

HOUSING

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None dispute that the short, happy life of the bipolar market has been vivid.

Were those the days?

In 2004 and 2005, Lee real estate ascended to the pinnacle, garnering national attention as one of the hottest residential real estate markets in the United States. Collier followed close behind.

That no-longer-enviable position was defined by huge increases in home values, the number of sales, the number of quick turnovers and the ready availability of money, which seemed to grow on trees that forested the lobbies of banks.

"When things got totally crazy, anyone who had been in business a while knew this was not good. What happened is in some ways the least surprising thing about all this, to me," says Phil Wood, whose Naples-based John R. Wood Realty has operated in Collier and Lee counties for many years.

The most surprising thing to him, Mr. Wood adds, "is how much the credit markets are messed up. I never thought they'd get to this point. Obviously, the government is going to help them get back to some kind of normalcy."

For Lee, with its sprawling service-industry communities stretched out for miles through zip codes that encompass Lehigh Acres and mottle Cape Coral, and its sizeable lower middle-class or poor neighborhoods in east Fort Myers, the distinction was particularly remarkable.

The great number of small, single-family homes — one-level 3/2s (three bedrooms, two baths in 2,000 square feet or less — did not prevent median

values from rising above \$200,000 in the first quarter of 2004, back when the unemployment rate dropped below 4 percent.

And those values stayed there through the second quarter of 2008. At mid-year of 2006, the median home value even brushed the sky at almost \$300,000, according to Lee County statistics.

In those days, home foreclosures in Lee were, if not unheard of, infrequent. There were 1,900 on the books two years ago when the market crested the top of the roller coaster and offered its first hint of the stomach-dropping descent about to follow, a fact noted in a *Wall Street Journal* story written out of the courthouse in Fort Myers three weeks ago.

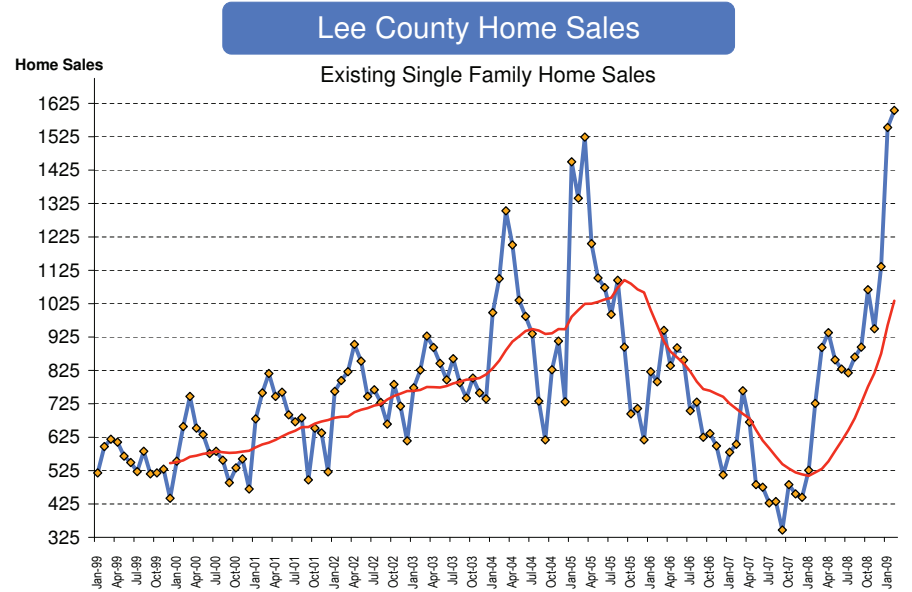
In January this year, there were 24,000 home foreclosures scheduled in the courts; last month judges were running them through "rocket-dockets" at the rate of about 60 seconds per case. Still, the number remains stratospheric — clogging the market, paralyzing banks and keeping the local economy here, with its recession-shot unemployment rate of almost 12 percent, anesthetized and belly-up on the table.

"We have to move these cases out of here," Charlie Green told the *Wall Street Journal*. As clerk of courts in Lee County, scheduling the parade is his job. "That's how we get these houses back on the market and get to the bottom faster," he added.

If all that sounds like battlefield surgery of a sort, it is.

"As a former CPA, I learned a long time ago that banks know how to make and lend money, but they don't know anything about real estate," says Jack Samler, a 30-year real estate veteran who manages Royal Shell Preferred Properties on Sanibel and Captiva Islands.

"The foreclosures are killing them.



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They have to get rid of those properties as fast as possible. To get out of this recession, we have to get the banks to let them go, whatever the price or the cost. The market won't start going back up until everything goes down as far as it will go."

It's all in the timing

In Collier, meanwhile, the median price of homes has never dropped below \$200,000 in the 21st century. Nevertheless, the bipolar roller coaster still defines the status quo.

Beginning in mid-2003, the median home value rose steadily, more or less, to peak twice at about \$440,000 between the end of 2005 and the beginning of 2007.

Only 18 months ago, in September 2007, Collier unemployment was considered ridiculously high at 5.3 percent. By contrast, it was running at 8.1 percent at the beginning of the year,

according to the Regional Economic Research Institute at Florida Gulf Coast University.

And in 2008, Collier courts processed about 8,000 foreclosures, which amounts to about 22 for each day of the year. That number is showing no signs of dropping this year, according to county figures.

But both Mr. Wood and Mr. Samler are optimistic about the year ahead, even though economic forecasts suggest the recession will deepen in 2009.

Their time frames, however, are different.

"The market is trying very hard to come alive, and both January and February were very encouraging. We have low prices and low interest rates," says Mr. Wood. "The only thing we need now is to have a little stock market recovery, and it will really pick up."

Ask Mr. Samler and you get a different response. "How long will we have

A Q & A with Denny Grimes

Florida Weekly sought specific real estate answers this week from Denny Grimes, a Realtor who founded Denny Grimes and Company in the mid-1980s and is considered an expert in residential real estate.

FW: What is your advice for hardworking Realtors who are now struggling, and for people who need to sell their homes but aren't certain how to price them?

Mr. Grimes: It should come as no surprise that we find ourselves in a changing market because



GRIMES

that's what markets do... My advice to agents is acknowledge the change, study the market in order to anticipate future market movement and then adapt your business practices accordingly. It's been over three years since the residential market shifted to a

buyer's market, so those of us who are still selling real estate have already acknowledged the change. In case we forget, all we have to do is look at our bank account. However, we must continually study the market in order to anticipate shifts. The best way to do that is to track the change in inventory in the specific market we specialize in. A shrinking inventory signals the market is returning to stability; a growing inventory means it's moving away from it. It is critical that agents understand this in order to advise their clients properly.

Agents should adapt their business practices and budgets in order to fit market conditions. There are more agents chasing fewer customers, so that

means more hours walking the neighborhoods and less time walking the fairways.

My final tip to agents is to stop looking for the new idea that will change your business. Rather, master the basics of prospecting and selling, because those are skills that will pay big dividends in any market.

FW: What is the shortest, least painful path we can take to halt the foreclosure spiral and stabilize the market here in Southwest Florida?

Mr. Grimes: The proper answer to that question would depend on whom you're trying to spare from the pain.

If we want to spare our local economy further suffering, then it must come at the expense of the borrowers in financial distress and the lenders who hold the mortgages. The shortest way to stabilize the market is to deal with distressed properties quickly, because as long as homes can be purchased at a fraction of what it costs to build them, then our construction-based economy will continue to suffer. When residents quit earning money, they quit spending it.

If we want to break the foreclosure spiral, then I believe two things should happen. The first is to slow the number of new distressed properties. The second is to deal with those already in the pipeline, quickly. Improving communication between borrower and lender before a delinquency occurs and the borrower's credit has been damaged can slow the steady stream of distressed properties. The lender only has one decision to make, and that is deciding which loss is bigger: Finding a way to keep the owner in the property, or becoming the owner.

If the government wants to help, then let them hire and train enough people to arrive at the best decision sooner instead of later. Rebuilding highway bridges is fine, but I am in favor of putting people

to work in order to build a bridge between the borrower and the lender, so that we might begin to see an end to this mess.

FW: Without sugar coating your answer, tell us where you think we will be 12 months from now.

Mr. Grimes: I have good news and bad news. The good news is the existing home market is setting records each month. In fact, the last five months have all been record setting in the number of homes sold.

Sure, 70 percent of these sales are distressed properties, which is driving down the prices. But with excess inventory, we need sales, not increasing prices.

The bad news is that even at the record sales rate, there are more homes than can be sold in a year. Therefore, sales will stay strong, prices will continue downward and we will see more businesses close before we see more new businesses open.

Imagine if you had an 8-year-old who could speak five languages, play "The Flight of the Bumblebee" and kick 60-yard field goals. You'd be upset as a parent if no one acknowledged that.

Our market is doing that, and no one seems to notice. The thing is, everyone wants to measure market success with price, and you can't do that in a recession like this. You have to measure it in terms of sales.

FW: If you were the Wizard of Lee and could issue a series of orders tomorrow to government officials, business leaders and citizens that would be carried out by all of us to make life a little better here, what would those orders be?

Mr. Grimes: It's a fairy tale question, but let me try answering this way. Think in terms of being a parent. The decisions we have to make as parents

sometimes mean the quickest solution is not the best or the least painful. I had a 19-year-old daughter, for example, and before we knew it, she was \$10,000 in debt on credit cards, working at Saks and buying things. She was living beyond her means.

What is the responsibility of the parents? Is it to bail her out and hope she learns a lesson, or is it to help her figure out a way to take responsibility? Of course, you don't want your daughter living in a refrigerator box, either.

So number one, the majority of people have been living beyond their means. And now they have an attitude: They want Uncle Sam to be Uncle Santa. I think that's wrong.

If I were the Wizard of Lee, I'd want everyone to sit up and say, "I'm so-and-so, and I am responsible for my situation." The government can't solve the problems we were afraid to identify and face. Take personal responsibility. If the government buys you out, that might make you feel better — like buying a new outfit — but it doesn't solve the problem.

So I would have people say, "It's not the government's responsibility to get me out of this mess."

And number two, I would say we then have to decide to live within our means, and that means not abusing credit.

With all these foreclosures, the quickest way to solve the problem is to get out. We're absorbing them now as fast as they come on the market, but what if we put them all in a pile, and made them all available overnight for \$1, but we required every buyer to be qualified, and to live in the house for five years?

In that case, our supply product would be diminished overnight.

But as long as there's product cheaper than it costs to build, we'll still be in the hole. And that solution would be painful to the people who own those properties and lose them. ■