State of Housing Report
Santa Rosa County, Florida
May 2017

Produced by:

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Home Builders Association of West Florida

Land Use - Santa Rosa County

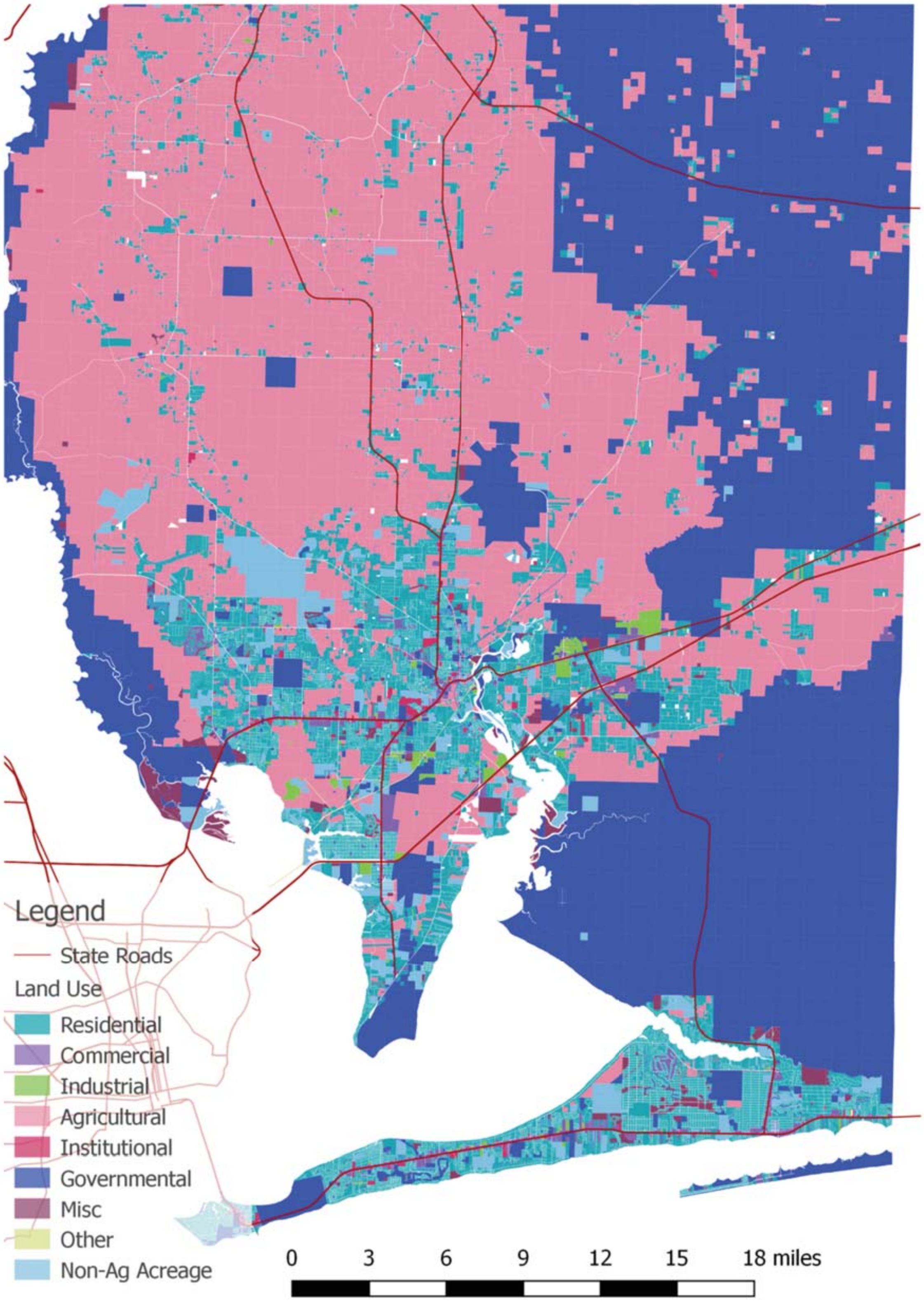


Table of Contents

A Message from the Home Builders Association of West Florida

Santa Rosa County has long been one of the fastest growing counties in one of the fastest growing states in the nation. Regional job creation and a swelling number of retirees have combined to create a dynamic environment where developers, builders, realtors, and other businesses help the County meet its commitment to provide a high-quality home for all new Santa Rosa residents.

As part of the collaboration between County government and the businesses that meet the needs of residents, the Board of County Commissioners agreed to solicit input from community business leaders into the comprehensive planning process. The following report, commissioned by the Home Builders Association of West Florida and performed by UWF economist Dr. Rick Harper, provides detailed information about the Santa Rosa housing market.

Among the key findings that emerge from the research are:

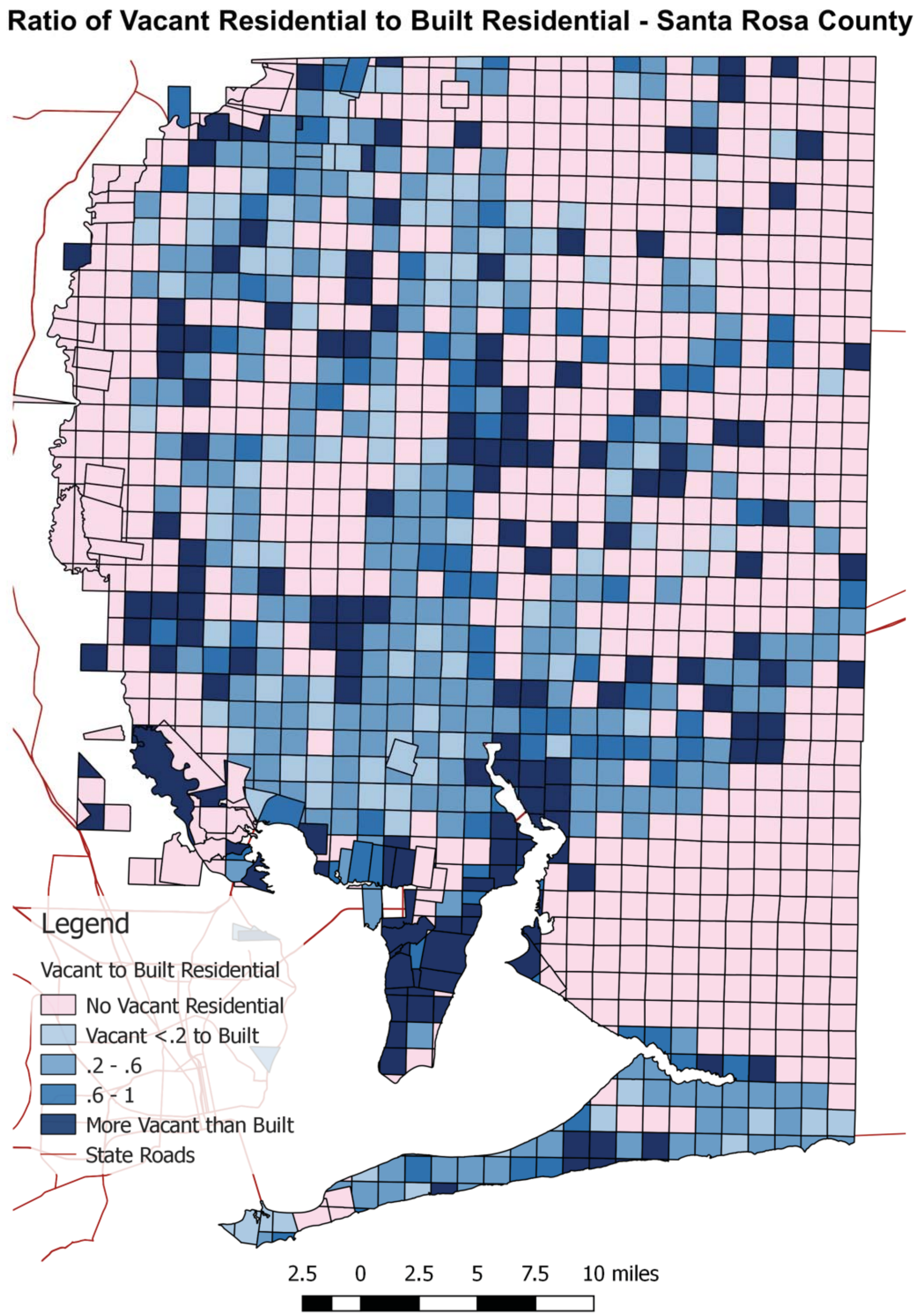
- The estimated annual economic impact of production of 1,500 new homes per year, at the current median price per new home, is $288 million in local income, along with $25.8 million in taxes and other revenues to local governments. This creates 5,327 net new jobs in the local economy.
- Inventories of homes for sale were down by 53 percent in February 2017 relative to 2010, with declines from July 2015 onward picking up pace. Of significant impact on inventory levels is a significant decrease in the number of lots available for new home construction.
- As with housing markets nationwide, affordability in Santa Rosa will be challenged by expectations of increases in mortgage interest rates, a scarcity of inventory and a financial regulatory environment not as conducive to real estate lending as it once was.
- The Santa Rosa residential real estate market is currently healthy, with a rising number of transactions in both the new and existing home markets. Price increases have been strongest in the existing home market, with prices rising to more closely match new home prices.
- Concentration is increasing in the home-building market over time, possibly reducing competition. The number of builders delivering new homes to customers is lower than it was a generation ago, in 1991. However, surviving builders are larger, with the average number of homes delivered per active builder per year being triple what it was a generation ago.
- Higher required capital levels for so-called high-volatility commercial real estate (HVCRE) assets such as undeveloped land are the law of the land for lenders today. This has stymied financing for the flow of new land projects through the pipeline that would have kept the supply of buildable lots high.
- Local job growth, with the ongoing shift into services targeted at the growing retiree and the tourism sectors, will not be sufficient to support neighborhood development similar to that of the last decade. Santa Rosa will need to continue to attract higher- income regional commuters.

The study will be fascinating for anyone who cares about the future economic vitality of the County and I encourage you to read it.

Sincerely,

David Peaden
Executive Director
Home Builders Association of West Florida

Figure: Map of Location of Potentially Available Residential Capacity



Source: FL DOR, NAL67F201602VAB

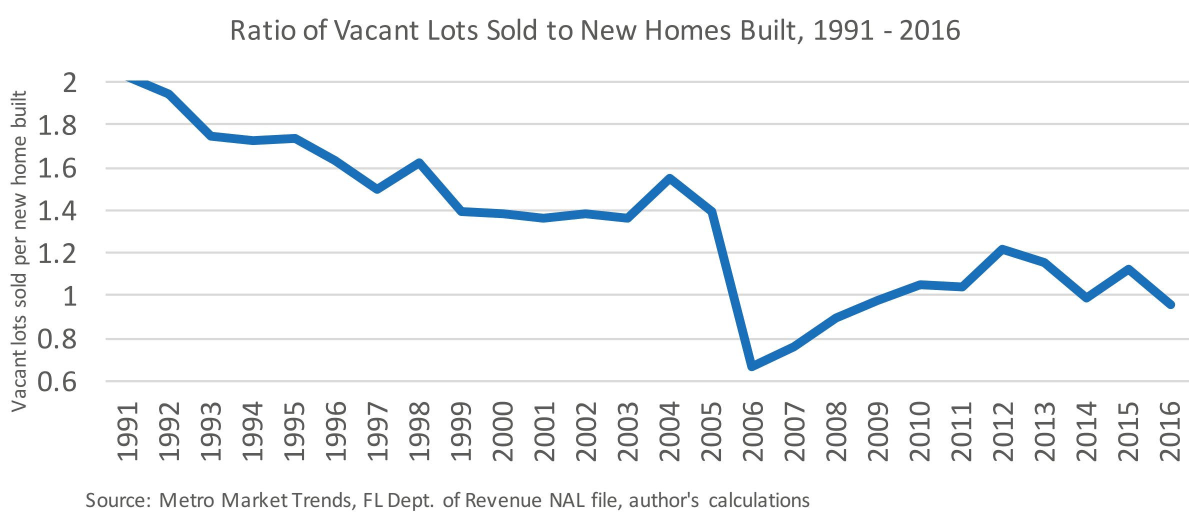
Executive Summary

Santa Rosa has traditionally been among the fastest growing counties in Florida. Its success in attracting residents has been due to strong schools, affordable and newer homes, low taxes, safe streets, and a great quality of life, among other things. These are the factors that have led people to vote with their feet and their wallets and become Santa Rosa residents. They are the factors that will continue to draw new residents in years to come.

Because it is not yet a high-wage employment hub, the growth of the County has been, and will be, tied to the economic successes of its neighbors. These successes are increasing and Santa Rosa will benefit in the same way that it always has. Due to the quality of amenities that attract well-educated, high-earning residents, the most recent data show that Santa Rosa has the highest median household income of any Florida county west of Jacksonville and the fourth highest among Florida's 67 counties.

However, there are worries that the County risks becoming a victim of its own success. Many neighborhoods in desirable areas are largely built out. Builders report that increases in buildable lot prices have led them to hold back on other amenities, including square footage, as they attempt to match home prices to available household income.

Figure: Ratio of Vacant Lot Sales to New Home Sales, 1992 - 2016



Given the regional job growth that is to come, and Santa Rosa's role as the preferred home for the families that fill the best jobs, potential new residents will soon face price increases and or home amenity declines unless developers are able to bring buildable lots to the market at a greater rate. The rates of new lot creation and sales of the last decade will not be sufficient to meet anticipated housing demand at affordable prices. While Santa Rosa's population density might not appear to be large relative to other parts of the State, the large amount of land tied up in parks (Blackwater River State Park, Gulf Islands National Seashore), and military installations (Eglin AFB, Whiting Field) means that scarcity constraints are real.

Much of the disruption of the housing boom/bust cycle that consumed 2003 - 2013 is behind us. Both the number sold and the median sale price of new homes in the County bottomed in 2009, at 482 and $189,350, respectively. In 2016, those numbers had increased to 999, and $220,900. The number of existing homes sold in the County in 2016 was up 90 percent from its 2011 trough of 2,127 homes, and the 2016 median existing home sale price was up 31 percent from its 2013 trough. Sales of existing homes in 2016, at 4,037 units, were only slightly below the boom-induced high of 4,143 reached in 2005. Looking forward, the challenges for Santa Rosa will center around availability and affordability. These concerns are moving to the fore as inventories of homes for sale have declined and prices for existing homes have risen.

Affordability improves when family incomes rise faster than house prices, and when interest rates fall. House prices can stay low as long as builders have access to affordable inputs, including labor, materials, and land. Good job creation in the two-county metro area over the next several years will let wages grow and will keep inbound migration from other counties and states at healthy rates. A healthy national economy means that the traditional retiree dynamic that lets new households move south to adopt the Florida lifestyle and Northwest Florida affordability, is in place. However, the strong increase in the sales price for existing homes in recent months is consistent with declining inventories, and erode affordability. The more modest increase in new home prices helps affordability, but rising buildable lot, materials, and labor prices will force prices up over time.

Mortgage interest rates are poised to rise. Financial markets expect the Fed to raise interest rates gradually, which will keep monthly payments affordable. Conventional wisdom holds that some potential home buyers will “get off the fence” and try to buy before prices rise more and before interest rates rise, so it will be a “seller’s market” for the next several quarters and perhaps beyond. However, as both home prices and interest rates move up later this year and in 2018, fewer buyers will qualify for the mortgage loans they need, putting a slowdown on sales and price growth at that point. It is too early to say with confidence when we will hit that point.

This not only hurts affordability for new home buyers, but it also stifles mobility of existing homeowners in the region, as more of them become locked in place. This is because a new mortgage for purchase of a new or existing home will come with a higher interest rate that raises the monthly payment, even when the different home being considered comes with a purchase price no higher than their existing home.

Among the factors that argue for continued robust growth in the demand for homes is the ongoing hiring associated with the multiyear expansion of Navy Federal Credit Union (NFCU) facilities, located some 17 quick miles west of Avalon Boulevard. Analysis done in 2015 by the UWF Haas Center calculated that NFCU hiring would increase job growth rates for the two-county metro area by 78 percent relative to their long run average. Additionally, the growth in military budgets under discussion in early 2017 in Washington will undoubtedly bring increased spending to Santa Rosa and its neighbors, particularly to the south end of the County. The continued growth in tourism spending for the local area and the revitalization of the Pensacola urban core will also bring growth. No county will benefit more than Santa Rosa from each of these trends.

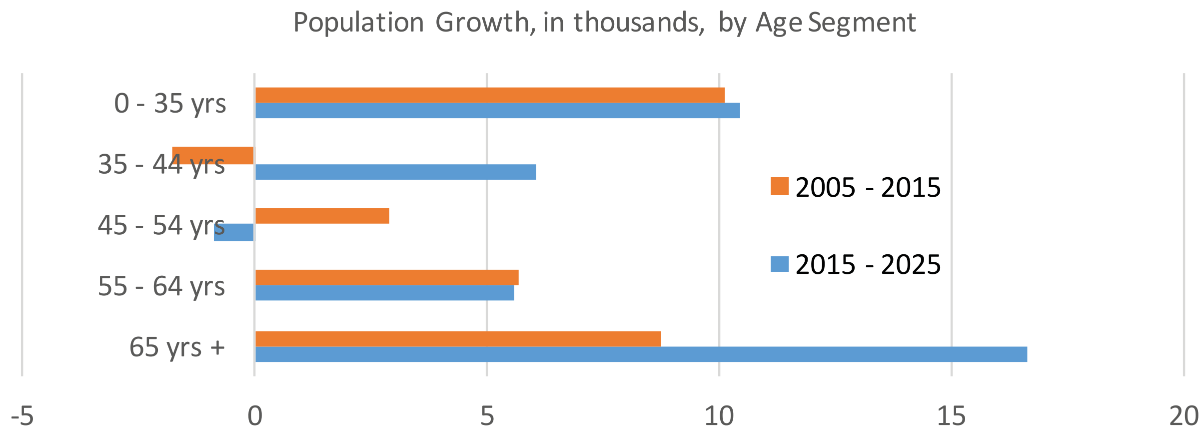
The March 24, 2017 U.S. Bureau of Labor Statistics release of benchmark revisions for the last three years of local area employment data shows 2016 job growth for Escambia and Santa Rosa to have been larger than had previously been reported. Further, hiring commitments by major businesses in the region, particularly in NFCU, but also elsewhere, along with good levels of capital investment in the region, suggest that growth will continue. Given that both 2015 and 2016 saw decent inbound migration and wage growth, current forecasts for local housing market demand, and thus units sold and median price, will likely need to be revised upward, particularly if the unusually high job growth is sustained over several years. The signs are that it will.

The presence of the above factors leads us to view the slowdown of 2008 – 2013 as transitory in the Escambia-Santa Rosa-Okaloosa labor market. Risks to existing growth forecasts are to the upside, and the most likely pattern for Santa Rosa in coming years will be to continue to attract a disproportionate share of higher-income purchasers employed across the region. Sales of new homes will be able to expand at rates previously associated with the 2003 – 2005 housing boom, if capacity allows.

Historically, sales of new homes in Santa Rosa County averaged 654 per year for the 10 years from 2007 to 2016, which included the housing bust. 2015 and 2016 new home sales averaged 920, showing recovery from the depths of the Great Recession. However, new home sales had averaged 1,115 per year for the 10 years from 1997 to 2006, which included the housing boom. Population growth forecasts based on continued strong job growth, when combined with typical new home purchase rates per new resident, indicate that 1,379 to 1,623 new homes per year from now until 2025 will be needed if projected demand is to be met. Thus, while housing growth will be slightly less than it was during the peak of the boom, the County must be ready, with sufficient lots in the pipeline for builders to buy, for construction rates well above the average of the last 10 years.

From today until 2025, it is clear that almost all population growth will be due to two demographic groups. One is individuals born in 1964 or earlier (primarily Baby Boomers) seeking housing appropriate for a household with no children, and the other will be young (adults aged 30 – 45) families with children. That component of the population made up of adults aged 20 - 29 and 45 – 59 will actually decline over this time. Thus, the forecasts indicate that a significant part of new housing demand will come from Baby Boomers, including a large group of those aging in place and seeking something different from their longtime family home, as well as from inbound new residents who fit Florida's traditional retiree profile. It appears that there is relatively little product currently on the market designed for specific appeal to this cohort. The other large demographic is the one that has propelled Santa Rosa growth over the last several decades, which is adults aged 30 – 45 with children in the home.

Figure: Historical and Projected Population Growth by Age Segment



Source: Woods & Poole Economics, CEDDS, 2016

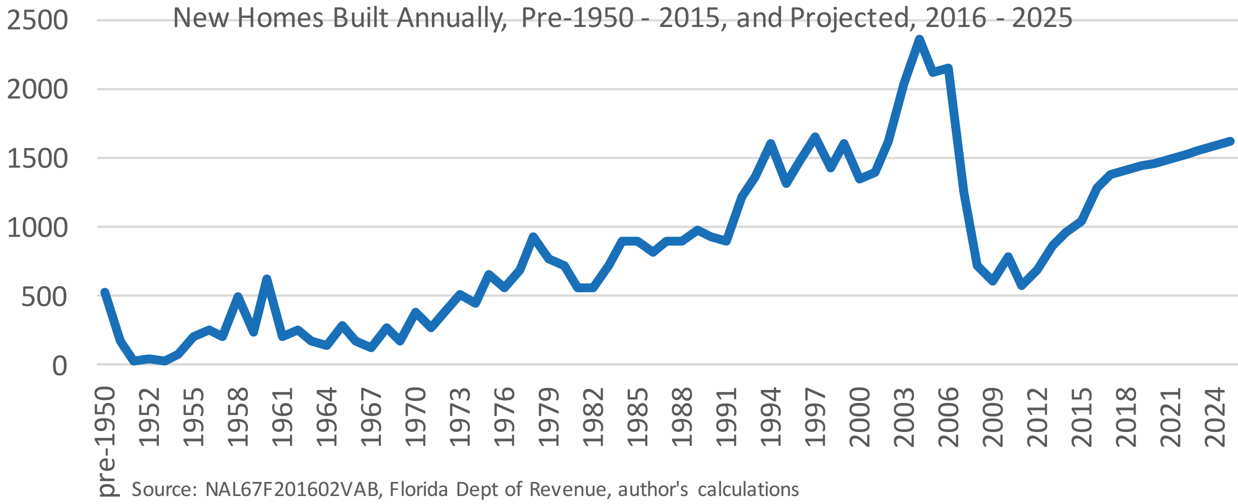
With average household income growth likely to be in the 3 to 3.5 percent range from now until 2025, housing would become less affordable if home price growth were to be in excess of growth in purchasing power of households. Tightening supply in neighborhoods served by the best schools and with the best commutes, will keep house price growth in those areas above County-wide average household income growth.

As in the recent past, the majority of the new full-time resident population that works will have jobs outside Santa Rosa County. If job growth and commuting patterns of the recent past hold in the near future, then for every new resident living and working in Santa Rosa, there will be roughly 7 new residents who choose to live in Santa Rosa while working elsewhere. This points to the desirability of Santa Rosa homes, schools, affordability, and quality of life to families across Northwest Florida and beyond. It also means that there is no county in Northwest Florida that has a bigger stake in the economic health of the region than Santa Rosa. Further, it means that Santa Rosa growth is not guaranteed. If the County does not continue to invest in the schools, infrastructure, and services that have made it attractive, those potential new residents will settle elsewhere.

The bottom line is that Santa Rosa must work to provide high quality of life without compromising the traditional affordability of new homes. If it is able to do so, it will continue to be the county of choice for potential new residents.

The following Figure (reproduced later in the report) shows that the recent upward trajectory of the Santa Rosa housing market has the potential to continue. If conditions are right, the housing market will enable the quality of life, and the economic impact that have put Santa Rosa in the top tier of Florida counties across a range of income, health, and education metrics.

Figure: New Homes, Pre-1950 to 2025



Further parcel-specific detail on residential availability and other descriptors are provided in a Map Appendix for the County overall, and for Pace, Milton, Gulf Breeze, and Navarre. These descriptors include: residential availability (improved vs. vacant residential), age of structure (year built), quality of improvements (minimum to superior), homestead status, Improved residential price per square foot (appraised), and vacant residential price per square foot (appraised), among others. A Labor Market Forecast Appendix contains details on projected occupational growth for the Santa Rosa commuting region, as well as details on expected employment growth by industry sector. These appendices are available on the HBA website.

Key Findings

- Population growth in Santa Rosa County is projected to average 1.9 percent per year over the 2017 – 2025 period. This growth will be concentrated in two cohorts. One is the retiree age cohort, primarily due to the size of the Baby Boomer population, and the other is the dual-earner with school-age children cohort, which has been a traditional source of Santa Rosa growth.

- After accounting for multifamily demand and replacement of aging housing stock, Santa Rosa home builders will need to provide an average of 1,498 new single family homes per year from 2017 to 2025 in order to meet the demand generated by projected population growth. This will require more new homes per year than have been built and sold in Santa Rosa in any years except 2003 – 2005.

- There will be sufficient demand for new single family homes to support absorption of up to 760 net new units per year that meet the lifestyle needs of the age 65+ population. These might be age-restricted or age-targeted communities and might include a clubhouse, walking trails, hobby centers and recreational space. Other needs would likely include smaller lot size, outdoor maintenance, and they would perhaps be gated. This will be the fastest growing segment of the population, both in percentage terms and in absolute numbers, over the next 10 years. However, while the senior cohort is already substantial in Santa Rosa, as of yet there seem to be relatively few neighborhoods that provide these amenities.

- Due to the size of the millennial generation, and the traditional attractiveness of the Santa Rosa community, there will be sufficient demand to support the purchase of up to 352 homes per year that meet the needs of younger families, including availability in good school districts and with a comfortable commute and safe streets. This is Santa Rosa's traditional sweet spot in the regional housing market.

- The estimated annual economic impact of production of 1,500 new homes per year at the current median price per new home is $288 million in local income, along with $25.8 million in taxes and other revenues to local governments, and 5,327 net new jobs in the local economy. To put this in perspective, total earnings from jobs located in Santa Rosa in 2016 were about $2.16 billion.

- Santa Rosa is primarily a single family residence market, high on neighborhood quality of life and low on urban amenities, and this will only change slowly. U.S. Census data indicate that the share of multifamily structure building permits issued over the 2001 – 2106 period was only 4.2 percent of total permits issued, versus 26.8 percent in Escambia County, and 28.7 percent in Okaloosa.

- Santa Rosa's strong appeal can be seen in its commuter balance. U.S. Census data show that the 21,795 Santa Rosans who leave home every day to work in other counties is a larger number than the commuting outflows of the other 12 Northwest Florida counties combined.

- The Santa Rosa residential real estate market is currently healthy, with a rising number of transactions in both the new and existing home markets. Price increases have been strongest in the existing home market, as competition has let prices rise to more closely match new home prices.

- Inventories of homes for sale were down by 53 percent in February 2017 relative to 2010, with declines from July 2015 onward picking up pace.

- While price growth in upper tier homes dominated the real estate boom, bottom tier homes have experienced a faster value growth rate since the trough. There are market opportunities at both the high and low ends of the spectrum.

- As with housing markets nationwide, affordability in Santa Rosa will be challenged by expectations of increases in mortgage interest rates, a scarcity of inventory and a financial regulatory environment not as conducive to real estate lending as it once was.

- Affordability will be challenged by local factors including rising costs attributable both to the cost of bringing buildable lots to market, and to higher materials, subcontractor, and labor costs. The ongoing recovery of construction volume and new home, as well as existing home sales, points to a pending scarcity of inventory.

- Concentration is increasing in the home-building market over time. The number of builders delivering new homes to customers is actually lower than it was a generation ago, in 1991. However, surviving builders are larger, with the average number of homes delivered per active builder per year being triple what it was a generation ago.

- Higher required capital levels for so-called high-volatility commercial real estate (HVCRE) assets such as undeveloped land are the law of the land for lenders today. This has stymied financing for the flow of new land projects through the pipeline that would have kept the supply of buildable lots high.

- It is estimated that recent moves taking the mortgage interest rates from 3.5 to 4.5 percent would eliminate about 4.1 percent, or more than 2,600, households from qualifying for that loan. An increase to 5.5 percent would keep an additional 3,000 households from qualifying to purchase the late-2016 median priced home.

- No other county in Northwest Florida is as connected to neighboring counties as Santa Rosa. More Santa Rosans get up and go to work outside Santa Rosa than inside the County, and this trend has grown over time. U.S. Census data tell us that from 2002 to 2014, the number of Santa Rosans working in Santa Rosa increased by 1,075, or 6.2

percent, but the number of Santa Rosans working outside Santa Rosa increased by 7,473, or 22.4 percent, over the 12-year period. This means that for every 1 new job located in Santa Rosa and held by a Santa Rosa resident over the 2002 – 2014 period, there were 7 new jobs located outside Santa Rosa and held by a Santa Rosa resident.

- Continued prosperity of the County, including eventual development of additional high-wage local businesses, will rely on the ability of the County to continue to meet the housing needs of commuting, dual-income, middle-class and upper-middle-class families with children, and of retirees.

- Local job growth, with the ongoing shift into services targeted at the growing retiree and the tourism sectors, will not be sufficient to support neighborhood development similar to that of the last decade. Santa Rosa will need to continue to attract higher-income regional commuters.

- Families with children need high quality public schools that serve neighborhoods with a reasonable commute time to high-wage employment centers. New schools must be planned and built with this in mind, as schools around desirable existing neighborhoods with these characteristics are at enrollment capacity.

- While Okaloosa is where Florida's military works, Santa Rosa is where Florida's military chooses to live. The value of Santa Rosa's deployed service member property tax exemption as a share of assessed value is 26 times the state average and is 24 percent higher than the share in neighboring Okaloosa, the second highest county in the state. Military households are particularly concentrated in Navarre, with 72 percent of mortgage loans for new home purchase being VA loans in 2015/2016.

- Because its rapid growth has been focused on the housing needs of commuting workers, Santa Rosa does not yet have a long history of meeting the real estate needs of seniors. While the current senior population is substantial, there is much untapped market potential remaining, given the projected growth in this cohort. These residents do not place demands on the school system.

- The reentry of the publicly-traded national builders into the Santa Rosa market provides a large volume builder with access to lower cost capital to purchase buildable lots from subdivision developers. They have brought financial expertise and a scale of operations in construction that allows volume discounts in purchase of construction materials. This has put competitive price pressures and buildable lot availability pressures onto other builders in the new home market.

How Can County Government Address Housing Issues?

Competition is important in homebuilding to encourage the choice and price competition that ensures affordability, particularly in the entry level market. However, concentration in Santa Rosa has increased over time. The average number of homes sold during a year by a builder increased from 3.6 per year in 1991 to 11.1 per year in 2016, at the same time as the number of builders active in the market during any given year fell to 79 percent of its 1991 level. In 2016, fewer than a dozen of the 90 active builders sold more than 20 homes. Only three sold more than 100, and 51 of the 90 sold two or fewer.

The County can encourage competition and affordability by striking the best balance between public interests and developer and builder interests. Because delay is costly to developers and builders, this would include reductions in regulations that might be duplicative of state or federal rules. The reputation enjoyed by the Santa Rosa subdivision development and permitting process, of being able to get the job done more quickly and with less hassle than surrounding counties, has to be guarded zealously.

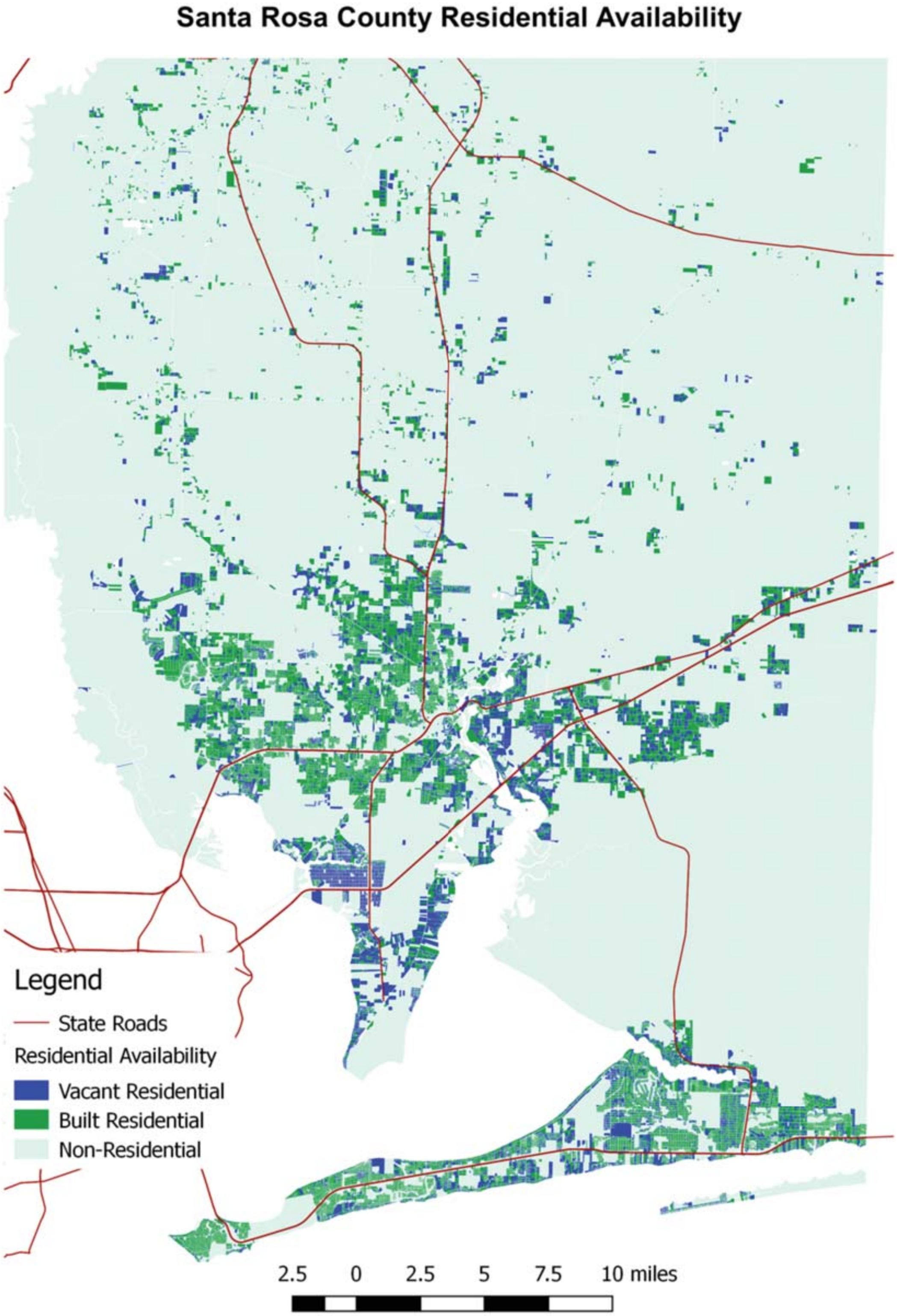
Further, some subdivision regulations are tough to implement if the cost can only be spread across a small number of buildable lots. If changes in subdivision regulations can be made that encourage the smaller subdivisions that are not financially attractive to the larger builders, this will help keep smaller builders in the market. Given the buildout of some areas that are highly desirable to customers, smaller-scale developments will increasingly become necessary for the County to continue healthy growth in population and income.

Subdivision development is costly. Installation of streets, utilities, and needed infrastructure can easily run in the $15,000 - $25,000 range per lot, even before considering the cost of the underlying land. The burden of infrastructure development cost will inevitably affect affordability and must therefore be evaluated carefully. It is clear from the data that the supply of easily buildable lots has diminished with the growth of the housing stock. Measures that the County could take to encourage bringing lots to market will improve affordability. This is particularly important given that federal measures have been put in place to limit the bank lending was formerly available to develop buildable lots.

Santa Rosa and its neighbors have been at the forefront of Florida’s movement to implement the career academies that build workforce credentials. In an economy where technology and globalization limit job options in many traditional occupations, construction trades remain a viable high-wage option that can’t be outsourced to other nations. Housing affordability will be helped by an adequate supply of skilled tradesmen and women, and by ready availability of skilled subcontractors.

Santa Rosa needs to put new schools where people want to live. Infrastructure will be needed and per person infrastructure costs are lessened with density. Attempts to drive development to outlying Santa Rosa areas will send potential residents to other counties.

Figure: Map of Parcel-specific Potential Residential Availability



Source: FL DOR, NAL67F201602VAB

Introduction

Santa Rosa County has had a Comprehensive Plan in place since 1990, but in 2013 began to prepare the second major revision to the Plan. The pending revisions are intended to take the planning horizon out to the year 2040. The Commission and County staff have established protocols to receive public input into the plan development process. As is noted on the Santa Rosa County Government website:

> The Comprehensive Plan is an official public document adopted by the Santa Rosa County Commission that sets forth the county's policies and guides decision-making related to the physical development of the county. It is formulated in broad terms and creates the framework for future implementation, such as parcel-specific zoning or the design of infrastructure projects. The purpose of this document is to evaluate existing conditions and adequately plan for future expansion related to projected growth rates.

Santa Rosa County includes housing goals as part of its comprehensive plan. Goal 3.1 is to "Ensure the provision of safe, affordable and adequate housing for the current and future residents of Santa Rosa County," while Objective 3.1.A is to "provide a regulatory environment that encourages a competitive housing market between private sector housing providers and encourages the provision of housing for all present and future residents, including workforce, college graduate, and low income households.

Purpose and Scope of this Study

In order to help define and meet the County's housing goals and objectives, the Home Builders Association of West Florida (HBAWF), the Santa Rosa County Chamber of Commerce (SRCOC), and the Santa Rosa County Board of Realtors (SRBOR) have agreed to prepare and present the "State of Housing Report" (henceforth SHR) annually to the Santa Rosa County Board of County Commissioners (BOCC). As set out in the County Comprehensive Plan Policy Document, the SHR must:

> …quantify the number of housing units provided in the previous year by area, type, and price; it will evaluate the supply and demand for housing by standard income ranges; evaluate the availability of affordable housing for special income groups such as college graduates, service industries, and public sector employees; measure the change in homeownership rates; and project housing needs for the next year. The report will also identify factors with the potential impact the housing market such as development regulations, the availability of infrastructure, and market forces and make recommendations as appropriate.

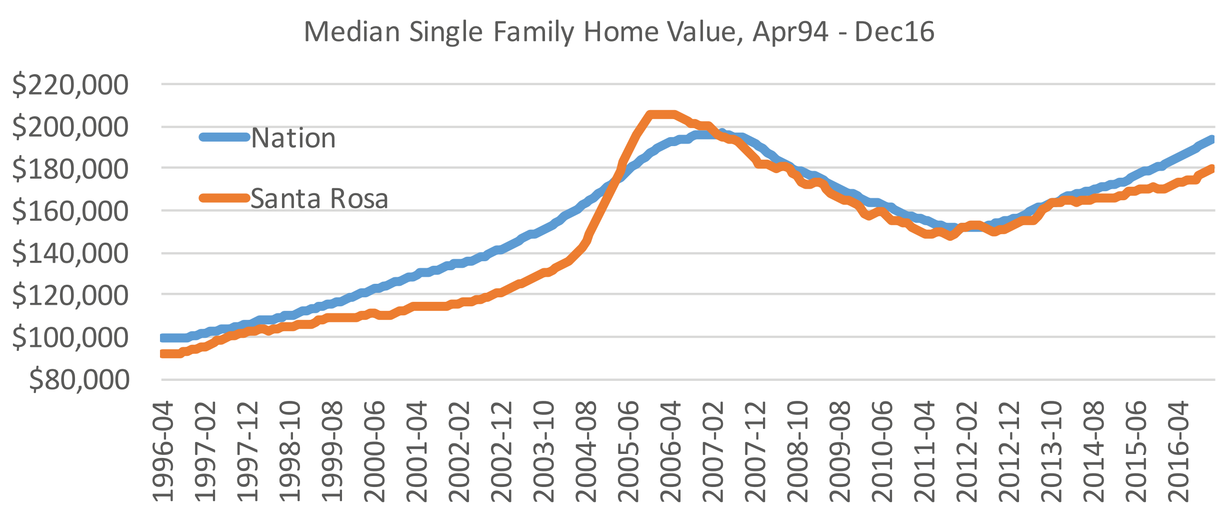
In assessing the Santa Rosa County housing market, the current study presents county-wide information as well as drill-downs, primarily via mapping and price and quantity data, for the urbanized areas of Milton, Pace, Gulf Breeze, Navarre, and Jay. While information on the areas of Navarre Beach, Holt, and other named areas is also available from data sources, the volume of transactions that occur in those areas are not sufficient to draw inferences about price and quantity, and other trends.

In assessing the economic drivers underlying housing market needs and performance, the current study identifies the geographies where people work, where they have their leisure activities, and where they shop and play. For Santa Rosa, these activities occur not only within Santa Rosa County, but also in Escambia to the west, and Okaloosa to the east. There is no other county in Northwest Florida that sends a higher number of people to work, generally at high-wage jobs, in other counties every day. These families will have looked at many other neighborhoods in other counties where they could have located, but they chose Santa Rosa because it best meets their needs in terms of value and lifestyle. The continued reputation of Santa Rosa as the county of choice in Northwest Florida requires planning that identifies and provides a path forward in terms of infrastructure, zoning, and services that will support Santa Rosans today and in the future.

National Housing Market Trends and Their Impact on Santa Rosa

The Santa Rosa residential real estate market is affected by both national and local factors. Nationally, housing has mostly recovered from the real estate boom and subsequent bust that dominated the market for at least the last 15 years. A glut of inexpensive funding, much of it provided by our global trading partners, aided by easy money from the Fed, brought mortgage interest rates in the early 2000s down to levels not seen since the 1960s. A concurrent expansion of subprime mortgage origination, and sale of those mortgages into taxpayer-guaranteed markets (via Fannie, Freddie), expanded the number of households able to borrow. These issues were compounded by financial derivatives and leverage among highly interconnected Wall Street financial institutions. Together, they ensured that the housing downturn that followed the 2003 – 2005 boom led to a housing market meltdown that culminated in the Great Recession. As the fastest growing large state, and an expected recipient of strong continued growth due to pending Baby Boomer retirements, Florida, and Santa Rosa, were right in the middle of both the boom and the subsequent bust.

Figure: Median Single Family Home Value for Santa Rosa and the Nation, 1994 - 2016

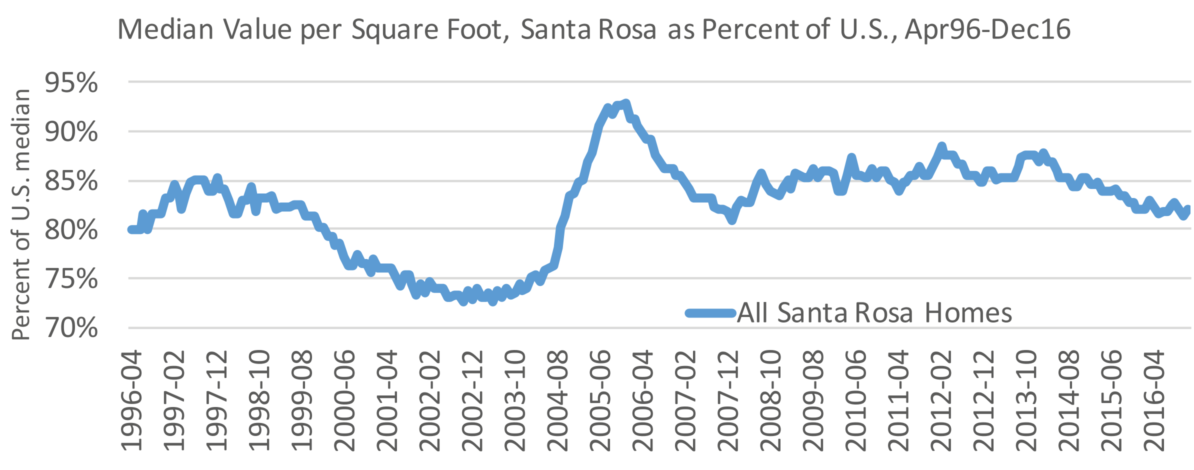


As can be seen in the Figure above, the single family home valuation run-up in Santa Rosa lagged the national increase slightly at first, but during the housing boom caught up to, and exceeded, national prices. The median-priced single family home in Santa Rosa was valued at $92,200 in mid-1996, but then rose in value to a peak of $206,000 in late 2005 and early 2006. The median value then fell over the next 5 years to the $149,000 to $152,000 range, where it stayed until the end of 2012, until beginning its rise to its January 2017 value of $180,400. Nationally, that single family home originally valued at $99,600 in mid-1996 hit its high of $196,600 in mid-2007, before falling to a low of $151,500 in late 2011. By January of 2017 the national median single family home price had risen back to $195,300. The Santa Rosa median single family home value thus remains 12.7 percent below its 2005 peak in January 2017, while the national median single family home value is only 1.2 percent below its mid-2007 high.

The boom/bust cycle was particularly severe in coastal South Florida counties. Only The Villages, among Florida urban areas, has recouped more of the recession-induced median price gap than Santa Rosa County and neighboring Escambia County. In January of 2017 Miami registered 19 percent, Tampa 16 percent, Orlando 22 percent, Panama City 26 percent, and Crestview-Fort Walton 25 percent, below their pre-bust highs, versus 13 percent for Santa Rosa. Some of this was because Santa Rosa median prices never rose as much as in some Florida counties. Ironically, it was at least partly because of the lack of available beachfront property (it is tied up in national seashore and military bases) that Santa Rosa avoided the severe price peaks, troughs, and associated ills of many Florida counties.

The fact that national values have grown more rapidly than local values from 2013 onward has helped affordability. While many workers who move for a job have limited choices in terms of relocation destination, affordability will be particularly important in attracting inbound migration of potential new residents who are able to choose between retirement venues.

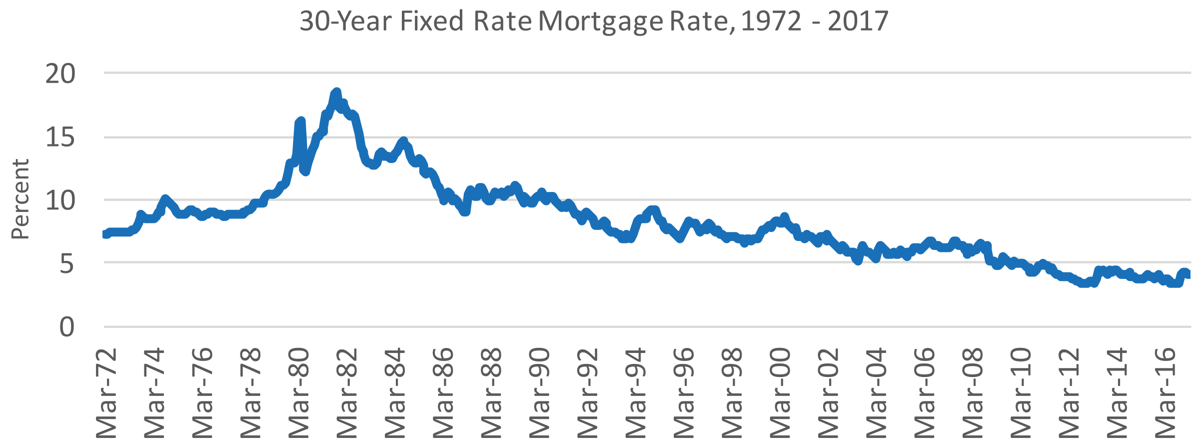
Figure: Median Value per Square Foot for Single Family Residences in Santa Rosa as a Percent of the National Value, 1996 - 2016



Source: Zillow Home Value Index, 2017

The move by the Fed to return interest rates to a more normal level will undoubtedly lead to higher rates on the 30-year conventional fixed rate mortgage loan. Financial markets expect the Fed to raise interest rates gradually, which will keep monthly payments affordable. Conventional wisdom holds that some potential home buyers will "get off the fence" and try to buy before prices rise more and before interest rates rise, so the market should be strong for the next several quarters. However, as both home prices and interest rates move up later this year and in 2018, fewer buyers will qualify for the mortgage loans they need, putting a slowdown on sales and price growth at that point. It is too early to say with confidence when the market will hit that point.

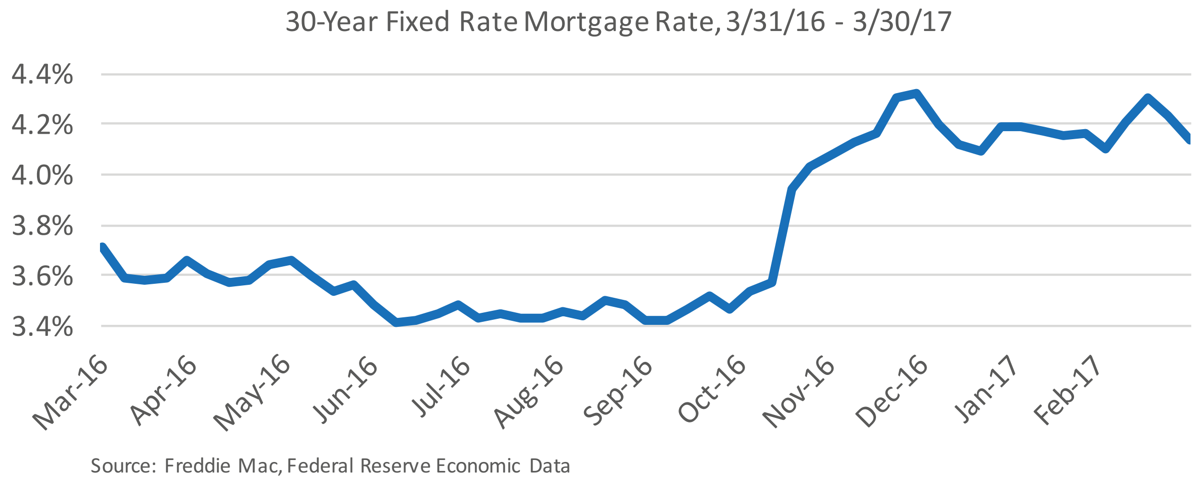
Figure: Rate of Interest, 30-Year Conventional Mortgage Loan, 1972 - 2017



Source: Freddie Mac, Federal Reserve Economic Data

The increase in interest rates will dampen affordability. While rates were in the 3.5 percent ranges prior to the November 2016 election, they then rose almost immediately to the 4.1 to 4.3 percent range (see Figure below), where they have stayed for five months. Financial market commentators have said that this rise is due to expectations for an expansionary fiscal policy stance that would incorporate some combination of tax cuts and defense and infrastructure spending increases. While there is still substantial uncertainty about the form these measures might take, additional deficit spending will tend to drive interest rates up. Heightened inflation expectations and an improved job market are expected to lead the Fed to raise short-term interest rates as well. It seems reasonable to think that, barring another recession, the 30-year fixed rate mortgage loan will be in the 4.5 to 5 percent range a year from now, and the 5 to 6 percent range for several years beyond that.

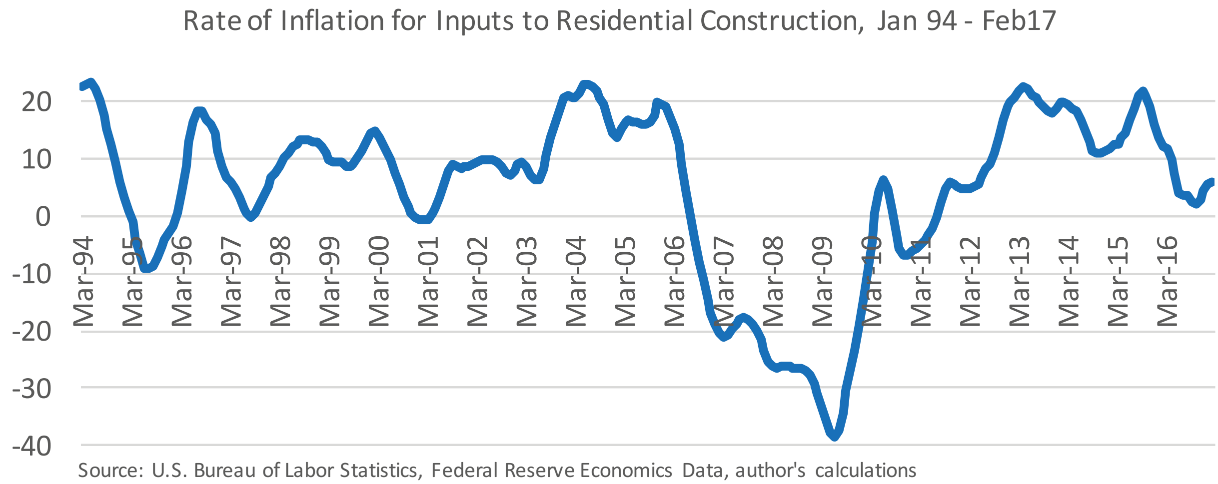
Figure: Rate of Interest, 30-Year Conventional Loan, 2016 - 2017



Changes in the national financial regulatory environment have also affected the willingness and ability of banks to lend money in the real estate development process. So-called "High Volatility Commercial Real Estate (HVCRE)" lending typically includes loans to developers who intend to convert available land into subdivisions. Because of the historical volatility of land prices, and the possibility of bankruptcy by borrowers, these loans are typically classified as risky. The general trend in recent years towards less leverage for banks, as embodied in the Basel III accords, means that U.S. banks must hold more cash or equity as collateral against the possibility of a default by a subdivision developer on a loan. This reduced leverage reduces the attractiveness to the bank of making that subdivision development loan versus deploying their available capital in a different way. Since the price of a buildable lot is typically the largest single expense built in to the sale price of a new home, lack of supply in the subdivision pipeline will raise new home prices.

The cost of residential construction inputs has been highly volatile over time. The Figure below suggests that a period of relative calm in construction costs may be ending as construction input prices head back to traditionally higher rates of inflation. Local builders referenced increases in lumber and sheetrock prices, along with buildable lots, and a shortage of skilled labor, as factors that they are seeing in the early 2017 market.

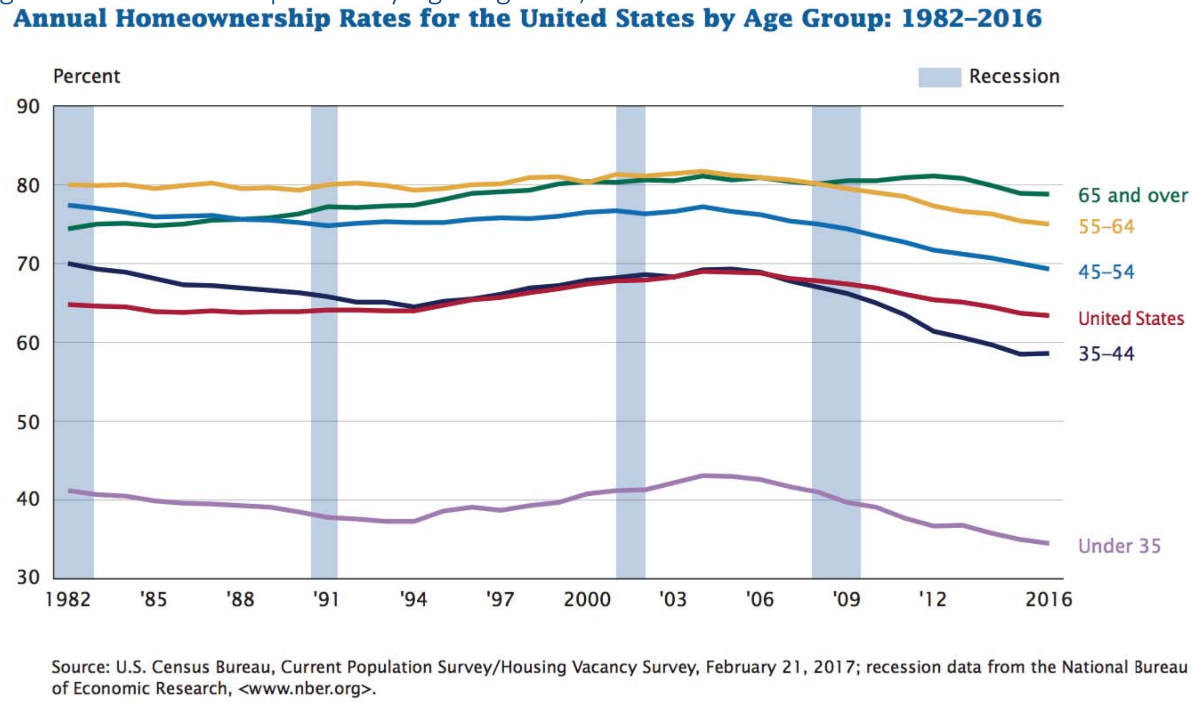
Figure: Annualized Inflation in Residential Construction Inputs, 1994 - 2017



Several other market drivers will be different over the coming decade. One is that homeownership rates have declined in the wake of the Great Recession, particularly for younger households. The U.S. Census publishes data regarding homeownership rates by age segment. These rates have declined since peaking in the early part of the decade of the 2000s, and that rate of decline increased for younger households following the financial crisis and Great Recession. While all households will need a roof over their heads, the declining ownership rate will skew forecasts towards rental housing, even though home ownership continues to be relatively more attractive financially than renting.

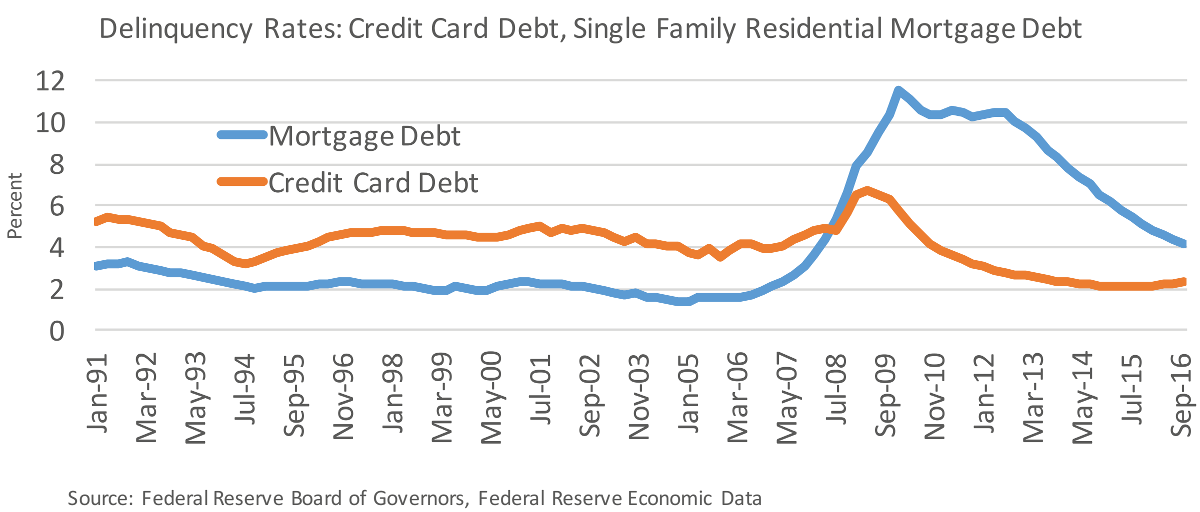
Another difference is that the population continues to age and household sizes become corresponding smaller. The average household size for the 65 – 74-year-old segment nationally was 1.91 in 2012, according to the U.S. Census, while it was 3.34 for households aged 35 – 44. Due to aging, Millennials (birth years 1982 to 2004) have recently overtaken the Baby Boomers (birth years 1946 – 1964) as the largest generation. Over the coming decade, it is the combined growth of those two segments that will drive all of the net new growth in Santa Rosa.

Figure: Homeownership Rates by Age Segment, 1982 - 2016



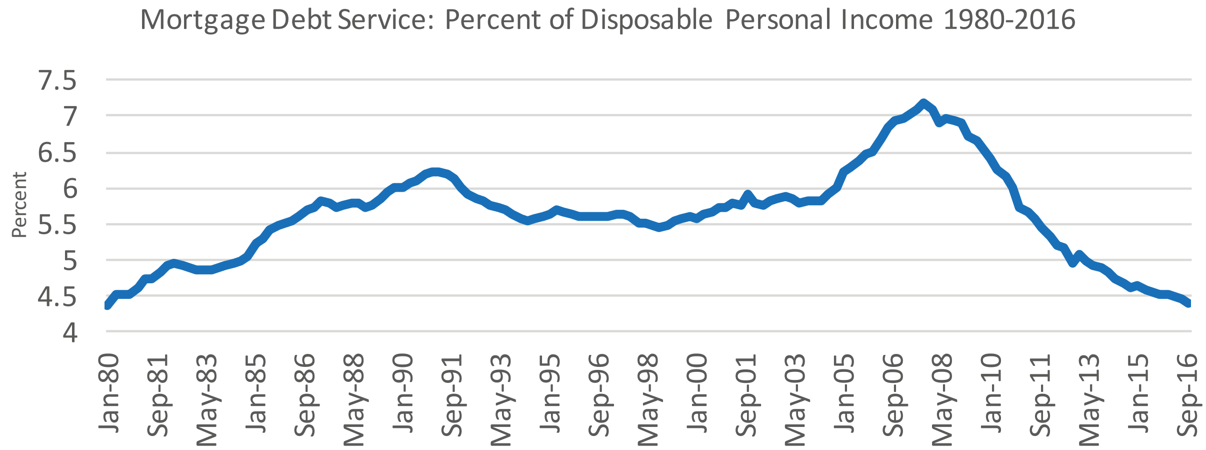
It was a sign of the weakness of the housing market that people became more likely to default on their mortgage loan than on their car loan. High leverage in housing lending, along with falling prices, meant that workers would rather keep their car than their house.

Figure: Delinquency Rate on Single Family Residential Mortgages, 1991 - 2016



Overall, however, the low interest rates associated with exceptional rates of money supply creation by the Fed have allowed mortgage debt burdens to ease to historically low levels. While that helps affordability, it raises the possibility of a housing slowdown when rates return to more normal historical levels.

Figure: Mortgage Debt Service Expense as Percent of Disposable Personal Income, 1980 - 2016



Source: Board of Governors of the Federal Reserve System, Federal Reserve Economic Data

Local Housing Market Drivers Affect Homes Prices and Availability

The housing market boom and bust had its own characteristics in Santa Rosa. One of the most important was the buildout of some of the "best and easiest" parts of the County. These were buildable lots in subdivisions with few wetlands issues and little need for expensive improvements. Good availability at affordable prices is key to Santa Rosa's competitive advantage in housing.

The economic profile of the three counties that will provide the jobs that these working families hold is changing over time. The families that choose Santa Rosa will be white-collar rather than blue collar, with householders from Pace and Gulf Breeze commuting into the Pensacola urban core, and householders in the South end of the County, east of Gulf Breeze, commuting to the high-wage jobs at Hurlburt Field and Eglin AFB. The job growth within Santa Rosa will of course be driven by business needs, which will be focused on providing a growing resident population with local options for shopping, eating, health care, education, and other services. The commute to Escambia will be driven by growth in financial services and professional services, while the commute to Fort Walton will continue to be driven by military and civilian employees at the military bases.

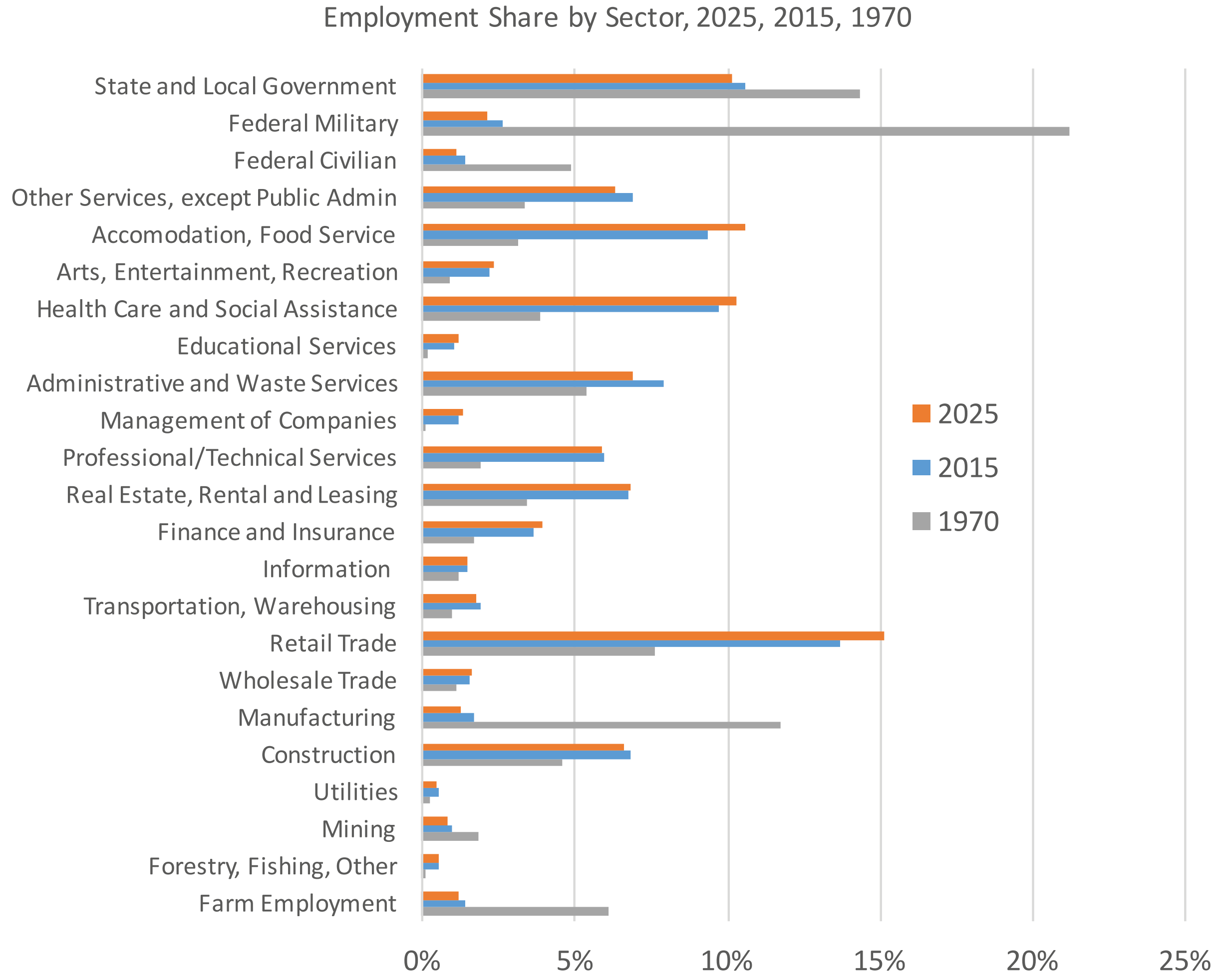
The unique role that Santa Rosa plays in the regional community as home to high-earning families who value its school district and other amenities will pay dividends in the housing market over the coming years. Due to the high share of residents who commute to good jobs, Santa Rosa's housing affordability is likely to stay strong, as household incomes grow at a rate more similar to the nation than that forecasted for Florida. Of the factors that are the primary drivers of affordability, interest rates and building input costs are similar across the nation (with the exception of land prices), while job growth and earnings can differ substantially. The trend of falling output per worker that has characterized Florida as it shifted away from construction, real estate development, and finance in the years following the Great Recession, widened the income gap with the nation. However, Santa Rosa is projected to continue to attract the more highly-educated, higher-earning households whose income will keep pace with the national economy.

Employment Trends

The region is moving away from dominant employment clusters in military, manufacturing and agriculture that were the core of the Santa Rosa economy two generations ago. It is not that these sectors are not robust; they are, but they are subject to increased use of technology to replace workers in uniform or on the shop floor.

The comparison provided below illustrates the size of the sectors of the Santa Rosa economy in 1970 and in 2015. As can be seen, the federal military and civilian sectors have shrunk from about 27 percent of the County's jobs in 1970 to less than 5 percent today. Manufacturing generated about 12 percent of jobs in Santa Rosa two generations ago, but only two percent today. Farm employment went from more than 6 percent to less than two percent. These once dominant sectors have been replaced in the employment hierarchy. Health care, leisure and hospitality, and retail trade now dominate the job growth categories for Northwest Florida and for Santa Rosa.

Figure: Employment Share by Sector, 1970 and 2015



Source: Woods & Poole Economics, CEDDS 2016

The UWF Haas Center, as part of a U.S. Economic Development Administration project to examine the regional economy in the wake of the oil spill, produced forecasts of jobs located within Santa Rosa County by economic sector, and forecasts of growth in specific occupations located in Santa Rosa County. These Tables are reproduced immediately below. The tables are sorted by the number of 2016 jobs located in Santa Rosa County. The first of the two charts shows the economic sector in which the jobs are located. Public schools, limited-service restaurants, and full-service restaurants are the largest job generating sectors. The projected 5 year (2016 – 2021) job growth shows how many net (after netting out retirees and other job leavers) jobs are expected to be created by 2021, with the last three columns showing current earnings per job in that sector locally and for the nation. The column marked “LQ” refers to the location quotient, which is a measure of the share of the labor force in that sector, compared to the national share in that sector. An LQ of one means that our local economy has the same share of workers in that sector as does the national economy. An LQ of 1.15 would mean that our local economy has 15 percent more workers in that sector than would be expected relative to the nation, while an LQ of .85 would mean we have 15 percent less than the national average. The green highlights are for values that are above the local average.

Table: Projected Growth in Jobs Located in Santa Rosa, by Sector, 2016 - 2021

NAICS	Description	2016 Jobs	Forecast Growth, 2016-2021 Net	Forecast Growth, 2016-2021 %	2016 LQ (US = 1.00)	Current Total Earnings	Current National Total	Relative Earnings (US=1)
903611	Elementary and Secondary Schools (Local Government)	2,831	180	6%	1.56	$61,078	$65,455	0.93
722513	Limited-Service Restaurants	2,221	302	14%	2.04	$15,000	$17,214	0.87
722511	Full-Service Restaurants	1,718	-12	-1%	1.25	$19,032	$23,036	0.83
901200	Federal Government, Military	1,501	1	0%	2.86	$86,882	$48,422	1.79
903999	Local Government, Excluding Education and Hospitals	1,427	91	6%	0.98	$59,081	$74,479	0.79
902999	State Government, Excluding Education and Hospitals	1,244	50	4%	2.13	$52,136	$80,713	0.65
452910	Warehouse Clubs and Supercenters	1,125	0	0%	2.94	$31,015	$31,288	0.99
622110	General Medical and Surgical Hospitals	1,021	42	4%	0.85	$61,820	$74,163	0.83
445110	Supermarkets and Other Grocery Stores	933	128	14%	1.41	$24,938	$29,452	0.85
561210	Facilities Support Services	864	-164	-19%	23.65	$59,337	$59,567	1.00

Source: Haas Center, 2017

The federal statistical agencies also provide information about the number of people employed in particular occupations in a local economy. Here we see that the top five occupations in 2016 for jobs located in Santa Rosa were food preparation and serving, retail salesperson, cashier, military, and customer service representative. What can be seen is that our local military missions are well-paid relative to the national average, but that almost no growth is expected in military employment over the next several years.

Table: Projected Growth in Occupations Located in Santa Rosa, 2016 - 2021

SOC	Description	2016 Jobs	Forecast Growth, 2016-2021 Net	Forecast Growth, 2016-2021 %	Projected Annual Openings	2016 LQ (US = 1.00)	Median Hourly Earnings	National Median Hourly	Relative Earnings (US=1)
35-3021	Combined Food Preparation and Serving	1,892	220	12%	110	2.19	$8.67	$9.45	0.92
41-2031	Retail Salespersons	1,545	179	12%	95	1.25	$9.71	$10.80	0.90
41-2011	Cashiers	1,543	125	8%	95	1.68	$8.73	$9.72	0.90
55-9999	Military occupations	1,501	1	0%	36	2.86	$17.85	$17.17	1.04
43-4051	Customer Service Representatives	1,053	157	15%	60	1.52	$10.68	$15.55	0.69
35-3031	Waiters and Waitresses	957	-8	-1%	46	1.43	$8.83	$9.92	0.89
43-6014	Secretaries and Administrative Assistants	830	23	3%	14	1.17	$13.22	$16.52	0.80
37-2011	Janitors and Cleaners, Except Maids and	780	-10	-1%	18	1.17	$9.99	$11.93	0.84
29-1141	Registered Nurses	664	70	11%	31	0.89	$24.54	$33.81	0.73
43-9061	Office Clerks, General	656	32	5%	21	0.76	$12.45	$14.54	0.86

Source: Haas Center, 2017

The lesson to be taken from the within-Santa Rosa employment forecasts is two-fold. One point is that "retail follows rooftops," so that the high-growth occupations are those that provide services needed by the resident community. With the exception of the military jobs, customer service representatives, and possibly office clerks, the top ten occupations are focused on leisure and hospitality and health care. However, high-wage job growth will inevitably evolve as entrepreneurs find that Santa Rosa has built the livable, well-educated, affordable, well-run community where they would like to build their business. The other lesson here is that Santa Rosa, until local high-wage grow develops its own sustainable momentum, will need to continue to attract the best and the brightest of the well-educated households that commute to work in neighboring counties.

The State of Florida also publishes occupational forecasts via CareerSource Florida. Please see the Forecast Appendix for this study, available on the HBA webstie, to view more detail for

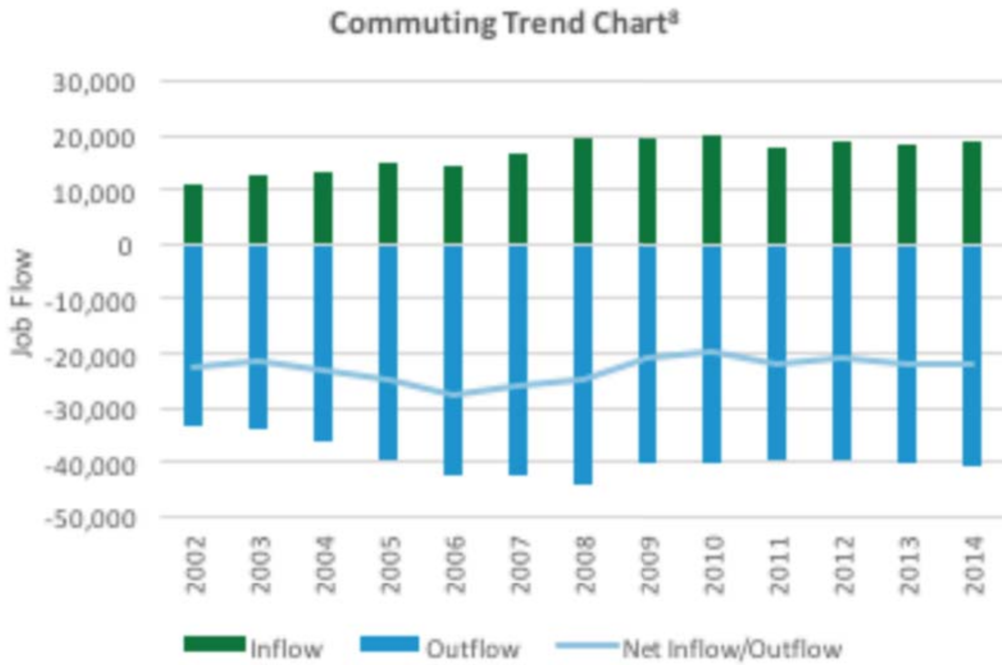
Workforce Development Regions I (Escambia and Santa Rosa), and II (Okaloosa and Walton). As long as schools are good and transportation and other critical infrastructure needs evolve to meet community needs, those high-wage households will seriously consider Santa Rosa County.

Commute Patterns

It is not an exaggeration to say that the Santa Rosa housing market lives and dies with decisions by workers commuting from the high amenity neighborhoods of Santa Rosa to the employment centers of Escambia and Okaloosa. U.S. Census data tell us that in 2014, the most recent year of data, there were 21,795 more workers exiting Santa Rosa bound for other places of work than there were workers living in other counties commuting into Santa Rosa. Far from being a negative, this is a sign that people and families who could choose to live anywhere within commuting distance of their workplace choose to live in Santa Rosa. These people vote with their feet and their pocketbooks to enjoy the lifestyle amenities that Santa Rosa has to offer, and then make the commute to work.

As a measure of how strong the Santa Rosa residential attraction is, one can look across the 13 counties profiled by the UWF Haas Center in the County Snapshot section of the 2017 Northwest Florida Forward plan produced by Haas, Florida's Great Northwest, and TIP Strategies. Of the 13 counties stretching from Escambia to Wakulla, 9 had net commuter outflows and 4 had net commuter inflows during the most recent data year. Santa Rosa's net outflow, at 21,795, was larger than the 19,529 net outflow of the other 8 outflow counties combined. In fact, of the Santa Rosans who reported to the Census' American Community Survey that they commuted to work, more of them commuted to work in Escambia than commuted to work in Santa Rosa. Escambia, Santa Rosa, and Okaloosa are joined at the hip economically. Escambia cannot have a healthy urban core, and Okaloosa cannot employ the military and civilian staff needed there without a healthy Santa Rosa. Conversely, Santa Rosa cannot thrive without successful economic development in neighboring counties.

Figure: Net Commuting Flows, 2002 - 2014



Source: Haas Center, 2017

Where do Residents Work?

Much of this migration occurs as heads of households take new jobs and search for desirable housing and amenities. The Santa Rosa housing market depends critically on the availability of employment within a reasonable commuting distance for households headed by men and women who are in the labor force. The overwhelming majority of the jobs that these Santa Rosans hold are located in Escambia, Santa Rosa, and Okaloosa Counties.

The data show that the integration of Santa Rosans into a larger regional economy has grown over time. The Longitudinal Employer-Household Dynamics (LEHD) program is part of the U.S. Census Bureau and produces and disseminates data about origins and destinations of commutes for workers across the nation. 2002 is the earliest data year that is available and 2014 is the most recent. What the data show for Santa Rosa County is that employment of Santa Rosans has risen from an estimated 50,646 in 2002 to 59,194 in 2014.

As can be seen below, this increase of 8,548, or 16.9 percent, in the number of working Santa Rosans over the 12-year period is large enough so that the increase of 1,075 Santa Rosans who work in Santa Rosa actually represents a decrease, from 34.2 to 31.1 percent, in the share of working Santa Rosans who work in Santa Rosa. The number of Santa Rosans working in Santa Rosa increased by 1,075, or 6.2 percent, but the number of Santa Rosans working outside Santa Rosa increased by 7,473, or 22.4 percent, from 2002 to 2014.

Table: Where Santa Rosans Worked in 2002 and 2014

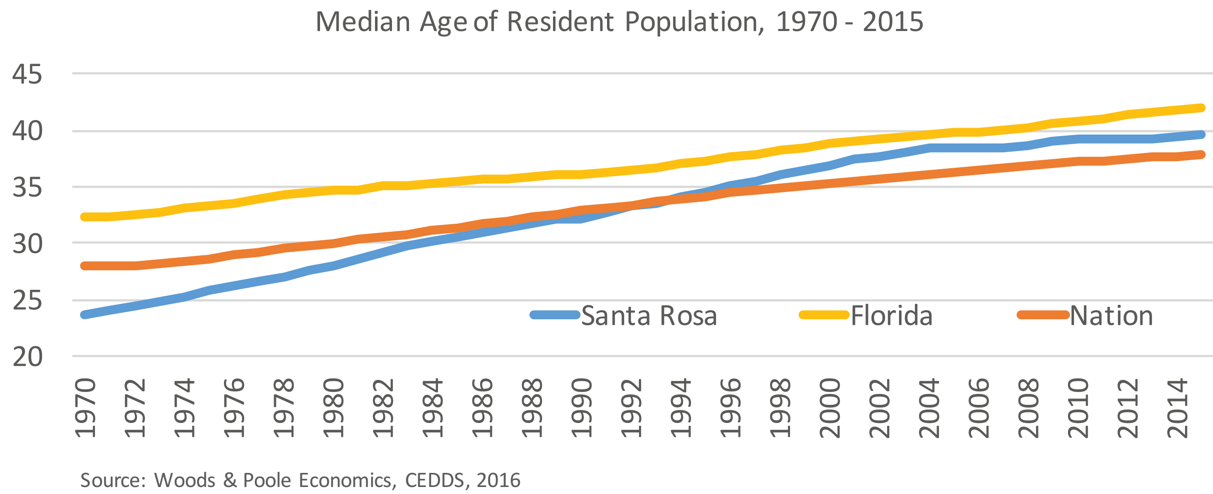
Jobs Counts by Counties Where Workers are Employed - All Jobs					
	2014		2002		
	Count	Share	Count	Share	Change
Escambia County, FL	23,616	39.9%	22,700	44.8%	916
Santa Rosa County, FL	18,415	31.1%	17,340	34.2%	1,075
Okaloosa County, FL	8,009	13.5%	5,754	11.4%	2,255
Bay County, FL	919	1.6%	727	1.4%	192
Leon County, FL	744	1.3%	998	2.0%	-254
Walton County, FL	644	1.1%	372	0.7%	272
Duval County, FL	592	1.0%	292	0.6%	300
Orange County, FL	505	0.9%	100	0.2%	405
Hillsborough County, FL	401	0.7%	150	0.3%	251
Mobile County, AL	386	0.7%	305	0.6%	81
All Other Locations	4,963	8.4%	1,908	3.8%	3,055
Total All Jobs	59,194	100.0%	50,646	100.0%	8,548
Source: LEHD On the Map, 2017					

Escambia and Okaloosa clearly dominate the commuting outflow - taken together, they employ 3.4 times the number of Santa Rosans as other counties combined. However, this does not indicate a one-way exodus from Santa Rosa. The same LEHD data show that some 3,195 Okaloosans worked in Santa Rosa in 2014, up from 1,601 in 2002. There were 8,445 Escambians who worked in Santa Rosa in 2014, up from 7,386 in 2002 (these figures are for Escambia County, Florida; there were also some 894 from Escambia, AL working in Santa Rosa in 2014). Thus, the increasing integration goes both ways; more regional residents work in Santa Rosa than before, and more Santa Rosans work outside of Santa Rosa than before.

This increasing integration of Santa Rosans into the regional economy helps diversify financial risk for Santa Rosa families by spreading jobs across sectors and geographies, but it also means that an increasing share of Santa Rosa personal income is earned outside the County. Out of every dollar of personal income, about 53 cents would have been earned in Santa Rosa two generations ago, and the share has fallen to 28 cents today. Income earned outside Santa Rosa has risen from 23 cents to 33 cents on the dollar over that same period. This means that housing demand growth in Santa Rosa has been driven by employment growth in key sectors in Escambia and Okaloosa as well as by job growth within Santa Rosa.

A second major trend driving changes in the housing market in Santa Rosa is the aging of the population. The median age of the U.S. population has increased over time as the Baby Boomer generation moves toward retirement and as health care outcomes have improved, particularly for older Americans. The median age of Americans increased by 9.9 years during the last two generations, and by 9.6 years for Floridians. However, the median age of Santa Rosans increased by 15.9 years over the same 1970 – 2015 period, as the Baby Boomers aged, as retirees found Santa Rosa more inviting than an increasingly crowded South Florida, and as the economy shifted more towards health care and education, and military occupations grew slowly if at all.

Figure: Median Age of Population, 1970 - 2105



The aging of the population, along with changes in child-bearing patterns, has driven household size down. This, along with increased numbers of people living alone due to divorce or widowhood, and increased wealth, has caused a decrease over time in the size of household nationally and in Santa Rosa.

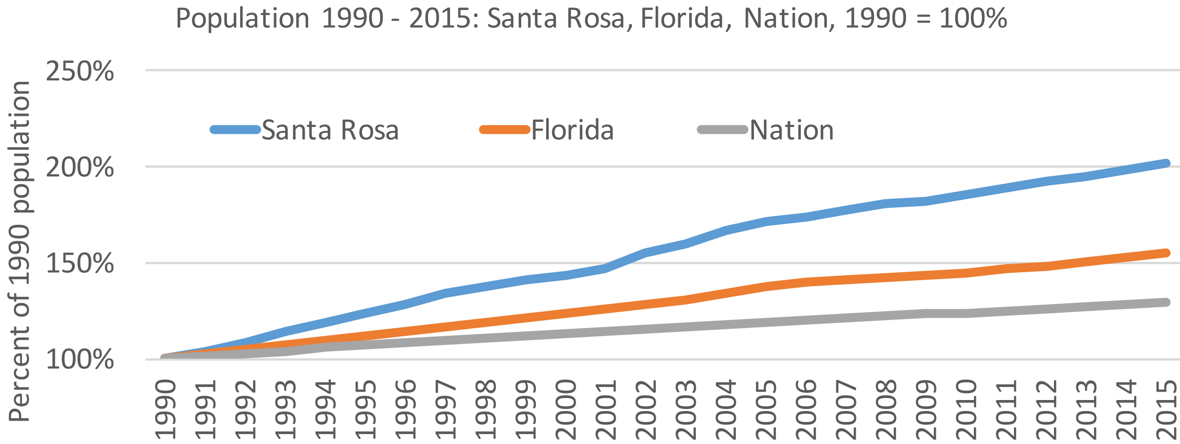
Demographics of the Housing Marketplace

In this section, we assess the existing market and then identify the new households that will likely wish to locate in Santa Rosa County. We look at factors are closely correlated with home rental and purchasing patterns. These factors include their likely household income, their age, their educational attainment, and at the size of their households. These, along with commute patterns, will tell us a lot about what types of homes they will need, whether they will purchase or rent, and what some of their municipal service needs will be. Employment trends for local and neighboring workplaces will influence the rate of population growth as well as the home price thresholds associated with affordability

Population and Households

Population growth is the primary driver of demand for new housing units in any local housing market. Population growth has been strong in Santa Rosa relative to Florida and the nation, as can be seen in the Figure below.

Figure: Historic Population Growth Rates for Santa Rosa, Florida, and the Nation, 1990 -2015



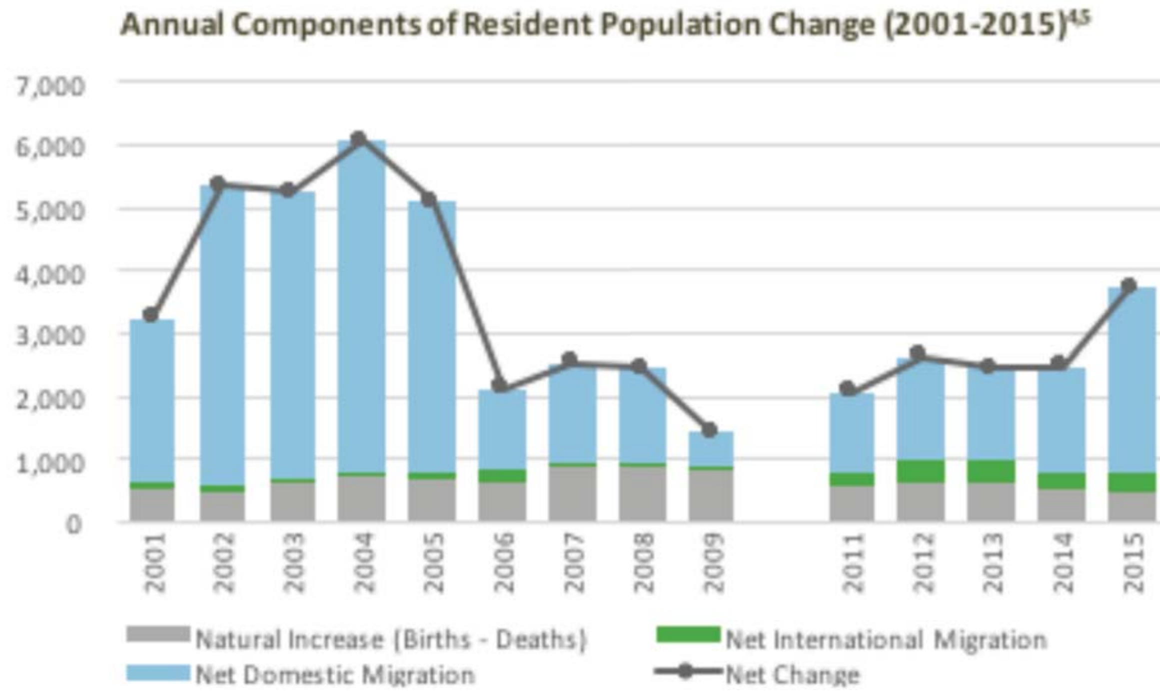
Source: Haas Center, Woods & Poole Economics, 2016

Population increase can be broken down into constituent components of natural increase (number of births minus number of deaths) and net migration (the amount by which the number of in-movers exceeds the number of out-movers). Like most rapidly growing areas, Santa Rosa depends on inbound migration of people coming from other counties and states. 2010 was a relatively weak growth year for Florida generally as we worked through the debris of the Great Recession. In 2010, the University of Florida's Bureau for Economic and Business Research (BEBR) estimated that Santa Rosa gained about 2.3 residents via net migration for every new resident gotten through natural increase. By 2015, that ratio rose to 4.5 as the job market improved and interstate migration picked up and more families shopped for homes in Santa Rosa County. In contrast, a weak 2010 for slower growing neighboring counties of Escambia and Okaloosa meant net migration was negative in 2010 before recovering strongly several years later.

The desire of regional households to enjoy the benefits of Santa Rosa residency is also reflected in the type of population growth experienced by the County. In the Figure below, U.S. Census estimates of the sources of population growth are shown.

The grey segment of each vertical bar represents population growth caused by births and deaths of residents, while the blue segment shows net domestic migration. As can readily be seen, inbound migration of new residents vastly exceeds local increase in most years (2010 is not provided as it is a Decennial Census year).

Figure: Components of Population Changes, 2001 – 2015

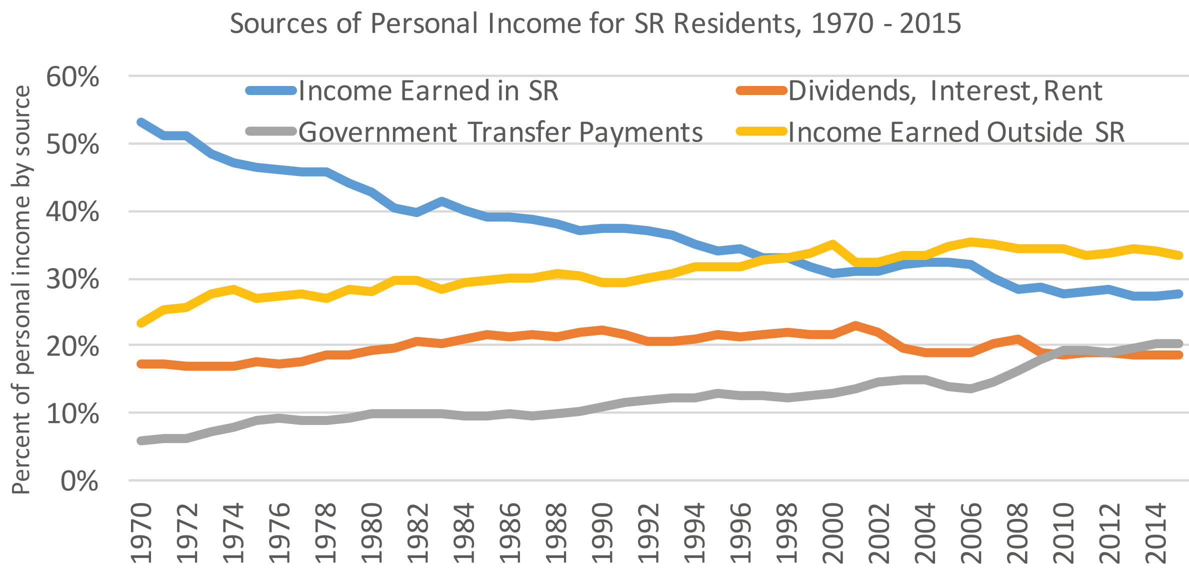


Source: Haas Center, 2017

The aging of the nation and of Santa Rosa has caused a change in the share of total personal income that is attributable to federal transfer payments nationally and locally. Because transfer payments from the federal government in the U.S. are directed primarily towards older Americans (Medicare and Social Security are the two largest federal transfer payment programs), the share of transfer payments in a dollar's worth of personal income has grown. Because the median age of the Santa Rosa population has increased more rapidly than for Florida and the nation, the share of transfer payments in Santa Rosa personal income has also grown more rapidly, going from 6 cents in 1970 to 20 cents today. While the share of transfer payments in personal income for the nation has also grown as these programs have grown and as the population median age has increased, the increase has been more pronounced for Santa Rosa due to its changing age structure.

The American Community Survey (ACS) is a rich source of information about people who live in our County. When the ACS replaced the Census long form in 2000, it was to enable a more frequent update to look at who lives where, and what they do. The Census long form gave us that information every ten years, but given the length of time it took government statisticians to do the necessary quality control processes, the information was outdated almost when we got it. That same one in six sampling frame has been carried into the ACS.

Figure: Source of Personal Income for Santa Rosa Residents, 1970 - 2015



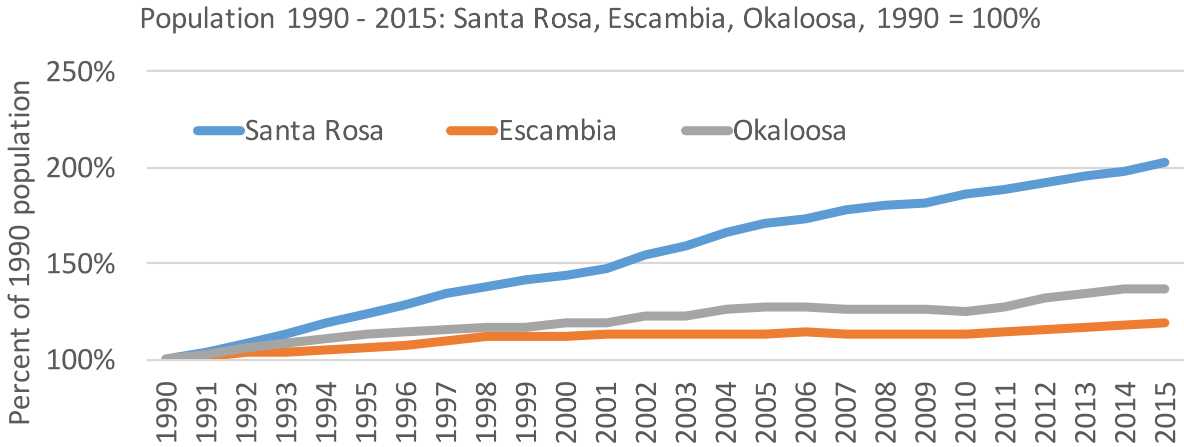
Source: Woods & Poole Economics, CEDDS 2016

Future Population Growth

Future population growth will be the primary driver of future housing demand. Here we use population growth estimates provided by the University of Florida's Bureau for Economic and Business Research (BEBR) along with other sources to project numbers of residents and numbers of households in the short term and in the medium to long term. Because BEBR is the official provider of population estimates to Florida Legislature, and those estimates are used to calculate tax revenue sharing between state and local government, they are a useful source. The primary sources of data BEBR uses to estimate growth are the number of residential electricity customers, the number of residential building permits, and the number of homestead exemptions as reported by the Florida Department of Revenue. Santa Rosa has consistently ranked in the top 10 percent of the 67 Florida counties in terms of percentage growth in population, well exceeding national, state, and regional growth rates.

The following chart shows population change from 2000 to 2015. Santa Rosa population has doubled since 1990, rising by a cumulative 102 percent. As was shown earlier, this far outstripped growth in the nation overall, which rose by 29 percent over the same period, and in Florida, which rose by 55 percent. Neighboring Escambia and Okaloosa County growth rates more closely tracked that of the nation, at 19 and 37 percent, respectively. While Santa Rosa's growth rate is projected to slow somewhat in coming years, as is true for other geographies, it will still maintain above the state and the nation.

Figure: Population Growth for Selected Northwest Florida Counties, 1990 - 2015

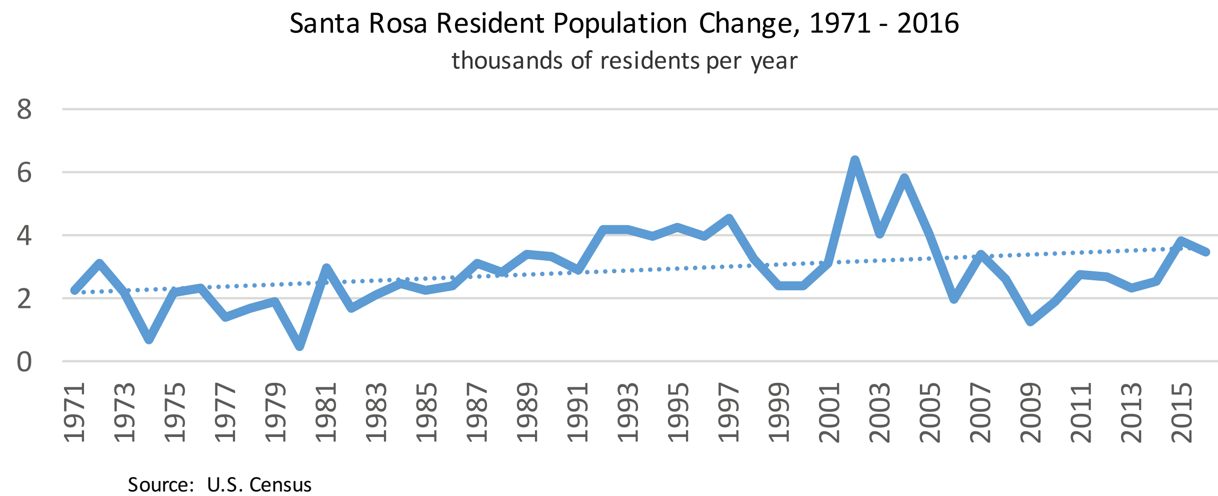


Source: Haas Center, Woods & Poole Economics, 2016

Population growth of 29,981 is forecasted for Santa Rosa by BEBR for the 2015 – 2025 period, making Santa Rosa 17th fastest in the state in terms of growth rate, at 18.4 percent, and 25th in terms of absolute number of residents added, among the 67 Florida counties. Starting with the U.S. Census estimates for 2015 of 167,040 residents of Santa Rosa, the projected increase will take the County to a population of 196,934 by 2025. At that point, it will have edged out Bay County to become the fourth most populous county from Tallahassee westward, trailing only Escambia, Leon, and Okaloosa Counties. The BEBR forecast projects that Santa Rosa will overtake Okaloosa in population by 2035.

The recently released March 2017 U.S. Census estimates of July 1, 2016 population show Santa Rosa gaining 3,457 residents during the year, for a growth rate of 2.07 percent, rather than the 1.67 percent annual growth projected by BEBR. If the higher Census rate were to hold until 2025, the population and housing growth forecasts in this document would need to be adjusted upward by about 31 percent. The Woods & Poole Economics forecast is about 15 percent higher than BEBR. However, it is worth noting that other credible forecasts are lower than BEBR's. For instance the EMSI consultancy is almost 42 percent lower

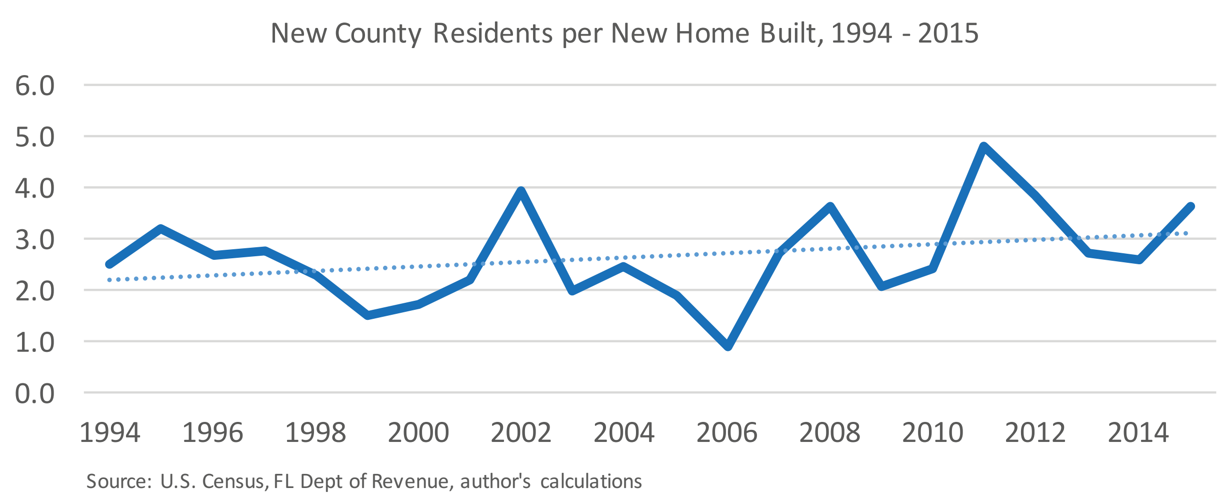
Figure: Population Change per Year, 1971 - 2016



Forecasts of the number of units needed to house this new population depend on both the number of new residents and on the average size of households that need to occupy new residences. Because some homes may be removed from the housing stock, whether storm-damaged or tear-downs, we need to examine the historical rate of sales of new homes with respect to the historical change in population. This relationship is shown below.

A tighter calculation can be made by looking at the annual change in population and comparing it to the annual change in the number of new homes sold. This relationship can then be used to provide a forecast of how many new homes will likely be built and sold to meet the needs of the projected increased population.

Figure: New Resident Population per New Single Family Home Sold, 1991 - 2015

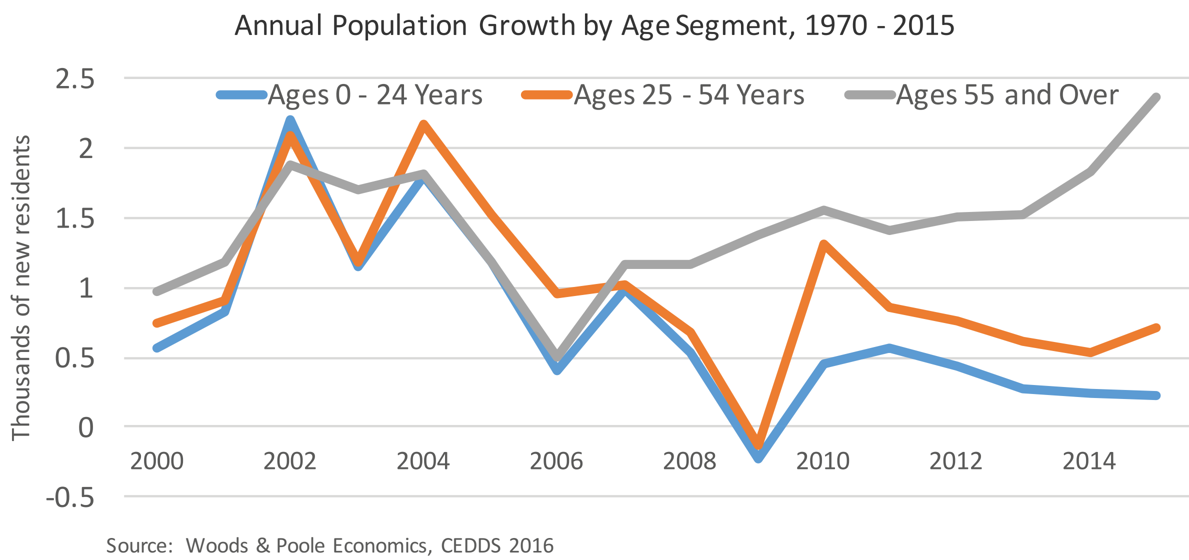


This method implicitly assumes that rates of change of utilization of multifamily, rental, owner-occupied also stay on the trend of 1991 – 2015. If new residents were to skew away from single family homes and into multi-family, this ratio could change. While this behavior has certainly occurred in response to the Great Recession, particularly in highly urbanized areas, it has not happened in meaningful ways in Santa Rosa and appears unlikely to occur.

Age Characteristics

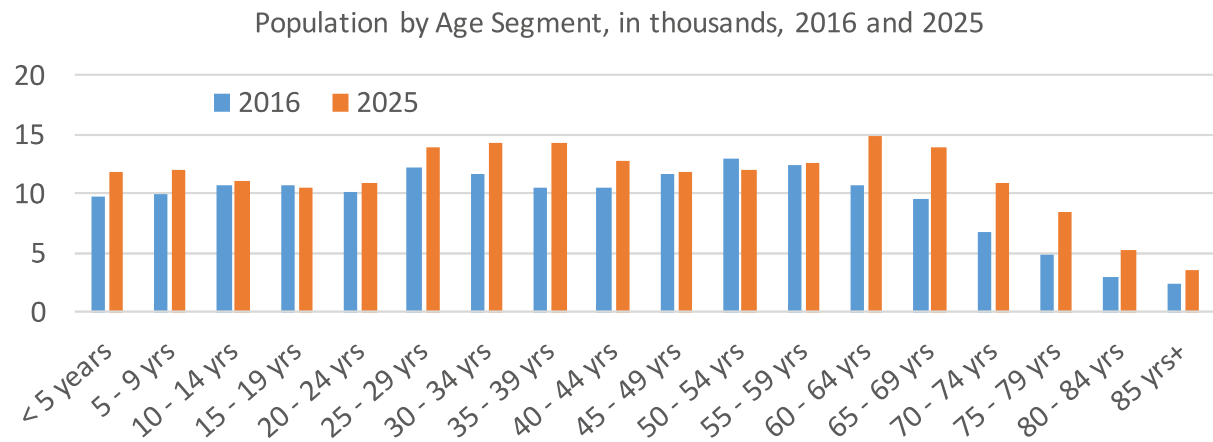
The nation is aging, Florida is old, and NWFL was younger than either 50 years ago, but is now older than the nation and gaining on Florida. Santa Rosa's population segment growth over the most recent two decades has reflected this. The large increases in median household income observed during 2002 - 2006 were associated with the influx of younger families, most with both parents working.

Figure: Population Growth by Age Segment, 1970 - 2015



Forecasts of population growth by age segment show that the "graying" trend will continue and in fact raise the median age of the population. But it can also be seen in the chart below that the attractiveness of Santa Rosa to young families, both local and otherwise, is expected to continue unabated.

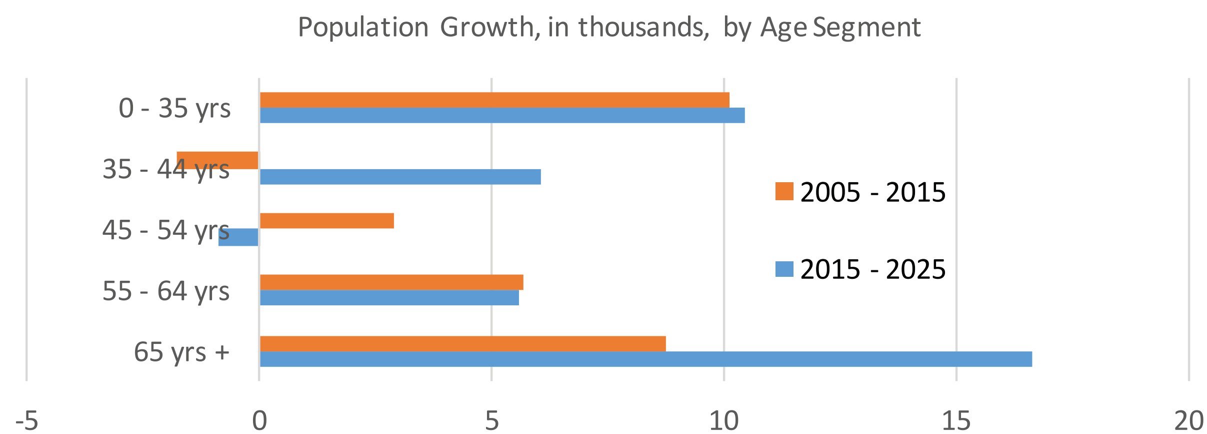
Figure: Population by Age Segment, 2016 and 2025



Source: Woods & Poole Economics, CEDDS, 2016

The pronounced focus on retired/soon-to-be-retired and on young families is even more apparent when one reduces the above chart to show growth by five major age categories. These are chosen to match the U.S. Census profile of likely home buyers. Below it can be seen that the real growth demographics for Santa Rosa over the next 10 years will be in older households, whether aging in place Baby Boomers, or new-to-Santa Rosa retirees, and in younger households with heads of household at 35 – 45 years of age, and their not-yet-off-to-college children. Each segment has particular needs in the housing market.

Figure: Historical and Projected Population Growth by Age Segment



Source: Woods & Poole Economics, CEDDS, 2016

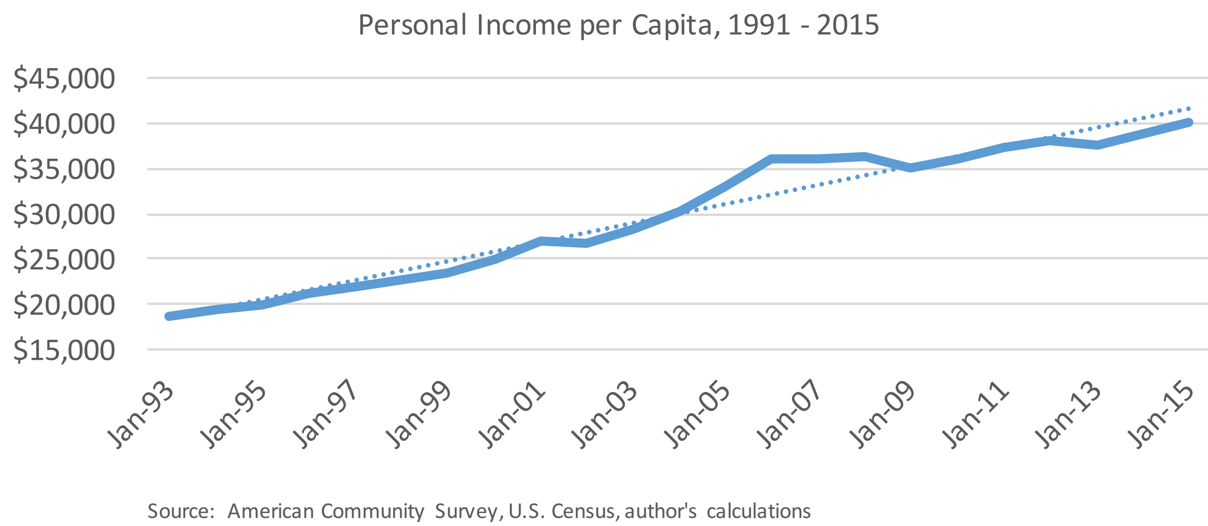
The total growth in population from 2005 to 2015 is calculated by the U.S. Census to be 25,601. In this 10-year period a total of about 6,908 new homes were delivered by builders to purchasers. This ranged from an average of about 1,200 per year as the boom ended in 2005 and 2006, to a low of about 523 per year during the 2008 to 2012 trough. The population growth projected for the 2015 to 2025 period is 37,764, which is 12,163, or 68 percent greater, than the growth that actually occurred during the prior 10-year period. While sales per new resident can be expected to tick upward slightly due to the smaller average number of persons in older households, this effect will be less pronounced in Santa Rosa relative to the nation due to the predominance of single family homes in the County.

Income Trends

Because earnings are so highly correlated with educational attainment, we look at ACS data for small areas within the County to assess household income and also educational attainment.

Trend growth in personal income in Santa Rosa has averaged 3.6 percent per year from 1993 until 2015. This is only slightly less than the 3.7 percent average for the nation as a whole over the same period. However, that similarity in the average annual growth rate masks important differences. Per capita personal income grew at a robust 6.4 percent per year during the 2000 – 2006 period, which includes the beginnings of the real estate boom and the strong inbound migration of younger families. During that same period, the nation averaged 4.2 percent personal income growth. However, the 2007 – 2015 period saw a decrease to an average of 1.3 percent in Santa Rosa, versus 2.7 percent for the nation. The Great Recession-driven slowdown in inbound migration of higher-earning families, and the shift of the regional economy into leisure and hospitality occupations, has contributed to a decrease in per capita personal income growth rate in recent years, as is shown below.

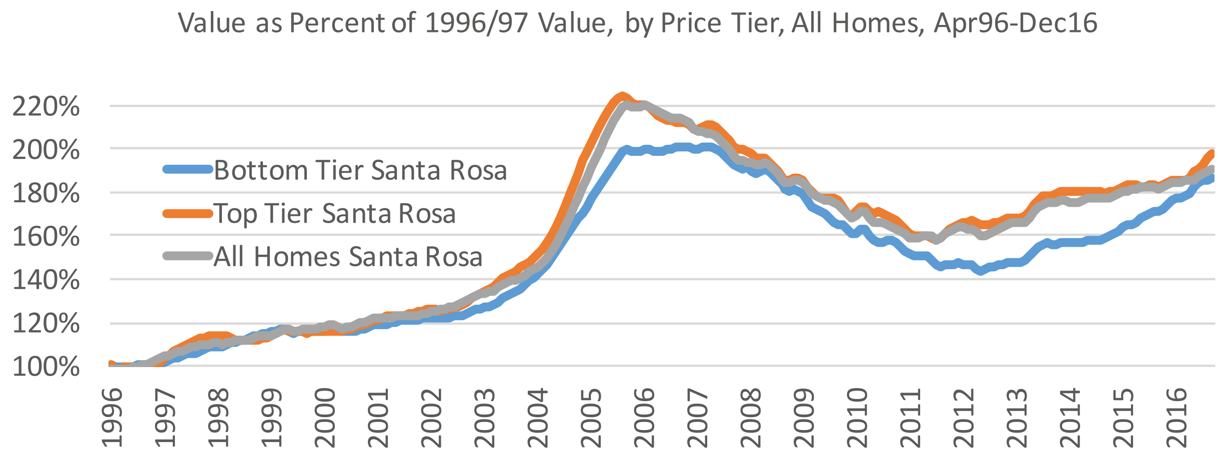
Figure: Personal Income per Capita, 1991 - 2015



The Affordable Housing/ Workforce Housing Situation

Price appreciation has been different for different types of homes due to the economic prospects of householders across income classes. Below we can see the run-up in prices for high value homes when mortgage loans were both plentiful and cheap. While bottom-tier homes participated in the boom, their price growth lagged behind. But in the wake of the recession, with lending curtailed, and credit scores damaged, demand for entry level or bottom-tier homes grew more strongly.

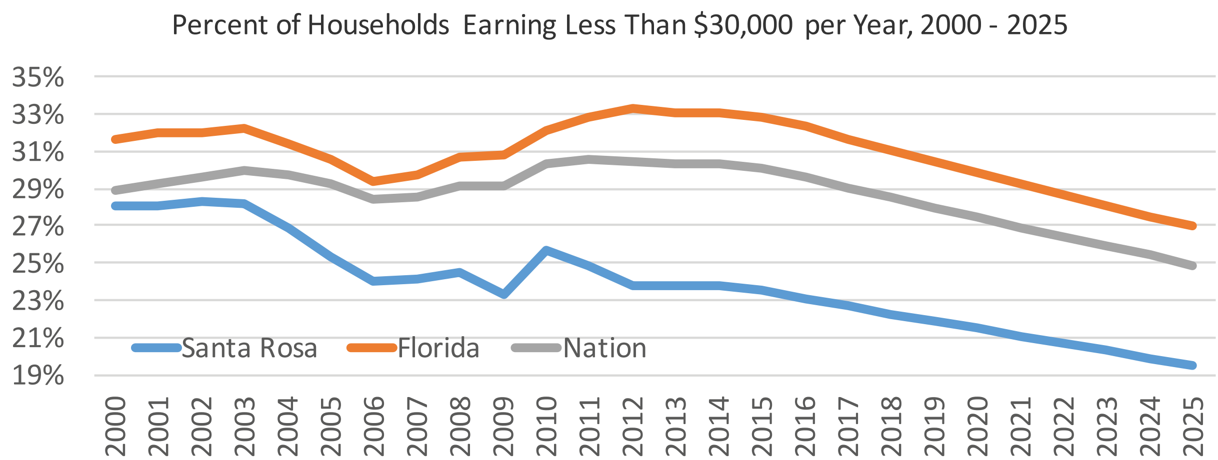
Figure: Growth in Value for Top Tier, Bottom Tier, and All Homes, 1996 - 2016



Source: Zillow Home Value Index, 2017

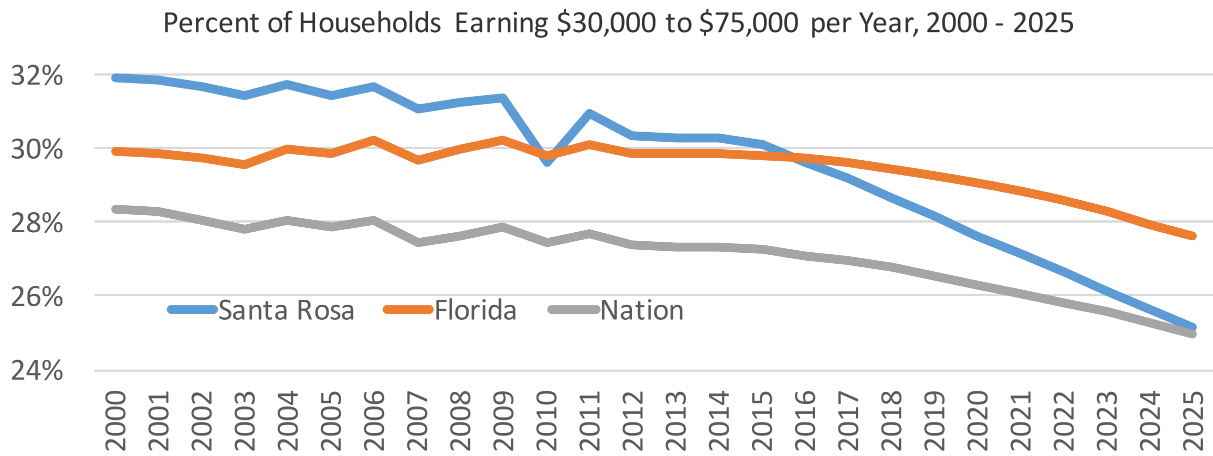
Santa Rosa compares favorably to Florida and the nation in terms of the share of households earning a money income of less than $30,000 per year, even after that share spiked upward during the housing bust. That share then fell more rapidly than for the state or nation and is projected to fall at roughly the same rate as the state and the nation in coming years.

Figure: Lower Income Households as a Share of Total Households, County, State, Nation



Source: Woods & Poole Economics, CEDDS, 2016

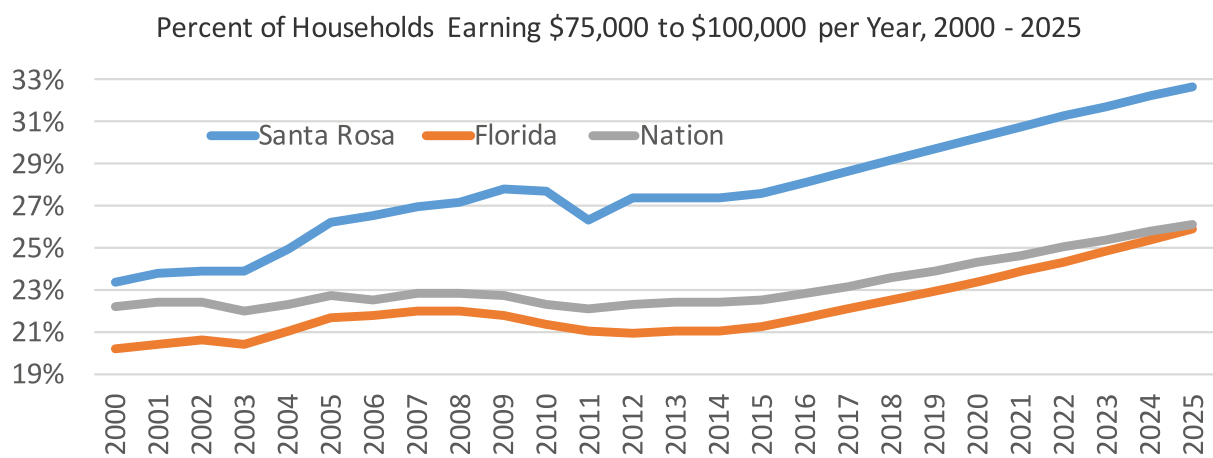
Figure: Middle Class Households as a Share of Total Households, County, State, Nation



Source: Woods & Poole Economics, CEDDS, 2016

The status of Santa Rosa as an upper-middle class working county can be seen in the Figure below, with a relatively large share of households, about 27 percent, in an income range that facilitates home ownership. This is higher than for Florida or for the nation.

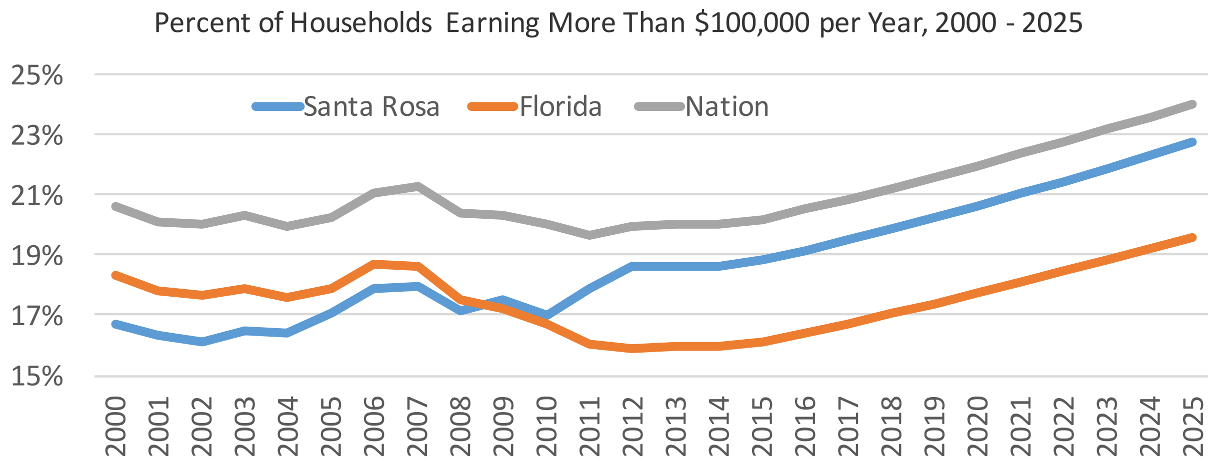
Figure: Upper Middle Class Households as a Share of Total Households, County, State, Nation



Source: Woods & Poole Economics, CEDDS, 2016

Partly because Santa Rosa attracts families with children, personal income per person has lagged the national economy. The good news is that the number of Santa Rosa households with higher than $100,000 per year incomes is projected to grow at the national rate. This will be reflected in homeownership rates, as discussed below.

Figure: High Income Households as a Share of Total Households



Source: Woods & Poole Economics, CEDDS, 2016

At one level, there is measurement bias when looking at personal and household income figures, as they do not count accumulated wealth of retirees. Thus, a drop in incomes would be expected as the share of retirees in the population increases. However, this is only a partial explanation, as income figures do include earnings from dividends, interest, and rents, which represent the flow of income attributable to accumulated wealth. In a low yield environment such as has been facilitated by the Fed interest rate policy since 2008, an abundance of savings globally, and a lack of strong demand for loanable funds, income to savers has been depressed. However, much of the drop in personal and household income is attributable to the growing concentration of the local economy in services, particularly leisure and hospitality, health care, and education, at the expense of the military and manufacturing jobs of a generation ago.

Santa Rosa Homeownership Rates

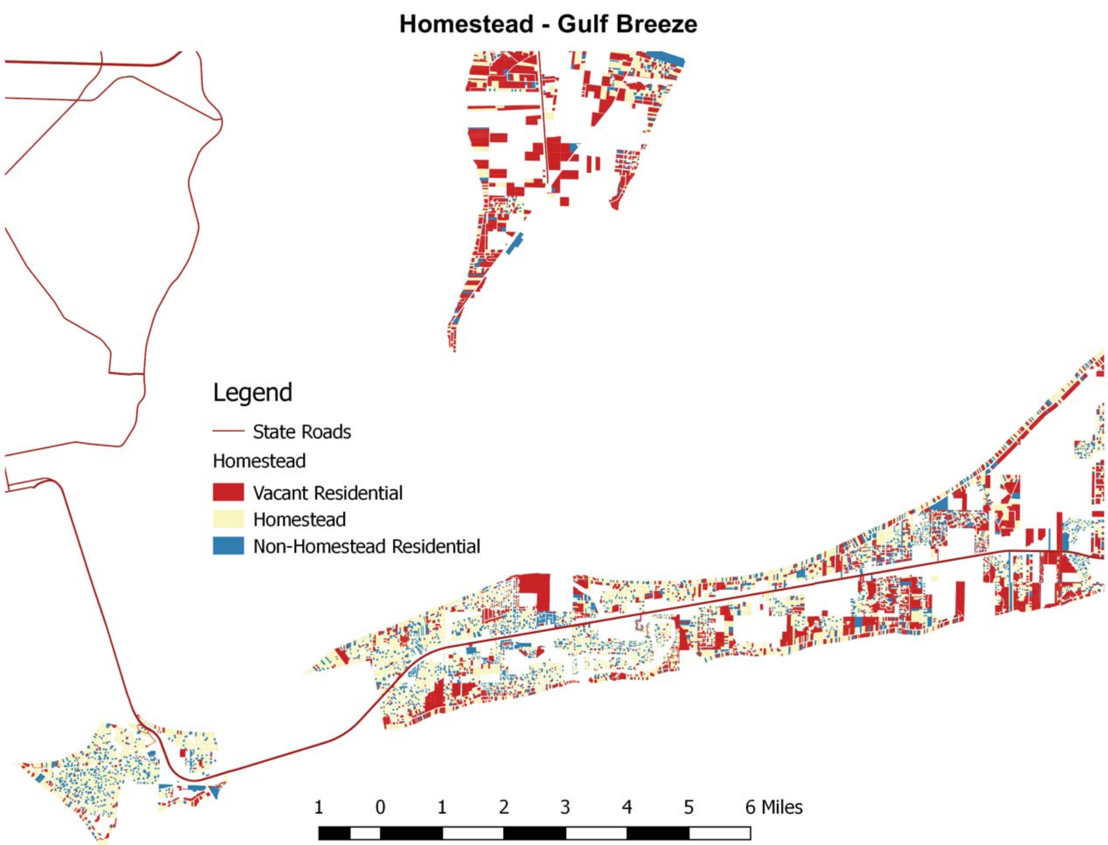
As was seen in the discussion of the national housing market, homeownership rates have declined for all age cohorts in the wake of the Great Recession. 69.3 percent of all parcels classified as improved residential carry some level of homestead exemption. Homesteaded rates are higher for single family residence parcels, with 73.1 percent of those parcels homesteaded. 52.1 percent of mobile home parcels are homesteaded, while only 15.3 percent of condominiums are homesteaded.

The taxation implications of changes in homeownership rates are particularly important for local governments in Florida, given their reliance on property tax as the major revenue source for funding needed infrastructure development and maintenance. This is especially true for Santa Rosa, where the ratio of the allowed $25,000 homestead exemption as a percent of total assessed value is 1.7 times the average for Florida. Santa Rosa has relatively many residents, and thus a correspondingly high residential valuation as a share of total valuation, compared to the density of commercial activity in other parts of the region and state. Given that Santa Rosa is more residentially oriented, one would expect other ratios related to residential density to also come in at about 1.7 times the state average. However, the demographics of the County and structure of our families have led to a ratio 5.8 times that of the state for the homestead assessment reduction for parents or grandparents living in the home, and a ratio 2.2 times that of the state for additional homestead exemption for age 65 and over. Santa Rosa is already a senior-intensive county. Not unexpectedly, given the outsize role of the military employment in the region, the ratio for disabled veterans homestead discount is 3 times that of the state. As was mentioned previously, use of the deployed service member's homestead exemption is far and away the highest of any county in the state, at 25.6 times the state's ratio.

It is also true that, given the lower home prices, tax burden, and greater affordability traditionally associated with Santa Rosa, the homestead property tax exemptions provide a great proportionate reduction in tax here than in more expensive parts of the state. This means that Santa Rosa faces a built-in constraint on County income growth that is more severe than in other parts of the state.

Homesteaded, non-homesteaded, and vacant residential parcels are shown below for Gulf Breeze. This map can be expanded to better see detail, and further geographic detail, and larger maps, for the County and its cities can be found in the Map Appendix (on HBA website).

Figure: Map of Homestead Status for Gulf Breeze



Source: FL DOR, NAL67F201602VAB

Performance of the Santa Rosa Housing Market

After the crippling blow of the Great Recession, sales of new and existing homes have recovered strongly, although median prices and quantities are still not back to the boom levels of 2005. Today, the Santa Rosa market is more mature, and is faced with some of the same capacity challenges of its neighbors. More builders have turned to infill development, building homes in different locations across the community, rather than clusters of homes in subdivisions. This is partly due to the fact that many of the easiest neighborhoods, in terms of large numbers of buildable lots, with easy access to good schools and to work, and that are without wetlands or other issues, are largely built out.

In particular, the strong inbound migration of 1996 – 2005, and especially 2002 – 2005, is associated with high growth in population, household income, and median value per square foot of homes in Santa Rosa County. The Great Recession then dropped inbound migration to half its normal level, and median household income and home values stagnated. While years 2010 and 2015 saw population growth at more normal levels, ongoing modest population and household income growth has threatened to hold back home value appreciation in Santa Rosa more than in other locations. This in turn has affected the performance forecasts for the housing market. The real estate firm Zillow provides credible data for local markets. The baseline Zillow forecast calls for growth in the average home values in Santa Rosa of about 3 percent over 2017. Relative to other locations in Florida, Zillow expects Santa Rosa 2017 home value growth to be slightly lower than the forecasted rate of 3.4 percent statewide and 3.2 percent nationally. However, the most recent data regarding economic drivers in the region suggest that Santa Rosa may well outperform that housing forecast.

Table: Actual Year Built, Single Family Residential Parcels, by City

	No City	Bagdad	Gulf Brz	Holt	Jay	Milton	Navarre	Nav Bch	Pace	Total
pre-1955	1	208	156	3	314	901	56	1	185	1,825
1956 - 1970	3	204	1,239	1	361	2,136	179	6	721	4,850
1971 - 1985	6	505	3,225	4	381	3,525	1,057	514	2,636	11,853
1986 - 2000	9	677	3,889	5	382	5,241	6,083	776	4,266	21,328
2001 - 2015	416	833	3,372	4	379	4,539	6,287	529	3,941	20,300
Total	435	2,427	11,881	17	1,817	16,342	13,662	1,826	11,749	60,156
	No City	Bagdad	Gulf Brz	Holt	Jay	Milton	Navarre	Nav Bch	Pace	Total
pre-1955	0%	9%	1%	18%	17%	6%	0%	0%	2%	3%
1956 - 1970	1%	8%	10%	6%	20%	13%	1%	0%	6%	8%
1971 - 1985	1%	21%	27%	24%	21%	22%	8%	28%	22%	20%
1986 - 2000	2%	28%	33%	29%	21%	32%	45%	42%	36%	35%
2001 - 2015	96%	34%	28%	24%	21%	28%	46%	29%	34%	34%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: FL Dept. of Revenue NAL file, author’s calculations

Overall, Santa Rosa is today enjoying a Goldilocks residential housing market – not too hot, and not too cold. While the number of new and existing single family residences sold has increased markedly, particularly since mid-2013, price growth has been moderate in the new home market. Price growth has been stronger in the existing home market since its 2013 price bottom, with the median sale price in 2016 only 14.6 percent below the median price at the 2005 peak of the market.

The good news for home buyers is that even with strong increases in homes built and sold, price increases for new homes have been modest in the last several years. Data covering all individual transactions show that median new single family home sale prices (excluding condominiums and mobile homes), in 2016 in Santa Rosa rose by only 1.8 percent relative to 2015. New home prices are rising a bit more than that in Navarre, and less in Pace and Milton, even though Pace and Milton are seeing greater increases in quantities sold.

The same data sources show that the number of existing single family homes sold rose 15 percent in 2016 from 2015, to 4,037 homes, while median price rose 8.4 percent, to $162,000. However, that price varied widely across the County, with the median 2016 sale price being $200,000 in Gulf Breeze, $69,050 in Jay, $106,200 in Milton, $190,000 in Navarre, $373,500 in Navarre Beach, and $158,400 in Pace.

Table: Number of Residences by Type, Ratio of Single Family Residences to Vacant Residential, all Santa Rosa Parcels, by City

	No City	Bagdad	Gulf Brz	Holt	Jay	Milton	Navarre	NavBch	Pace	Total
Vacant Residential	12081	913	1487	4	365	3051	2443	119	1993	22456
Single Family	422	2023	10948	11	1482	13733	12276	685	10752	52332
Mobile Homes	22	408	466	6	342	2604	1299	0	969	6116
Multifamily 10+ units	0	1	7	0	1	23	5	0	7	44
Condominiums	0	0	470	0	0	15	102	1143	33	1763
Multifamily <10 units	1	9	216	0	1	244	138	0	62	671
Res Common Areas	131	1	8	0	0	1	16	0	5	162
Other nonres uses	15521	149	1013	8	1163	2708	752	27	808	22149
Total parcels	28178	3504	14615	29	3354	22379	17031	1974	14629	105693
	Ratio of Single Family Residences to Vacant Residences for Above-listed Cities									
Single Family/Vacant	0.0	2.2	7.4	2.8	4.1	4.5	5.0	5.8	5.4	2.3

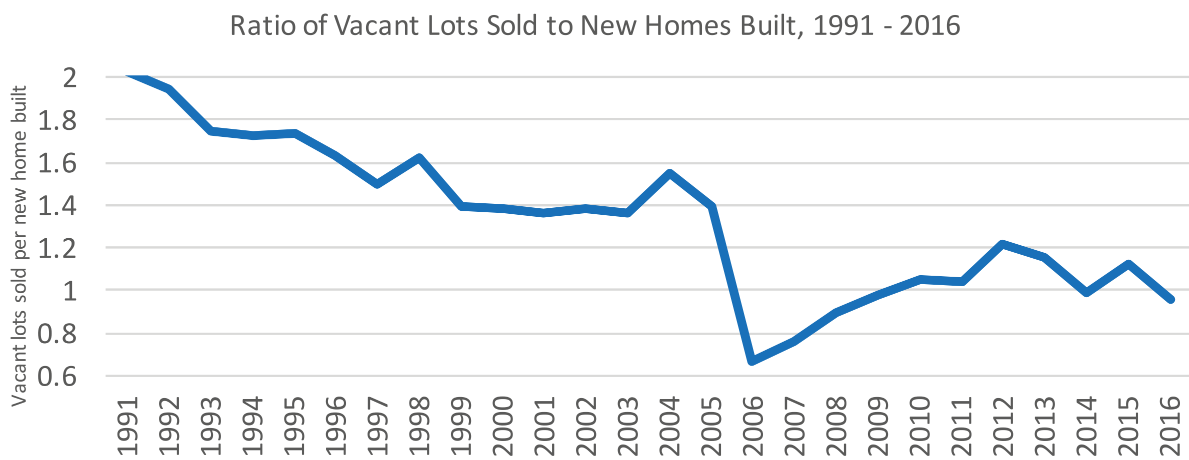
Source: FL Dept. of Revenue NAL file, author's calculations

Buildable Lots

One of the major threats to Santa Rosa growth is the looming shortage of lots available to builders at affordable prices. Area bankers and developers indicate that the lot shortfall can be attributed to several factors, all revolving around availability of investment capital for subdivision development. One is the national factor mentioned earlier, that HVCRE assets have declined in attractiveness for bankers due to increased reserve requirements. Another is the growing presence of national builders able to purchase, or secure the option to purchase, large quantities of buildable lots, up to and including entire subdivisions, due to a healthy balance sheet and access to national capital markets. Thus, strong sales over a period of years have depleted local inventories, and other factors have meant it is increasingly difficult for smaller builders to acquire lots.

Larger banks may be reluctant to lend on dirt because Federal regulators require 15 percent cash up front on assets classified as "high-volatility commercial real estate." Lending at a higher loan-to-value ratio requires additional capital up front. While the community banks that survived the financial crisis are now well-capitalized, they may not be aggressively pursuing raw land lending due to high risks and the amount of capital tied up. Some projects are coming out of mothballs, but with lot prices at $50,000. While there are some parcels along Highway 98, there is not much in the desirable Pace and Navarre school districts. Anticipated higher interest rates may have a negative impact on lot development, as some banks tell potential developers to plan on their project being profitable at 6 percent interest rates.

Figure: Ratio of Vacant Lot Sales to New Home Sales, 1992 - 2016



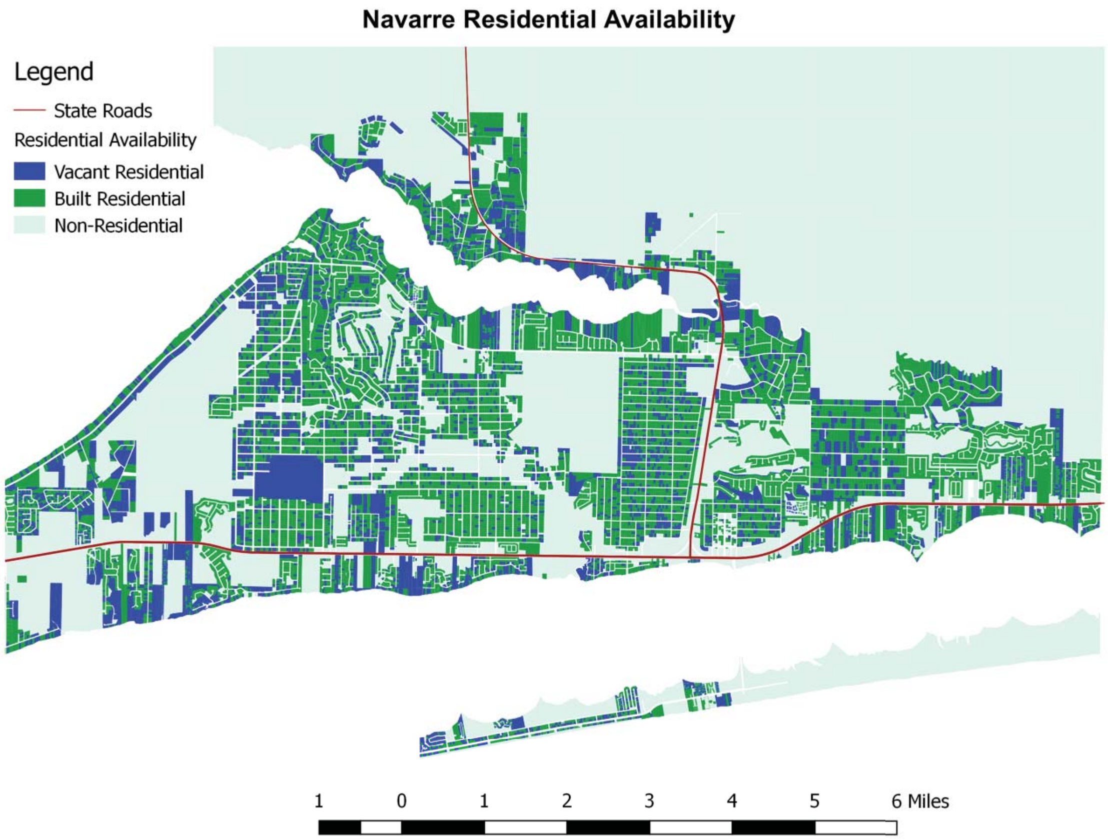
Source: Metro Market Trends, FL Dept. of Revenue NAL file, author's calculations

It is worth noting that obtaining an option to purchase would tie up the lots in question without generating a vacant lot sale transaction. So some of the downward slope of the trend shown above may be due to changing methods of finance as well as decreased lots in the pipeline. However, with new home sales picking up, there will need to be an increase in available lots, at affordable prices, to meet the increased demand.

Geospatial calculations of lot size (provided by Metro Market Trends) for existing homes sold in Santa Rosa allows calculation of changes over time in average lot size. Median lot size hit its lowest level in early 2017, at .33 acres. It was at its highest in the 1990's, at .37 acres. Thus, the changes mentioned by builders see to have some validity.

Built and vacant residential parcels, along with non-residential parcels, are shown below for Navarre. This map can be expanded to better see detail, and further geographic detail, and larger maps, for the County and its cities can be found in the Map Appendix (on HBA website).

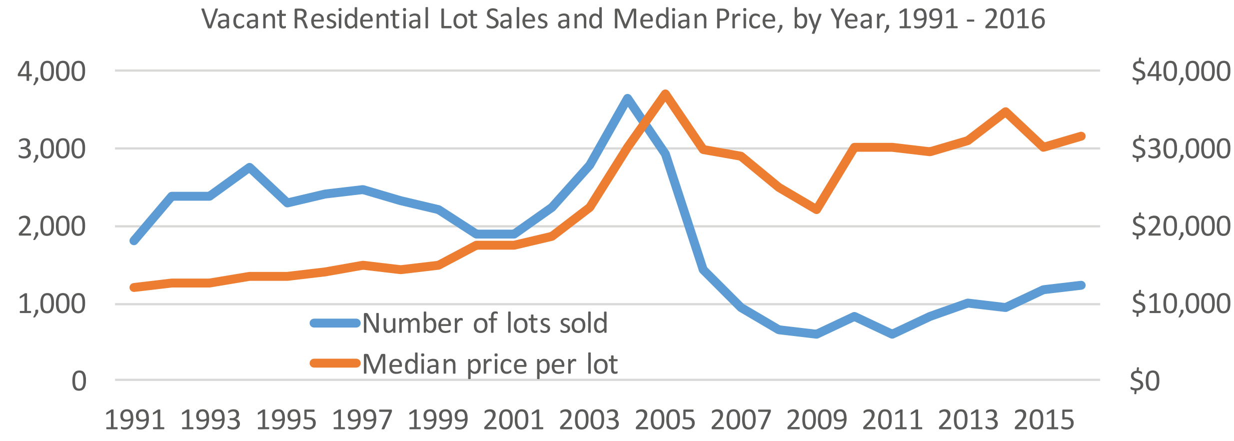
Figure: Map of Potential Residential Availability for Navarre



Source: FL DOR, NAL67F201602VAB

In the Figure below, lot sales can be seen to hover throughout the 1990s in the 2,000 – 2,500 lots sold per year, with prices in the $15,000 to $20,000 range, until the advent of the building boom in 2003. A two-year jump in quantity, followed by a two-year jump in price, ensued, followed by the bursting of the housing bubble. The drop in quantity of lots sold was appropriate at that time, given the lack of buying activity in the new and existing home market. However, prices have not fallen, and continue to be in the $25,000 to $30,000 range, even with low levels of lot sales. The fact that competition among sellers has not driven prices lower is indicative of a relative scarcity of lots available to the market. With buildable lot prices typically about 18 to 20 percent of the cost of a delivered new home in most markets, this has grave implications for affordability in the County. While it has perhaps not yet been a noticeable problem as the market worked through excess inventory from the Great Recession, it will soon cause affordability issues, particularly for workforce housing.

Figure: Vacant Residential Lot Sales and Median Price, 1991 - 2016

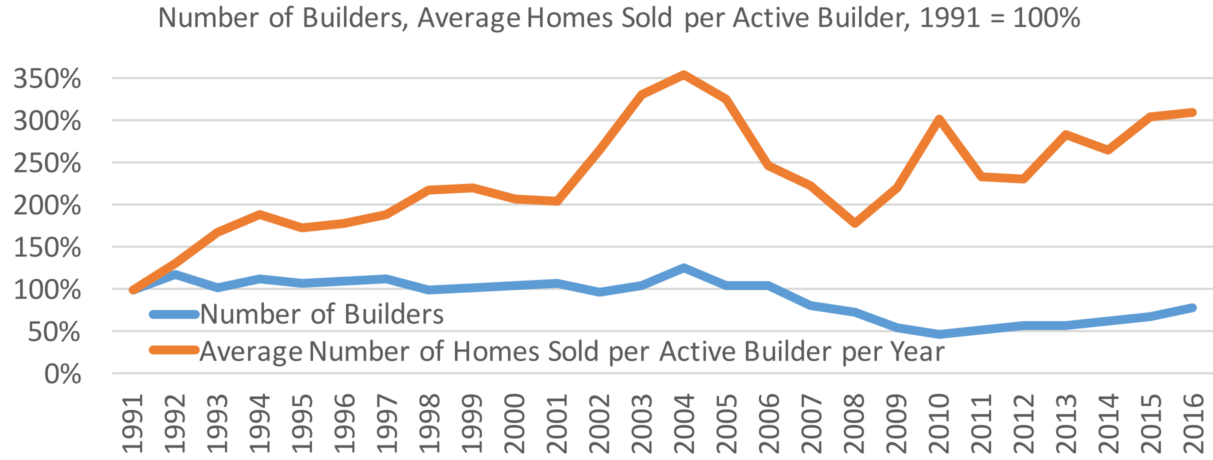


Source: Metro Market Trends, author's calculations

Over the last 60 months, the average annual increase in lot price was 2.6 percent, which is far below the average annual price growth of 20.5 percent registered over the 60 months prior to the price crash that began in 2005. While the median lot price is today 14 percent below its previous high, when taken together, the trends in buildable lot sales and in new home sales are indicative of an overall decrease in availability. Much of this is due to buildout in neighborhoods near the best schools, and some of it is due to factors beyond local control. However, the County must work to ensure that subdivision developers are not driven out of the market by requirements for improvements that render Santa Rosa less viable for development projects than neighboring counties.

It is likely that the increasing trend towards lot acquisition being biased towards those with sufficient financial capability to enter the buildable lot market and purchase quantities well in advance will skew the market towards large builders. Some of this can be seen already in changes in the number and size of builders active in the Santa Rosa market. The Figure below shows that the number of builders is down from its 2004 peak, and that builders are building and selling almost three times more homes per builder than they did in 1991. With an average number built per year of roughly 11 homes, and only a dozen builders selling more than 20 per year in 2016, Santa Rosa is no longer just a small builder market. It is likely that larger builders can benefit from the economies of scale in materials purchases, lot purchases, and access to finance in order to build a less expensive home. However, some builders and developers have expressed concern that excessive concentration may result in market power for large builders, and the ability to raise prices due to a lack of competitive bids if smaller builders are driven out of the market.

Figure: Number of Builders and Average Number of Homes Sold per Builder, 1991 - 2016



Source: Metro Market Trends, author's calculations

New Home Sales and Prices

This pending buildable lot shortfall is not yet showing up in new home prices, with the average annual rate of median price increase from 2012 to 2016 being 2.6 percent. Looking at the count of new homes deeded to the homeowner, the number of homes delivered has risen by 88 percent from 2012 to 2016, but the median price has only risen by 8 percent over that time, to $220,900 in 2016. Homebuilders say that several factors are driving this trend. One is that it is a very competitive marketplace for new homes, with relatively many builders active in the market. Another is that the presence of national builders, has kept prices low because of very competitively priced and somewhat smaller starter homes, and because national companies, by virtue of size, have access to a large volume of lower cost financial capital that allows them to buy buildable lots in volume, and other components, whether bricks, flooring, paint, or subcontractor services, often at a lower price.

Table: Most Recent Year (2015): New Residences by Area (City), Type, and Price (Just Value)

	No City	Bagdad	Gulf Brz	Jay	Milton	Navarre	Nav Bch	Pace	Total
Single Family	97	28	128	6	182	334	2	265	1042
Just Value $	157326	136597	192395	146375	151114	175257	489514	160776	162829
Mobile Homes	1	1	0	2	14	4	0	2	24
Just Value $	89899	53337	na	122967	62183	103944	na	75234	70183
Multifamily	0	0	0	0	0	3	0	0	3
Just Value $	na	na	na	na	na	165190	na	a	165190
Total	98	29	128	8	196	341	2	267	1069

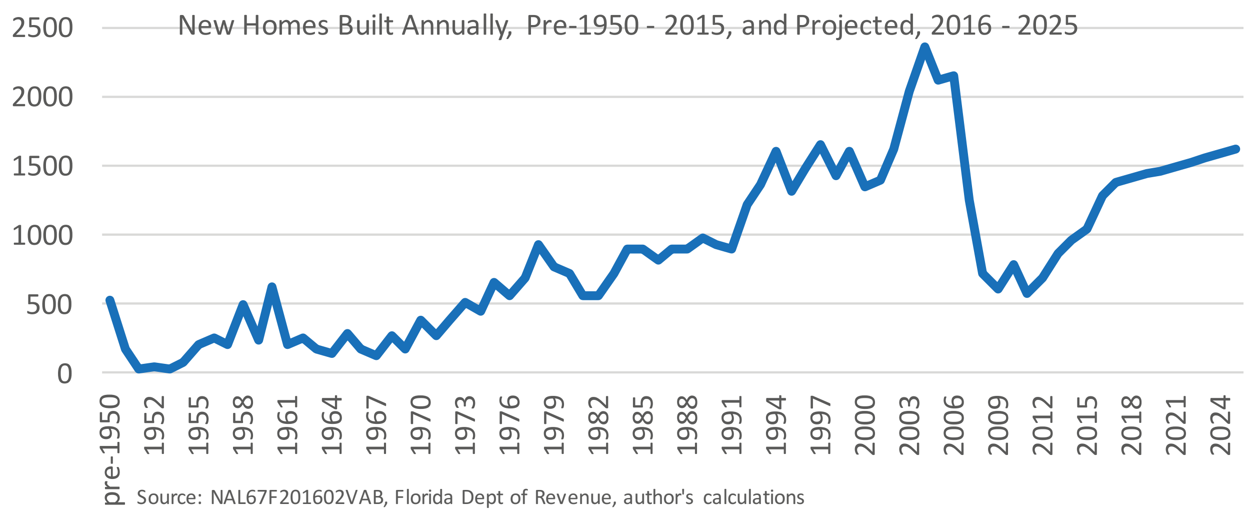
Source: FL Dept. of Revenue NAL file, author's calculations

To understand just what a specialized role Santa Rosa plays in the region, consider that only 4.2% of total residential building permits from January 2001 through December 2016 (741 of 17,692, as reported by the U.S. Census) were for dwelling units other than single family residences, versus 6,300 of 23,482 (26.8%) in Escambia, versus 5,134 of 17,860 (28.7%) in

Okaloosa. This, when combined with the demographics of population growth shown earlier, points to a strong need for multi-family structures and neighborhoods for older adults who might prefer to spend retirement years in Santa Rosa.

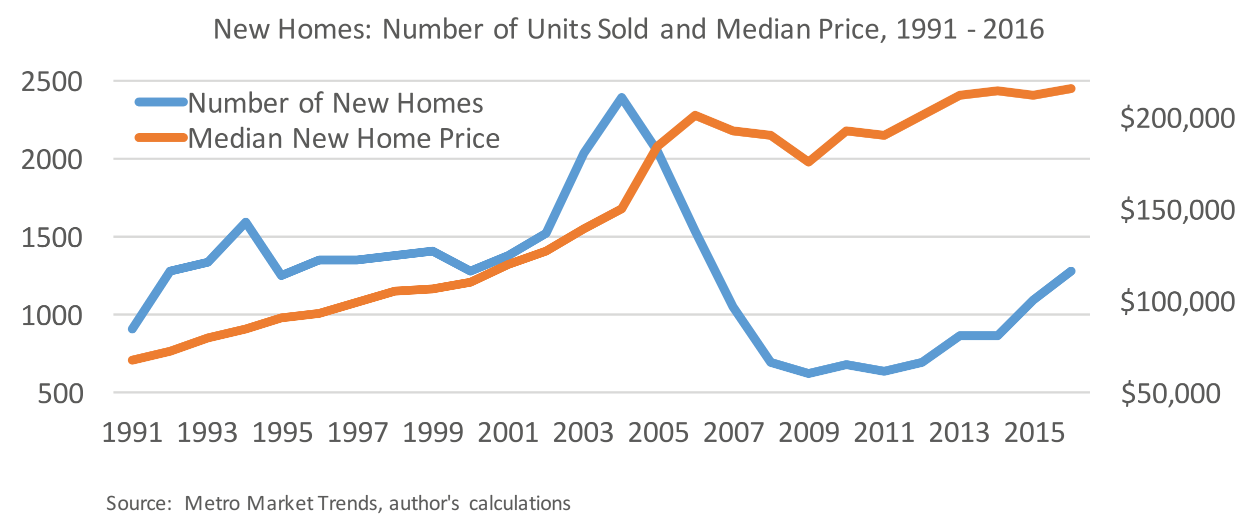
The following figure shows the number of new single family homes, excluding mobile homes and condominiums, built in Santa Rosa and appearing on the property roll. Here it should be noted that parcels with single family residences reported built before 1950 are summed and reported here as "pre-1950." All other years represent annual additions to the single family residential housing stock.

Figure: New Homes, Pre-1950 to 2025



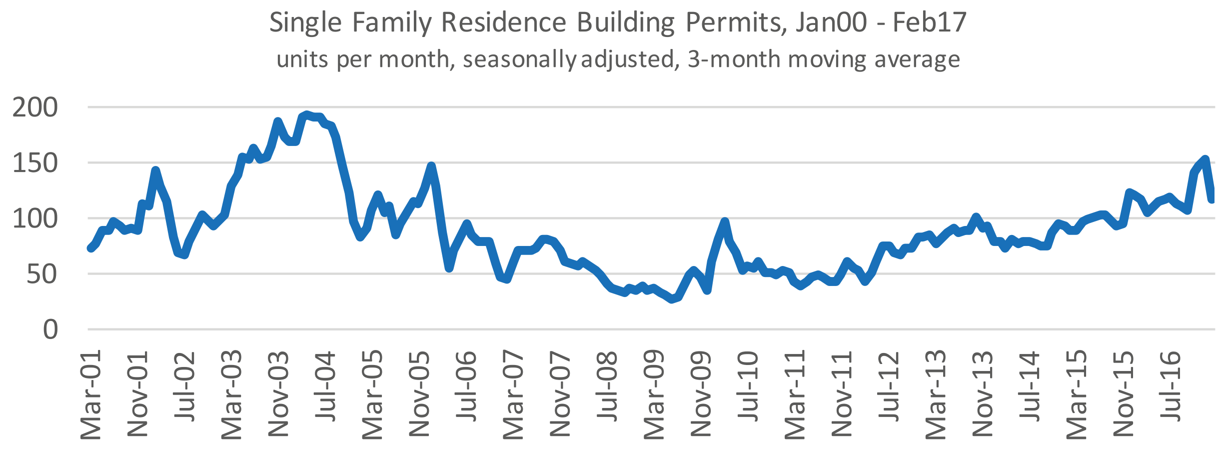
Looking on an annual basis at the change in the prices shows that price increases have been moderate. However, the first several months of 2017 have showed stronger price growth.

Figure: New Homes (Spec and Presold), Price and Number of Units, 1991 – 2016



Growth in new home construction and sales is continuing into 2017, as can be seen below. Building permits, which exhibit a tight correlation with home sales six months later, have been on an upward trajectory since 2011, although February 2017 registered a slowdown relative to previous months.

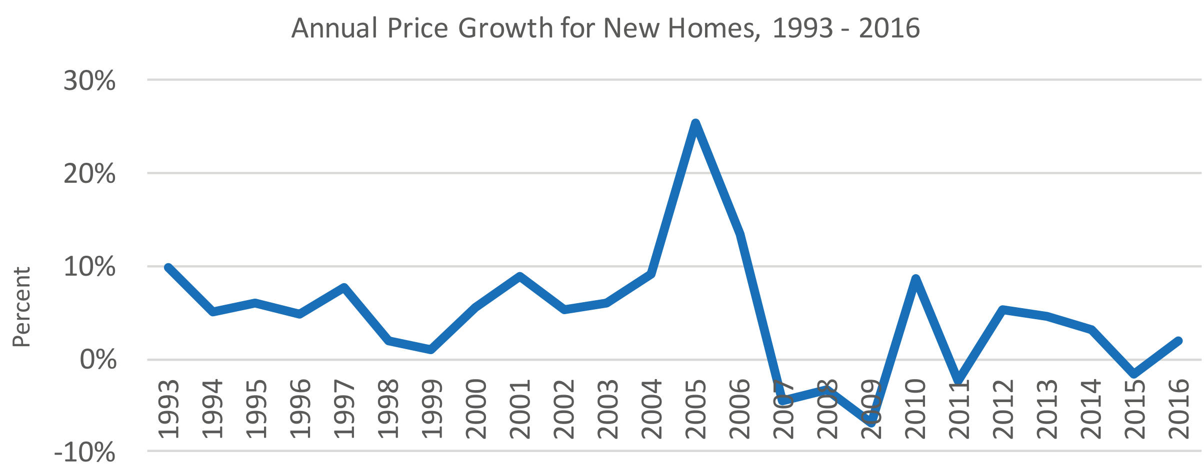
Figure: Single Family Building Permits by Month, January 2000 – February 2017



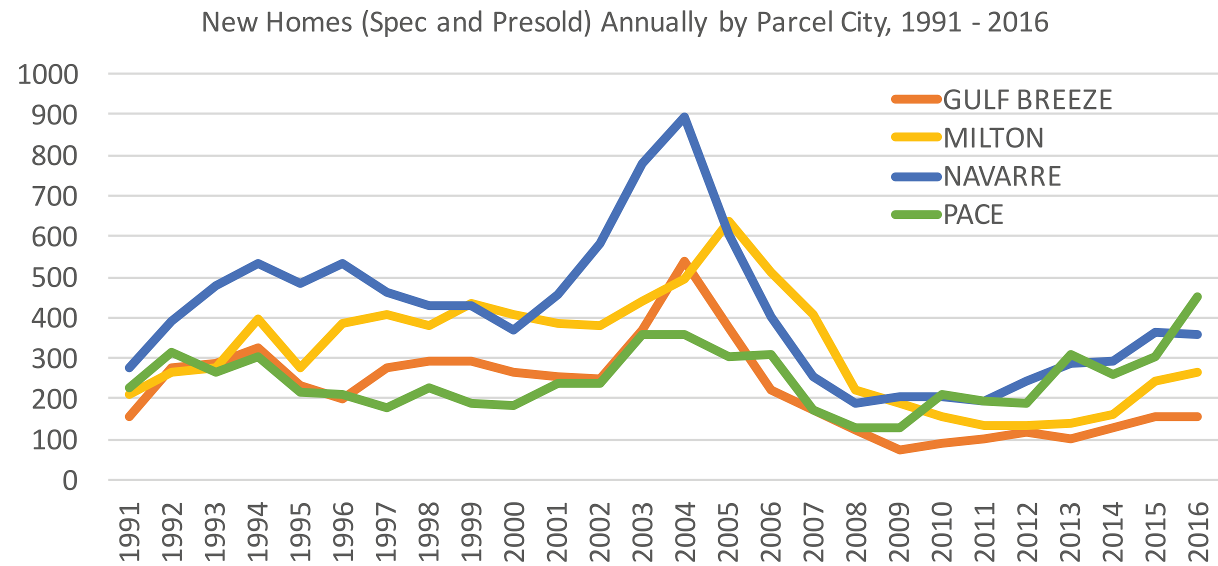
Source: U.S. Census, author's calculations

The median price for new homes sold has been rising at about $478 per month since January 2009. However, this price increase is not evenly distributed. Post-recession prices peaked in mid-2014 at a seasonally-adjusted price of $242,000 (3-month moving average basis) before settling in at the current median price of $229,000

Figure: Rate of Annual Increase in Median Sale Price for New Homes, 1992 - 2016



Source: Metro Market Trends, author's calculations

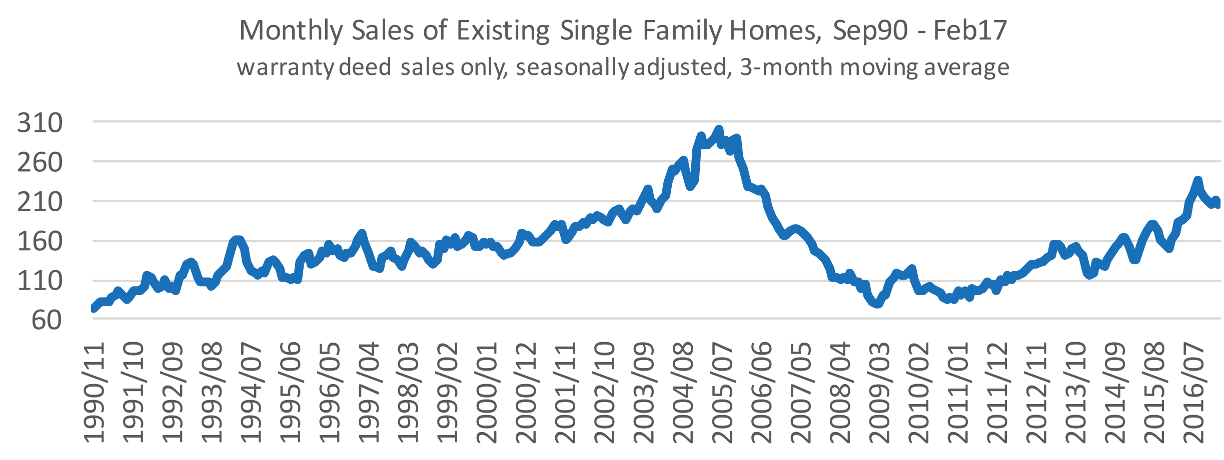


Source: Metro Market Trends

The Market for Resales of Existing Single Family Homes

Santa Rosa saw strong price growth in 2015 and 2016. Can it continue? After bottoming out in 2012, existing home sales have grown more strongly than at any time except the peak years of the housing boom. Total sales of existing homes in 2016 were not far below their 2005 peak.

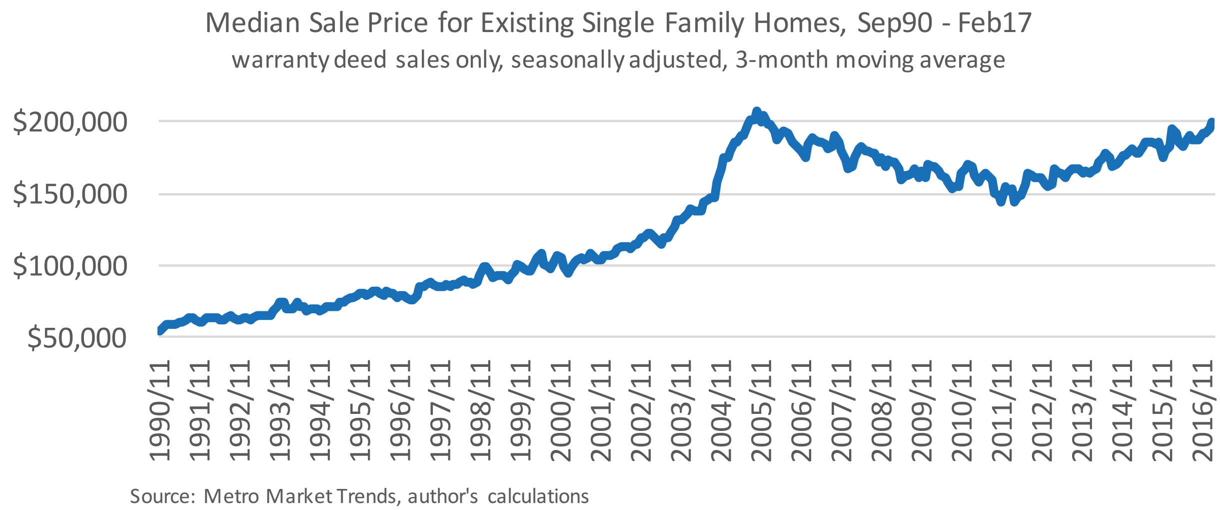
Figure: Sales per Month, Existing Single Family Homes, September 1990 – February 2017



Source: Metro Market Trends, author's calculations

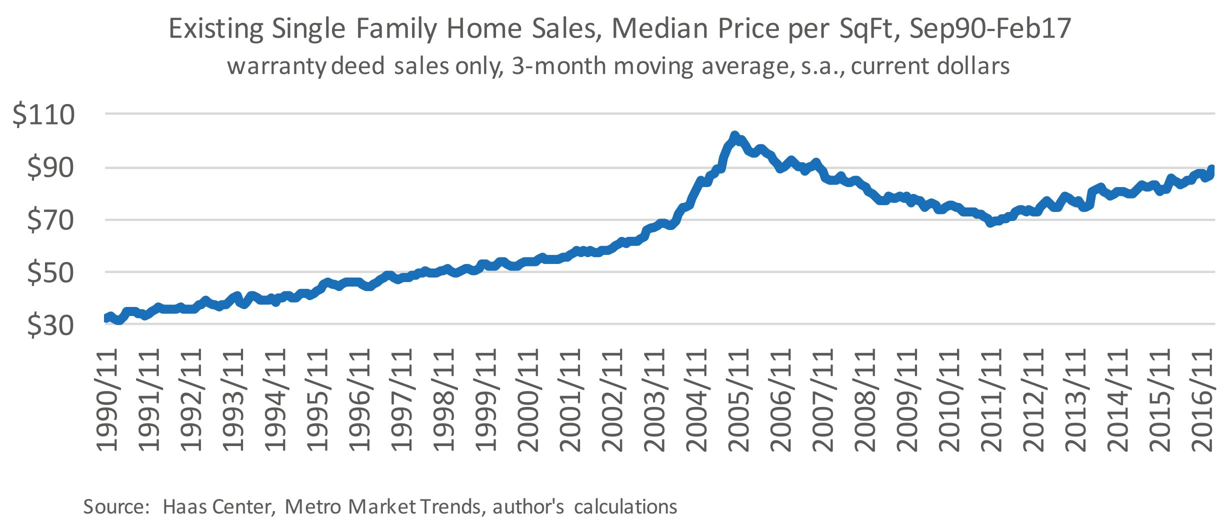
Prices have also recovered so that they are back on the pre-boom, pre-bust trend. Given a decrease in the inventory of existing homes on the market, it appears that strong growth in the price of existing homes will continue at least in the short term.

Figure: Median Sale Price, Existing Home Sales, 1990 - 2017



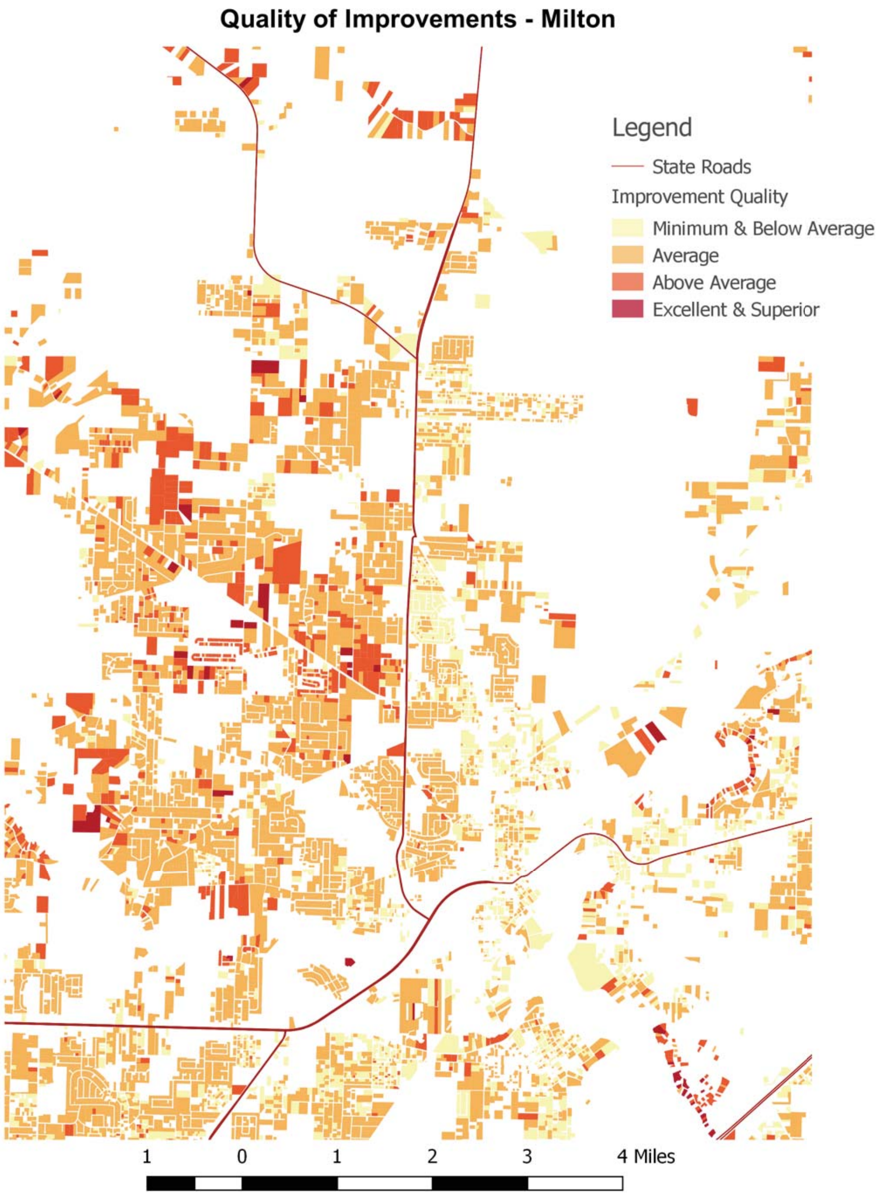
Median price per square foot for existing homes rose at 4.5 percent per year from late 2012 until February 2017, after rising at 5.2 percent per year from 1992 until the beginning of the housing boom in 2003

Figure: Median Price per Square Foot, Existing Home Sales, 1990 - 2017



These sales reflect the low mortgage interest rates, the improving employment picture, and the desire of regional residents to enjoy affordability and good schools. The within-county market is not homogeneous, and amenities may differ substantially by neighborhood. As an example, the quality of improvements for existing residential parcels is shown below for Milton. This map can be expanded to better see detail, and further geographic detail, and larger maps, for the County and its cities can be found in the Map Appendix (available on the HBA website).

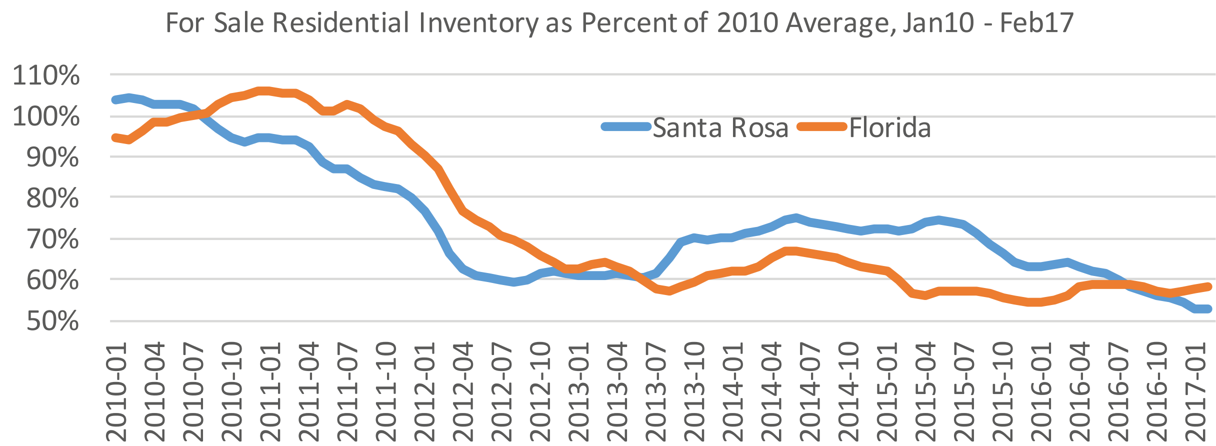
Figure: Map of Quality of Improvements for Milton



Source: FL DOR, NAL67F201602VAB

Given low rates and an improved job market, inventories of homes for sale have been falling. This points to continued price increases and highlights the need to bring new buildable lots, and thus new capacity for building and selling affordable homes, to the market.

Figure: For-Sale Residential Inventory, January 2010 – February 2017, s.a.



Source: Zillow, author's calculations

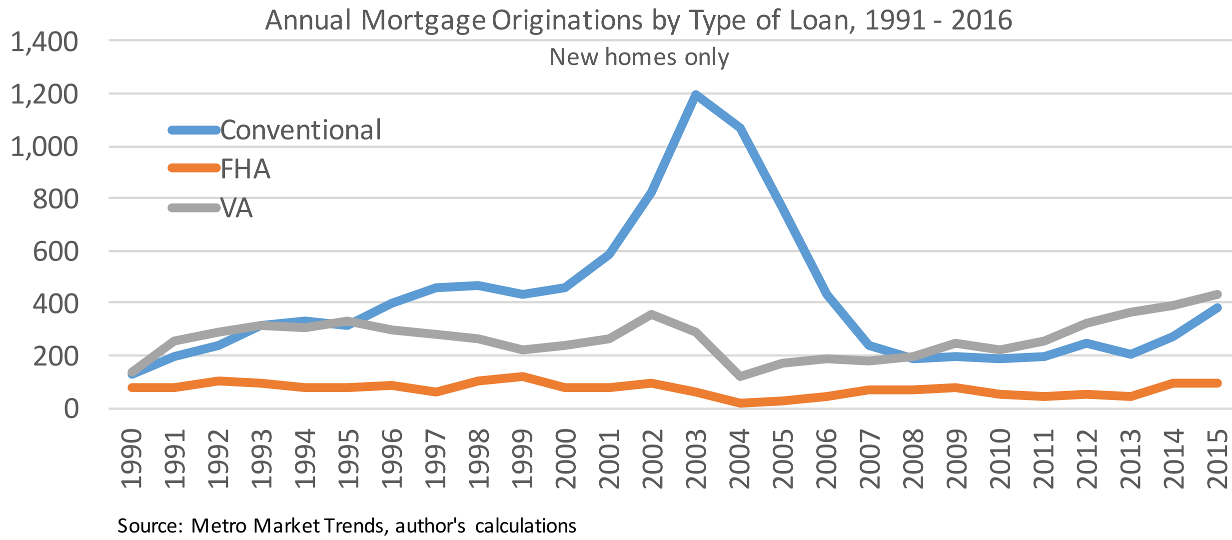
Trends in Loan to Value Ratio

Even though one of the factors that led to the financial crisis was the uptick in mortgage indebtedness facilitated by government mortgage guarantees, loan to value ratios have not diminished appreciably in the wake of the mortgage crisis. Instead, if anything, leverage has increased. About 91 percent of new home purchases from 1990 to 2017 in Santa Rosa were funded using proceeds from mortgage loans. Interestingly, that number rose to 94 percent during the trough of the new home sale market, when sales of new homes fell by more than 50 percent from the average during the boom and stayed below 600 per year for five years.

Lending largely shifted away from conventional loans with the onset of the financial crisis in 2007. One reason that Santa Rosa, and Northwest Florida more generally, were somewhat shielded from the magnitude of effects seen elsewhere is Florida is the high share of the buyer population eligible to receive a VA loan. VA originations did fall during the Great Recession, but not to the same degree that conventional loans did. By 2012, VA originations had regained the average level seen during the boom years, and far exceeded that level in the last several years. Conventional loan originations rose sharply in 2016, but are only now reaching the level of 20 years ago.

Bankers suggest that while loan to value ratios for conventional mortgages can still be as high after the recession as before, tough appraisals and stricter regulation of what can and can’t be counted as income and debt, are the major factors holding back residential mortgage lending.

Figure: Annual Mortgage Origination by Type of Mortgage Loan, 1991 - 2016

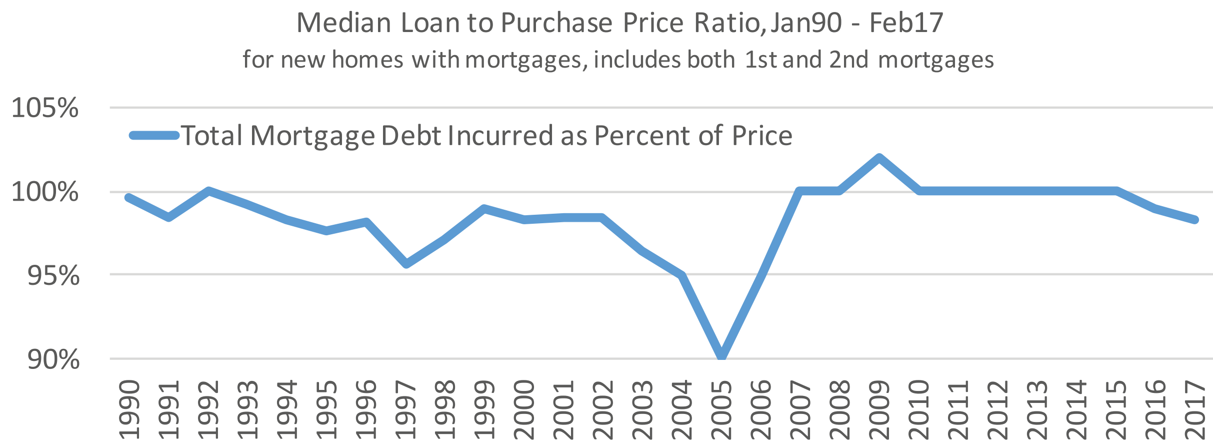


Because of the importance of VA lending, the median amount of mortgage debt incurred in those new homes for which a mortgage loan was taken out has actually stayed at 100 percent from 2007 onward, which is higher leverage than existed before the crash. This is due to the shift away from conventional loans as the prevalent loan in the marketplace to VA loans, where the median loan to value ratio, counting both first and second mortgages, has stayed consistently at 102 percent. While the loans are originated by private lenders, they carry a VA guarantee, and loan qualification criteria, including credit score, are not as stringent as for conventional loans.

The VA loans can be seen to be concentrated in the Hwy 98 commute corridor and are a function of the density of military residency in South Santa Rosa County. However, in Navarre, VA loans account for 73 percent of all mortgages made, which is twice the utilization rate of any other area of the County. As conventional loans have begun to grow again in volume, this has caused the median loan-to-price ratio to tick downward slightly, as can be seen below.

The advent of Appendix Q (Standards for Determining Monthly Debt and Income) regulations has meant that banks face uniform limiting criteria when qualifying borrowers for conventional mortgage loans intended for sale into the secondary market. VA loans have the built-in advantage of being easier to qualify for, as long as the military service member has met service requirements and not yet used up their VA eligibility. During the real estate price boom of 2003 – 2006, some purchasers who were VA eligible might have chosen to preserve that eligibility for a later date by purchasing instead with a conventional loan.

Figure: Median Loan to Sale Price Ratio for New Homes with Mortgages, 1990 - 2017



Source: Metro Market Trends, author's calculations

Interest Rate Increases Have Impacts on Affordability

These trends have impacts on housing affordability. Affordability improves when family incomes rise faster than house prices, and when interest rates fall. Over the next several years, good job creation in the two-county metro area will keep inbound migration from other counties and states at healthy rates. A healthy national economy means that the traditional retiree dynamic that lets new households move south to adopt the Florida lifestyle and Northwest Florida affordability, is in place. However, the strong increase in the sales price for existing homes erodes affordability, while the more modest increase in new home prices keeps them affordable.

There are several standard calculations that are done to assess affordability. The NAHB and Wells Fargo produce an Opportunity Index for local areas to enable comparison of the almost 450 areas for which the Opportunity Index is calculated, to the rest of the nation. On this measure, the two-county Pensacola metro has improved in affordability since 2012, moving from a ranking of between 100th to 150th in affordability between 2008 and 2012, to a ranking between 50th to 100th from 2013 onward. This is because home price increases in our area have lagged performance nationally.

In the most recent 6 months for which data are available, and restricting the analysis to warranty deed sales only, the median sale price (seasonally adjusted) for an existing single family residence in Santa Rosa was $192,150. If the loan-to-value ratio for that transaction were at 100 percent, as has been true on average for Santa Rosa for the last decade, then an increase from 3.5 to 4.5 percent would raise the monthly interest expense for that mortgage payment by $160 and lower the contribution to paying off principal in year 1 by $49 per month. If we make the usual assumption that households are constrained by their mortgage lenders from having a mortgage payment burden of more than 28 percent of monthly gross income, then a household would need an income that is higher by $4,749 per year to afford that same house.

Taking it a step farther, we can assume normal rates for property tax (for a homesteaded property), windstorm and homeowners' insurance, private mortgage insurance, and payoff of principal balance. This would yield a monthly PITI of about $1,320 at a 3.5 percent mortgage interest rate, requiring an annual income of $56,612 to qualify. The increase from 3.5 to 4.5 percent in the mortgage interest rate would take that monthly payment to about $1,432, requiring annual income of $61,361 to qualify. An increase to 5.5 percent would require an income of $66,393 to qualify. At these income levels, taking the mortgage interest rate up to 4.5 percent would eliminate about 4.1 percent, or more than 2,600, households from qualifying for that loan. An increase to 5.5 percent would keep an additional 3,000 households from qualifying to purchase the late-2016 median priced home.

Additionally, as interest rates rise, the pool of available buyers shrinks for another reason above and beyond failure to qualify. "Mortgage lock-in" refers to the phenomenon of households who already have a mortgage on an existing property at a low rate. They may find that any move to a different home would raise their monthly payments, unless that different home were to be much cheaper than their existing home, due to higher mortgage interest rates. The alternative of staying in their existing home, presumably purchased or refinanced when interest rates were at rock bottom, might be preferred to moving. Taken together, the decreased number of households who qualify, along with households who do not want a higher payment even if they do qualify, point towards a slowdown as interest rates rise.

The Job Creation impact of Homebuilding in Santa Rosa County

Inbound migration is particularly important in determining population growth rates in Santa Rosa, as it is for other fast-growth counties throughout Florida. If these new residents had not arrived, the need for new schools would not be as great, and the need to expand roads, water, sewer and other infrastructure would be less. However, there would also be fewer residents over which to spread the funding burden. The question of whether new housing development pays for itself is hotly debated. There are clearly both costs and benefits to the larger community of constructing new homes and neighborhoods. While a complete treatment of the economic and fiscal impact of growth to the County, its established residents, and its newcomers is beyond the scope of this report, we outline here the economic impact of new home construction.

Homebuilding has a somewhat unique capability to drive local economic impact. It calls for skilled workers who command a living wage that will mostly be spent locally. Much of the spending done to build a $230,000 house is done on locally produced goods and services. This means that unlike other types of goods production (i.e., manufacturing), the supply chain for developers and builders often has an extensive local component. This characteristic gives homebuilding a relatively large multiplier, or spin-off spending, effect in the local economy per dollar spent.

This report forecasts that there will be sufficient regional population growth to enable absorption of about 1,500 new homes per year in the County until at least 2025. It is important to break the economic effect out into one-time and continuing effect. The National Association of Home Builders has produced studies that estimate the job creation and spending impact of homebuilding in Santa Rosa County, and have also estimated the net costs and revenues associated with the presence of new residents.

The National Association of Home Builders recently used standard economic impact measurement tools to assess the value of new residential construction in our local area. That study applied to the two-county metro area and used new home sales figures and prices from several years ago. Here, we update that analysis to incorporate adjustments to the quantities of homes built and sold, as well as to prices, to show the economic impact of the housing growth projected by this study.

The estimated annual economic impact of production of 1,500 new homes per year projected by this study, using the current median price per new home, is $288 million in net new local income, along with $25.8 million in taxes and other revenues to local governments, and 5,327 net new jobs in the local economy. This is separate and apart from the continuing impact of having homeowners in newer, higher value, and thus higher property tax-paying, properties to support County revenue requirements. To put this in perspective, total earnings from jobs located in Santa Rosa in 2016 were about $2.16 billion.

Concluding Remarks

Santa Rosa's unique position as the community of choice for high-earning families has led it to a position of fourth highest median household income among the 67 counties of Florida. Because income is so highly correlated with education, health, longevity, and other socio-demographic metrics, Santa Rosa consistently performs well relative to its peers. Given the low cost of living in Northwest Florida generally, and in Santa Rosa specifically, this high ranking in median household income is all the more impressive. A dollar goes farther here, and combined with high incomes, yields one of the very best price-level-adjusted average standards of living in the state and the region.

Preserving and growing this status will require renewed attention to the availability of the high-quality and low-cost combination that has led so many people to call Santa Rosa their home. Little can be done locally about southeastern and national factors that will influence affordability, such as mortgage rates, bank lending standards, and the cost of building materials. However, local government has a large role to play in striking the right balance between infrastructure and affordability, and in the distribution of financial burden between new and existing residents.

As one political pundit put it as we began the recovery from the housing bust: "Florida used to be big on growth management, but now we just wish we had some growth to manage!" The regional population growth that would support healthy growth for Santa Rosa is available, as long as there are good schools and good and safe streets for all. If not, those potential new residents, and their spending, have other options. This is not to say that growth comes with no cost. However, it is the view of many that the problems that come with growth are preferable to the problems that come with stagnation. Santa Rosa has choices to make.