

Jordan G. Levine
*Economist and
Director of Economic Research*
Beacon Economics

An Assessed Value Forecast
Contra Costa County, California
January 28, 2014

The big picture

- **Time-Series Econometric Approach**
 - Regression establishes historical relationships
 - Historical correlations inform the future

- **Top-Down Modeling Technique**
 - Forecast U.S. economy, from employment to output
 - U.S. forecast guides California model
 - California model used to guide East Bay
 - East Bay/Contra Costa model drives sub-regional forecast

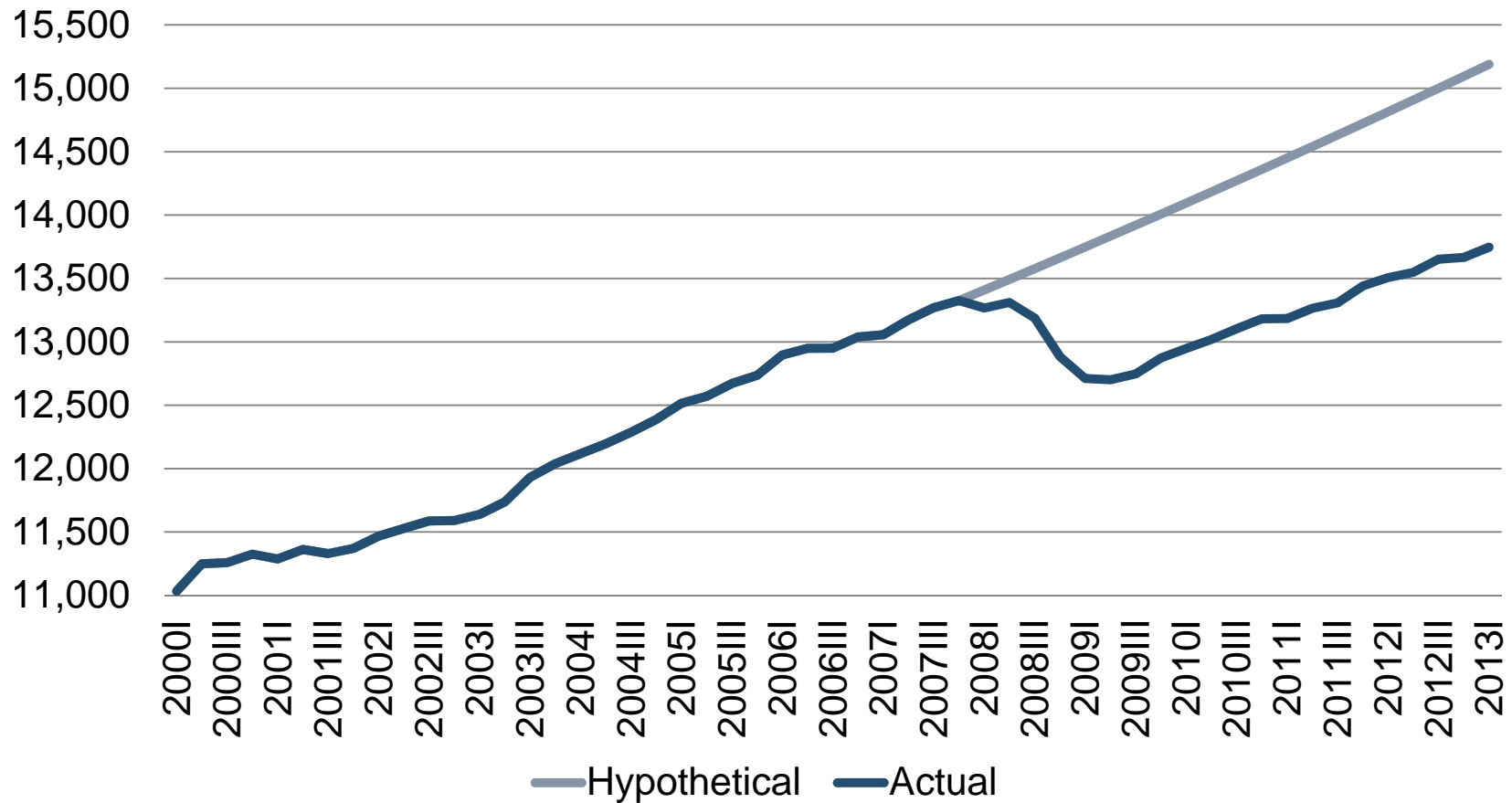
- **Holistic Approach to Revenue Forecasting**
 - Incorporates broad macro trends in Nation/State
 - Combines trends with local-specific performance
 - Accounts for previous blips and under-/over-performance

Bernanke was right... things *are* improving.

- **Sure—its been a recovery to forget**
 - The US never saw the typical post-recession bounce
 - Economic Fundamentals have not returned to normal levels
- **Stop focusing on the levels. Watch the trends**
 - Economy seeing some modest acceleration despite headwinds
 - Consumers holding steady despite tax increases
 - Business investment soft, but earnings are solid
 - Global economy gaining traction
 - State and local government starting to turn the corner
 - Interest rates still very low, Residential markets remain hot
- **Three Kinds of Problems**
 - Stimulative policies have to be unwound
 - Medium term impacts of technological change
 - Leaders focus on unimportant issues—ignoring what truly matter

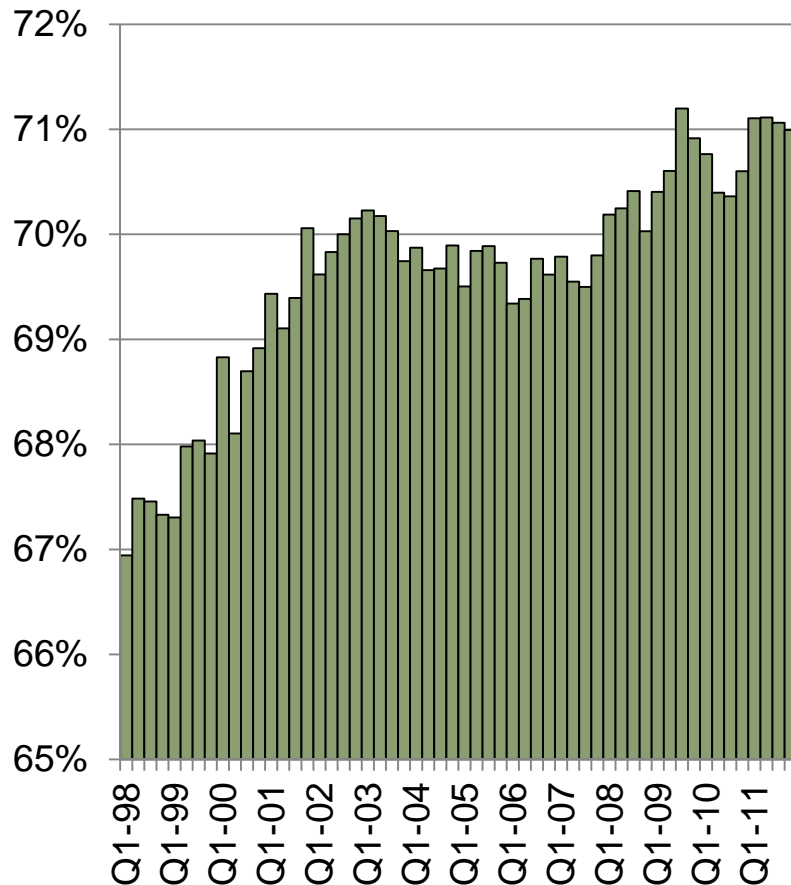
The disappointing recovery

US Real GDP

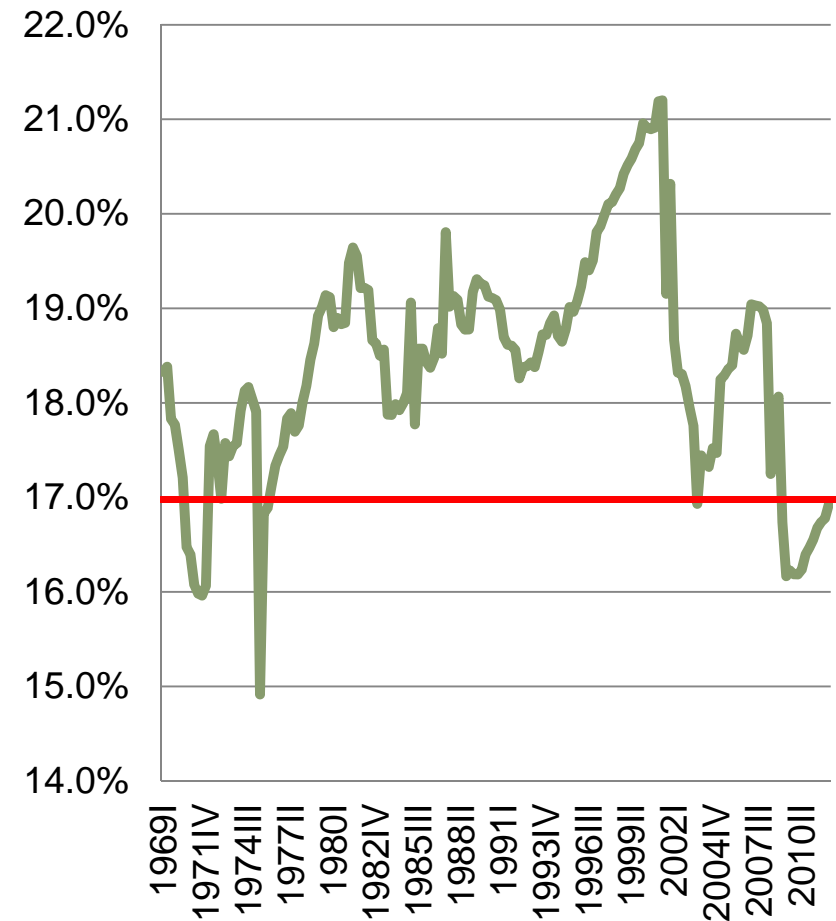


Are common prescriptions remedies?

Consumer Spending as % GDP

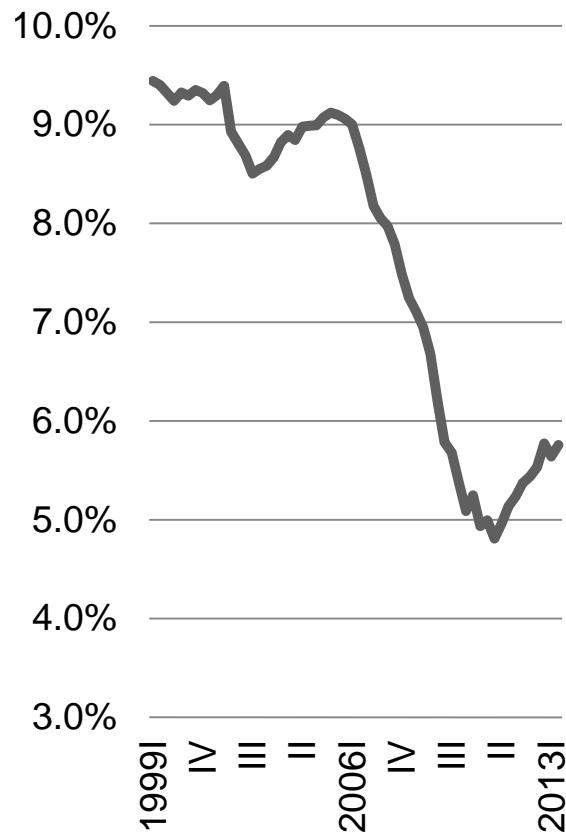


Taxes as share income

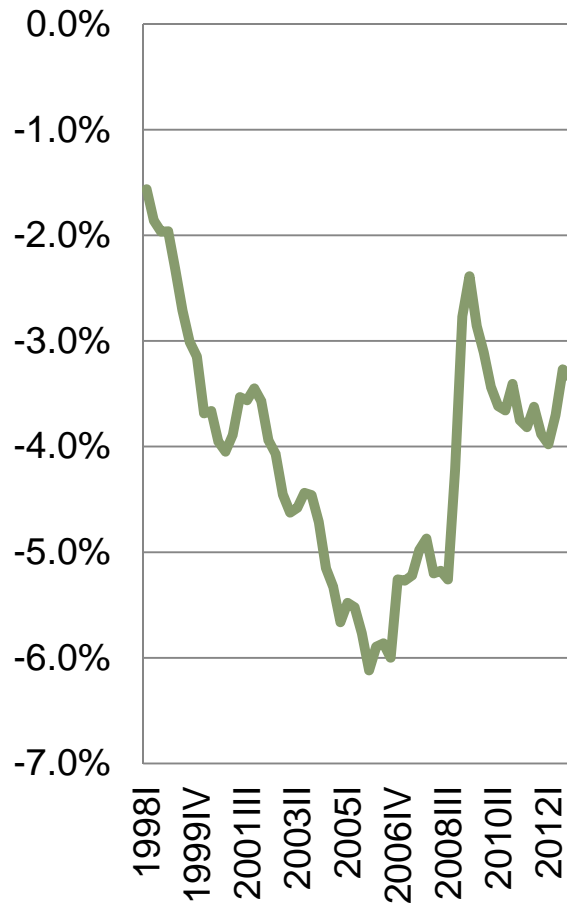


Why the disappointing recovery?

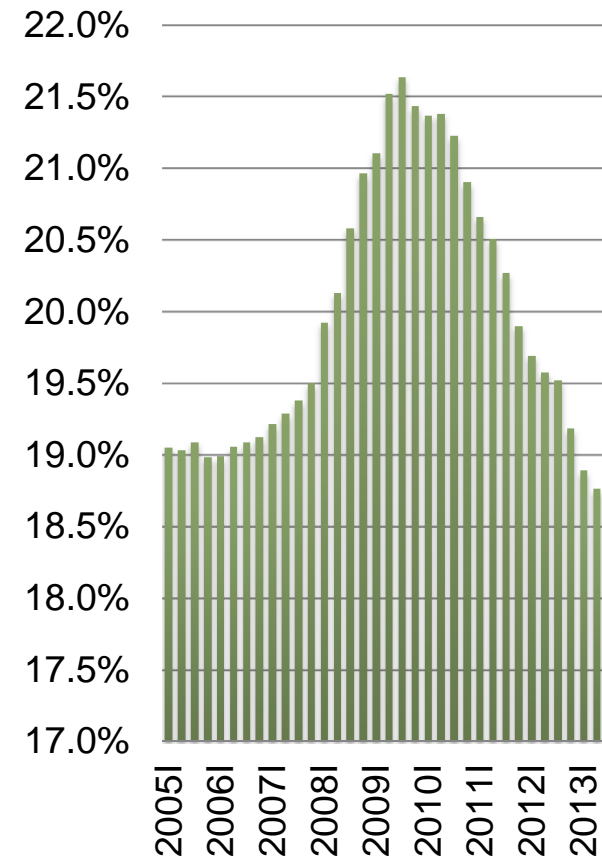
Construction as % of GDP: Real



Net Trade % GDP



Government Direct Spending % GDP



The local story

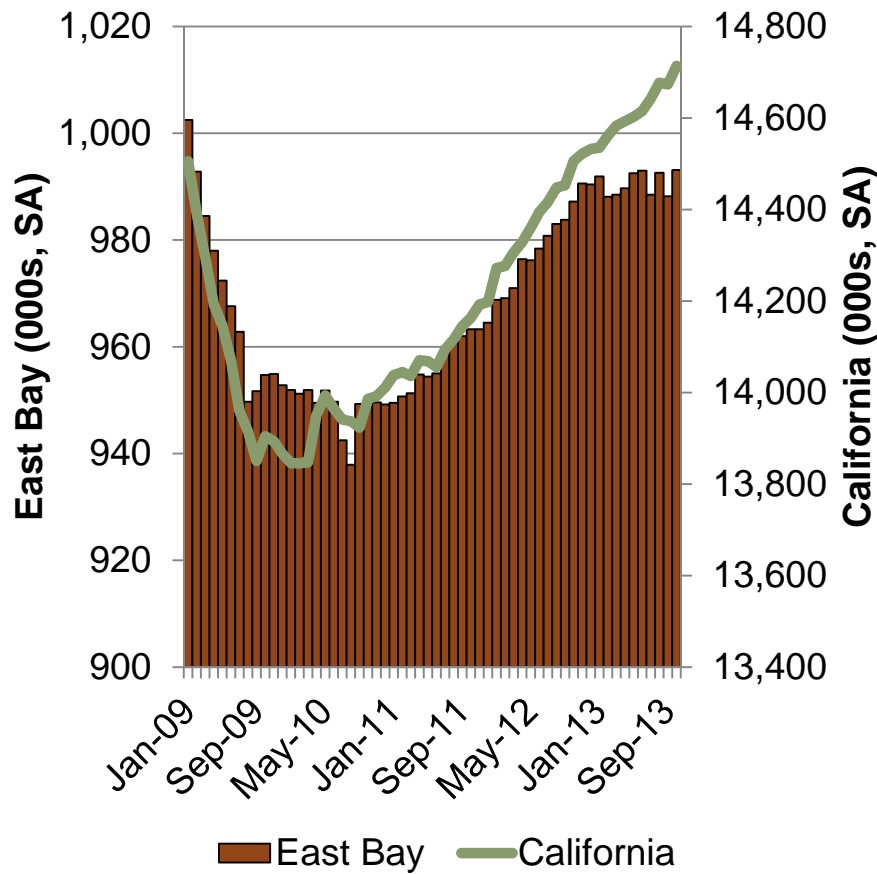
- East Bay and Contra Costa are improving
 - Slower out of the gate, but making progress
 - Not isolated to one particular city or sector
- Contra Costa was a growth region before
 - Poised for ongoing acceleration
 - May key strengths including:
 - Proximity to large employment centers
 - Relative affordability relative to neighbors to west
- Better economy and local property market will mean better AV in coming years

East Bay: slow out of the gate

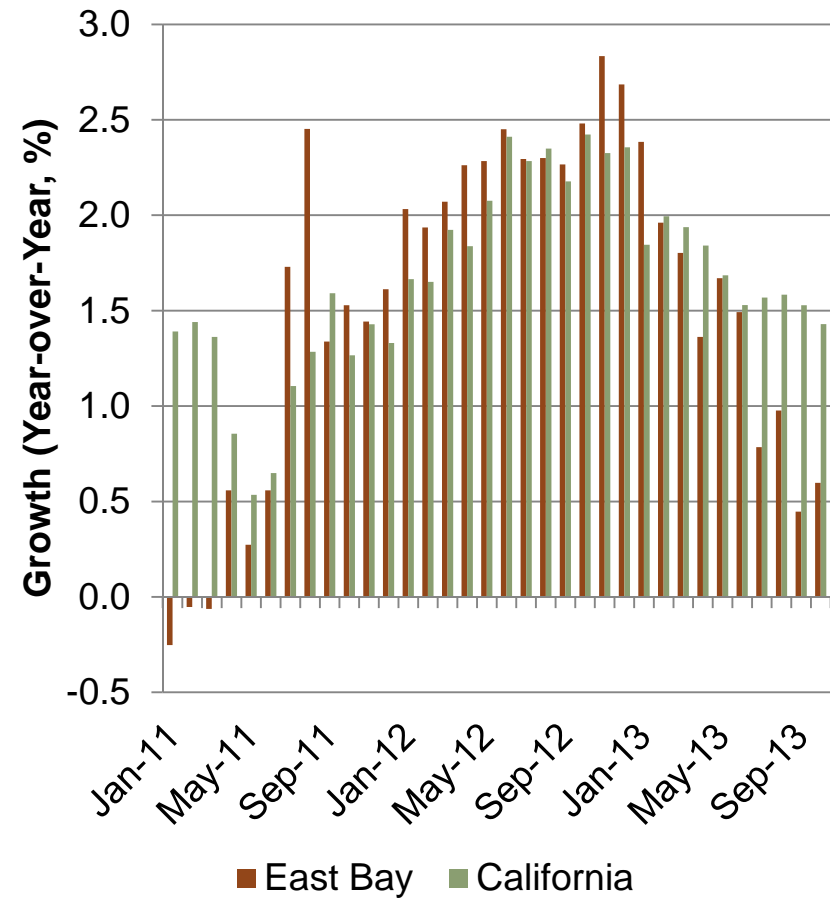
Region	Feb-10	Oct-13	Change (000s)	Change (%)
San Luis Obispo	95.9	106.8	10.9	11.4
San Francisco (MD)	929.0	1,033.8	104.8	11.3
San Jose	847.1	939.6	92.5	10.9
Bakersfield	223.8	246.7	22.9	10.2
Orange County (MD)	1,345.3	1,441.0	95.7	7.1
Other Bay Area	343.4	366.2	22.8	6.6
San Diego	1,212.3	1,291.9	79.6	6.6
Central Coast	368.1	391.3	23.2	6.3
Other Southern California	315.5	332.6	17.1	5.4
Inland Empire	1,121.0	1,176.5	55.5	5.0
Los Angeles (MD)	3,755.3	3,941.1	185.8	4.9
Oakland (MD)	951.2	993.1	41.9	4.4
South Central Valley	654.6	673.4	18.8	2.9
North Central Valley	1,164.8	1,197.4	32.6	2.8
California	13,845.3	14,713.6	868.3	6.3

But things are improving

Total Nonfarm Employment

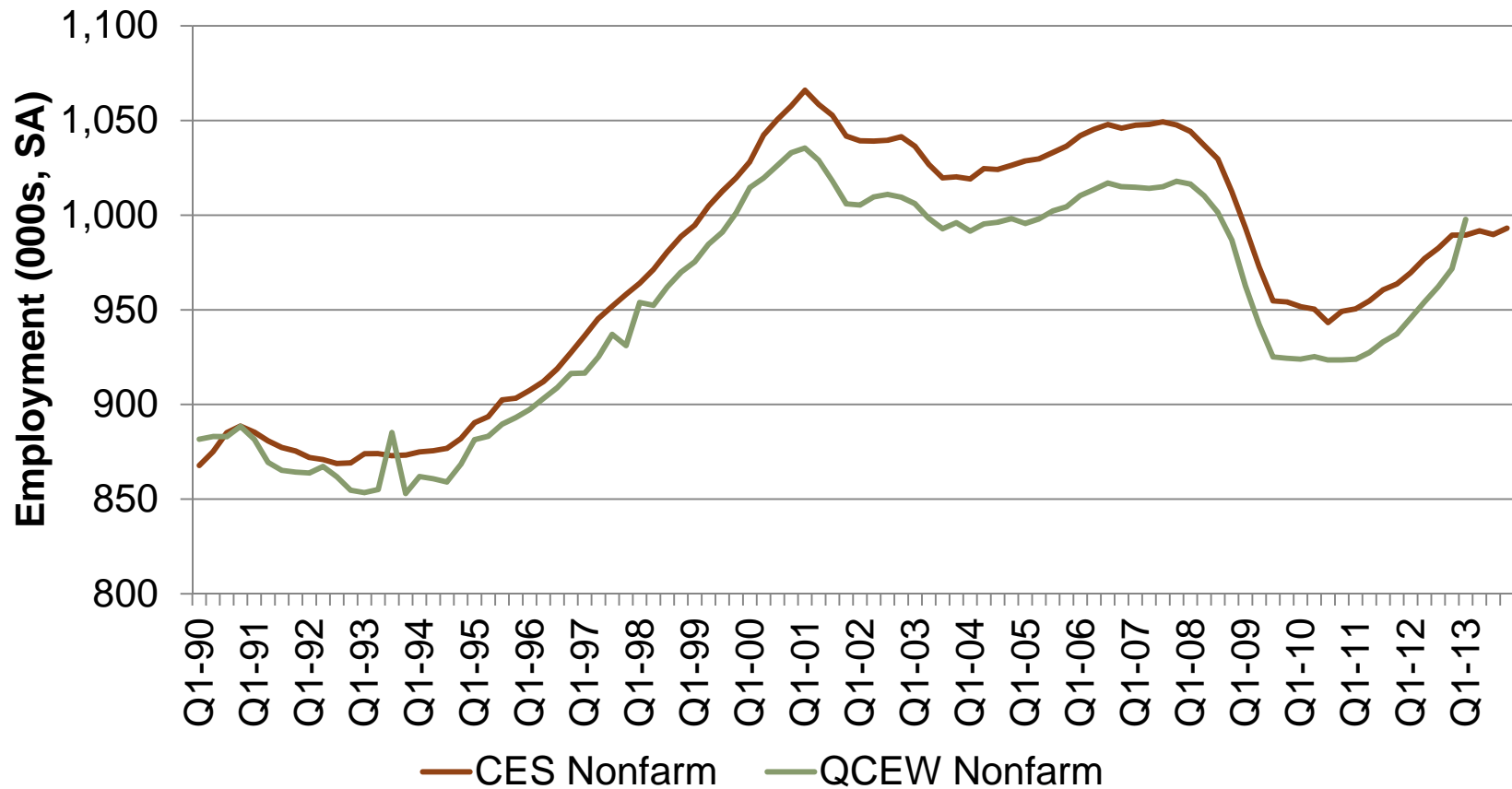


Nonfarm Employment Growth



Even better than they appear

Nonfarm Employment

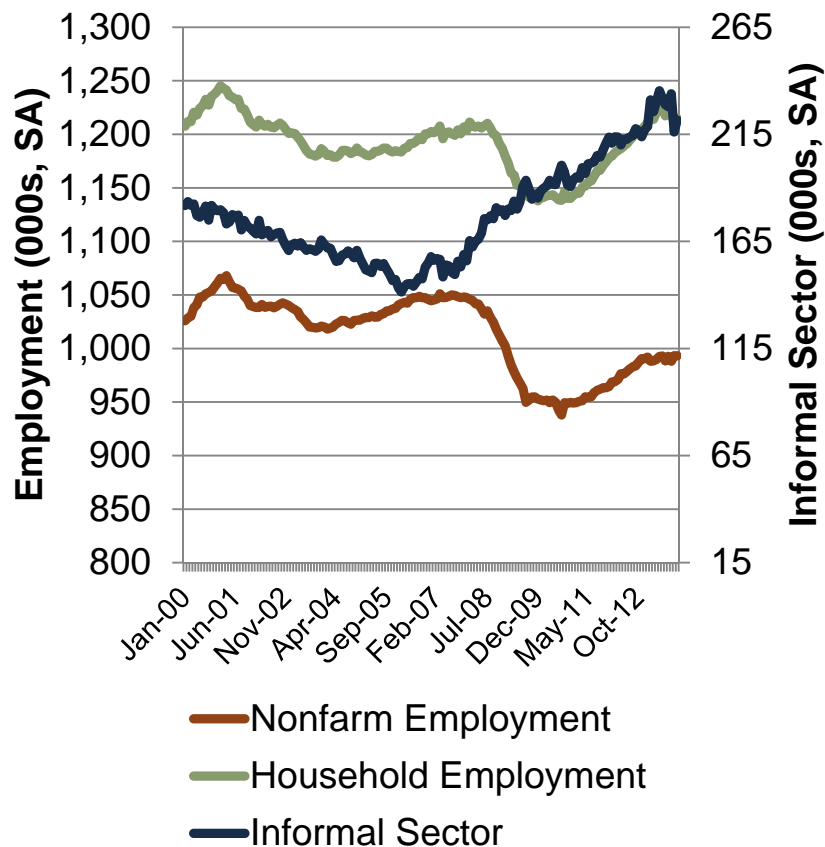


Big picture: broad based & still looking up

Industry	Aug-10	Nov-13	Change	Change (%)
Leisure and Hospitality	86.4	95.6	9.3	10.7
Government	154.6	162.4	7.8	5.0
Prof Sci and Tech	80.7	88.2	7.5	9.3
Education/Health	136.5	143.6	7.2	5.2
Construction	47.5	53.8	6.3	13.3
Transport, Warehouse, Util.	30.9	35.2	4.3	13.8
Retail Trade	100.4	104.6	4.2	4.1
Admin Support	47.2	50.9	3.7	7.8
Management	25.1	28.1	3.0	11.9
Wholesale Trade	41.6	44.2	2.6	6.3
Other Services	35.1	36.4	1.3	3.7
Manufacturing	79.2	80.4	1.2	1.5
Farm	1.4	1.5	0.1	5.9
NR/Mining	1.3	1.1	-0.2	-12.2
Financial Activities	48.2	47.4	-0.8	-1.6
Information	23.3	21.4	-1.9	-8.2
Total Private	783.3	830.9	47.6	6.1
Total Nonfarm	937.9	993.3	55.4	5.9

Residents matter for property market

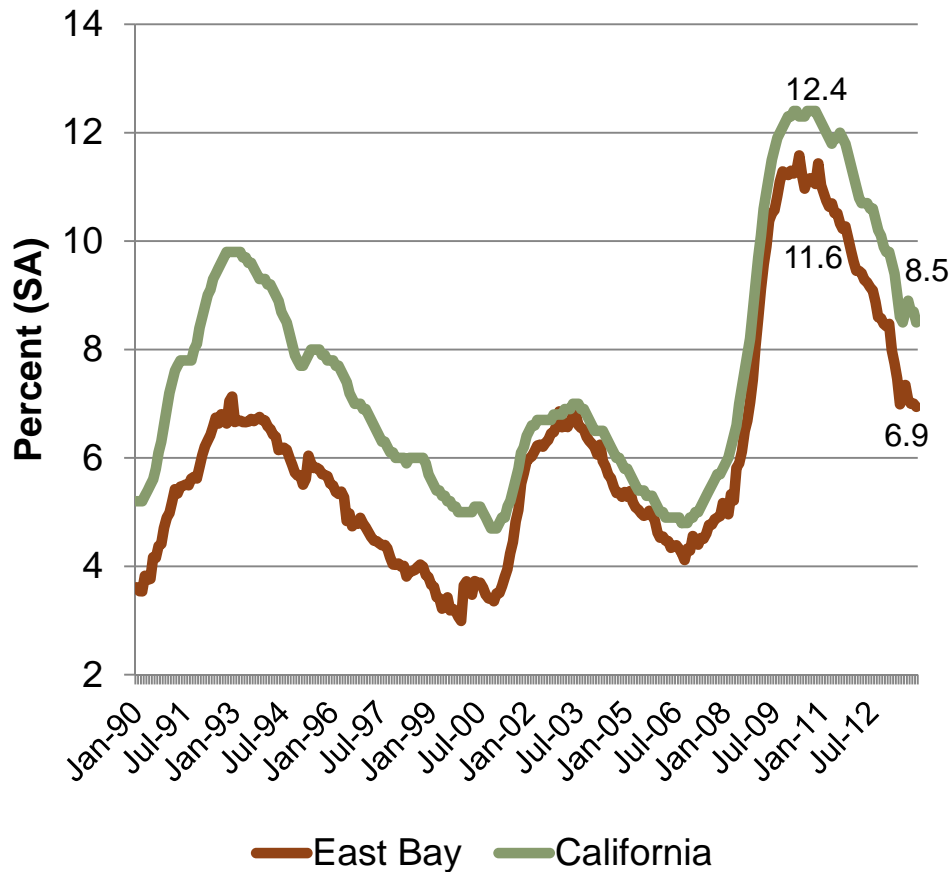
Payroll vs. Household Employment



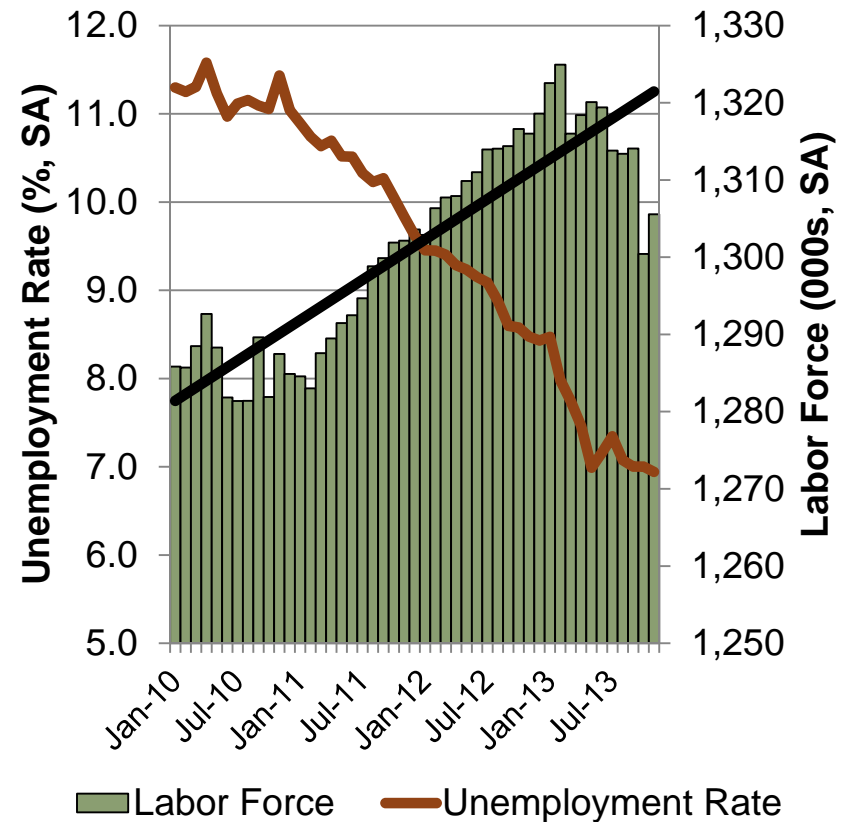
Indicator	Nonfarm Empl't	Household Empl't
Peak Month	Mar-07	Jan-08
Peak Employment (000s)	1,051.0	1,211.4
Trough Month	Aug-10	Dec-09
Trough Employment (000s)	937.9	1,138.0
Peak to Trough (000s)	-113.1	-73.3
Peak to Trough (%)	-10.8	-6.1
Current Month	Nov-13	Nov-13
Current Employment (000s)	993.3	1,214.9
Trough to Current (000s)	55.4	76.9
Trough to Current (%)	5.9	6.8
Remaining to Peak (000s)	-57.7	3.6
Remaining to Peak (%)	-5.5	0.3

Unemployment: down for right reasons

Unemployment Rate



Local Unemployment and Labor Force

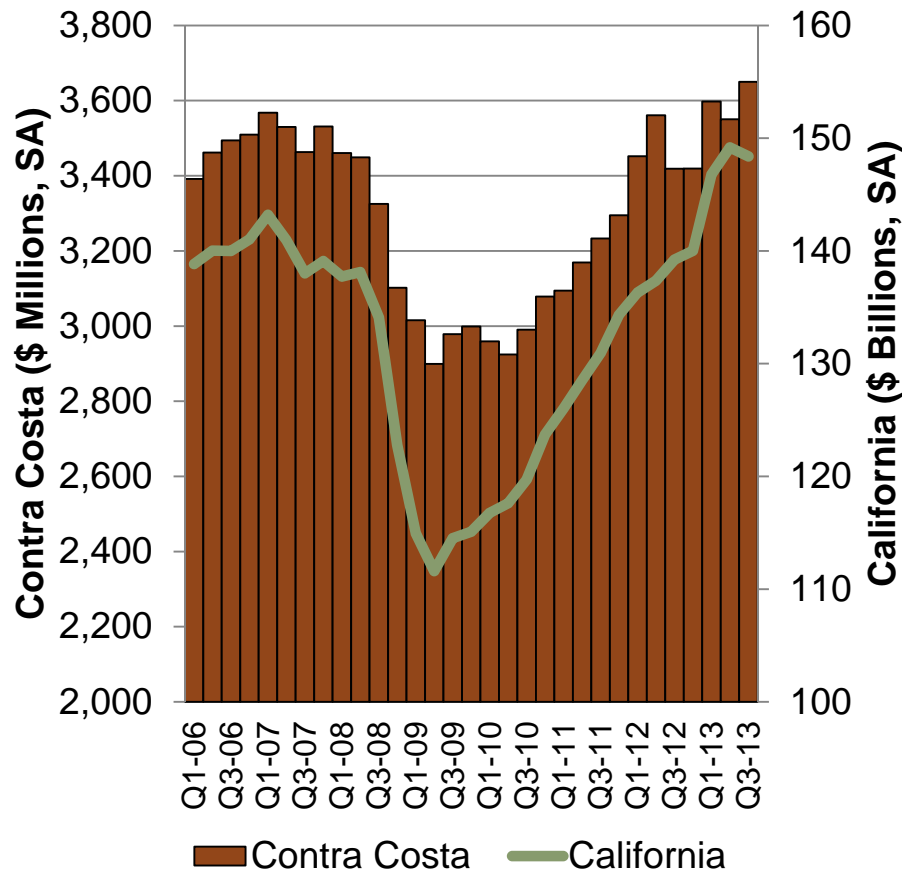


Not just the labor markets



Spending continues to improve

Taxable Sales



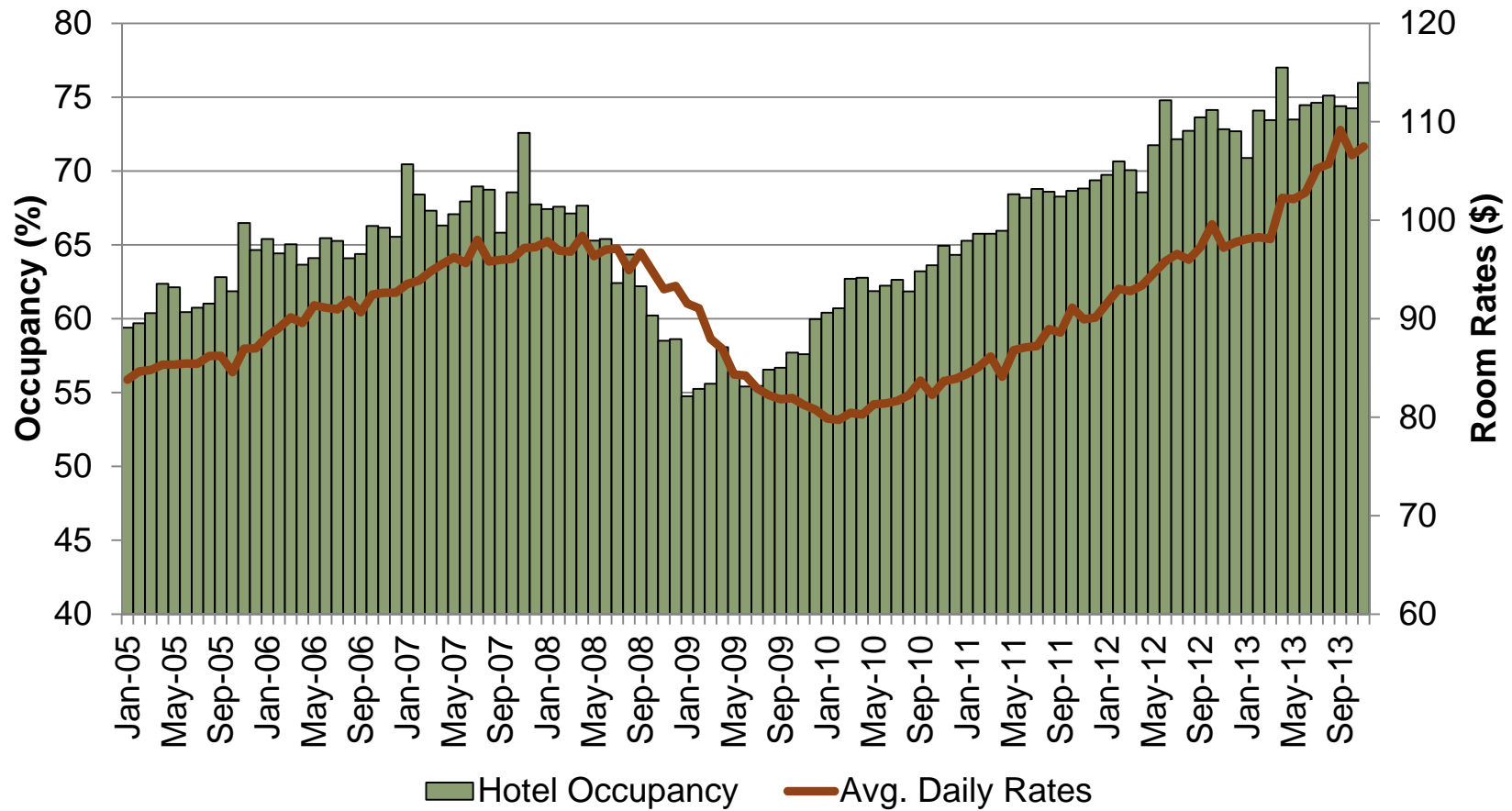
County	2012 YTD	2013 YTD	Change (%)
Central County	4,948,330	5,311,027	7.3
East County	1,800,178	1,661,936	-7.7
West County	1,487,427	1,617,011	8.7
Unincorporated	1,988,254	1,991,327	0.2
County Total	10,224,189	10,581,300	3.5

Not isolated to one type of spending

Category	2012 YTD	2013 YTD	Change (%)	CA Change (%)
Autos and Transportation	14,514,122	16,224,220	11.8	10.7
Building and Construction	7,552,955	7,894,047	4.5	7.8
Business and Industry	12,243,753	10,953,173	-10.5	2.4
Food and Drugs	6,860,759	7,072,254	3.1	3.0
Fuel and Service Stations	13,456,153	13,844,148	2.9	-3.0
General Consumer Goods	24,584,129	25,429,039	3.4	4.9
Restaurants and Hotels	10,243,397	10,975,815	7.2	6.6
Total	102,013,484	105,990,055	3.9	5.7

Outsiders having an impact

East Bay Hotels

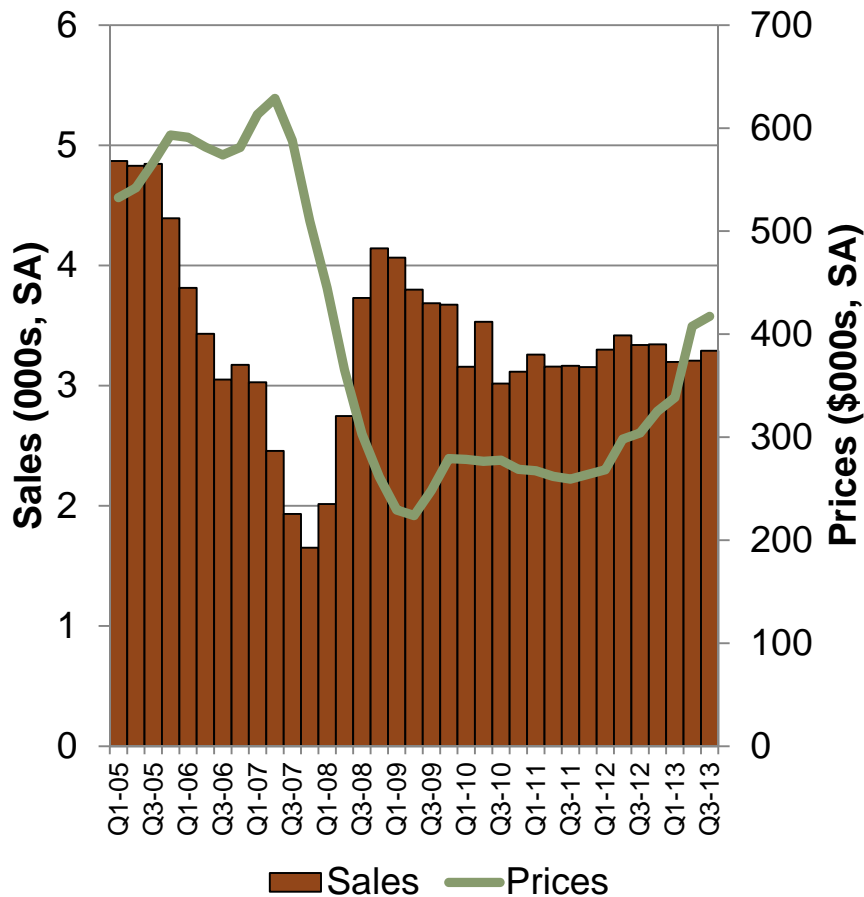


Real estate—a driver of growth



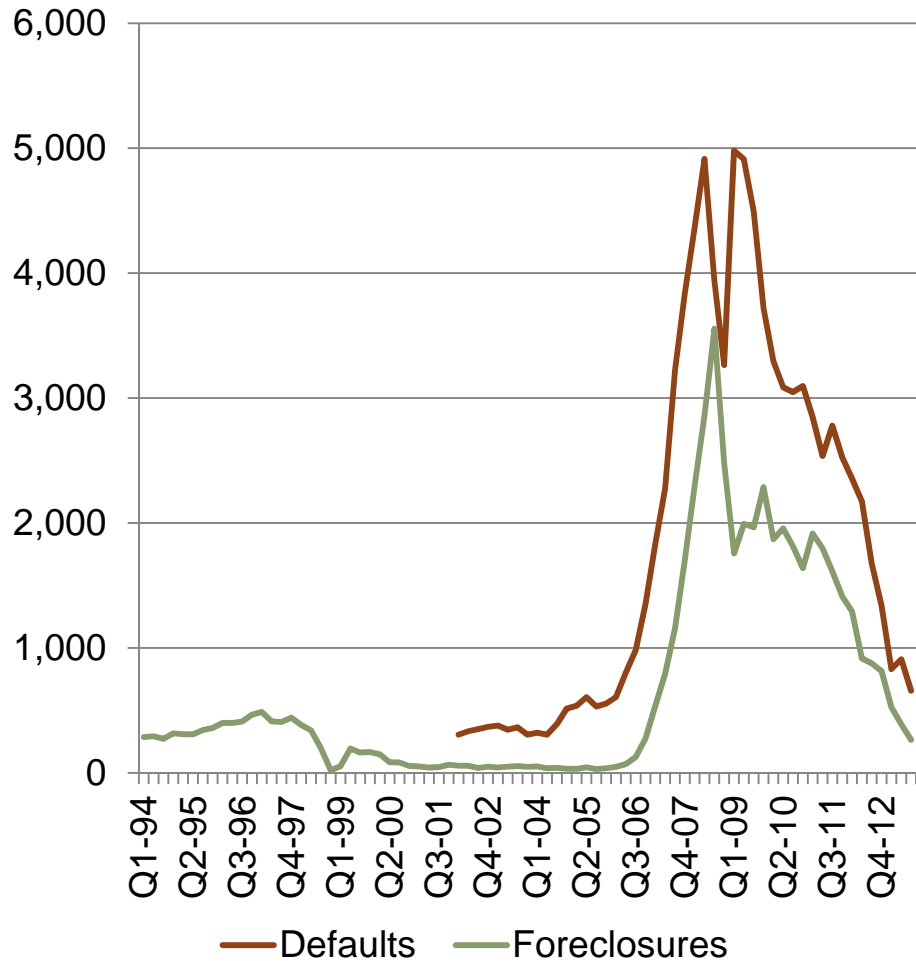
Local residential market

Contra Costa Real Estate



County/MSA	2012	2013	Year over Year (%)
Median Prices			
Contra Costa	304,093	417,233	37.2
Alameda	416,418	540,849	29.9
Los Angeles	341,613	439,593	28.7
Inland Empire	189,368	239,335	26.4
San Diego	372,123	453,058	21.7
Orange County	501,821	604,772	20.5
South Bay	586,006	701,448	19.7
San Francisco	714,564	840,113	17.6
California	275,298	351,876	27.8
Existing Home Sales			
San Diego	19,355	20,823	7.6
Orange County	16,721	17,913	7.1
Los Angeles	43,937	45,498	3.6
San Francisco	9,067	9,163	1.1
Inland Empire	43,718	43,176	-1.2
Alameda	9,782	9,579	-2.1
Contra Costa	10,057	9,695	-3.6
South Bay	11,175	10,742	-3.9
California	259,972	260,877	0.3

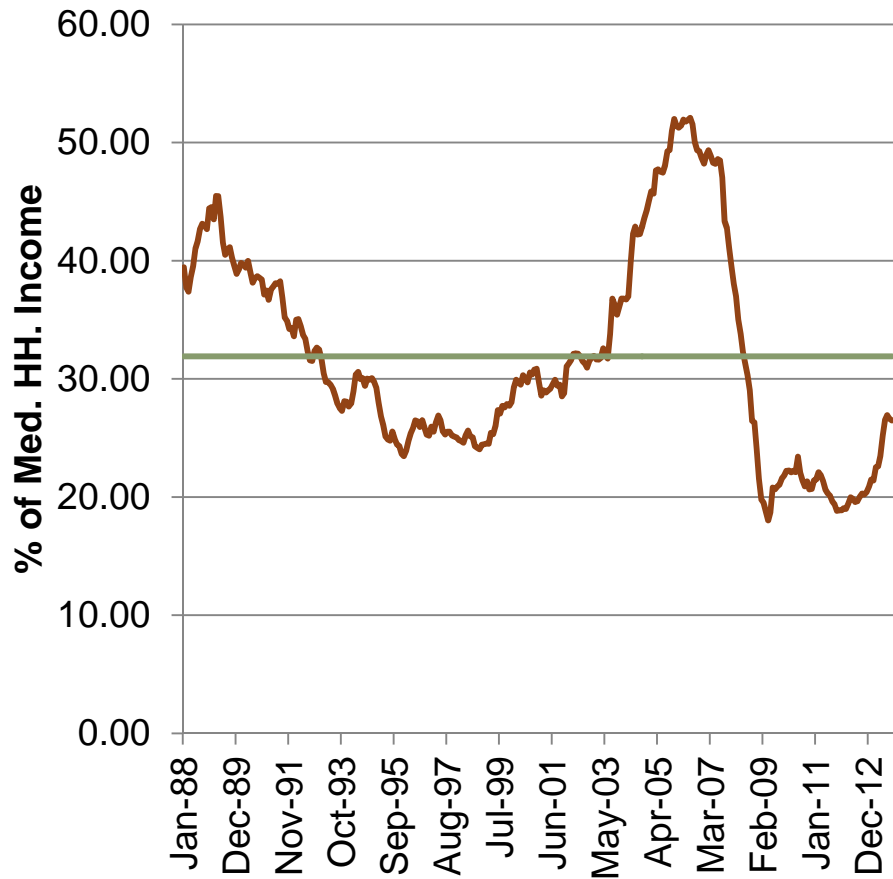
Fewer distressed units in the mix



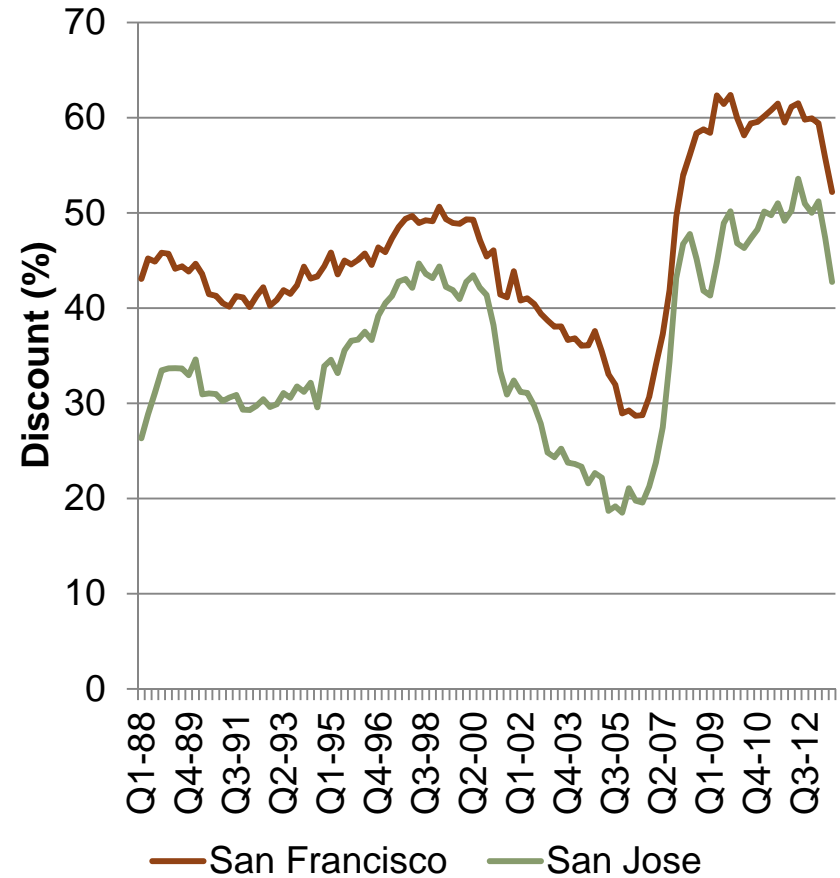
City	2012	2013	Change (%)
Defaults			
Brentwood	463	158	-65.8
Richmond	477	174	-63.5
Concord	666	250	-62.4
Antioch	880	439	-50.1
County Total	6,205	2,397	-61.4
Foreclosures			
Concord	402	133	-67.0
Brentwood	220	74	-66.5
Antioch	518	184	-64.5
Richmond	277	119	-57.2
County Total	3,085	1,180	-61.8

Demand drivers still solid

California Housing Affordability

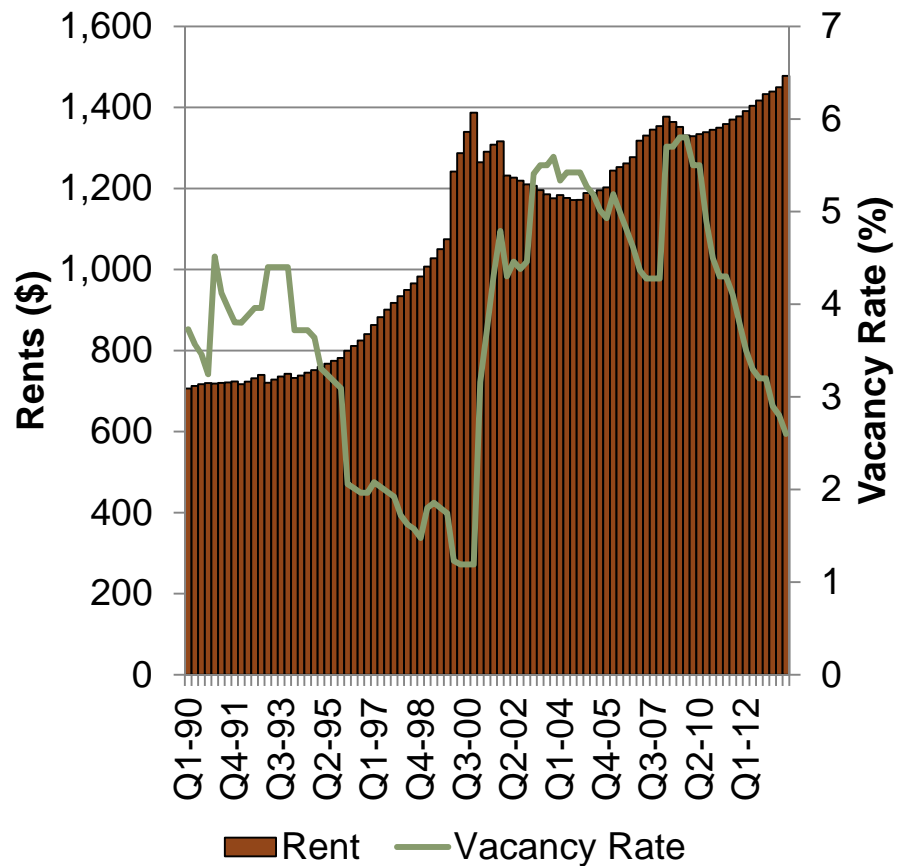


Contra Costa Discount

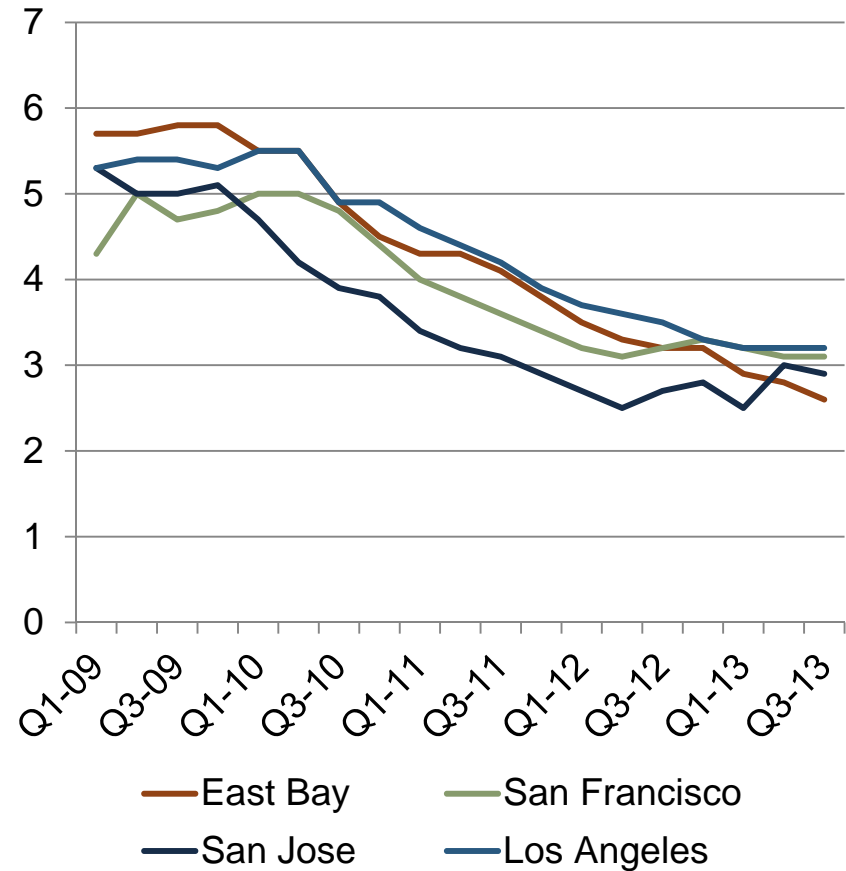


Apartment market is hot

East Bay Apartments

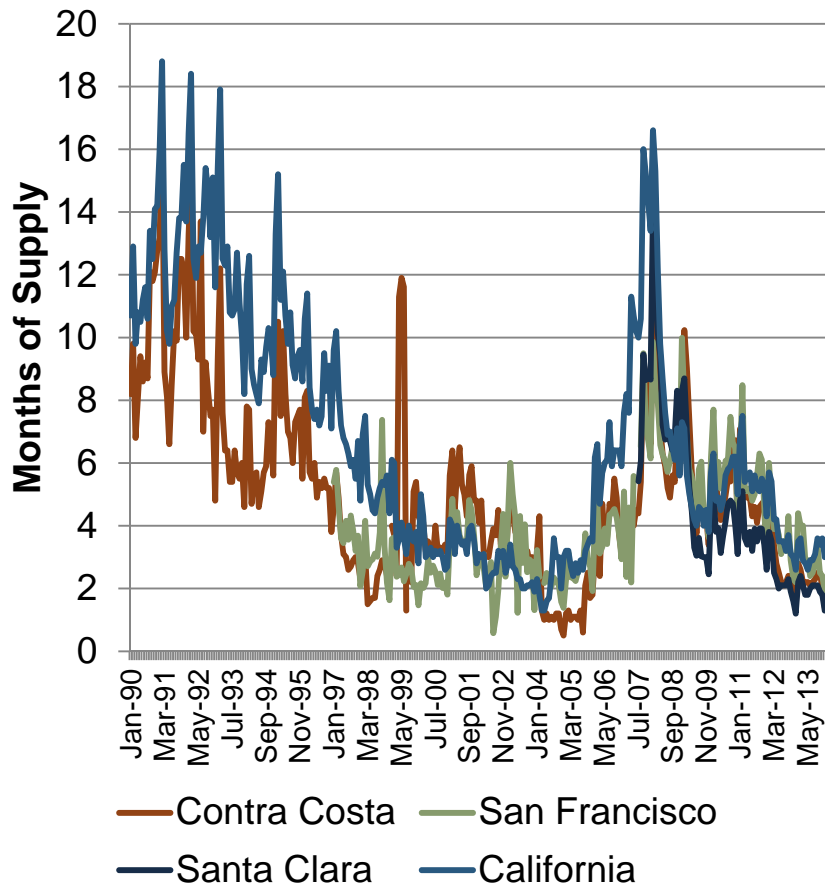


Apartment Vacancies



Builders getting back to business

Housing Inventory



City	2012 YTD	2013 YTD	Change (%)
Multi-Family Units			
Central County	61	332	444.3
East County	98	30	-69.4
West County	27	0	-100.0
Unincorporated	461	0	-100.0
County Total	647	362	-44.0
Single-Family Units			
Central County	99	164	65.7
East County	671	878	30.8
West County	33	6	-81.8
Unincorporated	263	273	3.8
County Total	1,052	1,321	25.6
Total Residential			
Central County	160	496	210.0
East County	769	908	18.1
West County	60	6	-90.0
Unincorporated	724	273	-62.3
County Total	1,699	1,683	-0.9

Commercial: slower out of the gate



Markets are improving

Location	Offices (Q3-13)	Office Change (YoY, %)	Retail (Q3-13)	Retail Change (YoY, %)
Cost of Rent				
Bakersfield	19.54	0.98	20.90	-0.95
Inland Empire	21.28	-0.23	20.63	0.29
Los Angeles	32.76	1.64	29.50	1.27
East Bay	26.26	1.27	28.14	0.75
Orange Co.	27.45	2.20	31.14	1.43
Sacramento	23.71	0.08	21.98	0.78
San Diego	28.59	1.20	28.78	1.41
San Fran.	43.69	7.72	33.14	0.85
San Jose	31.68	5.28	31.36	1.75

Location	Offices (Q3-13)	Office Change (YoY, %)	Retail (Q3-13)	Retail Change (YoY, %)
Vacancy Rate				
Bakersfield	11.50	-0.50	9.70	-1.10
Inland Empire	24.00	-0.50	10.00	-0.20
Los Angeles	15.80	0.00	6.00	-0.10
East Bay	17.90	-0.60	6.30	0.10
Orange Co.	17.30	-1.70	5.60	-0.20
Sacramento	21.30	0.40	12.50	0.10
San Diego	16.30	-0.50	6.20	-0.20
San Fran.	13.30	-0.10	3.90	0.00
San Jose	18.60	-1.00	5.80	-0.10

Building resuming, mixed results

City	2012 YTD	2013 YTD	Change (%)
Central County	94,406,811	153,830,803	62.9
Pleasant Hill	1,874,400	17,914,266	855.7
San Ramon	42,723,711	87,157,097	104.0
Walnut Creek	18,318,275	27,701,998	51.2
Martinez	4,953,871	7,326,495	47.9
Danville	3,894,729	4,739,522	21.7
Lafayette	4,338,002	3,236,399	-25.4
Orinda	5,264,089	3,806,365	-27.7
Clayton	534,603	378,153	-29.3
Concord	12,505,131	1,570,508	-87.4
East County	12,320,084	26,223,790	112.9
Antioch	1,108,716	12,301,959	1,009.6
Oakley	1,179,184	3,355,851	184.6
Brentwood	2,771,105	4,126,129	48.9
Pittsburg	7,261,079	6,439,851	-11.3
West County	36,324,019	65,847,173	81.3
San Pablo	884,494	3,295,620	272.6
El Cerrito	1,008,700	3,277,375	224.9
Hercules	503,000	1,131,318	124.9
Richmond	29,619,743	54,752,585	84.9
Pinole	4,308,082	3,390,275	-21.3
Unincorporated	31,107,890	77,097,228	147.8
County Total	175,000,422	331,620,338	89.5

The forecasts

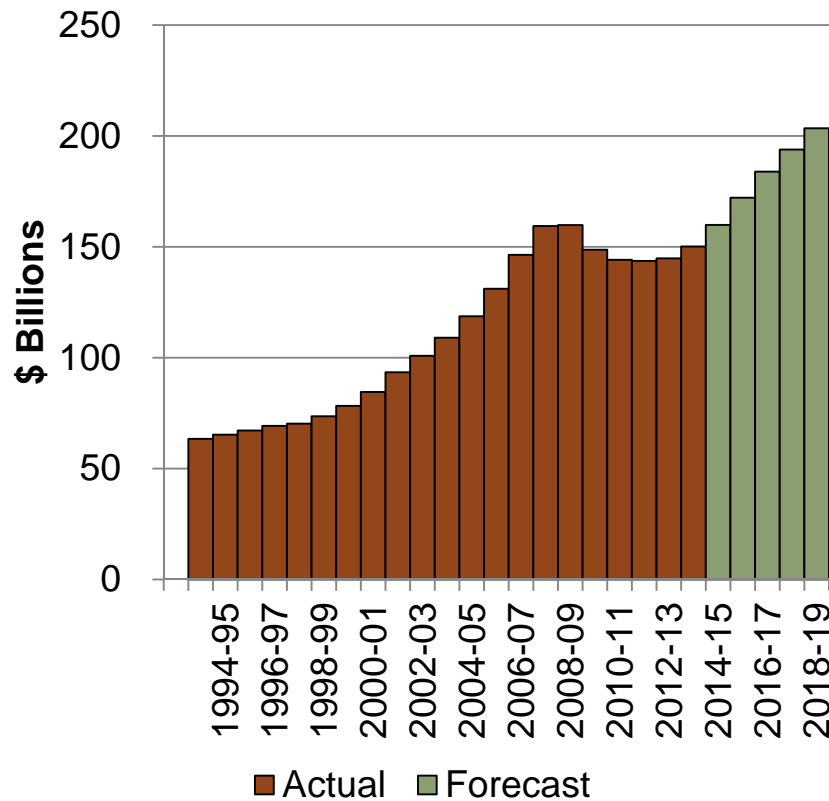


3-year economic forecast

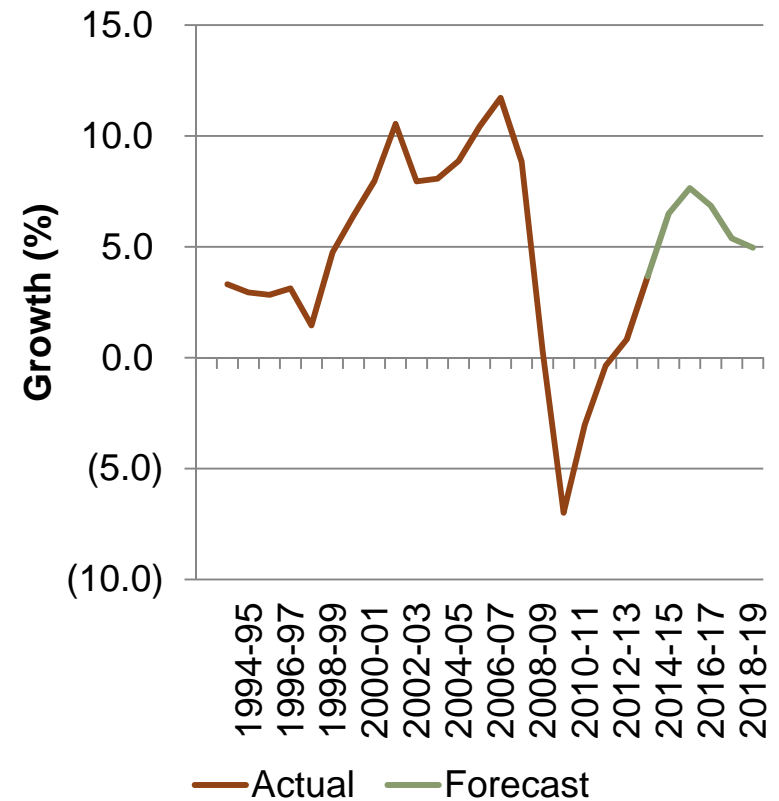
Indicator	2013	2014	2015	2016
Total Population	1,084,564	1,101,501	1,117,995	1,133,870
Pop. Growth (%)	1.3	1.6	1.5	1.4
Unemployment Rate	7.3	6.5	5.7	4.9
Total Nonfarm Employment	991.1	1,007.4	1,036.6	1,070.0
Employment Growth (%)	1.2	1.6	2.9	3.2
Median Home Price	395,556	445,447	474,734	498,197
Home Price Growth (%)	32.3	12.6	6.6	4.9
Home Sales	13,099	14,632	15,575	15,884
Home Sales Growth (%)	-2.2	11.7	6.4	2.0
Nonresidential Permit Values (\$ Millions)	272.7	300.3	315.7	344.1
Nonres. Permit Growth (%)	12.6	10.1	5.1	9.0
Single-Family Building Permits (000s)	1.4	1.9	2.7	3.4
Multi-Family Building Permits (000s)	0.7	0.9	1.7	2.3
Taxable Sales (\$ Millions)	14,503	15,387	16,328	17,381

Property tax outlook

Assessed Valuation



AV Growth



Wrap-up

- Local economy has been slower out of the gate
- But... East Bay and Contra Costa are in a recovery:
 - Employment is growing
 - Consumers are spending
 - Housing and apartments are hot
 - New construction is slowly coming back
 - Many local strengths to leverage going forward
- Forecasting continued growth in 2014 and beyond



Our Services

- Economic Forecasting
- Regional Intelligence Reports
- Business & Market Analysis
- Real Estate Market Analysis
- Ports & Infrastructure Analysis
- Economic Impact Analysis
- Public Policy Analysis

To view or download this presentation please visit:

www.BeaconEcon.com

Jordan@BeaconEcon.com

310-571-3399

For additional information visit www.beaconecon.com