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Say It's So, Joe! Northwest Florida Starts to Shine

Here's a flash this morning from Buck Horne, Vice President - Equity Research, Raymond James & Assoc. on the St. Joe company.

Our own commentary would be this:

Here's a classic consequence of a transportation-driven real estate phenomenon. Panama City was a lovely place, and now it's a location. St. Joe, post Gulf Oil Disaster 2010, is sitting pretty now because the region has three strong drivers in its favor following the opening of the new airport. One, it lures home buyer demand that's not strictly jobs oriented. Recession-fatigued retirees who capitulate on selling their homes in the north can move there without needing a job to move to. Two, it's affordable. Three, its natural beauty is a physical amenity baby boomers crave. Bravo, Joe.

Here's Mr. Horne's analysis.

JOE: Northwest Florida Economic Update - Surging Back to Life

* Supplementing our regular monthly Florida housing updates, we are introducing a new piece aimed at providing a more detailed glimpse of real-time economic activity specifically in the Northwest Florida region, given its increasing importance to the outlook and valuation of the St. Joe Company. In summary, the May opening of the Northwest Florida Beaches International Airport has proven to be an economic catalyst beyond our most optimistic projections. With the overhang from this summer's oil spill finally dissipating, we believe several recent leading economic indicators (detailed below) are now showing tangible signs of a local economy surging back to life. Accordingly, the surprising strength of these data points gives us even more conviction in our Strong Buy thesis on JOE shares.

* **September passenger traffic soars 173% y/y.** During September, total air passenger volume into and out of Panama City, FL rose 173% y/y relative to levels at the old airport. Since opening on May 23 this year, passenger traffic through the new airport has already exceeded total 2009 volume at the old Panama City airport. Parking lot capacity at the new airport was effectively maxed out on opening day, and new parking facilities are already being developed to accommodate demand that has exceeded initial airport projections. For historical context, the Southwest Florida International Airport in Ft. Myers achieved only 20% y/y passenger growth during its first 12 months of operation after opening in 1983.

* **Fastest job growth in Florida.** October job growth in the Panama City MSA rose 1.1% y/y, based on data from the Bureau of Labor Statistics. Employment growth has accelerated for four consecutive months following the summer peak of oil spill anxiety, and Panama City now ranks as the fastest-growing job market in Florida. Moreover, we find the details behind the job statistics even more encouraging. Average weekly hours worked in Panama City were up 6% y/y during October, and average hourly earnings jumped 14.5% y/y.

* **Hotel bed tax collections soar 15.9% y/y.** Tourism plays a critical role in Northwest Florida's economy. As such, tax revenues collected from hotels provide another key real-time economic indicator for the region. In October, Bay County hotel bed tax collections further confirmed the aforementioned labor data by jumping 15.9% y/y, the first y/y increase posted in four months. October's increase follows oil spill-related declines in June, July, August, and September of -3.2%, -14.5%, -14.7%, and -0.1%, respectively.

* **October home sales remain sluggish, but a lagging indicator.** The housing market in the Panama City area remained weak in October, as single-family sales dropped 27% y/y and condo sales declined 22% y/y. But we think part of the downward trend relates to difficult y/y comparisons stemming from the original 2009 tax credit deadline. Importantly, though, existing home sales are generally a lagging economic indicator, in our view. Should job growth in this market continue to accelerate from current levels, we would fully expect to see more housing activity emerge in the months ahead.

* **Reiterating Strong Buy thesis.** Overall, the weight of these data points - combined with St. Joe's recent success in signing new commercial partners (such as Walmart, CVS, and Book-It.com) - gives us significant comfort in reiterating our \$22.07 NAV per share estimate and Strong Buy rating. Growth is accelerating faster than we expected, and investors should not overlook St. Joe's assets, which by our math, are currently being valued at just \$3,610 per developable acre (ex timber, amenities, and net cash value).

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