2017 Economic Update

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Where are we in the Market Cycle??

What's Occurring Across the Globe

STRONG INTERNATIONAL GROWTH

2017 Global GDP is 3.5%

Emerging Mkts are 75% of Global GDP Growth

India growing at 7% - faster than China

Mounds of Debt - Worldwide

Global Debt $217T (was $40T in 90s)

Debt to Global GDP is 327%

Mounds of Debt - Worldwide

US debt 106% of GDP

Chinese debt 300% of GDP

Japanese debt 250% of GDP – "no way to get out of debt"

-> Feds have 20% of U.S. debt
   (4.5T on books, treasuries and mortgages)

-> Bank of England has 26% of English debt

-> Bank of Japan has 30% of Japanese debt

Central banks hold $22T of debt – number to watch

- **only $2T in 1995**

In total, the six central banks that have embarked on quantitative easing over the past decade — the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England, along with the Swiss and Swedish central banks — now hold more than $15tn of assets, according to analysis by the FT of IMF and central bank figures, more than four times the pre-crisis level.

GEO / Political Risks

- ISIS, Middle East
- North Korea
- Venezuela
- China and Germany
  emerging as Intl leaders

Key Metrics - International

➢ **India will surpass China in Pop by 2030 (1.3b vs 1.2b)**

➢ **China GDP is 6.9% in 2017, 18% of worldwide economy**

➢ **EU GDP 2.3%, Unemployment rate 7.6%**

➢ **EU Quantitative easing is ongoing**

➢ **German 10yr Bund .36%, English Pound 1.05%**

➢ **Canada GDP $1.52T, California GDP $2.44T**

Gross domestic product (GDP) is a monetary **measure of the market value of all final goods and services** produced in a period (quarterly or yearly) or income. Nominal GDP estimates are commonly used to determine the **economic performance of a whole country or region, and to make international comparisons.**

United States Economy

The Good News…

- ✓ Inflation remains Low, GDP Improving
- ✓ Unemployment 4.2%
- ✓ 14m jobs created since Great Recession
- ✓ Household Formation 1.5m/yr, only 1.2m New Units
- ✓ 65m Households making $100k+
- ✓ S&P 500 PE Ratio at 17.5 – historic high
- ✓ 9 of Top 10 Companies in World are in U.S.

Challenges facing the U.S.

- **National Debt - $20.1 Trillion ($60k+ per resident)**
- ✓ **U.S. Savings - 57% have less than $1000, 39% have none**
  - **Under employment - 6m people work PT**
- ✓ **Food Stamps - 44m today vs 28m pre-recession**
- **Manufacturing - 19m jobs in 1979, 11m in 2010**
  - Manufacturing- no growth expected- automation
  - Wages @ 15 per hr in Tesla 250
  - ✓ **Technology is eliminating jobs – MOST JOBS USE TECH**
- **Aging Population**
  - Multigenerational living in same home - trend due to lack of opportunity
  - Boomers not likely to move

Challenges facing Housing

- **Homeownership rate 62.9% - lowest in 50yrs**

- **Multi-Gen Households - 60m people**
  (42m in 2000, 27m in 1980 per NAR)

- **Homeowner over 55 – all time high**
  - population not as bad as Japan

- **13% less inventory YOY – per Zillow**

- **Federal proposed Tax Plan**

Challenges facing Housing

Federal proposed Tax Plan –A DISINCENTIVE TO MOVE

-> **Mortgage Interest Deduction Capped at $500k**

-> **State and Local Tax Deduction Eliminated**

-> **Property Tax deduction capped at $10,000**

-> **2nd Home Property Tax deduction eliminated**

-> **HELOC Interest Deduction Eliminated**

-> **$500k Cap Gains Tax Deduction requires occupancy for 5 of 8 yrs**
   - ✓ **CA is currently looking to revise Prop 13 for 55+**

Life is Changing

INTERNET OF THINGS...

per World Economic Forum

➢ **50B things connected**

➢ **1T sensors**

➢ **Cars, clothing, homes**

➢ **Danger of abuse**

➢ **Investment in 2014 was $375B**

➢ **$2.1T projected investment by 2019**

Life is Changing – due to the tech indusrty

McKinsey Predicts...

       50% of all jobs will be done by Robots

       (may take several decades due to cost to deploy)

Jobs at Risk -

       -    **Medical (robots collect and analyze data, perform surgery)**

       -    **Legal (automated doc prep and analysis)**

       -    **Transportation (shipping, trucking, auto)**

Jobs less impacted -

       -    **Jobs that require human interaction**

       -    **Nursing**

       -    **Hospitality**

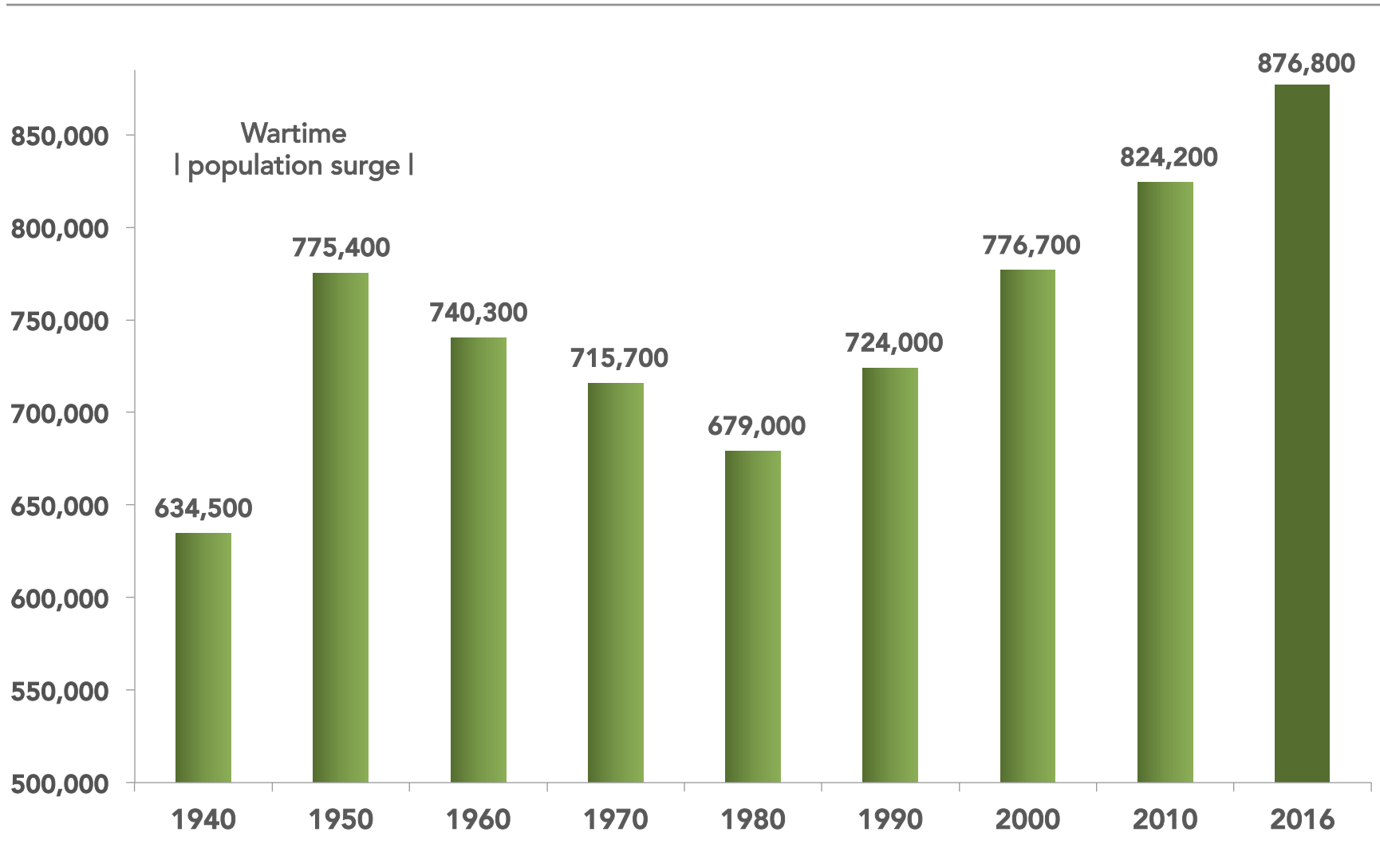**Going forward, we may not have to work so hard!**

San Francisco and Bay Area

San Francisco – Headlines

➤ **Bay Area Pop - 35% increase by 2040**

➤ **Venture Capital growth in SF exceeds Silicon Vly** ($7.6b vs $6.4b)
NY Metro - $4.3b, L.A. - $2b (per Bloomberg)

➤ **Facebook leased 434k sf - 181 Fremont**

➤ **SF highest income per capita $97k**

➤ **2/3rds of SF Jobs related to Tech**
(per SF Economist)

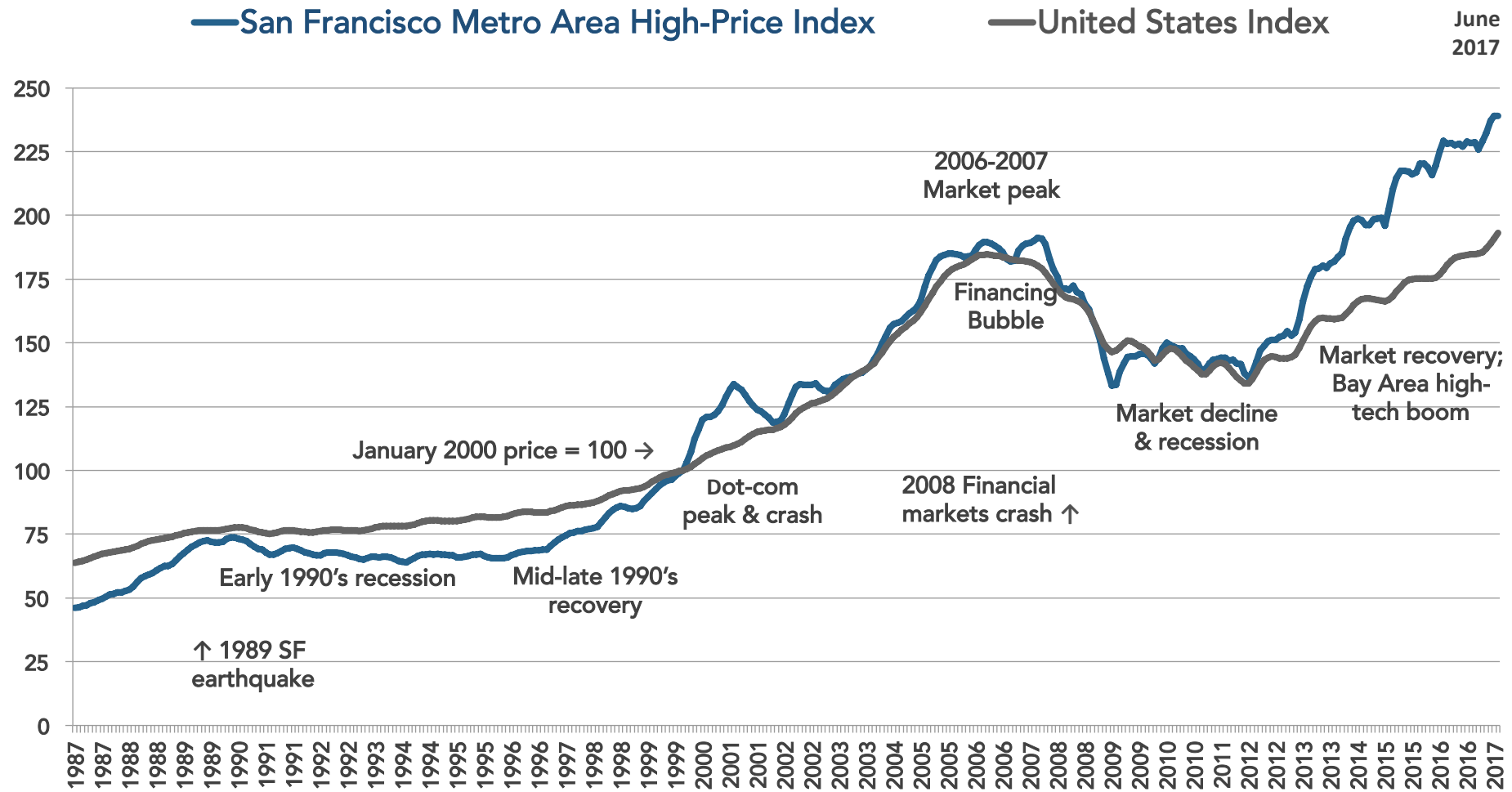# San Francisco Population Trends

Wartime
| population surge |

634,500 — 1940
775,400 — 1950
740,300 — 1960
715,700 — 1970
679,000 — 1980
724,000 — 1990
776,700 — 2000
824,200 — 2010
876,800 — 2016

Per US. census figures, except final estimate.

S&P Case-Shiller Home Price Index: Appreciation since 1987
United States vs. San Francisco Metro-Area High-Price-Tier Index

— **San Francisco Metro Area High-Price Index**   — United States Index

June 2017

2006-2007 Market peak

Financing Bubble

January 2000 price = 100 →

Dot-com peak & crash

2008 Financial markets crash ↑

Market decline & recession

Market recovery; Bay Area high-tech boom

Early 1990's recession

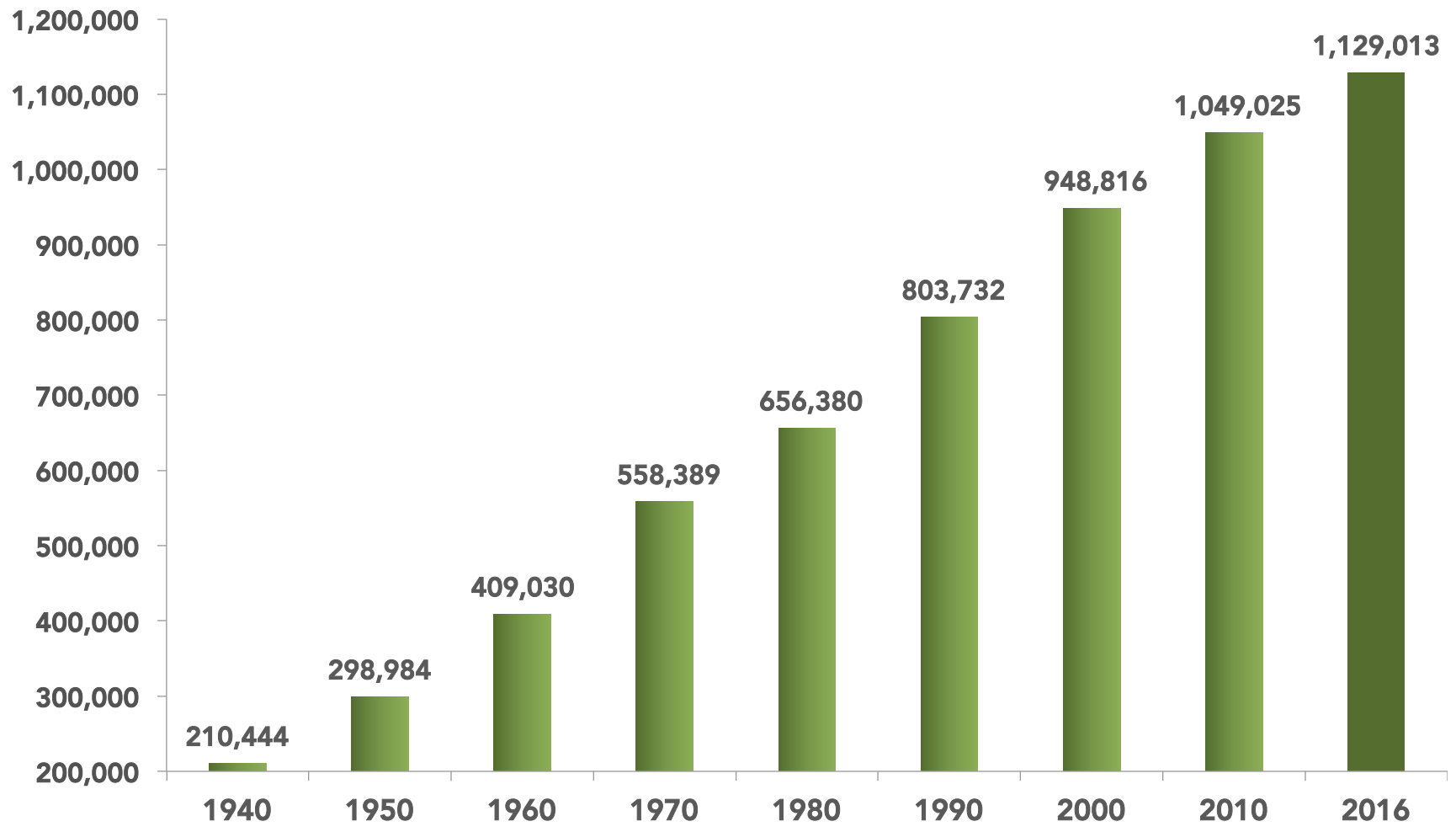Mid-late 1990's recovery

↑ 1989 SF earthquake

Contra Costa Growth

23.6% projected population increase by 2040

$105,084 – Average Household Income

$875,286 – Average Household Wealth

Contra Costa Population Trends

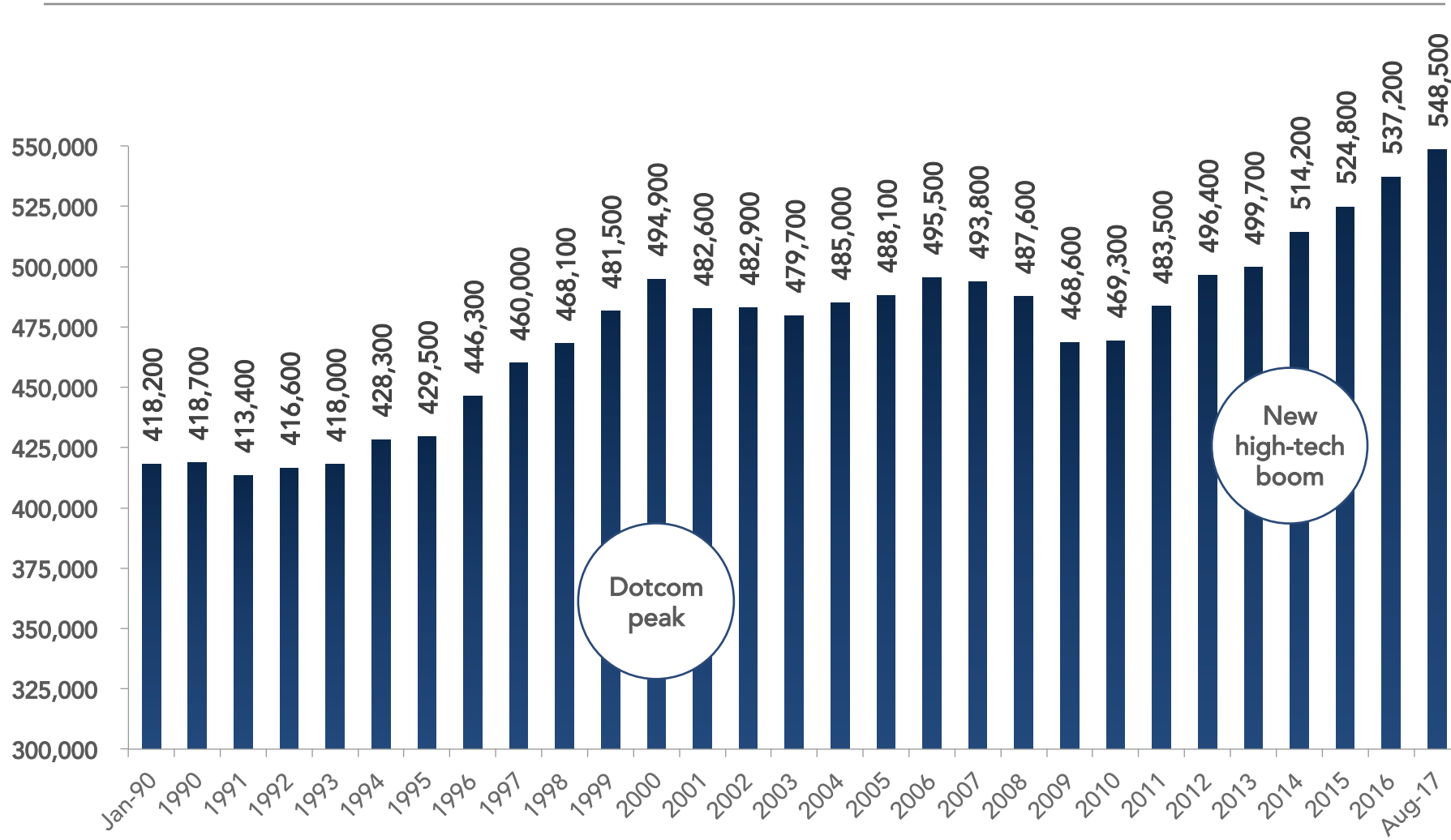| Year	Population
1940	210,444
1950	298,984
1960	409,030
1970	558,389
1980	656,380
1990	803,732
2000	948,816
2010	1,049,025
2016	1,129,013

Per US. census figures, except final estimate.

Contra Costa Employment

Employed Residents by Year

Year	Employed Residents
Jan-90	418,200
1990	418,700
1991	413,400
1992	416,600
1993	418,000
1994	428,300
1995	429,500
1996	446,300
1997	460,000
1998	468,100
1999	481,500
2000	494,900
2001	482,600
2002	482,900
2003	479,700
2004	485,000
2005	488,100
2006	495,500
2007	493,800
2008	487,600
2009	468,600
2010	469,300
2011	483,500
2012	496,400
2013	499,700
2014	514,200
2015	524,800
2016	537,200
Aug-17	548,500

Dotcom peak

New high-tech boom

YTD CCC Unemployment rate is 4.5%

Market Cycles

Consumer Sentiment (Confidence) Index

2000
Peak of dotcom bubble

Mid-late 1990's recovery

1980's recovery

Loan bubble inflates

Dot-com bubble pops ↑

9/11/01 Attack ↑

2012-2017 Recovery

Inflation spiral & recession

Early 1990's recession

2008-2011 Crash/recession
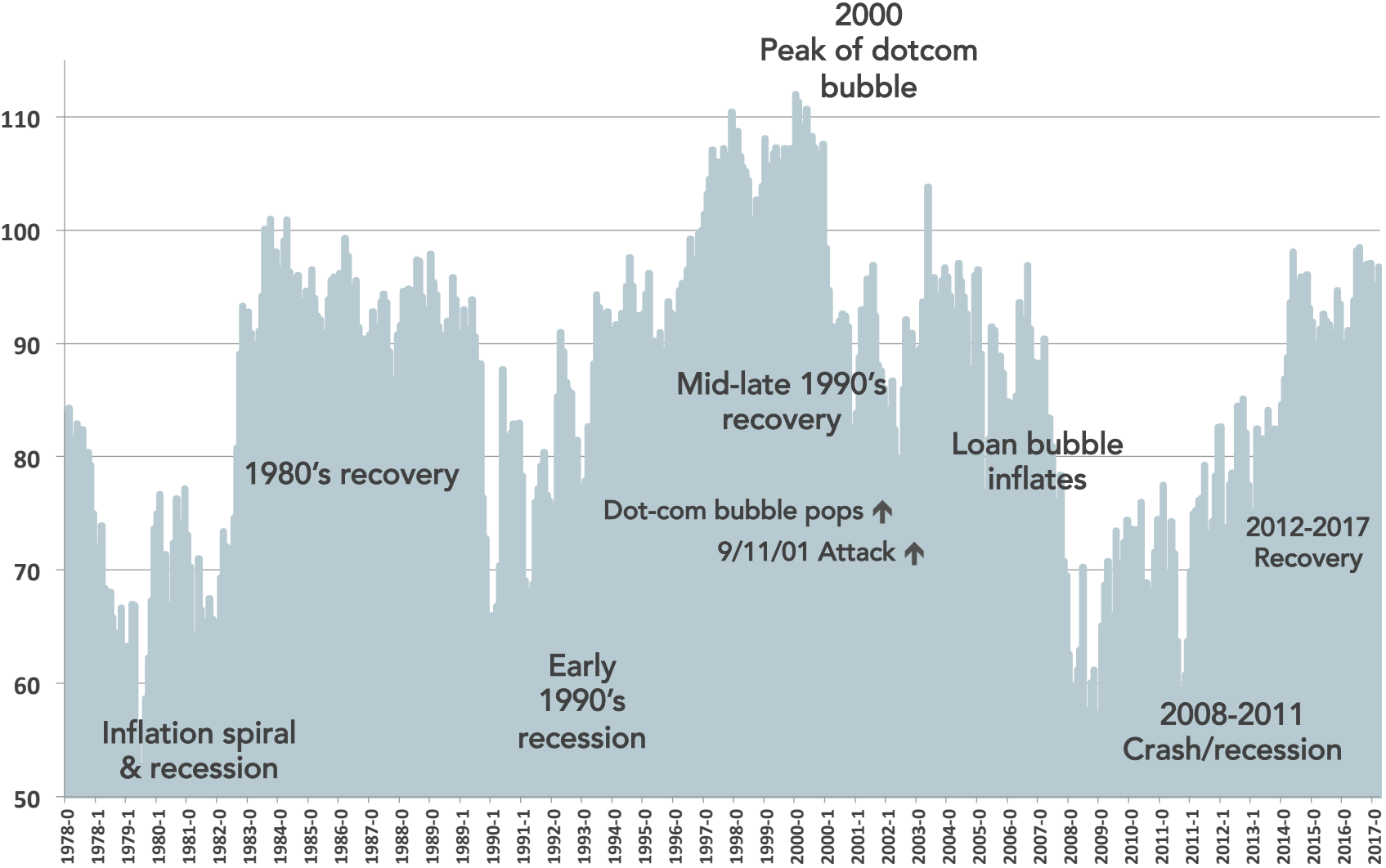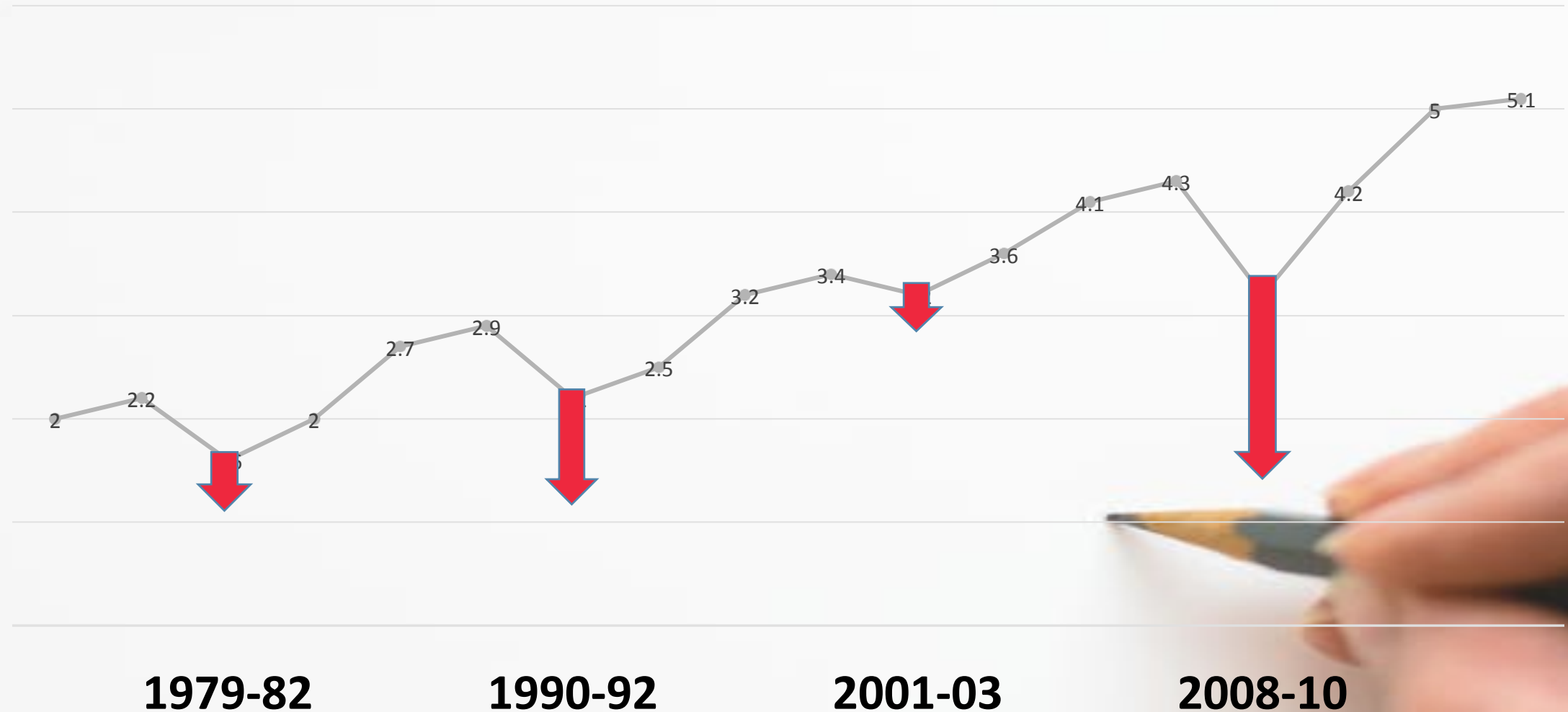
Consumer confidence chart - predicts next cycle

Change is cycle is overdue as cycles run every 7-8 yrs, so a change is expected in a year or two

Past Real Estate Market Cycles

1979-82   1990-92   2001-03   2008-10

SF Bay Area is the Epicenter of Innovation