Investors Driving Local Housing Market?

In 2016, the Haas Center examined the local housing market to see if another housing bubble might be forming. We found that while home prices had rebounded 17.5% from their lowest point as of the last quarter of 2015, they were still below what might be expected if the bubble had not happened.

We also noted that while prices were climbing, construction employment - a proxy for new home starts - was lagging. This suggested that conditions were operating in a traditional fashion and a lack of housing supply was supporting home prices rather than the factors that generate bubbles.

A further two years removed from the bubble market, home prices in the Pensacola MSA are continuing to climb and construction employment is still lagging behind.

![Housing Market in Pensacola MSA](image)

*Source 1: Federal Reserve Bank of St. Louis FRED Economic Data and Florida Department of Economic Opportunity QCEW data.*

The still relatively low construction employment suggests that new homes are not being built in the area in sufficient quantities to meet the demand for housing.

This low supply of new houses is confirmed by looking at the most recent building permits data. While the number of permits has climbed significantly up from the height of the housing crisis, they still remain below the levels previously seen – excluding periods of hurricane recovery.
As reported by the US Census Bureau, home ownership rates in the area have declined from 70.3% in the 2007-2011 time-frame to 64.6% in the 2012-2016 estimates. Both Escambia and Santa Rosa counties have seen this decline. There has also been a significant downward trend in both counties on the percentage of single family homes sales that qualify for the homestead exemption, with numbers falling from about three quarters of all households to just over half in Santa Rosa and just over one third in Escambia.

Source 3: Shimberg Center for Housing Studies, University of Florida
Where is the demand coming from to support rising home prices if new home purchases are not qualifying for homestead? This contradiction between rising prices, falling ownership and new sales not being homesteaded suggests that investors are the driving force behind the current rise in home values. Despite investors’ intentions to ultimately resell them or to rent them out, it appears that their purchases of existing homes is having the largest effect at present. Whether this is a lingering effect from the housing bubble or a new normal driven by fewer other willing or able purchasers remains to be seen.

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