

SCCAI

Market Trends Seminar

January 22, 2015

Terry Dickens

- Dickens Properties, LLC
- Board Member
 - Bixby Land Company

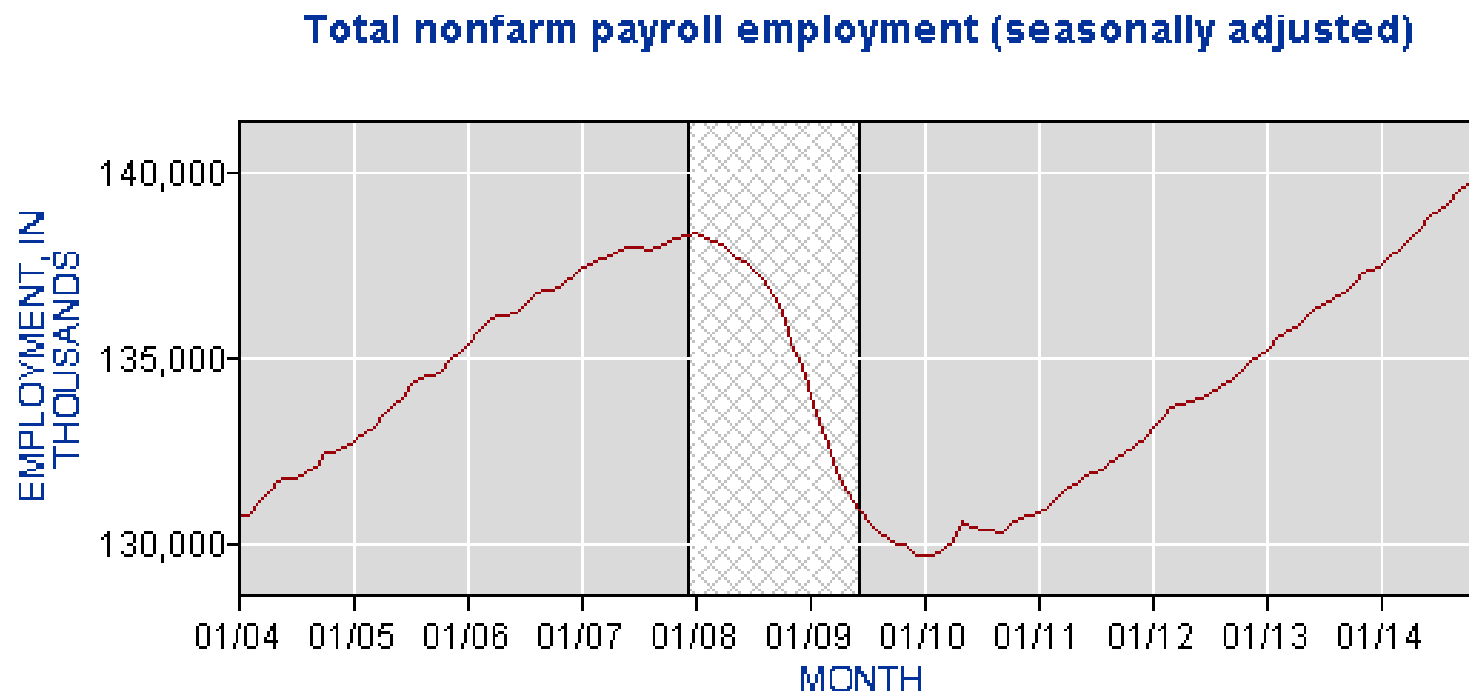
Economic Issues

- Employment / Unemployment
 - Labor participation
- Public debt
- President vs. Congress
- Obamacare
 - No tax on sale of personal real estate unless the gain is greater than \$250/\$500K. Then could be 3.8%

On to the Economy

- Let's look at the National scene

Total nonfarm employment



**Note the scale
and gain**

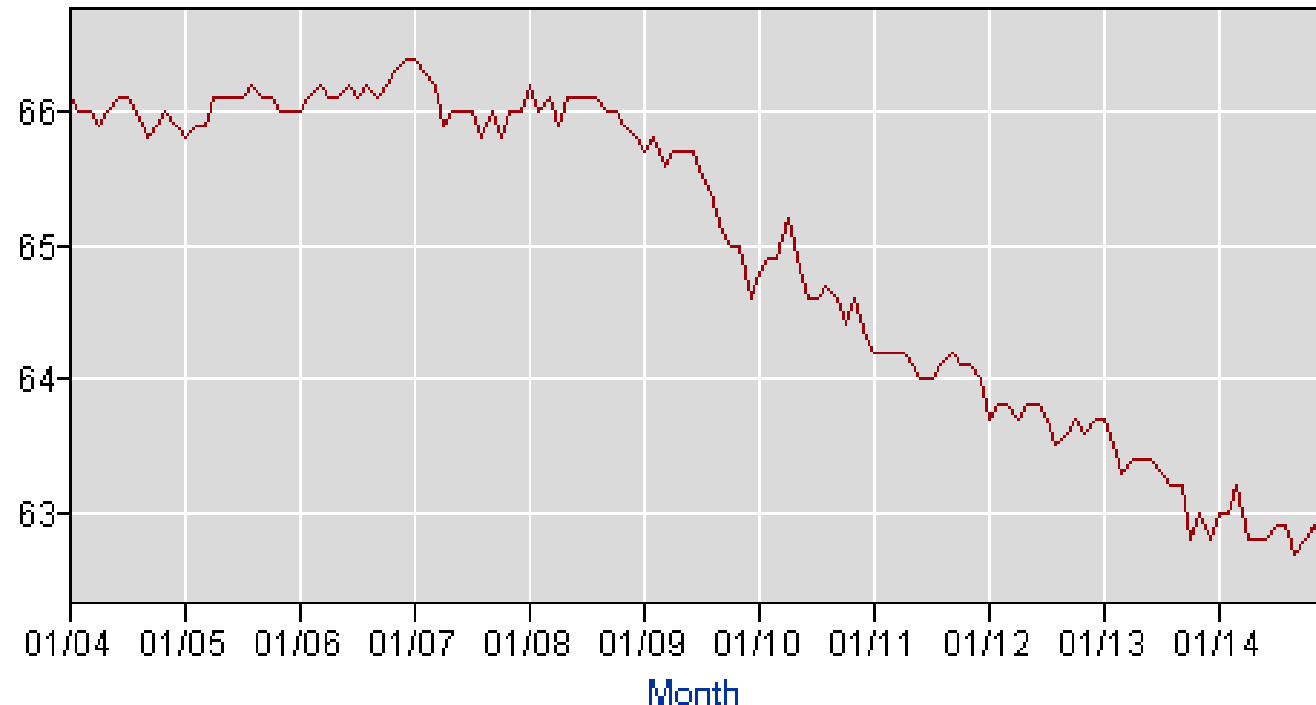
Note: Cross-hatched area represents recession.

U.S. Employment

- December 2007 138 Million
- December 2014 140 Million
 - Fewer new jobs are part-time
 - Part-time jobs still dominate

Labor Force Participation Rate

Series name: 1967-2014, Labor force participation rate
Labor force status: Civilian labor force participation rate
Type of data: Percent or rate
Age: 16 years and over



Source: Bureau of Labor Statistics



The U6 unemployment rate counts not only people without work seeking full-time employment (the more familiar U-3 rate), but also counts "marginally attached workers and those working part-time for economic reasons." Note that some of these part-time workers counted as employed by U-3 could be working as little as an hour a week. And the "marginally attached workers" include those who have gotten discouraged and stopped looking, but still want to work.

Source: Bureau of Labor Statistics

National Debt



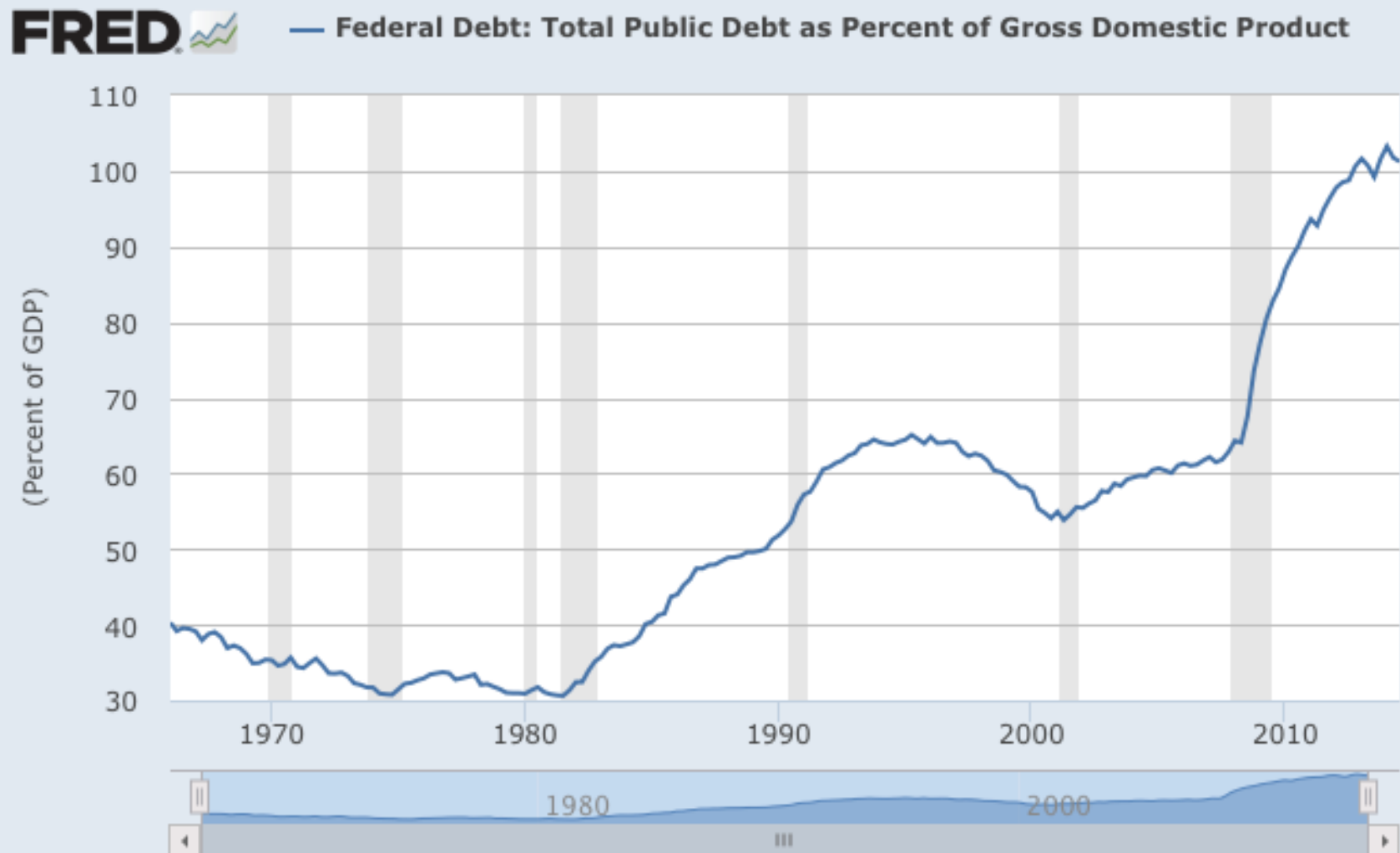
Debt as a Percent of GDP

Rank	Nation	Percent
1	Japan	226%
3	Greece	175%
4	Italy	133%
9	Portugal	128%
18	France	94%
20	United Kingdom	91%
36	United States	72%
41	Israel	67%
50	Brazil	59%
134	China	22%
146	Russia	8%

Source: Central Intelligence Agency

Except for
China, all
nations have a
higher
percentage of
debt than a year
ago.

Federal Debt as a Percent of GDP

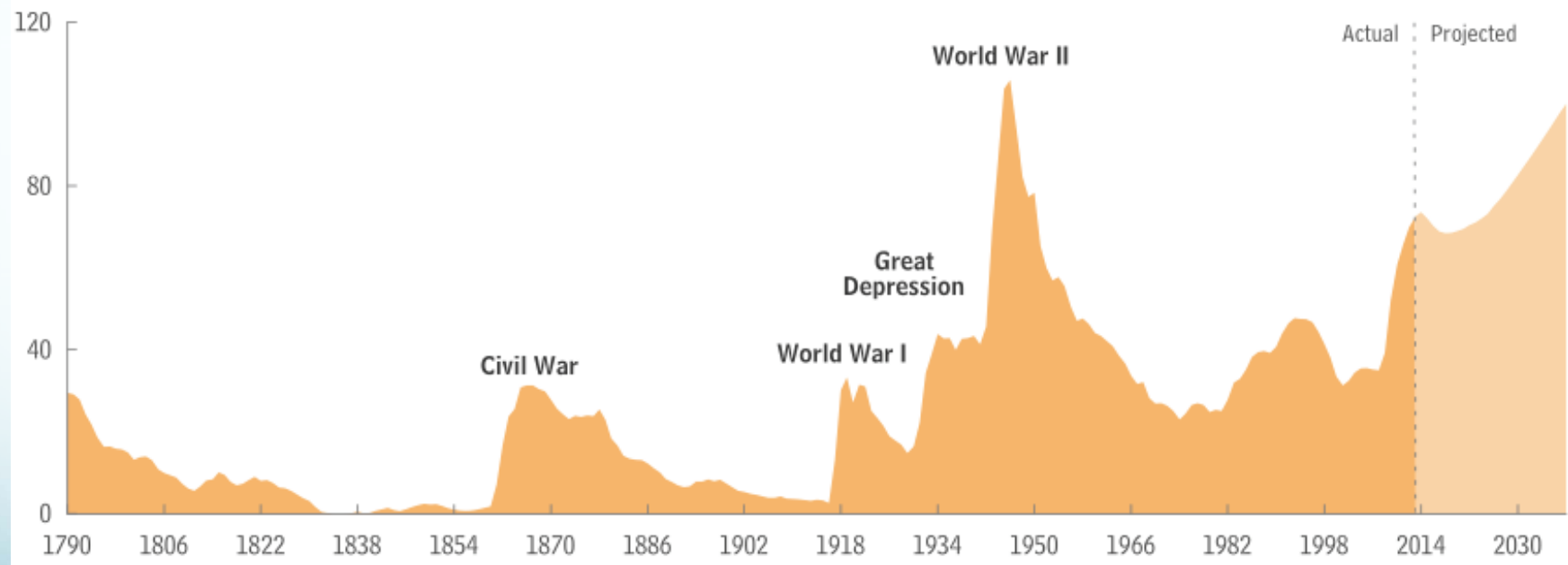


Source: Federal Reserve Bank of St. Louis, US. Office of Management and Budget

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Historical U.S. Debt

Federal debt held by the public as a percentage of GDP from 1790 to 2013, projected to 2038.

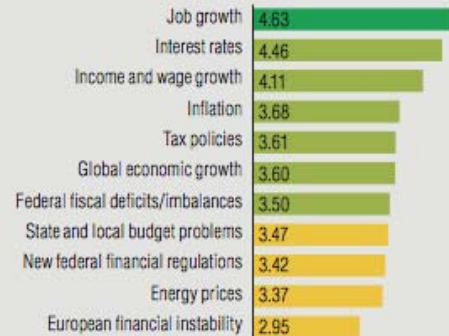


Source: Congressional Budget Office – The 2013 Long-Term Budget Outlook.

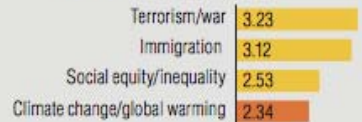
2014 Issues of Importance for Real Estate

1 3 5
No importance Moderate importance Great importance

Economic/financial issues



Social/political issues



Real estate/development issues



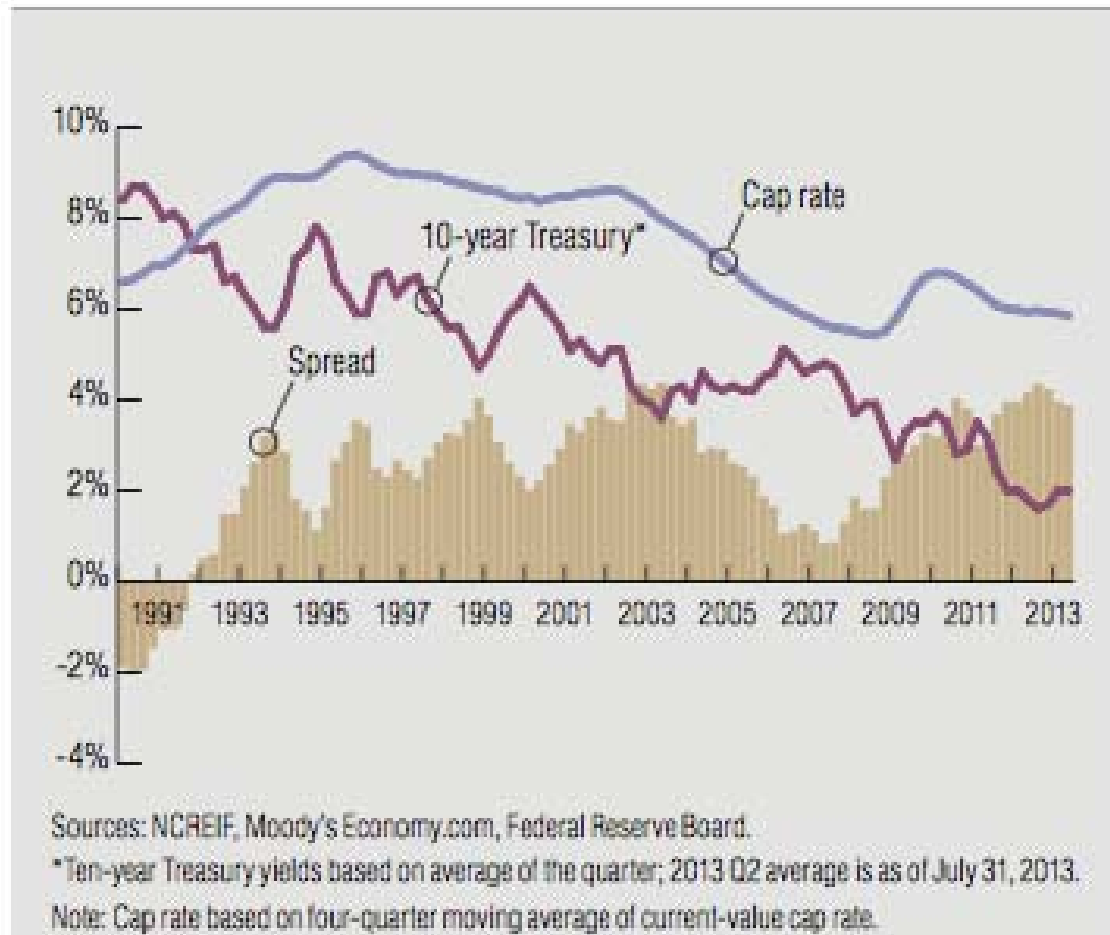
Source: Emerging Trends in Real Estate 2014 survey.

Issues of Concern

What keeps you up at night?

Cap Rates and Interest Rates (U.S. Ten-Year Treasury Yields)

NCREIF Cap Rates vs. U.S. Ten-Year Treasury Yields



National Council of Real Estate Investment Fiduciaries & ULI

Interest and Cap Rates

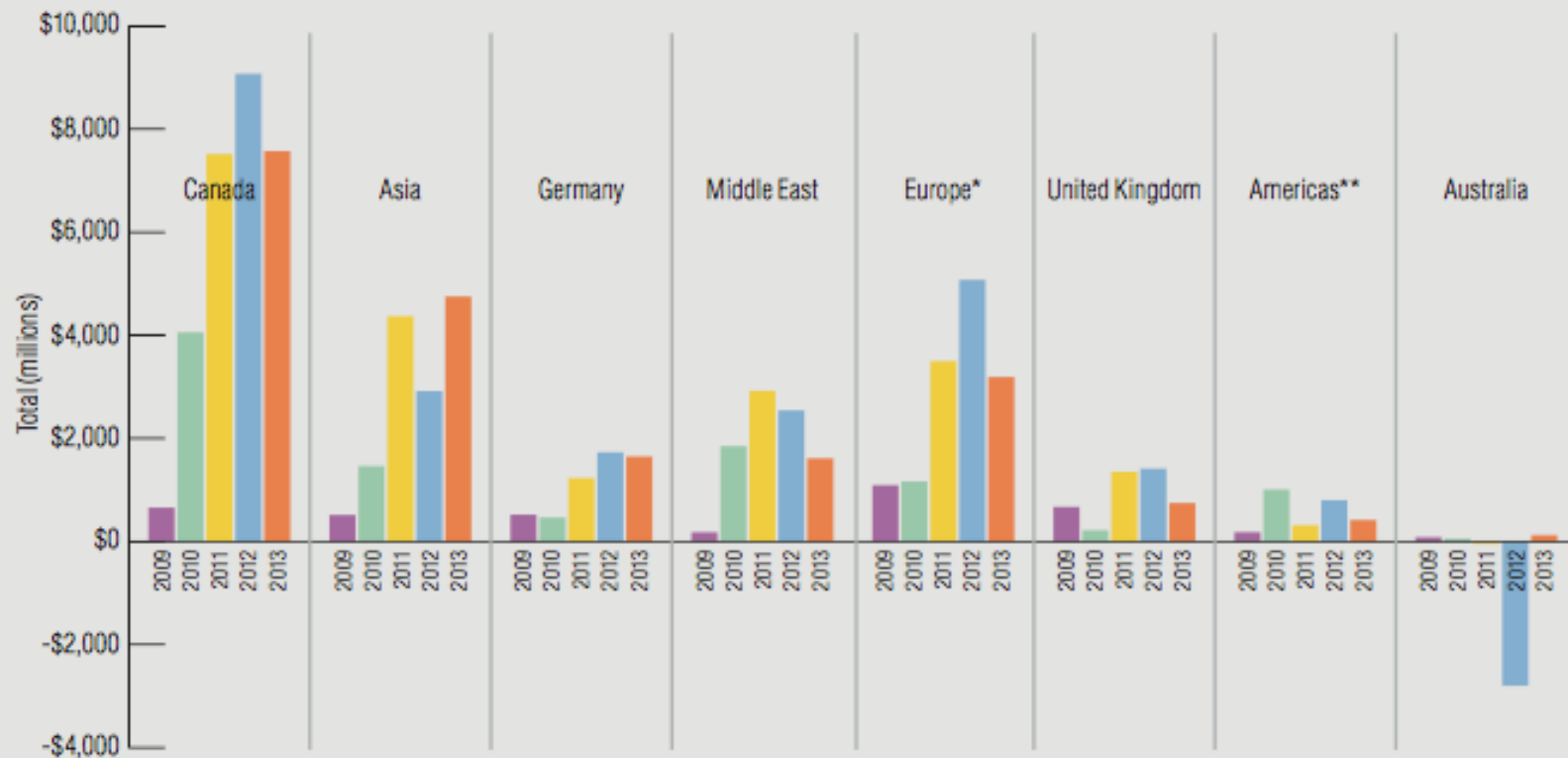
- Why so low?
- Foreign investors
- Foreign rates

Central Bank Rates Worldwide

Country/region	percentage	date
Europe	0.050 %	09-04-2014
United States	0.250 %	12-16-2008
Canada	1.000 %	09-08-2010
Great Britain	0.500 %	03-05-2009
Australia	2.500 %	08-06-2013
Brazil	11.750 %	12-03-2014
Russia	17.000 %	12-16-2014
Japan	0.100 %	10-05-2010

Foreign Net Real Estate Investments in the US

by Buyer Origin, 2009-2013

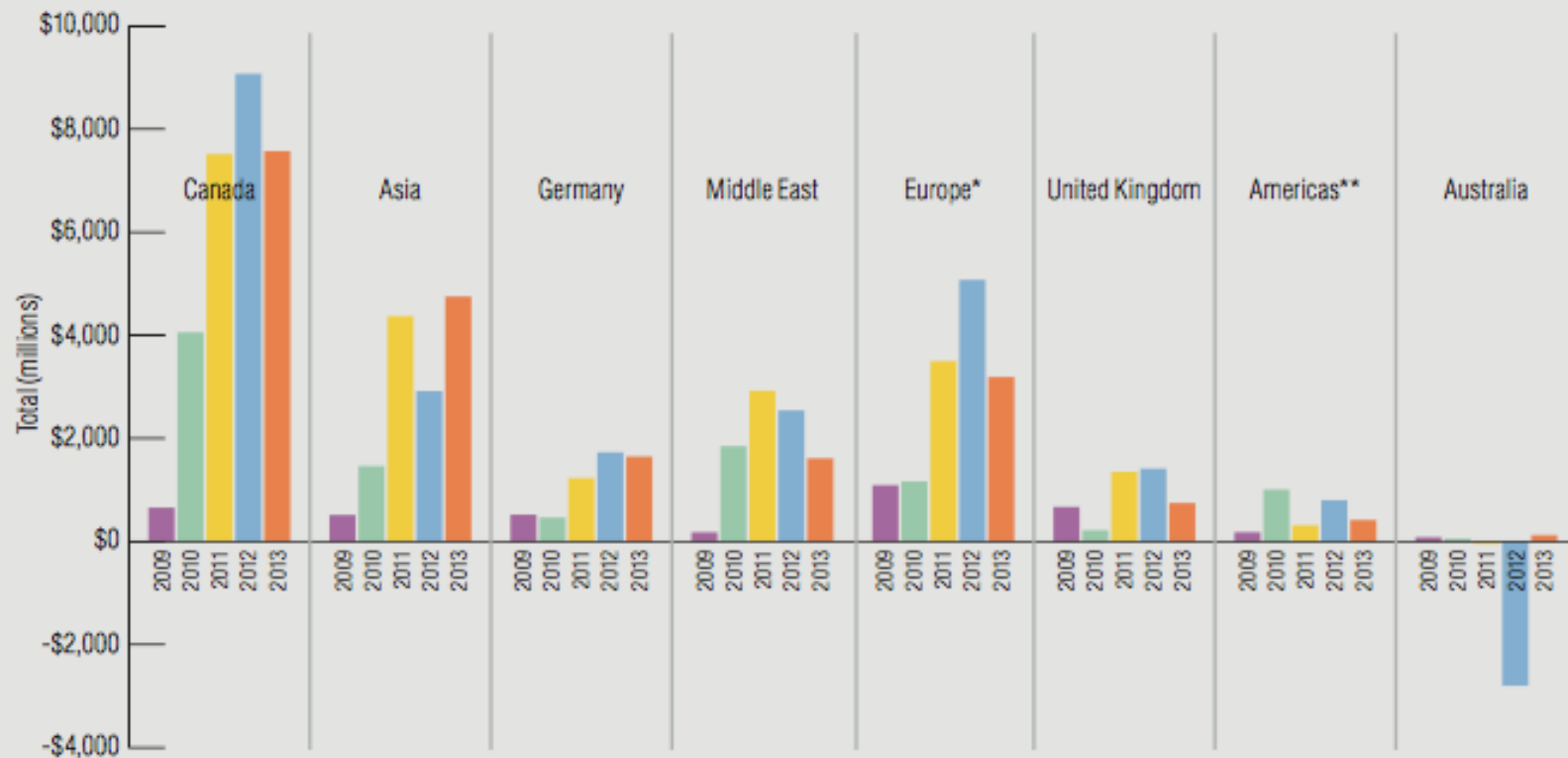


Source: Real Capital Analytics.

Note: 2013 capital flows are year-to-date as of October 4, 2013. *Excludes the U.K. and Germany. **Excludes Canada.

Foreign Investments in the US

by Buyer Origin and Property Type

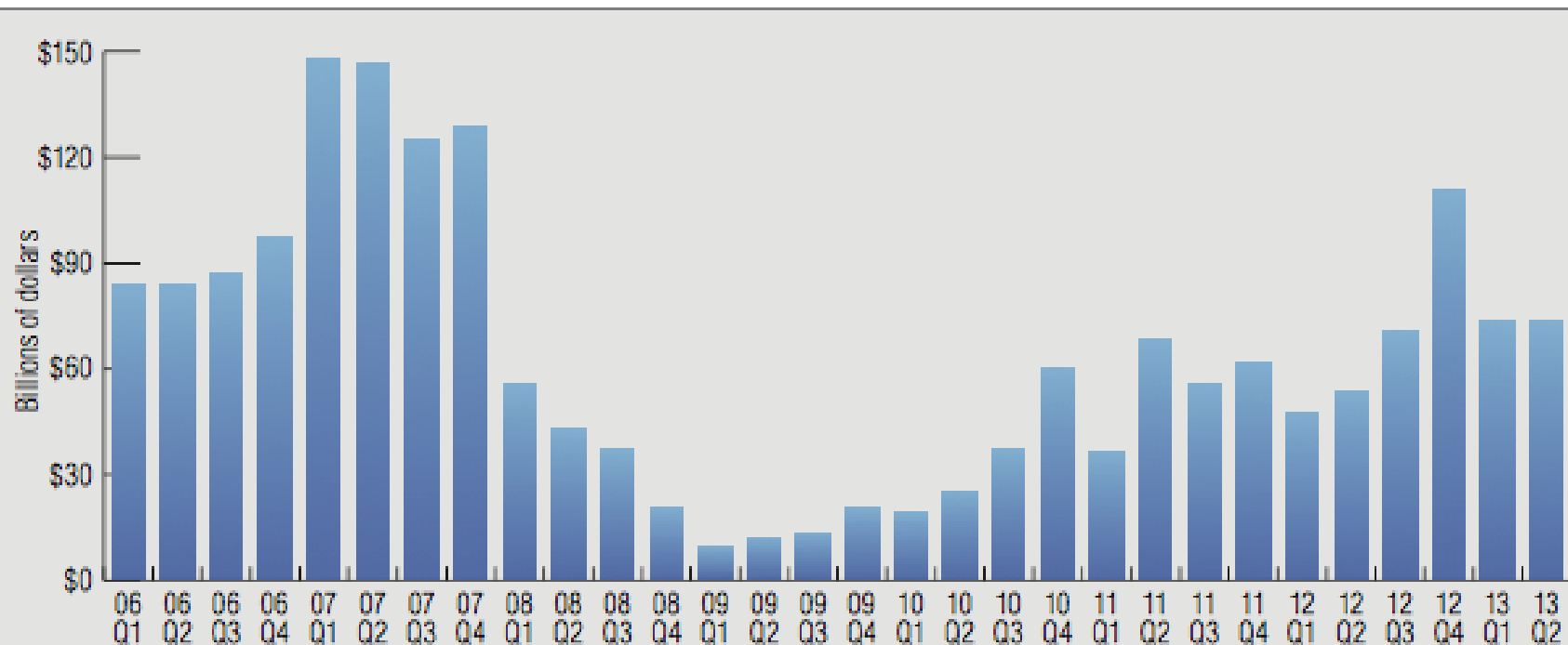


Source: Real Capital Analytics.

Note: 2013 capital flows are year-to-date as of October 4, 2013. *Excludes the U.K. and Germany. **Excludes Canada.

Sale of Large Properties in U.S.

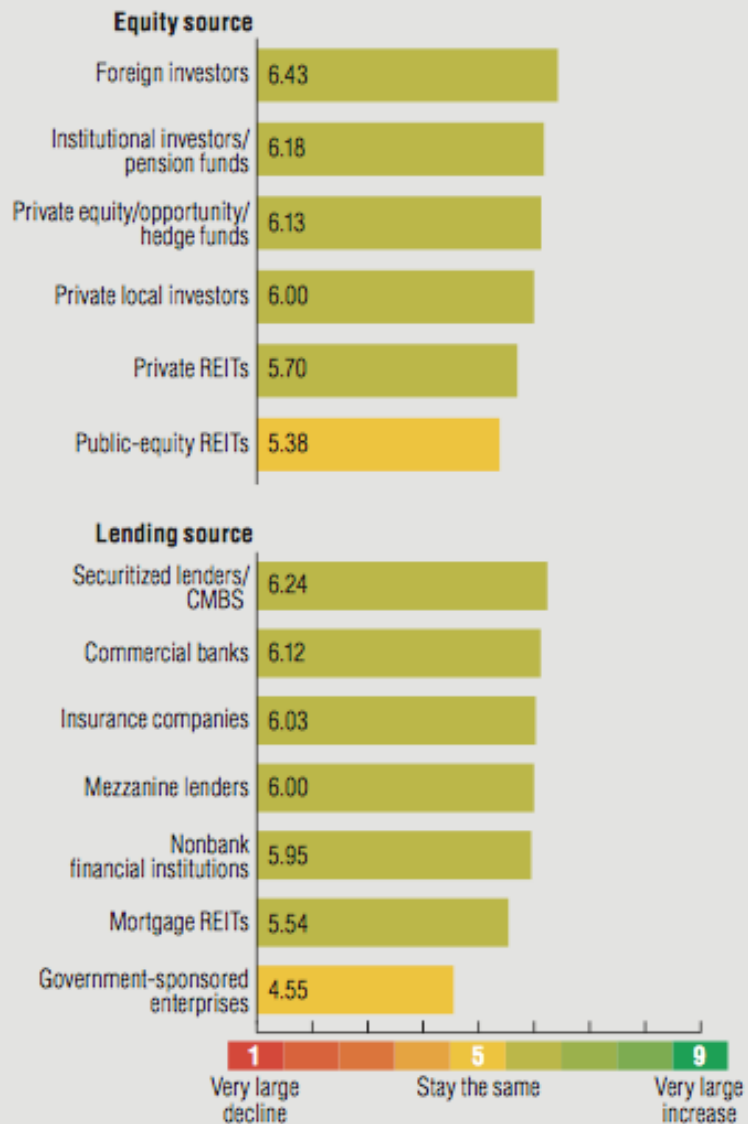
Sales of Large Commercial Properties in the United States



Source: Real Capital Analytics.

Note: Based on independent reports of properties and portfolios \$2.5 million and greater.

Change in Availability of Capital for Real Estate in 2014



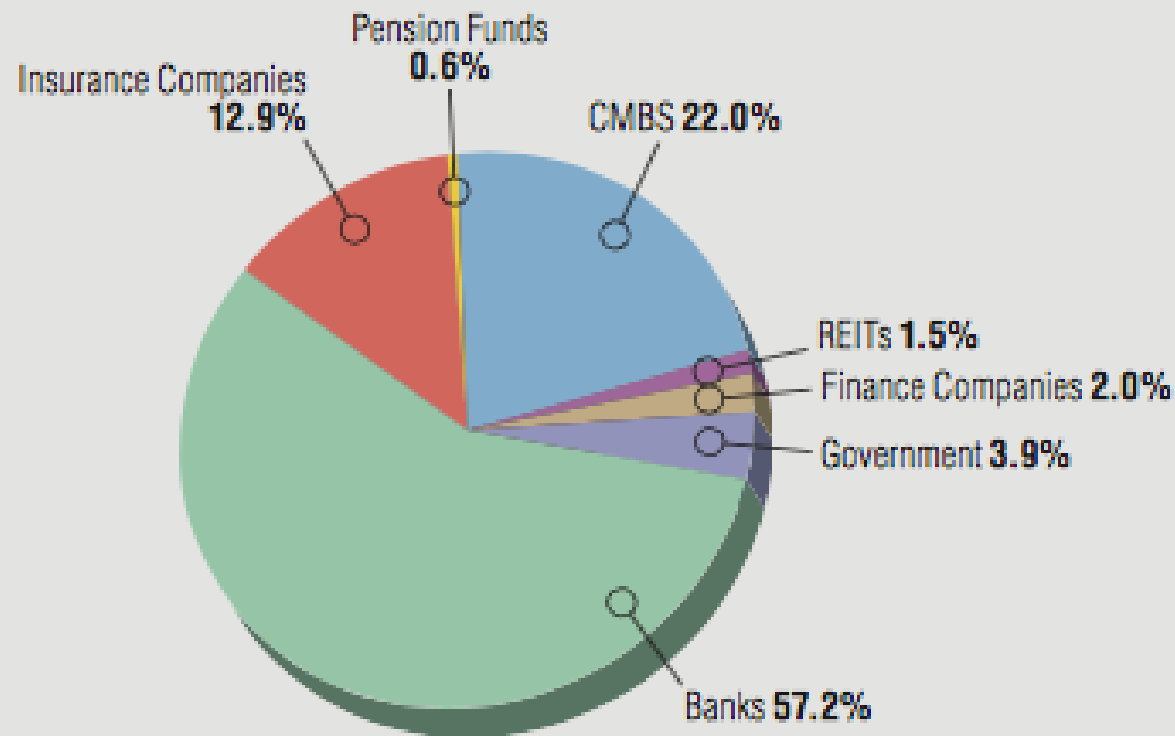
Source: *Emerging Trends in Real Estate 2014* survey.

Note: Based on U.S. respondents only.

Commercial Banks

All of a sudden, the banks are comfortable with real estate, which scared the daylights out of them from 2007 to 2009.

Commercial Mortgage Debt Outstanding, by Source



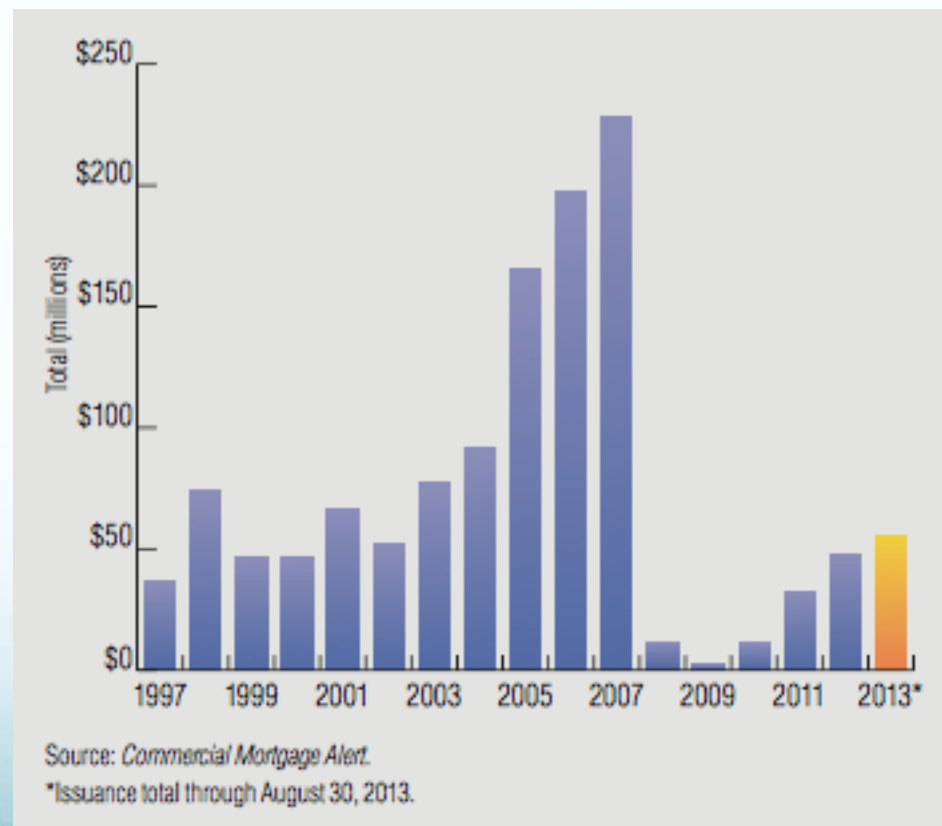
Source: Federal Reserve Flow of Funds.

Note: Data as of second-quarter 2013; excludes multifamily mortgages.

CMBS Lenders

- They're back!

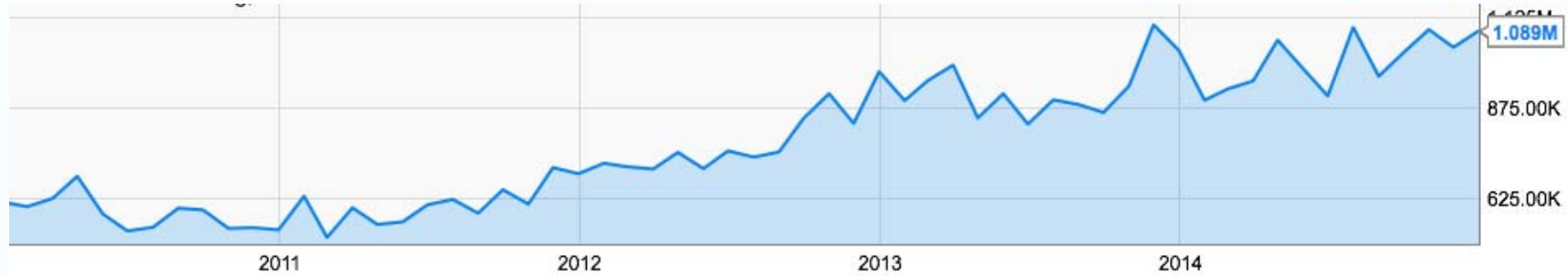
U.S. CMBS Issuance



Single Family Housing



Single Family Housing Starts

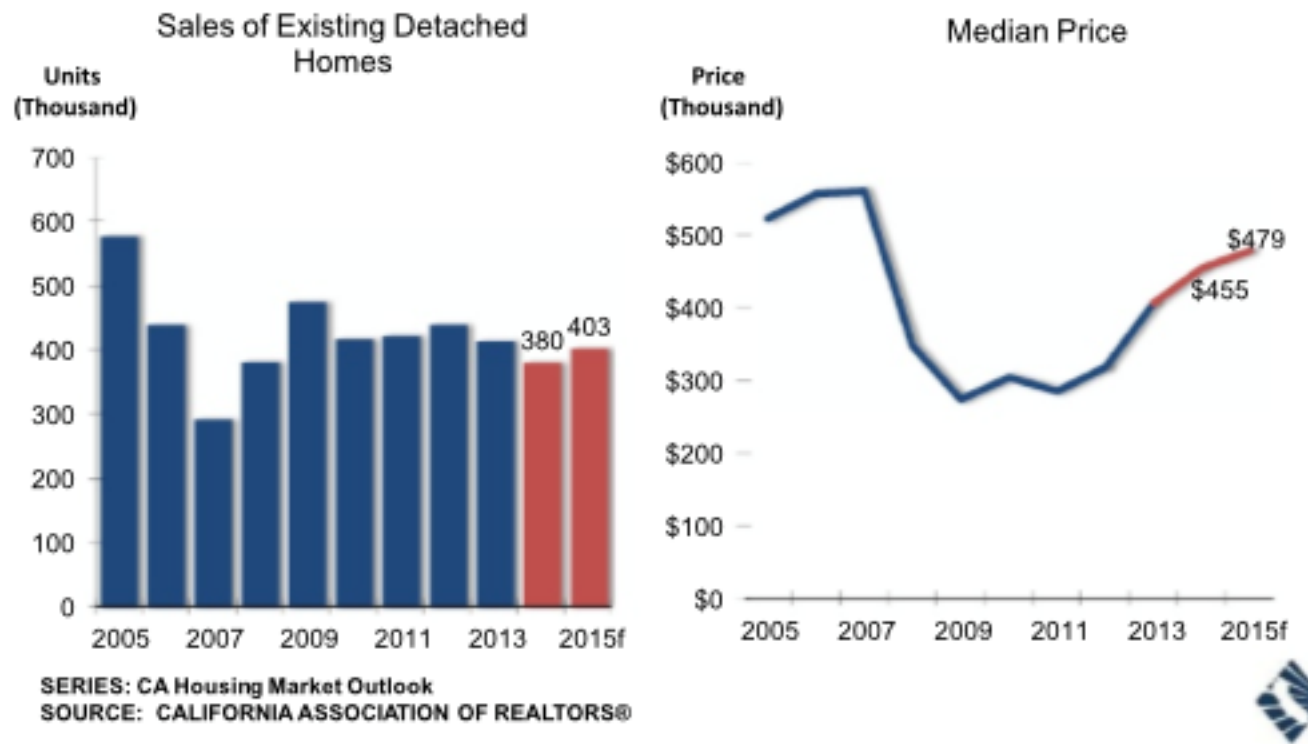


STARTS:

- **1.089 M** units for 2014.
- Highest since 2008.
- Long-term annual average of about **1.5 million** starts.



Sales Down for 2014 but will Improve in 2015; Price Continues to Grow this Year and Next Year



California Housing Market Outlook

	2009	2010	2011	2012	2013	2014p	2015f
SFH Resales (000s)	474.9	416.5	422.6	439.8	414.3	380.5	402.5
% Change	24.5%	-12.3%	1.4%	4.1%	-5.8%	-8.2%	5.8%
Median Price (\$000s)	\$275.0	\$305.0	\$286.0	\$319.3	\$407.2	\$455.0	\$478.7
% Change	-21.1%	10.9%	-6.2%	11.6%	27.5%	11.8%	5.2%
Housing Affordability Index	51%	48%	53%	51%	36%	30%	27%
30-Yr FRM	5.0%	4.7%	4.5%	3.7%	4.0%	4.3%	4.5%

SERIES: CA Housing Market Outlook

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Top 10 Housing Market Gains and Losses

TOP GAINERS

	Market	Price Change	Median Price	Change since 2006 peak	Unemployment Rate	Rate job growth
* 1	SAN FRANCISCO BAY AREA	13.4% - 20.5%	\$300,000 - \$925,000	1.7% - 32.40%	4.3% - 6.7%	1.4% - 3.2%
* 2	CALIFORNIA CENTRAL VALLEY	17.3% - 19.6%	\$175,000 - \$427,500	27.2% - 28.80%	7% - 12.3%	0.5% - 2.5%
* 3	RIVERSIDE-SAN BERNARDINO	15.90%	\$262,000	-30.80%	8.40%	2.80%
4	WARREN, MICHIGAN	13.40%	\$148,000	-19.60%	8.50%	0.40%
5	BOSTON, MASS	12.50%	\$379,950	0%	5.20%	1.60%
* 6	SANTA ROSA	12.30%	\$434,250	-20.80%	5.30%	3.70%
* 7	SANTA BARBARA	12%	\$470,000	-22%	5.40%	0.60%
8	MYRTLE BEACH, S.C.	11.70%	\$175,000	-22%	8.30%	5.50%
9	ANN ARBOR, MICHIGAN	11.40%	\$194,000	-10.50%	5.70%	1.60%
10	LAS VEGAS	11.40%	\$179,900	-39.10%	7.90%	3.10%

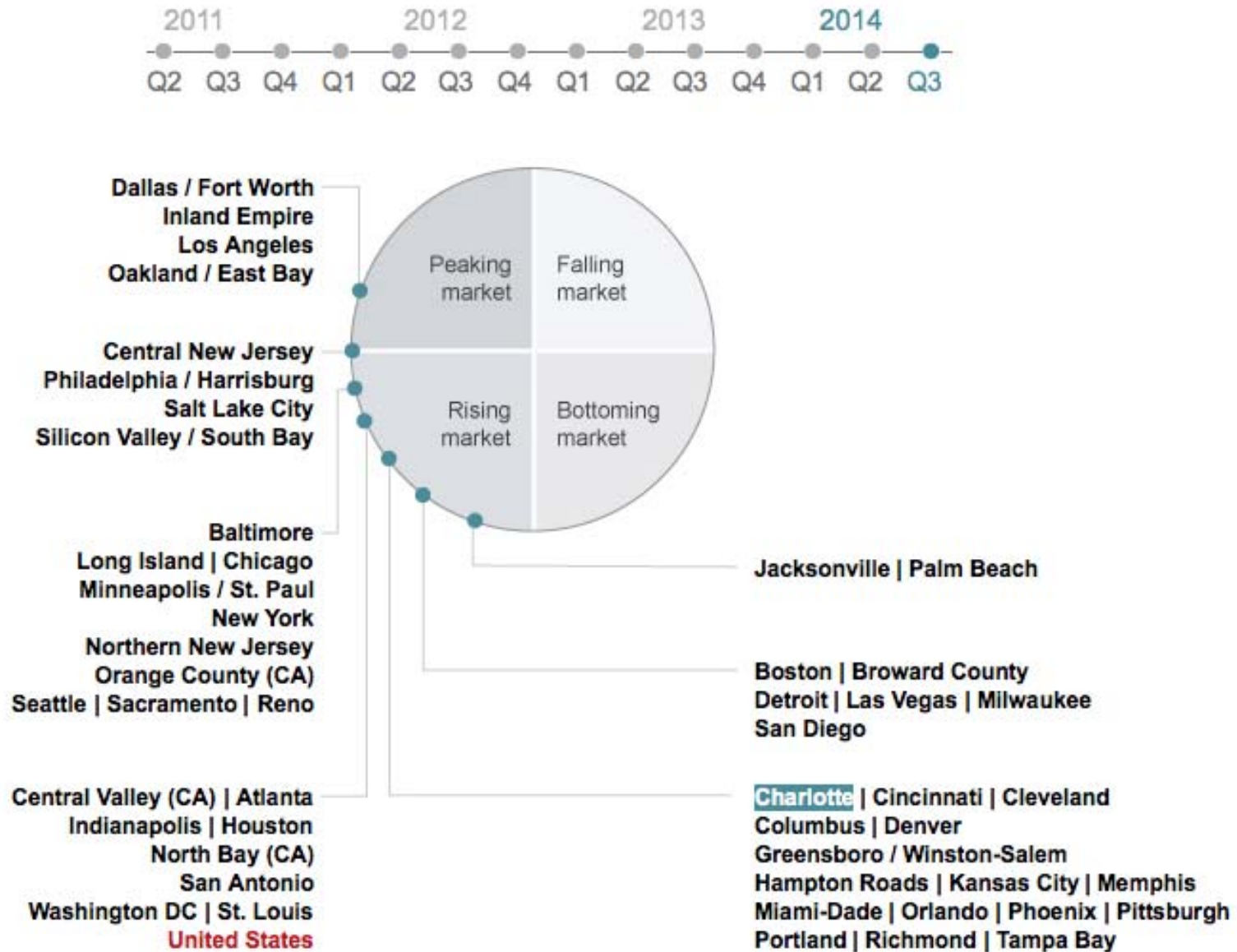
10 Markets Where Housing Prices Have Fallen the Most

Market	Price Change	Median Price	Change since 2006 peak	Unemployment Rate	Rate job growth
1 Fayetteville, N.C.	-4%	\$128,750	-8.20%	7.50%	-0.70%
2 Tallahassee, Fla.	-3.60%	\$119,900	-24.80%	5.80%	2.30%
3 Worcester, Mass.	-3.40%	\$210,000	-21.80%	6.10%	2.20%
4 Fort Smith, Ark.	-2.10%	\$93,000	-5.50%	6.40%	-0.20%
5 Utica-Rome, NY	-1.90%	\$78,903	-14.30%	6.20%	0.50%
6 Erie, PA	-1.40%	\$107,600	-8.50%	6%	1.20%
7 Little Rock, Arkansas	-1.40%	\$140,500	-2.90%	5.80%	
8 Hagerstown, MD	-1.30%	\$133,750	-32.70%	6.50%	-0.60%
9 Peoria, IL	-1%	\$116,000	-9.70%	7.30%	-1.40%
10 Durham-Chapel Hill, N.C.	-0.70%	\$197,500	-3.70%	5.10%	1.50%

Industrial



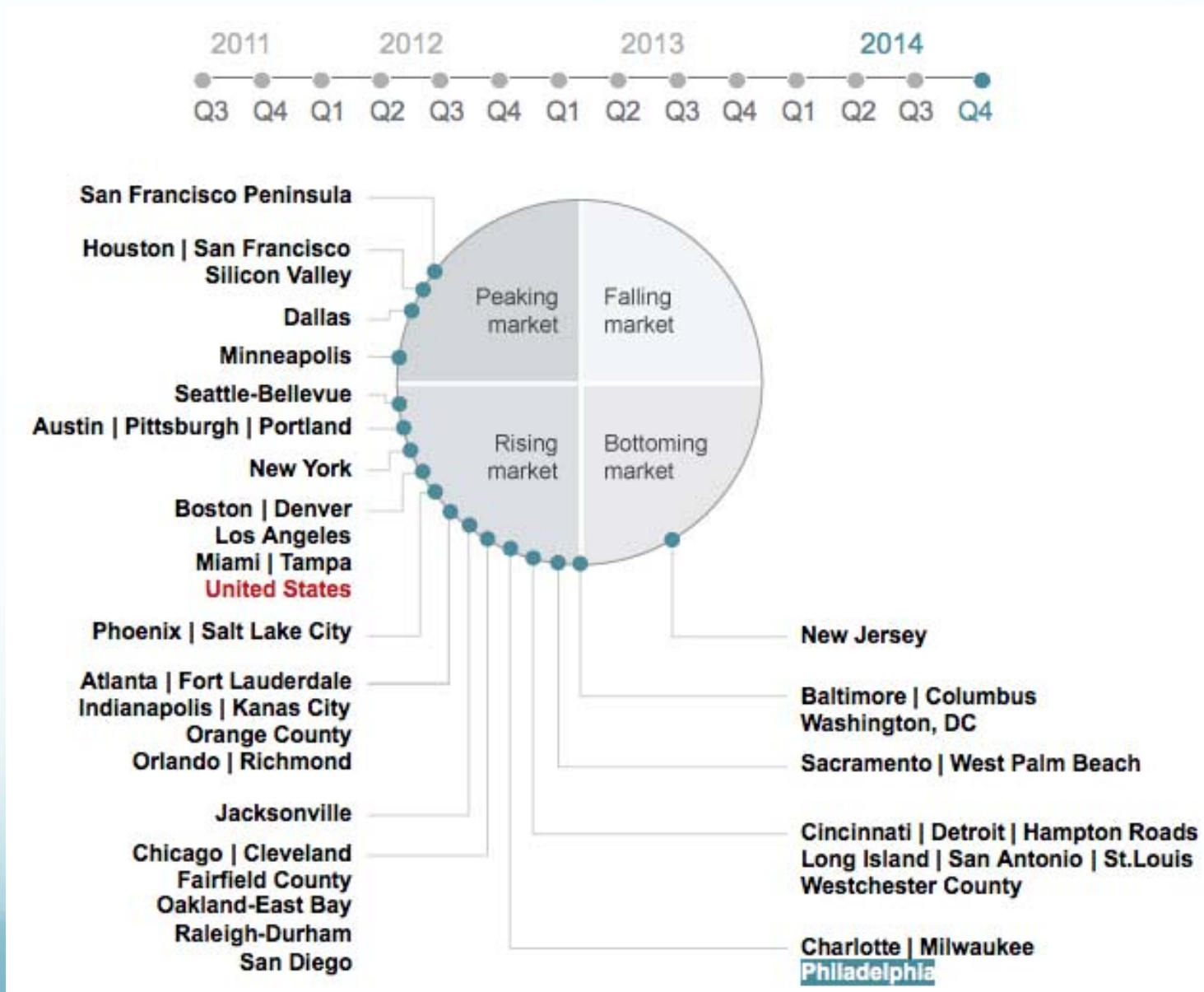
JLL Industrial Clock



Office



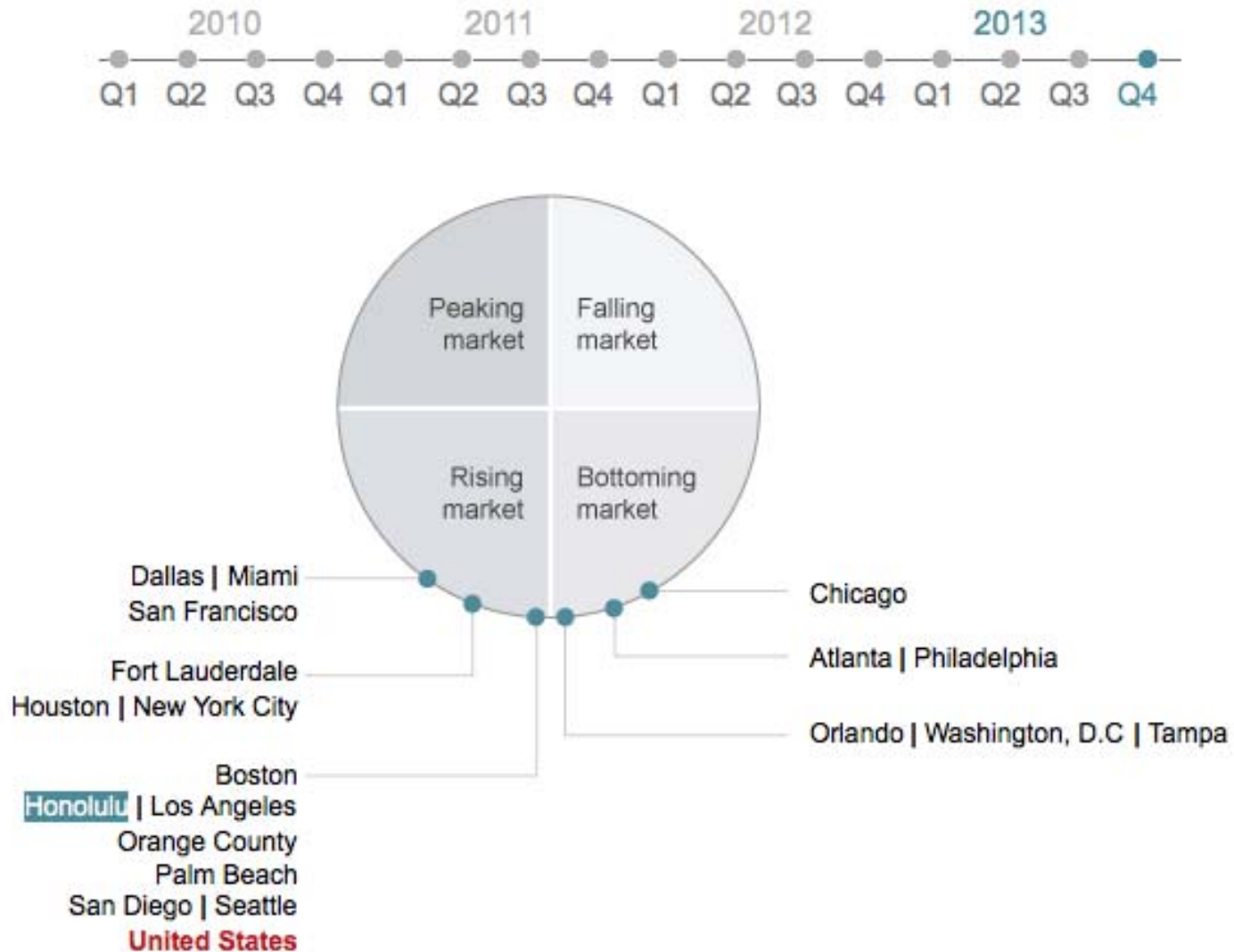
JLL Office Clock



Retail



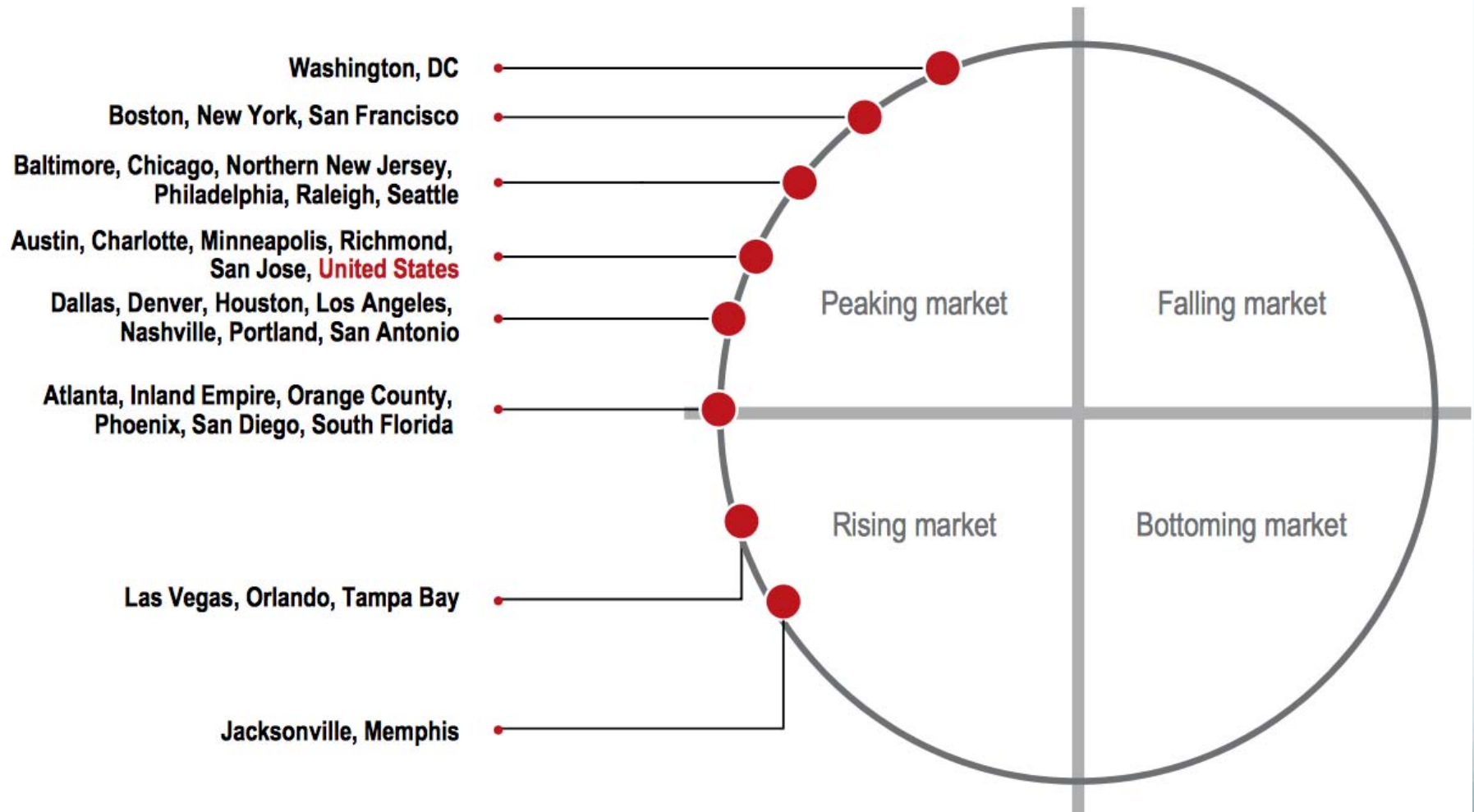
JLL Retail Property Clock



Multi-family



JLL Multi-Family Clock



POOR CORRELATION BETWEEN INTEREST RATES (REPRESENTED BY 10-YEAR TREASURY) AND CAP RATES, 2009-2013



Source: Reis

2014 Cap Rate Ranks

2014 Rank	Property Type	2014 Low %	2014 High %	2014 Avg %
1	Urban Multifamily	4.0	8.8	5.60
2	Suburban Multifamily	3.7	10.8	5.74
3	Regional Mall	5.0	9.5	6.82
4	Community Retail	5.3	8.6	7.19
5	CBD Office	4.5	11.0	7.21
6	Industrial	5.0	9.7	7.24
7	Neighborhood Retail	5.5	9.0	7.37
8	Suburban Office	5.3	10.0	7.53
9	Flex Industrial	4.6	10.3	7.90
10	Full Service Lodging	5.5	10.3	8.16
11	Limited Service Lodging	6.3	11.3	8.76

Federal Concerns

- Fiscal, monetary and housing policies
 - mortgage interest deduction
 - mortgage finance reform
 - housing supply
 - Volker Rule (and other bank regulation)
- Structurally high unemployment and workforce
- Debt and taxation

State Concerns

- Split roll assessment (Prop 13)
- Government regulations
 - Environmental
 - New business rules
 - Drought and climate

End of 2015 Forecast

- U.S. GDP – 1+ percent growth in 2015 (2.3 percent in 2013)
- California median home up 3 percent to \$452,000 in 2015 (2% percent decrease statewide in 2014 to \$439,600)
- 10-year T-notes 2.0%
- 30-year fixed mortgage interest rate – 4%
- Unemployment 5.3%
- Oil prices back up to \$80/barrel. Pump prices back to \$3.50

Forecast

- May we live in interesting times!

Commentary

Things we need to get over

- 1) **Government cannot create wealth, jobs, or income.**
- 2) **Income inequality does not affect the economy.**
- 3) **Low wages are not corporate exploitation.**
- 4) **Environmental over-regulation is a regressive tax that falls hardest on the poor.**
- 5) **Education is not a public good.**

Commentary

Things we need to get over

- 6) **High CEO pay is no worse than high pay to athletes or movie stars.**
- 7) **Consumer spending is not what drives the economy.**
- 8) **When government provides things for free, they will end up being low quality, cost more than they should, and may disappear when most needed.**
- 9) **Government cannot correct cosmic injustice.**
- 10) **There is no such thing as a free lunch.**

Questions?



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