



City of Merced

Builders Forum

Presented by:
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Coldwell Banker Gonella Realty

OVERVIEW



Mortgage Rates & Housing Finance

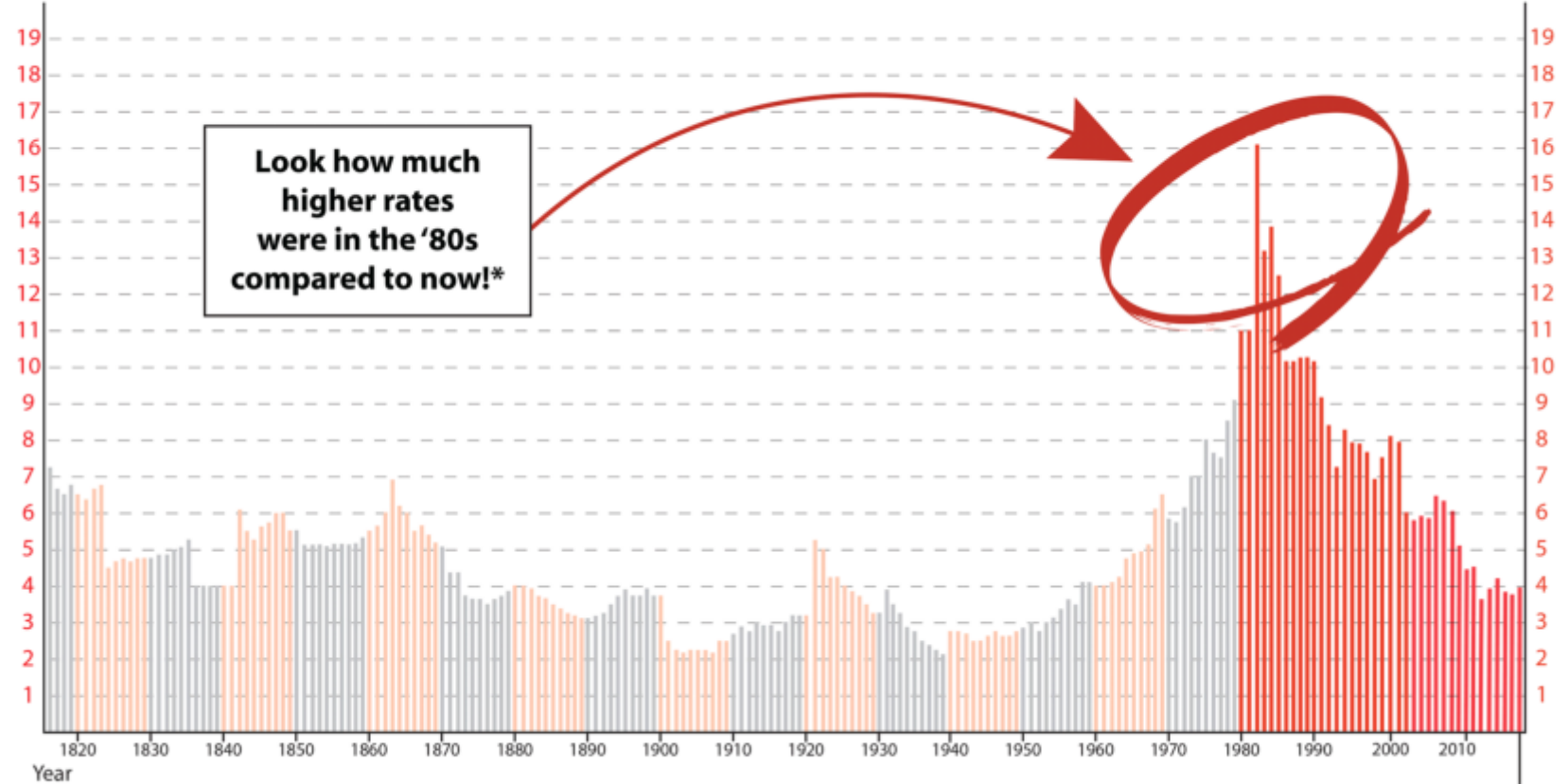
Mortgage Rates*

- 30 Year FHA – 3.75%
- 30 Year Conventional – 4.125%
- 15 Year Conventional – 3.690%

* All Figures as of 07/01/2019

200 Year Historical Interest Rate Chart

Interest Rate



*Source: Freddie Mac (Based on information obtained from Freddie Mac on January 10, 2018.)

2017
3.99%
(Thu 4th Qtr)



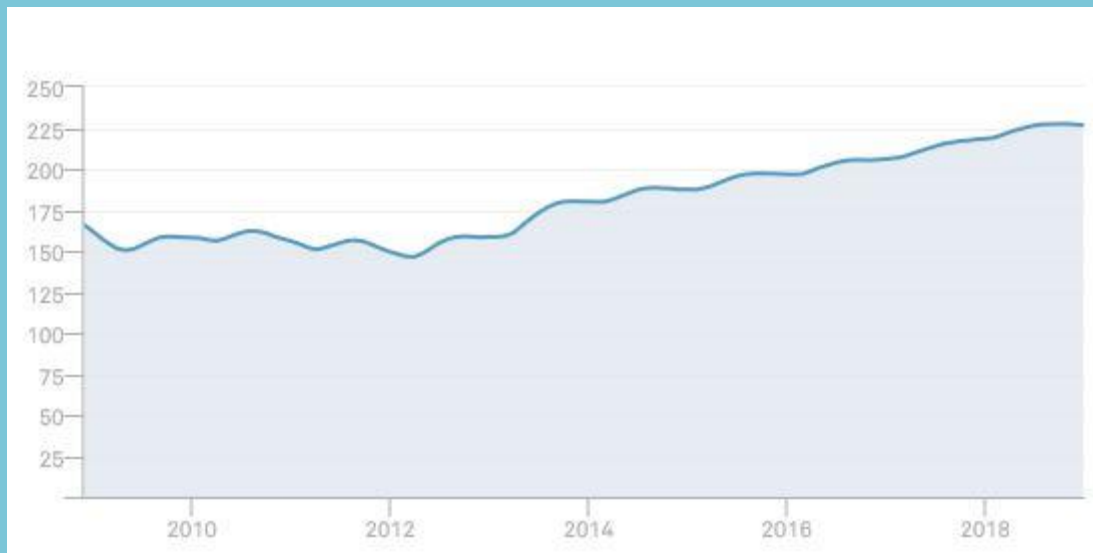
Fed Keeps Rates Unchanged; Signals No More Increases Likely This Year

The Federal Reserve held its benchmark interest rate steady and a majority of officials signaled they might not raise the rate at all this year.

National Housing Market

Housing Price Gains Eased Last Year

- **Annual Gains Fall to 4.7% to End 2018 according to S&P CoreLogic Case-Shiller Index.**
- **That was a significant slowdown from more than 6% in 2017.**
- **Index's worst yearly performance since 2014.**
- **Higher mortgage rates, political uncertainty, stock market turbulence and growing frustration over a lack of starter home inventory caused many buyers to pause.**



Supply & Demand

All trend lines are from **December 2017** to **December 2018**.



EXISTING-HOME SALES Seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.

INVENTORY Number of existing homes on the market at the end of the month.

PRICE National median.

Offers Slowing

Real estate professionals are seeing incrementally fewer offers on their listings over the past few months. This is good for buyers who are generally facing less competition. Lack of affordability and weakening consumer confidence are likely factors behind the decline.

Average number of offers



Source: NAR Research

- ❖ Nationally the housing Market has softened.
- ❖ Inventories which have been tight for years, are starting to rise.
- ❖ Inflation threat is receding. The Fed will most likely not raise rates in 2019.
- ❖ Wild Card
 - The limit on mortgage and property tax deductions.
 - 95% of homeowners nationally will be able to fully deduct their property taxes.
 - Others will not and this makes home ownership more costly.
 - Wait and see if this becomes an issue.

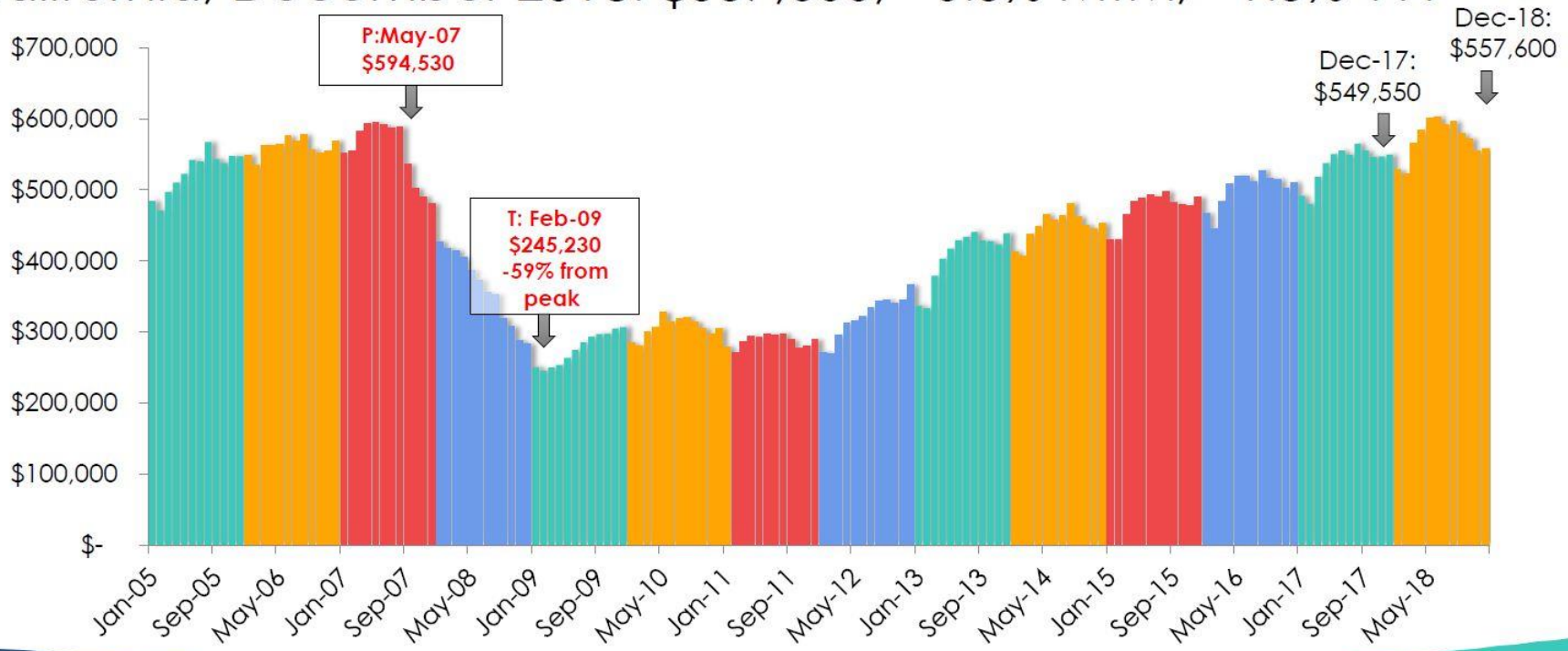


California Housing Market Outlook



Home Prices Continued to Grow but at a Very Modest Pace

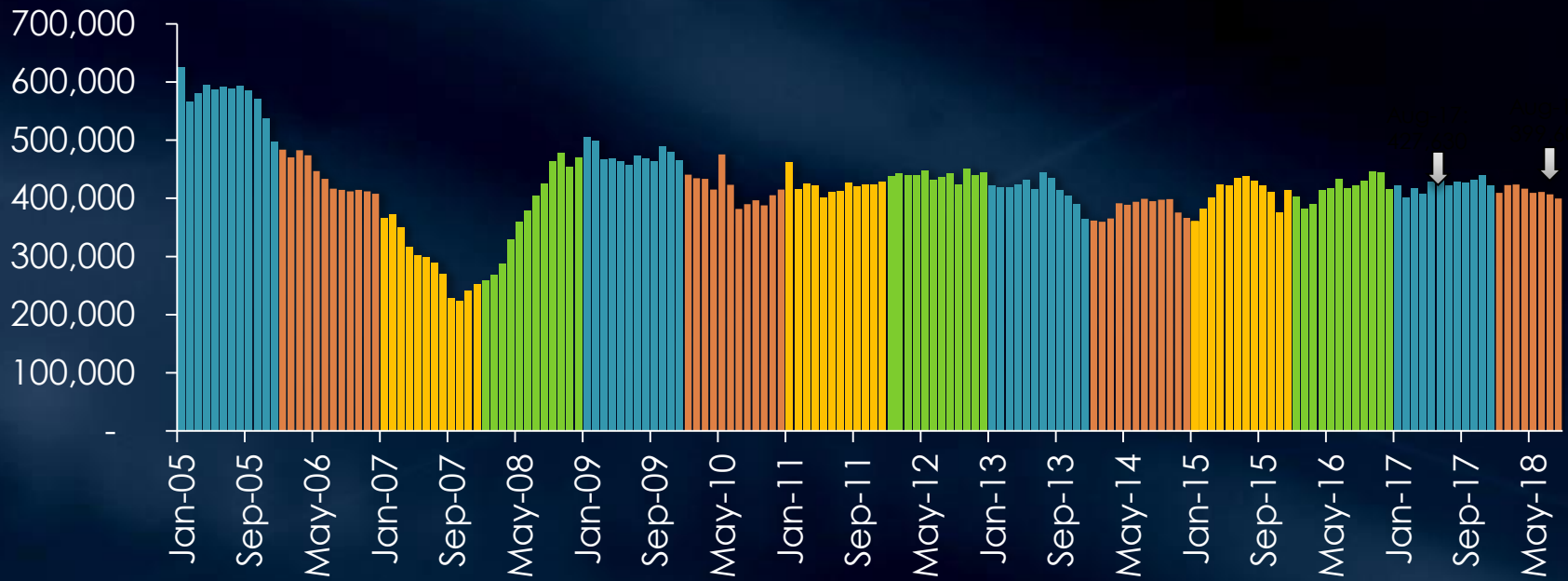
California, December 2018: \$557,600, +0.5% MTM, +1.5% YTY



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Market Off 2.1% YTD – 4 Months of YTY Declines

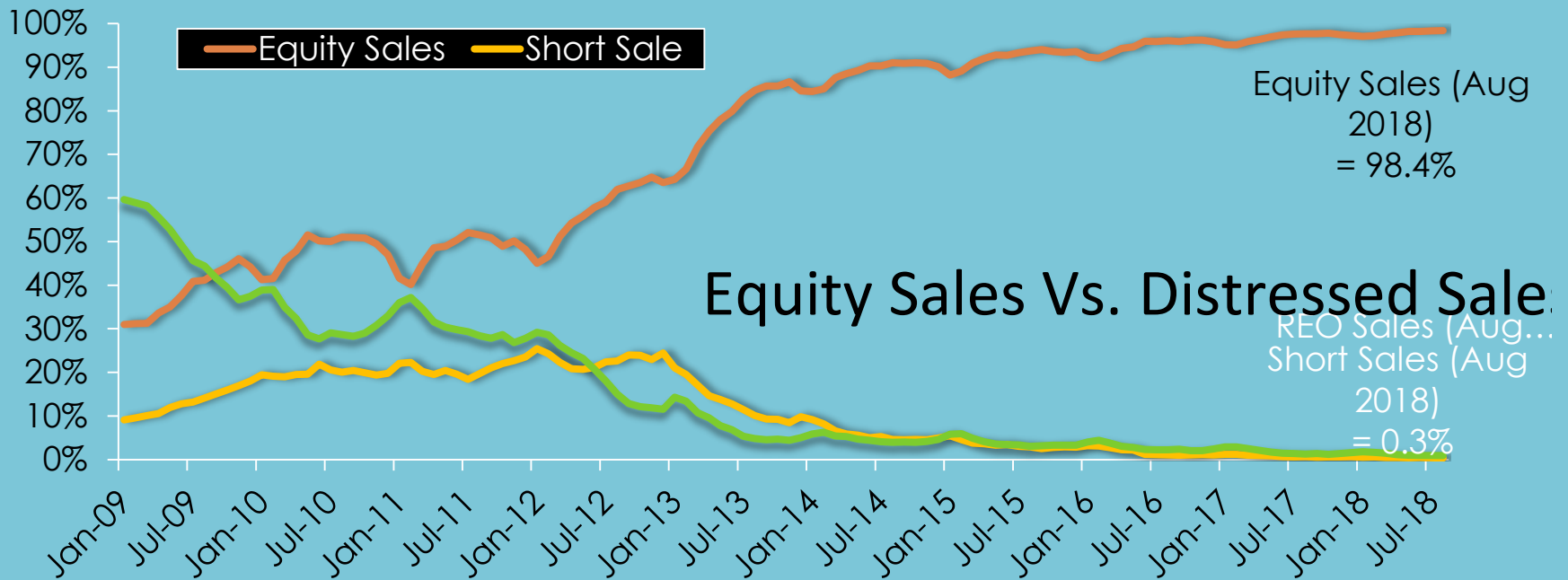
California, August 2018 Sales: 399,600 Units, -2.1% YTD, -6.6% YTY



SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

The CA Housing Market Recovery



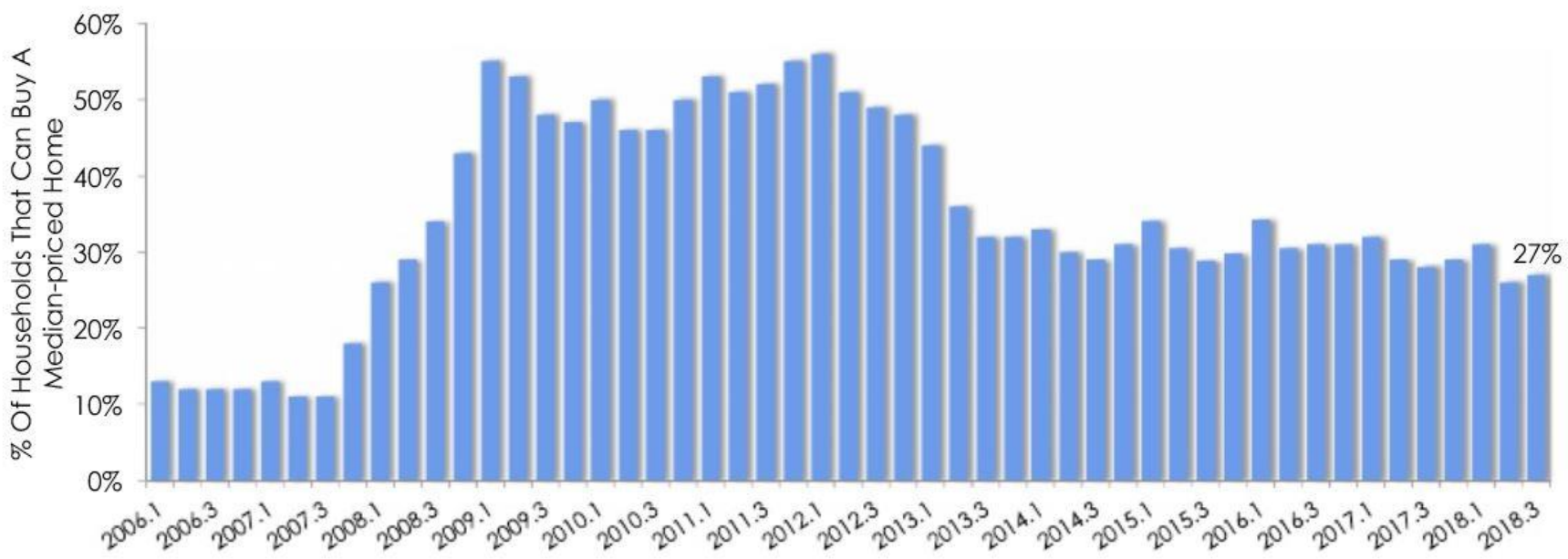
Note: Not including transactions in foreclosure.

SERIES: Distressed Sales, Not Seasonally Adjusted
 SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



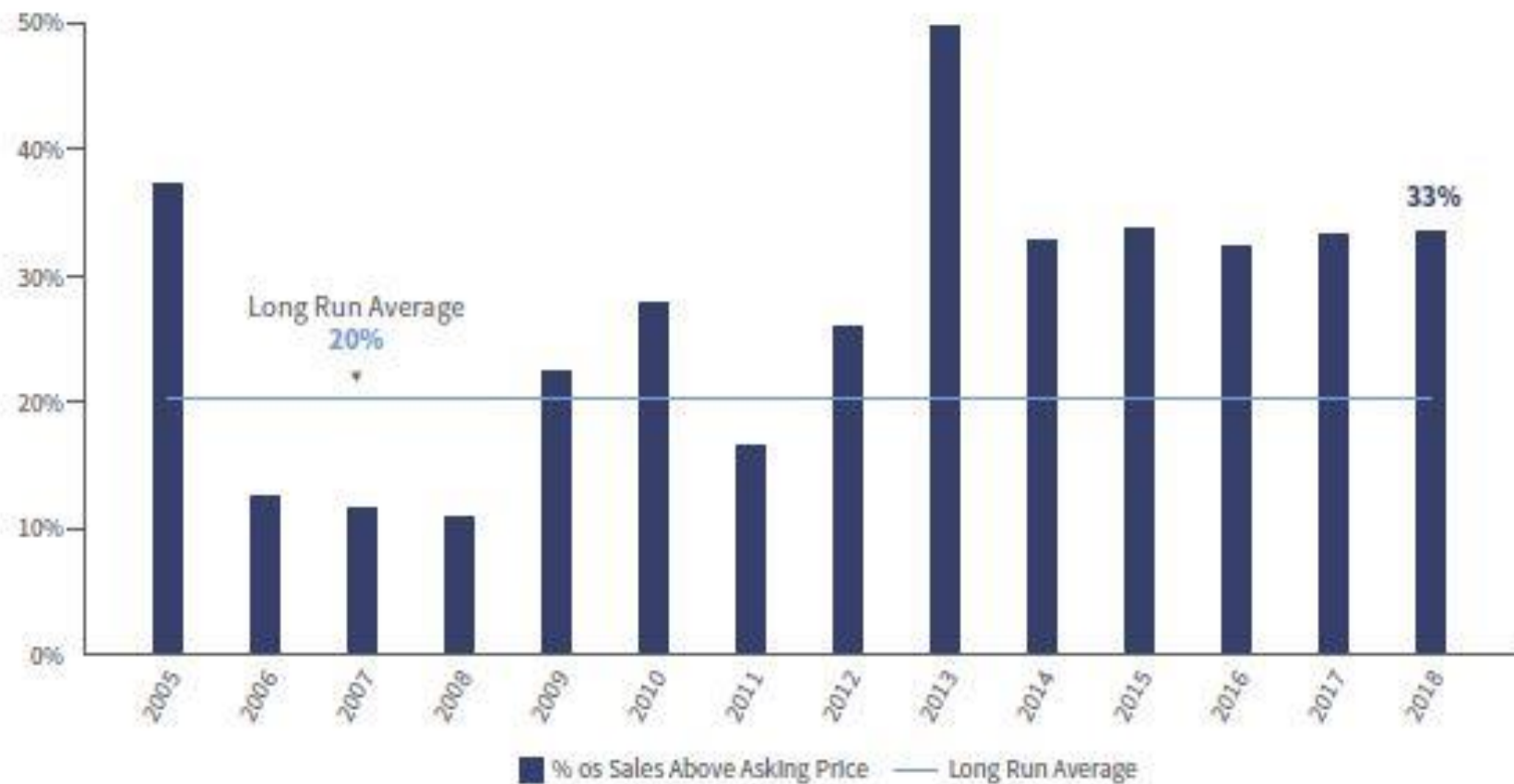
Housing Affordability – Traditional Index

California: 2006-2018



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

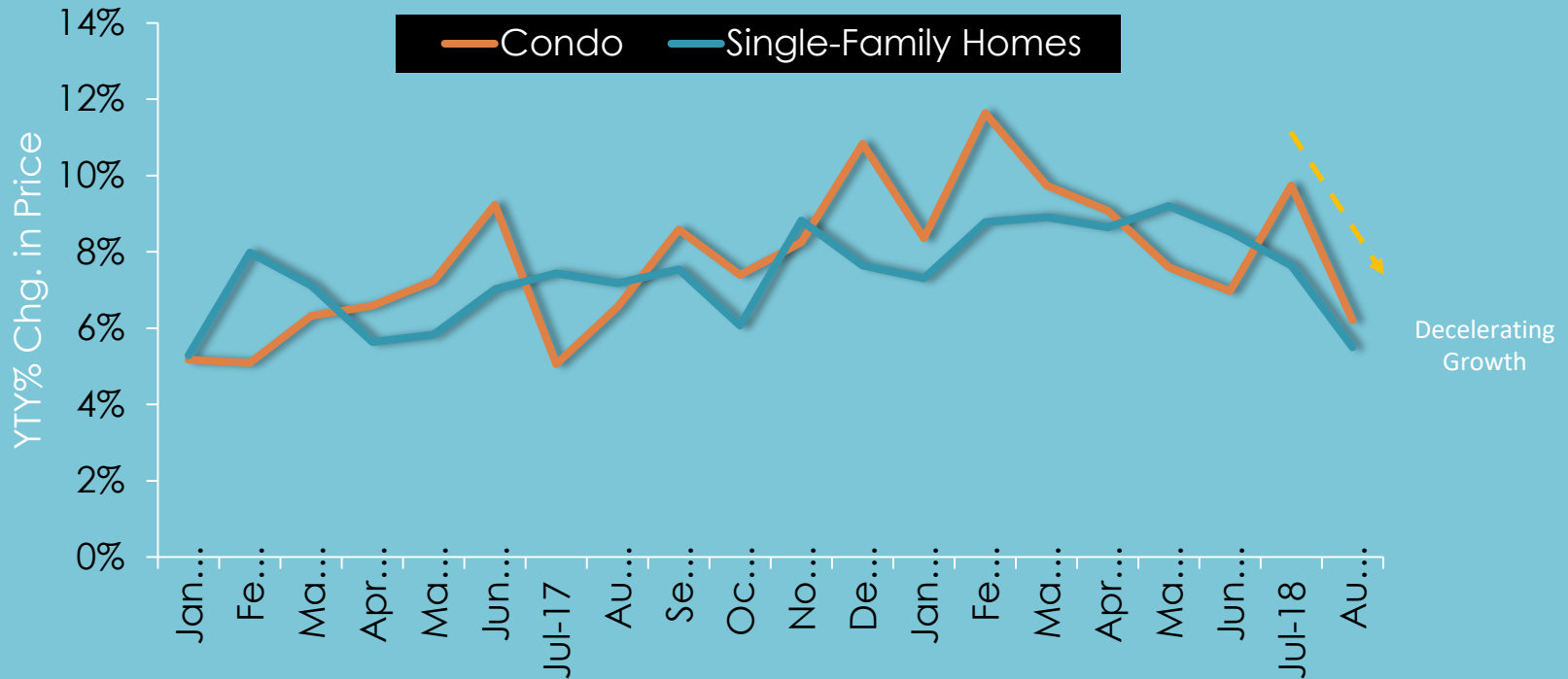
% of Sales with Sold Price Above Asking Price



% of Sales with Multiple Offers & Average # of Offers



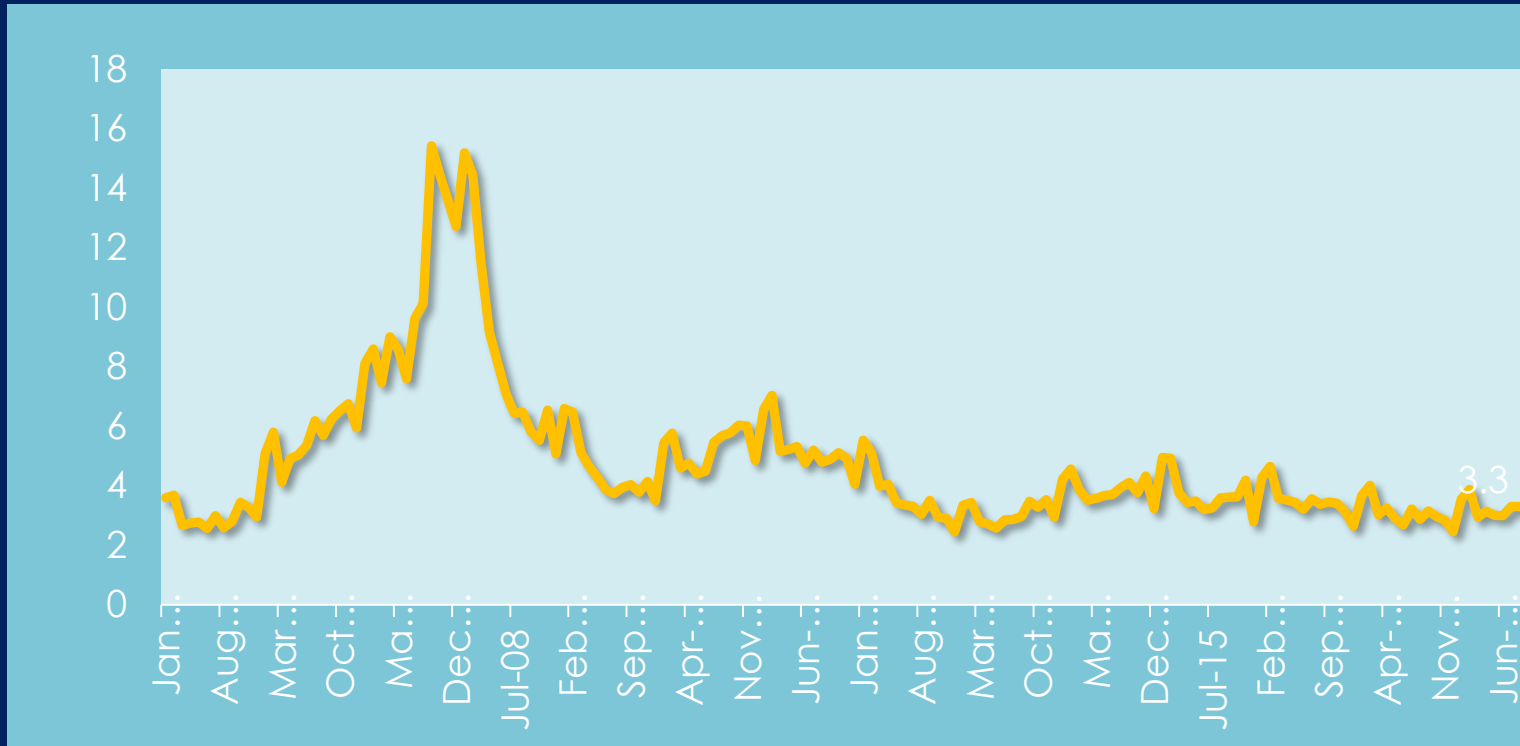
Price Gains Slowing Across the State



SERIES: Median Price of Existing Condo/Townhomes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

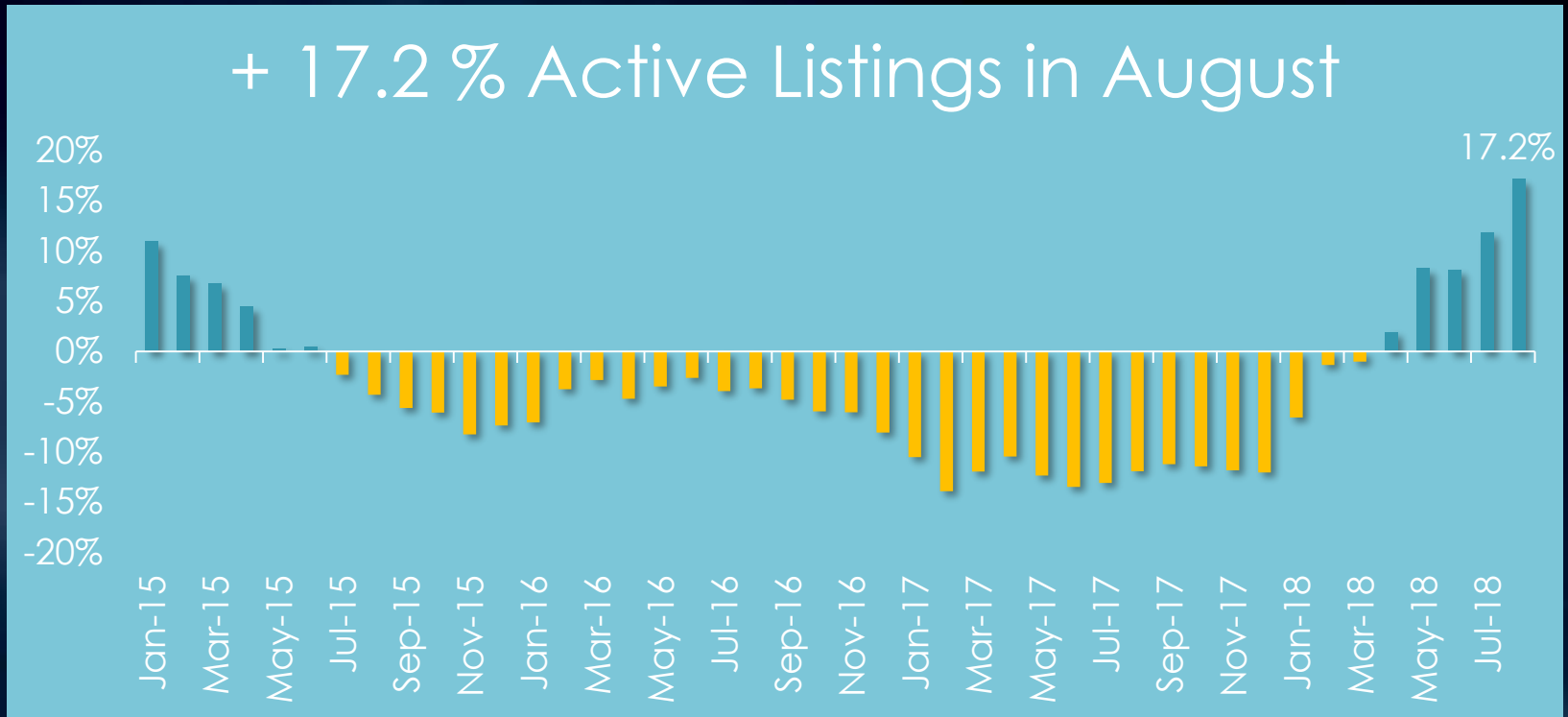
Market Shift

Inventory is Growing



SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

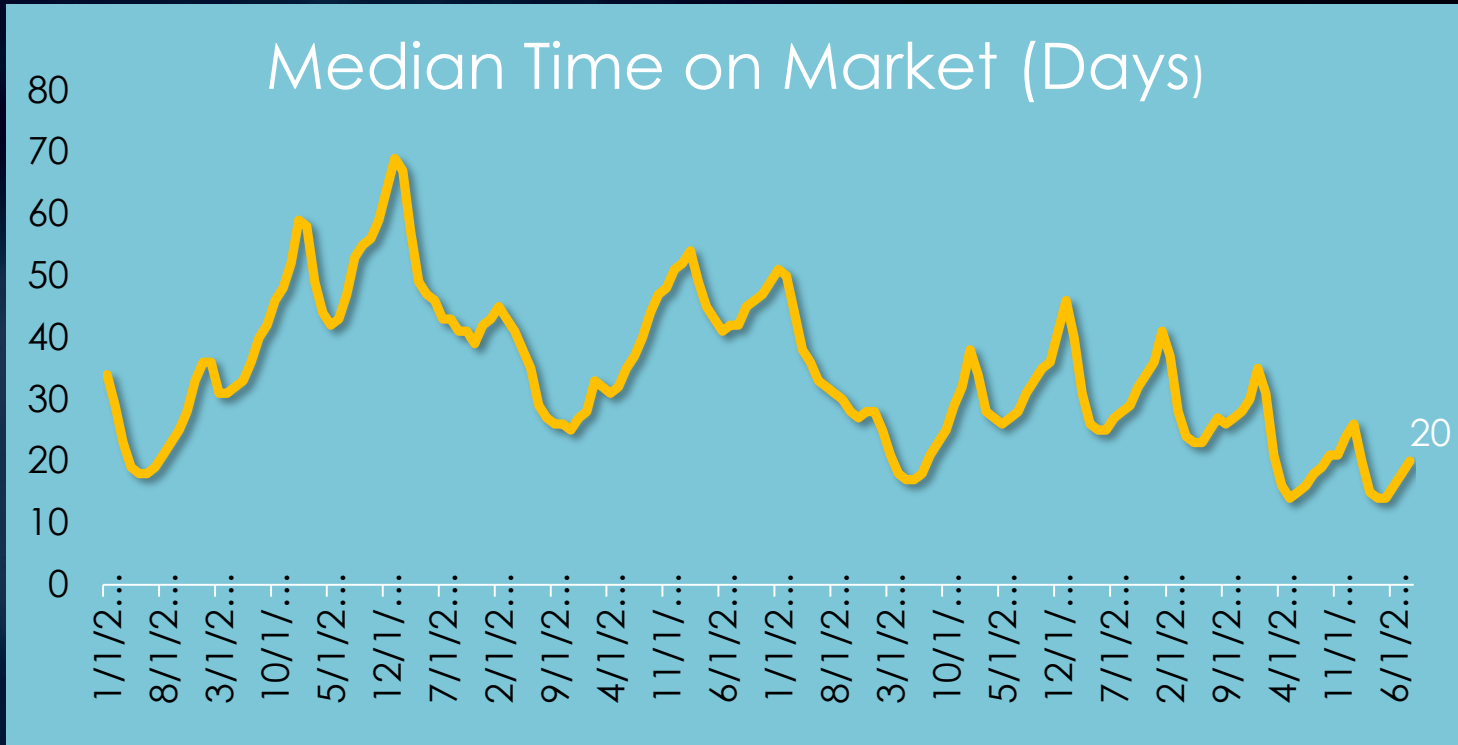
Shift Started in January 2018; Tipped in April



SERIES: Growth in Active Listings

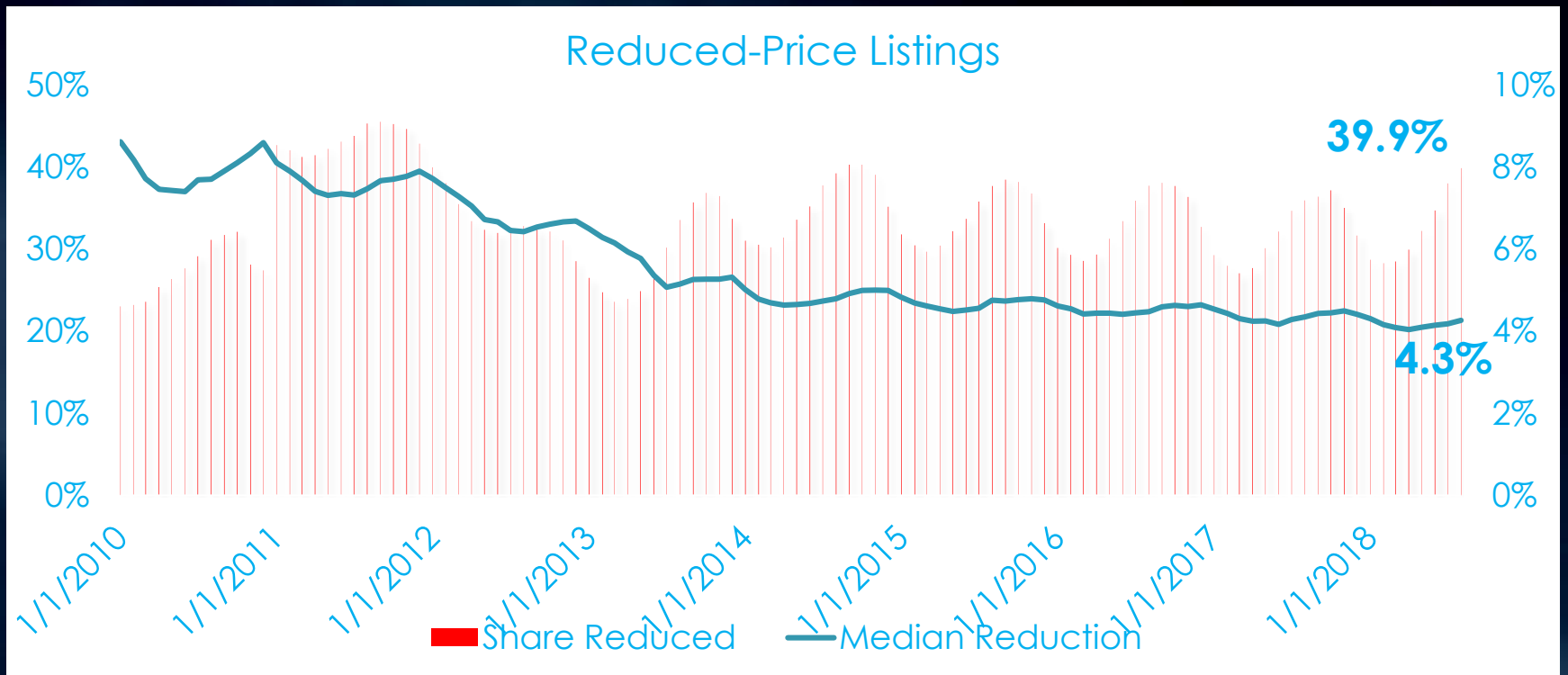
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Listings Taking Longer to Sell



SERIES: Median Time of Market of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

More Listings With Price Reductions



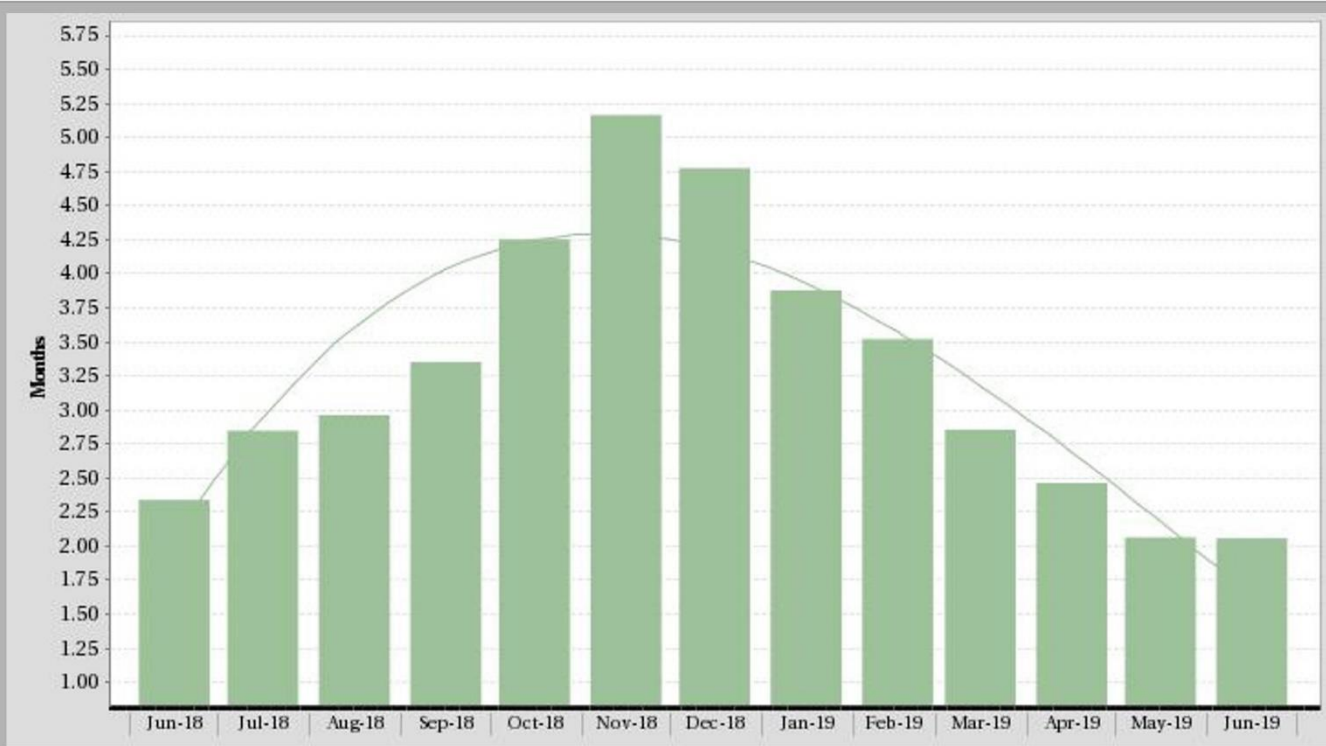
Central Valley Data

Central Valley: Median Sold Price of Existing SFH

Central Valley	Oct-18	Sep-18		Oct-17		Price MTM% Chg	Price YTY% Chg	Sales MTM% Chg	Sales YTY% Chg
Fresno	\$272,000	\$267,000		\$254,950		1.9%	6.7%	8.4%	-6.5%
Glenn	\$253,000	\$227,500		\$215,000		11.2%	17.7%	-33.3%	6.7%
Kern	\$240,000	\$241,000		\$229,500		-0.4%	4.6%	16.9%	8.5%
Kings	\$229,000	\$239,950		\$213,500		-4.6%	7.3%	-3.3%	6.1%
Madera	\$254,950	\$282,500		\$251,980		-9.8%	1.2%	6.8%	2.2%
Merced	\$271,854	\$280,000		\$250,000		-2.9%	8.7%	16.2%	-1.5%
Placer	\$470,000	\$475,000		\$455,000		-1.1%	3.3%	1.2%	-18.9%
Sacramento	\$360,000	\$372,000		\$349,900		-3.2%	2.9%	9.4%	-3.1%
San Benito	\$597,000	\$562,000		\$545,000		6.2%	9.5%	21.1%	-9.8%
San Joaquin	\$369,200	\$360,000		\$340,000		2.6%	8.6%	20.4%	-5.7%
Stanislaus	\$319,000	\$315,000		\$295,000		1.3%	8.1%	5.2%	-5.1%
Tulare	\$232,000	\$240,000		\$225,000		-3.3%	3.1%	28.4%	16.3%

Local Market Information

Months Supply of Inventory

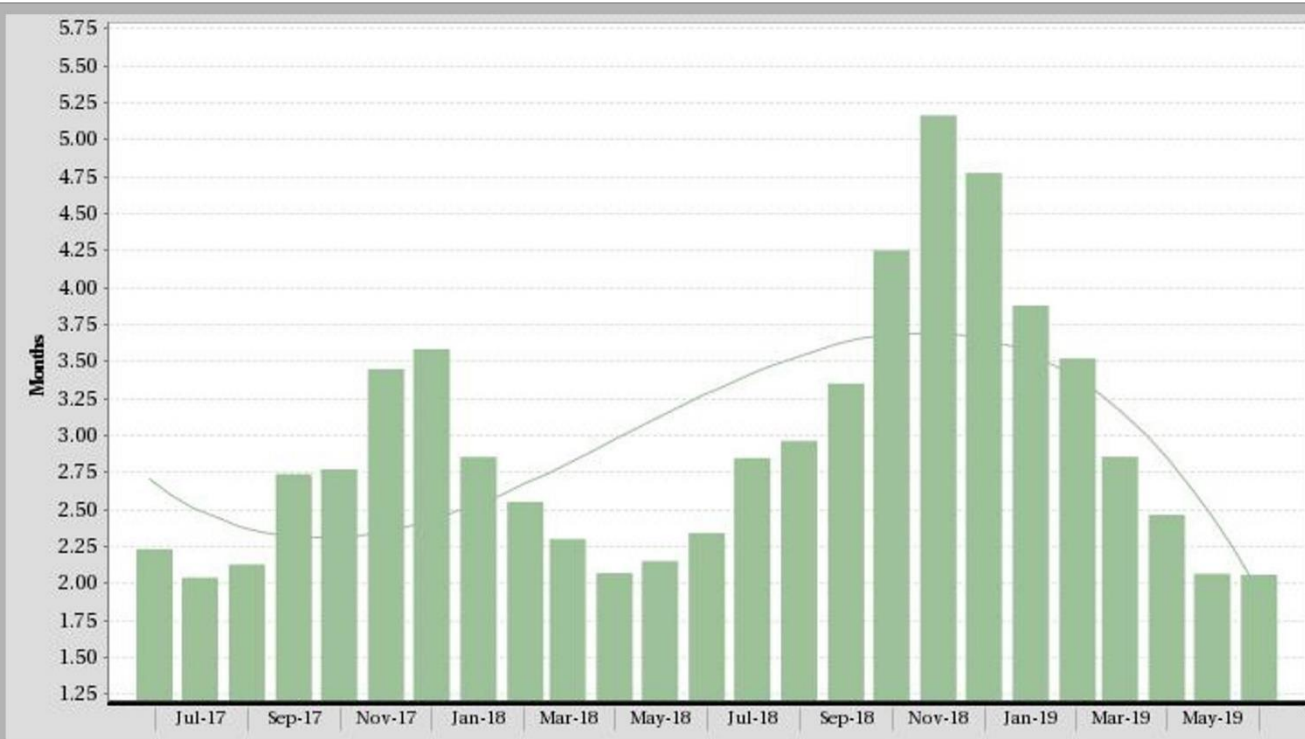


Jun-2018	Jun-2019	Change	%
2.3	2.1	-0.3	-12.0

Calculation of the percent change is not applicable

Property Types: : Residential
Counties: Merced
MLS: CRMLS **Price:** All
Period: 1 Year Monthly **Bedrooms:** All
Construction Type: All **Bathrooms:** All
SqFt: All
Lot Size: All Square Footage

Months Supply of Inventory

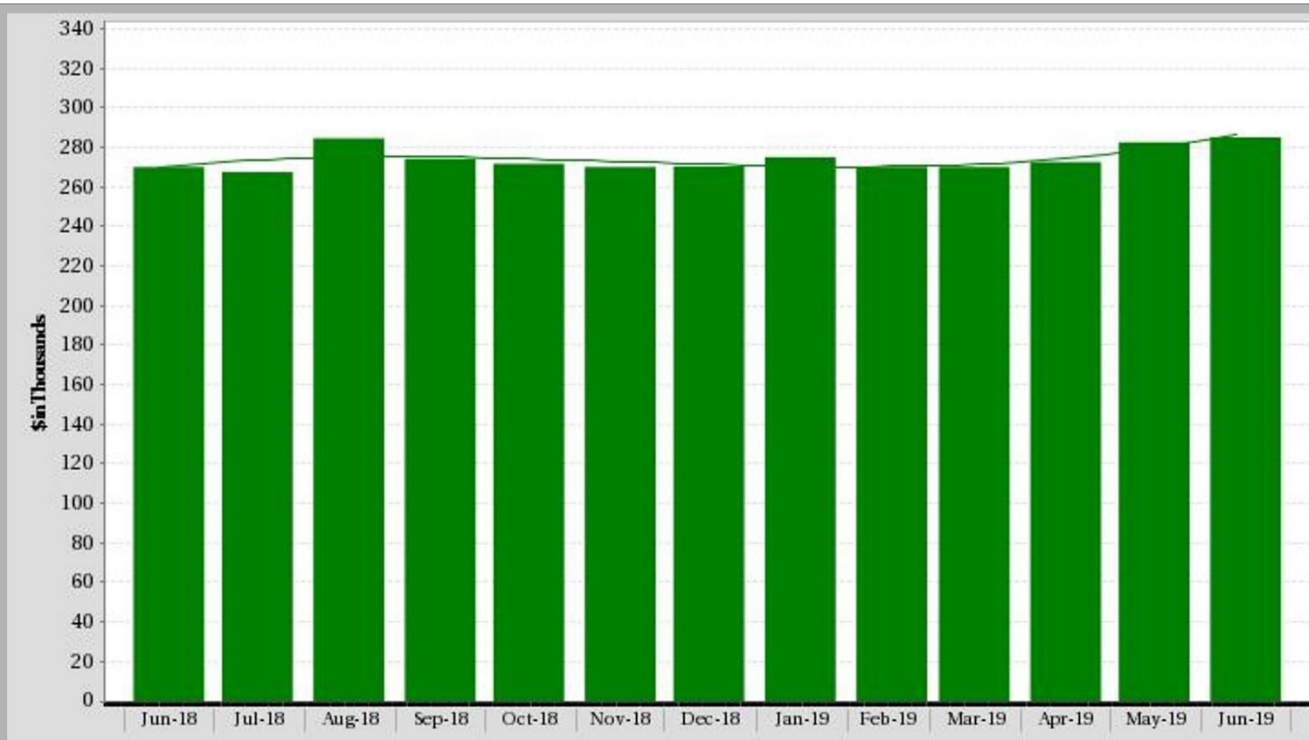


Jun-2017	Jun-2019	Change	%
2.2	2.1	-0.2	-8.0

Calculation of the percent change is not applicable

Property Types: Residential
Counties: Merced
MLS: CRMLS **Price:** All **Period:** 2 Year Monthly **Bedrooms:** All **SqFt:** All
Construction Type: All **Bathrooms:** All **Lot Size:** All Square Footage

Median Sold Price by Month

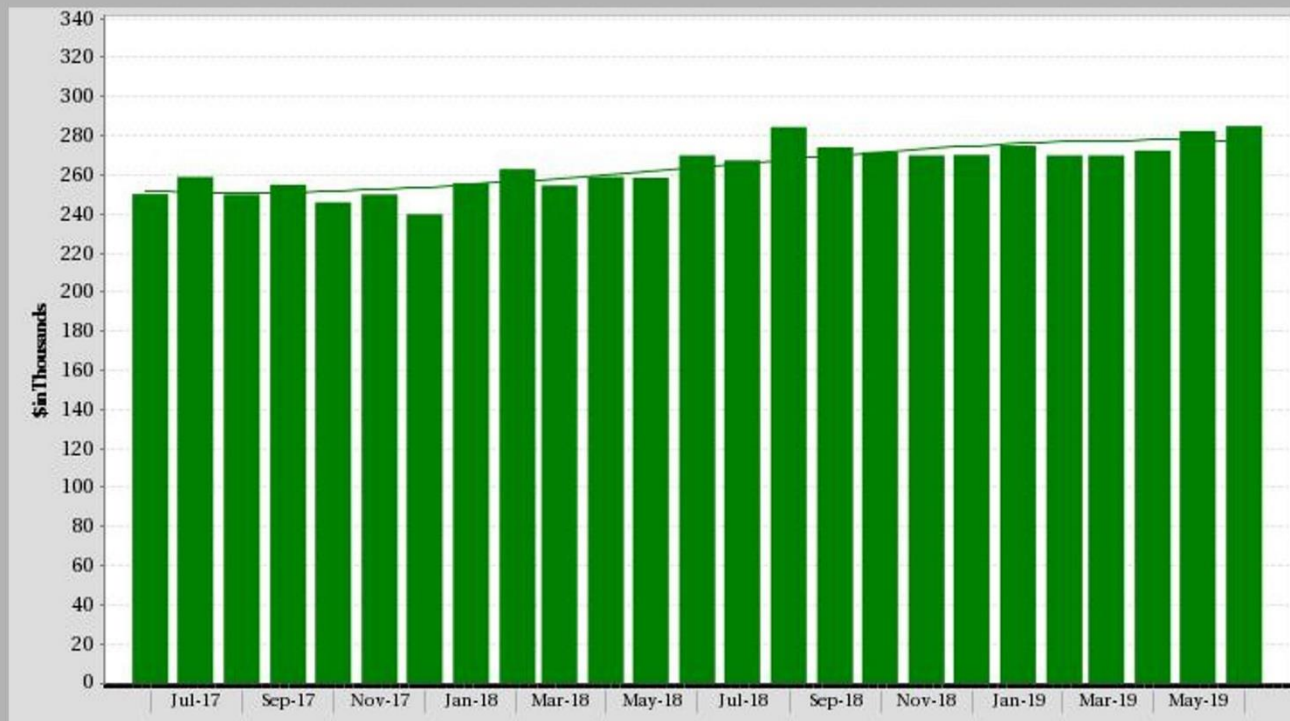


Jun-2018	Jun-2019	Change	%
270,000	285,000	15,000	6



Property Types: Residential
Counties: Merced
MLS: CRMLS **Price:** All **Period:** 1 Year Monthly **Bedrooms:** All **SqFt:** All
Construction Type: All **Bathrooms:** All **Lot Size:** All Square Footage

Median Sold Price by Month




Jun-2017	Jun-2019	Change	%
250,200	285,000	34,800	14

Property Types:	: Residential			
Counties:	Merced			
MLS: CRMLS	Price: All	Period: 2 Year Monthly	Bedrooms: All	SqFt: All
		Construction Type: All	Bathrooms: All	Lot Size: All Square Footage

The Average Days on Market by Month

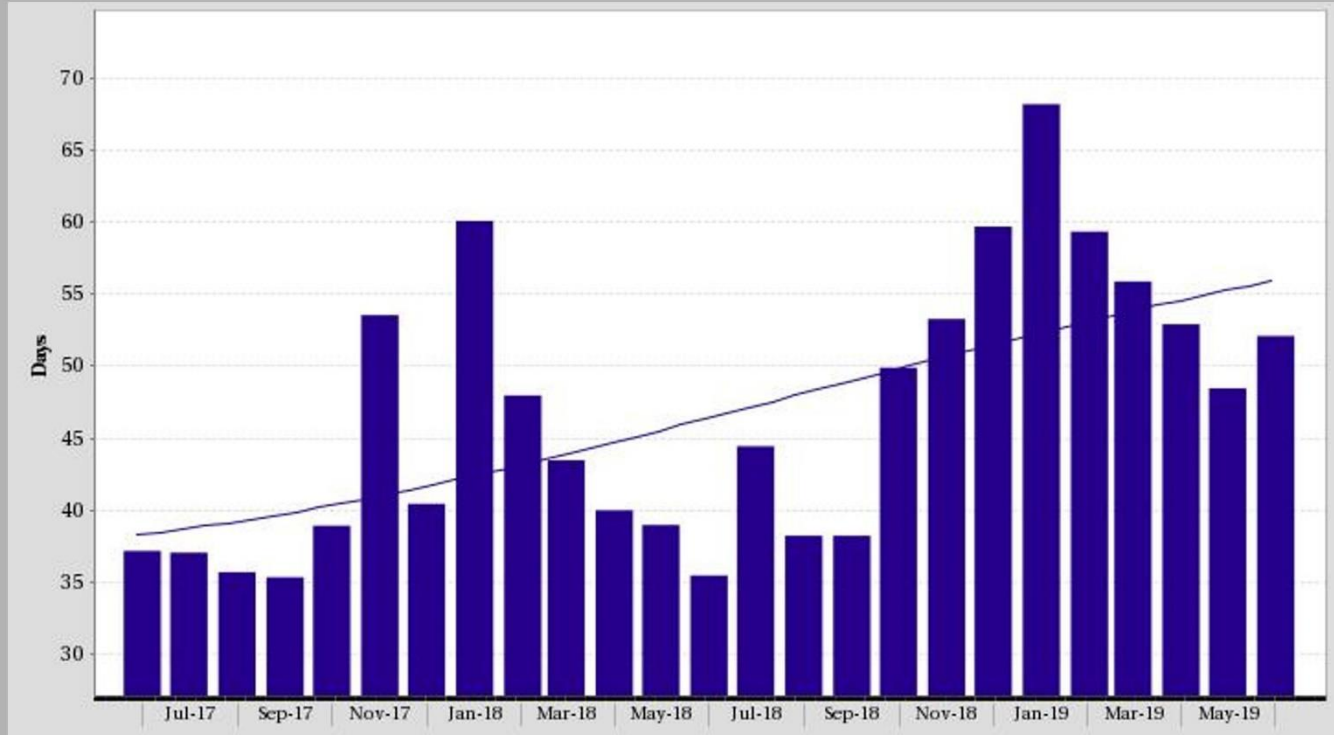


Jun-2018	Jun-2019	Change	%
35	52	17	47



Property Types: : Residential
Counties: Merced
MLS: CRMLS **Price:** All **Period:** 1 Year Monthly **Bedrooms:** All **SqFt:** All
Construction Type: All **Bathrooms:** All **Lot Size:** All Square Footage

The Average Days on Market by Month



Jun-2017	Jun-2019	Change	%
37	52	15	40



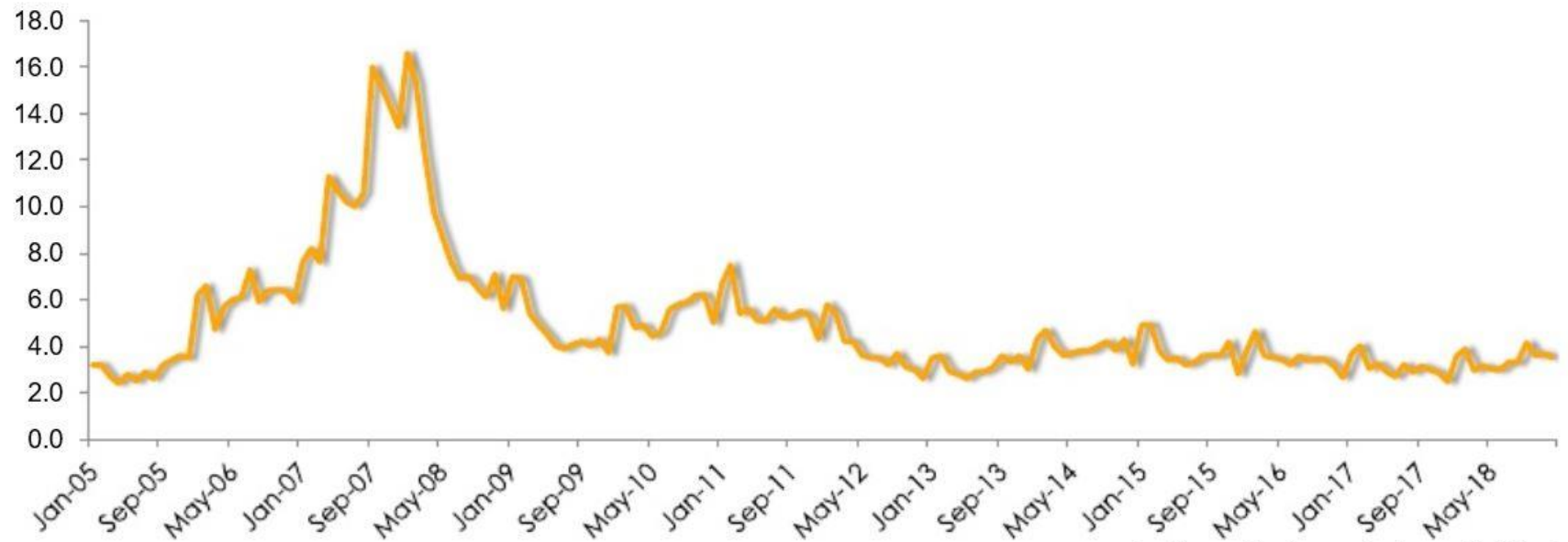
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Inventory Issues



Inventory Index Down MTM but Up from 2017

December 2017: 2.5 Months; December 2018: 3.5 Months



Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number

of "Sold" properties for the month in question.

SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Freddie Mac: Seniors are causing the housing shortage



The study revealed that seniors held 1.6 million houses back from the market in 2018 – responsible for a significant portion of the 2.5 million shortage in housing units that has impacted the market.

Sellers Are Not Moving

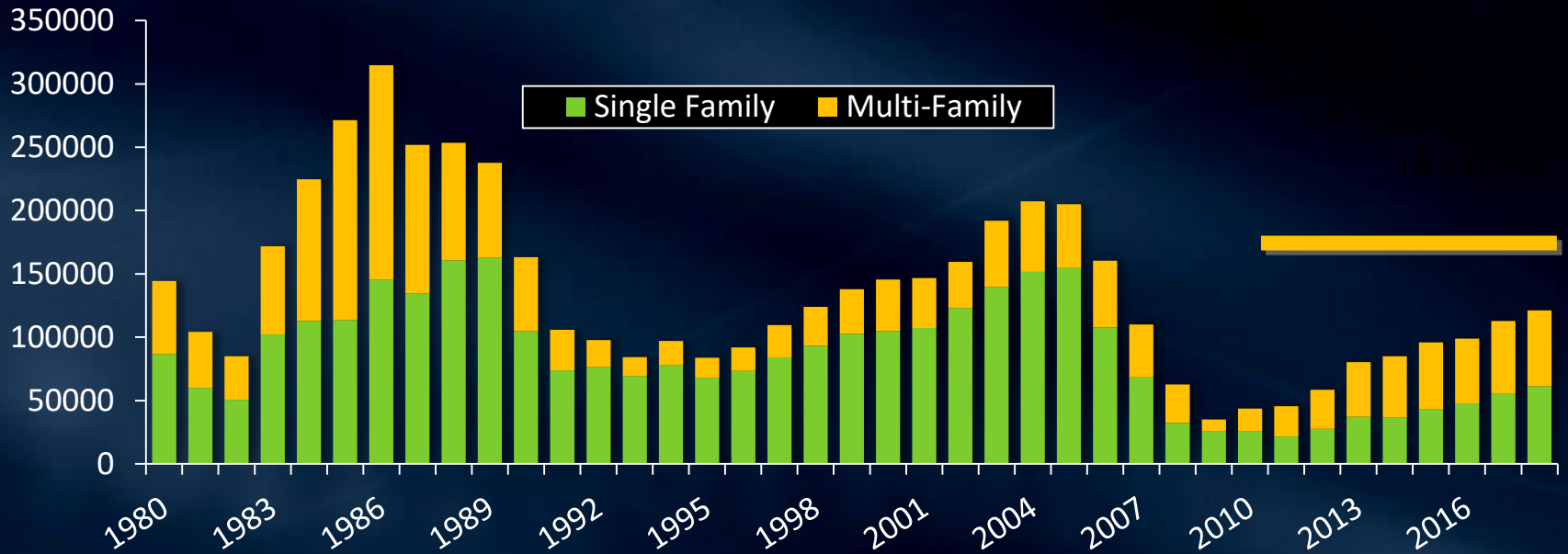


Long-Time Homeowners are not moving as in the past because:

- Low rate on current mortgage
- Low property taxes
- Capital gains hit
- Where can I afford to go?
- Why not remodel and stay?

Permits: CA Not Building Enough

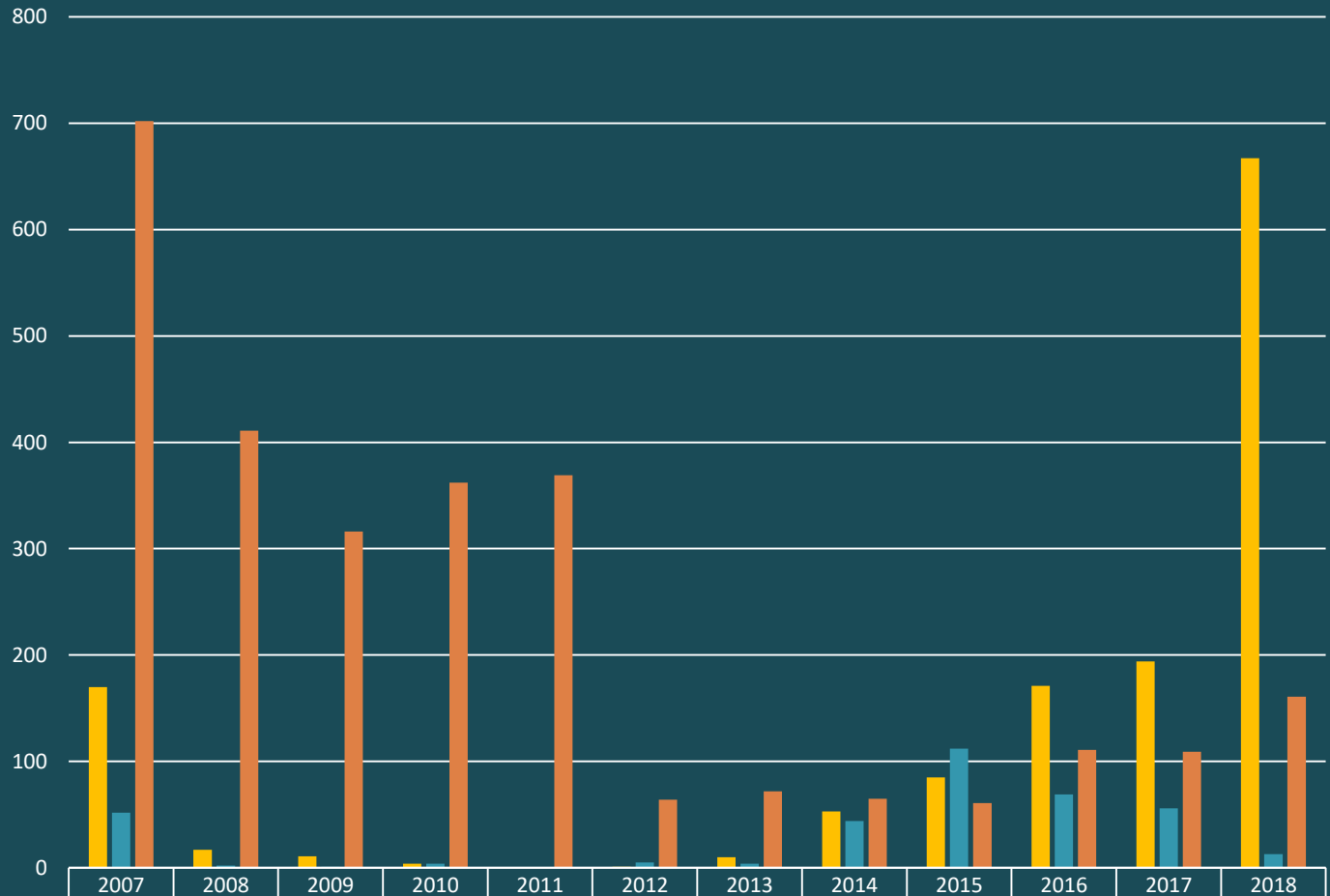
2017: 112,886 (55,779 sf, 57,107 mf)
2018f: 127,780 (64,900 sf, 62,880 mf)



SERIES: California New Housing Permits
SOURCE: Construction Industry Research Board

New Construction

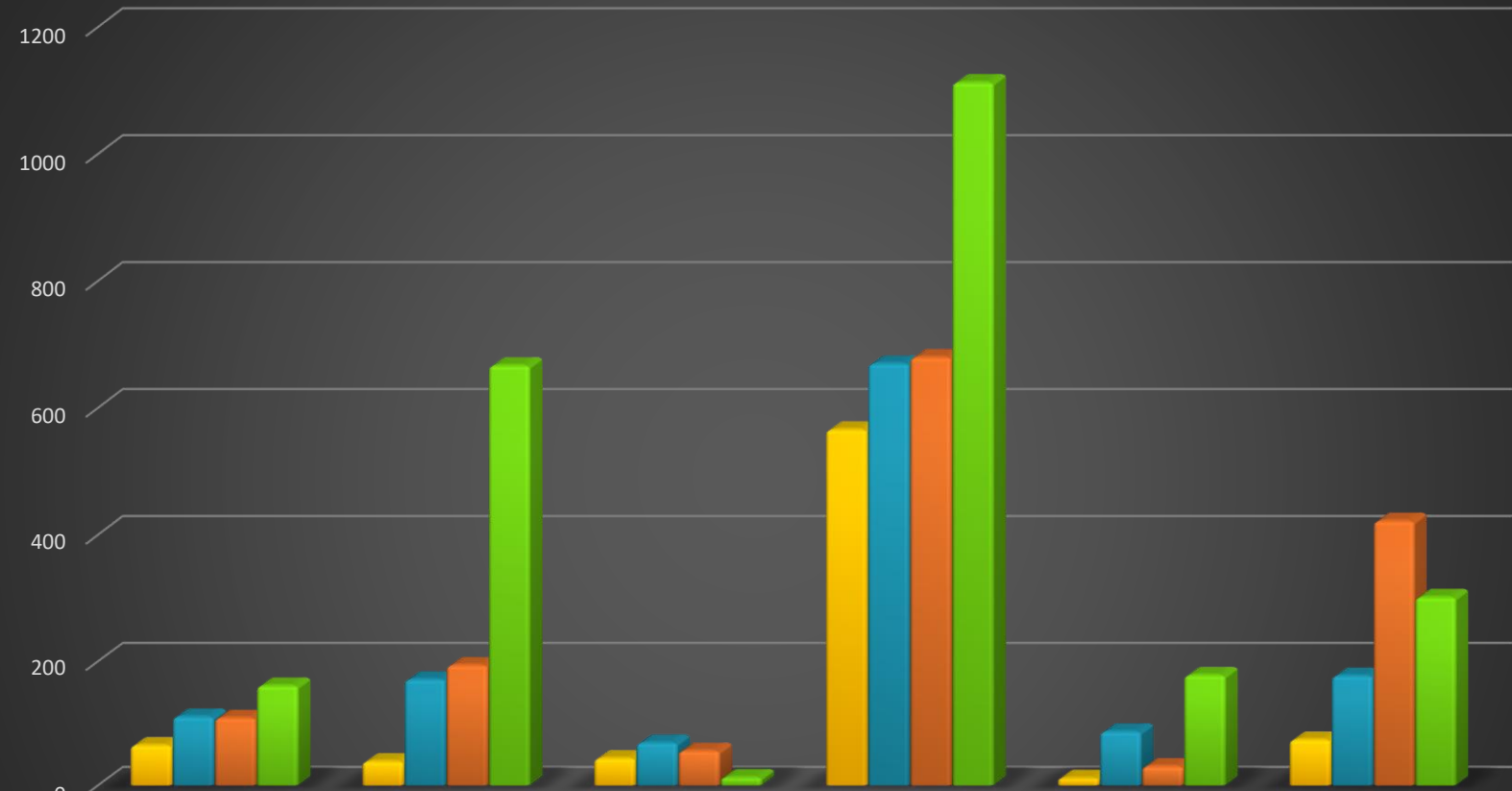
New SFR by Year



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
City of Merced	170	17	11	4	0	1	10	53	85	171	194	667
City of Atwater	52	2	1	4	0	5	4	44	112	69	56	13
Merced County- Unincorporated	702	411	316	362	369	64	72	65	61	111	109	161

■ City of Merced
 ■ City of Atwater
 ■ Merced County- Unincorporated

New SFR Permits- 4 city comparison



	Merced County	Merced City	Atwater	Fresno	Modesto	Stockton
2014	65	39	44	566	12	74
2016	111	171	69	670	87	177
2017	109	194	56	680	31	422
2018	161	667	13	1113	178	302

2014 2016 2017 2018

ACTIVE SUBDIVISIONS IN

MERCED

- ❖ Lennar Homes
- ❖ Bonadelle Homes
- ❖ Stonefield Home
- ❖ Wathen Yosemite Grove
- ❖ Legacy Homes
- ❖ K. Hovananian Homes
- ❖ RM Covington Homes
- ❖ Castle Construction

ATWATER

- ❖ Ramson Homes
- ❖ Las Casas
- ❖ Camelin Meadows

BUILDER NEED FOR:

- ❖ Lower cost homes
- ❖ Attached homes
- ❖ Zero lot line homes
- ❖ Smaller homes 1000-1200 sq ft
- ❖ Desired features:
 - ❖ High speed internet
 - ❖ Water conserving landscape

In the Near Future



❖ Merced Mall Renovations & Expansion

- Slated to start May 2019
- Phase 1- going to pop out the front of the building 40ft
- They are going to be adding 60K sq. ft.
- When finished it will have about 650K sq. ft.
- There is going to be a 50K sq. ft. theatre w/more screens.
- Project is going to take about 2 years to complete.



❖ New Downtown Investments

-El Capitan Hotel

- Broke ground Jan. 31, 2018
- Finish product- 110 room Boutique Hotel, 39 rooms are existing, remaining are new.
- Also includes a café, restaurant and meeting space.
- On track to finish this year.



❖ -Mainzer Theatre

- Demo has started.
- This will be more of a face lift and when finished you will have a theatre, restaurant, and a live performance classroom for activities.

Rental Market

Residential Rental Market

● 2019

- We believe inventory will remain tight.
- There are more apartments available than single family homes.
- UC Merced students in previous years would move out, now they rent year around.
- Rental Units to be constructed in fiscal year 2018-2019
 - 50
- Rental Units to be constructed in fiscal year 2019-2020
 - 150
- Currently we are on target for this year.



- **2019 cont.**

- **North Merced- SFR**

- **3bd- 1800 sq. ft., \$1,400-\$1,500**

- **4bd- 2,100 sq. ft., \$1,550-\$1,600**

Monthly Rent of \$1,432 a month at 4.00% for 30 years would give you a loan of \$300,000.



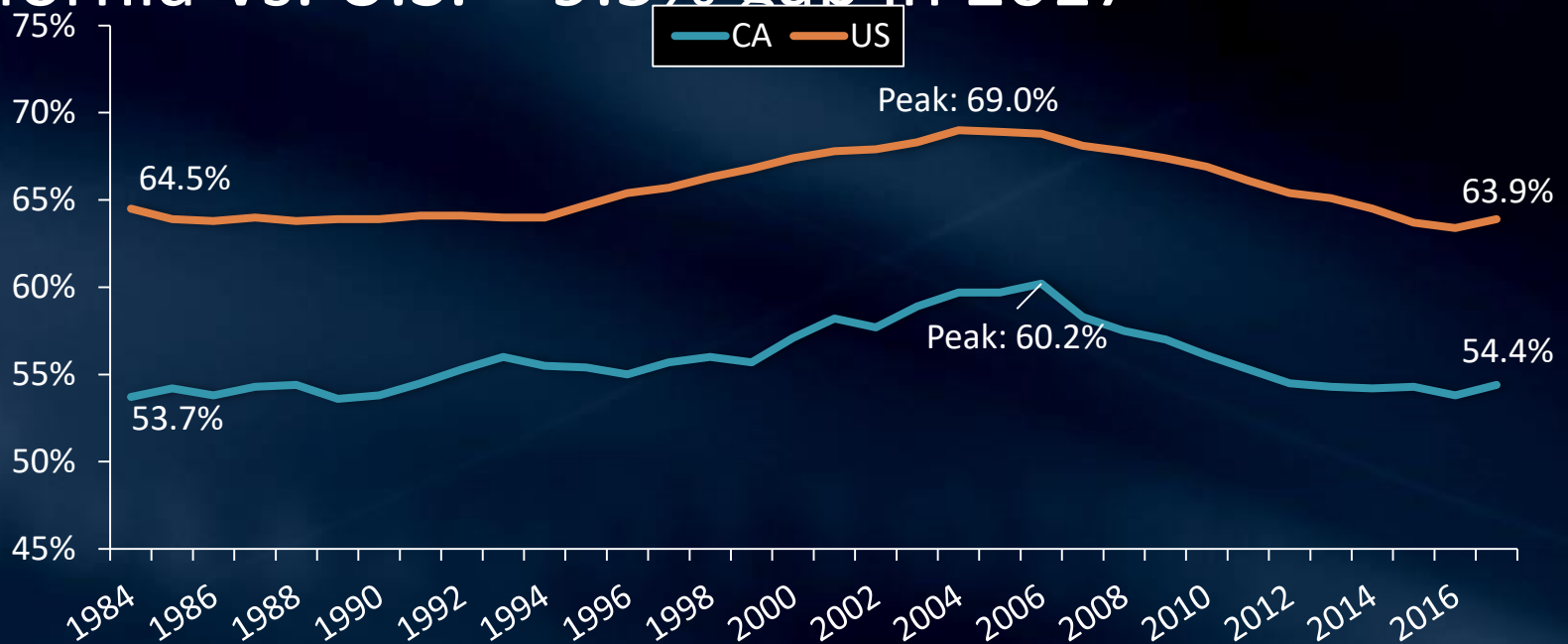
Builder need:

- Duplexes
- Triplexes
- Fourplexes
- Apartments- difficult to obtain financing

Homeownership Rates

Homeownership Rates

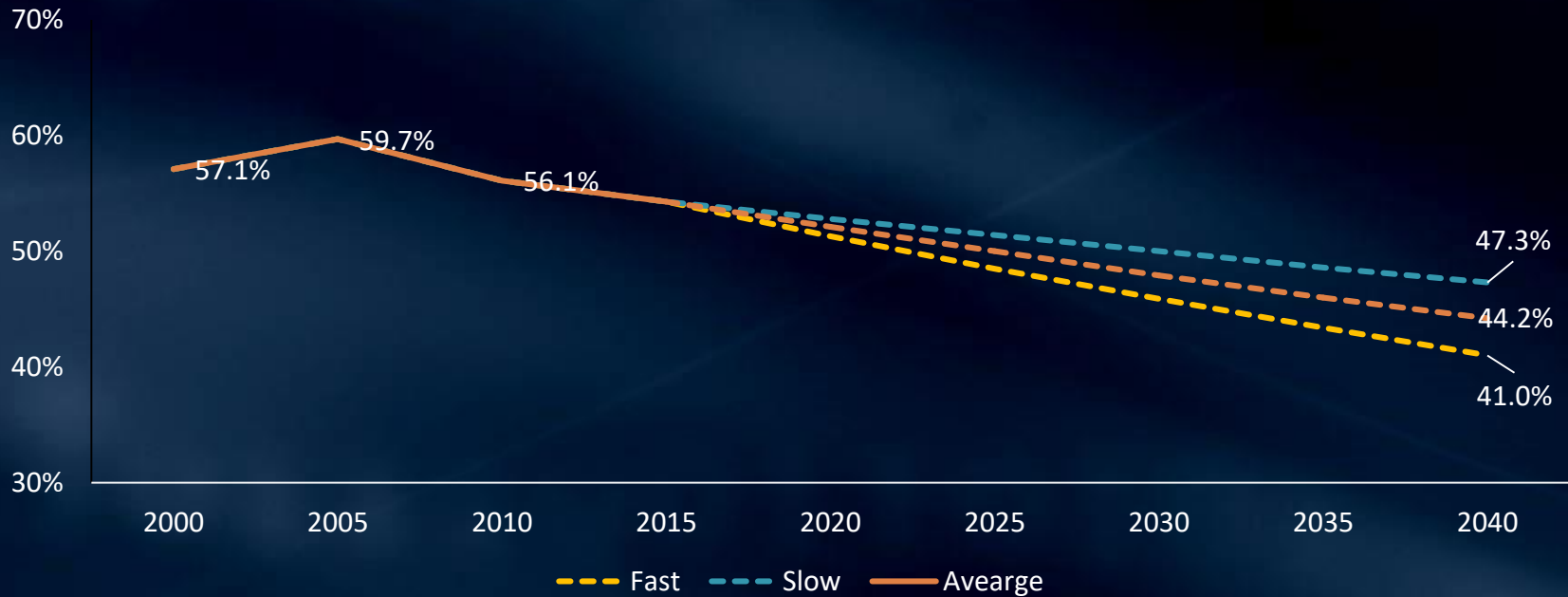
California Vs. U.S. – 9.5% gap in 2017



SERIES: Homeownership Rates
SOURCE: U.S. Census Bureau

CA: Majority Renter State by 2025

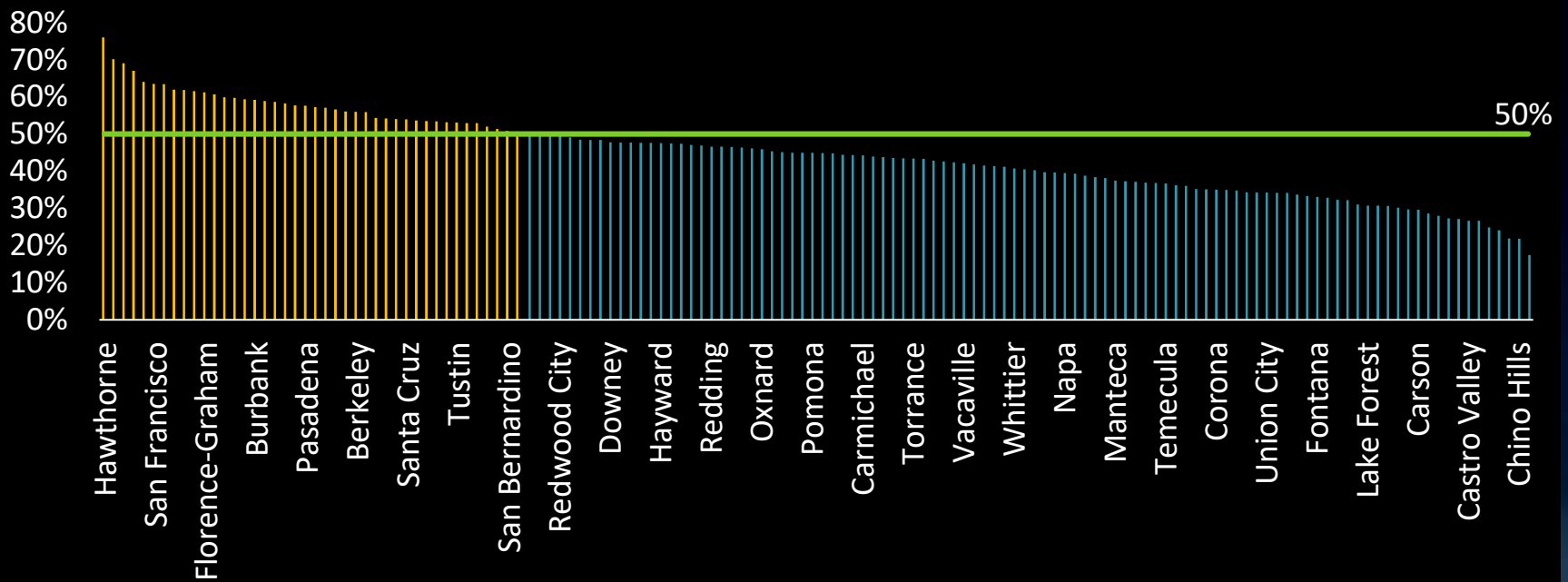
California Homeownership Rate



SERIES: Homeownership Rate
SOURCE: U.S. Census Bureau, American Community Survey, C.A.R. projection

42 of 142 Big Cities ALREADY Majority Renter

2017 California Renter Rate by City



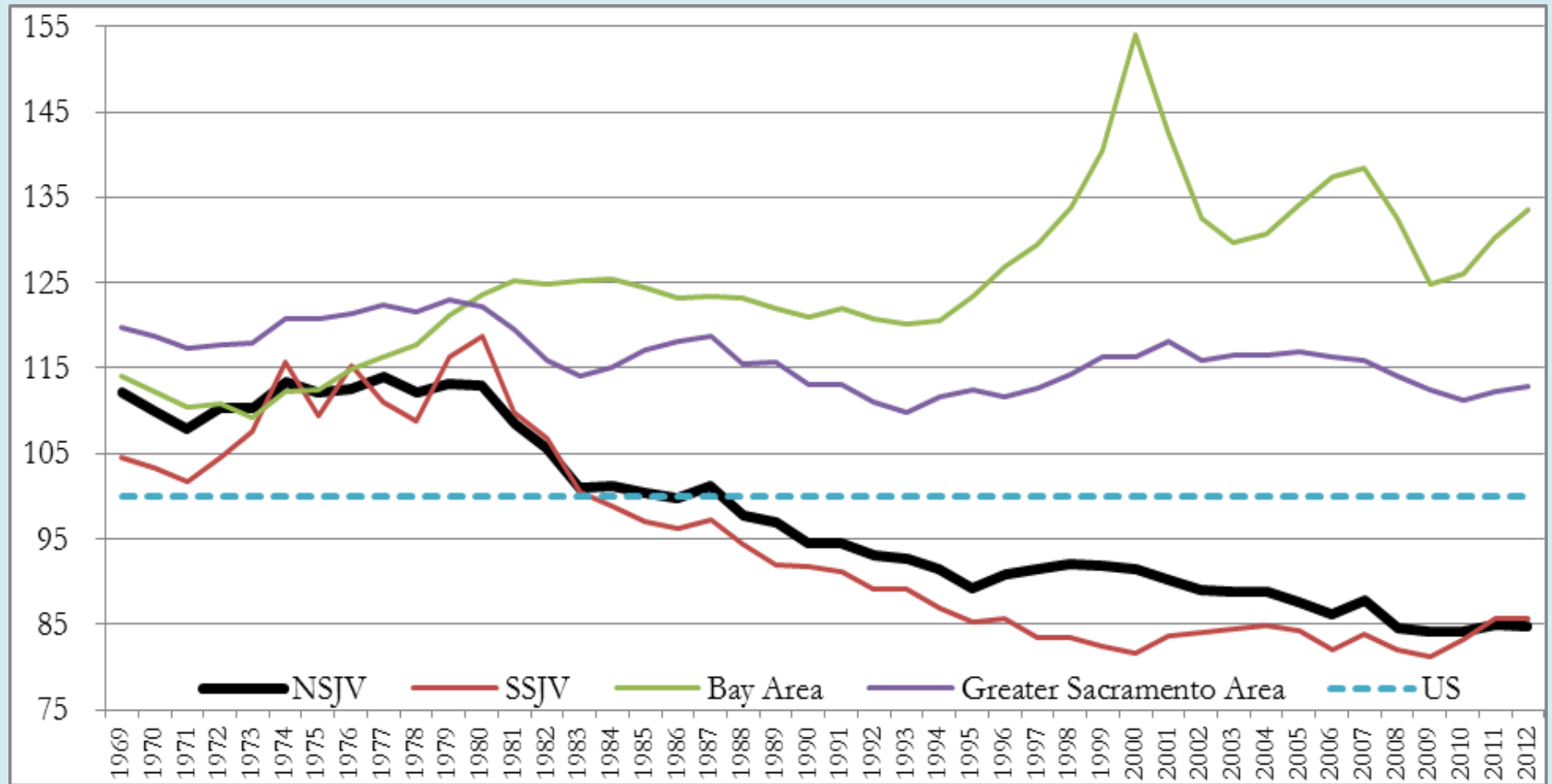
Possible Market Shift?

- National Home Ownership Rate
- Climbed in the Fourth Quarter of 2018
- To Highest level in Nearly 5 years.
- Providing evidence that momentum is shifting back to owning instead of renting.
- Shares of households that own homes rose to 64.8% in 4Q of 2018.
- Increase from 64.2% in 4Q of 2017.
- Last time home ownership was that high was in 2014
- In 2018 the U.S. added 1.7 million owner households and lost 167,000 renter households.
- New Owners help fuel demand for new construction, renovations, furniture and real-estate brokerage services.

Commercial Market

NSJV per-capita income has been falling behind since the 1980's.

The 3-county region had per-capita income 10% above the U.S. average in the 1970's, similar to the Bay Area. Per-capita income is now 15% below the U.S. average.



SHOPPING CENTERS

● 2018

- Not a lot to talk about
- Not a lot of new retail uses, some examples coming from Northern California Sportmans Warehouse and 5 Below which is similar to a Dollar Store.
- Amazon is killing retailers, in order to survive retailers have to do online and in store sales.
- Target is putting in a pickup area where you can pick up online orders in their stores.
- Good retailers will survive, good shopping centers will survive.
- In the Valley retailers are not taking any chances, the project has to make money from day one, retailers going in on their own terms, in the bay area they may take risk if they have been trying to get in there for a long time.
 - A lot of retail vacancies such as: Sears
 - Very little new retail buildings in the last 10 years.
 - Result- the existing centers are doing better, rents are stable. Do to increase by 10%.
- Gateway Project
 - Arco Gas Station starting August 2019.

16 biggest bankruptcies of the 'retail apocalypse' of 2018

1. David's Bridal
2. Sears
3. Mattress Firm
4. National Stores
5. Brookstone
6. Top Markets
7. Southeastern Grocers
8. Bertucci's
9. Claire's
10. Remington Outdoor
11. Nine West
12. Toy's R Us
13. The Walking Company
14. Kiki USA
15. The Bon-Ton Stores
16. A'gaci

Office Space

Leasing

- 2018 Absorption was good till the 4th quarter.
- Then sales picked up again in the 1st quarter.
- A lot of inventory is off the market.
- Good to very good space- \$1.25-\$1.55 sq. ft.
- Fair to poor space- \$.85-\$1.00 sq. ft.

Office Space for Sale

- Sales had a good year, a lot of inventory was absorbed.
- Activity increased, available inventory is very low.
- Prices are stable at about \$150-\$200 a sq. ft.
- Builder need for:
 - Medical office space- very little available 2000-3500 sq ft
 - General office space 1000-2000-divisible

Industrial Space

● 2018

- We leased up a lot of space.
- We are running out of product.
- 6-7 years ago we had 1.5 million free sq. ft. to lease, today less than 300K sq. ft.
- Do to lack of available space we have increased rents.
- Cannabis shops are looking for space causing rents to increase.
- Spec Industrial space coming.
- Builder need for: Industrial space 15,000sq ft+ with high speed internet

Castle Commercial Center

- ❖ Mid California International trade district.
- ❖ Grant received from the State of California for 6.5 million dollars to develop 300 acre autonomous vehicle testing facility. This will be the largest autonomous vehicle test facility in North America.
- ❖ In addition to the 105 Acre Waymo test facility at Castle.
- ❖ This 300 acre facility will be non-proprietary and will be available to multiple autonomous vehicle companies.
- ❖ 6-8 zones to check high-speed merger, freeway traffic, rural traffic, city traffic all kinds of other traffic situations.
- ❖ Castle Commercial Center has been designated a Rail District.
- ❖ They are going to be working with the Port of LA to have better conductivity regarding the Port of LA and this area.
 - ❖ The purpose would be to have trucks moved from the Port of LA by rail to Castle, to basically reduce crowding on the road and also be better for the environment.

Agricultural Properties

● 2018

- Going forward more of the same.
- Commodity prices remain softened
- San Joaquin Valley's good water may contain value.
- Almond prices 30-35K a acre
- Almonds with good production have two sources of water
- Row crop land for example:
Sweet Potatoes- 15-20K a acre if they have good sources of water

● 2019

- We still have buyers looking for Pistachios, Walnuts, and some Almonds.
- Water is still the big issue.
 - ❖ Concerns about the state water grab and water for the fish.
- Interest rates have gone up a little, causing lenders to be a little more cautious.
- Some think there has been some over planting.
- Almond land approximately 30K an acre, if you have two sources of water.
- Seems to be a little trend starting, moving from almonds to pistachios.
- More dairies are trying to diversify.
 - ❖ Price of milk has been soft.
 - ❖ Bigger dairies looking to diversity by acquiring trees or vines.

Summary Info

SUMMARY

- **Residential Real Estate:**
 - Prices continue to increase, however at a slow pace.
 - Market Shift:
 - Longer market time, and more price reductions.
 - Inventory issues:
 - Still with us, inventory slowly increasing
- **New Construction:**
 - Significant increase in Merced.
 - Still lagging statewide.
- **Rental Market:**
 - Rents Increasing
 - Inventory is tight
- **Shopping Centers & Retail:**
 - About the same as last year
 - New Gateway Project coming this year.
- **Office Space:**
 - Demand is increasing, inventory decreasing, rents are starting to firm up.
- **Industrial space:**
 - Inventory is low
 - Rents are increasing
 - Some new spec building
- **Agriculture:**
 - Still have demand.
 - Prices are holding.
 - Water is the key.
- **Builder need for:**
 - Office space-especially medical
 - Industrial space- 15,000 sq ft +
 - Multi-res units 2-4 units
 - Low cost single family residences



Thank You!!!