

FRISBIE PALM BEACH REAL ESTATE UPDATE

1st QUARTER 2016 | RESIDENTIAL MARKET ANALYSIS

OVERVIEW

As predicted, Q1 2016 mirrored Q1 2015. The first quarters of both 2015 & 2016 showed significant volatility in the public investment markets, as the key drivers of 2015's volatility continue to remain just as relevant today. Thus, public investment markets struggled with a global economy of slow growth & low returns. This combination of market volatility & a weak global economy led pundits to use the "R" word (recession), encouraging an inclination towards risk reduction. Despite these headwinds, however, the U.S. economy continues to inch forward. Leading indicators suggest that our GDP for the remainder of 2016 will grow at approximately 2+%. A recent CBRE Americas Investor Intentions Survey revealed two principal themes: investors expect to remain very active this year in both acquisitions & dispositions, & they are becoming more conservative in strategy & risk appetite. South Florida, & in particular Palm Beach, sustains positive influence from the following key trends:

- *The Baby Boom Generation:* Baby Boomers are moving to Florida. As evidence, Florida recently surpassed New York as the 3rd most populous State. 78 million Baby Boomers represent approximately 24% of the U.S. population, & control over 50% of U.S. wealth. Their financial assets will peak at nearly \$26 trillion in 2029, rising from over \$17 trillion in 2015. It is important to note that, while the oldest Boomer crossed the 65-year-old threshold in 2011, the youngest Boomer will only reach that age in 2029, thus high-earning young Boomers will continue to accumulate significant financial assets until retirement.
- *Tax Avoidance Motivation:* Florida offers residents the benefit of no State Income Tax & no Estate Income Tax. This is a powerful magnet for affluent Baby Boomers & high-income members of the Finance/Investment community.
- *Climate, Safety & Security:* Palm Beach's tropical climate & unparalleled safety & security improve the overall quality of life for its residents.

During these turbulent times, the U. S. continues to be one of the more prudent investment options, with high-end, quality markets like Palm Beach outperforming most investment alternatives. Although dollar volume & number of transactions were reduced by risk aversion, due to continuing market forces of the (i) Baby Boom demographics, (ii) magnetism of zero State Income Taxes & zero Estate Income Tax & (iii) tropical climate, safety & security of Palm Beach, quality Palm Beach real estate continued to appreciate in Q1.

INVENTORY

At the close of Q1 2016 there were 177 residential offerings in the Multiple Listing Service (MLS), numerically approximating a 12 month supply, 50+% of which continues to be uninspiring. In 2015, 42% of the residential properties sold were not formally listed in the MLS (non-MLS). To date in 2016, 29% of the properties sold were non-MLS. While the difficulty in sourcing compelling product continues to put pressure on our ability to effectuate transactions, acquisition opportunities exist for "educated Buyers," particularly if they are willing to renovate or build.

TRANSACTIONS

Q1 2016's transactions, totaling 36, represent a decrease of 25% vs. 2015's transactions of 48. We feel much of the decrease is attributable to the aforementioned risk adjustment, tight, uninspiring inventory & the difficulties in identifying non-MLS properties as purchase options.

VOLUME

Q1 2016's volume of \$287,374,523 vs. Q1 2015's \$301,652,335 reflects a slight decrease of 5%.

PRICES

Tight inventory & sustained demand continue to put upward pressure on valuations.

- *Average Price:* Q1 2016's average price of \$7,982,625 vs. Q1 2015's \$6,284,424 reflects an increase of 27%.
- *Median Price:* Q1 2016's median price of \$4,361,633 vs. Q1 2015's \$3,700,000 reflects an increase of 18%.
- Of the 177 properties currently listed in the MLS, an impressive 52 (29%) have asking prices over \$10M.

OBSERVATIONS

Uncertainty stimulates risk reduction. With lingering uncertainty in the year ahead, most immediately with the "unique" election season upon us, investments in long term, high quality assets remain among the most risk adverse strategies. Palm Beach, with its enviable climate, quality of life, opportune tax advantages & positive investment trends, continues to attract investors & users alike, propelled further by an affluent Baby Boom demographic & a discerning Investment Management community. These drivers, in combination with the market's low inventory of quality homes, fuel long term appreciation, as demonstrated by the Q1 average & median residential price appreciation. Despite the unpredictability of economic environments, & given the existing financial headwinds, Palm Beach appears to remain one of the more prudent investments relative to comparable alternatives.

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The above information is derived from the Multiple Listing Service (MLS) in conjunction with the Property Tax Appraiser's website (PAPA), the Courthouse Retrieval System (CRS) & individual transaction Broker confirmation.