Second Quarter 2009 Webcast

Economy | Real Estate | Forecast Recovery Timeline

Recession & Recovery Watch

"Eye on the Storm"

May 19, 2009

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Additional Free Resources Available from Seacoast National Bank

- This web cast will be available for replay on the Seacoast National Bank web site.
- The slides presented today, together with additional material, will be available for down load from the Seacoast web site.
- "Economic Perspectives," our online newsletter is available for download. Archives are included
- Our Looking Forward 2009 report is available for down load from the Seacoast web site.

Log on to: www.seacoastnational.com.

Click on Economic Perspectives and follow the links.

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Today's Program

- Economic Highlights
- Real Estate Highlights – Residential & Commercial
- Looking Forward to Recovery

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Is there any good news out there?

- Short answer: YES

- Longer answer: Yes, but …
  It is tenuous
  It is not consistent
  We're still deep in recession
  Risk remains heavily skewed to the downside.
  "Less bad" is perhaps the best description.

- There are clearly some "green shoots" of new life which we will explore in a few minutes.

- ***First, the "not so good" news:***

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The Macro Economy

Recession Watch

- ***While there are emerging signs of recovery we should not be fooled. This recession is still severe. It remains both broad and seep.***
- The recession is now 17 month old and clearly the worst in decades.
- Some industries NOW are seeing the steepest declines since the 1930's. ***These include construction, retail professional/business services and financial services.***
- Most recessions start with ineffective monetary policy or external economic shock and the effect flows into housing.
- This recession *started* with low interest rates and lax regulation that created a housing bubble that ultimately burst.
- Commercial real estate product types which followed residential are now seriously impaired too,

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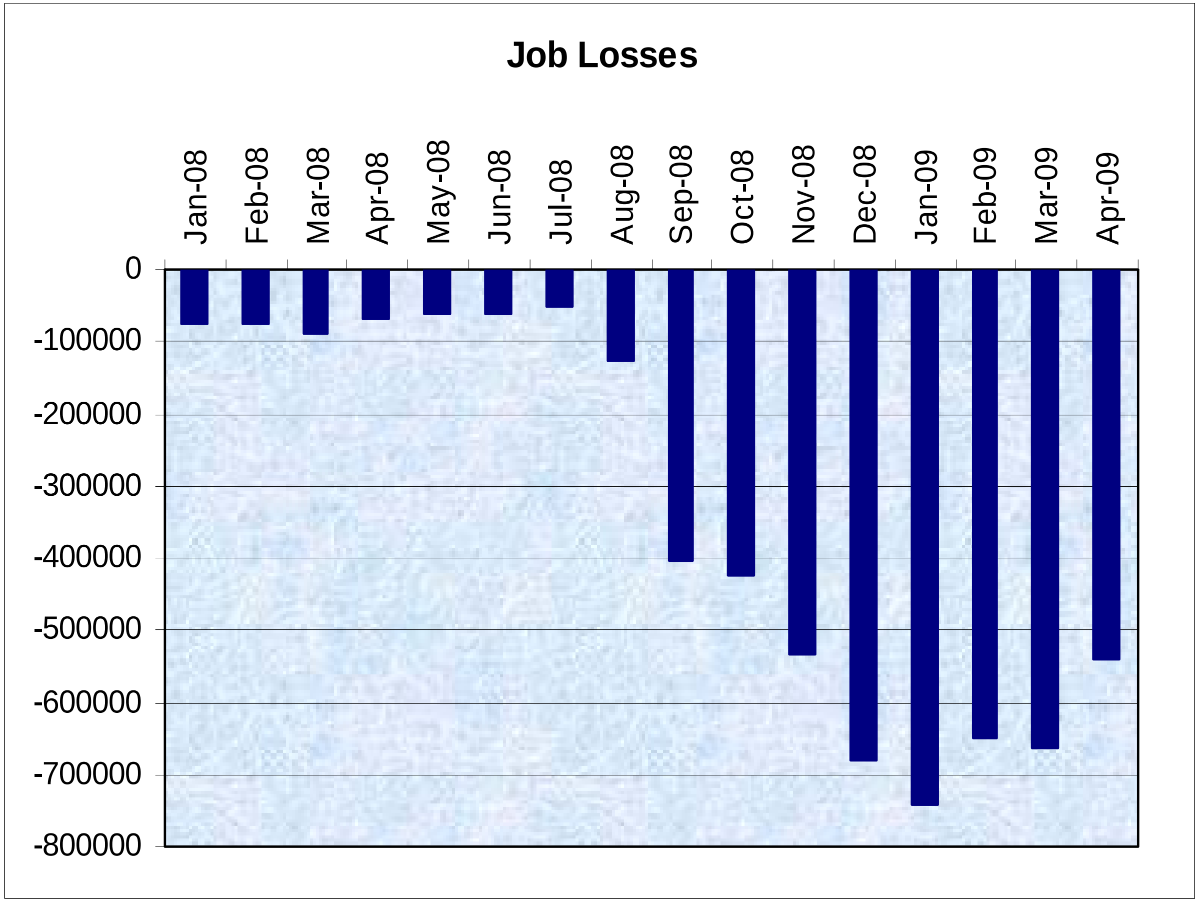
Recession Watch

- This recession has grown unusually broad and deep. Most recessions since World War II have been at least somewhat regionalized.

- Today, few places to hide with 90% of metro areas experiencing year-over-year job losses.

- Self reinforcing cycles are at work:
  - Employment
  - Credit availability
  - Foreclosures

Employment Downturn Intensifies



Job losses were "less bad" in April falling by 539,000 jobs rather than 600,000+ the previous four months. Private sector actually lost 611,000 jobs while government grew.

National unemployment rate is now (April) 8.9%

Florida rate was 9.7% in March. April data will be released on Friday May 22nd

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Employment Downturn Intensifies

- The U.S. still has 13.7 million people unemployed.
- Since the recession officially began in December, 5.7 million jobs have been lost and the unemployment rate has risen 3.9%.
- Current unemployment rate is 8.9% and 10% by early 2010 now seems likely.
- Employment is a lagging indicator as employers are slow to rehire. Unemployment will grow into 2010 even as the economy begins to improve.

Employment Facts

18 of 372 metros tracked by the Bureau of Labor Statistics have unemployment rates above 15%. 109 have unemployment rates of at least 10%.

The highest unemployment rate is El Centro, CA at 25.1%

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Employment Downturn Intensifies

- Current unemployment rates (local and national) understate true level of stress in the job market:
  - The number of *under-employed* workers is rising faster than unemployed. This includes those working part time because full time not available.
  - *"Phantom Unemployment"* of independent contractors.

- Self reinforcing unemployment cycle is especially dangerous:
  - Sometimes referred to as negative feedback loop.
  - Unemployment causes consumers to pull back spending which leads to manufacturing pull back which leads to more unemployment and the cycle repeats until broken.

- Problem is exacerbated by deflationary pressure on manufacturers who are forced to reduce prices and ultimately employment.

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The Effects of Decelerating Employment

- ***The tentacles of decelerating employment reach far and deep***

- Will lead to additional decline in spending.
- Will further erode already low confidence.
- Impairs innovation
- Adversely impact credit quality.
- Lead to more delinquency and mortgage foreclosure
- Adversely impact entire economy as evidenced by declining GDP.
- Exacerbate and generally pro-long real estate recovery.

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Local Unemployment

Metro Orlando & Space Coast

County	March 2009	February 2009	March 2008
Orange	9.9%	9.8%	4.5%
Seminole	9.2%	9.0%	4.5%
Lake	10.6%	10.4%	5.1%
Osceola	10.7%	10.8%	5.0%
Brevard	10.1%	10.1%	5.3%

SOURCE: Agency for Workforce Innovation (April 17, 2009)

Note: April data will be released on Friday, May 22nd

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Local Unemployment

The Treasure Coast

County	March 2009	February 2009	March 2008
Indian River	12.0%	11.6%	6.2%
St. Lucie	12.8%	12.7%	6.8%
Martin	10.1%	10.2%	5.6%

SOURCE: Agency for Workforce Innovation (April 17, 2009)

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Local Unemployment

The Gold Coast

County	March 2009	February '09	March 2008
Palm Beach	9.9%	9.8%	5.2%
Broward	8.5%	8.4%	4.3%
Miami-Dade	Not Tracked		

SOURCE: Agency for Workforce Innovation (April 17, 2009

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Local Unemployment

Big Lake

County	March 2009	February ‘09	March 2008
Okeechobee	10.8%	11.0%	5.7%
Glades	7.9%	8.0%	4.6%
Hendry	11.3%	10.9%	6.9%
DeSoto	8.1%	8.4%	4.8%
Highlands	9.3%	9.5%	5.4%
Hardee	8.4%	8.3%	4.4%

SOURCE: Agency for Workforce Innovation (April 17, 2009

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Looking Forward at Employment

- Retail employment will continue to decline as a direct result of decelerating or flat spending.

- Business and professional services as well as financial services (credit-intermediation) will decline coincident with a generally slowing economy, credit distress and decreasing office employment.

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Statewide Employment Trends

- Construction losses are slowing in the sunbelt (including Florida) but growing elsewhere in the U.S.
- Financial and business service job losses are growing.
- Health care continues to grow but at a slower rate.
- Total government grew until December and has now entered the loss column. Government entities are cash strapped.
- Most significant on going losses in Florida are likely to be in business, professional and financial services. Florida unemployment topping 10% is almost certain and 10.7% cannot yet be ruled out.

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Employment Outlook

Troublesome Macro Employment Issues:

- Number of people “marginally attached” to the workforce has increased sharply in this recession. (2.1 million in Q1).
- Discouraged worker count has also increased dramatically (717,000 in Q1).
- These categories continue to grow thus reinforcing the view that unemployment will continue to grow months after the economy (as indicated by the GDP) turns positive.
- On the positive side, initial jobless claims have been declining (average four weeks = 628,000). A sustained decline would signal the economy is approaching an inflection point.
- Movement in initial claims has accurately predicted the end of most recessions

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Inflation / Deflation Prospects

- Headline inflation (CPI) increased by 0.2% in April. The decline was led by energy prices which were down 25.2%.

- Core Inflation (not including food and energy) posted a 0.3% increase in April.

- CPI has fallen 0.7% (April) from a year earlier.

- There were year over year declines the previous two months which were the first year over year declines since 1955.

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Inflation / Deflation Prospects

- The decline has caused some to speculate *deflation* may be in the short term economic future.
- Deflation is an exceedingly hazardous economic condition because consumers tend to hold up purchases expecting prices to decline further (much like they are doing in housing today).
- ***The bigger risk appears to be inflation given the unprecedented number of dollars Treasury is infusing into the economy.***
- The Federal Reserve's balance sheet has ballooned to $2.2 Trillion from a usually more stable $995 Billion in government securities.
- ***The risk (in many areas) is that the Treasury may not be able to withdraw stimulus when the time comes.***

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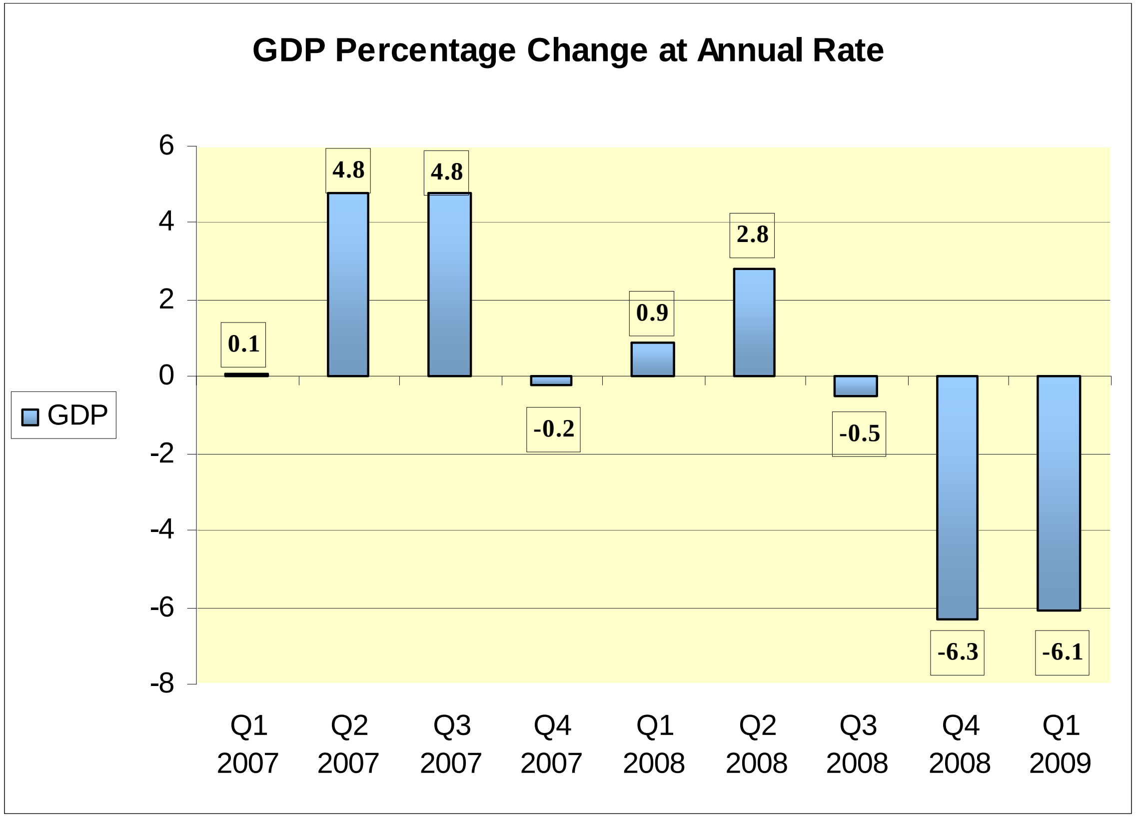
It All Rolls Up to GDP …

The Gross Domestic Product (GDP) is the top line measure of the economy and the broadest measure of goods and services produced.

Where have we been?

GDP Recent History



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Behind the GDP

- The economy as measured by the GDP stayed afloat reasonably well in 2007 even after the sub prime melt down in August and the beginning of the financial crisis.

- US GDP was propped up by:
  - Strong exports
  - Strong business spending on structures.
  - Tax rebates
  - Stronger global economy

- ***That was then …***

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Behind the GDP

- ***Now is now …***

- ***DRAMATICALLY*** accelerating job losses with only modest short term improvement likely.
- Deteriorating consumer and retail spending.
- Deteriorating business earning prospects.
- Declining inventories.
- Exports slowing.

- ***Recent historical supports are not currently with us which is accounting for GDP hovering at its lowest level since 1983.***

Q1 2009 GDP Highlights

- Inventories declined significantly.

- Business investment in plant and equipment slid 38% -- the steepest decline since World War II.

- Consumer spending grew at a 2.2% annualized rate.

- ***Although the GDP declined by 6.1%, some of the components are encouraging. All three of the above events have historically (since WW II) occurred <u>late</u> in a recession.***

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Looking Forward at GDP

- The economy has been shrinking at the fastest and steepest rate in 50 years but the rate of shrinkage is slowing.

- The economy will still contract in the second quarter of 2009 but at a less severe rate. Indicators thus far in Q2 suggest that GDP will be negative 3.5% to 4.0% in Q2 – substantially “less bad” than the previous two quarters.

- Many are expecting a return to positive territory in Q3 or Q4. Our read of the currently available data suggests more like early 2010.

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Housing

Under

Pressure

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Residential Markets

- ***Price / Value declines worst since Great Depression.***
- Values continue to decline but less sharply
- Foreclosures are volatile, currently surging and will be with us in some fashion until 2011.
- Secondary market is impaired thereby exacerbating residential financing.
- Barring currently unforeseen additional economic shock, residential could still find bottom in late 2009 but data are now lining up to suggest that could be into 2010. Timing of the bottom will not be consistent among markets.
- *Prices have now generally returned to 2000 - 2003 levels.*

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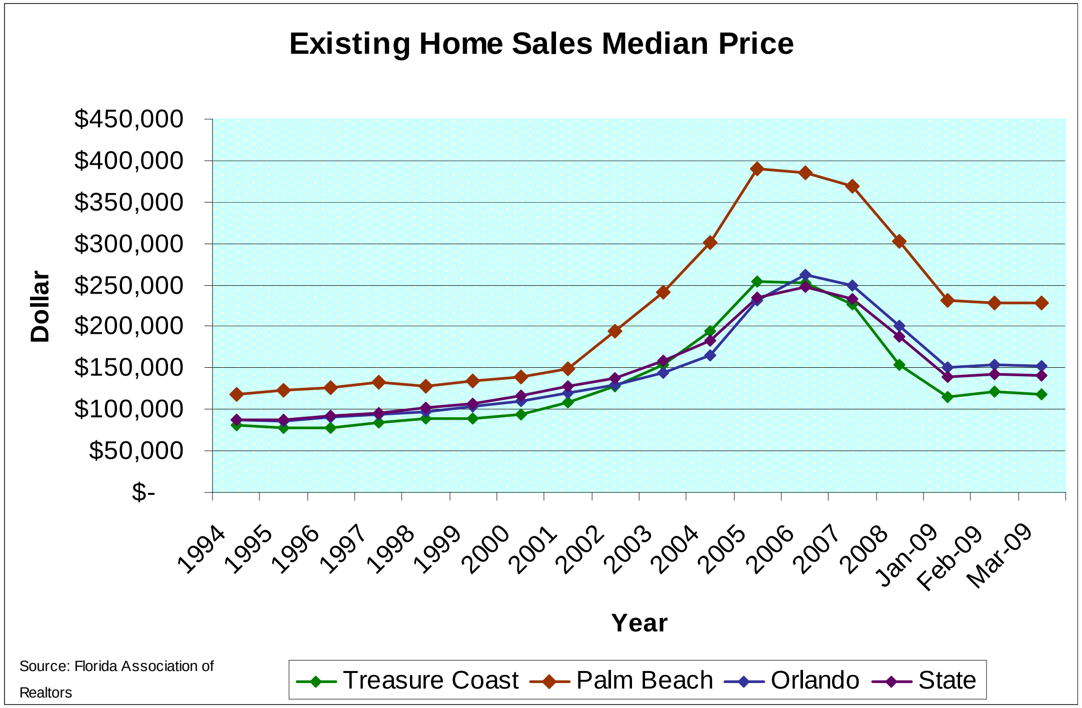
Existing Median Home Prices and Sales Volume March 2009

MSA	Sales	Change Over Feb	Median Price	Change Over Feb
Ft. Pierce PSL	493	+32.53%	$118,000	-3.36%
Melbourne Titusville Palm Bay	539	+25.64%	$123,700	+7.19%
Orlando	1,828	+35.21%	$151,000	-1.11%
W. Palm Bch Boca Raton	685	+28.76%	$228,100	-0-
Ft. Lauderdale	680	+36.00%	$219,500	+2.38%
STATE	13,085	+32.73%	$141,300	-0.42%

SOURCE: Florida Association of Realtors

Existing Home Sales

Long Term Median Price Trends



SOURCE: Data Florida Association of Realtors | Analysis Seacoast Economics

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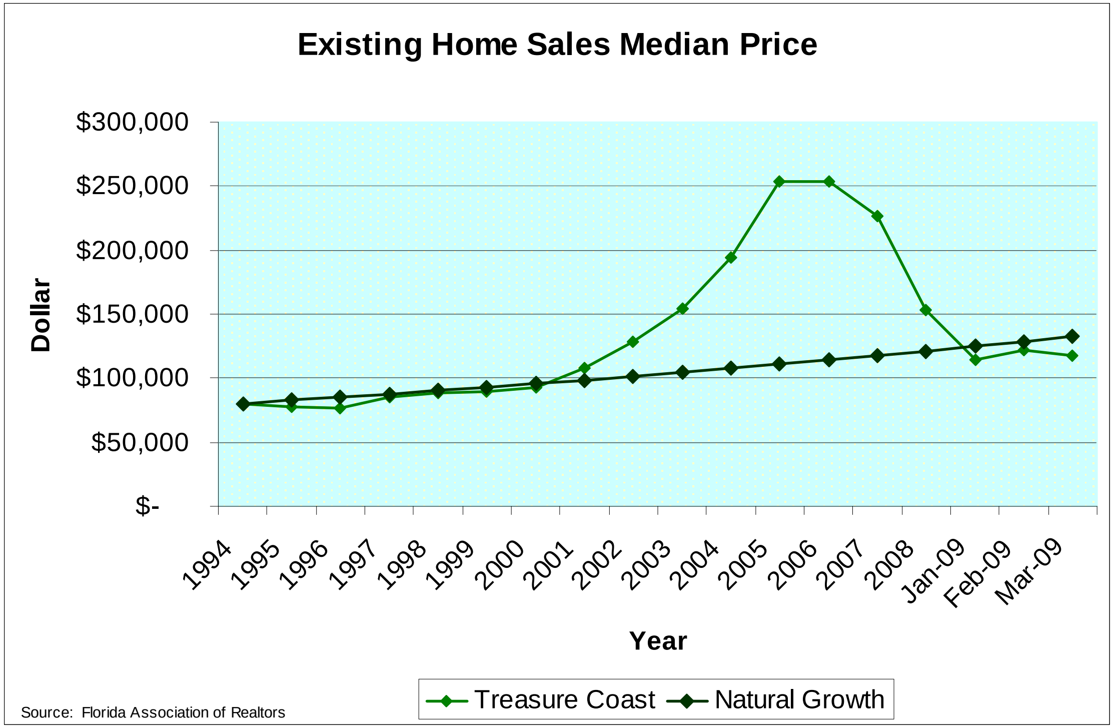
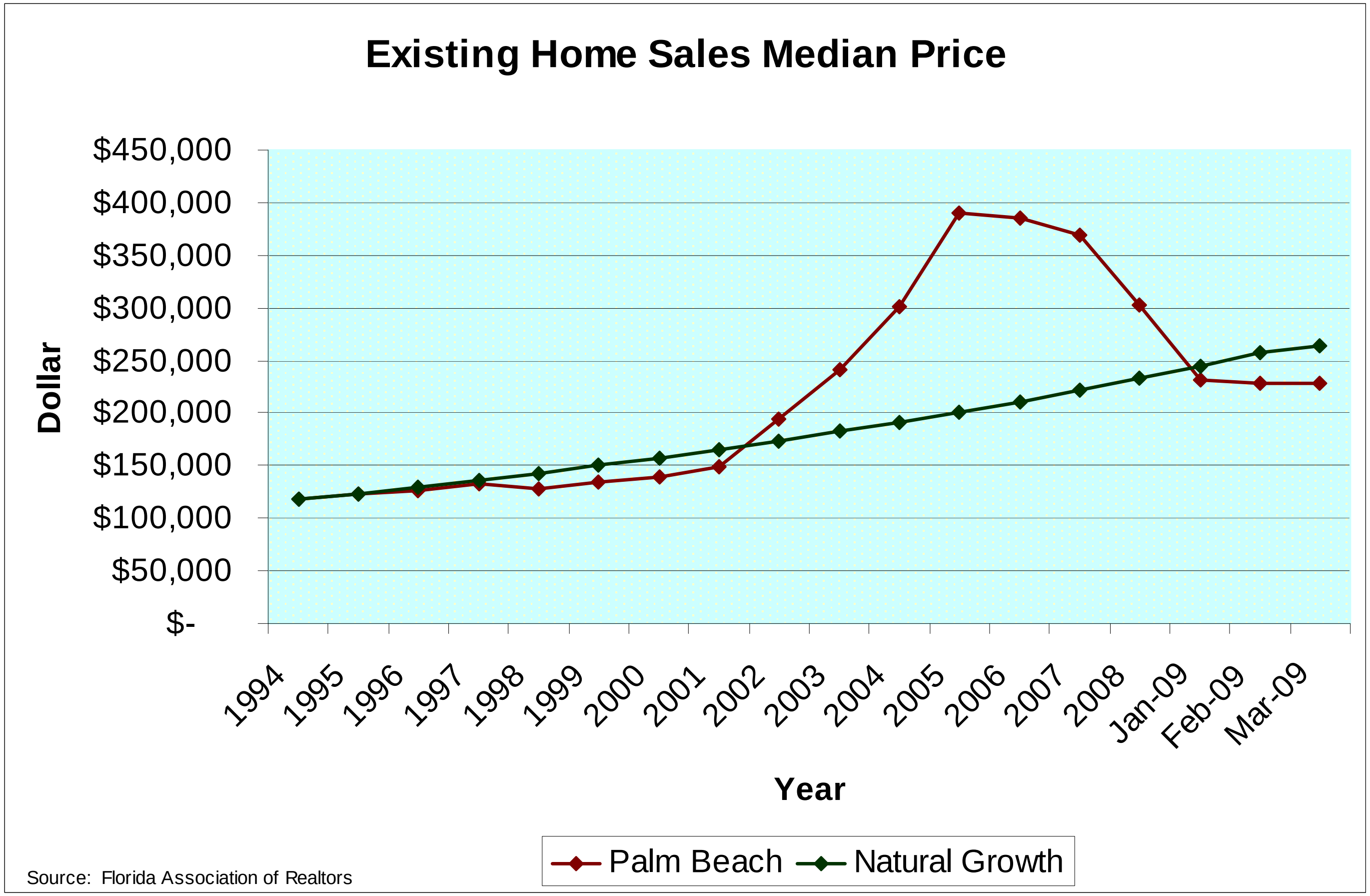
Existing Home Sales
Long Term Median Price Trends



Existing Home Sales
Long Term Median Price Trends



Source: Florida Association of Realtors

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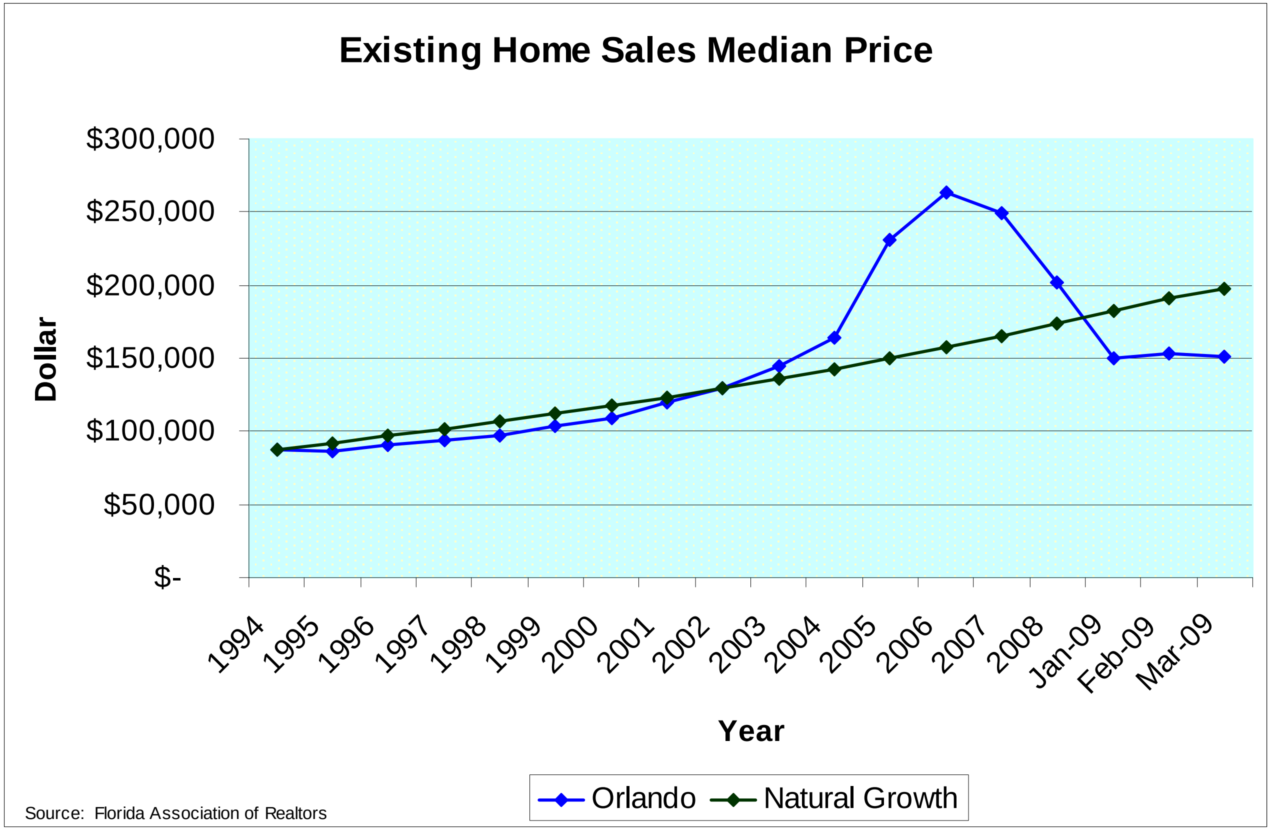

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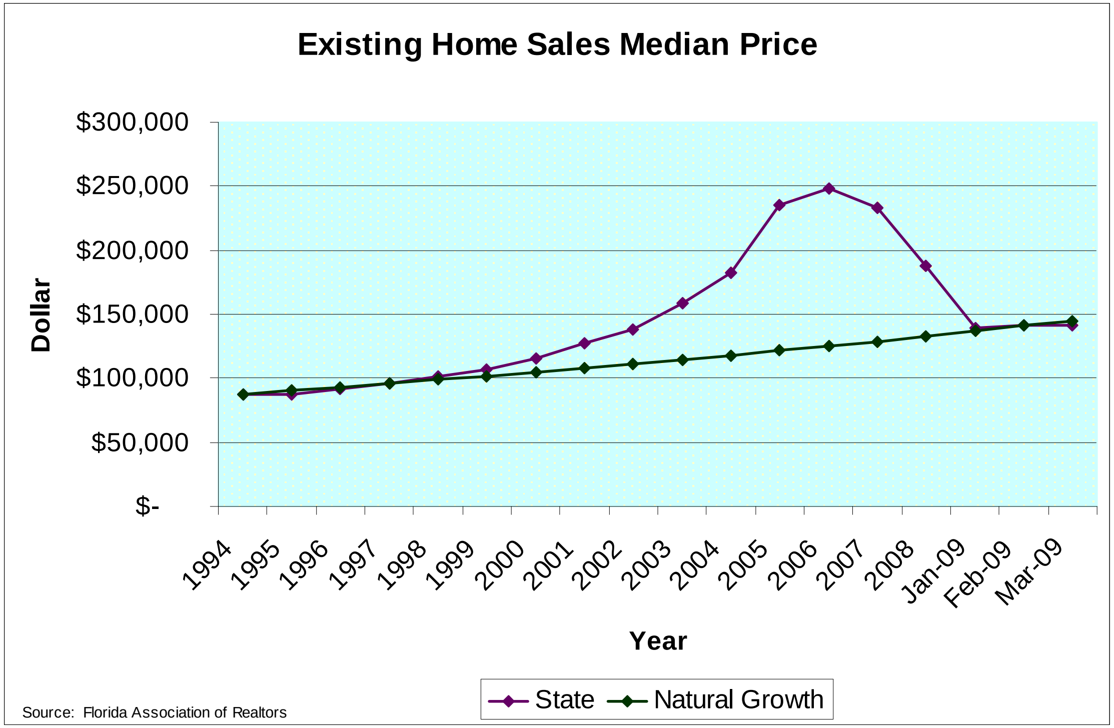

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New Home Inventory & Sales

New Home Trends

- Existing homes are outselling new homes three to one.
- New construction starts are at record lows.
- Sales pace is also declining

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New Home Inventory & Months of Supply

County	Single Family Inventory	Months Supply
Orange	10,970	30.0
Seminole	2,313	22.5
Lake	1,043	8.2
Osceola	4,123	21.3
Brevard	803	8.0
Indian River	530	7.1
St. Lucie	907	15.4
Martin	268	10.0
Palm Beach	1,198	7.0

SOURCE: Metrostudy (Q1 2009)

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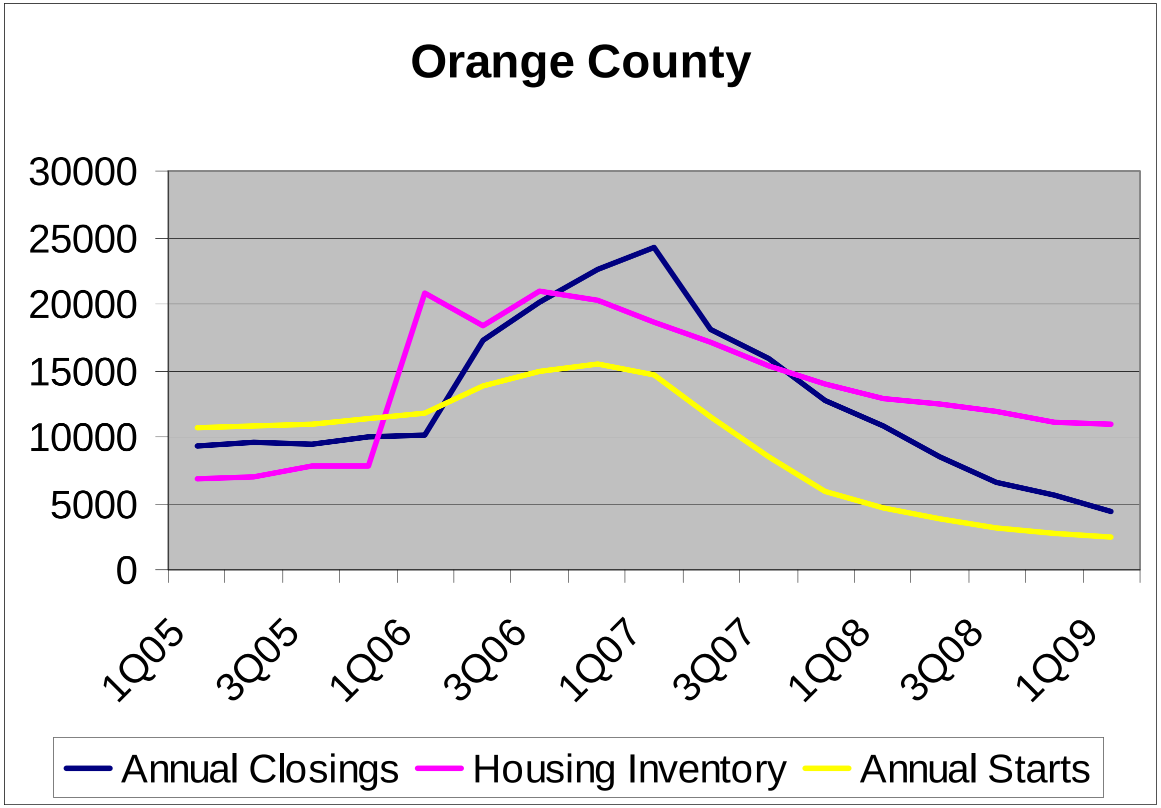
New Construction Trends



SOURCE: Chart data courtesy of Metrostudy (www.metrostudy.com)

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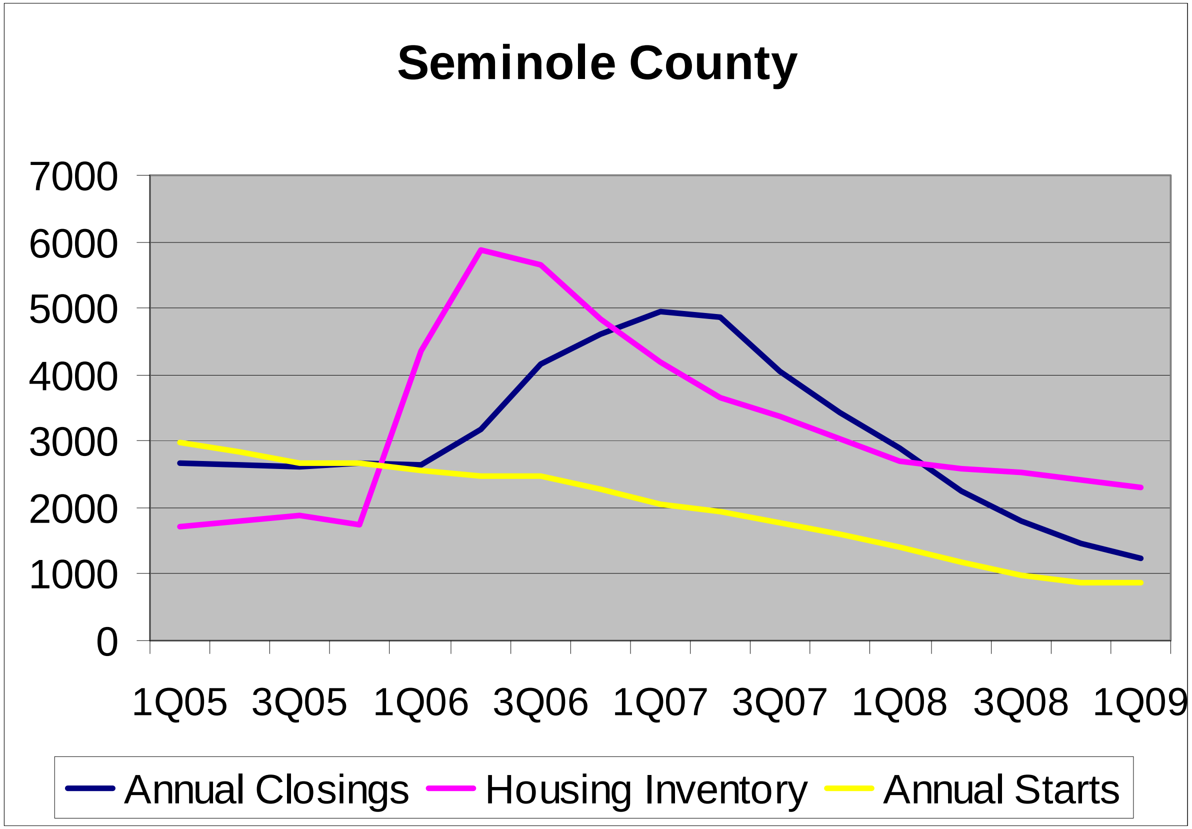
New Construction Trends



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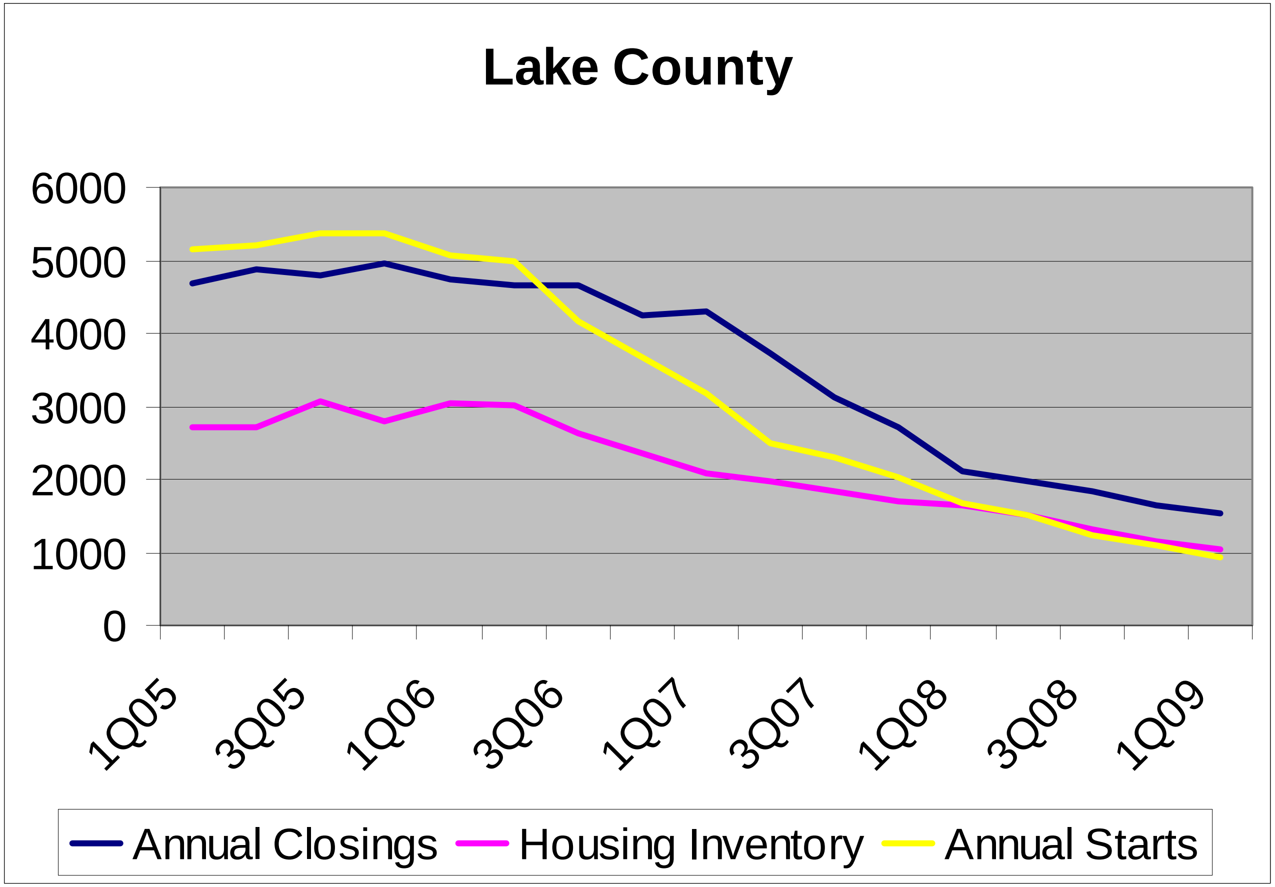

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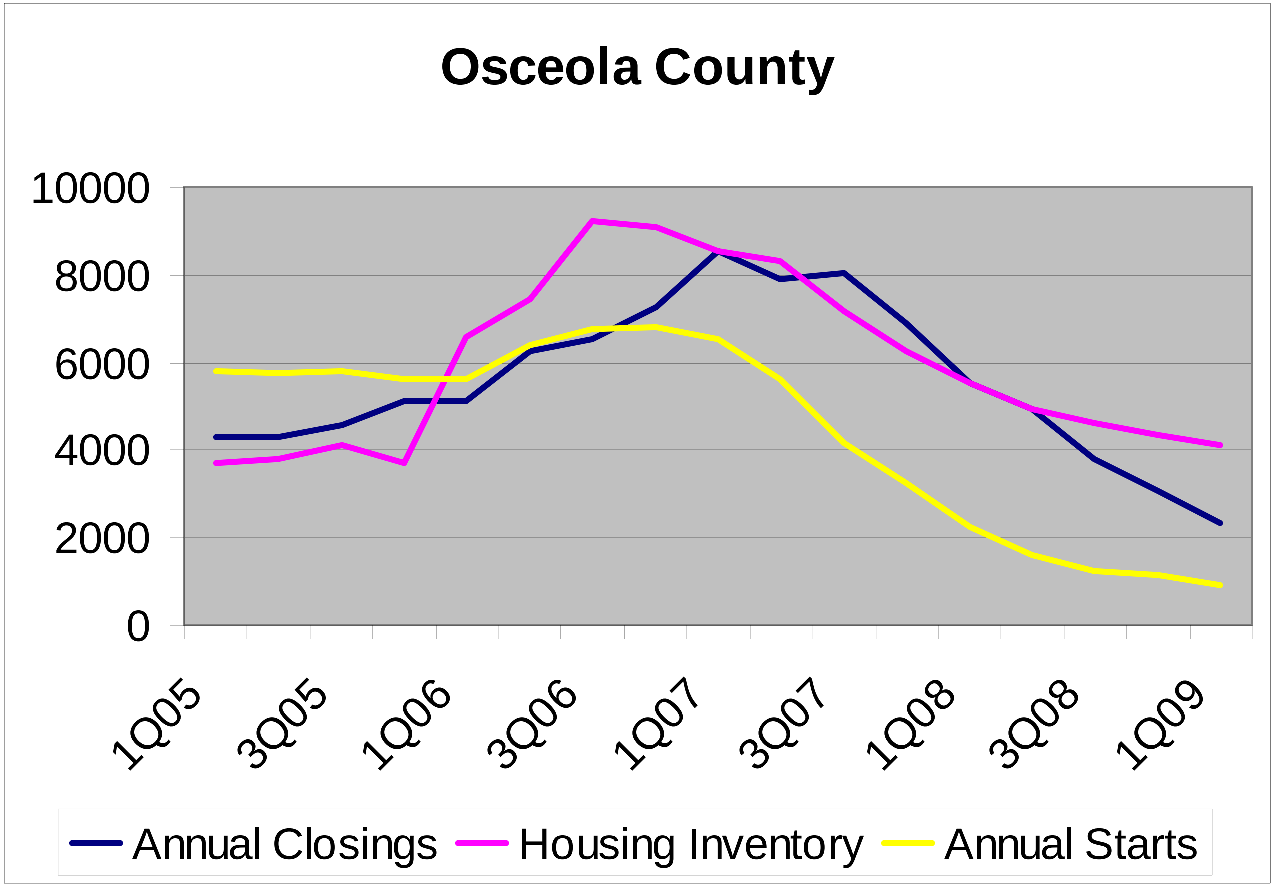

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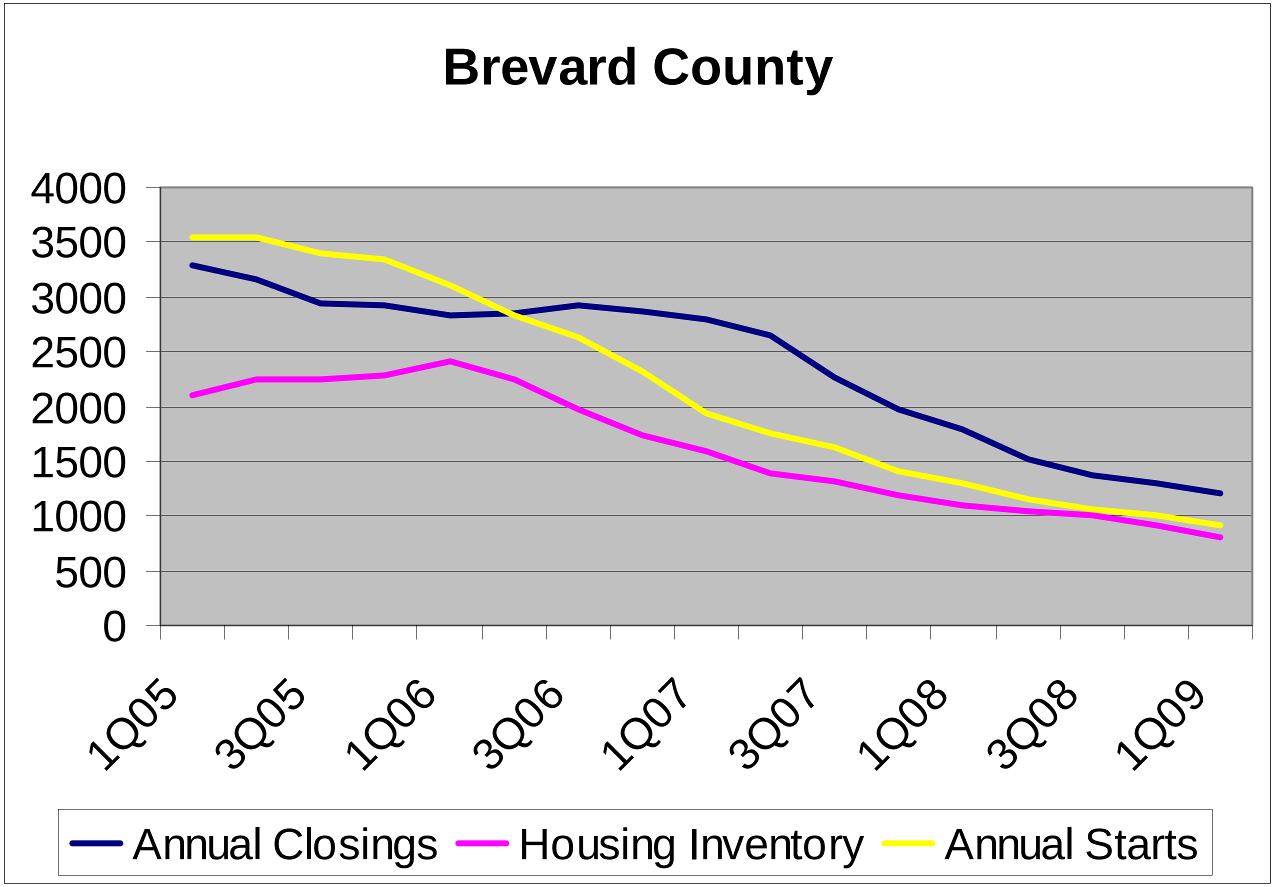

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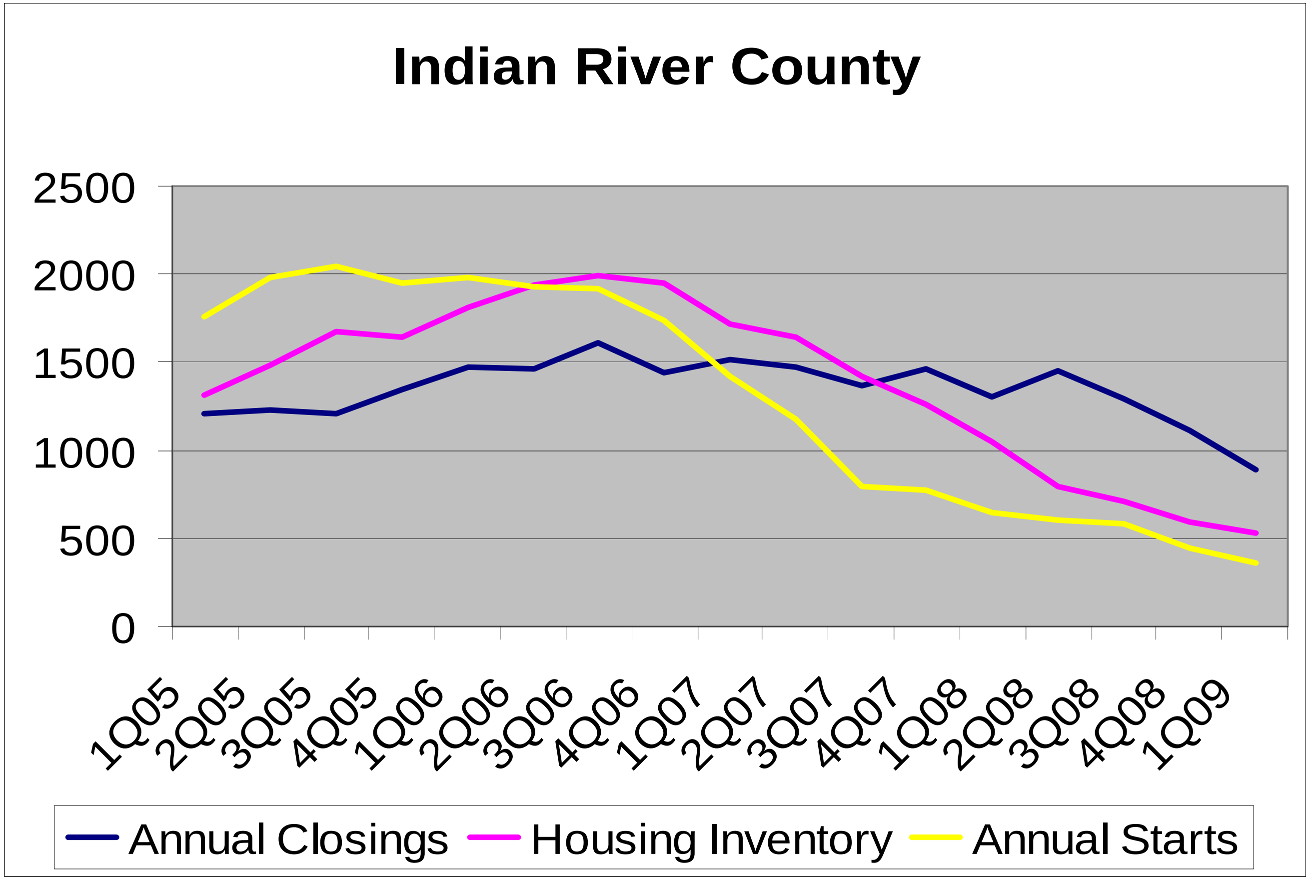

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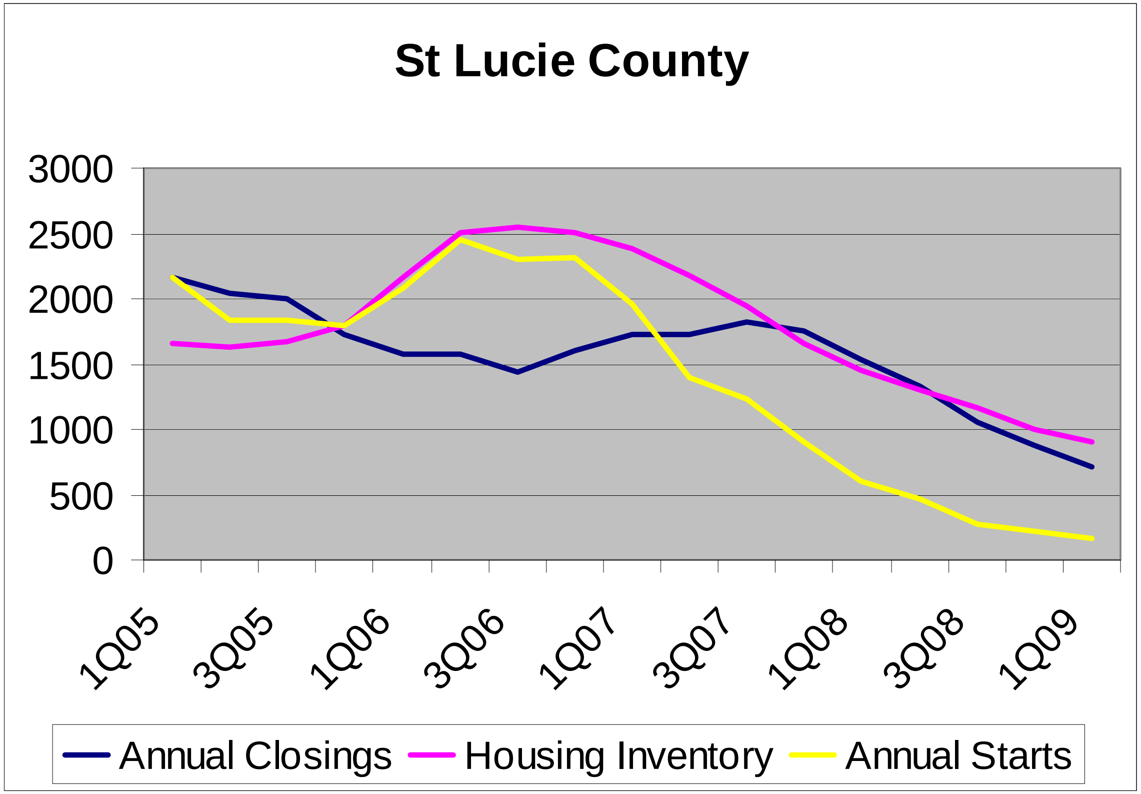

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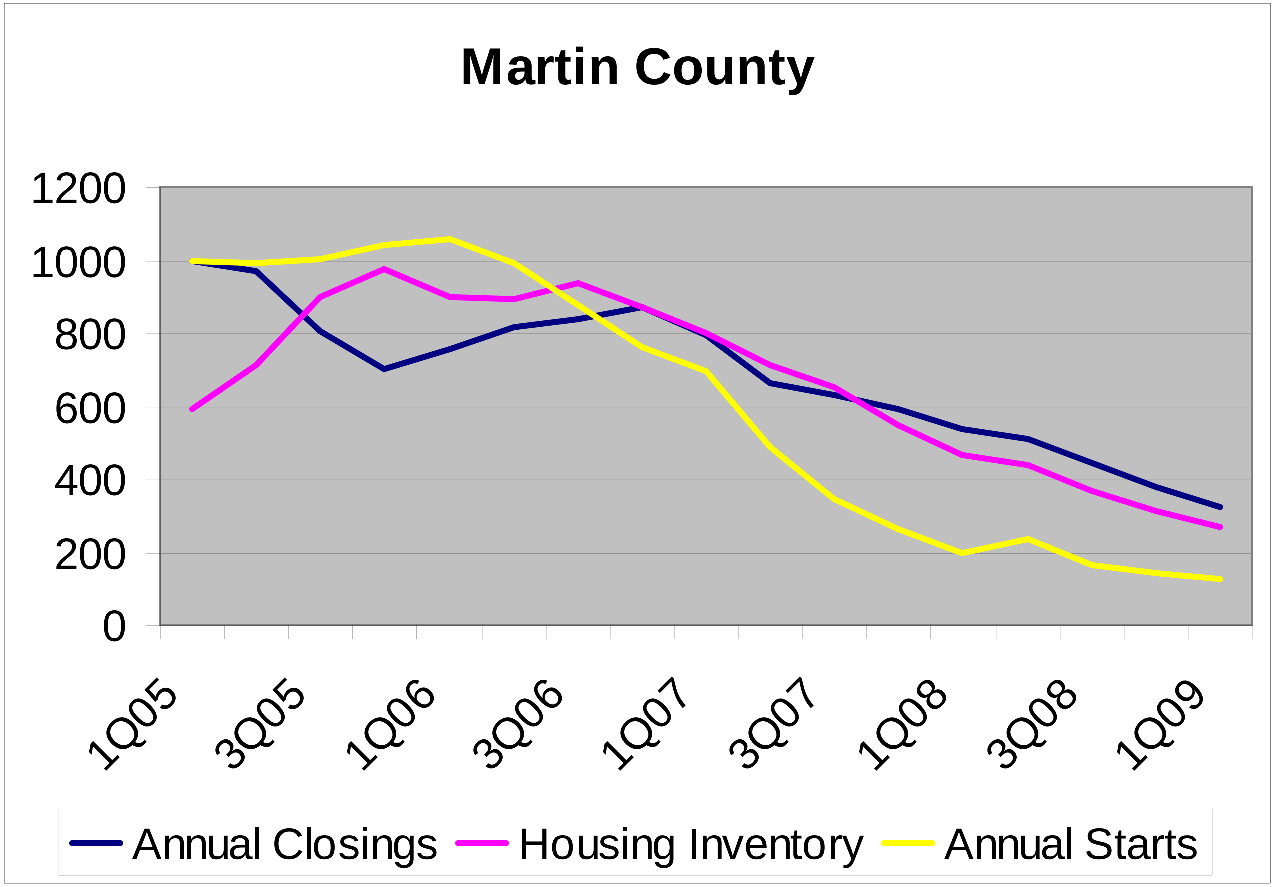

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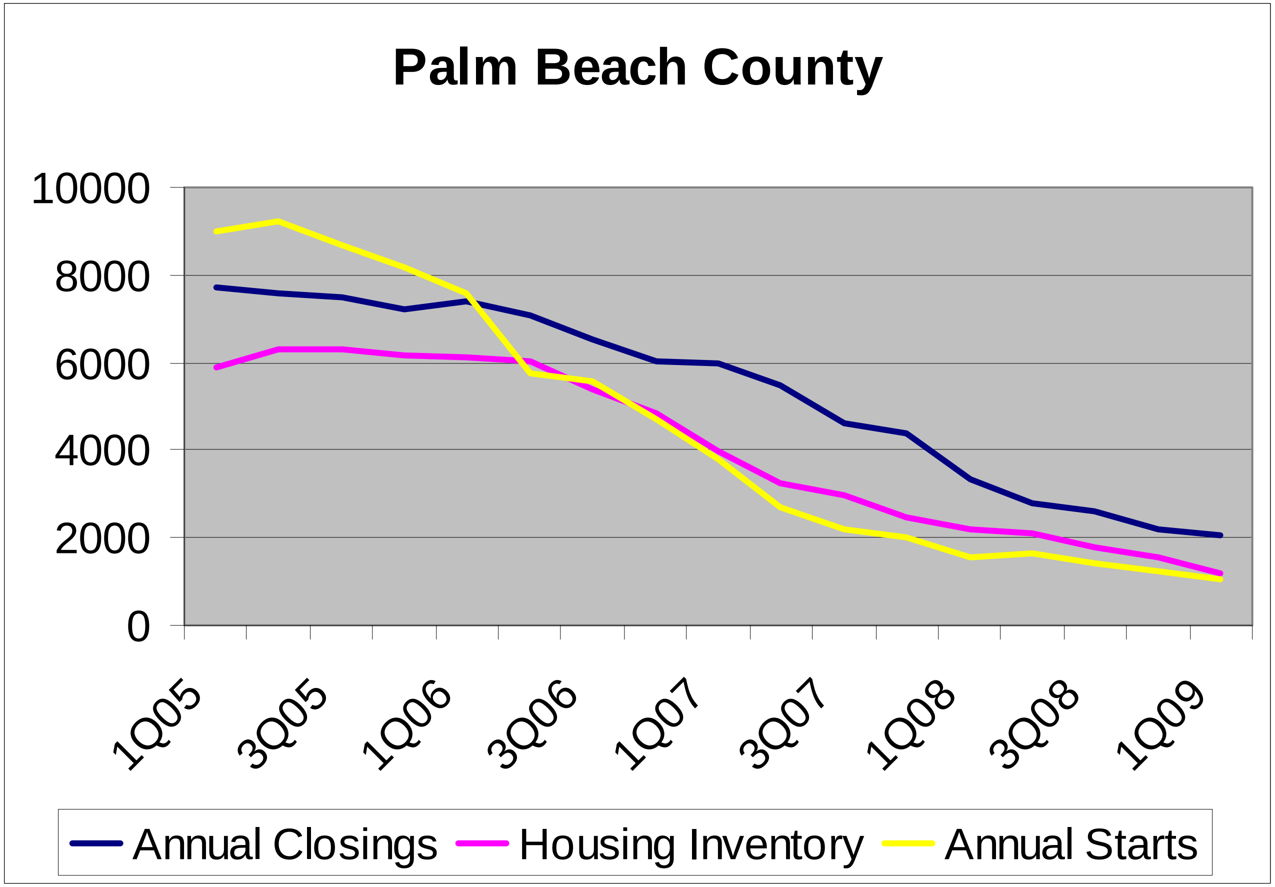

EVICTIONS
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Foreclosures

Florida Past Due Home Loans & Foreclosures

1-4 Family Residential – Q4 2008 – Mortgage Bankers Association

	% Past Due	30 Days	60 Days	90 Days	Foreclosure % of Loans
Prime Fixed Rate	8.22%	3.25	1.72	3.24	5.66
Sub Prime Fixed Rate	23.10	8.32	5.28	9.50	26.90
Prime ARM	13.29	4.23	2.75	6.41	13.37
Sub Prime ARM	22.61%	7.16%	5.17%	10.28%	37.58%
FHA	16.49	7.51	3.47	5.51	4.73

Source: Mortgage Bankers Association

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New Foreclosure Filings & Ratio to Housing Units – April 2009

Seacoast County	New Foreclosure Filings	Change from March 2009	Change from April 2008	Ratio to Housing Units 1 in Every X Housing Units	Rank in State
Orange	2,544	+21.75+	+125.51%	99	6
Seminole	548	-7.61%	+63.36%	197	23
Osceola	1,422	+32.59%	+82.82%	57	1
Lake	584	+6.62%	+148.86%	128	8
Brevard	1,026	+23.24%	+80.92%	192	21
Indian River	117	-16.85%	+98.7%	252	30
St. Lucie	507	-5.12%	-13.5%	91	5
Martin	126	-16.41%	+68.46%	346	36
Okeechobee	68	+22.5%	+4,800%	168	19
Hendry	64	-2.25%	-18.08%	154	12
DeSoto	25	-20.51%	-24.39%	467	45
Glades	1	-66.67%	-60.00%	3,034	64
Highlands	140	+2.53%	1,094.12%	268	33
Hardee	8	-36.36%	+40.00%	749	53
Palm Beach	2,538	+88.60%	+44.47%	224	27
Broward	6,797	+124.07%	+90.62%	78	3
Florida	41,674	+37.04%	+75.41%	135	2 In Nation
U.S.	76,608	+0.25%	+32.25%	374	

Foreclosure Facts

- Florida is (April) second in the nation for foreclosures based on ratio to households.
- Nearly 22 million American homeowners owe more on their property than it is worth An estimated 2-2.5 million are in Florida.
- Huge incentive to walk away
- Foreclosures are slowing recovery.
- Foreclosures will have a huge impact on the broader economy well into 2011.
- The lingering effect of foreclosures will limit price increases for several years after the housing market has bottomed and the economy turns positive.

Foreclosure Rankings by County In Florida

County	State Rank
Osceola	**1**
Lee	2
Broward	**3**
Miami-Dade	4
St. Lucie	**5**

Seacoast Counties Shown In Red

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What Is Driving Foreclosures Today

- Sub prime collapse is largely behind us but Payment Option ARMs are now resetting.
- Foreclosures have moved into the prime sector.
- Prime borrowers with negative equity are giving up in higher numbers.
- Unemployment and employment related issues such as reduced hours and/or pay will play a major role going forward.

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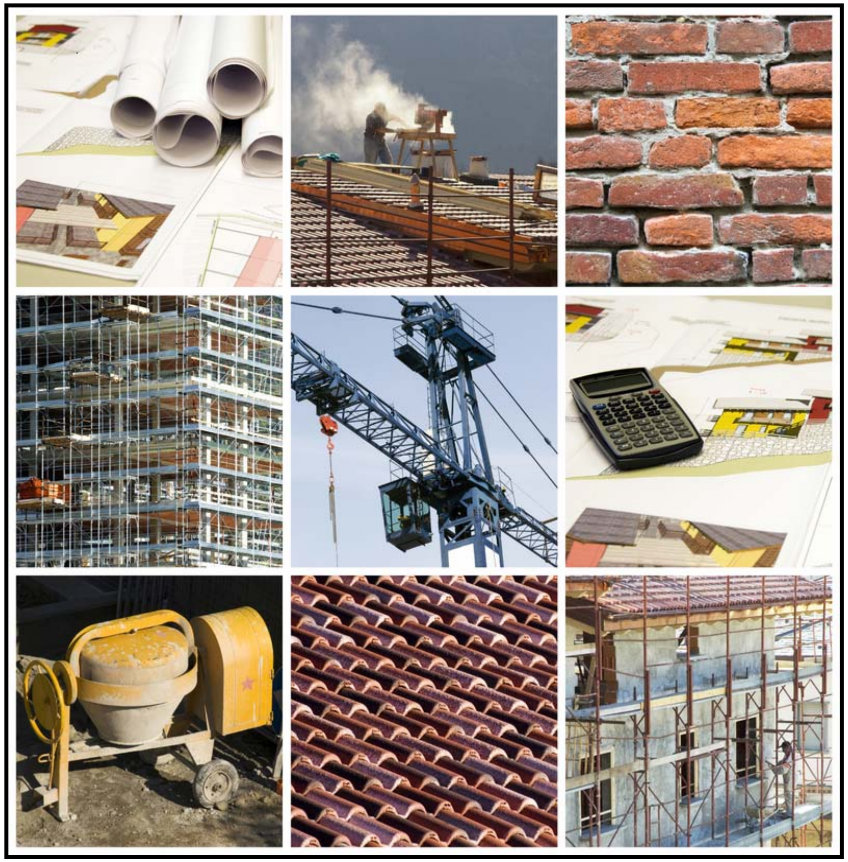
Looking Forward at Commercial Real Estate



The commercial real estate sector stayed afloat long after the residential sector began to sink and even as the broader economy began to weaken. Nevertheless, the commercial sector began to falter in early 2008. Today, most commercial real estate product types are under stress, values have declined and no positive change is likely in the remainder of 2009.

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Obstacles Facing the CRE Sector

- Commercial real estate is widely considered the next “shoe to drop” in the current economic crisis. The major obstacles include:

- Lack of available credit to refinance maturing debt. The CMBS market is virtually shut down and banks do not have balance sheet capacity to absorb the shortfall. There are an estimated 1.5 time the dollars needing to be refinanced than there are finance dollars available.

- That suggests that delinquencies, defaults, bankruptcies and foreclosures may surge over the next 12-18 months.

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Obstacles Facing the CRE Sector

- CRE fundamentals are continuing to deteriorate and will do so throughout 2009 and well into 2010.
- Vacancy rates will continue to rise in all major sectors.
- Rents will continue to decrease.
- Sub lease available space will continue to rise.

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Obstacles Facing the CRE Sector

- Capitalization rates will continue to rise.

- Capitalization rates were 10%± for decades until they became compressed early this decade.

- Capitalization rates declined dramatically with the run up in prices as investors placed more confidence on the future. That confidence is gone.

- ***Pre 2002 ("pre-compression") capitalization rates pushing 10% are highly likely again.***

Obstacles Facing the CRE Sector

- Concessions and lease terms that favor tenants will continue at a level not seen since the early 1990’s.
- All of these factors combine to decrease values.
- ***We expect CRE values to decline at least 20% during 2009.***
- If the CMBS market does not come back to life, 2010 could also be a down year.

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Retail Real Estate

- Retail real estate is feeling the effects of the credit crisis and a remarkable slow down in consumer spending. That combination is forcing structural changes in retailing. Retailers continue to aggressively close under-performing stores, bankruptcies are surging and the effect is flowing through to retail real estate.

- Vacancies are rising and sub lease space is increasing as tenants try to vacate space.

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Retail Real Estate

- Retail real estate sales volume nationally was down 74% in 2008 and 2009 is not looking any better.

- Average capitalization rate up 60bps over the year but accelerated in Q4. Look for rates to be up 200bps in 2009 and finish the year in the mid 9% range. (Higher for second and third tier space).

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Retail Real Estate

- Second tier space occupied by “Mom & Pop” is suffering the most. Why?

  - CAM Expense has accelerated dramatically.
  - Mom and Pop have run out of money. Cash, savings, credit lines have been depleted and credit cards max’d out.

- Throughout Seacoast markets we are seeing furniture, appliance, mattress stores, and especially restaurants go out of business.

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Retail Real Estate in Seacoast Markets

- For those who can afford, they are looking for rent and other concessions including full tenant improvements.

- New space slow to lease up plus pre-lease commitments are falling out or being renegotiated.

- Absorption is at its slowest pace since 1991.

- What is happening to rents?
  - Net has become gross.
  - What was $20+ net annually is now $15-$18
  - Vacancies are rising (9-12%)

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Office Real Estate Summary

Office employment grew earlier this decade and office real estate development quickly followed. Overall, however, employment growth was more constrained than previous booms as employers hired more conservatively, tenants were slower to expand their space, per capita space needs declined and improved technical capabilities allowed more employees to work away from an office. To top it off, corporate downsizings in 2008 outpaced expansions four to one.

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What's Driving Office Development?

Jobs

- Real estate and construction related jobs – including office jobs -- have pulled back dramatically.

- *Finance related are pulling back now.*

The Local Impact

- Office fundamentals have weakened coincident with a slowing economy and sagging employment. *That will lead to less demand for office space over the short term.*

- Looking forward, assumptions around slower absorption, rental rate growth, occupancy as well as rent and price appreciation are becoming more conservative.

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Local Impact

- Office market is clearly weak.
- Net leases are turning to gross as tenants struggle with CAM.
- Businesses that have been expanding are now contracting which is bringing significant sub-lease space to market.
- Tenants are struggling to sub lease and are unable to cover their leases. What was $20 net space is now $12 - $15.

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Industrial Real Estate Summary

- The industrial and warehouse sector held up well while the economy was growing. Stress emerged with the housing crunch, then a pull back in consumer spending followed by slowing exports and now manufacturing dipping to an historic low.

- Port cities were holding up but are now beginning to weaken with sagging exports.

- Warehouse space demand is sinking coincident with housing demand. Less demand for space to store furniture, appliances and building materials.

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Industrial Real Estate

- Contractors and sub contractors have cut back space requirements leaving space available for lease or sub lease.
- The higher quality flex sector has softened as many tenants opt for less expensive space. Rental rates which were previously $12.00 per SF are now $8-$9.00.
- The self storage sector is now experiencing significant decline as well.

Credit Market Outlook

"When credit collapses, nothing else can stand."

Randall Forsyth
Barron's Magazine
September 22, 2008

Why Banks Struggle to Lend

- Capital Constraints
- Liquidity Constraints
- Current absence of secondary market (CMBS market dried up)
- Rising delinquencies & defaults
- Risk in current market ***INCLUDING*** over-supplied markets with values declining
- Unhealthy loan concentrations

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Economic Realities

- Contrary to the often cited claim that housing and the economy will rebound when banks start lending, the economic reality is that *lending lags economic growth. Indeed credit supports growth by financing demand.*

- Lending demand sags during recession. Today's demand is not for new growth but rather refinance driven by the excesses earlier in the decade. *The loan demand today is to refinance 5 year old demand – not finance current demand.*

- History (at least 35 years) tells us that home mortgage new loan volume does not expand for about 18 months after housing recovery.

- Commercial lending does not expand for at least 9 months after fixed investment recovers.

- Total bank loans outstanding have not expanded for roughly five months after GDP recovery.

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Lending Today

- Consumers are struggling to repair their balance sheets and recover from years of excess liquidity which drove increased borrowing and spending.

- Most of that borrowing found it's way to the secondary market which is now virtually non-existent.

- Bank lending pales in comparison to secondary markets. According to Federal Reserve Flow of Funds Report, banks fund only one third of consumer credit.

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Lending Today

- Consumer lending at banks actually increased slightly in 2008.
- Nevertheless, banks do not have balance sheet capacity to absorb to absorb what it NOT being absorbed by the secondary markets.
- ***The fuel for increased lending must come from savings and not capital injected by the government.***
- ***Renewed secondary markets will be more stimulative to lending than the banking system due to the size and capacity differential.***

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Ask Yourself …

Despite both the economic realities plus government efforts to thaw lending, why would banks lend into such unprecedented headwinds – especially already over-supplied markets?

A new Dawn?

Looking forward at recovery …

Signs of Renewed Economic Life

- Economic freefall that began last fall with the near collapse of the financial system has slowed. The outlook is “less bad.”
- Consumers are seeing lower energy prices, bigger tax refunds, tax cuts, refinancing wave and higher social security payments.
- Consumer confidence, though still very low, has risen from its historic low.
- Most damage to household wealth may already have occurred. There are clear signs that housing and equity markets are near bottom.
- Housing inventory is starting to clear.
- Affordability has returned to the housing sector.
- Architectural billing index is up suggesting new development could resume at a modest pace within the next two years.

Green sprouts of new life will emerge but not all will take root and survive.

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Signs of Renewed Economic Life

- Job losses continue but at a slower pace.

- GDP components are signaling that we are in the latter stages of the recession.

- Rate of median home price decline has slowed and sales volumes are increasing nationally, in Florida and in most Seacoast served markets.

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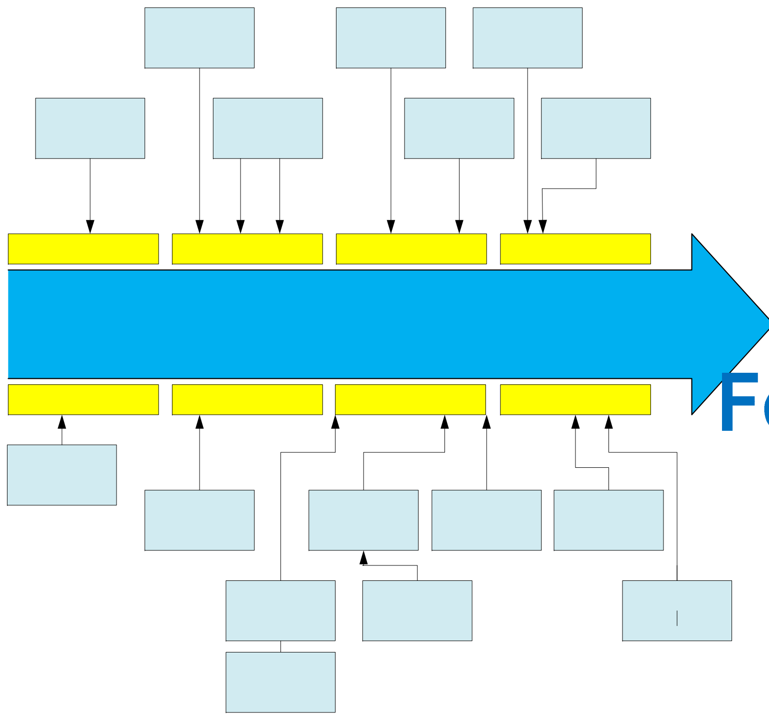
Forecast Recovery Time Line



Forecast Recession | Rec

Looking Forward from Ma

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Forecast

Barring Additional Unforeseen Economic Shock

- Housing starts will bottom in late 2009.

- Housing, as evidenced by price declines will bottom in the first half of 2010. The measure is prices stop falling and natural volume (real home sales, not just foreclosures) begin to increase.

- Employment will bottom and unemployment will peak in mid 2010.

- GDP turns positive in early 2010.

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Forecast

- Bank failures will continue throughout 2010 and 2011 reaching a peak of about 750 before abating in late 2011. Note: 1,647 banks and thrifts failed in the early 1990’s during the thrift and commercial real estate crisis. There are currently about half the number of banks as there were in 1990.

- Federal Reserve begins tightening in late 2011 and inflation risk will be high.

- Residential foreclosures abate in mid to late 2011.

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Forecast

- The economy becomes self sustaining (no need for additional stimulus) in late 2011. The inflation risk will be very high and it remains to be seen how or if the Treasury can withdraw stimulus of the previous three + years.

- Modest new residential development may begin by early 2012 as projects return to pre run up absorption and return to economic feasibility.

- Modest new commercial development will follow residential.

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The Bottom Line

The green shoots of new life we are seeing today are real and they do signal a recovery. In even the best case scenario, however, recovery will be a long, rocky and sometimes painful journey. While recovery will come, it will almost certainly be years before we see the robust growth of the not too distant past.

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Questions or Feedback?

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