

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION:
LAND-SECURED FINANCING CURRENT TOPICS AND PRACTICES**

**SESSION ONE
CURRENT STATUS OF THE REAL ESTATE MARKET: TRENDS AND CONDITION**

**OVERVIEW OF RECENT/EXPECTED HOUSING MARKET CONDITIONS
AND
PROSPECTS FOR NEW CFD BOND ISSUES**



**BY
EMPIRE ECONOMICS, INC.
JOSEPH T. JANCZYK**



MAY 1, 2015

OVERVIEW OF PRESENTATION

1. Quick Recap of the California Great Real Estate Depression
2. What Drives Changes in Housing Demand and Housing Prices ?
3. How Are Regional Employment-Housing Trends Similar/Different ?
 - San Francisco Region
 - Southern California Region
 - Central Valley Region
4. What Drives the Formation of New CFDs ?
5. What Key Statistic Enables You To Monitor Your Local Economy ?
6. Critical Conclusions: *Cycles *Employment *Unemployment

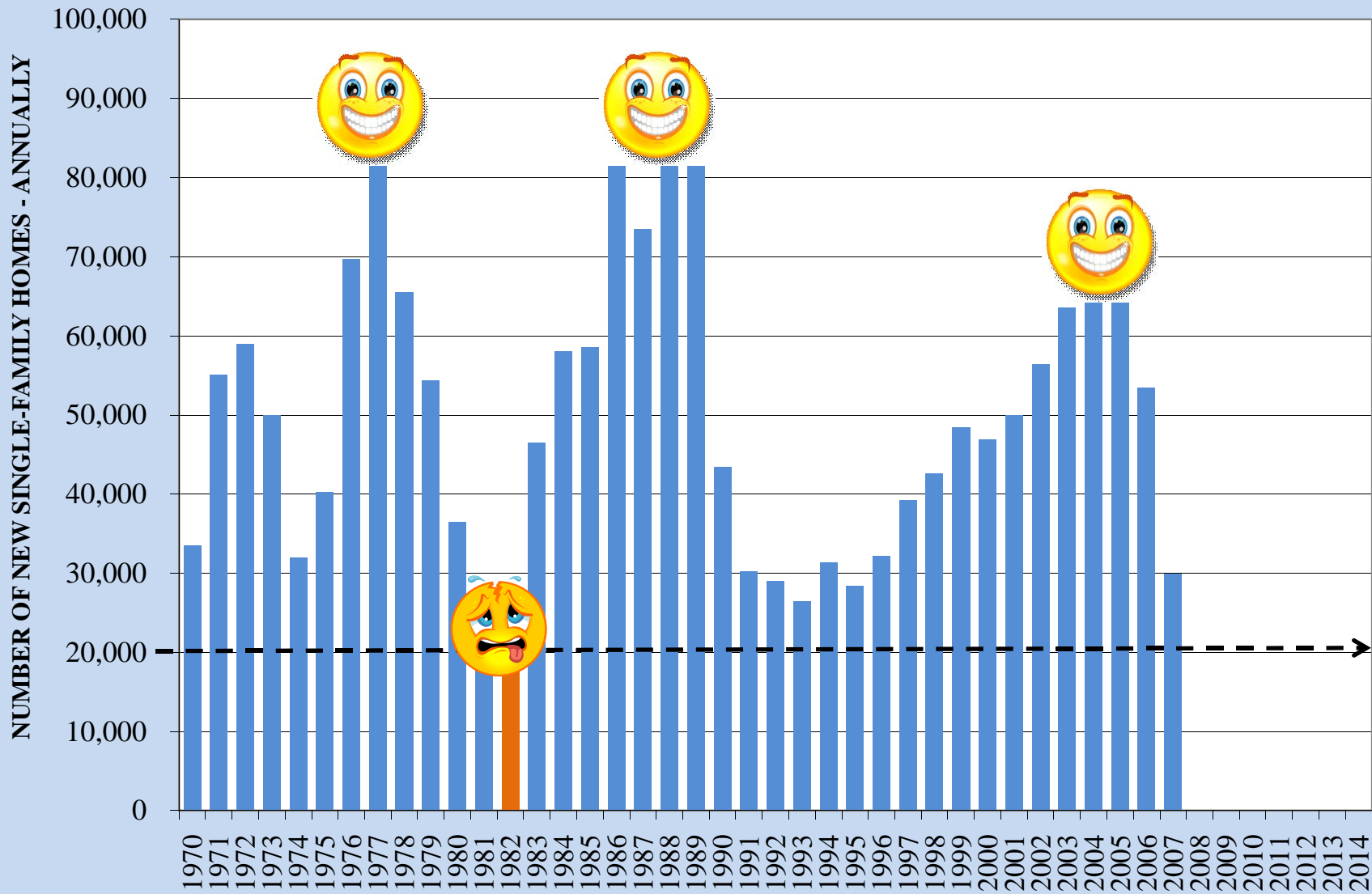
1. QUICK RECAP OF THE GREAT CALIFORNIA REAL ESTATE DEPRESSION

LET'S TAKE A LOOK IN THE REAR VIEW MIRROR

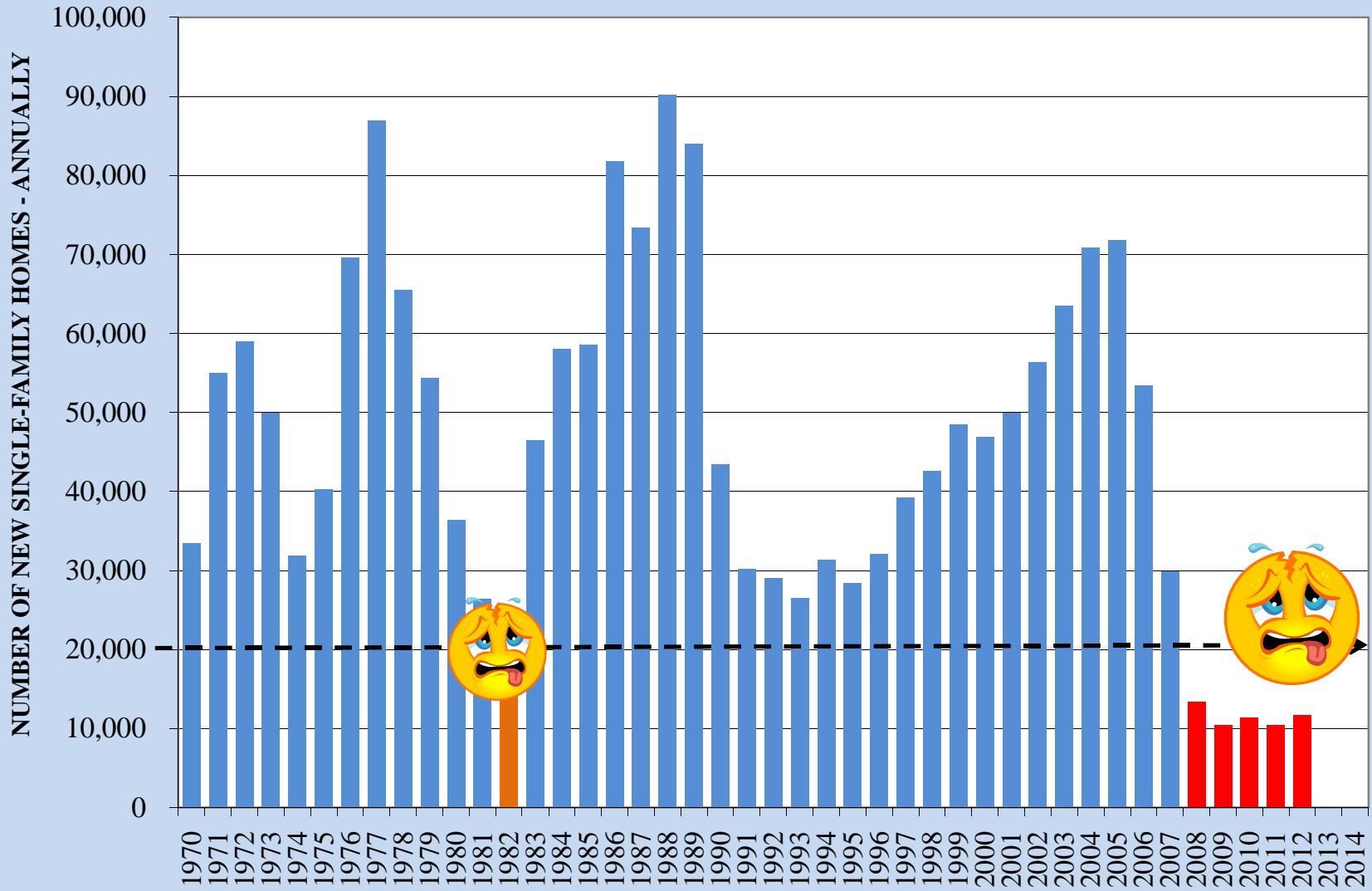


THE CALIFORNIA REAL ESTATE DEPRESSION IS NOW BEHIND US !

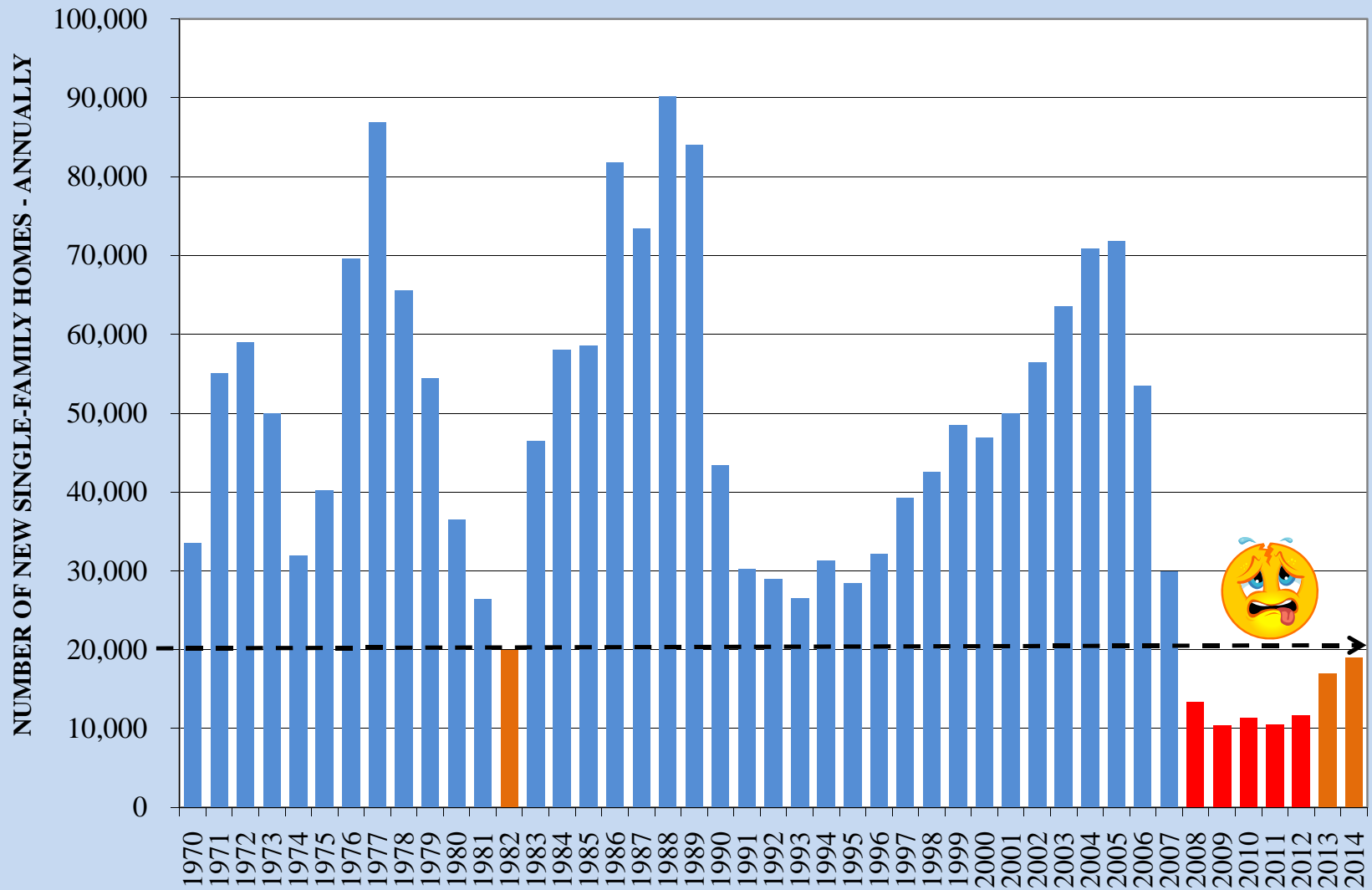
SOUTHERN CALIFORNIA MARKET REGION NEW SINGLE-FAMILY HOMES



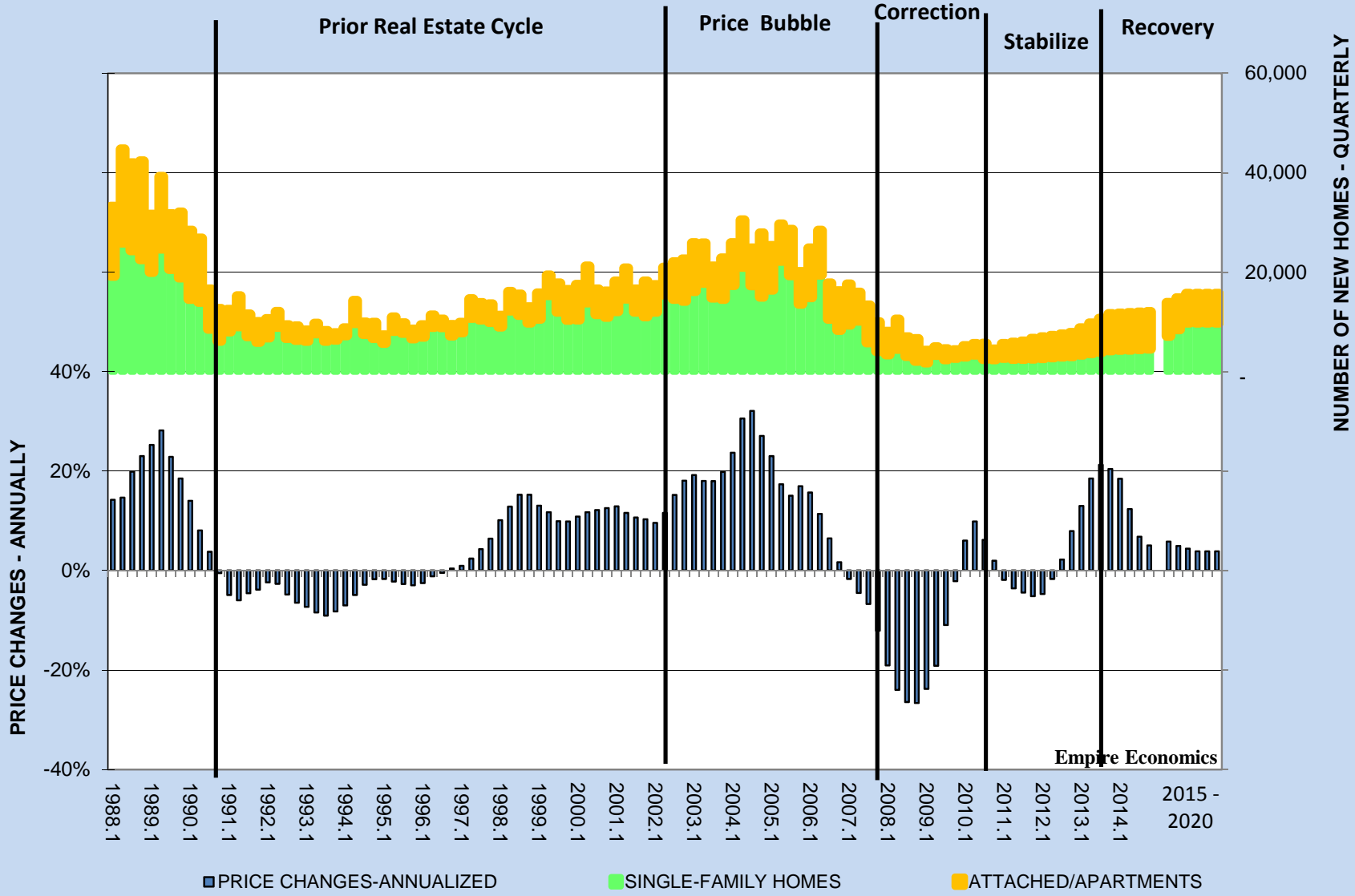
SOUTHERN CALIFORNIA MARKET REGION NEW SINGLE-FAMILY HOMES



SOUTHERN CALIFORNIA MARKET REGION NEW SINGLE-FAMILY HOMES



SOUTHERN CALIFORNIA: HOUSING PRICE CHANGES AND BUILDING PERMITS

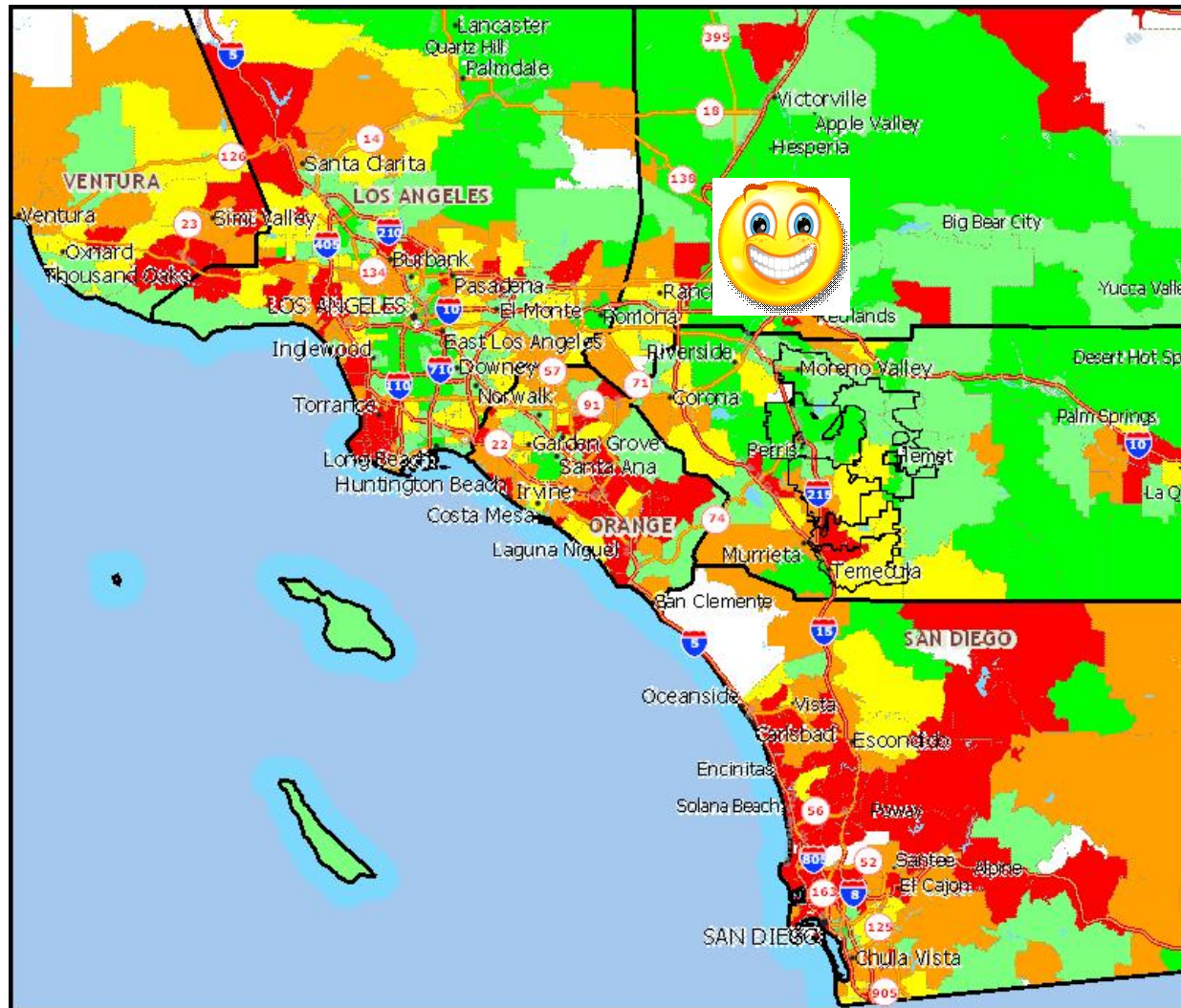


SOUTHERN CALIFORNIA: HOME PRICE CHANGES DURING 2000-2007

GREEN = HIGHEST CHANGES YELLOW=AVERAGE RED = LOWEST CHANGES

(Sources: Data Quick Custom Reports Compiled by Empire Economics)

INLAND AREAS EXPERIENCED THE STRONGEST PRICE INCREASES
COMBINED IMPACT OF HIGHER PRICES AND LARGER SIZED HOMES

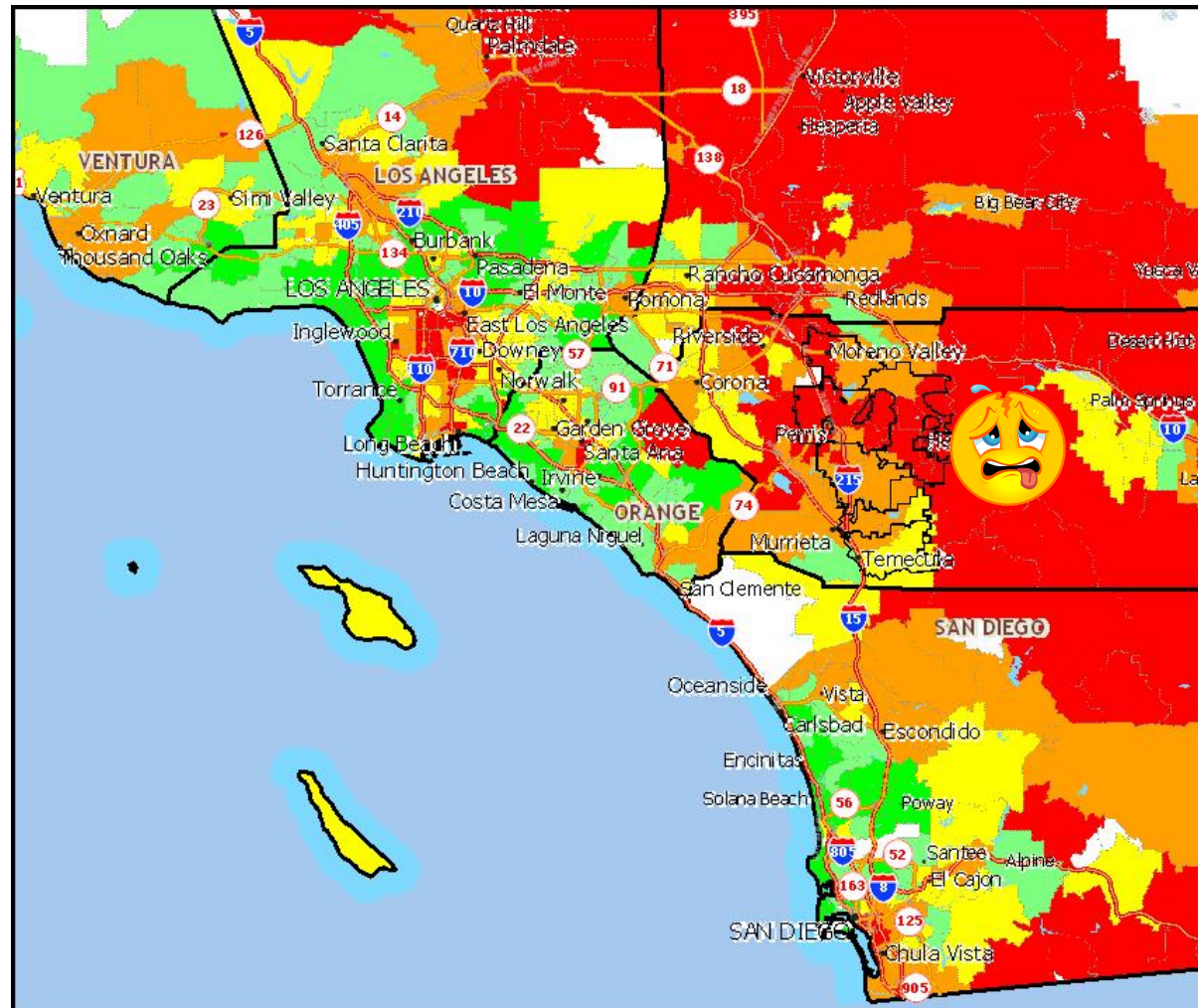


SOUTHERN CALIFORNIA: HOME PRICE DECLINES FROM PEAK LEVELS: 2007-2011

GREEN = SMALLEST YELLOW=AVERAGE RED = LARGEST

(Sources: Data Quick Custom Reports Compiled by Empire Economics)

INLAND AREAS EXPERIENCED THE LARGEST PRICE DECREASES
COMBINED IMPACT OF LOWER PRICES AND DISTRESS SALES

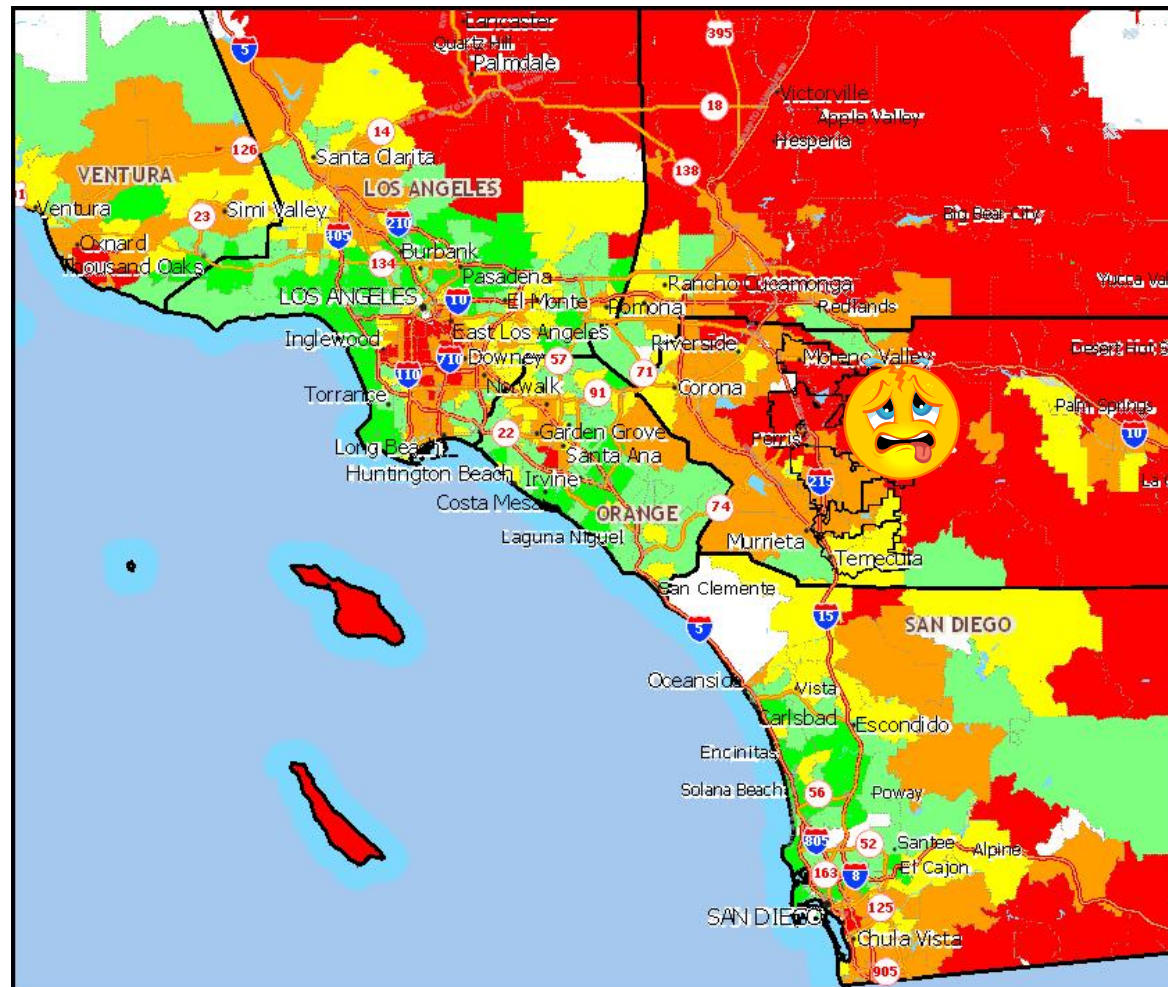


SOUTHERN CALIFORNIA: CURRENT PRICES-2014 VS. PRIOR PEAK LEVELS-2007

GREEN = CLOSEST/ABOVE YELLOW=AVERAGE RED = SIGNIFICANTLY BELOW

(Sources: Data Quick Custom Reports Compiled by Empire Economics)

COASTAL AREAS ARE CLOSE TO/ABOVE PRIOR PEAK LEVELS
WHILE INLAND AREAS ARE LAGGING SIGNIFICANTLY

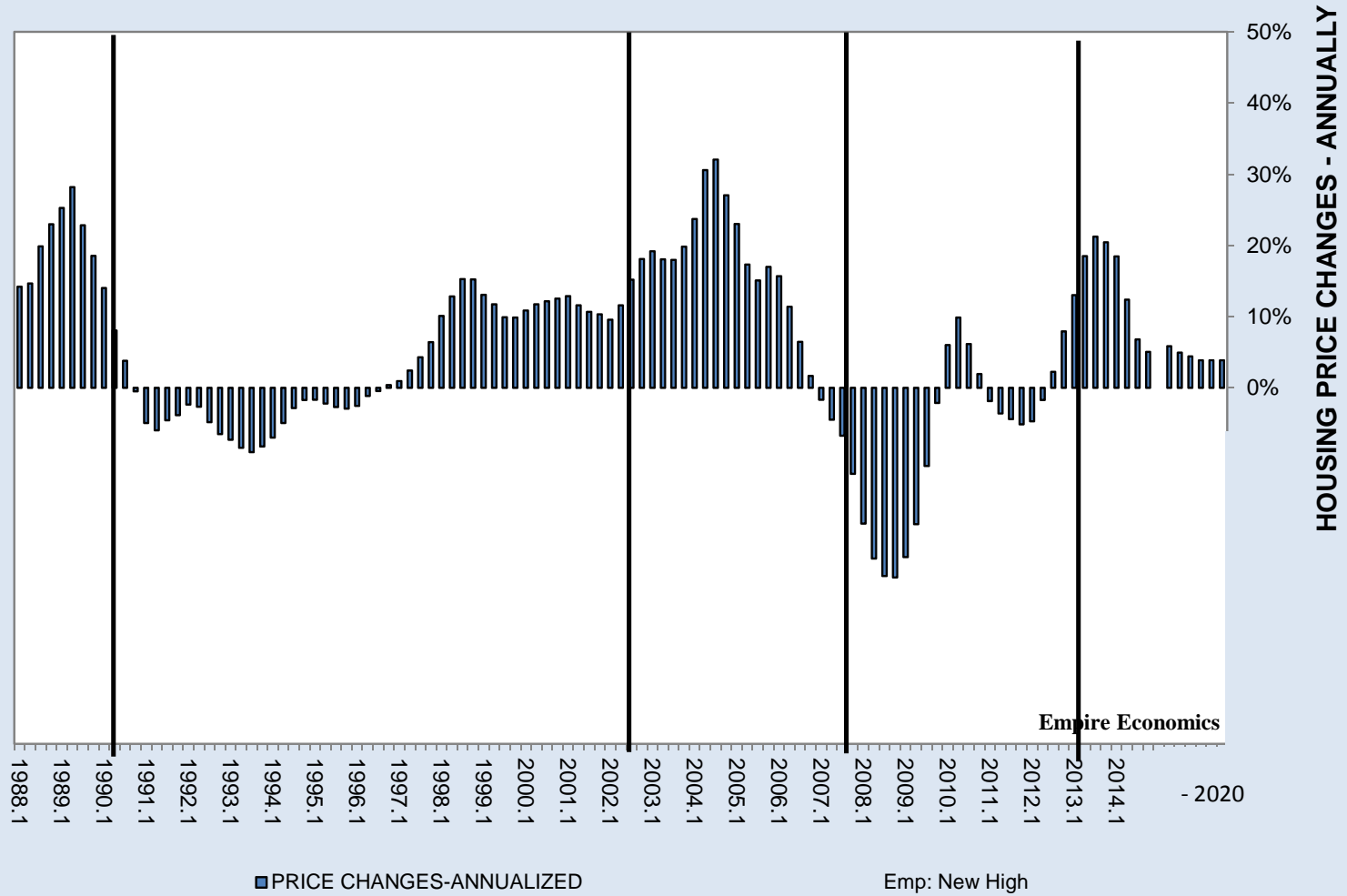


2. WHAT DRIVES CHANGES IN HOUSING DEMAND AND HOUSING PRICES ?

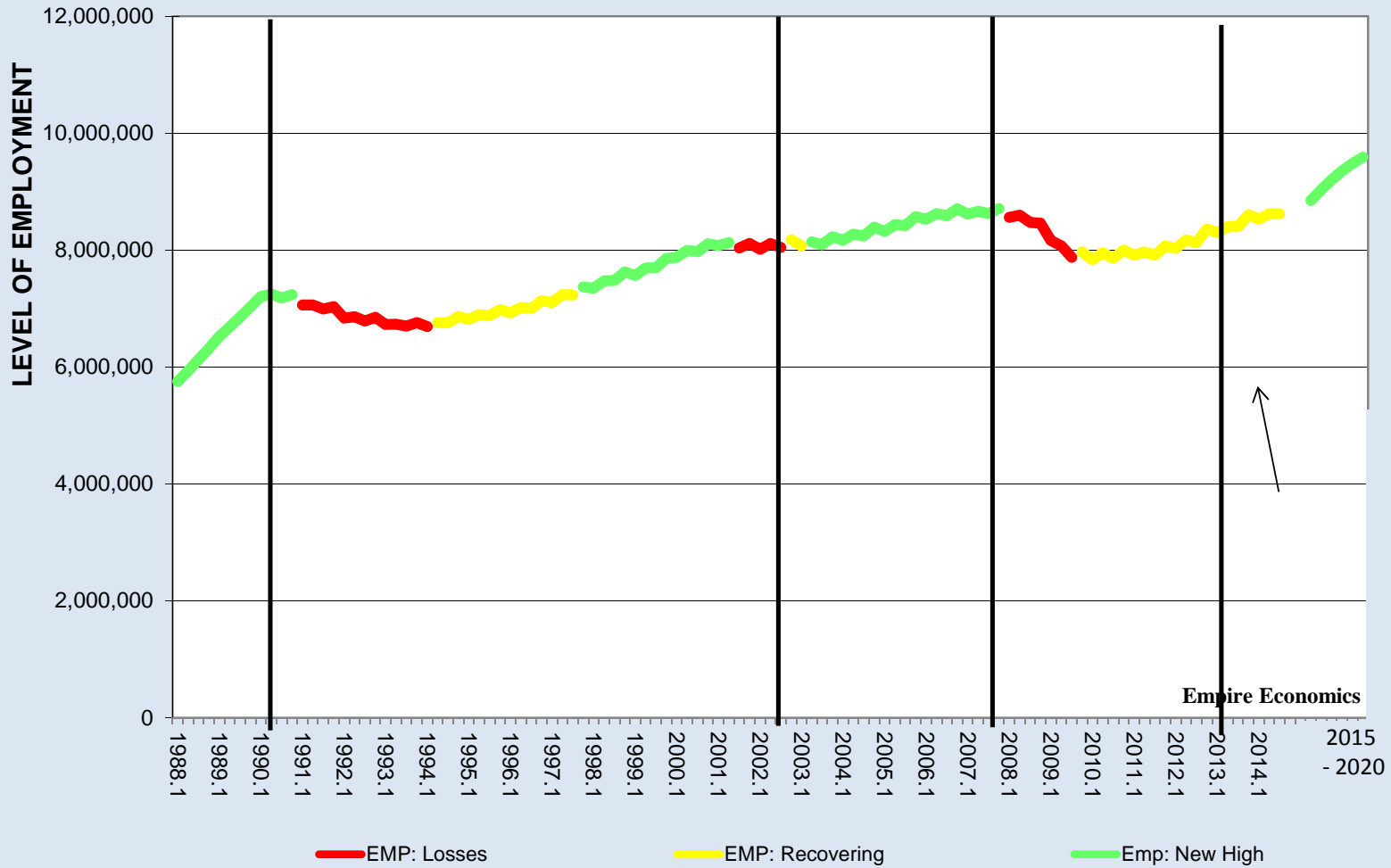
EMPLOYMENT CHANGES

DRIVE HOUSING PRICE CHANGES

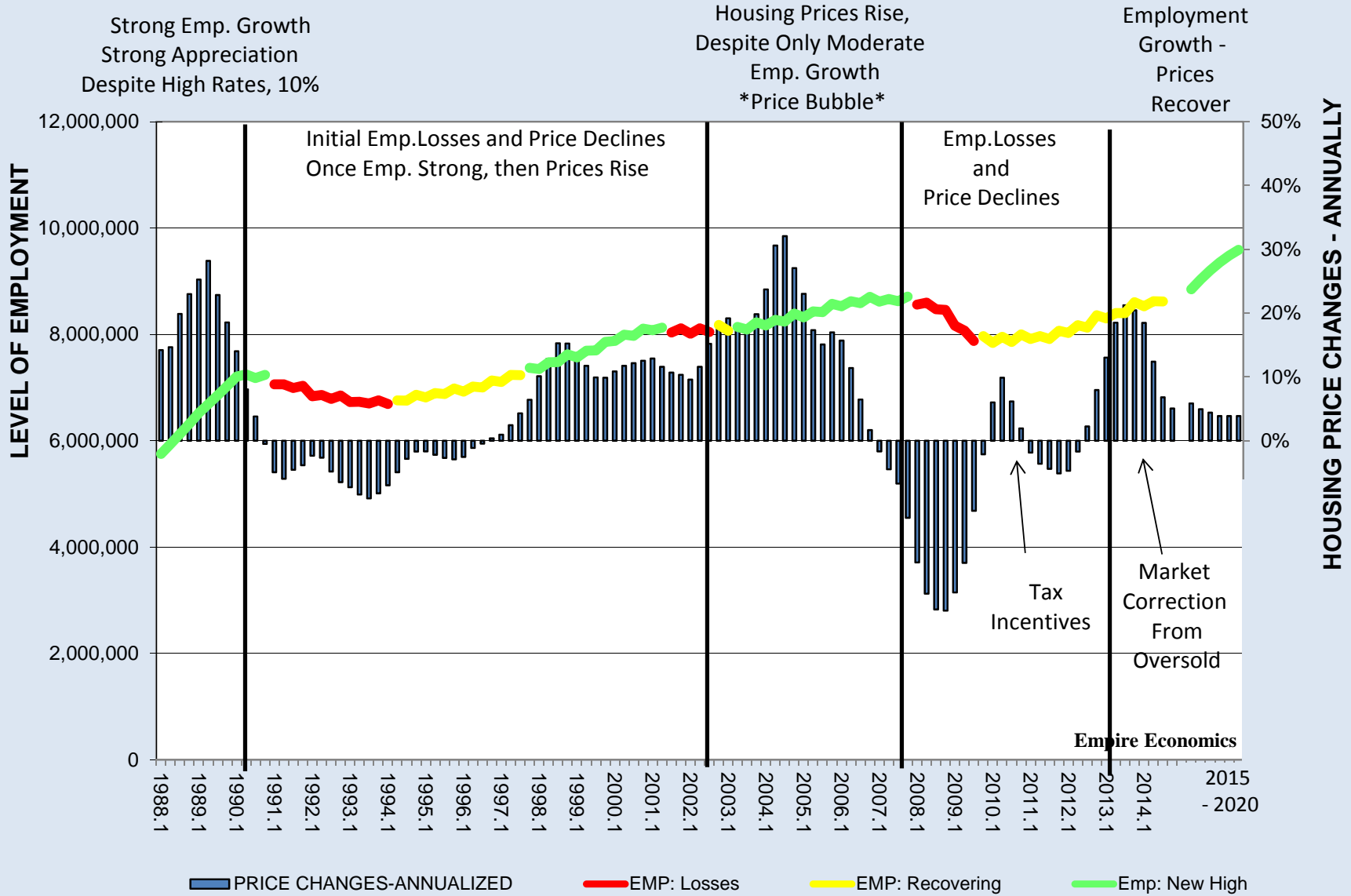
SOUTHERN CALIFORNIA: EMPLOYMENT AS THE PRIMARY FORCE FOR PRICE CHANGES



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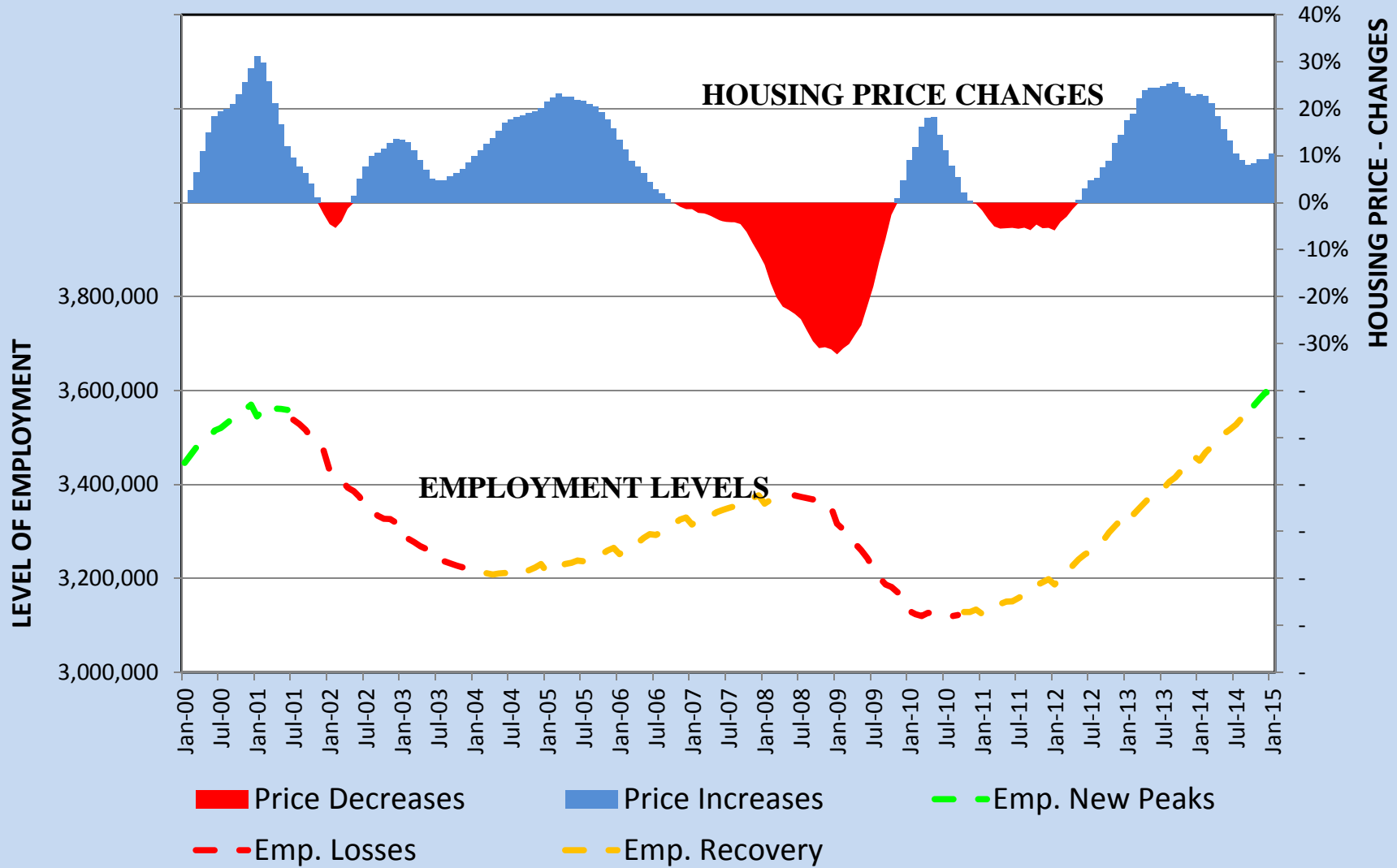
**3. HOW ARE REGIONAL EMPLOYMENT-HOUSING
TRENDS SIMILAR – DIFFERENT ?**

SAN FRANCISCO REGION

SOUTHERN CALIFORNIA REGION

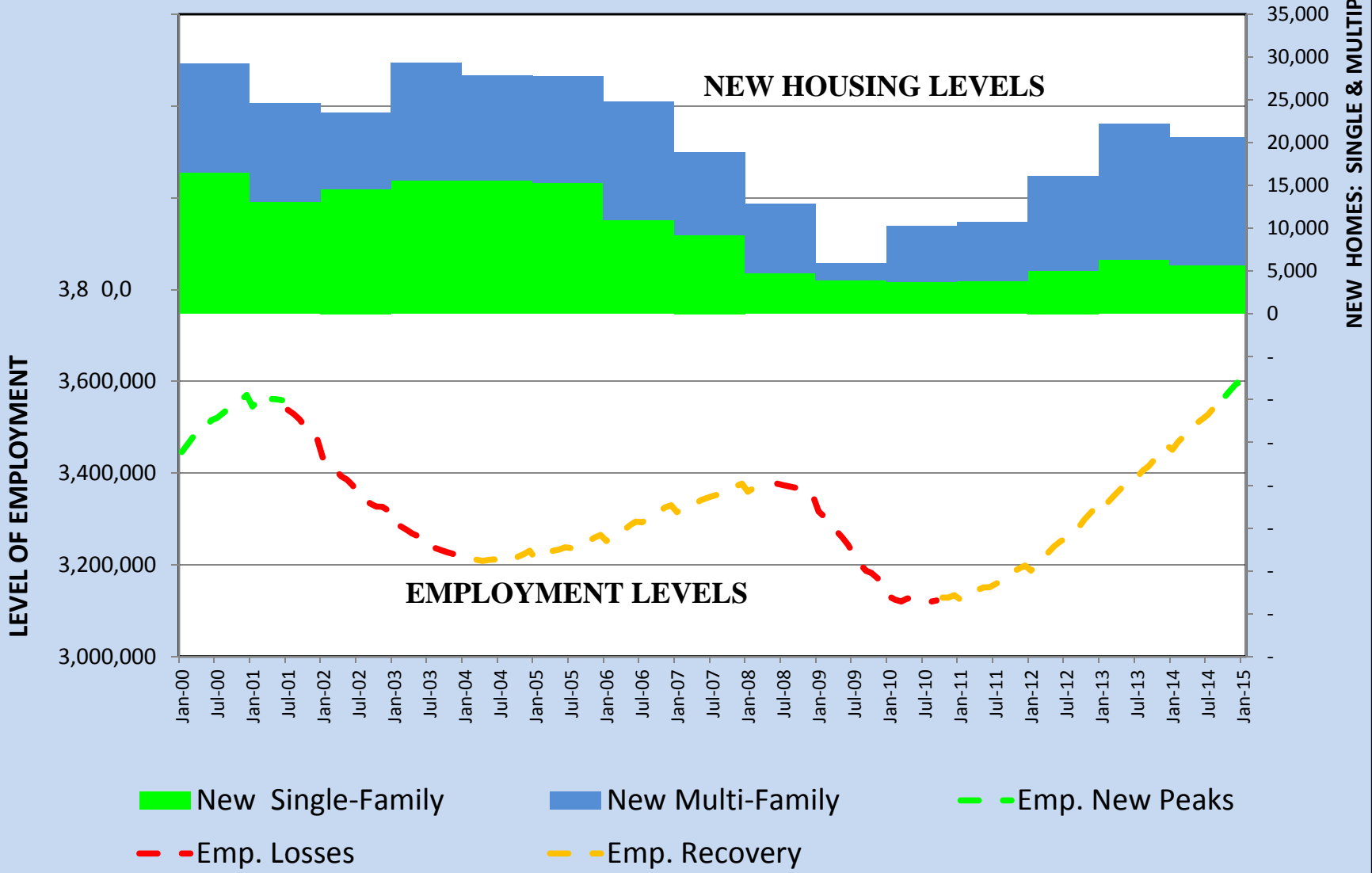
CENTRAL VALLEY REGION

SAN FRANCISCO REGION RECENT EMPLOYMENT TRENDS & PRICE PATTERNS

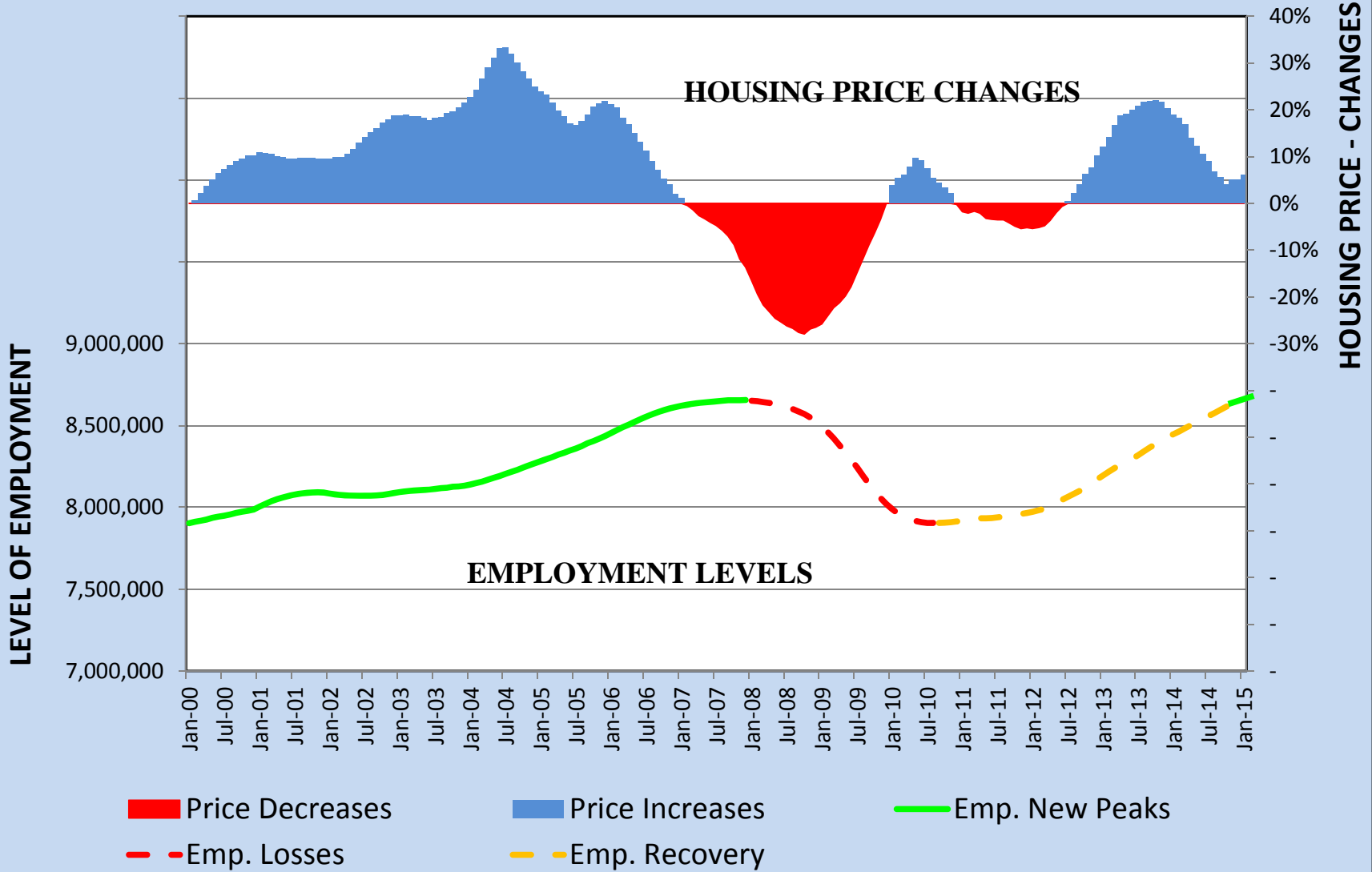


SAN FRANCISCO REGION

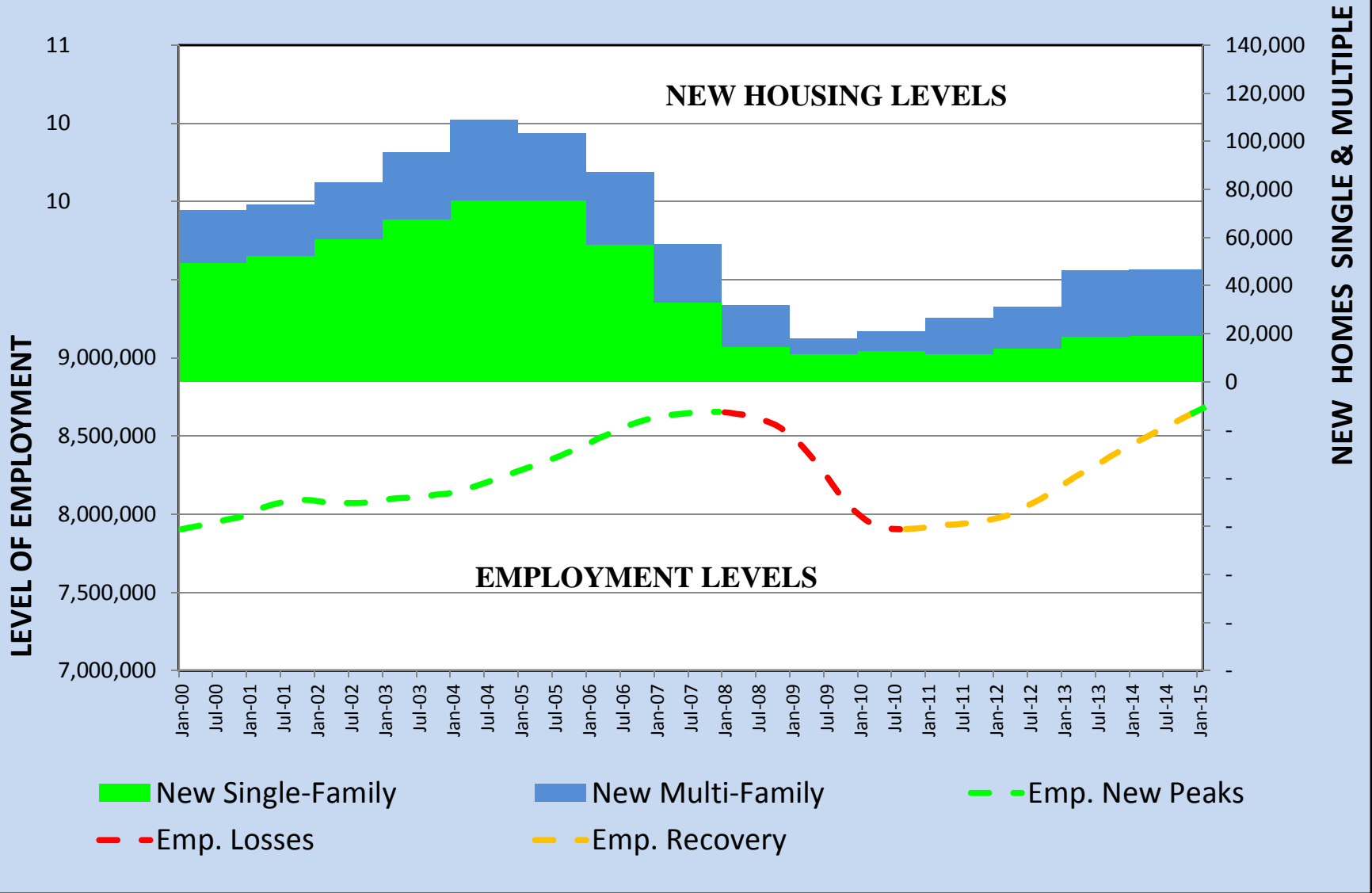
RECENT EMPLOYMENT TRENDS & NEW SINGLE/MULTIPLE FAMILY HOMES



SOUTHERN CALIFORNIA RECENT EMPLOYMENT TRENDS & PRICE PATTERNS



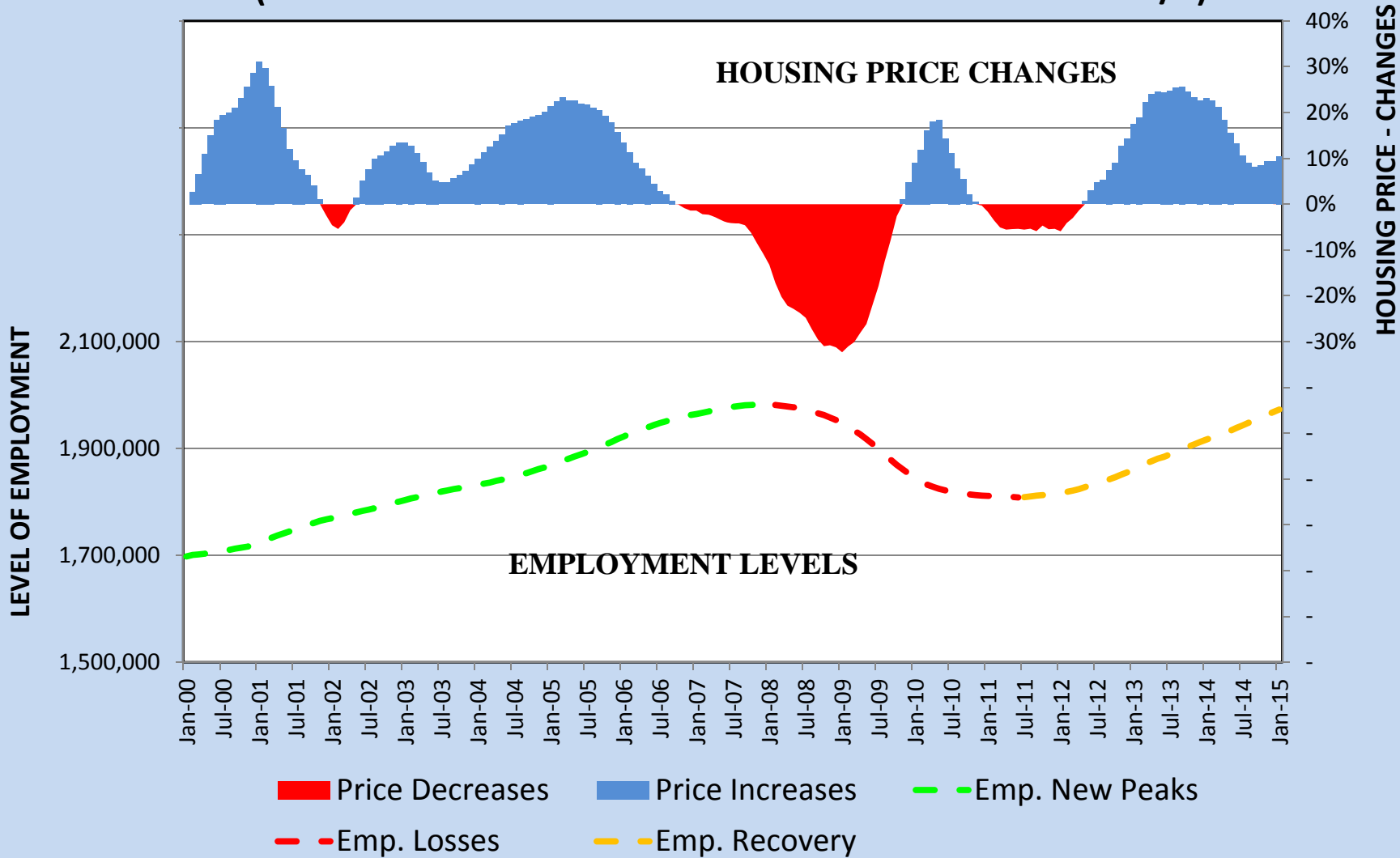
SOUTHERN CALIFORNIA RECENT EMPLOYMENT TRENDS & NEW SINGLE/MULTI FAMILY HOMES



CENTRAL VALLEY REGION

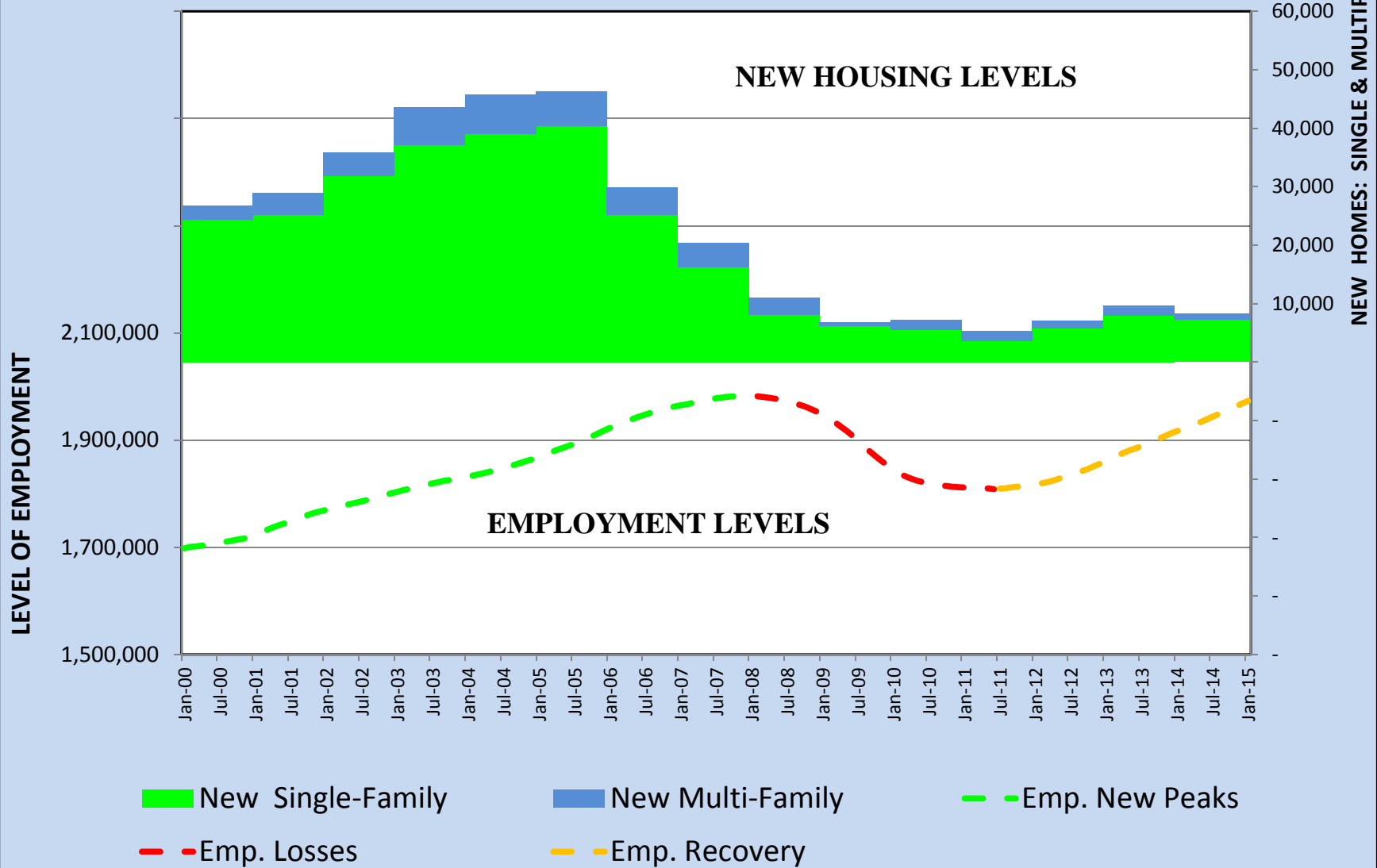
RECENT EMPLOYMENT TRENDS & PRICE PATTERNS

(NOTE: PRICES FROM THE SF REGION - CENTRAL VALLEY N/A)



CENTRAL VALLEY REGION

RECENT EMPLOYMENT TRENDS & NEW SINGLE/MULTIPLE FAMILY HOMES



COMPARISON OF THE SOUTHERN CALIFORNIA, SAN FRANCISCO AND CENTRAL VALLEY MARKET REGIONS

	Southern California Market Region	San Francisco Market Region	Central Valley Market Region
Employment			
Recent Level	8,673,258	3,585,158	1,973,192
Share of California	54.5%	22.5%	12.4%
Peak-Year	2007	2000	2008
Trough - Low	2010 -9%	2008 -13%	2011 -9%
Current vs. Peak	Above + 0.20%	Above +0.37%	Below -0.49%
Housing Price Patterns			
Recent Peak-Year	2006	2006	Same as SF 2006
Trough	2009	2009	2009
Current vs. Peak	-17%	-9%	-9%
Product Mix			
Share Single-Family	63%	44%	85%
SF-2014 vs. Avg.	50%	60%	35%

4. WHAT DRIVES THE FORMATION OF NEW CFDS ?

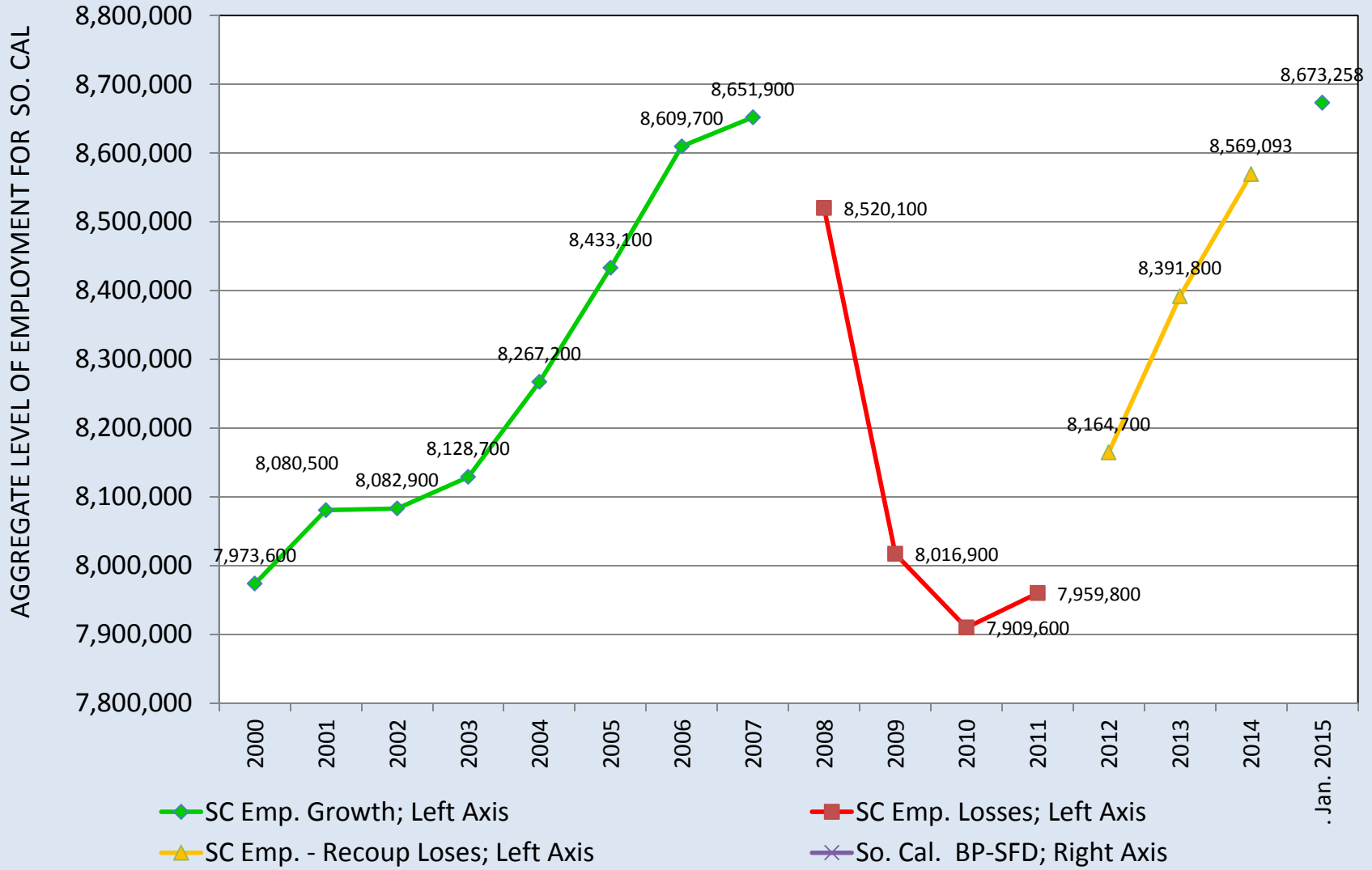
EMPLOYMENT GROWTH>>>

NEW SINGLE-FAMILY HOMES >>>

NEW CFDS

SOUTHERN CALIFORNIA MARKET REGION

**SOUTHERN CALIFORNIA EMPLOYMENT TRENDS
EMPLOYMENT LOSSES HAVE BEEN RECOUPED;
RECENT EMPLOYMENT IS SLIGHTLY ABOVE THE PRIOR PEAK LEVEL**



A CRITICAL THRESHOLD HAS BEEN ATTAINED

EMPLOYMENT SURPASSED ITS PRIOR PEAK LEVEL

+ MORE PEOPLE ARE EMPLOYED

➤ **FINANCIAL WHEREWITHAL**

➤ **CONFIDENCE BOLSTERED**

- POTENTIAL CHALLENGES

➤ **POSSIBLY PART-TIME**

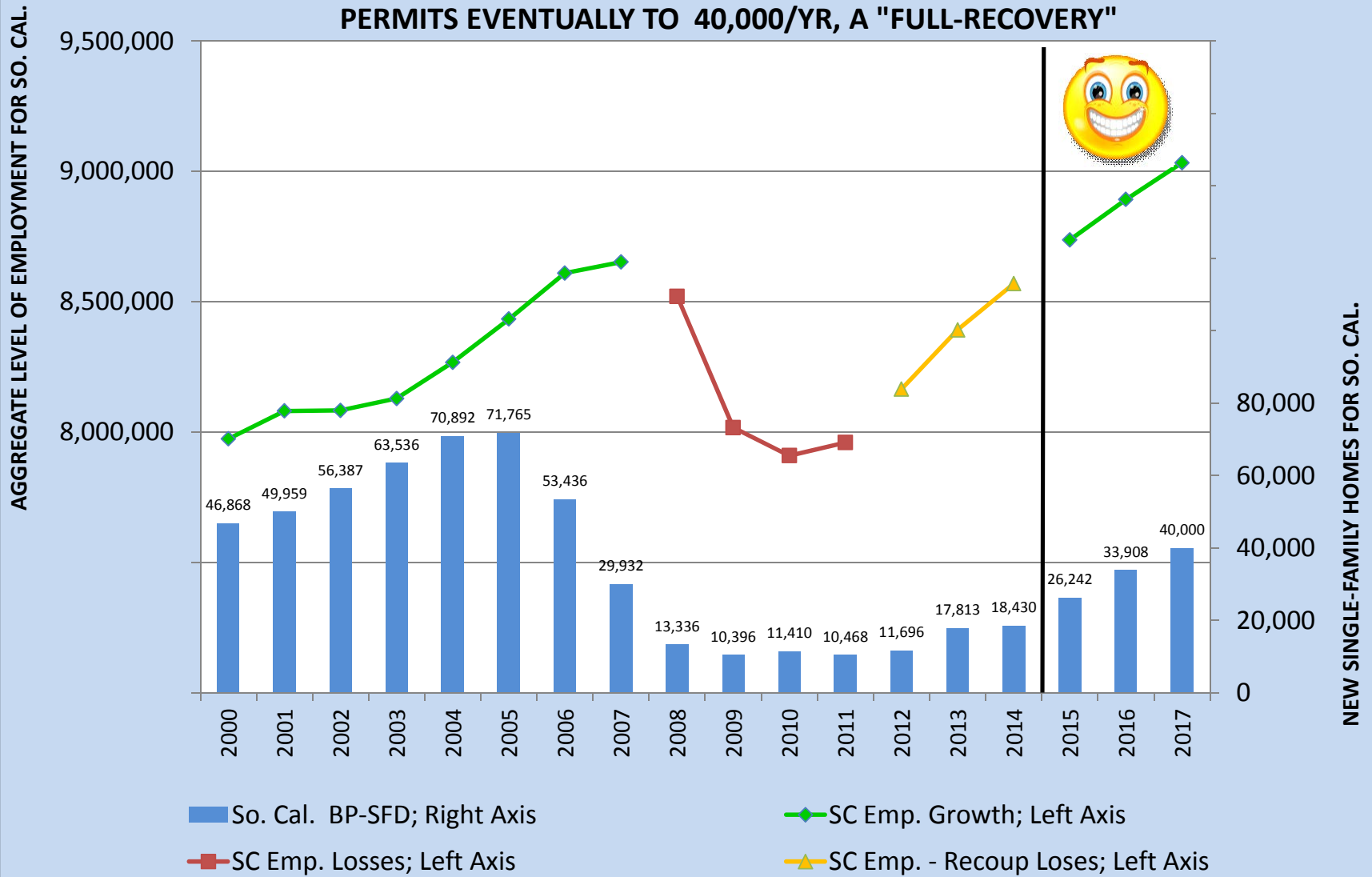
➤ **POSSIBLY LOWER PAY LEVELS**

EMPLOYMENT GAINS DRIVE NEW DEVELOPMENT ACTIVITY

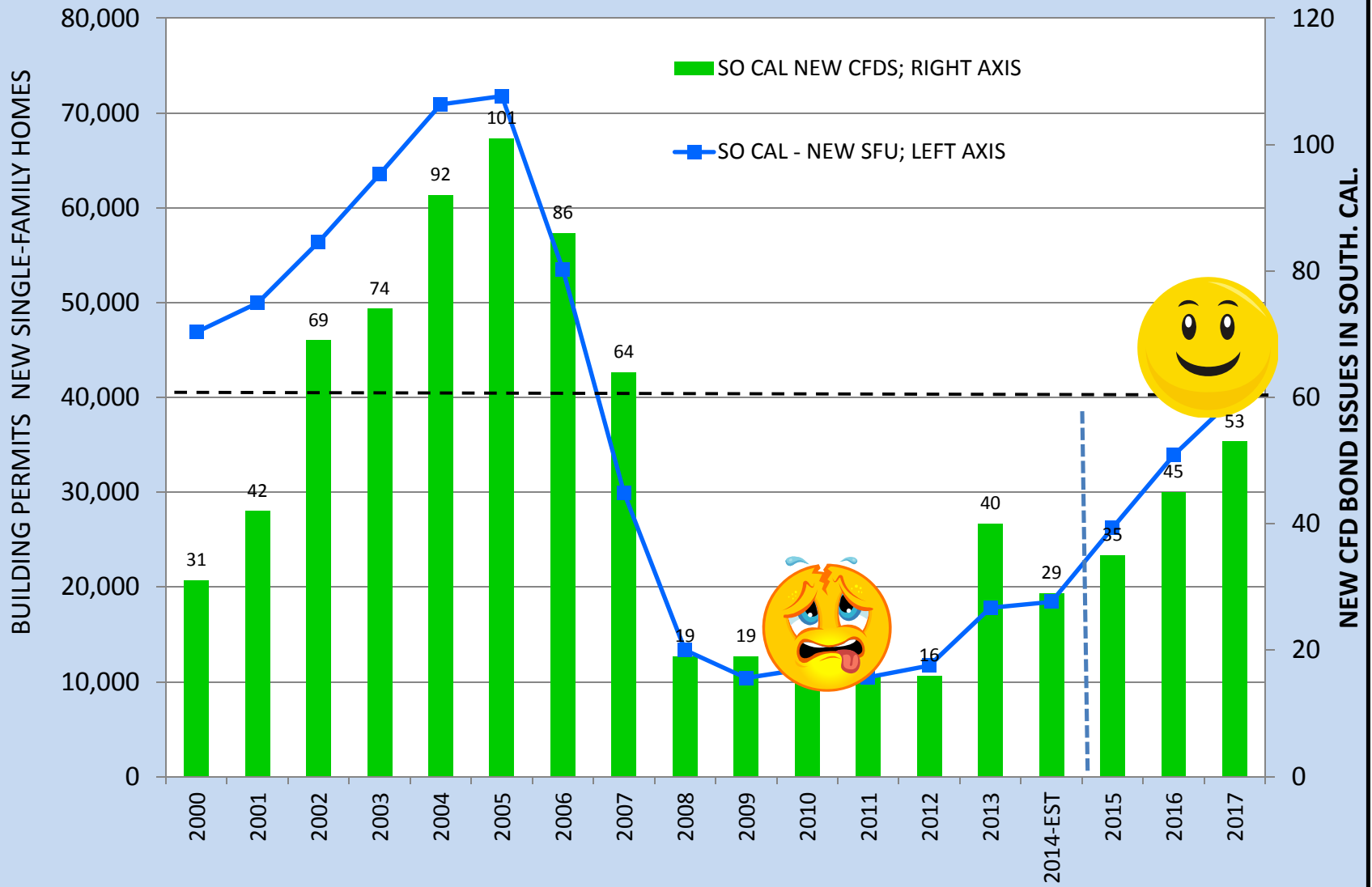
➤ **EMPLOYMENT RELATED: INDUSTRIAL, OFFICE BUILDINGS**

➤ **NEW HOUSING: SINGLE-FAMILY AND APARTMENTS**

SOUTHERN CALIFORNIA EMPLOYMENT LEVELS AND PERMITS FOR NEW SINGLE-FAMILY HOMES PERMITS EVENTUALLY TO 40,000/YR, A "FULL-RECOVERY"



SOUTHERN CALIFORNIA: SFD-PERMITS AND NEW CFD BOND ISSUES



SOME OBSERVATIONS ON CURRENT CFD BOND ISSUES SOUTHERN CALIFORNIA

A. ORANGE COUNTY: BOND SALES NEAR GRAND OPENINGS

MOSTLY LARGER PLANNED COMMUNITIES

- **GREAT PARK NEIGHBORHOODS: 9,500 HOMES**
- **RANCHO MISSION VIEJO: 14,000 HOMES**
- **TUSTIN LEGACY**
- **MARBLEHEAD**

B. INLAND PROJECTS: PARTIALLY DEVELOPED - HOMES BUILT

- **RIVERSIDE AND SAN BERNARDINO COUNTIES**
- **NEWLY DEVELOPING AREAS – CITY OF ONTARIO 10,000+ HOMES**
- **MOSTLY SMALLER SUBDIVISIONS**

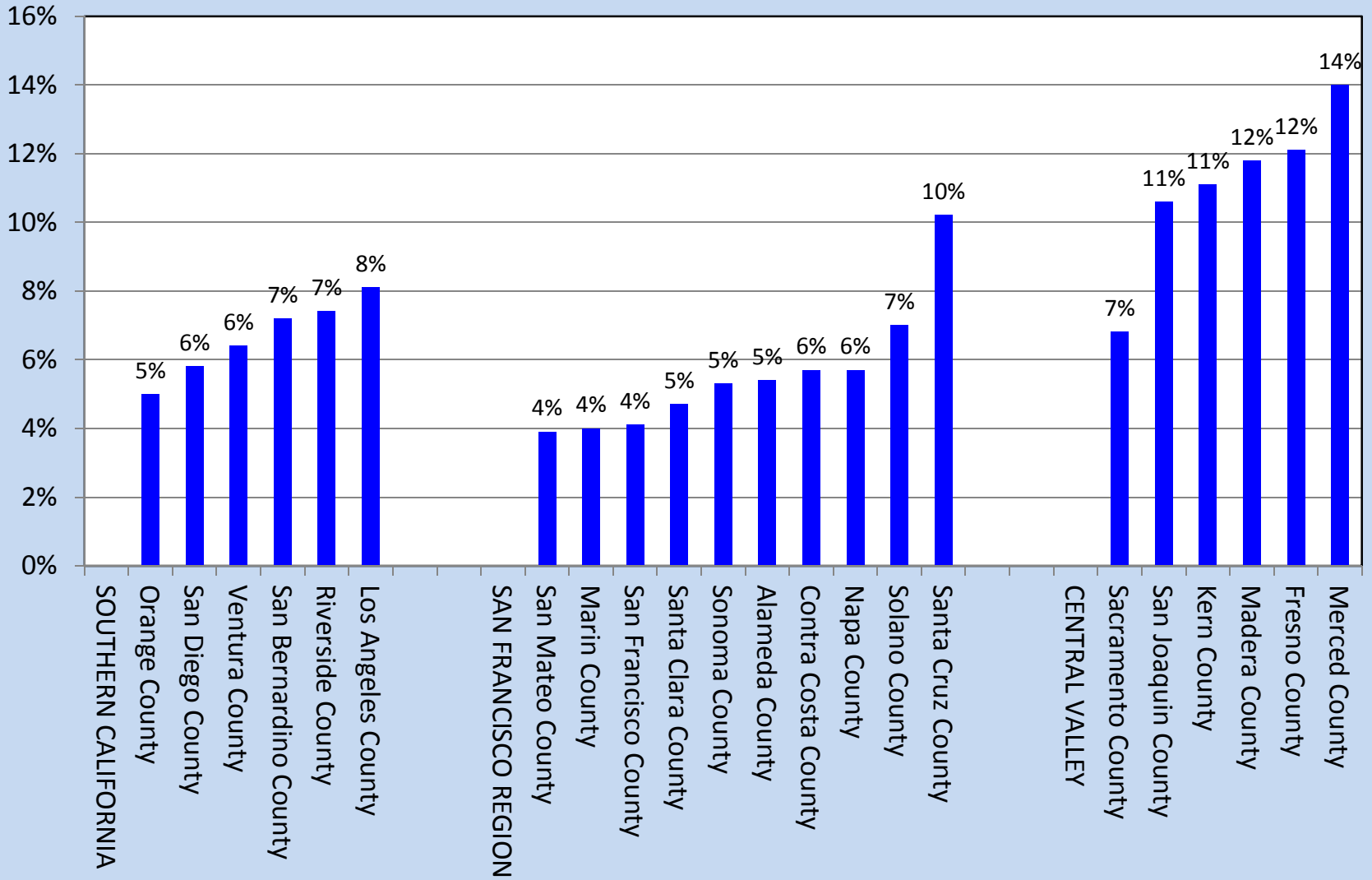
5. WHAT KEY STATISTIC ENABLES YOU TO MONITOR YOUR LOCAL ECONOMY ?

UNEMPLOYMENT RATE

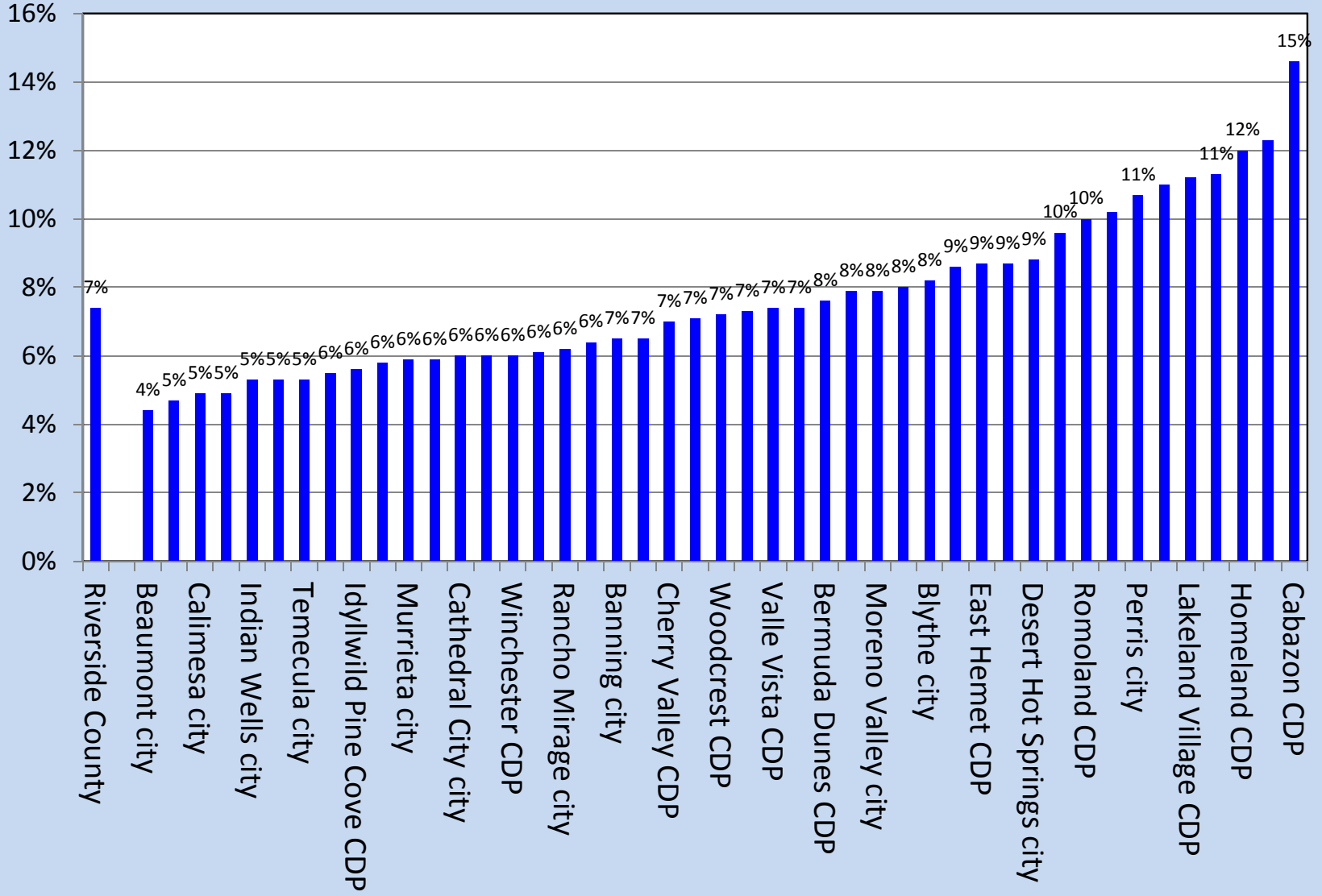
>>> SHOW BY KEY COUNTIES AND THEN WITHIN COUNTIES

- AFTER SIGNIFICANT RESEARCH ON NUMEROUS ECONOMIC STATISTICS, THE CONCLUSION WAS THAT A PRIMARY METRIC FOR GAUGING THE VITALITY OF A LOCAL ECONOMY IS THE CITY'S "UNEMPLOYMENT RATE"**
- FOR A CITY/AREA WITH A RELATIVELY LOW UNEMPLOYMENT RATE, ITS FEATURES ARE:**
 - A HIGH PROPORTION OF THE CITY'S POPULATION IS EMPLOYED**
 - HIGHER EMPLOYMENT SUPPORTS A STRONGER LEVEL OF HOUSING DEMAND**
 - MORE OF THE HOUSEHOLDS HAVE POSITIVE EQUITY LEVELS**
 - THE VALUE OF RAW LAND BEING POSITIVE – BENEFICIAL TO NEW DEVELOPMENT**

UNEMPLOYMENT RATES FOR MARKET REGIONS SOUTHERN CALIFORNIA, SAN FRANCISCO AND CENTRAL VALLEY



RECENT UNEMPLOYMENT RATES RIVERSIDE COUNTY



CRITICAL CONCLUSIONS

1. ECONOMIC CYCLES

PHYSICS: EACH ACTION HAS AN EQUAL REACTION

ECONOMICS: EACH PRICE DIRECTION HAS A COUNTER REACTION

HONORARY Ph.D.

2. EMPLOYMENT DRIVES REAL ESTATE DEVELOPMENT

http://www.labormarketinfo.edd.ca.gov/LMI_by_County.html

3. LOCAL ECONOMY UNEMPLOYMENT RATE

<http://www.labormarketinfo.edd.ca.gov/data/unemployment-and-labor-force.html#CURRENT>