

Emerging Trends in Real Estate - 2009

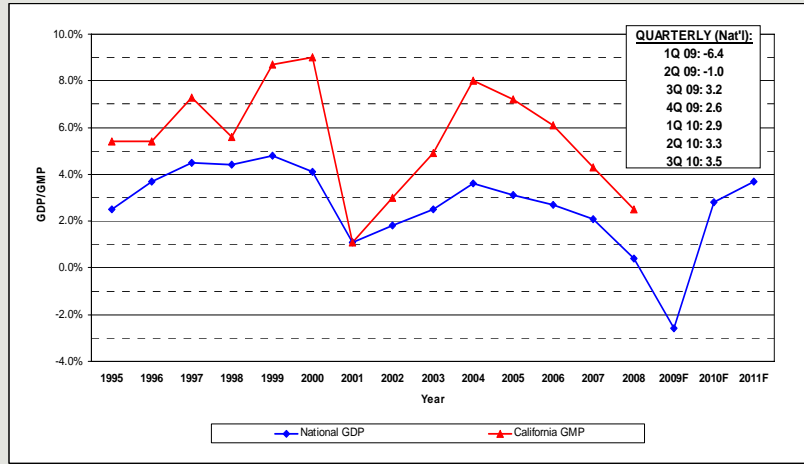
For: ULI
December 1, 2009

SULLIVAN GROUP REAL ESTATE ADVISORS

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NATIONAL ECONOMIC TRENDS

National and California GDP/GMP

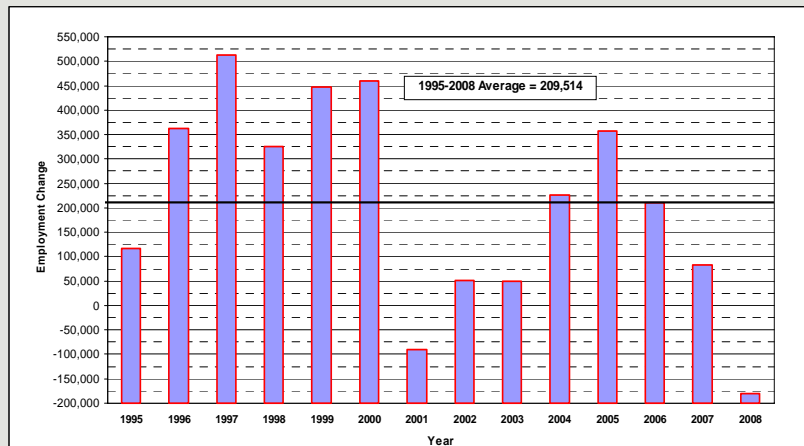


Source: NAHB; Economy.com; Sullivan Group

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California Employment Change

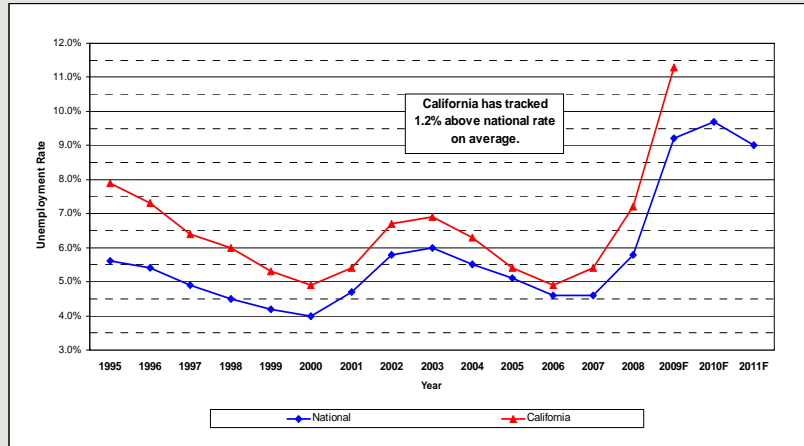


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National and California Unemployment Rates

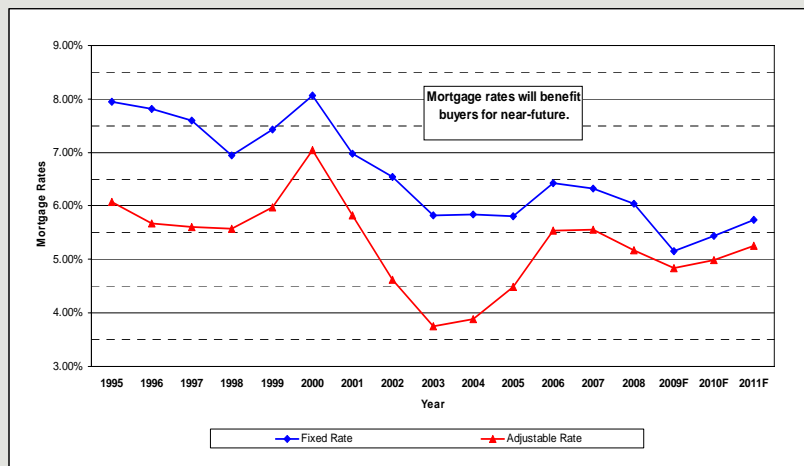


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National Mortgage Rates



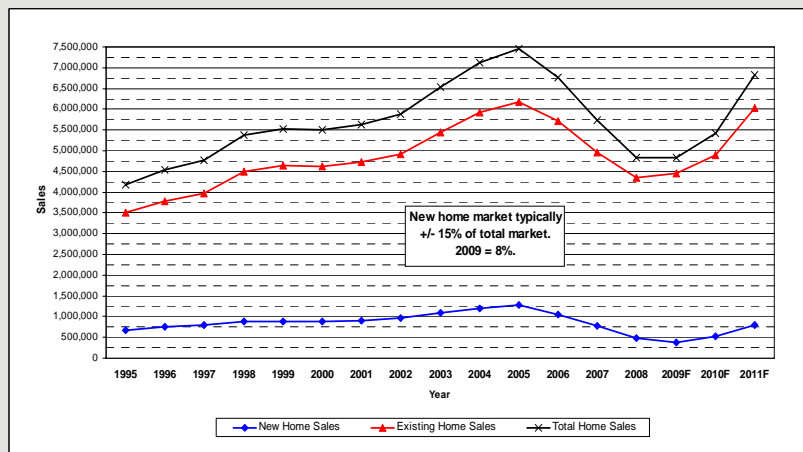
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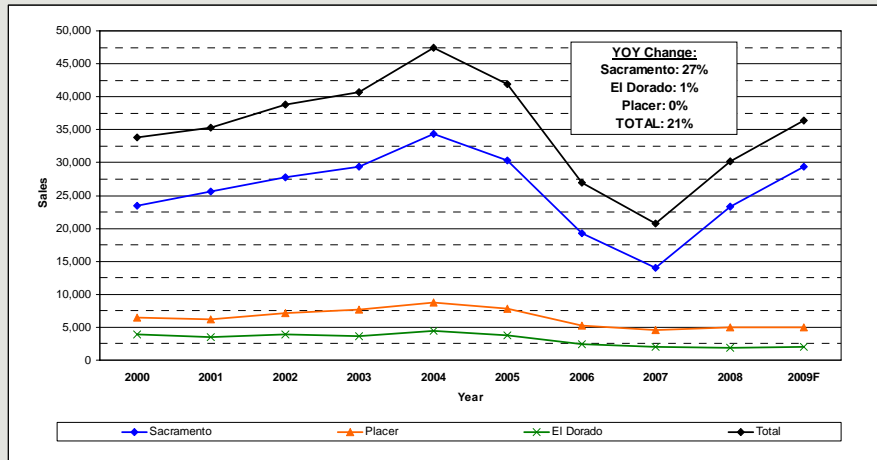
RESIDENTIAL TRENDS

National Home Sales



Source: NAHB; Sullivan Group

Existing Home Sales – Sacramento Area

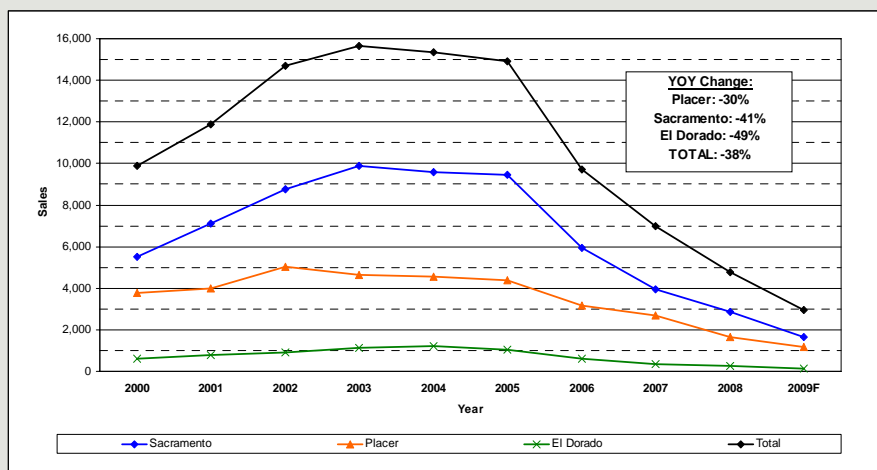


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New Home Sales – Sacramento Area

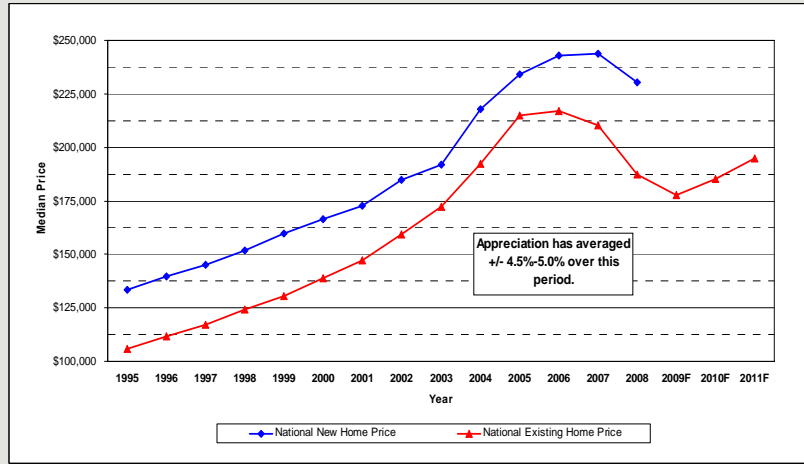


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National New Home Prices

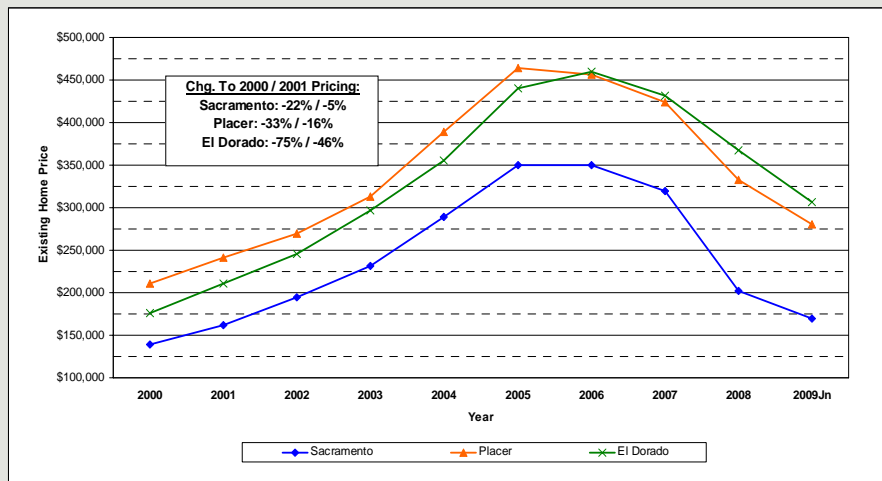


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Home Prices – Sacramento

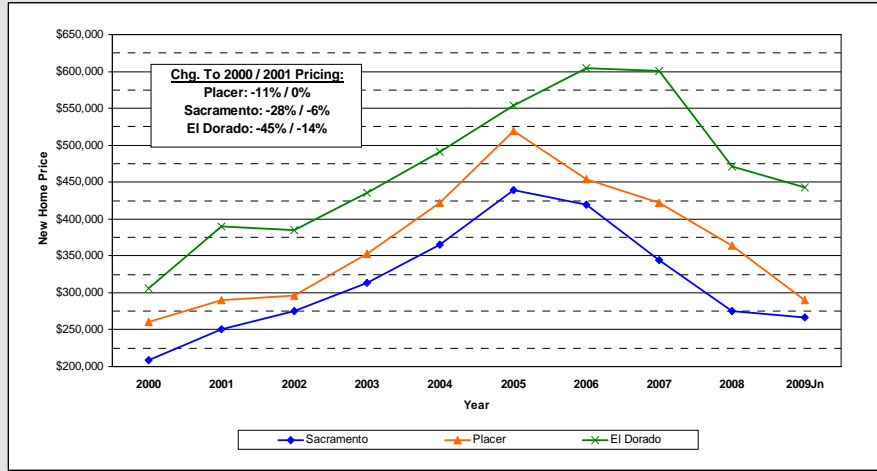


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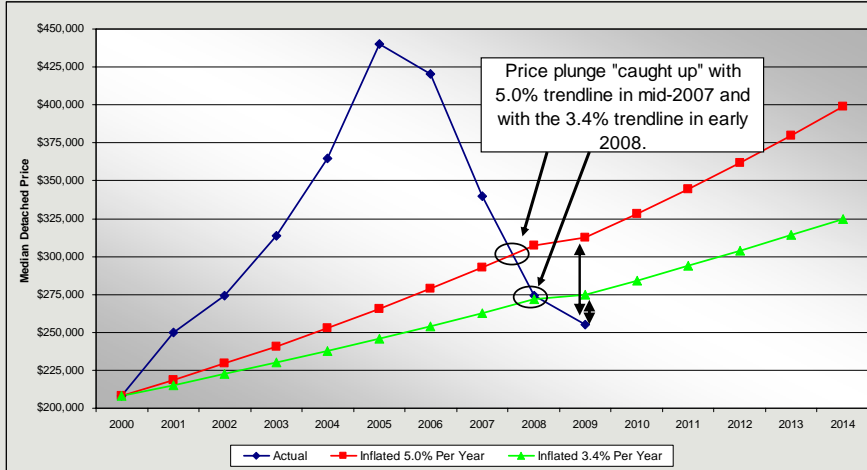
New Home Prices – Sacramento Area



Source: RERC; Sullivan Group

PRICE AND DEMAND PROJECTIONS

Sacramento County New Home Price Projection

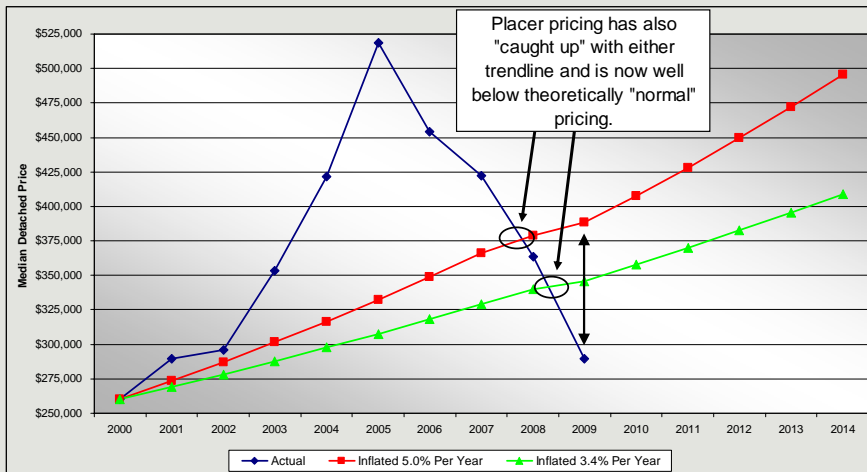


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Placer County New Home Price Projection

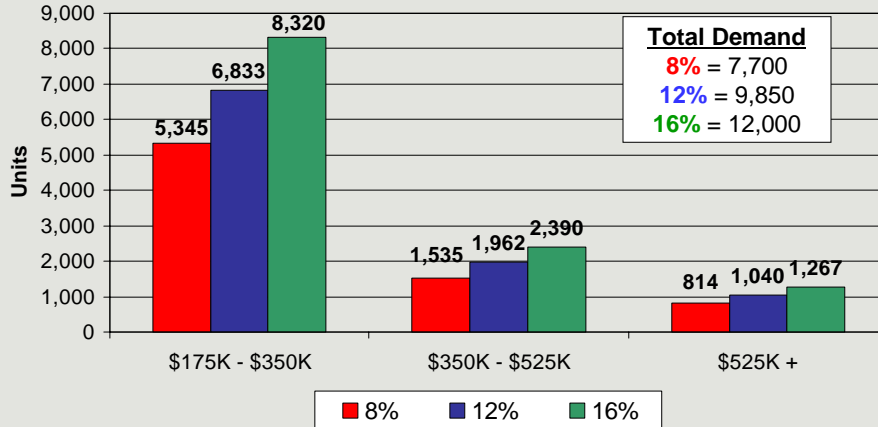


Source: RERC; Sullivan Group

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Demand by Price Range and Turnover Sacramento MSA*



Sacramento MSA includes Sacramento, Placer, El Dorado, Yolo, Yuba, Sutter counties

PRODUCT AND PREFERENCES

Young singles/couples

	1	2	3
Typical Housing Preferences	Attached	Attached, Small Lot SFD	Attached, Small Lot and Medium Lot SFD
Product Configuration/Specification	Lower spec, affordability	Lower spec, larger space	Ego-driven, wants "wow" features, urban lifestyle
Reasons for buying	No more renting, recently divorced	No more renting, promoted or married	Promoted, new family
Purchase motivations	Price, safety, stability. Will sacrifice commute to achieve these goals	Affordability, safety, "big" value, own over rent, accessibility to services	Entertainment/attractions of area, shorter commute, limited home maintenance

Families

	4	5	6
Typical Housing Preferences	Attached, Small Lot and Medium Lot SFD	Small Lot, Medium Lot and Large Lot SFD	Medium Lot and Large Lot SFD
Product Configuration/Specification	High bedroom count, larger secondary bedrooms over master suite	Bedroom count, upstairs master suite, lofts and family areas, larger backyard	Highest spec level, size and grandeur, downstairs master suite for privacy
Reasons for buying	More space for growing family, yard for children	Space for growing family, live closer to better schools, promotion.	Similar neighbors, upgraded house, promotion, space for family and "toys"
Purchase motivations	Safety even over schools, accommodate growing family	School district, family spaces, community amenities (but not too expensive)	School district, bedroom count, shopping and services, ego and prestige

Empty Nesters

	7	8	9
Typical Housing Preferences	Attached, Small Lot and Medium Lot SFD	Attached, Small Lot and Medium Lot SFD	Attached, Small, Medium and Large Lot SFD
Product Configuration/Specification	Lower spec level, single story, garage, efficient floorplan	Single story, open living space for entertainment, lower bedroom count, den	Higher spec level, single story preferred, sec. bedrooms for den or hobbies
Reasons for buying	Low maintenance, retirement and reduced income, loss of spouse	Low maintenance, retirement, closer to family, live by people like them	Low maintenance, retirement, closer to family, second or vacation home
Purchase motivations	Own over rent, privacy, safety, secluded areas	Accessibility to services, safety, having "fun," short commute, volunteer in area	Prestige, ego driven, home size for "stuff," more "premium" amenities

Buyer Hot Buttons

- ✓ **Young Couples – Value and one sexy thing (e.g., cool kitchen)**
- ✓ **Move-up families – kids space (homework), “dining playroom,” flex space, double sinks**
- ✓ **Empty nesters – storage, efficiency, entertainment, indoor/outdoor**
- ✓ **Affluent singles/couples – entertainment, kitchen, flex space, “wow” features**
- ✓ **Retirees – low maintenance**
- ✓ **Vacation/2nd Home – lock and go**



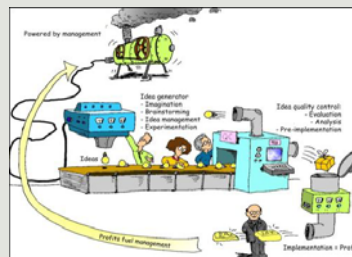
Buyer Trends

- ✓ For buyers, Price is King
- ✓ For builders, Cost is King
- ✓ = Recent resales superior to new
- ✓ Upgrades and quality will improve with market
- ✓ Green is good, but not God
- ✓ Energy efficiency is very good
- ✓ Test for the next “big thing”



Product Trends

- ✓ Infill and high density (SB375, etc.)
- ✓ Second home/vacation
- ✓ Gen Y surge coming
- ✓ It's still about lifestage
- ✓ Density not for everyone
- ✓ Younger renters, older buyers?

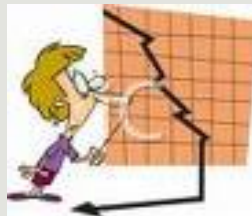


One Size Fits All?

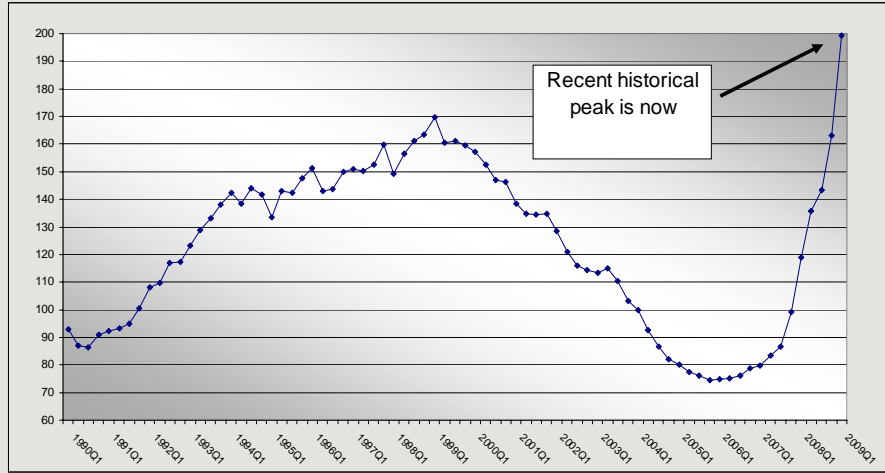
- ✓ “Forcing” people into infill and high density?
- ✓ Families, retirees?
- ✓ Future suburban ghettos
- ✓ School, grocery, livability?
- ✓ What will Gen Y want as it ages?



THE BIG RE-SET



Sacramento Affordability Index

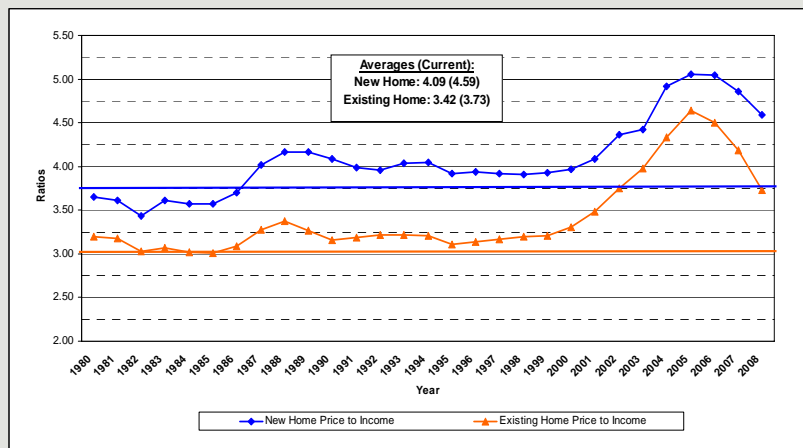


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Home Price to Income Ratios - National



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The “Big Re-Set” and Market Future

- ✓ Pricing “rationale” again?
- ✓ Rapid appreciation drains pool
- ✓ Limits “structural” demand
- ✓ This + credit regime
- ✓ = Future moderate price changes



So What do We Focus On?

- Product balance and variety
- Infill for young, middle, and older, renters – buyers
- But specific types
- Aging Gen Y = increased SFD
- Suburbia yes, not “McMansions”
- “Green” is really “efficiency”



So What do We Focus On?

- **Less sprawl good but:**
 - **“Forcing” product = limiting structural demand**
 - **Provide product people want**
- **Coke AND Pepsi**
- **(Even if we know Coke is better)**



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