



Jennifer Wollmann, CIPS, C2EX  
2021 Chairman of the Board  
MIAMI Association of Realtors

## South Florida's Strong Housing Fundamentals Portend Long Success

The surging housing market--- both nationally and in South Florida--- is the star of the economy with a long streak of double-digit annual home sale gains, and some are questioning whether the market is in a bubble. But this is not 2006. From the tight standards lenders use for loans to the primary homebuyers who are purchasing homes in the area, South Florida's housing fundamentals are robust.

### Tight Lending Practices in South Florida Real Estate

Lending standards are much tighter than they were prior to 2006, with buyers being required to provide tax data, paychecks, and other information to confirm they can afford a mortgage.

Under the Dodd-Frank financial reform law (signed in 2010), highly risky loan products, like negative amortization mortgages, are banned. Borrowers must document their employment and debt levels. Lenders must disclose all the costs involved in each loan, and lenders must verify a borrower's ability to repay the mortgage.

Standards are so high that the average FICO credit score on loans made today are the highest in history. The New York Federal Reserve found the median credit score of first-time mortgage borrowers in 2020 was about 740. A credit score of 700 or above is generally considered good, and the median for 2020 was "more prime" than ever dating back to 2002.

Product risk --- such as from mortgages with introductory periods, teaser rates or balloon payments--- comprised about 40% of the mortgage market between 2004 to 2006. Today, those factors are only 2% of the mortgage market, according to Morgan Stanley.

### Primary Home Buyers Purchasing South Florida Homes

Primary homebuyers, not investors, comprise the bulk of the consumers buying South Florida homes today.

South Florida home sales are rising because record-low mortgage rates and pent-up demand. With increased remote work and remote education availability, more Northeastern and West Coast homebuyers and reach and finance companies are relocating here.

The U.S. currently has its best housing demographic (the largest number of replacement home buyers it has had in the ages 26-33). Millennials (82.2 million) and Generation-X (65.1 million) are entering their prime home buying years (the average age for first-time home buyer is 33), and many of them have built solid careers in tech, finance and other industries.

The influx of buyers from the Northeast and West Coast tend to have higher incomes, and our properties are a bargain compared to the areas they are moving from. Coupled with what they save in income taxes by moving here, they are willing and able to pay more and often are making cash offers that are not contingent on appraisals.

International buyers, particularly from Mexico and Spain, continue to purchase and will significantly expand as the global economy recovers.

### Prices are Rising Not Because of "Bubble Fears" but Because of Low Supply, High Demand

Rising median prices is a trend nationwide as record-low mortgages rates and the increased availability of remote work and education has accelerated the demand for housing. Low inventory relative to high demand leads to prices rising.

Should mortgage rates resume their upward climb, home price growth is likely to slow in response. Also, as more sellers list properties in 2021, the increased inventory should ease the growth of median prices.

Miami remains a bargain compared to other global cities. In Miami, \$1 million can net homebuyers 85 square meters of prime property, according to Knight Frank's 2021 The Wealth Report. Monaco (15 square meters), Hong Kong (23), London (31), New York (34) and Geneva (35) and others offer significantly less prime land for \$1 million.

Jennifer Wollmann, CIPS, C2EX  
BHHS EWM Realty  
(305) 960-2418  
Wollmann.j@ewm.com

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