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POST IN DEPTH REAL ESTATE REBOUND

Experts see no real estate bubble

Despite hikes, South Florida home prices still below normal.

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Harrowing home-price gains in Palm Beach County this year may seem reminiscent of the heady days before the real estate market crashed, but economists say the region is not veering toward another bubble.

Shrinking supply, investor demand and low mortgage rates combined to shoot median sale prices up 22 percent between January and the year's high so far of $265,000 in April, according to the Realtors Association of the Palm Beaches.

Yet they still have a ways to climb before they reach a level that would be considered normal if the crash had never occurred.

One estimate from the San Francisco-based company Trulia says Palm Beach County's home prices are 14 percent undervalued when factors such as income, long term price trends and rental costs are considered. Broward and Miami-Dade counties are 3 percent and 4 percent undervalued, respectively, according to Trulia.

At the peak of the market in 2006, Palm Beach County was 77 percent overvalued, Trulia estimates. Broward and Miami-Dade counties were 83 percent and 85 percent overvalued.

"Not every price increase is a bubble," said Jed Kolko, Trulia's chief economist. "Not every price decline is a bubble bursting."

Economists define a bubble as when prices get far above the level that can be supported by economic fundamentals, including income and historic pricing. It's usually driven by speculators who bid up sales with the expectation that prices will keep increasing at a rate beyond what the economy can handle.

And there are areas of the country closer to bubble territory than South Florida. Orange County, California, is 12 percent overvalued on Trulia's scale. Los Angeles is 10 percent overvalued. Austin, Texas, is 9 percent overvalued.

Small increases in the mortgage interest rate could push those regions into an area where housing is less affordable than historic norms, said Svenja Gudell, senior economist at real estate website Zillow.com.

Zillow analysts found that a 5 percent interest rate would put 30 major metropolitan areas, including San Francisco, Los Angeles, San Diego and Boulder, Colo., into price brackets where homeowners would be paying more per month on their mortgages than they have in the past.

The average interest rate on a 30-year fixed-rate mortgage was 4.5 percent on Thursday, according to federal mortgage backer Freddie Mac. That's down from 4.57 percent the week before, but up from the average of 3.47 percent in September of 2012.

South Florida homeowners have historically spent 19 percent of their monthly income on their mortgages. Currently, they're spending only 15 percent, according to Zillow.

But if interest rates hit 6 percent — something economists don't think will happen until at least 2015 — South Florida homeowners would be spending 21 percent of their pay on their mortgages if incomes do not increase significantly.

Still, that's not enough to be a bubble, Gudell said.

"We're really not super worried at all about a housing bubble in the South," she said. "I don't think any South Florida markets are at risk right now of serious price declines."

According to the Zillow home-value index for single-family homes, Palm Beach County values in July were 42 percent below where they were in April 2006.

The S&P/Case-Shill-er price index, one of the most respected home price gauges in the country, showed South Florida — Palm Beach, Bro-ward and Miami-Dade counties — prices down 41 percent in June from their 2006 peak.

“South Florida is still a good deal even though we’ve had some pretty rapid price increases,” said Ken H. Johnson, a Florida International University real estate professor. “Housing is still fundamentally below where it should be right now.”

Johnson said bubble concerns are fueled by the fast rise in prices and the continuing strain felt from the last market crash. People are still shell-shocked and wary about anything that reminds them of the frenzied pre-bust market.

He estimates that at a typical price appreciation rate of 4.5 percent per year, a Palm Beach County house bought in 1991 for $100,000 should be worth about $263,365 today.

But a housing price index calculator created by the Federal Housing Finance Agency puts the true current value at $209,260.

“We had a very traumatic real estate experience just a few years ago,” Johnson said. “People are saying, ‘You know, I’m not sure we’re in a bubble, or whether we’re close, but I’d rather be safe than sorry.’”

Anyone concerned about rising prices may feel some relief from August’s home sales that showed a median single-family home price of $250,000, nearly level with July’s $249,000. The price, however, was still up 16 percent from the previous year.

That’s more in line with what investor Chip Bryan, of Boca Raton-based ReBOUND Residential, said he is seeing in the market.

Bryan, whose firm buys mostly short sales and foreclosures to renovate and rent, said some Wall Street and out-of-state investors are paying above market rate for homes, driving up prices in some neighborhoods.

For example, Bryan bought an 1,100-squarefoot town home in the Lake Colony community off Kirk Road and north of Summit Boulevard for $31,000 in April 2011. In July, a 1,200-squarefoot town home one street south in the same development went for $120,000.

It was bought by the company Capellania, LLC, which has a Boca Raton mailing address, but whose managing members live in France, according to Department of State records.

Bryan said he’s not anticipating another pricing bubble, but said it’s good that people are paying attention to the increases.

“Hopefully that will result in everyone plotting a more careful and cautious path so we don’t see a repeat of what we just went through,” he said. “My gut reaction is that we will see some correction that may be an abrupt flattening of the market as far as pricing.”

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