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HOW IS REAL ESTATE DOING?

Jack O. Hackett II
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People often ask us, "How's the residential real estate market doing in your area?" Subjectively, the answer is, "It depends on the week." Some weeks a lot of contracts come in for closing and we feel like it's 2004 again (well, not really), and other weeks the phone doesn't ring as much.

Objectively, though, the numbers published by the Punta Gorda-Port Charlotte-North Port Association of Realtors, Inc. show an interesting mix of news. It's no secret that the average sale price of single family homes and condominium units has dropped substantially in our market area. For the last year-and-a-half it has hovered in the \$125,000 range, about half of what it was four years ago. (September's average dropped to \$110,000, but apparently that was just a one-month aberration as it popped back up to almost \$126,000 in October.) There is no doubt that there are remarkable deals out there, especially waterfront, for those hearty souls left with cash or good credit scores.

But the real interesting column is the number of months of inventory on the market; that is, given the market in terms of how many sales are occurring each month, how many months would it take to sell all the homes currently on the multiple listing service? That number peaked in October of 2007 at 46.4. Thus, since there were only 165 sales that month, it would take almost four years at that level of activity to sell everything in the MLS. That number stayed mostly in the 30's and 40's in 2007 and in the 20's in 2008. In March of 2010 it got as low as 8 months. It now has clicked back up to 12 months, though that increase is probably explained by the seasonal nature of our area's real estate market.

It is basic supply and demand. If you want the prices to go up, either the supply has to go down or the demand has to go up. At the height of the market, the demand was unsustainable. In addition to primary residence buyers there were second home buyers, rental property buyers, investors, speculators, and plenty of people who had no business buying a house even though banks were lending them money to do so. It was like the shoe shine boy giving stock tips before the Great Depression - people from all over the world were buying properties in Southwest Florida faster than tulips in Holland, often sight unseen. Prices went through the roof to the point it was unfathomable to us who have been around here for a while.

Then all the buyers went away, and sellers appeared in droves, so prices had no place to go but





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down. Meanwhile inventory stacked up on the MLS to hit the four-year number mentioned above, ample evidence of over-supply in the market, causing prices to fall even further.

The drop in the inventory to a more manageable 12 months is an absolute precursor to a return to a healthy market. Prices (and therefore, values) will not start going back up until demand outpaces supply. With minimal new construction going on, a reasonable uptick in new buyers this coming season would show further signs of recovery. Conventional wisdom though is that there are many sellers sitting on the sideline waiting until the prices go up so they can get out from being under water in their mortgages. Also, there are plenty of bank-owned properties out there that aren't listed yet because even the banks don't want to sell at such a low price. Hopefully, the anticipated flow of these properties onto the market will be managed in such a way that there is an orderly turnover of inventory and home values can rise in a reasonable and sustainable manner.

Another bright spot is that the average number of days a property stays on the market before it sells has dropped from a high of 147 in August of 2009 to right around 100 for the last few months. This is a further positive sign of a return to a healthy market.

One final note about the numbers. They show that in all kinds of markets our local Realtors have a good handle on values. In October, the average sale price was 92% of the average list price. In the last four years that number has never been below 90% and has rarely been above 94%, an impressively tight margin. It means that those listing Realtors whose properties are being sold are doing a good job of advising their sellers at what price to list their properties so that they sell as quickly as possible without leaving too much money on the table.

So how is the real estate market doing? It depends on whom you ask and when. Subjectively, I often hear that the worst is behind us. Objectively, the numbers seem to back that up.

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