

Real Estate News

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Recent area news items

1. New construction is all the rage in downtown Punta Gorda these days. The SunLoft multi use building, with its built-in parking garage, is beginning interior work. Site work began this month on the new city owned parking garage site, despite the unfortunate construction sign. Last time we checked, it is NOT a felony to squander \$11 million taxpayer dollars that we don't have on something we don't need. Hopefully, the new hotels (Sheraton and Wyvern and soon-to-come Hilton Garden Inn) will bring much welcomed traffic to the area. No, don't expect any of those new tax dollars to help out homeowners, they are earmarked for the parking garage!

2. Punta Gorda's Laishley Park will officially open the Whalley Stage on August 28 with a free concert by local celebrity, Jim Morris. The Whalley family donated the funds to build this new canopy, saving taxpayers the burden of building the originally planned bandshell on the site.

3. The object of new height limit easing, the Mercabo condo project in Placida has been mothballed. Another casualty of the stagnant housing market and hesitant second home buyer.

4. Charlotte County's debt for the acquisition of Murdoch Village's 3,000 vacant lots stands at \$93.3 million (including \$5 Million lent by the State). In an attempt to diffuse the mushrooming complaints of the daily interest cost to carry this debt, the Commissioners have

come up with a partial shell game...er... solution. They will pay down the debt by \$30 million through the use of reserves and eliminating other capital projects from the budget. This has been a strategy that has worked well in the past by private industry... other than for those companies that needed liquidity and funds for capital investments.

5. HMA, the owners of both Peace River Hospital and Charlotte Regional Hospital has submitted an application to move its open heart facilities out of Charlotte and into Peace River. Citing the need for more room for expansion, as the reason. Charlotte will presumably become less profitable and more likely to be sold by HMA.

6. Punta Gorda will host its first weekly open air "farmer's market" downtown on October 4. Probably not welcome news to the vendors trying to scratch out a living at the existing market on Cooper Street, but a good use for Herald Court and downtown businesses hoping to see shoppers come back to the area.

Locally: Although prices continue to decline at a rate of more than 1% per month, volume of sales reached a 3 year high last month. Representative of the national inventory reduction, 50 of the 336 recorded sales in our study were bank owned or controlled.

Statistics are intended to assist in analyzing trends in supply and demand and not to indicate specific market values. Ending inventory is not always beginning inventory plus listings minus sales since many pending listings are held over from month to month, some listings expire and are withdrawn and, therefore, do not appear as sales and new listings includes price changes.



The Punta Gorda Chamber of Commerce's building installed these metal flood gates to hold back the high water anticipated in TS Fay but the waters never came. The new SunLoft Marketplace across Marion Ave will install similar protection. FEMA mandated flood protection for downtown Punta Gorda we'll likely see more of these contraptions installed around town.

Outlook for the Housing Industry

The question on everyone's mind today is "when are we going to get out of this housing slump?"

Before we can make an educated guess as to the right answer, we need to get a grasp on what caused the problem and what are the variables that can lead to solving the problem.

Right off the bat, let's make one thing clear: It wasn't subprime loans or irresponsible borrowers and lenders that "caused" this bubble, they were the "effects" of the bubble. The cause was an overly stimulated interest rate environment that led to widespread speculation in the new construction industry by small investors.

In the normal course of events, rising real estate prices in the existing home market are totally connected to the alternative cost of replacement of those homes in the new home market. Traditionally, home builders across the country would build homes in expectation of selling to bona-fide home buyers that were being created from the pool of new household formations. Homebuilders could turn over product and raise prices as long as the supply of new homes remained at a reasonable level. From 1963 to 2003 that range stayed consistently between 3 and 3.7 months of new household formations. Beginning in last half of 2003, builders became excessively aggressive as a perfect storm of super low interest rates, rising real estate prices and a crushing bear market in stocks caused neophyte speculators to enter the market. Not only did builders appease that artificial demand but increased their inventories in the expectation of continuing demand. Inventories continued to expand exponentially until mid 2006 when they stood at an absurdly high 5.8 months of household formations. In other words, America had more than 300,000 more new homes than it needed to meet the

demand of new household formations!

At almost the exact same time, speculators, now feeling the effects of rising interest rates, flattening construction prices and a rising stock market abruptly left the party.

Since then, builders have all but stopped building and inventories have been liquidated at below cost. At the current pace, inventory levels should be back to within the "safe" range of 3.7 months of demand by early 2009. (Note, we distinguish "demand" from the more traditionally used "supply" to describe inventory – at today's low level of sales, the number of months of homes available based on today's sales pace is meaninglessly high). After this inventory has been absorbed, prices should gradually return to inflation adjusted mid 2003 price levels.

Government Solutions

The Fed, for years applauding the innovative new mortgage products brought to the market by unregulated Wall Street "hotshots", has quietly thrown in the towel. This, little publicized, chart shows an alarming trend by the Fed to invest its portfolio in the mortgage pools of comatose banks to provide liquidity to the banking community.

The Homeowner's Act of 2008 will go into effect on October 1. Will it help? The new law provides FHA type refinancing of existing mortgages, normally at lower rates than the existing mortgages require. So, it provides relief to those who have been "collaterally damaged" by the home financing meltdown. But, it does not offer ANY relief to investors or those with second mortgages, home equity loans, etc., which, of course, is the vast majority of the problem loans today. It provides negligible relief to cash strapped lenders who can get their loans paid off, if they are willing to accept 85% of the market value of the property.

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