

# RIAOC Presentation

## Economic Forecast for Real Estate

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**U.S. ECONOMY**

# GROSS DOMESTIC PRODUCT (GDP) GROWTH

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- Averaging 2% last two years
- Need 3-4% for real growth
- Forecast 2013 – 2015 – only 2%

Source: U.S. Bureau of Economic Analysis

# UNEMPLOYMENT RATE

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Down from 10% to 7.9%

Forecast 7.5% – 8.0% in 2013

Source: U.S. Bureau of Labor Statistics  
UCLA Forecast



# JOB GROWTH

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Recession lost 8.4 million jobs  
Added 4.4 million jobs since 2010  
4.0 million jobs in the hole

Source: U.S. Labor Statistics



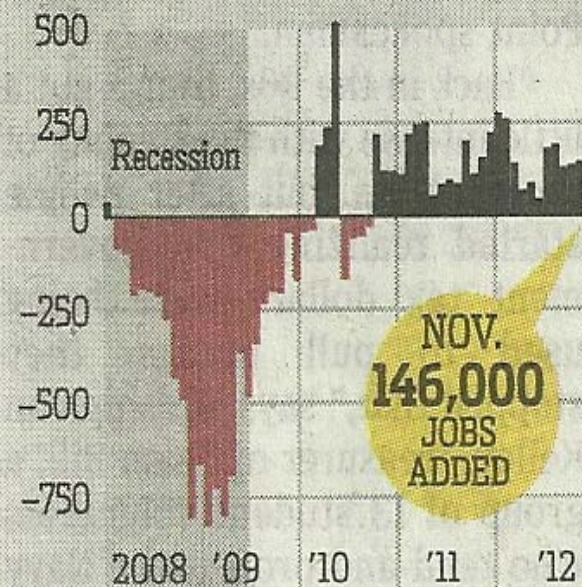


4 Million  
Jobs in the  
HOLE!

# November's Numbers

**Nearly 150,000 jobs were added...**

Monthly change in nonfarm payrolls, in thousands



**...and joblessness declined...**

Job seekers as share of the civilian labor force



**...but the share of the population working or seeking work fell.**

Labor-force participation rate



Note: Data are seasonally adjusted Source: Labor Department

The Wall Street Journal

# NET JOB GROWTH

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## Difference Between Jobs Created & Lost

			Revised 12/7/12
October 2012	Jobs Created	171,000	138,000
October 2012	Job Lost	<u>131,173</u>	<u>131,173</u>
	Net Job Gain	39,827	6,827

Source: U.S. Bureau of Labor Statistics (JOLT)



# JOB FORECAST

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- Slow job growth thru 2015
- Slower economic recover due to slow job growth
- Retail & low income wage jobs are more than ½ of job growth
- More part-time employees due to medical benefits

Example: On Site Manager Medical Expenses

# CONSUMER PRICE INDEX (CPI)

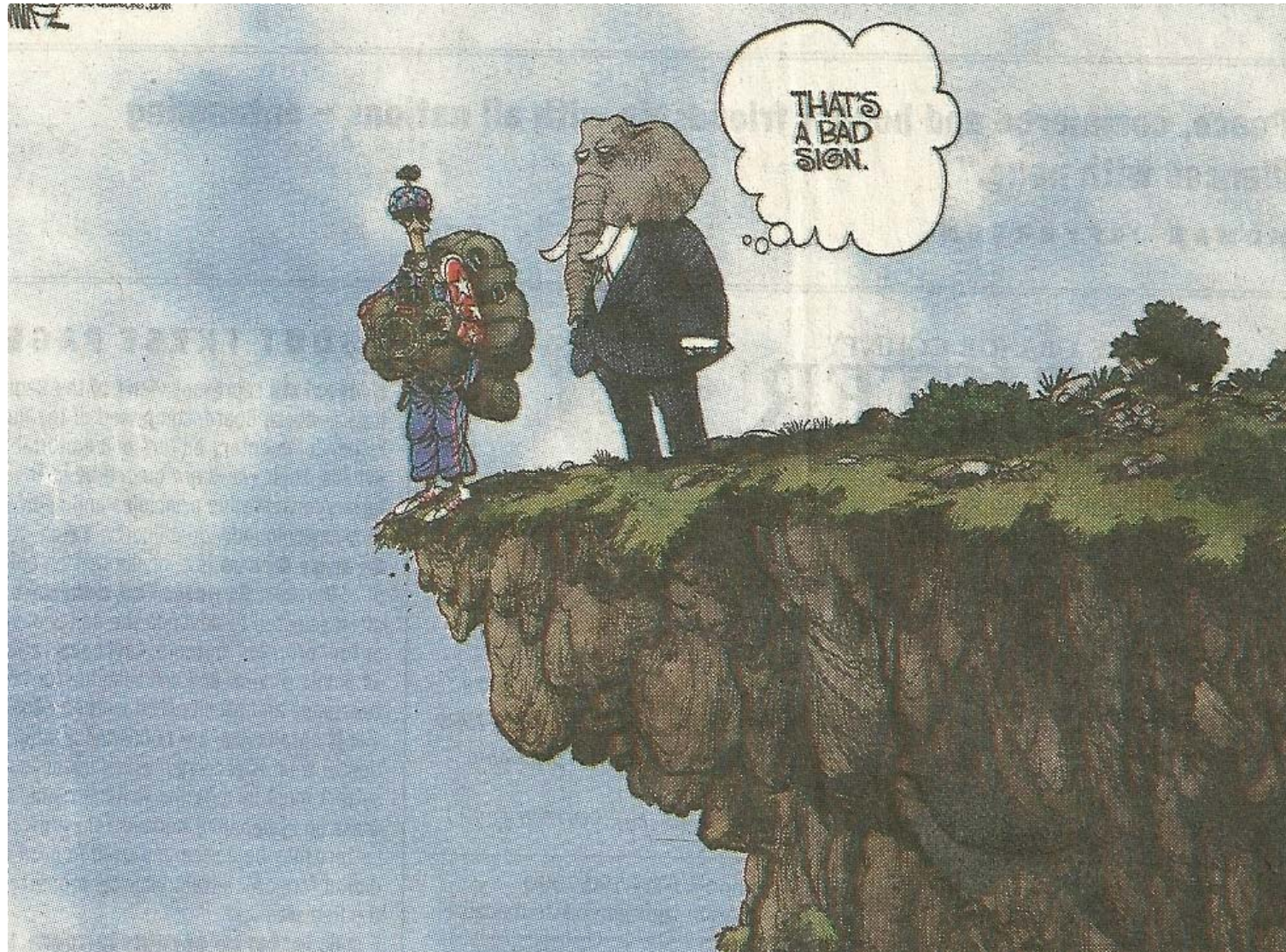
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- We have been averaging approximately 2.2% for all items & 2.0 core (food)
- Forecast: 2.5 - 3.5% in 2013
- Chain CPI: Substitute pork for beef will lower CPI



# FISCAL CLIFF

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# FEDERAL TAX CUTS EXPIRATION

## DECEMBER 31, 2012

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- Federal Tax rate goes to 39.6%
- Capital Gains goes to 20% + 3.8% Obama Care
- Estate Tax goes down to \$1 million from \$5 million and rate up to 55%
- AMT tax extends to 32 million more people
- Temporary Social Security tax cut of 2% expires

# FEDERAL BUDGET REDUCTIONS (Sequestration)

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- Defense cuts - \$24 Billion
- Medicare & other cuts - \$40 Billion

*Note: It costs \$11 Billion per aircraft carrier to operate each year and we have 10 of them*



# EFFECTS ON REAL ESTATE

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## **AMT**

About 3 million & could go to 33 million taxpayers. Top rate 28% excludes mortgage deductions & local taxes

## **Estate Tax**

2013 bad year to die for taxes, so try and expire before December 31, 2012

## **Mortgage Deduction**

Probably will be trimmed back to lower threshold to the tune of \$400,000 maximum. Only 27% claim in California & 26% nationwide



THAT'S NICE...

BUT, I'D REALLY LIKE A CREDIT CARD WITH AN UNLIMITED DEBT CEILING.

# EFFECTS ON REAL ESTATE

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## **Less Spendable Income**

Retail sales, rents home buying will drop due to less spendable money by consumers after taxes.

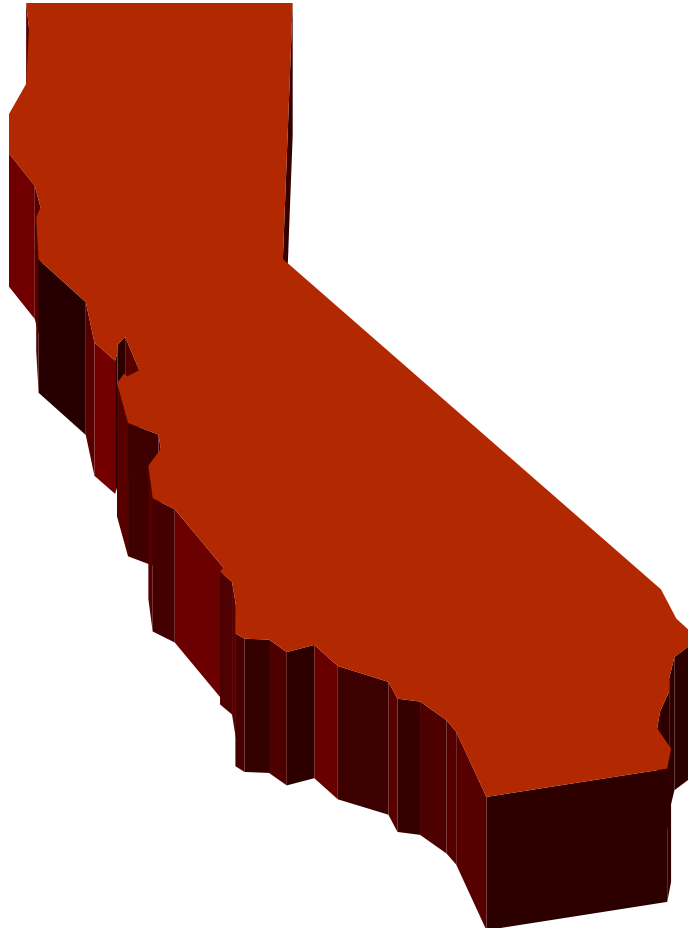
## **Debt Limit**

A limit of \$16.8 Trillion will reach a ceiling in early 2013 and needs to be raised. Obama wants unlimited extension amount



# CALIFORNIA ECONOMY

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# CALIFORNIA GDP MIRROR U.S.

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**2 – 2.5%**  
**GROWTH IN 2013**



# CALIFORNIA UNEMPLOYMENT 14.5 MILLION JOBS

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Projected 10-10.5% in 2013

Add another 5-6% for under counting people  
i.e., not looking for work

*Source: CA EDD & UCLA Forecast*

# JOB TRENDS BY CALIFORNIA COUNTIES

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San Jose	3.5% Job Growth
San Francisco	3.4%
Los Angeles	1.5%
Orange County	1.5%
Inland Empire	.06%

*Source: CA EDD*

# CALIFORNIA BUILDING PERMITS

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36,000	Apartments
40,000	Single Family

*Source: Kyser Center for Economic Research*



# CALIFORNIA ECONOMIC FORECAST

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	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
JOB GROWTH	-1.1%	.09%	1.5%	1.5%
UNEMPLOYMENT	12.4%	11.7%	10.7%	10.5%
PERSONAL INCOME % CHANGE	4.0%	5.6%	3.3%	4.0%

# ORANGE COUNTY FORECAST



# ORANGE COUNTY UNEMPLOYMENT RATES

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2013 Forecast 7%



# ORANGE COUNTY JOBS IN 2013

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Chapman Forecast	26,000 new jobs
Cal State Fullerton Forecast	43,000 new jobs

Over half of the jobs are low paying  
retail or tourism positions

# ORANGE COUNTY

## Building Permits

	APARTMENTS	SINGLE FAMILY
2010	1,700	1,500
2011	2,900	1,900
2012	3,100	2,300
2013 Forecast	2,500	3,500

*Source: Kyser Center for Economic Development*

# OC MARKET SEGMENTS

## OFFICE

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Vacant Space	6.5 Million sq. ft.
New Construction	1.0 Million sq. ft.
Average Rents	\$2.00 sq. ft. Down 2% over last year
Vacancy Rate	14.1% Down 13.5% over last year

Tough Market in 2013

*Source: OC Business Journal*

# OC MARKET SEGMENTS

## RETAIL

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Vacant Space	425,000 sq. ft.
New Construction	None
Average Rents	\$3.22 sq. ft. Down 2% over last year
Vacancy Rate	4.3% Up 16.2% over last year

Internet Sales Hurting Retail

*Source: OC Business Journal*

# OC MARKET SEGMENTS

## WAREHOUSE

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Vacant Space	1,950,000 sq. ft.
New Construction	None
Average Rents	60¢ per sq. ft. Up 8.9% over last yr.
Vacancy Rate	5.2% Up 15.6% over last yr.

Market is firming up

*Source: OC Business Journal*

# OC MARKET SEGMENTS

## APARTMENTS

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New Construction      3,000 New Units (Class A)

Average Rents            Up 5.1% for 2012-13  
\$1,280 for Average 700 sq. ft. Apt.

Vacancy Rate             Down 4.0% and continuing to drop

Renters encompass 42% of the OC population

*Source: USC Casden Forecast*

# IMPLICATIONS FOR THE FUTURE

- A. We have not yet recovered from the 2007-08 recession
- B. Next few years indicate slower growth, like we are currently experiencing .. NO BIG BOOM
- C. Need to adapt to new slower growth as it is the “New Norm”
- D. Fiscal Cliff & World events will have effect on forecast & impossible to predict

# QUESTIONS?

