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DATA TO BUILD ON

SOUTHERN CALIFORNIA CHAPTER OF THE APPRAISAL INSTITUTE

January 2019

Topics For Today

- Evaluating The Post-2018 Housing Market
- National Economic Conditions
- Interest Rates
- California Resale Market
- New Home Market

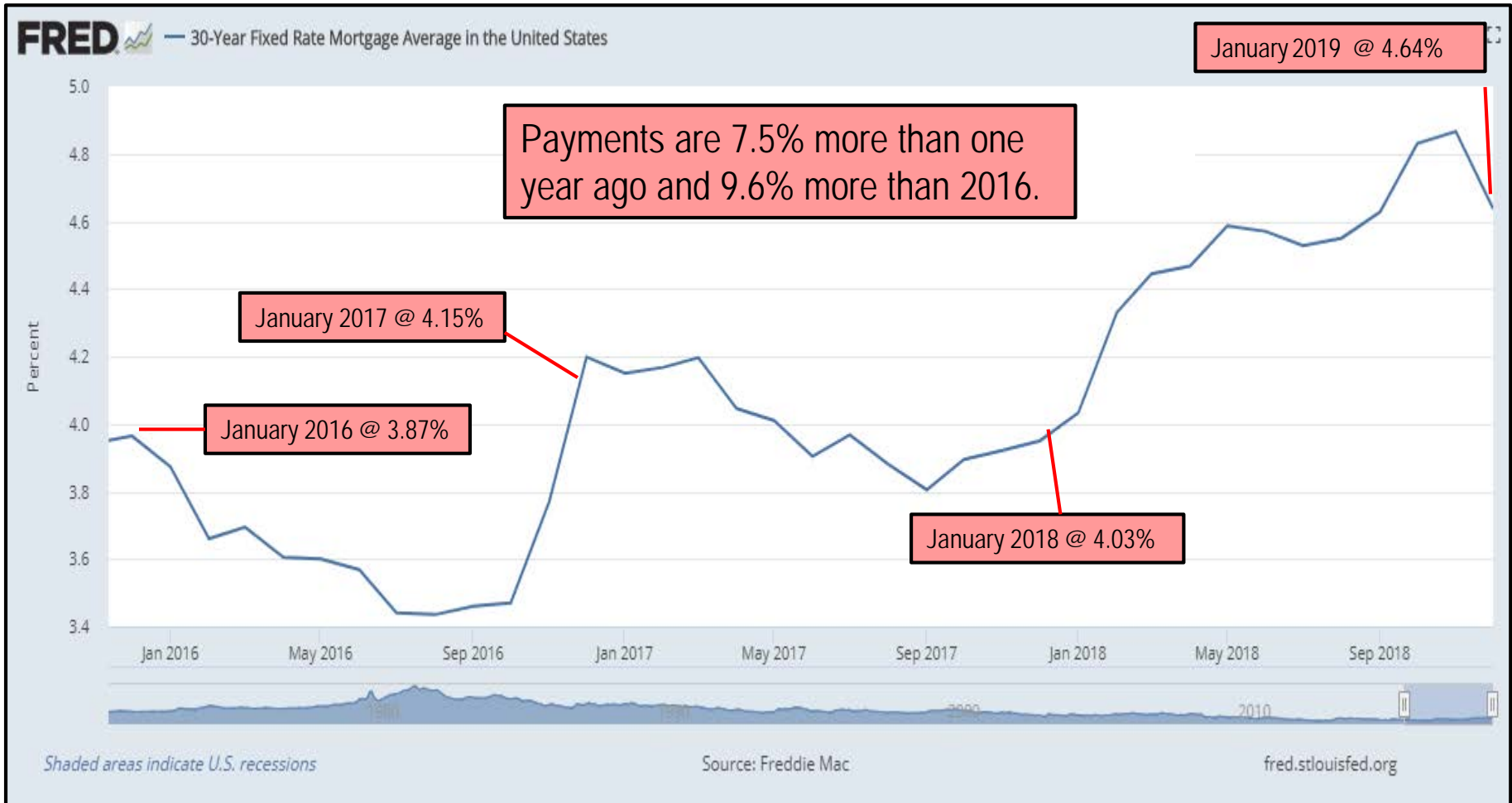
Los Angeles County

Orange County

The Inland Empire

Evaluating The Post-2018 Housing Market

MORTGAGE RATES ARE HIGHER



NEW HOME PRICES ARE HIGHER

Orange County Detached New Homes Y-O-Y and Cumulative Appreciation

Period	Avg. Price	Y-O-Y	Since 2011
2011 Q4	\$801,903	-----	-----
2012 Q4	\$837,310	4.4%	4.4%
2013 Q4	\$939,897	12.3%	16.7%
2014 Q4	\$1,041,037	10.8%	27.4%
2015 Q4	\$1,176,805	13.0%	40.5%
2016 Q4	\$1,214,122	3.2%	43.6%
2017 Q4	\$1,344,279	10.7%	54.4%
2018 Q4	\$1,358,667	1.1%	55.4%

HIGHER NON-DEDUCTIBLE TAXES

YEAR 2017

Annual property taxes on this \$1.8 million Orchard Hills home were +/- \$30,600 in 2017, an amount that was deductible.



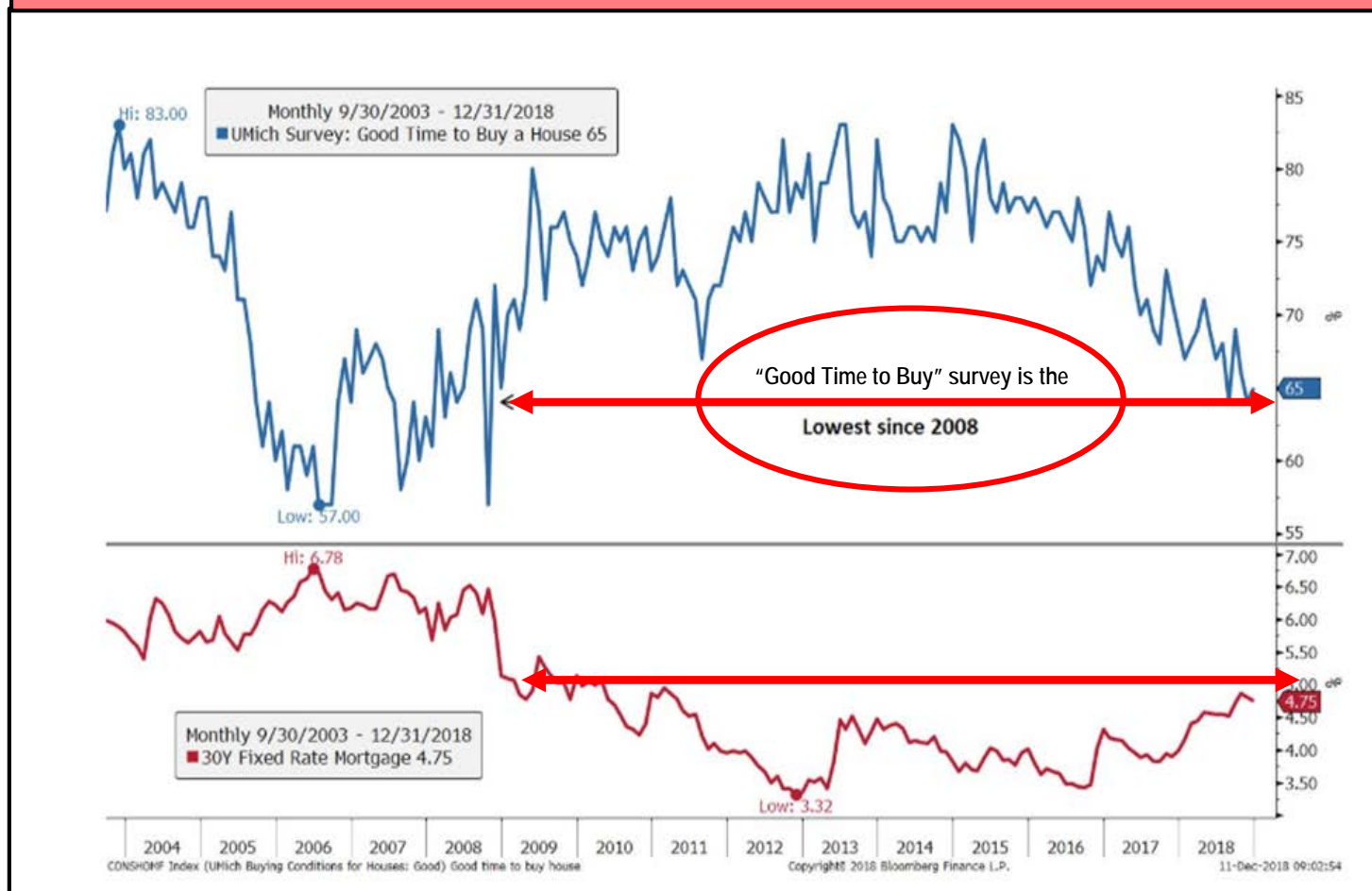
YEAR 2018

Annual property taxes on this Orchard Hills home were +/- \$31,210 in 2018, only \$10,000 is deductible.

Non-deductible property taxes are about \$1,765 per month or about 67% higher than one year ago.

HOMEBUYERS REACT TO HIGHER RATES

BUYER SENTIMENT LOSES STEAM AS RATES RISE

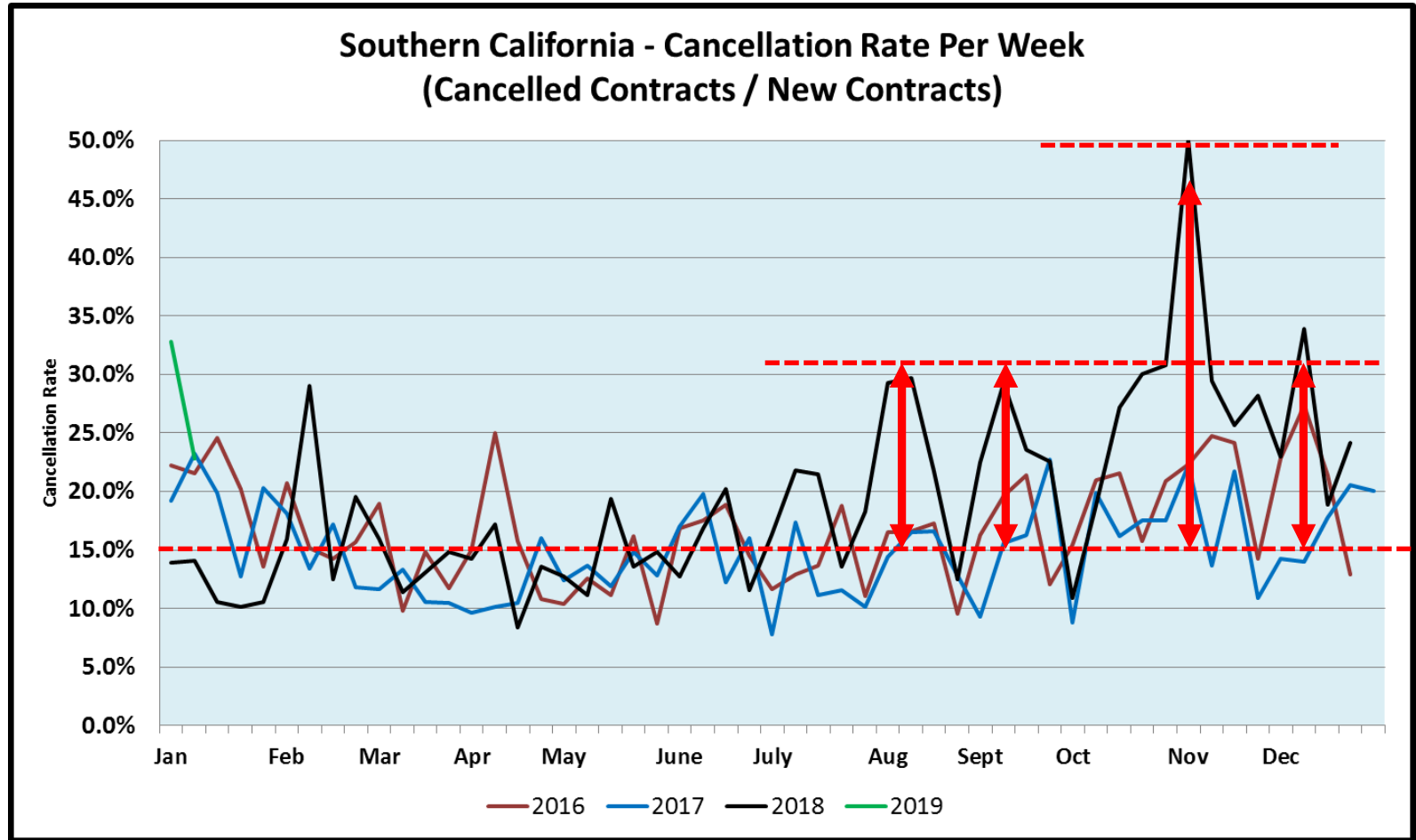


FOREIGN BUYERS GO TO THE SIDE LINES



Note the May to November 2018 time frame outlined above.

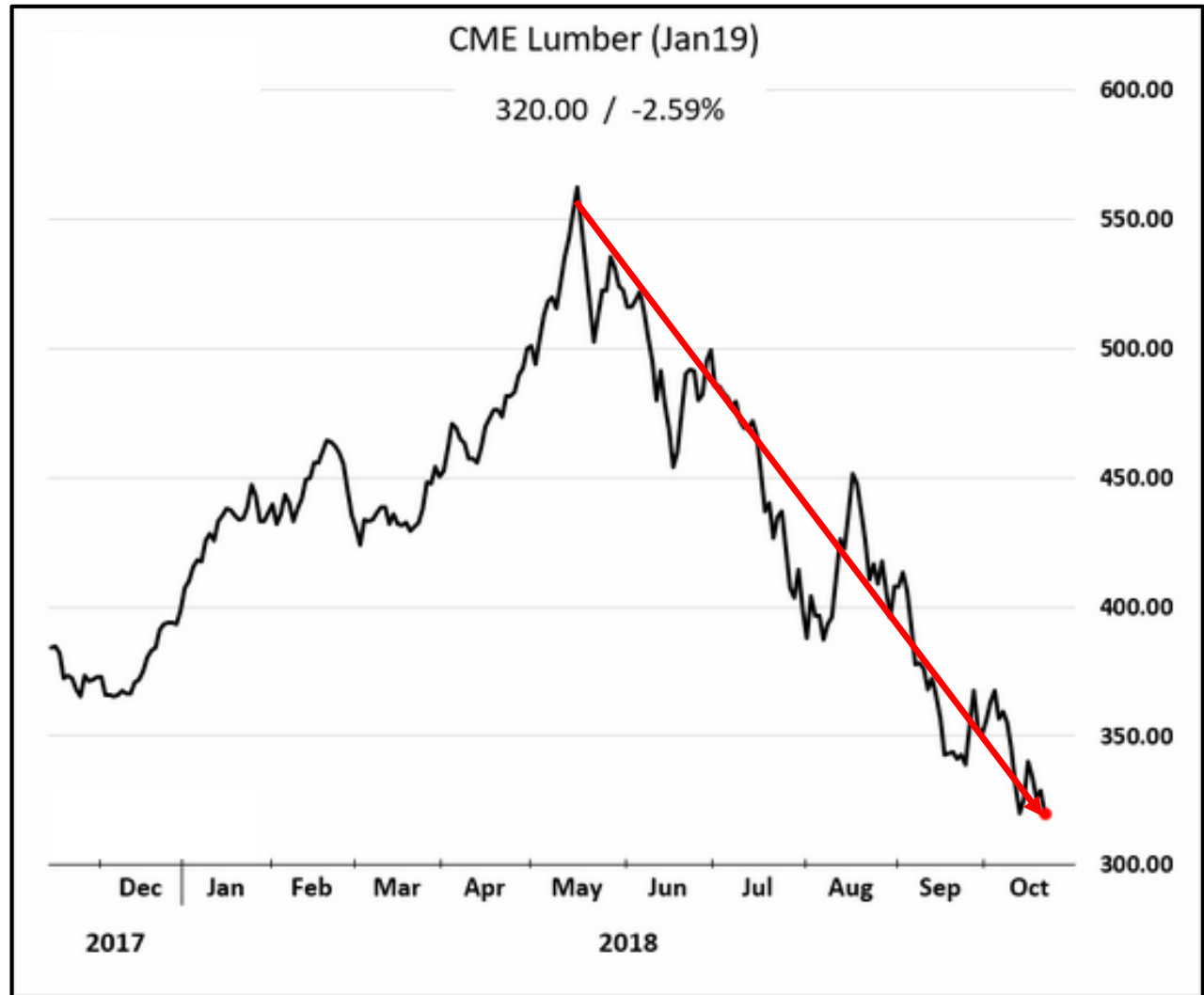
FOREIGN DEMAND COOLS, CONFIDENCE WEAKENS, CANCELLATIONS RISE



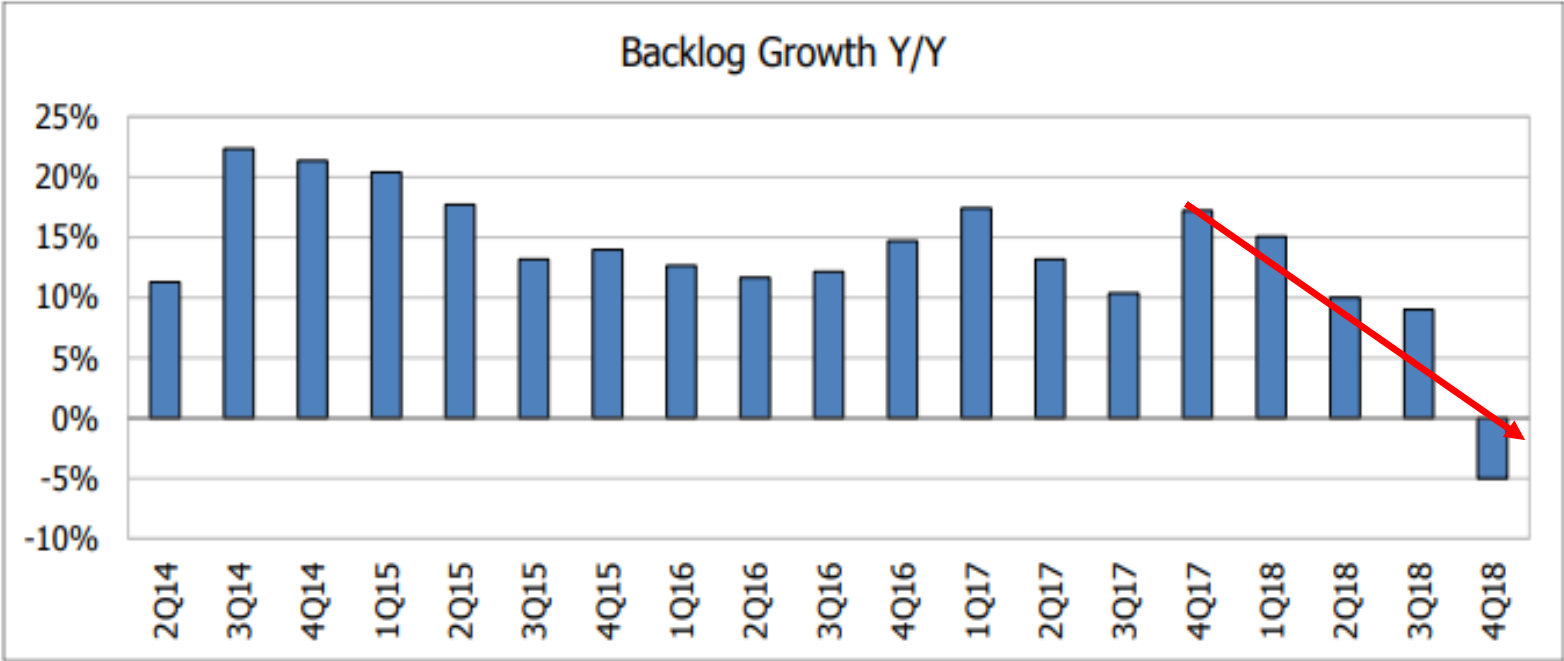
Source: Metrostudy Sales and Traffic Report

LUMBER PROVIDED A WARNING OF WEAK DEMAND

The collapse in lumber prices during 2018 foreshadowed a major weakening in housing demand ahead.



SLOWING ORDERS SETS OFF A CYCLE OF PRICE DISCOVERY



Source: Company reports

Builders will work to keep their contracts in place since these orders are crucial to future earnings.

RESIDENTIAL INVESTMENT WILL FIRM LATER IN 2019

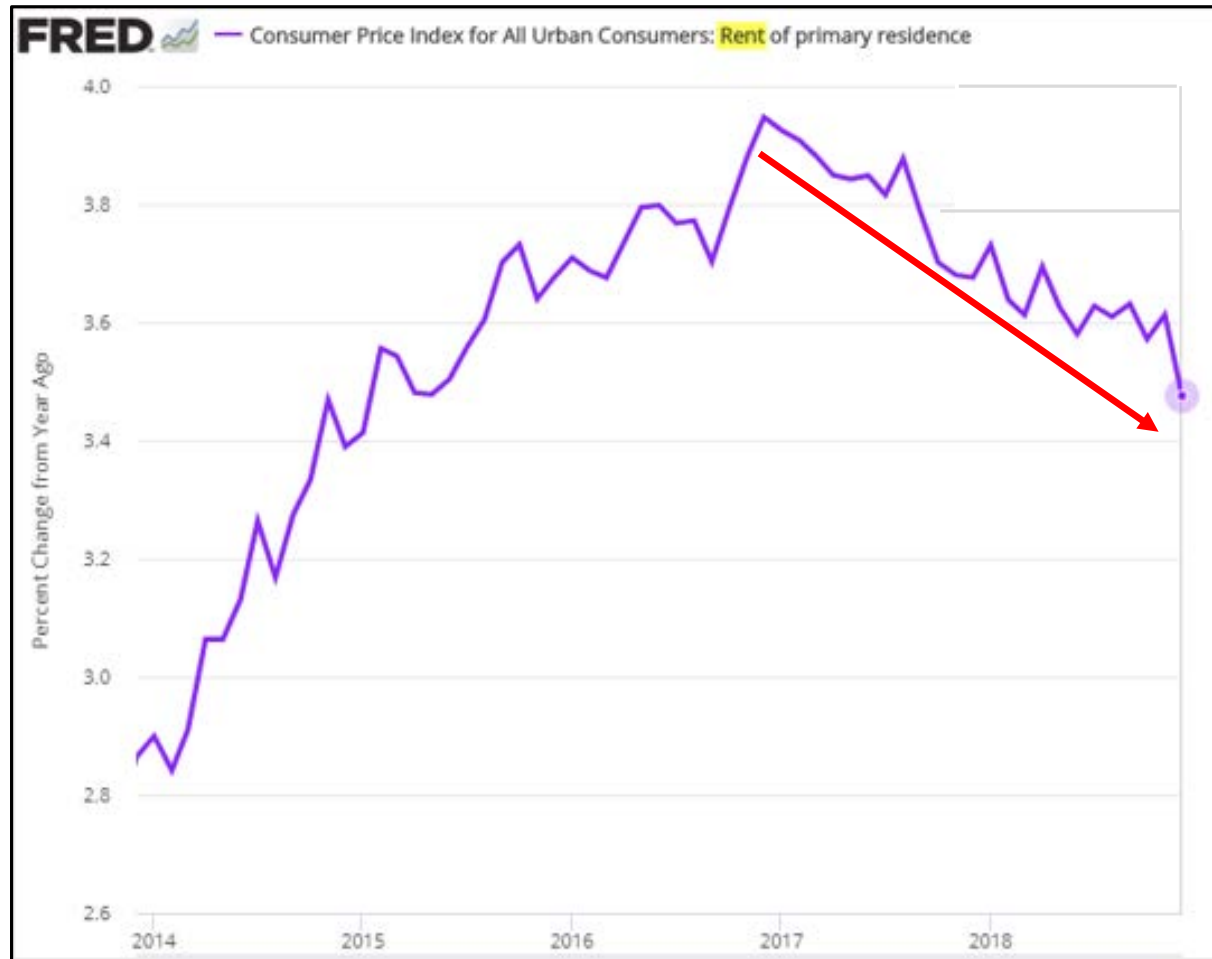
Residential real estate investment is forecast to bottom out in 2019.

Year 2020 will show modest improvement.



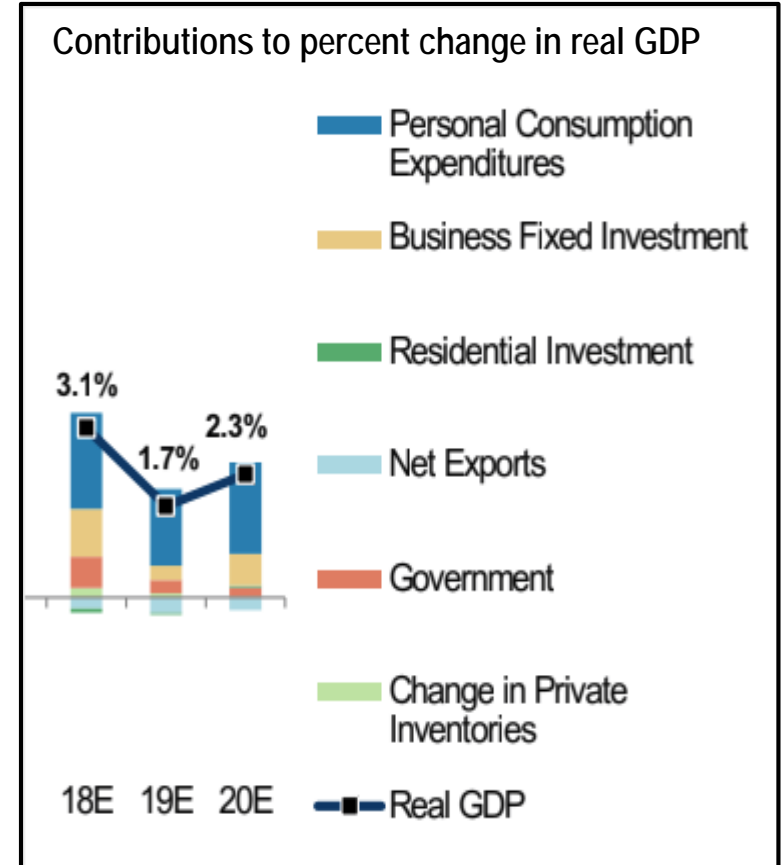
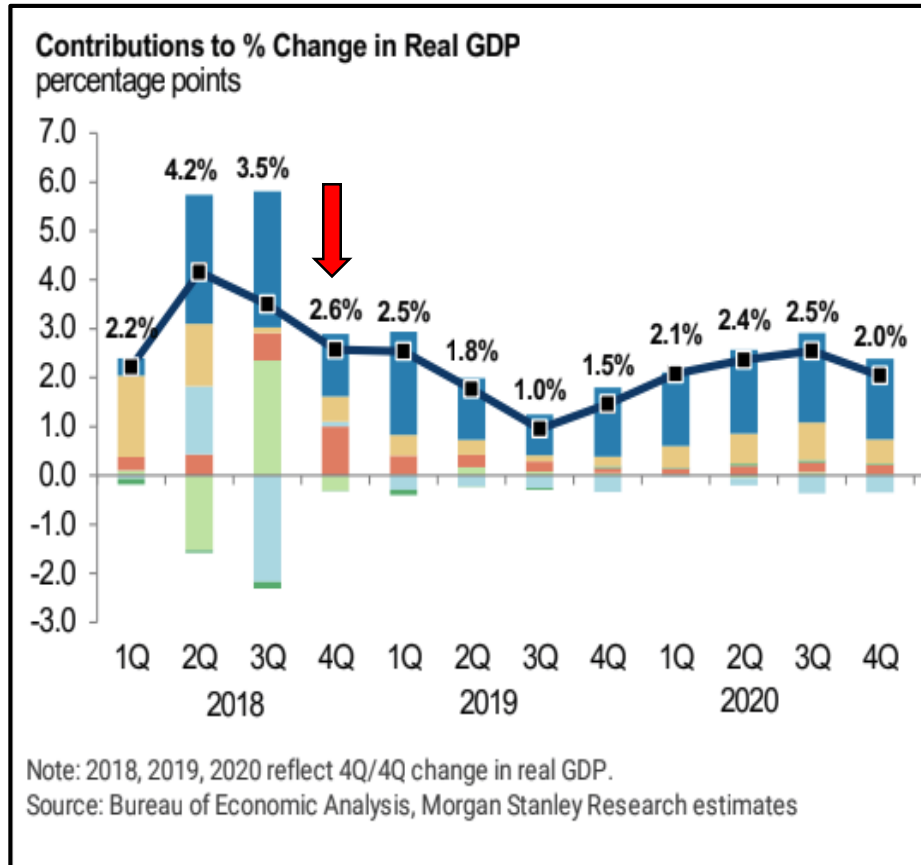
FLATTENING RENT GROWTH TAKES PRESSURE OFF HOME PRICES

Rents are still growing, just at a slower pace.



National Economic Conditions

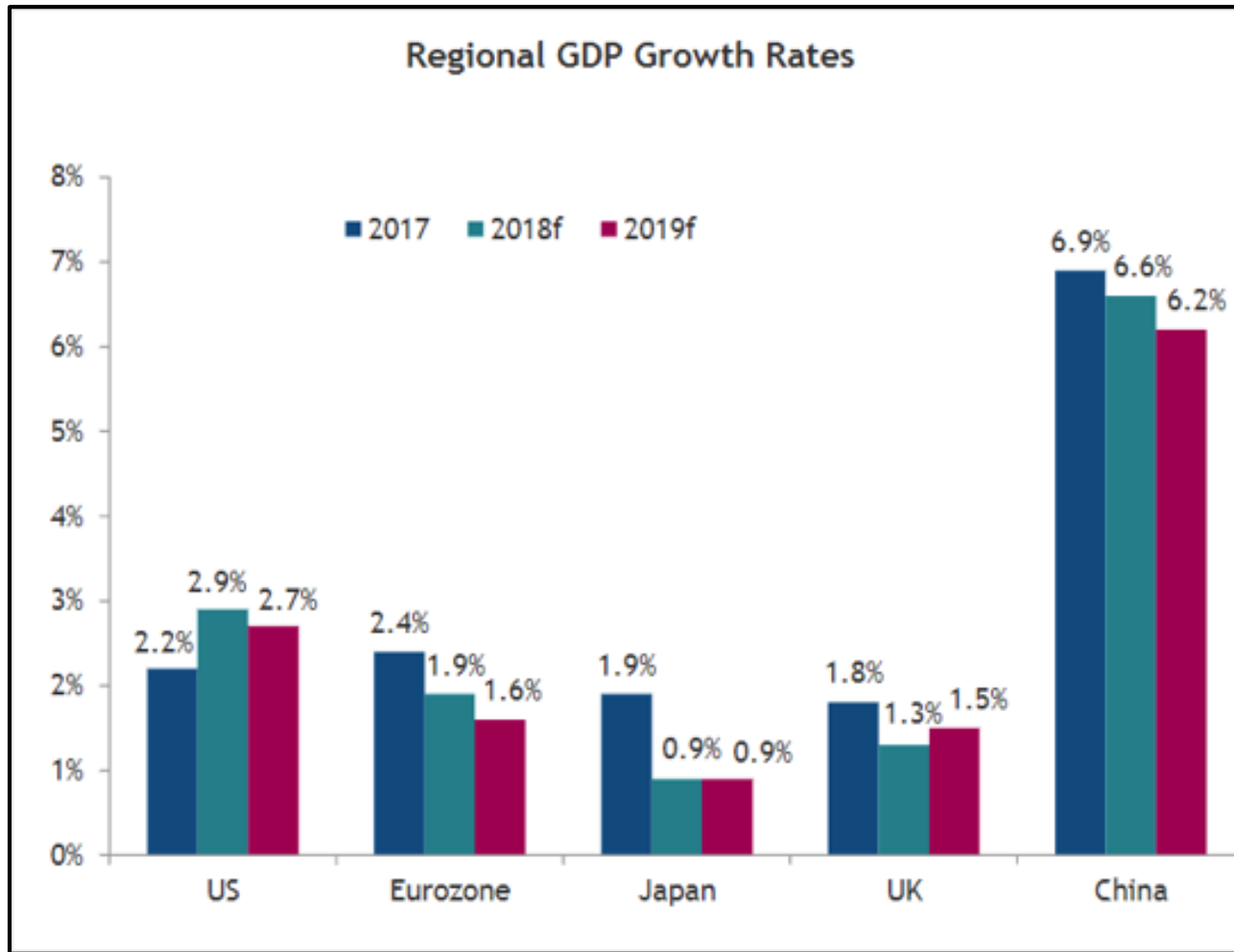
U.S. ECONOMIC CONDITIONS MODERATE IN THE NEAR TERM



U.S. DOMESTIC ECONOMIC OUTLOOK IS POSITIVE

Recession Dashboard							
Start of Recession	Yield Curve	Inflation Trends	Job Creation	Credit Perform	ISM Mfg.	Earnings Quality	Housing Market
Nov-73	↓	↓	↓	↓	↓	--	↓
Jan-80	↓	↓	↓	↓	↓	--	↓
Jul-81	↓	↑	↑	↓	↓	--	↓
Jul-90	↓	↓	↓	↓	↓	↓	↓
Mar-01	↓	↓	↓	↓	↓	↓	↔
Dec-07	↓	↓	↔	↓	↓	↓	↓
Present	↑	↔	↑	↑	↑	↑	↑
Key: ↓ Recessionary ↑ Expansionary ↔ Neutral							
Source: Standard & Poor's, Federal Reserve, BLS, National Statistical Agencies, NBER, ISM, Census Bureau, Haver Analytics®, Credit Suisse							

GLOBAL ECONOMIC CONDITIONS ARE SLOWING

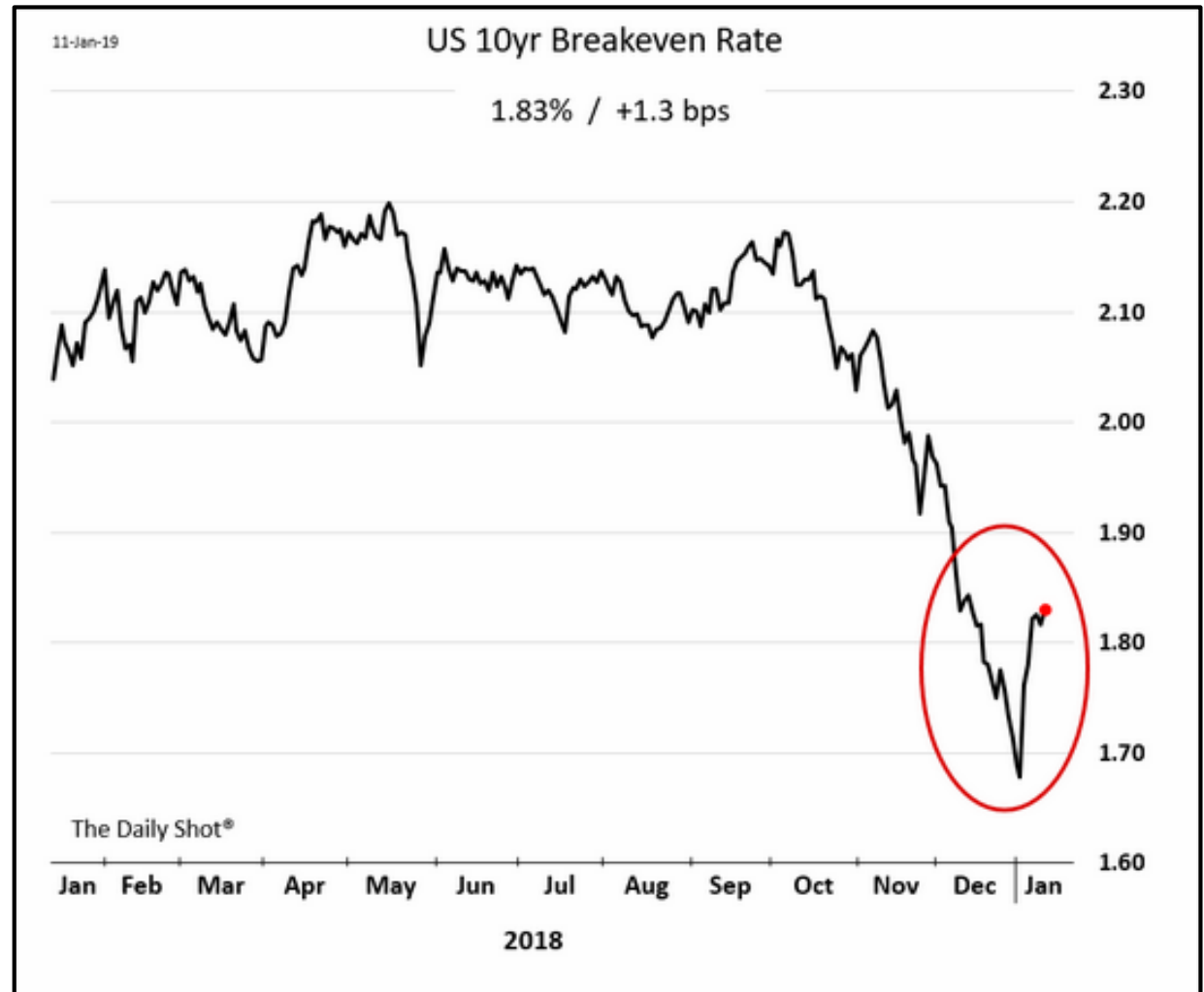


Interest Rates

MARKET BASED INFLATION MEASURES BOTTOMING?

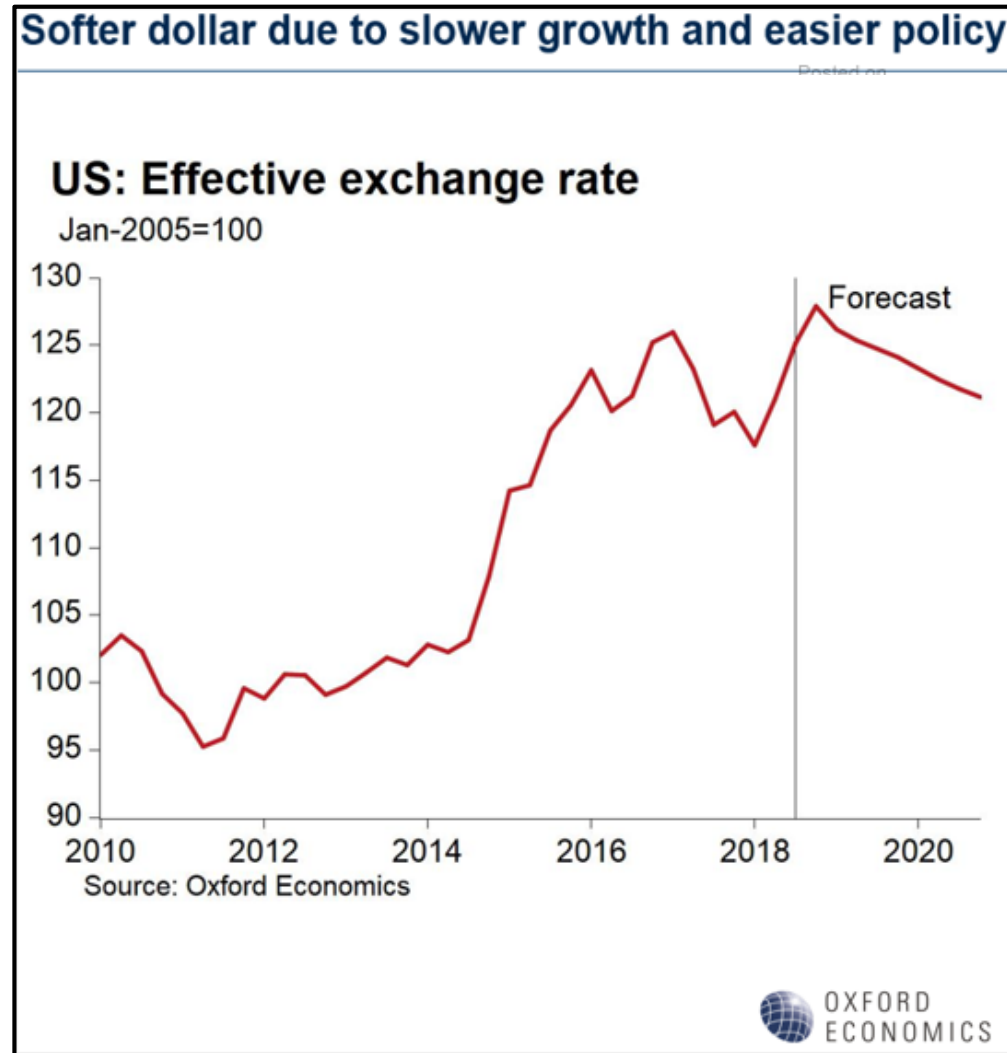
Breakeven rates reflect investor expectations of future inflation by comparing current yields to inflation adjusted yields.

Inflation expectations have risen following the announcement that rate increases will moderate.



DOLLAR STRENGTH BASED ON RATE HIKES REVERSING?

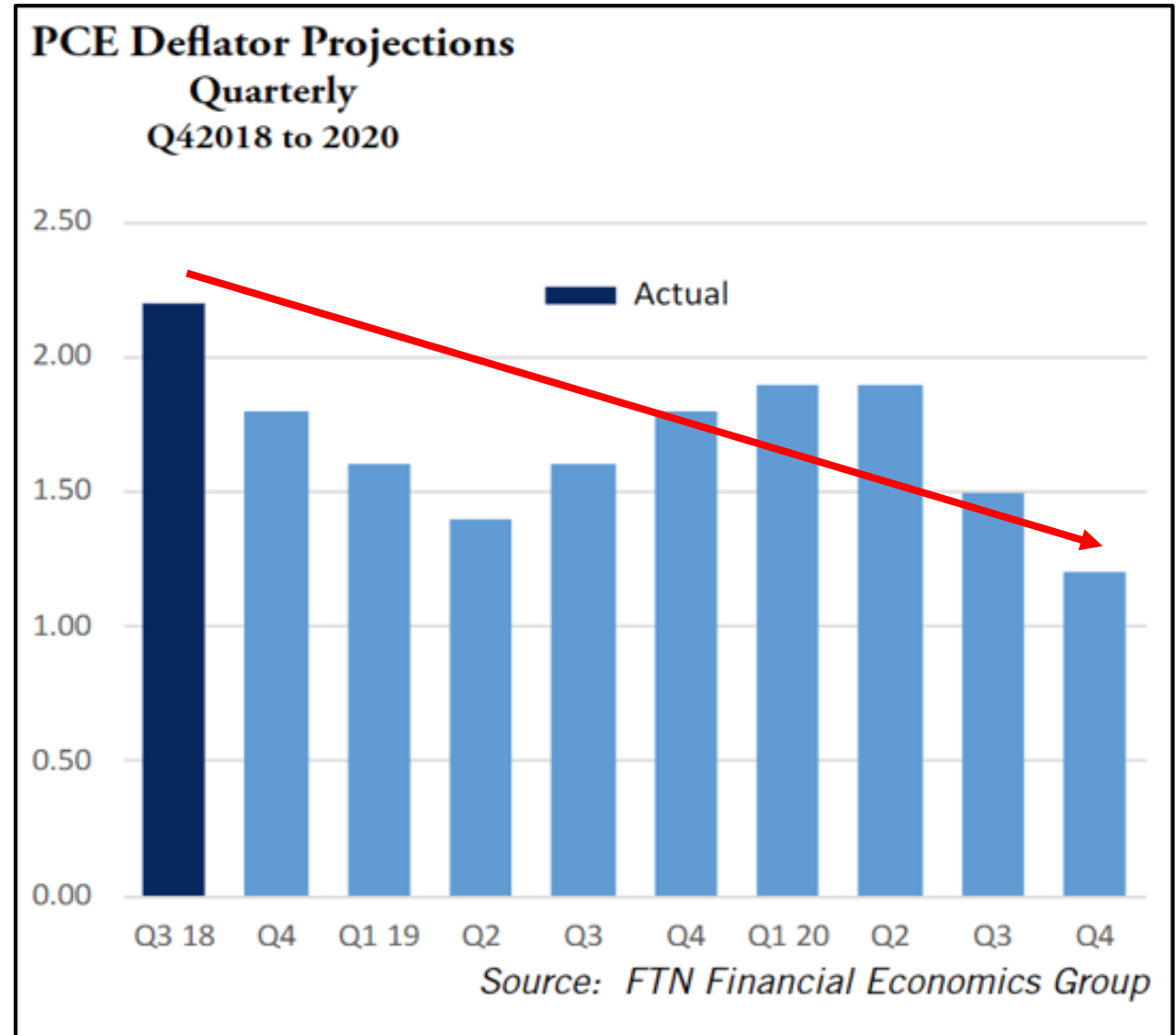
A weaker dollar will gradually reinvigorate foreign demand.



INFLATION PROJECTIONS ARE TAME

The Fed's preferred measurement of inflation, the Personal Consumption Expenditure Index (PCE) hasn't consistently surpassed the Fed's 2.0% - 2.5% target since 2011.

This shows there is little cause for higher rates.



Existing Home Market

EXISTING HOME PRICES AND SALES

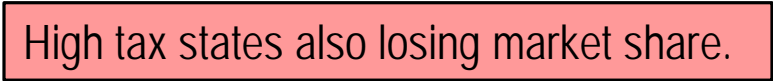
November 2018	Median Sold Price of Existing Single-Family Homes						Sales		
State/Region/County	Nov. 2018	Oct. 2018		Nov. 2017		Price MTM% Chg	Price YTY% Chg	Sales MTM% Chg	Sales YTY% Chg
Calif. Single-family home	\$554,760	\$572,000		\$546,820		-3.0%	1.5%	-3.9%	-13.4%
Calif. Condo/Townhome	\$465,770	\$476,440		\$451,250		-2.2%	3.2%	-19.1%	-17.4%
Los Angeles Metro Area	\$512,000	\$516,000		\$500,500		-0.8%	2.3%	-14.0%	-10.1%
Central Coast	\$672,500	\$669,500		\$685,000		0.4%	-1.8%	-15.9%	-18.0%
Central Valley	\$320,000	\$320,000		\$310,000		0.0%	3.2%	-11.7%	-3.9%
Inland Empire	\$363,620	\$359,000		\$340,000		1.3%	6.9%	-12.2%	-6.7%

Source: California Association of Realtors

EXISTING HOME INVENTORY AND DAYS ON MARKET

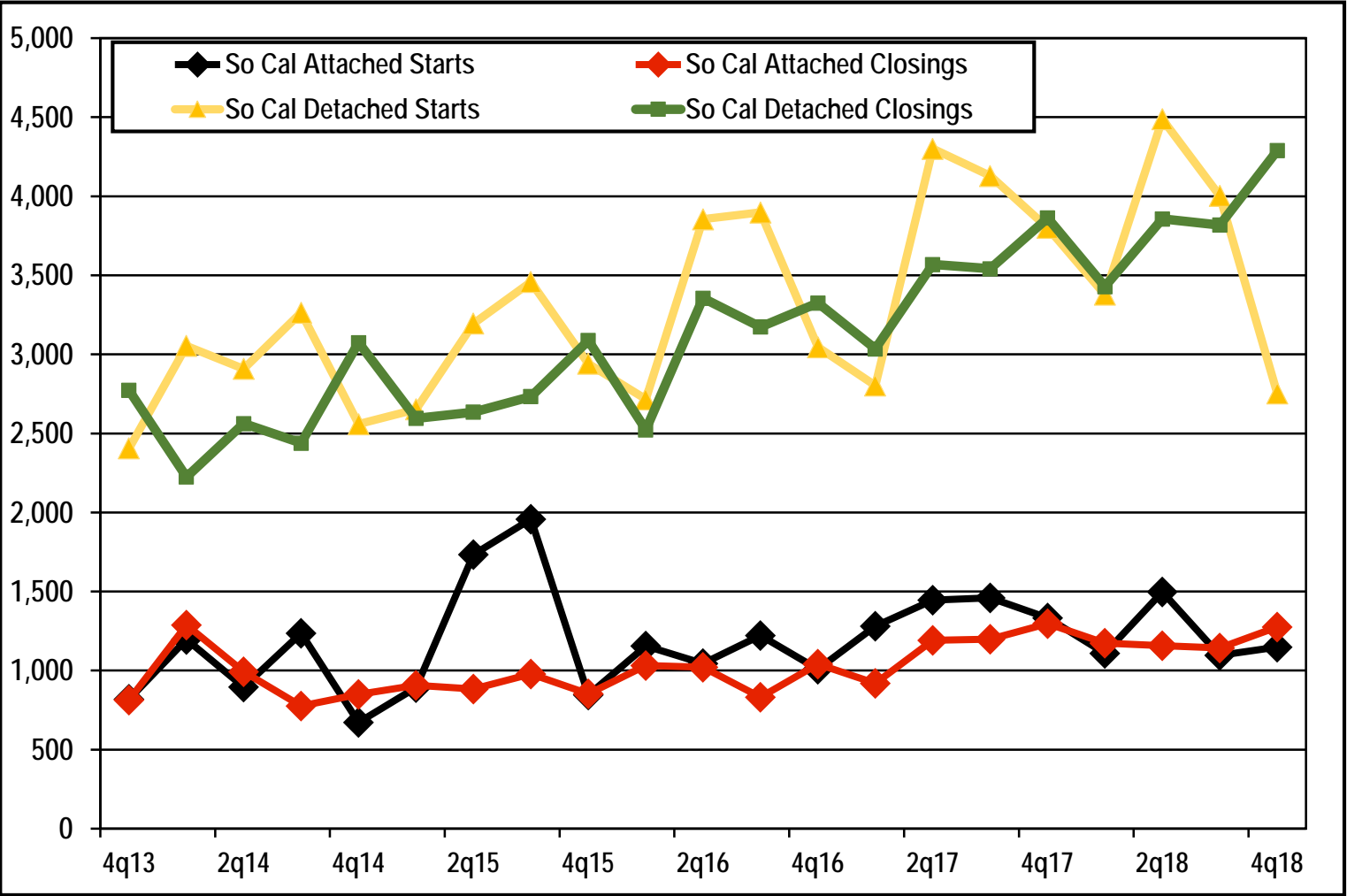
November 2018	Unsold Inventory Index					Median Time on Market				
State/Region/County	Nov. 2018	Y-O-Y Change		Nov. 2017		Nov. 2018	Oct. 2018		Nov. 2017	
Calif. Single-family home	3.7	27.6%		2.9		28.0	26.0		22.0	
Calif. Condo/Townhome	3.4	54.5%		2.2		25.0	21.0		17.0	
Los Angeles Metro Area	4.2	27.3%		3.3		32.0	30.0		27.0	
Central Coast	4.4	29.4%		3.4		34.0	30.0		30.0	
Central Valley	3.3	13.8%		2.9		25.0	21.0		18.0	
Inland Empire	4.7	20.5%		3.9		37.0	35.0		31.0	

Source: California Association of Realtors

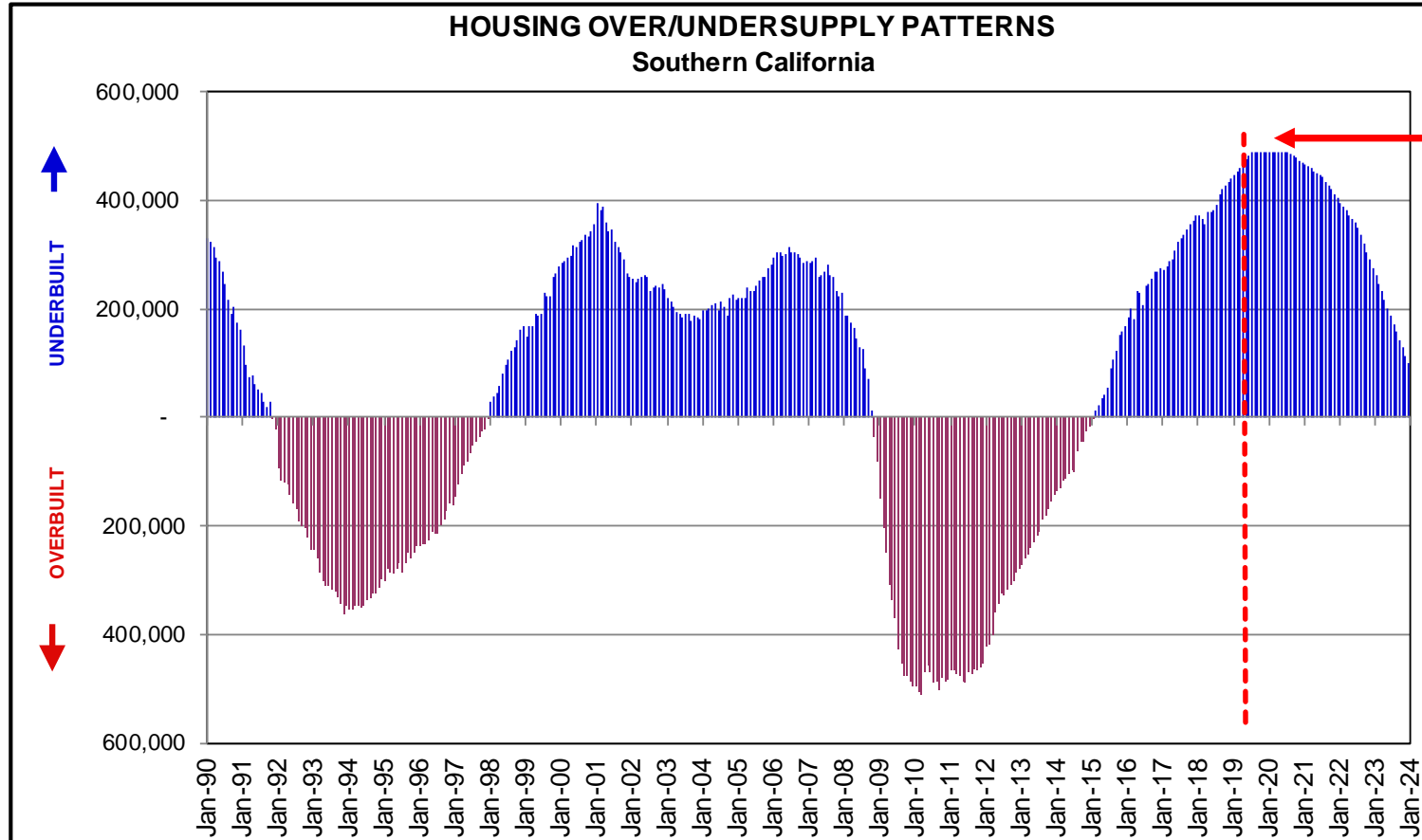


Southern California New Home Market

Southern California – New Home Starts and Closings – Quarterly Totals



Southern California Supply/Demand Patterns



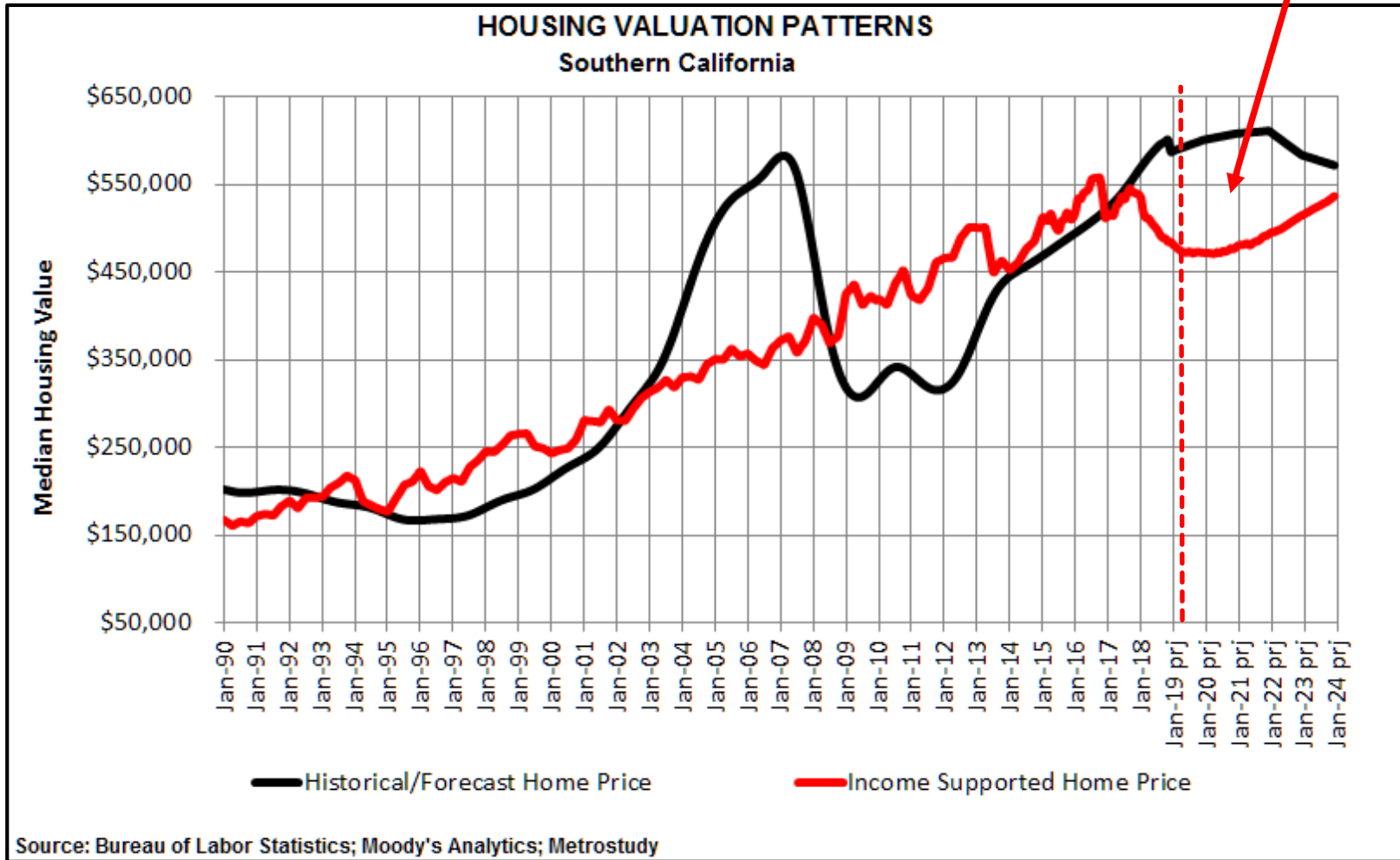
This top represents the cycle peak in undersupply.

* Over/Undersupply measures based on current jobs-to-housing relationship relative to long-term relationship between jobs and housing.

Source: Bureau of Labor Statistics; Moody's Analytics; Metrostudy

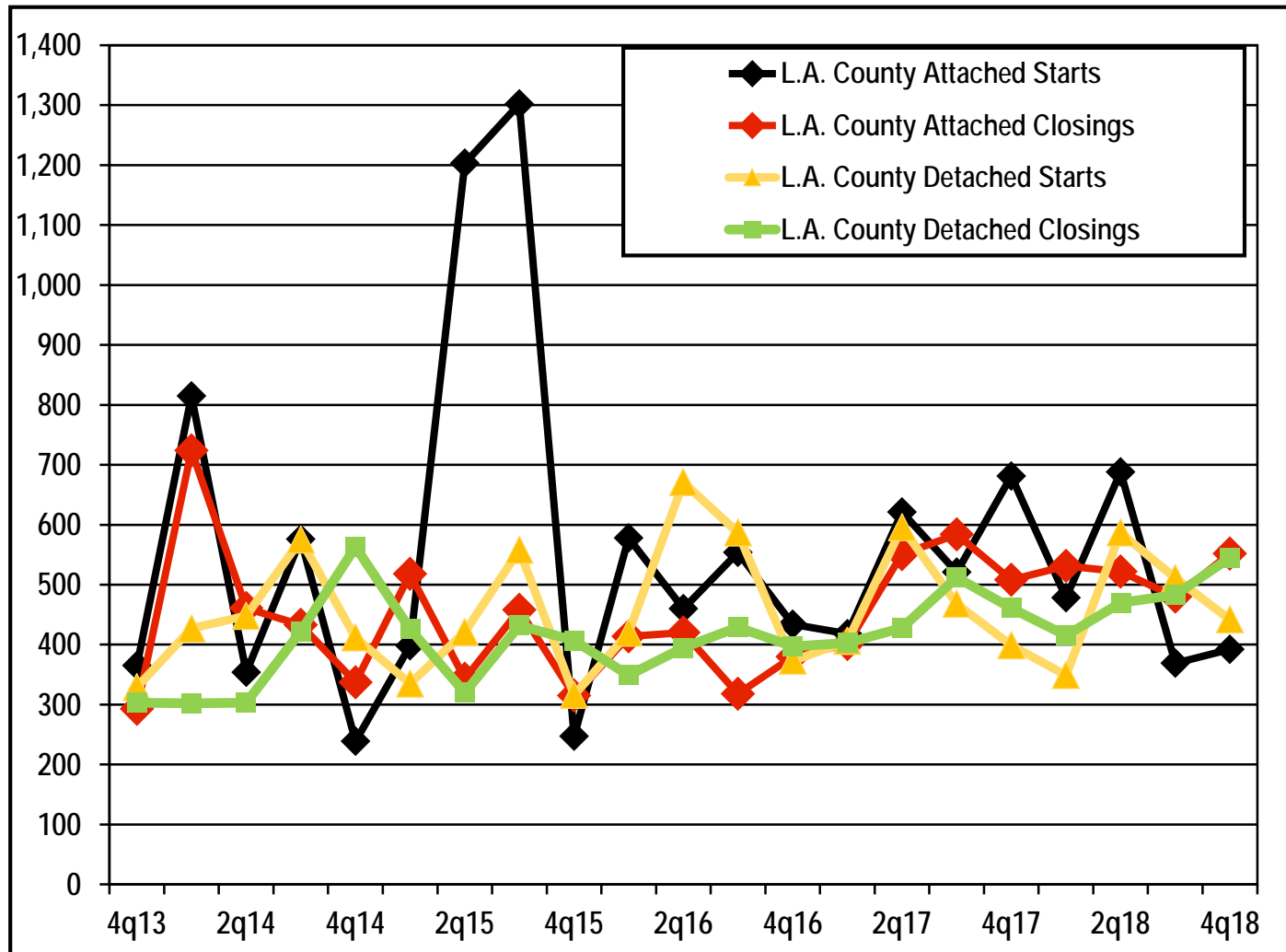
Southern California Valuation Patterns

This gap represents overvaluation.

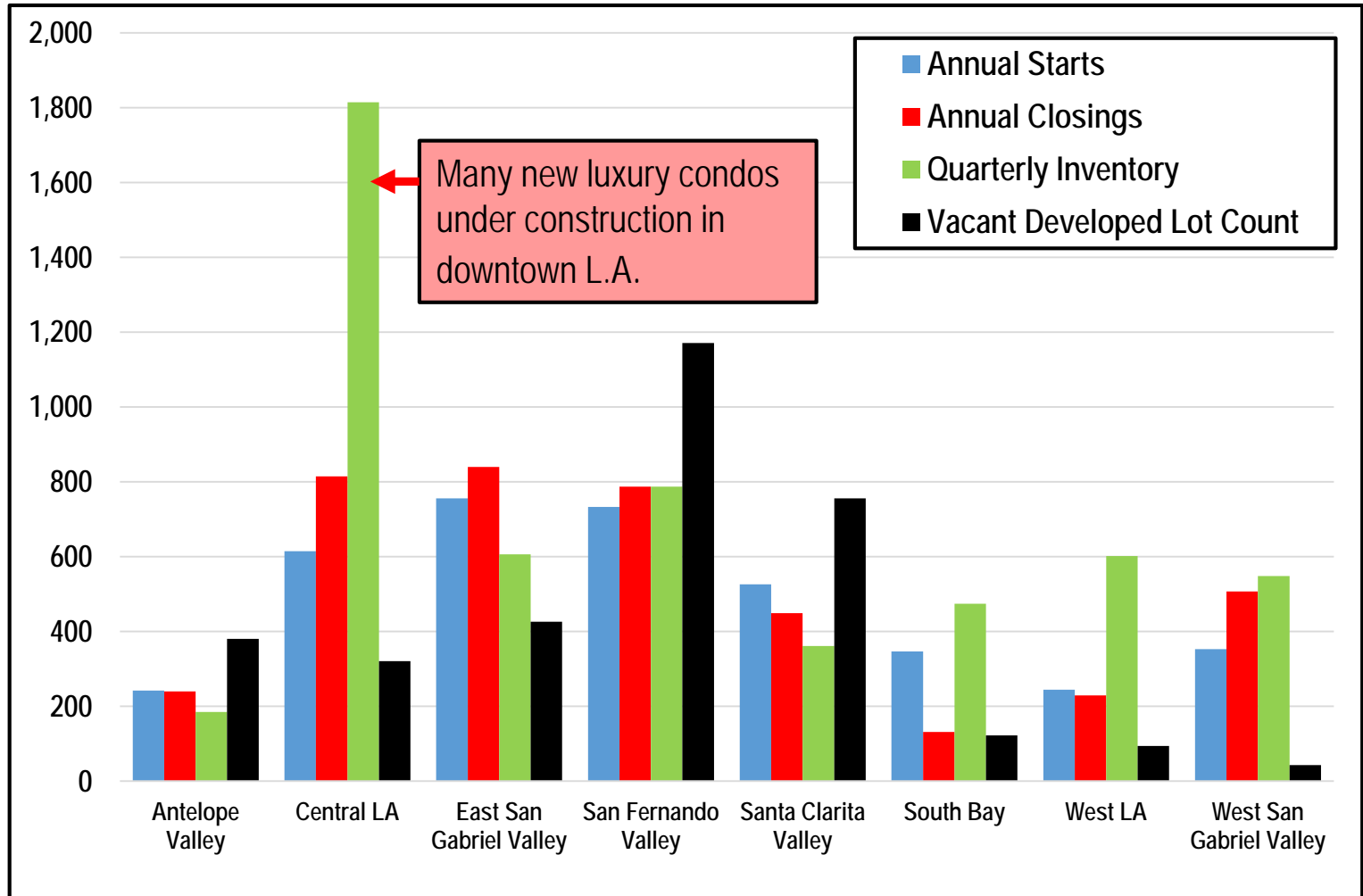


Los Angeles County New Home Market

Los Angeles County – New Home Starts and Closings – Quarterly Totals

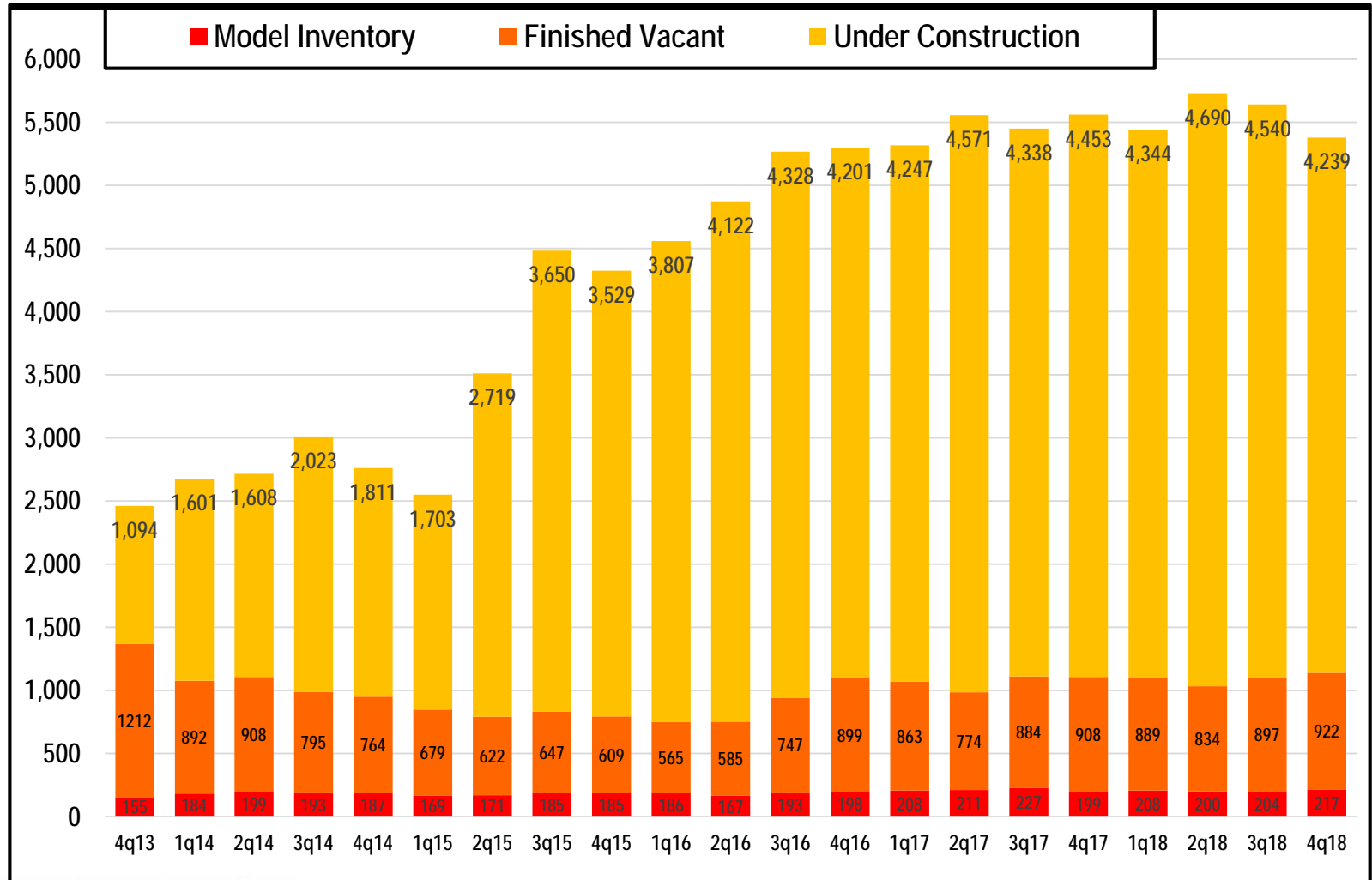


Los Angeles County – New Home Data By Submarket – 4Q 2018



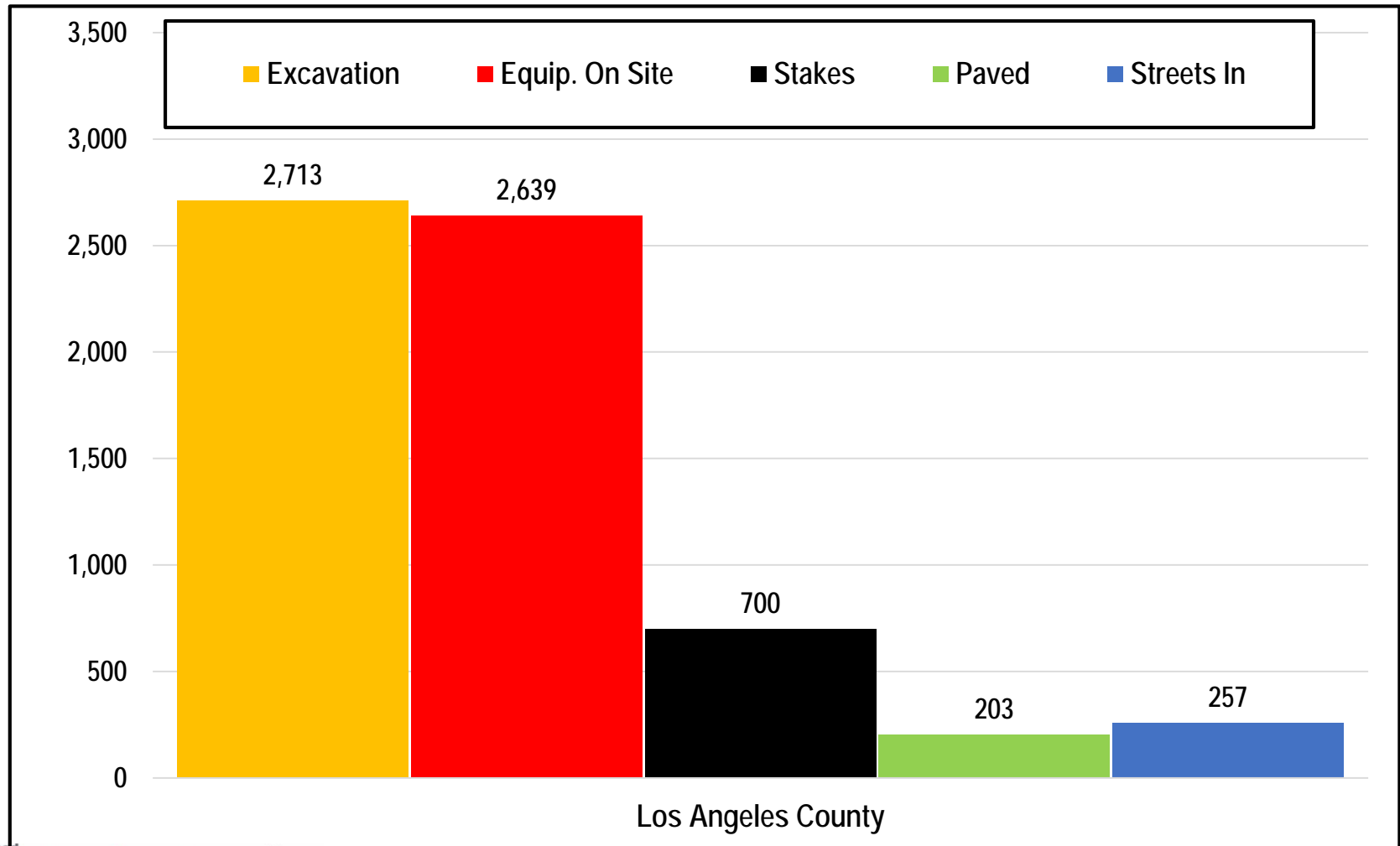
Los Angeles County – Inventory By Type

(Models + Finished Vacant + Under Construction)



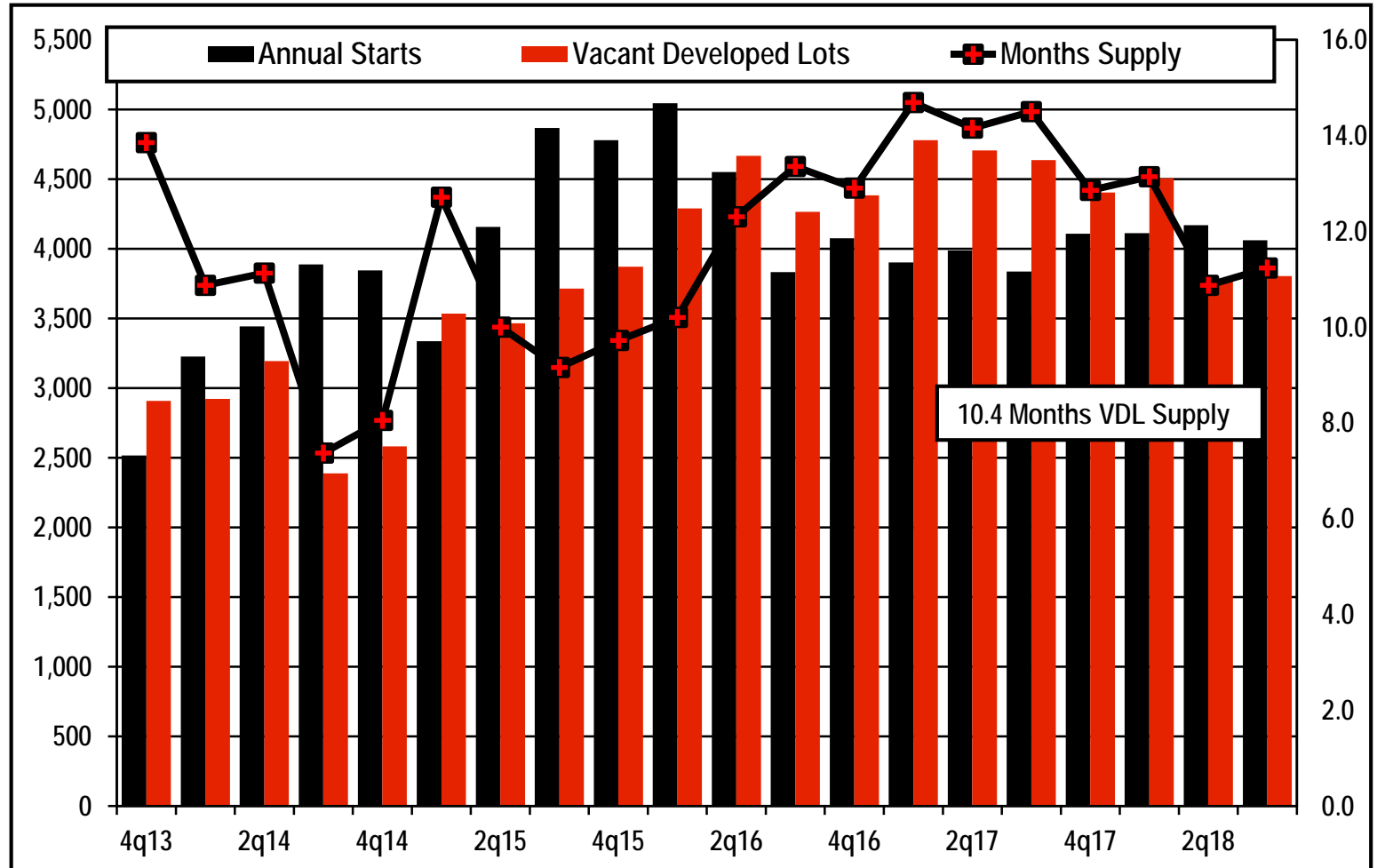
Los Angeles County – Improved Lot Inventory By Status

(Stakes + Equip. Onsite + Excavation + Paved + Streets In)



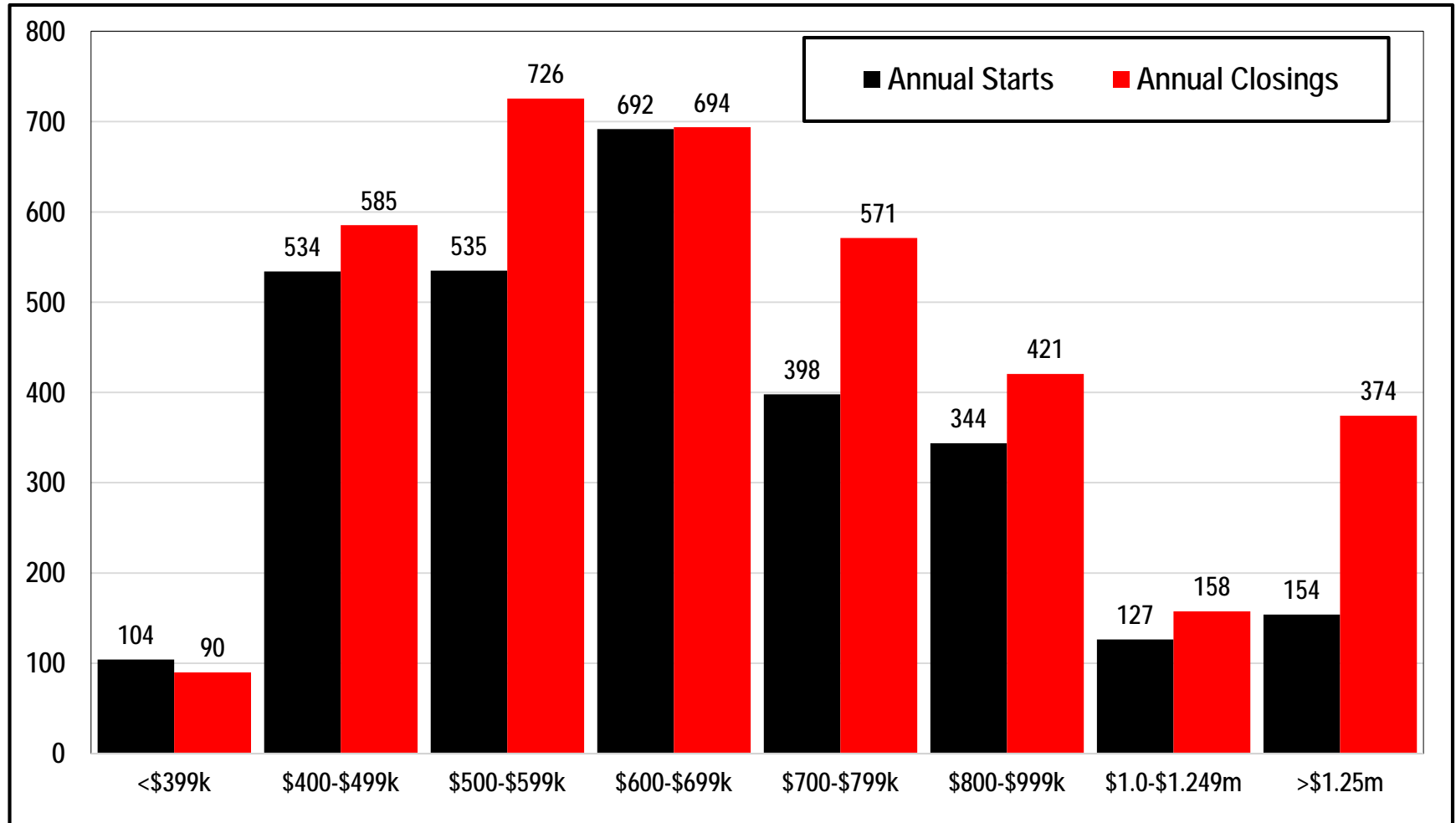
Los Angeles County

Quarterly New Home Starts vs Lot Inventory & Lot Months of Supply



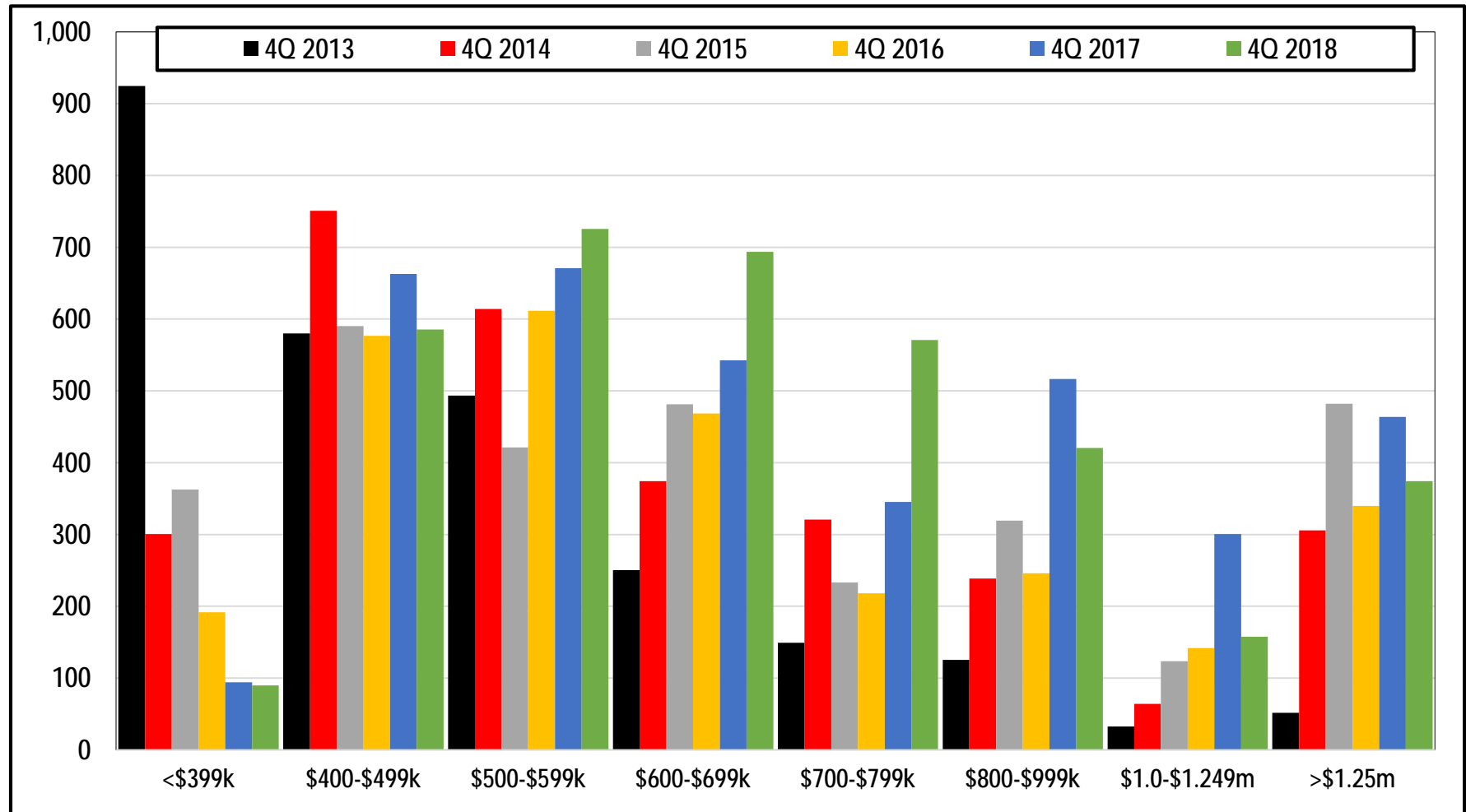
Los Angeles County

Housing Starts & Closings by Price Range TTM



Los Angeles County

Annual Closings by Price Range – 4Q 2013 to 4Q 2018

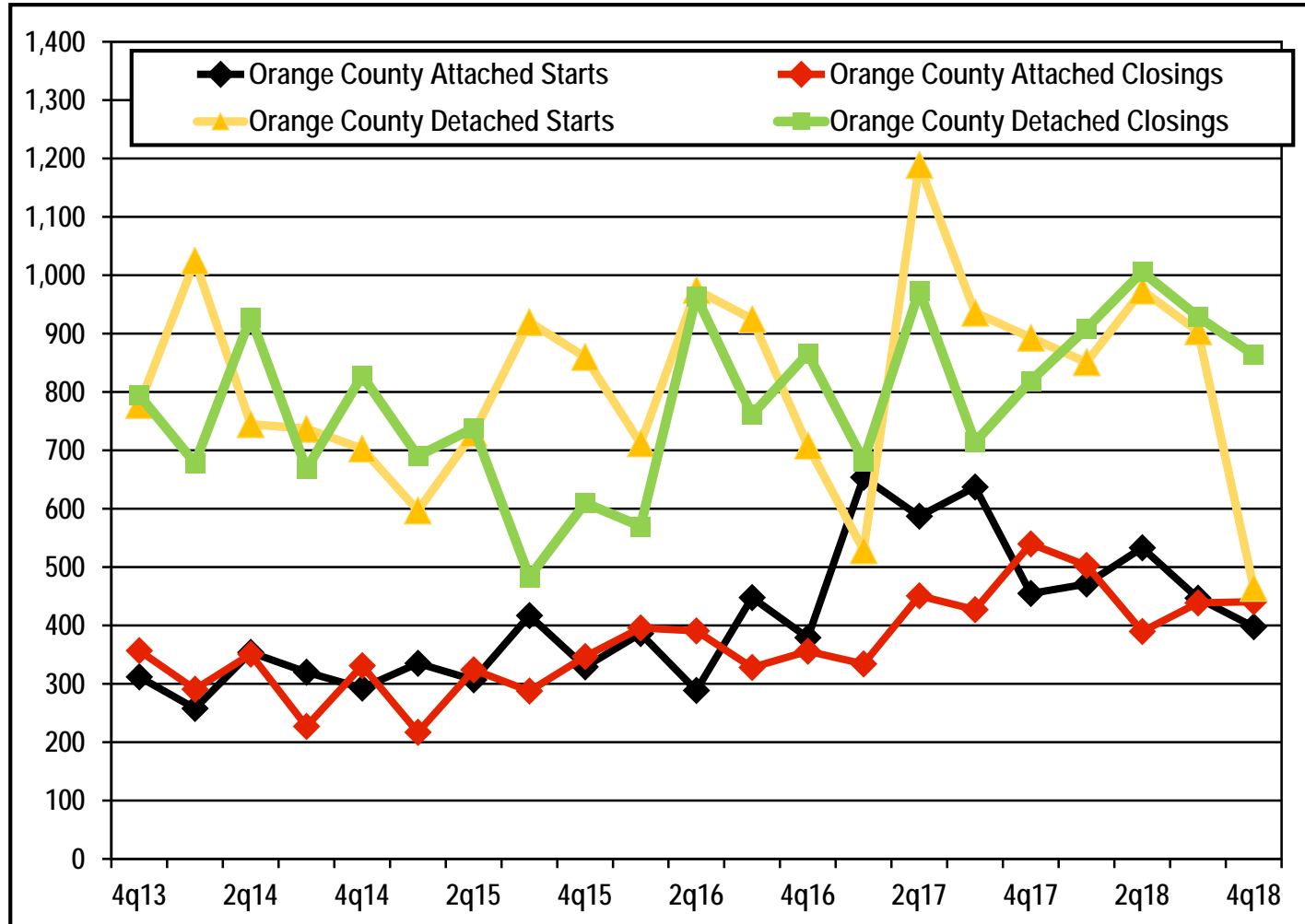


Top Production Builders by Trailing Twelve Month (TTM) Closings

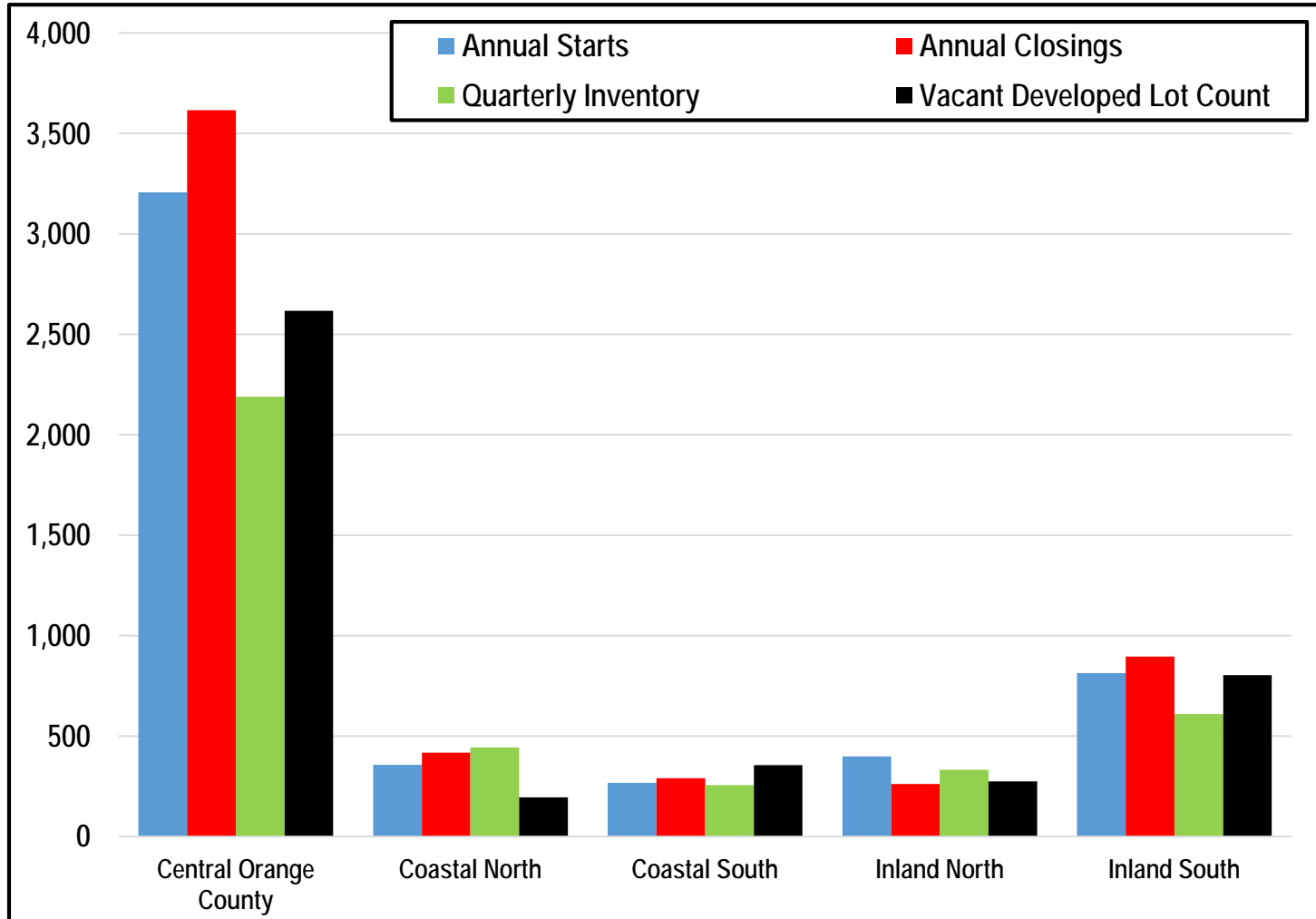
Rank	Builder	TTM	1Q 2018	2Q 2018	3Q 2018	4Q 2018
1	KB Home	306	81	46	112	67
2	City Ventures	235	44	31	89	71
3	TRI Pointe Homes	223	47	36	36	104
4	Richmond American	202	58	59	53	32
5	The Olson Company	185	21	56	47	61
6	Williams Homes Inc	179	25	45	58	51
7	DR Horton	169	51	51	23	44
8	Toll Brothers Inc	150	13	47	20	70
9	Brookfield Residential	149	38	32	23	56
10	Lennar	146	8	28	39	71
11	Brandywine Homes	138	22	30	40	46
12	Greenland Joint Venture	133	29	13	55	36
13	Shea Homes	115	28	33	26	28
14	Pardee Homes	86	21	22	20	23
15	California Home	79	24	26	4	25
16	Pacific Communities	66	14	16	22	14
17	Comstock Homes	53	12	23	10	8
18	Figueroa Terrace LLC	42	0	30	10	2
19	Harvard Regency LLC	40	34	6	0	0
20	Beazer Homes	39	2	13	14	10

Orange County New Home Market

Orange County – New Home Starts and Closings – Quarterly Totals

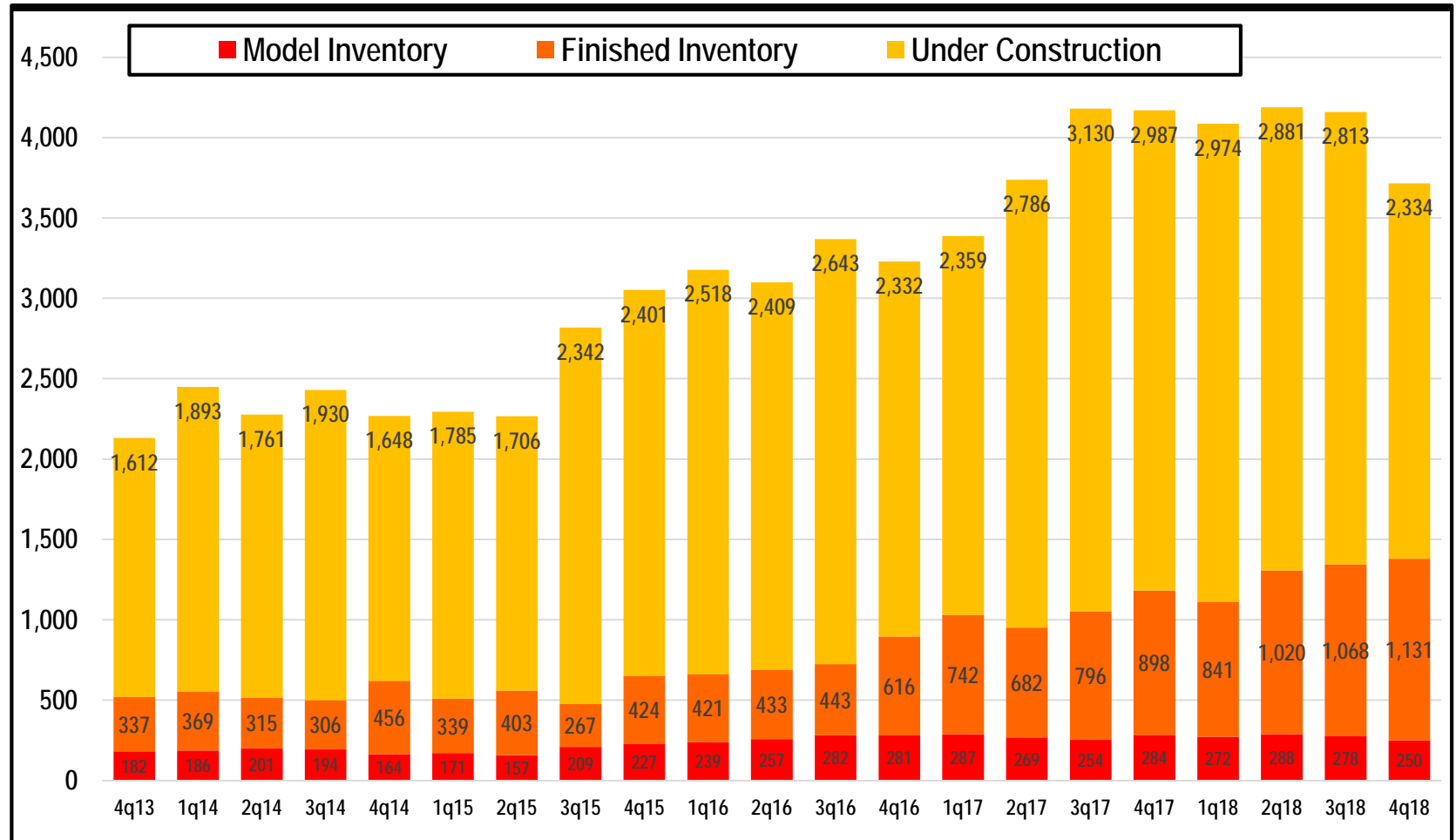


Orange County – New Home Data By Submarket – 4Q 2018



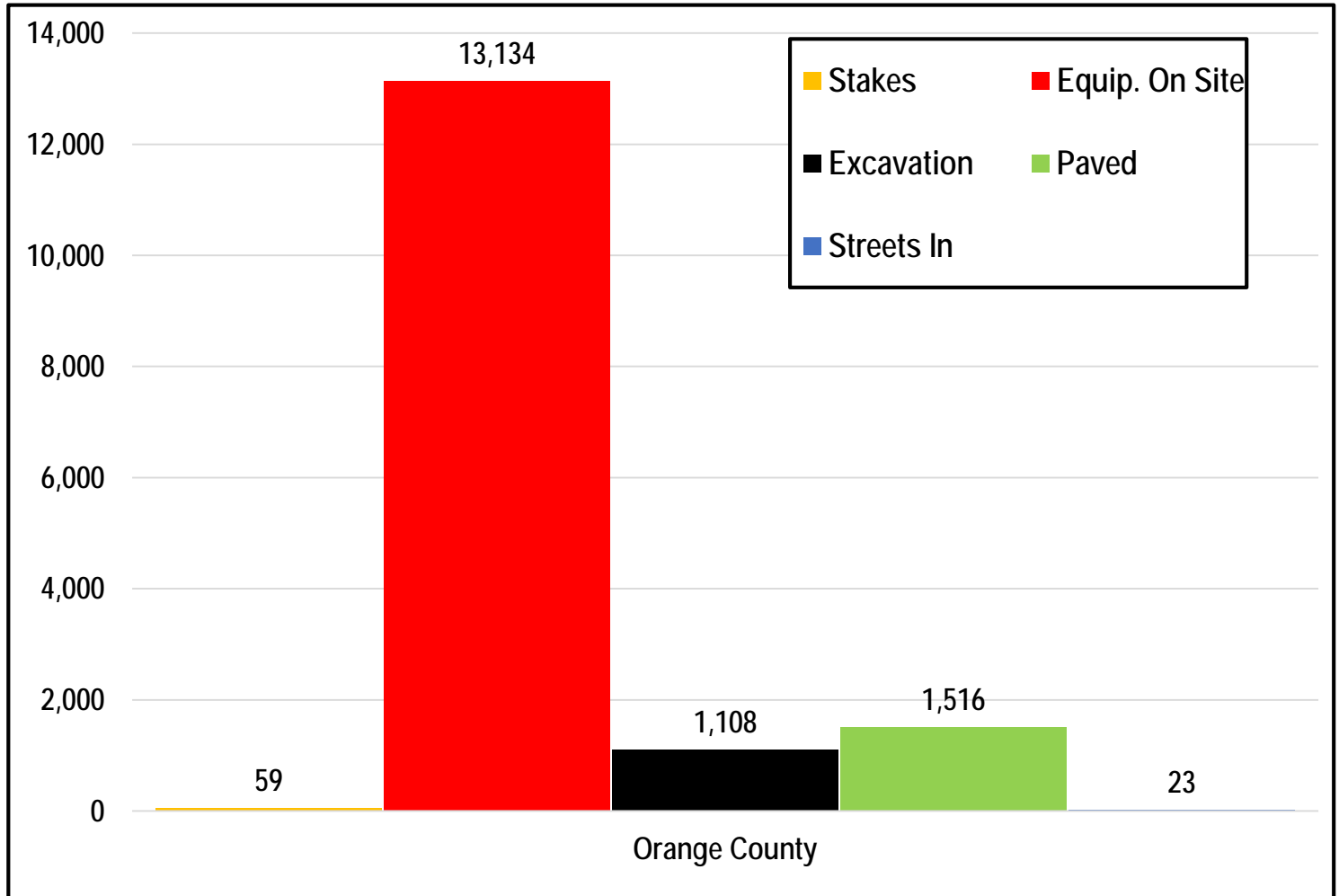
Orange County – Inventory By Type

(Models + Finished Vacant + Under Construction)



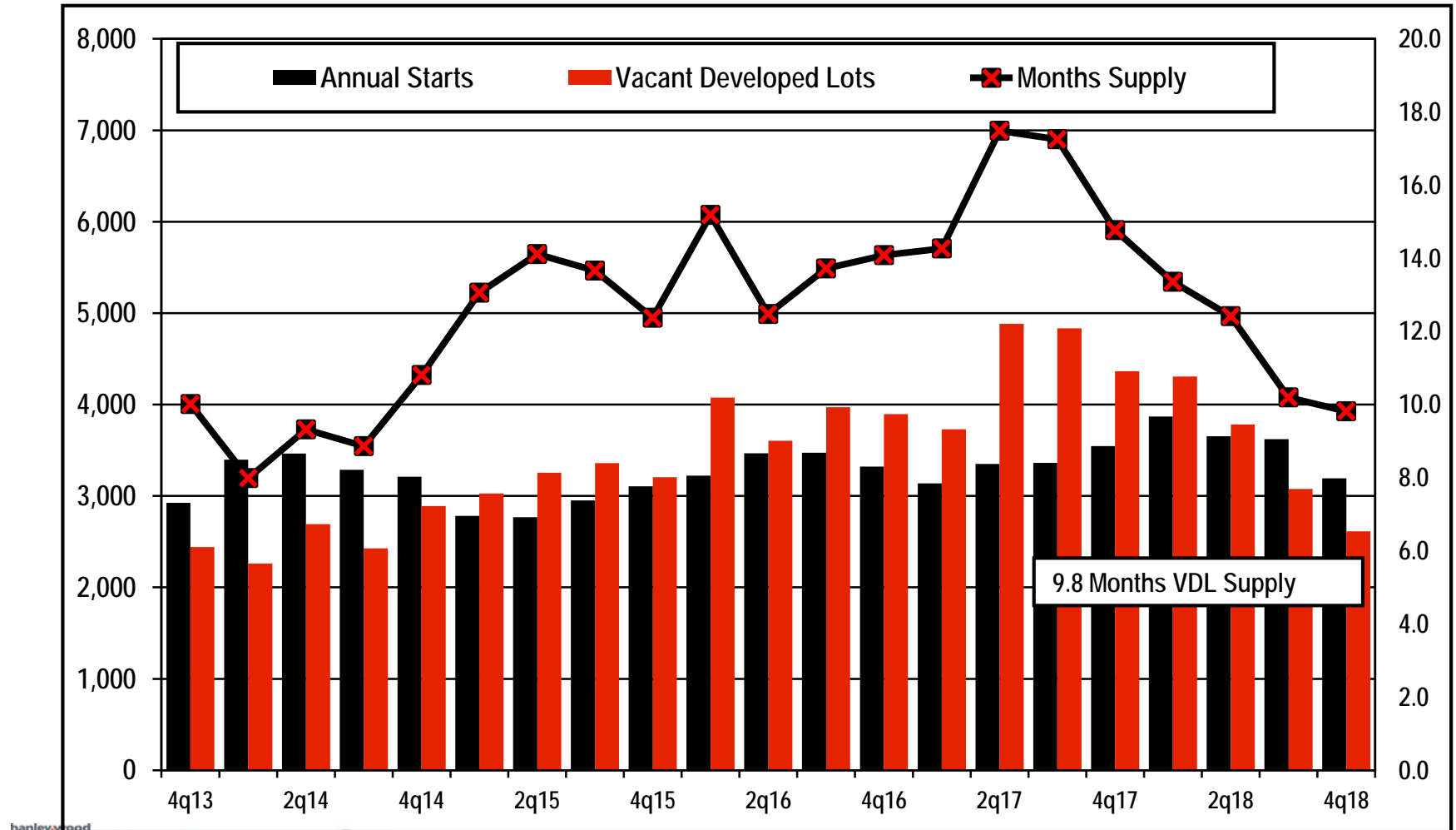
Orange County – Improved Lot Inventory By Status

(Stakes + Equip. Onsite + Excavation + Paved + Streets)



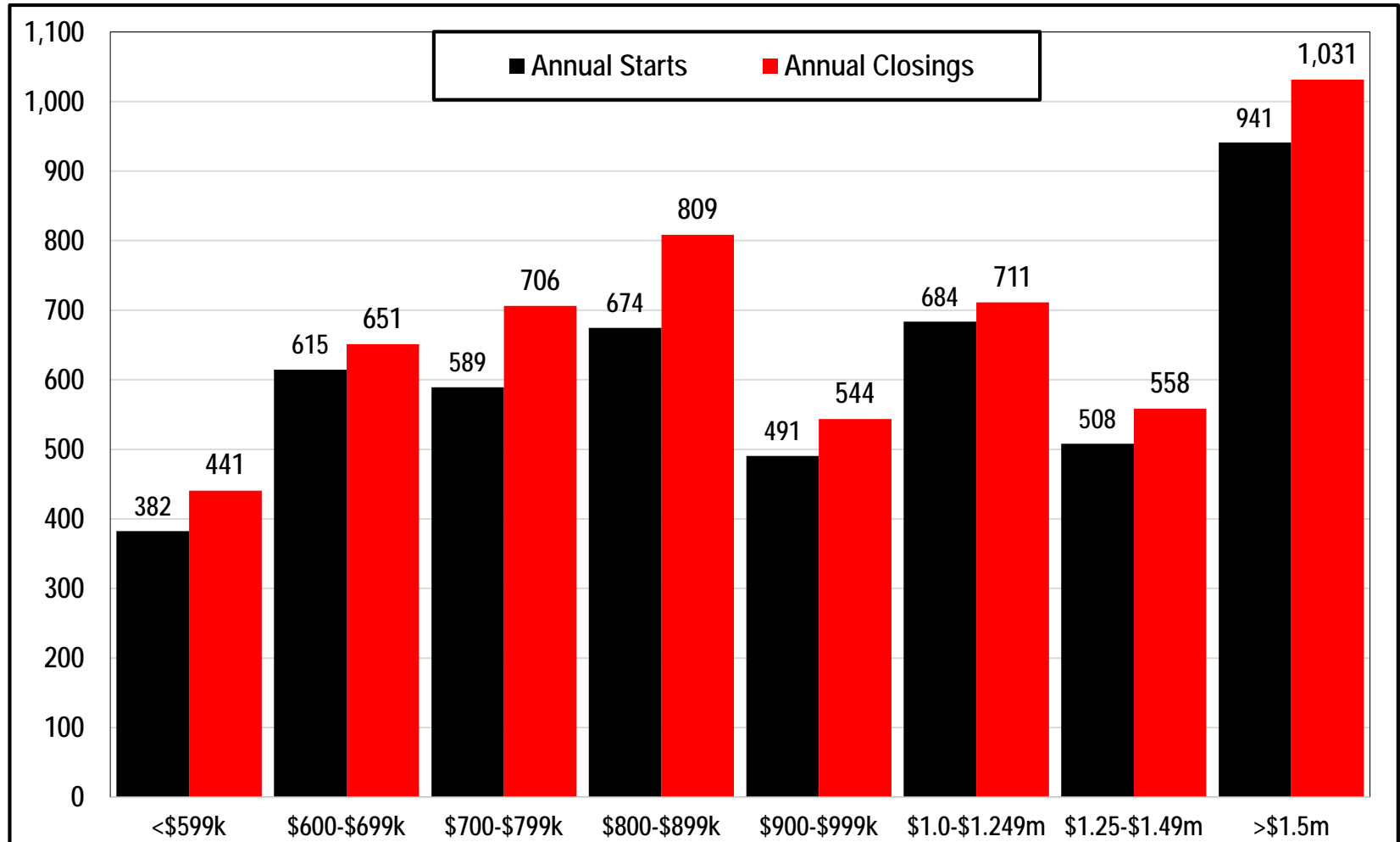
Orange County

Annual New Home Starts vs Lot Inventory & Lot Months of Supply



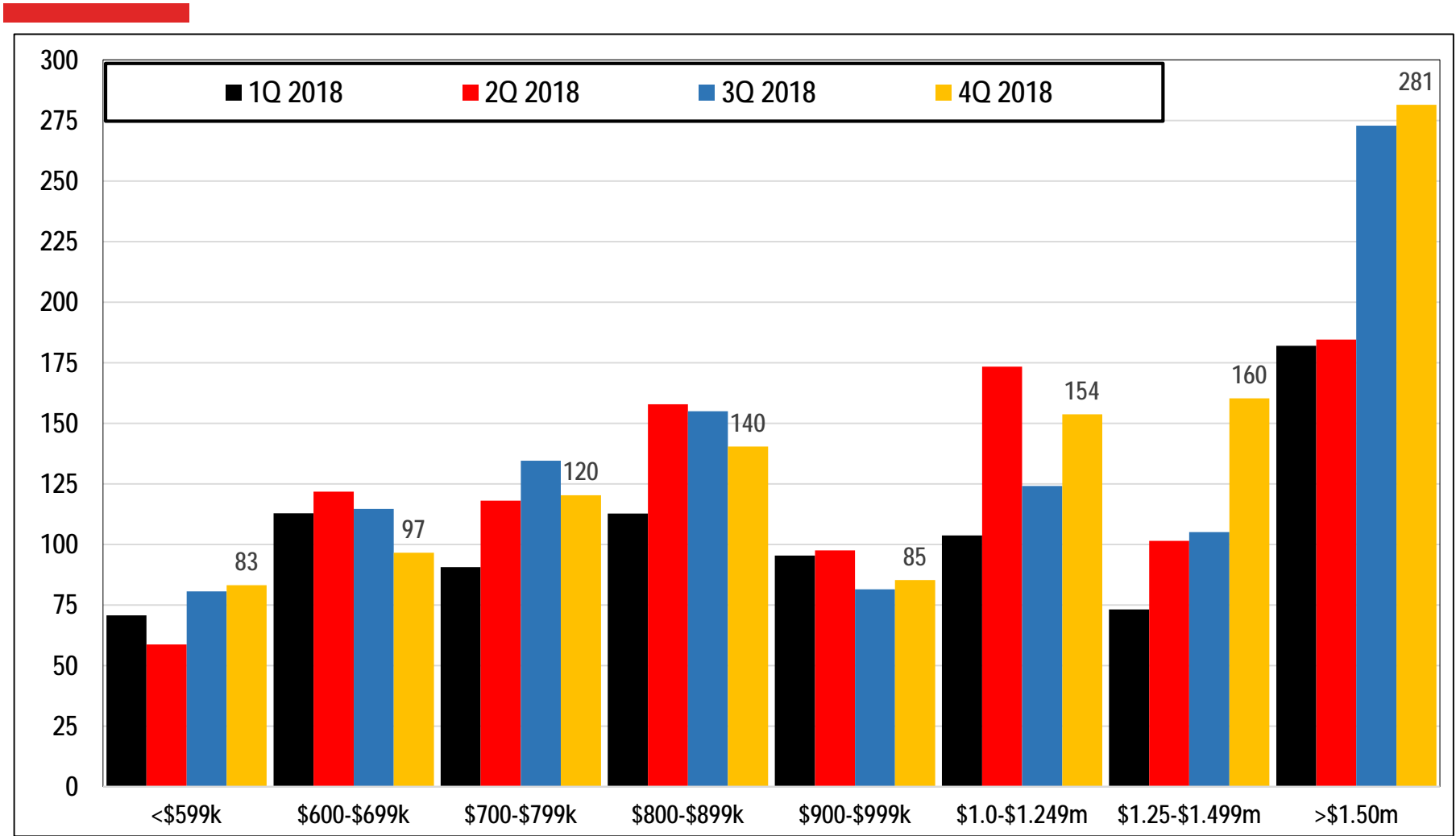
Orange County

Housing Starts & Closings by Price Range TTM



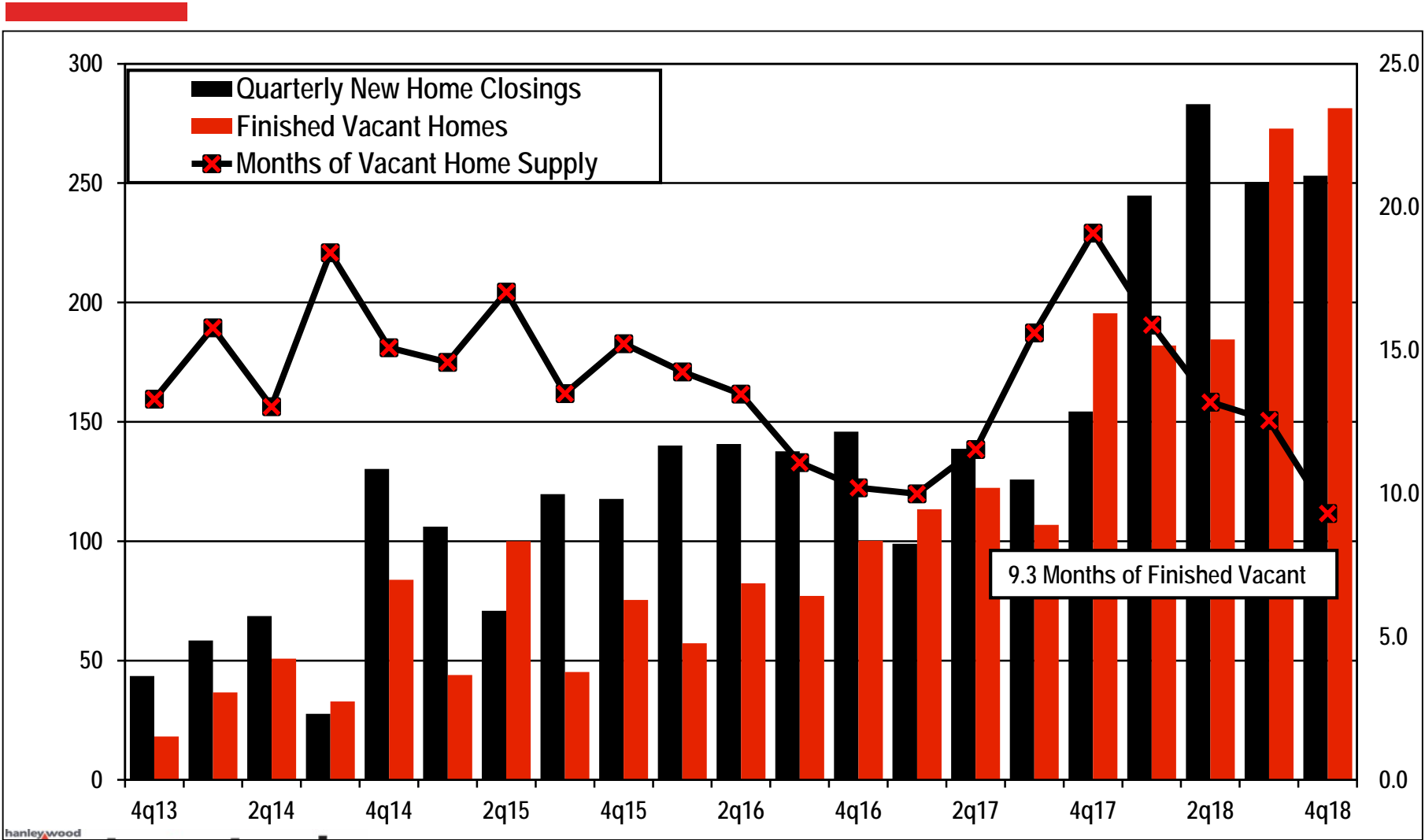
Orange County

Quarterly Finished Vacant Homes by Price Range



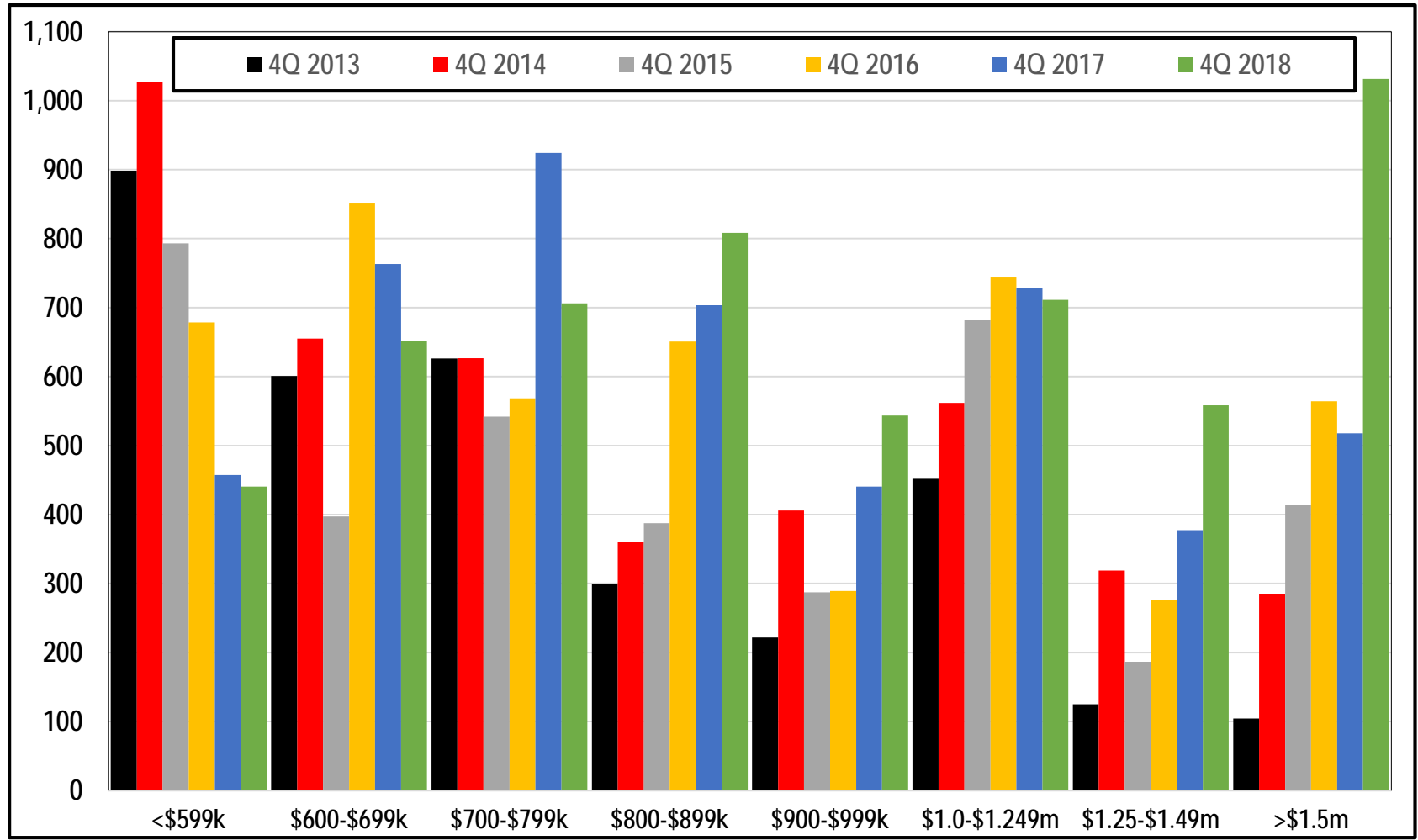
Orange County - >\$1.5 Million Price Range Only

Quarterly Closings, Finished Inventory and Months of Supply



Orange County

Annual Closings by Price Range – 4Q 2013 to 4Q 2018

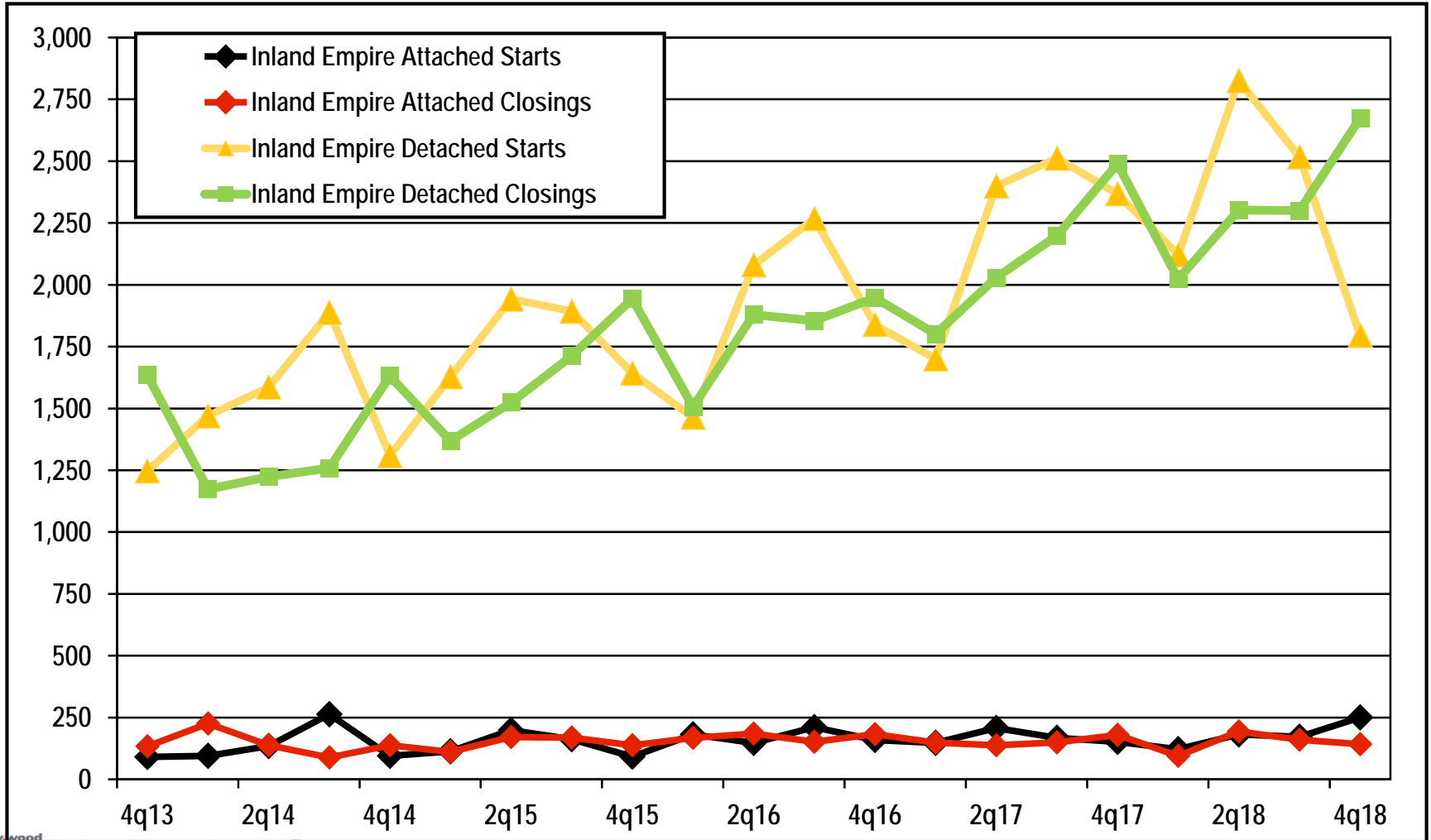


Top Production Builders by Trailing Twelve Month Closings

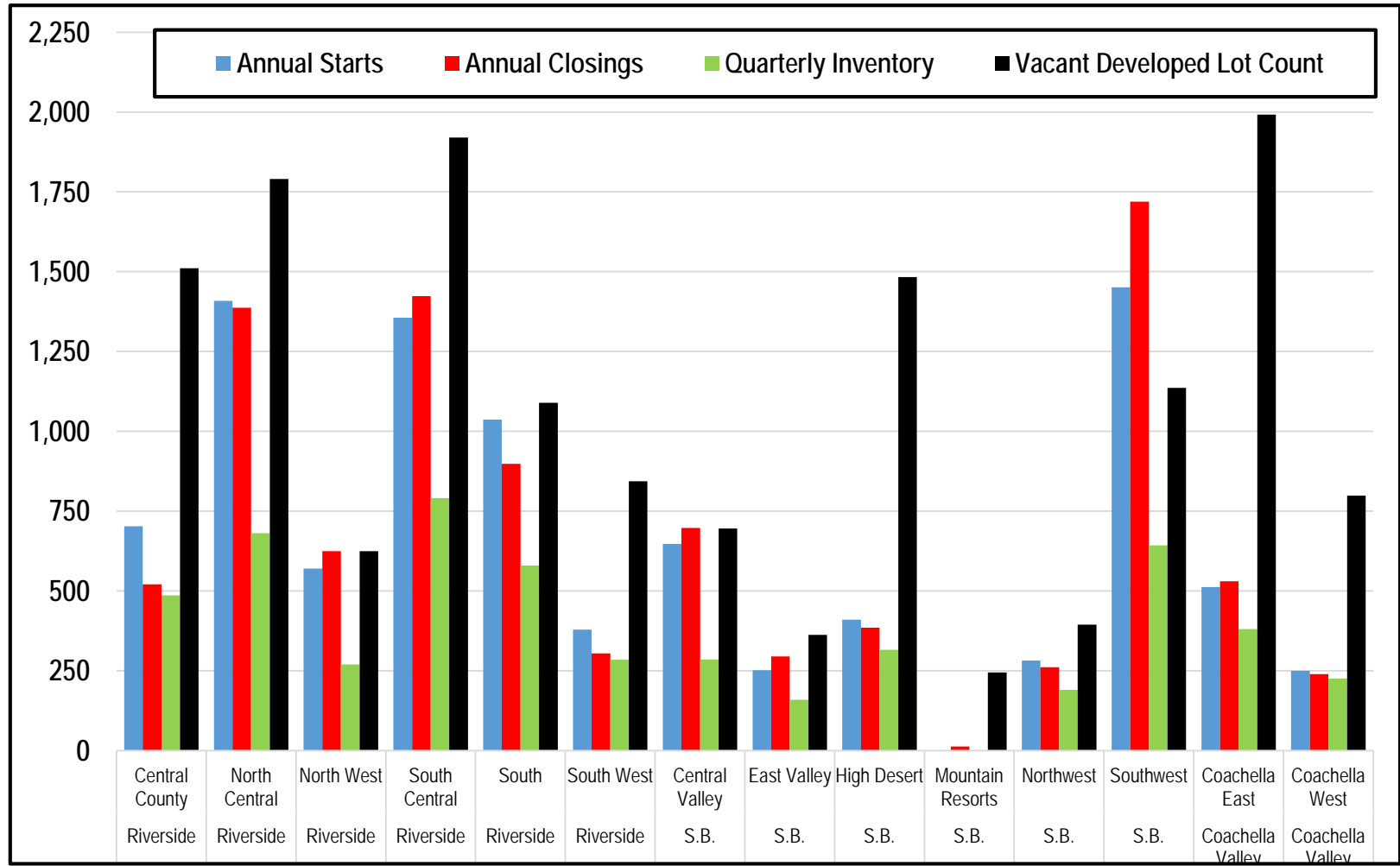
Rank	Builder	TTM	1Q 2018	2Q 2018	3Q 2018	4Q 2018
1	Toll Brothers Inc	609	183	139	139	148
2	Lennar	461	112	69	96	184
3	TRI Pointe Homes	448	149	94	88	117
4	Irvine Pacific	446	81	169	127	69
5	CalAtlantic Homes	408	111	127	82	88
6	Shea Homes	331	77	108	80	66
7	Taylor Morrison	278	80	72	78	48
8	California Pacific	269	49	50	93	77
9	The New Home	251	63	85	64	39
10	William Lyon Homes	233	78	30	39	86
11	Meritage Homes	192	35	36	87	34
12	The Olson Company	162	38	53	18	53
13	Richmond American	127	7	53	44	23
14	Brookfield Residential	114	17	31	27	39
15	Del Webb	107	13	30	37	27
16	City Ventures	104	49	14	15	26
17	MBK Homes	104	21	28	34	21
18	KB Home	90	30	25	21	14
19	Warmington Residential	88	16	16	40	16
20	Christopher Homes	70	33	13	20	4

Inland Empire New Home Market

Inland Empire – New Home Starts and Closings – Quarterly Totals

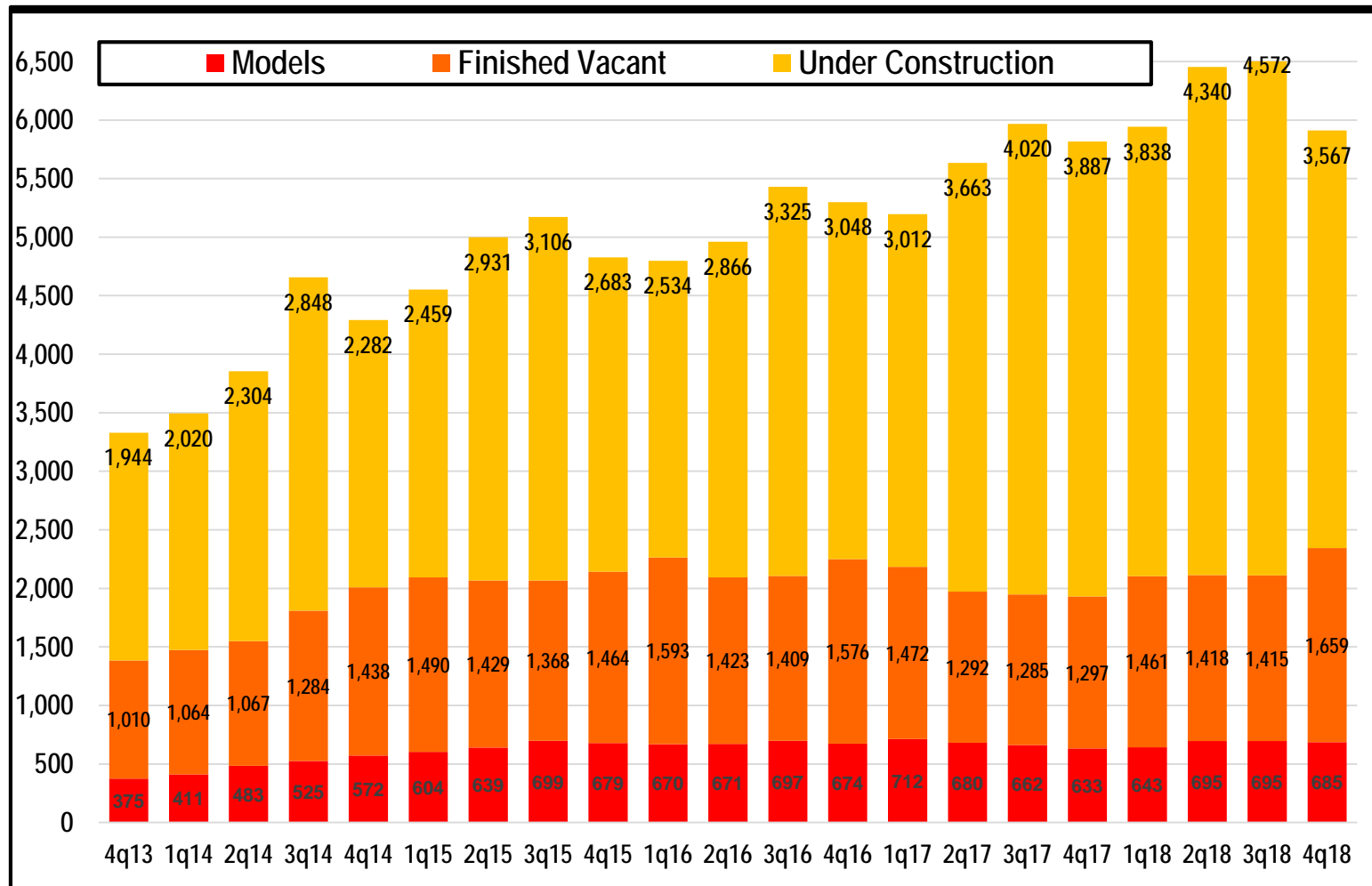


Inland Empire – New Home Data By Submarket – 4Q 2018



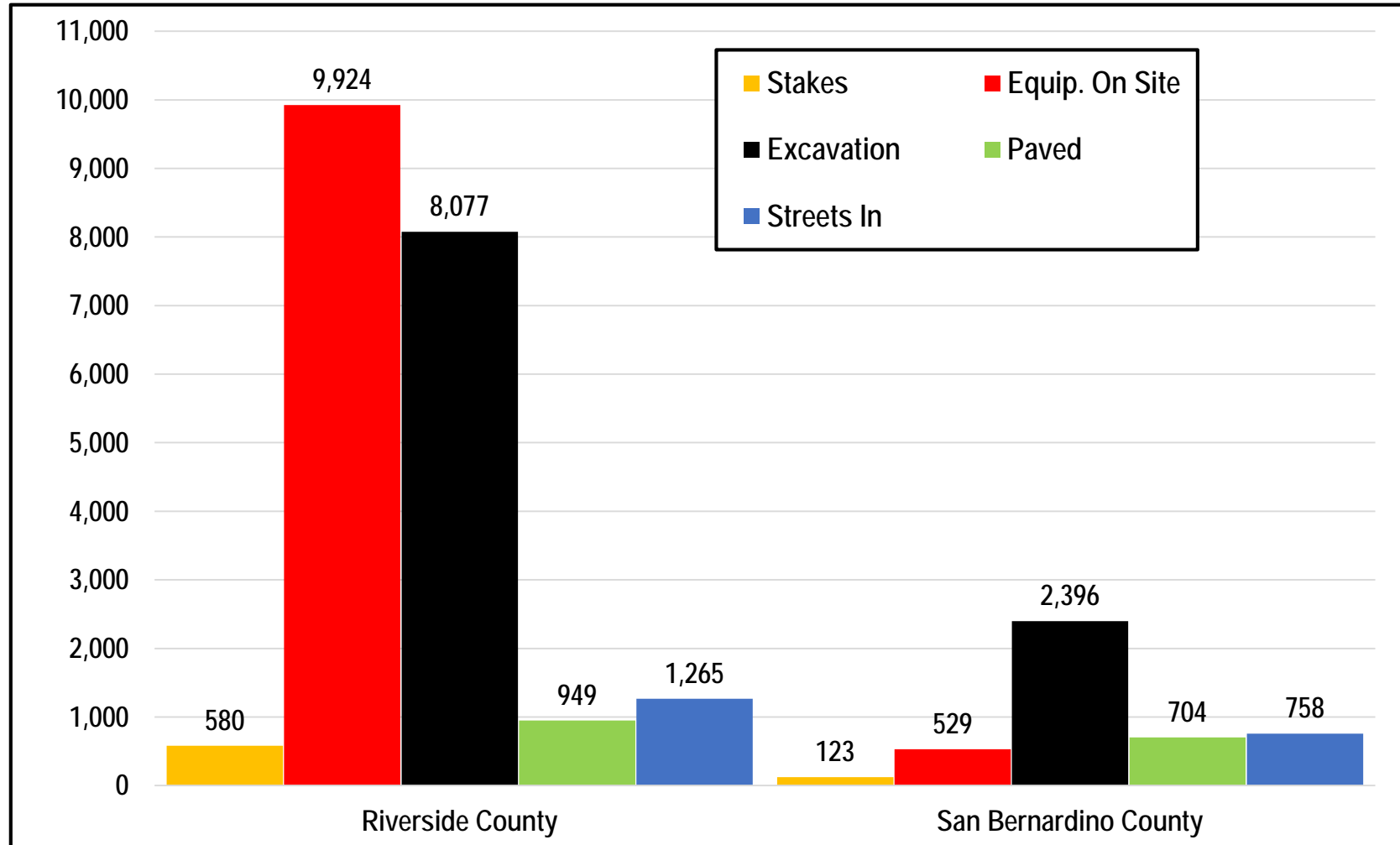
Inland Empire – Inventory By Type

(Models + Finished Vacant + Under Construction)



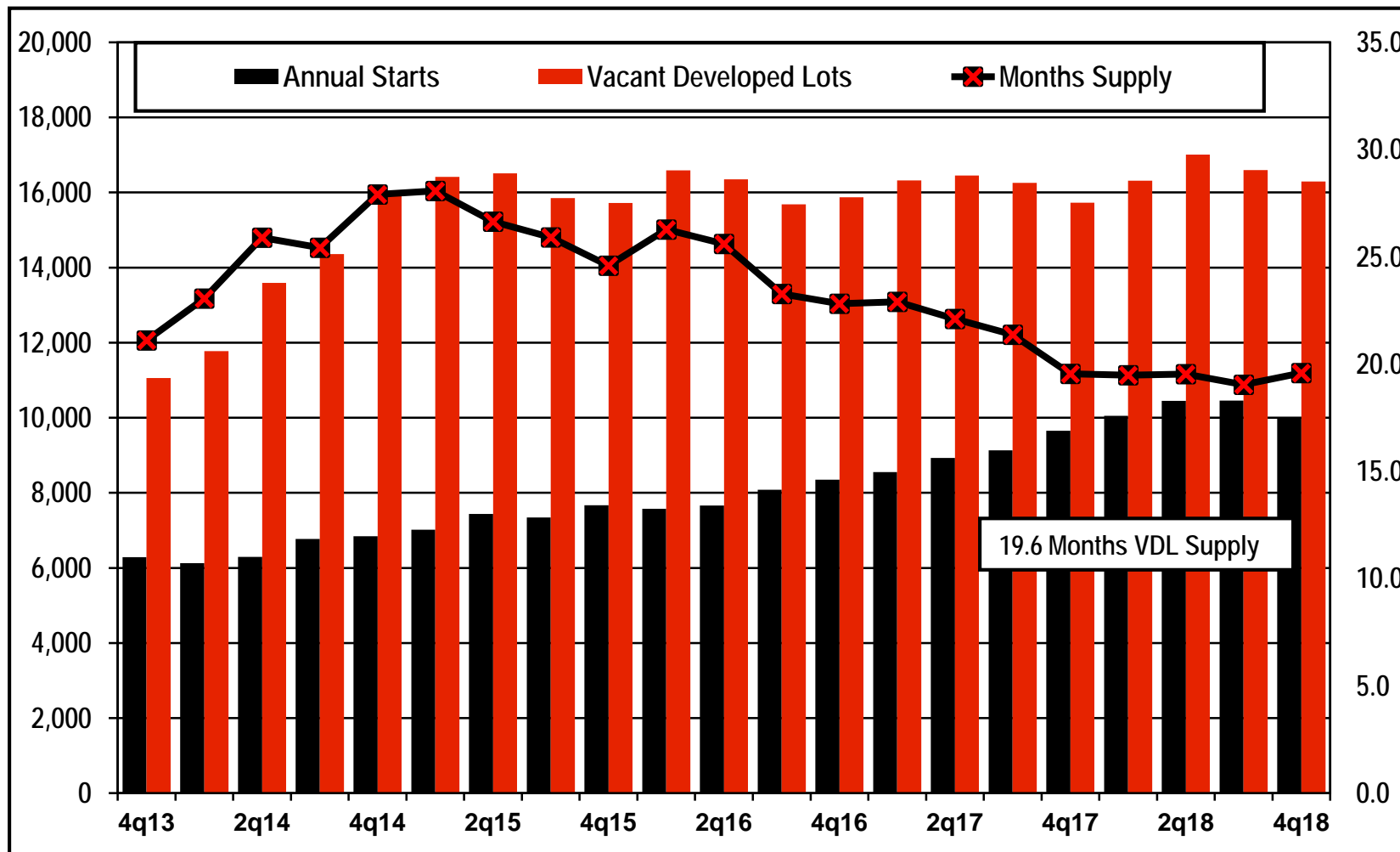
Inland Empire – Improved Lot Inventory By Status

(Stakes + Equip. Onsite + Excavation + Paved + Streets)



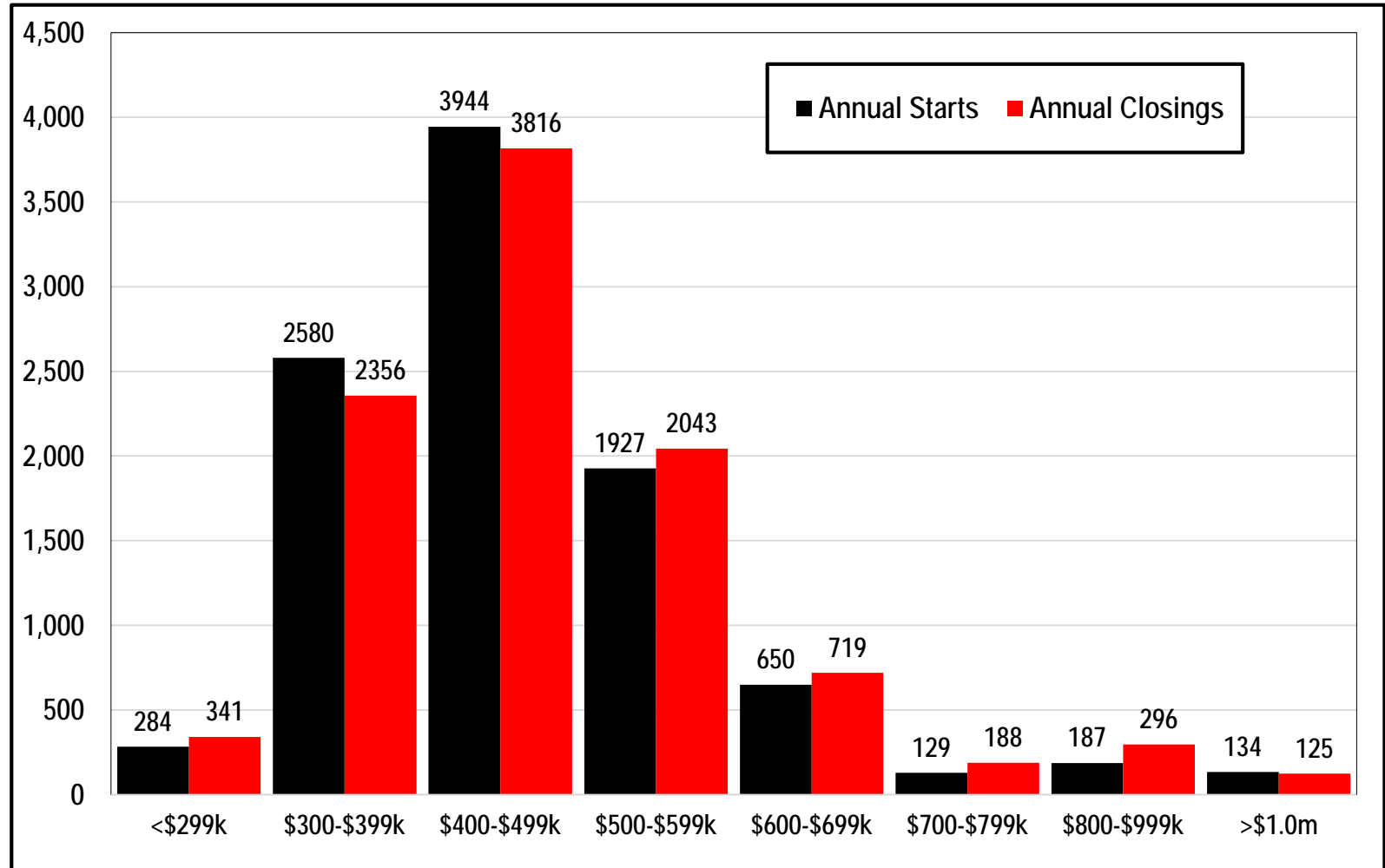
Inland Empire

Annual New Home Starts vs Vacant Lot Inventory & Lot Months of Supply



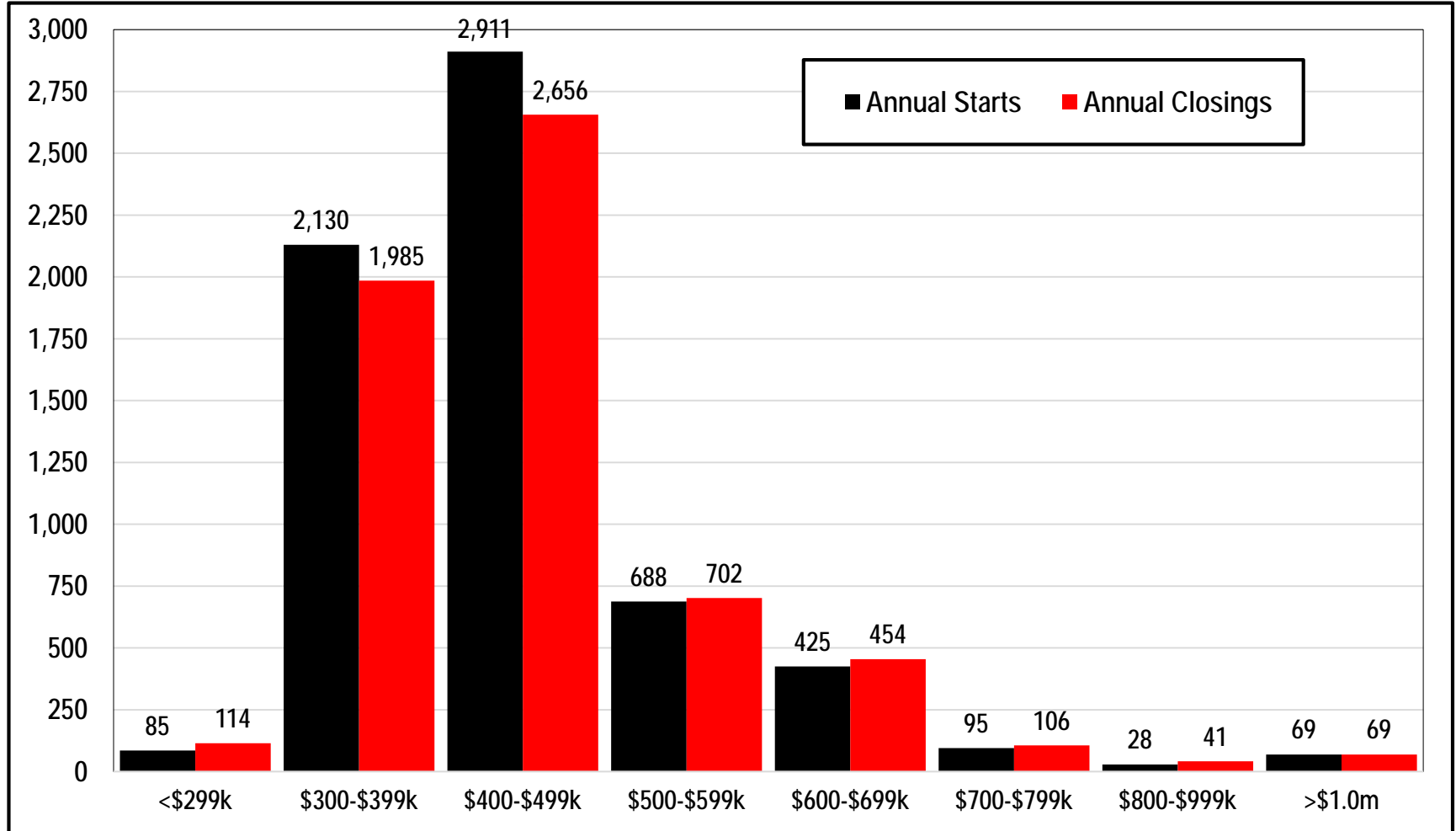
Inland Empire

Housing Starts & Closings by Price Range TTM



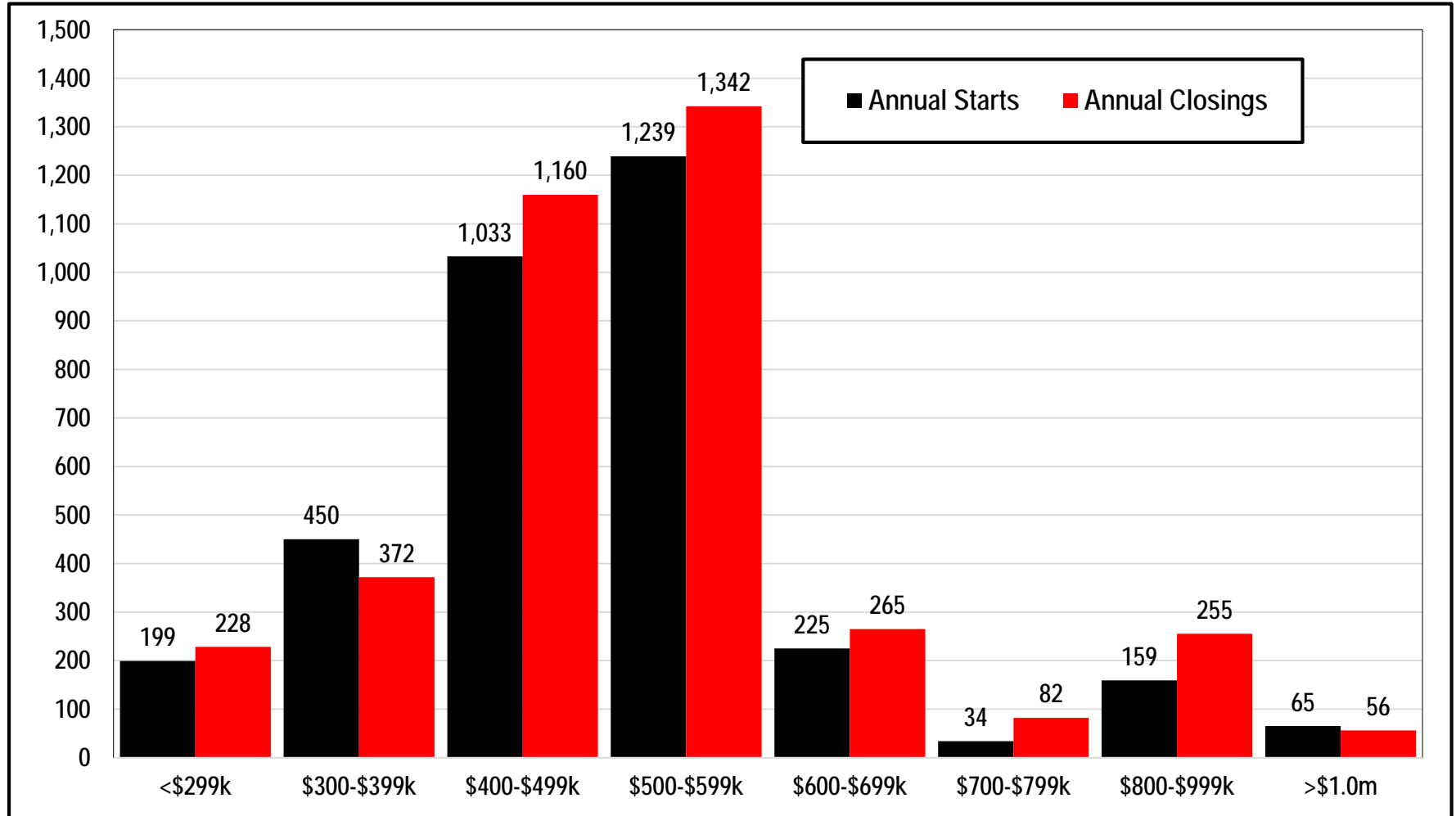
Riverside County

Housing Starts & Closings by Price Range TTM



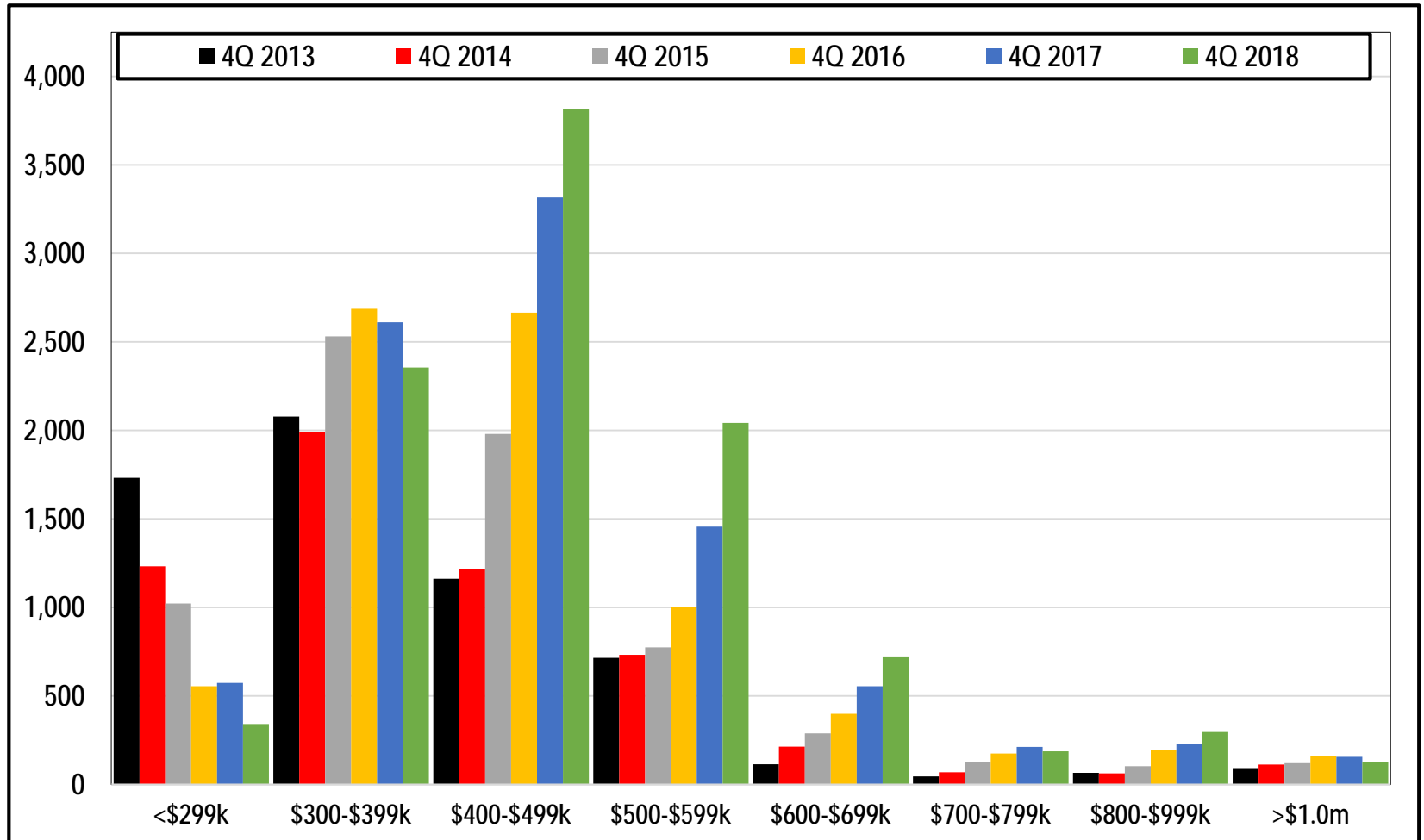
San Bernardino County

Housing Starts & Closings by Price Range TTM



Inland Empire

Annual Closings by Price Range - 4Q 2013 to 4Q 2018



Top Production Builders by Trailing Twelve Month Closings

Rank	Builder	TTM	1Q 2018	2Q 2018	3Q 2018	4Q 2018
1	Lennar	1599	325	434	331	509
2	KB Home	933	180	238	218	297
3	CalAtlantic Homes	640	143	160	179	158
4	Express Homes	637	179	188	160	110
5	Pardee Homes	542	141	123	120	158
6	William Lyon Homes	531	67	175	119	170
7	Brookfield Residential	468	49	137	145	137
8	DR Horton	362	66	71	137	88
9	Richmond American	319	54	81	94	90
10	Pulte Home Corp.	314	76	56	72	110
11	Woodside Homes	303	75	66	98	64
12	Frontier Communities	294	87	97	51	59
13	Del Webb	243	43	48	44	108
14	K. Hovnanian	236	53	59	59	65
15	Trumark Homes	177	25	33	61	58
16	RSI Communities	173	93	36	32	12
17	Pacific Communities	172	51	33	44	44
18	Shea Homes	132	23	36	39	34
19	Meritage Homes	122	43	30	14	35
20	TRI Pointe Homes	116	31	32	10	43

HOUSING MARKET OUTLOOK



The Economy

- A recession is NOT imminent in the next 12-18 months, however, economic growth has peaked for this cycle.

The Cycle

- Higher rates, tight labor and production bottlenecks are signs of cycle maturity, watch indicators carefully,

Supply Constraints

- Housing production is increasing, but not enough to offset the supply shortfall at affordable price points,

Demand

- Millennials, mature buyers and move-up buyers need encouragement and affordability, foreign demand is weak,

Input Costs

- Labor, materials costs and interest rates are rising faster than incomes, affordability is clearly challenged,

Bottom Line

- Low levels of construction and the deep undersupply will provide decent price support following a new period of price discovery. Sales volume will trend lower while prices adjust. Foreigners on the sidelines.



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