

Sarasota Real Estate 2007 Review and 2008 Forecast

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November 2006: The Hammer Falls

- Project cancellations announced weekly.
- Speculators attempt to “flip” properties, causing a surge in new and existing inventory by thousands of units in Sarasota and Manatee counties.
- High cost of housing, insurance, and property taxes triggers an exodus as Florida residents cash out and relocate. Especially hard hitting to young families.
- Prices start to recede from the 100-228 percent inflated values after five-years of a market driven by speculation.
- Concessionary buyer incentives, hidden or ignored by appraisers, mask true price declines.

2007 Review

Major Events That Shaped the Sarasota Market

- **Construction Compliance and Coastal Bank debacle** > Jade and Avalon Homes also out of business.
- **Restaurant closings, bankruptcies of lenders, furniture makers, and departure of marine firms to the Carolinas.**
- **Foreclosures more than double in Sarasota and Manatee Counties, and increase 379% in North Port.**
- **Existing inventories in Sarasota and Manatee balloon to historic highs in all product types, new AND existing supply.**
- **Auctions begin with early sales setting prices 35%-55% below most recent closings of like comparable units.**
- **Glut of apartments drive rents lower.**

2007 Review

- Lenders, builders, sub-contractors, appraisers, building permit departments make extreme job cuts. Illegal alien laborers leave area for work in other states and countries, with a strong affect on local businesses and tax revenues.
- Condo and SF home pre-construction buyers, 70-80% of which are short term "flippers", begin litigation to get out of contracts and get deposits back as high rises are completed. Others walkaway from deposits fearing greater losses if they close.
- Dark homes and condo towers, as completed buildings remain largely vacant.
- Many condo projects postponed or shelved due to lack of presales or construction financing.
- State legislature offers ill conceived tax referendum. Insurance legislation is no help as Floridians received higher insurance costs in 2007. Meaningful tax and insurance legislation and regulation still evasive, and may cost the state it's economic growth for years.

2007 Review

- Household Van Lines Atlas, United and others announce for the first time in their history, Florida has more households leaving the state than entering.
- End of 2007 sees nation's inflation rate at highest point since 1990. Florida #1 nationally.
- Financial Times picks Sarasota as "ground zero" for global credit crunch/bust.
- Joe Long announces vulture buying contracts with local developers, but has no financing.
- Public homebuilders have begun selling land and bulk multifamily units, yet lenders still unrealistic on value drops and haircuts necessary to move inventory.
- Bottom of the third inning in correction cycle. Lookout below!

Forecast for 2008
The Worst Real Estate Market in
Florida since 1990, and....

2008: The Year of the South Florida “Great Condo Meltdown”

- Individual unit owner foreclosures in Sarasota and Manatee will increase by 250-300% year over year. It's not just sub-prime loans that default, but all ARM's issued in the last three years with volatile rate adjustments. HELOC's will propel long term homeowners into foreclosure as prices drop below note value. Home equity has largely been converted to debt, with little savings available for consumer spending. Payment option ARM foreclosures multiply exponentially.
- Walk-away/cancellations of new condo unit buyers in the 45-60% range on most new projects reaching completion.
- Litigation between buyers, sellers, realtors, lenders, appraisers, and title companies proliferates.
- Indictments of lenders, appraisers, brokers, and speculators for mortgage and real estate fraud. Shocking for how many, and who the participants are.
- In addition to Levitt, several additional local public and private developers and lenders will file bankruptcy.

2008 Forecast and Predictions

- **Vulture buyers (private equity, investment banks, high net worth, institutional) begin acquiring RE portfolios, busted projects, bulks of units, and land at highly discounted values (think 2002).**
- **Shadow market of rentals (the "accidental landlords") in the thousands of units flatten rental rate growth, and force economic concessions on apartment operators. New condos cross over to the rental pool.**
- **Expect a barrage of government stimulus, bailout, cash influxes, and lower interest rates. Too late attempts to stave off the inevitable recession already in progress. Are you thinking about the first global recession yet? You know the Fed is scared to death when they lowered the short term rate 50 basis points two weeks ago after the previous weeks emergency 75 point reduction... artificially low rates and easy lending isn't a cure, just a band aid on skin cancer.**
- **Economic indicators show a US recession at the end of the third quarter (or sooner). Rear view mirror news to many living it in Florida now. Consumer spending gone = negative GDP growth.**
- **Voters demand revolutionary tax and insurance legislation before any increase in sales from out of state buyers.**

2008 Forecast

- Prices will drop 10-15% again in 2008.
- 2005-06 only a prelude to the correction that occurs in 2008-09.
- Sarasota and Manatee Counties have over 14,000 units on MLS, a fifty one month supply (not counting FSBO's, foreclosures, and bank held inventories).
- Auctions, short sales, REO, flippers, and vultures. The new real estate terminology.

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