TROPICAL BREEZES

THE REAL ESTATE NEWSLETTER OF THE FLORIDA KEYS!

Winter 2007 *"The Most Trusted Name In Florida Keys Real Estate"* Volume 6, Number 1

Florida Keys Real Estate Market Comparison 2006 vs 2005

*Source: Tri-Services Multiple Listing Service (MLS) Board Key Largo To Key West

MARKET OVERVIEW 2006 vs 2005

During the last four months of 2006 the Florida Keys real estate market showed improvement as the number of properties sold did not decline each succeeding month as they historically have from September through December. In fact three of the four months (September, October, and December) realized increasing sales with December having the highest number since June. Additionally the increase in number of properties "For Sale" at the end of the year was less than experienced in 2004 and 2005.

An important fact is that the 2006 real estate market was the fourth best in the history of the Keys for dollar value of sales, only exceeded by the record years of 2003, 2004 and 2005.

Overall for 2006 the number of sales of all property types declined **-45%** to 1,500, while the average days-to-sell rose **+19%** to 190 days. We believe the days-to-sell is probably not a true representation due to the various reporting factors. Our view is that it probably is closer to 225 days. The average sale price increased the smallest amount since the mid-1980's, just **+2%** to $802K versus **+39%** to $782K in 2005 over 2004.

The number of properties for sale on December 31, 2006 rose **+33%** compared to December 31, 2005 and is down significantly from the **+91%** increase in properties "For Sale" on December 31, 2005 vs 2004. The average price of listed properties at the end of the year declined dropping **-7%** to $983K versus $1MM, which was a **-1%** decrease in 2005 versus 2004.

Green (+) Red (-)	Upper Keys (Lower Matecumbe to Key Largo)	Middle Keys (7 Mile Bridge to Long Key)	Lower Keys (Bay Point to Big Pine)	Key West (Key West to Shark Key)	All Areas Keys Wide
Total Number of Sales As of 12/31/06:	**44% Less** 553	**53% Less** 257	**46% Less** 266	**39% Less** 424	**45% Less** 1,500
$ Value of Sales As of 12/31/06: (in millions $)	**39% Less** $426MM	**53% Less** $208MM	**64% Less** $173MM	**43% Less** $397MM	**48% Less** $1.2B
Avg. Days To Sell As of 12/31/06:	**20% More** 200	**17% More** 187	**24% More** 189	**14% More** 182	**19% More** 190
Avg. Sales Price As of 12/31/06:	**9% More** $770K	**1% More** $811K	**9% More** $651K	**6% Less** $936K	**2% More** $802K
New Properties Listed As of 12/31/06	**10% More** 2,297	**6% Less** 1,093	**12% More** 1,328	**20% More** 1,290	**21% More** 6,008
Avg. List Price Properties *"For Sale"* As of 12/31/06:	**11% More** $1MM	**1% Less** $992K	**5% More** $781K	**10% Less** $1MM	**7% Less** $983K
Number of Properties *"For Sale"* As of 12/31/06:	**47% More** 1,587	**34% More** 839	**39% More** 907	**16% More** 1,295	**33% More** 4,628

KEYS WIDE MARKET AREA DETAILS 2006 vs 2005

Number of Sales: The decline in number of sales was the lowest in Key West, **-39%** to 424 properties. The Upper Keys followed at **-44%** with 553 properties, which was the most sales of all four areas. The Lower Keys with 266 sales experienced a **-46%** decline and the Middle Keys with **-53%** to 257 sales.

Dollar Value of Sales: The Upper Keys 553 sales generated $426MM in dollar value, a **-39%** drop from 2005. Key West declined **-43%** to $397MM, the Middle Keys **-53%** at $208MM and the Lower Keys had the biggest drop, **-64%** to $173MM. ***(continued on page 4)***

Real Estate Market News

*Reprinted from Keys Sunday newspaper January 2007 by Brian C. Schmitt, President/Broker, Coldwell Banker Schmitt Real Estate Co.

The 2006 Florida Keys Real Estate Market and Beyond . . .

We've heard and read a lot about the stark contrast between The Florida Keys' sluggish real estate market this year and the high-flying, "no-price-too-high" market of little more than a year ago. Sales went from an all-time peak to what many perceive as a dead stop.

We see a different picture, though, if we put perception aside and look at the reality of historic real estate trends from the Multiple Listing Service data for The Keys.

2006 has the unenviable position of being compared to the prior three years, the best for real estate in the history of The Keys. Taken alone, however, 2006 has not been a bad year, and, in fact, is actually the fourth best year for sales volume in The Keys, ever. The average 2006 sale price eclipses those of even the past three years, and it's almost triple that of 2000. Some market segments, including commercial retail/office and residential development property, have enjoyed never-before-seen prices.

What's more, as a lifelong resident of The Keys, and one whose family has been in real estate since the early 1950s, I believe the outlook for 2007 is very positive.

So what's all the current moaning and groaning about?

Most sellers believe it's a bad market because they are not getting offers. And why are offers scarce? Because, compared to the peak of the market, there are roughly twice as many properties for sale while there are only about half as many sales, leaving the average seller with one-quarter the opportunity to sell his property. It's little wonder, then, that most sellers are unenthusiastic about the 2006 market. The reality, though, is that due to unrealistic expectations fostered by gains of the past three years many properties are just not priced to sell in this new market. The large inventory also means a lack of buyer urgency, one of the boom time ingredients missing in the 2006 conditions. Buyers have been cautiously waiting to find the bottom of the market.

Many real estate agents also think it's a bad market. Despite the downturn, there are still about 1,250 licensed agents competing for half as many sales. Those fewer sales are going to the best agents. The top 25 percent of agents control better than 80 percent of the sales leaving more than half of all agents with one sale or none at all in 2006. No surprise those 700+ agents don't feel it's a good market either!

Florida Keys Real Estate Market Since 1985

	Average Sales Price	Appreciation vs Previous Year	Appreciation as of 2006
2006	$802,000	3%	
2005	$782,400	39%	3%
2004	$563,362	33%	42%
2003	$424,000	29%	89%
2002	$328,801	14%	144%
2001	$288,166	5%	178%
2000	$274,995	12%	192%
1999	$246,525	7%	225%
1998	$230,830	21%	247%
1990	$190,000	27%	322%
1985	$150,000		435%

So what caused the slowdown and what's the prognosis for 2007? The 2006 downturn actually started in 2004 in Key West. Key West is now Florida's most expensive market as determined by the Coldwell Banker® National Home Price Comparison Index, and has typically registered the highest average price increases in the Keys. Sales started to decline as prices escalated and many buyers were priced out of the market. This trend worked its way up The Keys until two back-to-back years of storms ending with Wilma struck the final blow. Since then, the market has been slowly recovering.

I believe that 2007 will be a very good year; probably the third-best year for sales in The Keys, and markedly better than 2006. This belief is based on a number of factors some of which are national in scope and others, endemic to The Keys.

The evidence suggests the market hit bottom this past summer. The sales increases of September, October and December were contrary to the normal pattern. More buyers will commit once they understand the market has passed its low ebb

Interest rates remain in the vicinity of 40-year lows, and likely not to change. The national economy and stock markets are very healthy and growing. There are over 1,000 people net moving to Florida every day. We have only started to witness the exodus of the affluent Baby Boomers from the north and I believe many more of them will want to come to The Keys over the next 10 years than we'll be able to accommodate.

We experienced an extremely mild hurricane season and great strides have been achieved in resolving our wind insurance issues mainly through the grass roots efforts of F.I.R.M.

The Florida Keys continues to be one of the most unique places to live in the U.S., and I believe, one with unrealized value from many perspectives. Because of our significant growth and development restrictions there is little opportunity to create more product, so what we have today in number of units is essentially all there ever will be, a finite resource in the face of increasing demand.

Certainly, we have our challenges with insurance, central sewers, affordable housing, etc. but we have survived and prospered through much worse calamities that we are currently dealing with. The Keys has survived hordes of mosquitoes, numerous hurricanes (including Donna in 1960 which made U.S. #1 impassable for months), the Cuban missile crisis with tanks rolling down the highway, 18% interest rates, gas rationing, the Mariel boatlift, national economic recessions, the Growth Management Act and Area of State Critical Concern, ROGO, etc Our current situation and current problems (and there will always be problems) are formidable, but represent just a blip on the screen, and, by comparison, are inconsequential to the market over the long term.

I believe that as with most things of real value, to realize that value you must have a long term perspective. Florida Keys real estate will continue to give great enjoyment and reap handsome rewards for those who understand its intrinsic value. This value will not be depleted by insurance premiums, or market slowdowns, or any other short-lived aggravations.

Yearly Mortgage Comparison As Of December 31, 2006*

Loan Type	2006		2005		2004		2002		2000		1994	
30-yr Fixed Rate Mortgages Rate/Points	6.14%	0.4	6.27%	0.5%	5.75%	0.6%	6.05%	0.6%	7.38%	1.0%	9.20%	1.8%
15-yr Fixed Rate Mortgages Rate/Points	5.88%	0.5	5.82%	0.6%	5.18%	0.6%	5.45%	0.6%	7.06%	0.9%	8.80%	1.8%
1-yr Adjustable Rate Mortgages Rate/Points	5.45%	0.7	5.17%	0.7%	4.18%	0.6%	4.12%	0.6%	7.09%	0.9%	6.66%	1.5%

Visit www.RealEstateFloridaKeys.com

*Source: Freddie-Mac

Economic Forecasts For Monroe County

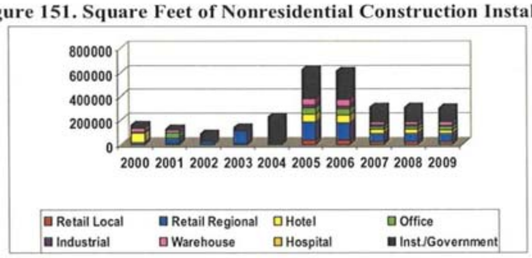
*Reprinted with the permission of: Attorney Title Insurance Fund, Tom Wright, Attorney-At-Law, and Hank Fishkind, Ph.D, Economist

The Attorney Title Insurance Fund (The Fund) began collaborating with economist Hank Fishkind, Ph.D. in 2003 to leverage its extensive online system of deed data for Florida counties to develop a Real Estate Index. For this Index, Dr. Fishkind provides independent analysis of the data provided by The Fund in an effort to characterize trends and forecast future market conditions.

COMMERCIAL

As *Figure 151* shows, Monroe County has had low volumes of new nonresidential space installed during the last few years. As a result there has been a build up of demand accompanying population growth and development is expected to be above historic norms moving through 2009.

Figure 151. Square Feet of Nonresidential Construction Installed



EXISTING SINGLE FAMILY HOMES

With slightly lower prices, the existing homes market fares much better than the new homes market. Closings slipped in 2005 and 2006, reaching almost 2,250 units. Volume is expected to remain stable at 2,500 units through 2009. Pricing is expected to remain flat through 2007, increasing to $850,000 by 2009 (see *Figure 155*).

Figure 155. Existing Single-Family Units Closed

NEW CONDOS

Condominiums remain one of the stronger segments of Monroe's market. Volume slipped to 300 units in 2006. However, closings are expected to increase through 2009, reaching almost 350 units. Pricing will remain relatively flat through the balance of the forecast horizon (see *Figure 156*).

Figure 156. New Condominiums Closed

EXISTING CONDOS

Finally, the market for existing condominiums is recovering nicely from its 2005 hiccup. Volumes are expected to increase steadily, reaching 2003 levels by 2009. Closings are expected to reach 850 units by then. With stable demand, pricing is expected to remain strong through 2009 (see *Figure 157*).

Figure 157. Existing Condominiums Closed

➤ Ask An Expert

Ask An Expert: Rental Properties

An Actual Question & Response from the "Ask An Expert" feature on our Website

QUESTION: I would like to buy a rental property like house, or condo. I then want a property manager to rent it and take care of making the following payments, mortgage, insurance, taxes, utilities, maintenance, etc. I need to know how buy, rent, make payments, and know my percent of profits.

ANSWER: There are three general types of residential rental properties. 1.) Transient rentals that can be rented nightly 2.) Non-transient short term rentals that can be rented weekly, and 3.) Long term rentals that can be rented for one month or longer.

The acquisition costs, income and expenses vary with the property type but I will try and answer your question in general terms until you choose the type of rental property you want to purchase.

To rent daily or weekly you will need to have licenses from the State of Florida and the local government authority, and the property will need to be inspected annually to insure that it meets all the requirements of the appropriate codes.

Long term rentals are exempt from these requirements and will rent for less than the other type of rentals, but these units will typically be rented continuously and have the lowest management fees.

If you purchase a property that has been a rental you will know what its rental history and income potential has been. It typically takes a couple of years for a transient or non-transient short term rental property to reach its potential, and the best properties have a 75 percent occupancy with management fees running between 20 percent and 50 percent of gross income depending on the project.

Most rental properties will not carry themselves if there is a mortgage on the property and their owners profits come through appreciation of the real estate, and not from the rental cash flow. I hope this helps you to understand the general principals of rentals in the Keys.

-- Brian Schmitt, Broker for Coldwell Banker Schmitt Real Estate Co.

(continued from page 1)

Average Sale Price: The Upper Keys and Lower Keys tied with **+9%** increases, $770K for the Upper Keys and $651K for the Lower Keys. 2005 compared to 2004 the Upper Keys ASP rose **+43%** to $706K, the Lower Keys **+37%** to $590K. The Middle Keys average sales price was up **+1%** to $811K, compared to the 2005 vs 2004 rise of **+38%** at $804K. Key West was the one area that declined, **-6%** to $936K after increasing **+37%** to $1MM 2005 compared to 2004.

Average Days to Sell: As noted in the Market Overview we are skeptical of the number for 2006. The trend definitely continued upward in every market area just as it did in 2005 which had a **+14%** increase over 2004.

New Properties Listed "For Sale" in 2006: Only the Middle Keys saw a decline in properties coming on the market, **-6%** to 1,093. The remainder of the areas increased with **+20%** more in Key West at 1,290, **+12%** in the Lower Keys with 1,328 and the highest amount Keys-wide of 2,297, **+10%** occurred in the Upper Keys.

Properties "For Sale" on December 31, 2006: The Upper Keys had the most "For Sale" with 1,587 a **+47%**, though down from the **+98%** rise in 2005 compared to 2004. The Lower Keys available properties grew **+39%** to 907 versus **+87%** during 2005. The Middle Keys increased to 839, **+34%**; 2005 was **+99%** versus 2004. Key West grew just **+16%** to 1,295 compared to **+82%** for 2005.

Average "List Price": Key West was the only market area with a decrease in List Price during the past two years, dropping **-10%** in 2006 to $1MM and **-18%** in 2005 to $1.1MM. The Middle Keys was the other area with a decline, **-1%** to $992K compared to **+3%** to $1MM in 2005. Both Upper and Lower Keys prices rose, **+11%** to $1MM and **+5%** to $781K respectively. At the end of 2005, the Upper Keys was up **+21%** to $1.1MM and the Lower Keys rose **+3%** to $744K.

What To Expect in 2007? Sales will probably not increase significantly if at all and the average sale price should not change very much. The number of properties "For Sale" will increase to some extent and the average price of properties listed should stay about the same. At this time we have about a 3.5 year inventory of properties "For Sale." There are a number of excellent buying opportunities available for serious buyers and for those wanting to sell, properties priced aggressively for there condition, location and amenities are selling much faster than the average DOM. Interest rates to-date remain very near historic lows, and provide buyers a great opportunity to acquire property in the Keys. For a perspective on the Keys real estate market over time see the article by Brian Schmitt on page 2.

If you would like to receive *"Tropical Breezes"* electronically instead of by mail, please let us know by emailing us at:TropicalBreezes@cbschmitt.com

IN 2006, CBSREC REMAINED THE #1 REAL ESTATE COMPANY IN EVERY MARKET AREA IN THE FLORIDA KEYS

# Offices	Company	Ranking	# Sales	Market Share
5	Coldwell Banker Schmitt	#1	600	20%
9	C-21 Prestige	#2	371	12.3%
5	Schwartz GMAC	#3	166	5.5%
6	Prudential	#4	102	4%

OFFICE RANKINGS OF THE 238 OFFICES KEYS-WIDE

# Offices	Company	Individual Office Rankings
5	Coldwell Banker Schmitt	#1,#2,#3,#4 & #6
9	C-21 Prestige	#8,#10,#12,#15,#16,#20,#31,#34,#44,#77
5	Schwartz GMAC	#5,#12,#22,#40,#51
5	Prudential	#9,#19,#61,#62,#87

SALES ASSOCIATE RANKING OF 1,259 AGENTS KEYS-WIDE

CBSREC has more Top Agents than the next six (6) companies combined!

Company	# Agents	Top25	Top 50
Coldwell Banker Schmitt	119	9	17
C-21 Prestige	130	3	6
Schwartz GMAC	64	1	2
Prudential	72	1	1
Exit	42	2	2

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