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## No ceiling on home prices

Study sees rise in S. Fla. continuing

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Even a spike in interest rates won't reverse soaring real estate prices in South Florida, according to a new report on the region's housing market.

If mortgage rates continue their recent climb, the study predicts, home values will cool off from a five-year tear that has seen prices increase between 50 and 70 percent.

But South Florida would avoid the fate of cities like Boston and San Jose, Calif., where the report predicts a real estate stall, or even a retreat, once today's bargain-basement mortgages disappear.

"Most areas showed [a] flattening out" of prices in the projections, said study author Michael Sklarz, a real estate researcher for Fidelity National Information Solutions.

Based in Honolulu, Sklarz, using 20 years of economic data, has created simulations of 320 housing markets across the country.

"In the case of Miami and Fort Lauderdale," he said, "we're looking at slowing appreciation but nonetheless rising values."

The difference, according to Sklarz: cheaper housing prices, compared to those in other coastal cities like San Francisco and Boston, making South Florida less sensitive to interest-rate increases, and a sun-soaked economy expected to continue creating jobs and attracting new residents.



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The analysis offers good news for developers and homeowners hoping to extend South Florida's ballooning property values, but it is bound to discourage house hunters troubled by the rising cost of real estate in the region.

The housing industry has spent the last two years bracing itself for rising interest rates. The reckoning appeared to arrive recently, as the rate for a 30-year loan climbed from its record low in June of 5.23 percent to 6.44 percent this week.

"It's on everyone's mind in residential real estate because rising interest rates will decrease the number of buyers," said David Dabby, a real estate consultant in Coral Gables.

The higher mortgage rates come as South Florida developers are banking on a strong housing market continuing well into the future. Some 10,000 condominium units are slated for construction in the next three years, leading analysts to warn of a possible glut, and builders are poised to bring nearly as many new homes to Homestead, in hopes of making it Miami's next bedroom community.

With a volatile and often depressing stock market, rock-bottom interest rates have helped make South Florida real estate a popular investment. But a sustained rise in interest rates could hurt the kind of high-end condominium projects that attract investors hoping to sell their units once construction finishes, said Stefan Johansson, developer of the Downtown Dadeland condo complex across from the Dadeland Mall.

If interest rates rise, Johansson said, investors might abandon their deposits, for fear of getting stuck with a hefty mortgage payment in a slow real estate market.

"This could lead to flight," he said, adding that Dadeland had attracted few speculating buyers but that if it had, "I'd be in a panic mode."

Al Piazza, president of Coscan Homes in Fort Lauderdale, said higher rates would hurt units priced for first-time buyers more than it would luxury housing.

"We find that many, many of our buyers [of homes priced] over \$500,000 or \$600,000 are cash buyers," Piazza said, but that since banks generally discourage mortgage payments that are more than 30 percent of a buyer's income, an uptick in rates could price many people out of the housing market.

If rates continue to rise, the Fidelity study predicts, South Florida property owners would miss out on the surging property values that began about five years ago. Between 1997 and 2002, the median resale price for a Miami-Dade County home rose 50 percent to \$184,700 and 68 percent in Broward County to \$197,400, according to the Florida Association of Realtors.

If interest rates stayed at 6 percent, property values would rise another 49 percent in Broward and 40 percent in Miami-Dade by 2008, according to the Fidelity projections.

But should rates rise to 8 percent for the next five years, property would be worth just 15 percent more than it is today in Broward and 11 percent more in Miami-Dade, the study said.

That's far better for homeowners, though, than what Sklarz sees happening in other hot markets. If interest rates rose a point, to 7 percent, for example, property values would dip 10 percent in Boston, 5 percent in San Francisco and 3 percent in San Jose, according to his calculations.

"I think [in] South Florida we tend to be insulated to a greater extent than any other part of the country from rising interest rates," said Greg McBride, an analyst for Bankrate.com in North Palm Beach.

``As long as we have good weather and plenty of golf courses, there's going to be plenty of demand for real estate down here."



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