

# Home demand is still high in South Florida despite an overvalued market

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## Home demand is still high in South Florida despite an overvalued market



A study released by researchers with Florida Atlantic University and Florida International University indicates that despite what appears to be a moderation in prices, housing markets across the country are still overvalued, especially when compared to long-term pricing trends.

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As housing prices across the country have been stabilizing, this should not necessarily signal a sigh of relief for would-be homebuyers any time soon.

Housing markets across the country are still overvalued when compared to long-term pricing trends, according to a recent study released by researchers with Florida Atlantic University and Florida International University. In Miami metropolitan area, homes have been overvalued [by nearly 39%](#).

And what's more, despite the hurdle of overvalued homes in South Florida, it isn't doing much to curb demand: Homes are still quickly flying off the market, real estate agents say.

"It's like a frog leap in many communities," says Bonnie Heatzig, the executive director of luxury real estate for Douglas Elliman Real Estate. "I'm seeing one home break a ceiling for the highest sale, and then the next home that comes on the market breaks that ceiling for another higher sale. And I think that's largely a product of supply and demand."


### **When are homes priced too high?**

Homes that are deemed "overvalued" indicate a cost for a property that is well above whatever the historical relationship is between home prices and incomes as well as rents and construction costs.

Ken Johnson, a real estate economist at FAU's College of Business, likened home overvaluation to consistently buying a loaf of bread each week for several years.

"The average price of that bread was \$1. You go, and you pay and then all of a sudden you start paying \$1.25, right? But the long-run average is still \$1," he said. "So you're paying above the historic price of the bread. So \$1.25 minus \$1 divided by the \$1 is a 25% premium."

The same happens with home sales. For example: "If we're selling at \$400,000, that should be at \$300,000, then that's 400 minus 300 divided by the 300, which is 33%," Johnson said. "It would be a 33% premium. So it's just a percentage difference."



### When is the right time to buy?

Unfortunately for those seeking to purchase a home, it may be several years before buyers do not have to pay a premium, or an extra quantity of money, for a home.

Researchers warn those who wish to buy and then resell in a short window of time that buying a home and intending to stay in it for several years might be a safer route.

"Purchasing should perform as well in terms of wealth creation as renting and re-investing," Eli Beracha, Ph.D. of FIU's Hollo School of Real Estate, said [in a news release](#). "For example, in Miami, there's no reason to suspect a crash in prices as witnessed 15 years ago, when the average property lost upwards of 60% in its value. Supply and demand are completely different this time around."

The Miami metropolitan market the researchers study extends through Broward and Palm Beach counties, Johnson said.

Heatzig doesn't necessarily believe homes are overvalued in South Florida. "The market is telling us exactly where we are today, and this is where we should be based on market factors, and our supply right now is very, very tight," she said. "I don't see any demand letting up."

Both researchers and Realtors do agree, though, that prices will not see a sudden decrease, so waiting to buy or rent would not be beneficial.

"People moving into the marketplace are probably going to be faced with either really high home prices or really high rent, in the long run," Johnson said. "I think a lot of people are simply going to move to the sideline and continue doing whatever it is they were doing."



#### **Abigail Hasebroock | Reporter**

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