

## Real Estate Market Update for Sept to Nov 15, 2007 St. George Island and Franklin County

My last update was 2 ½ months ago. Since September 1, the situation on St. George Island and throughout Franklin County has become somewhat clearer. List prices have more or less stabilized, with only 34 price reductions in the 75 day period (unbelievably, there were also 4 price increases, reflecting some really positive thinking). The number of active listings on all types of real estate continued to fall with a net loss of 13 since September 1, leaving a total of 384 active listings as of November 15.

In the following, I'm going address property owners who have active listings or are considering listing property here for sale. If you want/need to sell, then price the property to sell. If your property is on the market and is over-priced, then either put a realistic price on the property, or else take it off the market and wait until buyers come rushing back in. You will be able to tell when the time is right. Wait to list until the average time on market here goes below 9 months. Please don't let someone tell you he/she can get well above market price for your house just to get a listing. This market doesn't need more listings. It needs correctly priced listings and it needs sales, and that requires buyers. The buyers will come when prices stabilize and it doesn't look like the whole county is for sale. Now, don't get mad and quit reading. There is some really good stuff below!

The Real Estate market on St. George Island and Franklin County as a whole seems to be a microcosm of the Florida market and the national market as well. It is apparent some owners are experiencing difficulty maintaining their mortgages, especially on properties valued at significantly less than the loan amount. As evidence of this, 26 foreclosures have been recorded since September 1. In the same period last year, there were only 10. I will put this into perspective with some of the data and analysis in the following narrative. I start with a summary of what has happened since September 1, and then broaden this by looking at data from previous years.

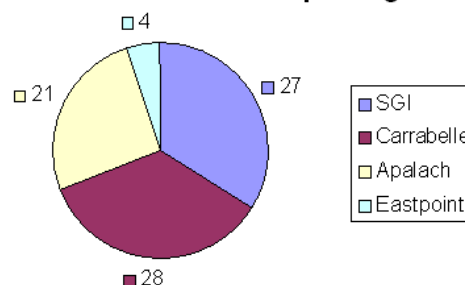
- If I review historical data, the period of the year which has the fewest number of house closings is September through December (this can be observed in the last chart below). This year is no exception, and in fact the number of house closings in the September to November 15 period mimics the data from the same period in 2006, with one exception.

	Time Period	# Sales	Avg Sale	Total Volume
St. George Island	9/1/06 to 11/15/06	7	\$977,571	\$6,843,000
St. George Island	9/1/07 to 11/15/07	6	\$535,000	\$3,210,000
All Franklin Co.	9/1/06 to 11/15/06	32	\$519,406	\$16,621,000
All Franklin Co.	9/1/07 to 11/15/07	29	\$328,634	\$9,530,000

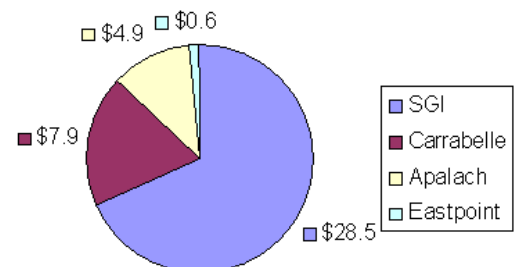
Looking at the chart to the right, while the number of sales both on St. George Island and in the entire County, were virtually the same for 2006 and 2007, the average price of house sales dropped significantly. One could draw a conclusion that prices have dropped about 40% from the average sale price data above. Of course, one would have to analyze the individual sales to establish a more accurate price change, but this data is certainly indicative of the trend prices are taking.

- Continuing with an analysis of this year's sales, the County is broken down into 4 different regions in the MLS: Apalachicola, Carrabelle, Eastpoint, and St. George Island. The year-to-date sales results for houses are shown in the pie charts below. From this, while Carrabelle and St. George Island had about the same number of sales, the average sale on St. George Island is 4 times greater than in Carrabelle.

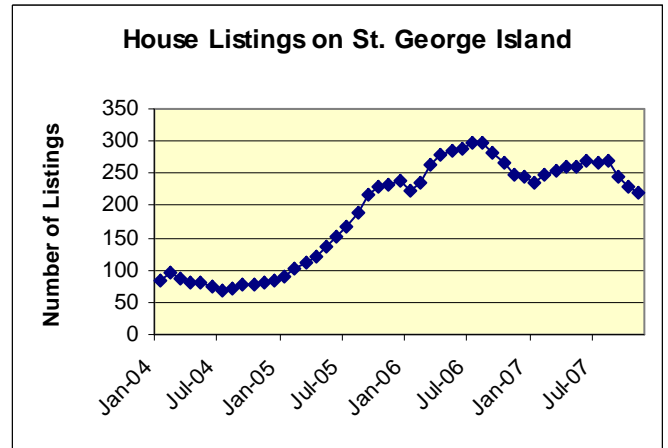
**Number of House Sales per Region**



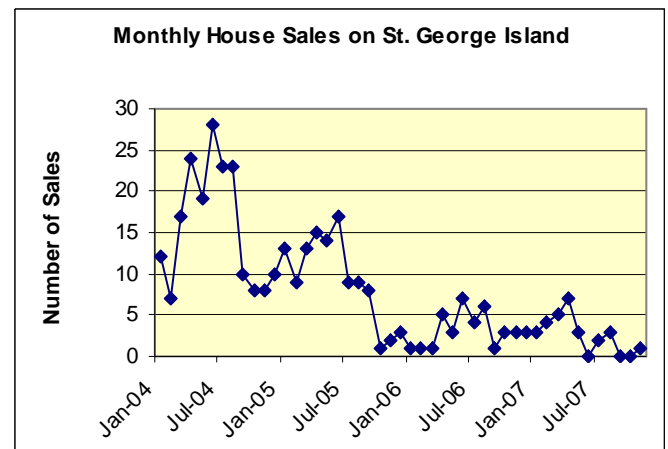
**\$ Value of House Sales in Millions**



- Inventory on St. George Island increased dramatically in 2005 but has since fallen off as shown in the chart below. The number of active house listings has dropped by nearly 30% from the peak in July, 2006. This is a positive move for the market. There are approximately 1870 residential units on St. George Island. In July 2006, 298 houses (including condos and townhouses) were listed for sale, resulting in 16% of all housing units on the market listed for sale in the MLS. Currently, there are 219 houses on the market, dropping the percentage to under 12%. Still, at the current sale rate of about 31 houses per year, we have a 7 year supply of houses on the market. Owners, please remember what I said in the second paragraph of this update-- **If you want/need to sell, then price the property to sell.**



- This brings us to the next and last chart. It displays the monthly sales of houses since January 2004. Sales peaked in June 2004 at 28, followed by a peak of 17 in July 2005, with minor peaks of 6 or 7 in 2006 and 2007. In late 2005, we were blaming the hurricanes Dennis (July 05) and Katrina (August 05) for the decline in sales. However, it has since become evident that this is not a local problem, but is instead a nationwide phenomenon, brought on by loose credit practices and other factors I will discuss below.



- Now is time to get back to the topic of foreclosures. With 26 foreclosures in the last 75 days, what will happen to these properties? Certainly if owners can no longer support their mortgages, the traditional outcome is that lenders will assume ownership. Clearly lenders do not want to own real estate, so they must sell the foreclosed property, usually at auction. However, recent auctions here on foreclosed property have resulted in the banks still holding ownership. But, since banks don't want to own real estate, they have to determine how long they will hold the property and how much loss they are willing to sustain. We've all heard the numbers. Big lenders throughout the US are in trouble. Washington Mutual has bankrupted. Countrywide has over \$70B in bad mortgages. Our local banks, Gulf State Community Bank, Coastal Community Bank (Apalachicola State Bank), Wachovia Bank and SunTrust are all foreclosing on properties.
- I think the next few months will give us a clear indication of how lenders intend to handle these foreclosed properties and how much loss they are willing to accept. But an indication of how lenders could/should be inclined to lean was discussed in a column by David Wessel, The Wall Street Journal, on Thursday, November 15, 2007. He stated, *"There's good reason to presume that someone who stops paying the mortgage will lose the house. If that rule is broken, lenders and the investors to whom they sell mortgages will grow reluctant to lend. Even in good times, though, self-interested lenders often decide they're better off renegotiating a deal with a borrower than seizing and selling the borrower's home. Foreclosure costs a lender as much as 40% or 50% of the unpaid balance.....And these aren't good times."*
- I also believe it would make sense to leave the current owners in the foreclosed property to take care of it, and to let them keep it on the market for sale with local REALTORS at a price that makes sense. If the proceeds don't pay the mortgage balance, well it is certainly better than taking a 40 or 50% hit against the mortgage as Mr. Wessel indicates above.

## What then are the messages here?

1. It is impossible to overlook the obvious. The real estate market here, as in many other parts of the USA, is in turmoil. Sales have plummeted and some investors and homeowners are in trouble financially.
2. We have been in this downturn for nearly 2 ½ years now. In fact, looking back at all the data, the downturn really started in the 4<sup>th</sup> quarter of 2004. This trend actually appears in the 2 charts above which show that listings started to increase in late 2004; also, the peak in house sales was down over 40% in 2005 from the 2004 peak.
3. Looking back, the major factors that led to our current situation were:
  - a. A doubling of short-term interest rates which most investors were tied to.
  - b. Even worse, the sub-prime mortgages, where teaser rates were below the prime rate, but rose to prime plus 2 or 3 or 4 or more after 2 or 3 years, leaving the owners unable to pay.
  - c. A bullish stock market, which saw about 12% per year increase, with the Dow rising from around 10,000 to 14,000 and the NASDAQ increasing from about 2,000 to 2,800. This pulled many potential buyers from the declining real estate market back into the stock market from which they fled starting in April 2000. Of course that time is exactly when the Real Estate boom started here.
  - d. House price appreciation of 93% in 2004 vs. 2003, making purchase of these properties possible for a much smaller class of buyers.
  - e. And finally, the hurricanes of 2004 and 2005 seemed to be the tipping point for our market.
4. **But, and you knew I would finally get to this; the good news is that all of the factors above that led to the downturn in our real estate market are in our favor again.**
  - a. Short term interest rates have already started down with a ¾ point reduction in the FED rate since September 1.
  - b. The loans available to investors now are the more traditional fixed rate, 30 year amortization with a heavy down payment.
  - c. The stock market is floundering. Since the Dow hit 14,000 July 19, it has dropped below 12,000 2 times, with some really mind-boggling losses on several occasions. This is basically due to the problems in the financial markets with sub-prime loans.
  - d. House prices have dropped by over 40% in the past 2 years from the 2004 -05 peak in price, with much of this price reduction based on as much as a 60-70% reduction in the value of the land the house is situated on.
  - e. And, we have now been 2 full seasons without a hurricane hitting the Florida coast, and no major storms hitting anywhere on the mainland USA.

So, what is my message of good cheer to leave with you this time? Obviously, **it is time to buy!** There hasn't been an opportunity like this in over 7 years. So, take some \$\$\$ out of that floundering stock market and get your dream property on the coast of Franklin County while the prices are still down. They will turn around and you will be sorry you didn't buy now. I know some of you are holding back waiting for the bottom. **I believe we are there!**

Call me, Harry Plumblee, at 850 323 0969 with any questions you might have about this. Or, if you had rather, send an email to me at [harryp@AnchorFL.com](mailto:harryp@AnchorFL.com). If you want to find out about that property you have been waiting to buy, I can find it for you. If you want to get your listing price in line with the market, I can help you. And if you feel your property is worth more than the current market will bear, let's talk. I won't get mad at you if you decide to wait to sell.

Have a Happy Thanksgiving, enjoy the December Holidays, and let's get together next year!

Harry Plumblee  
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