

OVERVIEW OF RECENT/EXPECTED ECONOMIC/HOUSING MARKET CONDITIONS
CALIFORNIA SOCIETY OF MUNICIPAL BOND ANALYSTS

RECENT RETURN TO STRONG ECONOMIC FUNDAMENTALS

BUT

EXTRAORDINARY FACTORS

DRAMATICALLY TRANSFORMING

THE HOUSING MARKET:

*** PRODUCT TYPES**

***GEOGRAPHICAL DEVELOPMENT PATTERNS**

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OVERVIEW OF HOW ECONOMIC AND HOUSING MARKET CONDITIONS ARE IMPACTING DEVELOPMENT PATTERNS AND NEW MONEY CFDs

I. FAVORABLE CORE FACTORS:

- STRONG EMPLOYMENT GROWTH; NEW PEAK LEVELS
- FAVORABLE MORTGAGE RATES
- TOTAL NEW HOMES (FOR-SALE HOMES AND APARTMENTS) SIMILAR TO LONG-TERM AVERAGE



II. EXTRAORDINARY FACTORS:

- MILLENNIALS' PREFERENCES AND FINANCES
- MAJOR SHIFT FROM FOR-SALE/SINGLE-FAMILY TO APARTMENTS



III. RESIDENTIAL DEVELOPMENT PATTERNS GEOGRAPHICALLY TRANSFORMED:

- URBANIZED AREAS: NEW FOR-SALE - MODERATE; NEW APARTMENTS – RECORD LEVELS
- SUBURBAN-RURAL AREAS: NEW FOR-SALE AND NEW APARTMENTS – SLOW RECOVERIES

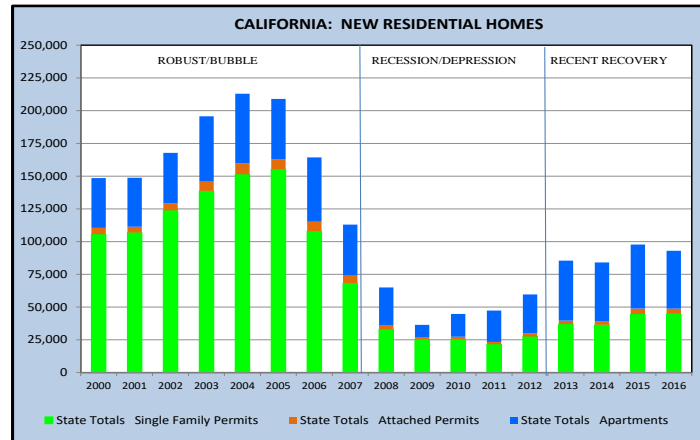


NOTE: SOUTHERN CALIFORNIA IS USED AS AN EXAMPLE HEREIN; SF BAY AREA HAS A SIMILAR PATTERN

OVERVIEW OF CALIFORNIA'S HOUSING MARKET CYCLE AND THEMATIC MAPS

THREE DISTINCT PHASES

- Robust 2000-2007 significantly higher levels of activity vs. its long-term average
- Recession/Depression: 2008-2012 significantly lower levels of activity vs. its long-term average
- Recent Recovery: 2013-2016 levels of activity still below its long-term average



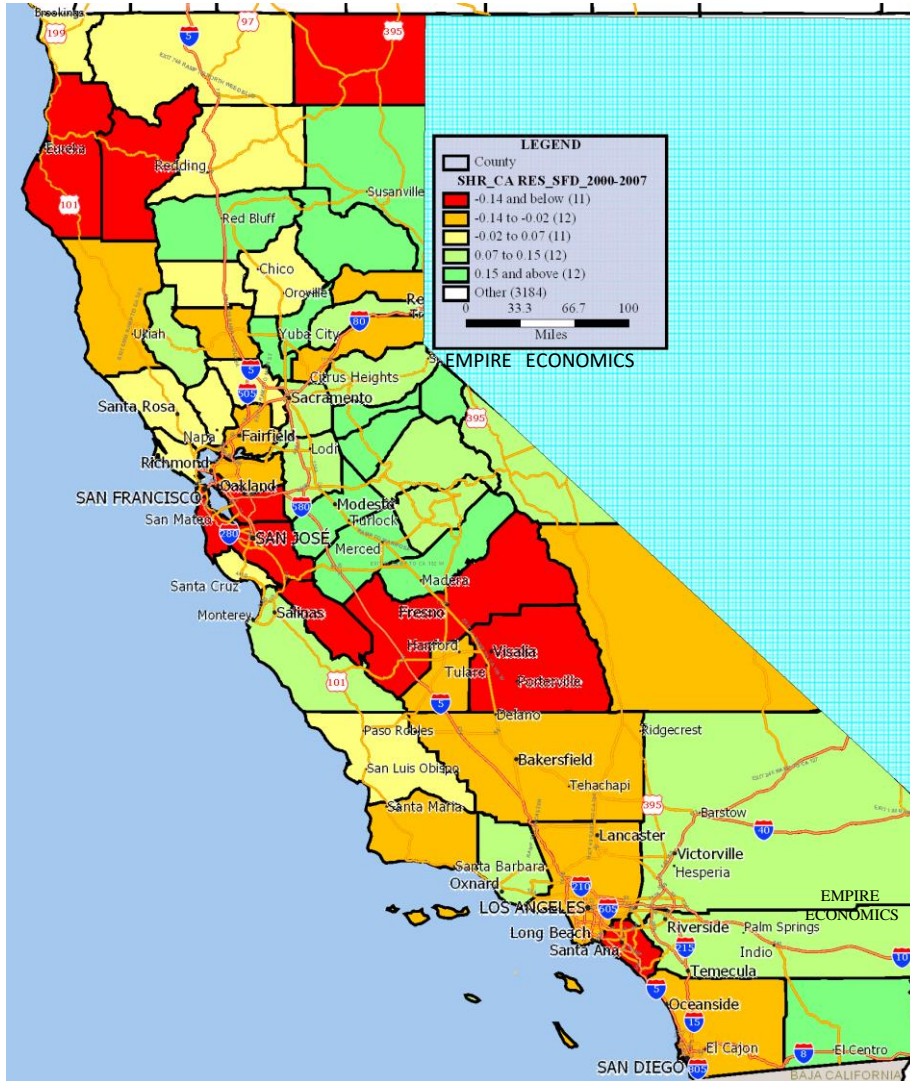
COUNTIES' RELATIVE RATES OF DEVELOPMENT VS CALIFORNIA:

- Dark/light green: Relative strength for the County vs. California
- Yellow: County similar to California
- Orange/red Relative weakness for the County vs. California

* So, since each county is compared to its relative performance for each phase, they usually have different colors. *

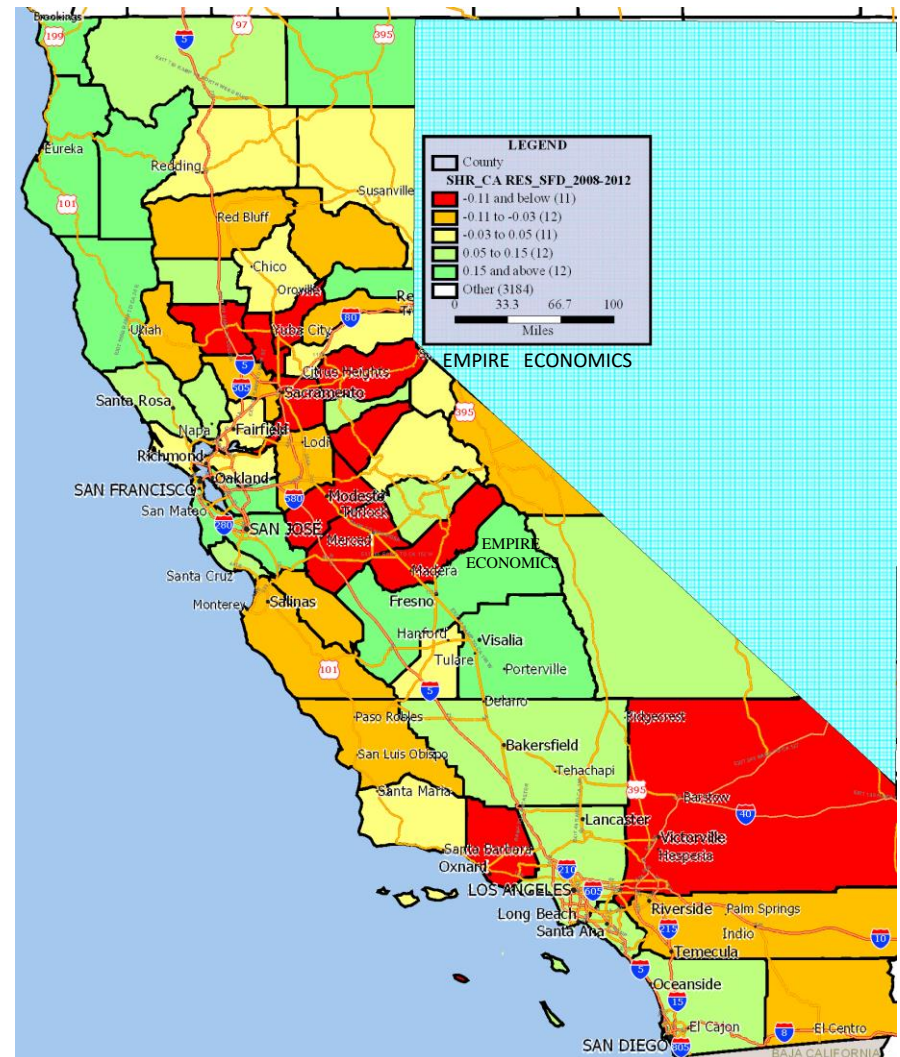
RELATIVE LEVELS OF NEW SINGLE-FAMILY HOMES 2000-2007

SPILLOVER FROM THE SAN FRANCISCO AND LOS ANGELES
REGIONS TO THE SUBURBAN/RURAL AREAS



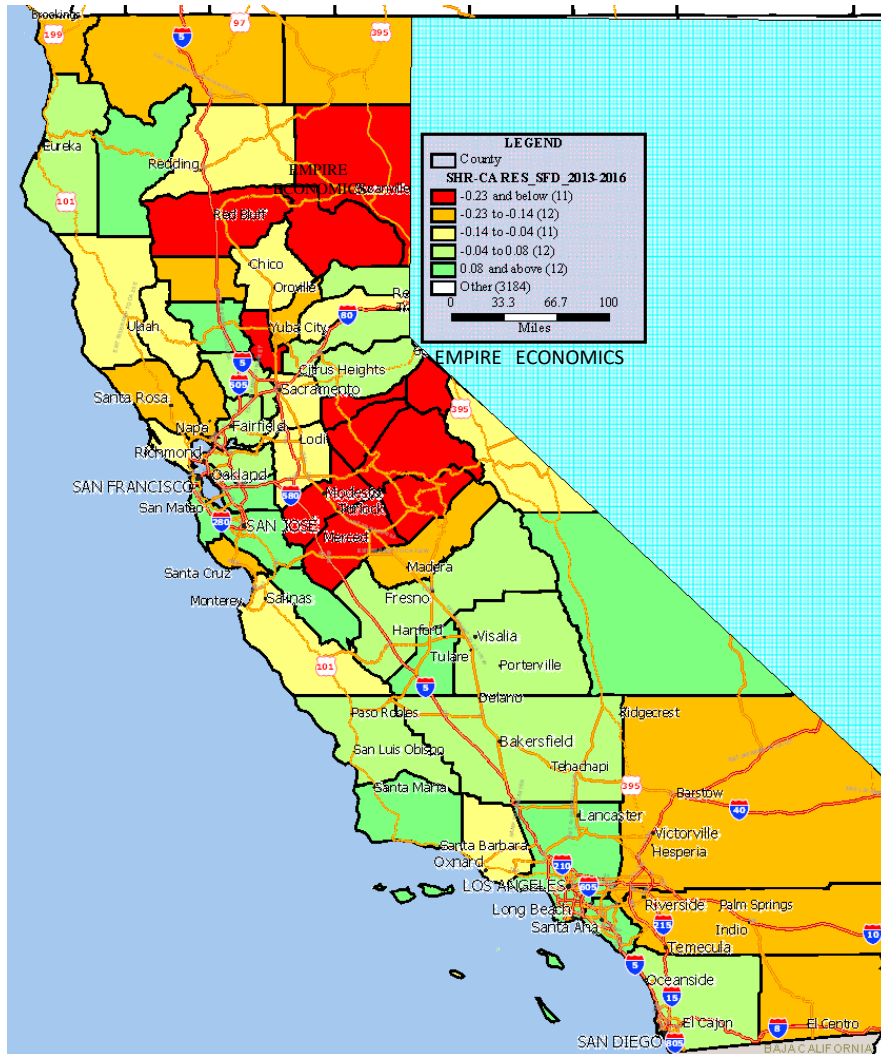
RELATIVE LEVELS OF NEW SINGLE-FAMILY HOMES 2008-2012

AS SPILLOVER FROM URBANIZED AREAS DIMINISHES,
ACTIVITY IN SUBURBAN/RURAL AREAS BECOMES DEPRESSED



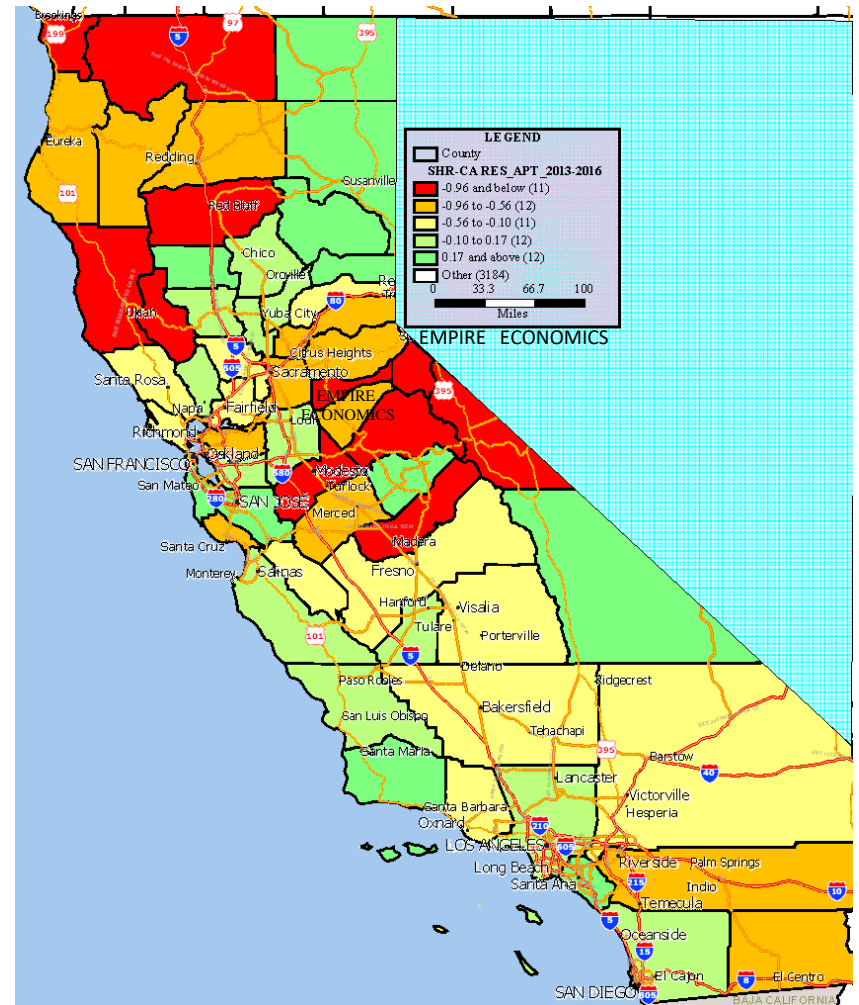
RELATIVE LEVELS OF NEW SINGLE-FAMILY HOMES 2013-2016

THE SUBURBAN/RURAL AREAS THAT HAD DEPRESSED LEVELS OF ACTIVITY DURING 2008-2012 CONTINUED TO BE DEPRESSED DURING 2013-2016



RELATIVE LEVELS OF NEW APARTMENT UNITS 2013-2016

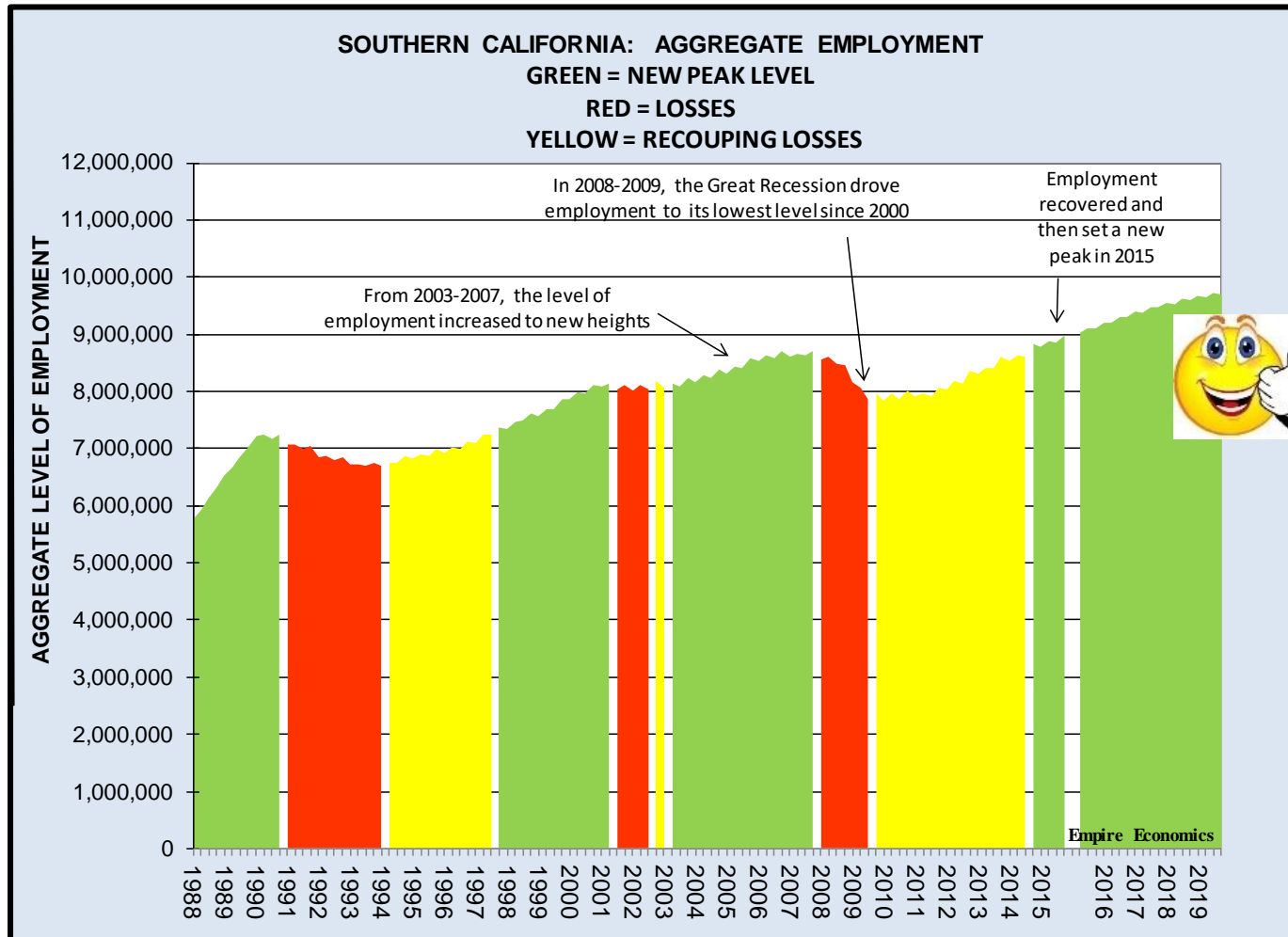
THE URBAN AREAS HAVE HAD VERY HIGH LEVELS OF NEW APARTMENT UNITS DURING 2013-2016, DUE TO MILLENNIALS PREFERRED TO RESIDE IN URBANIZED AREAS, PRIMARILY IN THE SAN FRANCISCO AND LOS ANGELES COASTAL REGIONS



I. FAVORABLE CORE FACTORS:

EMPLOYMENT IS THE PRIMARY FACTOR UNDERLYING THE DEMAND FOR HOUSING

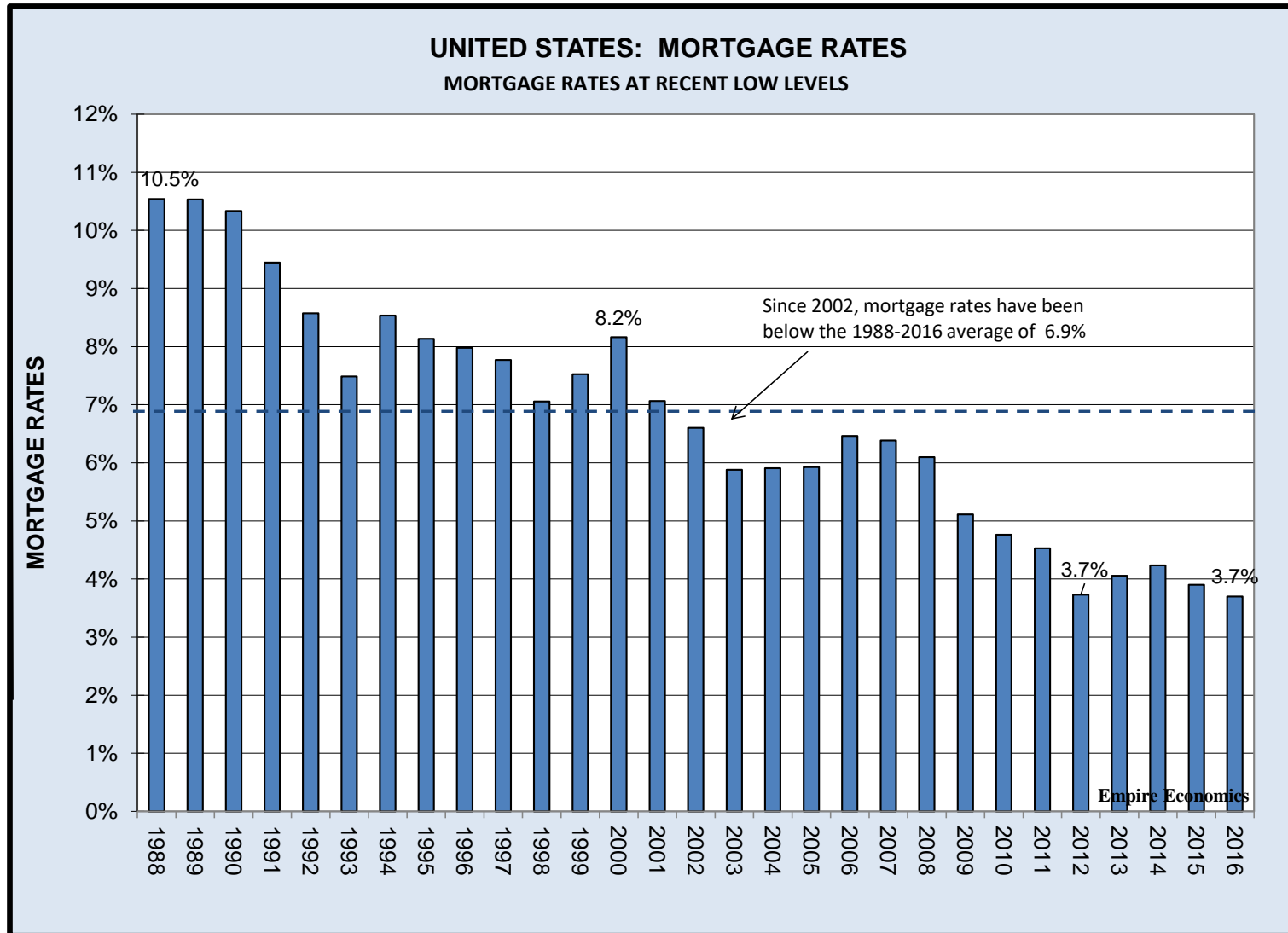
SOUTHERN CALIFORNIA EMPLOYMENT RECENTLY SURPASSED ITS PRIOR PEAK LEVEL
EMPLOYMENT IS NOW +400,000 OR 5% HIGHER THAN THE PRIOR 2007 PEAK LEVEL
AND FUTURE GROWTH PROSPECTS ARE FAVORABLE !



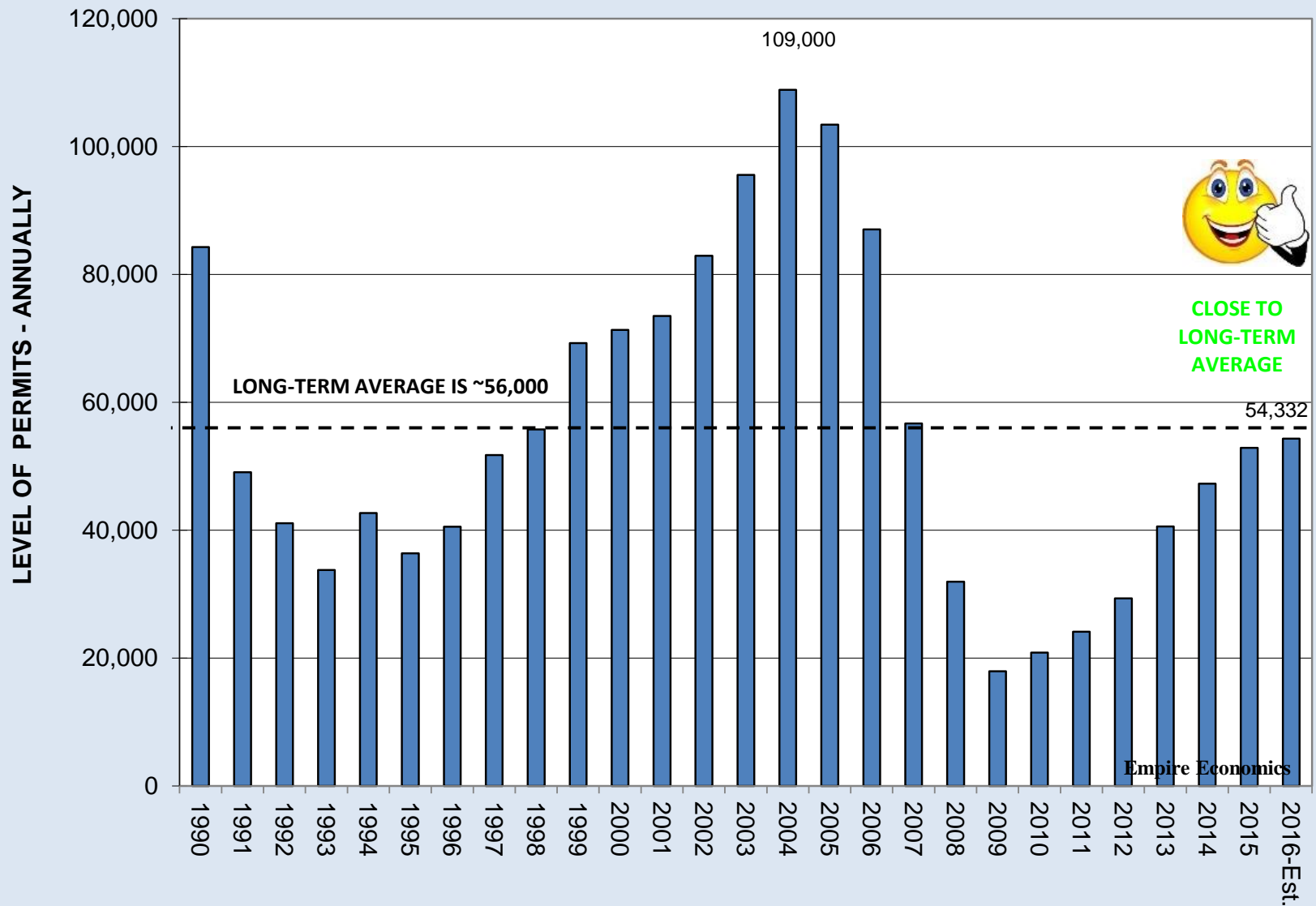
MORTGAGE RATES ARE A STRONG SECONDARY FACTOR THAT SUPPORT HOUSING DEMAND

MORTGAGE RATES REMAIN AT FAVORABLE LEVELS

MORTGAGE QUALIFICATION CRITERIA ARE ALSO BECOMING MORE FAVORABLE



SOUTHERN CALIFORNIA: NEW FOR-SALE HOMES AND APARTMENT RENTALS



EMPLOYMENT GROWTH IN URBANIZED/COASTAL AREAS *TYPICALLY* GENERATES SPILLOVER TO SUBURBAN/RURAL INLAND AREAS



II. EXTRAORDINARY FACTORS REDUCING THE DEMAND FOR FOR-SALE HOMES

GENERAL CHARACTERISTICS OF MILLENNIALS

1. MILLENNIALS ARE CURRENTLY AROUND 18-36 YEARS OLD.
2. THERE ARE ABOUT 73 MILLION MILLENNIALS IN THE UNITED STATES.
3. ONE OF EVERY 7 MILLENNIALS LIVES WITH THEIR PARENTS.
4. GENERAL PHILOSOPHICAL VIEWS OF MILLENNIALS:
SOCIETY IS JUST AS WELL OFF WITH CAREER ORIENTED GOALS,
RATHER THAN THE PRIMARY PRIORITY BEING MARRIAGE AND CHILDREN
5. SIGNIFICANTLY FEWER MILLENNIALS ARE PRESENTLY MARRIED THAN OTHER GENERATIONS:
AGE RANGE: 18-36

MILLENNIALS	27%, WITH AN EVENTUAL EXPECTED PEAK OF 75%
GENERATION XERS	62%
BABY BOOMERS	65%, WITH AN EVENTUAL PEAK OF 90%+
6. MEDIAN AGE FOR MARRIAGE HAS INCREASED:
FOR WOMEN, FROM 20 TO 27.
FOR MEN, FROM 23 TO 29.
7. MILLENNIALS ARE MORE ACCEPTING OF COHABITATION AND MORE OPEN TO RAISING CHILDREN OUTSIDE OF MARRIAGE.
8. FOR OLDER MILLENNIALS, ABOUT 50% OF THOSE WITH CHILDREN HAVE NEVER MARRIED.

MILLENNIALS' PREFERENCES AND FINANCES → HIGHER-DENSITY / URBANIZED HOUSING

PARENTS: GENERATION X (AGES 37-54) IMPACTED BY IMPLOSION OF HOUSING PRICE BUBBLE

CULTURAL PREFERENCES

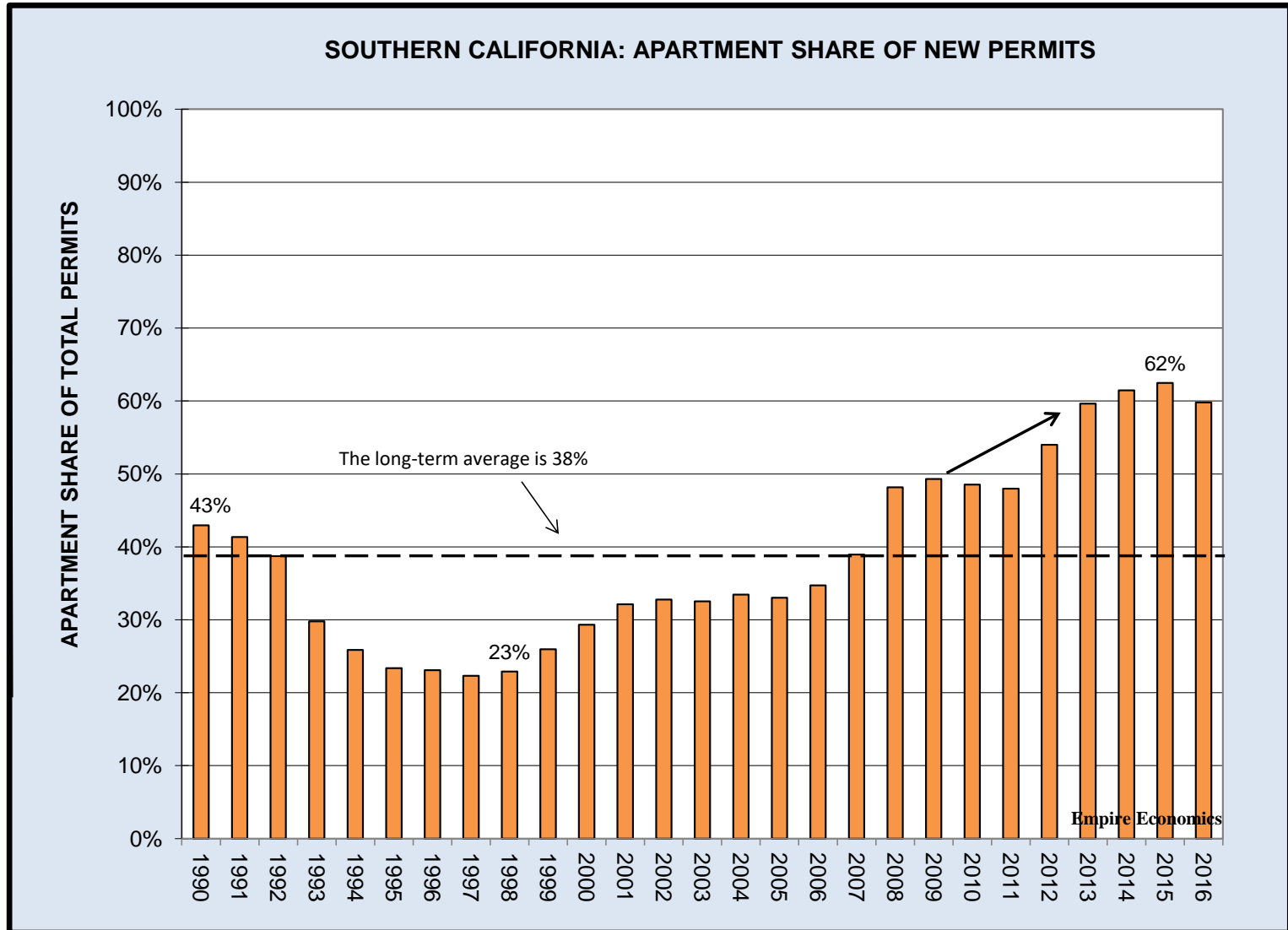
1. PROXIMITY TO COMMUNITY AND URBAN ACTIVITIES
2. PROXIMITY TO OFFICE - MINIMIZES COMMUTING TIME
3. RESORT-LIKE AMENITY PACKAGES: CONCIERGE SERVICE, GYM AND SWIMMING POOL
4. CONVENIENCE: NO YARD WORK OR MAINTENANCE OR REPAIRS
5. WAITING LONGER TO GET MARRIED AND STARTING A FAMILY

FINANCIAL FACTORS

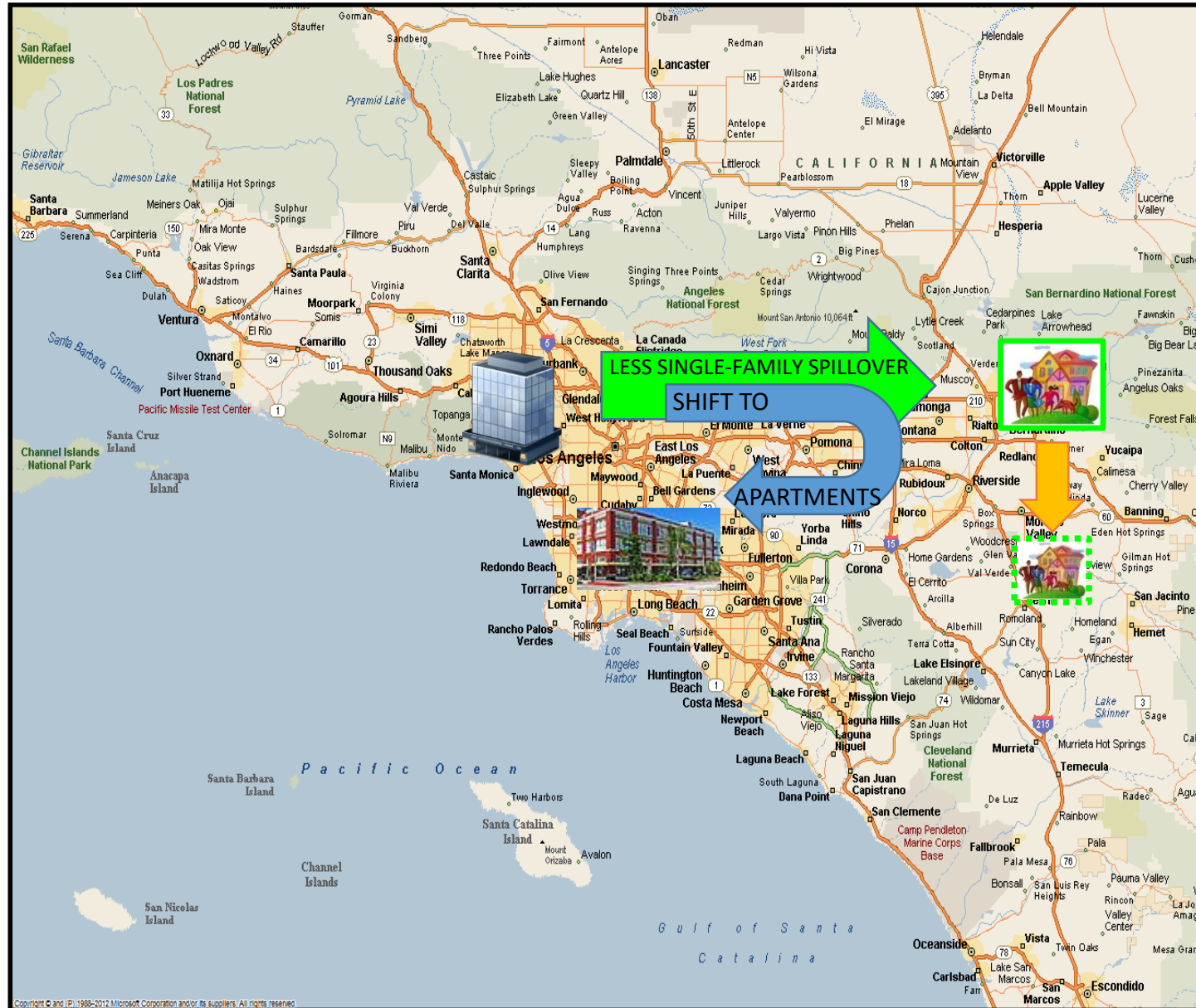
6. SIGNIFICANT STUDENT DEBT: ADVERSELY IMPACTS DOWN PAYMENT AND MORTGAGE QUALIFICATION
7. RENTING PROVIDES MORE JOB FLEXIBILITY (CHANGE JOBS/FIRMS MORE FREQUENTLY)
8. SOME EVEN PAY VERY HIGH RENTS, RATHER THAN PURCHASE A HOME

III. COMBINED IMPACT OF FAVORABLE AND CONSTRAINING FACTORS - NEW HOMES: HIGHER SHARE OF APARTMENTS

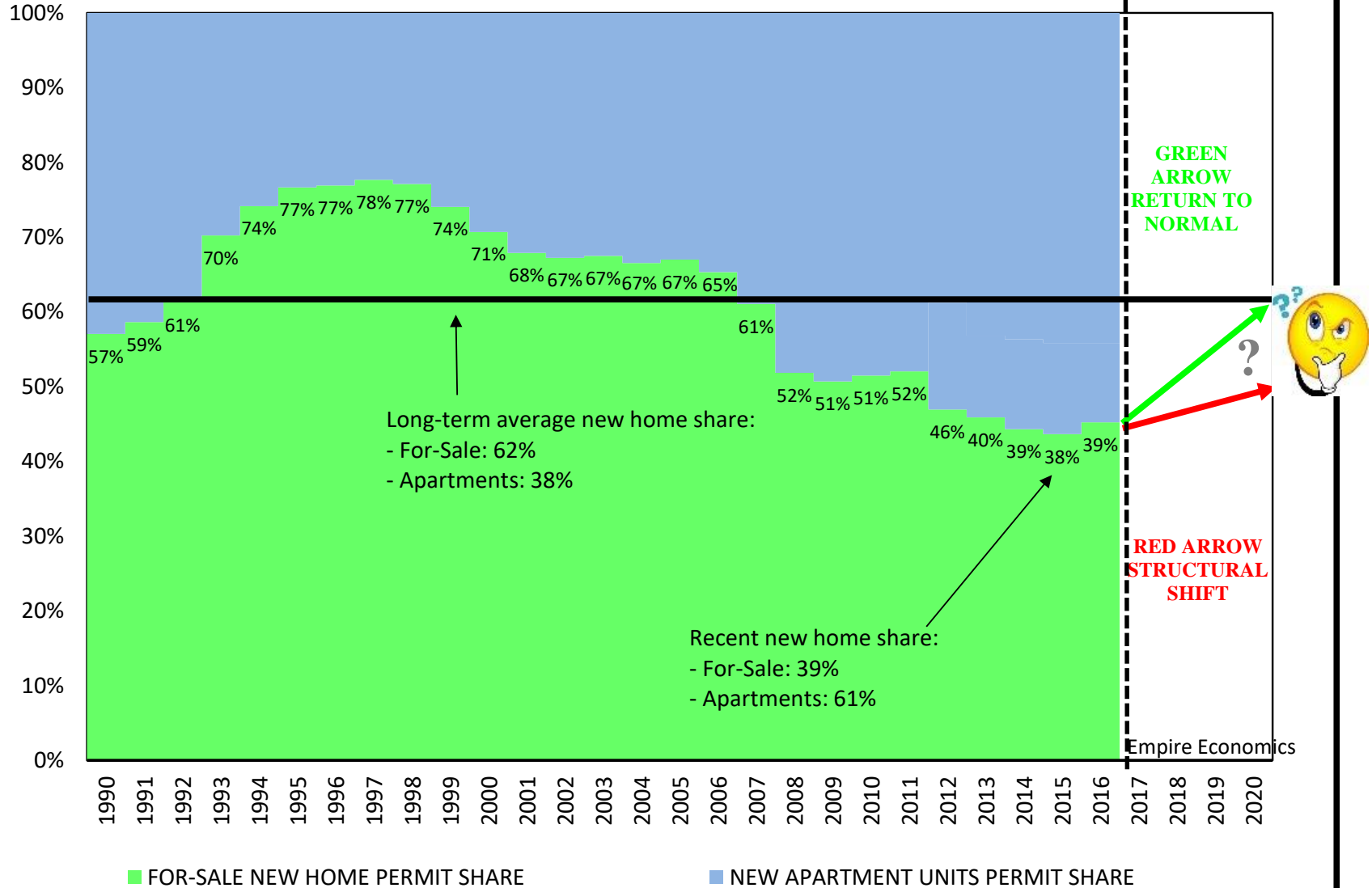
MILLENNIALS ARE RAISING THE SHARE OF NEW APARTMENTS TO VERY HIGH LEVELS:
APARTMENTS: CURRENTLY 60%-62% SHARE OF PERMITS VS. THE TYPICAL 38%-40%



ALTHOUGH EMPLOYMENT GROWTH IS STRONG, EXTRAORDINARY SPECIAL FACTORS ARE CAUSING MAJOR MARKET SHIFTS



SOUTHERN CALIFORNIA: COMPOSITION OF NEW HOMES FOR-SALE VS. APARTMENT SHARES

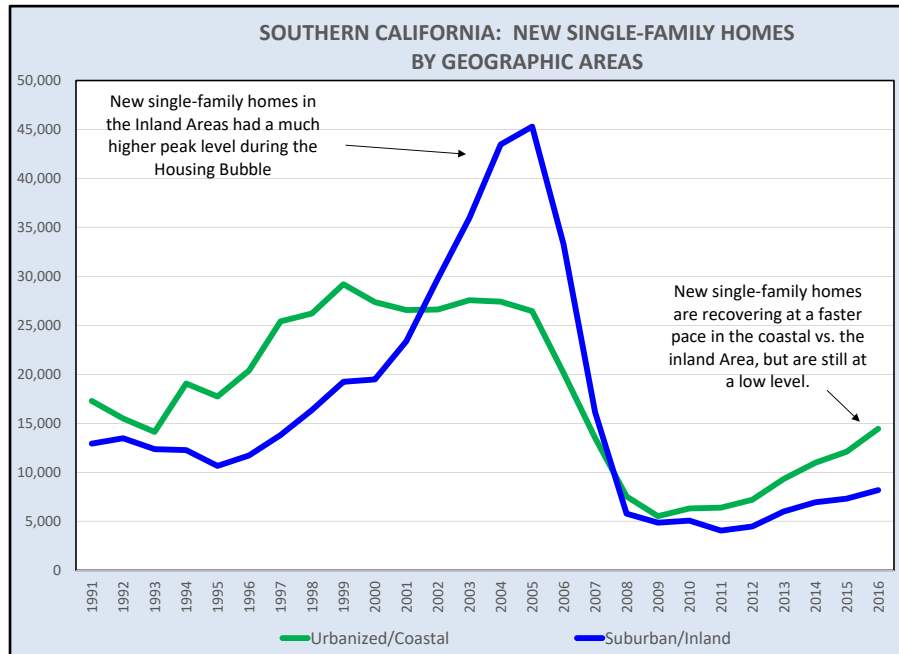


SOUTHERN CALIFORNIA – TYPES OF NEW HOUSING PRODUCTS BY GEOGRAPHIC AREAS

NEW FOR-SALE HOMES

NEW FOR-SALE HOME ACTIVITY RECOVERY:

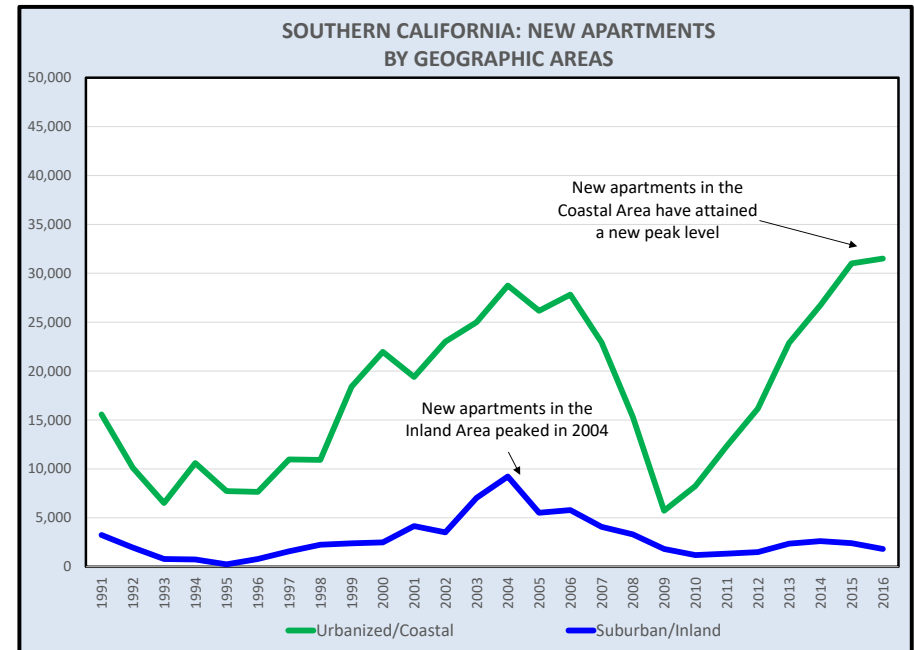
- * MODERATE PACE IN THE URBANIZED AREAS
- * BUT AT A SLOW PACE IN THE INLAND AREAS



NEW APARTMENT RENTALS

NEW APARTMENT ACTIVITY RECOVERY:

- * STRONG PACE IN THE URBANIZED AREAS,
- * BUT MINIMAL LEVELS IN THE INLAND AREAS



CONCLUSIONS

CURRENT HOUSING MARKET RECOVERY “MUCH DIFFERENT” THAN USUAL RECOVERY:

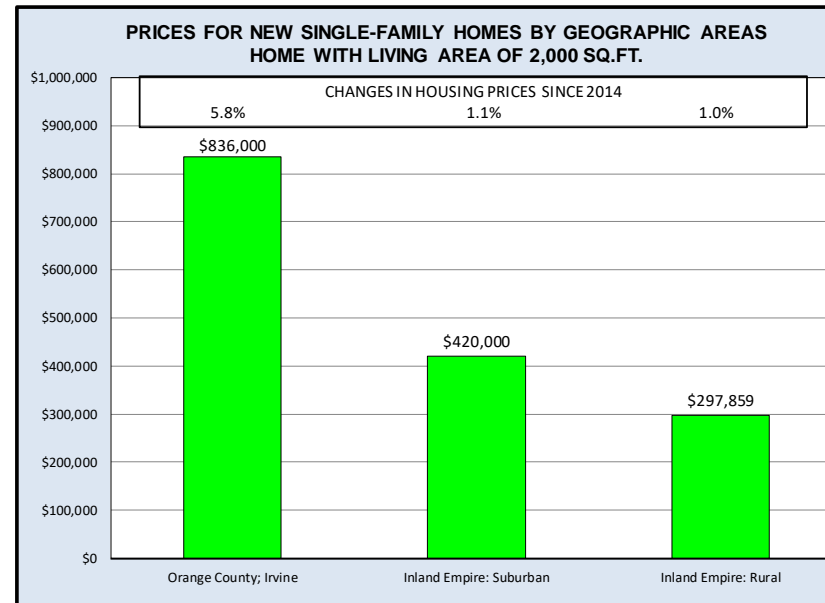
- PRODUCT TYPES: SHIFT TOWARDS APARTMENTS; FEWER FOR-SALE/SINGLE-FAMILY
- GEOGRAPHICAL PATTERNS: MORE URBANIZED OC-LA; LESS INLAND EMPIRE

IS THIS A SHORT-RUN OR A STRUCTURAL SHIFT ?

- MANY COMPLEX ECONOMIC AND CULTURAL FACTORS - MILLENNIALS

EMPIRE ECONOMICS MONITORING KEY INDICATOR – RATE OF PRICE APPRECIATION:

WHEN PRICES START TO RISE IN THE SUBURBAN/RURAL AREAS, THIS WILL SIGNAL THAT THEIR HOUSING MARKETS ARE RECOVERING



POTENTIAL FACTORS INFLUENCING LONG-TERM PATTERNS

WILL MILLENNIALS EVENTUALLY FOLLOW THE TRADITIONAL PATTERN: SINGLE-FAMILY SUBURBS ?

- 1. RECENTLY CONSTRUCTED APARTMENTS - SUPPLY WILL CONTINUE TO BE AVAILABLE BUT MAY SOME OF THESE BE TRANSFORMED INTO CONDOMINIUM SALES ?**
- 2. WILL THERE BE NEW HIGH DENSITY PRODUCTS IN URBANIZED AREAS THAT APPEAL TO MILLENNIALS THAT FEATURE MIXED USE AND WALKABILITY ?**
- 3. TO WHAT DEGREE AND WHEN MIGHT MILLENNIALS CHANGE THEIR ATTITUDES TOWARDS MARRIAGE AND CHILDREN ?**
- 4. WHAT EXPECTATIONS DO MILLENNIALS HAVE REGARDING SCHOOLS IN URBANIZED AREAS ?**

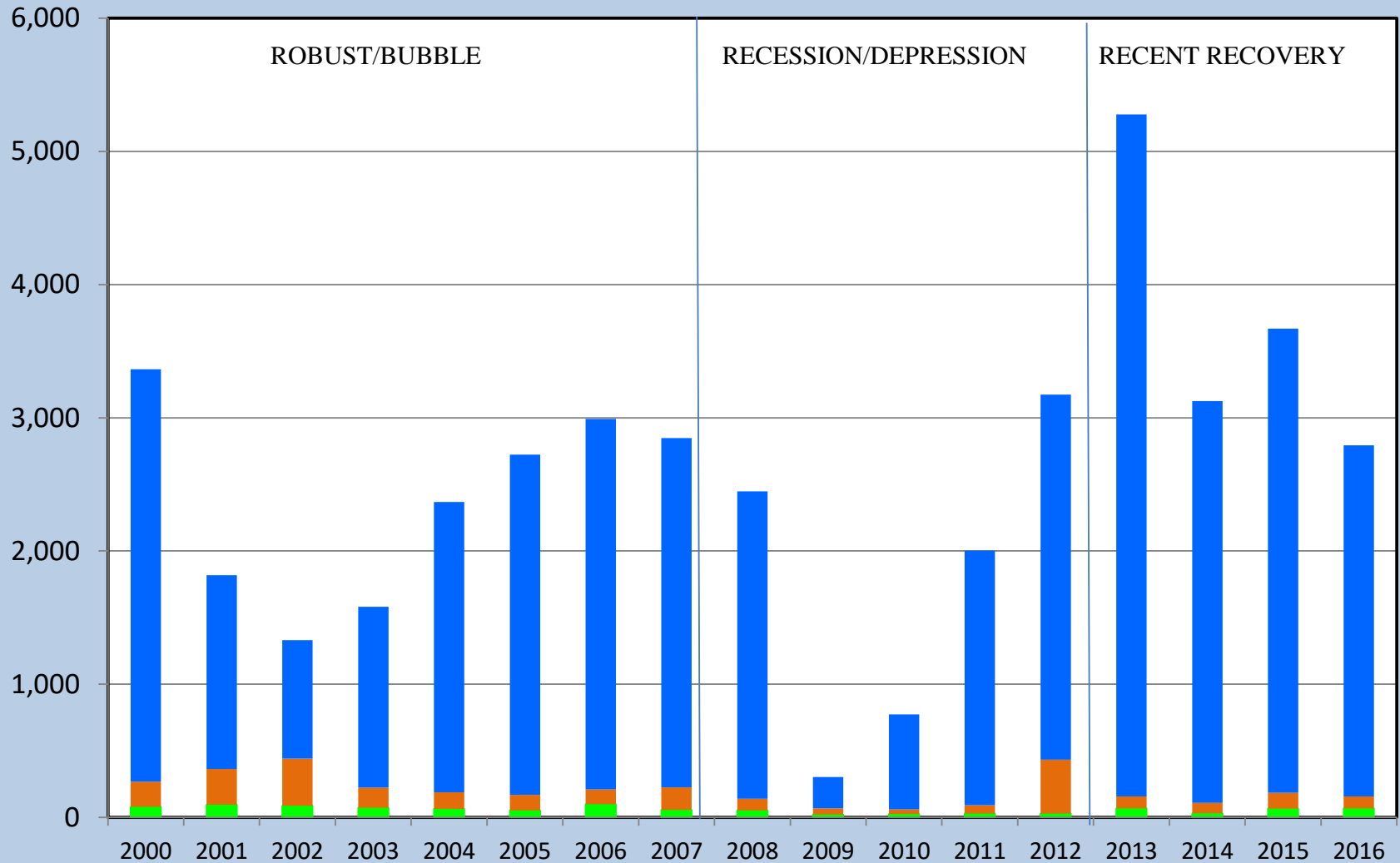
BRIEF OVERVIEW OF SAN FRANCISCO

EMPLOYMENT GROWTH > HOUSING DEMAND

VERSUS

ACTUAL HOUSING SUPPLY

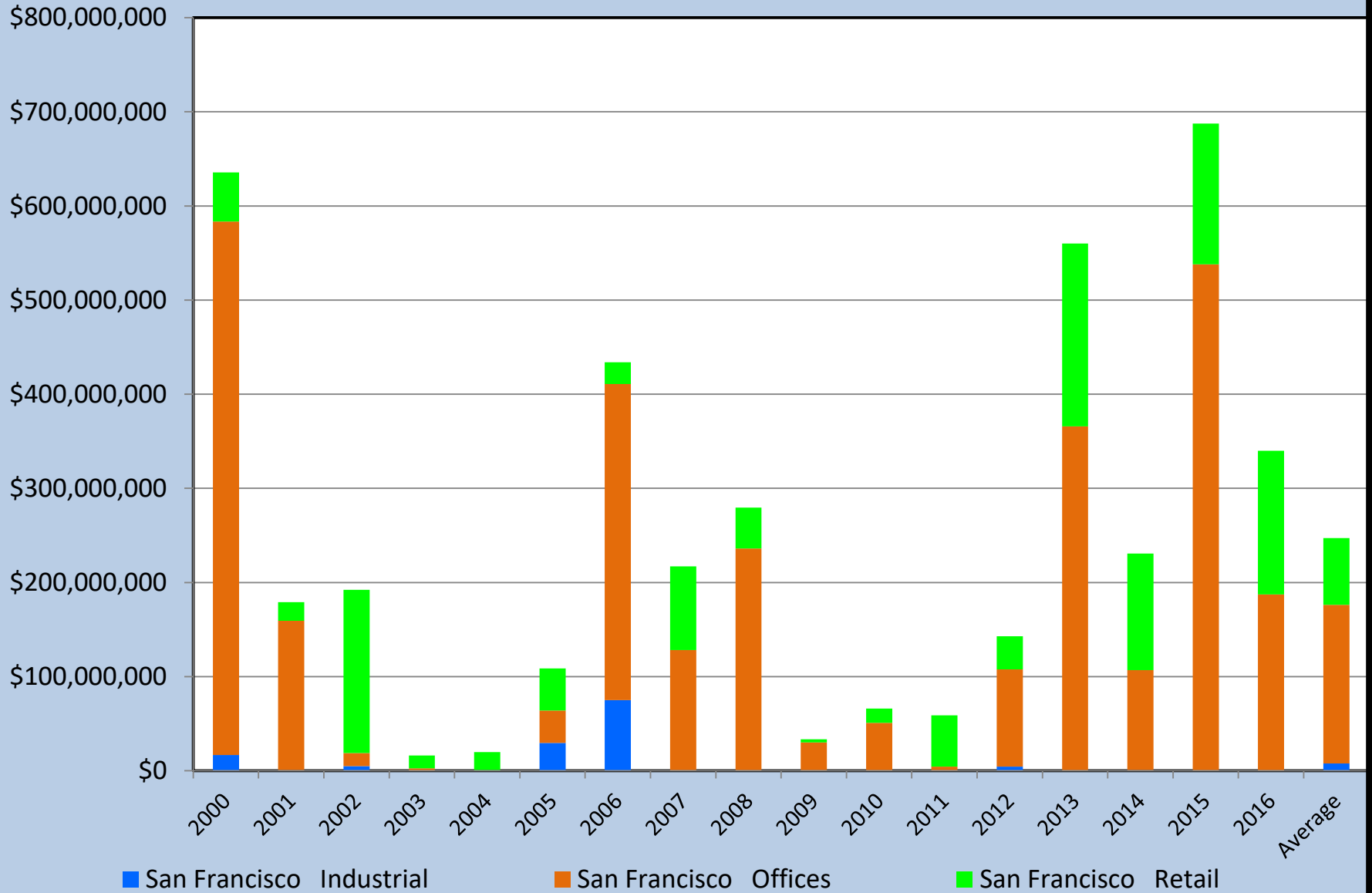
SAN FRANCISCO: NEW RESIDENTIAL HOMES



San Francisco Single Family Permits
San Francisco Multi-Family Rentals & Condos

San Francisco Attached For-Sale Permits

NEW INDUSTRIAL - OFFICE - RETAIL



SAN FRANCISCO: 2013-2016

TYPICAL DEMAND FOR HOUSING BASED UPON EMPLOYMENT GROWTH VERSUS ACTUAL HOUSING SUPPLY

***NOTE: LARGE CITIES DO NOT TYPICALLY ACCOMMODATE THE DEMAND FOR HOUSING THAT THEY GENERATE, SINCE THEY ARE EMPLOYMENT CENTERS VS. RESIDENTIAL**

