Economics and Appraisals

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What is a property worth?

**Appraisers**
- Comps based
- Allocoprophagic
- Preferred by courts
- Inherently contains NPV of 6 buyers and sellers

**Financial / Economic**
- Net Present Value
- Scientific
- Avoided by courts / speculative
- Should still play a role as market expectations can be off base

\[
\frac{\pi_1}{(1+r)} + \frac{\pi_2}{(1+r)^2} + \ldots + \frac{\pi_T}{(1+r)^T} = \sum_{t=1}^{T} \frac{\pi_T}{(1+r)^t}
\]

Profit \quad Discount Rate
GDP Trends vs. Bends

Real GDP (Log Form)

Average Growth
3.05% per year

Real GDP - Trend (Log Form)
California fact versus fiction

2016 Best & Worst States For Business

50 California
49 New York
48 Illinois
47 New Jersey
46 Massachusetts
45 Connecticut
44 Hawaii
43 Michigan
42 Oregon
41 Vermont
40 Maryland
39 Mississippi
38 West Virginia
37 Rhode Island
State Booms and Busts

Growth in Real Output

US Unemployment

-6.0%
-4.0%
-2.0%
0.0%
2.0%
4.0%
6.0%
8.0%
10.0%


-6.0%
-4.0%
-2.0%
0.0%
2.0%
4.0%
6.0%
8.0%
10.0%

1/1/88 2/1/90 3/1/92 4/1/94 5/1/96 6/1/98 7/1/00 8/1/02 9/1/04 10/1/06 11/1/08 12/1/10 1/1/13 2/1/15 3/1/17

United States  California

US  CA  US
Bends and NPV

- NPV takes a big hit in a weak economy
  - Revenues down
  - Risk (revenue, interest rate, liquidity) way up
  - Valuations are hyper cyclical
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Local Context in Action

**Chart 1: Retail Vacancy Rates**
Grey Bar: Potential Completion Date

- Inland Empire
- Palm Desert
- United States

**Chart 2: Taxable Sales**
Grey Bar: Potential Completion Date

- California
- Riverside
- Indio
A look back

So what’s going on?

• A fall to remember
  – Heard on the street “There are only two positions out there: cash, and fetal”
  • Its not ‘what Wall Street troubles mean Nevada’, its ‘what Nevada troubles mean for Wall Street’
  – Recession was already fully underway even if many economists and politicians remained in deep denial

• What went wrong
  – The big three imbalances: housing, finance, and the consumer

• Where from here?
  – Things are bad.. But not THAT bad! So far the numbers are in line (if a bit worse) than past recessions, and proportionate to the imbalances in the economy...
  – Recovery is a given, the big question is when

NBER says U.S. recession began December 2007
Mon Dec 1, 12:20 pm ET
WASHINGTON (Reuters) – The U.S. economy slipped into recession in December 2007, the National Bureau of Economic Research’s business cycle dating committee announced on Monday.
Indicators of potential future distress

It isn’t the ‘when’, it’s the ‘why’

- **Macroeconomic Excesses**
  - Over-building (permits)
  - Over consumption (savings / trade deficit)

- **Financial Excesses**
  - Aggregate debt levels
  - Pricing of Risk
  - Valuation Issues

WSJ Next Recession Poll

- 2018
- 2019
- 2020
- 2021
- 2022
- 2023

0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0%

2023
2022
2021
2020
2019
2018
What can Beacon do for you?

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Let’s discuss your goals and needs.
Beacon has 6 Practice Areas covering a range of services and products.

Contact Dr. Chris Thornberg directly at chris@beaconecon.com or 310.571.3399

Our 6 Practice Areas

Housing, Land Use, & Real Estate Advisory
Sustainable Growth and Development
Economic & Revenue Forecasting
Economic, Fiscal and Social Impact Analysis
Regional and Sub-Regional Analysis
Litigation and Testimony

For more information, see Slide 2.
Portfolio Spotlight

Regional and Sub-Regional Analysis
Beacon conducts analysis at an international, national, state, county, and city level -- and even down to the zip code, pending data availability. We analyze data on Employment, Industry, Real Estate, and Consumption.

Past Clients:
- City and County of Los Angeles
- City and County of Riverside
- East Bay Economic Dev. Agency

Impact (Economic, Fiscal, Social) & EB5 Analysis
Beacon has evaluated the impact of entities like universities, music festivals, infrastructure projects, and real estate development projects. Beacon has also conducted impact analyses that combine more than one of the above like that of L.A’s Olympic bid.

Past Clients:
- University of Southern California
- Metropolitan Water District
- LA 2024 Olympic Bid Committee

Sustainable Growth & Development
Beacon conducts industry and policy analysis on topics like green innovation, tech and workforce development, and industry sector strategies. Beacon has strong in-house expertise around housing policy and economic development support.

Past Clients:
- California Apartment Association
- Long Beach Downtown Dev. Corp.
- Santa Cruz Workforce Dev. Board

Housing, Land Use, & Real Estate Advisory
Economic & revenue forecasting
Litigation and testimony
Thank You

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