Documentary Stamp Tax
Executive Summary
Summer 2013

The pace of Florida’s recovery in Documentary Stamp Tax collections will be driven in large measure by the time it takes the construction industry to revive. While existing home sales and median price both saw significant gains during Fiscal Year 2012-13, single-family private housing starts came in at 48,900 or just below 27 percent of their peak level. As a result of the low construction activity and still modest prices, Documentary Stamp Tax collections were only 40.5 percent of their prior peak as the fiscal year ended. Even so, this was a significant improvement over the two previous years which saw collections at 28.5 percent and 31.1 percent of the 2005-06 peak year.

The expectation that Documentary Stamp Tax collections will continue to improve is bolstered by recent improvement in the demand for housing. Building permit activity, an indicator of new construction, is back in positive territory, showing strong (46.2 percent) year-over-year growth for the first six months of the 2013 calendar year even though the overall level is still low by historic standards. In addition, existing home sales in 2012 showed marked improvement from the prior calendar year, coming in at 84.9 percent of the 2005 banner year sales. They look on track to better that percentage in 2013. Likewise, the median sales price for existing home sales is rising in response to the heightened interest among buyers, posting the highest level for July in 59 months (August 2008); however, Florida’s median sales price is still substantially below the nation as a whole.
Sales price is strongly affected by the existing inventory of unsold homes: to the extent the inventory is large, downward pressure is placed on prices. While the national inventory had improved to a more normal 5.1 months in July 2013, the situation is more complicated in Florida. Foreclosures have further swelled the state’s unsold inventory of homes and will continue to do so in the near-term. Private sector data for July 2013 shows that Florida was the highest state in the country for both the number of foreclosure filings and the rate of foreclosure. While many of the legal issues regarding the processing of foreclosure documents were largely resolved by the National Mortgage Settlement Agreement finalized in early 2012, foreclosure starts have just recently begun returning to expected levels. Prior to the increase of foreclosures in 2007, the average foreclosure took 169 days or slightly less than six months to process. Today, a foreclosure takes 907 days to process (about 2.5 years), the third longest period in the nation. The abnormally long time to complete the foreclosure process slows the placement of these properties on the market—and in the interim, the actual backlog continues to build. However, there is some promising news. With the exception of the June data, the front end of the foreclosure stream—comprised of mortgages newly falling into delinquency—has steadily declined over the course of the 2013 calendar year. There are several reasons for this, but one is the federal homeowner assistance program activity. Florida’s “underwater” homes declined from a high of 50 percent of all residential mortgages to about 26 percent in the most recent data. Absent some intervention, these homeowners were the most likely to move into (or already be in) seriously delinquent status, so a decline in these numbers is a good sign.

Based on the most recent data, the excess supply of homes in Florida continues to hold steady. Subtracting the “normal” inventory of approximately 50,000 and using the most recent sales experience, the state will need significant time to work off the current excess—about two years in the optimistic scenario, likely longer. Because the state is so diverse, some areas will reach recovery much faster than other areas. However, new construction is unlikely to significantly improve until the existing inventory is reduced. Recent rises in mortgage and construction loan rates present a new challenge.
Currently, the key housing market metrics do not show a return to their peak levels until 2020-21 (residential construction expenditures and total construction expenditures). The rest either do not return to their peak at all during the forecast horizon (construction employment, multi-family starts, private housing starts, and median price) or very late in the period (2022-23: single-family starts).

There is a potential upside risk for construction if rising mortgage rates and construction loan costs do not put the brakes on recent activity. The “shadow inventory” of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of “ghost” homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has essentially become two-tiered—viable homes and seriously distressed homes. To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

Total annual Documentary Stamp Tax collections were greatest in Fiscal Year 2005-06 at $4.1 billion. Although the Conference increased the forecast for Fiscal Year 2013-14 by $96.2 million over the previous estimate, the total anticipated collections of $1.8 billion are well below the peak level. Positive growth is expected throughout the three-year period used for the upcoming Long-Range Financial Outlook (2014-15 at 9.0 percent, 2015-16 at 8.2 percent, and 2016-17 at 7.8 percent). Even so, projected collection levels are not expected to return to their peak within the next decade.