

Anchor's The Way

real estate news, trends and investment opportunities



St. George Island

Apalachicola

Carrabelle

Eastpoint

Real Estate Cycles on St. George Island (or the Simple Forces Setting the SGI Market in Motion)

All of us have heard such complaints as, "I wish I had sold my house earlier" or "if only I had purchased a lot when they were priced below \$100,000". In life in general, and in real estate in particular, timing is everything. The right timing can always be known after the fact... The talent resides in understanding what to do before it becomes too late to act. The purpose of this article is to help you determine *when* to do *what*, through a better grasp of the inner workings of our St. George Island real estate market.

I. Long-term cycles and vision: "The Bottle"

St. George Island real estate, like most other markets, has historically experienced periods of stagnation followed by brisk price increases and on some occasions, a bubble bursts! Real estate cycles are a function of multiple causes, ranging from macroeconomic factors such as confidence (or lack thereof) in the stock market and in the economy, to microeconomic components such as the strength of the rental market and perceived values compared to other areas such as Destin. Multiple causes – some with compounding effects and others with cancelling effects – make it quite arduous to come up with a clear conclusion. Most people rely on others' opinions; they do what others do; the sheep syndrome... Which is precisely what led to the 2005 debacle!

In these lines, I will attempt to find a simple external index enabling property owners (or prospective property owners) to buy or resell with a high level of confidence. This approach could be called the "Bathtub Theory" because the bottom of a bathtub always fills before its top. However, for a reason we shall see farther in this paragraph, I would rather call it the "Bottle Theory". Here is why: when filling a bottle, the bottom always gets wet first; and when emptying it, the bottom is always last to become dry. I will now draw the analogy between the bottle and real estate markets. Markets with high transactional volumes, such as Miami or New York City, represent the bottom of the bottle; the bottom is also where a bottle is widest. Conversely, the area near the neck of a bottle, near its top, is narrower; it is also the last one to get wet when pouring liquid (or liquidities) into the bottle. This narrow place at the top represents marginal markets with less transactions. This high point at the bottle's neck is... St. George Island. Last to fill and first to empty!

The bottle analogy will enable us to better grasp another consequence: while the bottom fills slowly because it is wide; the narrow space at the top of the bottle fills very fast; its level climbs very quickly when pouring liquid into the bottle; all of us have tried this on a real bottle, and spilled some of the bottle's contents on the table. This speed represents the pace at which price increases will occur (as well as price decreases on a down cycle). These brisk changes offer great opportunities to realize great profits.

In short: during an "up trend", watching what happens in larger markets is a good indication of what will happen on St. George Island. If larger markets begin to rise, it's time to buy on St. George Island at bottom prices. Prices will increase fast leaving room for significant profit. As a bubble is approaching, investors should closely watch the health of the marginal markets such as St. George Island; these secondary markets will be the first ones to fail; the island's market came to a halt in April of 2005... When larger markets kept going up until 2007! A 2-year "heads up" is certainly a very useful forewarning, enabling owners of properties in larger markets to sell before the impending crash!

For this type of vision, action is required between a period of 6 months to 2 years.

Anchor's The Way

real estate news, trends and investment opportunities



St. George Island

Apalachicola

Carrabelle

Eastpoint

II. Short-term cycles and opportunities: "The Caterpillar"

A totally different approach, albeit equally important, derives from an observation of how our local market works: beachfront properties are first to take off and others follow months later. In order to take advantage of "flipping opportunities", two facts (or rather trends) must be memorized:

1. On St. George Island, assuming an optimum market, if beachfront lots sell for an index 100; then 1st tier lots should sell for approximately 50; interior lots between 15 and 25; and bay-front lots between 30 and 45.
2. Also, prices tend to move like caterpillars: head first and the rest of the body follows. Prices first increase on beachfront properties, then 1st tier, then down to the least valuable properties. Comparing ratios between different types of lots brings to light short-term/high-return investment opportunities.

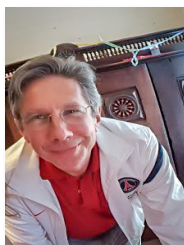
Such opportunities will always be in the less valuable lots (or houses), once we know that the beachfront market has moved up. Let's take an example that is very close to our market reality. If beachfront Plantation lots sell for \$900,000; then, 1st tier Plantation lots should soon become worth 50% of \$900,000, or \$450,000. If today they are worth in the mid \$250,000 (as they are)... The conclusion is that, within the near future, a fast-acting investor should be able to pocket the difference between \$450,000 and \$250,000! A likely two-hundred-thousand dollars could likely be made within a year with a cash investment of \$250,000; thus offering a staggering 80% return! If the original purchased is leveraged, the rate of return could be even higher... This is just one simple example; others abound.

For these types of opportunities, action (i.e. decision to purchase) is required between a period of a couple of weeks to 6 months after the head of the caterpillar has moved.

In conclusion, the best way to make and keep a sound investment (and to mitigate the consequences of a brisk collapse of the market) is to look at lots' intrinsic values, as justified by rental incomes (see Anchor's The Way 10). This is the nonsensical beacon that should guide most real property purchases.

We have seen two rational and quantifiable approaches that will assist you in making more informed decisions leading to the likelihood of much higher returns on your investments.

If you wish to be kept informed of market "gap opportunities", please contact me by email, phone or text message (or even via the US Mail). This offer is with no obligation on your side. You'll simply be informed... What you do from there will be up to you.



Olivier Monod | Broker/Owner

(850) 899-7999
olivier@AnchorFL.com

131 Franklin Boulevard
 St. George Island, FL 32328

The CCIM designation is the only commercial designation awarded by the National Association of REALTORS. It requires being instrumental in the sale of multiple large commercial real estate properties, and following a long and complex curriculum. Only two agents residing in the Forgotten Coast (including Olivier) have this designation.