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## Denny Grimes: September pending sales set record – a light at end of tunnel

BY DENNY GRIMES • SPECIAL TO NEWS-PRESS.COM • OCTOBER 12, 2008

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An age-old philosophical question asks, "If a tree falls in a forest, and there is no one around to hear it, does it make a sound?" A more recent philosophical question might be, "If there is good news in the real estate market, and everyone is focused on the Wall Street carnage, is it still good news?"

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It would take an entire forest of fallen trees to produce the paper necessary to print all the negative happenings that our residential real estate market has seen over the past couple of years. In spite of the negatives, Lee County's existing home market has steadily improved each quarter this year, and the third quarter is no exception.

Our third-quarter pending sales were 41 percent higher than they were in 2006 and 140 percent higher than last year. I should point out that pending home sales are not closed sales, but using a normal attrition rate, our market is consistently gaining momentum. If this year finishes as projected, it will become the third best year on record for the number of homes sold. That's worth shouting about, even if no one is listening.

A stellar third quarter is good news, but the most amazing statistic is how strong last month was. Historically, September is the slowest month of the year. In fact you can always count on two things during this month. The first is a decrease in sales and sales traffic, and the second is the Tampa Bay Buccaneers blowing their chance at a 16-0 season.

The Bucs lost their first game, so they didn't break tradition, but the sales numbers did. Last month's pending sales were almost 200 percent above 2007 and 13 percent above the record setting year of 2005. After accounting for the pending sales that will fail to close, it's still safe to say that last month's sales were equal to those of 2005.

Many will wonder what caused this record surge in home sales, particularly given the headlines of the last several weeks. There are a couple possible explanations, one of which is directly related to what is happening on Wall Street.

I'm reminded of the Fed Ex commercial that shows the participants in a business meeting sitting in vibrating reclining chairs, teeth and coffee cups rattling. Investors have been about as jittery regarding the stock market for some time and have chosen to keep their capital on the sidelines or remove it in search of better, safer investments. It may not be a coincidence that the fall of the Dow Jones Industrial Average mirrors the rise in existing home sales.

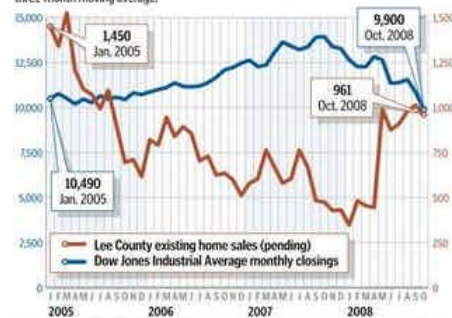
Someone told me a few years ago that if you want to know what's going to happen in the market you should watch which way money is flowing. Real estate owners should have paid attention in 2004 as "smart money" left the residential arena. Those who didn't pay attention missed the market turn and are now in a pickle.

However, there are signs that the money flow is reversing. We receive weekly calls from individuals or trusts with \$5 million to \$100 million to invest in distressed real estate.

Another reason for the surge in sales is that homes are falling out of the foreclosure pipeline and are hitting the market as bank-owned properties, also called real estate owned (REO). REOs accounted for 44 percent of last month's sales, which is slightly higher than the 42 percent private owner sales.

### Lee County home sales vs. stock market

Lee County pending sales of existing homes have picked up in recent months, while stocks have fallen. Here are sales shown in comparison with the Dow Jones Industrials three-month moving average.



SOURCE: DENNY GRIMES & CO. INC. THE NEWS-PRESS

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Only 14 percent of the pending sales were short sales. So, it's not just big dollars chasing real estate - home buyers are looking for the buy of a lifetime. Based on the backlog of REOs still in the pipeline, don't expect this trend to evaporate overnight. Despite what you read, banks still have money to loan, even if the government is running out of it.

Does this mean our real estate market is out of the woods? Of course not, but if we don't witness an economic Armageddon in the coming months, we should continue to see a steady increase in the number of existing home sales. Based on the level of interest we have from bargain hunters looking for a 50-60 percent discount from the original price, we see no shortage of buyers. The most competitive bank-owned homes are receiving multiple offers and are eventually selling for the asking price, sometimes more. It's impossible to estimate the depth of the buyer pool, but it is safe to say it's neither infinite nor shallow.

So, does a tree make a sound when there's no one around to hear it? We can debate that question for a hundred more years and not be any closer to an answer. A more pertinent question for us, one worthy of an answer is, "Does opportunity knocking make a noise, even if you choose not to hear it?" It does, just ask one of the thousand buyers who took advantage of it last month.

Keep the faith.

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