

Economic Perspectives

Florida existing home sales volumes and prices defy U.S. upward trend December 30, 2009

Sales of existing homes surged 7.4% nationally in November — the last surge driven by the first tax credit for first time home buyers. The tax credit has now been both extended and expanded to include other than first time buyers. At the same time, the Mortgage Bankers Association “Purchases Index” fell to its lowest level since 1997 suggesting that existing home sales are likely to plunge in December and stay low well into the first quarter of 2010 until the effect of the new tax credit is felt. In Florida, existing home sales were down 7.48% and median price was down 0.93%. In most Seacoast served markets, volume and price declined modestly.

Existing home sales rose nationally in November as the original first time home buyer tax credit came to an end. That surge had the effect of reducing the existing home inventory to 3.51 million units from its July 2008 peak of 4.57 million units. Nationally, the inventory stands at 6.5 months and indicates that inventories are steadily clearing. These inventory numbers do not include the so-called *shadow inventory* of homes which are held by banks and not yet 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, it does suggest it remains quite large with a significant supply of foreclosed homes still in the pipeline.

Florida’s existing home sales volume defied the national trend and fell 7.48%. The median price fell modestly by 0.93%. Locally, Ft. Pierce, Port St. Lucie Metropolitan Statistical Area (MSA) squeezed out a slight increase in both volume and price while all other Seacoast markets declined. The Melbourne, Titusville, Palm Bay MSA was the big loser with a 27% decline in volume and 9.33% decline in median price. Local performance is summarized in the following table.

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

| MSA | | 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 | Nov '09 |
|-------------------------------------|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|----------|---------|----------|---------|---------|
| Ft. Pierce Port St. Lucie | Sales Volume | 383 | 318 | 421 | 361 | 372 | 493 | 490 | 511 | 573 | 561 | 539 | 572 | 558 | 567 |
| | Change /Month | +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% | +1.61 |
| | Median Price | 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 | 111,700 |
| | Change over month | -2.46% | -3.05% | +1.00% | -12.82% | +6.27% | -3.36% | -1.36% | -5.50% | Flat | Flat | +2.63% | -1.95% | Flat | +1.18 |
| Melbourne Titusville Palm Bay | Sales Volume | 423 | 328 | 438 | 377 | 429 | 539 | 564 | 584 | 541 | 534 | 492 | 479 | 536 | 391 |
| | Change over month | -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% | -27.05% |
| | Median Price | 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 | 105,000 |
| | Change over month | +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% | -9.33 |
| Orlando | Sales Volume | 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 | 2,292 |
| | Change over month | -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% | Flat |
| | Median Price | 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 | 137,100 |
| | Change over month | -2.63% | -5.62% | Flat | -10.31% | +1.79% | -1.11% | -6.40% | +0.42% | +4.63% | Flat | -2.83% | Flat | Flat | -4.53 |
| W. Palm Bch Boca Raton | Sales Volume | 618 | 450 | 638 | 408 | 532 | 685 | 681 | 737 | 859 | 859 | 754 | 746 | 841 | 733 |
| | Change over month | +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% | -12.84% |
| | Median Price | 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 | 227,500 |
| | Change over month | -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% | -6.72% |
| Ft. Lauderdale | Sales Volume | 625 | 507 | 632 | 467 | 500 | 680 | 690 | 780 | 862 | 907 | 816 | 800 | 826 | 707 |
| | Change over month | +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% | -14.41% |
| | Median Price | 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 | 182,900 |
| | Change over month | -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% | -13.56% |
| STATE | Sales Volume | 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 | 14,026 |
| | Change over month | -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% | -7.48% |
| | Median Price | 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 | 139,000 |
| | Change over month | -3.08% | -6.72% | -1.77% | -10.89 | +1.72 | -0.42% | -1.98% | +3.97% | +2.49% | Flat | Flat | -3.66% | -1.20% | -0.93% |

The median price of an existing home nationally in November was \$171,900, unchanged from October but down 4.4% year over year. Price decline is clearly slowing. As recently as July, the year-over-year decline was -13%. Nevertheless, the median price nationally is still higher than Florida where it is \$139,000. The median price is lower in all Seacoast served counties with the exception of Palm Beach County where it was \$227,900 and Broward County where it was \$182,900. Prices in these two counties have historically run higher than the state or nation.

In Florida — and most Seacoast markets — volumes and prices have been relatively flat since early 2009. The fluctuation has generally been within five-percent up or down suggesting relative stability, albeit at a relatively low level.

House prices have now returned to 2001 and 2002 levels in most markets. Property owners have generally given up all gains experienced between about 2003 and 2007. Owners who bought homes earlier, however, are still ahead.

According to S&P / Case-Shiller, the third quarter national home price index is down 8.9% year over year; down 27.1% over three years and down 13.5% over five years. The index is up 41.4% over 10 years and up 75.4% over 15 years.

November Foreclosures | Seacoast Served Counties

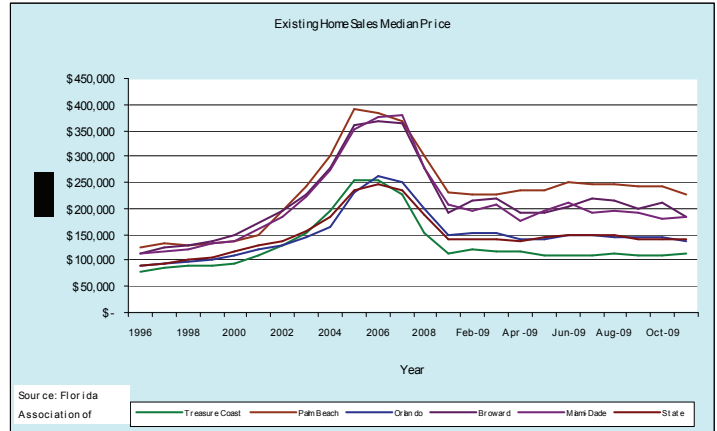
| County | New Filings | 1 / Household |
|--------------|-------------|---------------|
| Orange | 2,180 | 106 |
| Seminole | 542 | 225 |
| Lake | 424 | 209 |
| Osceola | 1,098 | 78 |
| Brevard | 813 | 202 |
| Indian River | 232 | 211 |
| St. Lucie | 400 | 135 |
| Martin | 141 | 348 |
| Palm Beach | 2,559 | 193 |
| Broward | 3,649 | 114 |
| Okeechobee | 53 | 279 |
| DeSoto | 56 | 169 |
| Glades | 4 | 1,216 |
| Hendry | 44 | 223 |
| Hardee | 15 | 341 |
| Highlands | 298 | 147 |

SOURCE: Realtytrac November 2009

Foreclosures remain elevated in Florida and in most Seacoast served counties. In Orange County (Orlando) one in every 106 housing units was in some state of foreclosure in November. In Osceola County (south of Orlando) the ratio was a stunning one in every 78 households. In St. Lucie County on the Treasure Coast, the ratio was one in 135. In 2005, Osceola and St. Lucie were two of the nation's fastest growing counties. By 2007, they had two of the nation's largest inventory hangovers and foreclosures have grown since then to the point that they remain among the highest foreclosure counties in the nation.

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 2011 and that will keep foreclosures high into 2012. Additionally, the primary drivers of foreclosures

Treasure Coast and South Florida Long Term Price Performance



Foreclosures continued...

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 that 26% of today's foreclosures are strategic as social and moral barriers to foreclosure have fallen.

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 (mid 2010) will likely be in the \$400-\$600,000 range.

The foreclosure outlook is not good. According to First American Core Logic, one in four homeowners owe more on their home mortgage than the underlying property is worth. Moreover, delinquency rates hit an all time high at the end of the third quarter. Delinquency, combined with the elevated shadow inventory (see page one) suggests that foreclosures will continue at high levels into the foreseeable future.

Homeownership rate will slip. Homeownership in the U.S. peaked in March 2006 at about 69%. The *Great Recession* punctuated by a foreclosure epidemic drove house prices down an estimated \$5.9 Trillion in aggregate. The homeownership rate is now 67.3% and likely to decline further as foreclosures rage on and owners once again become renters. Former homeowners will rent as they struggle to rebuild their balance sheets the next few years.

Looking Forward, we expect sales to decline modestly in December. The first tax credit shifted some 2010 sales into 2009 and the second shifted late 2010 sales into early 2010. Additionally, the Mortgage Bankers Association reported that its purchase only index had fallen to its lowest level in 12 years. It is fast becoming clear that the tax credit is not stimulating or increasing demand but rather just shifting it to earlier time periods at significant cost to the U.S. Treasury. Bottom line: 2010 sales volume will be about the same as 2009. Moreover, prices are likely to remain flat throughout 2010. We do however, acknowledge that at least two prominent and well-respected sources are forecasting another 5-10% price decline nationwide in 2010.

The material contained in this newsletter has been prepared by Seacoast National Bank. The content is provided for use by real estate, financial services and other professionals only and is not intended for consumer distribution. The material provided is for informational and educational purposes only and should not be construed as investment and/or mortgage advice. Although the material is deemed to be accurate and reliable, there is no guarantee it is not without errors.