



Hello from Pensacola! *We're so glad fall is here.* We've got a great newsletter for you as we wrap up the third quarter of 2022. Everything is cooling off, especially the housing market, and we're working hard to reverse the effects of increased inventory and falling prices. We've got updates for this and more below. As always, reach out and let us know how we can be an asset to you and assist with your investment and real estate goals.

***-The Realty Masters Team***

## **Pensacola Spared of Hurricane**

Luckily, Pensacola was not affected by recent Hurricane Ian. Our hearts go out to all those affected. We did realize that many of our owners are not familiar with where Pensacola is on a map, and thought this map may be beneficial.

### **A few fun facts about Pensacola:**

- Pensacola's nicknames include "Western Gate to the Sunshine State"
- Pensacola is America's first settlement, founded in 1559
- The island known as Pensacola Beach was sold by the government to Escambia County for \$10,000 in 1929





## Insurance Audit

We're working on an audit to update all of our insurance policies and management documents. If you hear from us requesting documents, please get back to us with the requested information. We must verify that you have an active insurance policy, or equivalent umbrella, in order to continue management of your home. Retired property manager, Becky Jones, has been helping us with this project. It's easiest if you notify your insurance company or agent to add us as additional interest so we receive these updates automatically. We're also working on updating old management agreements and auditing all of our files.

## Fall Routine Maintenance

Don't forget that your investment needs routine maintenance in order to thrive. We recommend the following services for your rental during fall:

- Pressure washing
- Sweep the roof or clean the gutters
- Trim bushes or trees
- Appliance updates
- Repair exterior wood rot and caulking
- Clean dryer vents that are routed through the floor or ceiling

Let us know if you want us to get quotes for these services at your property.

## Oversaturated Short-Term Rental Market

There are a few reasons for the increased inventory on the Pensacola rental market, and we suspect in other markets as well. The first reason is the typical seasonal slowdown. The other main contributing factor to increased supply in our area is the conversion of short-term rentals back to long-term rentals. A large number of investors purchased rentals in our area with hopes of running a successful AirBnB but are finding the property is not meeting income expectations. Because of this, investors are converting their property back to the long-term rental market as the busy season for tourism has ended. Nearly 80% of our new owner calls right now are these types of properties. Investors are hoping to rent them fully furnished, and, of course, at a premium rent.

If you're thinking about converting your rental into a short-term rental property, check with us first to discuss the benefits and risks. Our market is oversaturated with these types of rentals, and bookings during the winter are few and far between. Each property should be evaluated carefully prior to purchase or conversion to the STR market. Reach out to [Lindsay](#) and [Nicole](#) with your STR questions.



## THANKS FOR VOTING US

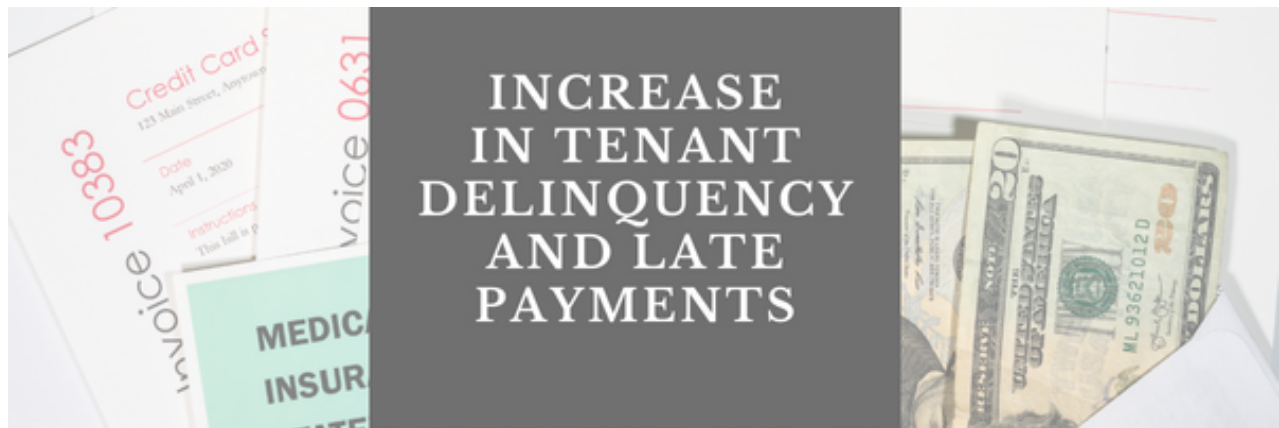
BEST OF THE BAY 2022 FINALIST  
BEST PROPERTY MANAGEMENT

### Rising Interest Rates

As of today, interest rates for home purchases are hovering near 7%. With two additional likely rate increases in the coming months, we could see interest rates between 7% and 9% by the end of the year. We are all wondering how this will affect the housing market locally and nationwide. We're not sure what to expect for 2023 as we've seen differing opinions, however, we have a feeling these increased interest rates are here to stay for some time. **What we can tell you is that current interest rates and sales prices make good real estate investment deals nearly impossible to purchase right now.**

Interest rates are not only important to investors and real estate buyers, but to your tenants as they struggle with the increased costs from rising interest rates on things like credit cards and car payments and, of course, inflation. Most economists agree that increased interest rates are here to stay in the coming years. Read more on Interest Rate Predictions here:

- [Housing and Interest Rates Continue to Suggest Recession Likely in 2023](#) by Fannie Mae
- [Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes](#) by The World Bank
- [Why We Expect the Fed to Cut Interest Rates in 2023](#) by Morningstar
- [Housing Market 2023: Early Predictions to Know Now](#) by Yahoo Finance



### Increase in Tenant Delinquency

We have started to see a trend of increased delinquency in tenants' rental payments. While this is affecting a small number of tenants, it's obvious that the effects of inflation are impacting some of our residents ability to pay on time. We are noticing more tenants paying past the grace period of the 3rd and more becoming seriously delinquent.

Tenants that habitually pay late are obviously struggling. While it may seem better to keep them in the property and work with them, we do see a pattern that the majority of these tenants do not catch up on rental payments without some type of assistance. In fact, we typically see this pattern continue until the tenants are more than 1 month behind on rent and eventually vacate owing rent or, even worse, by being evicted. Because of this, we don't recommend taking a "laissez faire" approach to rent collection.

The eviction process can be started relatively fast and easy in the state of Florida. Rent is due on the 1st and late as of the 4th. By the 6th or so, depending on the month, we're usually at properties posting 3-day late rent notices after touching base with each resident as to why the payment has not been made. Three business days later, an eviction can be filed.

Of course, it makes sense to work with a tenant who occasionally makes a late payment. However, tenants who continually pay late are obviously not able to handle an unexpected expense. Unfortunately, when these tenants have to vacate, they are not able to pay a new security deposit and first month's rent at a new place, so they end up leaving their current rental without paying the last month's rent. Keep this in mind when considering to renew a tenant's lease who has been late on rent or continues to be delinquent.

We are working with tenants who pay late to let them know about rent and utility assistance programs in our area. We will continue to monitor payment trends to update you and work with tenants to secure assistance funds from local non-profits as much as possible. Unfortunately, COVID relief funds have finally ended, and we are receiving the final funds from these programs now. We are tracking local eviction filings. We are also keeping this trend in mind when processing applications for your vacant properties and sticking with our rental criteria closely.



## **Florida's New Fiasco: Home Insurance 2022**

If you have been a homeowner in Florida over the past 5 years, it has become apparent that each year that goes by, the harder it has become to secure insurance on your home. While this is no secret, the issue has only grown exponentially worse into the year of 2022. Since 2020, 14 insurance companies have left the Florida market with many going out of business totally, or just non renewing and discontinuing the writing of policies in the state of Florida as a whole. These companies include United Property and Casualty, Federated National, Southern Fidelity, Avatar, Capital Preferred, St Johns, Bankers, Lighthouse, Gulfstream, Weston, Florida Specialty, Windhaven Insurance, American Capital,

and Bedivere. **We were previously worried about finding an affordable rate, and now, we are simply worried about being able to find adequate coverage, especially after Hurricane Ian devastated Southwest Florida earlier this month.**

With the decrease in the supply of carriers in the state, this has caused an increase in the pricing and the number of exclusions that an insurance company will consider. It is important to know what types of policies exist, what type you will need, and what factors insurance companies look at to determine if a home will qualify for certain carriers. With that information, you can pick the upgrades to your home that make insurance more accessible and in turn offer lower rates.

Read the full article on our blog: <https://www.pensacolarealtymasters.com/blog/floridas-new-fiasco-home-insurance-2022>

### Read more on Florida Insurance

- [Types of Insurance Policies: DP1 vs DP3](#) by Realty Masters
- [Florida's home insurance market was a mess before Ian. It's about to get worse](#) by CNN Business

## Seasonal Slowdown is Back

The last two years, the rental market has been so hot that we have not seen the typical seasonal slowdown. As you can see from our graph, it is back for 2022. Typically, October, November, and December are the three slowest months of the year for both sales and rentals. Because kids are settled in school, people are saving for the holidays, and they are taking family vacations during this time. People do not move during the holidays, in our experience, unless they have to. Keep this in mind as we are pricing for vacancies during these months. We will continue to study the market, both locally and nationwide, and provide you with updates as things change. For now, we're running a Halloween application fee special to get renters in the door, and will continue to run promotions during this season.

## Pensacola Economic Outlook

Pam recently attended an Economic Outlook with local economist Dr. Rick Harper. The news for Pensacola is favorable, despite an unfavorable outlook for the US economy as a whole. We are seeing a slow down in the real estate market, in both rentals and sales in our area with price declines. We are not seeing any drastic changes at this time. We are worried about the impact of the insurance industry on our investors and homeowners. Regardless, the Pensacola area is growing stronger than our neighboring metros. We're in a good position to face a recession with low unemployment figures, a strong local economy, and positive in-migration as more people to continue to move to our area. Given all factors, we feel good that our area will weather a recession better than many.





## Pricing Your Rental Property

First, let's talk about how not to price your Pensacola area rental property. We have two main types of clients, first time landlords and Pensacola investors. Both, while they may have different short and long-term goals, are looking to make financial sense of their investment. We certainly understand that. Our goal is to maximize your income, but experience tells us that we cannot base your rental rate off of any of these factors:

- Your monthly mortgage payment and expenses
- What you feel it's worth
- A cap rate you used in your investment analysis
- Active listings you saw
- Rents in other markets
- What your friend told you he rented his place for

We will take into consideration most of these factors, and more, but using these strategies are not how you successfully price your property.

First, you have to consider current market conditions. Real estate is hyper local and ever changing. Certainly, in the last few years, we've seen record rents with year over year increases 10-20% in the Pensacola area since 2020. However, recently, we've seen a slight dip in rents with small price declines in August and September, a huge increase in inventory, and a large jump in days on the market. Current market conditions are constantly changing and need to be evaluated often in order to factor into your rental rate. Here's a few factors we look at when determining pricing:

- Local vacancy rate
- Average days on the market
- Saturation rate and average supply of inventory available

Even something as simple as the time of year your home will be available for rent makes a large difference. The best time to rent your home is usually spring and early summer. Unfortunately, we are in the "seasonal slowdown" during the months of October, November, and December and rents decrease as days on the market increase.

We also want to consider your need for income in pricing strategy. Typically, we provide a rental range when pricing your property. If you need the income immediately to make your payment, you should

consider going on the low end of the range.

Next, consider your property. How's the location and surrounding area? Is the property in good condition? Are you open to accepting pets? All of these factors go into factoring your rental rate. Pet friendly homes do tend to rent for a little more and a little faster. Similarly, homes that have been remodeled and are in good condition can command a significant increase in rent over properties that are not. In Pensacola, many investors came in to buy homes and remodeled them over the past few years to increase rents. Your home cannot be compared to these homes. Consider if you have old carpet, wallpaper, lighting, or need fresh paint and make some upgrades to your home if you want a higher rental rate and to make your home more competitive.

We often see owners comparing their home to properties that a real estate agent or appraiser would not consider to be like-kind. Like-kind properties must compare in number of bedrooms, bathrooms, amenities, year built, and location. Typically, properties are comparable only in a small radius or even the same neighborhood. While we do look back as far as 6 months, we adjust rental comps for current market conditions and prefer to use only 3 months.

We use the Pensacola Multiple Listing Service to get the most accurate data, but we also use other rental sites like Zillow. We do caution against looking at active rental listings though, as these do not reflect actual market data. We only look at rented comps, to see what has rented and how many days on the market, to consider pricing. One of the biggest mistakes we see when homeowners price their property is to consider only active rentals. As these properties have not rented, we cannot consider this accurate data. In fact, last week, nearly 20% of property owners with rental properties dropped their prices in the Pensacola area. Landlords have definitely been overpricing their properties for the current market, and are having to reduce their prices in order to rent their home. It is good to review active listings in the neighborhood, as these properties are your competition, and you should know where you are priced among your competition. We also look to see the number of available alternatives as well as how many are in a certain neighborhood. For example, right now, there is an oversaturation of newly construction townhomes in a certain recently completed neighborhood. Because there are 8 active townhomes for rent in this community, owners are having to drop their price to get their property rented before their neighbors.

The dangers of overpricing are large. In addition to loss of rent, vacant property owners may also have to pay power, water, lawn maintenance, cleaning, and worry about issues like possible vandalism or issues with their homeowner's insurance company. Overpricing leads to an inevitable price drop and costs you more money than it would have if you priced the property right. Tenants and buyers tend to think there is something "wrong" with the property when it's been on the market too long. Additionally, your tenants will realize they are paying over market value and will be more likely to break their lease or to move at the end of the lease term to a more affordable, better alternative. This just leads to more expenses. Thus, we recommend pricing the home right to secure a quality tenant in a timely manner.

While it's easy to think about what you are "losing" per month, it's easy to see that you lose more with vacancy than you do with any increase. Trust our agents' analysis of the market, and tenant's feedback of your property, and reduce the property right away when activity is slow. Even better, price the home right initially.

Unfortunately, we do see property owners that have to pay monthly to float the property as the monthly rent does not cover all expenses. This will be true if you purchased the property when real estate prices and interest rates were very high. We'll do everything we can to cover your expenses. While we want to get as much rent as possible for you, our goal is to find a quality tenant at market rate as that will lead you to better financial outcomes, especially over time.



## **Pensacola Real Estate Sales Market Update**

It's still a seller's market, but it's definitely shifting as interest rates continue to increase. Here's a snapshot of what we're seeing in the Pensacola real estate market:

- Inventory levels are slowly inching up.
- Average days on the market have increased to around 30 days on the market.
- Median sales price inched down to around \$325,000.
- Average list to sell ratios have declined, and buyer's are now asking for closing costs, repairs, and other concessions in the home buying process.

According to Fannie Mae's Home Purchase Sentiment Index, only 19% of people surveyed believe it's a good time to buy a home. This marks the 7th consecutive month and the lowest level since 2011. High home prices, unfavorable economic conditions, and increased mortgage rates were cited as primary reasons. Aside from seller's selling their home at the peak of the market or those relocating to our area from more expensive metros, we're not seeing many new buyers or first time home buyers enter the market at this time. We'll continue to update you on the evolving market changes and do expect a slower winter.

Read more:

[Housing Sentiment Dips Again, Inches Closer to All-Time Low](#) by Fannie Mae

[Economy Expected to Contract Further in 2023](#) by Fannie Mae

## **Pensacola Rental Market Update**

When it comes to rental rates, headlines from quarter 3 read a lot different than quarters 1 and 2. It seems the peak of rental home pricing has passed, for now. Nationwide, we saw slight price declines in both August and September. While year over year rent growth is still strong the market is definitely slowing. According to Apartment List research, our area has seen 33% rent growth since March 2020.

Conversely, last month Zillow reported a -\$175 month over month change for Pensacola's rental



market.

This trend is expected to continue through fall and winter. We're not sure what to expect for 2023, as that will have a lot to do with the entire economic outlook, the labor market, interest rates, the real estate market, and whether we enter a technical recession. For now, we are being less aggressive with pricing as we are seeing inventory levels three times that of the spring and summer markets.

Locally, and, on average, nationwide, the trends are the same:

- Vacancy is up. Locally, we see 3x the active inventory as opposed to spring and summer. Zillow reports over 425 active rentals today.
- Asking rents are declining. While this is not a drastic decline, it is definitely a trend. Locally, we saw 20% of active listings with price drops this week.

Read more on rents showing a negative trend here:

- [Rents Coming Down- But It May Not Last](#) by The Associated Press on Florida Realtors
- [Apartment List National Rent Report](#) by Apartment List
- [Q3 2022 Growth Report](#) by Apartments.com
- [Rental Market Cooling Fast | Cap Rates Tank with Rent Rates](#) by Ethan Flynn, CPA on Youtube

## # OF AVAILABLE RENTAL PROPERTIES IN PENSACOLA MLS



## RENTAL INVENTORY IS BUILDING AGAIN.

### SEVERAL REASONS LOCALLY:

- Typical seasonal slowdown
- Conversion of unsuccessful short-term rentals to long-term market
- Falling real estate prices



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We'd sure love it if you could leave us a few kind words on **Google**! **Click to leave a review.** <https://g.page/r/CXj53mzblMfrEAl/review> Having top placement on Google helps us rent our properties faster than the Pensacola average. We appreciate you!

### Questions About Your Property?

If you have any questions or concerns about your rental property, please respond to this email to reach a supervisor, or reach out to our by office phone, text, or email. Don't hesitate to let us know how we can be of assistance to you. We look forward to hearing from you.



*#1 Pensacola Property Management Team*

LEASING \* SALES \* PROPERTY MANAGEMENT

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