



2012 California Commercial Real Estate Market Forecast

**California Association of REALTORS®
Commercial Wednesday (San Jose, Ca)**

September 21, 2011

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California Association of REALTORS®



Overview

- **US and California Economies**
- **California Housing Market**
- **Commercial Markets**
 - Industrial
 - Retail
 - Office
 - Multifamily
- **Forecasts**

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WHAT'S NEW

The Sales-to-List Price Ratio:
California home sales were weaker than expected in July as economic uncertainty continued to have a negative impact on consumer confidence. [MORE >](#)

July Pending Home Sales
California pending home sales dipped in July, as did the share of sales of distressed properties, C.A.R. reported today. [MORE >](#)

July sales and price report
California home sales decline in July, but still higher than a year ago, C.A.R. reports. [MORE >](#)

Downgrades, Debt Concerns, and the Impact on Mortgage Rates
All of the headlines, the problems with U.S. Treasuries, the debt crisis here and abroad are adding another layer of uncertainty to an already uncertain marketplace right now. [MORE >](#)

C.A.R. Q2 Housing Affordability Index
Higher home prices reduce housing affordability throughout most of California. C.A.R. reports.

QUICK LINKS

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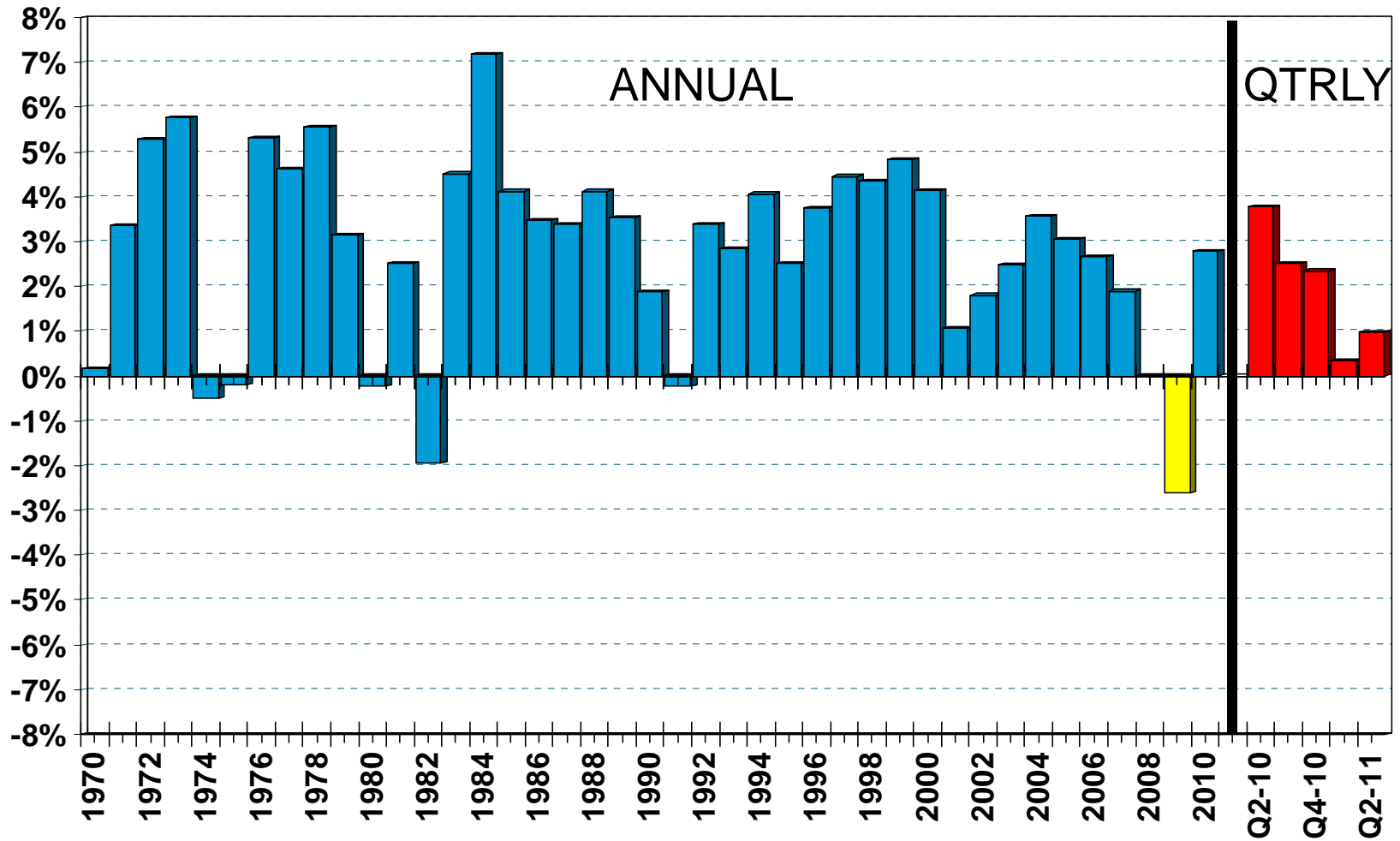
The Big List - 145 C.A.R. member benefits! [See All >](#)

US and California Economic Conditions

Gross Domestic Product

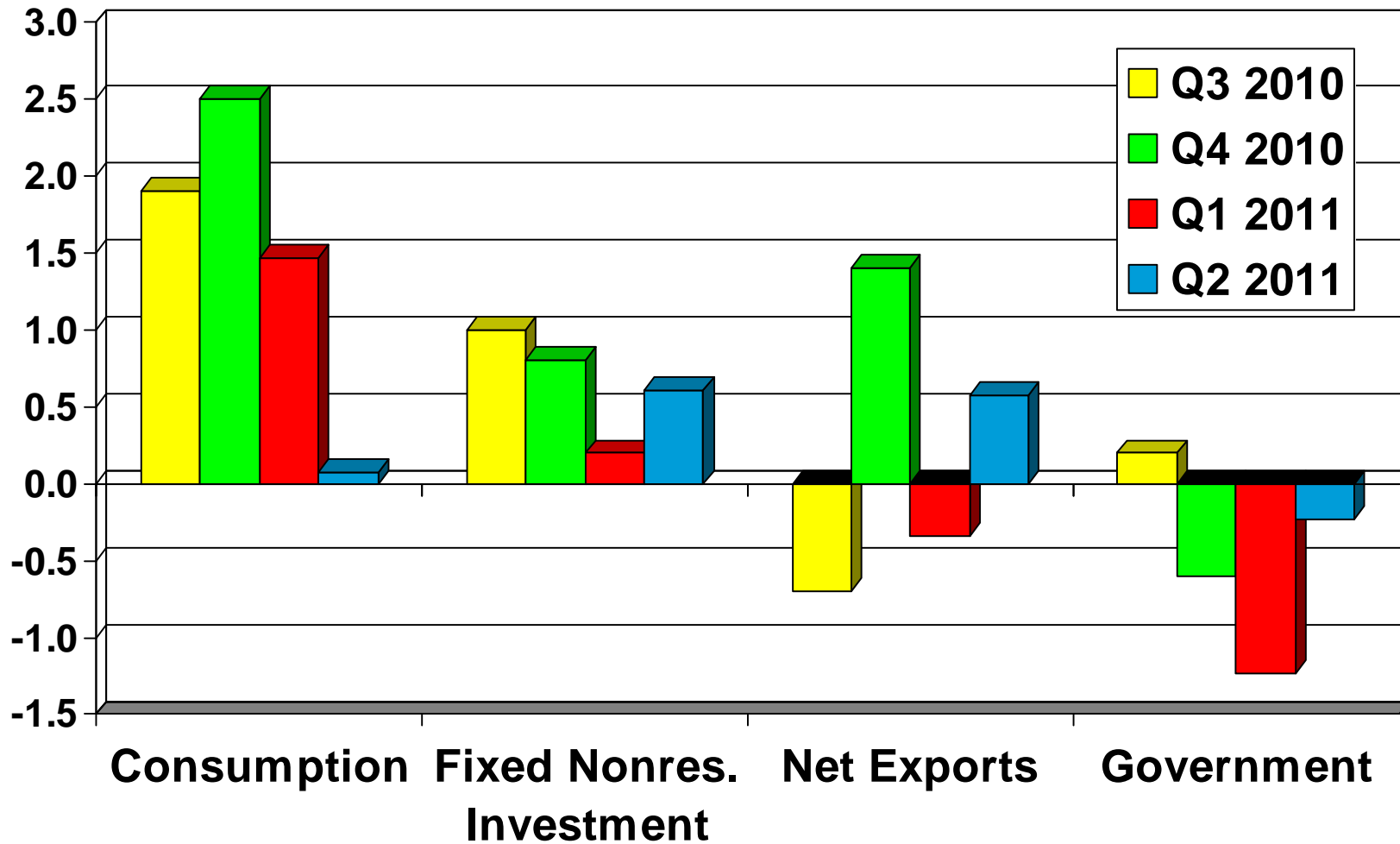
2010: 2.8%; 2011 Q2: 1.0%

ANNUAL PERCENT CHANGE, CHAIN-TYPE (2005) \$



Components of GDP

Percent Change

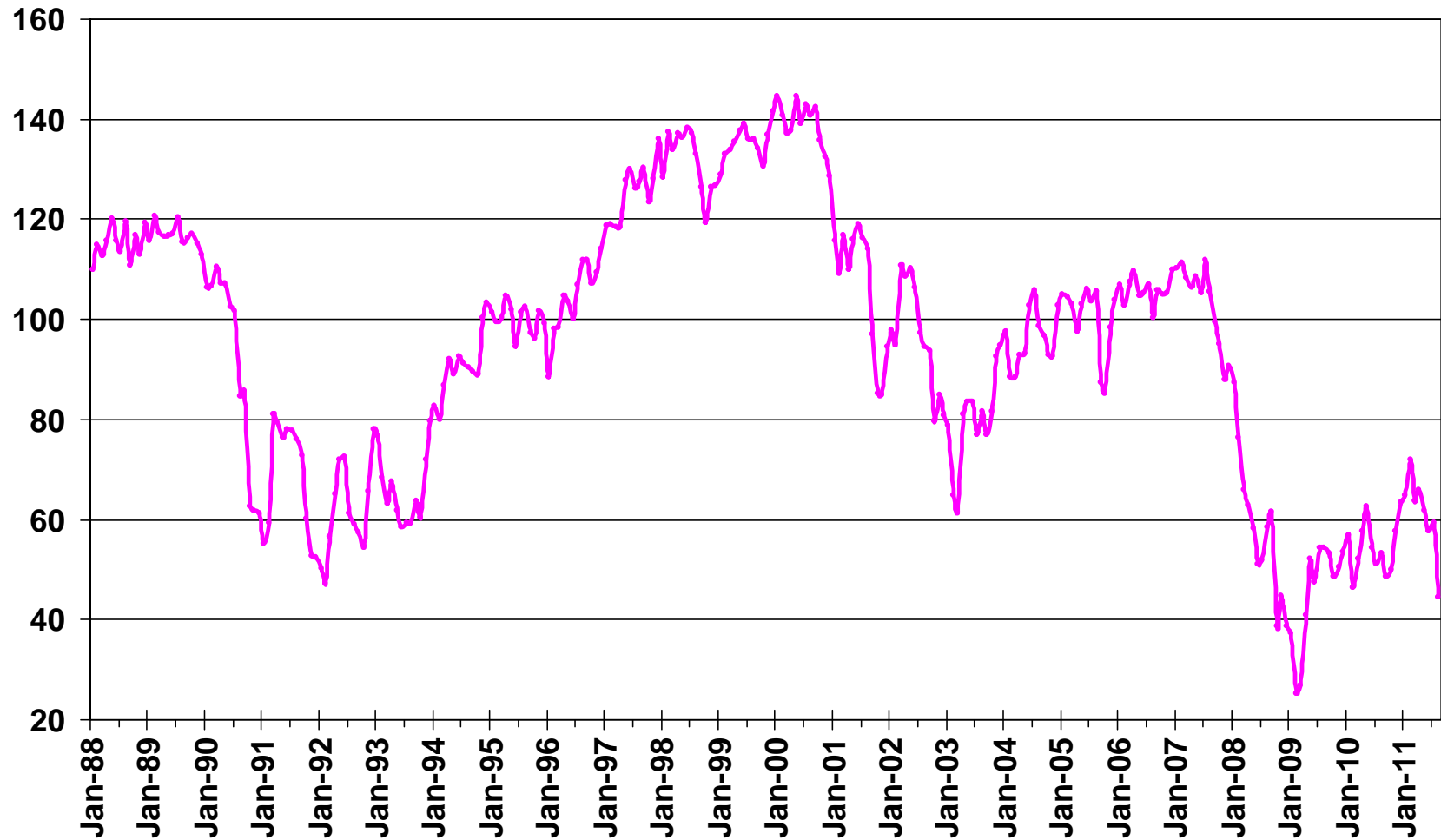


SOURCE: US Dept of Commerce,
Bureau of Economic Analysis

Consumer Confidence Index

August 2011: 44.5

INDEX, 100=1985

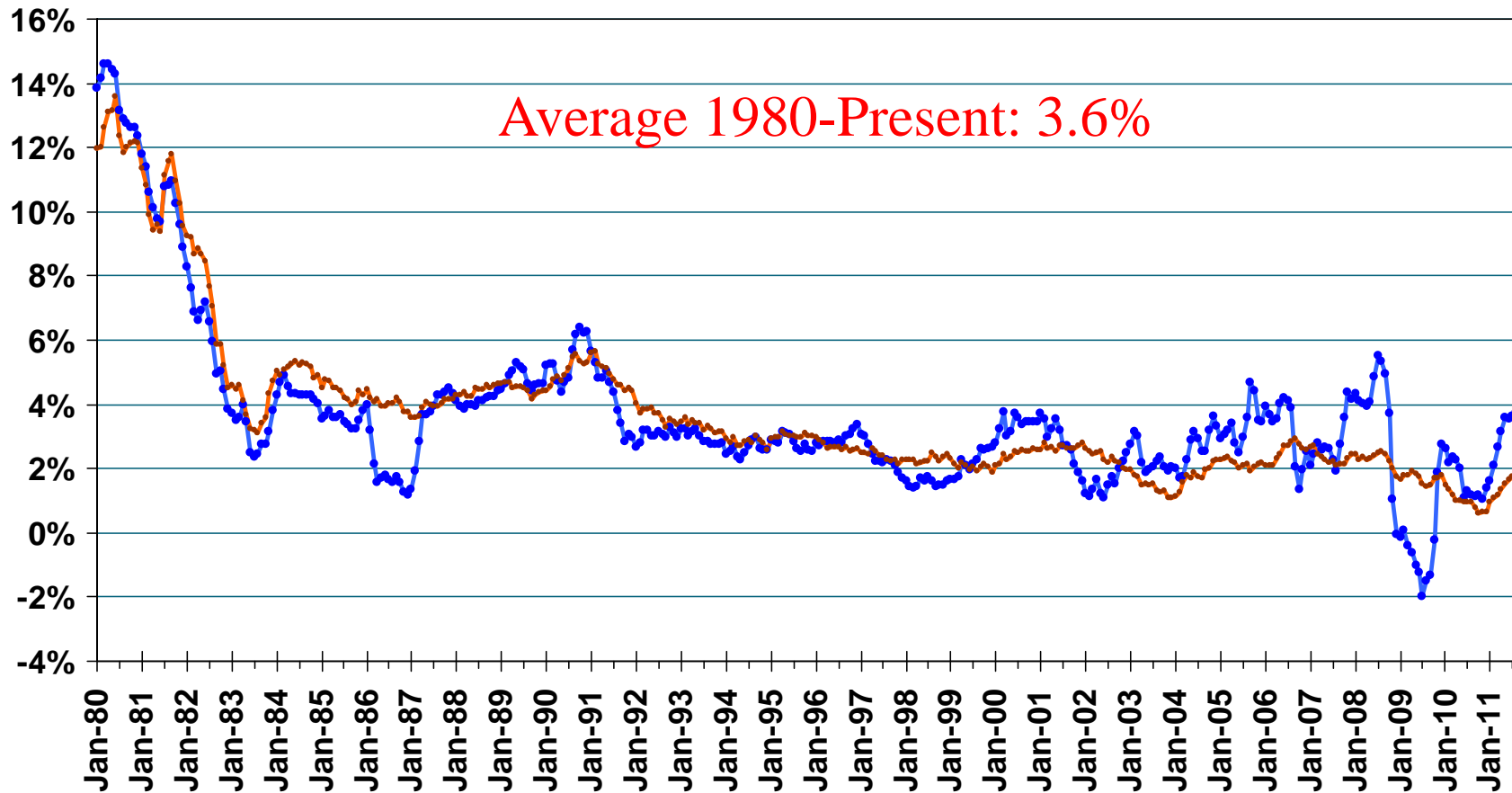


Consumer Price Index

August 2011: All Items +3.8% YTY; Core +2.0% YTY

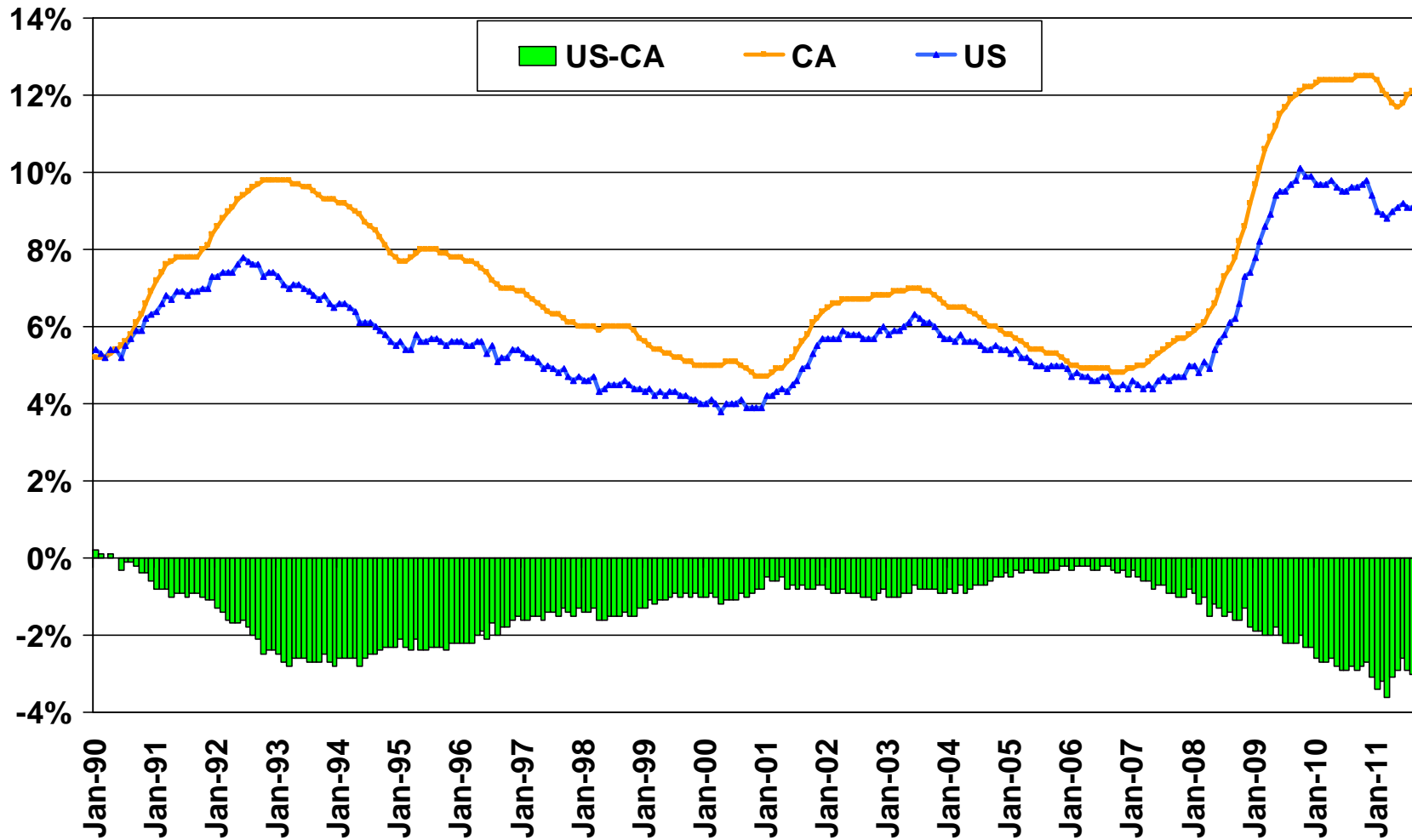
PERCENT CHANGE FROM A YEAR AGO, 100=1982-1984

—●— All Items —●— Core



Unemployment Rate

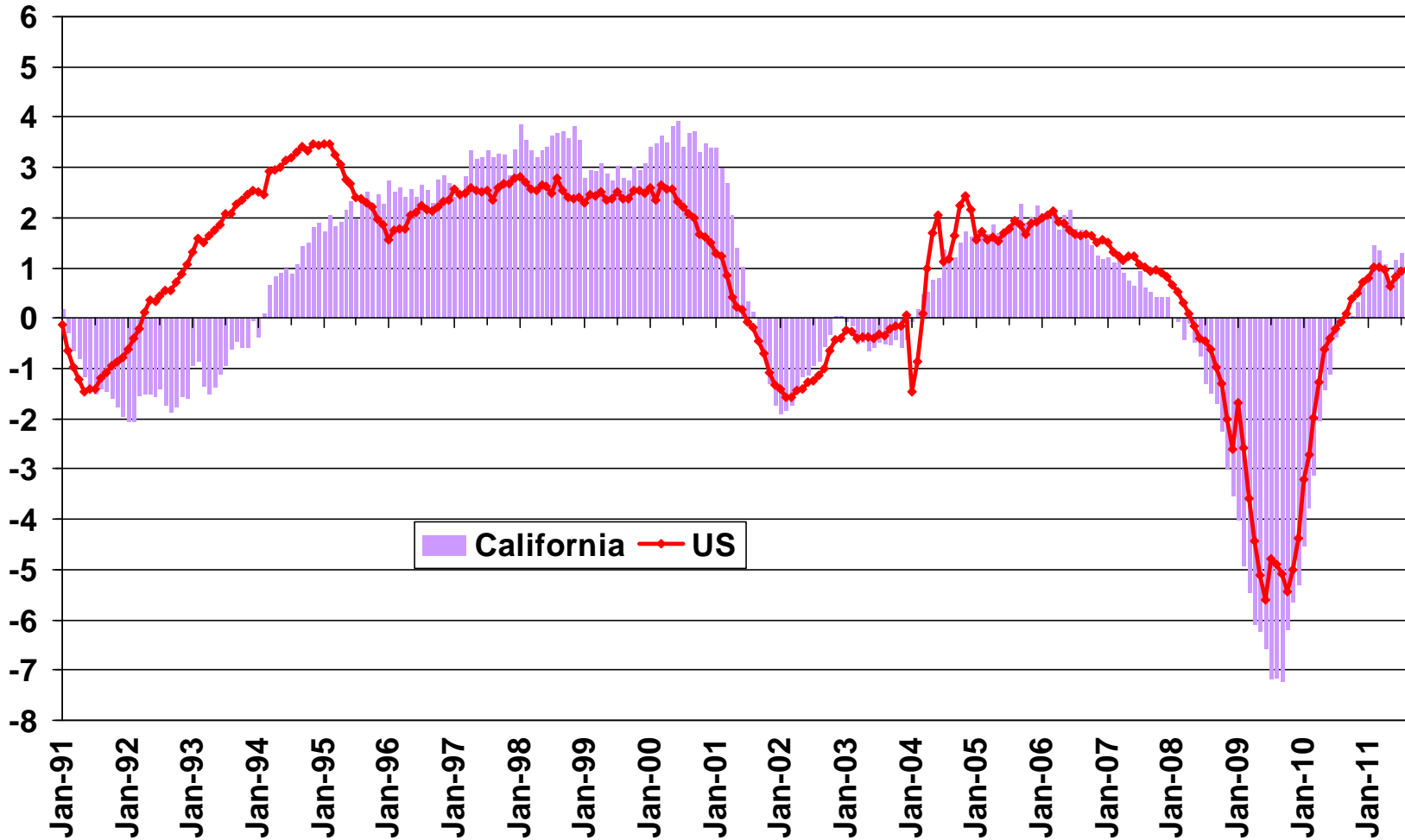
California vs. United States



SOURCE: CA Employment Development Division

Employment Growth, California vs. U.S.

YEAR TO YEAR % CHANGE

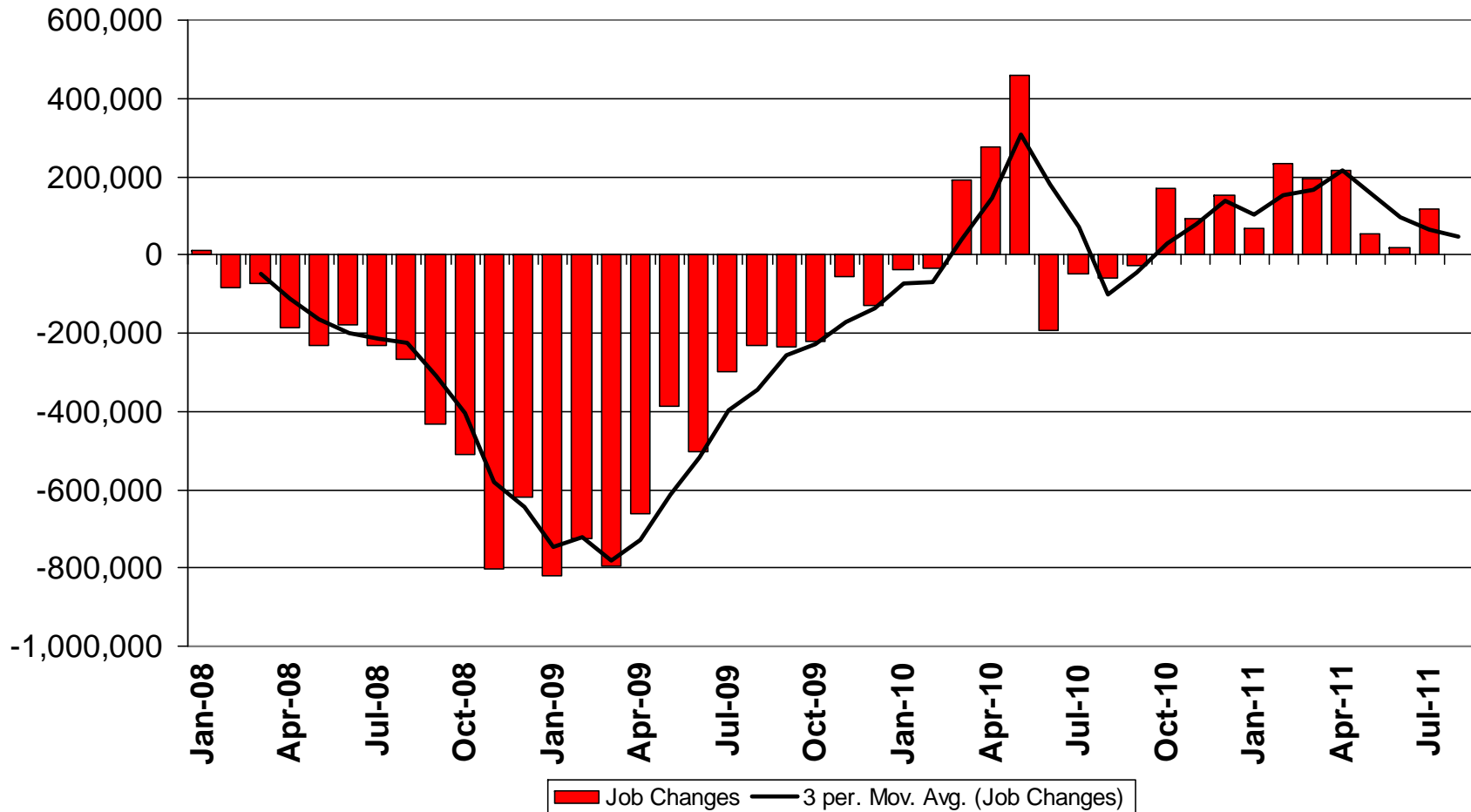


SOURCE: CA Employment Development Division

U.S. Non-farm Job Growth

Month-to-Month Changes

Recession Job Losses: 8.4 million
Since Jan' 10: +1.8 million

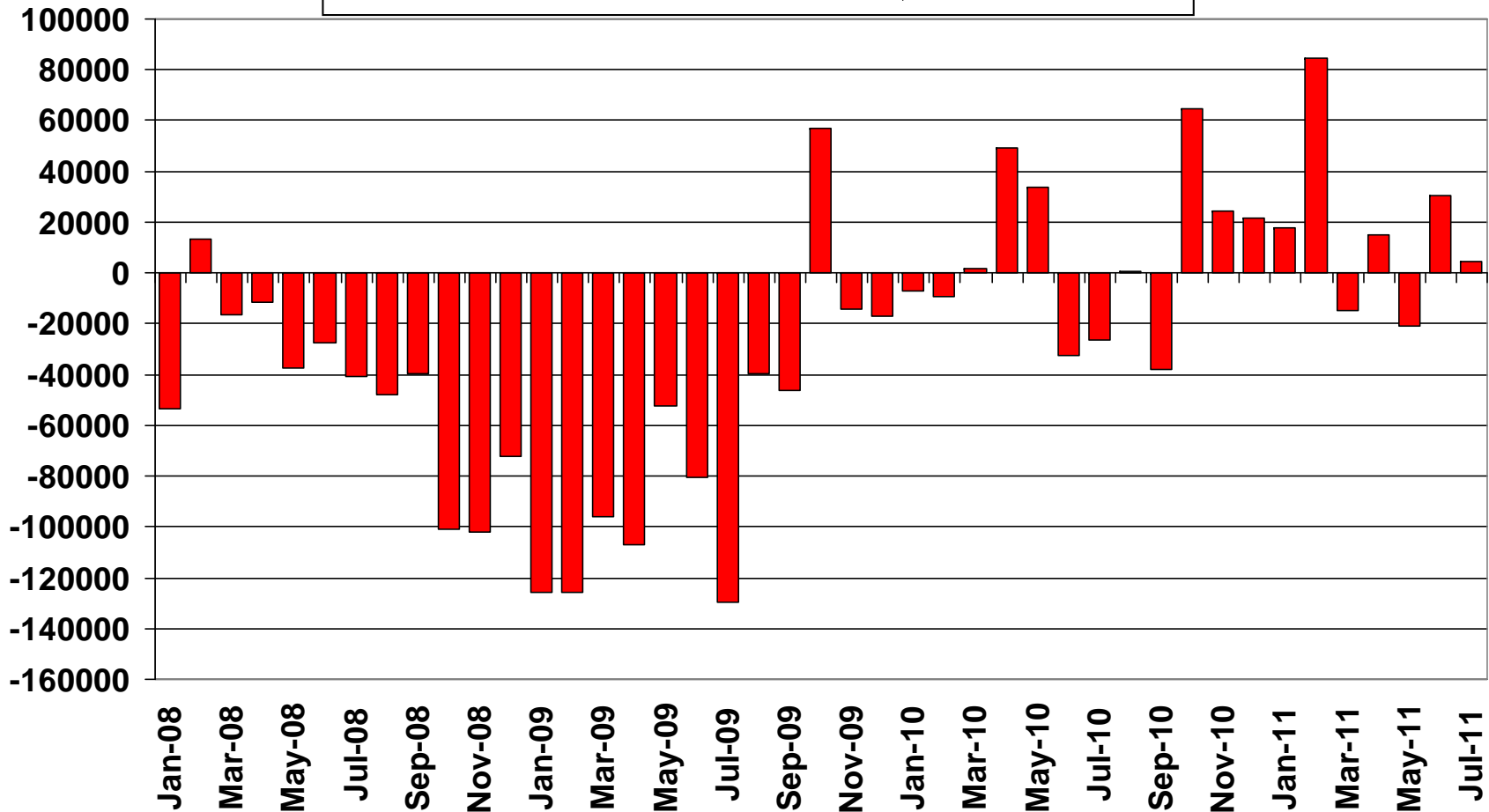


SOURCE: US Dept of Labor, Bureau of Labor Statistics

California Non-farm Job Growth

Month-to-Month Changes

Recession Job Losses: 1.3 million
 Since Jan '10: +188,100



SOURCE: CA Employment Development Division

California Employment Trends by Industry

Industry	2000	2005	2010	Jul-11	Year to Date
Mining and Logging	26,500	23,600	26,800	27,600	800
Construction	733,400	905,300	559,800	567,300	7,500
Manufacturing	1,852,700	1,502,600	1,242,400	1,257,600	15,200
Trade, Transportation & Utilities	2,727,900	2,822,100	2,616,900	2,641,500	24,600
Information	576,700	473,600	429,000	455,400	26,400
Financial Activities	800,800	920,300	759,800	755,800	-4,000
Professional & Business Services	2,222,600	2,160,700	2,069,400	2,136,200	66,800
Educational & Health Services	1,407,100	1,593,400	1,786,900	1,837,000	50,100
Leisure & Hospitality	1,335,600	1,475,200	1,493,700	1,531,600	37,900
Other Services	487,700	505,500	484,700	484,500	-200
Government	2,318,100	2,420,200	2,427,100	2,380,200	-46,900
TOTAL	14,489,100	14,802,500	13,896,500	14,074,700	178,200

SOURCE: California Association of REALTORS®

Nonfarm Employment By Region

(Thousands)	Nonfarm Employment Aug-10	Nonfarm Employment Aug-11	Change	Percent Change
Southern California	7,666.2	7,698.2	32.0	0.4%
Bay Area	3,015.7	3,050.0	34.3	1.1%
Central Valley	1,836.4	1,841.8	5.4	0.3%
Central Coast	465.5	463.5	-2.0	-0.4%
North Central	128.5	126.3	-2.2	-1.7%
CALIFORNIA	13,886.1	14,057.2	171.1	1.2%

SOURCE: CA Employment Development Division

U.S. Economic Outlook

	2005	2006	2007	2008	2009	2010	2011f	2012f
US GDP	3.1%	2.7%	2.0%	0.0%	-2.6%	2.9%	1.7%	2.0%
Nonfarm Job Growth	1.7%	1.8%	1.1%	-0.6%	-4.4%	-0.7%	1.0%	0.9%
Unemployment	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	9.0%	8.9%
CPI	3.4%	3.2%	2.8%	3.8%	-0.4%	1.6%	3.2%	2.3%
Real Disposable Income, % Change	1.3%	4.0%	2.2%	0.5%	0.9%	1.4%	1.7%	1.5%

Forecast Date: September 2011

California Economic Outlook

	2005	2006	2007	2008	2009	2010	2011f	2012f
Nonfarm Job Growth	1.8%	1.7%	0.8%	-1.3%	-6.0%	-1.4%	1.5%	2.1%
Unemployment Rate	5.4%	4.9%	5.4%	7.2%	11.4%	12.4%	12.0%	11.2%
Population Growth	1.2%	1.1%	1.1%	1.2%	1.1%	0.9%	0.9%	0.9%
Real Disposable Income, % Change	1.3%	3.4%	1.5%	0.1%	-2.2%	1.6%	1.5%	2.0%

Forecast Date: September 2011

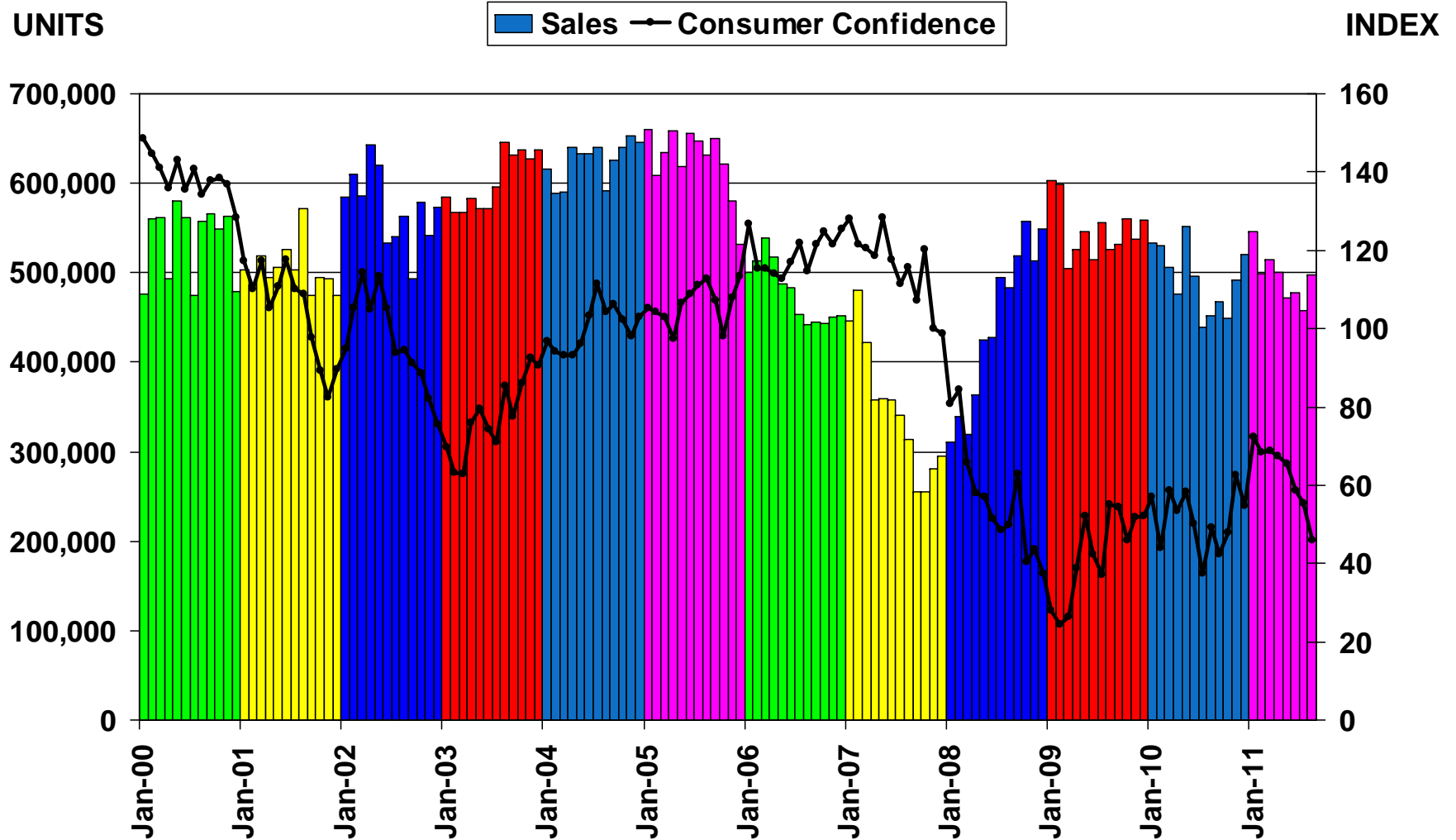
Economic Snapshot

- Recession over, slow recovery expected
- Engine of growth must come from consumers
- Labor market: mixed signals, job growth slow
- Inflation in check through 2011-12
- Monetary policy: No rate hikes until 2013
- Fiscal policy: politics = paralysis

California Housing Market

Sales of Existing Detached Homes and Pacific West Consumer Confidence

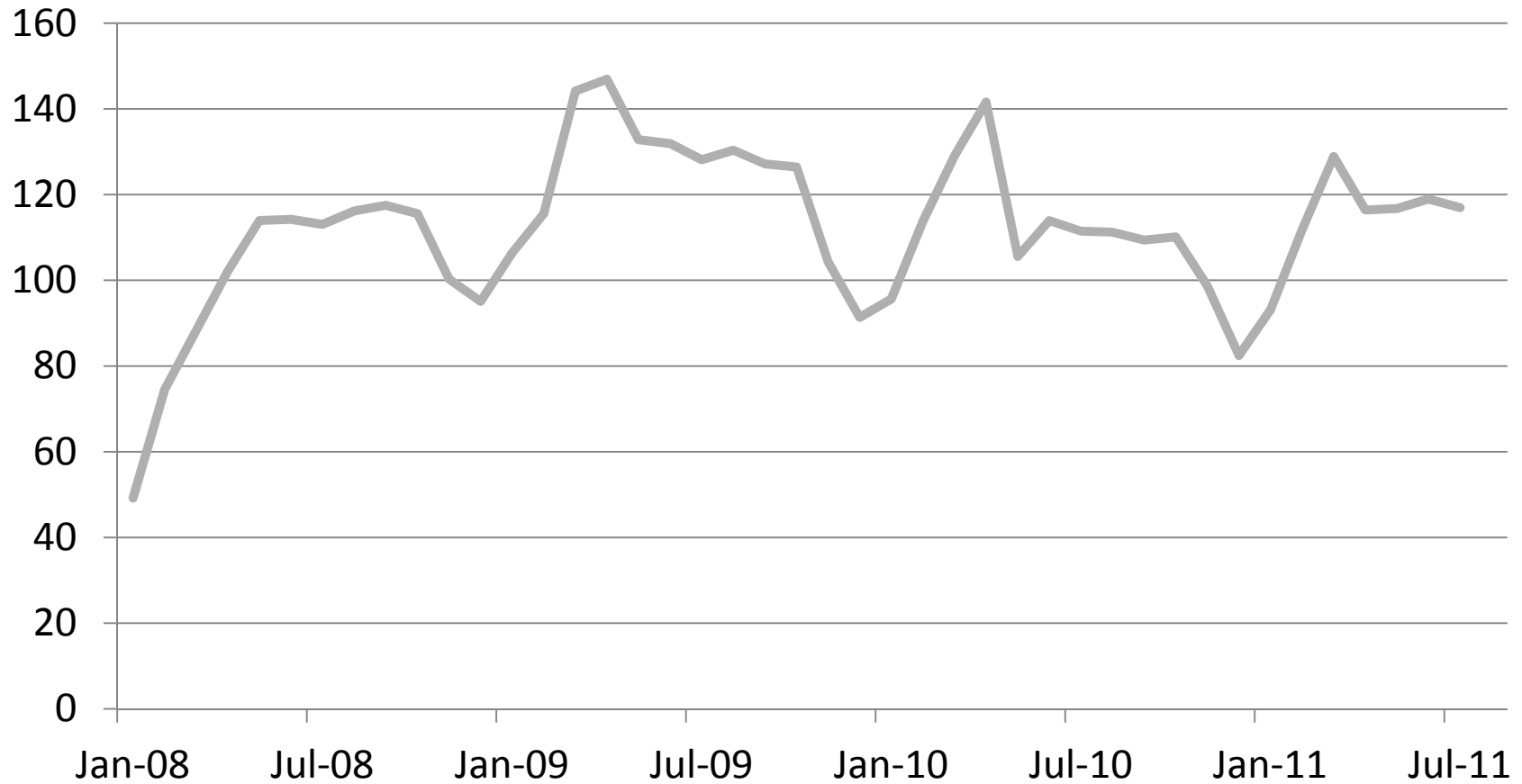
California, August 2011 Sales: 497,390 Units, Down 0.4% YTD, Up 10.2% YTY



SOURCE: California Association of REALTORS®; The Conference Board

*Sales are seasonally adjusted and annualized

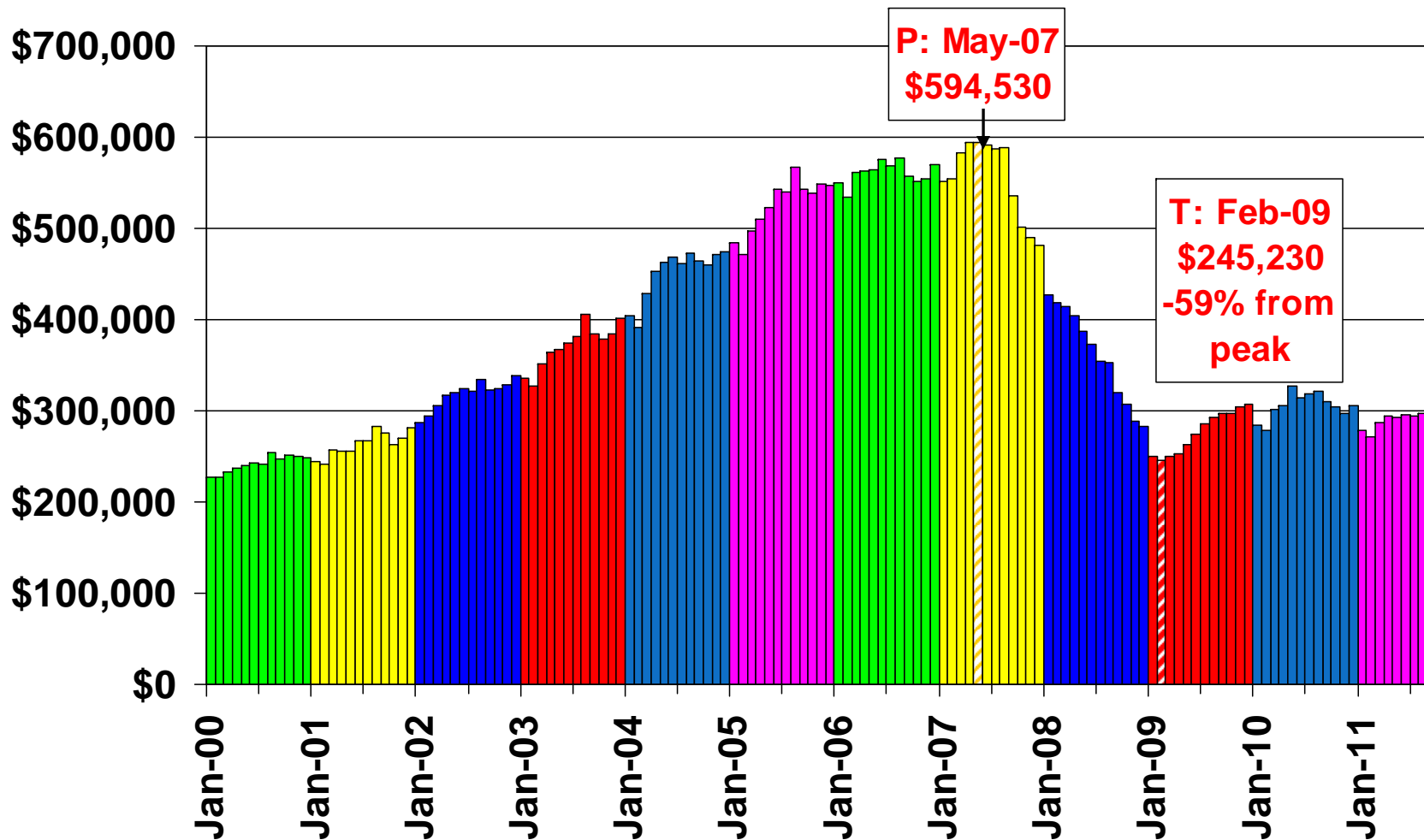
California Pending Home Sales Index



SOURCE: California Association of REALTORS®

Median Price of Existing Detached Homes

California, August 2011: \$297,060, Down 7.4% YTY



SOURCE: California Association of REALTORS®

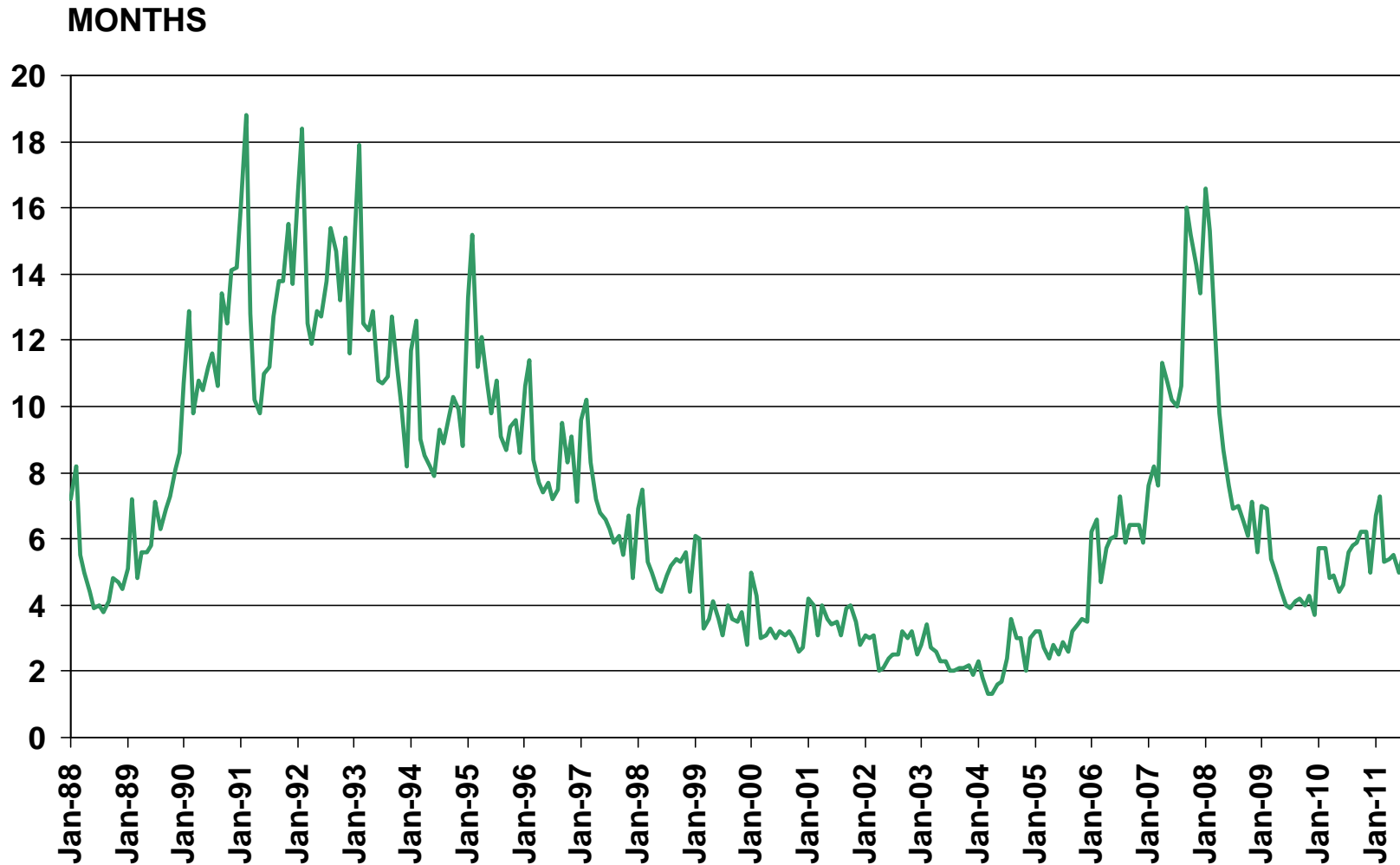
Trough vs. Current Price – July 2011

Region	Trough Month	Trough Price	Jul-11 Median	% Chg From Trough
Santa Clara	Feb-09	\$445,000	\$613,500	37.9%
Monterey Region	Feb-09	\$241,130	\$324,138	34.4%
San Francisco Bay Area	Feb-09	\$378,520	\$495,250	30.8%
Los Angeles	May-09	\$248,850	\$317,060	27.4%
Orange County	Jan-09	\$442,170	\$551,510	24.7%
CALIFORNIA	Feb-09	\$245,230	\$294,230	20.0%
Ventura	Feb-09	\$359,630	\$421,870	17.3%
San Diego	Mar-09	\$326,830	\$375,330	14.8%
Riverside/San Bernardino	Apr-09	\$150,860	\$172,293	14.2%
Palm Springs/Lower Desert	Apr-09	\$150,140	\$170,000	13.2%
High Desert	May-09	\$106,210	\$117,792	10.9%
San Luis Obispo	Apr-09	\$338,890	\$355,620	4.9%
Northern California	May-11	\$217,890	\$222,348	2.0%
Sacramento	Apr-09	\$167,340	\$168,060	0.4%
Northern Wine Country	Feb-09	\$324,418	\$320,280	-1.3%

SOURCE: California Association of REALTORS®

Unsold Inventory Index

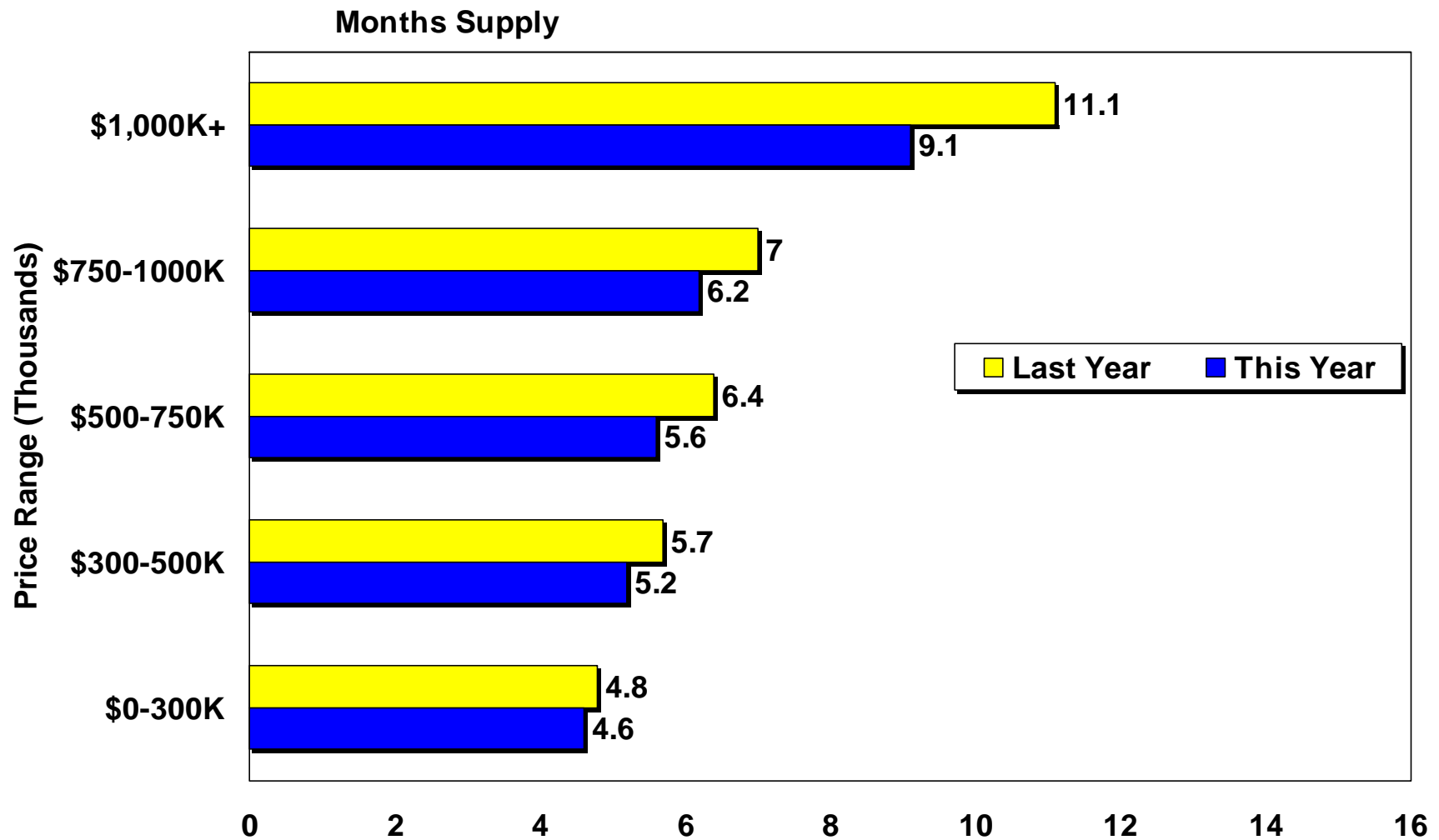
California, August 2011: 5.0 Months



SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

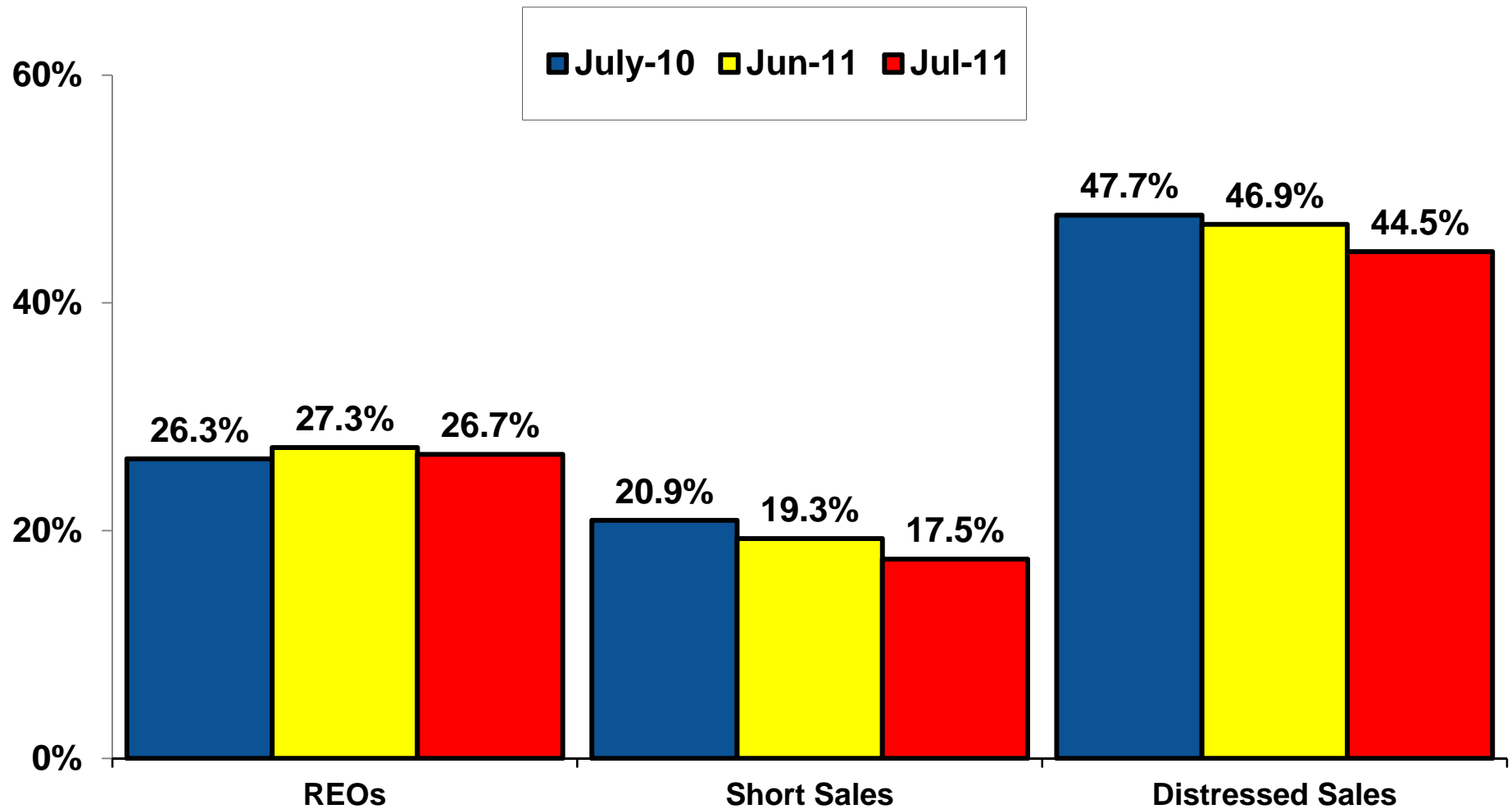
Unsold Inventory By Price Range

California - Existing Homes August 2010 vs. August 2011



SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Share of Distressed Sales to Total Sales



SOURCE: California Association of REALTORS®

Distressed Sales by County

(Percent of Total Sales) 1 of 2

County	July-10	July-11
Amador	59%	55%
Butte	28%	43%
Humboldt	27%	27%
Kern	69%	NA
Lake	56%	73%
Los Angeles	47%	42%
Madera	65%	86%
Marin	19%	25%
Mendocino	71%	61%
Merced	62%	71%
Napa	40%	51%
Orange	35%	32%

SOURCE: California Association of REALTORS®

Distressed Sales by County

(Percent of Total Sales) 2 of 2

County	July-10	July-11
Riverside	67%	62%
Sacramento	62%	60%
San Bernardino	72%	65%
San Diego	26%	26%
San Luis Obispo	41%	42%
Solano	NA	70%
Sonoma	43%	46%
Tehama	77%	72%
CALIFORNIA	48%	45%

REO Sales by County

(Percent of Total Sales) 1 of 2

County	July-10	July-11
Amador	44%	51%
Butte	17%	25%
Humboldt	23%	22%
Kern	47%	NA
Lake	51%	62%
Los Angeles	21%	20%
Madera	56%	74%
Marin	10%	13%
Mendocino	58%	52%
Merced	37%	25%
Napa	22%	31%
Orange	11%	11%

SOURCE: California Association of REALTORS®

REO Sales by County

(Percent of Total Sales) 2 of 2

County	July-10	July-11
Riverside	39%	41%
Sacramento	39%	37%
San Bernardino	52%	14%
San Diego	18%	19%
San Luis Obispo	25%	25%
Solano	NA	46%
Sonoma	25%	24%
Tehama	65%	70%
CALIFORNIA	26%	27%

SOURCE: California Association of REALTORS®

Short Sales by County

(Percent of Total Sales) 1 of 2

County	July-10	July-11
Amador	16%	4%
Butte	11%	18%
Humboldt	4%	5%
Kern	22%	0%
Lake	5%	8%
Los Angeles	25%	22%
Madera	10%	12%
Marin	10%	13%
Mendocino	13%	9%
Merced	25%	44%
Napa	18%	21%
Orange	24%	20%

SOURCE: California Association of REALTORS®

Short Sales by County

(Percent of Total Sales) 2 of 2

County	July-10	July-11
Riverside	27%	21%
Sacramento	23%	23%
San Bernardino	19%	51%
San Diego	8%	7%
San Luis Obispo	16%	17%
Solano	0%	24%
Sonoma	18%	22%
Tehama	12%	2%
CALIFORNIA	21%	18%

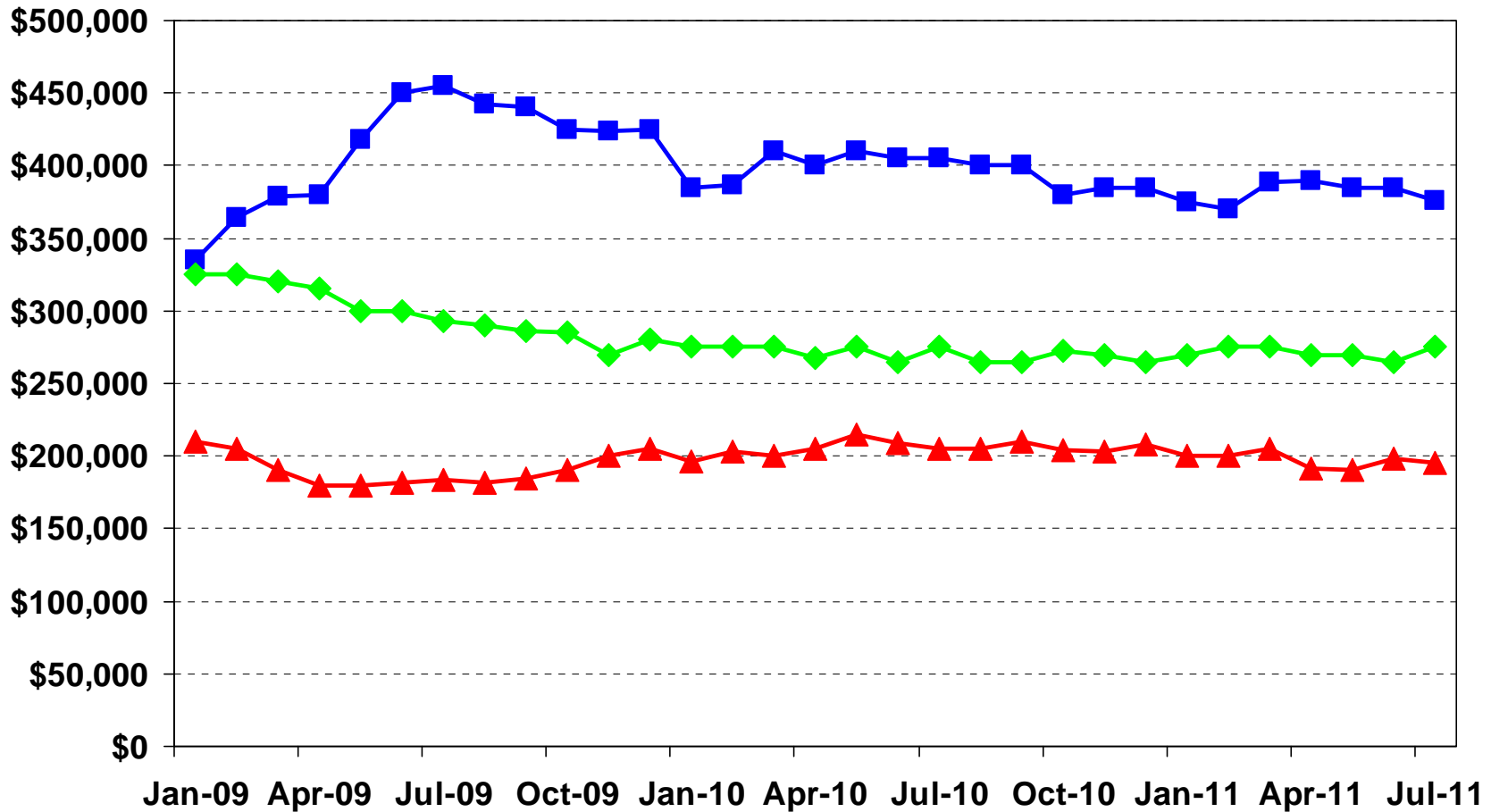
SOURCE: California Association of REALTORS®

Median Price by Type of Sale

REO, Short-Sale, Non-Distressed

Median Price

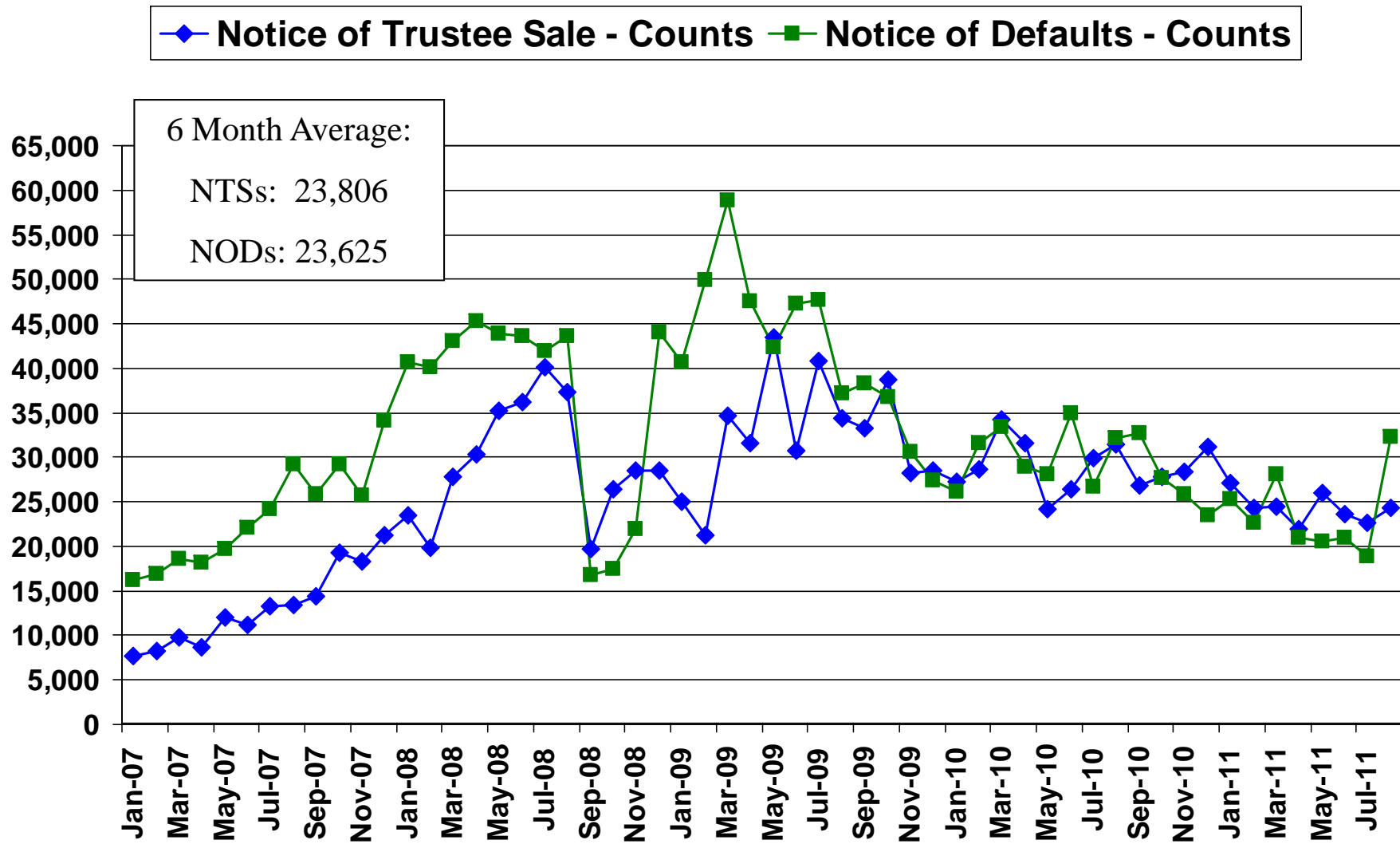
■ Non-Distressed ◆ Short Sale ▲ Bank Owned



SOURCE: C.A.R.

California Foreclosure Filings, Aug. 2011

NTS: 24,260, -16.9% YTD • NOD: 32,338, -21.5% YTD

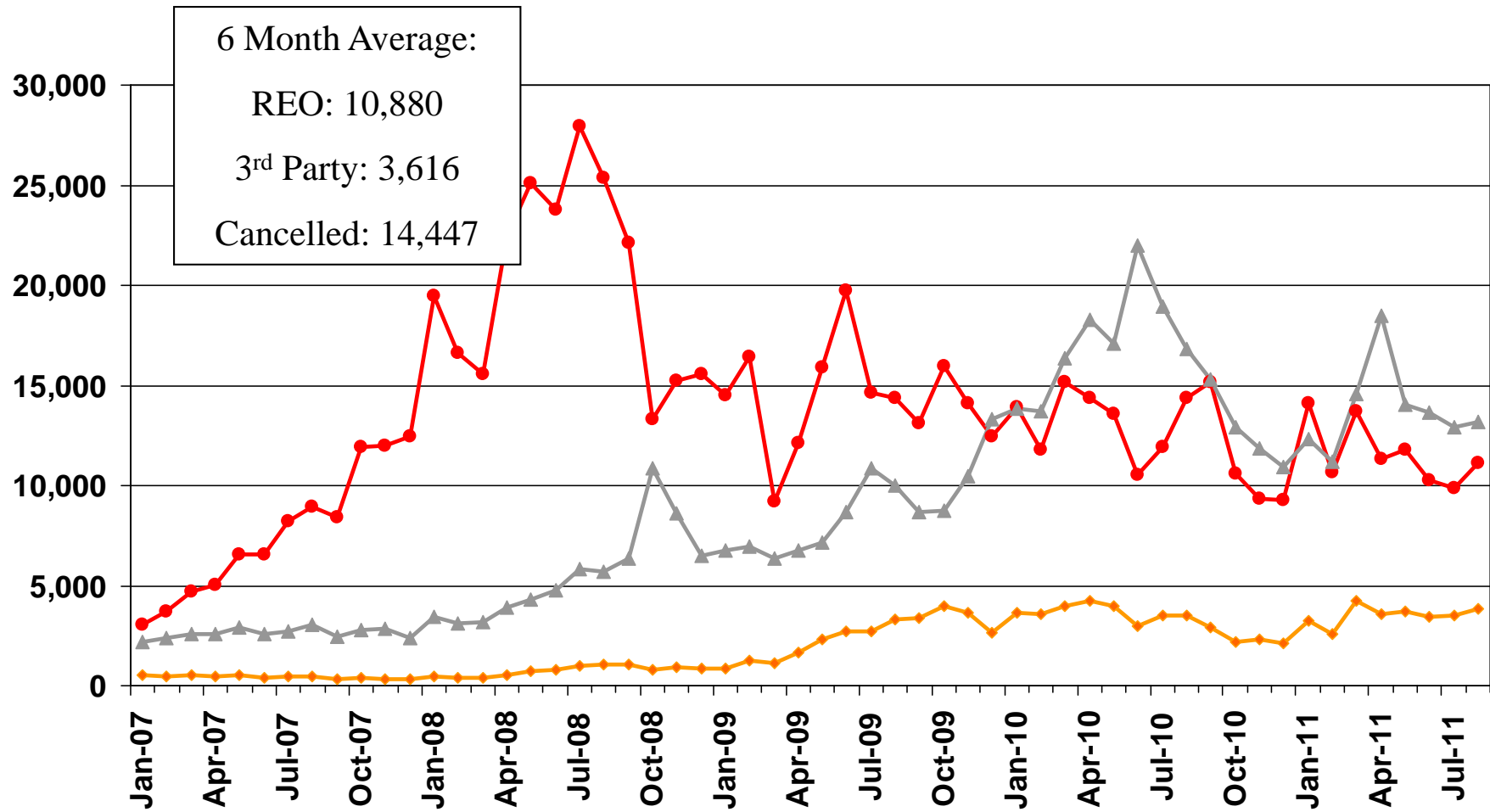


SOURCE: ForeclosureRadar.com

California Foreclosure Outcomes, Aug. 2011

REO: -12.2% YTD • 3rd Party: -4.1% YTD • Cancel: -19.7% YTD

● REOs ● Sold to 3rd Party ▲ Cancellations

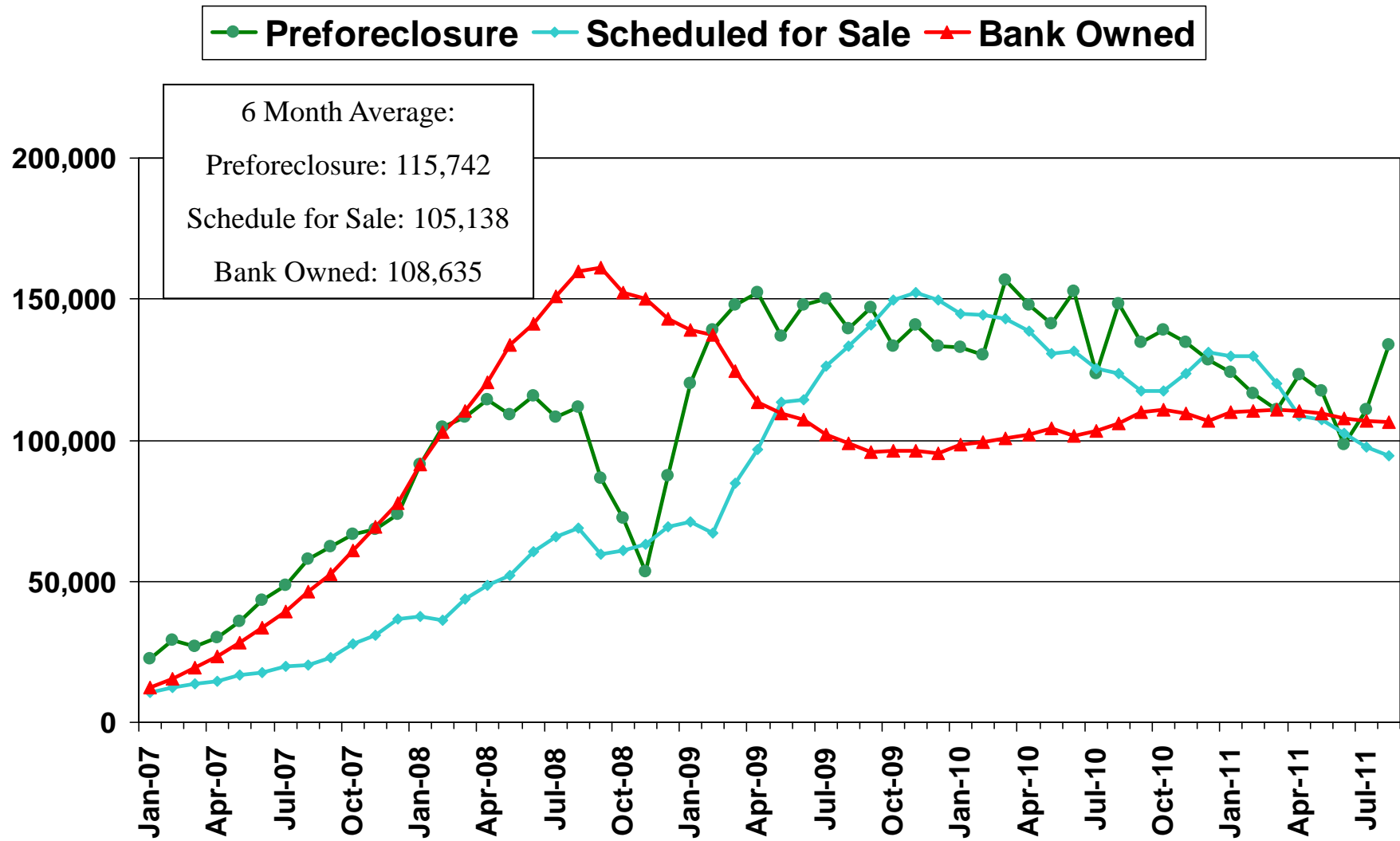


SOURCE: ForeclosureRadar.com

California Foreclosure Inventories, Aug. 2011

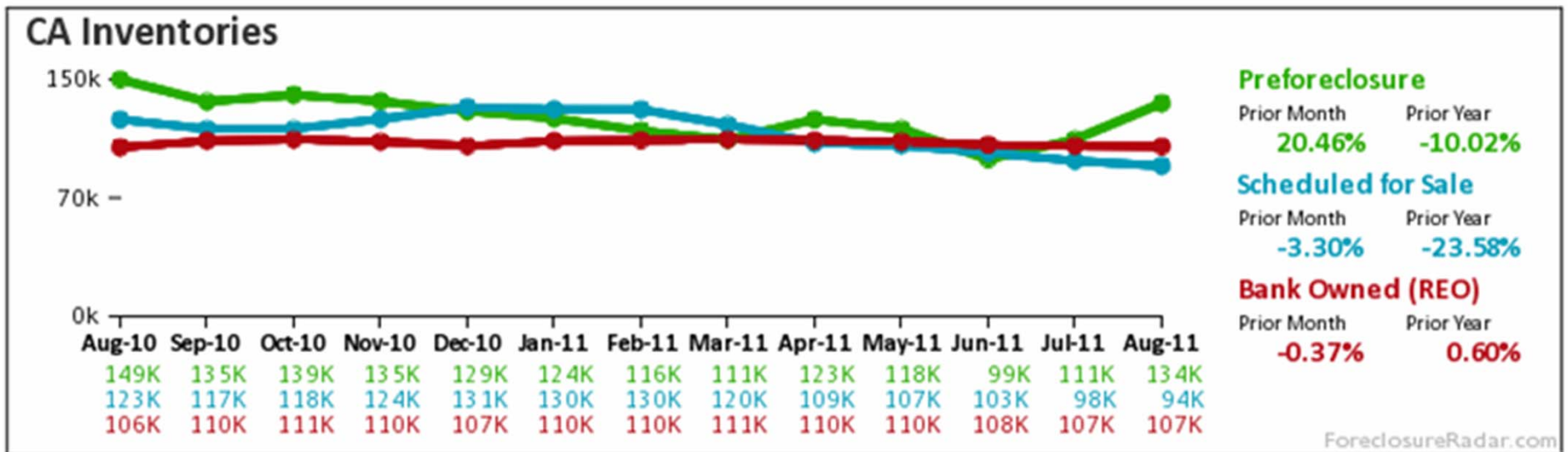
Preforeclosure: -17.5% YTD • Schedule for Sale: -17.8% YTD •

Bank Owned: 7.0% YTD



SOURCE: ForeclosureRadar.com

California Foreclosure Inventory, August 2011

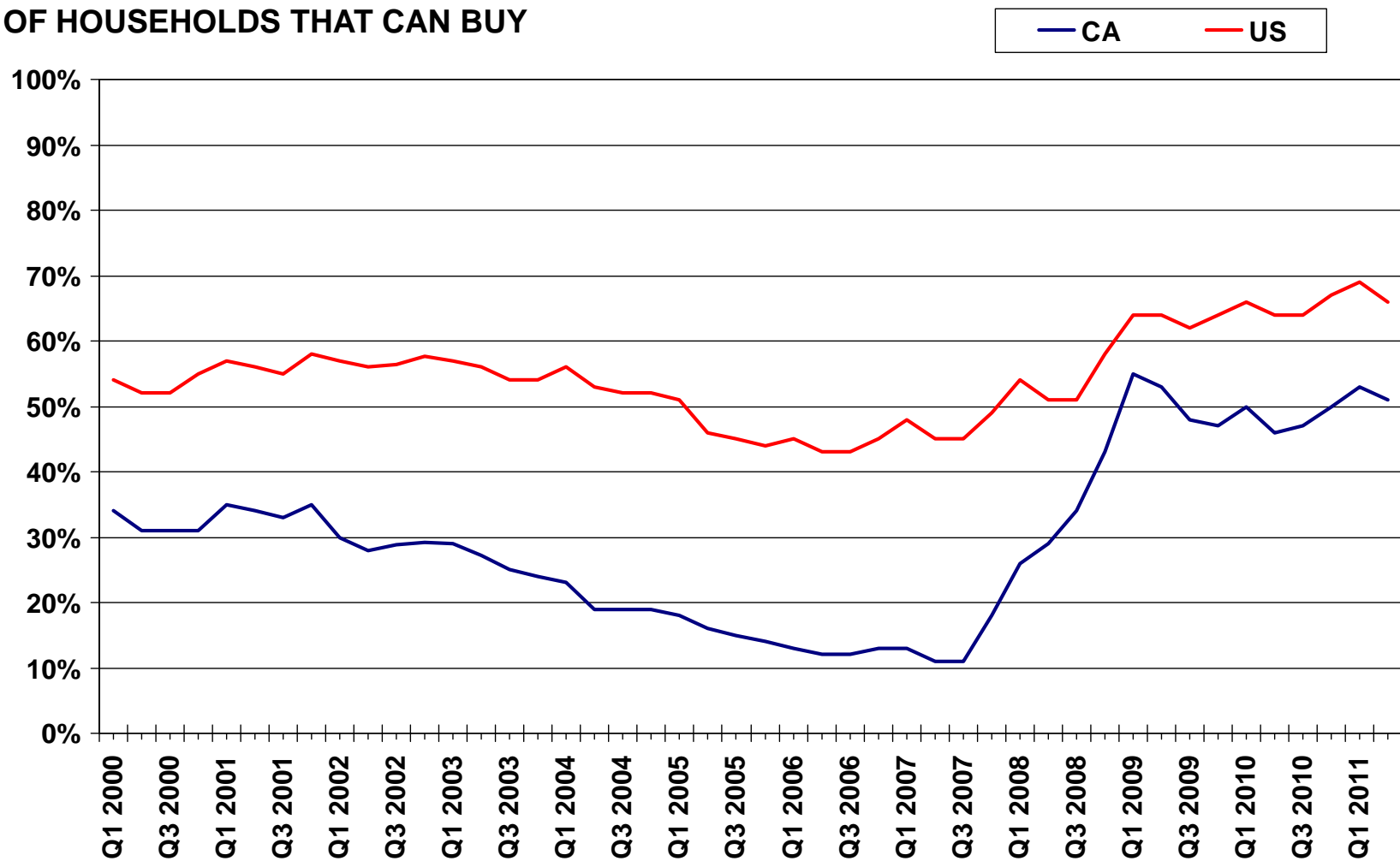


SOURCE: ForeclosureRadar.com

Housing Affordability Index

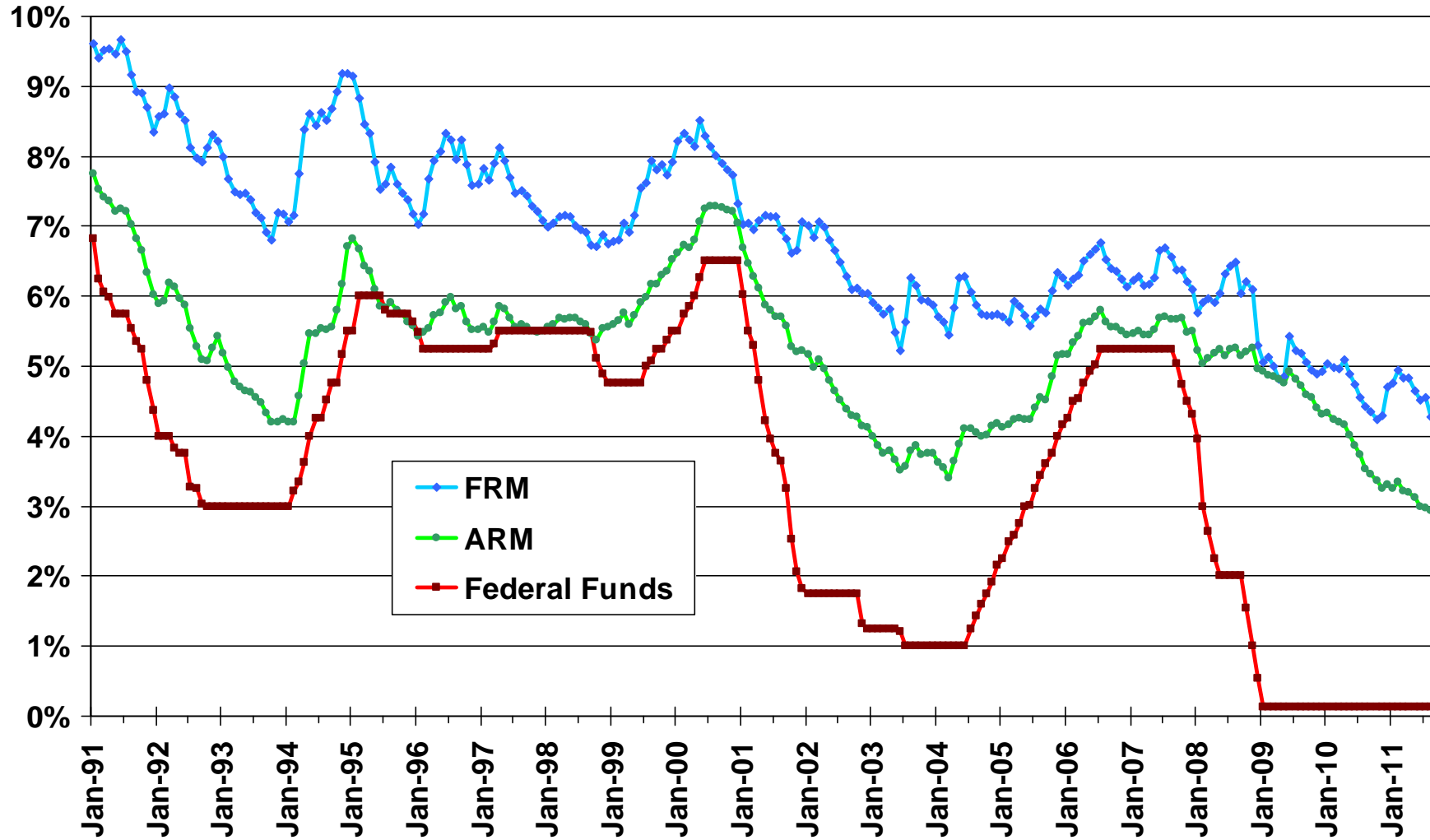
California Vs. U.S.

% OF HOUSEHOLDS THAT CAN BUY



SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

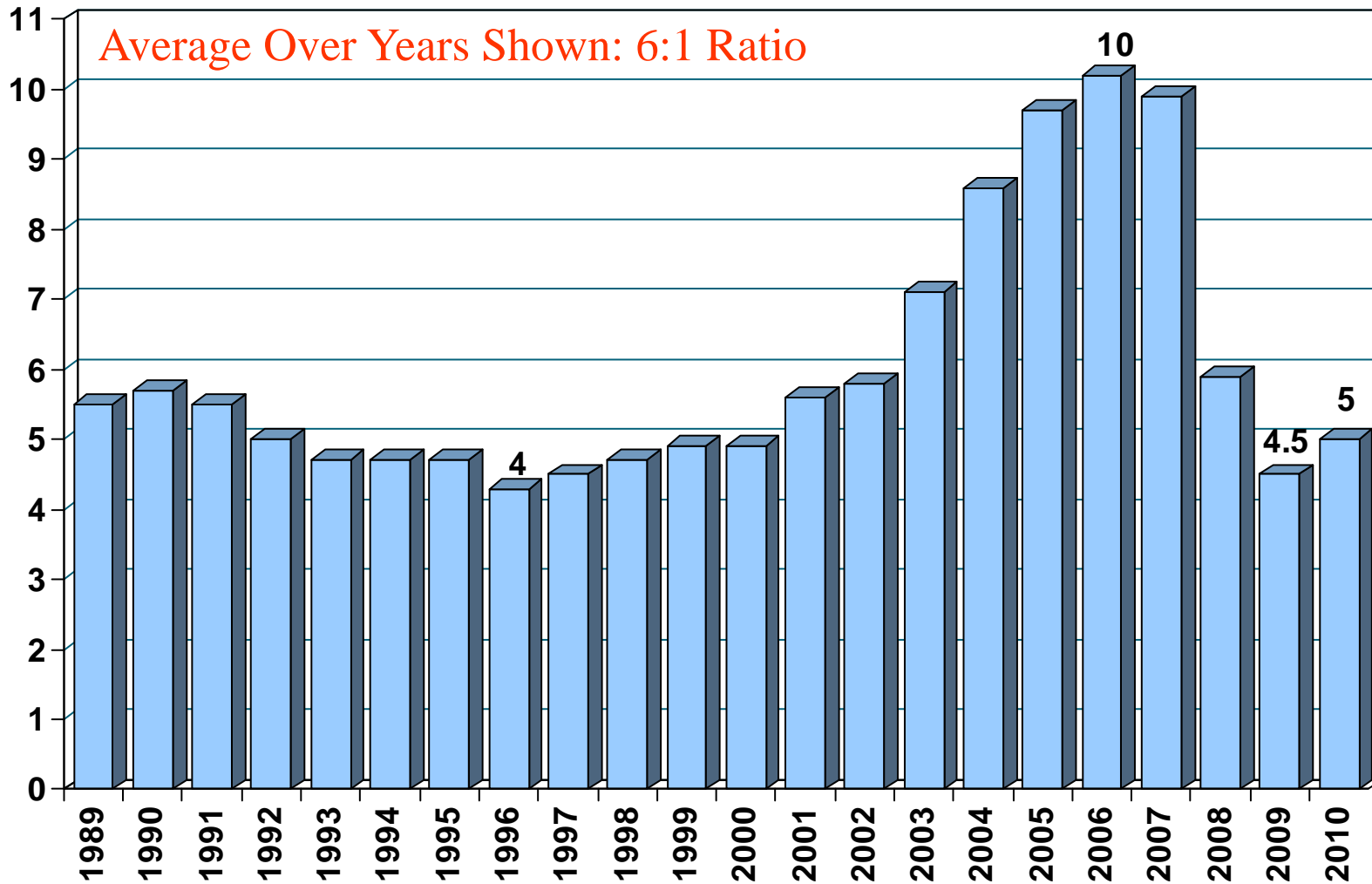
Mortgage Rates



SOURCE: Federal Home Loan Mortgage Corporation

Median Price to Median HH Income Ratio

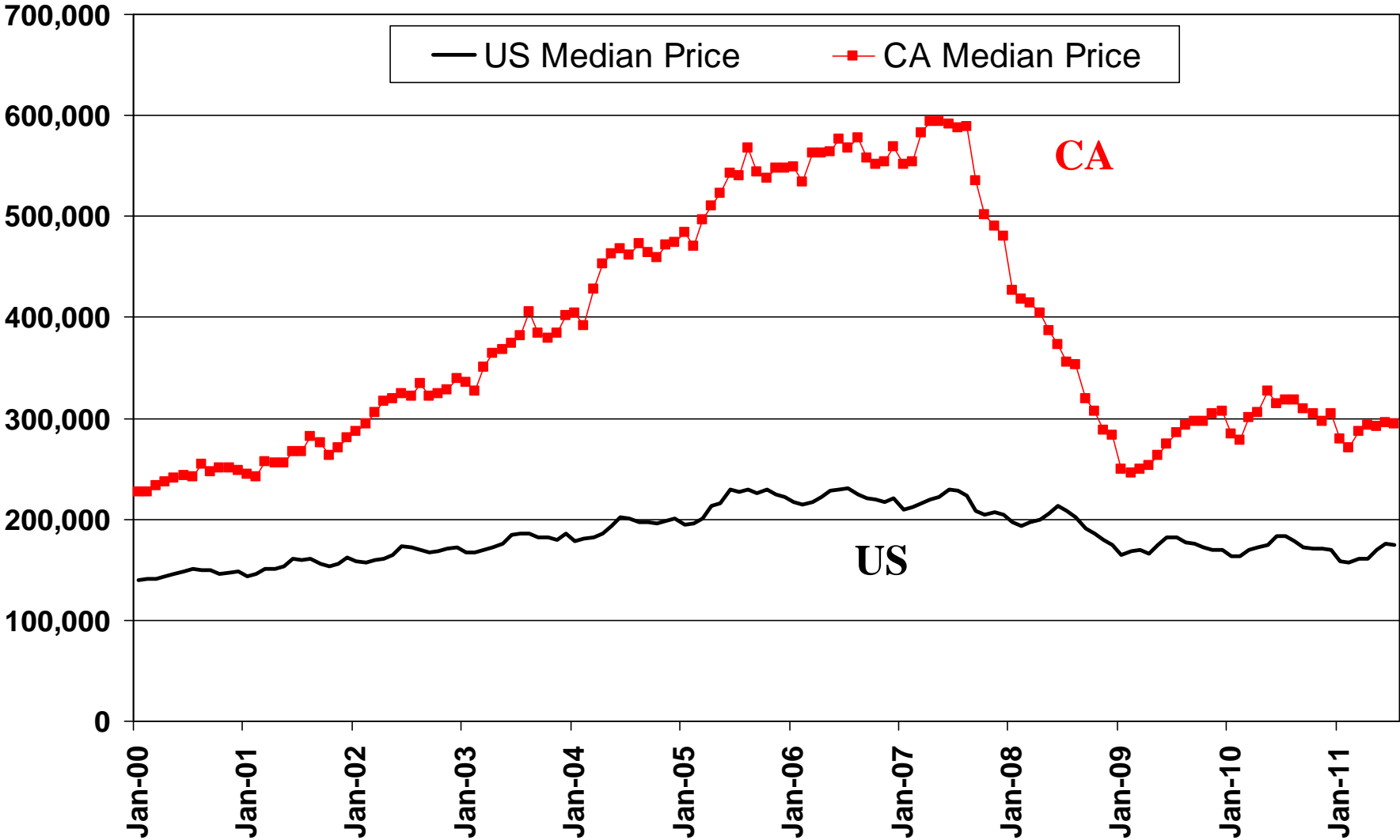
California



SOURCE: California Association of REALTORS®

Existing Single-Family Home Median Price

CA vs. US



Median Price Trajectory: US and California

	California Median	U.S. Median
Peak	\$ 594,530	\$ 230,900
Trough	\$ 245,230	\$ 156,900
Jul-11	\$ 294,230	\$ 174,800
Peak-Trough	-58.8%	-32.0%
Trough-Jul 2011	20.0%	11.4%

Trough Month

CA: Feb 2009

US: Feb 2011

California Housing Market Forecast

California Housing Market Outlook

	2005	2006	2007	2008	2009	2010	2011f	2012f
SFH Resales (000s)	625.0	477.5	346.9	441.8	546.9	491.5	491.1	496.2
% Change	0.03%	-23.6%	-27.3%	27.3%	23.8%	-10.1%	-0.1%	1.0%
Median Price (\$000s)	\$522.7	\$556.4	\$560.3	\$348.5	\$275.0	\$303.1	\$291.0	\$296.0
% Change	16.0%	6.5%	0.7%	-37.8%	-21.1%	10.2%	-4.0%	1.7%
30-Yr FRM	5.9%	6.4%	6.3%	6.0%	5.1%	4.7%	4.5%	4.7%
1-Yr ARM	4.5%	5.5%	5.6%	5.2%	4.7%	3.5%	3.0%	3.1%

Forecast Date: September 2011

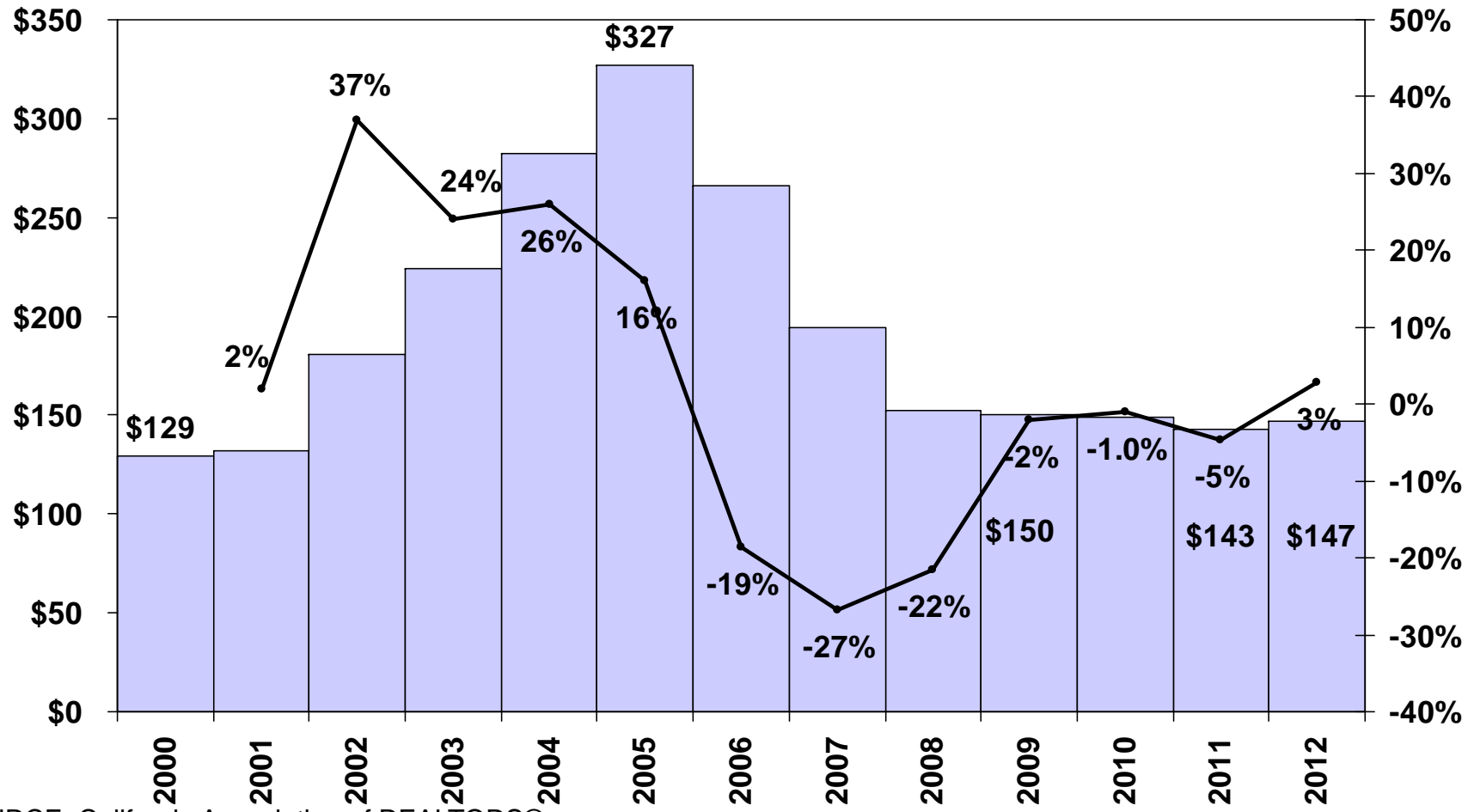
Source: CALIFORNIA ASSOCIATION OF REALTORS®

Dollar Volume of Sales Down 5% in 2011, Up 3% in 2012

\$ in Billion

% Change

■ \$ Volume of Sales — Percent Change



SOURCE: California Association of REALTORS®

Commercial Sector

Commercial Segments

- Industrial
- Retail
- Office
- Multi-Family

Industrial Space



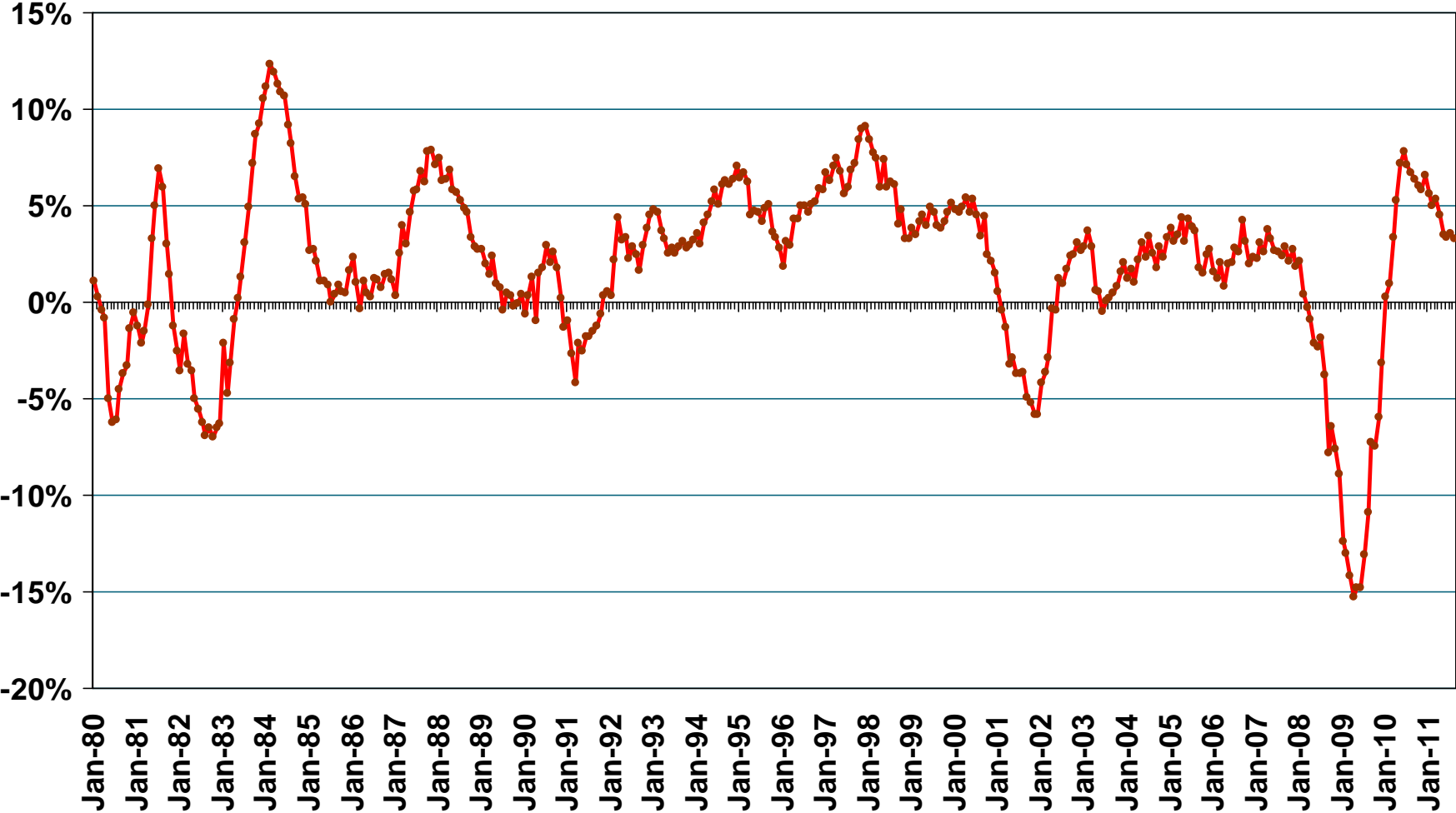
Industrial Segment Drivers

- **Manufacturing**
- **Transportation & Logistics**
- **Wholesale/Retail Trade**

Industrial Production

August 2011: Up 3.3% YTY

PERCENT CHANGE FROM A YEAR AGO

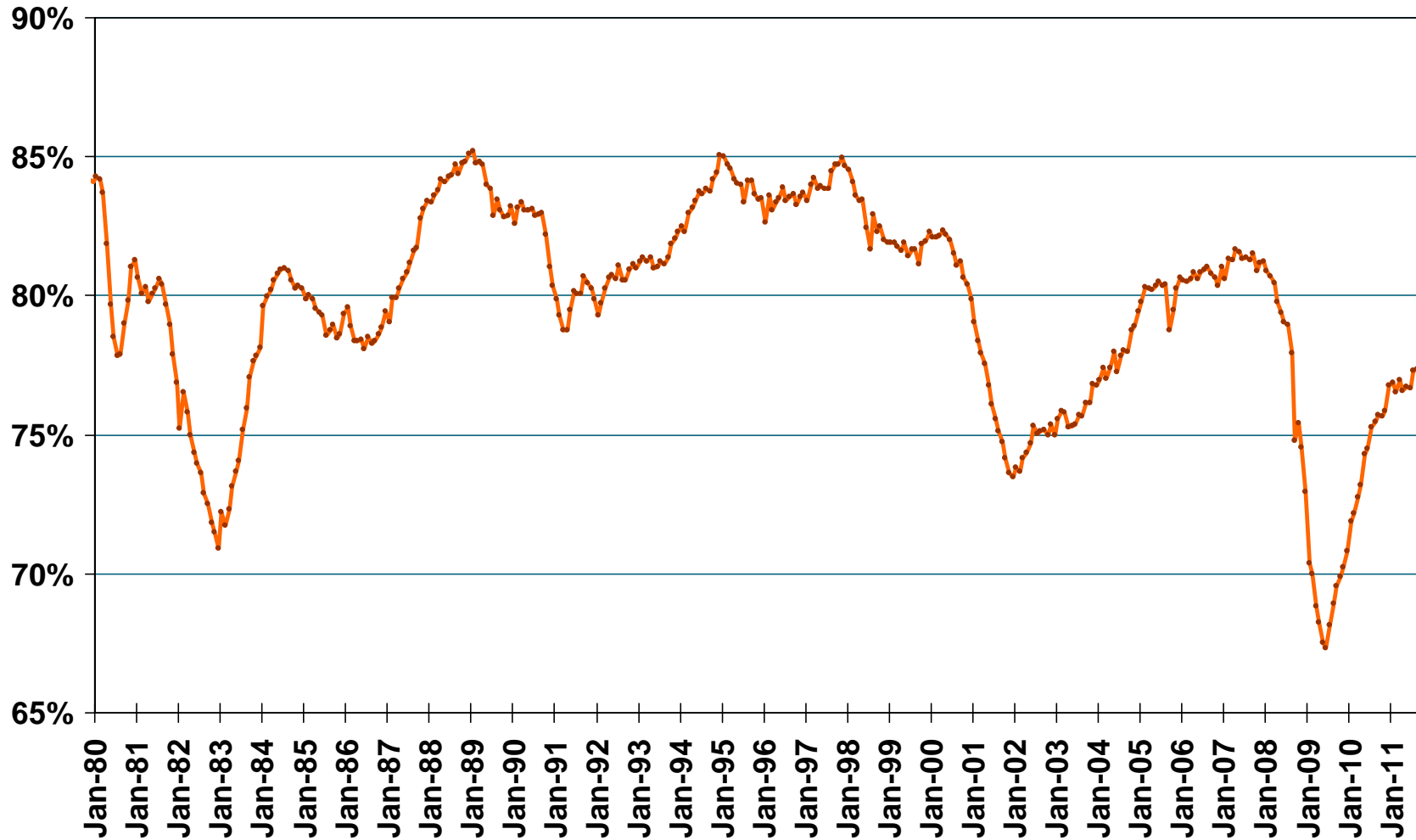


SOURCE: Federal Reserve Board

Capacity Utilization Rate

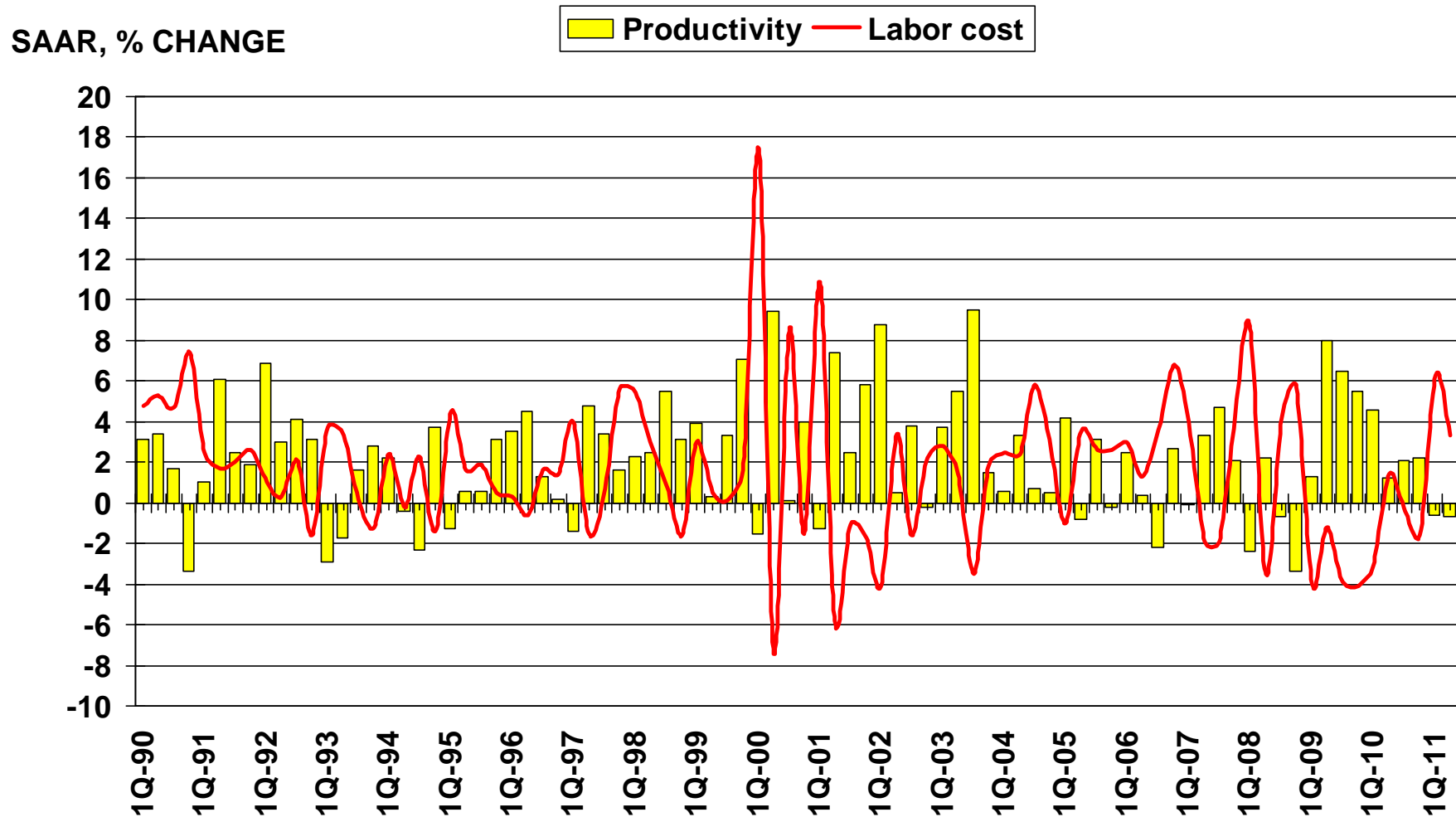
August 2011: 77.3% Prior Year: 75.5% Average: 81%

SA, PERCENT OF CAPACITY



Productivity vs. Labor Cost

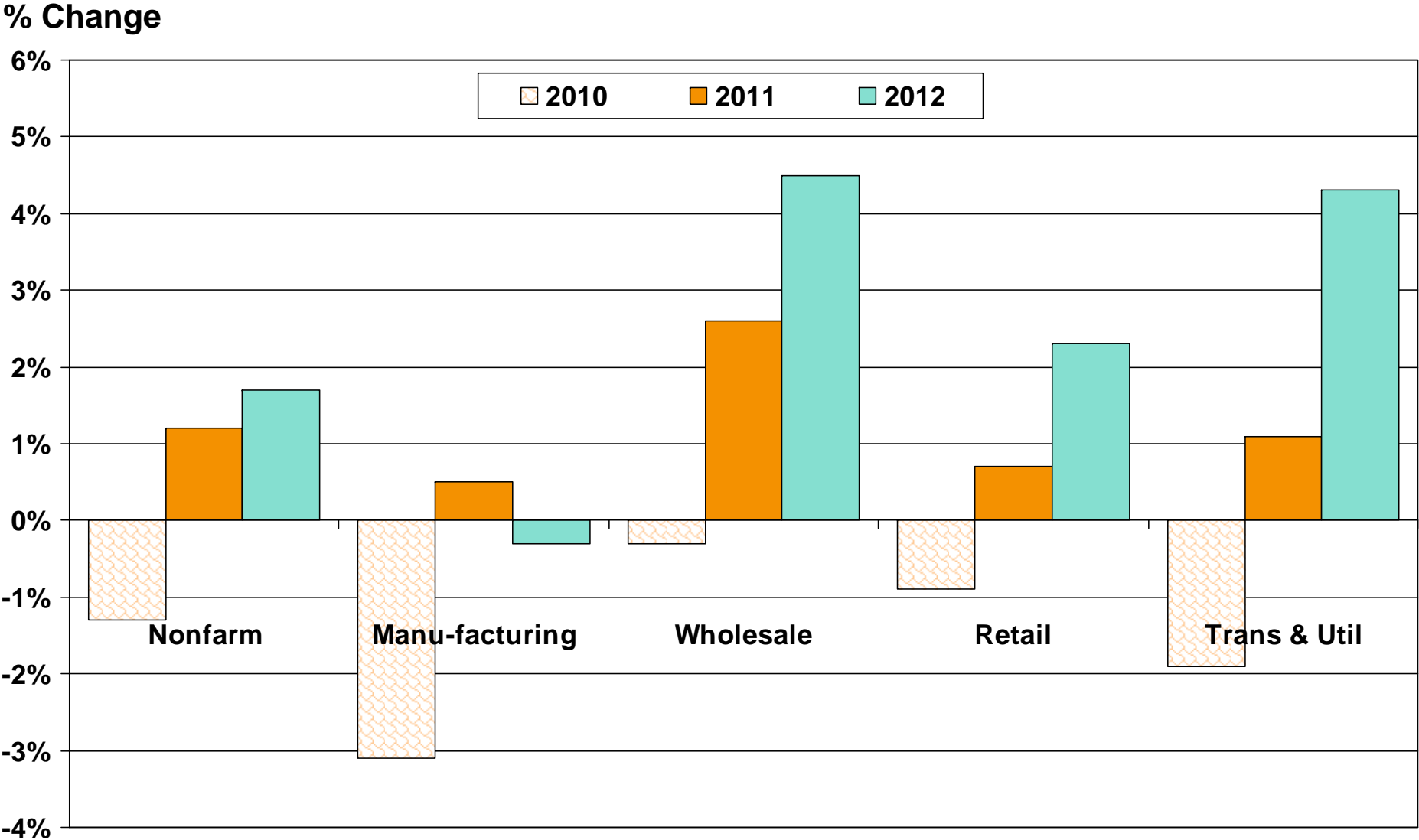
Productivity for Q2/11: Down 0.7%



SOURCES: BLS

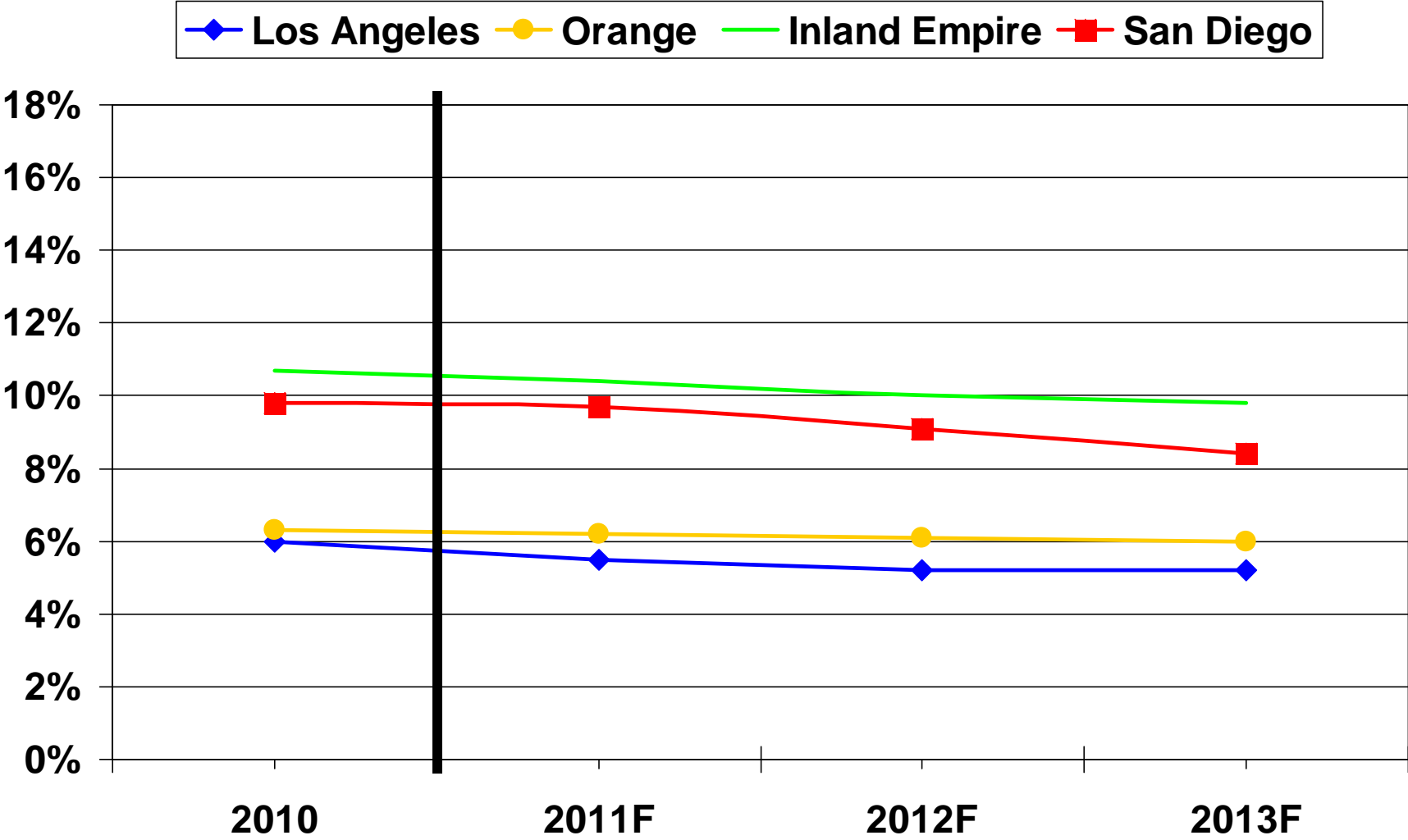
Employment by Sector-Industrial R.E.

YTY % Changes in California



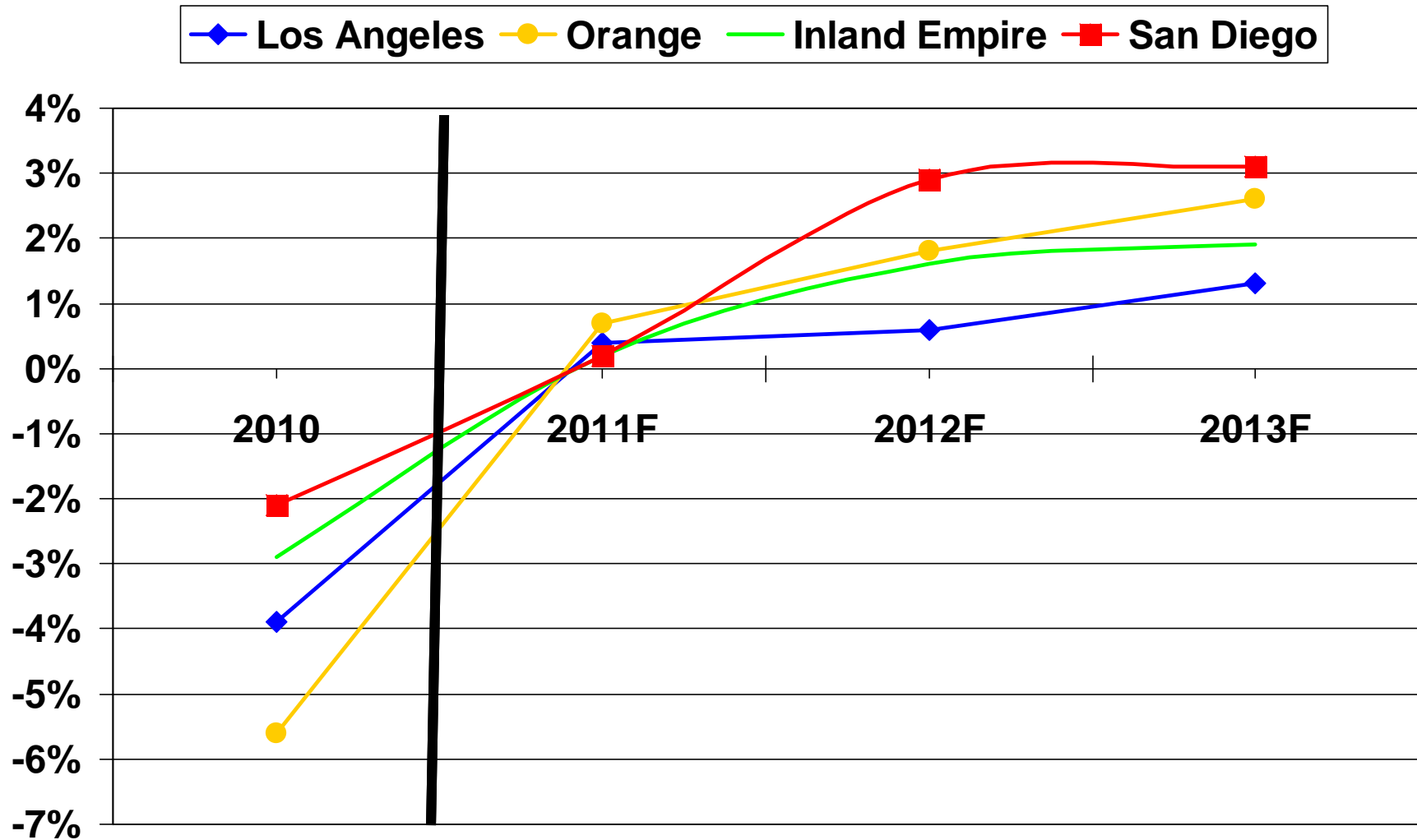
SOURCE: CA EDD, LAEDC, Compiled by C.A.R.

Vacancy Rates for Industrial Segment



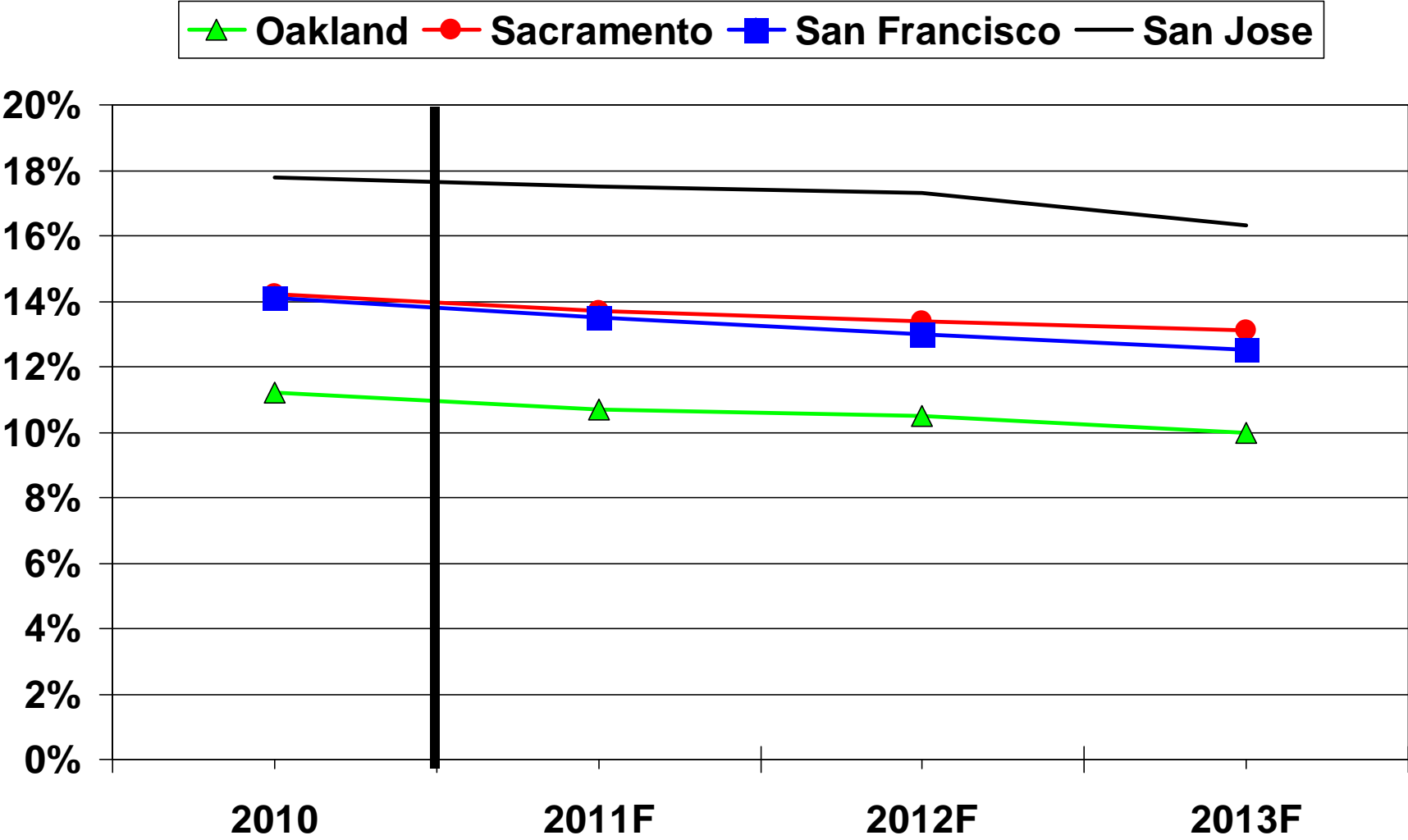
SOURCE: NAR

Yr-to-Yr % Change Lease Rates-Industrial R.E.



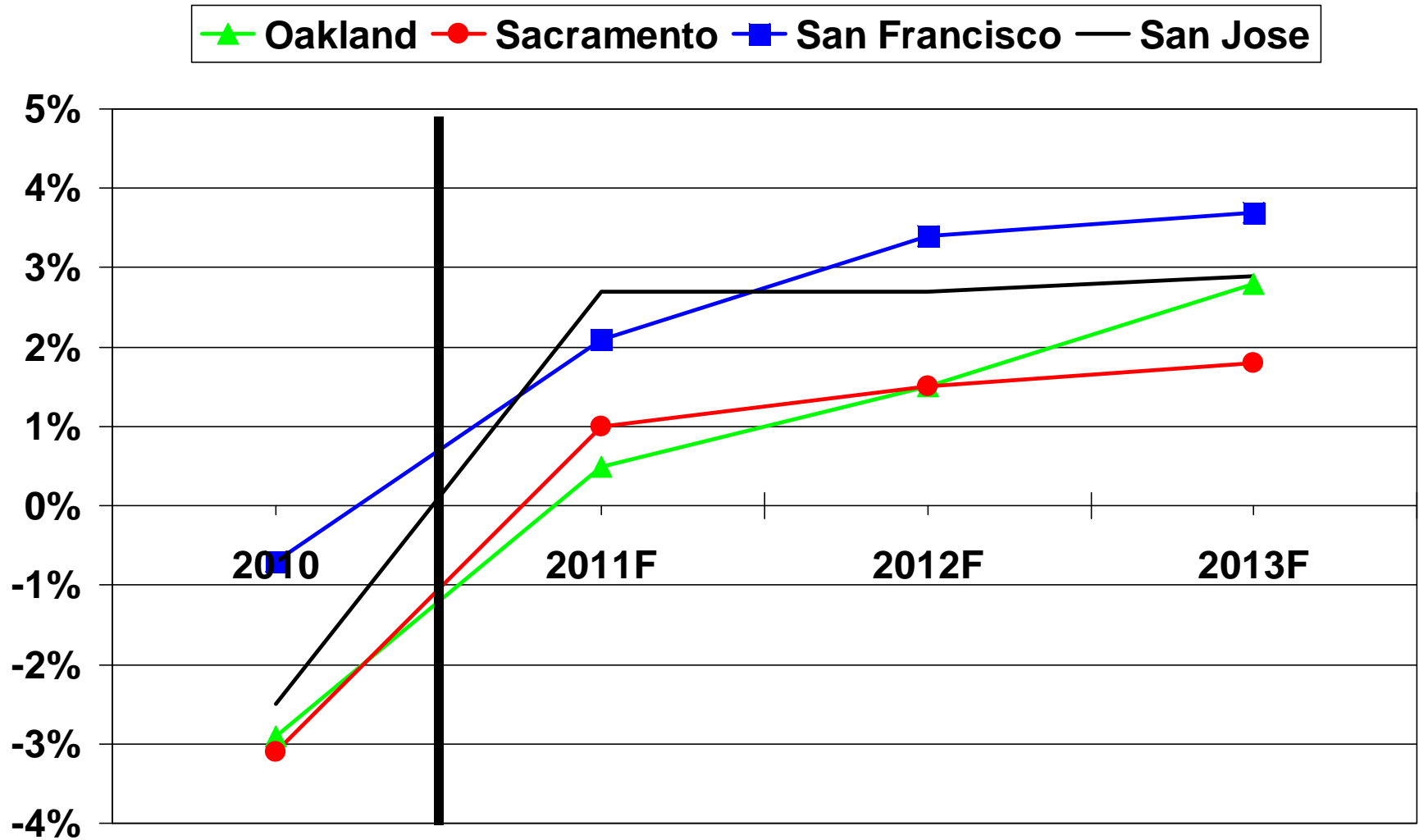
SOURCE: NAR

Vacancy Rates for Industrial Segment



SOURCE: NAR

Yr-to-Yr % Change Lease Rates-Industrial R.E.



SOURCE: NAR

Retail Space



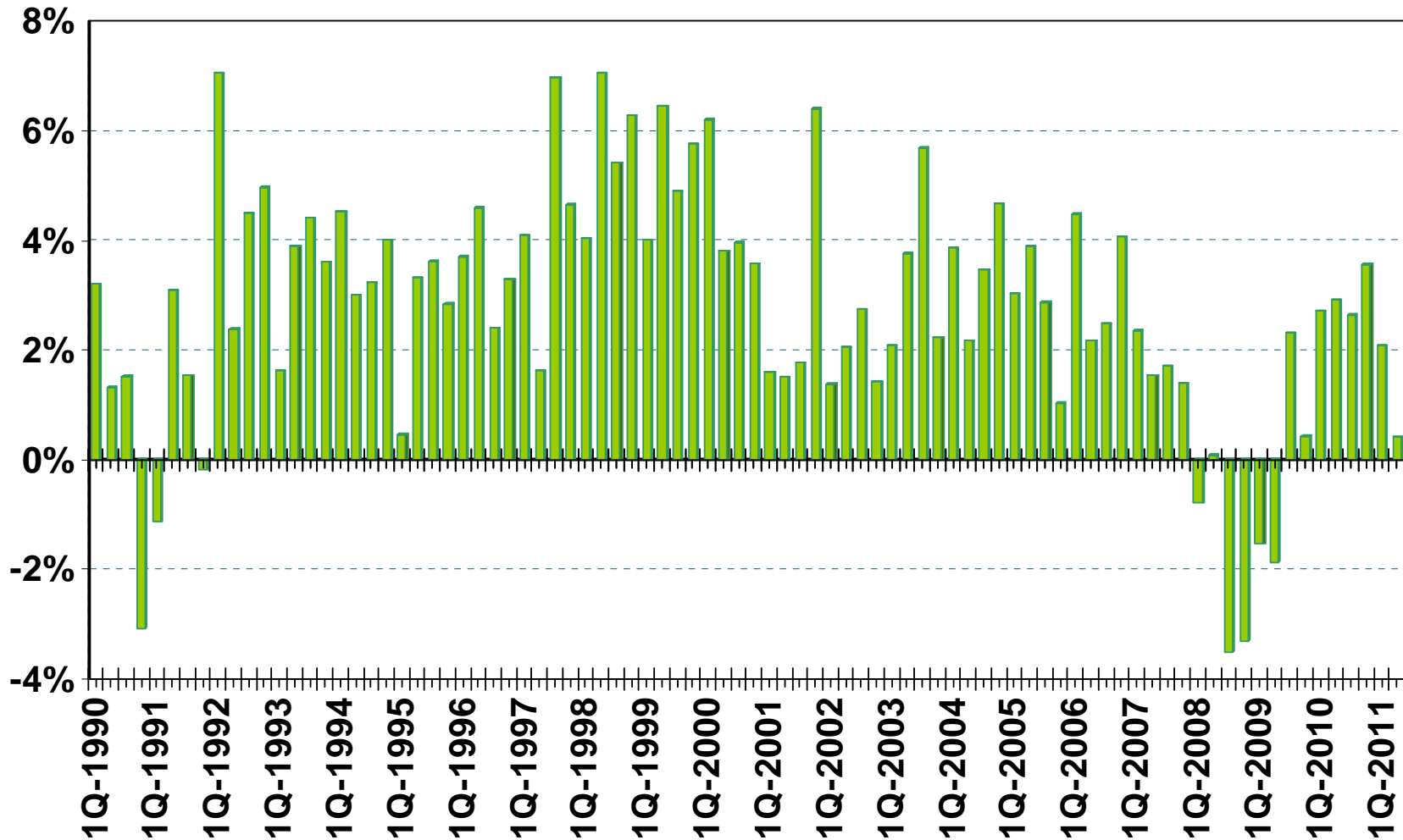
Retail Segment Drivers

- **Retail sales**
- **Growth in economy & jobs**
- **Consumer expenditures**
- **Consumer credit**

Personal Consumption

2011 Q2: 0.4%

QUARTERLY PERCENT CHANGE

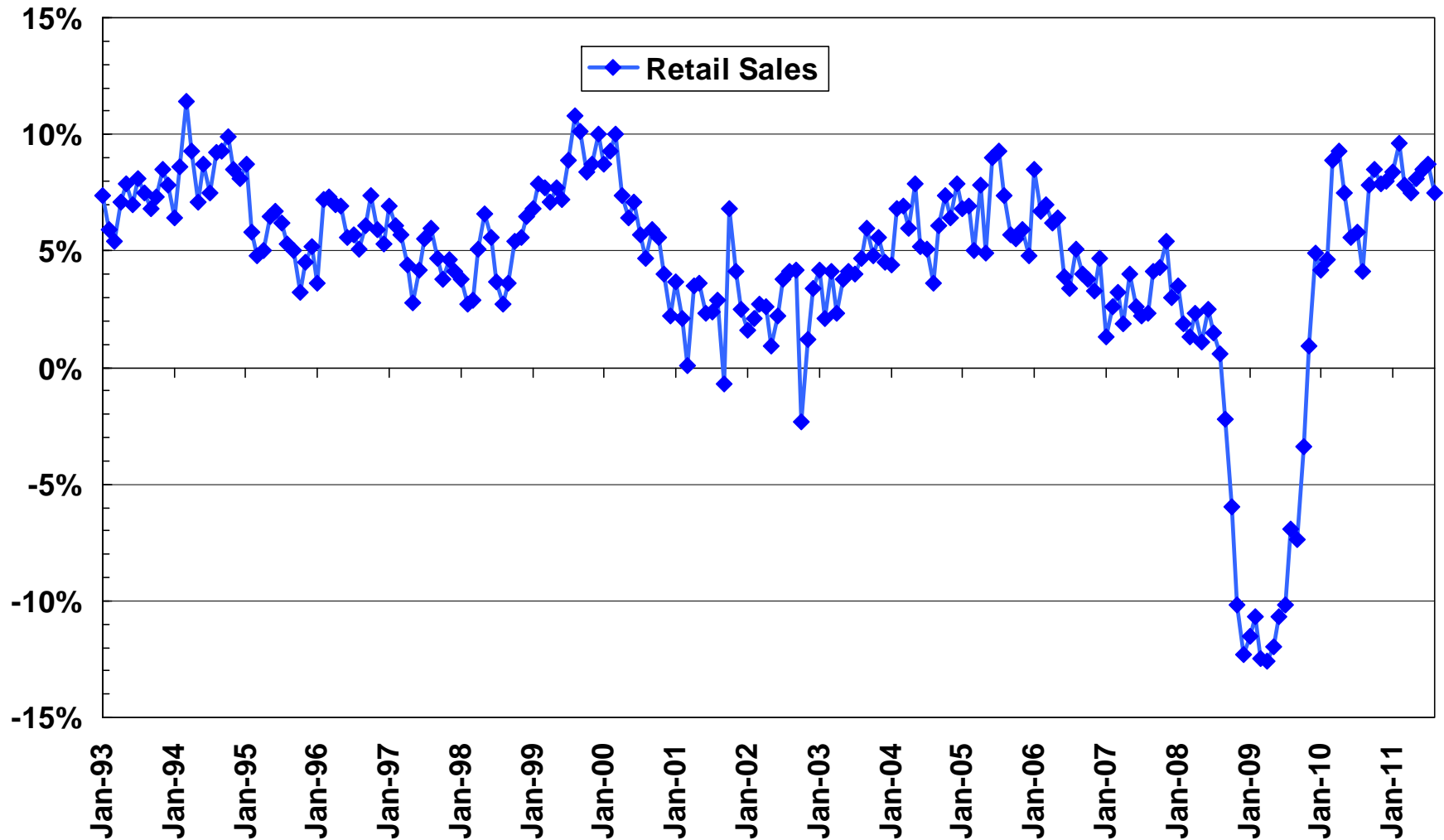


SOURCE: US Dept of Commerce,
Bureau of Economic Analysis

Retail Sales

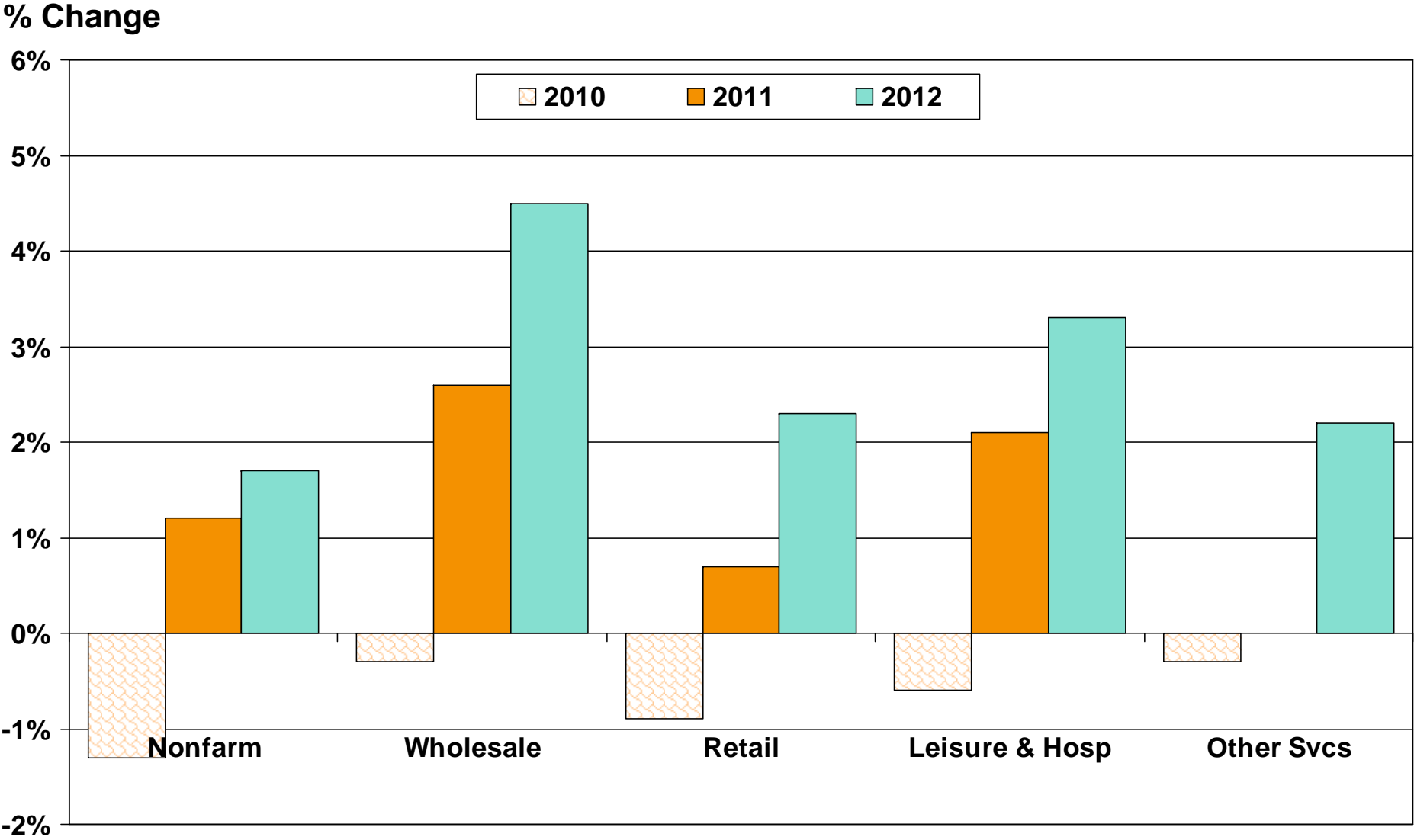
August 2011: +7.5% Average: +4.6%

PERCENT CHANGE FROM A YEAR AGO



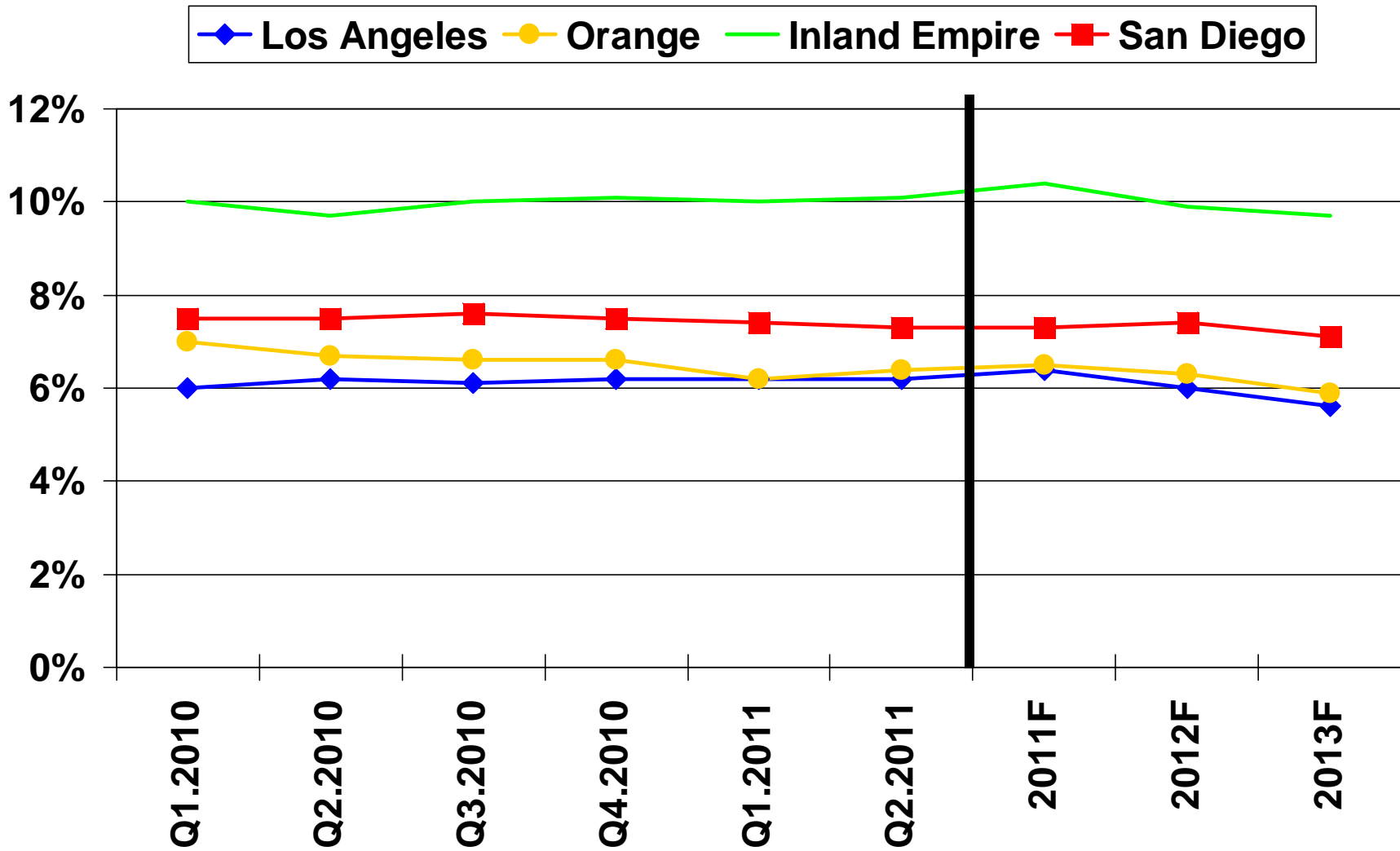
Employment by Sector-Retail

YTY % Changes in California



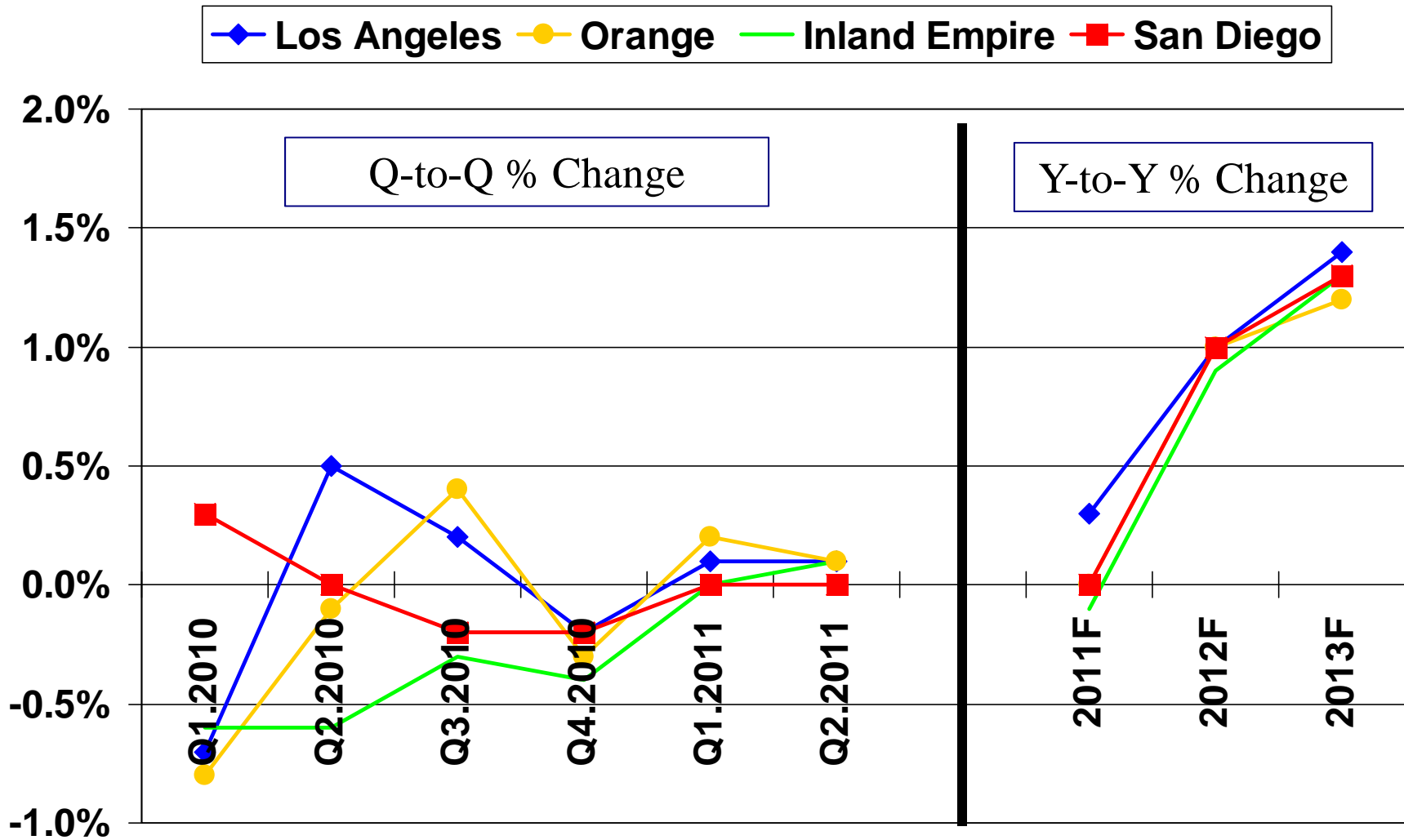
SOURCE: CA EDD, LAEDC, Compiled by C.A.R.

Vacancy Rates for Retail Segment



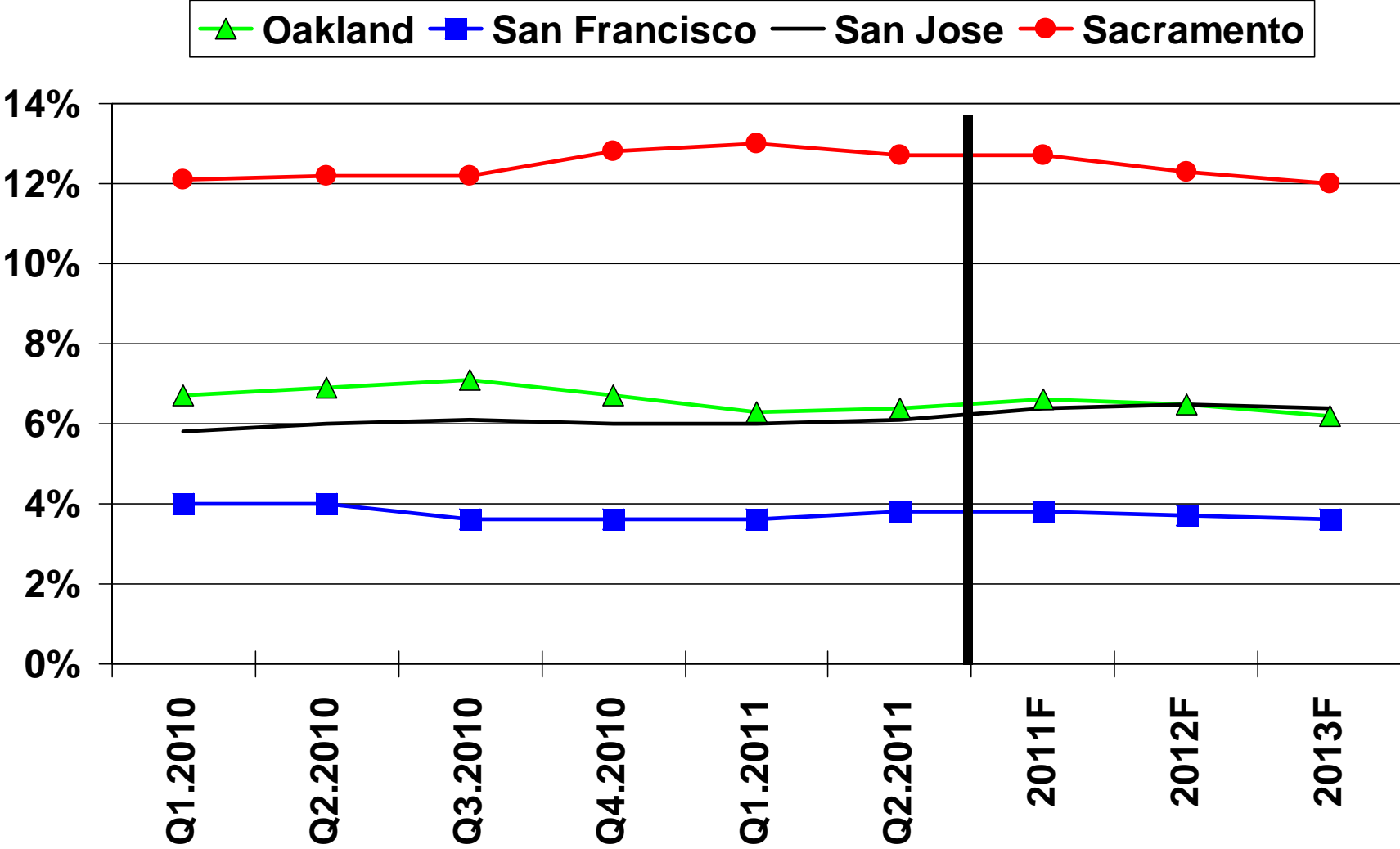
SOURCE: NAR

Lease Rates for Retail Segment



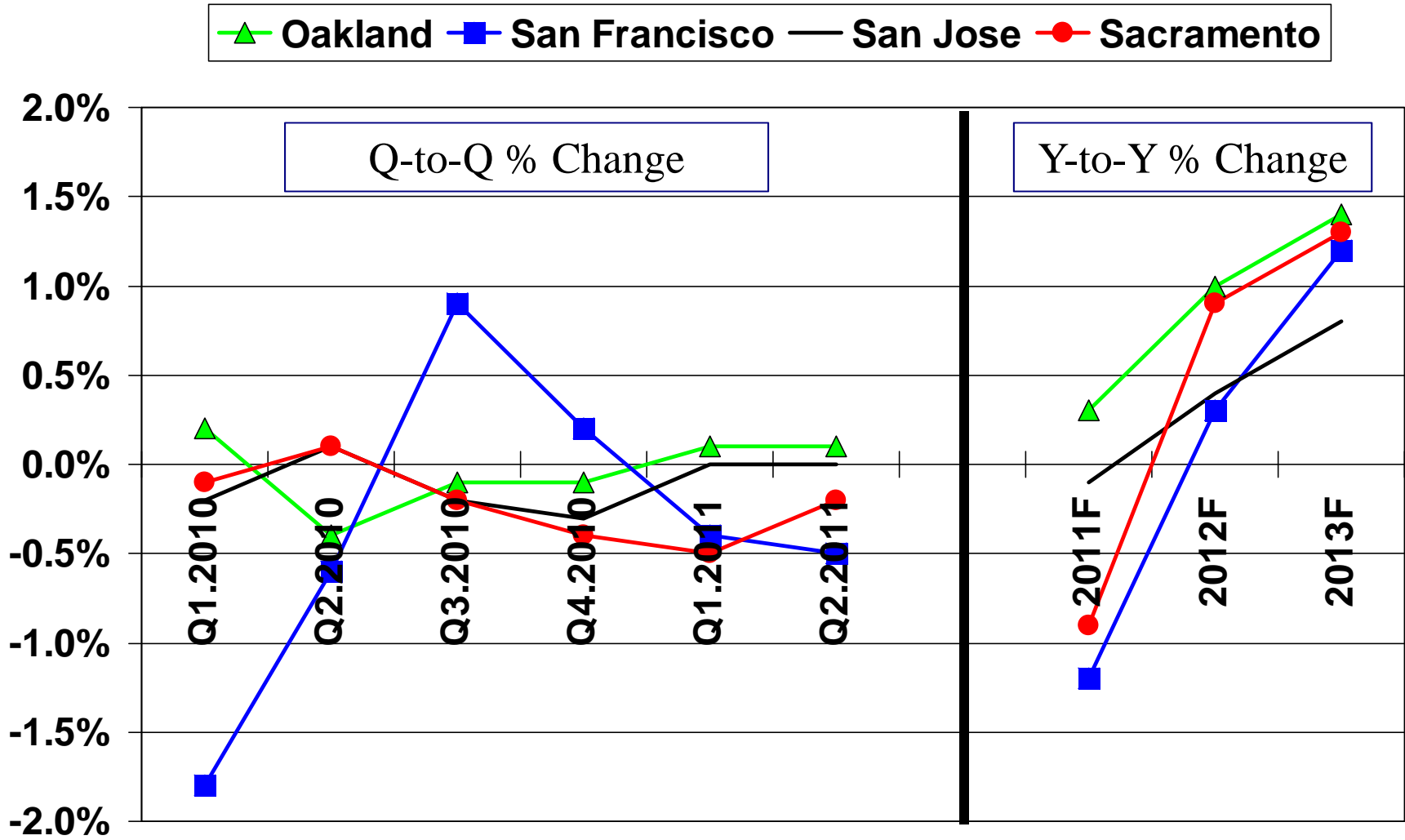
SOURCE: NAR

Vacancy Rates for Retail Segment



SOURCE: NAR

Lease Rates for Retail Segment



SOURCE: NAR

Office Space



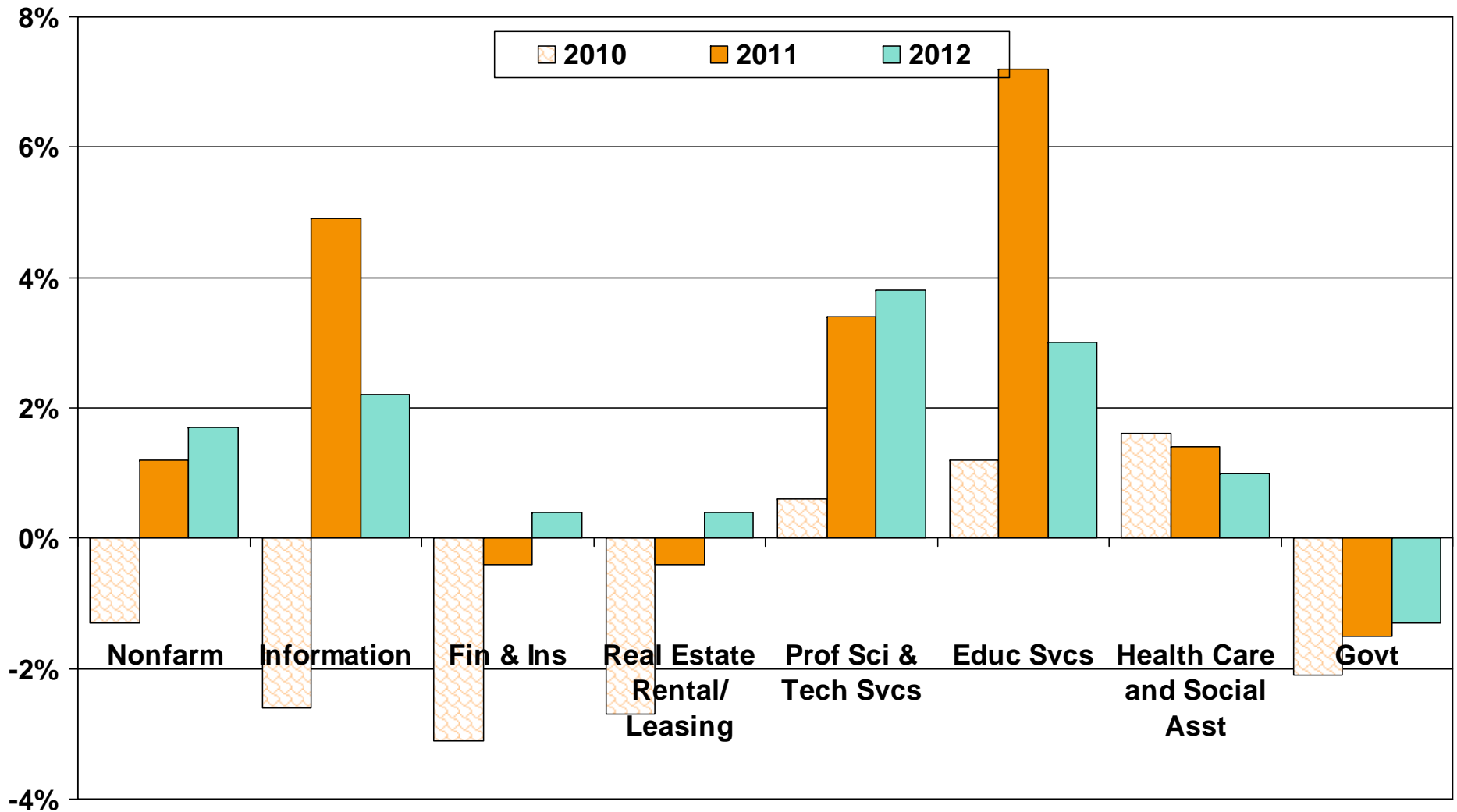
Office Segment Drivers

- **Financial Services**
- **Business Services**
- **Government**
- **Other Services**

Employment by Sector-Office

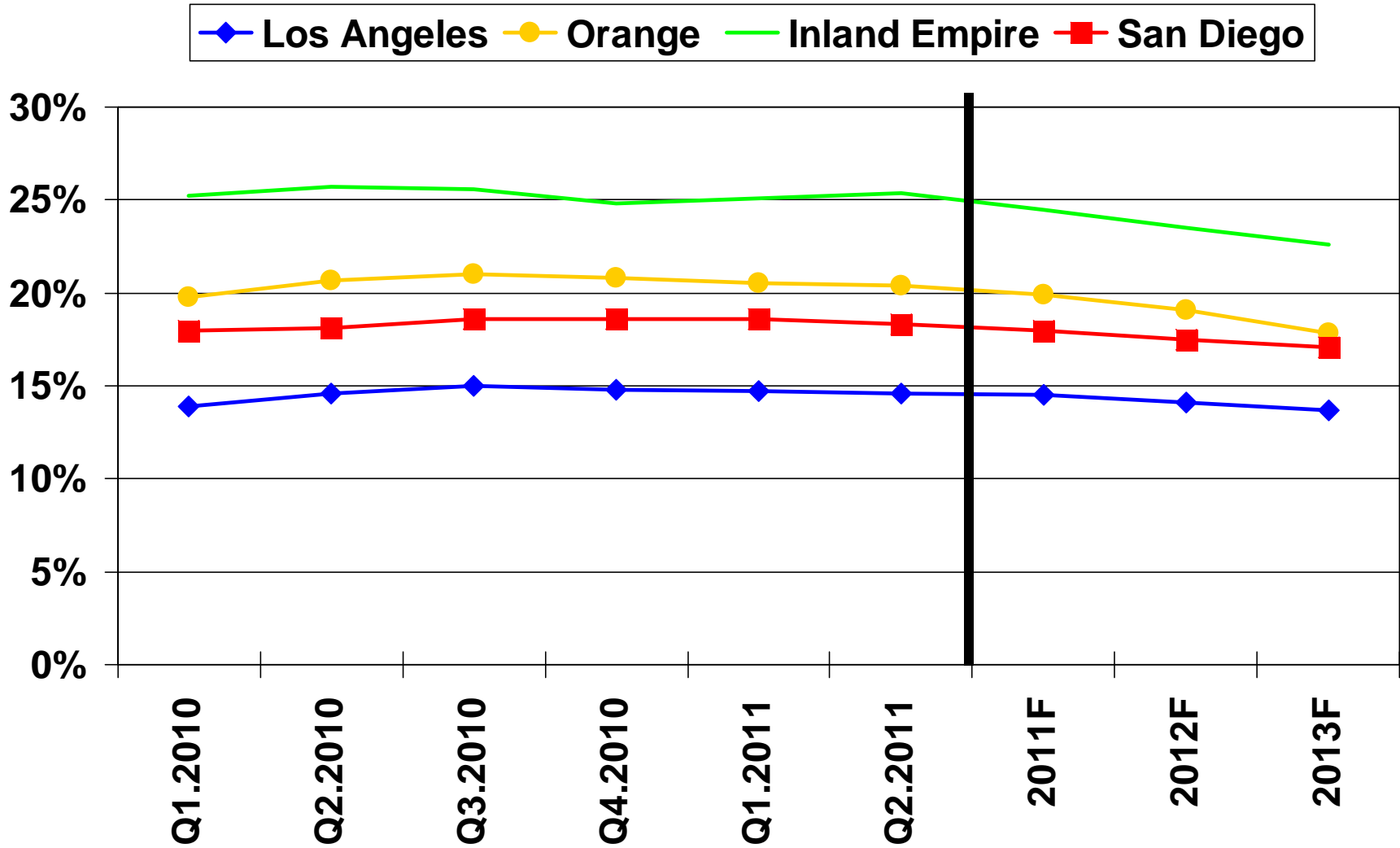
YTY % Changes in California

% Change



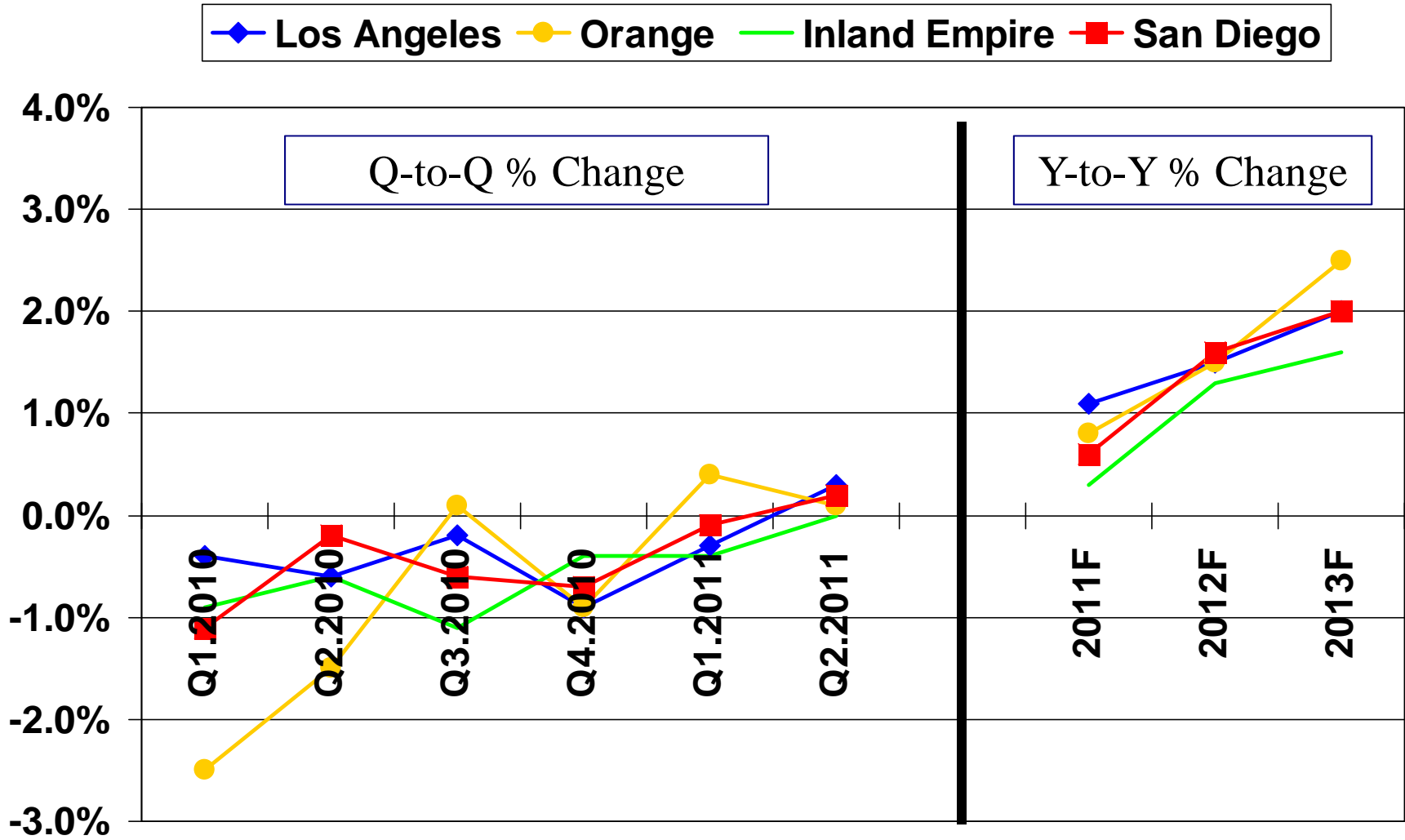
SOURCE: CA EDD, LAEDC, Compiled by C.A.R.

Vacancy Rates for Office Segment



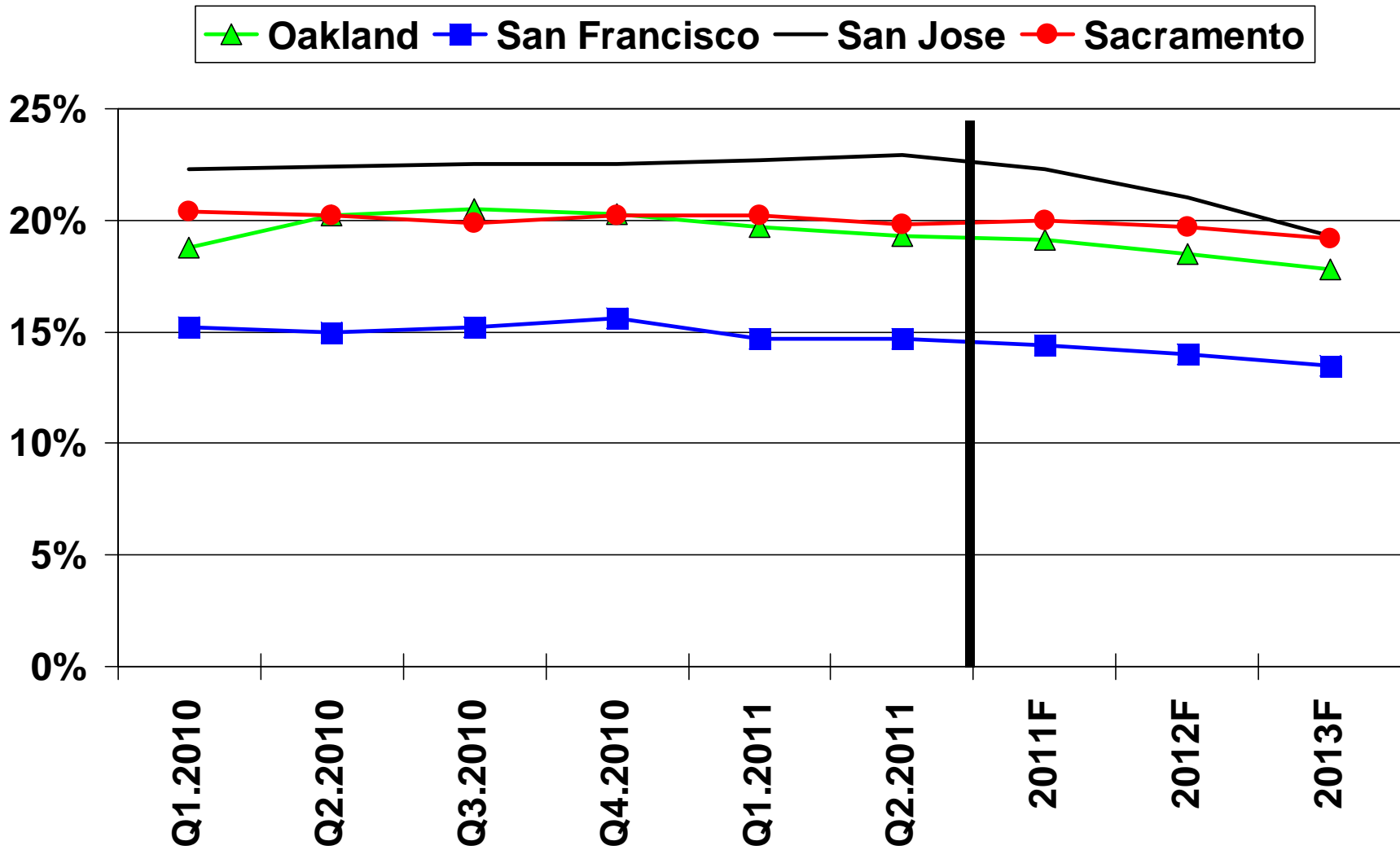
SOURCE: NAR

Lease Rates for Office Segment



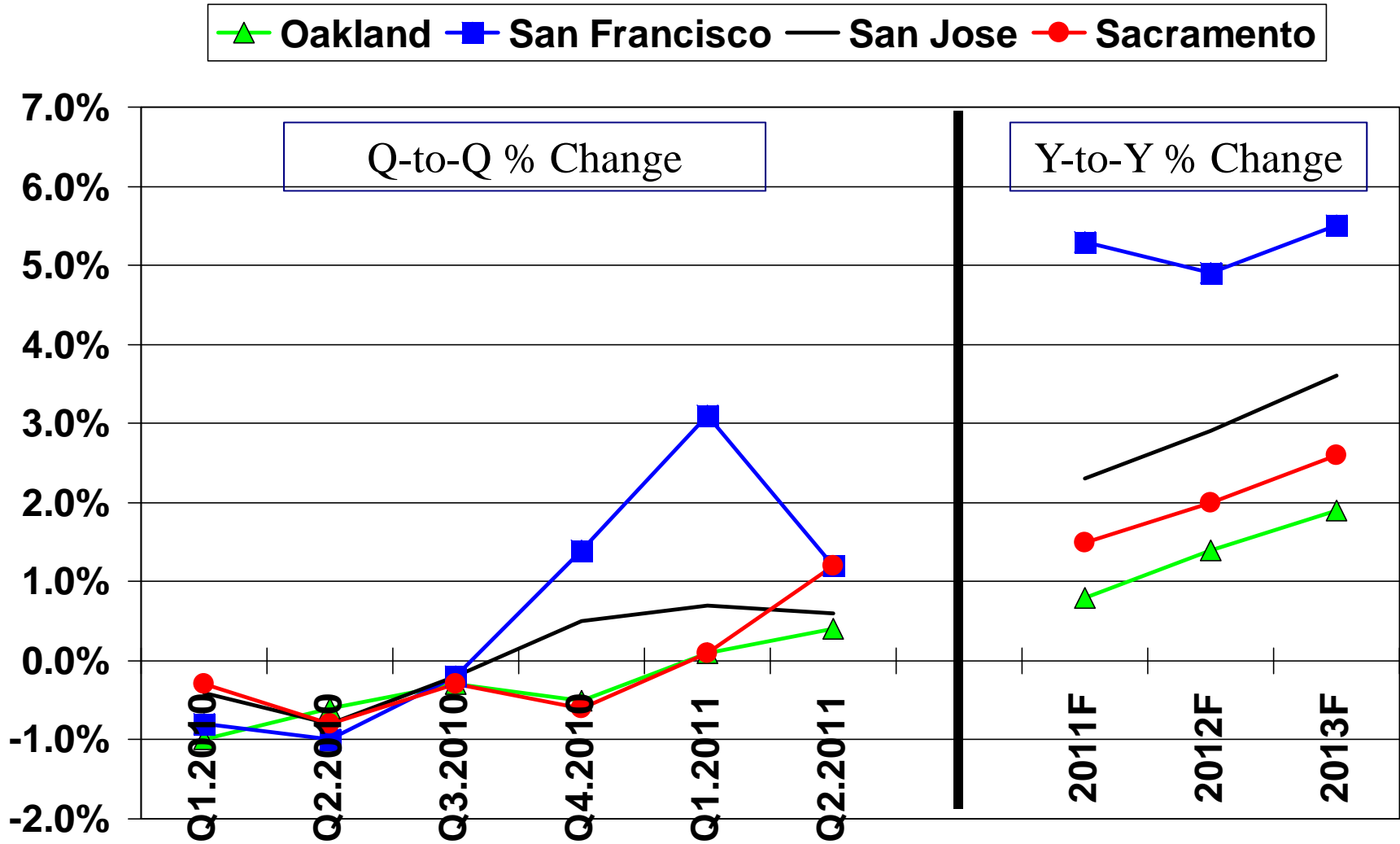
SOURCE: NAR

Vacancy Rates for Office Segment



SOURCE: NAR

Lease Rates for Office Segment



SOURCE: NAR

Multi-Family



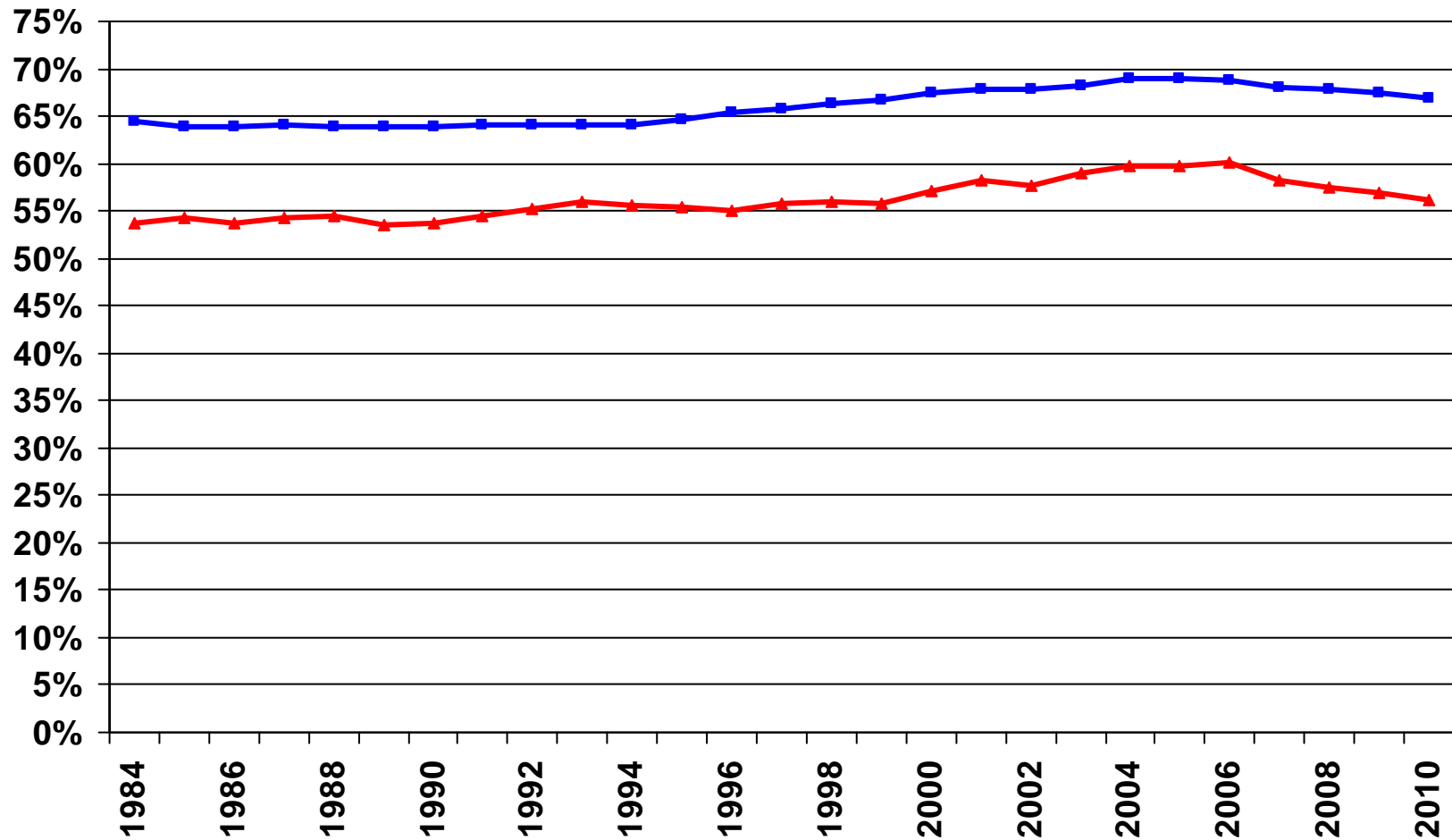
Multi-Family Segment Drivers

- **Strong demographics**
- **Renter share in California larger than US**
- **Undersupply of units**
- **Low vacancies**

Homeownership Rates

California Vs. U.S.

CA US



SOURCE: U.S. Census Bureau

National Housing Starts

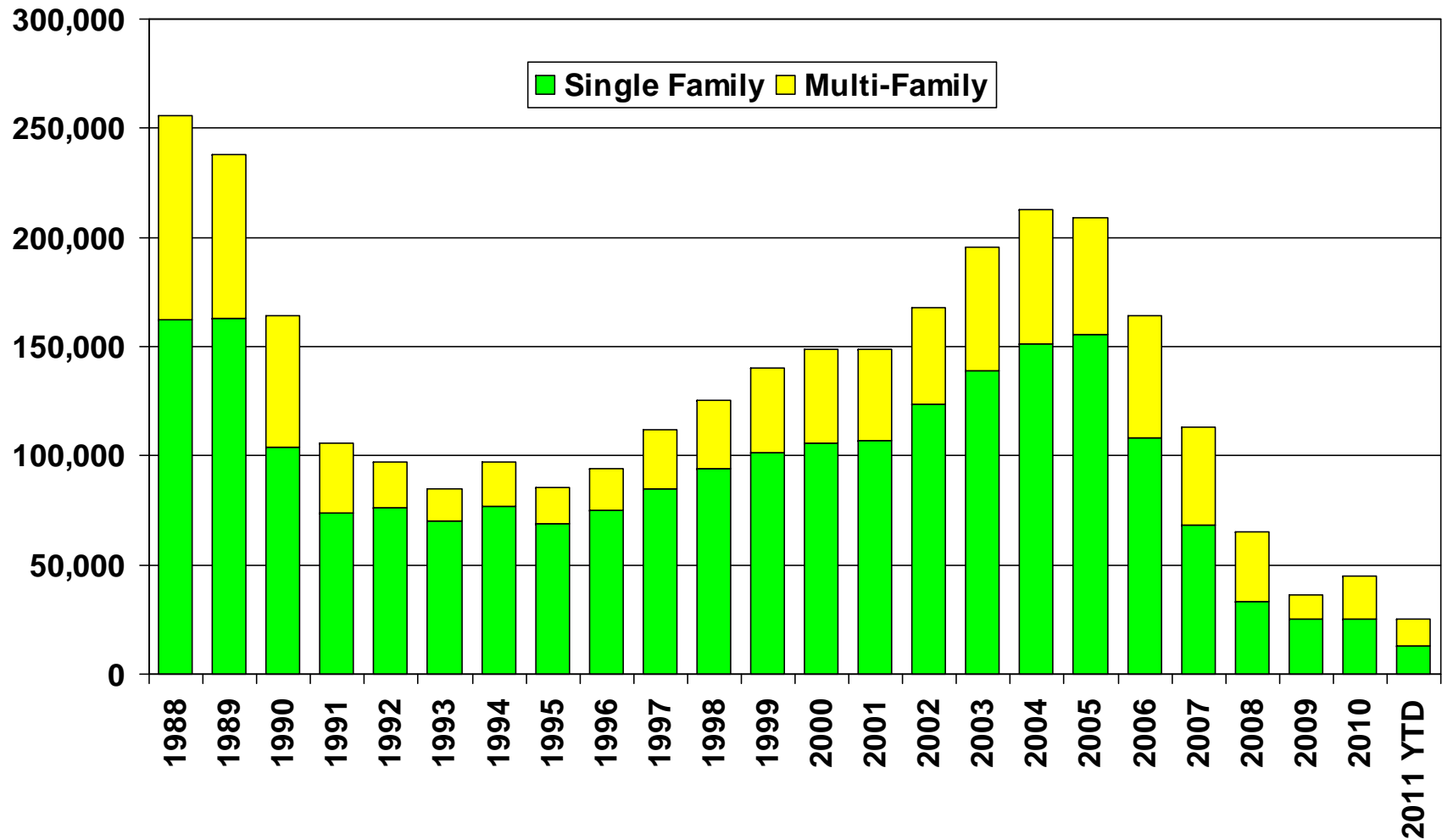
2000-Present

MONTHLY AVERAGE (in 000s)



CA New Housing Permits

2010: 44,601 units, +22.5% YTY; July 2011: -1.7% YTD

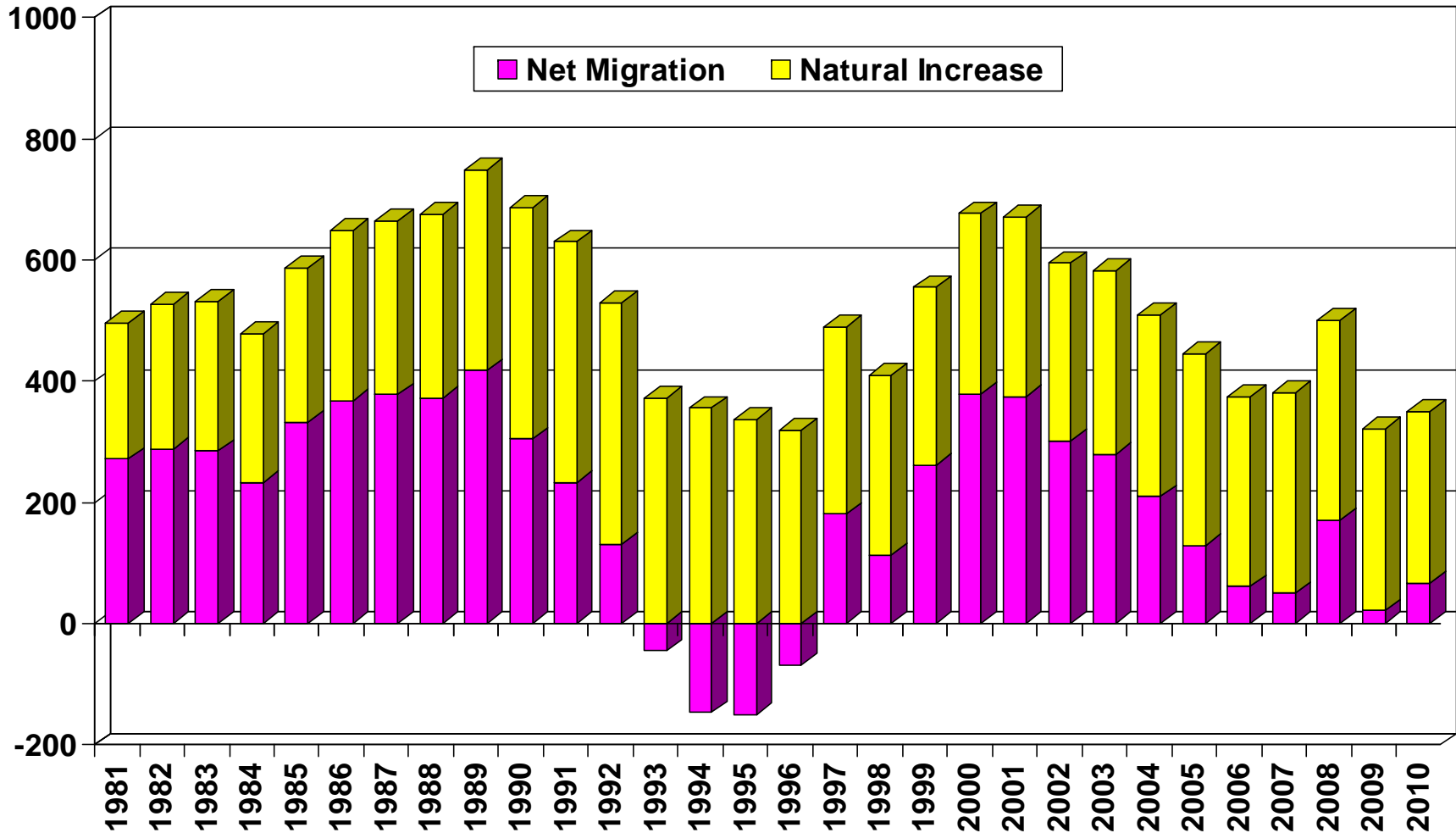


SOURCE: CBIA

Sources of Population Growth

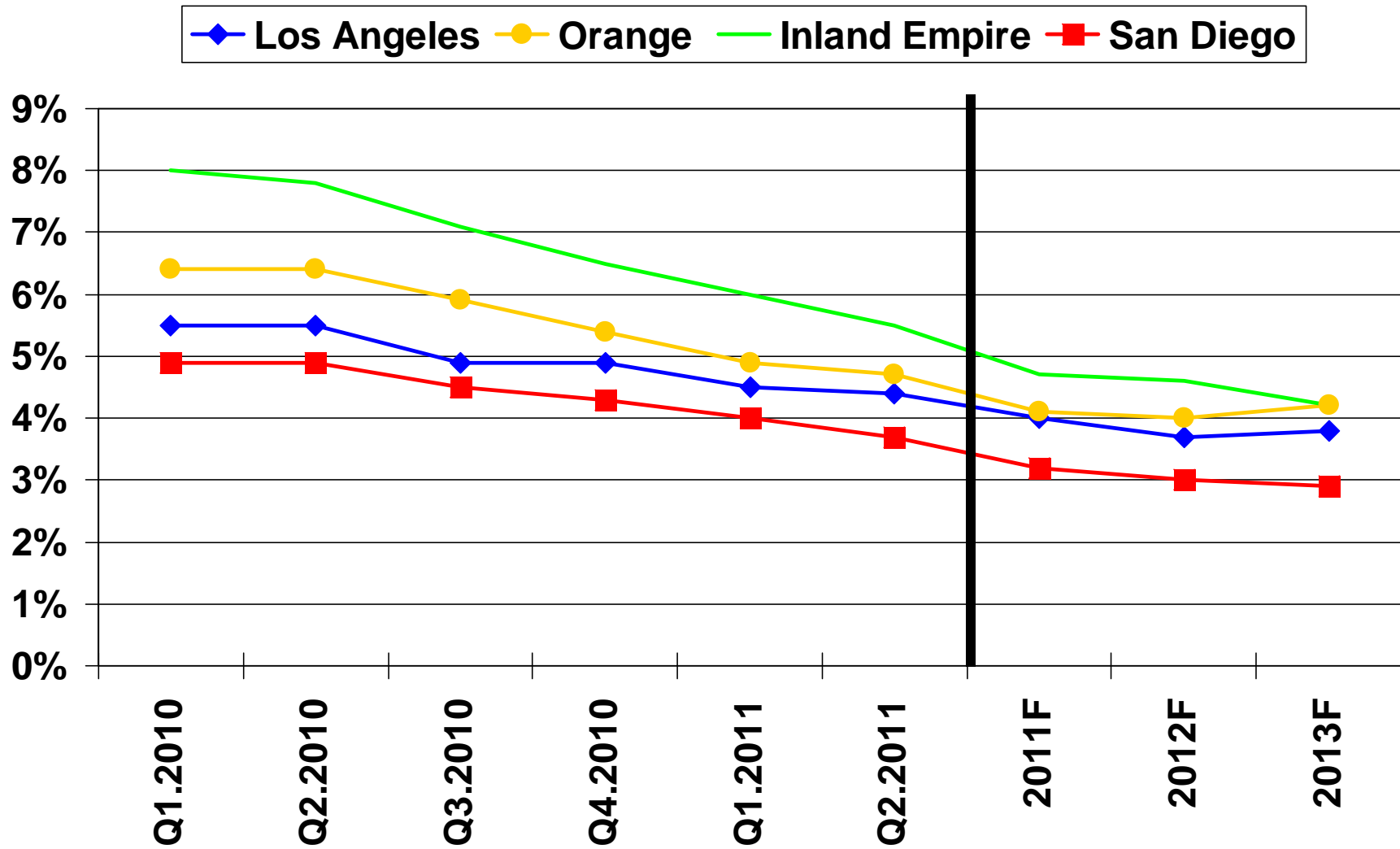
California 1981-2010

THOUSANDS



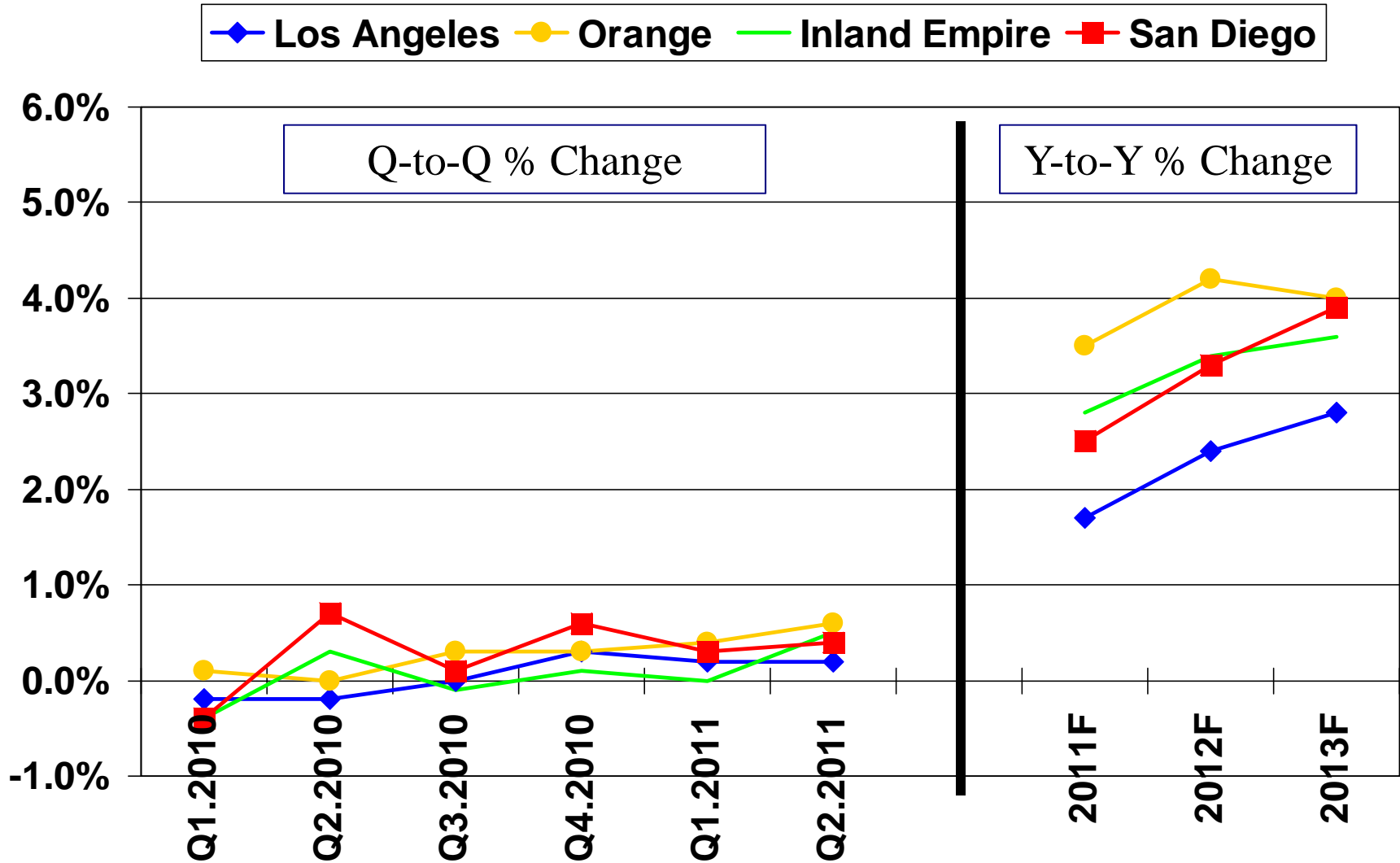
SOURCE: CA Dept. of Finance

Vacancy Rates for Multifamily Segment



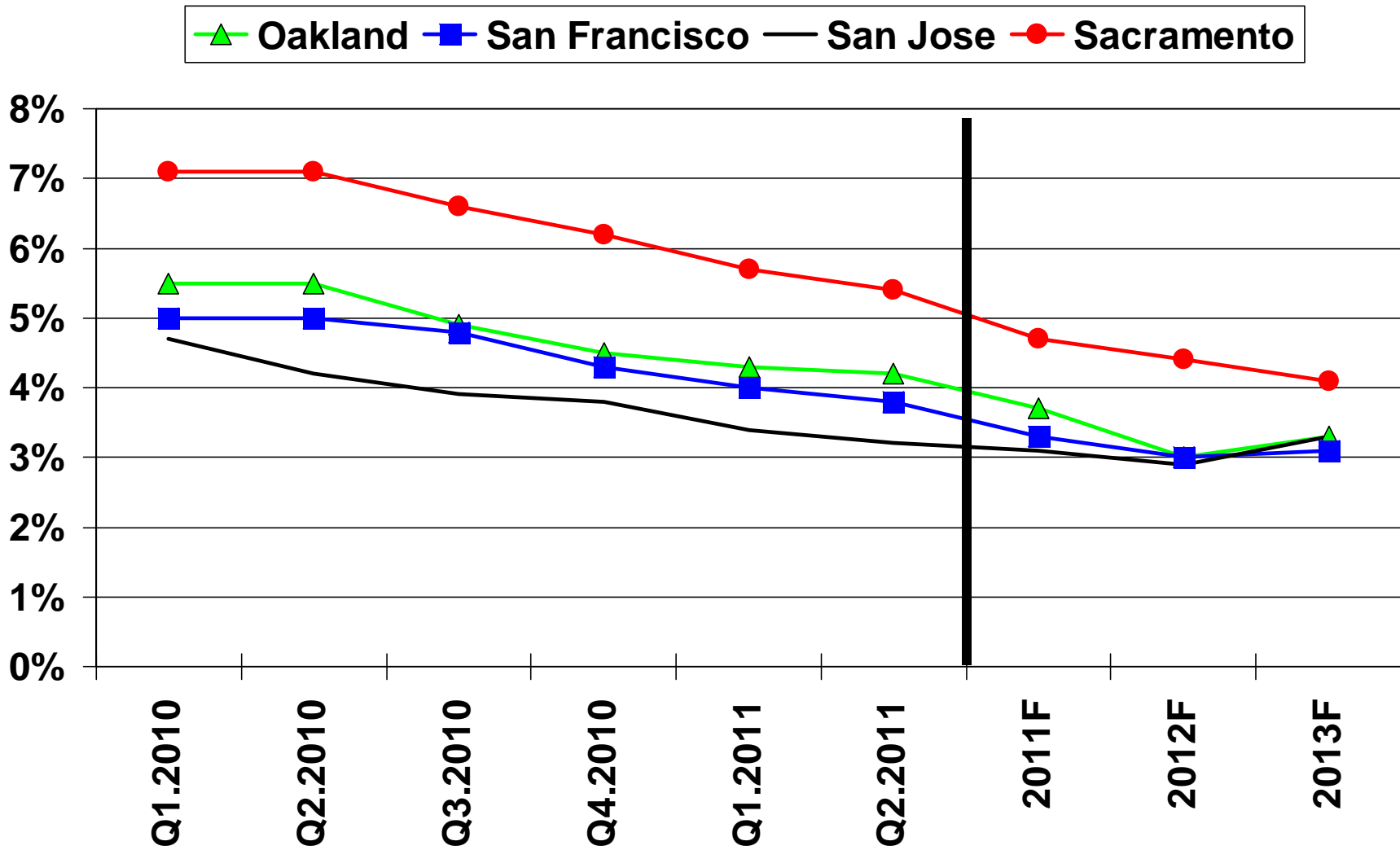
SOURCE: NAR

Rental Rates for Multifamily Segment



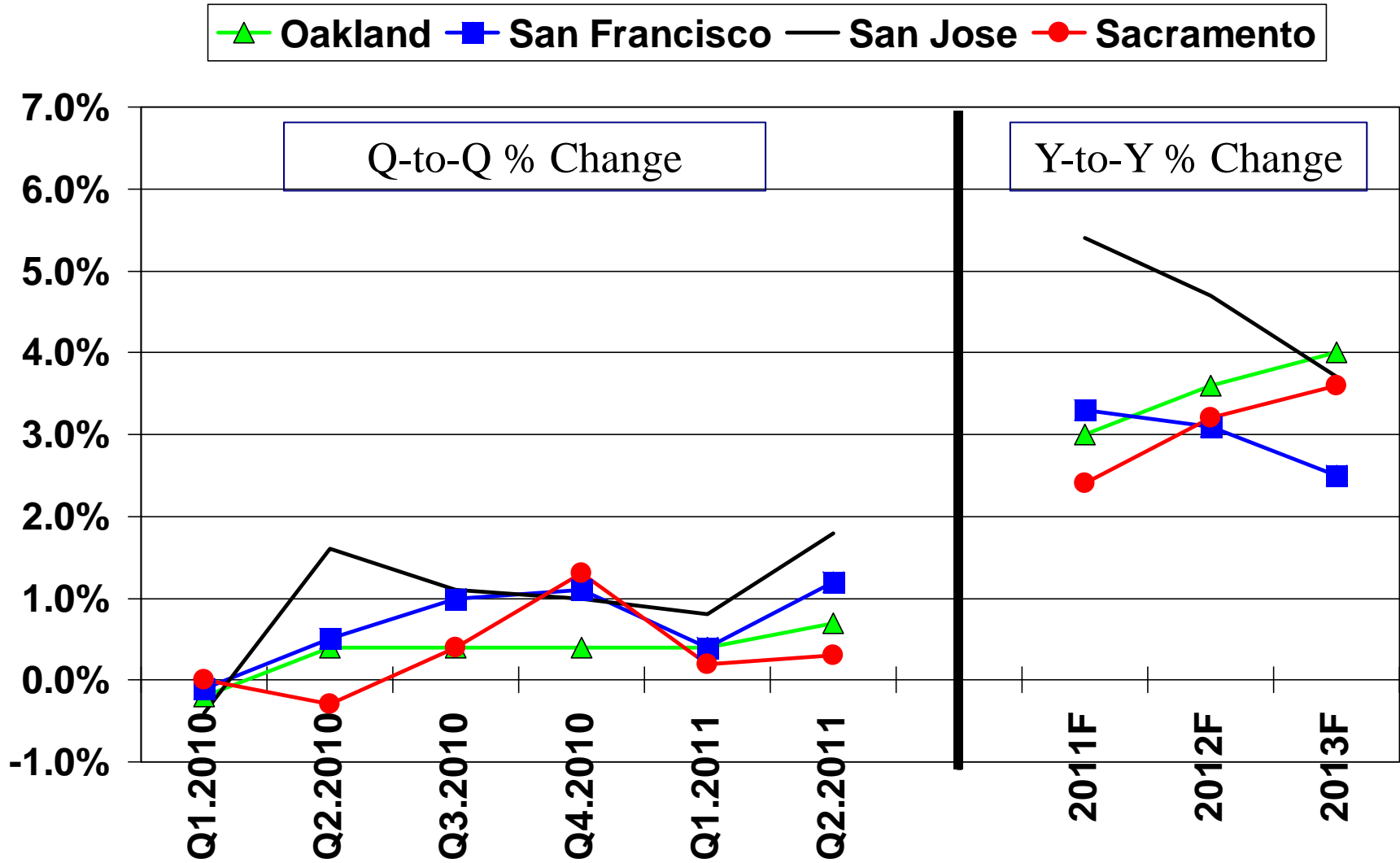
SOURCE: NAR

Vacancy Rates for Multifamily Segment



SOURCE: NAR

Rental Rates for Multifamily Segment



SOURCE: NAR

Commercial Markets Forecast

US Outlook

INDUSTRIAL	2011	2012
Vacancy Rate	13.0%	12.2%
Rent Rate	-0.9%	2.0%
Net Absorption (000s sq ft)	47,786	84,754
Completions (000s sq ft)	16,308	39,086
Inventory (000,000s sq ft)	8,381	8,421

SOURCE: NATIONAL ASSOCIATION OF REALTORS®

US Outlook

RETAIL	2011	2012
Vacancy Rate	13.0%	12.3%
Rent Rate	-0.4%	0.7%
Net Absorption (000s sq ft)	1,478	13,161
Completions (000s sq ft)	5,605	13,162
Inventory (000,000s sq ft)	2,026	2,039

SOURCE: NATIONAL ASSOCIATION OF REALTORS®

US Outlook

OFFICE	2011	2012
Vacancy Rate	16.6%	16.4%
Rent Rate	0.8%	1.5%
Net Absorption (000s sq ft)	28,344	48,646
Completions (000s sq ft)	14,463	31,717
Inventory (000,000s sq ft)	4,088	4,120

SOURCE: NATIONAL ASSOCIATION OF REALTORS®

US Outlook

MULTI-FAMILY	2011	2012
Vacancy Rate	5.6%	4.7%
Rent Rate	2.5%	3.2%
Net Absorption (units)	237,743	126,051
Completions (units)	40,330	88,644
Inventory (units in millions)	9.9	9.9

SOURCE: NATIONAL ASSOCIATION OF REALTORS®

Commercial Outlook

Industrial

- US Vacancy Rate 2011-2013: 13.0, 12.2%, 10.0%
- Better in LA, Orange County, San Bernardino, San Diego, and Oakland than elsewhere in US
- Need gains in trade and mfg to improve

Retail

- US Vacancy Rate 2011-2013: 13.0%, 12.3%, 11.5%
- Vacancy rates lower in most CA metro areas, except Sacramento
- Fundamentals weak across markets of the state, need increased consumer spending to reverse trend

Commercial Outlook

Office

- US Vacancy Rate 2011-2013: 16.6%, 16.4%, 16.0%
- Weak markets because of job losses across many sectors
- SF and LA outperforming the US

Multi-Family

- US Vacancy Rate 2011-2013: 5.6, 4.7%, 4.4%
- All CA metro areas outperform US averages
- Push from problems in owner-occupied sector

Summary

Economy:

- Slow recovery, modest chance of recession
- Labor market: mixed signals, job growth slow
- Need improvement in consumer sector to spur growth

Housing:

- Slow improvement
- Continued but decreasing numbers of distressed sales
- Prices – stabilizing in 2012

Commercial

- Ahead of residential sector in recovery
- Improvement depends on economic growth
- California metro markets better than elsewhere in US

Econ Panel: “Why Lenders Can’t Lend”


Moderated by Leslie Appleton-Young


Thursday, September 21 2:00p – 3:30p

San Jose Convention Center, Exhibit Hall 1

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WHAT'S NEW

The Sales-to-List Price Ratio:
California home sales were weaker than expected in July as economic uncertainty continued to have a negative impact on consumer confidence. [MORE >](#)


July Pending Home Sales
California pending home sales dipped in July, as did the share of sales of distressed properties, C.A.R. reported today. [MORE >](#)

July sales and price report
California home sales decline in July, but still higher than a year ago, C.A.R. reports. [MORE >](#)

Downgrades, Debt Concerns, and the Impact on Mortgage Rates
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The End - - Thank You