate, all those benefits are drawing business to Florida, particularly financial service firms,” said Nancy Muscatello.

Added Kristine Smale: “You’re going to get a nice snowball effect, as the relocations attract higher-paying jobs, talented workers and more. Florida’s policies really incentivize these businesses coming to our state.”

The panelists’ predictions for the next 12 months?

“From a commercial standpoint, especially here in Florida, we’re not going to see the economy take off until late 2021, after the vaccine rollout is mostly complete and widely distributed,” said Chris Owen. “A lot

of it has to do with people's confidence level – there's a pent-up demand for travel, entertainment, going out. We're not looking to see that until the latter half of 2021 and into 2022."

Said Muscatello: "Recovery is going to be slow and steady. The vaccine rollout is good news, but it will happen slowly; I think the momentum will pick up significantly toward the end of summer and around Labor Day. We'll start to see people coming back to offices, restaurants and entertainment then."

"The residential real estate sector and housing has been the golden child keeping real estate going and the economy going, to some extent," said Smale. "I'm very bullish on housing – we'll continue to see a limited supply with very strong demand. Low interest rates have helped affordability and will continue to do so, but we do have to be cautious of prices increasing too quickly – that's always our pushback."