

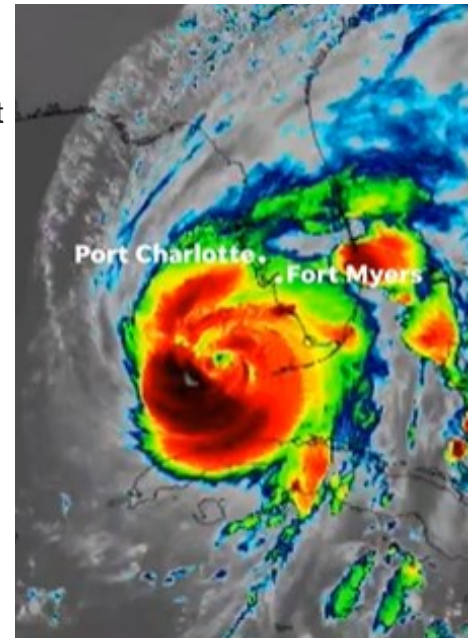
Hurricanes and Housing Values

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Though no two natural disasters are the same, there are real estate patterns which can be identified and anticipated following a natural disaster. It doesn't matter whether it's a hurricane, an earthquake or a massive fire. Many patterns repeat themselves year after year, disaster after disaster.

KEY FACTORS TO CONSIDER:






- Extent of damage
- Location relative to the *primary impact zone* (Major damage zone)
- Risk of increased frequency and intensity
- Insurance
- New Construction
- Supply and Demand



EXTENT OF DAMAGE

The question is not whether a hurricane is a Category 3 or Category 5, it is how much damage did it cause. There is a huge difference between a storm that downed trees versus one that destroyed neighborhoods. News and social media provide images of the worst damage with little clarification as to the geographic scope.

Saffir-Simpson hurricane scale

	Category 1 Winds 74-95 mph (119-153 km/h) Some damage and power cuts
	Category 2 Winds 96-110 mph (154-177 km/h) Extensive damage
	Category 3 Winds 111-129 mph (178-208 km/h) Well-built homes suffer major damage
	Category 4 Winds 130-156 mph (209-251 km/h) Severe damage to well-built homes
	Category 5 Winds 157+ mph (252+ km/h) Many buildings destroyed, major roads cut off

Public perception is almost always one of maximum destruction in a much broader geographic area than actuality. This incorrect perception stimulates emotions that can cause some owners to panic sell and some buyers to delay or cancel plans to purchase.

LOCATION RELATIVE TO THE IMPACT ZONE

The impact on people and housing values is far different for homes in the *primary impact zone* versus those in the surrounding areas. Most disasters experience a concentrated area of major destruction that may range from a few blocks to few miles wide. People within that concentrated area are far more affected than people on the fringes even though the people on the fringes also have damage.

Within the *primary impact zone*, families experience significant material loss and possibly physical injury. As a result, their reaction to the disaster is more extreme than the reaction of those in nearby areas. Some of these people may

experience Post Traumatic Stress Disorder (PTSD). A number of people within the *primary impact zone* are likely to leave the area and not return or rebuild. It is just too emotional and psychologically draining for them to remain in this area. A "Realtor.com" study estimates this number at 34% of the victims within the primary disaster zone.

Short term the value of homes and land within the *primary impact zone* are likely to drop because people cannot live there, insurance settlements will take weeks if not months, and rebuilding may take years. Long-term the *primary impact zone* should recover and exceed prior values as new development replaces the old product making it even more desirable.

Just beyond the *primary impact zone*, the number of people who leave and do not return is minimal even though they may have damage. To the outside public, these “*fringe*” areas are thought to be major disaster areas because that is what they see on TV and Social Media, but actual damage is sporadic in *fringe* areas.

Ian caused a flood surge in Naples that resulted in significant damage on the waterfront, yet just beyond the waterfront (literally a couple hundred yards), there is no wind damage or water damage. Restaurants are open. Life is normal. Waterfront homes will have a short term value impact, but beyond that no impact at all.

The same holds true for areas like Punta Gorda, Port Charlotte, Englewood, Venice and more. Yes there are trees down, shingles lost and other damage, but life was back to near normal within days. Residents in these *fringe* areas (just beyond the *primary impact zone*), but still within the areas damaged, typically repair or rebuild as quickly as possible. The value impact will be on a house by house basis, not an entire area.

RISK OF INCREASED STORM FREQUENCY AND INTENSITY

Another factor in long term value is the likelihood that an area will experience a similar disaster in the near future. This debate centers around the impact of “Climate Change” on weather patterns. Though this is both a scientific and political debate, there is scientific evidence that the earth’s waters are warming.

Is Climate Change causing more frequent hurricanes? **NO**

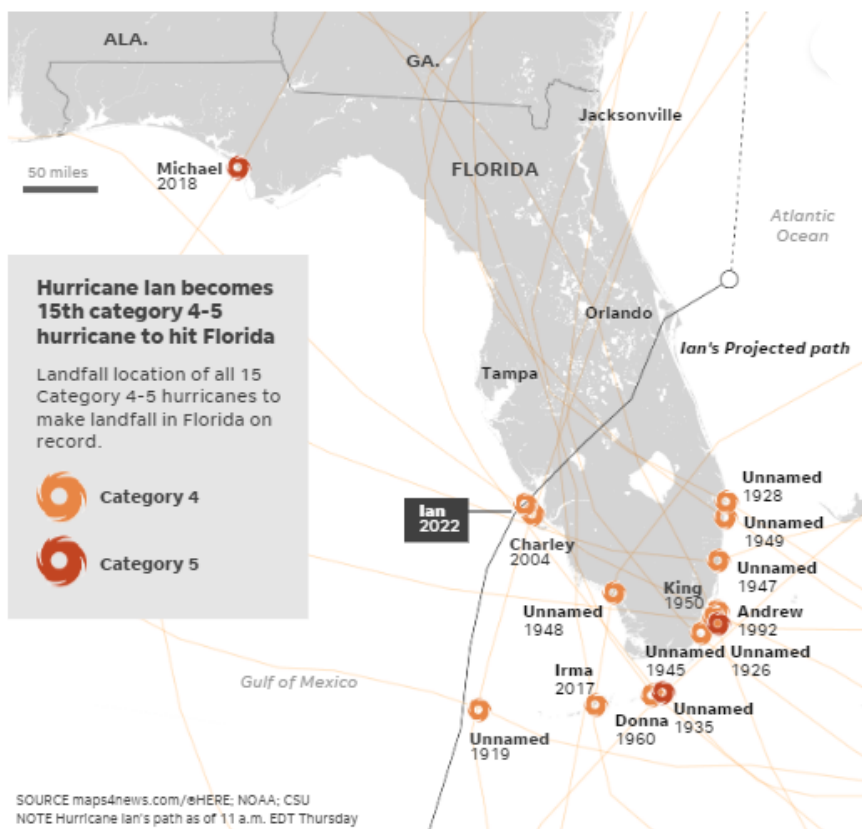
There is unquestionable documentation that hurricanes are no more frequent today than they have been in the past 100 plus years.

Is Climate Change causing more intense hurricanes? **YES**

There is clear scientific evidence that hurricanes are increasing in intensity due to warming oceanic waters and are expected to continue intensifying over the coming years.

Has Florida had more Category 4 and 5 Hurricanes in recent Years? **NO**

This map evidences a total of 15 Category 4 and 5 hurricanes to make landfall in Florida since 1900. Note that 14 of the 15 are concentrated at or below Charlotte Harbor. Only one, Michael, made landfall to the north and it was in the Panhandle.



The fear in Florida is of Category 4 or 5 hurricanes. Most people can live with the risk associated with Category 1, 2 and even 3 hurricanes, but they shudder at the thought of a direct hit from a Category 4 or higher.

This is significant for all areas both north and south of Charlotte Harbor as a potential indicator of future exposure. Also note how the years of Category 4 and 5 storms are distributed over time. More often than not, they are grouped in 3 or 5 year periods. Said groupings often track with documented historic weather patterns which result in unusual warming of surface water, thus causing greater intensity. According to the National Oceanic and Atmospheric Administration (NOAA), cycles of warming waters are not new but the current warming trend places water temperatures higher than past historic cycles.

Is Climate Change causing more rainfall with hurricanes? **YES**

According to the Intergovernmental Panel on Climate Change (IPCC): “a warmer atmosphere creates more intense precipitation events. This occurs because warmer air can hold more moisture. The amount of water vapor that the atmosphere can contain increases by about 7% for every 1.8 degrees Fahrenheit (1 degree Celsius) of increase in atmospheric temperature.”

Chief Meteorologist Jeff Berardelli of WFLA News, reports that for every degree of increased temperature, we can anticipate up to an additional 10 inches of storm rainfall. Ian had an estimated 15 inches more rainfall than similar Category 4 storms in the past. The rainfall was distributed over several hundred miles inland and to the north of the primary storm path, causing flooding over the days following the storm.

INSURANCE

Hurricane Ian is likely to result in an industry loss of \$50+ billion. This puts a major strain on the state's insurers and increases the odds that more insurance carriers will leave the state over the coming years.

The state's homeowners already pay the highest average annual homeowners insurance premium at a cost of \$4,231, compared with the nationwide average of \$1,544. Private insurers in the state have lost more than \$1 billion for two straight years (AP Report). Six local insurers have declared insolvency so far in 2022 and another 27 are on a state watchlist.

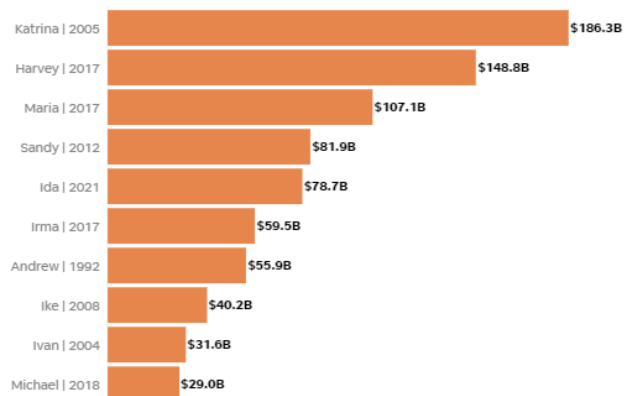
Ian is set to further pressure premiums, which were already up 20% to 33% in Florida in 2022, compared with 2021. Though no one knows the ultimate impact, the expectation is that major claims combined with

fewer carriers will result in substantial increases over the next couple of years. Some estimates place it around a 30% increase with as much as 40% to 50% percent in the highest risk areas.

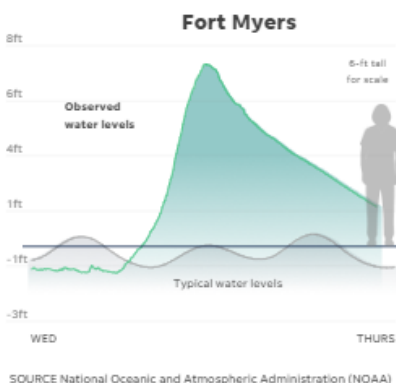
Wind damage is what people see on TV, but it is the storm surge that causes the greatest risk of life. Though the west coast of Florida historically is not any riskier than other coastal areas as far as wind, it is more at risk for storm surge due to the shallow waters less than 30 feet deep for over 30 miles beyond the coast. Shallow waters mean less water capacity when a storm pushes water towards the shore. This fact has a direct correlation to increasing insurance claims.

Hurricanes can cause billions in damage

Costliest hurricanes in U.S. history



NOTE Values based on 2022 Consumer Price Index adjusted cost
SOURCE NOAA's National Centers for Environmental Information



Insurance costs indirectly affect home values due to total combined cost of ownership. Increasing insurance rates could actually have a greater impact on the value of homes than fear of storms. At some point a large segment of the population simply cannot or will not pay higher rates. The ultra luxury home segment is less impacted by increases than the average American segments, further exasperating the affordability gap in many parts of Florida.

NEW CONSTRUCTION

Natural disasters nearly always result in a building boom for the area most impacted. Southwest Florida is going to rebuild. Sanibel Island, Ft Myers Beach, and many more will see non-stop construction for the next several years.

As a result the construction supply chain throughout the southeastern US will be impacted as construction materials are redirected to the areas most affected. Labor will also shift resources to these same areas as a combination of FEMA funds and private money flows into the area potentially paying a premium to lure the labor force to the area.



The homes and condos that are rebuilt in the *primary impact zone* will be newer, safer and better than what was lost. New construction quality and safety codes make a huge difference in a structure's ability to withstand storms, but it comes at a cost. It simply costs more to rebuild a new home at today's code than the older home that is being replaced. Those costs are passed along to the insurance companies and potential new buyers for the area.

Will the most Damaged Areas see Increased Long-Term Values? **YES**

There is no question that the primary impact areas that are rebuilt experience increased value over the coming years as a direct result of new construction rebuilding. There is also no question that these are areas of high demand. Many previous owners will remain but even more new comers will purchase.

Do Surrounding Areas benefit from New Construction too? **YES**

What about surrounding areas that require repair but were not completely rebuilt? The shortage of construction materials and labor drive up cost in these secondary areas too. The correlation to increase value is less direct, but they should still see increased prices over the coming years as the entire region sees a benefit from improved construction codes and quality of construction.



Areas like Sarasota, just beyond the damage area, should also see a price lift. First, demand will shift to areas that have inventory to purchase today. In addition, new construction in Sarasota will cost more tomorrow than today for the same reasons. Builders will pass the increased costs along to buyers. It won't be as direct as in areas of greater damage, but it will be realized.

Will older homes not affected by the storm or construction see a value benefit? Yes but to a lesser degree and with inconsistency depending on the age of the home and the existence of updates such as hurricane grade windows and roofs. Older homes ride the coattails of new construction value increases but only when they keep up with available improvements that make them safer and more appealing.

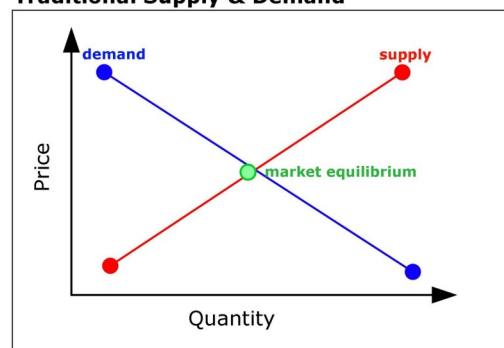
SUPPLY AND DEMAND

The resulting impact on housing values is ultimately based on Supply and Demand. Factors such as the extent of damage, potential for more storms or more intense storms, cost of insurance and new construction are all influences on supply and demand.

Historically major natural disasters have not deterred long-term demand for desirable locations in Florida, California and more. We may see a short-term post storm dip in demand, but other factors come into play that can counteract the dip.

Demand to live in Florida, especially in highly desirable areas like Sarasota, Sanibel Island and Naples, will continue for years to come. Hurricanes or not, there are still tens of thousands of baby boomers who have been dreaming of moving to Florida for much of their lives. At the same time there are hundreds of thousands of millennials advancing into their prime earning years with growing families. A major portion of them desire to live in Florida.

Traditional Supply & Demand



Was Florida already experiencing a shifting market Pre-Ian? **YES**

The entire nation was already experiencing inflation, causing an adjustment in real estate and stock markets. The market adjustment started in early summer, continues today and is expected to continue for the foreseeable future as the country adjusts to inflation, interest rate changes and a potential recession. Adjustments in the real estate market will vary throughout different regions of the country. Some regions will barely feel it while others experience a substantial adjustment.

When compared with 2021, which was the strongest real estate market in recent history, West Central and Southwest Florida had experienced a moderate Pre-Ian adjustment both in supply and demand. For example, the two county area making up Sarasota and Manatee counties saw a decline in new listings coming to market prior to hurricane Ian of 16% fewer new single family home listings year to date in 2022 versus 2021. At the same time we saw a decrease of 18% fewer contracts written and accepted (new pending contracts) for single family homes year to date. And we evidenced a 61% increase in Days on the Market for homes sold in the third quarter versus prior quarters in this year.

Moderate? Isn't 16% and 18% significant? **Its all relative**

Our market in February and March of 2022 was irrational. Not only did Supply NOT increase in Q1, the start of traditional season, but it actually reduced even further than it had been in Q4 2021. Buyers competed frantically for the limited number of home offerings on the market. The result was irrational offers above actual market value and an elimination of contingencies. Cash was king, people who needed a mortgage lost.

The subsequent market slowdown began shortly after Easter as fears of growing inflation and a potential recession overshadowed people's desire to buy in Florida or most anywhere else. Fewer owners put their homes on the market and fewer potential buyers made offers. So even though 16% and 18% would normally be considered significant, the two offset each other resulting in a comparable supply and demand equation.

Did home values adjust downward Pre-Ian? **Minimally**

In the Sarasota market, average sold prices for single family homes only reduced 5.1% in third quarter versus the peak market earlier this year. Sellers are offering more realistic asking prices and buyers are able to negotiate more than they had in nearly a year. Average price is still 17.3% higher than it was a year ago.

Overall the third quarter of 2022 was comparable in supply and demand to 2019, which was considered a “seller’s market”. The number of single family homes sold and closed in the two county area through the third quarter 2022 was 11,434, compared with 11,443 through the third quarter of 2019. Only 9 units difference. Again, 2019 was a great year for real estate in this part of Florida. Year to date pre-Ian, 2022 looks nearly identical to 2019 but with a much higher average price.

How will home values adjusted POST-Ian? TBD

The answer will play out very differently depending on distance from the *primary impact zone* and the extent of destruction. Odds are good that Sanibel Island, which lost its only access (causeway / bridge) and experienced massive destruction, will take 4 plus years to rebuild and recover. Ft Myers Beach (which has access) will most likely take 2 to 4 years to rebuild. Ft Myers proper and Cape Coral will begin repairing and rebuilding immediately with homes and businesses coming back anywhere from 6 months to 2 years depending on the individual level of damage for a given home or condo. Fringe areas beyond are already back to normal overall, with individual homes experiencing repair or rebuild.

During these repair and rebuilding times, nearly all areas that experienced significant flooding or wind damage will see a nearly non-existent public real estate market. Fewer homes will come to market. Some will sell off market and some areas will see substantial investment by larger developers or hedge funds. But few homes will be listed and marketed in a traditional manner until the immediate area sees recovery progress. There will be some investment opportunities but they will be harder to uncover than the average individual investor thinks. As with most things in life the big boy money will capitalize the most, because developers will rethink the best use of land and make investments that will ultimately result in a higher value down the road.

Consider this chart, published by Lawrence Yun, Chief Economist for the National Association of Realtors.

Hurricane Impact on Local Metro Home Price			
Hurricane	Metro	Home Price after one year	Home Price after two year
Andrew 1992 Q3	Miami	+4.4%	+6.5%
	U.S.	+5.0%	+9.1%
Katrina 2005 Q3	New Orleans	+7.6%	-1.2%
	U.S.	-1.0%	-3.2%
Sandy 2012 Q3	New York-Jersey City	+3.3%	+4.3%
	U.S.	+12.4%	+17.8%
Harvey 2017 Q3	Corpus Christi	+4.9%	+8.4%
	U.S.	+4.6%	+9.9%

Miami (Andrew) only slightly below the US average but still saw significant appreciation.

New Orleans (Katrina) beat the average.

New Jersey (Sandy) below the US average but still saw appreciation.

Corpus Christi (Harvey) beat the US average year one, only slightly below year 2.

Ironically areas outside the major destruction zones (like Sarasota) could actually benefit in the near term as thousands of homeowners further to the south have lost their homes and are facing a long rebuild. Yes a percentage of those will leave the area and not return but history tells us that at least two thirds if not three quarters will rebuild. They love living in Florida and don't want to leave during the rebuilding phase. Many are already looking for homes to purchase in nearby areas that were less damaged or undamaged. This could produce a mild short term boost in demand for areas like Sarasota.

What about the rental market? Little supply, Increasing demand

Similarly but even more pronounced, nearby undamaged areas like Sarasota should experience a rental boom for the next year plus from a combination of displaced homeowners and an even bigger audience of seasonal renters whose previously reserved rental is no longer inhabitable or accessible.

High demand areas in Southwest Florida already had a shortage of rentals, so this potential increase in rental demand will likely result in increasing rental prices.

Supply will be well below demand for at least the upcoming year. Some owners in areas unaffected by the storm who were planning on selling next season may very well decide to rent their home as the short term rental income could be substantial.

This boost in rental demand could put further pressure on the supply market of homes for sale.



See Page 8 for Key Takeaway Summary



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Key Takeaways

Initial reactions are understandable, but demand recovers quickly

Post-Hurricane emotions are high. People near and far are shell shocked by the images and loss of life. As a result it is totally expected that a percentage of buyers will initially back away from home searches or even cancel an existing contract. Memories fade quickly. The majority of buyers will reevaluate their priorities within 30 to 60 days and reestablish their search. Long-term demand will not be negatively impacted.

Only the Hardest hit areas will take longer and have more turnover

Sanibel and Captiva Islands along with Ft Myers Beach will take several years to rebuild. Real estate in those areas will be somewhat chaotic for the near future. Older long time residents who have owned there for years won't want to wait a few years to rebuild and they liked the older less formal look that was destroyed. The new and improved communities will appeal to a new set of buyers as the rebuilding efforts take shape over the coming years. Areas like Naples, Port Charlotte, Punta Gorda, Englewood and North Port will recover quickly. Many areas effected are already back to life as normal. The majority of residents will rebuild and remain. There will be some investment opportunities but as a whole the communities will look much the same within a year as they did before Ian.

History is not a crystal ball, but it is a good indicator of future odds. As discussed on Page Two, 14 of the 15 Category 4 or 5 hurricanes to make land in Florida since 1900 have been at or south of Charlotte Harbor. Though not a solid predictor of the future, it may influence some buyer's decisions. That is not to minimize concern over Category 1, 2 or 3 storms, but the most long lasting damage occurs in Category 4 or 5.

Insurance: the wildcard

Rapid inflation of homeowners and flood insurance over the coming months and years could have a longer lasting impact on Florida's West Coast than the fear of storms themselves. People come to grips with natural disasters and get over it, but increasing insurance costs will price a segment of the existing owners and incoming buyers out of the market.

It all boils down to Supply and Demand

Long-term the West Coast of Florida is more likely to be affected by national market pressures driven by inflation and macro economic factors than from a hurricane. The near-term risk is this particular hurricane landed in the middle of a national real estate / asset market shift. As a result some pundits will erroneously blame the hurricane for value adjustments that most likely would have happened regardless of the storm.

More people want to move to Florida than almost anywhere in the US. All the factors above will impact short and long term demand causing possible short term volatility. Supply in much of West Florida will actually reduce over the coming weeks and months. If demand and supply reduce at a similar pace, home values remain stable. But as long-term demand rebounds prices will most likely return to an upward trend as long as the macro-economic environment does not falter. Long-term, home values on the West Coast of Florida are not as much at risk as is a widening gap in affordability. Increasing insurance costs combined with increasing values will price more and more average Americans (and Foreigners) out of the Florida market.

Nobody has a crystal ball to accurately say values will be higher or lower a year from now. There are simply too many moving variables locally, nationally and internationally. But we can state with a high degree of confidence that similar hurricanes in the past have seen recovery followed by increasing values.