



2019 Housing Market Forecast



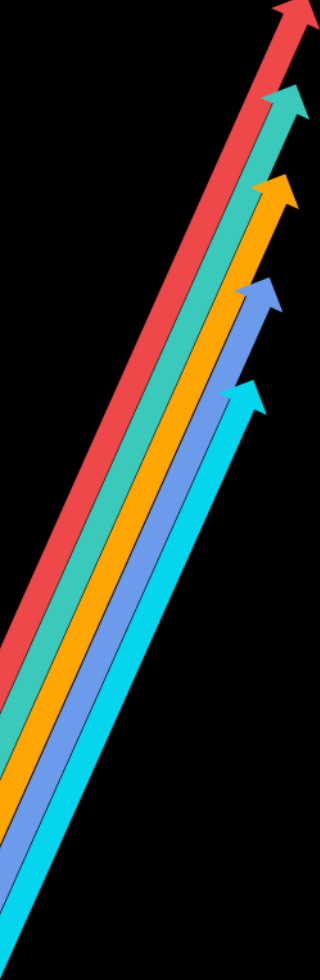
CALIFORNIA
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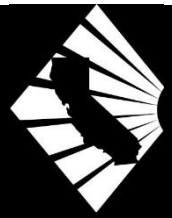
October 24, 2018

Joel Singer

Chief Executive Officer



Economic Update



U.S. Economy Our Biggest Strength

4.2%



GDP 2018-Q2

3.8%



Consumption
2018-Q2

2.2%



Core CPI
August 2018

3.7%

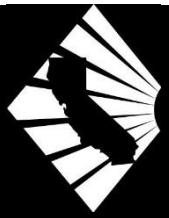


Unemployment
September 2018

1.7%

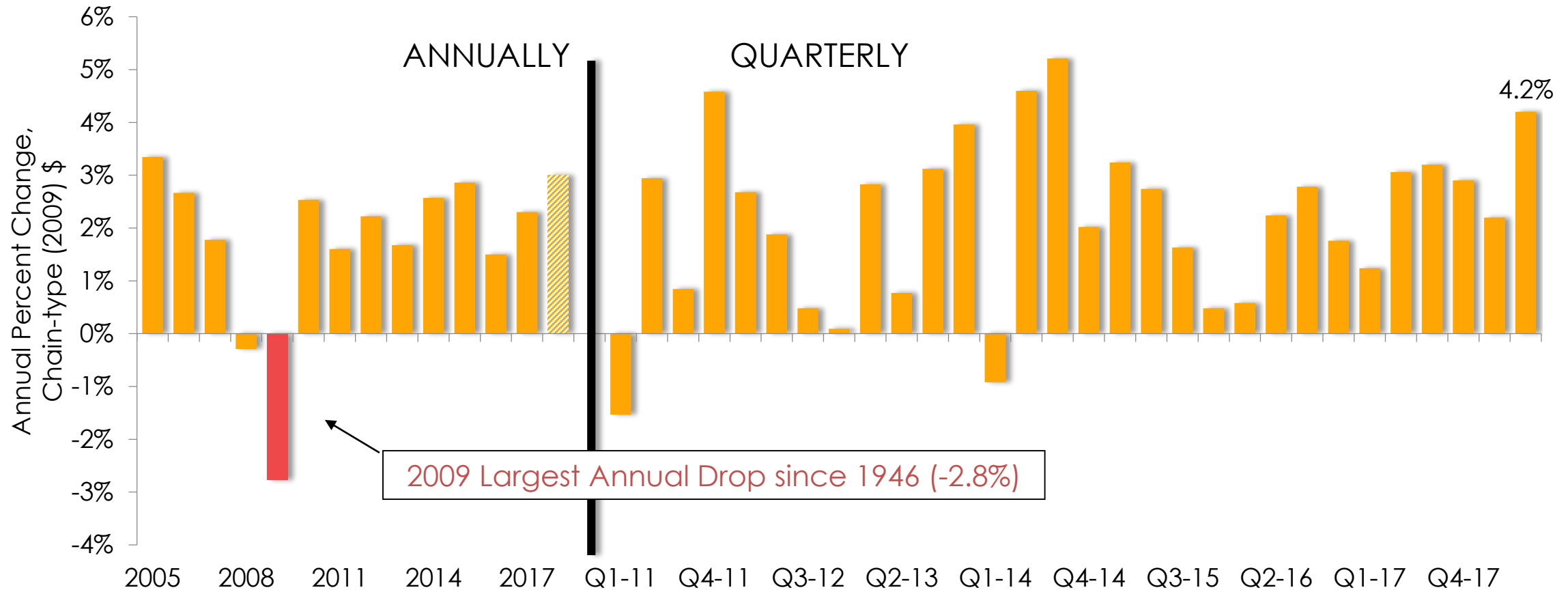


Job Growth
September 2018



Growth Up Strong due to Fiscal Stimulus

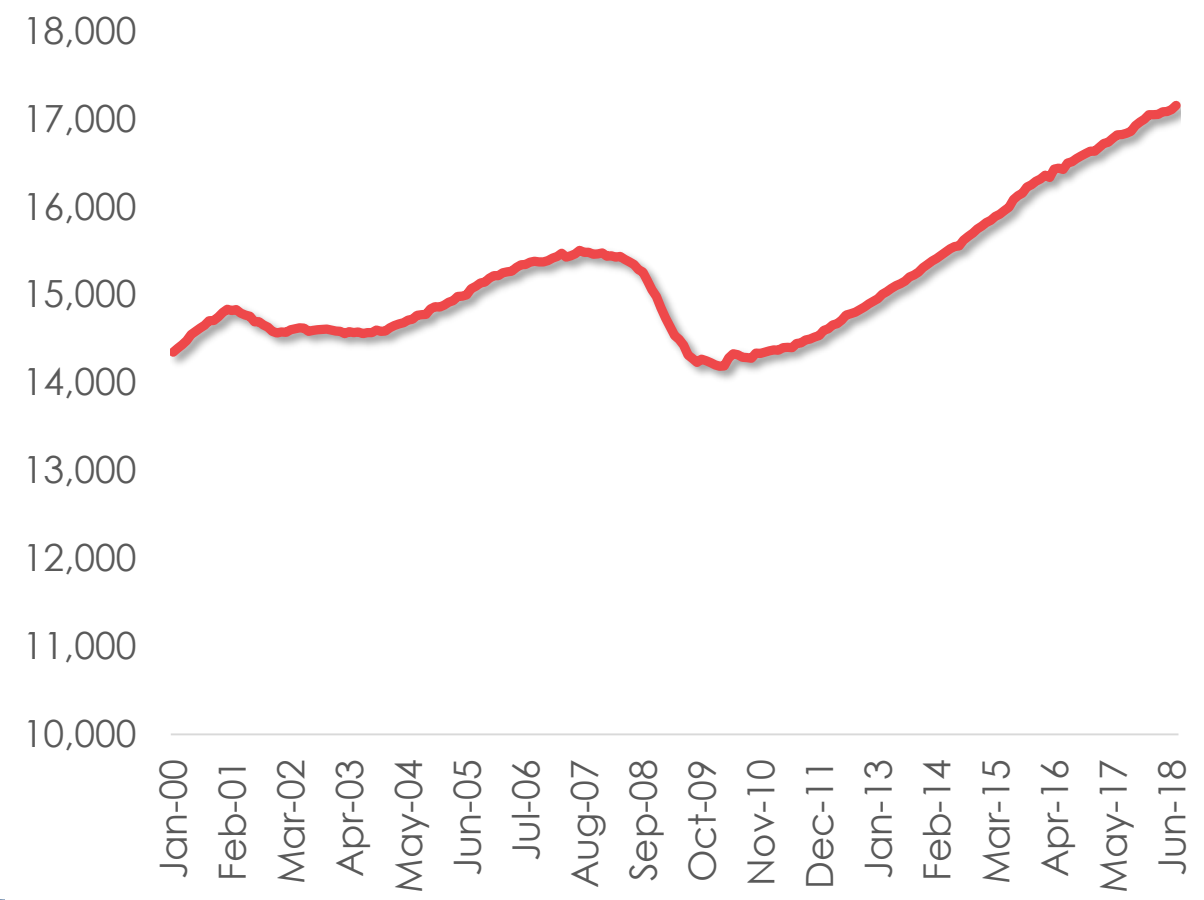
GDP - 2017: 2.3%; 2018 Q2: 4.2%



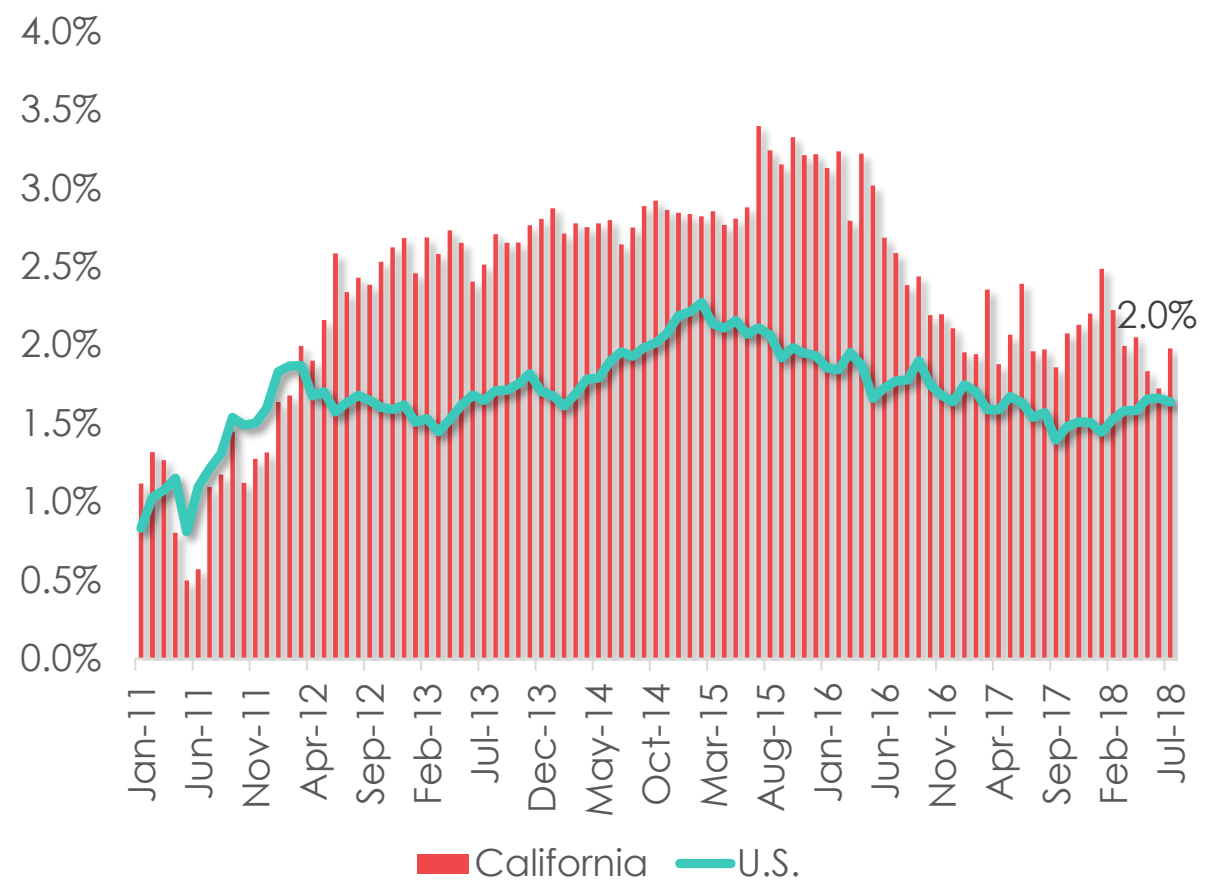


Employment: All-Time High

California Nonfarm Employment

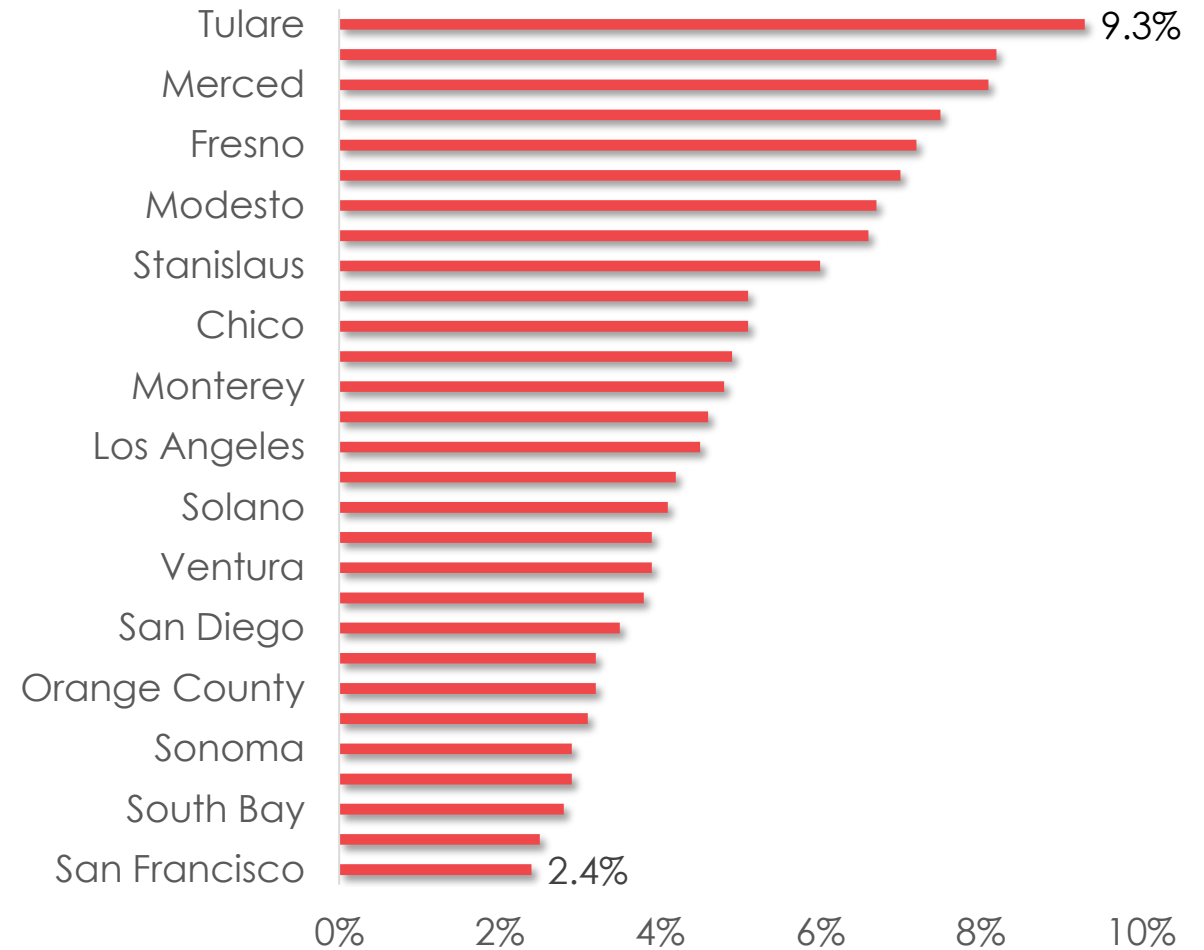
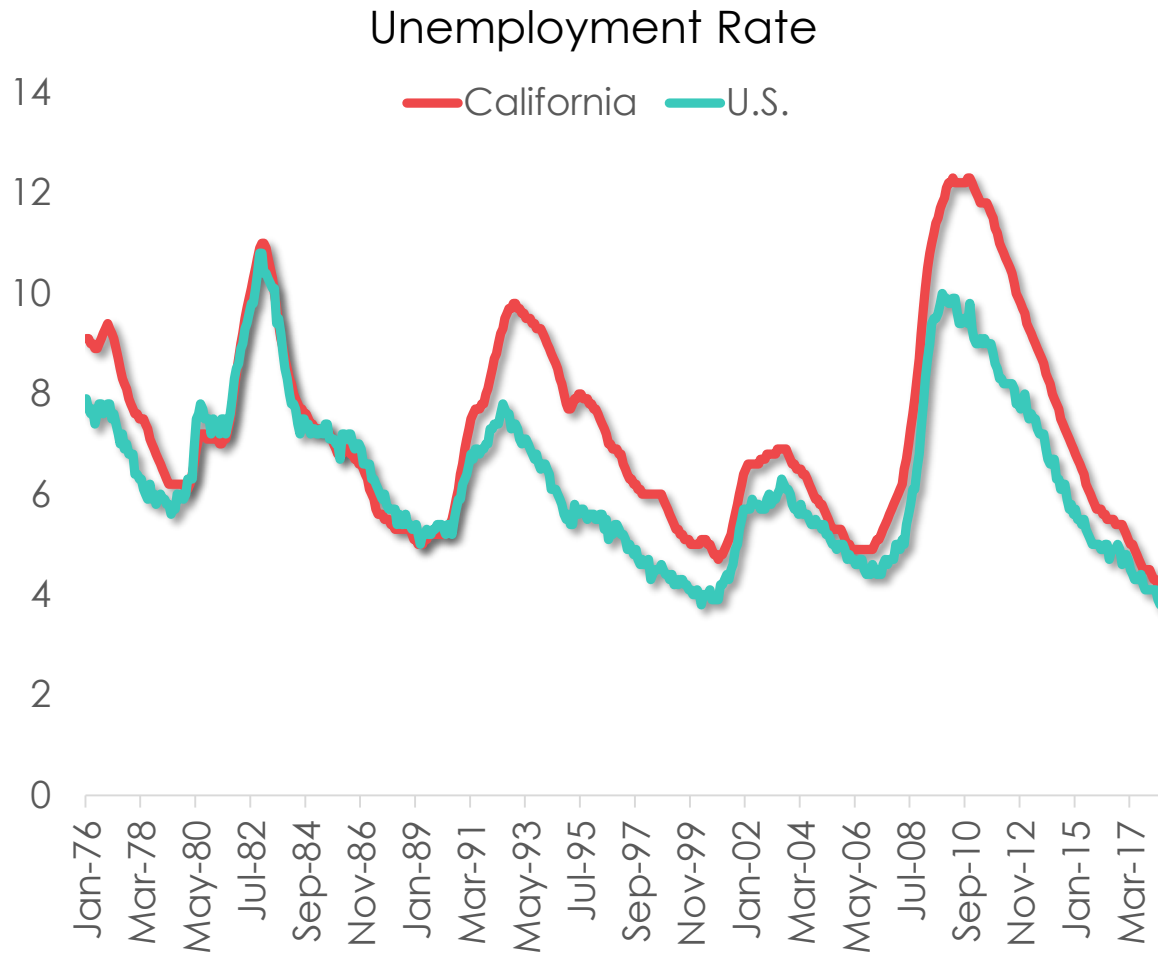


Nonfarm Employment Growth





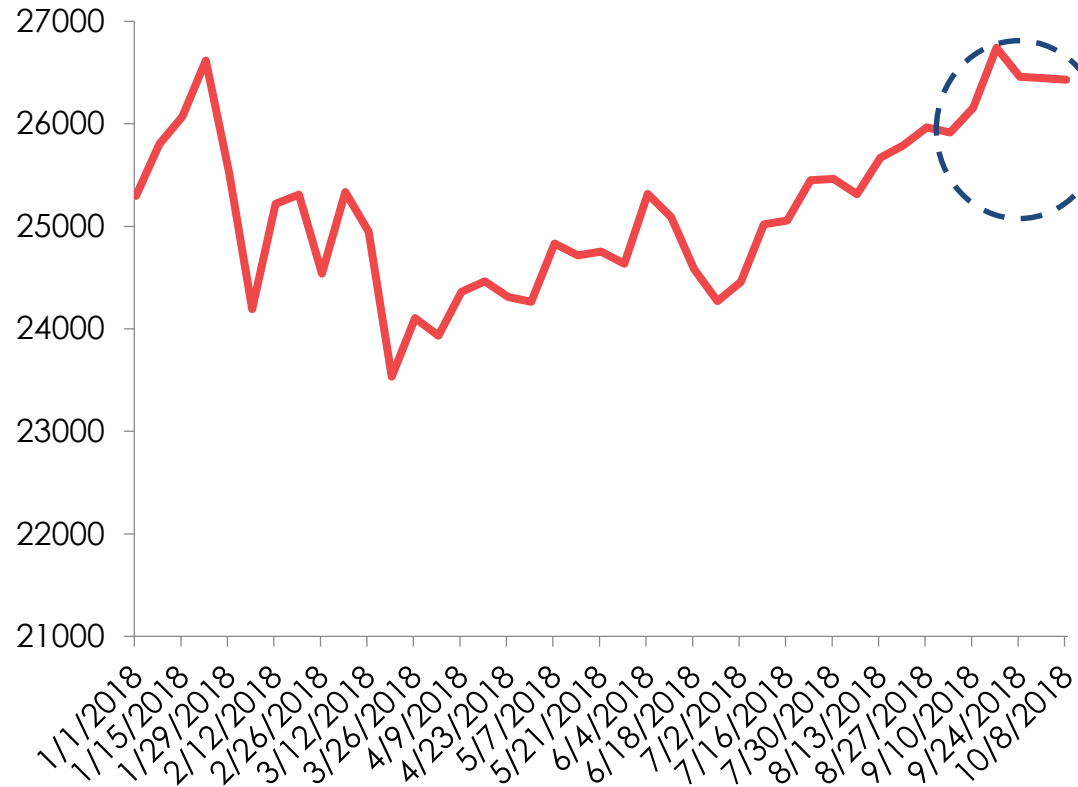
Unemployment Lowest in 40+ Years



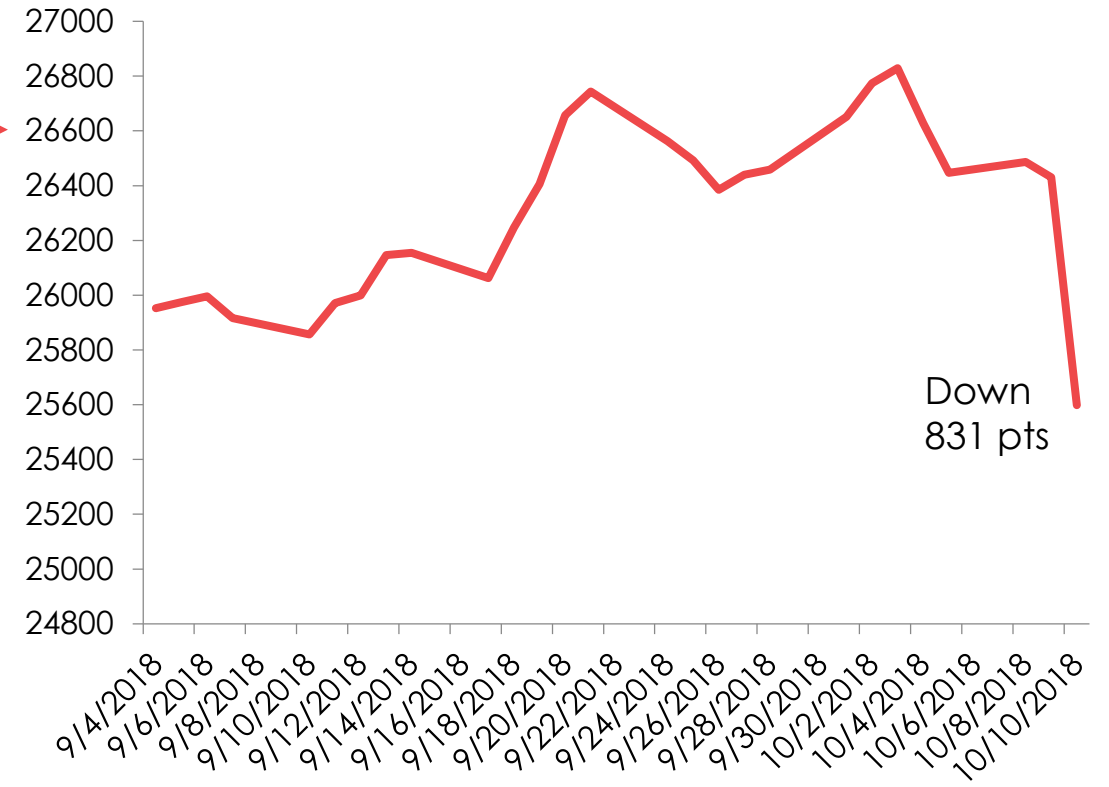


Wild Card – Financial Markets

(Jan 2018 – Oct 2018)



(9/1/18 – 10/10/18)





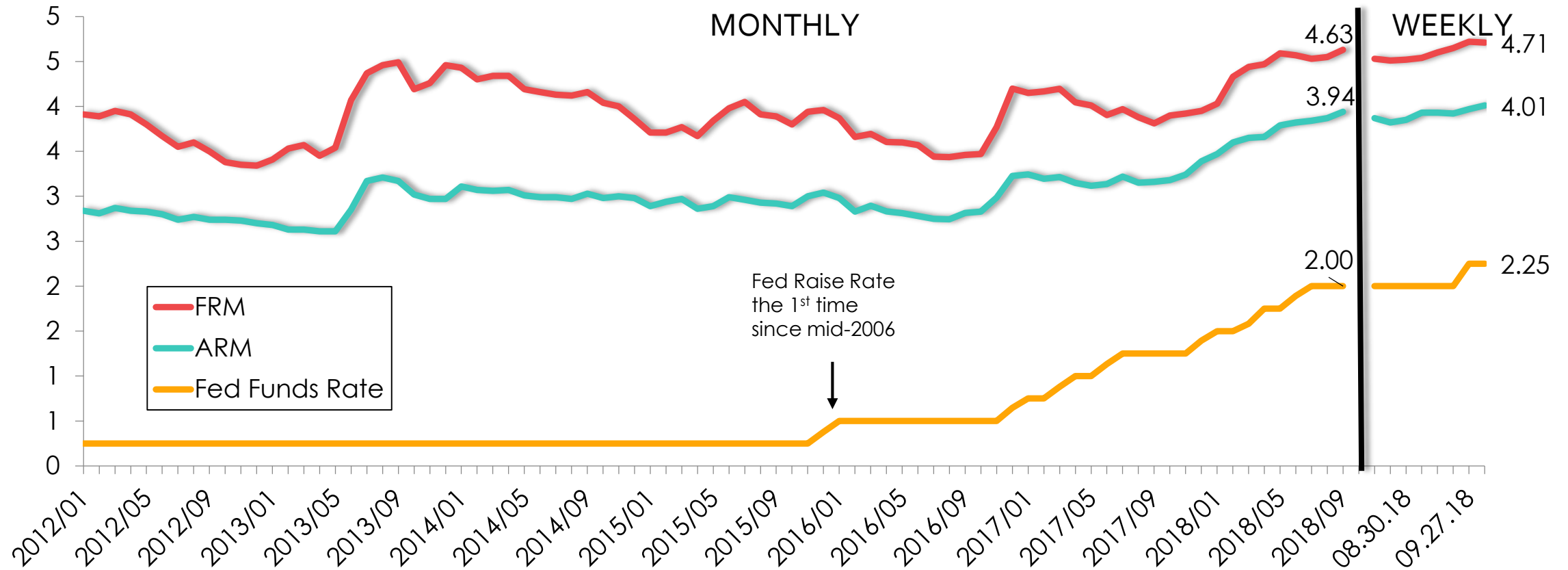
30 Yr. FRM Hit 5%, 1st Time since Early 2011





Fed Has Raised rates 8x Since Dec 2015

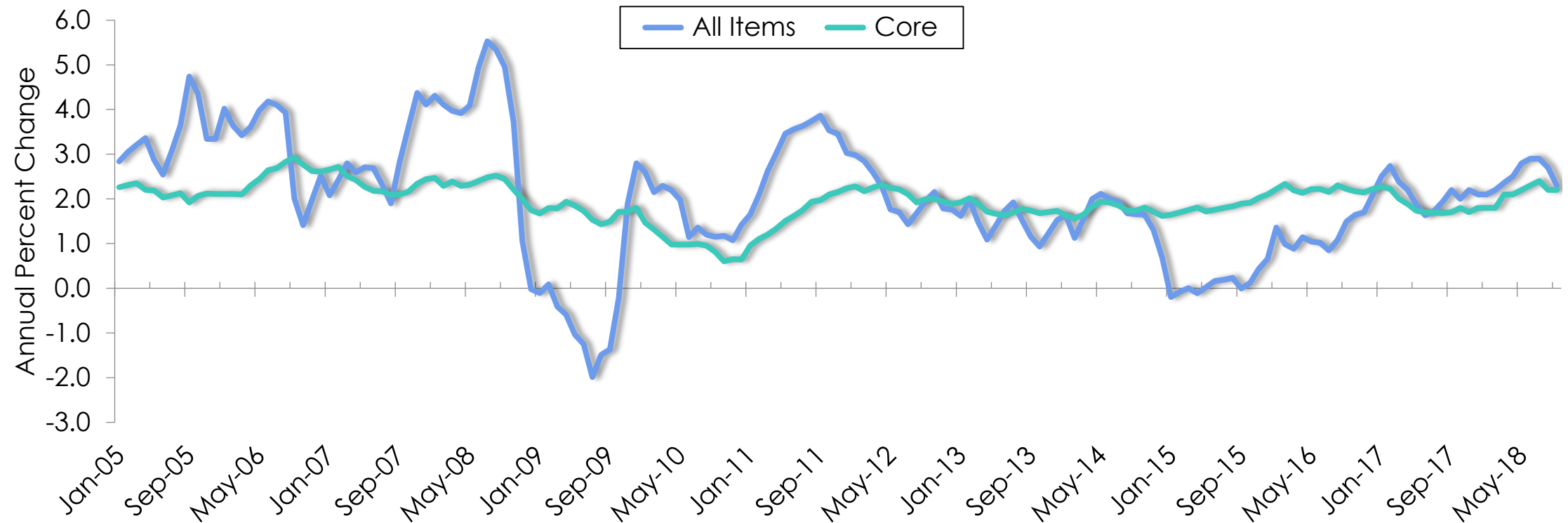
January 2012 – October 2018





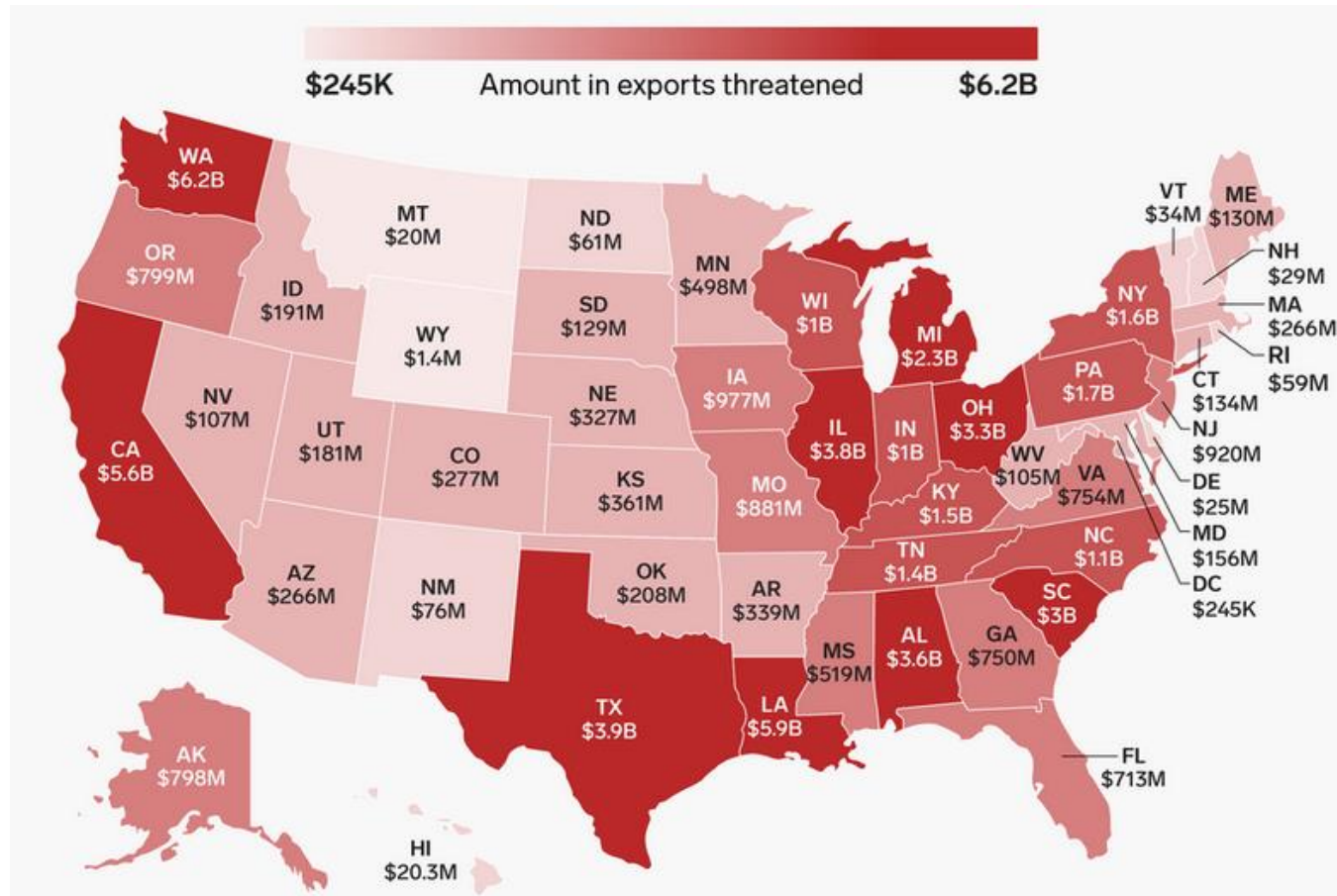
Inflation at Fed's Target Range

September 2018: All Items 2.3% YTY; Core +2.2% YTY



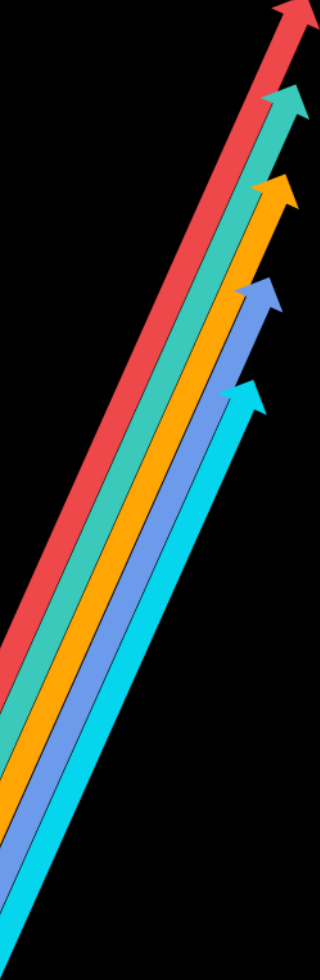


Wild Card - How Tariffs Threaten the Economy



The Impact of Trade Tariffs

- Slow down world trade activities and global economic growth
- Result in exchange rate fluctuation
- Increase inflationary pressure and put upward pressure on interest rates
- Increase costs of construction
- Disrupt local economic activities in areas/businesses that rely heavily on import/export

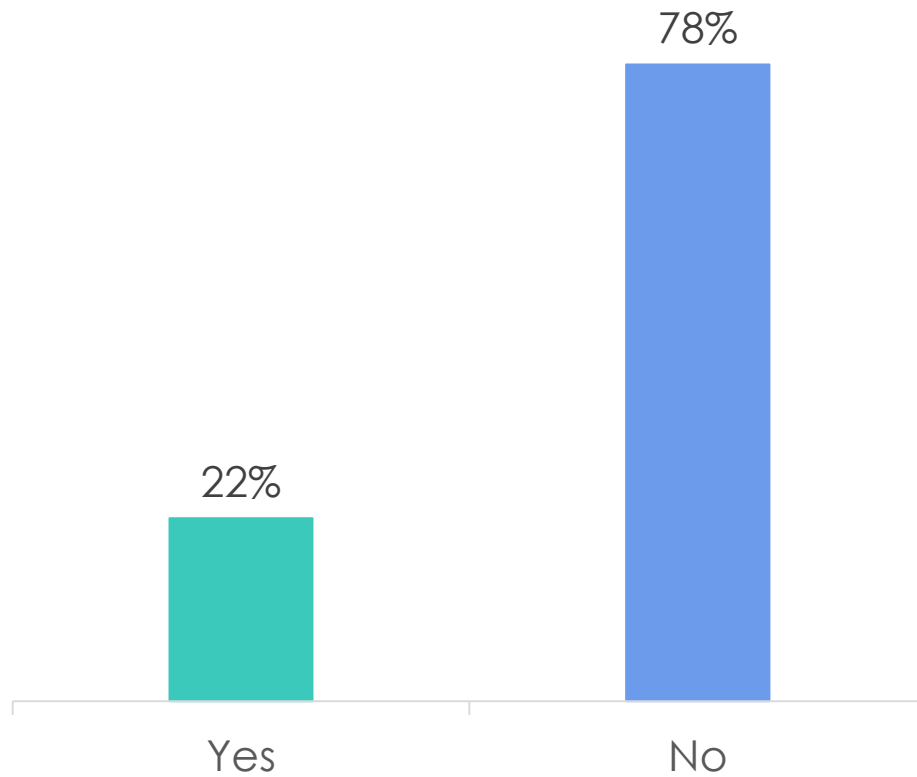


California Housing Market Outlook

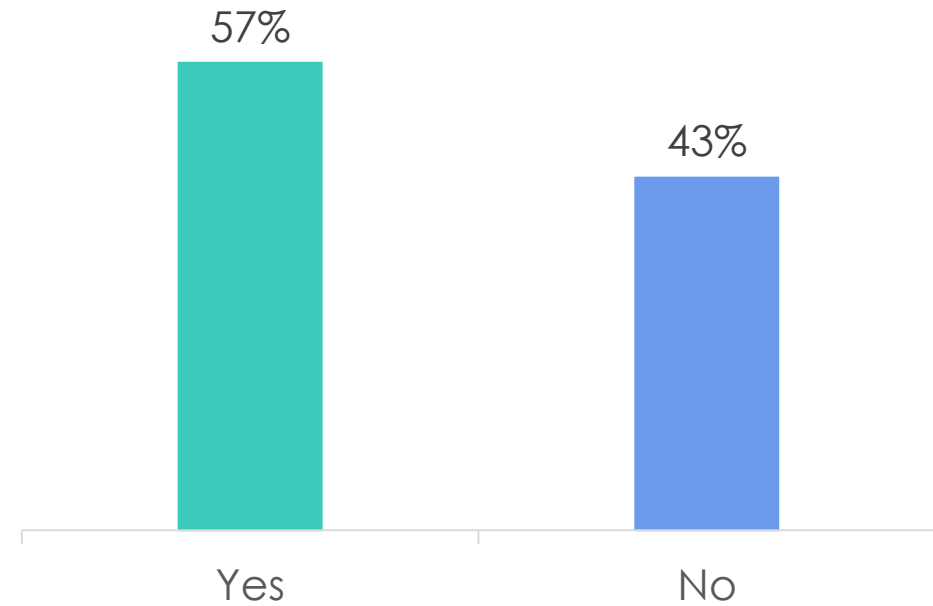


CA Consumer Poll: Sept 2018

Do you think it's a good time to **buy** a home in California?

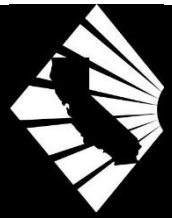


Do you think it's a good time to **sell** a home in California?



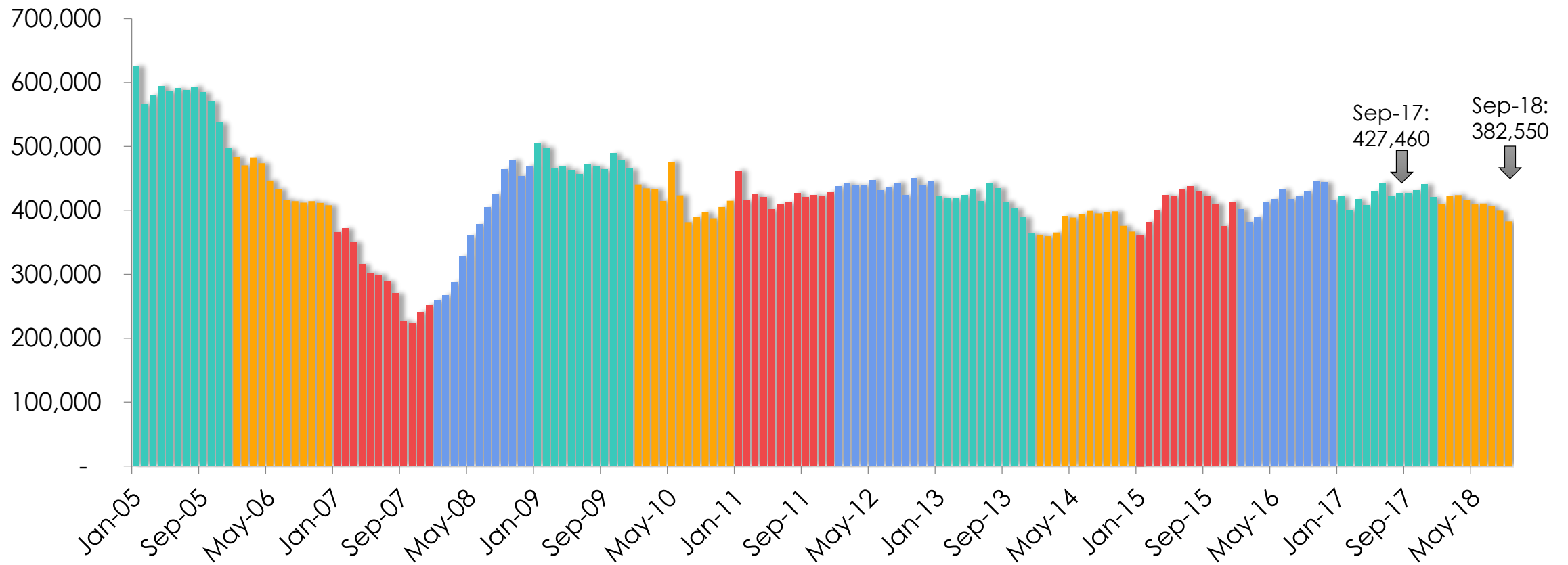
Do you think it's a good time to **buy** a home in California? (n=300)
Do you think it's a good time to **sell** a home in California? (n=300)

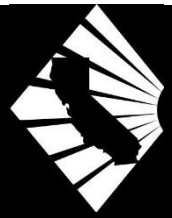
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®
SERIES: 2018 Google Consumer Poll



CA Sales Had the Largest Decline since March 2014

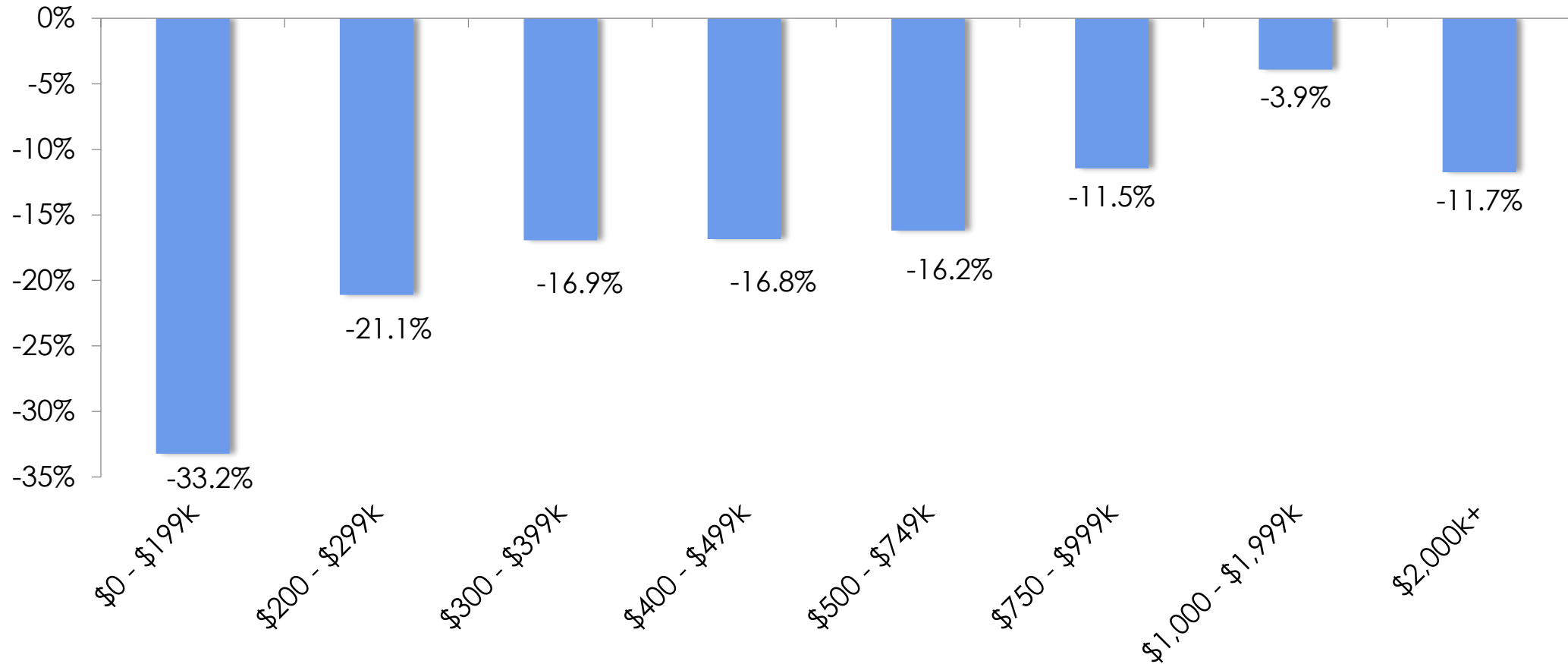
September 2018 Sales: 382,550 Units, -3.3% YTD, -12.4% YTY





Sales Declined in Every Segment

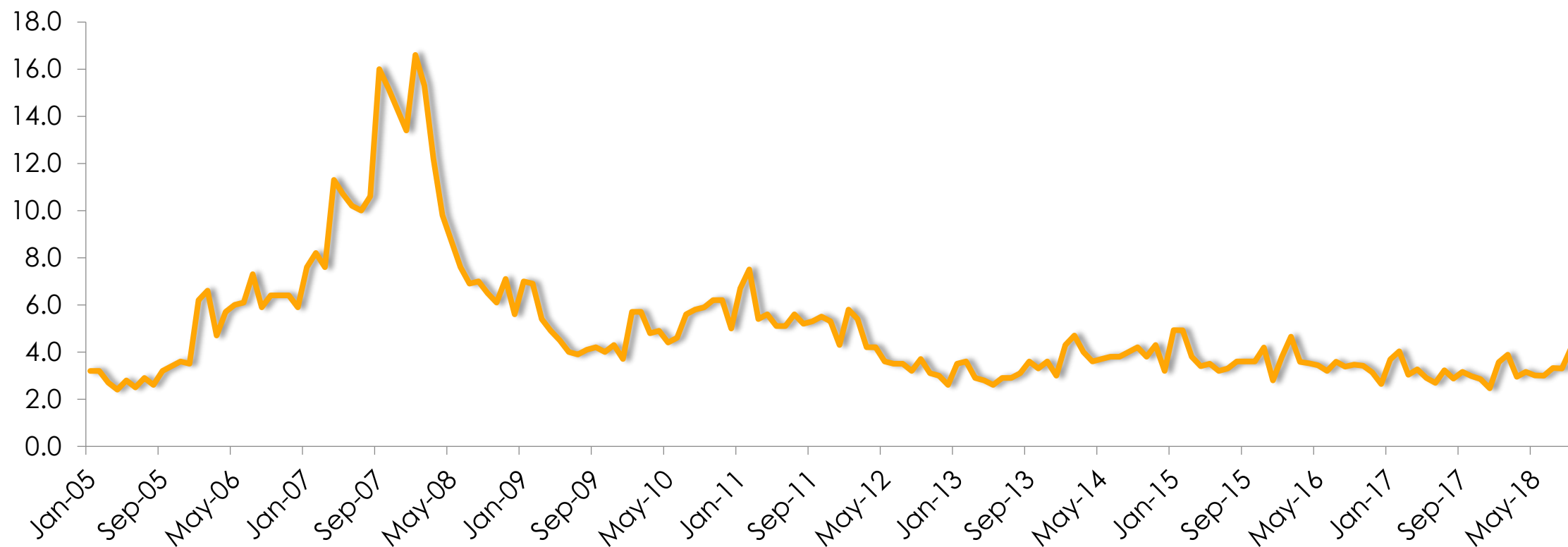
September 2018 (Year-to-Year)





Inventory Index Reached the Highest Level in 31 Months

September 2017: 3.2 Months; September 2018: 4.2 Months

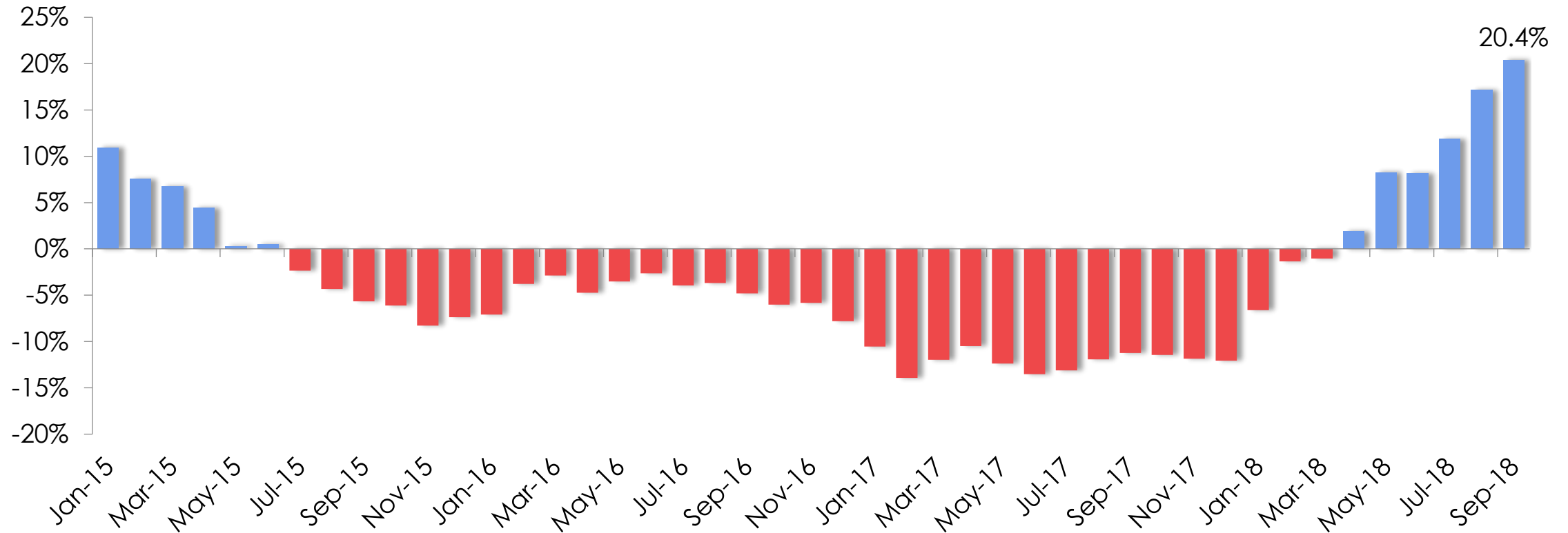


Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.



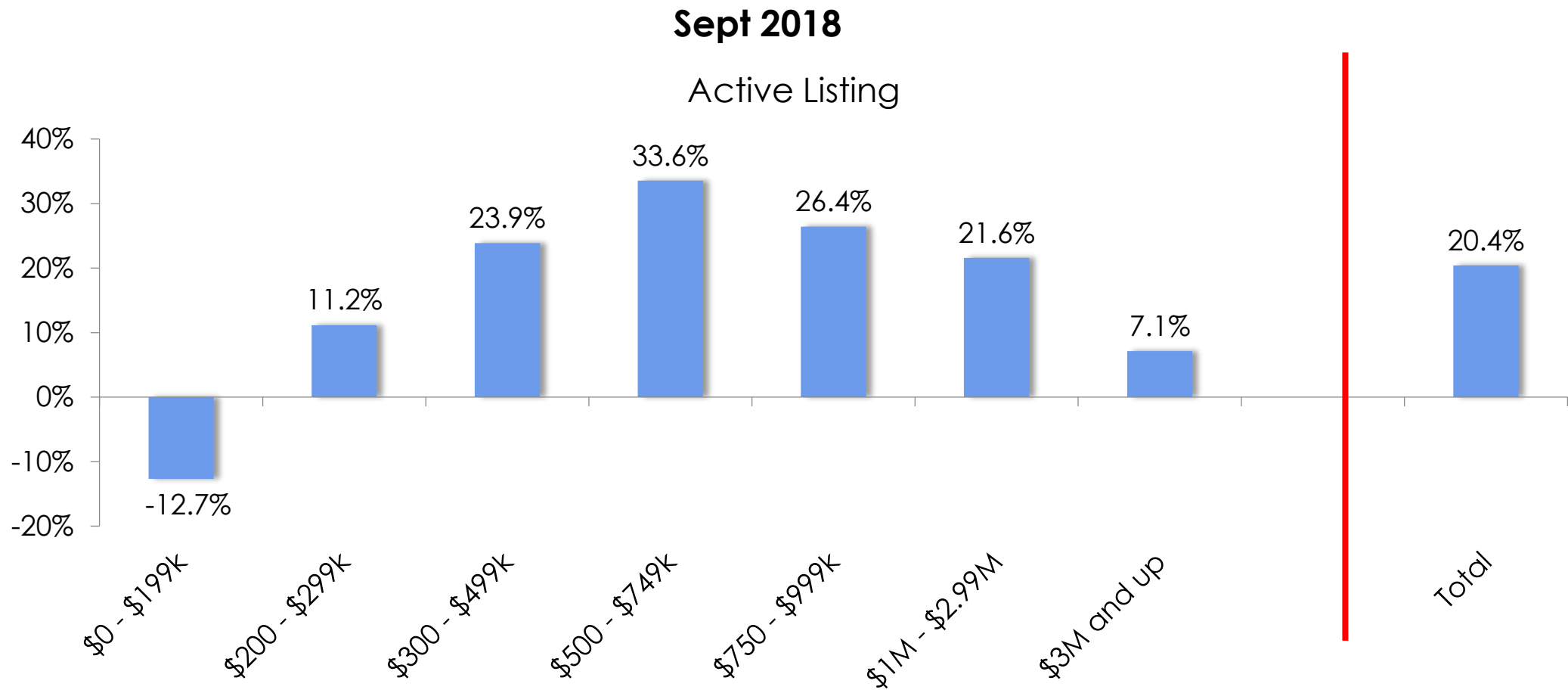
Active Listings Continued to Increase for the 6th Consecutive Month

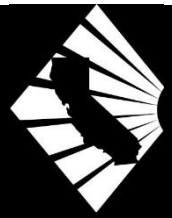
Year-over-Year % Chg





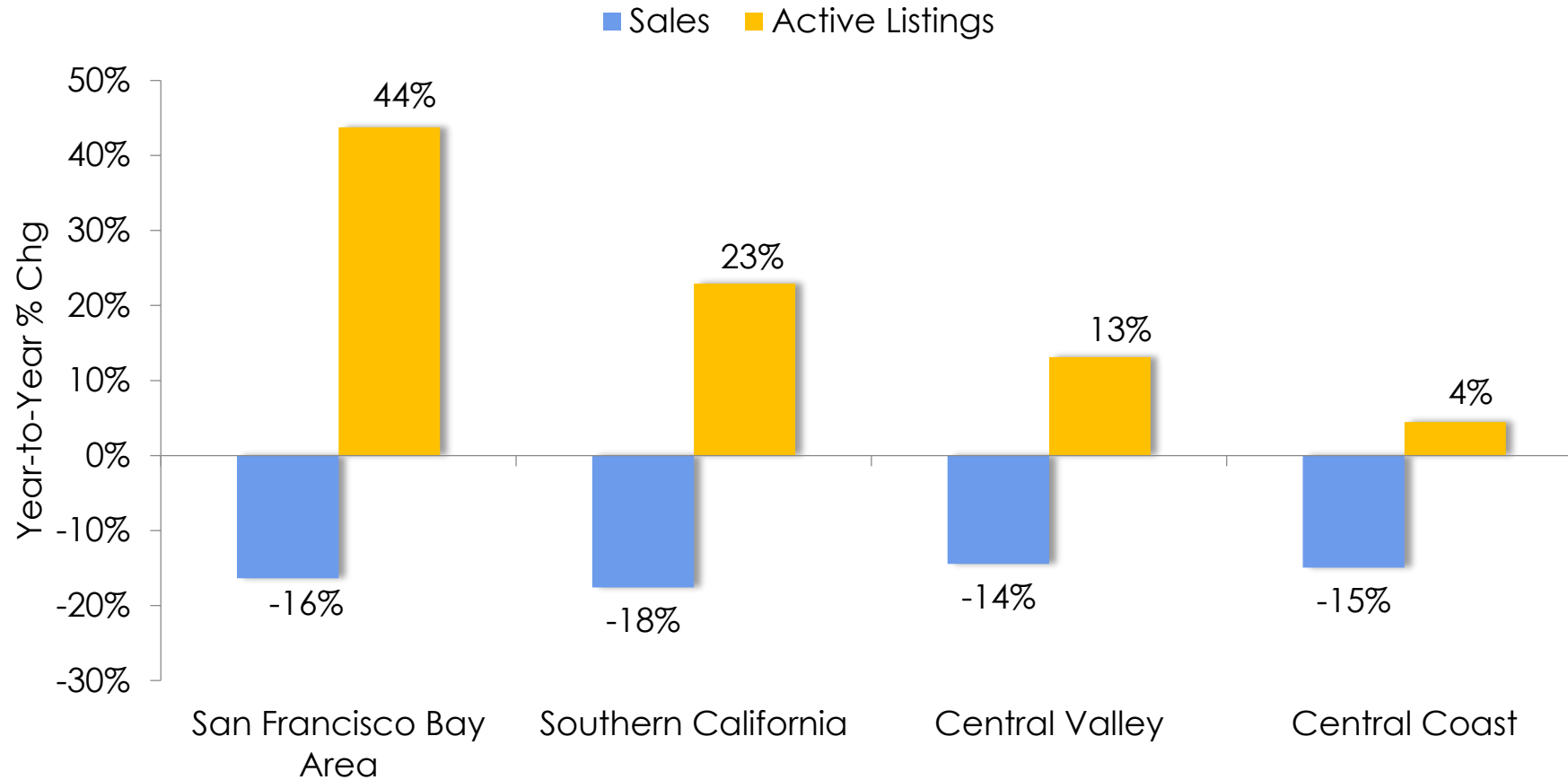
Housing Supply Improved across the Board, Except for the Sub-\$200k Price Segment

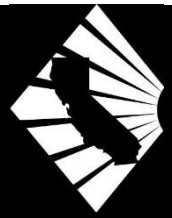




Active Listings Increased in All Regions

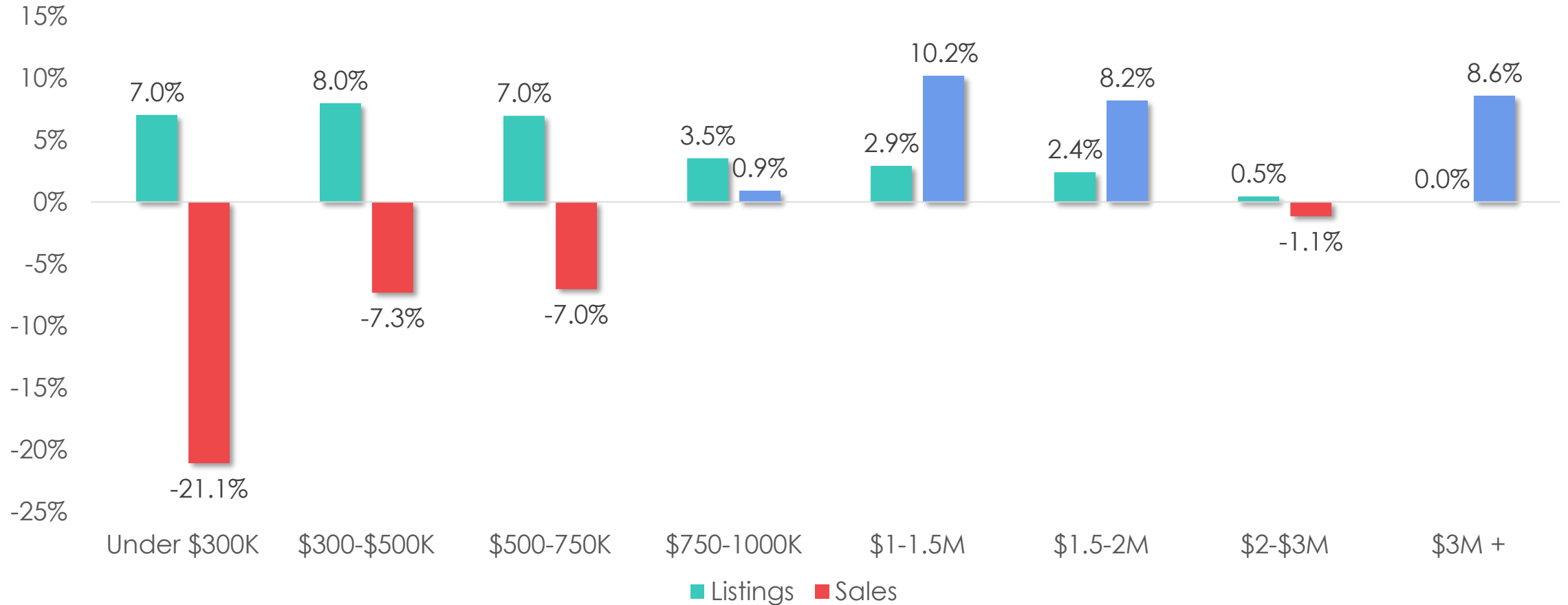
Sept 2018





Discrepancies Point to Weaker Demand Where did the buyers go?

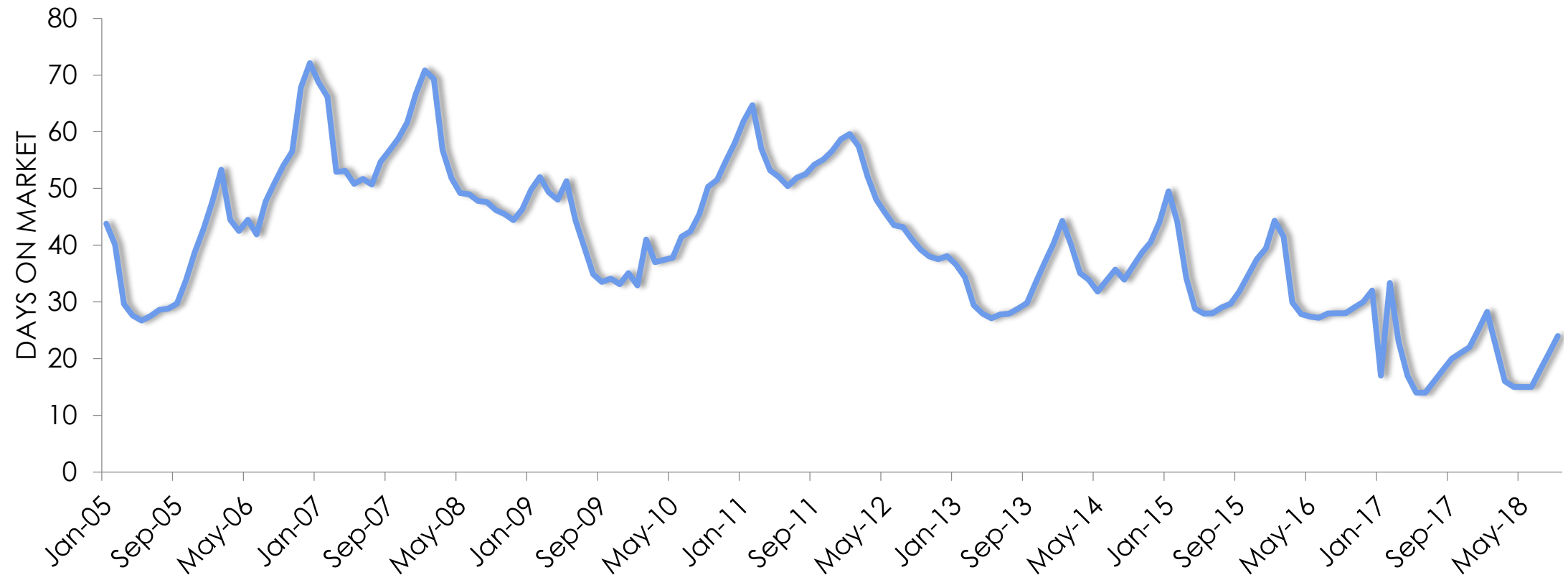
Sales vs. Active Listings Growth



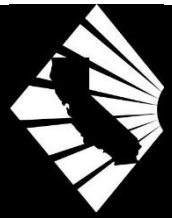


Listings Taking Longer to Sell

California, September 2018: 24.0 Days

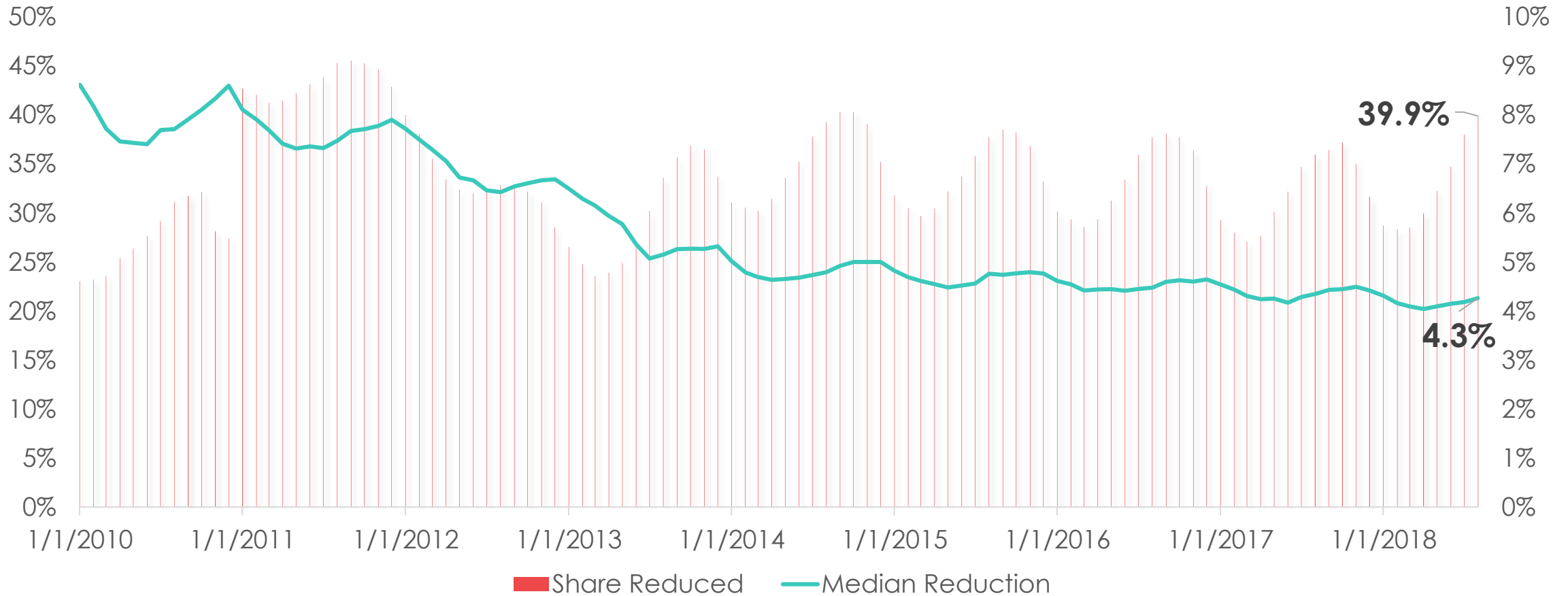


SERIES: Median Time of Market of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



More Listings With Price Reductions

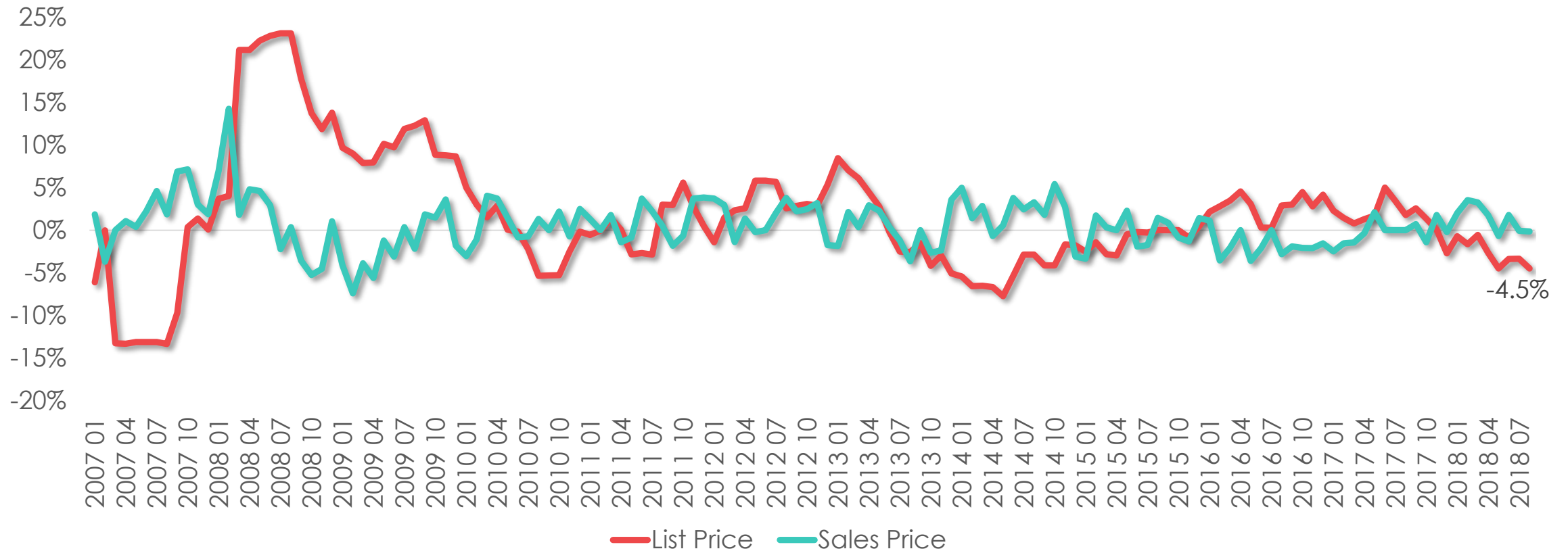
Reduced-Price Listings





Listing & Sale Prices Dropping > \$1M

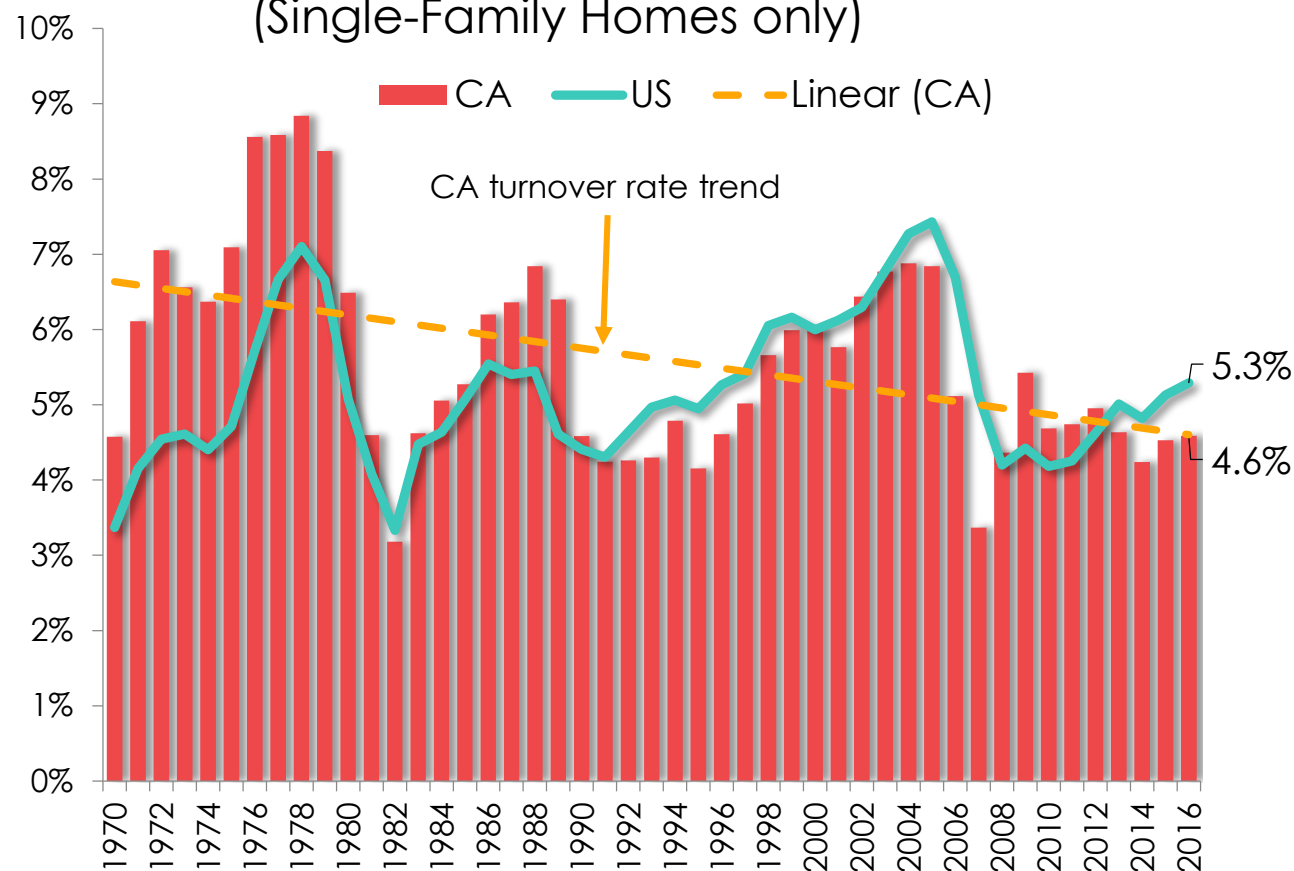
California \$1M Homes: Sales vs. List Price Growth
Typically 4-6 month lag





Despite the uptake in inventory, fewer units have been turned over since the Great Recession

Housing Turnover Rate
(Single-Family Homes only)

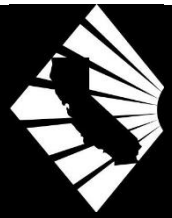


Long-Time Homeowners are not moving as in the past because:

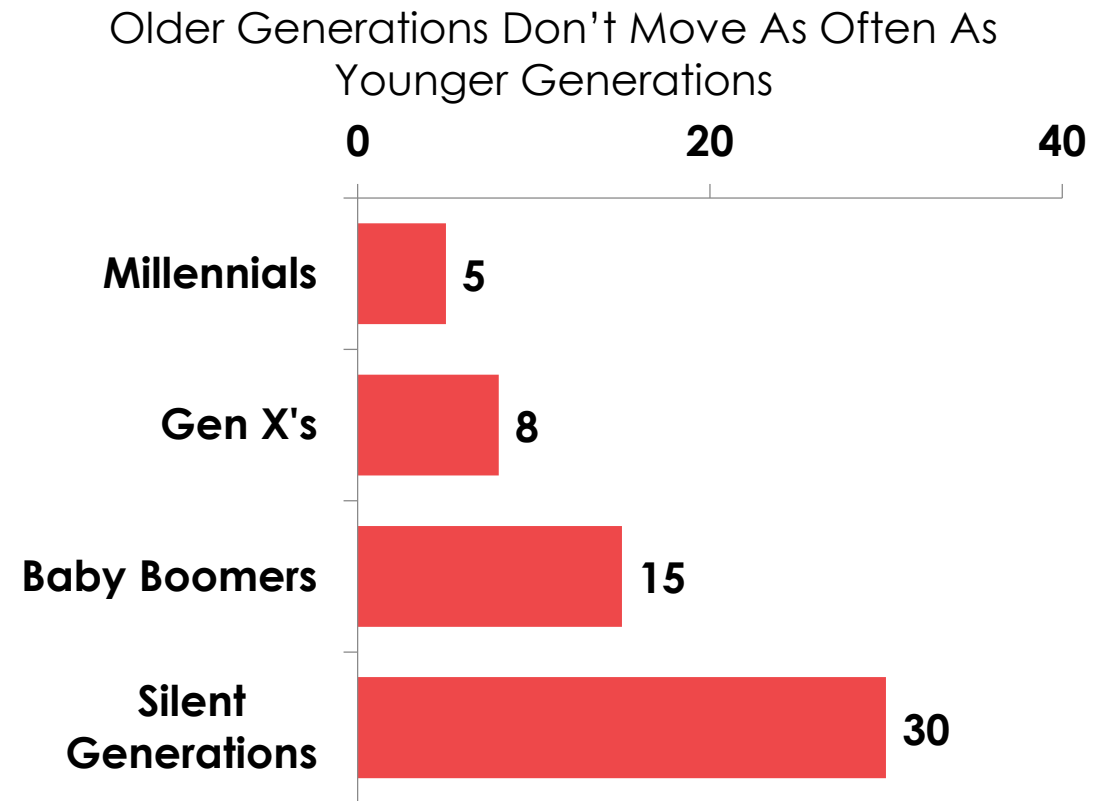
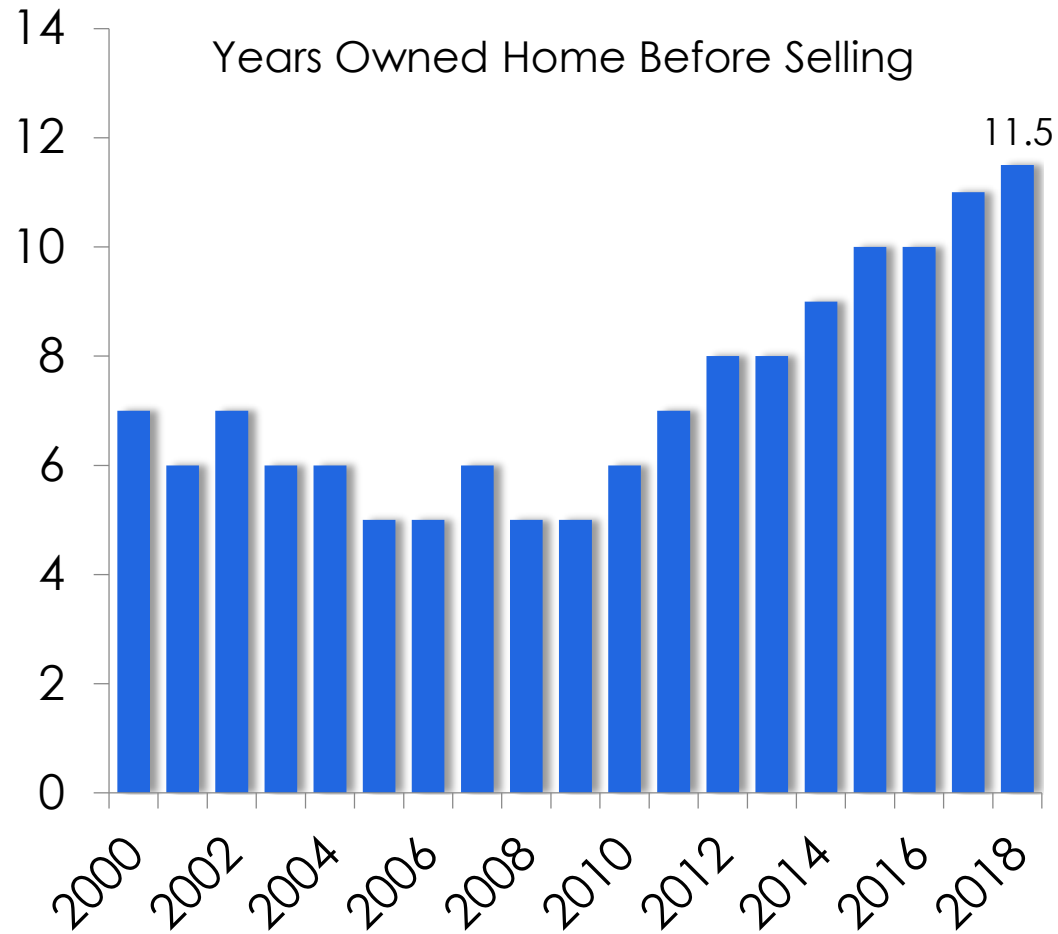
- Demographic shift
- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?

SERIES: Percent of existing single-family homes being sold

SOURCE: Census Bureau, American Community Survey, Moody's Analytics, C.A.R.



Sellers Are Not Moving as Often as Before

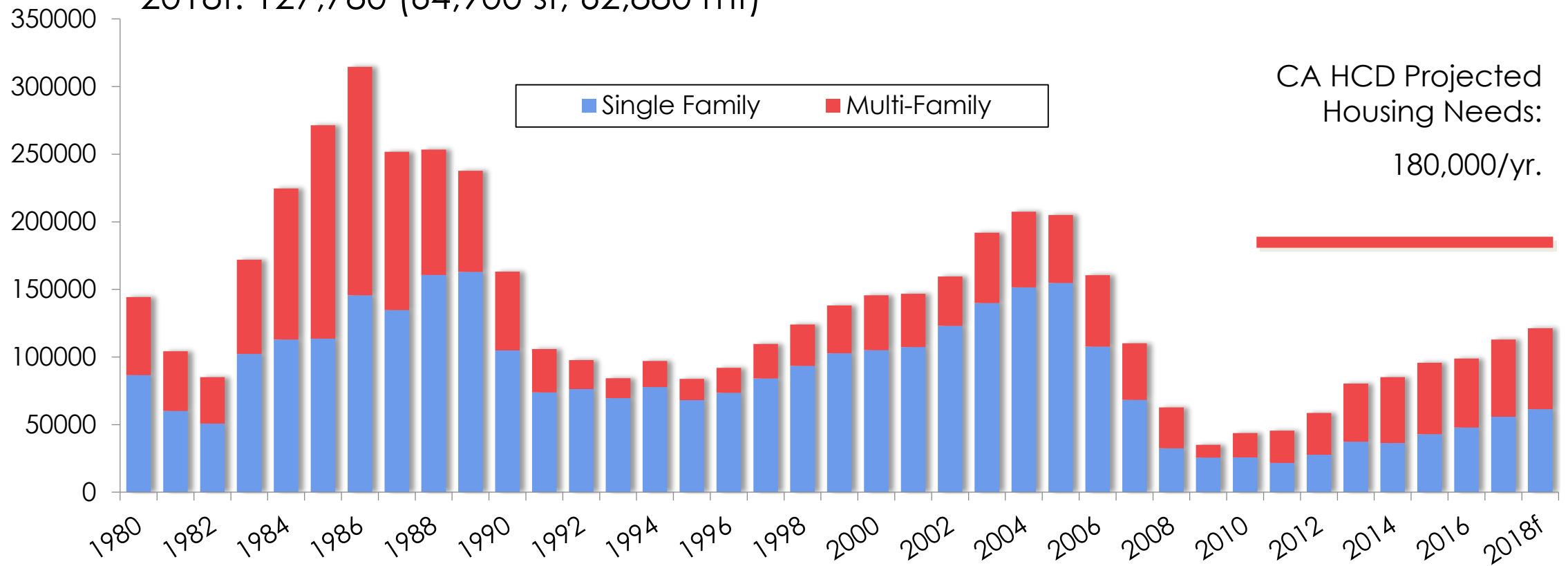


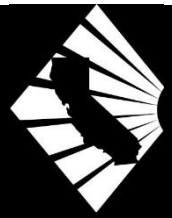


And California Is Not Building Enough

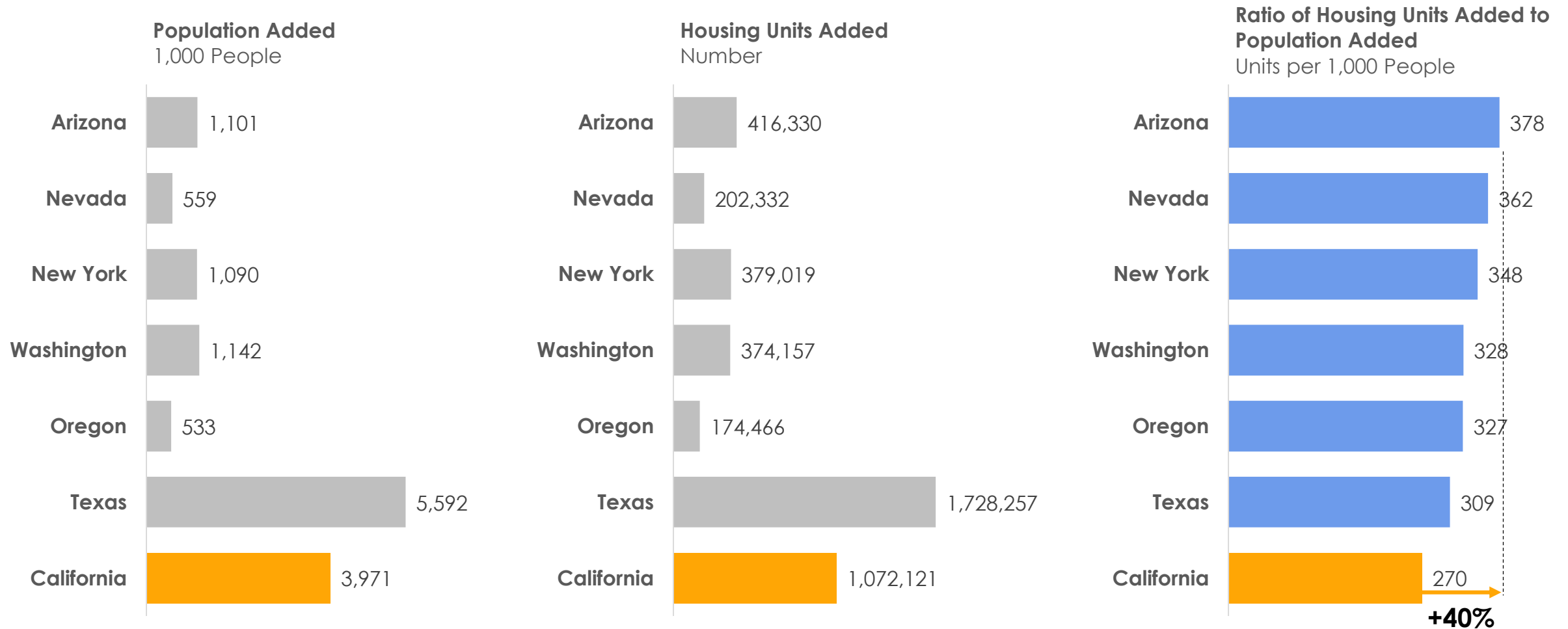
2017: 112,886 (55,779 sf, 57,107 mf)

2018f: 127,780 (64,900 sf, 62,880 mf)

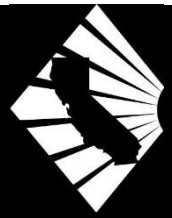




CA has produced less housing per capita than other states (2005 – 2016)

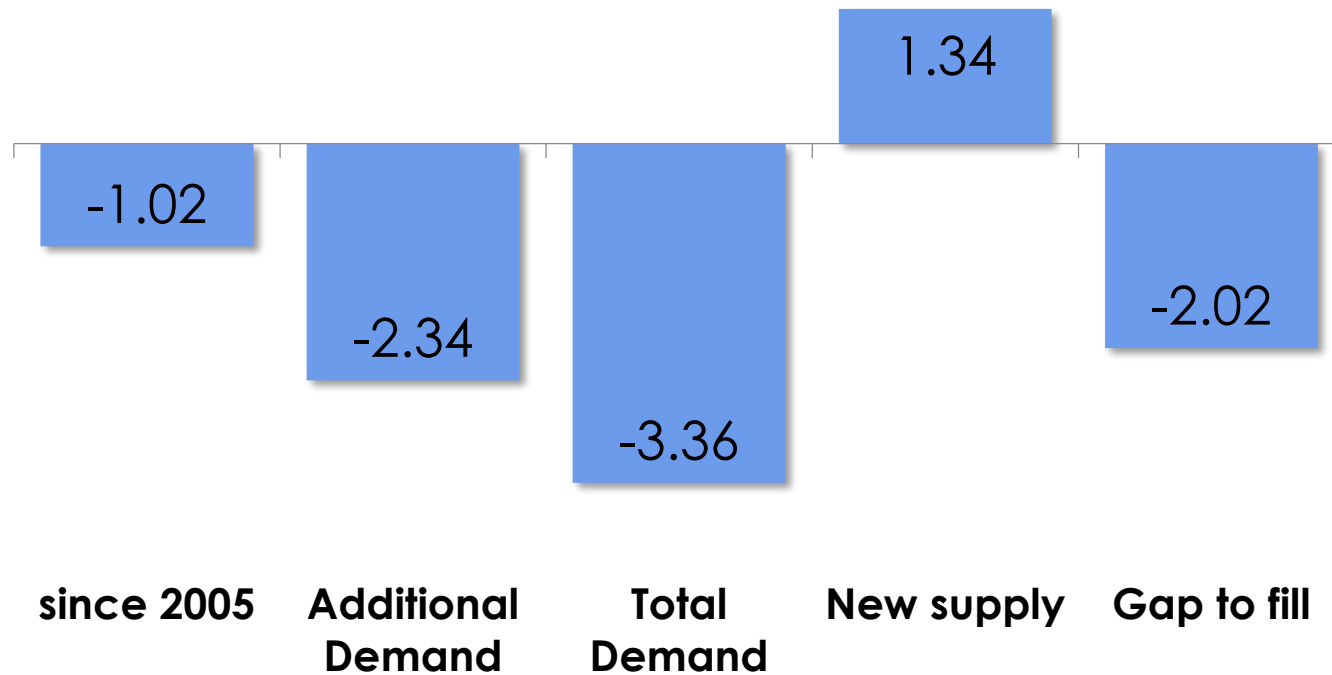


+40%

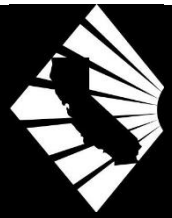


Housing Supply Gap Will Be Over 2 Million at Current Construction Pace

**California Housing Supply Gap
(in millions)**

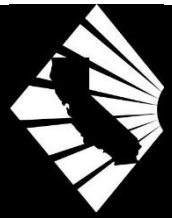


- With housing needs increasing at a rate of 180,000 every year, California will need more than 3.3 million units by 2030 to fill the housing demand and bring it back to 2005 level.
- At the current construction pace, however, California will have a backlog of over 2 million by 2030



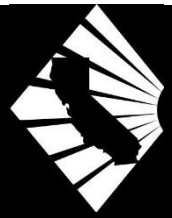
California Not Building Enough Because

- Community Resistance – Blocking/delaying new housing
- Project Reviews and CEQA
- Land Availability/Bias Toward Commercial Development



Why the production shortfall?

- Shortage of Land:
 - Production shortfall greatest in cities where need is most critical
- High Costs of Development
 - Fees in most California communities are higher than elsewhere in US
 - Infill development costs higher than suburban development costs
 - Environmental policies, etc increase costs
 - Lengthy permitting process increases cost per unit produced and favors deep pockets



Building in California is expensive



Land Costs

- 2 to 4 times higher on California (CA) Coasts
- High land costs usually mean more units being built on each plot of land, but not the case in CA's coastal metros
- **During the 2000's housing density of a typical neighborhood in CA's coastal metro rose only 4%, considerably less than the 11% average increase in the comparison group**
- The new housing unit in **the comparison group was also 40% more dense than that built in CA.**



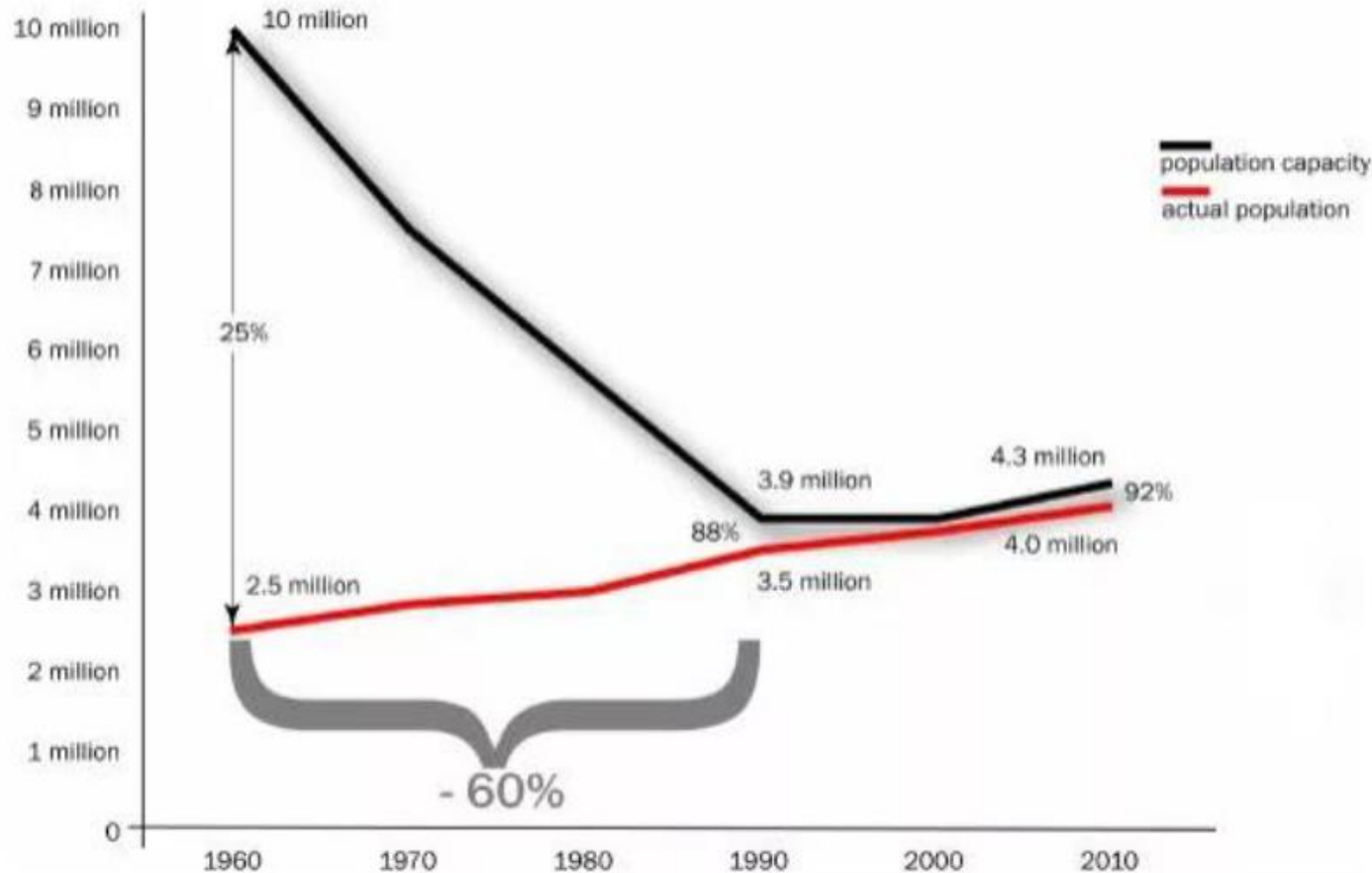
Building Costs

- \$50k to \$75 higher in California (CA)
- Include labor, building material and government fees, all higher in CA than other states
- **Development fees are higher in California** than the rest of the country. A 2012 national survey found that the average development fee levied by California local governments (excluding water-related fees) was **\$22,000 per single family home, as compared to the \$6,000** per single-family home in the rest of the country.



Case Study: Restrictive Zoning in L.A.

Los Angeles Zoned Residential Capacity

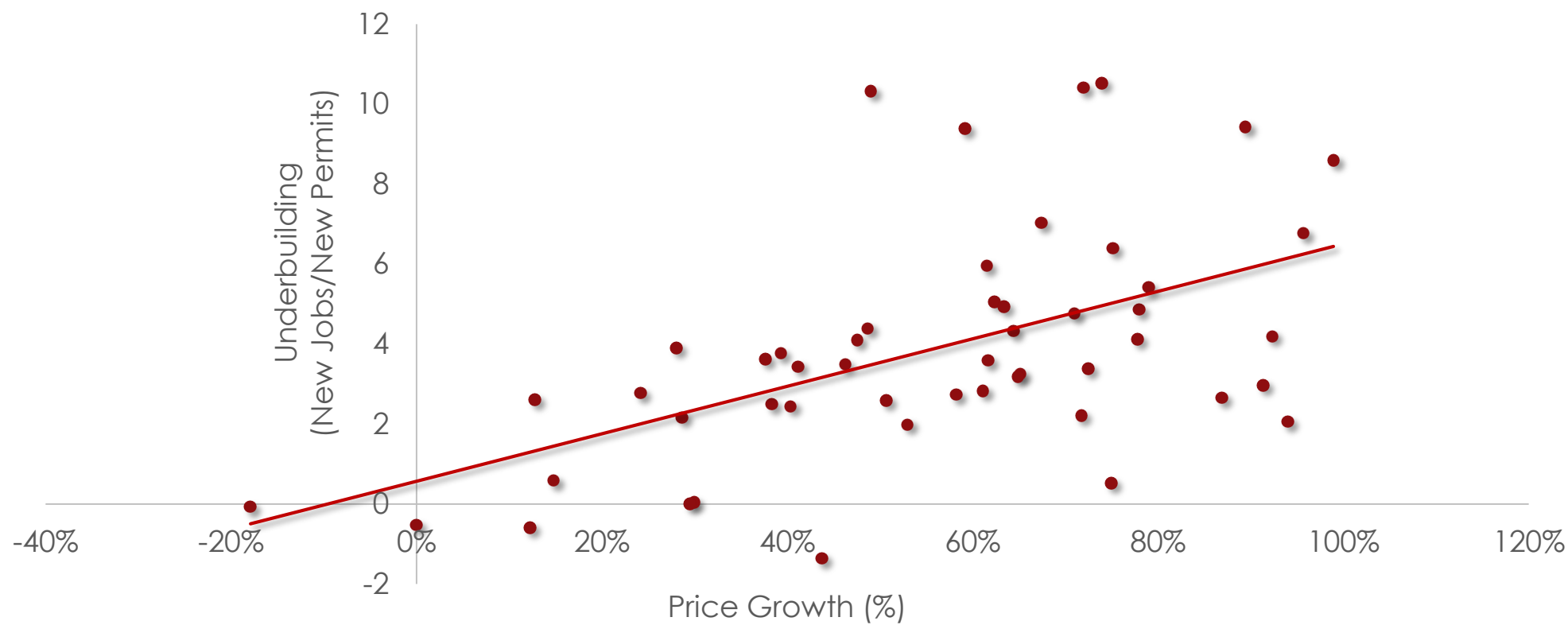


- Los Angeles was zoned to accommodate 10 million people in 1960
- Today, the city is zoned for only 4.3 million people after decades of population growth and increase in housing demand.



The More “Underbuilding”, the higher the price growth

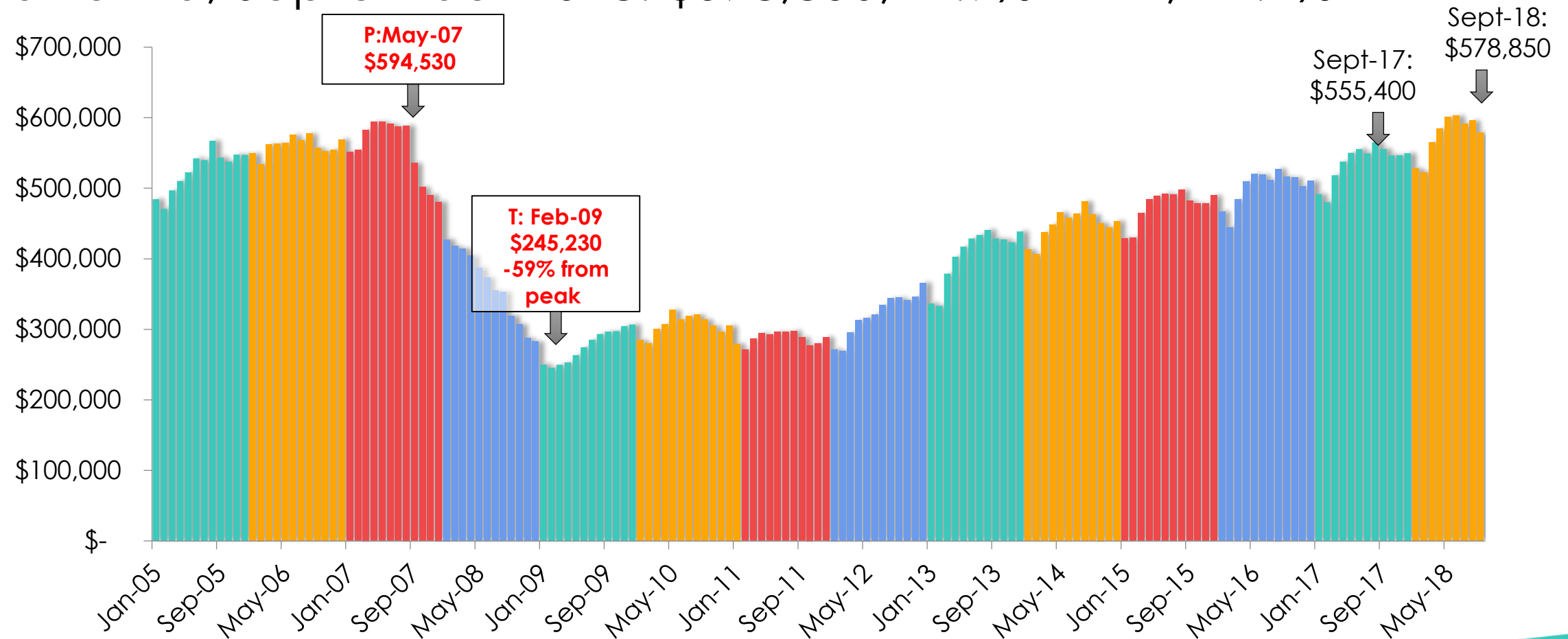
CA Underbuilding and Price Growth (2010-2015)





CA Median Price Continued to Grow but Had the Smallest Increase since Dec 2012

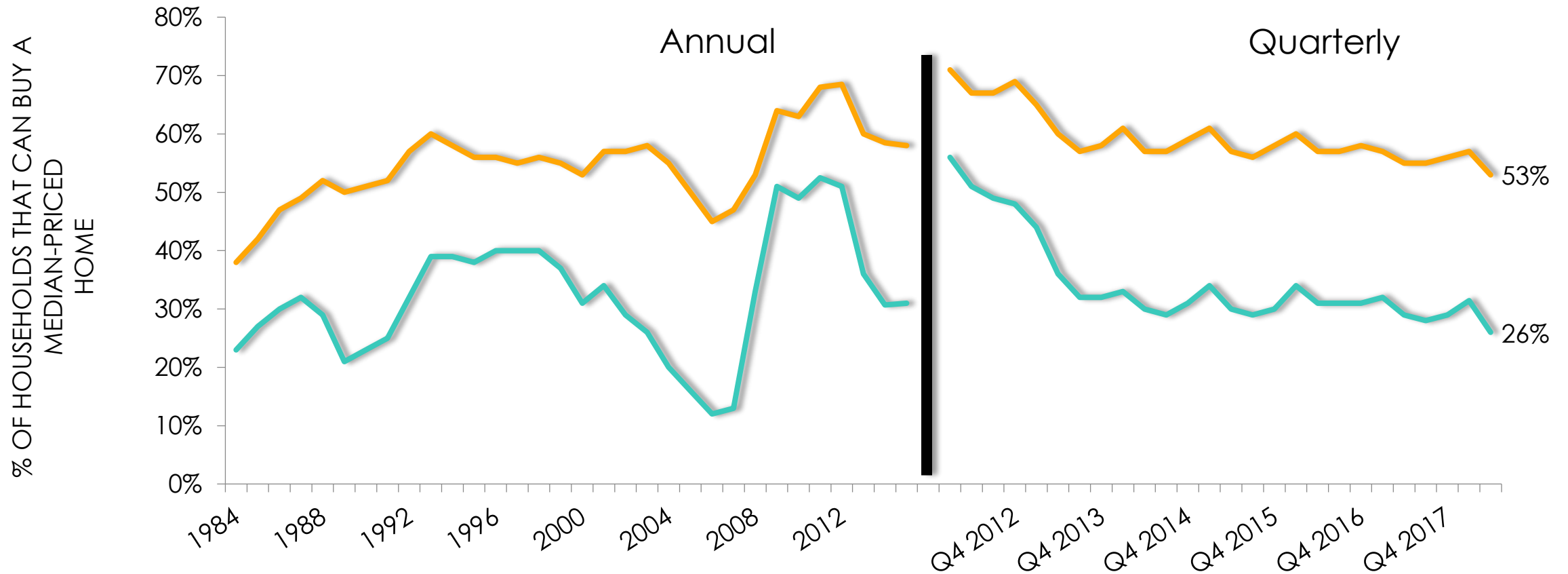
California, September 2018: \$578,850, -2.9% MTM, +4.2% YTY

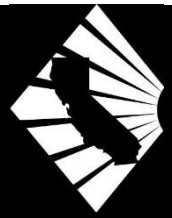




Housing Affordability Peaked at Q1 2012

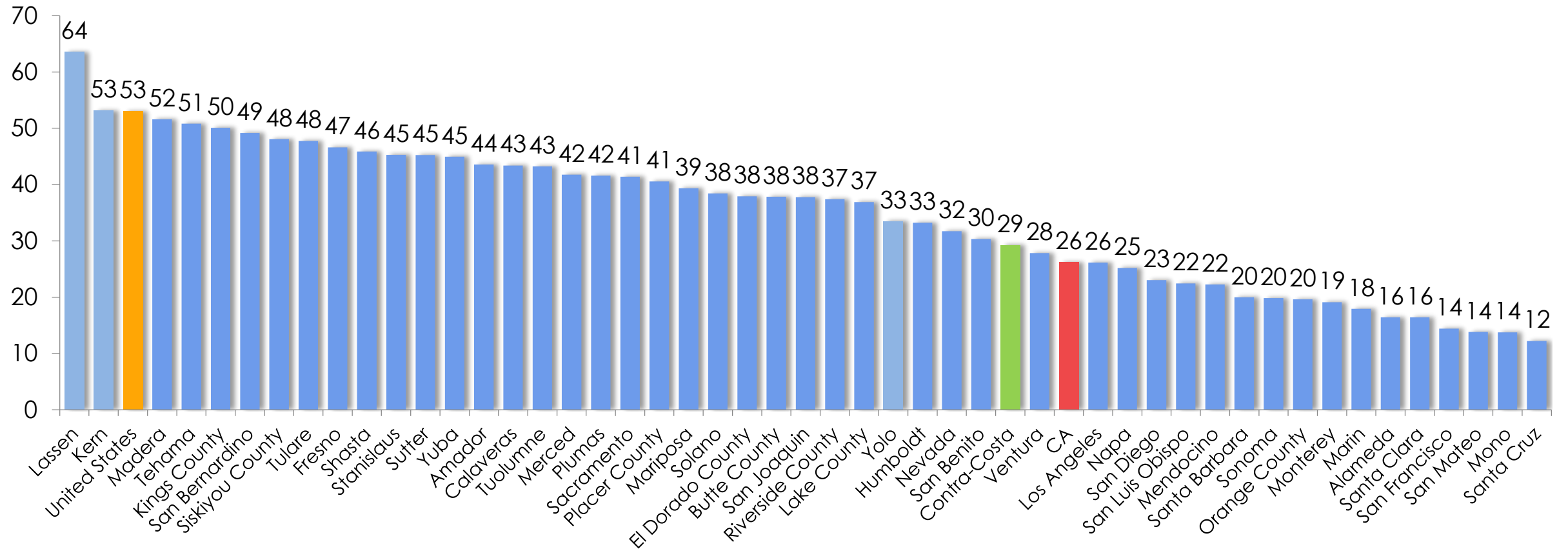
California, 1984-2018

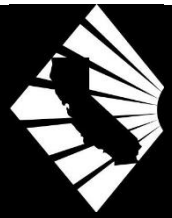




Housing Affordability In CA: By County

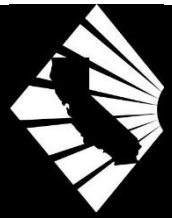
2018-Q2: % able to purchase median-priced home





Minimum Annual Income Required During Affordability Peak vs. Current

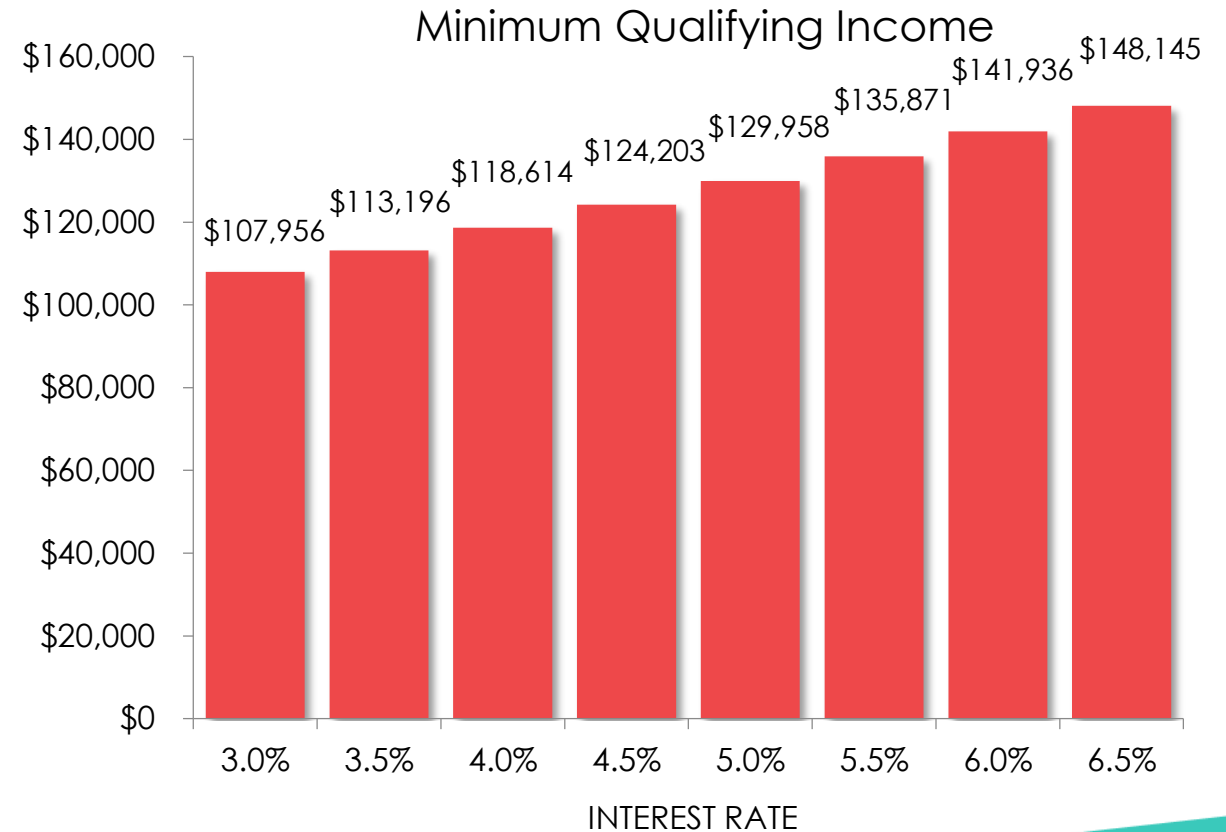
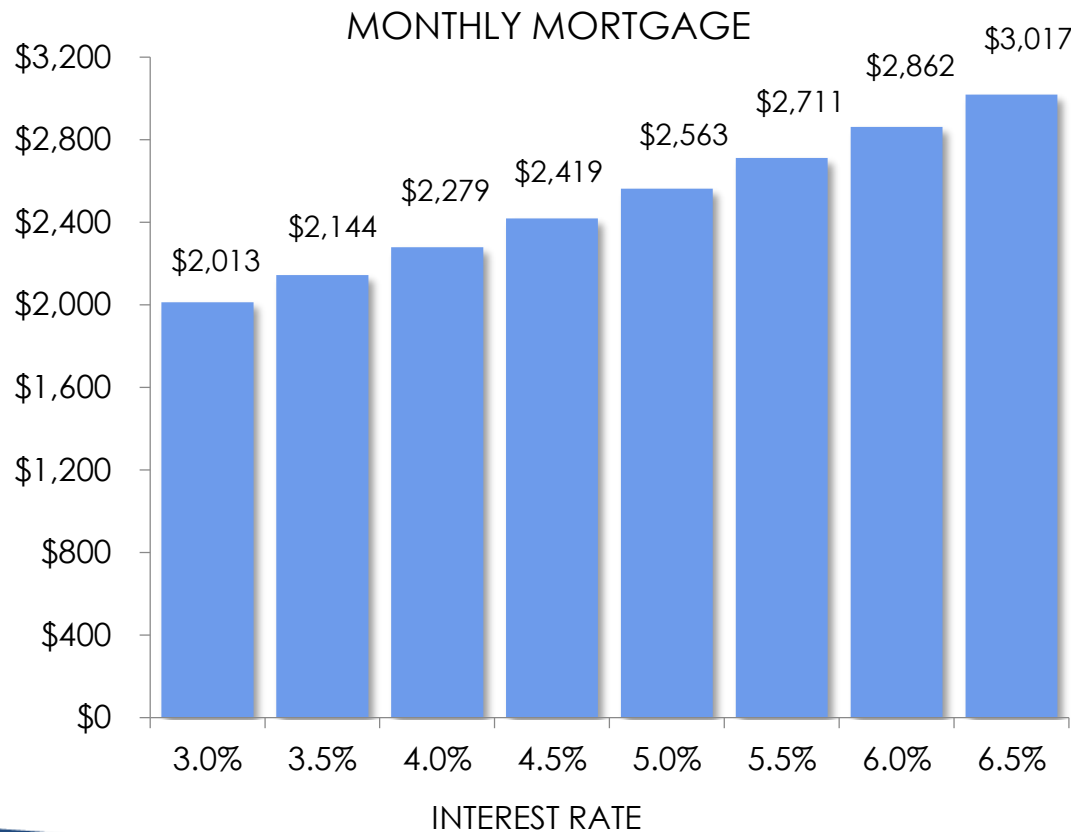
Region	2012 Q1	2018 Q2	% CHG
CA SFH	\$56,320	\$126,490	124.6%
CA Condo/Townhomes	\$44,440	\$101,270	127.9%
Los Angeles Metropolitan Area	\$53,780	\$112,340	108.9%
Inland Empire	\$35,170	\$76,310	117.0%
S.F. Bay Area	\$90,370	\$219,380	142.8%
US	\$32,000	\$269,000	740.6%



Higher Rates Hurt Affordability

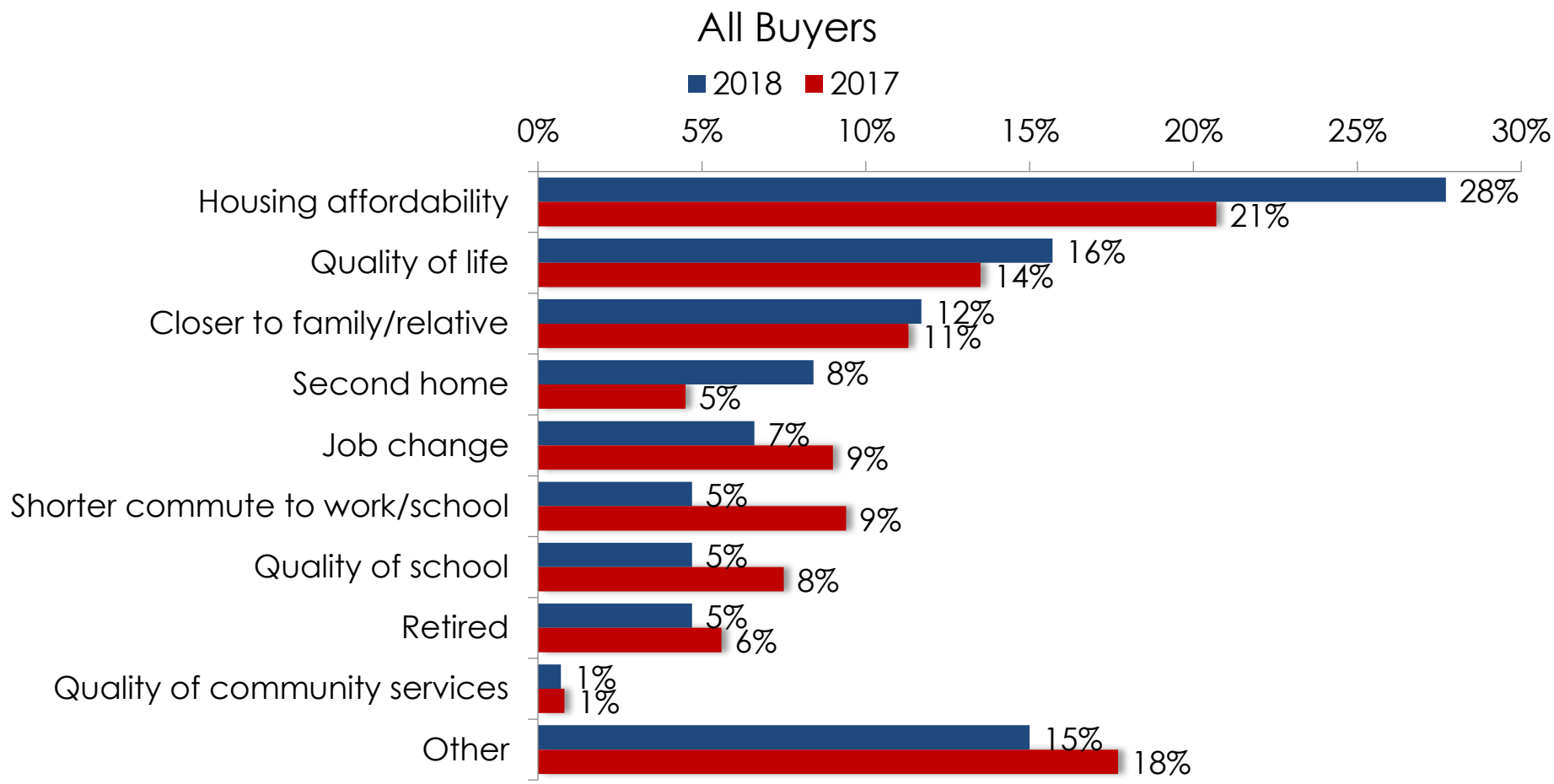
Q2-2018 Median Price \$596,730

20% Down-payment





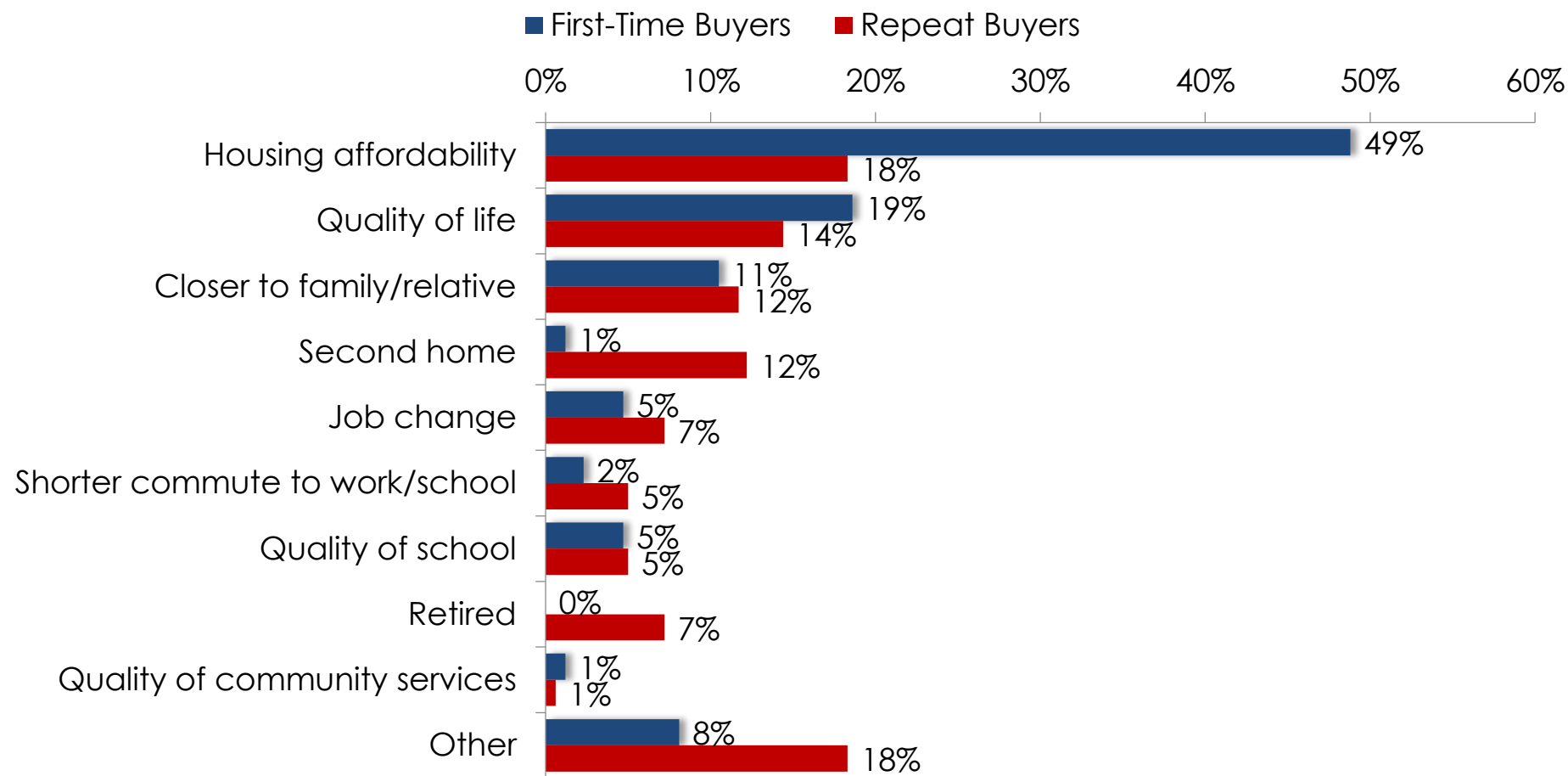
Housing Affordability Still the Main Reason for Outmigration



Q. What was the primary reason for changing county?



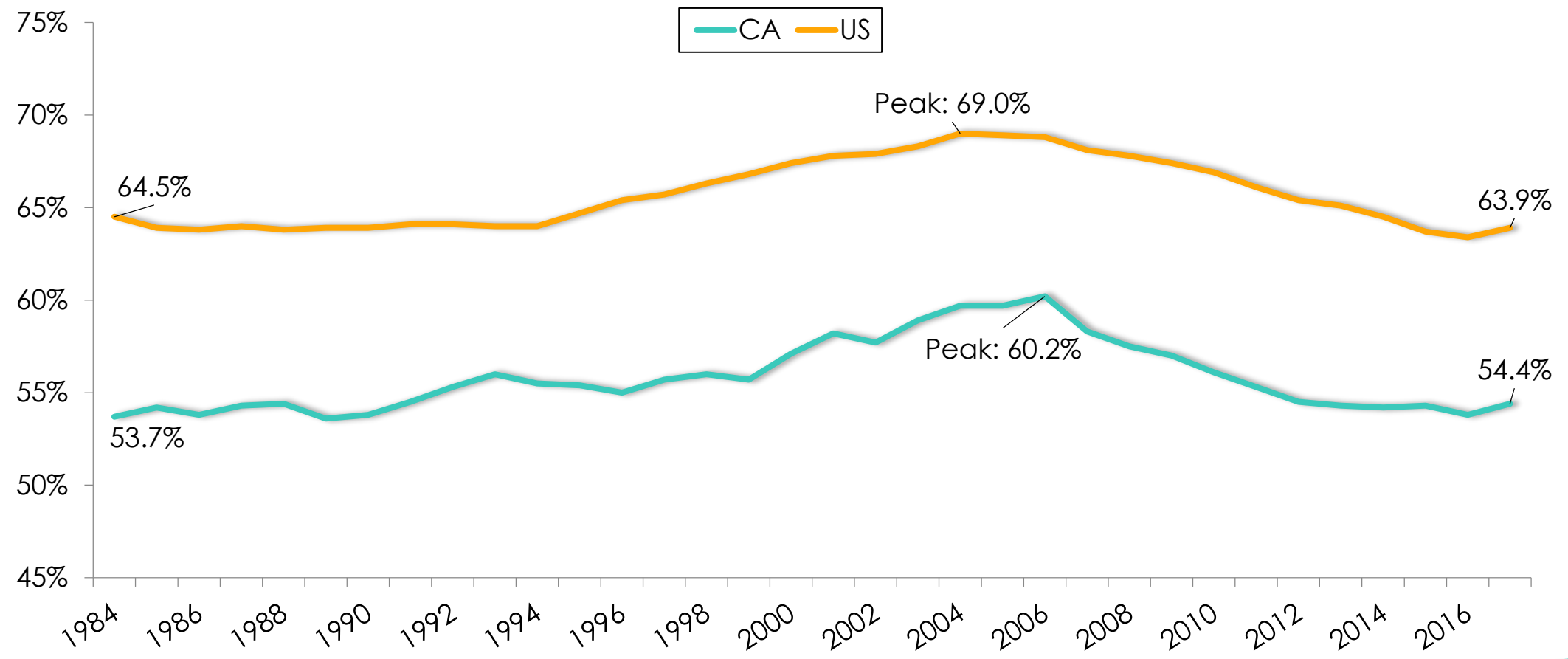
It's a Much Bigger Problem for First-Time Buyers





Homeownership update – CA inched up from 2016 but remained at low level

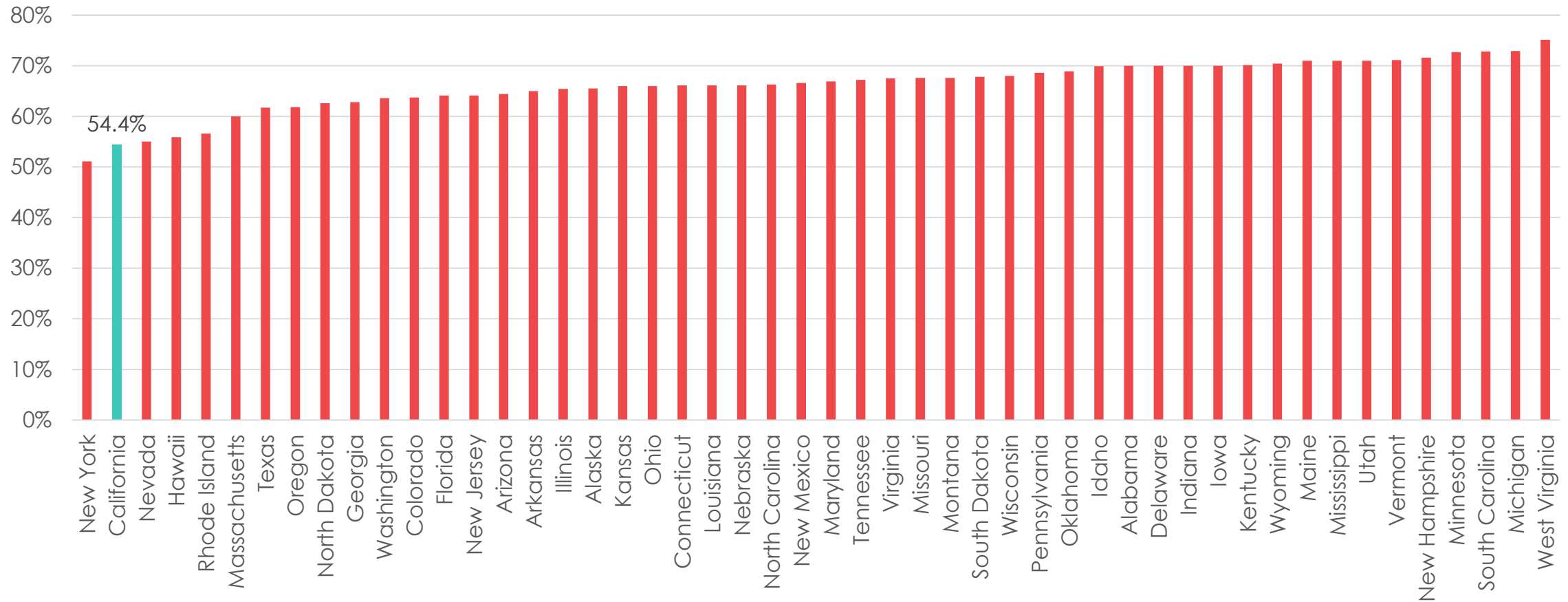
California Vs. U.S. – 9.5% gap in 2017





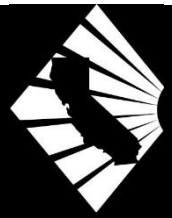
California still ranked the 2nd lowest amongst all states

Homeownership Rate



SERIES: Homeownership Rates

SOURCE: U.S. Census Bureau (Current Population Survey)

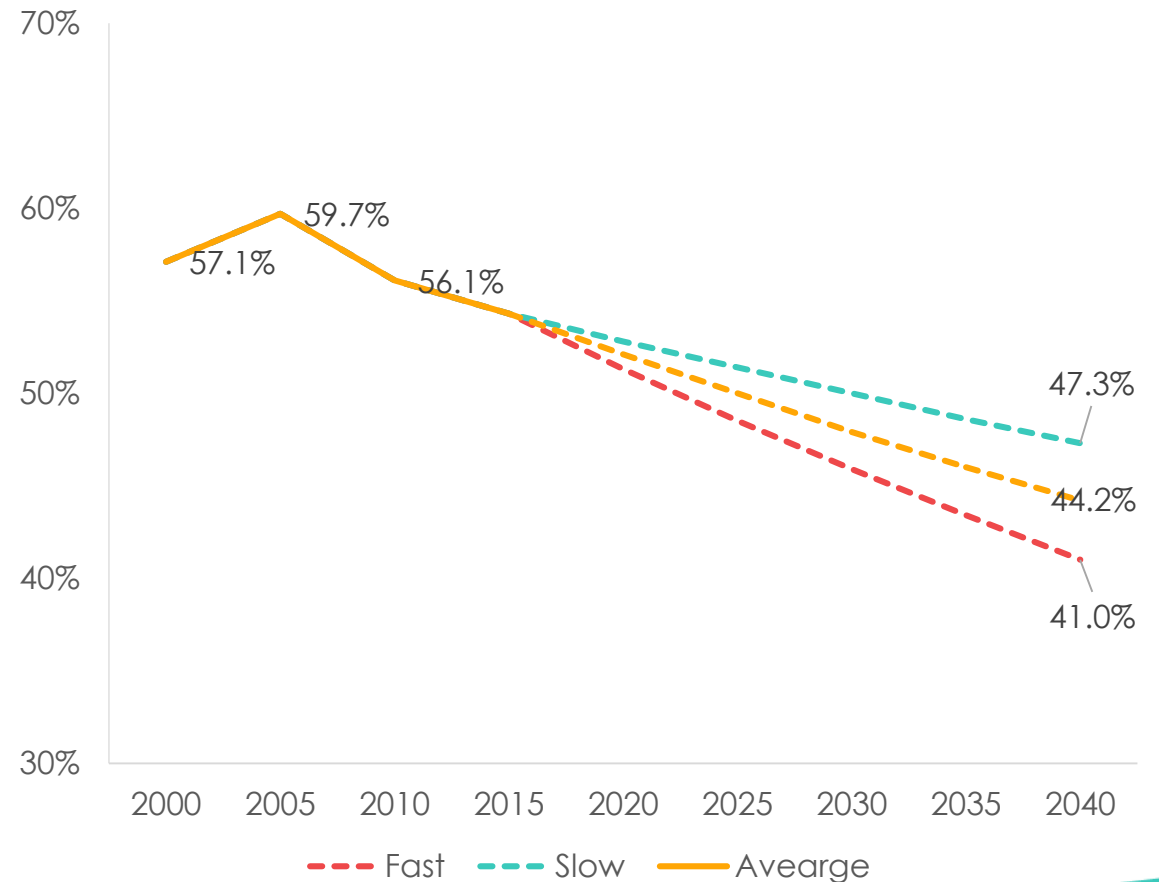


Homeownership will deteriorate further if the trend continues

Despite the slight bounce back, homeownership will remain low in the next couple years due to:

- Interest rate hike
- Price growth
- Low turn-over rates
- Lack of new constructions
- Short-term Costa-Hawkins Repeal Impact

California Homeownership Rate





More Sellers Continue to Move out of California; Highest since 2007

Location of Seller's New Home

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Within the same county	38%	41%	37%	45%	47%	42%	49%	49%	46%	44%	44%	40%	38%	36%
In another county in California	23%	18%	24%	17%	21%	21%	19%	18%	20%	21%	20%	21%	20%	21%
In another state	31%	28%	29%	27%	19%	20%	20%	22%	19%	22%	22%	25%	28%	29%
Out of US	1%	2%	1%	1%	2%	1%	1%	1%	0%	1%	1%	1%	1%	1%
Don't Know/Not sure	7%	11%	9%	10%	12%	16%	10%	10%	15%	13%	13%	13%	14%	13%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



Case Study: Seller Leaving California

Seller's Profile

Age:	56
Marital Status:	Married Couple with Dependents
Income:	\$200,000
Yrs. Owned:	25
Net cash gain:	\$1,050,000
Reason for selling:	Desired larger home
State moving to:	Utah

Characteristics of Home

Size:	1,948 sq. ft
Property Type:	Single-Family Home
Location:	Los Angeles County
Price:	\$1,175,000

*"We doubled the size of our house and lowered our mortgage payment."**

*"L.A would have been my first choice, and I didn't want to have to leave California. I couldn't afford to stay there"**

*Lopez, S. (2017) 'They're leaving California for Las Vegas for find middle-class life that eluded them'. Los Angeles Times, 3 December

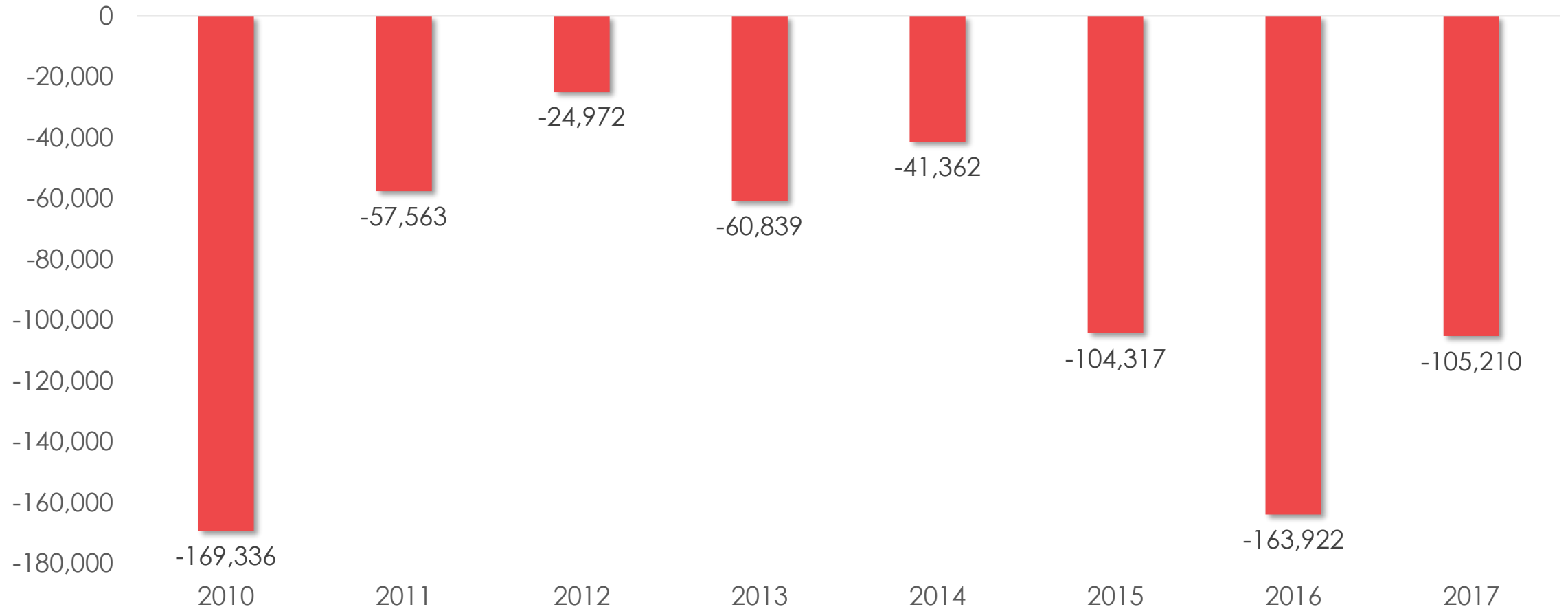


CA is Losing Workers to
More Affordable States:
Two Step



~750K People Have Left Since 2010

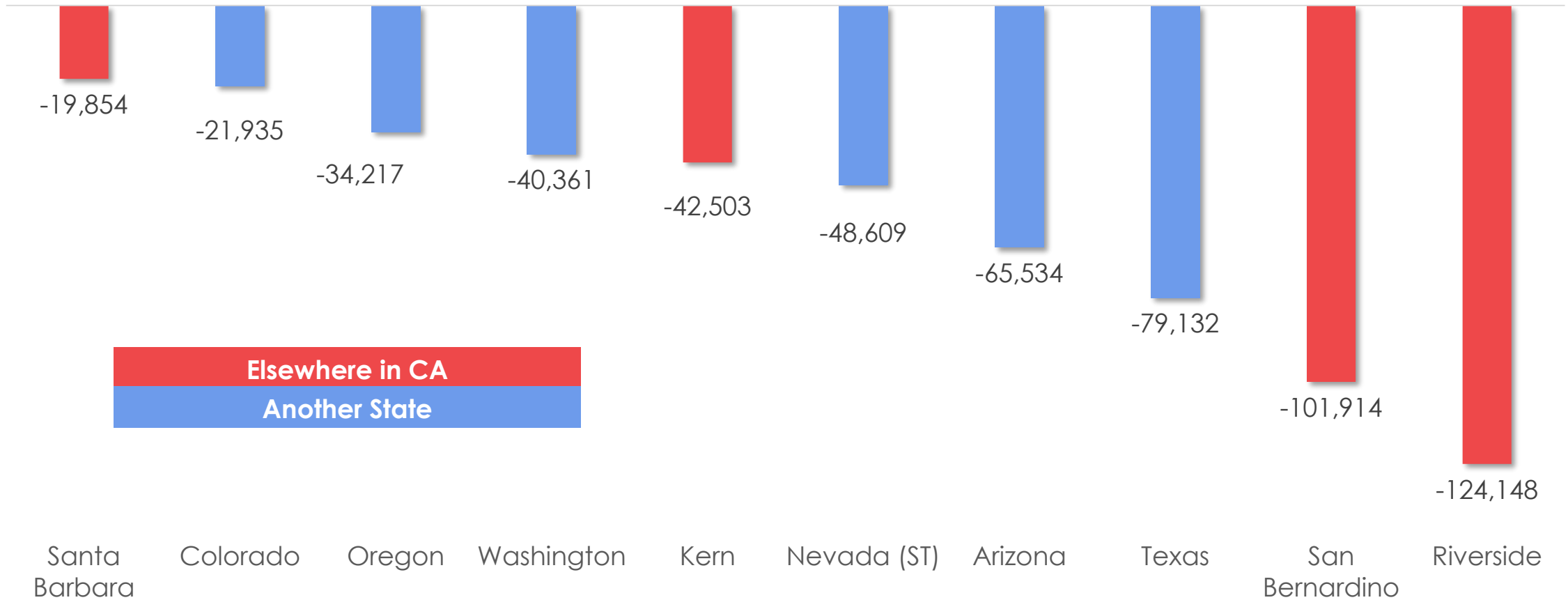
California Net Domestic Migration

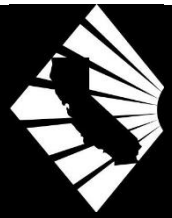




Step 1: Coastal to Cheaper Markets

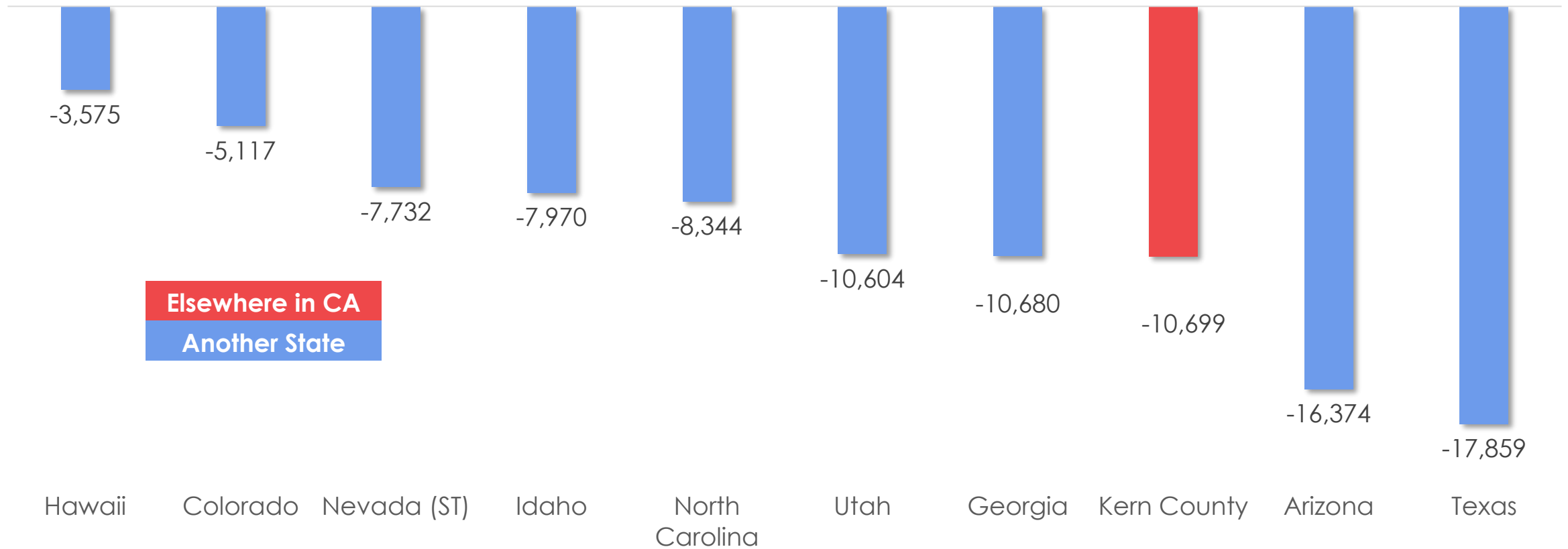
Coastal Southern California Out Migration (2010-2016)

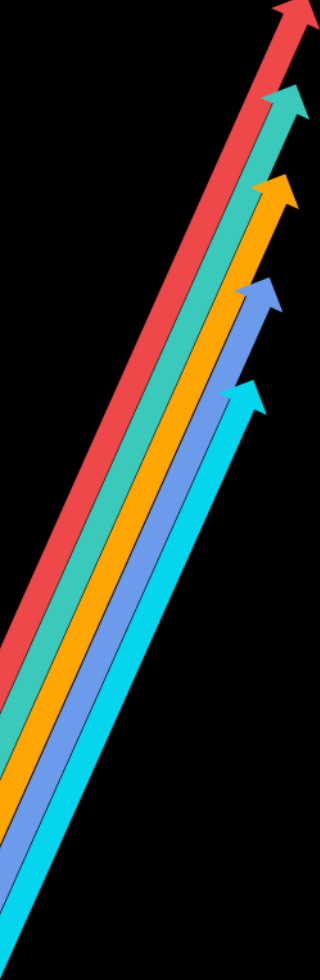




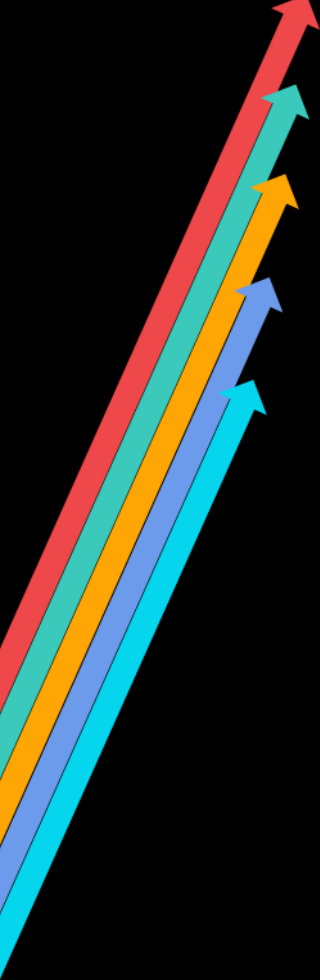
Step 2: Pricing Prior Residents Out of State

Inland Empire Out Migration (2010-2016)





Regional Housing Market Update

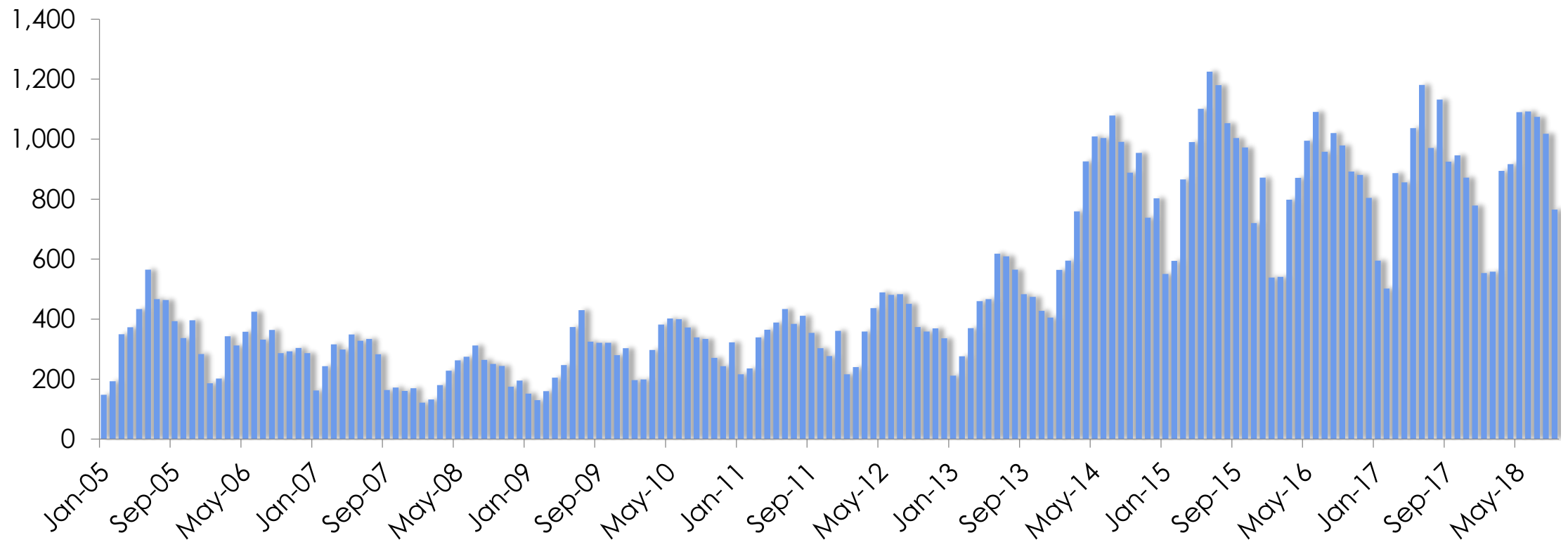


Contra Costa



County YTD Sales Turned Negative as of Sept 2018

Contra Costa County, Sep. 2018: 765 Units, -1.5% YTD, -17.3% YTY

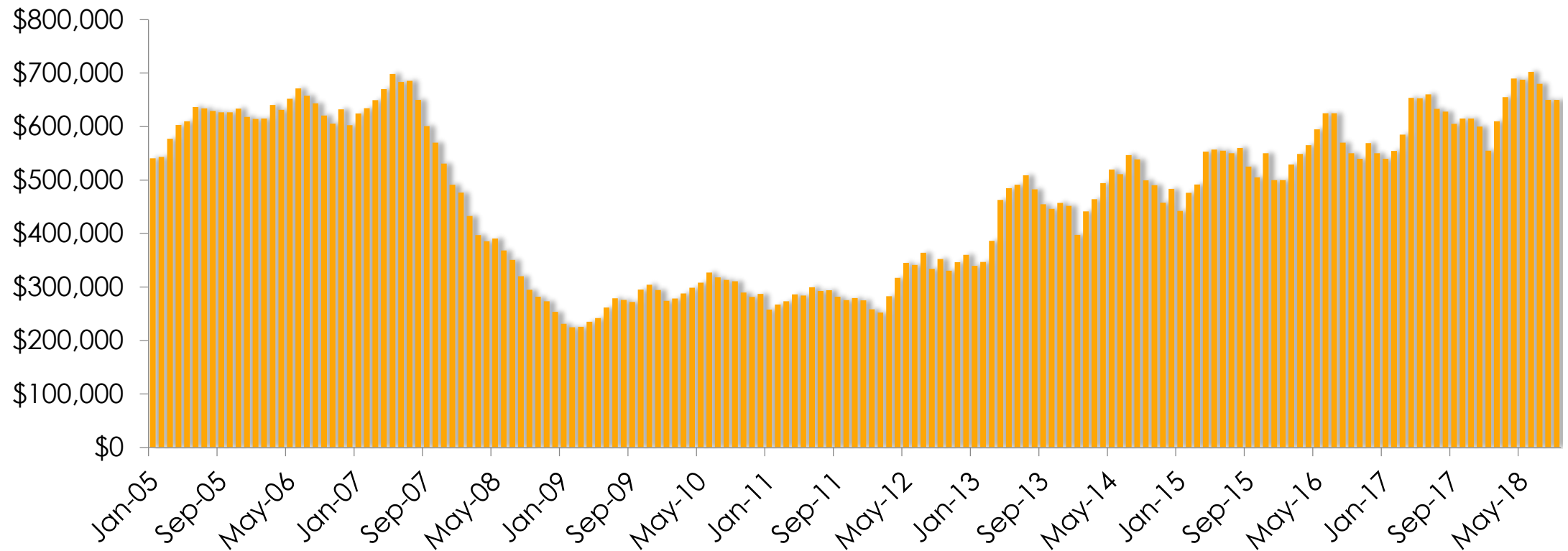


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Price Growth Decelerated but Remained Solid

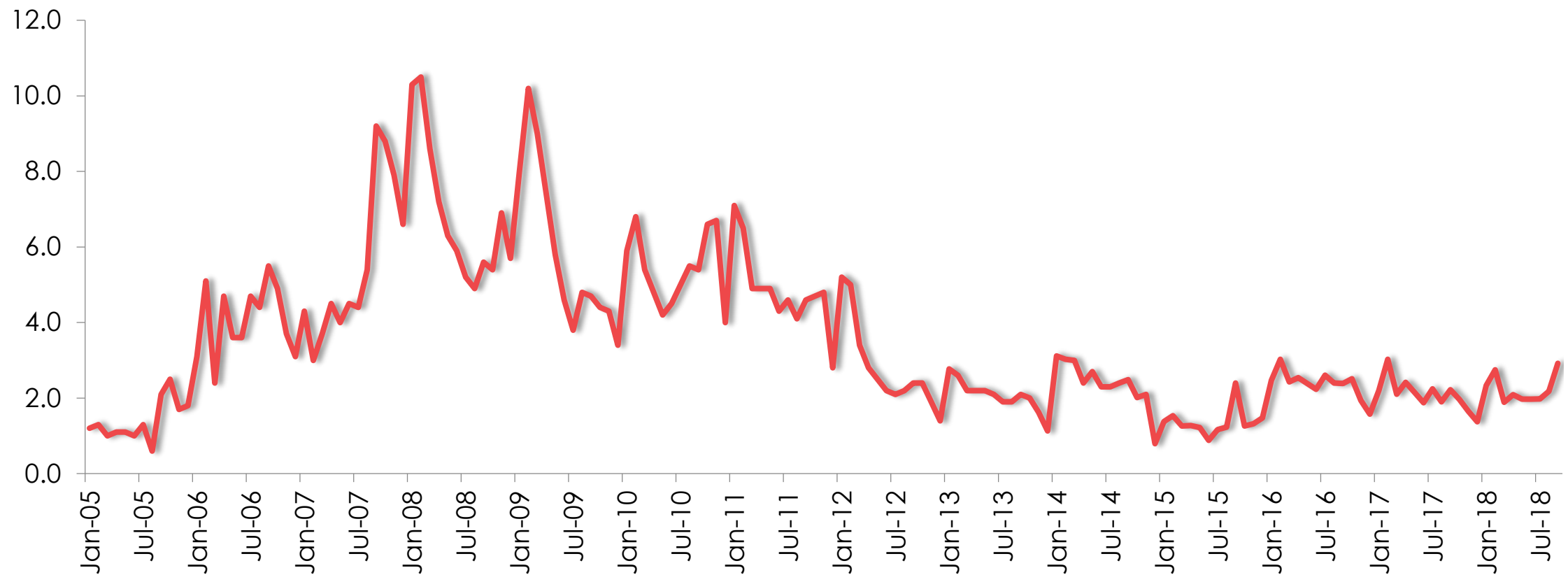
Contra Costa County, Sep. 2018: \$650,000, Up 7.4% YTY



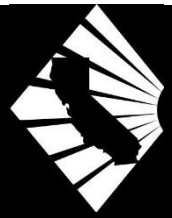


Inventory Started Rising but Remained Low

Contra Costa County, September 2018: 2.9 Months



Note: The Unsold Inventory Index represents the number of months it would take to deplete the remaining inventory at the end of a particular month with the sales rate of the month in consideration. Inventory includes listings with "Active", "Pending", and "Contingent" (when available) statuses.



Sales Dropped Big in Some Cities

Sales of Existing Single-Family Homes

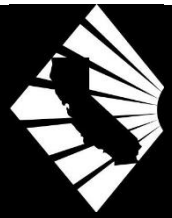
City	Sep-18	Aug-18	Sep-17	MTM% Chg	YTY% Chg
Antioch	80	127	96	-37.0%	-16.7%
Corcord	94	110	91	-14.5%	3.3%
Walnut Creek	32	46	47	-30.4%	-31.9%



Price Appreciation Losing Steam

Median Price of Existing Single-Family Homes

City	Sep-18	Aug-18	Sep-17	MTM%Chg	YTY%Chg
Antioch	\$450,000	\$457,000	\$430,500	-1.5%	4.5%
Corcord	\$616,000	\$635,250	\$599,000	-3.0%	2.8%
Walnut Creek	\$1,090,000	\$1,052,500	\$1,175,000	3.6%	-7.2%



Inventory Condition Improved in All Areas

Active Listing of Existing Single-Family Homes

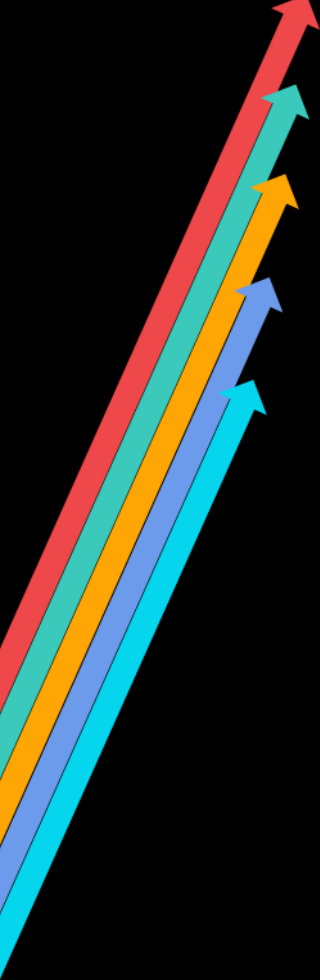
City	Sep-18	Aug-18	Sep-17	MTM%Chg	YTY%Chg
Antioch	318	320	177	-0.6%	79.7%
Corcord	198	207	124	-4.3%	59.7%
Walnut Creek	182	170	162	7.1%	12.3%



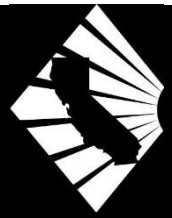
Listings Continued to Have Short Shelf Life

Days on Market of Existing Single-Family Homes

County	Sep-18	Aug-18	Sep-17
Antioch	15	14	12
Corcord	16	16	12
Walnut Creek	16	13	12

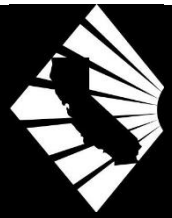


The Forecast



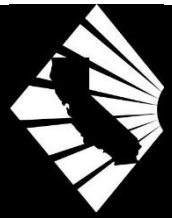
U.S. Economic Outlook

	2013	2014	2015	2016	2017	2018p	2019f
US GDP	1.7%	2.4%	2.6%	1.6%	2.3%	3.0%	2.4%
Nonfarm Job Growth	1.7%	1.9%	2.1%	1.8%	1.4%	1.6%	1.3%
Unemployment	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%
CPI	1.5%	1.6%	0.1%	1.4%	2.0%	2.5%	2.4%
Real Disposable Income, % Change	-1.4%	2.7%	3.4%	2.7%	2.1%	2.8%	2.6%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	5.2%



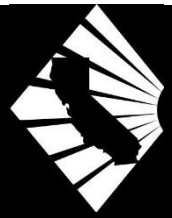
California Economic Outlook

	2013	2014	2015	2016	2017	2018p	2019f
Nonfarm Job Growth	3.0%	2.2%	2.7%	2.3%	1.6%	2.0%	1.4%
Unemployment	8.9%	7.5%	6.2%	5.5%	4.8%	4.3%	4.3%
CA Population (Million)	38.4	38.7	39.1	39.4	39.6	39.9	40.2
Population Growth	0.9%	1.0%	0.8%	0.6%	0.8%	0.7%	0.7%
Real Disposable Income, % Change	-2.1%	5.6%	3.9%	1.6%	1.6%	2.4%	3.0%



California Housing Market Outlook

	2013	2014	2015	2016	2017	2018p	2019f
SFH Resales (000s)	414.9	382.7	409.4	417.7	424.1	410.5	396.8
% Change	-5.9%	-7.8%	7.0%	2.0%	1.5%	-3.2%	-3.3%
Median Price (\$000s)	\$407.2	\$446.9	\$476.3	\$502.3	\$538.0	\$575.8	\$593.4
% Change	27.5%	9.8%	6.6%	5.4%	7.2%	7.0%	3.1%
Housing Affordability Index	36%	30%	31%	31%	29%	28%	25%
30-Yr FRM	4.0%	4.2%	3.9%	3.6%	4.0%	4.7%	5.2%

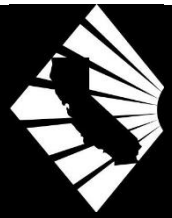


Key Takeaways

- The market shift is underway with sales down and price softening
- High level of economic and market uncertainty is affecting home buying decisions and putting buyers on the sideline.
- While the fundamentals are still solid, the ride in the next 12 months will be bumpy
- Despite an improvement in housing supply, affordability remains an issue and will lead to further outmigration and lower homeownership rate.



**Help Pass Prop 5 and
Defeat Prop 10**



Prop 5

Property Tax Fairness Initiative

The Problem:

Seniors and the disabled are stuck in homes ill-suited to their needs because they can't afford to pay higher property taxes.



UNLOCK HOMES
HELP SENIORS AND FAMILIES



Prop 5

Property Tax Fairness Initiative

The Background:

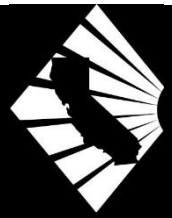
Prop 13 keeps property taxes from escalating with home values, but when someone sells and buys a new home, they can end up paying more in property taxes. Seniors and the disabled often can't afford the new taxes and are stuck where they are.

We call these increased taxes a “moving penalty.”

Those on fixed incomes can't afford to pay it.



UNLOCK HOMES
HELP SENIORS AND FAMILIES



Prop 5

Property Tax Fairness Initiative

The Solution:

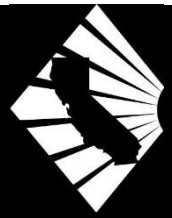
Prop 5, C.A.R.'s Tax Fairness Initiative

- Allows seniors, the disabled and natural disaster victims to transfer some of their property tax savings to a new home.
- Also creates homeownership opportunities for other families.

VOTE YES ON PROP 5



UNLOCK HOMES
HELP SENIORS AND FAMILIES



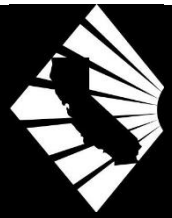
Prop 10

Repeal of Costa-Hawkins Limitations on Rent Control

Current Law (Costa-Hawkins)

Local governments can enact rent control laws with these limitations:

- Can't apply to new buildings;
- Can't apply to single-family homes; and
- When a unit is voluntarily vacated, the rent can be reset to market value.



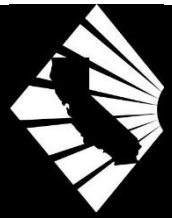
Prop 10

Repeal of Costa-Hawkins Limitations on Rent Control

What Prop 10 will do:

It removes all these limitations.

- Local governments will be able to set rents on single-family homes.
 - They will be able to apply rent control to new buildings.
 - And rents could be controlled without limit.



Prop 10

Repeal of Costa-Hawkins Limitations on Rent Control

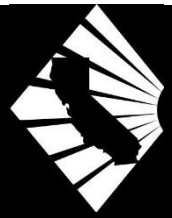
The Consequences of Prop 10

There will be fewer rental units available:

- Owners will convert their units or take them off the market.

New rental units won't be built

- Builders will have little incentive to create rental housing if they may not even be able to break even.



Prop 10

Repeal of Costa-Hawkins Limitations on Rent Control

VOTE NO ON PROP 10



UNLOCK HOMES
HELP SENIORS AND FAMILIES



How You Can Help

Register to Vote

Vote YES on Prop 5 and NO on Prop 10

Volunteer to Help at your local association

Help spread the word



UNLOCK HOMES
HELP SENIORS AND FAMILIES



Thank You

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