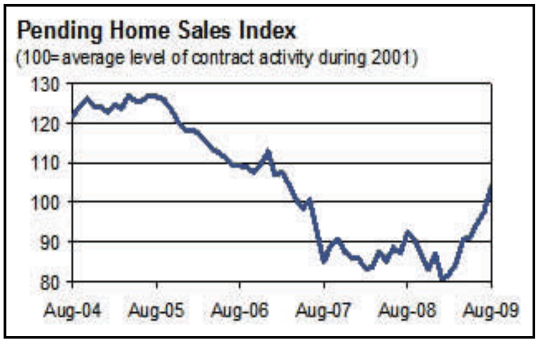
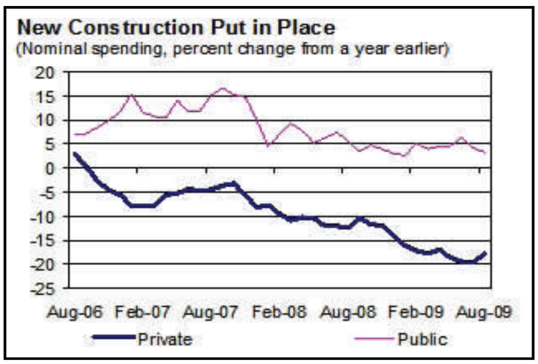
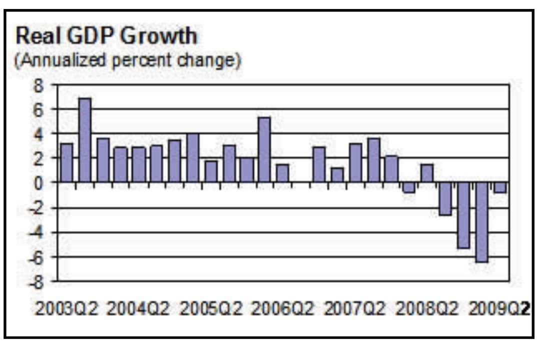
Seacoast NATIONAL BANK

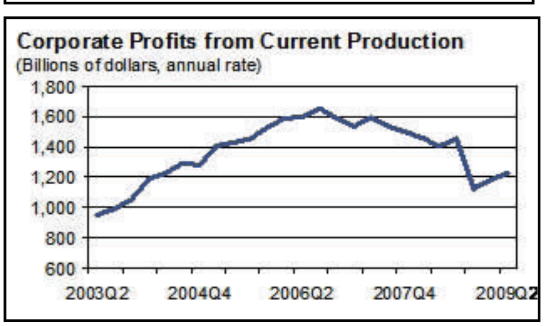
Real Estate Economic News and Insight

Economic Perspectives









SOURCE: Global Insight

Real estate and economic digest

A concise review of select real estate and economic reports

October 5, 2009

The **Pending Home Sales Index** (PHSI) published by the National Association of Realtors increased 6.4% in August. The index has risen for the last seven months. The current increase points to stronger sales in September and October. The index, which tends to precede closed sales by about two months, rose in all regions of the country.

The PHSI is rebounding quite well as a result of renewed affordability, historic low interest rates, distress sales and the $8,000 tax credit available to some first time home buyers. Foreclosures continue to rise and that is in part responsible for holding prices down. Also significant is that mortgage interest rates slipped under 5% last week. Freddie Mac reported a rate of 4.94%, its lowest rate since May.

In releasing the report, the National Association of Realtors cautioned that sales could be slightly overstated as contracts fall through and buyers write new contracts in the same time period as they scramble to meet the November 30th closing deadline for the $8,000 tax credit. The tax credit is clearly stimulating sales and the obvious question now is "what comes next?" If Congress does not renew the credit, sales will be negatively impacted beginning in December and carrying into 2010.

Construction spending increased modestly in August. Private construction rose 1.8% while public construction declined 1.1%. Single family home construction nationwide surged 4.5%. In June this sector increased for the first time in 40 months and has gained each month since. That is significant as prior to June, residential construction had been a drag on the nation's Gross Domestic Product (GDP) for 14 consecutive quarters. In the first and second quarters of this year, it subtracted 1.3% and 0.7% respectively from GDP. The newest numbers bode well for the sector's short term future. The growth should also contribute positively to GDP growth beginning in the current quarter.

Multifamily construction (rental apartments) is a different story. The sector has virtually collapsed as a result of severe overbuilding, little demand, tight credit, falling house prices, which cause many to buy rather than rent, and more. Vacancy rates nationally are now the highest at 10.6% since tracking began in 1956. While the vacancy rate itself is not overwhelming, it becomes seriously problematic when combined with falling rents, increasing expenses and rising capitalization rates.

Foreclosure filings remain near record highs. While the number of U.S. foreclosures declined slightly in August, they are still 18% higher than a year ago with some 358,471 U.S. households in some stage of foreclosure. That is one in every 357 households.

Florida continues to hold the number two spot in the nation behind Nevada for the number of foreclosures. Seacoast served counties also continue to experience a high rate of foreclosure. Osceola County, in Metro Orlando, reported one in 48 households in foreclosure. St. Lucie and Broward counties reported one in 79 and Palm Beach county reported one in 154. Foreclosures are expected to remain elevated at all geographic levels for the next couple of years and, as we've opined before, that will curtail meaningful price increases for the foreseeable future. Foreclosures continue to rise even as the federal government has invested some $75 billion to combat the problem.

The nation's second quarter **Gross Domestic Product** decline was revised to -0.7% at the end of September. This is less severe than the advance and preliminary estimates released over the last two months. Business investment in software spending was higher and inventories fell. GDP should turn positive by about 3.0% in the quarter just ended.

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