

Presentation:

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*Casden Real Estate
Economics Forecast*

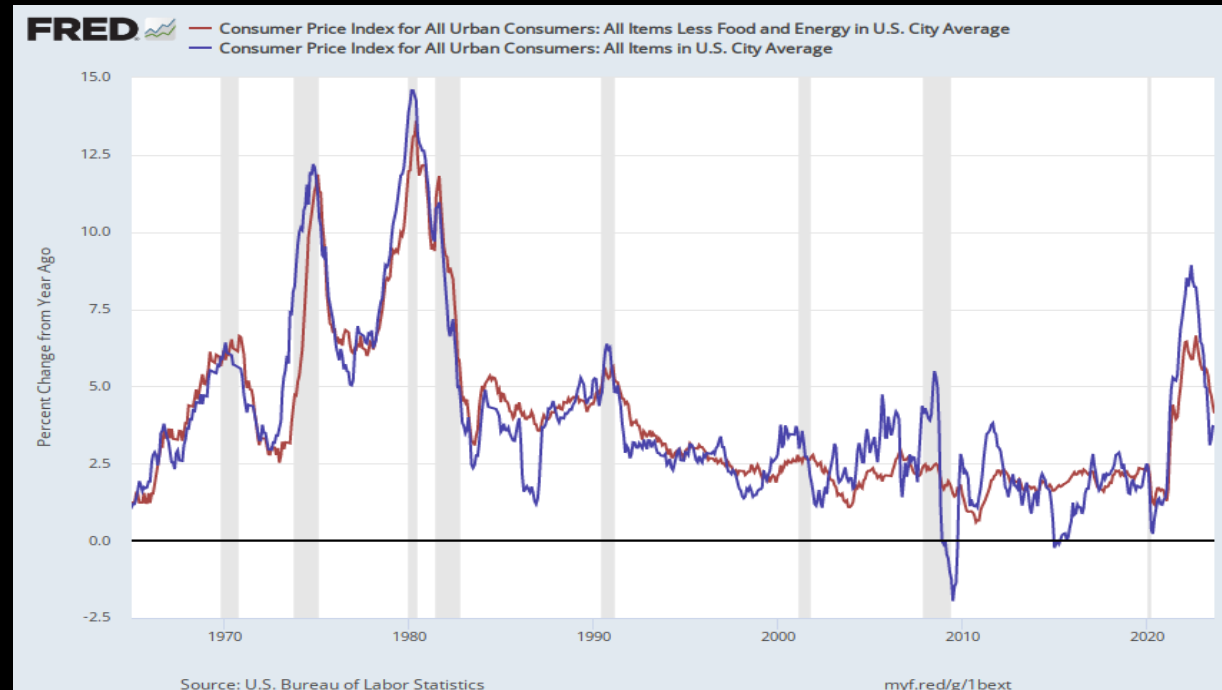
Current View of the Economy

Good News: The Economy Is Going Strong!

- Third-quarter real GDP growth was an astronomical 4.9%.
 - This was the highest since the end of the recession.
 - It is more than double the 2nd-quarter GDP growth of 2.1%.
- The economy created 150,000 new jobs in October, after adding 336,000 jobs in September.
 - But the October job number was below the 12-month average job gain.
- The unemployment rate has remained below 4%.
 - Unemployment has been at a 50-year low!

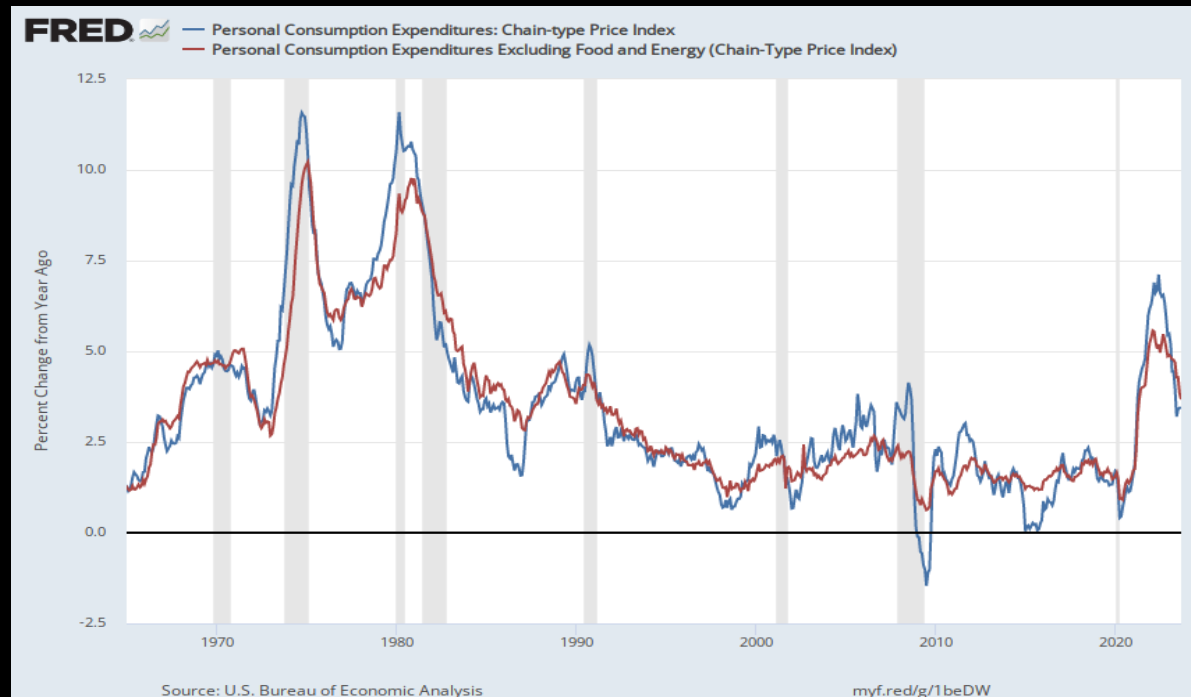
Bad News: The Economy Is Not Cooling Down

- The Consumer Price Index (CPI) - 3.7% in October, with the Core CPI at 4.1%.



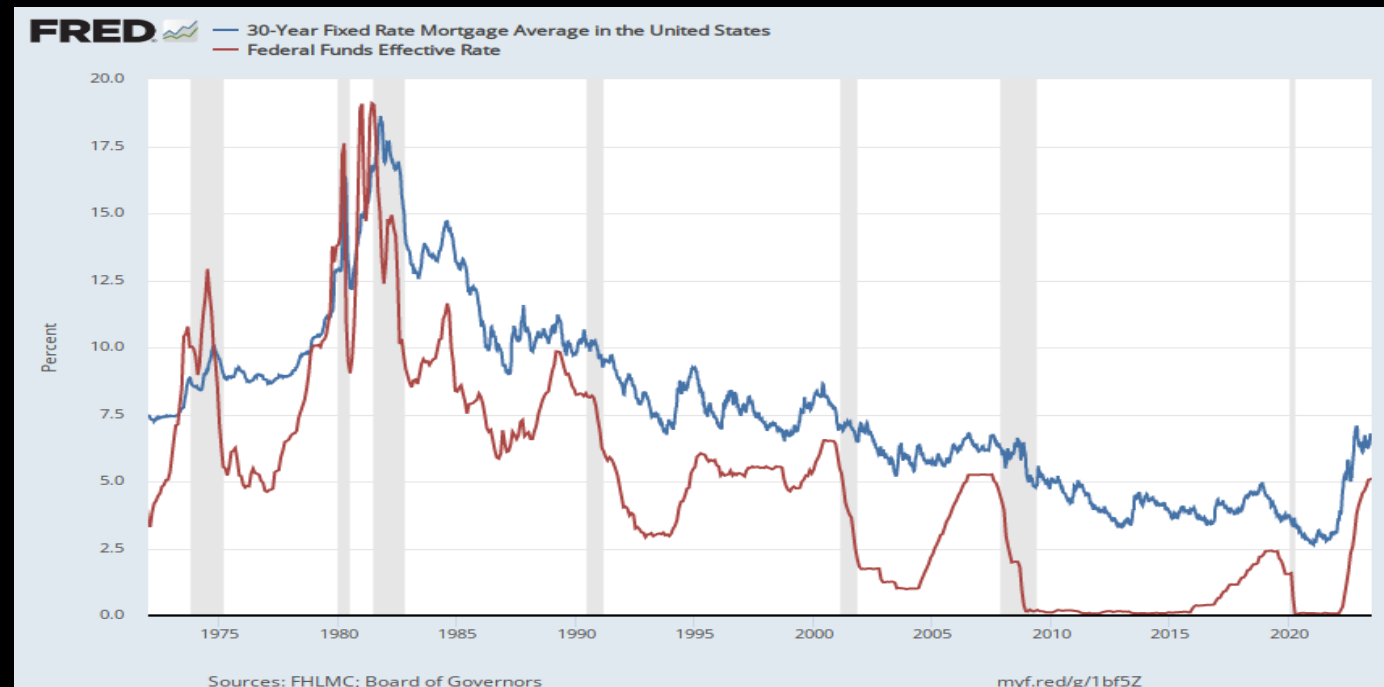
Bad News: The Economy Is Not Cooling Down

- Personal Consumption Expenditures (PCE) indicators were only 0.3% lower than their CPI counterparts.



Bad News: The Economy is Not Cooling Down

- Interest Rates are at a 20-year high. But the previous long period of low interest rates was unusual.

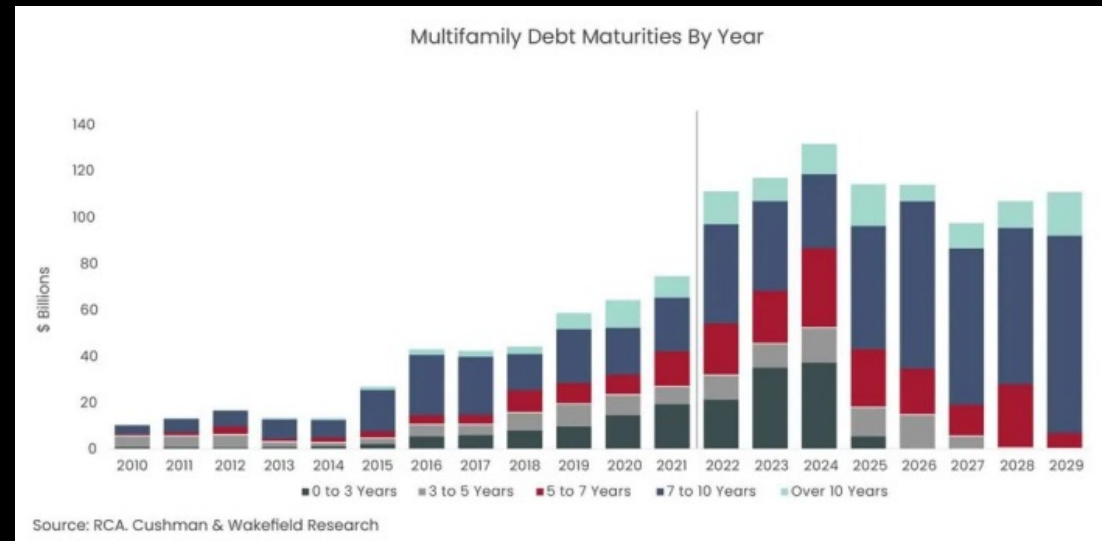


Bad News: The Economy Is Not Cooling Down

- The Federal Reserve has decided to leave the Federal funds rate unchanged for now.
- The question is how much pain is the Federal Reserve willing to inflict on the economy to bring inflation down to 2%.
 - The additional/continued monetary tightening will not be painless.
- Chairman Powell has indicated that monetary policy is likely to remain restrictive for a while.
 - CRE investors have to adapt to high interest rates; no relief in sight yet!

A Tsunami of Maturing Debt

- \$2.7 trillion of CRE loans are expected to mature by 2027, including about \$100 billion of multifamily loans annually.

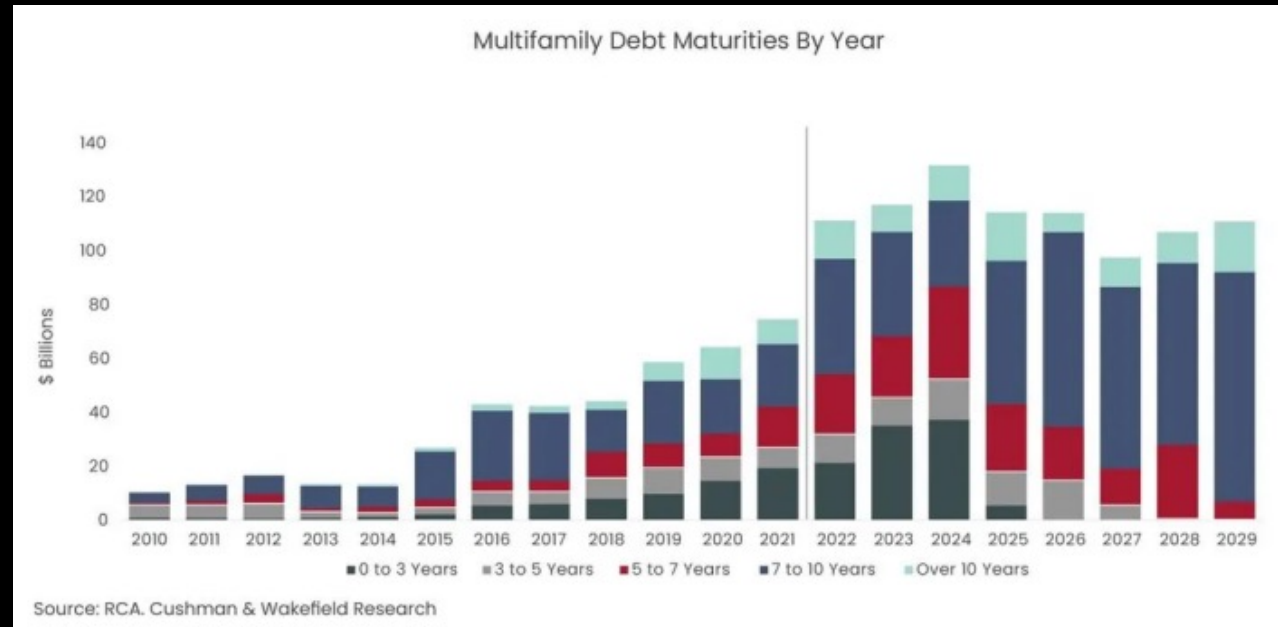


- High interest rates will severely limit the amount of refinancing available.

A Simple Refinancing Simulation

Loan Vintage	2020	2018	2016	2013
Term (years)	3	5	7	10
Spread (Bps over 10-year Treasury)	300	300	300	300
10-Year Treasury Rate at origination	0.93	2.69	2.45	3.04
Original Interest Rate	3.93	5.69	5.45	6.04
Current 10-year Treasury	5.00	5.00	5.00	5.00
Refinancing Rate (assuming same spread)	8.00	8.00	8.00	8.00
30-Year Amortization Loans				
Increase in Debt Service	55%	27%	30%	22%
Required Annual Rent Growth	16%	5%	4%	2%
Interest-Only Loans				
Increase in Debt Service	104%	41%	47%	32%
Required Annual Rent Growth	27%	7%	6%	3%
Change in RCA CPPI (September 2023)	17%	33%	68%	121%

A Tsunami of Maturing Debt



- The wave will crest next year with approximately \$130 billion of multifamily loans due for refinancing.
- About \$80 billion with maturities of 7 years or less will be most impacted.

Surging Operating Expenses

- Property owners face higher operating expenses due to inflation and increasing insurance premiums in some areas.
- Operating expenses increased by 6 to 20% in the 50 major multifamily markets between 2021 and 2022 (Trepp).
 - Rent growth was 6.2% in 2022 and 2.1% in the first eight months of this year (Yardi Matrix).
 - We expect rent to grow by 2% to 3.5% over the next 2 years in SoCal.
- Insurance was a major contributor to higher operating expenses.
 - Multifamily insurance premiums went up by 14% in 2022 (Trepp).

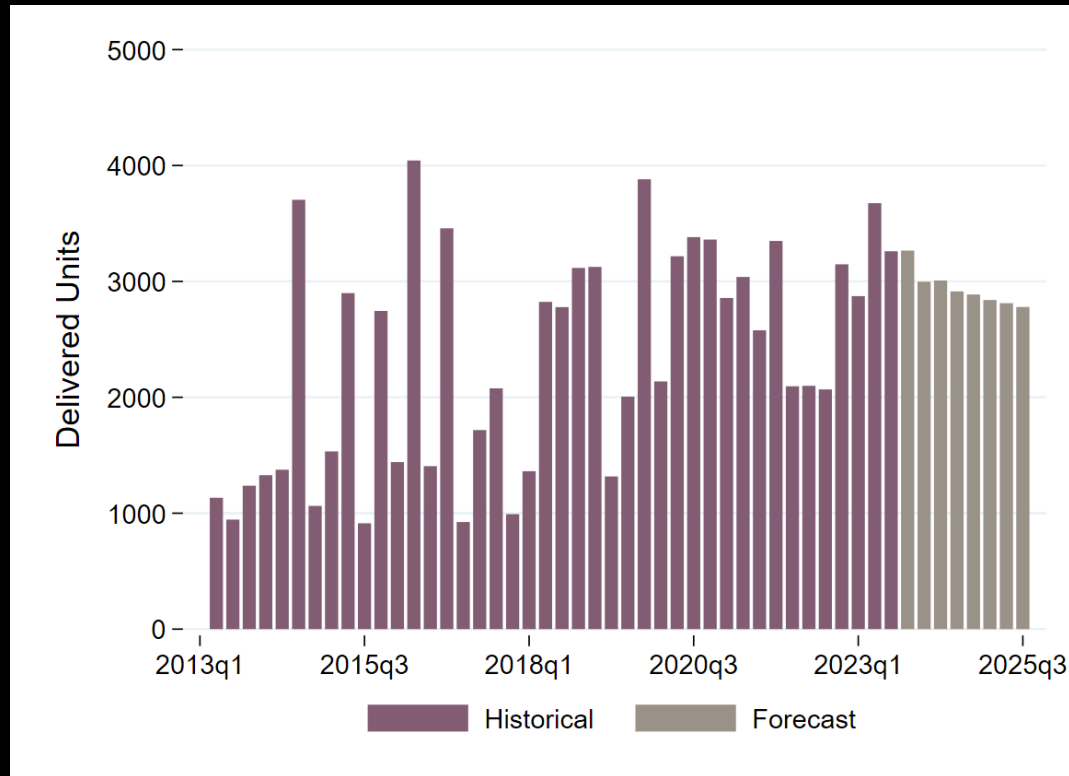
Surging Operating Expenses

- The most affected MSAs are in Southern states (Florida, Texas, and Louisiana).
 - However, the Inland Empire (Riverside-San Bernardino-Ontario) has also experienced higher insurance premiums.
- In addition to more devastating wildfires, SoCal is experiencing more rains and flooding.
 - Some insurance companies have stopped writing new policies in California and may exit the market.

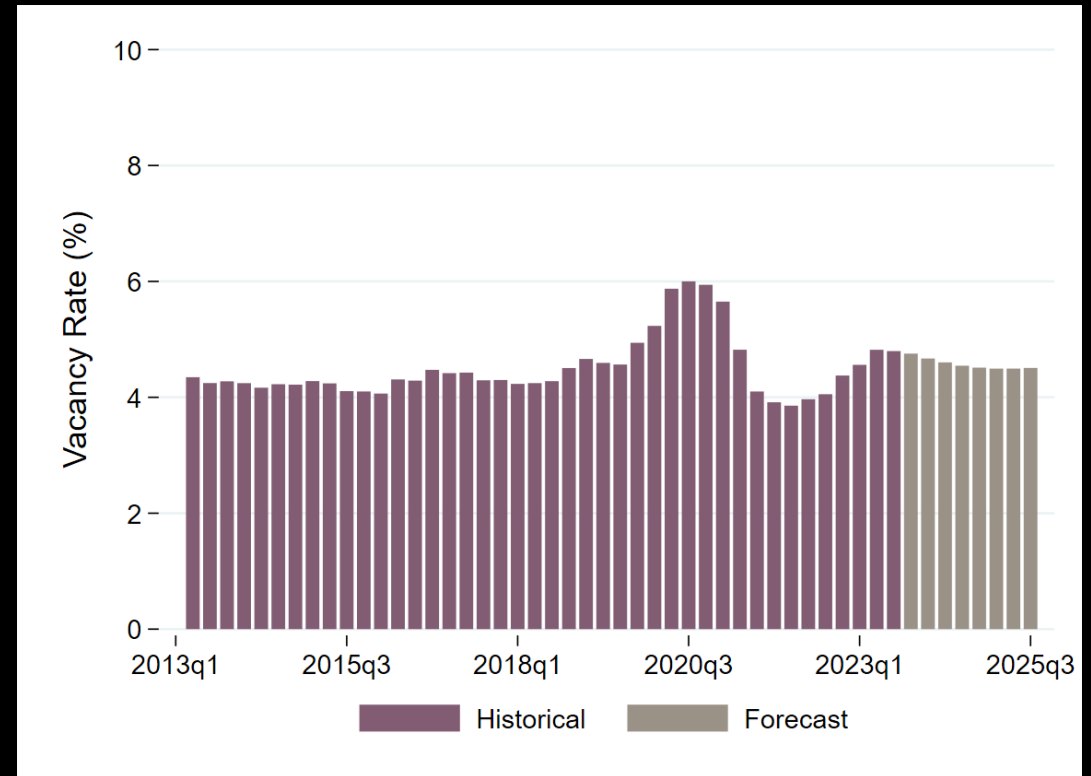
Casden Forecasts

Los Angeles County

Delivered Units

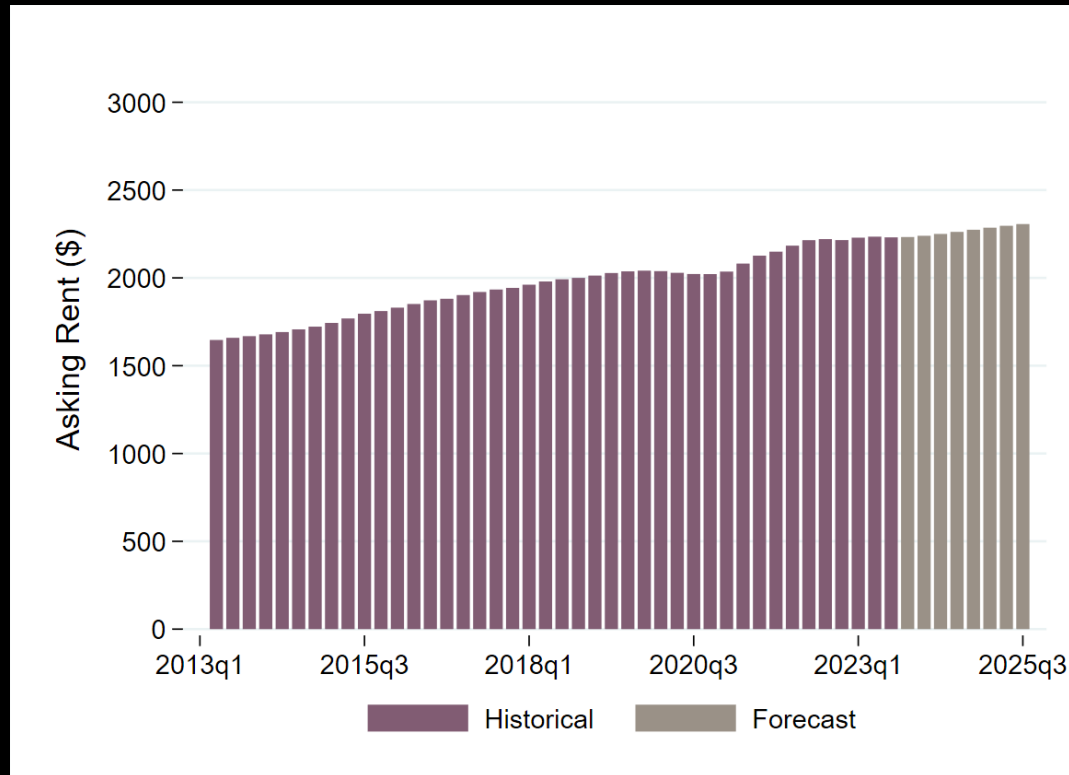


Vacancy Rate

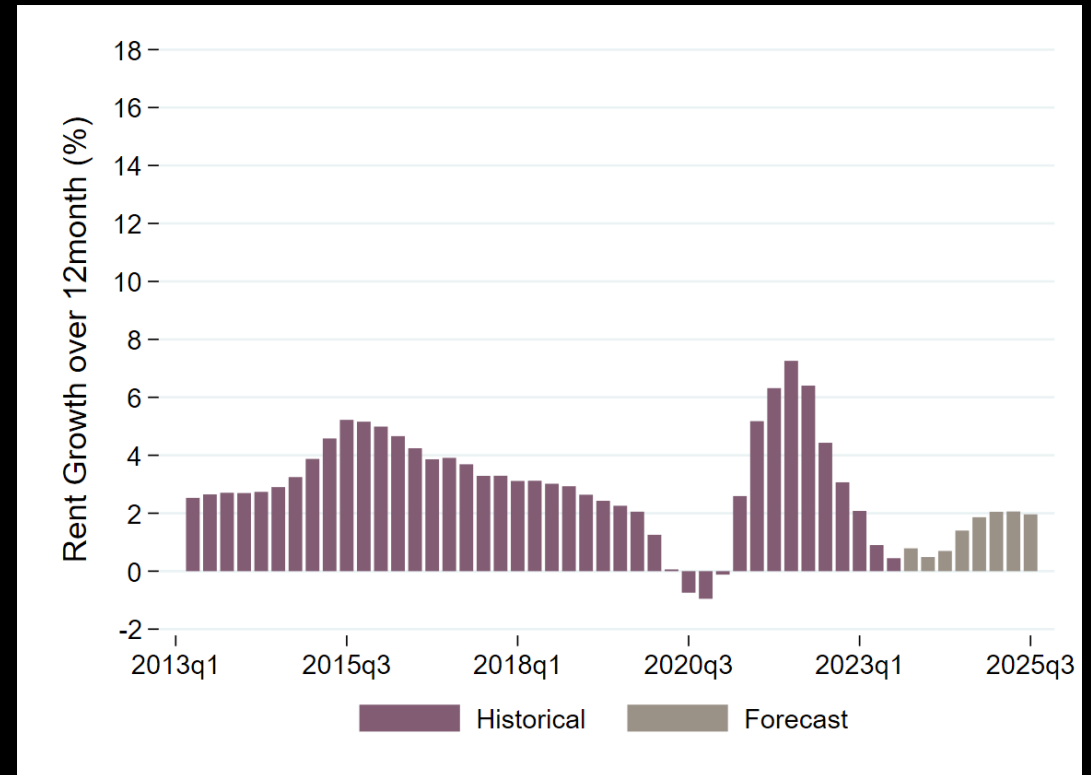


Los Angeles County

Rent



Rent Growth

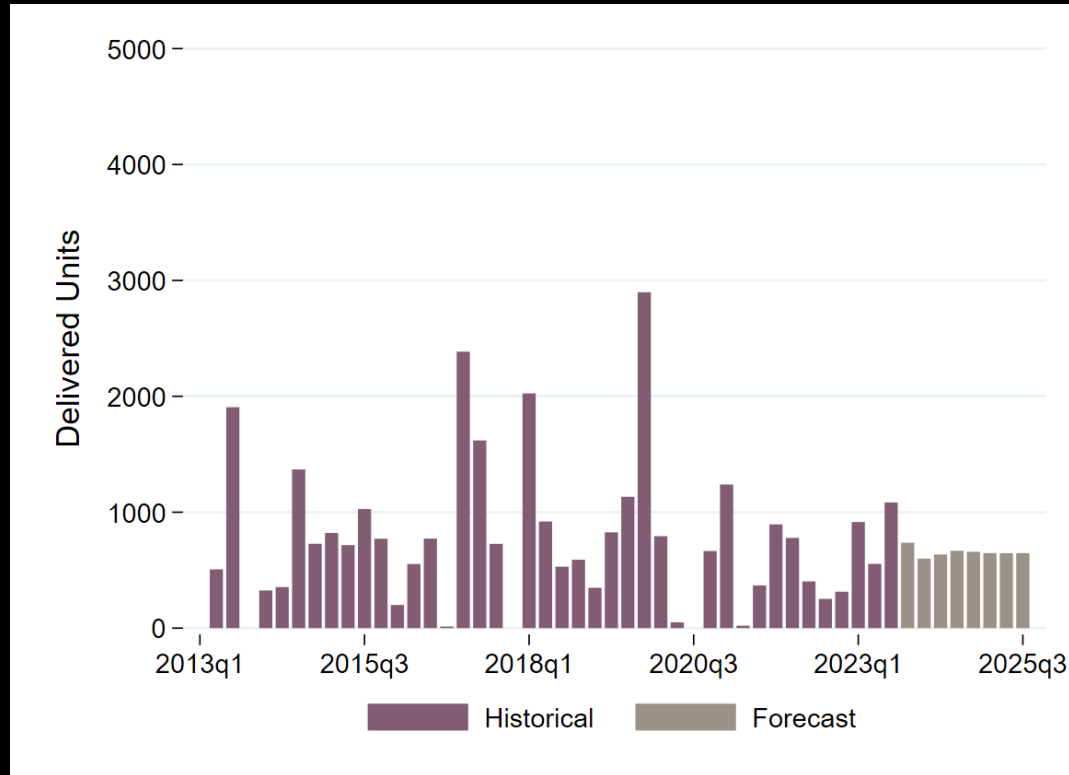


Los Angeles Submarkets

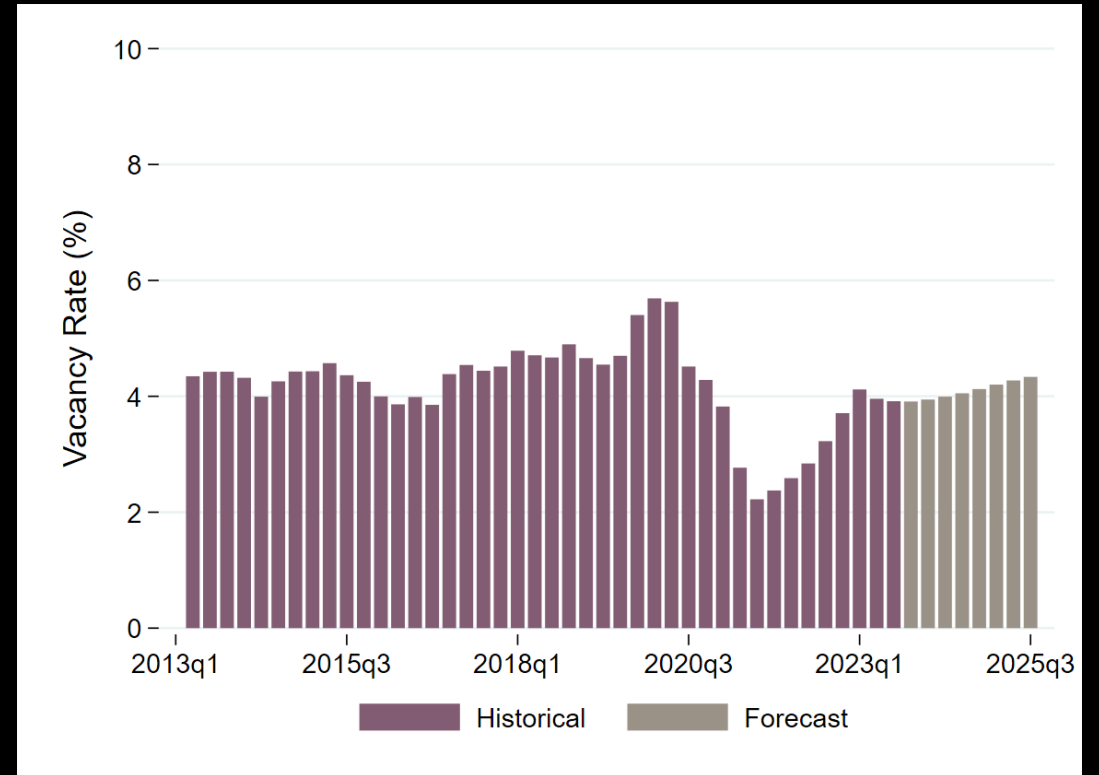
- High Rent Growth Submarkets
 - Palmdale-Lancaster
 - Inglewood
 - Coastal Communities- Beverly Hills
- Low Rent Growth Submarkets
 - Downtown LA
 - Burbank and Glendale
 - Hollywood-Studio City

Orange County

Delivered Units

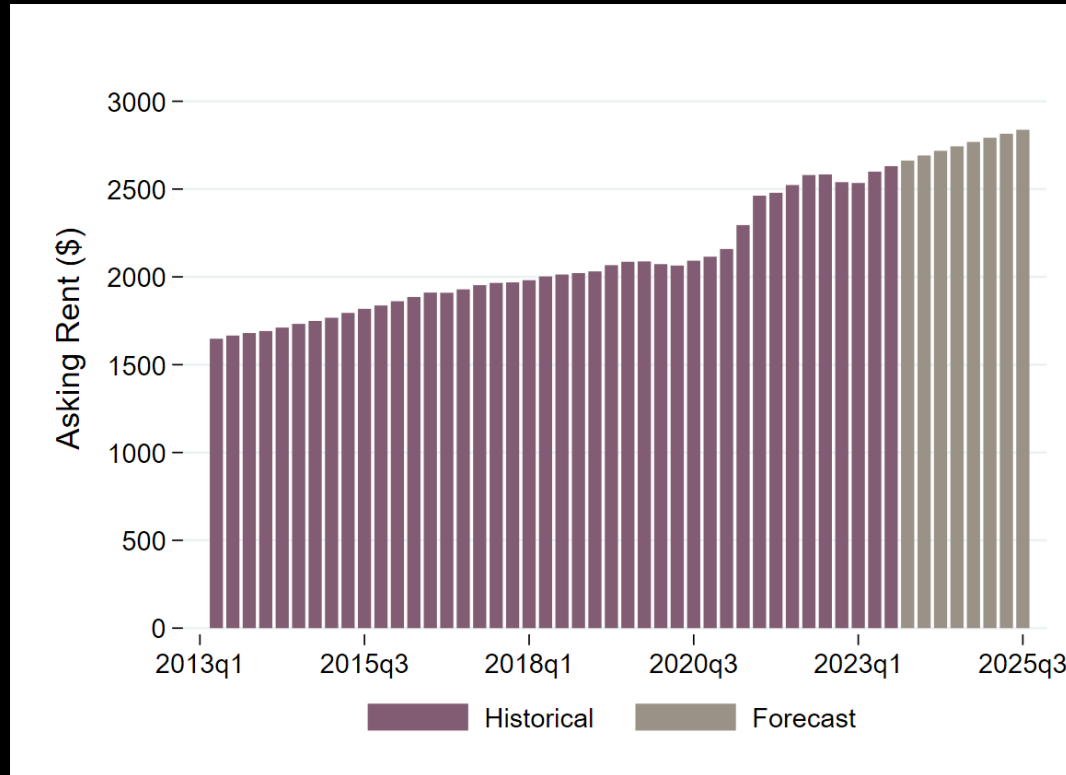


Vacancy Rate

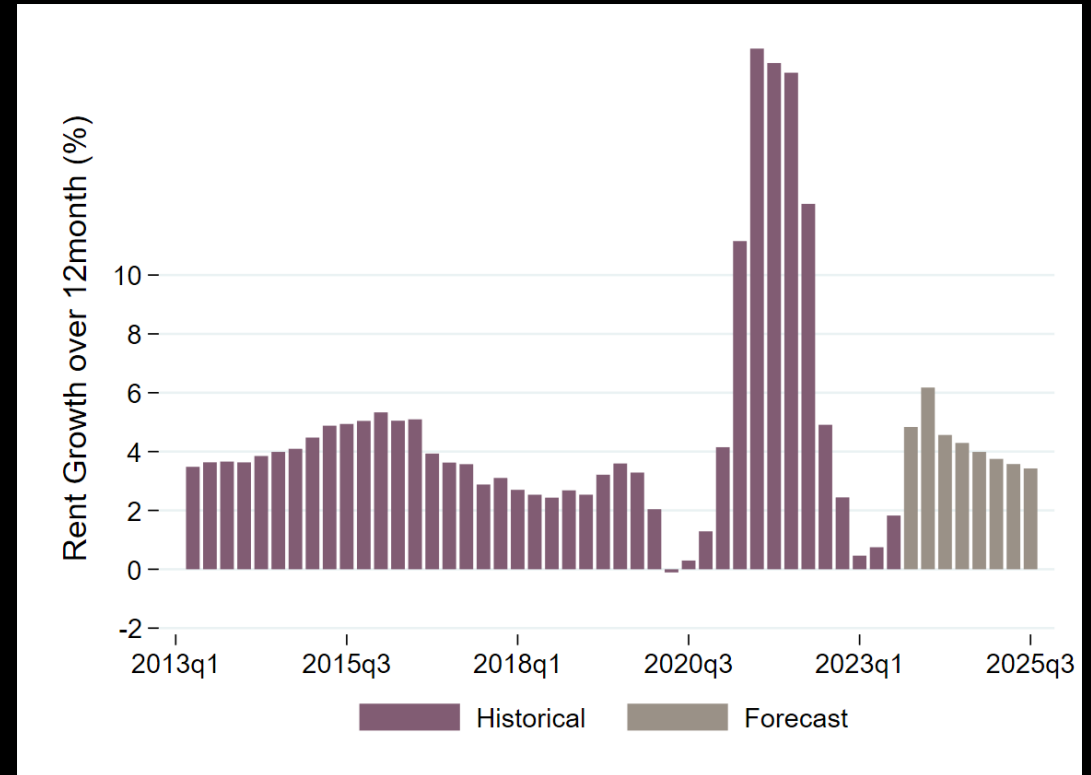


Orange County

Rent



Rent Growth

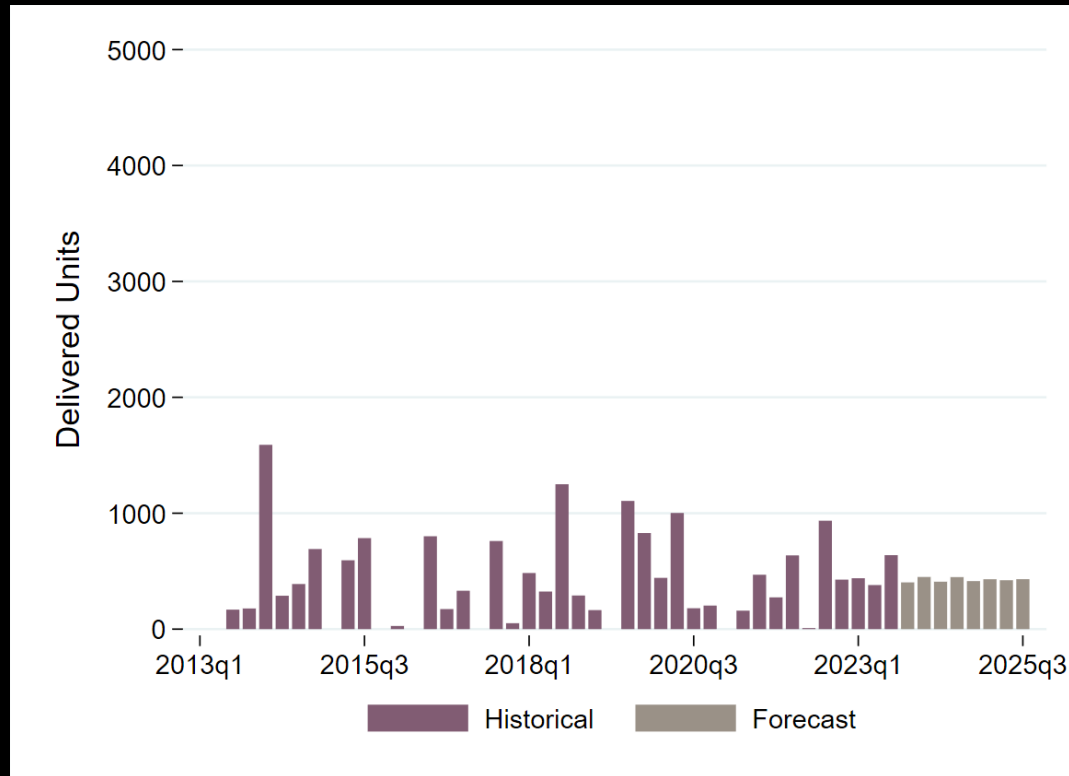


Orange County Submarkets

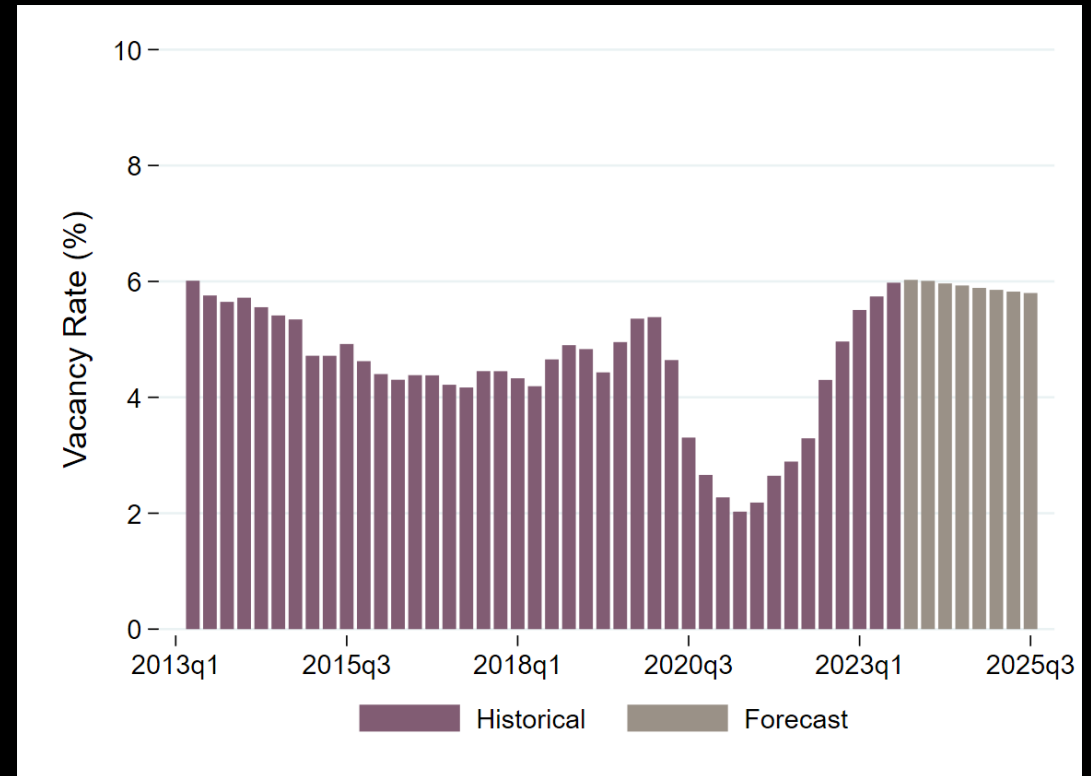
- High Rent Growth Submarkets
 - Anaheim - Santa Ana
- Low Rent Growth Submarkets
 - Coastal Communities
 - Irvine-Tustin-Mission Viejo
 - North County

Inland Empire

Delivered Units

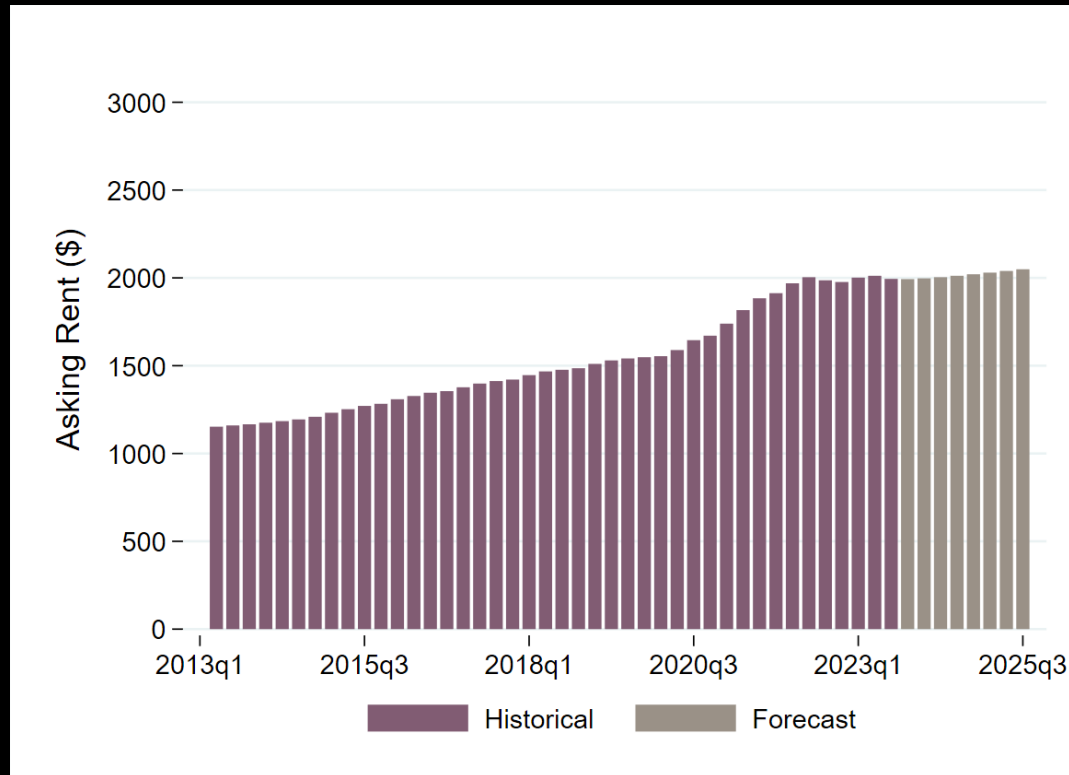


Vacancy Rate

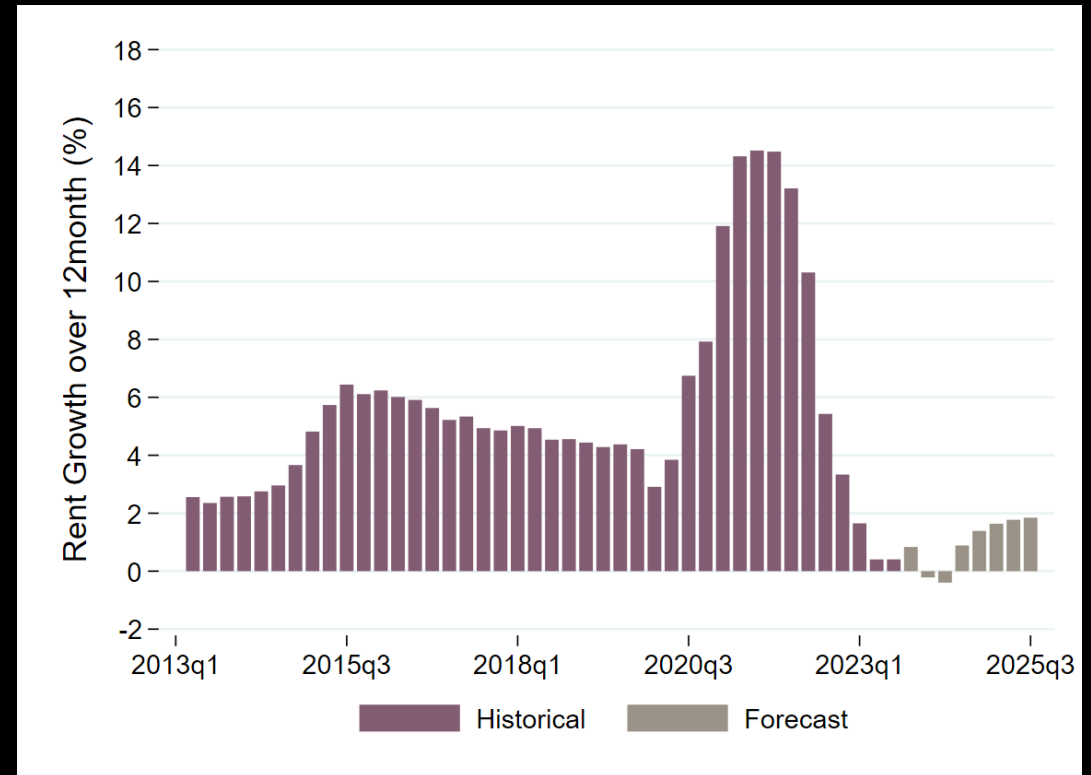


Inland Empire

Rent



Rent Growth

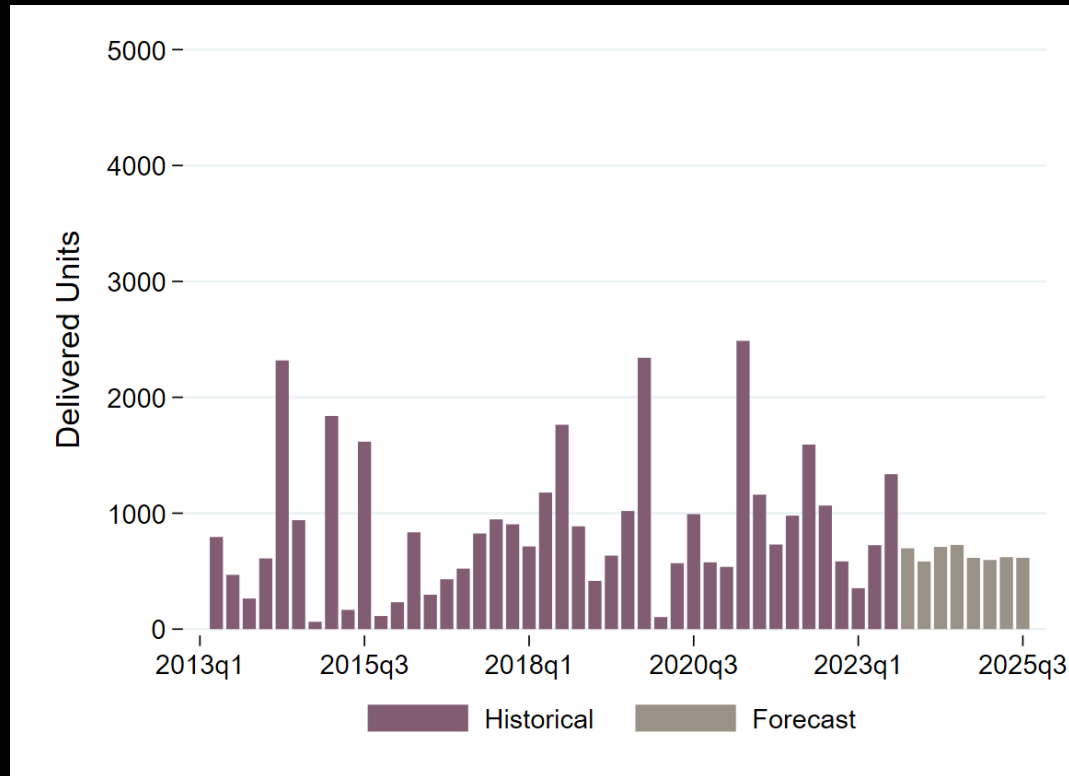


Inland Empire Submarkets

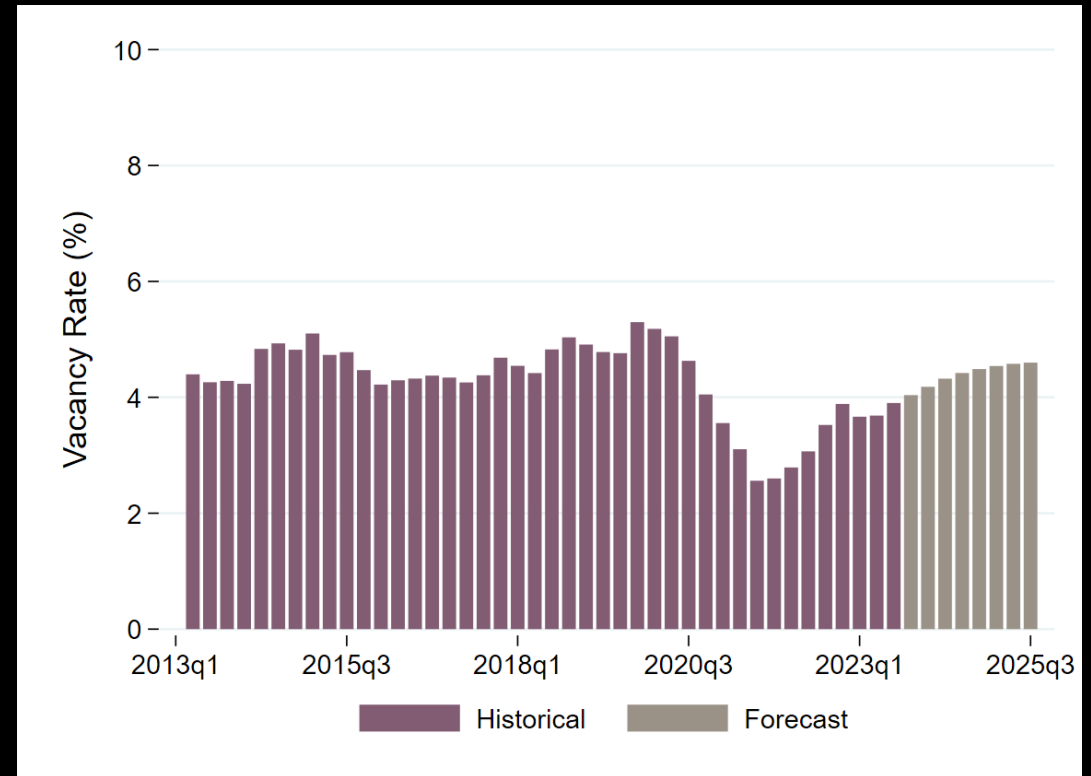
- High Rent Growth Submarkets
 - West Riverside County
 - Chino-Rancho Cucamonga
- Low Rent Growth Submarkets
 - Palm Springs-Indio (slightly negative rent growth)
 - Outlying San Bernardino

San Diego County

Delivered Units

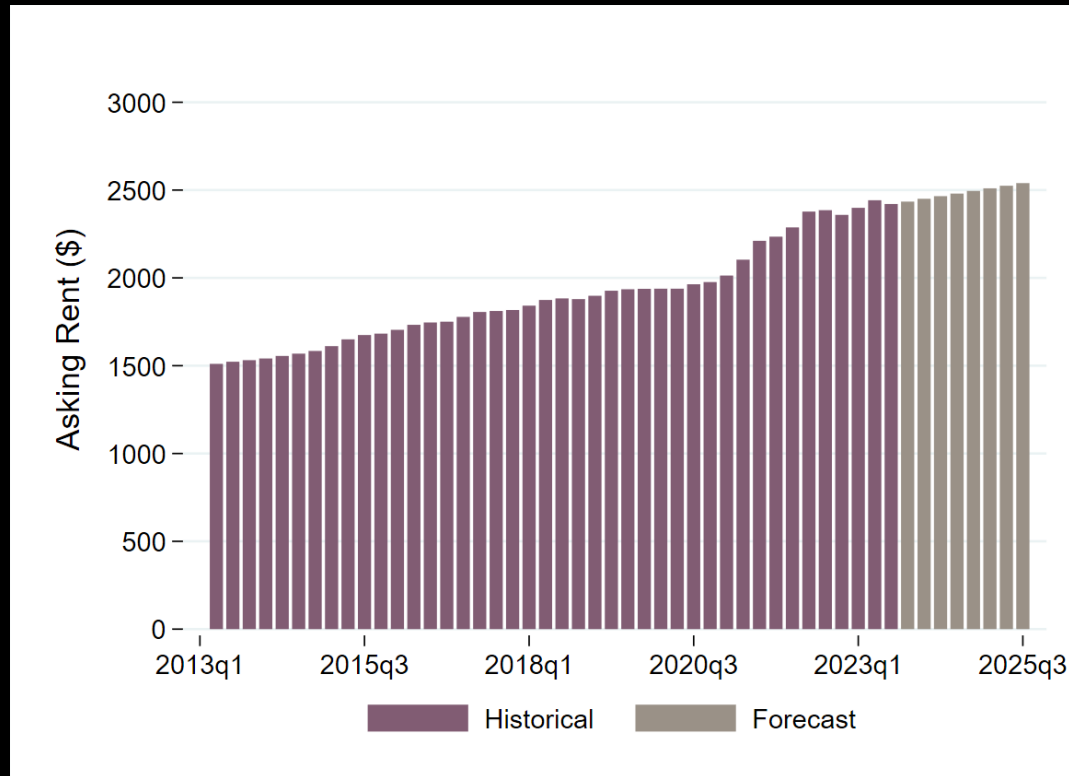


Vacancy Rate

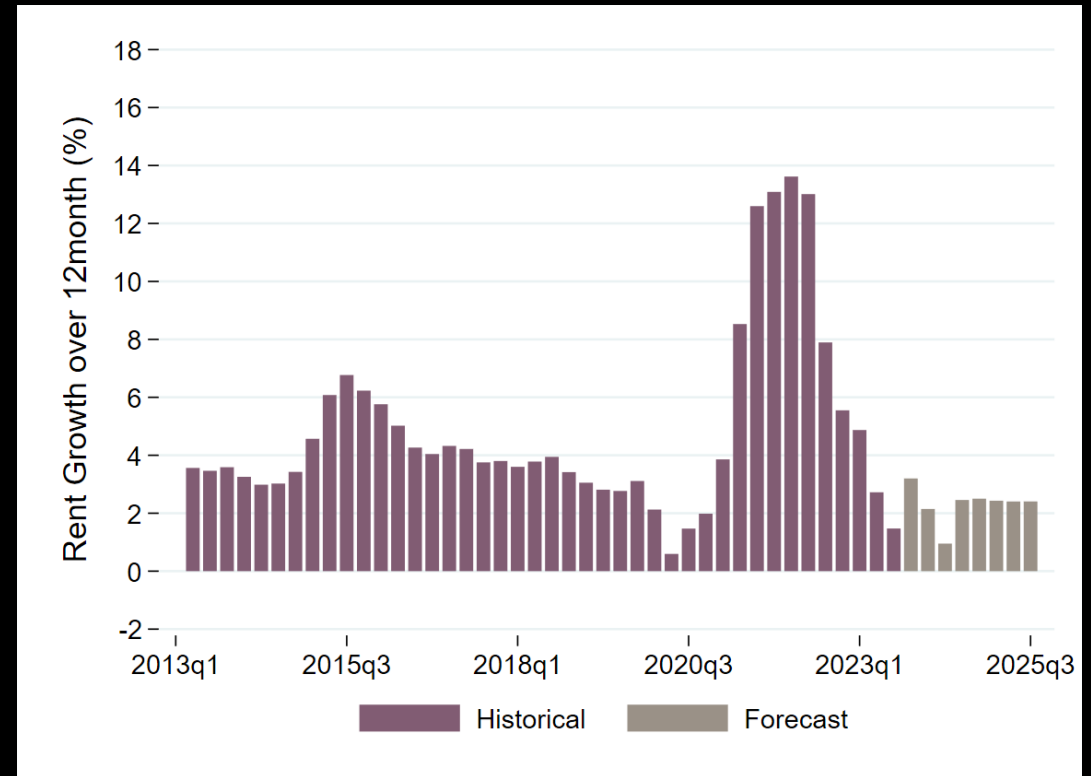


San Diego County

Rent



Rent Growth

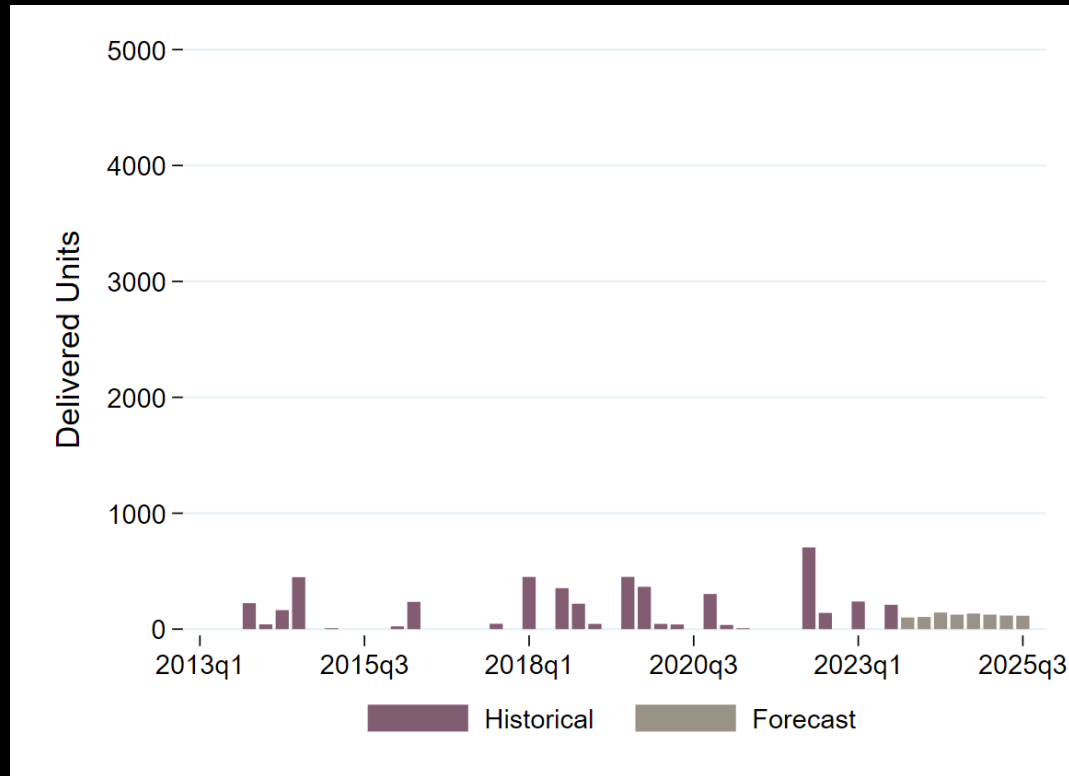


San Diego Submarkets

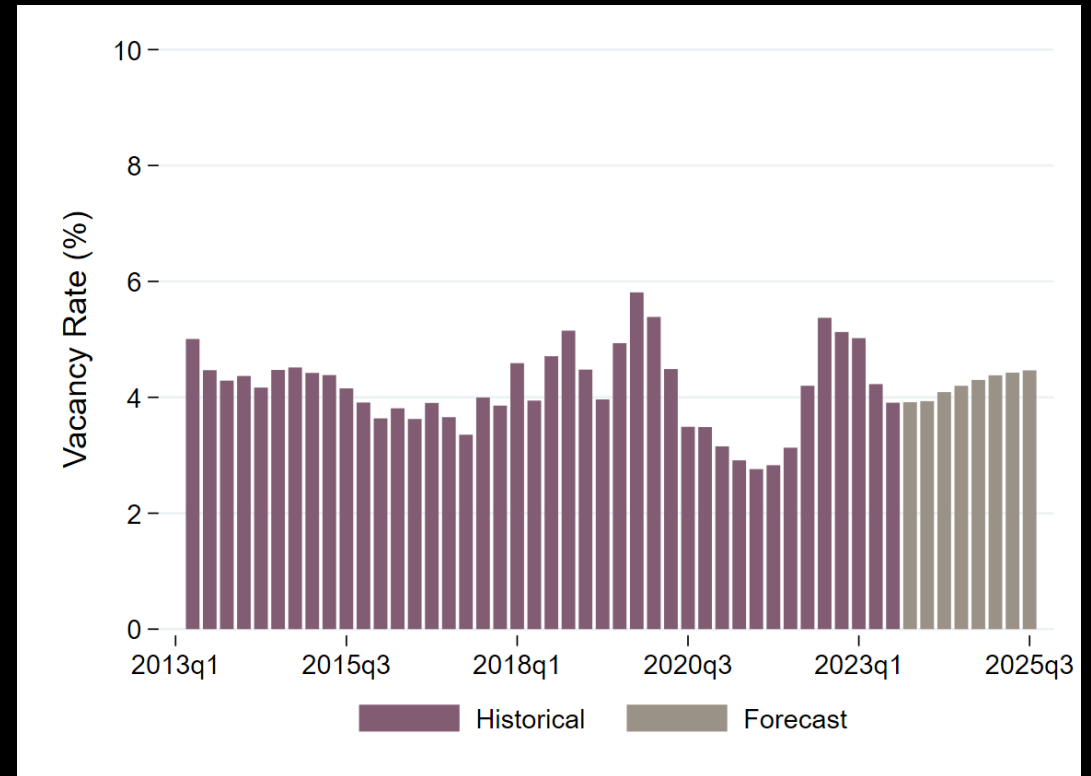
- High Rent Growth Submarkets
 - Chula Vista-National City
 - City of San Diego-Inland
- Low Rent Growth Submarkets
 - City of San Diego-Coastal

Ventura County

Delivered Units

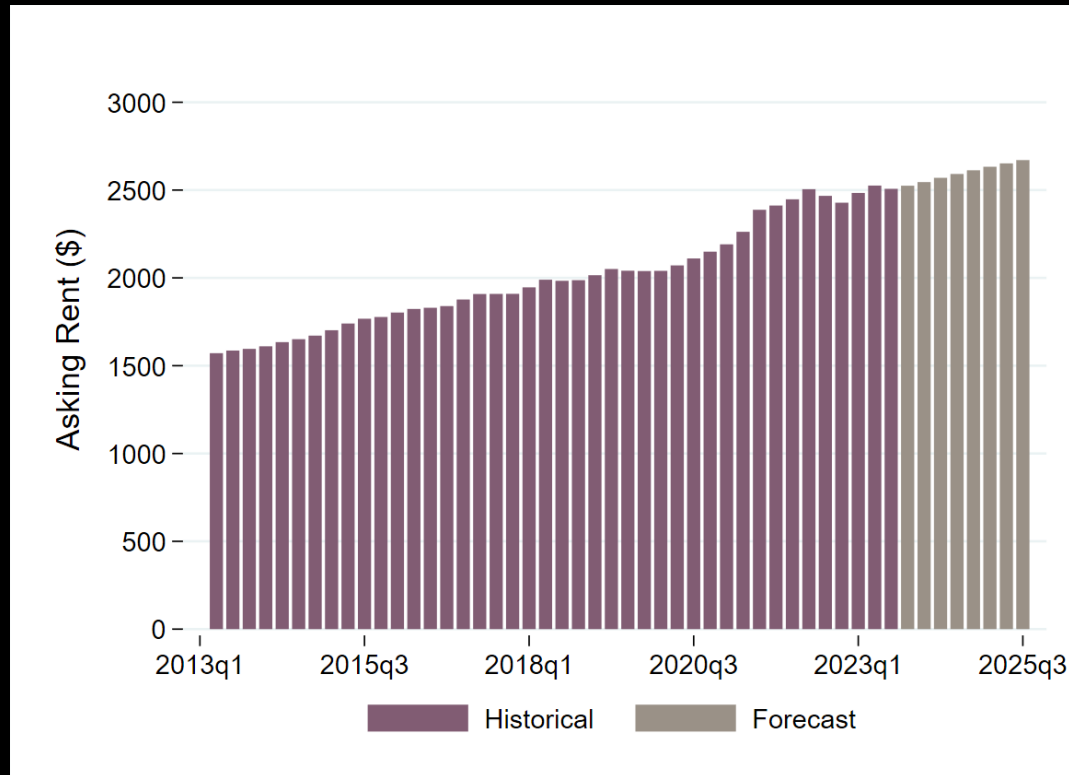


Vacancy Rate

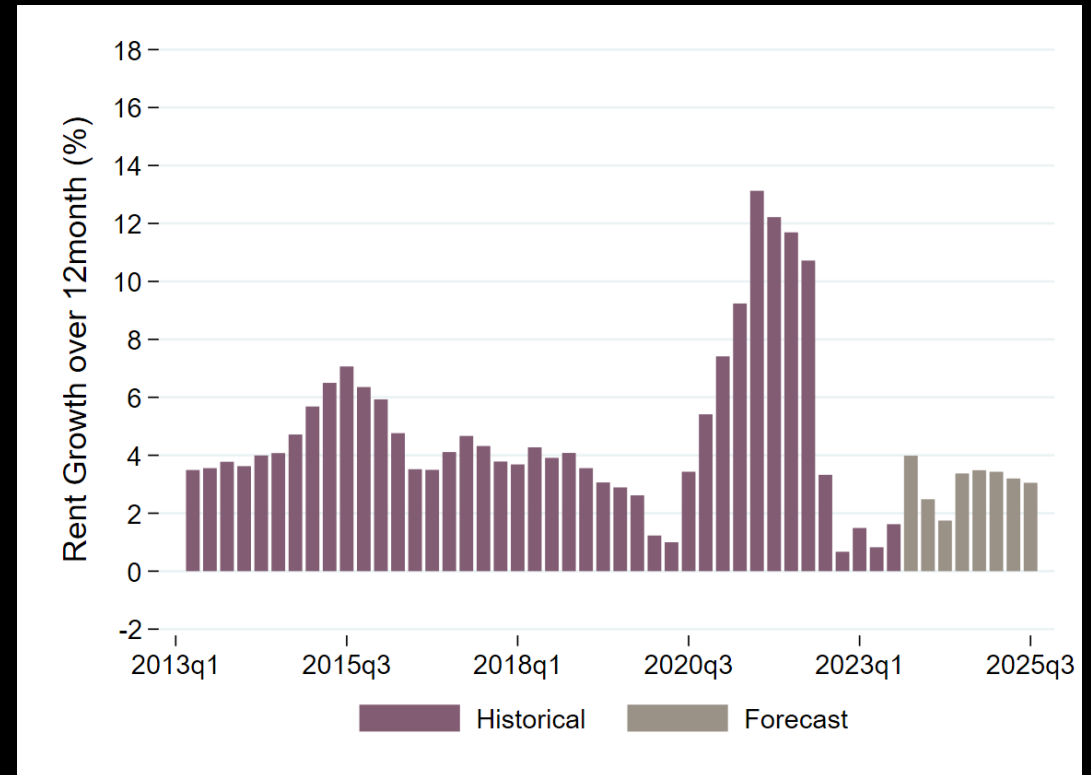


Ventura County

Rent



Rent Growth



Ventura Submarkets

- High Rent Growth Submarkets
 - Camarillo-Moorpark-Newbury Park
 - Ventura
 - Oxnard- Port Hueneme
- Low Rent Growth Submarkets
 - Simi Valley- Thousand Oaks
 - Outlying Ventura County

Conclusion

- Rent growth is expected to resume but at a much slower rate than during the pandemic.
- High interest rates have stymied development, thus laying the foundation for further rent growth.
- Higher financing costs and operating expenses will reduce property owners' ability to save cash and refinance existing loans.
- To improve housing affordability and slow down outmigration, Los Angeles County needs to build more housing.