

Where we've been | Where we are | Where we're going

Q4 2009 Web Cast | December 15, 2009

The Road Ahead

a critical look at real estate & the economy

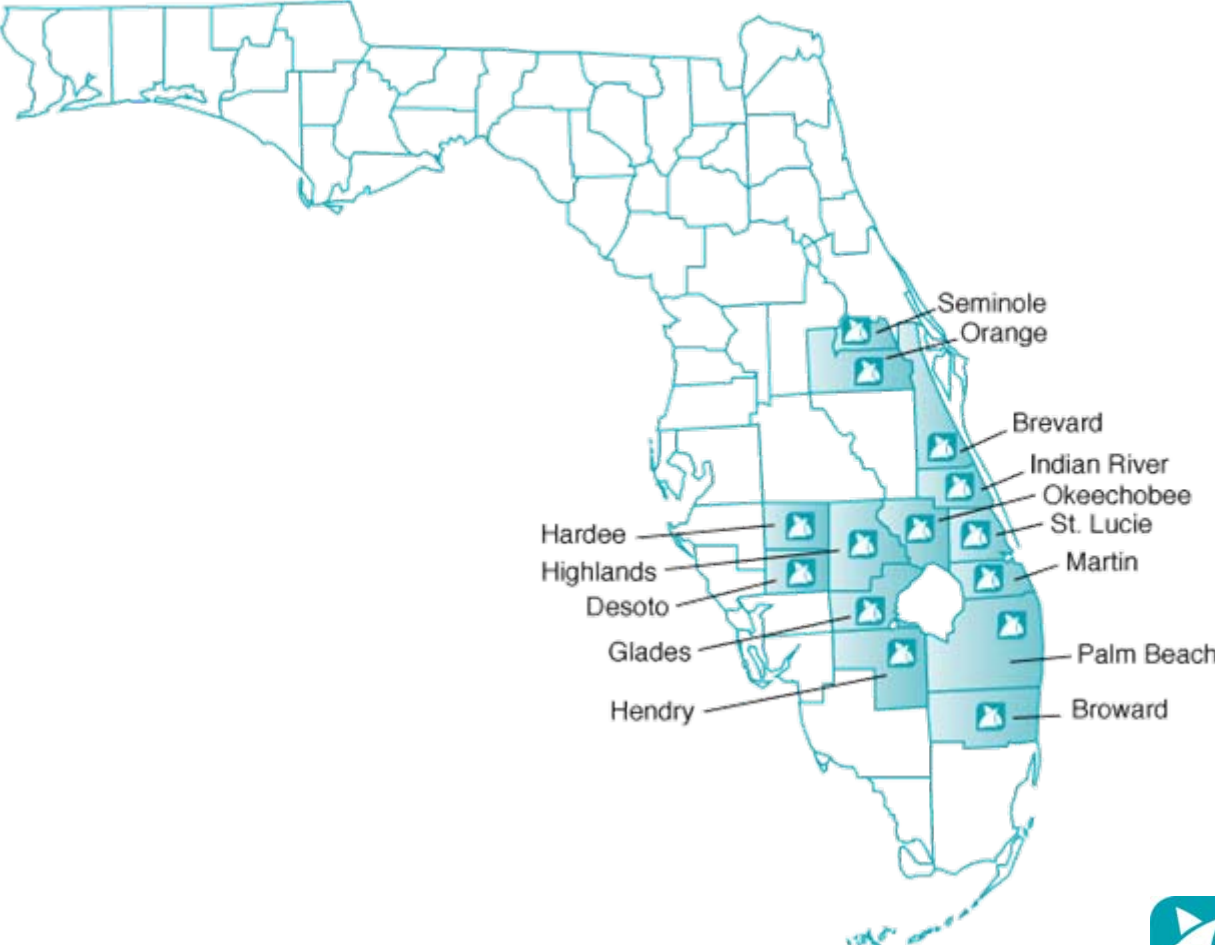


William L. Pittenger | Chief Real Estate Economist | Seacoast National Bank

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Seacoast Markets



Today's Program



- Where we've been.
- Where we are we today.
- Where we're going. What will the post recovery economy look like?

Purpose - PERSPECTIVE

- Bring the major pieces of the current recession into perspective.
- Help offer perspective around the recession's effect on our economy, our markets and our bank.
- Gain perspective around what is most likely to lie ahead and how the structural changes will affect how the bank does business going forward.





The Great Recession

December 2007 – June | October 2009 ...

Where we've been

The Great Recession – a new experience for all

- The *Great Depression* began nearly 80 years ago and ended roughly 70 years ago
- If a 40 year old manager saw the start of the recession and experienced its entire 10 year life (including the 1937 recession within the depression), that manager would be 120 years old today.
- The point is that few people alive today – if any -- have experienced anything like the current downturn.
- The severity of this downturn is new to all of us. It requires diligence, creative thinking and management to navigate this unprecedented storm.

Historical Recessions

The closest precedent for the current recession is the Great Depression

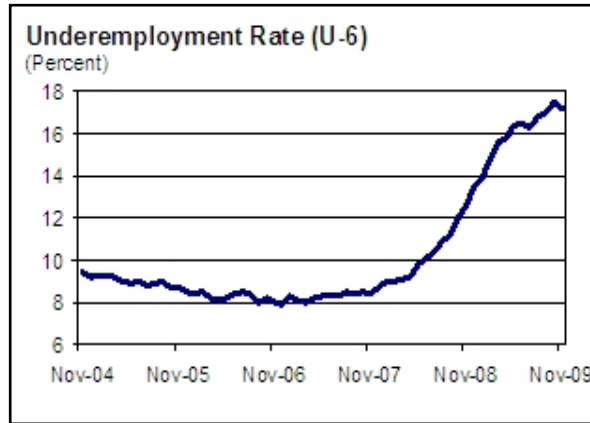
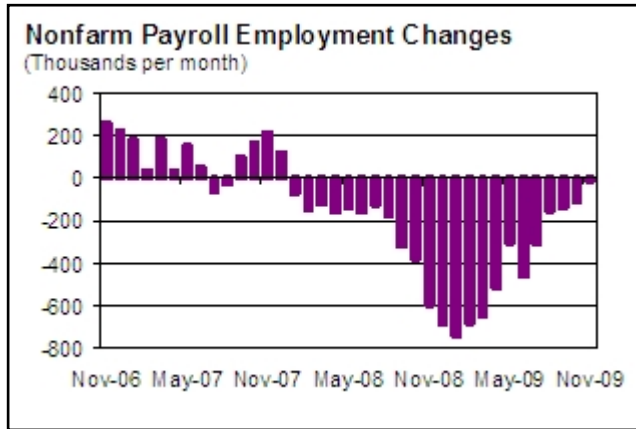
Recession Start	Recession Duration	GDP Decline	Employment Decline	Jobless Rate Increase
Dec 2007	23	-3.8%	-5.1%	+5.4%
March 2001	8	-0.4	-2.0	+2.5
July 1990	8	-1.3	-1.5	+2.8
July 1981	16	-2.9	-3.1	+3.6
January 1980	6	-2.2%	-1.3%	+2.2
November 1973	16	-3.1%	-2.7%	+4.4
December 1969	11	-1.0%	-1.4%	+2.7%
April 1960	10	-1.3	-2.3%	+2.3%
August 1957	8	-3.8%	-4.4%	+3.8%
July 1953	10	-2.7	-3.3	+3.6
Nov 1948	11	-1.7%	-5.1%	+4.5%
Average NIC Current	10	-2.0%	-2.7%	+3.2%

Historical Recessions

- Current recession is broader, deeper and more severe by virtually any measure than any recession since the Great Depression of the 1930's.
- All previous recessions since WWII have been somewhat localized. Not the current recession. Roughly 90% of the nation's 372 metro areas fell into recession.
- The U.S. banking system came close to collapse in September 2008 – an event not seen since The Great Depression.

Employment Downturn Has Been Extraordinary

and it has structural characteristics



Seacoast Market Unemployed:
96,709

Palm Beach County Unemployed
71,555

Florida Unemployed:
1,031,000

U.S. Unemployed:
15.4 million

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 of 10.0% (November) is highest since 1983
Florida's unemployment rate of 11.2% (October) is highest since 1975

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

An economy struggling to recover



Where we are today

emerging from recession

An economy struggling to recover

- There have been positive changes at all levels local to global.
- Improvement is erratic, inconsistent and there are still significant challenges. For example:
- Unemployment is still at record levels.
- Foreclosures (commercial and residential) continue and are not likely to abate anytime soon. **One in 168 Floridians were in some state of foreclosure in October. (Realtytrac).**
- **House prices have declined on a percentage basis *even greater than the Great Depression*. We have to go to the 19th century to find steeper declines.**

Current Employment Situation

- Marginally attached: 2.3 Million (up 376,000 Year over year)
- Part time: 9.2 Million (unchanged in November)
- Long term unemployed (> 27 weeks) 5.9 million
- Discouraged: 861,000
- **Count these groups and unemployment is 17.2%**
- Some will come back to the workforce as recovery begins increasing the size of the workforce and keeping unemployment rate elevated.

- 8.0 million jobs lost during recession (forecast through October 2009).
- Many are permanent losses
- Baby boomers staying in workforce longer
- Productivity improved. More with less.

Local Unemployment

Treasure Coast & Palm Beach

County	October 2009	September 2009 Revised	October 2008
Indian River	14.9%	15.3%	9.3%
St. Lucie	14.7%	15.3%	10.3%
Martin	11.8%	11.9%	8.1%
Palm Beach	11.4%	11.7%	7.6%

SOURCE: Agency for Workforce Innovation (October 2009)

Local Unemployment

Metro Orlando & Space Coast

County	October 2009	September 2009 Revised	October 2008
Orange	11.2%	11.5%	6.8%
Seminole	10.5%	10.5%	6.4%
Lake	12.1%	12.3%	7.4%
Osceola	12.8%	12.8%	7.6%
Brevard	11.4%	11.3%	7.6%

SOURCE: Agency for Workforce Innovation (October 2009)

Local Unemployment

Big Lake

County	October 2009	September 2009 Revised	October 2008
Okeechobee	13.1%	13.3%	9.9%
Glades	9.2%	10.1%	7.6%
Hendry	15.7%	16.7%	12.6%
DeSoto	11.6%	11.7%	8.5%
Highlands	11.4%	11.6%	8.3%
Hardee	12.3%	12.6%	8.5%

SOURCE: Agency for Workforce Innovation (October 2009)

Employment Change – Seacoast Served Counties

County	Unemployed 10/2009	Unemployed 10/2008	# Change	% Change	Total Market Employment Change
State of Florida	1,031,000	661,000	370,000	-35.9%	
Orange	67,452	41,502	25,950	-38.5%	
Seminole	25,102	15,538	9,564	-38.1%	
Lake	16,362	10,088	6,274	-38.3%	
Osceola	17,478	10,411	7,067	-40.4%	-48,855
Brevard	30,167	20,433	9,734	-32.3%	-9,734
Indian River	9,038	5,762	3,276	-36.3%	
St. Lucie	18,286	12,771	5,515	-30.2%	
Martin	7,529	5,197	2,332	-31.0%	-11,123
Palm Beach	71,555	47,961	23,594	-33.0%	-23,594
Okeechobee	2,396	1,811	585	-24.4%	
Glades	459	384	75	-16.3%	
Hendry	2,842	2,351	491	-17.3%	
DeSoto	1,757	1,270	487	-27.7%	
Highlands	4,766	3,411	1,325	-28.4%	
Hardee	1,478	1,038	440	-29.8%	-6,892
TOTAL SEACOAST	276,667	179,958	96,709	-35.0%	

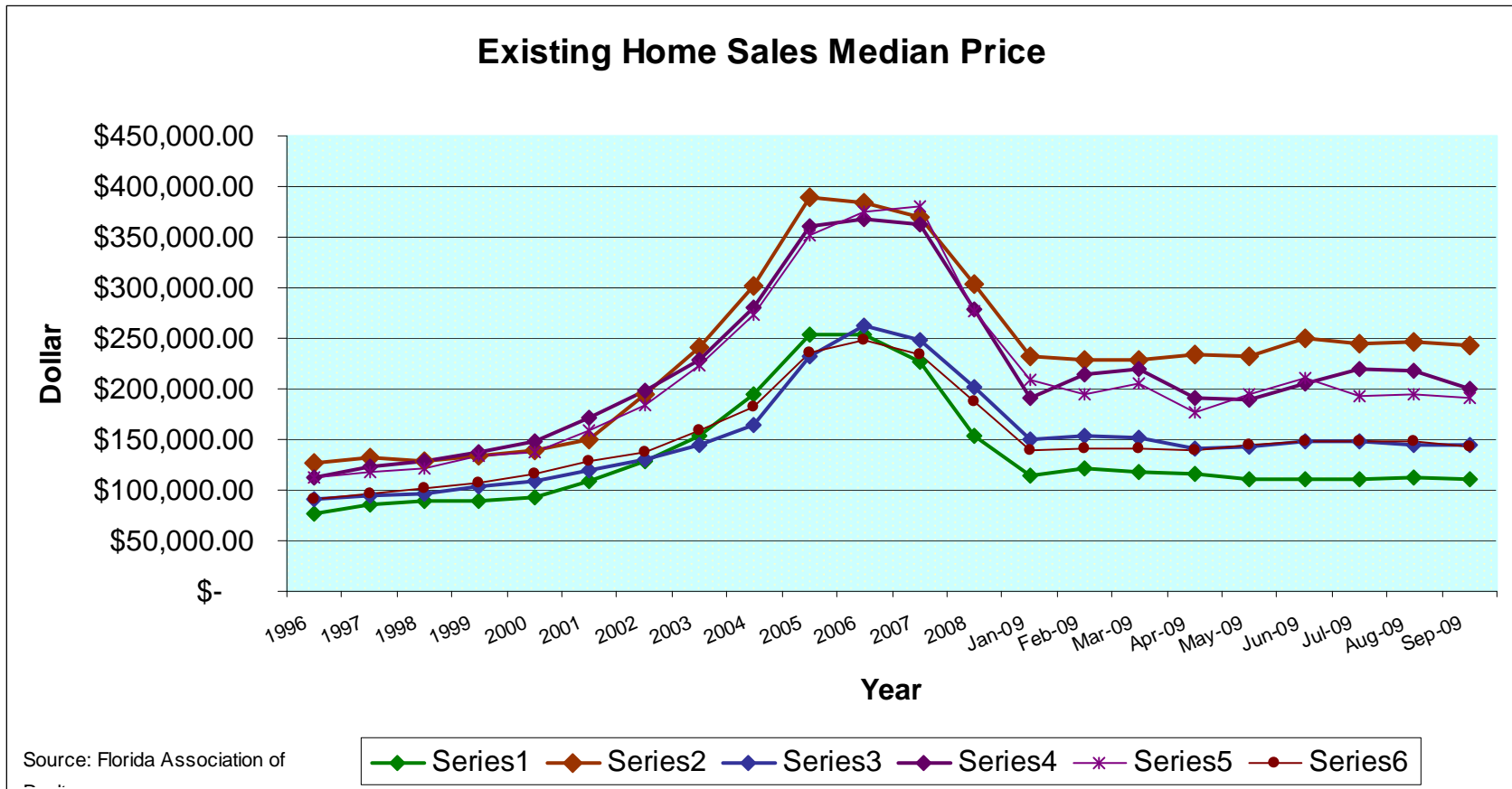
Employment Change Highlights

- Employment in Seacoast served counties is down 96,709 persons year over year. That is a 35% decline.
- 29% of the state's job losses are in Seacoast served counties.
- Over 10% of the state's currently unemployed are in Seacoast core markets (Treasure Coast and Palm Beach County).
- *We are more severely affected than most other regions of the state.*

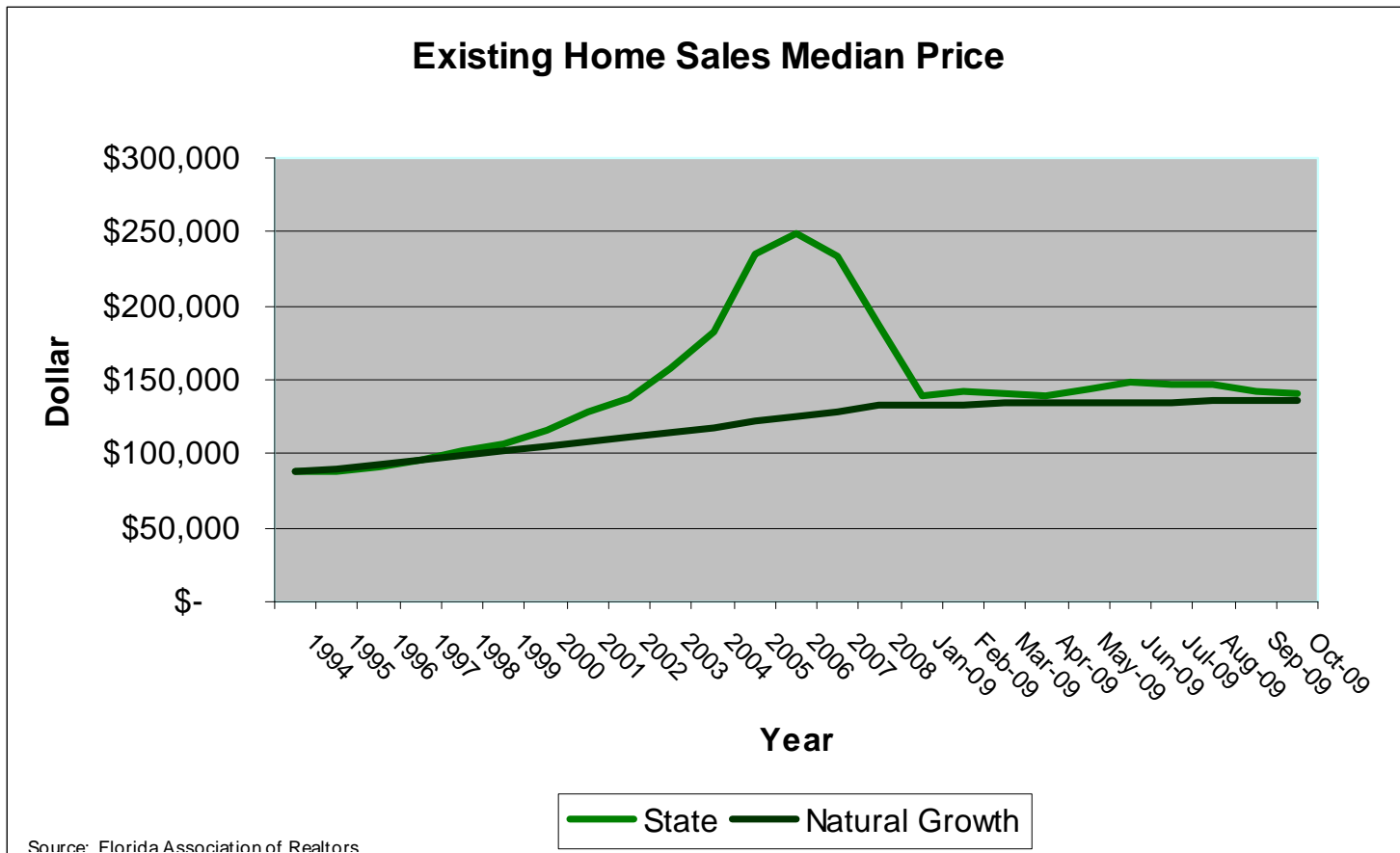
Housing

- While the numbers are different, the pattern of change in house prices (both up and down) has been remarkably consistent statewide.
- The following charts show the pattern statewide and throughout the Treasure Coast and South Florida.

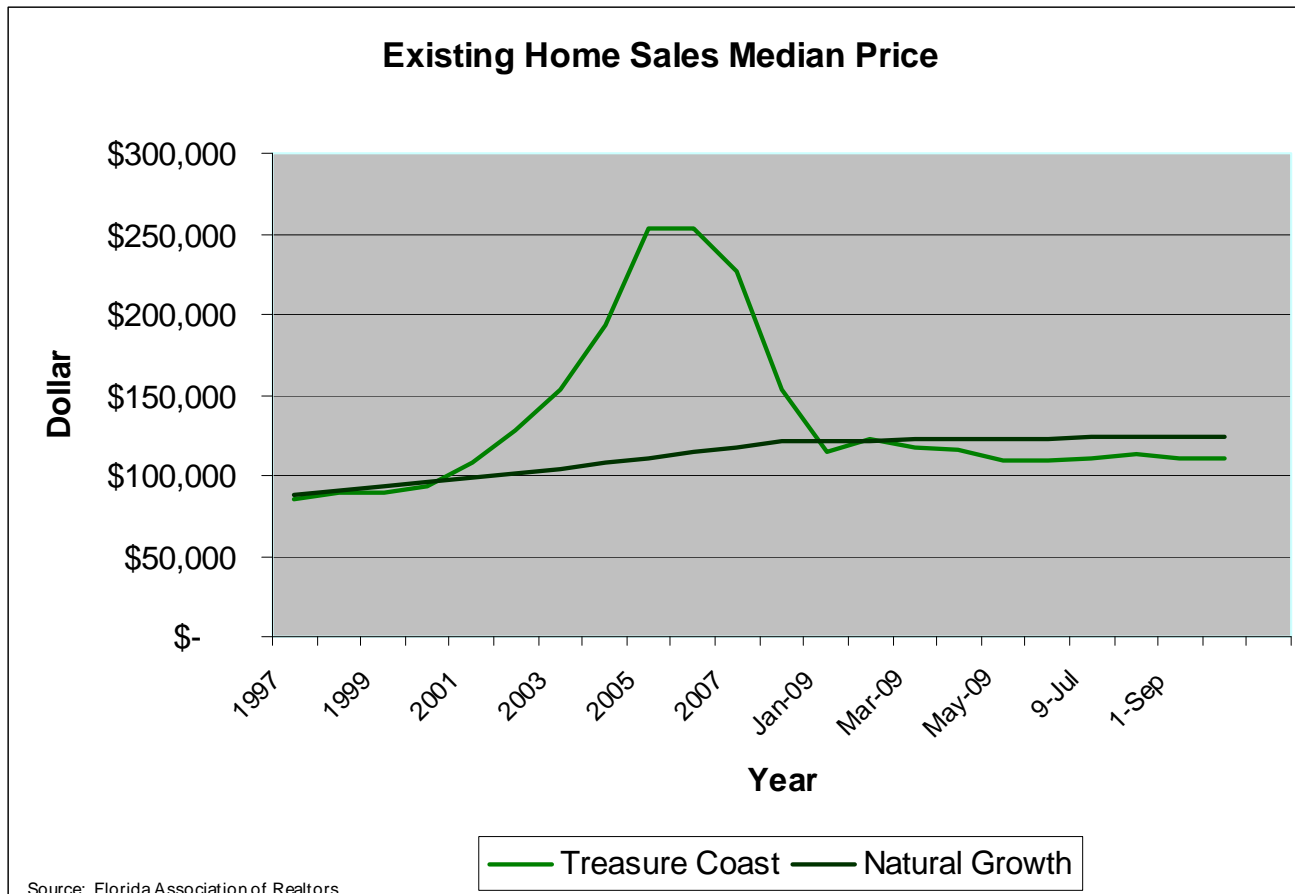
Long Term Median Existing Home Price Change



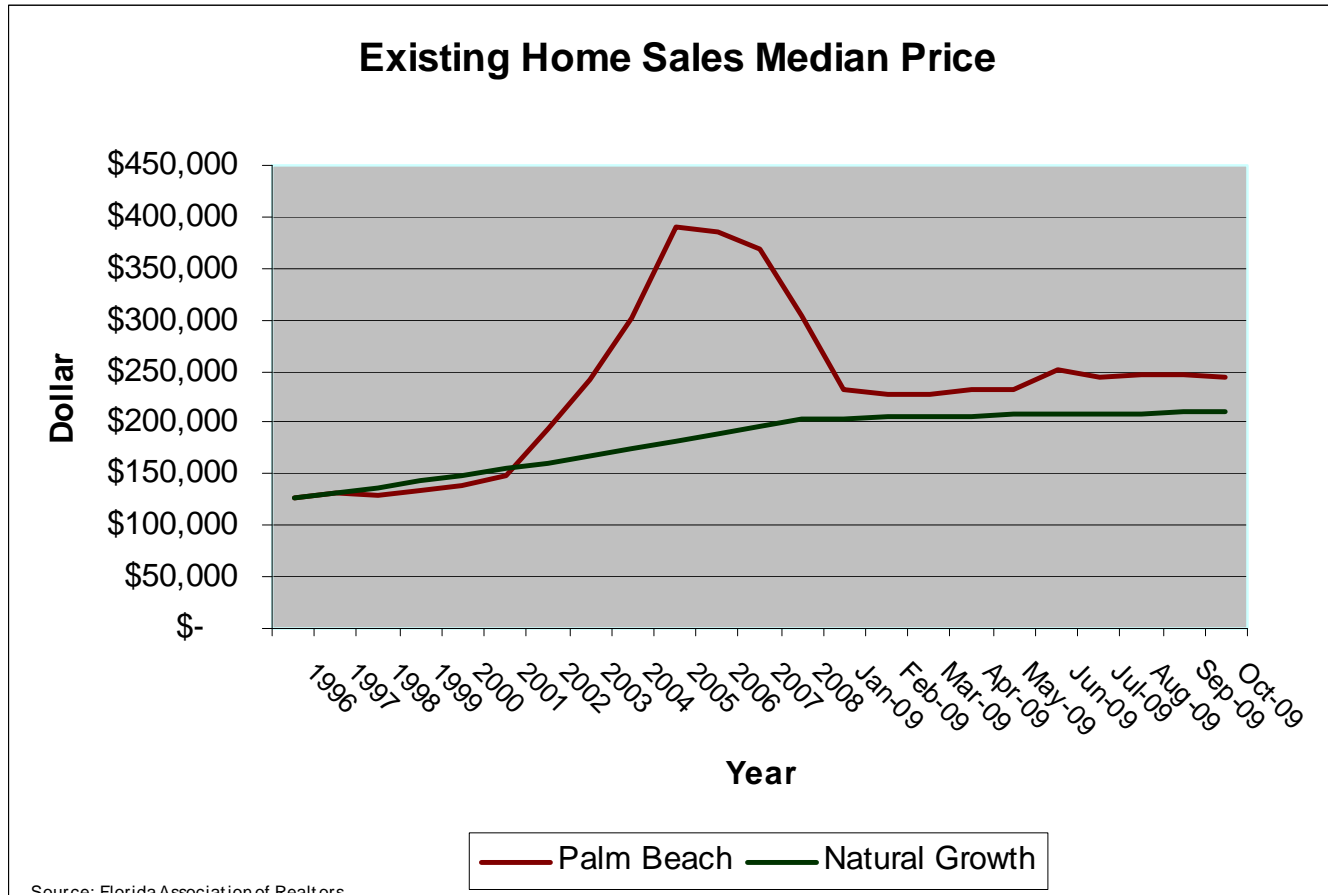
Long Term Price Change Compared to Trend - Florida



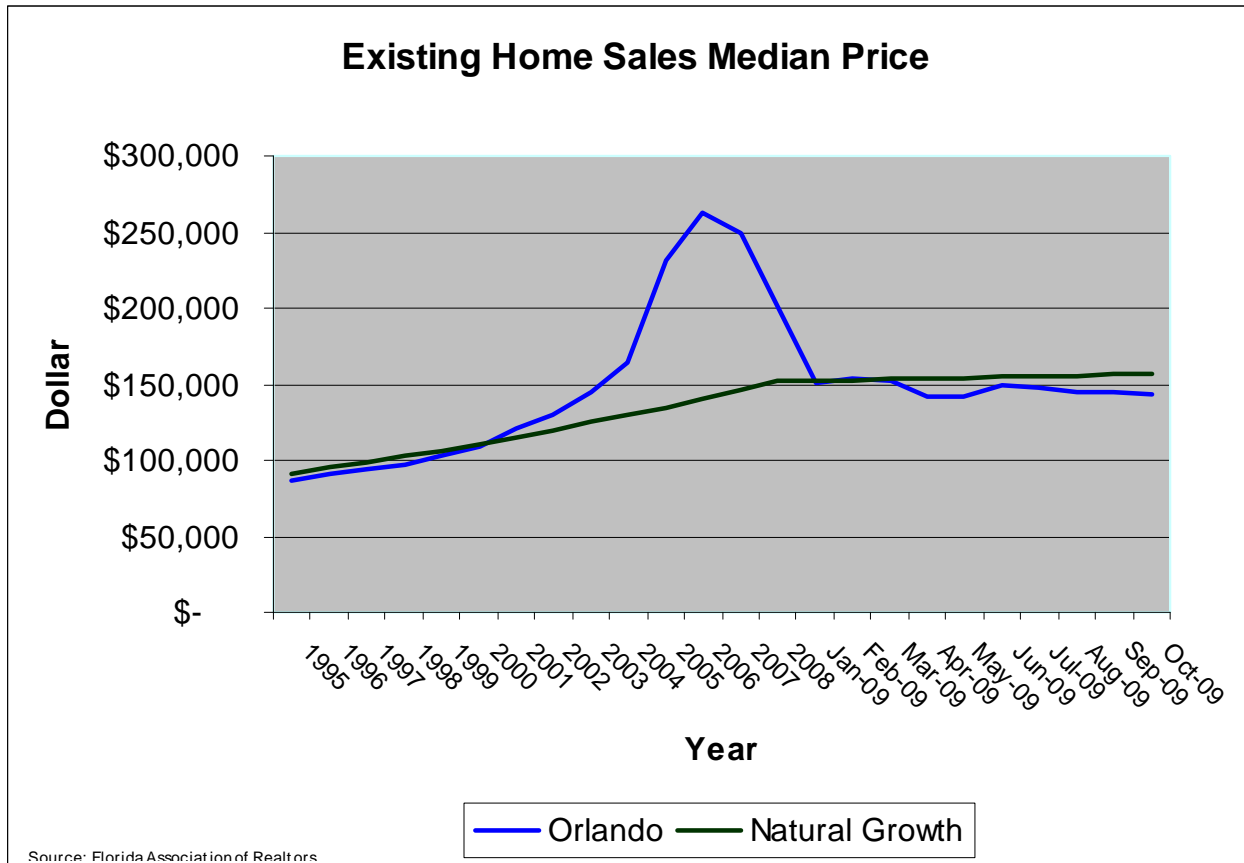
Long Term Price Change Compared to Trend – Treasure Coast



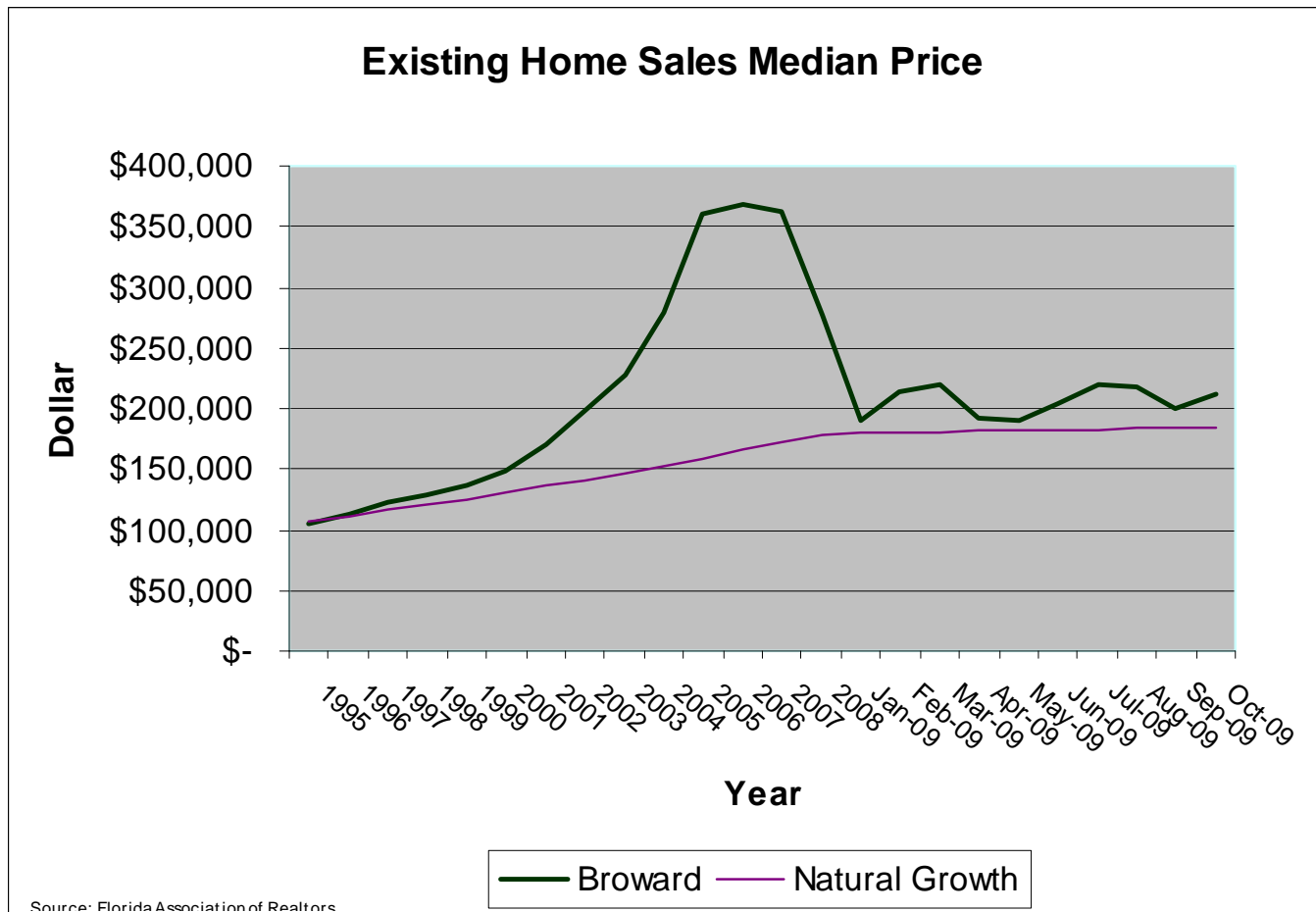
Long Term Price Change Compared to Trend – Palm Beach County



Long Term Price Change Compared to Trend – Metro Orlando

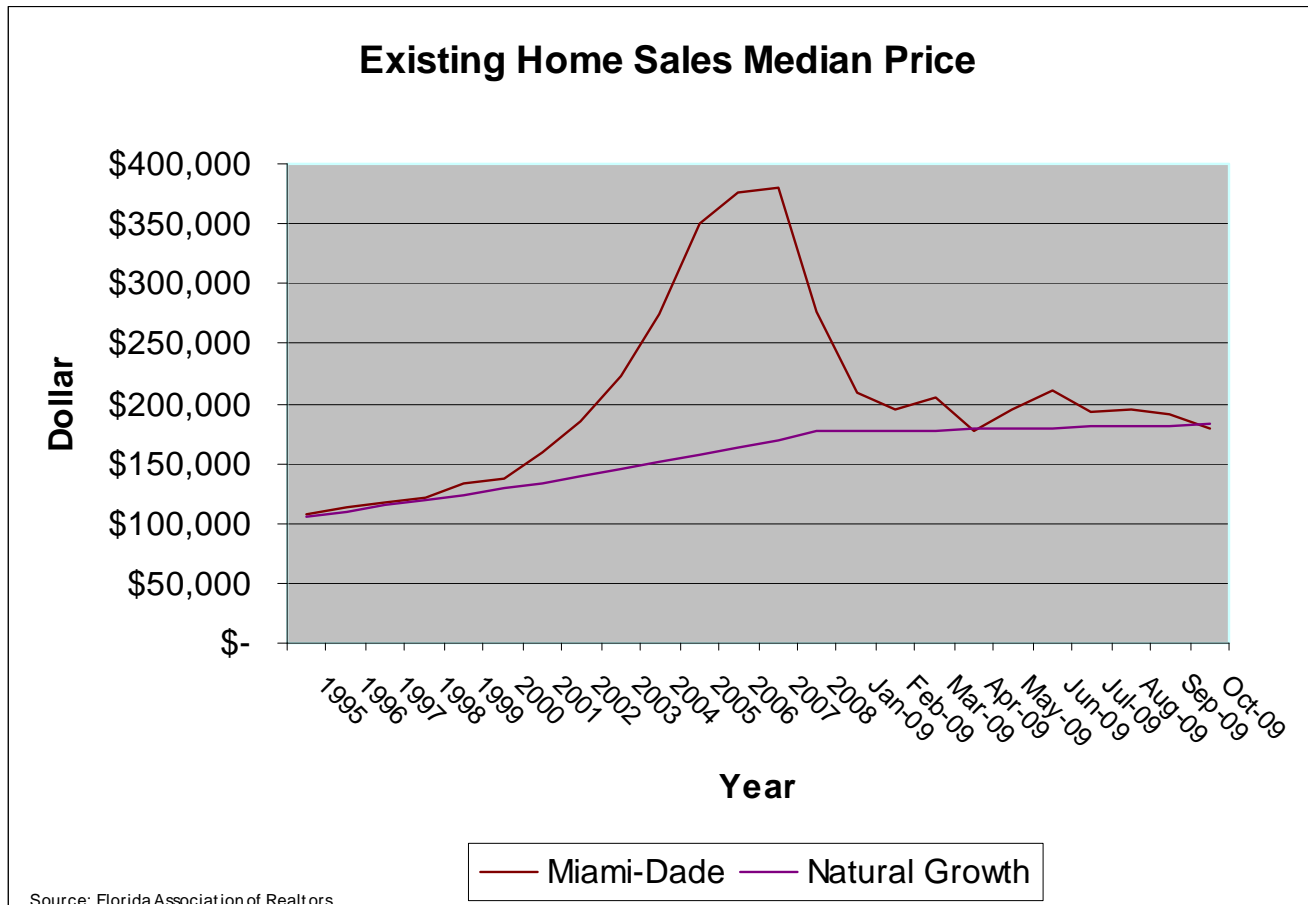


Long Term Price Change Compared to Trend – Broward County



Source: Florida Association of Realtors

Long Term Price Change Compared to Trend – Miami-Dade

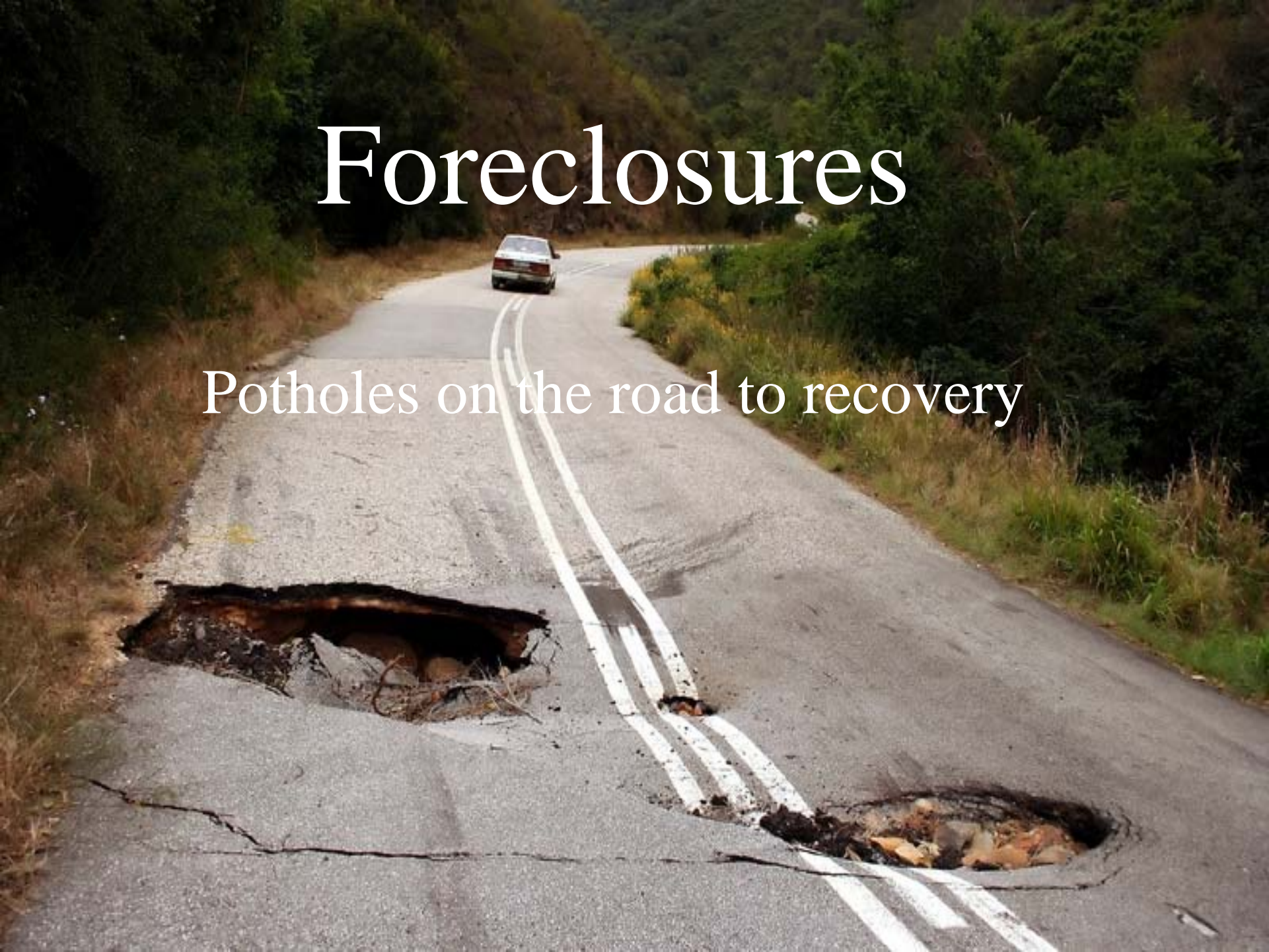


Caution! Tyranny of the Median

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.

Foreclosures

Potholes on the road to recovery



Foreclosure Trends

- U.S. foreclosure filings totaled 332,292 in October. Third monthly decline but still up 19% year over year. 1/385 housing units received a foreclosure filing in October.
 1. Nevada = 1/80 Housing units. Las Vegas = 1/68
 2. California = 1/156 Housing units
 3. **Florida = 1/168 Housing Units (51,911 owners)**
- Florida filings down – first year over year decline (4%) since July 2006. time since. Month over month decline is 6%.

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.

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.

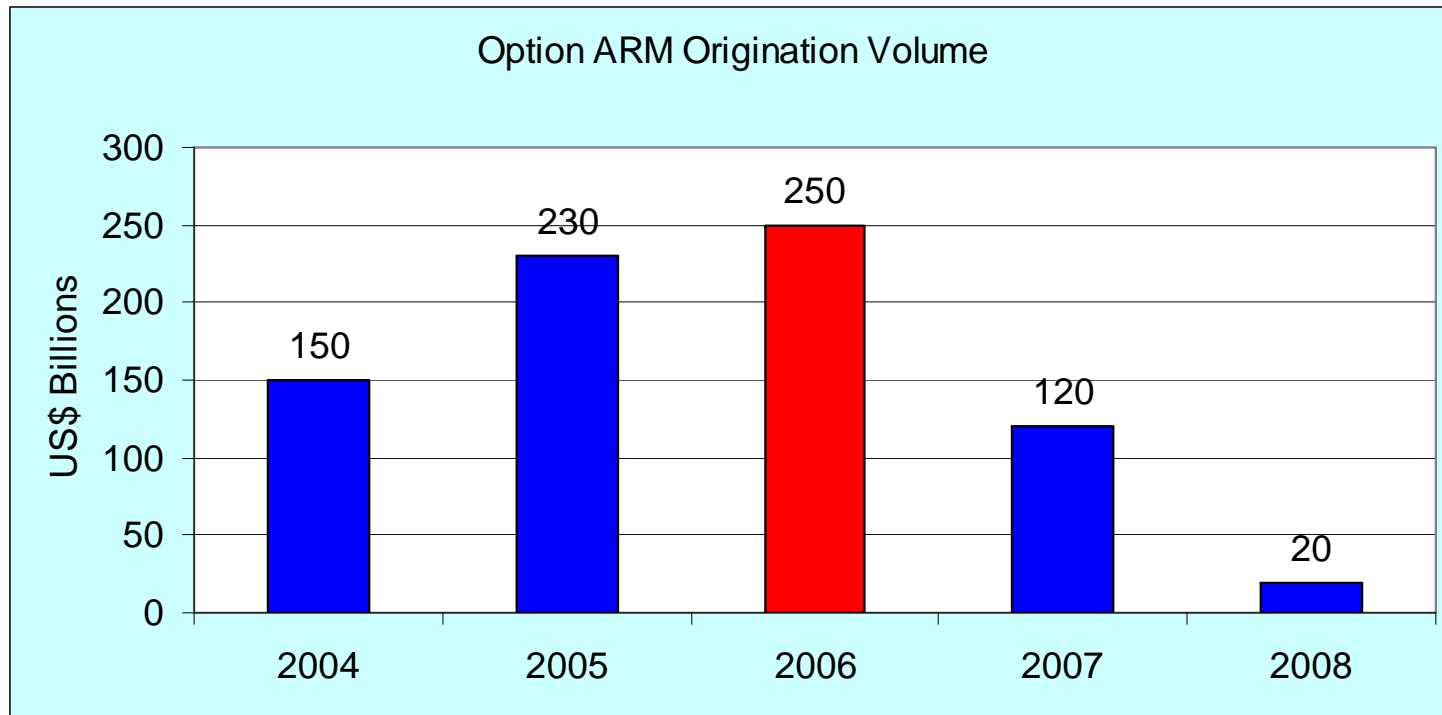
Payment Option ARMs

“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”

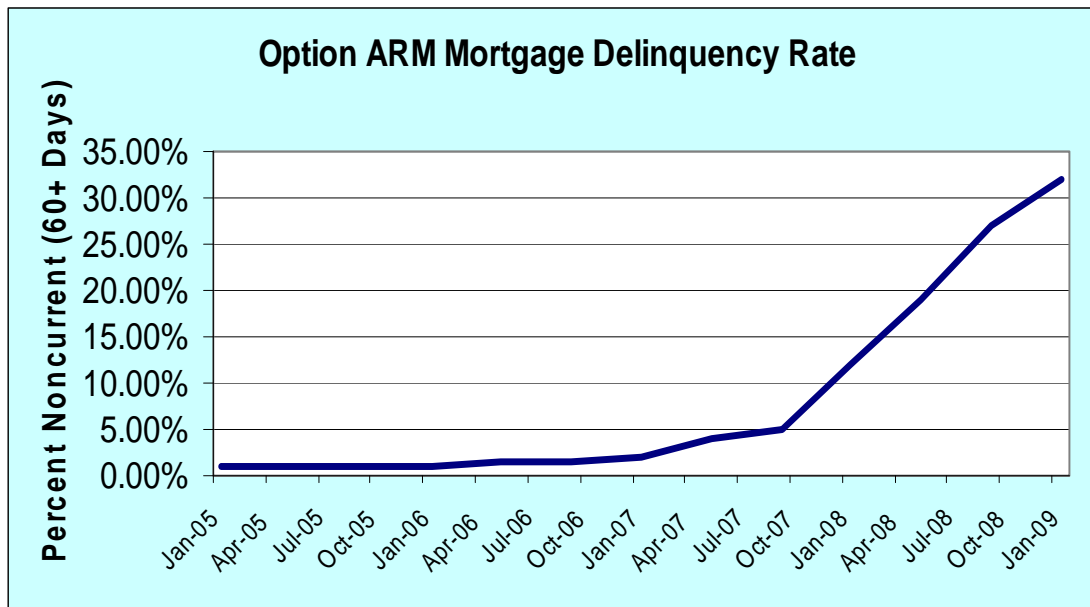
Payment Option ARMs



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

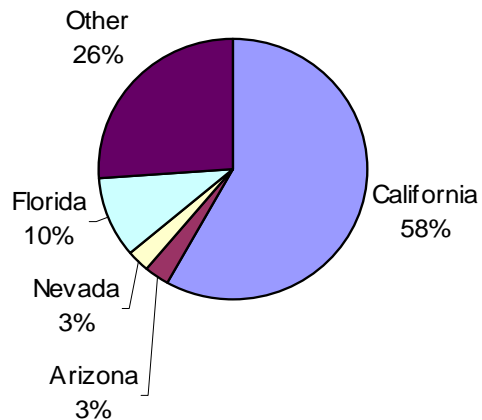
Payment Option ARMs



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

							One per	Percent of	Mean
County Name	Population	Household	LIS	NFS	REO	Total	Household	Households	Income
Brevard	536,161	267,456	813	295	214	1,322	202	0.494%	\$51,507
Broward	1,751,234	805,772	3,649	1,890	1,560	7,099	114	0.881%	\$56,574
DeSoto	33,991	14,549	56	24	6	86	169	0.591%	\$42,592
Glades	11,175	6,079	4	0	1	5	1,216	0.082%	\$36,143
Hardee	28,888	10,577	15	10	6	31	341	0.293%	\$37,716
Hendry	39,453	13,359	44	8	8	60	223	0.449%	\$41,525
Highlands	100,011	55,377	298	59	20	377	147	0.681%	\$41,393
Indian River	132,315	78,151	232	87	52	371	211	0.475%	\$92,097
Lake	307,243	143,580	424	210	54	688	209	0.479%	\$49,065
Martin	138,660	75,920	141	56	21	218	348	0.287%	\$90,676
Okeechobee	40,359	16,731	53	5	2	60	279	0.359%	\$41,513
Orange	1,072,801	460,600	2,180	1,758	396	4,334	106	0.941%	\$51,339
Osceola	263,676	120,997	1,098	365	90	1,553	78	1.284%	\$37,907
Palm Beach	1,265,293	640,851	2,559	538	224	3,321	193	0.518%	\$84,525
Seminole	410,854	174,293	542	154	78	774	225	0.444%	\$59,151
St Lucie	265,108	132,341	400	301	282	983	135	0.743%	\$44,358

Commercial Real Estate Today

- 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 will likely slide upwards of 35% 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.
- 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.

Commercial real estate today

- Capitalization rates up 200 bps (now 8.0% -10.0%) from compression era (2002-2007) rates of 4.5% to 6.5%.
- Lease renewal probability: 64% (RERC).
- Time to re-lease: 7.4 months.
- Lease vs Sub lease difference: -13.85% (20%+ Treasure Coast).

Commercial real estate today

- According to New York Based Real Capital Analytics (RCA), approximately \$2.2 TRILLION in CRE projects acquired or refinanced between 2004 and 2008 have lost value.
- Equity of \$1.3 TRILLION has been wiped out or remains at risk.
- Prices of office, retail and industrial properties have fallen 34.8% since their October 2007 peak.
- The dollar value of distressed properties rose by \$67 Billion to \$115 Billion in the first half of 2009. That's an increase of 122%.
- According to the Federal Reserve, U.S. banks hold about \$1.8 Trillion in CRE loans.
- Florida banks hold \$56 billion in CRE loans – 34% of total (FDIC).
- Troubled CRE loans are 15 times greater than they were in 2006.

Commercial real estate today

- Worsening economic outlook in Latin American countries does not bode well for Florida real estate, especially South Florida. Office vacancy is now 15% in Miami-Dade. Industrial vacancies are the highest in five years.
- Broward county has \$147MM in distressed office property.
- Palm Beach County has **highest office vacancy rate in nation at 22.5%**. Two new buildings were completed empty in Boca Raton. Industrial vacancy is now 11.9%

SOURCE: Grubb & Ellis | CoStar | Reis

A two-tiered market for real estate has emerged

- A two-tiered market for real estate has emerged and the effect on prices and values is potentially enormously adverse.
- The two tiers are market value by classic definition and liquidation value which is far more speculative and difficult to measure.
- The risk is that the two-tiered market morphs into one which is equivalent to liquidation value and market then becomes one: **liquidation.**

A two-tiered market for real estate has emerged

Market Value

- Assumption that the property will be exposed to the market for a reasonable period of time.
- Buyer may consider improvement in market conditions during the marketing period.
- Both parties are typically motivated.
- Neither party is under compulsion to act.
- The property is exposed to the appropriate market and there is a diligent attempt to market the property.
- Market values on average are down 35% year over year.

Liquidation Value

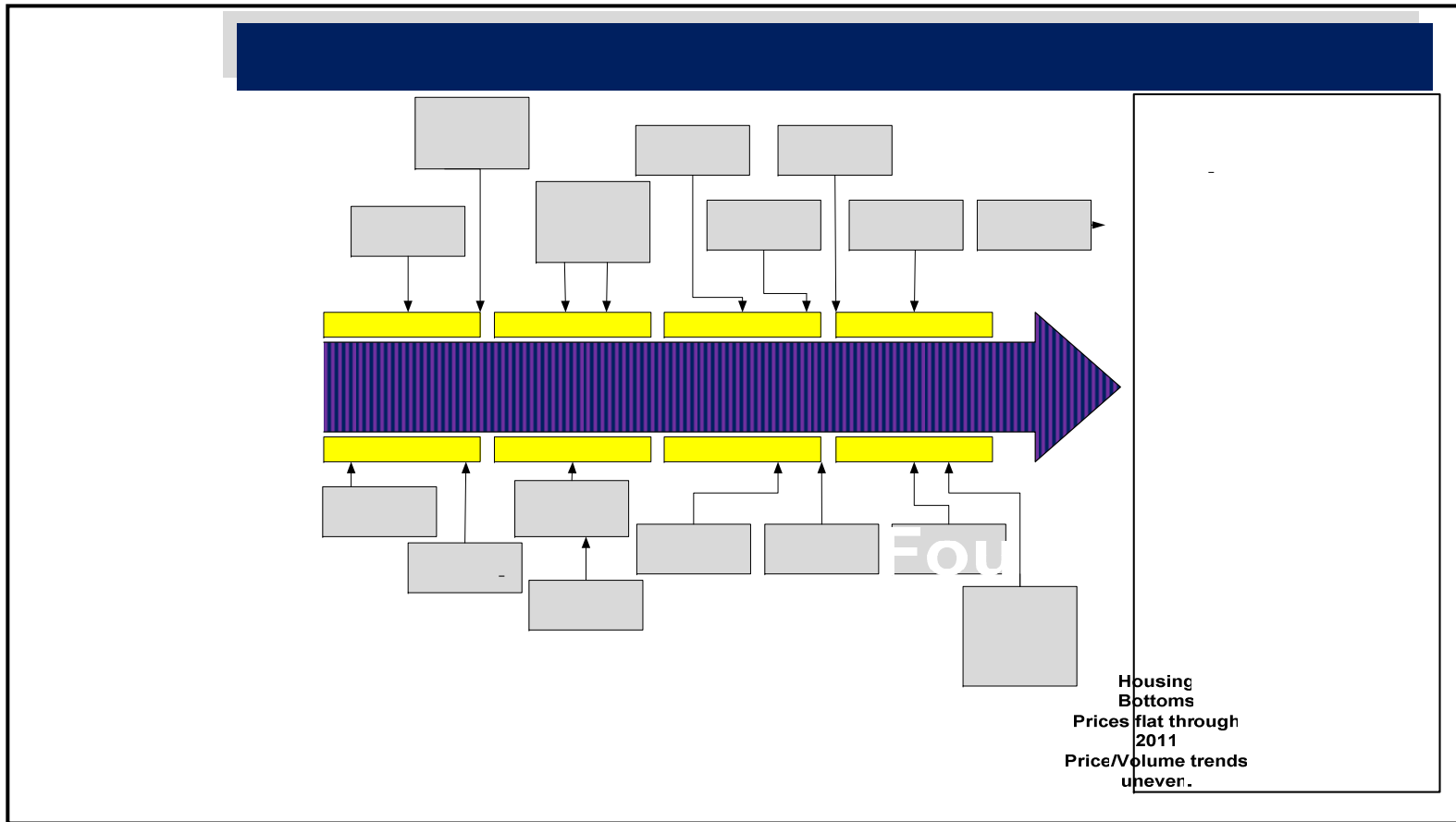
- Assumption that sale will occur in a constrained, client defined or sometimes undefined time frame.
- Sale occurs under prevailing market conditions without regard to potential improvement or decline.
- Buyer is typically motivated and acting in his own best interest.
- Seller has extreme compulsion to sell.
- The property may not be exposed to the broader market and marketing efforts are negligible.
- Liquidation value is usually 40-60% less than market value.

QUESTION: Sell now at a loss or sell later at potentially a bigger loss?

The new economy

Where we're going

Forecast Recovery Time Line



Housing Starts
Bottom nationally and locally

What must happen for recovery to occur?

- **Housing must return to growth.** The tentacles of housing reach into all CRE sectors and the broader economy.
- **Employment** must return to more normal levels.
- **Financing** and current real demand must return (refinancing 5 year old bubble inflated demand is not real demand.)
- **Economic feasibility.** Real estate product types must become economically feasible again.
- Let's look deeper

What must happen for recovery to occur?

The housing market must improve.

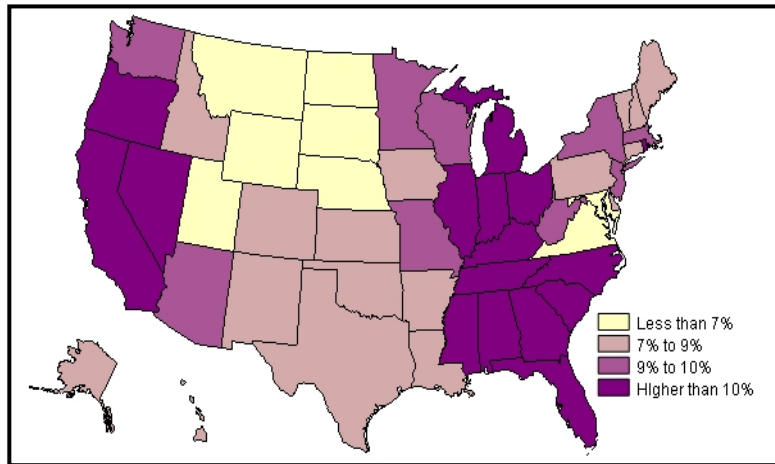
The direct and indirect effects of housing reach deep into the commercial sector and the broader economy.

- Under normal (non-bubble) conditions, residential demand is primary and development precedes commercial where demand is secondary.
- When will housing recover locally? It is likely to be 2011 or beyond as continued foreclosures will keep a lid on value and price increases.

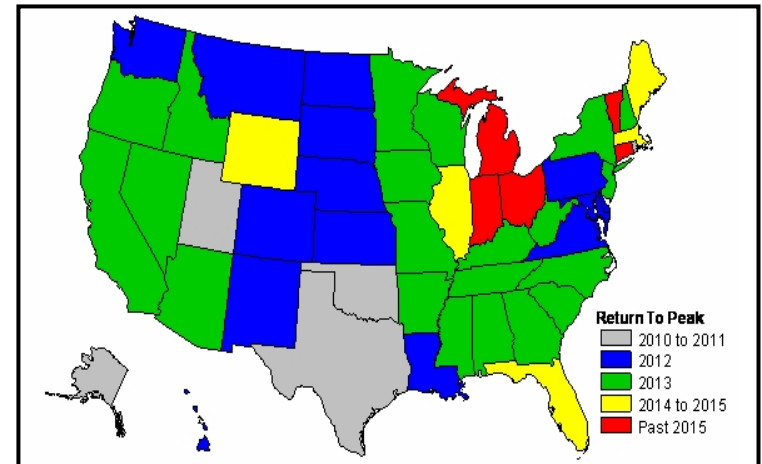
What must happen for recovery to occur?

Employment must improve.

Consumers can't or won't buy if they are unemployed or worried about continued employment.



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

All Sectors: New development must become economically feasible

Will not return and are not likely to be finance-able until projects are economically feasible.

The feasibility question?
If this project is constructed,
will it be worth an amount
equal to or greater than
the cost to create it.

The troubling issue is not the hard costs but the soft costs of development especially those incurred in the absorption period.

What must happen for recovery to occur?

Financing must become available again

- There is currently a synchronized decline in both credit supply and demand. The only CRE demand is five year old demand fuelled by the run up.
- The CMBS market, which funded over 70% of pre-crash development is virtually non-existent. **There have been NO domestic issuances in five quarters.**
- Credit availability will improve over the next 24 months however it will not reach its pre-crash rate.
- Banks continue to struggle with capital and liquidity issues as well as unhealthy loan concentrations and loan losses.
- 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.
- 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.

The Post Recovery Economy

- The depth and severity of *The Great Recession* have led to **structural changes** in the economy that will last for years causing the post recovery economy to look a lot different than the pre-bust economy.
- The Great Recession was a true **balance sheet recession** meaning that virtually everyone has had to get their balance sheet in order by purging debt and accepting (and managing through) the extraordinary asset deflation that has occurred.

The Post Recovery Economy

The shrinking boomer 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 Post Recovery Economy

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.

The Post Recovery Economy

Structural Changes In Employment

- Permanent rather than cyclical job losses.
- New jobs are not being created and will be created at a slower pace going forward.
- Boomers are necessarily remaining in the work force longer.

The Post Recovery Economy

Structural Changes In Housing

- **Inventories** are still bloated. Supply will exceed demand for the foreseeable future.
- **Foreclosures** will remain high.
- Projects are not likely to become **economically feasible** again for several years as price increases are not likely.

All of these factors will curtail growth for as much as a decade.

During the last major downturn which was not as bad as this one, it took single family housing seven years to return to robust growth. It took condominiums 13 years.

Moody's Economy.Com has forecast
14 years peak to peak

The Post Recovery Economy

Structural Changes In Credit

- There is currently a synchronized decline in both credit supply and demand. The only CRE demand is five year old demand fuelled by the run up and that is not true economic demand.
- The CMBS market, which funded over 70% of pre-crash development is virtually non-existent. **There have been NO domestic issuances in five quarters.**
- Credit availability will improve over the next 24 months however it will not reach its pre-crash rate.
- Banks continue to struggle with capital and liquidity issues as well as unhealthy loan concentrations.
- 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.
- Bank loan losses have been extraordinary and are unlikely to abate before late 2011. Even then, loan losses will remain elevated by historical standards for several years. ***Loan losses and bank failures going forward will be primarily driven by commercial real estate.***

The Post Recovery Economy

Structural Changes In Credit & Banking

- 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 have been 126 failures this year and the FDIC reports 552 banks on its problem list. Their aggregate assets total \$345.9 Billion (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
- Banking industry loan losses have been extraordinary and are unlikely to abate before late 2011. Even then, losses will remain elevated by historical standards for several years. **Loan losses and bank failures going forward will be primarily driven by commercial real estate.**

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



