

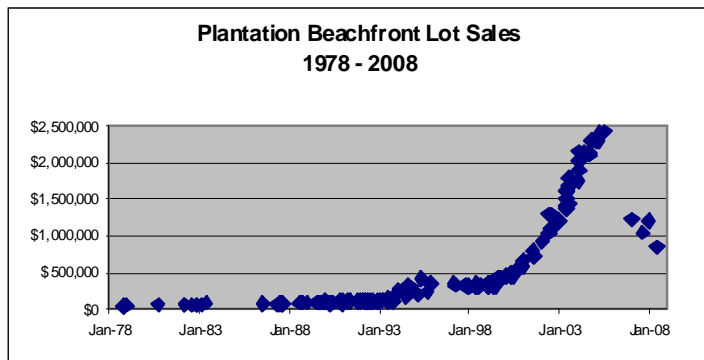
Thoughts on the Current Real Estate Market Condition in Franklin County, Florida
(And what it means for the owner and the potential buyer)

By Harry Plumblee

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In this coastal area, there are many factors affecting the Real Estate market. The market decline started over 3 years ago, in early 2005. It was not acknowledged until after Hurricane Dennis in July 2005 and Hurricane Katrina in August of the same year. Throughout Florida, as well as in many other parts of the USA, price increases and lending practices had become irrational. Coastal property experienced price inflation averaging as much as 40% per year for up to 5 years. This created a bubble in prices much like the stock market's dot-com bubble in the late 1990's.

Many of you will recall seeing my chart a few years back that shows Plantation 1-acre beachfront lot sales. It is shown below to refresh your memory, with some current updates. The almost unbelievable increase in prices started around 2000 and continued through mid-2005. The rate of price increase during this period averaged 32% per year, obviously unsustainable looking back, but maybe not as apparent for those caught up in the excitement of the market at the time. However, it is not unreasonable to say that the price now is just about where it should be. If we go back to the prices in 1978, there were 3 sales then that averaged just over \$44,000. If we then take the average of the 4 sales in the past year and one-half of about \$1,080,000, the



average price increase over this 29-30 year period is 11.6%. This is about 3.7% better than the stock market's NASDAQ over the same period, which saw a 7.9% increase. Of course, the message here is that long-term investors do much better than those looking for a quick profit. However, this message doesn't hold for those who bought in the 2002-05 period. At

an 11.6% price appreciation rate, it would take 7.5 years to go from today's prices to the \$2,400,000 prices that existed in mid 2005.

If one bought one of these properties at the peak to build on and live in for the long-term, then my advice is just don't think about the high price paid—use it and enjoy it. However, if one is an investor looking for a quick profit and bought during that period, there are a number of options which I will attempt to outline below.

- Loan restructuring – If you have been keeping up with the news in the financial markets, then you know that many, if not most, of the nations banks are suffering from a record number of loan defaults. In this environment, the smarter banks are willing to negotiate the loan parameters rather than dealing with loan default and foreclosure. This includes adjusting the interest rate, and in some situations the mortgage amount, downward. This is far preferable than foreclosure and a bank-owned sale.

- Short Sale – Although an unfamiliar term in real estate 3 years ago, this is the wave of the immediate future. It means that the property is being sold for less than the mortgage amount. Sometimes the banks will agree to forgive the amount owed by the seller after the sale. If not, then the seller is faced with an unsecured note for the difference. If the bank does forgive the difference, they may present the seller with a 1099 at the end of the year, indicating that the amount forgiven was equivalent to a profit to the seller, with income tax due to the IRS. This is especially true with investment properties.
- Foreclosure – This scenario, where the owner can no longer make the payments, presents the worst situation to both the lender and the owner. Generally, it means that the lender will either have to resort to auction to get rid of the property, or else go through the normal listing/marketing process with a local Realtor. While this latter approach could result in a higher return for the bank, it may also significantly lengthen the divestiture process. Also, the former owner is faced with a disastrous situation for future credit. Foreclosure is to be avoided if at all possible, meaning that the 2 options above should be aggressively negotiated.

The picture above is for the investor who bought during the period 2000-05. However, the investor today has a much brighter future. I will stick with Plantation beachfront lots in the following example, although vacant lots or houses anywhere in this region would follow the same trend. Let's assume that a savvy investor purchases one of these beachfront lots today for \$1,000,000. Because the banks are being overly cautious in this environment, I would expect the investor would have to make a 30% down payment. I think he could get a balloon mortgage, but with a 5-year fixed interest-only rate of about 7%. After 5 years, the property value would be \$1.73M (based on the 11.6% annual appreciation rate suggested above). A sale at that time would net the seller about \$186k after all expenses (including interest, a 6% selling commission, annual taxes and homeowner's dues). This is about a 60% return on the original \$300,000 out-of-pocket investment in 5 years--certainly not shabby, but definitely not the kind of return our "dot-comers" were looking for in our real estate bubble.

So, what do I think about the current market? Well, as I have outlined above, for the "under-water" sellers, there are several options, some worse than others, but none very good. However, for the investor standing on the sidelines, there is a real opportunity to make a decent profit that could very well exceed average returns from the stock market. But, the caveat is that one must be in a real estate investment for the long-term—price fluctuations and lack of liquidity are to be expected.

I have restricted my comments above to Plantation beachfront lots, but the situation is scalable to everything else on St. George Island, and in fact, to real estate throughout this area. If you are a property owner who wants/needs to sell, I can help you price the property to sell. But, if you are a potential buyer who has been waiting for the market correction to complete, then I can help you find the best deals. I believe that if we are not at the bottom, we are very close and great deals are available now. Call me at 850 323 0969 or email me at harryp@anchorfl.com. If you want to view what is currently available, visit our website at www.plumblee.net.

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