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After years of record sales, the housing market has peaked and is slowing down. Nationwide, housing inventories are piling up, for sale signs are staying up longer and sellers, although reluctantly, are seeing no other options but to lower their asking prices, using creative and high-risk incentives, such as no money down. This slowdown in the housing market has changed the landscape for everyone involved, buyers, sellers, builders and realtors. Slowing conditions in the housing market will remain for some time, but some sign of stabilization are emerging. Let us now concentrate in the state of Florida and some of its metropolitan statistical areas.

Florida and the Nation

For Florida, the Atlanta Fed reported that single-family building permits in the first quarter of 2006 were at 51,257 a 3.5% percent increase from the same time the year prior. Across the U.S. the increase was only 1.3%. For the year 2005, the state of Florida had the highest percentage of U.S. total housing units authorized by state. The percentage for Florida was 13% while Texas and California tied for second with ten percent each (see Figure 1 at end of the paper). For the month of July, we saw a 14% total drop from the previous year, in the number of permits for single and multifamily construction for Florida. Nationwide it was only a six percent drop. Furthermore, home-price appreciation is slowing sharply. Looking at repeat home sales prices¹ (Figure 2), we can see that by the second quarter or 2006 they are dropping.

Additionally, for the first quarter the number of existing single-family home sales in Florida was 469,600, which signifies a drop of 5.9% from the previous quarter, and a

¹ Repeat home sales refers to the same homes sold in the past. Although they are a little better measure of median home sales prices, they are not perfect because for example they do not account for additions or changes made to the homes.

15.7% drop from the year before. At national levels, we see that the total for existing single-family home sales was 6,796,700. This figure represents a 2.1% drop from the previous quarter and the same percentage drop from the year before. Our state represents a smaller share of the total with respect to existing homes sales, namely 6.91%². Thus Florida's vibrancy in the real estate market is mostly concentrated in new construction. By October 2006 new construction had slid 14.6% from the previous month. Builders will likely continue to work at conservative levels of new construction, at least until the New Year is well under way.

Fort Lauderdale

The Fort Lauderdale Metropolitan Statistical Area (MSA) has been seeing drops in realtor sales of single-family existing homes from the year before, but at a declining rate. For the month of July the drop in realtor sales from the same month in 2005 was 30%. For the month of August it was a drop of 27% and for September it was 24%. In October we actually see an increase of 5%, but that is mainly due to Hurricane Wilma, because in November we revert to a figure resembling the others at a drop of 23%. The drop in median³ sales price for the aforementioned periods are one, six, two, five and seven percent, respectively (see Table 1).

The existing condominiums market saw a drop in sales of 39% in July, from the previous year. For August the drop decreased to 33% yet in September the drop was a higher 46%. In October it dropped to 21%, and then in November it was 38%. Median

² This is due to the extremely high rate of household formation in Florida, resulting from a steady net migration into the state of over 250,000 persons per year, most of it from other states of the Union, but also abroad. This experience has been a constant for Florida for about three decades, and it used to be higher a decade ago (300,000).

³ It should be strongly considered that median prices are **not** comparable from one period to the next, as these are strongly affected by composition. In other words, these are not apples to apples and pears to pears comparisons.

sales prices on the other hand went up four percent from July of 2005 to July of 2006. It was one percent from August 2005 to August 2006 and for September as well. With Hurricane Wilma the percentage change in price from October 2005 to October 2006 was eight percent by November the change was zero percent (see Table 2).

Fort Myers-Cape Coral

For this area the recent drop in the number of realtor sales of single family, existing homes was as follows: in July of 2005 there were 1,026 realtor sales, 968 in August and 977 in September; a year later we see 694, 691 and 693 realtor sales for the same months. These signify a 32%, 29% and 36% drop in realtor sales respectively. As far as median sales prices are concerned, the drops averaged eight percent for those three months. When we look at the month of October we see that the percentage change in price dropped 44%, from \$445,100 in 2005 to \$249,200 a year later and the percentage change in sale prices increased 36%. November shows figures similar to other previous months, with a drop in percentage change of sales of 21% and a drop of 12% in price (see Table 3).

In the condominium market we see the sharpest contrast not between a yearlong period, but rather a month-long one. The median sale price in July of 2006 was \$346,300. Yet just the next month we see a median sales price of \$237,500, a drop of 31%. Additionally, the number of units decreased. Again, due to Hurricane Wilma in October 2005, we see that the percentage change in number of sales was 76% (see Table 4).

Miami

Total permits in the Miami MSA in the month of July decreased by 17% from the year before. As far as single family existing homes goes, realtors in Miami were only

able to sell 673 units (a 38% drop) in that month, at a median sale price of \$382,200. The year before they had sold nearly twice as many units, 1,092 to be exact, at a median price of \$363,800. In Miami the median sale price of an existing home in the first quarter of 2006 was \$377,000, up from \$339,000 the same quarter a year before.

In the month of August there was a 37% drop in realtor sales, from 1,106 units in 2005 to only 695 in 2006. Sales prices went up by five percent though, from \$248,600 August 2005 to \$261,000 in August 2006. The month of September proved to be much of the same. October showed a six percent increase from the previous year, but November showed another decrease of eight percent (see Table 5).

Sales by realtors of existing condominiums only dropped 12% in Miami, from 949 units in July 2005 to 837 units a year later, while the median price dropped 11%, from \$281,900 in 2005, to \$252,000 in 2006.

In Miami the number of condo units sold in August were 761 in 2006, down from 1,087 in 2005, meaning a drop of 30%. The median sales price only decreased from \$258,500 to \$249,800, a drop of only three percent. In the month of September we do see a difference of 40% from the year before in the number of sales, with a one percent rise in the median sales price (from 1106 to 666). The decrease in October to six percent is not indicative of improving conditions, especially once we look at the next month and we see a drop of 34% (see Table 6).

Naples

The number of realtor sales and the median price for single family, existing homes did not vary much from the same months a year ago. However, the number of realtor sales of condominiums did vary greatly. From July 2005 to July 2006 we saw a

62% drop in sales. For August it was a 66% decline and for September it was 62%. This all occurred while median sales prices for these condos remained somewhat steady. In October we see a percentage change in prices of 17% due to the threat of a hurricane (see Tables 7 and 8).

Orlando

In July the Orlando area inventory of existing homes on the market was nearly five times what it was a year earlier, the highest among 26 metro areas in Florida. Total building permits for the Orlando MSA in the month of July decreased by seven percent from the year before.

For the first quarter of 2006, the median sale price of an existing home was \$260,500, up from \$194,400 in the same quarter the previous year. Realtor sales of single family existing homes in Orlando dropped by 27%, from 3,137 units sold in July of 2005 to 2,281 units sold in the same month of 2006. The median price increased by eight percent to \$266,800 from \$247,900.

The month of August showed greater annual disparity. The number of realtor sales dropped 35% to 2,221 units from 3,418 in 2005. The median sales price increased five percent to \$261,000, from \$248,600 in August 2005. September experienced a 35% decline in the number of units sold in 2006 when compared to 2005, albeit at a six percent higher median price of \$265,000 (see Table 9).

As far as existing condominiums are concerned, realtors were actually able to sell more units in July than the year before⁴. Although they sold more condos in Orlando, they had to do it at lower median prices than the year before a decrease of four percent to \$169,600 (see Table 10).

⁴ Only Gainesville had a higher percentage increase of condominiums sales, with a remarkable 54%.

In August we see a stark contrast to July. There was a drop of 40% in the number of sales from 2005 to 2006. In August of 2005 there were 573 condominiums sold by realtors and in August 2006 it was only 344. The number of sales was not the only figure to fall; median prices dropped as well to \$167,500 from \$182,700, an eight percent decrease.

The figures for September are comparable to those of August. We see a 38% drop in condo sales to 366 units. Median sales prices fell 17% as well, to \$163,400 from \$197,200 the year before.

Commercial Real Estate

All across Florida there have been declines in office vacancies due to the state's economic growth rate. Palm Beach County led with an office vacancy rate of 13.7 percent for the second quarter of 2006. Figure 3 shows declines in office vacancies for various markets in the state. These markets are Fort Lauderdale, Jacksonville, Miami, Orlando, Palm Beach County and Tampa. If economic growth in the state declines as expected, then the office vacancies numbers should stabilize.

Nationally, Real Estate Investment Trust that deal primarily with commercial real estate have been doing well, although some are skeptical. In 2006 office rents increased 9%, but large rent increases may not last due to the slowdown in demand.

Interest Rates

Interest rates were on the rise since July of 2005, when the monthly average commitment rate on 30-year fixed-rate mortgages was at 5.70%. However they appear to have peaked at a rate of 6.76% in July 2006, and have been decreasing since. They are likely to steady or slightly keep on falling (see Figure 4).

The Historical Perspective

National trends from the last forty years shed light as to what is occurring. The housing market goes through cycles where we encounter expansions followed by contractions. Yet we always revert to some natural rate. What we are experiencing now is simply a return to that natural rate. Taking a look at median existing home prices (Figure 5) and using a one percent trend line, we can see that real home prices are returning to trend, from a peak in June 2005. Figure 6 suggests that having reached peaks in inventories will lead to stabilization as well. A decline in housing starts (Figure 7) and housing permits (Figure 8) is further proof. Nonetheless, the Florida housing market will likely see the drop in prices last a little longer than other states due to the higher levels of prices it experienced at its peak.

The Future

Several issues will affect the future of the housing market in Florida. Some of the most glaring ones are property taxes and insurance. Property taxes in Miami are some of the highest in the nation. And property insurance is so significant that it was one of the focal points for the Florida gubernatorial candidates. The numerous hurricanes in 2005 led to a spike in insurance rates for 2006, but residents were pleased that the dormant 2006 hurricane season will prevent further increases in those rates.

Another factor that will continue to affect the housing market in the future will be the proportion of housing expenditure in relation to income. In Miami-Dade County for example, 54% of homeowners pay more than 30% mortgage expenses. And 27% pay more than 50%. National averages are 35% and 13% respectively. In response, workers are forced to move to areas where either wages are higher or housing costs are lower.

Nevertheless, unemployment rates in Florida are the best among the largest states in the country, at 3.3 percent.

**Table 1
Fort Lauderdale
Single Family Existing Homes**

	2006	Realtor Sales	Median Sales Prices		2005	Realtor Sales	Median Sales Prices	% Change in sales	% Change in Price
Jul-06	721		\$380,400	Jul-05	1,029		\$385,600	-30	-1
Aug-06	702		\$362,800	Aug-05	966		\$387,000	-27	-6
Sep-06	741		\$370,300	Sep-05	977		\$379,400	-24	-2
Oct-06	591		\$349,400	Oct-05	561		\$368,900	5	-5
Nov-06	605		\$362,000	Nov-05	788		\$391,100	-23	-7

**Table 2
Fort Lauderdale
Existing Condominiums**

	2006	Realtor Sales	Median Sales Prices		2005	Realtor Sales	Median Sales Prices	% Change in sales	% Change in Price
Jul-06	696		\$209,100	Jul-05	1,143		\$200,400	-39	4
Aug-06	704		\$204,300	Aug-05	1,044		\$201,500	-33	1
Sep-06	647		\$205,800	Sep-05	1,203		\$204,600	-46	1
Oct-06	580		\$210,100	Oct-05	737		\$194,500	-21	8
Nov-06	560		\$199,700	Nov-05	910		\$198,900	-38	0

**Table 3
Fort-Myers-Cape Coral
Single Family Existing Homes**

	2006	Realtor Sales	Median Sales Prices		2005	Realtor Sales	Median Sales Prices	% Change in sales	% Change in Price
Jul-06	694		\$264,600	Jul-05	1,026		\$287,500	-32	-8
Aug-06	691		\$264,100	Aug-05	968		\$283,600	-29	-7
Sep-06	693		\$261,400	Sep-05	1,075		\$288,700	-36	-9
Oct-06	686		\$249,200	Oct-05	506		\$445,100	36	-44
Nov-06	637		\$258,600	Nov-05	810		\$295,400	-21	-12

**Table 4
Fort-Myers-Cape Coral
Existing Condominiums**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	179	\$346,300	Jul-05	356	\$256,700	-50	35
Aug-06	100	\$237,500	Aug-05	280	\$278,100	-64	-15
Sep-06	61	\$305,600	Sep-05	126	\$314,800	-52	-3
Oct-06	153	\$269,000	Oct-05	87	\$326,500	76	-18
Nov-06	119	\$245,000	Nov-05	130	\$285,000	-8	-14

**Table 5
Miami
Single Family Existing Homes**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	673	\$382,200	Jul-05	1,092	\$363,800	-38	5
Aug-06	695	\$378,800	Aug-05	1,106	\$356,900	-37	6
Sep-06	769	\$371,700	Sep-05	872	\$371,200	-12	0
Oct-06	544	\$356,000	Oct-05	511	\$366,300	6	-3
Nov-06	645	\$372,400	Nov-05	699	\$381,600	-8	-2

**Table 6
Miami
Existing Condominiums**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	837	\$252,000	Jul-05	949	\$281,900	-12	-11
Aug-06	761	\$249,800	Aug-05	1,087	\$258,500	-30	-3
Sep-06	666	\$270,800	Sep-05	1,106	\$269,200	-40	1
Oct-06	508	\$250,000	Oct-05	541	\$259,300	-6	-4
Nov-06	627	\$257,400	Nov-05	948	\$273,000	-34	-6

**Table 7
Naples
Single Family Existing Homes**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	227	\$461,800	Jul-05	459	\$490,400	-51	-6
Aug-06	259	\$469,100	Aug-05	472	\$500,800	-45	-6
Sep-06	236	\$446,900	Sep-05	377	\$487,500	-37	-8
Oct-06	204	\$420,000	Oct-05	280	\$505,400	-27	-17
Nov-06	182	\$415,200	Nov-05	333	\$479,800	-45	-13

**Table 8
Naples
Existing Condominiums**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	169	\$352,400	Jul-05	450	\$350,500	-62	1
Aug-06	163	\$357,100	Aug-05	473	\$332,800	-66	7
Sep-06	173	\$378,600	Sep-05	456	\$365,700	-62	4
Oct-06	152	\$355,600	Oct-05	266	\$380,300	-43	-6
Nov-06	128	\$334,500	Nov-05	273	\$377,400	-53	-11

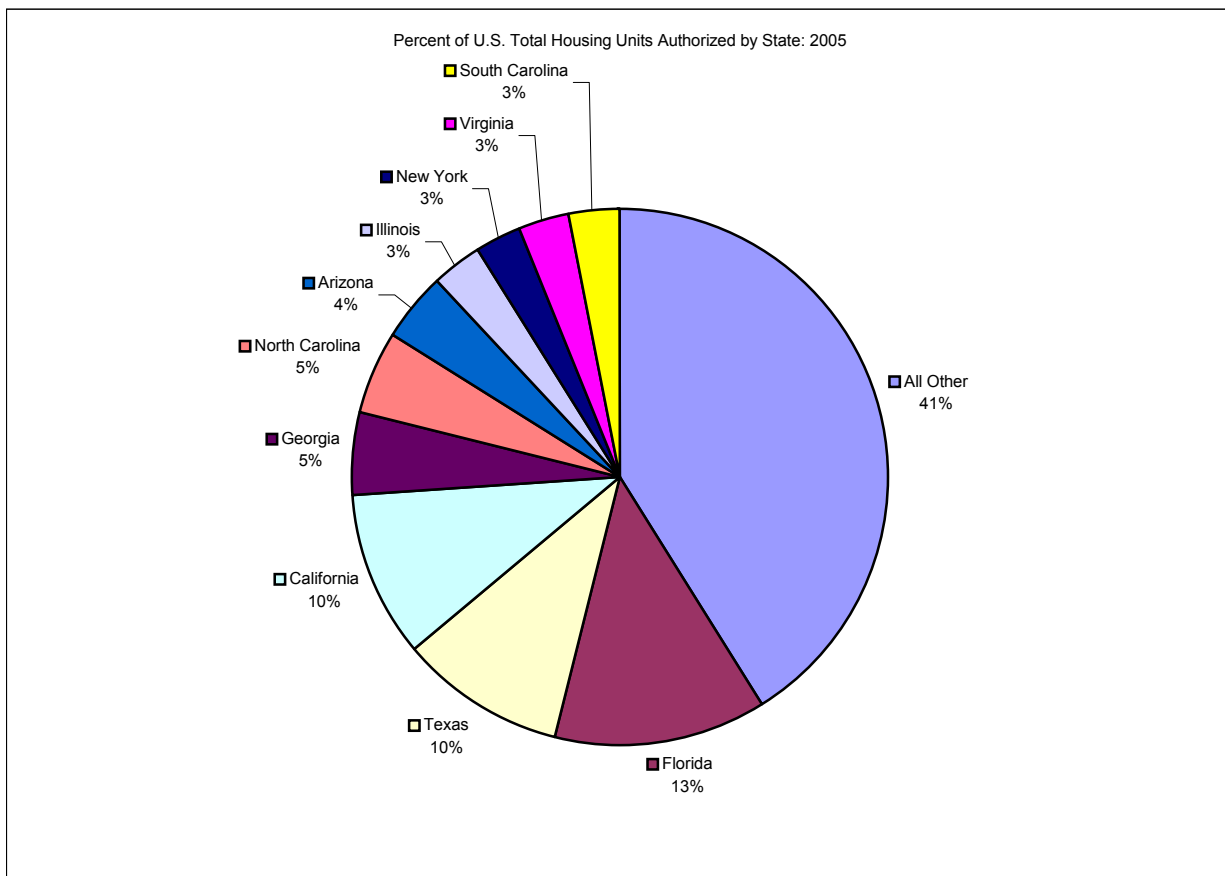
**Table 9
Orlando
Single Family Existing Homes**

	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	2,281	\$266,800	Jul-05	3,137	\$247,900	-27	8
Aug-06	2,221	\$261,000	Aug-05	3,418	\$248,600	-35	5
Sep-06	2,015	\$265,000	Sep-05	3,105	\$250,100	-35	6
Oct-06	1,917	\$267,100	Oct-05	2,702	\$255,100	-29	5
Nov-06	1,705	\$263,600	Nov-05	2,656	\$254,600	-36	4

**Table 10
Orlando
Existing Condominiums**

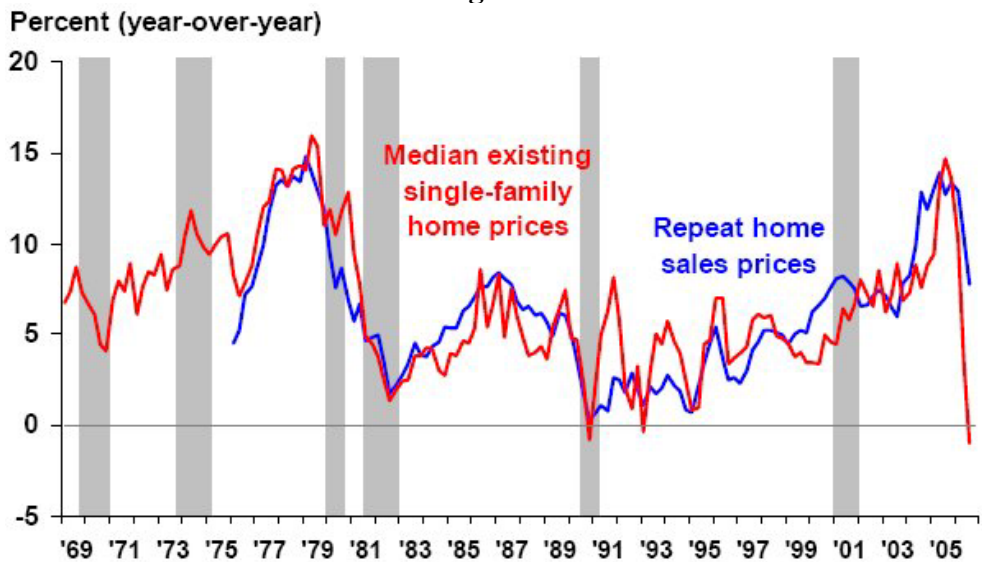
	2006	Realtor Sales Prices		2005	Realtor Sales Prices	% Change in sales	% Change in Price
Jul-06	408	\$169,600	Jul-05	355	\$176,300	15	-4
Aug-06	344	\$167,500	Aug-05	573	\$182,700	-40	-8
Sep-06	366	\$163,400	Sep-05	590	\$197,200	-38	-17
Oct-06	262	\$163,800	Oct-05	433	\$187,800	-39	-13
Nov-06	276	\$171,800	Nov-05	467	\$182,400	-41	-6

Figure 1



Source: Federal Bank of Atlanta

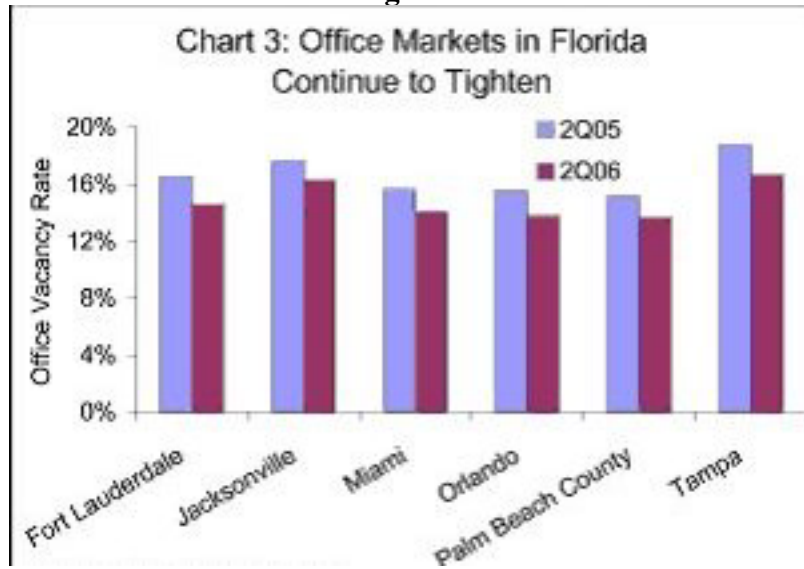
Figure 2



Note: Shaded areas denote recessions

Sources: National Association of Realtors; Office of Federal Housing Enterprise Oversight

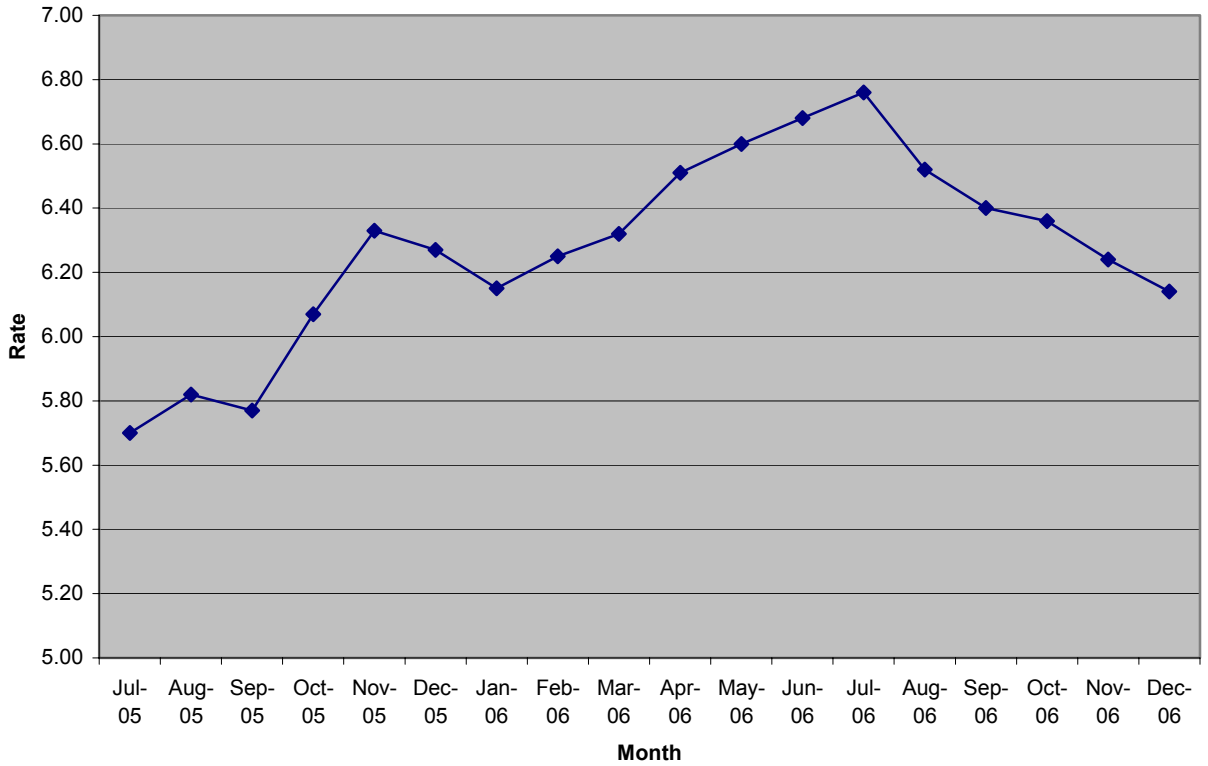
Figure 3



Source: Property and Portfolio Research

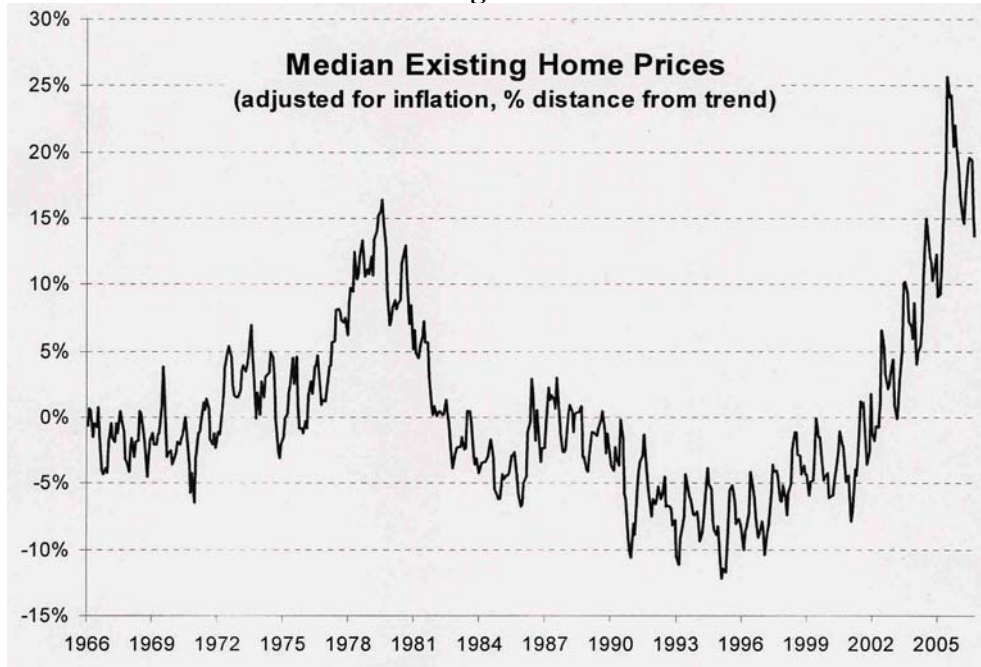
Figure 4

Monthly Average Commitment Rate On 30-Year Fixed-Rate Mortgages



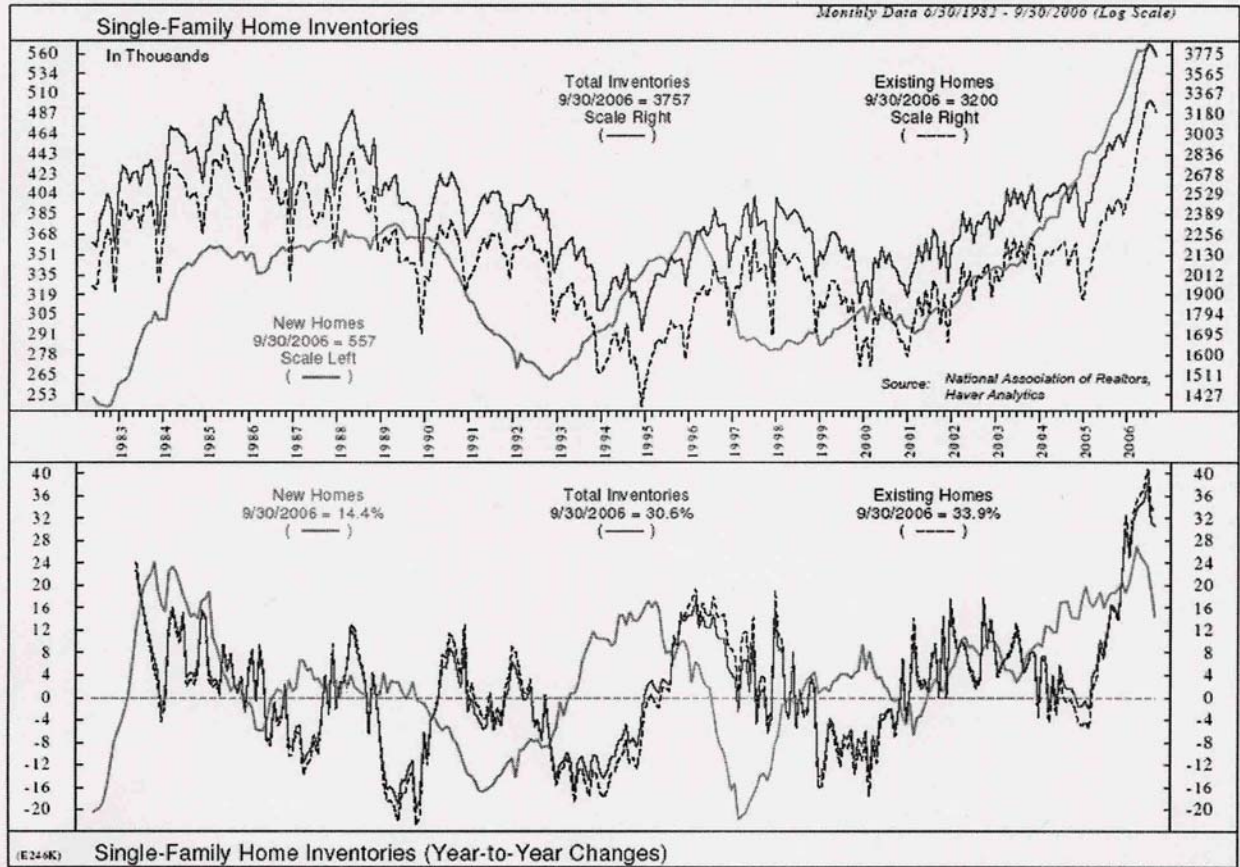
Source: Freddie Mac

Figure 5



Source: Investment Strategy Department at Wachovia Securities

Figure 6



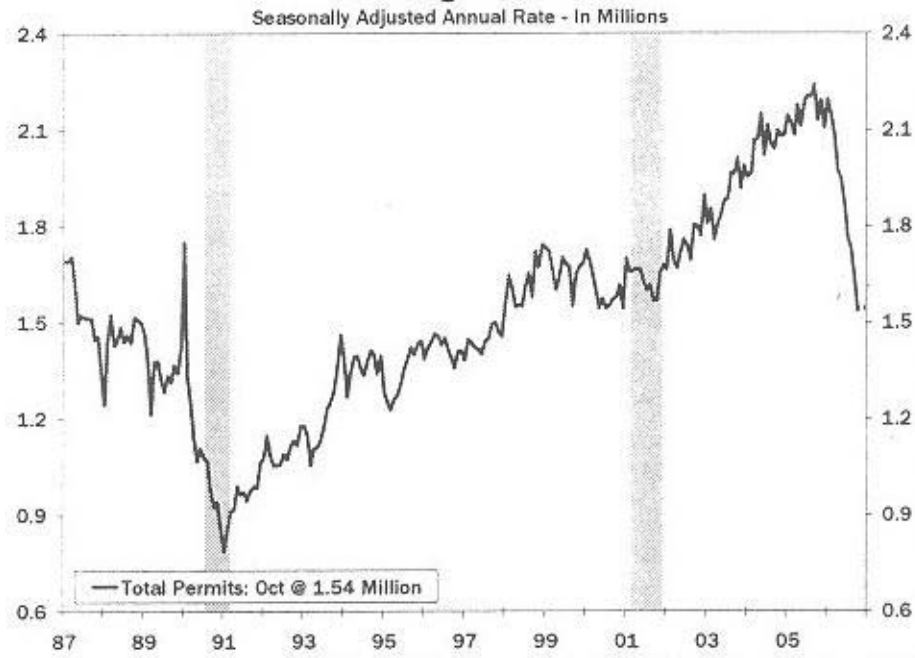
Source: Investment Strategy Department at Wachovia Securities

Figure 7
Housing Starts



Source: Investment Strategy Department at Wachovia Securities

Figure 8
Housing Permits



Source: Investment Strategy Department at Wachovia Securities

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