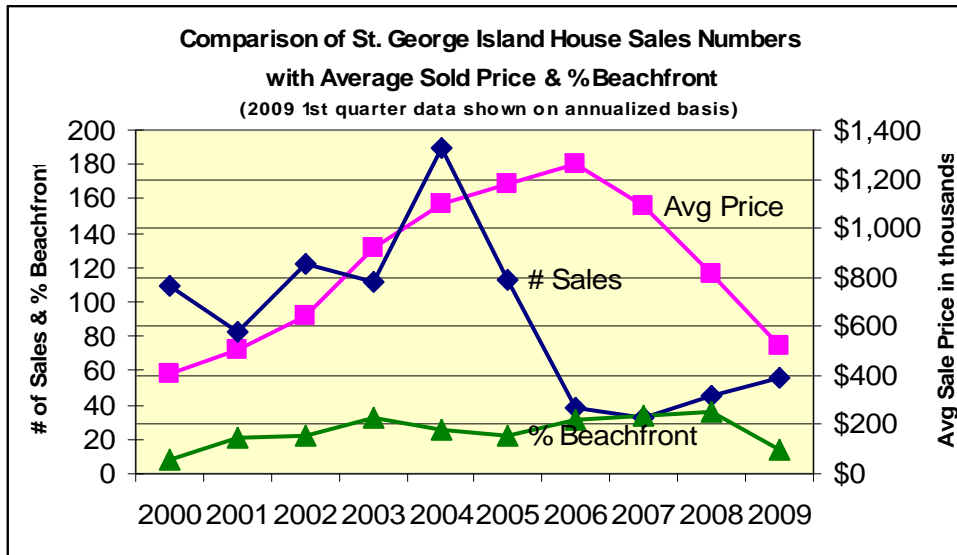


1st Quarter 2009 Real Estate Market Update for St. George Island and the Rest of Franklin County, Florida

By Harry Plumblee, April 9, 2009

This quarter's report is going to focus on good news events. We have heard enough bad news over the past 3 years. It is time to look at the events that indicate a turnaround is in progress. My study of the real estate market on St. George Island and the rest of the Forgotten Coast indicated that we reached the bottom in real estate sales over a year ago. The issue is, "how does one define the bottom?" Simply put, is it when buyers come back into the market or is it when prices stop declining and start increasing again? My definition of the bottom is when the number of house sales starts to rise over the previous year's total sales. Unfortunately, prices will continue to decline until the inventory of bank owned and short sale properties is diminished to near zero, and I think this will happen within a year.

The Actual Data--Since I defined the bottom as the point at which the number of sales increases over the previous year's sales number, we need to look at actual data. I have compiled the number of house sales on St. George Island for each year starting



with year 2000, along with the average sold price of all the houses sold. This data is shown in the adjacent chart. The chart shows that the bottom in number of sales was reached in 2007. The 2008 sales number was up 30% over 2007. I have used 1st quarter 2009 data (14 sales in 1st quarter) and annualized it (our Federal government does this all the time, so why not do it as well). Using this data (it comes out to 56 sales on an annualized basis) this year's house sales are up 24% over 2008 sales. We also have 20 properties currently under contract. They have been under contract an average of 42 days. However, of the 14 sales that closed in 1st quarter, the average time to close after the contract date was 32 days. I suspect the

longer average time for the properties currently under contract is dominated by short sale and financing problems. I also suspect some of those contracts will fail. But, if we assumed that 75% of them will close, and that they will close in the second quarter, the annualized number would remain about the same as already projected above. Of course, if houses continue to go under contract the number of sales in the 2nd quarter could significantly exceed the 1st quarter's strong performance.

There are several reasons for the continued decrease in average sale price.

- First is the fact that of the 172 houses listed for sale through our MLS, 39 of them (22.6%) are short sales or bank owned properties. This is in your favor if you are a buyer!
- 6 of the 14 houses sold in the first quarter were bank owned or a short sale.
- Of the 20 houses under contract, 10 of them are short sales and bank owned. This is obviously driving the average price down, since many of these properties are selling for as much as 1/2 of what the sellers paid for them.
- The other factor in this low average price is the fact that the ratio of beachfront to total house sales has dropped dramatically this year. Looking at the green curve (identified as % beachfront) on the chart above, for the past 7 years, the number of beachfront house sales ranged from 20% to above 30% of total house sales. This year's beachfront sales are at 14% of the total sold to date.
- Of the 20 houses under contract only 2 are beachfront. It is clear that the number of beachfront house sales has a dominant effect on the average house sale price since they usually sell for a 100% or more than interior houses.

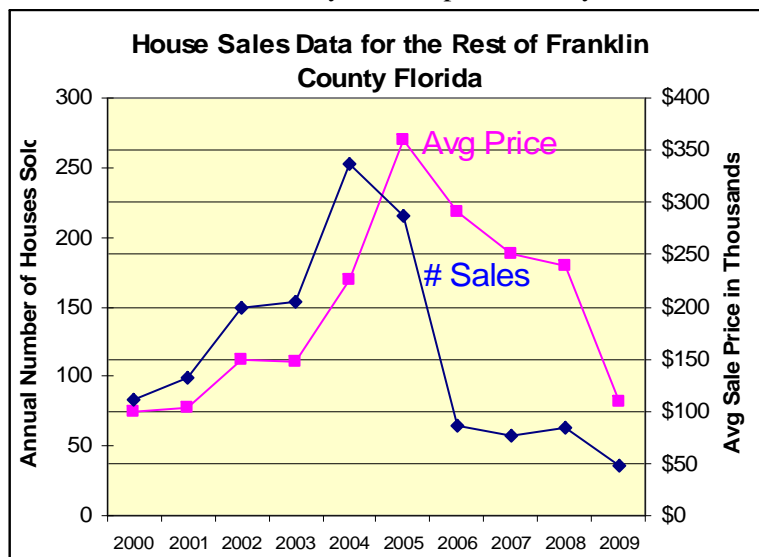
The Really Good News--If you are a potential buyer on St. George Island, what does this mean for you? Well, there are several things working in your favor to make this the best time in this decade to buy a house here. I'm going to list them below, but first, if you are a potential buyer, you have to meet more stringent qualifications than in the past. You must either have cash or else:

- Have a large down payment—minimum of 20% and according to one Tallahassee bank as much as 35% for coastal property. Call us; we can help put you with the right lender.
- Have a good to great credit rating—I understand that a minimum of a 700 point credit score is desired if not required
- Be willing to show 2-3 years income tax records, and
- Be prepared to have all your bank records examined in minute detail.

If you fit either of these categories, then get prepared for a great deal. Not only are the prices low for many of the houses here as discussed above, but also:

- Interest rates are at record lows, with 30 year conforming mortgage rates at less than 5%, and jumbo loans on 2nd homes being in the 7% range.
- And, looking at the national picture, as a result of all the money that is being poured into the economy, it is clear that in about 2-3 years we will see significant inflation that can approach double digits.
 - Then, the Fed will raise interest rates by several % points from the current Fed rate of 0.25% to more than 6 or 7% to try to control the inflation. Consequently, the adjustable lending rate, prime plus 1 or more, will exceed 10%, making a property purchased then much more difficult to pay for.
 - Fixed rate mortgages will increase by 2 or 3 percentage points.
 - Since salaries or earnings almost always keep up with inflation (plus a little bit more on average), the impact of your payments on a low priced house bought with today's dollars at today's low interest rates will be a smaller and smaller piece of your income.
- If you examine the chart above in more detail, you will see that the price change point is 2 years after the number of sales downturn. In other words, while the number of sales dropped dramatically starting in 2005, the price continued to increase for 2 years after the peak in number of sales. This means buyers really didn't see the big picture and didn't realize the market was overbought. I think the reverse effect will occur soon. We have seen the number of sales turn around and by the end of this year it will be a 2-year turnaround. I predict that the average house sold price will increase (and maybe significantly) in 2010.

So, the bottom line is that it is not the time to wait around playing the bottom-timing game. To quote an old saying, **“you can take this to the bank!”** If you are a potential buyer here, this is absolutely the best time to buy in this century. I hope I have made that point clear!



Franklin County other than SGI--The picture for the balance of Franklin County, Florida, which includes Apalachicola, Eastpoint, Carrabelle, Lanark Village, St. James, Dog Island, and Alligator Point, is not as bright, based on 1st quarter sales data. To put it bluntly, the numbers are dismal! (And I said I was only going to give good news.) In 2008, it looked like the turnaround has started, as the number of sales increased from 57 to 63. However, in the first quarter 2009, there were only 9 sales and the average price dropped to \$109K. On the bright side, there are currently 9 houses under contract in the county, with an average list price of \$233K. Only 3 of the 9 are bank owned or are in Short Sale. Provided these close, the average sale price will increase to the \$150-175K range.

Conclusion--I know you are all holding onto your money with a tight fist because you believe this recession is deepening. Actually, believe it or not, the bank and market regulators are taking steps to reverse some rather radical changes, to 70 year old regulations, made less than 2 years ago that strongly affect the stock market and the bank's balance sheets today. I won't attempt to explain here, but reversing the change in the "up-tick rule" for the stock market's short sales and the "mark-to-market" rule for the banks valuation of their toxic real estate holdings is going to be a positive change for Wall Street and your retirement savings. I believe the recession will be over by year end. That doesn't change my mind about the coming inflationary period—it's just part of the cycle. If you would like to know more about this, just give me a call and I will explain or else point you in the right direction for a more comprehensive explanation.

If you are in the market for a second home, a permanent residence or an investment property, call me or Katrena. We have been in the Real Estate sales business on St. George Island for 15 years. We can put you together with a home that will totally satisfy your needs. Check us out on our personal website, www.plumblee.net.

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