

Real Estate Perspectives

Opportunities in Today's Economic Climate

5TH ANNUAL

REGIONAL
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SUMMIT

Welcome!



Updates, forecasts & Trends

Putting the pieces together



TODAY'S PANEL



Anthony Hutchinson

*Director of Government & Industry Relations,
Freddie Mac*

Prior to joining Freddie Mac, Mr. Hutchinson was the Senior Policy Representative for Financial Services at the National Association of REALTORS. He is an expert on financial policies and has helped shaped public policies critical to the housing industry, including the Dodd-Frank Financial Reform Law and the Qualified Mortgage rulings.



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Russell T. Valone II

President/CEO

Market Pointe Realty Advisors

Mr. Valone is an expert in economic real estate market analysis for Southern California. With over 30 years of experience, he has earned an outstanding reputation as an expert market research analyst and real estate consultant, as well as being a leading authority on the Southern California housing market.



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Robert Young, *Ph.D.*

*Managing Director
Citigroup Global Markets*

Dr. Young has been a part of the Mortgage Analysis group at Citi since 1991. His focus is on home prices and prepayments. His experience includes mortgage credit modeling, and he was the Chair of the Bond Market Association MBS Research, Strategy, and Analysis Committee.



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Michael Lea, Ph.D.

*Professor of Finance
San Diego State University*

Dr. Lea is an internationally known authority on housing and mortgage finance. With over 25 years of finance experience, he is a trusted advisor to international development agencies, government-sponsored enterprises, trade groups, regulatory agencies and major private sector financial institutions in Europe and the U.S.



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TODAY'S PANEL



Dan McAllister

*Treasurer – Tax Collector
San Diego County*

Mr. McAllister is currently serving his third term as San Diego County's Treasurer - Tax Collector. He is responsible for the collection of more than \$4.6 billion in property taxes each year and also manages approximately \$6.5 billion in the county's investment pool, ensuring that these funds are safeguarded for programs throughout the county.



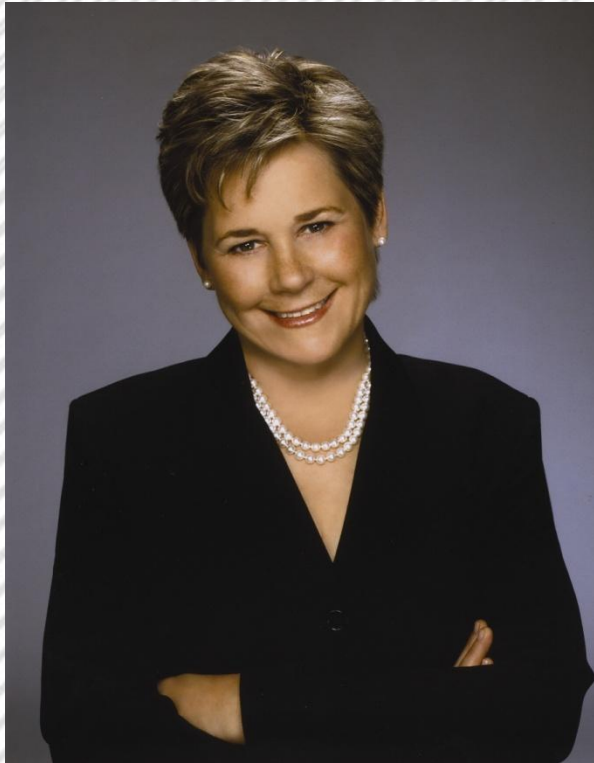
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TODAY'S PANEL



Leslie Appleton-Young

*Vice President & Chief Economist,
California Association of REALTORS®*

Mrs. Appleton-Young helps provide economic insight to over 150,000 members of C.A.R. She oversees the analysis of housing market and brokerage industry trends, and broker relations. She is also closely involved in the C.A.R.'s strategic planning efforts and is a sought after speaker throughout California's real estate community.



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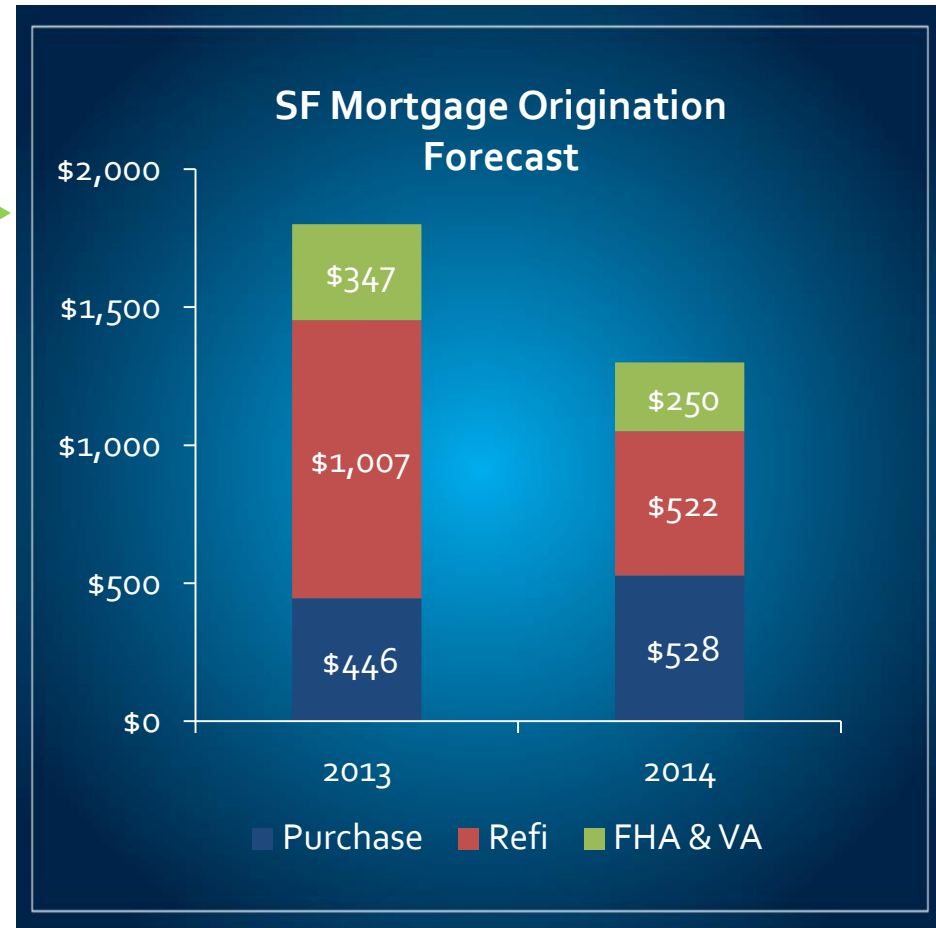


WHERE ARE WE IN THE CURRENT HOUSING CYCLE?



Four Years After the Housing Crisis

- House prices rising
- Purchase market emerging →
- Affordability high; interest rates still low
- Delinquencies lower
- Private capital still on the sidelines
- Housing reform proposals moving to legislation

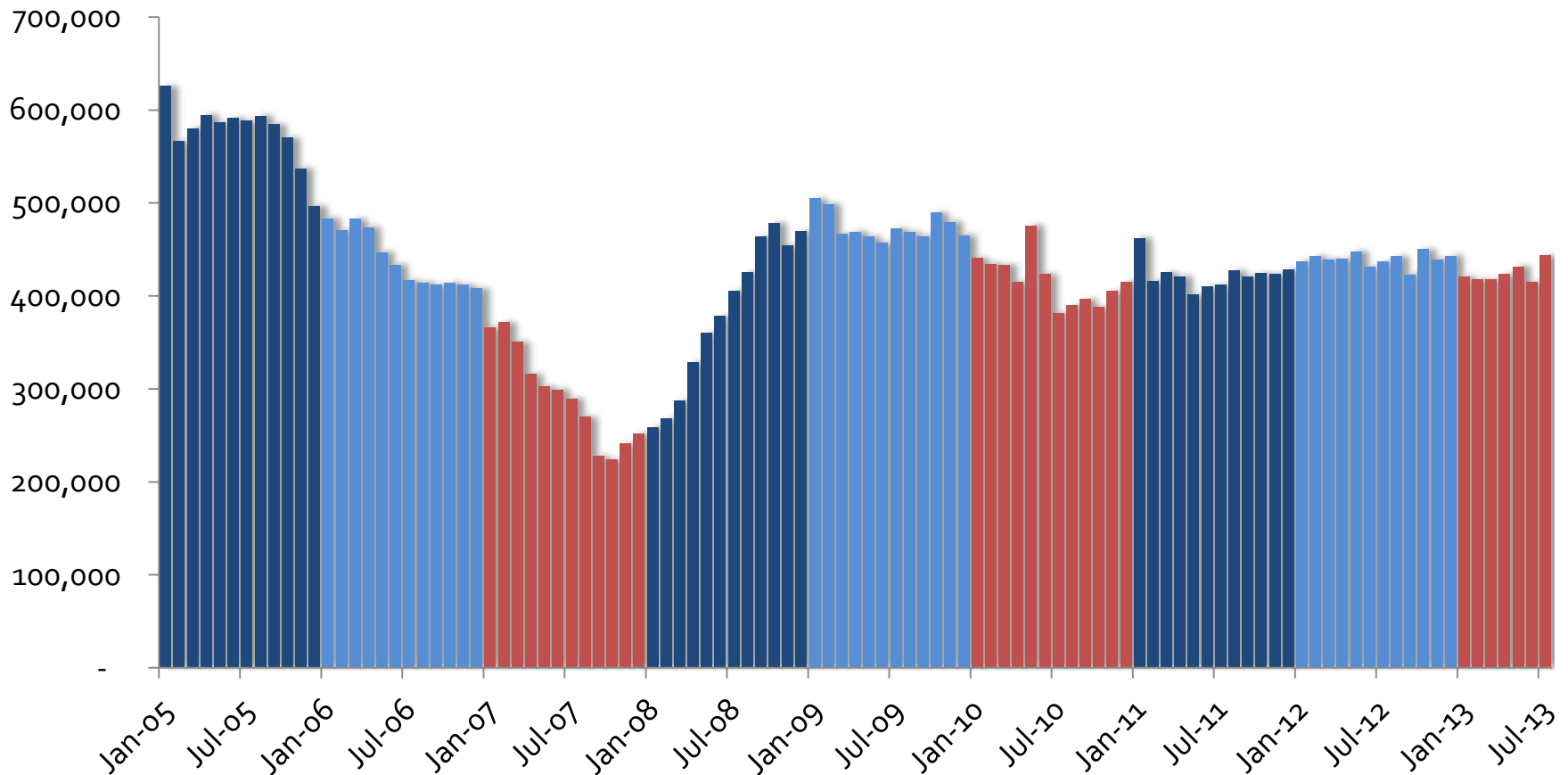


Sources: Freddie Mac, HUD, VA

Note: Forecast does not indicate Freddie Mac's business prospects or expected results and may change without notice

Existing Home Sales Constrained by Supply

- California, July 2013 Sales: 443,520 Units, -3.4% YTD, +1.5% YTY



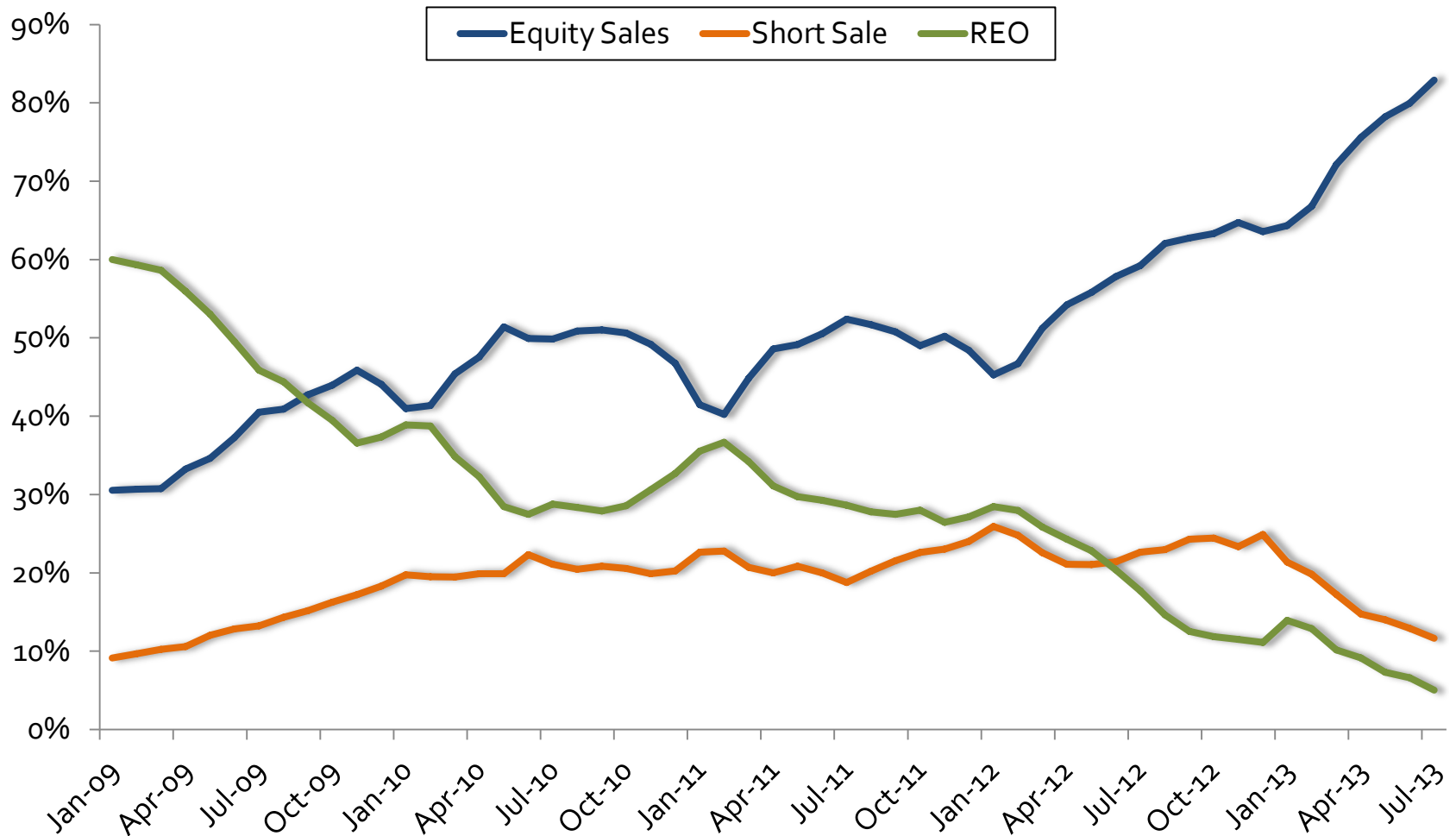
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized



CA Distressed Market is Fast Disappearing

4 ½ Years of CA Housing Recovery



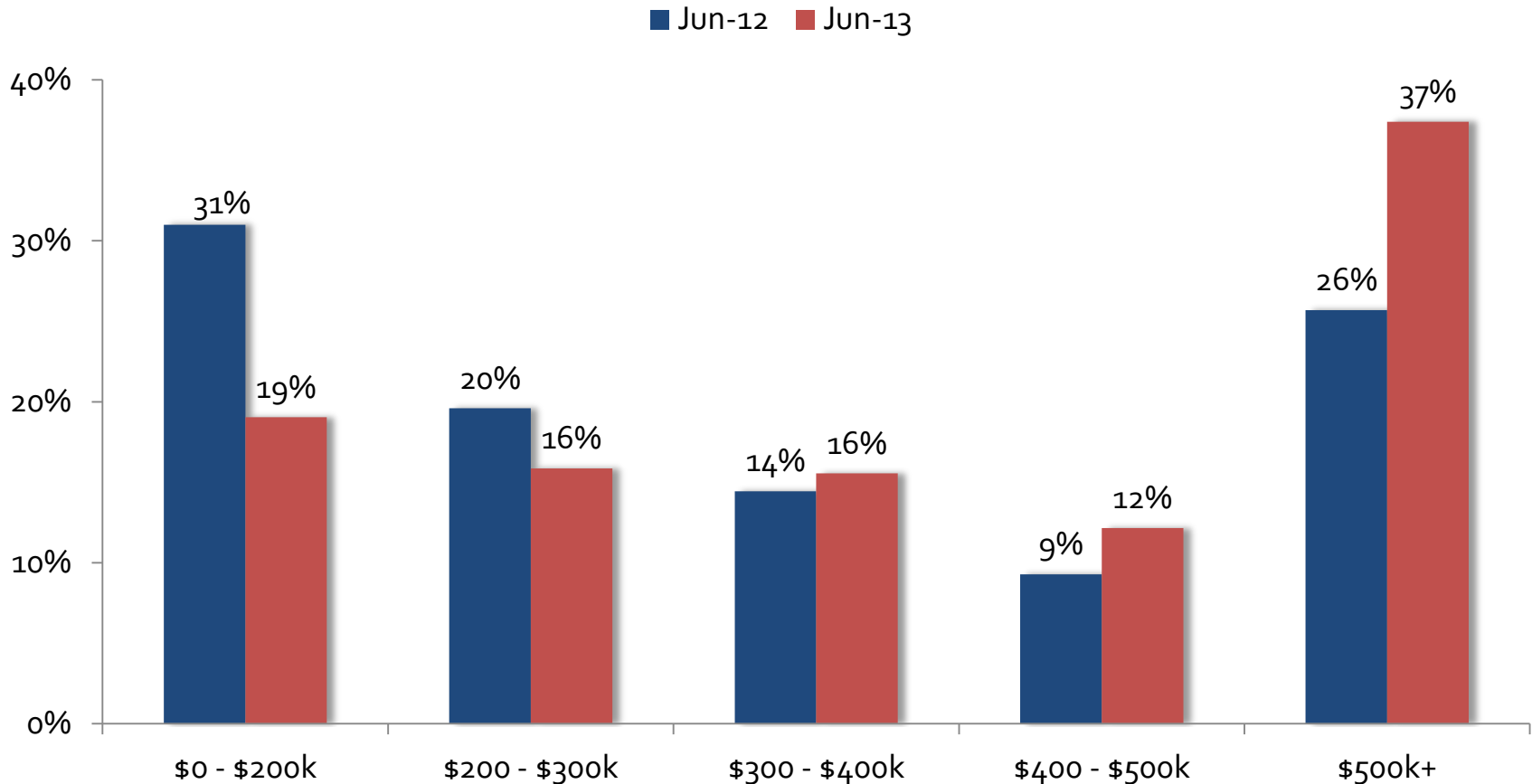
SERIES: Distressed Sales

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Upper End Sales Now Dominate the Market

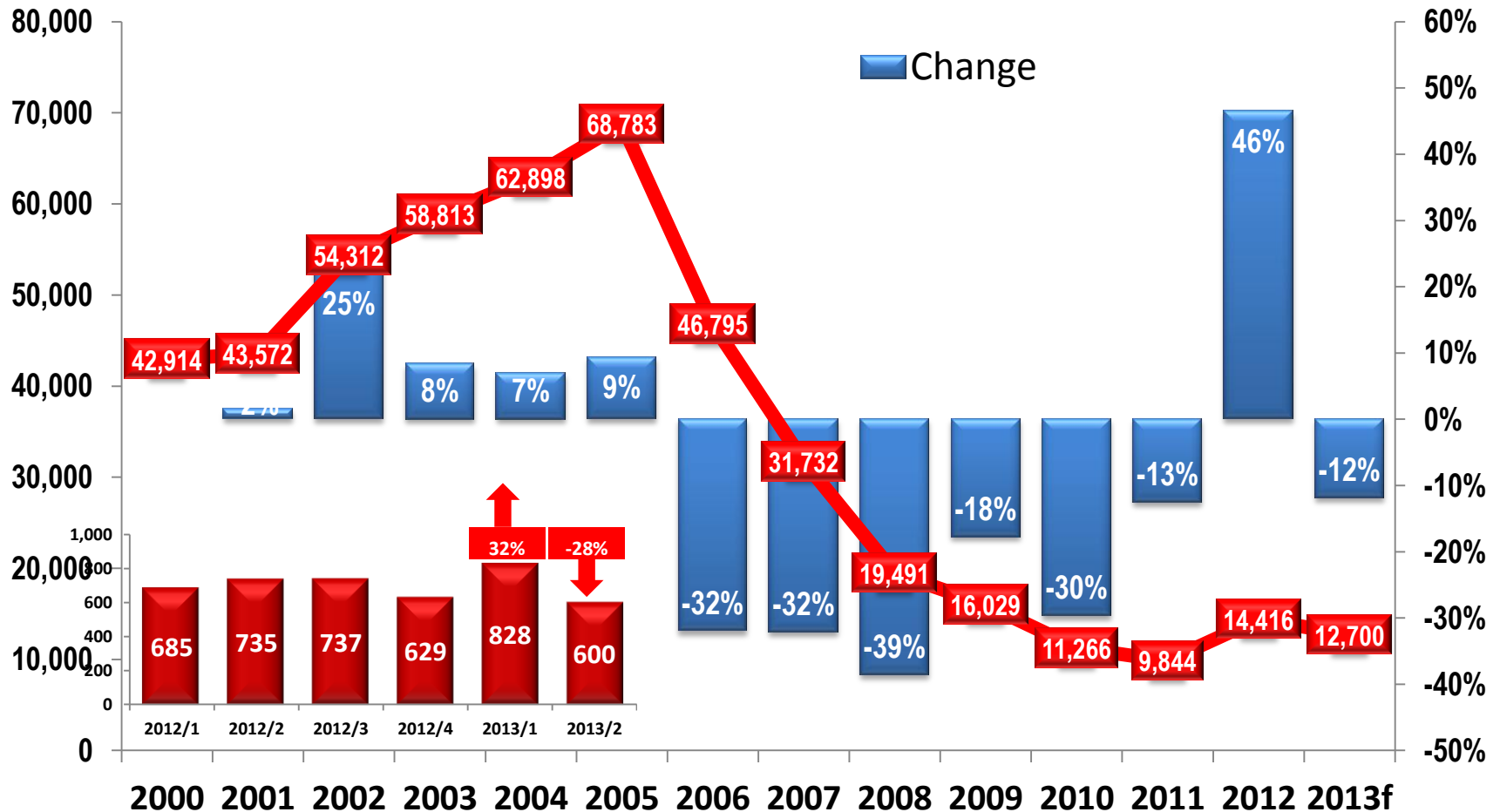
Significant One Year Shift



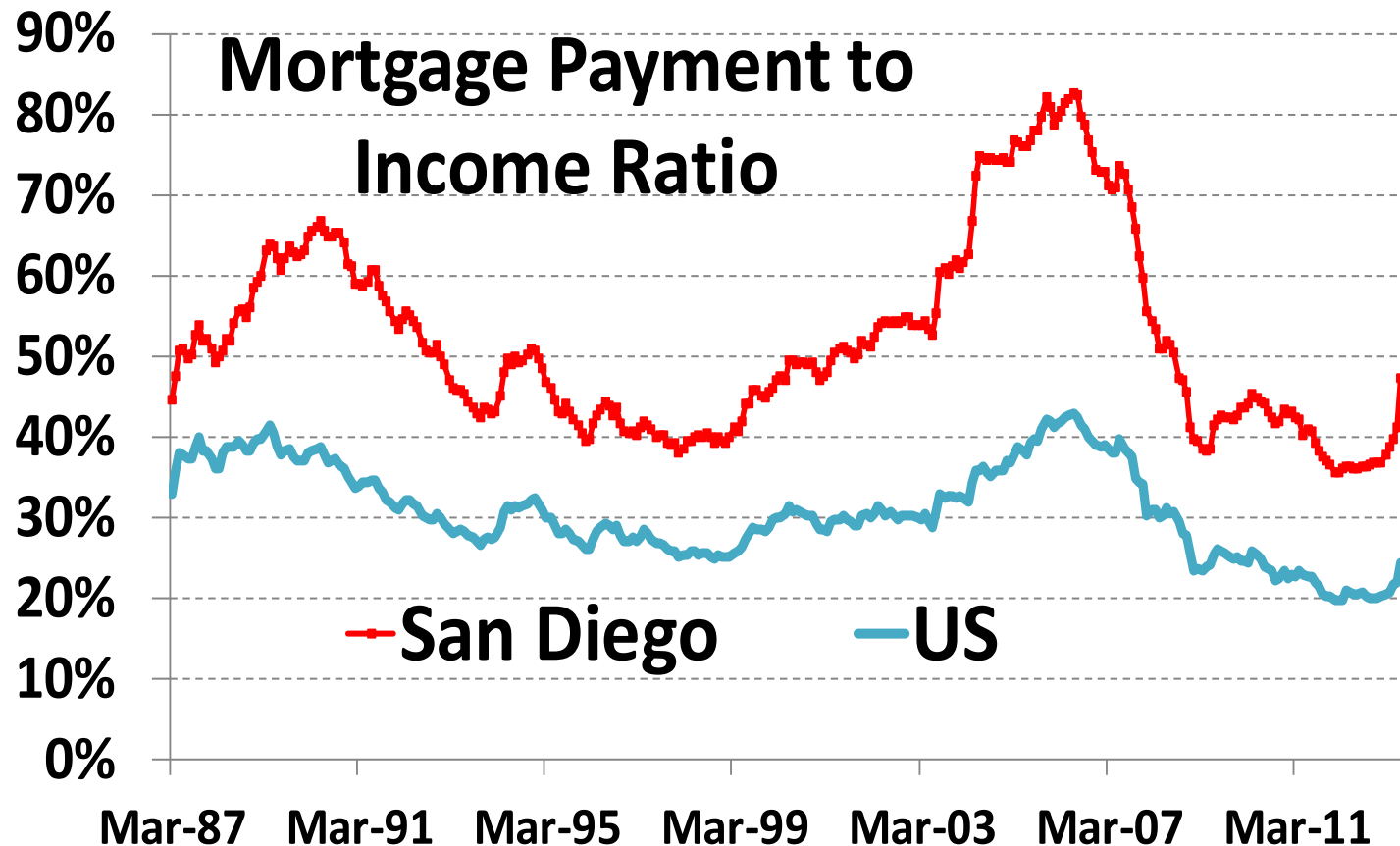
SERIES: Sales of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



The 46% Jump in New Home Sales Activity *Noted Throughout the Southland* in 2012 Does Appear to be Holding in 2013 as Forecasts Indicate a 12% Reduction

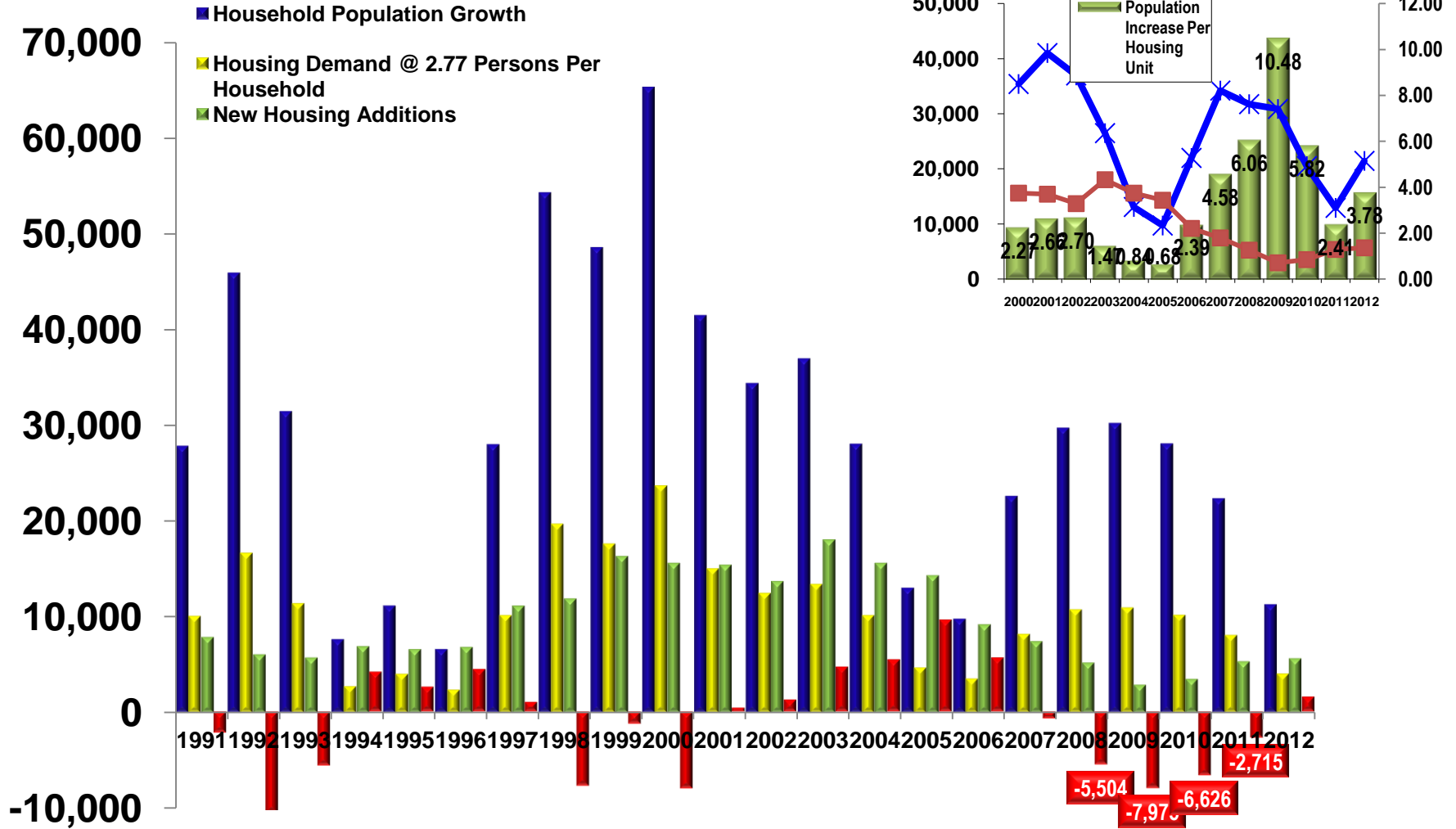


Housing Affordability – Mortgage Payment Up, But Still Affordable



- San Diego monthly mtg payment has risen from 36% to 47% of income over past year
- 60% of 11 point rise due to higher home prices, 40% due to higher mortgage rates

Strong Population Growth is Creating A Pent-up Demand Condition





2013 MARKET FORECAST

- San Diego home prices in June rose 19% from a year ago, largest year-over-year hike since March 2005.
- San Diego is outpacing national home-price growth, which was 12% when tallying all 20 areas in the index.
- Foreclosure resales made up 7% of home sales in June, down from 20%.
- Home prices are rising due to an increasing number of real estate investors, typically refurbished and going at a higher price.
- Affordability continues to be a problem for first-time buyers being hit with rising interest rates and prices.

Source: UT – San Diego

WHY IS INVENTORY SO LOW?



Inventory Low but Moving Slightly Higher

- California, July 2013: 2.9 Months
- Properties over \$1 million 4.6 months
- Properties under \$300K 2.7 months



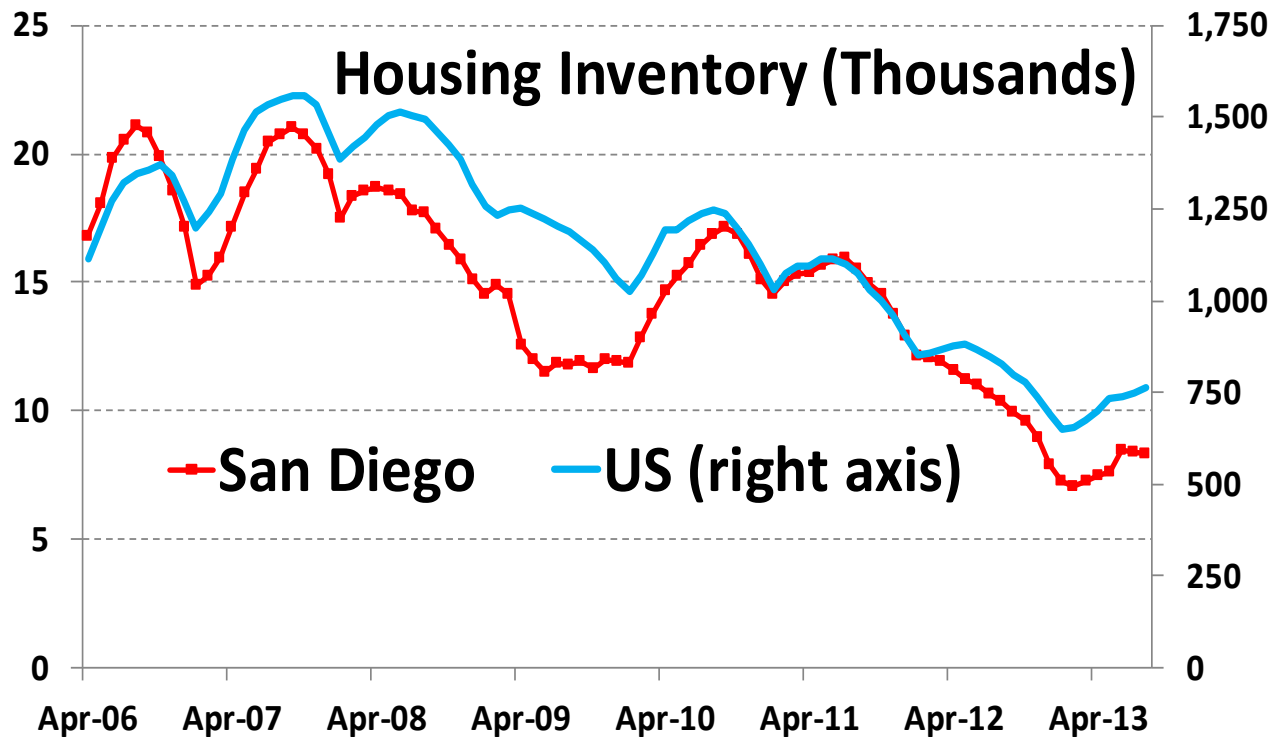
Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.

SERIES: Unsold Inventory Index of Existing Single Family Homes

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



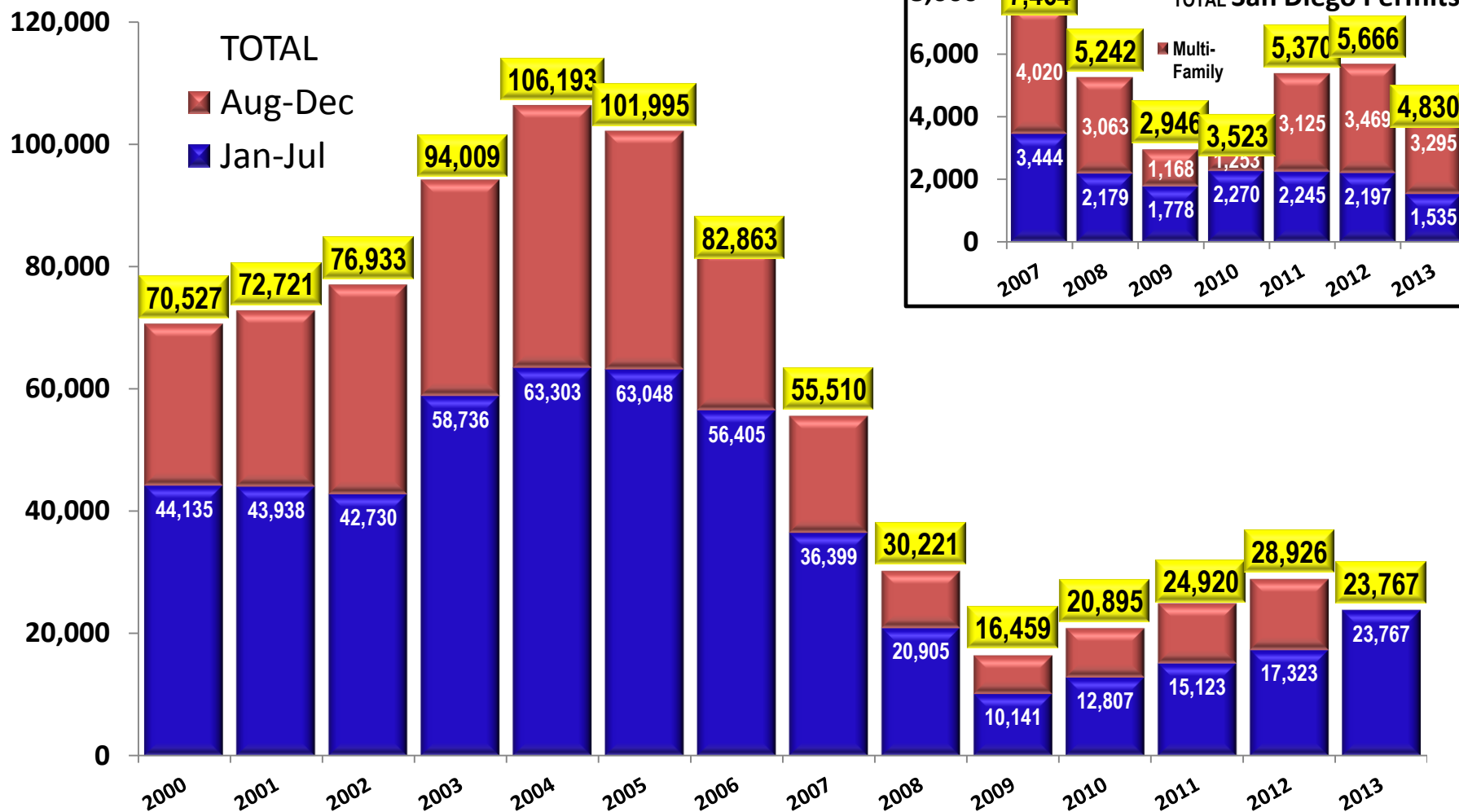
Constrained Supply Led Recovery – Demand Not That Strong



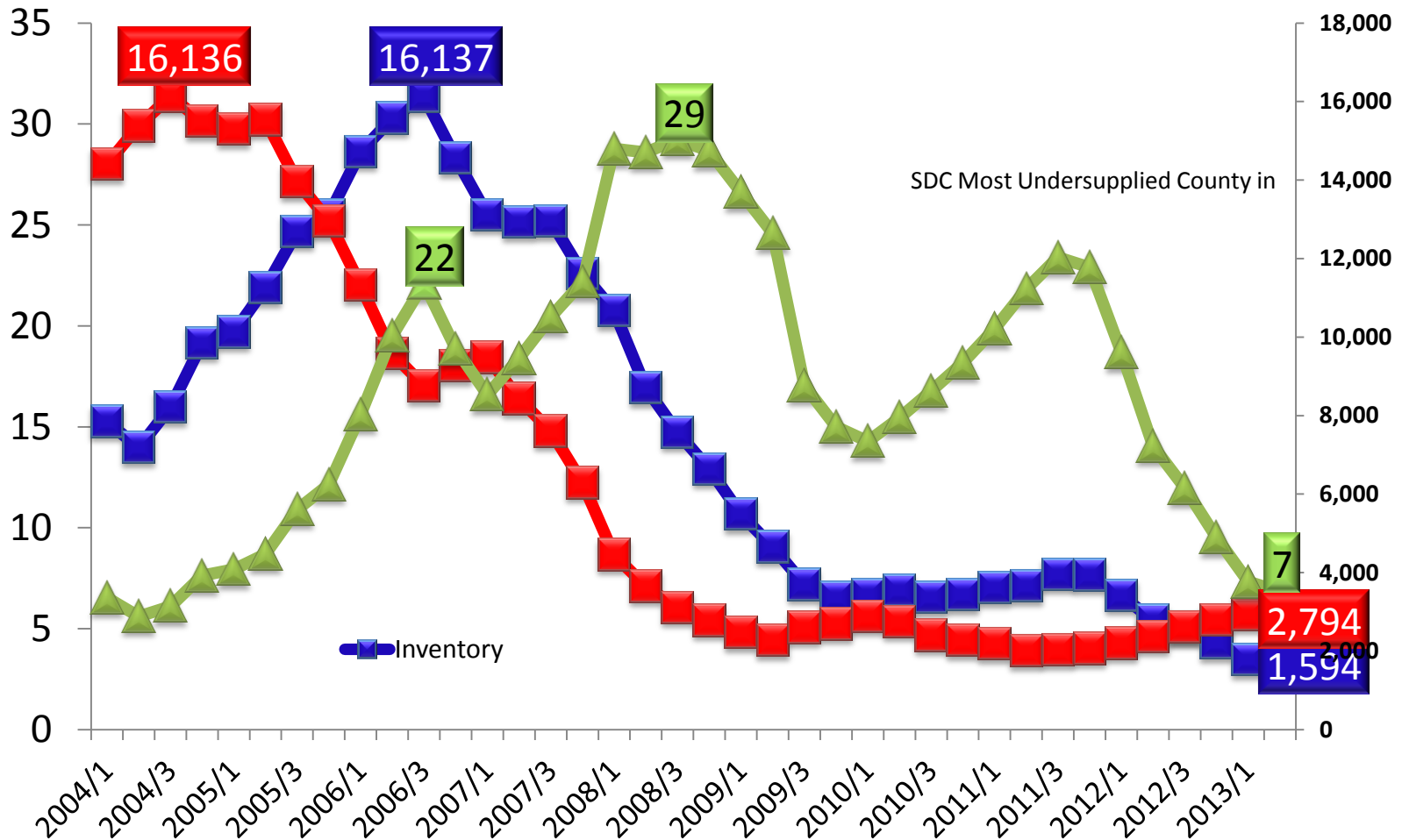
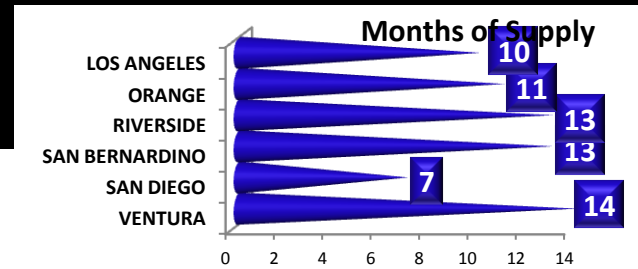
- US household formation +750K per yr vs expectations of +1.2 million+
- First-time homebuyer share of sales 29% versus past “normal” levels of 40%
- 25-34 yr olds living with parents still high (~14% in 2012) – student loan debt
- Weak income growth, high unemployment, tight underwriting

Source: Department of Numbers, Citi.

SoCal Permit Activity Continues to Surge into 2013 as Permit Authorizations Are Up 37%, the Best Since 2008



Inventory Will be Big Driver of New Home Sales Volumes in 2013 in SD

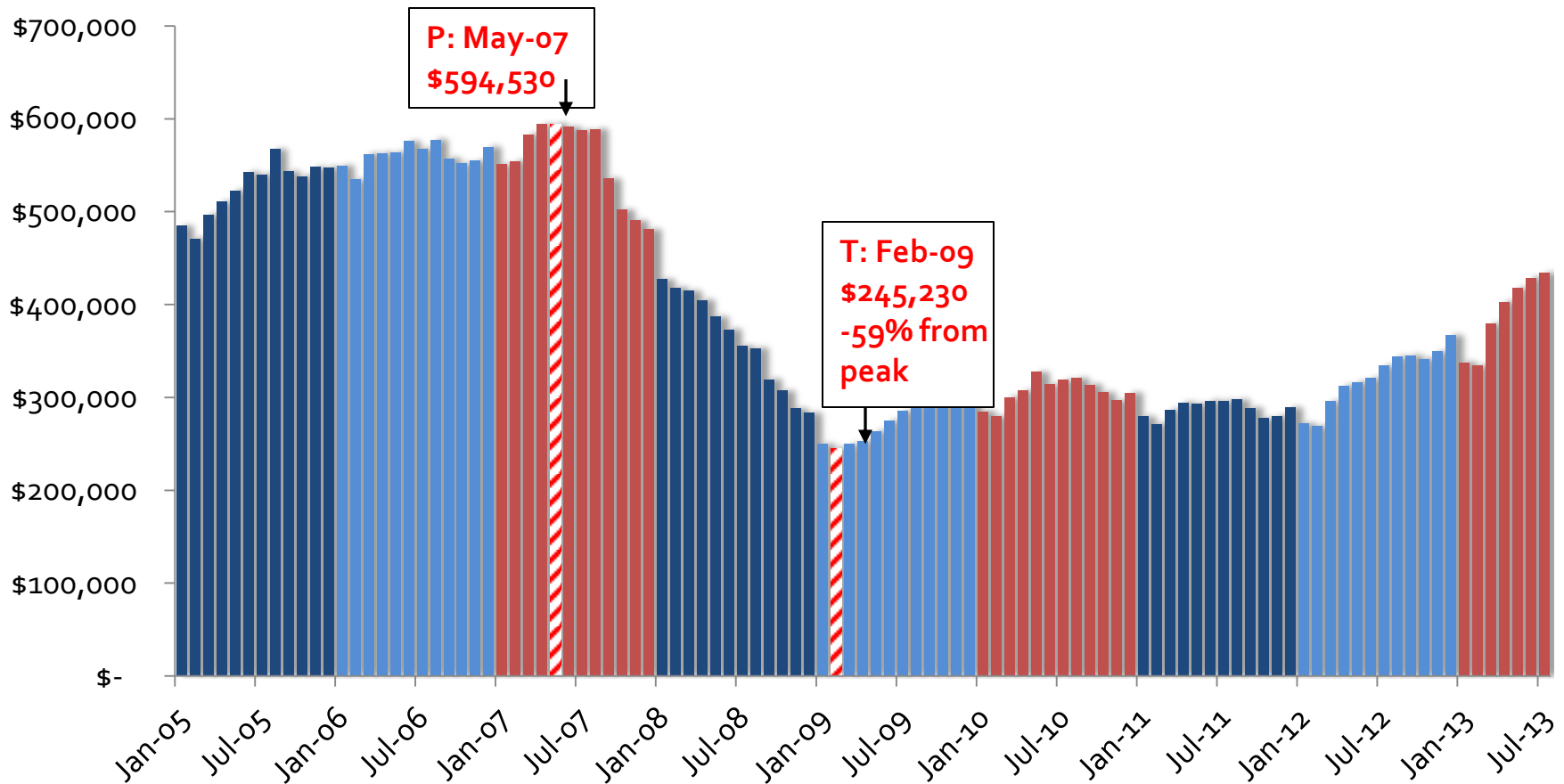


HOUSING PRICES: HOW WORRIED SHOULD WE BE?



Median Prices Up Sharply since Feb 2012

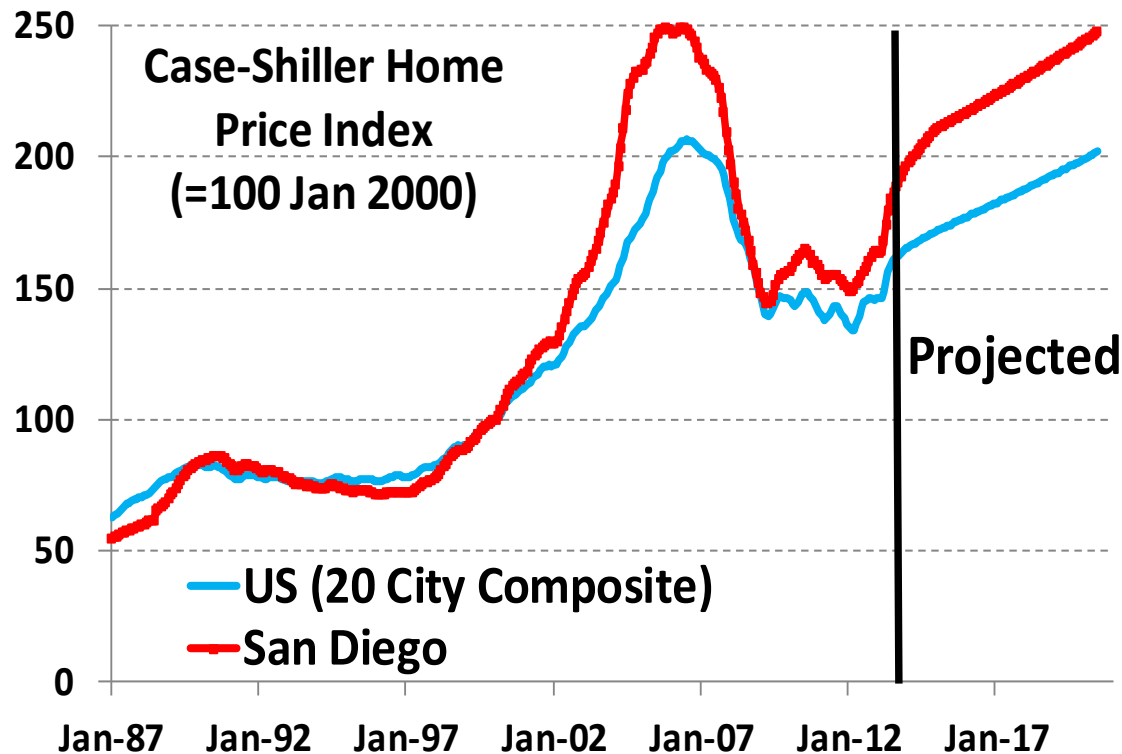
- California, July 2013: \$433,760, Up 29.8% YTY



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Housing Price Outlook – Positive on Land Scarcity

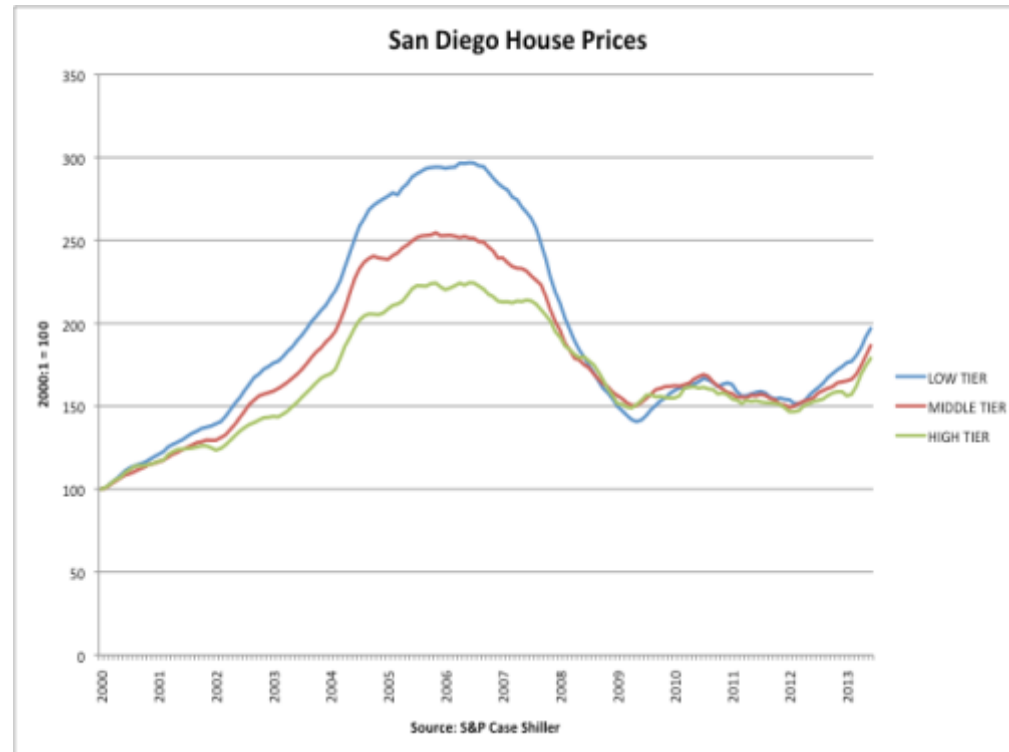


- Home Price Appreciation in Q2: (1) San Diego +34% vs 20 City Composite +15%
- Projecting +13% for US in 2013, +4% in 2014, +3% after
- Assume San Diego outperformance shrinks: ~ +19% 2013, +7% 2014, +3% after
- Home prices might rise more than inflation – Land scarcity – Micro-apartments

Source: CoreLogic Case-Shiller, Citi

Is There a Bubble in House Prices?

- Recent upturn is partly artificial
- What happens when mortgage rates rise?
- Falling % of underwater borrowers => greater inventory and existing sales
- Affordability constraints





2012-2013 SECURED TAX BILL

- 980,654 property tax bills
- Expected to generate: \$4,557,465,193
- Collection to date: 98.91%

2012-2013 SECURED TAX BILL

TAXPAYER INFORMATION:
JACK Q. PUBLIC
12345 ANYWHERE STREET
SAN DIEGO, CA 92101

PROPERTY INFORMATION:
12345 ANYWHERE STREET
LOT 2509
MESA MESA VERDE #100

TAX BILL YEAR: 2012-2013

PROPERTY TAXES:
LAND: \$11,547
IMPROVEMENTS: \$14,525
TOTAL L & I: \$26,072
EXEMPTIONS: \$1,779
NET TAXABLE VALUE: \$25,293

TAX DISTRIBUTION:
AGENCY: RATE: TAX AMOUNT
1% TAX ON NET VALUE: 1.0000% 2529.93
VOTER-APPROVED BOND: 0.0000% 0.00
SAN DIEGO COUNTY: 0.0000% 0.00
COMMUNITY COLLEGE: 0.0000% 0.00
METRO WATER DISTRICT: 0.0000% 0.00
COUNTY WATER AUTHORITY: 0.0000% 0.00
TOTAL ON NET VALUE: 1.1278% 2879.94

SECURED PROPERTY TAX:
For Fiscal Year 07/01/12 - 06/30/13
AMOUNT DUE FEB. 1, 2013: \$1439.97
LATE PAYMENT AFTER APRIL 15, 2013: \$1583.97



Proposition 13

Under State law (June 1978), real property is reappraised only when a change-in-ownership occurs, or upon completion of new construction. Except for these two instances, property assessments cannot be increased by more than 2% annually, based on the California Consumer Price Index.

**FIGHT AHEAD TO KEEP
PROPOSITION 13 IN PLACE!**



SAN DIEGO COUNTY INVESTMENT POOL

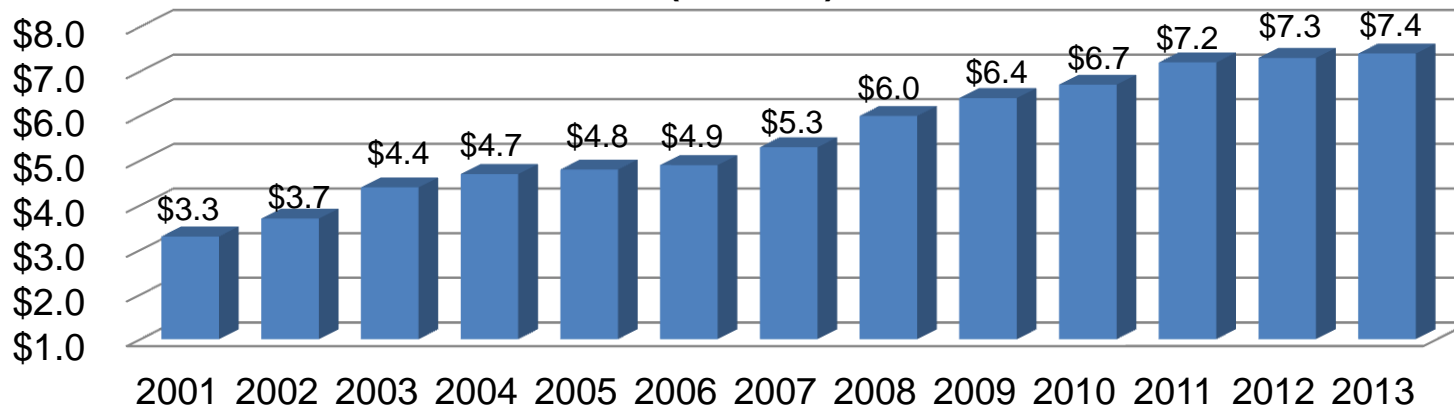
Pool is currently rated “AAAf” by Standard and Poor’s

Goals of the Pool

- Safeguard the principal of the Pool
- Meet liquidity needs of the participants
- Achieve a return on the funds within the parameters of prudent risk management

On April 30, 2013 the Pool reached a new record high balance of \$7.4 billion

**Pool Balance 2013
(Billions)**

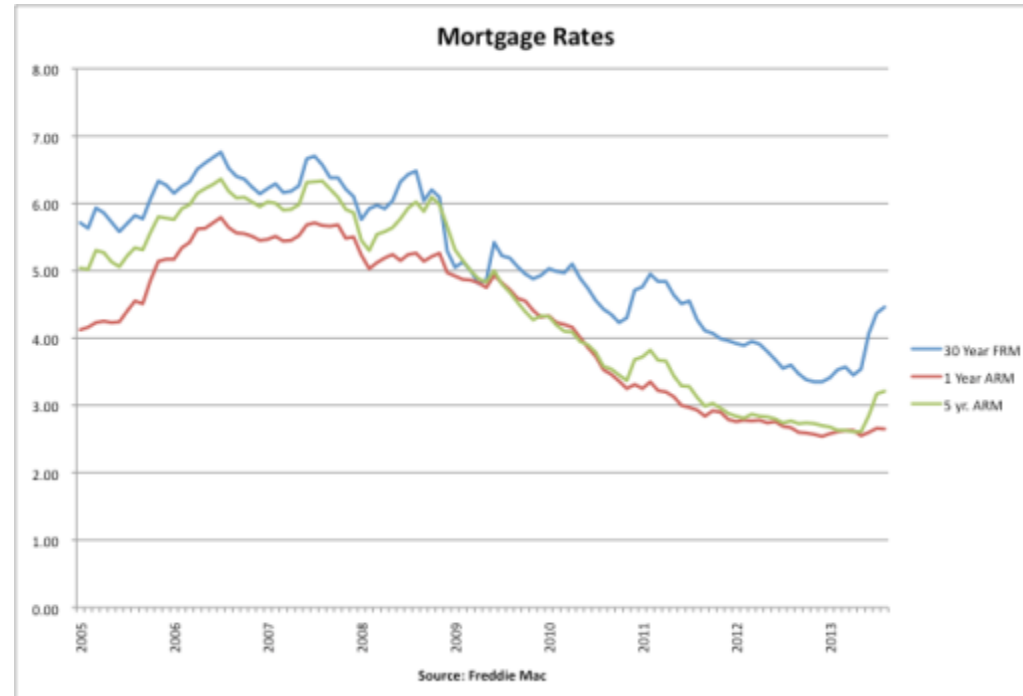


HOUSING FINANCE: WHERE ARE RATES HEADED? REFORM TIMETABLE & OUTCOMES FUTURE OF THE 30 YEAR FRM?

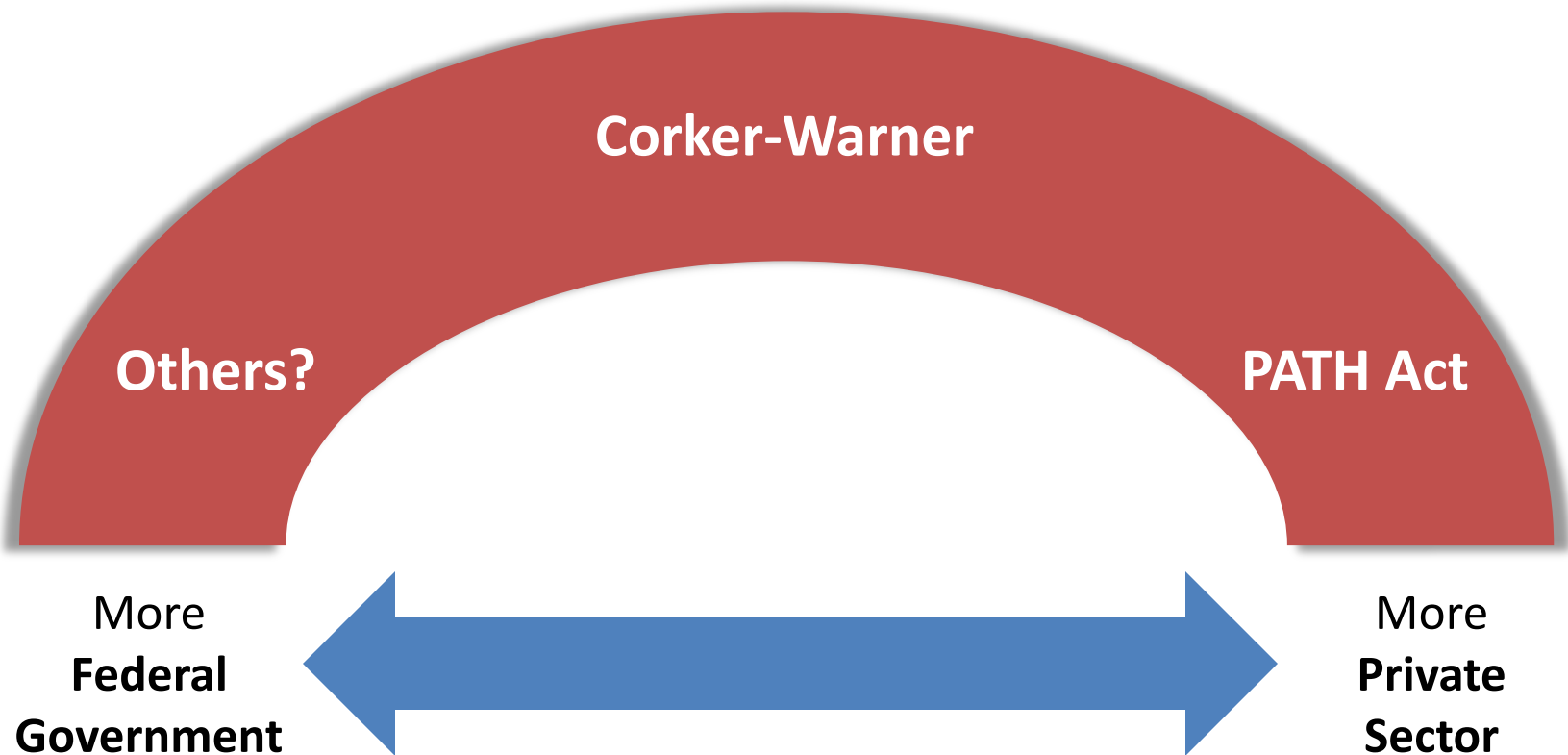


Where Are Mortgage Rates Headed?

- Effect of ending QE
- Will money creation lead to inflation?
- Concentration, cost and spreads
- Phase out of the GSEs?
- Future of the 30 year fixed rate mortgage

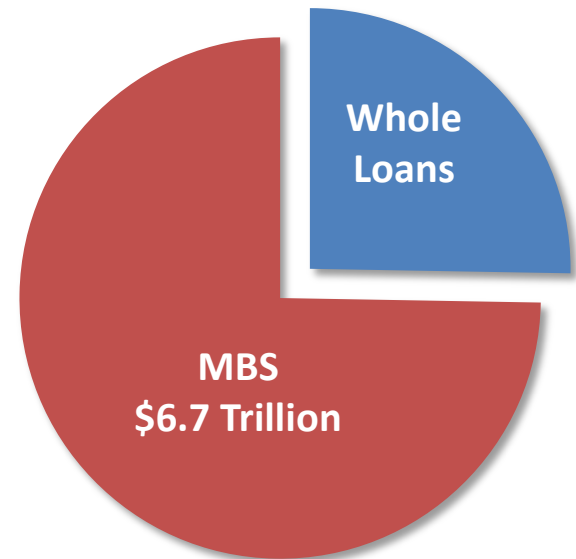


Housing Finance Reform Bills



Key Questions for U.S. Policymakers

- Is there sufficient private capital to fund mortgage demand?
- Will foreign central banks buy MBS & debt without a Government Guarantee?
- Would capital markets buy MBS from new issuers or should we migrate to a fungible TBA security?



Outside of FHA, will borrowers still have the widespread option to obtain a 30-year fixed-rate pre-payable mortgage?

The Role of the 30-Year Fixed-Rate Mortgage

Maintain	Eliminate
<ul style="list-style-type: none">• Insulates borrowers from payment shock• Lower delinquency rates for investors• Provides more home price stability• Funds majority of loans for first-time buyers and minorities	<ul style="list-style-type: none">• Greater taxpayer risk• Other products to fill gap – i.e., fixed-rate jumbo• 30-year protection irrelevant given average mortgage payoff <7 years• Higher costs for borrowers than ARMs

What's So Special About the 30 Year Fixed Rate Mortgage?

Benefits to the consumer

- Payment stability – avoidance of interest rate risk
 - But why 30 years?
- Penalty free refinance
 - But lock-in effect if rates and house prices fall
- Simplicity

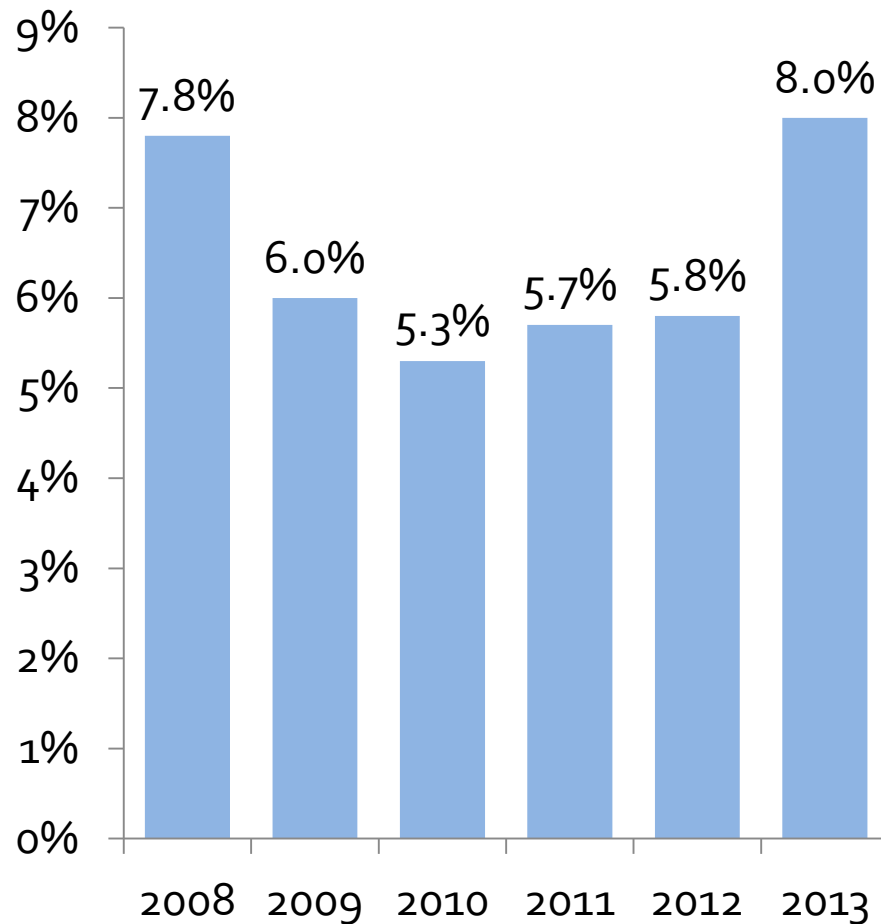
Costs to the lender/investor

- Interest rate risk – difficult to hedge or match fund
- Difficult price and manage the prepayment option
- Higher rates for consumer (long term for fixed rate; prepayment option priced in rate)
 - Less affordable with inflation
- Taxpayer risk

CHALLENGES & OPPORTUNITIES



International Buyers: Growing Impact on the CA Housing Market

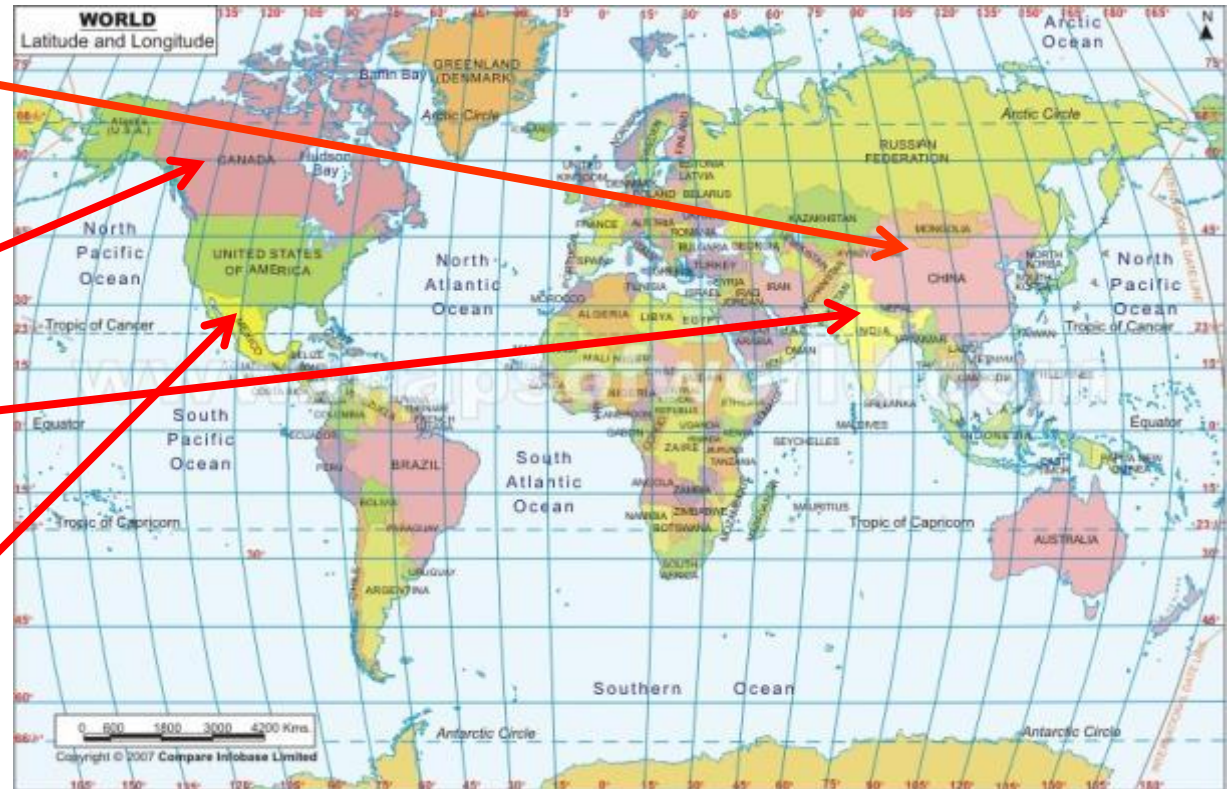


Q. Was the buyer an international buyer – a person who was a citizen of another country who wished to purchase residential real estate in the U.S.?



Country of International Buyer

- China (30%)
- Canada (9%)
- India (6%)
- Mexico (13%)



**THANK YOU FOR ATTENDING THE
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