Housing Market Outlook 2016

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Frank Nothaft, PhD, chief economist at CoreLogic
Rachel Parsons, senior associate and Mimi Hom, client services specialists at CBRE
for contributing slides for this presentation
U.S. Housing Market Forecast
(Source: CoreLogic)

• Market in 2016 will have five features:
  • Higher interest rates (short ↑ 1%, long ↑ ½%)
  • House prices up (4% to 5%)
  • Strong household formations (>1¼ million)
  • Rental robust: vacancy low, rents up
  • Mortgage underwriting quality remains high
    o Some subprime creeping into the market

• Home sales: 2015 is the best year since 2007
Long-term Rates Expected to Rise
(Source: CoreLogic)

Interest Rate on 30-Year Fixed-Rate Mortgages and 10-Year Constant Maturity Treasury (percent)

Household Formation Accelerated in 2015

Annual Household Growth (Net Change, in Millions)

Source: U.S. Census Bureau, Housing Vacancy Survey, net change in number of households, January-to-June compared with same period in prior year.
Large Demographic Tailwind Has Arrived

Number of People in 2014 (Millions)

Age Cohort

Largest Age Cohort

Average Age First-Time Homebuyer

Average Age Repeat Homebuyer

Source: U.S. Census Bureau, Population as of July 1, 2014
Long-Term Worries: Student Debt

Cleveland Fed states: “The recent decline in mortgage applications is not solely a result of student debt, but it is likely a contributing factor... as 40% of young borrowers need to use 20% of their income just to pay student debt.”

Note: Homeownership rate is under 64% and heading lower.
San Diego Home Prices Projected to Rise Seven Percent Next Year

Projected to reach prior peak by early 2017, but will be 18 percent lower in real price

CoreLogic Home Price Index™ (January 2000 = 100) Condos and SF units including distress
Note: this is an index, not prices, so in 2016 we will be 262% of prices in the year 2000.

Source: CoreLogic Home Price Index including distressed sales, January 2000 = 100 (October 6, 2015 release) and CoreLogic REAS HPI Forecasts
For-Sale Home Inventory Has Been Low Since 2012
(Source: CoreLogic)

Homes-For-Sale Inventory as a Percent of Households

Sources: National Association of Realtors, U.S. Census Bureau (New Residential Sales and Housing Vacancy Survey). Note: Existing home inventory excludes Condo & Co-op inventory before 1999.
San Diego
(Source: Collateral Analytics)
Negative Equity Share in U.S.:
8.7 Percent of Mortgagors, or About 4.4 Million Homeowners

Source: CoreLogic Equity Report, Second Quarter 2015. Louisiana, Maine, Mississippi, South Dakota, Vermont, West Virginia and Wyoming have insufficient equity data to report.
San Diego Foreclosures
Short Sales Sharply Lower

12 Months Completed Foreclosures and Short Sales (Thousands)

Source: CoreLogic National Foreclosure Report and MarketTrends, data for 12 months ending July of each year
San Diego

(Source: Collateral Analytics)
San Diego
(Source: Collateral Analytics)
San Diego
(Source: Collateral Analytics)
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(Source: Collateral Analytics)
San Diego
(Source: Collateral Analytics)
Underwriting Remains Cautious

Source: CoreLogic TrueStandings, April 2015 purchase money originations compared with 2000 and 2001
More San Diego Price Trends
Single Family and New Homes
San Diego New Homes

New Home Average Sold Price and Number of Sales
Single Family

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<thead>
<tr>
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<tbody>
<tr>
<td>Price</td>
<td>415</td>
<td>454</td>
<td>540</td>
<td>620</td>
<td>754</td>
<td>879</td>
<td>887</td>
<td>789</td>
<td>685</td>
<td>604</td>
<td>572</td>
<td>564</td>
<td>596</td>
<td>753</td>
<td>860</td>
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<tr>
<td>Volume</td>
<td>2595</td>
<td>2031</td>
<td>2338</td>
<td>2224</td>
<td>1946</td>
<td>1402</td>
<td>1107</td>
<td>764</td>
<td>502</td>
<td>575</td>
<td>577</td>
<td>484</td>
<td>586</td>
<td>518</td>
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Price in Thousands
Number of Sales
San Diego Listing Versus Sold Prices

New Listing and Sold Average Price per Living Single Family

<table>
<thead>
<tr>
<th>Year-Qtr</th>
<th>Listing</th>
<th>Sold</th>
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<tbody>
<tr>
<td>2005-Q4</td>
<td>554</td>
<td>298</td>
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<tr>
<td>2006-Q4</td>
<td>370</td>
<td>259</td>
</tr>
<tr>
<td>2007-Q4</td>
<td>339</td>
<td>316</td>
</tr>
<tr>
<td>2008-Q4</td>
<td>269</td>
<td>229</td>
</tr>
<tr>
<td>2009-Q4</td>
<td>264</td>
<td>239</td>
</tr>
<tr>
<td>2010-Q4</td>
<td>261</td>
<td>238</td>
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<tr>
<td>2011-Q4</td>
<td>246</td>
<td>222</td>
</tr>
<tr>
<td>2012-Q4</td>
<td>274</td>
<td>249</td>
</tr>
<tr>
<td>2013-Q4</td>
<td>317</td>
<td>298</td>
</tr>
<tr>
<td>2014-Q4</td>
<td>332</td>
<td>309</td>
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San Diego Condos

Regular Average Sold Price Per Living Condominium

<table>
<thead>
<tr>
<th>Year-Qtr</th>
<th>Price/living</th>
<th>Best-fit</th>
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<tbody>
<tr>
<td>2000-Q4</td>
<td>176</td>
<td>175</td>
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<tr>
<td>2001-Q4</td>
<td>199</td>
<td>208</td>
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<tr>
<td>2002-Q4</td>
<td>250</td>
<td>252</td>
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<tr>
<td>2003-Q4</td>
<td>290</td>
<td>308</td>
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<tr>
<td>2004-Q4</td>
<td>376</td>
<td>363</td>
</tr>
<tr>
<td>2005-Q4</td>
<td>405</td>
<td>392</td>
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<tr>
<td>2006-Q4</td>
<td>375</td>
<td>390</td>
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<td>2007-Q4</td>
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<td>364</td>
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<td>2008-Q4</td>
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<td>316</td>
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<td>2009-Q4</td>
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<td>274</td>
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<td>2010-Q4</td>
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<td>2012-Q4</td>
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<td>267</td>
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<tr>
<td>2013-Q4</td>
<td>298</td>
<td>299</td>
</tr>
<tr>
<td>2014-Q4</td>
<td>328</td>
<td>330</td>
</tr>
</tbody>
</table>
Prop 13 Long Term Impacts on Supply
What do San Diego Residents Really Pay by Neighborhood?

Effective Tax Rate

Source: Norm Miller run for all neighborhoods in San Diego County
Effective Prop Tax Rates Versus Median Tenure in Neighborhood With Trend Line  $R^2 = -.497$
Turnover Rate Since 2005 Versus Eff Property Tax Rate for San Diego Neighborhoods

Turnover Rate % vs Eff Property Tax Rate
Present Value of Property Tax Savings as Percentage of Home Value
Multifamily Trends from CoreLogic and CBRE
Components of the U.S. Rental Stock 2015

- Multi-family: 42%
- One-family: 35%
- 2- to 4-family: 18%
- Manufactured Housing: 5%

Source: U.S. Census Bureau, 2014 American Community Survey, Table S2504

Source: U.S. Census Bureau, 50 largest metropolitan rental markets; size of bubble represents the size of the single-family rental detached stock.
US Vacancy Rates Are Lowest on Single-Family Homes

Rental Vacancy Rate (2015 Second Quarter)

Source: CoreLogic Rental Trends (average April-June 2015), U.S. Census Bureau, Housing Vacancy Survey (2015 Q2)
Single-Family Rent Growth Strong, Especially in West

Rent Growth for 3-Bedroom Detached Houses, July 2014 to July 2015

Source: CoreLogic Rental Trends, metropolitan area median rent July 2015
San Diego Multifamily Market Snapshot
(Source: CoreLogic)

<table>
<thead>
<tr>
<th>3rd Quarter 2015</th>
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<tbody>
<tr>
<td>AVERAGE RENT</td>
<td>$1,848</td>
</tr>
<tr>
<td>AVERAGE RENT PSF</td>
<td>$2.05</td>
</tr>
<tr>
<td>TOTAL OCCUPANCY</td>
<td>95.6%</td>
</tr>
<tr>
<td>TOTAL UNITS</td>
<td>290,961 (5+ Units)</td>
</tr>
<tr>
<td>RENT GROWTH</td>
<td>7.8% (Annual)</td>
</tr>
<tr>
<td>PROJECTED RENT GROWTH</td>
<td>4.8% (Annual)</td>
</tr>
</tbody>
</table>

(Source: CoreLogic)
Occupyance Rates
(Source: CBRE)
Rental Rates
(Source: CBRE)

Rent Index ($/Unit)

2010 – 2015 Growth

3.7% Average Forecasted Rent Growth 2017 – 2019
(Source: CBRE)
Selected Markets: Median Cap Rates on Detached 3 BR Homes 2015
(Source: CoreLogic)
S D Sales trends (>100 Unit Properties)
(Source: CBRE)

2015 YTD
24 Sales
$1,079,925,000 Sales Volume

33% Increase in Sales
36.4% Increase in Volume Over 2014

A
21%
$349,616/Unit
$329/SF

B
42%
$210,844/Unit
$232/SF

C
37%
$164,817/Unit

*Percentage by number of sales*
S D Multifamily Deliveries
(2004-2018F)

Average Deliveries = 2,376
Housing Shortages and Affordability

1) The London Group report suggests a shortage in housing units of 50,000 to 118,000.

2) SANDAG estimated that San Diego will need to produce 161,980 more units of housing from 2010 -2020. After 36 percent of time elapsed, San Diego produced:
   - 31 percent of the high-income units needed,
   - four percent of the moderate-income units needed and
   - six percent of the low-income units needed

3) This is not surprising since the easiest housing to get approved is low density and more expensive than the neighbors.
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