



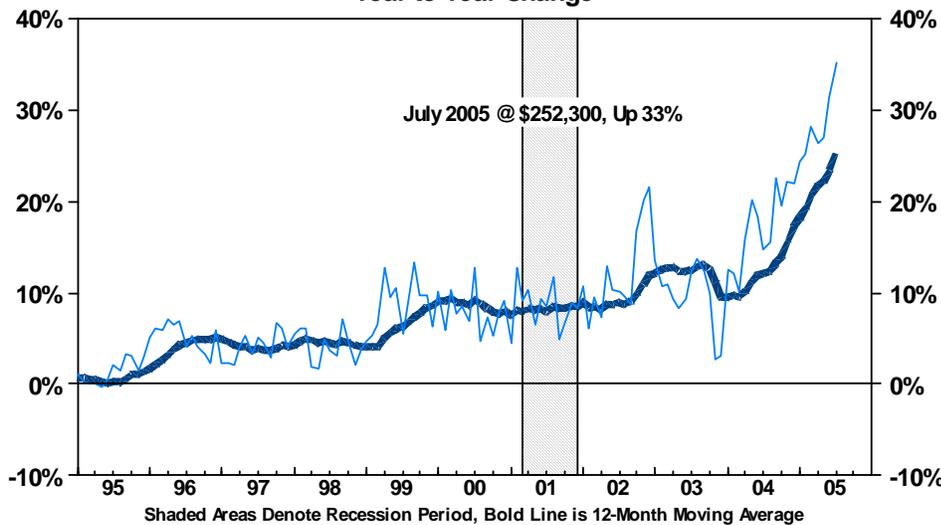
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How Sustainable Are The Forces Driving Florida's Latest Housing Boom?

Florida has seen some of the nation's most dramatic gains in home prices during recent years. The median price of an existing home has soared 33 percent during the past year, is up 105 percent over the past five years, and has risen a whopping 180.7 percent over the past decade. The dramatic rise in home prices has raised concerns that the Sunshine State may have one of the most overheated housing markets in the nation.¹ A few analysts are even warning that many of the state's major housing markets will see outright price declines in coming years.²

MEDIAN SALES PRICE OF EXISTING HOMES SOLD IN FLORIDA
 Year-to-Year Change



The median price of an existing home sold in Florida has soared 33 percent over the past year.

Source: Florida Association of Realtors

¹ **Florida's Housing Bubble, Is It Ready to Burst?** By Robert Trigaux. St. Petersburg Times Online. May 25, 2005

² **The Thirteen Riskiest Housing Markets**, By David Lindorff. Kiplinger Personal Finance. July 13, 2005

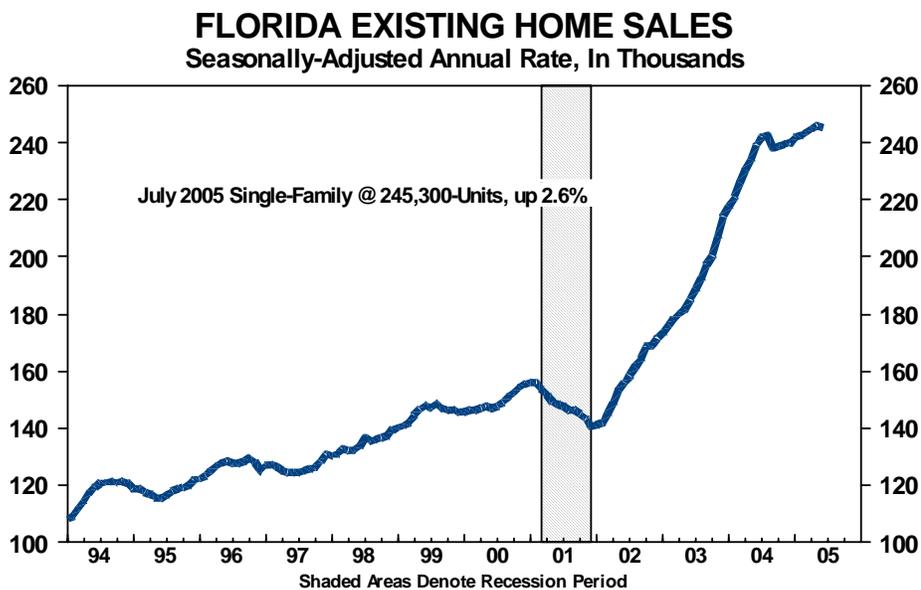
We still believe that most of the rise in Florida's housing values can be explained by basic economic and demographic forces.

While there is a fine line between boom and bubble, we still believe that most of the rise in Florida's housing values can be explained by basic economic and demographic forces. Quite simply, prices are rising rapidly throughout most parts of Florida because the demand for single-family homes is vastly outpacing supply. Moreover, builders have been uncharacteristically slow in responding to the strength in home sales, which has kept inventories near record lows. We would be remiss to say that there is no speculation in Florida's major housing markets. Clearly, there is. Our contention, however, is that speculation is not the primary force driving prices higher.

The only way to determine how much of Florida's housing boom is being driven by the fundamentals and how much by something else is to look at the fundamentals and see how much of the strength can be explained by economic and financial forces. We also take a look at the current Florida housing boom relative to previous cycles, so that we can get a sense of proportion as to what is occurring today and also see how previous excesses in Florida's residential markets were unwound.

To start, let's look at where we are today. Sales of existing homes in Florida are currently running at record levels. Data on existing home sales are available from two sources, and they measure the housing market somewhat differently. Both show sales running at a record pace. The National Association of Realtors shows sales of existing single-family homes, condominiums and co-ops running at record 583,500-unit annual rate during the second quarter of 2005. Separate data from the Florida Association of Realtors produce a similar result, with sales of existing single-family homes totaling a record 245,300 units over the past year.

Sales of existing homes have surged to new highs in recent years.



Source: Florida Association of Realtors

The huge gap between the two surveys is due to differing definitions of the housing market. The National Association of Realtors (NAR) data includes single-family homes, apartment condominiums and co-ops, while the Florida Association of Realtors only includes re-sales of existing detached single-family homes. Taking the different definitions into account still leaves a fairly large gap, however. We are a bit suspicious of

the NAR data. The total sales figure for Florida is larger than the same data for Texas and nearly as large as California, even though both states are significantly larger.

One possible explanation for the gap is that the Florida numbers are being skewed higher by the recent run of apartment and hotel conversions. Re-sales of condominiums under development might also be playing a role. Whatever the difference, the bottom line is that Florida's housing market is booming. Sales of existing homes are running at a record pace by the two most comprehensive measures available. Moreover, the median price of existing Florida homes sold has soared in recent years, with price gains in several metropolitan areas ranking among the most rapid in the nation.

Five Fundamental Factors Driving Florida's Housing Market

When you look at the fundamentals, there is little mystery as to why home sales are so strong. In fact, all the stars appear to be perfectly aligned for Florida homebuilders. The first half of this decade has been characterized by near record low mortgage rates, strong job growth, a growing population, an increasing supply of aging baby boomers, and growing interest from overseas visitors, immigrants, and investors.

Mortgage rates dropped to near generational lows back in 2003 and have remained near these levels for the past two years. At the same time, the mortgage market has opened up and become far more inclusive. An extremely active secondary market, regulatory requirements, and market economics have combined to dramatically increase the supply of mortgage money available to borrowers that would not have had access to credit in previous cycles. The drop in mortgage rates helps drive demand for Florida two ways, directly by reducing the cost of homeownership and indirectly by strengthening sales in the markets that account for the bulk of Florida's new residents.

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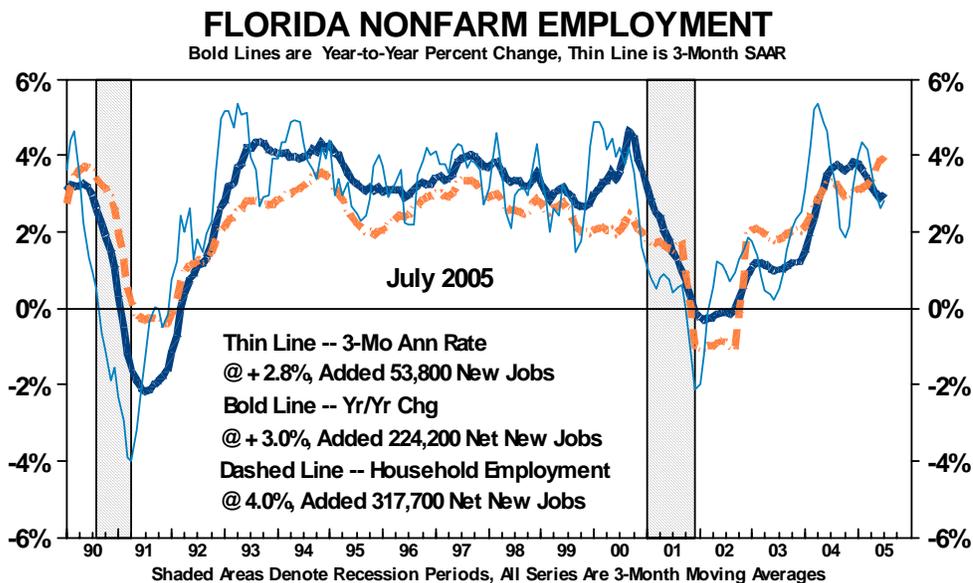
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Florida led the nation in payroll employment growth in both 2003 and 2004.

Florida has also enjoyed exceptionally strong job growth throughout recent years. The Sunshine State led the nation in payroll employment growth in both 2003 and 2004. Payroll employment has surged 3.0 percent over the past year, generating a net gain of 224,000 jobs. Not only has job growth been solid but it has also been extraordinarily broad based. Virtually every major industry has increased hiring and employment is up solidly across all twenty Florida metropolitan areas. Stronger job growth has led to healthy income gains, with personal income climbing 8.4% during the past year, or one and half percentage points faster than the nation. The state's unemployment rate has fallen nearly a full percentage point over the past year and is currently 0.9 percentage points below the national rate at just 3.8 percent.



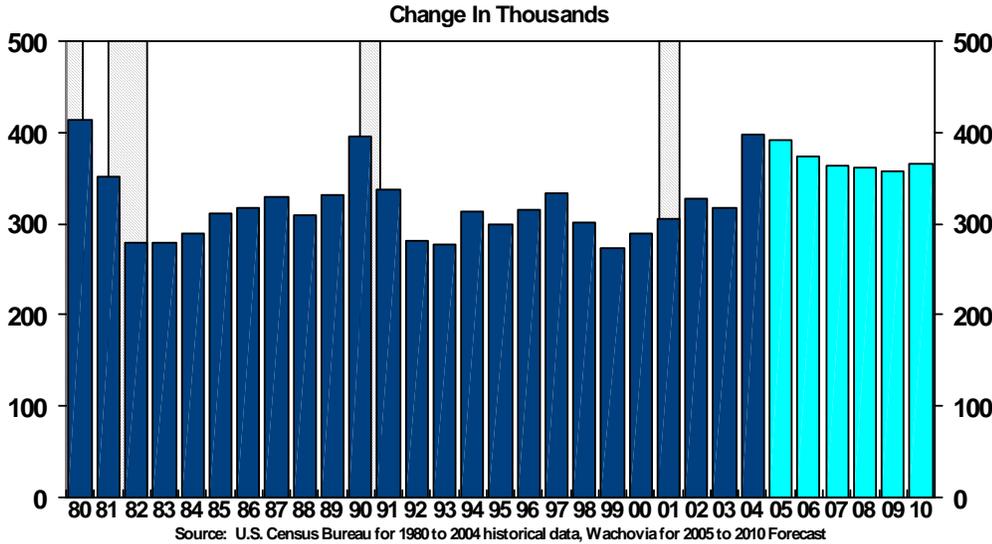
Source: Florida Agency for Workforce Innovation

Florida has tended to pull job seekers in from other states.

With job and income growth handily outpacing the rest of the country, Florida has tended to pull job seekers in from other states. Population growth has soared in recent years. The Sunshine State has added 1.35 million residents over the past four years, including 400,000 new residents in 2004 alone. The bulk of Florida's population gain comes from net in-migration, which accounts for 87 percent of the state's annual population increase. Most of these new residents are prime working-age adults, who are relocating to take advantage of the state's favorable employment conditions. Population growth should remain strong through the end of the decade, with gains averaging around 370,000 new residents per year.³

³ State of Florida, Demographic Estimating Conference Database, July 2005.

FLORIDA POPULATION GROWTH

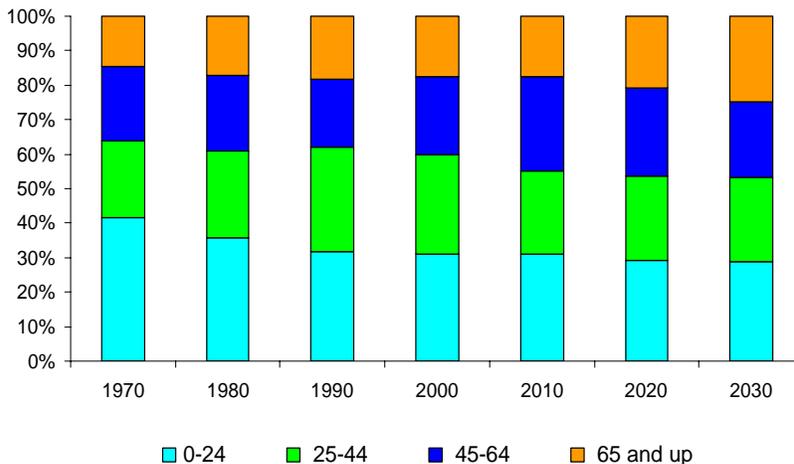


Florida has added 1.35 million residents over the past four years, including 400,000 in 2004 alone.

Demographics are boosting demand for homes in other ways as well. *The aging of the Baby Boom generation, those born between 1945 and 1965, has led to an increase in retirees, second home purchases and homeownership in general.* The first two of these variables are pretty straightforward, the third requires a bit of explanation. Florida has long been known as a retirement haven. Persons aged 65 and over currently account for 17.7 percent of Florida's population, compared to just 12.4 percent of the nation. The 65 and over age cohort is expected to account for 18.3 percent of the state's population gain through the rest of the decade and a whopping 39.8 percent of Florida's population growth in the next twenty years.

The aging of the Baby Boom generation has led to an increase in retirees, second home purchases and homeownership.

FLORIDA POPULATION -- AGE DISTRIBUTION BY PERCENTAGE



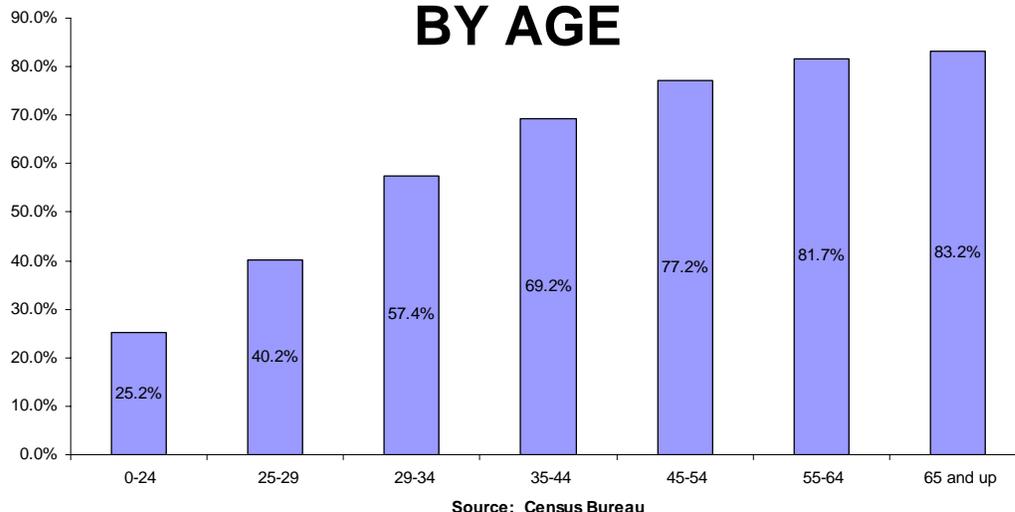
Persons aged 65 and over currently account for 17.7 percent of Florida's population, compared to just 12.4 percent of the nation.

Source: State of Florida, Demographic Estimating Conference Database, July 2005

Homeownership among persons aged 65 and over is fairly high, with 83.2 percent of households being homeowners. The high rate of homeownership among retirees is one reason why Florida's overall homeownership rate, which is currently pegged at 73.8 percent, is so much higher than the nation's. With the retiree population expected to account for a larger proportion of the state's growth during the next quarter century, overall homeownership can be expected to rise even further.

The high rate of homeownership among retirees is one reason why Florida's overall homeownership rate is so high.

US HOMEOWNERSHIP RATES BY AGE



The aging of the baby boom generation is also helping boost ownership of second homes. The vast majority of Baby Boomers are now over 45 years old, and in their peak earning years. This is also the prime age cohort for second home ownership. The National Association of Realtors recently found that the median age for vacation-home buyers was 55 and that the median age for investment-property buyers was age 47.⁴ With the pool of potential buyers increasing, second home sales have taken off.

A full 36% of overall existing home sales in 2004 were for second homes.

A full 36 percent of overall existing home sales in 2004 were for second homes, with nearly two-thirds of that total being for investment purposes and the remainder for vacation homes. The bulk of homes bought for investment purposes are being rented, while the overwhelming majority of homes bought for vacation purposes are not for rent. While sales of investment properties account for the bulk of second home purchases, sales of vacation homes are rising much faster.

Florida is one of the largest second home markets in the nation, with an estimated 700,000 temporary residents over age 55 spending 30 consecutive days or more there each year.⁵ The overwhelming majority of these Snowbirds occupy their Florida residences for around three months a year and may also visit from time to time

⁴ *Second-Home Market Surges, Bigger Than Shown In Earlier Studies.* National Association of Realtors. March 1, 2005

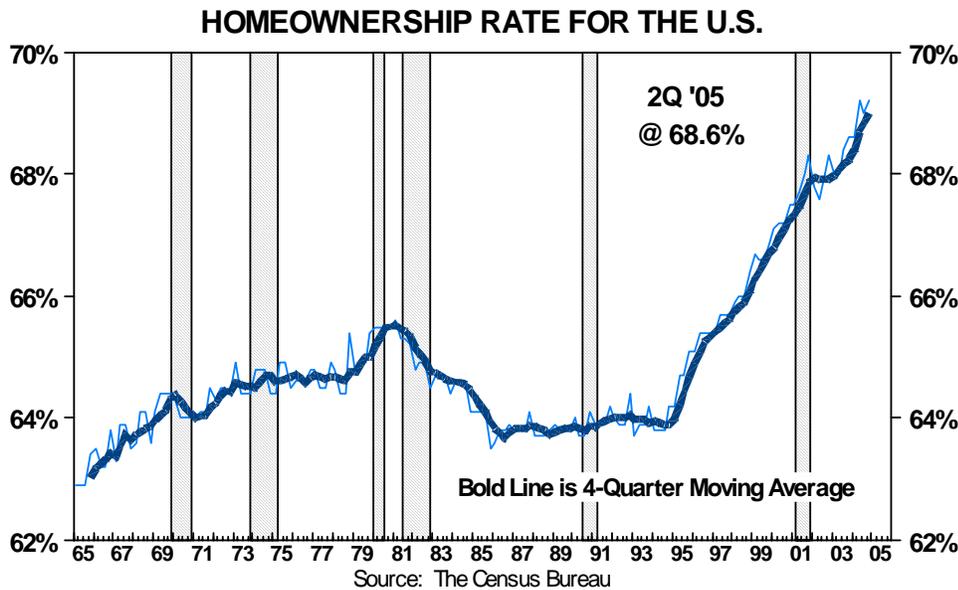
⁵ Stanley K. Smith and Mark House. *Snowbirds, Sunbirds, and Stayers: Seasonal Migration of the Elderly in Florida.* University of Florida. Paper presented at the annual meeting of the Population Association of America, Philadelphia, March 31-April 2, 2005

throughout the year. Relatively few Snowbirds rent their properties. With more boomers nearing retirement age the number of part-time residents is likely to continue to increase.

With more Baby Boomers nearing retirement age, the number of part-time Florida residents will likely increase.

There are no reliable estimates of the number of vacation homes in Florida. The number is considerable, however, as Florida remains the number one vacation destination in the United States. Vacation properties include single-family homes, condominiums, and timeshares. Sales of vacation homes have been extraordinarily strong in recent years, thanks to low interest rates and a weak dollar, which has helped fuel purchases from overseas.

The final way the aging of the baby boom generation is driving home ownership higher is its impact on boosting overall homeownership. The overall homeownership rate for the U.S. is currently 68.6 percent, yet the rate for persons aged 45 to 54, which is precisely where most of the baby boomers are today, is 77.2 percent. Moreover, the homeownership rate rises with the next two age cohorts, rising to 81.7 percent for those aged 55 to 64 and 83.2 percent for those ages 65 and over. With more people in their peak homeownership years, overall homeownership has risen dramatically, climbing from around 65 percent, which it averaged from the mid-1960s to the mid-1990s, to around 69 percent today.

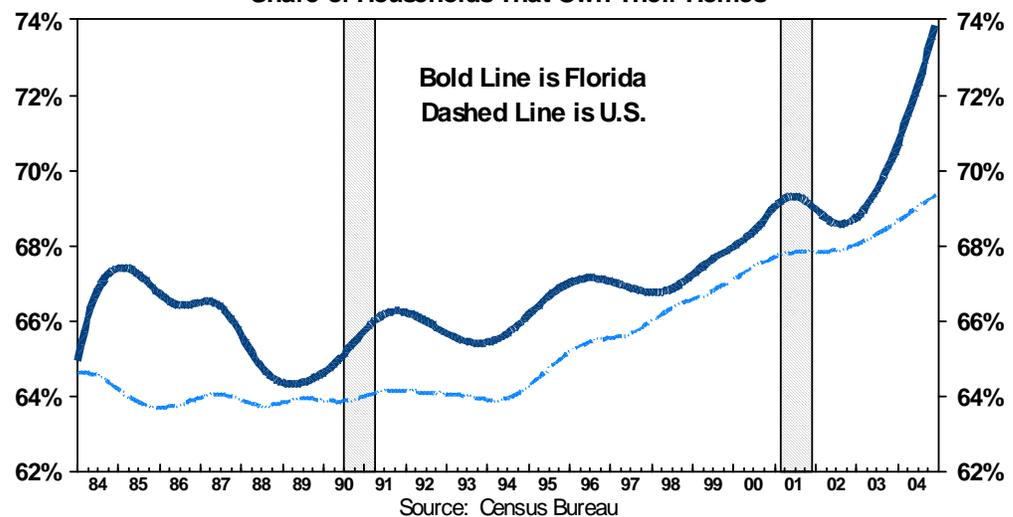


With a greater proportion of the population now in their peak home buying years, homeownership has risen dramatically.

More than 40 percent of Florida's population base is in their peak home buying years, compared to just 35 percent nationwide.

Florida's homeownership rate has risen even faster than the nation's, reflecting the state's older median age, stronger job growth, and historically affordable home prices. More than 40 percent of Florida's population base is in their peak home buying years, age 45 and over, compared to just 35 percent nationwide. Moreover, well over half Florida's projected population gain over the next 25 years, which will total 8.1 million persons, will be age 45 and over, which means the state's homeownership rate will continue to trend higher.⁶ We estimate that Florida homeownership rate will top out at around 77 percent twenty-five years from now. Given that Florida is expected to add more than 3.2 million households over this period, homebuilders will need to build nearly at least 4.2 million more homes, townhouses, condominiums and apartment over the next 25 five years.

FLORIDA HOMEOWNERSHIP RATE
Share of Households That Own Their Homes



International buyers accounted for 15 percent of Florida's total home sales during 2004.

The fifth factor driving Florida's housing boom is strong demand from overseas buyers, particularly from Europe and Latin America. *The National Association of Realtors estimates that international buyers accounted for 15 percent of Florida's total home sales during 2004.* According to the NAR data, nearly 58 percent of these buyers come from Europe. The United Kingdom alone accounts for one-third of all international buyers. The rest of Western Europe accounted for 21.2 percent of international purchases. The bulk of those purchasers come from Germany. Eastern European nations accounted for another 3.0 percent of international sales.⁷

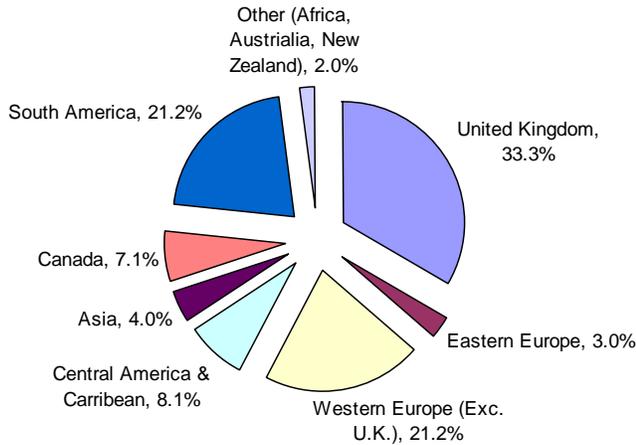
Buyers from Latin American countries and the Caribbean accounted for 29 percent of Florida's international sales. The largest contingent of Latin American buyers come from Venezuela, and account for about 7 percent of Florida's international sales. The remaining Latin American buyers primarily come from Brazil, Argentina, Columbia and Chile. Canadian buyers also make up a significant share of Florida's international sales, accounting for 7.1 percent of the total.

⁶ State of Florida, Demographic Estimating Conference Database, July 2005.

⁷ **The 2005 National Association of Realtors Profile of International Home Buyers in Florida.** May 2005.

Source

REGION OF ORIGIN OF FLORIDA'S INTERNATIONAL HOME BUYERS



Buyers from Great Britain account for one-third of Florida's home sales to international purchasers.

Source: National Association of Realtors

Nearly one third of international purchases of homes in Florida were for properties in the Miami-Fort Lauderdale area. Another third chose locations in Central Florida, including Orlando, Lakeland-Winter Haven, and the Tampa-St. Petersburg area. Southwest Florida, which includes Naples, Fort Myers, Port Charlotte, Sarasota and Bradenton accounts for another quarter of international sales.

Buyers' preferences vary considerably by nationality. British buyers, for example, tend to prefer purchases of detached, single-family homes. The Orlando area is the top choice for British home buyers, followed by the Naples-Fort Myers area and Tampa-St. Petersburg-Clearwater. German buyers also have a greater preference for single-family homes, but show a proclivity toward townhouses. The top destination, by far, for German investors is Southwest Florida, which accounts for close to 60 percent of all purchases. The second most popular choice for German buyers is South Florida, which accounts for 18% of all purchases.

Southwest Florida accounts for close to 60 percent of home purchases by German buyers.

Homebuyers from Venezuela overwhelmingly prefer to purchase condominiums, and mostly in Miami and Fort Lauderdale, which accounted for 68% of all Venezuelan purchases in Florida. The next most popular locations for Venezuelan buyers are Orlando and West Palm Beach.

Canadian home buyers have the most balanced view on Florida, with purchases spread throughout the state. The Naples-Fort Myers area is the top choice, closely followed by the Tampa-St. Petersburg-Clearwater area, Sarasota, Miami-Fort Lauderdale and West Palm Beach. Canadians, who tend to spend longer periods of time in the state than

visitors from most other regions of the world, generally prefer to purchase condominiums or townhouses.

International buyers are drawn to Florida by the same forces that drive domestic buyers.

International buyers are drawn to Florida by the same forces that drive domestic buyers – abundant sunshine, relatively mild winter weather, and historically affordable prices. In addition, many Latin American buyers have historically sought homes in South Florida as a refuge from potential political strife in the home countries. This last factor has been particularly important in recent years, which have seen a huge influx of Venezuelan buyers.

Exchange rates are also a factor. The recent strength in the British pound and the euro has provided a huge boost to demand from British and German homebuyers. Moreover, home prices in several European resort locations have soared in recent years, while airfares to the United States have fallen. Exchange rate movements have also helped fuel demand from Canadian and Latin American nations. Both the Canadian dollar and Brazilian real are currently 30% higher than they were back in 2002.

The supply of housing has lagged woefully behind demand in recent years.

Supply Has Been Constrained By Growth Management Initiatives

While all the stars seem to be perfectly aligned on the demand side, the supply of housing in Florida has been much more problematic. Even though residential construction has soared to new highs recently, the supply of housing has lagged woefully behind demand in recent years. This has been particularly true for single-family homes, where population growth, a rising homeownership rate, and strong demand for second homes and vacation properties created a demand for 560,000 new single-family homes between mid 2000 and mid 2004. During this period builders only delivered 540,000 units. *When you add in the growing demand for townhouses and condominiums, buyers were looking to purchase 675,000 new homes during this period, while builders were supplied just 570,000 units.* No wonder prices have been surging!

The chief impediment to new construction has been a shortage of developable land.

The chief impediment to new construction has been a shortage of developable land. The shortage primarily results from a growing resistance to new development. The state is not running out of space. Nearly every community in Florida and the state itself are looking at some type of limitations on new residential development. While well intentioned, these initiatives are making it more time consuming and expensive to build homes in Florida. Others are taking land off the market, designating areas for green space, or preserving space for industrial development. The net result has been dramatically higher land prices across much of the state.

With the residential development becoming more time consuming and burdensome, many smaller builders are getting out of the business and selling to the large private and publicly-traded builders.

Another factor limiting supply has been the growing role large builders are playing in the state. With the residential development becoming more time consuming and burdensome, many smaller builders are getting out of the business and selling to the large private and publicly-traded builders. Such builders currently account for more than one of every five homes built in the state, which is nearly double the share in past building cycles.

Large builders are much better able to raise the capital needed to acquire land, bank it, and improve it. These firms are also better able to deal with the difficult staffing and procurement issues that currently plague so many builders in the state. In addition, only large firms have the resources to withstand and engage in all the litigation and lobbying that is needed to push residential developments through the approval process.

There is still room for smaller builders in Florida. Most are concentrating on small niches, such as custom homes or infill projects. Others may have land entitlements that will carry them through the next several years. Many, however, are looking for an exit strategy, particularly with the business as strong as it has been recently.

Large builders have a different operating strategy than smaller, independent builders do. Most are publicly traded companies and have to withstand the scrutiny of Wall Street analysts, the rating agencies, the SEC, as well as their investors and lenders. With so much scrutiny, these firms are run much more conservatively than homebuilders have operated in the past. One of the biggest differences is that most builders now build to order, which has kept inventories exceptionally lean.

All this caution by builders is making a difference. The Federal Reserve has been monitoring building activity in Florida and reaches many of the same conclusions. The Fed's latest Beige Book noted the following: "Shortages of homes for sale continued to be a problem in Florida, and some builders noted a shortage of available land for development. Several Florida builders indicated that labor shortages were an additional restraining factor."⁸

While builders are taking less risk than in previous building cycles, buyers appear to be taking more risk. There seems to be a great deal of speculation in parts of Florida's condominium market. Buyers are also taking on more leverage, with a larger proportion of homebuyers utilizing interest-only loans, and/or making much smaller down payments.⁹ In addition, we are seeing some evidence of speculative buying of single-family homes in a few markets. So far, however, we feel these excesses are still the exception. *Most Florida housing markets remain exceptionally strong, with demand still exceeding the available supply.* Demand is being primarily driven from buyers intending to occupy their home as their primary residence. Increasingly, we are seeing signs that the gap between supply and demand is beginning to narrow. If this continues, price appreciation should slow toward the end of this year and into 2006.

A Survey Of Florida's Major Housing Markets

Miami is widely thought to be ground zero for the housing bubble. That distinction largely derives from the dazzling array of building cranes dotting the city's skyline. There are currently 14,134 condominium units under construction in Dade County, an additional 21,284 units approved to be built, 12,252 in the application phase, and another 23,856 units planned or in what the Miami Planning Department calls the preliminary phase. By comparison, only 9,152 condominiums were built in the past decade.¹⁰ The pace of development easily eclipses anything ever seen in Miami, including the 1920s building boom.

Condominium development has taken off across Dade County, but the epicenter is clearly downtown Miami, particularly along Biscayne Boulevard near the area where the Miami Performing Arts Center is being built. Tales of buildings selling out in a day have become legendary, although somewhat more rare in recent months. Demand for

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⁸ The Federal Reserve Board. *The Beige Book*. Sixth District -- Atlanta. July 27, 2005.

⁹ LoanPermanence Inc. reported that 30.6% of new single-family mortgages in were originated in Florida during 2004 were interest-only. The national average for 2004 was 31.1%.

¹⁰ *City of Miami Large Scale Development Report: 1995 to Present*. Miami Planning Department. August 2005

condominiums is being driven by a mix of retirees and second home buyers from the Northeast and Midwest, younger buyers seeking an urban lifestyle, and overseas buyers from Latin America and Europe who are attracted to the region by its famed international flavor and nightlife.

Speculators are widely thought to account for anywhere between 50 percent and 75 percent of all condominiums purchased in Miami during the past two years

There is another element to demand, however, which has received widespread attention. Speculators are widely thought to account for anywhere between 50 percent and 75 percent of all condominiums purchased in Miami during the past two years. Many have reportedly been flipped more than once, as investors have capitalized on the rapid appreciation that has occurred during the two years or more that it takes to bring a project to completion. Efforts have been made to limit speculators. Most projects do not allow multiple purchases of condo units or limit the number of units one buyer can purchase. In addition, most developers require a 20 percent nonrefundable down payment and also reserve the right to a portion of profit earned from re-sales of a unit before the project is completed. In addition, lenders have tended to require that a building be between 70 percent and 100 percent pre-sold before handing over construction money.¹¹

Even with these restrictions, speculation remains rampant. There are many ways for speculators to get around virtually all of these restrictions. The \$10 billion question is will investors be willing to walk away from deposits that range anywhere from \$20,000 to \$400,000 or more per unit if the market suddenly turns soft? Moreover, who will be left holding the bag if the market turns down, the buyers/investors, the lenders, the developers, or everyone involved? History would come down on the latter, but the key distinction in this market and earlier condo booms is that the buyer/investor is shouldering a much larger proportion of the risk.

For all the talk about speculators, there is at least one surprising statistic that tends to downplay some concerns. The latest data from LoanPerformance.com show that just 14.3% of the mortgage loans made in Dade County were interest-only loans. By contrast, the national average in 2004 was 22.9%. Moreover, the homeownership rate in Miami is relatively low at just 60 percent, compared to a statewide figure of 73.8 percent. Finally, if this century is truly going to be the age of globalization, one would be hard pressed to find a more internationally-oriented city in this hemisphere than Miami, which should bode well for demand over the long haul.

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While the inevitable day of reckoning still appears to be a long way off, we are beginning to see some signs that Miami's housing market is cooling off. Sales of single-family existing homes in Miami slipped 2 percent in July and are running 6.6 percent below their year ago pace. Of course a good part of the problem in the single-family market has been a lack of supply, and that appears to have been the case in July. A shortage of homes on the market is one reason why prices of existing single-family homes have risen so rapidly, jumping 28 percent over the past year alone.

Demand for condominiums is harder to get a handle on. New buildings continue to be announced at a fevered pace. Recent announcements include a pair of mixed-use towers by Cabi Developers, which recently were approved by the city of Miami. The firm plans

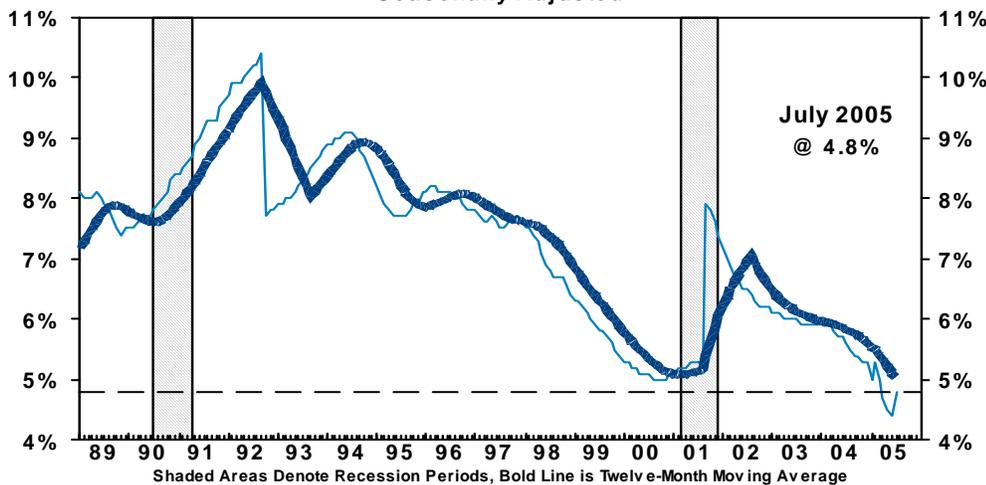
¹¹ Peter Zalewski, "With More Than 600 New Condo Projects Slated For South Florida East of I-95, Big Lenders Are Choosing Spots Cautiously And Small Investors Can't Afford A Misstep" *Palm Beach Daily Business Review*. June 6, 2005.

to build two towers, one 53 stories and the other 57, on Miami Avenue. The \$584 million project, dubbed Capital at Brickell, will join 35 other projects currently under development near the Performing Arts Center site. While we fully expect all projects currently underway to be completed as planned, we have no illusions that anywhere near all the projects currently proposed will ever be built.

Given the unprecedented amount of construction currently underway, with over 100 mid and high rise structures either under construction or proposed in Dade County, one only has to ask whether Miami's economy, or any economy, is strong enough to justify such a building boom. The latest numbers are impressive. After adding 30,000 jobs in 2004, businesses and local government are poised to create at least another 25,000 new jobs this year. The unemployment rate plunged to generational lows in recent months, and is currently just 4.8%. Yet even with a strong economy and continued interest from visitors and investors from abroad, there is no question that the supply of condominiums coming to market over the next three years, which is significantly greater than what was delivered in the last ten years, will test today's seemingly unwavering demand.

While we fully expect all projects currently underway in Miami to be completed as planned, we have no illusions that anywhere near all the projects currently proposed will ever be built.

MIAMI MSA UNEMPLOYMENT RATE
 Seasonally Adjusted



Miami's unemployment rate plunged to generational lows in recent months, and is currently just 4.8%.

Source: Florida Agency for Workforce Innovation

Miami is not particularly indicative of the rest of Florida, or even the rest of South Florida for that matter. While the rest of Florida is booming, Miami's ties to the global economy and Latin America in particular, distinguish it from nearly every other city in the hemisphere. The city serves as the major financial, transportation and service hub for Latin America. More than 500 multinational firms, including such well-known names as Kraft Foods, Caterpillar, Clorox, Microsoft, and ExxonMobil, have their Latin American headquarters in the Miami area and, of course, the region is a tourist magnet. There are, however, elements of Miami's boom present in other markets, particularly Florida's five other large metropolitan areas – Fort Lauderdale, West Palm Beach, Tampa-St. Petersburg, Orlando and Jacksonville.

Miami is not particularly indicative of the rest of Florida, or even the rest of South Florida for that matter.

Fort Lauderdale-Pompano Beach-Deerfield Beach

On the surface, **Fort Lauderdale's** sizzling housing market is beginning to show some signs of moving into better balance. Sales of existing homes have fallen 28 percent over the past year, while the inventory of unsold homes has increased slightly. The drop in

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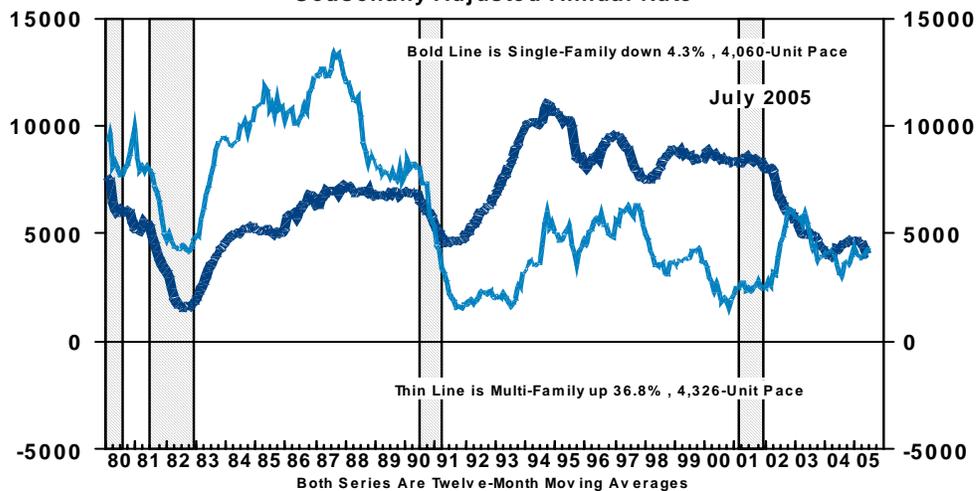
sales, however, likely results from a lack of supply. *The past five years have been characterized by an extreme mismatch between the supply and demand for housing.* Broward County has added 150,000 new residents and 60,000 households during this period. When you add in demand for second homes and vacation properties, this growth translates into demand for at least 80,000 new homes, apartments, townhouses and condominiums. Unfortunately, builders have only been able to deliver around 48,000 new single-family and multi-family homes to the Broward County market during the past five years. With demand vastly exceeding supply, prices for existing single-family homes have soared 151 percent over the past five years, including a 28 percent rise over the past year. Prices for existing condominiums have also surged, soaring 38 percent over the past year.

The run-up in prices has set off a wave of condominium conversions. More than 6,000 apartments were converted to condominiums or slated to be converted during the first half of this year, marking Broward's largest condominium conversion wave ever. We expect a similar number of conversions to occur during the second half of the year. With apartment vacancy rates already low, however, the increase in condominium conversions does nothing to correct the supply/demand imbalance.

The biggest obstacle for developers in Broward County is the lack of developable land. With the Atlantic Ocean to the East and the Everglades on the West, Broward County has simply run out of easy and affordable land to develop for residential use. This is why permits for new single-family homes have actually fallen at the very time sales prices are soaring. Higher selling prices would typically illicit the opposite response.

With the Atlantic Ocean to the East and the Everglades on the West, Broward County has simply run out of easy and affordable land to develop for residential use.

FORT LAUDERDALE MSA HOUSING PERMITS
Seasonally Adjusted Annual Rate



Source: Census Bureau

The mismatch between the supply and demand for housing in Broward County is beginning to present a threat to Fort Lauderdale's long-term economic vitality.

The mismatch between the supply and demand for housing in Broward County is beginning to present a threat to Fort Lauderdale's long-term economic vitality. Ten years ago, homes in Broward County were relatively affordable, with the typical home selling for \$109,000, or just 98 percent of the U.S. average. Today the typical home sells for more than \$385,000, or 183 percent of the national average. Unfortunately, the most recent data point to little near-term improvement. Permits for new homes, townhouses, and apartments are running at just under a 9,000-unit pace, which is well below the projected

11,300 increase in households projected for 2005. As a result, prices will likely continue to rise at a fairly rapid pace.

So far, the run-up in housing costs does not seem to be hurting the region's overall performance. Nonfarm employment has risen 3.0 percent over the past year, reflecting a net gain of 21,400 jobs. Hiring is up virtually across the board, with some of the strongest gains coming in business and professional services, transportation and distribution, construction, and healthcare. Fort Lauderdale continues to attract scores of relocations and expansions, including DHL's recent announcement that it plans to create 600 new jobs near its headquarters in Plantation. The unemployment rate has fallen to just 3.7 percent, the lowest level since February 2001.

Fort Lauderdale continues to attract scores of relocations and expansions.

West Palm Beach-Boca Raton-Boynton Beach

Conditions are fairly similar up in **Palm Beach County**. Sales of existing homes are down from where they were a year ago, but tight supplies of both new and existing homes continue to exert pressure on prices. Prices of existing single-family homes have surged 26 percent over the past year and are up a startling 175 percent over the past five years. At \$391,600, the median price of a single-family home is some 86 percent higher than the national average. Prices slipped slightly in July, falling 3.7 percent from a record \$406,800 in June. The drop, however, appears to have more to do with the mix of homes sold rather than any weakening in demand. Apparently there were fewer higher priced homes on the market. Overall sales of existing homes fell 16 percent in Palm Beach County during July, marking their 11th consecutive year-to-year drop. Once again, however, the drop is due to a lack of homes available for sale and not due to flagging demand.

The median price of a single-family home in West Palm Beach is some is 86 percent higher than the national average.

Demand for housing still appears to be vastly outpacing supply. Nonfarm employment in the West Palm Beach-Boca Raton-Boynton Beach metropolitan area has risen 2.6 percent over the past year, as 14,200 net new jobs have been created. Hiring is up across most industries, with some of the strongest gains occurring in construction and financial services. The unemployment rate has fallen a full percentage point over the past year and is currently at a cycle low of just 4.0 percent.

Demand for housing in Palm Beach County still appears to be vastly outpacing supply.

The strength in the economy has encouraged a wave of in-migration, boosting the county's population by 145,000 residents over the past five years. That gain translates into 57,500 new households. Given the historically strong demand for second homes and vacation properties in Palm Beach County, the recent gains in households translate into demand for 87,000 new homes, apartments and townhouses. Builders have delivered 66,700 homes during this time period. The net result has been a supply squeeze, which has sent prices for existing properties soaring and set off a wave of condominium conversions, which is dramatically reducing the supply of rental housing.

While Palm Beach County has long been known as a haven for the rich and famous, most of the growth in recent years has come from prime working-age adults, looking for more affordable housing in areas such as Boynton Beach, Delray Beach, Wellington and the unincorporated areas of the County. Those affordable houses are tougher to come by. Back in 1995, the median price of a home sold in Palm Beach County was \$128,100, or 115 percent of the national average. Today, the median price has soared to \$391,600 or 186 percent of the national average.

The run-up in housing prices in Palm Beach County has sent many homebuyers scurrying further north into Martin and St. Lucie counties.

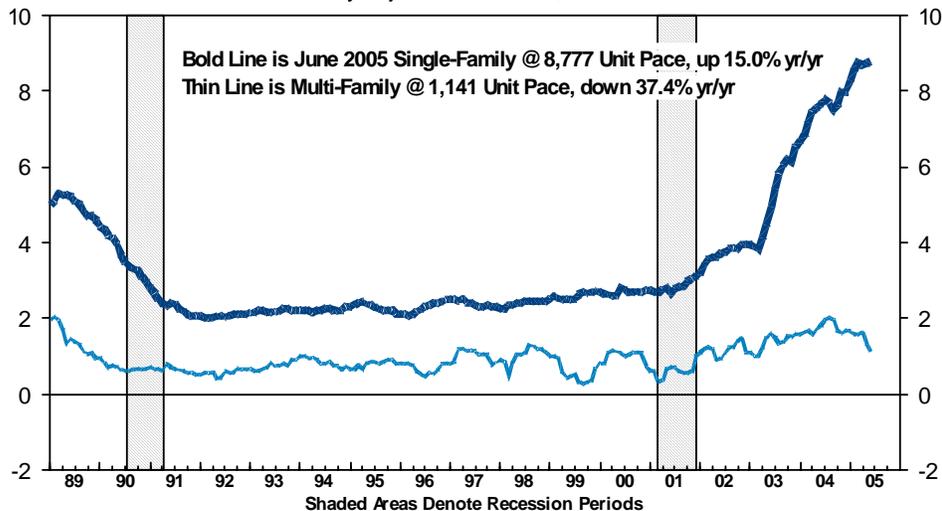
Demand for new and existing homes is likely to continue to exceed supply in the coming year, as just a 13,600 housing permits were issued in the past 12 months, compared to a projected population gain of 32,000 residents or nearly 13,000 new households. That leaves way too little margin for second home and vacation properties, and does not allow for any increase in overall homeownership. The net result will be continued upward pressure on existing home prices.

Port St. Lucie-Fort Pierce

The run-up in housing prices in Palm Beach County has sent many homebuyers scurrying further north into Martin and St. Lucie counties. Sales of existing homes in the **Port St. Lucie-Fort Pierce** metropolitan area, which includes the two counties, rose 5 percent over the past year, and permits for new single-family homes have risen 15 percent. Development of condominiums, townhouses and apartments has also increased in recent years, but slowed during the past 12 months. Permits for multi-family projects fell 37.4 percent over the past year. Most of the growth is occurring in Port St. Lucie, which has the most land open to new residential development. Stuart and Martin County in general, have embraced development somewhat less enthusiastically, accounting for just 23.7 percent of housing construction in the two counties over the past five years.

PORT ST. LUCIE-FORT PIERCE MSA - HOUSING PERMITS

Seasonally Adjusted Annual Rate, In Thousands



Residential construction is barely keeping pace with demand.

Source: Census Bureau

The strength in residential construction reflects the region's burgeoning population. The Port St. Lucie-Fort Pierce metropolitan area has added 60,000 new residents over the past five years, adding 25,000 households to the region. With little existing housing stock in place, this enormous influx of new residents has set off a wave of residential and commercial development. Job growth has also picked up. Nonfarm employment increased 4.4 percent over the past year, with most of the growth occurring in population-driven industries, including construction, retail trade, health care, and local government. The unemployment rate has fallen 1.4 percentage points during the past year to just 3.4 percent.

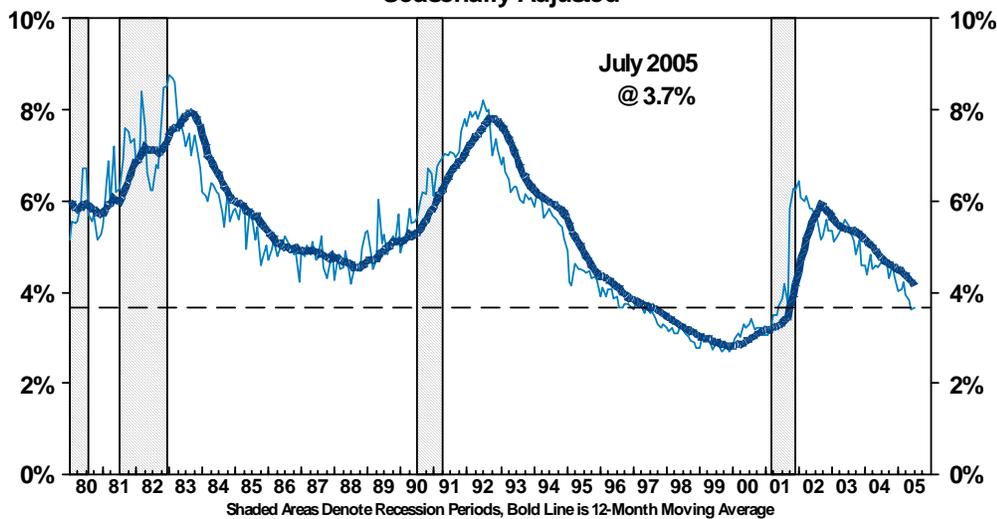
While considerably stronger, residential construction has barely kept pace with demand. We estimate that 30,000 new homes, townhouses and apartments were completed over

the past five years, which barely keeps pace with the rise in full-time households and second home owners. In addition, the region was ravaged by two hurricanes last fall. As a result, the supply of new housing has not even come close to keeping pace with demand. The median price of an existing home has surged in recent years, climbing 151 percent over the past five years to \$265,300. The run up in housing prices has significantly cut into the region’s affordability. The median price of an existing home is now 26 percent above the national average. By contrast, up until recent years, houses in the Port St. Lucie area had consistently sold for 25 percent *below* the national average.

Orlando

Home sales and residential development have been booming throughout **Central Florida** for the past several years, reflecting the region’s consistently strong economy. Businesses and local governments are on a pace to create 45,000 new jobs in the **Orlando** area this year, matching last year’s increase. Hiring would likely rise even faster if employers could readily find all the workers that they need. The unemployment rate has fallen nearly a percentage point over the past year, and is currently just 3.7 percent. Hiring is also up solidly in neighboring metro areas, including Melbourne and Daytona Beach.

ORLANDO MSA UNEMPLOYMENT RATE
 Seasonally Adjusted



Orlando’s robust employment growth is pulling in plenty of in-migrants, which is fueling demand for new and existing homes.

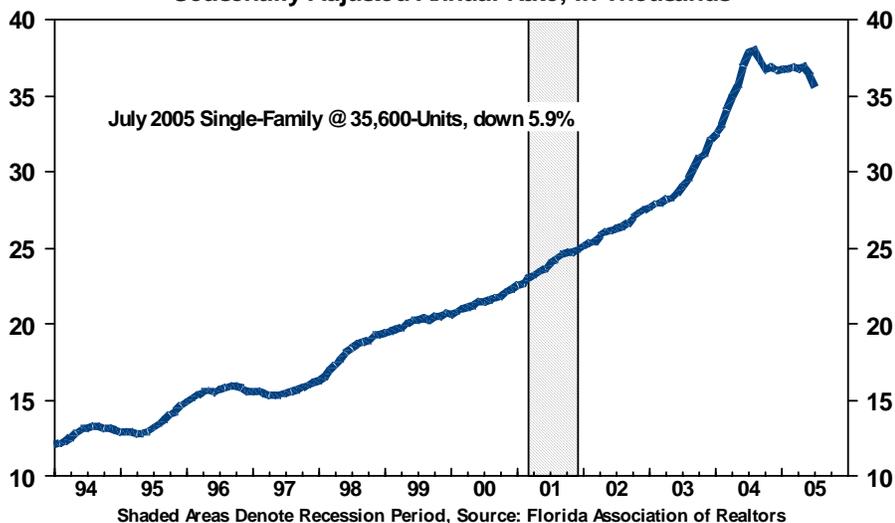
Source: Florida Agency for Workforce Innovation

Orlando’s robust employment growth is pulling in plenty of in-migrants, which is fueling demand for new and existing homes. The four-county metropolitan area has added 265,000 new residents over the past five years, which translates into 100,000 new households. On the surface, construction looks as though its has more than kept pace with demand, with builders delivering a total of 135,000 new homes, townhouses, condominiums and apartments during this period. Orlando, however, is a very unique market, and must also accommodate exceptionally strong demand for second homes and vacation properties. In addition, a number of homes were damaged or destroyed by last fall’s hurricanes. We estimate total demand for new homes of all types to have been 155,000 units over the past five years, or 20,000 more than were supplied.

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With demand for homes running well ahead of supply, prices of existing homes have been driven significantly higher. The median price of an existing home sold in the Orlando area surged 45 percent over the past year to \$247,900. The price jump was the largest among the state's 21 metropolitan areas and brings the cumulative increase in home prices over the past five years to 124 percent. Moreover, Orlando area housing, which traditionally has been priced well below the national average, now sells for 17.8 percent more than national average.

ORLANDO MSA EXISTING SINGLE-FAMILY HOME SALES Seasonally-Adjusted Annual Rate, In Thousands



Source: Florida Association of Realtors

The median price of an existing home sold in the Orlando area surged 45 percent over the past year to \$247,900.

The rapid appreciation in housing prices has produced a windfall for local governments. Property tax receipts in the Orlando area rose 12.8 percent this past year, which translates into an additional \$131 million for city and county governments in the Orlando area. But the run up in prices also appears to be tempering demand somewhat. Sales of existing homes have fallen 5.9% over the past year and homes are tending to stay on the market a bit longer than they used to. Part of the slowdown in existing home sales reflects growing competition from new construction, which really began to ramp up about a year ago. More recently permits have slowed, however, as builders continue to scramble for developable land, raw materials and workers.

Melbourne-Titusville-Palm Bay

The strength in the Orlando market is spilling over into neighboring metro areas, all of which were already seeing sizable gains in home sales in their own right. The **Melbourne-Titusville-Palm Bay** metropolitan area has enjoyed strong employment growth over the past year. Nonfarm employment increased 2.6 percent, reflecting strong gains in the construction, retail trade, health care, and hospitality industries. Residential and commercial building activity has strengthened considerably, with gains driven by an influx of new residents and rebuilding efforts from last fall's hurricanes. Manufacturing has also picked up, particularly in the aerospace and defense sectors. With hiring up solidly, the unemployment rate has fallen to just 3.7 percent.

All this growth has fueled healthy gains in home sales and residential development. Sales of existing homes have increased 55 percent over the past three years. But sales have increased much more modestly during the past 12 months, however, climbing just 1%. One reason sales have slowed is that the inventory of homes on the market is simply not sufficient to meet demand. Brevard County has added 57,000 new residents and 23,000 households over the past five years. During this period, construction of single and multi-family homes has totaled just 29,000 units. Total demand for new homes, including second homes, vacation properties, and replacements for homes destroyed by last fall's hurricanes, was somewhere in excess of 34,000 units during this period. The net result has been a dramatic increase in prices for existing homes, which have surged 127 percent over the past five years, and 40 percent over the past year alone.

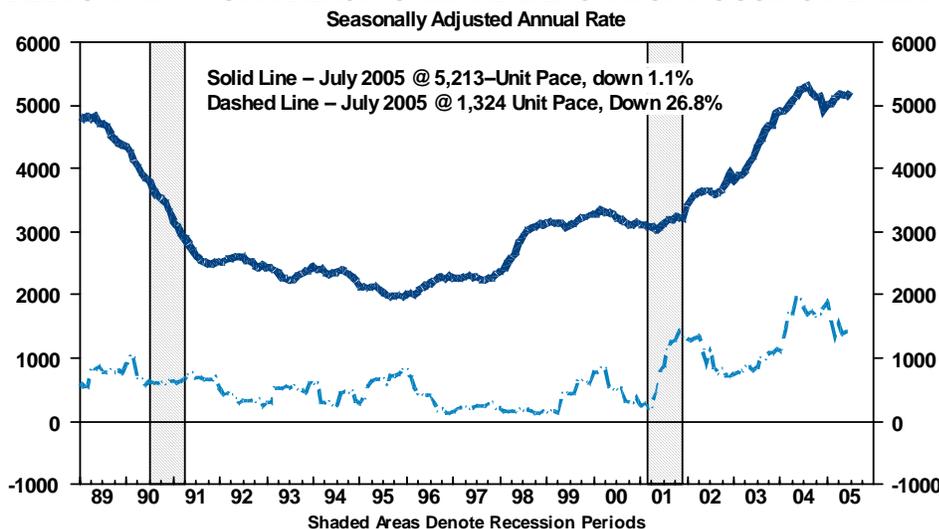
The run-up in housing prices may be cooling off demand among trade-up buyers and retirees. Brevard County is no longer an inexpensive destination for retirees. Prices for existing homes are now 114 percent of the national average, up from 75 percent five years ago. At just under \$240,000, however, the median price of an existing home is still well below the median price in much of the Northeast and Midwest, where the bulk of the area's retirees tend to come from. So even if the flow of retirees into the region slows a bit, it should remain considerable. We are expecting the supply and demand for homes in Brevard County to move into better balance, which should lead to significantly less, yet still considerable, price appreciation during the coming year.

Deltona-Daytona Beach-Ormond Beach

Daytona Beach is also enjoying strong demand for single-family homes and condominiums. Sales of existing homes in Volusia and Flagler counties have surged 84 percent over the past three years. Growth has been fueled by a steady flow of retirees into the region, a growing population of prime-working age adults, some overflow of commuters from the Orlando area and the rediscovery of Flagler County, located north of Volusia County. The growth in the region's population has helped drive job growth. Nonfarm employment has increased 2.9 percent over the past year, with hiring up in virtually every industry. The unemployment rate has fallen to just 3.8 percent.

Total demand for new homes, including second homes, vacation properties, and replacements for homes destroyed by last fall's hurricanes, was somewhere in excess of 34,000 units during this period.

DELTONA-DAYTONA BEACH-ORMOND BEACH MSA HOUSING PERMITS



A total of 25,000 homes, townhouses, condominiums and apartments have been built during the past five years, and we conservatively estimate that demand has been close to 30,000 units.

Source: Census Bureau

Daytona Beach has benefited from an abundance of land available for residential development as well as ample opportunities for redevelopment along the Beach and along the Halifax River. Property prices have also traditionally been much lower than in counties in the southern part of the state. That mix has set off a development boom throughout Volusia County. Construction is underway on a number of condominium projects throughout the county and many more are planned along the beach and river.

The gap between the supply and demand for homes is one reason why housing prices have soared 34 percent over the past year, which has lifted the median home price slightly above the U.S. median.

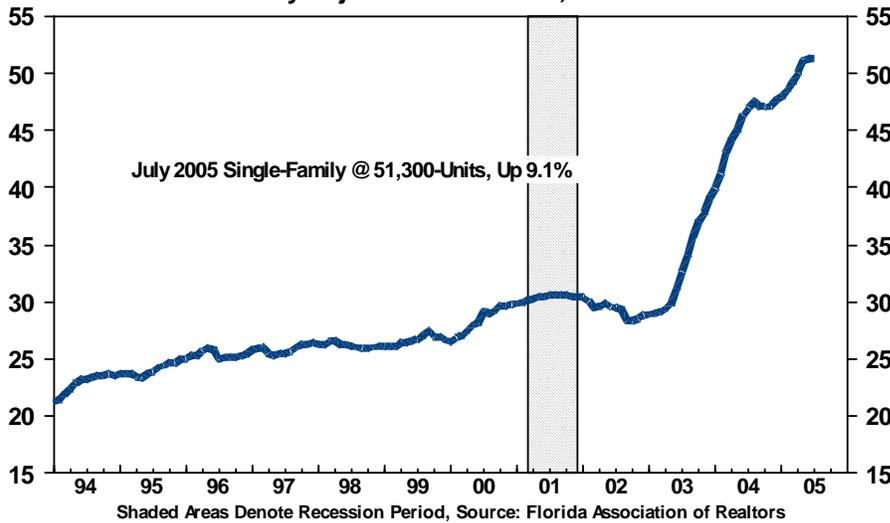
Unfortunately, construction has been unable to keep up with demand. Volusia County has added 46,000 full-time residents over the past five years, translating into 20,000 new households. As in many other Florida communities, Volusia County lost some homes to the hurricanes last fall. Moreover, much of the recent development has been targeted toward the second home and vacation home market. The net result is that the demand for homes still vastly exceeds the available supply. A total of 25,000 homes, townhouses, condominiums and apartments have been built during the past five years, and we conservatively estimate that demand has been close to 30,000 units. The gap between the supply and demand for homes is one reason why housing prices have soared 34 percent over the past year, which has lifted the median home price slightly above the U.S. median. We expect new construction to strengthen slightly from recent levels, while demand cools off slightly. That should help bring the market into better balance in 2006, when we expect home price appreciation to be less than half what we have seen over the past year.

Flagler County was included as part of the Daytona Beach metropolitan area during the 1990s but is not included now. While Flagler County does have significant ties to the Daytona Beach area, its growth dynamics are largely internally driven. The area was developed as a retirement haven way back in the 1970s and struggled for quite some time. Now the area has arrived. Flagler County has been the fastest growing county in Florida during the past five years, attracting 22,000 new residents. Growth is expected to remain strong through the end of the decade, thanks largely to the abundance of available sites to develop residential communities and resorts.

Tampa-St. Petersburg-Clearwater

Central Florida is booming on Florida's west coast too. **The Tampa-St Petersburg-Clearwater** area consistently ranks as Florida largest existing home market. Sales of existing homes have more than tripled over the past three years, but, as in many areas of the state, have grown more modestly in recent months. The Tampa Bay area is a top destination for corporate relocations and expansions, and consistently ranks among Florida's fastest growing areas. Nonfarm payrolls have risen 2.8 percent over the past year, which has helped drive the unemployment rate down to just 3.8 percent.

TAMPA-ST. PETE-CLEARWATER MSA EXISTING HOME SALES Seasonally-Adjusted Annual Rate, In Thousands



With employment growing solidly and the unemployment rate plunging, job seekers have poured into the Bay area. The four-county metropolitan area has added 240,000 new residents over the past four years, which translates into 102,000 new households. When you add in demand for second homes and vacation properties, market demand for new homes is somewhere around 145,000 units over the past five years. During this period, builders have supplied 120,000 units. Once again, the net result has been sharply higher prices for existing homes, which have surged 98 percent over the past five years, including a 30 percent jump this past year.

The four-county Tampa/St. Petersburg metropolitan area has added 240,000 new residents over the past four years, which translates into 102,000 new households.

One of the attributes that has historically made the Tampa Bay area so attractive to new businesses has been that housing is relatively affordable. That is still true today, but not to the degree that it used to be. Five years ago, the median price of a home in the Tampa Bay area was \$109,600, which was just 78.7 percent of the national median. Today, the median price is \$217,400, and is 3.3 percent above the national median. The convergence is not all that surprising given Tampa's enormous growth over the past few years. Years of rapid population growth have simply left fewer desirable areas of the Bay area to develop residential properties, and many of them are now controlled by a handful of builders, which tends to restrain supply.

We expect the Bay area to continue to grow solidly over the next several years. Tampa is still an attractive area for corporate relocations and expansions. Recent announcements include the expansion of a call center operation in St. Petersburg by West Marine, which will create 100 jobs, and a new call center by Humana, which will create 200 jobs in Tampa. Growth in health care, financial services, and business and professional services are other notable bright spots for the region. We are expecting 45,000 new jobs to be created this year.

Builders are responding to all of this growth by increasing development. The supply of lots coming to market has edged slightly higher in the past year and construction of single-family homes is rising. Demand is still exceeding supply, however, and this will

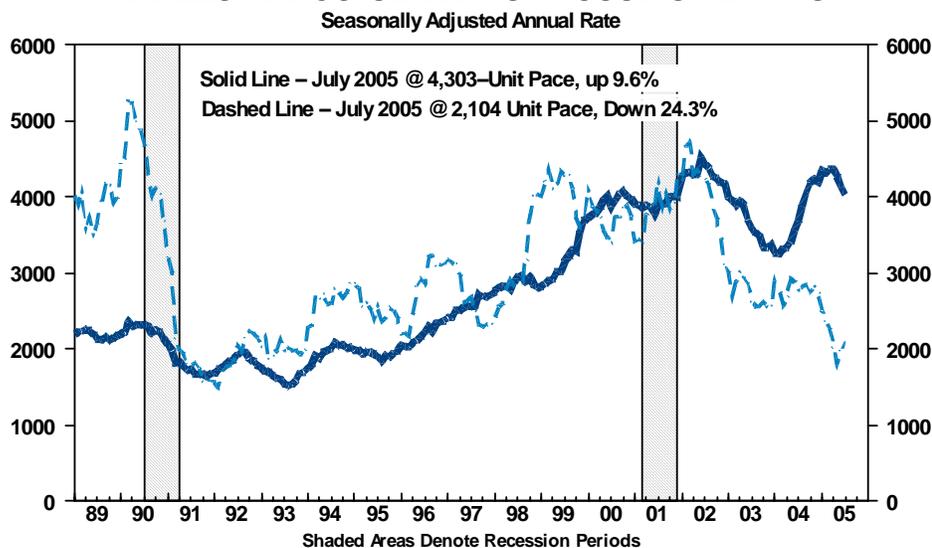
continue to put pressure on prices. After rising 30 percent over the past year, we expect prices to rise around 15 percent during the coming year.

Naples-Marco Island

The Naples area boasts the sixth highest level of per capita income in the nation.

The Naples-Marco Island-Bonita Bay area has long been one of Florida's and the nation's fastest growing metropolitan areas. The region's economy is largely built around well-heeled retirees and tourists, many of which now come from overseas. The Naples area boasts the sixth highest level of per capita income in the nation, and receives more than three times as large a share of its income from investment sources (interest, dividends and rents) than the nation as whole. While the region has historically seen its population swell in the winter months and shrink in the summer, the year-round population has soared in recent years. This growth, however, has set off a wave of slow growth activism, which has severely constrained new construction.

NAPLES-MARCO ISLAND MSA HOUSING PERMITS



Source: Census Bureau

Total permits for new homes, condominiums and apartments peaked back in 2002 at 7,300 units. By contrast, the past year has seen just 6,134 permits issued, and most of that has been for new single-family homes. While constrained, residential construction has still been quite formidable, with 20,000 single-family homes and more than 12,000 condominiums and apartments completed over the past five years. During this period, Collier County added 54,000 full-time residents and 22,000 full-time households.

While the population and housing completion numbers suggest the housing market is in pretty good balance, there has clearly not been enough construction to meet demand, particularly when you add in demand for second homes and vacation properties. At last count there were only about 100 new homes for sale in Collier County, and about 1,000 more under construction. With few new homes available, demand for existing properties remains strong. Naples boasts the highest home prices in the state, with the median price of an existing home topping \$490,000 in July. Prices for existing single-family homes have risen 31 percent in the past year and are up 164 percent over the past five years.

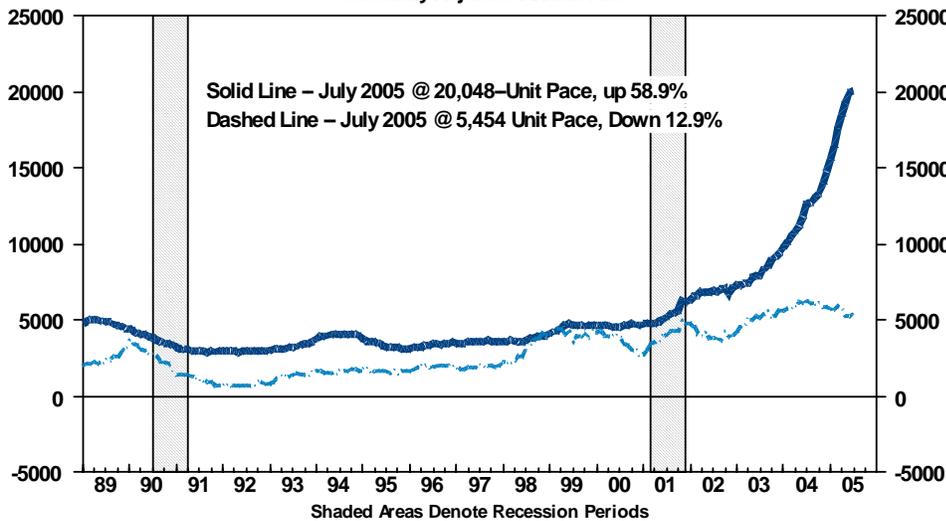
The high price of housing has forced many Collier County workers to seek housing in neighboring Lee and Charlotte counties, where prices are more affordable. As a result, high housing prices have not yet begun to choke off economic activity. In fact, quite the opposite seems to be the case. Nonfarm employment increased 4.5 percent over the past year, while the unemployment rate has fallen to just 2.7 percent. There is a huge backlog of road, sewer, and public works projects in the pipeline, which should help keep construction running at a strong pace for the next few years. Condominium construction is also poised to take off, once the county decides to move forward in granting building permits on many long delayed projects. Until that happens, housing prices will continue to rise at a fairly rapid pace, although we expect appreciation to slow to something in the low double digits over the next 12 to 18 months.

The high price of housing has forced many Collier County workers to seek housing in neighboring Lee and Charlotte counties

Fort Myers-Cape Coral

Spillover demand from the Naples area has added fuel to an already red hot housing market in the Fort Myers areas. Permits for new single-family homes have surged 58.9 percent to a record 20,050-unit annual rate. Permits for condominiums and apartments have been lagging, however, reflecting ongoing resistance by local governments to new condominium development.

FORT MYERS MSA HOUSING PERMITS
Seasonally Adjusted Annual Rate



Permits for new single-family homes have surged 58.9 percent to a record 20,050-unit annual rate.

Source: Census Bureau

Demand for new homes is being driven by strong local economic growth, the spillover of buyers priced out of Naples, a growing number of retirees and part-time residents, and a rising tide of overseas buyers. Nonfarm employment has increased 4.7 percent over the past year, resulting in a net gain of 9,400 new jobs. Not surprisingly, some of the biggest gains have been in construction, where payrolls are up 9.4 percent. The gain reflects the recent strength in homebuilding, as well as repair and rebuilding efforts from hurricane Charlie, which clipped the northern portion of the county last summer. Hiring is also up solidly in most other industries, including business and professional services, retail trade, and the leisure and hospitality sector. The unemployment rate has fallen to just 3.1 percent.

Demand for new homes is being driven by strong local economic growth, the spillover of buyers priced out of Naples, a growing number of retirees and part-time residents, and a rising tide of overseas buyers.

Prices for existing homes in Lee County surged 44 percent during the past year, which marks the second largest gain in the state.

With the economy humming, population growth has remained incredibly strong. Lee County has added 94,000 new residents in the past five years, which translates into 40,000 new households. When combined with the general rising trend of homeownership nationwide and the growing demand for second homes and vacation properties, we estimate buyers have been looking to purchase 65,000 new homes, townhouses, and condominiums. That matches up nearly perfectly with the 65,500 units delivered over the past five years.

Although the math works out really well, prices for existing homes in Lee County surged 44 percent during the past year, which marks the second largest gain in the state and one of the largest gains in the country. Such a run up in prices would not occur if the market were truly in balance. We suspect that a combination of factors are behind the surprisingly strong demand, including stronger than reported population growth, rebuilding efforts from last summer's hurricane, spillover from folks priced out of Naples and displaced from Charlotte County, and exceptionally strong demand from European buyers. In addition, there appears to be a fair amount of speculation in the Lee County market from investors.

We expect economic growth and house price appreciation to moderate slightly over the coming year. After rising close to 5 percent this year, we expect nonfarm payrolls to climb around 3.5 percent in 2006. More modest job growth, along with modestly higher mortgage rates and a weaker euro should help curb demand for new homes, and allow supply and demand to move into better balance. Prices for existing homes should rise much less rapidly during the next year or so, with prices climbing 15 percent to 20 percent over the next 12 months, and 8 percent to 10 percent the year after that.

Punta Gorda-Port Charlotte

Port Charlotte and Punta Gorda are still recovering from the devastating affects of Hurricane Charley, which hit Charlotte County last summer and destroyed more than 5,000 homes throughout the county. Rebuilding efforts have come a long way. All but one of the county's manufactured housing parks have re-opened. There are still an estimated 2000 homes awaiting demolition, however. Moreover, there is an acute shortage of affordable housing in the county.

Nonfarm employment has increased 4.1 percent over the past year and the unemployment rate has fallen back down to 3.7 percent, which is 0.7 percentage points below where it was the month before Hurricane Charley hit.

Economic conditions have improved considerably over the past year. Nonfarm employment has increased 4.1 percent over the past year and the unemployment rate has fallen back down to 3.7 percent, which is 0.7 percentage points below where it was the month before the hurricane hit. Much of the growth reflects rebuilding activity. Charlotte County, however, has been growing at a fairly healthy clip for the past fifteen years, a period which has seen its population swell by 51 percent.

Growth is being driven by the availability of relatively inexpensive developable land. Charlotte County has historically had some of the most affordable land prices in Southwest Florida, with a vast supply of vacant developed lots overhanging the market from the days when General Development Corporation first started building homes in the region back in the late 1950s. Permits for new single-family homes have surged 10.2 percent over the past year. Multi-family permits, however, declined 15.4 percent, which left total construction up just 1.6%.

The increase in homebuilding has obviously not been enough to meet the demand for Charlotte County’s growing population and the replacement needs from folks displaced by Hurricane Charley. As a result, the demand for existing homes has remained exceptionally strong. Sales have averaged a record 4,100 unit pace during the ten months following hurricane Charley. Prices for existing homes have surged 34 percent over the past year, to \$236,600. While that is still affordable by Southwest Florida standards, it marks a huge change for the region. The median price of home in Charlotte County is now 12 percent higher than the national average. Five years ago, the median home sold for *one-third less* than the national median.

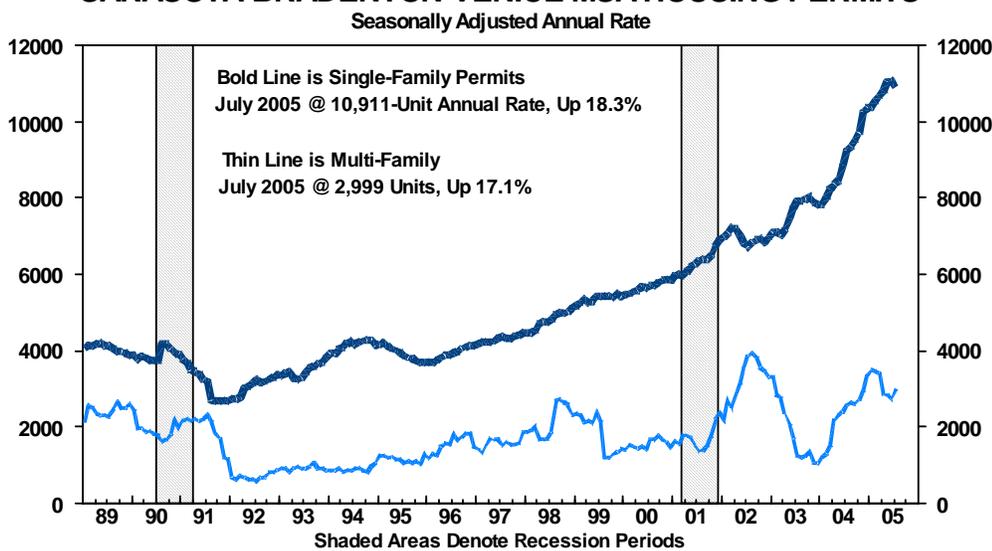
Existing home sales have averaged a record 4,100 unit pace during the ten months following hurricane Charley

The rapid increase in housing prices during the past five years is changing the complexion of Charlotte County’s economy. The region is becoming a less attractive destination for middle class retirees and is instead rapidly becoming a bedroom community for workers priced out of Fort Myers and Naples. Retirees will still account for a large proportion of the region’s growth, however. A larger share will opt for detached single-family homes and townhouses.

Sarasota-Bradenton-Venice-North Port

Strong job growth, an influx of new businesses, and a continuous tide of well-to-do retirees and visitors/part-time residents from overseas have sent Sarasota’s housing market into overdrive. Permits for single-family homes in Sarasota and Manatee counties have surged 18.3 percent over the past year, to a record 10,900-unit annual pace. Permits for condominiums, townhouses and apartment have risen 17.1 percent, to around 3,000 units. A total of 49,500 homes of all types have been built in the past five years.

SARASOTA-BRADENTON-VENICE MSA HOUSING PERMITS



Permits for single-family homes in Sarasota and Manatee counties have surged 18.3 percent over the past year, to a record 10,911-unit annual pace.

Source: Census Bureau

New construction is barely keeping pace with demand. Sarasota and Bradenton have added 71,000 new residents over the past five years and 31,000 new households. When you take into account the growing trend in homeownership and the strong demand for second homes and vacations properties, there was demand in place for slightly over

50,000 homes over the past five years. With the supply of homes lagging behind demand, prices for existing homes have soared. The Florida Realtors Association data show the median sales price of an existing home soaring 32 percent over the past year to \$333,900. The cumulative increase over the past five years is a whopping 134 percent.

Sarasota and Bradenton have a strong economic foundation. Nonfarm employment has risen 4.7% over the past year, and the unemployment has fallen to just 3.0%. Growth is being driven by a diverse mix of industries, including business and professional services, health care, and the leisure and hospitality sector. Sarasota and Bradenton have also been successful at landing several major relocations and expansions in recent years, and have a strong base of headquarters and professional services firms.

North Port has seen its population surge more than 50% over the past four years, adding just over 12,000 residents.

Residential and commercial development is rapidly spreading to the eastern portions of Manatee and Sarasota counties and also to the southern portion of Sarasota County in the town of North Port, located near the Charlotte County border. The driving force is the availability of land and more developer-friendly zoning. North Port has seen its population surge more than 50% over the past four years, adding just over 12,000 residents. Growth will likely remain strong in coming years, as a large proportion of the land currently approved for new residential development in Sarasota County is in North Port. Moreover, office and retail development is following the influx of new residents, making the area even more attractive for potential new residents.

Jacksonville

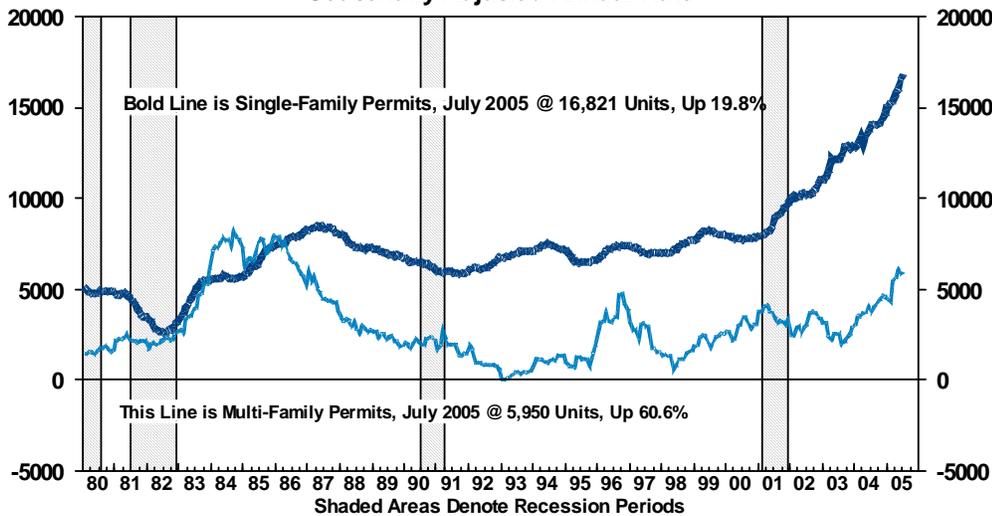
Jacksonville is another historically affordable market that has seen significant price gains in recent years. The median sales price of an existing home, which historically had averaged around 75 percent of the national median, has surged 81 percent over the past five years to around \$190,000 today. That still leaves Jacksonville as a relative bargain compared to Florida's other large metropolitan areas, and is also the lowest home prices of any large metropolitan area along the East Coast.

Housing affordability has been one of Jacksonville's largest selling points, and has enabled the city to attract a number of notable corporate relocations and expansions in recent years. The five-county Jacksonville area has historically had an abundance of land available for residential and commercial development, with most of the activity confined to the southern portion Duval County and the Beaches communities. Strong population and employment growth in recent years has changed this somewhat, driving values up in Duval County and sending more development across into northern St. Johns County and northern Clay County.

Economic conditions remain very favorable. Nonfarm employment has increased 2.8 percent over the past year, with solid gains in financial services, wholesale trade, construction, and health care. The port has always been an important component in Jacksonville's success and is making an increasing contribution of late. Mitsui O.S.K. Lines Ltd. recently announced plans to work with the Jacksonville Port Authority to develop a \$200 million 158-acre shipping terminal at Dames Point. The facility will vastly increase port traffic and likely lure new industries to the city's north side.

Job and income growth has set off a wave of in-migration. The five-county metro area has added 125,000 residents over the past four years, which has added over 45,000 new households to the Jacksonville area. Builders have done their best to keep pace with demand. A total of 56,000 single-family homes were built in the past five years, and more than 17,000 townhouses, condominiums and apartments were completed. As fast as these homes were built, however, buyers have snatched them up.

JACKSONVILLE MSA HOUSING PERMITS
 Seasonally Adjusted Annual Rate



The five-county metro area has added 125,000 residents over the past four years, which has added over 45,000 new households to the Jacksonville area.

Source: Census Bureau

In our view, Jacksonville will continue to enjoy solid employment and population gains in coming years. The area remains an attractive location for customer services centers, mortgage companies and insurance firms, and regional and national headquarters. Transportation and distribution is another growth industry. We expect residential development to continue to spread out into the surrounding area, including the north and west sides of town, where property is even more affordable. With more land opening up to development, housing prices should rise more modestly in coming years.

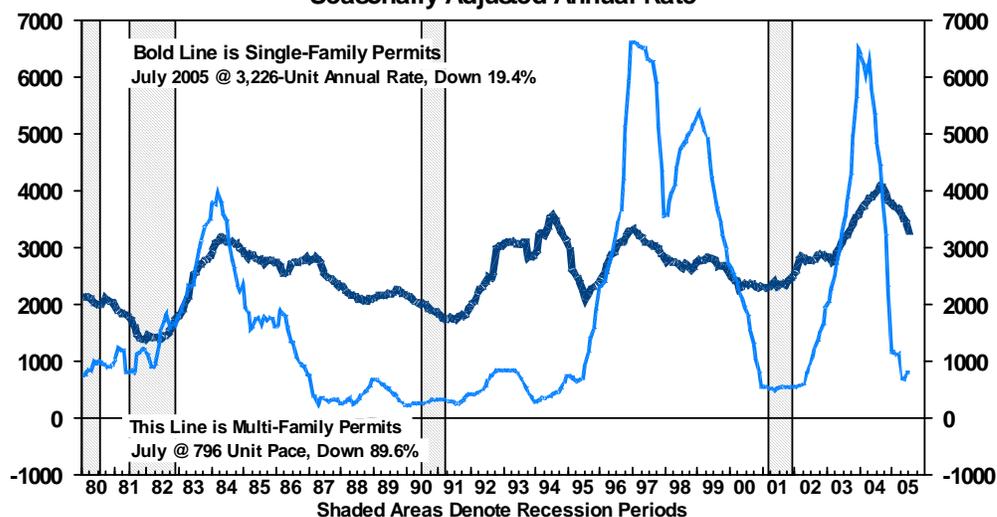
Pensacola

Pensacola’s economy has managed to post solid gains, despite having to deal with direct hits from two hurricanes in the past year. Last fall, Hurricane Ivan destroyed more than 7,000 homes and damaged thousands more. Damages to the Pensacola area both insured and uninsured totaled nearly \$4 billion. The area has recovered remarkably well but was dealt a set back recently when Hurricane Dennis came ashore in Santa Rosa County. That storm destroyed another 900 homes in the Pensacola area and damaged thousands more.

Throughout all these travails, Pensacola still managed to eke out solid economic gains. Nonfarm employment has increased 1.8% over the past year, producing a net gain of 2,900 new jobs. The unemployment rate has fallen to 3.9 percent, which is about a percentage point lower than it was the month before Ivan hit. Not surprisingly, some of

the strongest gains have been in the construction sector. Most of the work so far has been for repairs to infrastructure and homes. There is still quite a bit of rebuilding to be done, particularly along the beach.

PENSACOLA MSA HOUSING PERMITS Seasonally Adjusted Annual Rate



Permits for new single family homes have averaged just a 3,060-unit pace over the past 10 months, which is 25 percent below the pre-Ivan pace.

Source: Census Bureau

Residential construction has actually slowed. Permits for new single family homes have averaged just a 3,060-unit pace over the past 10 months, which is 25 percent below the pre-Ivan pace. Construction of apartments and townhouses has also been lacking. The net result has been a steep rise in the median price of existing homes, which have jumped 32 percent over the past year. While that pace will not likely be sustained, the lack of new residential development combined with the losses from Hurricane Dennis will likely put some additional pressure on existing home prices through the end of this year. Moreover, evacuees from Hurricane Katrina will create additional strains on the region's already tight housing market.

Fort Walton Beach-Crestview-Destin

Fort Walton Beach is enjoying some of the strongest job growth in the Panhandle. Nonfarm employment has increased 4.3% over the past year, reflecting double-digit gains in construction and robust growth in the tourism sector. The unemployment rate has fallen to just 3.0%. Population growth has ramped up considerably in recent years, with the region adding a total of 14,000 new residents and 5,500 new households.

All this growth has set off a wave of new residential development, with 7,000 new single-family homes built in the past five years and 2,500 new condominiums and apartments completed. Demand has been running slightly ahead of that pace, however, which has led to a sharp run-up in existing home prices. The median price of an existing home has surged 98 percent over the past five years, including a 38 percent rise in the last year. Sales of existing homes have slowed recently, however, as competition from new homes has increased.

Demand for condominiums along the coast may also be cooling off. Sales have surged in recent years, but appear to have been driven by a great deal of speculation. Seventy-one

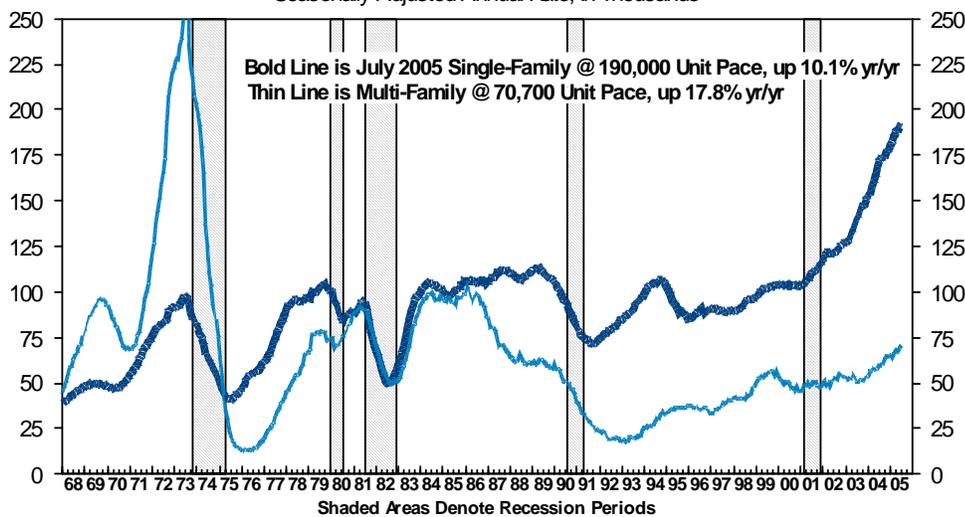
percent of the mortgages issued in 2004 were interest-only mortgages, up from less than 2 percent in 2001. Rising short-term interest rates have likely reduced the attractiveness of interest-only loans and also raise the carrying cost for speculators. With the economy slowing, some of these properties may come back on the market.

Supply Is Finally Beginning To Catch Up With Demand

While considerable constraints still exist in many markets, the supply of single-family homes is now moving back in line with demand. Permits for new single-family homes have soared 10.1% over the past year, to a record 190,000-unit annual rate. Construction of apartments, townhouses, and condominiums has also picked up, with 70,700 units currently under construction. We estimate that demand for new homes of all types will total 273,000 units this year, which is still slightly above the current build rate.

FLORIDA - HOUSING PERMITS

Seasonally Adjusted Annual Rate, In Thousands



The absolute level of condominium and townhouse construction still pales in comparison to the early 1970s boom, which occurred when the state's population was nearly two-thirds smaller than it is today.

Source: Census Bureau

Demand for homes in Florida is being driven by continued strong in-migration, low mortgage rates, a growing trend of homeownership, an influx of buyers from overseas and strong demand for second homes and vacation properties. Demand has also been bolstered by replacement needs from last fall's four hurricanes.

Are these forces sustainable? Our analysis shows that most are, although the influence of all will likely diminish over the balance of the decade. After adding close to 400,000 residents in 2004 and 380,000 this year, population growth is expected to average 370,000 per year through the end of the decade. Mortgage rates are expected to remain relatively low, but should climb modestly over the next few years. Moreover, interest rates on adjustable rate mortgages have already increased, as have rates on interest-only loans.

Mortgage rates are expected to remain relatively low, but should climb modestly over the next few years.

The growing trend of homeownership is also likely to persist. Homeownership is largely tied to age. With the bulk of the baby boomers moving into their peak homeownership years, Florida's homeownership rate should continue to inch up through the end of the decade.

The strong demand for second homes and vacation properties from overseas buyers is also likely to remain strong for some time to come. The euro and British pound remain strong relative to the dollar, while U.S. property prices remain considerably lower than comparable properties in Europe. With economic growth slowing in Europe and the U.S., and housing values rising less rapidly in the U.K., demand may cool off slightly over the next few years.

Demand for second homes from U.S. home buyers will also likely cool off a bit. Rising short-term interest rates and slower economic growth will likely cause sales to pull back a bit. The demographic case for second homes, however, will remain strong through at least the end of the decade.

Barring any further storms, replacement demand should also diminish in coming years. The four hurricanes that hit Florida last year, along with hurricanes Dennis and Katrina, which impacted the panhandle and southern portion of the state this year, have left a considerable number of damaged homes around the state. Most of these homes will be repaired and re-occupied.

For all the talk about how speculation being the primary driver behind current Florida's building boom, the data do not seem to support that contention.

For all the talk about speculation being the primary driver behind current Florida's building boom, the data do not seem to support that contention. Miami and Fort Walton Beach are the only markets that have consistently had a large proportion of investment buyers. Investors, however, are clearly present in nearly every market throughout the state. Moreover, the absolute level of condominium construction still pales in comparison to the early 1970s boom, which occurred when the state's population was nearly two-thirds smaller than it is today.

Fourteen of Florida's 20 metro areas currently have a median home price above the national median.

| Median Price of Existing Home | | | | | | | | | |
|-----------------------------------|------------|-----------|------------|-----------|------------|-----------|-----------------------|-----------------------|--|
| | July 1995 | % of U.S. | July 2000 | % of U.S. | July 2005 | % of U.S. | 1995 to 2005 % Change | 2000 to 2005 % Change | |
| Florida | \$ 89,800 | 80.8% | \$ 121,000 | 86.9% | \$ 252,300 | 119.9% | 181.0% | 108.5% | |
| Daytona Beach-Deltona Port Orange | 74,900 | 67.4% | 93,900 | 67.5% | 219,400 | 104.2% | 192.9% | 133.7% | |
| Fort Lauderdale | 108,800 | 97.9% | 153,500 | 110.3% | 385,600 | 183.2% | 254.4% | 151.2% | |
| Fort Myers-Cape Coral | 83,700 | 75.3% | 117,300 | 84.3% | 287,500 | 136.6% | 243.5% | 145.1% | |
| Fort Pierce-Port St. Lucie | 82,400 | 74.1% | 105,400 | 75.7% | 265,300 | 126.0% | 222.0% | 151.7% | |
| Fort Walton Beach | 93,100 | 83.8% | 130,900 | 94.0% | 253,300 | 120.3% | 172.1% | 93.5% | |
| Gainesville | 95,300 | 85.7% | 111,500 | 80.1% | 185,600 | 88.2% | 94.8% | 66.5% | |
| Jacksonville | 87,400 | 78.6% | 105,100 | 75.5% | 190,500 | 90.5% | 118.0% | 81.3% | |
| Lakeland-Winter Haven | 76,700 | 69.0% | 83,800 | 60.2% | 161,100 | 76.5% | 110.0% | 92.2% | |
| Melbourne-Titusville-Palm Bay | 80,300 | 72.3% | 105,600 | 75.9% | 239,800 | 113.9% | 198.6% | 127.1% | |
| Miami | 108,300 | 97.4% | 141,900 | 101.9% | 363,800 | 172.8% | 235.9% | 156.4% | |
| Naples | 145,600 | 131.0% | 186,000 | 133.6% | 490,400 | 233.0% | 236.8% | 163.7% | |
| Ocala | 62,400 | 56.1% | 88,810 | 63.8% | 137,500 | 65.3% | 120.4% | 54.8% | |
| Orlando | 87,000 | 78.3% | 110,800 | 79.6% | 247,900 | 117.8% | 184.9% | 123.7% | |
| Panama City | 80,000 | 72.0% | 103,800 | 74.6% | 243,400 | 115.6% | 204.3% | 134.5% | |
| Pensacola | 77,600 | 69.8% | 108,600 | 78.0% | 175,600 | 83.4% | 126.3% | 61.7% | |
| Punta Gorda-Port Charlotte | 73,800 | 66.4% | 92,500 | 66.5% | 236,600 | 112.4% | 220.6% | 155.8% | |
| Sarasota-Bradenton | 102,900 | 92.6% | 142,600 | 102.4% | 333,900 | 158.6% | 224.5% | 134.2% | |
| Tallahassee | 160,200 | 144.1% | 119,400 | 85.8% | 176,700 | 83.9% | 10.3% | 48.0% | |
| Tampa-St. Petersburg-Clearwater | 82,000 | 73.8% | 109,600 | 78.7% | 217,400 | 103.3% | 165.1% | 98.4% | |
| West Palm Beach-Boca Raton | 128,100 | 115.3% | 142,500 | 102.4% | 391,600 | 186.0% | 205.7% | 174.8% | |
| United States | \$ 111,140 | | \$ 139,200 | | \$ 210,490 | | 89.4% | 51.2% | |

Sources: Florida Association of Realtors, National Association of Realtors, & Wachovia

Forecast

We expect Florida's housing markets to move into better balance in coming years. More land has been put into production around the state, which should allow single-family starts to rise to a record 195,000 units this year. Construction of condominiums, townhouses and apartments has also picked up, yet this year's expected total of 75,000 units is still only three-quarters the level reached back in the mid 1980s. Total residential construction should come close to meeting demand by the end of this year, which will slow the rate of housing price appreciation.

| National Economic & Financial Outlook | | | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1999 | 2000 | Actual | | | | Forecast | | | |
| | | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Real GDP, percent change | 4.5 | 3.7 | 0.8 | 1.6 | 2.7 | 4.2 | 3.5 | 3.0 | 3.2 | 3.4 |
| Unemployment Rate | 4.2 | 4.0 | 4.8 | 5.8 | 6.0 | 5.5 | 5.1 | 4.9 | 4.8 | 4.6 |
| Total Housing Starts, in thousands | 1,647.3 | 1,573.3 | 1,601.2 | 1,710.3 | 1,853.8 | 1,949.8 | 2,040.0 | 1,940.0 | 1,825.0 | 1,740.0 |
| Single-Family starts, in thousands | 1,306.2 | 1,232.0 | 1,271.7 | 1,363.3 | 1,505.1 | 1,604.3 | 1,680.0 | 1,610.0 | 1,490.0 | 1,400.0 |
| Multi-Family starts, in thousands | 341.1 | 341.3 | 329.5 | 347.0 | 348.7 | 345.4 | 360.0 | 330.0 | 335.0 | 340.0 |
| New Home Sales, Single-Family, in thousands | 878.5 | 888.3 | 907.3 | 976.2 | 1090.7 | 1200.0 | 1250.0 | 1200.0 | 1125.0 | 1050.0 |
| Existing Single-Family Home Sales, in thousands | 4625.8 | 4606.7 | 4723.3 | 4995.0 | 5440.8 | 5912.5 | 6150.0 | 5960.0 | 5840.0 | 5700.0 |
| Existing Condominium & Townhouse Sales, in thousands | 541.4 | 574.8 | 596.1 | 658.3 | 729.3 | 810.8 | 900.0 | 860.0 | 825.0 | 790.0 |
| Interest Rates | | | | | | | | | | |
| Conventional 30-Year Fixed-rate, Effective rate | 7.53 | 8.26 | 7.12 | 6.73 | 5.92 | 6.01 | 6.70 | 7.20 | 7.50 | 7.80 |
| One-year ARM, Effective rate | 6.49 | 7.03 | 6.40 | 5.66 | 5.03 | 5.42 | 6.10 | 6.30 | 6.50 | 6.70 |
| Prime Rate | 7.96 | 9.23 | 6.92 | 4.68 | 4.12 | 4.34 | 6.31 | 7.31 | 7.85 | 8.20 |
| Ten Year Treasury Note | 5.64 | 6.03 | 5.02 | 4.61 | 4.01 | 4.27 | 4.85 | 5.25 | 5.70 | 6.00 |
| Florida Economic Outlook | | | | | | | | | | |
| | 1999 | 2000 | Actual | | | | Forecast | | | |
| | | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Real Gross State Product, percent change | 4.8 | 4.4 | 3.0 | 2.7 | 4.0 | 5.0 | 5.7 | 4.8 | 5.0 | 5.3 |
| Nominal Personal Income, percent change | 5.3 | 8.0 | 4.6 | 3.0 | 3.8 | 7.3 | 7.7 | 6.9 | 7.0 | 7.5 |
| Population, in thousands | 15,759.4 | 16,048.8 | 16,353.6 | 16,681.2 | 16,999.2 | 17,397.2 | 17,782.2 | 18,162.2 | 18,537.2 | 18,907.2 |
| Change in thousands | 300.3 | 289.4 | 305.0 | 327.6 | 318.0 | 398.0 | 385.0 | 380.0 | 375.0 | 370.0 |
| Households, in thousand | 6,250.0 | 6,364.3 | 6,485.1 | 6,615.0 | 6,741.2 | 6,899.0 | 7,051.9 | 7,210.9 | 7,364.8 | 7,513.0 |
| Change in thousands | 107.7 | 114.3 | 120.8 | 129.9 | 126.1 | 157.8 | 153.0 | 159.0 | 153.9 | 148.2 |
| Nonfarm Employment, in thousands | 6,827.0 | 7,080.5 | 7,170.7 | 7,179.7 | 7,261.1 | 7,504.0 | 7,789.0 | 8,029.0 | 8,279.0 | 8,529.0 |
| Change in thousands | 190.6 | 253.5 | 90.3 | 8.9 | 81.4 | 242.9 | 285.0 | 240.0 | 250.0 | 250.0 |
| Unemployment Rate | 4.0 | 3.8 | 4.7 | 5.7 | 5.3 | 4.8 | 4.0 | 3.8 | 3.7 | 3.6 |
| Total Housing Permits, in thousands | 160.5 | 148.4 | 164.3 | 180.6 | 203.6 | 242.0 | 270.0 | 250.0 | 230.0 | 220.0 |
| Single-Family Permits, in thousands | 103.8 | 102.9 | 116.2 | 127.1 | 150.8 | 177.6 | 195.0 | 180.0 | 170.0 | 165.0 |
| Multi-Family Permits, in thousands | 56.7 | 45.5 | 48.1 | 53.5 | 52.8 | 64.4 | 75.0 | 70.0 | 60.0 | 55.0 |
| OFHEO Home Price Index, percent change | 4.3 | 6.2 | 10.0 | 9.8 | 7.4 | 15.2 | 24.5 | 14.0 | 7.0 | 6.0 |

Source: Wachovia Corporation

While supply is increasing, demand for homes is expected to cool off slightly. Overall sales will remain strong through the end of the decade, but the exceptionally strong demand that we have seen in recent years is expect to subside. Rising short-term interest rates and an increased supply of condominiums are expected to curb some of the investor demand for homes in the state. Sales of single-family homes will also be slowed by the rapid run-up in home prices, which has cut into affordability. Fourteen of the 20 Florida metropolitan areas that we have data for currently have a median home price above the national median of \$210,500. Ten years ago, only three Florida areas had a median home price above the nation.

Higher home prices will not snuff out Florida's housing boom.

Higher home prices will not snuff out Florida's housing boom. Prices are still significantly lower in most Florida markets than they are in the Northeast United States, where many of Florida's in-migrants come from. In addition, several Florida markets, including Jacksonville, Ocala, Gainesville, and Pensacola still have housing costs well below the national median, while the Tampa/St. Petersburg area is essentially even with the national measure.

Demand will also remain strong, in our view. The weak dollar should continue to attract scores of buyers from Europe, and high commodity prices, stronger economic growth, and a strong Brazilian real will continue to stoke demand from Latin America. Interest rates are also expected to remain relatively low over the next few years, which will keep demand for second homes and vacation properties strong. Finally, demographics should remain favorable for Florida's housing markets through at least the end of the decade, with more people reaching their peak homeownership years and more retirees and working-age adults moving to the state.

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