

Attraction to reopen, C2

Deaths: C4 Weather: C6

Business & Money

Barney's Steak & Seafood up for sale, C3

Home prices decline, but by not so much

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A closely watched federal gauge of housing prices showed Tuesday that homes in Metropolitan Orlando lost another 4.7 percent of their value in the final three months of last year — the seventh straight quarterly decline for the four-county metro area.

The good news, according to University of Central Florida finance professor Stanley D. Smith, who has been analyzing the Housing Price Index for many years, is that the rate of home-price depreciation slowed in Orlando

and elsewhere in the region during the fourth quarter, offering at least some hope that the market may be nearing a bottom.

The value of single-family homes in Brevard County edged down 4.8 percent in the fourth quarter, while those in Volusia County dropped another 4 percent. Statewide, home prices fell even more — 5.5 percent — according to the index, which was released by the new Federal Housing Finance Agency, which contains the former Office of Federal Housing Enterprise

PLEASE SEE HOUSING, C2

HOUSING

FROM PAGE C1

Oversight.

The fourth-quarter figures were an improvement over the index's third-quarter rates of decline, all of which exceeded 6 percent based on revised data. Orlando's 4.7 percent drop was the first quarter-to-quarter improvement since home values started depreciating in the second quarter of 2007.

But Smith cautioned against being overly optimistic about the slight slowing in the rate of decline, noting that similar hints of improvement statewide and in Volusia and Brevard during the third quarter of 2007 failed to materialize.

On an annual basis, the index showed that single-family home values in Metro Orlando (Orange, Seminole, Osceola and Lake counties) fell almost 18 percent last year — by far the worst drop in records dating back to 1985. The annual drop was 19.5 percent statewide, 19.8 percent in Volusia and 21.1 percent in Brevard.

Nationwide, by comparison, home values were down 0.2 percent in the fourth quarter and 4.5 percent for all of 2008.

The federal Housing Price Index measures the rate of appreciation or depreciation for single-family homes by tracking repeat sales and refinancings of properties that met the standards set for Fannie Mae or Freddie Mac financing. That essentially eliminates the worst-performing subprime loans from the mix, but it also shows how

the broader resale market has been damaged by the slump in values that began when the higher-risk, higher-interest subprimes began going bad.

Smith noted that, despite the sharp drop in local prices last year, on top of smaller declines in 2007, the double-digit percentage gains from 2004 through 2006 were so large that the typical Central Florida home still has appreciated when viewed over five years.

The five-year appreciation rate for Metro Orlando at the end of 2008 was 36.5 percent, well above the nationwide gain of 24.8 percent. The five-year gain was 17.4 percent for Brevard and 27.4 percent for Volusia. The record year of appreciation for the index locally was 2005, when Metro Orlando gained 32.8 percent, Volusia rose 32 percent and Brevard increased 30 percent.

Smith said that, because the index focuses on "conforming" mortgages and essentially excludes homes financed with higher-risk subprime loans, the latest numbers for the fourth quarter and all of 2008 generally understate the rate of depreciation in neighborhoods with a lot of subprime mortgages and foreclosures.

Surveys have shown that newer subdivisions and areas with lots of recent construction typically have more defaults and foreclosures, he said, so those areas are more vulnerable to falling prices than older, established neighborhoods.

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That sinking feeling

Home-price appreciation/depreciation, quarter-to-quarter change

| Yr.—Qtr. | Metro Orlando | Brevard | Volusia | Florida |
|----------|---------------|---------|---------|---------|
| 2007—1 | 1.1% | -2.1% | -0.1% | -0.2% |
| 2007—2 | -0.7% | -2.1% | -1.7% | -1.0% |
| 2007—3 | -2.1% | -5.8% | -3.1% | -2.7% |
| 2007—4 | -2.1% | -2.5% | -1.9% | -1.8% |
| 2008—1 | -3.0% | -4.7% | -3.5% | -3.4% |
| 2008—2 | -4.6% | -6.7% | -6.0% | -5.8% |
| 2008—3 | -6.9% | -6.7% | -8.0% | -6.5% |
| 2008—4 | -4.7% | -4.8% | -4.0% | -5.5% |

SOURCE: Federal Housing Finance Agency