Casden Real Estate Economics Forecast
November 10, 2022

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University of Southern California

USC Lusk Center for Real Estate

Agenda

- Four uncertainties
  - Inflation
  - Interest Rates
  - Migration
  - Recession
- Forecast

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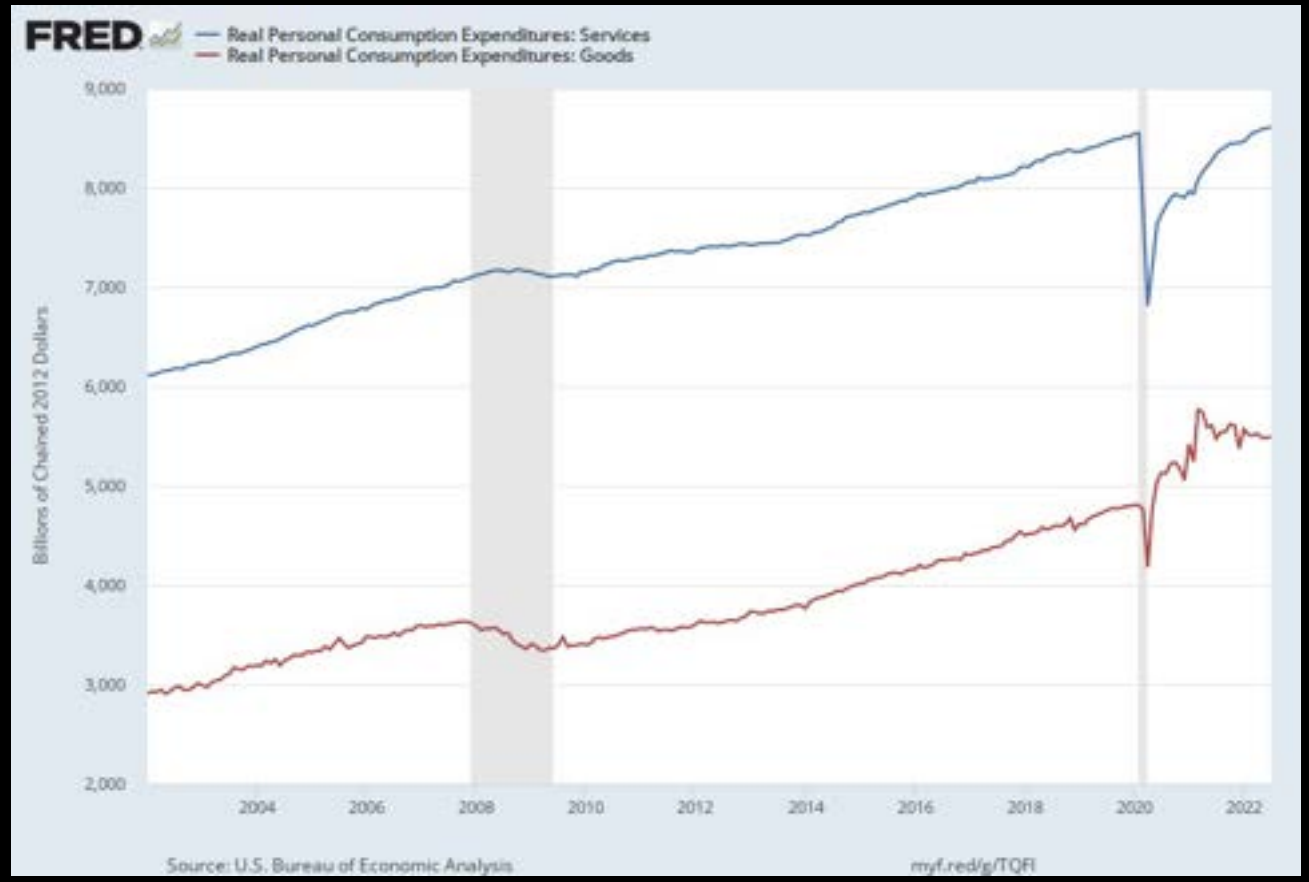
Goods and Services Spending



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Natural Gas

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Employment Cost Index

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Two measures of the same index

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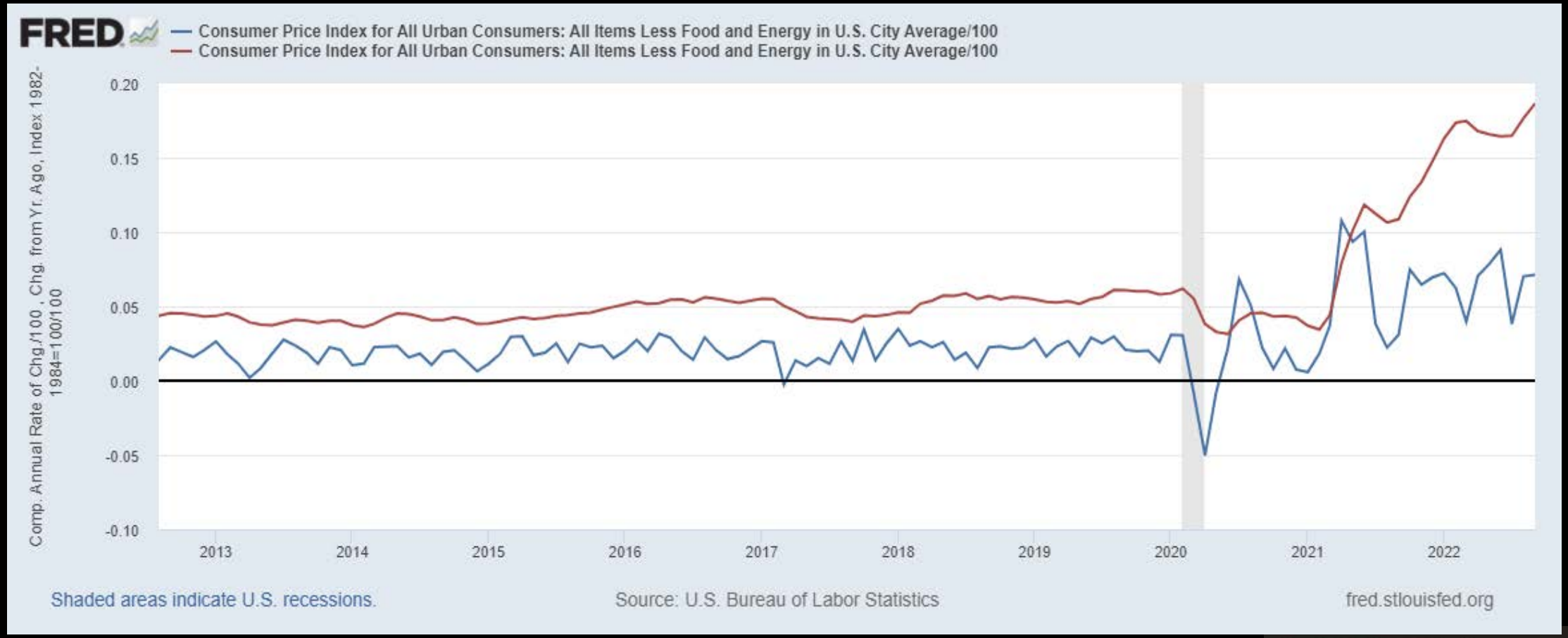
Core CPI



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Expectations: Breakeven Rate

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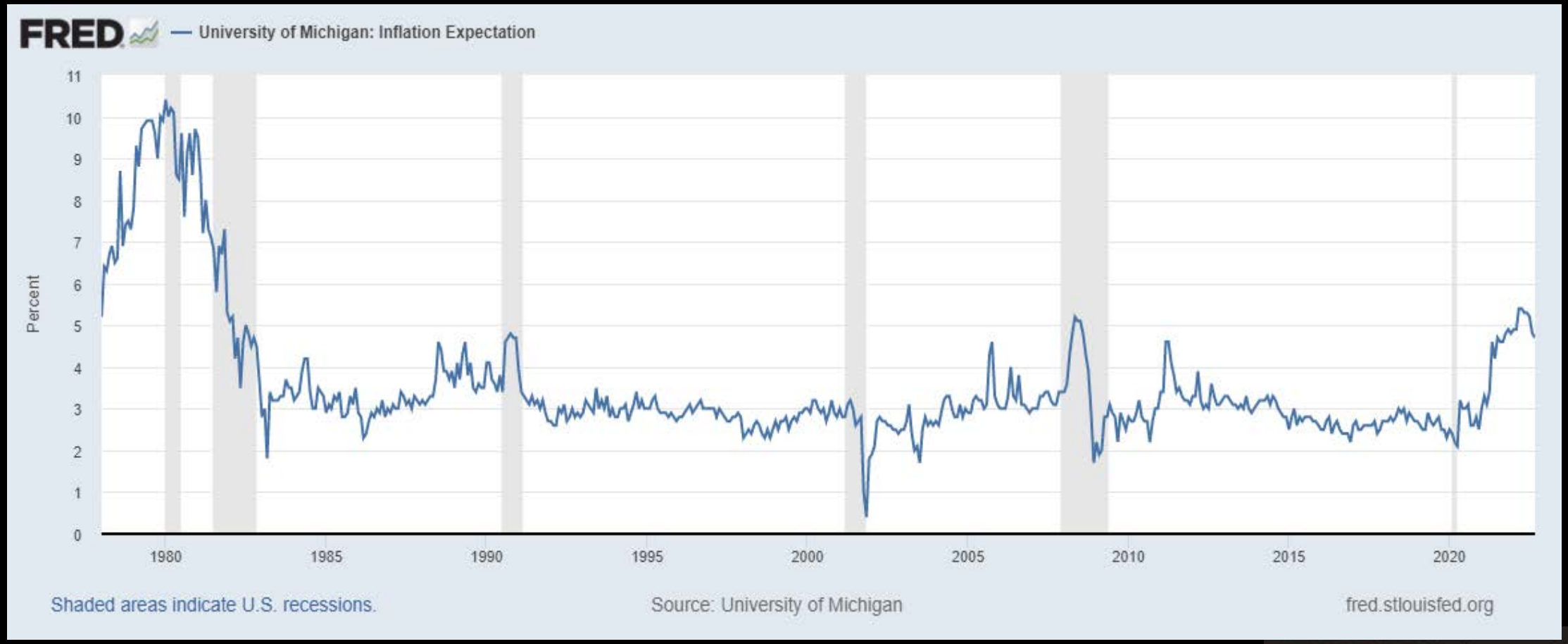
Inflationary Expectations: Michigan



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Inflationary Expectations: Cleveland Fed

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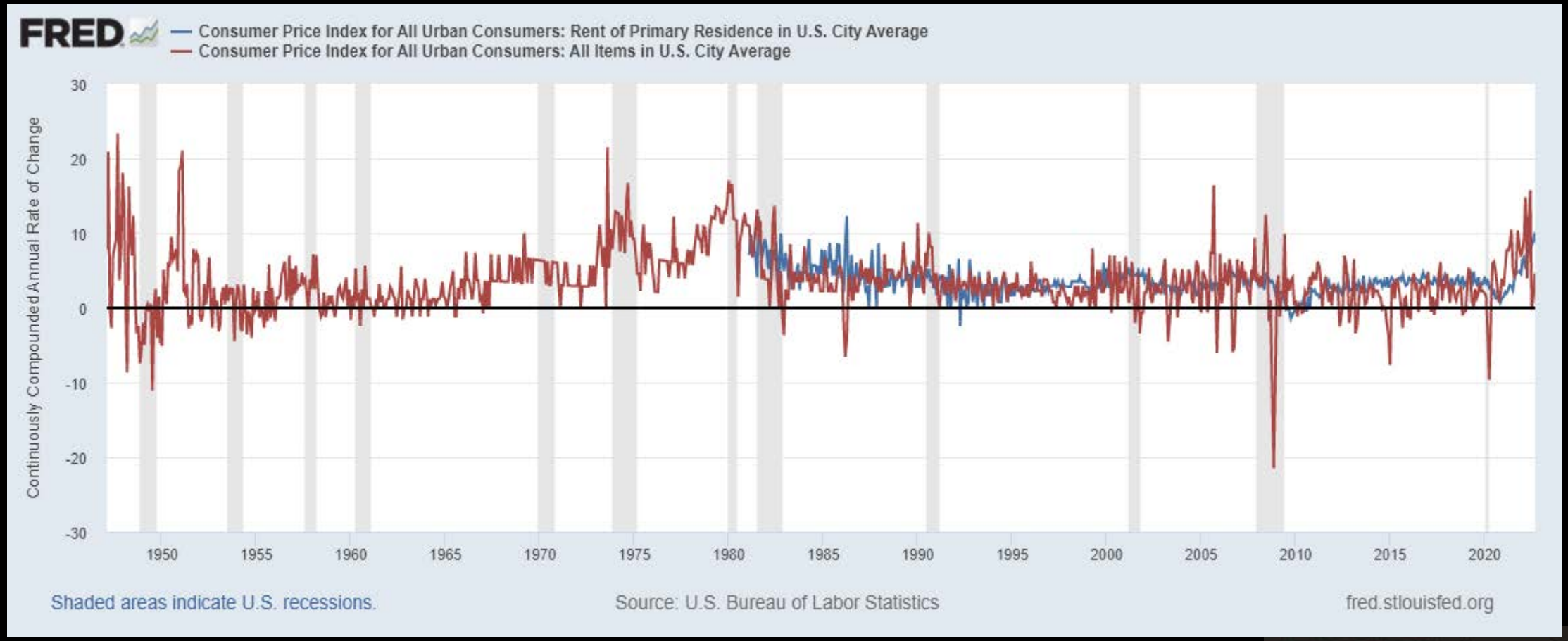
CPI and CPI Rent



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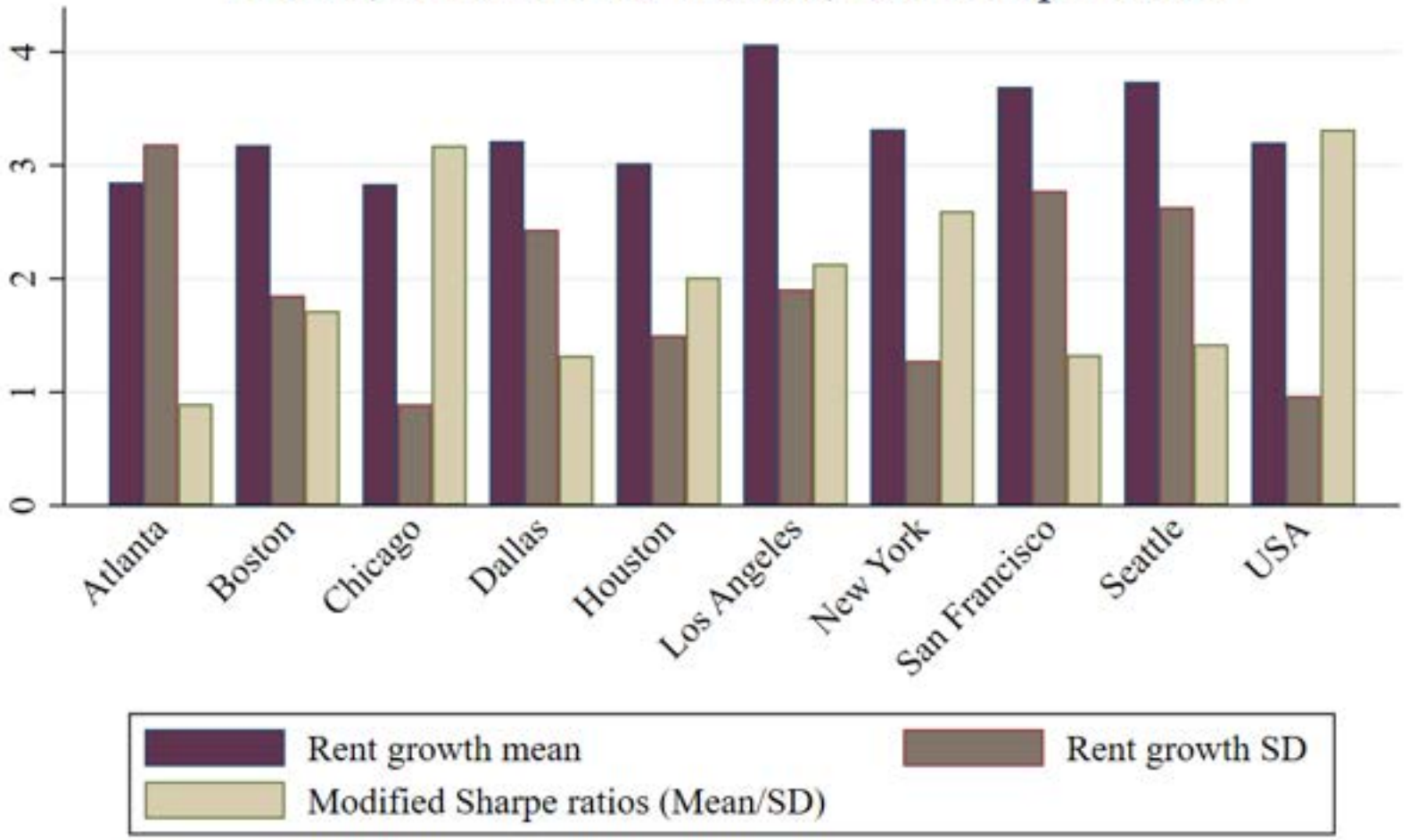
CPI Annual Rent Growth (1998-2022): Means, Standard Deviations, and Sharpe Ratios



Source: BLS and Author calculations

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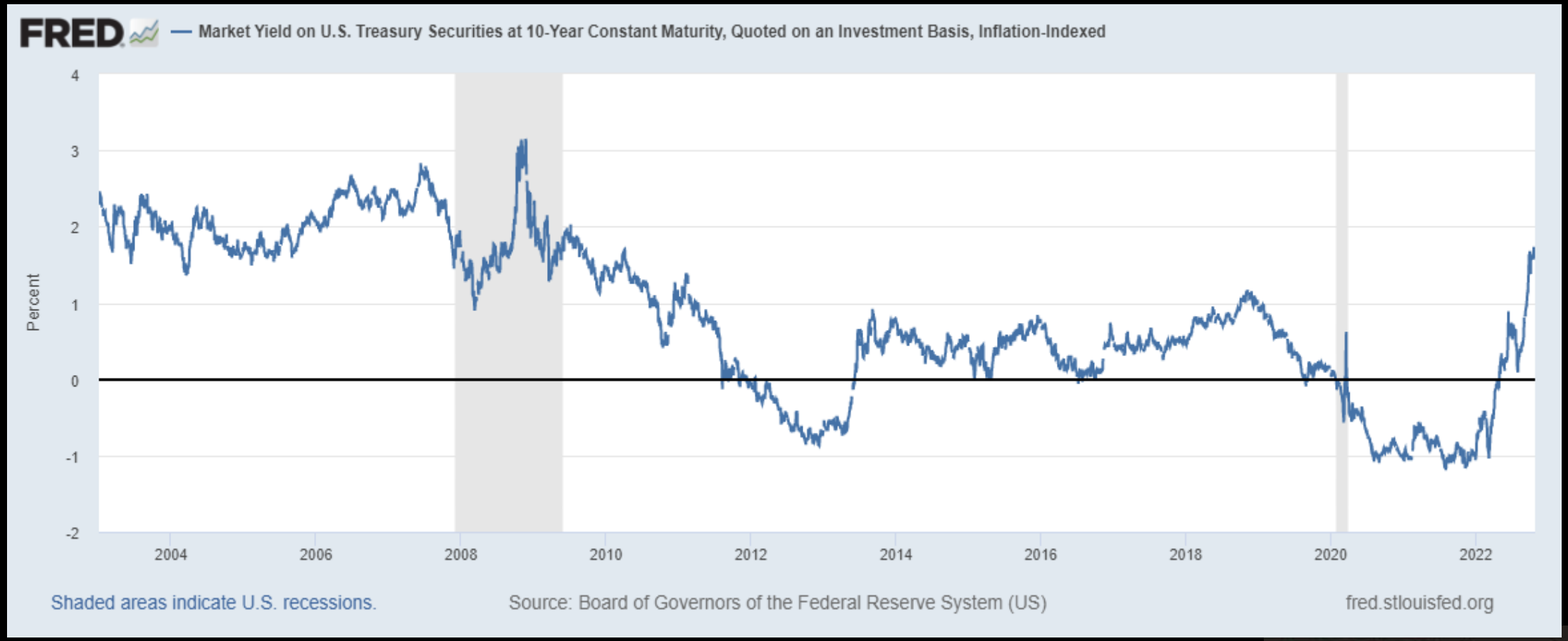
TIPS—real rates are going up



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TIPS and SoCal Cap Rates

Random-effects GLS regression — Number of obs = 2,556
Group variable: **market_code** — Number of groups = 36

R-squared:
- Within = **0.0694**
- Between = **0.0025**
- Overall = **0.0493**

Obs per group:
- min = 23
- avg = 71.0
- max = 79

Wald chi2(1) = 187.88
corr(u_i, X) = **0** (assumed) — Prob > chi2 = 0.0000

caprate	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
tr_sec_yield	.2694881	.0196609	13.71	0.000	.2309536	.3080227
_cons	5.17961	.1073913	48.23	0.000	4.969127	5.390093
sigma_u	.62542535					
sigma_e	.99149401					
rho	.28463976	(fraction of variance due to u_i)				

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Yield Curve: Markets are forecasting a small decline in interest rates

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Mortgage rate spreads are rising

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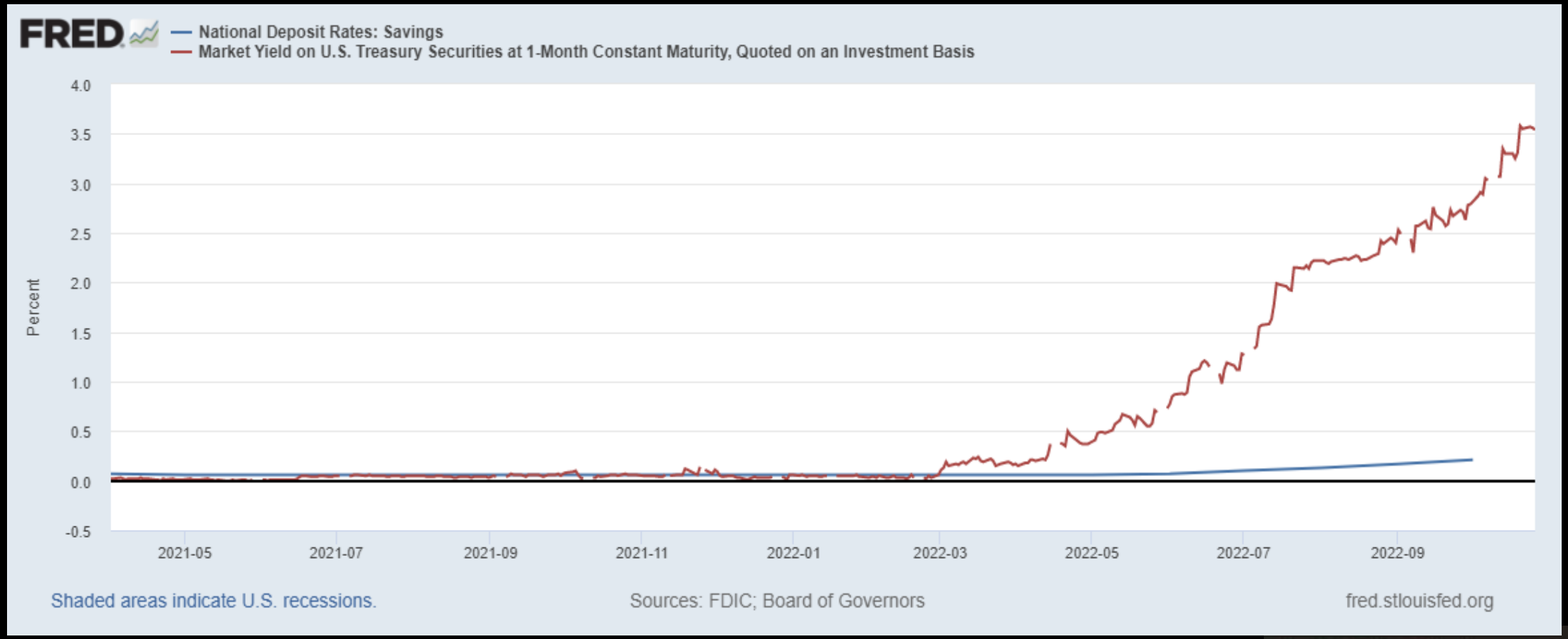
Banking and money markets: is there a problem? Spreads between One-month treasuries and deposits.



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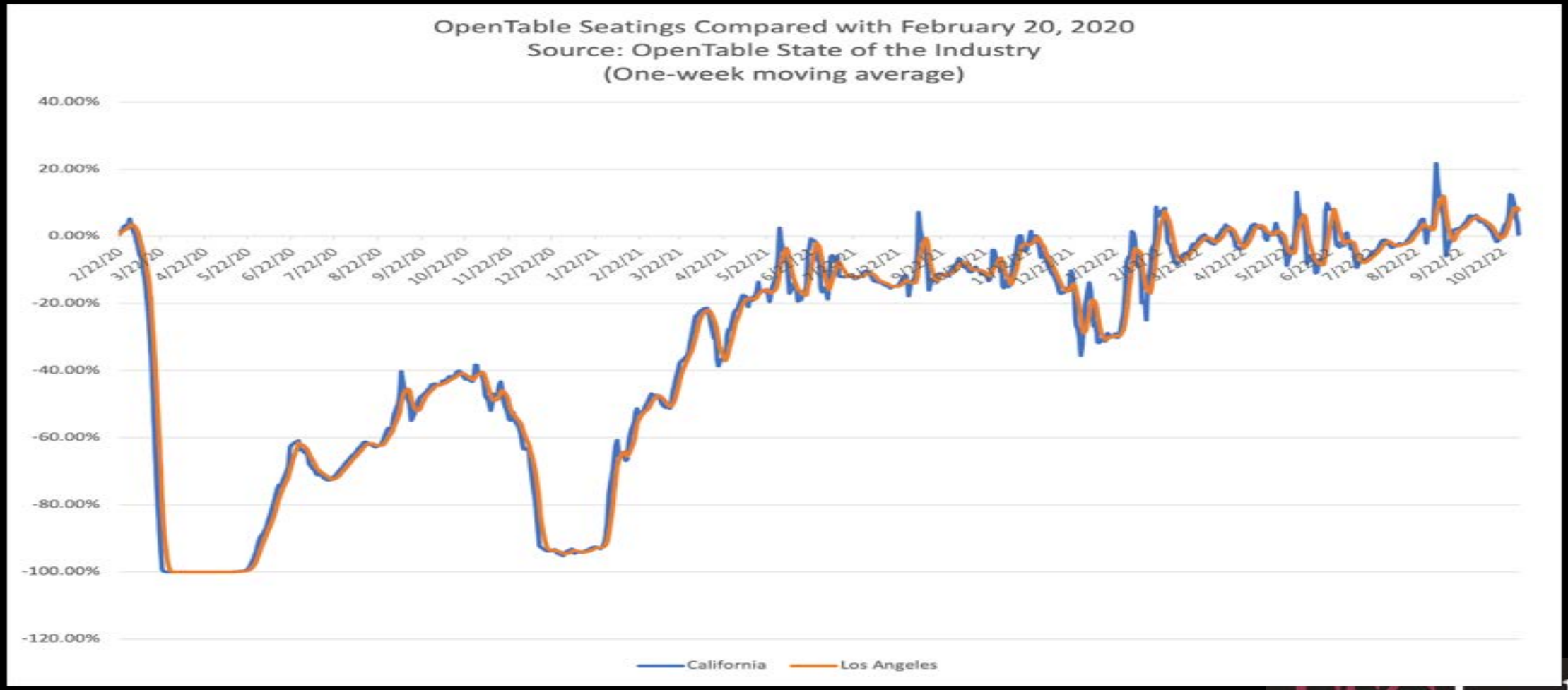
Good news for cities: people are eating out again.



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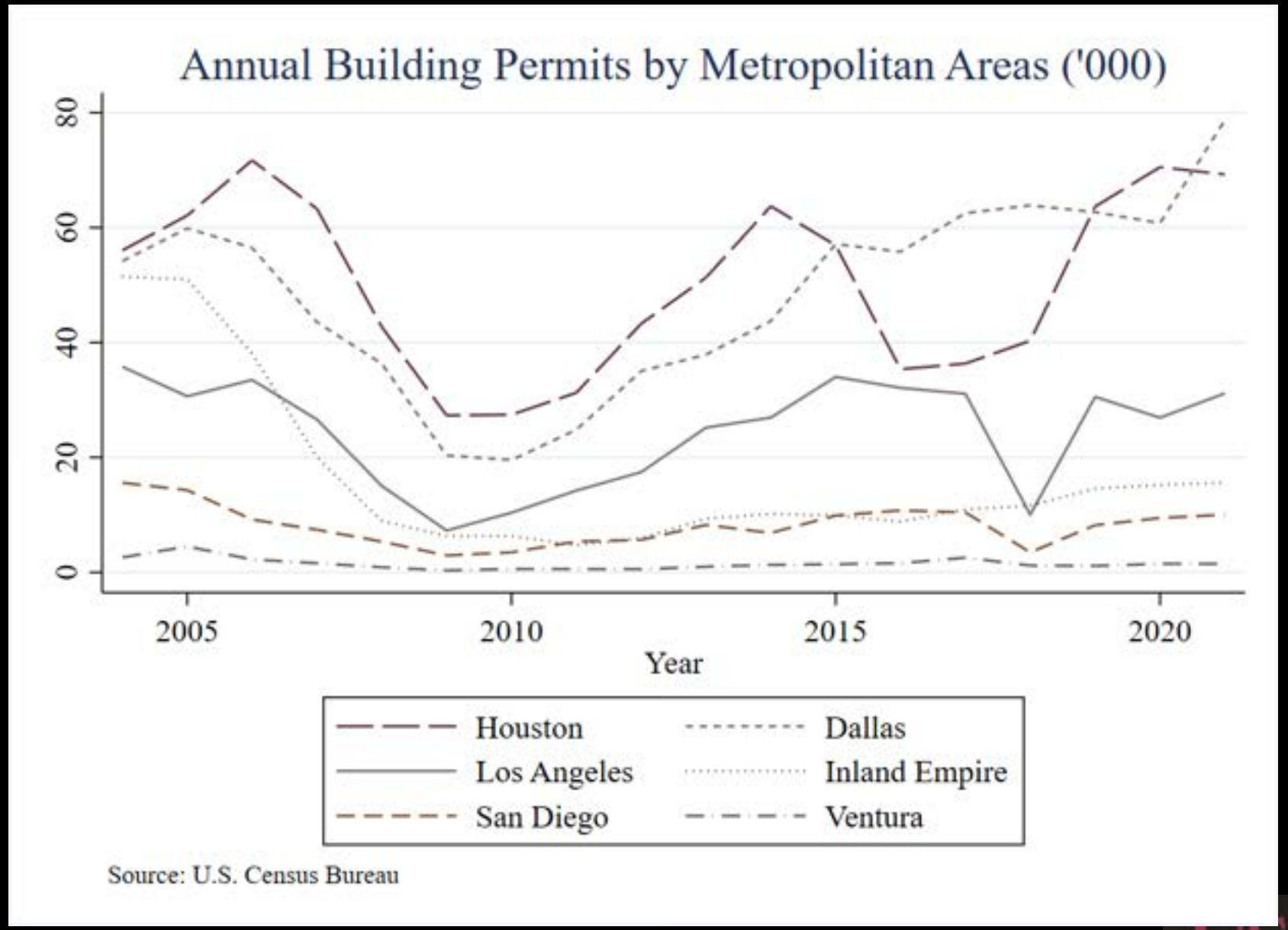

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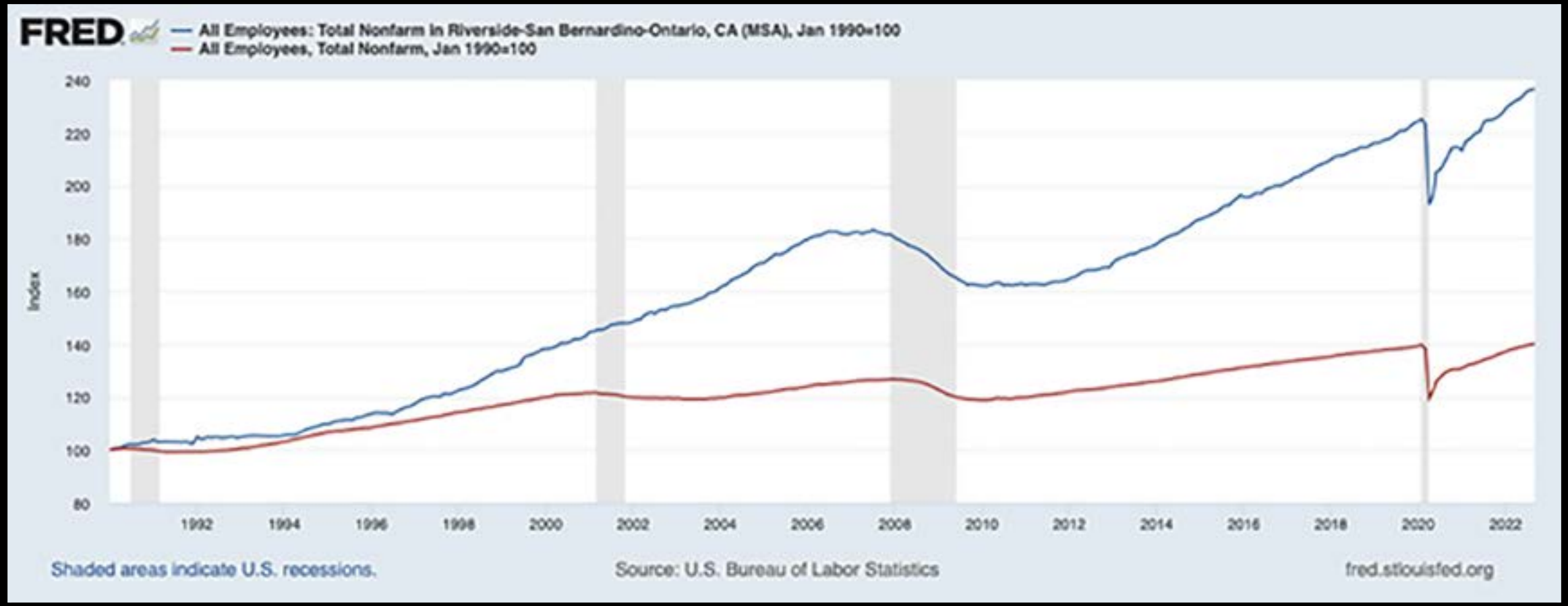
Inland Empire Fundamental: Employment Growth



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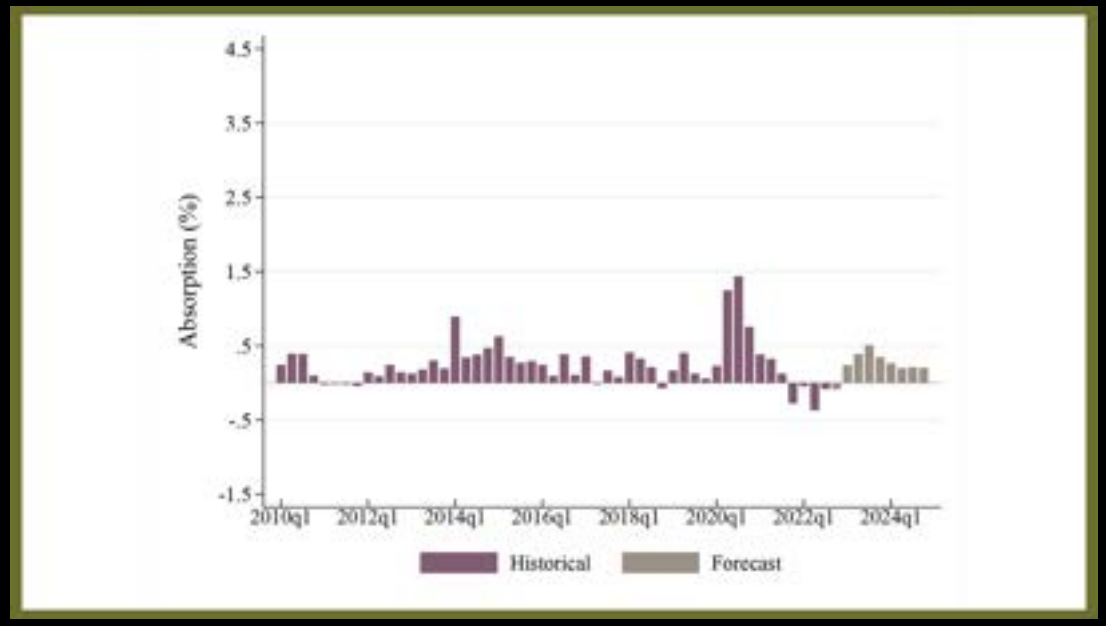
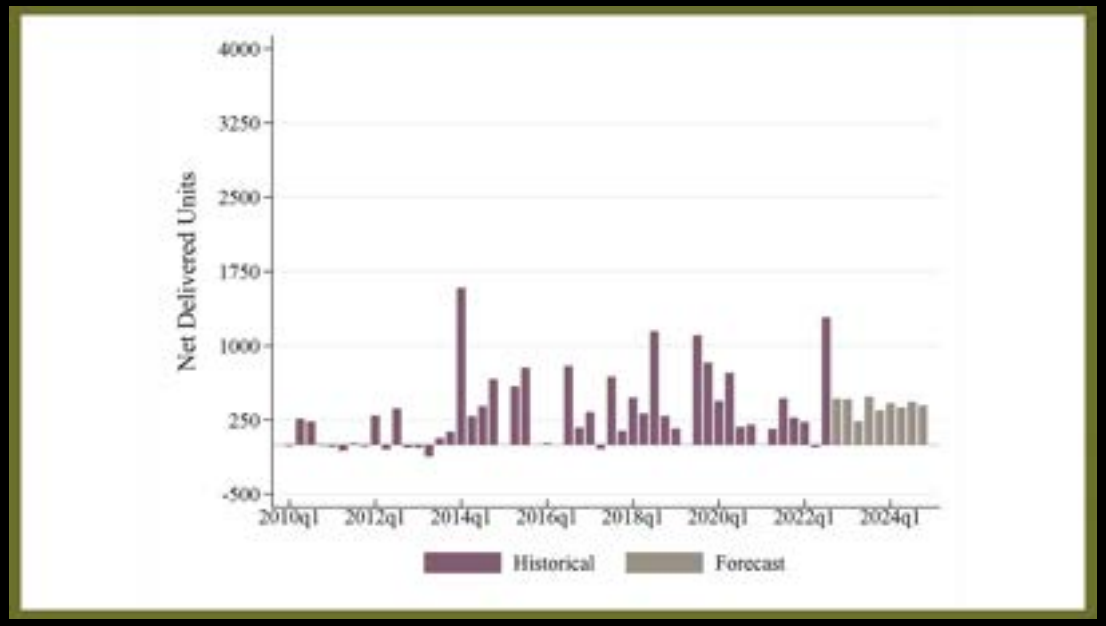
Inland Empire





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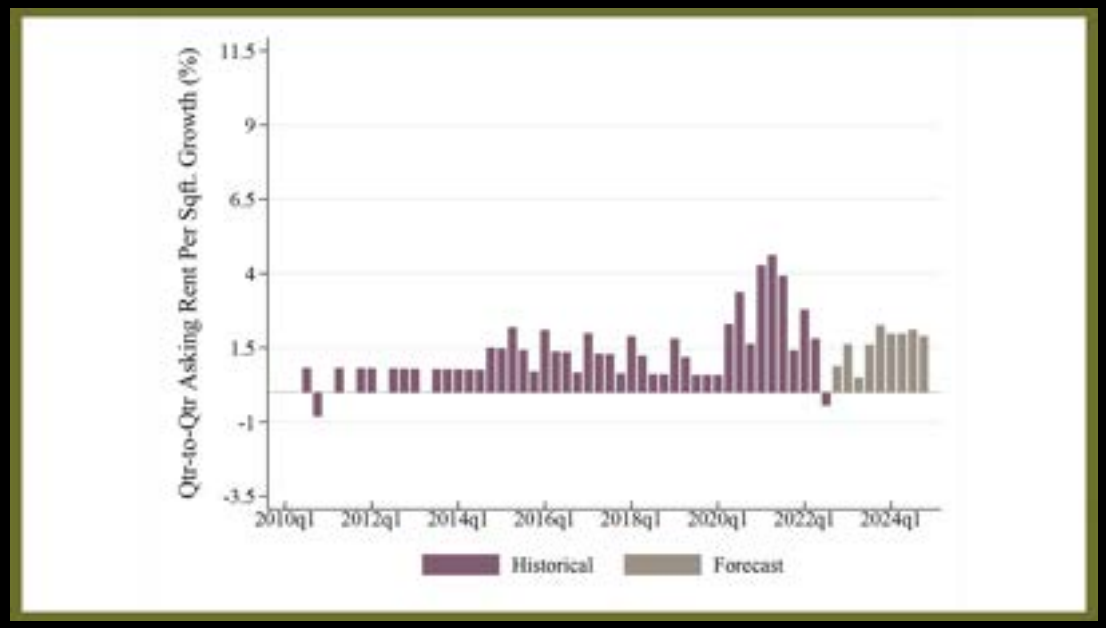

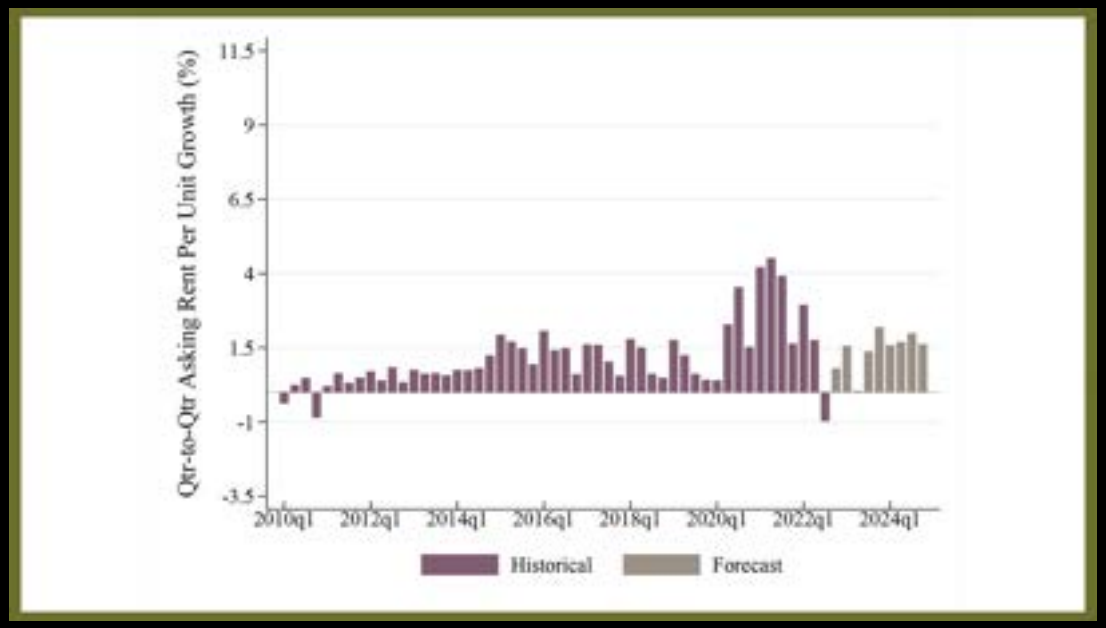

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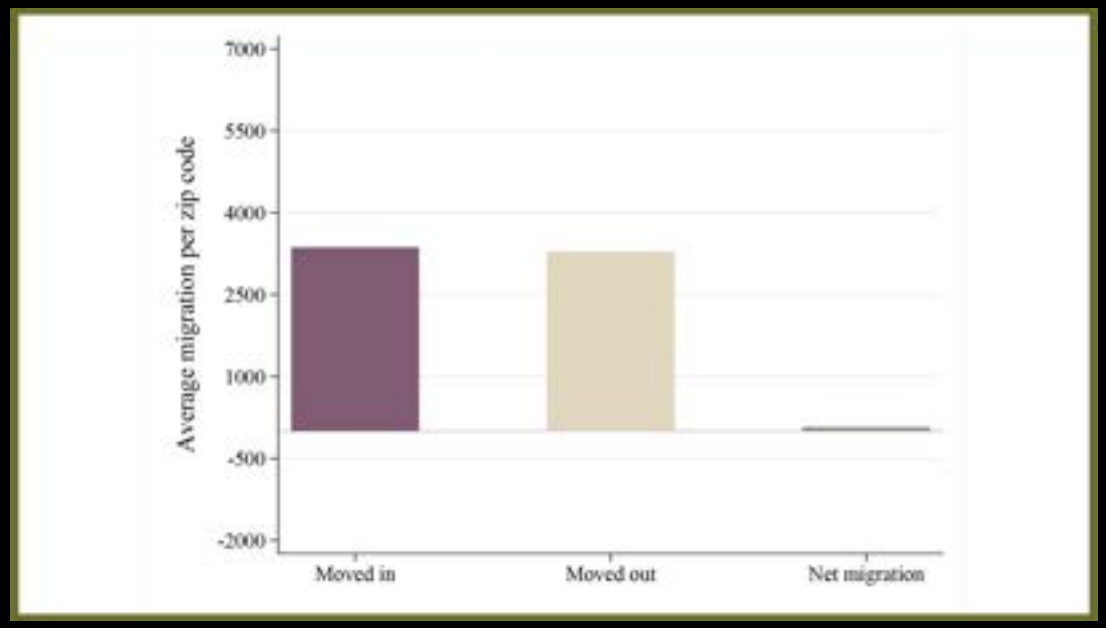

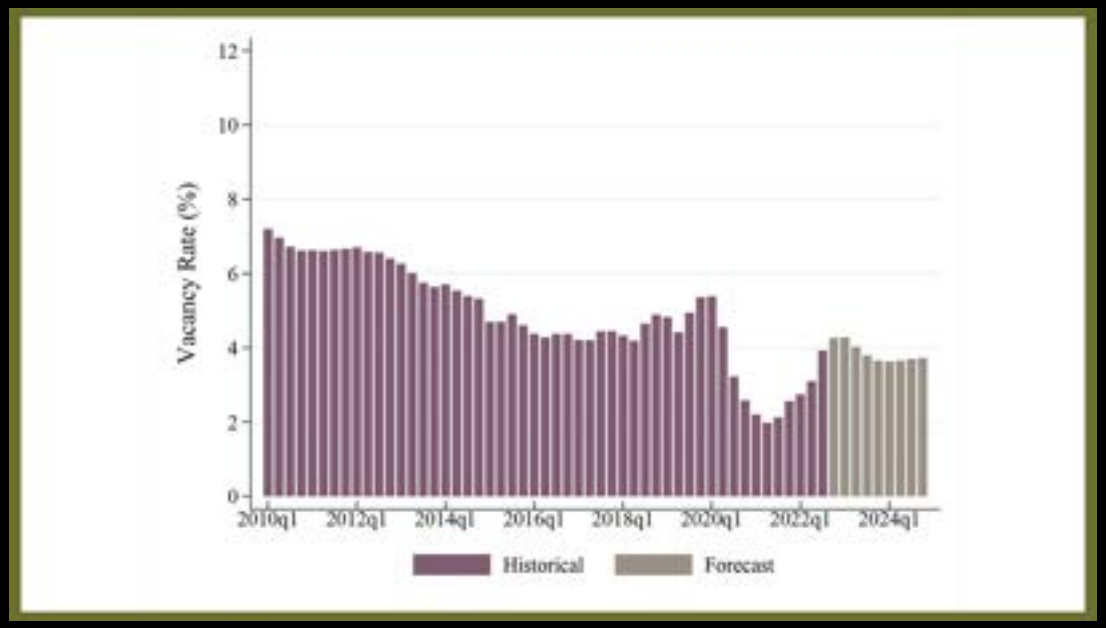

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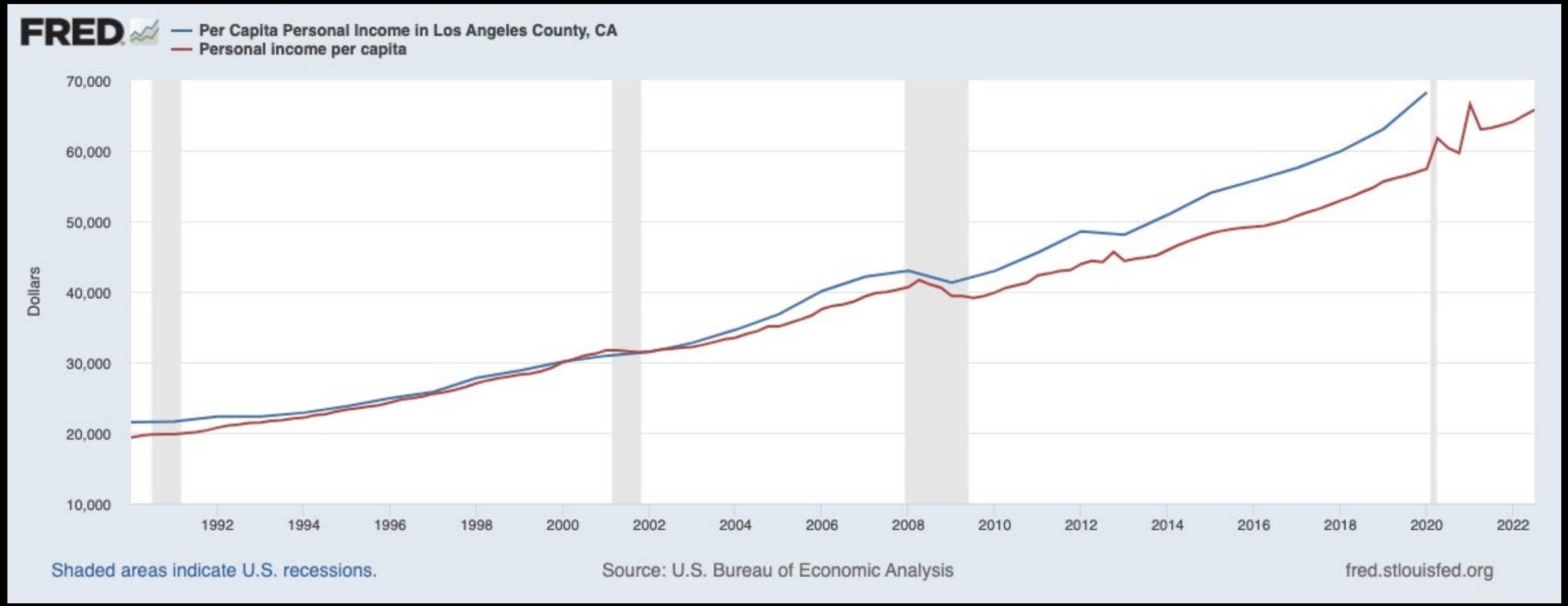
Los Angeles Fundamental



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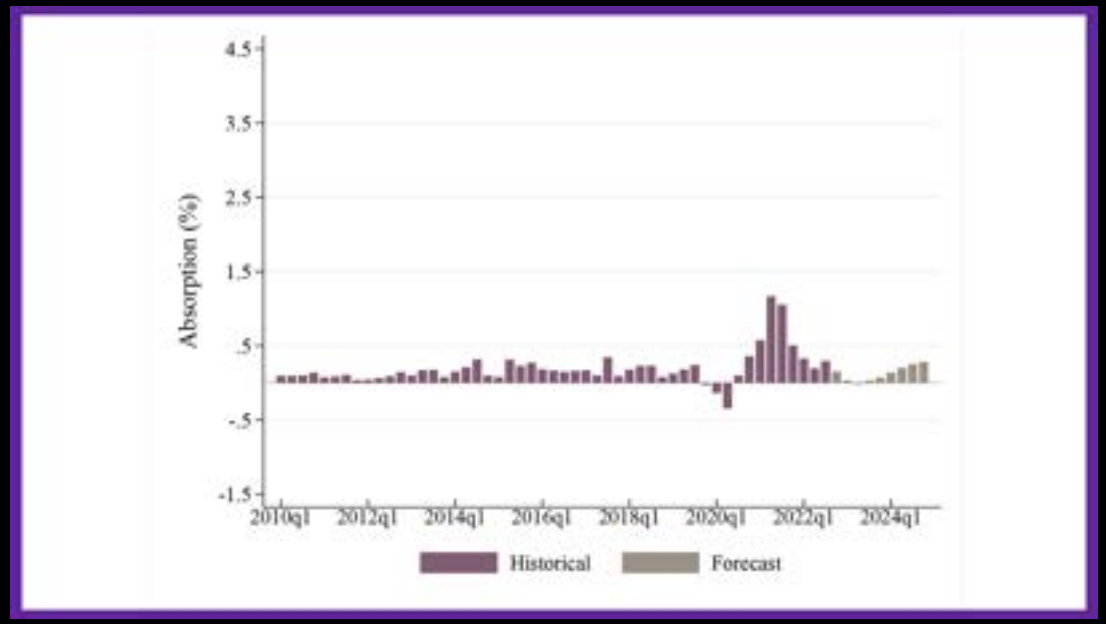
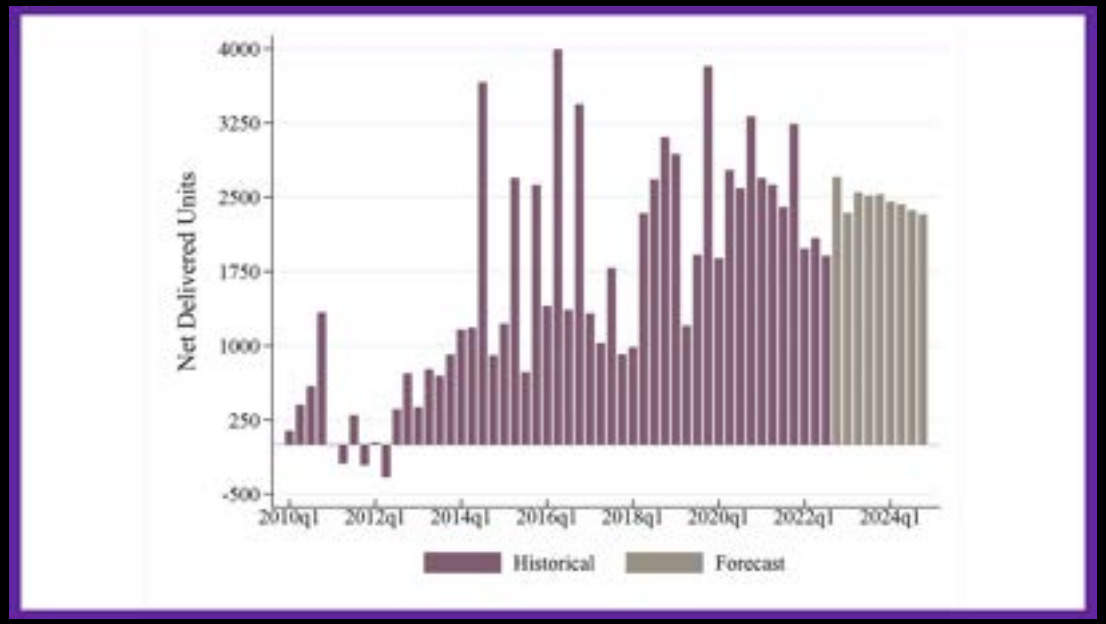
Los Angeles





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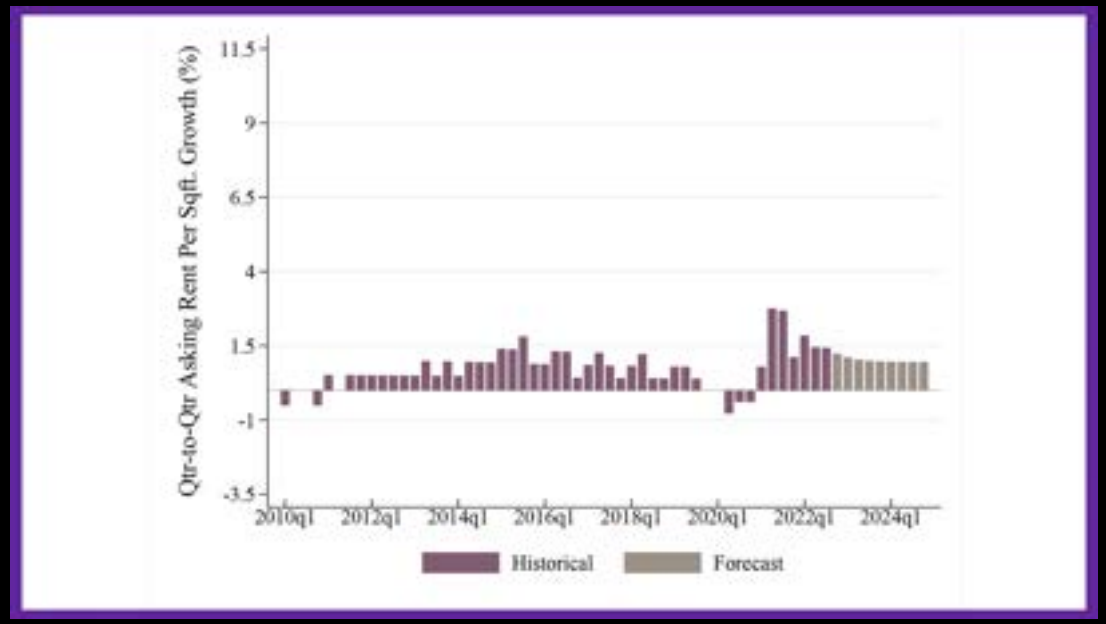

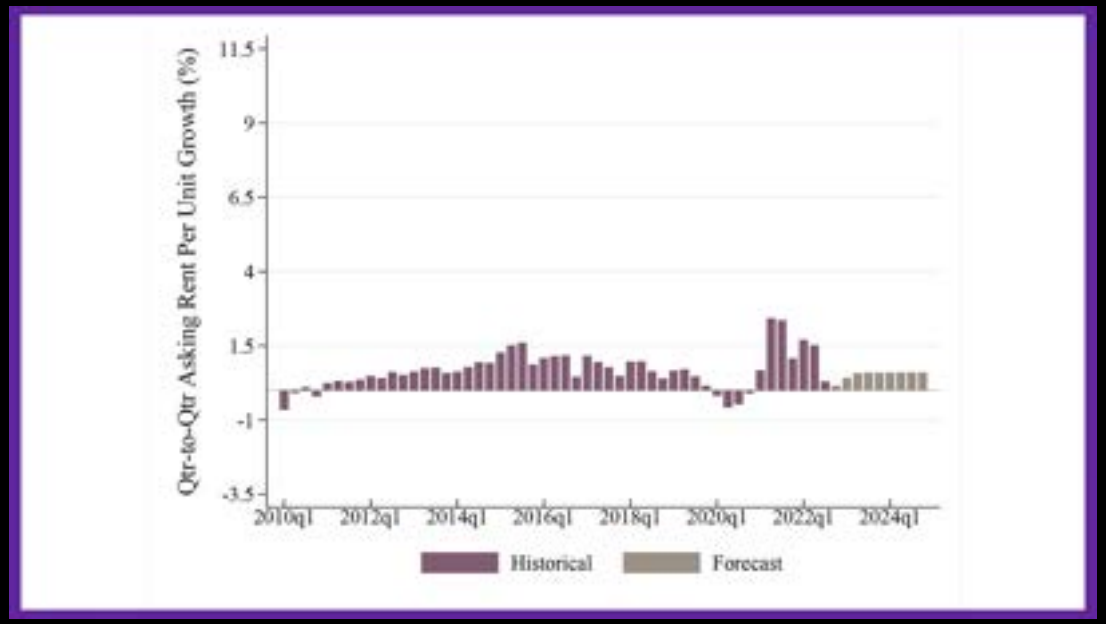

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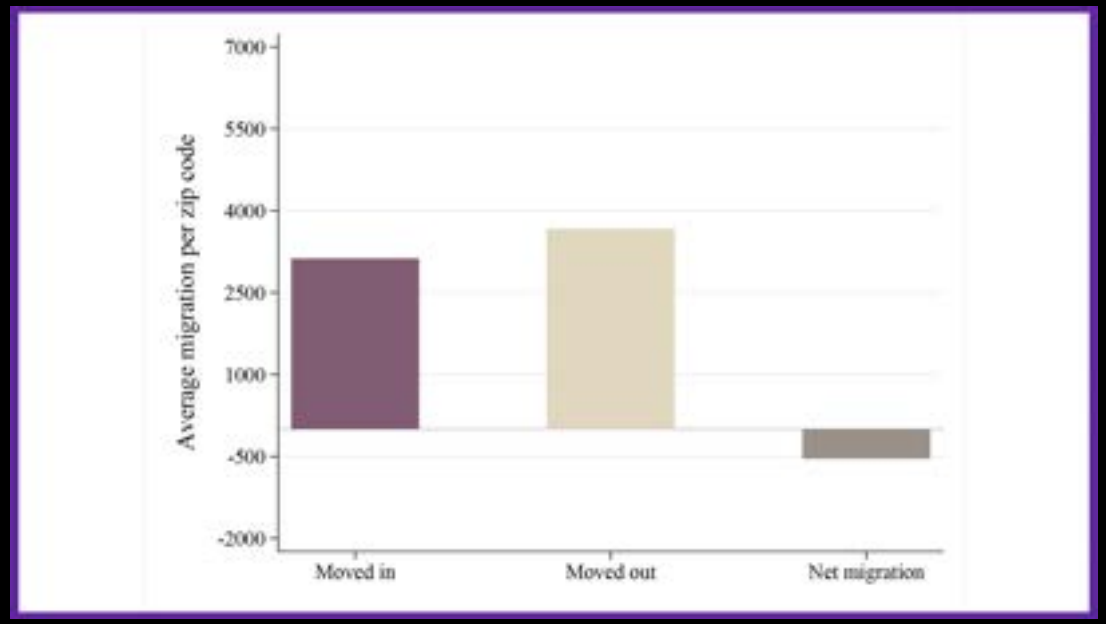

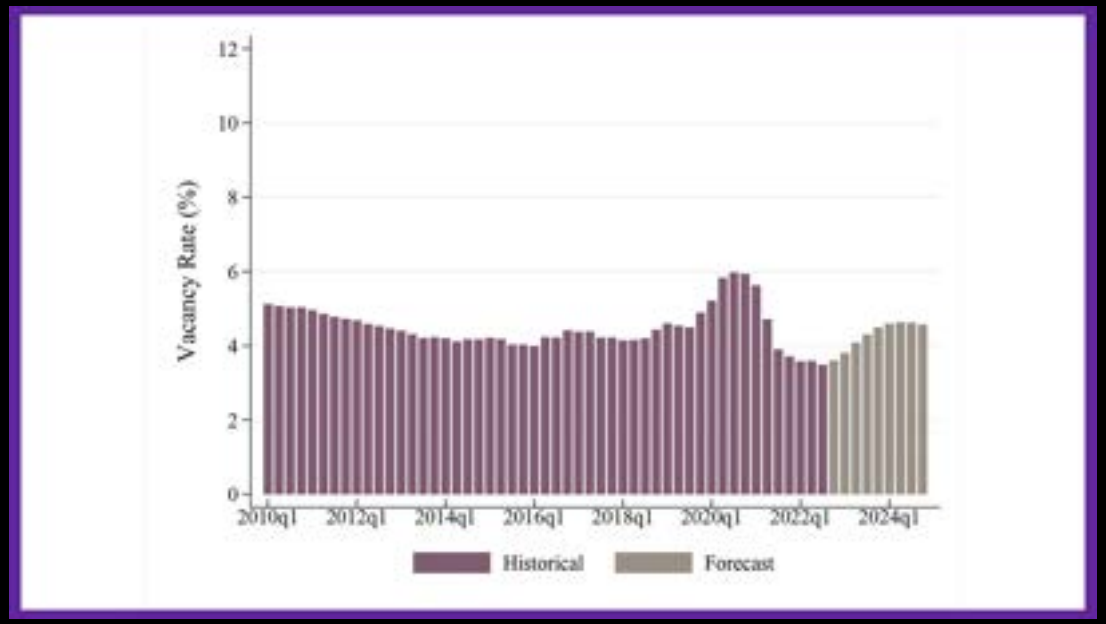

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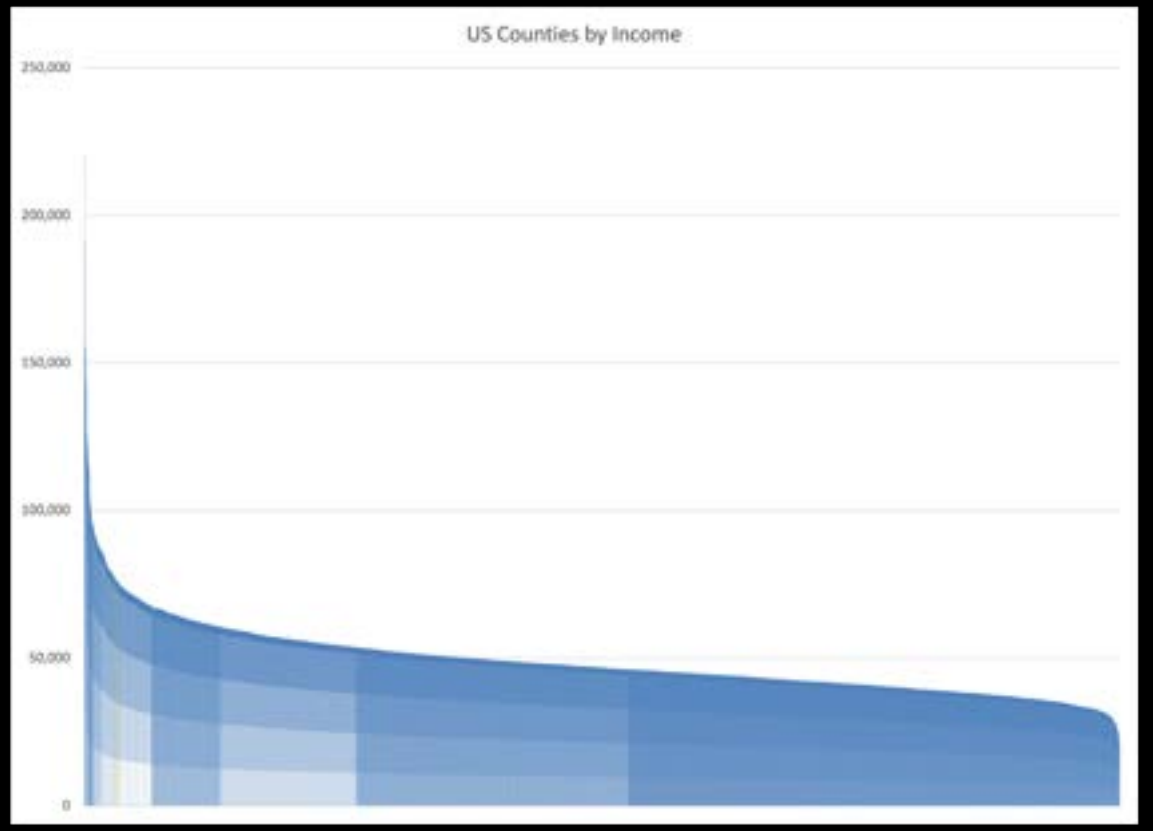
OC Fundamentals

Employment Location Quotients

Industry • Orange County	
ALL INDUSTRIES	1.06
GOODS-PRODUCING	1.09
NATURAL RESOURCES AND MINING	0.11
CONSTRUCTION	1.27
MANUFACTURING	1.11
SERVICE-PROVIDING	1.06
TRADE, TRANSPORTATION, AND UTILITIES	0.81
INFORMATION	0.73
FINANCIAL ACTIVITIES	1.23
PROFESSIONAL AND BUSINESS SERVICES	1.30
EDUCATION AND HEALTH SERVICES	0.97
LEISURE AND HOSPITALITY	1.28
OTHER SERVICES	1.02
UNCLASSIFIED	0.11



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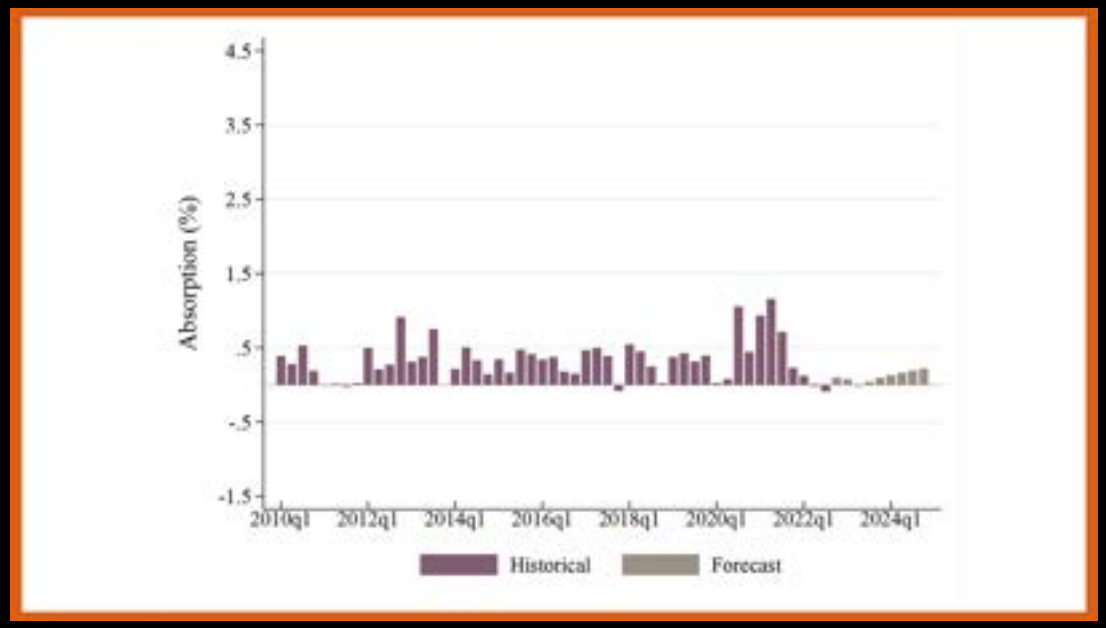
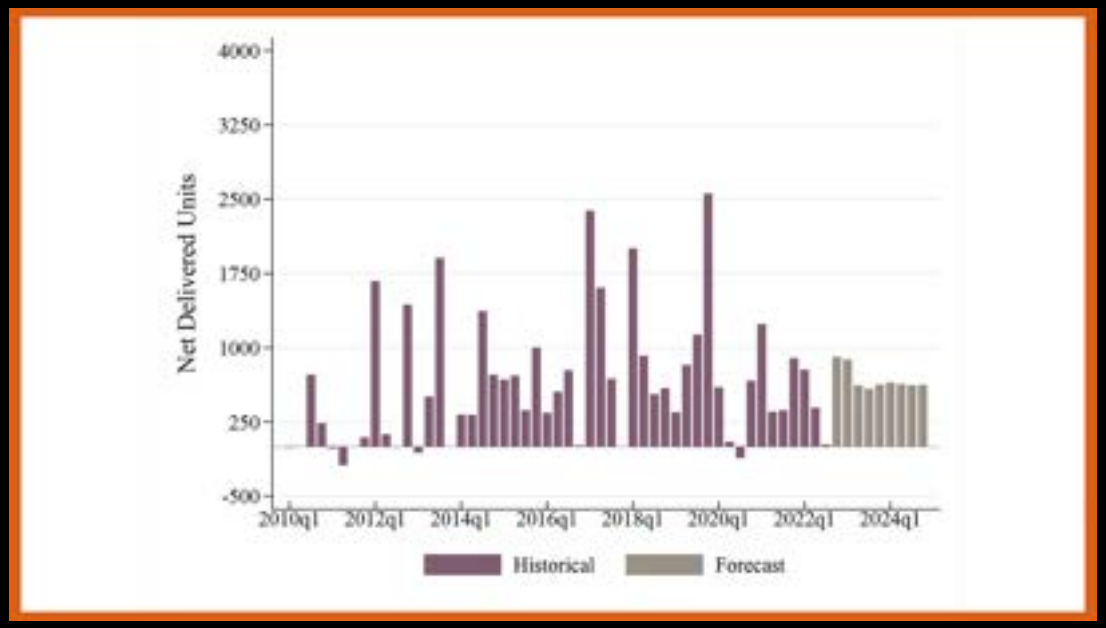
Orange County





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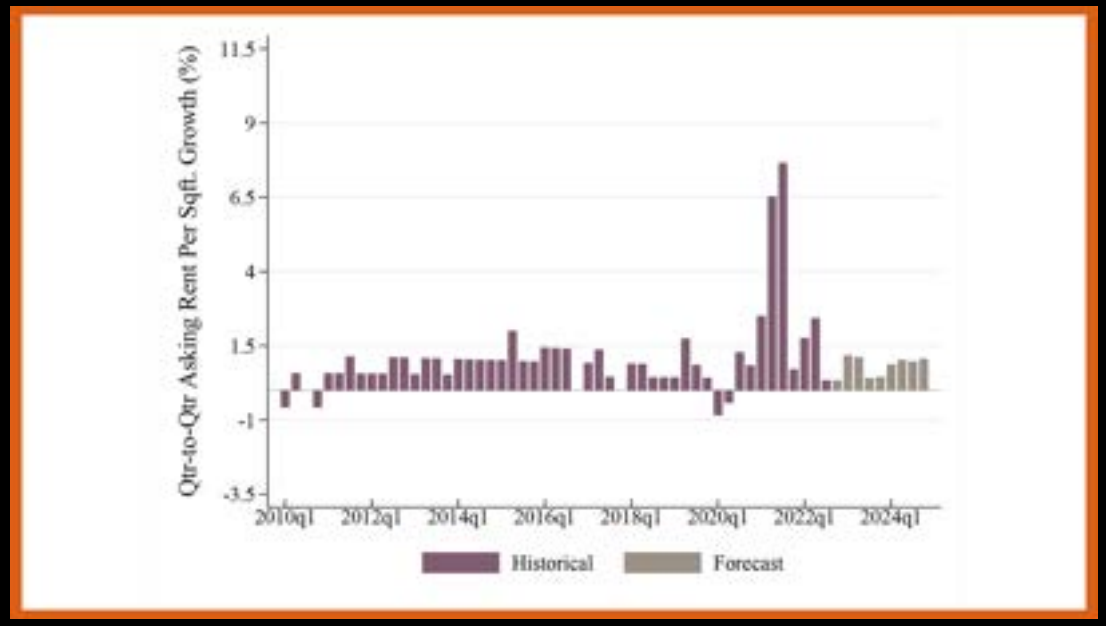
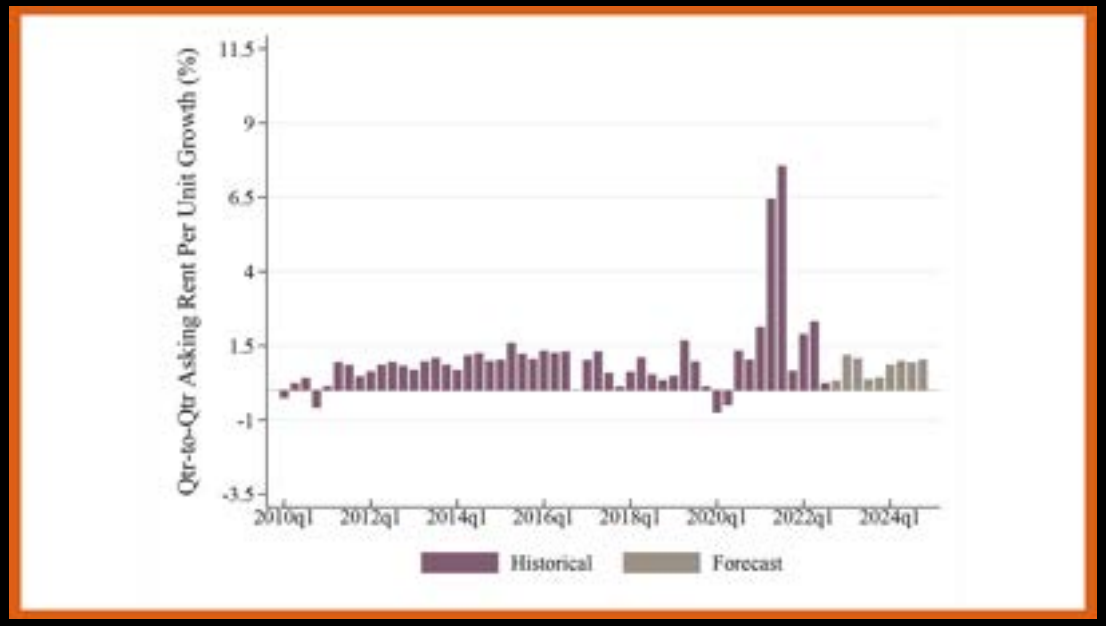
Orange County





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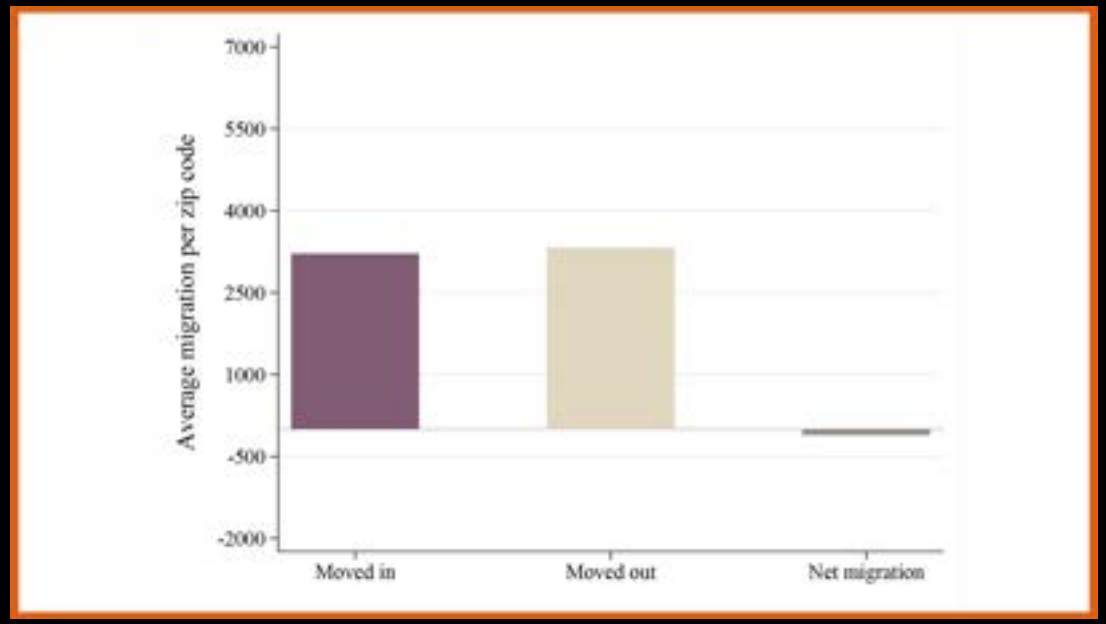
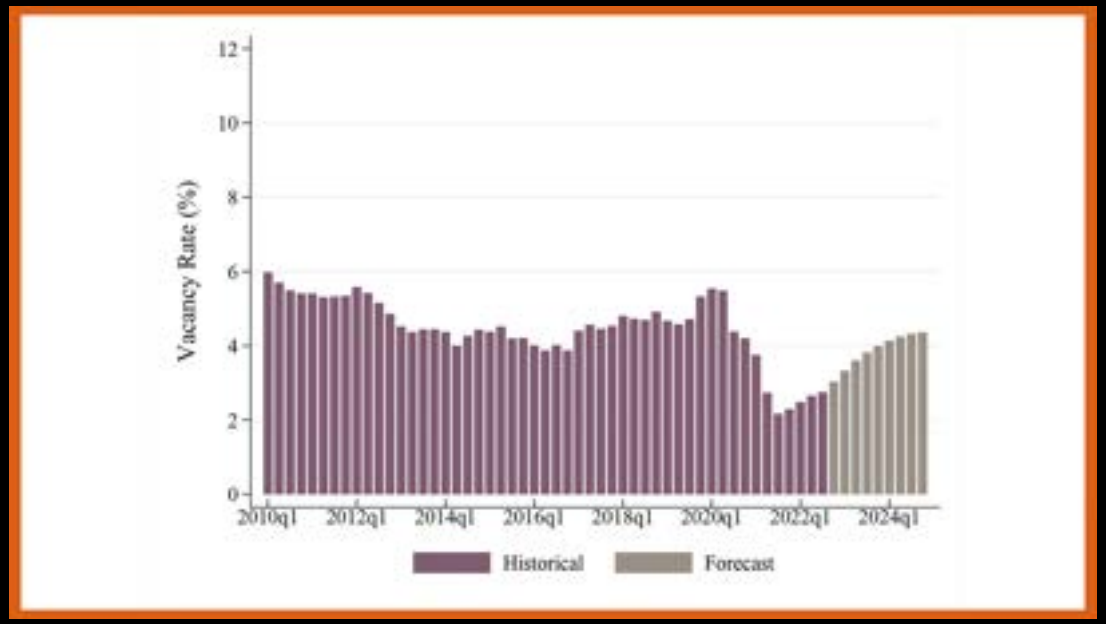
Orange County





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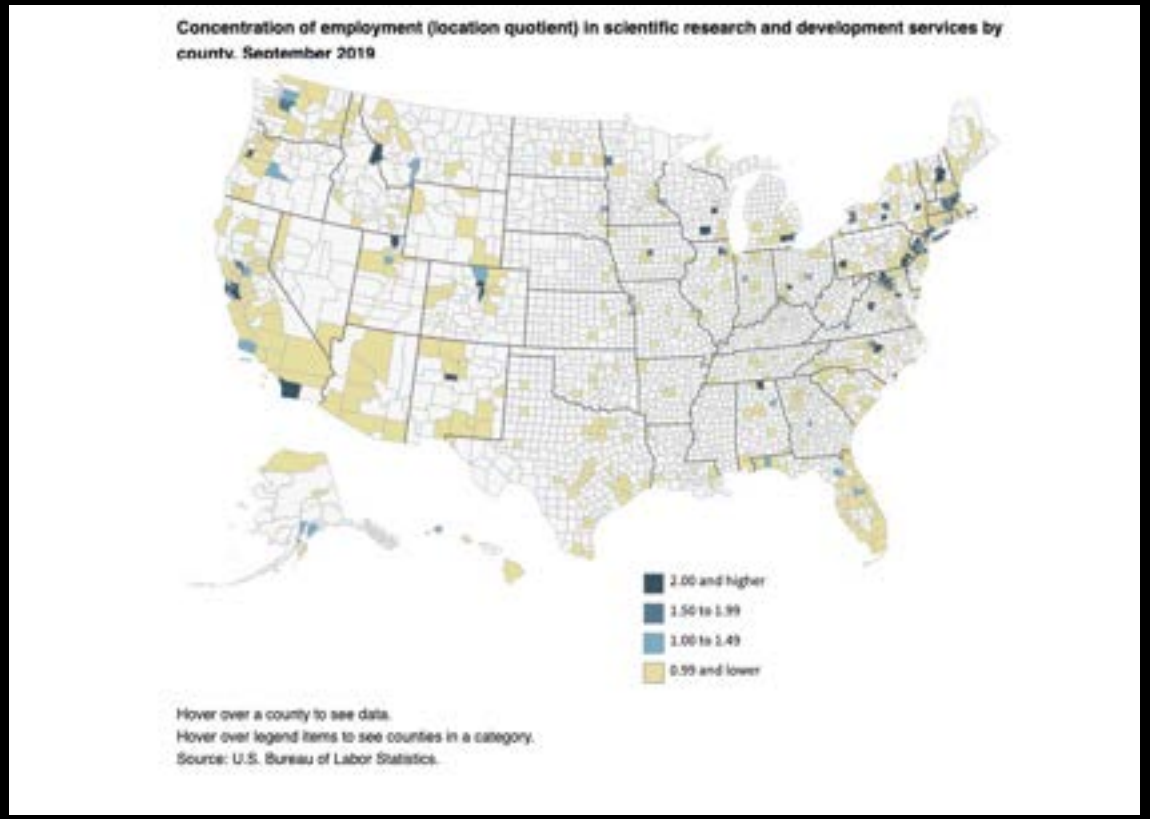
San Diego Fundamentals

Employment Location Quotients

Industry • San Diego County	
ALL INDUSTRIES	0.99
GOODS-PRODUCING	0.97
NATURAL RESOURCES AND MINING	0.57
CONSTRUCTION	1.15
MANUFACTURING	0.91
SERVICE-PROVIDING	0.99
TRADE, TRANSPORTATION, AND UTILITIES	0.77
INFORMATION	0.71
FINANCIAL ACTIVITIES	0.89
PROFESSIONAL AND BUSINESS SERVICES	1.24
EDUCATION AND HEALTH SERVICES	0.94
LEISURE AND HOSPITALITY	1.21
OTHER SERVICES	1.14
UNCLASSIFIED	0.11



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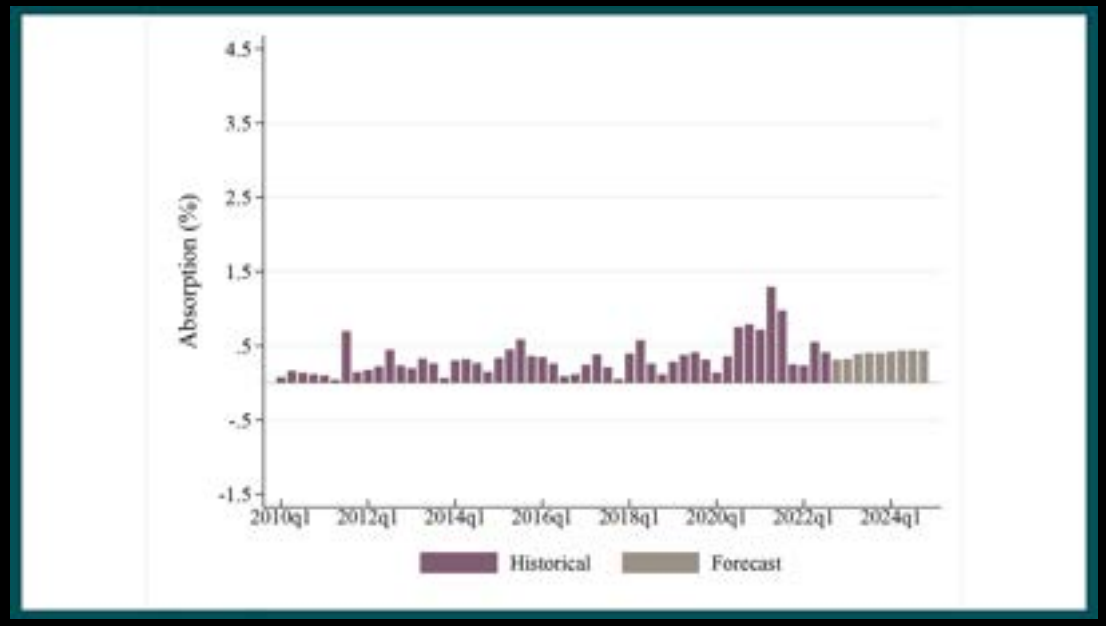

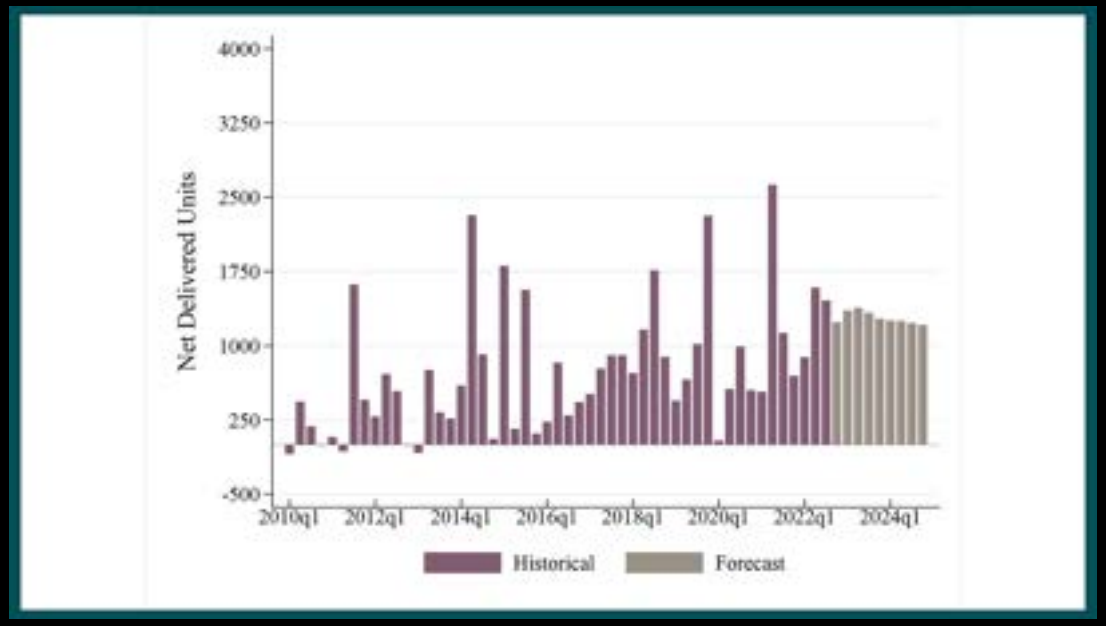

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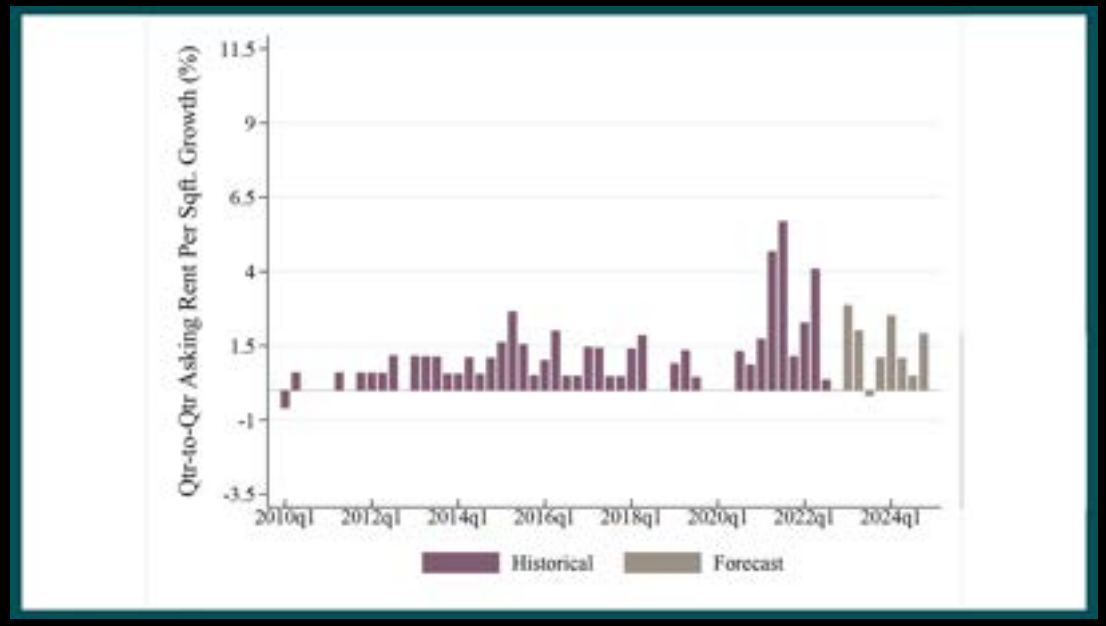

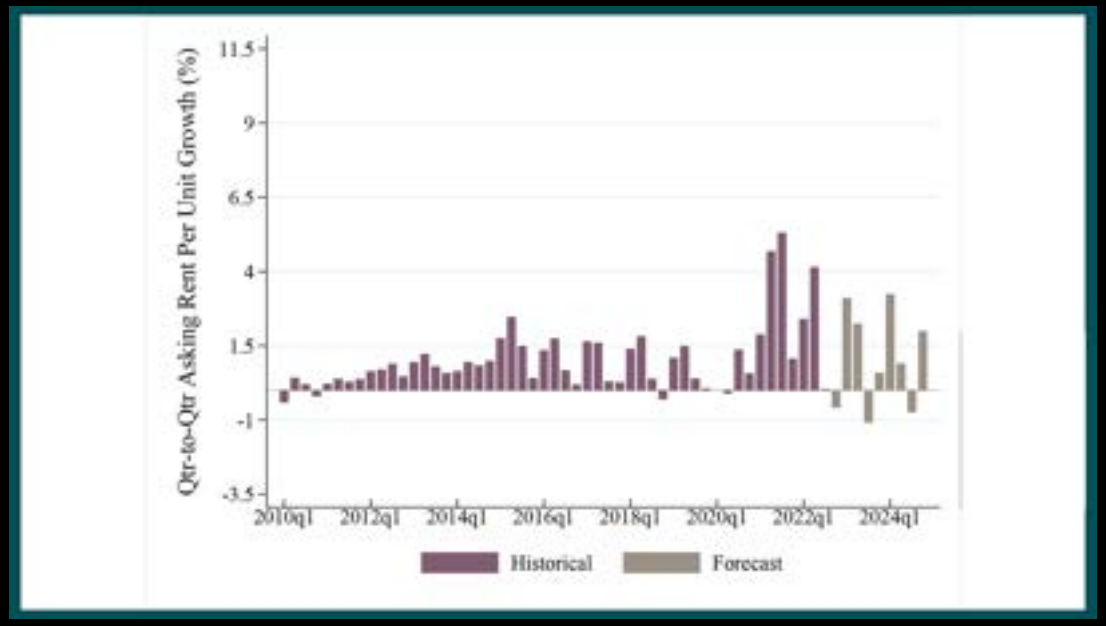

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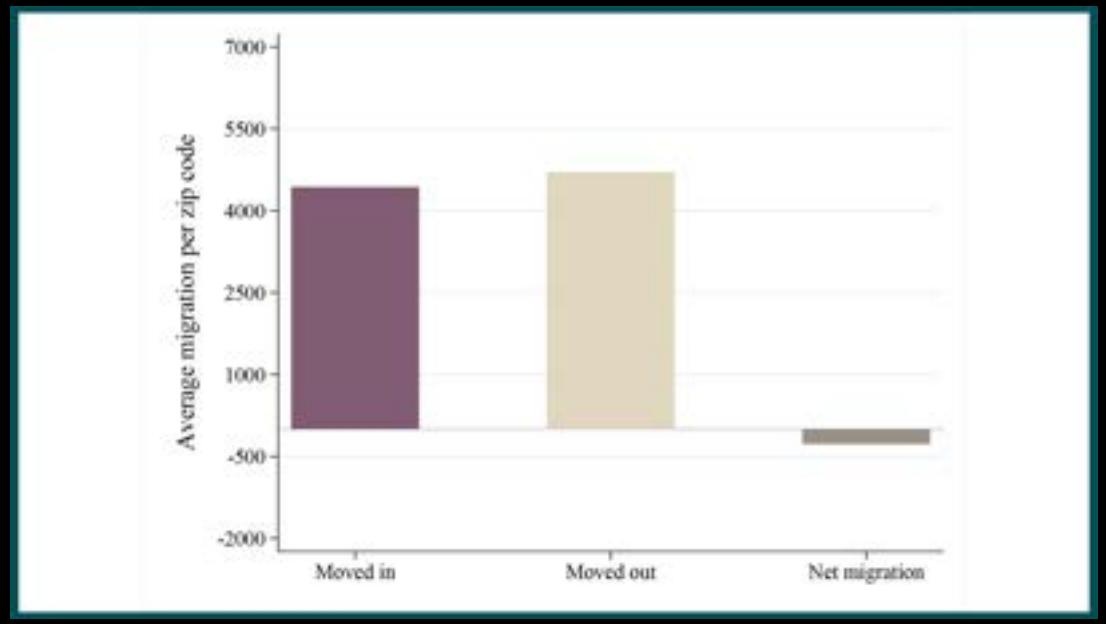

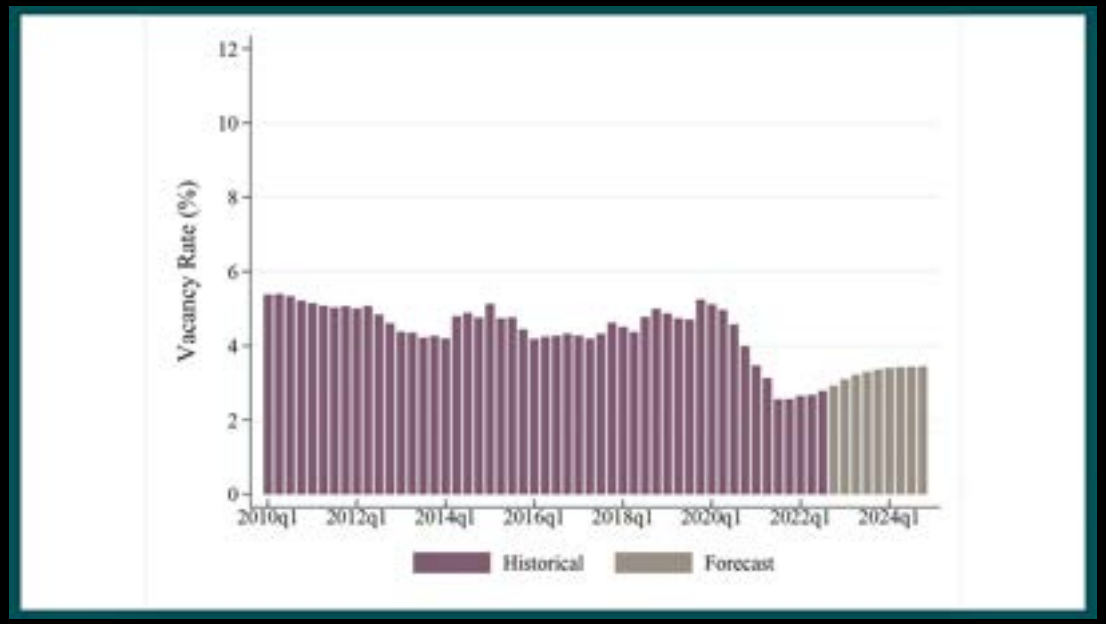

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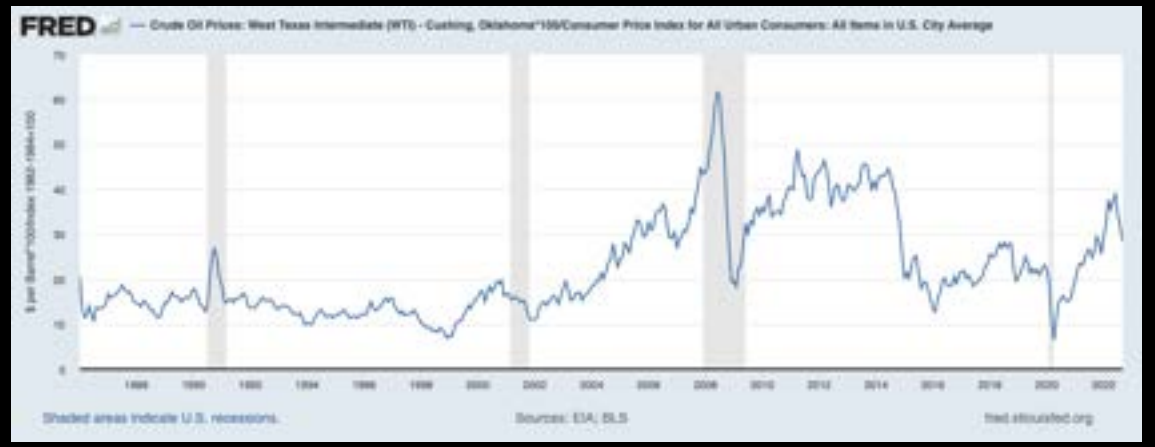
Ventura County Fundamentals

Employment Location Quotients

industry · Ventura County	
ALL INDUSTRIES	1.01
GOODS-PRODUCING	1.47
NATURAL RESOURCES AND MINING	7.13
CONSTRUCTION	1.06
MANUFACTURING	0.96
SERVICE-PROVIDING	0.91
TRADE, TRANSPORTATION, AND UTILITIES	0.91
INFORMATION	0.58
FINANCIAL ACTIVITIES	0.81
PROFESSIONAL AND BUSINESS SERVICES	0.88
EDUCATION AND HEALTH SERVICES	0.96
LEISURE AND HOSPITALITY	1.07
OTHER SERVICES	0.84
UNCLASSIFIED	0.12



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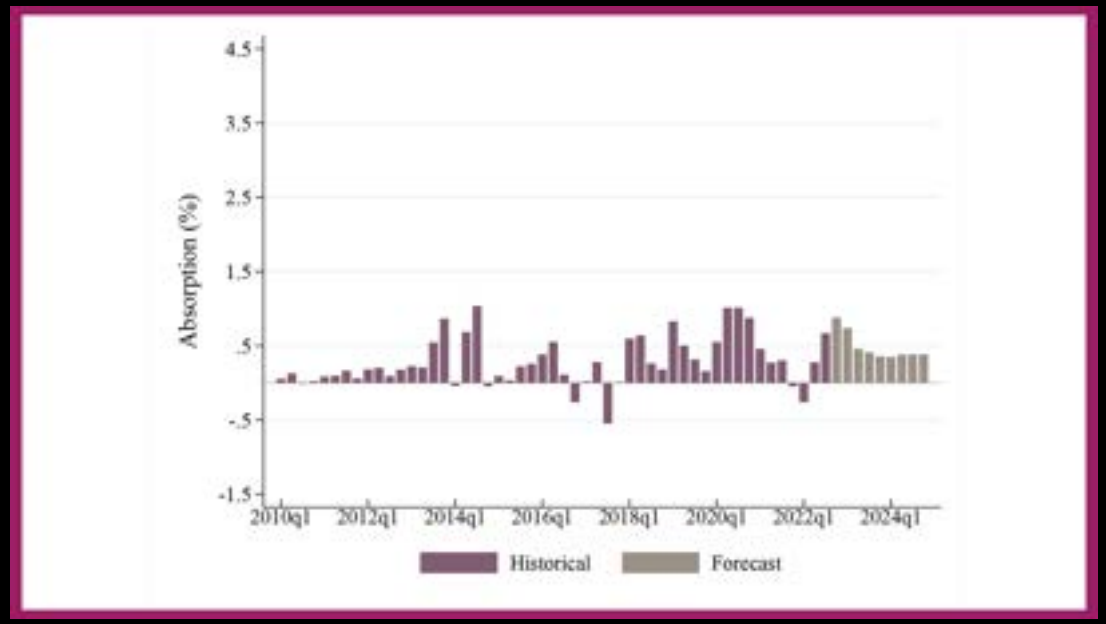
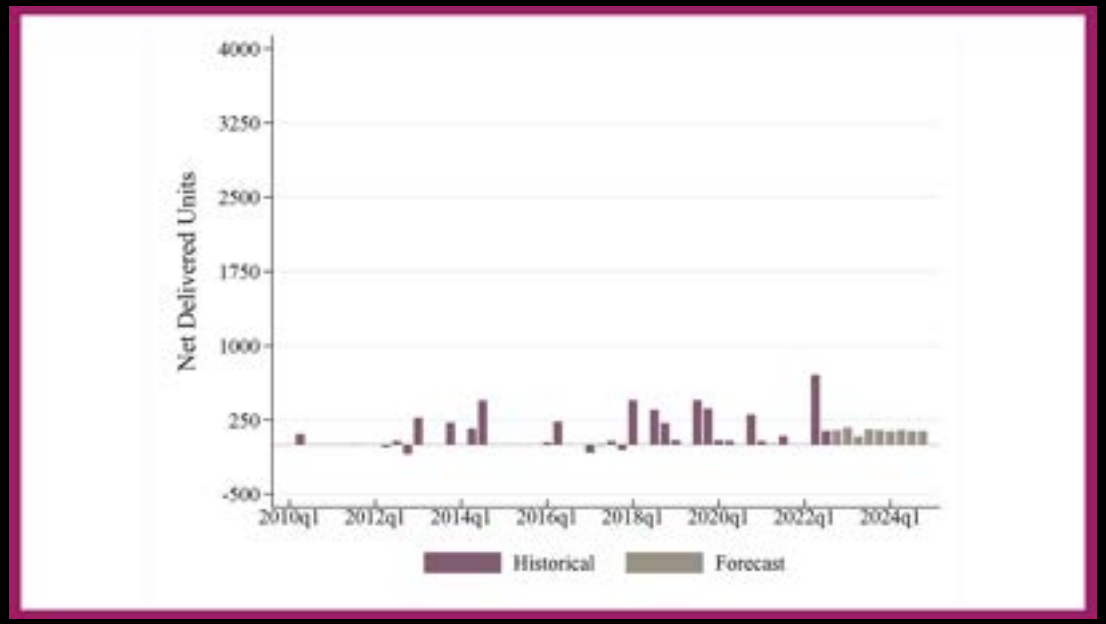
Ventura





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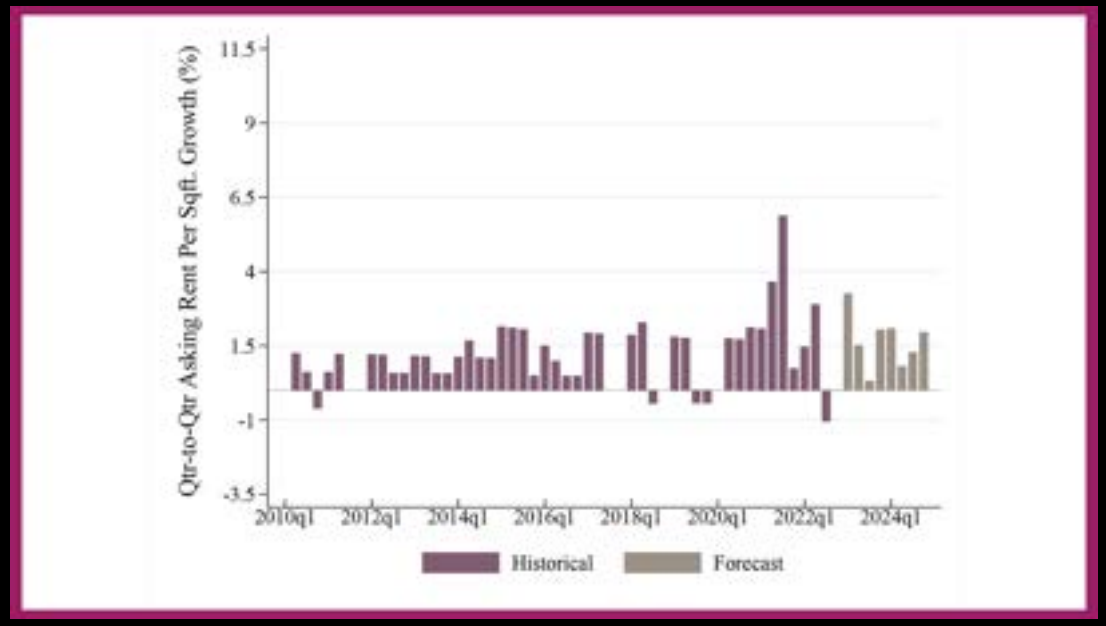
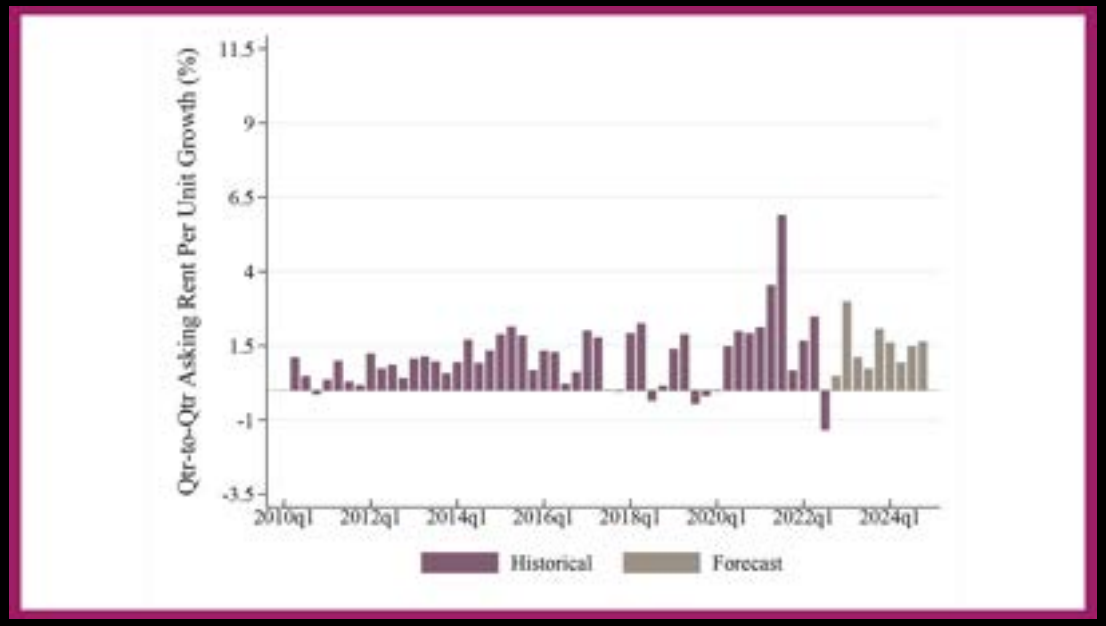
Ventura





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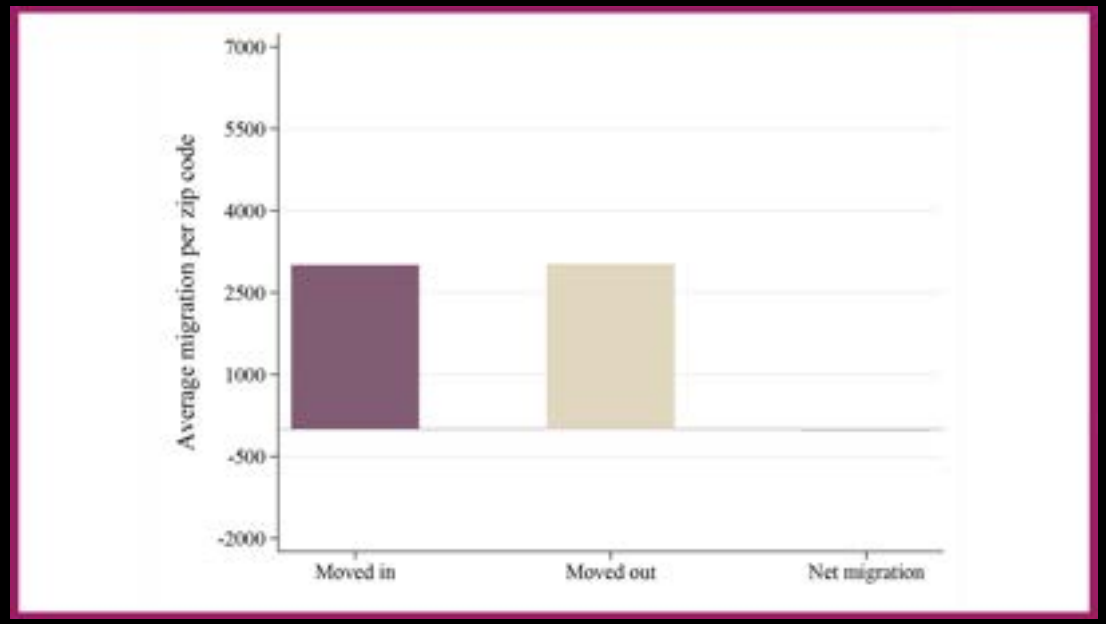
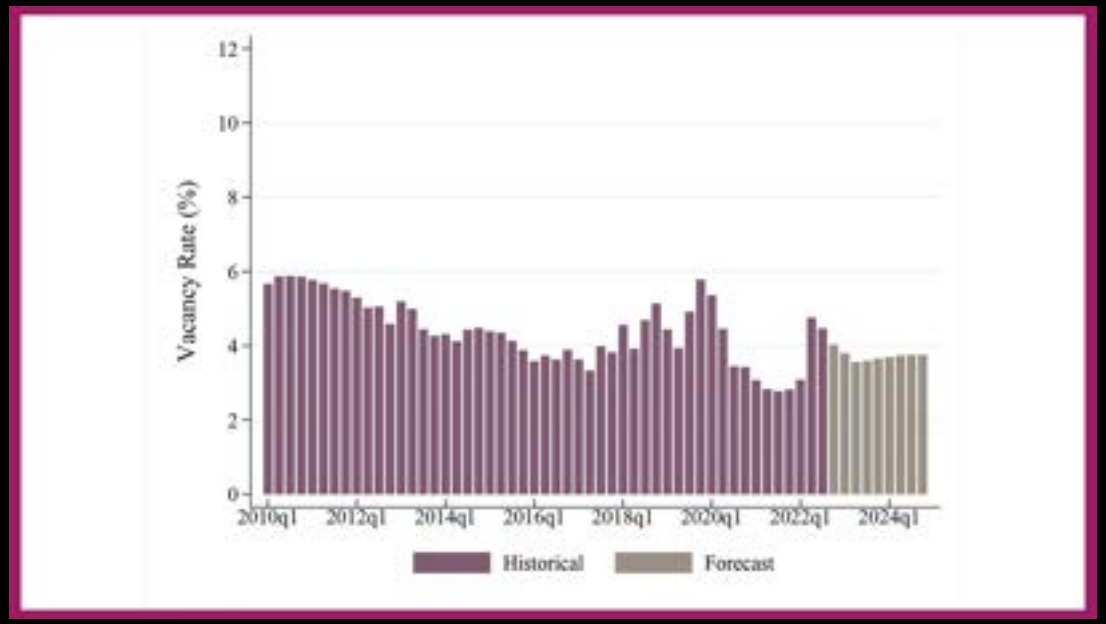
Ventura





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