

ERA September 2011 Market Update

The following information regarding sales activity, inventory levels, absorption rates and other economic data about the Bay County community is provided to help keep our clients informed. Please feel free to call anytime if you have questions or need additional details about the subject matter in this update.

State of the Northwest Florida Real Estate Market

What is the status of the market through August 2011? Each day we hear the same good questions from our clients. The same questions area bankers, developers, builders and small business owners are asking. "Where is the real estate market going and how long will it take to recover?" Although we are certainly affected by the national and international economic environment, each local market is driven by unique market influences. Our region of northwest Florida has positive attributes that should give us a sense of optimism. As your Realtor we are staying focused on our mission and are taking the right steps to assure that our customers and clients make the best decisions in the current environment. Key observations about the Bay County market follow and are carefully considered each day as we offer advice to our customers and clients.

Housing Inventories: The following link offers an updated summary of single family inventories across Bay County. The same information is available on other markets we support, including Walton, Gulf, Franklin, Washington and Calhoun counties. The report is segregated by price range and is updated each month. Historically, supply and demand in our market is considered to be in balance when we have 8-12 months of supply. We are closer to that target in the price range below \$300,000, but have not enjoyed the same rate of recovery in the higher price ranges. Logically, this segment should begin to improve since new construction has been minimal for the past several years despite the growth of population. Accordingly, new home inventories are not a significant competitive factor. As the inventory of homes priced below \$300,000 continues to show signs of absorption, homebuilders will begin to meet that new demand as well. Our professional staff is focused on the strengths of our community and is well-versed on communicating the many benefits of buying a home in the current market. These favorable conditions for buyers represent an opportunity that will diminish as the market recovers in the near future. Current monthly market sales statistics and inventory data can be found on our website:

www.panamacityera.com/support/MarketStats.pdf

National Real Estate Market and Historical Trends: Cycles of growth and prosperity are always followed by contraction. These are normal, and until now, have been reasonably predictable. When economic policies attempt to contradict these cycles as we experienced in recent years, the economy can expand too much and contractions are longer. These cycles are the economy's way of clearing out inflation and inflationary expectations and are a normal part of the real estate market cycle. Recent cycles in the housing market are shown below. Generally, the longer the period of economic growth, the longer the recovery will take. Officially the downturn began in August of 2006 and we are now at the five year point following almost nine years of growth, the longest period of growth in three decades. The chief economist for the National Association of Realtors predicts steady but modest improvement in 2011-2012, however currently, REO sales may be giving false sense of improvement. The National Association of Realtors predicts that pricing in some markets will continue to decline due to distressed properties, but unit volumes will stabilize. Fannie Mae (Federal National Mortgage Association) has probably been the best forecaster in current market for the last three years.

Economic Growth Recession

Up 1970-1974 (4) Down 1975-1978 (3)
Up 1977-1989 (12) Down 1981-1983 (2)
Up 1984-1990 (6) Down 1991-1993 (2)
Up 1994-2005 (9) Down 2006 - ?

Rental Property Inventories: Economic conditions have impacted the rental market as well. Each year, property owners who have been unsuccessful selling their homes have turned to the rental option as a necessary alternative. Our property management team has recognized the growing inventory of available rental properties forces investors to be more aggressive in marketing for new tenants. These conditions require improvement of property condition and appeal, adjustment of rent rates and negotiation of lease renewals sooner, rather than later. The most significantly affected Bay County market is the Tyndall area

as a result of mission changes taking place, followed by the beach market where absorption of excess inventory is occurring, and competition from condominium investors seeking rental income is aggressive and unprecedented. Logically, due to the slower absorption of higher-priced homes, new rental properties from this segment of the market are increasing. For many would-be buyers, the excess inventory of rentals has presented a tempting cost-effective alternative to buying a home. This coupled with uncertain future employment stability in certain career fields has made renting a safe and sometimes, the most cost effective option. Our property management division currently manages over 450 properties for our clients and provides vital services at a time when tenant credit history, employment stability and property care must be carefully considered. The current vacancy rates of single family homes across Bay County exceeds 8% and this will increase as unsold properties enter the rental market in the fall as homeowners relocate. More information about our property management services can be found at www.eraflorida.com

Short Sales and Foreclosures: Though the rate of foreclosures has dropped dramatically this year, Bay County has been experiencing its share of foreclosures and short sales as market values have declined and unemployment has risen. Many of the sales professionals with ERA Neubauer Real Estate, Inc., are certified in short sales and several have also been trained and certified by the CARTUS Asset Recovery Program. These specialists have unique knowledge about the processes, including pre-foreclosure, foreclosure and short-sales and are prepared to offer information and guidance to clients who are faced with difficult decisions that affect their homes. We recognize that many families are overwhelmed by difficult financial situations and recommend an open dialogue with their lender and others to chart a course for recovery. We are also aware of situations where tenants are caught off-guard by a landlord who may be losing their rental property to foreclosure. Once aware of such cases, we work closely with all parties to find a mutually viable resolution.

The economic drivers....

There are several core economic drivers that affect our local economy and the real estate market. Here are a few for your consideration.

The New Airport and Economic Development: A primary driver for construction of the new international airport was economic development. Even though there are not a large number of new start-up companies shopping for plant locations, there are consolidations and relocations taking place. The Bay County Economic Development Alliance continues to market to these interests and the EDA and its partners have a reasonably good chance of securing jobs from both government and private sectors. We should realize however, that the primary benefit of the airport as an economic engine may not be realized for many years. The Bay County EDA reports that our community is working with a number of prospective employers who are considering Bay County among their prospective locations to relocate their companies. One of those, Red Pine Inc., a medical software development firm, recently announced plans to move their company from Washington State, planning to add up to 400 jobs over the next four years. Other prospects continue to move forward in the process, keeping our community on their short-list of options. For more information on the EDA - <http://www.bayeda.com/>

Our Military Installations: We are fortunate as a community to have this economic engine that provides a significant economic impact to Bay County in excess of \$2.5 billion dollars per year. Key tenant organizations at the Naval Support Activity Panama City are strong and thriving in an otherwise difficult funding environment. One of the high profile organizations is the Naval Surface Warfare Center Panama City Division, which continues to secure work in key areas, including research and development, mine warfare, special warfare and design, test and evaluation of autonomous systems.. Many people don't realize it, but NSA-PC has an amazing pool of highly educated talent, and delivers an economic impact similar to that of Tyndall AFB, according to data from the University of Florida's HAAS center. These strong tenant commands at Tyndall are doing well:

AFNORTH, its Air and Space Operations Center and headquarters are located at Tyndall and the organization is responsible for air defense of the North American continent. AFNORTH continues to thrive, as the mission integrates with other civil support and core homeland defense missions vital to our nation. In recent years, over 50 million dollars has been invested in new infrastructure at Tyndall to benefit this 1st Air Force/AFNORTH mission. In January of 2011, the Secretary of the Air Force

announced plans to consolidate the 601st AOC at Tyndall and the 612th AOC in Tuscon. Following a lengthy basing study, on August 30th 2011 Air Force decided to keep both AOC's in place, assuring that more than 300 jobs would remain here.

The Air Force Research Laboratory (AFRL), Air Force Engineer Support Agency (AFCESA) and Weapons Evaluation Group are among the major tenant commands, all currently doing well. Members of the Bay Defense Alliance worked closely with the Air Force and out Florida elected delgation to replace the jobs lost as a result of the loss of Tyndall's 48 F-15s. The first of 21 new F22 aircraft will arrive at Tyndall in January 2013 as the base transitions from the Air Education Training Command to the Air Combat Command. Also, this summer the first of 20 T-38 aircraft will arrive. These aircraft will serve as adversary air support for the F-22 training program. An overall update of Bay Defense Alliance activities and its membership can be found at www.BayDefense.org or you may view the most recently community update.

Port Panama City Economic Outlook: Many of the seaports across the country are experiencing unprecedented drops in cargo activity, however Port Panama City is enjoying a slight upturn over its previous year as the result of new customers and diversification of products. The thoughtful planning and marketing efforts of Port Director Wayne Stubbs, has brought stability to the port with a focus on the future. The port also has an intermodal distribution center on Hwy 231 and has entered into an agreement with the Economic Development Alliance to develop 22 acres as a "shovel ready" site. Continued interest by small to medium sized industry indicates that we must be prepared to physically locate a prospective industry very quickly. Industrial prospects will continue to work closely with a very active Economic Development Alliance and its director Janet Watermeier, a successful economic developer who has made a difference throughout Florida. More information about economic development activities can be found at <http://www.baycountyyeda.org> and information on Port Panama City can be found at www.portpanamacityusa.com . Development

A Word About New Housing Developments: As the economy began to show signs of a national slowdown, developers began seeking U.S. locations that offer the greatest long-term potential for growth and development. As a result of that quest, there are several substantial housing projects in various stages of planning as these developers patiently wait for the right time to launch. A few of these projects include the 703 acre redevelopment of the Panama City Airport which will eventually have features similar to Baytowne, Sandestin in terms of the proposed marina and mix of housing types. Also in the pipeline are The Huckleberry Creek Project (www.huckleberrycreek.com), a proposed 2500 acre community north of Panama City, Lake Merial Project (<http://www.lakemerial.com>) north of Lynn Haven, the East Bay Development (<http://thinkeastbay.com>) located east of Panama City adjacent to Tyndall AFB. Logically, the fact developers have made these investment decisions after careful research and much thought, gives one the assumption that Bay County has a very bright future for development.

Fortunately we are well-positioned to help our clients succeed.....

Thoughtful analysis of the market and review of closed sale transactions gives us critical information about the predominant sources of buyers and how we should pursue them. The buyers who would purchase second homes or vacation properties for their personal use were the first group to diminish in recent years, while smart investors who have the financial means are taking full advantage of the excellent opportunities presented in the market. Among the groups who continue to buy and sell homes are those individuals who are relocating with business or industry. In many cases these buyers have the sale of their homes guaranteed by their employer, placing them in an excellent position to buy at their destination. There are sales being made and many of these buyers are coming from stable sources that ERA Neubauer Real Estate has a strong advantage in attracting. We are pleased that our relationship as a CARTUS principal broker gives us direct access to corporate relocations associated with fifty of the Fortune 100 companies doing business in the U.S. CARTUS also provides a unique connection to the military market through the USAA MoversAdvantage program designed for military members, including those who may be moving to or from NSA-PC or Tyndall AFB. Having access to this pool of qualified buyers offers a distinct advantage to our clients, increasing the number of sales opportunities we can provide as their broker.

The Bottom Line.....

So the bottom line, from our perspective, is the Bay County real estate market does have a bright future, but will likely continue to experience some pain until economic recovery begins to increase absorption of real estate inventories in the upper price ranges. Sales in this price range should improve in the coming months as banks and their holding companies become more intensely focused on divesting themselves of REO inventory, noting that regulators continue to bring pressure to remove non-performing loan assets from their balance sheets. Our clients can be assured the professionals associated with our firm understand the market and can offer sound advice to our clients about their options. We continually analyze the competitive position of each property we are marketing and offer candid advice. ERA Neubauer Real Estate, Inc., has been a leader in the Bay County market for 35 years, providing real estate services for more than 15,000 clients and customers. Our professionals and support staff take personal responsibility, yet work as a cohesive team to maximize the opportunities for our clients, creating favorable results. We're here to stay, and we sincerely appreciate your business and continued confidence.

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