

# HOUSING BUBBLE MYTHS: FLORIDA AND CALIFORNIA

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Runway home prices in certain parts of the country, especially in Florida and California, have become everybody's worry. In my last quarterly outlook, I tackled this issue from a statistical perspective and found little support for the existence of a bubble in these two states. My conjecture was that Florida and California, being coastal states with lots of international connections, are benefiting from foreign buyers. The Florida chapter of the National Association of Realtors released a study recently that showed 15% of all homebuyers were foreign ([www.realtor.org](http://www.realtor.org)). That is enough added demand to cause not froth, but a blowout in the market. Almost

40% of these foreign buyers buy for investment purposes and another 40% buy for a second home. Almost 50% buy at and above the median home price in Florida, and 40% pay cash.

**Table 1** details the metro areas in Florida where foreign buyers were concentrated. The deeper south you go in Florida, the more this proportion is of foreign buyers. Here are some other interesting facts from the study: one-third of foreign buyers are from the United Kingdom. It's cheaper for them to buy a ½ million dollar home in Florida from the proceeds of a two-

**Table 1**

## **Location of Homes Purchased by Foreign Homebuyers**

<b>Florida City/Area</b>	<b>% of Foreign Homebuyers</b>
<b>Miami - Ft. Lauderdale</b>	<b>30.4</b>
<b>Orlando</b>	<b>22.7</b>
<b>Naples - Ft. Myers</b>	<b>13.7</b>
<b>Tampa - St. Petersburg</b>	<b>9.9</b>
<b>Sarasota</b>	<b>9.9</b>
<b>West Palm Beach</b>	<b>5.8</b>

Source: The 2005 National Association of Realtors, Profile of International Home Buyers in Florida

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bedroom flat in London thanks to the cheap dollar! To boot, they cited cheap transatlantic airline tickets as a big draw to live in Florida. The next big category is Latin Americans, about 20% of the total, of which over 1/3<sup>rd</sup> are Venezuelans. We can thank Hugo Chavez for driving his well-heeled to Miami. Political turmoil in Argentina and Venezuela has always been good for Miami's real estate. The Germans, who make up 7% of the total, come to retire in large communities, and they get a better return here than investing in their own country's residential real estate market where prices have

been *falling* for the last few years. Net-net, the Florida retirement market has become international and no longer confined to Americans. This shift in the demand curve can explain Florida's froth.

But what about California? Yes, it is close to Latin America and is initially is the first choice for Mexican nationals and Central Americans to find work opportunities. Investment motives only develop later, once they feel settled. It is not as *Latinized* as you may think. I haven't seen a study from the California Association of Realtors on profiles of foreign buyers (but I am sure their chief economist Leslie Appleton-Young is getting it done). In a very candid speech on September 26<sup>th</sup>, Greenspan commented on California's real estate froth ([www.federalreserve.gov](http://www.federalreserve.gov)):

*"These estimated LTVs are highest in states that have experienced relatively little house price appreciation, and lowest in states in which prices have appreciated the most, such as California and Massachusetts. The main reason for this negative relationship is likely that most people buying a home in California are probably also selling a home in California and using at least part of their accumulated home equity capital gains as a down payment on their new house. Apparently, many households are forgoing some consumption to lower their new mortgage balances."*

Now, please don't be as scared as Bill Gross, who lives in a beachfront property in Laguna Nigel in Southern California. Greenspan had

this to say at the end of the speech for his comfort:

*"Thus, the vast majority of homeowners have a sizable equity cushion with which to absorb a potential decline in house prices."*

With that cheery thought, happy holidays to y'all from the ATL.