

Q1 2010 Web Cast | February 16, 2010

The Road Ahead

“Great Recession” to “New Economy”

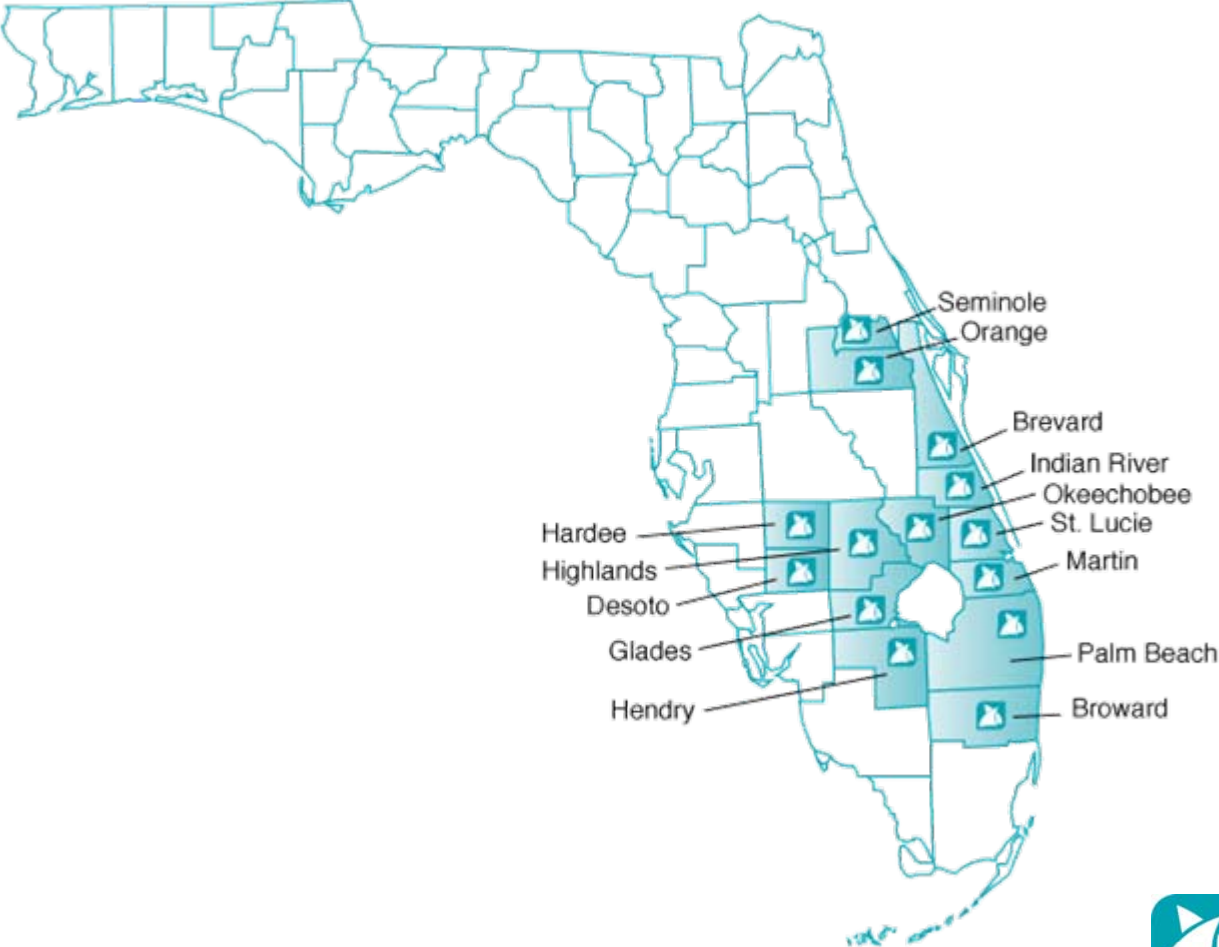


William L. Pittenger | Chief Real Estate Economist | Seacoast National Bank

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Seacoast Markets



Today's Program



- The end of “*The Great Recession.*”
- What comes next: *The New Economy*
- Will “*The New Economy*” look different than “*The Old Economy?*”

Within that context we'll explore ...

1. The consumer
2. Employment local to national
3. The silver tsunami
4. Gross Domestic Product
5. Residential Real Estate
6. Foreclosures
7. Commercial Real Estate
8. The banking and credit environment

The Consumer: Battered and Bruised

- Consumer fundamentals remain extremely weak and will take awhile to regain strength.
- Household wealth declined for seven consecutive quarters during the Great Recession. Quarterly losses at peak: \$15.3 TRILLION.
- Not surprisingly, almost all losses were in equities and falling home values.

The Consumer: Battered and Bruised

- Today home prices are moderating or have at least stopped the free fall. There was even a slight (but miniscule and not widespread) rise in home prices apparent in Q4 data.
- Q3 2009 data (most recent) show that household wealth has turned the corner by rising \$2.7 Trillion. Aggregate household wealth ended Q3 at \$12.3 Trillion – improved but still 19% below peak in Q2 2007 before the housing crash.
- Over half the recovery was in stocks and mutual funds.
- More was in deleveraging as consumers shed debt and began “defensive saving.”

The Consumer: Battered and Bruised

- The financial obligations ratio dropped from its 18.86% high in Q1 2008 to 17.76% in Q3 2009. That is the lowest since 2001.
- Consumer debt service ratios have shown a similar recent decline but still remain very high by historical standards. The debt to assets ratio dropped to 20.8% in Q3 from 22.5% a quarter earlier. For perspective, the previous all time high was 18% in early 2003.
- Bottom line: Still very little consumer credit demand.

Consumer Credit

- **Consumer credit has now fallen for 11 consecutive months.**
- Total consumer credit declined by \$21.8 Billion in November followed by another \$1.7 Billion decline in December.
- Revolving credit (primarily credit cards) fell \$8.5 Billion.
- Non revolving (installment) credit rose \$6.8 Billion driven by strong December auto sales. Note: We expect non revolving credit to fall again in the first quarter due to absence of year end auto sales incentives.
- Securitized lending rose \$12.7 Billion.
- ***There has been a synchronized decline in both supply of and demand for consumer credit. Today, however, the supply of consumer is rising modestly, the credit crunch is easing but demand has not yet resumed.***

Consumer are “*scared straight*” – to savings

- The U.S. savings rate has risen dramatically since 2007 when it was at or near zero or even below zero for consumers who had home equity lines of credit which they treated (inappropriately) as “income.”
- Now, the savings rate has increased to about 5%. We expect it to continue to rise as long as unemployment is high, consumers fear possible unemployment and housing prices fall or do not increase. They are therefore saving defensively.
- We expect the savings rate to stabilize at about 8% over the short and medium term as household fiscal anxiety remains.

Consumer are “*scared straight*” – to savings

- Even savings of 5% today and short term stabilization at around 8% are low given the size of the crisis.
- Is savings good or bad?
- *The “paradox of thrift, popularized by economist John Maynard Keynes in his 1930 book, “Treatise on Money” asserts that individual savings is a virtue but if it spreads to the entire economy, it can curtail spending and output thereby dampening prospects for recovery and growth.*
- ***The paradox is alive and well in the current economy.***

The bottom line for consumer impact

- Consumer spending accounts for over two thirds of the U.S. economy and has for many years. That huge share has led the economy to recovery from prior recessions.
- Following the two most recent recessions (1991 and 2001), as well as most other recessions since World War II, consumers resumed their pre-recession spending habits as soon as they were convinced that recovery was for real. There was usually enormous pent up demand waiting to be unleashed on a recovering economy.

The bottom line for consumer impact

- Much of the pent up demand created during prior recessions was actually unleashed during the pre-recession run up driven by easy credit. With housing, for example, consumers used the easy credit to move up their home purchases for fear they would be priced out of the market if they didn't.
- Today, many of those consumers are financially and/or credit impaired and will not contribute aggressively to spending that might fuel recovery.
- Perhaps arguably, the most negative consumer impact would be if consumers continue to aggressively pay down debt to rebuild seriously damaged household balance sheets and thereby refuse to spend and prove Keynes "Paradox of Thrift."

The bottom line for consumer impact

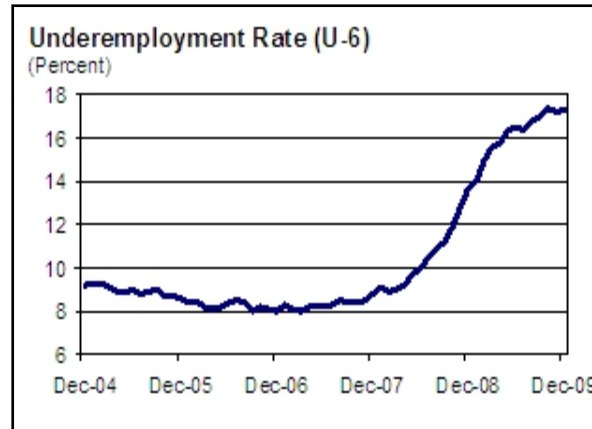
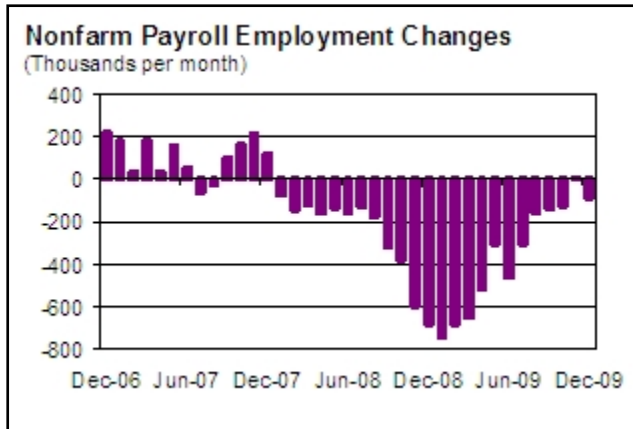
- The psychological component:
- The Great Depression spawned a generation of ultra-conservative spenders. While World War II government spending and military employment pushed the economy out of the depression, it almost immediately fell into recession after the war as unemployment rose again and consumer spending fell.
- Our forecast is for consumer spending to remain subdued as consumers heed the wake up call of The Great Recession. We do not expect a repeat of ultra extreme consumer austerity experienced for a generation after The Great Depression.
- Nevertheless, recovery will be protracted and uneven.

The bottom line for consumer impact

- The latter (ultra low consumer spending) would have a profoundly negative impact on the broader economy for many years.
- **We believe what is most likely to happen lies somewhere in the middle.**
 1. Consumers will resume modest spending. They will remain conservative and opt for bargains. Spending will grow slower and be a smaller part of GDP.
 2. Consumers will continue to de-lever post recovery but not devote all their resources to that challenge.
 3. Savings will trend upward modestly especially when the current wage and salary stagnation abates.

Employment Downturn Has Been Extraordinary

and it has structural characteristics



Seacoast Markets Unemployed
149,645 (December)

Florida Unemployed:
1,087,000 (December)

U.S. Unemployed:
14.8 million (January)

Does not include marginally attached, discouraged workers or those working part time for economic reasons.

A disproportionate number of job losses are permanent rather than cyclical.

Unemployed are staying unemployed longer.

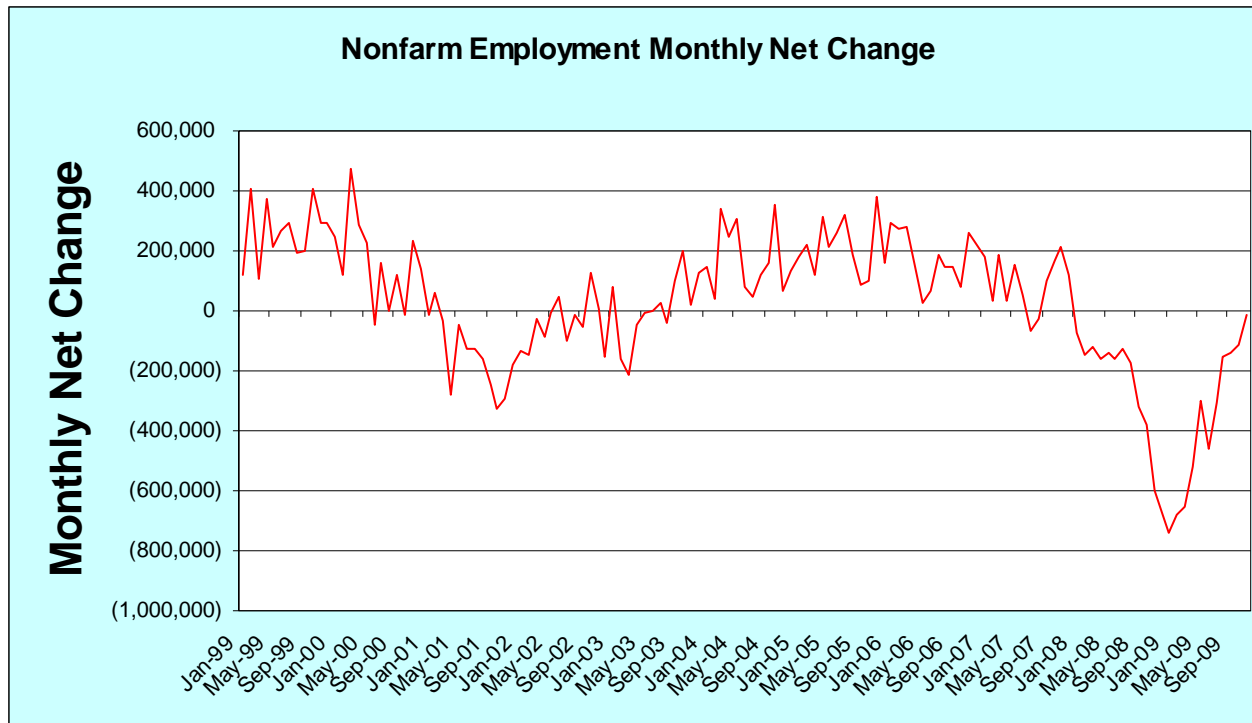
More people are working part time for economic reasons.

More people are marginally attached to the labor force.

More unpaid leave, reduced wages, incentive compensation, etc.

The nation's unemployment rate declined to 9.7% in January.
Florida's unemployment rate of 11.8% (December) is highest since 1975

A Decade of U.S. Payroll Employment Change



Current U.S. Employment Snapshot

- Marginally attached: 2.5 Million (up 409,000 year over year)
- Part time: 8.3 Million (down from 9.2 million month over month)
- Long term unemployed (> 27 weeks) 6.3 million and rising
- Long term unemployed has risen by 5.0 million since the official start of the recession in December 2007.
- Discouraged workers: 1.1 million (up from 929,000 month over month and up 734,000 over the year)
- **Count these groups and unemployment is 16.5% (down from 17.3% month over month)**
- 8.4 million jobs lost during recession.

Current U.S. Employment Snapshot

- While the trend is much improved, jobs lost during the recession were much worse than originally announced.
- The annual revision showed that payroll employment is actually 1.36 million less than original estimates with most of the adjusted decline occurring in the four months between August and November of 2008. Job losses were more severe by an average of 150,000 per month.
- Additionally, the average payroll decline between March and December 2009 was made worse by about 48,000 jobs per month in the revision.
- While payroll employment declined by 20,000 jobs – a welcome change from the much higher losses of 2008 and 2009, new jobs are not yet being created.

Current U.S. Employment Snapshot

- There is some positive news.
- Manufacturing payrolls increased in January for the first time since January 2007.
- Temporary employment (a leading indicator) rose sharply for the fourth straight month.
- Hours worked increased.

SOURCE: BLS January 4, 2010

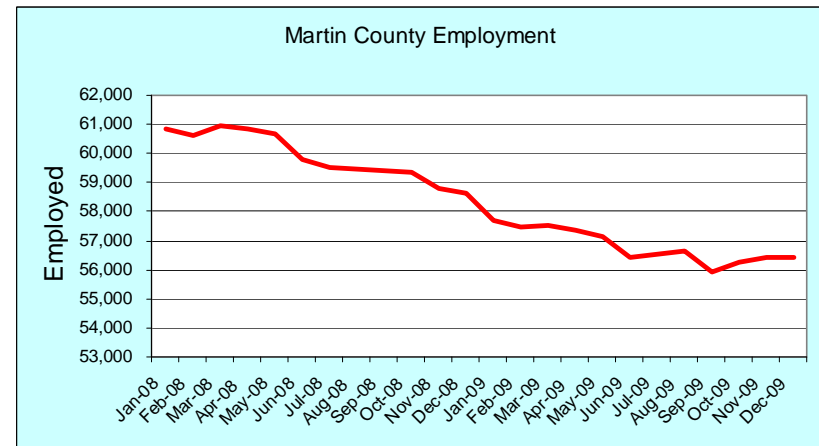
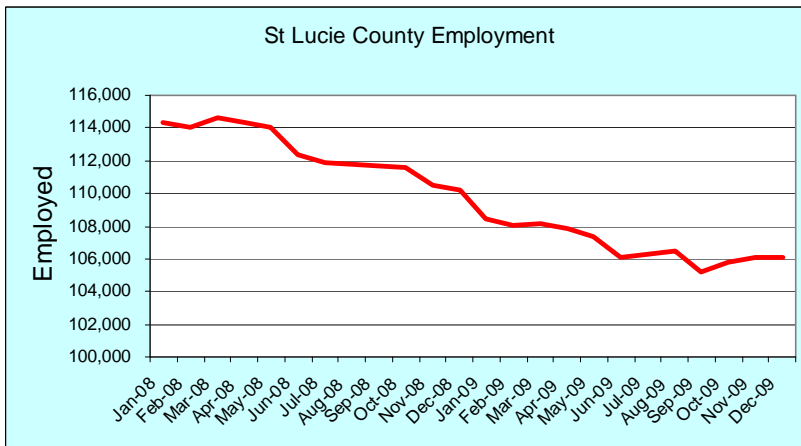
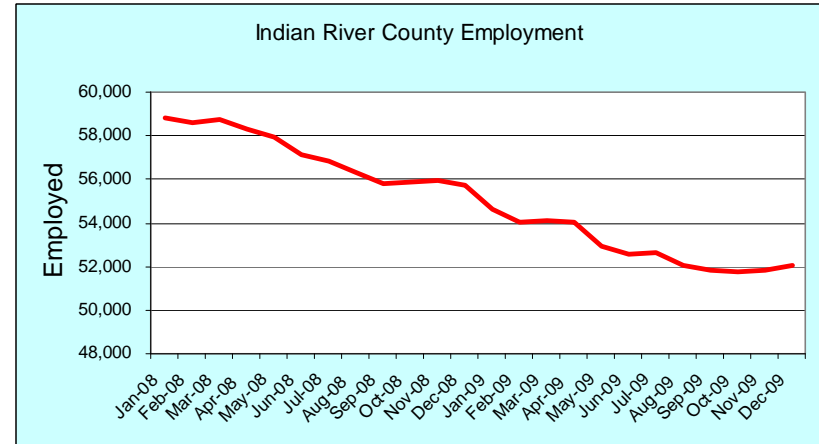
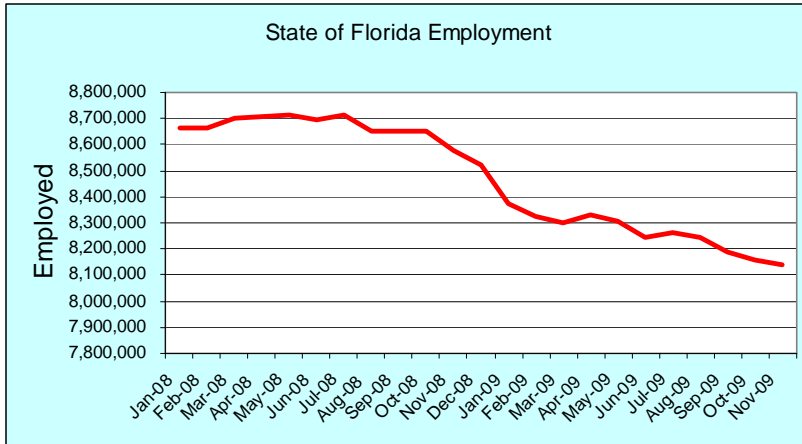
Structural Employment Changes

- The U.S. has lost manufacturing jobs for decades and has been nearly flat since at least 1970. (There were additional losses earlier in The Great Recession.)
- Over the years, construction became the “new manufacturing.” Nevertheless, construction lost nearly 1.0 million (896,000) jobs in 2009 alone.
- The U.S. has had a “lost decade” for jobs.
- The relatively minor recession of 2001 took over four years to regain lost jobs.
- During that time wages stagnated and then The Great Recession struck. The five years after the 2001 recession was truly a jobless recovery.
- There were 400,000 Americans employed at the end of 2009 than were employed at the end of 1999 despite the fact that population increased by 30 million.

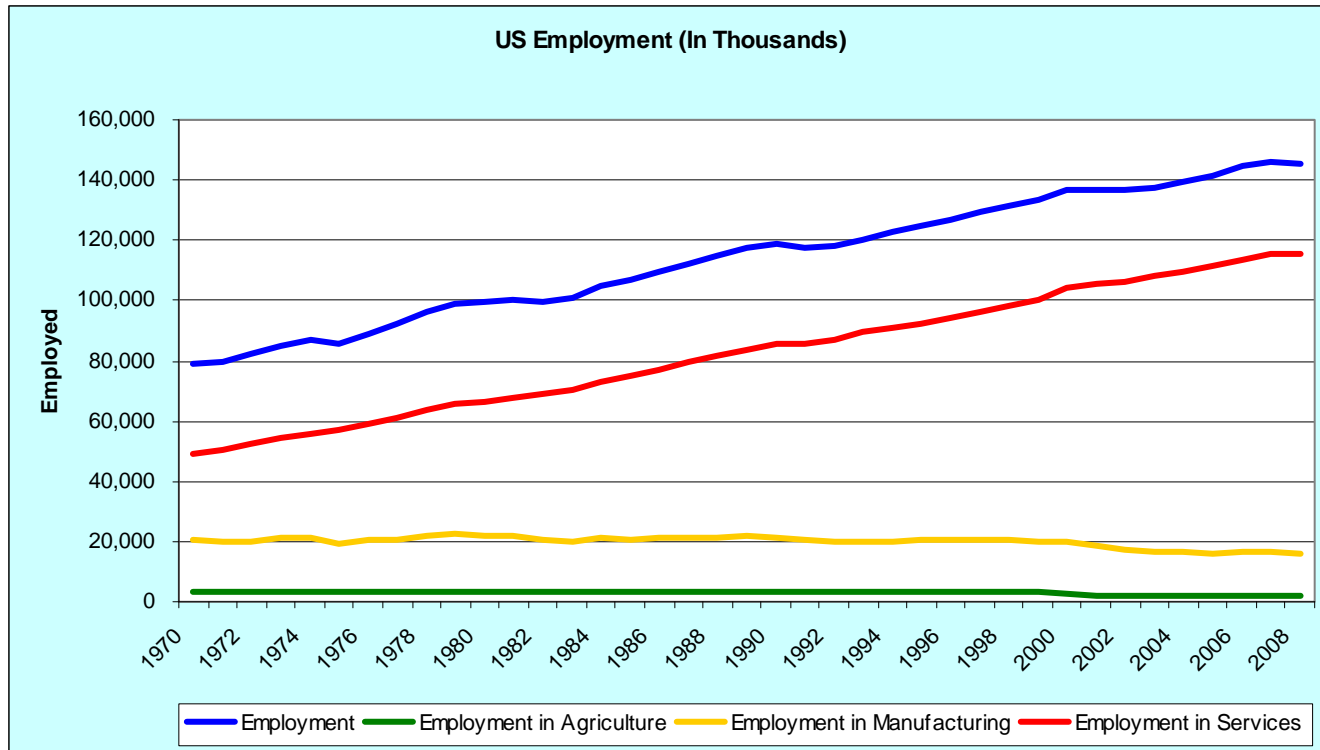
Structural Employment Changes

- The period following The Great Recession is also shaping up to be a jobless recovery.
- More job losses today are permanent rather than cyclical.
- New jobs are not yet being created and the pent up demand for goods and services that occurred during previous recessions has not shown itself now as The Great Recession moderates.
- Job losses have been most severe in key sectors of the economy such as construction and are likely to remain impaired for the short and mid term.
- However, Florida is likely to receive a large share of the growth in Professional and Business Services. The state ranked fifth in 2007 and will likely move to 3rd by 2020. Most of that growth will land in the Tampa Bay area followed by Miami-Dade and Broward counties.

Employment Trends – State and Treasure Coast



U.S. Long Term Employment Change



Jobs have not kept up with population growth

Employment Change In Seacoast Served Counties

County	Employed 12/2009	Employed 12/2008	# Change	% Change
State of Florida	8,090,000	8,523,000	-433,000	-5.1%
Orange	527,389	560,320	-32,931	-5.9%
Seminole	212,016	225,255	-13,239	-5.9%
Lake	117,255	124,577	-7,322	-5.9%
Osceola	117,257	124,579	-7,322	-5.9%
Brevard	230,711	233,190	-2,479	-1.1%
Indian River	52,042	55,720	-3,678	-6.6%
St. Lucie	106,040	110,199	-4,159	-3.8%
Martin	56,405	58,618	-2,213	-3.8%
Palm Beach	554,750	581,231	-26,481	-4.6%
Okeechobee	15,888	16,544	-656	-4.0%
Glades	4,514	4,711	-197	-4.2%
Hendry	16,516	17,468	-952	-5.4%
DeSoto	13,977	14,860	-883	-5.9%
Highlands	38,493	39,385	-892	-2.3%
Hardee	11,311	12,000	-689	-5.7%
TOTAL SEACOAST	2,074,564	2,178,657	-104,093	-4.8%

SOURCE: Florida Agency for Workforce Innovation



Job Loss by Seacoast Market -- 2009

Treasure Coast Indian River St. Lucie Martin	10,050
Palm Beach Palm Beach County	72,033
Orlando Orange Seminole Lake Osceola Brevard	63,293
Big Lake Okeechobee Glades Hendry DeSoto Highlands Hardee	4,269

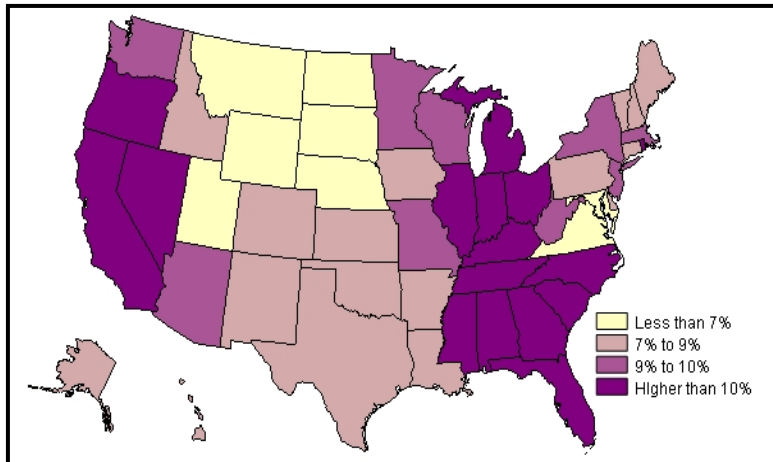
Unemployment in Seacoast Counties

County	December '09	November '09 Revised	December '08
State of Florida	11.8%	11.5%	7.6%
Orange	11.8%	11.8%	7.8%
Seminole	10.9%	11.0%	7.2%
Lake	12.7%	12.7%	8.4%
Osceola	12.3%	13.4%	8.7%
Brevard	12.1%	12.1%	8.4%
Indian River	14.1%	14.6%	9.6%
St. Lucie	14.2%	14.6%	10.7%
Martin	12.4%	12.5%	8.6%
Palm Beach	11.5%	11.7%	8.0%
Okeechobee	13.2%	13.6%	9.7%
Glades	9.4%	9.9%	7.3%
Hendry	13.5%	14.9%	10.2%
Desoto	10.6%	11.2%	7.3%
Highlands	11.1%	11.7%	8.4%
Hardee	11.0%	12.2%	7.0%

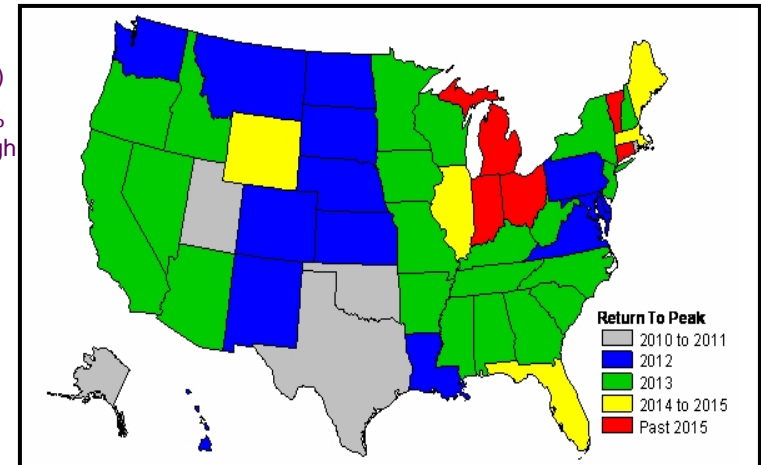
Florida Counties With Highest Unemployment

County	Rate
Flagler	16.9%
Hernando	14.9%
St. Lucie	14.2%
Indian River	14.1%
Marion	14.0%
Lee	13.8%
Hendry	13.5%
Dixie	13.5%
Pasco	13.4%
Osceola	13.3%

Forecast Employment Recovery



Florida
(and 15 other states)
will remain over 10%
unemployment through
2010 and will
not return to
peak employment
until 2014 or 2015



SOURCE: Global Insight

Forecast Employment Recovery by State (Florida) and Seacoast Metro or Region

- Florida industries such as construction, services, leisure, tourism and retirement activities have been especially hard hit during The Great Recession.”
- Peak employment is not likely before 2014 or 2015 statewide.
- Modest employment growth 2010 to 2015. Florida statewide = 1.5 – 2.0%

Metro	Return to Peak
Treasure Coast	2015
Brevard Space Shuttle termination in 2010 ISS Possible termination in 2015	2015 or later (?)
Orlando	2012
Big Lake	2012
Palm Beach Plus Broward and Miami-Dade	2013

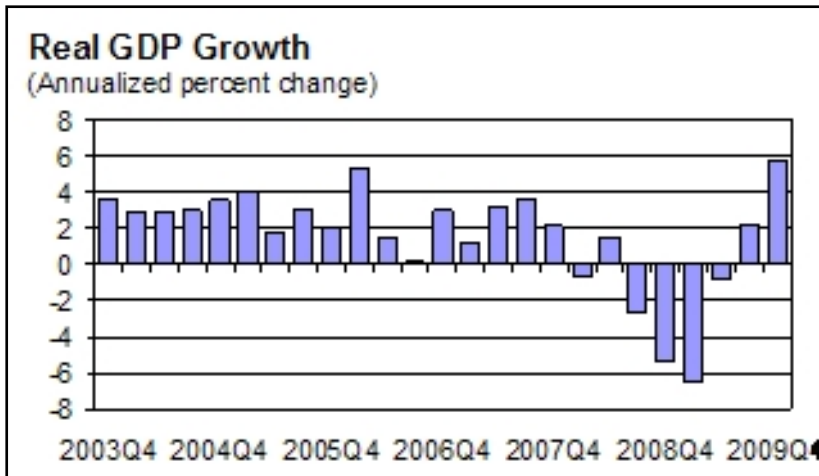
The “Silver Tsunami” and the Shrinking Boomer Economy will profoundly affect the broader economy

- Roughly 77 million babies were born between 1946 and 1964. As that generation has aged it has shaped the nation’s economy.
- “Boomers” are the largest demographic cohort ever and will continue to have a profound effect on the nation’s economy.
- Boomers still represent about 28% of the U.S. population.
- Boomer deaths are being replaced by boomer immigrants so generation remains large.
- Census Bureau estimates that boomers will still total about 57.8 million persons in 2030 even though their ages will be between 66 and 84.

The Shrinking Boomer Economy

- Free spending boomers have become huge savers and that will continue to profoundly impact spending.
- Household wealth fell by \$15.3 Trillion during The Great Recession.
- The “generational shift” that was widely expected to occur has not. It was widely assumed that boomers would fade away and pass the baton to the next generation.

Gross Domestic Product



SOURCE: Global Insight

- In a clear sign the recession is moderating, the nation's GDP increased at a 5.7% seasonally adjusted annual rate in Q4 2009.
- 5.7% represents the fastest rate of growth in the last six years.
- That is the second quarter of growth (Q3 was 2.2%) after four consecutive months of decline and five months total.
- Despite the growth in Q4, the GDP declined 2.4% for the full year of 2009 (assuming Q4 is not adjusted in subsequent revisions.)
- That is the largest full year decline since the end of WW II in 1946 when the GDP declined by 10.9%.

Is Growth Evidenced in Q4 GDP Sustainable?

- **Short answer, economy will grow, but not at the Q4 rate.** We expect downward adjustments in the February and March revisions.
- Looking behind the numbers comprising the GDP, much of it was driven by businesses shedding excess inventory which accumulated through 2008 as sales slowed. The inventory reduction contributed about 3.4% percentage points to the 5.7% GDP growth and in our view is not sustainable.
- Consumer spending, the largest component of GDP, rose only 1.44%. Spending was constrained by a weak labor market, modest income growth, low consumer confidence, diminished household wealth, tight credit and a general move from spending to savings.
- Spending on business structures was down 15.4% -- the fourth double digit decline. That is a product of continued weakness in the commercial real estate sector.

GDP Summary & Outlook

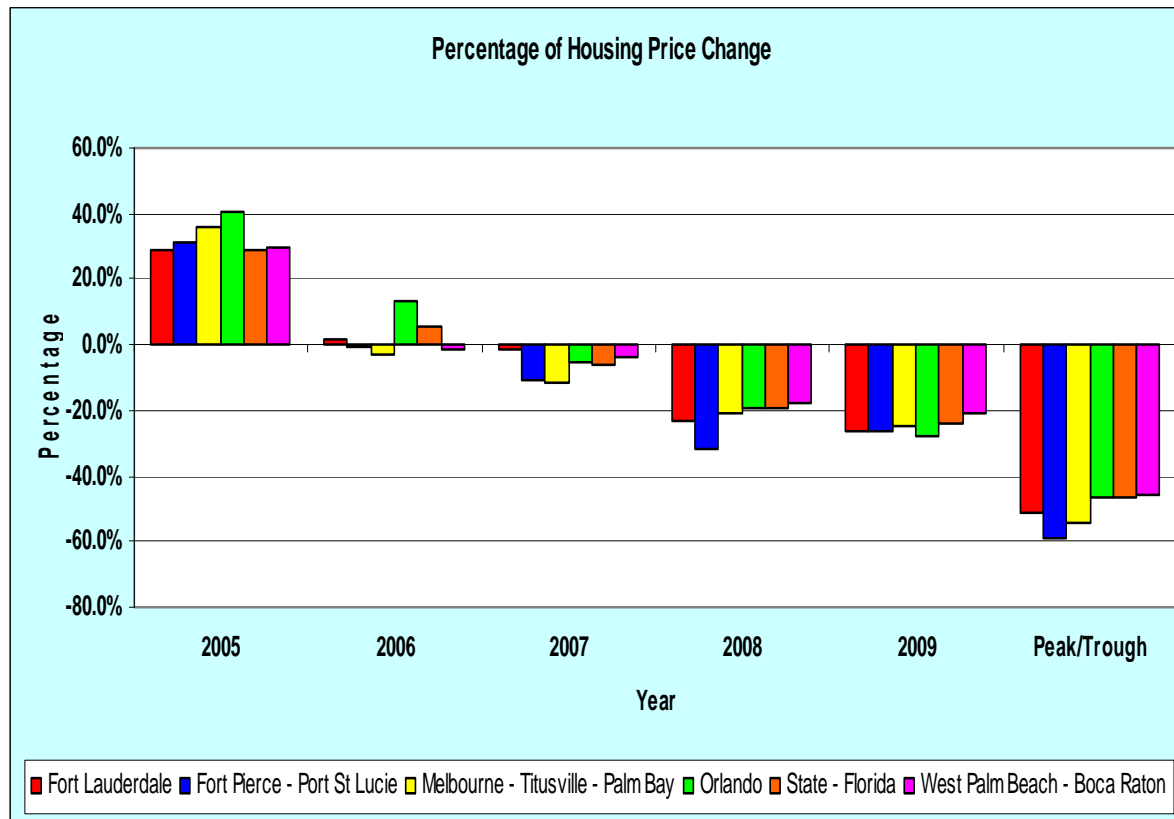
- We expect the Q4 GDP to be adjusted down in subsequent estimates (February and March).
- Fast rising GDP is out of sync with the current employment situation.
- The economy needs time to re-balance itself after the havoc wreaked by “The Great Recession.”
- Looking forward, we expect GDP growth to be positive but hover in the 2.5% to 3.0% range. (The long term rate has been around 3.5%.)

Housing: Peak to Trough Median House Prices

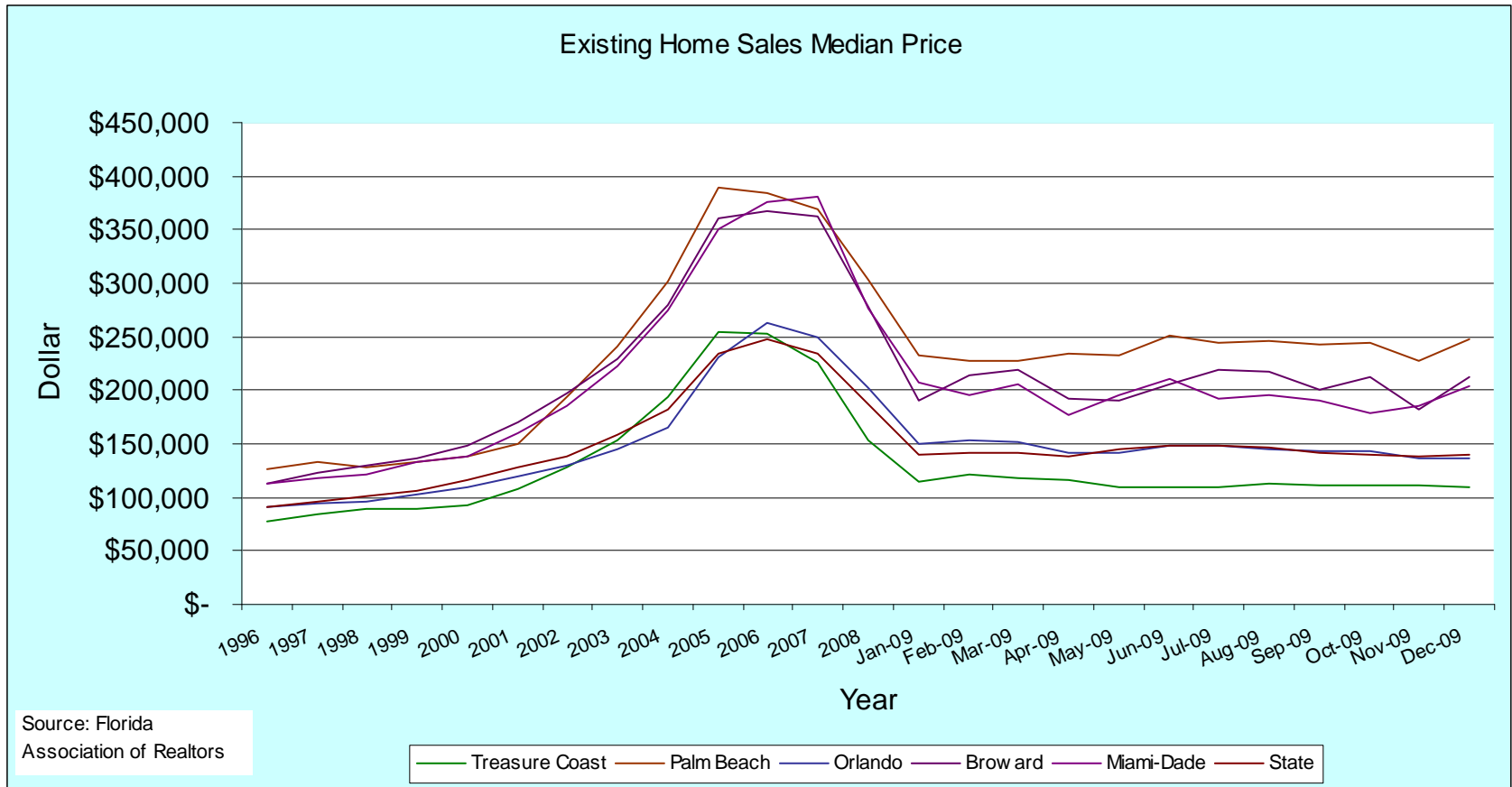
			Peak	Trough	%
MSA	Peak	Trough	Date	Date	Change
State - Florida	\$257,800	\$138,500	June-06	April-09	-46.28%
Fort Lauderdale	\$391,100	\$190,000	November-05	May-09	-51.42%
Fort Pierce - Port St Lucie	\$269,400	\$109,900	September-05	June-09	-59.21%
Melbourne - Titusville - Palm Bay	\$248,700	\$113,600	August-05	April-09	-54.32%
Orlando	\$267,100	\$141,800	October-06	April-09	-46.91%
West Palm Beach - Boca Raton	\$421,500	\$228,100	November-05	February-09	-45.88%

DATA SOURCE: Florida Association of Realtors

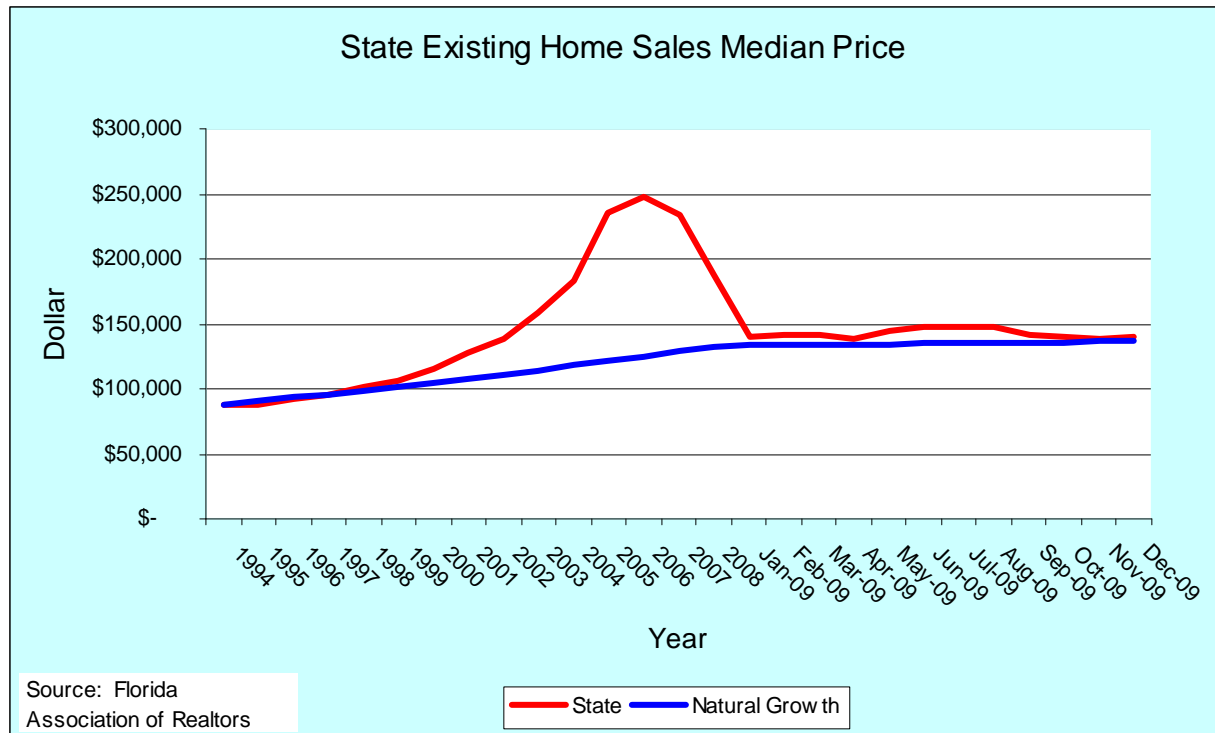
Median Price Percent Change – Seacoast Core Markets by Year and Peak to Trough



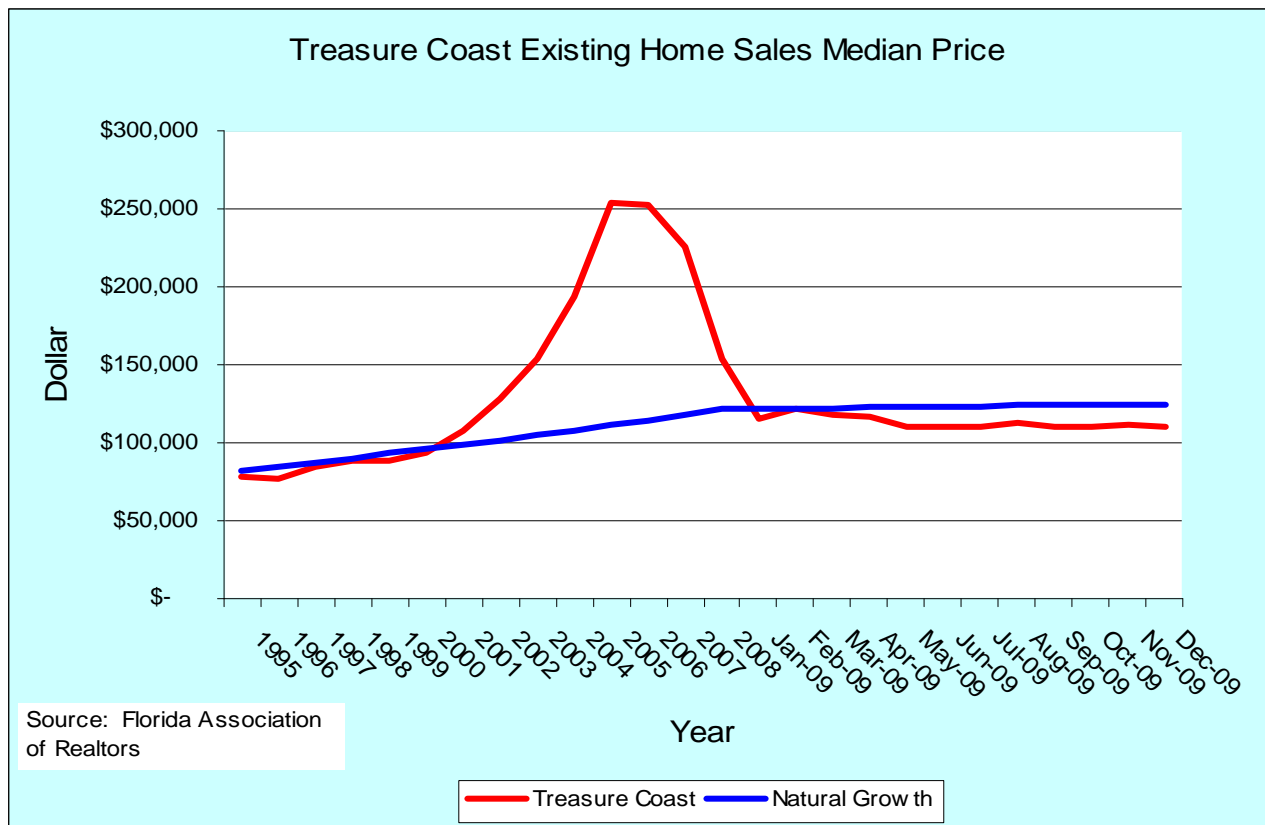
Long Term Median Existing Home Price Change



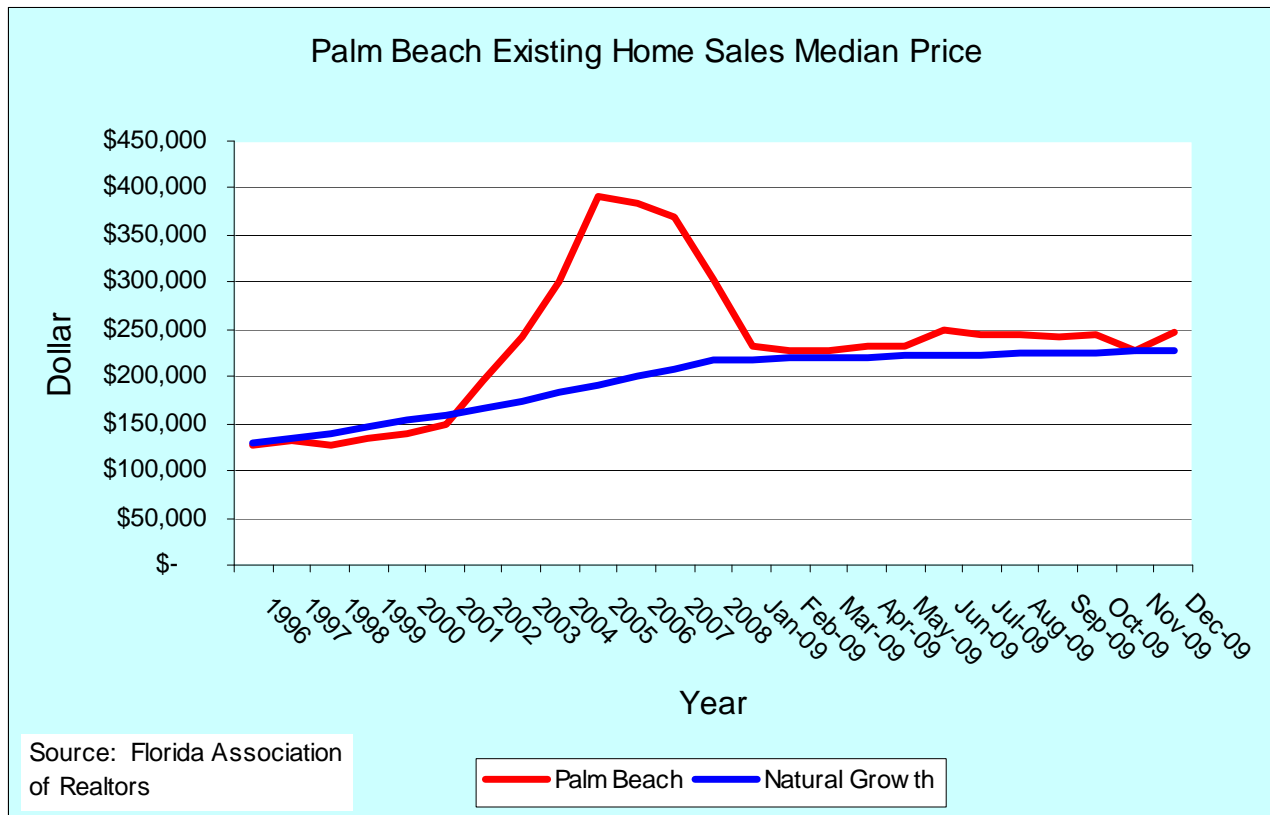
Long Term Price Change Compared to Trend - Florida



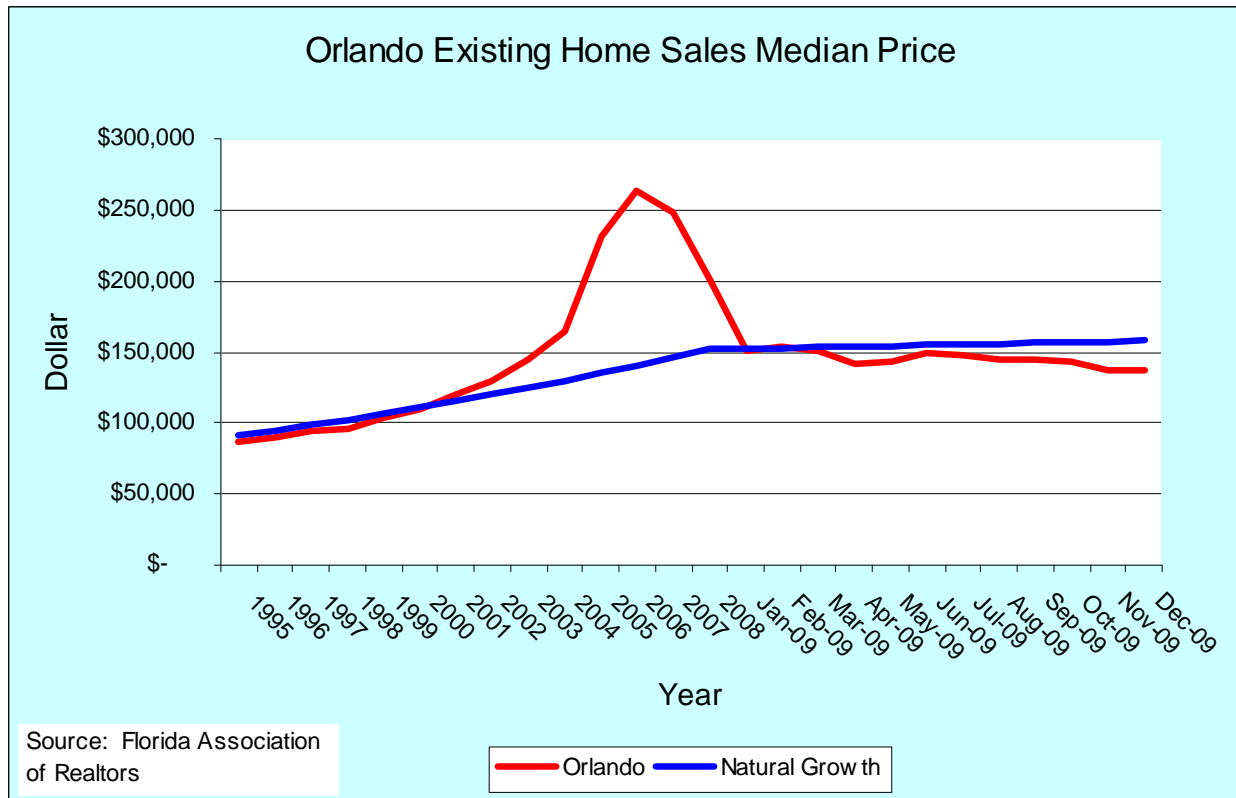
Long Term Price Change Compared to Trend – Treasure Coast



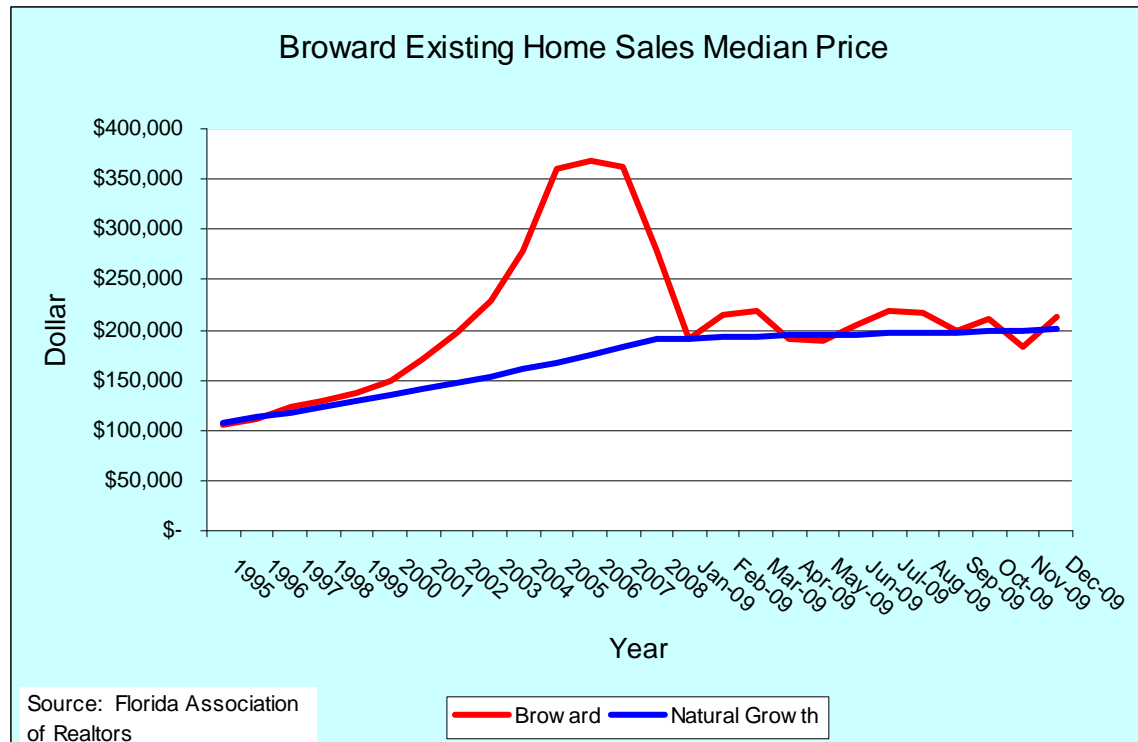
Long Term Price Change Compared to Trend – Palm Beach County



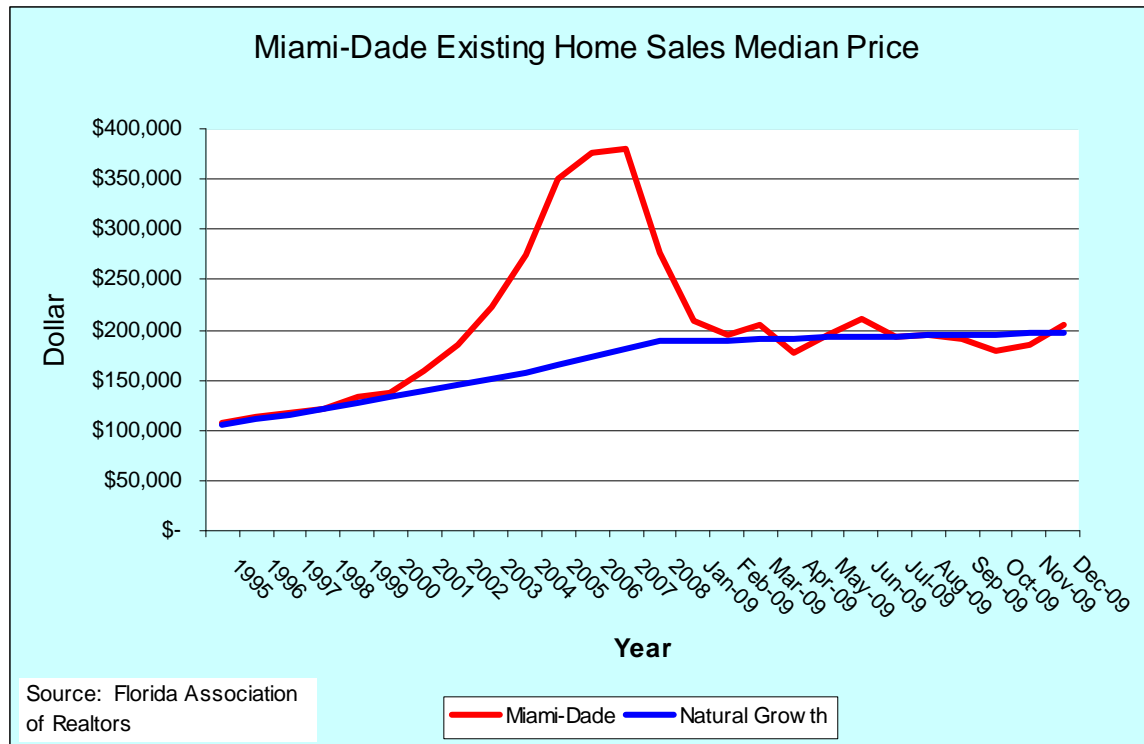
Long Term Price Change Compared to Trend – Metro Orlando



Long Term Price Change Compared to Trend – Broward County



Long Term Price Change Compared to Trend – Miami-Dade



Caution! Tyranny of the Median

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.

New Home Inventory & Months of Supply

County	Single Family Inventory	Months Supply
Indian River	426	14.0
St. Lucie	674	19.6
Martin	185	12
Palm Beach	1,136	291
Nationwide	221,300	8.1

SOURCE: Metrostudy (Q4-2009) www.metrostudy.com Telephone 561-835-9235 | Census Bureau | HUD

Mortgage Trends

- Residential mortgage securitization topped \$1.2 Trillion in securities in 2005 before the market collapse and a stunning 90% decline in volume.
- Today the government is the only real player through Fannie and Freddie. The Federal Reserve is buying up \$1.25 trillion in MBS however they are scheduled to stop buying at the end of March.
- Most 2009 business consisted of repackaging old loans into new securities. (Source: Inside Mortgage Finance).
- FHA is facing seriously dwindling reserves and is set to temporarily tighten its lending standards by summer. Amended standards will include higher insurance premiums, higher required credit score and reduction in allowable seller concessions.
- FHA will also waive its one year “anti-flipping” rule to allow investors to buy homes and resell as quickly as possible in a move to help clear the market.

Foreclosure Trends

- U.S. foreclosure filings totaled a record 3.8 million against 2.8 million housing units 2009.
- 349,519 occurred in December (peak 361,000 in July 2009)
- Nevada, Arizona and Florida had the highest foreclosure rates.
- California, Florida, Arizona and Illinois accounted for 50% of the nation's foreclosures in 2009.
- Florida had 516,711 properties receiving foreclosure notices in 2009 – 14% of the nation's total and an astounding one in every 17 households.

Foreclosure Trends

- Foreclosures are moving into the prime sector.
- Government attempts to workout are generally ineffective and are widely viewed as *“kicking the can down the road.”*
- Re-default within 12 months is unusually high even after workout.
- “Strategic Default” is an emerging and rapidly growing trend. Homeowners are giving up in rapidly growing numbers believing that values have declined so far they will never recover.
- In a TransUnion study, researchers discovered that many consumers now tend to pay their credit card bills first to preserve “liquidity.” This trend (first noticed in late 2007) defies long term conventional wisdom and habit.

Foreclosure Trends

- The sub prime crisis and accompanying wave of foreclosures is largely behind us.
- A new wave is emerging and will hit in 2010 – **Payment Option ARMs.**
- Over the next two years, \$134 Billion in Payment Option ARM mortgages will recast according to Fitch Ratings.

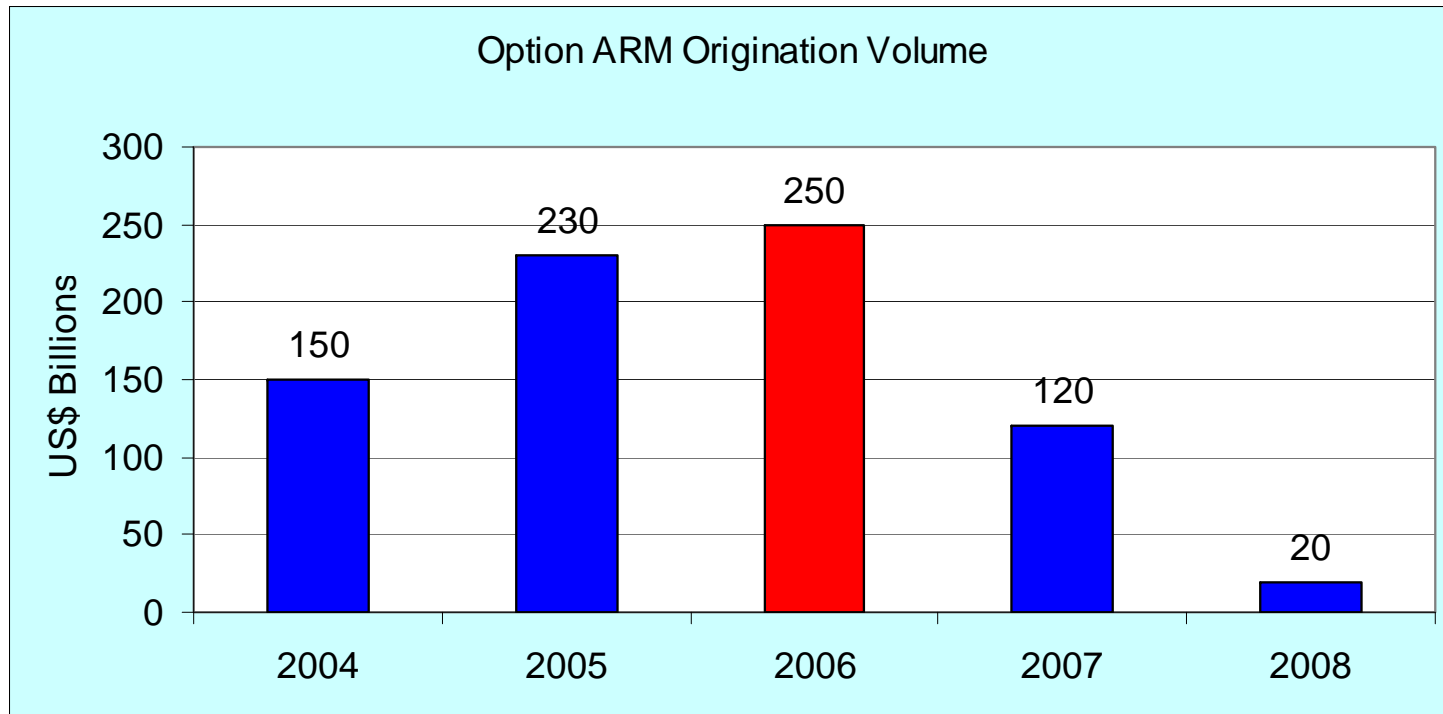
Payment Option ARMs

“If one were to design a loan that would blow up the maximum number of borrowers the moment house prices stopped rising, an option ARM would be it.”

Whitney Tilson & Glenn Tongue

“More Mortgage Meltdown”

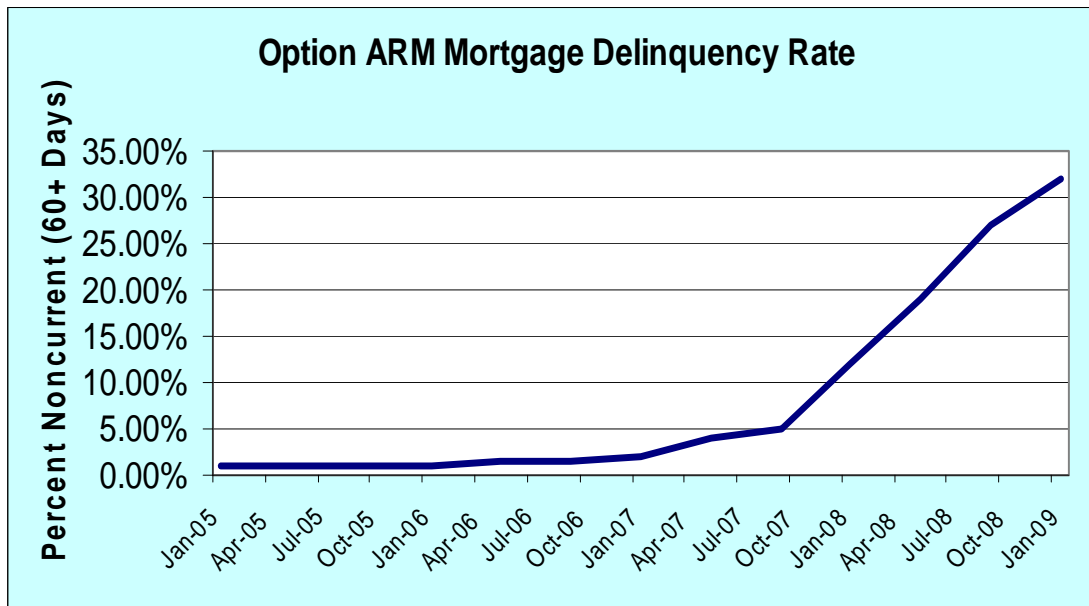
Payment Option ARMs



Origination peaked at approximately \$250MM in 2006. They were virtually non-existent in 2009. Significant resets began in 2009 and will continue through 2011.

SOURCE: Amherst Securities, Milken Institute

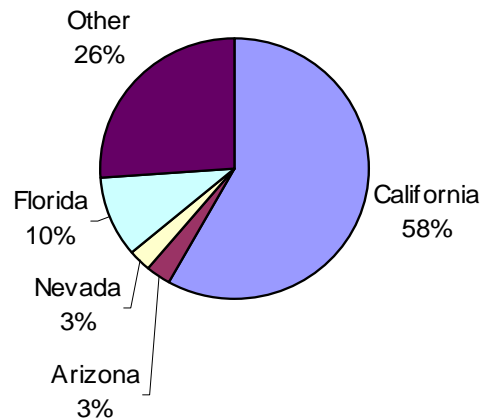
Payment Option ARMs



Delinquencies began to soar in October 2007 following the collapse of the housing market which began with the collapse of the sub prime mortgage bubble in August 2007.

Payment Option ARMs

Option ARM Originations by State



Approximately 10% of Payment Option ARM mortgages were originated in Florida.

Approximately 74% were originated in the Sunbelt states of California, Florida, Nevada and Arizona

Payment Option ARM Trends

- Most Payment Option ARMs originated with:
 1. Little or no cash down.
 2. Most were stated income
 3. Many had 40 year amortization periods.
- Most borrowers paid minimum and balance grew. Recast would occur at 110% to 125% of original mortgage balance due to negative amortization.
- *As values have fallen 45-60%, most borrowers are significantly underwater and are likely to default. |*

Foreclosures In Seacoast Served Counties

County Name	Population	Household	Mean Income	Pre-Foreclosure	Auction	REO	Total	One per Household
Brevard	536,521	267,456	\$51,507	956	513	240	1,709	156
Broward	1,751,234	805,772	\$56,574	2,443	2,978	1,376	6,797	119
DeSoto	33,991	14,549	\$42,592	26	0	7	33	441
Glades	11,175	6,079	\$36,143	3	0	1	4	1,520
Hardee	28,888	10,577	\$37,716	13	20	6	39	271
Hendry	39,453	13,359	\$41,525	44	43	6	93	144
Highlands	100,011	55,377	\$41,393	118	2	55	175	316
Indian River	132,315	78,151	\$92,097	165	116	78	359	218
Lake	307,243	143,580	\$49,065	431	196	101	728	197
Martin	138,660	75,920	\$90,676	254	79	41	374	203
Okeechobee	40,359	16,731	\$41,513	63	23	3	89	188
Orange	1,072,801	460,600	\$51,339	2,129	1,727	281	4,137	111
Osceola	263,676	120,997	\$37,907	841	578	246	1,665	73
Palm Beach	1,265,293	640,851	\$84,525	1,914	477	261	2,652	242
Seminole	410,854	174,293	\$59,151	601	469	92	1,162	150
St Lucie	265,108	132,341	\$44,358	641	398	133	1,172	113

SOURCE: Realtytrac



Florida Delinquencies by Loan Type

The Pipeline of New Foreclosures

3Q09								
		Percentage of Loans with				Percentage of Loans		
		Installments Past Due				in Foreclosure		
	Number of	Total	30-Days	60-Days	90-Days +	Inventory End	Started	Seriously
State	Loans Serviced	Past Due	Past Due	Past Due	Past Due	of Quarter	During Quarter	Delinquent
Florida (All Loans)	3,464,998	12.18	4.00	2.11	6.07	12.74	2.79	18.81
Florida (VA Loans)	83,976	8.96	4.06	1.64	3.26	4.73	1.36	7.99
Florida (Prime Fixed Loans)	2,001,922	8.59	3.03	1.48	4.08	5.97	1.62	10.05
Florida (Prime ARM Loans)	591,039	12.24	3.45	2.05	6.74	22.19	5.59	28.93
Florida (Prime Loans)	2,616,372	9.47	3.14	1.62	4.72	9.63	2.50	14.35
Florida (FHA Loans)	249,315	16.87	7.12	3.27	6.48	7.82	2.20	14.30
Florida (FHA Fixed Loans)	239,873	16.82	7.08	3.22	6.52	7.79	2.10	14.31
Florida (FHA ARM Loans)	6,705	16.87	7.93	3.76	5.18	7.82	1.80	13.00
Florida (Subprime Loans)	515,335	24.17	6.85	4.16	13.16	32.21	4.77	45.37
Florida (Subprime FRM Loans)	243,888	26.88	8.88	4.96	13.03	17.62	3.94	30.65
Florida (Subprime ARM Loans)	271,447	21.74	5.02	3.44	13.29	45.32	5.52	58.61

VA = Veteran Administration, ARM = Adjustable Rate Mortgage, FHA = Federal Housing Administration, FRM = Fixed Rate Mortgage

SOURCE: Mortgage Bankers Association, November 2009.

Commercial Real Estate Today

- Commercial real estate is now by far the weakest sector in the economy.
- Commercial real estate has surpassed residential in terms of its rapid and unprecedented value and price declines.
- Prices and values have deteriorated more quickly than they did during the crisis of the early 1990's. According to RERC values declined 20-25% in just *two quarters* in 2009 as compared to 30-35% in five years in the late 1980's and early 1990's.
- According to Deutsche Bank, the delinquency rate on \$700 billion in securitized loans also doubled in two quarters.

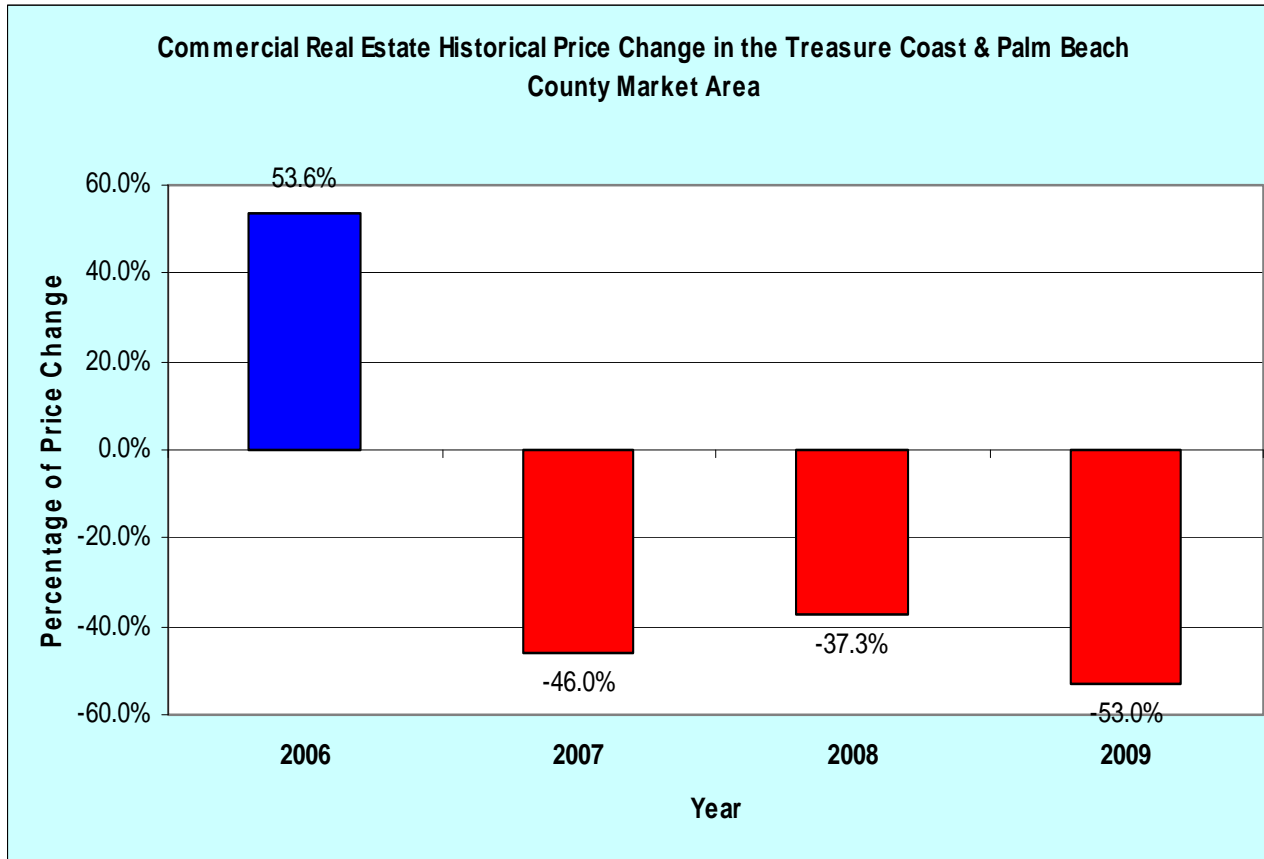
Commercial real estate today

- CRE prices declined 35% or more in 2009 due to:
- Rising vacancies, lower rents, rising capitalization rates and inability to refinance maturing debt.
- An additional 10% to 15% slide is possible in 2010 *without dramatic improvement in the CMBS market, employment and the broader economy – none of which appear likely at this time.*
- Today there are 2.5 times the dollars needing to be refinanced than there are dollars to refinance them. Unthawing the CMBS market is critical. Banks do not have balance sheet capacity to absorb what needs to be refinanced and the CMBS market is almost non-existent.
- Current CRE demand is negligible. The need today is to refinance debt created by five year old demand – much of which was not real demand but rather bubble inflated demand.

Commercial real estate today

- Broadly, values fell about 35% in 2009. These were generally larger (loans > \$10.0 MM) income producing properties (retail office, industrial and multi-family).
- Smaller (loans < \$10.0MM), second tier and “mom and pop” properties were harder hit falling in excess of 50%.
- The larger properties may have fared better due to a generally larger tenant base capable of sustaining the whole.

CRE Value/Price Change in Seacoast Core Markets



Banking and the Credit Environment

- Banks everywhere continue to struggle with problem loans, impaired capital and liquidity and unhealthy loan concentrations left over from the “bubble era.”
- These factors will continue to curtail lending for the foreseeable future and will contribute to bank failures and industry consolidation over the next few years.

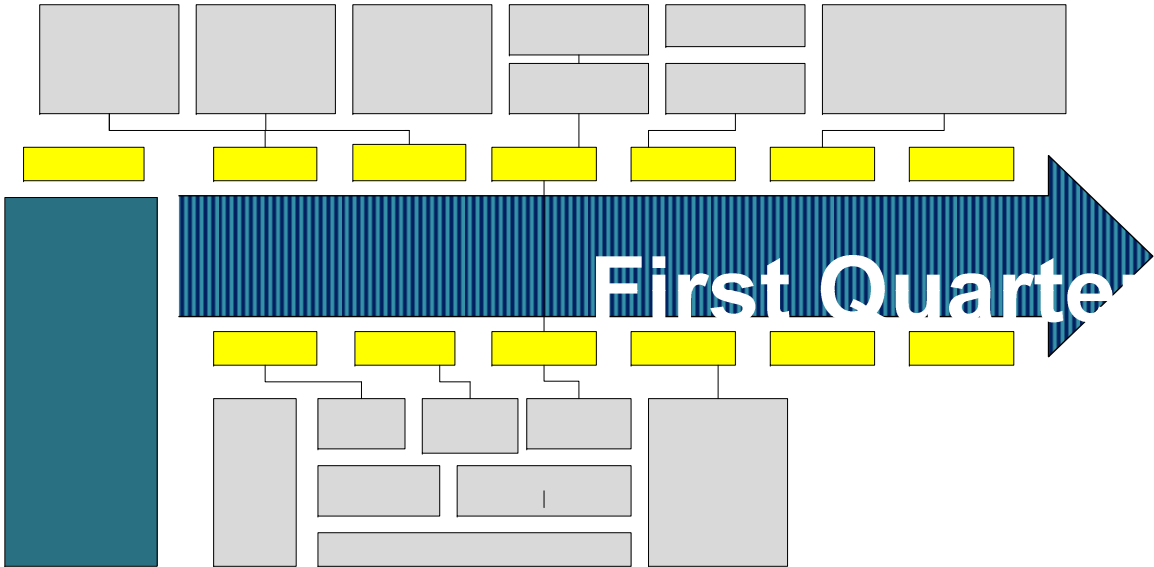
Banking and the Credit Environment

- Bank failures between 2008 and 2012 may rise to 700 which is roughly equivalent on a percentage basis to the five year period between 1989 and 1993 when there were twice as many banks as there are today.
- There were about 135 failures in 2009 and the FDIC reports 552 banks on its problem list. The FDIC Chairman commented publicly that 2010 failures will be at least as many as in 2009.
- The aggregate assets of banks on the FDIC problem list totaled \$345.9 Billion in Q3 (up from \$299 Billion over the quarter). *Important note: As those assets come back to market, they will have a profoundly negative impact on the market and perhaps the broader economy.*
- NOTE: The FDIC insurance fund turned negative \$8.2 Billion in Q3 – a loss of \$18.6 Billion over the quarter
- Bank loan losses have been extraordinary and are unlikely to normalize before late 2011. *Loan losses and bank failures going forward will be primarily driven by commercial real estate.*

Summary: What's new about the New Economy?

- Consumer won't spend us out of this one.
- Consumer new found propensity to save rather than spend – a huge change from the last 30 years.
- Back to basics consumerism (habits not new but missing for decades)
- No or little recession pent up demand
- Structural changes in employment. More permanent losses.
- Unemployment likely to remain elevated by historic standards for years.
- Boomers will continue to influence the economy long into retirement.
- House prices will remain flat for several years as a continuing result of bloated inventories and foreclosures. Values will increase at modest long term rate after recovery.
- Commercial real estate will remain a weak link for several years. Like residential, values will remain flat then grow slowly.

Forecast Recovery Time Line



Housing prices flat through at least 2011

Employment Bottoms Unemployment Peaks.

Seacoast NATIONAL BANK
Residential foreclosures enter prime sector and Payment Option

Questions or Feedback?

Bill Pittenger

Senior Vice President

Chief Real Estate Economist & Risk Advisor

Seacoast National Bank

E-Mail:

william.pittenger@seacoastnational.com

Telephone

772-221-2837



