

A photograph of a modern, multi-story building with a grid of windows, some of which are illuminated from within. The building is situated on a city street at dusk or night. In the foreground, there are people walking on the sidewalk and a few cars on the street. The text 'PACIFIC UNION' is overlaid in large white letters on a dark rectangular background.

PACIFIC UNION

Real Estate
Economic Forecast
San Francisco Bay Area to 2018

Mark A. McLaughlin

Chief Executive Officer

Pacific Union International, Inc.

In Partnership with

JOHN  BURNS
REAL ESTATE CONSULTING

Welcome

Special Guests

Alan P. Mark

President



Krysen Heathwood

Executive Vice President

Managing Principal

Doug Shaw
Principal



Hans Treuenfels
Principal

Rupert Hoogewerf

Chairman

Hurun Report

胡润百富

HURUN REPORT

Agenda

Bay Area Economic Overview 2018
Nine-Market Perspective for 2018
Bay Area Similarities 2018
Questions & Answers
Conclusions

Join the Conversation

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THE WALL STREET JOURNAL.

Timing is
Everything



What we got wrong

Rising Interest Rates



What we got

Double-Digit Appreciation



Regional Key Drivers



John Burns

Chief Executive Officer

John Burns Real Estate Consulting



Definitions

Burns Home Value Index

Our estimate of home value appreciation for all of the homes in a given area.

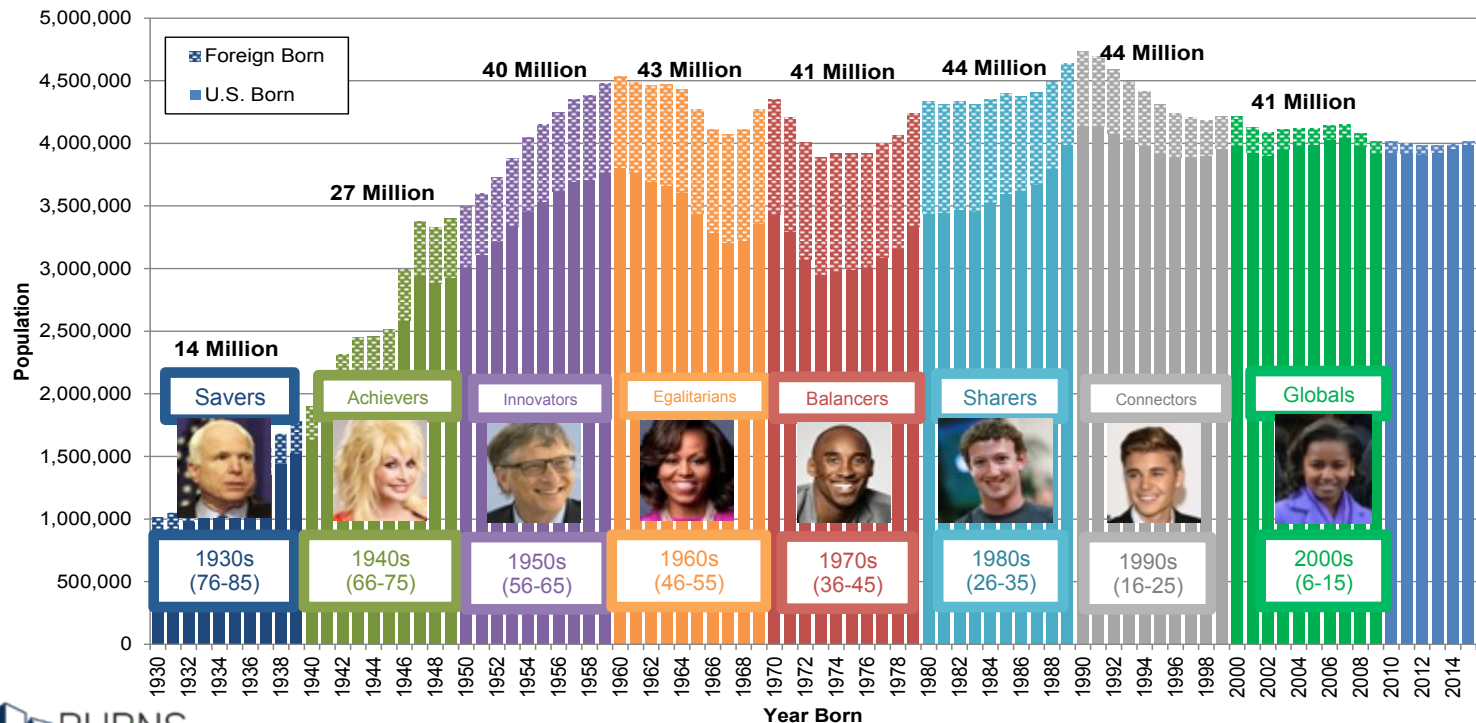




Perspective Macro

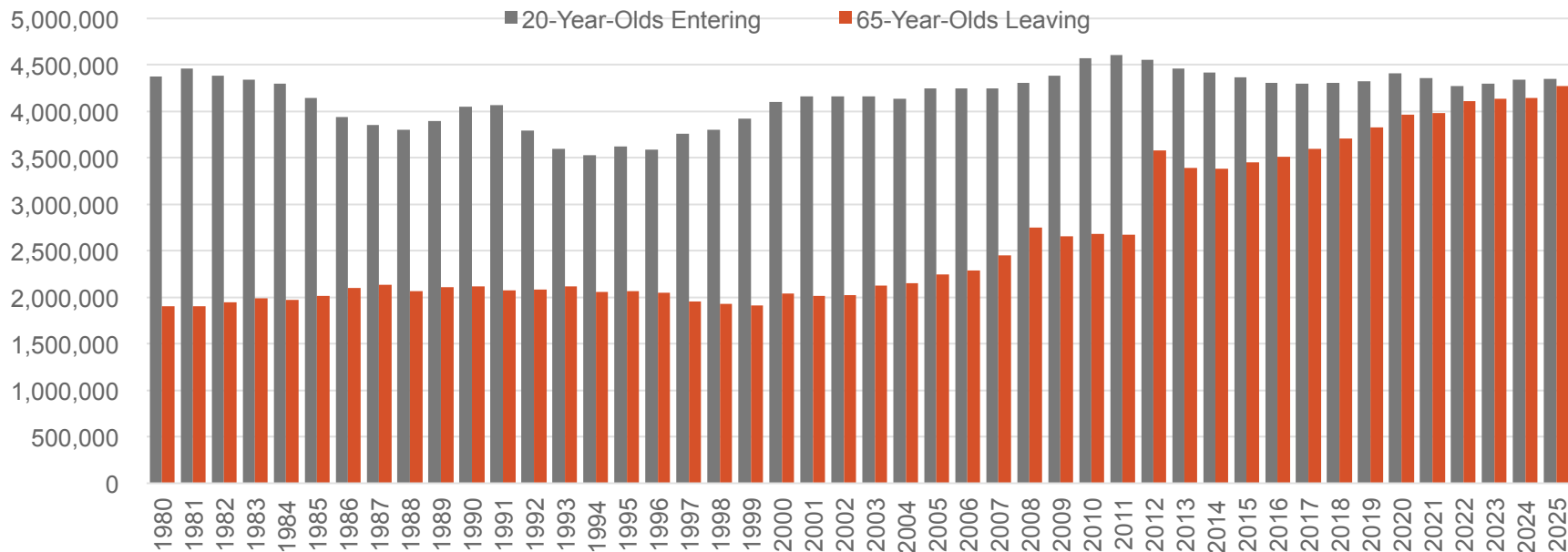
Study the generations by decade born. The term “Millennial” refers to a 18+ year age gap, which is far too long to make good conclusions.

2015 US Population by Place of Birth



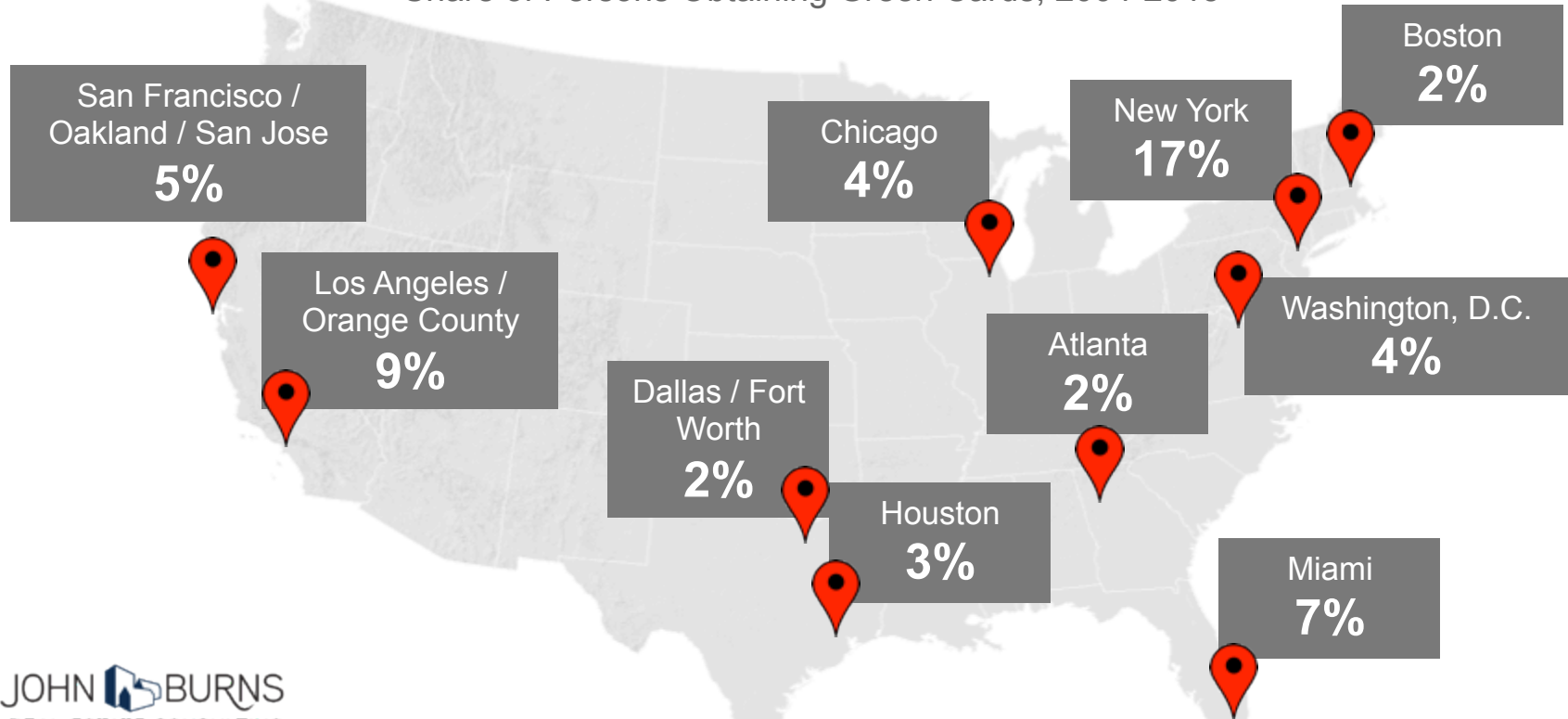
A surge in retirement will slow U.S. economic growth, and create unprecedented levels of housing demand for 65+ year-olds.

Population Entering and Leaving the Labor Pool

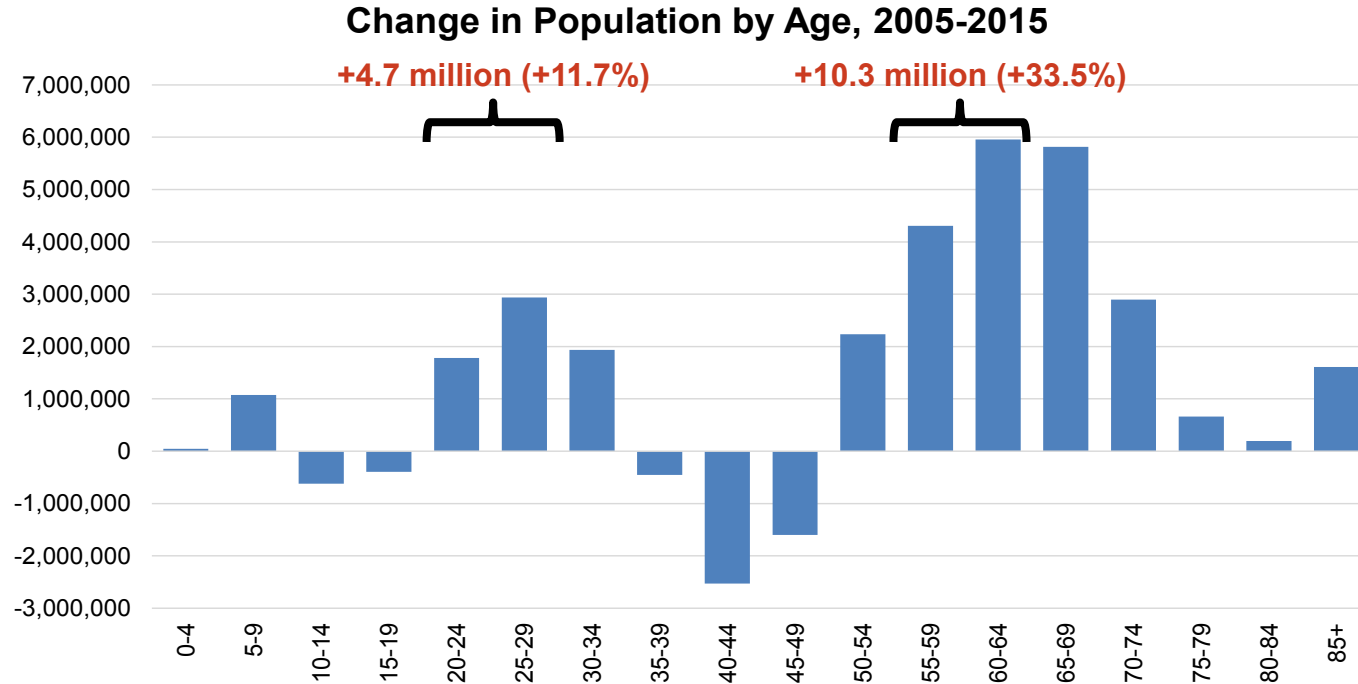


Unprecedented international immigration has created a surge in demand for the U.S.' great cities.

Share of Persons Obtaining Green Cards, 2004-2013

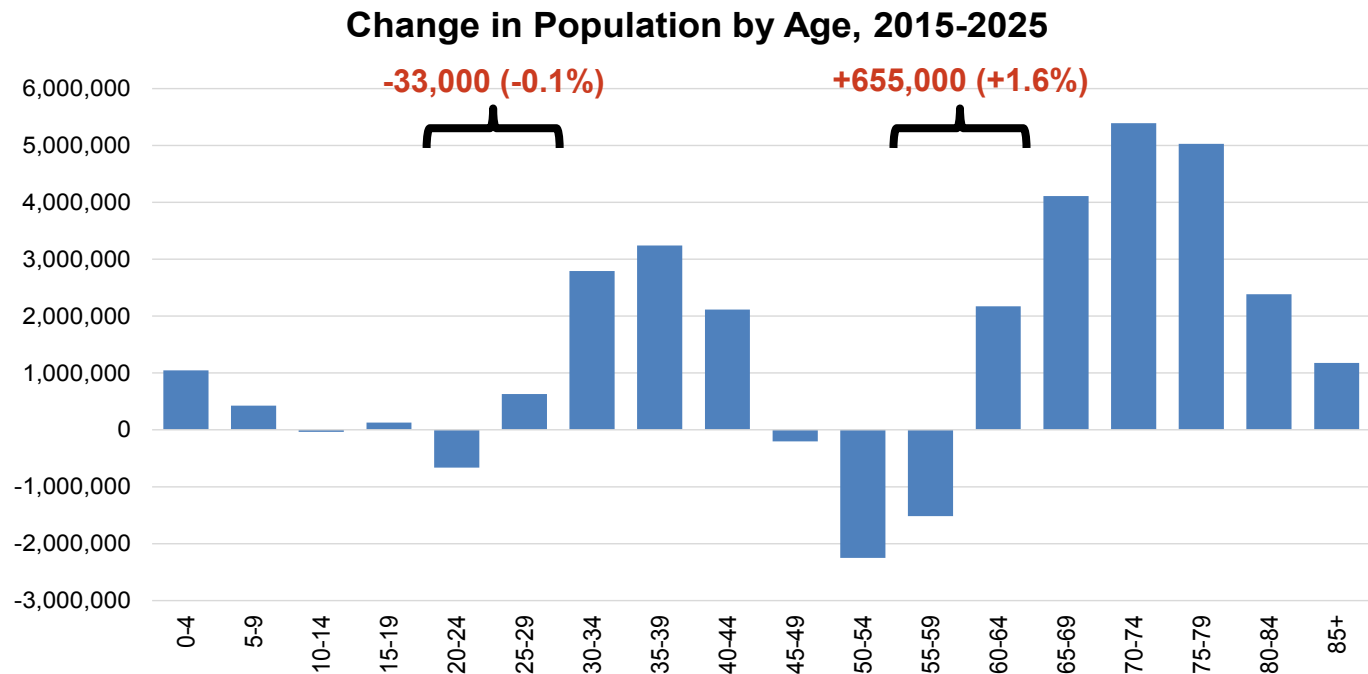


The “Urban Lifestyle Population” ages, 20-29 and 55-64, grew by a combined 15 million people in the last decade.



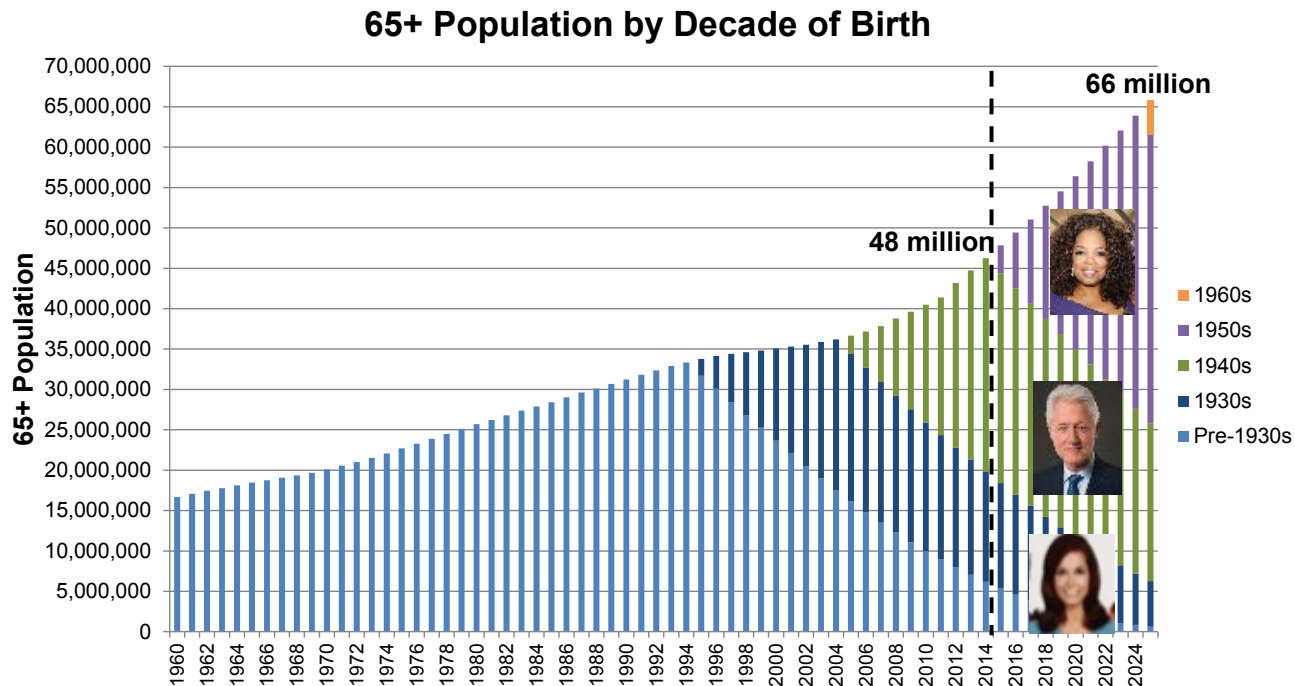
Source: U.S. Census Bureau Intercensal Estimates, December 2014 Population Projections

Both of these age groups will grow much more slowly over the next decade.



Source: U.S. Census Bureau December 2014 Population Projections

ACTIVE SENIORS: The 65+ population will grow by 18 million people in 10 years – a 38% increase – and will need housing!



Sources: U.S. Census Bureau; John Burns Real Estate Consulting, LLC

11 huge social shifts continue to delay the need to form a household or buy a home.

1. Living Alone: Only **55%** of households are led by couples (49% married, 6% living together), compared to **77%** of households in 1950.
2. Marrying Later: Only **22%** of women aged 25-29 are married with children today, compared to **68%** in 1967.
3. Cohabitation: **13%** of 1980s Sharers lived together in their late 20s, **double** the 1960s Egalitarians. Does less marital commitment mean less likely to cosign a mortgage?
4. Never Marrying: Marital rates for those under 30 have **dropped in half to 39%**; and marital rates for those aged 40-54 have dropped 12+.
5. Divorcing Less: Divorce rates **rose 132%** from 1957 to 1979, and have **fallen 37%** since, creating fewer households.
6. Childless Households: Only **29%** of households now have kids, meaning that good schools are not critical for 71% of households, and traditional floor plans are less relevant.



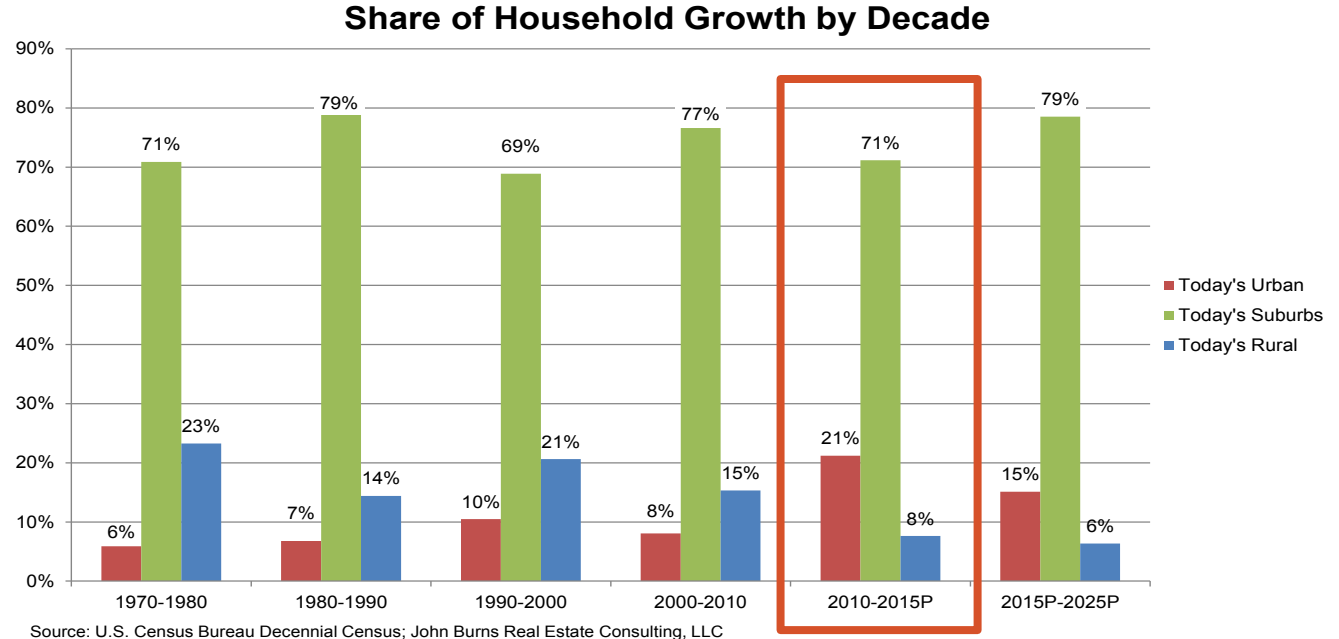
11 huge social shifts continue to delay the need to form a household or buy a home.

7. Delaying Childbirth: Women are having their first child **2 years later** than their mother did.
8. Unwed Mothers: **40%** of children are born to unmarried women, double the percentage in 1983.
9. Single-Parent Households: Only **46%** of 1990s Connectors lived with both parents in 2013, compared to **73%** of 1940s Achievers in 1960.
10. Women are the Breadwinners:
 - **37%** of women graduate from college vs. **31%** of men.
 - **38%** of women earn more than their husband, up from **24%** in 1987.
 - Since 1973, real **female** incomes are **up 36%** and **male** incomes are **down 5%**.
11. Raising Kids in a Rental Home: **15.3 million households** now live in a single-family rental home, **4.1 million** more than in 2007.



URBAN, SUBURBAN AND “SURBAN”: Urban and suburban will grow faster than usual, at the expense of rural.

“Surban” areas are redeveloped suburban downtowns, with elements of urban living with suburban affordability.



The biggest macro concern is excessive debt, which has preceded 11 of the last 12 recessions.

Speculative Bubbles

Usually fueled by debt



1. 1929–33 (43 mos.): Consumers borrowed money to buy stocks
2. 1957–58 (8 mos.): Consumers amassed credit card debts
3. 1980–82 (22 mos.)***: Bad bank loans to Latin America; oil price increase
4. 1990–91 (8 mos.): Junk bonds for Leveraged Buy Outs; real estate speculation fueled by S&L lending
5. 2000–01 (8 mos.): Tech stock speculation
6. 2007–09 (18 mos.): Housing speculation fueled by subprime

Government Spending Cuts

Usually after running up big deficits / debts



1. 1937–38 (13 mos.): Post-New Deal
2. 1945 (8 mos.): End of WWII
3. 1948–49 (11 mos.): Post-WWII
4. 1953–54 (10 mos.): Post-Korean War
5. 1969–70 (11 mos.): First Vietnam War spending cutback

Other

Gold Standard



1973–75 (16 mos.): Removal of gold standard, oil price increase

*The leading factors were summarized for the sake of simplicity.

**This does not capture every cause of past recessions.

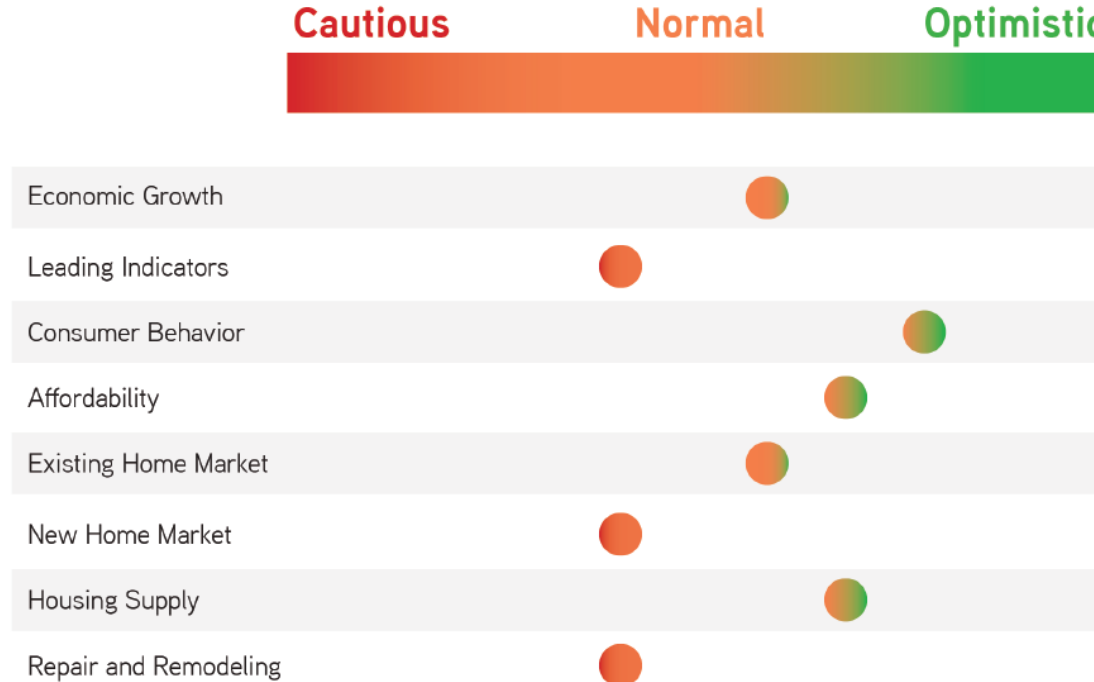
***We grouped the double-dip recessions

We have many excessive debt worries today.

1. \$1.2 trillion+ in student debt
2. Mortgage debt for 10%+ of homeowners who still have negative equity
3. Recent surge in debt-fueled private equity acquisitions
4. Foreign government debt
5. State and local government debt and unfunded pensions
6. \$146k+ per household in U.S. government debt (\$18 trillion)
7. \$990k+ per household in unfunded U.S. retirement obligations



22 short-term early indicators project normal economic growth ahead.



Source: John Burns Real Estate Consulting, LLC (Pub: Sep-15)

We are going to discuss 5 economic engines known as MSAs that include 8 counties.

Area Definitions:

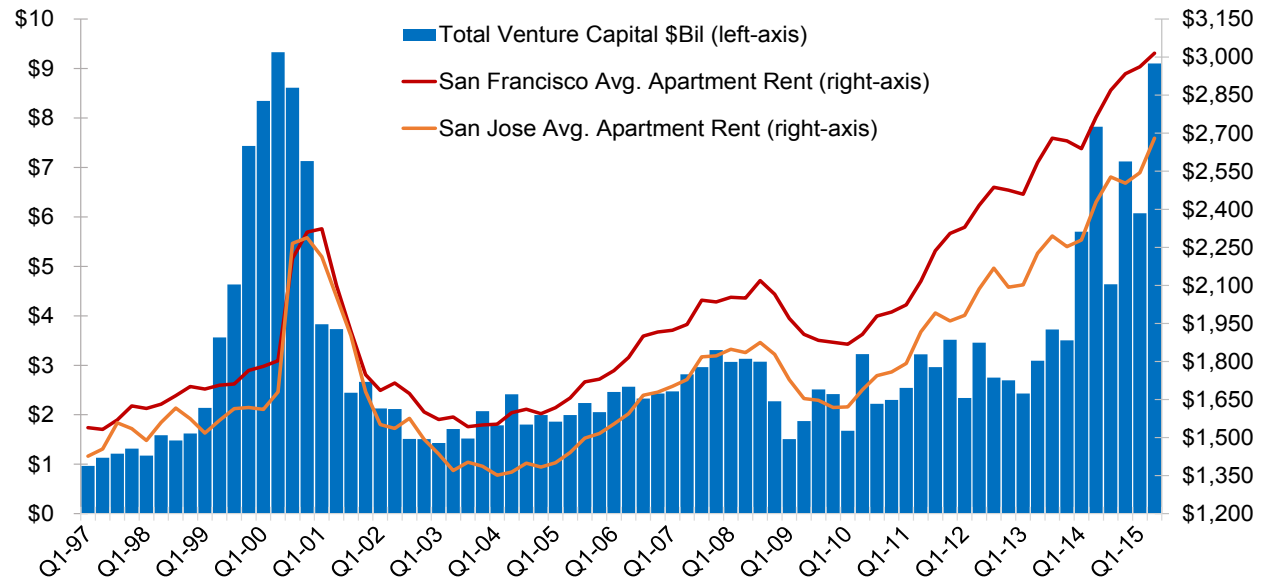
1. **San Francisco** includes San Francisco, Marin, and San Mateo counties.
2. **East Bay** includes Alameda and Contra Costa counties.
3. **San Jose** includes Santa Clara County.
4. **Sonoma** is Sonoma County and includes Santa Rosa
5. **Napa** is Napa County.



Venture capital funding to Bay Area companies is approaching levels last seen in 2000.

\$25.3 billion in venture capital funding was invested in Bay Area companies in 2014, the highest since 2000 when \$33.4 billion was invested.

N.Cal Bay Area: Total Venture Capital Dollars Invested vs. Apartment Rents (\$ Billions)



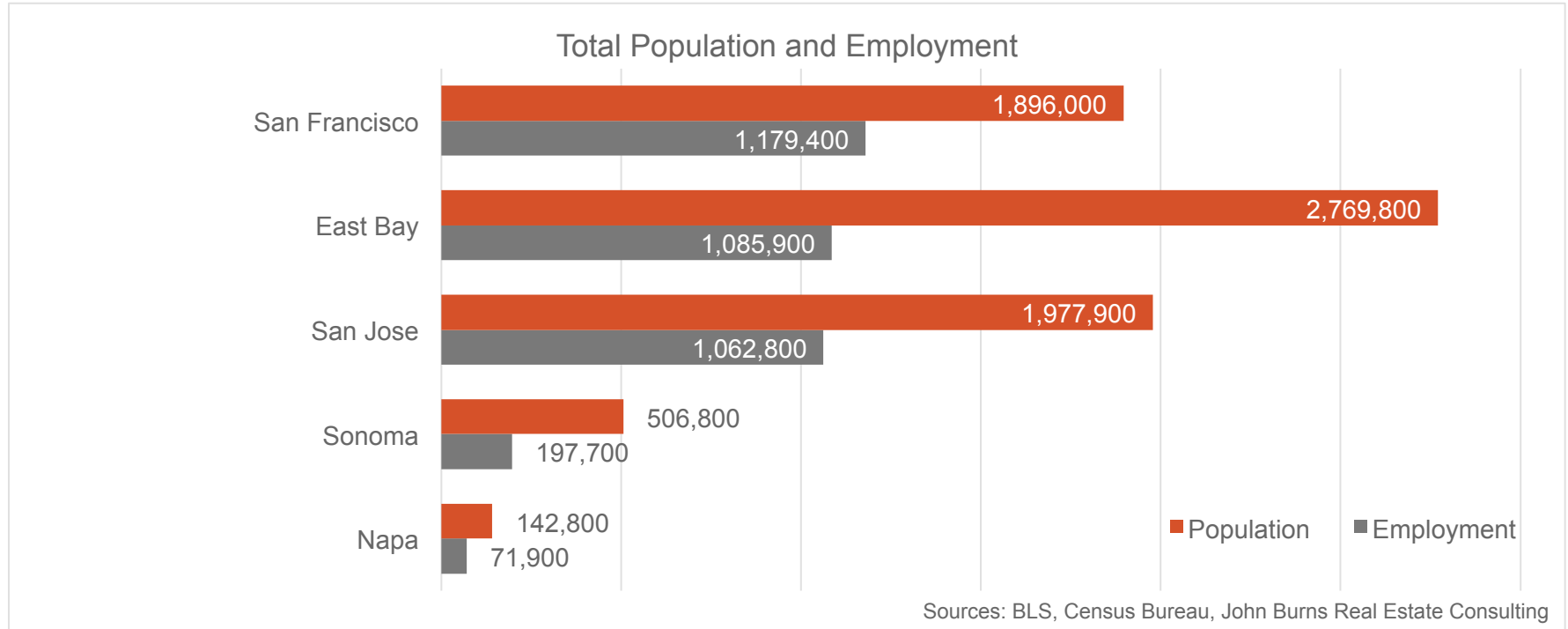
55 Bay Area-headquartered companies have had initial public offerings since January 2014.

Company	Proceeds (\$millions)
LendingClub	\$870
Fitbit	\$732
GoPro	\$427
8point3 Energy Partners LP	\$420
Virgin America	\$307
Sunrun	\$251
TriNet Group	\$240
Arista Networks	\$226
A10 Networks	\$188
Natera	\$180
Castlight Health	\$178
Box	\$175
Coupons.com	\$168
Aimmune Therapeutics	\$160
FibroGen	\$146
Versartis	\$126
Nevro	\$126
Dermira	\$125
Ultragenyx Pharmaceutical	\$121

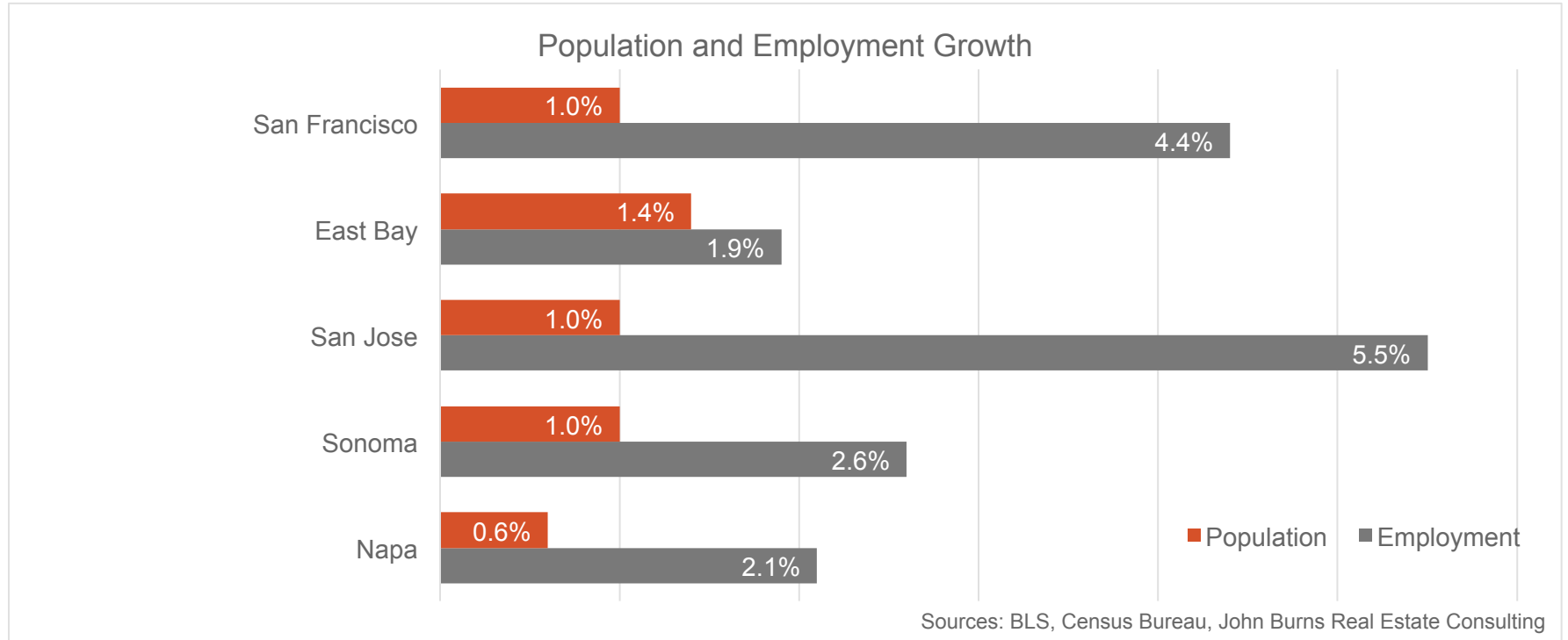
Company	Proceeds (\$millions)
Global Blood Therapeutics	\$120
Aduro Biotech	\$119
New Relic	\$115
Avalanche Biotechnologies	\$102
Invitae	\$102
Zendesk	\$100
MobileIron	\$100
Hortonworks	\$100
Revance Therapeutics	\$96
Apigee	\$87
Coherus BioSciences	\$85
Calithera Biosciences	\$80
TriVascular Technologies	\$78
Aerohive Networks	\$75
Yodlee	\$75
Achaogen	\$72
Five9	\$70
Avinger	\$65
Carbylan Therapeutics	\$65

Company	Proceeds (\$millions)
Ooma	\$65
Ardelyx	\$60
Xactly	\$56
Intersect ENT	\$55
Atara Biotherapeutics	\$55
Corium International	\$52
Zosano Pharma	\$50
Adamas Pharmaceuticals	\$48
Invuity	\$48
TubeMogul	\$44
CareDx	\$40
SteadyMed	\$40
Aqua Metals	\$33
Energous	\$24
Sysorex Global Holdings	\$20
Jaguar Animal Health	\$20
BioPharmX	\$10

The 3 major metro areas have a similar number of jobs, although the East Bay has more residents and commuters.

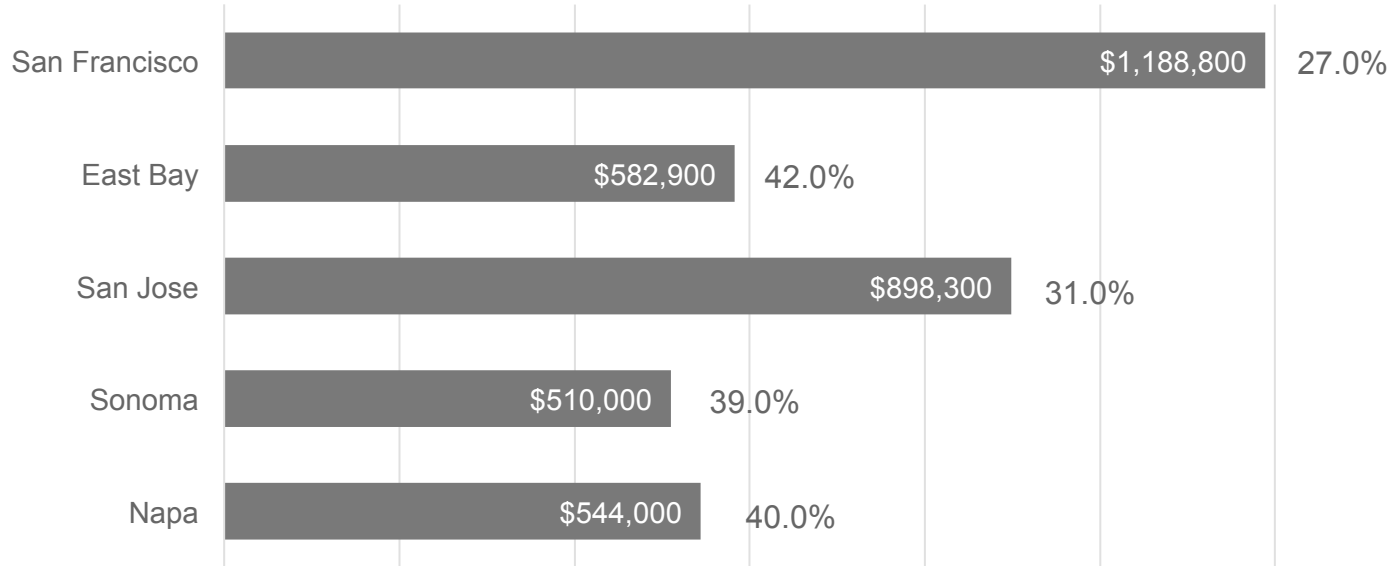


The economies are growing much faster than their populations, bringing unemployment down and creating income growth for many.



San Francisco is the most expensive of the 5 metro areas.
Because incomes are lower elsewhere, affordability is actually even more of a problem in Napa, San Jose, and Sonoma.

Median Home Price and % Who Can Afford It



Sources: BLS, Census Bureau, John Burns Real Estate Consulting

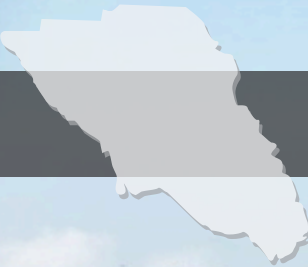
Market Summary

Dean Wehrli

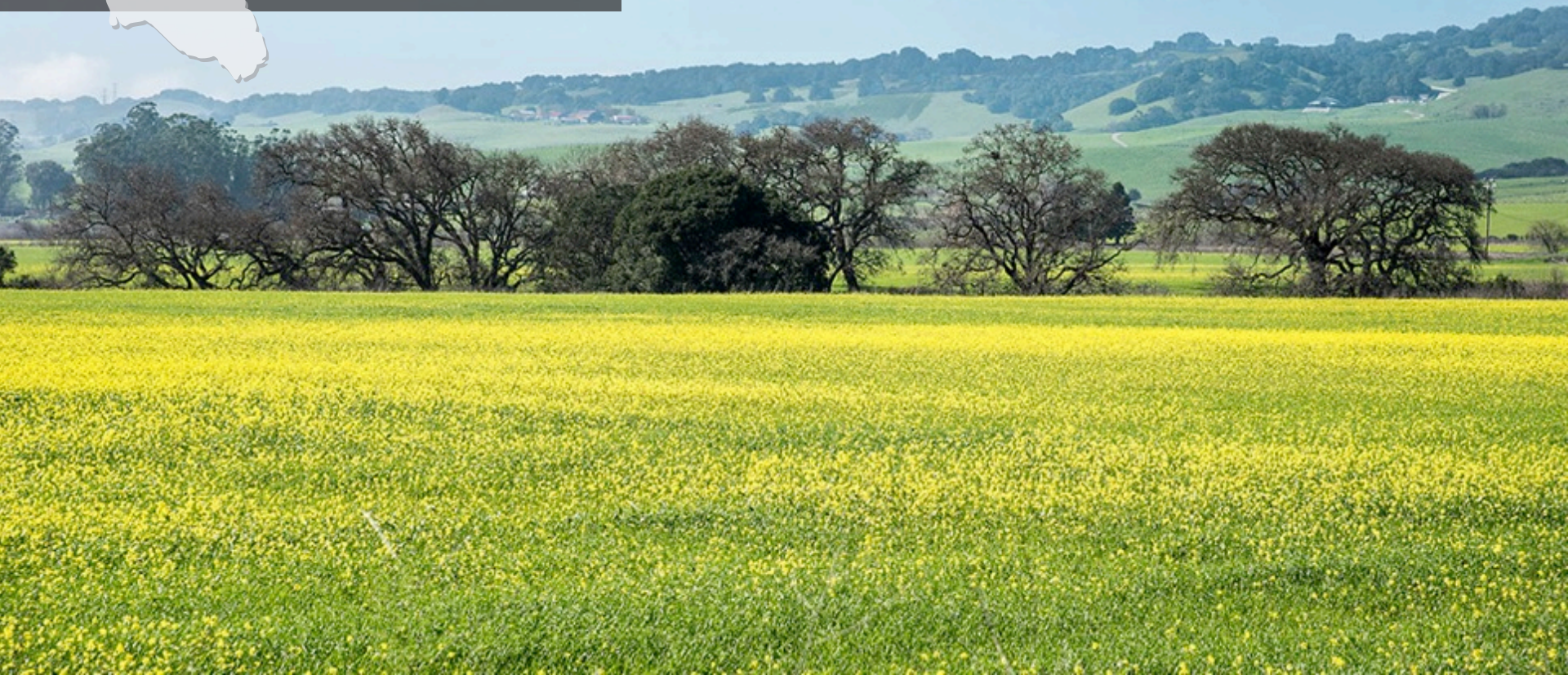
Senior Vice President

John Burns Real Estate Consulting





Sonoma County



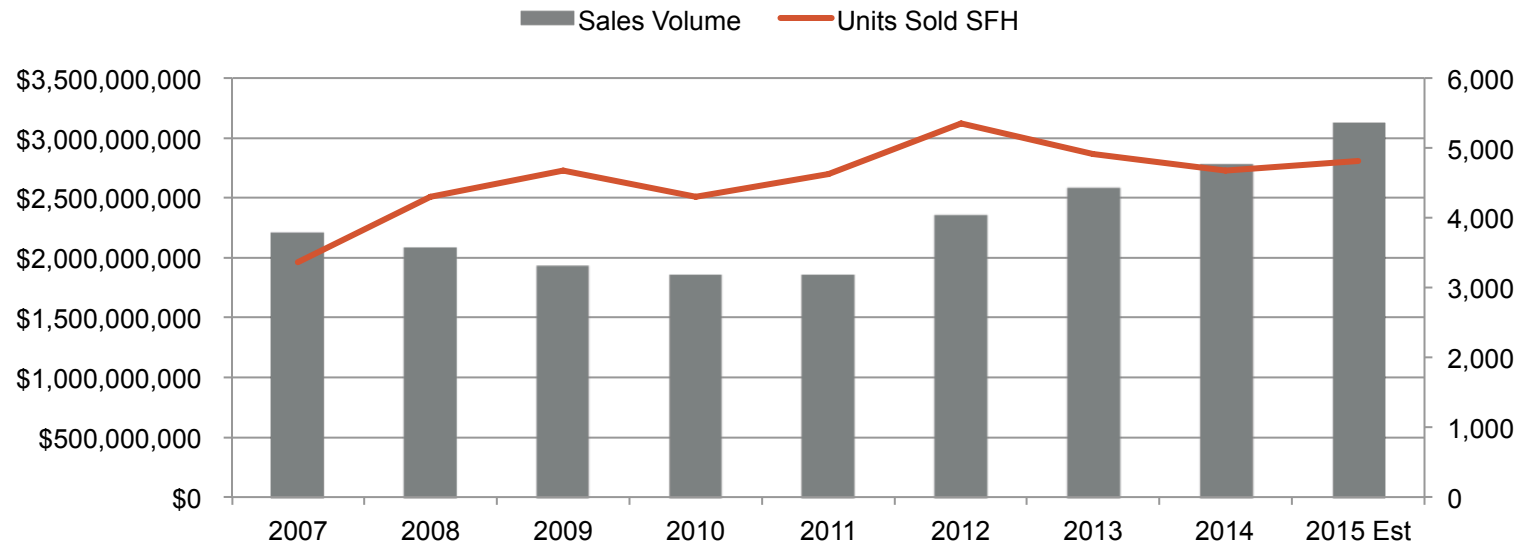
Sonoma County

- Vineyards and tech
- Middle income profile (\$63,000 and rising decently)
- Prices +10% YOY at \$500k+
- But modest gains ahead (2-4%)
- Only about 150 sales YOY
- Should be doing better? Jobs v HHs.
- Great potential active adult locale
- SMART train on track – but what impact?
- Vacation rentals and Airbnb heightening housing shortage?



Sonoma County

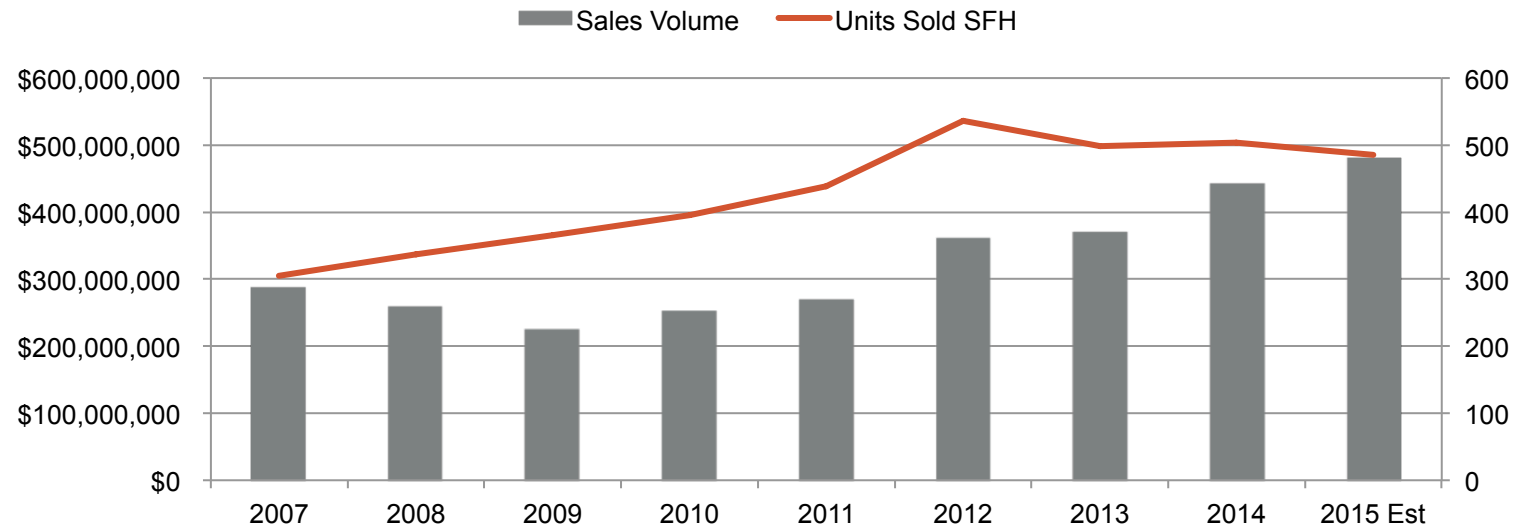
Sonoma County - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition: Sonoma County.

Sonoma Valley

Sonoma Valley - SFH Sales Volume and Units Sold



Sonoma County - Key Drivers





Napa County



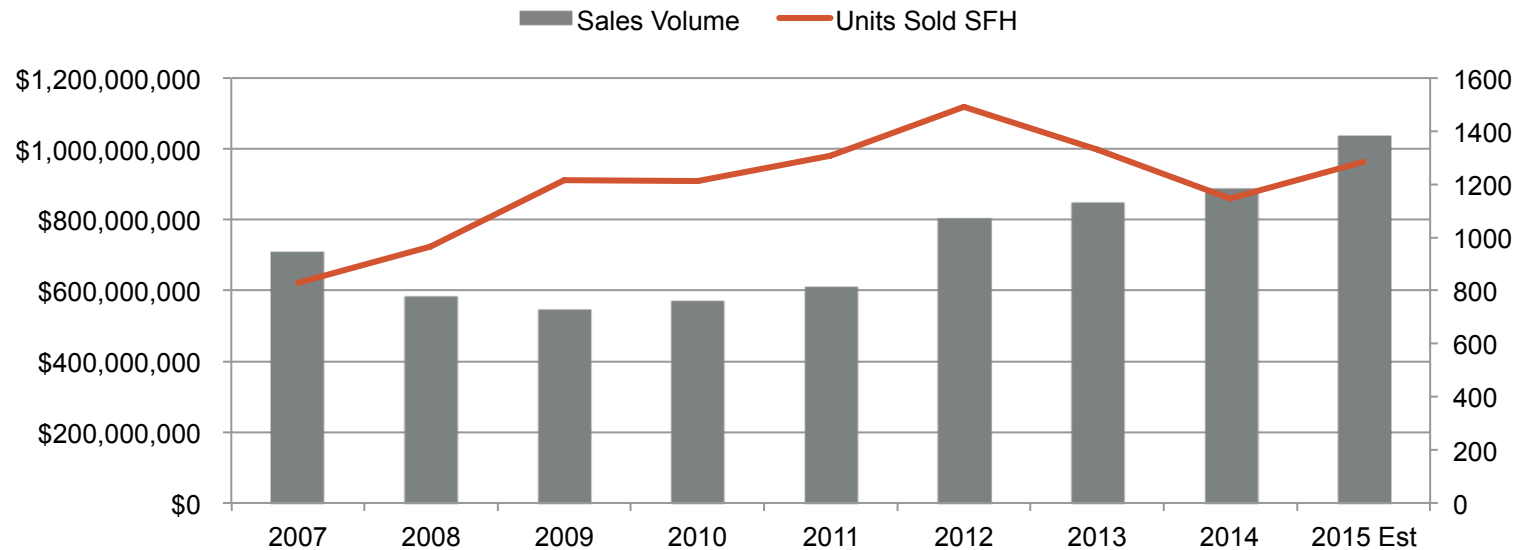
Napa County

- Luxury vacation homes to north
- More middle class to south
- \$75k median income going up
- Prices up 8% YOY, but appreciation will slow
- Investor activity lower but stable at 1/4 of market
- Slow growth and limited supply
- But some recent new home activity
- 4th highest concentration of \$1 million-plus homes in the nation



Napa County


Napa County - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition: Napa County.

Napa County - Key Drivers





Lake Tahoe/Truckee



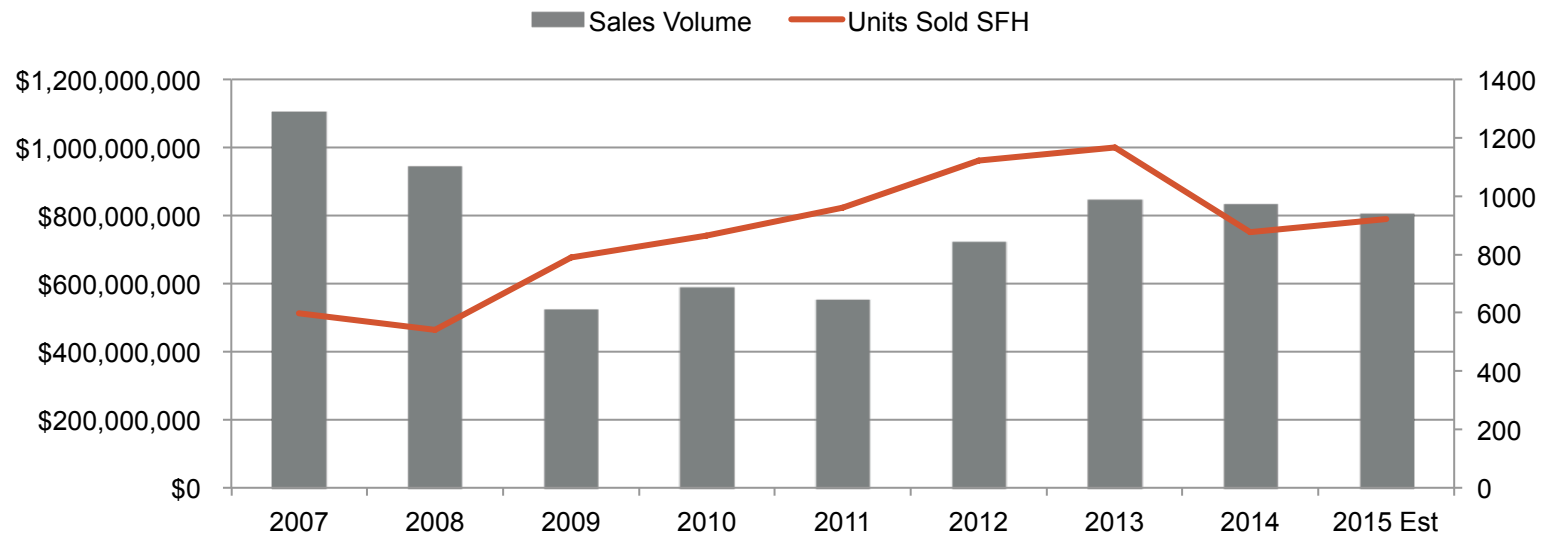
Lake Tahoe/Truckee

- Resort 2nd home getaway for the Bay
- Older homes and rare new development
- Population growing while supply is not
- Watch Bay – still great, but likely to slow
- Tahoe SFR pricing \$575-675k, condos \$350-450k
- Inventory healthy – 7 mos. SFR, 10 mos. condos
- If El Nino brings snow maybe a little boomlet?
- Big new developments possible in Martis Valley and Canyon Springs



Lake Tahoe/Truckee

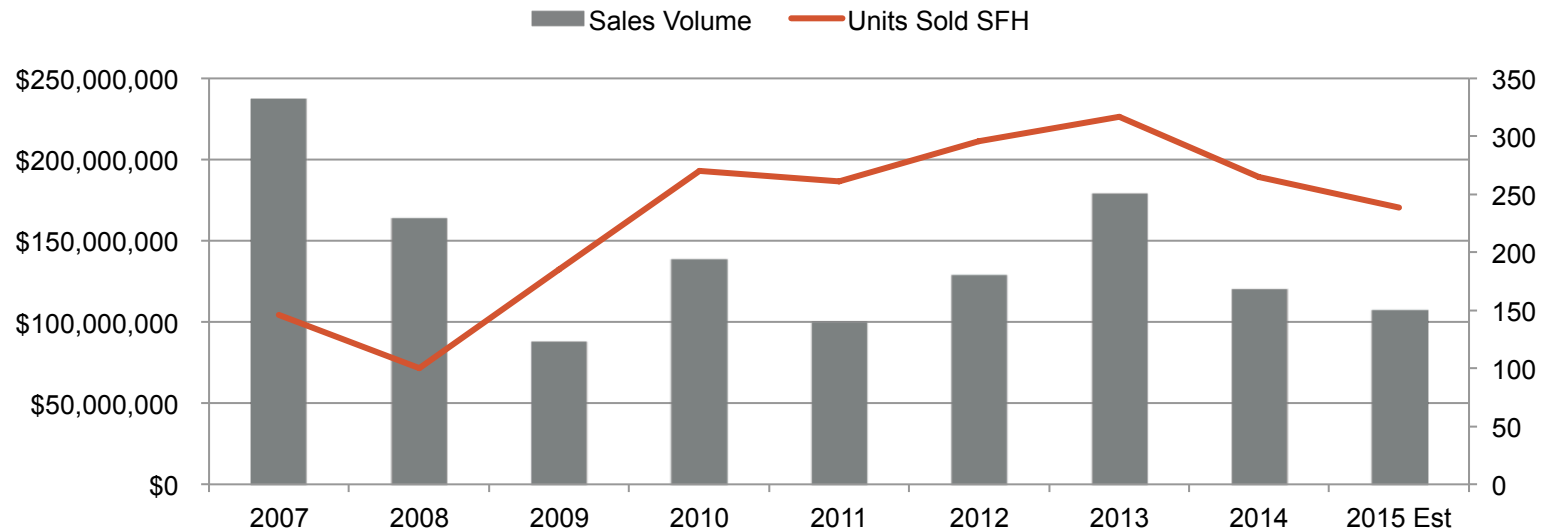
Lake Tahoe/Truckee - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition areas: North Shore, West Shore, Alpine/Squaw Valley, Northstar, Truckee, Tahoe Donner, Lahontan, and Out of Area (Tahoe Sierra MLS).

Lake Tahoe/Truckee

Lake Tahoe/Truckee - Condos Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition areas: North Shore, West Shore, Alpine/Squaw Valley, Northstar, Truckee, Tahoe Donner, Lahontan, and Out of Area (Tahoe Sierra MLS).

Lake Tahoe/Truckee - Key Drivers





Contra Costa County

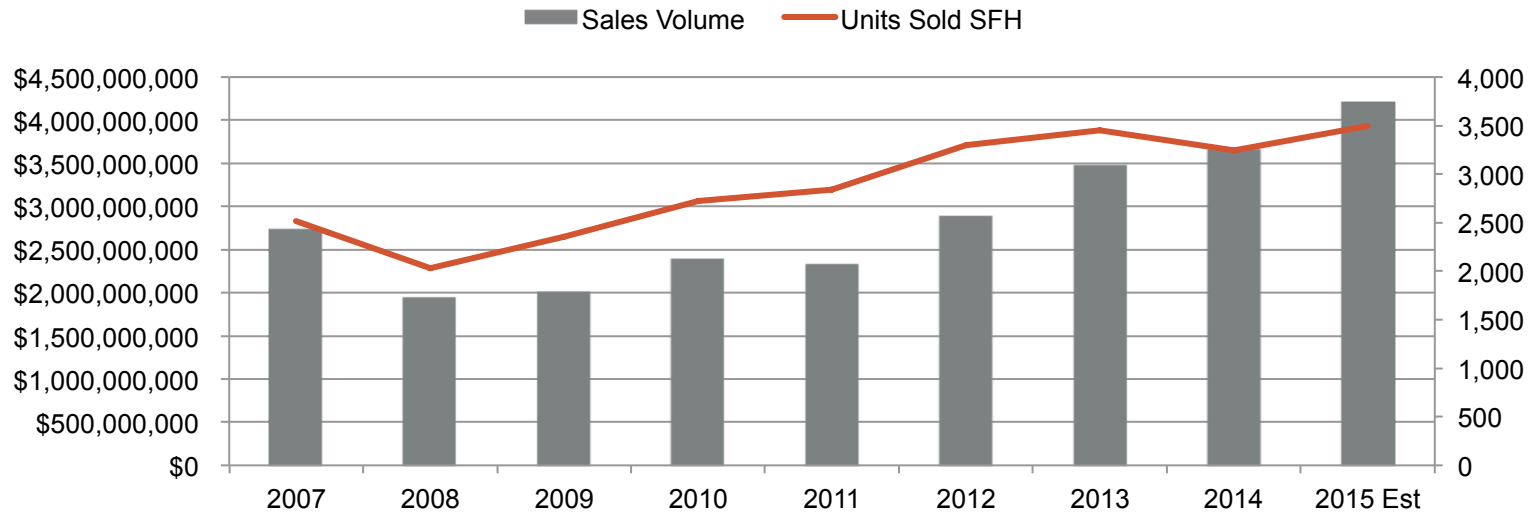
Contra Costa County

- Mostly commuters
- Suburban detached at \$600k median (up 17% YOY)
- Jobs are here but not like Silicon Valley and City
- Strong incomes - \$86k median and still growing
- But finally seeing price resistance
- The word is “normalizing”
- New Highway 4 BART extension
- Open up Oakley?
- Old money likes condos in Lamorinda



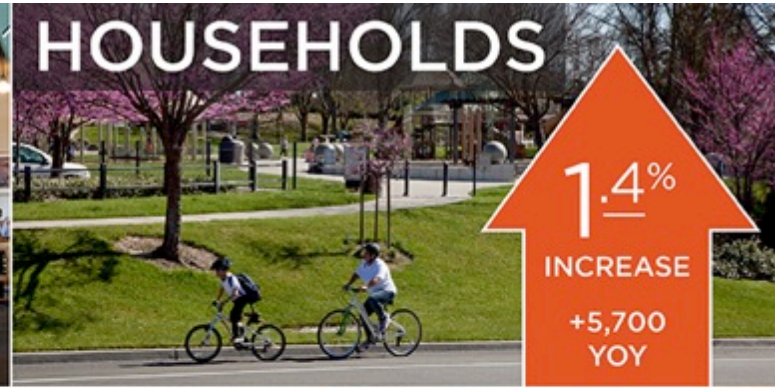
Contra Costa County

Contra Costa County - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition cities: Alamo, Blackhawk, Danville, Diablo, Lafayette, Moraga, Orinda, Pleasant Hill, San Ramon, and Walnut Creek.

Contra Costa County - Key Drivers





Alameda County



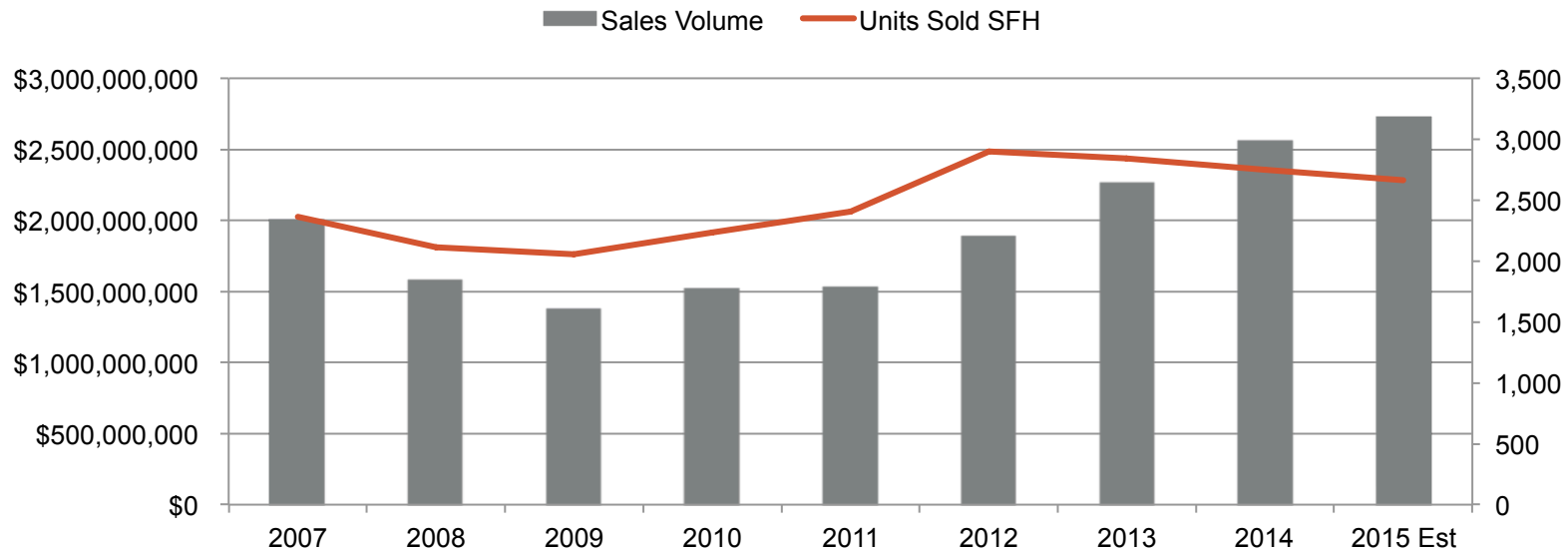
Alameda County

- More affordable, more commuters
- Jobs solid, but again not Silicon Valley
- Incomes great – median \$79k and rising +/- 4% annually ahead
- Resale prices way up – 27% in 2014 and 10% YOY
- Did I mention “normalizing”?
- Oakland the new hotspot
- Also the southwest – Fremont, etc.
- Dublin more supply too – Wallis Ranch, Dublin Crossing



Alameda County

Alameda County - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition cities and ZIPs: Alameda, Albany, Berkeley, El Cerrito, Kensington, Piedmont, and Oakland ZIP codes 94602, 94609, 94610, 94611, 94618, 94619, and 94705.

Alameda County - Key Drivers





Marin County



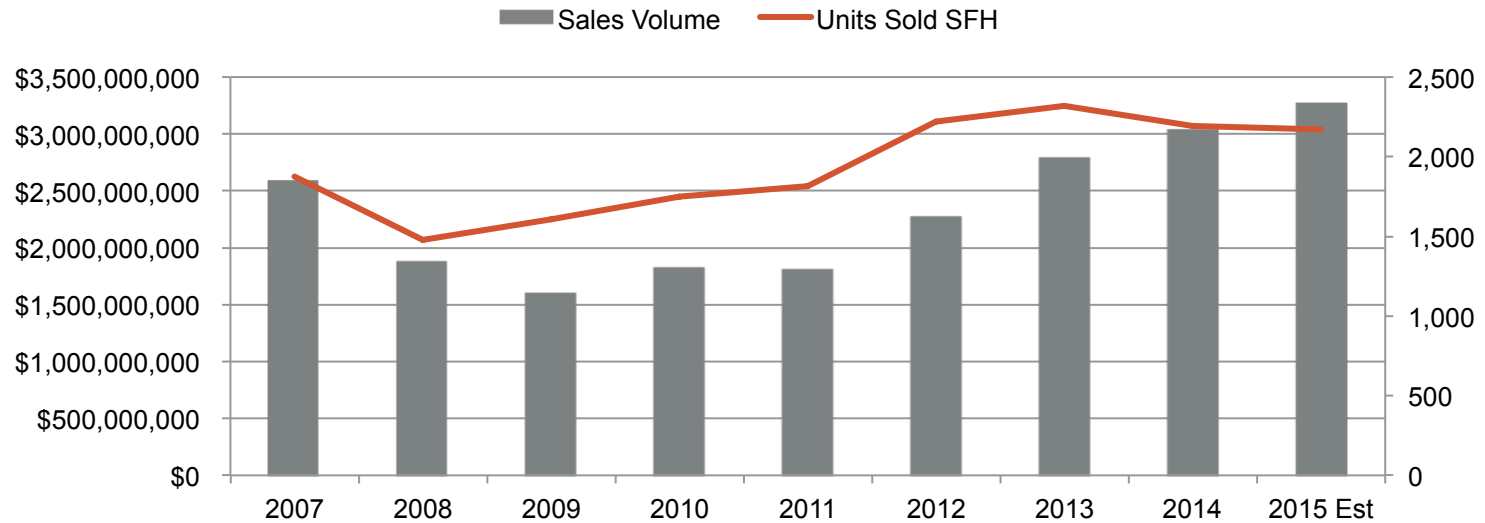
Marin County

- Rich if not famous –\$105k and will pass \$120k in 2018
- You work in the city or you own something
- Anti-growth = no new homes
- And equals median resale price at \$963k
- Resale price + 30% 2012-2014, but flat YOY and will also slow here
- Many buyers – especially younger – priced out
- Will tech be moving north?



Marin County

Marin County - SFH Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition cities: Belvedere, Corte Madera, Fairfax, Greenbrae, Kentfield, Larkspur, Mill Valley, Novato, Ross, San Anselmo, San Rafael, Sausalito, and Tiburon.

Marin County - Key Drivers





The Peninsula



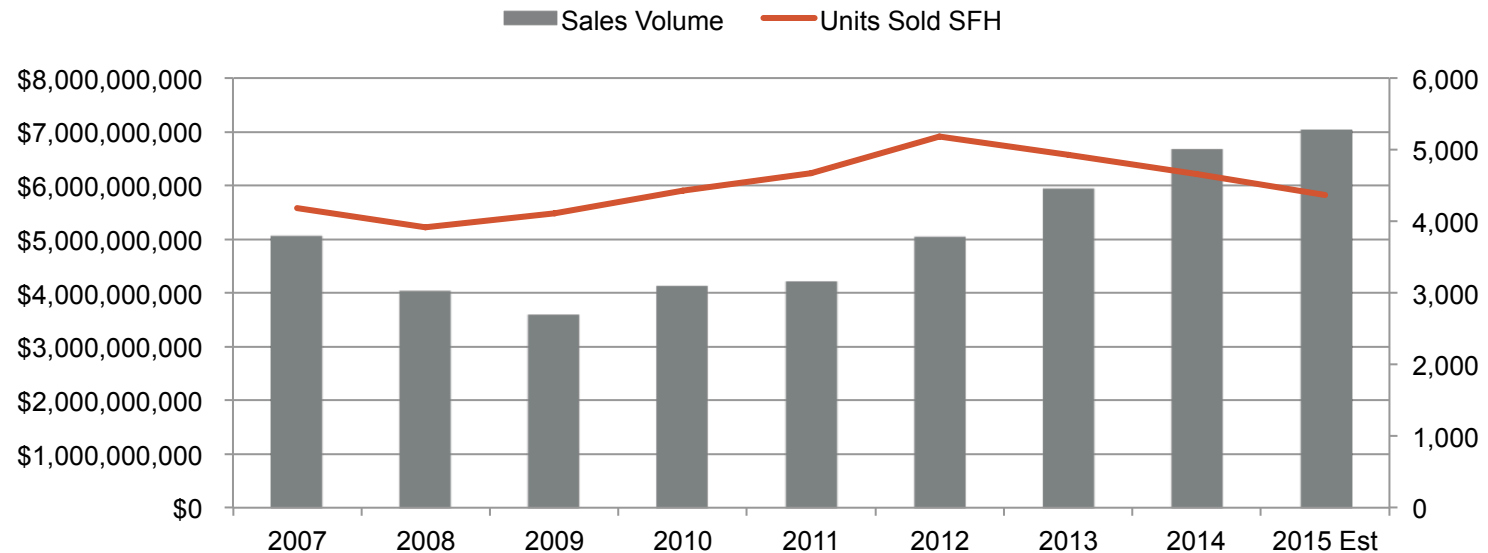
San Mateo County

- “Surban” paradise
- Split commuters between 2 massive jobs nodes
- Affluent and working - \$98k income, 3.1% unemployment
- Jobs will slow
- Pricey (\$1.1M+ new median) but prices will slow too
- So an exporter of demand
- \$1M homes in DC, Bay Meadows filling out – what’s next?

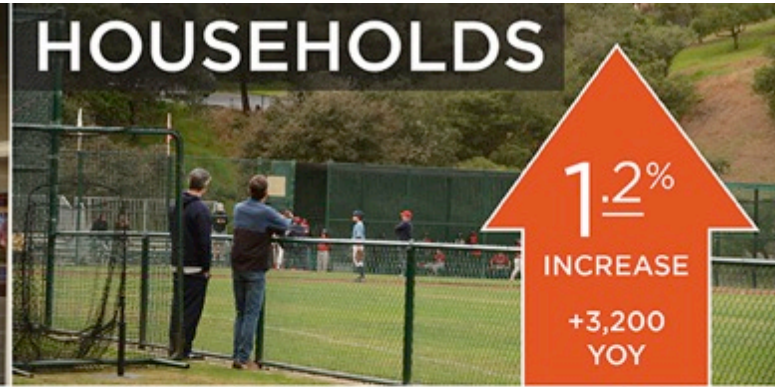


San Mateo County

San Mateo County - SFH Sales Volume and Units Sold



San Mateo County - Key Drivers



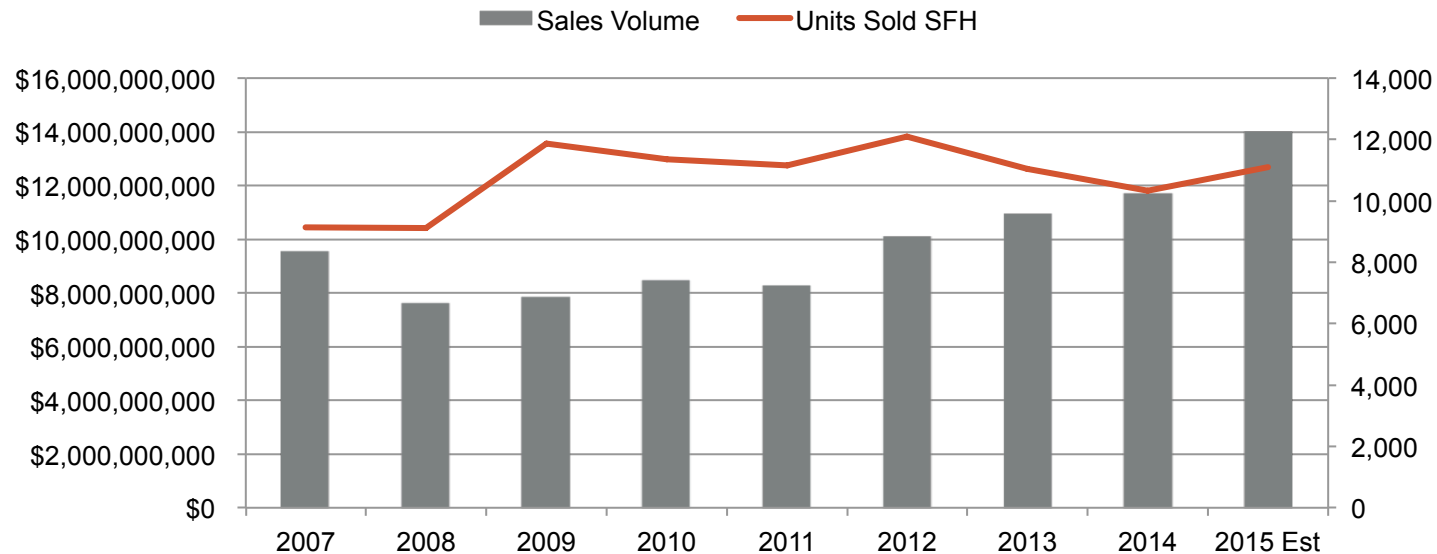
Santa Clara County (Silicon Valley)

- Still booming tech and rising prices
- Added over 55,000 jobs YOY, but...
- Income \$101k and to \$123k by 2018
- Resale median up 17%, new median over \$800k
- So \$750k townhomes in Milpitas or \$800k small lot homes in Gilroy
- Or you go live in Dublin or Tracy or Manteca
- But price growth will slow
- Even Silicon Valley not bulletproof
- Normalizing?



Santa Clara County

Santa Clara County - SFH Sales Volume and Units Sold



Santa Clara County - Key Drivers





San Francisco



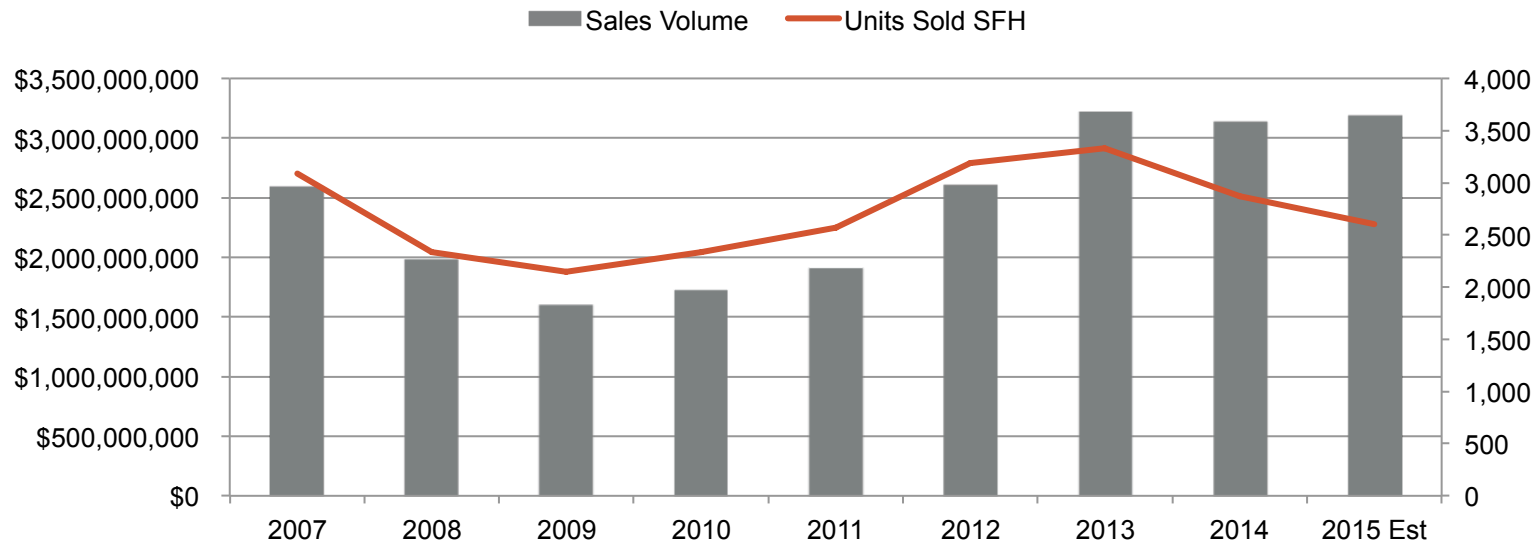
San Francisco County

- Plenty of foreign buyers, but most not
- Surging tech & software
- Millennials want to be here even if can't afford it
- Median income of \$83k and rising 5+% / year
- Avg rent \$3,000+, nearly double avg in 2004
- So you live somewhere else
- Supply finally here with 14-15 condo buildings & more apts
- And more on the way: 1,300 condos & 4,000 apartments being built, thousands more in pipeline
- Normalizing



San Francisco

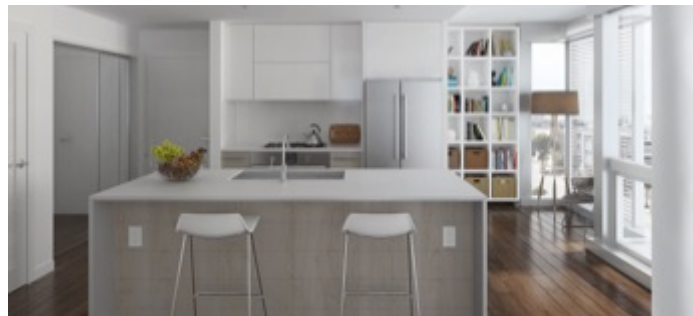
San Francisco - Condos Sales Volume and Units Sold



Source: Terradatum/BrokerMetrics®, November 12, 2015. Definition: San Francisco County.



181 Fremont



Fulton 555

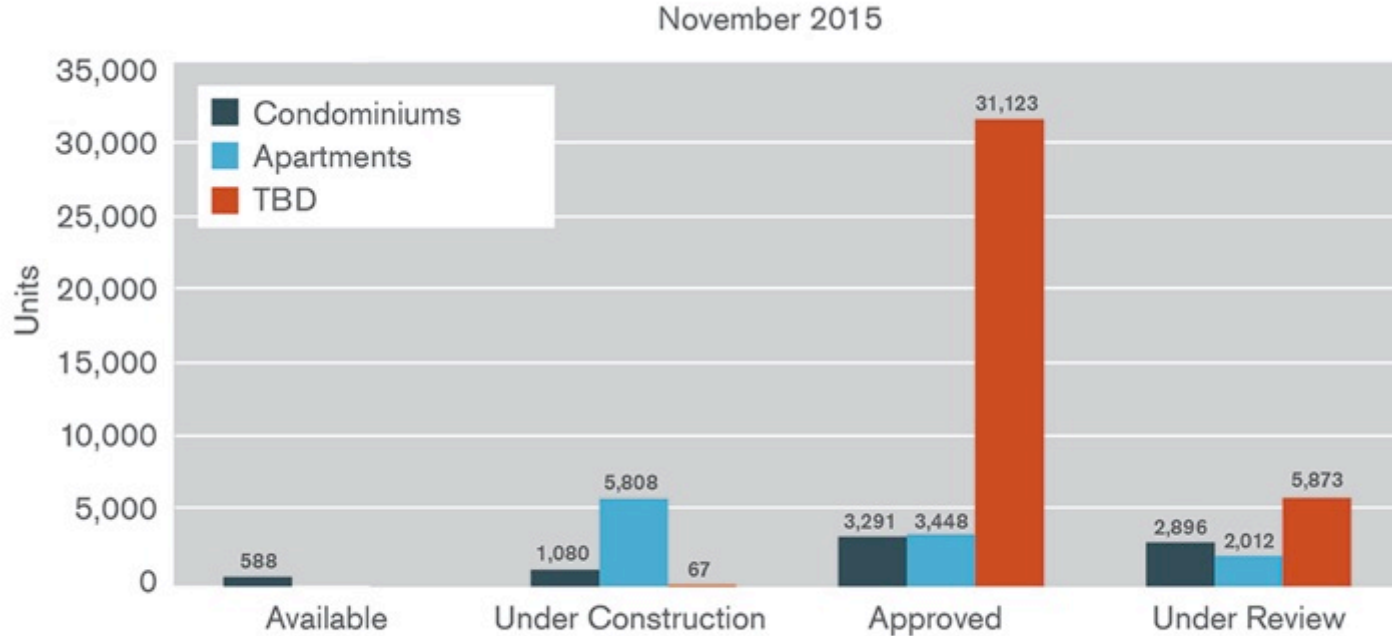


The Harrison



450 Hayes

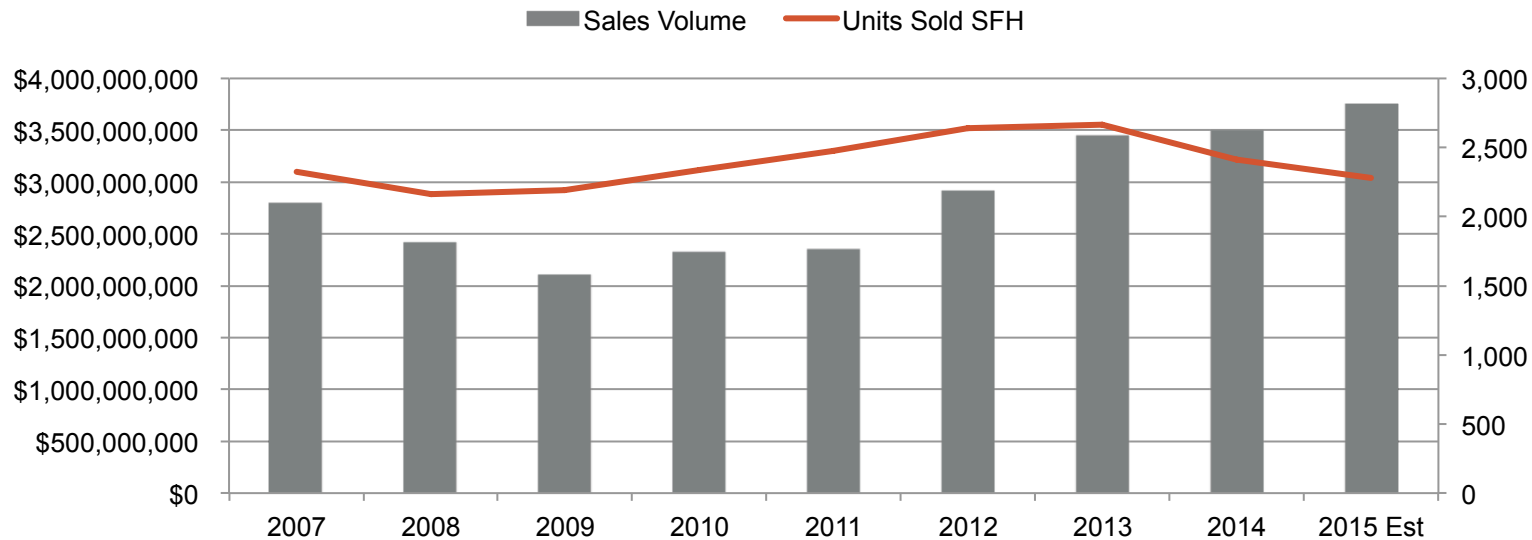
San Francisco Pipeline



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San Francisco

San Francisco County - SFH Sales Volume and Units Sold



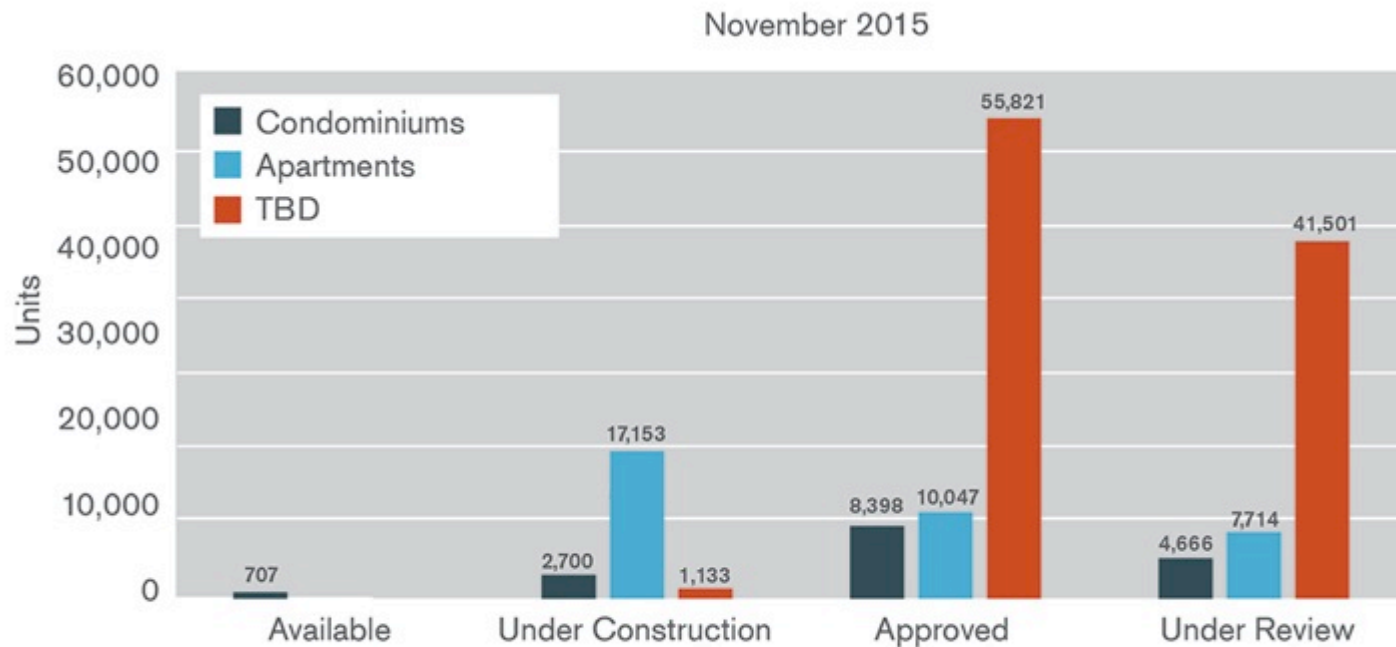
San Francisco County - Key Drivers



Bay Area Similarities

Bay Area Pipeline

San Francisco, Oakland, Emeryville, Santa Clara County, San Mateo County

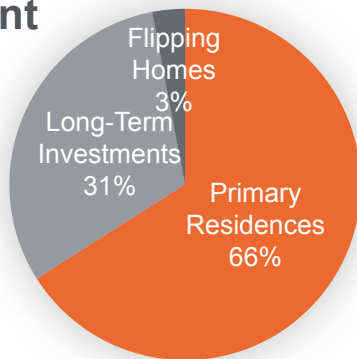


© 2015 The Mark Company. All rights reserved. Includes condominium developments with 20+ units currently under development in San Francisco, Oakland, Emeryville, Santa Clara County and San Mateo County.

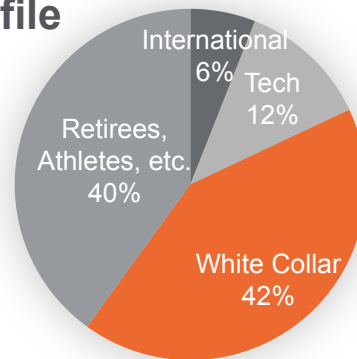
Pacific Union 350 Buy Side Deals – All Cash

February – June 2015

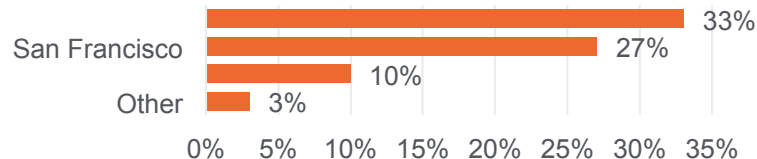
Buyer Intent



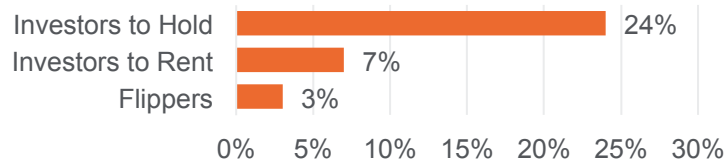
Buyer Profile



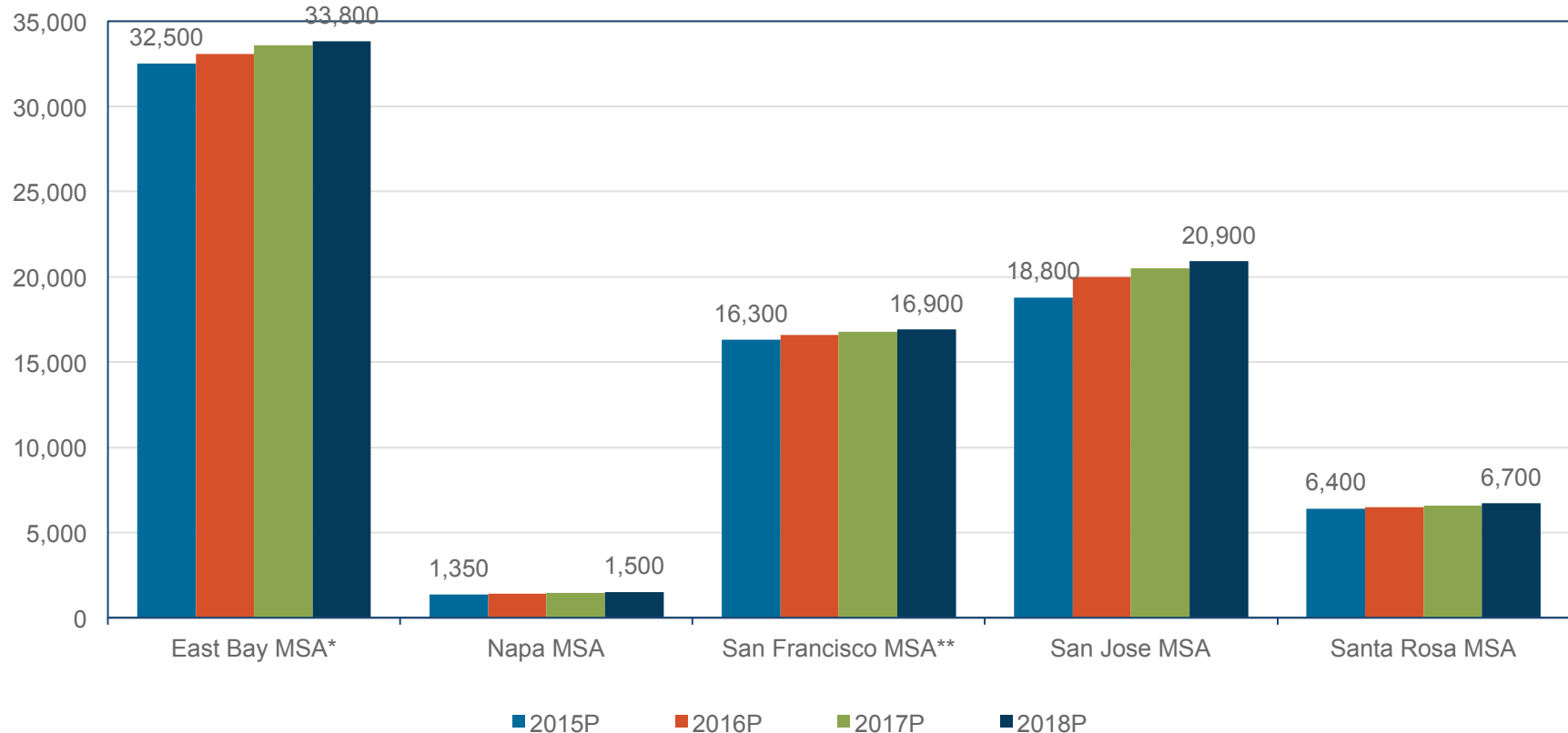
% of Cash Buyers from Tech Industry



Long-Term Investor Profile



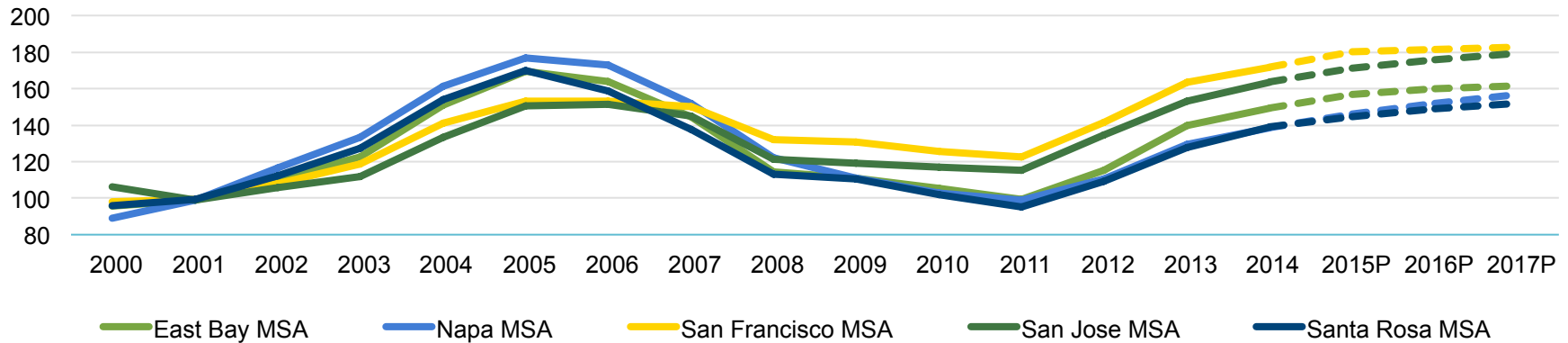
Existing Homes Sales Projections



How We Did Last Year?

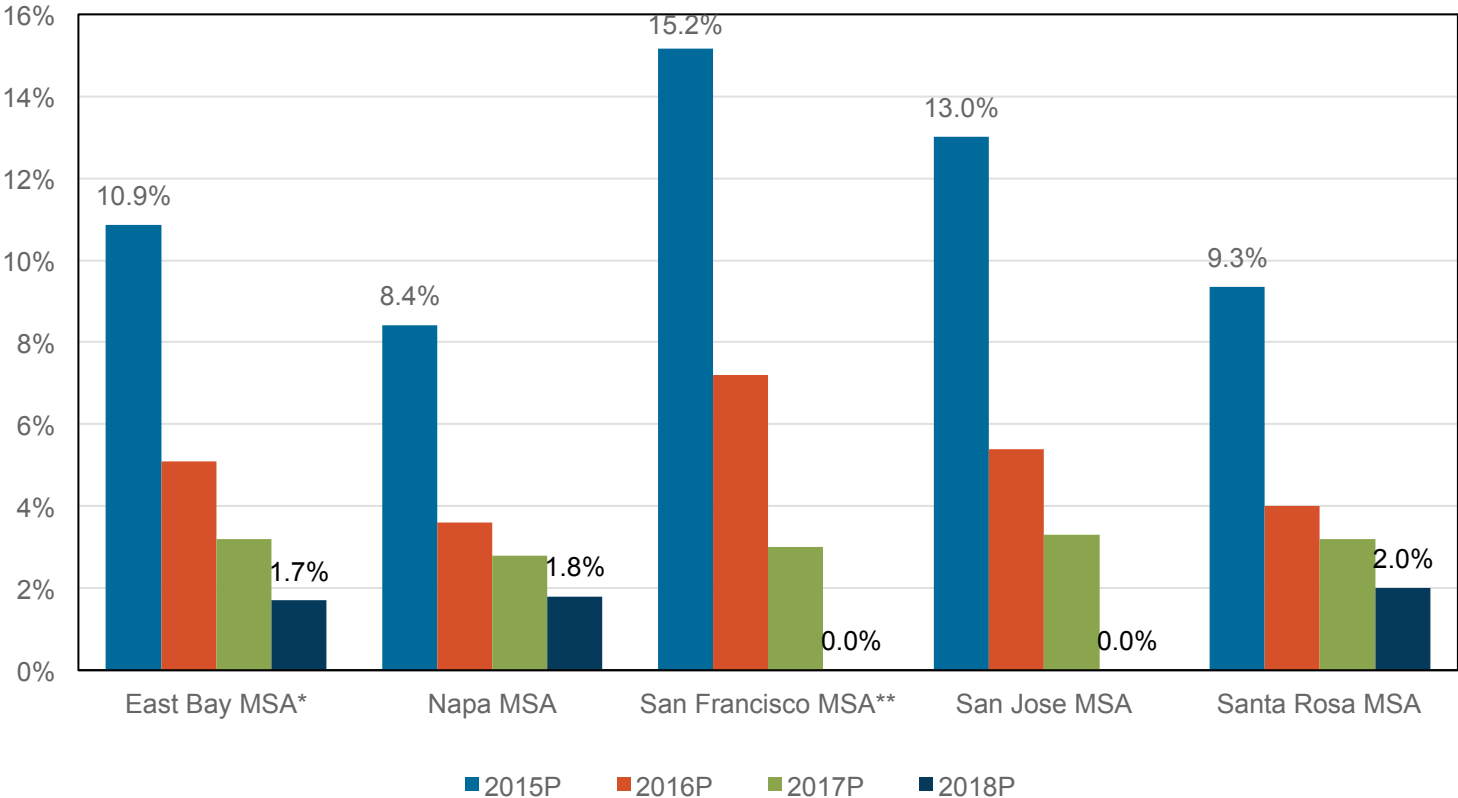
JBREC Burns Home Value Index

Burns Home Value Index



BHVI Projections					
	2015 BHVI Projection Last Year	2015 BHVI Projection Near Year End	Difference	% Difference	
East Bay MSA	156.88	169.60	12.72	8.1%	
Napa MSA	146.13	153.60	7.47	5.1%	
San Francisco MSA	180.28	207.60	27.32	15.2%	
San Jose MSA	171.27	189.90	18.63	10.9%	
Santa Rosa MSA	144.68	152.40	7.72	5.3%	

JBREC Burns Home Value Index



Q & A

Conclusions

Normalization



Square

November 19th IPO

Valuation:

IPO @ \$4.2B

December '14 @ \$6B







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