

Why Do Home Prices Rise as the Market Deflates?



By Michael Butler, Rebecca San Juan

The main reason: Inventory. Many buyers are still willing and able to purchase a home at today's higher interest rates, but fewer sellers are opting to list.

MIAMI – Many prospective homebuyers sent a strong message at the start of 2023: They are done trying to buy homes in South Florida, as annual sales nosedived in January in Miami-Dade and Broward counties.

For residents patiently waiting to buy a bigger house here or move to a different neighborhood for better quality of life, the regional housing slowdown after two years of rapid growth is expected to bring price relief later this year, real estate experts said.

In Miami-Dade, total existing home sales plummeted by 47% in January, to 1,402 transactions from 2,645 sales a year ago, according to Miami Association of Realtors' monthly sales report released Tuesday. Broward, meanwhile, experienced a similar crash in closed home deals. Closings fell by 39%, to 1,552 sales from 2,559 in January 2022.

Still, sellers in both counties remained stubborn, therefore home prices rose last month compared with a year ago. In Miami-Dade, the median sales price of a single-family home was \$545,000, up from \$520,000 in January 2022. The midpoint price of a condominium was \$400,000 compared to \$360,000 a year ago.

In Broward, single-family home prices last month jumped to \$540,000 from \$500,000 in January 2022, and condo prices were \$269,900, a boost from \$240,000.

"Prices are robust," said Eli Beracha, real estate professor and director of Florida International University's Tibor and Sheila Hollo School of Real Estate. "Normally we see lower deals and prices. The reason why we see that is because there's not much inventory. Because interest rates went up so fast, there are fewer sellers who are choosing to upgrade."

A decline in regional January home sales activity reaffirms what experts like real estate analyst Jack McCabe predicted – that we would see a gradual correction in the South Florida housing market that’s been overheated for the past couple of years. However, the demand for a very tight supply of homes for sale continues to boost year-over-year prices.

The big question is will demand slack enough for annual home prices to fall?

Monthly trends show the market going south but in a zig-zag fashion. Although sales have been falling since October, midpoint prices advanced between December and last month.

Today, Miami-Dade has four months of inventory of single-family homes and condos. Broward has three months of inventory of single-family homes and 3.1 months of supply of condos. In both counties, those inventory levels fall below a balanced market of six to nine months of inventory.

No matter, the housing cooldown that’s finally underway comes as good news for buyers waiting on the sidelines. Although prices remain higher compared to last year, month-to-month sales prices show a consistent decline in South Florida. In Miami-Dade, median sales prices have fallen from \$575,000 in October 2022 for single-family homes and from \$395,000 in November 2022 for condos.

Prices continue to fluctuate monthly in Broward, too.

Certain condo sellers are finally caving in and accepting offers 15% below the asking price, said David Siddons, a real estate agent with Douglas Elliman. Sales prices are expected to fall for condos priced between \$500,000 and \$3 million since most buyers within this part of the market are either investors or people who depend on financing.

“All of the sellers are going to have to wake up,” Siddons said. “Some sellers are not just moving.”

The forecast for housing prices remains clouded with uncertainty. Although monthly prices have been volatile in Miami-Dade since last fall, Siddons said he expects them to remain strong. Why? Many single-family home buyers keep coming from out of state – think New York and California – and many of them continue to buy South Florida houses and condos with cash.

In fact, nearly half of home deals in January – just over 40% – were cash purchases in Miami-Dade and Broward, much higher than the 29% national average.

South Beach resident Christina LaBuzetta moved into her new condo in June 2022. She has lived in this highly desirable part of Miami Beach since the early 2000s, and considers much of the real estate there and throughout Miami to be “overpriced.”

“It’s very hard,” she said. “Imagine the people that work in the hotels and restaurants. They must have a hard time because of the long commutes from where they have to live. It’s too expensive here for somebody that’s living on a working wage.”

Like many Miami-Dade residents, LaBuzetta is concerned about the city’s protracted housing affordability crisis and what it means for the area’s economic future.

“It’s the economy of supply and demand,” she said. “It’s what we’re living with.”

While prices may slightly drop year-over-year at some point in 2023, Beracha predicted they won’t fall by much. He said South Florida needs between five to 10 years’ worth of new housing construction at the pace homes are being built today. And higher interest rates since early last year have slowed home building.

“We still have a severe housing shortage,” FIU’s Beracha said. “The housing shortage is not going to be resolved any time soon.”

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