



BEACON ECONOMICS

Analysis. Answers



Riverside County Assessed Valuation Forecast May 2014

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The Big Picture

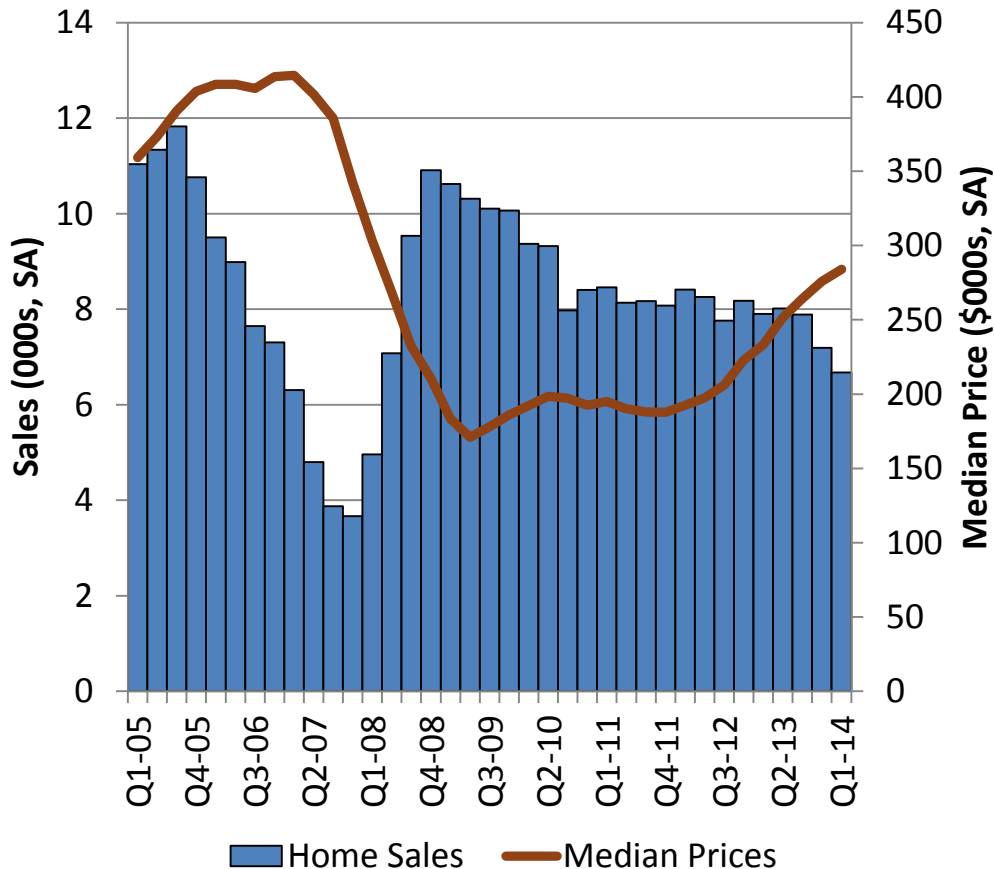
- **Slow but steady acceleration in growth**
 - 1st quarter GDP not representative of better fundamentals
 - California in top 10 states for growth
 - Swing items for 2014: Housing, Exports, CapEx
- **Riverside County has turned the corner**
 - 3.5% job growth in the region, unemployment falling even faster
 - Diverse group of industries driving economy forward
 - Relative affordability suggests reemergence of pre-great recession growth trends

Factors directly affecting AV

- **Proposition 13**
 - AV increases for properties that do not sell/improve
- **Proposition 8**
 - Recapturing AV that was reduced during the recession
- **Property sales and price appreciation**
 - Reassessments to properties that change hands
 - Distress vs. Normal sales
- **New additions to the stock**
 - Residential and nonresidential permits/construction

Price moving forward, faster than most

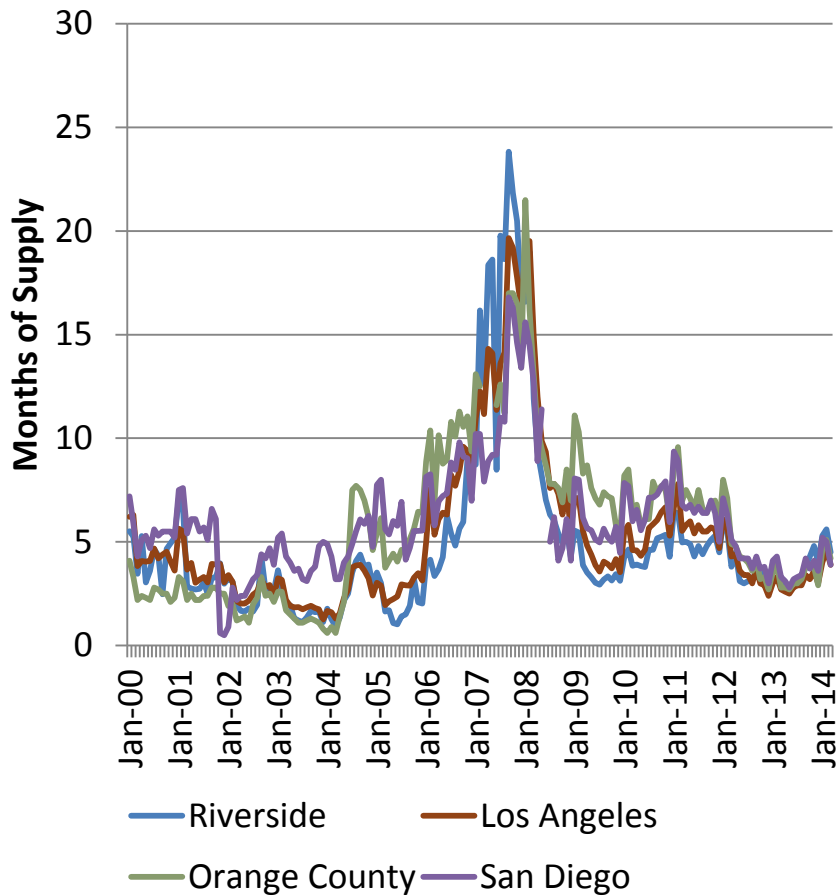
Riverside County Housing Market



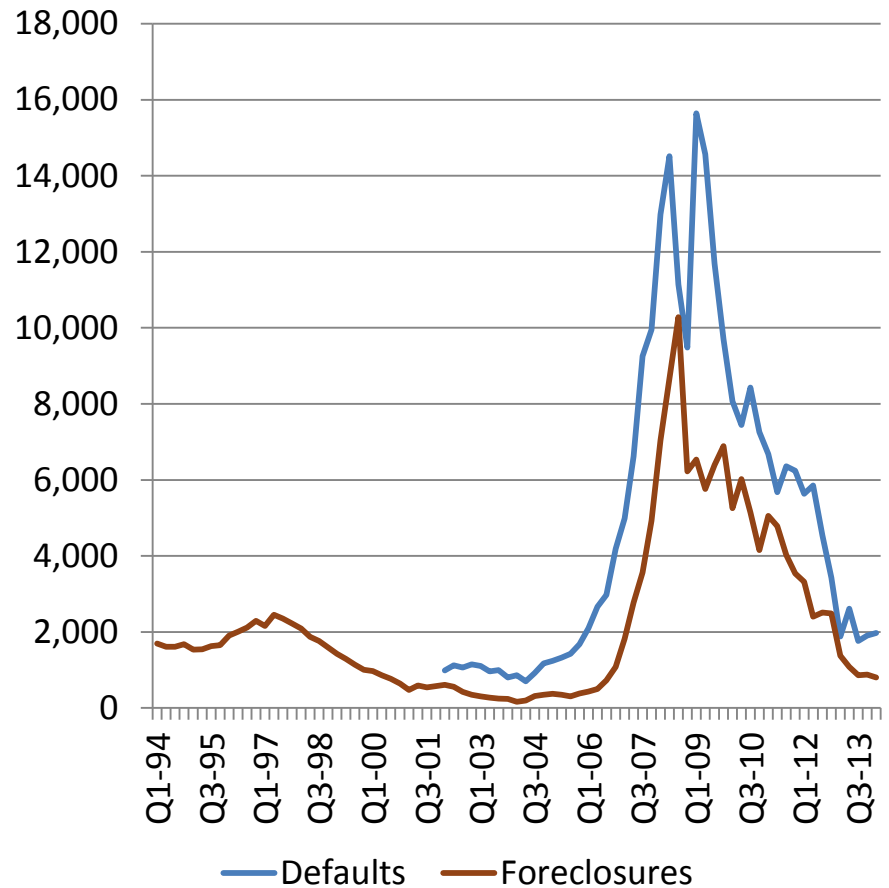
County/MSA	2014-Q1	Year over Year (%)
Prices		
Monterey	418,714	27.5
Riverside	283,930	21.8
Los Angeles	462,260	19.5
Santa Barbara	454,337	17.7
San Luis Obispo	476,206	17.5
San Francisco MD	946,568	17.4
San Diego	469,974	16.3
Orange County	638,679	14.4
South Bay	765,653	13.6
Sales		
San Luis Obispo	712	-8.1
San Francisco MD	2,690	-10.3
South Bay	3,021	-11.2
Los Angeles	12,875	-15.1
Riverside	6,678	-15.5
Orange County	4,998	-15.8
San Diego	5,757	-16.3
Santa Barbara	631	-22.2
Monterey	562	-33.0

Sales weak, but inventories tight

Housing Inventory



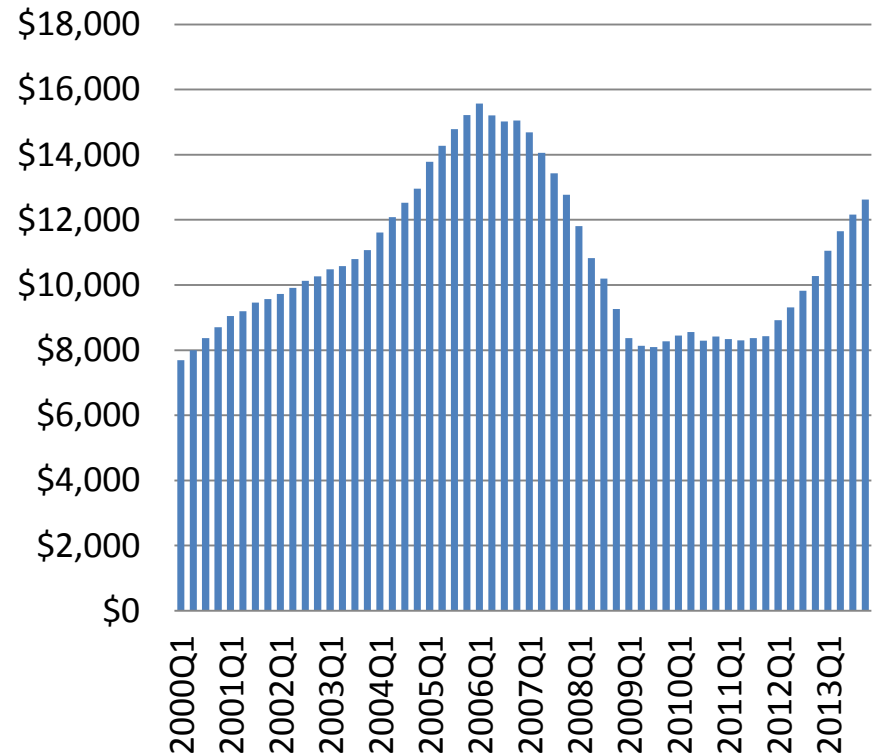
Riverside Co. Distressed Mortgages



The change nature of sales

City	Q1-2013	Q1-2014	Change (%)
Defaults			
Riverside	279	260	-6.9
Corona	210	212	0.7
Murrieta	113	122	8.2
Temecula	95	104	9.5
Perris	91	102	12.6
Moreno Valley	163	191	17.1
County Total	1,879	1,969	4.8
Foreclosures			
Perris	56	28	-49.7
Murrieta	82	44	-46.8
Riverside	179	100	-44.4
Moreno Valley	122	70	-42.8
Corona	94	59	-37.7
Temecula	58	40	-31.1
County Total	1,379	801	-41.9

National Home Equity



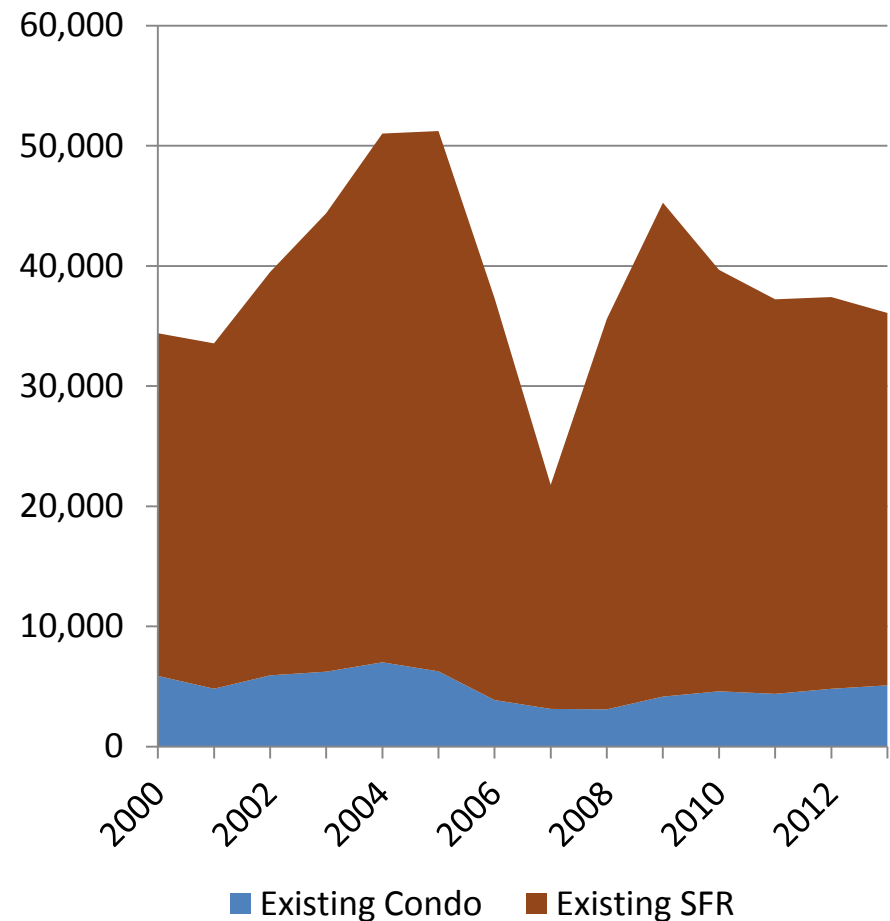
Share of underwater homes:
35% Q3 12 to 20% Q3 13

Many homes have turned over

Not quite as high as bubble, but still high

- Last 3 years
 - 110,000 SFR/Condo sales
- Since 2009:
 - Nearly 200,000 sales
- Represents ~15% of occupied units
 - Subject to reassessment
- Prices up by ~66% during same time

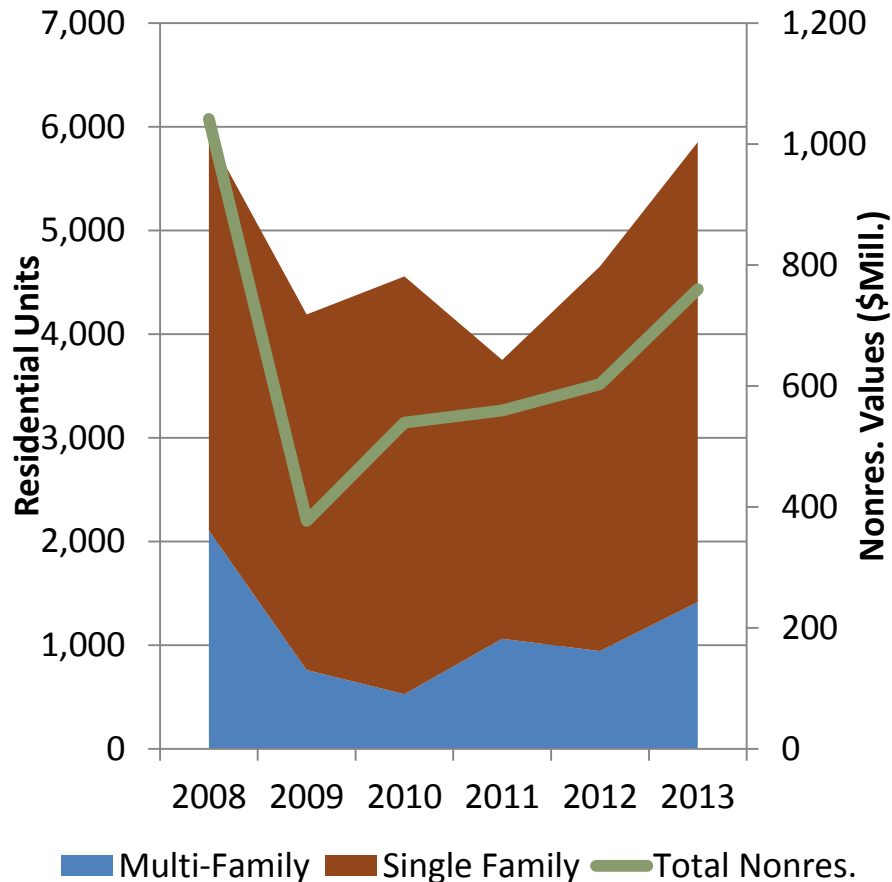
Riverside Co. Existing Home Sales



Stock of property is growing

Growth continues in unincorporated areas as well

Riverside Co. Building Permits



Submarket	2013 YTD	2014 YTD
Multi-Family		
Coachella Valley	2	4
SW Riverside	288	203
Mountains	0	0
Corona/I-71	0	42
City of Riverside	0	0
Uninc.	0	0
Other	0	0
County Total	290	249
Single-Family		
Coachella Valley	219	344
Uninc.	150	192
City of Riverside	51	50
Mountains	19	15
Other	268	144
Corona/I-71	143	74
SW Riverside	277	110
County Total	1,127	929

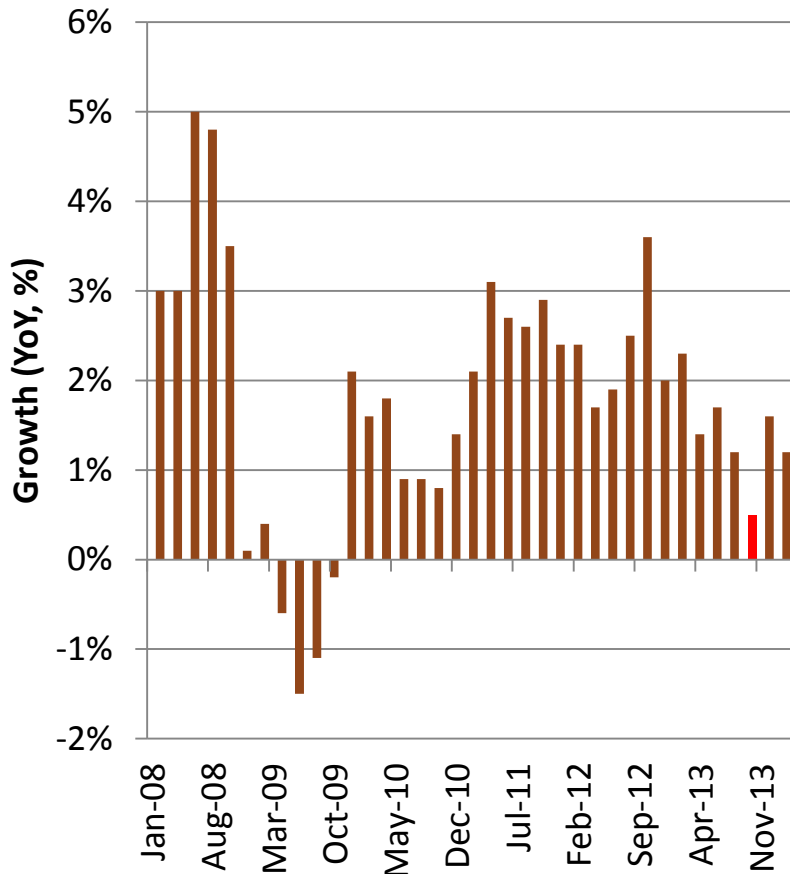
Nonresidential signs of life

Permit Type	2012 (\$000s)	2013 (\$000s)	Change (%)	2014 (Mar. YTD. \$000s)
New Commercial	374,121	157,305	-58.0	46,186
Office	173,743	47,372	-72.7	5,435
Retail	173,424	88,248	-49.1	33,456
Hotels	1,000	3,586	258.6	3,500
Industrial	26,433	140,972	433.3	11,711
Alts./Additions	169,499	427,056	152.0	89,820
Total Nonres.	602,637	760,335	26.2	170,392

CPI growth weak, but not for long

Should be offset by other factors over short run

California CPI-U

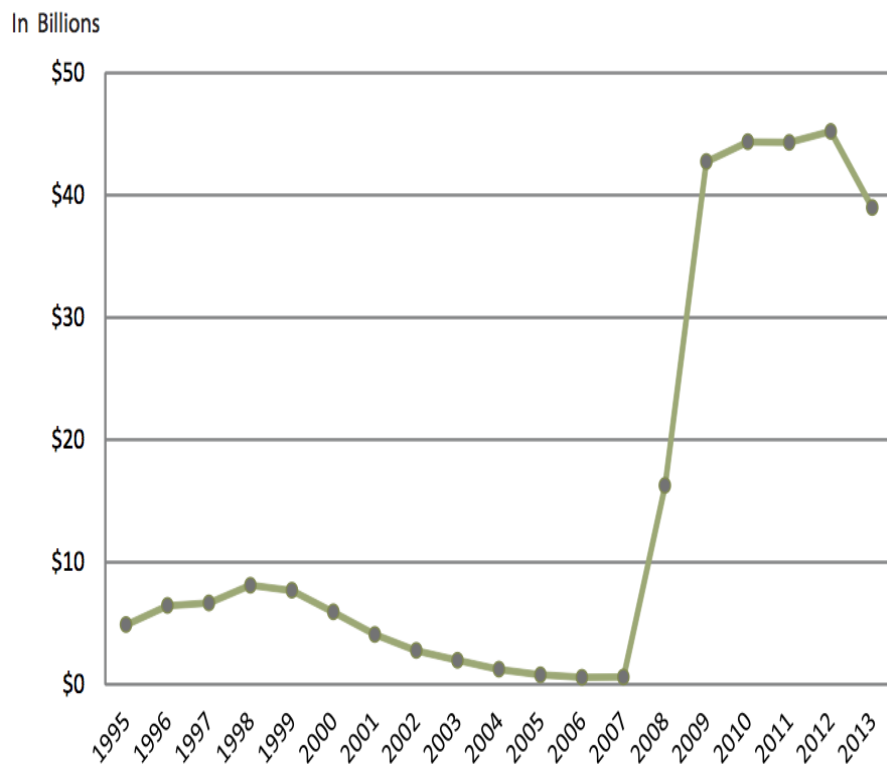


- **CPI Growth**
 - ~0.5% for 2014-15
- **Weak Oct-to-Oct.**
 - Stands out as below avg.
 - Permanent hit to roll
- **Future looks better**
 - Already growing faster
 - 2% should kick in by 2016

YoY Chg. in _:	10/1/13	10/1/14	10/1/15	10/1/16	10/1/17
Fiscal Year	2014-15	2015-16	2016-17	2017-18	2018-19
CCPI-U	242.633	246.538	250.983	256.291	262.076
CPI Growth %	0.45%	1.61%	1.80%	2.11%	2.26%
Prop. 13 %	0.45%	1.61%	1.80%	2.00%	2.00%

Proposition 8 reductions to AV

Total Prop 8 Value Reductions



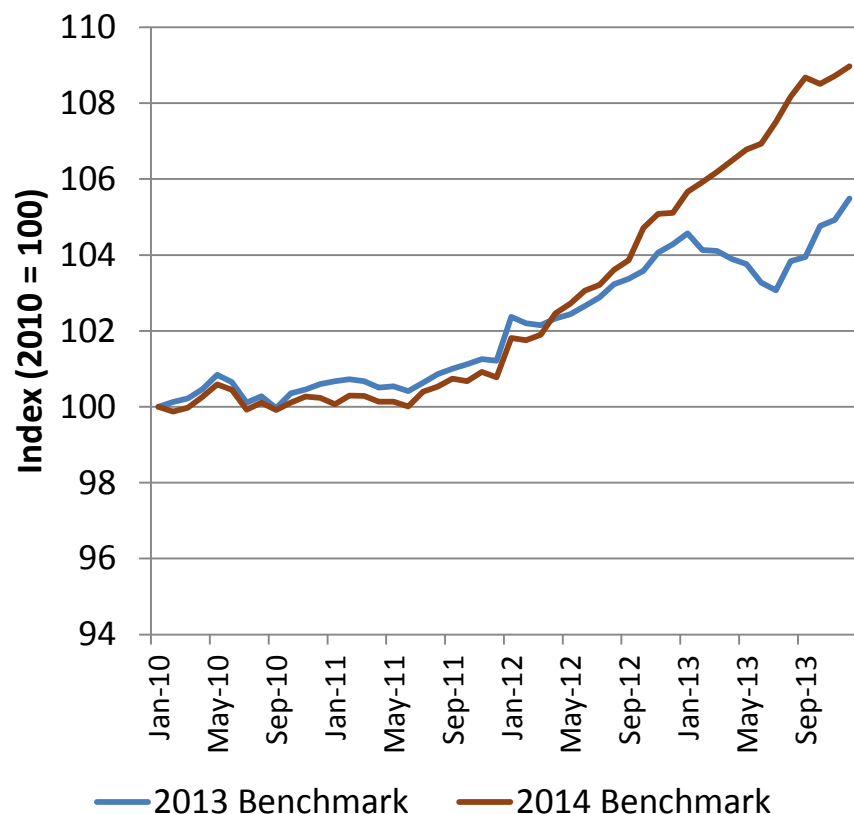
- Prop. 8 property
 - Previously reduced
 - **Not limited by CPI**
- Prices:
 - Rising by 20% +
- Back to Prop. 13 value at faster rate
- Value of Prop. 8 reductions already falling in 2013-14

Factors indirectly affecting AV

- Labor market recovery
 - Boosts demand for housing/home sales
- Relative housing affordability
 - Bolsters local population growth
- Demographic shifts: high-skilled commuters
 - Tend to be higher-income relatively
- Home ownership should start to turn
- Interest rates remain low historically
- Overall res. vacancy: not enough housing

Labor market: better than we were told

Inland Empire Employment Revisions



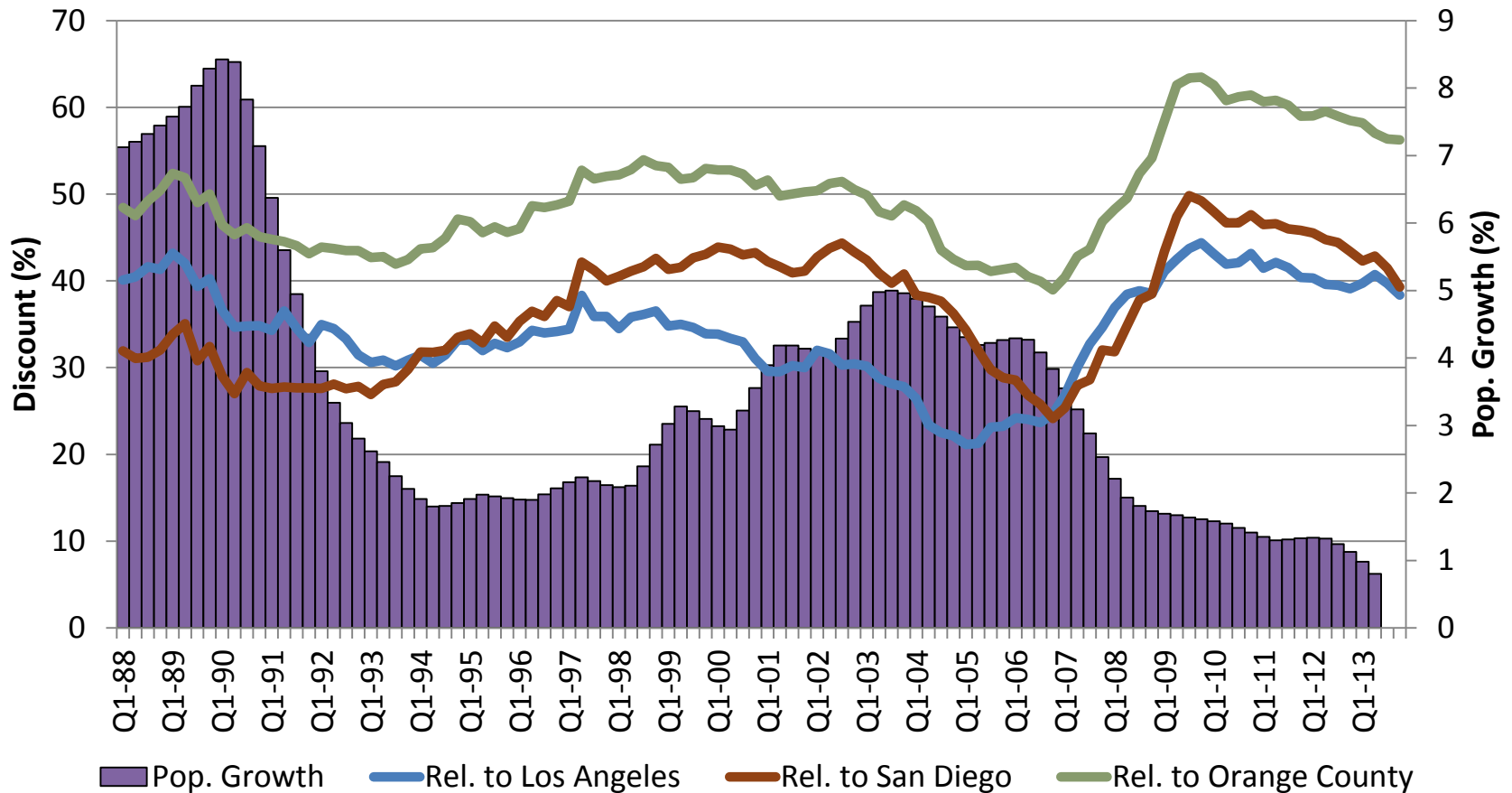
California Benchmark Employment Revisions by Metro

Location	Difference in December 2013 (000s)	Dec-12 to Dec-13 (%)	
		2013 Benchmark	2014 Benchmark
Los Angeles (MD)	199.5	1.2	1.9
Inland Empire	63.6	1.2	3.7
Oakland (MD)	50.6	0.2	2.4
San Francisco (MD)	45.9	2.6	3.6
Sacramento	32.6	2.1	2.7
San Jose	30.7	3.4	4.5
San Diego	28.1	1.8	1.6
Fresno	22.8	1.0	4.4
Orange County	20.4	2.4	2.0
Stockton	7.8	1.7	2.6
Modesto	7.7	0.9	2.7
Santa Rosa	7.7	2.7	3.8
El Centro	4.8	3.0	4.2
Chico	4.4	2.3	3.6
Visalia	3.9	0.0	2.1
Bakersfield	3.6	2.5	1.8
California	555.8	1.6	2.6

Note: Numbers represent totals and include the addition of home healthcare workers as a new EDD job category.

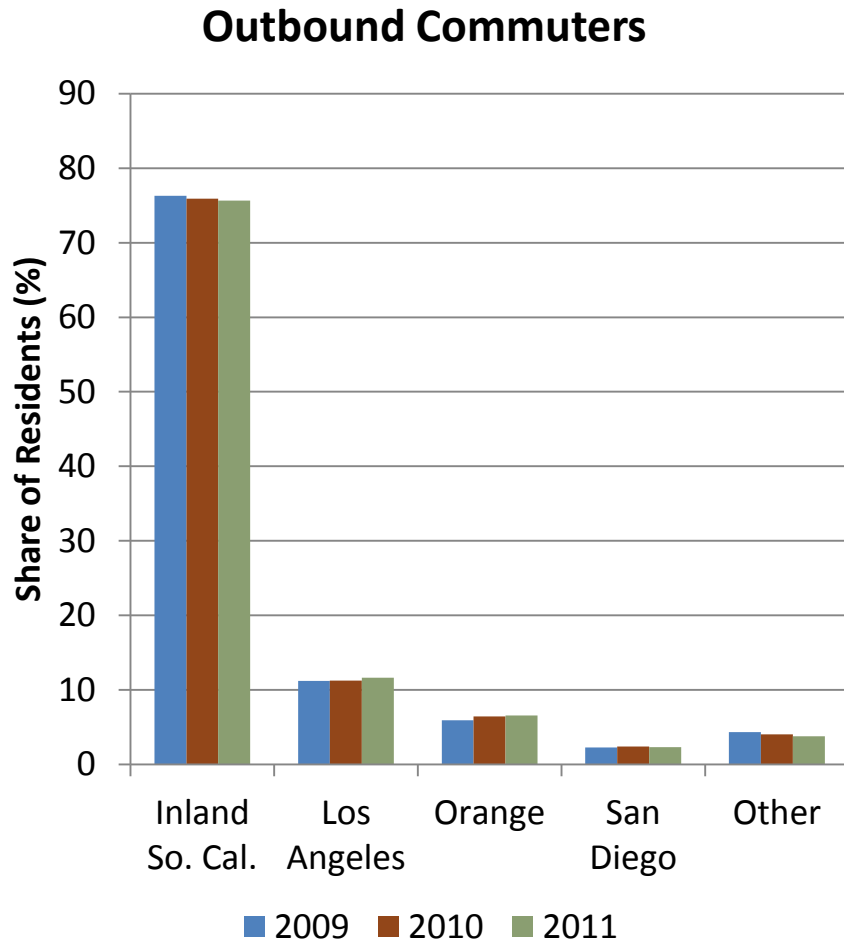
Relative affordability and pop. growth

Riverside Housing Discount



Attracting high-skilled commuters

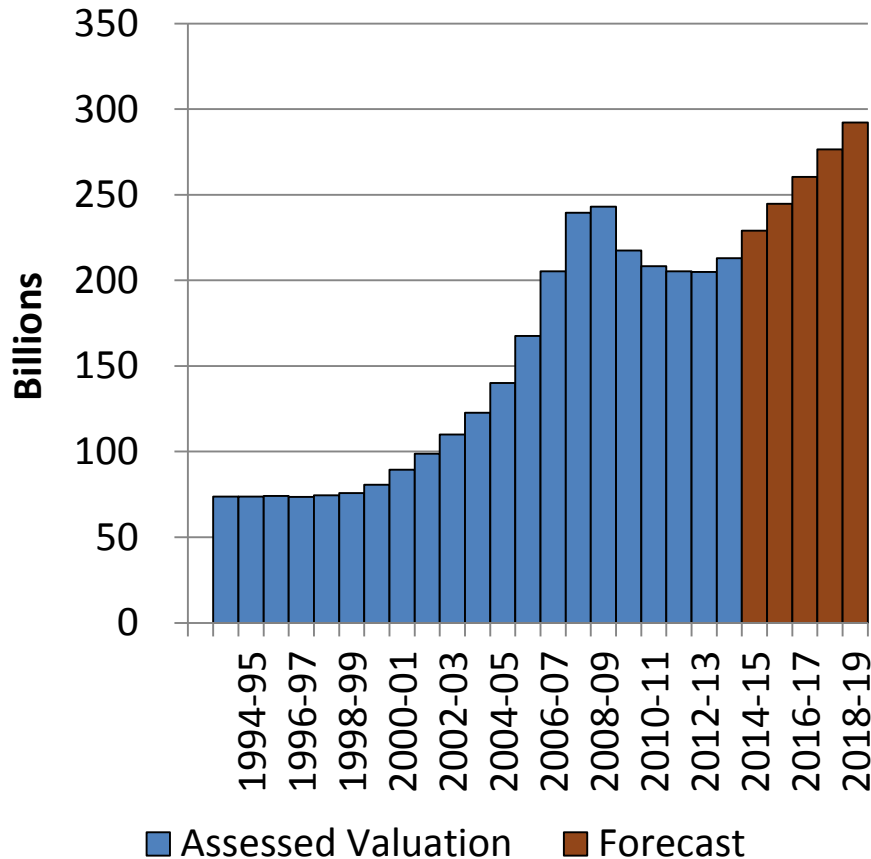
Demand for housing, higher prices, more construction



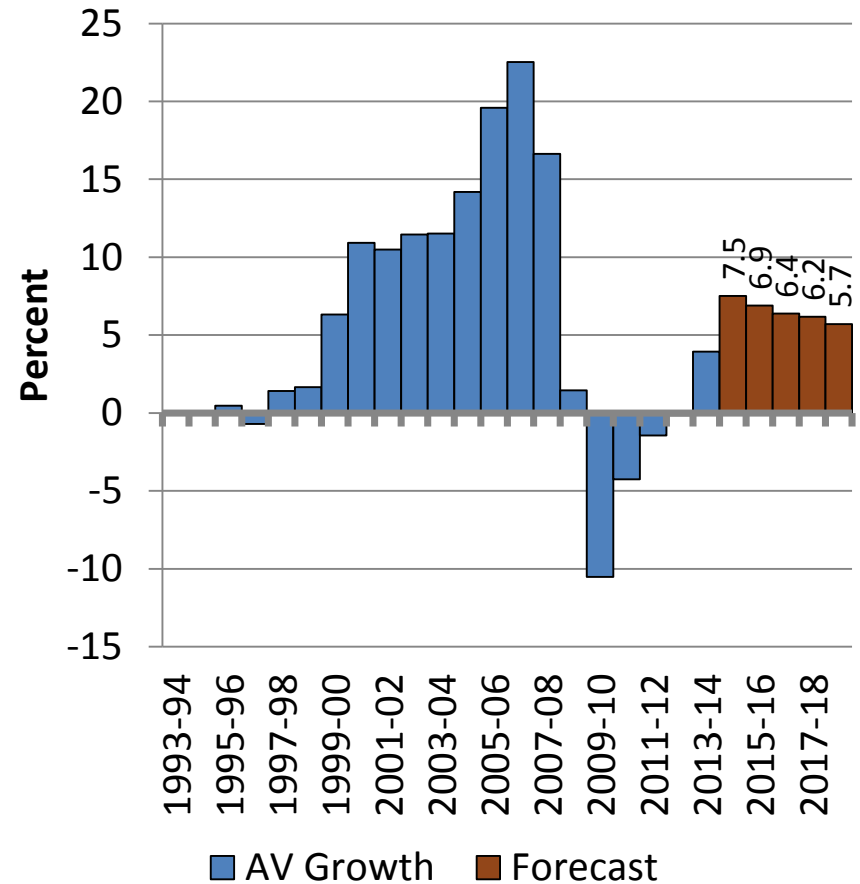
Occupation	RSB	Other
Protective Service	56.6	43.4
Architecture/Engineer.	57.3	42.7
Computer/Math.	62.6	37.4
Construction	63.0	37.0
Science	67.5	32.5
Business/Financial	67.8	32.2
Management	69.7	30.3
Healthcare Practicioners	77.8	22.2
Education	80.5	19.5
Sales	80.9	19.1
Personal Care	82.9	17.1
Cleaning/ Grounds Keeping	85.9	14.1
Food Prep./Serving	89.0	11.0

The forecast

Assessed Valuation



Assessed Valuation Growth



So what does it mean?

- **Local property market continues to improve**
 - Prices are rising by over 20% for two years running
 - Over 15% of the housing stock has turned over in past 3 years
 - Distressed units falling by > 50%, not shadow inventory issue
 - Housing market remains very tight
 - Low vacancy (long-run issue)
 - Less than 5 months of supply (short-run issue)
 - Spurring new construction activity
 - Both the res. and nonres. sides of the market
 - Occurring all across the county—not isolated to one particular market
 - Prop. 13 CPI growth has been weak, but will begin to pick up
 - Prop. 8 reductions will continue to be reversed
- **Economy also improving, will bolster local AV**
 - Labor markets much better than we initially heard
 - Relative affordability near all-time highs
 - Will spur more population growth
 - High-skilled commuters will continue to have a positive influence



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