

Economic Trends

APPRAISAL INSTITUTE
SOUTHERN CALIFORNIA CHAPTER
FEBRUARY 1, 2018

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Regional Economist (West)



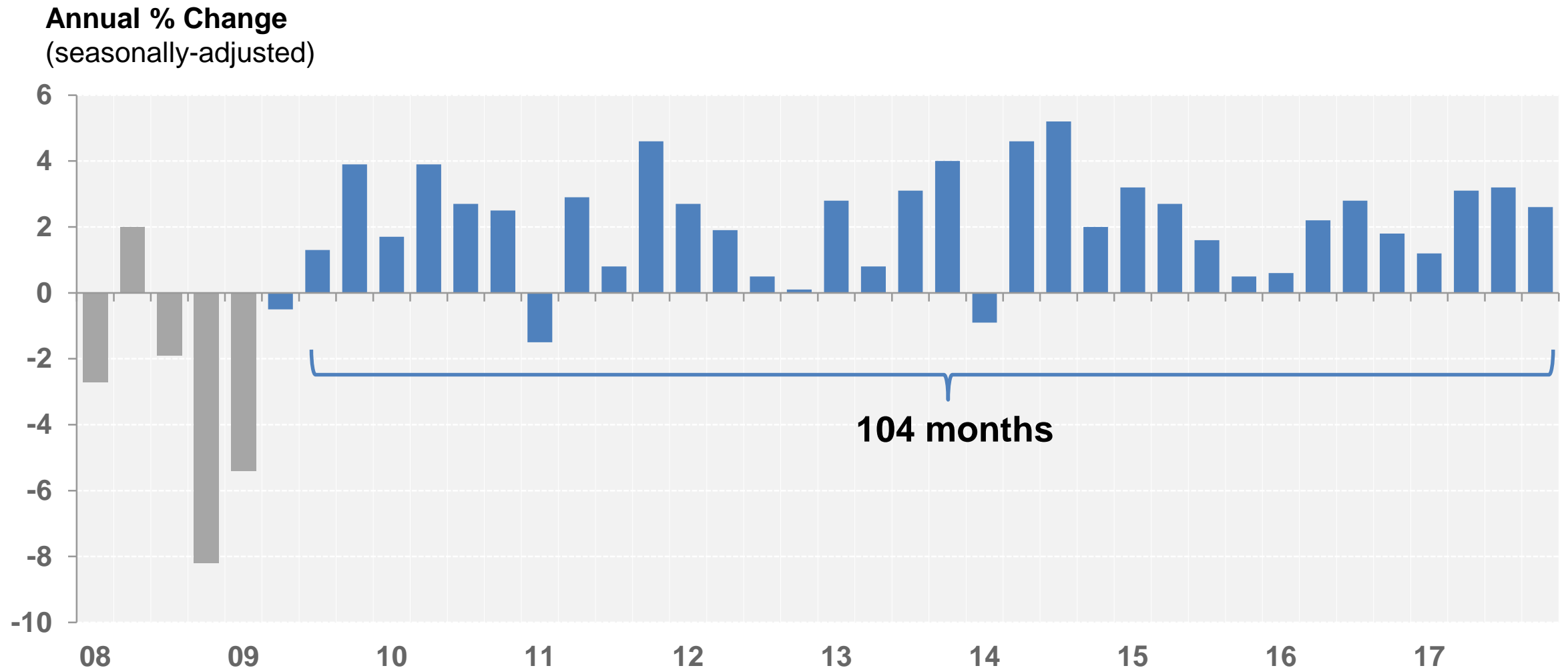
CoStarTM
The knowledge market

Today's Outline

- National economic overview
- How is the labor market doing?
- Commercial real estate
- Let's talk about tax reform!



How long can this expansion last?

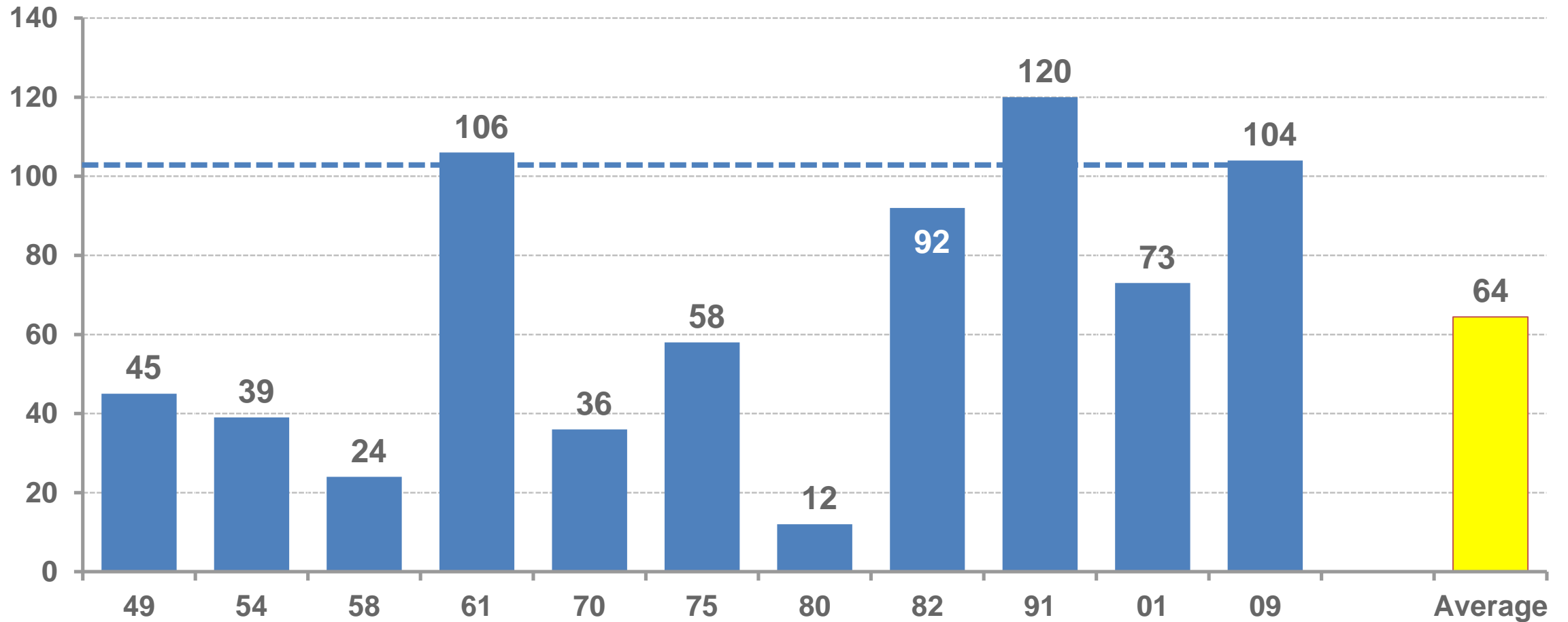


Source: BEA (1/26/2018)



It's getting pretty long in the tooth

Duration of past expansions
(months)

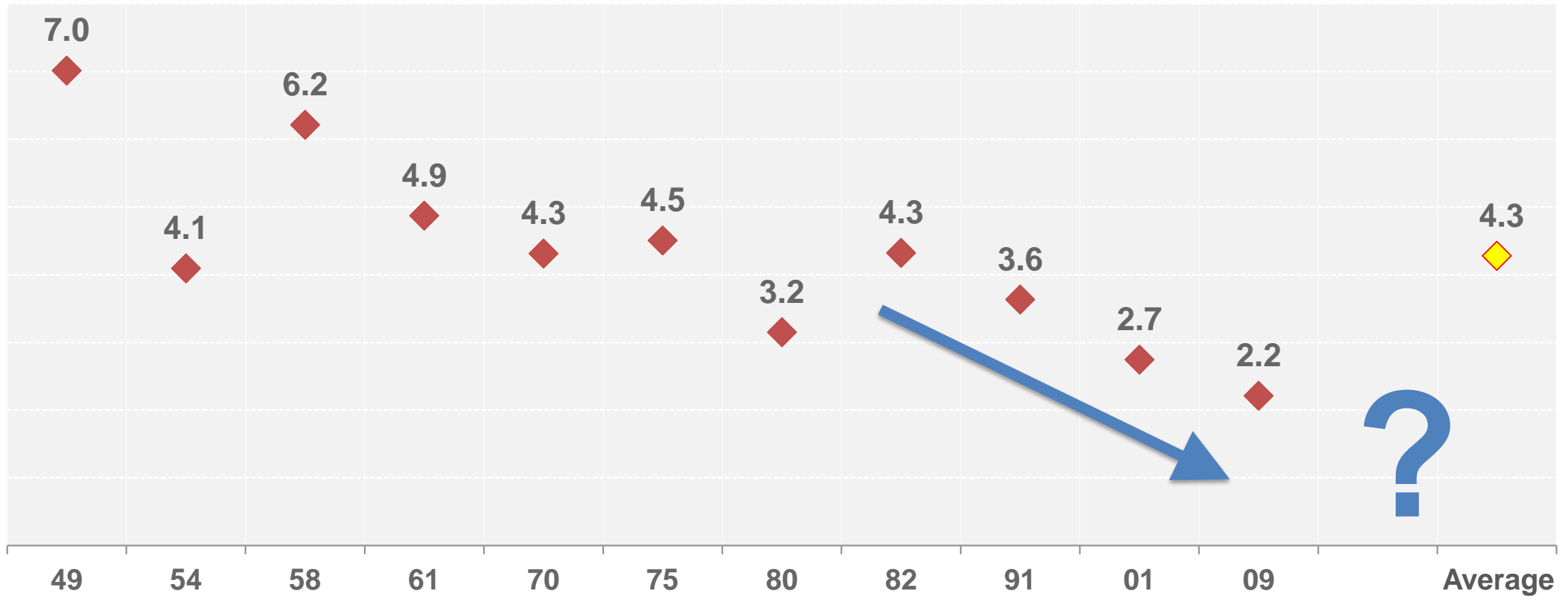


Source: BEA (1/26/2018)



Why the big slowdown during recent expansions?

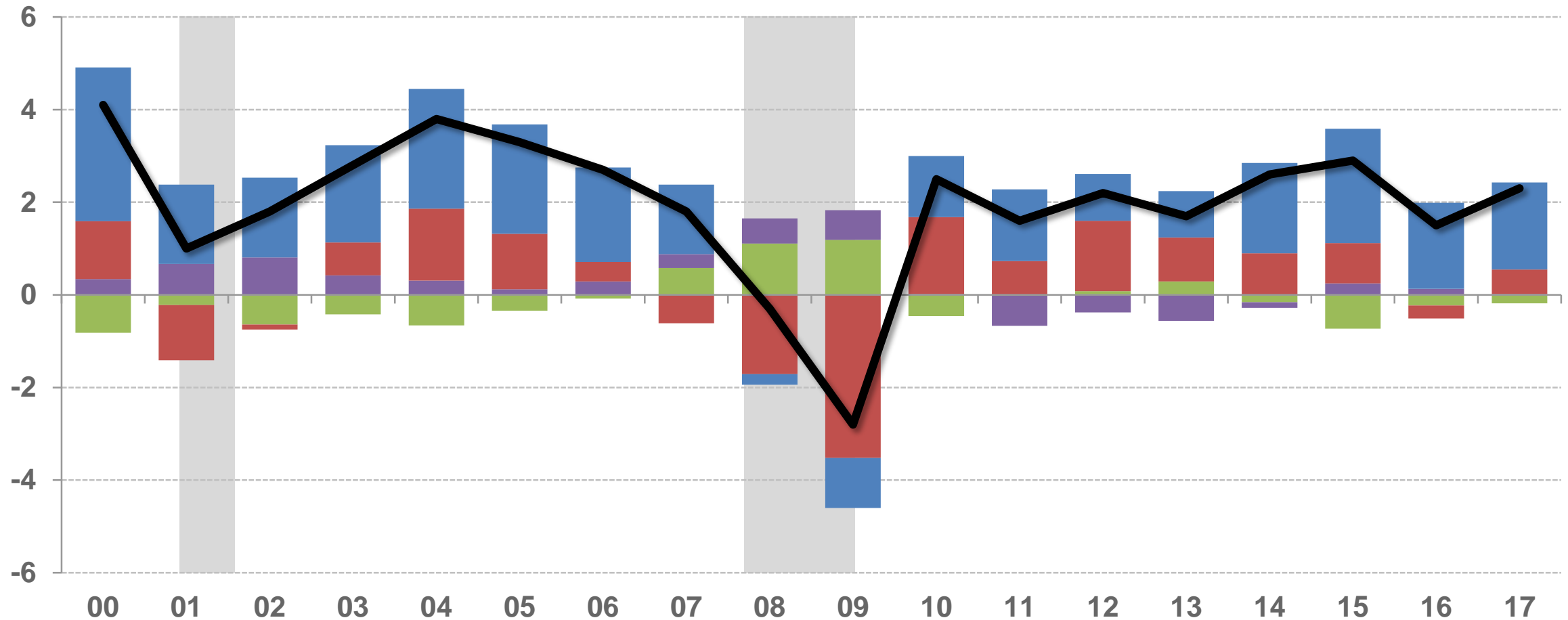
Average annual GDP growth rates



Source: BEA (1/26/2018)



Contribution to GDP growth by sector



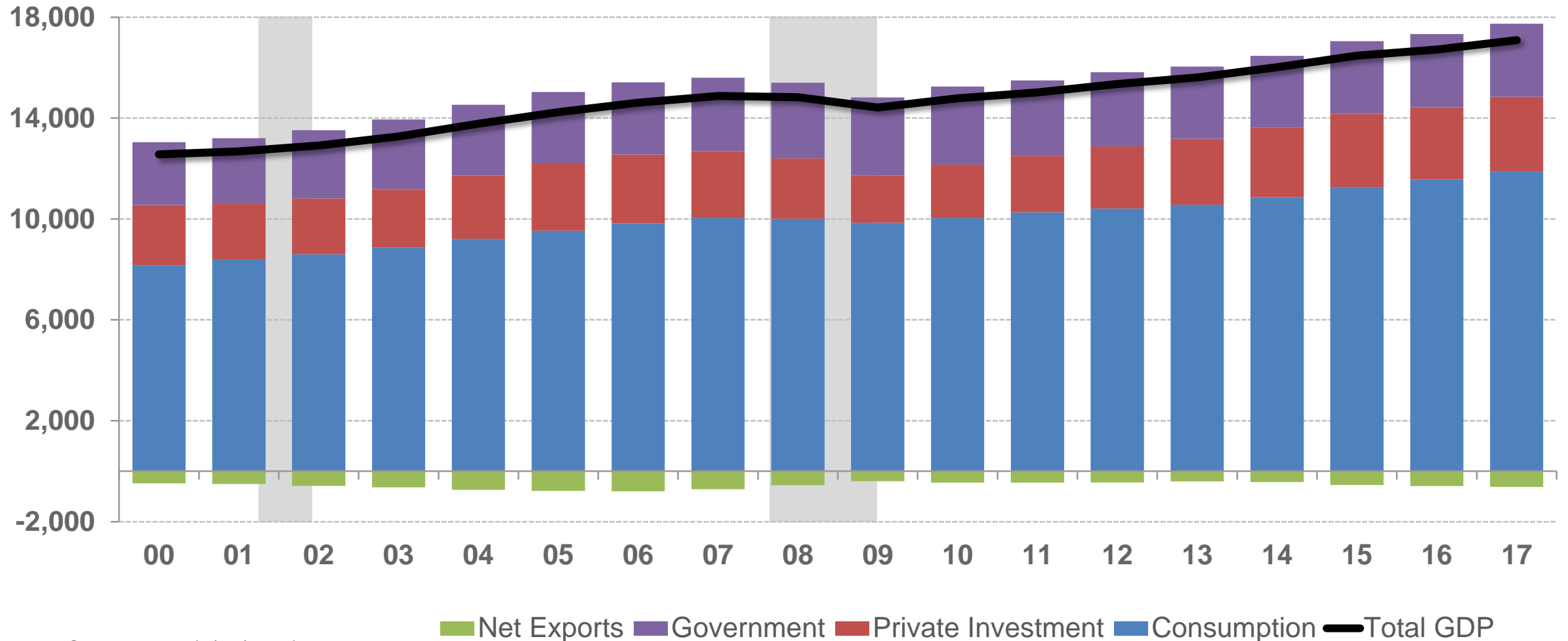
Source: BEA (1/26/2018)

Consumption Private Investment Government Net Exports Total GDP



ECON 101: $GDP = C + I + G + NX$

Billions of chained (2009) dollars

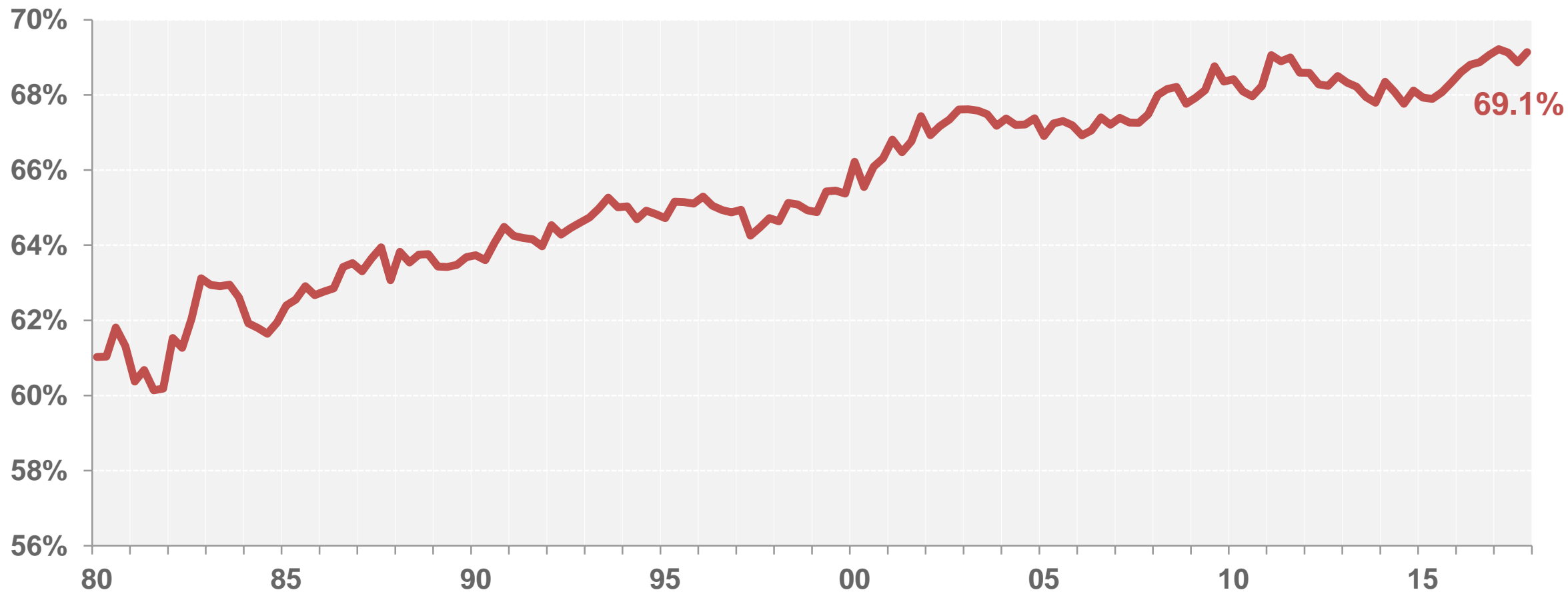


Source: BEA (1/26/2018)



Consumers are driving growth

Personal Consumption Expenditures
(% of GDP)



Source: BEA (1/26/2018)

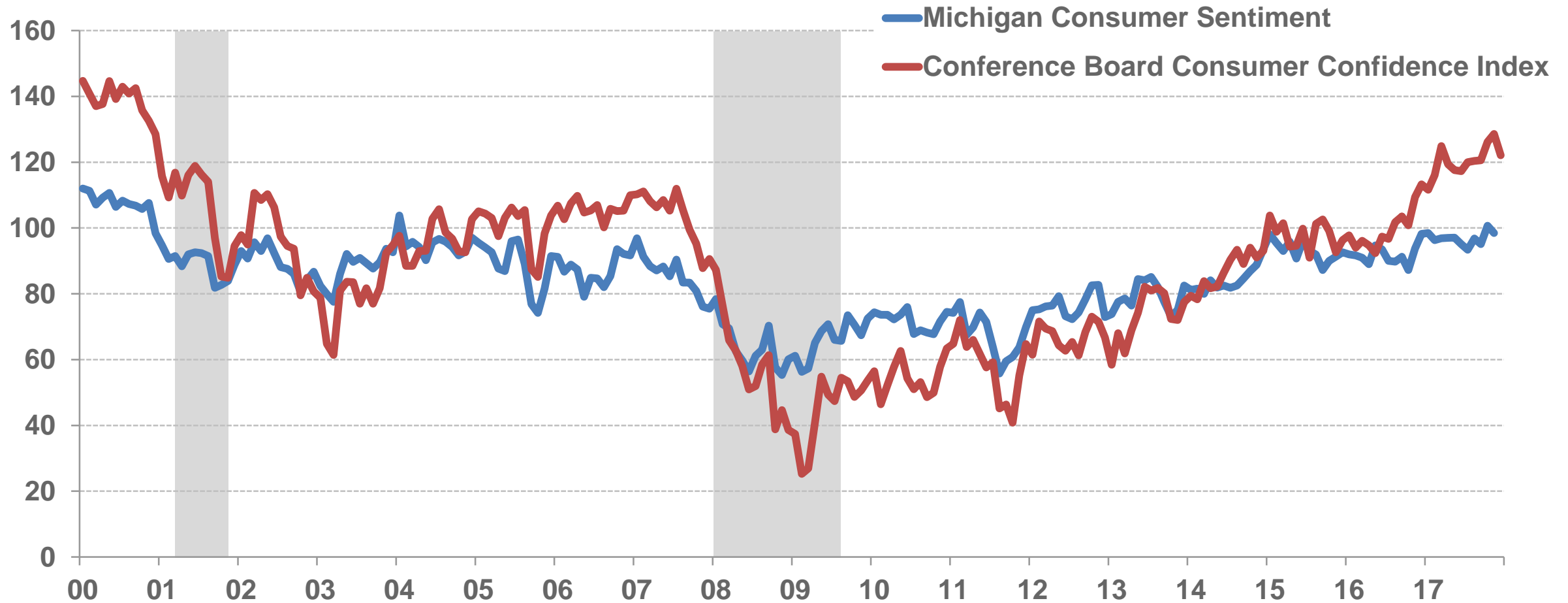


So how are
consumers
doing?



It seems like consumers are pretty happy!

Consumer Confidence Indices

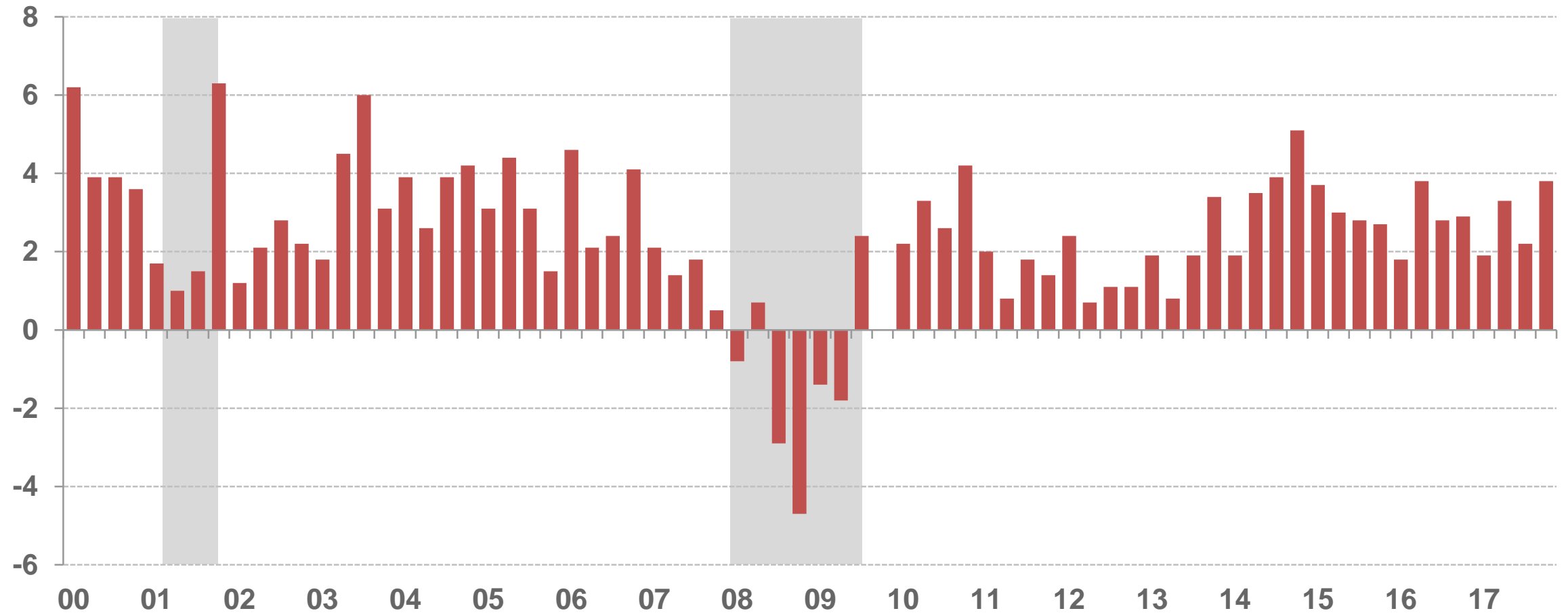


Sources: University of Michigan; Conference Board



Consumer spending growth has been pretty solid ...

Annual % Change
(Seasonally-adjusted)

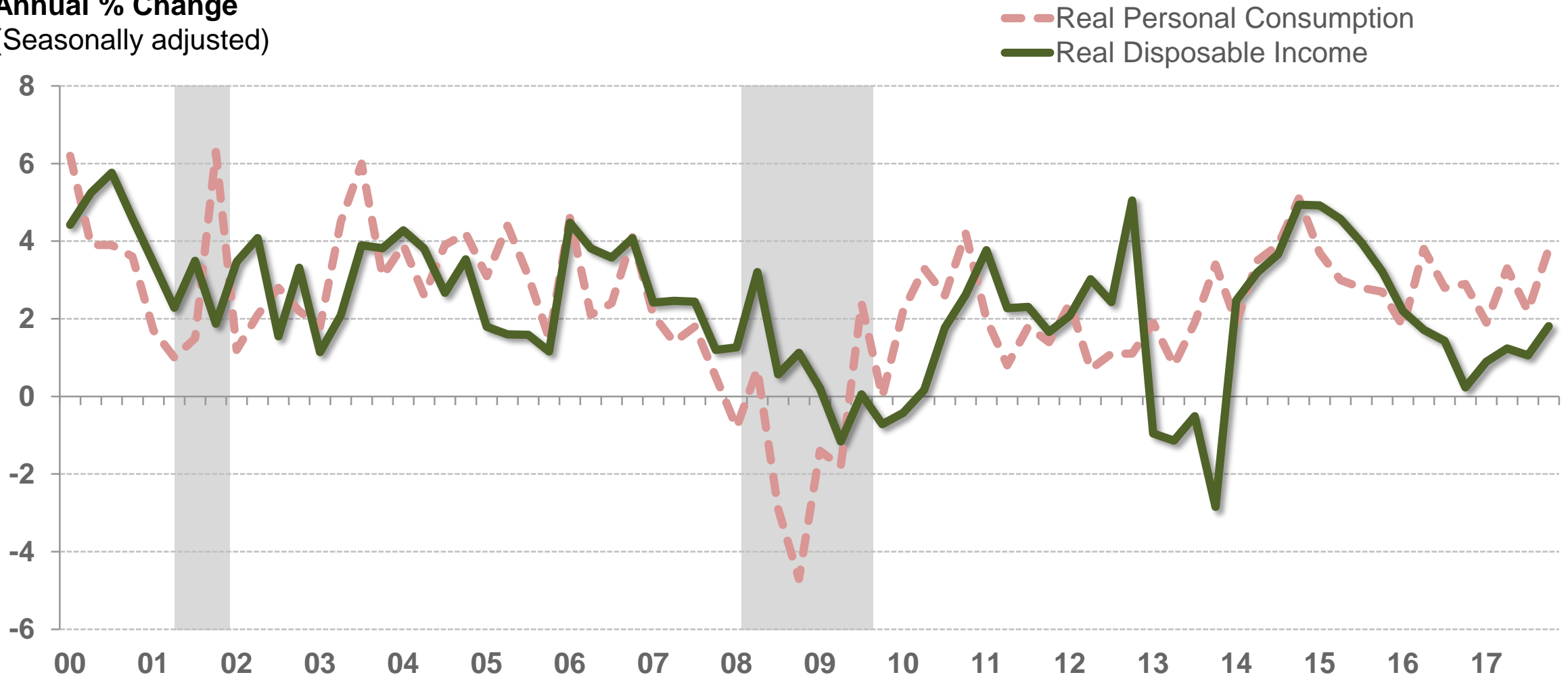


Source: BEA (1/26/2018)



... so do consumers have juice to keep going?

Annual % Change
(Seasonally adjusted)



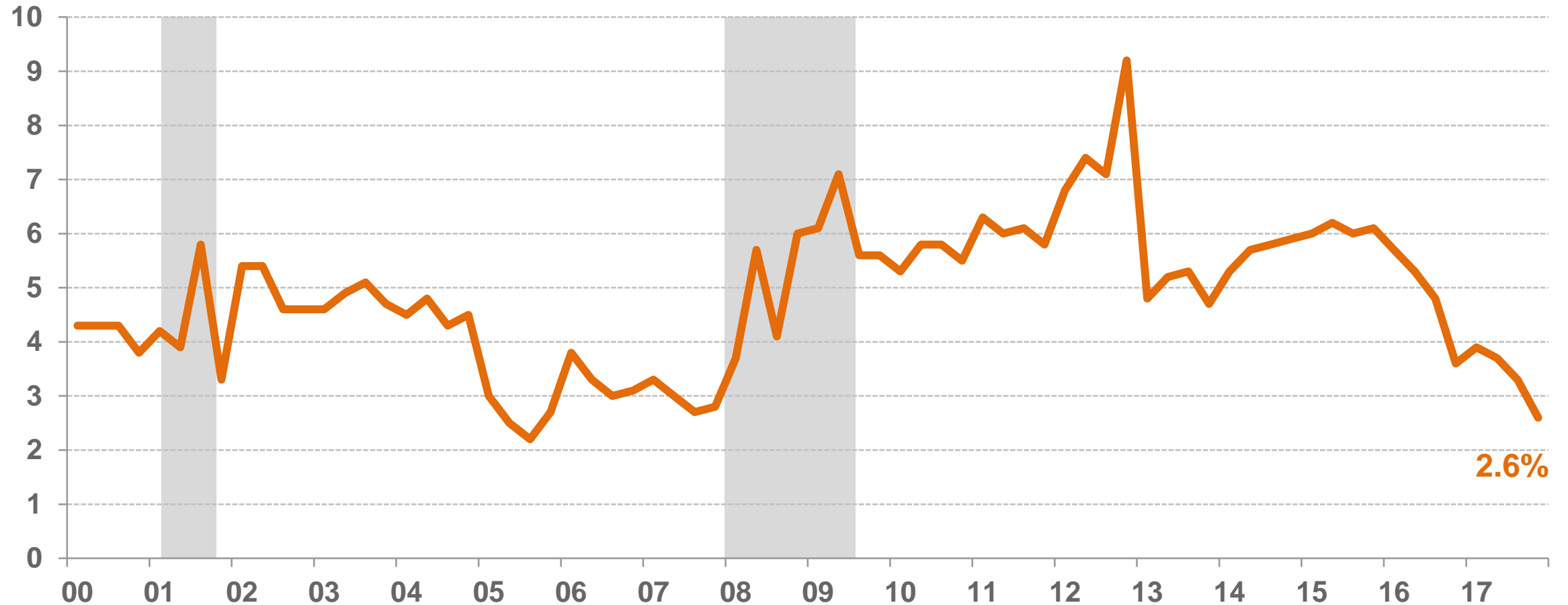
Source: BEA (1/26/2018)



...but are they digging into their savings?

Personal Savings Rate

(Annual rate; seasonally-adjusted)



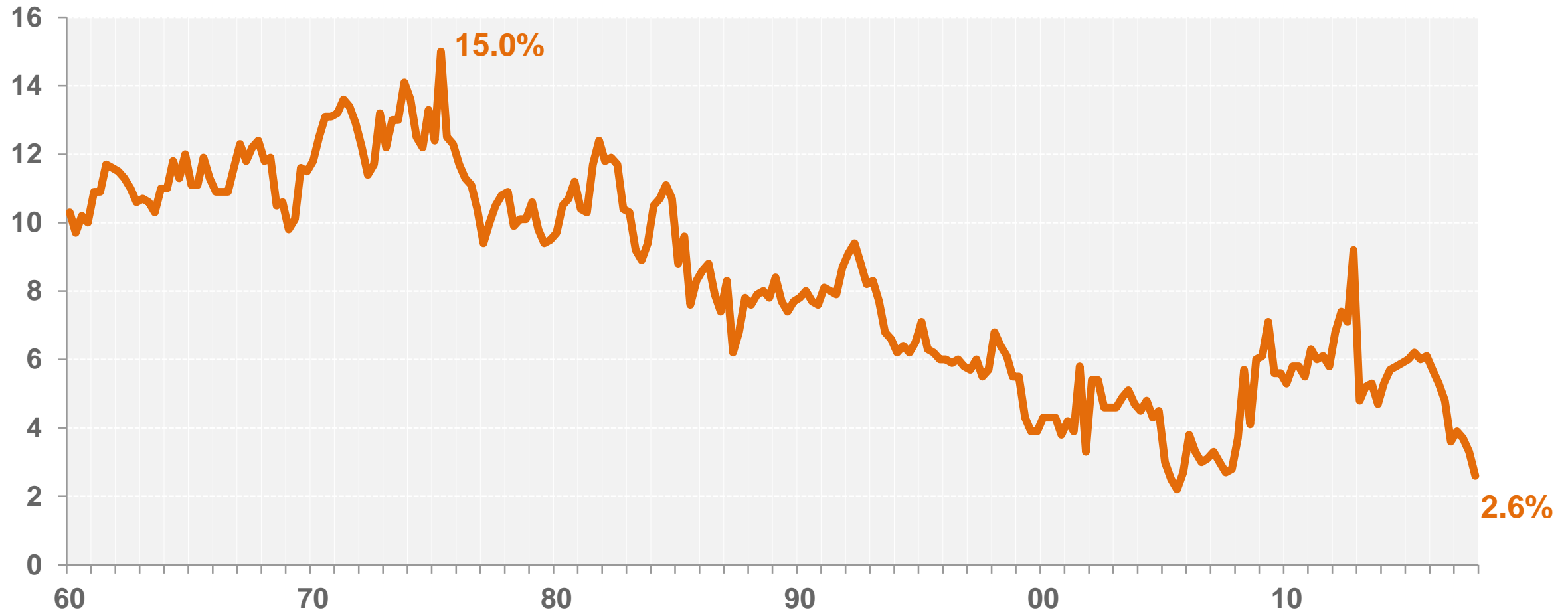
Source: BEA (1/26/2018)



A longer term perspective on savings

Personal Savings Rate

(Annual rate; seasonally-adjusted)



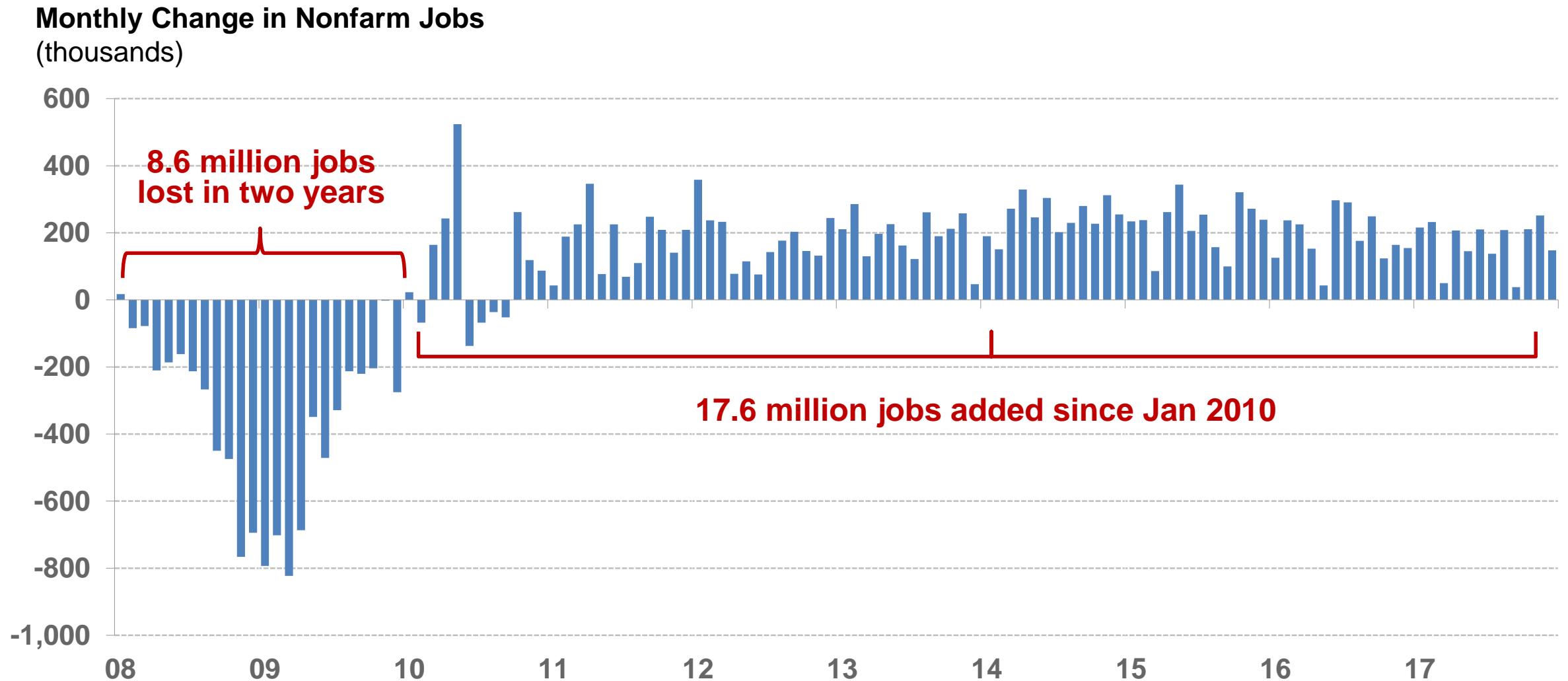
Source: BEA (1/26/2018)



Jobs! Jobs! Jobs!



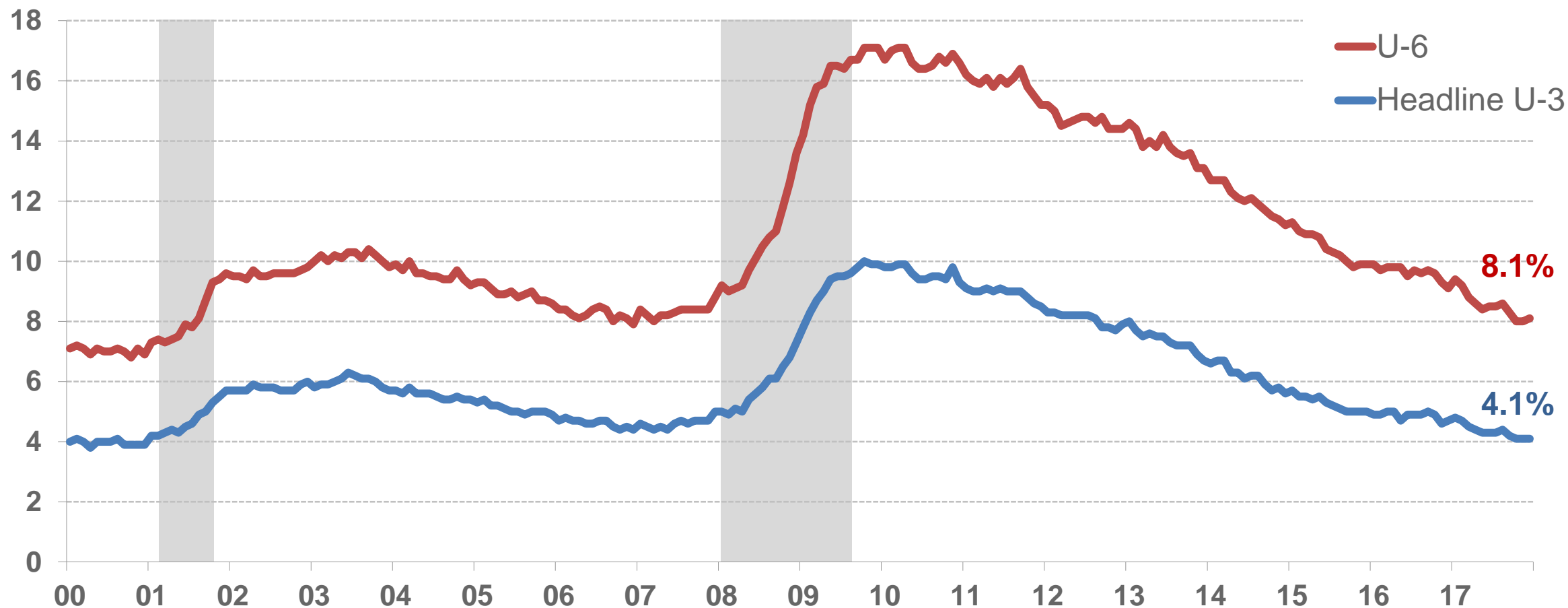
Jobs continue to be added



Source: BLS (1/5/2018)



Unemployment rates keep sliding

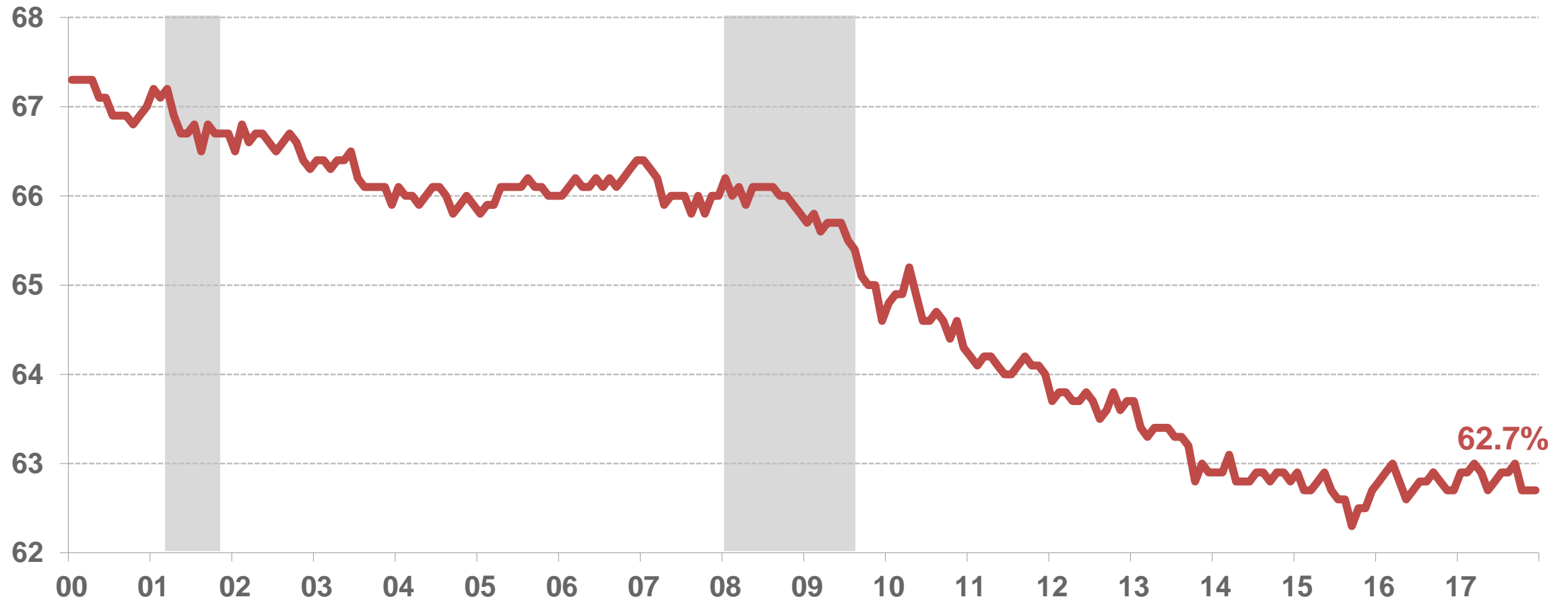


Source: BLS (1/5/2018)



Declining labor force participation

Percent of Population in the Labor Force

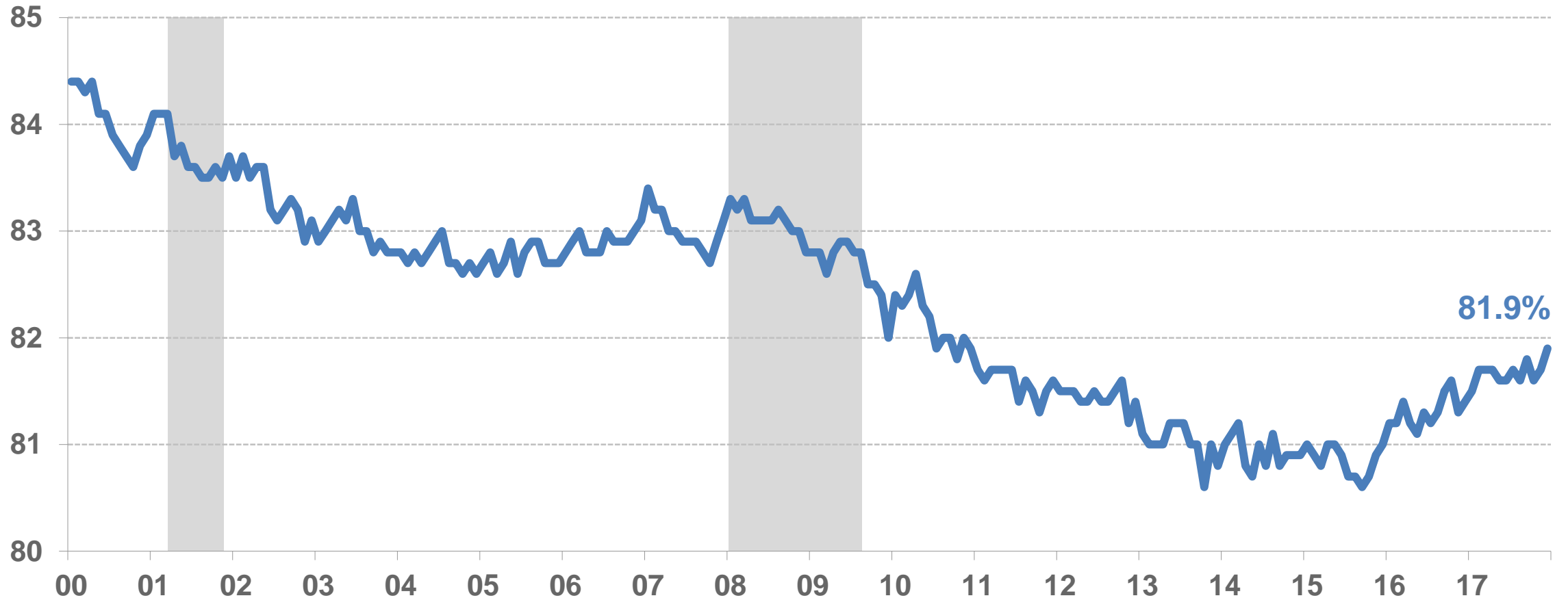


Source: BLS (1/5/2018)



.... but prime working-aged population is coming back

Percent of Population Aged 25-54 in the Labor Force

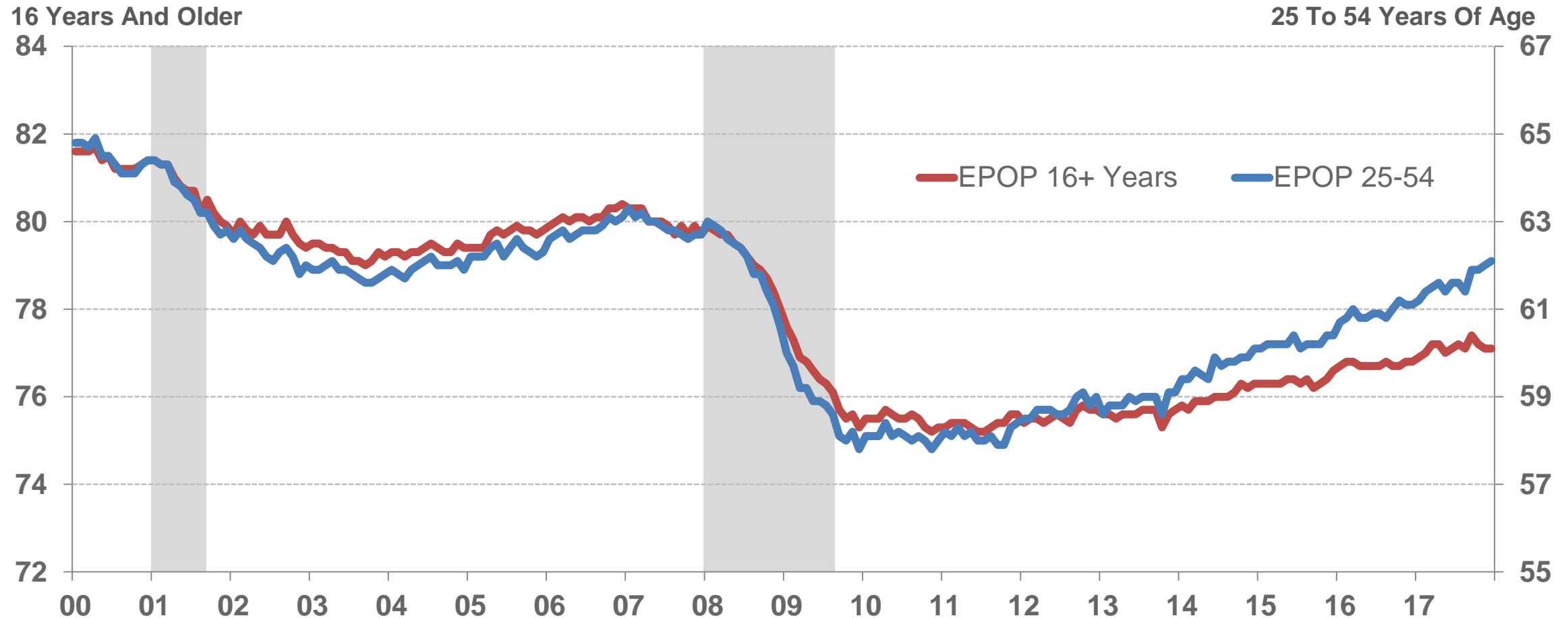


Source: BLS (1/5/2018)



There's LOTS of room for improvement!

Percent of Population That Is Employed

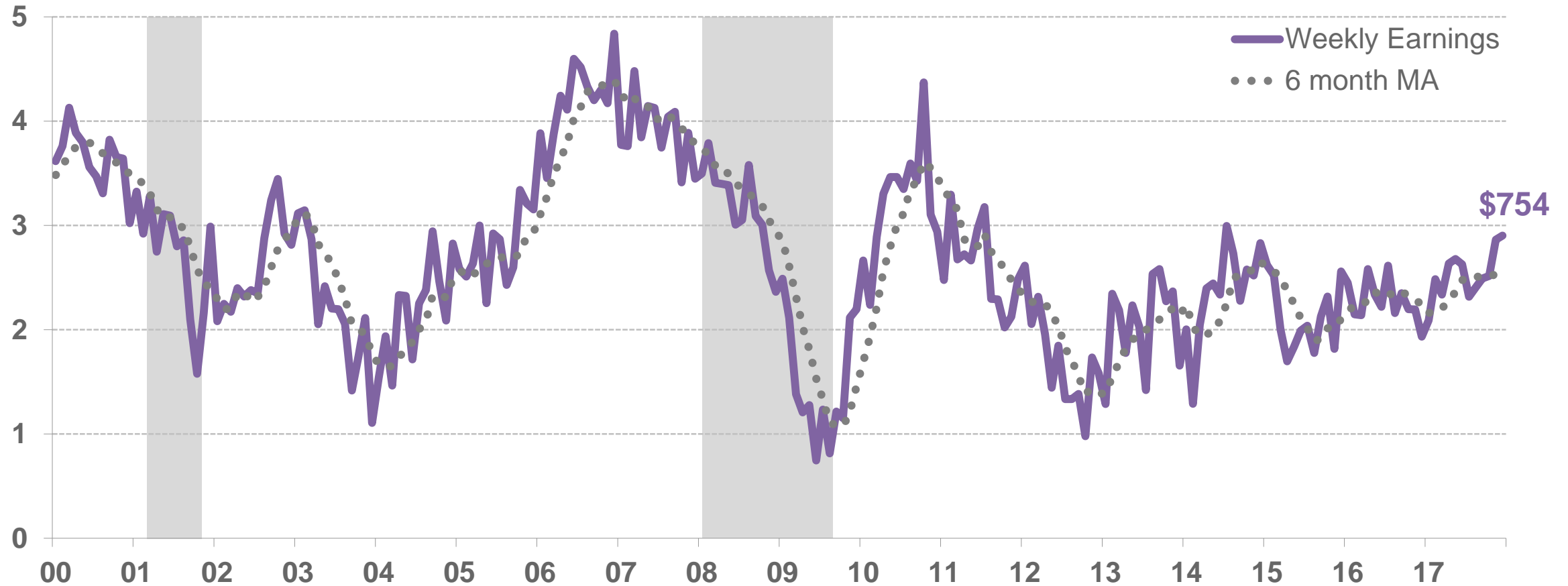


Source: Bureau of Labor Statistics



Is wage growth finally accelerating?

Average Weekly Earnings
(Annual % change)



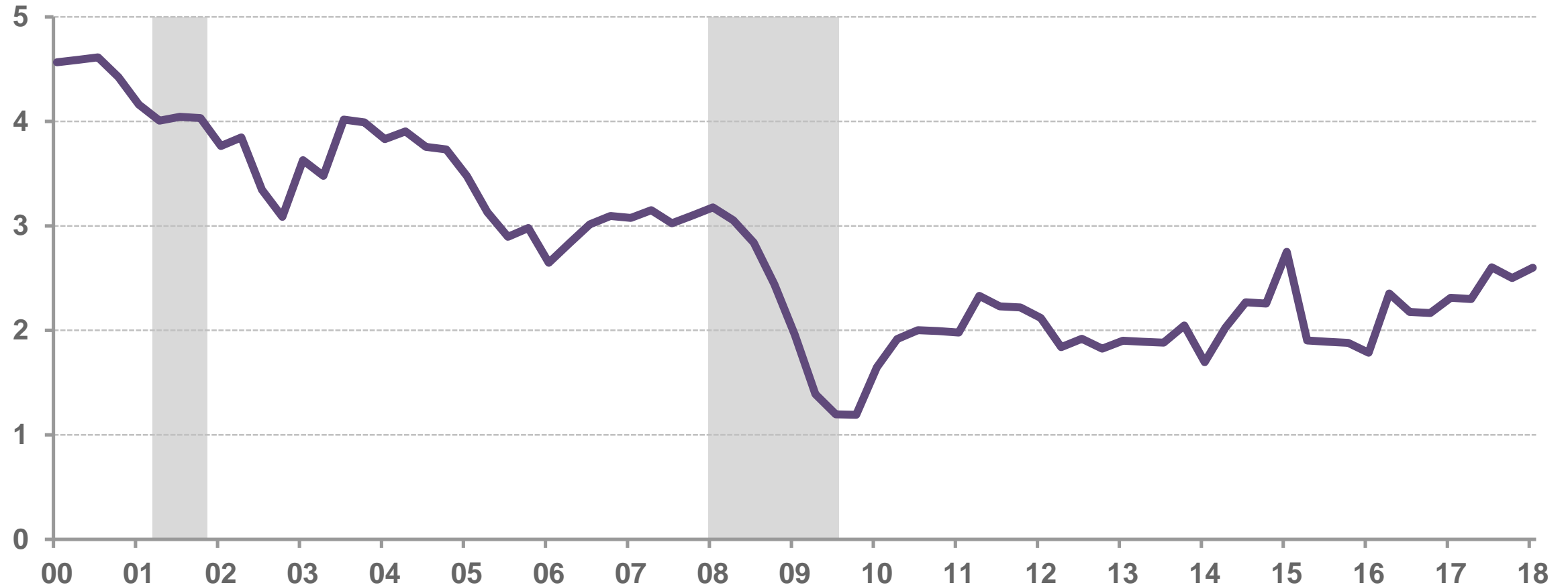
Source: BLS (1/5/2018)



And the employer's side is now on the rise

Employment Cost Index

(Annual % change in total compensation)



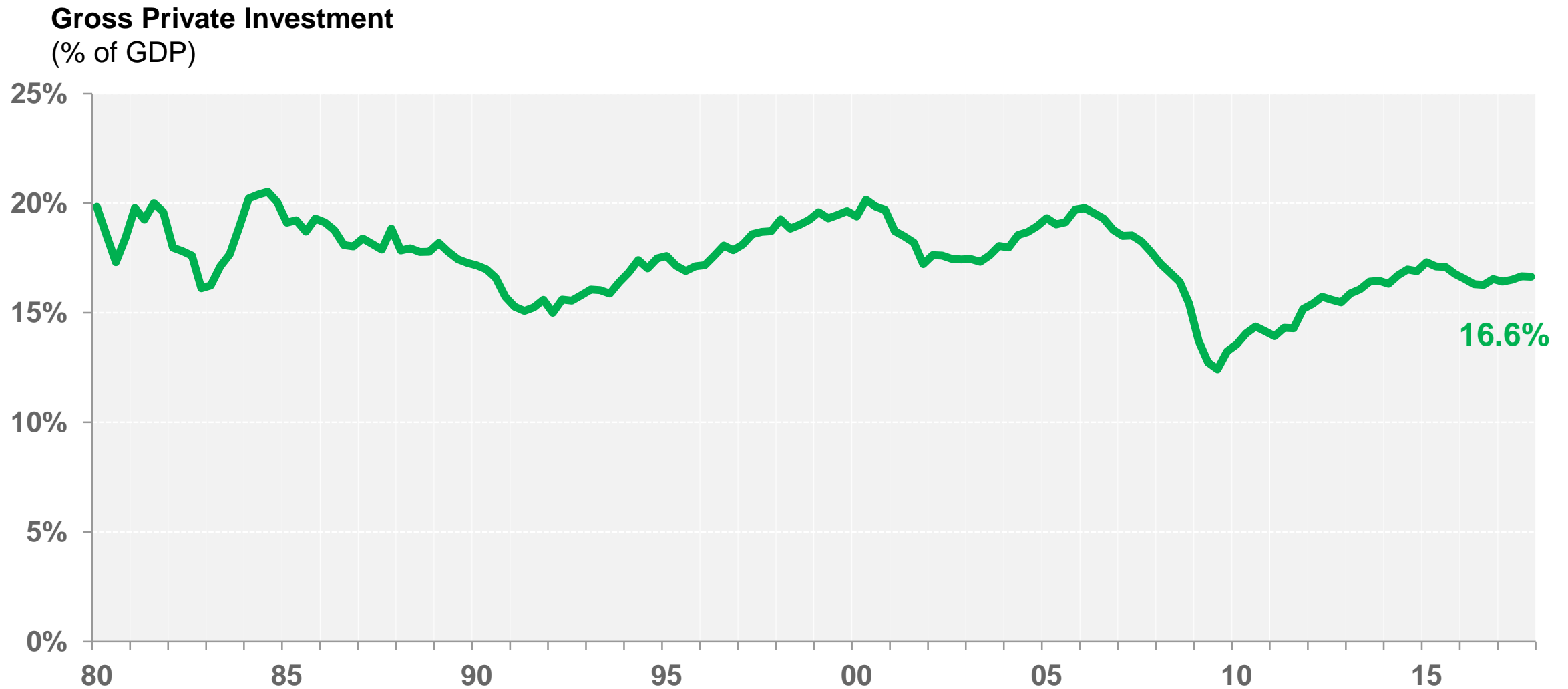
Source: BLS (1/31/2018)



How are businesses
doing?



Private investment could drive growth ...

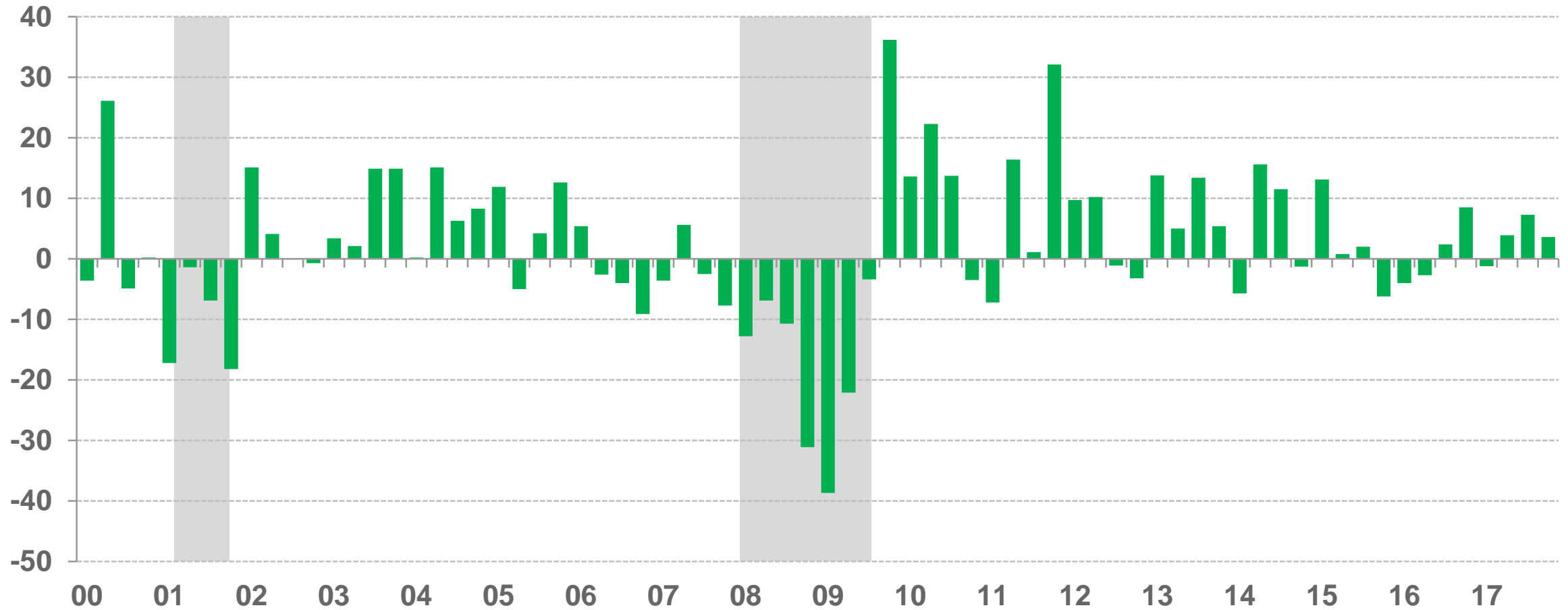


Source: BEA (1/26/2018)



.... but it is quite volatile

Annual % Change
(Seasonally-adjusted)

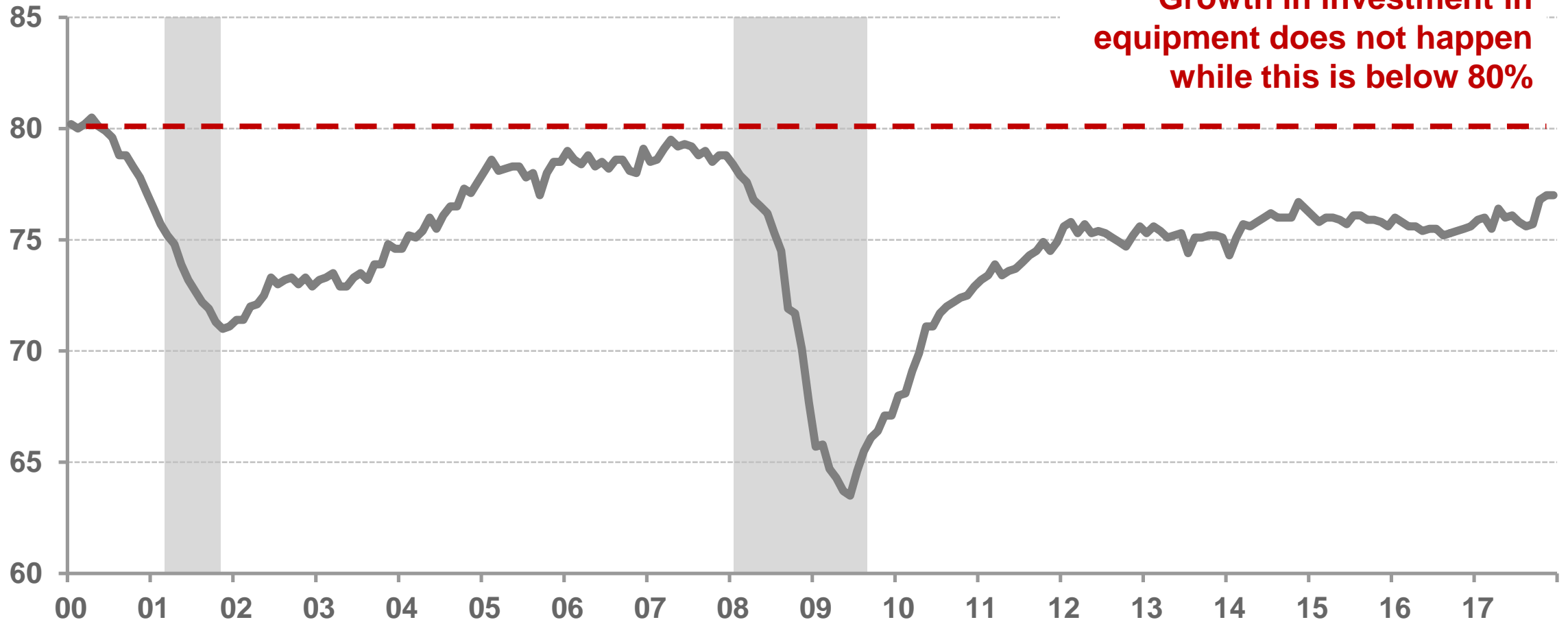


Source: BEA (1/26/2018)



Firms still have idle capacity

Manufacturing Capacity Utilization Rate
(seasonally-adjusted)



Source: Federal Reserve Board



Prices

UNLEADED

3.589

SKYLINE

UNLEADED
PLUS

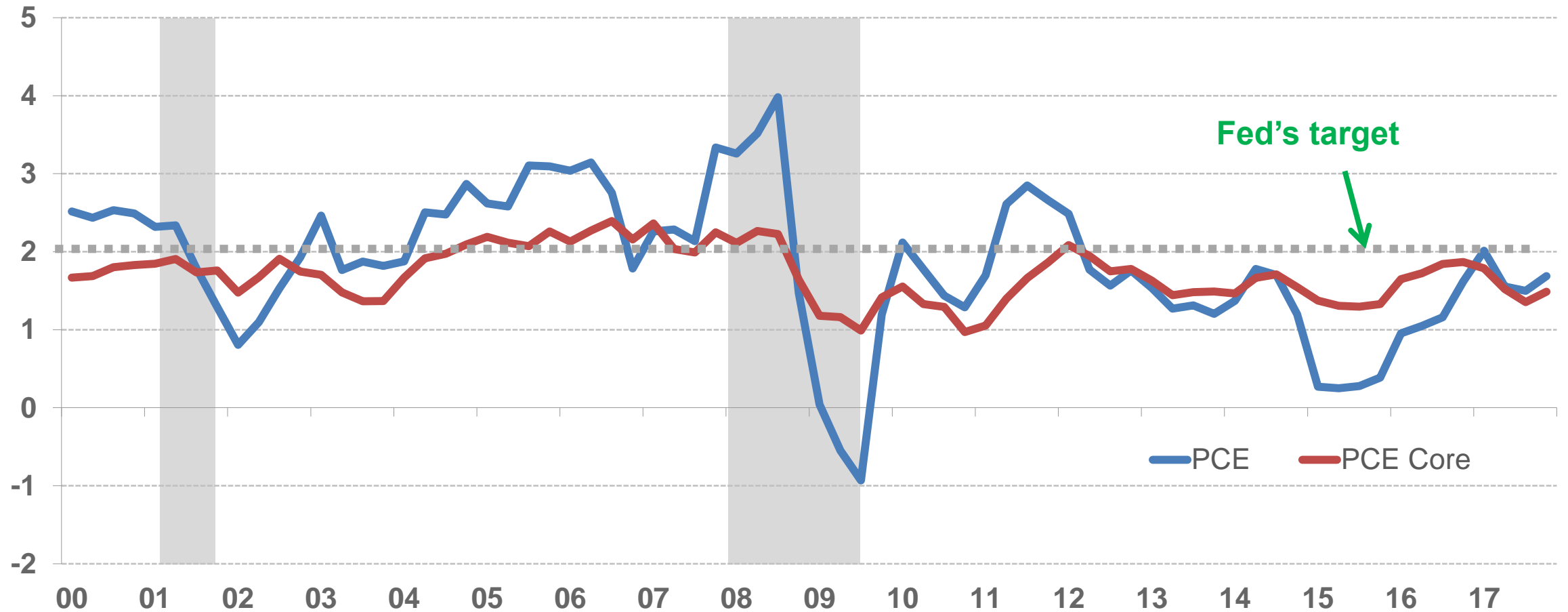
3.709

DIESEL

3.959

Inflation remains tame

Personal Consumption Expenditure Price Index
(% change from year ago)

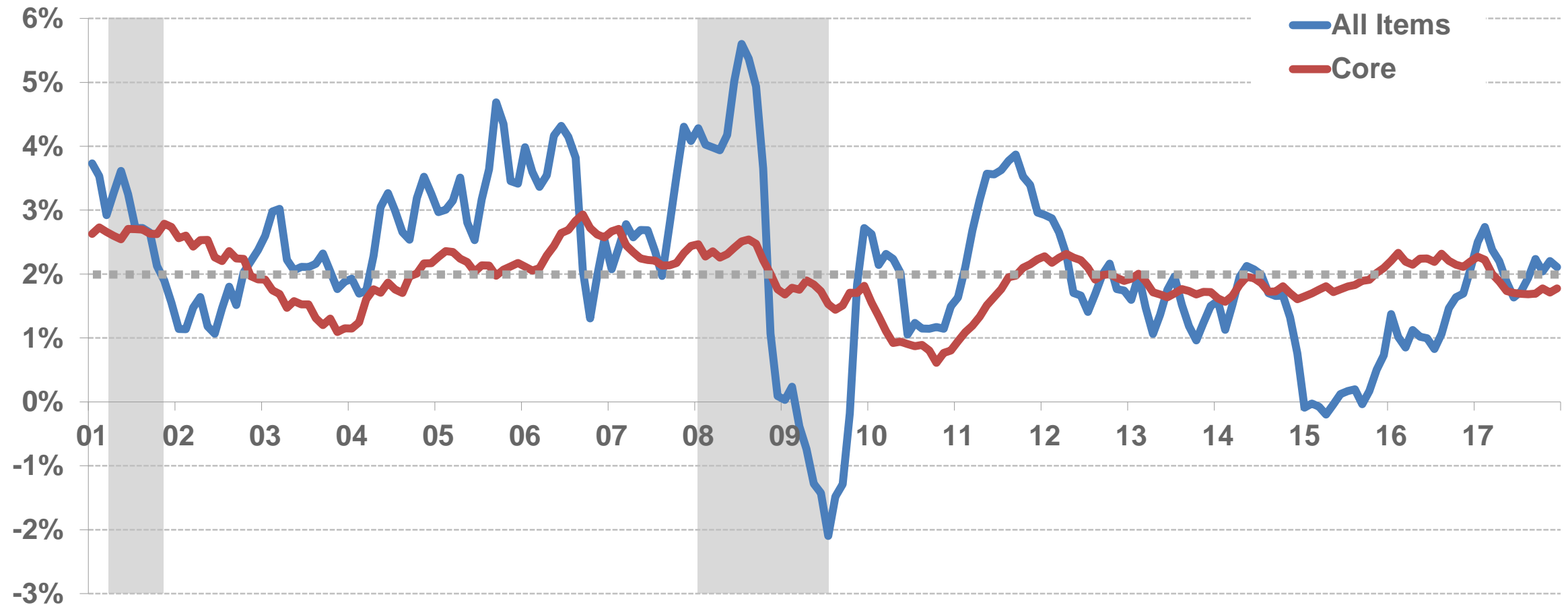


Source: BEA (1/26/2018)



Inflation remains tame

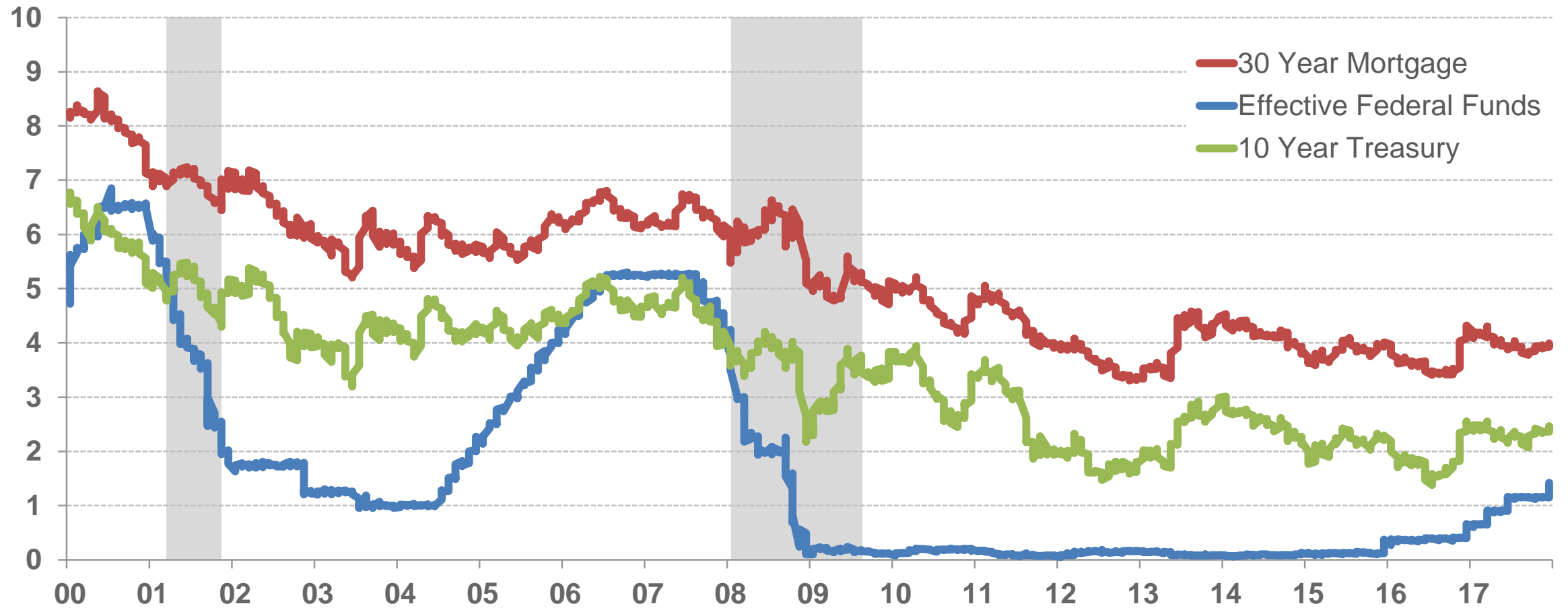
Consumer Price Index
(% change from year ago)



Source: BLS (1/18/2018)



Interest rates are on the move



Source: Freddie Mac; Federal Reserve



How's the nation doing?

- Humming along nicely
 - But we may need to accept living in a slow growth-low inflation environment
- The consumer will continue to be the main driver
 - So a healthy labor market is important
 - But wage growth has been mediocre
 - ... hopefully it is increasing now
- How will the tax reform bill impact us?

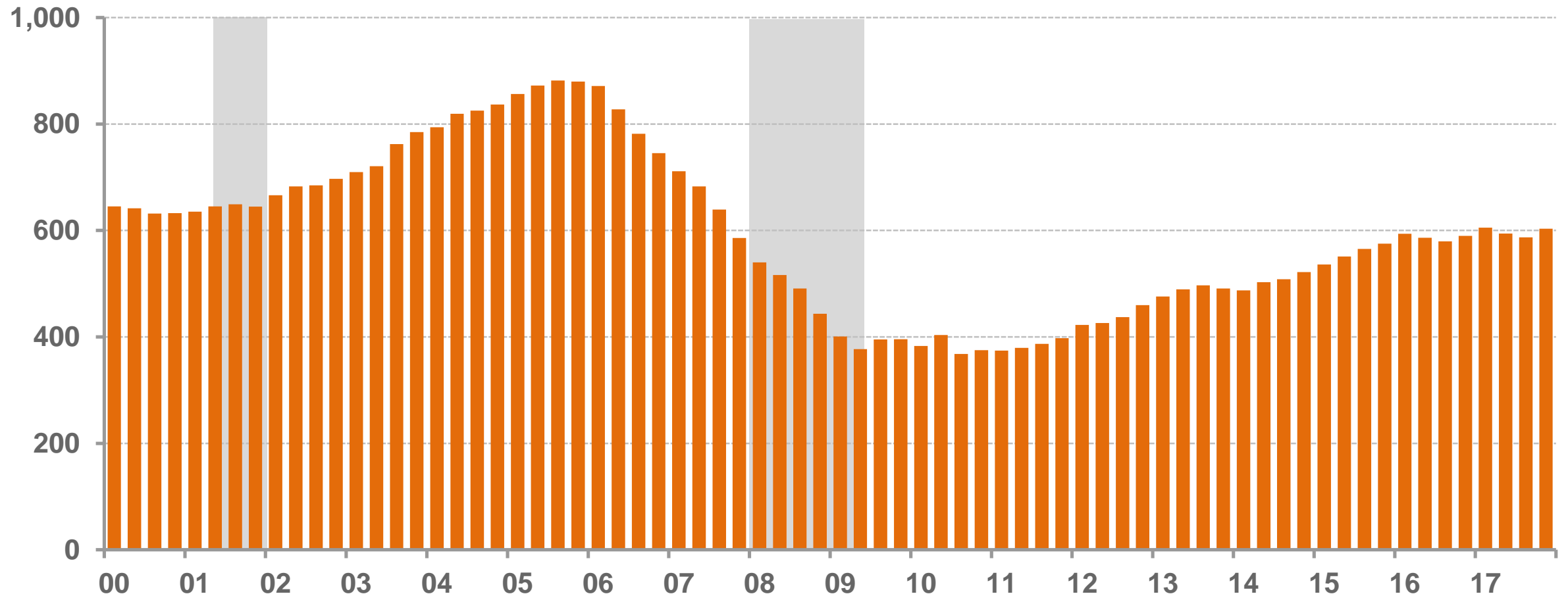


Real Estate Is Us



Investment in residential construction is on the rise

Billions of chained (2009) dollars
(seasonally-adjusted)



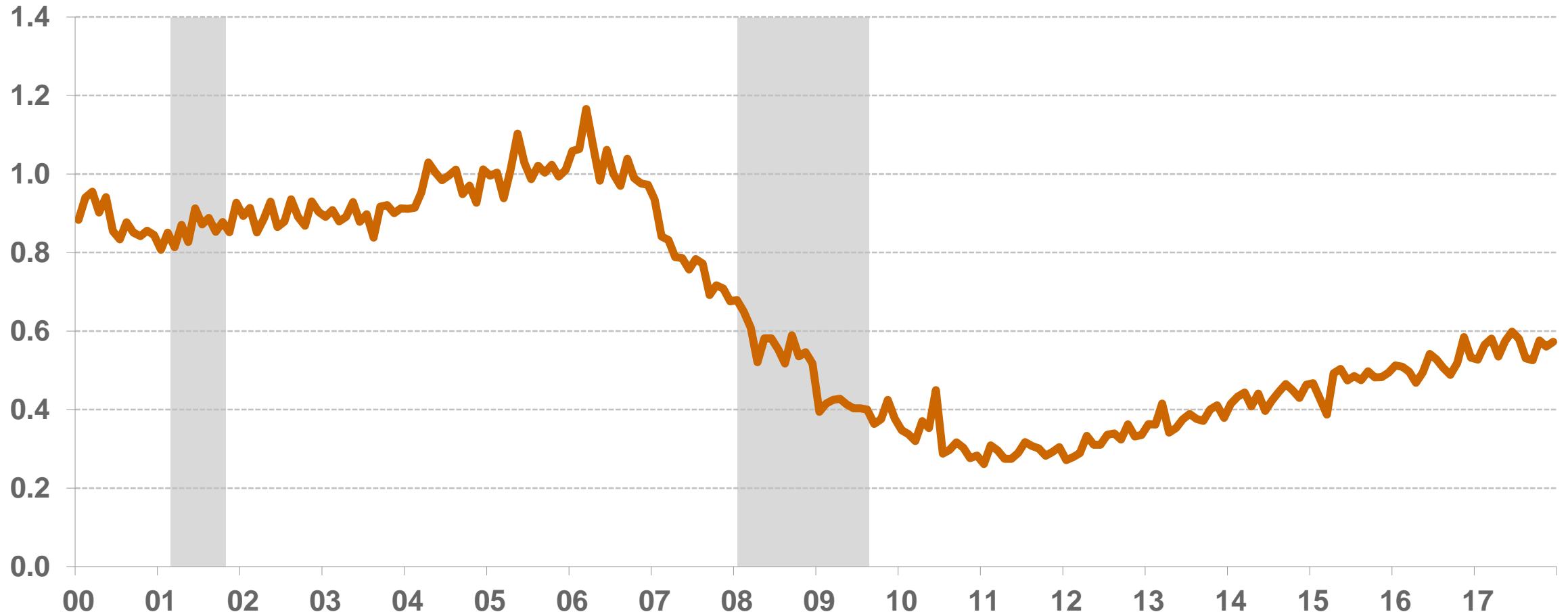
Source: BEA (1/26/2018)



Are we building enough housing?

New Privately-Owned Housing Completions

(Units per hundred 25-64 population; seasonally-adjusted)



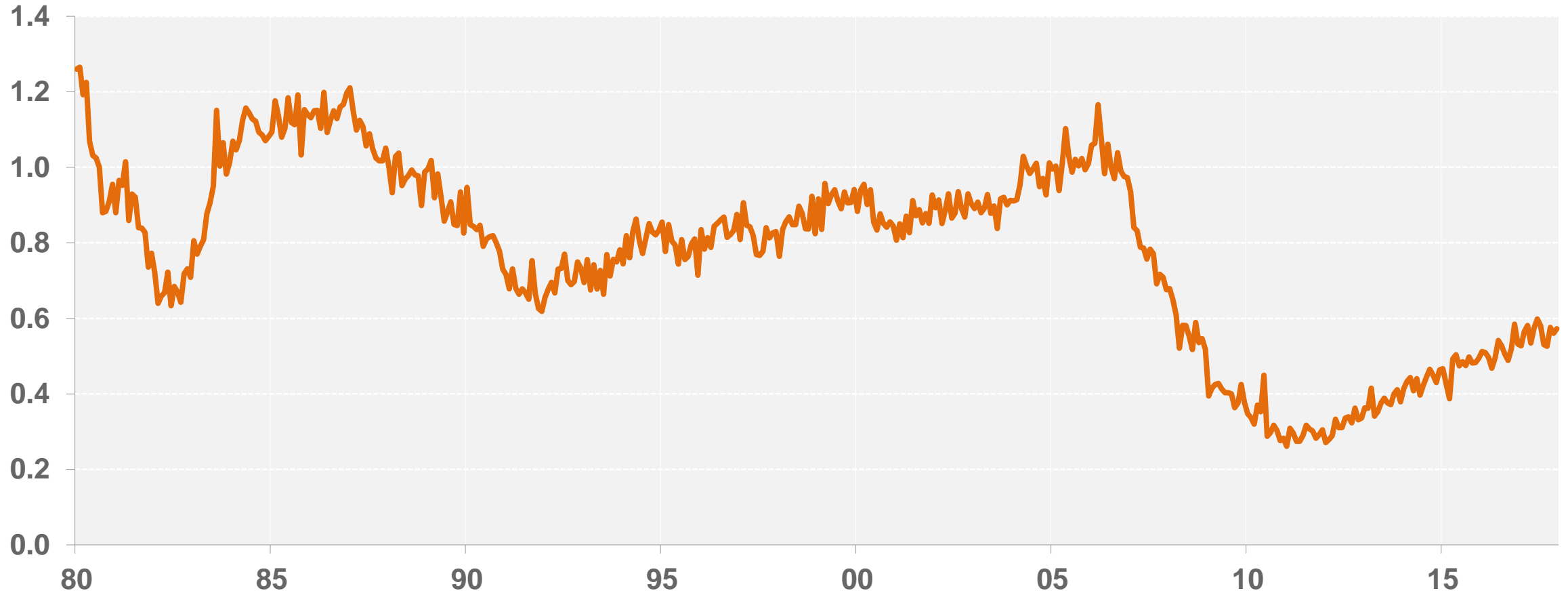
Source: U.S. Census Bureau



A longer term perspective on completions

New Privately-Owned Housing Completions

(Units per hundred 25-64 population; seasonally-adjusted)

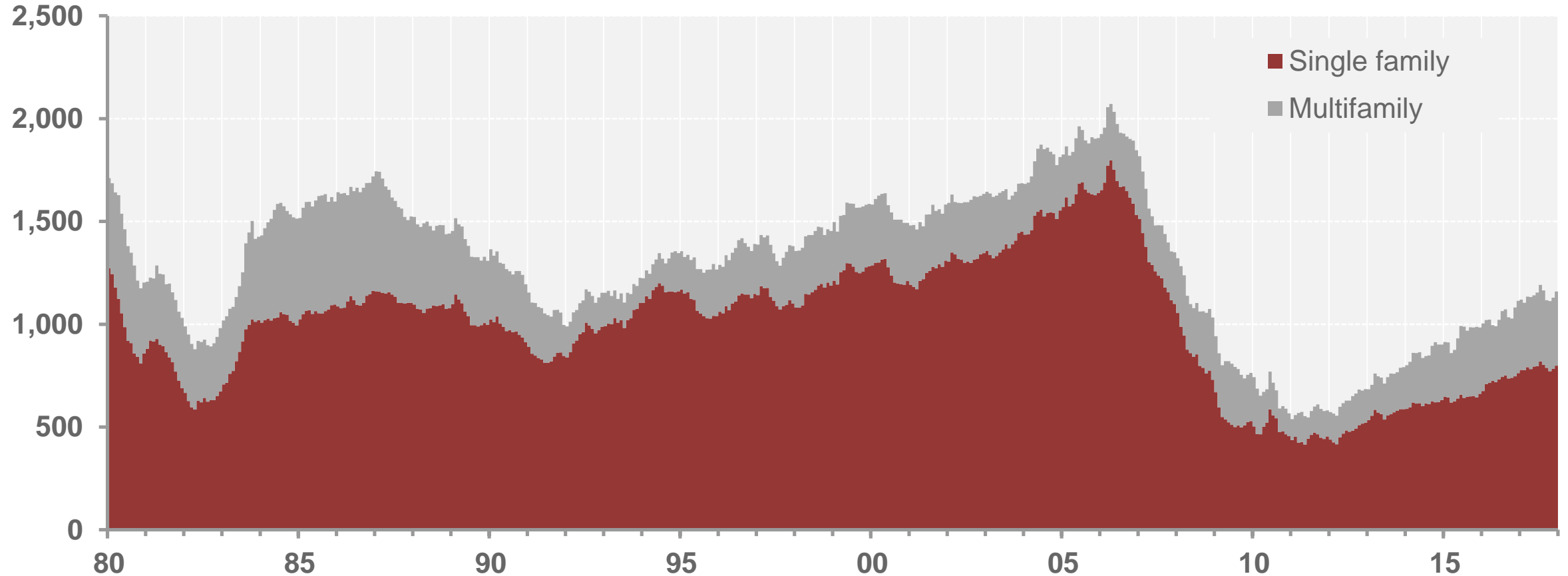


Source: U.S. Census Bureau



Multifamily versus single completions over time

New Privately-Owned Housing Completions
(Units; seasonally-adjusted)



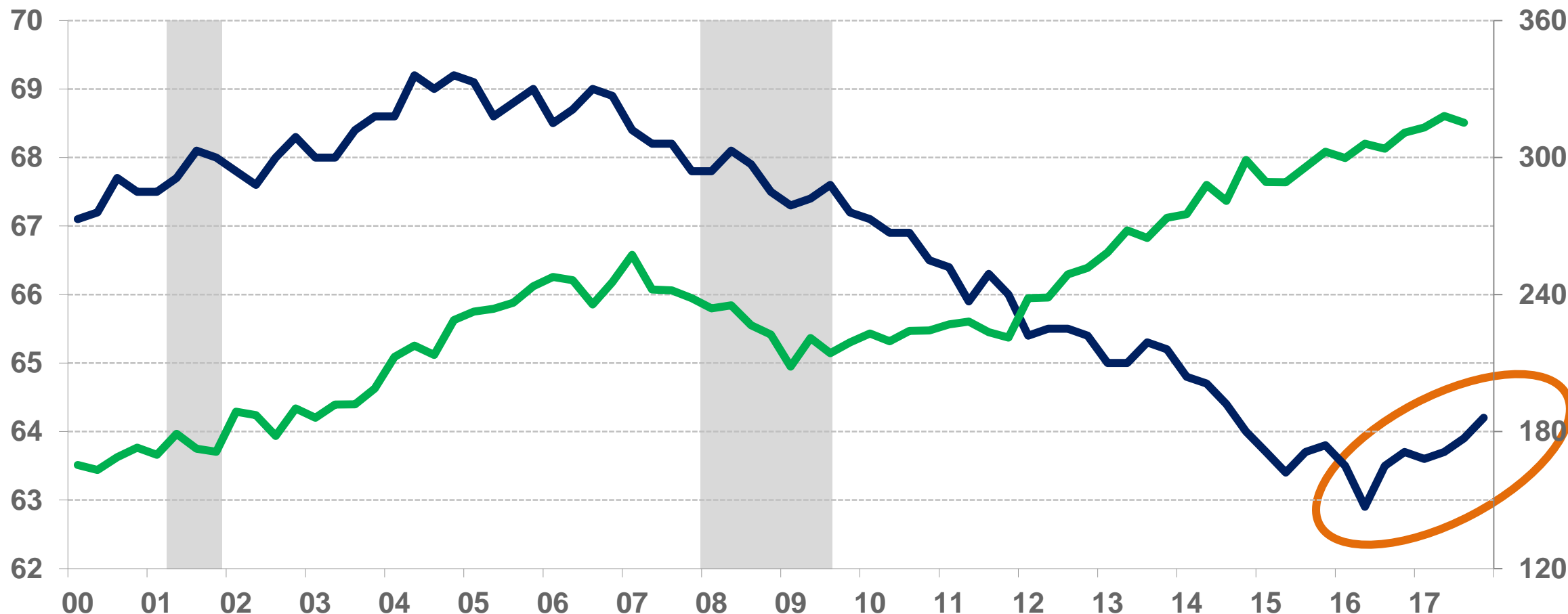
Source: U.S. Census Bureau



The decline in homeownership may be over

U.S. Homeownership Rate
(not seasonally-adjusted)

Median Sales Price
(\$000s, not seasonally-adjusted)



Source: U.S. Census Bureau

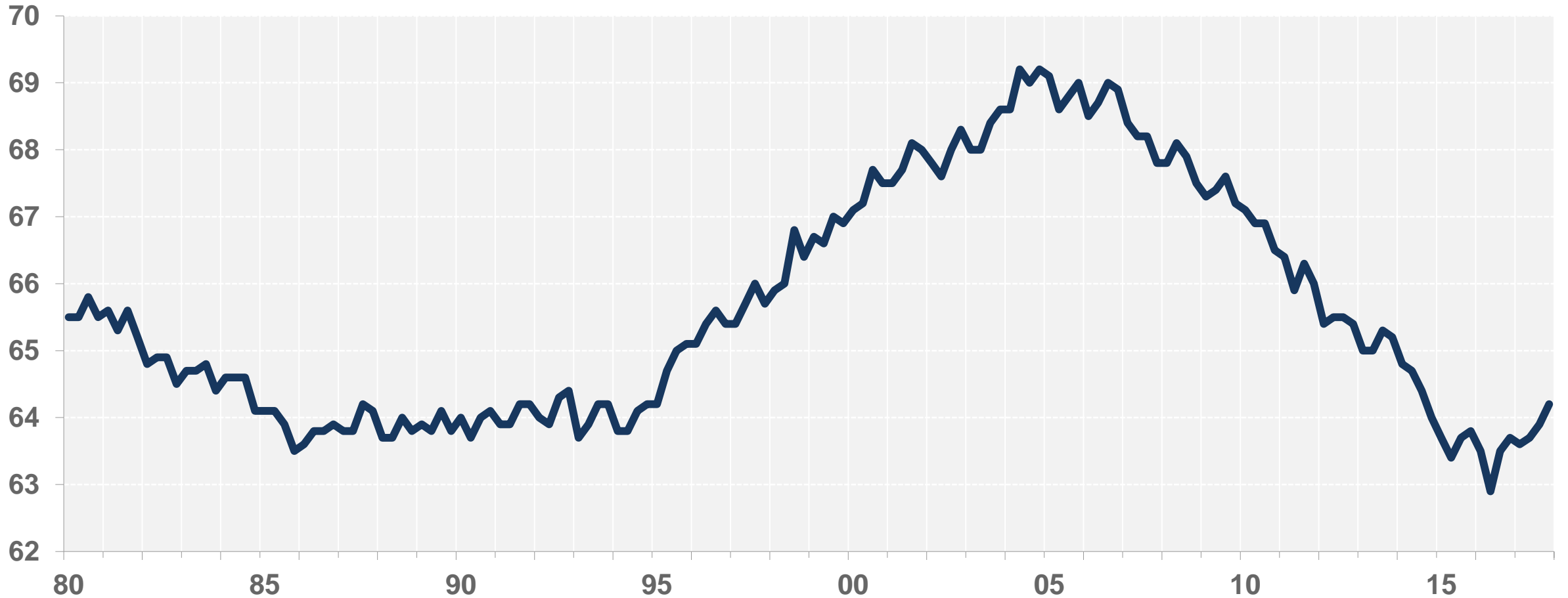
— US Homeownership Rate

— Median Home Sales Price



A longer term perspective on homeownership

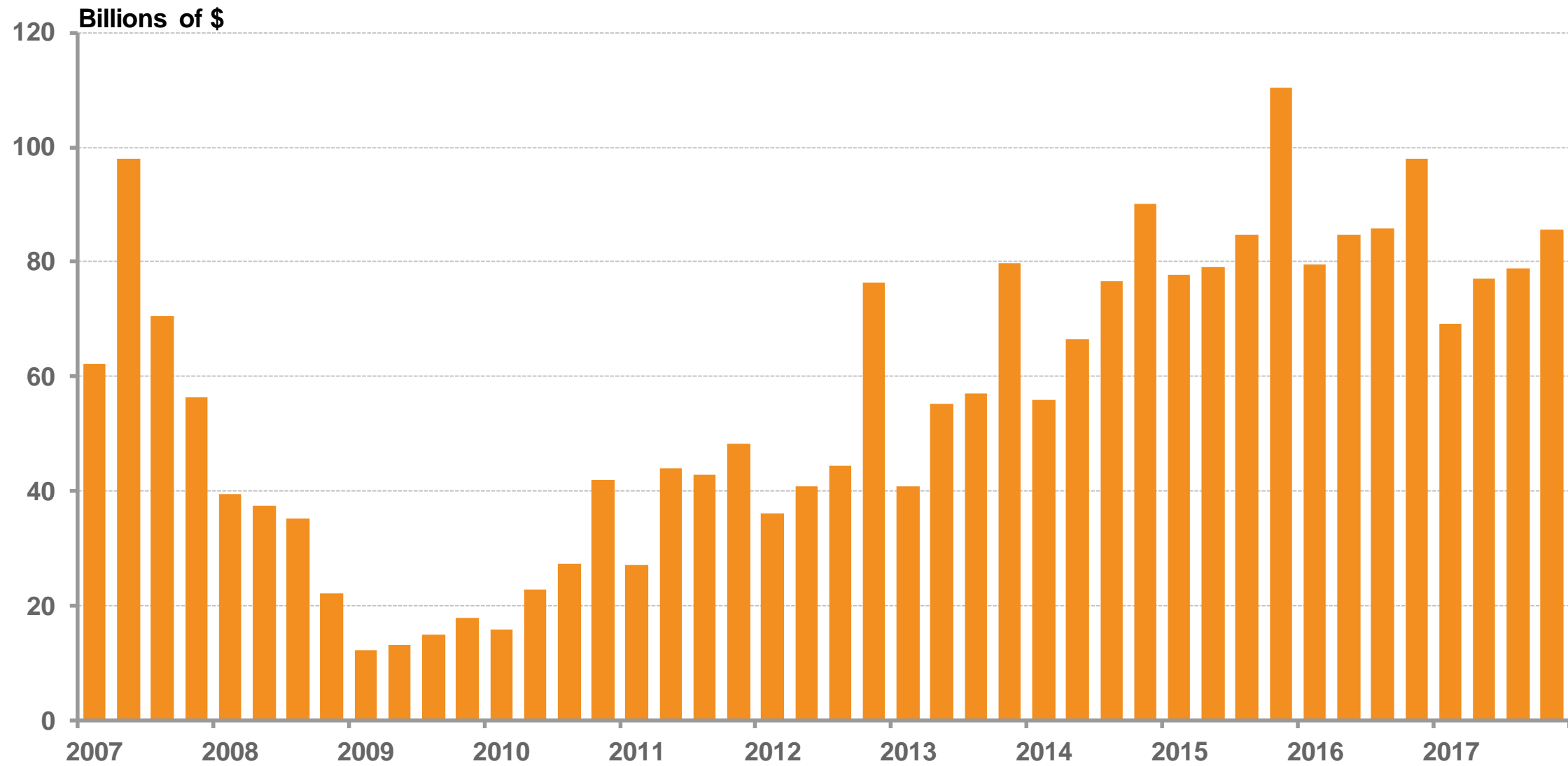
U.S. Homeownership Rate
(not seasonally-adjusted)



Source: U.S. Census Bureau



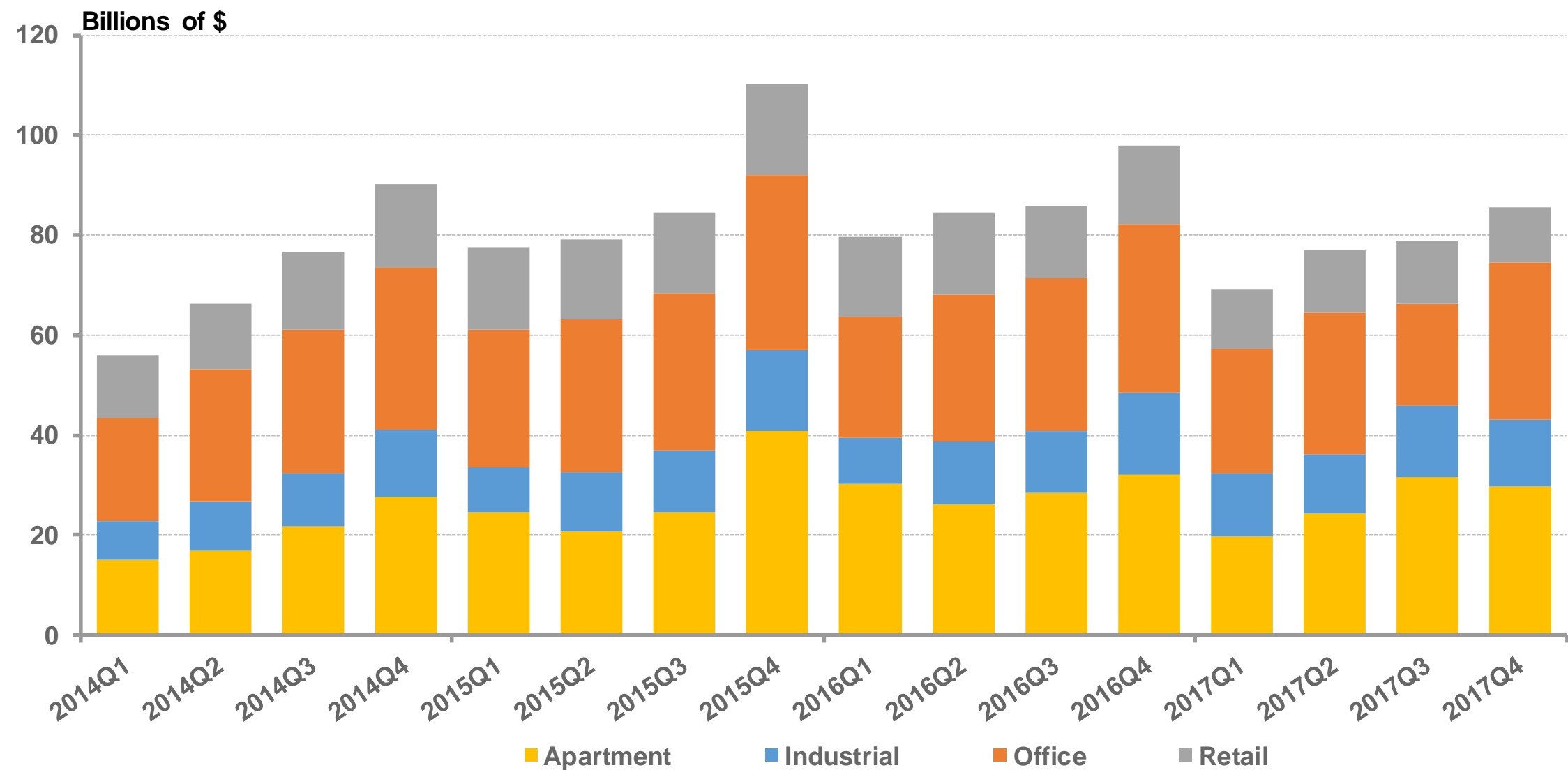
Total Sales Volume



Source: CoStar Market Analytics



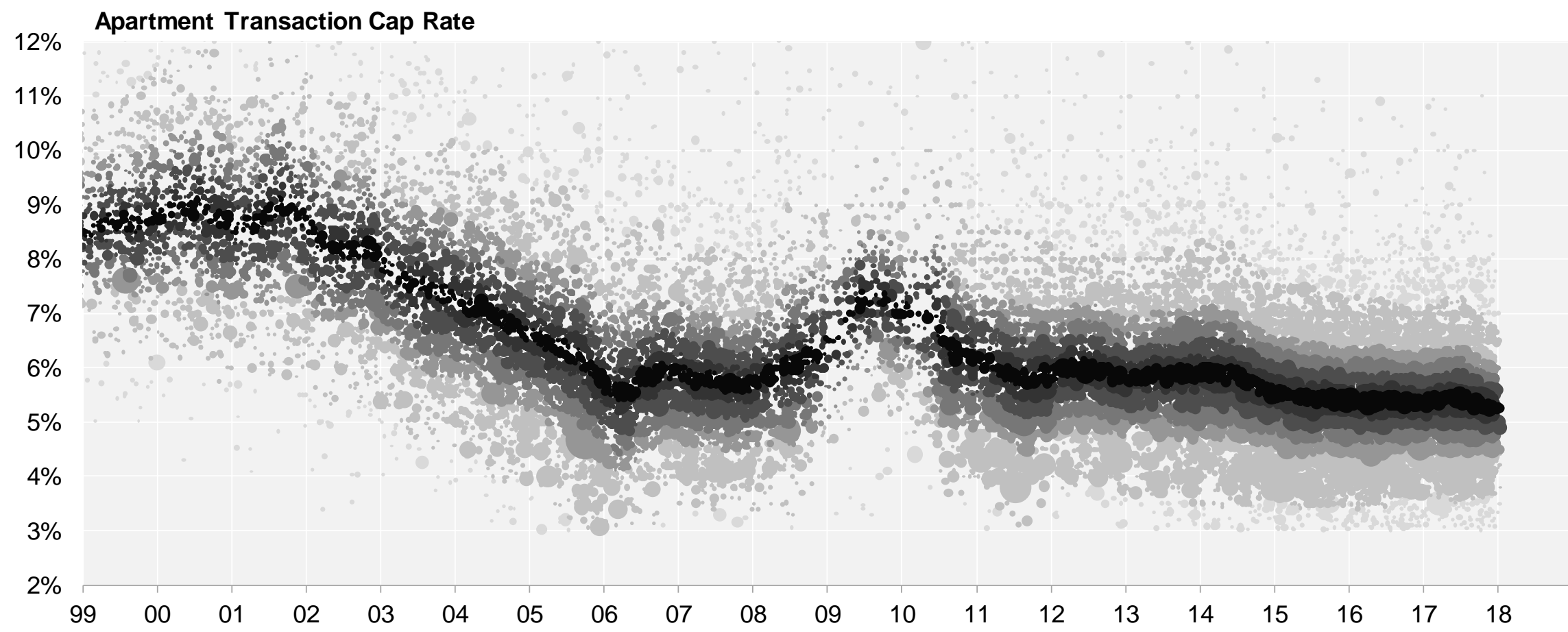
Sales Volume by Property Type



Source: CoStar Market Analytics



National Cap Rates



Source: CoStar Portfolio Strategy. Cap rates are shaded by distance from trailing average to identify trend.
Includes 2+ star-rated apartment assets selling for at least \$5 million.

As of January 2018

● Transaction Cap Rate



California

Real GDP Growth
(Year over year percent change)



Population growth: 0.6%
Unemployment rate: 4.3%
Job growth (Dec): 2.1%
GDP growth (2017Q3): 3.4%
Per capita GDP: \$69,270

Sources: BEA (1/24/2018); BLS (1/23/2018)

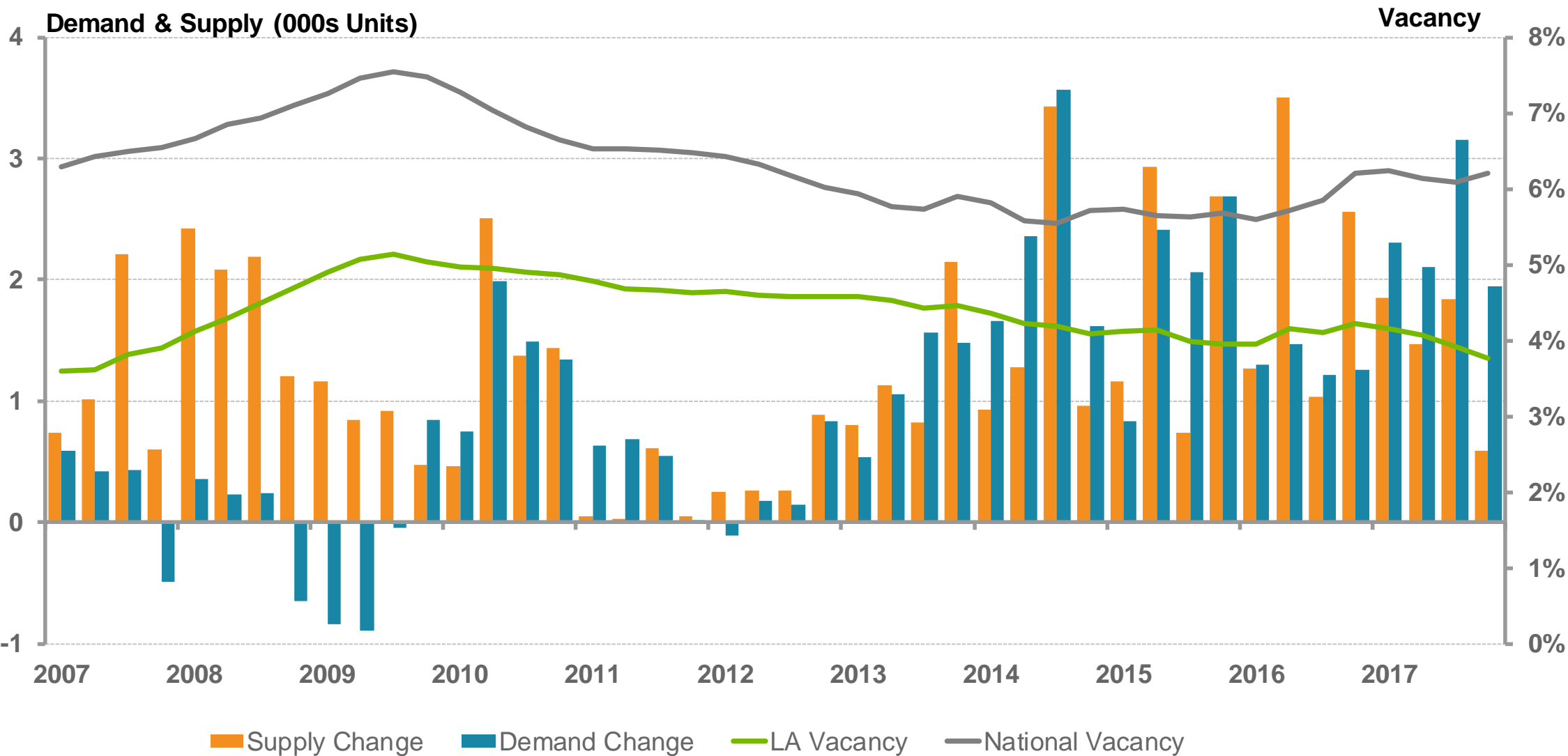
Los Angeles

Population growth: 0.6%
Unemployment rate: 4.4%
Job growth (Dec): 1.2%
Per capita GDP (2016): \$66,480



Sources: BEA (1/24/2018), BLS (1/23/2018)

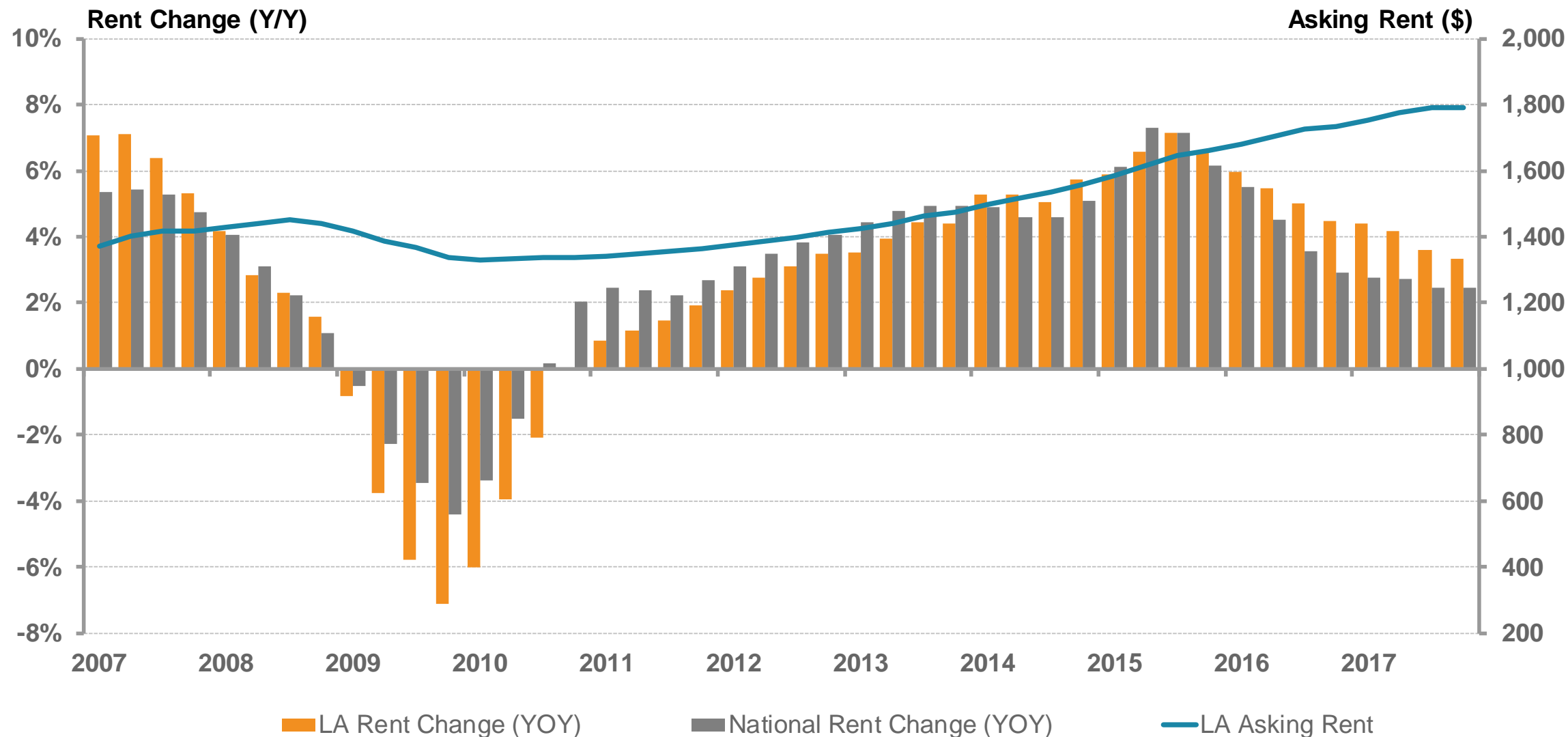
LA County Apartment Supply and Demand



Source: CoStar Market Analytics



LA County Apartment Rents



LA County Recent Transaction

Search Criteria

Result List

Result Detail

Select Record

Sold on Jun 27, 2017 for \$168,200,000 (\$885,263/Unit)
8500 W Sunset Blvd - The Apartment Residences at AKA
Los Angeles, CA 90069 - West Hollywood MF Submarket
190 Unit - 292,240 SF Apartments Building Built in 2017 - [Property Website](#)

★★★★★

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Results Table
Print Reports
Change Criteria
Show Criteria
Save Survey
Add Records
Remove Record
Lease Analysis
Comps Search
Analytic Search
My Surveys
Lookup Comps
Update Data
Suggestions
Support
Knowledge Ctr

Summary

Property

Lease

Sale Comps

Analytics

Tenant

Assessments

Demographics

Contacts

Images

Map

Buyer

True Buyer

Korman Communities
220 W Germantown Pike
Plymouth Meeting, PA 19462
(484) 351-2000 (p)
(484) 351-2050 (f)

Buyer Type

Developer/Owner-RGNL

Activity (Last 5 Yrs)

\$437.7M (Acquisitions) / \$287.9M (Dispositions)

True Buyer

Brookfield Property Group
250 Vesey St
New York, NY 10080
(212) 417-7000 (p)
(212) 417-7196 (f)
[www.brookfieldpropertypartners.com](#)

Buyer Type

REOC

Activity (Last 5 Yrs)

\$31.650M (Acquisitions) / \$27.271M (Dispositions)

[View Leas](#)

Transaction Details

Sale Date

Jun 27, 2017

Recording Date

Jun 27, 2017

Sale Price

\$168,200,000

Price/Unit

\$885,263*

Price/SF

\$575.55

Price Status

Confirmed

On Market

2 Mos 29 Days

Escrow Length

45 Days

Sale Type

Investment

Financing

Document #

0710196

Comp Status

Research Complete

* Price/Unit based on # of units at sale

Assessment at Sale »

2016 Assessment

Improvements

\$110,527,000

Land

\$23,415,375

Total Value

\$133,942,375

82.52% Improved

Seller

True Seller

CIM Group LP
4700 Wilshire Blvd
Los Angeles, CA 90010
(323) 860-4900 (p)
(323) 860-4901 (f)
[www.cimgroup.com](#)

Seller Contacts

Shaul Kuba 2-8

Seller Type

Investment Manager

Activity (Last 5 Yrs)

\$6.858M (Acquisitions) / \$6.376M (Dispositions)

Sale Notes

The sales price was confirmed by one of the listing brokers. The sale is comprised of the 8500 Sunset Apartments totaling 190 units located at 8500 W. Sunset Blvd. in Los Angeles, CA. The sales price was reported at \$168.2 million that equates to \$885.263 per unit. The subject property was vacant at the time of sale, as the buyer entertained options to convert the asset to an extended use hotel. Due to legal complications, the buyer's ultimate use of the property is not clear at the time of comp publication. The 42,000 SF of retail of which 22,000 SF has been leased to Fred Segal for its new flagship store set to open this fall was not part of the sale, since the seller plans to ...
[More](#)

Income & Expenses




Expenses	2016	Per Unit
Operating Expenses		*
Taxes	1,621,590	8,535

Buyer Broker

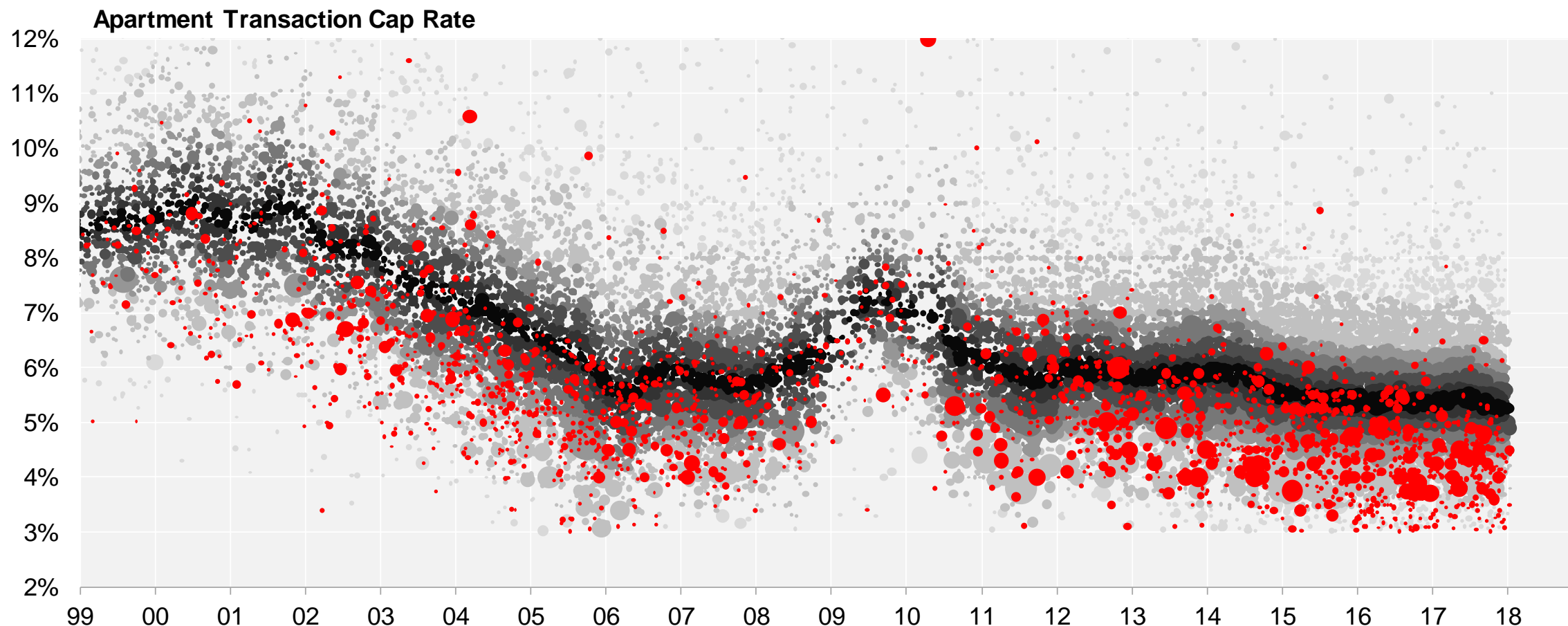
No Buyer Broker on Deal

Listing Broker

Marc Renard
Executive Vice Chairman of Capit...
(213) 955-6413 X413 (p)
(213) 359-4843 (m)
(213) 627-0020 (f)
[marc.renard@cushwake.com](#)



Cap Rates in Los Angeles



Source: CoStar Portfolio Strategy. Cap rates are shaded by distance from trailing average to identify trend.
Includes 2+ star-rated apartment assets selling for at least \$5 million.

As of January 2018

● Transaction Cap Rate

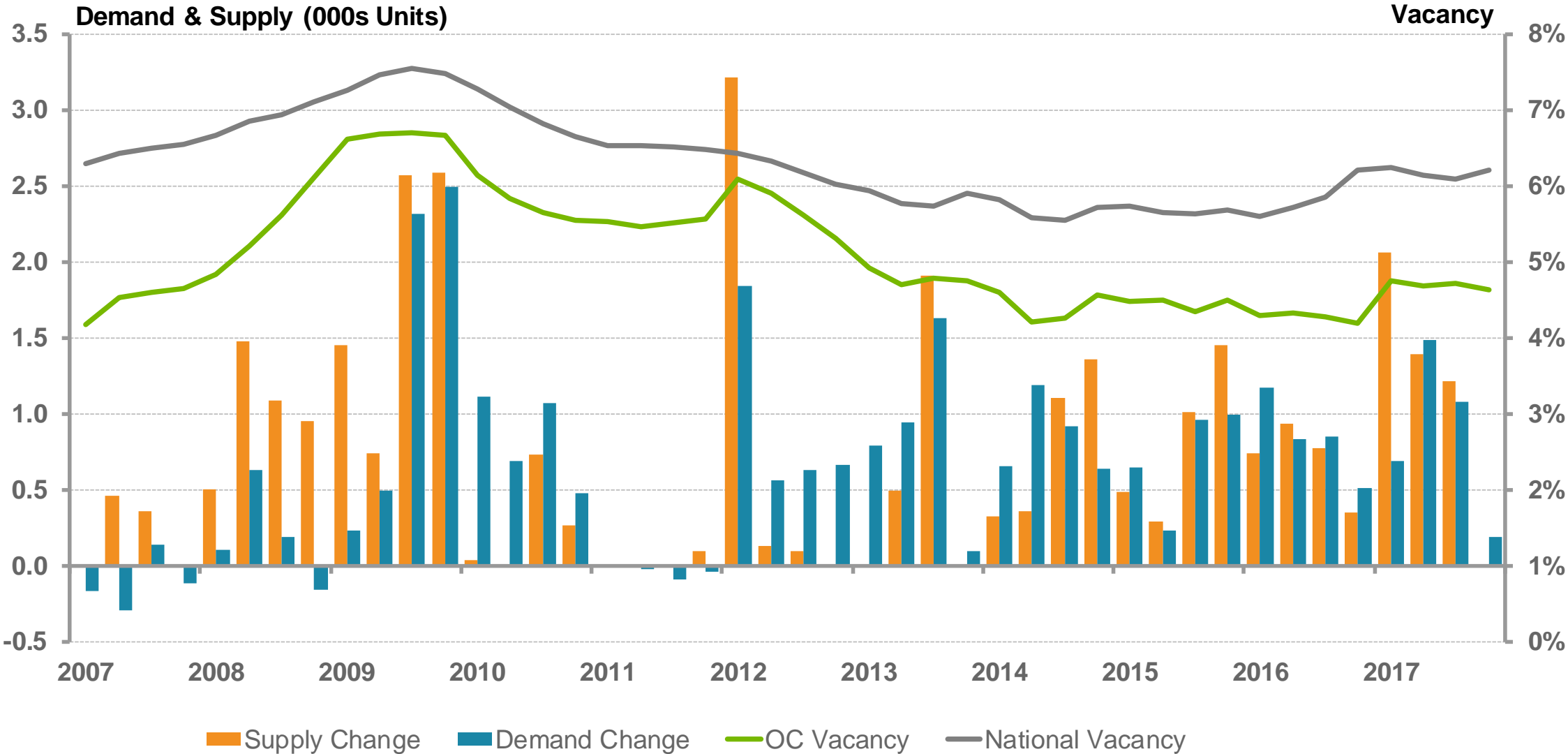
● Los Angeles



Orange County

Population growth:	0.7%
Unemployment rate:	2.8%
Job growth (Dec):	1.5%
Per capita GDP (2016):	\$66,480

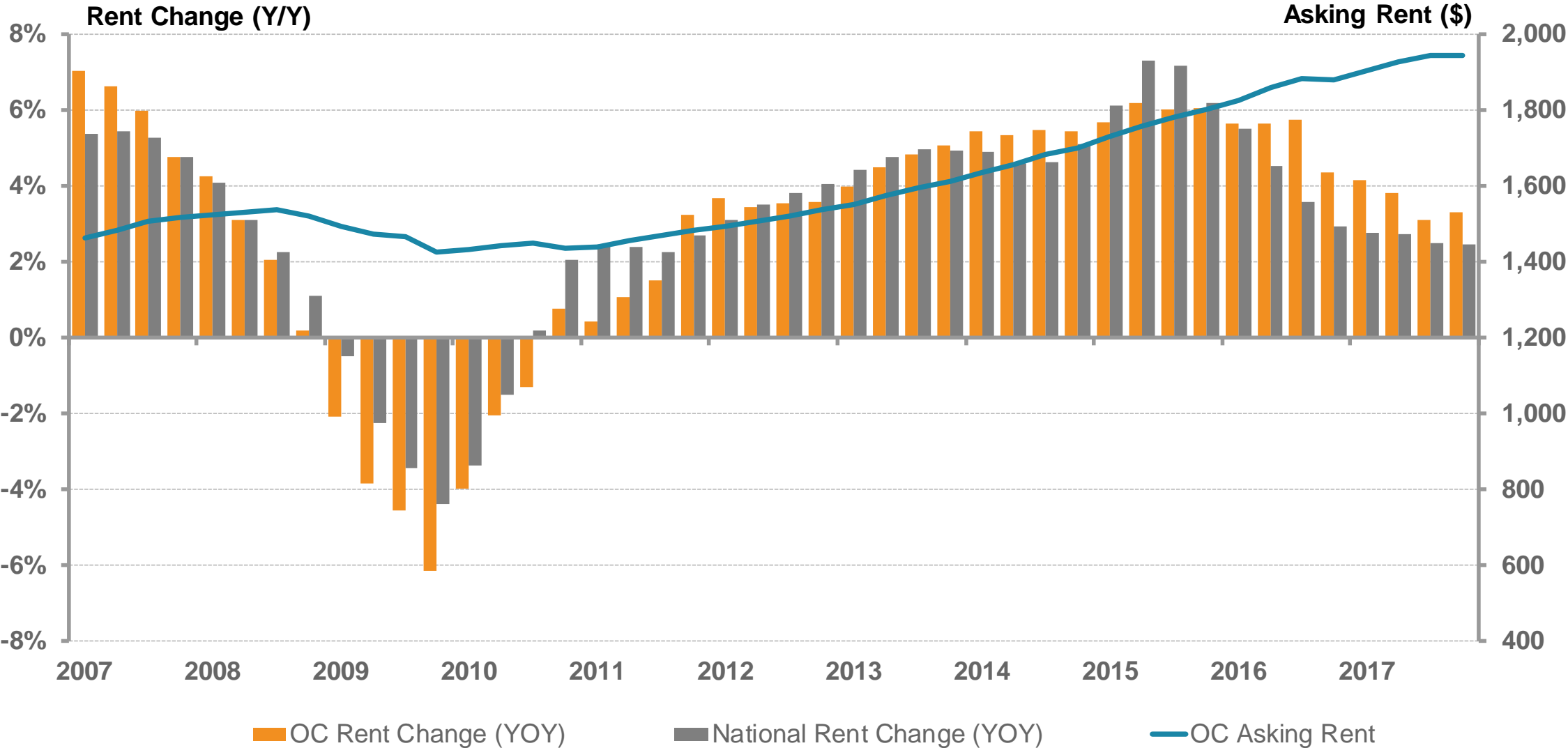
Orange County Apartment Supply and Demand



Source: CoStar Market Analytics



Orange County Apartment Rents



Orange County Recent Transaction

[Search Criteria](#) [Result List](#) [Result Detail](#) [Select Record](#)

Sold on Jun 16, 2017 for \$104,400,000 (\$250,961/Unit) at 4.30% Cap ★★★★★

310 S Jefferson St - Merrick Apartments
Placentia, CA 92670 - North County MF Submarket
416 Unit - 352,352 SF Apartments Building Built in 1980

2 of 5

Results Table
Print Reports
Change Criteria
Show Criteria
Save Survey
Add Records
Remove Record
Lease Analysis
Comps Search
Analytic Search
My Surveys
Lookup Comps
Update Data
Suggestions
Support
Knowledge Ctr

Summary Property Lease Sale Comps Analytics Tenant Assessments Demographics Contacts Images Map

Buyer

Recorded Buyer **Fairfield Placentia Place LLC**
True Buyer **Fairfield Residential**
5510 Morehouse Dr
San Diego, CA 92121
(858) 457-2123 (p)
(858) 457-3982 (f)
Buyer Contacts **Krista Miclat** ><
Buyer Type **Developer/Owner-NTL**
Activity (Last 5 Yrs) \$31.650M (Acquisitions) / \$27.271M (Dispositions)

Transaction Details
Sale Date Jun 16, 2017
Sale Price \$104,400,000
Price/Unit \$250,961
Price/SF \$296.29
Price Status Confirmed
Actual Cap Rate 4.30%
Vacancy at Sale 0.0% in 6/2017
Sale Type Investment
Financing 1st Mortgage: PNC Bank,Bal/Pmt: \$85,707,000
Document # 0248991
Comp Status Research Complete
* Price/Unit based on # of units at sale
Assessment at Sale >>
2016 Assessment
Improvements \$29,895,734 \$71,865/Unit
Land \$54,001,001 \$129,810/Unit
Total Value \$84,016,325 \$201,962/Unit 35.58% Improved
Unit Mix at Sale

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
1	104	680	\$2,160	\$3.18	-
2	312	903	\$2,566	\$2.84	-
Totals	416	847	\$2,464	\$2.91	-

Unit Mix as of June 2017

Seller


Recorded Seller **Placentia Place Apartments LLC**
True Seller **The Irvine Company**
111 Innovation Dr
Irvine, CA 92617
(949) 720-2550 (p)
(949) 721-1125 (f)
Seller Contacts **Marcus Cook** ><
Seller Type **Developer/Owner-RGNL**
Activity (Last 5 Yrs) \$2.514M (Acquisitions) / \$896.0M (Dispositions)



Sale Notes
The sales price was confirmed by a reliable source. The sale is comprised of the Merrick Apartments, formerly known as Placentia Place Apartments, totaling 416 units located at 310 S. Jefferson St. in Placentia, CA. The sales price was reported at \$104.4 million that equates to \$250,962 per unit. The in-place cap rate was reported at 4.3%, therefore, we were able to calculate the NOI.

Documents
Deed Loan

Income & Expenses

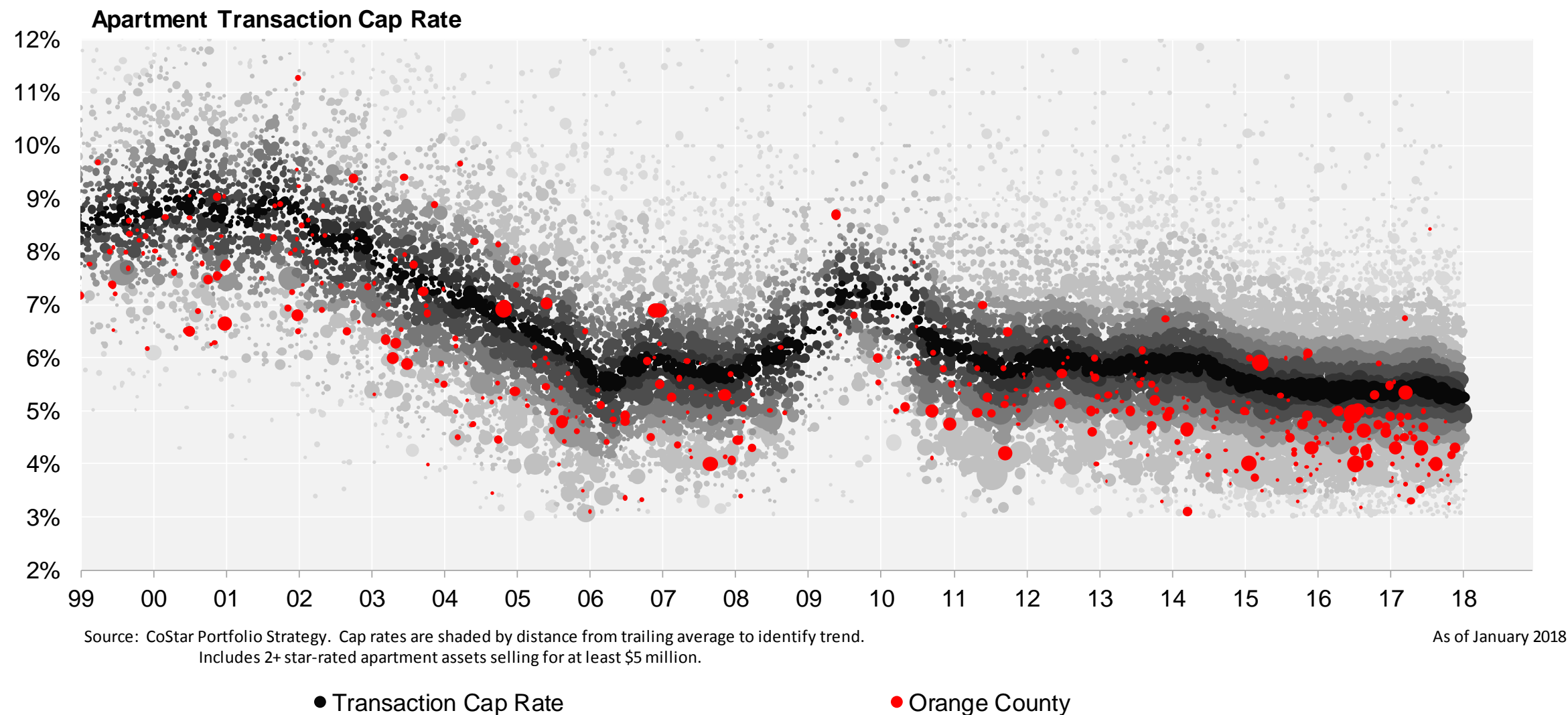
	2017	Per Unit
Net Operating Income (Est)	\$4,489,200	\$10,791
Capital Expenditures	-	-
Debt Service	-	-
Cash Flow (Est)	\$4,489,200	\$10,791

Buyer Broker
No Buyer Broker on Deal
Listing Broker
 **EASTDIL SECURED**
Eastdil Secured, LLC
100 Wilshire Blvd
Santa Monica, CA 90401
www.eastdil.com

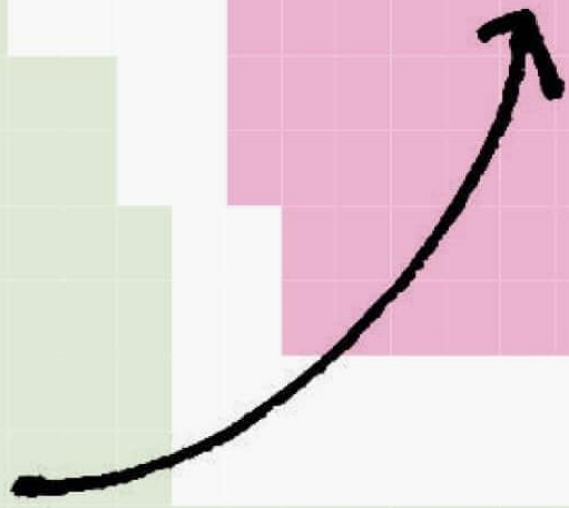




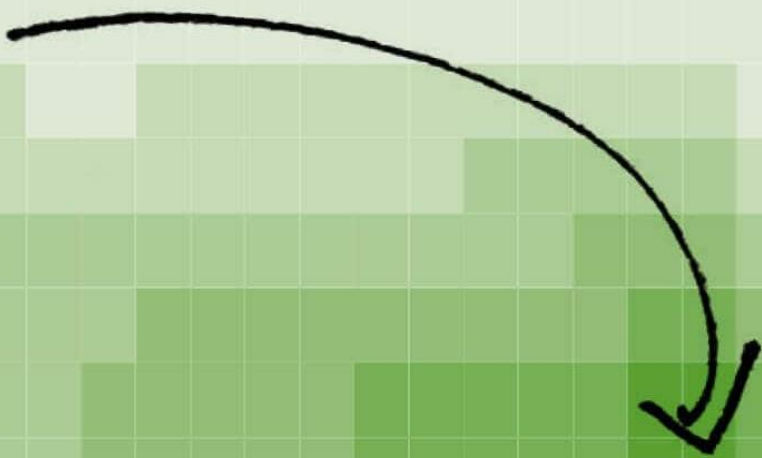
Cap Rates in Orange County



Tax hike



Tax Cut!



What was the purpose of the “Tax Cut and Jobs Act”?

– Fiscal stimulus

- To juice economic growth
 - Because its been too slow!
 - So encourage investment, grow our companies
 - So repatriate all your foreign earnings
- To add jobs
 - Wait – what?
 - To get more money into people’s pockets
 - Through more jobs, higher wages, and through tax cuts
- To make US more competitive on the global stage
 - Bring businesses back home, but also increase exports



-
- Short term impacts will be driven by the investment response to corporate income tax cuts
 - Jobs, capital investment, wage increases
 - ... or share buybacks, dividends, M&A activity
 - Long term impacts will be driven by trickle- down and response to interest rate increases
 - Inflation, and
 - Deficit-spending will lead to
 - Rising interest rates



Tax Cut and Jobs Act – Impact on Businesses

- Cut corporate taxes
- Allows for immediate depreciation of some asset purchases
 - Will increase business investment
 - Also will lowers the cost of automation
- Lower tax rates on repatriation
 - Taking a tax hit this year, but
 -what will they do with the cash??
- AMT eliminated
- Ultimately, will boost profits and earnings



Tax Cut and Jobs Act – Impact on Individuals

- Doubles the standard deduction
 - Fewer will itemize
 - Some will see higher take-home pay
- Caps state and local taxes
 - Lowers the cost of automation
- Allows a deduction for qualified business income
 - Benefit to pass-through entities
 - What will they do with the cash??
- Raises the threshold for AMT
- What will the next effect on the housing market be?





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The knowledge market