



# 2016 Economic and Housing Outlook

*Presented by: Kevin C. Gillen Ph.D., Chief Economist*

**MEYERS RESEARCH**  
*a Kennedy Wilson Company*

## Agenda

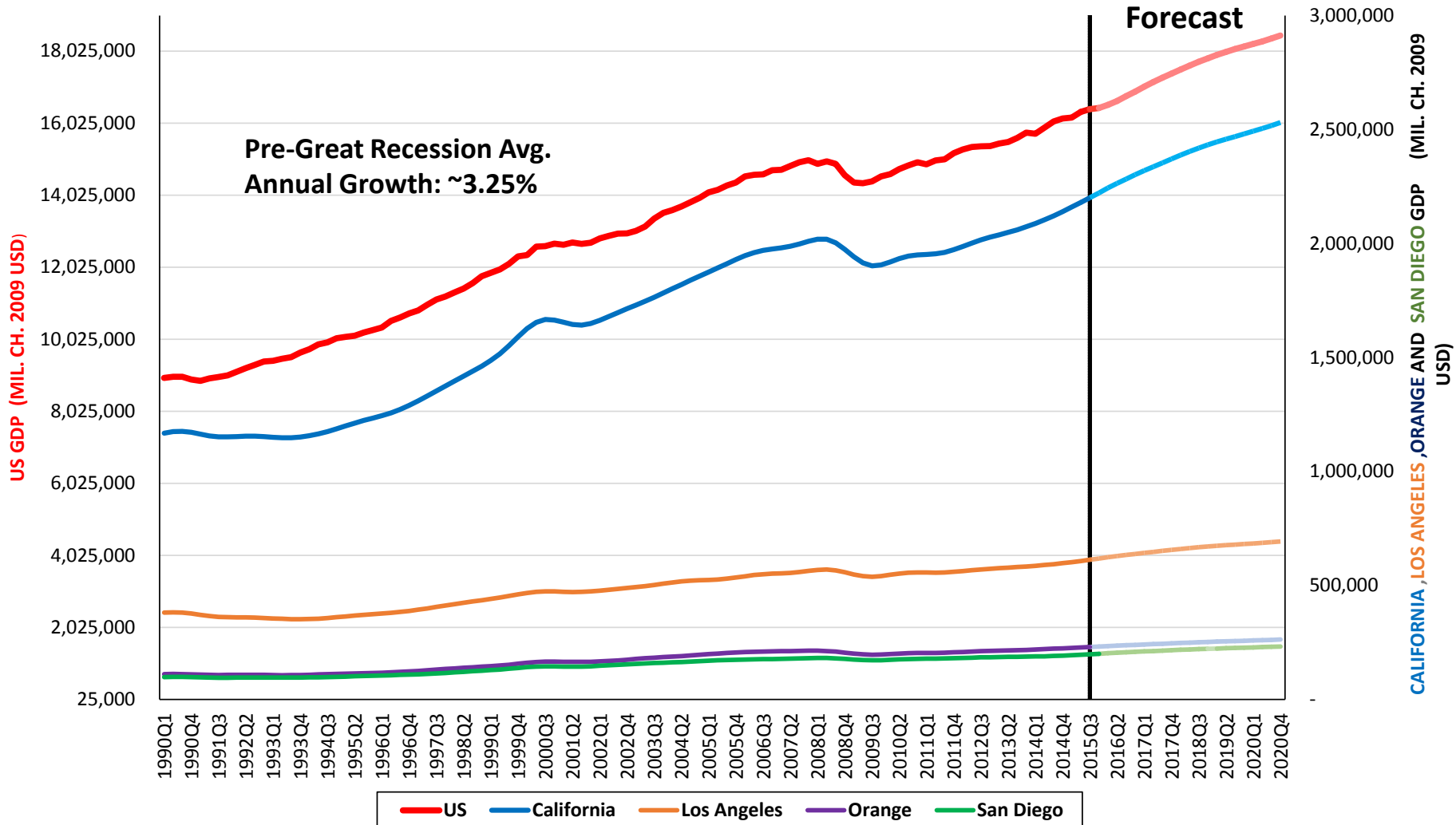
- I. Economic Trends in US and CA
  
- II. Housing Market Trends in US and CA
  
- III. Putting It All Together: Summary and Where We Go From Here

# **ECONOMIC TRENDS IN US AND CA**

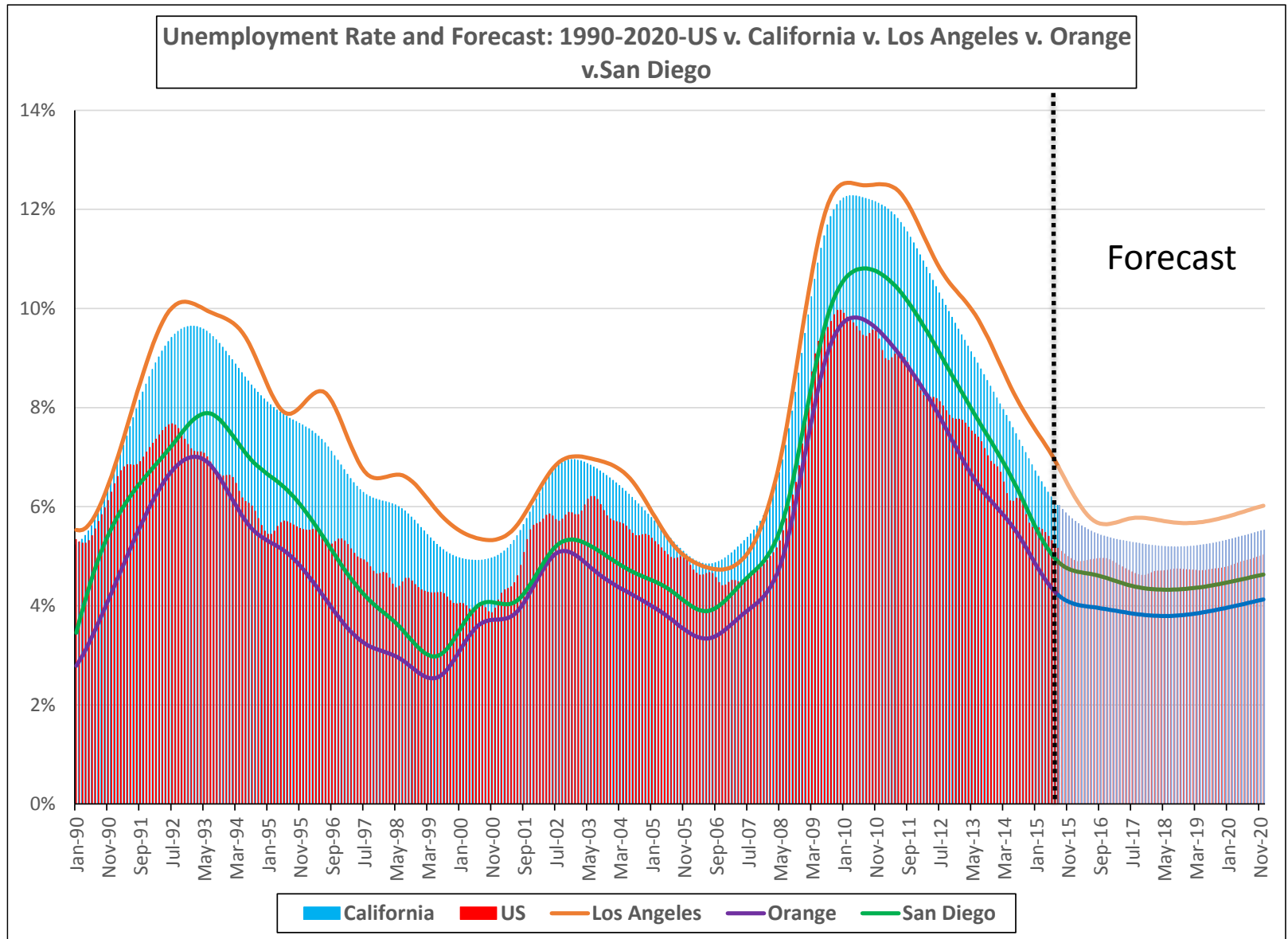
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# Post-Recession: GDP Growth is Positive, but Slow:

**GDP Growth and Forecast in US v. California v. Los Angeles v. Orange v. San Diego: 1990-2020**

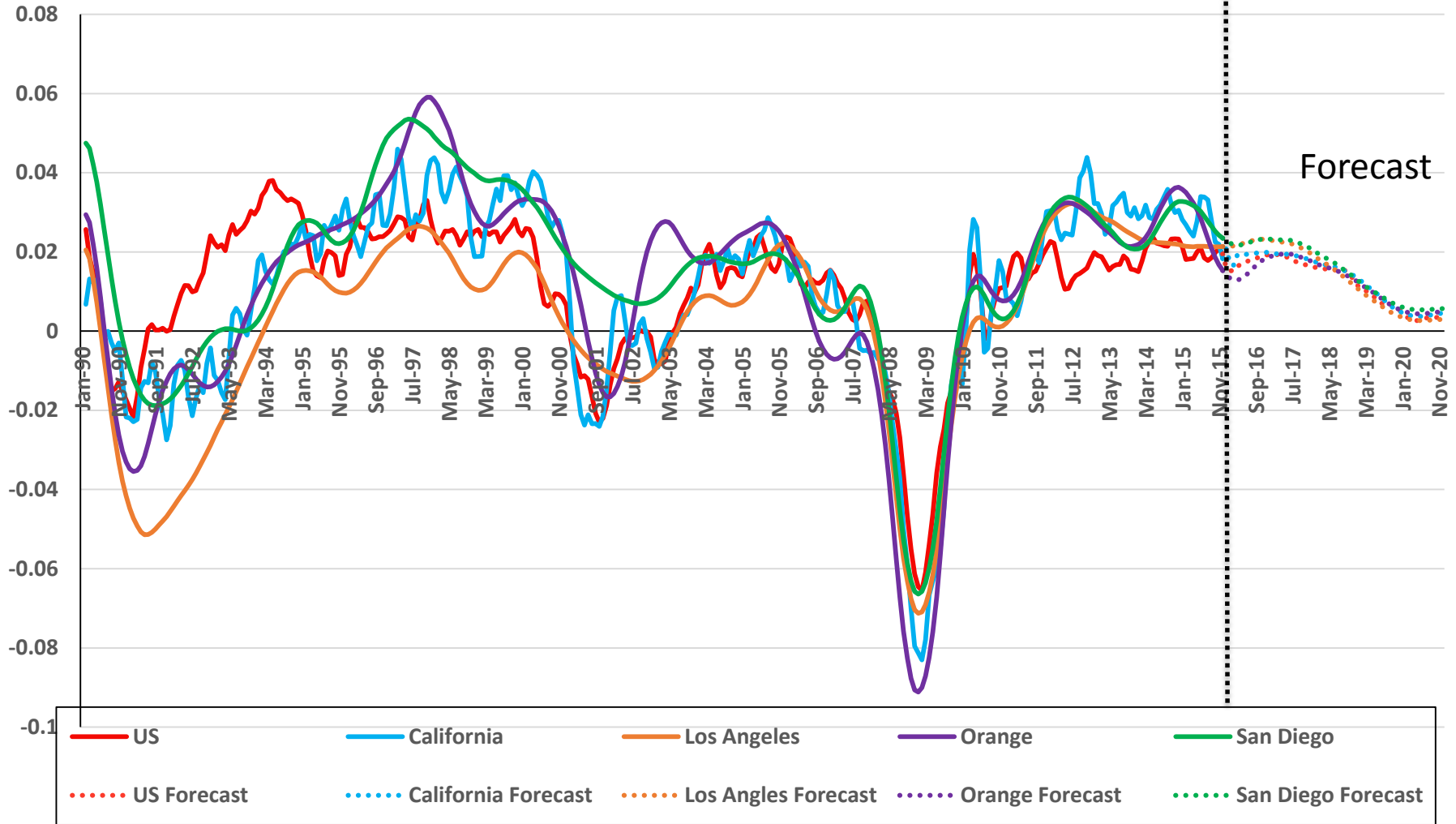


# CA Unemployment Exceeds US Average:



# CA Got Hit Especially Hard by the Great Recession:

Job Growth (Annualized %) Rate and Forecast: 1990-2020: US v. California v. Los Angeles v. Orange v. San Diego

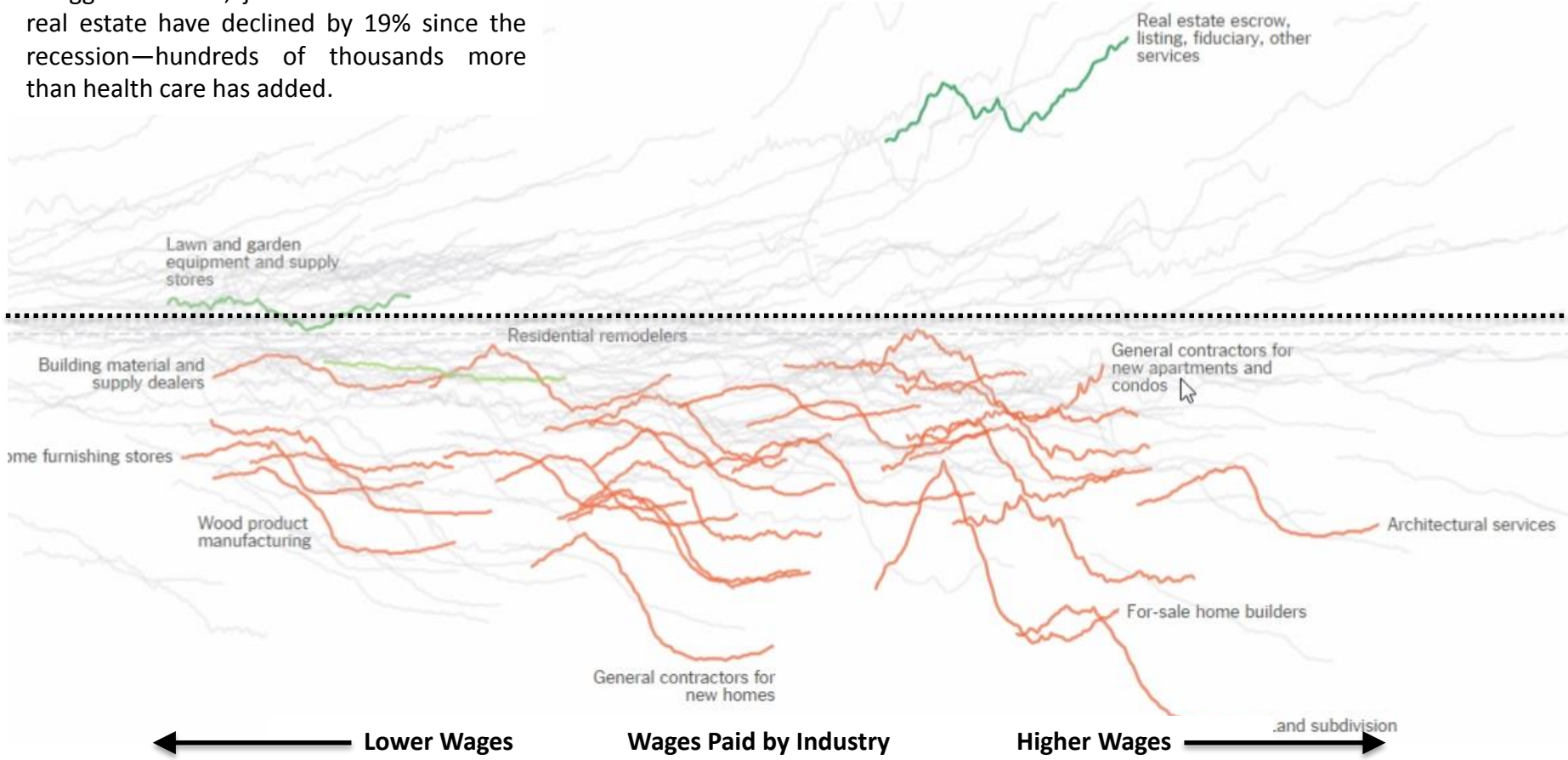


# And Real Estate Sector Has Yet to Fully Recover...

## A Long Housing Bust

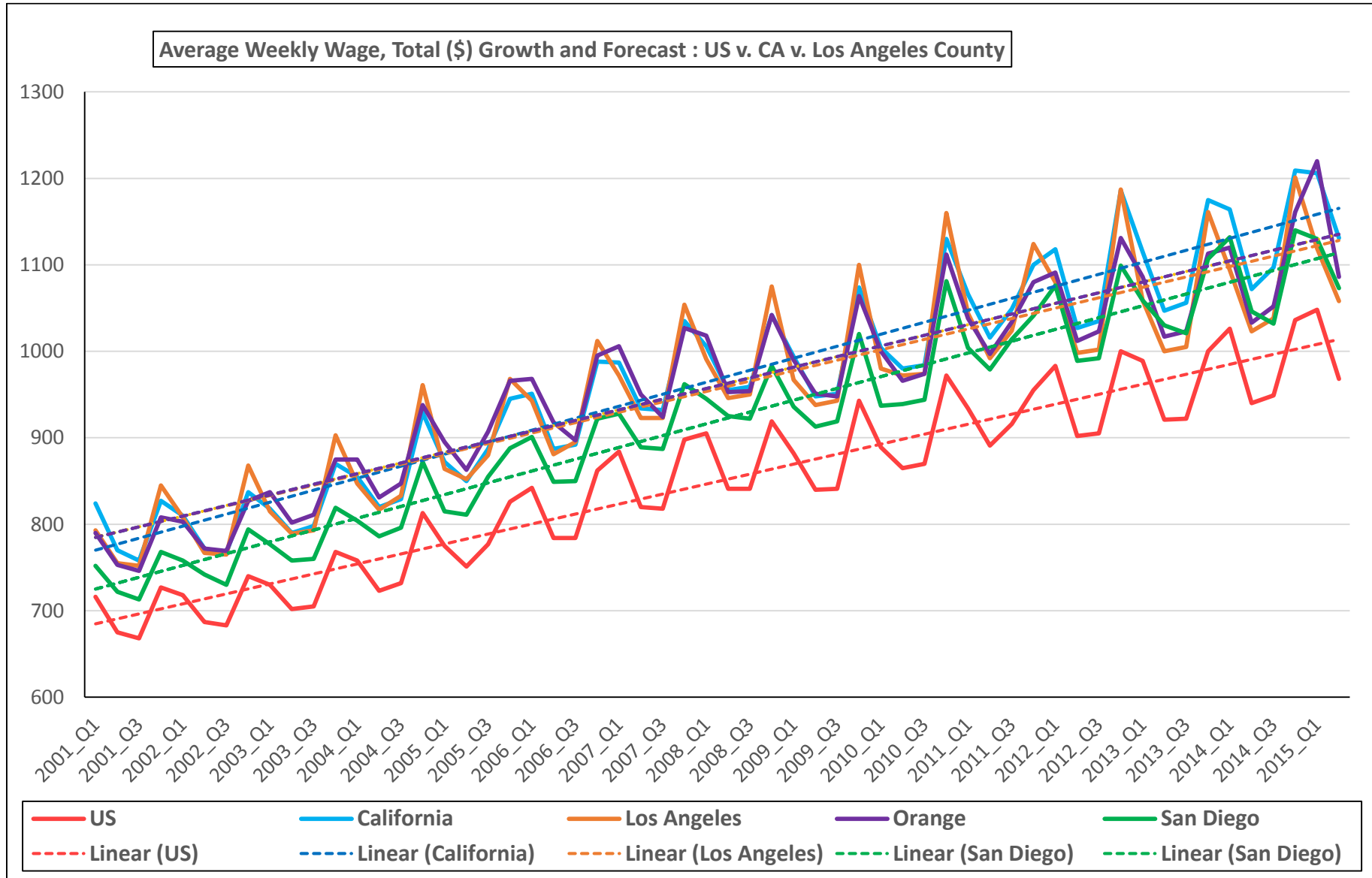
Home prices in most areas of the country have recovered significantly from the post-bubble lows. But jobs related to housing still struggle. Overall, jobs in construction and real estate have declined by 19% since the recession—hundreds of thousands more than health care has added.

↑ Increased  
↓ Decreased



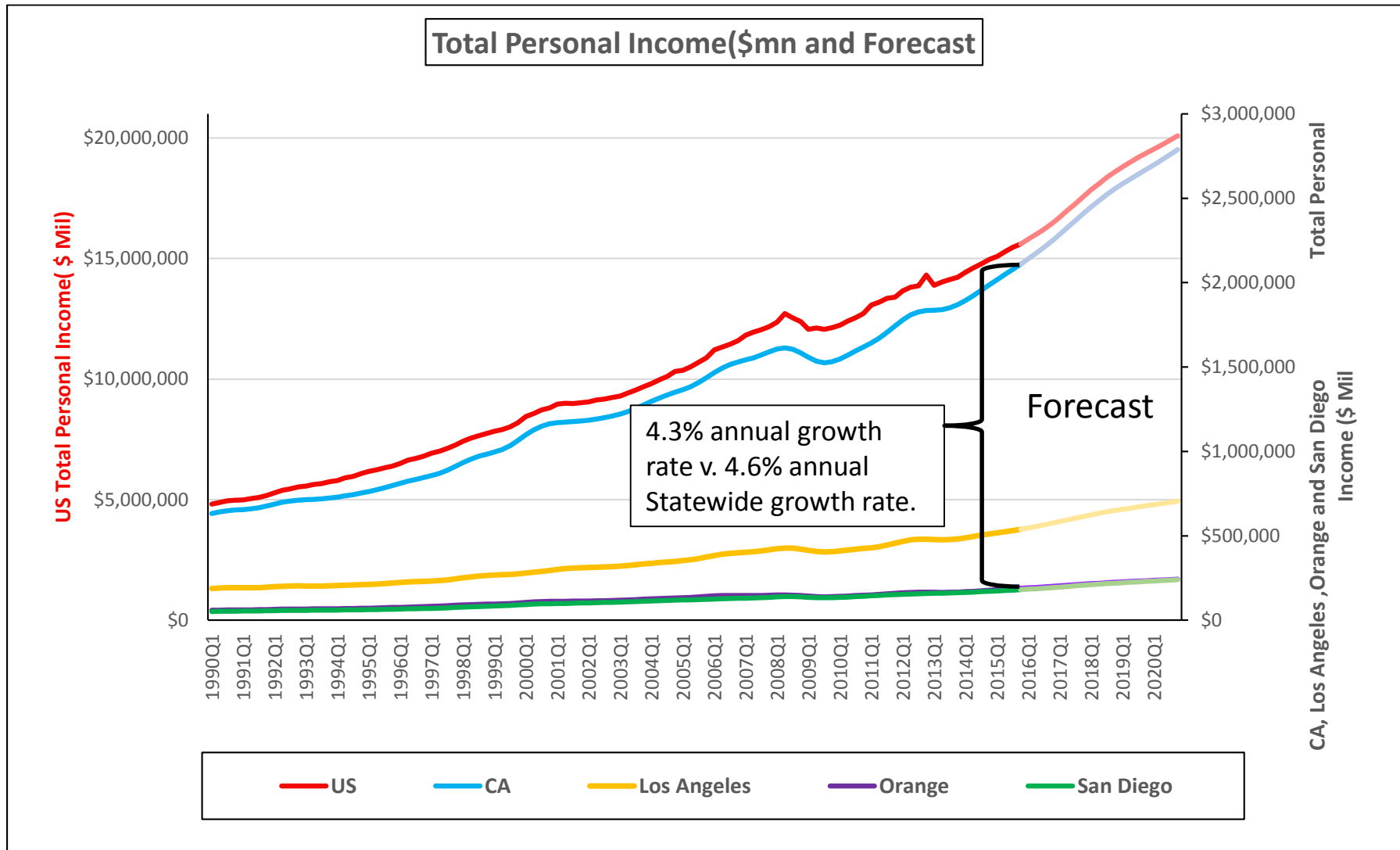
Source: NY Times

# CA Has a Significant Wage Premium Over the US:

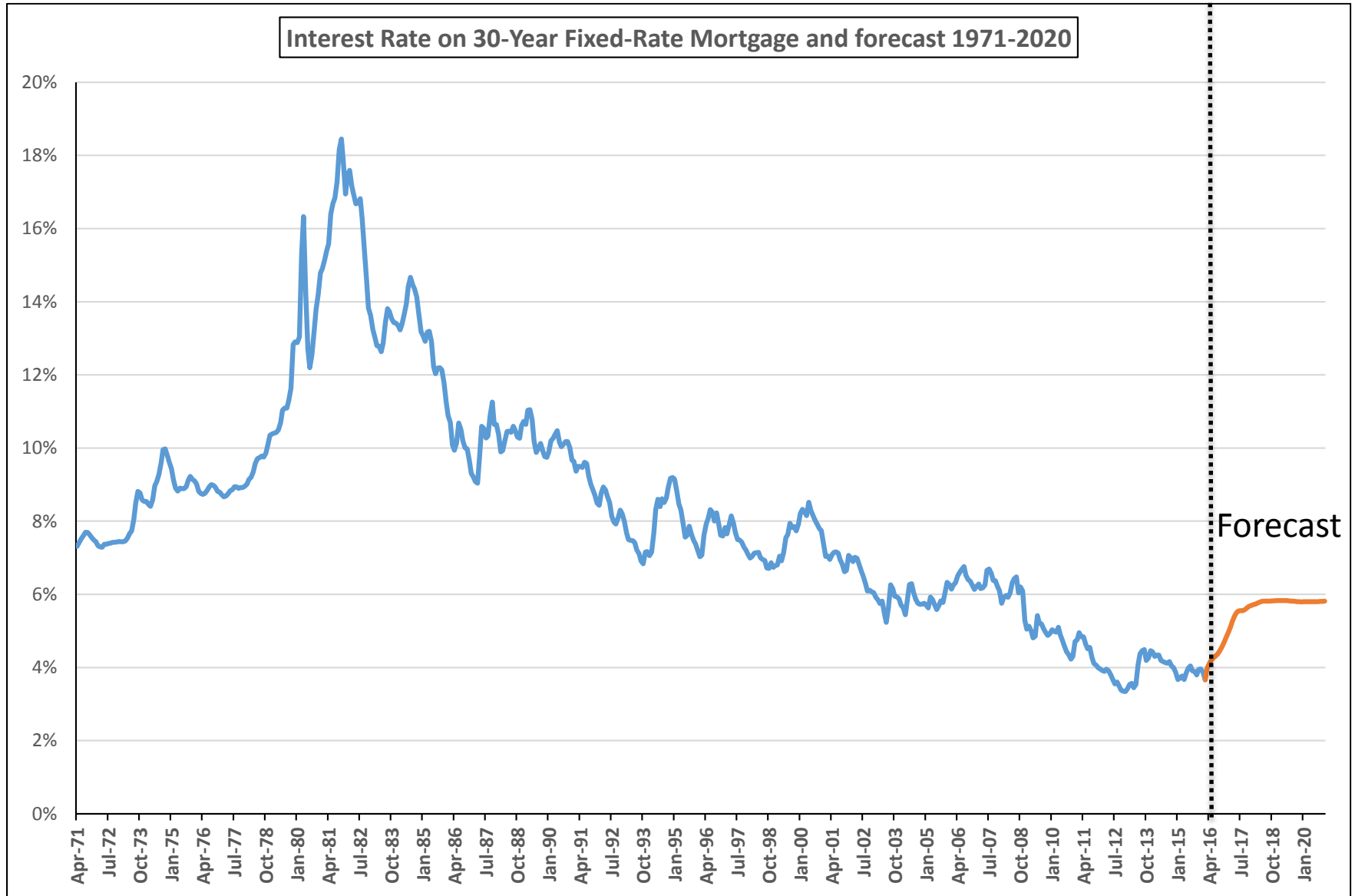




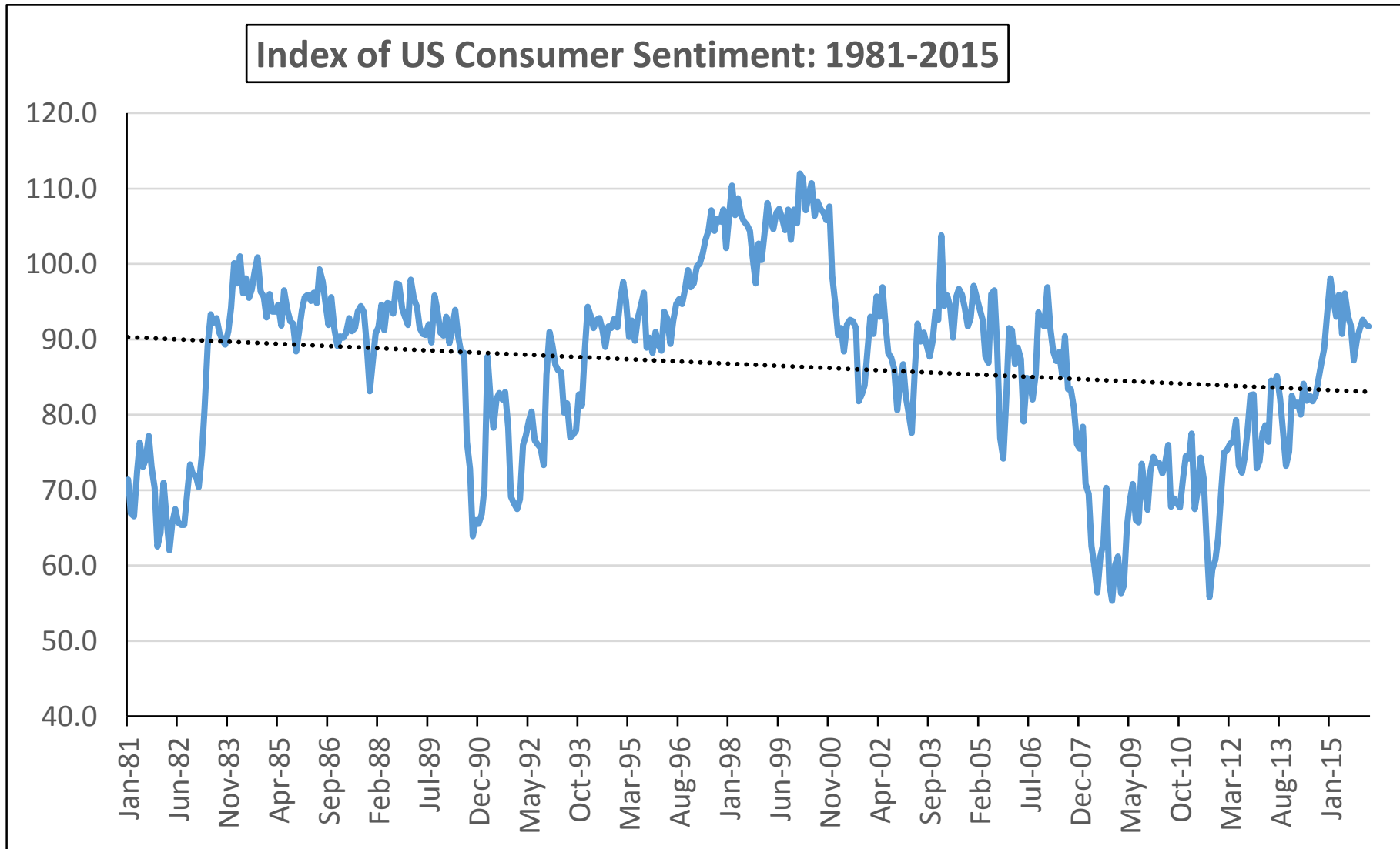
# But the 3-County Income Growth Rate Is Projected to Slow:



# We Know That Interest Rates Are Headed Up:



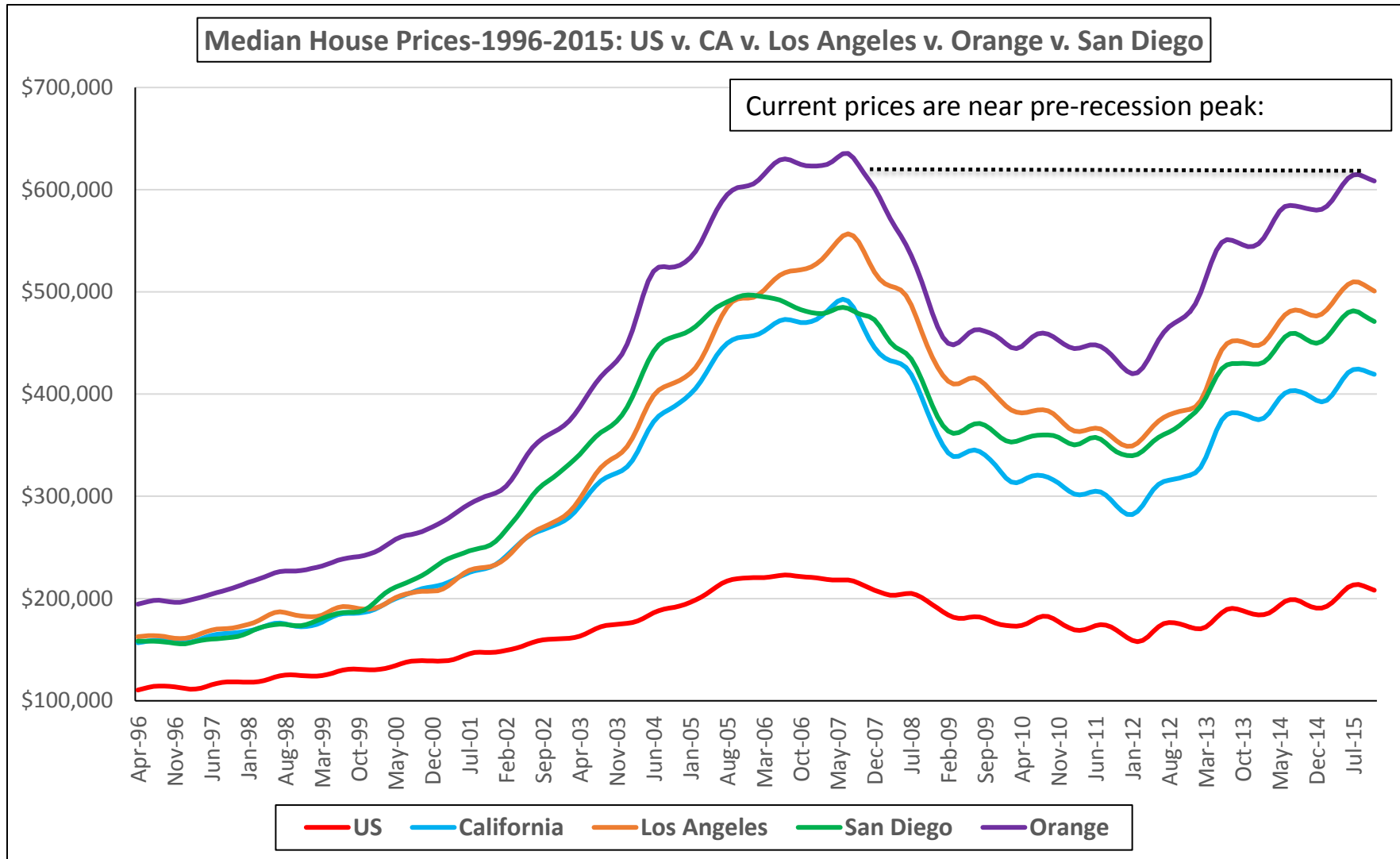
# Short-term Consumer Sentiment Is Up...but Long-Term...:



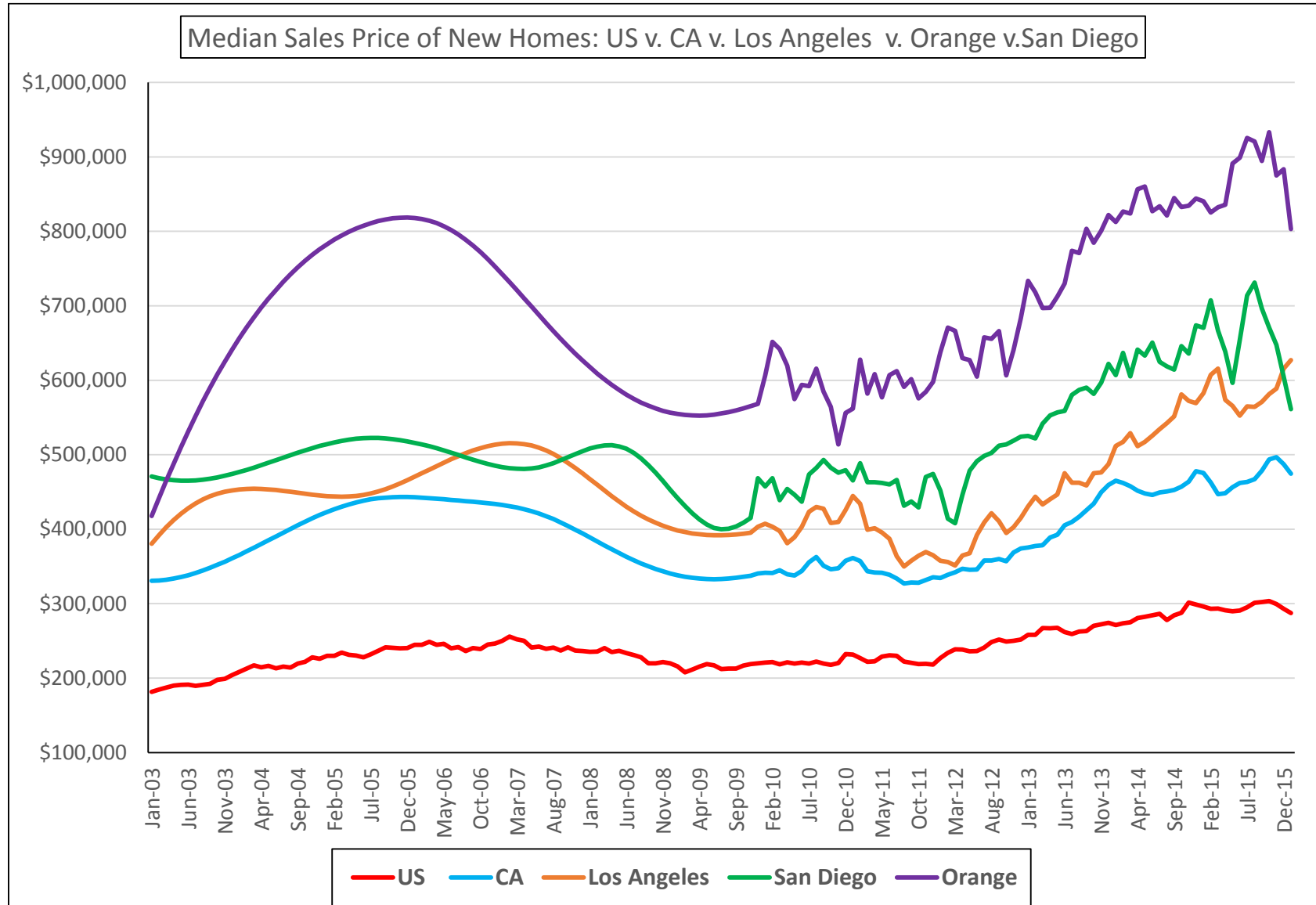
# HOUSING MARKET TRENDS IN US AND CA

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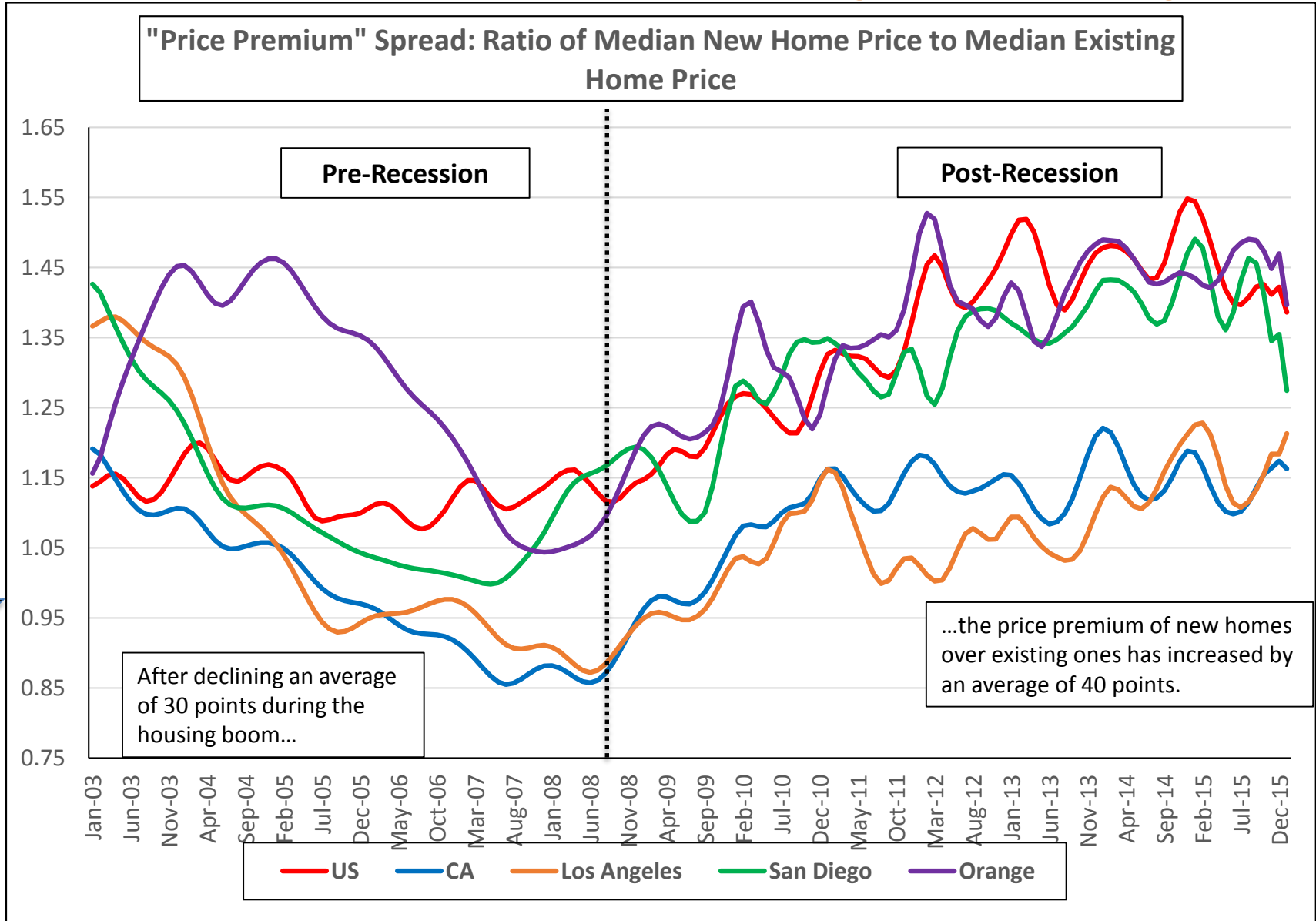
# House Prices Have Largely Recovered From the Bubble:



# New House Prices in CA Significantly Above Nation's:

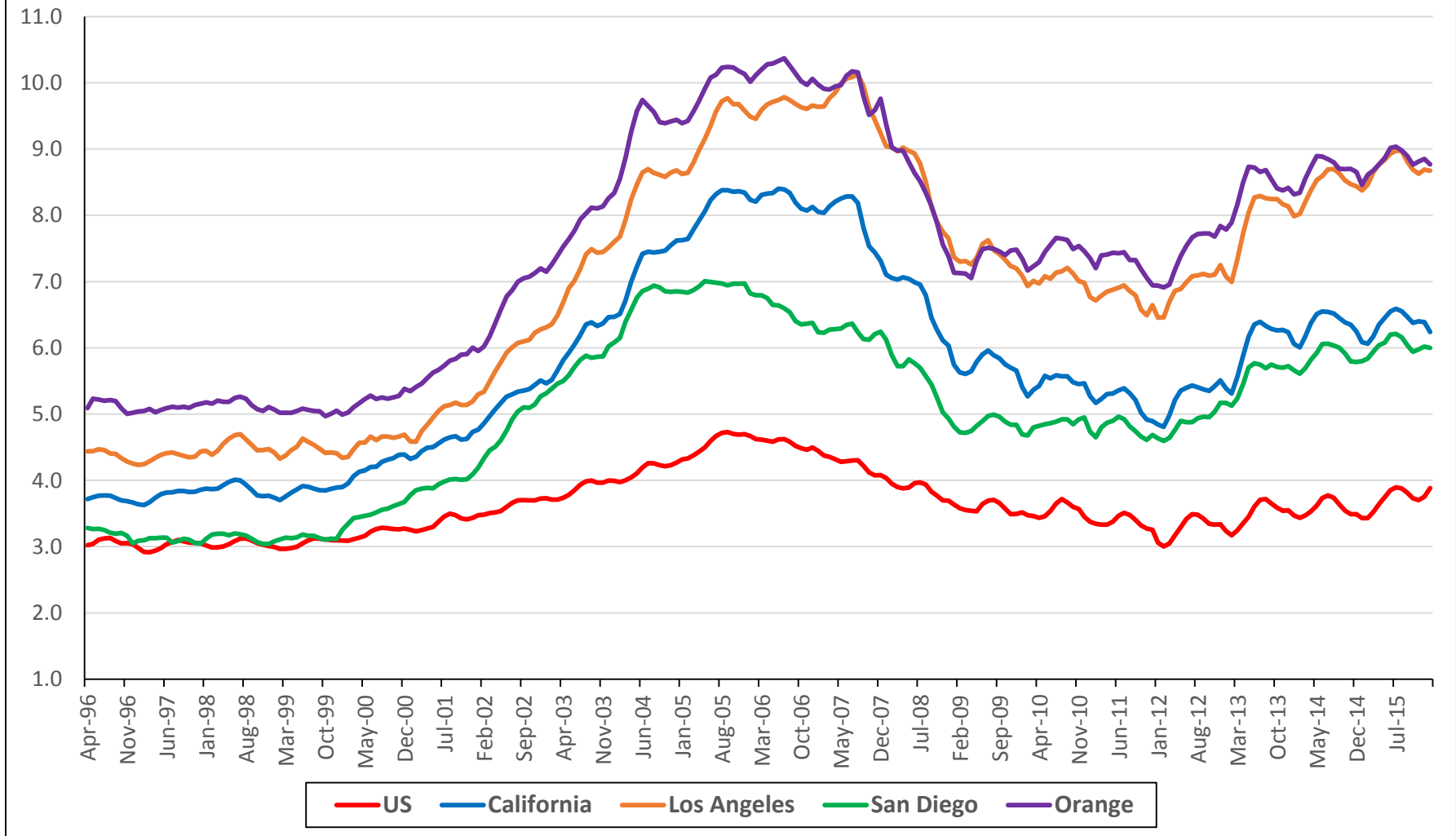


# The "Price Premium" of New Housing Is Increasing:



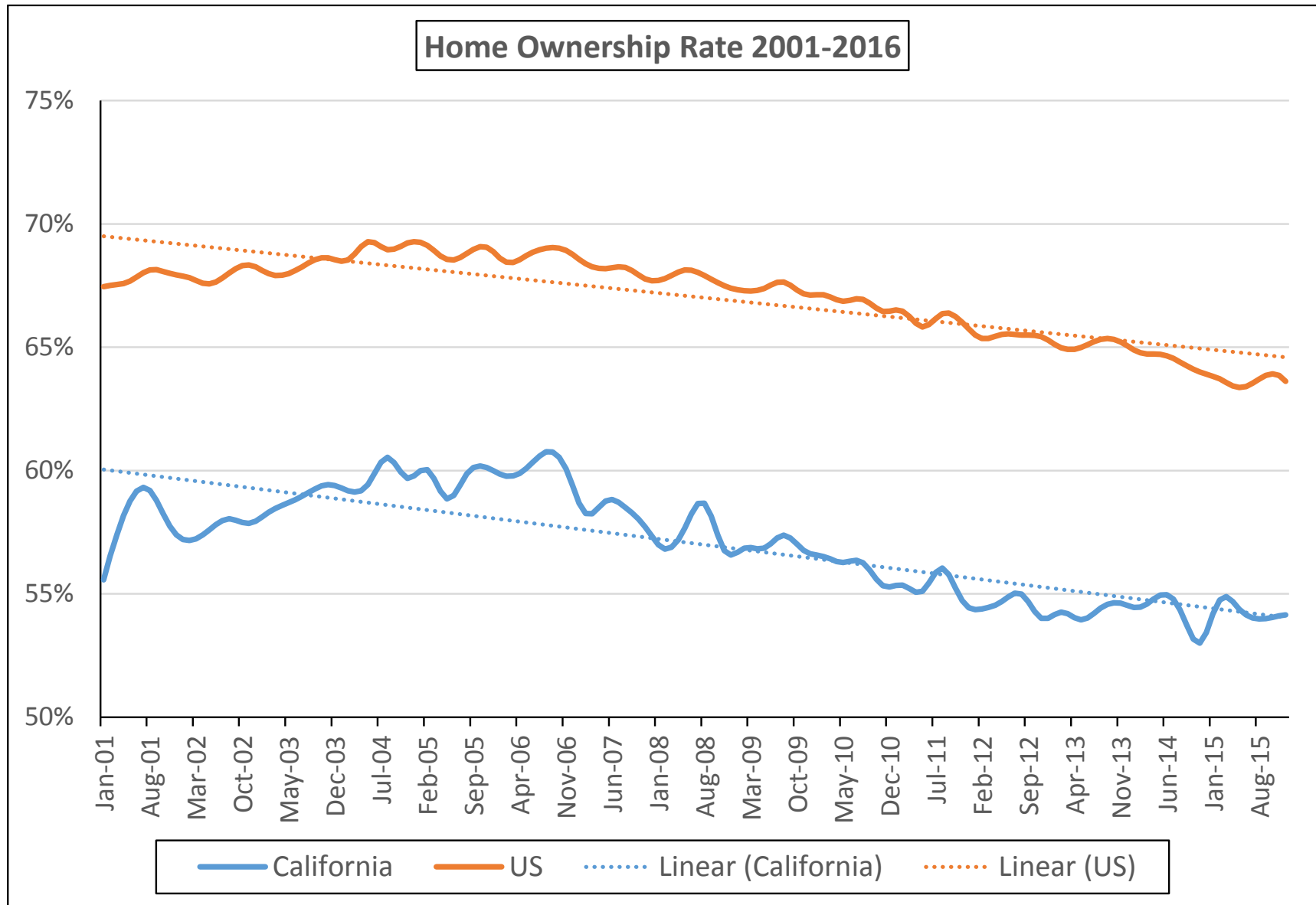
# Which Is Making New Housing Less Affordable:

**Housing Affordability 1996-2016:  
Ratio of Median Price to Median Household Income**

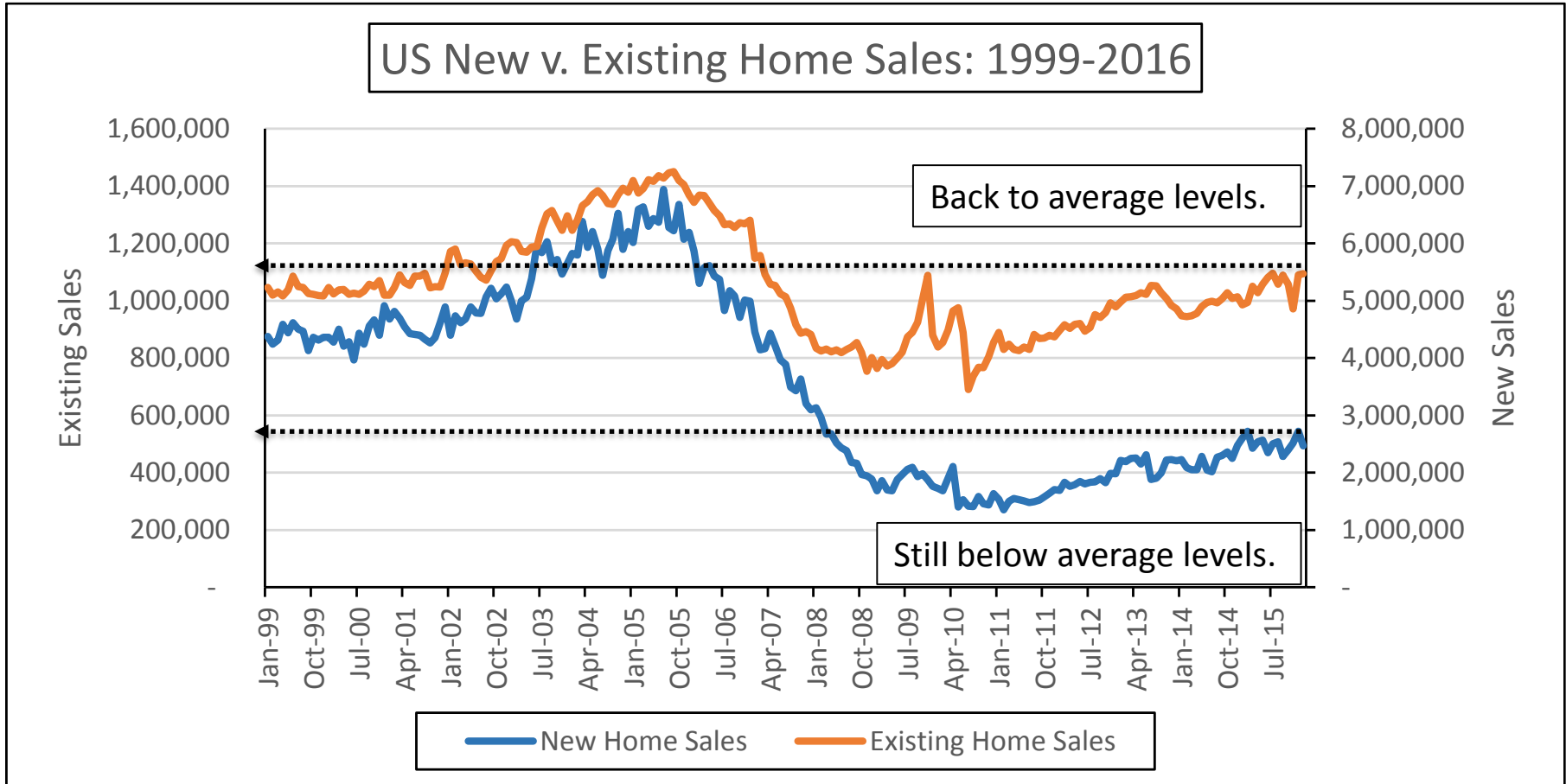




# Which Is Driving Down Homeownership:

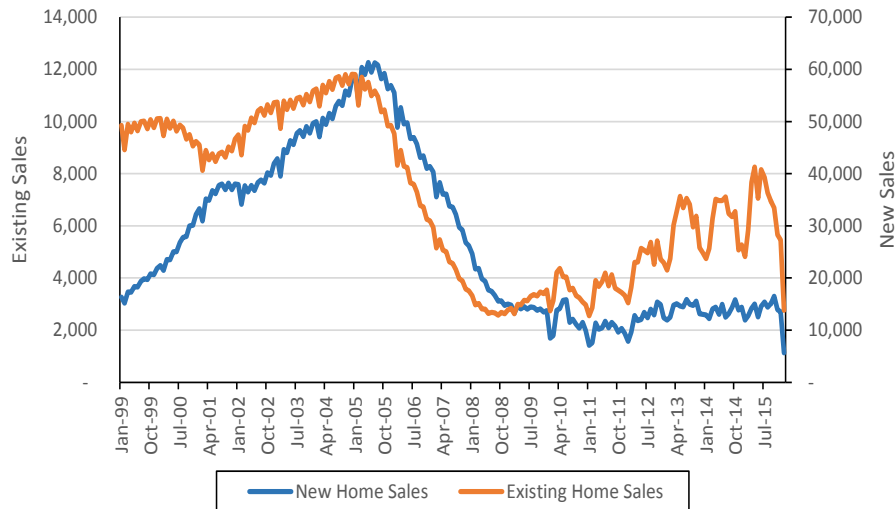


# Sales of New Homes Have Yet to Recover:

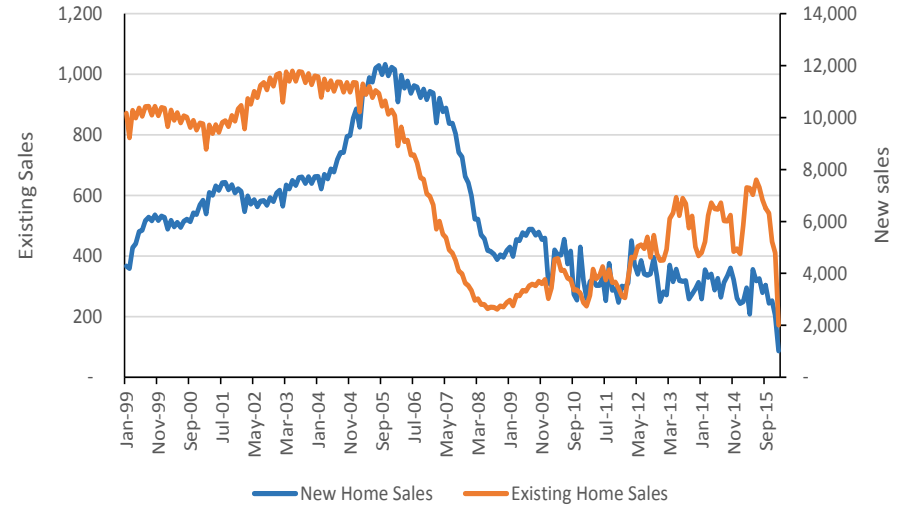


# Sales of Both Have Recently Dropped in CA:

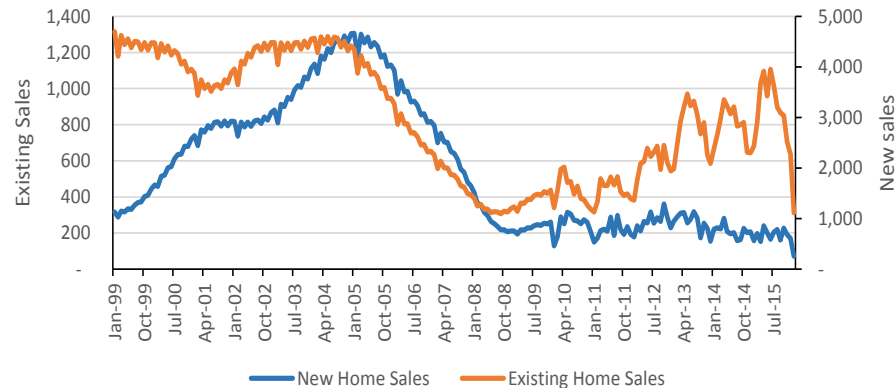
California New v. Existing Home Sales: 1999-2016



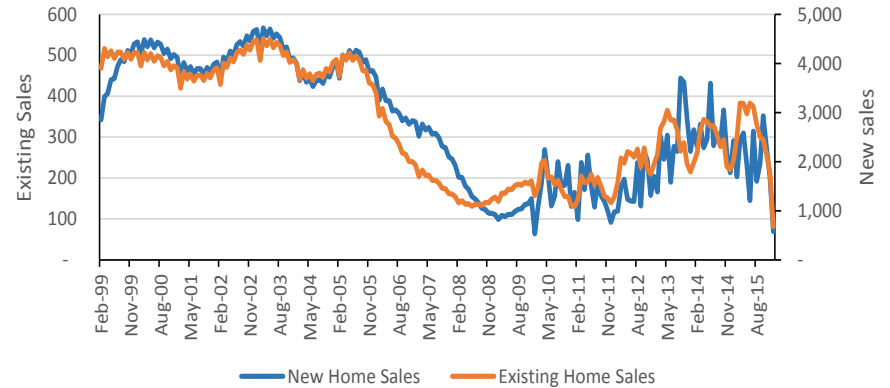
Los Angeles New v. Existing Home Sales: 1999-2016



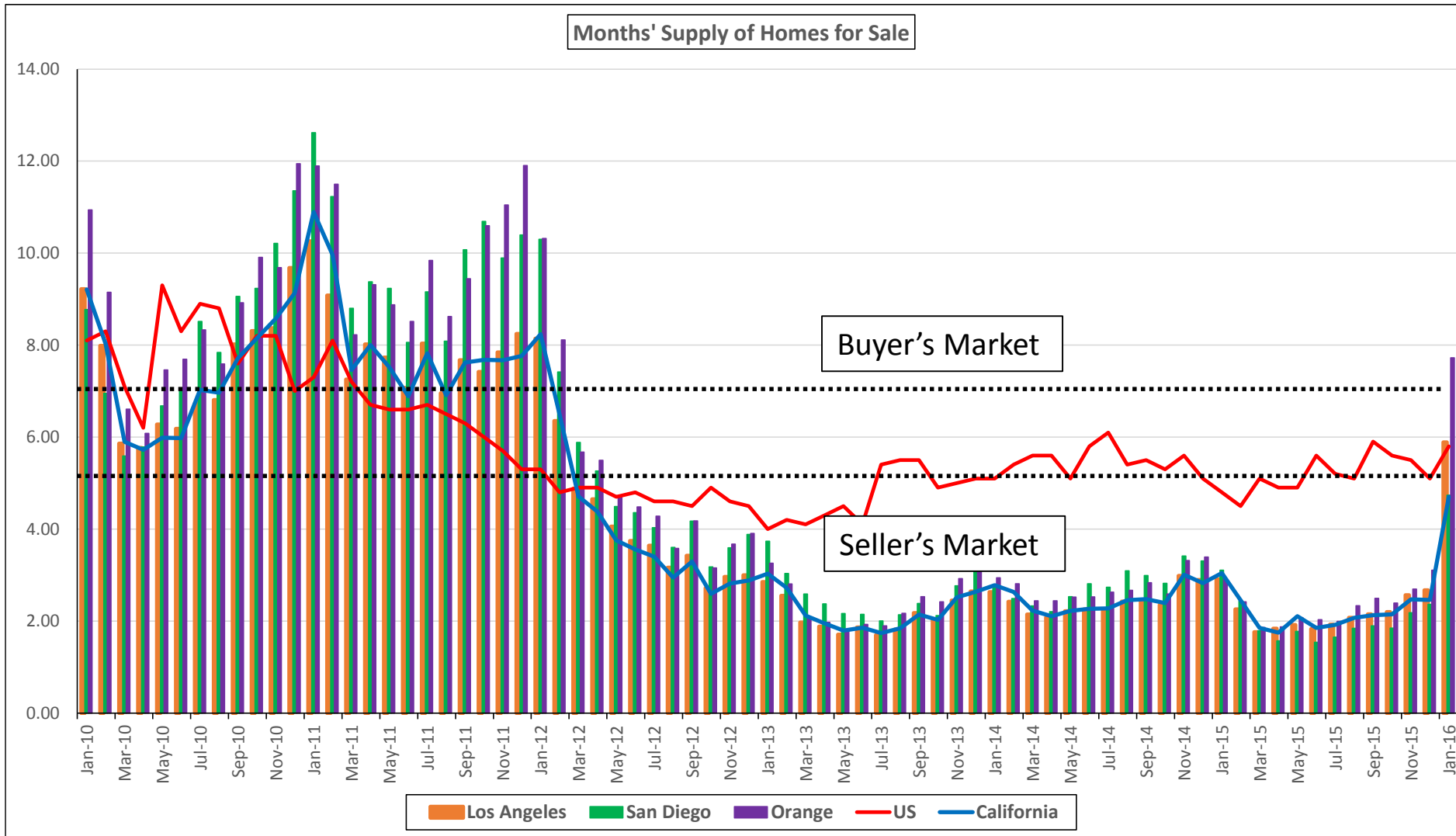
San Diego New v. Existing Home Sales: 1999-2016



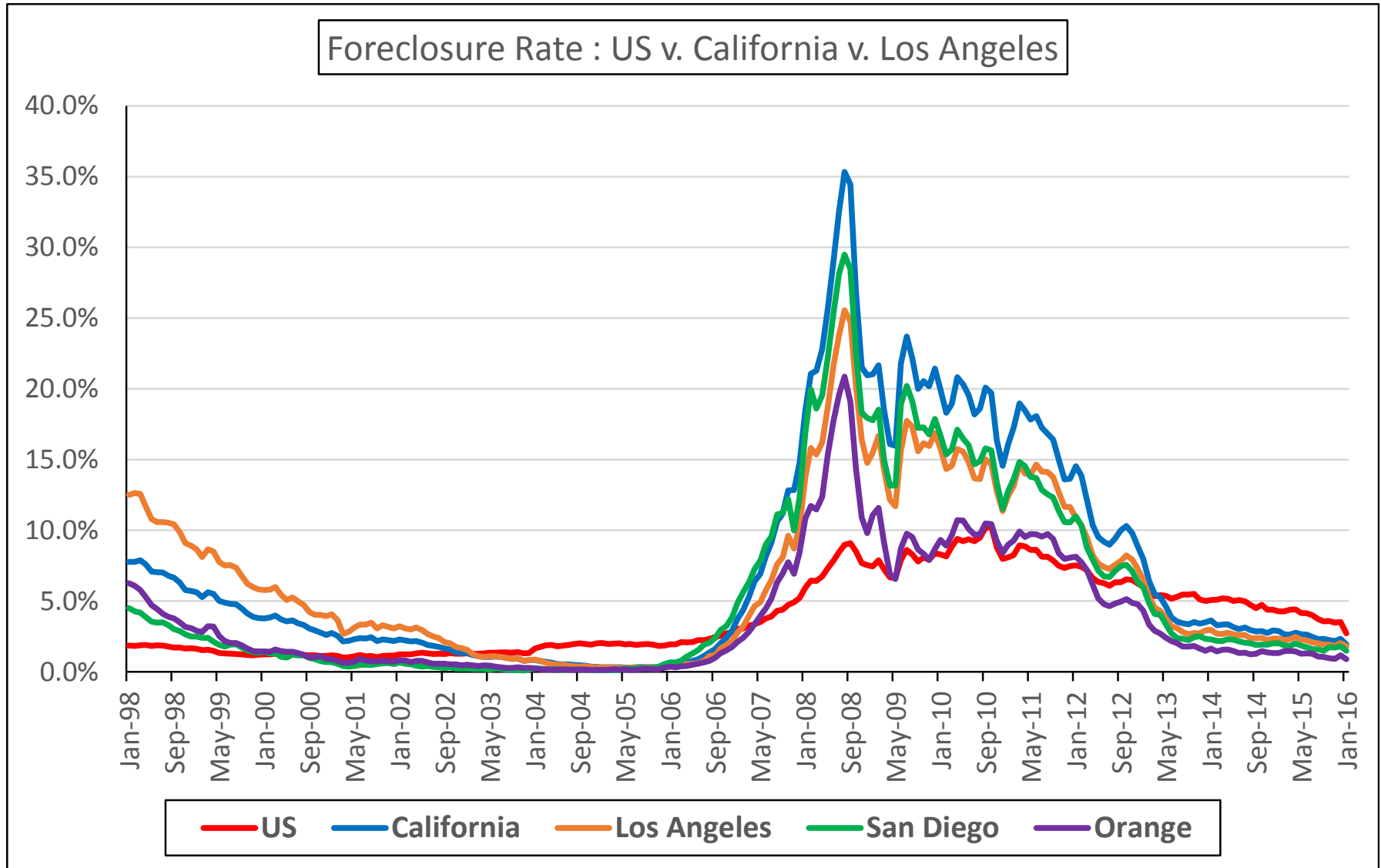
Orange New v. Existing Home Sales: 1999-2016



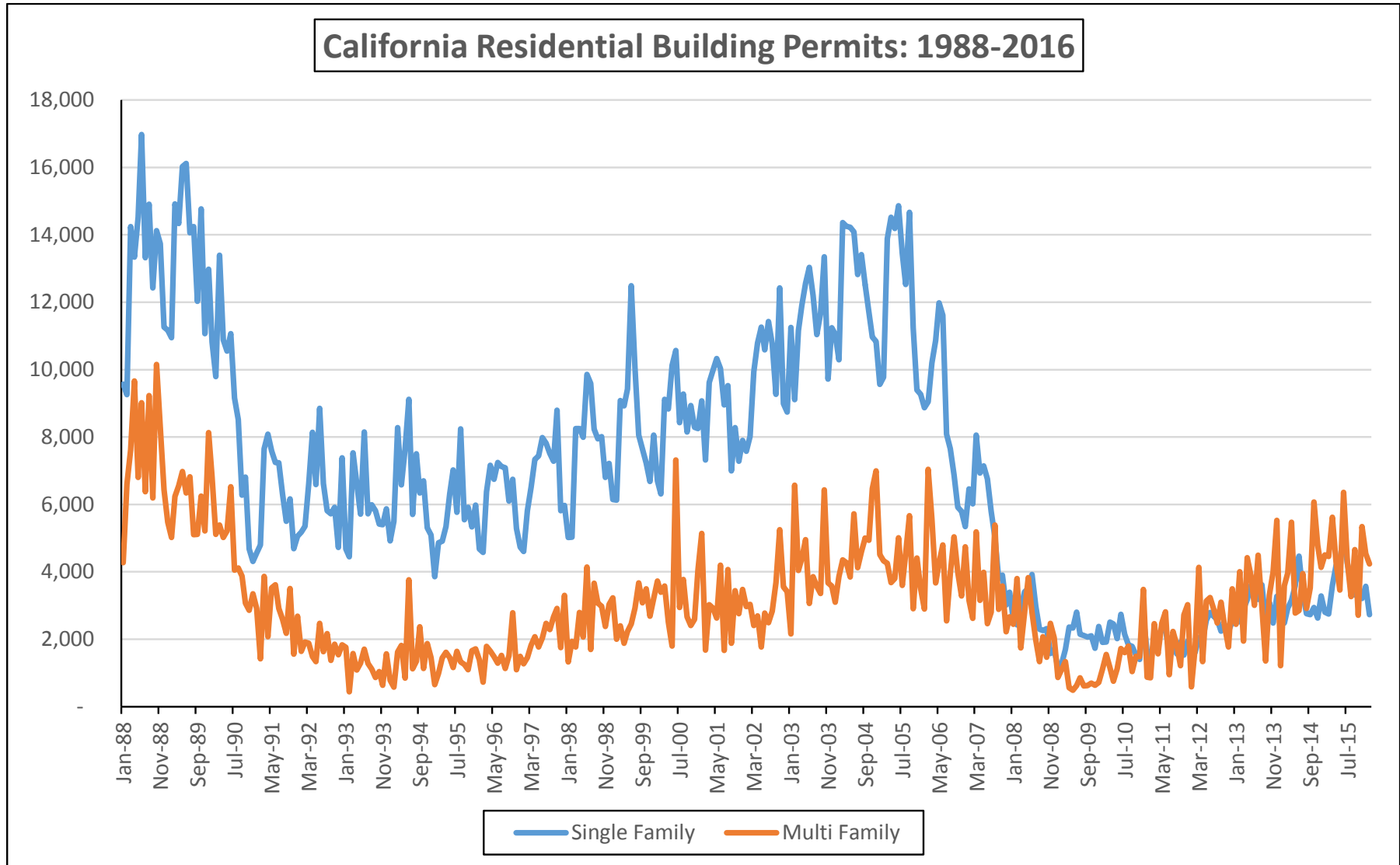
# Supply is Starting to Become an Issue:



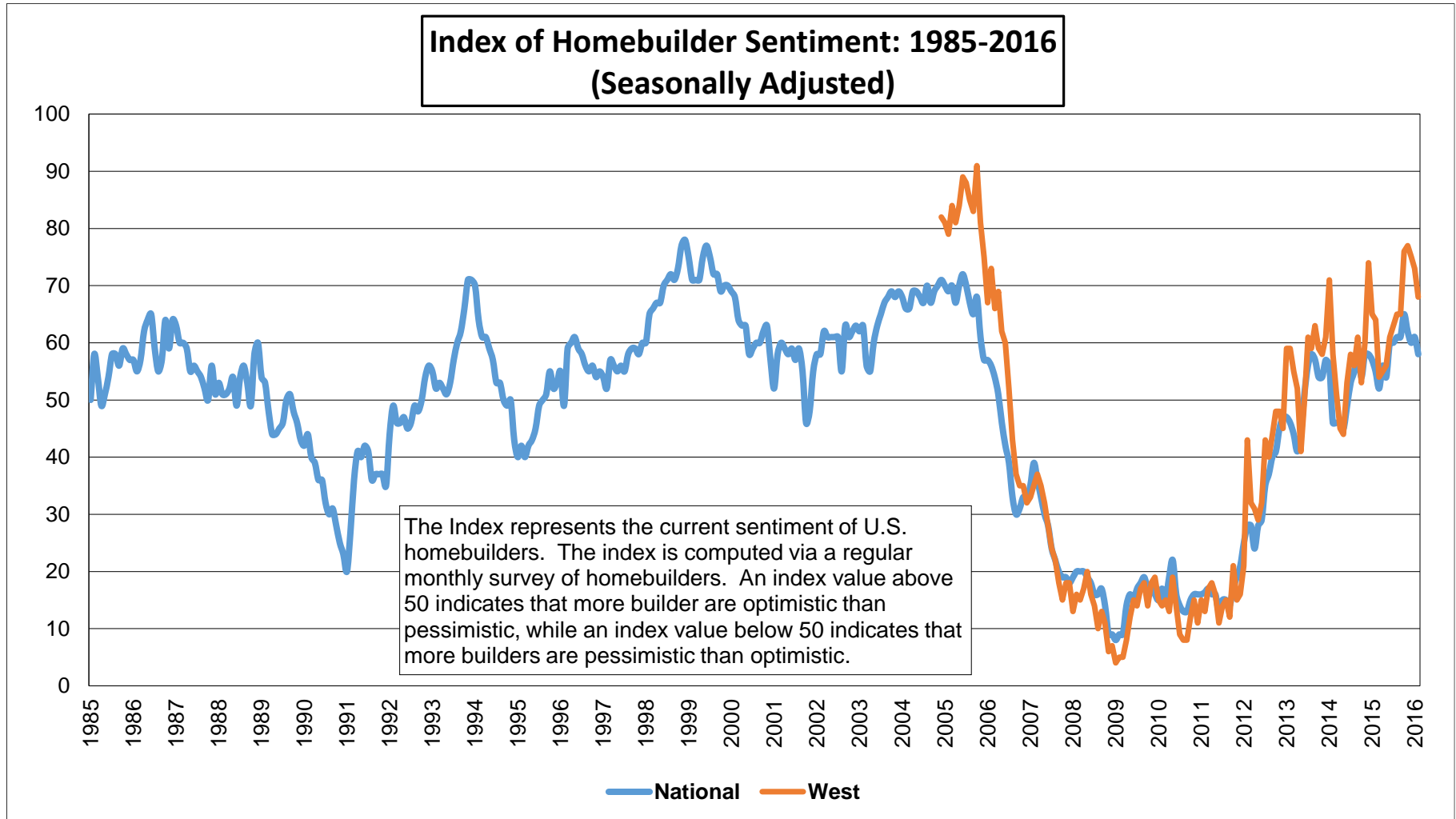
# Thankfully, Foreclosures No Longer a Major Issue:



# Multifamily Product Now Dominating New Construction:



# Homebuilder Sentiment Up Significantly:



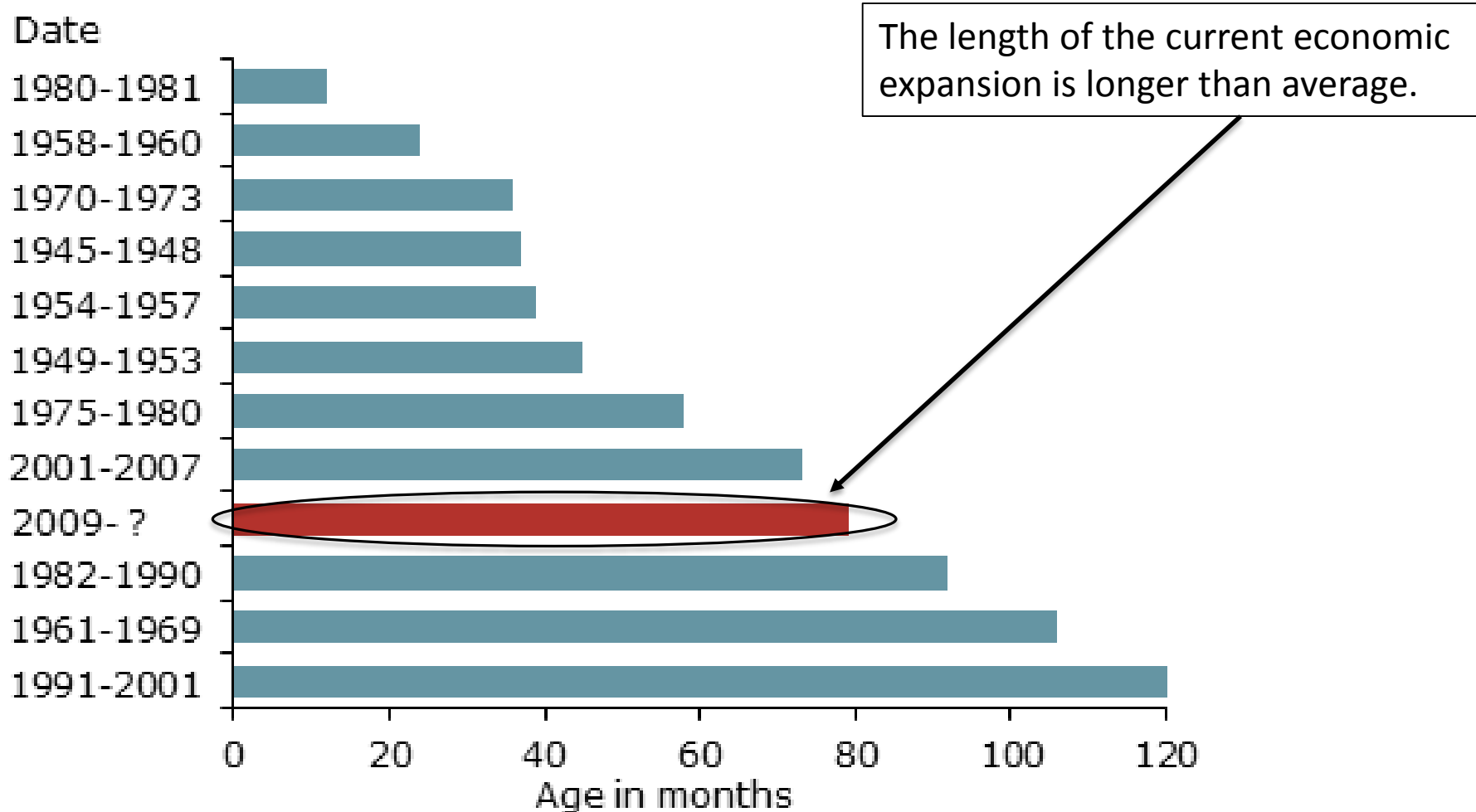
**WHERE DO WE GO FROM HERE?**

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# Will We Have Another Recession?

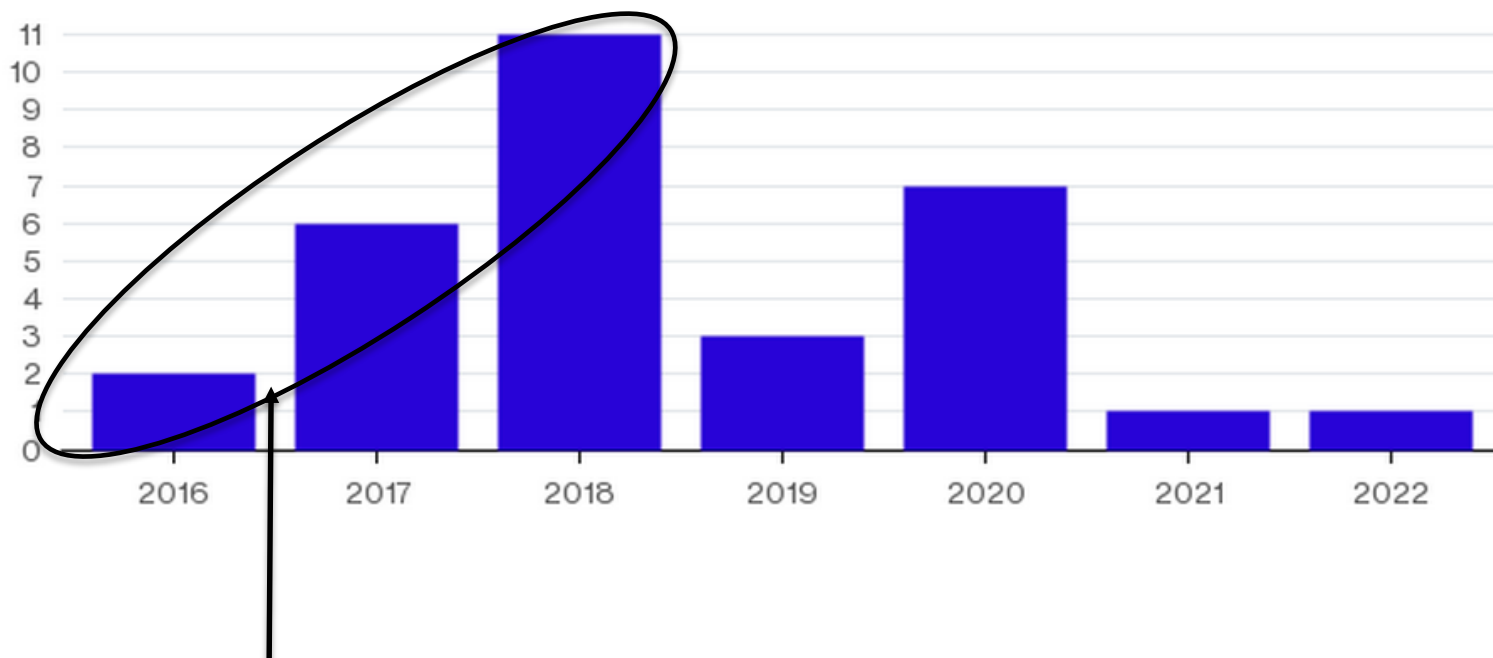
## Length of Postwar expansions:



# When Will We Have the Next Recession?

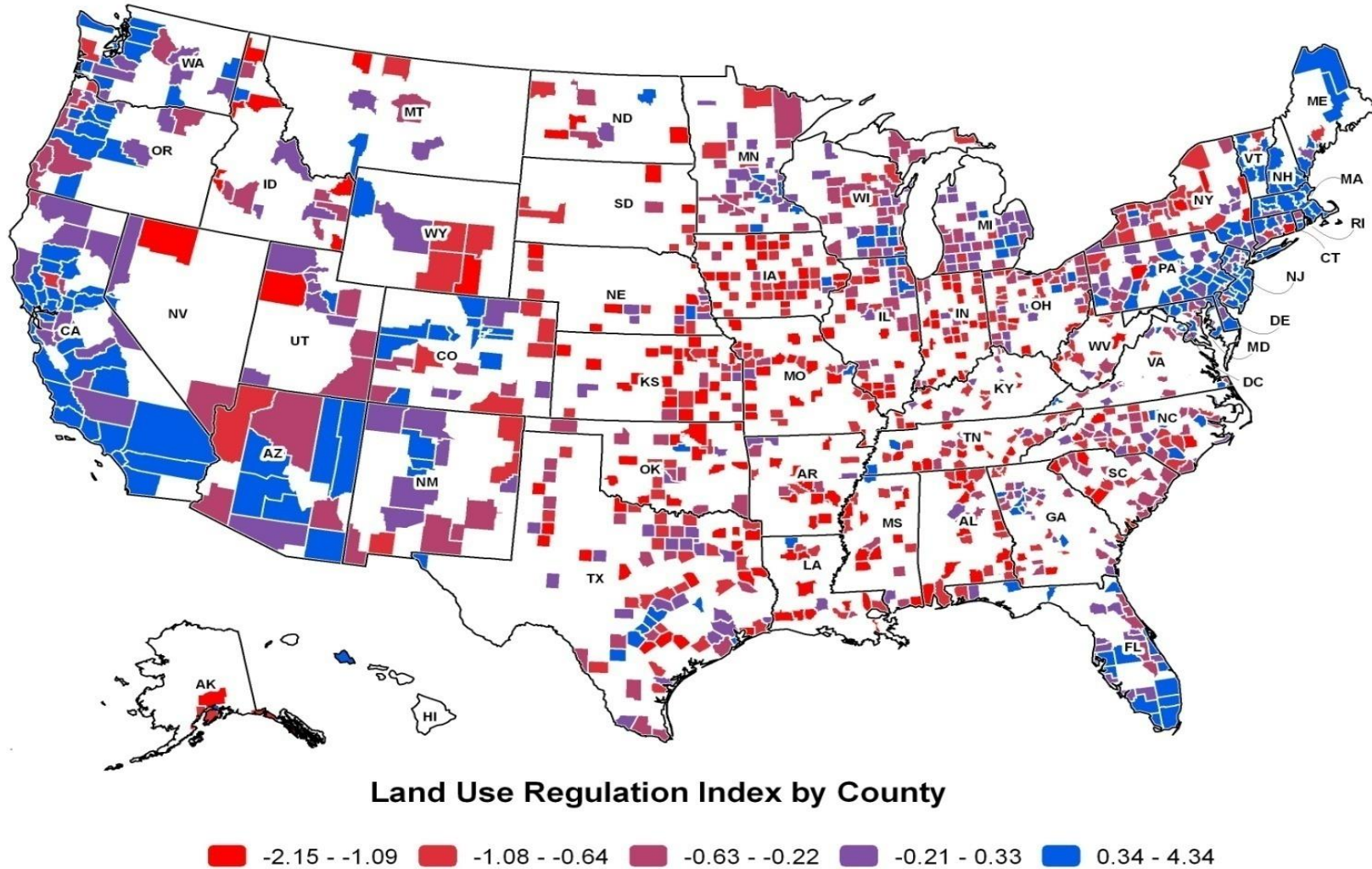
## Probability of Recession by Year, According to Survey of Economists

■ Number of economists



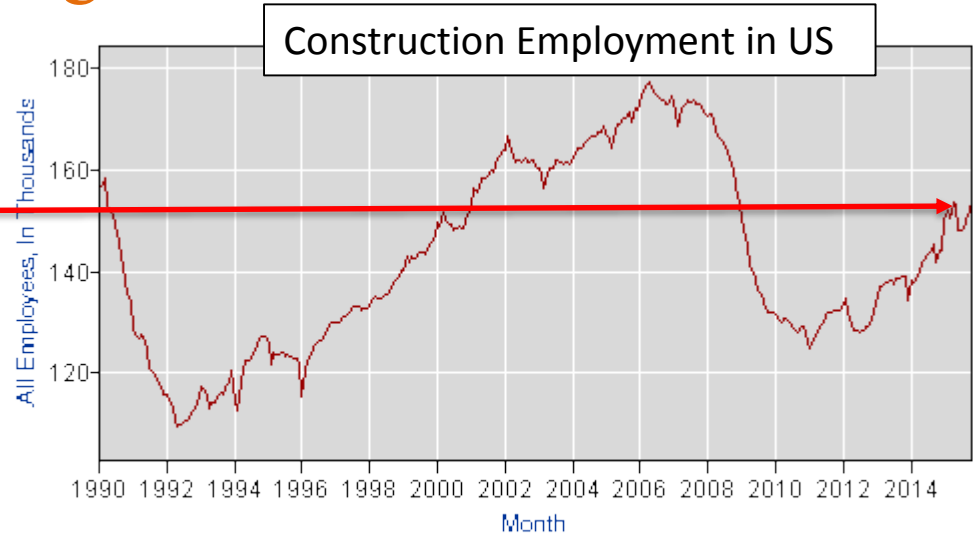
The majority of economists are predicting the next recession will begin sometime in next two years.

# A Major Structural Issue: Development Costs



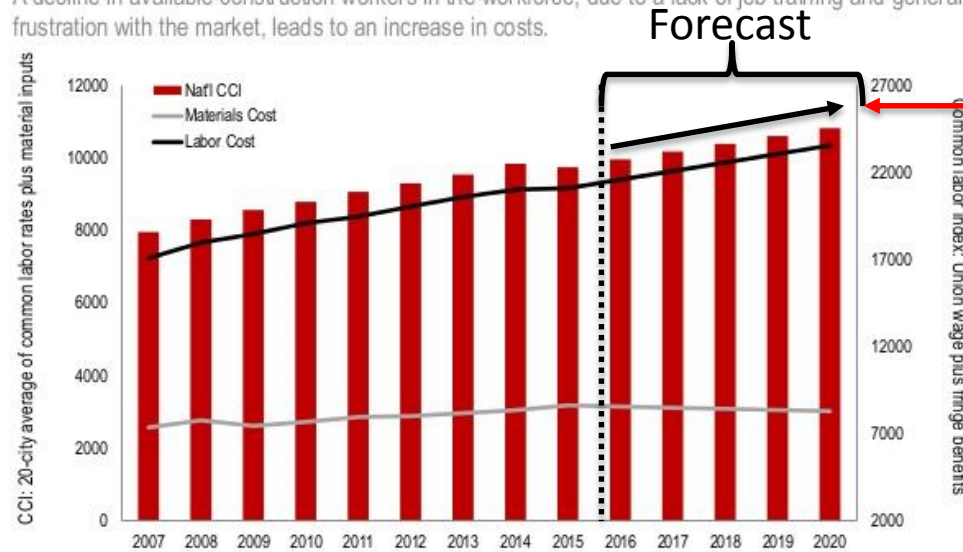
# Construction Costs Remain High... and Expected To Go Higher:

Current construction employment is at its historic average, so there is little slack in the labor pool of workers to draw from without putting further upward pressure on wages.



**Labor costs** are leading the growth in construction cost.

A decline in available construction workers in the workforce, due to a lack of job training and general frustration with the market, leads to an increase in costs.



Consequently, the forecast is for increased construction costs.

Source: JLL Research, ENR, Gilbane

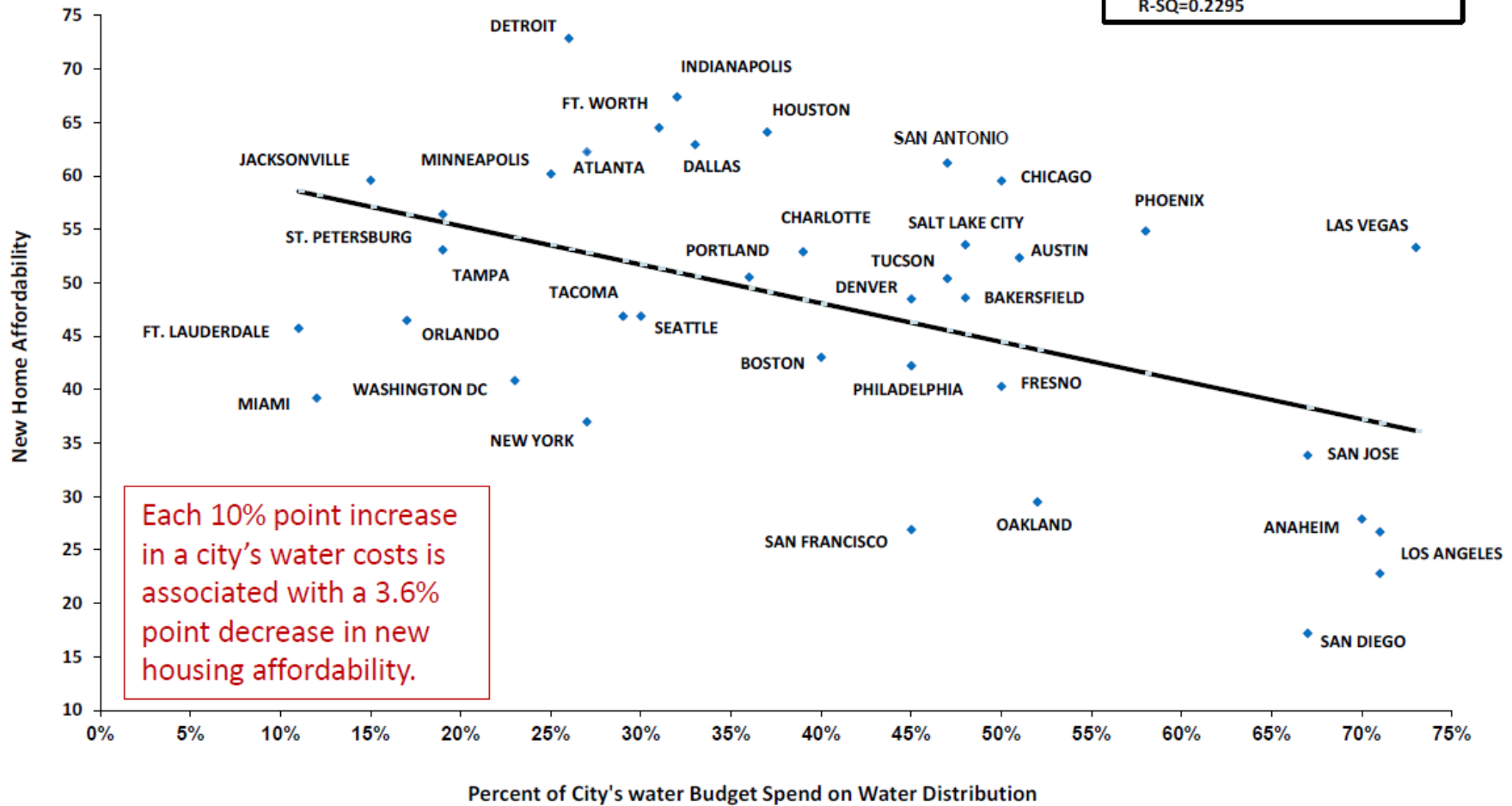
# Housing Affordability vs. Water Costs

New Home Affordability v. Cost of Water Distribution

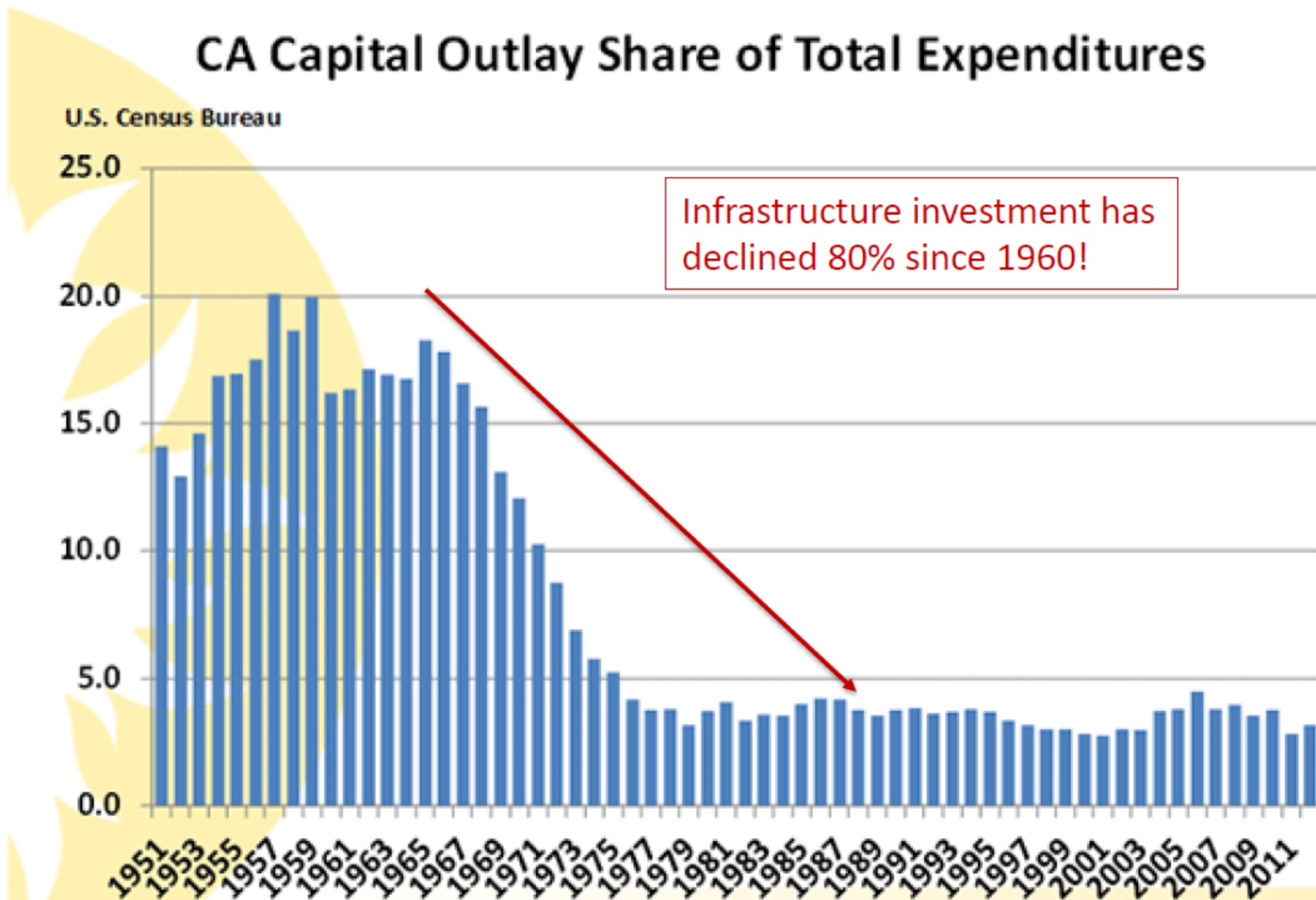
**REGRESSION RESULTS:**

$$Y = 62.53 - 36.14 * (\text{Pct\_Budget})$$

(12.89) (-3.27)  
R-SQ=0.2295

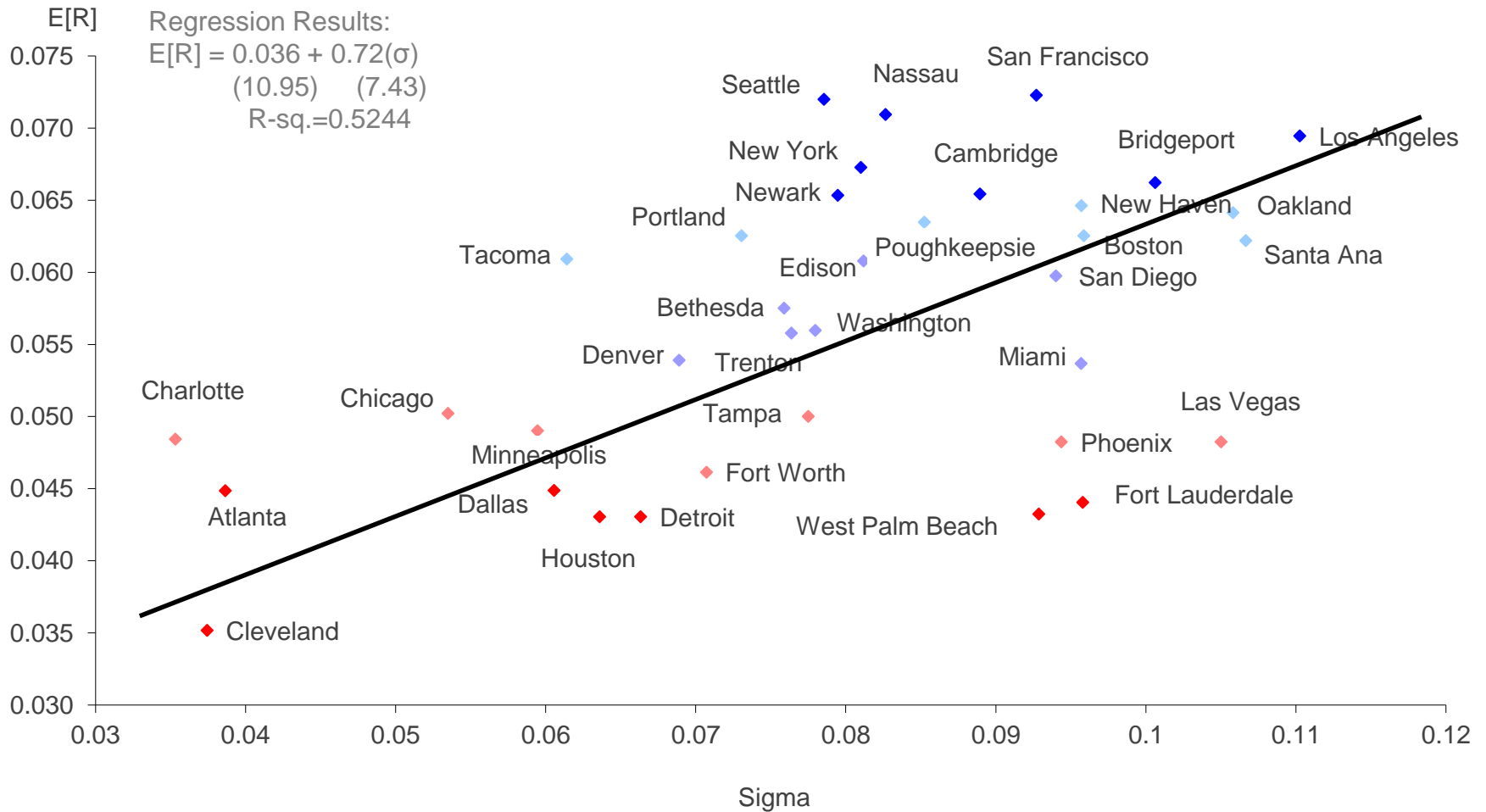


# California Used to Invest Quite Heavily in Water Infrastructure!



# Unaffordability Will Remain CA's Key Housing Issue

## House Price Return v. Risk by Metro Area





# Unaffordability: Why You Should Care

- **Short-Term**: Leads to higher municipal service costs, and eventually higher property taxes.
  - Municipal workers (police, fire, sanitation, school teachers) can't afford to live in the municipality that employs them.
- **Long-Term**: Leads to a contracting spiral of decline
  - As the municipality becomes less affordable, home sales drop, followed by population and employment declines, tax base contracts, quality of public services erodes...leading to further population and employment losses...and further tax base contraction.
  - Very difficult to reverse this spiral (ask Detroit).



## Summary and Conclusions

- GDP Growth and House Price Appreciation expected to continue, but at a decreasing rate.
  - 2016 expected to be a decent year...BUT:
  - We are closer to the next recession than we are from the previous one.
- Will still be several years before housing has completely recovered from the last recession.
  - Prices are there, but jobs and new home sales are not.
  - Rising interest rates and labor costs plus next recession won't help.
  - =>Plan accordingly!
- You can't do much about national cyclical factors, but you can address local structural issues.
  - Drought and high water costs are avoidable.
  - Bring rationality to land use policy...get involved!

# Thank You!

For further information, please contact:

**Kevin Gillen, Ph.D.**

Chief Economist, Meyers Research LLC

[kgillen@meyersllc.com](mailto:kgillen@meyersllc.com)

215.880.6630