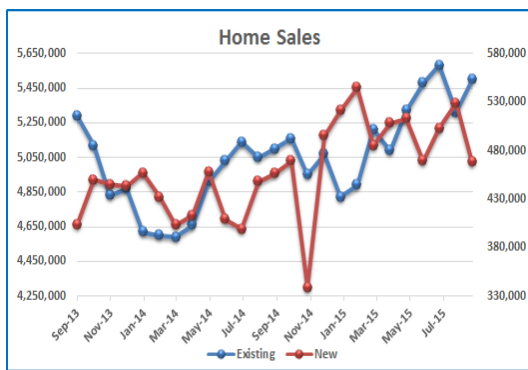


ECONOCAST™ UPDATE – October 26, 2015

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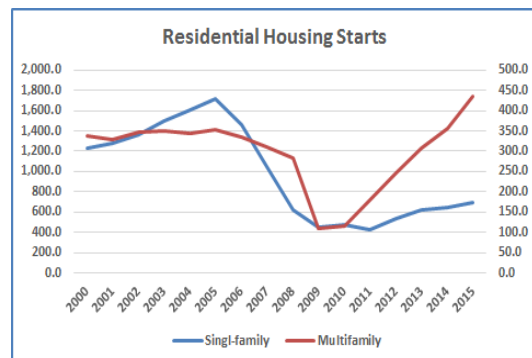
U.S. Economy – Home Sales Muddle Along Again in September

Poorly performing housing markets are one of the reasons for the mediocre growth trajectory for this recovery, which is over six years but has not had sustained growth above 3%. September was another month of mixed results. On the plus side, existing-home sales jumped 4.7% in September, offsetting losses from the previous month and maintaining good growth year over year of 8.8%. The seasonally adjusted median existing single-family house price also increased in September and is up by 6.6% year over year. Importantly, sales activity for homes prices below \$100,000 were down almost 5% compared to last year with very little available inventory. Most sales are priced above \$250,000.



Sales of new homes disappointed in September dropping 11.5% and they were only 2% above September 2014. Abstracting from the month-to-month volatility, new home sales have leveled out this year after rising modestly from 2011 to 2014. While the upward trend is likely to resume next year, there is still a long way to go before the market reaches normality.

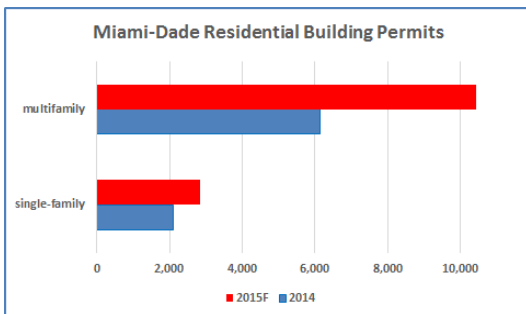
Residential construction remains uneven as well. Single-family construction is recovering very slowly. However, multifamily construction has boomed and now is above its prerecession pace. The current pace of multifamily construction is not sustainable, and we are likely in the later stage of the apartment cycle. Apartment vacancy rates bottomed out in 2015Q2, and with supply ramping up growth in rental rates will slow sharply in 2016.



Florida Economy: Residential Overbuilding Again in South Florida

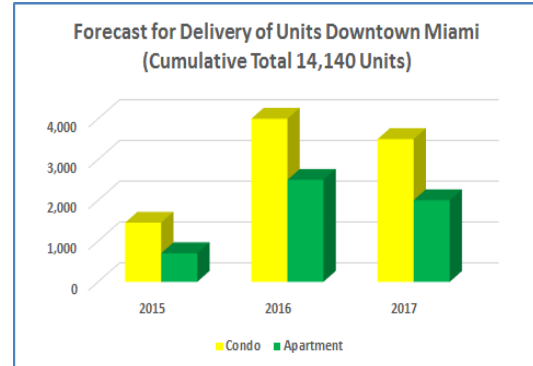
For the 12-months ending in August 2015 residential construction activity in Florida increased 20%. As was true nationwide, multifamily construction increased twice as fast as single-family construction with gains of 14% and 31% respectively. At the current rate 101,673 residential units will be started in 2015 which is a sustainable level given the current pace of population growth at about 300,000.

However, these aggregate data hide a worrisome trend in South Florida. In Miami-Dade County residential construction activity rose 61% overall with multifamily construction soaring 70% above 2014 levels. Total residential starts will exceed 13,000 in 2015. This level of housing starts will exceed household formations and sales to foreign investors in 2016 when the units are being delivered.

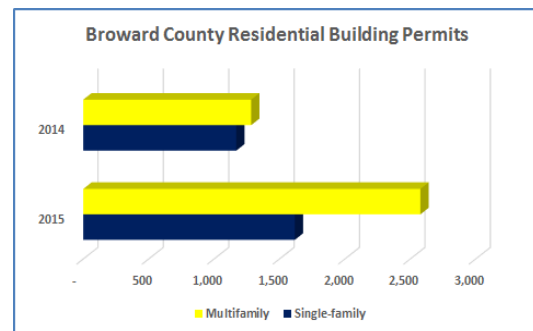


Even worse is the fact that much of this multifamily activity is concentrated in downtown Miami. Counting only the volume of multifamily units under construction in downtown, excluding planned projects, results in over 14,000 new units to be delivered into the downtown market from 2015-2017. Already, there are signs of distress in the marketplace. To assure the sales

of remaining units in their condominium towers some developers have already reduced the required deposits from 50% to 30%. The erosion will only get worse over time with the apartment projects most at risk.



This overbuilding of multifamily units is not limited to Miami-Dade County, but it is evident also in the data for neighboring Broward County. Overall activity is up 71% based on a doubling of multifamily permits.



The collapsing value of many South American currencies will exacerbate this overbuilding problem.

