



2011 JULY NEWSLETTER

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2011

Since the holidays the economy has continued to be very difficult for America

The housing market has not begun to recover. Unemployment is uncomfortably high and most of the other 'numbers' are only mildly encouraging.

But the key operative word is 'recovering'. After the 'GREAT RECESSION' we now have the 'GREAT SLOW RECOVERY', but still a recovery.

The Bay Area fortunately, is one of the bright spots. We have amazing, innovative and successful companies engaged in multiple businesses and industries. In everything from computers, social networking, bio-science, energy, tourism, finances, shipping et cetera, (this part of America is quickly recovering in a steady manner).

And Marin is still Marin. Just named the richest county in California and fourth richest in America it remains stable and is weathering the economic storm in reasonably good shape. That is not to say it has not been difficult (just not as difficult as everywhere else).

And the News

The BIG topic is the employment of people.

The National unemployment number of **9.1%** is bad. The State of California number of **11.7%** is worse, but Marin has an unemployment rate of **7.4%** (the lowest rate in California).

THE GOOD NEWS ... the Economy is steadily adding workers (**845,000** in the last six months)

THE BAD NEWS ... the Economy needs to create about **14 million more** jobs.

The second BIG topic is housing

Now there are two sides to this story: **Single – family homes** and **multi – residential homes**.

In the single – family home market ‘things’ are bad and do not look particularly good for 3 to 5 years.

People are not buying single family houses because

- Of concerns that prices may continue to go down
- Because of very strict lending requirements
- Because of higher down payment requirements

Add to that concerns about keeping your job and ... **presto !** Sales of existing houses reach all-time lows. Building of new housing drops to record lows AND prices have continued to go down.

In the multi – residential home market ‘things’ are good and will stay that way for multiple years.

People are renting apartments because:

- People are not buying single family houses
- Foreclosure are unfortunately continuing at a steady pace forcing people into rental housing
- The job market is improving (albeit slowly) but improving. This leads to more household formation creating more demand for rental housing
- During the downturn, displaced people moved in with parents, relatives and friends. That has become old and the friends, relatives and kids are being asked to leave and get their own housing again (more pressure on the rental markets).
- A change in values with Americans switching from homeowners to renters.

In other words ... occupancy rates are very high and rents are going up !

To bring this down to the local **Marin County** level, rents are going up in Marin. This positive rental market should continue into 2012, with rents increasing into a robust 5 to 10% range. In addition, occupancy rate are very high, (in the 98% range), with strong rental traffic looking for apartments.



HOW DID AMERICA DO IN THE BEGINNING OF 2011 ?

WELL ... Not that good ... Sorry

WHY ?? WELL LOOK AT THE FACTS ... THE NUMBERS ...

From the chart of 20 indicators used to measure the Economy:

THE RESULTS:

ROUGHLY POSITIVE	3 ...	15%
ROUGHLY NEGATIVE	6 ...	30%
BASICALLY NO CHANGE	11 ...	55%
TOTAL INDICATORS 20		

The numbers clearly show the Economy was on a 'slow boat to China' – no joke intended. Yes, out of the 20 indicators 11 (or 55%) basically were flat. Up and down a little but basically flat.

Fortunately, the private sector of the economy continues to slowly grind forward making slow but real gains.

Unfortunately, the Economy is coming off a slow six months. It will take a bit of time to regain momentum.

It will get better and better and better, and it will be a **much** better year in 2012.

Do not hold your breath for the rest of 2011

THE 2011 NATIONAL HOUSING MARKET

The residential housing market is not recovering

- In the month of May, sales of existing homes fell **15%** below the sales of one year ago (more bad news). Prices dropped **4.6%** from a year ago.
- The cumulative decline in house values since the market peak in June 2006 is now approximately **30%**
- **75%** of the homes in America lost value from 2010 to 2011
- **38%** of the homes sold in March were sold at a loss (an unfortunate new record)
- **25%** of the 74.5 million homeowners with a mortgage are underwater (owing more than their house is worth)
- More than **48%** of homeowners have less than **20%** equity in their homes
- The average borrower in foreclosure has not made a payment in 17 months. Up from 11 months two years ago (up from the norm of 8 months)
- Sales of new homes in February (278,000 houses) dropped to the lowest level since records began in 1963
- On the positive side, mortgage interest rates continued to remain historically low in a range of 4.6% to 5.21% (essentially flat).

BAY AREA HOUSING MARKET

- Dataquick reported that the median price for Bay Area homes for closed escrows in May was \$372,000. This was a drop of \$ 38,000 from May 2010 (**a 9.3% drop**).
- 23% of Bay Area homeowners with a mortgage are underwater, owing more than their house is worth
- 36% of the people (not banks) who sold their house in December lost money. Selling their house for less than the purchase price
- Another 26% of sales were bank owned foreclosures (also selling for less than their original value)
- Home prices dropped 4.7% in February from a year earlier as distressed sales made up 53% of all transactions
- DataQuick reported 243 newly built homes sold in February (the lowest since 1968, when they started keeping records)
- **34%** was the average markdown on foreclosed homes in the first quarter

MARIN COUNTY

- It is **lower** than last year ! One year ago, in May 2010, the median price of housing was **\$675,500**. In May 2011, the median price was **\$640,000** (a drop of 5.3%)
- The number of single – family homes sold in **May 2011** dropped **12%** from May 2010. And nearly **25%** of the sales were foreclosures or short sales.
- BUT the number of houses for sale placed under contract in May soared to a four year high of 231, the highest figure since May 2007.

AND FUTURE HOUSING IN AMERICA ?

Building permits, a measure of future construction has fallen to the lowest level in **50 years !!**
The building of current and future housing is plummeting !!

New housing Units built

2005 ... 2.1 million
2006 ... 1.8 million
2007 ... 1.4 million
2008 ... 906,000
2009 ... 554,000
2010 ... 588,000

✓ The Nation is building approximately **1.5 million** less housing units per year in 2011 than in 2005. That is a **75%** reduction !!

✓ Currently to accommodate for new household formation the population demographics dictate a long-term need for 1.3 to 1.4 million new homes needed to be built, per year !

✓ Historically, the Nation builds on average **1.2 million** housing units per year. BUT at the current building pace of under 600,000 new homes each year. The Nation currently is building **50%** of the housing we will need for the future.

OBSERVATION:

*It appears that house prices have **not** stopped declining – maybe another 2-7% ?? But with such a dramatic drop in the construction of new housing both single-family residence and apartments are we seeing the beginning of the FUTURE housing shortage ?*

ON INFLATION

For the last six months from December to May inflation has slowly increased from **1.5%** to **3.6%**. Fortunately, or unfortunately, the economic downturn will keep any serious inflation under control in the short term.

What can inflation do to \$ 1000 in the long term ?

<u>Year</u>	<u>\$ Then</u>	<u>\$ Now</u>
1940	1,000	16,065
1950	1,000	9,332
1960	1,000	7,598
1970	1,000	5,797
1980	1,000	2,729
1990	1,000	1,721
2000	1,000	1,306

Since May of last year consumer prices have increased 3.6% - INFLATION IS IN THE AIR

THE JOB MARKET

NATIONAL LEVEL

- Unemployment rate dropped from 9.4% in December to 9.1% in May. An improvement but very slow and frustrating.

- Unemployment for teenagers (age 16 to 19) is approximately 25%

- And approximately 6 million Americans have been seeking work for more than six months ! This is **40%** of the approximately 15 million Americans unemployed (**this is pain**).

- The economy was adding about 200,000 jobs a month on average from December to April. BUT in May job creation suddenly dropped to 54,000 !!!

- The economy needs to add about 100,000 jobs a month to keep up with population growth and new people entering the workforce. AND the effect on Wages ?

It would be safe to say there has been unfortunately no effect. In other words, there has been virtually no increase in wages in the last six months. In December 2010, the average earnings for an American was \$ 19.24 per hour. In May 2011, it was \$19.46 per hour.

22 CENTS PER HOUR !! ARE YOU KIDDING !!

Let me give you some perspective ...

In a 40-hour week at 22 cents per hour, an American earns \$ 8.80 per week extra. This is basically enough money for ONE breakfast. This IS NOT very helpful to the economy (or to the 'breakfast places' !)

AND with inflation increasing at 3.6%, the inflation – adjusted wage of the average American has declined in the last six months !!

AND FOR A BIT OF HISTORY - Yours

Year	Per Hour Earnings	Weekly Earnings
1965	\$ 2.63	\$ 100
1970	\$ 3.40	\$ 125
1980	\$ 6.85	\$ 240
1990	\$ 10.20	\$ 350
2000	\$ 14.02	\$ 480
2010	\$ 19.07	\$ 640

An observation on the state of the State

California slowly improved the job market with the unemployment rate declining from **12.5%** in December to **11.7%** in May. Unfortunately, this is a disappointing gain of only 98,000 jobs in six months on a labor pool of 18 million !

California has multiple job markets with very different stories

- Information technology jobs are booming, with social media, software development, television and motion picture production on the increase
- Leisure and hospitality, as well as trade, shipping and utilities are having healthy gains
- Health services and mining are also showing healthy gains

BUT

- The construction industry lost 600,000 jobs. With a residential housing market on its back and commercial construction nonexistent, do not expect any significant recovery in jobs for a long time.
- The Inland Empire devastated the most by the residential housing downturn is continuing to lag and will continue to do so.
- Sacramento is in contraction mode as the state government continues to eliminate jobs.
- The retail industry is still not recovering.
- Since a year ago the California economy has added 144,000 jobs.

On a total current workforce of approximately 16 million, this represents a little under 1% (roughly keeping up with population growth) but will do little to help the 2.1 million people still currently unemployed.

The numbers are out on which State wins this year's 'WORKFORCE PRODUCTIVITY' contest

Number one	Delaware	\$ 101,000
Number two	Connecticut	\$ 93,000
Number three	New York	\$ 91,000
Number four	Alaska	\$ 89,000
Number five	New Jersey	\$ 87,000
Number six	California	\$ 84,000
Number fifty	Montana	\$ 49,000



SF BAY AREA COMPANIES

GOOD THINGS ARE HAPPENING IN THE BAY AREA

► **Bright Source Energy** (a solar – thermal – power systems maker) based in Oakland is raising \$ 250 million to build plants that use mirrors to focus the sun's energy on boilers that make steam for power turbines. The plants will generate the equivalent capacity of 11 atomic plants.

► **Apple** – And the iSpaceship is COMING to Cupertino !! The four-story alien – like circular building will accommodate 12,000 employees and is anticipated to be ready in 2015. It will be one of the cleanest buildings in America, and could become a 'building destination site' for people from around the world. Driven by the success of the iPhone and iPad, Apple has become the world's largest buyer of chips for computers and phones. Currently the Cupertino company increased its global employee count 36% to 46,600 employees.

► **Telltale Games** (an award-winning San Rafael company) publishes movie-like episodic games on major game consoles. It successfully closed a \$ 7 million round of financing to launch new products on multiple gaming and computer platforms.

► **Pandora Media** (the popular Internet radio company) went public and had a very successful debut on the New York Stock Exchange. The Oakland company has more than 80 million registered users boosted by a surge in members who stream music through mobile devices.

► **LUMINOSITY**. Having trouble with your memory ? Well the online memory games of this San Francisco startup may be for you. With 14 million customers, double from the prior year the Company raised \$ 32 million to continue to develop games that boost memory and productivity.

► **Bloom Energy** (a Sunnyvale company) will offer power purchase agreements to allow customers to buy electricity from fuel cell server centers. The service offers electricity 20% below the current utility company rates.

► **Google** – UNBELIEVABLE !! Building a \$ 5 billion undersea power line carrying wind energy along the coast from New York to Virginia.

► **Kabam** the San Francisco startup behind Facebook games such as 'Kingdom of Camelot' raised \$ 85 million from Google. The company makes money – believe it or not by charging game players for virtual items.

Marin

A new report for 2009 issued by the federal Bureau of Economic Analysis ranks Marin County residents as the richest in California and the fourth richest in the Nation.

Per Capita Income		
MARIN COUNTY	\$ 89,139	Highest in California & Forth in the Nation
SAN MATEO COUNTY	\$ 69,562	Second highest in California
LOVING, TEXAS	\$ 150,933	Highest in the Nation
TETON, WYOMING	\$ 127,823	Second highest in the Nation
NEW YORK CITY	\$ 105,554	Third highest in the Nation
HIDALGO COUNTY, TX	\$ 20,509	Lowest in the Nation

► The County received a '**AA+**' rating from Fitch Ratings (an international debt rating agency). That is the highest rating that can be given a California county and only one other county achieved a rating as high as Marin's. Fitch indicated the high rating reflects the County's strong and stable economy.

► Marin's unemployment remained the **lowest in California** dropping from **7.8%** in December to **7.4%** in May.

► At the Marin Job Resource Center (the first stop for unemployed workers seeking aid), the number of applicants was 64 per day in April and 62 per day in March, basically unchanged.

► The MARIN ECONOMIC FORUM forecasts the gross county product – the total local economic output – to rise by **4.2%** in 2011 (up from **3.1%** in 2010 and a low of 1% in 2008).

► Personal income is projected to rise from a per capita salary of \$ **87,213** in 2010 up to \$ 101,923 in 2014

► Marin County's population grew by 0.75% in the last fiscal year ended June 30, 2010 with 1,957 people to a total population of 261,837. At a birth rate of 9.5 babies per 1000 people, Marin was the lowest in the Bay Area.

► Transportation for America issued a report that the combined counties of Marin, San Francisco and San Mateo ranked number one in metropolitan areas for public transit access for seniors.

► PROFESSIONAL BASEBALL is coming to San Rafael at Albert Park ? A proposal to bring a new North American League professional team is in process with the first game played in Spring 2012.

► BIOMARIN located in Novato develops bio-pharmaceuticals for rare diseases. With 2010

revenues of \$ 376 million, the recently expanded facility can support approximately \$ 1 billion in revenue with more than 900 employees. Marin's biotech sector saw a 36% job growth since 2005, and companies like Raptor and Ultragenyx could help develop a biotech cluster in Marin.

► After 146 years, the **Marin French Cheese Company** located in West Marin between Nicasio and Petaluma is changing ownership. The French-style cheese producer is being acquired by **Rians**, a French owned company operating 15 creameries in Europe and the United States.

► Il Fornaio (the Corte Madera restaurant chain of 22 Italian restaurants) was bought by an Atlanta based private equity firm.

IN THE APARTMENT WORLD IN MARIN

There is virtually no construction of rental housing in Marin at this time. Following is a perspective as to why that WILL continue into the foreseeable future.

Mill Valley based Thompson/Dorfman Partners and Wareham Development of San Rafael submitted the proposal for a 67-unit apartment building behind the main Elks Lodge building on Mission Avenue.

AND THEN ...

- ◆ San Rafael officials are reviewing the proposal for completeness and hope to hold a neighborhood meeting in the next three to six months !
- ◆ It will **then** go before the Design Review Board
- ◆ It will **then** go before the Planning commission
- ◆ It will **then** go before the City Council
- ◆ It will **then** require an exemption from the General Plan 36-foot height restriction (the project asks for a height of 56 feet).
- ◆ It will **then** need to rezone the site
- ◆ And **then** the fun begins ... the Project *then* needs to satisfy the **Federation of San Rafael Neighborhoods** which has the following concerns:
 - ◆ Traffic hazards on Mission Avenue
 - ◆ The design matching Falkirk and other adjacent historical buildings (the Chairman of the Federation thinks the project looks like a big box and is completely inappropriate !)
- ◆ And **then** the difficult time-consuming process of the ENVIRONMENTAL IMPACT REPORT.
- ◆ And **then** it will need to prepare and submit the multiple building plans necessary to acquire the various building permits and pay the fees.
- ◆ And **then** the Project will have to get financing when financing for a development project is difficult at best.

- ◆ And **then** the developers have to actually build the apartments. (By the way, building costs are very very high. Significantly above what the current rental market is willing to pay for – very risky to build)
- ◆ And **then** the Project will need to satisfy and be signed off by the various building inspectors who will monitor the Project at every stage.
- ◆ And **then** Thompson/Dorfman Partners and Wareham Development will try to make a profit.
- ◆ And **then** ... good luck !!

Other Notes ...

ON CALIFORNIA

In the fiscal year ended June 30, 2010, California's population grew by about 350,000 people to 38.8 million (less than 1%, one of the lowest rates on record)

ON THE BAY AREA

The Business Confidence Survey (a response from 485 Bay Area CEO's) showed that:

- 58% think local economic conditions have improved in the last six months.
- 61% expect improvements over the next six months.
- 53% expect their workforces to remain the same over the next six months.
- 31% expect to add jobs.
- Overall findings received a score of 61 out of 100. For comparison, the index reached an all-time low of 31 in January 2009.

ON AMERICAN HOUSEHOLDS

In the First Quarter of 2011:

- ✓ Americans' overall net worth grew **1.65%** in to **\$ 58.06 trillion**.
- ✓ Average household wealth rose to **\$ 517,614** increasing 9% from the 2009 bottom but still **11.5%** below the peak in mid – 2007.
- ✓ The average household owed nearly \$ 119,000 in debt (down from \$ 125,000 in 2008).
- ✓ Late payments on **AUTO LOANS** dropped to the lowest level since **1999**.
- ✓ And the number of auto loans started during the quarter rose 22% from the prior year.

ON CORPORATE AMERICA

- At the end of March 2011, Corporations are holding \$ 1.9 Trillion IN CASH.
- **CATERPILLAR TRACTOR** reported a fivefold increase in first quarter profit. This is good news for the economy as a whole because it represents companies buying heavy equipment for construction and mining.



FUN STUFF

✓ **Want to buy gold ???** In Boca Raton, Florida, a German company has installed an ATM machine at an upscale shopping mall that dispenses shiny 24-karat gold bars and coins. The “**GOLD TO GO**” machines re-figure prices automatically every 10 minutes to reflect market fluctuations.

✓ The average house price in **Hong Kong** increased 20% in 2010 and 30% in 2009 !! WOW – do you think it will slow down ? Well ... no ... the first two months of 2011 prices skyrocketed 7% a **42% annualized rate** !!!!

✓ **Krispy Kreme Doughnuts**, won a fanatical following with one product: sinfully sugary doughnuts, served warm. Well ... that is about to change ... oatmeal, yogurt and fruit juice will now be added to the menu ! ... (a healthy balance with your sinful doughnut ?)

✓ **PLAYBOY** launched a new Website – based subscription service called ... iPlayboy.com. The site allows subscribers to see every single page of every single magazine - from the first issue 60 years ago featuring Marilyn Monroe – to the latest issue today. At \$8 per month subscribers will have 682 issues to peruse !!!

✓ The house of **MICKEY MOUSE** records a 54% quarterly increase in earnings in the last quarter of 2010. Revenue grew 10% from 2009. **Go MICKEY MOUSE !**

✓ In 2010, traffic congestion in the 100 largest metropolitan areas increased 11%; and Americans drove 3 trillion miles, 20.5 billion more miles in 2010 than 2009 ... a 0.7% increase.

✓ According to the AARP - 12% of people over 65 do not drive a car ... and over 75 ... 31% do not drive.

✓ IBM turns 100 in the month of June. In 1911 three businesses merged to form **Computer - Tabulating – Recording Company** ... later renamed **IBM**.

✓ **International POW WOW**, a travel convention held at MOSCONE CENTER in San Francisco , hosted more than 1100 foreign tour operators, 450 travel writers and 3,500 exhibits. Organizers estimate \$ 350 million from tourism for the city over the next three years.

✓ **NEW HAMPSHIRE** boasts the highest beer sales per person in the United States, with a 2010 average of 32.7 gallons of beer per person. Residents of the “Granite State” also have the highest rate of alcohol use at 63% of the population.