

Economic Perspectives

October existing home sales volume and price continue trend November 24, 2009

Sales of existing homes surged nationally in October. Existing single family home sales volume was up 9.7% while existing condo unit sales increased 13.2% for combined growth of 10.1%. The surge appears primarily linked to the \$8,000 tax credit which was scheduled to expire at the end of November. The tax credit was very recently renewed, expanded and begins again on January 1, 2010. The tax credit does not appear to have increased demand but it has time-shifted it from 2010 into 2009 and early 2010. Regardless, sales increased at virtually all levels locally, statewide and around the country in October. Looking forward, however, sales are likely to dip again in December.

Existing home inventory in October fell to 3.57 million homes, down from its July 2008 peak of 4.57 units. That represents a supply of 7.0 months and indicates that inventories are clearing at a steady pace. The inventory number does not include the so-called *shadow inventory* of homes which are held by banks and not listed for sale. The Census Bureau measures the "Homeowner Vacancy Rate" each quarter. In the third quarter, the rate stood at 2.6% — far greater than its normal rate of 1.7%. While that does not tell us the precise size of the shadow inventory, we can at least conclude that it is quite large.

Florida's some sales volume was up 5% over the month in October while median price was relatively unchanged from September declining fractionally by 1.2% or about \$1,700. Median sales prices in Seacoast served markets were relatively flat ranging from zero to plus or minus two-percent. The exception was Ft. Lauderdale where the median price was up 5.8%. Since there is nothing apparent driving a widespread increase we believe it is the product of a few higher priced sales skewing the median. Sales volumes too were relatively flat with the exception of Melbourne-Titusville-Palm Bay MSA which saw an 11.9% volume increase. That is likely the result of sales moving off low readings in August and September.

Existing Single Family Home Sales In Metropolitan Statistical Areas (MSA) Served by Seacoast National Bank

MSA		Sept '08	Oct '08	Nov '08	Dec '08	Jan 09	Feb '09	Mar '09	Apr '09	May '09	Jun '09	July '09	Aug '09	Sep '09	Oct '09
Ft. Pierce Port St. Lucie	Sales Volume	374	383	318	421	361	372	493	490	511	573	561	539	572	558
	Change /Month	+10.32%	+2.41%	-16.97%	+32.39	-14.25%	+3.05%	+32.53%	-0.61%	+4.29%	+12.13%	-2.09%	-3.92%	+6.12%	-2.45%
	Median Price	138,000	134,600	130,500	131,800	114,900	122,100	118,000	116,400	110,000	109,900	110,100	113,000	110,800	110,400
	Change over month	-10.33%	-2.46%	-3.05%	+1.00%	-12.82%	+6.27%	-3.36%	-1.36%	-5.50%	Flat	Flat	+2.63%	-1.95%	Flat
Melbourne Titusville Palm Bay	Sales Volume	430	423	328	438	377	429	539	564	584	541	534	492	479	536
	Change over month	-12.96%	-1.63%	-22.46%	+33.54%	-13.93	+13.79%	+25.64%	+4.64%	+3.55%	-7.36%	-1.29%	-7.87%	-2.64%	+11.90%
	Median Price	143,900	152,200	126,700	125,200	118,300	115,400	123,700	113,600	123,700	117,300	117,700	119,500	114,700	115,800
	Change over month	-7.46%	+5.77%	-16.75%	-1.18%	-5.51%	-2.45%	+7.19%	-8.16%	+8.89%	-5.17	Flat	+1.53%	-4.02%	+0.96%
Orlando	Sales Volume	1,588	1,445	1,277	1,525	1,127	1,352	1,828	1,859	1,949	2,266	2,343	2,134	2,247	2,297
	Change over month	+9.90%	-9.01%	-11.63%	+19.42%	-26.11%	+19.96%	+35.21%	+1.70%	+4.84	+16.66%	+3.40%	-8.92%	+5.30%	+2.23%
	Median Price	182,700	177,900	167,900	167,800	150,500	153,200	151,500	141,800	142,400	149,000	148,400	144,200	144,100	143,600
	Change over month	-10.62%	-2.63%	-5.62%	Flat	-10.31%	+1.79%	-1.11%	-6.40%	+0.42%	+4.63%	Flat	-2.83%	Flat	Flat
W. Palm Bch Boca Raton	Sales Volume	522	618	450	638	408	532	685	681	737	859	859	754	746	841
	Change over month	-16.21%	+18.39%	-27.18%	+41.78%	-36.05%	+30.39%	+28.76%	-0.58%	+8.82%	+16.55%	Flat	-12.22%	-1.06	+12.73%
	Median Price	292,200	264,200	247,400	246,000	232,100	228,100	228,100	234,400	232,900	\$250,300	245,200	245,700	242,900	243,900
	Change over month	-9.62%	-9.58%	-6.36%	-0.57%	-5.65%	-1.72%	-0-	+2.76%	-0.85%	+7.47%	-2.04%	+0.20%	-1.14%	0.41%
Ft. Lauderdale	Sales Volume	611	625	507	632	467	500	680	690	780	862	907	816	800	826
	Change over month	+1.16%	+2.29%	-18.88%	+24.65%	-26.22	+7.07%	+36.00%	+1.47%	+13.04%	+10.51%	+5.22%	-10.03	-1.96%	+3.25%
	Median Price	259,300	252,500	229,100	217,700	191,000	214,400	219,500	191,300	190,000	204,800	219,000	217,000	200,000.	211,600
	Change over month	-3.89%	-2.62%	-9.27%	-4.98%	-12.26%	+12.25%	+2.38%	-12.85%	-0.68%	+7.79%	+6.93%	-0.91%	-7.83%	+5.80%
STATE	Sales Volume	10,817	10,443	8,571	11,053	8,450	9,858	13,085	13,111	13,921	15,850	15,882	13,850	14,419	15,160
	Change over month	-0.28%	-3.43%	-17.93%	+28.96%	-23.55	+16.66%	+32.73%	+0.20%	+6.18%	+13.86%	+0.20%	-12.79%	+4.11	+5.14%
	Median Price	175,100	169,700	158,300	155,500	139,500	141,900	141,300	138,500	144,400	148,000	147,600	147,400	142,000	140,300
	Change over month	-6.31%	-3.08%	-6.72%	-1.77%	-10.89	+1.72	-0.42%	-1.98%	+3.97%	+2.49%	Flat	Flat	-3.66%	-1.20%

Perhaps the most important part of the local housing story is how prices and volumes have stabilized since early 2009. The charts at the right show both the Treasure Coast and Palm Beach County long term price performance. Actual price performance for all of 2009 has been remarkably flat fluctuating only modestly in Seacoast core markets. We expect this to approximate short term future price performance as there is no current leading indicator to suggest significant growth or decline. The indicators are modestly skewed to the downside suggesting a slightly higher probability of price decline rather than increase.

The bottom line on each chart represents the natural level of long term growth or “trend line.” Prices on the Treasure Coast, like the state as a whole have grown about three-percent annually compounded but not adjusted for inflation. Palm Beach County has grown a little faster at slightly over four-percent annually. This is the rate of growth after taking out all the peaks and valleys such as those that occurred earlier this decade.

Comparison of actual performance with long term trend suggests that the Treasure Coast has over-shot trend on the downside but performance is stable. Palm Beach County has not quite fallen to trend.

Foreclosures October 2009 Seacoast Served Counties
New Filings In October | Ratio to Households

County	New Filings	1 / Household
Orange	2,652	100
Seminole	730	134
Lake	406	196
Osceola	571	118
Brevard	623	238
Indian River	214	223
St. Lucie	603	108
Martin	214	251
Palm Beach	2,584	191
Broward	3,678	118
Okeechobee	35	197
DeSoto	30	439
Glades	3	1,517
Hendry	50	123
Hardee	17	419
Highlands	136	274

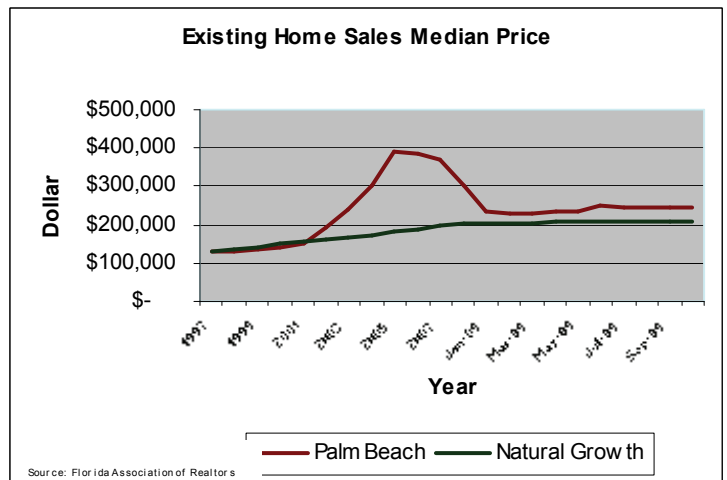
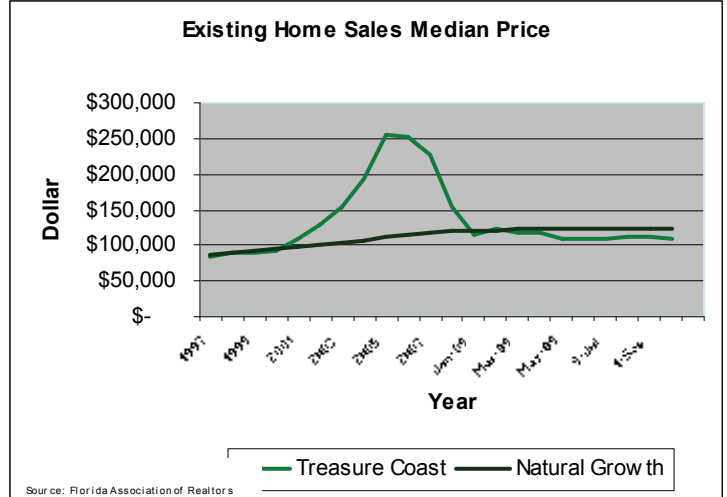
SOURCE: Realtytrac November 2009

Foreclosures remain elevated in Florida and in most Seacoast served counties. In Metro-Orlando, one in every 100 housing units was in some state of foreclosure in October. In St. Lucie County, the ratio was one in 108.

Sub prime mortgages dominated foreclosure activity until recently. Today, foreclosures have moved into the prime sector. Payment Option Adjustable Rate Mortgages (ARMs) will likely peak in late 2010 and that will keep foreclosures high through 2011. Additionally, the primary drivers of foreclosures today are employment issues such as unemployment, reduced hours or wages, etc.

Another emerging driver of foreclosures is so-called *strategic default* where property owners who can afford to pay determine they are too far under water to recover and they intentionally walk away. Researchers at the University of Chicago, Northwestern University and the European University Institute estimated

Seacoast Core Market Median Price Performance & Comparison to Trend



Foreclosures continued...

that 26% of today’s foreclosures are strategic as social and moral barriers to foreclosure fall.

As foreclosures move into the prime sector, they also move to higher loan amounts where buyers bought *too much house* or did so with Payment Option ARMs. The next wave of foreclosures will likely be in the \$400-\$600,000 range.

Tyranny of the median. For the last two years most foreclosures have been sub prime driven and homes returned to market have been in the lower price range. As we expect foreclosures to affect a higher priced product segment going forward, that will almost certainly distort the median perhaps suggesting a higher median price than actually exists. As a result, it will be increasingly necessary to look behind the numbers for a realistic picture of what is really happening.

Looking Forward, we expect sales to decline modestly in December. The first tax credit shifted some 2010 sales into 2009. Additionally, the Mortgage Bankers Association reported last week that its purchase only index had fallen to its lowest level in 12 years. The second tax credit will move late 2010 sales into early 2010. Bottom line: 2010 sales will be about the same as 2009.

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