

Real Estate and California

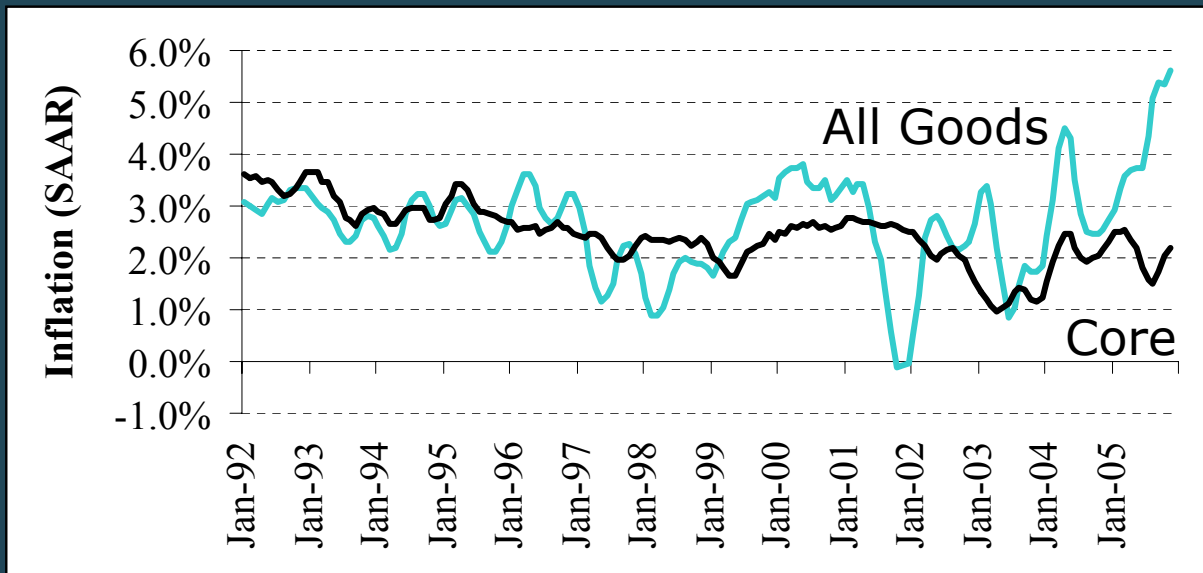
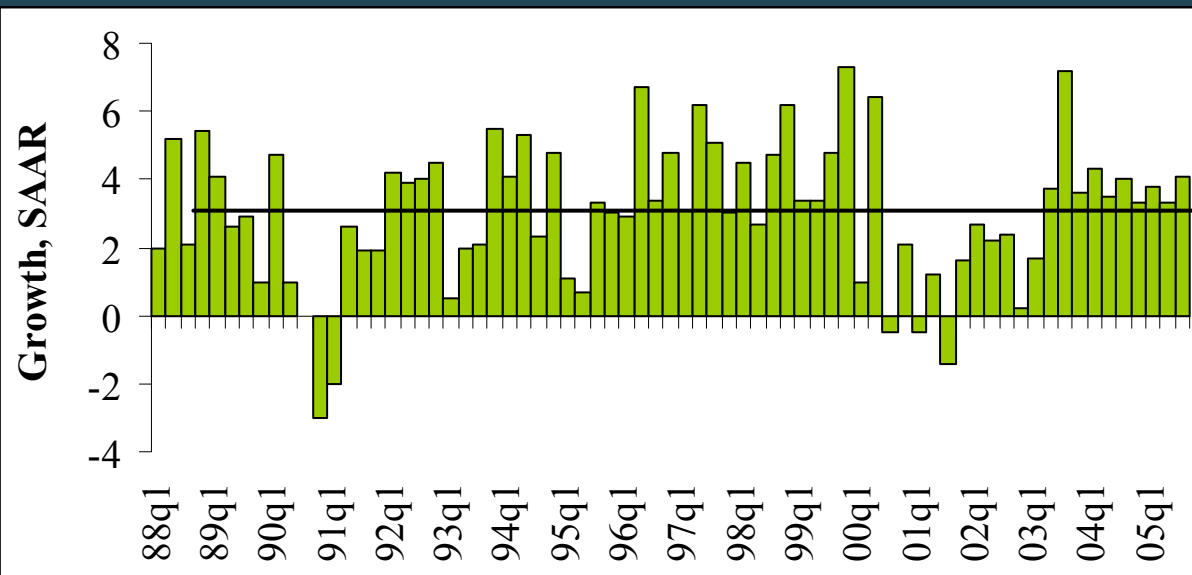


Christopher Thornberg
Senior Economist



For more information please visit
WWW.UCLAFORECAST.COM

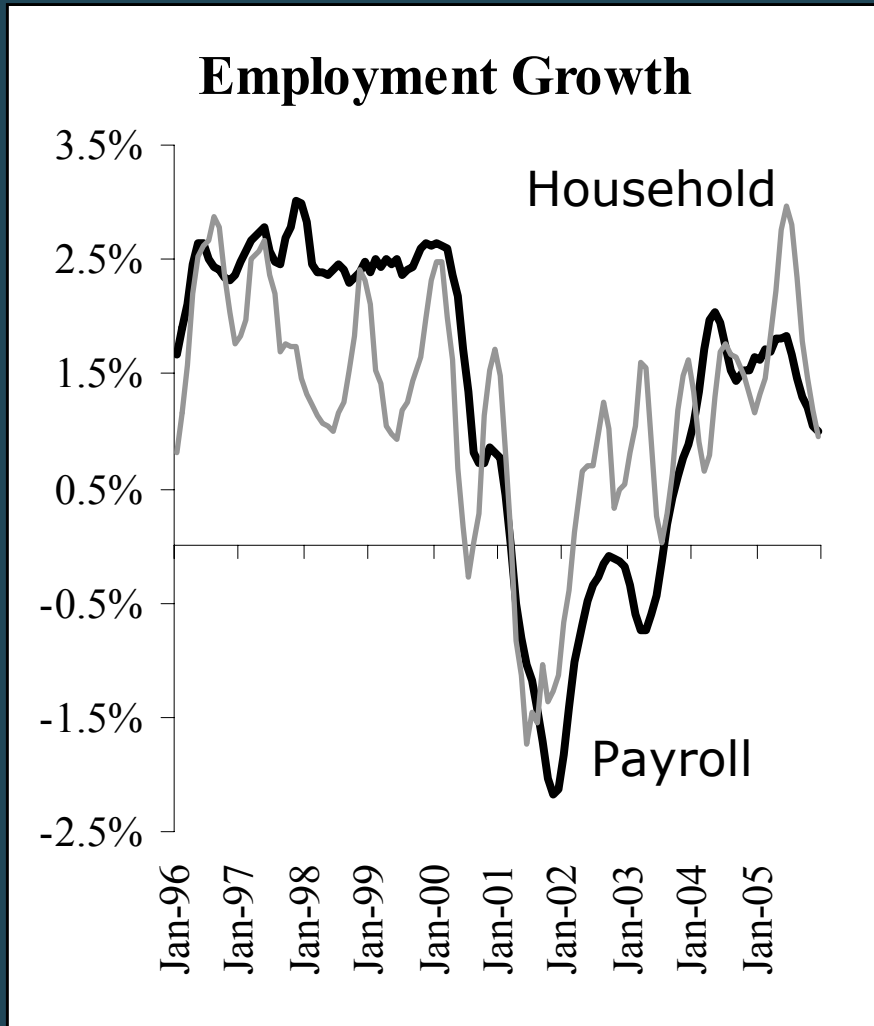
US GDP and Prices: strangely stable



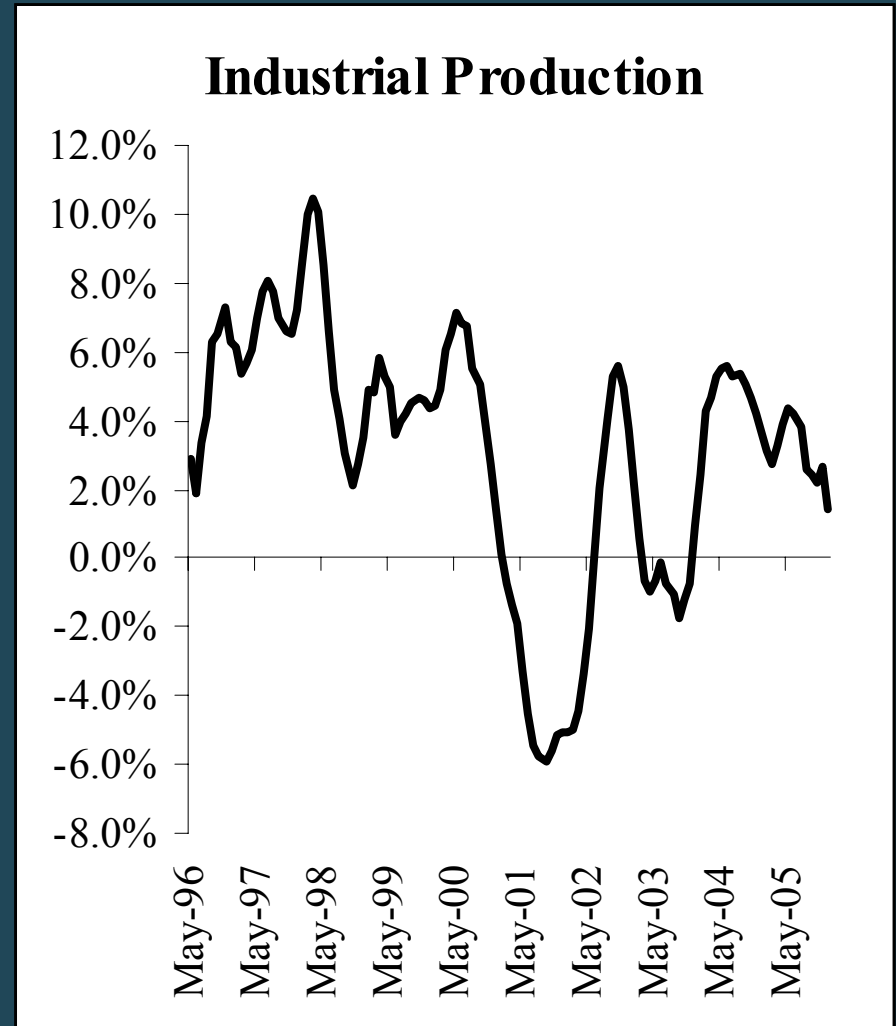
Contributions by Source of Spending

Percent change	3.19	4.08	
Consumption	2.23	2.71	1.0
Durable goods	0.48	0.62	1.0
Nondurables	0.58	0.89	1.2
Services	1.17	1.20	0.8
Gross investment	0.71	1.29	1.4
Fixed investment	0.68	1.41	1.6
Nonresidential	0.53	0.89	1.3
Residential	0.15	0.52	2.8
Net exports	-0.16	-0.37	1.9
Exports	0.51	0.70	1.1
Imports	-0.66	-1.07	1.3
Government	0.41	0.45	0.9
Federal	0.13	0.35	2.1
State and local	0.28	0.11	0.3

Other indicators are decent



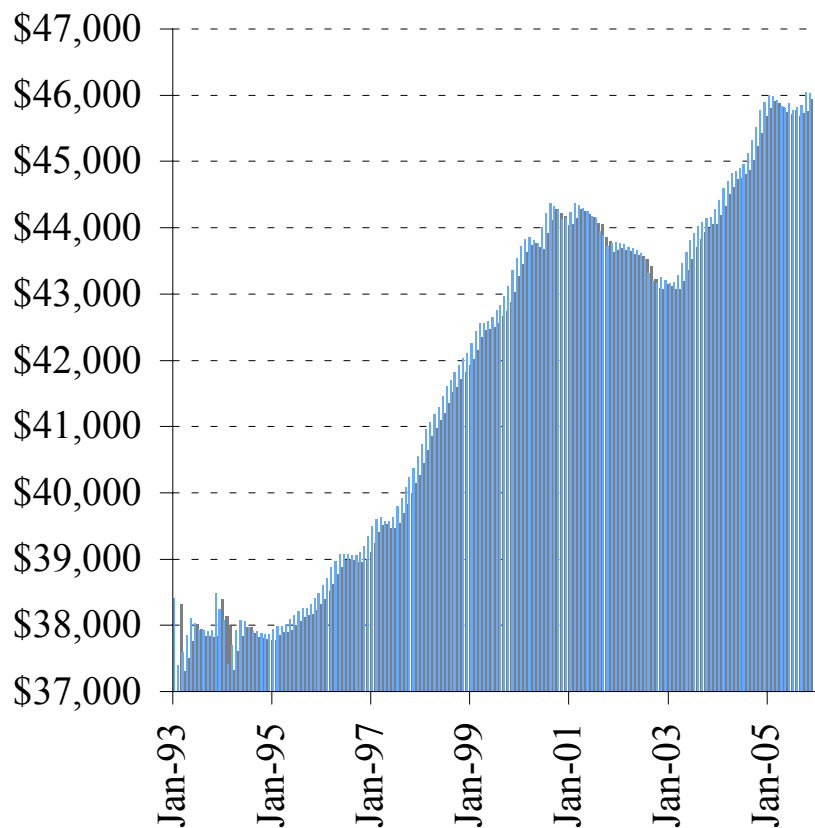
Payroll and Household, SAAR



SAAR

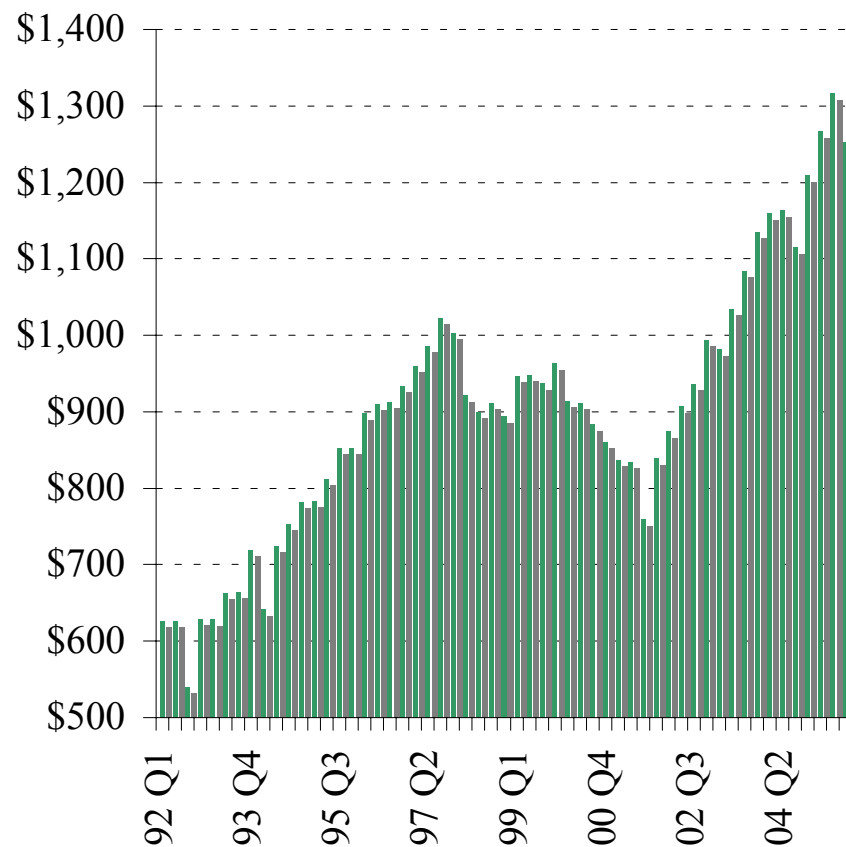
Corporate Income Stronger than Worker

Per Worker Income



Real, \$2004

Corporate Income

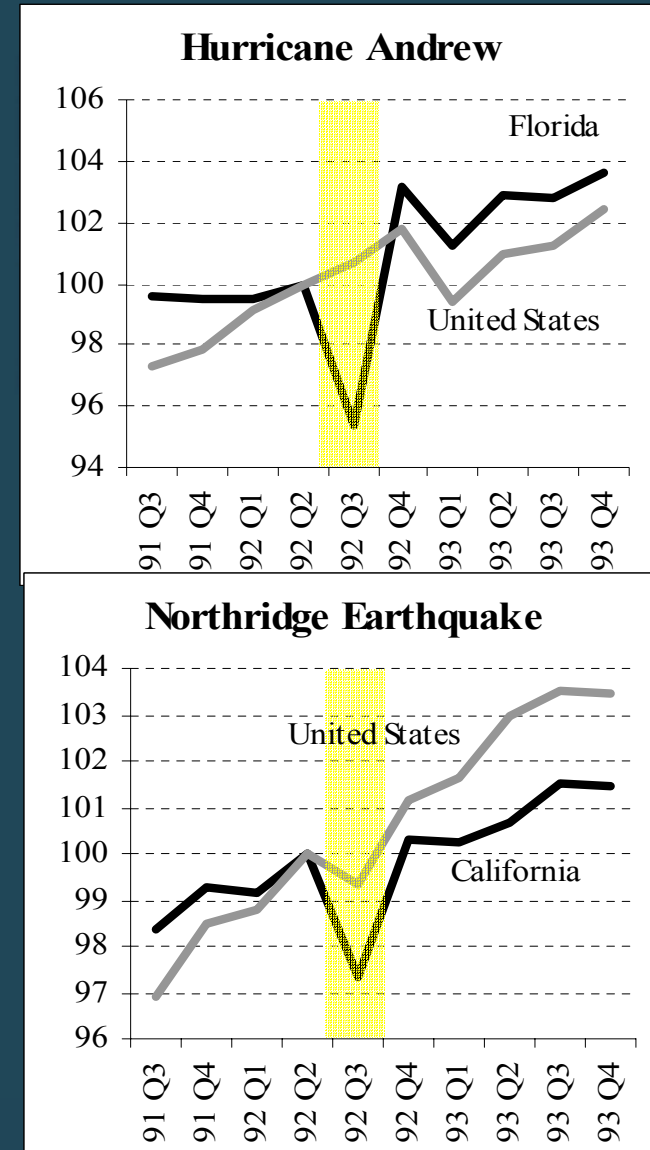


Billions, Real, \$2004

How about Katrina?

Disasters do not cause recessions!

- The disrupted area is $\sim .6\%$ of the US economy
- The rebuilding process often stimulates greater than normal economic activity after the event, allowing the economy to 'catch up'
- Evacuees may get jobs fairly quickly (Borjas study of Mariel boatlift)
- The secondary effects on the aggregate economy will be very small

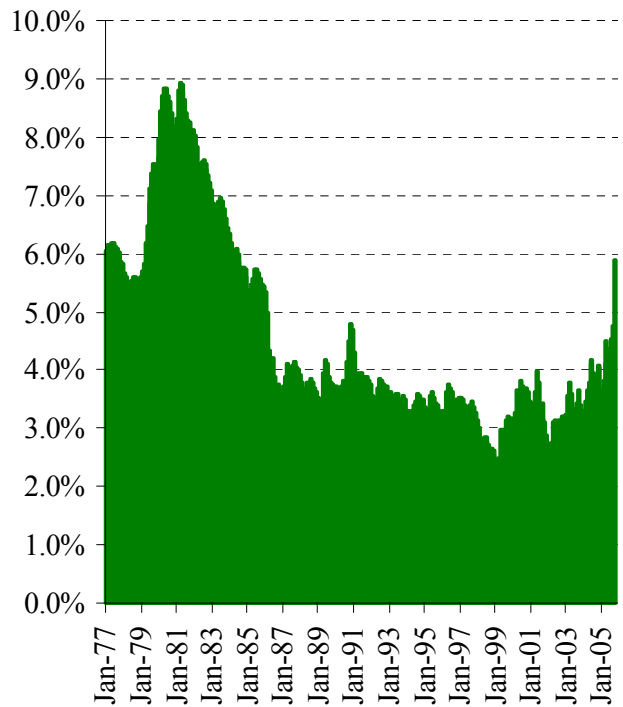


Gas prices are not going to sink the boat

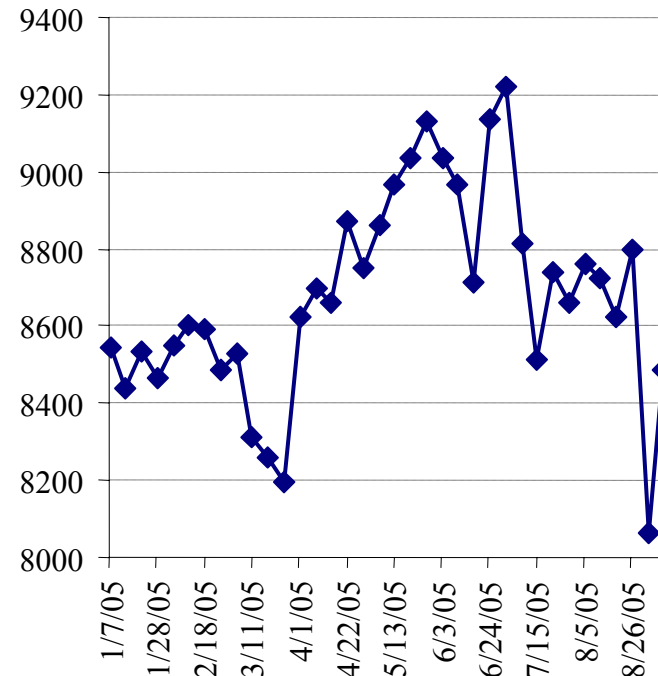
THE TIMES-PICAYUNE
©2004

SKELLYN

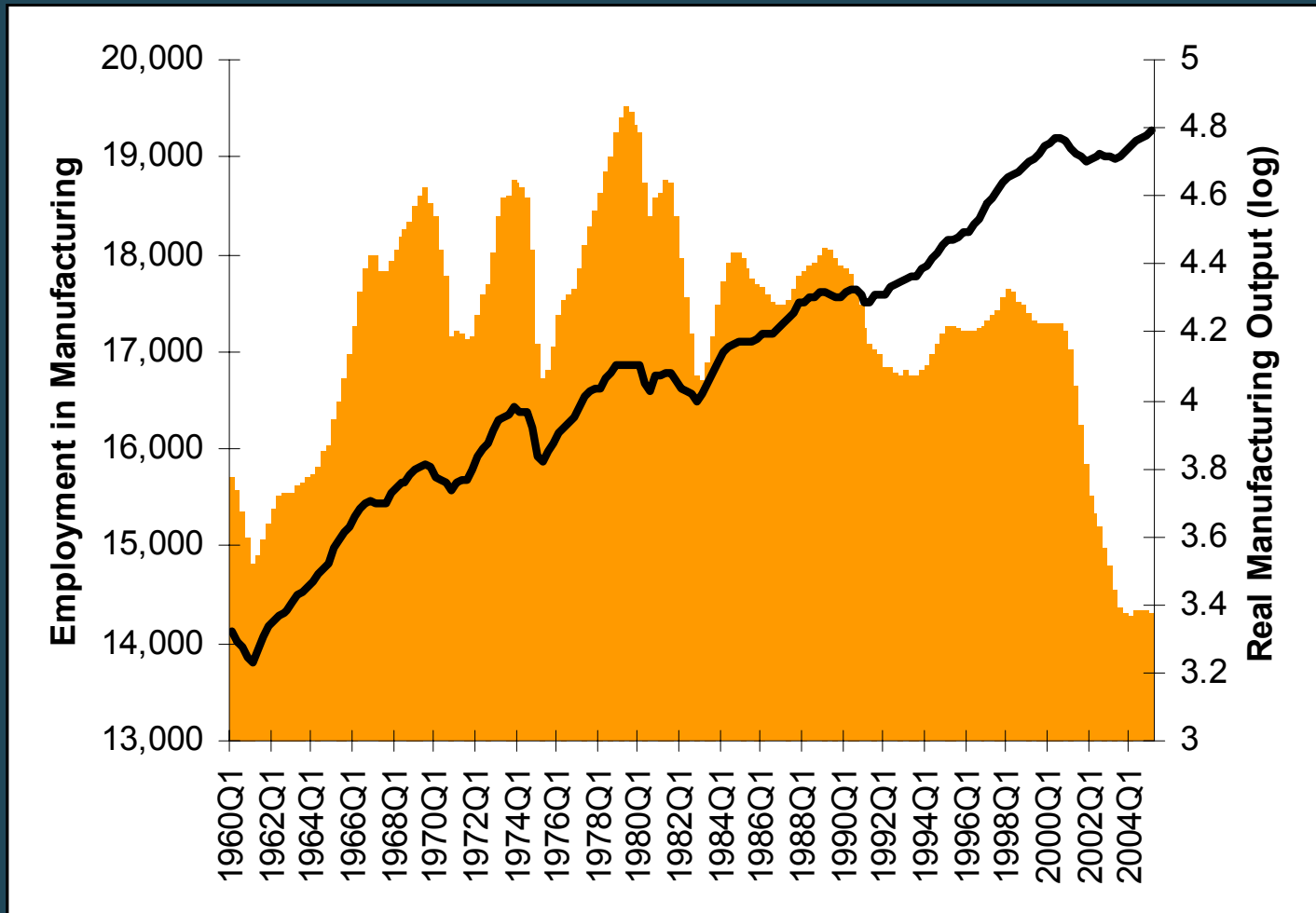
Fuel Expenditures as % of Income
(based on 600 gallons per year)



US Gasoline Production
(Million Barrels per Day)



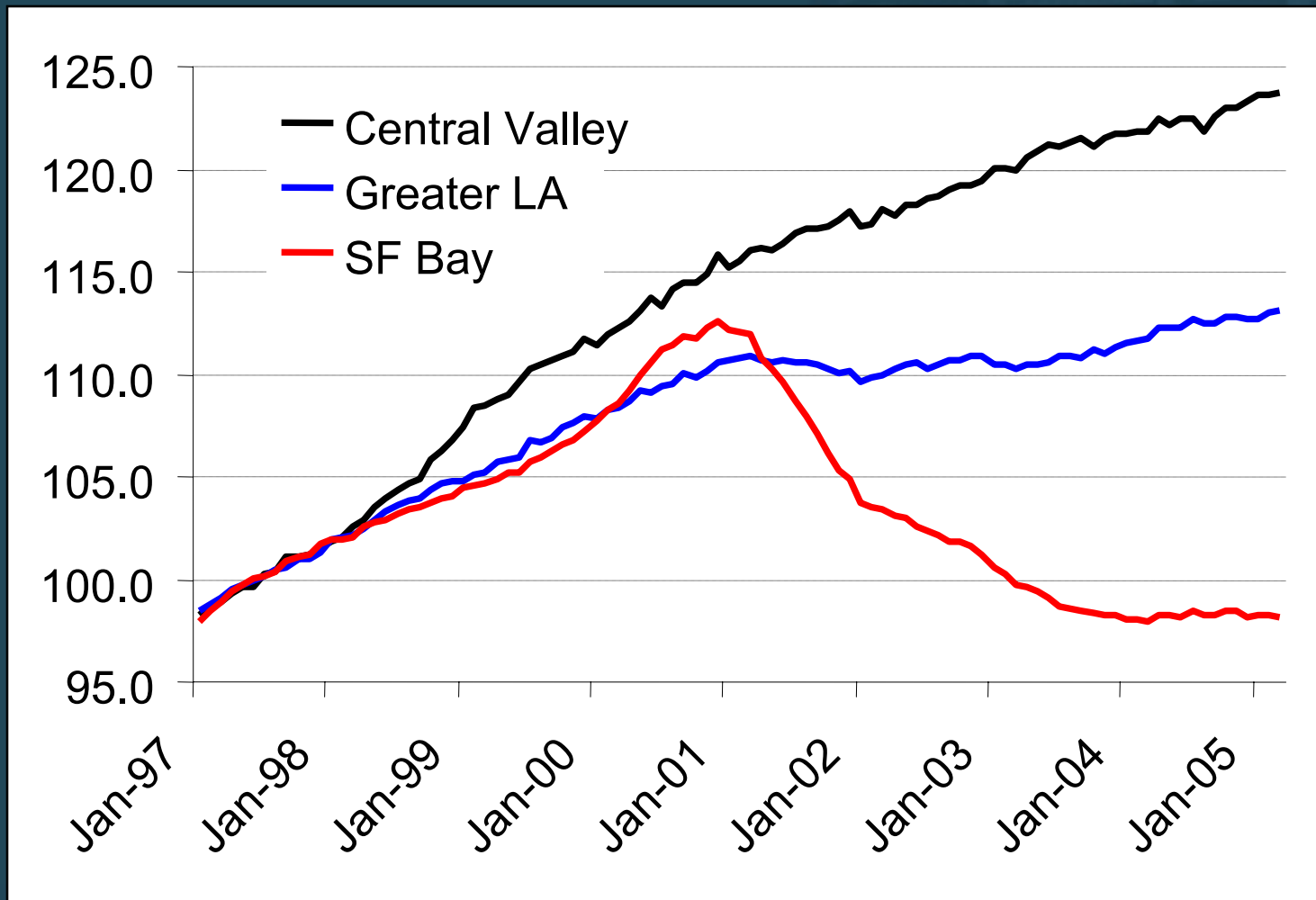
A decline in US manufacturing?



Employment: A victim of productivity gains and industry shifts to capital intensive sectors

Growth Around California

Index of Payroll Employment: 97=100

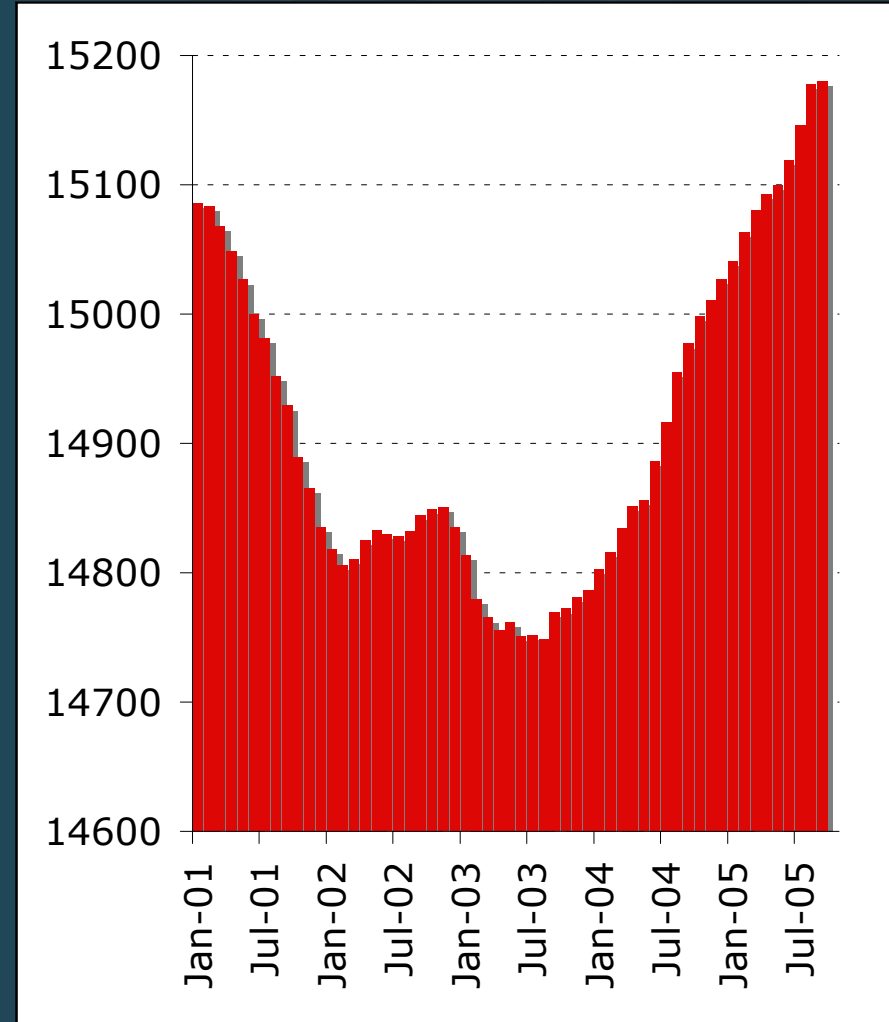


Payroll Employment Around the State

Regional Payroll Growth 05, SAAR

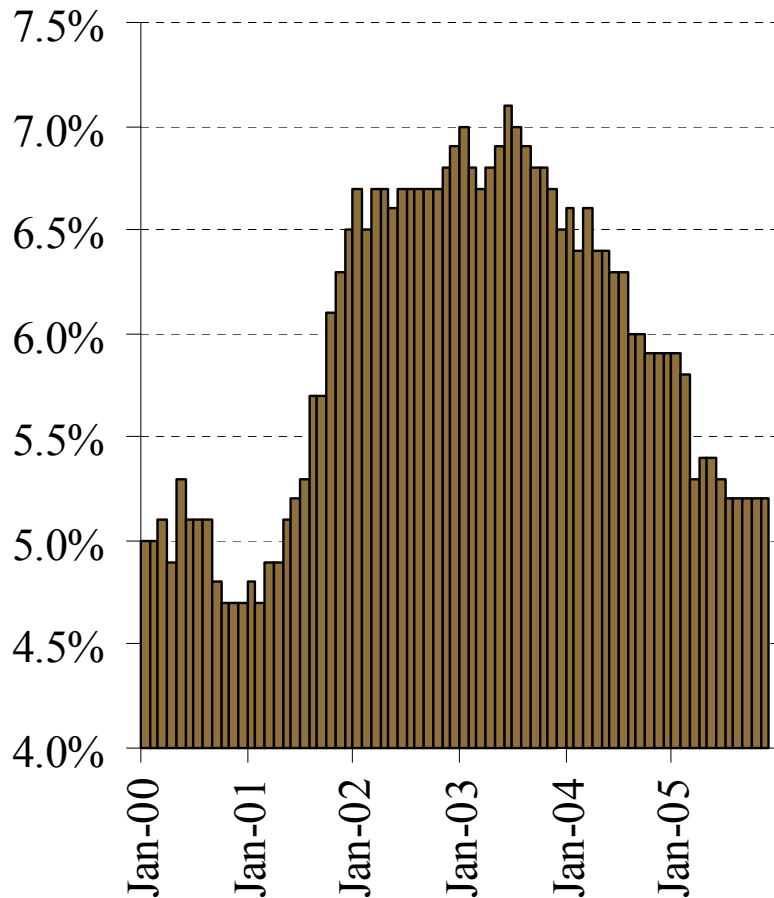
	Current Level Nov-05	Year-to-date 2005	
		Abs.	% AR
California	14830.7	179.4	1.3%
Los Angeles	4021.7	28.2	0.8%
Orange County	1489.2	18.7	1.4%
Riverside	1180.0	17.1	1.6%
San Diego	1281.6	16.5	1.4%
Ventura	287.5	2.9	1.1%
Santa Barbara	172.5	3.5	2.3%
Bakersfield	219.4	6.8	3.5%
East Bay	1041.9	17.9	1.9%
San Francisco	947.5	6.5	0.8%
San Jose	860.4	3.9	0.5%
Sacramento	874.8	12.2	1.5%
Santa Rosa	185.6	0.2	0.1%
Fresno	289.5	1.8	0.7%

California Payroll Employment, SA



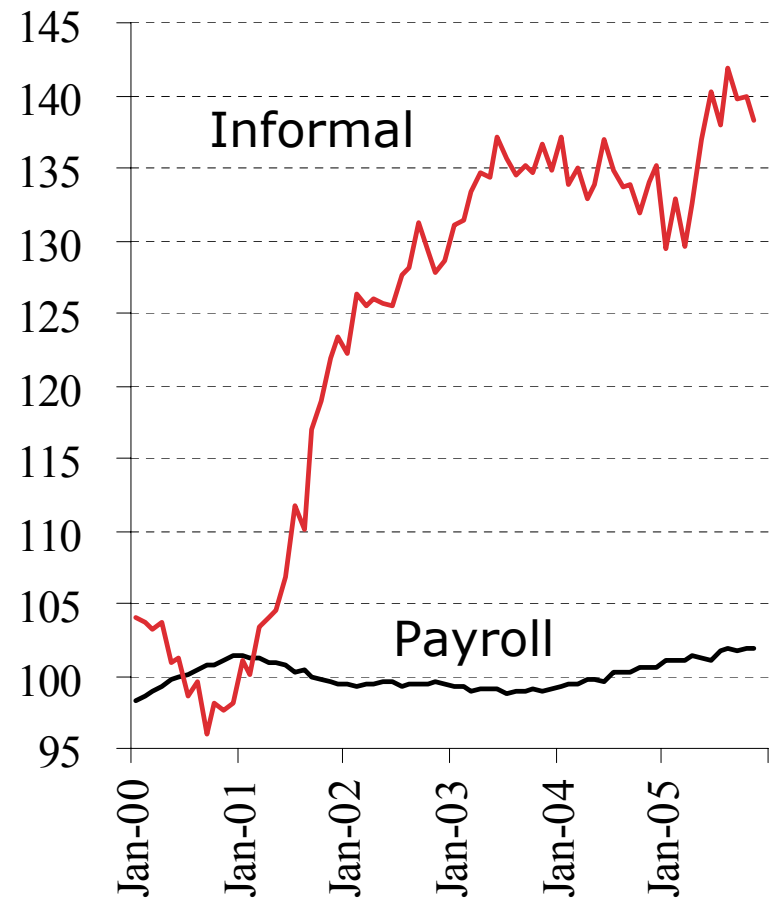
Unemployment is falling, but only due to the expansion of the informal sector.

CA Unemployment Rate



Seasonally Adjusted

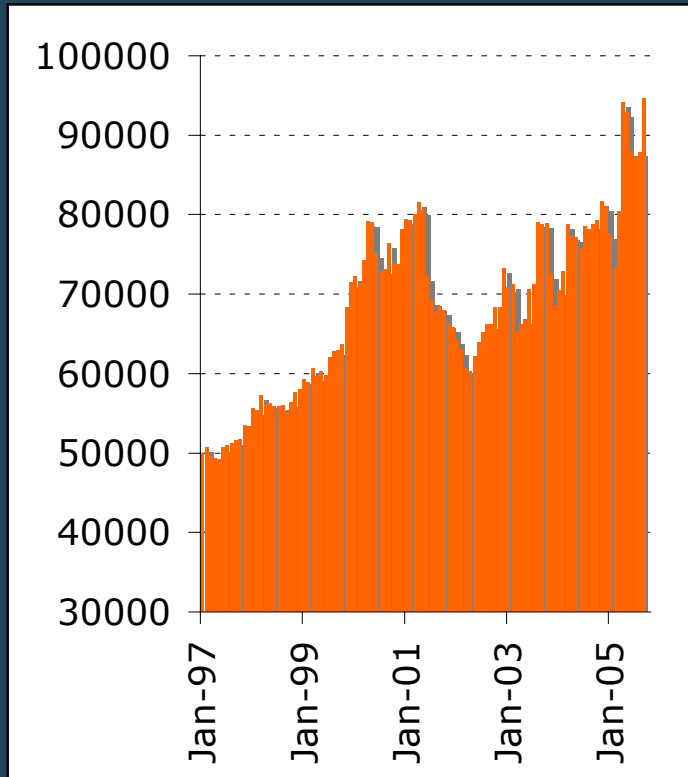
Employment Trends



SA, 2000 = 100 **UCLAAnderson**
FORECAST
www.uclaforecast.com

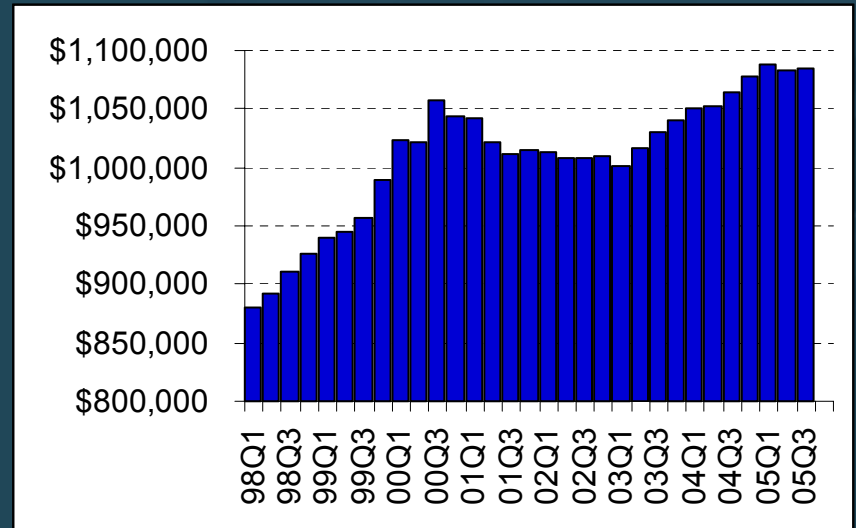
Revenues and Incomes

General Fund Revenues (SAAR)

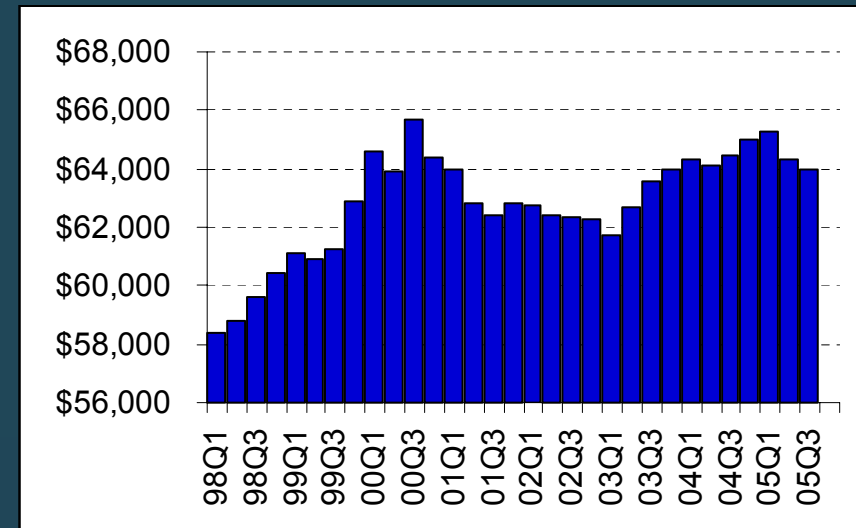


	Forecast	Actual	Diff	%
Corporate	\$ 2,354	\$ 2,939	585	24.9%
Income	\$ 14,288	\$ 15,178	890	6.2%
Other	\$ 2,239	\$ 2,360	121	5.4%
Sales	\$ 10,910	\$ 11,197	287	2.6%
Total	\$ 29,791	\$ 31,674	1883	6.3%

California Real Workplace Earnings

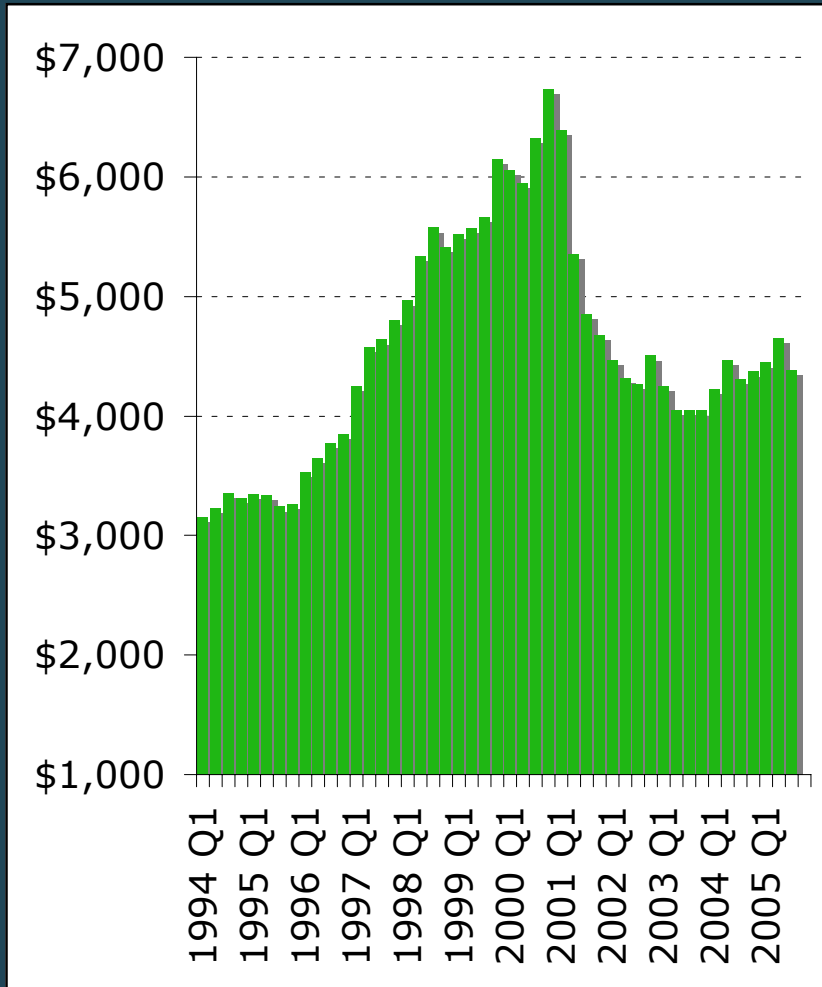


California Real Per Worker Earnings

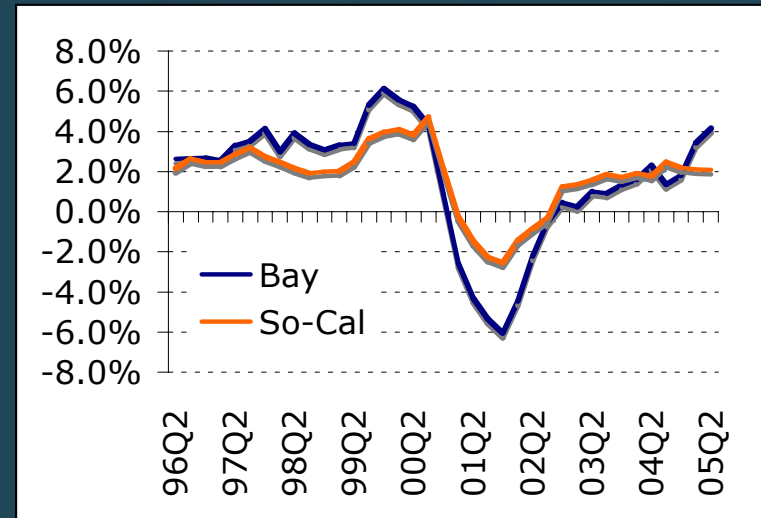


Non-residential: slow recovery

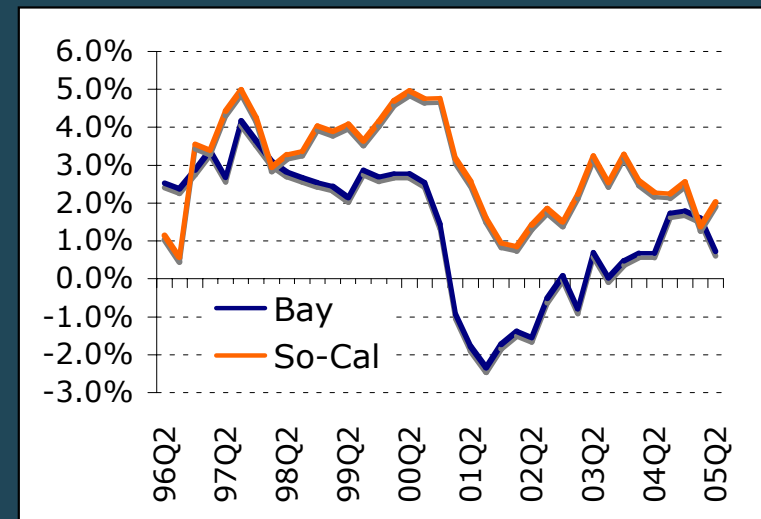
Non-Residential Construction Permits (Real, \$mil, SAAR)



Office Absorption

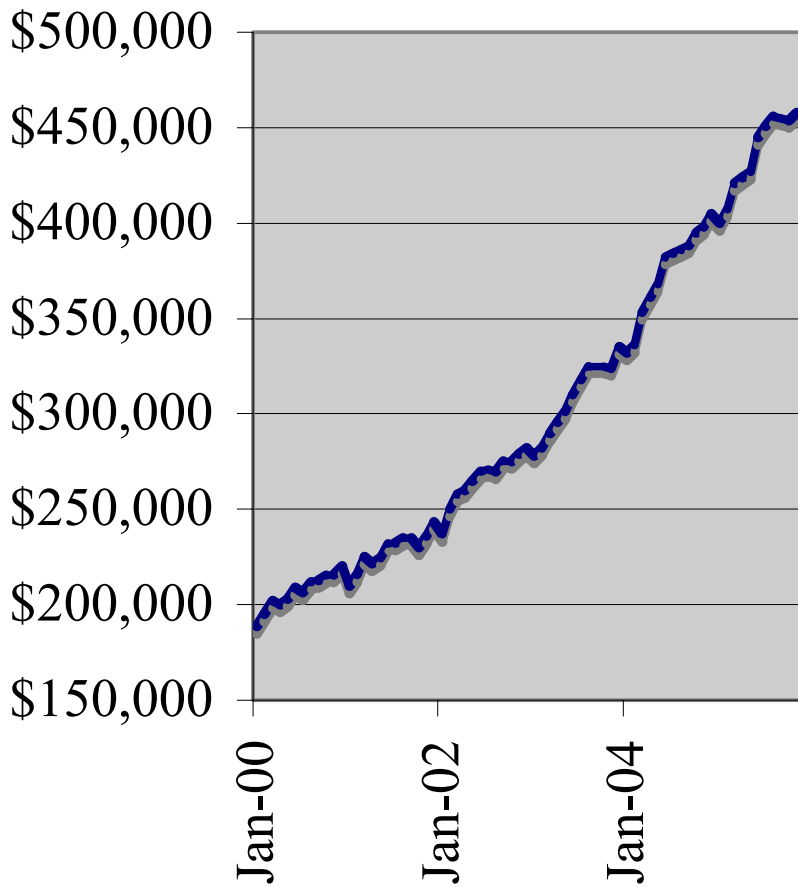


Warehouse Absorption

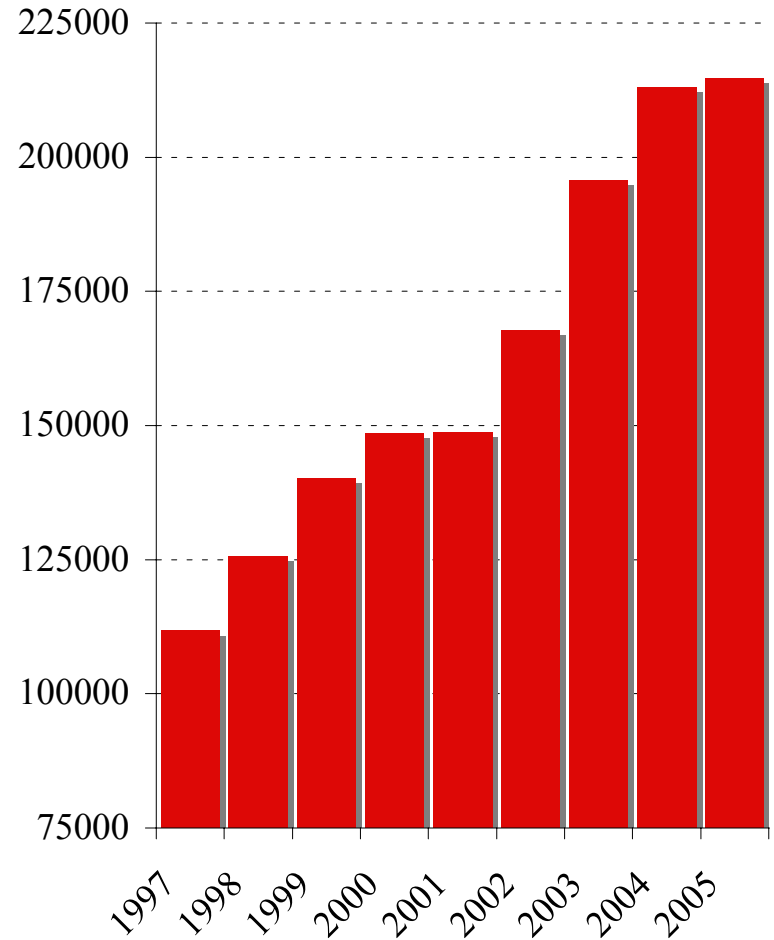


Still Hot: Residential

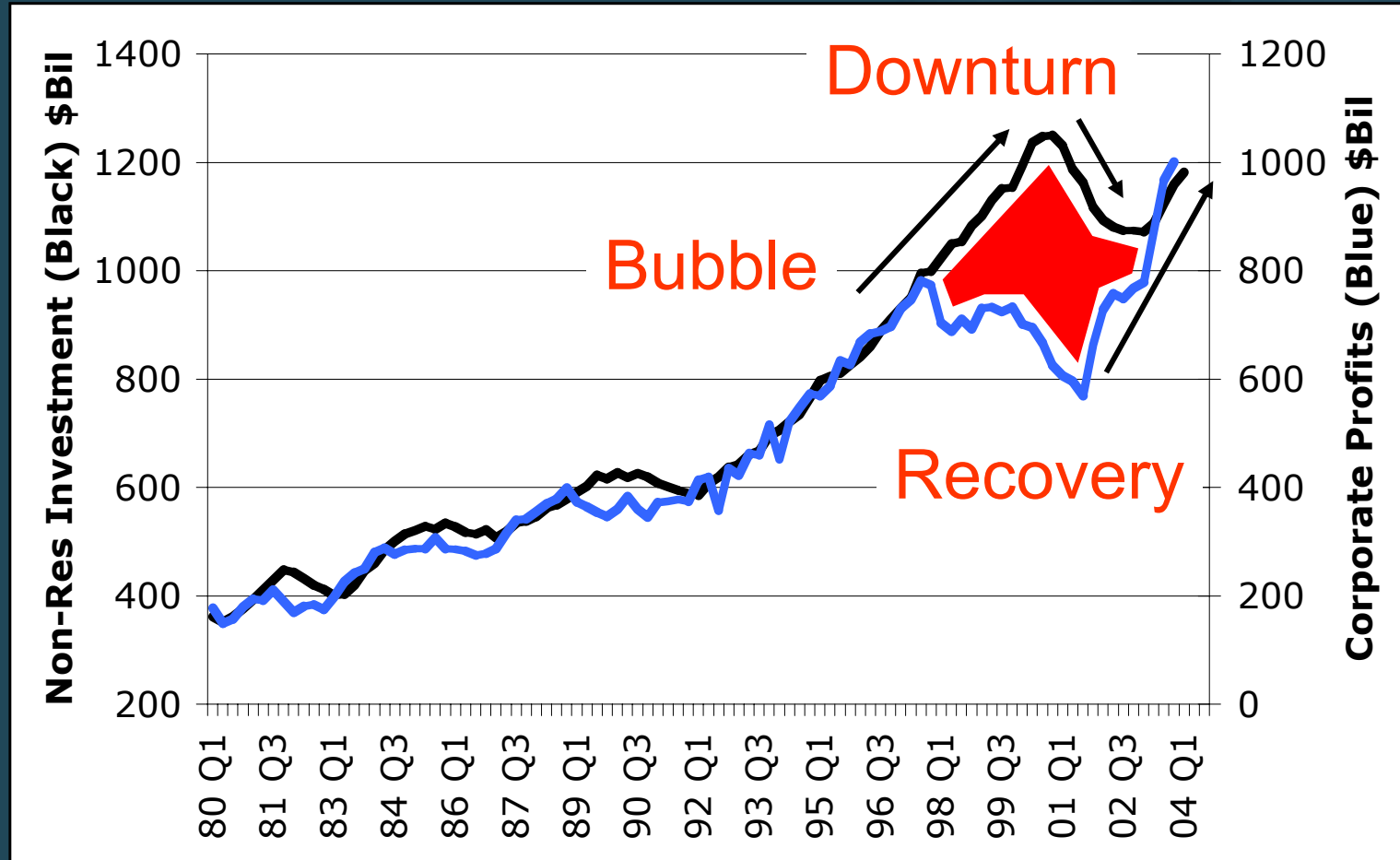
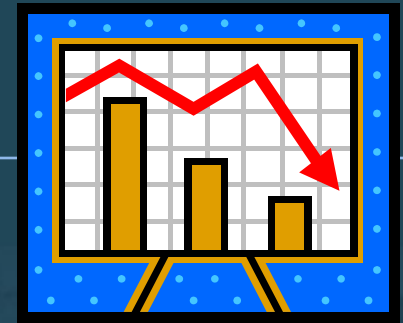
Median Price



Residential Permits

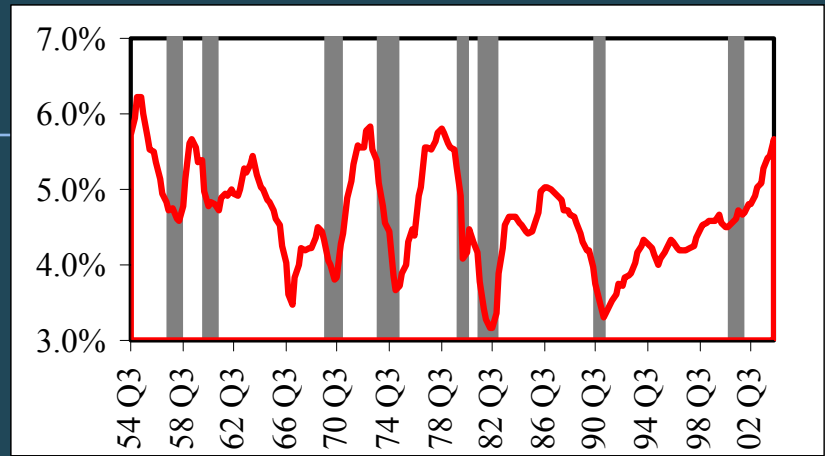


The investment bubble caused the 2001 downturn and the doldrums

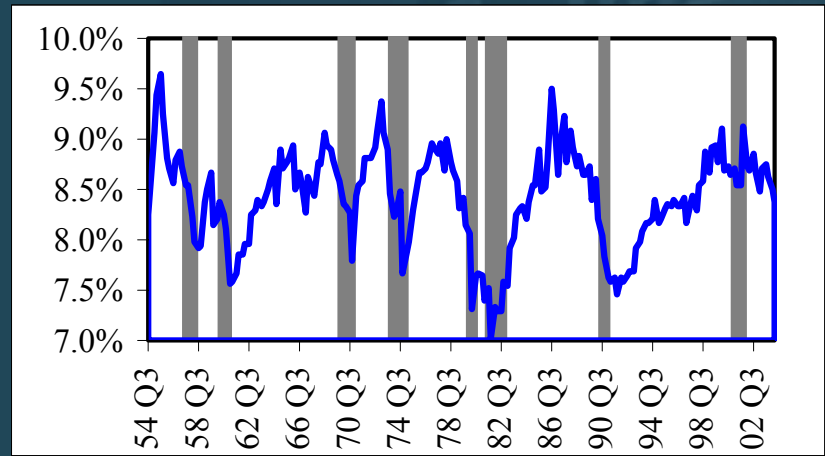


Why so mild?

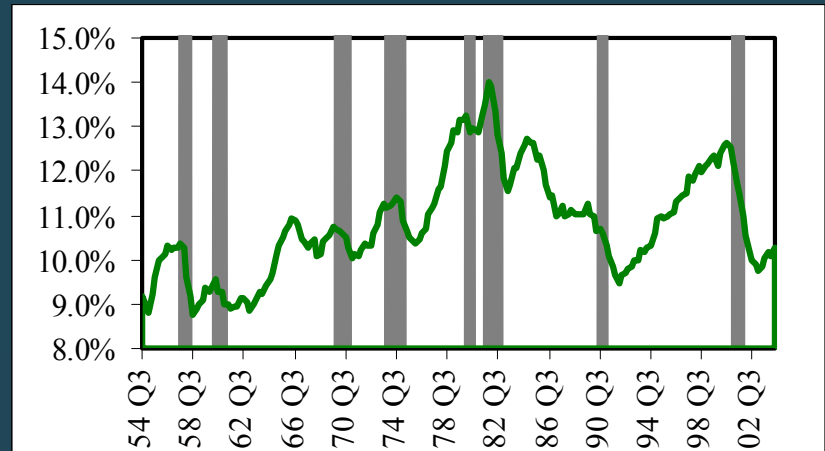
No Housing Cycle



No Durable Cycle

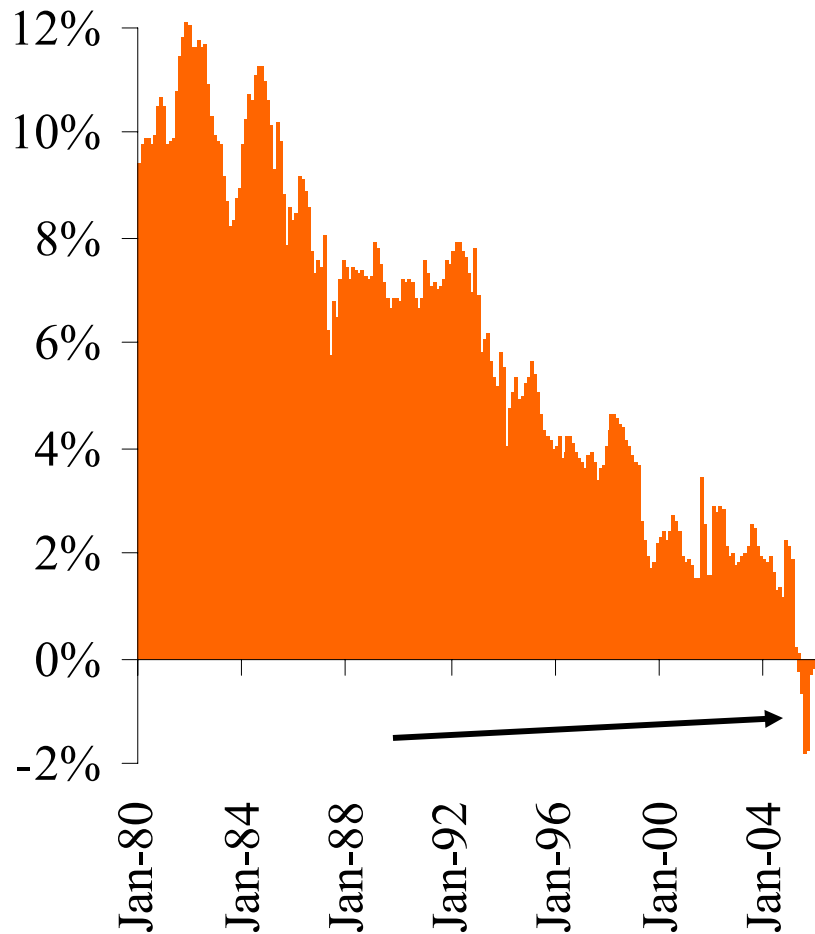


Just one big investment cycle



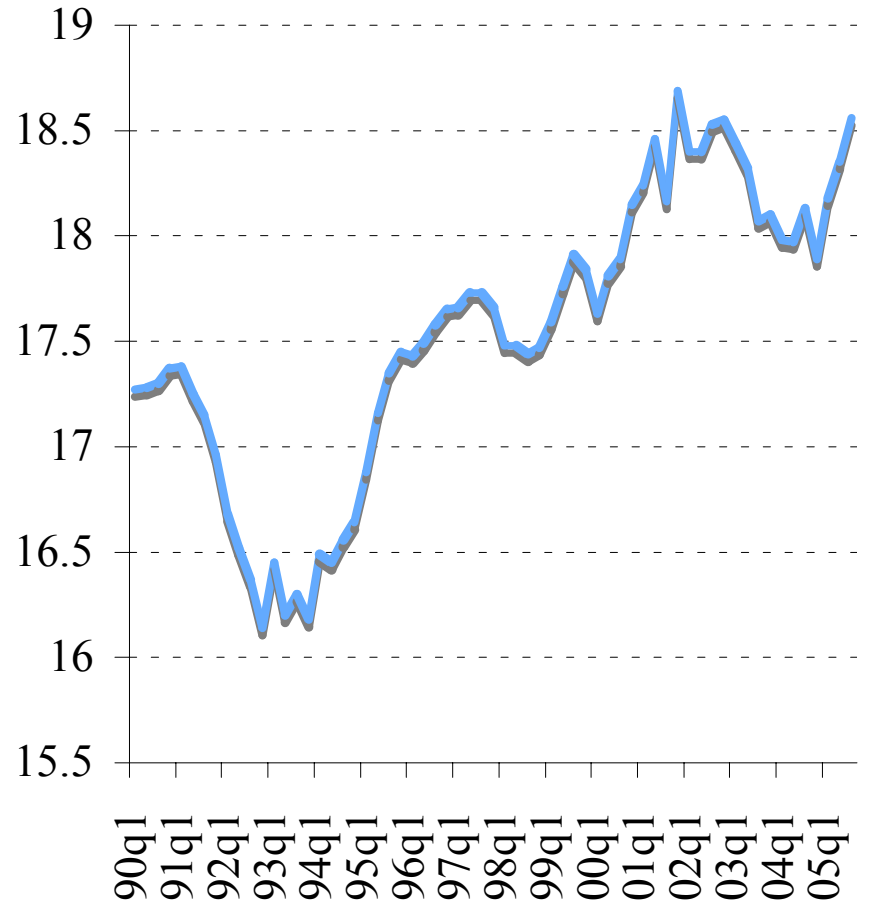
Consumers continue their binge...

US Private Savings Rate



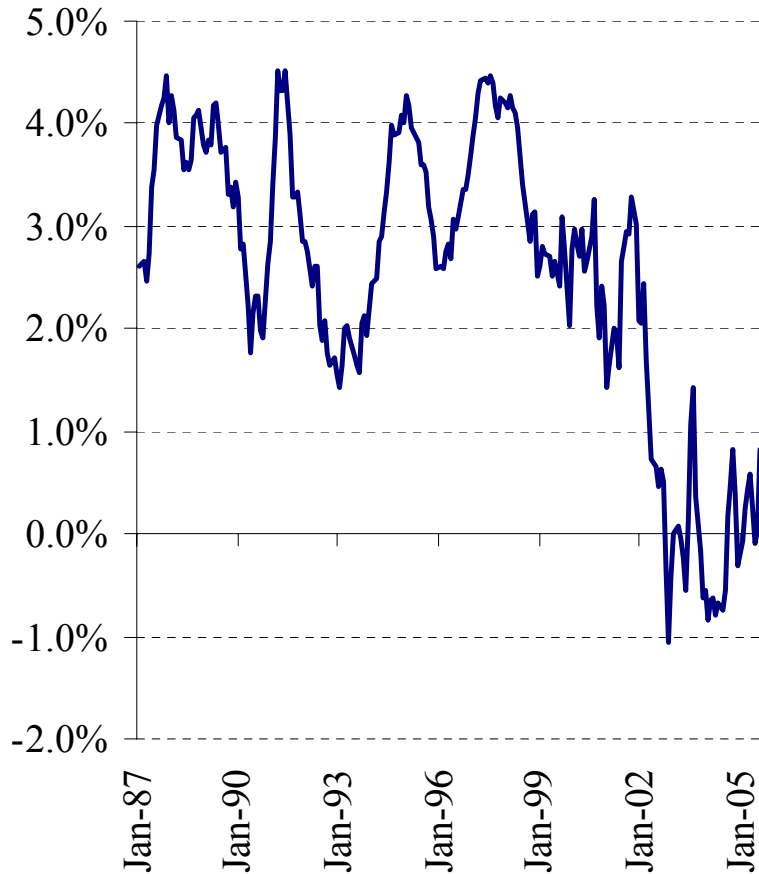
Debt Servicing

% of Income

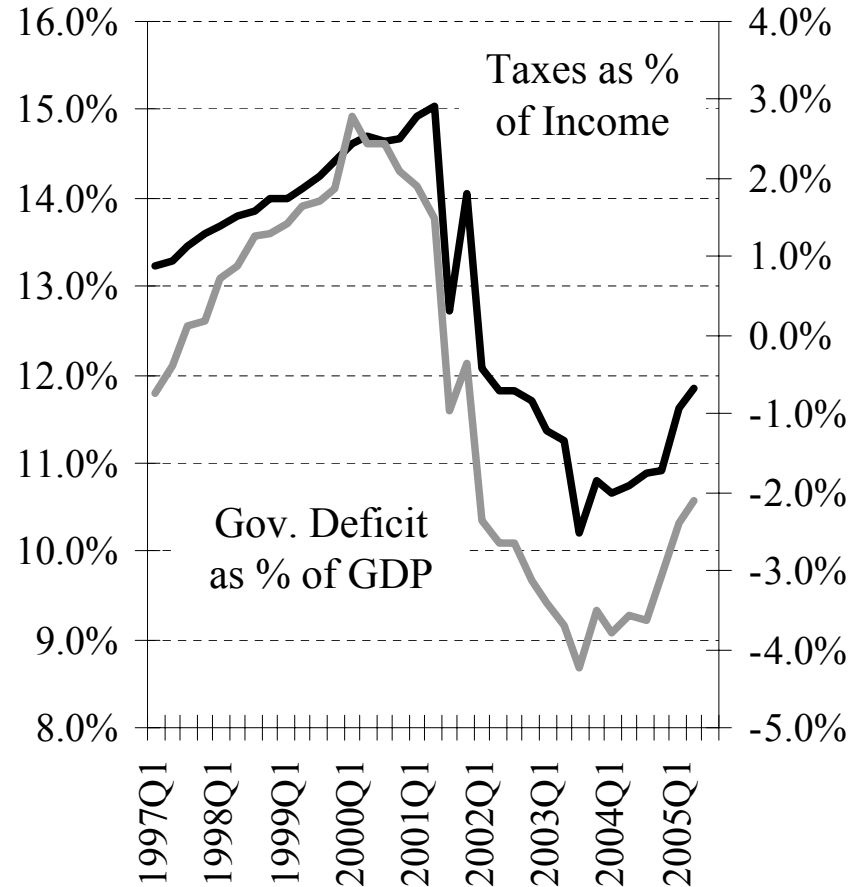


How and Why?

Real Interest Rates

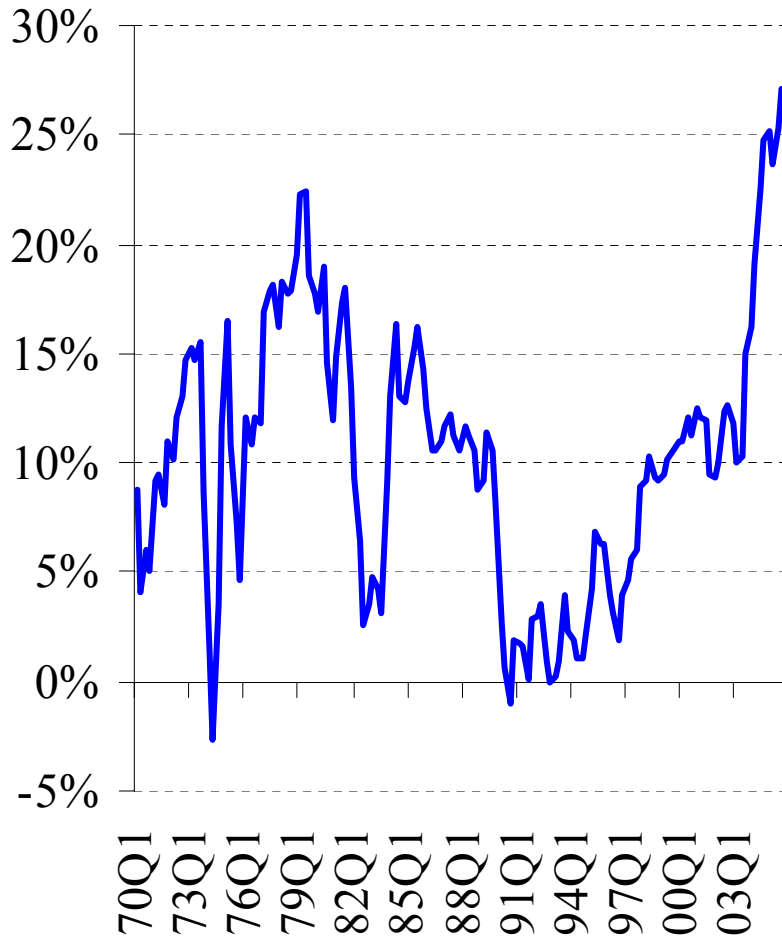


Tax Liability and Government Deficit

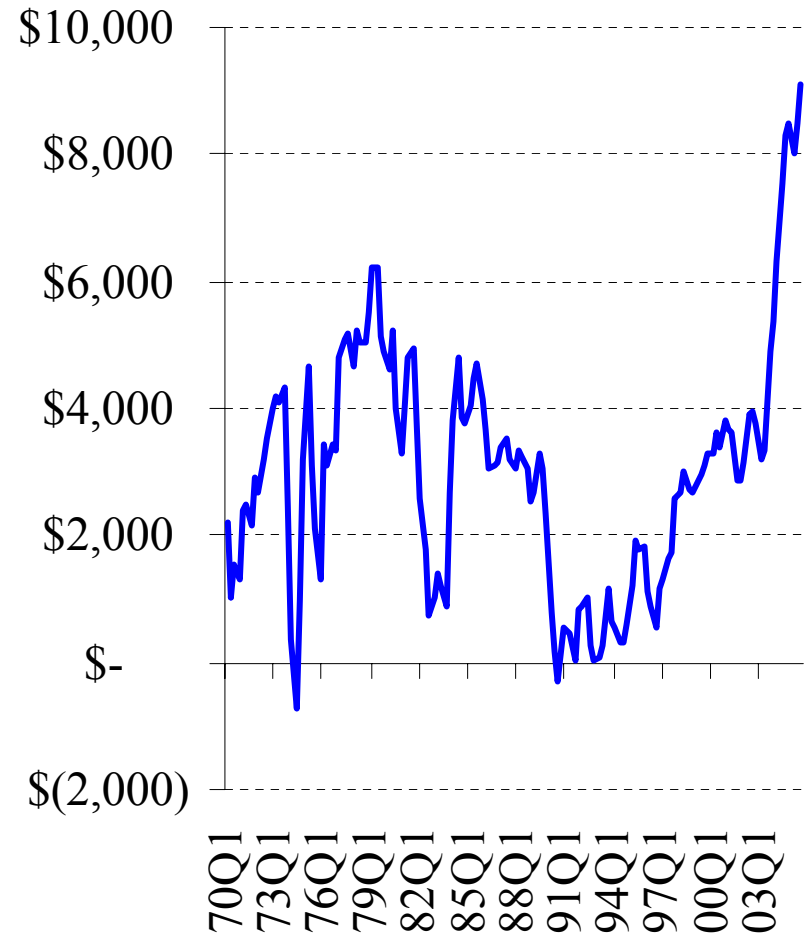


Housing Wealth Effects

New Housing Wealth as % of Disposable Income

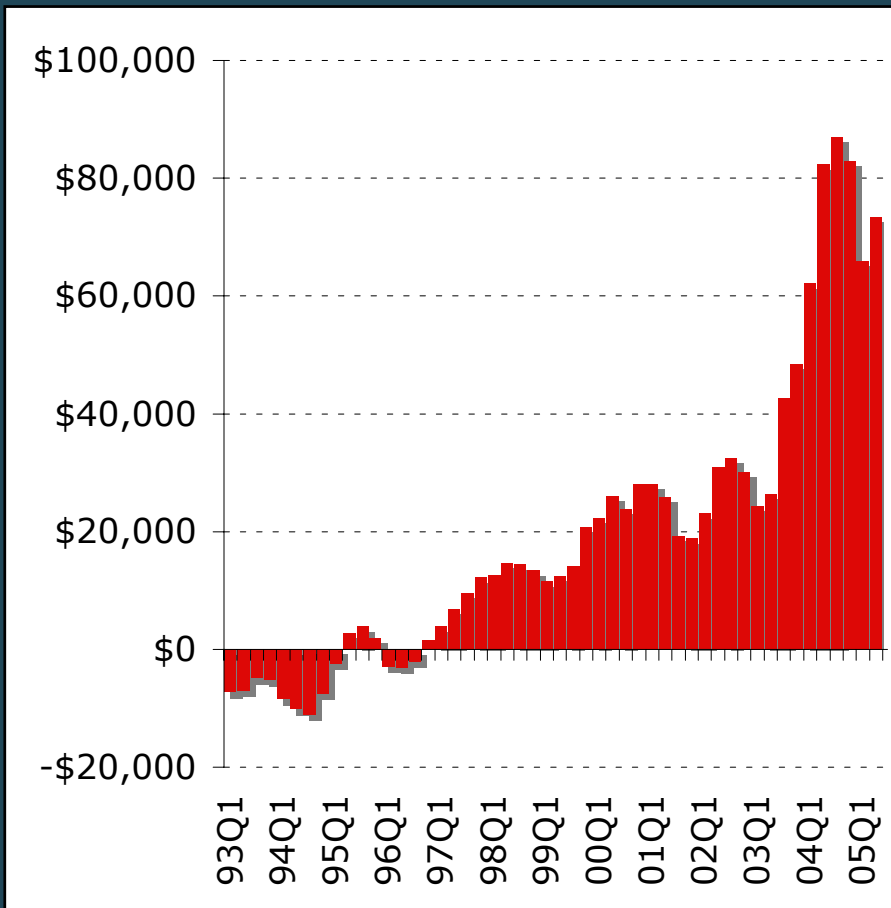


New Housing Wealth per Worker (Real)



Buy west young man...

CA Housing Appreciation Annualized



Home Appreciation

	2004	2005
Nevada	25.1%	28.1%
Arizona	10.3%	27.8%
Hawaii	19.8%	25.9%
California	20.3%	25.2%
New Mexico	7.1%	11.8%
Wyoming	8.2%	11.4%
Utah	2.5%	8.9%
Colorado	3.6%	5.7%

The worry? What kind of jobs...

	Jan 91 to Jul 95	Jan 01 to July 05	Difference
Total Non-farm	-18,600	14,100	32,700
Construction	-24,400	30,500	54,900
Credit Intermediation & Other	-12,500	16,300	28,800
Retail Trade	-7,700	12,200	19,900
Health Care & Social Asst	19,700	28,700	9,000
Educational Services	200	7,500	7,300
Real Estate & Rental	-2,500	3,700	6,200
Government	4,900	10,400	5,500
Arts, Entertainment	500	5,700	5,200
Accommodation & Food	16,100	20,500	4,400
Insurance & Securities	-3,000	1,400	4,400
Utilities	-1,900	100	2,000
Other Serv.	2,700	3,400	700
Wholesale Trade	-200	-700	-500
Professional & Technical Serv.	-3,000	-5,400	-2,400
Durable Goods	-46,100	-55,200	-9,100
Transp. & Warehousing	6,300	-9,200	-15,500
Nondurable Goods	-3,100	-19,500	-16,400
Administrative & Support	23,300	500	-22,800
Information	3,400	-20,700	-24,100
Management of Companies	10,100	-16,000	-26,100

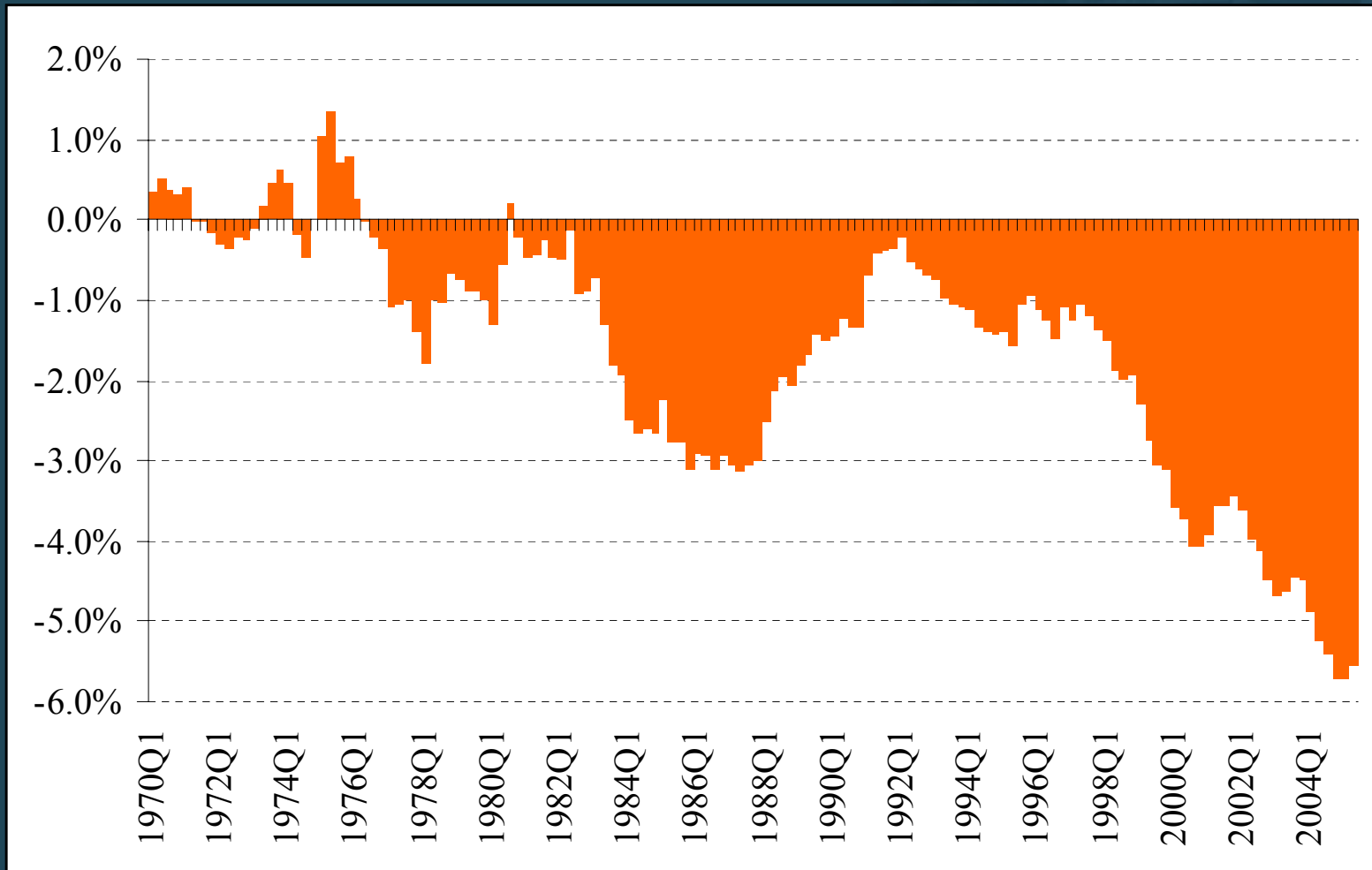
Informal Jobs: Same Story

Q2 03 to Q2 05

	CPS	EDD	Diff.
8 Financial activities	178,819	31,050	147,769
3 Construction	242,843	110,100	132,743
9 Professional and business services	156,076	70,850	85,226
1 Agriculture	33,039	-2,650	35,689
12 Other services	36,642	6,150	30,492
6 Transportation and utilities	33,456	5,750	27,706
11 Leisure and hospitality	90,244	83,700	6,544
5 Wholesale and retail trade	59,129	60,250	-1,121
2 Mining	-4,623	650	-5,273
7 Information	-2,687	19,950	-22,637
4 Manufacturing	-156,559	-5,200	-151,359

How out of whack?

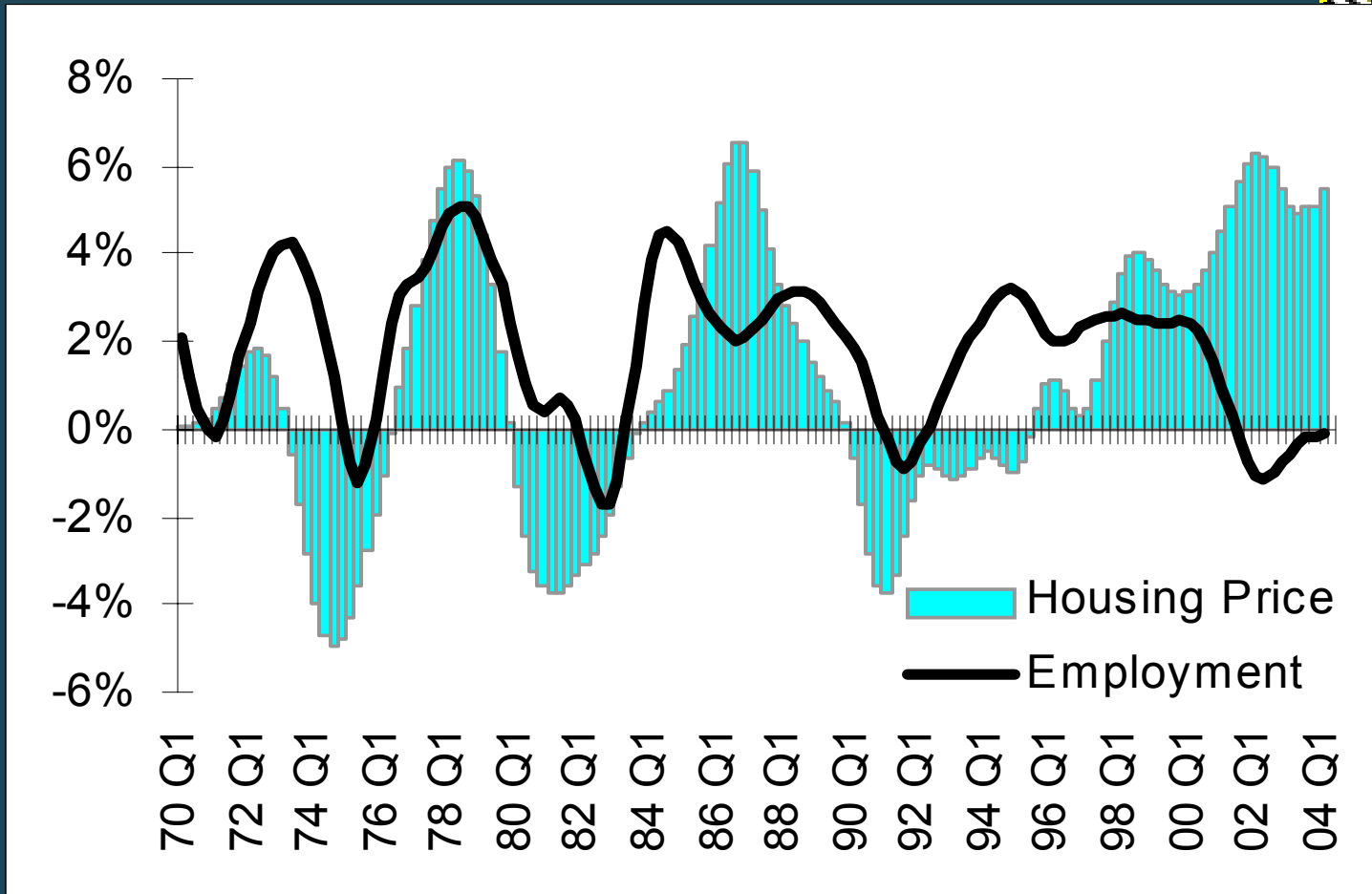
US Trade Deficit



Ah, that bubble thing...



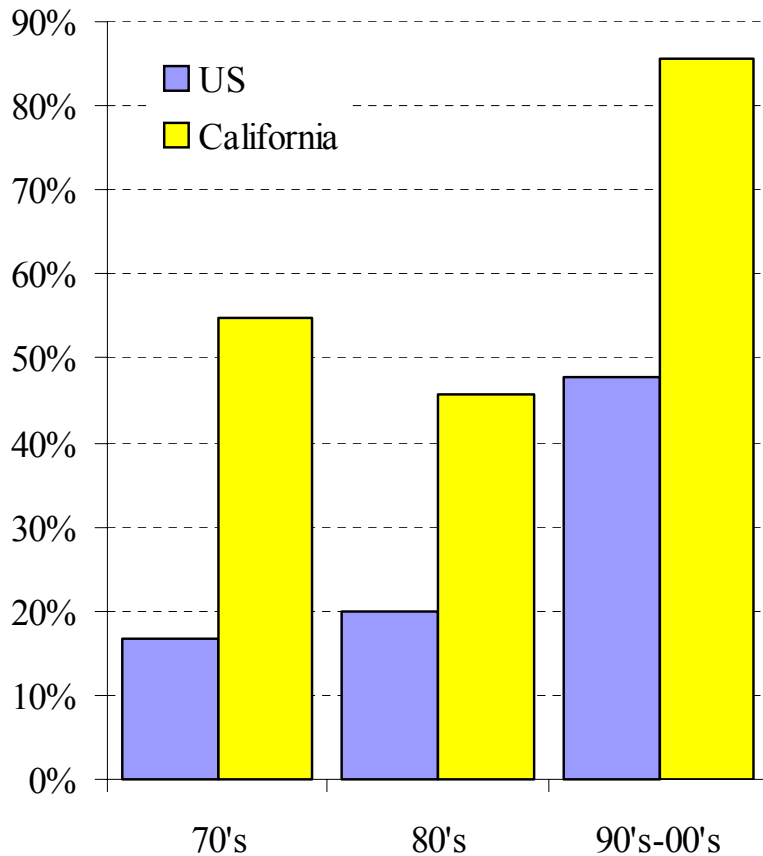
Changes in employment and housing prices



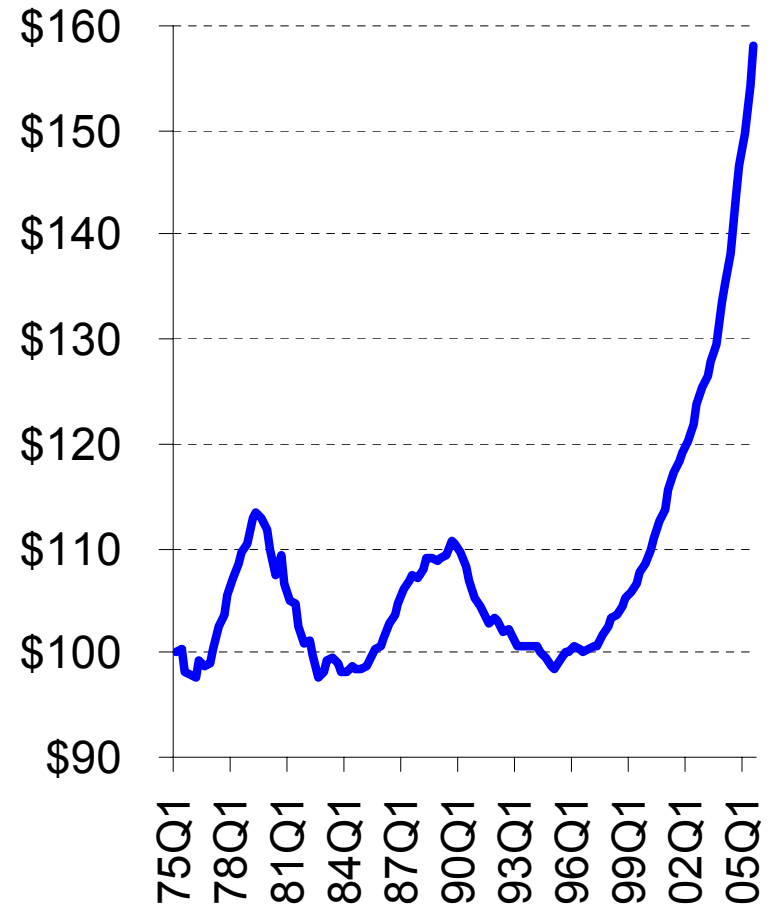
Where's the cycle?

Over Priced...

Real Appreciation (OFHEO)

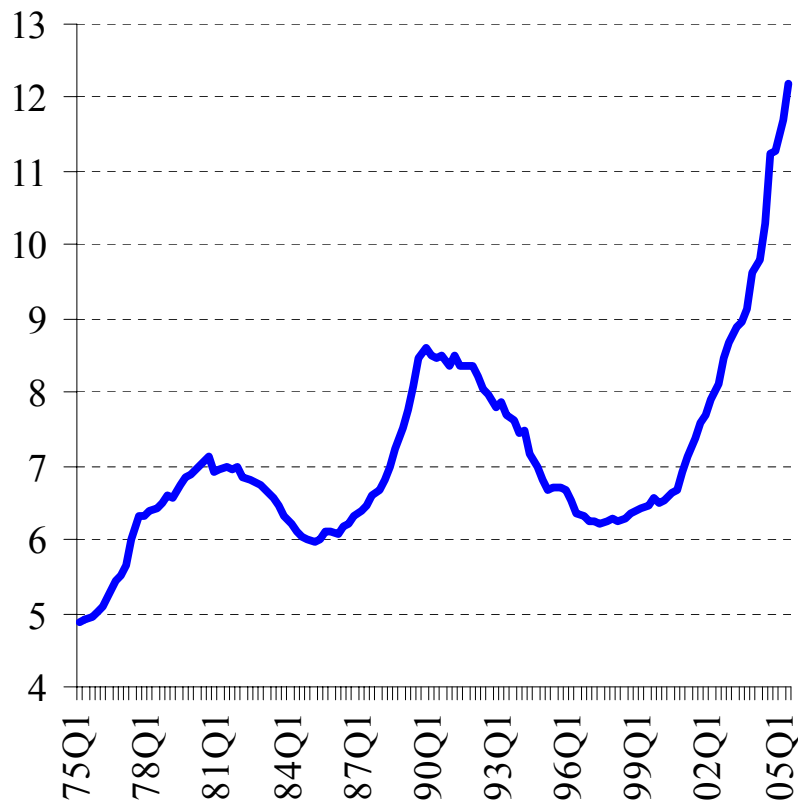


US Real Housing Prices



The bubble just keeps getting bigger...

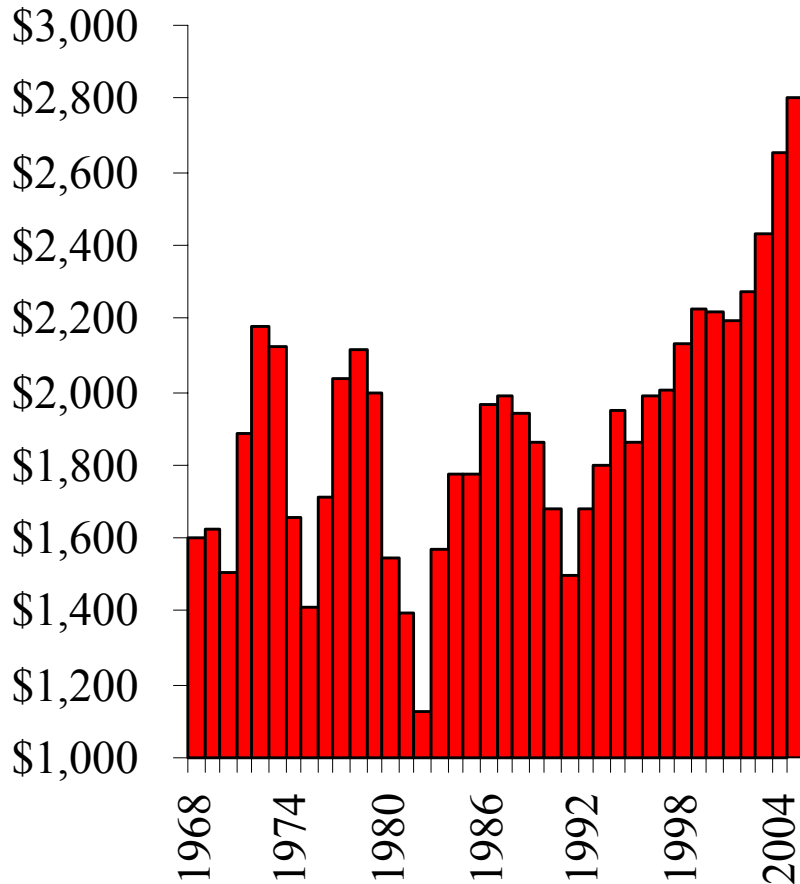
California Ratio Median Home Price to Per Capita Income



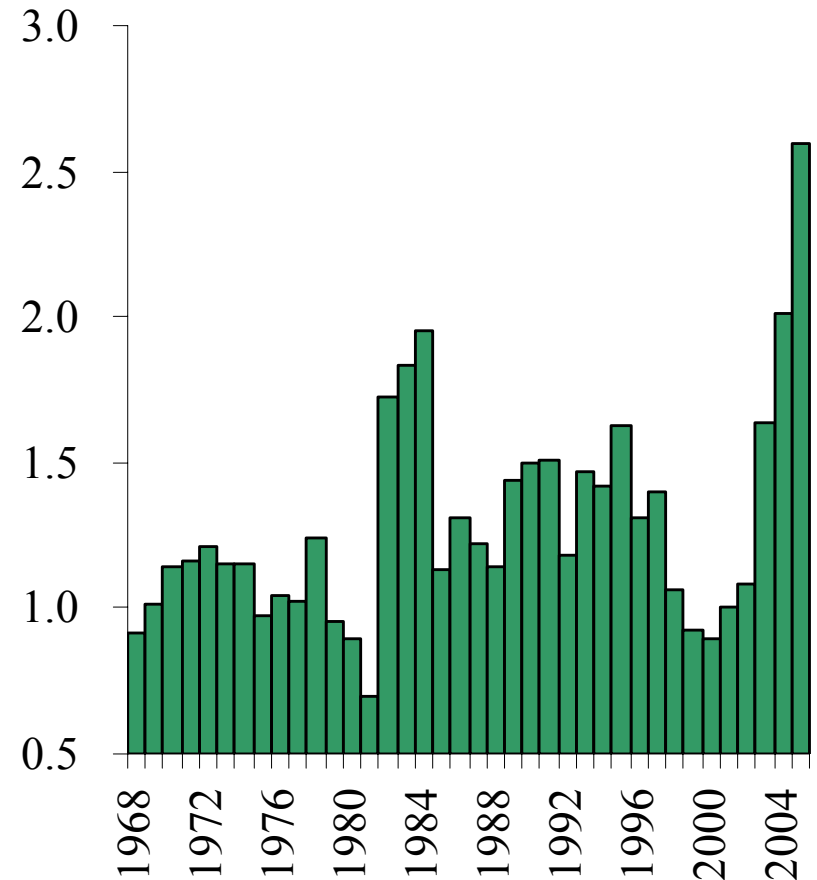
	2 Yr%	5 Yr%	RHI
Hawaii	56.3%	102.7%	13.55
California	52.9%	112.8%	13.39
Massachusetts	46.1%	92.5%	9.39
New Jersey	34.8%	81.6%	7.91
Rhode Island	36.5%	99.2%	7.80
DC	50.4%	118.9%	7.57
Nevada	61.2%	99.0%	7.12
Oregon	30.9%	51.2%	6.81
Washington	29.4%	49.0%	6.80
Arizona	50.6%	78.9%	6.56
New Hampshire	24.2%	68.8%	6.36
New York	30.5%	71.9%	6.34
Utah	15.5%	24.7%	6.26
Colorado	10.6%	29.3%	5.98
Maryland	27.0%	67.0%	5.92
Florida	50.4%	99.7%	5.86
Virginia	40.6%	78.8%	5.78

... and Overbuilt

Real Spending Per Adult

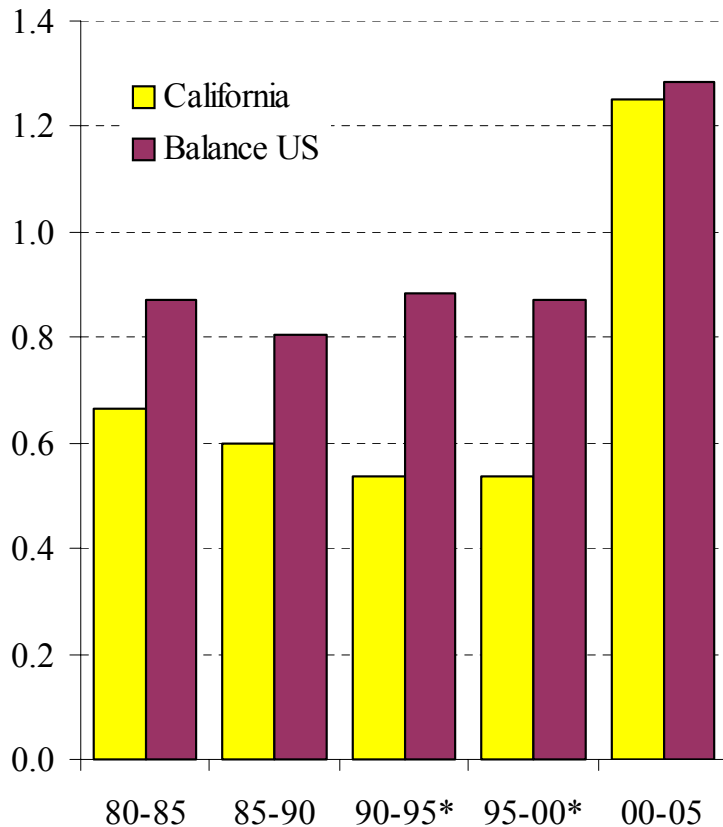


New Units / New Household



Housing Shortage?

New Houses / New Workers



* Numbers for 90-00 are average of entire decade for

Vacancies and Overcrowding

	2000	2004
Balance of US		
Total Units	103,690,092	109,867,032
Vacant	10,260,458	11,937,100
%	9.9%	10.9%
Overcrowded	3,115,354	2,393,190
%	4.2%	3.1%
California		
Total Units	12,214,549	12,804,702
Vacant	825,181	832,544
%	6.8%	6.5%
Overcrowded	1,251,515	997,490
%	11.0%	8.3%

Housing shortage getting better, but not by much

% Homes with > 1 person per room, 2004

	Owned		Rented	
	2001	2004	2001	2004
Monterey	6.7%	6.0%	27.7%	24.3%
Orange	5.5%	4.7%	19.6%	19.0%
Los Angeles	8.0%	6.7%	21.1%	18.6%
San Bernardino	6.1%	6.9%	16.2%	16.8%
Kern	7.1%	4.7%	15.5%	15.2%
Riverside	4.5%	4.7%	12.2%	14.1%
San Diego	3.5%	3.9%	11.8%	11.8%
Ventura	5.1%	3.3%	13.2%	11.2%
Santa Barbara	4.9%	4.7%	19.2%	11.2%
Fresno	7.5%	8.5%	17.1%	11.1%
Alameda	4.5%	3.2%	11.8%	10.3%
San Mateo	3.8%	2.3%	12.7%	9.2%
Santa Clara	5.4%	3.2%	15.9%	9.2%
Sonoma	3.1%	2.7%	6.1%	8.7%
Sacramento	3.8%	2.9%	12.1%	8.0%
San Francisco	6.0%	3.6%	9.9%	7.2%
Contra Costa	3.4%	2.2%	11.7%	6.1%
US Average		1.7%		5.9%

Is it a bubble?

Real Estate is an asset and HAS a fundamental value

Today's price *should be* the present value of the future revenues



$$\text{Value} \approx \frac{\text{Today's Rent}}{D - G}$$

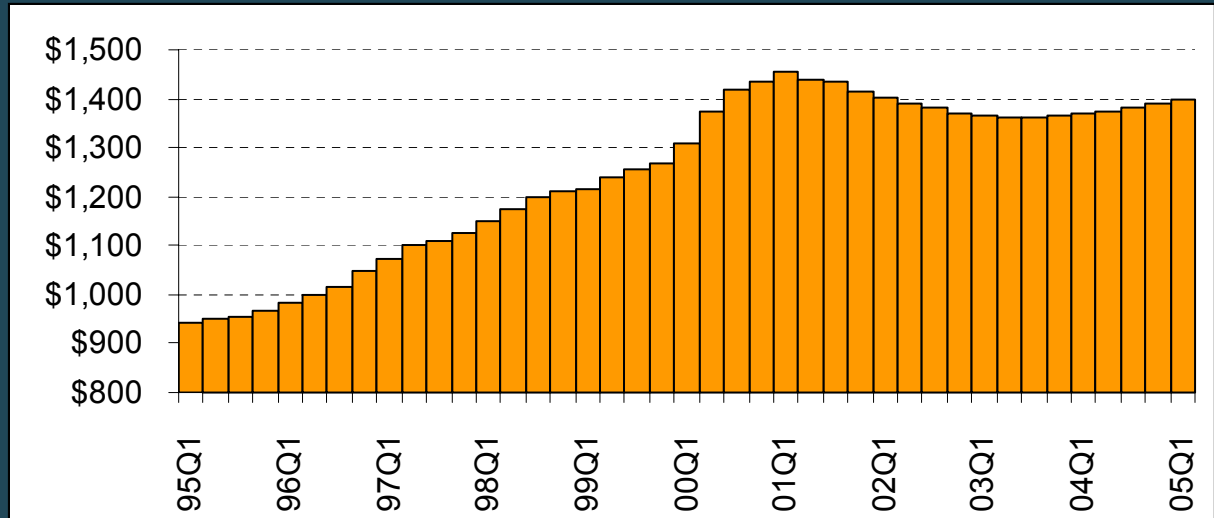
Low mortgage rates aren't necessarily good for buyers!

G: Future rental growth rates

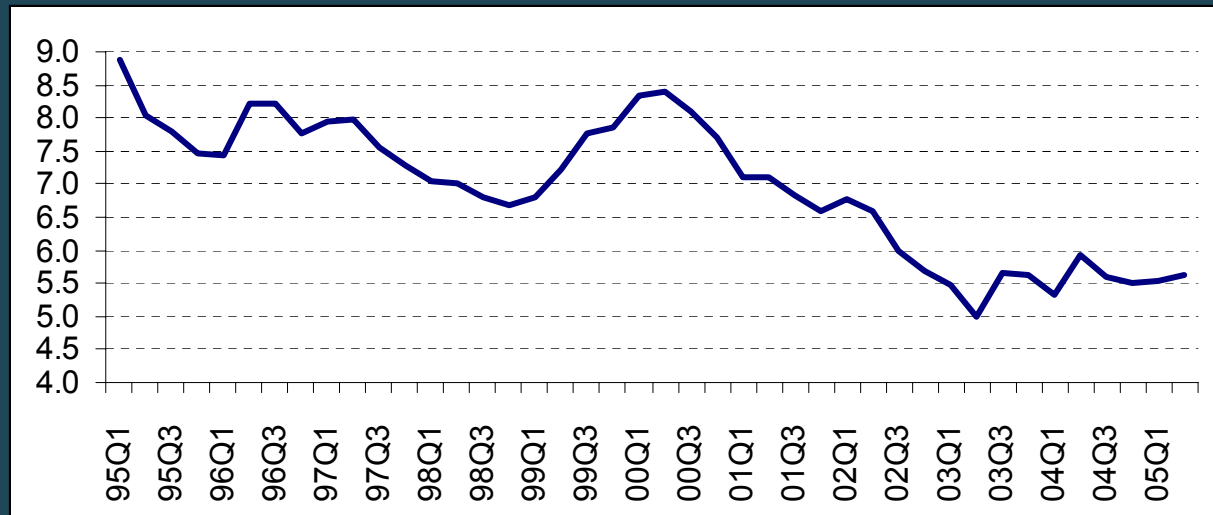
D: Discount factor: mortgage rates, depreciation, taxes, risk premium

Rental growth and mortgage rates

Real Rents



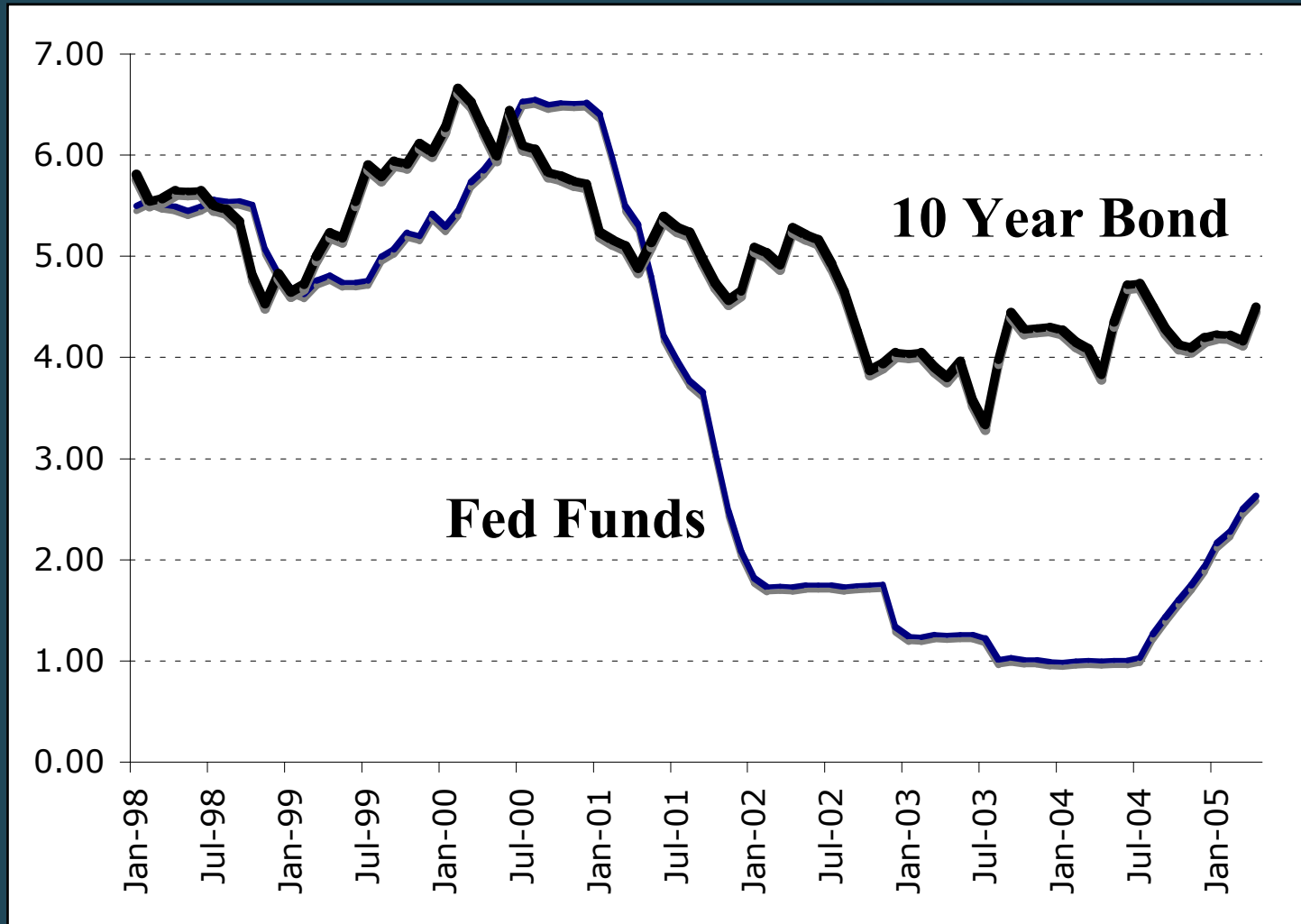
Mortgage Rates 30-Year Fixed



Common housing myths

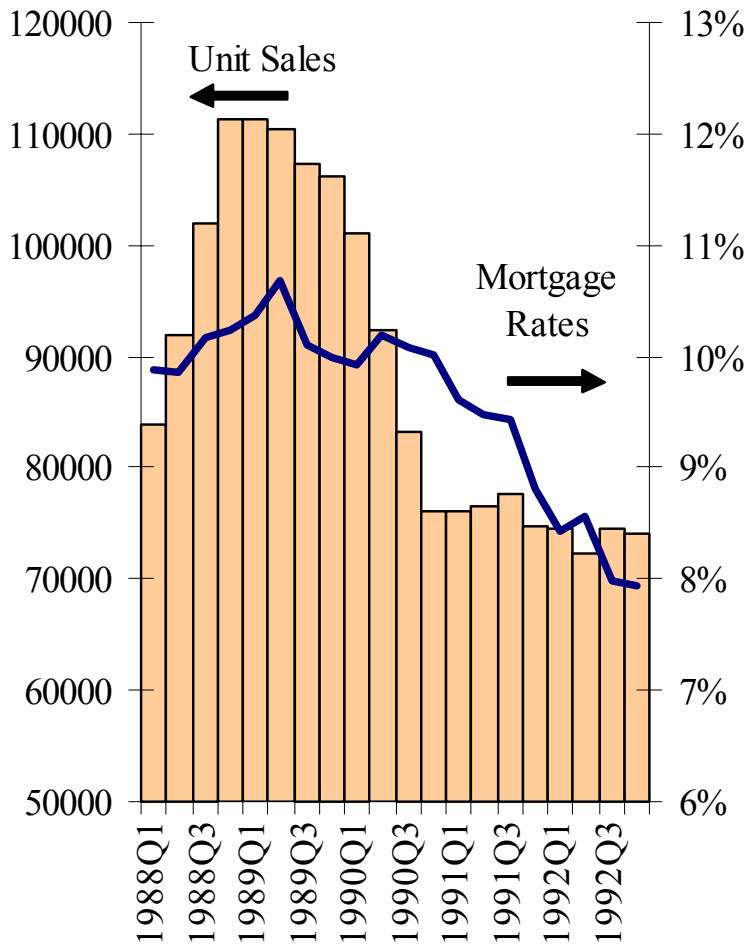
- Inventory levels are low, so the market is fine
- Prices are up because boomers are getting funds from their parents
- Demand is strong because people are buying second homes
- Our region is different
- You guys said that last year, and you were wrong then!

Will interest rates be the driver?

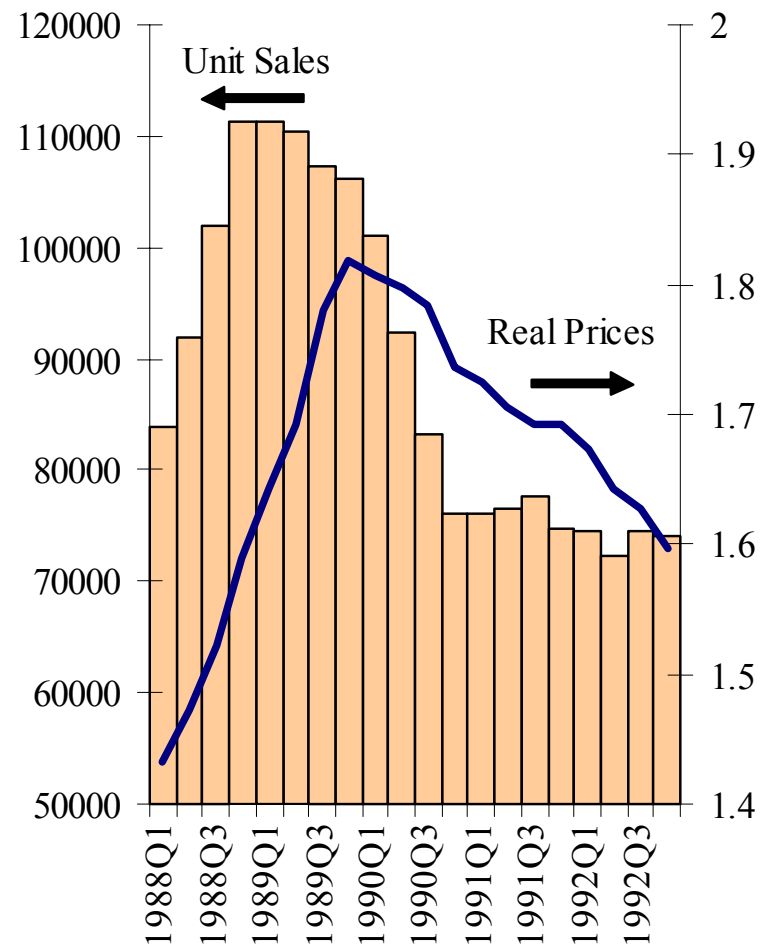


Is it coming to an end?

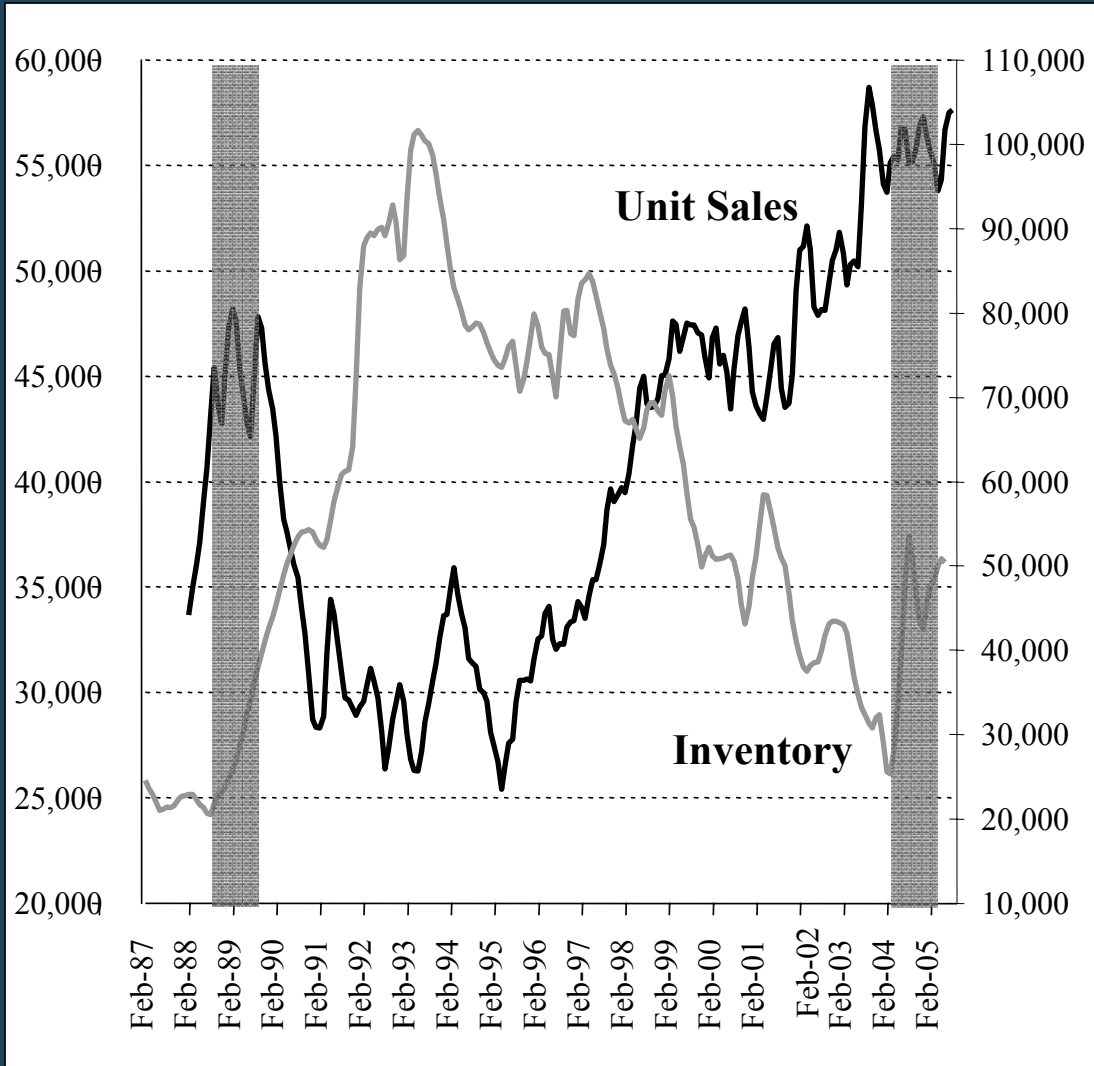
Sales and Mortgage Rates



Sales and Real Prices



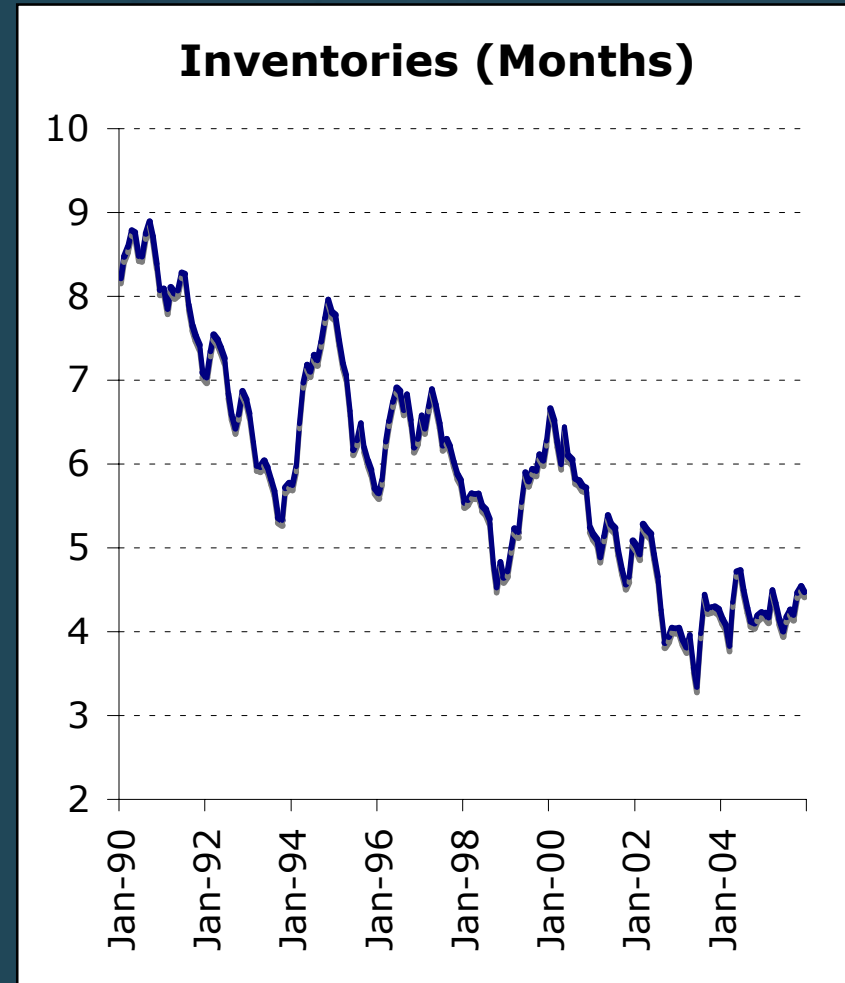
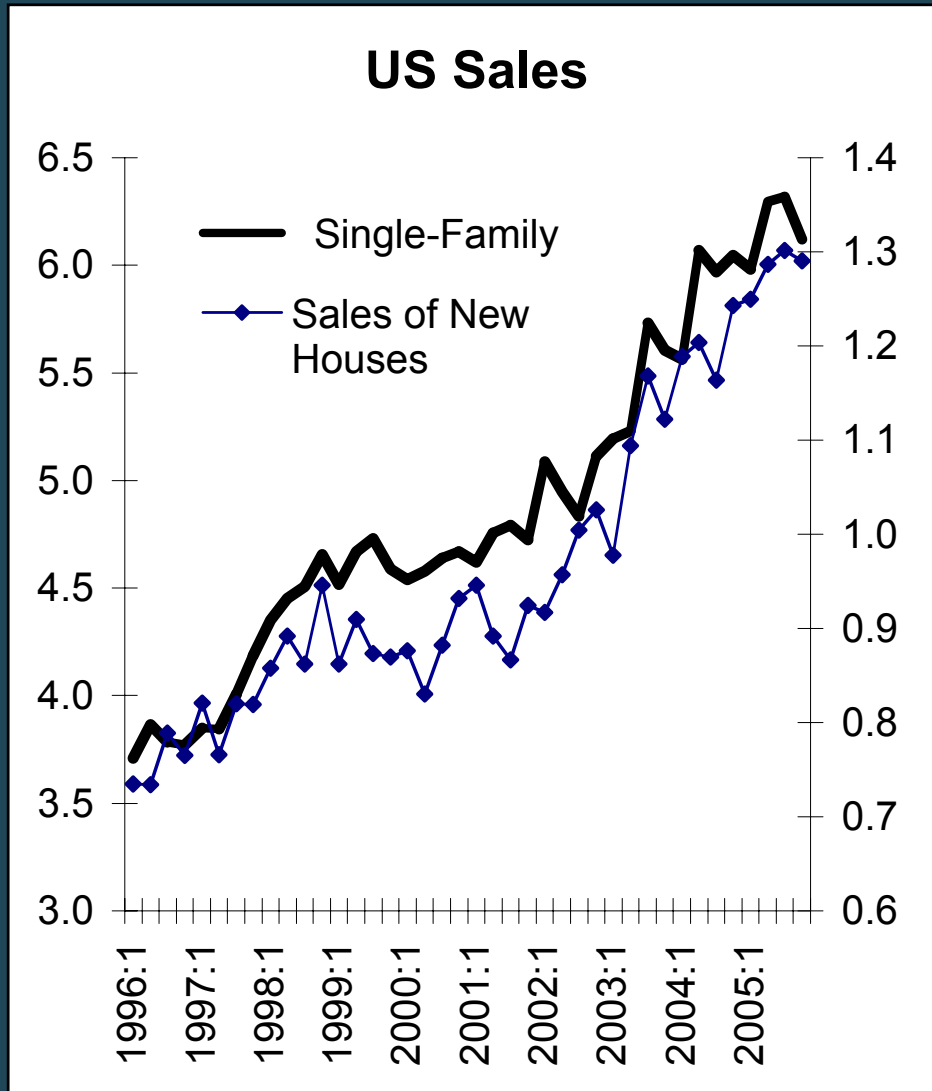
Where are we now?



Mixed Signals Change Q4 to Q4

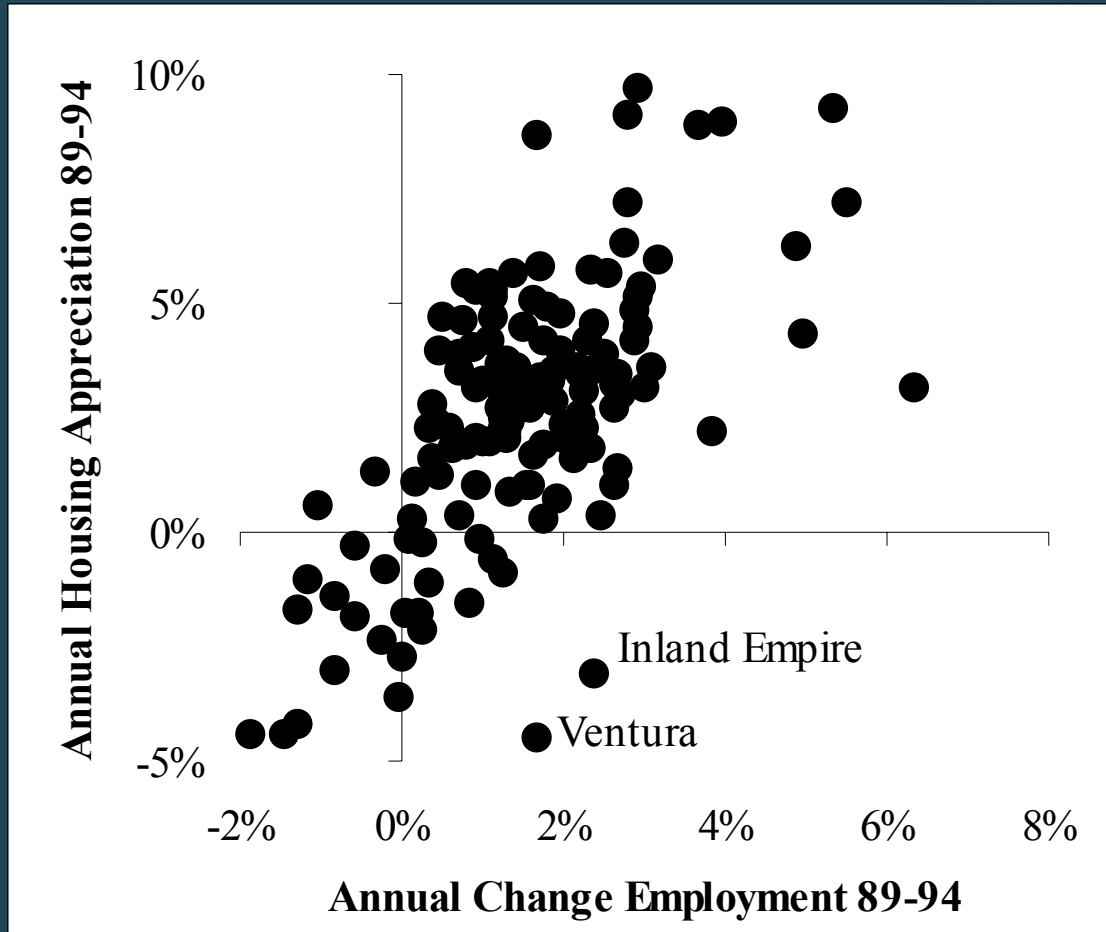
	SF	CN	New
San Diego	-14.0%	-10.4%	-6.0%
Napa	-13.9%	8.7%	-21.8%
Alameda	-13.5%	-11.1%	4.1%
Ventura	-11.3%	1.7%	161.7%
Santa Clara	-10.9%	-10.2%	49.3%
Contra Costa	-10.8%	-17.9%	10.3%
San Mateo	-7.8%	-19.8%	-73.1%
Sonoma	-6.9%	-17.1%	33.1%
Marin	-6.3%	-16.8%	7.1%
Orange County	-4.9%	2.4%	26.8%
San Francisco	-4.1%	-2.3%	-20.6%
Los Angeles	-4.1%	-9.2%	50.6%
Solano	-2.8%	22.0%	-37.6%
San Bernardino	5.3%	-6.6%	-3.4%
Riverside	12.8%	-15.0%	21.7%

Same at the National Level



Who's at risk when it does pop?

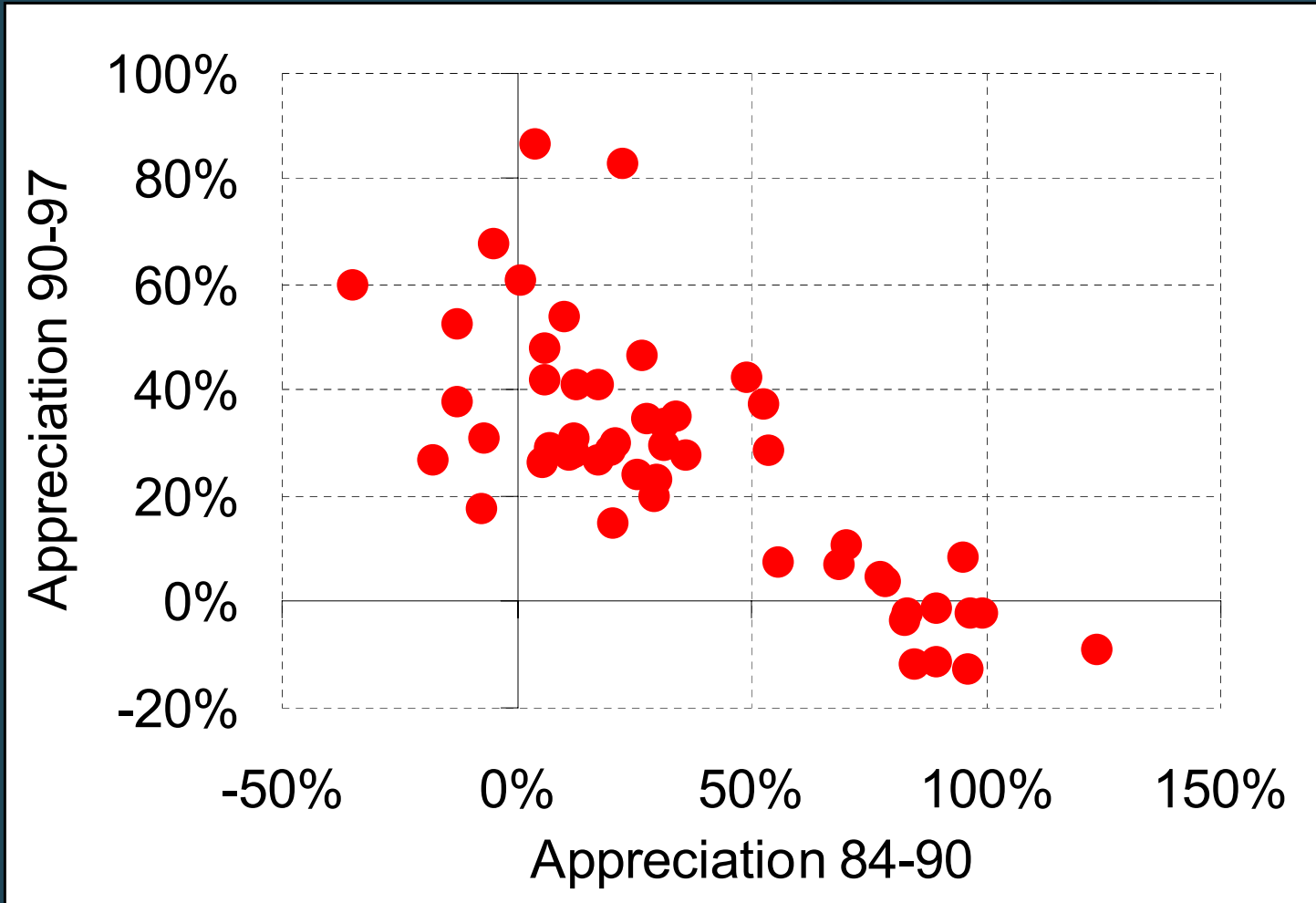
Employment and Prices by MSA 1989 to 1994



Those cities that saw employment losses also typically experienced nominal housing price declines

REGARDLESS...

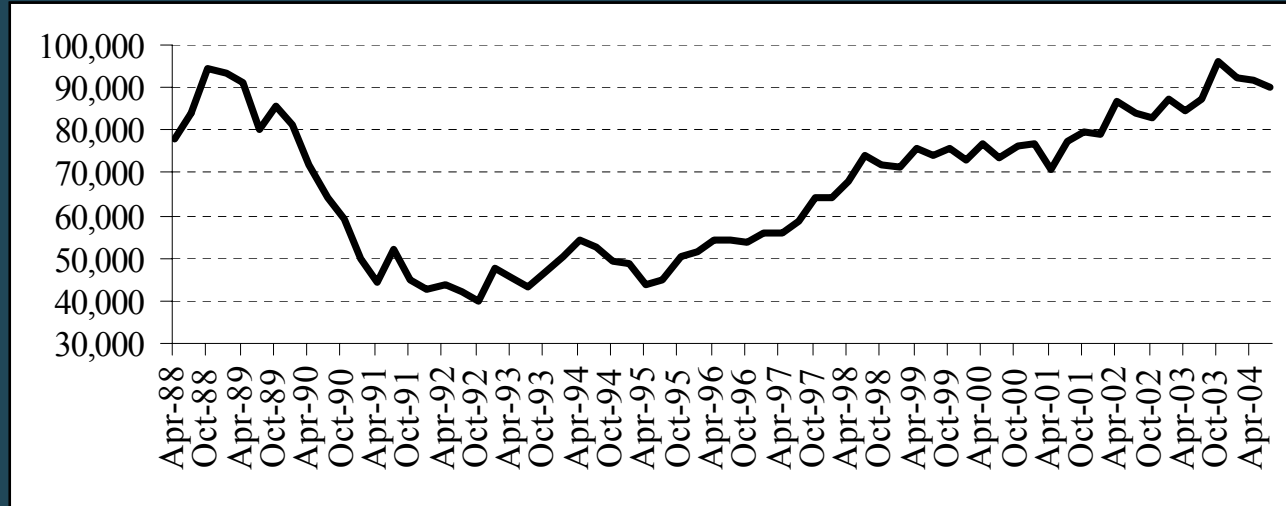
What goes up must come down eventually...



The market effects...

So-Cal Total
Unit Sales:
Three months
ending in
month

Source: Dataquick

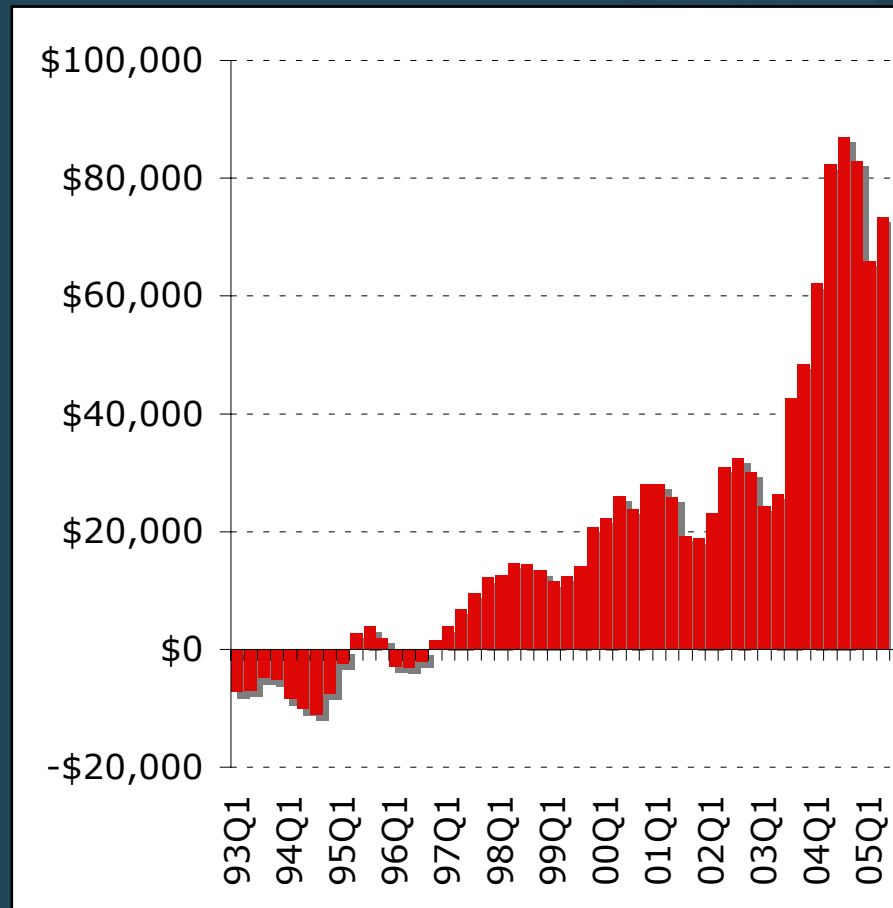


National
Housing
Completions



And don't forget the wealth effects...

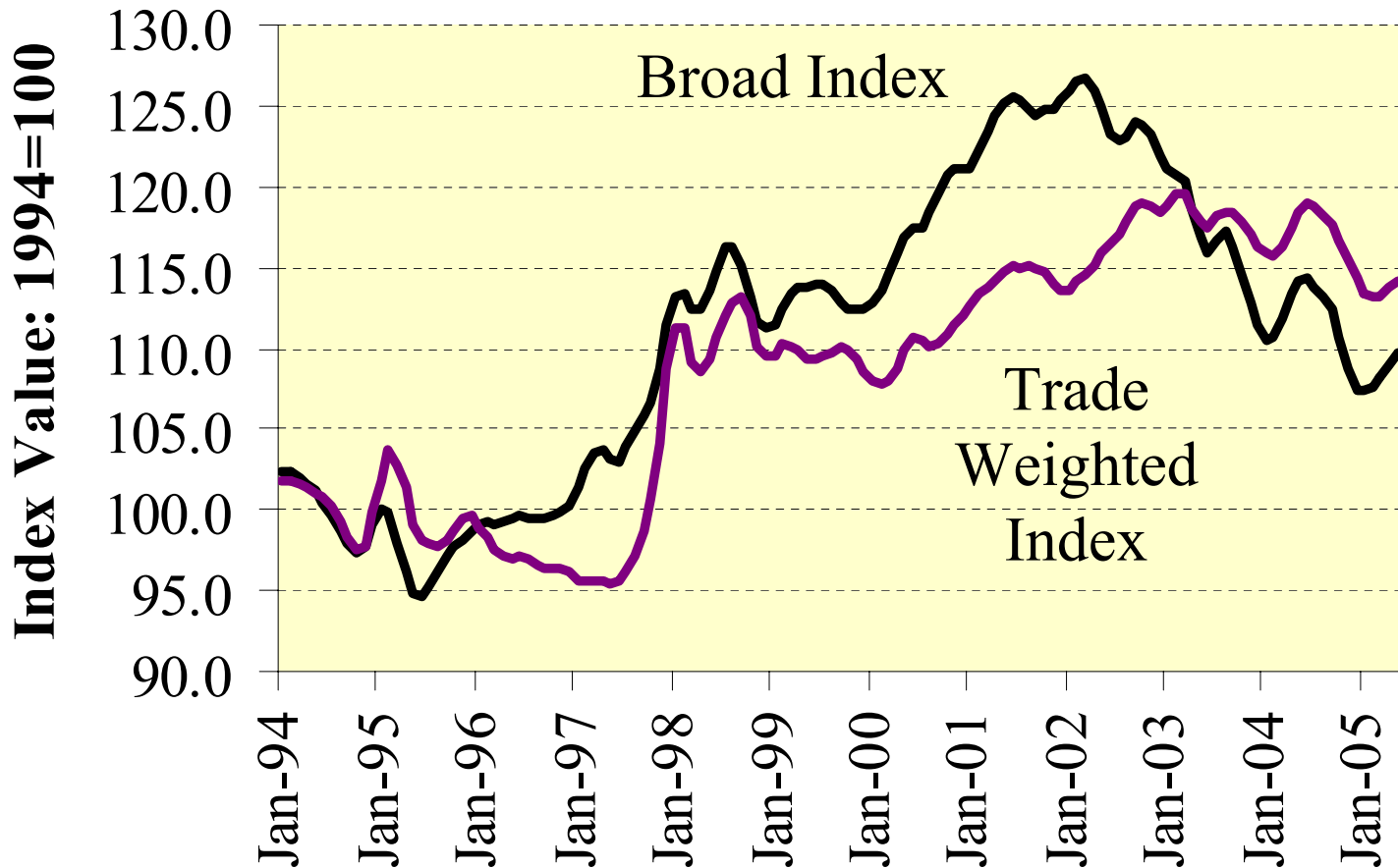
CA Housing Appreciation Annualized



The good news

- The economy in 2006 will continue at a solid pace
 - The market may have peaked, but has yet to fall
- The dollar is down
 - Demand for exports is up
- Corporations are sitting on large war-chests
 - Cash in the bank will help them weather future slowness
- Cyclical employment limited by lack of build-up
 - Weak job growth in retail and manufacturing may mean less job growth
 - Without a potential for large job losses, the slowdown in real estate may be gradual enough

Good news... the softening dollar

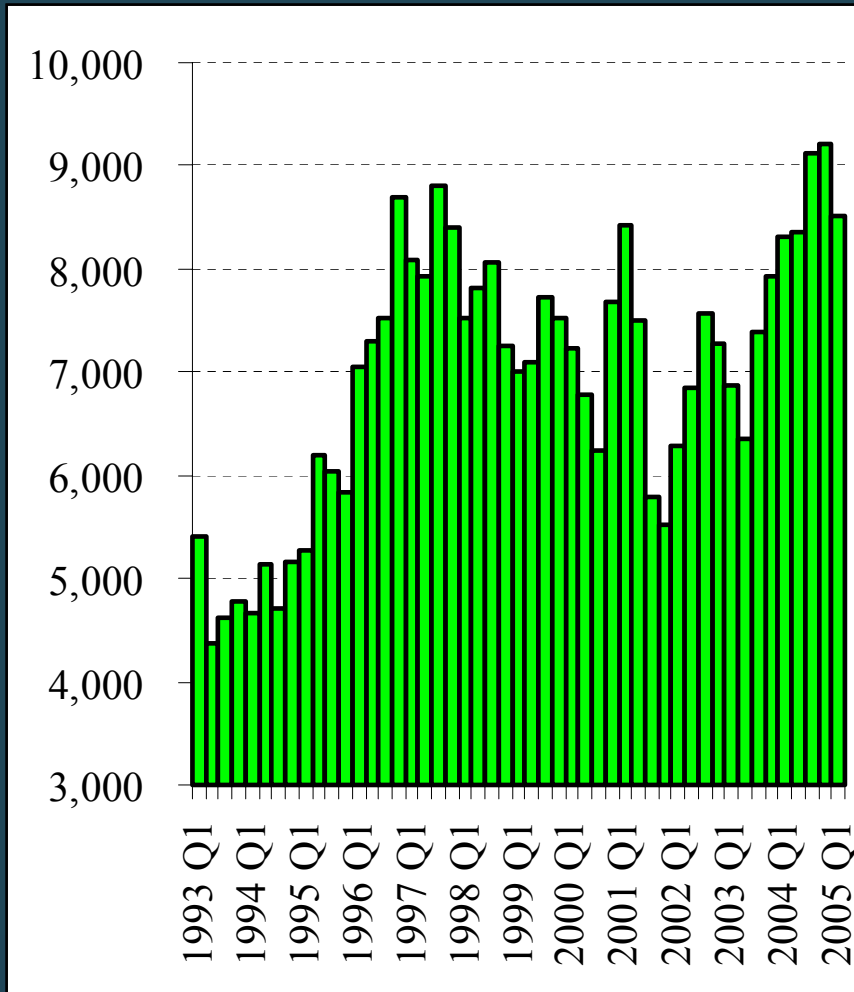


The \$US is down and has farther to fall

Run-a-home Production

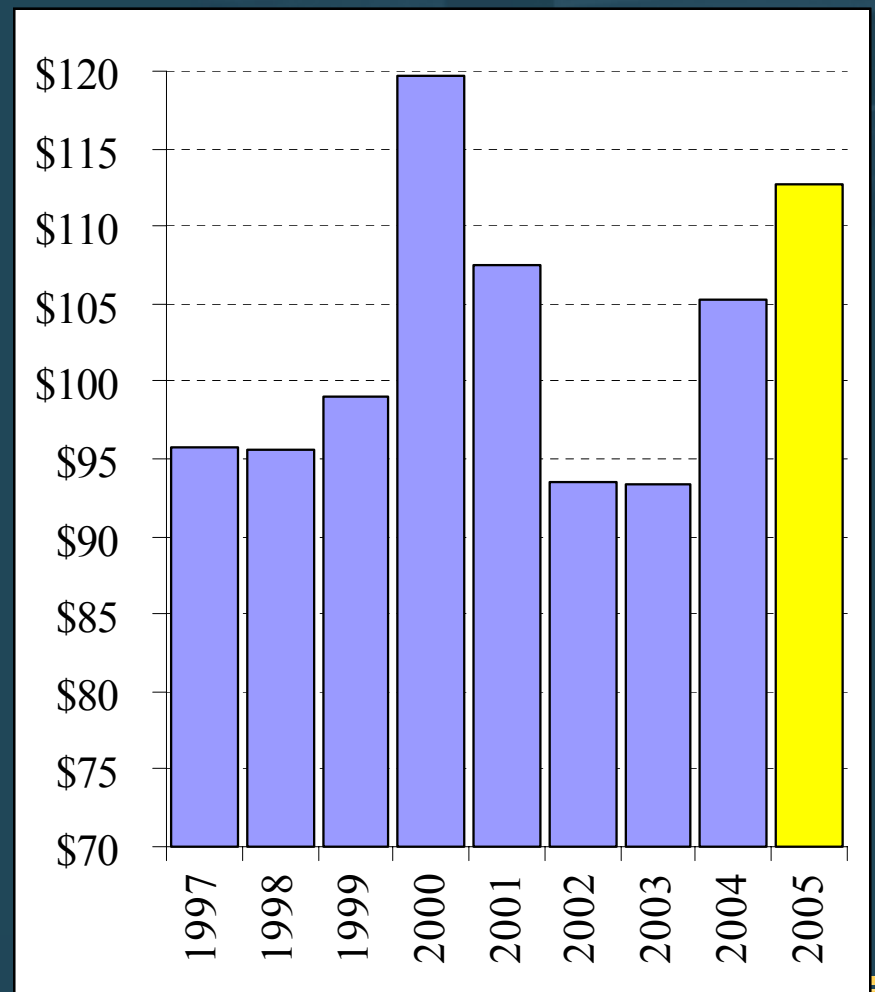
Off-site Film Productions

EIDC Data, SA



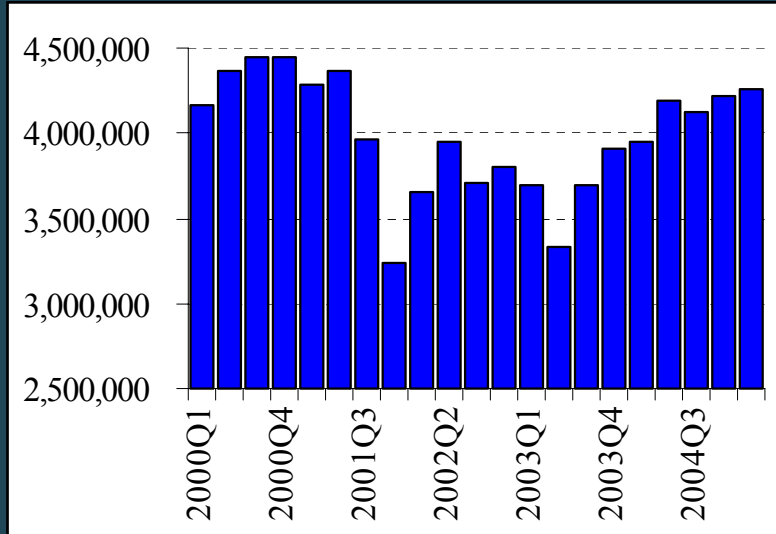
California Exports

Real, \$Millions

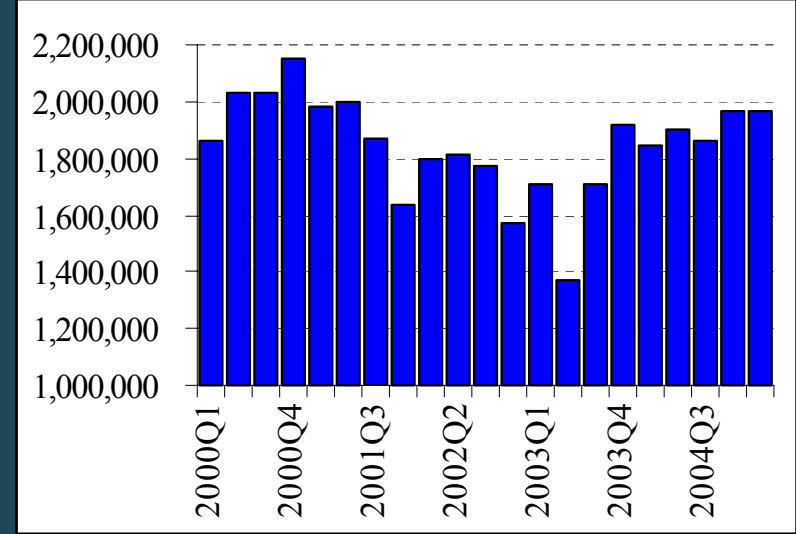


Travel and tourism on the rise

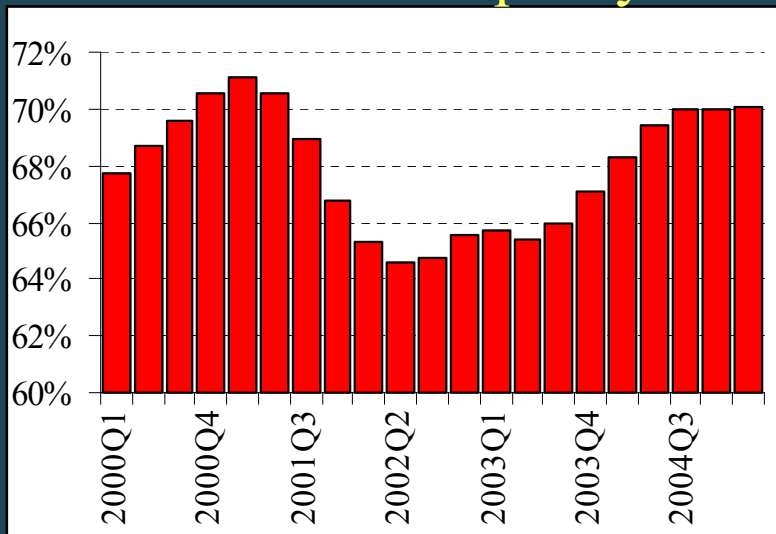
LAX International Traffic



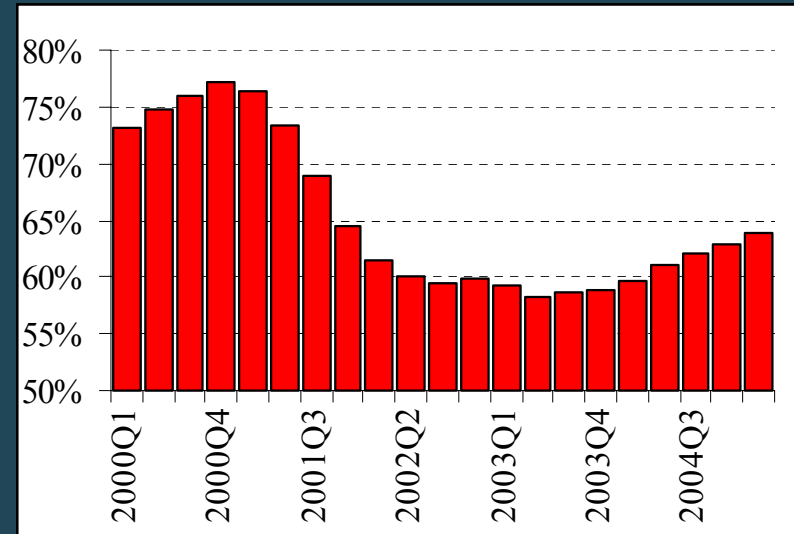
SFO International Traffic



So-Cal Hotel Occupancy Rate



Bay Hotel Occupancy Rate



UCLA Forecast for 2006:

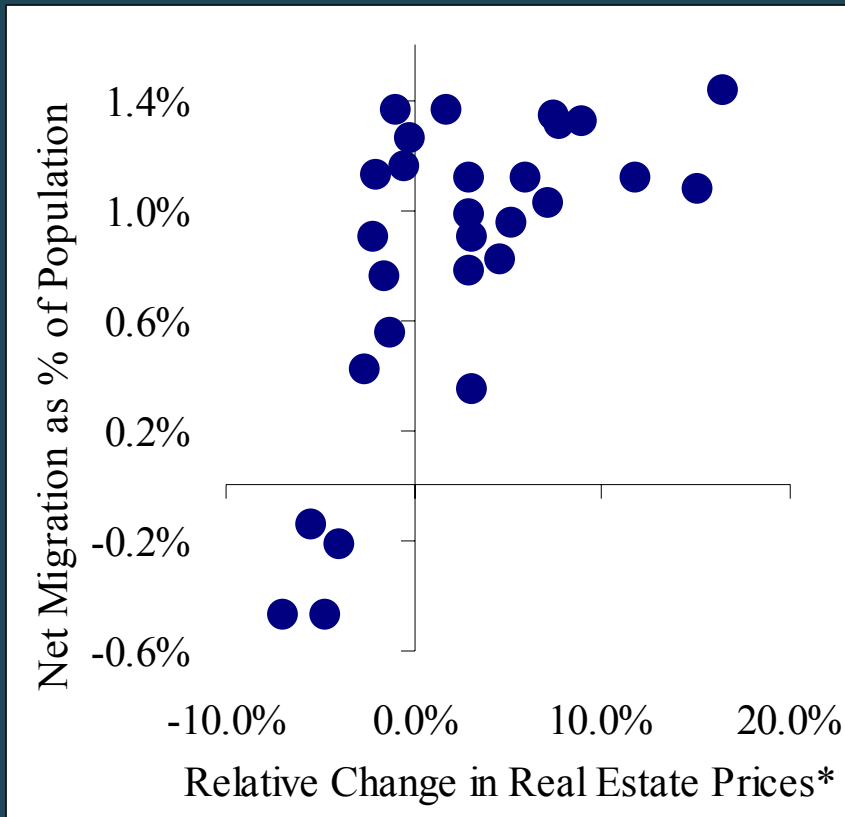
A Housing Correction

- A Flat Yield Curve
 - Short-Term Rates Up to 4.7, and back down
 - 10-year Treasuries up to 5.0, and back down
- Weakness in Housing
 - Housing starts edge down from 1.9 m to 1.6 m by end of 2007
- Less than Normal Growth 2.1-3.0%
 - Housing Related Job Losses
 - Drag from negative wealth effect
- The East Bay recovery to continue
 - Jobs, income and sales continue to rise at a decent but not spectacular pace
- NO RECESSION IN THE FORESEABLE FUTURE
 - 2007 is still a mystery...

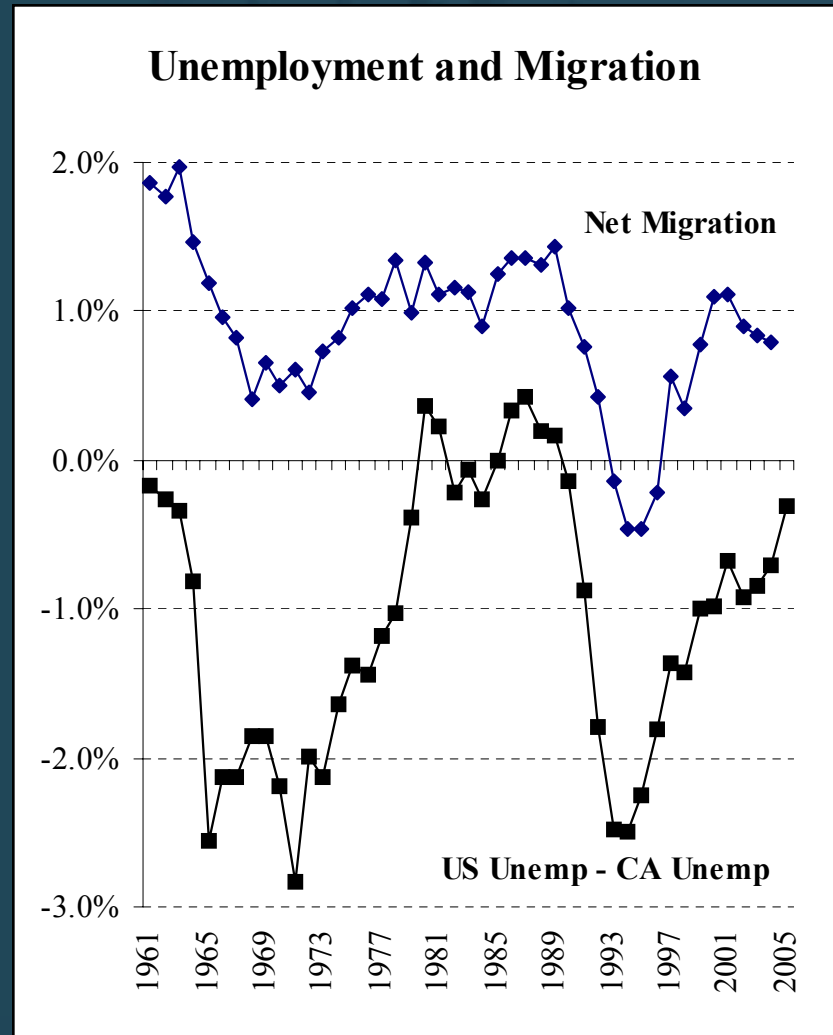
The State in the Long Run?

Housing prices aren't the issue.

Migration and Price Appreciation: California



Unemployment and Migration



Quality vs. Quantity of Life

	2-Yr Gr.	Net Migration	
		Int.	Dom.
California	3.4%	451	126
Los Angeles	2.7%	166	-84
Orange	2.8%	40	-17
San Diego	3.0%	31	3
San Bernardino	6.3%	13	61
Riverside	9.5%	14	113
Santa Clara	1.7%	30	-40
Alameda	0.9%	21	-34
Sacramento	4.4%	10	25
Contra Costa	2.7%	8	5
Fresno	4.7%	9	10
Ventura	3.0%	8	0
San Francisco	0.6%	21	-22
Kern	6.4%	6	22
San Mateo	0.7%	9	-16
San Joaquin	6.3%	6	18
All else	3.3%	50	73

Change in Real Median Household Income 90-03

San Francisco	\$57,833	17.2%
Alameda	\$61,731	11.4%
Solano	\$62,742	8.7%
Santa Clara	\$76,544	7.8%
Contra Costa	\$69,835	4.9%
Sacramento	\$49,877	4.6%
Fresno	\$40,122	3.0%
San Diego	\$49,886	-3.5%
Riverside	\$45,135	-7.6%
Santa Barbara	\$48,176	-8.5%
Orange	\$60,118	-11.3%
San Bernardino	\$43,022	-12.9%
Los Angeles	\$44,674	-13.4%

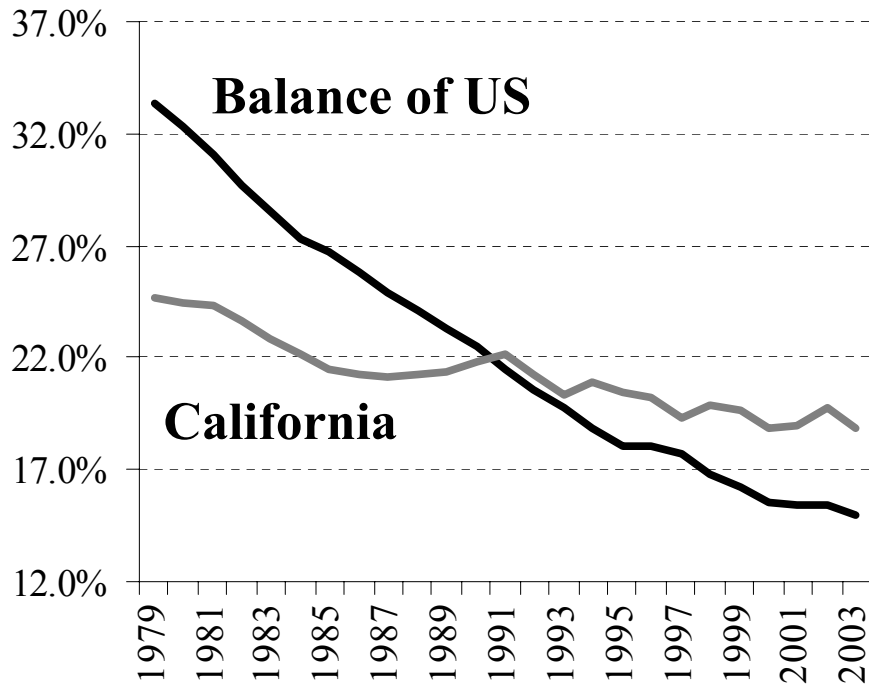
UCLA Anderson

FORECAST

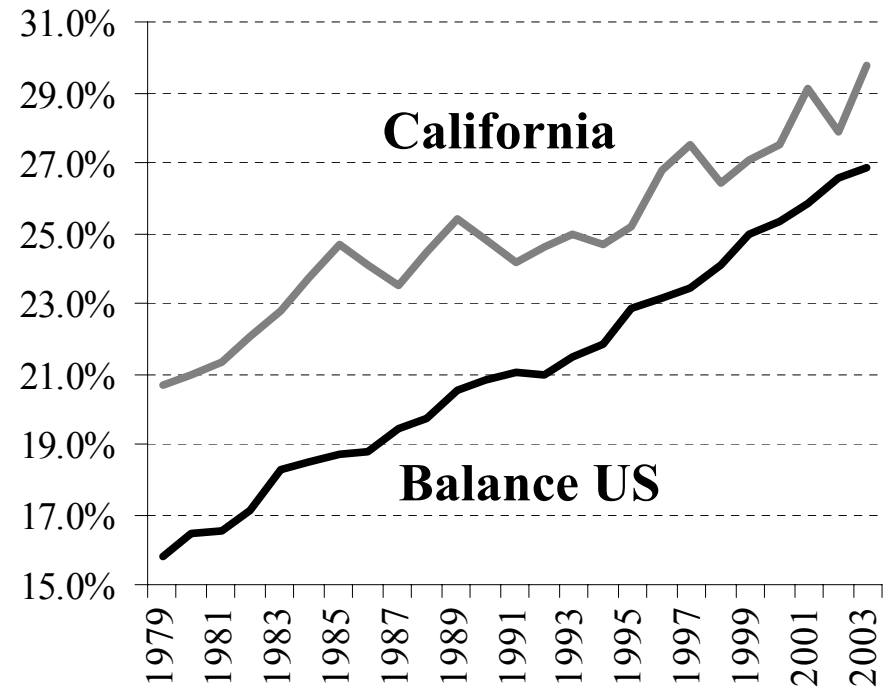
www.uclaforecast.com

California's Growing Educational Gap

Percent population 25+ without a high school diploma

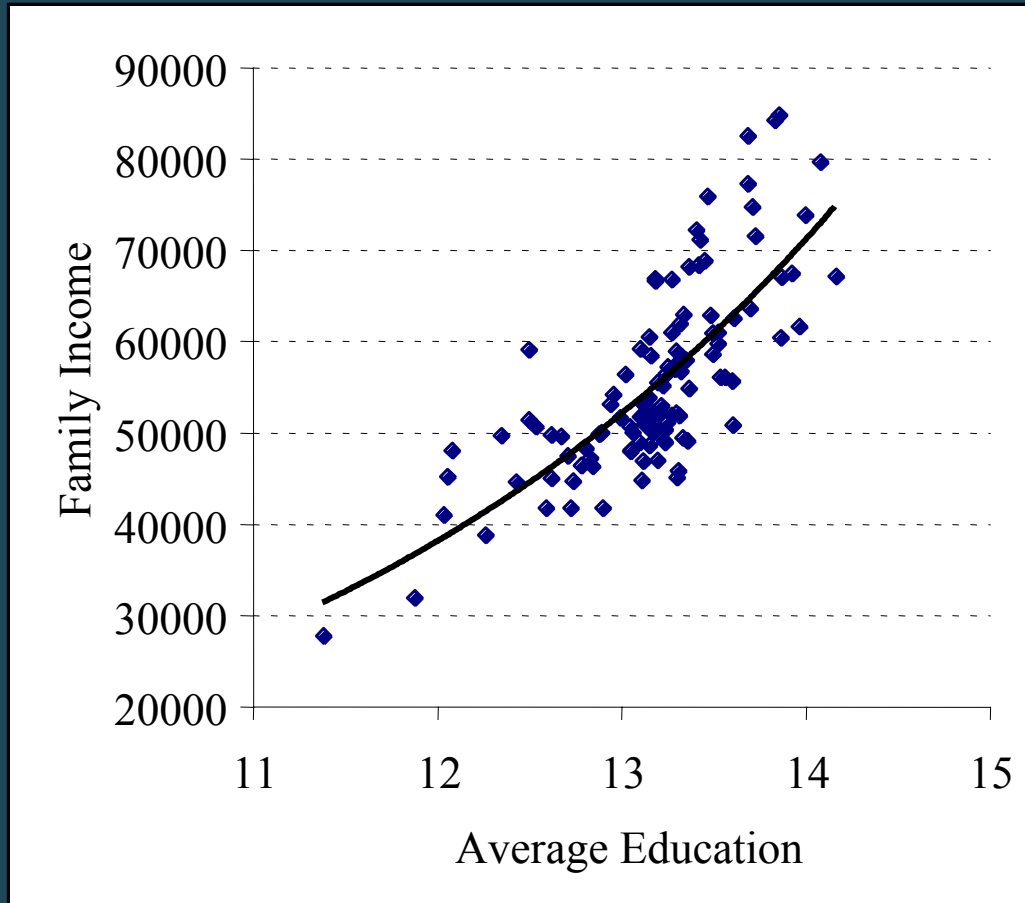


Percent population 25+ with Bachelor Degree or more



The importance of education

Education and Income

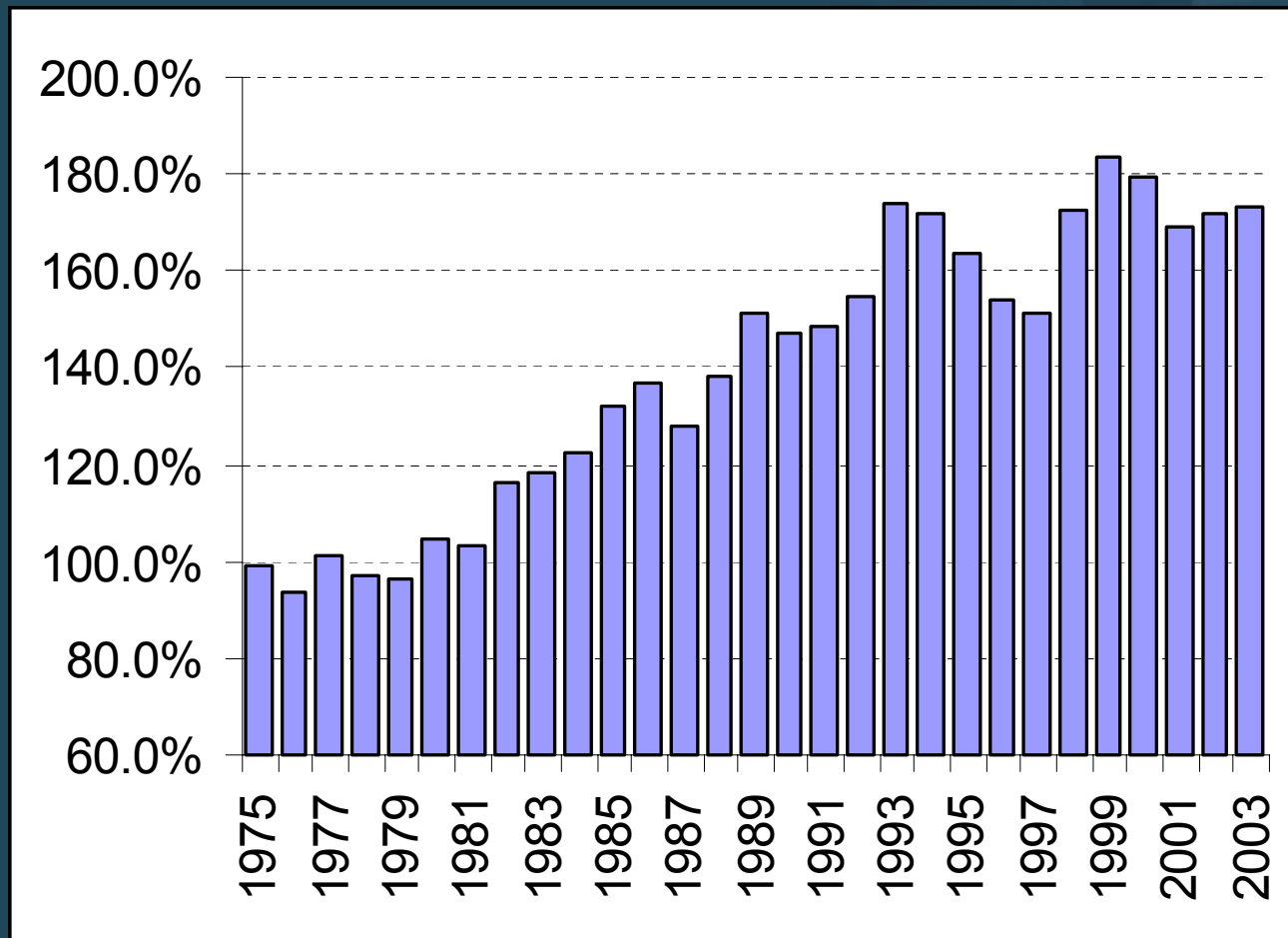


Inequality Out of 110

	B / D	Rank
San Jose	2.84	2
Oakland	2.49	11
Sacramento	1.74	15
San Francisco	3.46	17
Ventura	1.65	18
Santa Barbara	1.37	20
Orange County	1.60	22
Salinas	0.90	27
Vallejo	1.87	32
Stockton	0.73	40
Modesto	0.49	44
Riverside-SB	0.76	50
San Diego	1.53	51
Fresno	0.60	60
Bakersfield	0.52	89
Los Angeles	1.03	93

The education premium still rising

Wage Gap in Average Income
Bachelor Degree / Less than High School



State Disparities

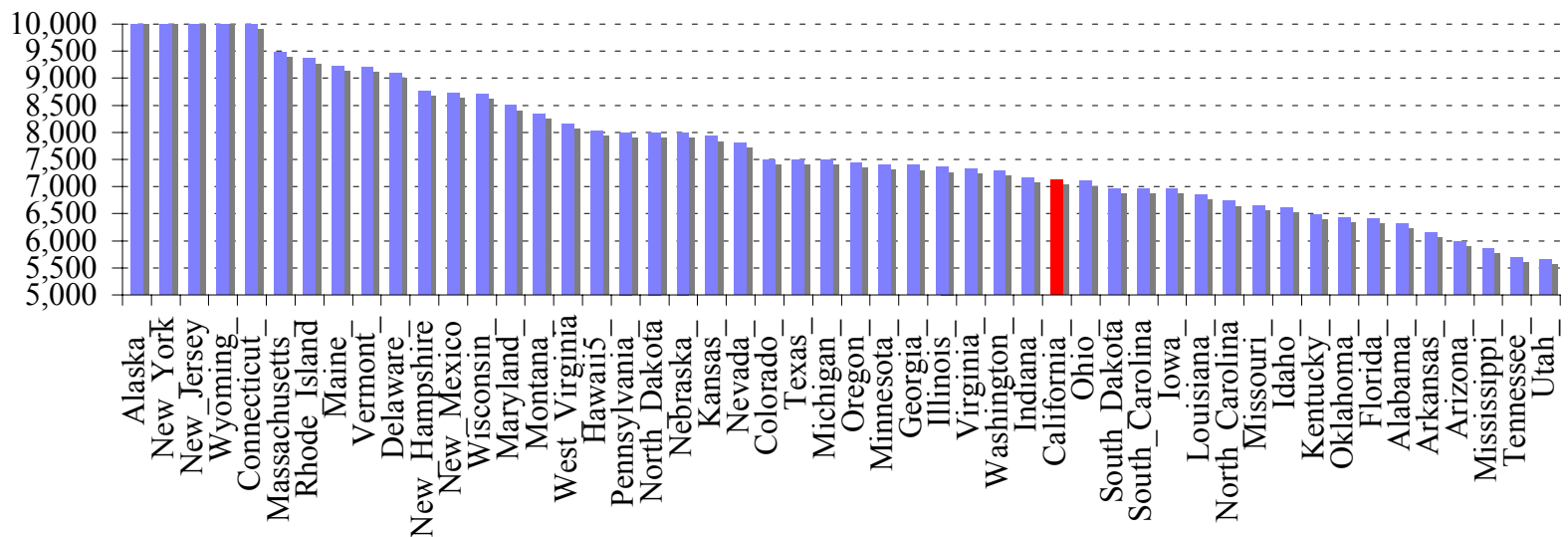
2003 Demographic Stats

	Household Income		Population 16+ years Education		Population in Poverty	
	Median	Rank	Percent	Rank	Percent	Rank
Santa Clara	\$76,544	7	44.1%	18	7.3%	179
Contra Costa	\$69,835	15	38.7%	44	8.5%	158
San Mateo	\$69,219	17	42.8%	24	6.9%	184
Alameda	\$61,731	39	39.3%	42	10.9%	118
San Francisco	\$57,833	57	48.6%	9	9.5%	141
Orange	\$60,118	48	33.5%	71	9.6%	139
San Diego	\$49,886	93	32.1%	82	12.3%	91
Riverside	\$45,135	131	18.8%	214	12.7%	85
Los Angeles	\$44,674	137	27.9%	132	16.4%	33
San Bernardino	\$43,022	148	16.9%	222	16.7%	31
Sacramento	\$49,877	94	29.1%	116	11.1%	114
Santa Barbara	\$48,176	108	31.0%	95	15.1%	45
Fresno	\$40,122	182	18.0%	219	21.8%	7

Based on 233 largest US Counties

The budget rose from 1995 to 2000...

	California	Rank	US Avg
Spending per student	\$7,691	26	\$8,019
Spending per Teacher	\$94,810	4	\$77,796
Student Teacher Ratio	20.7	50	15.9
Spending as % of PI	4.3%	29	4.4%
Students as % of Pop	17.5%	7	16.4%



And the budget?

	2004-05	2005-06	2006-07		
K-12 Education	\$34,139	\$36,058	\$39,881	5.6%	10.6%
Health and Human Services	\$24,852	\$27,260	\$28,473	9.7%	4.4%
Higher Education	\$9,314	\$10,158	\$11,223	9.1%	10.5%
Youth and Adult Corrections	\$6,968	\$7,658	\$8,081	9.9%	5.5%
Legislative, Judicial and Executive	\$2,899	\$3,147	\$3,382	8.6%	7.5%
Business, Transportation and Housing	\$369	\$1,714	\$2,719	365.1%	58.6%
General Government	-\$456	\$2,164	\$1,910	-574.9%	-11.7%
Resource Agency	\$1,031	\$1,388	\$1,530	34.6%	10.2%
State and Consumer Services	\$523	\$578	\$540	10.4%	-6.6%
Labor and Workforce Development Agency	\$85	\$89	\$92	4.1%	3.6%
California Environmental Protection	\$78	\$78	\$71	0.4%	-8.5%
Grand Total	\$79,804	\$90,294	\$97,902	13.1%	8.4%
Source					
Personal Income Tax	\$42,738	\$45,493	\$48,716	6.4%	7.1%
Retail Sales and Use Tax	\$25,759	\$27,184	\$28,295	5.5%	4.1%
Corporation Tax	\$8,670	\$9,621	\$10,024	11.0%	4.2%
Insurance Gross Premium Tax	\$2,233	\$2,246	\$2,340	0.6%	4.2%
All Other Minor Revenue	\$830	\$1,652	\$1,086	99.1%	-34.3%
Total	\$82,209	\$87,691	\$91,545	6.7%	4.4%
	\$2,406	-\$2,602	-\$6,357		

No breathing room

Revenue source	Governors Budget		SCO model		Difference (DOF-SCO)	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
B&C	\$9,835	\$9,908	\$9,540	\$9,325	\$295	\$583
PIT	\$45,294	\$48,351	\$45,173	\$47,732	\$121	\$619
RSUT	\$27,047	\$28,174	\$27,260	\$28,245	\$(213)	\$71)
Totals	\$82,176	\$86,433	\$81,973	\$85,302	\$203	\$1,131

California: A high tax state?

	California	Rank	US Avg
Taxes and Fees Per Capita	\$5,267	9	\$4,706
Taxes and Fees % Income	15.6%	20	15.1%
Property Taxes	17.0%	38	21.1%
Sales Taxes	23.3%	26	24.5%
Income Taxes	21.5%	11	17.4%
Other Taxes and Fees	38.2%	27	37.0%

We aren't a high tax state, we are a dumb tax state.

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For general information about the UCLA-Anderson Forecast and upcoming events, please go to

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