

Inland Empire Housing Market Overview and Forecast

June 2016



**REAL
ESTATE
ECONOMICS**

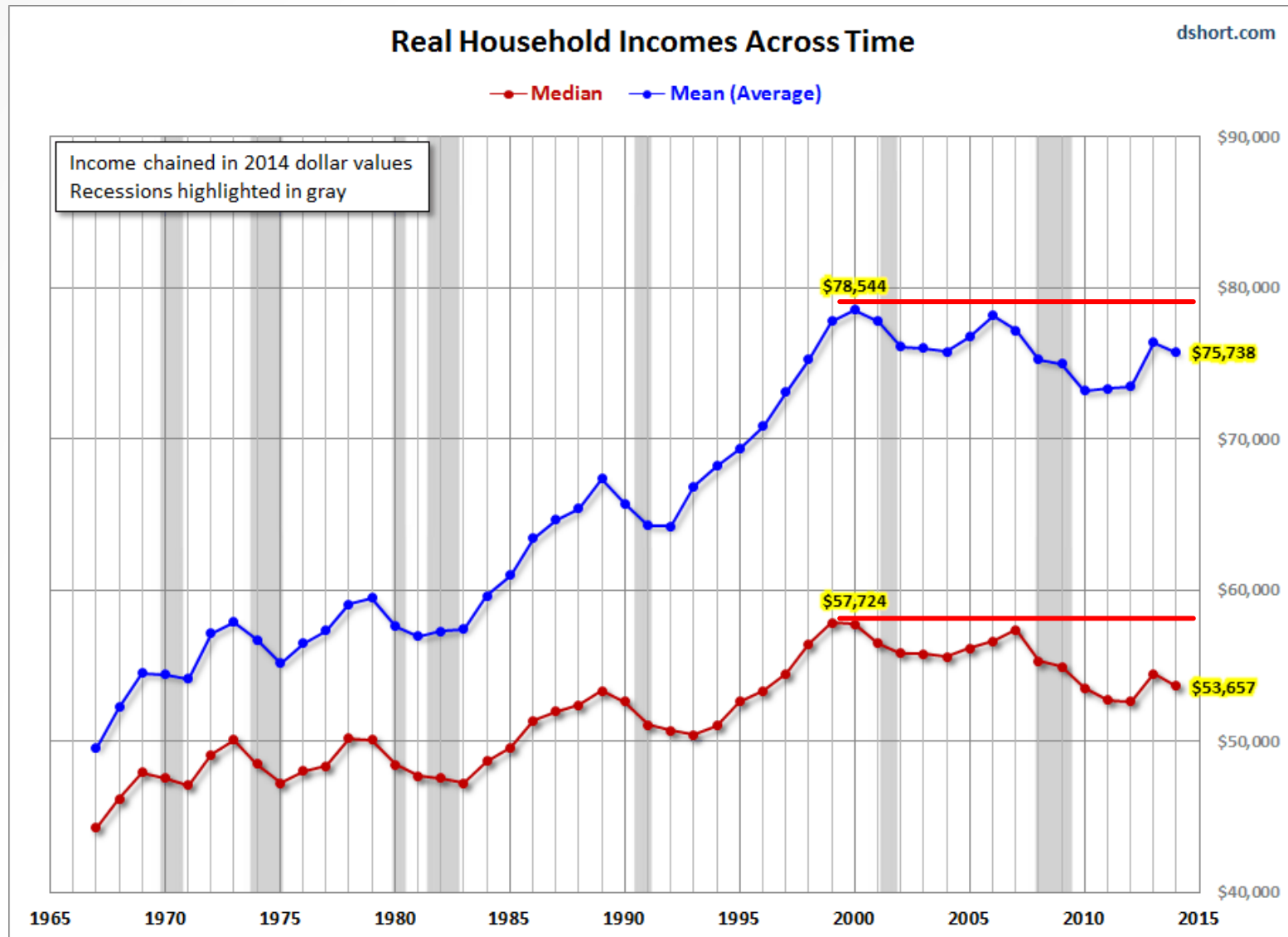
hanleywood | metrostudy

OUTLINE

- MACRO ECONOMIC PERSPECTIVE - How financially healthy are today's buyers?
- NEW HOME MARKET SHARE - Are we a renter nation?
- REGIONAL AND INLAND EMPIRE OVERVIEW - New home snapshot
- CAPITAL OUTLOOK – Is foreign demand keeping the market afloat?

MACRO ECONOMIC PERSPECTIVE

U.S. "Real" Household Incomes



U.S. Wages Are Coming Off Of Generational Lows

Labor Share of Income

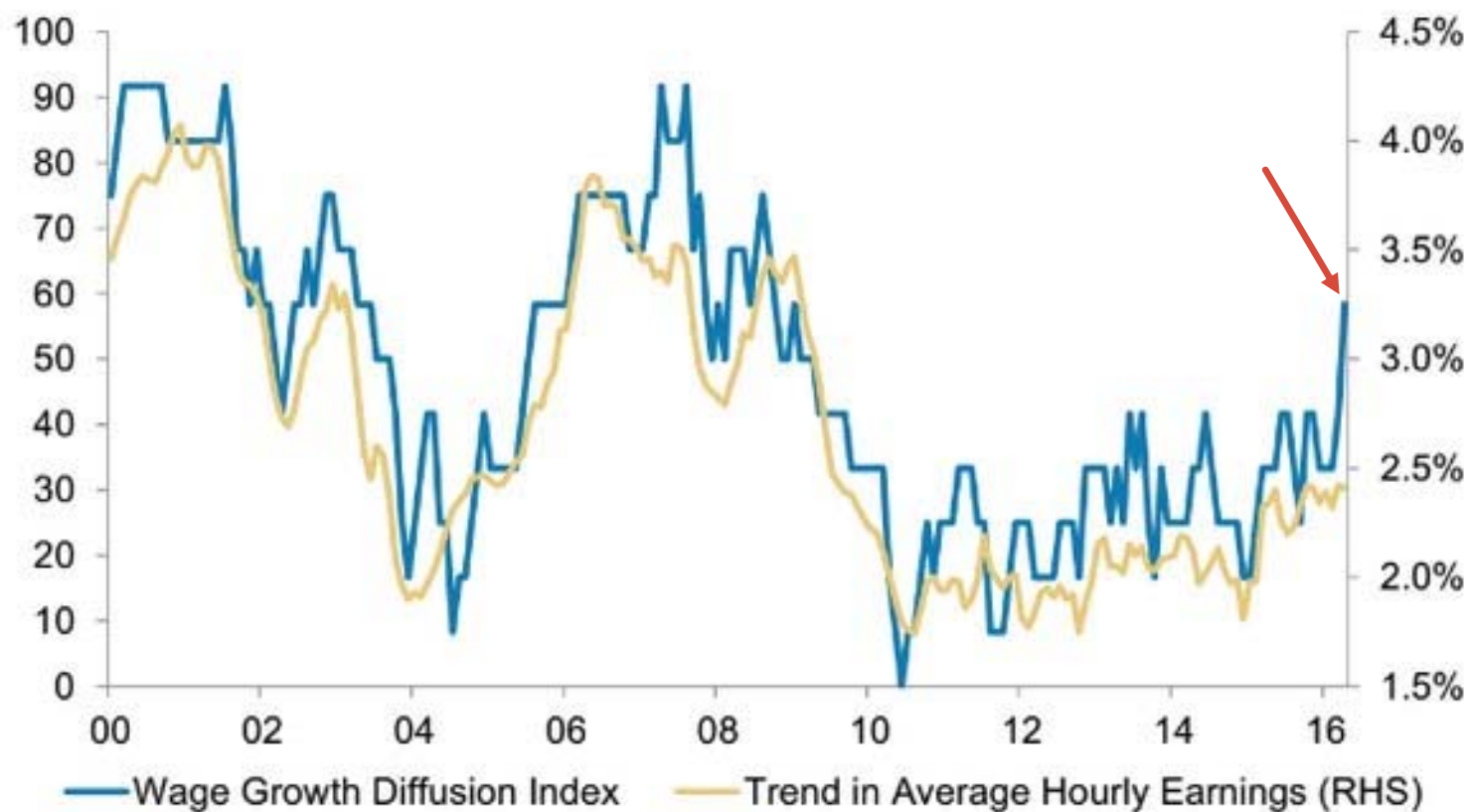
Compensation as a % of Gross Domestic Income (Q1 2016 is estimated using advance GDP report)



Source: Credit Suisse, Bureau of Economic Analysis

U.S. Wages Are Finally Picking Up

Wage pressures in the US are rising



Source: Haver Analytics, Morgan Stanley Research

U.S. Household Incomes By Group

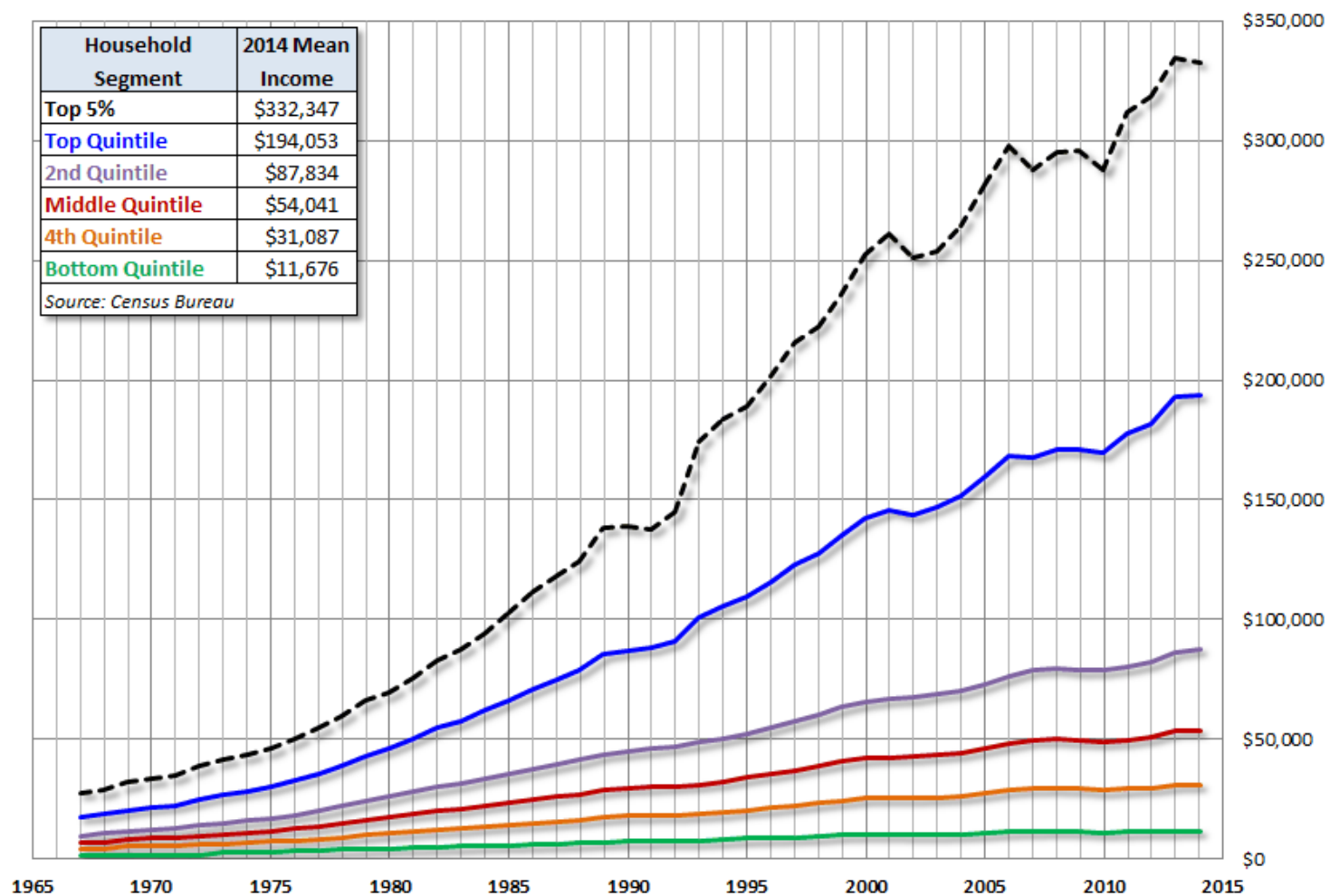
Source: Census Bureau
Data from 1967-2014

**Mean (Average) Household Income
By Quintile and Top 5 Percent**

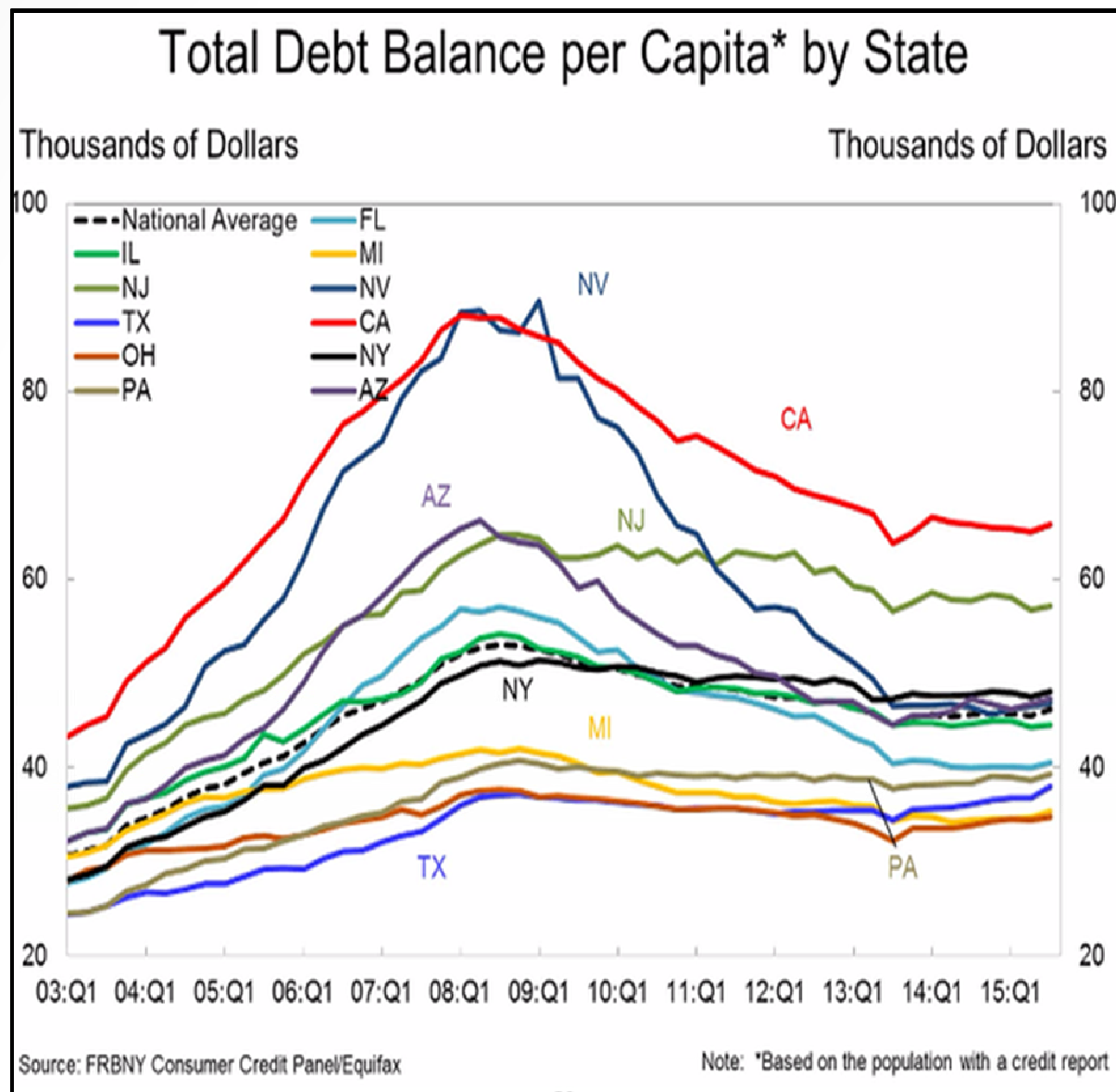
dshort.com

Household Segment	2014 Mean Income
Top 5%	\$332,347
Top Quintile	\$194,053
2nd Quintile	\$87,834
Middle Quintile	\$54,041
4th Quintile	\$31,087
Bottom Quintile	\$11,676

Source: Census Bureau

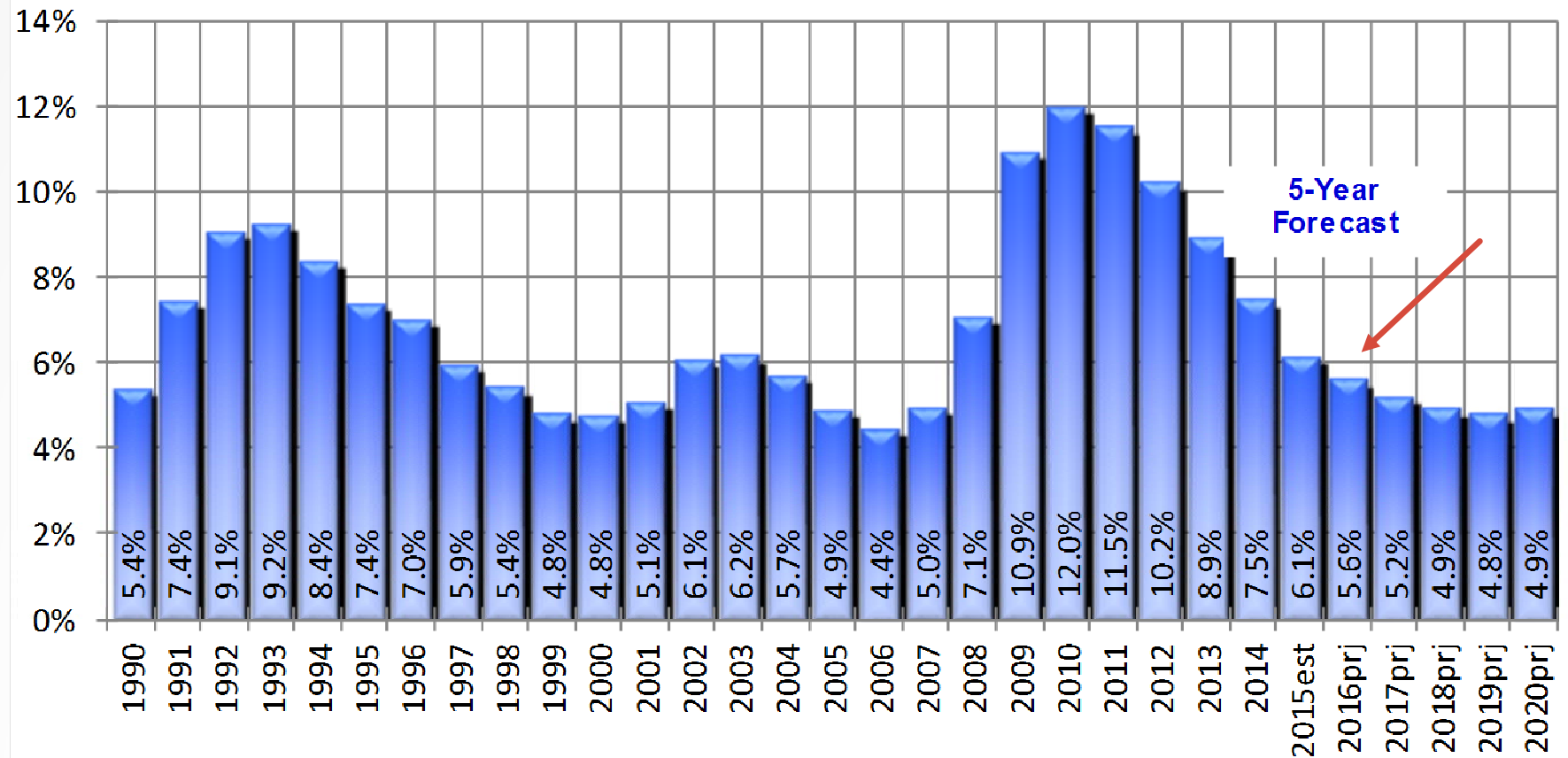


Southern Californians Carry More Debt



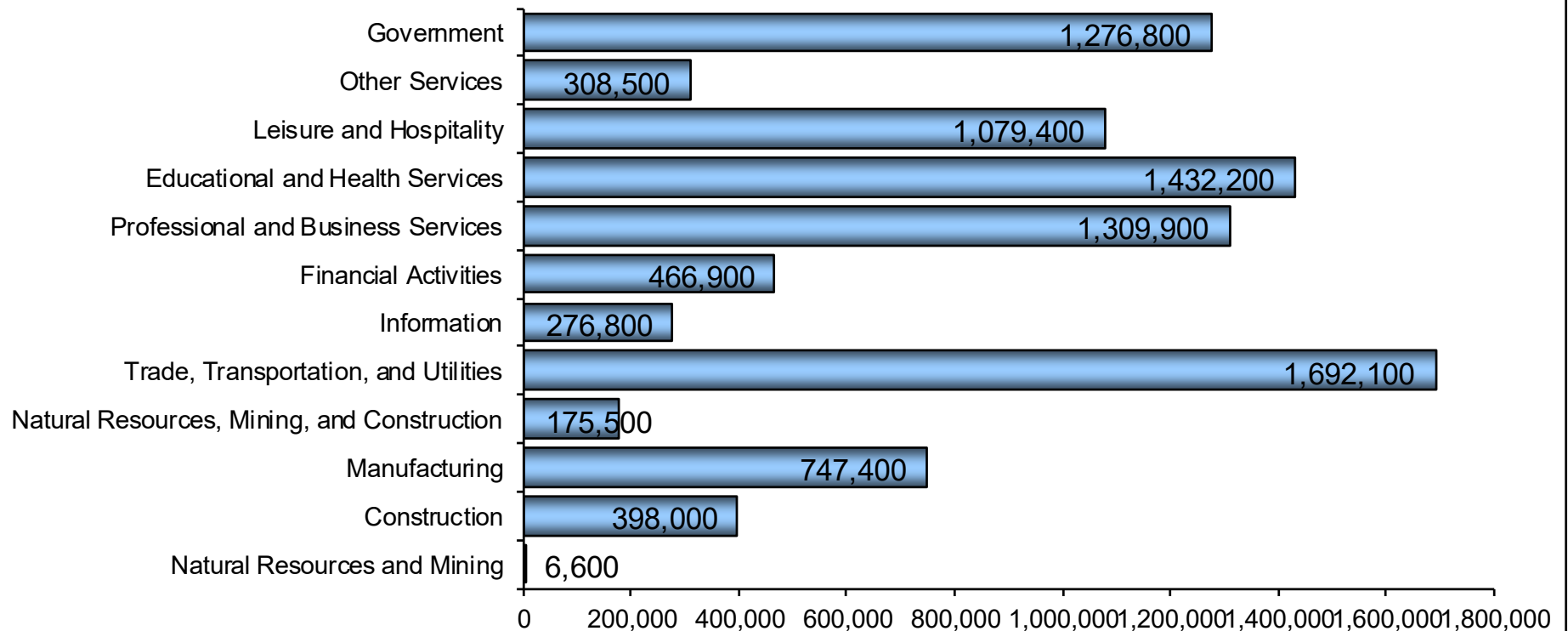
Southern California Unemployment Trends

SOUTHERN CALIFORNIA Civilian Unemployment



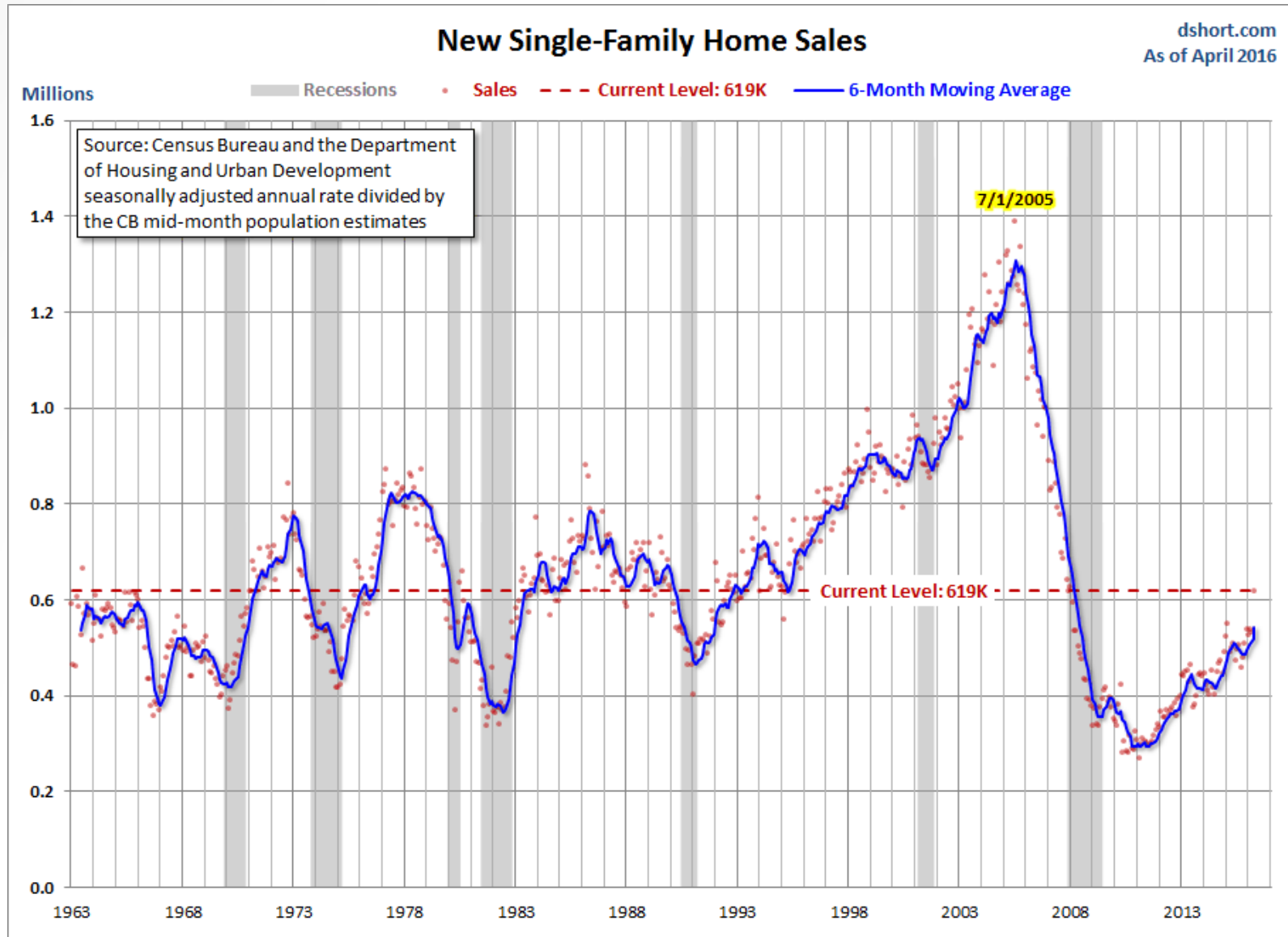
Southern California Super Sector Employment

**Los Angeles-Long Beach-Anaheim, CA, Oxnard-Thousand Oaks-Ventura, CA, Riverside-San Bernardino-Ontario, CA, San Diego-Carlsbad, CA
MSA Employment by Super Sector
March 2016**

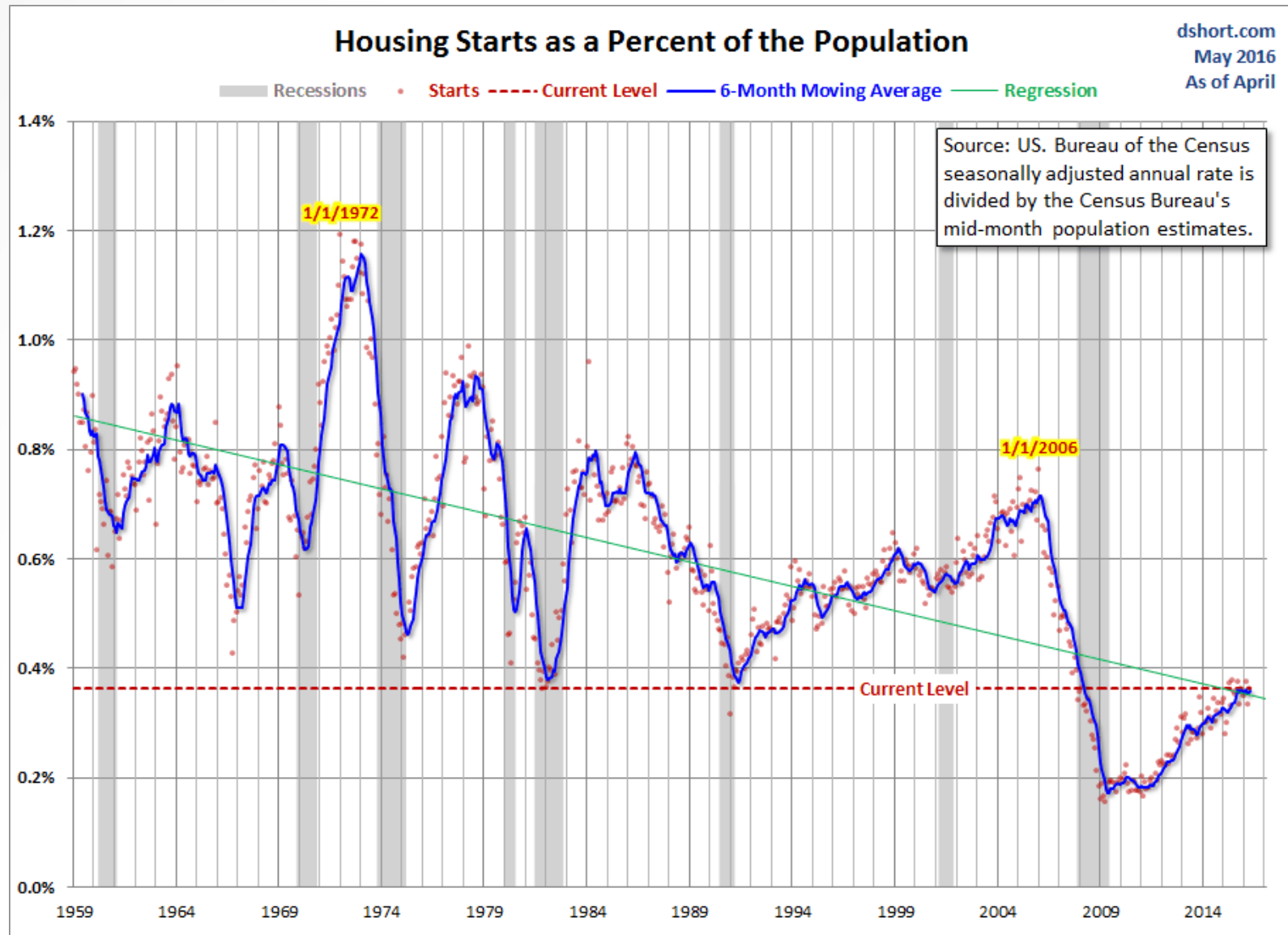


NEW HOME MARKET SHARE

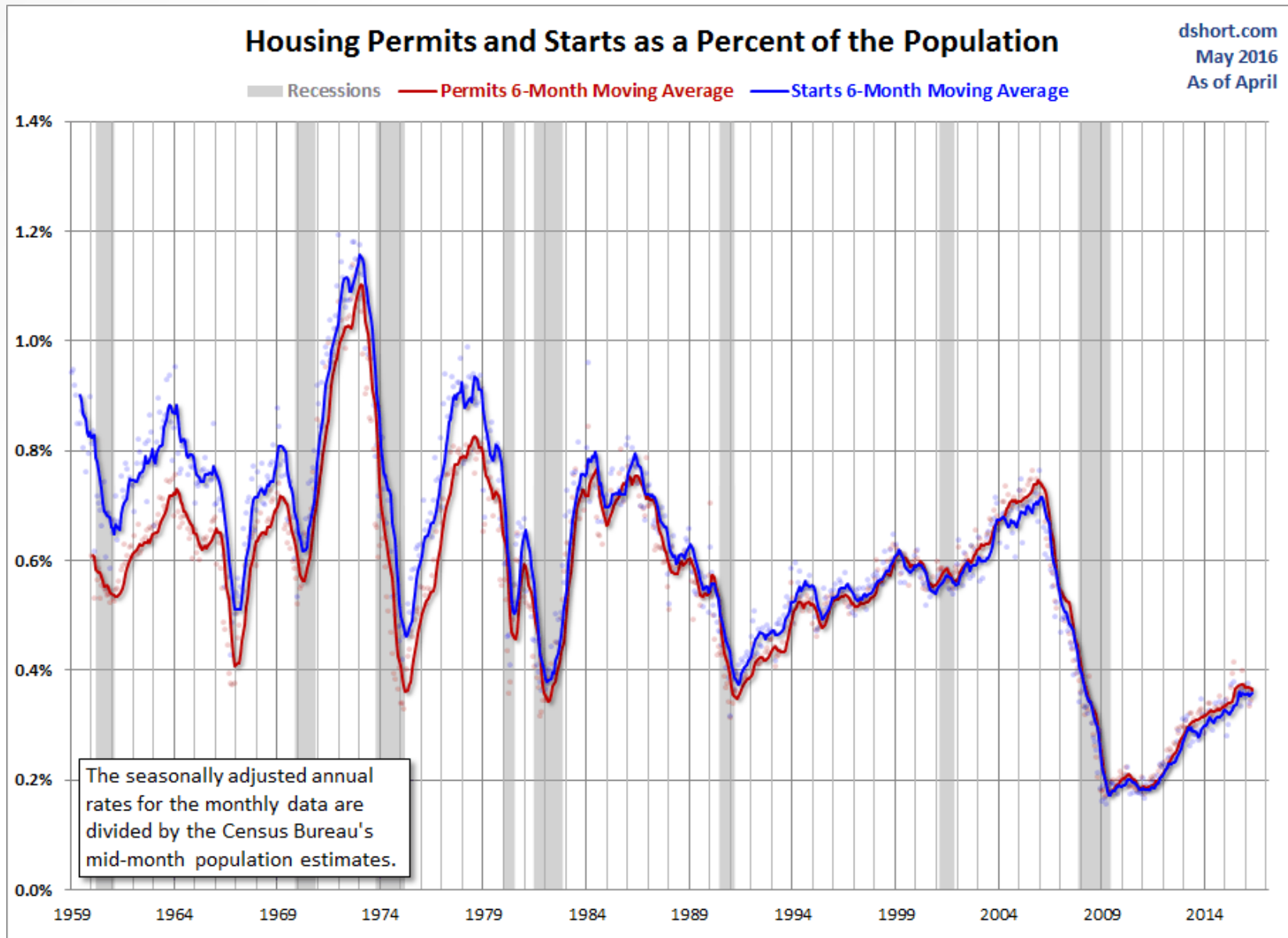
U.S. New Single Family Home Sales



U.S. Housing Starts As A Percent of the Population



Permits and Starts As A Percent of the Population



REGIONAL AND INLAND EMPIRE HOUSING DATA

Southern California Resale Homes

County	2015 Population	TTM Detached Resales	Avg. Detached Resale Price	TTM Attached Resales	Avg. Attached Resale Price
Los Angeles	10,136,559	48,880	\$740,878	19,618	\$524,273
Orange	3,147,655	21,604	\$841,679	10,689	\$536,646
San Diego	3,227,496	23,793	\$649,881	12,594	\$443,524
Riverside	2,308,441	27,224	\$355,770	4,787	\$264,454
San Bernardino	2,104,291	20,861	\$306,315	1,583	\$251,070
Ventura	848,073	6,768	\$658,240	2,615	\$399,577
Southern California Totals	21,772,515	149,130		51,886	
Weighted Average			\$606,121		\$468,632

Prices exclude all foreclosures and trustee sales.

FHA Limit
LA: \$625,500
OC: \$625,500
VEN: \$603,750
IE: \$356,500
SD: \$580,750

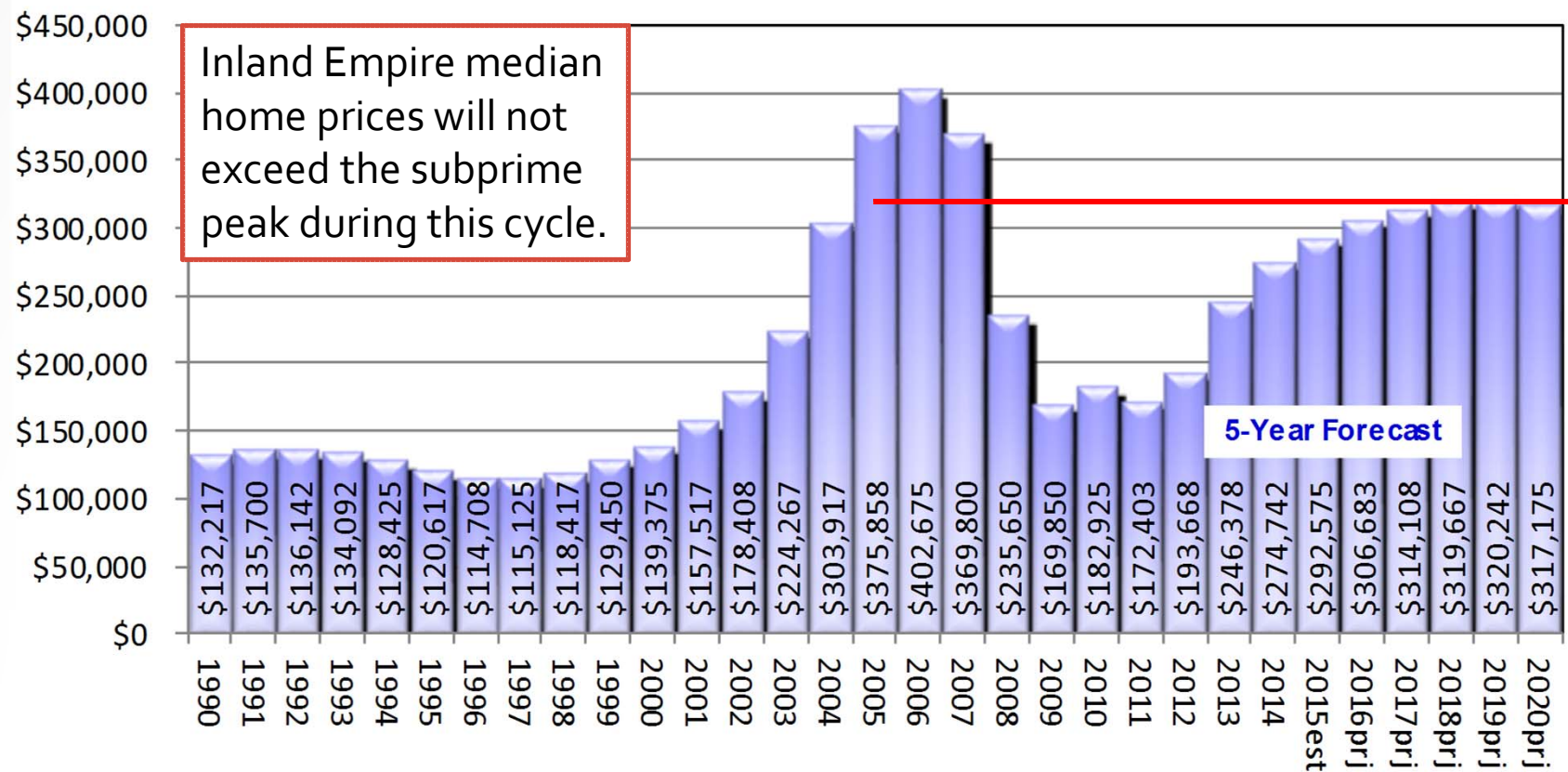
Southern California New Homes

County	Active Detached New Home Communities	TTM Detached New Home Sales	Current Avg. Detached New Home Price	Active Attached New Home Communities	TTM Attached New Home Sales	Current Avg. Attached New Home Price
Los Angeles	54	2,025	\$840,153	26	1,628	\$607,223
Orange	86	4,662	\$1,275,697	31	1,852	\$681,579
San Diego	46	1,851	\$949,721	16	811	\$621,455
Riverside	145	5,528	\$527,264	6	307	\$364,407
San Bernardino	71	2,234	\$496,934	10	318	\$422,322
Ventura	11	645	\$721,701	4	192	\$443,415
Southern California Totals	413	16,945		93	5,108	
Weighted Average			\$820,118			\$604,180

FHA Limit
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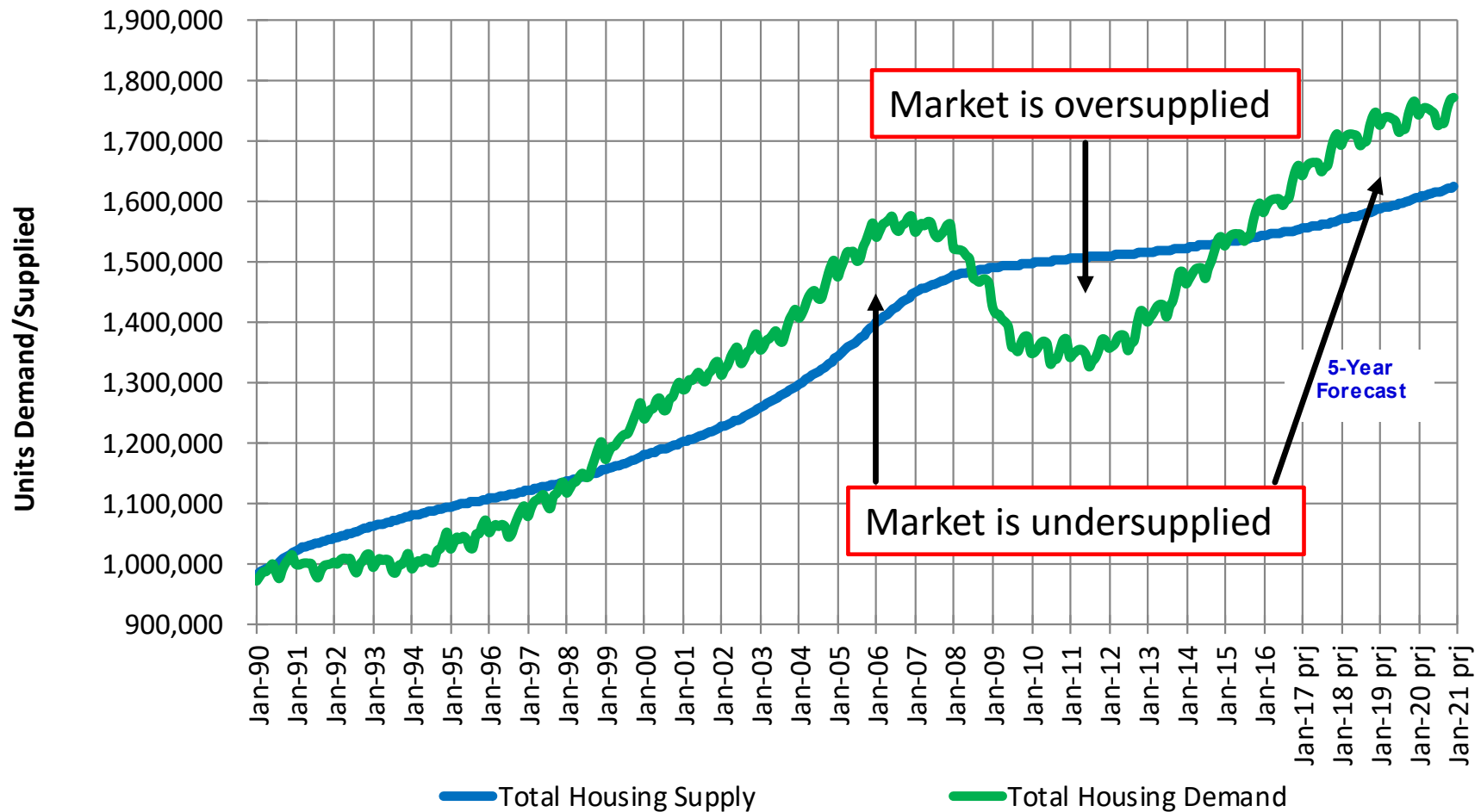
Inland Empire Housing Valuation

MEDIAN ANNUAL HOME PRICE
Riverside-San Bernardino-Ontario, CA CBSA
1ST QUARTER 2016



Inland Empire Supply / Demand

HOUSING DEMAND AND SUPPLY PATTERNS Riverside-San Bernardino-Ontario, CA CBSA



Inland Empire Supply / Demand

HOUSING DEMAND/SUPPLY PATTERNS Riverside-San Bernardino-Ontario, CA CBSA 2nd Quarter 2016

Year	Total Jobs	Housing Supply	Housing Demand	Market is Under/ (Over) Supplied
1990	720,400	1,034,050	1,017,518	(16,532) (1.6%) Overbuilt
1991	729,533	1,062,508	1,020,300	(42,208) (4.0%) Overbuilt
1992	741,367	1,080,267	1,026,703	(53,564) (5.0%) Overbuilt
1993	745,125	1,095,025	1,021,936	(73,089) (6.7%) Overbuilt
1994	760,175	1,108,658	1,032,562	(76,097) (6.9%) Overbuilt
1995	789,083	1,120,083	1,061,685	(58,399) (5.2%) Overbuilt
1996	812,258	1,130,492	1,082,583	(47,909) (4.2%) Overbuilt
1997	850,408	1,141,608	1,122,877	(18,731) (1.6%) Overbuilt
1998	891,417	1,155,467	1,166,147	10,681 0.9% Underbuilt
1999	946,525	1,173,017	1,226,931	53,914 4.6% Underbuilt
2000	995,008	1,193,267	1,278,113	84,846 7.1% Underbuilt
2001	1,038,117	1,215,758	1,321,530	105,772 8.7% Underbuilt
2002	1,074,425	1,244,067	1,355,585	111,518 9.0% Underbuilt
2003	1,111,983	1,281,367	1,390,610	109,244 8.5% Underbuilt
2004	1,175,083	1,325,967	1,456,642	130,675 9.9% Underbuilt
2005	1,238,783	1,376,983	1,522,319	145,336 10.6% Underbuilt
2006	1,285,700	1,429,092	1,566,454	137,362 9.6% Underbuilt
2007	1,290,267	1,467,042	1,558,657	91,615 6.2% Underbuilt
2008	1,247,667	1,487,275	1,494,502	7,227 0.5% Underbuilt
2009	1,168,492	1,496,925	1,387,946	(108,979) (7.3%) Overbuilt
2010	1,150,258	1,501,796	1,354,891	(146,905) (9.8%) Overbuilt
2011	1,154,292	1,504,455	1,348,436	(156,019) (10.4%) Overbuilt
2012	1,185,525	1,508,521	1,373,465	(135,056) (9.0%) Overbuilt
2013	1,233,450	1,512,324	1,420,434	(91,890) (6.1%) Overbuilt
2014	1,289,442	1,516,936	1,484,426	(32,511) (2.1%) Overbuilt
2015	1,347,983	1,523,088	1,551,820	28,732 1.9% Underbuilt
2016est	1,392,035	1,536,001	1,602,533	66,532 4.3% Underbuilt
2017prj	1,434,342	1,547,595	1,651,237	103,642 6.7% Underbuilt
2018prj	1,464,638	1,560,432	1,686,114	125,682 8.1% Underbuilt
2019prj	1,489,338	1,574,304	1,714,549	140,245 8.9% Underbuilt
2020prj	1,506,979	1,591,746	1,734,858	143,112 9.0% Underbuilt
2021prj	1,521,171	1,610,938	1,751,196	140,259 8.7% Underbuilt

Market is oversupplied

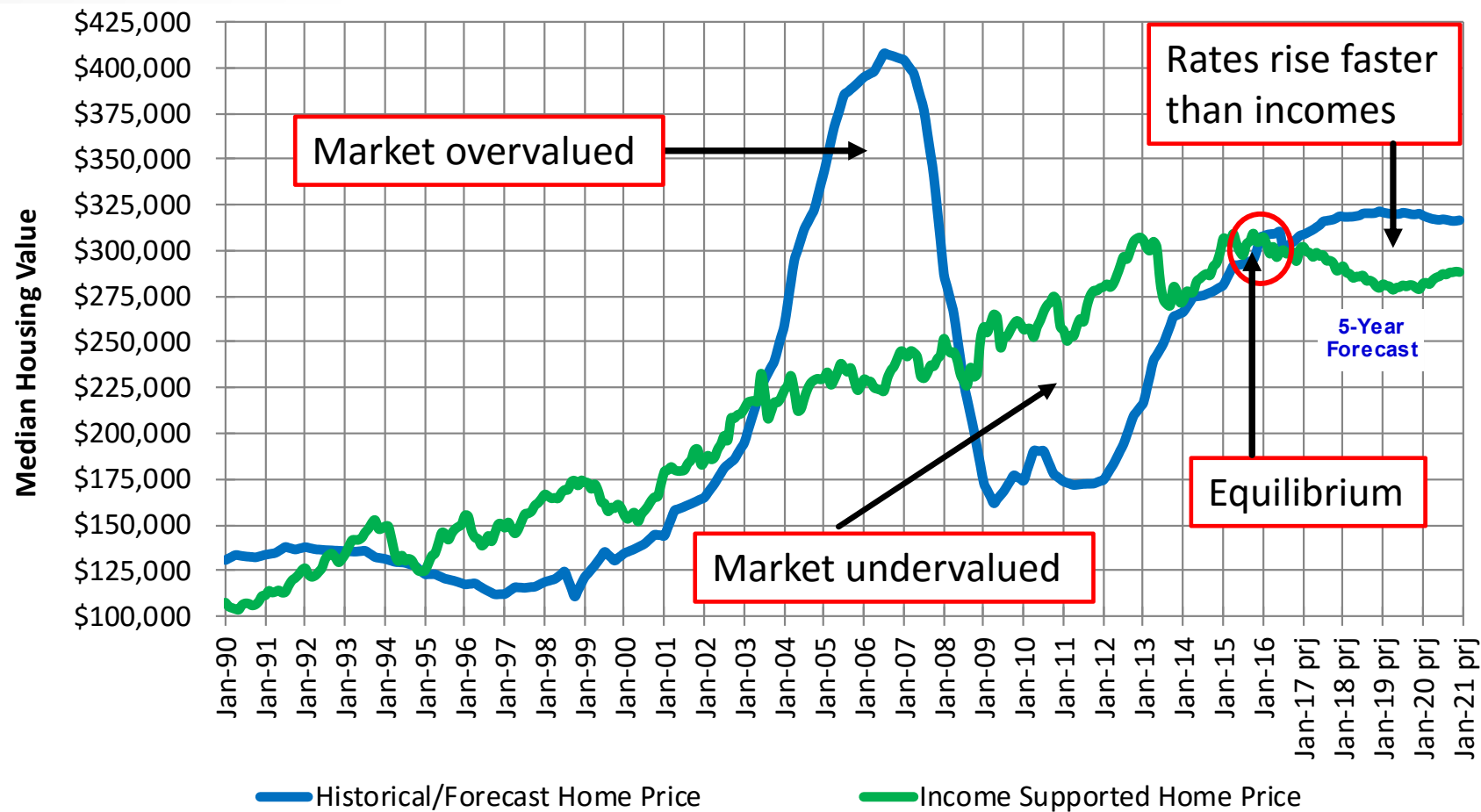
Market is undersupplied

Market is oversupplied

Market is undersupplied

Inland Empire Housing Valuation

HOUSING VALUATION PATTERNS
Riverside-San Bernardino-Ontario, CA CBSA



Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics
www.realestateconomics.com

Inland Empire Housing Valuation

HOUSING OVER/UNDER VALUATION PATTERNS

Riverside-San Bernardino-Ontario, CA CBSA

2nd Quarter 2016

Year	Average Home Price	Equilibrium Home Price	30-Yr. Mtg. Rate	Ann. Mtg. Cost	Equil Mtg. Cost	Household HH Income	Market is Under/ (Over) Valued
1990	\$133,970	\$110,492	10.10%	\$11,382	\$9,387	\$33,279	(\$23,478) (17.5%) Overvalued
1991	\$137,524	\$117,988	9.29%	\$10,901	\$9,342	\$33,382	(\$19,536) (14.2%) Overvalued
1992	\$138,756	\$132,101	8.34%	\$10,093	\$9,604	\$34,593	(\$6,656) (4.8%) Overvalued
1993	\$136,403	\$141,933	7.30%	\$8,980	\$9,335	\$33,895	\$5,531 4.1% Undervalued
1994	\$131,545	\$131,746	8.40%	\$9,624	\$9,621	\$35,216	\$201 0.2% Undervalued
1995	\$123,116	\$142,506	7.96%	\$8,642	\$9,971	\$36,797	\$19,390 15.7% Undervalued
1996	\$117,038	\$148,273	7.85%	\$8,126	\$10,287	\$38,276	\$31,235 26.7% Undervalued
1997	\$117,188	\$153,379	7.62%	\$7,958	\$10,405	\$39,038	\$36,191 30.9% Undervalued
1998	\$118,685	\$167,806	6.93%	\$7,527	\$10,640	\$40,251	\$49,121 41.4% Undervalued
1999	\$127,133	\$167,398	7.42%	\$8,464	\$11,130	\$42,462	\$40,265 31.7% Undervalued
2000	\$137,349	\$159,670	7.98%	\$9,656	\$11,218	\$43,164	\$22,321 16.3% Undervalued
2001	\$153,023	\$176,891	6.96%	\$9,736	\$11,253	\$43,668	\$23,868 15.6% Undervalued
2002	\$174,686	\$186,514	6.56%	\$10,663	\$11,369	\$44,502	\$11,829 6.8% Undervalued
2003	\$213,673	\$205,064	5.81%	\$12,052	\$11,566	\$45,668	(\$8,609) (4.0%) Overvalued
2004	\$289,984	\$209,437	5.84%	\$16,396	\$11,841	\$47,167	(\$80,547) (27.8%) Overvalued
2005	\$357,323	\$219,712	5.87%	\$20,284	\$12,473	\$50,127	(\$137,610) (38.5%) Overvalued
2006	\$383,802	\$216,640	6.45%	\$23,170	\$13,075	\$53,020	(\$167,161) (43.6%) Overvalued
2007	\$356,898	\$233,006	6.33%	\$21,278	\$13,888	\$56,826	(\$123,892) (34.7%) Overvalued
2008	\$233,163	\$241,454	6.02%	\$13,448	\$13,916	\$57,463	\$8,291 3.6% Undervalued
2009	\$157,991	\$256,110	5.01%	\$8,149	\$13,208	\$55,043	\$98,120 62.1% Undervalued
2010	\$174,305	\$253,738	4.71%	\$8,686	\$12,636	\$53,149	\$79,433 45.6% Undervalued
2011	\$168,357	\$254,579	4.47%	\$8,158	\$12,322	\$52,316	\$86,221 51.2% Undervalued
2012	\$183,881	\$279,962	3.65%	\$8,072	\$12,283	\$52,651	\$96,081 52.3% Undervalued
2013	\$233,127	\$273,646	3.94%	\$10,607	\$12,433	\$53,531	\$40,519 17.4% Undervalued
2014	\$263,482	\$271,663	4.17%	\$12,328	\$12,703	\$54,695	\$8,181 3.1% Undervalued
2015	\$280,821	\$290,326	3.80%	\$12,557	\$12,980	\$55,885	\$9,505 3.4% Undervalued
2016prj	\$290,436	\$290,398	4.02%	\$13,337	\$13,332	\$57,400	(\$38) (0.0%) Overvalued
2017prj	\$293,855	\$284,164	4.48%	\$14,267	\$13,793	\$59,388	(\$9,691) (3.3%) Overvalued
2018prj	\$299,857	\$274,200	5.12%	\$15,667	\$14,322	\$61,665	(\$25,657) (8.6%) Overvalued
2019prj	\$304,383	\$269,734	5.59%	\$16,758	\$14,848	\$63,930	(\$34,649) (11.4%) Overvalued
2020prj	\$303,901	\$275,060	5.73%	\$16,982	\$15,370	\$66,178	(\$28,841) (9.5%) Overvalued
2021prj	\$301,673	\$283,628	5.72%	\$16,847	\$15,839	\$68,195	(\$18,045) (6.0%) Overvalued

Market undervalued

Market is overvalued

Market undervalued

Market overvalued

Source: Bureau of Labor Statistics; Census Bureau; National Assoc. of Realtors; Real Estate Economics

www.realestateeconomics.com

Inland Empire New Home Market Trends

Detached Homes Only (No deserts)

Category	QUARTERLY MARKET STATISTICS FROM THE 2ND QUARTER OF THE LAST NINE YEARS								
	2008 Q2	2009 Q2	2010 Q2	2011 Q2	2012 Q2	2013 Q2	2014 Q2	2015 Q2	2016 Q2
No. of Active Developments	389	264	150	129	137	118	124	170	184
Average of Base Prices	\$426,635	\$358,270	\$340,402	\$334,646	\$330,979	\$353,554	\$399,200	\$420,981	\$447,408
Incentive as a % of Base Price	3.9%	3.6%	2.4%	2.8%	2.4%	1.8%	1.8%	1.7%	1.7%
Average of Unit Sizes (Square Footage)	2,901 sf	2,835 sf	2,721 sf	2,587 sf	2,564 sf	2,545 sf	2,625 sf	2,666 sf	2,697 sf
Average Price Per Square Foot	\$147	\$126	\$125	\$129	\$129	\$139	\$152	\$158	\$166
Average Monthly Sales Rate Per Dev.	1.7/mo	1.5/mo	1.7/mo	1.4/mo	1.3/mo	2.3/mo	2.7/mo	3.3/mo	3.2/mo
Total Inventory	17,991 du	10,069 du	4,180 du	4,998 du	5,267 du	3,415 du	4,266 du	7,888 du	7,065 du
Months of Total Inventory	27.8 mos.	25.0 mos.	16.5 mos.	28.0 mos.	28.6 mos.	12.6 mos.	12.6 mos.	14.1 mos.	11.9 mos.

Inland Empire New Home Market Trends

Attached Homes Only (No deserts)

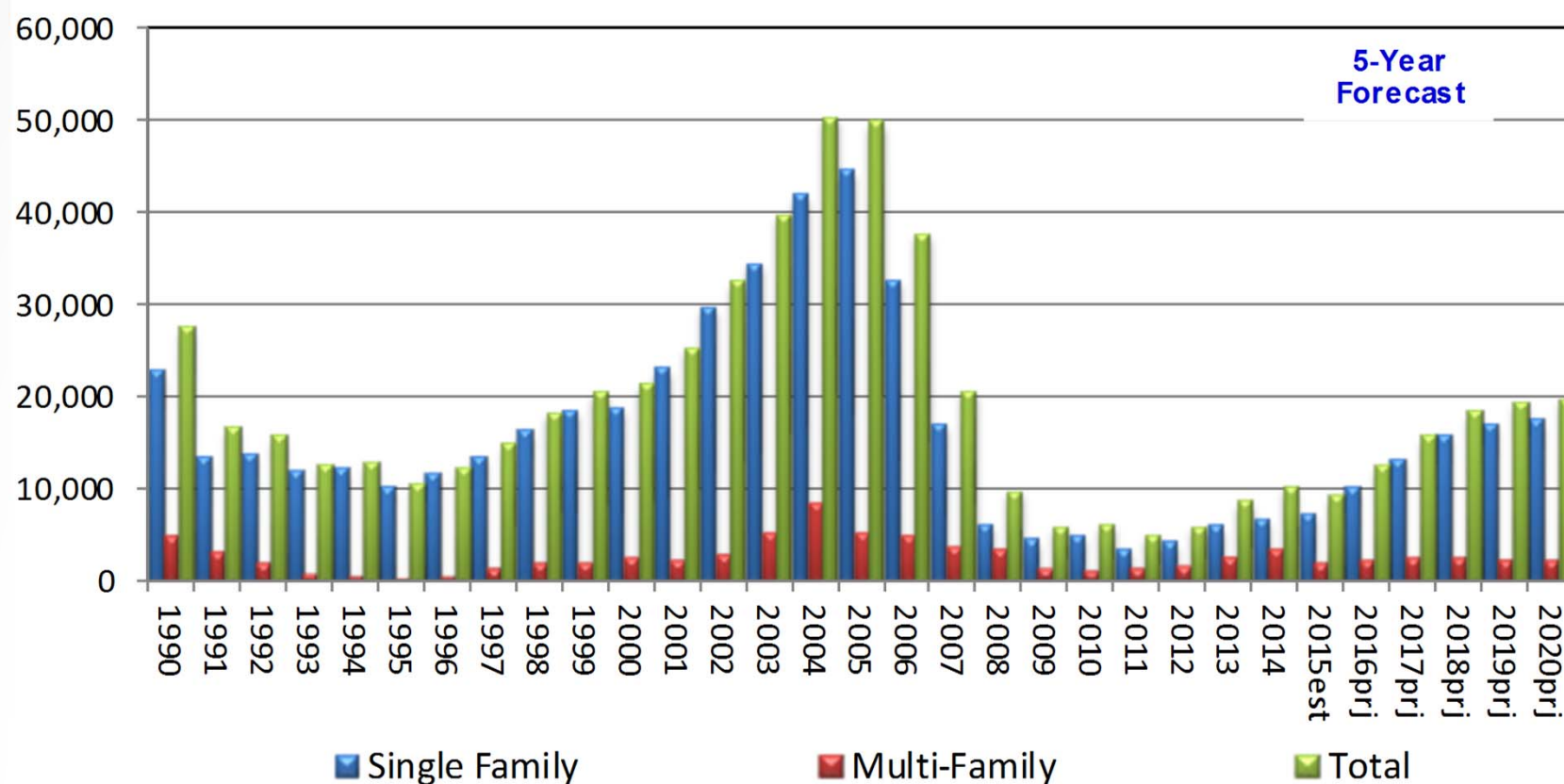
Category	QUARTERLY MARKET STATISTICS FROM THE 2ND QUARTER OF THE LAST NINE YEARS								
	2008 Q2	2009 Q2	2010 Q2	2011 Q2	2012 Q2	2013 Q2	2014 Q2	2015 Q2	2016 Q2
No. of Active Developments	33	25	15	4	9	6	7	13	15
Average of Base Prices	\$299,632	\$265,701	\$260,020	\$224,144	\$246,601	\$282,530	\$346,476	\$350,251	\$370,220
Incentive as a % of Base Price	4.1%	4.0%	3.9%	4.0%	3.7%	3.1%	2.3%	1.8%	1.7%
Average of Unit Sizes (Square Footage)	1,550 sf	1,571 sf	1,584 sf	1,433 sf	1,536 sf	1,559 sf	1,670 sf	1,658 sf	1,668 sf
Average Price Per Square Foot	\$193	\$169	\$164	\$156	\$161	\$181	\$208	\$211	\$222
Average Monthly Sales Rate Per Dev.	1.7/mo	2.2/mo	2.4/mo	1.8/mo	1.2/mo	1.8/mo	2.7/mo	3.4/mo	3.8/mo
Total Inventory	2,085 du	1,193 du	292 du	192 du	479 du	206 du	177 du	573 du	823 du
Months of Total Inventory	37.8 mos.	21.8 mos.	8.0 mos.	26.1 mos.	43.0 mos.	18.9 mos.	9.5 mos.	13.0 mos.	14.5 mos.

Inland Empire Building Permit Trends

ANNUAL RESIDENTIAL PERMIT ACTIVITY

Riverside-San Bernardino-Ontario, CA CBSA

1ST QUARTER 2016



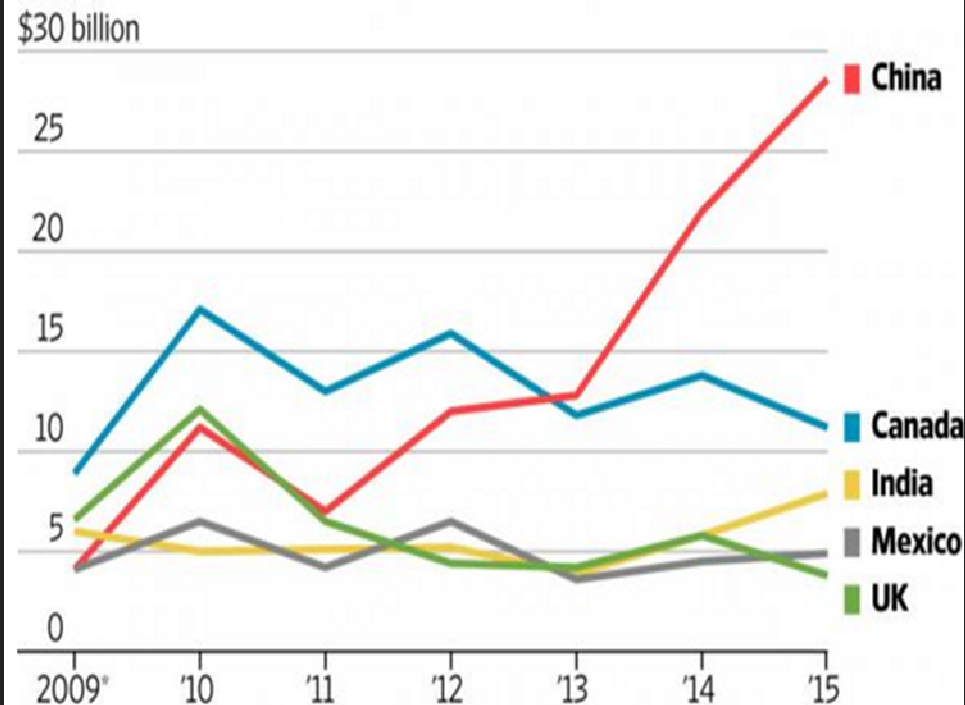
CAPITAL OUTLOOK

Southern California Attracts Many International Buyers

In the Market

For the past few years, clients from China exceeded all other buyers in terms of U.S. property purchases

Estimate value of sales to international clients



*Figures for non-resident clients only

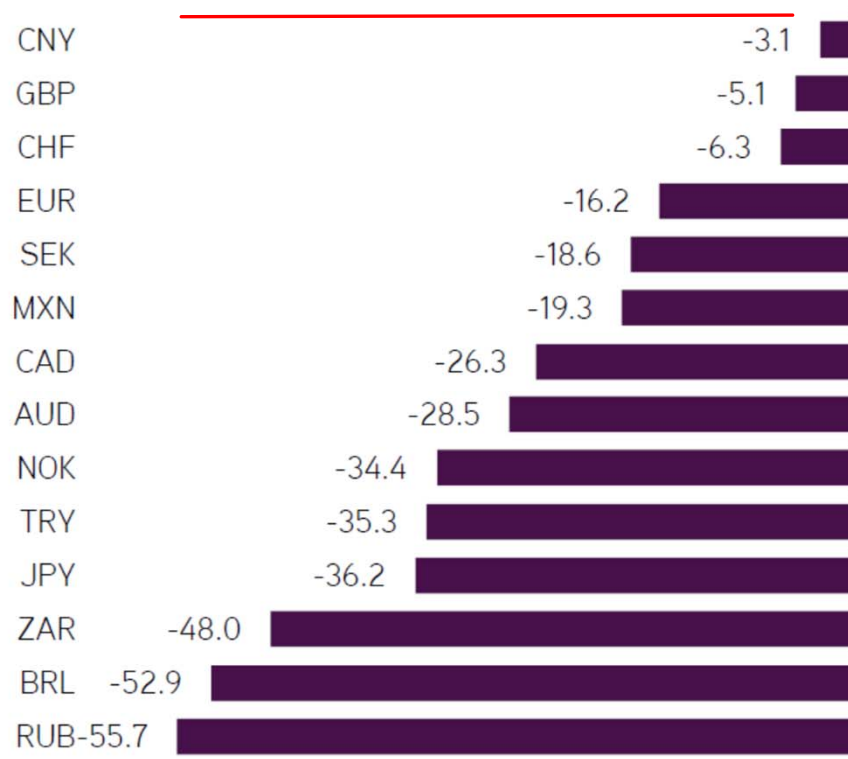
Note: Figures for 12-month period ending in March; China includes Hong Kong and Taiwan

Source: National Association of Realtors

THE WALL STREET JOURNAL

U.S. Dollar Has Strengthened

Past Four Years Change in USD Spot Price (%)



Data as at December 31, 2015. Source: Bloomberg.

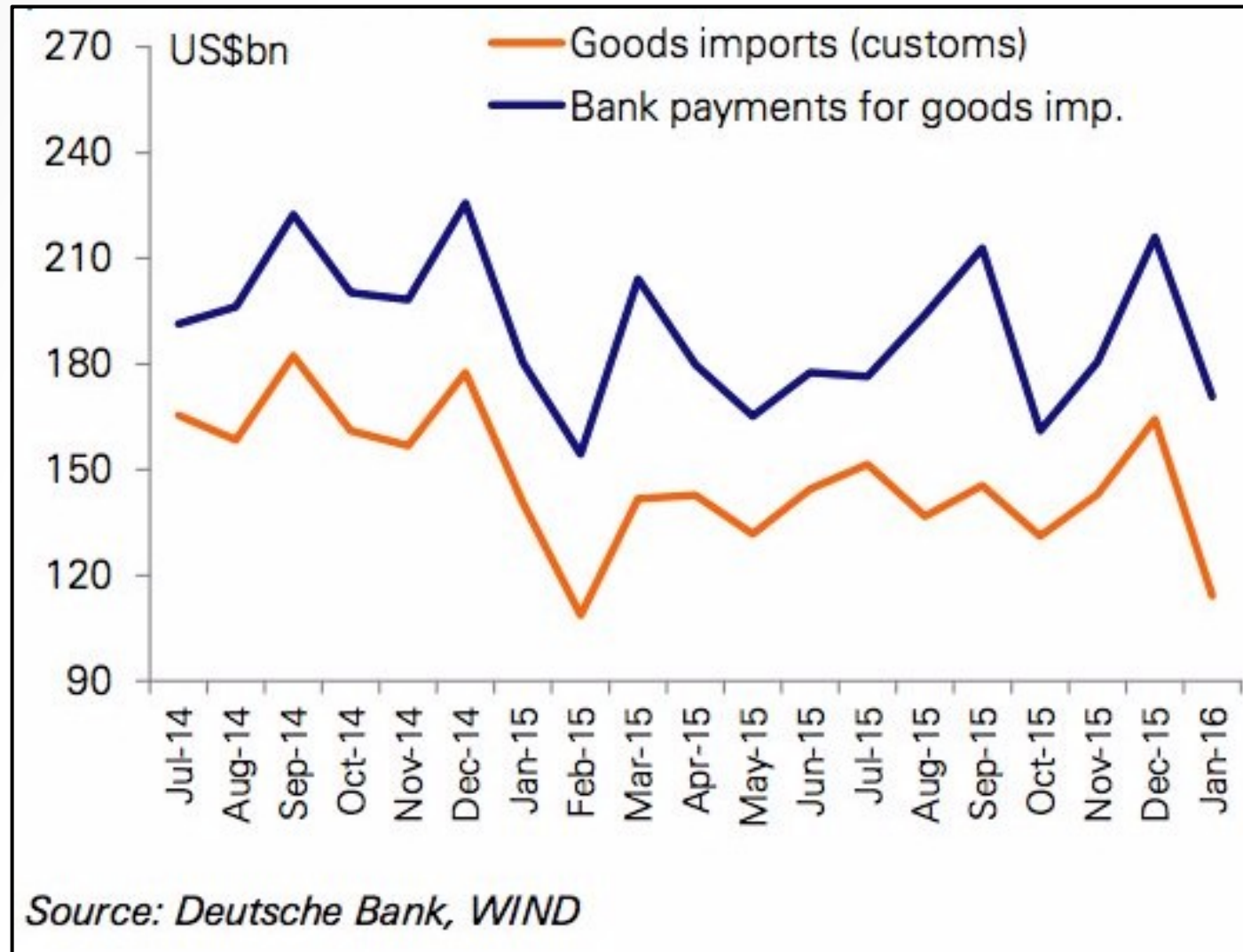
The U.S. dollar has strengthened in recent years as the U.S. economy has rebounded.

Investors buy strengthening currencies and sell weakening currencies.

Foreign currencies have weakened as other countries try to reduce the cost of their exported goods to support their domestic industries.

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Increasing Capital Flows Out of China



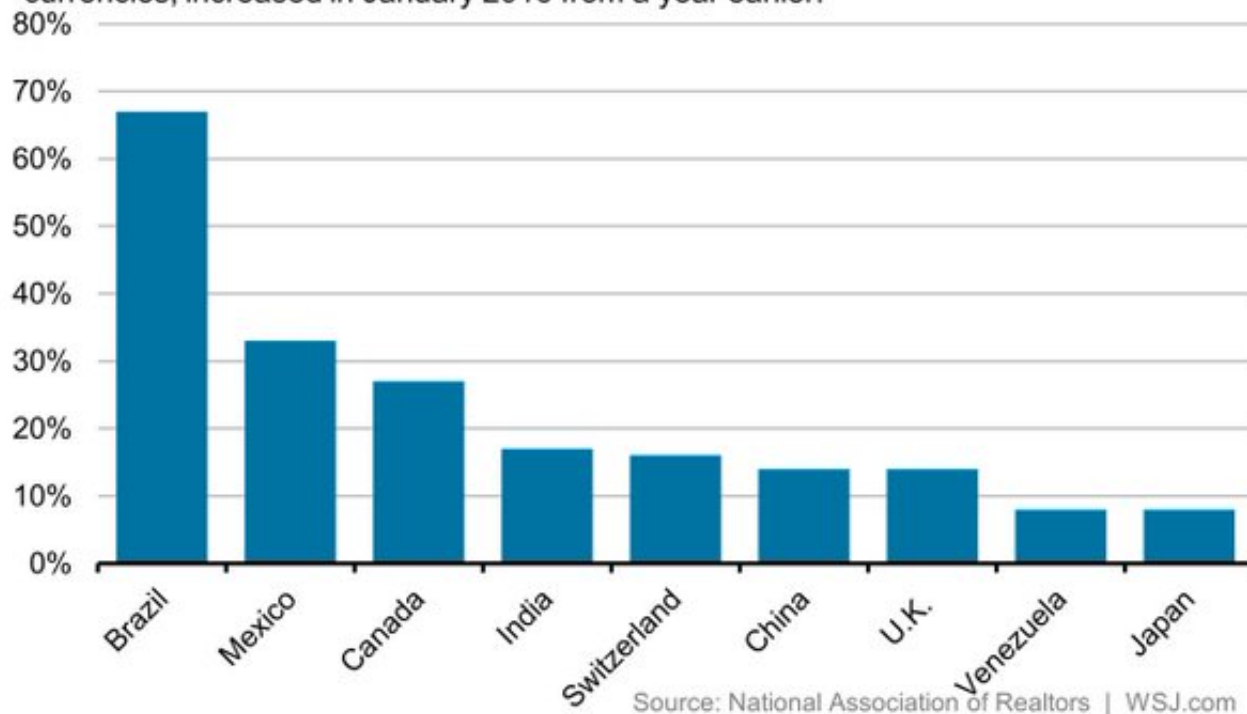
Chinese Yuan Depreciation Leads To Accelerating Outflows



A Stronger U.S. Dollar Makes U.S. Housing More Expensive

Staying Home

The median price of U.S. existing homes for foreign buyers, measured in local currencies, increased in January 2016 from a year earlier.



California's Public Financial Condition Is Uncertain

- General Fund expenditures leapt from \$86 billion in 2011 to \$122 billion for 2016.
- A voter approved sales tax increase expires at the end of 2016.
- Underperformance in the stock market and a slowdown in the IPO market will reduce income tax receipts which comprise 25% of state tax receipts. The top 1% of taxpayers pay half of all state income taxes.
- California pension program costs have increased 70% since 2011 to \$8.1 billion.
- California's Medicare / Obamacare costs are \$2.7 billion for 2016 with the Federal Government paying another \$20 billion, California's share will rise over time.
- A \$15 per hour minimum wage costs an additional \$3.4 billion for state workers.
- Moody's Investor Service ranked California last (tied with Illinois) for recession preparedness.

Key Takeaways for 2016

1. “Real” income (after inflation) is not growing fast enough to allow middle income households to save for a down payment and buy a home. As a result, new home market share is FAR below historical levels and supply is concentrated in move-up price ranges.
2. California had a longer and deeper recession than the Nation due to employment concentrations in construction, subprime lending and agriculture. Southern California is still catching up, the City of Los Angeles and the Inland Empire are finally in growth mode.
3. High land prices, municipal fees and other impediments to new construction are preventing the market from adding supply in affordable price ranges.
4. At present, there is no “go to” buyer profile. Builders should offer designs that appeal to cohorts that are financially capable, provide designs that appeal to multiple cohorts (Next Gen) or cover multiple groups in different floor plans.

Thank you for your attention.

Please direct all questions and inquiries to:

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