

REAL ESTATE ECONOMICS

**Southern California Chapter of the Appraisal Institute
Market Trends Seminar
January 2015**



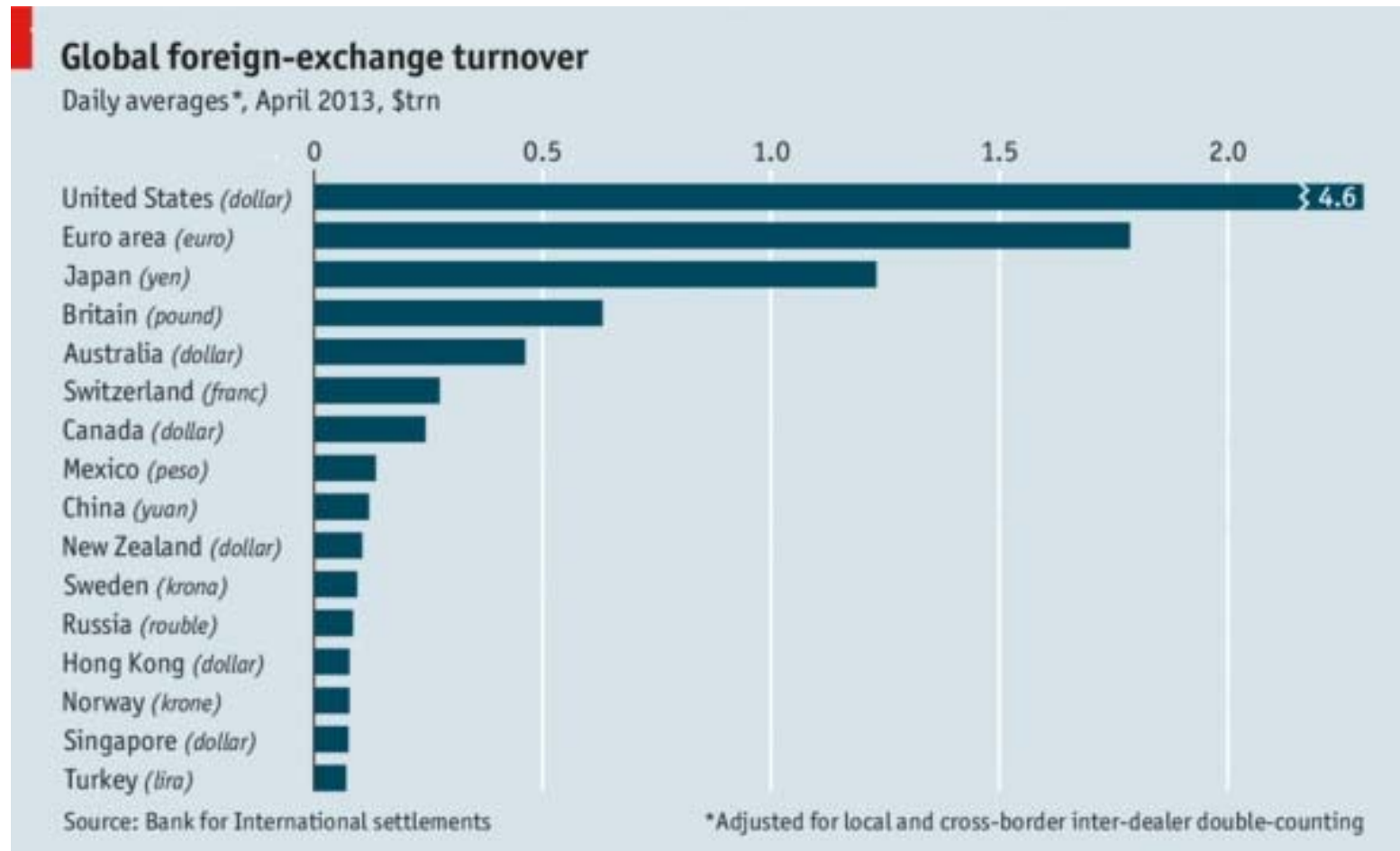
OUTLINE

- International Capital Flows and why they matter.
- Domestic Capital Flows
- Southern California Economic Trends
- County –by– County New Home Market Review
- Conclusions and Questions



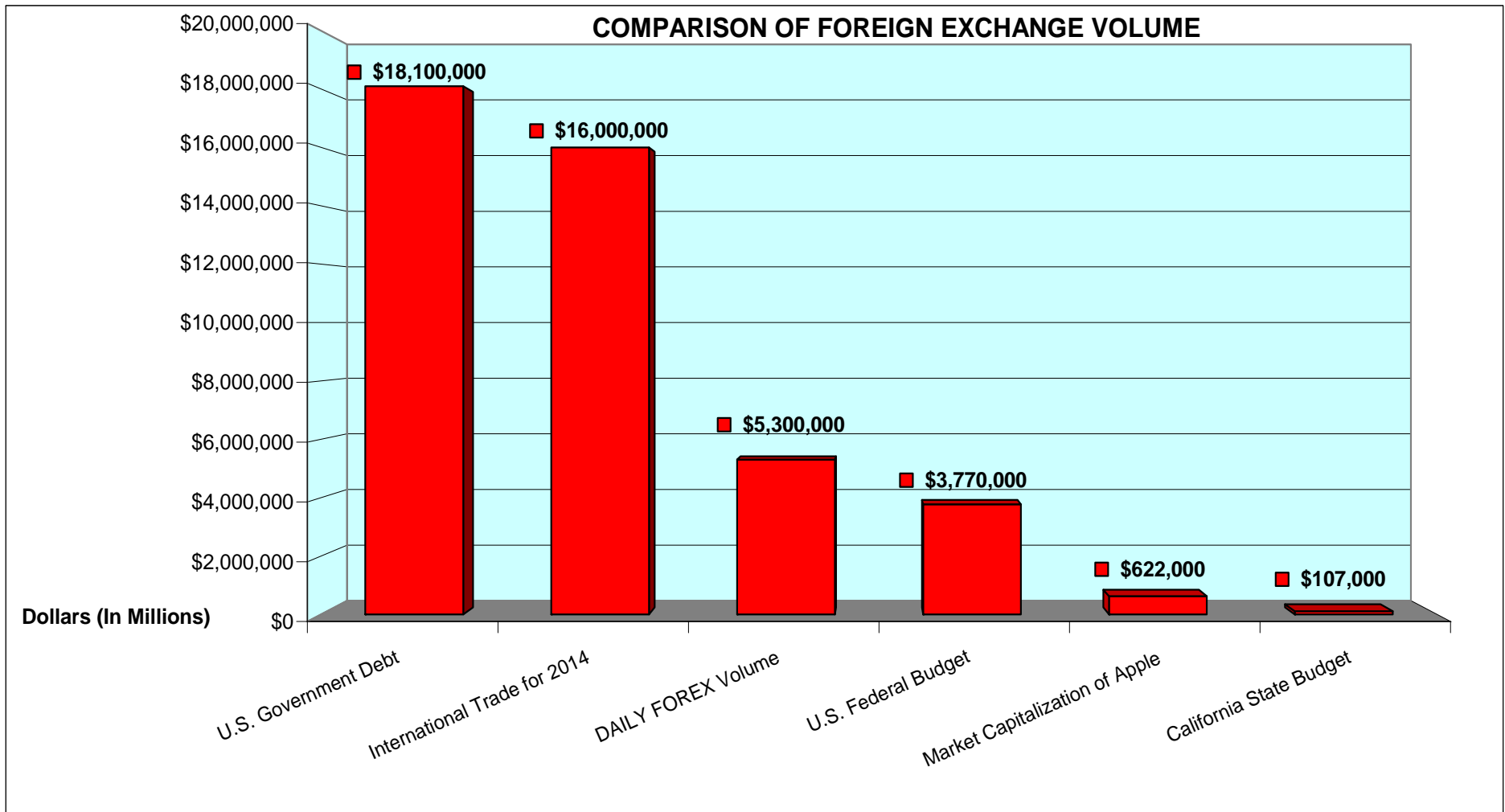
International and Domestic Capital Flows

FOREIGN EXCHANGE



Daily volume is currently estimated at \$5.3 TRILLION

FOREIGN EXCHANGE VOLUME COMPARISONS

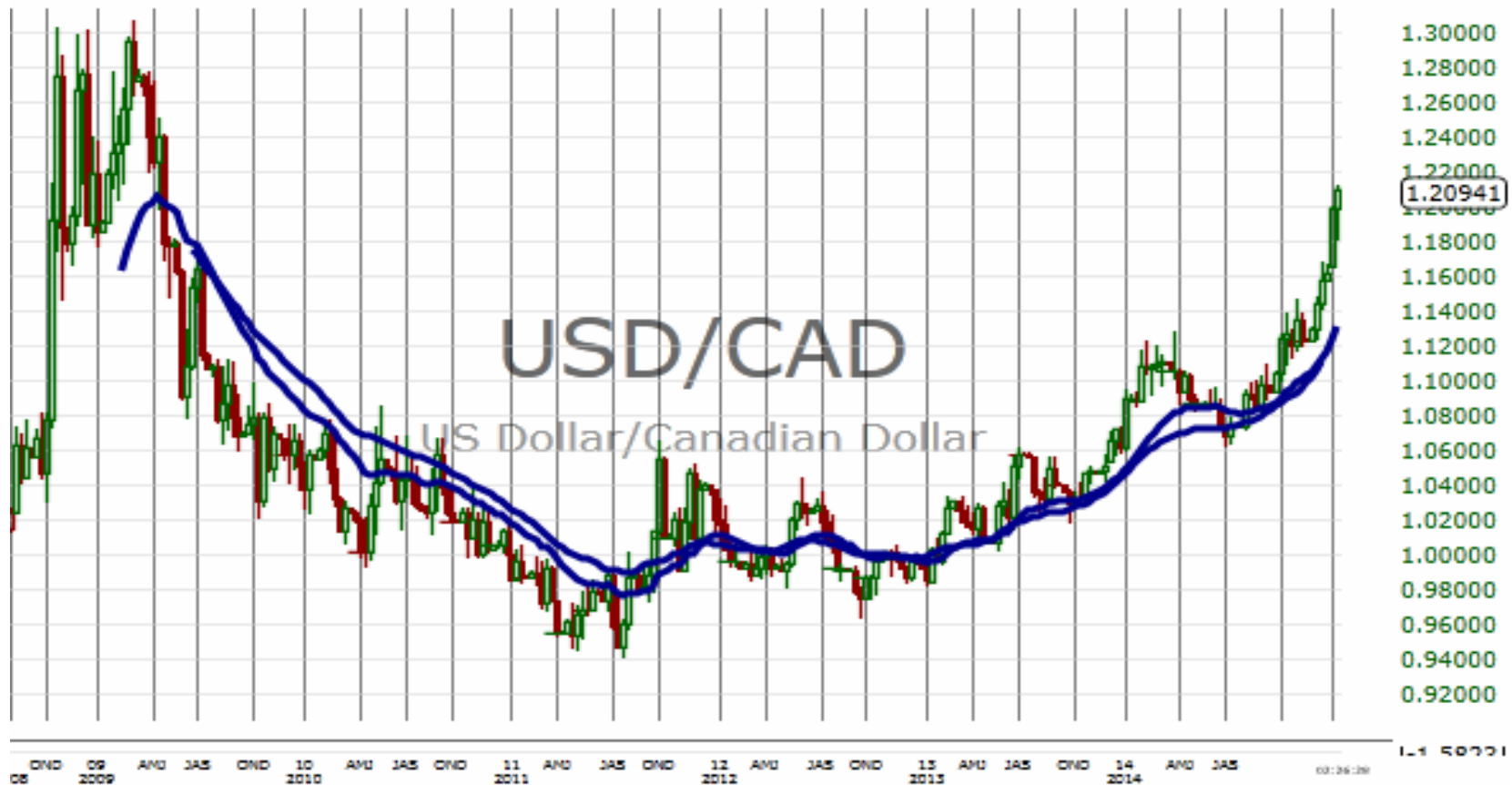


CURRENCY TRENDS

USD/CAD (US Dollar/Canadian Dollar)

Jan 20 2015 02:26:28

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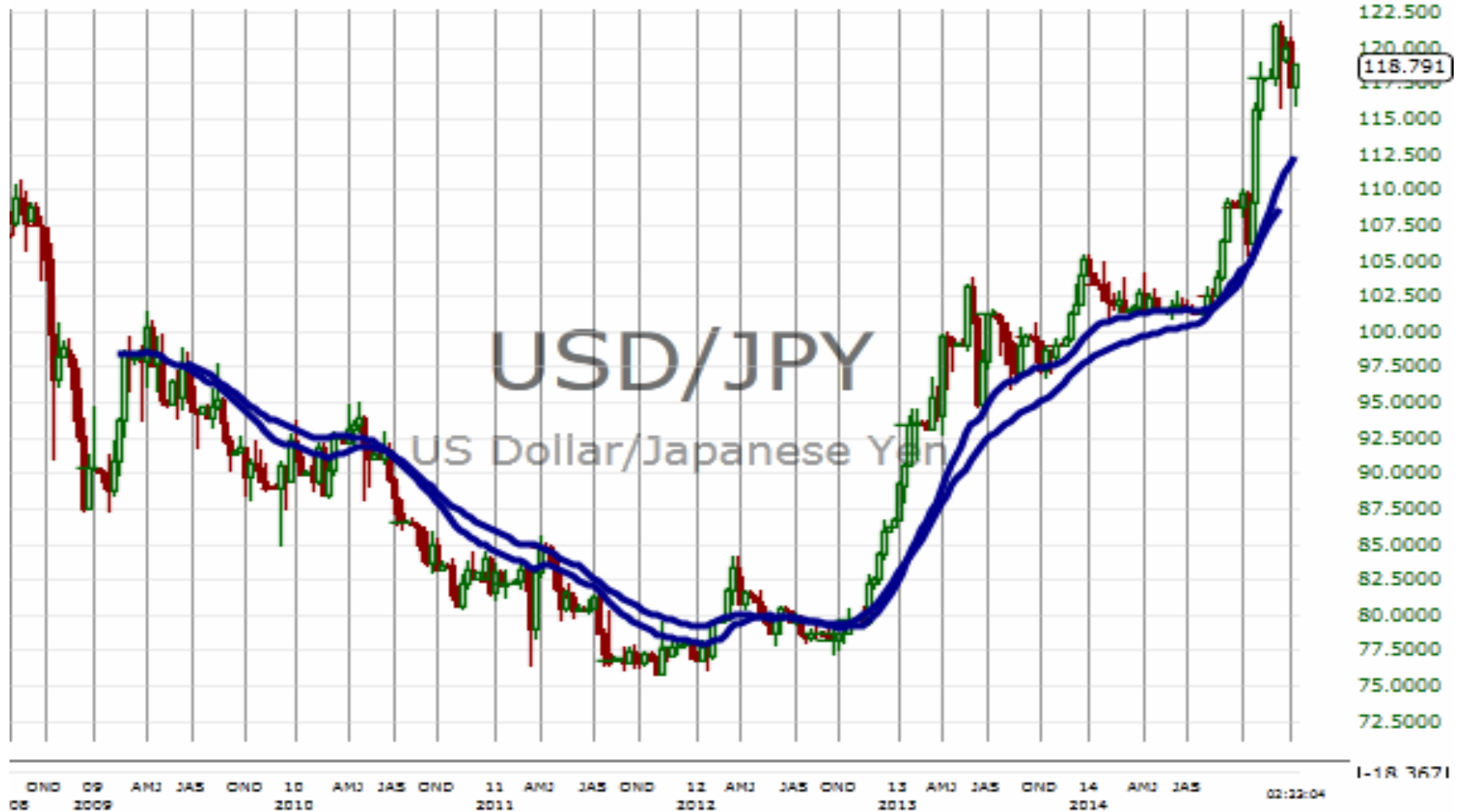
Canadians made more than 50% of new home purchases in the Coachella Valley in 2011, that share dropped below 10% in 2014.

CURRENCY TRENDS

USD/JPY (US Dollar/Japanese Yen)

Jan 20 2015 02:23:04

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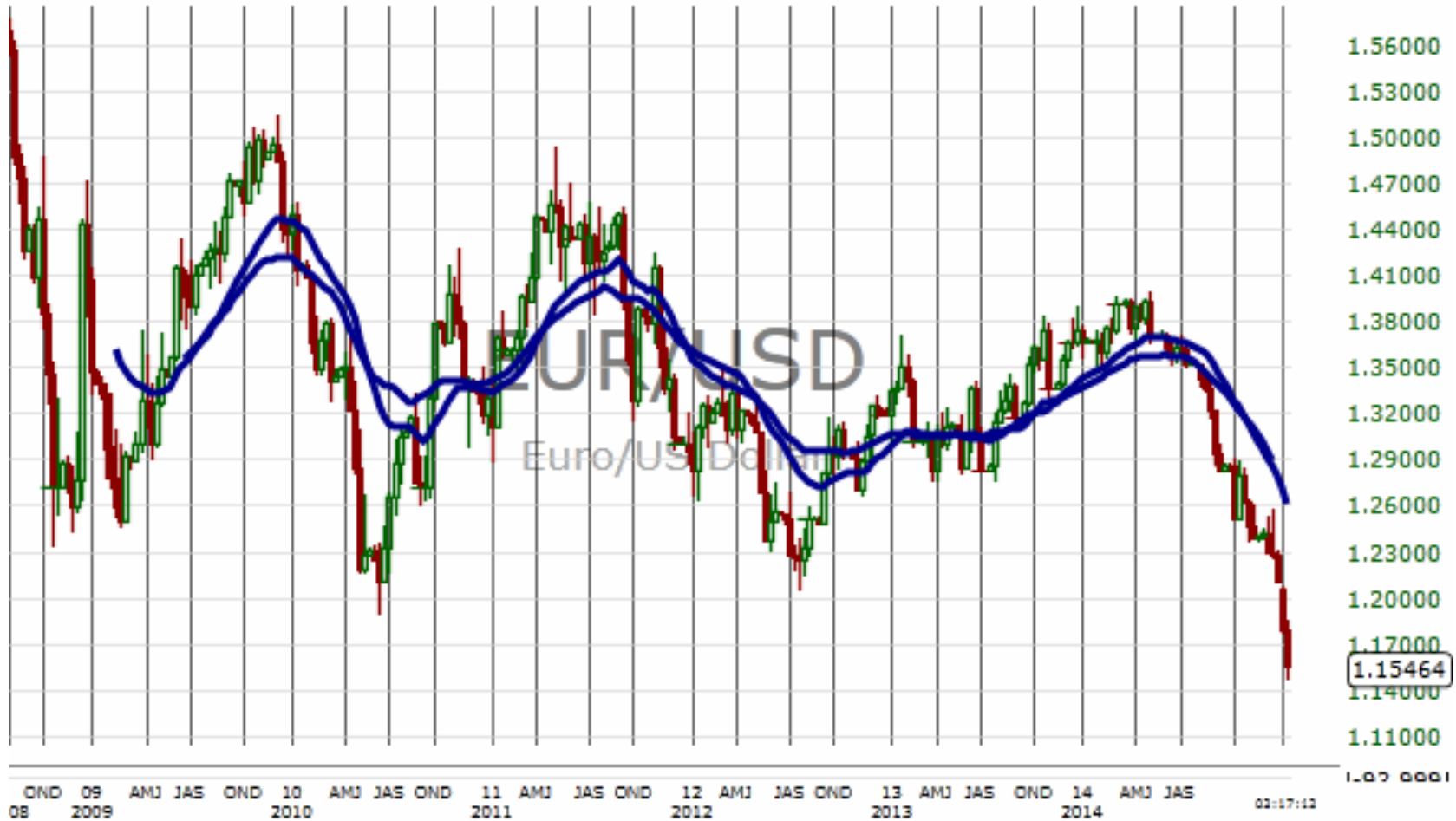
Since 2013 Japanese households have been paying more for U.S. imports. Meanwhile, the U.S. is “importing deflation” as Japanese goods cost less.

CURRENCY TRENDS

EUR/USD (Euro/US Dollar)

Jan 20 2015 02:17:12

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The EURO lost 18% of its value in 6 months.

CURRENCY TRENDS



The U.S. Dollar index compares the dollar to a “basket” of foreign currencies at the percentages shown:

57.6% Euro (EUR)

9.1% Canadian Dollar (CAD)

3.6% Swiss Franc (CHF)

13.6% Japanese Yen (JPY)

4.2% Swedish Krona (SEK)

WHY DOES IT MATTER?

Companies, venture capital, governments, individuals and hedge funds want to control their exposure to weakening (or strengthening) currencies.

With many economies around the world weakening and the U.S. strengthening the result is massive capital flows into dollar denominated assets including stocks, bonds and.....

U.S. Real Estate!

WHY DOES IT MATTER?

Coming to America | Overseas investors are piling into projects in New York and around the U.S.

1 10 HUDSON YARDS
Foreign backers: Kuwait Investment Authority, Oxford Properties (Canada)
Use: Office
Size: 1.7 million square feet

2 55 HUDSON YARDS
Foreign backers: Mitsui Fudosan (Japan), Oxford Properties (Canada)
Use: Office
Size: 1.3 million sf

3 53W53
Foreign backers: Pontiac Land Group (Singapore)
Use: Mostly condominium
Size: 750,000 sf

4 PACIFIC PARK BROOKLYN
Foreign backers: Greenland Group (China)
Use: Mostly residential
Size: 8 million sf

5 ONE57
Foreign backers: Aabar Investments (Abu Dhabi)
Use: Condominium and hotel
Size: 850,000 sf

Source: The Companies; Photographs clockwise from top left: Related Companies; by-encore/Related/Oxford; Related; Jean Nouvel; Skidmore, OWens & Merrill; Skidmore, OWens & Merrill; Andrew Spear for The Wall Street Journal

Foreign Developers Hit U.S. Shores

By ELIOT BROWN

Foreign investors, no longer content paying top price for U.S. trophy properties, are increasingly getting in on the ground floor of development projects they hope will become the next Rockefeller Center or Chrysler Building.

Japanese developer **Mitsui Fudosan** Co. last month wrapped up a deal to fund a planned \$1.4 billion office tower on Manhattan's far West Side, company officials said. As part of Mitsui's broader push into the U.S., it paid New York-based Related Cos. \$259 million for a 92% stake in the site known as 55 Hudson Yards.

The deal illustrates a shift in the development landscapes of New York and other major U.S. cities, which for decades were dominated by local property tycoons, pension funds and private-equity firms. Now, development of many of the most prominent towers is being funded by foreign developers, as well as Middle Eastern sovereign-wealth funds and Asian investors, which are outbidding traditional U.S. players as they search for higher investment returns and new places to expand.

"We've seen more new names, new faces, new investors with large capacity in the last two years than we've seen at any other time," said Jeff Blau, chief executive of privately held Related, one of the country's largest commercial developers.

Please turn to page C8

Wall Street Journal, January 21, 2015

DOMESTIC CAPITAL FLOWS

Companies, venture capital firms, banks and individual investors have pumped BILLIONS into oil and gas leases, new equipment, fracking technologies, pipelines and oil carrying railcars.

Investment in energy is rapidly slowing. Investors still want capital to be invested and working. Expect a heightened capital flows to.....

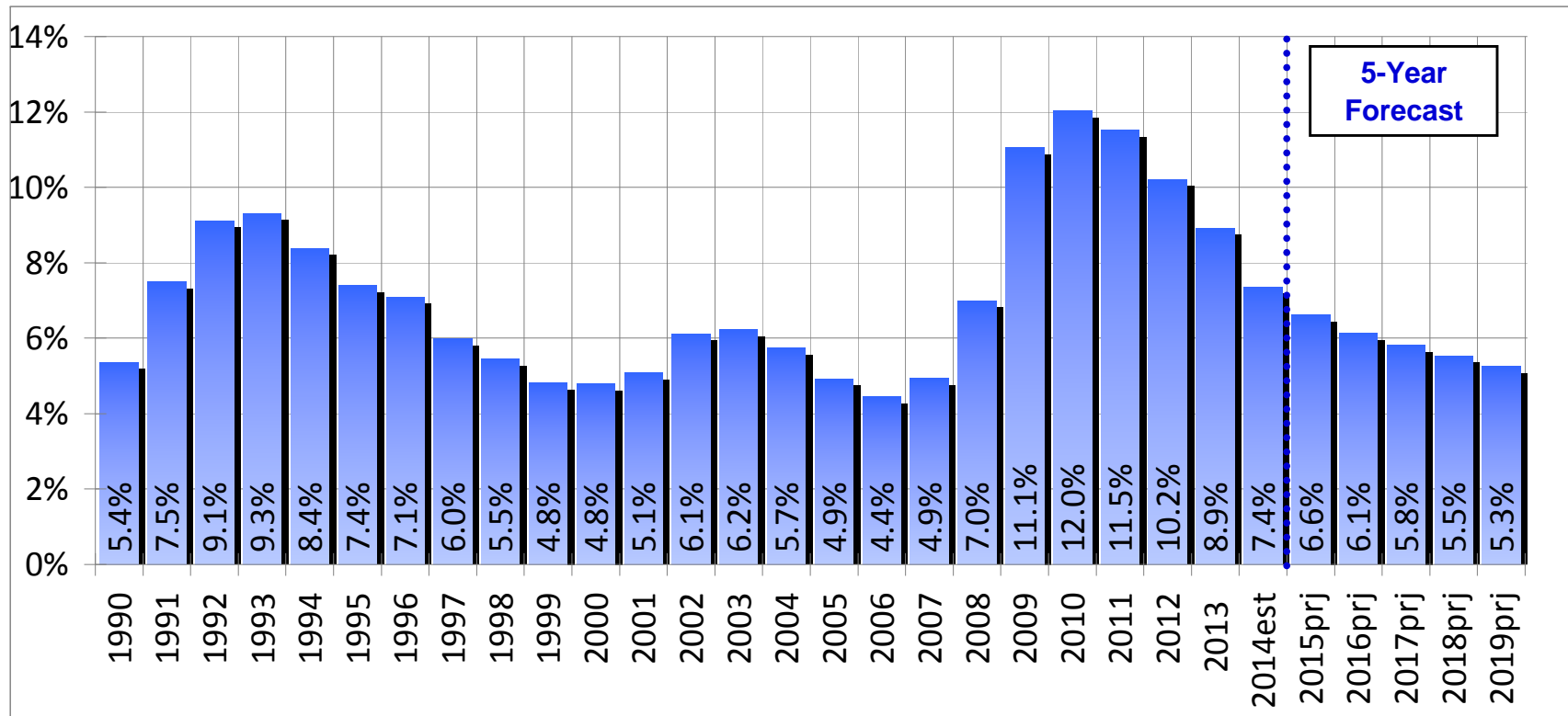
U.S. Real Estate!



Southern California Economic Trends

TRENDS IN EMPLOYMENT

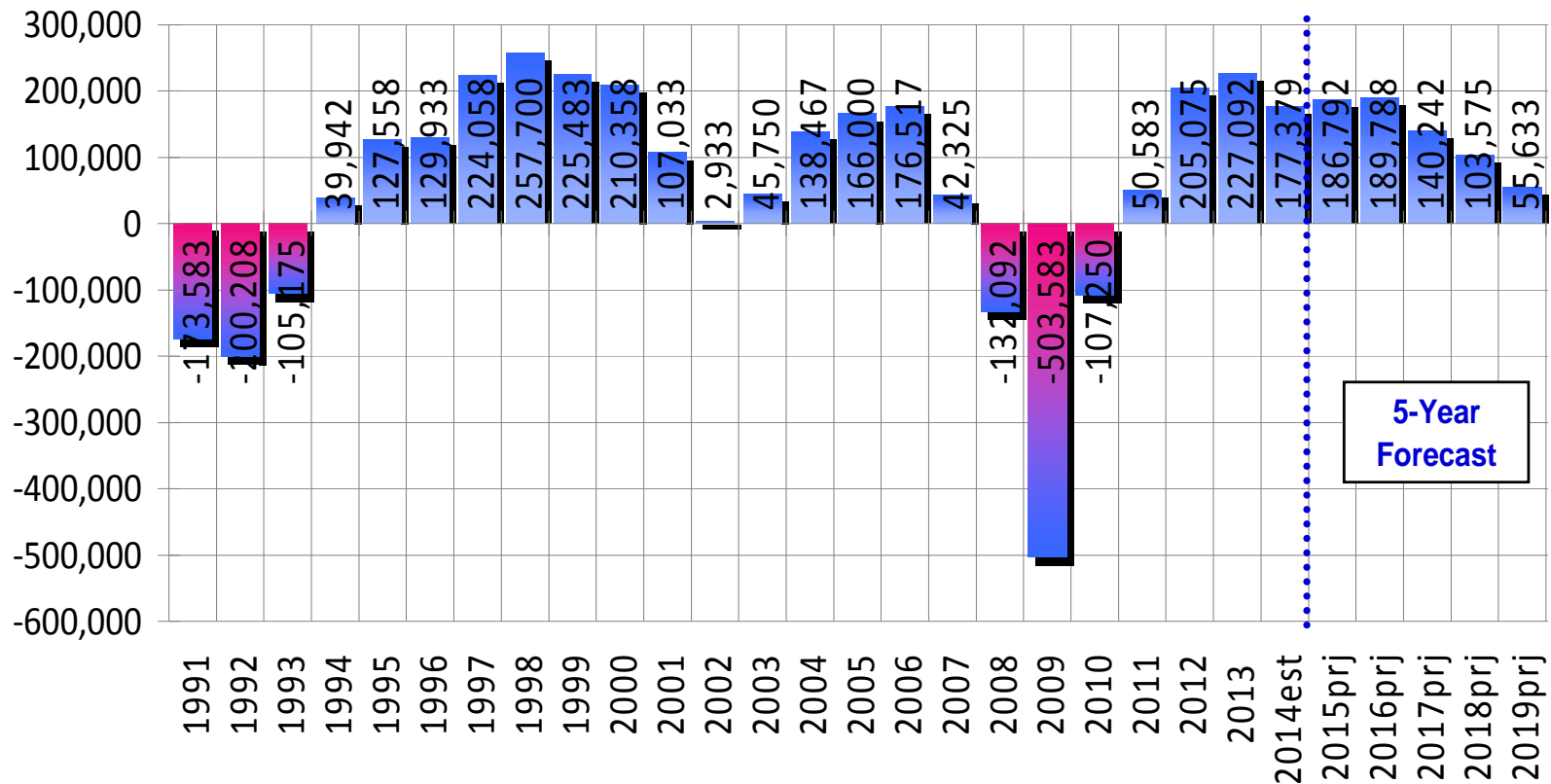
SOUTHERN CALIFORNIA Civilian Unemployment



California has lagged the National recovery, L.A. County unemployment is currently 7.9%, Riverside is 8.2% and San Bernardino is 7.7%.

TRENDS IN EMPLOYMENT

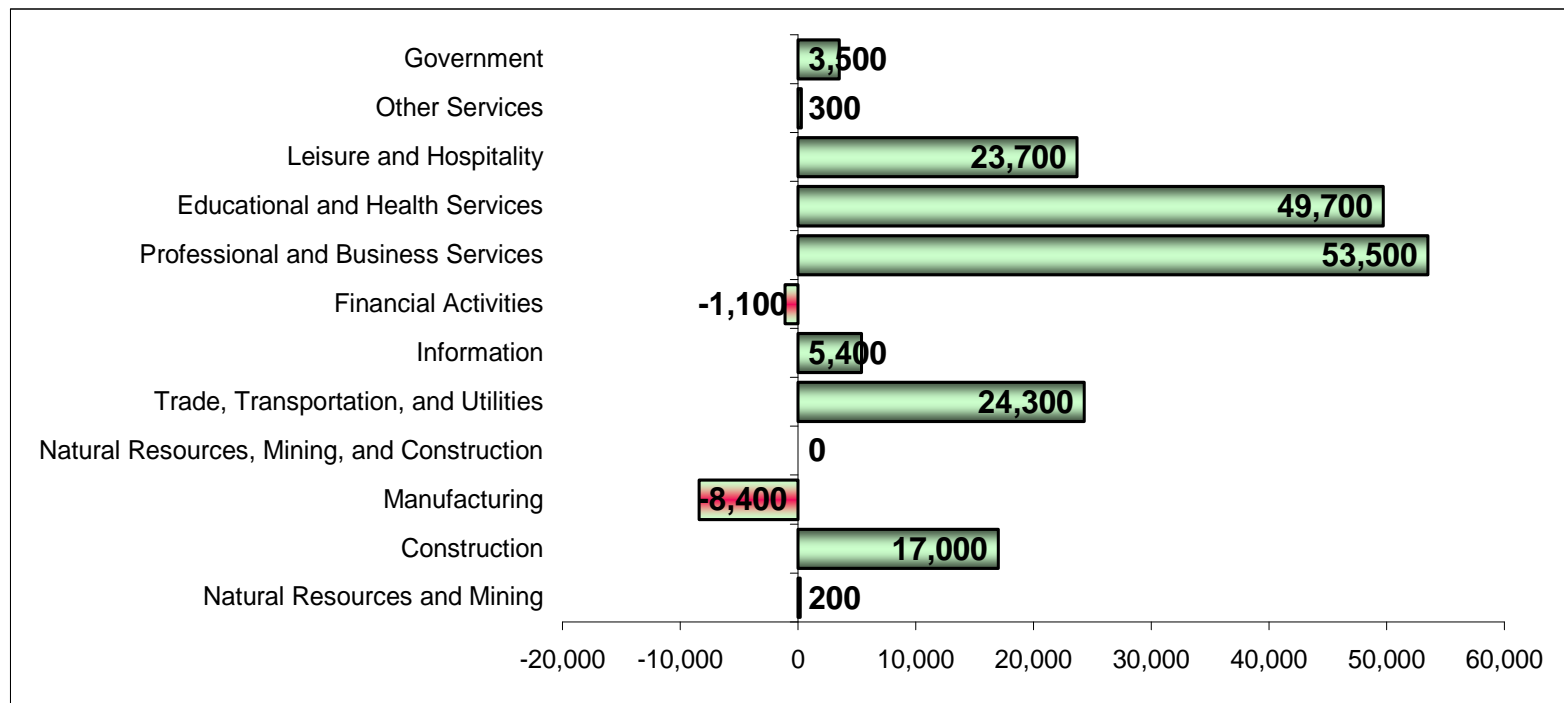
SOUTHERN CALIFORNIA Total Non-Farm 12-Month Change



By mid-2015 all of the job losses from the subprime recession will have been recaptured, but do they have equivalent pay and positions?

TRENDS IN EMPLOYMENT

Los Angeles-Long Beach-Santa Ana, CA, Oxnard-Thousand Oaks-Ventura, CA, Riverside-San Bernardino-Ontario, CA, San Diego-Carlsbad-San Marcos, CA
MSA Employment by Super Sector
November 2014



© 2003-2012 Real Estate Economics

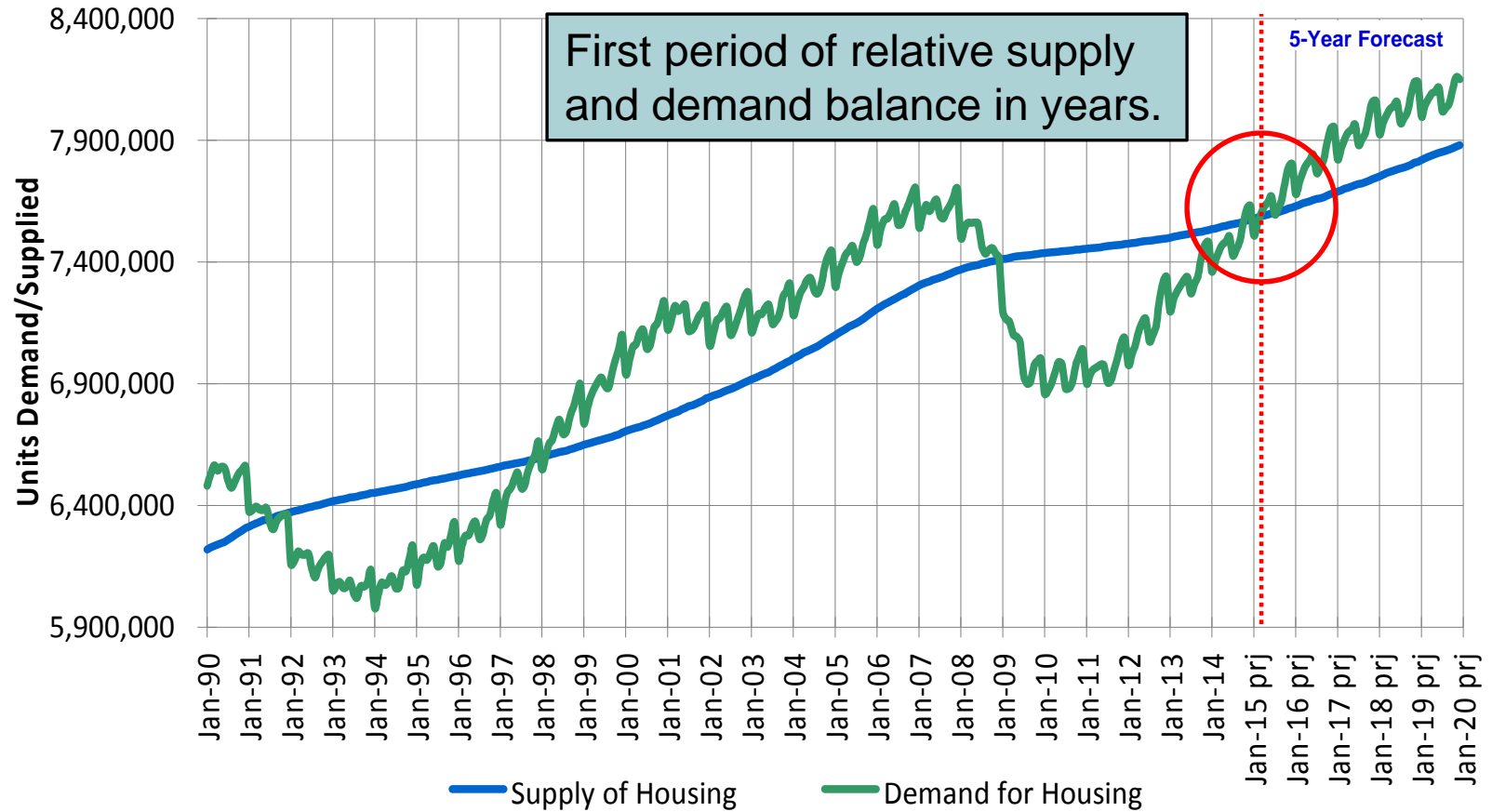
Source: Bureau of Labor Statistics; Real Estate Economics

www.realestateconomics.com

Construction sector is finally improving.

SUPPLY AND DEMAND TRENDS

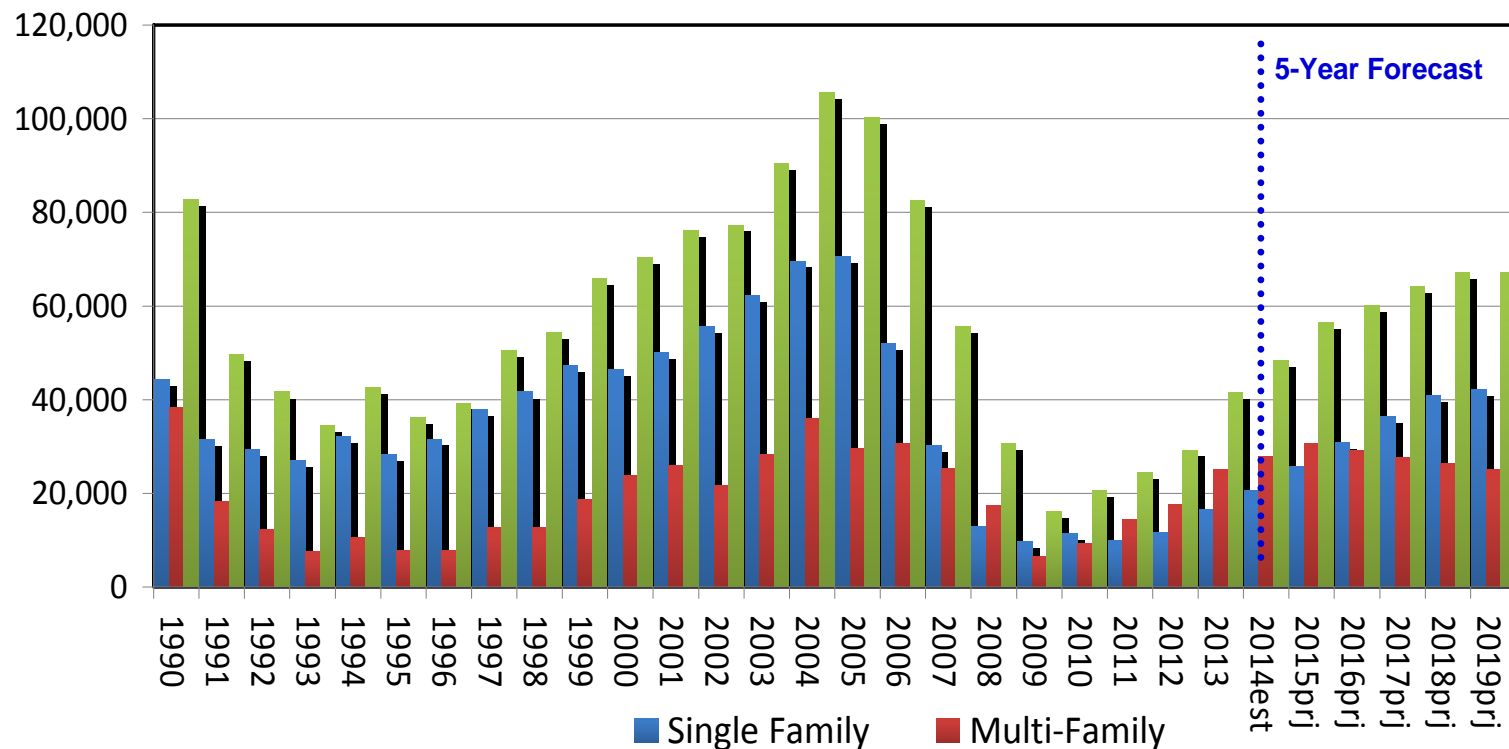
HOUSING DEMAND AND SUPPLY PATTERNS SOUTHERN CALIFORNIA



Balanced supply and demand in Southern California translates into slowing new home appreciation and a stronger resale market.

TRENDS IN NEW SUPPLY

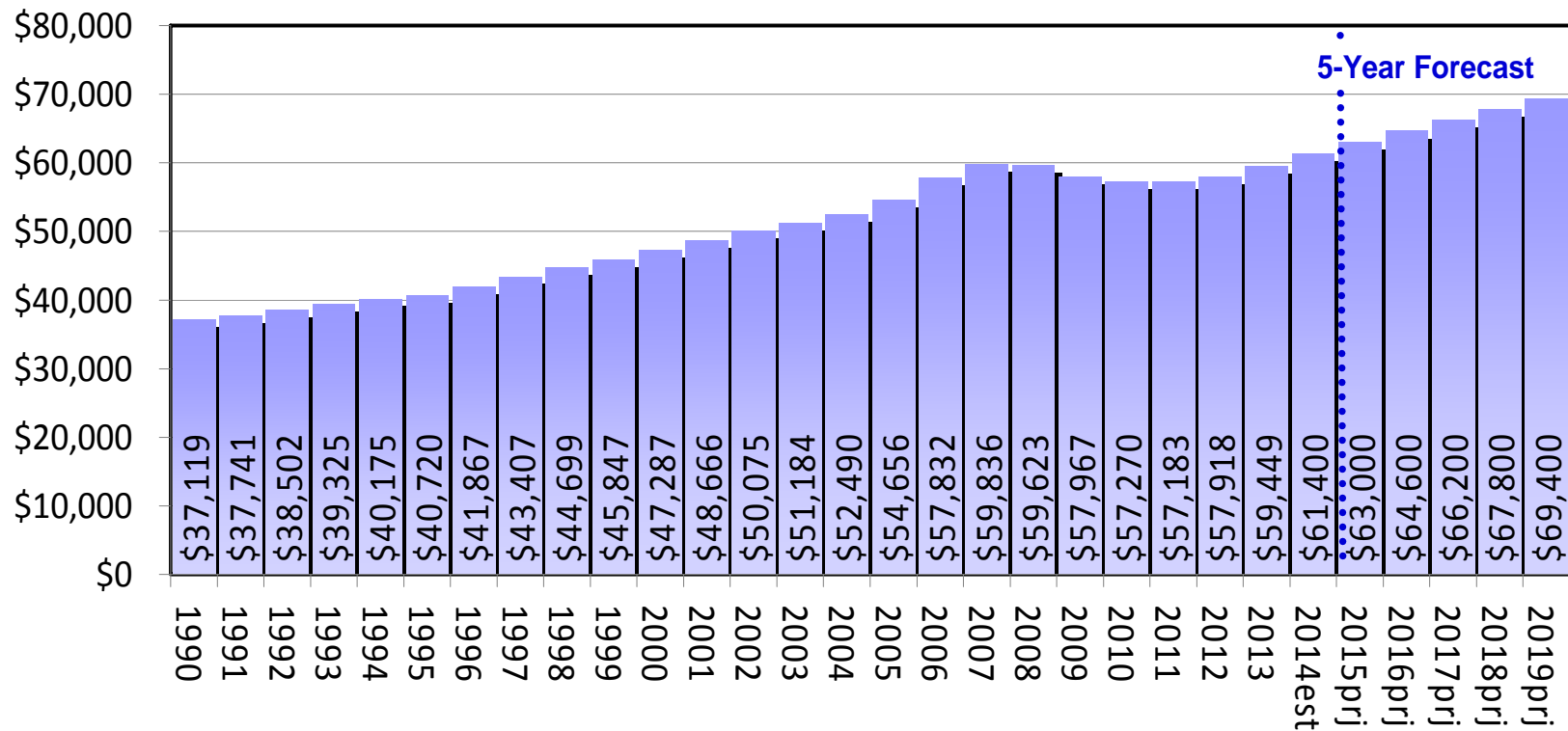
ANNUAL RESIDENTIAL PERMIT ACTIVITY SOUTHERN CALIFORNIA OCTOBER 2014



Southern California reported 100,000 permits in 2004 & 2005. Year 2014 will show about 56,000, with only 45% for single family homes.

INCOME GROWTH TRENDS

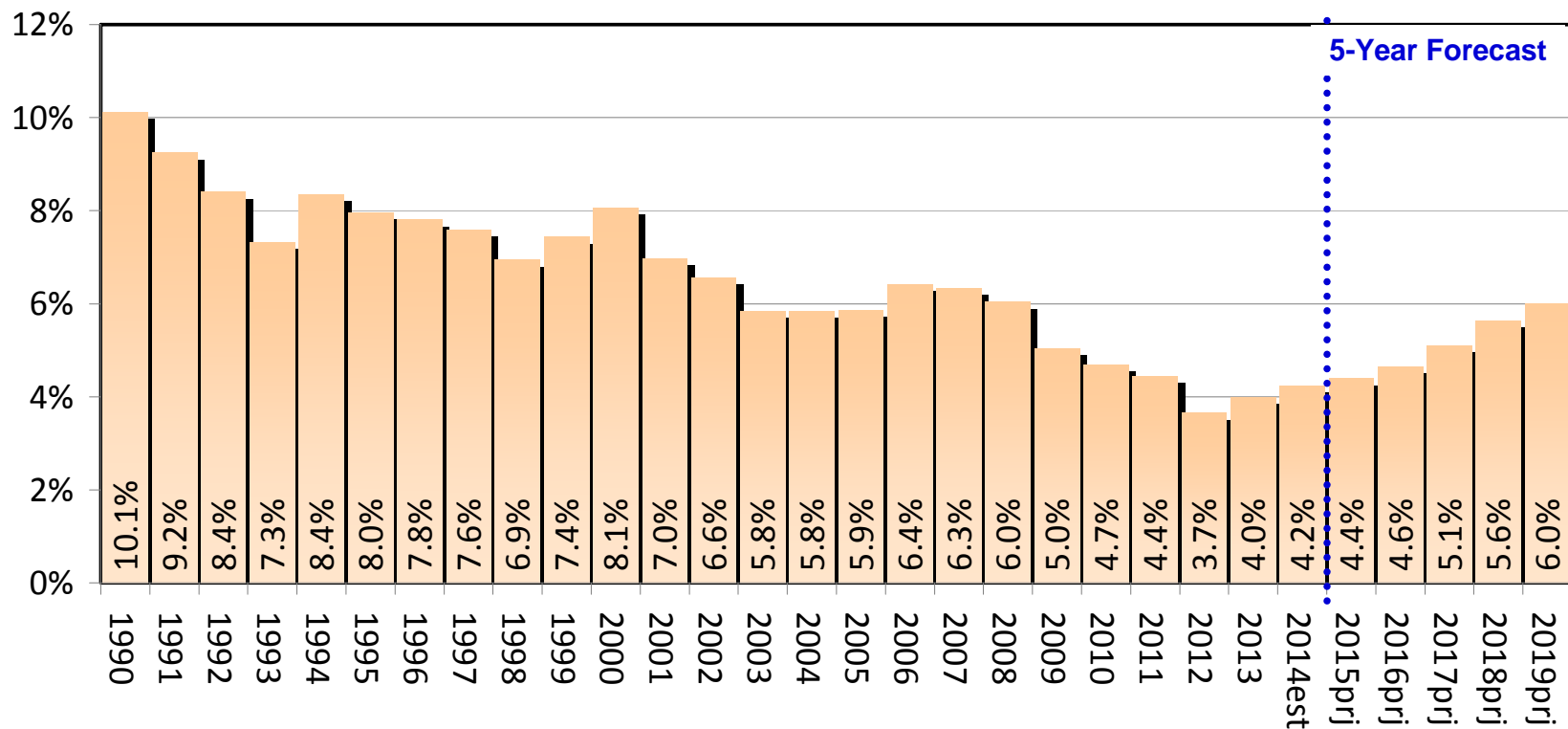
MEDIAN HOUSEHOLD INCOME SOUTHERN CALIFORNIA OCTOBER 2014



The forecast is for annual income growth between 2.3% and 2.6% through Year 2019. At present, increases that high seem challenging.

INTEREST RATE TRENDS

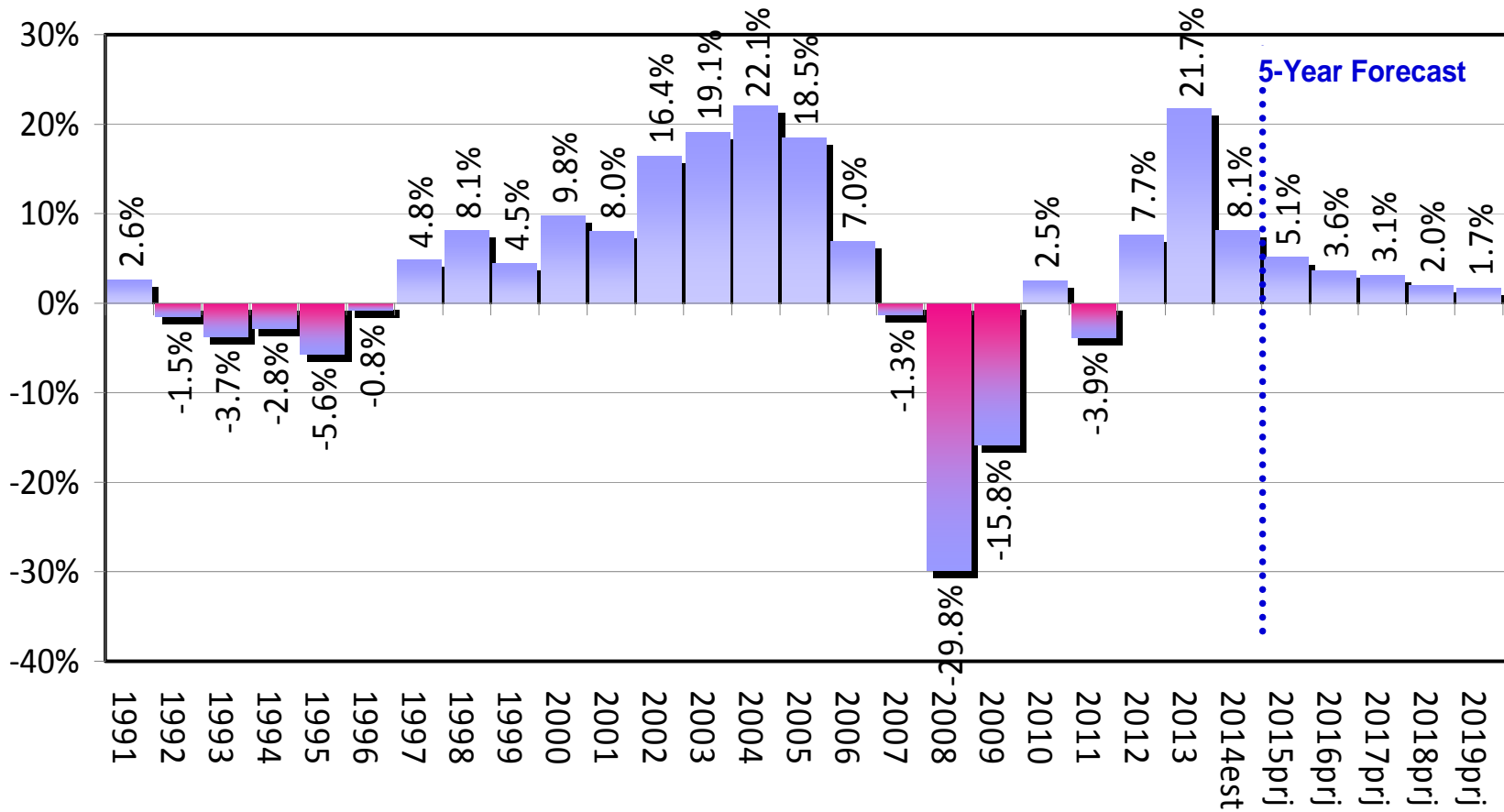
30-YEAR FIXED RATE MORTGAGES
NATIONAL AVERAGES
DECEMBER 2014



Europe and Japan are experiencing negative consumer prices. Demand for U.S. dollars suggest that U.S. interest rates don't need to rise and rates may be increased in very small steps over a long period.

MEDIAN HOME PRICE TRENDS

CHANGES IN MEDIAN HOME PRICES SOUTHERN CALIFORNIA

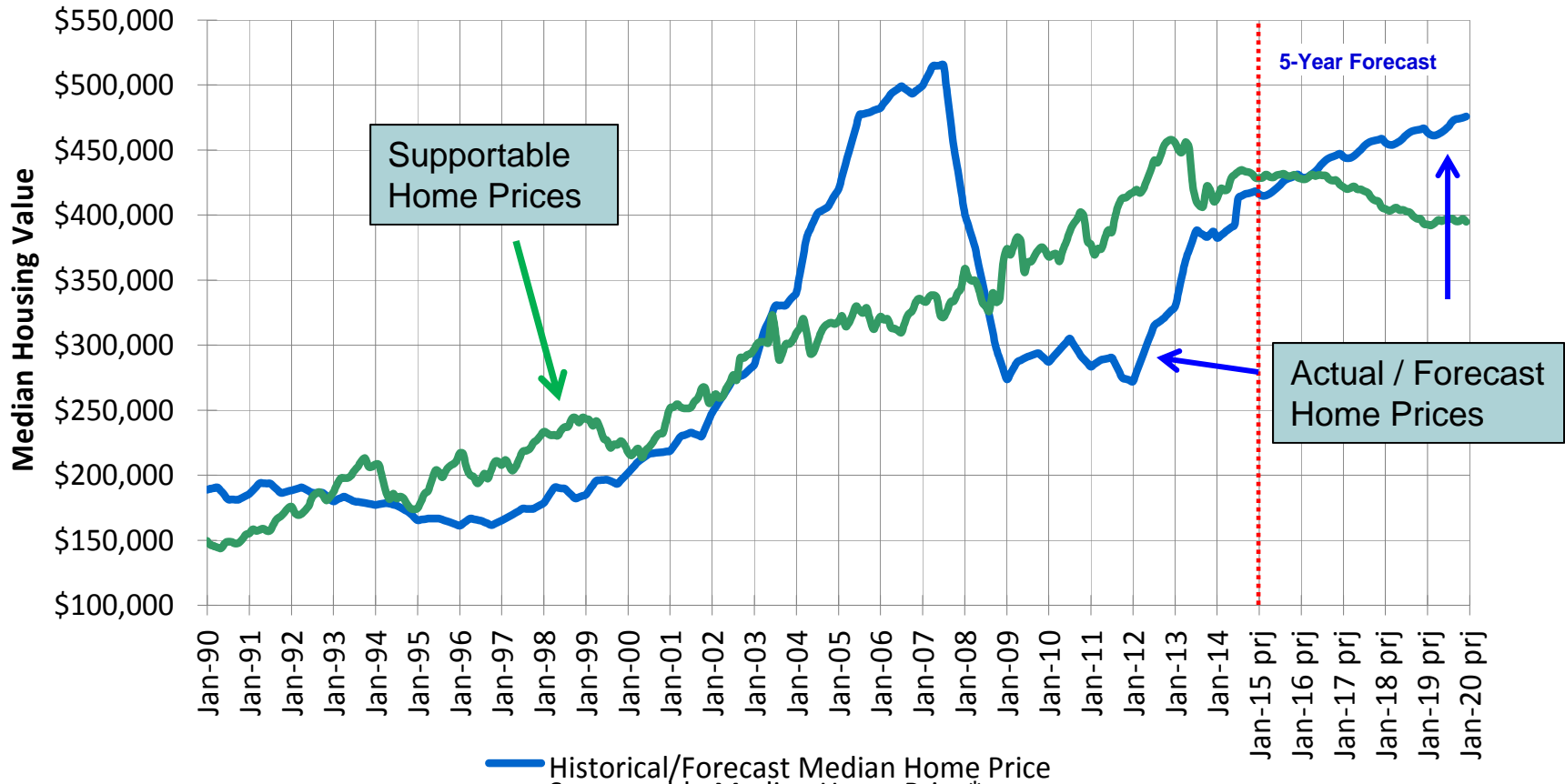


Source: National Association of Realtors; RealtyTrac; Real Estate Economics

Price appreciation slows in the forecast as incomes realign with home prices.

HOME PRICE OVER / UNDER VALUATION

HOUSING VALUATION PATTERNS SOUTHERN CALIFORNIA



Supportable prices may not flatten out, as shown in the forecast, if rates rise slowly.



County-by-County New Home Market Review

NEW HOME MARKET TRENDS

LOS ANGELES COUNTY

Category	QUARTERLY MARKET STATISTICS FROM THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	206	188	141	98	84	110	97	79	101
Average of Base Prices	\$569,950	\$529,598	\$494,932	\$457,888	\$475,211	\$475,509	\$485,631	\$551,983	\$629,060
Average Monthly Sales Rate Per Dev.	2.3/mo	2.0/mo	1.7/mo	1.9/mo	1.9/mo	1.4/mo	1.8/mo	3.0/mo	3.2/mo
Total Inventory	9,696 du	9,238 du	6,497 du	3,548 du	3,700 du	4,233 du	2,864 du	2,486 du	2,590 du
Months of Total Inventory	20.5 mos.	25.1 mos.	27.6 mos.	19.5 mos.	22.7 mos.	27.7 mos.	16.6 mos.	10.4 mos.	8.0 mos.

L.A. County has 4.624 million jobs, there is only 1 new home development for every 45,791 workers.

NEW HOME MARKET TRENDS

ORANGE COUNTY

Category	QUARTERLY MARKET STATISTICS FOR THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	120	114	92	56	68	81	83	102	104
Average of Base Prices	\$953,881	\$767,309	\$668,256	\$672,771	\$670,271	\$663,524	\$735,026	\$826,976	\$904,901
Average Monthly Sales Rate Per Dev.	2.0/mo	1.7/mo	1.7/mo	1.4/mo	2.0/mo	1.5/mo	2.4/mo	4.5/mo	4.0/mo
Total Inventory	5,289 du	4,995 du	3,472 du	1,962 du	2,198 du	3,119 du	2,140 du	3,115 du	2,983 du
Months of Total Inventory	22.4 mos.	25.8 mos.	22.6 mos.	24.7 mos.	16.3 mos.	26.1 mos.	10.6 mos.	6.8 mos.	7.1 mos.

Good jobs are close to new homes in Orange County, supporting new home sales.

NEW HOME MARKET TRENDS

SAN DIEGO COUNTY

Category	QUARTERLY MARKET STATISTICS FROM THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	276	229	155	96	78	92	98	68	70
Average of Base Prices	\$581,149	\$548,606	\$546,743	\$536,450	\$516,099	\$528,806	\$540,378	\$612,543	\$695,119
Average Monthly Sales Rate Per Dev.	2.1/mo	1.7/mo	1.3/mo	1.4/mo	1.3/mo	1.3/mo	2.0/mo	3.1/mo	3.1/mo
Total Inventory	11,766 du	9,801 du	5,994 du	2,954 du	2,845 du	3,190 du	2,193 du	1,663 du	1,346 du
Months of Total Inventory	20.3 mos.	25.9 mos.	28.9 mos.	21.4 mos.	27.5 mos.	26.6 mos.	11.5 mos.	8.0 mos.	6.2 mos.

Poor land availability will force higher density development soon.

NEW HOME MARKET TRENDS

RIVERSIDE COUNTY - LOWER DESERT EXCLUDED

Category	QUARTERLY MARKET STATISTICS FROM THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	356	345	266	155	106	104	97	86	108
Average of Base Prices	\$494,506	\$451,309	\$361,304	\$316,852	\$321,679	\$311,041	\$310,383	\$361,721	\$375,421
Average Monthly Sales Rate Per Dev.	2.6/mo	1.8/mo	1.7/mo	1.8/mo	1.7/mo	1.5/mo	2.2/mo	3.8/mo	3.8/mo
Total Inventory	17,665 du	18,073 du	12,145 du	5,413 du	3,522 du	4,579 du	3,446 du	3,437 du	4,954 du
Months of Total Inventory	19.4 mos.	29.4 mos.	27.4 mos.	18.9 mos.	19.2 mos.	30.1 mos.	16.3 mos.	10.5 mos.	12.1 mos.

Competitive levels are set to rise significantly, setting the market up for a test of 2013 and 2014 price increases.

NEW HOME MARKET TRENDS

LOWER DESERT - RIVERSIDE COUNTY

Category	QUARTERLY MARKET STATISTICS FROM THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	140	142	112	71	37	29	31	35	35
Average of Base Prices	\$548,638	\$506,525	\$463,199	\$503,896	\$593,036	\$625,575	\$641,980	\$769,911	\$700,771
Average Monthly Sales Rate Per Dev.	1.5/mo	1.4/mo	1.3/mo	1.1/mo	0.8/mo	0.8/mo	1.5/mo	1.5/mo	1.7/mo
Total Inventory	8,579 du	8,347 du	5,907 du	3,748 du	2,660 du	1,628 du	1,222 du	1,035 du	1,528 du
Months of Total Inventory	40.8 mos.	41.1 mos.	41.0 mos.	47.2 mos.	88.5 mos.	70.4 mos.	26.5 mos.	19.1 mos.	26.4 mos.

Extremely low sales in the hot summer months makes this a very difficult market for public homebuilders.

NEW HOME MARKET TRENDS

SAN BERNARDINO COUNTY

Category	QUARTERLY MARKET STATISTICS FOR THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	187	216	167	88	49	59	55	40	57
Average of Base Prices	\$459,997	\$425,840	\$349,844	\$325,998	\$301,397	\$319,684	\$353,797	\$416,862	\$427,098
Average Monthly Sales Rate Per Dev.	2.6/mo	2.0/mo	1.8/mo	1.8/mo	1.8/mo	1.1/mo	1.6/mo	3.2/mo	3.8/mo
Total Inventory	9,386 du	12,516 du	9,046 du	2,896 du	1,324 du	1,978 du	1,300 du	838 du	1,683 du
Months of Total Inventory	19.1 mos.	29.2 mos.	30.8 mos.	18.6 mos.	15.0 mos.	29.9 mos.	14.9 mos.	6.6 mos.	7.7 mos.

Opening of Park Place in the New Model Colony master plan (and other communities) will greatly increase buyer choices in 2015.

NEW HOME MARKET TRENDS

KERN COUNTY - BAKERSFIELD

Category	QUARTERLY MARKET STATISTICS FROM THE 4TH QUARTER OF THE LAST NINE YEARS								
	2006 Q4	2007 Q4	2008 Q4	2009 Q4	2010 Q4	2011 Q4	2012 Q4	2013 Q4	2014 Q4
No. of Active Developments	68	85	76	62	61	55	54	48	47
Average of Base Prices	\$336,335	\$297,269	\$257,481	\$240,372	\$238,107	\$234,149	\$237,685	\$264,857	\$289,755
Average Monthly Sales Rate Per Dev.	3.1/mo	1.7/mo	1.7/mo	1.5/mo	1.1/mo	0.9/mo	1.2/mo	2.1/mo	2.4/mo
Total Inventory	5,846 du	8,521 du	6,092 du	5,120 du	4,742 du	3,706 du	2,444 du	2,146 du	2,553 du
Months of Total Inventory	27.8 mos.	57.6 mos.	46.1 mos.	56.0 mos.	68.5 mos.	76.7 mos.	38.4 mos.	21.1 mos.	22.7 mos.

Kern County has about half the number of new home communities that L.A. County does with an employment base 8% the size.

MACRO HOME PRICE OUTLOOK

- International capital flows favor U.S. assets, including the housing market and the stock market.
- Top performing U.S. housing markets are driven by foreign generated demand (New York, Miami and the Bay Area).
- Markets favored by overseas buyers are likely to see years of continued appreciation as foreigners seek to take capital out of their home countries.
- Markets driven by domestic demand are softer due to weak income growth and slowly declining household debt levels.

SOUTHERN CALIFORNIA OUTLOOK

- Southern California is adjusting to the disappearance of distressed property investors and the rapid run up in new home prices.
- New homes prices are in flux as builders try align with buyer financial capabilities.
- Rapid advances in architecture have resulted in new detached designs taking market share from attached products.
- For younger workers, attractive, high amenity apartment communities are slowing the natural migration to entry level housing which is seen as being remote and in places where there is nothing to do.
- For older workers, the opportunity to sell the “family” house, extract equity and secure their retirement nest egg will prove hard to resist.
- QUESTIONS? Entitlements? Building Costs? Profit Margins?**



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