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2010 California Real Estate Market Forecast

Real Estate Education Center

April 23, 2010

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CALIFORNIA ASSOCIATION OF REALTORS®

Outline

- Economic Conditions in US & CA
- CA Housing Market
- Real Estate Finance
- Local Housing Market Conditions
- Forecast Summary
- Commercial Outlook
- Membership Update

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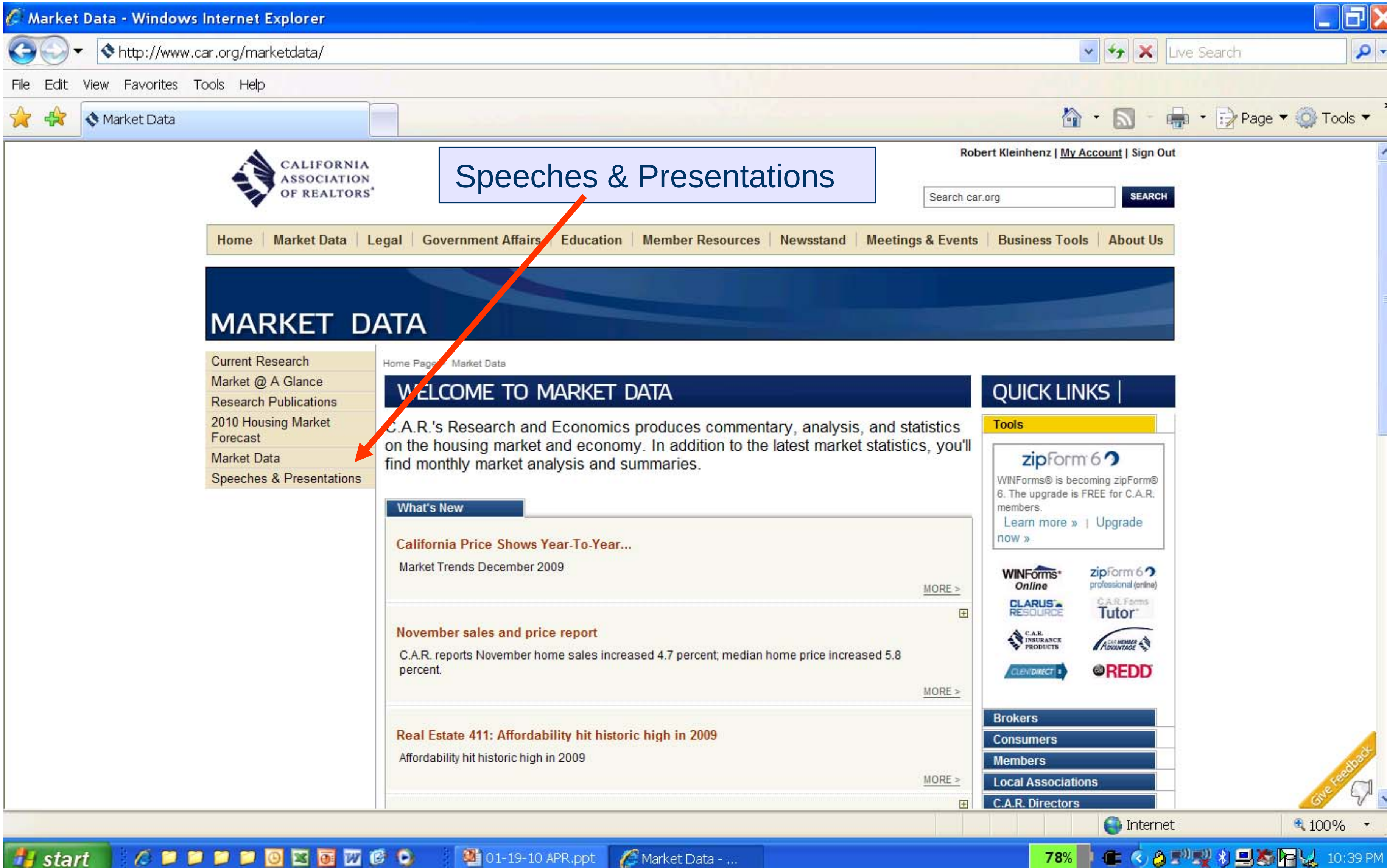
www.car.org → Market Data → Speeches



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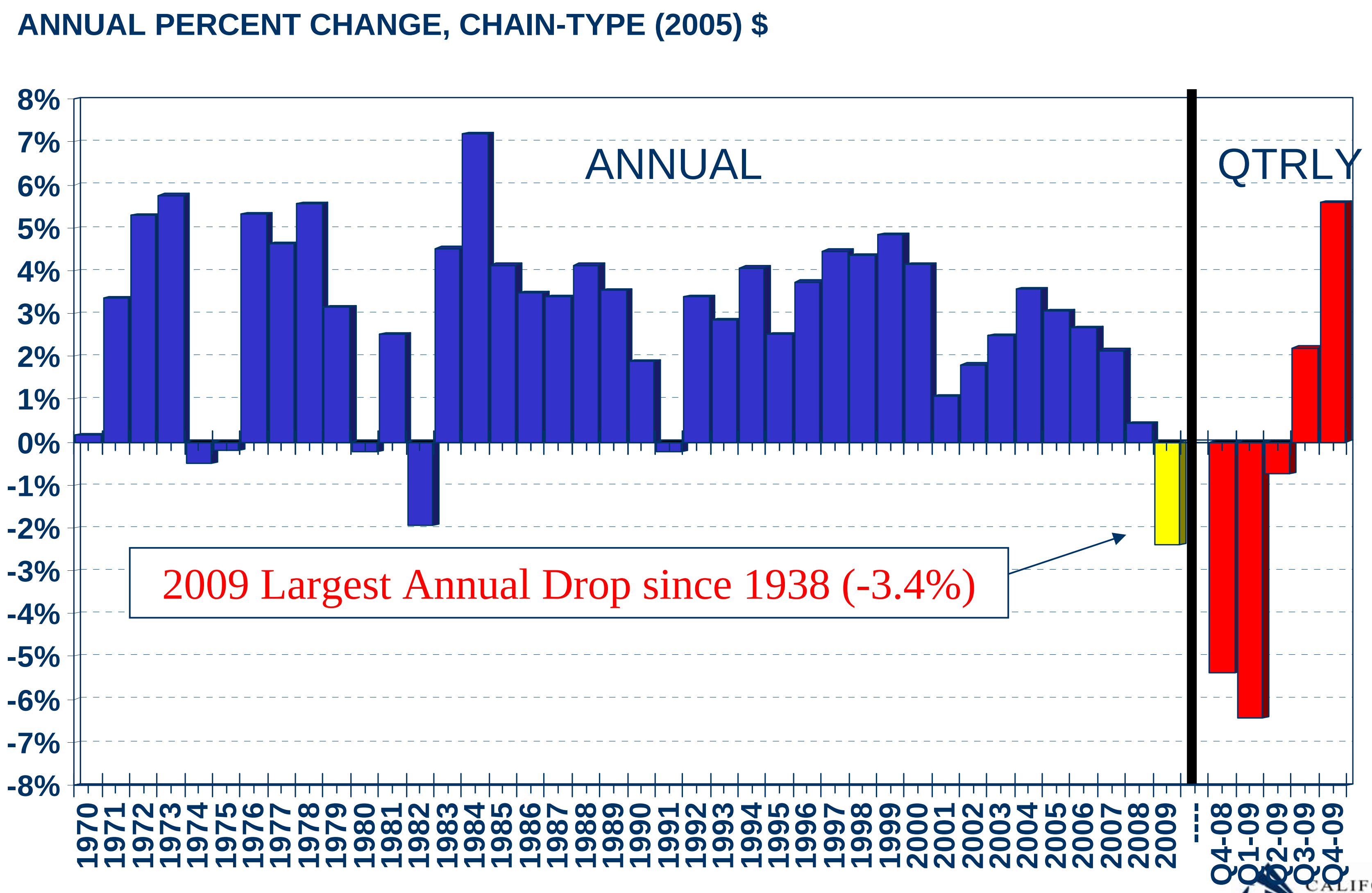
US and California Economic Conditions

Economy Overview

- Worst behind us, slow recovery expected
- Government support in first half of 2010
- Private sector economy must accelerate thereafter
- Labor market: mixed signals, job growth in late ’10
- Inflation: in check for next year to 18 months
- Monetary policy: no rate hikes in first half of year, up by ¼ point by year-end

Gross Domestic Product

2008: +0.4%; 2009 Q4: 5.6%



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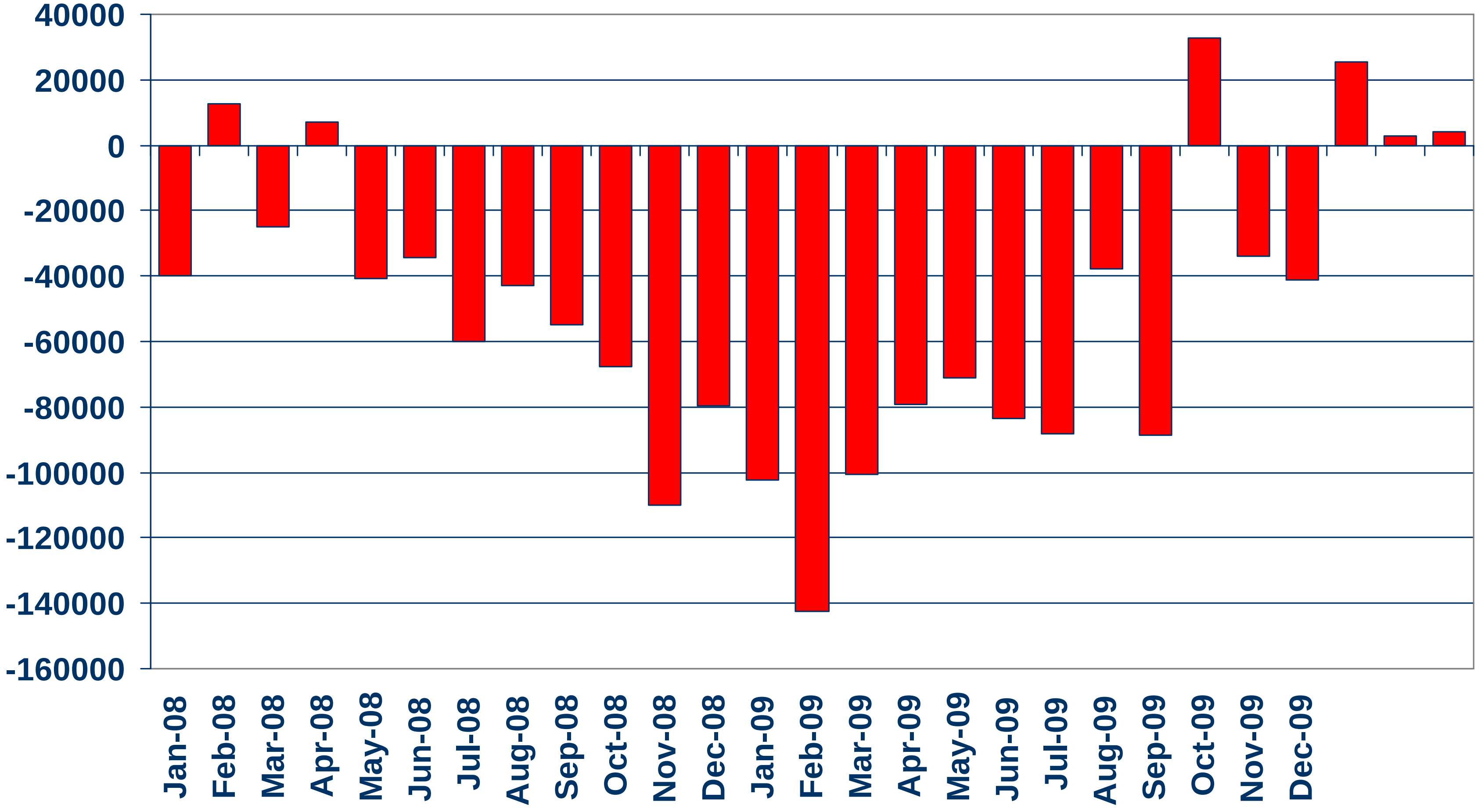
California Non-farm Job Growth
Month-to-Month Changes



SOURCE: CA Employment Development Division

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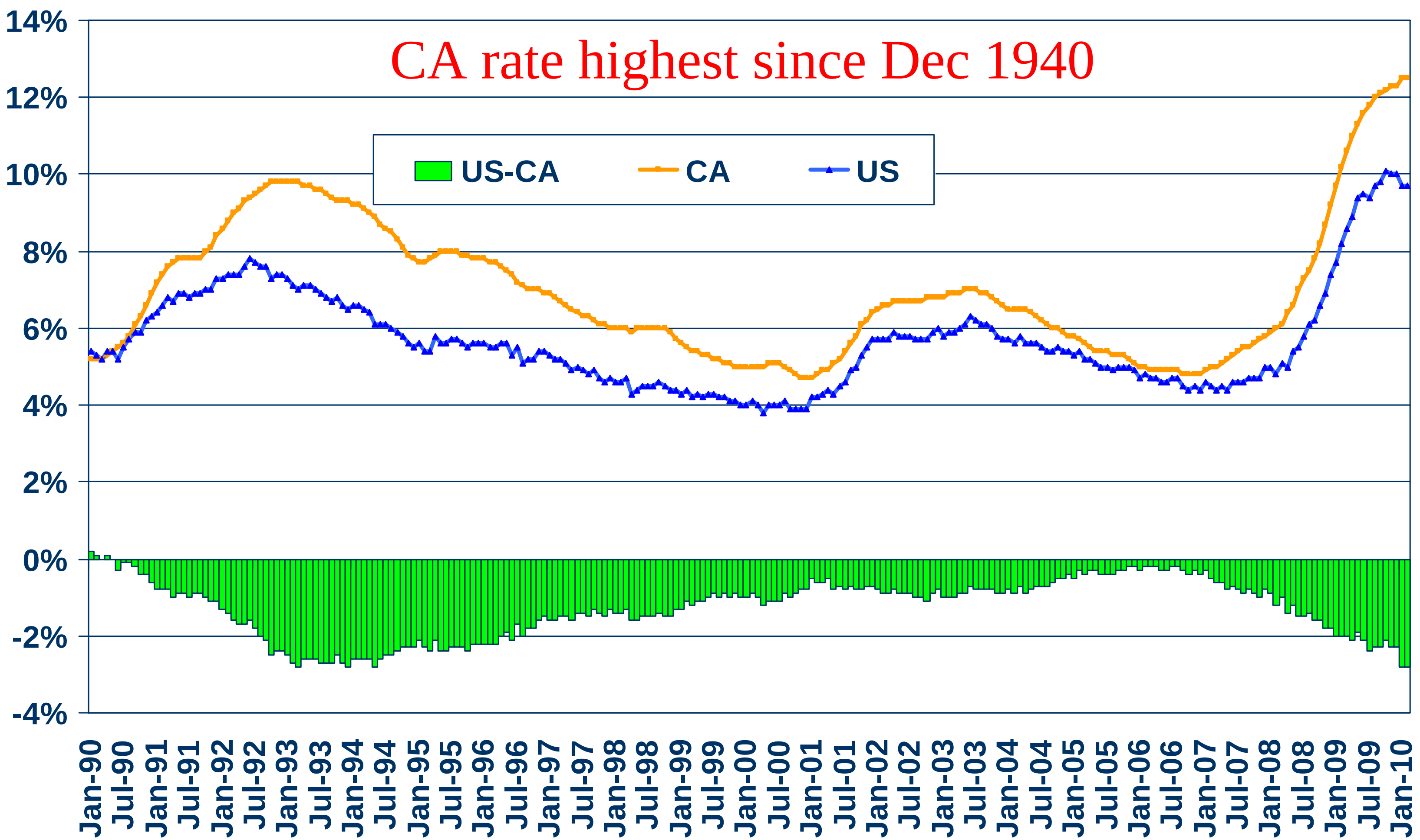
Unemployment Rate

California vs. United States



SOURCE: CA Employment Development Division

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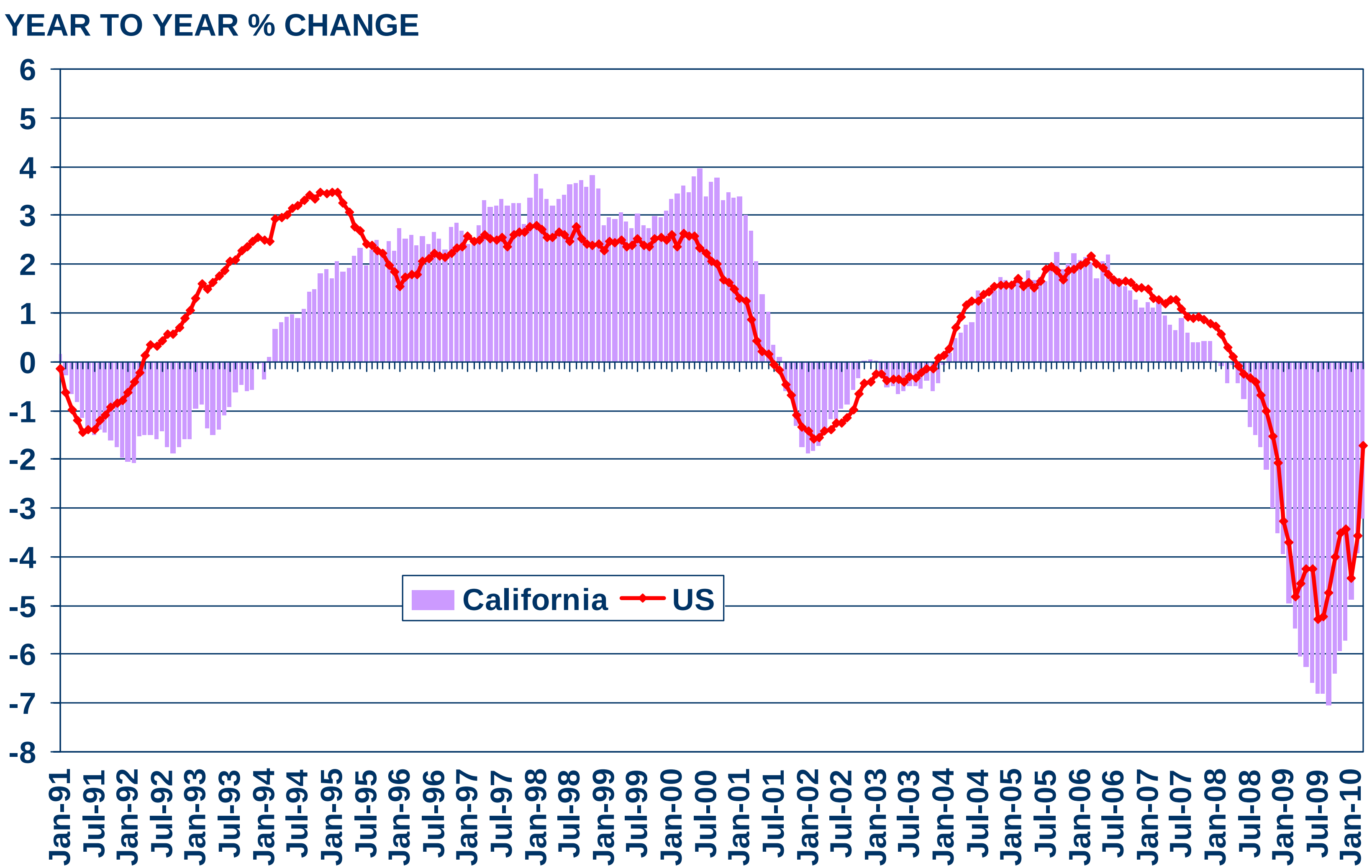
Employment Growth, California vs. U.S.



SOURCE: CA Employment Development Division

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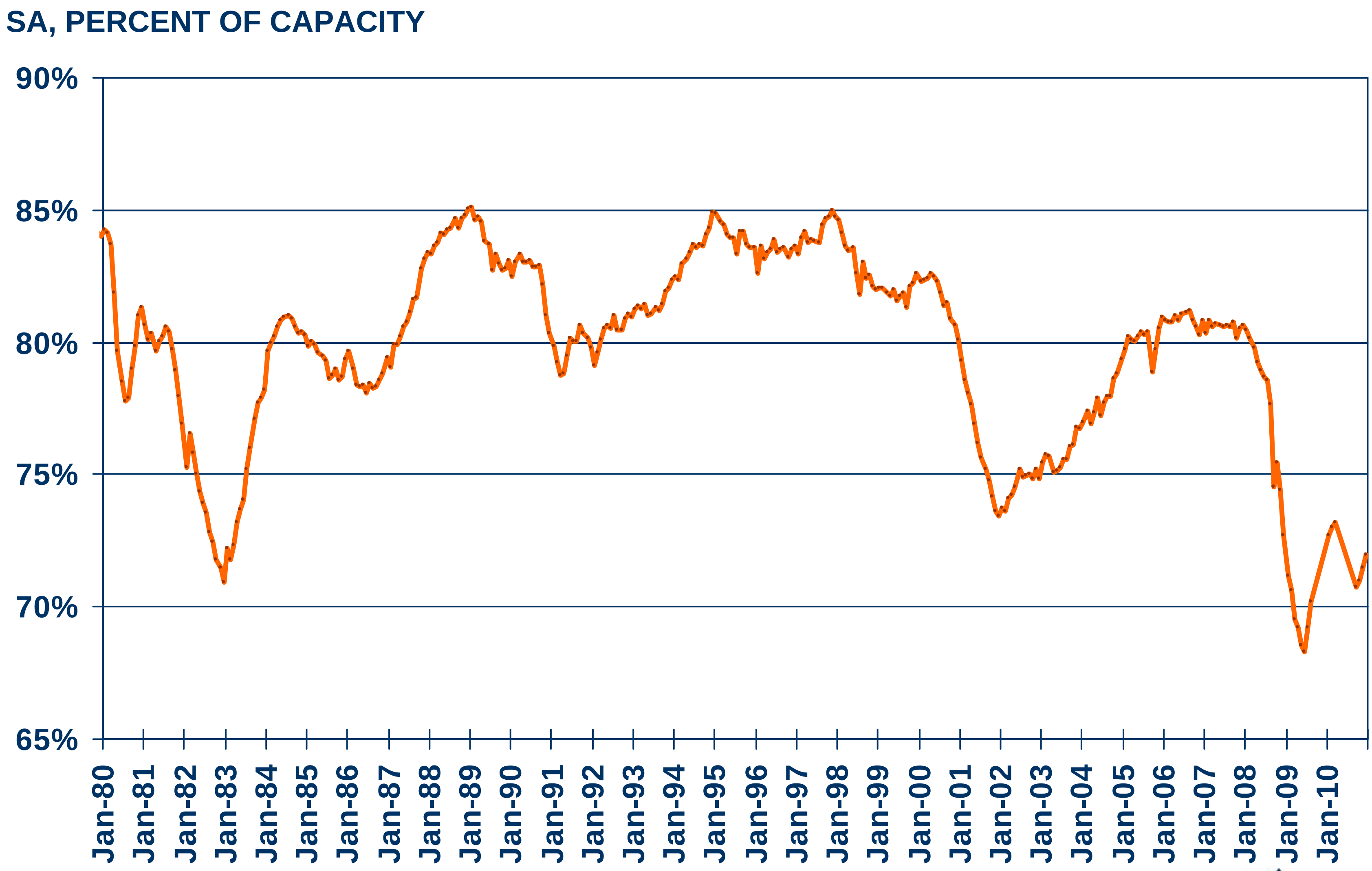
Capacity Utilization Rate

March 2010: 73.2%



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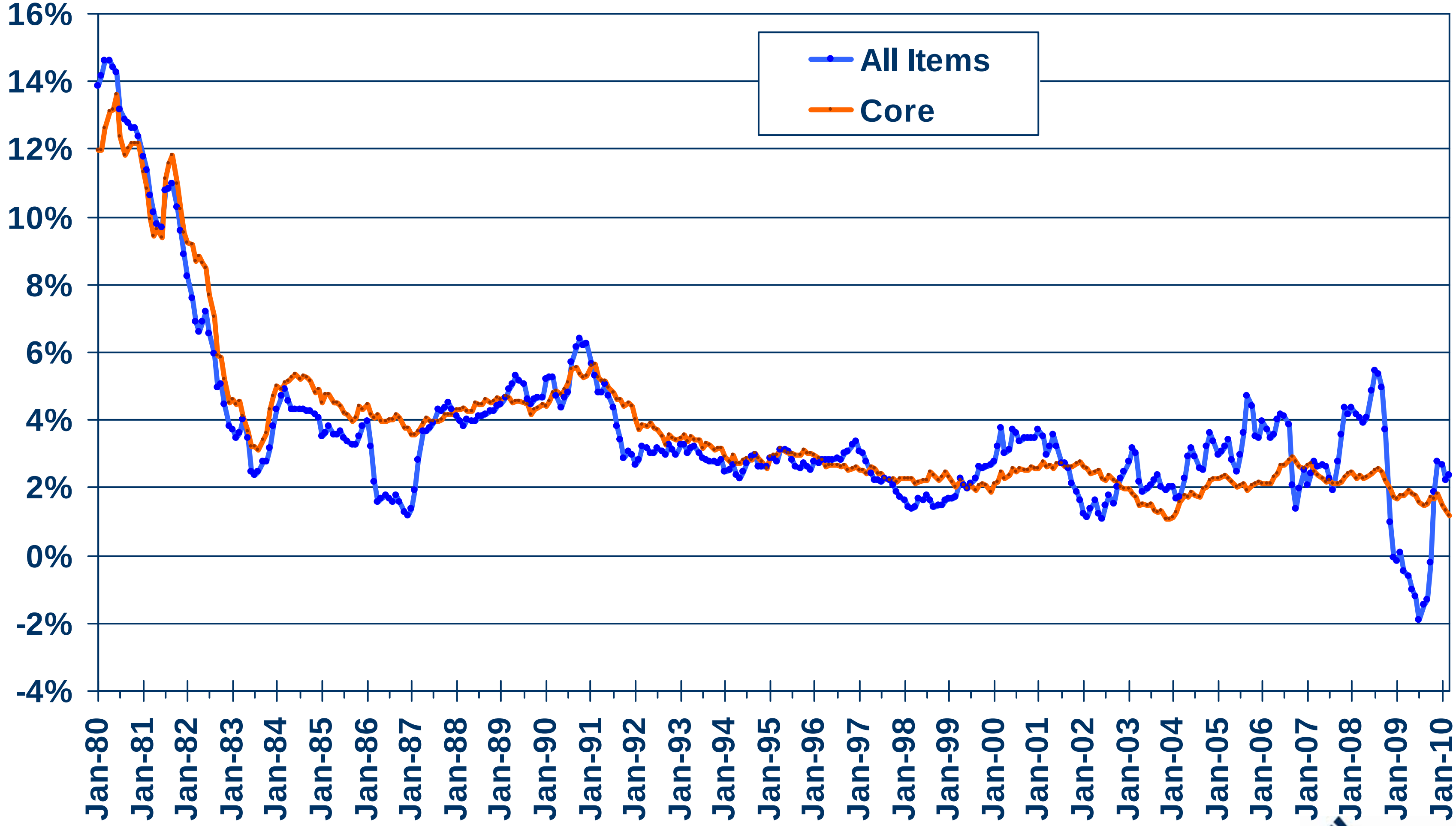
Consumer Price Index

March 2010: All Items +2.4% YTY; Core +1.2% YTY

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



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2010 Forecast: Economy

U.S. Economic Outlook

	2004	2005	2006	2007	2008	2009	2010f
US GDP	3.6%	3.1%	2.7%	2.1%	0.4%	-2.4%	2.7%
Nonfarm Job Growth	1.1%	1.7%	1.8%	1.1%	-0.4%	-4.3%	-0.4%
Unemployment	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	10.0%
CPI	2.7%	3.4%	3.2%	2.8%	3.8%	-0.3%	2.0%
Real Disposable Income, % Change	3.4%	1.3%	4.0%	2.2%	0.5%	0.9%	0.9%

Forecast Date: March 2010

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California Economic Outlook

	2004	2005	2006	2007	2008	2009	2010f
Nonfarm Job Growth	1.0%	1.8%	1.7%	0.8%	-1.2%	-6.0%	-1.1%
Unemployment Rate	6.2%	5.4%	4.9%	5.4%	7.2%	11.4%	12.1%
Population Growth	1.4%	1.2%	1.1%	1.1%	1.2%	1.1%	1.1%
Real Disposable Income, % Change	3.6%	1.3%	3.4%	1.5%	0.1%	-0.4%	0.1%

Forecast Date: March 2010

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California Real Estate Market

Housing Market Overview

- California ahead of the national market
- Sales at pre-peak levels, low/mid 500,000 range
- Median Price up from bottom at $245K in Feb 09
- Affordability at near-record high
- Inventory – below 7 month average
- Distressed sales at 30-40% of total market
- New Construction – Will lag CA existing home market

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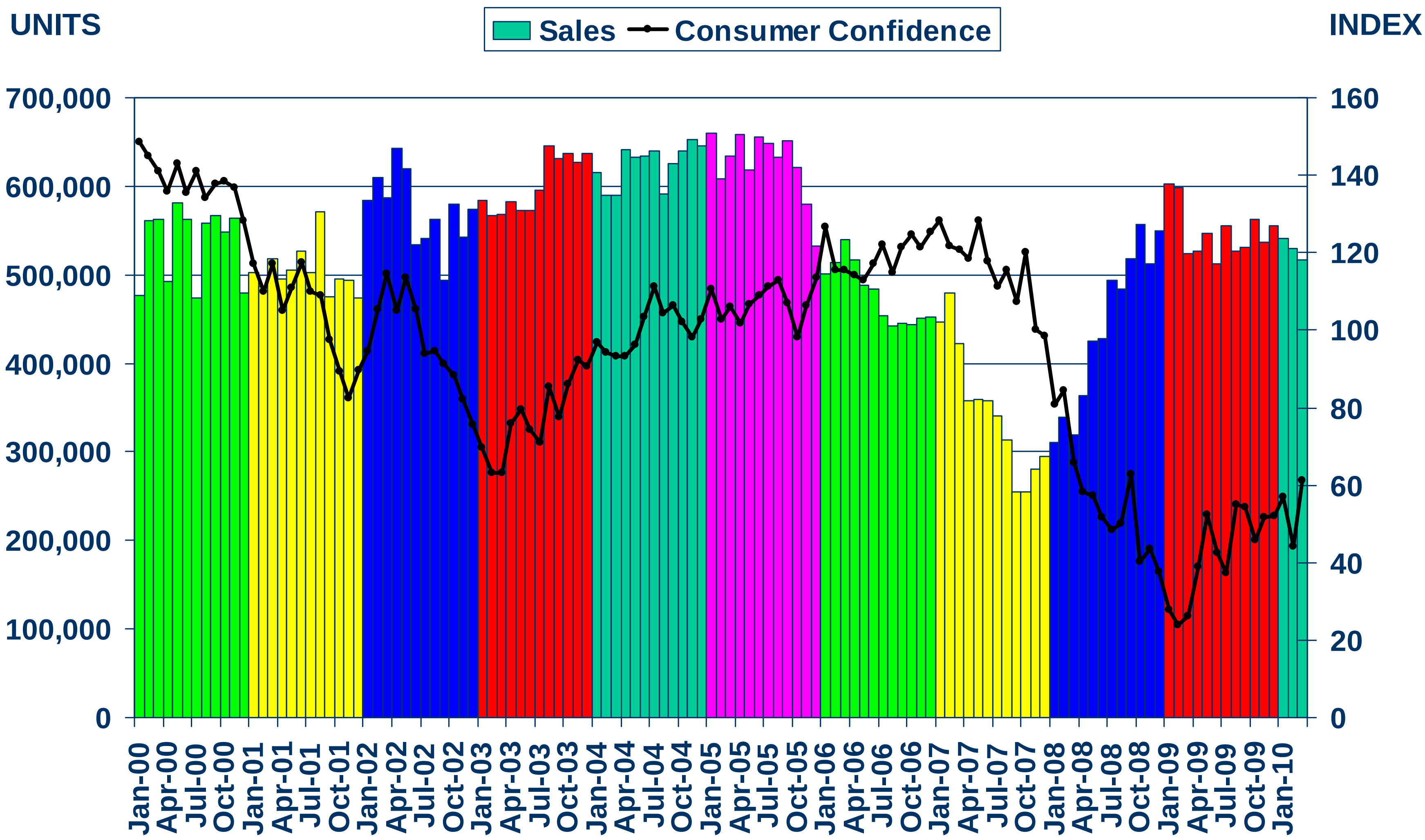
Sales of Existing Detached Homes and Pacific West Consumer Confidence

California, March 2010 Sales: 516,590 Units, -6.9 % YTD, +2.5% YTY



SOURCE: California Association of REALTORS®; The Conference Board

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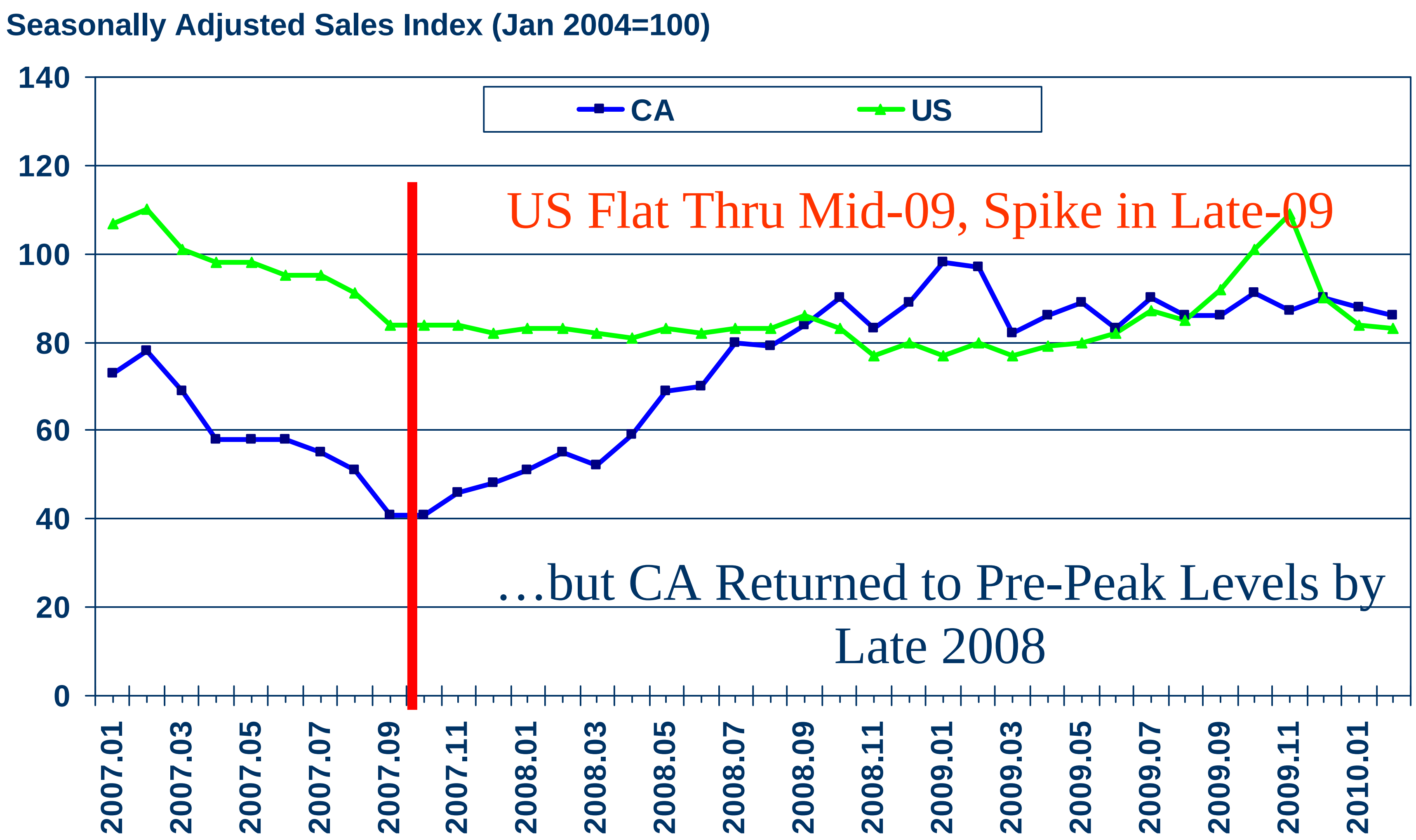
*Sales are seasonally adjusted and annualized

CA Sales Improved ~ 2 Yrs Ahead of US

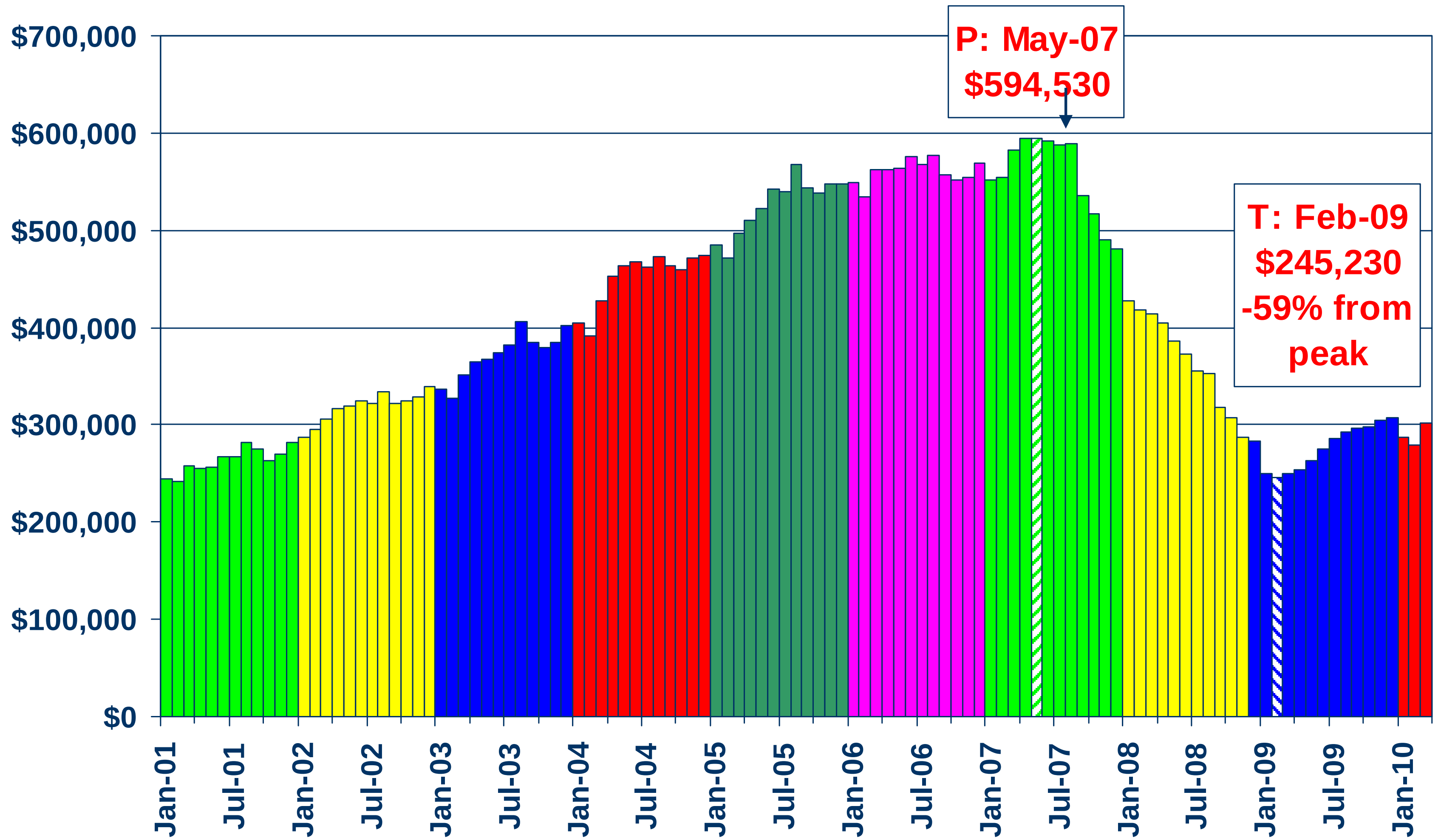
California Vs. U.S. 2007-Present



SOURCE: California Association of REALTORS®

Median Price of Existing Detached Homes

California, March 2010: $301,790, Up 20.8% YTY



SOURCE: California Association of REALTORS®

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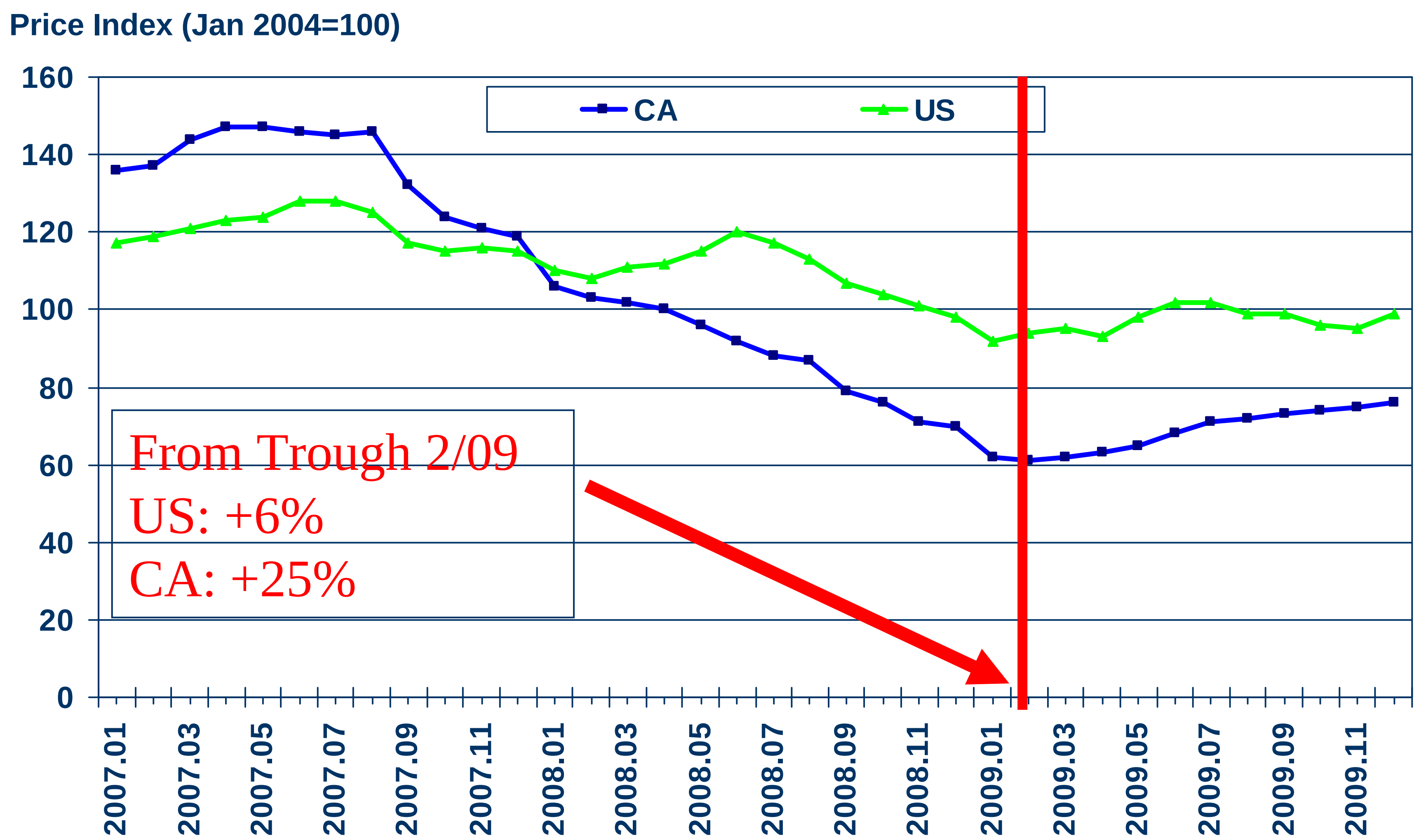
Median Price of Existing Detached Home

California Vs. U.S. 2007-Present



SOURCE: California Association of REALTORS®

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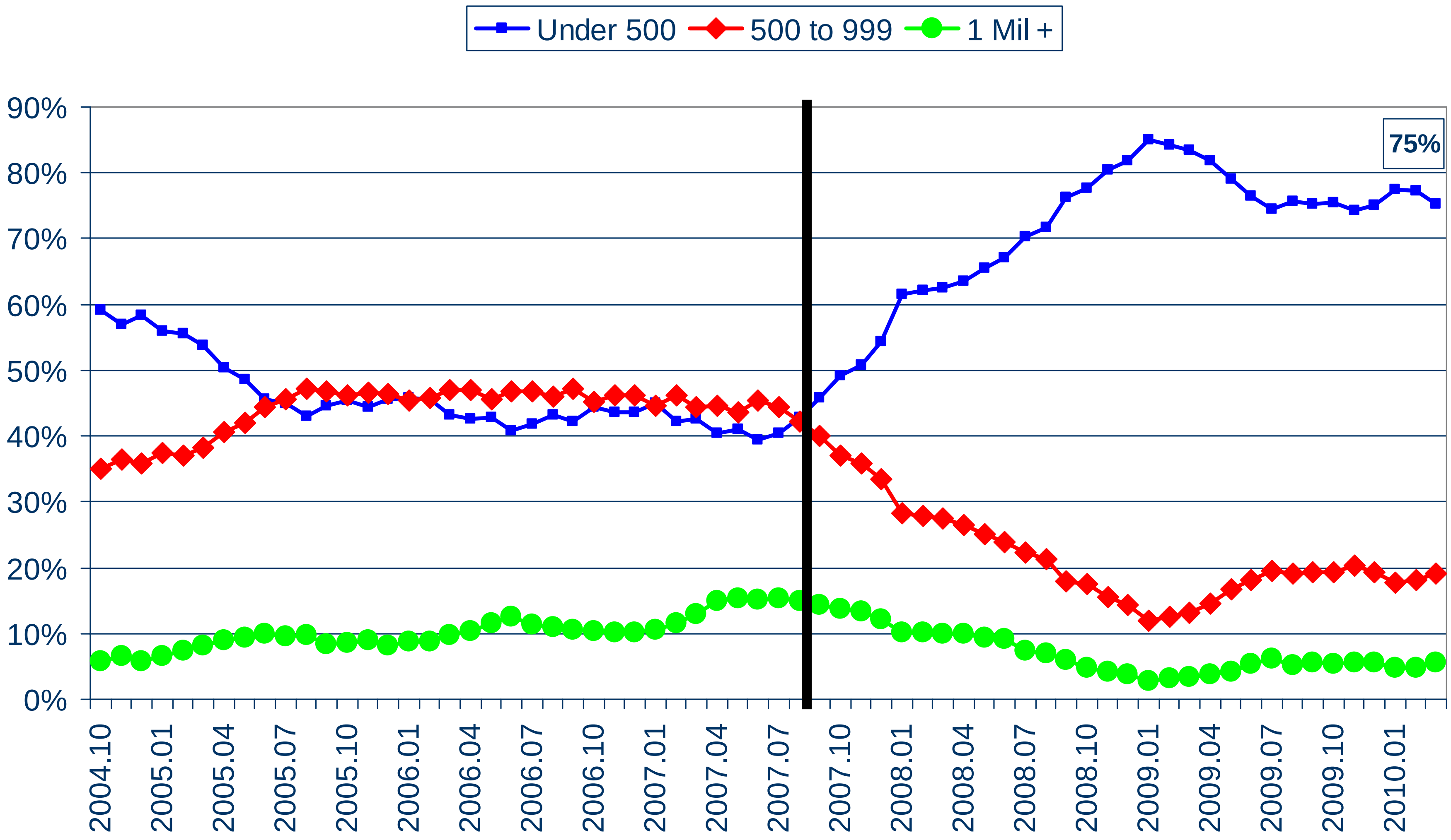
Sales By Price Range

October 2004 – present



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Trough vs. Current Price – March 2010

Region	Trough Month	Trough Price	Mar-10 Median	% Chg From Trough
San Francisco Bay Area	Feb-09	$399,040	$544,120	36.4%
Santa Clara	Feb-09	$445,000	$590,000	32.6%
Monterey Region	Feb-09	$241,130	$299,490	24.2%
Palm Springs/Lower Desert	Apr-09	$150,140	$186,000	23.9%
Ventura	Feb-09	$359,630	$444,890	23.7%
CALIFORNIA	Feb-09	$245,170	$301,790	23.1%
San Diego	Mar-09	$326,830	$393,600	20.4%
Riverside/San Bernardino	Apr-09	$156,840	$184,930	17.9%
Orange County	Jan-09	$423,100	$493,120	16.5%
High Desert	May-09	$106,210	$122,970	15.8%
Northern Wine Country	Feb-09	$310,950	$352,700	13.4%
Los Angeles	Mar-09	$295,100	$329,190	11.6%
Sacramento	Apr-09	$167,340	$183,330	9.6%
San Luis Obispo	Apr-09	$338,160	$365,380	8.0%

SOURCE: California Association of REALTORS®

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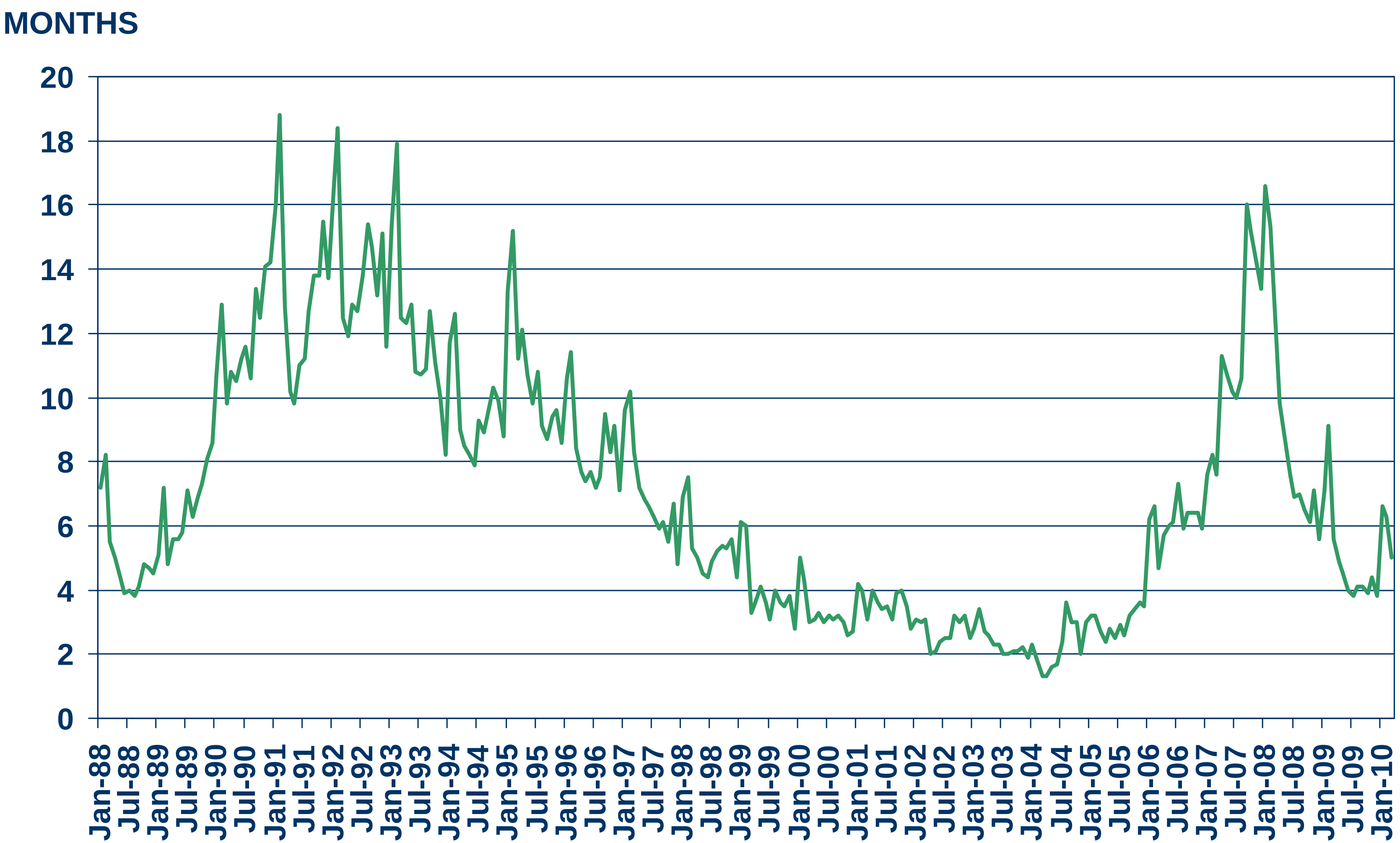
Unsold Inventory Index

California, March 2010: 5 Months



SOURCE: California Association of REALTORS®

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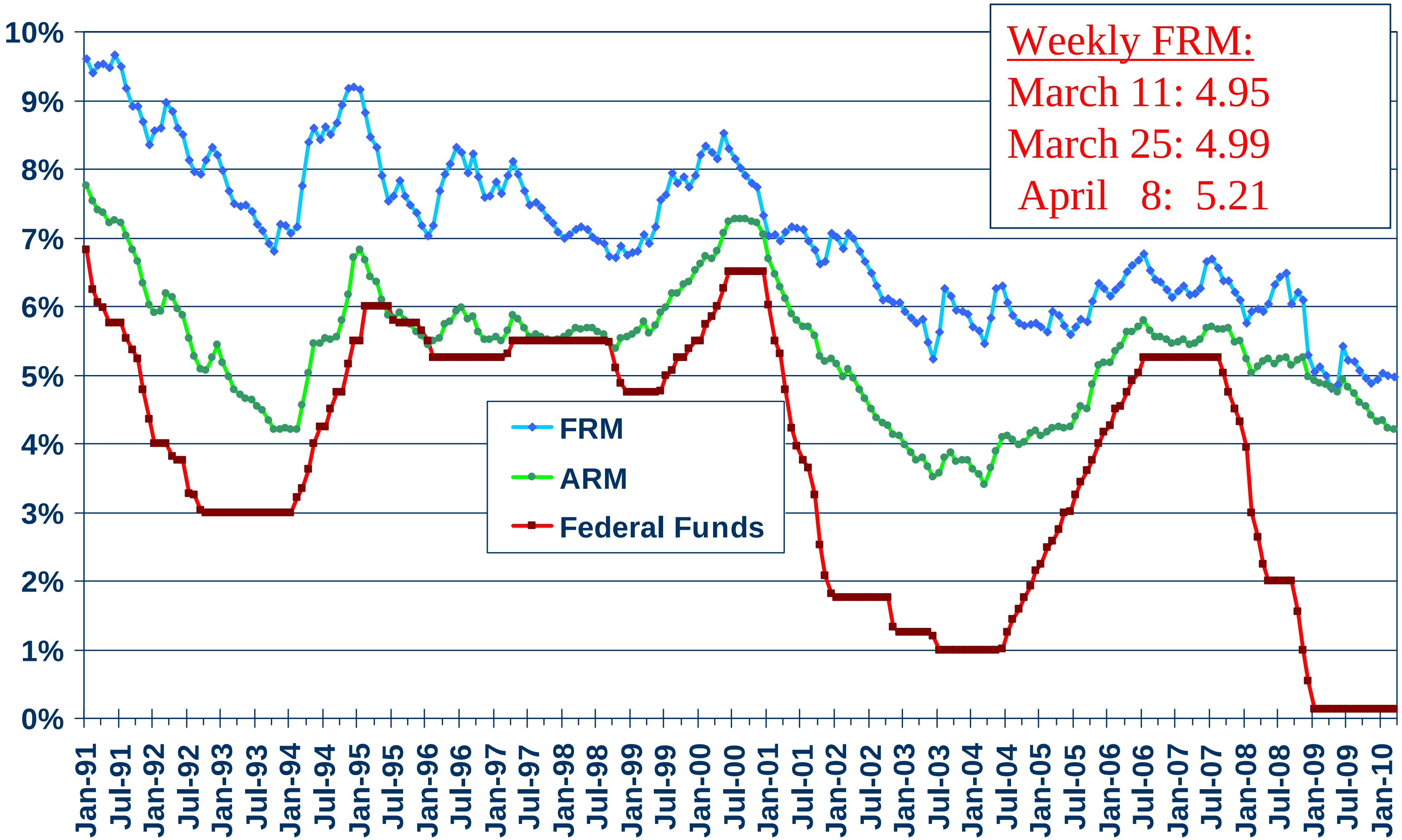
Unsold Inventory Index (Months)

Price Range (Thousand)	Mar-09	Mar-10
$1,000K+	21.6	10.9
$750-1000K	12.9	6.2
$500-750K	6.4	5.1
$300-500K	4.5	4.2
$0-300K	3.3	3.2

SOURCE: California Association of REALTORS®

Real Estate Finance

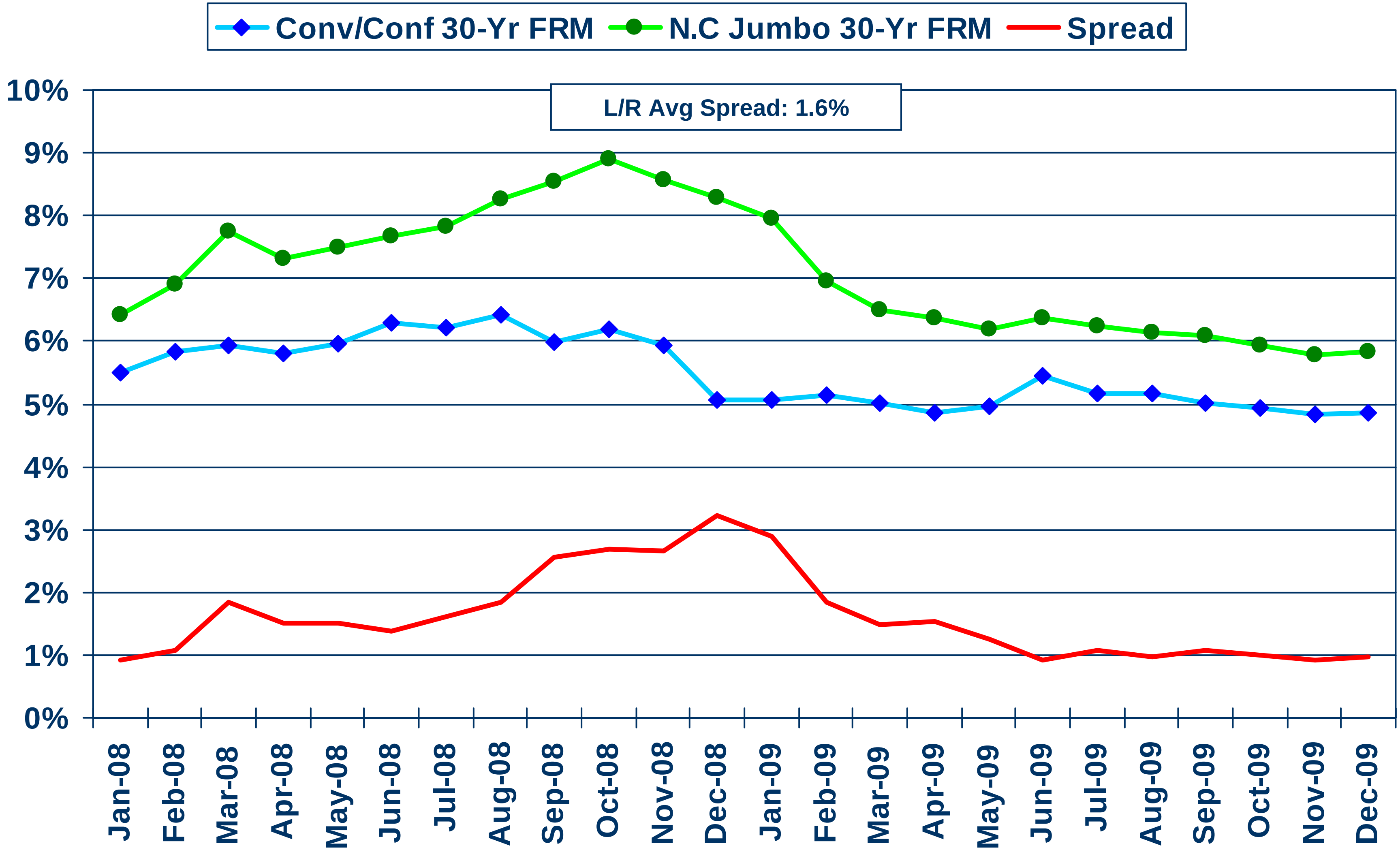
Mortgage Rates



SOURCE: Federal Home Loan Mortgage Corporation

Conv/Conf 30-Yr FRM vs. N.C. Jumbo 30-Yr FRM

Spread



SOURCE: Inside Mortgage Finance, compiled by C.A.R.

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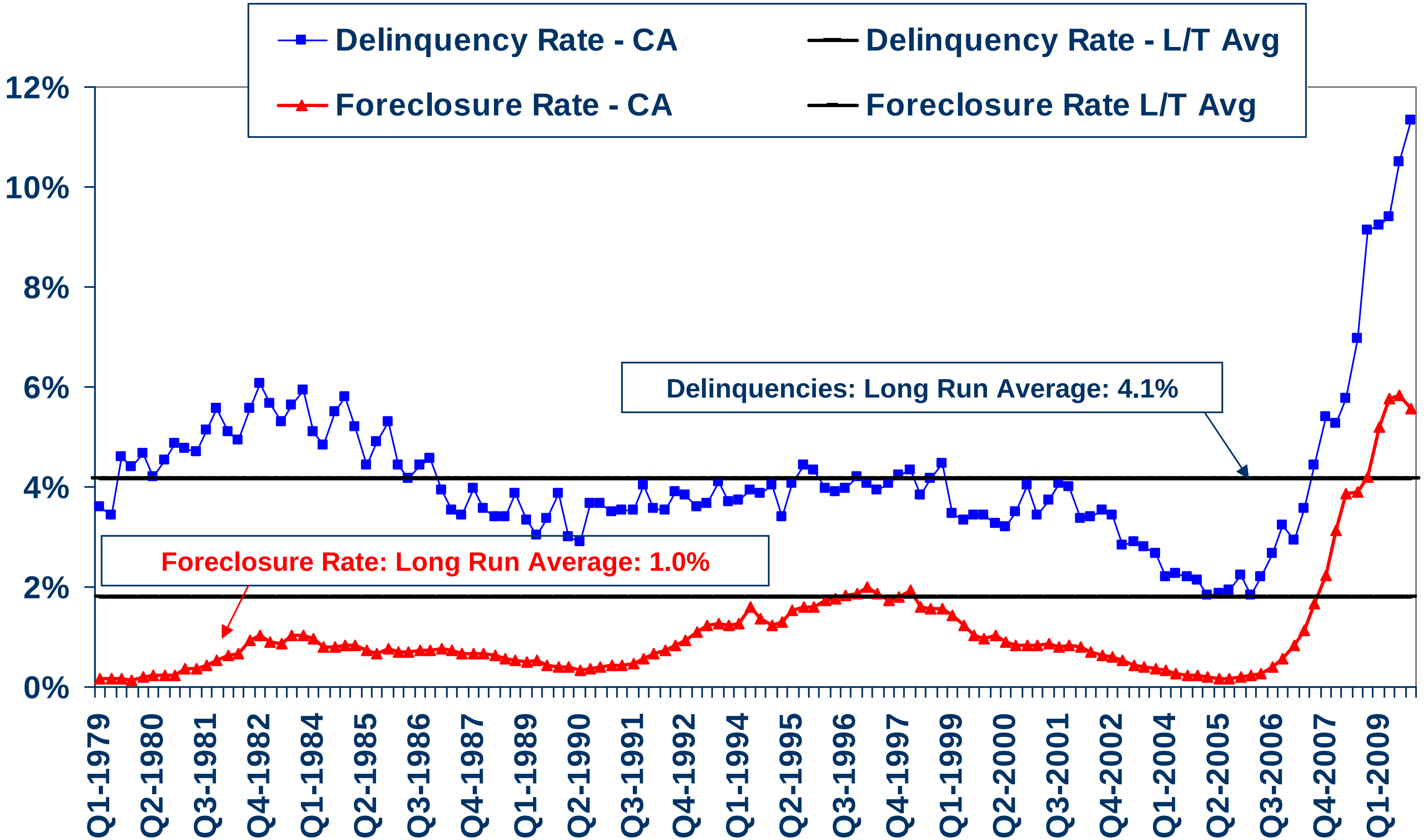
CA Mortgage Foreclosure & Delinquency Rates

California: Q4-2009, NSA



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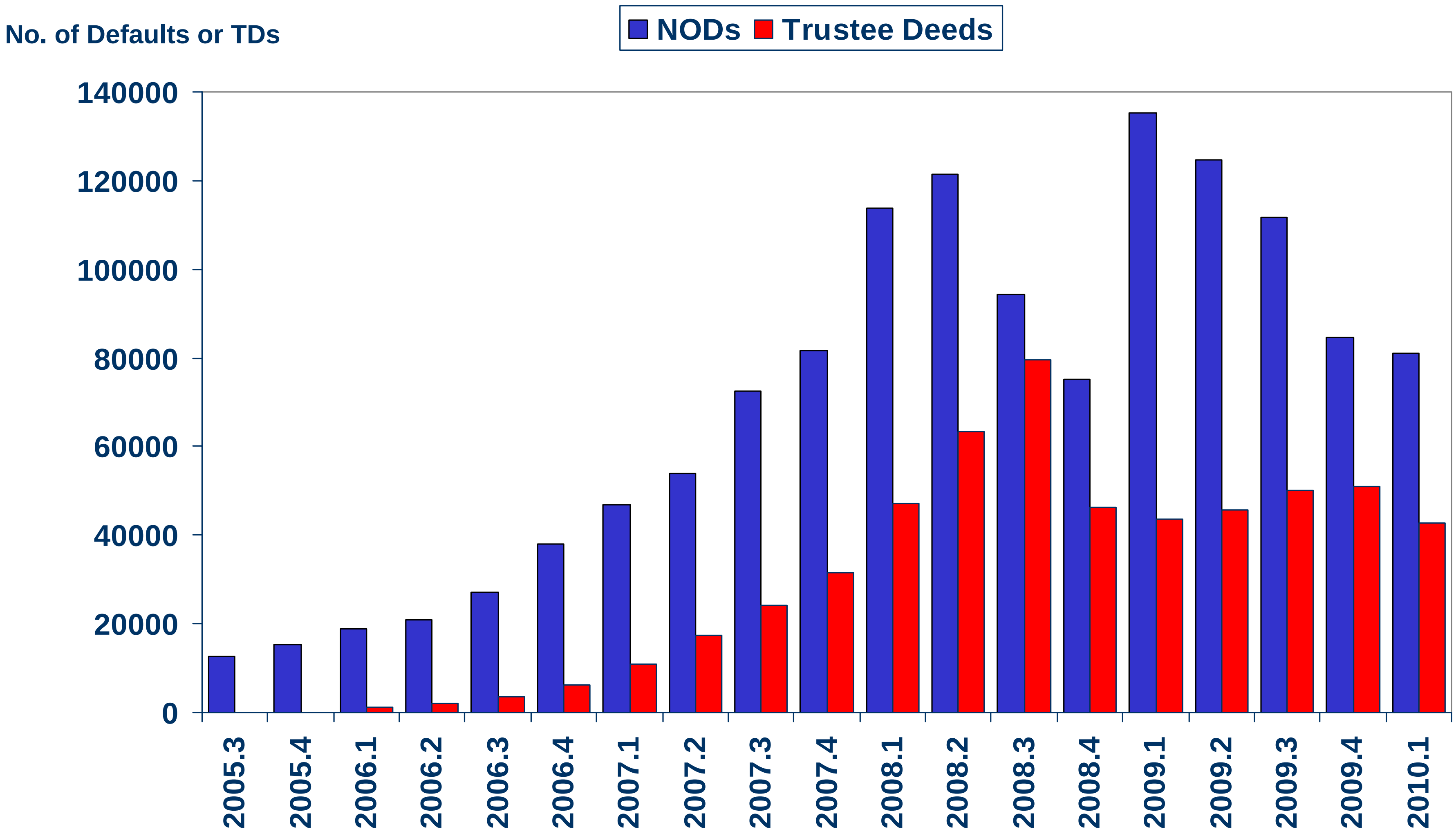
SOURCE: Mortgage Bankers Association

NODs & Trustees Deeds Filed in California

2005 - Present



Source: DataQuick Information Systems

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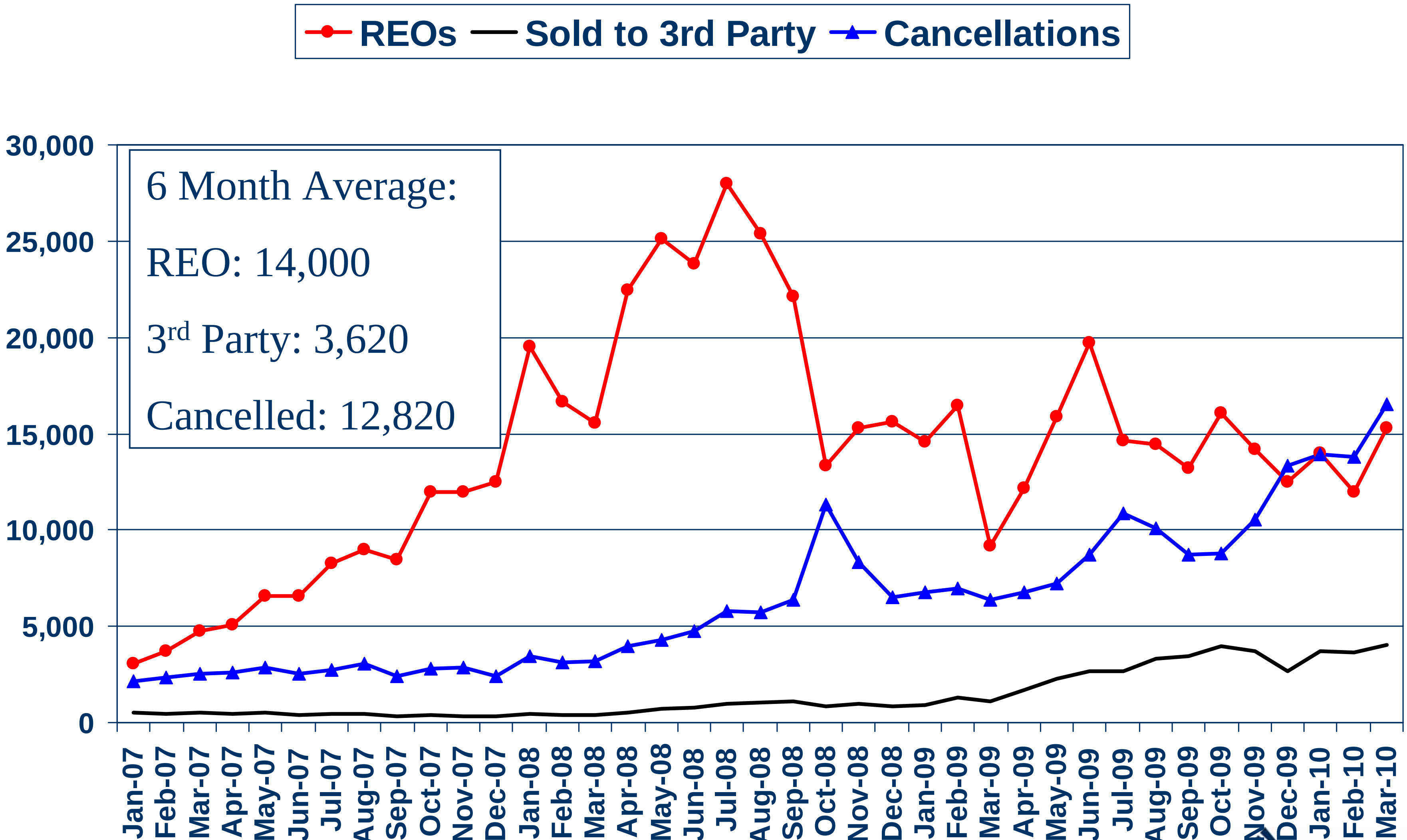
California Foreclosure Outcomes

Mar-10: 15,305 REOs; 4,009 Sold to 3rd Party; 16,513 Cancelled



SOURCE: ForeclosureRadar.com

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Summing Up Foreclosures

- Government Intervention kept Foreclosures around 30-40% of home sales toward the end of 2009, pace expected to continue into 2010
- NODs have come down from historic highs in first half of 2009 but have spread into higher priced areas
- Cancellations on the rise – due in large part to:
  - **statutory requirement that a foreclosure sale be held within one year-forced cancellation)**
  - **some form of loan workout: HAMP modification, short sale or refinance**
  - **Filing errors**
- Lenders lack the incentive to flood the marketplace with Foreclosures

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California Subprime & Alt A Loans

As of May 2009

As of May 2009	Sub-Prime	Alt-A
Number of All Loans in Category	345,505	632,215
Loans as Share of All Housing Units	3%	5%
ARMs As Share of All Loans in Category	66%	70%
Number of ARMs	226,997	440,022
Percent of ARMs…		
…Already Reset	84.6%	46.9%
…To Reset Next 1-11 Months	7.9%	5.2%
…To Reset Next 12-23 Months	2.4%	7.4%
…To Reset Next 24+ Months	5.0%	40.4%

SOURCE: FirstAmerican CoreLogic, LoanPerformance Data, U.S. Census Bureau, and Federal Reserve Bank of New York, compiled by C.A.R.

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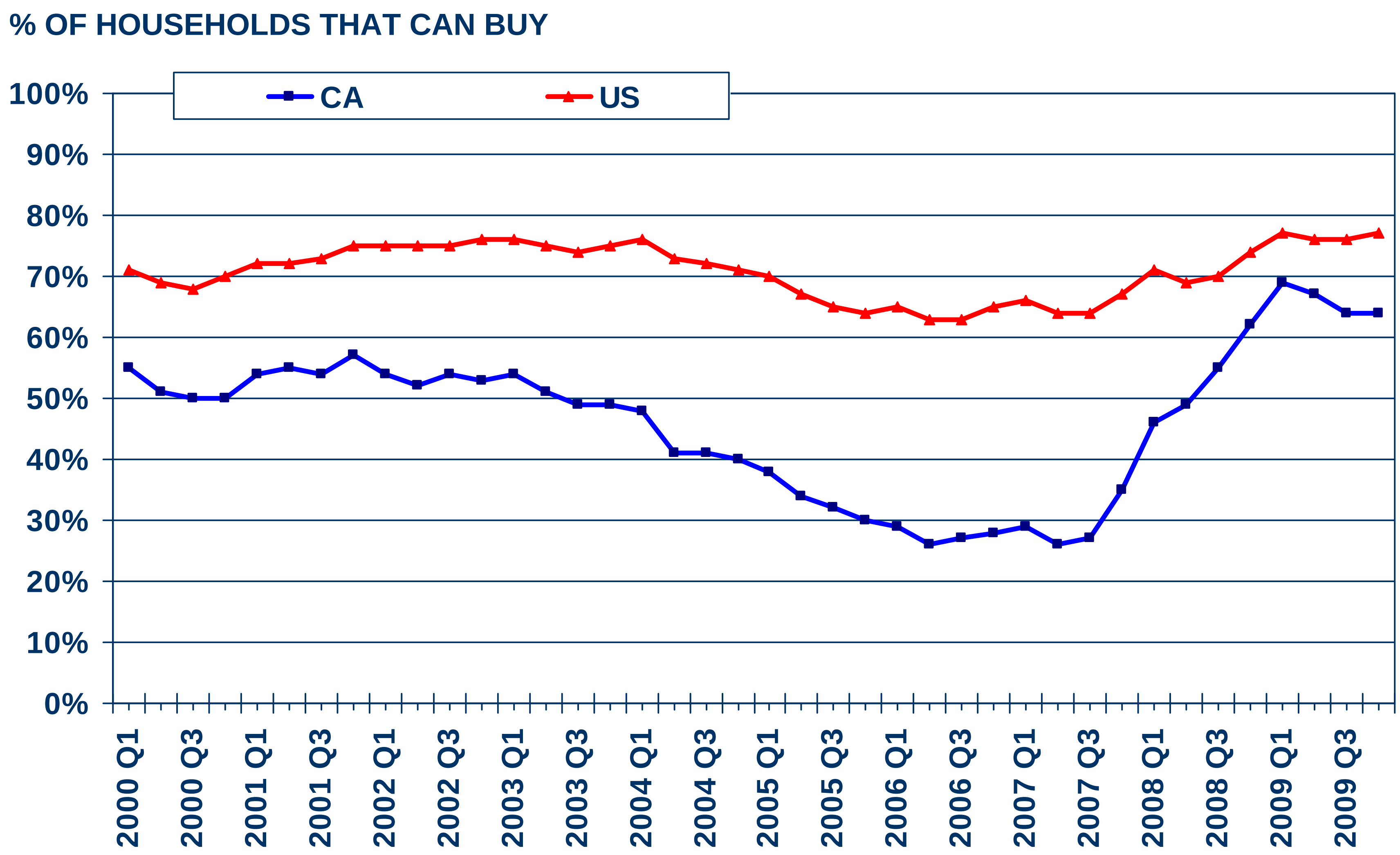
First-time Buyer Housing Affordability Index

California Vs. U.S. 2000-2009



SOURCE: California Association of REALTORS®

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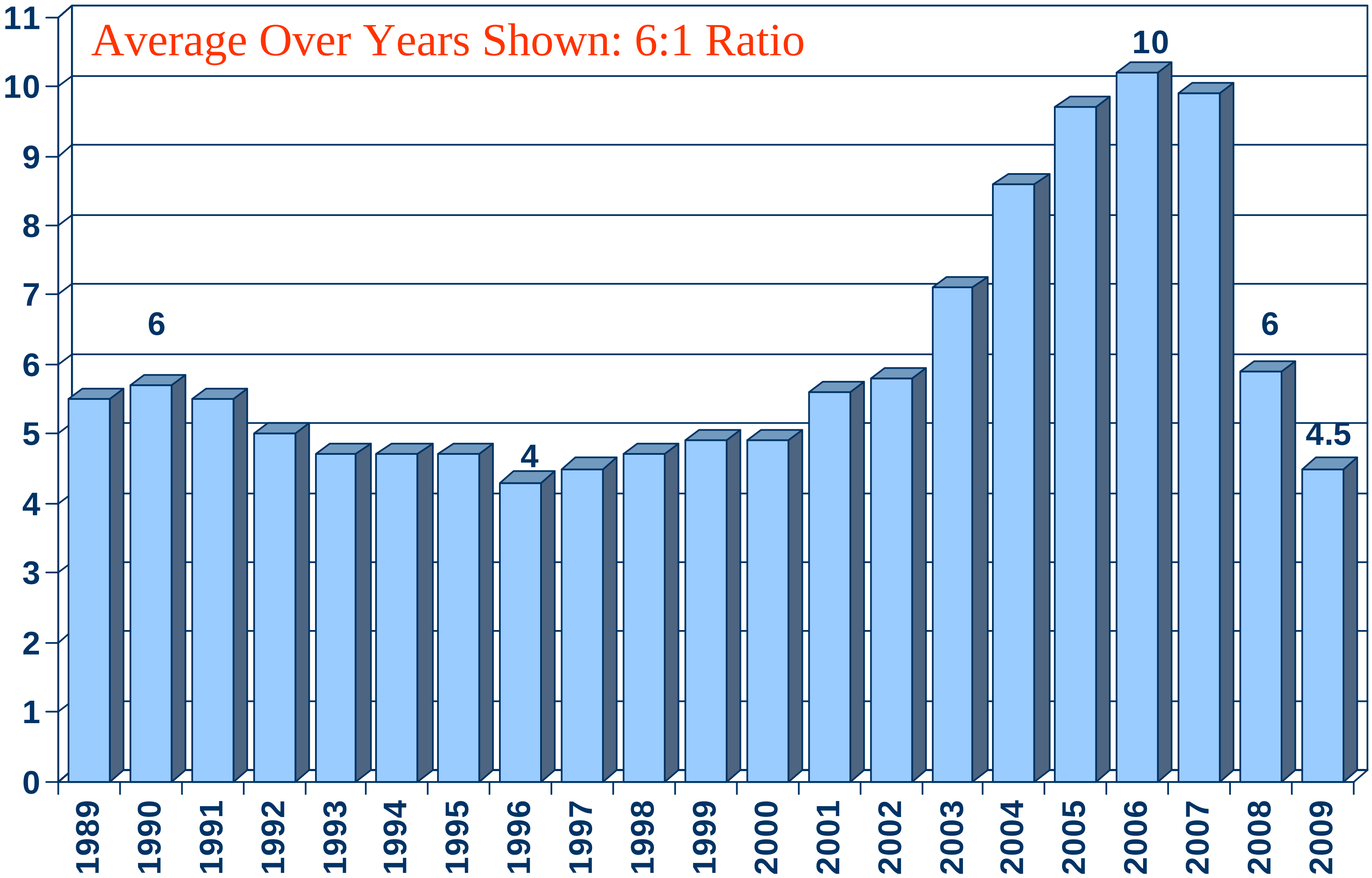
Median Price to Median HH Income Ratio

California



SOURCE: California Association of REALTORS®

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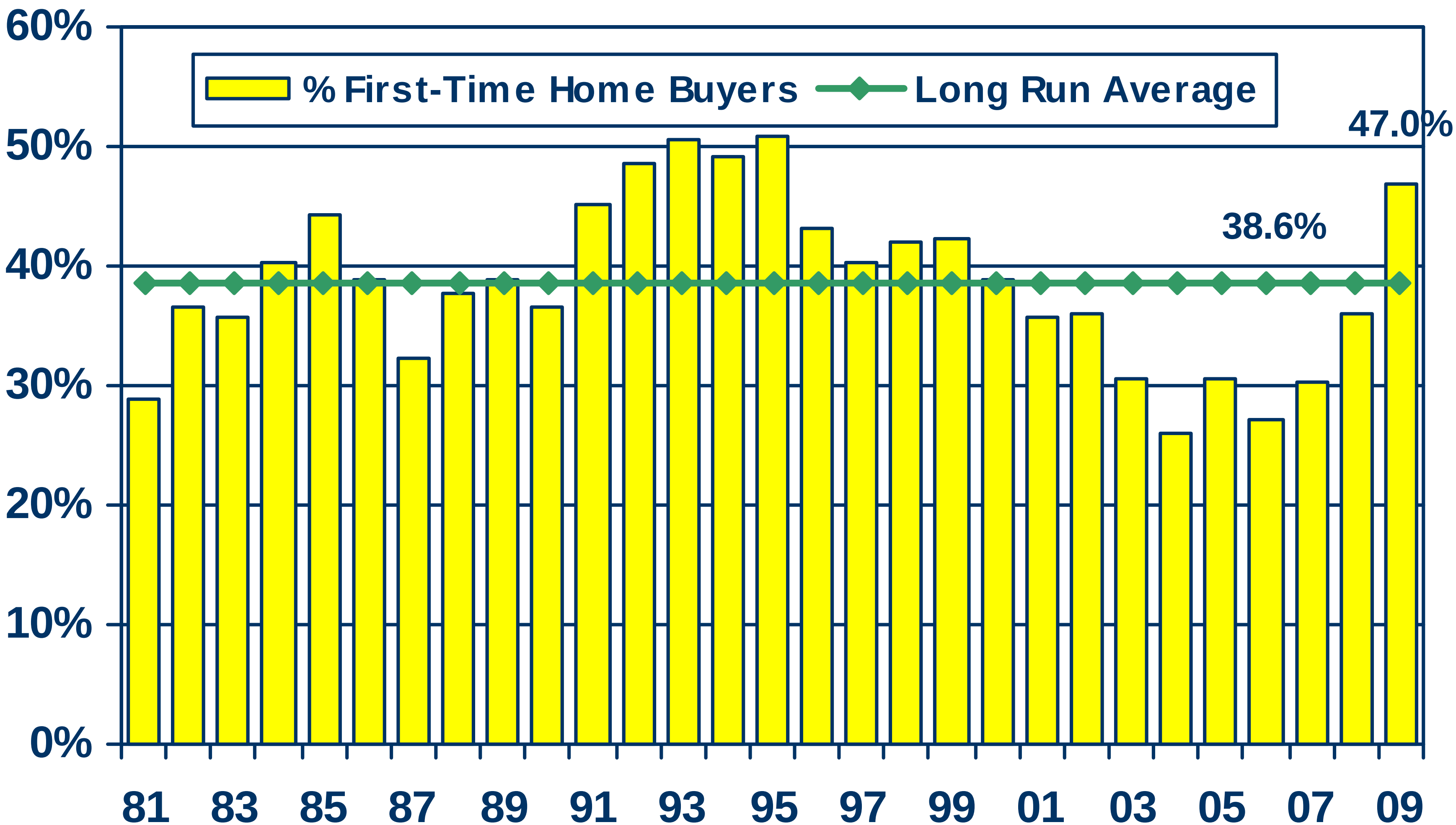
Proportion of First-Time Homebuyers

California



Q. Was the buyer a first-time buyer?

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Recap on R.E. Finance

- Troubled loans still a concern but no ARM-ageddon sequel
- Mixed performance on loan mod pgms
- Time is ally of both homeowners and creditors
- Mortgage rates at near historic lows
- Affordability at near historic high

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Regional Markets

Sales of Existing Detached Homes

Bay Area Counties

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y	Y-t-D
Alameda	601	415	537	44.8%	11.9%	-11.3%
Contra Costa	297	199	160	49.2%	85.6%	29.6%
Marin	145	104	88	39.4%	64.8%	37.7%
San Francisco	274	161	213	70.2%	28.6%	11.7%
San Mateo	327	233	255	40.3%	28.2%	41.0%
Santa Clara	955	641	732	49.0%	30.5%	1.5%
Santa Cruz	131	92	111	42.4%	18.0%	14.5%
Solano	470	319	565	47.3%	-16.8%	-10.9%
Sonoma	352	301	367	16.9%	-4.1%	-25.0%

SOURCE: California Association of REALTORS®

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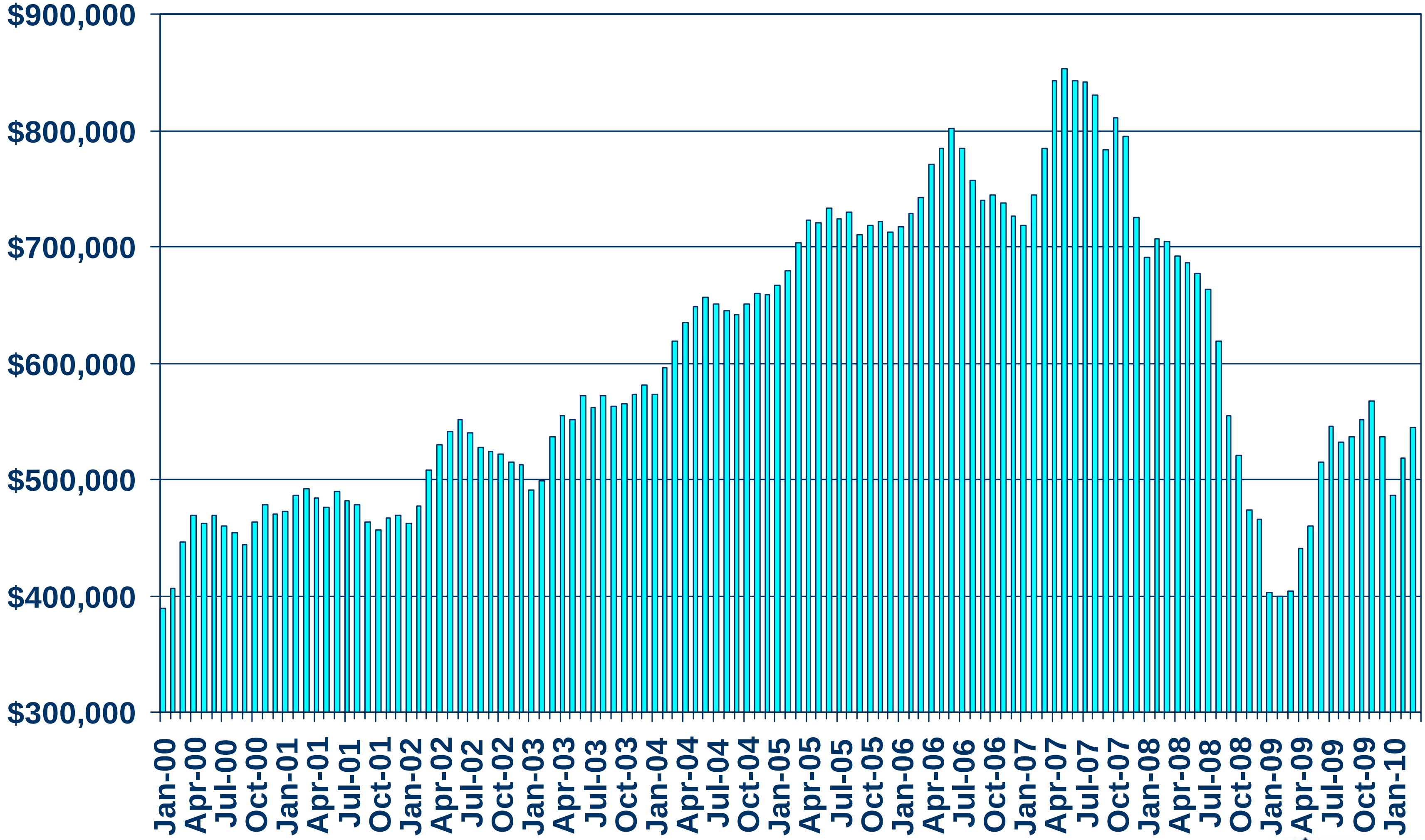
Median Price of Existing Detached Homes

Bay Area, March 2010: $544,117, Up 34.8% YTY



SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Bay Area Counties

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y
Alameda	$ 476,562	$ 464,753	$ 351,744	2.5%	35.5%
Contra Costa	$ 587,686	$ 618,303	$ 542,851	-5.0%	8.3%
Marin	$ 790,625	$ 782,609	$ 699,999	1.0%	12.9%
San Francisco	$ 720,394	$ 654,660	$ 615,506	10.0%	17.0%
San Mateo	$ 800,000	$ 655,000	$ 576,940	22.1%	38.7%
Santa Clara	$ 590,000	$ 550,000	$ 448,750	7.3%	31.5%
Santa Cruz	$ 525,000	$ 500,000	$ 400,000	5.0%	31.3%
Solano	$ 211,538	$ 204,297	$ 192,285	3.5%	10.0%
Sonoma	$ 359,047	$ 356,707	$ 330,952	0.7%	8.5%

SOURCE: California Association of REALTORS®

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Unsold Inventory Index (Months)

County	Mar-10	Feb-10	Mar-09
Alameda	4.0	5.1	5.7
Contra Costa	5.4	6.8	9.0
Marin	7.3	7.9	11.9
San Francisco	5.4	7.7	6.9
San Mateo	4.9	5.5	6.7
Santa Clara	3.8	5.0	6.3
Bay Area	4.6	5.8	6.3

SOURCE: California Association of REALTORS®

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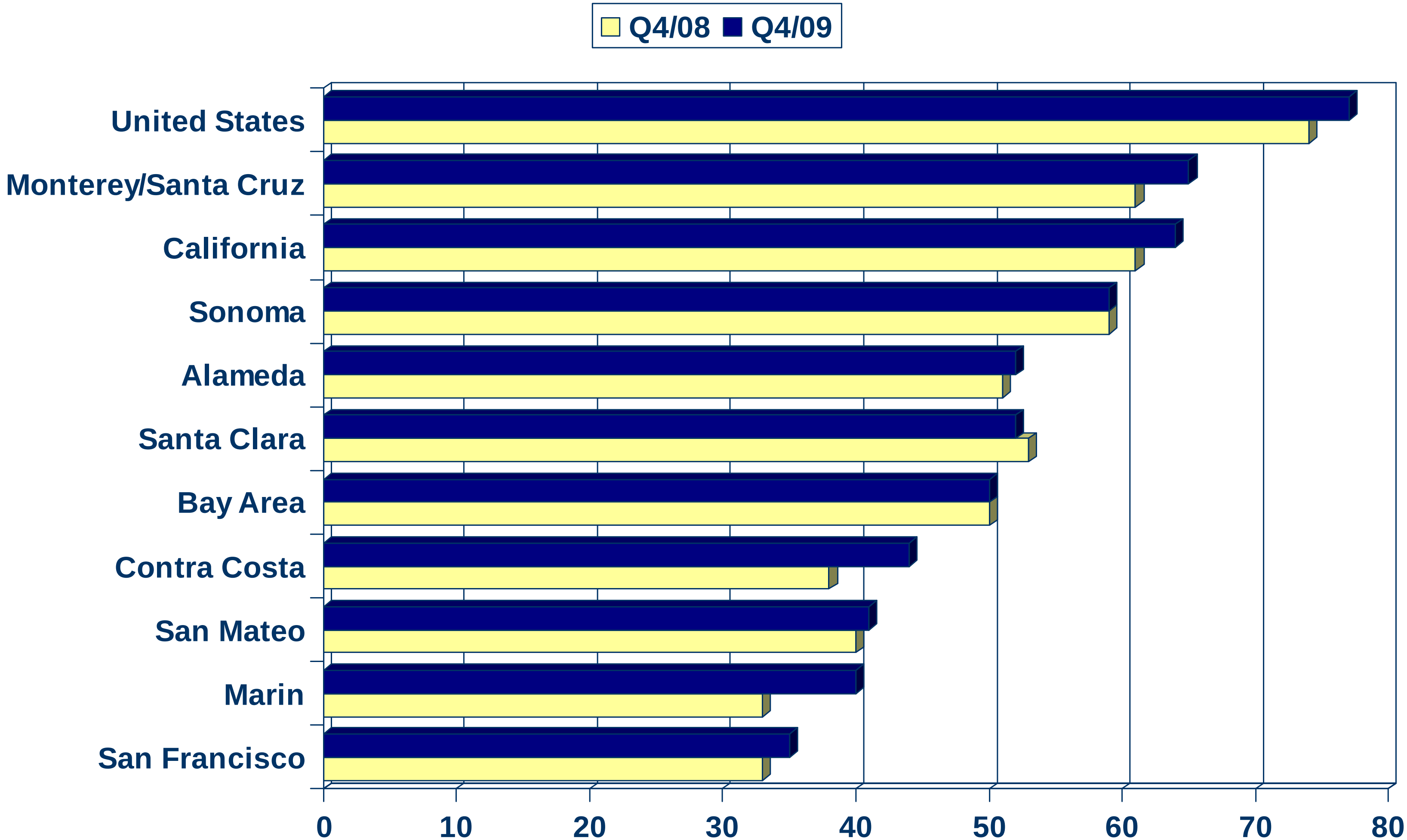
First-time Buyer Housing Affordability

Bay Area – 4th Quarter 2009



SOURCE: California Association of REALTORS®

Sales of Existing Detached Homes

Southern California Regions

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y	Y-t-D
High Desert	1,219	963	1,519	26.6%	-19.7%	-29.5%
Los Angeles	4,367	3,374	4,138	29.4%	5.5%	-4.6%
Orange	1,738	1,248	1,512	39.3%	14.9%	13.1%
Palm Springs	825	622	738	32.6%	11.8%	10.5%
Riverside/SB	1,567	1,230	2,141	27.4%	-26.8%	-26.2%
San Diego	1,832	1,350	1,759	35.7%	6.9%	6.9%
Sta. Barbara Area	175	117	139	49.6%	25.9%	-12.8%
Ventura	474	353	485	34.3%	-2.3%	-4.0%

SOURCE: California Association of REALTORS®

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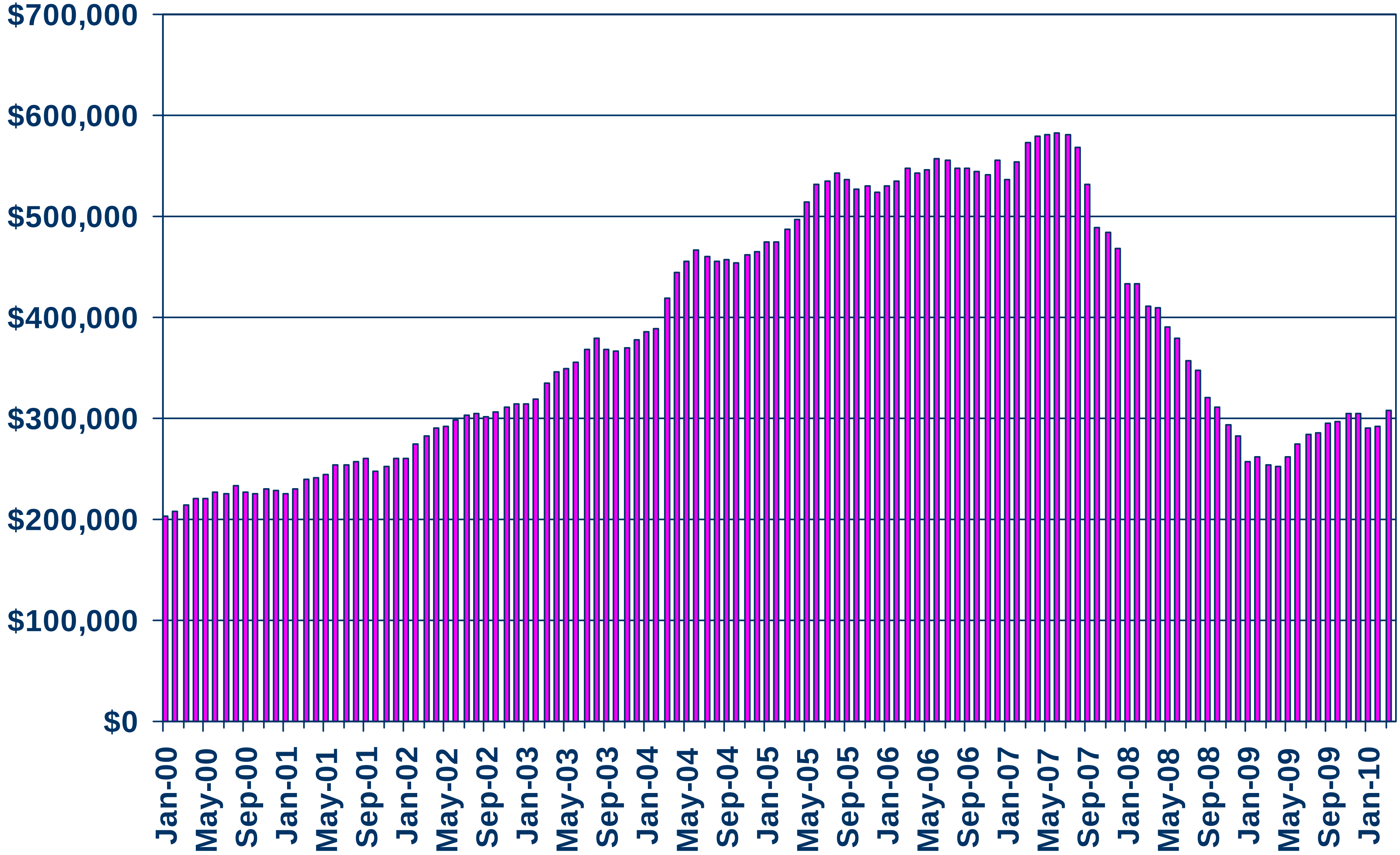
Median Price of Existing Detached Homes

Southern California, March 2010: $307,934 Up 21.14% YTY



SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Southern California Regions

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y
High Desert	$ 122,973	$ 122,583	$ 114,669	0.3%	7.2%
Los Angeles	$ 329,186	$ 327,019	$ 295,102	0.7%	11.5%
Orange	$ 493,115	$ 482,702	$ 444,525	2.2%	10.9%
Palm Springs	$ 186,000	$ 179,090	$ 157,661	3.9%	18.0%
Riverside/SB	$ 184,926	$ 182,198	$ 167,341	1.5%	10.5%
San Diego	$ 393,598	$ 372,096	$ 326,832	5.8%	20.4%
Sta. Barbara-So. Coast	$ 890,000	$ 795,000	$ 820,000	11.9%	8.5%
Sta. Barbara-North Cnty.	$ 242,968	$ 232,352	$ 228,124	4.6%	6.5%
Ventura	$ 444,886	$ 451,724	$ 364,919	-1.5%	21.9%

SOURCE: California Association of REALTORS®

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Unsold Inventory Index (Months)

County	Mar-10	Feb-10	Mar-09
Los Angeles	5.0	6.1	5.9
Orange	6.5	8.5	7.2
Riverside/SB	3.9	4.8	3.9
San Diego	6.0	7.7	6.2
Santa Barbara	6.1	7.7	8.2
Ventura	3.8	5.0	4.5
Southern California	5.1	6.4	5.6

SOURCE: California Association of REALTORS®

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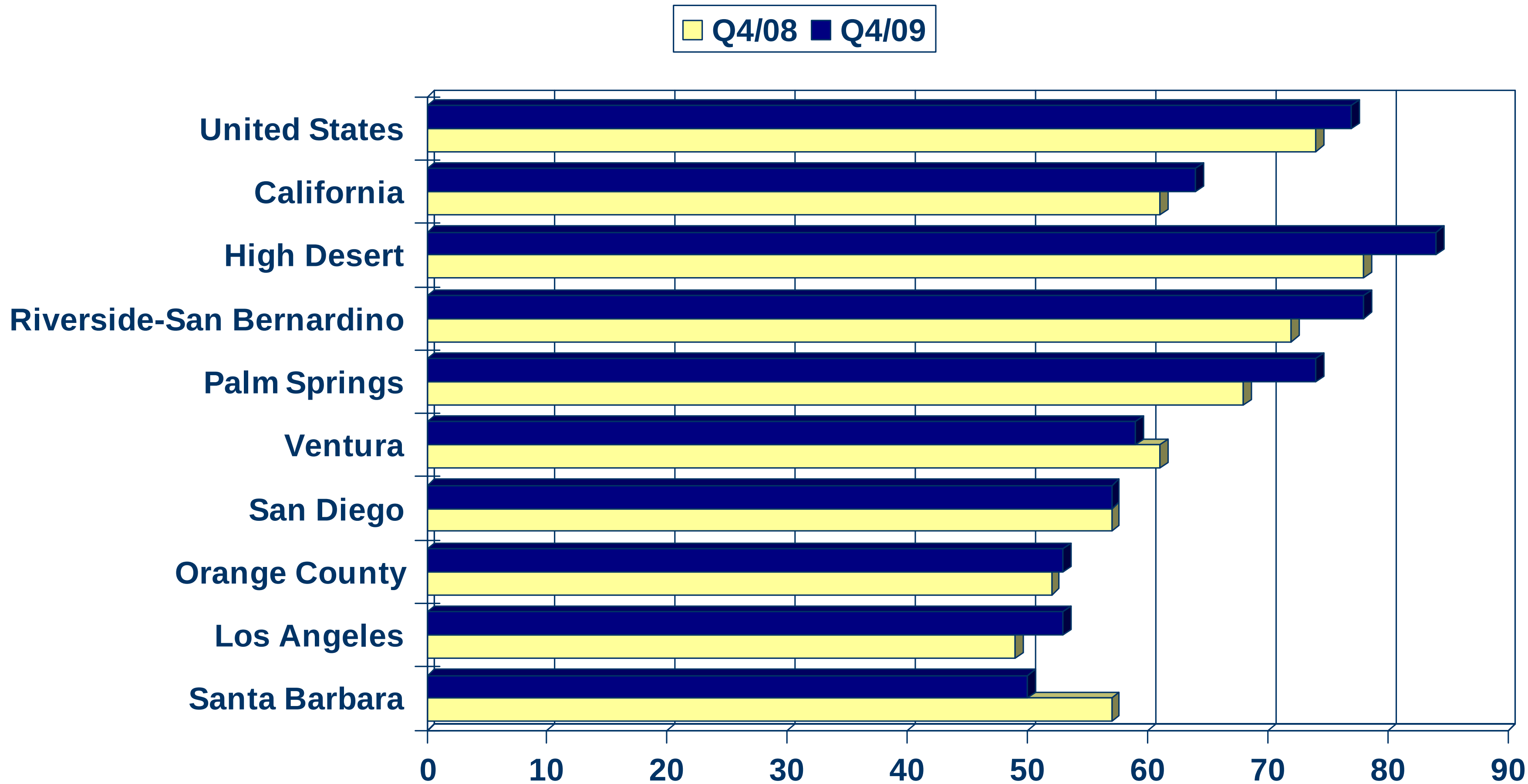
First-time Buyer Housing Affordability

Southern California – 4th Quarter 2009



SOURCE: California Association of REALTORS®

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Sales of Existing Detached Homes

Central Valley Regions

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y	Y-t-D
Bakersfield	556	433	751	28.4%	-26.0%	-26.0%
Fresno	825	645	976	27.9%	-15.5%	-15.5%
Merced	145	162	223	-10.5%	-35.0%	-35.0%
Sacramento	1,634	1,154	1,728	41.6%	-5.4%	-5.4%

SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Central Valley Regions

County	Mar-10	Feb-10	Mar-09	M-t-M	Y-t-Y
Bakersfield	$ 139,000	$ 130,750	$ 121,700	6.3%	14.2%
Fresno	$ 150,963	$ 152,741	$ 144,200	-1.2%	4.7%
Merced	$ 109,583	$ 100,952	$ 98,076	8.5%	11.7%
Sacramento	$ 174,830	$ 189,140	$ 169,670	-7.6%	3.0%

SOURCE: California Association of REALTORS®

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2010 Forecast

California Housing Market Outlook

	2003	2004	2005	2006	2007	2008	2009	2010f
SFH Resales (000s)	601.8	624.7	625.0	477.5	346.9	439.8	546.5	527.5
% Change	5.1%	3.8%	0.03%	-23.6%	-27.3%	26.8%	24.3%	-3.5%
Median Price ($000s)	$371.5	$450.8	$522.7	$556.4	$560.3	$346.4	$275.0	$300.0
% Change	17.5%	21.3%	16.0%	6.5%	0.7%	-38.2%	-20.6%	9.1%
30-Yr FRM	5.8%	5.8%	5.9%	6.4%	6.3%	6.0%	5.2%	5.6%
1-Yr ARM	3.8%	3.9%	4.5%	5.5%	5.6%	5.2%	4.8%	5.2%

Forecast Date: March 2010

Source: CALIFORNIA ASSOCIATION OF REALTORS®

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Commercial R.E. Outlook 2010

Commercial Market Overview

- Vacancy rates higher but stabilizing through 2010
- Negative net absorption
- Low demand →Rents declining in 2010
  - **Office: -7.2%**
  - **Industrial: -9.6%**
  - **Retail: -2.4%**
  - **Multi-family: -3.4%**
- Weak sales activity – down 90% from peak
- Weak but improving construction activity

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Commercial Market Overview

- Commercial R.E. Finance –Bad news/good news
- 3.5 trillion (T) in outstanding commercial real estate debt, $2T of which will mature between now and 2013
- CMBS loans make account for $900 billion (B) and make up more than 25% of outstanding commercial debt. Of that total, $153B will come due by the end of 2012.
- Deutsche Bank: $14B of $70B restructured so far
- Fitch: Defaults to exceed 11% by year-end on $536B of CMBS
- First issuances of CMBS in late 09/early 10
- Big questions remain

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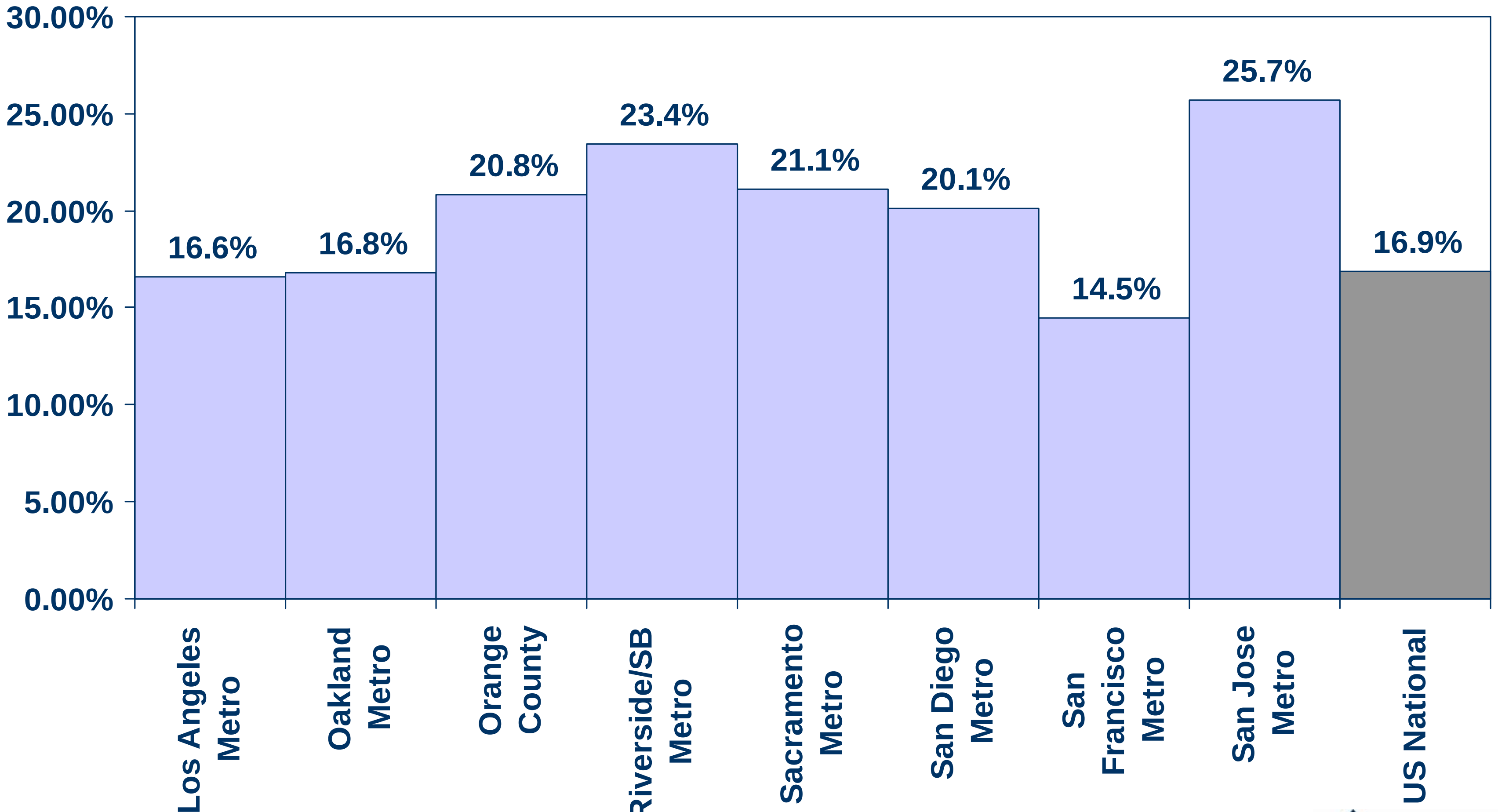
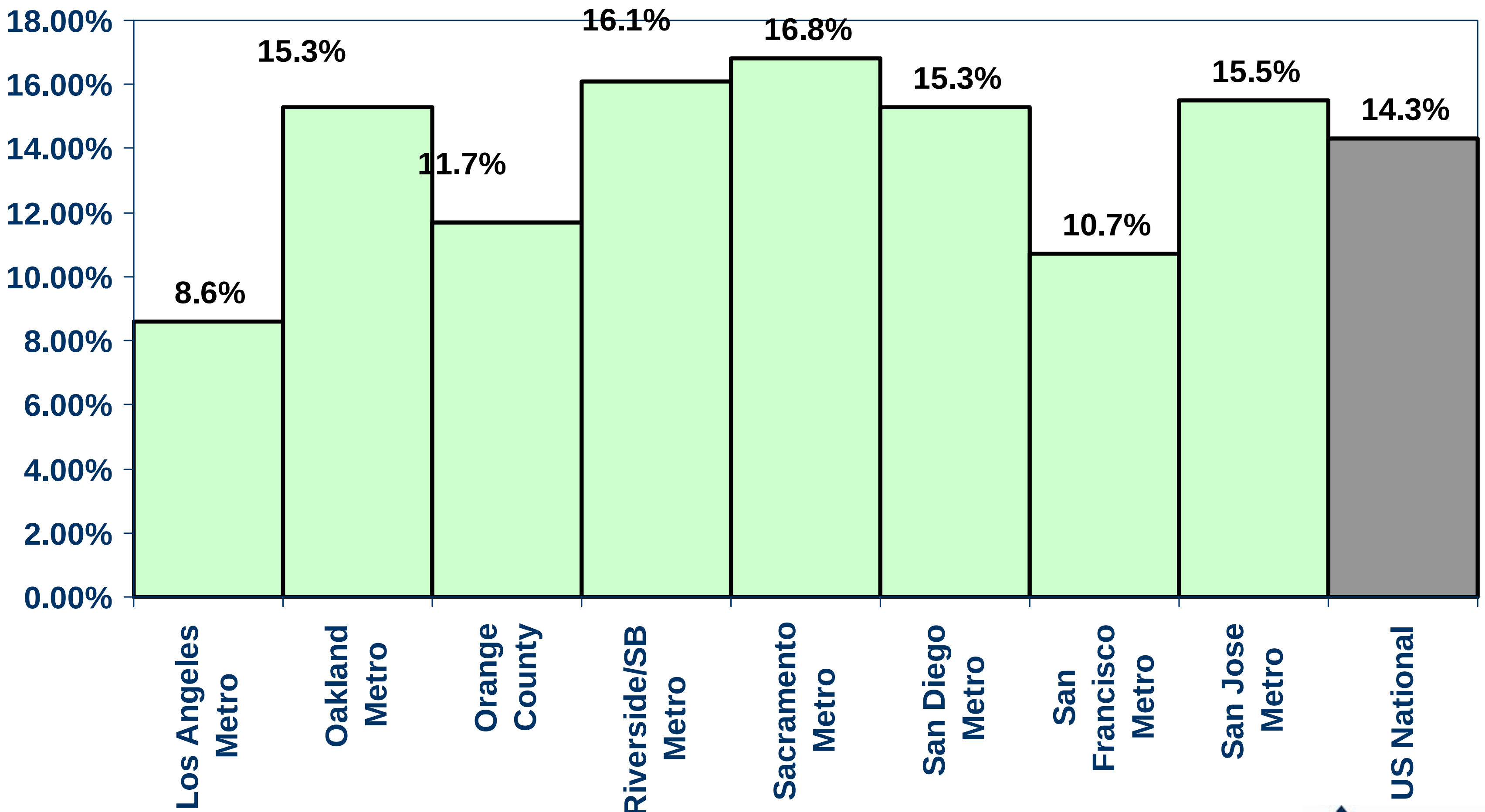
Office Vacancy Rates by Metro Area Q1-2010



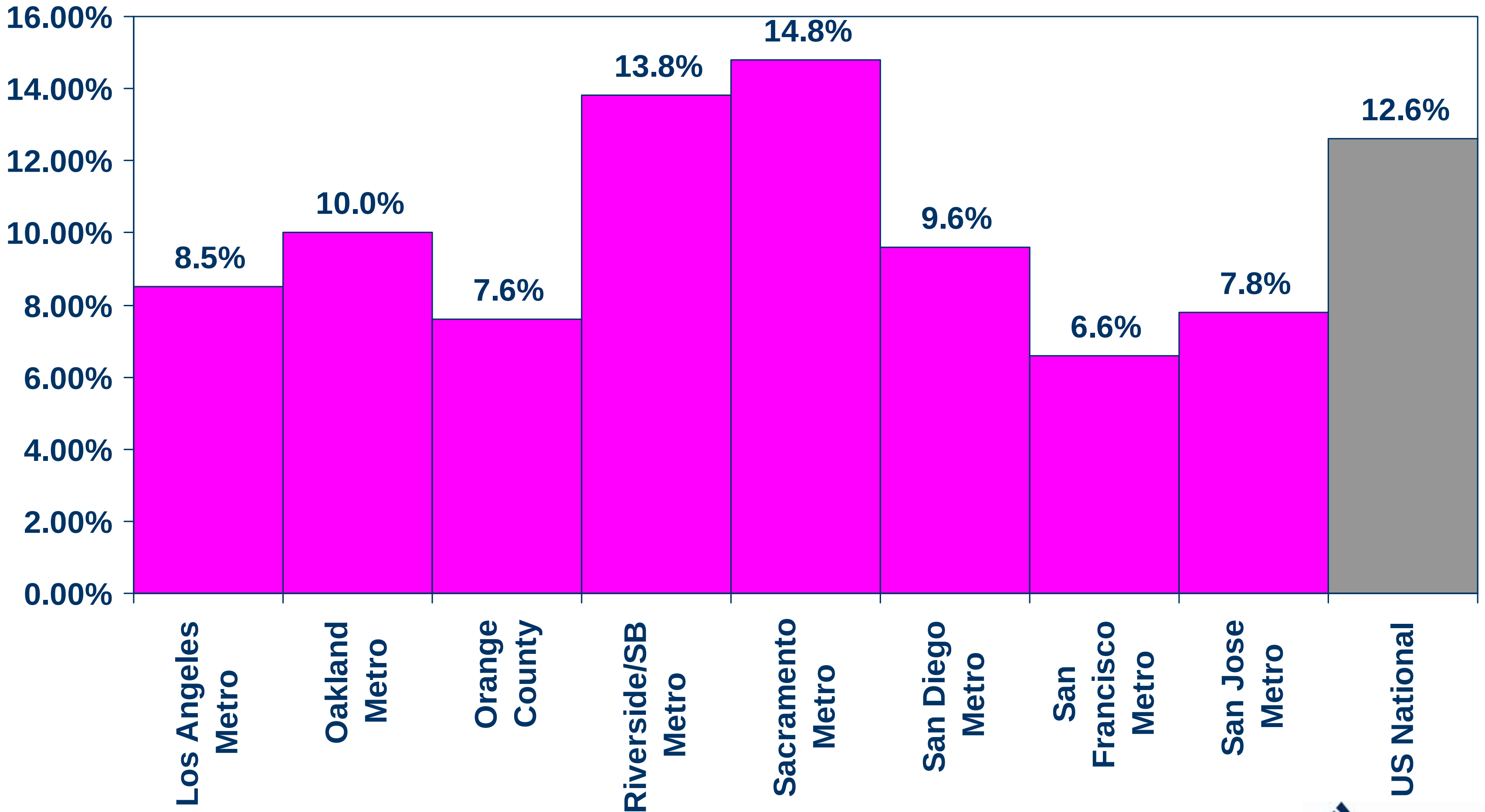
SOURCE: California Association of REALTORS®

Industrial Vacancy Rates by Metro Area Q1-2010



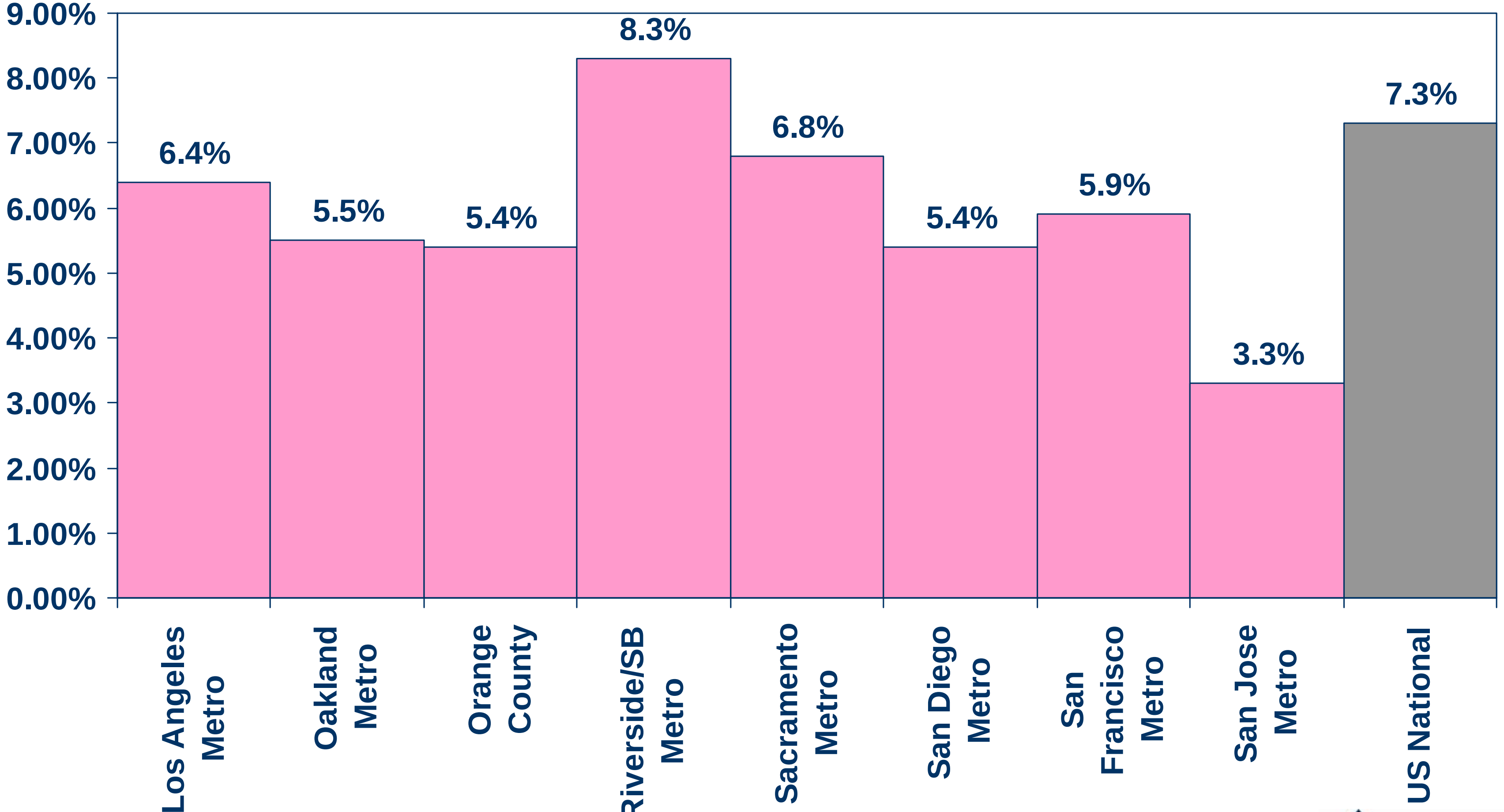
SOURCE: California Association of REALTORS®

Retail Vacancy Rates by Metro Area
Q1-2010



SOURCE: California Association of REALTORS®

Multi-family Vacancy Rates by Metro Area Q1-2010



SOURCE: California Association of REALTORS®

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California Commercial Markets

- Vacancy rates in LA, Orange County, and San Francisco across all segments (office, industrial, retail, multi-family) better than US
- Oakland better than US in 3 of 4 segments
- Industrial vacancy rates in LA, Oakland, Orange, and Riverside/SB will decrease as trade expands

California Commercial Markets

- High office vacancy rate in Orange County's due in part to demise of subprime lenders
- High office and retail vacancies in Riverside/San Bernardino and Sacramento due to rapid expansion in boom years, capacity will be absorbed over time
- San Jose's office space grew rapidly last decade, with buildings that were planned during the 1990's dot.com era but were finally built in the middle of the last decade, just before the onset of the global recession.

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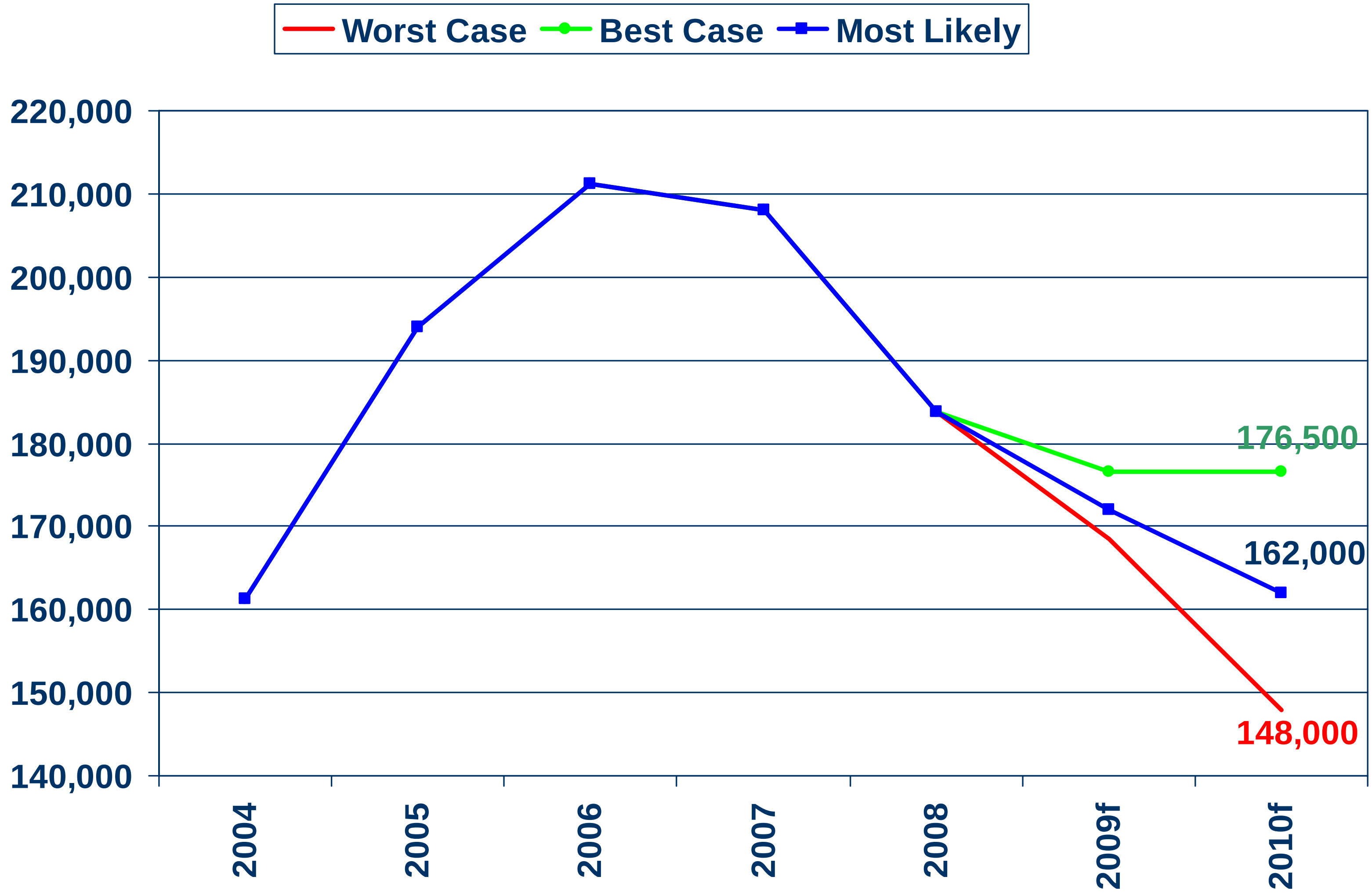
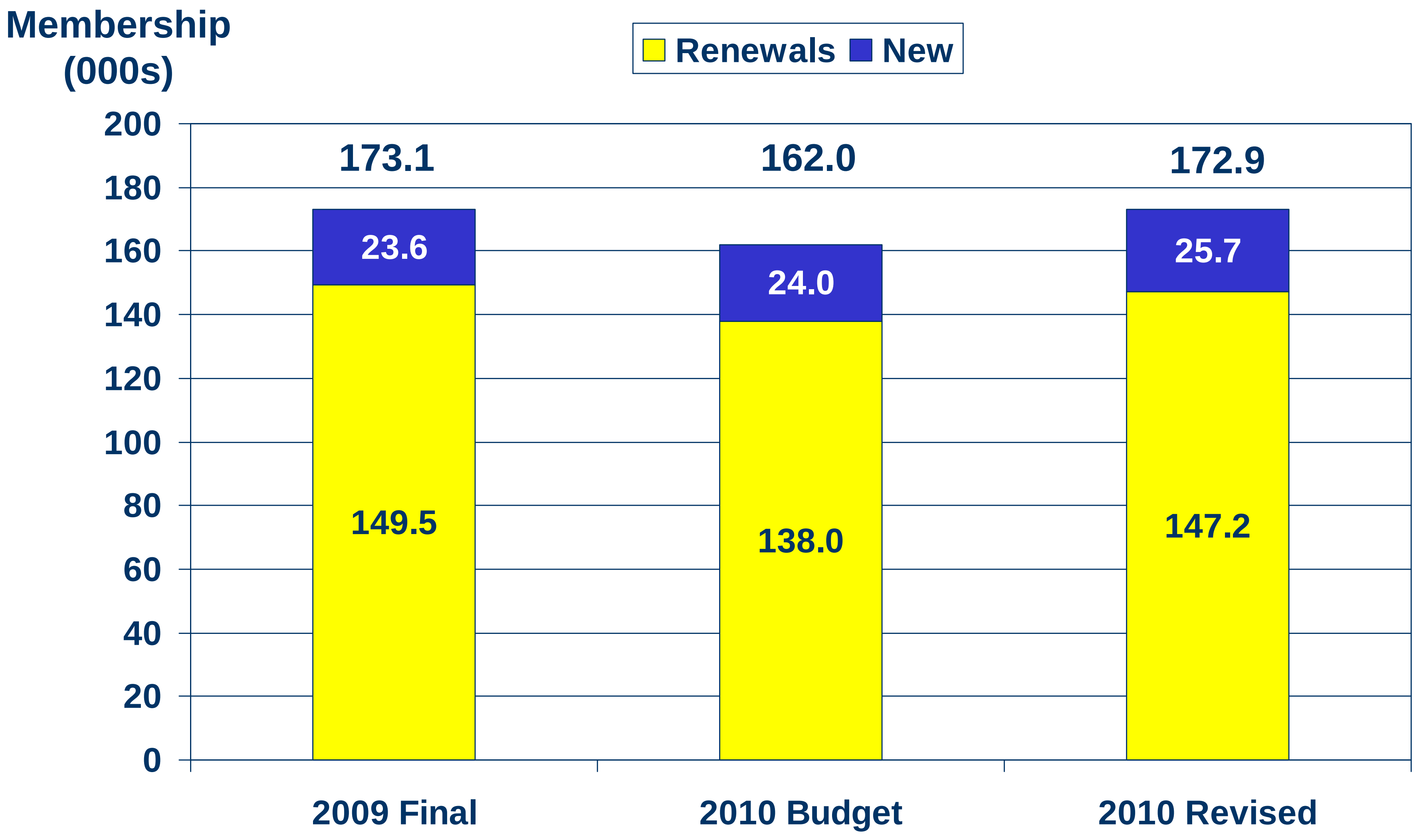
Membership Outlook 2010

Membership Scenarios Through 2010
Q3-2009



Source: CALIFORNIA ASSOCIATION OF REALTORS®

Changes in Membership Projections



Source: CALIFORNIA ASSOCIATION OF REALTORS®

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Current Membership Outlook

C.A.R. Membership Counts (thousands)

Status	2004	2005	2006	2007	2008	2009	2010f
Renewals	119.5	142.6	162.8	176.7	162.0	149.5	147.2
New	41.7	51.4	48.4	31.3	21.8	23.6	25.7
Total	**161.2**	**193.9**	**211.3**	**208.0**	**183.8**	**173.1**	**172.9**

C.A.R. Membership Percentage Changes

Status	03-04	04-05	05-06	06-07	07-08	08-09	09-10
Renewals	15.9%	19.3%	14.2%	8.5%	-8.3%	-7.7%	-1.6%
New	23.2%	23.1%	-5.8%	-35.3%	-30.4%	8.3%	8.9%
Total	17.7%	20.3%	8.9%	-1.5%	-11.6%	-5.8%	-0.1%

	03-04	04-05	05-06	06-07	07-08	08-09	09-10
Retention Rate	87%	88%	84%	84%	78%	81%	85%

Source: CALIFORNIA ASSOCIATION OF REALTORS®

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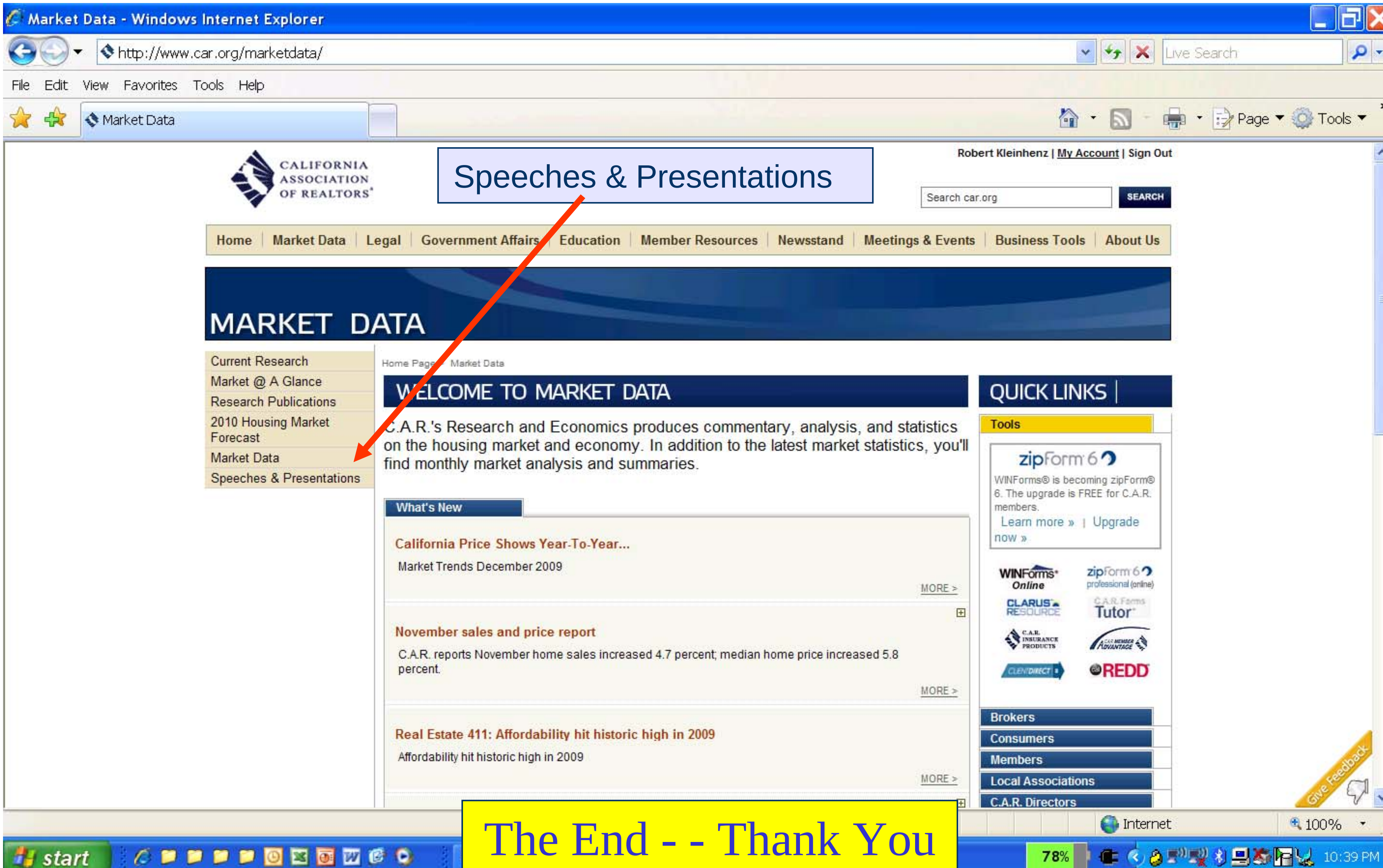
www.car.org → Market Data → Speeches



The End - - Thank You