

Real Estate Market Update for St. George Island and Franklin County, Florida

1st Quarter, 2008

By Harry Plumblee

Wow, aren't things terrible in the country right now? Is it a recession or stagflation? How about the foreclosures and short sales in real estate? What's wrong with the stock market? Where is the election going and what will its impact be on the economy? Well, these are questions on most people's minds, and the correct answer is difficult to discern. Sure, things are looking bad but situations like this are exactly what smart people look for. As Warren Buffet says, the time to buy is when everyone else is trying to sell!

The old saying goes, "*with all this mess piled up, there has to be a pony in there somewhere*". Well, I'm going to tell you about that pony and hopefully help you find it. Sure there are real estate foreclosures and short sales. Sure, it seems like every 3rd or 4th property is for sale. Well, what does that mean for the person who didn't over-invest in the market run-up? If you stayed on the side in 2001-03, don't miss out again. The opportunities for investing in real estate now are the best they have been since then. Look at the facts:

- Prices in resort and 2nd home areas have dropped by as much as 60% from their peak levels in January 2005;
- The market is flooded with properties for sale in these areas, meaning that sellers will be flexible in their negotiations;
- Short term interest rates have dropped by 1/3 in the past 6 months, with the prime rate dropping from 8.25% down to 5.25%.
- 30-year conforming mortgages are below 6%, making this the best way to finance a long-term holding.
- In the Florida market in particular, hurricanes have been almost non-existent since 2005.
- Property taxes are dropping because of legislation enacted in 2007, with another 25% drop expected in 2009;
- And, property insurance rates have been forced down by Florida's legislature, and should decrease even more with the lack of hurricane activity and other legislation on the table in Tallahassee right now; and,
- While I don't believe in taking advantage of someone when they are down, foreclosures and short sales are giving buyers some of the best bargains in a very long time.

I asked a rhetorical question about the stock market, but if you are depending on stocks for your investment vehicle, that's not going so well right now. The market is down by 13 to 14% since January 1. With the fiasco now ongoing in the mortgage and banking industry, it is possible the bottom in stocks is well below the current 12,000 Dow level. I believe now is the time to move some of that stock money into your 2nd home, retirement home or investment property.

Let me give you a few details.

- First, sales have picked up on St. George Island since January 1. Eleven (11) houses have sold for an average sale price of \$1,064,801. Also, 6 lots have sold for an average price of \$440,833.
- But, with price reductions that have continued over the past 3 years, it is now possible to buy a very nice beach-view house in the Plantation for well under \$500,000.
- Further, it is very encouraging to note that 15 St. George properties were under contract for sale at the end of March.
- Also, the number of listings has dropped further to 331, including vacant land, commercial properties and houses. This is still about 10% of all the platted properties on St. George Island, but much better than the 15% listed for sale one year ago.

- Finally, auctions are paying off here. If you have been receiving my emails for a couple of years, you will remember that I was not a fan of auctions. However, one auction company has introduced a new wrinkle; on-line auctions. Recently 4 beachfront bank-owned houses were auctioned, with encouraging results. The price brought for 3 very large houses was from \$1.9M to 2.6M+. The fourth was a much older house and it brought just under \$1,000,000.

Year	SGI--Residential			SGI--Vacant Land			Comparing the first 3 months of sales data on St. George Island with that from the same period for the last several years, we see in the table that the decreased value of houses and land is showing up in the average sale price. Looking at the house sales data for the 1 st quarter of the last 8 years, the average sold price peaked in the 05-06 time period and has dropped off by 20-40% since then. This is based
	# Sales	Avg \$	% of Peak	# Sales	Avg \$	% of Peak	
2008	11	\$1,064,801	80.9%	6	\$440,833	61.1%	
2007	12	\$1,209,000	91.8%	4	\$596,250	82.6%	
2006	3	\$1,566,667	119.0%	3	\$536,667	74.4%	
2005	35	\$1,294,944	98.4%	38	\$710,421	98.4%	
2004	36	\$1,167,647	88.7%	38	\$721,754	100.0%	
2003	22	\$891,977	67.8%	28	\$377,625	52.3%	
2002	26	\$619,654	47.1%	23	\$277,067	38.4%	
2001	17	\$348,916	26.5%	49	\$139,297	19.3%	

on the average of all house sales in 2005-06. I used this average since there were not enough sales in 2006, and they all were either first tier or bay front, not representative of the average mix of sales. Examination of this chart also shows that the average sale price of houses increased by about 400% over a 4 to 5 year period from the 2001 price. We don't really have enough data in these average results to be more specific, since the 2001 sales could have been made up of more interior houses and the 2005-06 mix may have included more high-end houses. That is something for a future newsletter.

The other data of interest in this table is the sales price of lots. Examining this data, average lot prices jumped by over 500% in just 4 years. But, in the past 3 years, values have decreased by about 40% from the 2004-05 peak. However, this is based on a very meager number of sales, averaging only just over 4 lots sold in the first quarter for the past 3 years. We do know that beachfront lot values, based on sales, have fallen by just over 50%, so the total lot sales picture is in reasonably good agreement with this trend. Also, we know from experience over the past 12 years that if a beachfront lot has a price change it takes up to a year for this change to be felt in other lower priced lots.

Year	Franklin--Residential			Franklin--Vacant Land			It is interesting to examine the same data for the rest of Franklin County (including Apalachicola, Eastpoint, and Carrabelle, and all the rest of Franklin County, except St. George Island). This part of the county and St. George Island are as alike as night and day. Sure, average house sale prices in Franklin County increased by over 500% from 2001 to 2005, but the values were about 1/5 of St.
	# Sales	Avg Sale in \$	% of Peak	# Sales	Avg Sale in \$	% of Peak	
2008	14	\$177,421	44.1%	8	\$84,875	27.4%	
2007	11	\$172,227	42.8%	8	\$239,938	77.4%	
2006	20	\$236,020	58.7%	19	\$310,087	100.0%	
2005	76	\$402,331	100.0%	132	\$212,502	68.5%	
2004	53	\$227,023	56.4%	183	\$155,232	50.1%	
2003	30	\$131,905	32.8%	35	\$107,484	34.7%	
2002	31	\$140,950	35.0%	55	\$88,726	28.6%	
2001	17	\$74,165	18.4%	30	\$33,703	10.9%	

George Island prices. So, a comparison with St. George sales data would be more or less meaningless. However, it is clear that the price escalation phenomenon was not just restricted to St. George Island and if anything, the average percentage increase in the rest of the county was even greater than we had on the island. Furthermore, looking at average sales data for lots in the mainland part of the county, the price increased by about a factor of 10, or 1000% in a 6 year period (curiously, the peak sales prices occurred in 2006, but that is attributed to several new subdivisions on the Carrabelle River which had pre-sales from 2004-05 that did not close until 2006). Now, lot prices in the county have dropped precipitously by about a factor of 4 since 2006.

None of the discussion above should be used to judge the price changes on individual lots. I have not attempted to analyze the mix of locations in this exercise, but that would certainly play into the results. If I go back to St. George Island results, we know that 1-acre Plantation beachfront lots peaked out at an average sale value of \$2,278,285 in the period 8/1/2004 to 7/31/2005 based on 7 sales. There have been 3 sales of 1-acre Plantation beachfront lots since then, all in the past 9 months with an average sale value of \$1,158,333. This is almost exactly a 50% reduction in value in 3 years, and is consistent with the data in the St. George Island lot sale table above. So, while I haven't done an exact analysis for particular lot types, I believe that the average data in the tables above are indicative of how much prices have reduced in the past 3 years and can be used to judge values of one's property in this area.

The impact of this is very different for sellers who bought in the period from 2003 to 2005 and sellers who bought 8 years or longer ago. For these long term owners, there is still a large inherent equity (of course, not accounting for loans owners may have taken out at the market's peak). However, buyers in the 03-05 period have to face the fact that the value of their lot is less that they may have paid for it.

The big question is, "are we at the bottom?" Well, on average, the correction is about 40% on St. George Island and up to 70% in the rest of the county. My feeling is this should be enough. And, indications are that potential buyers are coming back in much larger numbers than we have seen in a long, long time. Most experts will tell you that stock investors who practice "market timing" never do better than the buy and hold investors, and many times they do worse. I believe your investment now in property in this area will be one of the best moves you ever made, and you couldn't pick a better time than right now. But, you need to look at real estate investment as a long term purchase. Don't expect to double your money in 2 years. Remember that a 10% compounded return takes 7.4 years to double your original investment.

Don't forget to go to our personal website to look for real estate in this area. It is www.plumblee.net. In that you will find all of the listed real estate in this 2 county area. So, take a look and call me for more information about properties in which you might be interested. For instance, we have a new bay front listing with a boat dock and lift, hardwood floors, granite countertops and a hydraulic elevator. I am always available on my cell phone.

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