



The Economic Outlook

Singing the housing blues...

June 2019

Christopher Thornberg, PhD

Founding Partner, Beacon Economics

*Director, UCR SoBA Center for Economic Forecasting and
Development*

A look back at the Great Recession



Stock Market Crash of 2008

The stock market crash of 2008 occurred on September 29, 2008. The Dow Jones Industrial Average fell 777.68 points in intra-day trading. Until 2018, it was the largest point drop in history. It plummeted because Congress rejected the bank bailout bill.

NBER says U.S. recession began December 2007

Mon Dec 1, 12:20 pm ET
WASHINGTON (Reuters) – The U.S. economy slipped into recession in December 2007, the National Bureau of Economic Research's business cycle dating committee announced on Monday.

So what's going on?

- A fall to remember
 - Heard on the street “There are only two positions out there: cash, and fetal”
 - Its not ‘what Wall Street troubles mean to California’, its ‘what California troubles mean for Wall Street’
 - Recession was already fully underway even if many economists and politicians remained in deep denial
- What went wrong
 - The big three imbalances: housing, finance, and the consumer
- Where from here?
 - Things are bad.. But not THAT bad! So far the numbers are in line (if a bit worse) than past recessions, and proportionate to the imbalances in the economy...
 - Recovery is a given, the big question is when

Will the Real Economy Please Stand Up?

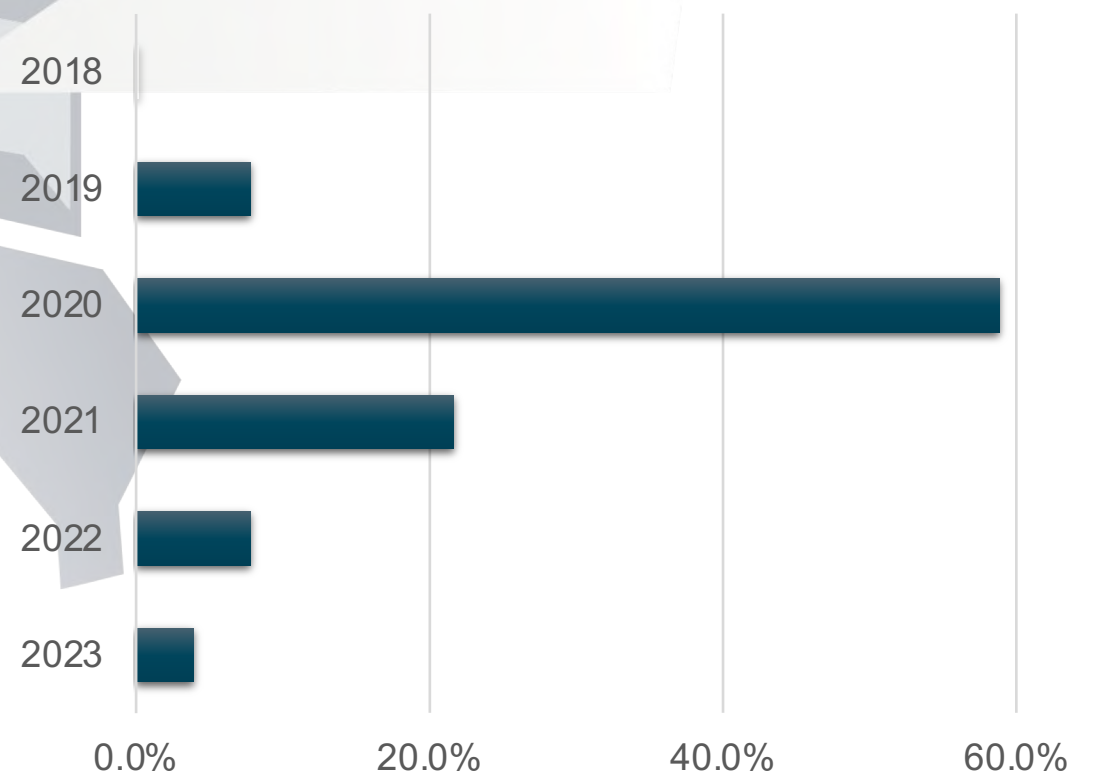


It isn't the 'when', it's the 'why'

Why so glum?

- 2018 Growth: 3.2% with .75% fiscal stimulus after-burner
- Labor markets, consumer spending, business investment, wages, exports, energy, debt levels still all on steady sustainable paths
- Interest rates still low, inflation still constrained
- 2019: back to a steady pace of 2 to 2.5% growth
- Still a low chance of recession in next 24 months

WSJ Next Recession Poll



Will the Real Economy Please Stand Up?



Brakes and Imbalances

- Labor shortages impacting employers
- Local Housing Shortages
- Recent market volatility / rising long term rates
- An overly aggressive Fed, the flat yield curve
- Sharp growth in government deficits
- Global trade / security worries

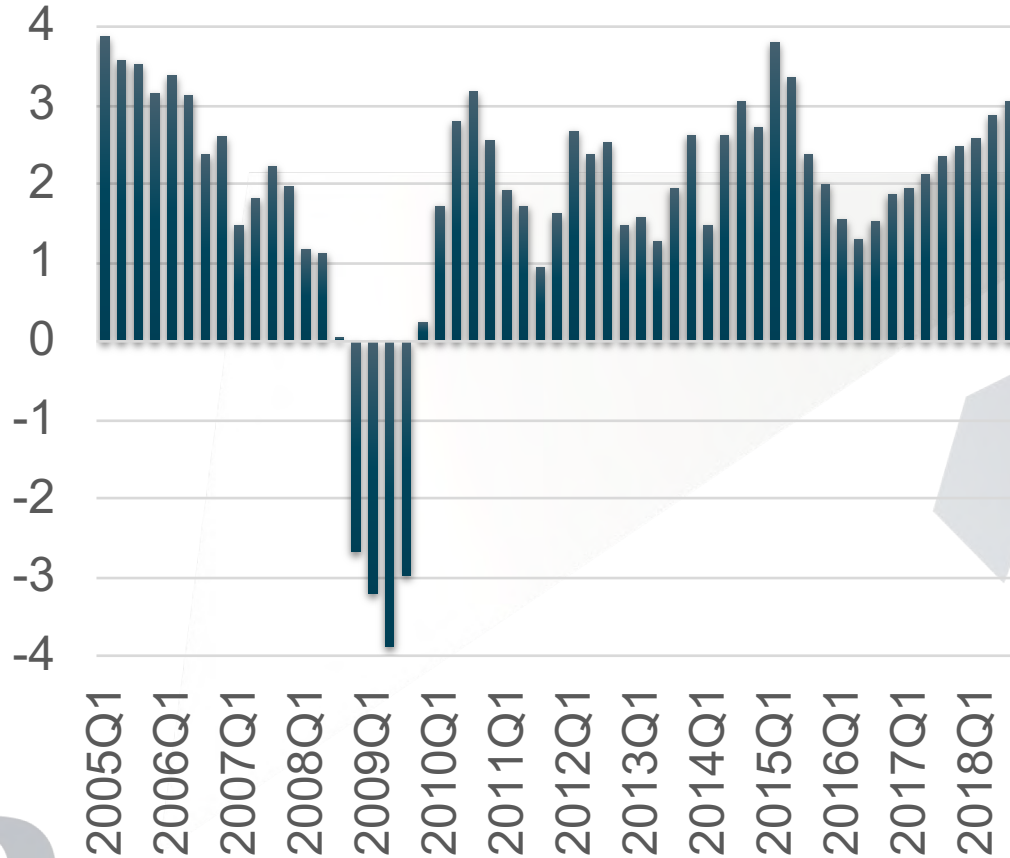
Political Dysfunction

- Little effort to deal with underinvestment in infrastructure, rising wealth inequality, healthcare cost inflation, pension and entitlement issues, etc etc etc
- The great disconnect between economic realities and political discourse

GDP: 2018 2.9% Year over Year



Real GDP Growth (yoy)

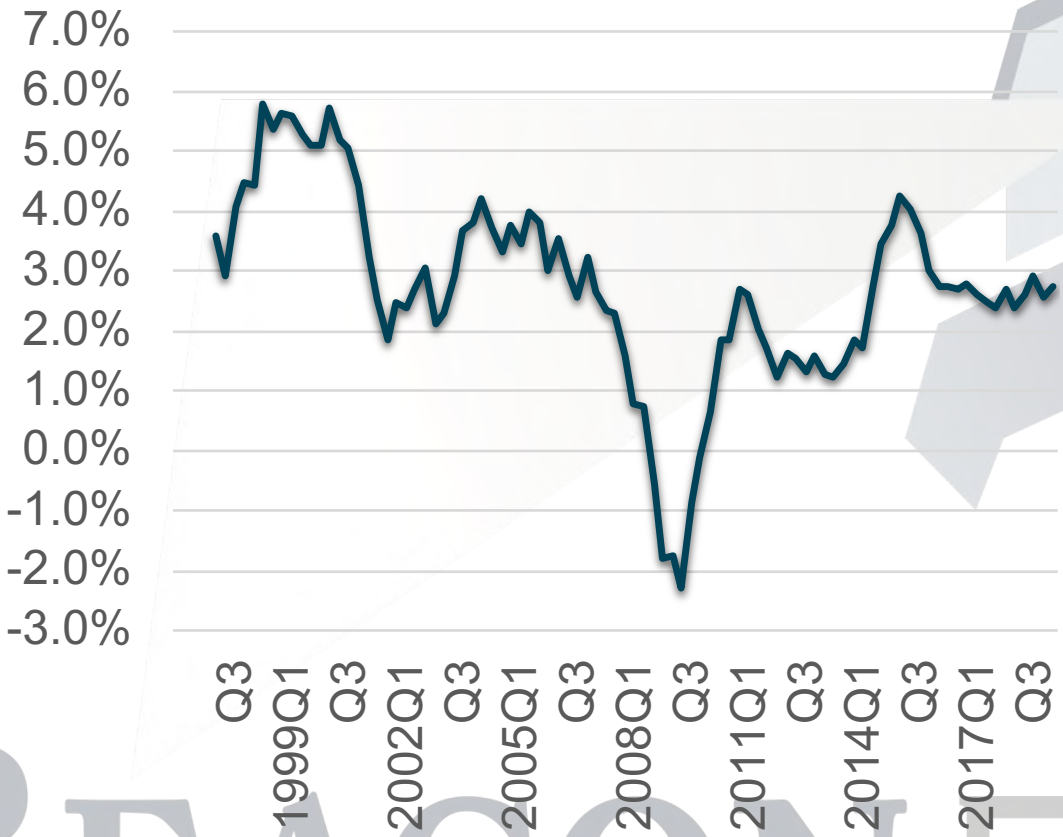


	2017.00	2018.00	2019	2019
	Avg	Avg	Q1	Q2 Est
GDP	2.48	3.00	3.10	1.40
Consumption	1.83	1.74	0.90	2.13
Fixed investment	0.95	0.80	0.18	0.07
Structures	0.08	0.15	0.05	
Equipment	0.54	0.34	-0.06	
IPP	0.18	0.44	0.32	
Residential	0.15	-0.13	-0.13	
Inventory	-0.11	0.39	0.60	-1.16
Net exports	-0.23	-0.22	0.96	0.04
Exports	0.56	0.29	0.58	
Imports	-0.79	-0.51	0.39	
Government	0.03	0.27	0.42	0.30
Federal	0.09	0.18	0.00	
State and local	-0.06	0.10	0.42	

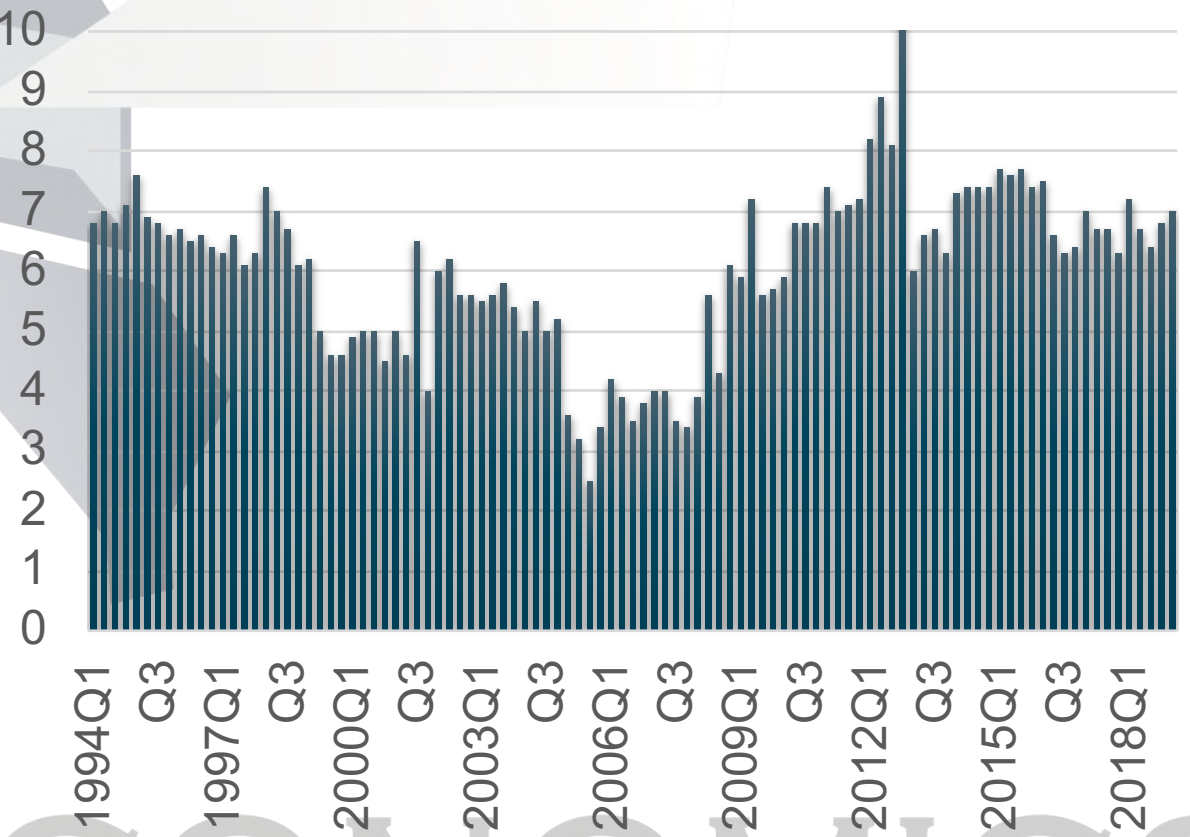
Consumer Spending



Real Consumer Spending Growth (y-o-y)



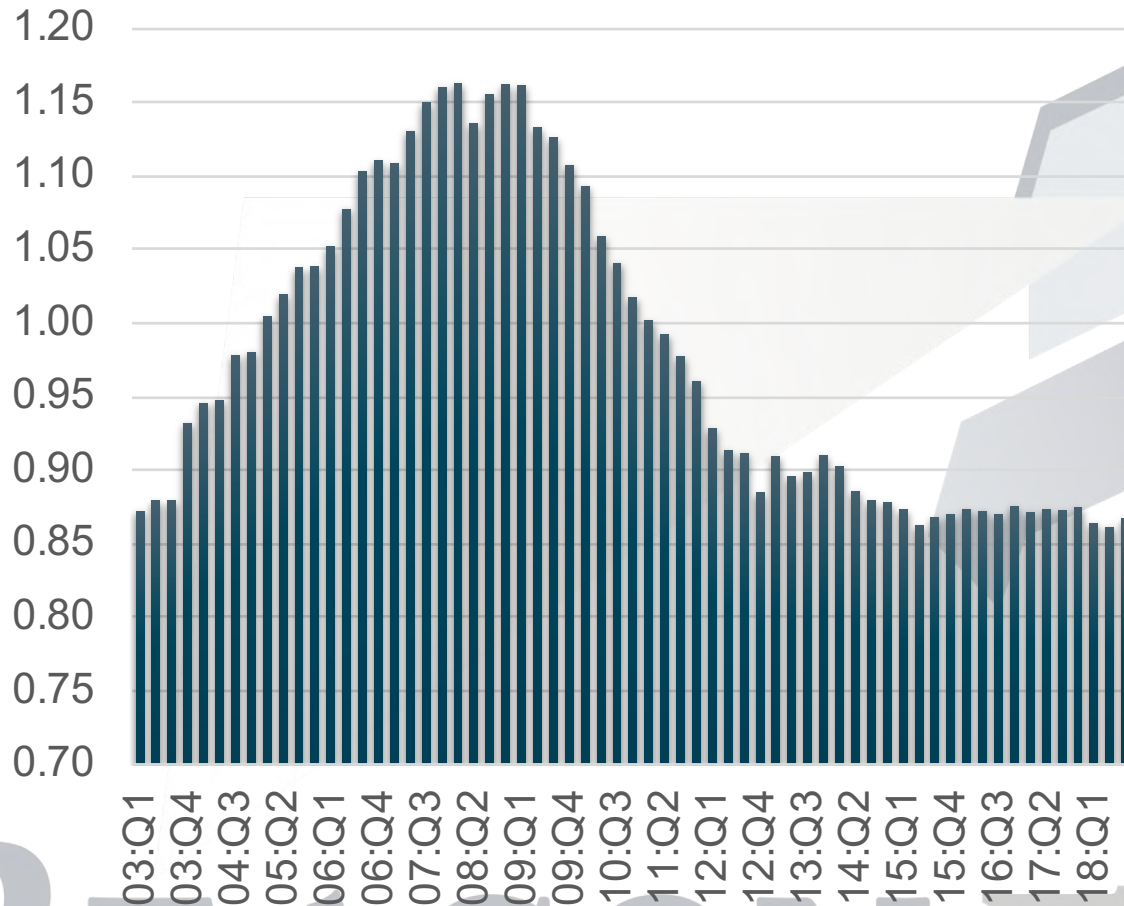
Personal saving as a percentage of disposable personal income



Consumer Debt Loads



Household Debt / DPI Ratio



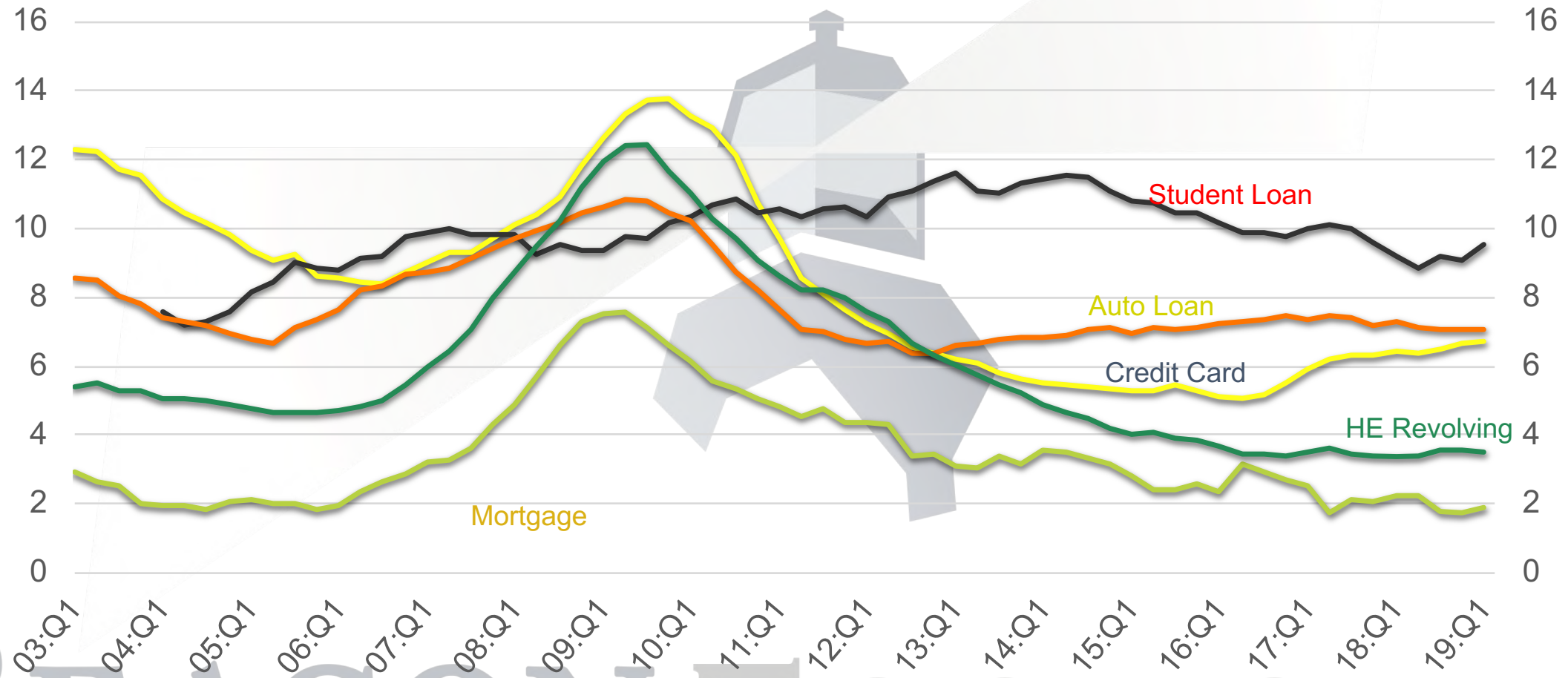
Financial Obligations (% of DPI)



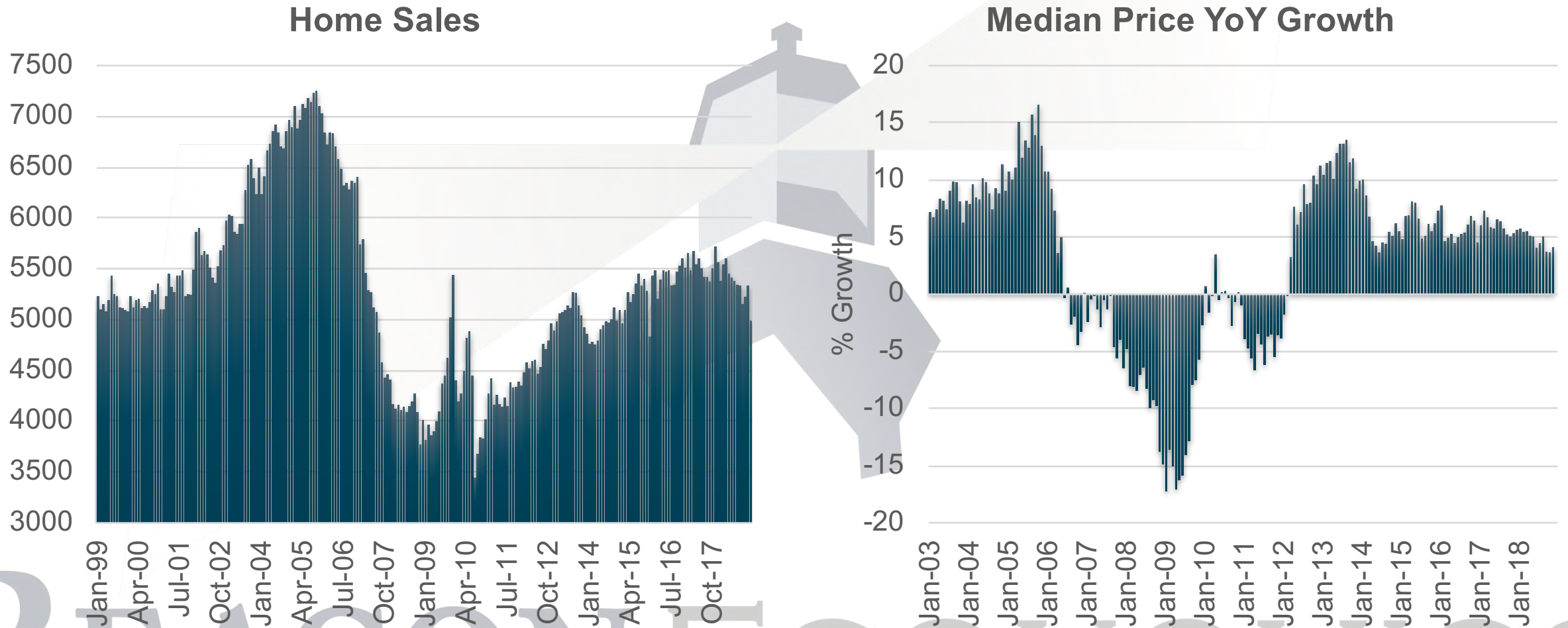
Consumer Debt



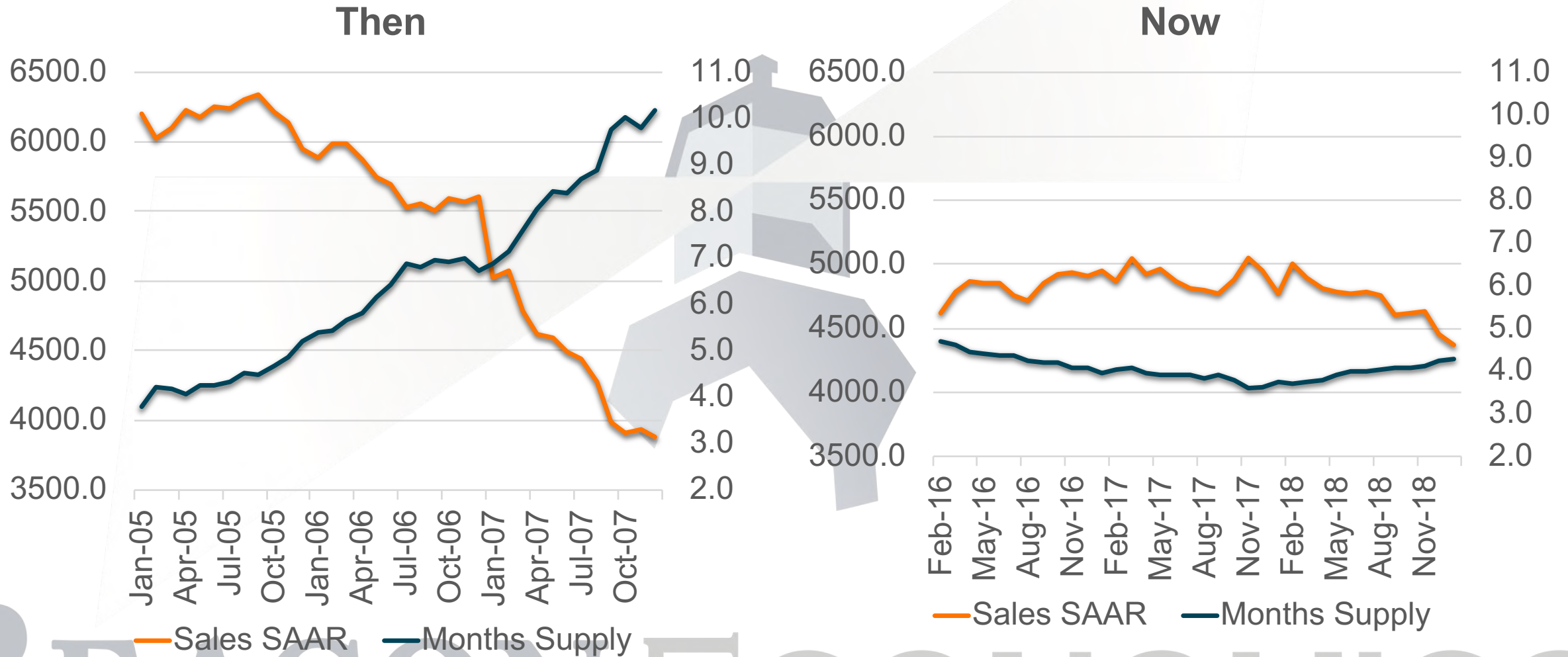
Transition to 30 day delinquent



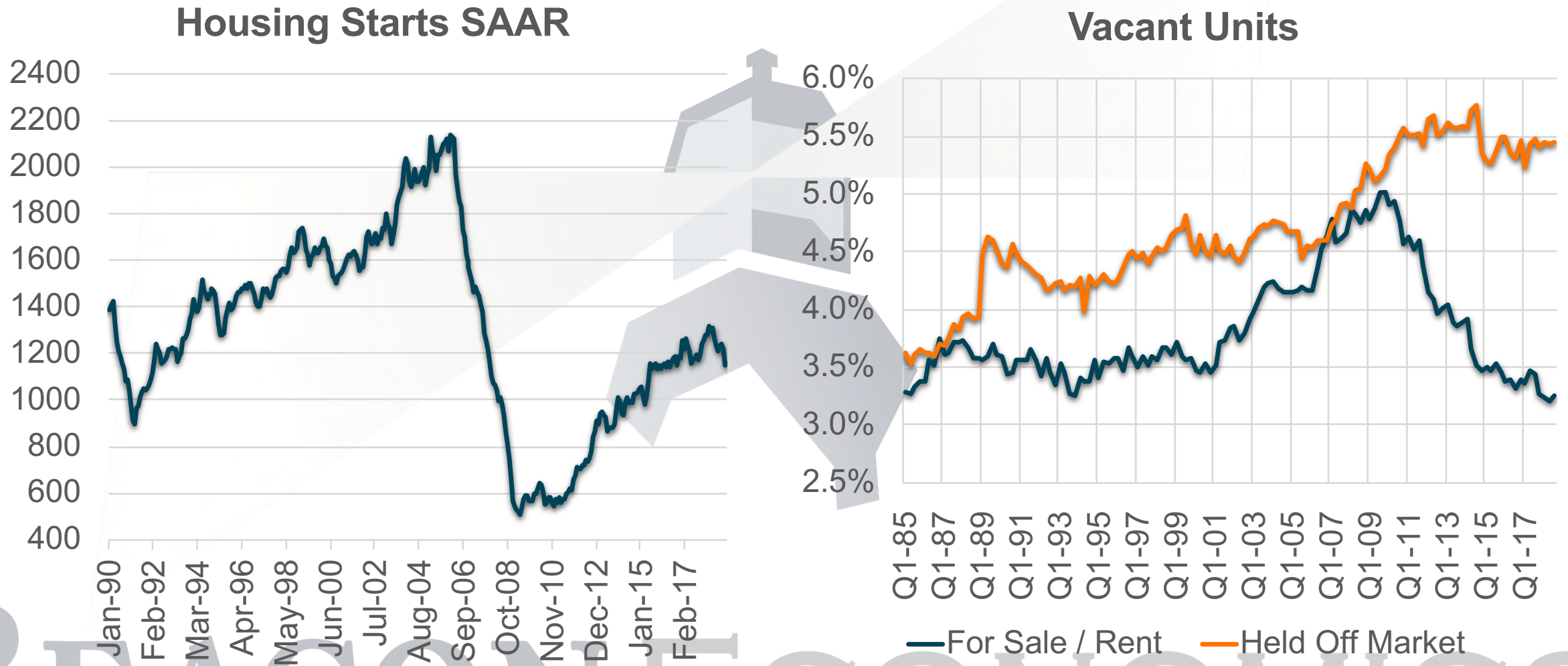
Housing Markets: Slightly Slowing



What does a market crash look like?



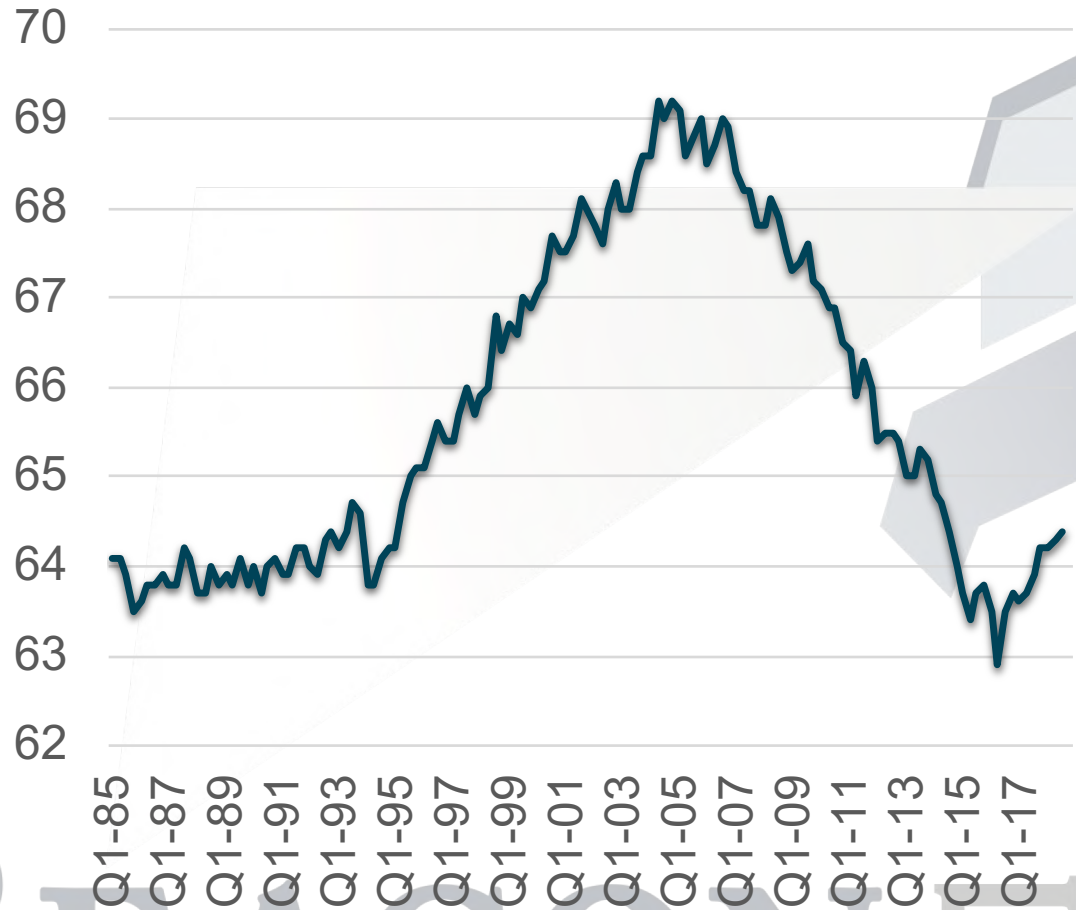
Pace of Construction



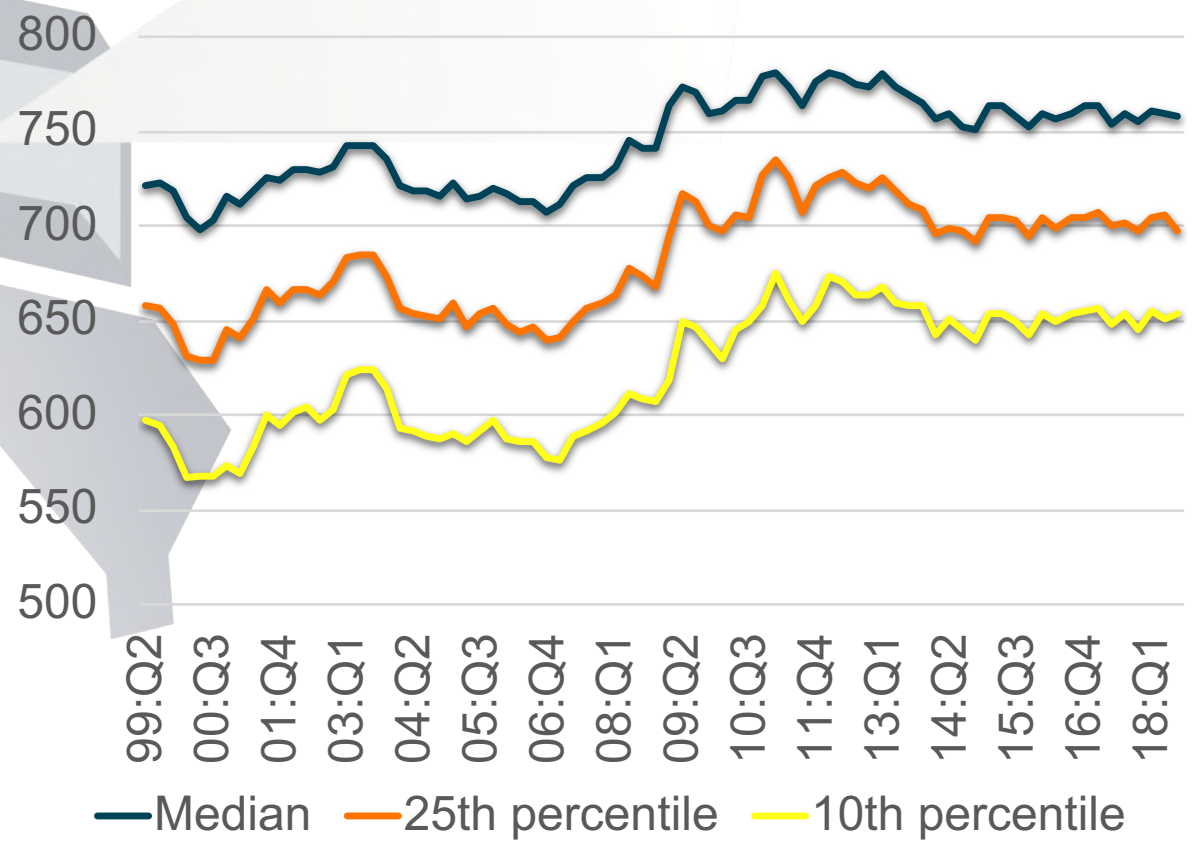
Credit Conditions



Ownership Rates



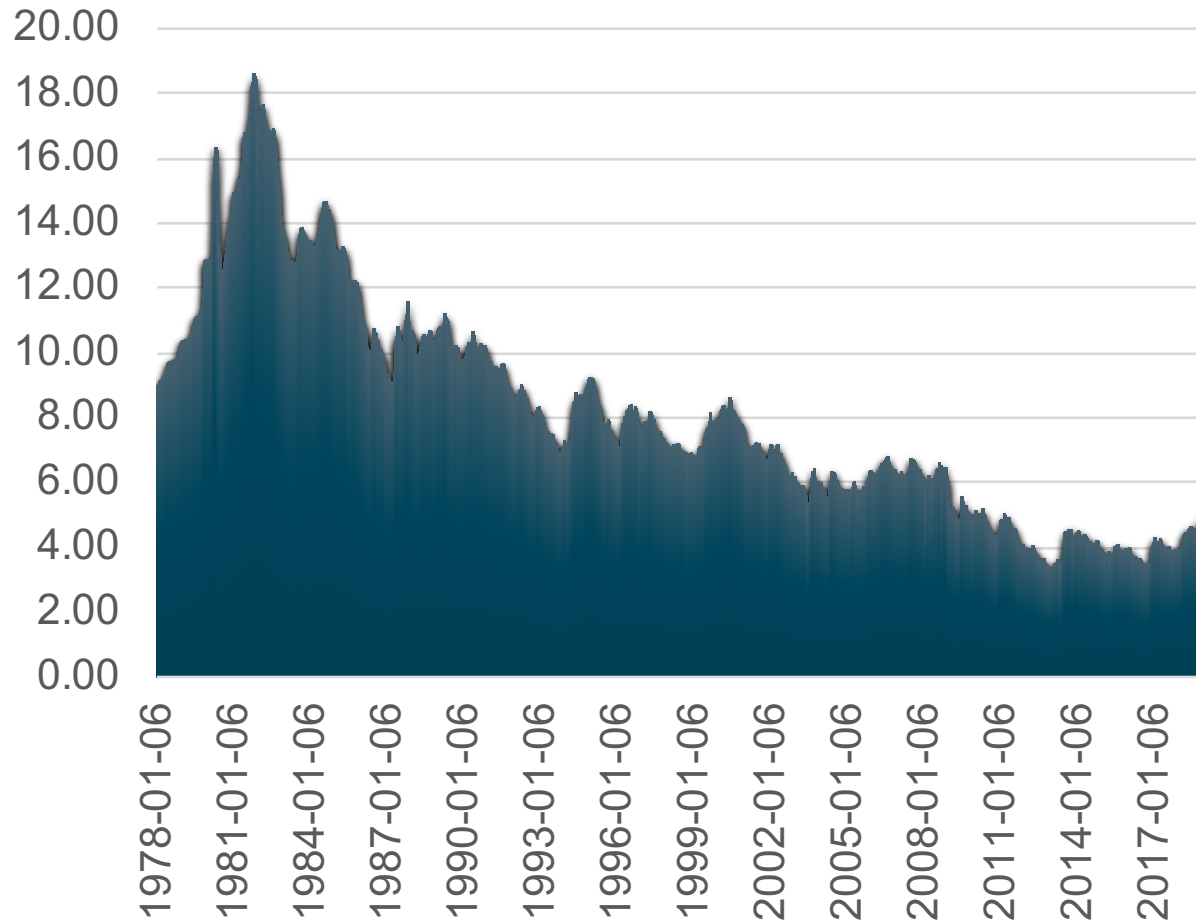
Mortgage Origination by Credit Score



Rising Rates



Mortgage Rates (30 Year Fixed)



Why higher?

- Economic Growth
- Federal Borrowing
- Strong Equity Market

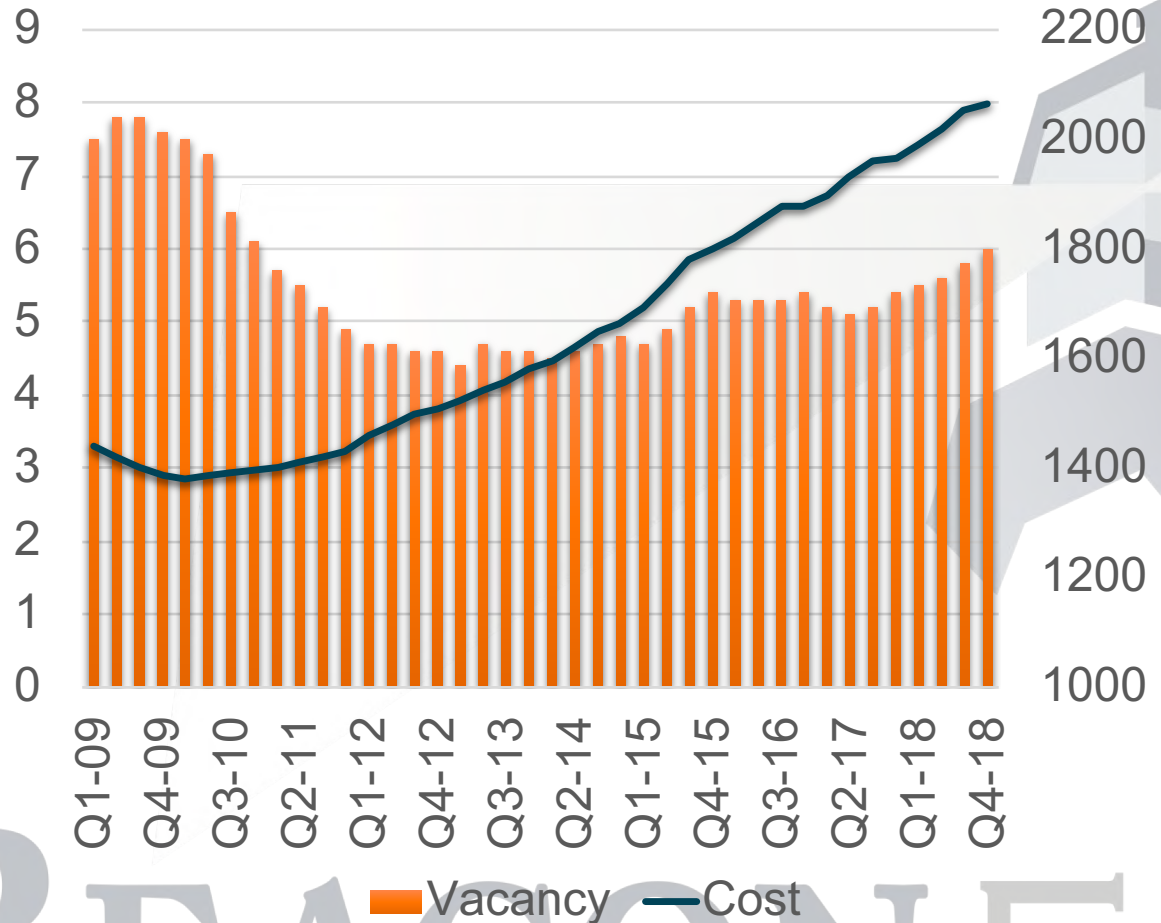
Not

- Inflation
- Fed Policy
- Lack of Capital

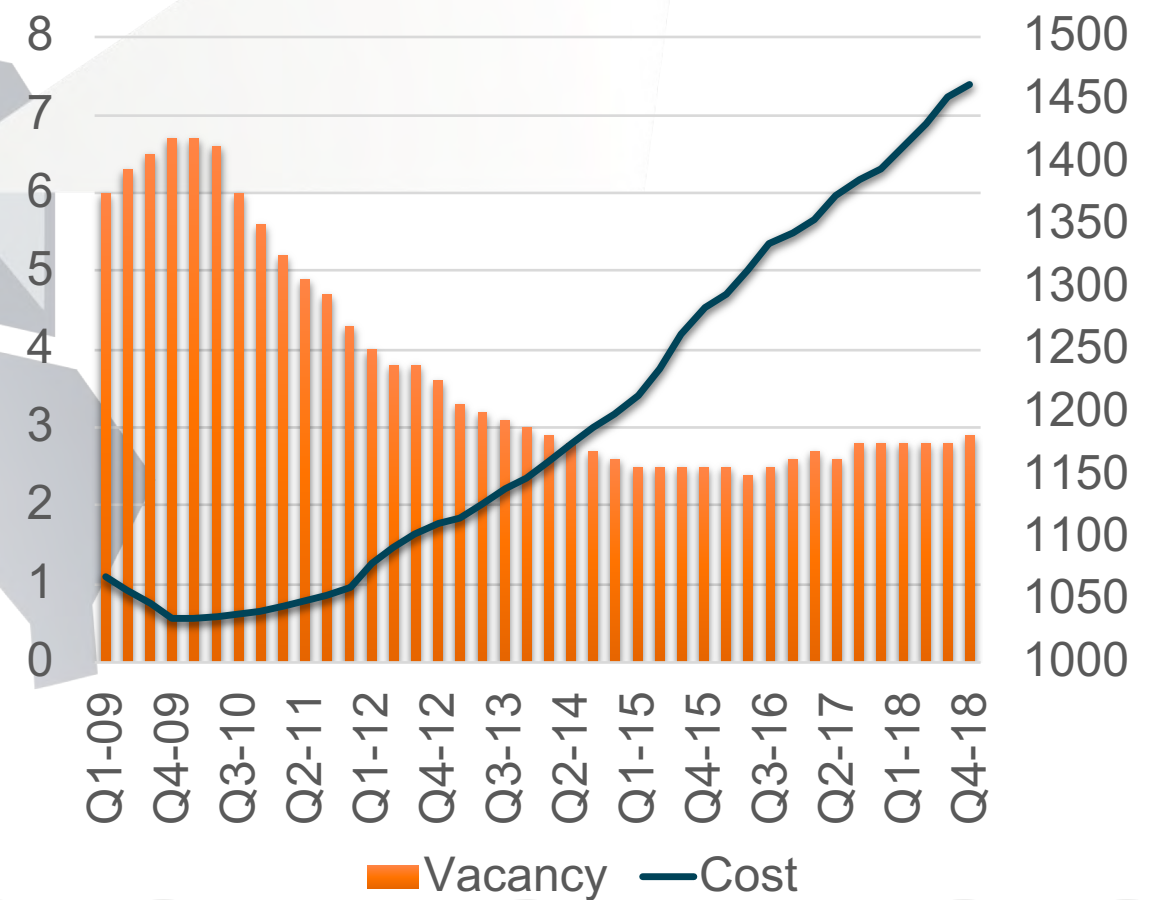
National Rental Markets



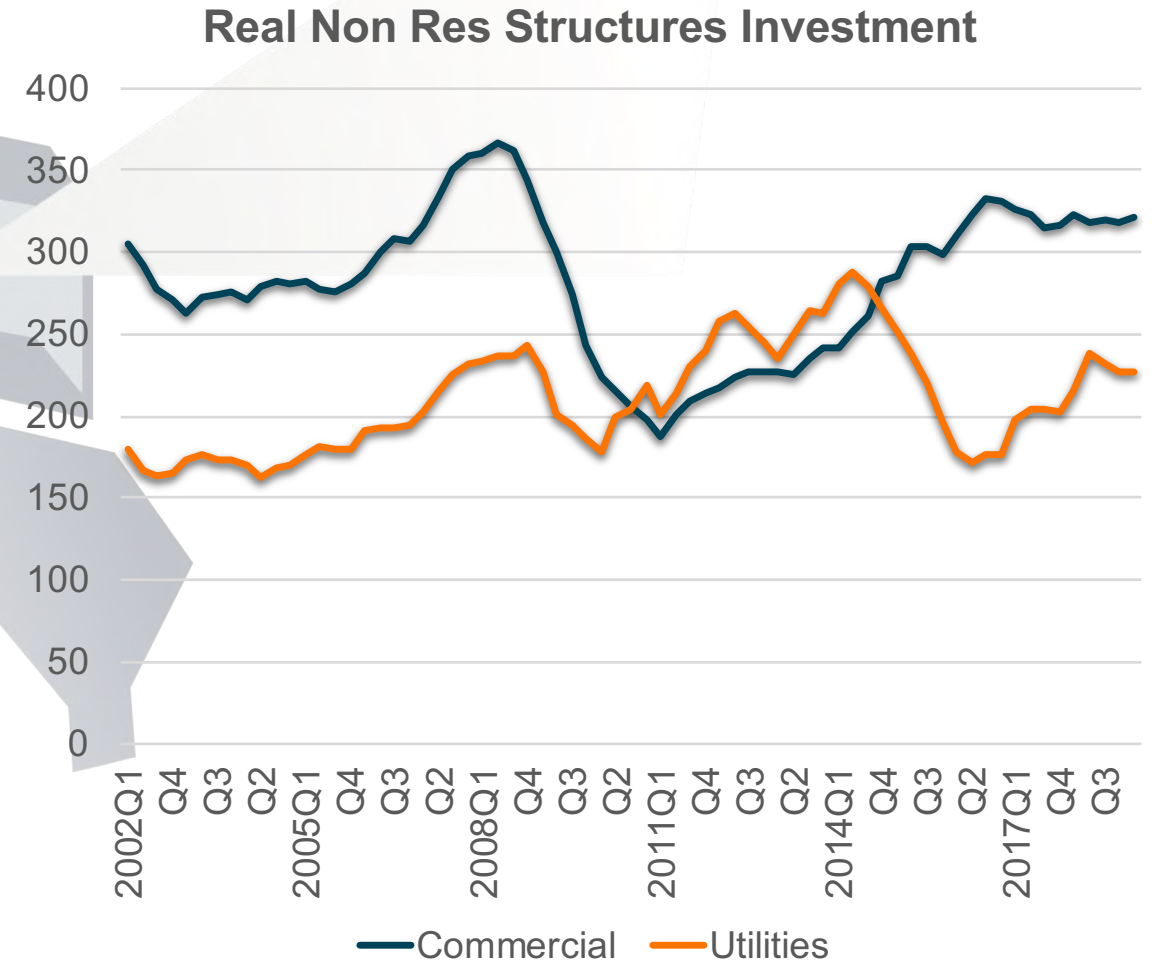
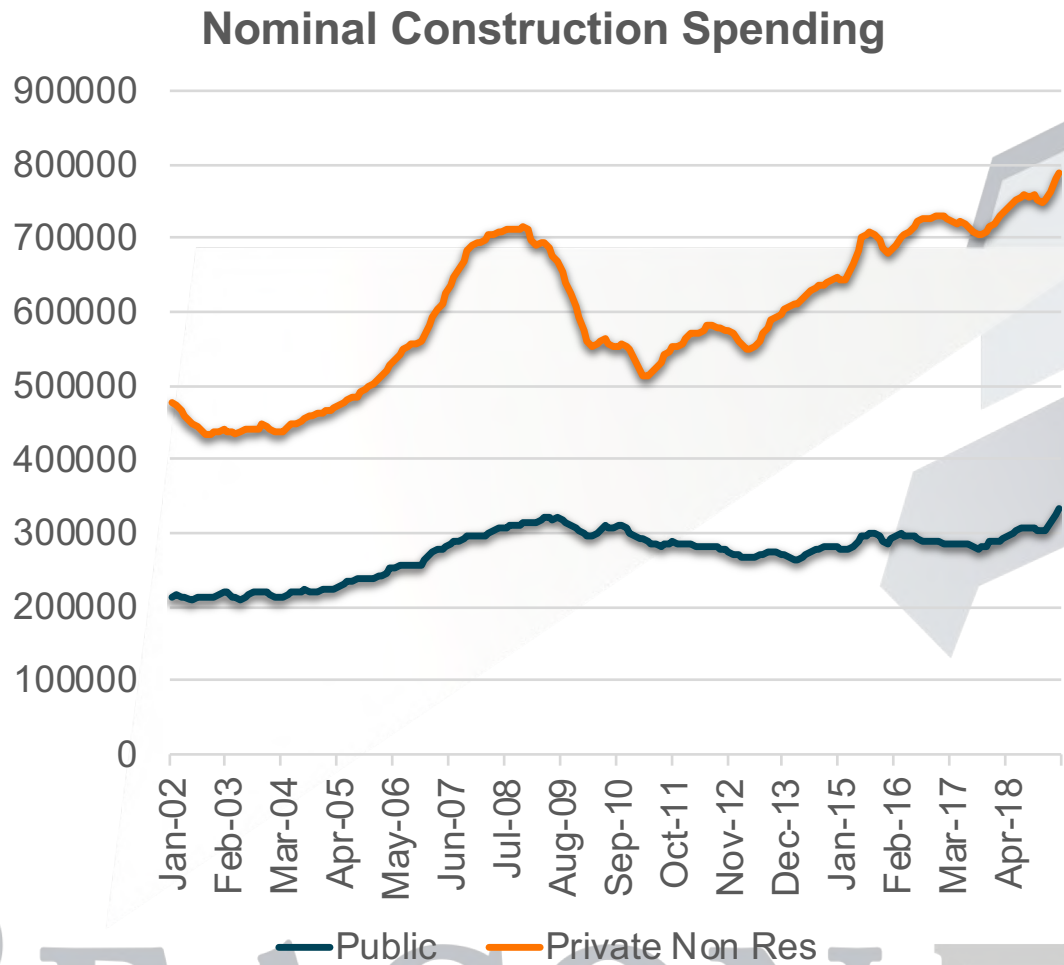
Class A Apartments



Class B/C Apartments



Construction Spending – National

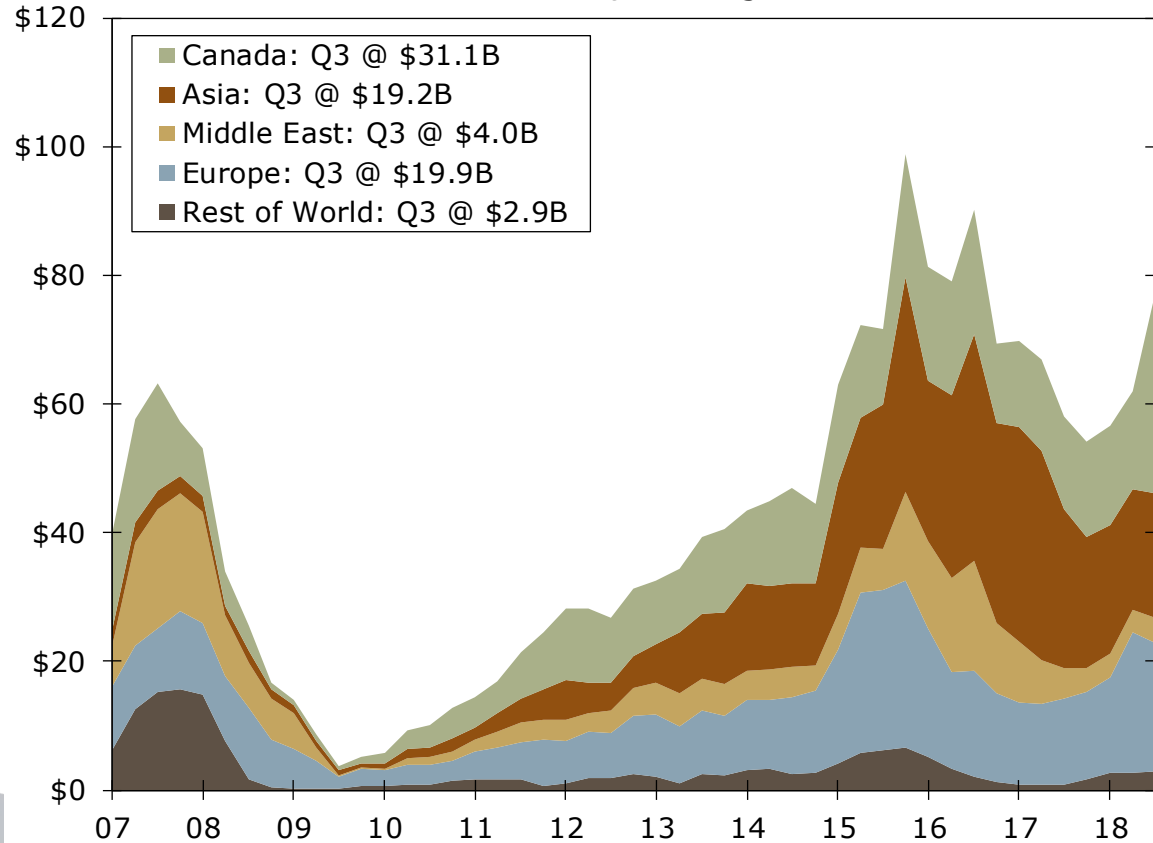


National Trends in Real Estate



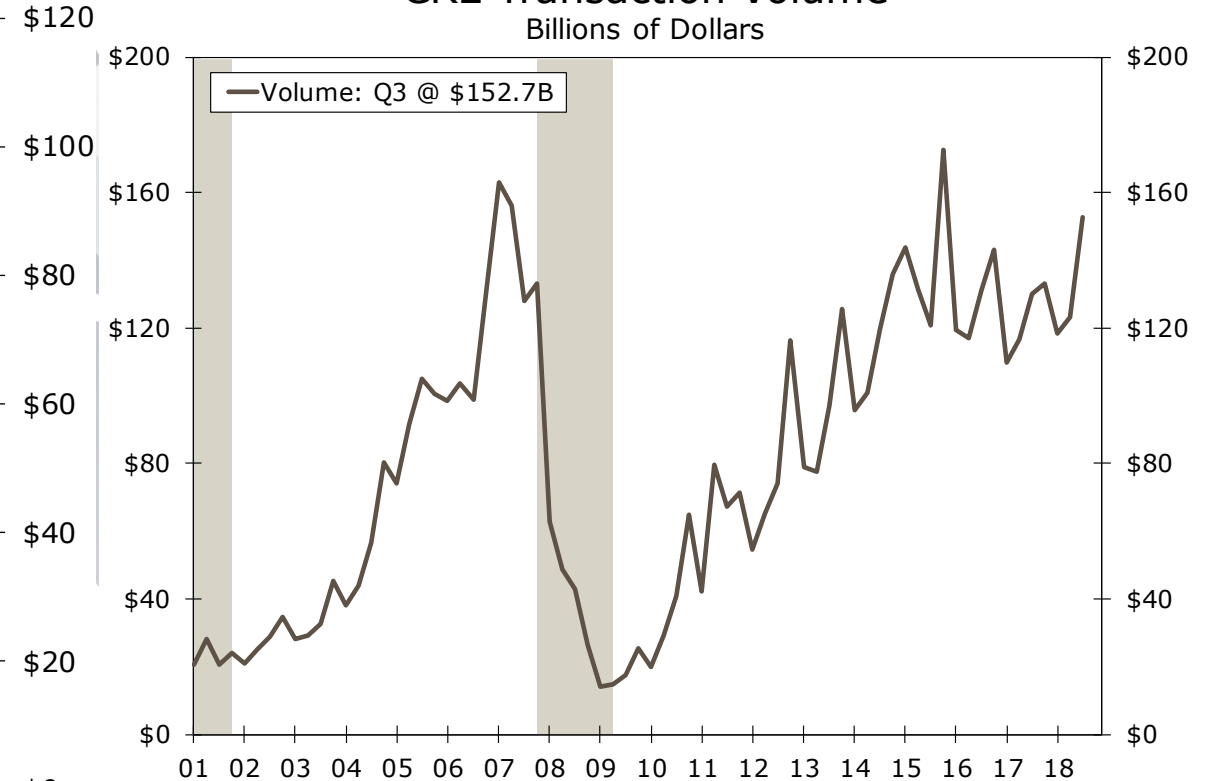
Origin of Capital Into the United States

For Commercial Real Estate, 4-Qtr. Moving Sum, Billions of Dollars



CRE Transaction Volume

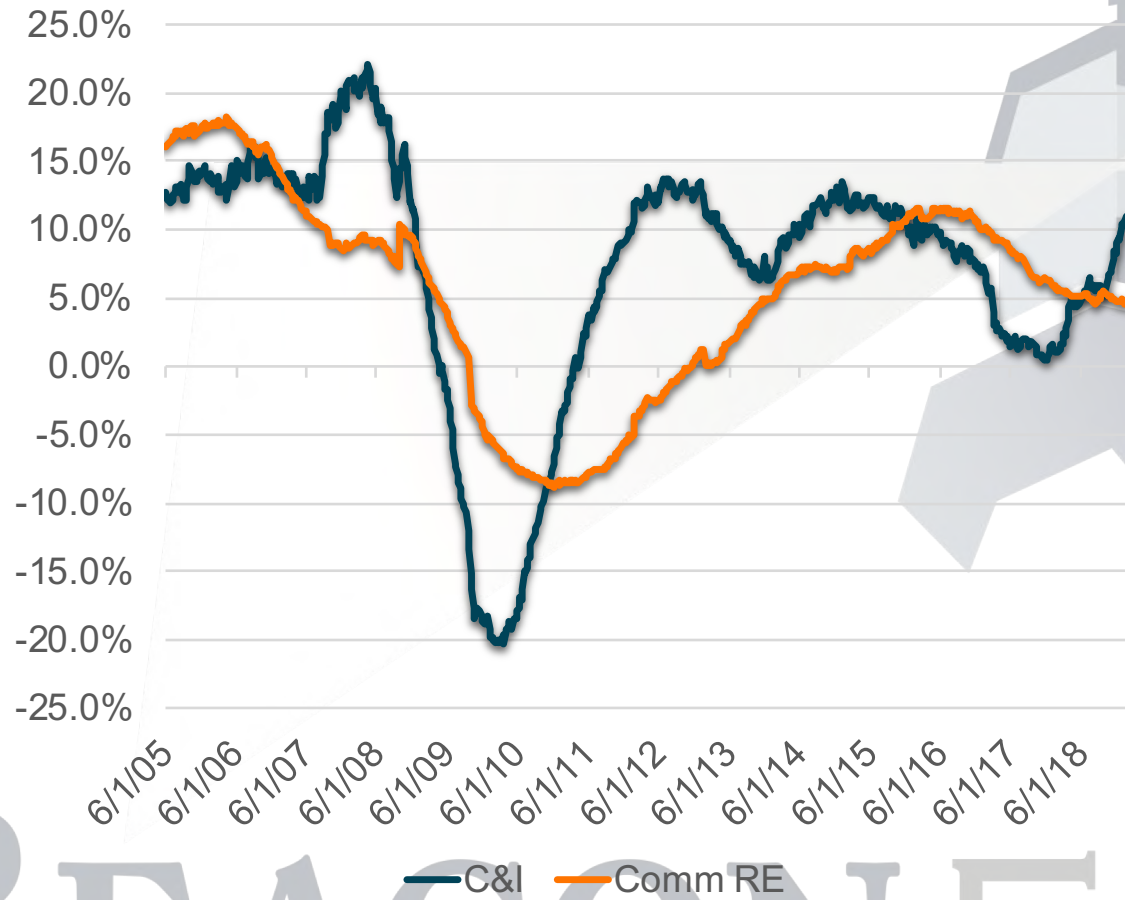
Billions of Dollars



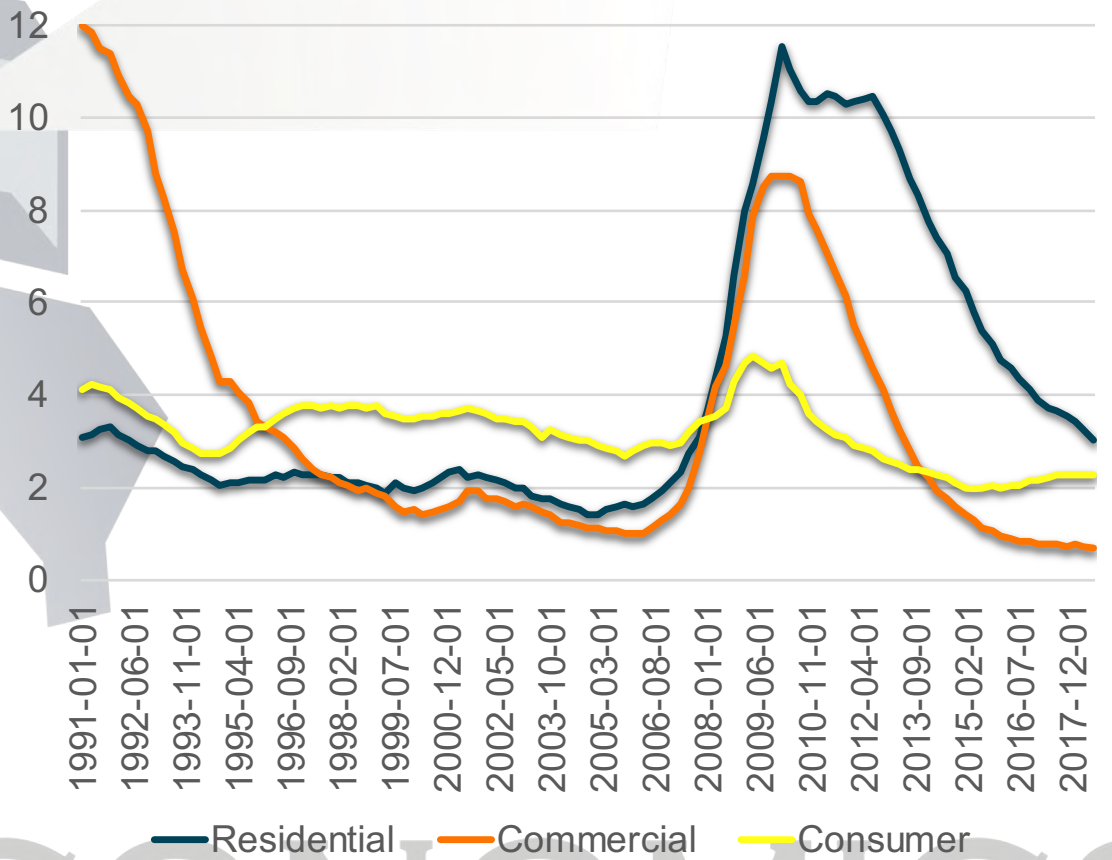
National Trends in Real Estate



Bank Debt: Y-o-Y Growth



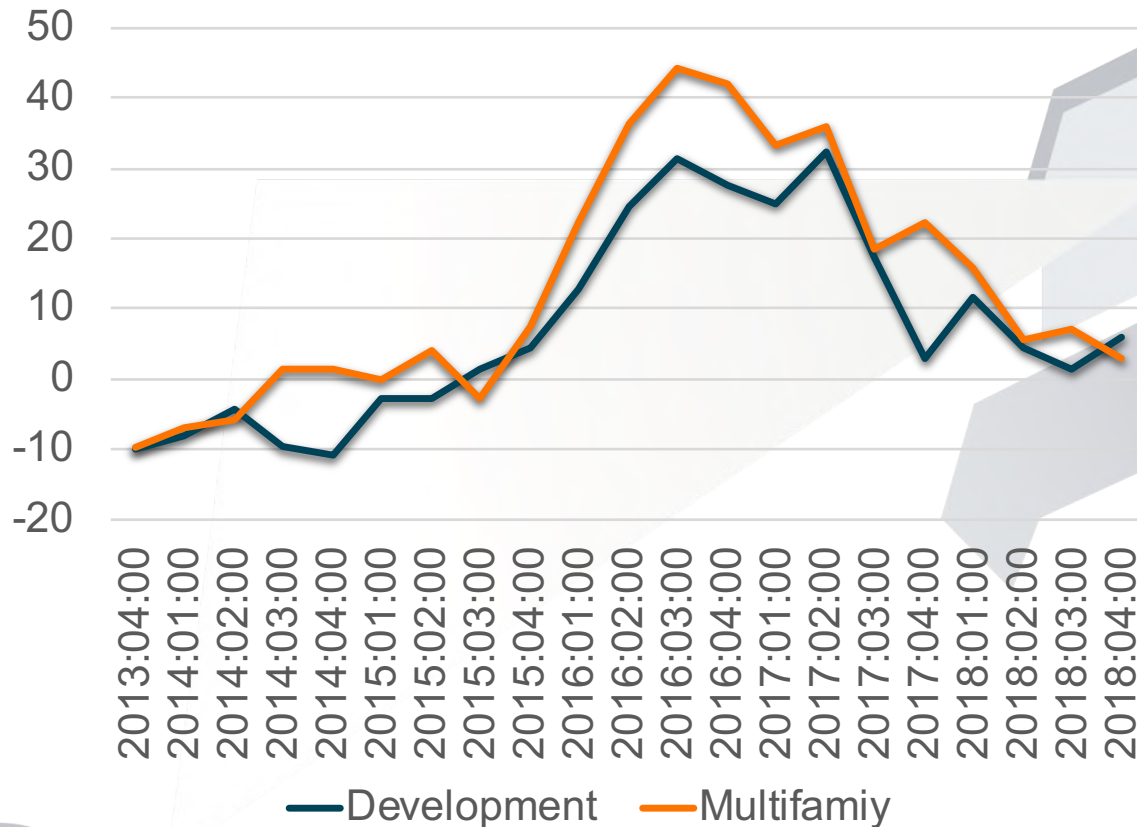
Loan Delinquencies: All Commercial Banks



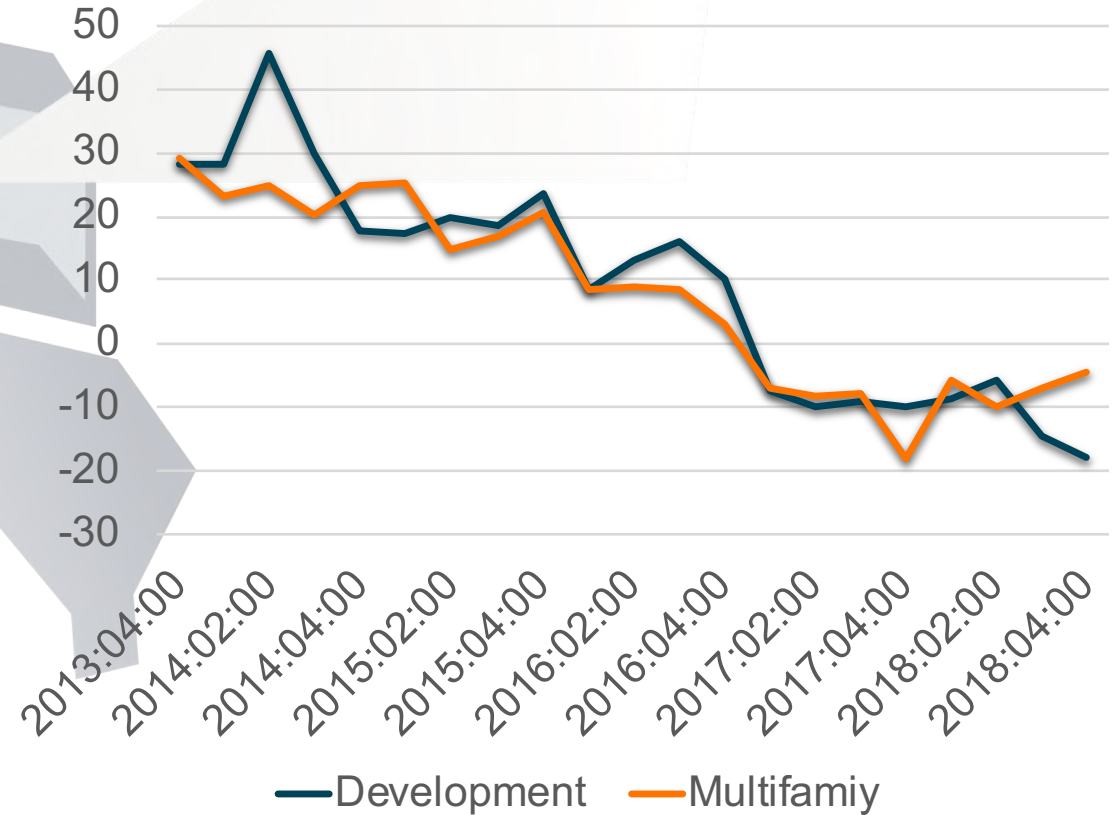
Lending Markets?



SLOS: Tightening Standards



Increasing Demand

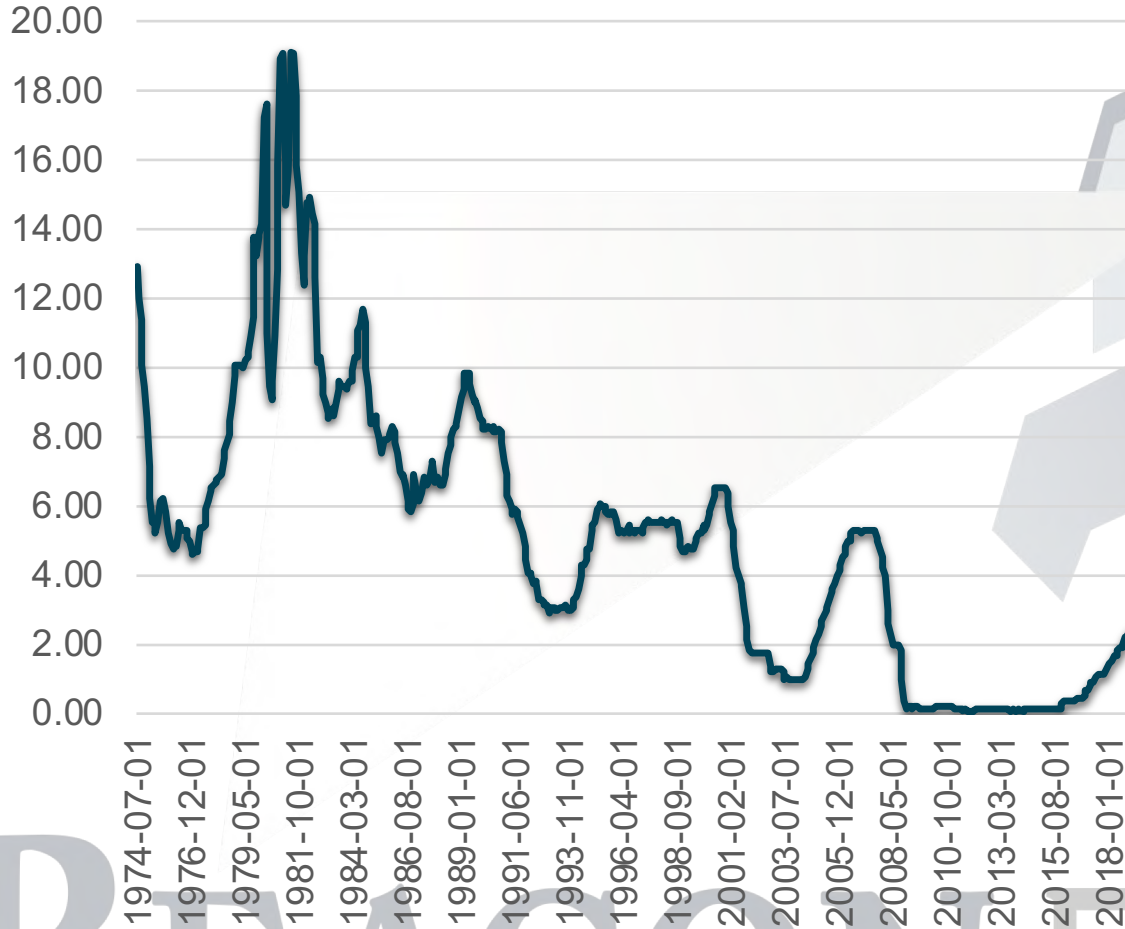


Senior Loan Officer Survey: Net Percent of Respondents saying yes

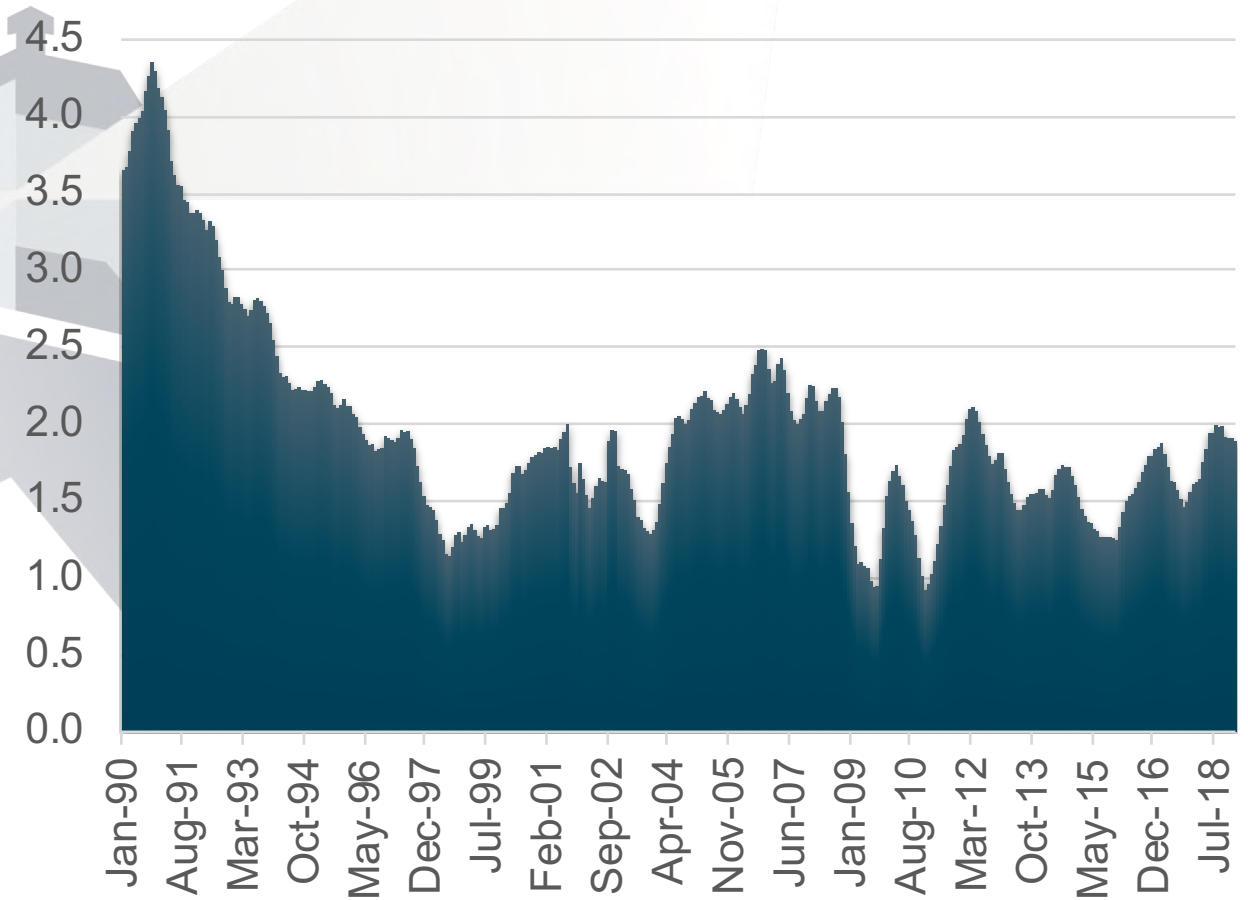
Federal Reserve Policy



Federal Funds Rate



Core PCE Inflation



Federal Reserve Policy



M2 Growth (Y-o-Y)



10 Year 3 Month Spread



Some questions to keep you up tonight

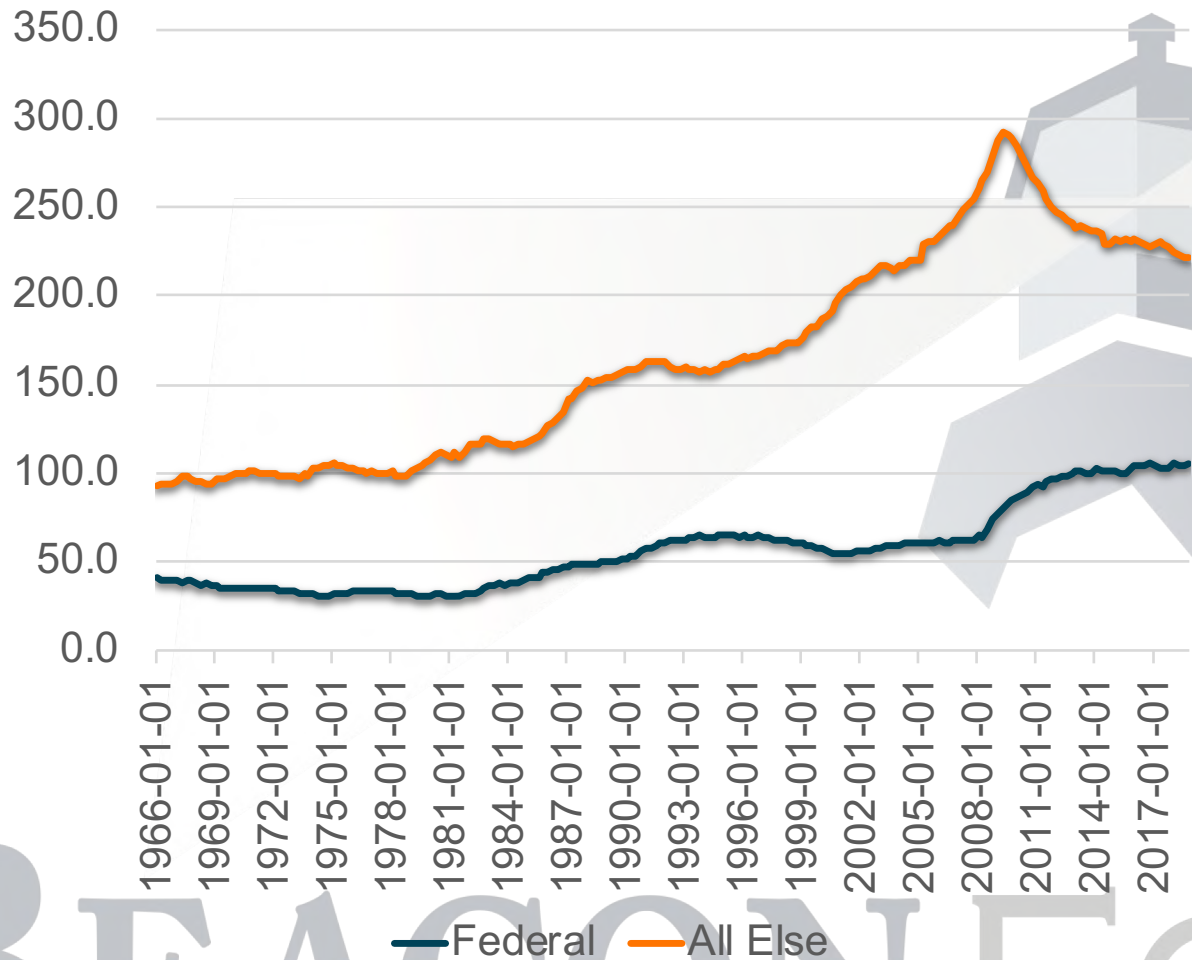
- Does free will truly exist?
- Why is there a "d" in "fridge" but not in "refrigerator"?
- Is there a synonym for "synonym"?
- What *is* the airspeed velocity of an unladen swallow?
- If the Fed inverts the yield curve and the economy is otherwise fine, will it cause a recession?



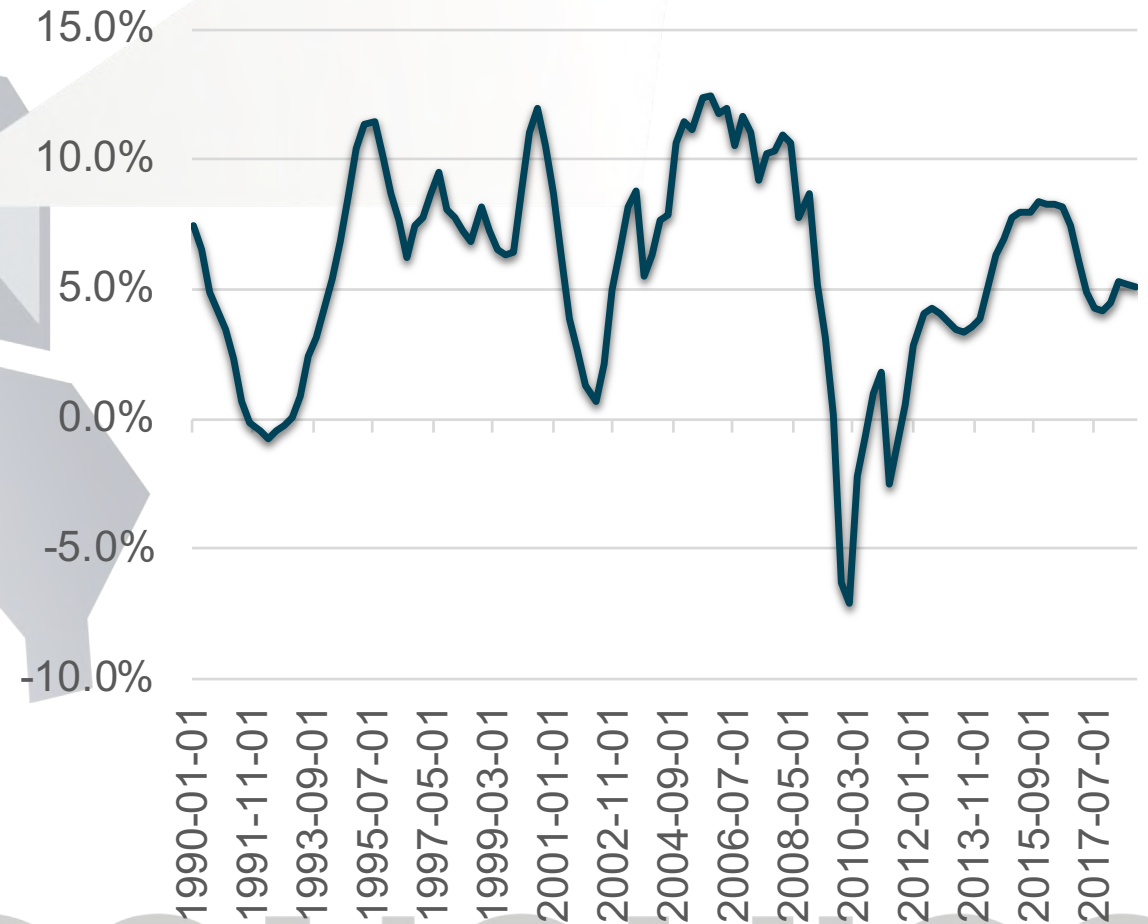
Bubble Trouble?



Debt as Share GDP (Percent)



Growth in Bank and CU Loans



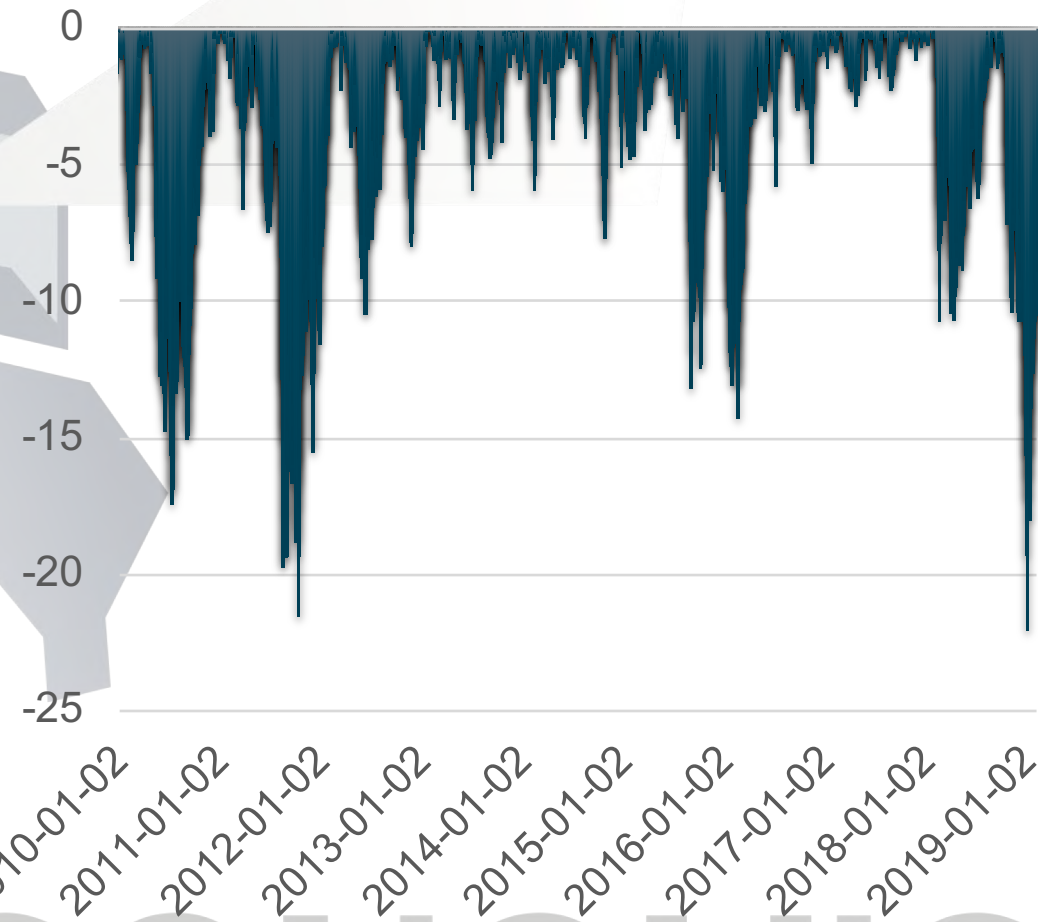
So what's up with the markets?



S&P 500



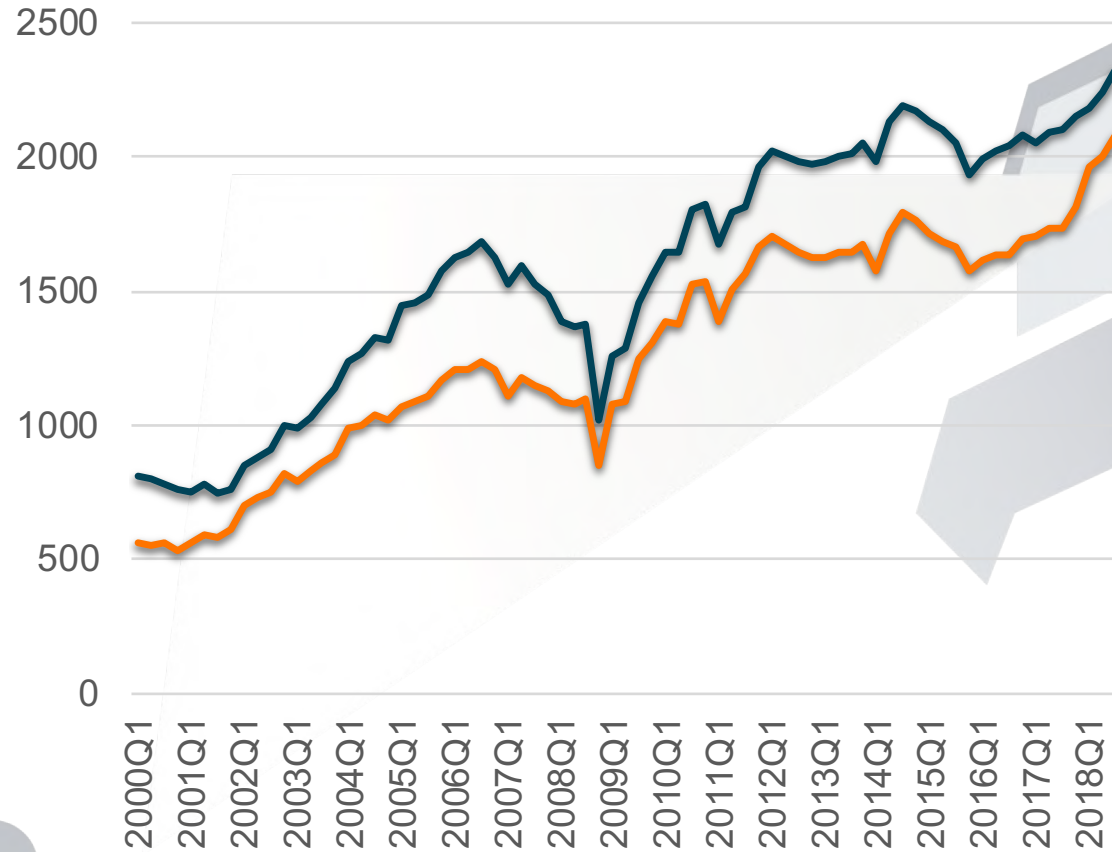
Market Selloffs Current Expansion



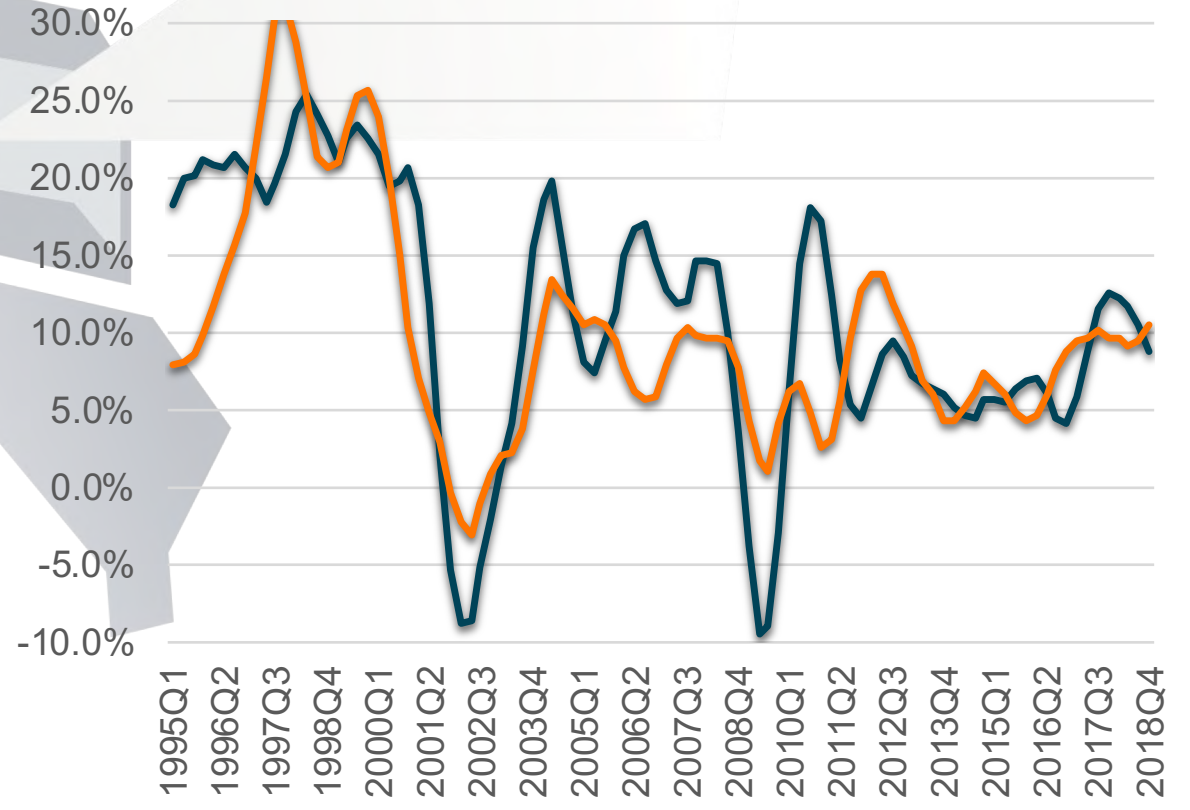
Business Fundamentals



US Corporate Profits (BEA)



Business Investment Growth (Real, Smoothed YoY)



— Profits (Adj) — Net taxes

— IT Equipment — Software

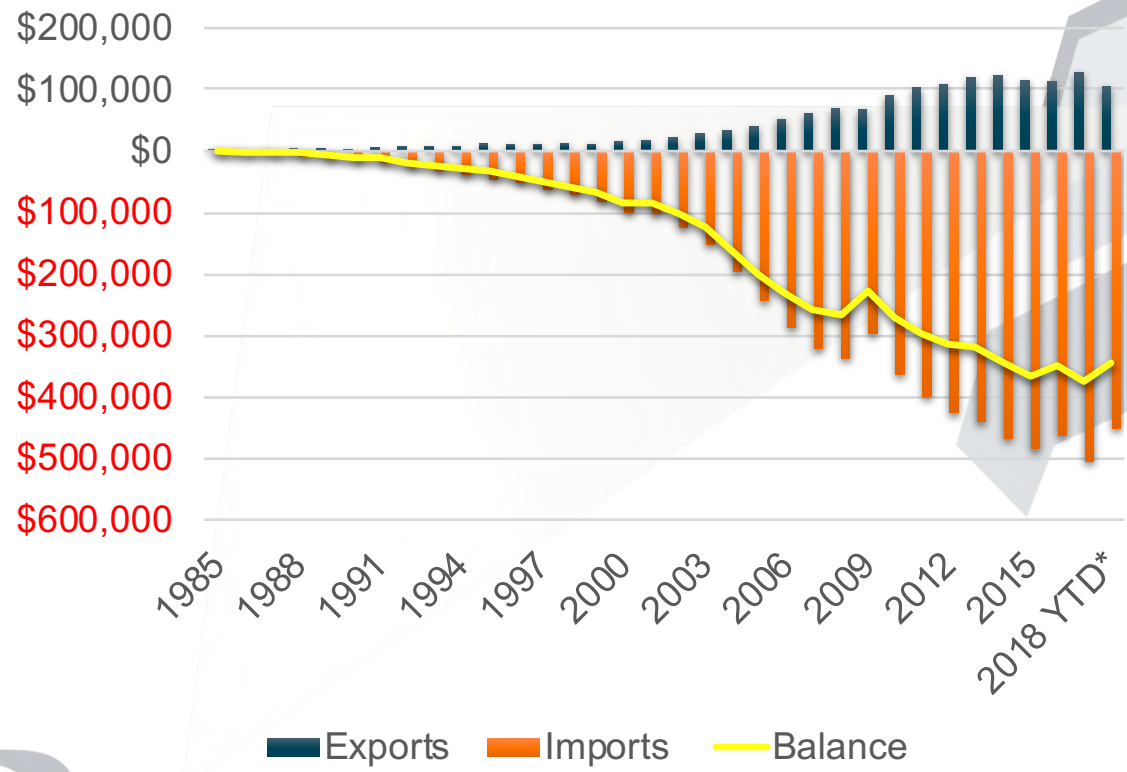
The China Syndrome

Value US Exports to China as % of GDP:
0.75%

Value China Exports to US as % of GDP:
4.0%



United States Goods Trade with China (Millions)



	Exports (\$, Billions)	Share	Imports (\$, Billions)	Share
Total	1,389		2,122	
China	102.5	7.4%	447.0	21.1%
Canada	251.5	18.1%	269.2	12.7%
Mexico	222.6	16.0%	289.7	13.7%
Japan	61.38	4.4%	117.6	5.5%
UK	54.76	3.9%	50.2	2.4%
Germany	48.31	3.5%	104.8	4.9%
S. Korea	46.38	3.3%	61.5	2.9%
Netherlands	40.76	2.9%	19.5	0.9%
Brazil	33.29	2.4%	26.4	1.2%
Hong Kong	31.51	2.3%	5.6	0.3%
France	30.3	2.2%	43.7	2.1%
Singapore	27.69	2.0%	23.3	1.1%

*As of October 2018

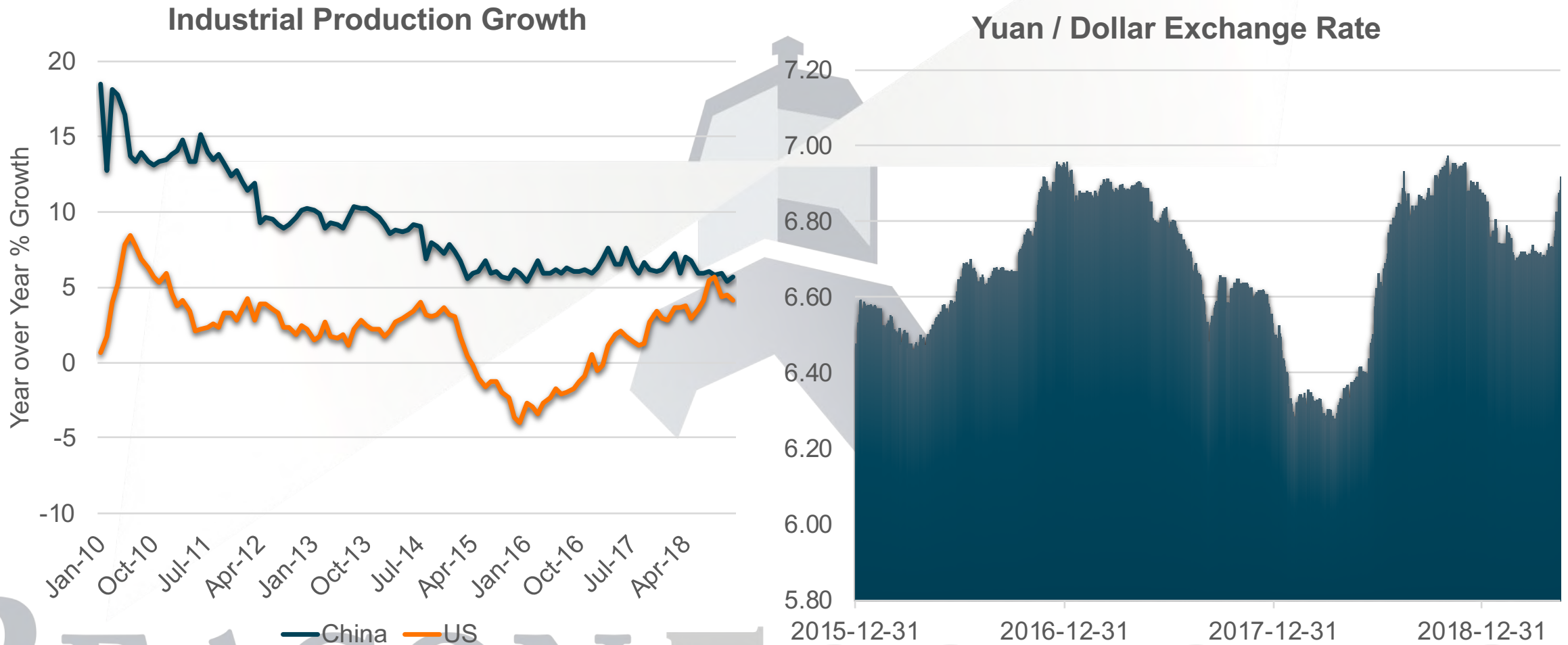
Where are the risks?



Exports to China (Nominal)	ANNUAL 2017	ANNUAL 2018
TOTAL ALL COMMODITIES	170,335	158,403
Civilian Aircraft, Engines, And Parts	17,853	19,852
Electronic Integrated Circuits & Microassembl, Pts	9,766	9,844
Motor Cars & Vehicles For Transporting Persons	10,665	6,743
Electric Apparatus For Line Telephony Etc, Parts	5,941	5,672
Crude Oil From Petroleum And Bituminous	4,592	5,534
Mach/Apps For Manufct Of Semicndct Boules	2,619	3,753
Diamonds, Worked Or Not, Not Mounted Or Set	3,457	3,282
Soybeans, Whether Or Not Broken	12,254	3,146
Medical, Surgical, Dental Or Vet Inst, No Elec, Pt	2,754	3,104
Articles Of Jewelry & Pts, Of Prec Metal Or Clad	3,386	2,874
Parts & Access For Motor Vehicles	2,365	2,464
Automatic Data Process Machines; Magn Reader	2,010	2,120
Inst Etc For Physical Etc Anal Etc; Microtome; Pts	1,741	1,899
Paintings, Drawings Etc By Hand As Art; Collag Etc	1,282	1,842
Petroleum Gases & Other Gaseous Hydrocarbons	2,414	1,735
Semiconductor Devices; Light-Emit Diodes Etc, Pts	1,529	1,726

Imports from China (Nominal)	ANNUAL 2017	ANNUAL 2018
TOTAL ALL COMMODITIES	512,942	545,917
Electric Apparatus For Line Telephony Etc	72,153	71,622
Automatic Data Process Machines;	50,595	51,892
Parts Etc Typewriters & Other Office Mach	15,390	16,764
Furniture Nesoi And Parts Thereof	11,349	12,560
Tv Recvrs, Incl Video Monitors & Projectors	11,550	12,511
Toys Nesoi; Scale Models Etc; Puzzles; Parts	12,348	12,003
Parts & Access For Motor Vehicles	9,438	11,024
Seats (Except Barber, Dental, Etc), And Parts	10,169	10,894
Lamps & Lighting Fittings & Parts Etc Nesoi	7,197	7,778
Articles For Arcade, Table Or Parlor Games	5,812	6,799
Travel Goods, Handbags, Wallets, Jewelry	6,386	6,406
Elec Trans, Static Conv & Induct, Adp Pwr	5,739	6,298
Elec Water, Space & Soil Heaters; Hair	5,310	6,040
Print Mach Incl Ink-Jet Mach Ancil T Prnt	6,134	5,879
Trans Appar For Radiotele Etc; Tv Camera	6,016	5,738
Articles Of Plastics (Inc Polymers & Resins)	4,582	5,222

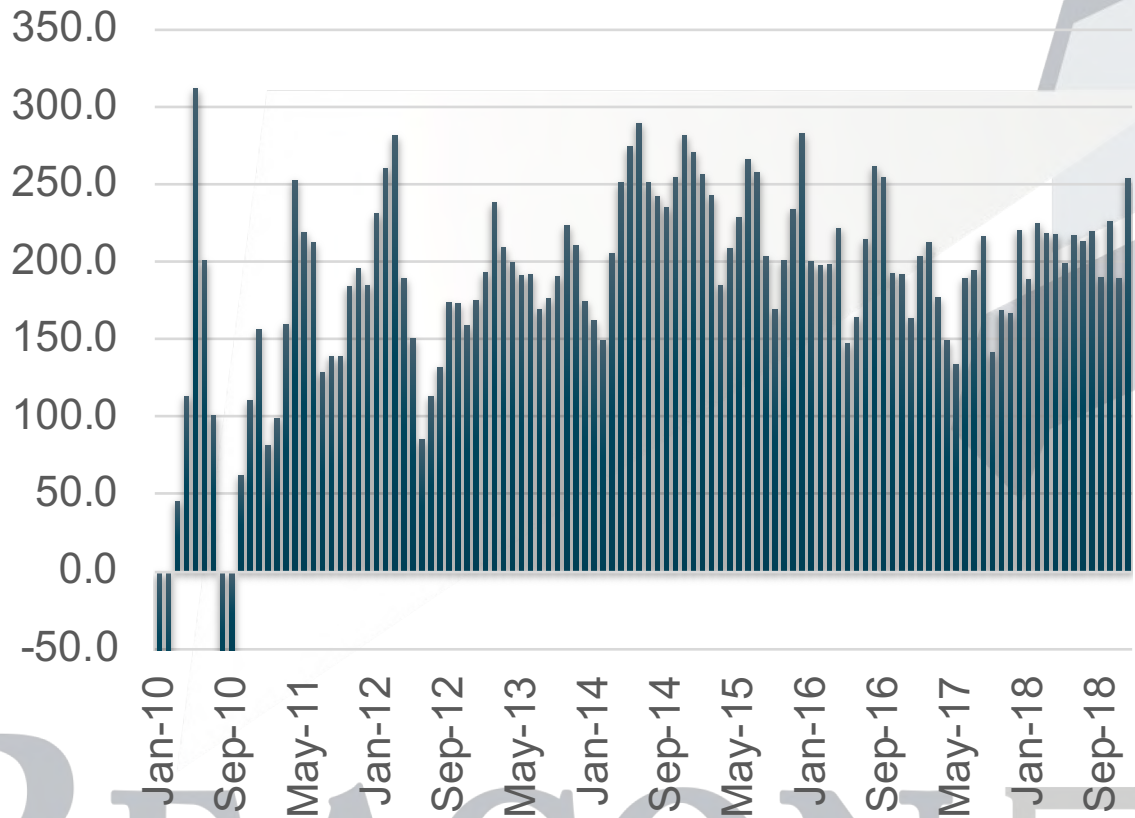
U.S / China Comparisons



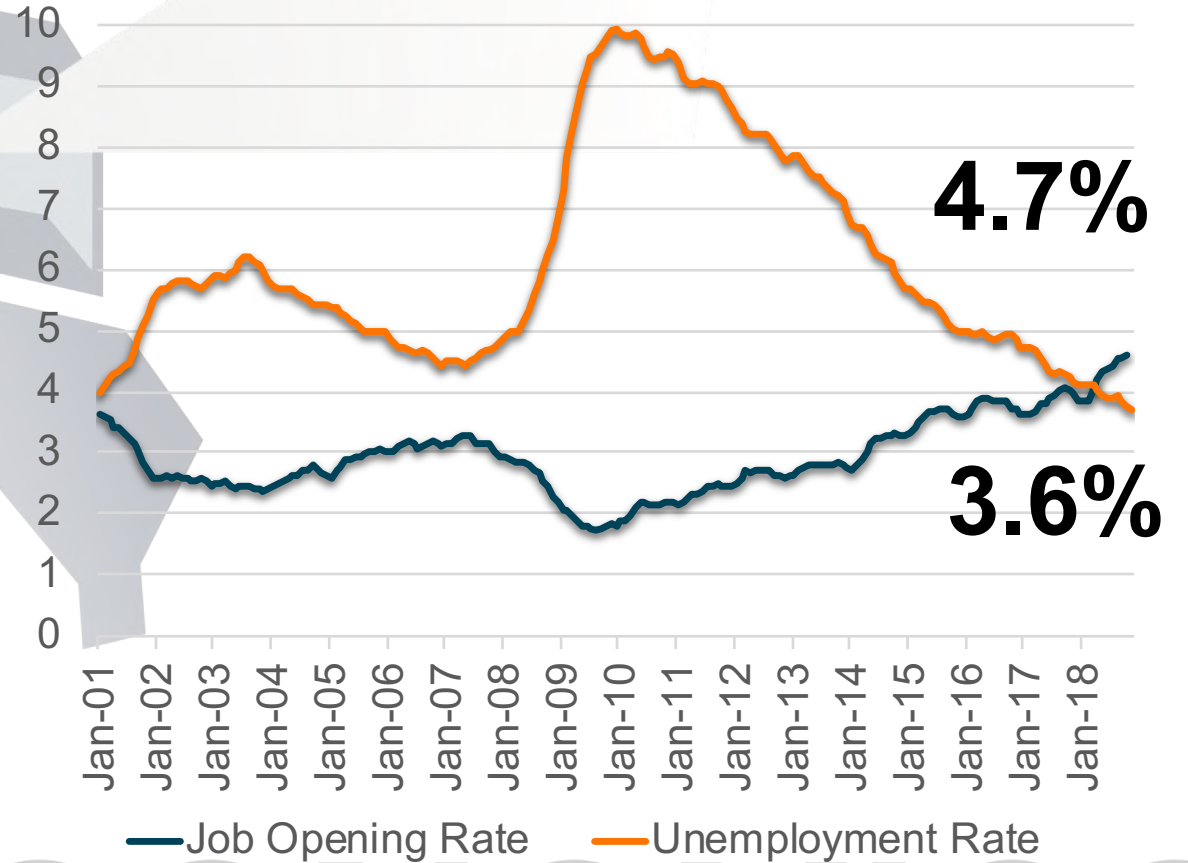
Labor Markets



Change Non Farm Payrolls (Smoothed)



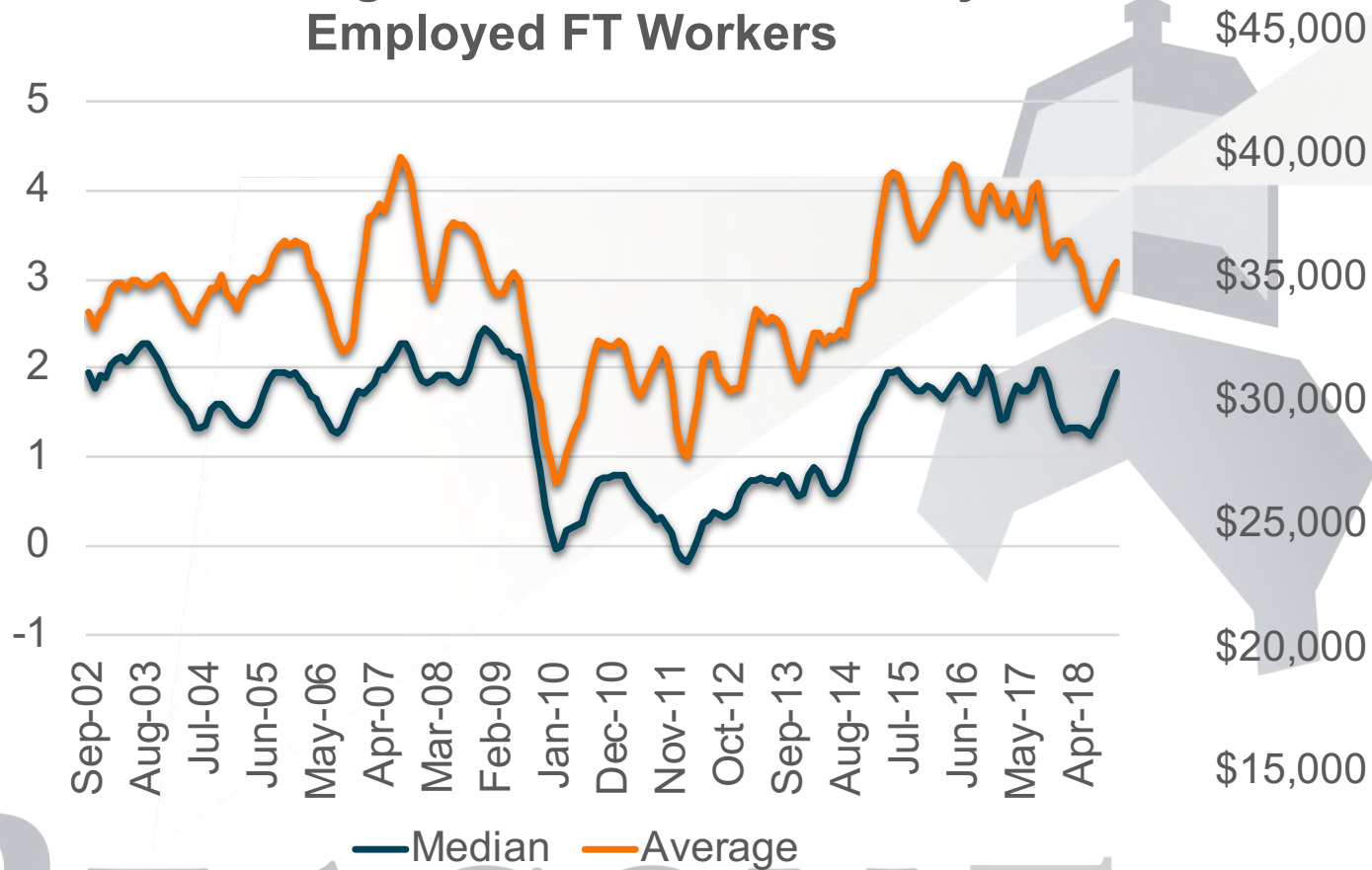
Unemployment and Job Openings



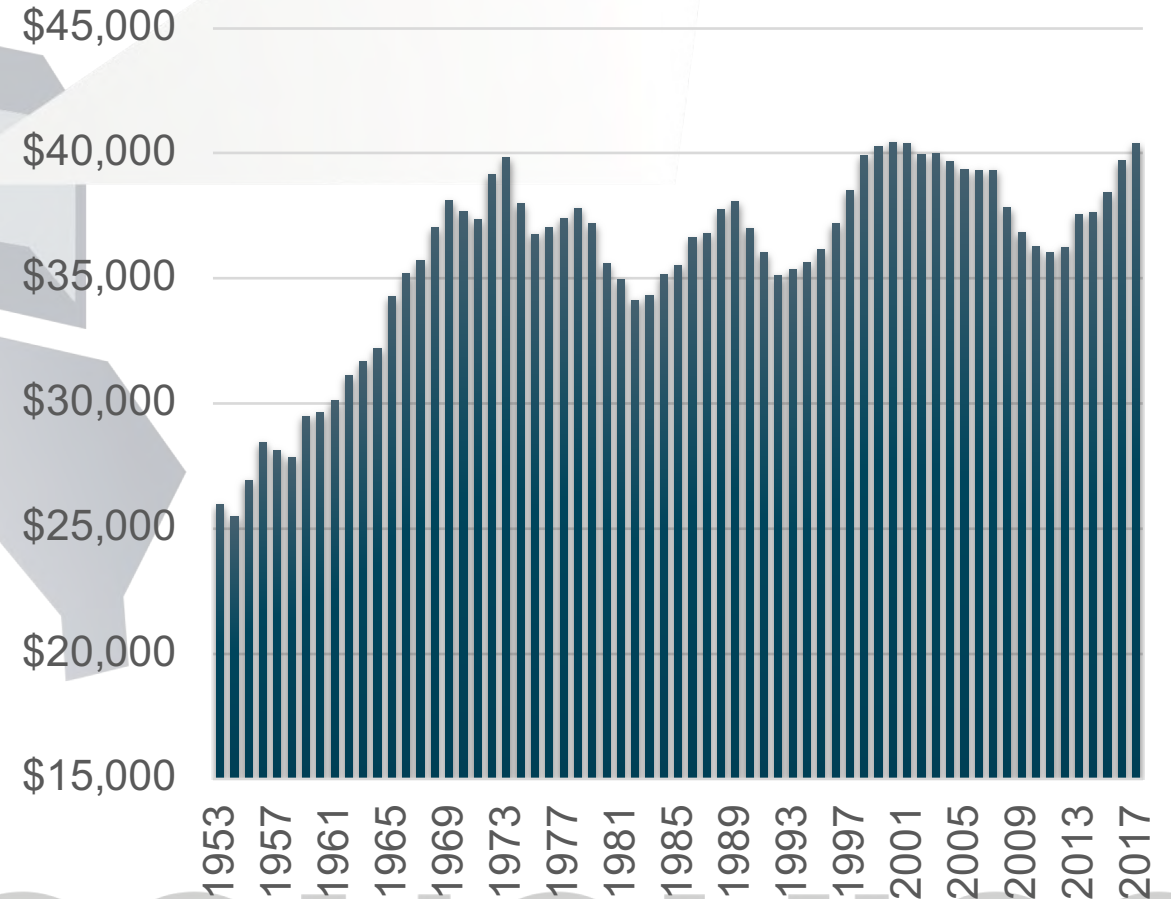
Consequences



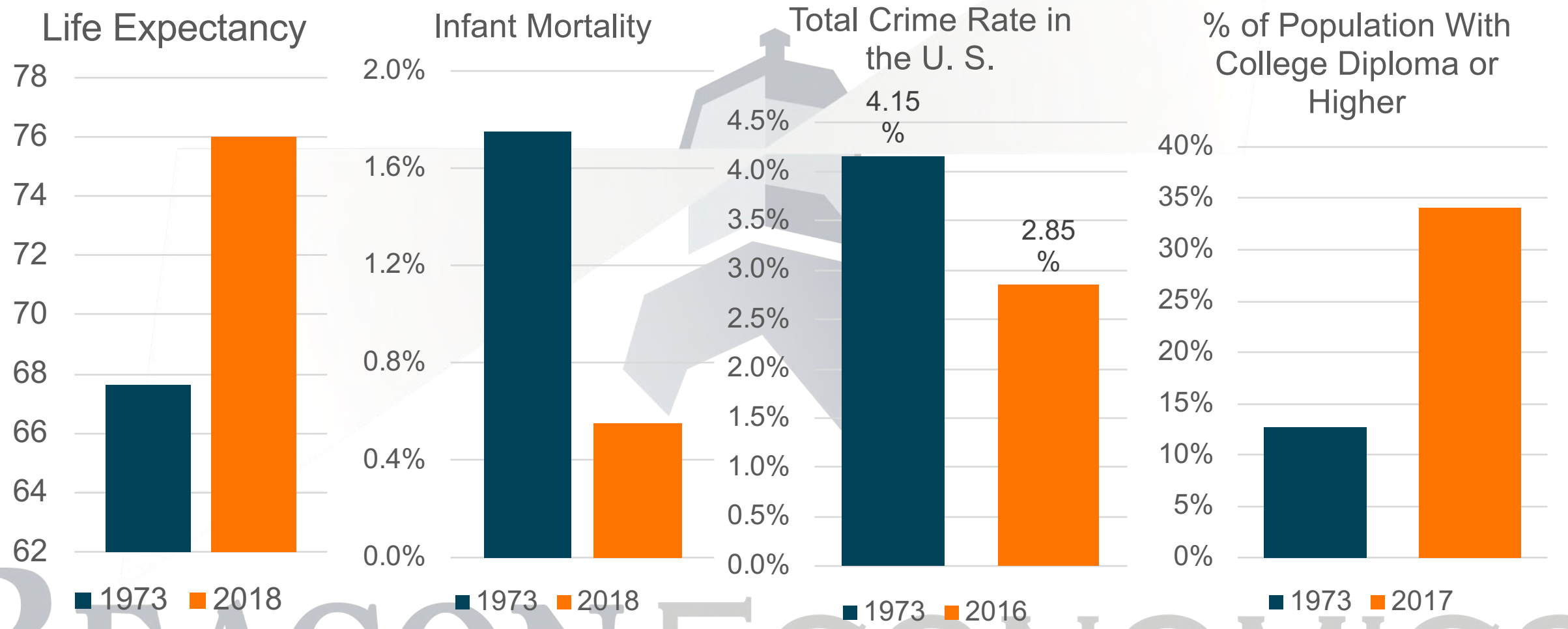
Real Wage Gains for Continuously Employed FT Workers



Real Median Income- Males



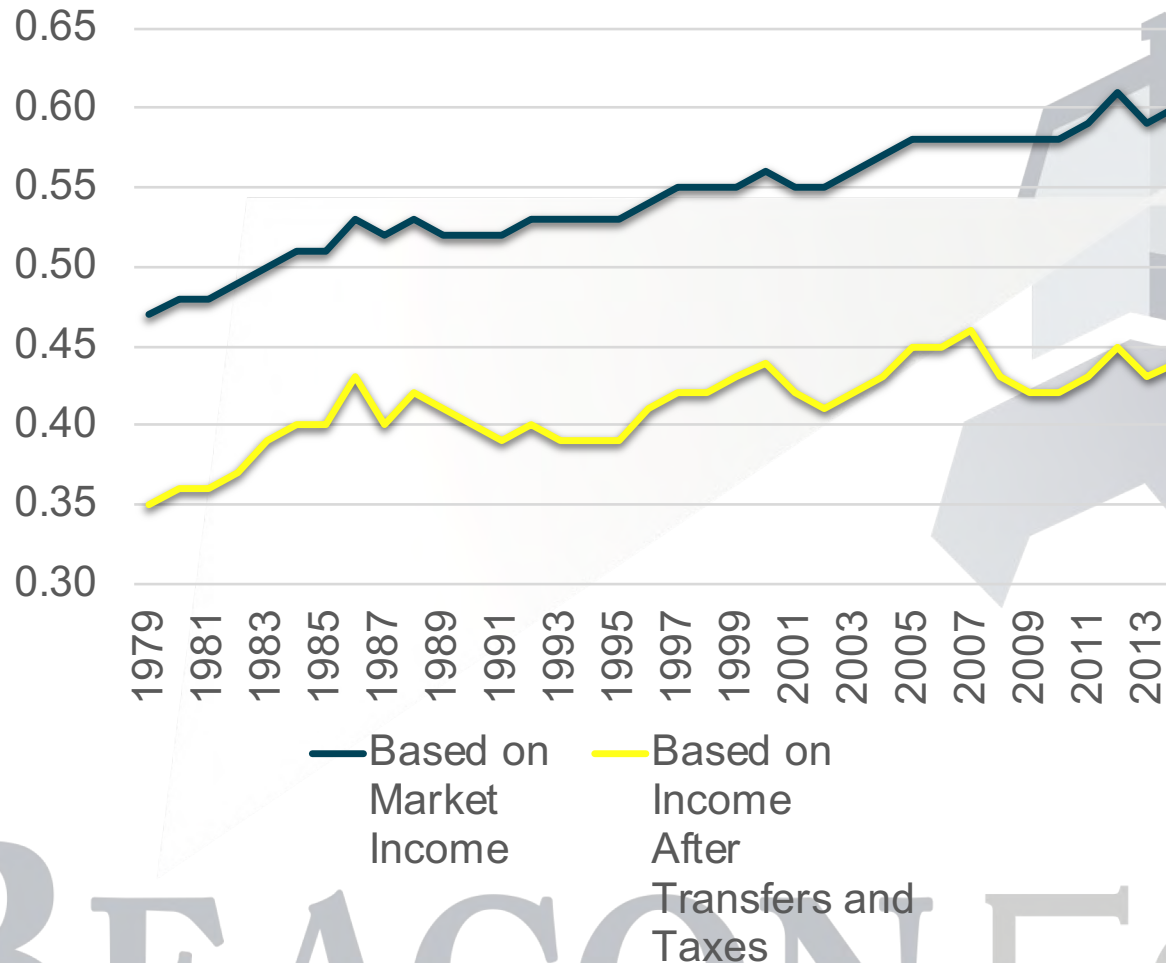
Quality of Life



Which Inequality?



Gini Coefficients



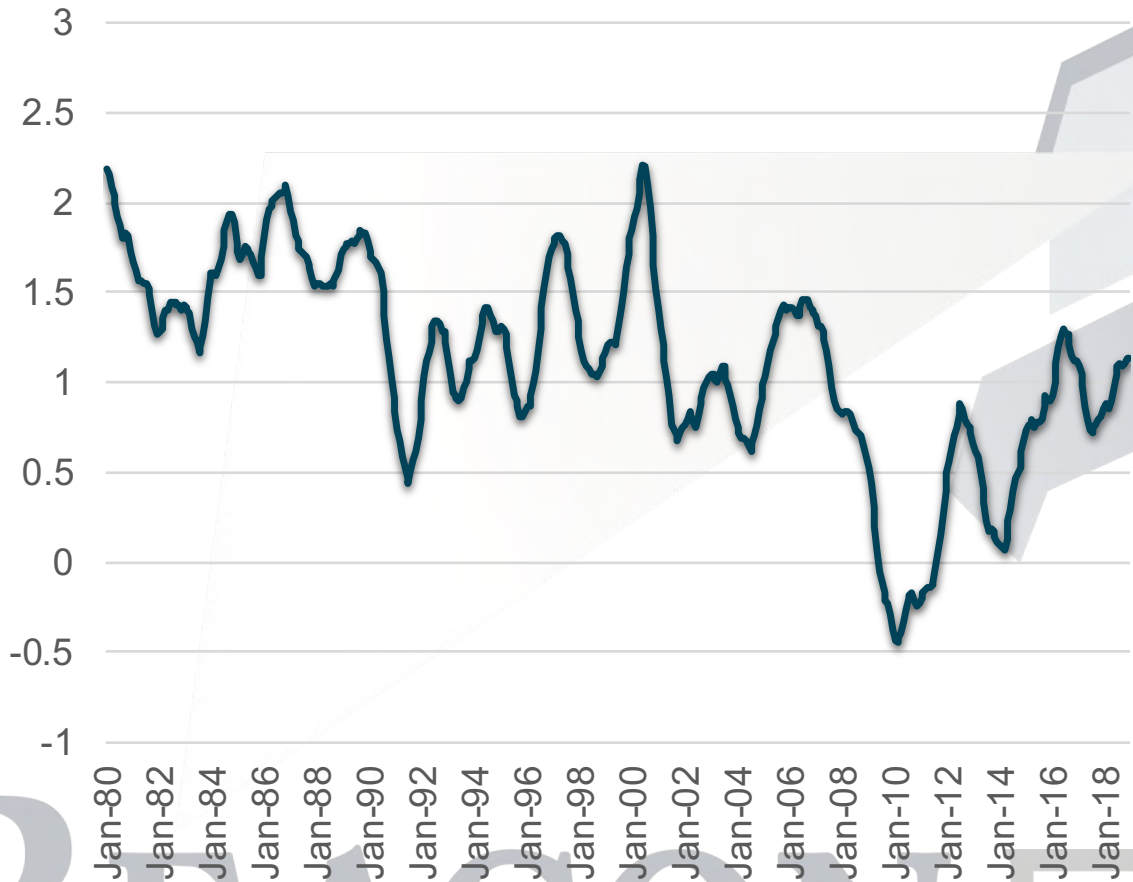
Real Average Net Worth by Bracket

	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%

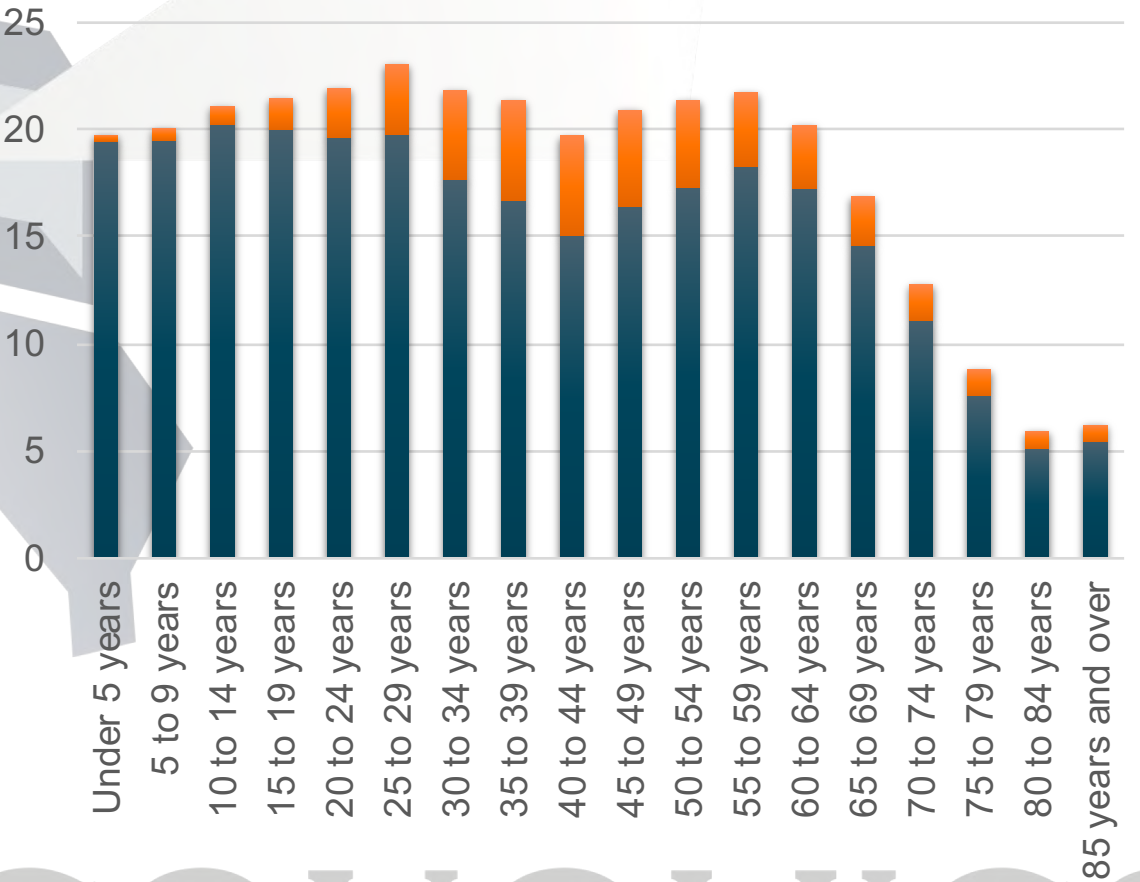
Workforce Growth



US Labor Force Growth (Smoothed)



2017 Population by Age (Millions)



Demographic Stressors



US Population Forecast

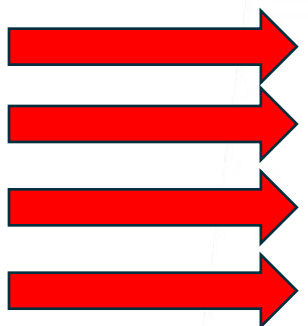
	0-24	25-64	65+
Current	104.5	169.4	49.2
2016-26	0.9	4.7	17.8
2026-36	2.0	6.2	11.9
2036-46	2.3	9.4	4.8
Total	5.3	20.3	34.5

<u>Median Real Net Worth</u>	<u>1989</u>	<u>2016</u>
All families	87.5	97.3
Less than 35	14.6	11.0
35-44	105.3	59.8
45-54	184.2	124.2
55-64	182.6	187.3
65-74	143.1	223.4
75 or more	135.2	264.8

The Cure for Secular Stagnation

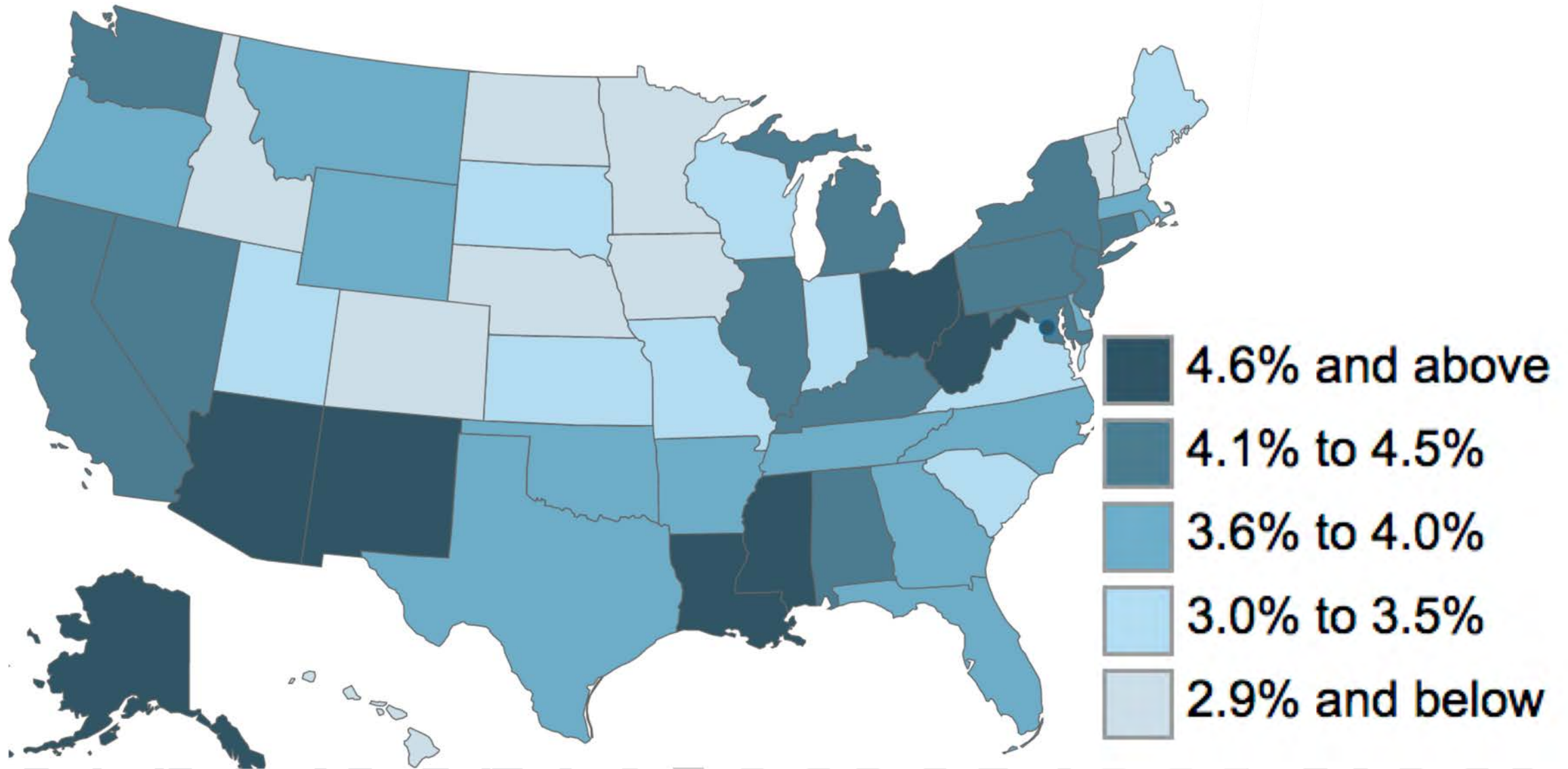


Figure 8: Increase in Average Annual Growth Rate With Estimated Policy Shifts



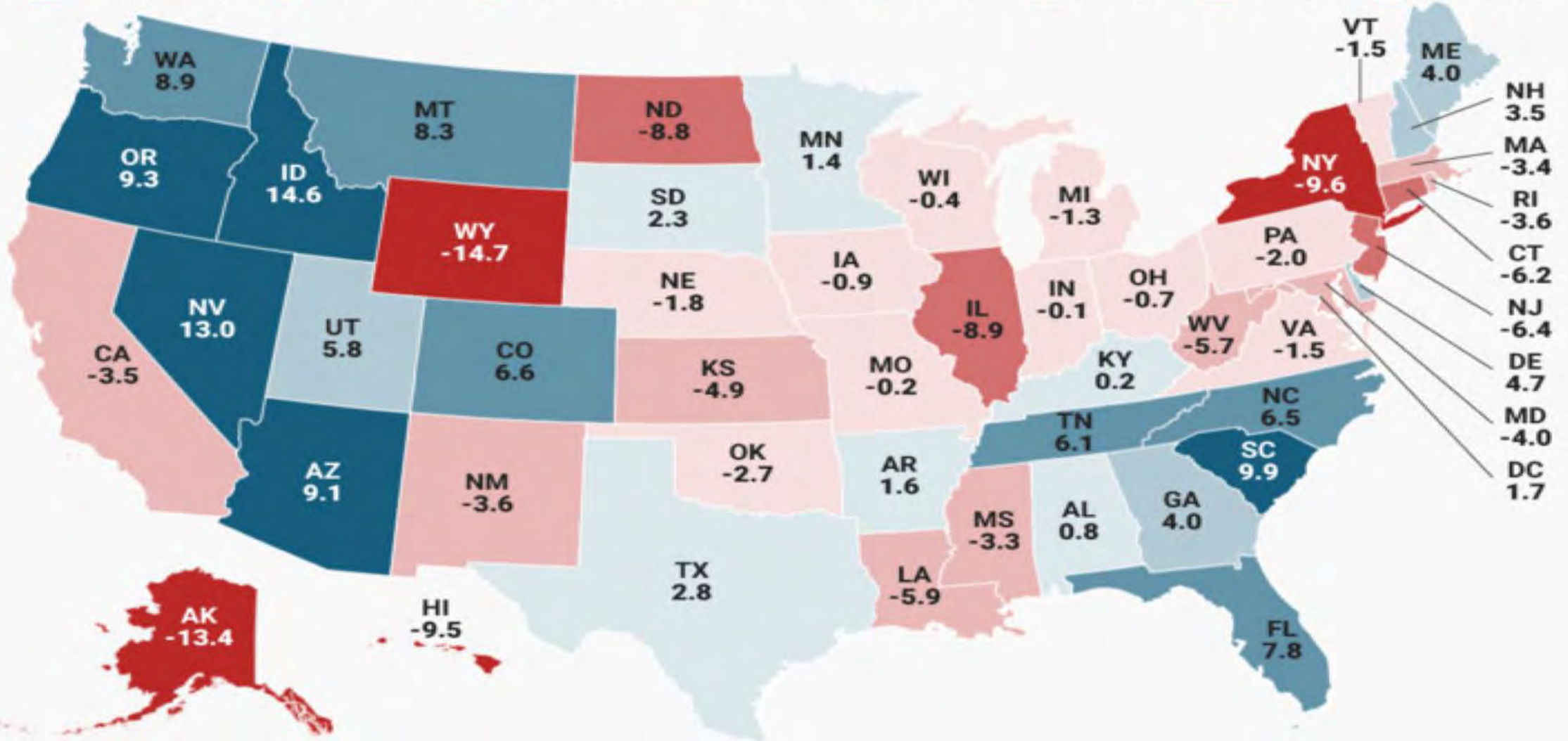
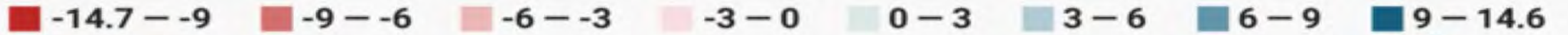
Policy Change	Boost in Annual Growth Rate	Estimated By
Enact immigration reform to increase number of workers	0.3%	CBO
Reform the income tax code	0.05% - 0.3%	JCT, Treasury
Increase the Social Security retirement ages by two years	0.15%	CBO
Reduce deficits by \$4 trillion over ten years	0.1%	CBO
Expand 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

State unemployment rates, August 2018, seasonally adjusted



NET DOMESTIC MIGRATION

NET DOMESTIC MIGRATION PER 1,000 RESIDENTS, JULY 1, 2016 – JULY 1, 2017



California fact versus fiction



2016 Best & Worst States For Business

- 50 [California](#)
- 49 [New York](#)
- 48 [Illinois](#)
- 47 [New Jersey](#)
- 46 [Massachusetts](#)
- 45 [Connecticut](#)
- 44 [Hawaii](#)
- 43 [Michigan](#)
- 42 [Oregon](#)
- 41 [Vermont](#)
- 40 [Maryland](#)
- 39 [Mississippi](#)
- 38 [West Virginia](#)
- 37 [Rhode Island](#)



State Economic Performance



Gross State Product

5 Year Payroll Employment

Q1 2018	1 Year	5 Year
Washington	4.3%	3.7%
California	3.5%	3.7%
Utah	3.7%	3.4%
Colorado	4.5%	3.4%
Oregon	3.4%	2.9%
Florida	2.3%	2.8%
Texas	4.2%	2.8%
Idaho	3.2%	2.8%
Georgia	2.5%	2.8%
Nevada	4.0%	2.7%
South Carolina	2.0%	2.5%
Arizona	4.2%	2.5%

Rk	State	#	Ann Gr	Share US
1	Nevada	211.2	3.4%	1.7%
2	Utah	218.3	3.2%	1.7%
3	Florida	1238.2	3.1%	9.8%
4	Oregon	252.1	2.9%	2.0%
5	Idaho	92.1	2.8%	0.7%
6	Colorado	328.7	2.7%	2.6%
7	Washington	413.1	2.7%	3.3%
8	California	2051	2.6%	16.3%
9	Georgia	537.9	2.6%	4.3%
10	South Carolina	237.6	2.4%	1.9%

A Changing Economy



	1990	2000	2010	2017	10-17
Civilian Employment	14,264	16,033	16,092	18,388	2,296
Total, All Industries	12,904	14,997	14,670	17,240	2,570
H / P Gap	1,361	1,036	1,422	1,148	-275
Hospitality	1,105	1,336	1,500	1,951	451
Health Care	976	1,285	1,836	2,275	439
Construction	645	733	560	809	249
Administrative	635	998	864	1,102	238
Professional	691	929	1,010	1,229	219
Retail Trade	1,445	1,562	1,516	1,694	178
Transportation	426	519	466	626	160
Government	2,075	2,318	2,448	2,554	105
Information	392	577	431	529	98
Wholesale Trade	550	643	644	723	79
Other Services	417	488	485	563	78
Educational	185	221	291	362	71
Financial Activities	819	801	760	831	71
Manufacturing	1,969	1,859	1,252	1,312	60
Total Farm	364	409	383	428	45

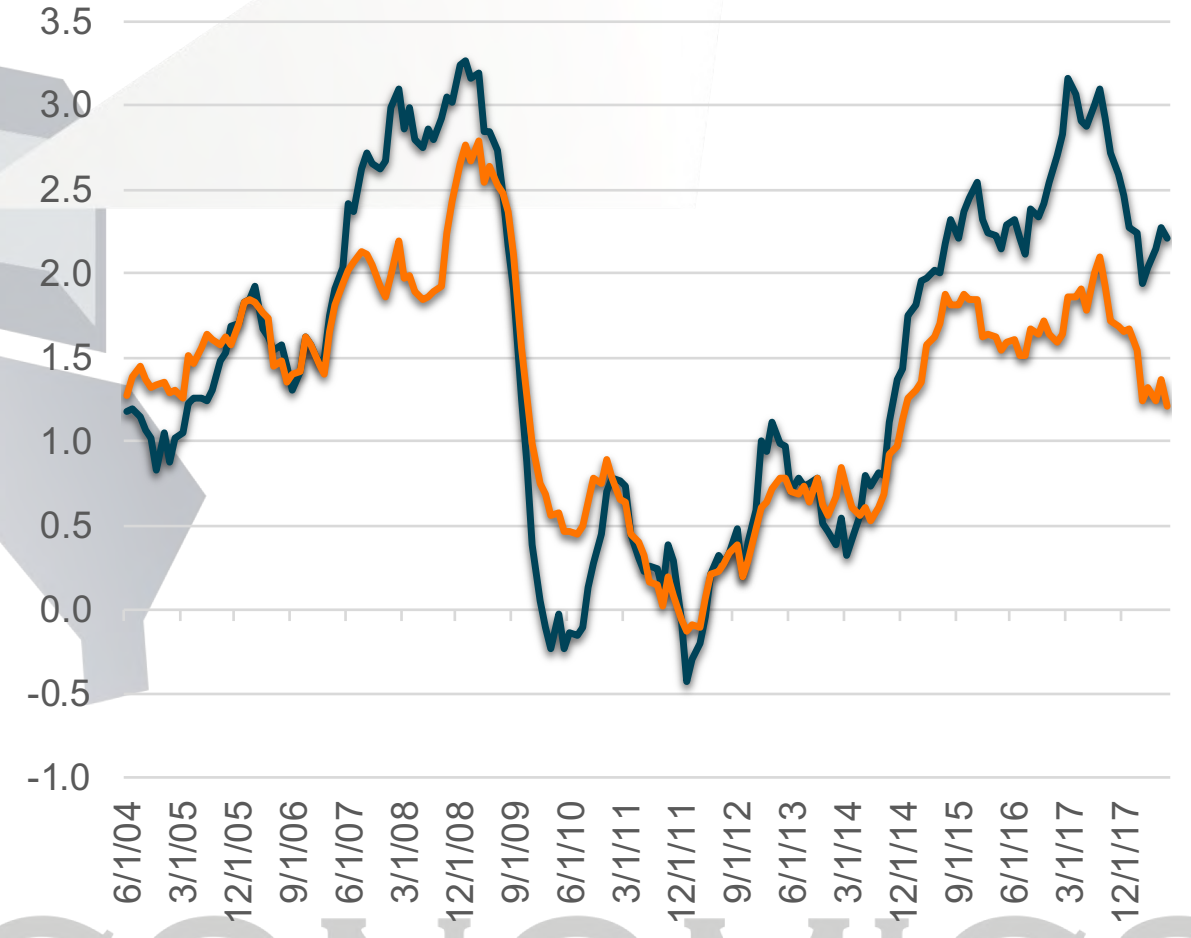
California Economic Engine



California Share National Personal Income



Median Wage Growth West VS US



Myth Busting



Share New FT Employees 2014-2017

California's economy recently grew to become the world's fifth-largest economy if it were its own country.

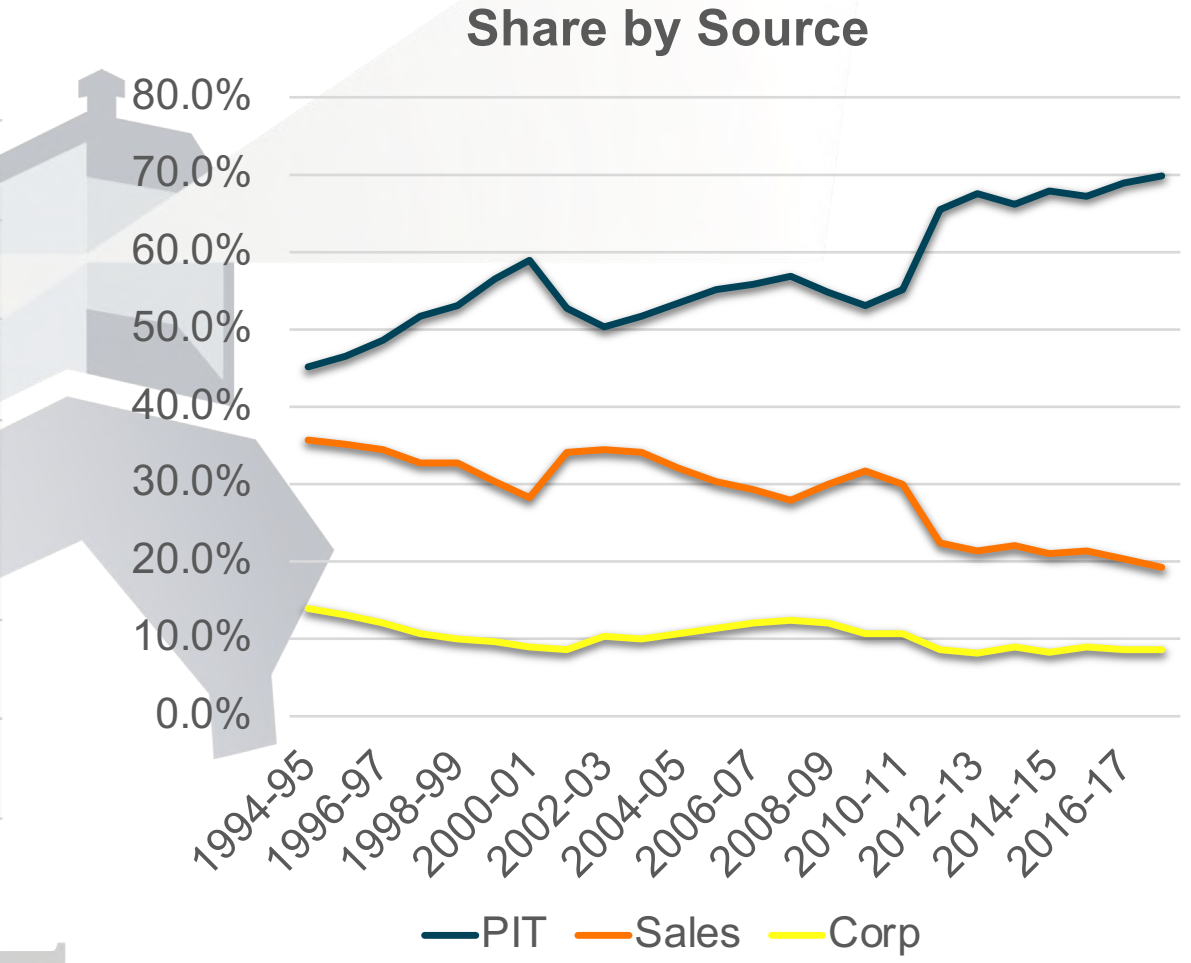
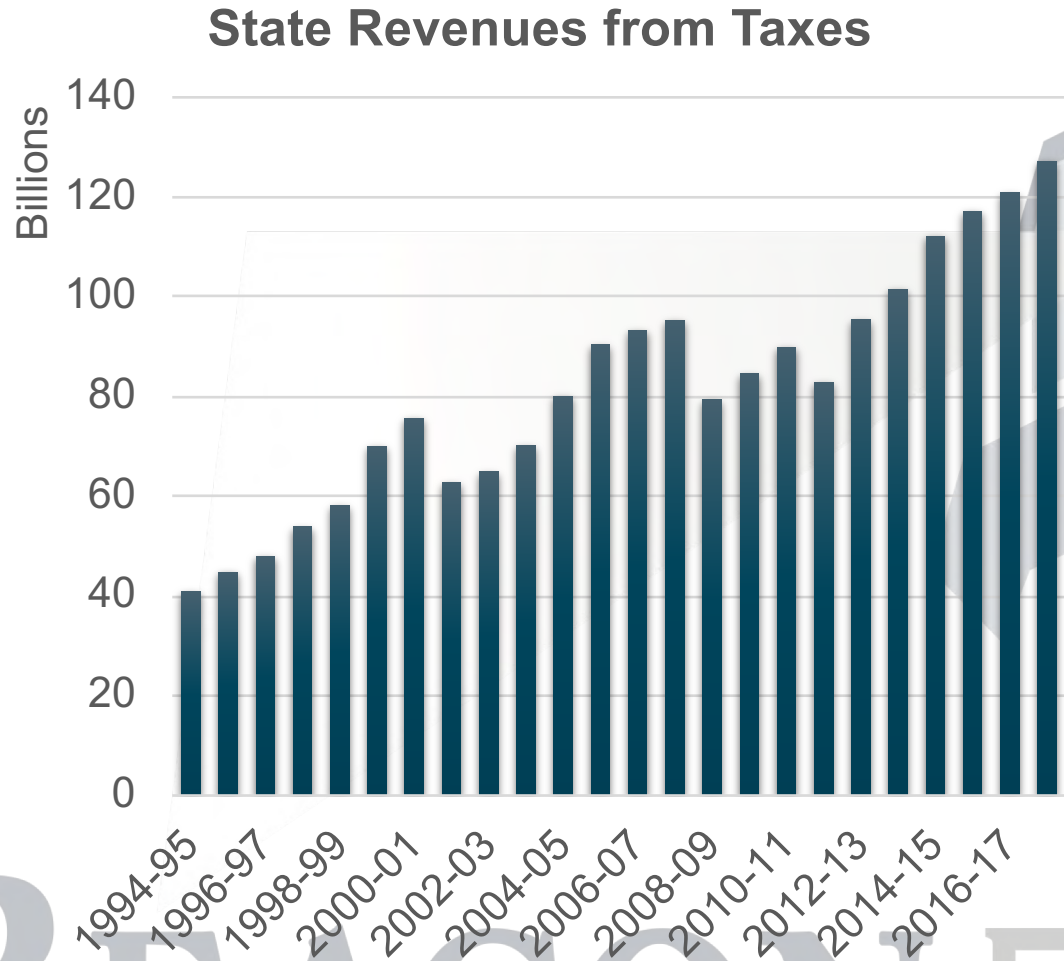
Sounds like great news, but that wealth mostly benefits the very rich in the tech sector.

"Almost all the income growth and high-end job growth took place in Silicon Valley,"

Joel Kotkin, professor of Urban Studies at Chapman University
May 18, 2018

	2017 Tot		Ch < 50k	Ch 50-100k	Ch 100k+
County Total	12,831.3	8.8%	69.0	417.4	548.1
Coast SC	5,748.9	6.9%	18.6	161.4	193.3
Bay	2,503.5	10.1%	-35.4	53.7	212.0
Balance	4,578.9	9.4%	85.8	202.4	142.8
Inland SC	1,608.6	9.4%	33.1	62.5	42.0
North Inland	1,137.0	12.5%	33.6	55.8	37.4
North Coast	575.2	11.9%	10.7	27.6	22.8
Central Coast	721.7	8.9%	0.6	29.7	28.4
Central Valley	536.5	9.6%	7.8	26.9	12.2

A (Temporary) Revenue Glut



The recent market swoon ...



2018-19 Comparison of Actual and Forecast Agency General Fund Revenues

(Dollars in Millions)

Revenue Source	FEBRUARY 2019				Percent Change	2018-19 YEAR-TO-DATE			
	Forecast	Actual	Change	Percent Change		Forecast	Actual	Change	Percent Change
Personal Income	\$3,051	\$2,914	-\$137	-4.5%	\$60,386	\$57,591	-\$2,795	-4.6%	
Sales & Use Corporation	2,454	2,606	152	6.2%	17,946	17,916	-31	-0.2%	
Insurance	162	264	102	63.3%	4,514	5,051	537	11.9%	
Estate	30	30	0	1.7%	1,315	1,324	9	0.6%	
	0	0	0	2.30%	0	0	0	56.8%	
Pooled Money Interest	23	23	0	-1.8%	314	316	2	0.8%	
Alcoholic Beverages	24	22	-2	-8.7%	260	245	-15	-5.7%	
Tobacco	5	5	0	-1.2%	43	44	1	1.5%	
Other	42	55	13	31.1%	372	445	74	19.8%	
Total	\$5,791	\$5,919	\$128	2.2%	\$85,150	\$82,932	-\$2,218	-2.6%	

May Revise Highlights



Revenue Projections

- Additional \$3.2 Billion in short term revenues projected for 19-20 FY
 - \$213.5 Billion in total spending (\$147 Billion from General Fund)
 - \$21.5 Billion surplus
- \$1.6 Billion less in state revenues projected for 22-23 FY
 - Due to expected declines in economic growth

Programmatic Changes

- Additional \$210 Billion for Earned Income Tax Credit (EITC) program
 - \$500 to \$1,000 per working family household
- \$650 million for local governments to provide homeless shelters
 - Up \$150 Million from original budget proposal
- Repurpose \$500 million in housing production grants for infill infrastructure grant program
 - \$250 Million to be made available to school districts and county boards of education
- Adds \$39.9 Million (\$38.6 million General Fund) to enhance the state's disaster preparedness efforts
 - Equivalent of 159.5 positions

Not High, Just Stupid



Tax Revenues as % GSP

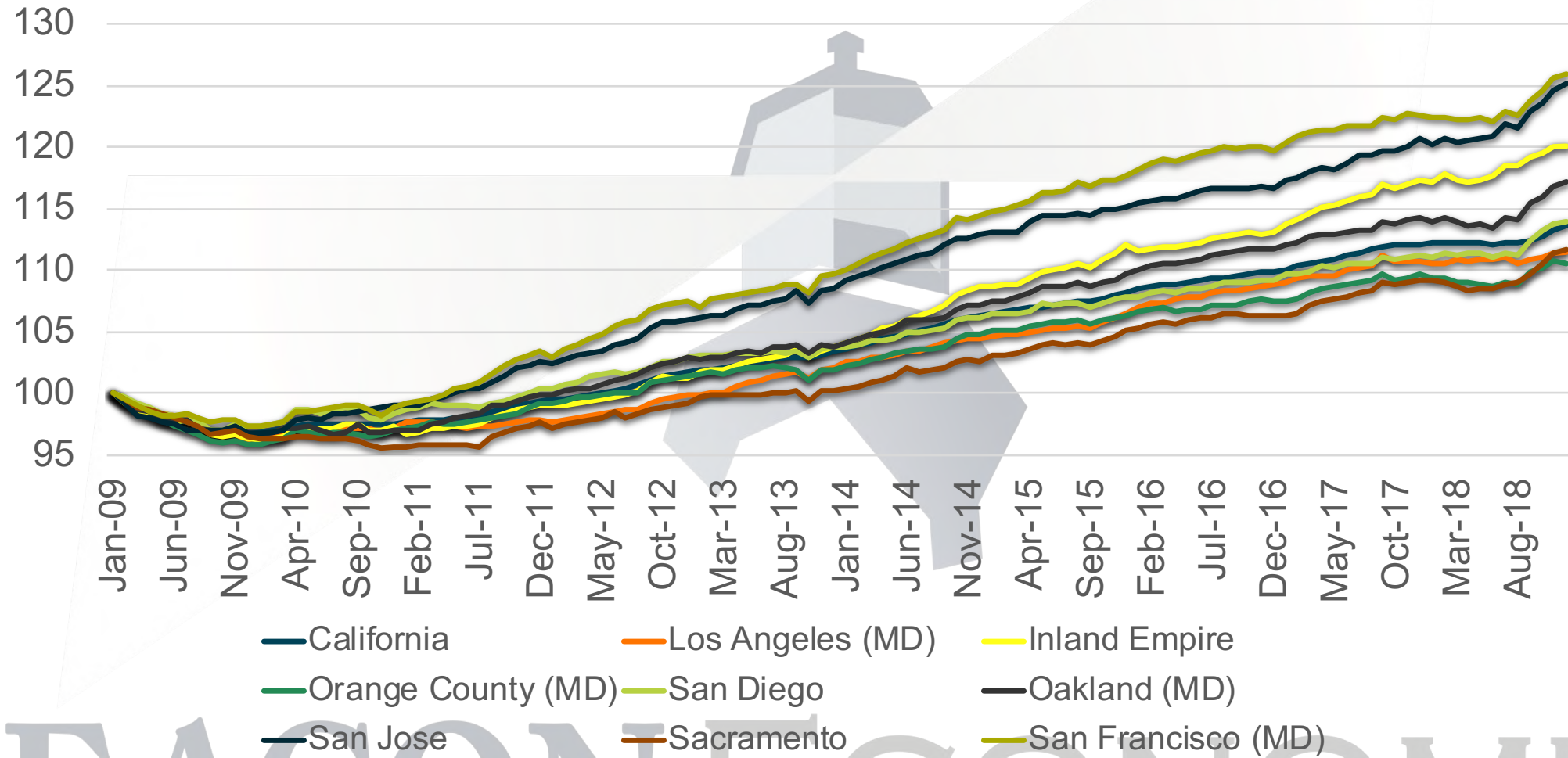
1 Mississippi	24.8%	14 Alabama	18.7%
2 West Virginia	23.1%	15 Rhode Island	18.6%
3 New Mexico	22.8%	16 Montana	18.5%
4 Vermont	22.5%	17 North Dakota	17.7%
5 Wyoming	22.3%	18 Iowa	17.5%
6 Alaska	21.9%	19 Michigan	17.5%
7 Arkansas	20.6%	20 Louisiana	17.2%
8 Maine	20.1%	21 Minnesota	17.2%
9 Hawaii	19.2%	22 Idaho	16.8%
10 New York	19.1%	23 California	16.7%
11 Oregon	19.0%	24 Ohio	16.7%
12 Kentucky	18.9%	25 New Jersey	16.6%
13 South Carolina	18.8%	26 Oklahoma	16.5%

- Hyper-Cyclical
- Progressive / Regressive
- Tax on Effort vs Tax on Wealth
- Inflation for Goods relative to Inflation for Services
- Evolutionary vs revolutionary reform

Local Employment Base



Indexed Payroll Job Growth 09-19



Myth Busting



Match the payroll employment growth rate (letters) (1994-2019) to the California region (numbers)

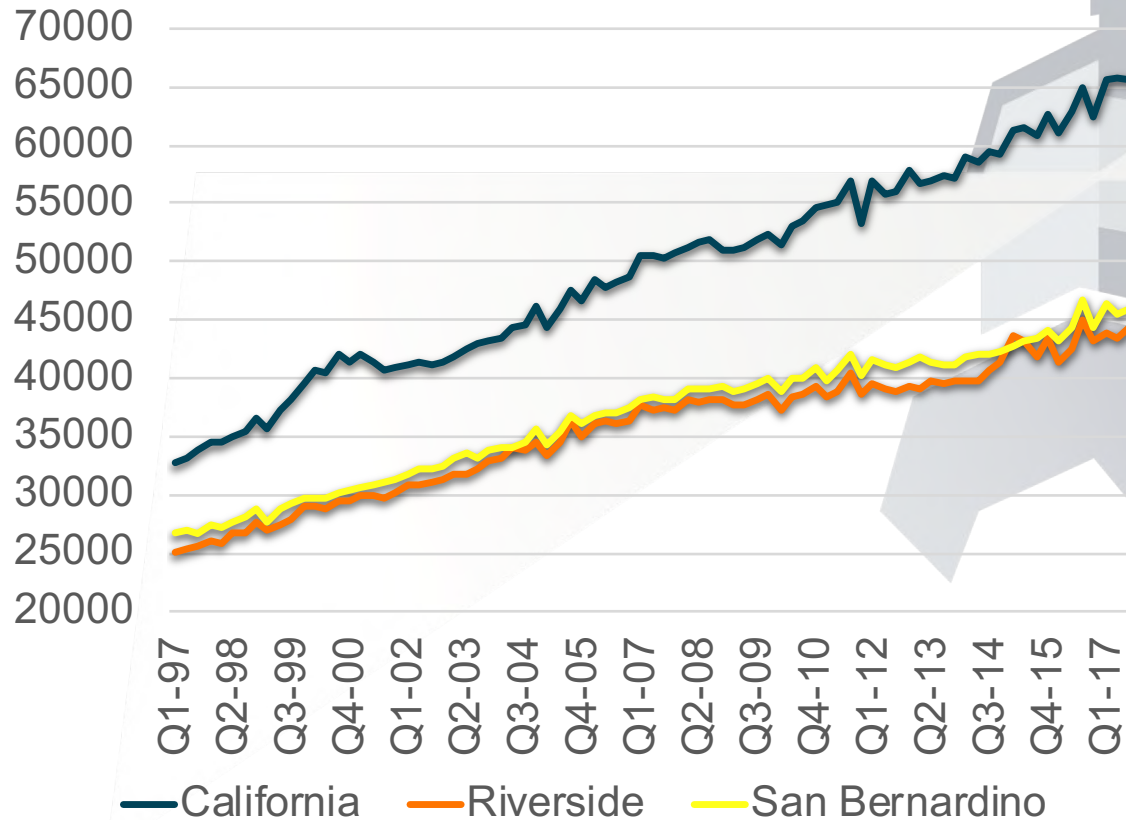
A) Coastal SC	1)	31.8%
B) Central Coast	2)	34.2%
C) Bay Area	3)	40.4%
D) Inland NC	4)	52.6%
E) Inland SC	5)	81.0%

	Jun-18	20 Yr Ch	20 Yr Gr	Sh State
California	18,527.3	3,355.4	22.1%	
Los Angeles (MD)	4,919.9	685.2	16.2%	20.4%
Inland Empire	1,949.6	657.5	50.9%	19.6%
San Diego	1,526.5	312.5	25.7%	9.3%
Orange County	1,560.5	225.4	16.9%	6.7%
Sacramento	1,033.3	225.0	27.8%	6.7%
<i>East Bay (MD)</i>	1,362.9	179.2	15.1%	5.3%
<i>San Francisco (MD)</i>	994.3	141.2	16.6%	4.2%
<i>San Jose</i>	1,050.5	103.6	10.9%	3.1%
Bakersfield	351.2	90.0	34.5%	2.7%
Fresno	416.0	77.6	22.9%	2.3%

Who is ahead? Behind?



Average Payroll Wages



Define Success
Tech Jobs?
Venture Capital?
Relative Average Wages?

Growing Wages
Falling Poverty
Low Unemployment
Solid Pace Growth
Quality of Life

Quality of Life?



Income by Educational Attainment

	LA	OC	Rv	SB
< HS	\$21,901	\$23,328	\$25,340	\$23,642
HS	\$28,882	\$31,311	\$30,829	\$30,663
SC or Asso	\$36,535	\$40,499	\$36,943	\$36,977
Bachelor's	\$54,442	\$61,202	\$55,461	\$53,264
Graduate	\$77,200	\$87,277	\$80,064	\$75,241

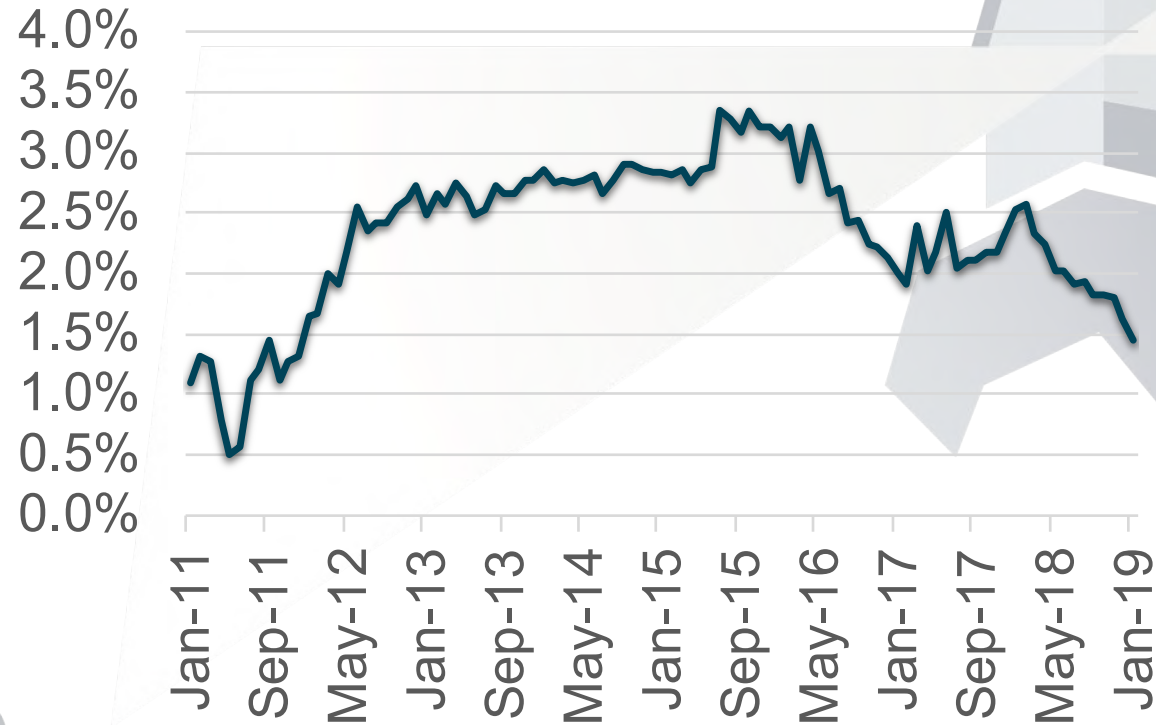
Housing Costs by Educational Attainment

	LA	OC	Rv	SB
Less Than High School	39.0	41.4	34.9	33.6
High School Graduate	36.2	36.9	31.6	31.5
Some College	32.0	31.8	28.4	29.2
Bachelors Degree	27.6	26.8	25.8	26.3
Grad./Prof. Degree	24.7	25.7	23.4	24.3

State Job Growth



California Non Farm Payroll Growth (yoy)

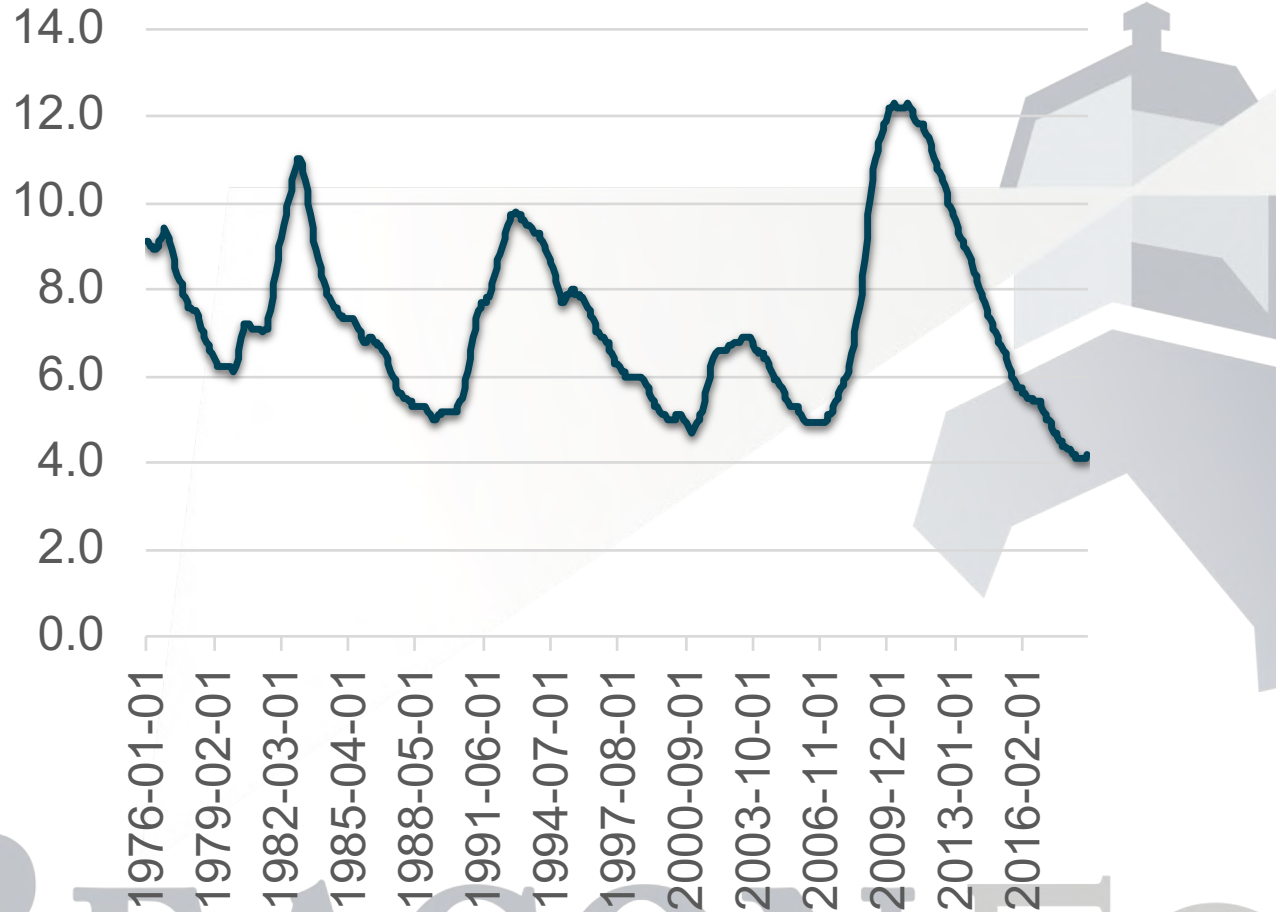


	Mar-19	18-19	17-18
San Francisco	1174.8	3.8%	2.4%
Fresno MSA	363.9	3.7%	2.8%
Sacramento	1017.7	2.8%	3.0%
San Jose	1146.2	2.5%	1.7%
Bakersfield MSA	270.8	2.3%	2.4%
Santa Barbara	187.2	2.2%	1.3%
Salinas MSA	146.1	2.1%	4.5%
Oakland	1194.5	1.5%	1.9%
Inland Empire	1512.5	1.2%	3.8%
San Diego	1497.4	1.2%	2.5%
Los Angeles	4532.7	0.7%	1.8%
Orange	1657.2	0.6%	2.6%
Ventura	310.4	0.6%	1.9%
Modesto MSA	179.1	0.5%	2.8%
Stockton MSA	241.1	0.4%	3.8%
Santa Rosa MSA	208.3	0.1%	1.4%

California Labor Markets



California Unemployment Rate

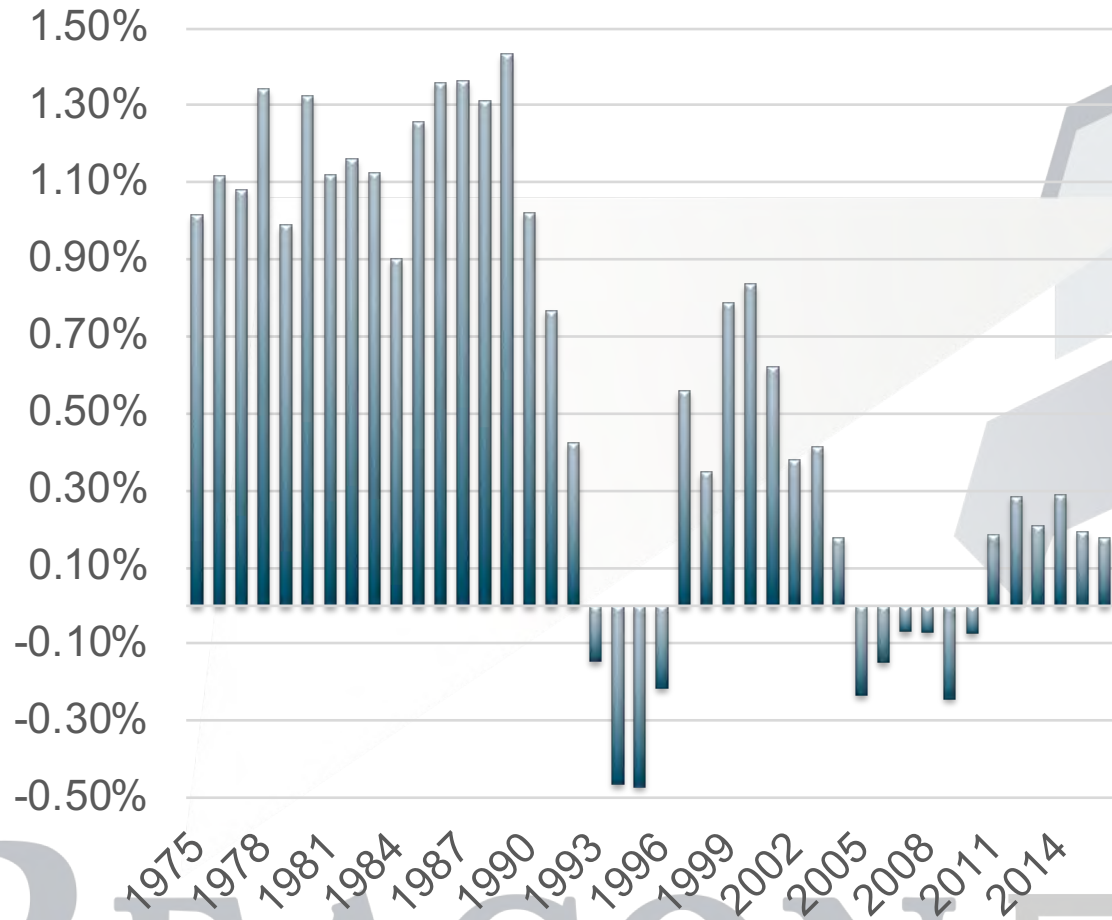


Chico	Fresno
Ventura	San Jose
Merced	East Bay (MD)
Redding	Sacramento
Stockton	Vallejo
Inland Empire	Hanford
California	Salinas
Yuba	San Francisco (MD)
Modesto	Los Angeles (MD)

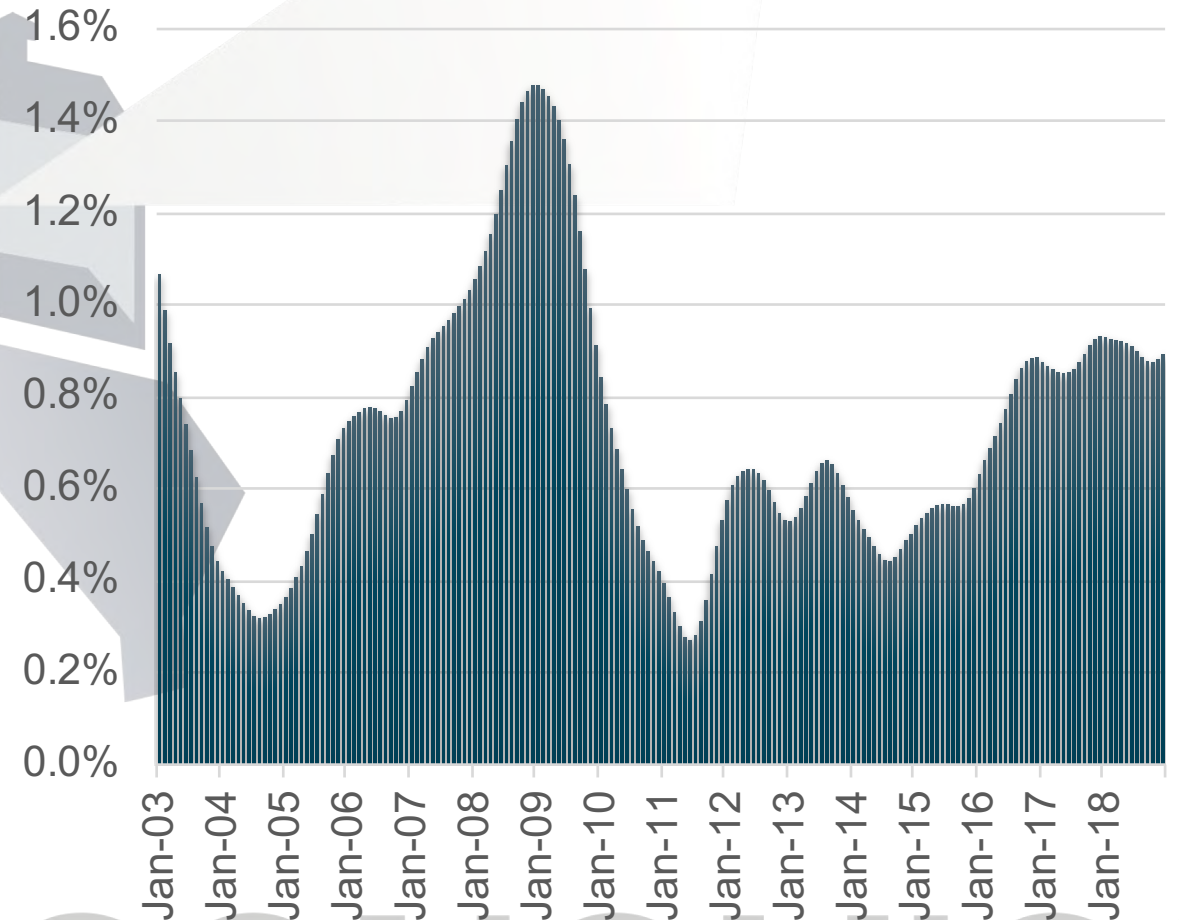
California Labor Markets



Net Migration as a % of Pop



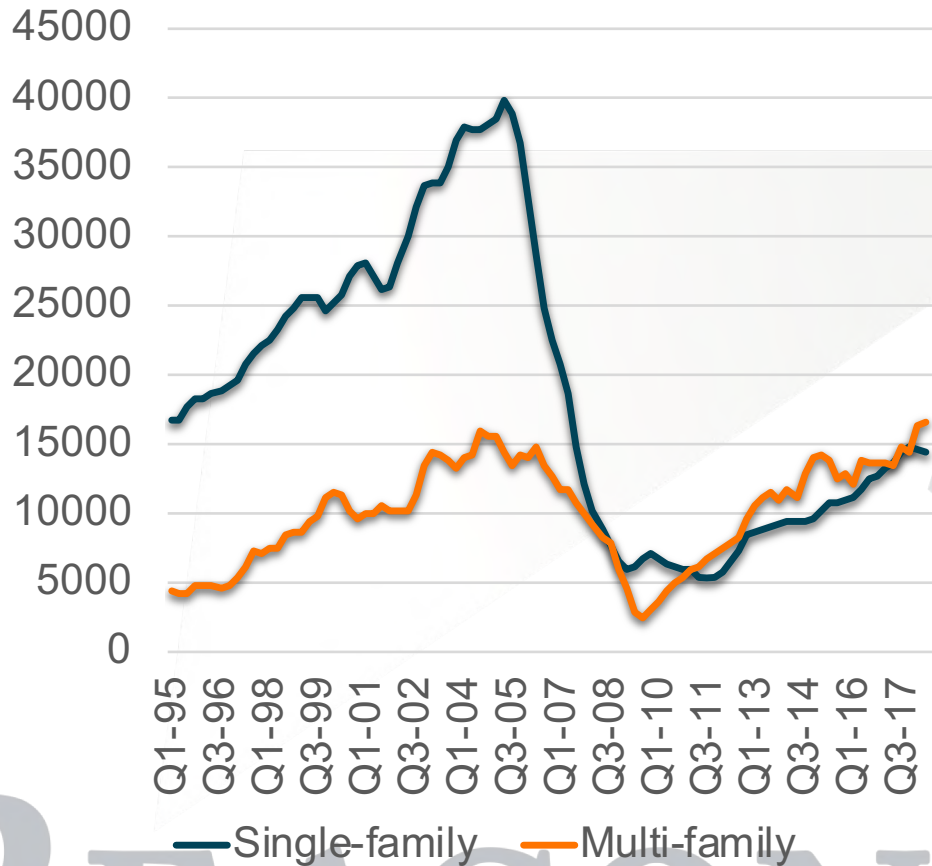
California Labor Force Growth (LR)



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	111,185
Shortfall	100,489
Method 2	
Total	911,001
Per Year	263,667
Current	111,185
Shortfall	157,482

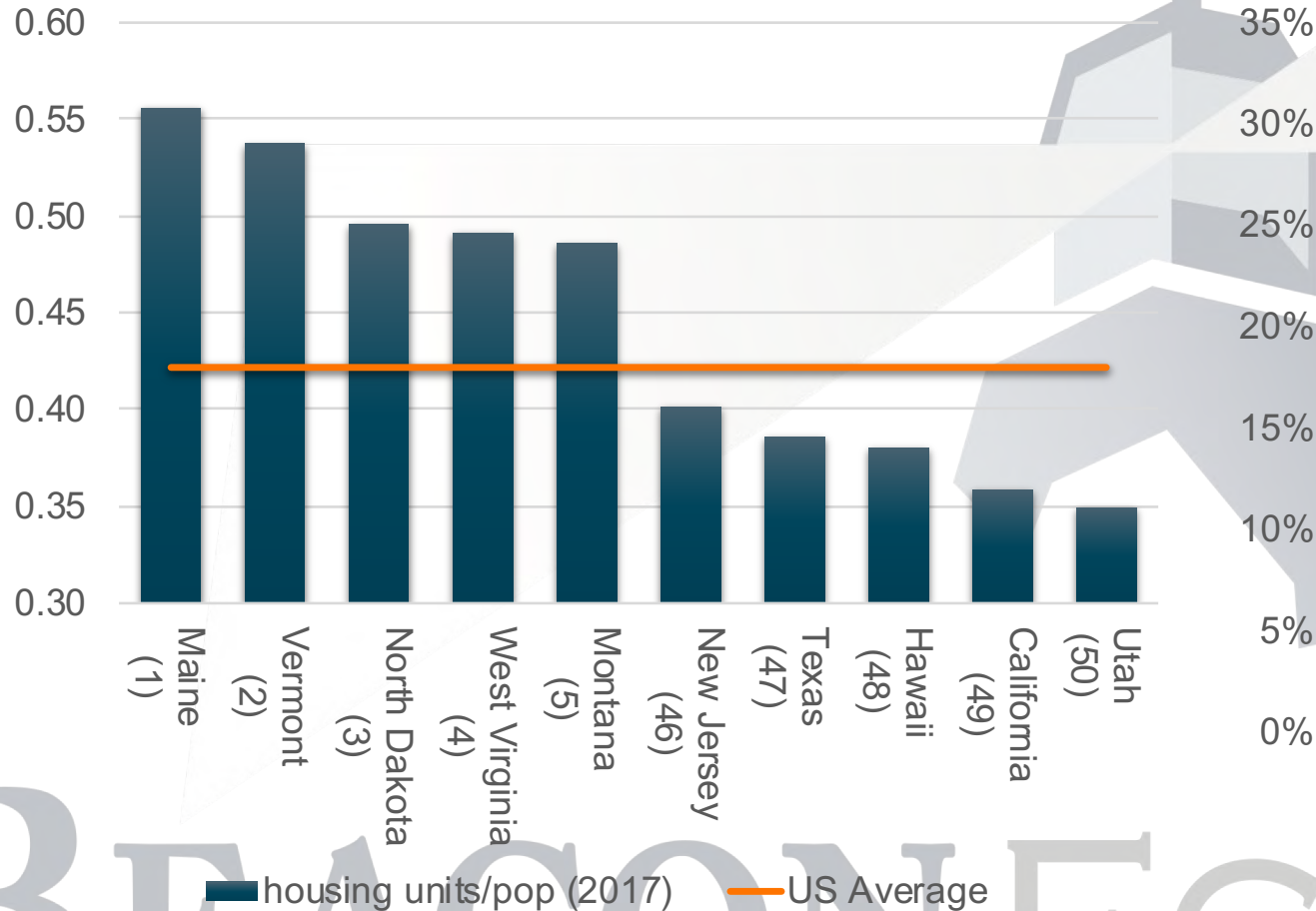
Backlog

Avg Growth	291
Avg Vacancy	676
Total	967
High Growth	1,408
Avg Vacancy	676
Total	2,084
Texas Growth	1,849
Avg Vacancy	676
Total	2,525

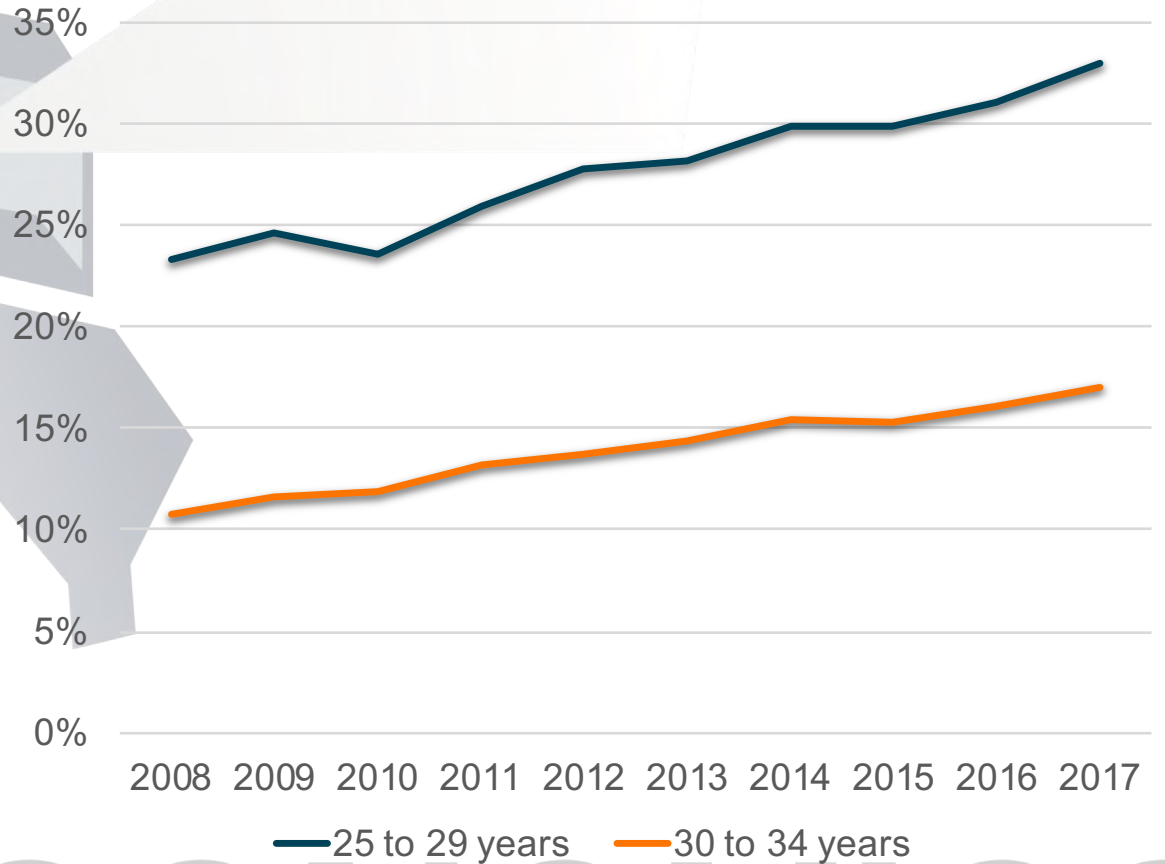
California = 2nd Lowest Housing Unit to Population Ratio



Housing Units per Capita (2017) - Top 5 and Bottom 5 States



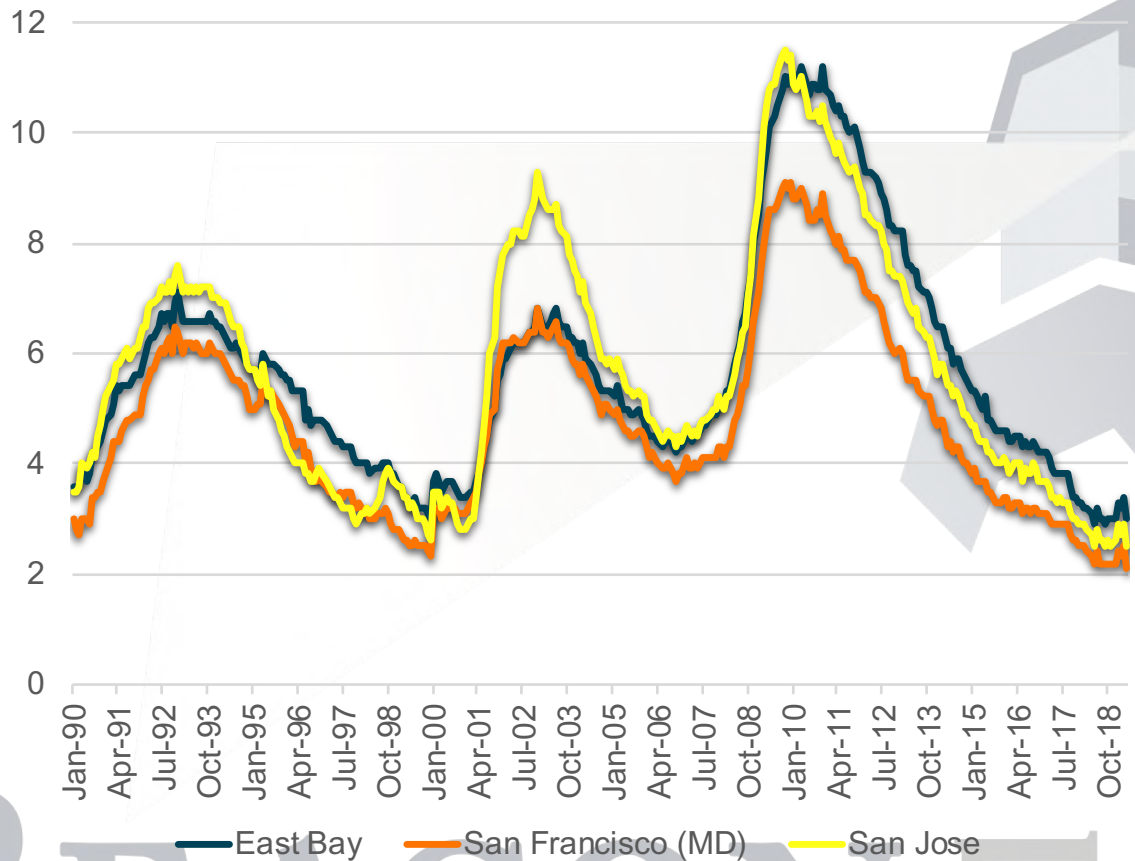
Percent of Adults by Age Group Living With Parents - California



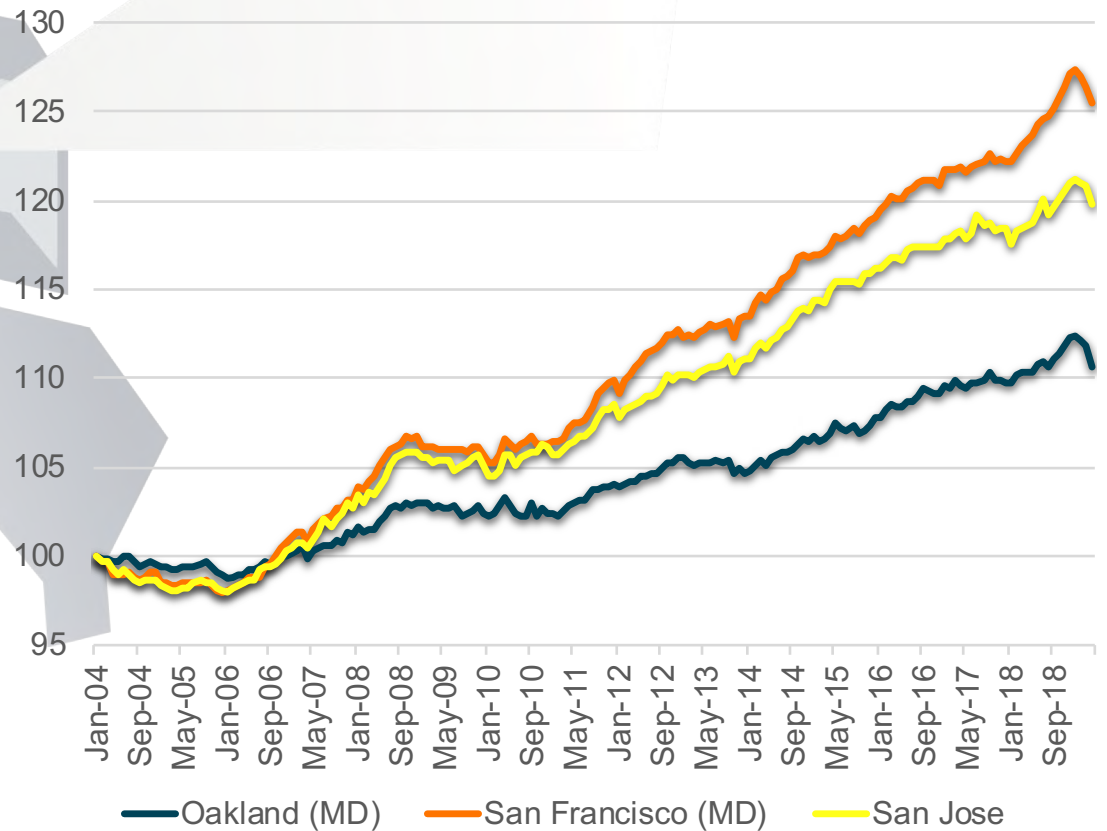
Labor Force and Unemployment Rate



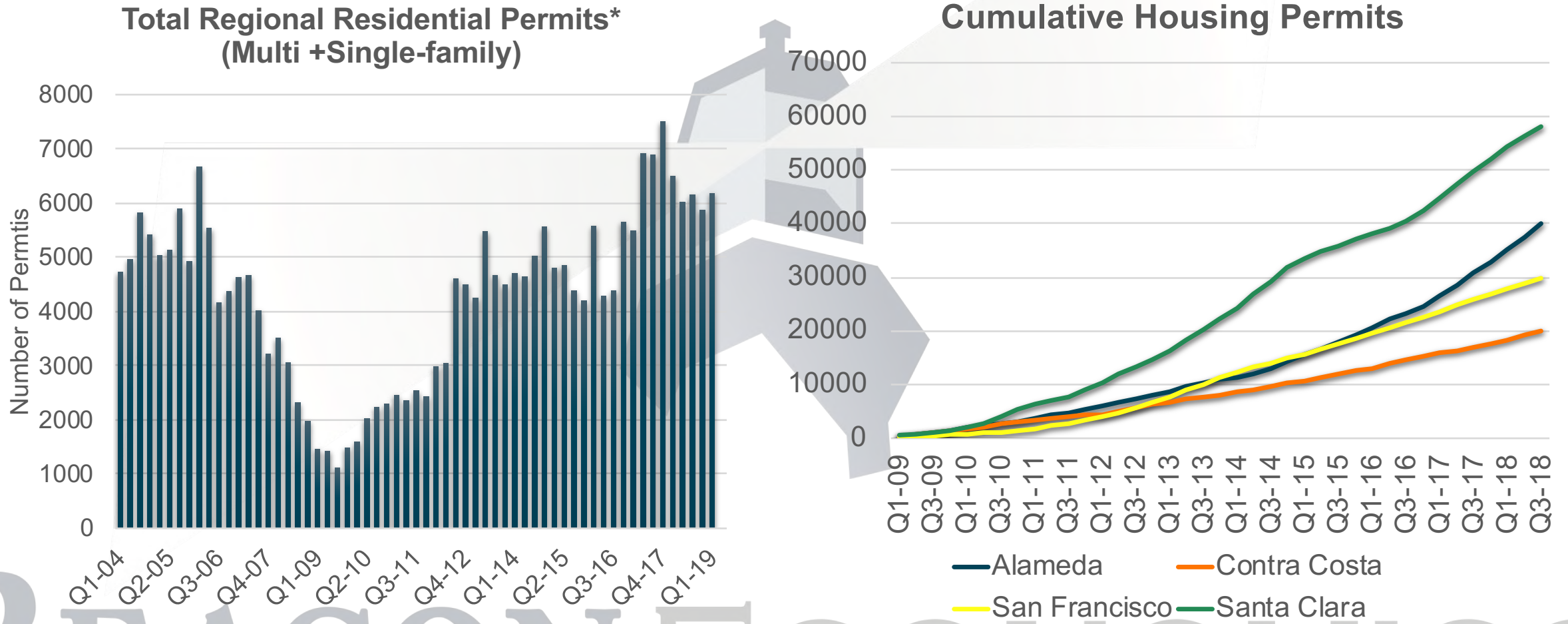
Unemployment Rate



Labor Force (Index)



Labor Force and Housing

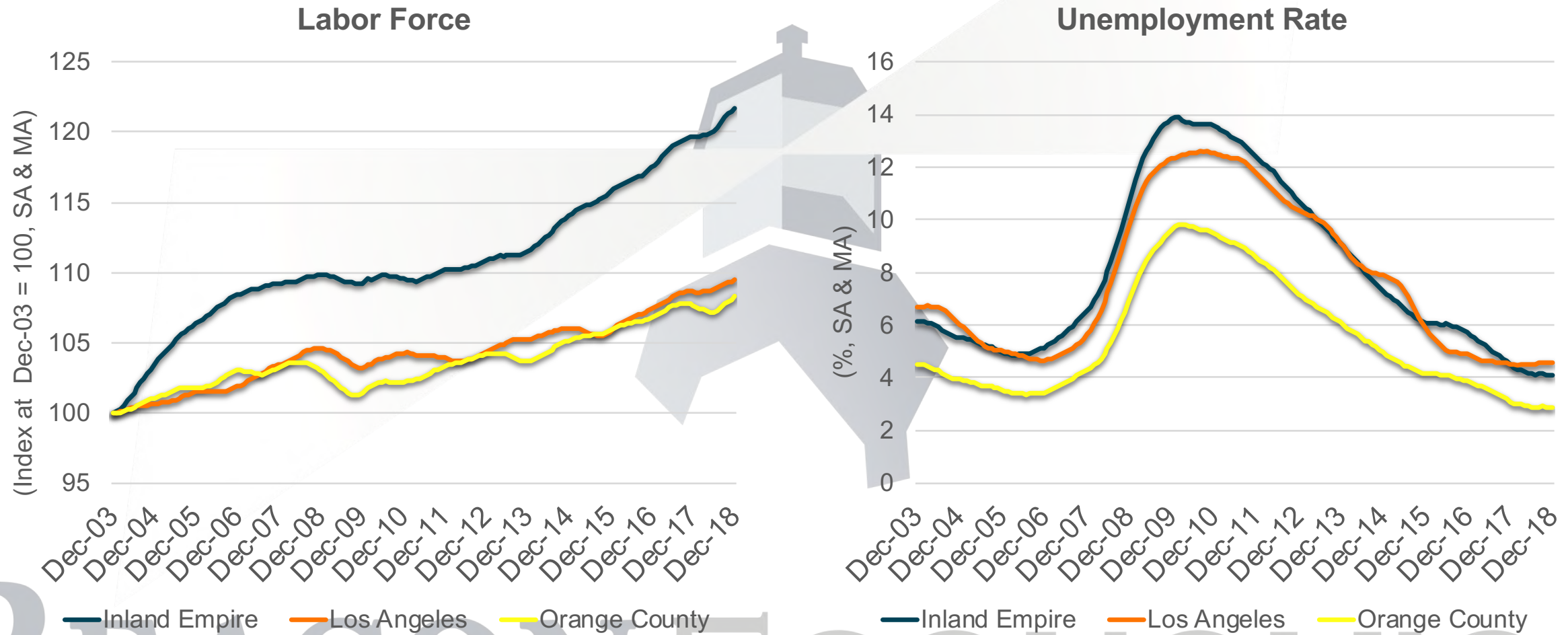


The Commute Impact



	Res Emp	Ch 12-17	Gr	Out Cnty	Sh
Alameda	770234	76444	9.9%	36005	47.1%
San Bernardino	890998	101571	11.4%	32113	31.6%
Contra Costa	543260	60182	11.1%	29556	49.1%
Riverside	1014984	150692	14.8%	28079	18.6%
Santa Clara	971960	109719	11.3%	25227	23.0%
Sacramento	689495	91152	13.2%	22646	24.8%
San Mateo	409921	39283	9.6%	21653	55.1%
San Joaquin	303851	45701	15.0%	19831	43.4%
Solano	204776	24954	12.2%	14919	59.8%
Stanislaus	230328	33644	14.6%	12592	37.4%
Madera	57028	15310	26.8%	9532	62.3%
Ventura	409760	23567	5.8%	7912	33.6%
Placer	177146	21908	12.4%	7596	34.7%

Labor Force and Unemployment

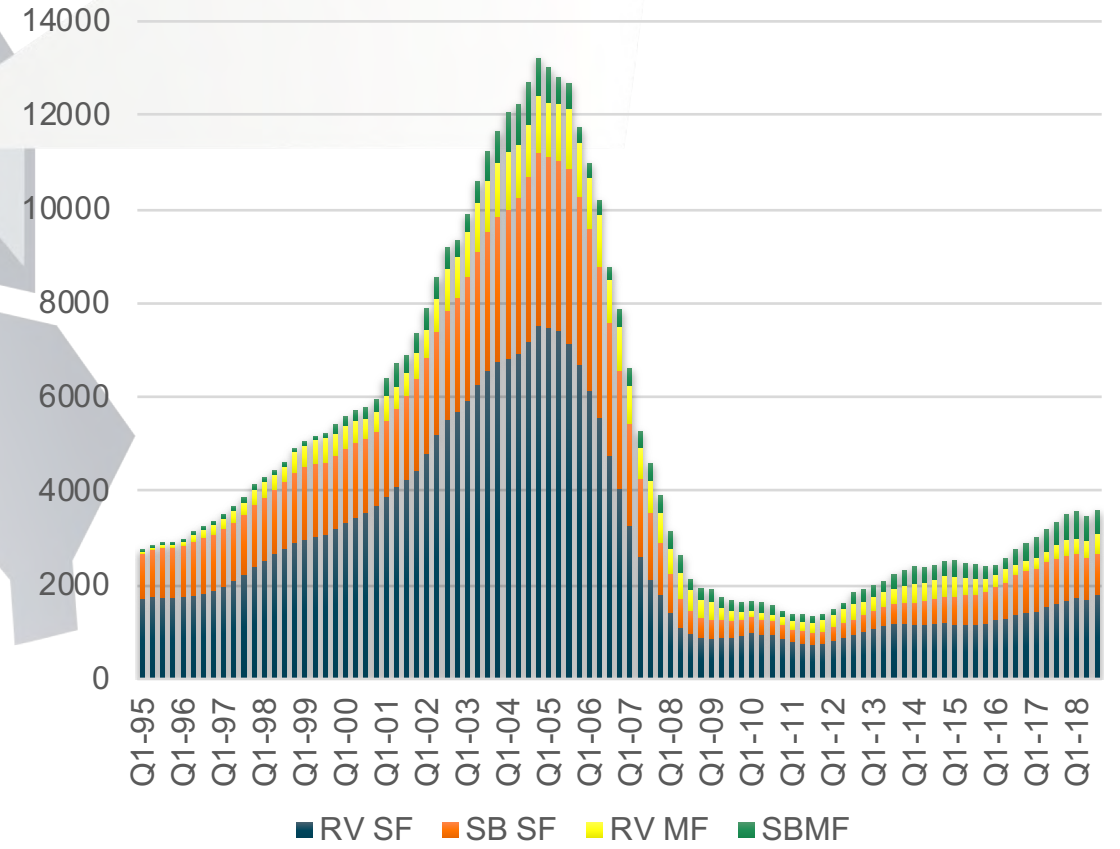


Residential Permitting



Region	Number of Permits 2018		Year over Year Growth	
	Multi Family	Single Family	Multi Family	Single Family
Inland Empire	2,842	10,730	-13.5%	4.1%
San Diego	6,190	3,387	10.5%	-14.9%
Los Angeles	16,633	5,721	1.1%	2.9%
Orange County	4,233	3,968	-2.8%	-22.9%

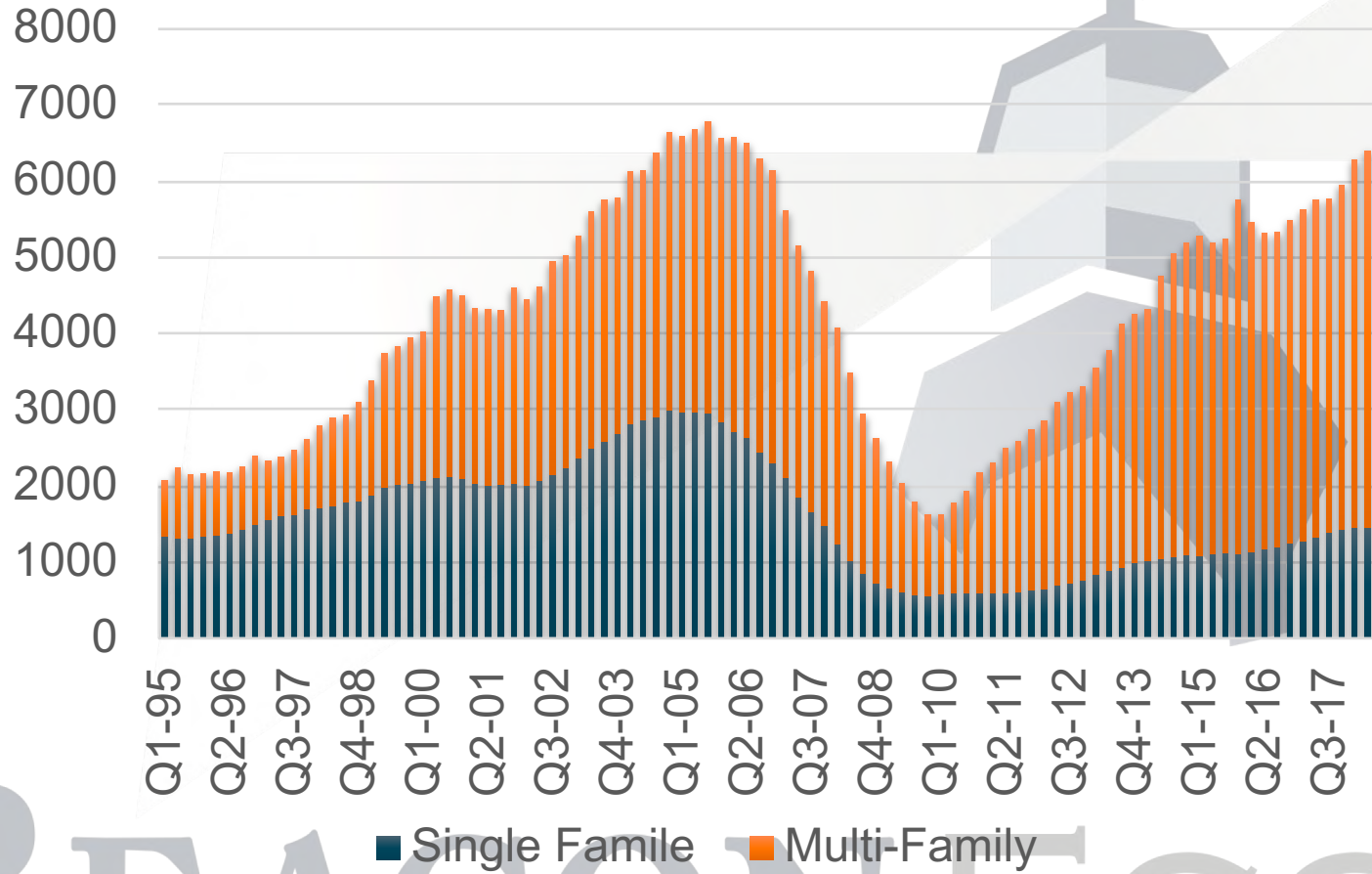
IE Housing Permits



Housing = Economic Development



Residential Permits LA County



2% Job Growth
90,000 Jobs
1.5 Jobs / HH
60,000
24,400

The year started out promising



YIMBY senator named head of California housing committee

Gov. Gavin Newsom threatens to cut state funding from cities that don't approve enough housing

Senate Bill 50 is the bold answer to California's housing crisis we need

But what we got...



Newsom delays threat to block transportation funds to cities that flunk housing goals

SB50 dies in this year's session of the Legislature

NEWS: Bill brand, ma Beach, says that he a Cupertino and Palo A an initiative on the ba const and preserve lo

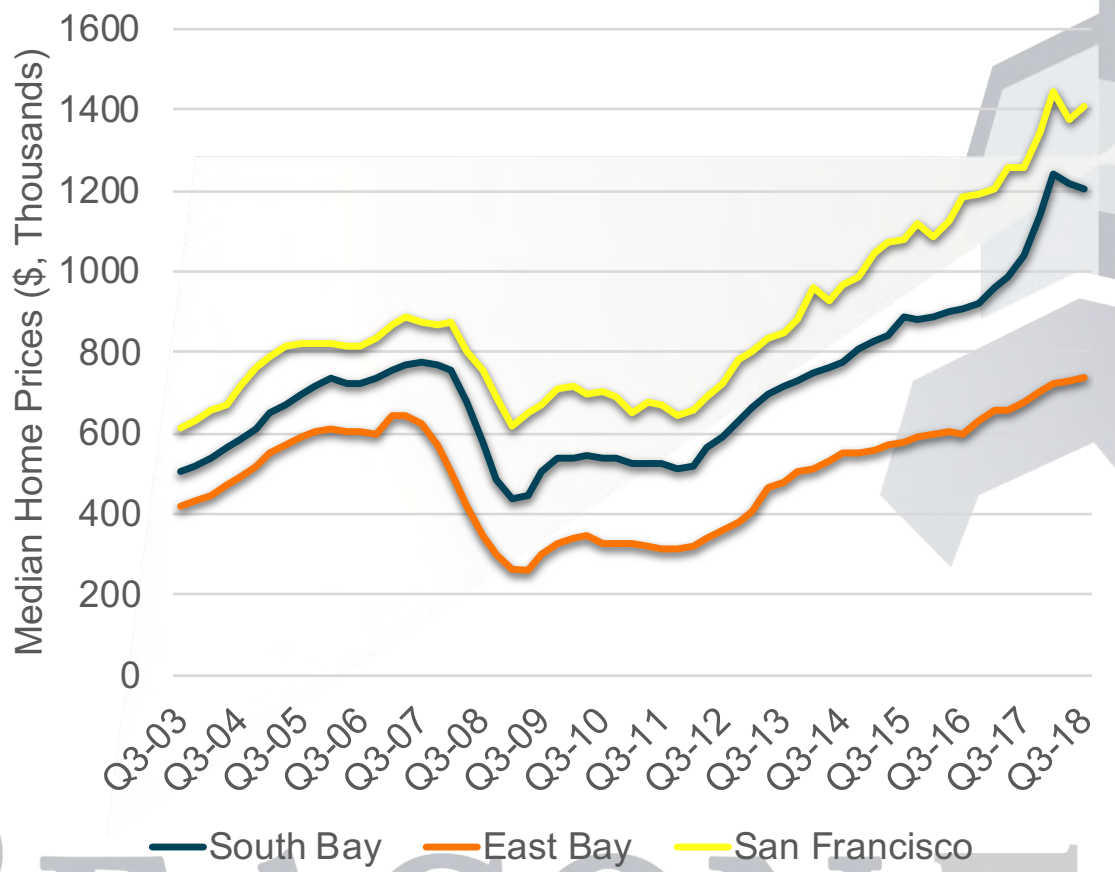
Statewide Anti-Rent Gouging Law Moves Forward

By ECT - May 30, 2019

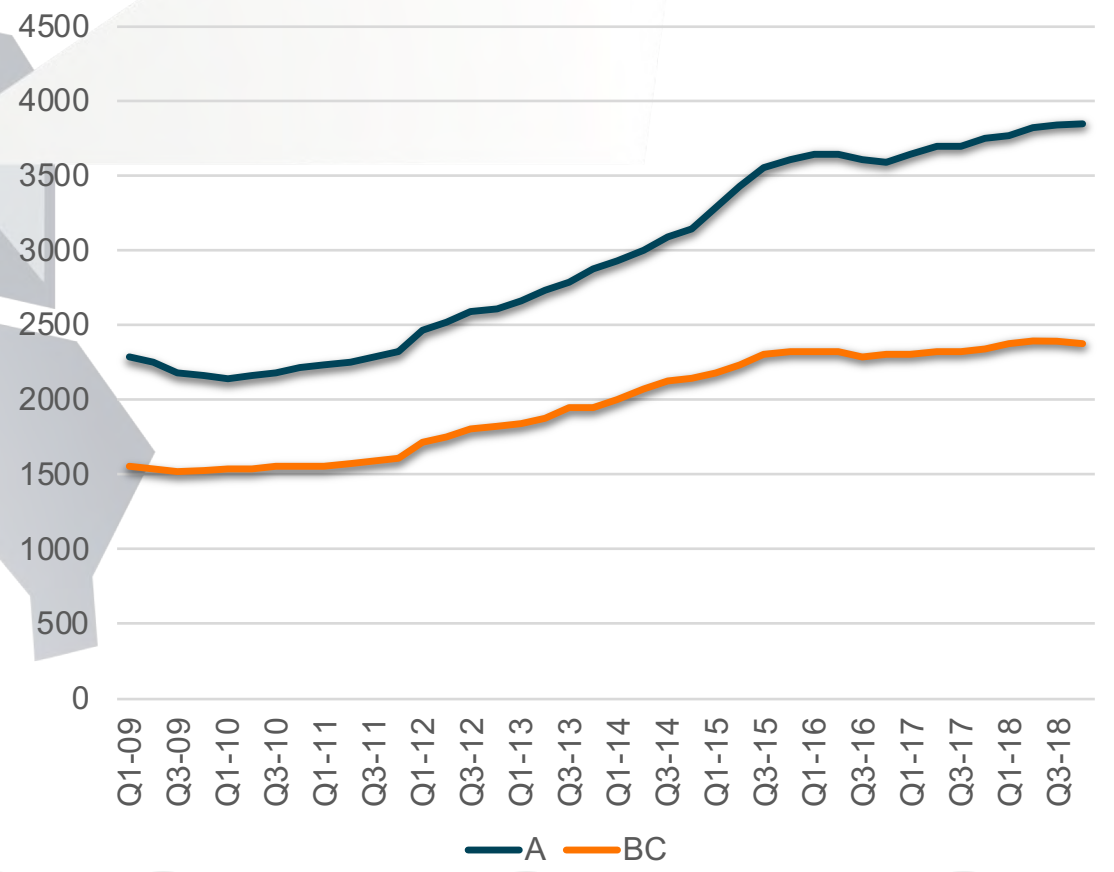
Housing Costs



**Median Home Price
Q3-2003 to Q3-2018**



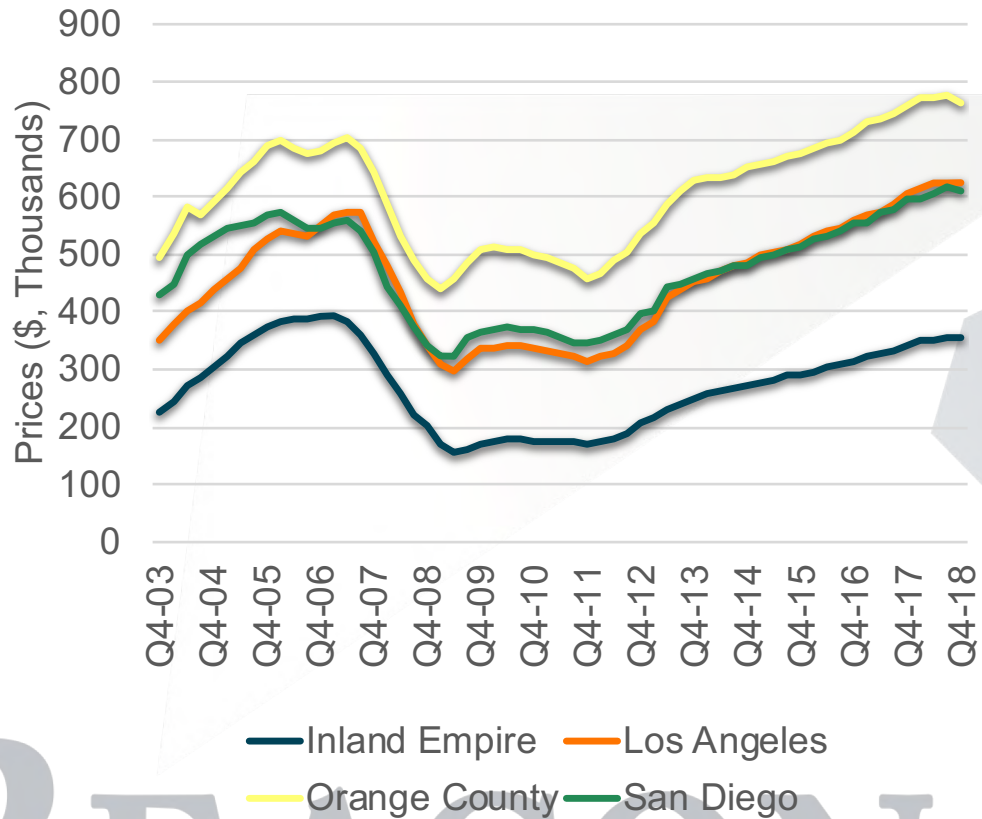
Asking Rents



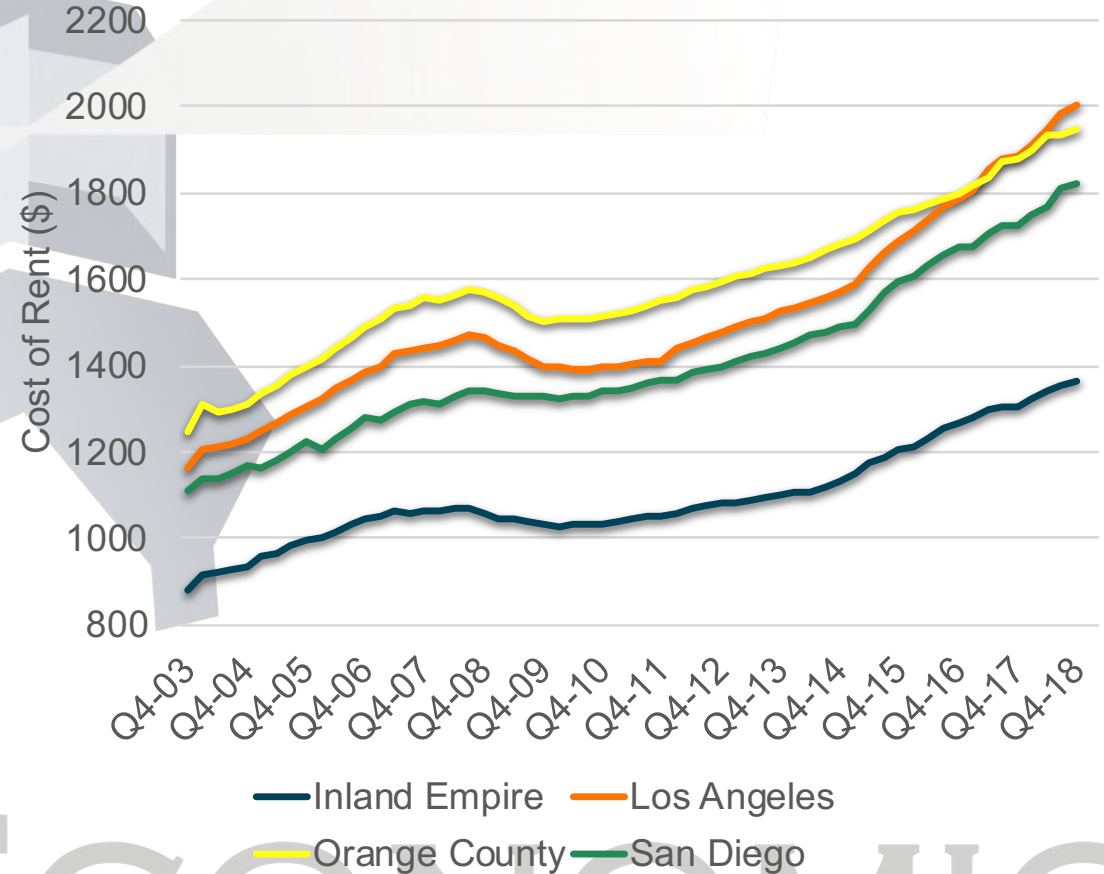
Housing Costs



Southern California Prices



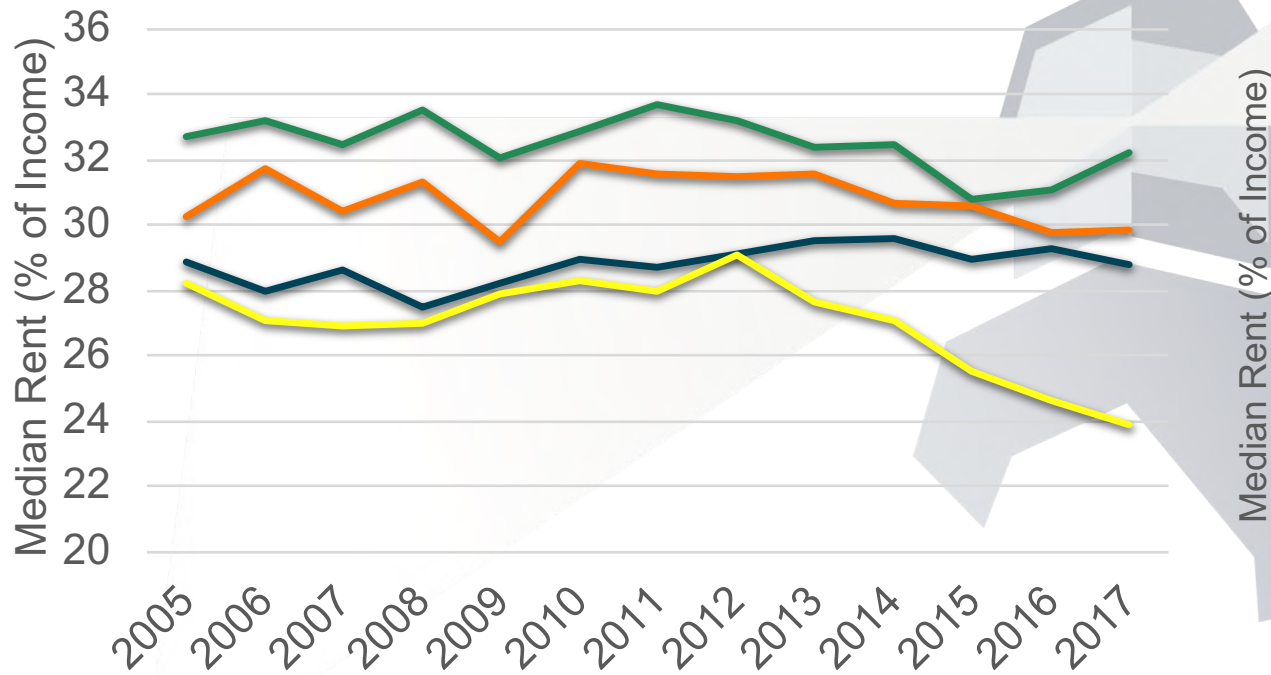
Southern California Rents



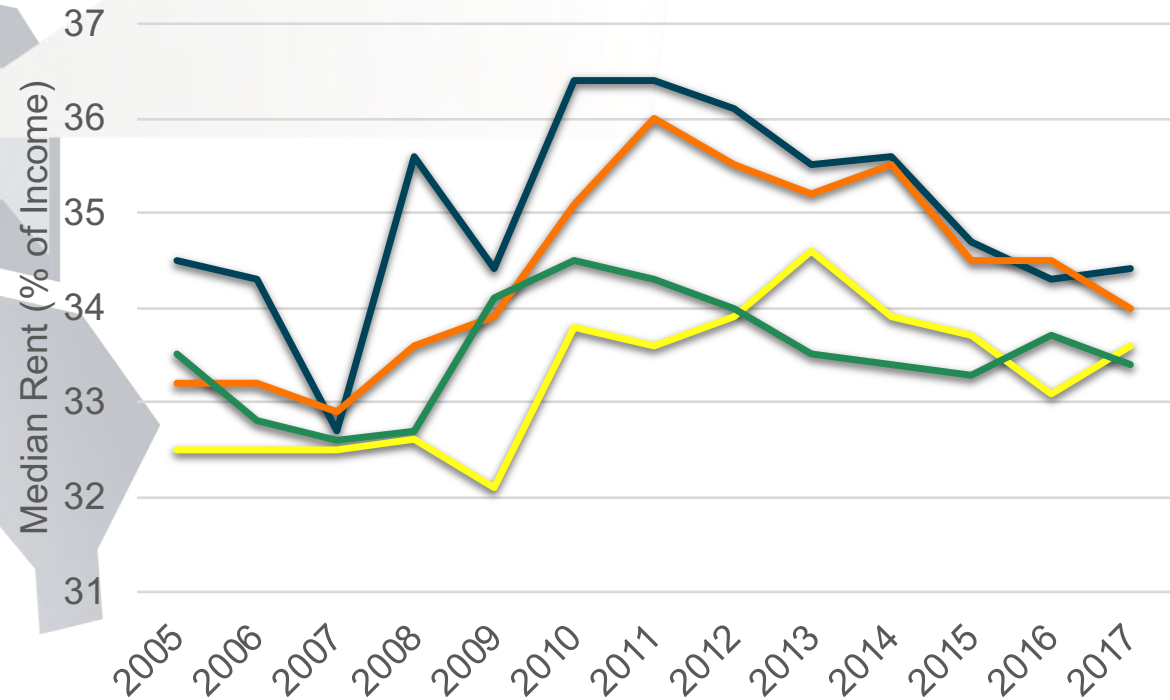
Don't Just Focus on Affordable Rentals



Median Rent as % of Income
2005 to 2017



Median Rent as % of Income
2005 to 2017



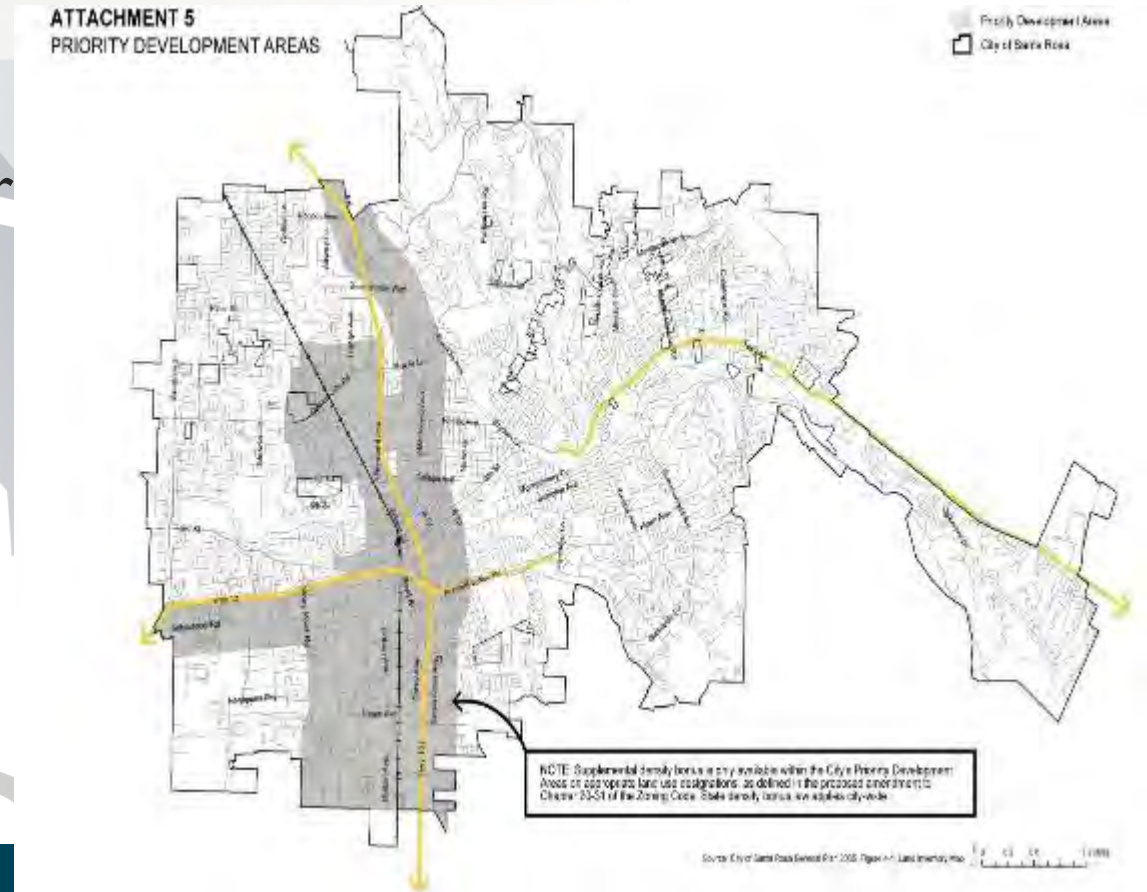
— Santa Clara County — Alameda County
— San Francisco County — Contra Costa County

— Inland Empire — Los Angeles
— Orange County — San Diego

SUPPLEMENTAL DENSITY BONUS

Allow up to 100% Bonus

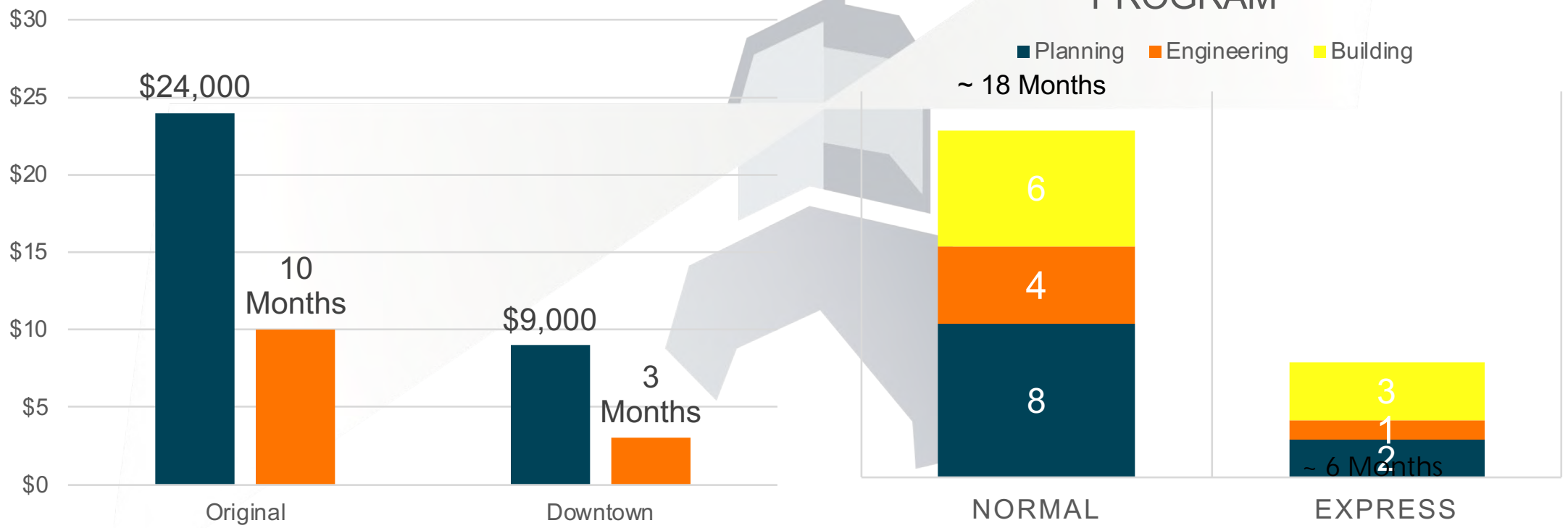
- Project Eligibility Requirements:
 - ✓ Achieves 35% State Bonus and
 - ✓ Located within a Priority Development Area or Station Area and
 - ✓ Located within appropriate General Plan Land Use Designation
- Density above 35% granted for:
 - ✓ Affordable Housing or
 - ✓ Affordable Housing and Community Benefits





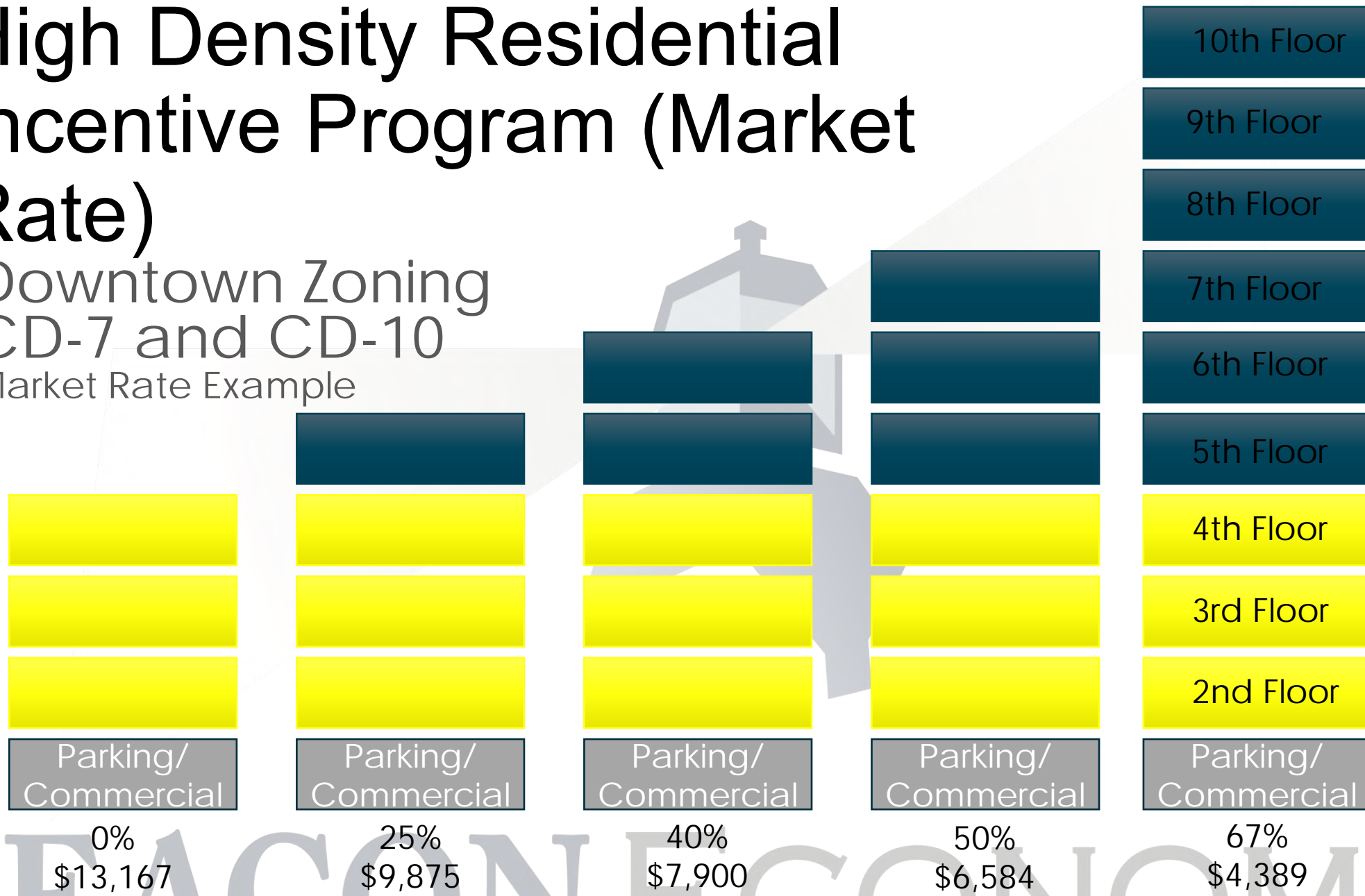
Design Review Process

EXPRESS PERMITTING PROGRAM



High Density Residential Incentive Program (Market Rate)

Downtown Zoning
CD-7 and CD-10
Market Rate Example



Per Door Park
and CFF Fee

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 Big Picture



■ Positives: It will be a good year

- GDP Growth Outlook for 2019: 2%+
- Labor markets to remain tight
- Rising wages to put pressure on profits
- Exports, business investment continue to grow
- Inflation to remain constrained
- Interest Rates Still Low
- Lending constrained, but commercial markets steady
- Debt Levels still safe
- Where people move (want to move) will drive regional growth

■ Negatives: Problems Growing

- Labor shortages will be an issue
- Local housing supply tightening
- Will the Fed continue to tighten, invert the yield curve?
- Equity markets behaving oddly
- Federal deficit widening sharply
- Bank lending still constrained
- Political uncertainty to dominate headlines
- Critical Policy Issues Remain Undiscussed
- Miserabilism warping our sense or reality

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 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
Slow Bank Lending
The Supply of Housing

What can Beacon do for you?



Connect with us.

To view again or download this presentation and for further information, go to: www.BeaconEcon.com

Continue the conversation.

Contact **Dr. Chris Thornberg** directly at chris@beaconecon.com or **310.571.3399**

Let's discuss your goals and needs.

Beacon has **6 Practice Areas** covering a range of services and products.

Our 6 Practice Areas



Housing, Land Use, & Real Estate Advisory



Sustainable Growth and Development



Economic & Revenue Forecasting



Economic, Fiscal and Social Impact Analysis



Regional and Sub-Regional Analysis



Litigation and Testimony

Portfolio Spotlight



Regional and Sub-Regional Analysis

Beacon conducts analysis at an international, national, state, county, and city level -- and even down to the zip code, pending data availability. We analyze data on **Employment, Industry, Real Estate, and Consumption.**

Past Clients:

- City and County of Los Angeles
- City and County of Riverside
- East Bay Economic Dev. Agency



Impact (Economic, Fiscal, Social) & EB5 Analysis

Beacon has evaluated the impact of entities **like universities, music festivals, infrastructure projects, and real estate development projects.** Beacon has also conducted impact analyses that combine more than one of the above like that of **L.A.'s Olympic bid.**

Past Clients:

- University of Southern California
- Metropolitan Water District
- LA 2024 Olympic Bid Committee



Sustainable Growth & Development

Beacon conducts industry and policy analysis on topics like **green innovation, tech and workforce development, and industry sector strategies.** Beacon has strong in-house expertise around **housing policy** and **economic development** support.

Past Clients:

- California Apartment Association
- Long Beach Downtown Dev. Corp.
- Santa Cruz Workforce Dev. Board



Housing, Land Use, & Real Estate Advisory



Economic & revenue forecasting



Litigation and testimony



BEACON ECONOMICS

Thank You

Chris@BeaconEcon.com | www.BeaconEcon.com