

The Economic Outlook

Focus on Housing and California

February 2018

Christopher Thornberg

Founding Partner, Beacon Economics

Director, UC Riverside Center for Forecasting and Development

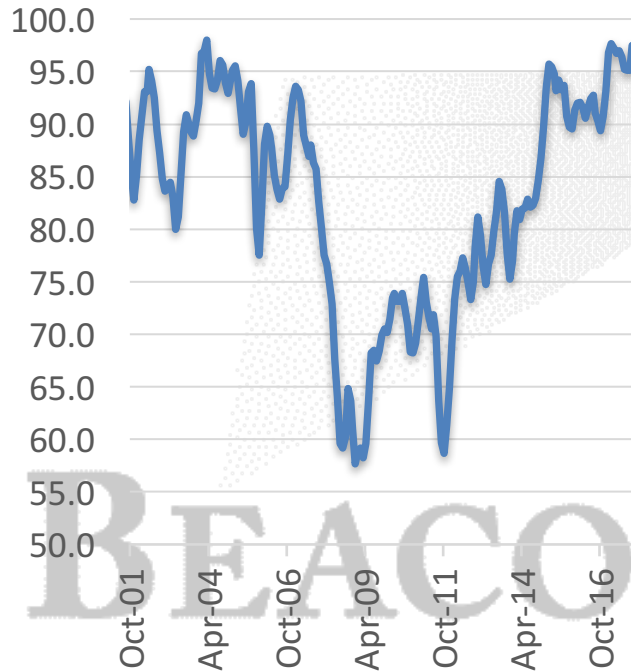


Good, Bad, Ugly

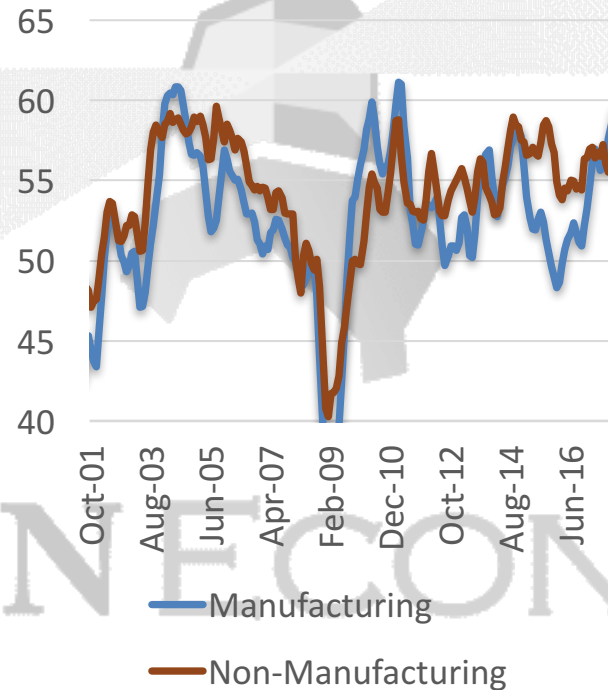
- **The Good: Meet the new economy, same as the old economy**
 - For all the sound and fury, very little happened outside of taxes
 - 2017 solid year for growth: looked a lot like 2013-2014
 - 2018 likely to be better: the tax cut stimulus will boost the economy
 - Still a low chance of recession in next 24 months
- **The Bad: Economic Brakes and Growing Imbalances**
 - Labor shortage Issues (particularly in California)
 - Aggressive Fed: rising rates, flattening yield curves
 - Consumer savings rate declining
 - Another bubble starting to form
- **The Ugly: 2018 will be seen as a historic turning point**
 - Little effort to deal with underinvestment in infrastructure, rising wealth and income inequality, healthcare cost inflation, housing
 - Sharp growth in entitlement spending and government deficits
 - Breakdown in basic norms of political leadership, complete distraction from the issues we need to deal with

Optimism Abounds

UM Consumer Sentiment
3 Month MA



ISM Diffusion Indexes
3 Month MA

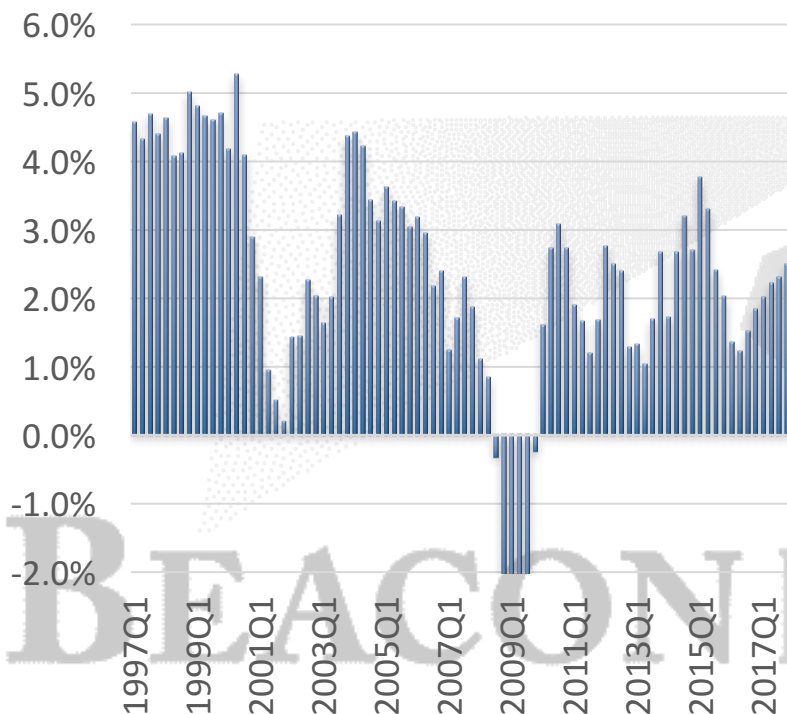


S&P 500 Index



GDP Growth: 2017 back to 3%

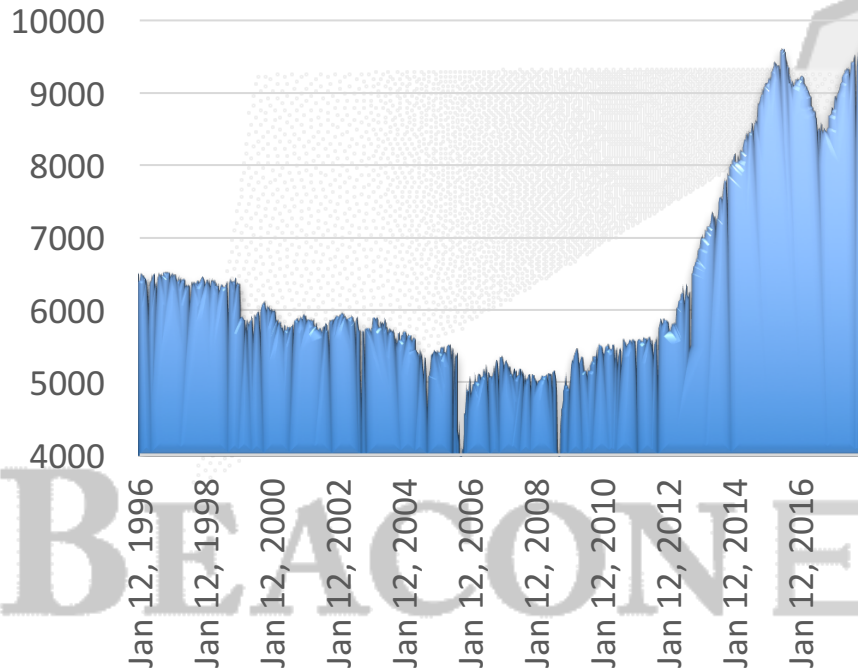
Real GDP Growth (Y-o-Y)



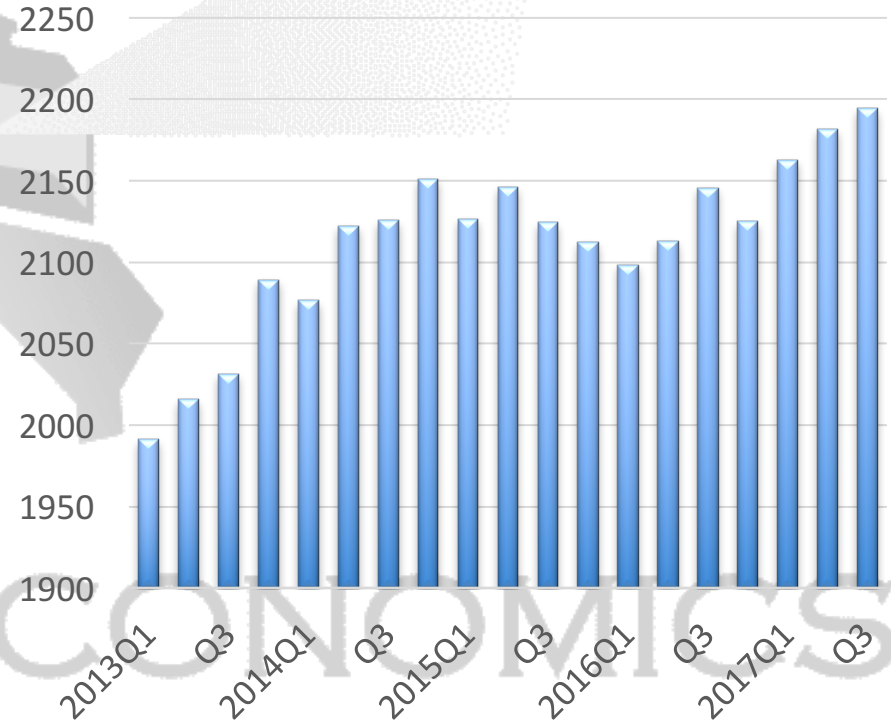
	2013	2014	2015	2016	2017
GDP	2.68	2.73	2.00	1.85	2.73
FD	1.68	3.45	2.70	2.19	2.79
PCE	1.37	2.40	2.04	1.93	1.95
Fixed Inv	0.83	0.95	0.40	0.18	0.86
Struct	0.16	0.26	-0.28	0.10	0.07
Equip	0.39	0.24	0.21	-0.22	0.52
IPP	0.09	0.26	0.13	0.21	0.20
Res	0.20	0.20	0.35	0.09	0.08
Invent	0.62	-0.15	-0.02	-0.02	-0.11
Net exports	0.38	-0.57	-0.68	-0.31	0.05
Government	-0.53	0.09	0.28	0.07	0.12

Oil and Exports

Weekly US Oil Production to
December



US Exports (Real)

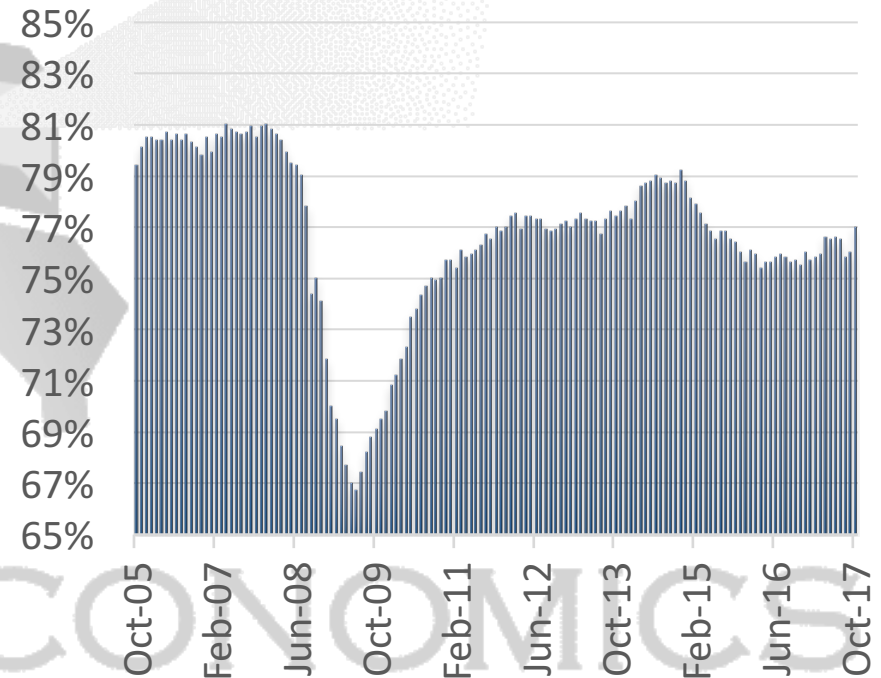


Industrial Stats

Industrial Production (Y-o-Y Growth) to Oct

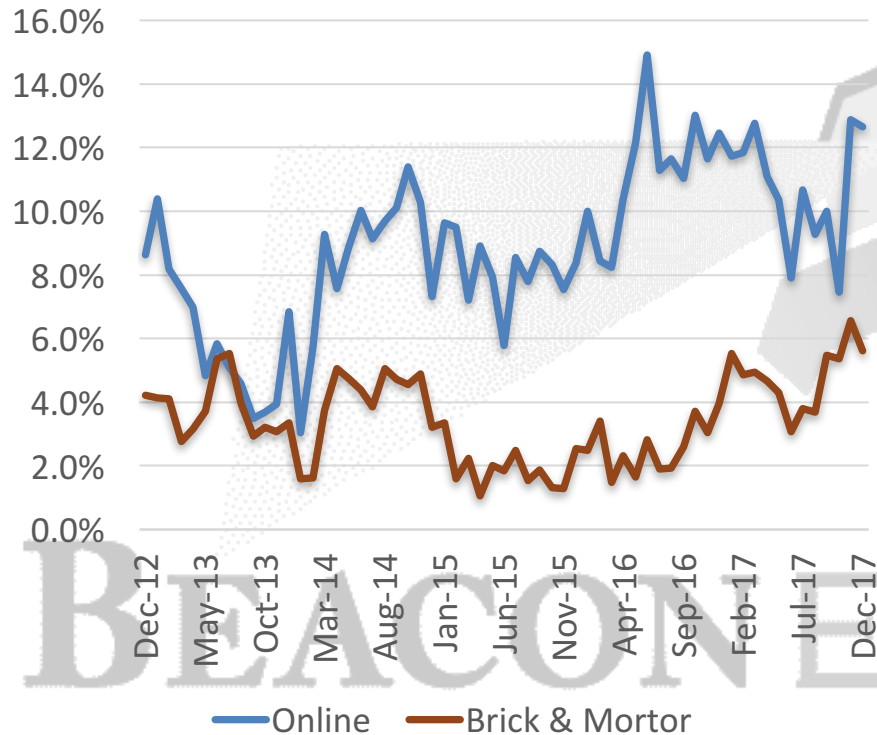


Capacity Utilization

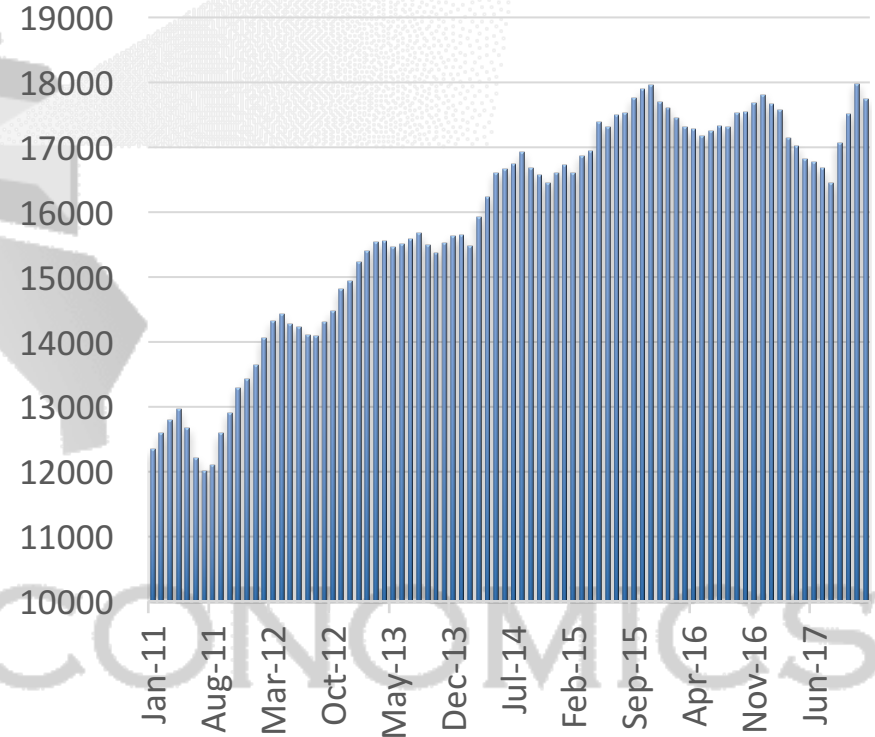


Retail Sales

Retail Sales (Y-o-Y to Dec)

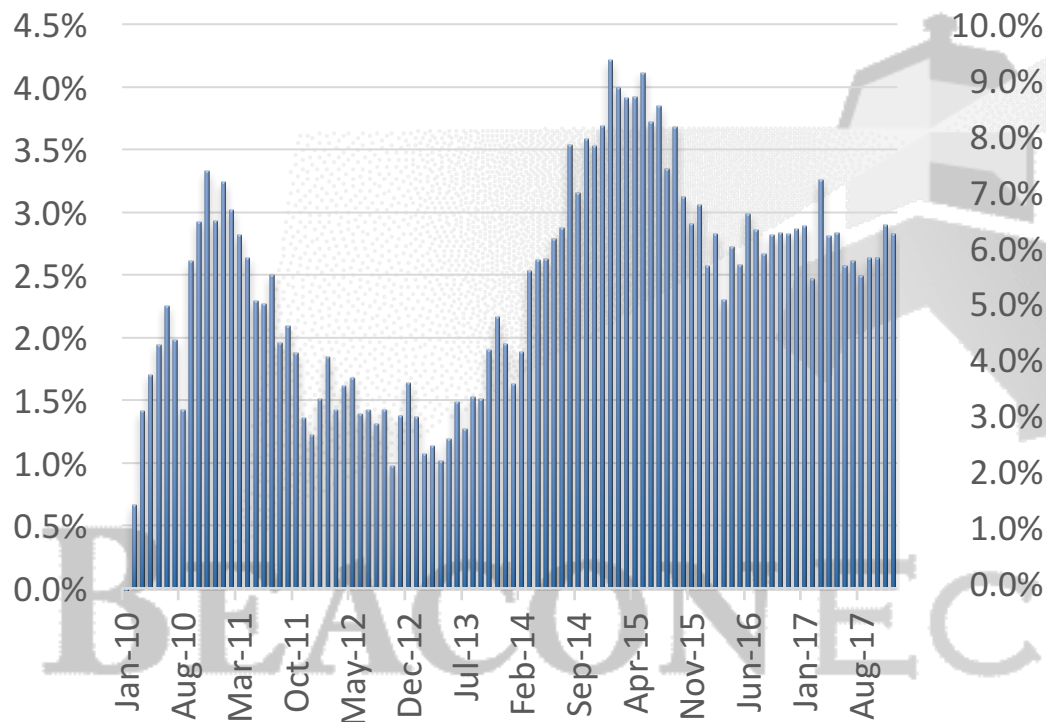


Auto Sales SAAR



Consumer Spending

Y-o-Y Growth Real Consumer Spending

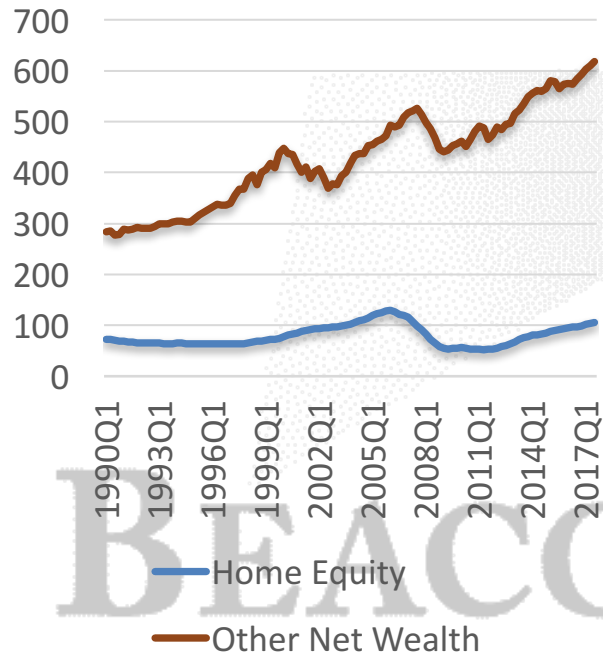


Consumer Savings Rate (% of DPI)

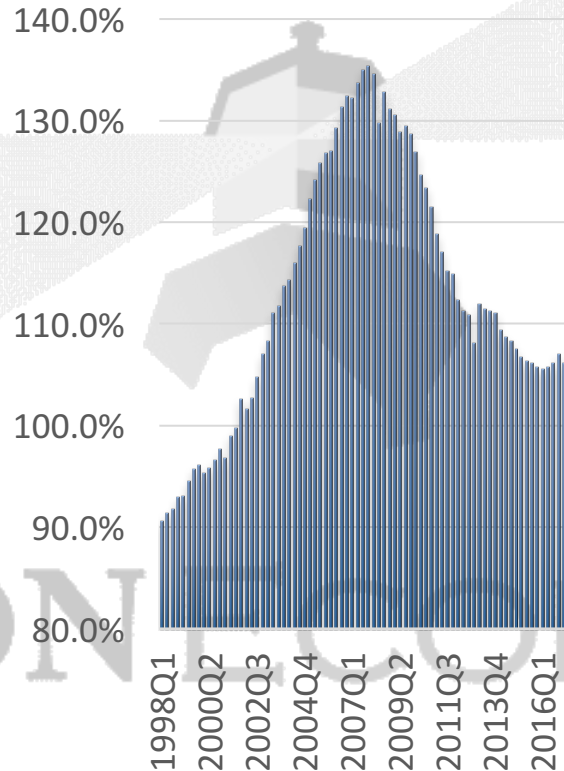


Wealth and Debt

Real Average Wealth per Household (FOF, Thous.)



Debt to DPI Income

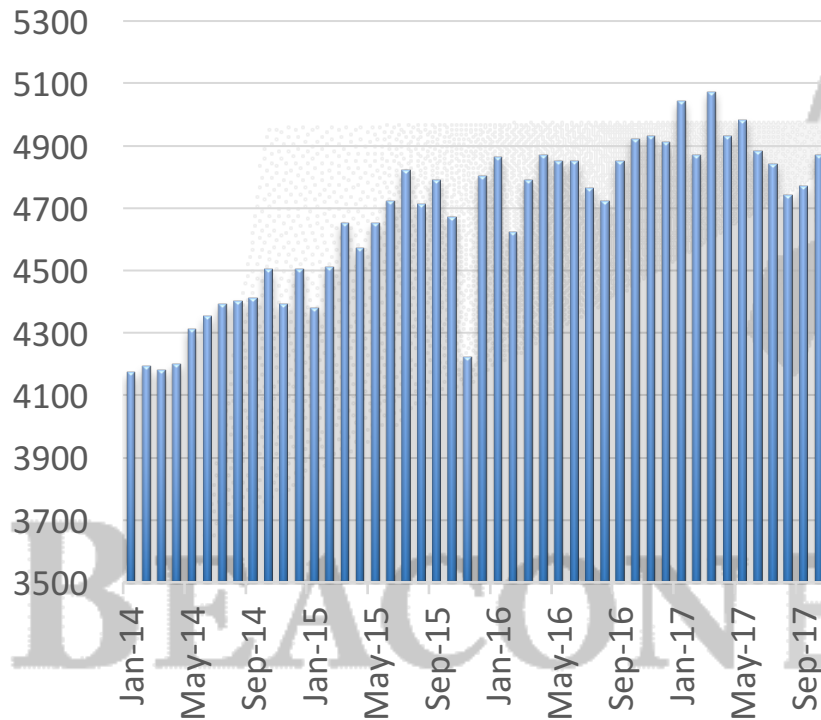


Household Financial Obligation Ratio

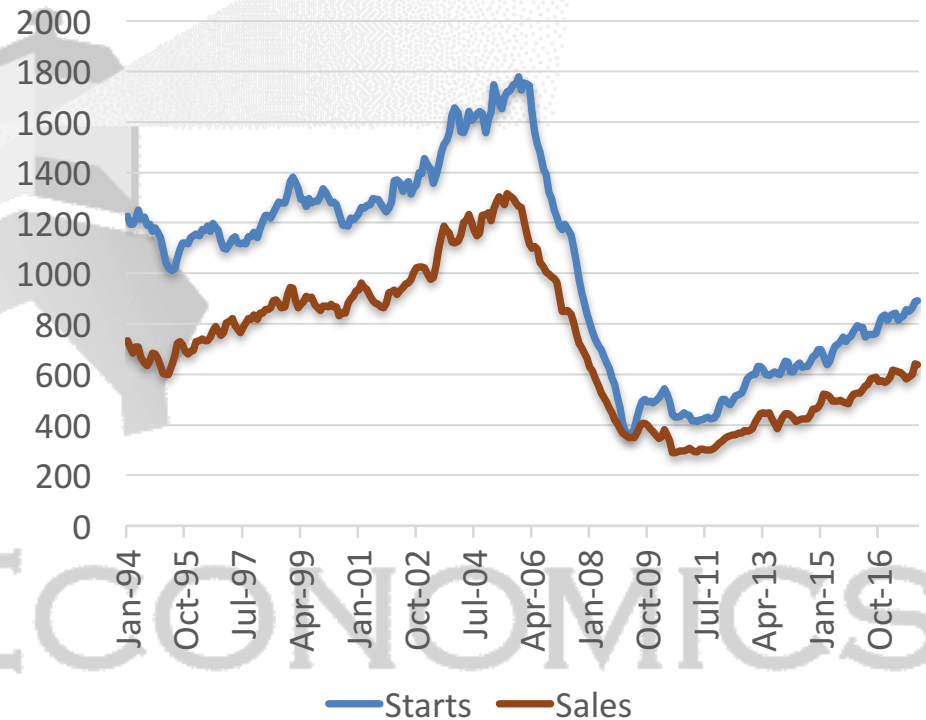


Housing

Existing SF Homes Sales



SF Housing

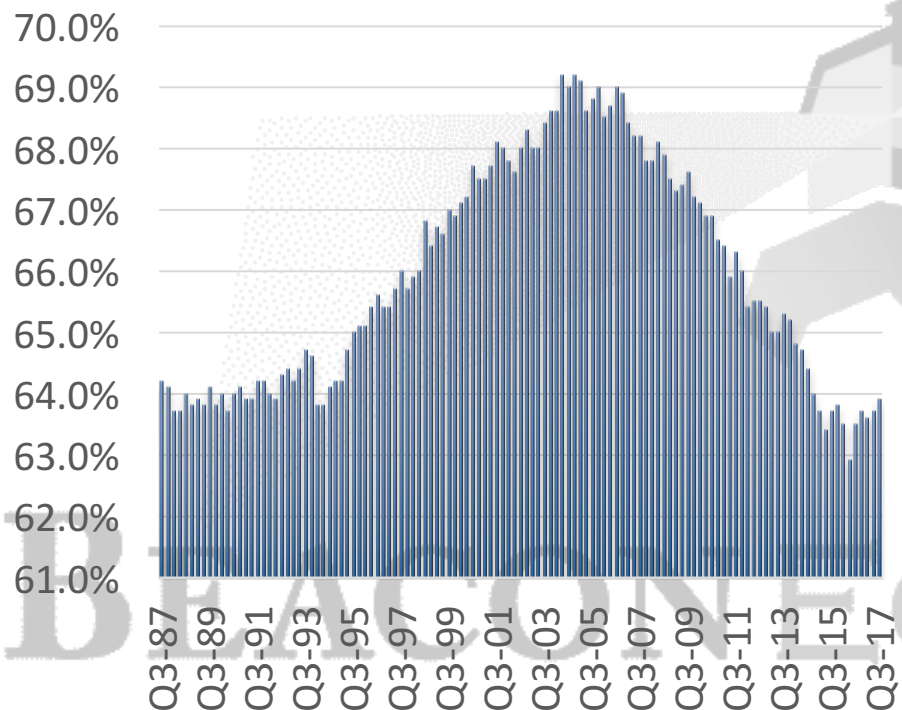


Home Prices

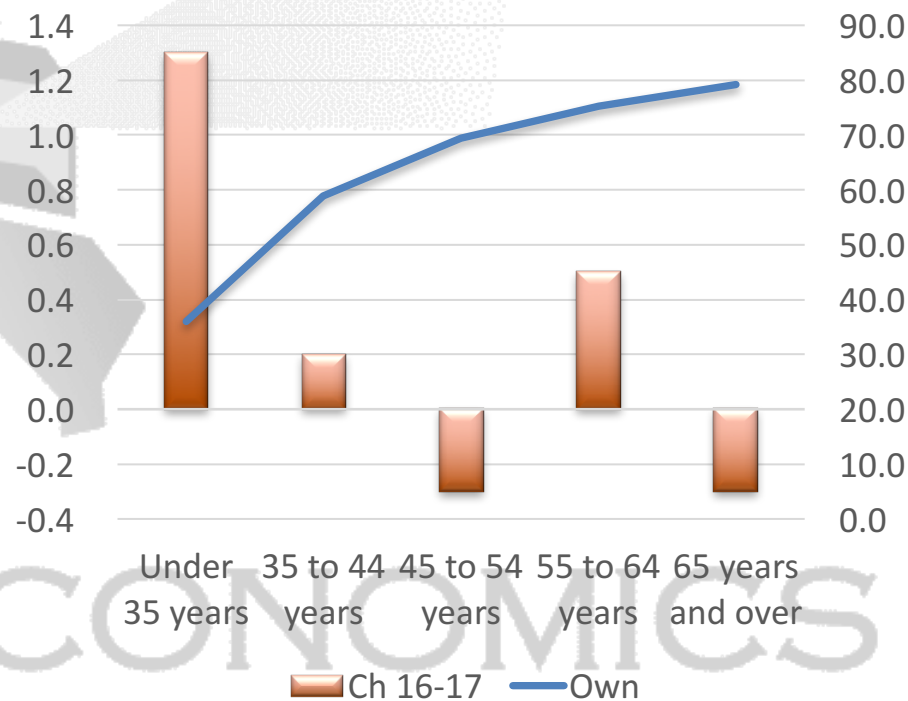
	2016	2017		2016	2017
WA-Seattle	10.6%	12.7%	NC-Charlotte	5.9%	6.4%
NV-Las Vegas	5.6%	10.2%	Composite-20	5.0%	6.4%
CA-San Diego	5.8%	8.1%	National-US	5.2%	6.2%
CA-San Francisco	5.6%	7.7%	AZ-Phoenix	5.1%	6.0%
CO-Denver	8.3%	7.2%	NY-New York	2.1%	5.9%
MI-Detroit	6.6%	7.1%	MN-Minneapolis	5.4%	5.4%
TX-Dallas	8.1%	7.1%	GA-Atlanta	5.8%	5.0%
OR-Portland	10.2%	7.1%	OH-Cleveland	4.0%	4.7%
MA-Boston	4.4%	6.9%	FL-Miami	6.4%	4.4%
FL-Tampa	7.8%	6.9%	IL-Chicago	2.9%	4.1%
CA-Los Angeles	5.5%	6.5%	DC-Washington	2.1%	3.1%

Ownership- Slight Up

Home Ownership

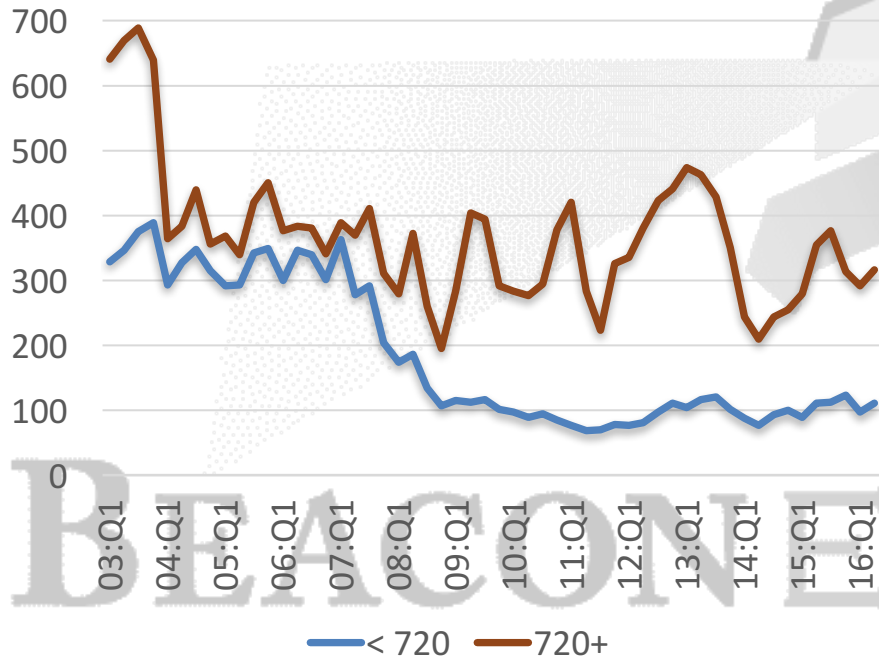


Change in Ownership by Age

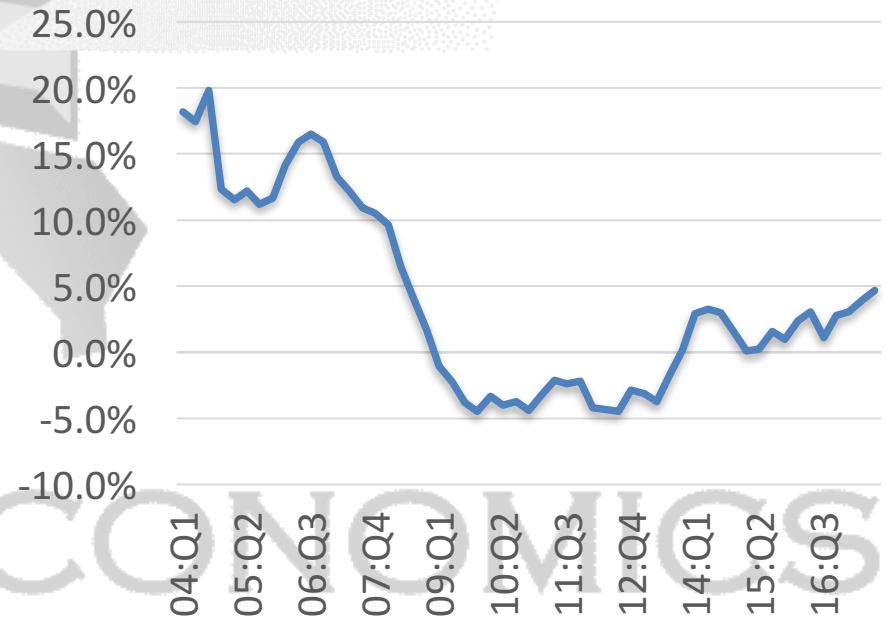


Credit Shortages

Mortgage Credit Origination by Credit Score

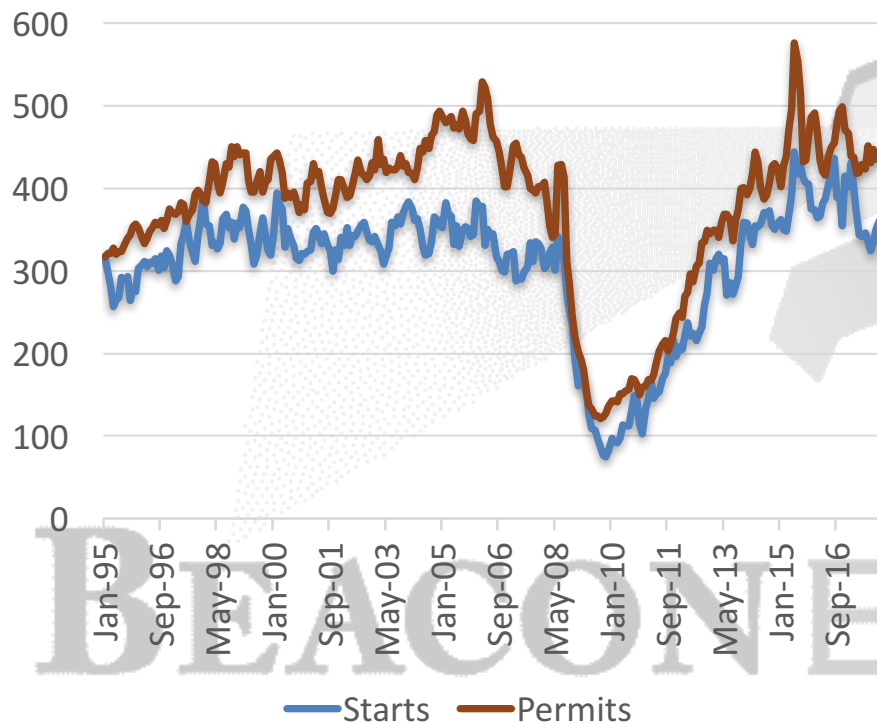


Growth Outstanding Mortgage Debt

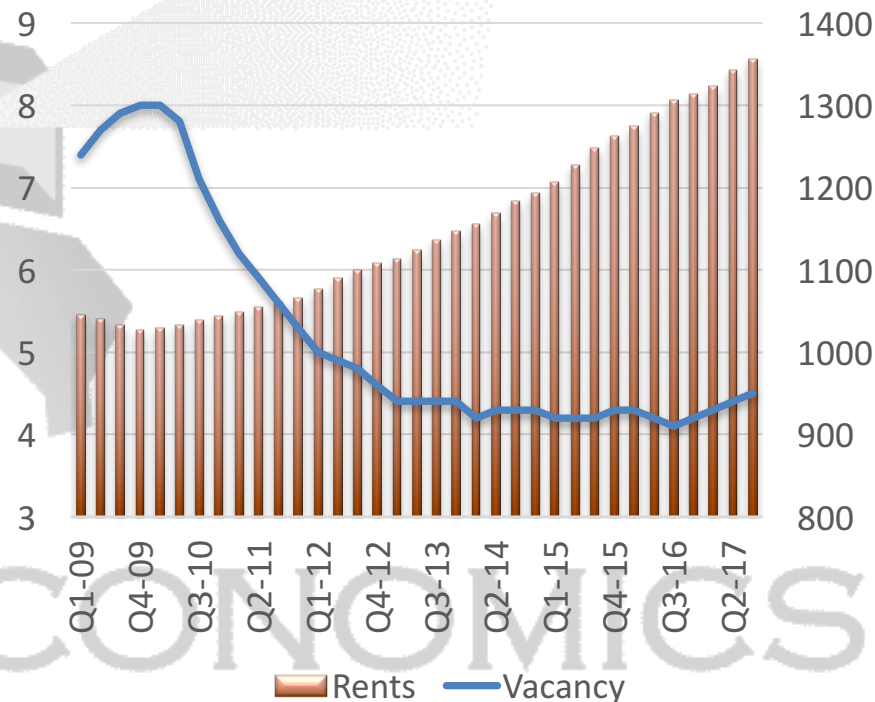


Multi-Family Markets?

MF Starts and Permits



US Apt Stats

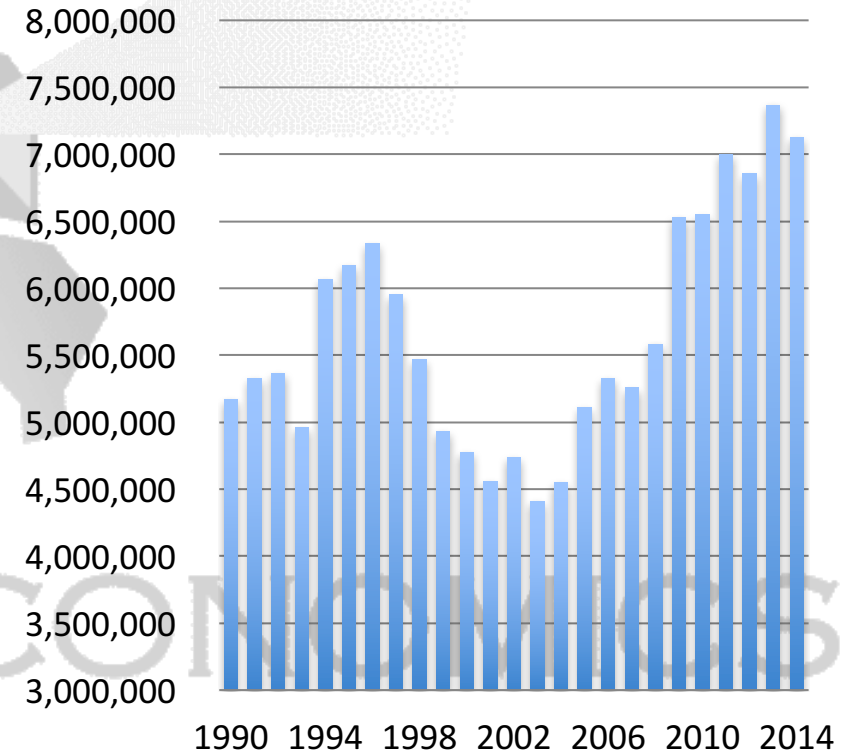


The Single Factor Swing Factor

Units by Tenure / Structure

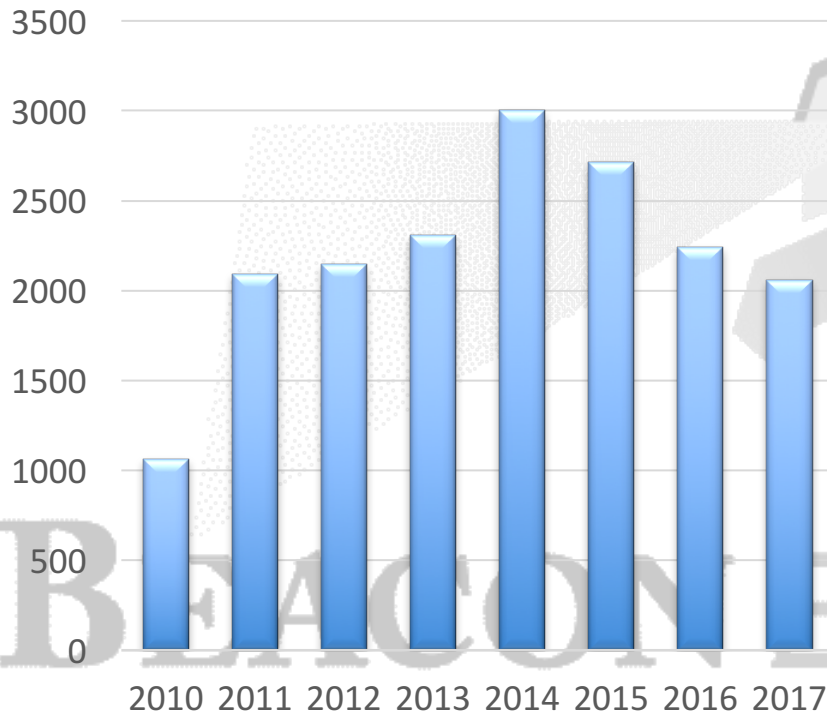
	2005	2016
Total Households	111.1	118.9
Owner-occ	74.3	75.0
1, detached	60.4	61.9
MF	4.1	4.0
Renter-occ	36.8	43.8
1, detached	9.2	12.5
MF	23.7	26.6
Ownership	66.9%	63.1%

CPS Rental SF Market

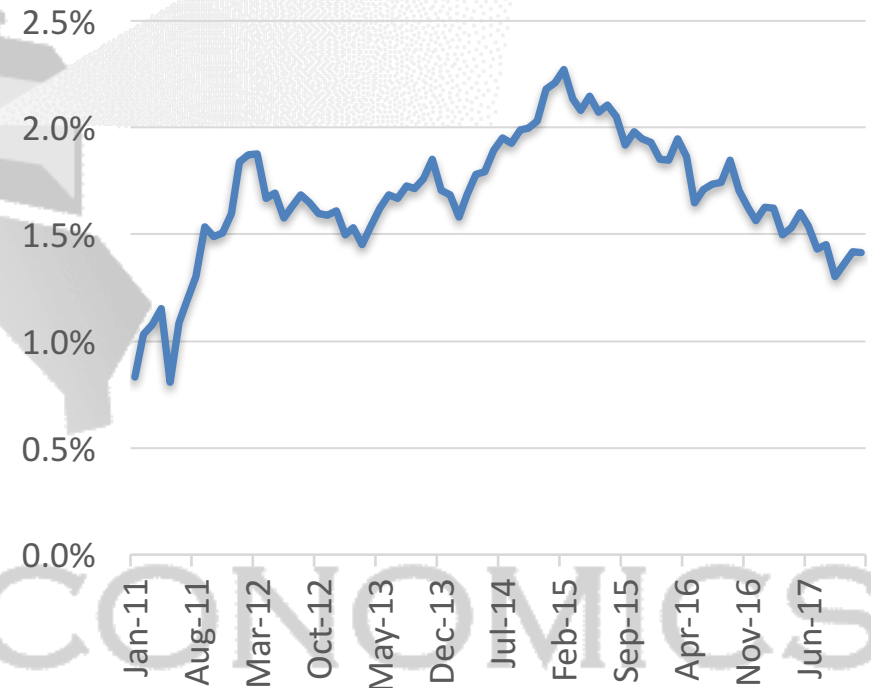


Labor Markets

Net Change Payroll Jobs

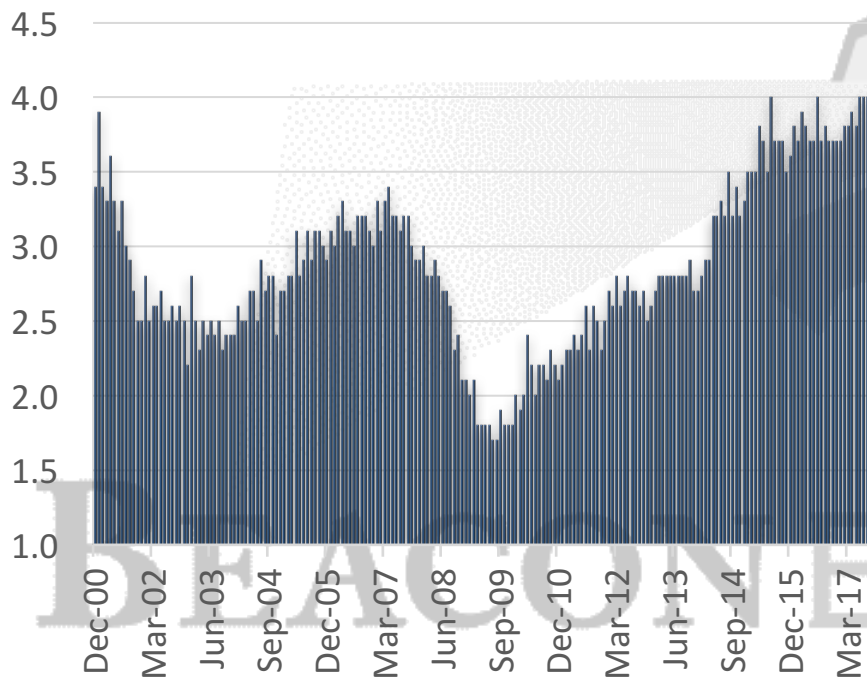


Growth Payroll Employment (Y-o-Y)

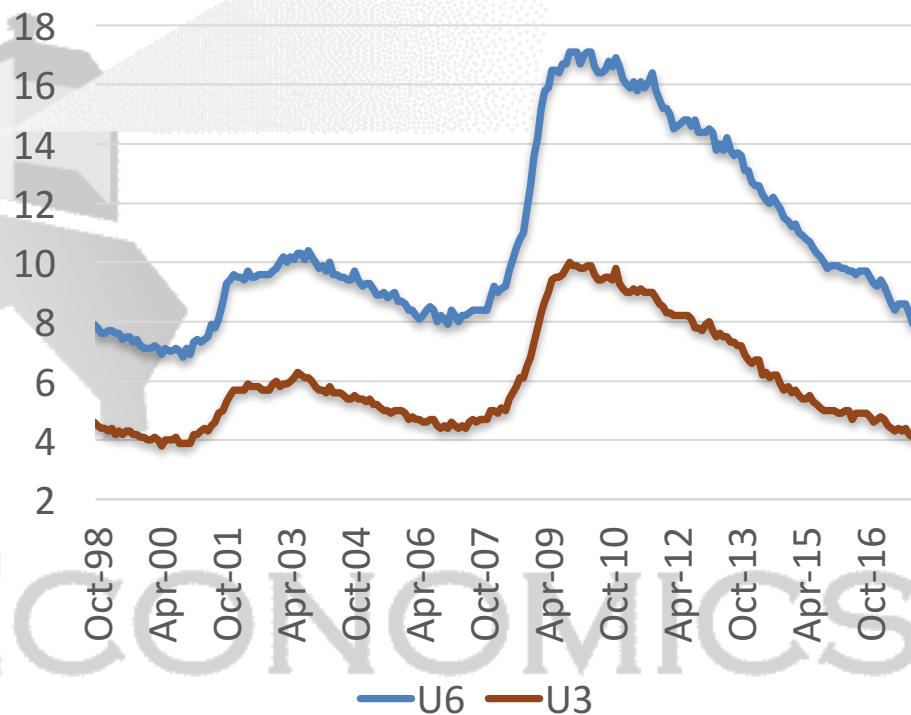


Why Slowing Job Growth?

JOLT Job Openings Rate
(% of Jobs)

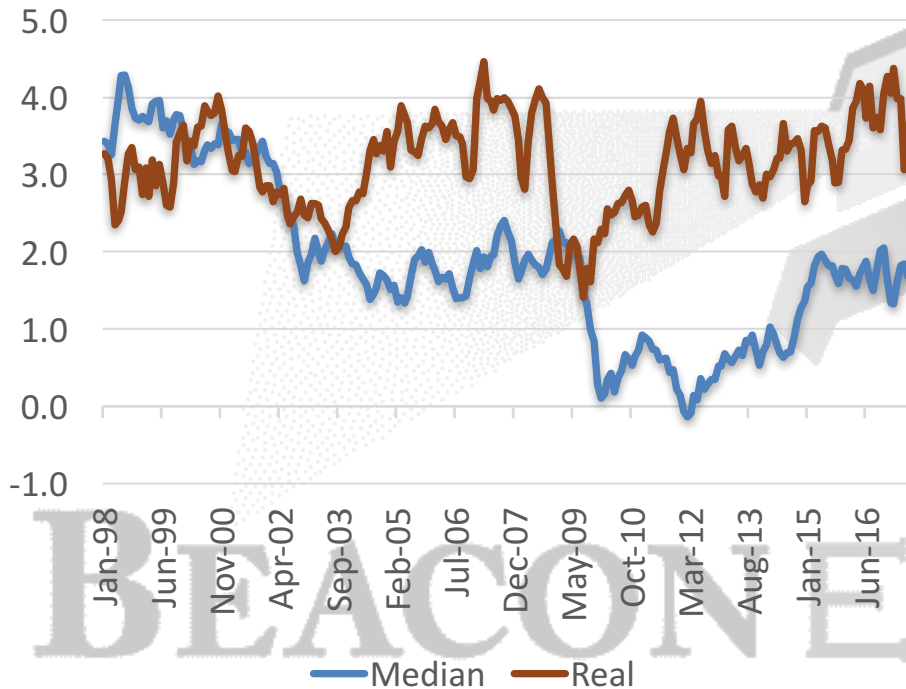


Unemployment

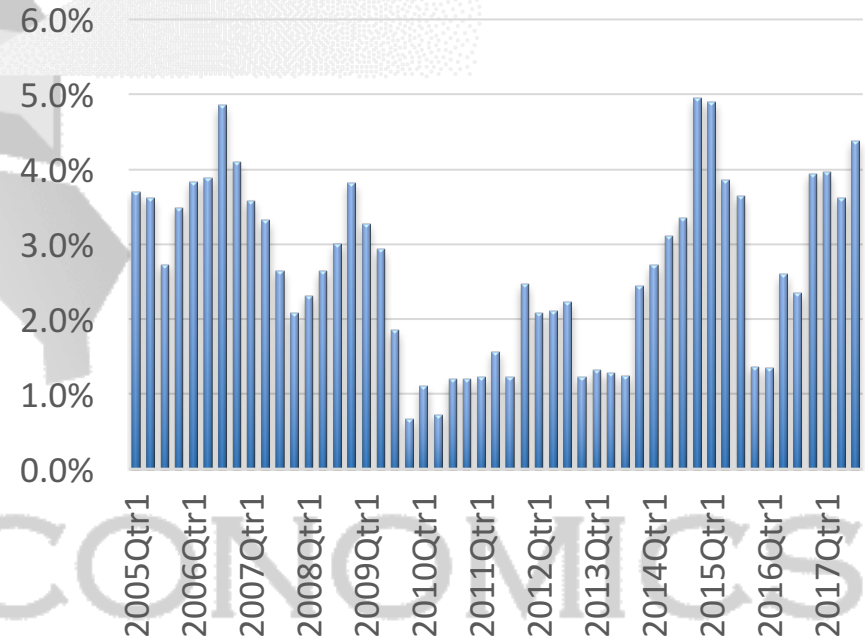


Consequences

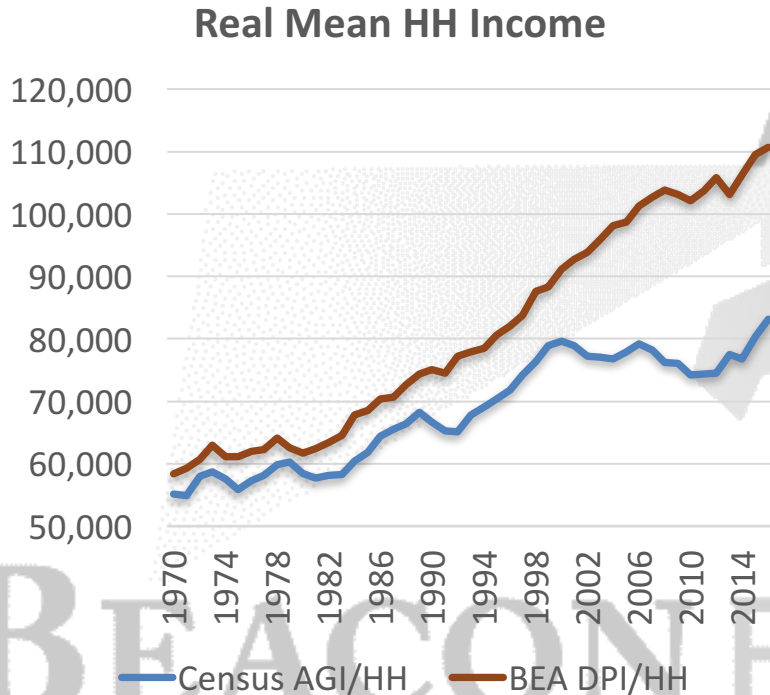
Real Wage Gains



Growth in Average Cost per Employee Hour



Income Stagnation?



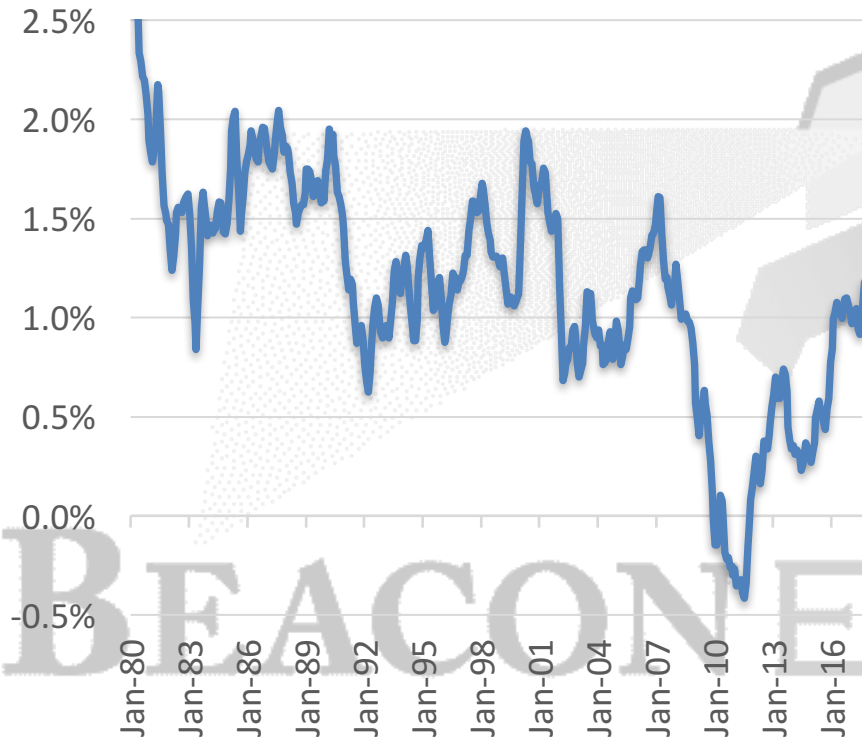
What is better today?

- Communications
- Medical care, Pharmaceuticals
- Entertainment options
- Transportation
- Shopping, Product quality
- Food quality / variety
- Access to information
- Environmental conditions
- Legal Marijuana

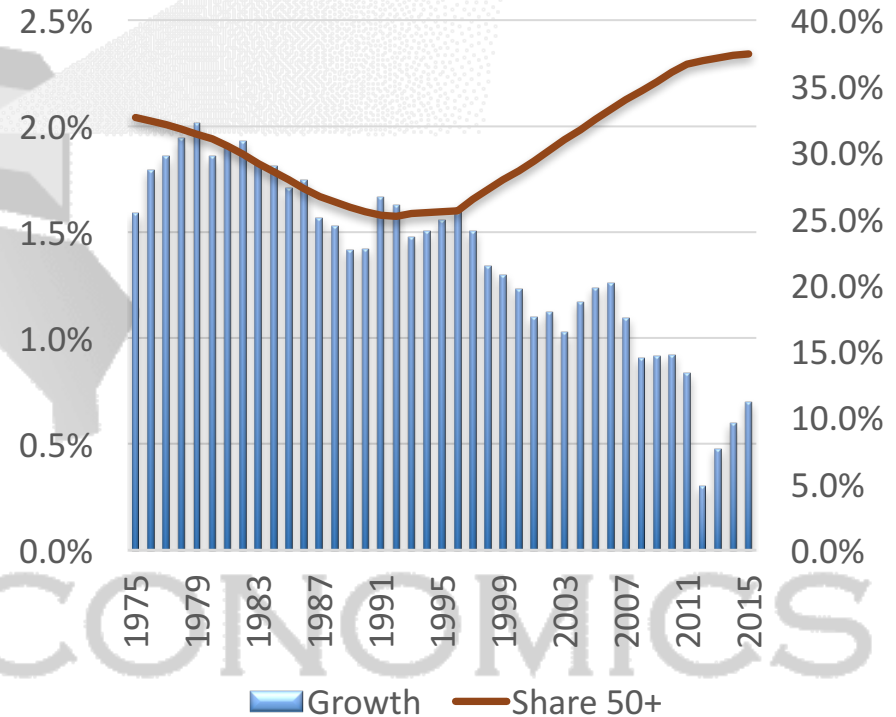
What isn't?

Demographic Limits

Labor Force Growth

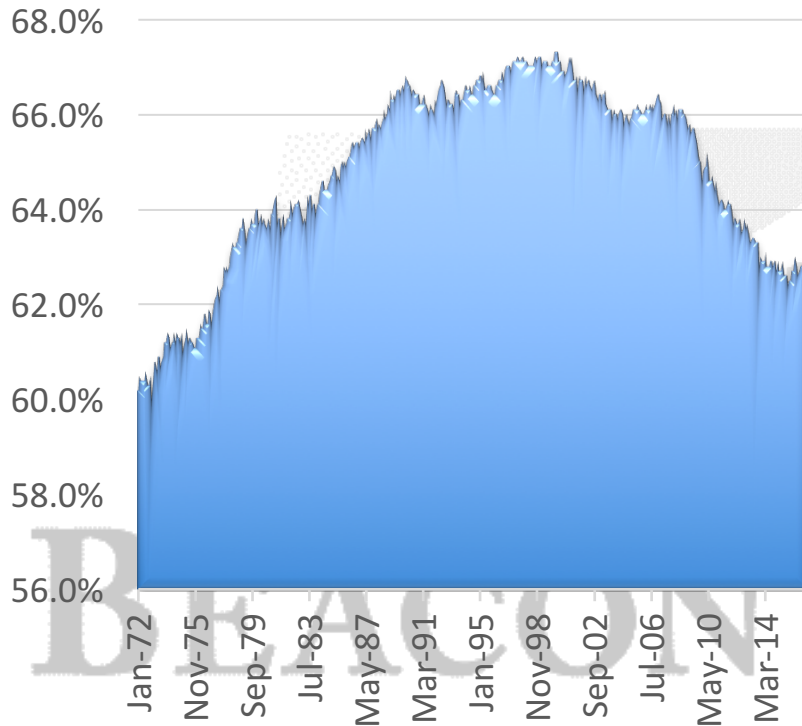


US Population of 25-64 Year Olds

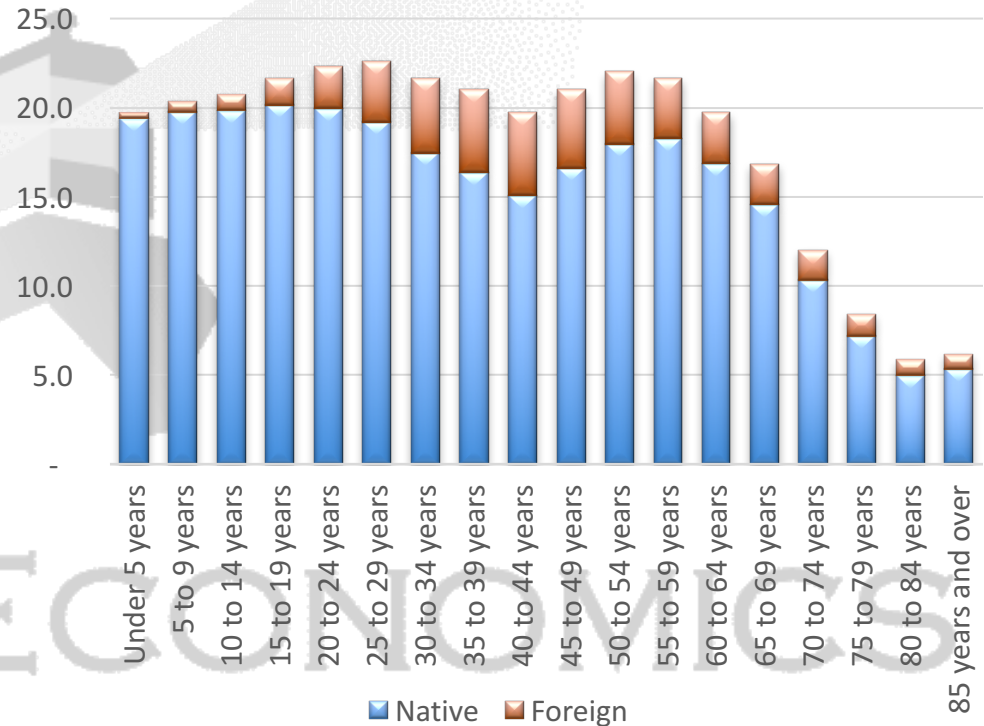


Demographic Limits

US Labor Participation Rate



2016 Population by Age by Nativity (Millions)



Regional Trends

Unemployment Rates by Census Division

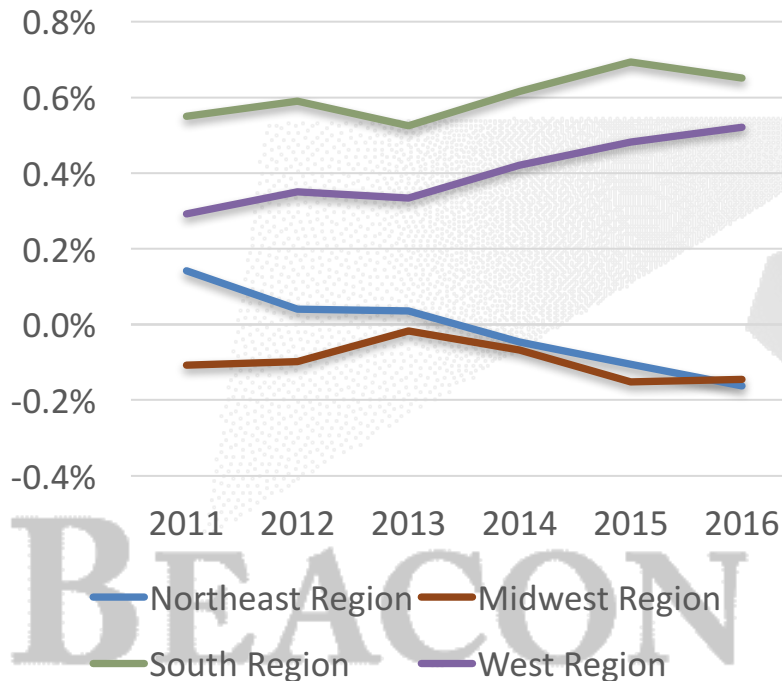
Division	Q2-17 (%)	Chg since Q2-11 (p.p.)
West North Central	3.5	-3.1
New England	4.0	-3.8
Mountain	4.0	-4.9
East North Central	4.2	-5.2
South Atlantic	4.4	-4.9
Middle Atlantic	4.5	-3.8
Pacific	4.6	-6.5
East South Central	4.7	-4.9
West South Central	4.8	-2.9

Total Payroll Employment (SA)

Census Division	2011	2016	% chg
Mountain	9,136	10,312	12.9
Pacific	5,415	6,058	11.9
South Atlantic	25,051	27,776	10.9
West South Central	15,254	16,881	10.7
East South Central	7,409	8,003	8.0
East North Central	20,333	21,838	7.4
New England	6,867	7,331	6.8
West North Central	9,934	10,606	6.8
Middle Atlantic	18,202	19,364	6.4

Population Shifts

Net Migration (% of Pop) by region



Net Migration by State 14-16

Florida	1.51%	Ohio	-0.05%
Nevada	1.27%	Penn	-0.06%
Colorado	1.10%	Wisconsin	-0.08%
Oregon	1.08%	Michigan	-0.08%
South Carolina	1.04%	New Jersey	-0.14%
Washington	0.99%	Vermont	-0.19%
Arizona	0.96%	W Virginia	-0.26%
Texas	0.90%	New York	-0.27%
North Dakota	0.79%	Mississippi	-0.28%
Idaho	0.77%	Kansas	-0.30%
Delaware	0.66%	Connecticut	-0.32%
North Carolina	0.66%	Wyoming	-0.35%
Montana	0.60%	New Mexico	-0.47%
Georgia	0.54%	Illinois	-0.58%
Tennessee	0.53%	Alaska	-0.73%

Regional Changes: LF by Age

		16-24	25-44	45-64	65+
<u>New England</u>	12,132	15.2%	30.2%	34.5%	20.0%
	% Chg	1.4%	0.0%	-0.1%	16.1%
<u>Middle Atlantic</u>	33,673	14.6%	32.1%	33.6%	19.7%
	% Chg	-4.1%	0.7%	-0.2%	13.2%
<u>East North Central</u>	37,430	15.4%	31.5%	33.6%	19.5%
	% Chg	-2.0%	-0.8%	-1.1%	15.2%
<u>West North Central</u>	16,761	15.7%	32.0%	32.7%	19.6%
	% Chg	0.7%	2.5%	-1.1%	14.9%
<u>South Atlantic</u>	51,559	14.6%	32.2%	32.8%	20.4%
	% Chg	-0.7%	4.3%	4.1%	22.4%
<u>East South Central</u>	15,110	15.4%	31.9%	33.0%	19.6%
	% Chg	-0.3%	0.8%	-0.2%	17.1%
<u>West South Central</u>	30,481	16.5%	35.5%	31.2%	16.7%
	% Chg	4.0%	7.1%	4.4%	20.7%
<u>Mountain</u>	18,716	15.9%	34.1%	31.1%	18.9%
	% Chg	3.6%	6.3%	3.7%	26.3%
<u>Pacific</u>	42,088	15.3%	35.2%	31.8%	17.7%
	% Chg	-3.0%	5.3%	3.5%	22.4%

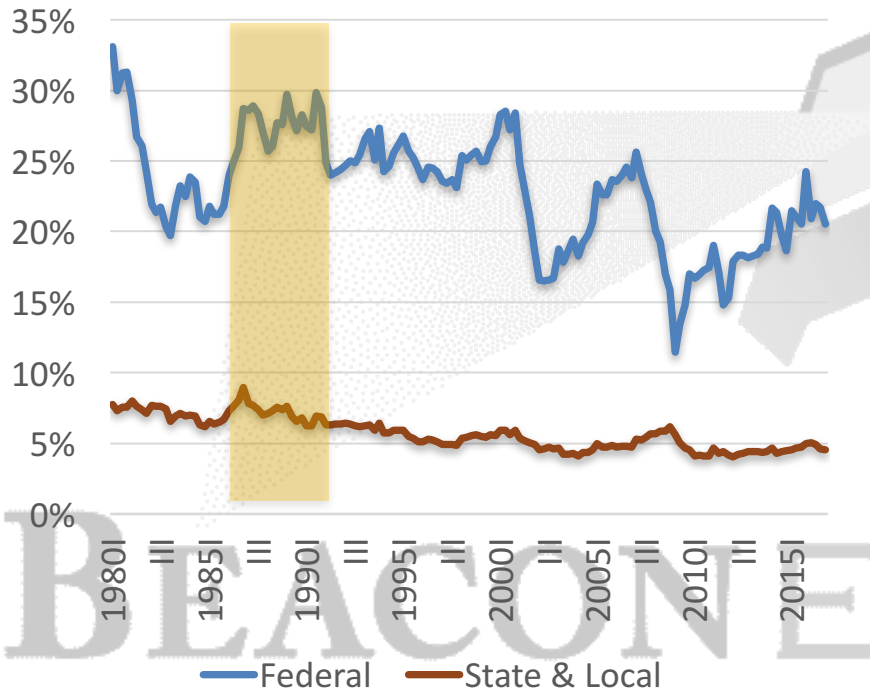
The Cure for Secular Stagnation

Figure 8: Increase in Average Annual Growth Rate With Estimated Policy Shifts

Policy Change	Boost in Annual Growth Rate	Estimated By
Enact immigration reform to increase number of workers	0.3%	CBO
Reform the income tax code	0.05% - 0.3%	JCT, Treasury
Increase the Social Security retirement ages by two years	0.15%	CBO
Reduce deficits by \$4 trillion over ten years	0.1%	CBO
Expand energy production at level of shale boom*	0.09%	CBO
Repeal the Affordable Care Act ("Obamacare")	0.08%	CBO
Ratify the Trans-Pacific Partnership	0.01%	U.S. ITC
Increase public investment in infrastructure, education, and research by \$400 billion	0 - 0.01%	CBO

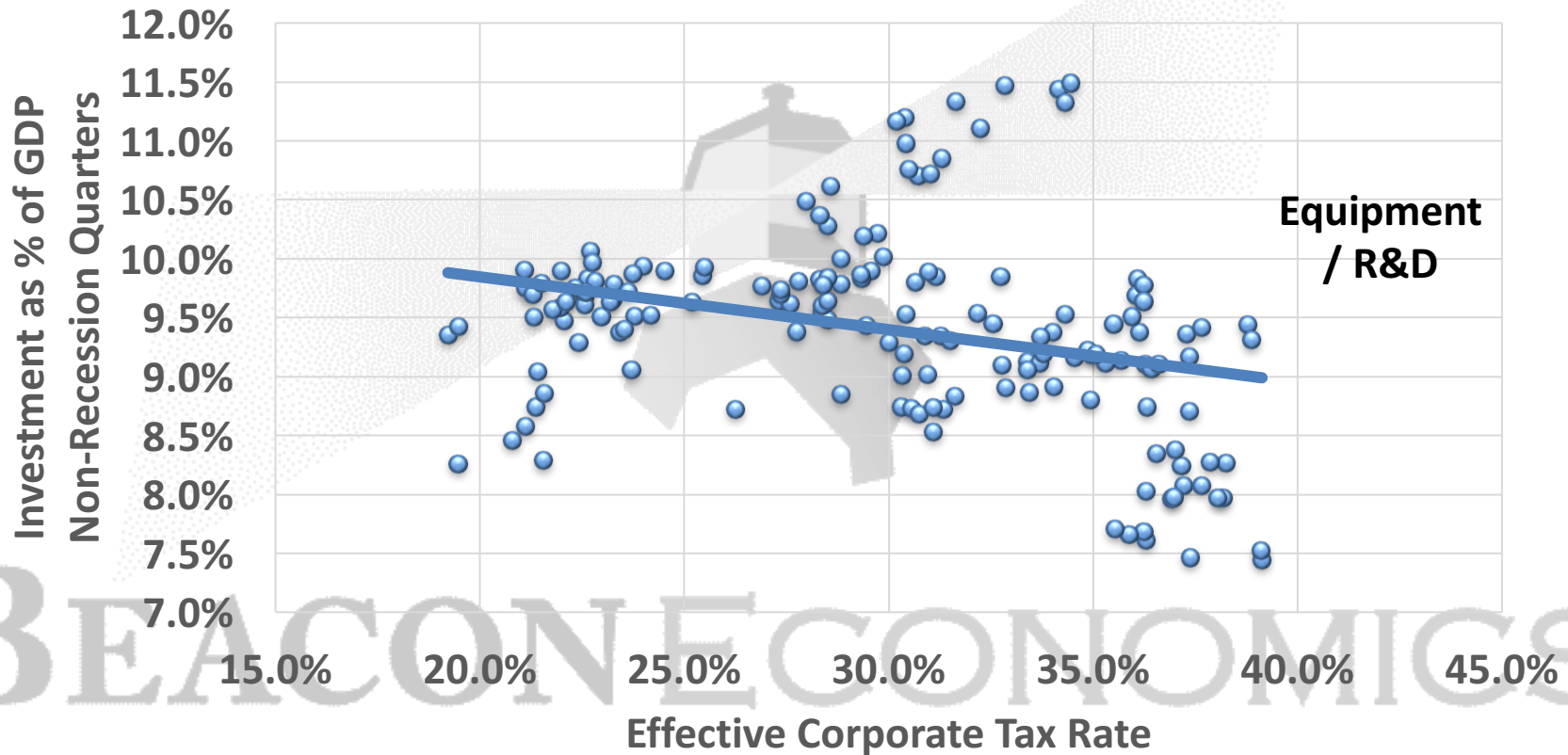
Tax Reform vs Tax Cuts

US Corporate Taxes as % Profit



- A. Most corporations and households will pay less in taxes
- B. The plan will give a small short term boost to the economy
- C. The plan is regressive
- D. Will add \$1.5 trillion to \$3.5 trillion to the debt over 10 Years

Do Tax Cuts Spur Investment?



The Power of Positive Thinking

McConnell on Tuesday said he "fully" anticipates the final bill will not lead to a federal revenue loss or even cause more money to go to the government.

RYAN: Actually, I don't think it will increase the deficit. That's my entire point.



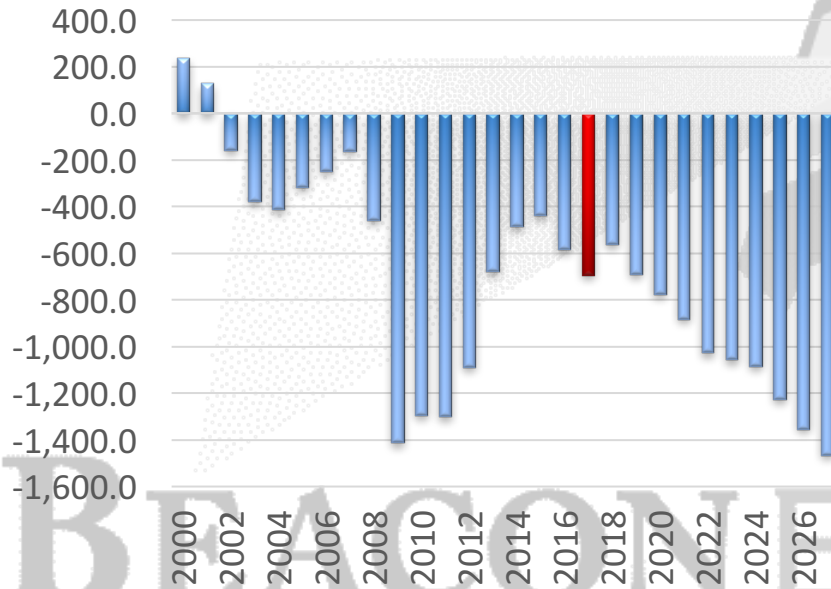
Diet Food!



Exercise Equipment

Implications

CBO: Past and Projected Federal Budget Gap

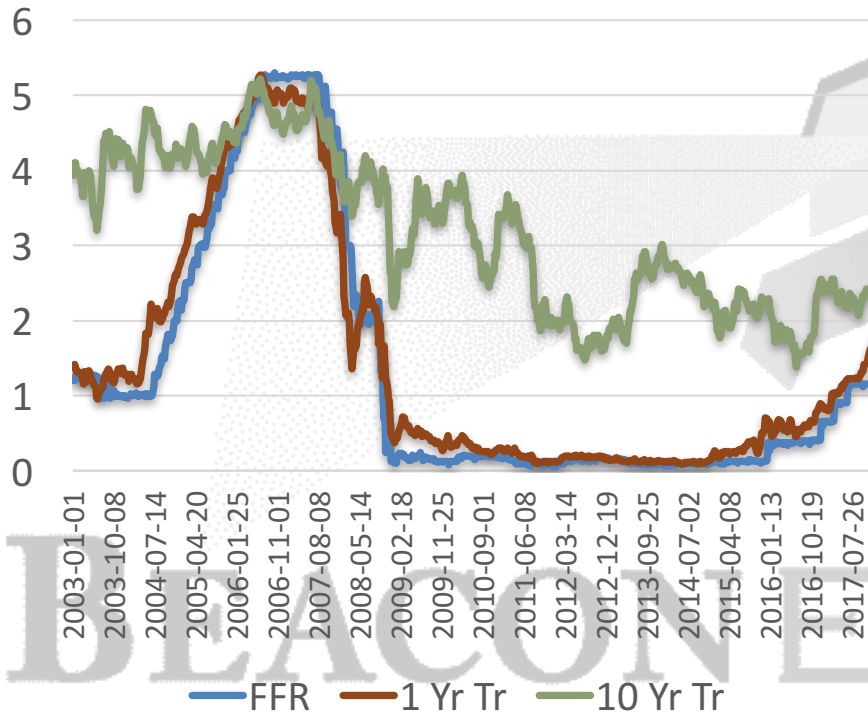


Real Average Net Worth by Bracket

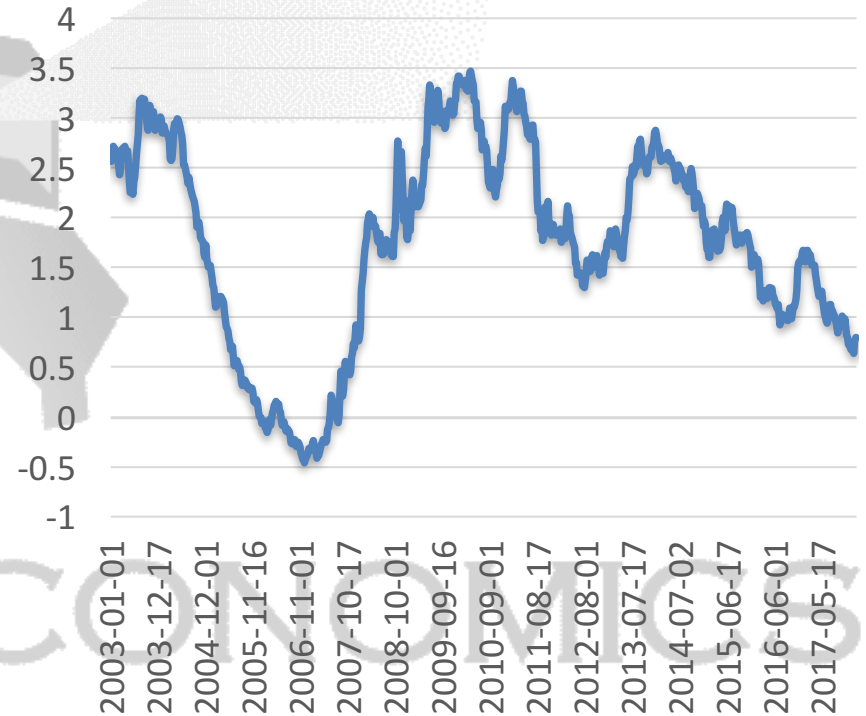
	1989	2001	2016
< 25	\$(1)	\$0	\$(12)
	0%	0%	0%
25–49.9	\$43	\$60	\$45
	3%	3%	2%
50–74.9	\$166	\$227	\$204
	12%	11%	7%
75–89.9	\$422	\$612	\$659
	18%	17%	14%
90–100	\$2,317	\$3,748	\$5,336
	67%	70%	77%
Top 1%	\$10,407	\$17,772	\$26,645
	30%	33%	39%

Fed Tightening

Interest Rates

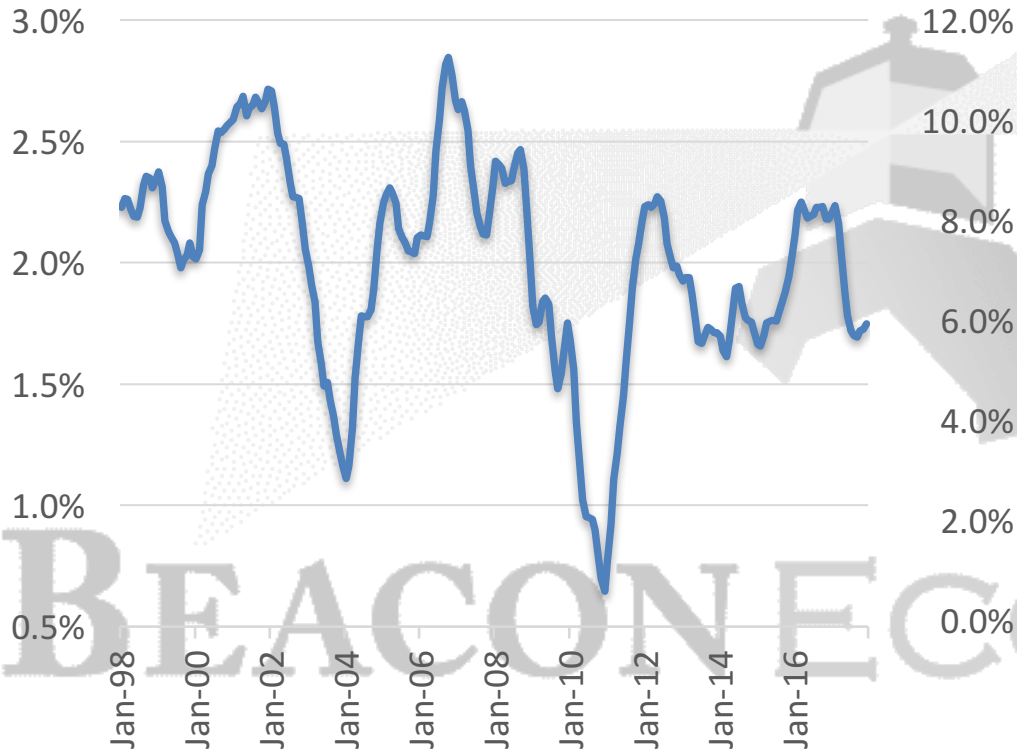


10-1 Year Rate Spread

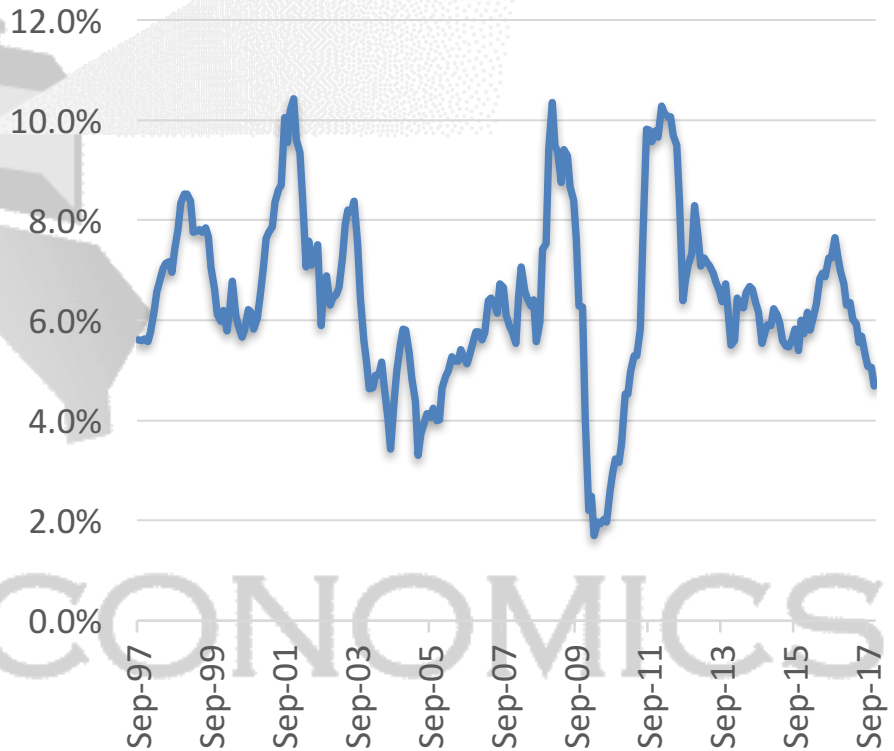


Inflation: Slowing

CPI Core Inflation Rate

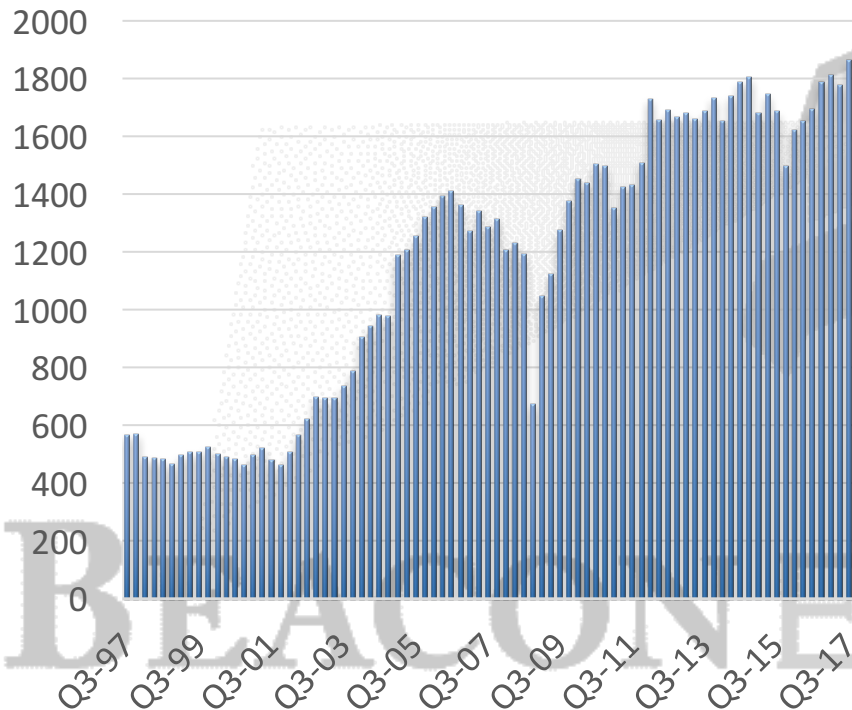


M2 Growth Y-o-Y

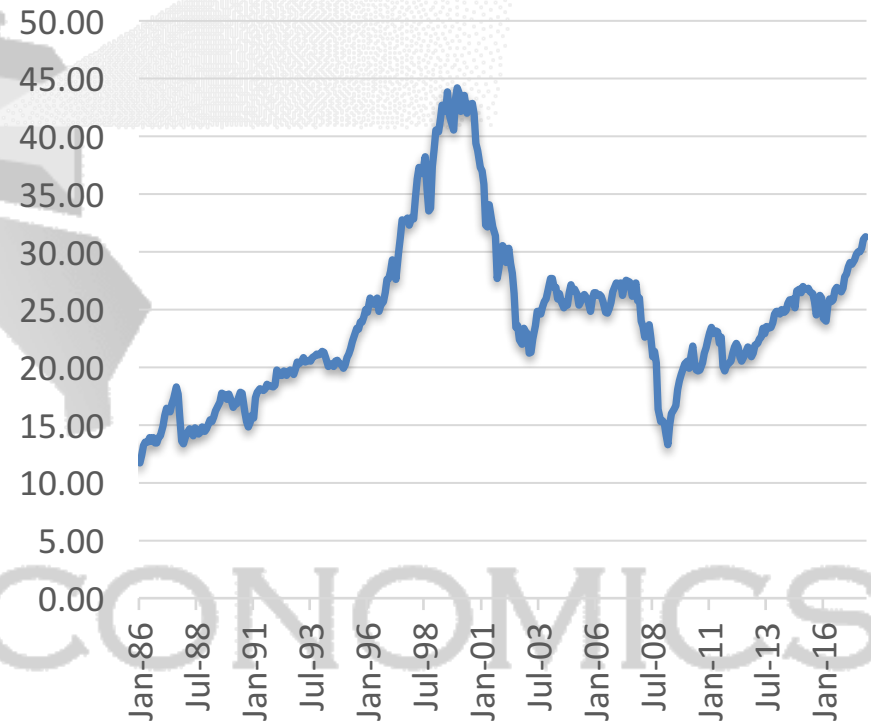


Frothy Equities

Corporate Profits and Growth

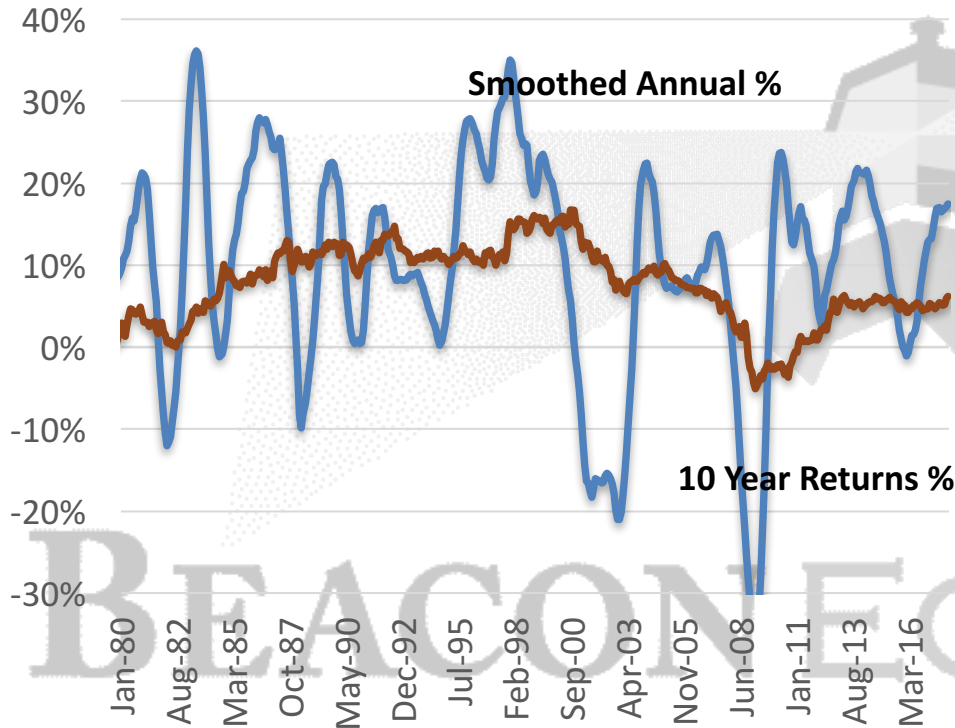


Shiller P/E Ratio

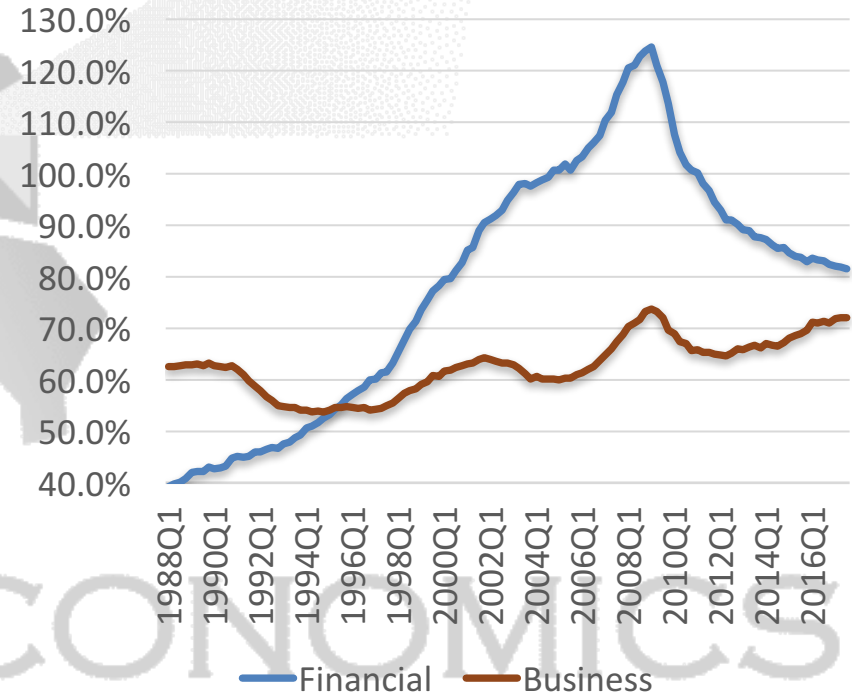


Frothy? Yes. Crisis? No.

Nominal Stock Market Growth (S&P 500)

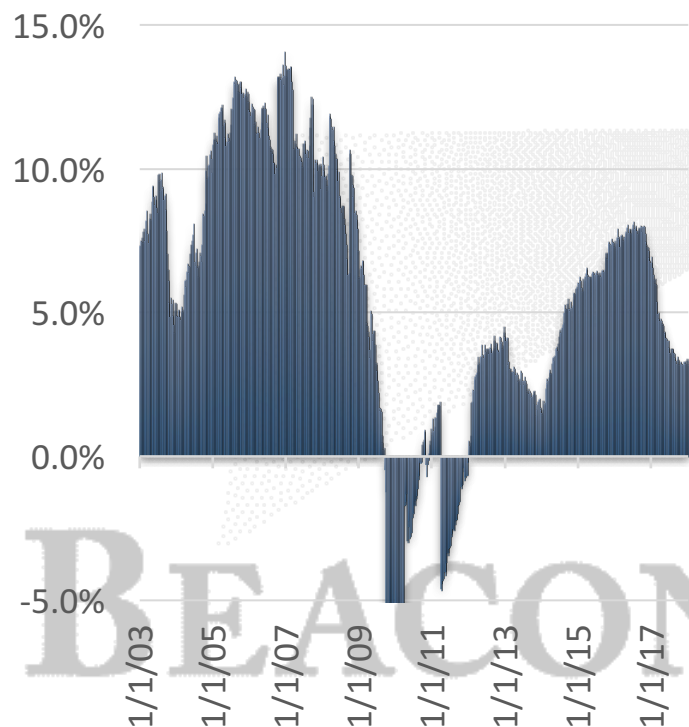


Debt to GDP Ratios



Slowing Lending

Growth in Direct Bank Loans



Net % Banks Responding Yes

Demand

Standards

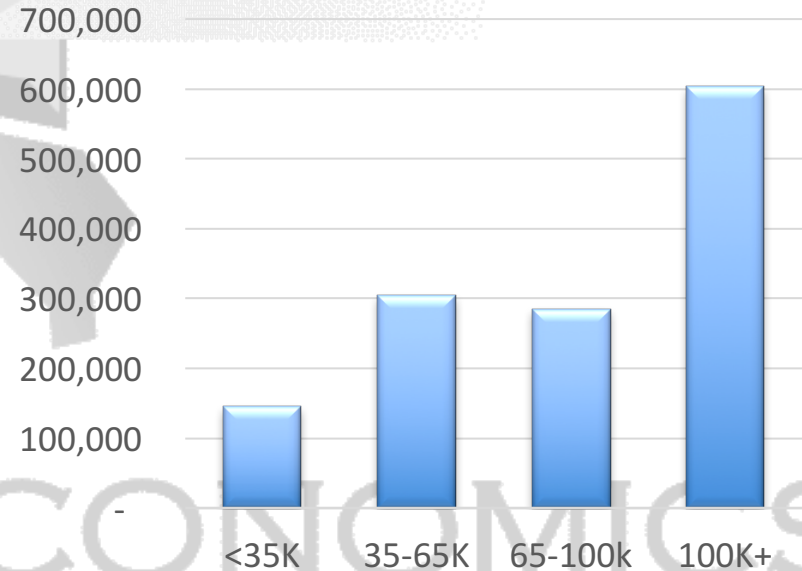
	2016Q4	2017Q4	2016Q4	2017Q4
auto loans	16.7	5.0	3.3	9.8
credit card loans	14.9	0.0	0.0	9.1
construction & land development	10.1	-10.0	27.5	2.9
commercial real estate	4.3	-5.6	18.8	4.2
multifamily residential structures	2.9	-18.1	42.0	22.2
C&I loans from large Firms	-5.9	-11.3	1.5	-8.5
C&I loans from small firms	-1.5	-2.9	-1.5	-8.8
QM jumbo mortgage loans	19.0	-10.9	-6.3	-6.2

State Economic Performance

5 Year Change in Payroll Jobs by State

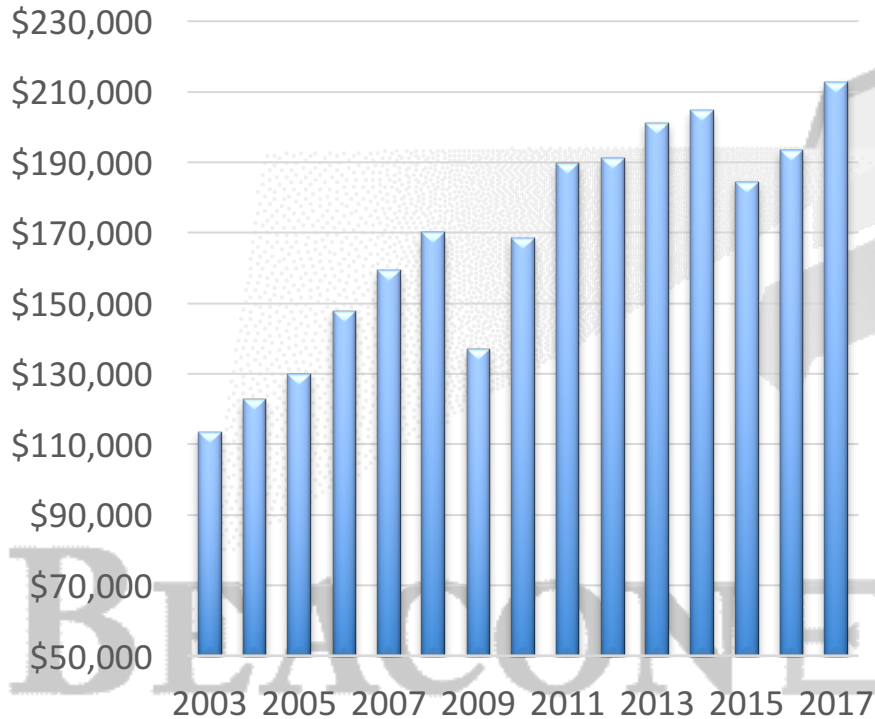
	New Jobs	Ann Gr	US Share
Utah	226	3.5%	1.8%
Nevada	188	3.1%	1.5%
Florida	1,207	3.1%	9.5%
Idaho	96	3.0%	0.8%
Colorado	344	2.9%	2.7%
Oregon	228	2.7%	1.8%
Washington	401	2.7%	3.2%
California	2,038	2.7%	16.1%
Georgia	521	2.5%	4.1%
Texas	1,425	2.5%	11.2%
Arizona	298	2.3%	2.3%
South Carolina	220	2.3%	1.7%
Tennessee	314	2.3%	2.5%
North Carolina	421	2.1%	3.3%
Montana	40	1.8%	0.3%

California: Change in Employment by Income (F.T.) 2012-2016

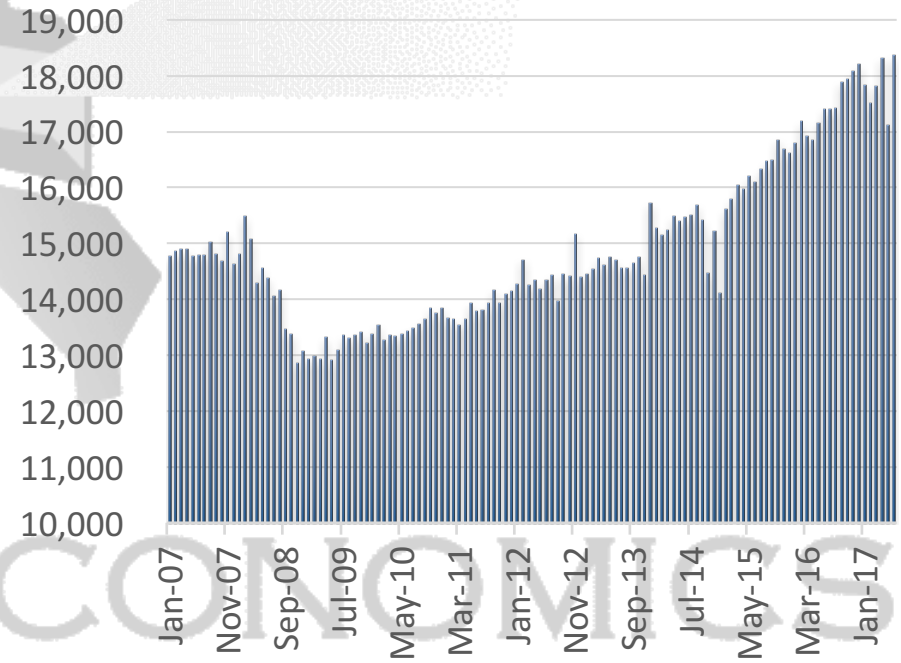


Exports / Travel

California Exports (Nominal)

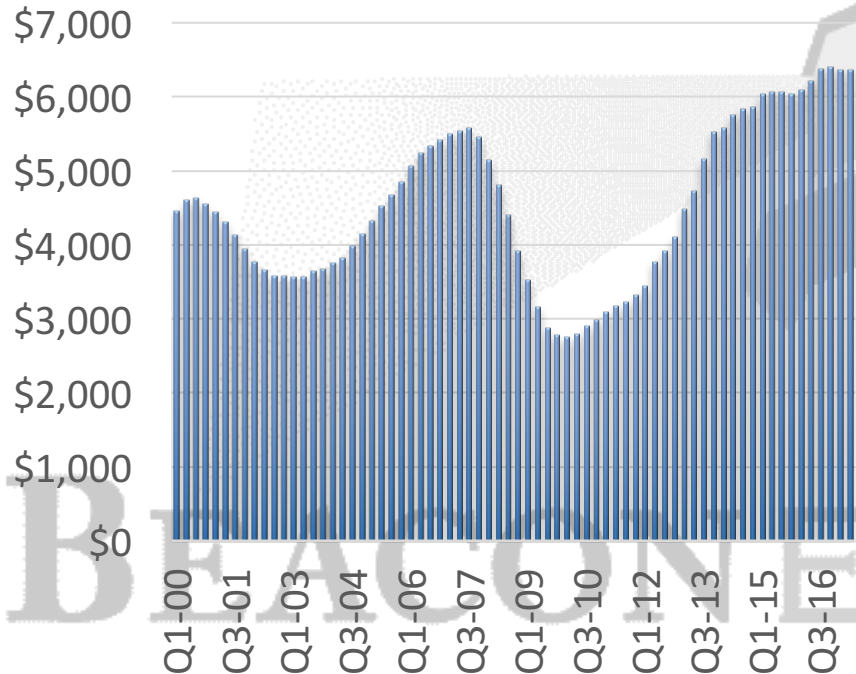


California Airport Activity (Arrivals / Departures)

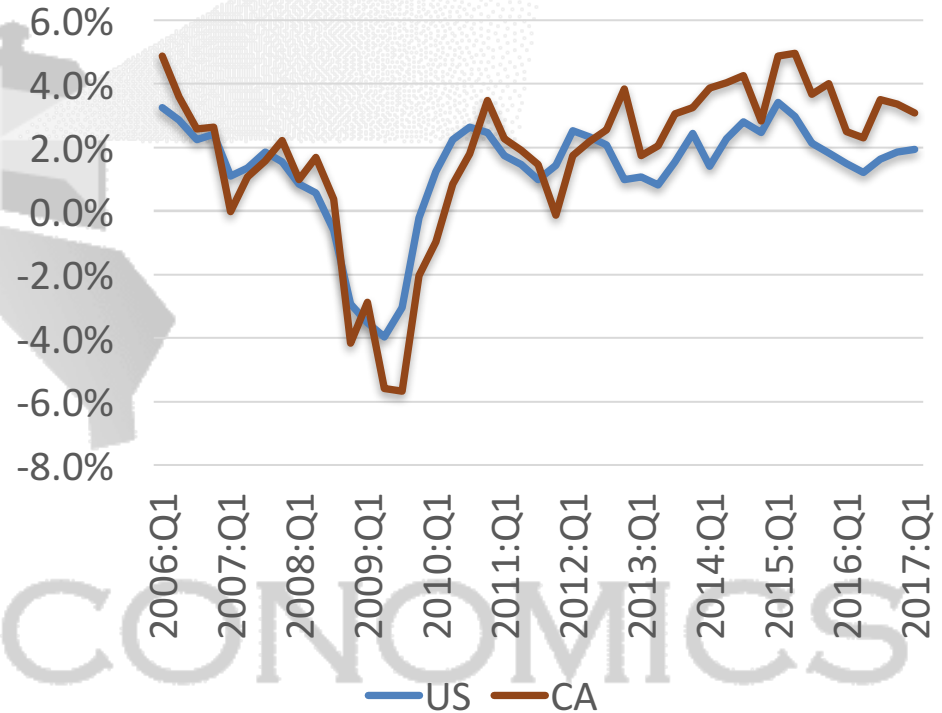


Still Strong Indicators

California Non Residential Permit Values



Real GDP Growth (y-o-y)

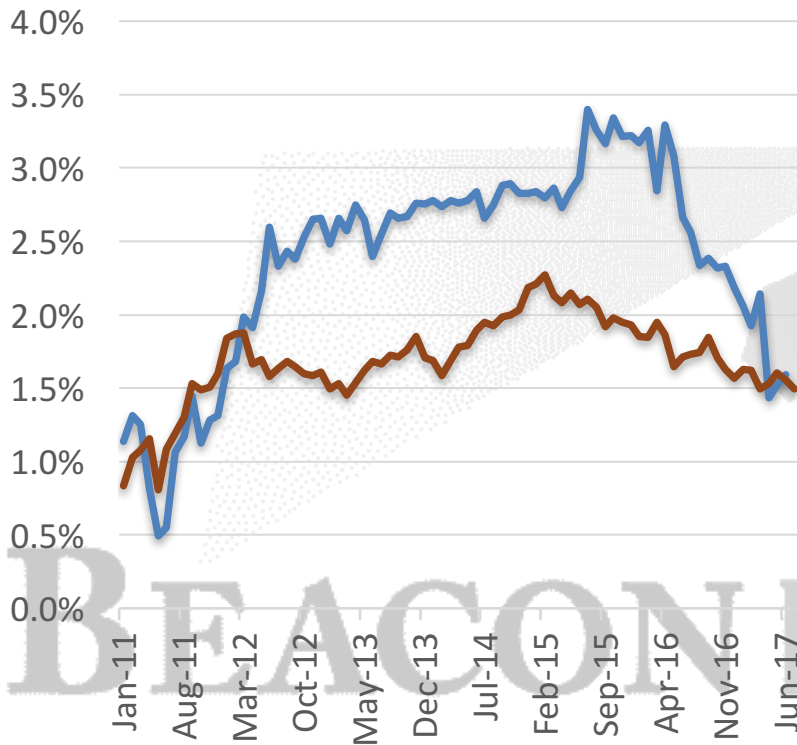


Nonresidential Real Estate Markets

Property	Inland Empire		Orange County		Los Angeles	
	Q3-17	YOY Change (%)	Q3-17	YOY Change (%)	Q3-17	YOY Change (%)
Cost of Rent						
Office	\$22.37	1.4%	\$32.18	2.2%	\$37.29	2.7%
Retail	\$22.58	2.9%	\$33.52	1.7%	\$32.40	1.4%
Warehou.	\$5.08	5.6%	\$6.98	4.3%	\$7.19	5.0%
Vacancy Rate						
Office	21.1%	-0.9%	16.0%	-0.1%	14.0%	0.5%
Retail	9.1%	-0.4%	5.3%	-0.1%	6.0%	-0.3%
Warehou.	7.0%	-0.6%	6.4%	-0.5%	5.1%	-0.5%

The Big Slowdown

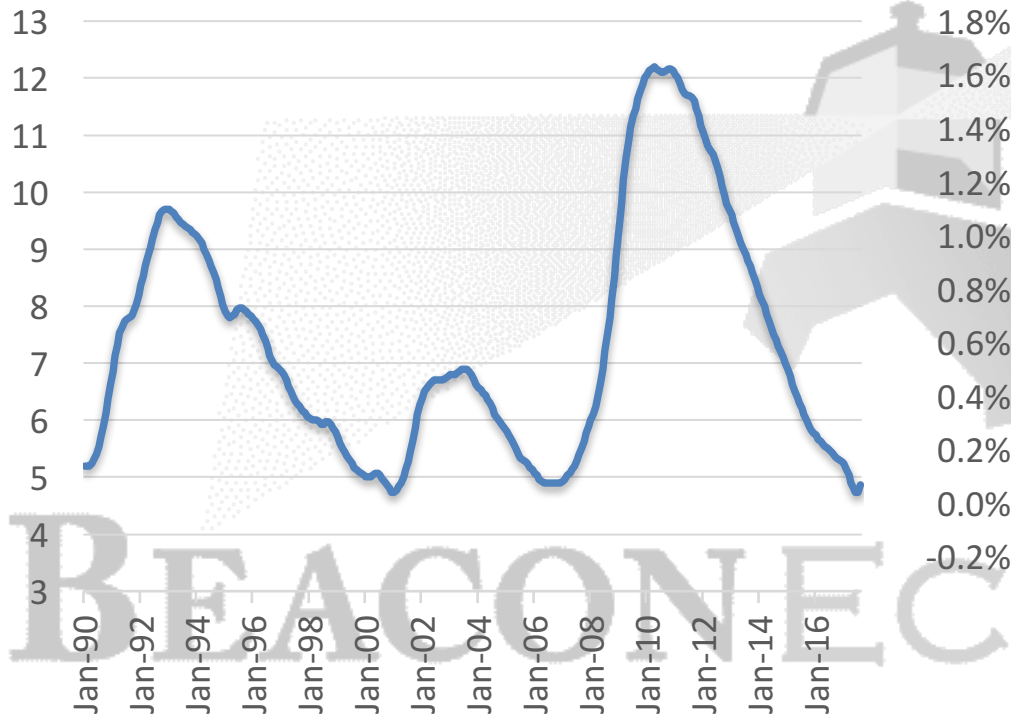
State and National Job Growth



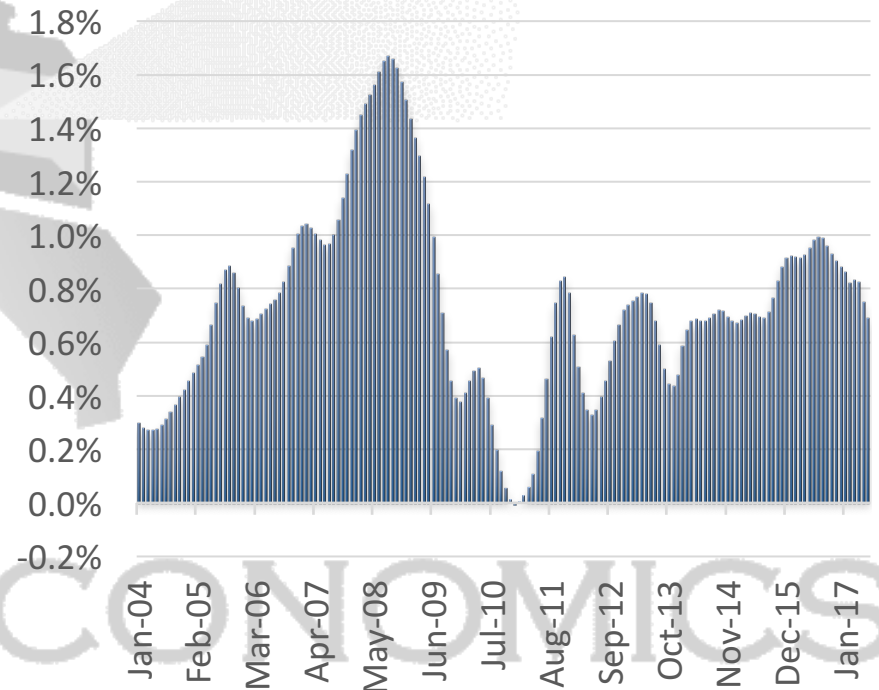
	Nov-17	14-15	15-16	16-17
Inland Empire	1,470,000	4.8%	3.4%	3.2%
Ventura	309,700	1.5%	1.5%	2.2%
Sacramento	978,700	3.5%	3.1%	2.1%
San Francisco	1,125,700	4.9%	3.3%	2.0%
Fresno	346,000	3.9%	3.2%	1.7%
San Jose	1,102,100	3.9%	2.8%	1.7%
Kern	260,400	-0.5%	-0.5%	1.6%
San Diego	1,457,400	3.2%	2.3%	1.5%
East Bay	1,162,400	3.5%	2.9%	1.4%
Stockton	231,300	4.3%	2.8%	1.4%
Sonoma	203,900	2.8%	1.6%	1.1%
Orange	1,600,700	3.2%	1.6%	0.8%
Los Angeles	4,465,200	2.8%	2.3%	0.8%

Labor Supply Constraints

Unemployment Rate



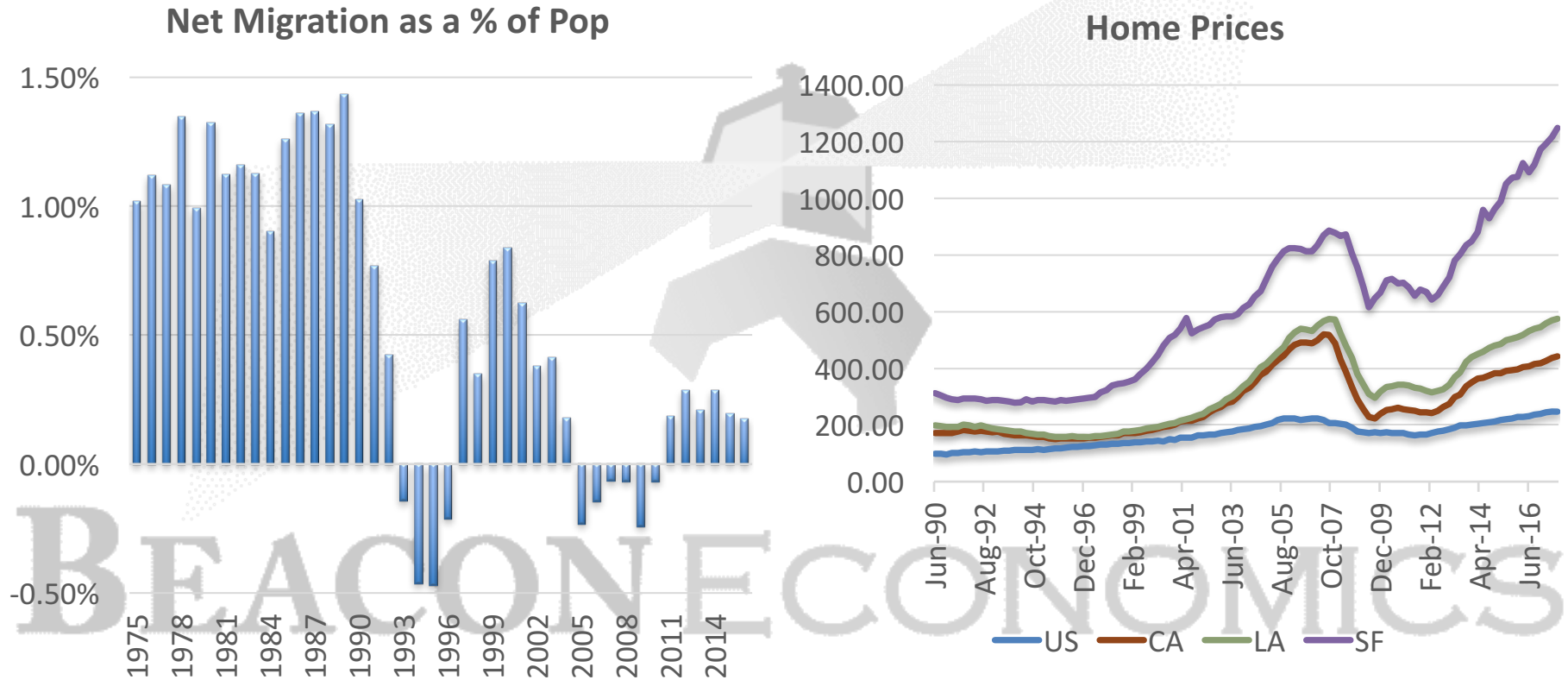
California Labor Force Growth



The Upside of Labor Shortages

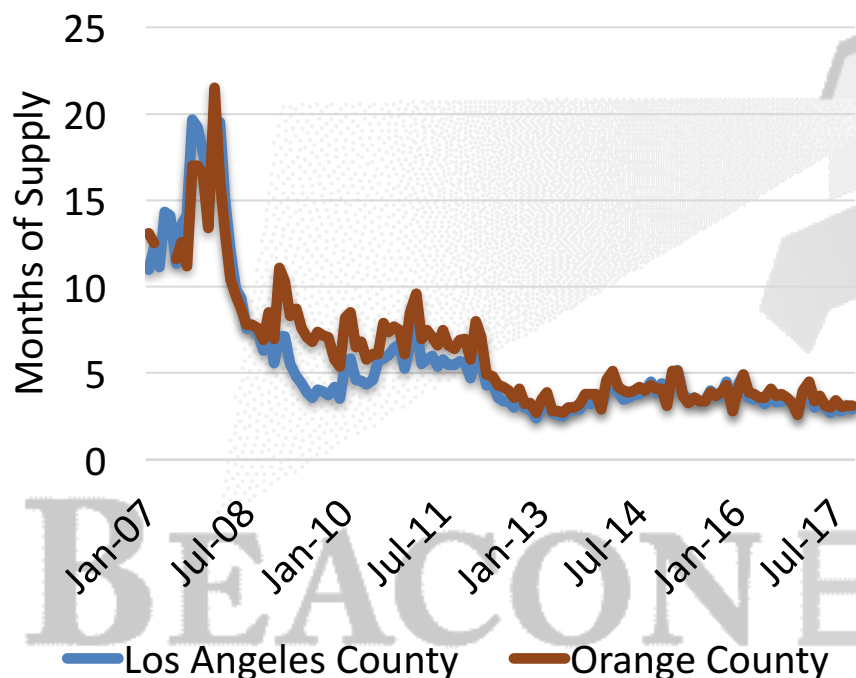
	Number (Mil)	Median Income 2016	Change 13-16	Part Rate 2016	Change 13-16	Unemp 2016	Change 13-16
Total	20.96	40,005	10.2%	77.1%	0.2%	5.5%	-3.0%
No High School	3.52	21,558	13.1%	65.4%	-0.5%	8.2%	-3.7%
High School	4.26	30,231	10.9%	72.6%	-0.4%	7.0%	-4.0%
Some College	6.14	36,985	3.1%	77.4%	0.1%	5.5%	-3.4%
Bachelor	7.03	60,121	9.4%	85.4%	0.4%	3.6%	-1.6%
Graduate		82,271					

Don't Go West, Young Man?



Residential Real Estate

Housing Inventories

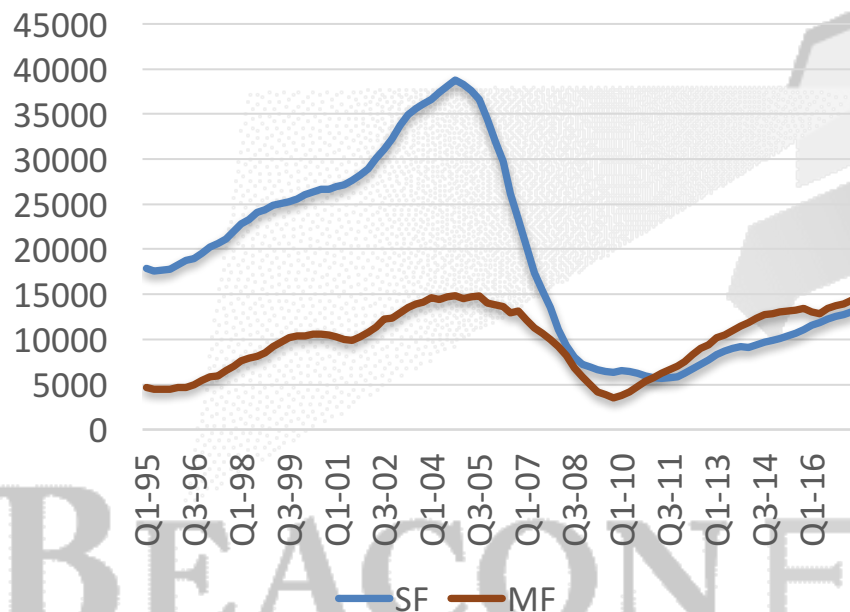


California Home Prices, Q3-17

County	Median Price	YoY Growth (%)
Monterey	547,077	5.9%
Orange County	747,423	7.1%
Riverside	362,135	8.9%
San Bernardino	292,626	7.3%
San Diego	578,271	7.4%
San Francisco	1,274,218	4.2%
San Luis Obispo	575,459	8.5%
Santa Clara	1,058,524	14.5%
Los Angeles	588,466	8.0%

New Housing Supply

New Home Permits



How Much Housing Needed?
Housing Needed to maintain 2%
State Job Growth

Method 1

Total	722,022
Per Year	206,674
Current	106,185
Shortfall	100,489

Method 2

Total	911,001
Per Year	263,667
Current	106,185
Shortfall	157,482

Shortages

	5 Yr				Curr		5 Year	
	LF	Payroll	Ratio		Unemp		Permits	LF / Per
California	795.6	2,051.0	2.58		4.3%		460.15	1.73
Los Angeles (MD)	197.5	394.4	2.00		4.4%		98.71	2.00
Orange County (MD)	36.0	164.7	4.58		3.0%		53.27	0.68
Inland Empire	147.5	276.2	1.87		4.4%		50.37	2.93
San Diego	29.1	155.7	5.35		3.5%		43.41	0.67
Oakland (MD)	65.6	139.6	2.13		3.2%		34.92	1.88
San Francisco (MD)	93.1	184.3	1.98		2.4%		27.91	3.33
San Jose	80.3	165.3	2.06		2.9%		35.94	2.23
Sacramento	39.1	127.3	3.25		3.9%		32.97	1.19
Fresno	14.3	52.9	3.69		7.9%		12.41	1.16
Santa Rosa	12.3	29.4	2.40		2.9%		3.48	3.52

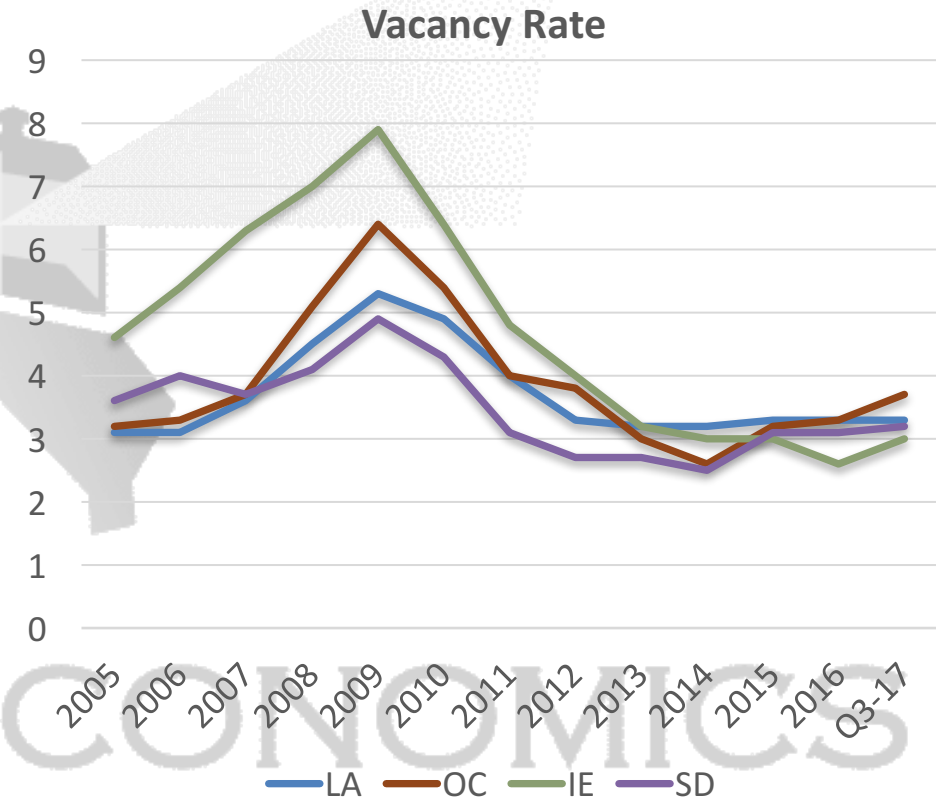
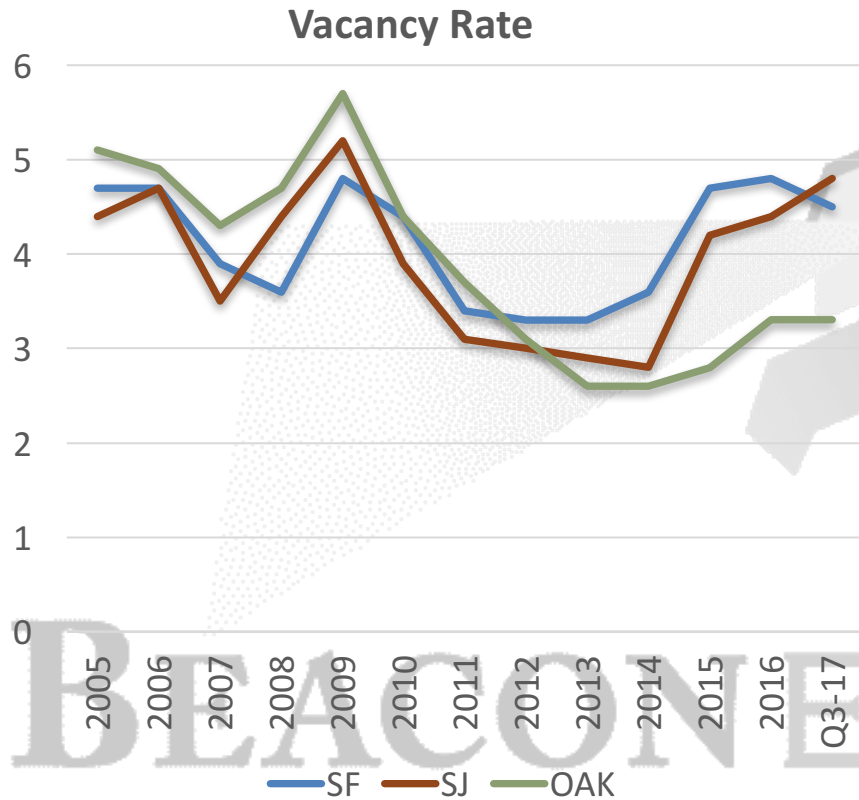
Apartment Vacancy Rates

Apartment Markets, Rents

Metro	Vacancy Rates, Q4-17		P.P. Change since Q4-15	
	Class A	Class B/C	Class A	Class B/C
East Bay	5.2	2.5	1.6	0.0
Inland Empire	4.4	2.3	0.0	0.3
Los Angeles	5.5	2.2	0.0	0.0
Orange County	5.0	2.9	0.7	0.4
Sacramento	3.2	1.9	0.5	-0.6
San Diego	5.0	2.1	-0.7	0.8
San Francisco	5.2	3.8	-1.8	1.3
South Bay	5.4	3.6	-0.2	1.3

Source: Reis, Inc.

Vacancies



Apartment Rents

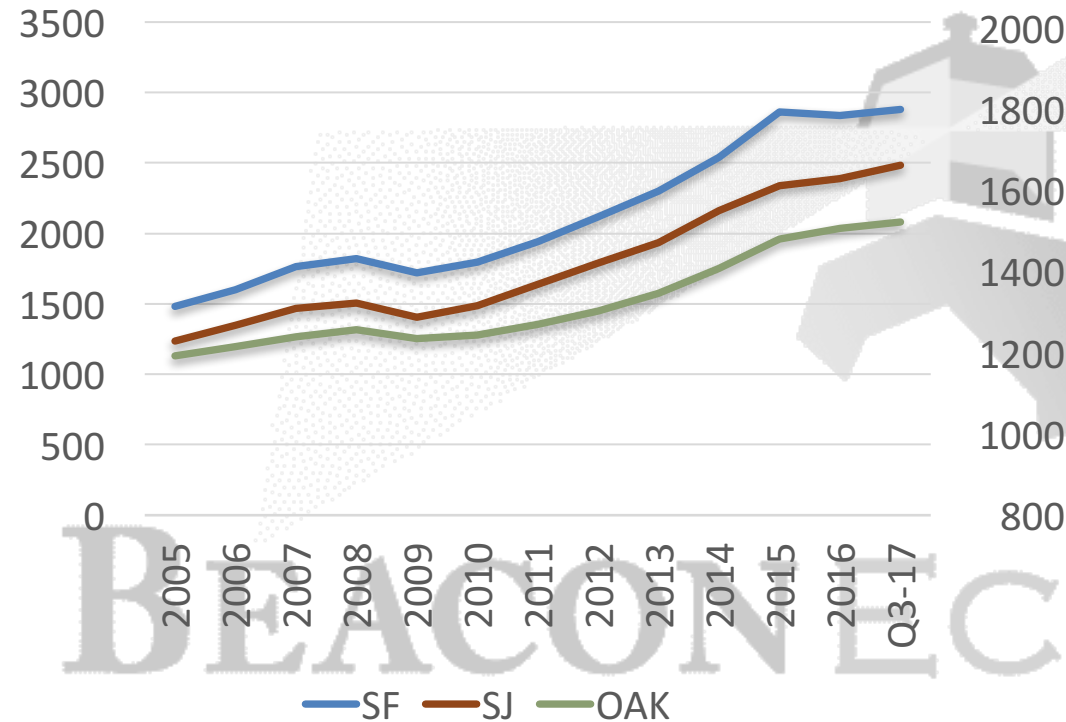
Apartment Markets, Rents

Metro	Cost of Rent, Q4-17		% Change since Q4-15	
	Class A	Class B/C	Class A	Class B/C
East Bay	2,599	1,938	5.2	6.3
Inland Empire	1,514	1,130	7.3	8.1
Los Angeles	2,479	1,575	10.9	10.6
Orange County	2,162	1,665	5.3	6.8
Sacramento	1,391	1,072	10.2	11.3
San Diego	2,111	1,437	6.9	7.5
San Francisco	3,728	2,333	3.4	0.2
South Bay	2,838	2,135	4.4	5.5

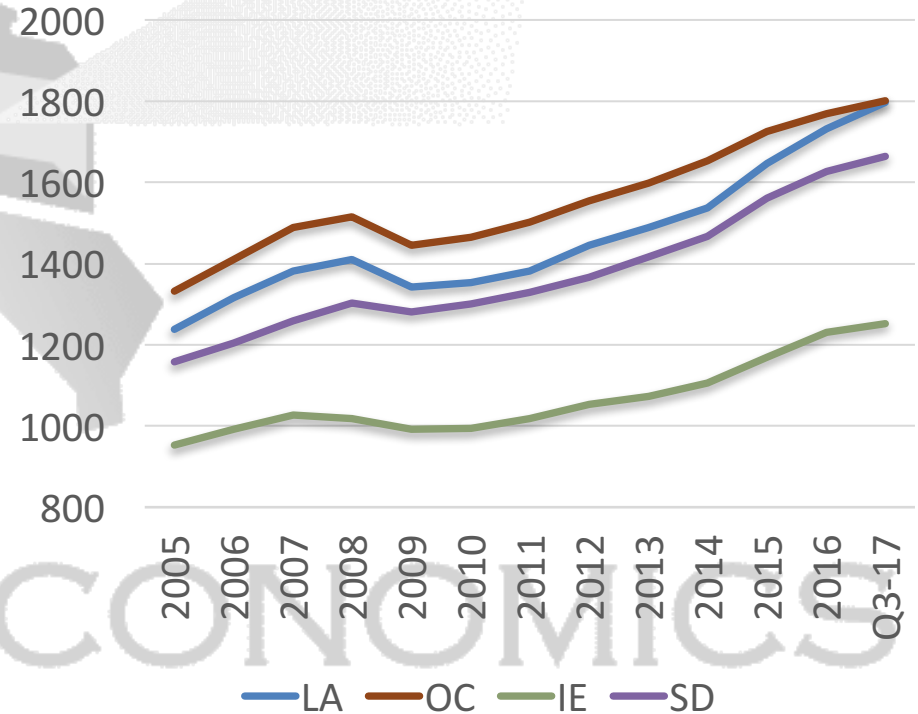
Source: Reis, Inc.

Rents

Rent



Rent



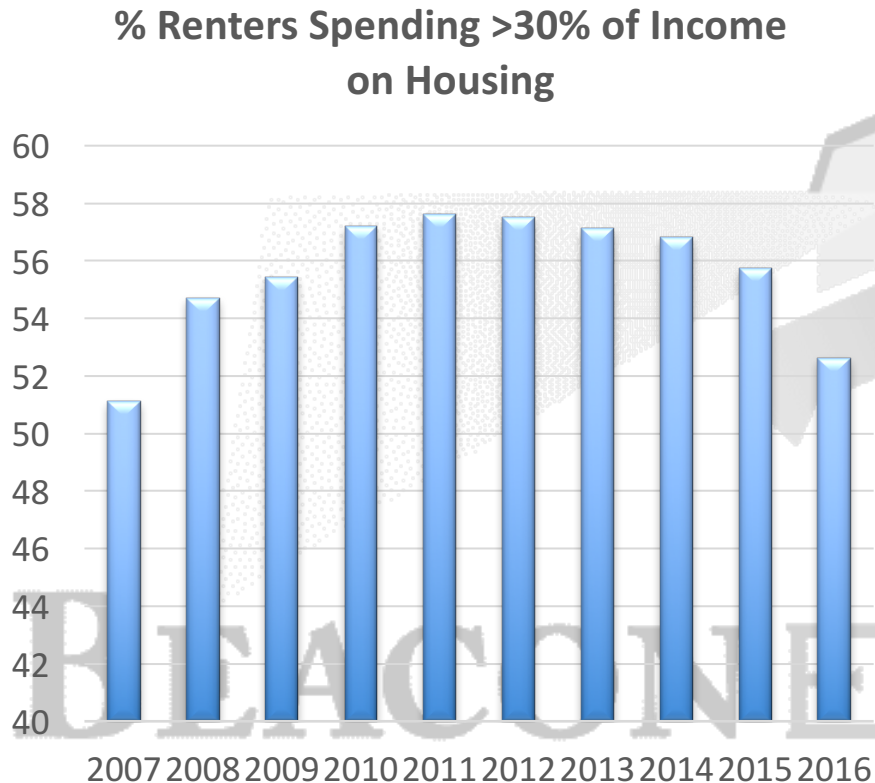
Housing Stock vs. Permits

Multifamily Housing Stock vs. Permits

Metro	Housing Stock, 2016	Change in Housing Stock, 2013 to 2016	Total Permits, 2013-15	Total Permits, 2016-17
California	4,455,877	142,782	148,223	111,082
Los Angeles	1,544,857	76,858	45,611	33,537
San Diego	430,878	1,833	17,014	13,743
Orange	373,197	11,120	21,236	12,320
East Bay	323,381	748	8,621	10,221
Inland Empire	292,388	14,180	8,403	5,220
San Francisco	269,137	9,701	11,847	8,798
Santa Clara	226,820	11,128	17,485	11,475
Sacramento	148,979	-746	1,234	2,221
Fresno	88,484	3,058	1,529	1,472

Source: CIRB, U.S. Census

Don't Just Focus on Affordable Rentals



CA	2014	2016	Change
Less than \$20k	92.7%	92.5%	-0.2%
\$20k to \$35k	89.0%	89.2%	0.2%
\$35k to \$50k	67.3%	71.9%	4.6%
\$50k to \$75k	41.1%	46.1%	5.0%
\$75k+	10.5%	11.8%	1.3%
All	56.8%	55.4%	-1.4%

On the other side

	California	Alameda	Los Angeles	Orange	San Diego	San Francisco	Santa Clara
Renters 2016	6,000,750	273,116	1,832,068	447,586	532,265	222,703	276,842
Change 11-16	375,376	16,779	112,284	36,722	36,656	3,678	14,125
Growth 11-16	6.7%	6.5%	6.5%	8.9%	7.4%	1.7%	5.4%
Overcrowded	818,737	39,668	303,691	72,153	60,812	16,739	43,186
Share	13.6%	14.5%	16.6%	16.1%	11.4%	7.5%	15.6%
Change 11-16	75,986	15,758	12,676	2,078	16,673	-2,091	7,089

BEACON ECONOMICS

Filtering Blockage

Renters by Income: Struture Built Before 1970			
Metro	Household Income Less than \$35,000	Household Income \$35,000 to \$74,999	Household Income \$75,000 or More
San Francisco	26.5%	22.2%	51.2%
East Bay	31.4%	32.6%	36.0%
San Diego	35.0%	33.5%	31.5%
Orange	32.4%	36.3%	31.3%
Los Angeles	40.2%	31.7%	28.0%
Houston	45.4%	31.4%	23.2%
Inland Empire	47.5%	30.7%	21.8%
Phoenix	50.3%	28.2%	21.5%
Dallas	46.6%	33.0%	20.4%

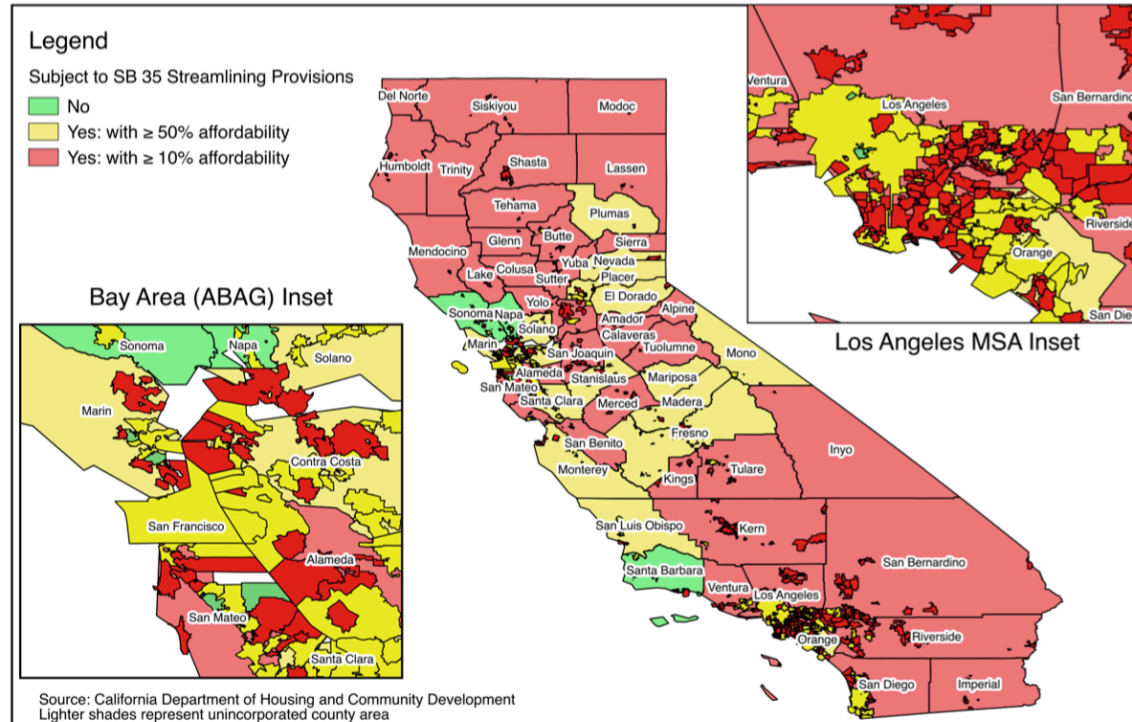
The 2017 Legislative Housing Package Highlights

- Senate Bill 2, sponsored by Sen. Toni Atkins, creates a \$75 fee on select real estate transactions. The projected \$200 million to \$300 million in revenues from this fee will go toward affordable housing development and services for homeless people.
- Senate Bill 3, sponsored by Sen. Jim Beall, places a \$4-billion bond proposal on the ballot for the 2018 state election. This bill would fund affordable housing programs in California that were previously supported by the state's redevelopment agencies, which were cut in 2011. Additionally, this bill includes \$1 billion to extend the CalVet Home Loan Program.
- Senate Bill 35, sponsored by Sen. Scott Wiener, requires local governments that have not met goals for housing development to follow a streamlined local review process that would fast-track development in areas lacking sufficient affordable housing and serve as an incentive for cities and counties to commit to state housing development goals.
- Assembly Bill 1515, sponsored by Assemblyman Tom Daly, forces courts to give less deference to local governments in legal challenges to blocked housing developments. This legislation pushes back on obstacles to new housing proposals driven by so-called not-in-my-back-yard (NIMBY) motives.
- Senate Bill 167, sponsored by Sen. Nancy Skinner, also combats NIMBY movements that have used downsizing to challenge new development. It increases the burden of proof for local governments to reject or downsize developments that include affordable housing units.

SB 35 Statewide Determination Summary by City As of January 31, 2018

On Feb 1, 2018 the state released the list of cities that are behind on their housing goals are thus required to streamline housing approvals under housing bill, SB 35.

As it turns out, 97% of CA cities have not met their housing goals.



SB 828: RHNA Reform

SB 827: Mandating Denser & Taller Zoning Near Transit

- The Regional Housing Needs Assessment (RHNA), which is how California determines how much housing each local community should build, is based on a flawed methodology that significantly underestimates population growth and how much housing will be needed. In addition, the current RHNA allocation process is non-standardized, insufficiently connected to actual data, and highly politicized, thus giving some communities advantages when assigning state housing goals.
- SB 828 creates a clearer, fairer, more data-driven, and more equitable process for how the state and regional bodies assign RHNA numbers to local communities. It does this by requiring a more data-focused, objective process and by creating stronger guardrails, thus reducing the wiggle room jurisdictions use to lower their RHNA allocations. SB 828 also requires communities to begin making up for past RHNA deficits.
- The state of California and Los Angeles County continue to invest in public transportation, but too often the areas around transit lines and transit stops are zoned at very low densities, even limiting housing to single family homes around major transit hubs like BART, Caltrain, Muni, and LA Metro stations.
- Requiring low-density housing around transit makes no sense. Transit-rich areas are where the state we should be putting dense housing. Building dense and tall housing around transit is not only sound environmental, economic, and equity policy – it is also one of California's most promising sources of new housing.

The Big Picture

- **Positives: It will be a good year**
 - GDP Growth Outlook for 2018: 3%
 - State revenues will look positive
 - Labor markets to remain tight, constraining growth
 - Rising wages to put pressure on profits
 - Exports, business investment continue to pick up
 - California housing shortages will constrain growth locally
- **Negatives**
 - Fed will continue to tighten, yield curve flattening
 - Markets looking frothy—watch debt levels
 - Consumer savings: entering dangerous waters
 - Federal deficit will widen sharply
 - Political uncertainty to dominate headlines

Why the problem? Incentives

	Hypothetical City			
	Single-family Residential	Multi-family Residential	Industrial	Retail
Property Value ²	8,000,000	17,100,000	3,000,000	9,000,000
Residential Cost per DU	400,000	180,000		
Property Size (acres)	5	5	5	5
Retail Square footage per acre	-	-	-	10,000
Residential Units	20	95	n/a	n/a
Property Tax AB8 share of 1% ³	16.3%	16.3%	16.3%	16.3%
Utility User Tax Rate ⁴	6%	6%	6%	6%
Transient Occupancy Tax Rate	n/a	n/a	n/a	n/a
CITY TAX REVENUE				
Property Tax Revenue	13,040	27,873	4,890	14,670
Property Tax Rev (In Lieu of VLF)	3,600	7,695	1,350	4,050
Sales Tax Revenue ⁴	7,560	7,560	-	82,500
Business License Tax ⁶	-	5,500	5,500	5,500
Franchise Fees ⁷	340	1,615	1,275	1,063
State Subventions & other revs ⁸	2,380	9,247	296	887
TOTAL REVENUES	\$ 35,200	\$ 75,222	\$ 24,903	\$ 116,121

Why the problem? Incentives

	Hypothetical City		Full Service - with 6% UUT	
	Single-family Residential	Multi-family Residential	Industrial	Retail
CITY EXPENDITURES				
Police Department	9,000	42,750	4,950	14,063
Fire Department	6,040	28,690	3,322	9,438
Public Works	1,200	5,700	1,320	3,750
Planning & Community Devlpmt	800	3,800	880	2,500
Parks & Community Services	2,600	12,350	429	1,219
Library	1,500	7,125	n/a	n/a
General Government	2,540	12,065	1,298	3,688
TOTAL EXPENDITURES	\$ 23,680	\$ 112,480	\$ 12,199	\$ 34,656
NET	\$ 11,520	\$ (37,258)	\$ 12,704	\$ 81,465

The Great Disconnect

What we *are* worried about

The Number of Jobs
Who pays for Healthcare
Tax Levels
Income Inequality
Funded Govt. Liabilities
Business Investment
Inflation
The Cost of CA Housing

What we *should be* worried about

The Number of Workers
What are we paying for?
Tax Structure
Wealth Inequality
Unfunded Govt. Liabilities
A Lack of Public Investment
Slowing Lending
The Supply of CA Housing



Our Services



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Ports & Infrastructure Analysis



Economic Impact Analysis

Public Policy Analysis

- ❖ To view or download this presentation or for further information, visit:

www.BeaconEcon.com

- ❖ Contact Christopher Thornberg

Chris@BeaconEcon.com

310-571-3399

Beacon's work in Housing

Beacon Economics

Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise (SBE) with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively-based economic analysis. Leveraging unique proprietary models, vast databases, and sophisticated data processing, the company specializes in services like industry analysis, workforce analysis, economic policy analysis, economic impact analysis, and real estate market analysis. Beacon Economics equips its clients with both the data and insights required to understand the significance of on-the-ground realities and make informed business and policy decisions based on them.

Sample Clients:

- Building Industry Association of Southern California, Inc.
- California Apartment Association
- Armbruster Goldsmith & Delvac LLP
- Long Beach Downtown Development Corporation

Land Use and Housing Needs

Beacon Economics works with clients to provide in-depth analysis of real estate market conditions – across commercial and residential sectors – in order to provide an impartial and informed empirical framework for clients and public sector decision makers.

Sample indicators and topics:

- Financial & Development Feasibility
- Inclusionary Housing Policies
- Housing Affordability Analysis
- Pro Forma Analysis
- Multi-Family Forecasting
- Land Use Element Analysis
- Fee Impact Analysis
- Market Reports
- Commercial Real Estate Trends
- Housing Needs Forecasts

Beacon Economics' recent project experience illustrates the breadth and broad analytic scope of the work we do for real estate industry clients and in the areas of housing policy and real estate development.