

Real Estate Update



Presented by:
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April 19, 2018

OVERVIEW

- **Mortgage Rates**
- **US Housing Market**
- **California Housing Market**
- **Central Valley Data**
- **Local Market Data**
- **Inventory Issues**
- **Summary**

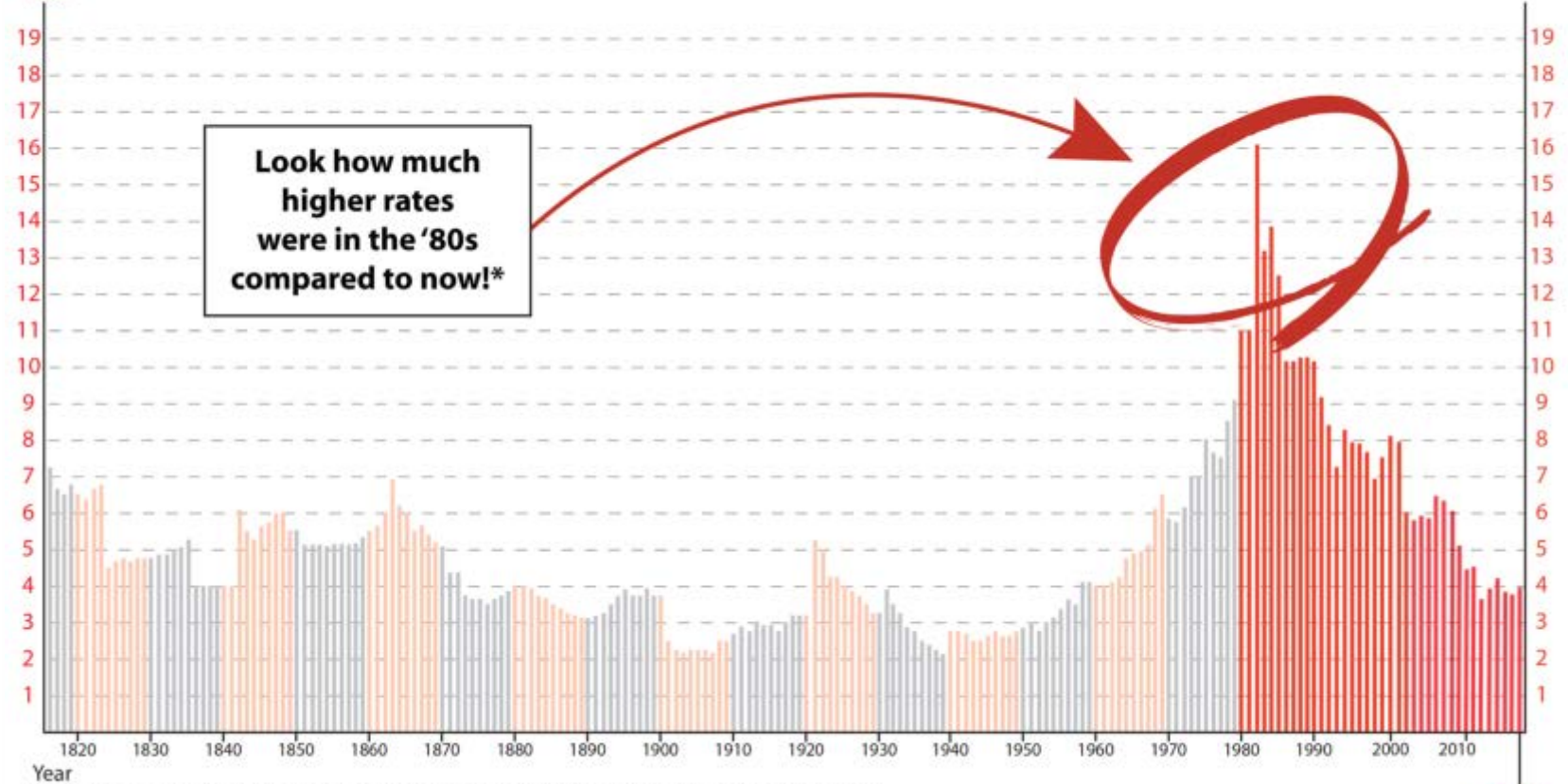
Mortgage Rates & Housing Finance

Mortgage Rates*

- 30 Year FHA – 4.375%
- 30 Year Conventional – 4.5%
- 15 Year Conventional – 4.125%

200 Year Historical Interest Rate Chart

Interest Rate



*Source: Freddie Mac (Based on information obtained from Freddie Mac on January 10, 2018.)

2017
3.99%
(Thu 9th Qtr)

National Housing Market



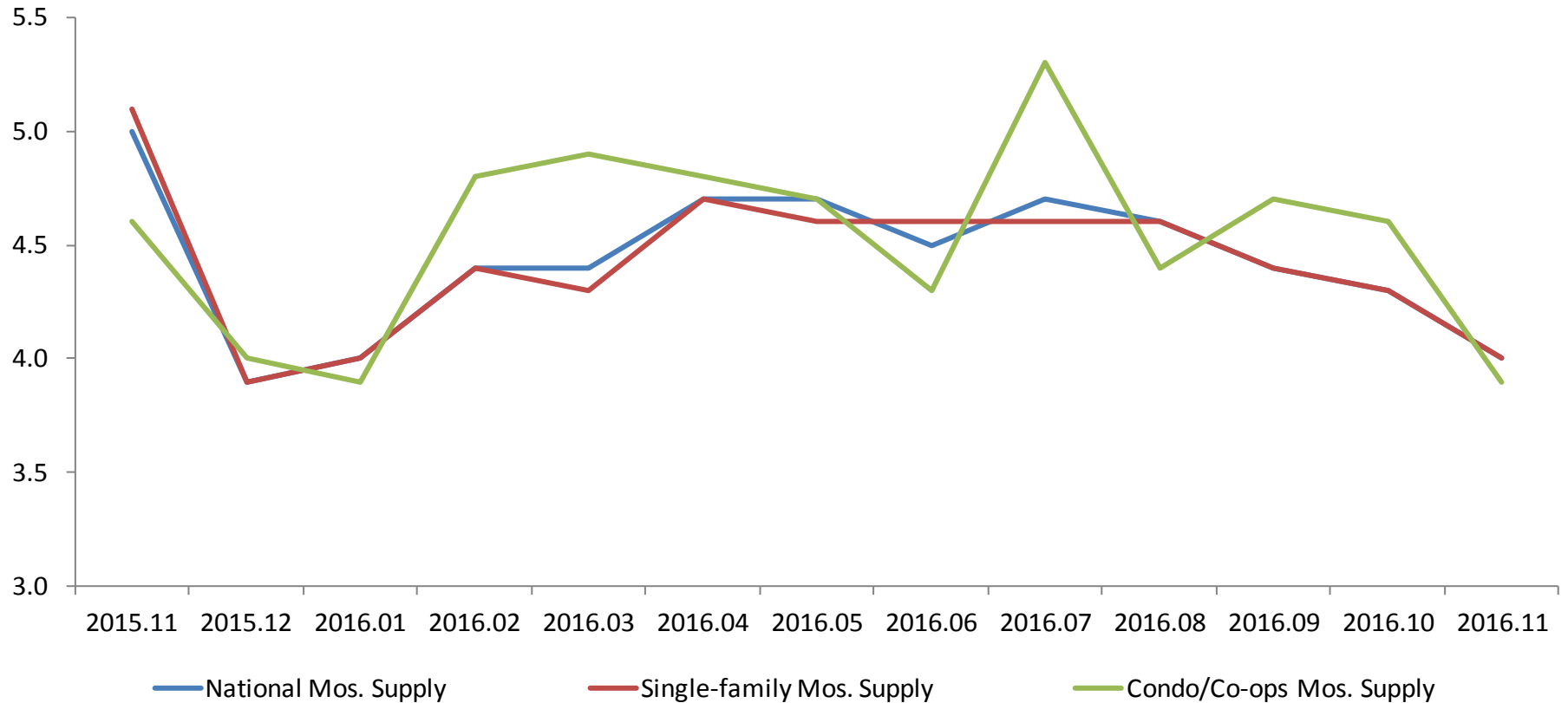
Existing-Homes Sales
Volume (in millions)
(percentage change)
Median Price
(percentage change)



New-Home Sales
Volume
(percentage change)
Median Price
(percentage change)

<u>2016</u>	<u>2017</u>	<u>2018</u>
5.45	5.52	5.64
3.8%	13%	2.29%
\$233,800	\$247,300	\$259,000
5.1%	5.1%	4.7%
561,000	614,000	700,000
12%	9.4%	14%
\$307,800	\$315,800	\$323,000
4.6%	2.6%	2.3%

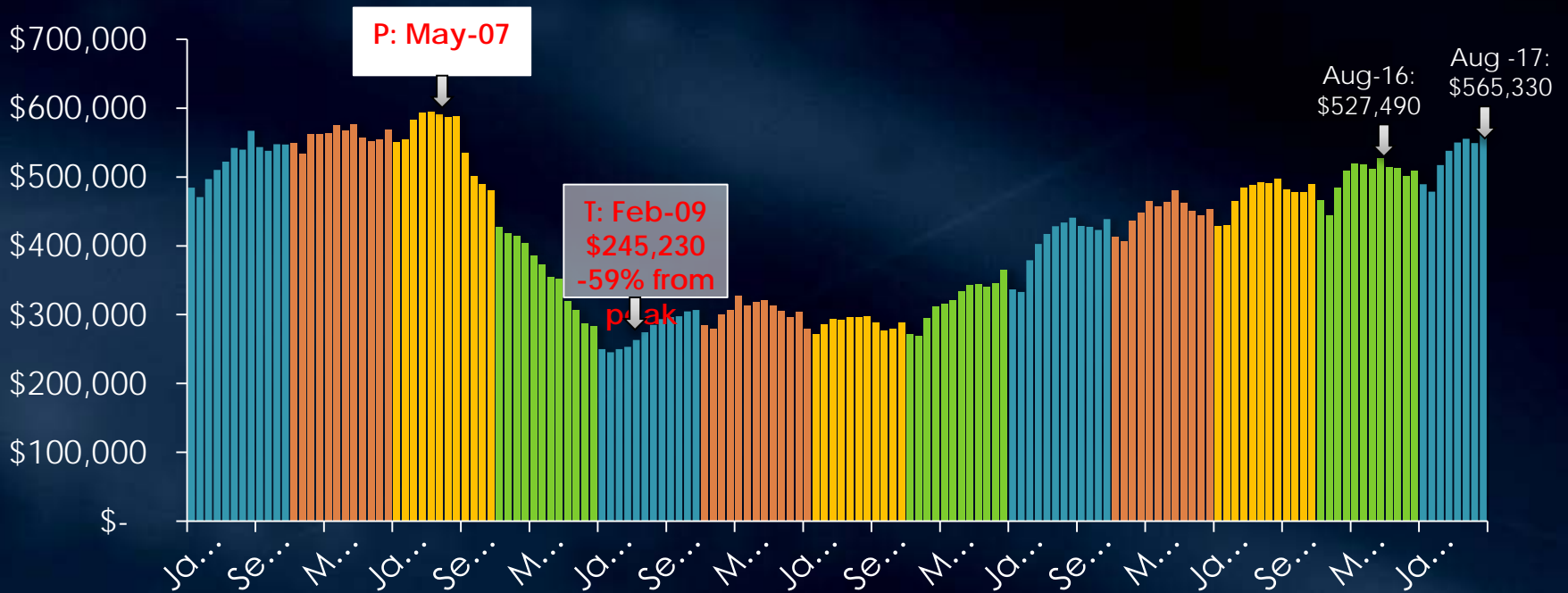
Housing Supply at the National Level



California Housing Market Outlook

CA Median Price Continues to Rise

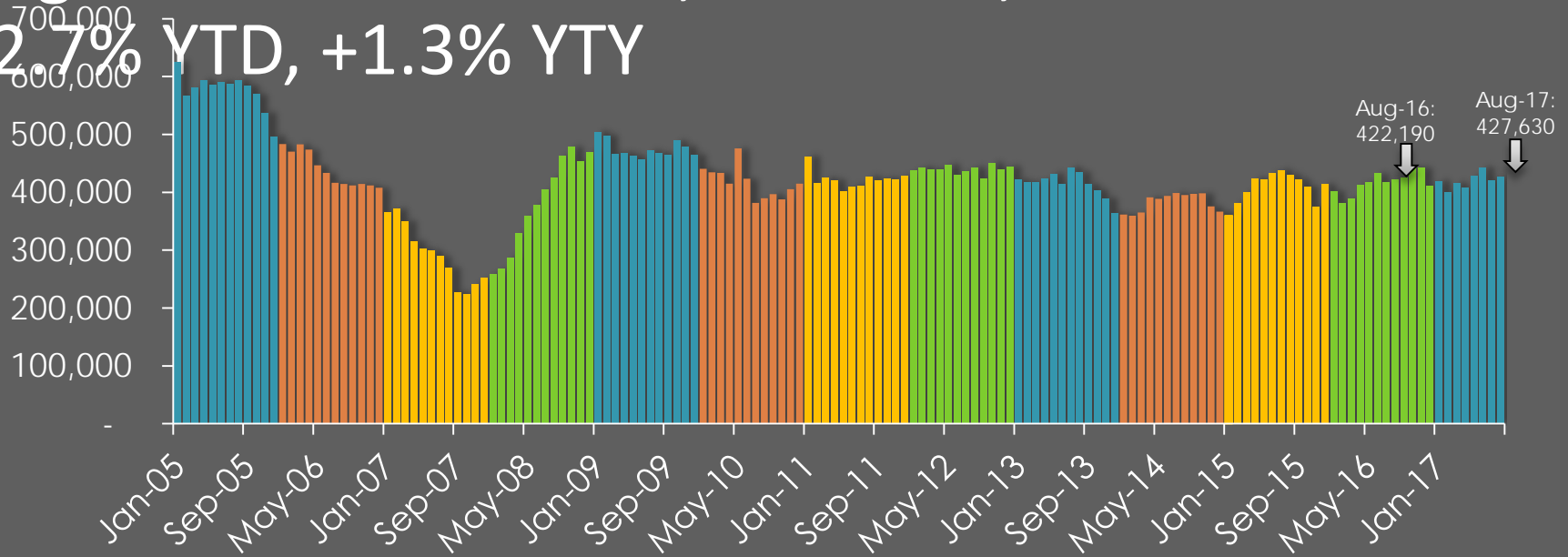
August 2017: \$565,330, +2.9% MTM,
+7.2% YTY



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

Sales: Stalled with Strong Fundamentals

August 2017 Sales: 427,630 Units,
+2.7% YTD, +1.3% YTY

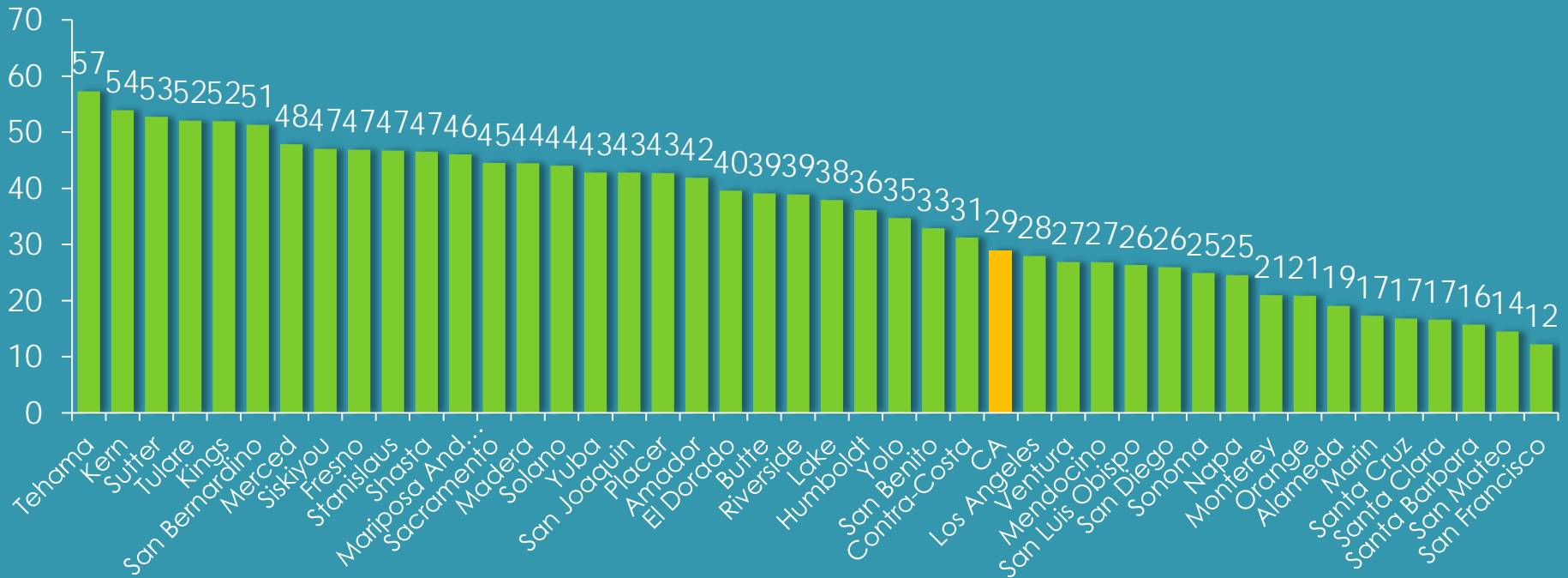


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

Housing Affordability In CA: 29%

2017-Q2: % able to purchase median-priced home



SERIES: Housing Affordability Index of Traditional Buyers
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Central Valley Data

Central Valley: Peak v. Current Price

Region	Peak Month	Peak Price	Aug-17	%Chg Fr Peak
Madera County	Feb-08	\$275,000	\$263,500	-4.2%
California	May-07	\$594,530	\$565,330	-4.9%
San Benito County	May-05	\$671,190	\$600,000	-10.6%
Sacramento County	Aug-05	\$394,450	\$348,000	-11.8%
Placer County	Aug-05	\$527,990	\$462,000	-12.5%
Kings County	Mar-06	\$268,050	\$225,000	-16.1%
Tulare County	Dec-05	\$269,710	\$224,900	-16.6%
San Joaquin County	Jun-06	\$426,830	\$355,000	-16.8%
Fresno County	Jun-06	\$313,500	\$259,000	-17.4%
Stanislaus County	Sep-05	\$370,100	\$294,290	-20.5%
Kern County	Jun-06	\$299,920	\$235,100	-21.6%
Merced County	Oct-05	\$344,610	\$250,000	-27.5%
Glenn County	Feb-07	\$312,500	\$225,000	-28.0%

SERIES: Median Price of Existing Detached Homes

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Bay Area: Peak v. Current Price

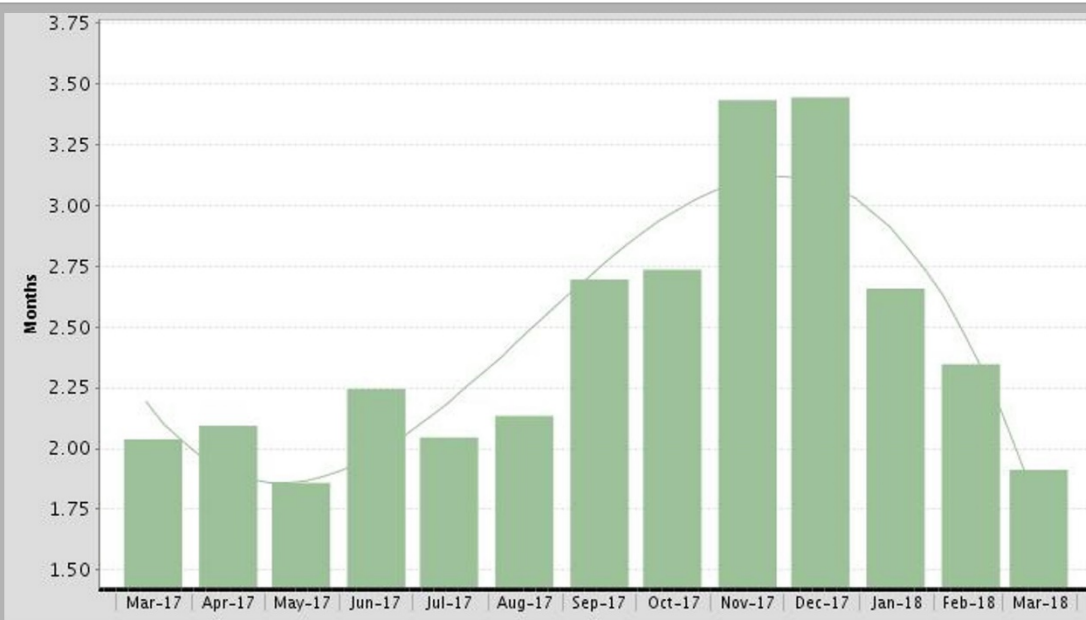
Region	Peak Month	Peak Price	Aug-17	%Chg Fr Peak
San Francisco	May-07	\$972,010	\$1,380,000	42.0%
San Mateo	Oct-07	\$1,020,000	\$1,375,000	34.8%
Santa Clara	Oct-07	\$865,000	\$1,150,000	32.9%
Alameda	May-07	\$709,420	\$867,500	22.3%
Marin	Jun-07	\$1,149,390	\$1,207,120	5.0%
Sonoma	Jan-06	\$650,330	\$625,500	-3.8%
California	May-07	\$594,530	\$565,330	-4.9%
Contra Costa	May-07	\$698,420	\$627,860	-10.1%
Napa	Jun-07	\$729,170	\$654,000	-10.3%
Solano	Jun-07	\$492,800	\$410,000	-16.8%

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

Local Market Information

Months Supply of Inventory

Mar-2017 vs Mar-2018: The average months supply of inventory is down 6%



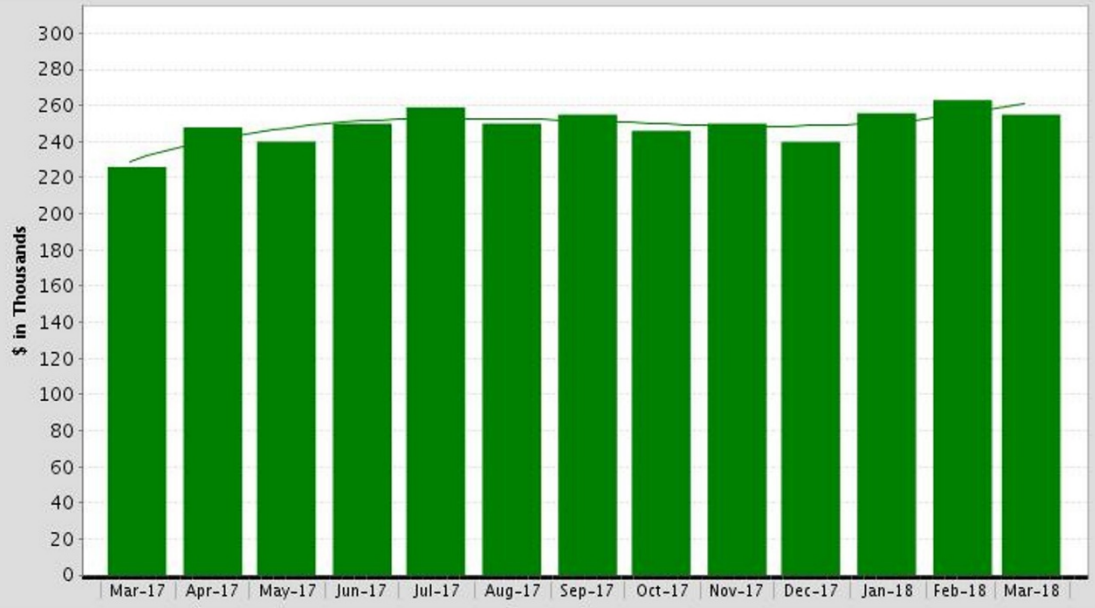
Mar-2017 vs. Mar-2018			
Mar-2017	Mar-2018	Change	%
2.0	1.9	-0.1	-6.0

Calculation of the percent change is not applicable

Property Types: Residential
 Counties: Merced
 MLS: CRMLS Price: All Period: 1 Year Monthly Bedrooms: All
 Construction Type: All Bathrooms: All SqFt: All
 Lot Size: All Square Footage

Median Sold Price by Month

Mar-2017 vs Mar-2018: The median sold price is up 13%



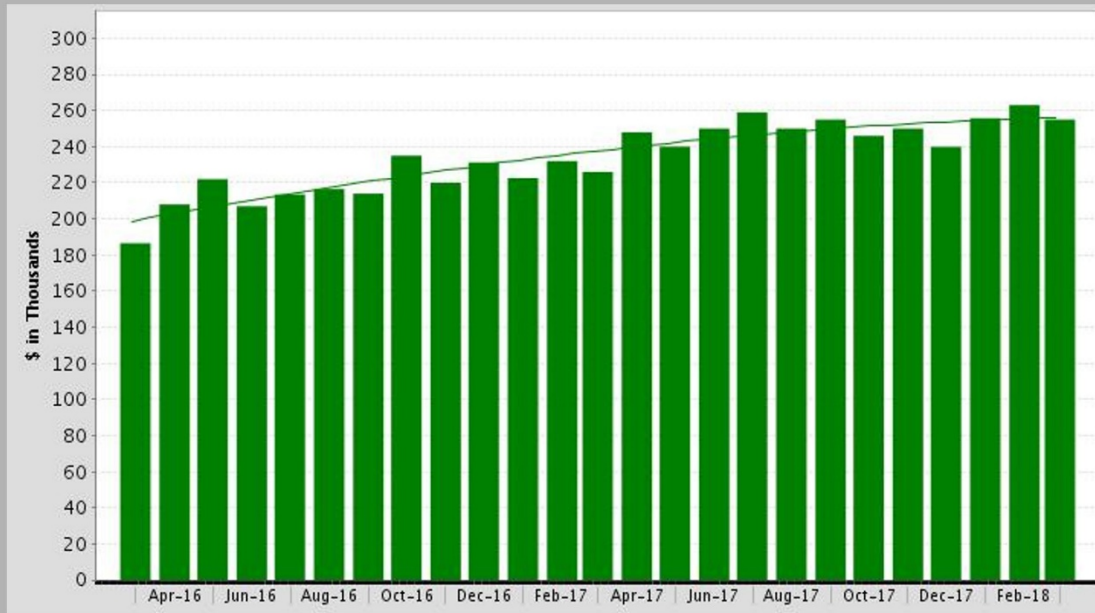
Mar-2017 vs. Mar-2018			
Mar-2017	Mar-2018	Change	%
226,000	255,000	29,000	13



Property Types: Residential
 Counties: Merced
 MLS: CRMLS Price: All
 Period: 1 Year Monthly
 Construction Type: All
 Bedrooms: All
 Bathrooms: All
 SqFt: All
 Lot Size: All Square Footage

Median Sold Price by Month

Mar-2016 vs Mar-2018: The median sold price is up 37%



Mar-2016 vs. Mar-2018			
Mar-2016	Mar-2018	Change	%
186,500	255,000	68,500	37



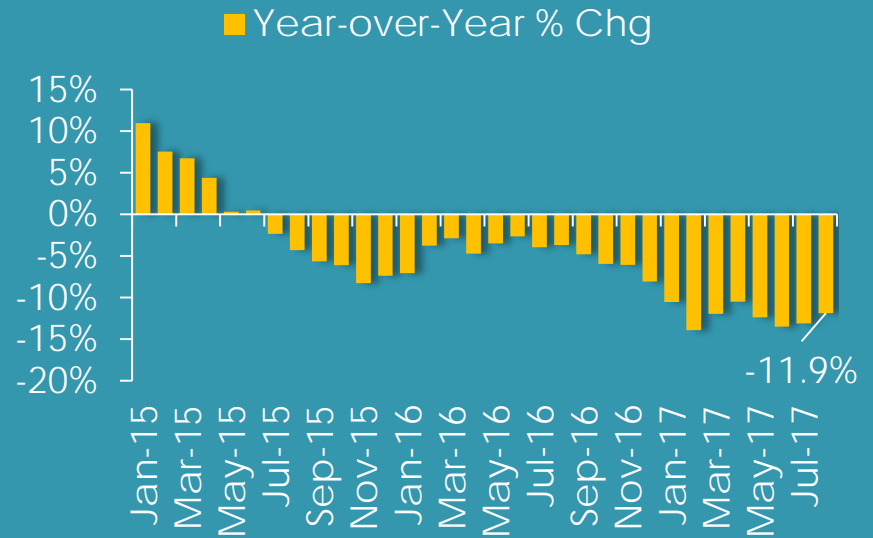
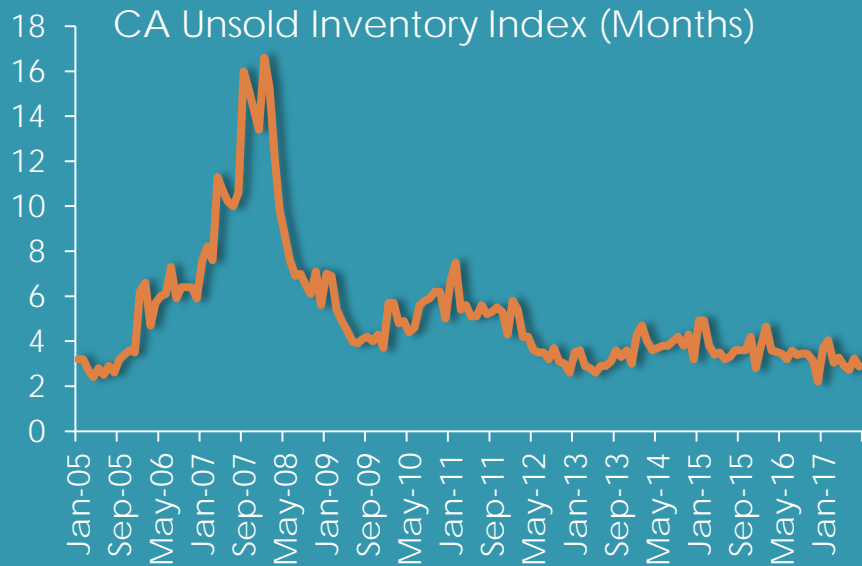
Property Types: Residential
 Counties: Merced
 MLS: CRMLS Price: All
 Period: 2 Year Monthly Bedrooms: All
 Construction Type: All Bathrooms: All
 SqFt: All
 Lot Size: All Square Footage

Inventory Issues

Inventory Remains on a Downward Trend

August 2017: 2.9 Months; August 2016: 3.4 Months

Active listing declining for last 26 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.

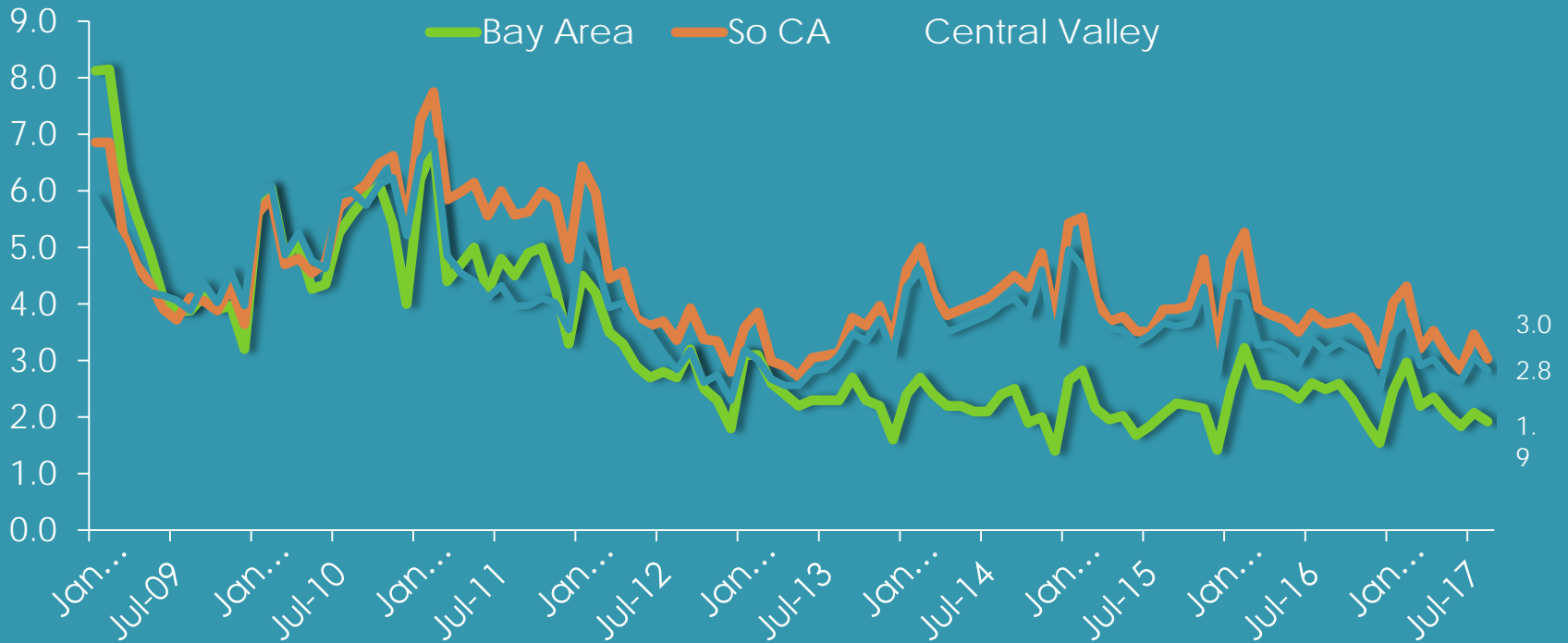
SERIES: Unsold Inventory Index of Existing Single Family Homes
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Supply Declined Most in the Lower End



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

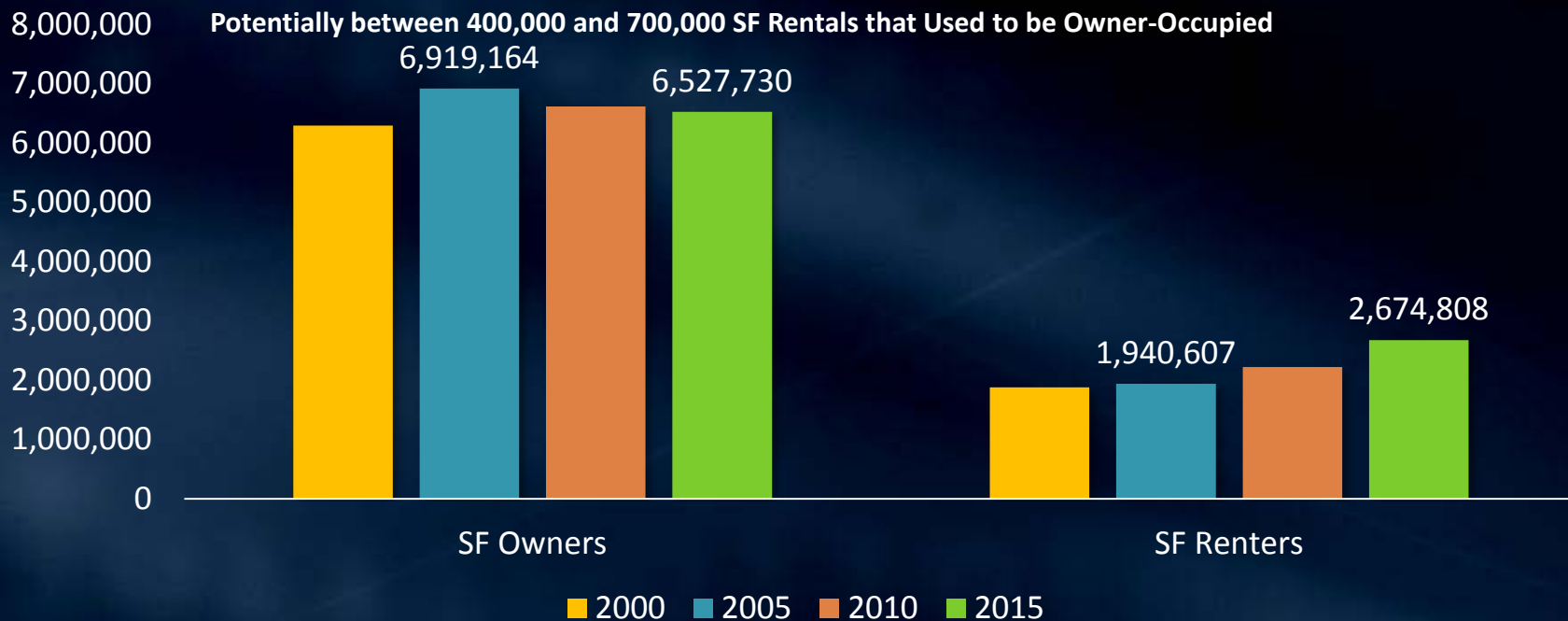
Inventory Continued to Drop Across All Regions



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®

More Single Family Units Now Rentals



SOURCE: U.S. Census Bureau, Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS)
Downloaded from the National Bureau of Economic Research (NBER)

Q: “How’s the Market?”

A: It’s Complicated

2017 Annual Housing
Market Survey

Who is Buying in California?

Median Age: 45

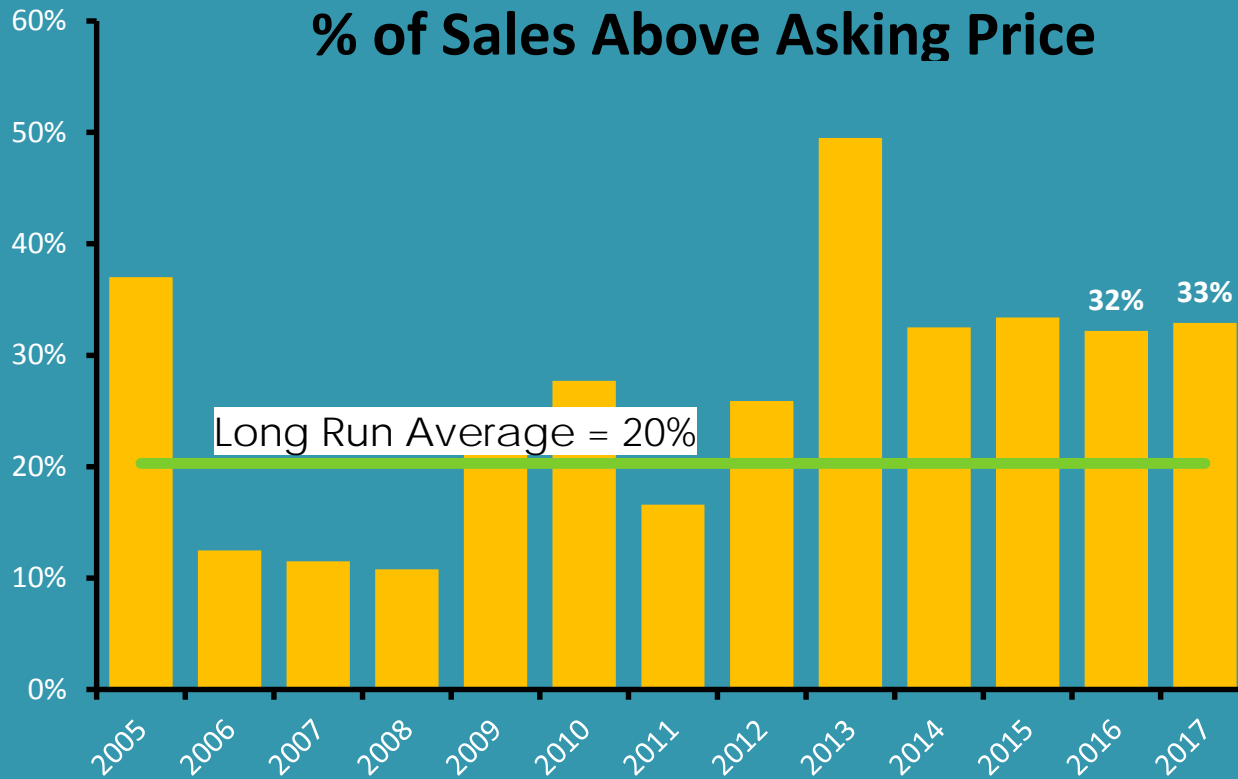


Who is Selling in California?

Median Age: 57

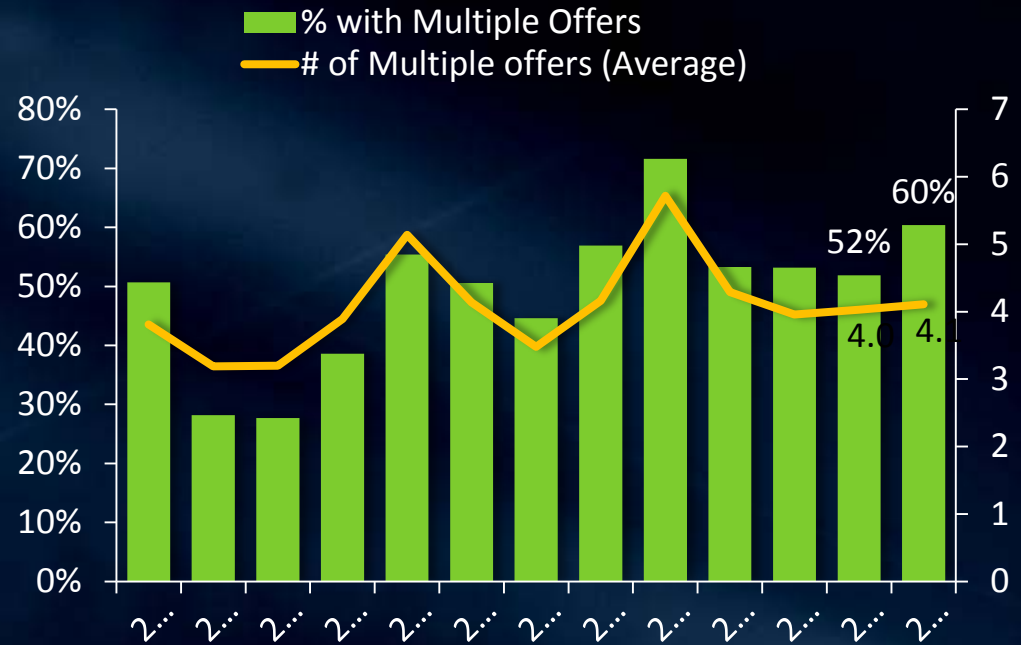


Tight Supply Pushed up Home Prices 1/3 Sold Above Asking



Market Competitiveness Up in 2017

6 out of 10 had Multiple Offers



Most Competitive for First-Time Buyers ...

	First-time Buyers	Repeat Buyers	All Buyers
% with Multiple Offer	68.8%	55.5%	60.4%
% of Sales Above Asking Price	41%	28.8%	32.9%
Days on Market	10	14	13

Share of Cash Buyers Steady



- One-fifth of buyers paid with all cash
- The share of all cash buyers is virtually unchanged in the last 4 years



Investor Buyers Inched Up in 2017; More Flippers in the Market



Flip

2014: 30%
2015: 26%
2016: 20%
2017: 24%

Vs.



Rent

2014: 70%
2015: 74%
2016: 80%
2017: 76%

Sellers Are Not Moving as Often as Before



Long-Time Homeowners are not moving as in the past because:

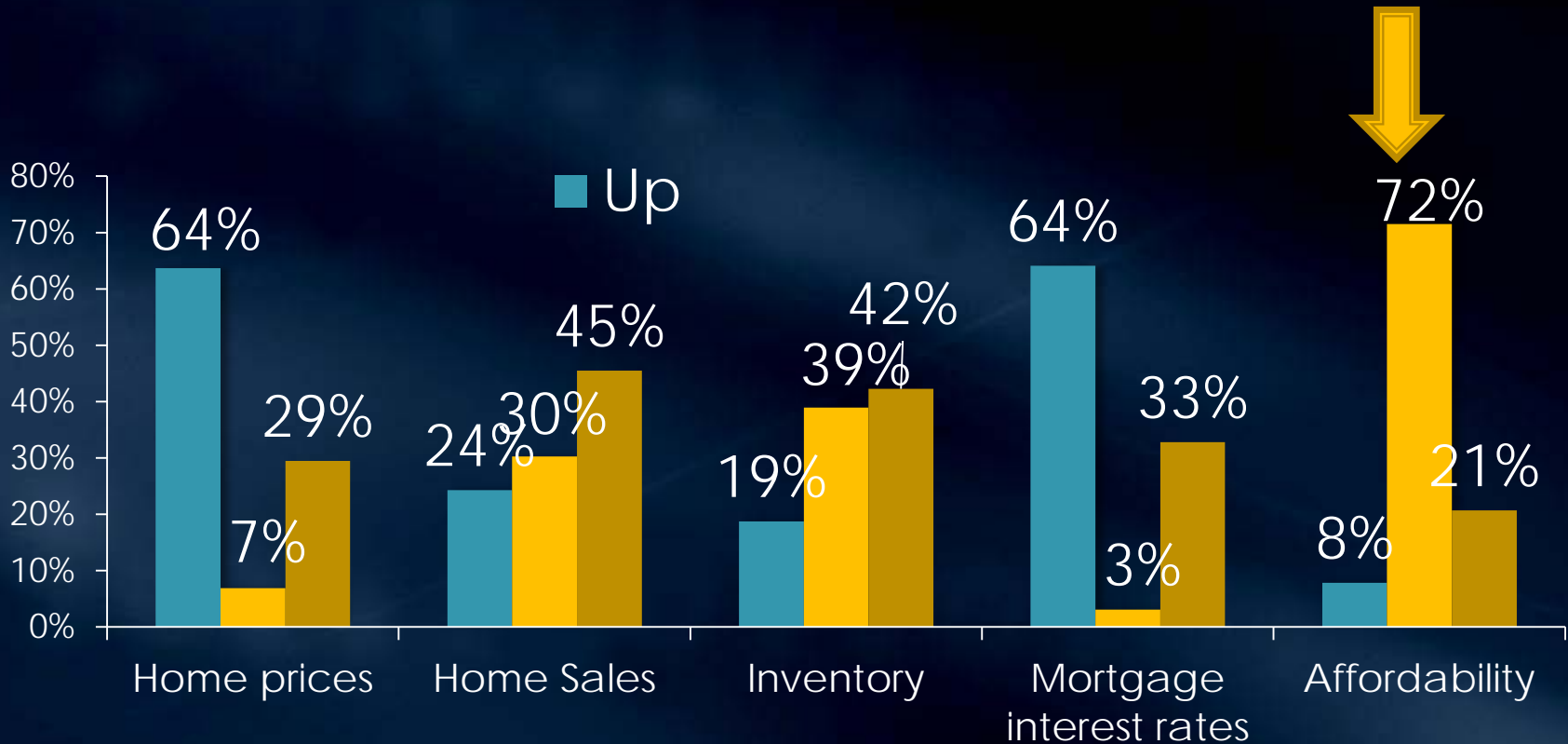
- Capital gains hit
- Low property taxes
- Low rate on current mortgage
- Where can I afford to go?
- Remodel and stay



- Senior homeowners can transfer their Pro.13 tax base to a home of any price, anywhere in the state, any number of times.

Prices Up, Sales Flat, Rates Up, Affordability

What do you think will happen for the CA market in 2018?



New Construction

UC MERCED 2020 PROJECT

1.2 million square feet project will delivered in phases between 2018 and 2020

- Academic and Research Space (Wet, Dry and Computational Labs)
- Student Life Facilities
- 1,700 Student Residential bed
- 1,500 Parking Spaces
- NCAA-II Competition Pool
- Conference Center
- Wellness Center
- Competition Recreation Field
- Early Childhood Education Center Expansion
- Dining Facility LEED Gold, 1.2 million gross square foot project will be delivered in phases



Financial Impact of UC Merced 2020 Project

Current Student Monthly Spending

- \$1,309 a month x 7,967 students = \$10,428,803 a month
- \$10,428,803 a month x 9 months = \$93,859,227 a year

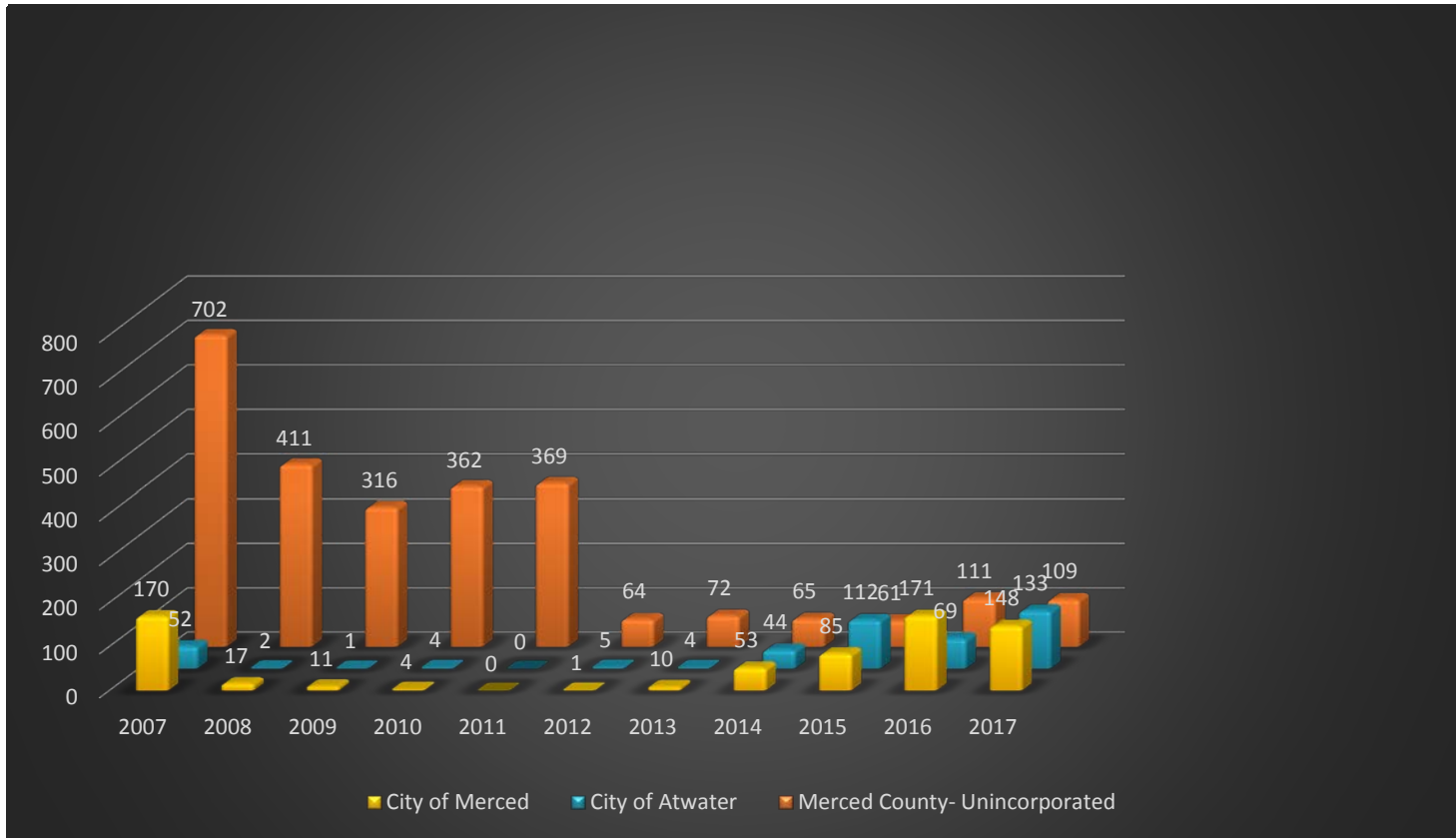
After Expansion- Student Monthly Spending

- \$1,309 a month x 10,000 students= \$13,090,000 a month
- \$13,090,000 a month x 9 months = \$117,810,000 a year

Rough Estimates of Faculty Payroll Annually

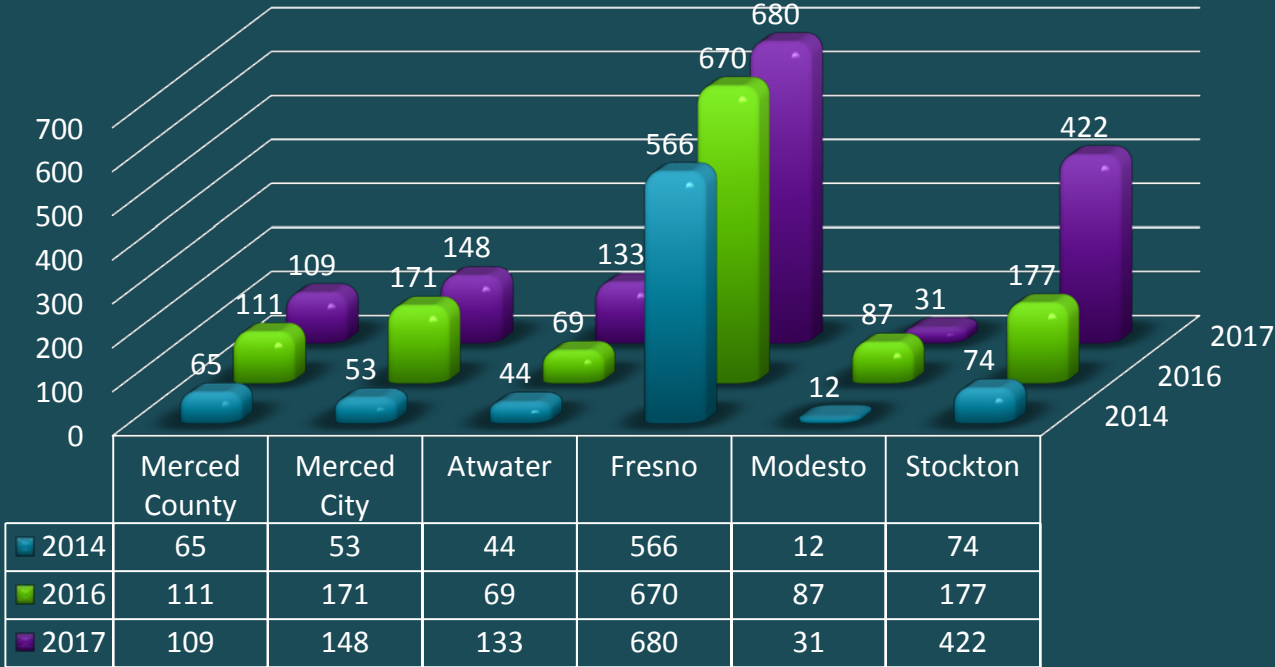
- Current Payroll- \$15.4 million per month
- Payroll After Expansion- \$20 million per month

New SFR by Year



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
City of Merced	170	17	11	4	0	1	10	53	85	171	148
City of Atwater	52	2	1	4	0	5	4	44	112	69	133
Merced County- Unincorporated	702	411	316	362	369	64	72	65	61	111	109

New SFR Permits- 4 city comparison



ACTIVE SUBDIVISIONS IN

MERCED

- ❖ Lennar Homes
- ❖ Bonadelle Homes
- ❖ Stonefield Home
- ❖ Wathen Yosemite Grove
- ❖ Legacy Homes
- ❖ K. Hovananian Homes
- ❖ RM Covington Homes

ATWATER

- ❖ Stone Creek
- ❖ Ramson Piro
- ❖ Las Casas

City of Merced- Recent Development Projects

- Stanton Optical
- CVS (Relocation)
- Aces & Kings Cheesesteaks
- ASIP Coffe Roasters
- T-mobile (W. 16th St.)
- Rapid Express Car Wash
- Rockin' Jump Trampoline Park
- D'Bride
- The Mattress Store
- Agave Mexican Store
- Love Express (Merced Mall)
- Popeye's Louisiana Kitchen
- Bobcat Diner

Opening in 2018

- ❖ The Chocolate Dipper (Merced Theatre)
- ❖ Arco AM/PM (Parsons & Childs Ave)
- ❖ Kentucky Fried Chicken (Parsons & Childs Ave)
- ❖ Marriot TownPlace Suites
- ❖ UCM Downtown Campus Center
- ❖ El Capitan hotel Renovation project Kick-off
- ❖ Prime Shine Car Wash
- ❖ Merced Mall Renovation & Expansion (Entitlement kick-off)
- ❖ Gateway Retail Center (Groundbreaking)
- ❖ More projects are underway, but are at the planning stages.

In the Near Future



❖ Merced Mall Renovations & Expansion

- Planning to expand by 90,000 sq. ft.
- 21,000 sq. ft. of retail and restaurants
- Theatre 3,000 sq. ft.



❖ New Downtown Investments

-El Capitan Hotel

- Broke ground Jan. 31, 2018
- Finish product- 110 room Boutique Hotel, 39 rooms are existing, remaining are new.
- Also includes a café, restaurant and meeting space.



❖ -Mainzer Theatre

- Construction will begin when El Capitan is almost finished.
- This will be more of a face lift and when finished you will have a theatre, restaurant, and a live performance classroom for activities.

Rental Market

Residential Rental Market

2017

- Rents have continued to increase and the inventory has decreased.
- For example:
 - 4bd/2ba, 2,000 sq. ft. North Merced home is \$1,300-\$1,400 a mth.

2018

- We believe inventory will be tight.
- There are more apartments available than single family homes.
- UC Merced students in previous years would move out, now they rent year around.
- Rental Units to be constructed in fiscal year 2017-2018
 - 175
- Rental Units to be constructed in fiscal year 2018-2019
 - 150
- Currently we are on target for this year.



- **2017 Conti.**

- **North Merced- SFR**

- **3bd- 1800 sq. ft., \$1,200-\$1,350**

- **4bd- 2,100 sq. ft., \$1,400-\$1,500**

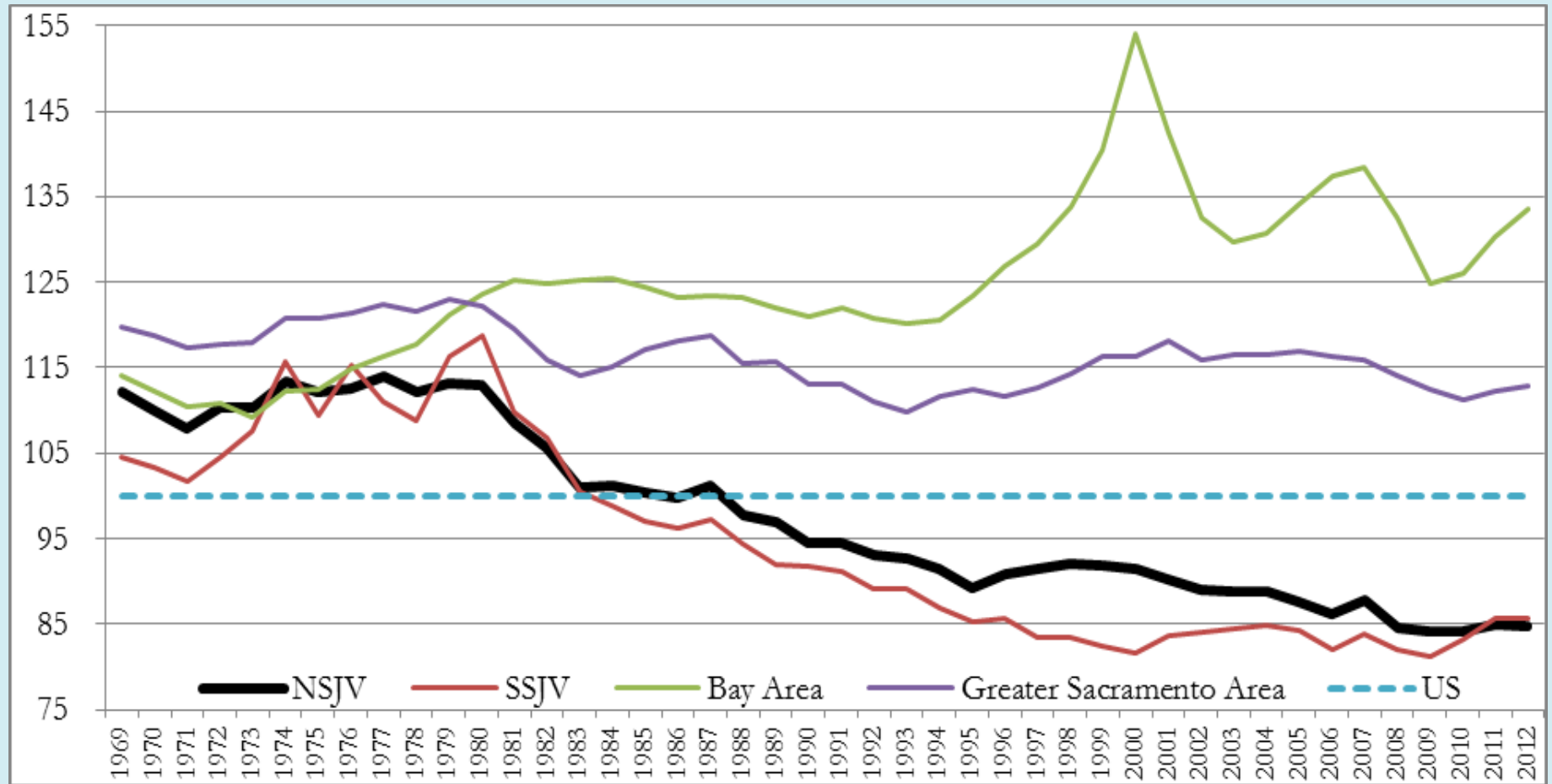
Monthly Rent of \$1,500 a month at 4.25% for 30 years would give you a loan of \$304,015.



Commercial Market

NSJV per-capita income has been falling behind since the 1980's.

The 3-county region had per-capita income 10% above the U.S. average in the 1970's, similar to the Bay Area. Per-capita income is now 15% below the U.S. average.



SHOPPING CENTERS

● 2017

- Not a lot to talk about
- Ross, TJ Maxx, and Marshals tend to be doing okay other companies like Labels for Less are having a hard time.
- Not a lot of new retail uses, some examples coming from Northern California Sportmans Warehouse and 5 Below which is similar to a Dollar Store.
- Amazon is killing retailers, in order to survive retailers have to do online and in store sales.
- Target is putting in a pickup area where you can pick up online orders in their stores.
- Good retailers will survive, good shopping centers will survive.
- In the Valley retailers are not taking any chances, the project has to make money from day one, retailers going in on their own terms, in the bay area they may take risk if they have been trying to get in there for a long time.

● 2018

- Gateway Project
- Downtown Merced
- Wathen Project

18 biggest bankruptcies of the 'retail apocalypse' of 2017

1. Toys R Us
2. Charming Charlie
3. Styles for Less
4. Aerosoles
5. Vitamin World
6. Perfumania
7. Gymboree
8. Alfred Angelo Bridal
9. The Limited
10. True Religion
11. Rue 21
12. Payless
13. Radio Shack
14. Gander Mountain
15. Gordmans
16. Hhgregg
17. BCBG
18. Wet Seal

Office Space

● 2017- Office Sales

- Office rents were flat.
- Inventory decreased many spaces were leased.
- Medical Office space is practically nonexistent.
- There is plenty of general office space.
- Rents for North Merced \$1.25-\$1.50 a foot.
- Medical Space \$1.50-\$1.60
- Downtown retail number of space leased up last year.
- UC Merced will help fill downtown.

Industrial Space

● 2017

- We leased up a lot of space.
- We are running out of product.
- 6-7 years ago we had 1.5 million free sq. ft. to lease, today less than 300K sq. ft.
- Do to lack of available space we have increased rents.
- Cannabis shops are looking for space causing rents to increase.

Agricultural Properties

● 2017

- Commodity Prices have softened
- Still good demand for farm ground
- Water and water sources are the main concern.
- Low Inventory
- More demand than supply
- Market peaked in the 1st qtr. Of 2016

● 2018

- Going forward more of the same.
- Commodity prices remain softened
- San Joaquin Valley's good water may contain value.
- Almond prices 30-35K a acre
- Almonds with good production have two sources of water
- Row crop land for example:
Sweet Potatoes- 15-20K a acre if they have good sources of water

Summary Info

SUMMARY

- Residential Prices are continuing to increase, however at a slower pace.
- New Construction continues to increase, units continue to increase.
- Rental market- rents are increasing, inventory is tight.
- Shopping Centers & Retail stayed about the same as last year, new Gateway project coming online this year.
- Office Space Demand is increasing, rents are starting to firm a little.
- Industrial Inventory is low, rents are increasing.
- Agriculture: commodity prices have softened, prices are holding, water is the key.

Thank You!!!