SESSION ONE

Real Estate Market Trends and Conditions

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

PROSPECTS FOR NEW LAND-SECURED FINANCINGS

CURRENT MARKET CONDITIONS UNIQUE:
PRICE APPRECIATION STRONG DESPITE HIGH MORTGAGE RATES!

FEDERAL RESERVE GOAL OF 2.0% INFLATION VS. FISCAL POLICIES & TARIFFS
HOW WILL THESE IMPACT FUTURE LEVELS OF MORTGAGE RATES?

BY
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PRESENTATION OVERVIEW

THE MARKET FOR NEW HOMES FACES UNIQUE CHALLENGING CONDITIONS

A. FEDERAL RESERVE BOARD - JEROME POWELL

- *POWELL STEADFASTLY PURSUING FED POLICY FOR A 2.00% INFLATION RATE.*
- *HOLDING SHORT-RUN FEDERAL FUNDS YIELDS HIGH AS LONG AS UNEMPLOYMENT IS MODERATE*

***** ***BUT POLITICAL PRESSSURE MOUNTING*** *****

B. FISCAL POLICIES – PRESIDENT TRUMP

- *"BIG BEAUTIFUL BILL" PASSED, RENEWING 2017 TAX POLICIES ALONG WITH FURTHER TAX REDUCTIONS*
- *HIGHER TARIFFS WILL ULTIMATELY RESULT IN HIGHER PRICES AND CONSTRUCTION COSTS*

***** ***INFLATION LIKELY TO REMAIN ABOVE 2.0%*** *****

C. RESTRICTIVE FED POLICIES + EXPANSIONARY FISCAL POLICIES

=

LIKELY CONTINUATION OF HIGH LEVELS FOR MORTGAGE RATES

ALL EYES ON THE ECONOMY/EMPLOYMENT& INFLATION AS THEY WALK THE TIGHT ROPE

Chairman Powell

The independence of the FED for attaining its goal of a 2.0% inflation rate, but recently, political pressure mounting

Recent Inflation Metrics

FED's Preferred Index: +2.9%/yr.

CPI Index: +3.1%/yr.

Trump Policies

The Big Beautiful Bill will enhance economic growth.

Higher fiscal deficits will be offset by more economic growth.

China/other countries will pay for tariffs so they are not inflationary.

Not concerned about inflation returning to the 2% FED target

INFLATION, EMPLOYMENT, AND HOUSING
AI POETIC VIEW

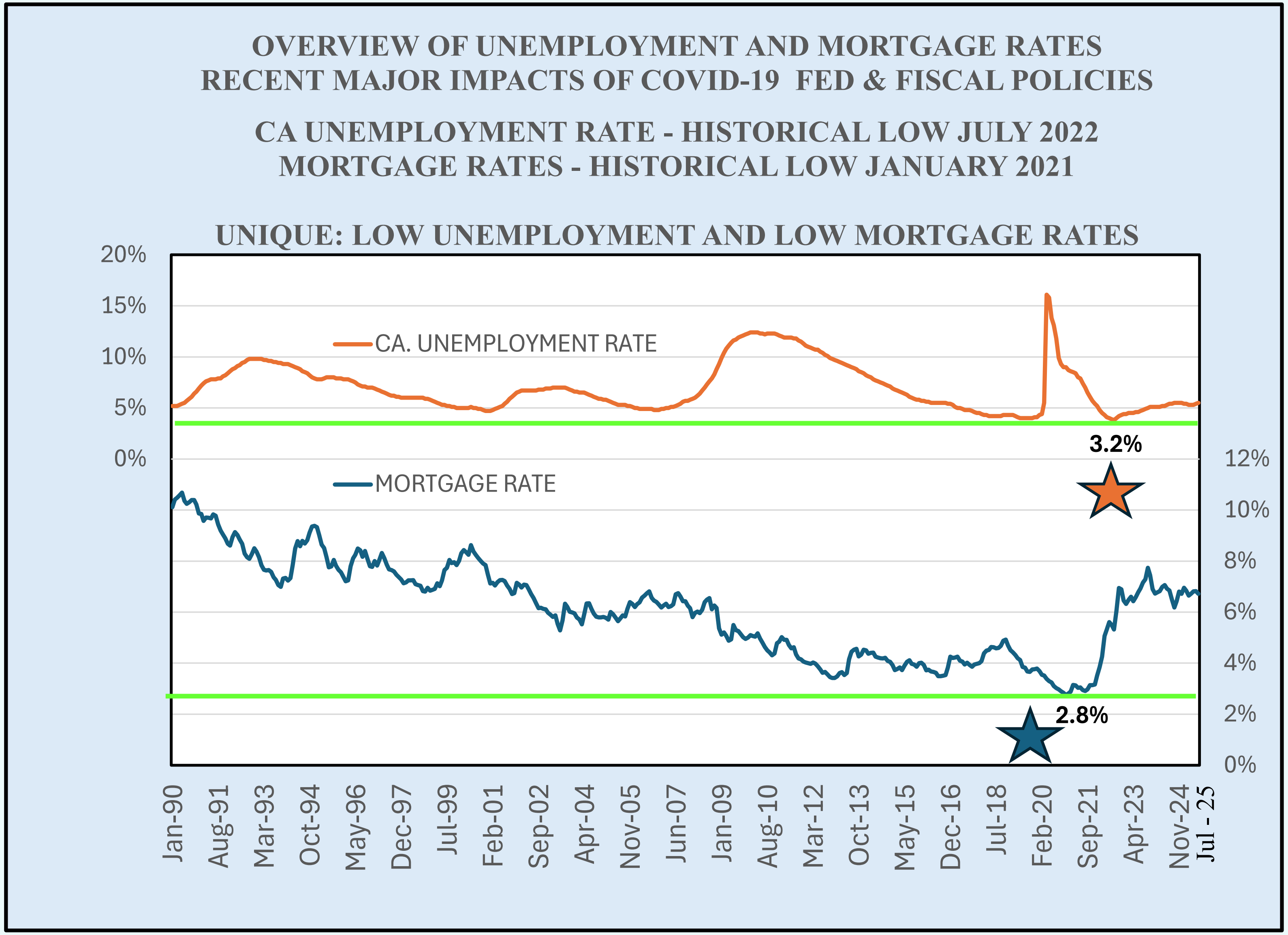
The Fed's balancing act, a delicate now political dance,
Between jobs and prices, a careful stance.
Two percent the target, how close can they get?
Short rates stable, but long bonds high - a tricky duet.

Deficits grow, though GDP climbs,
Debt's shadow looms in these modern times.
Will short term rates stay high as red ink flows?
The future's path, no one truly knows.

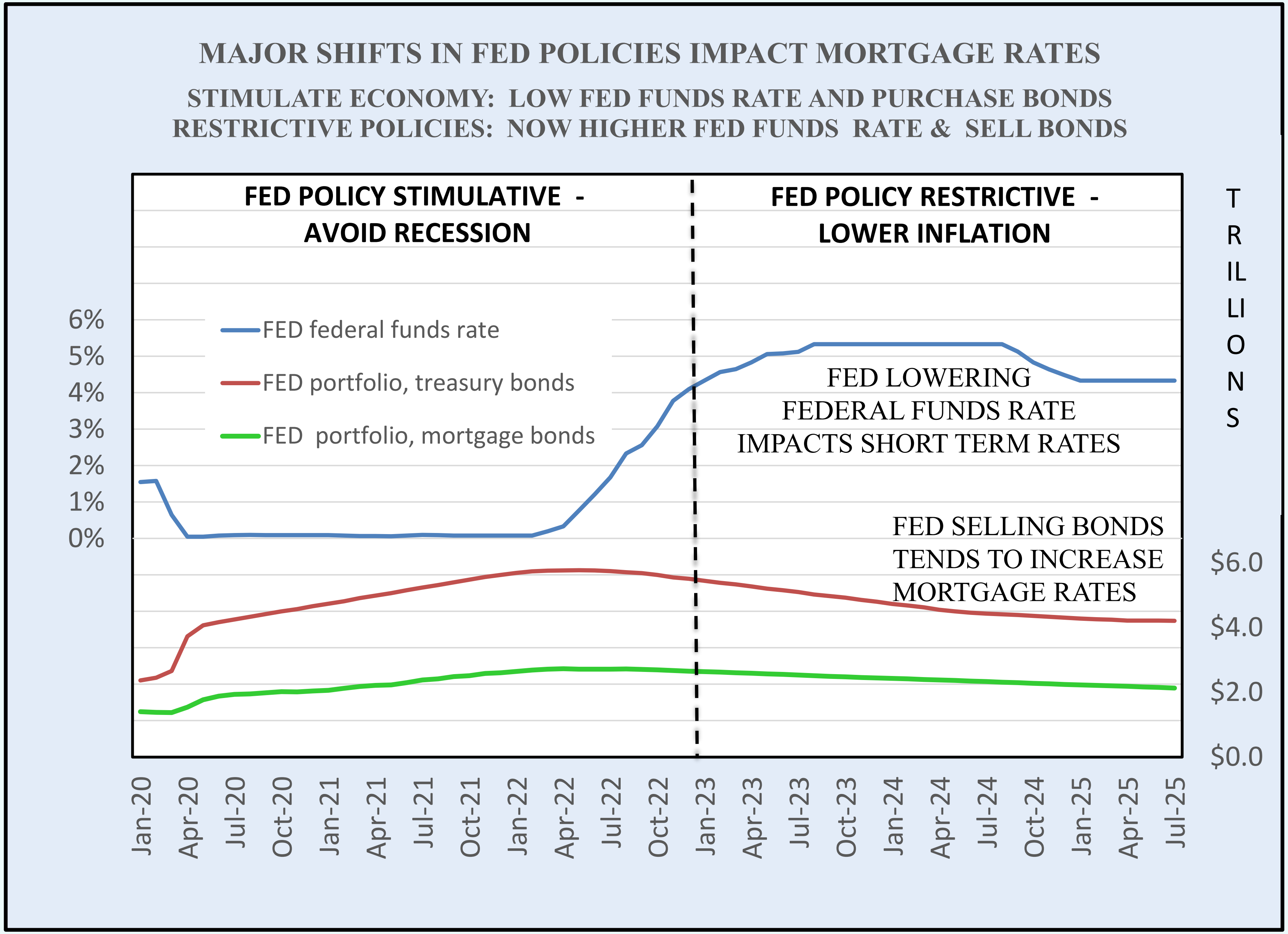
Housing inventory, a scarcity tale,
Prices climb higher, will the trend prevail?
In this economic rhyme and reason,
Today we ponder how long this market season.

I. MACROECONOMICS CONDITIONS

RECENTLY, HISTORICALLY UNIQUE ECONOMIC CONDITIONS
LOW UNEMPLOYMENT AND LOW MORTGAGE RATES



FED POLICY SHIFT FROM STIMULATIVE TO RESTRICTIVE



US FEDERAL DEBT: $36.2T
PUBLIC: $29T FED: BALANCE

INTERMEDIATE TERM: 51%
INTEREST RATE: 4.3%

FISCAL REVENUES $5.0T/YR.
INTEREST PAID $1.26T/YR.

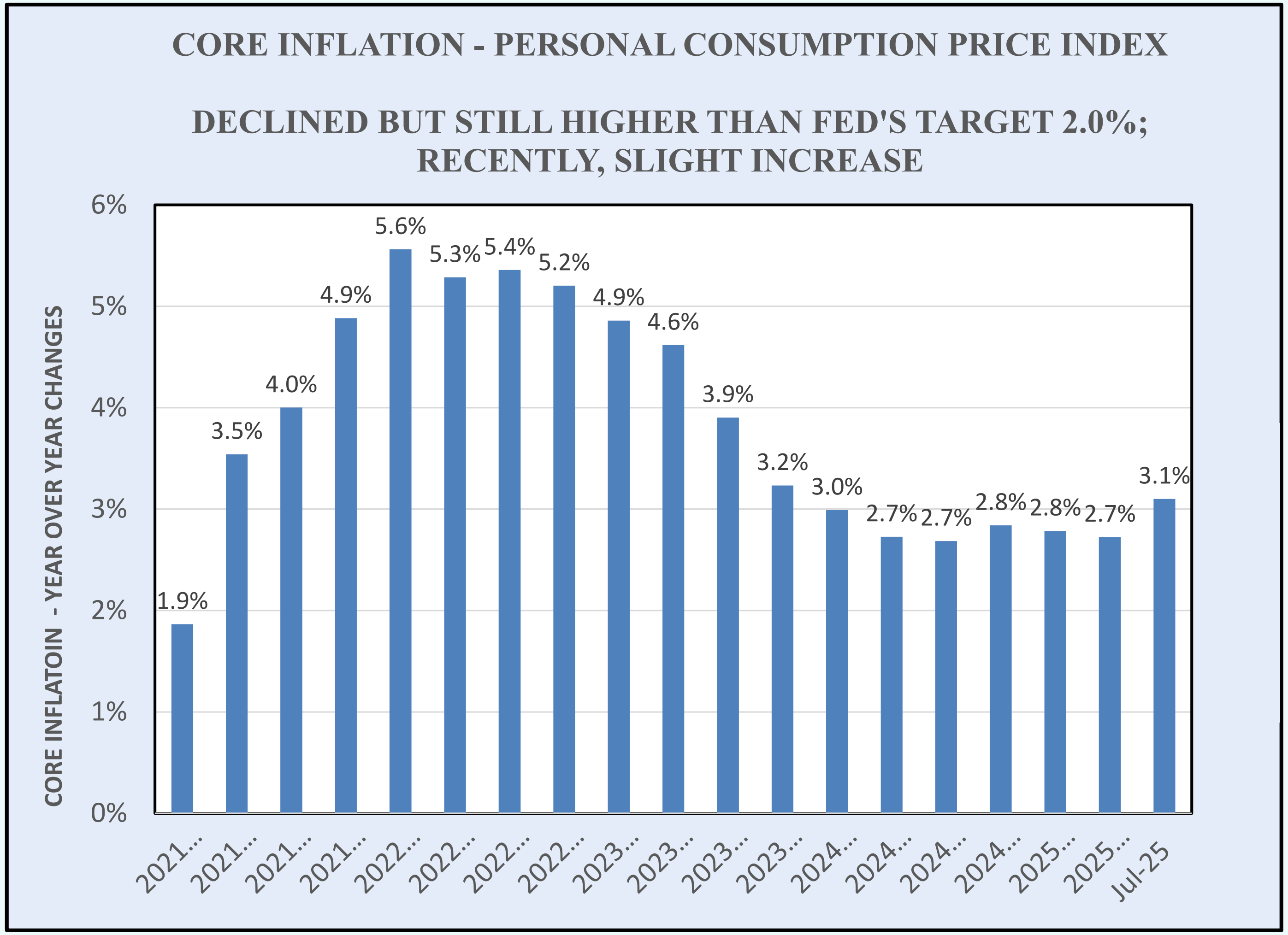
10 YEAR BOND RELATED
TO MORTGAGE RATES

TRADING $151 TRILLION – ANNUALLY
$600B DAILY

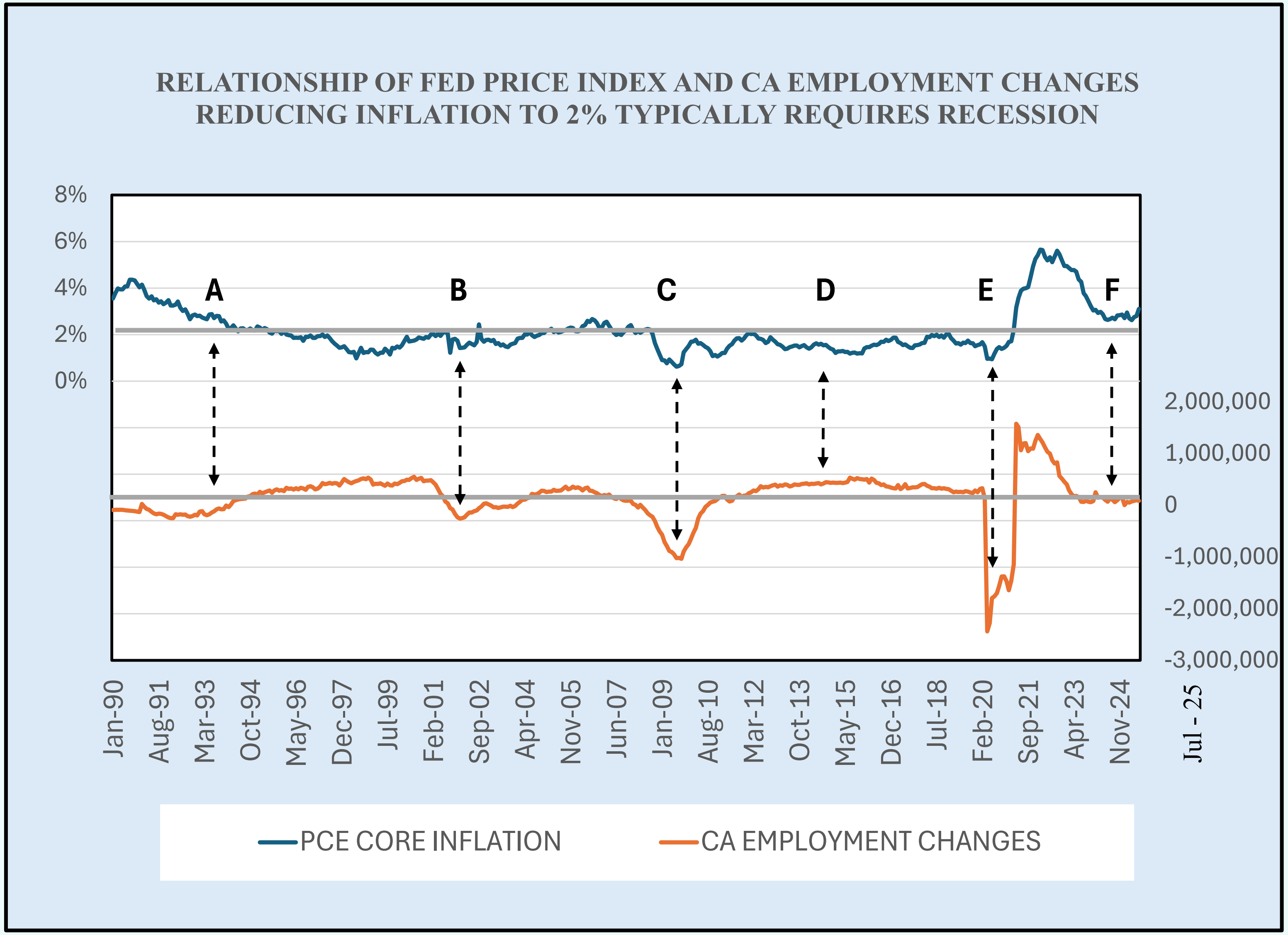
FINANCIAL MARKET GLOBAL
AND DYNAMIC/EFFICIENT

FRB MONETARY POLICIES TARGET CORE INFLATION AT 2% GOAL

FED IS ADOPTING A CONSERVATIVE POSTURE TO ENSURE INFLATION REMAINS LOW REMAINING VIGILANT AS ECONOMY/EMPLOYMENT IS STURDY - SOFT LANDING



HISTORICALLY, RESTRICTIVE FED POLICIES GENERALLY HAVE EMPLOYMENT DECLINES - RECESSION
CURRENTLY FED PURSUING 2% TARGET



TRENDS/PATTERNS FOR U.S. MORTGAGE RATES SINCE 2018

MORTGAGE RATES ARE A SECONDARY DRIVER OF HOUSING DEMAND; EMPLOYMENT GROWTH IS TYPICALLY THE PRIMARY DRIVER.

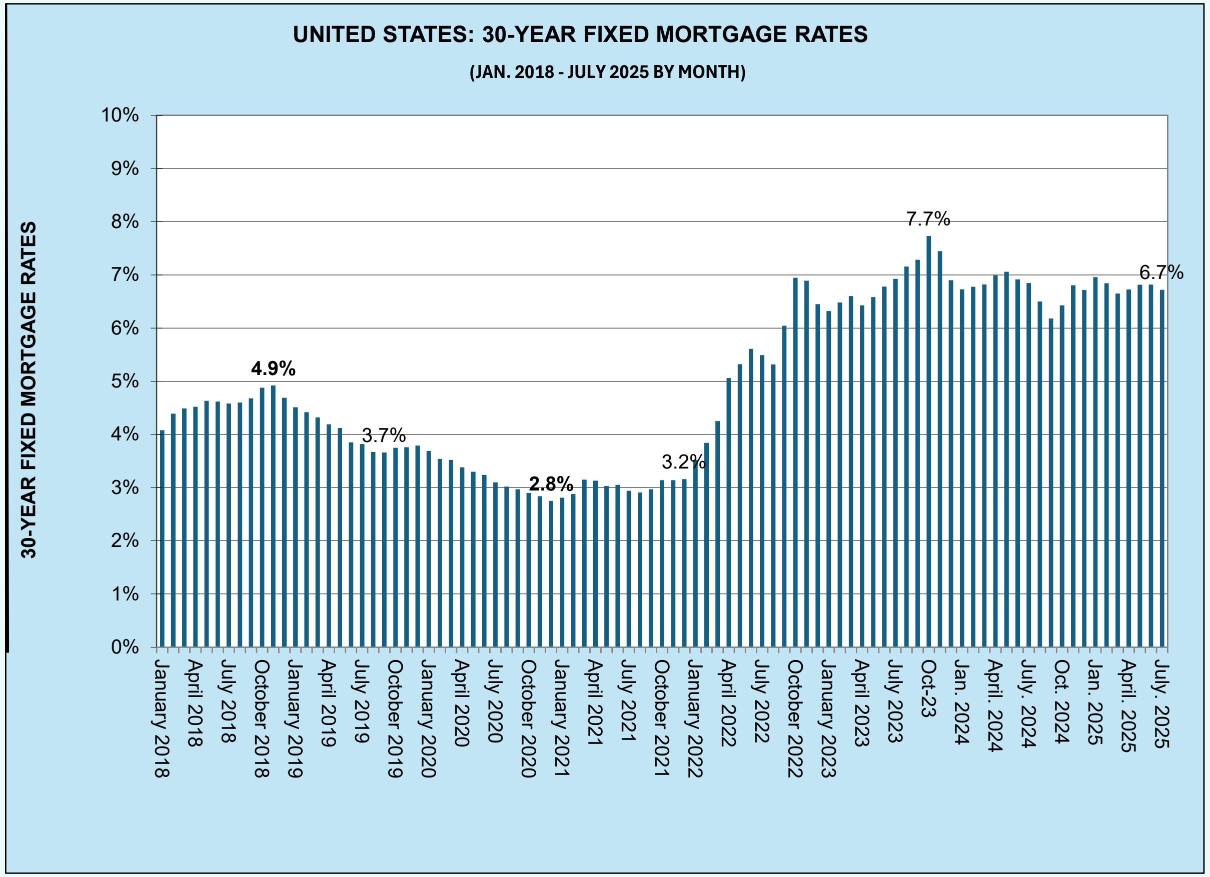
A. MORTGAGE RATES PEAKED IN NOVEMBER 2018 AT **4.9%.**

B. RATES THEN DECLINED TO THEIR **LOWEST LEVEL OF 2.8% IN JANUARY 2021**, DUE TO FED POLICIES TO STIMULATE THE ECONOMY.

C. RATES REMAINED AT HISTORICALLY LOW LEVELS, **BELOW 3.2%**, **THROUGH DECEMBER 2021**.

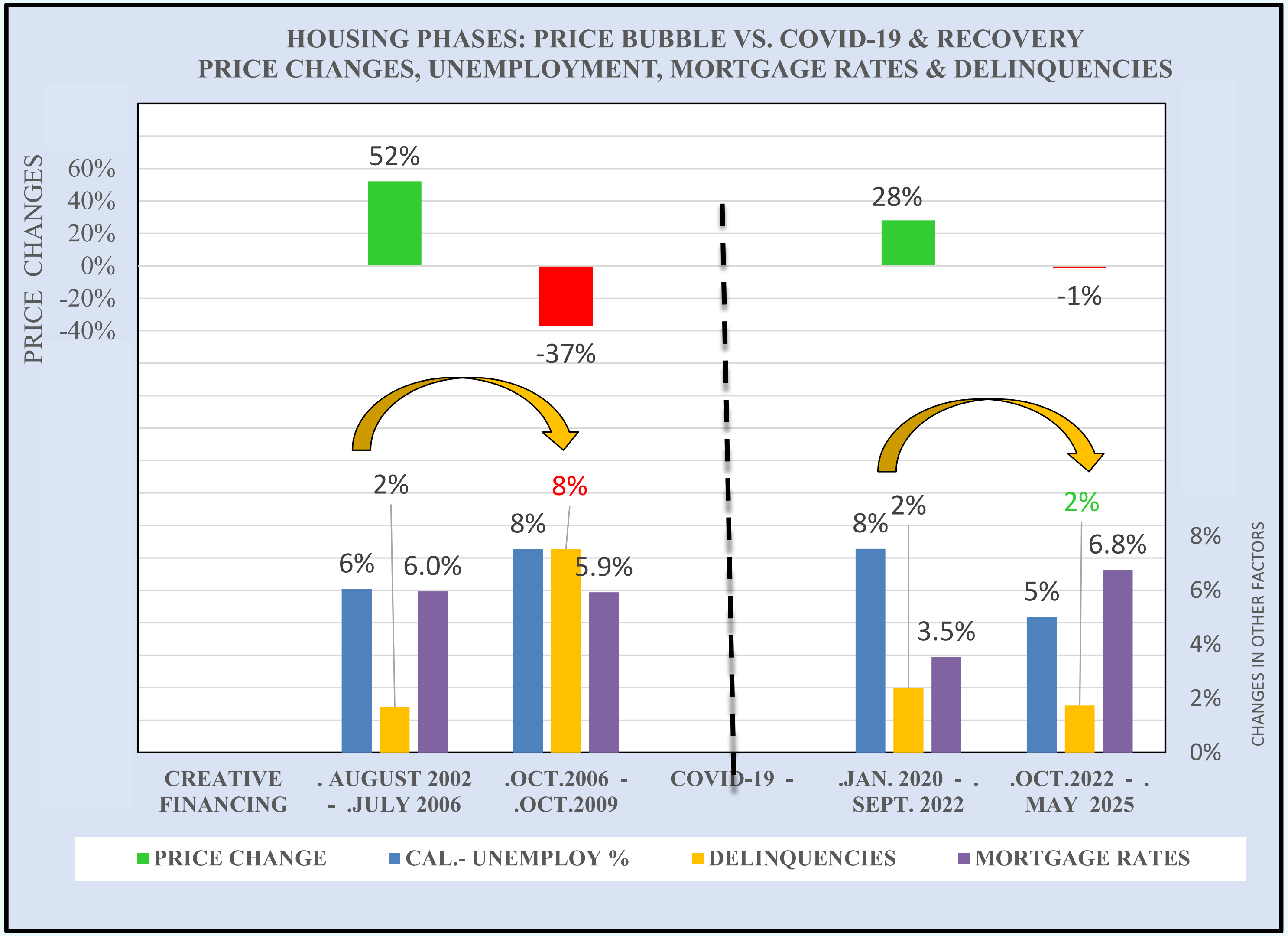
D. DUE TO FED POLICIES TO REDUCE INFLATION, MORTGAGE RATES **ROSE TO 7.7% IN OCTOBER 2023**

E RECENTLY MORTGAGE RATES HAVE **DECLINE SLIGHTLY, TO AROUND 6.5-7.0%**



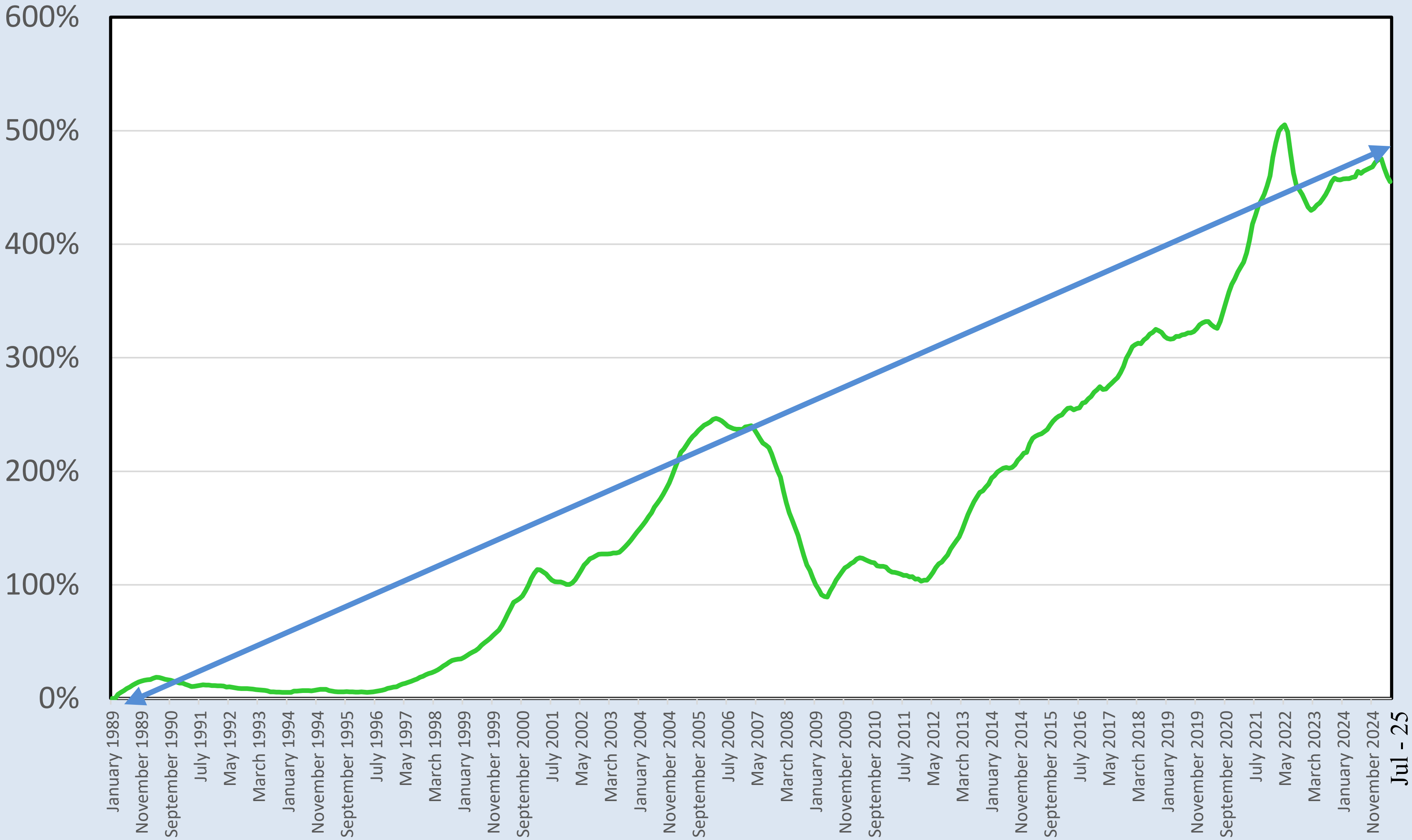
COMPARISON OF PRICE BUBBLE/IMPLOSION VS. RECENT HOUSING CONDITIONS

CREATIVE FINANCING 2002-2006 FOLLOWED BY PRICE DECLINES AND HIGH UNEMPLOYMENT
2022-2025 PRICES STABLE DESPITE HIGH MORTGAGE RATES → DUE TO LOW INVENTORY



II. HOUSING MARKET CONDITIONS

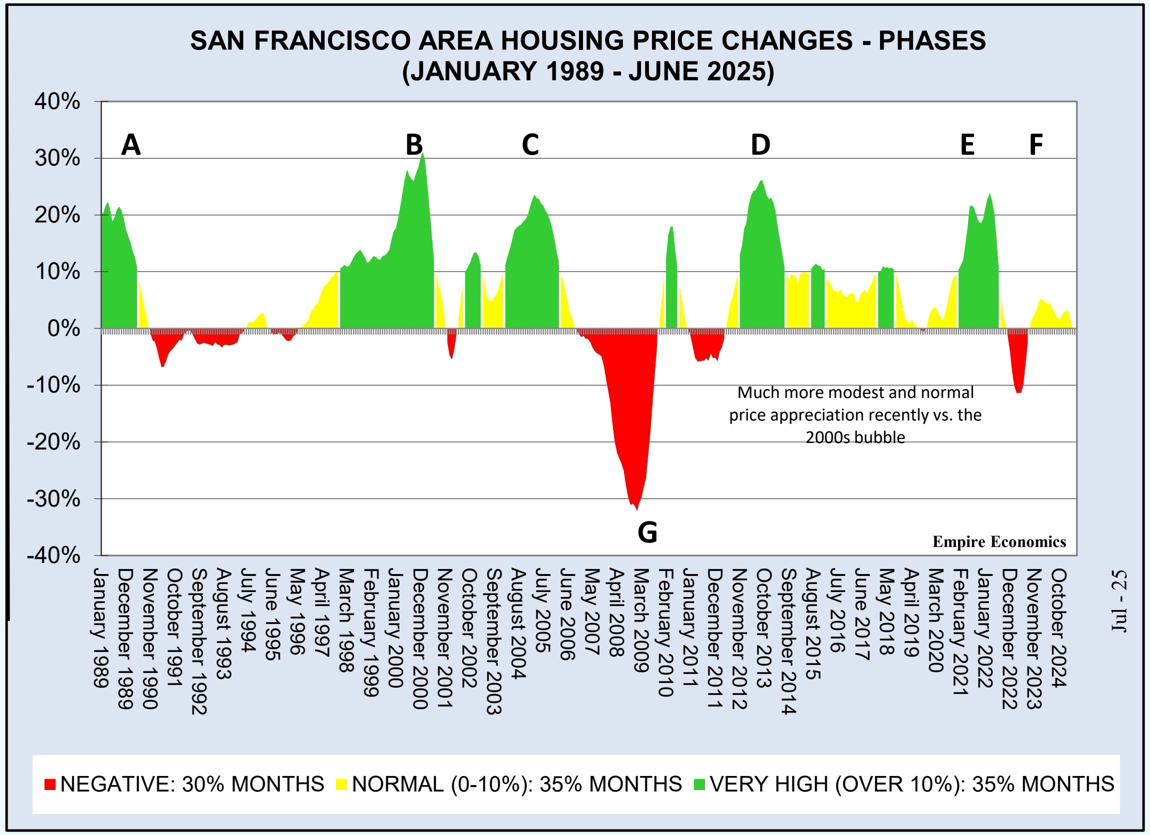
HOUSING PRICE PATTERNS   SAN FRANCISCO REGION
LONG-TERM TRENDS JANUARY 1987-JULY 2025
4.2% AVERAGE (BLUE-LINE)
EXAMPLE: HOME PRICED AT $100,000 INCREASED TO $546,000



SAN FRANCISCO REGION - OVERALL PATTERNS OF PRICE APPRECIATION

Since 1989, the San Francisco Region experienced five major appreciation phases, with peak levels of 20%+.

- **A 1989:** Post earthquake recovery, with economic expansion and limited supply of housing
- **B 2000:** Dot.com boom, tech growth. Venture capital influx, resulting in a high demand for housing.
- **C 2005:** Housing bubble due to subprime lending. Creative financing, speculation.
- **D 2013:** Tech resurgence, low interest rates. Inventory shortages and bidding wars.
- **E 2021:** Pandemic demand, historically low mortgage rates. Remote work trends, tech stability.
- **F 2025:** Housing appreciation moderates, high mortgage rates and slower employment growth.
- **G** Downturns have been relatively mild with the main exception being the 2008/2009 sub-prime mortgages.



FOR EXISTING HOMEOWNERS, OVER 60% HAVE MORTGAGE RATES BELOW 4.0% SIGNIFICANTLY BELOW RECENT LEVELS OF 6.5-7%

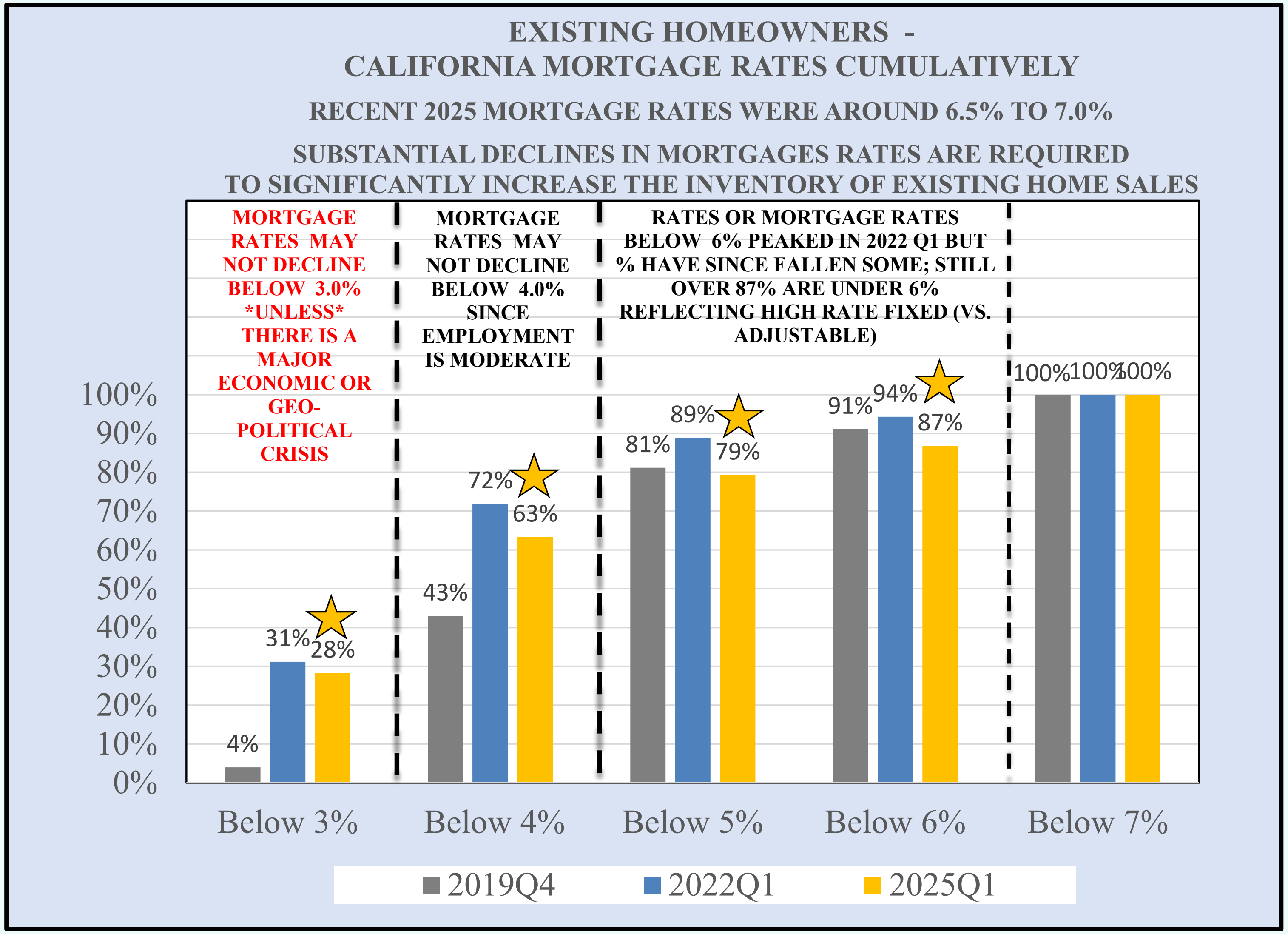
CHANGES IN COHORTS

BELOW 3.0%
FROM 31% TO 28%, -3%
PREVIOUS LOW 4%

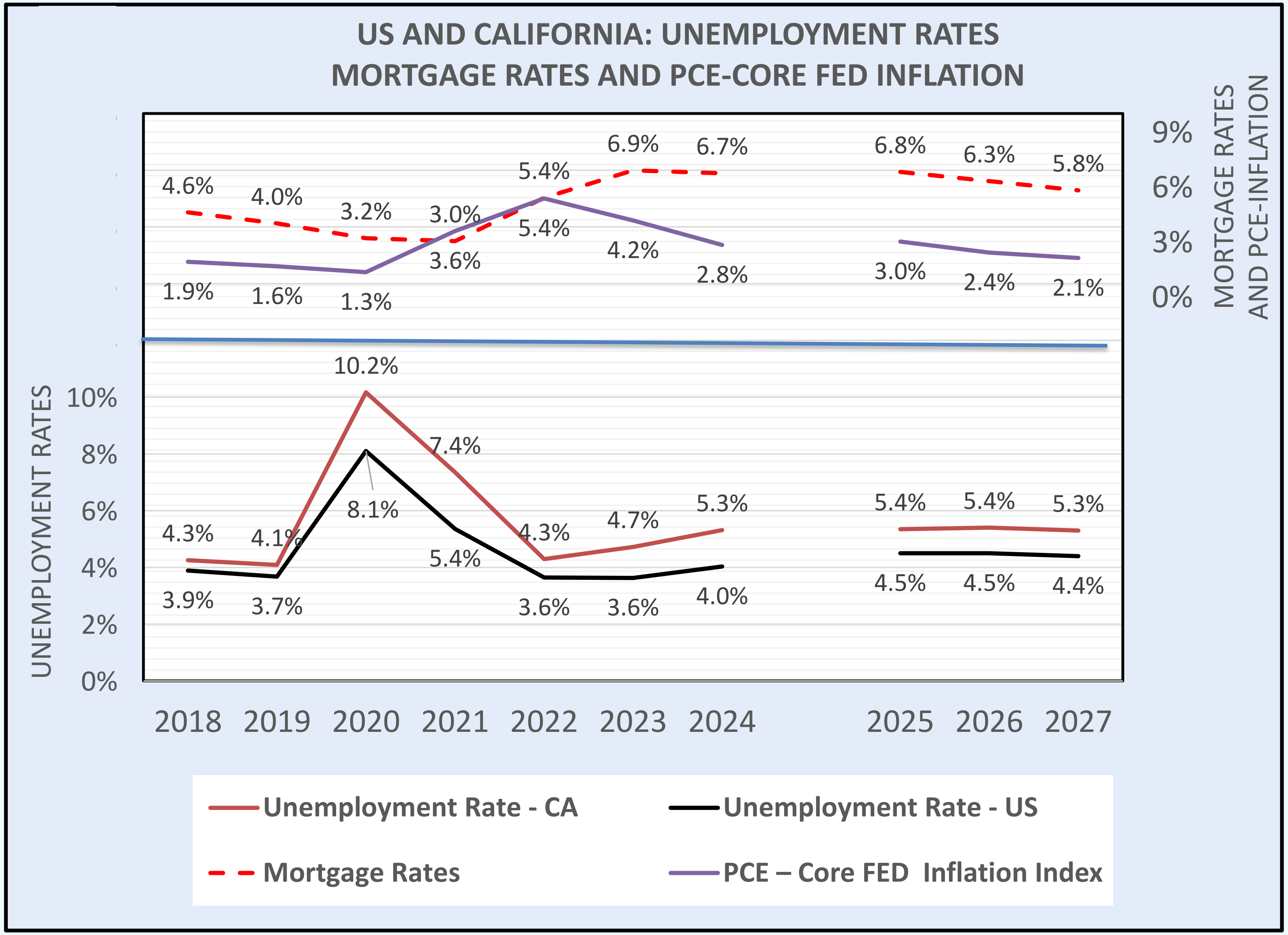
BELOW 4.0%
FROM 72% TO 63%, -9%
PREVIOUS LOW OF 43%

HOUSEHOLDS WITH LOW MORTGAGE RATES MOVING ONLY IF NECESSARY

- REMOTE/RETURN TO OFFICE
- NEW JOB LOCATION
- MAJOR FAMILY CHANGES
- MAJOR FINANCIAL CHANGES



SURVEY OF 40 PROFESSIONAL FORECASTERS – CONSENSUS FORECAST
SOURCE: FEDERAL RESERVE PROJECTIONS FROM JUNE 2025



SINCE 2020, HOME PRICES IN A SF SUBURBAN AREA HAVE INCREASED BY SOME 56%
THE RATE OF APPRECIATION HAS BEEN DRIVEN BY LIMITED INVENTORY OF EXISTING HOMES

HOMEOWNERS BEING LOCKED IN WITH HISTORICALLY LOW MORTAGE RATES

A: 2018 2019 NORMAL CONDITIONS
SUPPLY > DEMAND

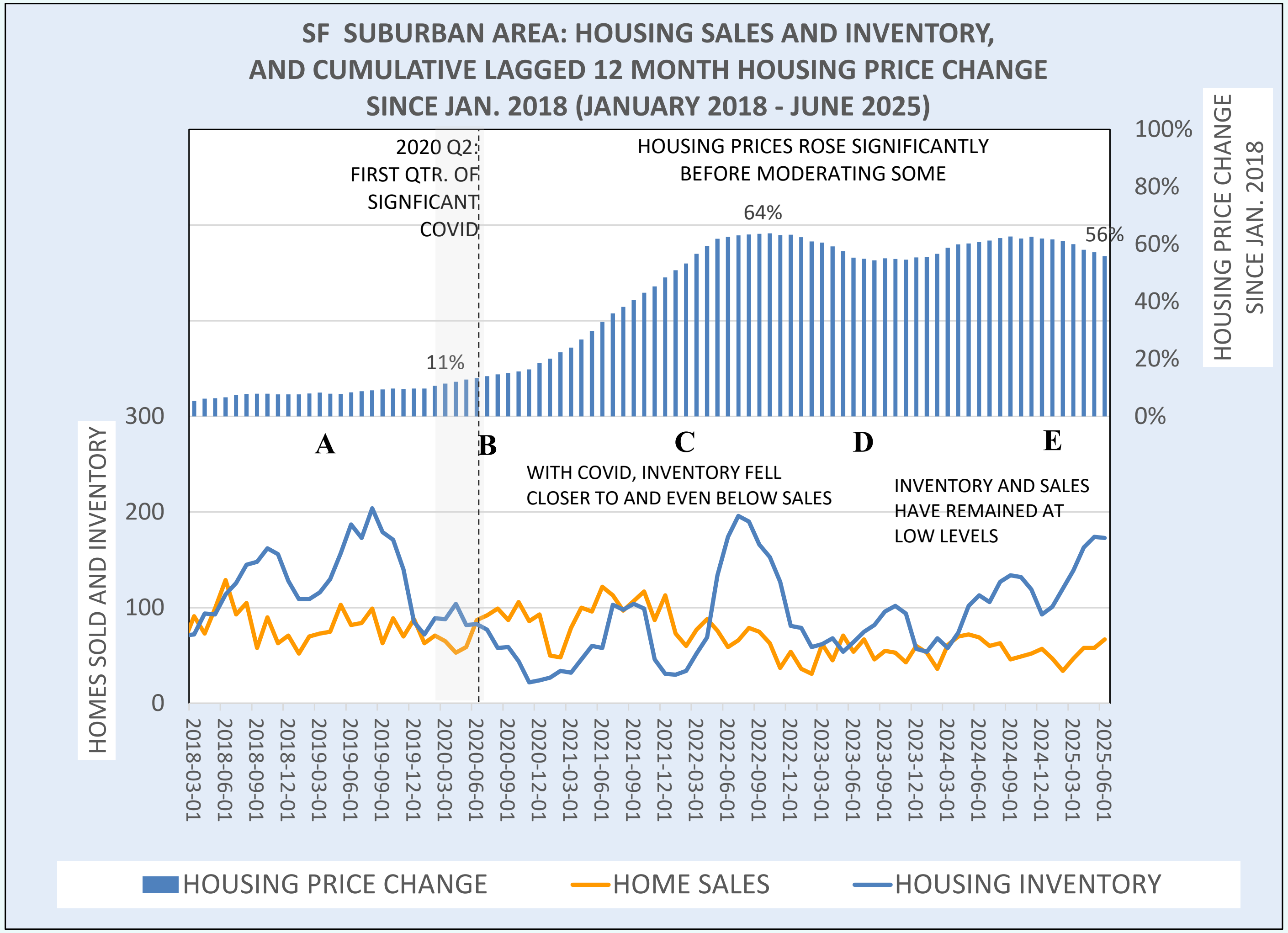
B: 2020 COVID-19 SUPPLY DECLINES

C: LOW MORTGAGE RATES
RESTRICTS SUPPLY
SIGNIFICANT PRICE APPRECIATION

D: PRICES REMAIN HIGH
DUE TO LOW SUPPLY

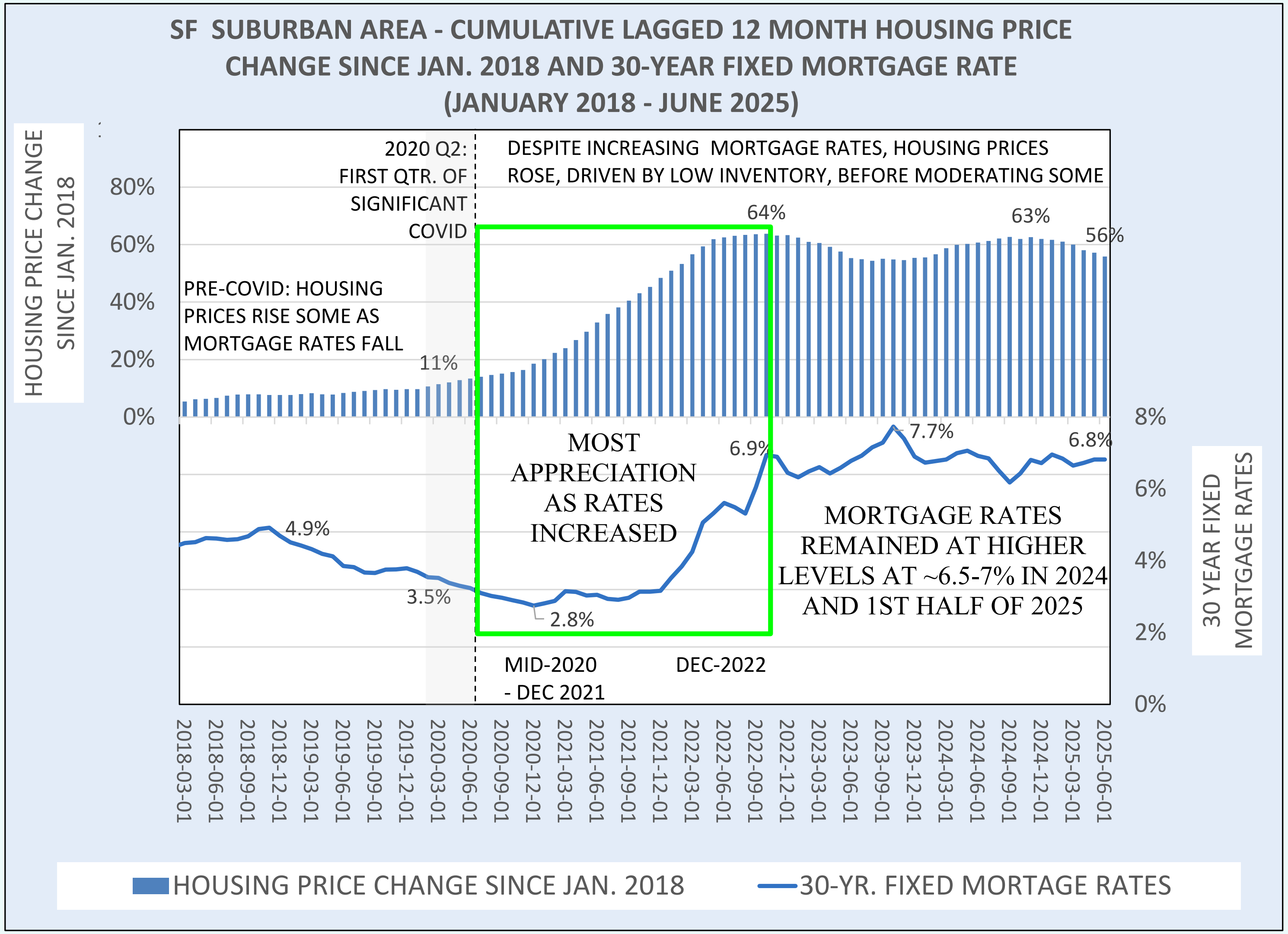
E. SUPPLY INCREASES SIGNIFICANTLY
BUT NOW DEMAND CONSTRAINED
BY HIGH MORTGAGE RATES

REMARK: SF SUBURBAN AREAS HAVE HAD HIGHER APPRECIATION THAN SF CITY.



SINCE 2022, HIGHER LEVELS OF MORTGAGE RATES HAVE SUPPORTED

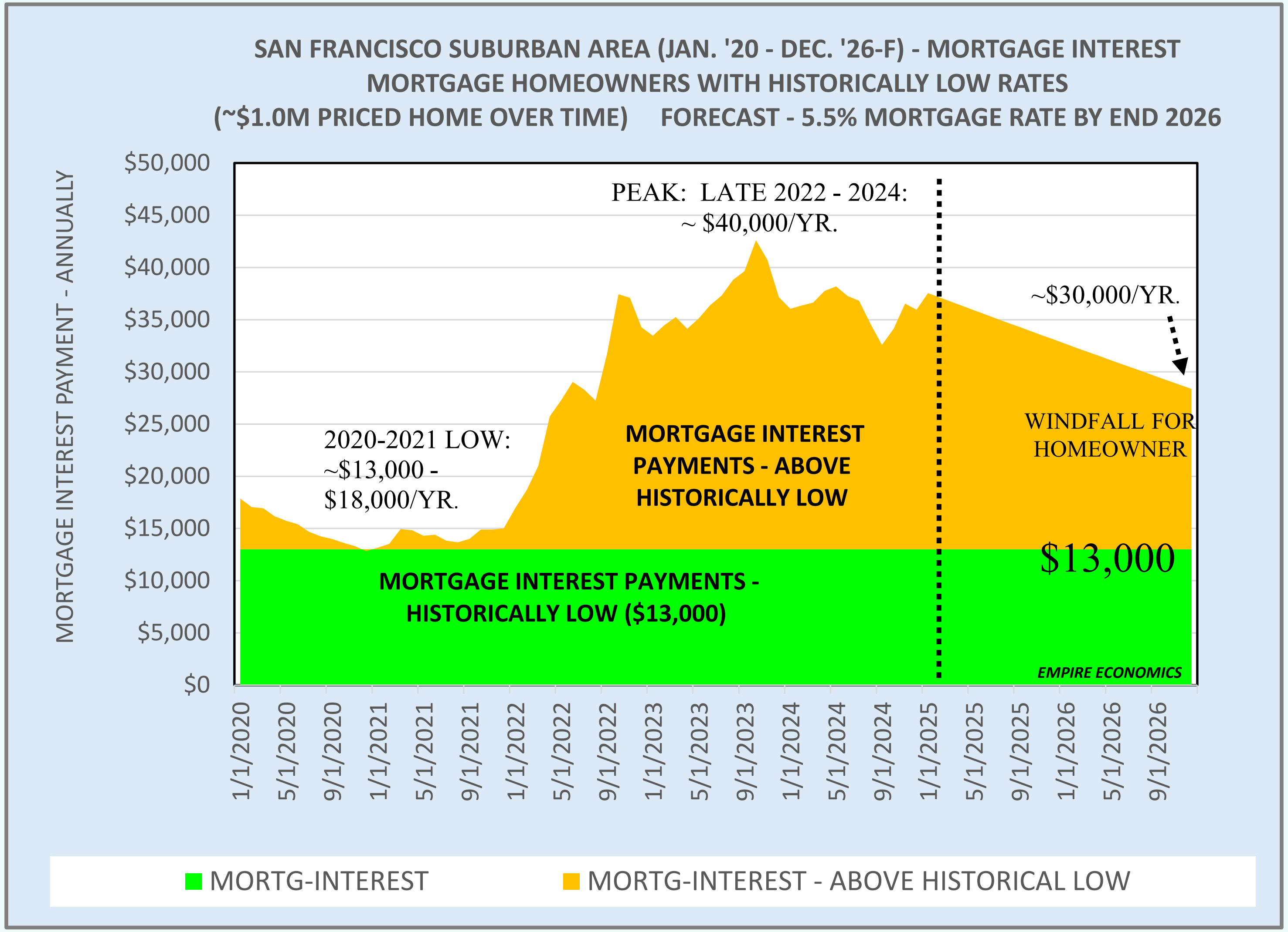
PRICE APPRECIATION DUE TO MOST EXISTING HOMEOWNERS BEING LOCKED IN



SF SUBURBAN AREA – MORTGAGE INTEREST PAYMENTS (JAN. 2020– DEC. 2026F)

HOUSE PURCHASE, HOUSEHOLDS THAT USED A **3% MORTGAGE RATE IN 2021**
HAVE MORTGAGE INTEREST RATE PAYMENTS OF ABOUT **$13,000 A YEAR**

AS MORTGAGE RATES DECLINE, THE INCENTIVES FOR HOMEOWNERS TO STAY IN THEIR CURRENT HOMES WITH HISTORICALLY LOW RATES DIMINISHES, AND SO THE SUPPLY OF HOMES FOR-SALE INCREASES.



III. MARKET ABSORPTION STUDY

MARKET ABSORPTION STUDY

Economy/employment growth expected to be moderate/slow but not decline.
RISK FACTOR – RECESSION

Financial market/mortgage rates are expected to decline slightly but:
RISK FACTOR: INFLATION RISES DUE TO TARIFFS AND/OR HIGHER FISCAL DEFICITS

ABSORPTION RATES OF PROJECTS	RATIOS	REMARKS
ANNUAL ADJUSTMENT FACTORS		
Benchmark	1.00	Based Upon Normal Market Conditions
2025	0.80	Significant Level of Economic Uncertainty
2026	0.90	Market Conditions Improve
2027	1.00	Market Conditions Normalized
2028	1.10	Projects Approach Closing -Out
.2029+	1.50	Projects Close-Out

IV. PRICE POINT STUDY

A. PRICE POINT STUDY FOR CFD FORMATION

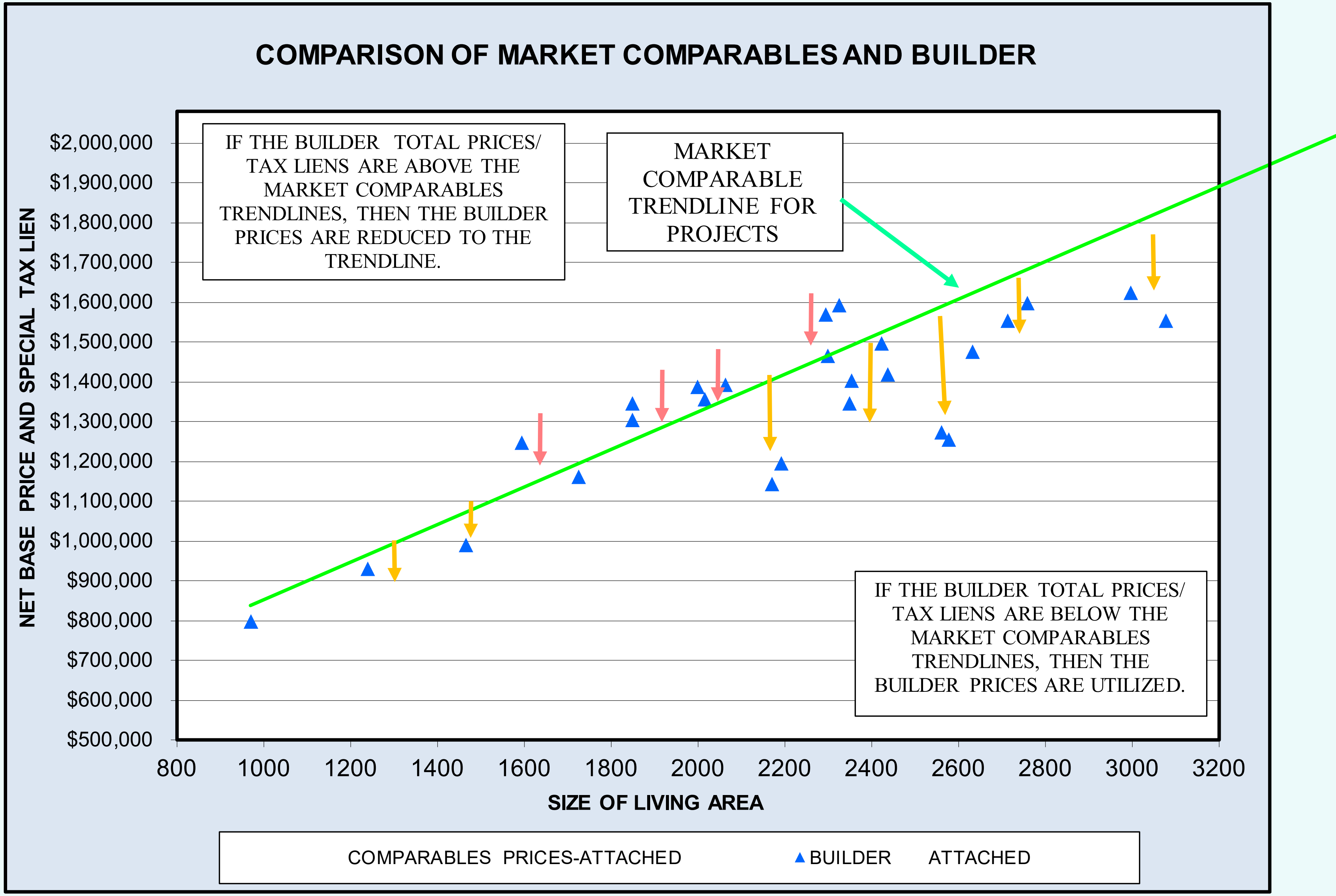
GREEN LINE
MARKET COMPARABLES
TOTAL HOUSING PRICE
SALES PRICE + TAX LIEN

BLUE TRIANGLES
CFD PROJECTS/PLANS
TOTAL HOUSING PRICE

1. ON GREEN LINE – OK

2. ABOVE GREEN LINE
REDUCE TO MARKET
TO BE COMPETITIVE
RED ARROW

3. BELOW GREEN LINE
USE LOWER PRICE
CONFORM TO ISSUER
TAX POLICY
ORANGE ARROW



B. PRICE POINT *REVIEW* STUDY JUST PRIOR TO BOND SALE

CONFIRM THAT TAX LEVELS CONFORM TO ISSUER POLICIES FOR HOMEOWNER TAX BURDENS

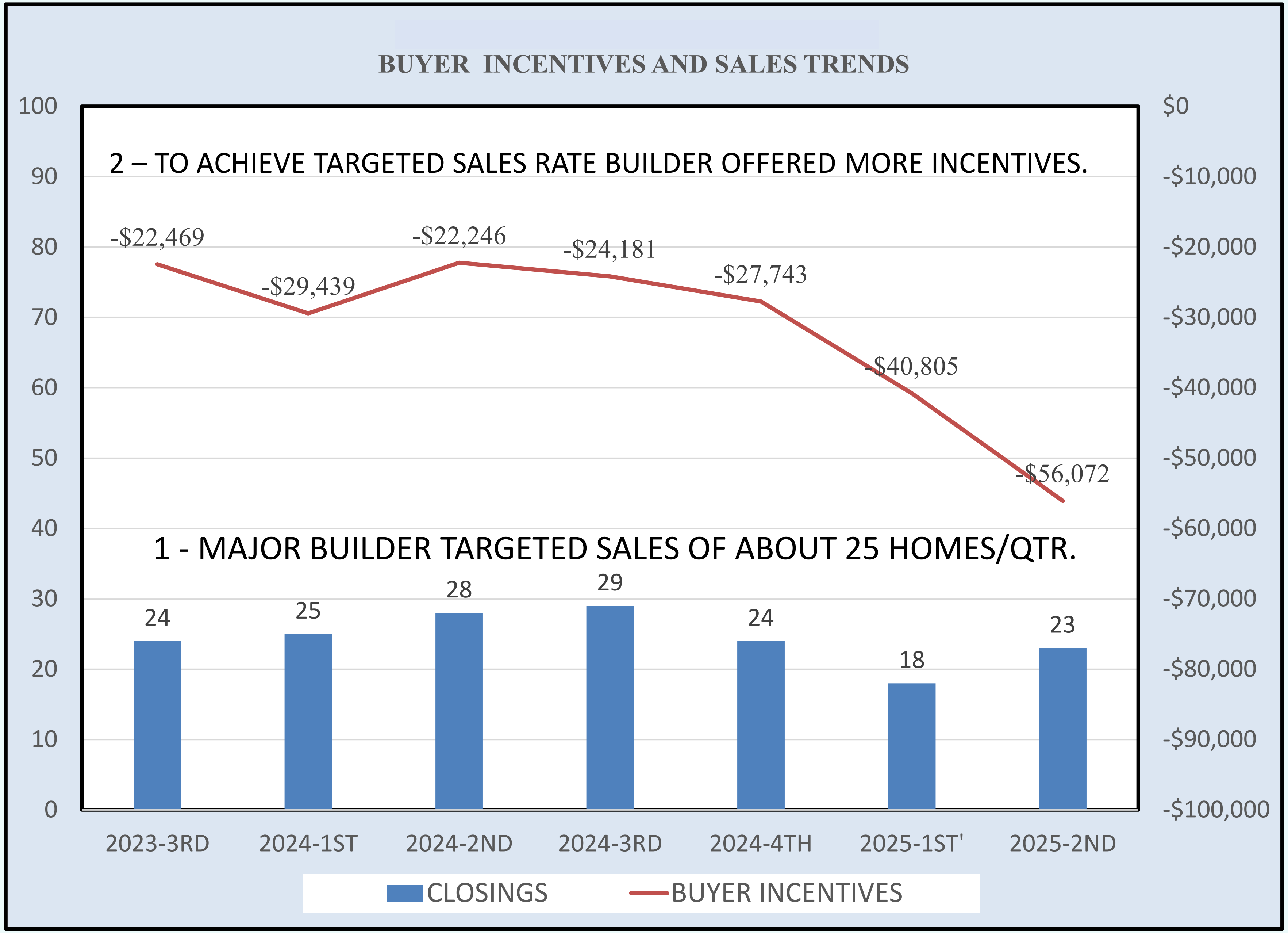
IF CURRENT MARKET VALUE FOR A PROJECT/PLAN IS BELOW THE ORIGINAL PRICE POINTS, THEN PRICES ARE REDUCED

EMPIRE ECONOMICS UTILIZES RECENT ESCROW CLOSINGS

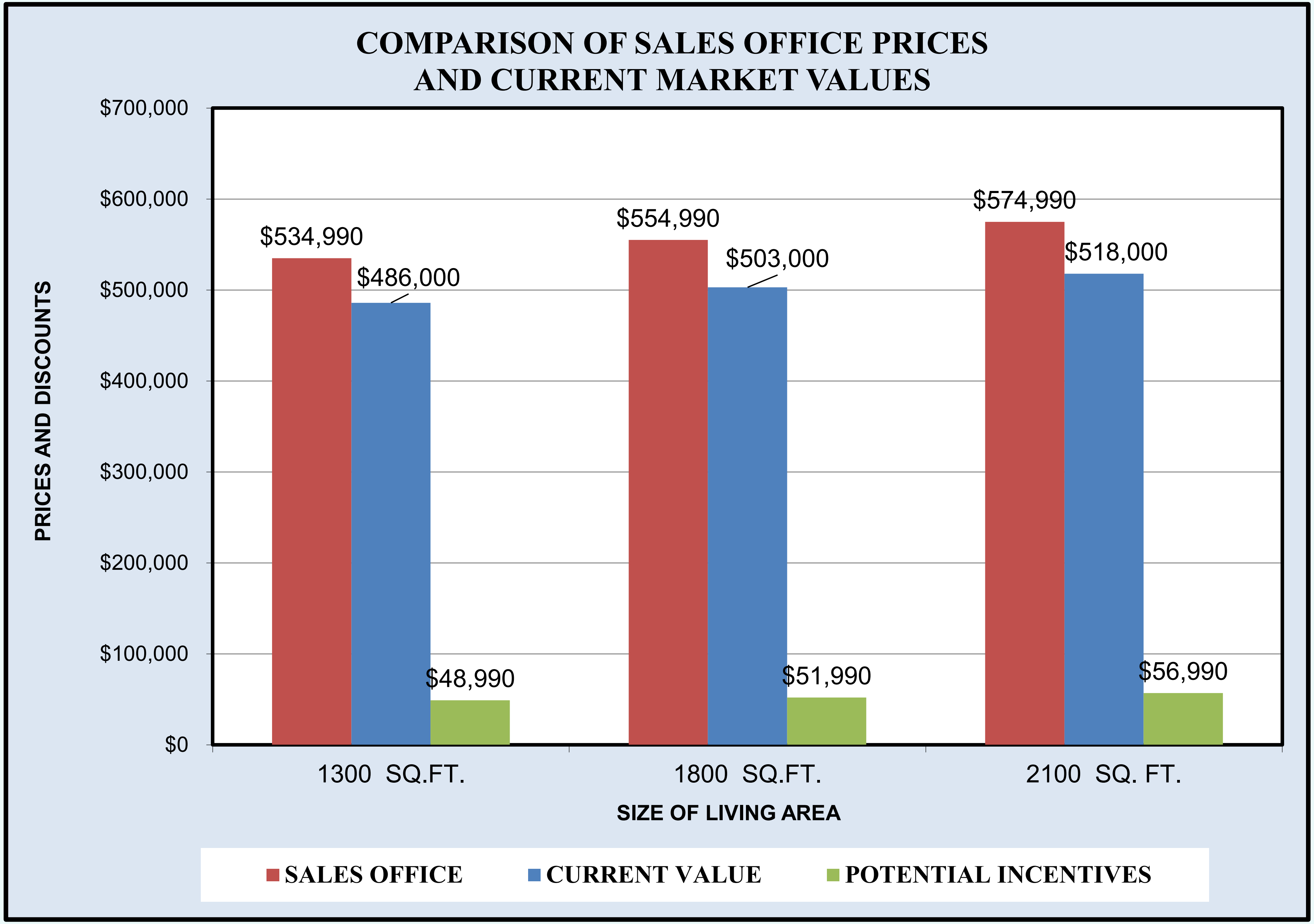
NET BASE PRICES = BASE PRICES – ALL TYPES OF INCENTIVES

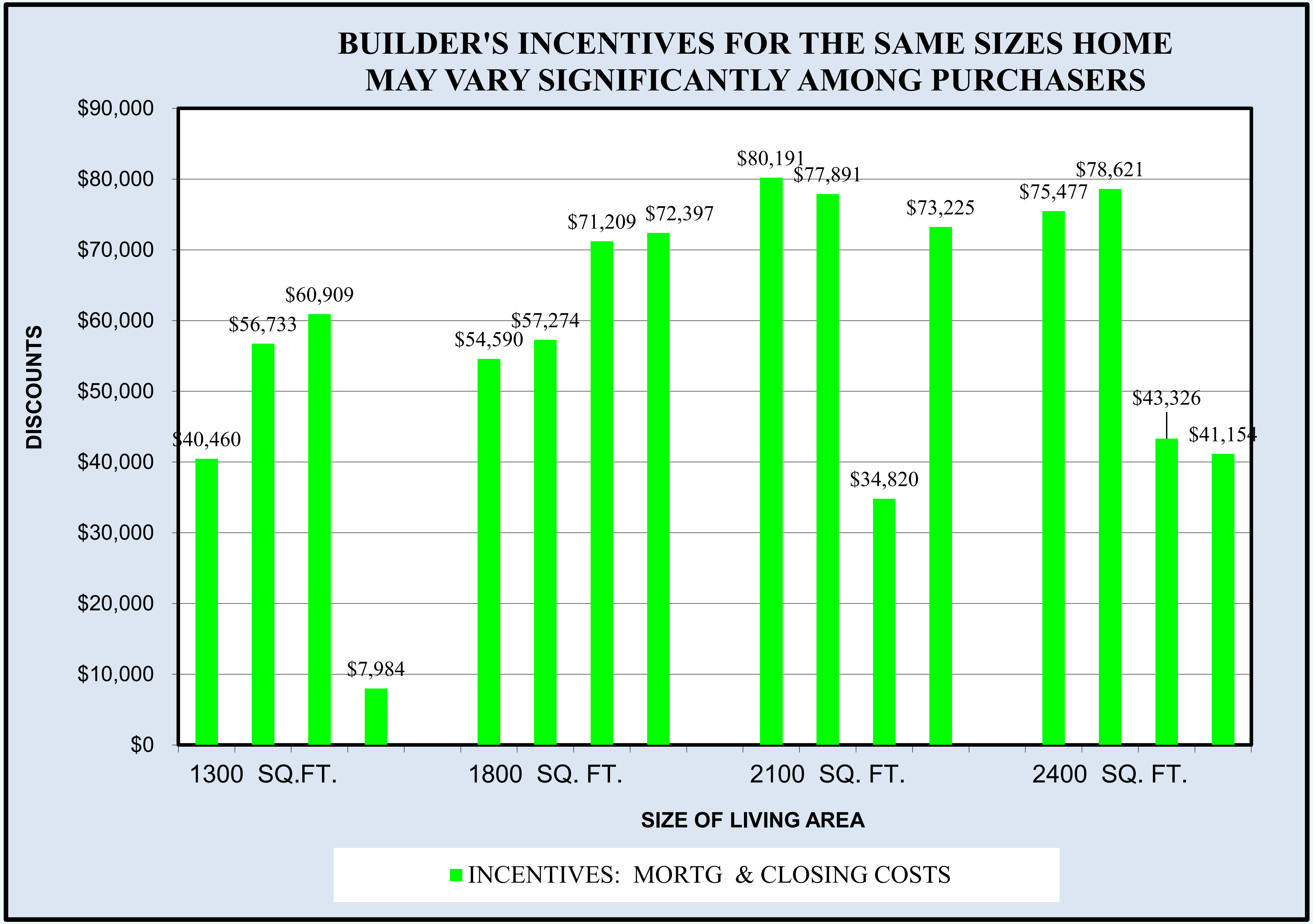
FREE OPTIONS/UPGRADES, LOWER CLOSING COSTS
MORTGAGE RATE BUYDOWNS

SPECIAL TAX CONSULTANT CALCULATES CURRENT TAX BURDENS AND REDUCES TAX LEVELS, AS APPROPRIATE



BUYER INCENTIVES AND SALES TRENDS
2 – TO ACHIEVE TARGETED SALES RATE BUILDER OFFERED MORE INCENTIVES.
1 - MAJOR BUILDER TARGETED SALES OF ABOUT 25 HOMES/QTR.
-$22,469
-$29,439
-$22,246
-$24,181
-$27,743
-$40,805
-$56,072
24
25
28
29
24
18
23
2023-3RD
2024-1ST
2024-2ND
2024-3RD
2024-4TH
2025-1ST'
2025-2ND
0
10
20
30
40
50
60
70
80
90
100
$0
-$10,000
-$20,000
-$30,000
-$40,000
-$50,000
-$60,000
-$70,000
-$80,000
-$90,000
-$100,000
CLOSINGS
BUYER INCENTIVES


COMPARISON OF SALES OFFICE PRICES
AND CURRENT MARKET VALUES
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
PRICES AND DISCOUNTS
$534,990
$486,000
$48,990
$554,990
$503,000
$51,990
$574,990
$518,000
$56,990
1300 SQ.FT.
1800 SQ.FT.
2100 SQ. FT.
SIZE OF LIVING AREA
SALES OFFICE
CURRENT VALUE
POTENTIAL INCENTIVES


BUILDER'S INCENTIVES FOR THE SAME SIZES HOME
MAY VARY SIGNIFICANTLY AMONG PURCHASERS
DISCOUNTS
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$40,460
$56,733
$60,909
$7,984
$54,590
$57,274
$71,209
$72,397
$80,191
$77,891
$34,820
$73,225
$75,477
$78,621
$43,326
$41,154
1300 SQ.FT.
1800 SQ. FT.
2100 SQ. FT.
2400 SQ. FT.
SIZE OF LIVING AREA
INCENTIVES: MORTG & CLOSING COSTS

V. CONCLUSIONS

CONCLUSIONS
THE MARKET FOR NEW HOMES WILL FACE CHALLENGING CONDITIONS

MOST PROBABLE SCENARIO

ECONOMIC WINDFALL/EQUITY TO EXISTING HOMEOWNERS MID-2020 – DEC 2022
CURRENTLY 63% OF HOMEOWNERS HAVE MORTGAGE RATES BELOW 4.0% - RELUCTANT TO SELL

DELINQUENCIES CURRENTLY ONLY 2% VS. 2006-2009 BUBBLE IMPLOSION 8%
PRICES RECENTLY STABLE VS. 2006-2009 PRIOR BUBBLE IMPLOSION - 37%

RECENT INCREASE IN INVENTORY BUT DEMAND IMPACTED BY HIGH MORTGAGE RATES
FIRST TIME BUYERS - AFFORDABILITY ISSUES: HIGH PRICES & HIGH MORTGAGE RATES

CFDs – BENEFIT FROM SPILLOVER OF DEMAND FROM EXISTING TO NEW HOMES
MARKET SHIFT TO HIGHER DENSITY PRODUCT TYPES – LOWER PRICES
BUILDERS BUYING-DOWN MORTGAGE RATES & OFFERING HOME RENTALS

HOUSING PRICES NOT LIKELY TO DECLINE SIGNIFICANTLY UNLESS:
POTENTIAL MAJOR RISK FACTOR
IF MORTGAGE RATES > 6.5% BUILDER BUY-DOWNS TOO EXPENSIVE

TIGHTROPE: MONETARY AND FISCAL POLICIES
? RECONCILE/COLLIDE ?

TIGHTROPE: MONETARY AND FISCAL POLICIES? RECONCILE/COLLIDE?

AI POLICY SONATA FOR FINANCE PROFESSIONALS

- PROMPTS PROVIDED BY EMPIRE ECONOMICS*

Collision Course
Storm clouds brew where eagles clash—
Hawkish rates meet stimulus splash.
Inflation's drum thrums, double-time,
Two masters duel, no fault, no crime.

Negotiated Horizons
Truce Forged: Trim the tariff blade,
Phase the cuts where growth's delayed.
Mortgage tides steady, jobs held firm,
Debt's specter looms—but fires adjourn.

Reckoning Unbound
If egos drown the nation's ledger,
Inflation's beast slips every tether.
Jobs flee, loans soar, red ink cascades—
A "Trumpcession" etches its brigades.