

Economic Perspectives

A housing bottom forms — what's next?

July 25, 2009

After nearly three years of gut wrenching house price declines, clear signs of stabilization have emerged. Over the last six months, sales volumes have increased significantly and free falling prices have leveled off in Florida and nearly all Seacoast markets. Nationally, sales of single family detached homes rose 2.4% to about 4.3 million transactions in June while the median price rose to \$181,600. Median price is down 15.4% in June year over year but up 4.01% month over month. Median price nationally has been rising modestly each month since the beginning of the year. The story is similar in Florida albeit more volatile. Sales are up 28% but median price is down 28% year over year. Both numbers are up month over month and Florida's median price in June was \$148,000.

Transaction volumes are up year over year in all Seacoast served Metropolitan Statistical Areas (MSA). Month over month, all but one Seacoast served MSA (Melbourne | Palm Bay) had an increase in volume and all showed an increase in median price. The table at the bottom of this page shows existing home volume and median price for the last 11 months. The graphs on the next page show the long term trend in home prices since 1994. The bottom line in each graph is the trend line or natural level of long term growth. After adjusting out major peaks and valleys, the rate of increase in the state and Treasure Coast has steadily increased about 3% annually not

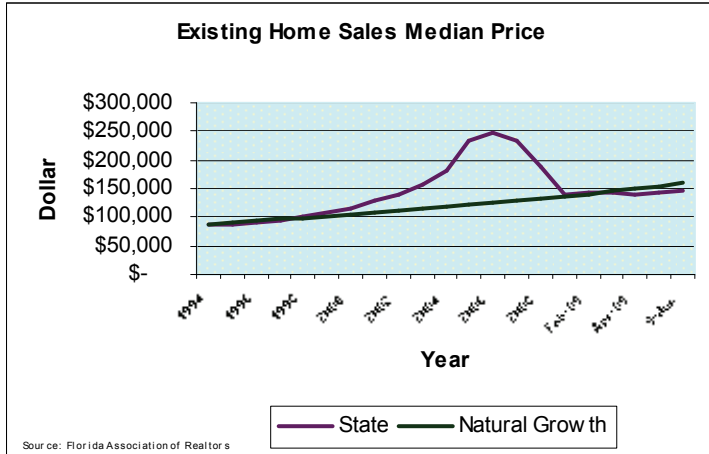
including the effect of inflation. In Palm Beach County and Metro Orlando, it has been about 4%.

The performance line is unadjusted and shows the run up, peak and collapse of housing prices. The currently important story is that the freefall has stopped as evidenced by the last six months' performance. Most Seacoast markets over-shot the trend line on the downside. Most however, are stabilizing or showing modest price increases. Barring additional unforeseen economic shock, we expect that trend to continue. While there will not be measurable price increases (for reasons discussed later) prices will bounce along the bottom and return to trend over the next 12-24 months.

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

MSA		Aug '08	Sept '08	Oct '08	Nov '08	Dec '08	Jan '09	Feb '09	Mar '09	Apr '09	May '09	Jun '09
Ft. Pierce Port St. Lucie	Sales Volume	339	374	383	318	421	361	372	493	490	511	573
	Change /Month	-18.1%	+10.32%	+2.41%	-16.97%	+32.39	-14.25%	+3.05%	+32.53%	-0.61%	+4.29%	+12.13%
	Median Price	153,900	138,000	134,600	130,500	131,800	114,900	122,100	118,000	116,400	110,000	109,900
	Change over month	-3.39%	-10.33%	-2.46%	-3.05%	+1.00%	-12.82%	+6.27%	-3.36%	-1.36%	-5.50%	Flat
Melbourne Titusville Palm Bay	Sales Volume	494	430	423	328	438	377	429	539	564	584	541
	Change over month	+3.35%	-12.96%	-1.63%	-22.46%	+33.54%	-13.93	+13.79%	+25.64%	+4.64%	+3.55%	-7.36%
	Median Price	155,500	143,900	152,200	126,700	125,200	118,300	115,400	123,700	113,600	123,700	117,300
	Change over month	+1.90%	-7.46%	+5.77%	-16.75%	-1.18%	-5.51%	-2.45%	+7.19%	-8.16%	+8.89%	-5.17
Orlando	Sales Volume	1,445	1,588	1,445	1,277	1,525	1,127	1,352	1,828	1,859	1,949	2,266
	Change over month	-12.74%	+9.90%	-9.01%	-11.63%	+19.42%	-26.11%	+19.96%	+35.21%	+1.70%	+4.84	+16.66%
	Median Price	204,400	182,700	177,900	167,900	167,800	150,500	153,200	151,500	141,800	142,400	149,000
	Change over month	-2.25%	-10.62%	-2.63%	-5.62%	Flat	-10.31%	+1.79%	-1.11%	-6.40%	+0.42%	+4.63%
W. Palm Bch Boca Raton	Sales Volume	623	522	618	450	638	408	532	685	681	737	859
	Change over month	-4.45%	-16.21%	+18.39%	-27.18%	+41.78%	-36.05%	+30.39%	+28.76%	+2.76%	+8.82%	+16.55%
	Median Price	323,300	292,200	264,200	247,400	246,000	232,100	228,100	228,100	234,400	232,900	\$250,300
	Change over month	+10.99%	-9.62%	-9.58%	-6.36%	-0.57%	-5.65%	-1.72%	-0-	+2.76%	-0.85%	+7.47%
Ft. Lauderdale	Sales Volume	604	611	625	507	632	467	500	680	690	780	862
	Change over month	+3.96%	+1.16%	+2.29%	-18.88%	+24.65%	-26.22	+7.07%	+36.00%	+1.47%	+13.04%	+10.51%
	Median Price	269,800	259,300	252,500	229,100	217,700	191,000	214,400	219,500	191,300	190,000	204,800
	Change over month	-11.13%	-3.89%	-2.62%	-9.27%	-4.98%	-12.26%	+12.25%	+2.38%	-12.85%	-0.68%	+7.79%
STATE	Sales Volume	10,847	10,817	10,443	8,571	11,053	8,450	9,858	13,085	13,111	13,921	15,850
	Change over month	-5.56%	-0.28%	-3.43%	-17.93%	+28.96%	-23.55	+16.66%	+32.73%	+0.20%	+6.18%	+13.86%
	Median Price	186,900	175,100	169,700	158,300	155,500	139,500	141,900	141,300	138,500	144,400	148,000
	Change over month	-3.46%	-6.31%	-3.08%	-6.72%	-1.77%	-10.89	+1.72	-0.42%	-1.98%	+3.97%	+2.49%

Florida Statewide Existing Home Sale Trends



Looking Forward. Prices have fallen over 40% from their late 2007 peak. While there is no good news in that statistic for consumers who purchased homes at or near peak, the good news for the broader market is that there is renewed affordability as prices have returned to a level consistent with local income levels. We do not, however, expect prices to increase appreciably for the next few years. If history is a guide, it took single family housing about seven years to return to robust growth from the downturn of the late 1980s and early 1990s. It took the condominium market some 13 years.

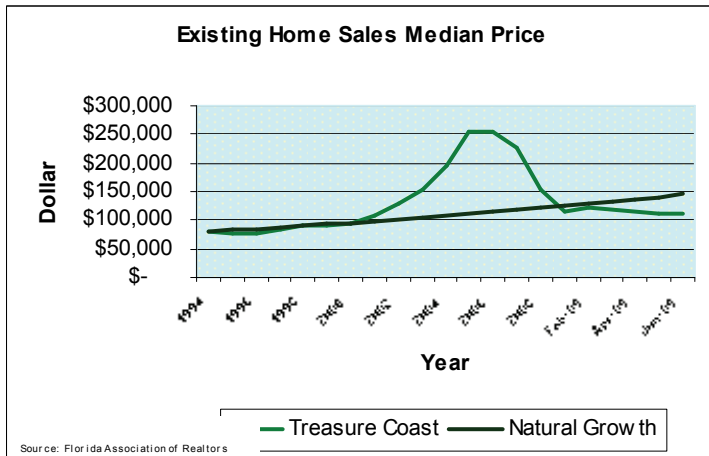
In spite of the recent good news about housing, inventories of both new and existing homes remain too high and it is likely to be another year before inventories return to a more normal level. For existing housing “normal” means 90 to 180 days. For new housing it generally means 60 to 120 days. Currently, Palm Beach County has about a six month supply of new homes while Port St. Lucie is about 12 months and Metro Orlando much longer. Inventory alone will keep a lid on price increases for the foreseeable future.

The Census Bureau estimates that roughly 2.6% of the homeowner housing stock nationwide was vacant at the end of the first quarter. That rate was 1.8% in the first quarter of 2005 and has steadily increased since. This is a clear effect of the unsustainable overbuilding that occurred when the nation and especially sun belt states like Florida built far more homes than there were people to occupy them.

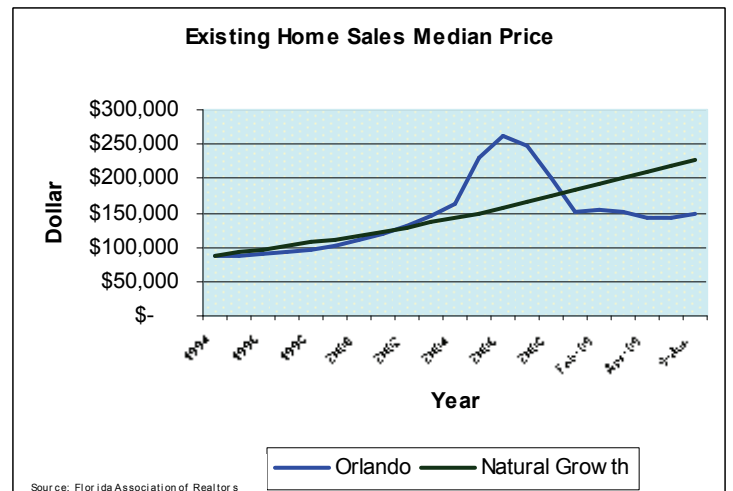
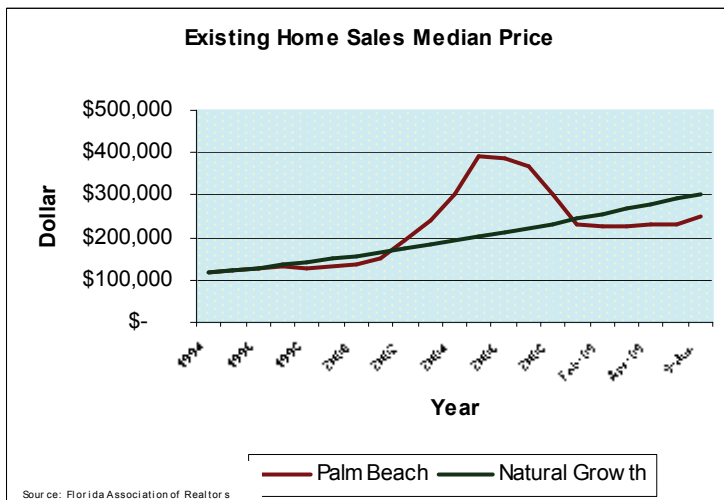
Employment will also be an issue. Florida’s unemployment rate is now 10.6% with nearly one-million Floridians out of work. That alone, plus the fear of losing a job by those who are employed today, are likely to slow house purchases. Clearly it is taking its toll on potential move up buyers as well. Income too is constrained. The average paid work week has declined to 33 hours and more people than ever are working part time for economic reasons.

Finally, foreclosures continue to rise and will be a fact of life through 2011. In June, 12,087 homeowners in Seacoast markets entered foreclosure and that rate is not likely to decline soon. All these factors will combine to limit price increases for the next few years as the market bounces along the bottom in search of stability.

Treasure Coast Existing Home Sale Trends



Palm Beach County Existing Home Sale Trends



All chart data are from Florida Association of Realtors

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