

UF survey: State's insurance crisis tops list of real estate trends

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Florida's vast real estate market and ultimately the economy of the state are threatened by spiraling insurance rates, says a University of Florida researcher.

"The entire economy will have to adjust to these higher insurance costs," said Wayne Archer, director of UF's Center for Real Estate Studies, which recently completed a new quarterly survey of Florida real estate trends. "It's a big enough hit, just like gas prices, that it will ultimately affect every business and every price that is property intensive."

The unusually active 2004-05 hurricane season precipitated the higher rates, and while these have already struck homeowners and apartment owners, who are passing costs on to tenants by raising rents, commercial tenants have not been affected yet on a large scale, Archer said.

Commercial leases are usually for longer periods of at least five years, and as these agreements are renewed over the next few years, businesses are likely to respond to the cost by increasing rents, resulting in their tenants raising the price of their products, he said.

"The most dramatic increases will be in the cost of real estate, but consumer prices will also go up some, just as rising gas prices put pressure on costs across the board," he said.

The insurance crisis was identified as the biggest trend in Florida's real estate market in the center's new statewide quarterly survey. Industry

executives, real estate lawyers, market analysts, title insurers, financial advisers, market research economists, real estate scholars and other experts in the field from around the state were asked a series of questions by UF's Survey Research Center in July. The softening housing market was the second most mentioned trend.

“The respondents were very conscious that the housing market is softening,” Archer said. “With inventories of single-family homes building up, they’re apprehensive about what might begin to happen to prices and sales. They’re even more concerned about condos and think prices could begin to fall in some cases.”

While 69 percent of the survey respondents expect condo prices to lag behind inflation or even decline, only 47 percent of the respondents were as pessimistic about single-family home prices, Archer said. And while nearly 70 percent expect a downturn in absorption rates – the rate at which properties are able to be leased or sold – 61 percent expect the same pattern in single-family housing, he said.

Condos typically are a more volatile market than single-family housing and frequently a magnet for speculators who have no professional real estate experience, Archer said.

“Condos seem to be an easy way for fairly immature investors in real estate to speculate in a market they think is trending upwards,” he said. “Often they are naïve about when overbuilding occurs and as a result tend to be overly optimistic.”

The recent explosion in apartment-to-condo conversions is beginning to slow and will slacken even more as the housing market continues to soften, Archer said.

Unusually low interest rates over the past few years encouraged many

people to buy homes, which left a weak market for apartments, encouraging apartment owners to convert their rental units into condos to capture would-be buyers, he said.

Archer said if a sharp downturn in the housing market occurs, as some predict, Florida will be less affected by it than other states because of the insulating effect of its high population growth rate. Despite some people's worst fears, housing is unlikely to suffer the same fate as tech stocks at the beginning of the decade, he said.

“Unlike tech stocks, housing has a use, which means it can't just evaporate,” he said. “Even in the worst cases the prices may go flat, but unless the project is just unbelievably poorly conceived and constructed, it won't lose its value.”

The highest percentage of survey respondents was optimistic about the investment outlook for property in Miami-Dade County, the southwest coast and in the Lakeland-Winter Haven area. They were least optimistic about the Daytona area, Orlando and Tampa-St. Petersburg.

Source: University of Florida

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