

2008 Market Review and 2009 Forecast

January 12, 2009

“The worst financial crisis since the Great Depression.” By now we’ve all heard this phrase so many times it’s become embedded in our DNA. Let’s take a deep breath and try to gain perspective for how the Charleston real estate market in general and I’On in particular, is faring relative to other indicators.

In 2008, new automobile sales in the U.S. fell 18% while the Dow was off 34%. In comparison, real estate transactions in the Charleston region were off 31% and the median price of a home sold was down 2%.¹ The average home sold spent 114 days on the market, an increase of 46% from the average of 78 days on the market for a home sold in 2007. On the positive side, inventory fell 1% from 10,066 homes on the market on January 1, 2008 to 9,962 homes on the market on January 1, 2009. Unfortunately, given the slower sales pace, this inventory level grew from a 10 month supply at the end of 2007 to a 15 month supply at the end of 2008 (based on annual sales). The current inventory level remains more than double its level on the first day of 2006. Prices have not fallen sufficiently to allow the market to begin to clear.

The charts below show numbers of transactions, median prices, and inventory levels for the Charleston Tri-County Metropolitan region and selected areas for the years 2005-2008.

Transactions	2001	2002	2003	2004	2005	2006	2007	2008	Decrease 2007 v 2008
Tri-County	8,110	9,290	11,466	13,732	17,431	15,970	12,422	8,525	31.4%
Charleston County	4,887	5,642	7,004	7,978	9,966	8,174	6,396	4,433	30.7%
Isle of Palms	75	95	131	191	203	123	71	35	50.7%
Sullivan's Island	20	37	43	39	45	40	27	14	48.1%
Mt. P (S of 41)	1,047	1,397	1,450	1,525	2,162	1,723	1,241	927	25.3%
Mt. P (N of 41)	496	504	718	621	895	688	562	430	23.5%
I'On	37	49	64	62	66	63	58	53	8.6%
Daniel Island	149	202	259	376	532	363	333	209	37.2%
Chas Peninsula (S of 17)	261	358	397	512	573	384	400	256	36.0%
N. Chas (Inside 526)	210	182	234	258	307	323	284	162	43.0%
Summerville/Ridgeville	586	681	802	988	1,350	1,352	1,097	752	31.4%

Median Price	2001	2002	2003	2004	2005	2006	2007	2008	Increase/ Decrease 2007 v 2008
Tri-County	\$150,000	\$159,900	\$163,000	\$175,000	\$189,000	\$203,760	\$209,142	\$205,000	2.0%
Charleston Cty	\$168,000	\$185,000	\$187,000	\$215,000	\$223,000	\$243,500	\$250,000	\$255,500	2.2%
Isle of Palms	\$440,000	\$377,500	\$428,000	\$630,000	\$750,000	\$988,000	\$1,300,000	\$850,000	34.6%
Sullivan's Is.	\$797,500	\$765,000	\$850,000	\$1,210,000	\$1,502,500	\$2,045,000	\$1,950,000	\$1,437,500	26.3%
Mt. P (S of 41)	\$204,000	\$237,000	\$229,000	\$254,950	\$256,000	\$308,103	\$370,000	\$346,000	6.5%
Mt. P (N of 41)	\$199,308	\$206,985	\$216,215	\$283,700	\$314,250	\$335,000	\$314,165	\$300,000	4.5%
I'On	\$489,500	\$466,000	\$475,000	\$660,000	\$859,500	\$950,000	\$832,000	\$815,000	2.0%
Daniel Island	\$280,912	\$268,000	\$334,185	\$384,454	\$359,000	\$569,000	\$431,495	\$445,200	3.2%
Chas Peninsula (S of 17)	\$400,000	\$393,000	\$420,000	\$495,000	\$520,000	\$629,000	\$570,000	\$570,000	0.0%
N. Chas (Inside 526)	\$64,000	\$65,000	\$76,250	\$90,000	\$102,000	\$100,000	\$118,000	\$156,250	32.4%
Summerville/ Ridgeville	\$132,785	\$140,000	\$154,859	\$162,454	\$172,478	\$197,000	\$210,695	\$195,000	7.4%

¹ Based on data provided by the Charleston Trident Area Multiple Listing Service.

DOM	2001	2002	2003	2004	2005	2006	2007	2008	Increase 2007 v 2008
Tri-County	93	97	130	63	45	51	78	114	46.2%
Charleston County	108	109	103	97	62	71	103	126	22.3%
Isle of Palms	189	175	181	108	53	116	218	292	33.9%
Sullivan's Island	116	189	192	191	170	91	184	263	42.9%
Mt. P (S of 41)	112	101	92	76	39	77	100	139	39.0%
Mt. P (N of 41)	91	108	87	58	49	77	109	128	17.4%
I'On	214	298	200	77	78	128	161	170	5.6%
Daniel Island	98	120	97	45	31	68	116	213	83.6%
Chas Peninsula (S of 17)	136	158	160	144	130	114	129	223	72.9%
N. Chas (Inside 526)	71	67	63	55	58	72	81	87	7.4%
Summerville/Ridgeville	74	69	84	84	69	60	79	113	43.0%

As the charts indicate, I'On performed relatively well compared to other parts of the Charleston region. 53 homes sold in I'On ranging in size from 1,750 to 4,500 square feet and in price from \$475,000 for a home bought out of foreclosure to \$2,050,000. The average price per square foot fell 7% from \$319/s.f. in 2007 to \$296/s.f. in 2008. The 53 transactions represent a 9% drop from the 58 sold in the neighborhood in 2007. The median price fell 2% between 2007 and 2008. The fourth quarter of 2008 was particularly tough. For example, 4th quarter real estate transactions in I'On dropped from 13 in 2007 to 9 in 2008. As bad as this 31% drop was, I'On's fall off was still less than the 40% drop in 4th quarter 2008 transactions experienced for the greater Charleston region from the 4th quarter of 2007.

Last year at this time, I optimistically projected 63 I'On homes would sell in 2008 at a median price of \$924,517.64. My projection was based on a forecast of lower interest rates and a belief that prospective buyers who were waiting on the sideline in 2007 were growing impatient and would start making offers to sellers adjusting prices to reflect the new market reality. **WHOOPS!**

In early September, I revised my forecast downward to 52 total transactions in 2008 with a median price similar to last year's \$832,000. Let's just say my 4-month crystal ball is less fuzzy than my 12-month crystal ball;-)

At this time last year, I wrote that the speculative bubble grew out of expectations of ever accelerating home prices. I predicted many sellers would cling to a strategy of "wishful thinking", but would ultimately realize the bubble had burst and become more aggressive in re-pricing their homes to reflect the new market reality. Some sellers did in fact re-price their homes (see examples below). Most did not. In hindsight, my January '08 projections were off the mark by 16% on the number of transactions and 12 % on median price. I did not properly account for the power of market [denial](#).

The happy memory of the astounding number of million dollar plus homes selling throughout the region in 2005 and 2006 makes it more difficult to acknowledge unpleasant market conditions. Some owners with hefty mortgages can't face selling their house for less than they owe. Others are reluctant to sell at a discount from what a comparable house around the corner fetched two or three years ago. The chart below tracks single family *detached* homes sold for \$1,000,000 or more in Tri-County areas from 2001- 2008.

**\$1 Million plus
Single Family *Detached***

Annual Transactions	2001	2002	2003	2004	2005	2006	2007	2008
Tri-County	75	96	150	263	411	406	321	203
Isle of Palms	13	12	27	37	73	54	42	14
Wild Dunes	14	15	15	39	53	39	23	12
Sullivan's Island	6	8	18	25	35	36	23	11
Mt. P (S of 41, excluding I'On)	3	3	9	11	24	29	34	34
Mt. P (N of 41)	3	0	1	4	16	12	10	10
I'On	0	2	2	6	18	28	18	17
Daniel Island	0	2	5	8	20	40	26	18
Peninsula (Inside X-town)	24	33	41	78	87	72	71	37
Kiawah/Seabrook	9	5	6	22	36	40	23	19
All others	3	16	26	33	49	56	51	31
I'On % of Tri-County	0.0%	2.1%	1.3%	2.3%	4.4%	6.9%	5.6%	8.4%
I'On % of Mt. Pleasant	0.0%	40.0%	16.7%	28.6%	31.0%	40.6%	29.0%	27.9%

The chart shows that Tri-County transactions of homes sold for \$1 million or more are down by half from their peak numbers in 2005 and 2006. The areas experiencing the biggest drops were the resort islands and Charleston peninsula. This is to be expected as demand for 2nd homes cratered. Those who've lost 1/3 or more of their net worth in the stock market have become more cautious about discretionary purchases.

17 homes sold in I'On at prices of \$1 million or more in 2008. 13 of those 17 sold in the first half of the year, with four closing in the last six months of 2008. Here's a brief synopsis of each of those four home's sales history.

39 John Galt Way is a new home completed in 2007. It fronts on Lafayette Canal, has 3 bedrooms and 3.5 baths in 2,859 square feet, 12' ceilings on the main floor, a roof-top terrace and landscaped courtyard garden. It was initially listed on March 16, 2007 for \$1,250,000. Two months later, the owner lowered the price to \$1,150,000. It was placed under contingent contract 3 months later on condition that the prospective buyer sell their current home. This failed to occur so the property went back on the market in April of 2008 at a reduced price of \$1,077,700. The home was contracted a week later at a price of \$1,050,000 and closed in August 18 months after initially listed. The sales price per square foot of this canal front home was \$367.

25 Eastlake Road was built in 2000 as a custom residence. After living in this 4 bedroom/3.5 bath, 3,068 square foot home for five years the original owner listed the property for \$1,375,000 and signed a purchase contract 19 days later. It closed on May 1, 2006 for \$1,350,000. The new owner was only in for 9 months before deciding to sell. They listed the home in February of 2007 for \$1,425,000. 6 months later they dropped their asking price \$50,000 to \$1,375,000. Still no movement, and the listing expired in February of 2008. They relisted the property in April of 2008 for \$1,250,000, dropping it \$25,000 two months later to \$1,225,000. A few weeks went by and they signed a contract and closed on July 24th for \$1,050,000. So after 17 months on the market this lake-front home sold for \$342/s.f. The price was \$300,000 *less* than what it had sold for two years earlier.

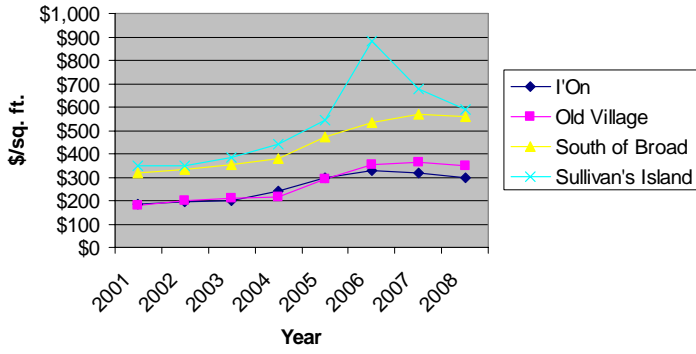
38 Hopetown Road is a 3,724 square foot marsh front home built as a spec in 2004. It has 4 bedrooms and 4.5 baths. It originally sold in November of 2004 for \$1,130,000 after being on the market for 76 days. It was listed in March of 2008 for \$1,600,000. Three weeks later the price was reduced to \$1,475,000. Another month went by and the price was dropped to \$1,399,000. Two more months went by and the price was dropped again to \$1,375,000. Then to \$1,325,000 and \$1,299,000 over the next month. The home was then re-listed with another realtor on September 15th for \$1,187,500. A contract was signed a month later and the home closed on November 6th for \$1,050,000 having been on the market for 8 months. The selling price reflects a price per square foot of \$282. The final price was also \$80,000 *less* than what the home sold for four years earlier.

6 Saturday Road was built in 2001 as a custom home. It has 5 bedrooms and 3.5 baths in 4,150 square feet. After living in it for four years, the original owner listed the property in May of 2005 for \$1,425,000 and it went under contract two days later, closing in June of 2005 at a price of \$1,400,000. The new owners lived in it for a year and a half before putting it on the market in January of 2007 for \$1,825,000. The first price change followed two months later down to \$1,785,000, then to \$1,695,000 in May '07, to \$1,675,000 in July '07, to \$1,595,000 in September '07, to \$1,575,000 in February '08, and finally to \$1,395,000 on July 1, 2008. The home was placed under contract two weeks later and closed in August for \$1,375,000. This translates to a price of \$331 per square foot. The final price was \$25,000 *less* than what the home sold for three years earlier.

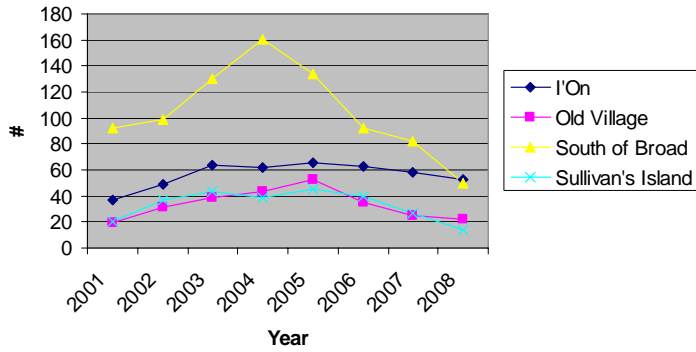
Many times I hear sellers argue for keeping an asking price high to leave themselves more negotiating room toward a final contract price. Expecting to get "low-ball" offers, they keep the price much higher than the market will bear...or so the logic goes. The problem with such thinking is that an overly high asking price attracts little if any attention. The prospective buyer - who tends to be sophisticated and wary - concludes the owner is unrealistic and/or greedy. Their time-constrained agent - who if still in business is a walking testament to savvy perseverance - directs them toward more attractive home values.

I'm pleased to report that once again, I'On Realty led all competing brokerage companies by selling 11 of its listings ranging in price from \$610,000 to \$2,050,000 with an average price of \$1,135,227. Agent Owned, Carolina One, Five Star Realty, Keller Williams, Places, and William Means combined to sell another 32 homes at an average price of \$839,100. Listings on the remaining 10 homes were sold by 10 separate firms for an average price of \$848,600. Below are four graphs comparing I'On stats with those of the Old Village of Mt. Pleasant, the South of Broad area of Charleston, and Sullivan's Island.

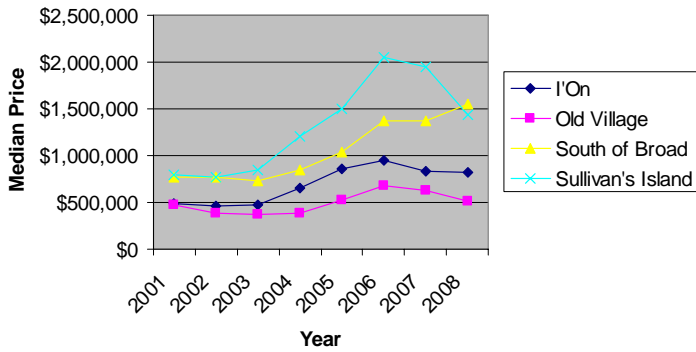
Average Price per Square Foot of Home Sold



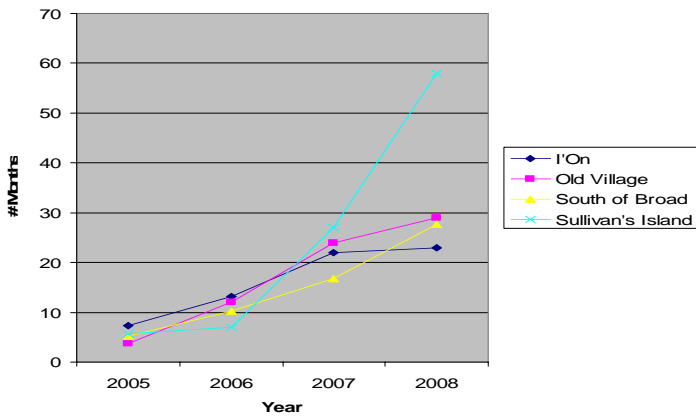
Annual Transactions



Median Price



Months of Inventory



We're obviously deep in a buyers market. Under these conditions, unless a home is priced such that it immediately engenders a reaction of "WOW, that's a good value!", then a seller has little hope of getting offers. And even if a home is priced to sell, it will still be a challenge to get under contract and closed. Among the important things to mention about the four \$1 million+ homes described above is that all were placed under contract within a few weeks of the last reduction in list price. One other positive note is the inventory of I'On homes priced over \$1 million dropped from 47 on January 1, 2008 to 44 on January 1, 2009. There **ARE** buyers for homes priced at a value! 2006 was an anomaly. Forget about it. A good pricing rule of thumb this year is to consider what homes were selling for near the end of 2004.

I'm rooting for our dynamic President Elect to provide some semblance of a definitive vision that breaks from the status quo. During his campaign, Obama proved how compelling the power of hope can be. Hope certainly springs eternal, and with that fact and *incredibly* low interest rates in mind, I forecast a slow 1st quarter, followed by a pick up in activity that will ultimately see 54 I'On homes sold at a median price of \$860,000 in 2009. Don't forget though that hope by itself is not a sufficient marketing strategy. As wise men have pointed out, luck is the residue of design and heavily favors the prepared. Be prepared!

Think of this period we're going through as a challenging hike. A few years back we stood on a promontory looking toward a mountain top in the distance. To reach this next destination required a descent into a valley. There are obstacles en route – rivers to cross, swamps to mire through, the occasional black forest, and numerous ogres warning of impending doom. Every so often the hike requires a creative detour, making use of the innate human capacity to take a step back to move forward. Fortunately, butterflies and rainbows are also encountered along the way. And constructive hiking companions lighten the load through a shared faith that even though the next mountain peak may not be as high as the last, it *will* be reached if we continue moving in a positive direction. These happy hikers are also realistic enough to anticipate more peaks and valleys once the next pinnacle is reached. Pardon the metaphorical digression, but it's good to remind oneself that life *is* a journey.

We still have lots available as part of our Holiday Home Site Sale. These prices will be available exclusively to I'On residents until January 16th. No improvement commissions will be due on homes built on these lots. And even though the current climate of low interest rates and building costs make now an excellent time to construct a new custom home, these lots carry no building time requirement. Contact Sara Downing at sdowning@iongroup.com or Carey Burnett at cburnett@iongroup.com if interested. They can also be reached at 884.3080.

Best wishes for a productive and fulfilling 2009.

Vince Graham