

2007 MAYORAL HOUSING SUMMIT

Reasons for optimism: Preparing for the Economic Upswing

Kevin Ratner

Forest City Residential West



Sub Prime Mortgage Crisis

Cause

- Federal Reserve cut rates dropping the fed funds rate from 6.5 % in Jan 2001 to 1% in 2003
- Low interest rates spark demand for homes resulting in Real Estate Boom
- Proliferation Of Risky Loans
- Investment Banks and the Asset-Backed Security
- No one watching the store



Sub Prime Mortgage Crisis

Cause

- 17 Federal rate hikes lead to higher rates and reduced affordability
- Unraveling of the housing boom
- Foreclosures on Sub-prime loan
- Credit Crunch
 - Central Banks pump in billions of dollars
 - Feds cut 50 bps of the Federal funds rate

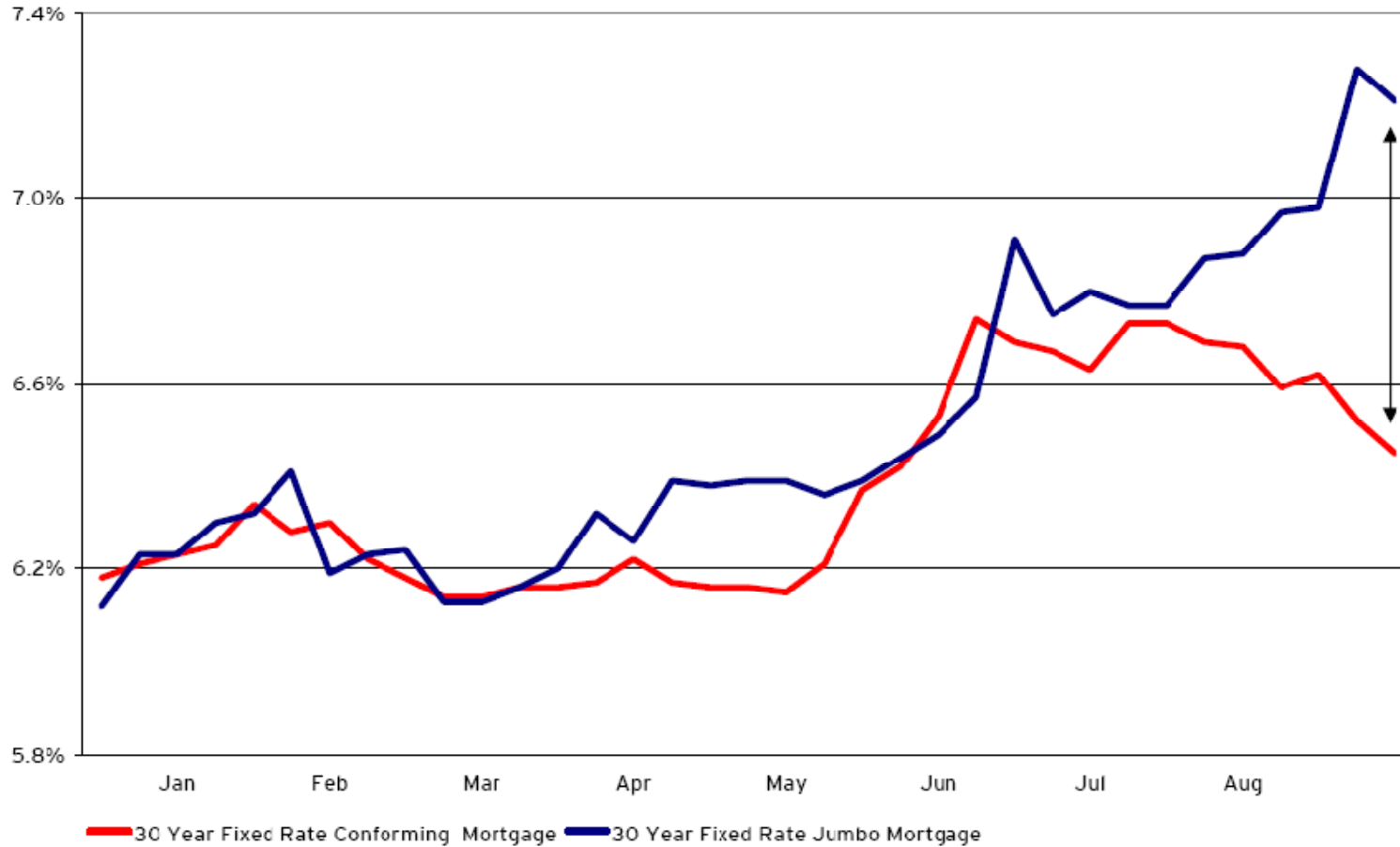


Effect on For-Sale Housing

- Consumers not willing to buy homes (wait & watch)
- Many homebuyers, previously eligible, are not anymore as Lenders tighten due diligence standards
- Jumbo mortgage rates have increased.
- With all the defaults on mortgage backed bonds, Wall St. investors not willing to take the risk of purchasing MBS

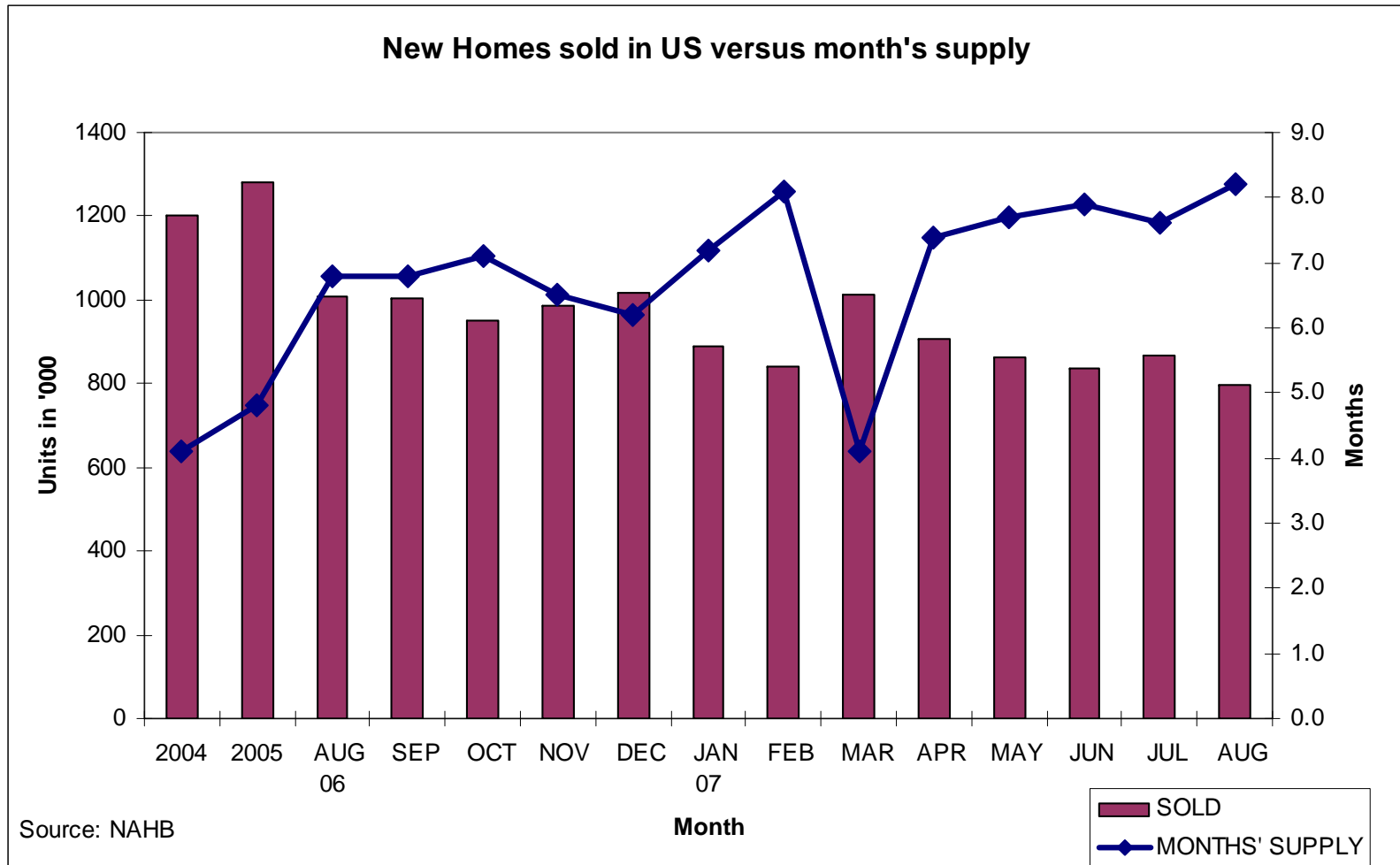
Effect on For-Sale Housing

Interest Rates: 2007

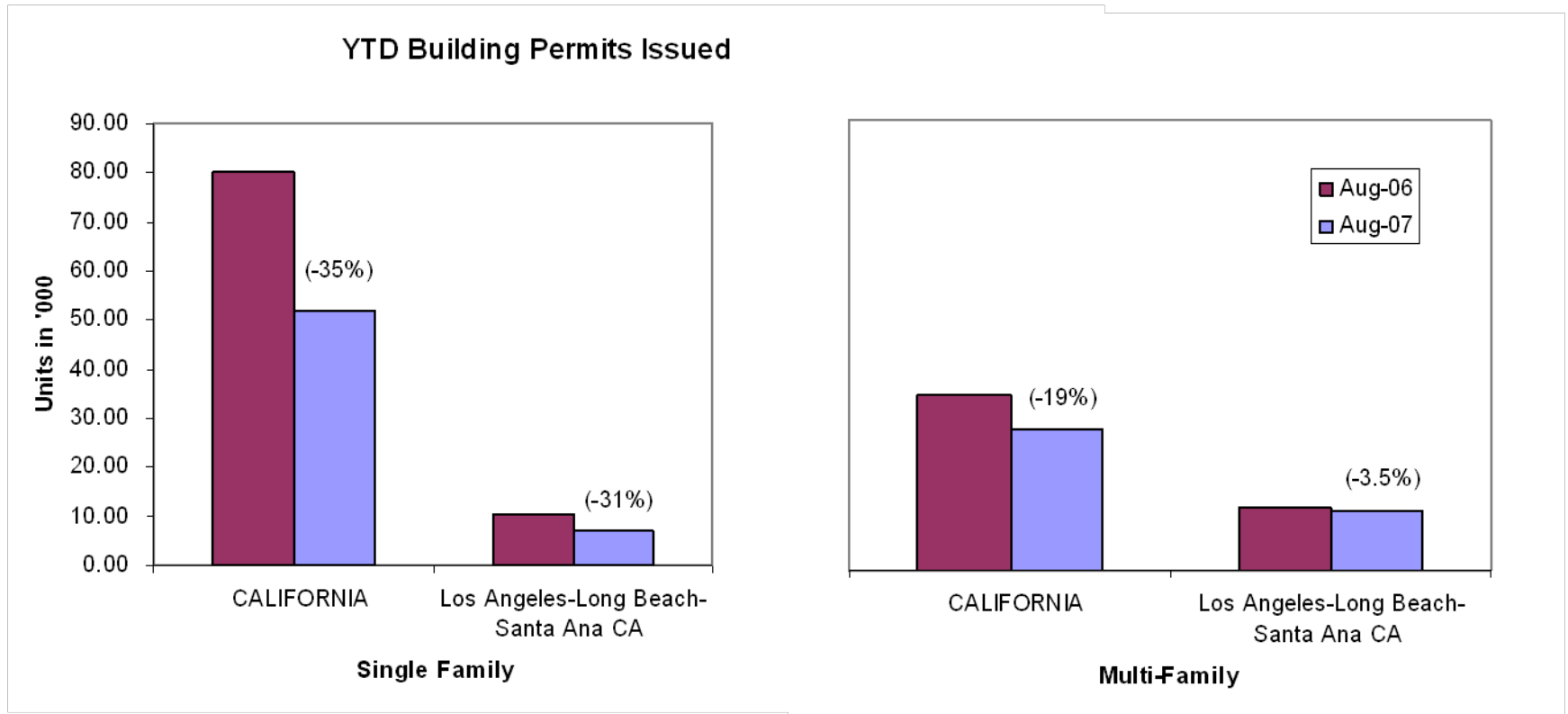


Source: REIS

Effect on For-Sale Housing



Effect on For-Sale Housing California and Los Angeles Metro



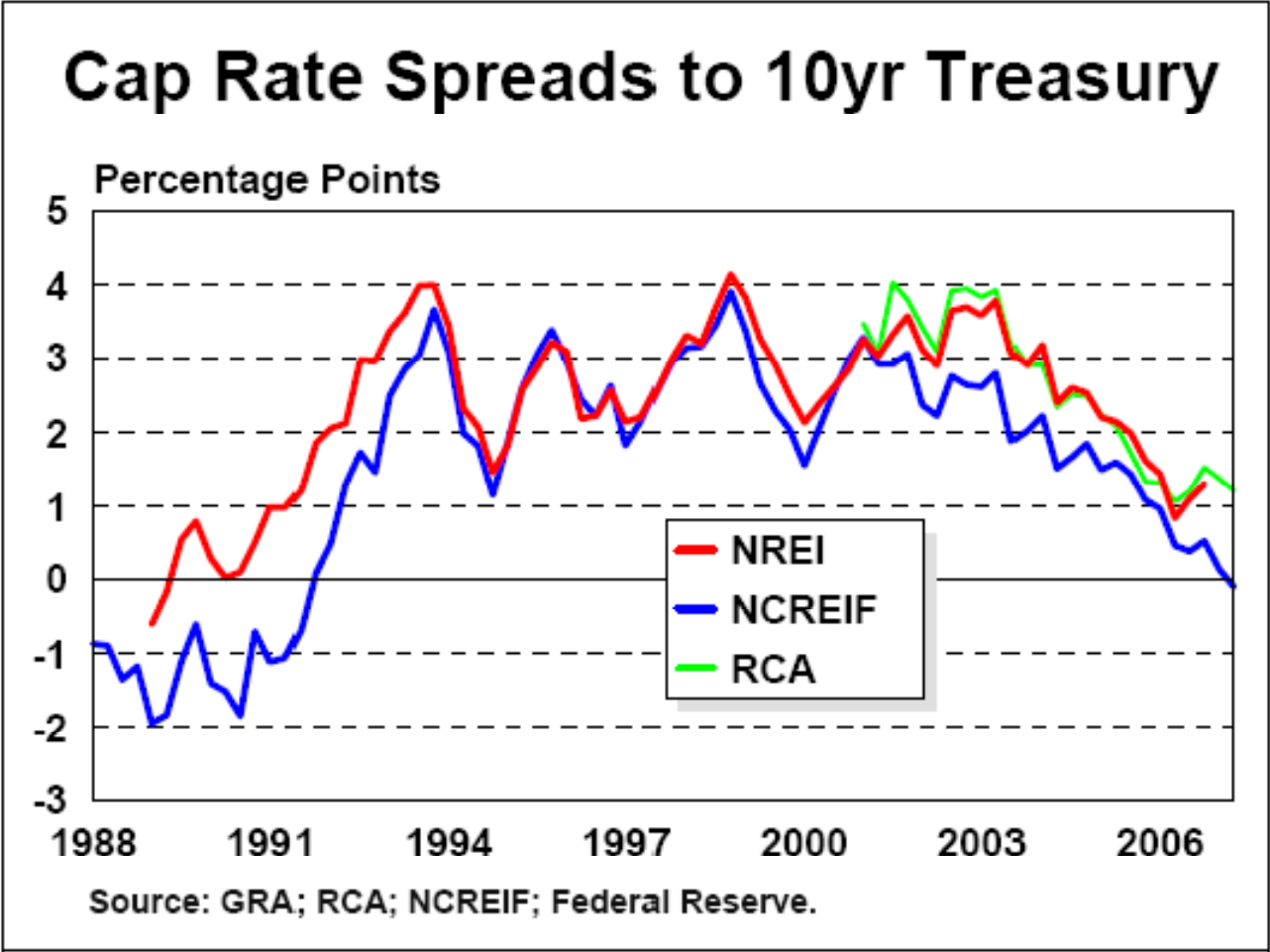
Source: NAHB



Effect on Rental Housing

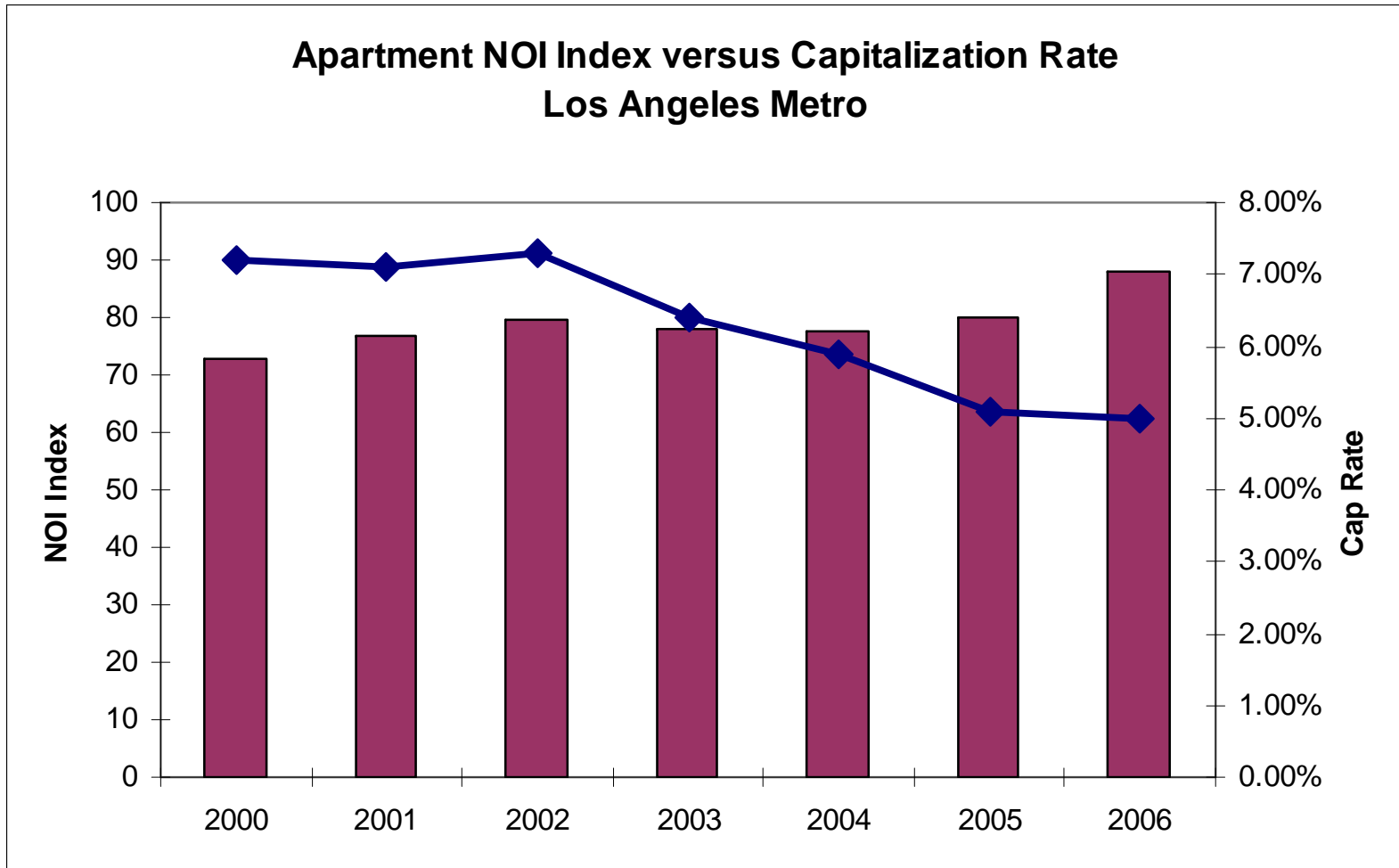
- Rethinking of risk pricing could lead to consequent increase in spreads thereby increase cost of debt
- Higher debt costs & lower debt will require more equity
- Increased WACC will require higher return on investments
- Unsold condos & rented out homes could create grey market
- On the other hand, more condo buyers prefer to rent
- Also, vacancies are tight at 5.8% and new supply is relatively subdued.
- Upward pressure on historically low Cap rate?

Effect on Rental Housing



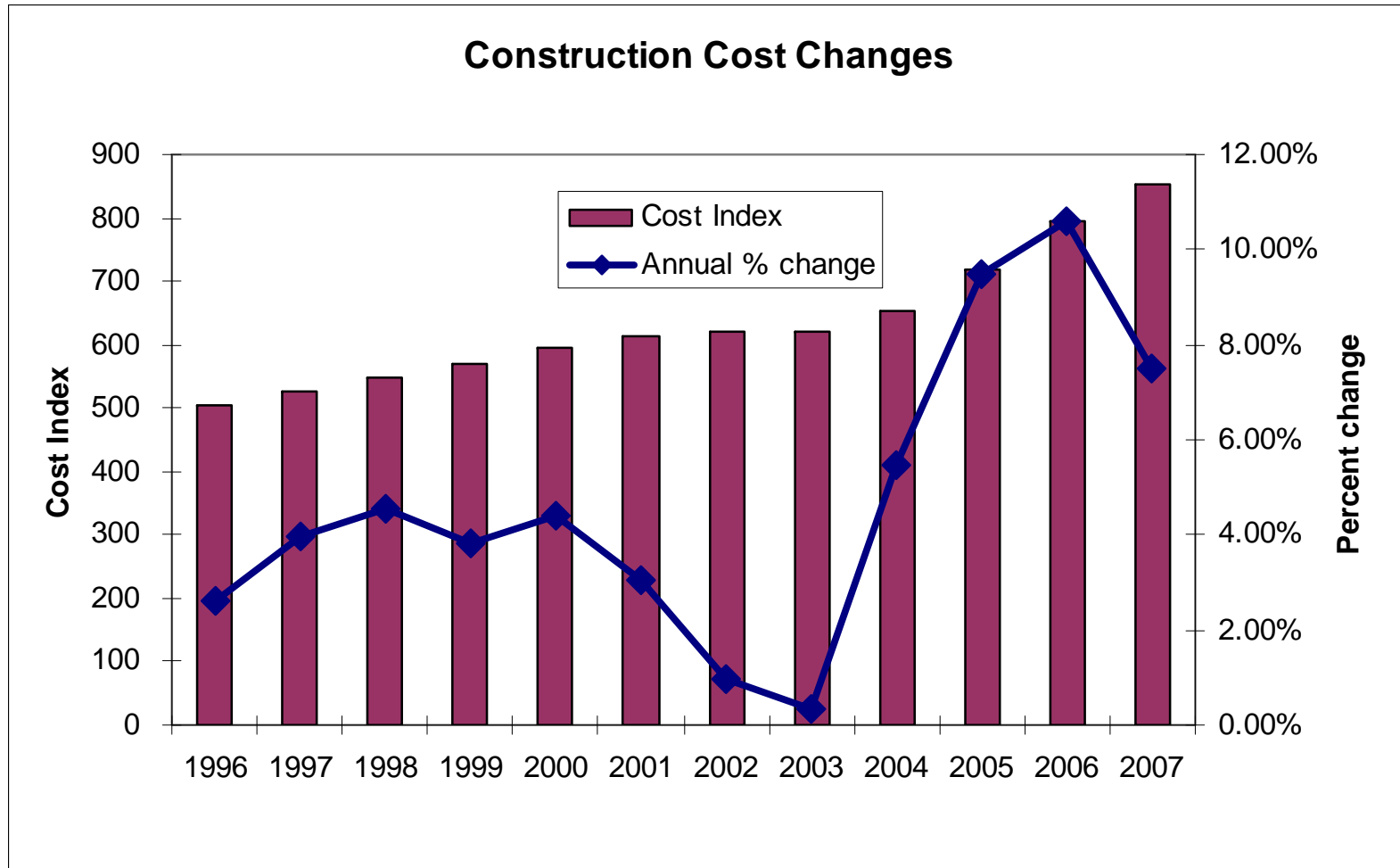
Source: NMHC

NOI vs. Cap Rate - Los Angeles



Source: PPR

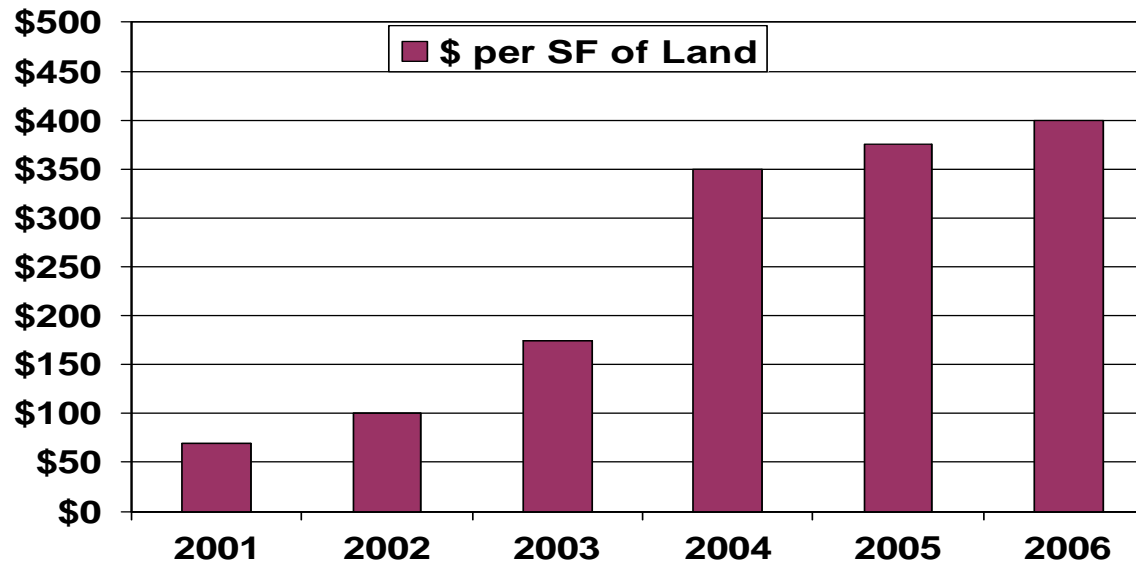
Other Factors - Construction Cost



Source: Turner Construction

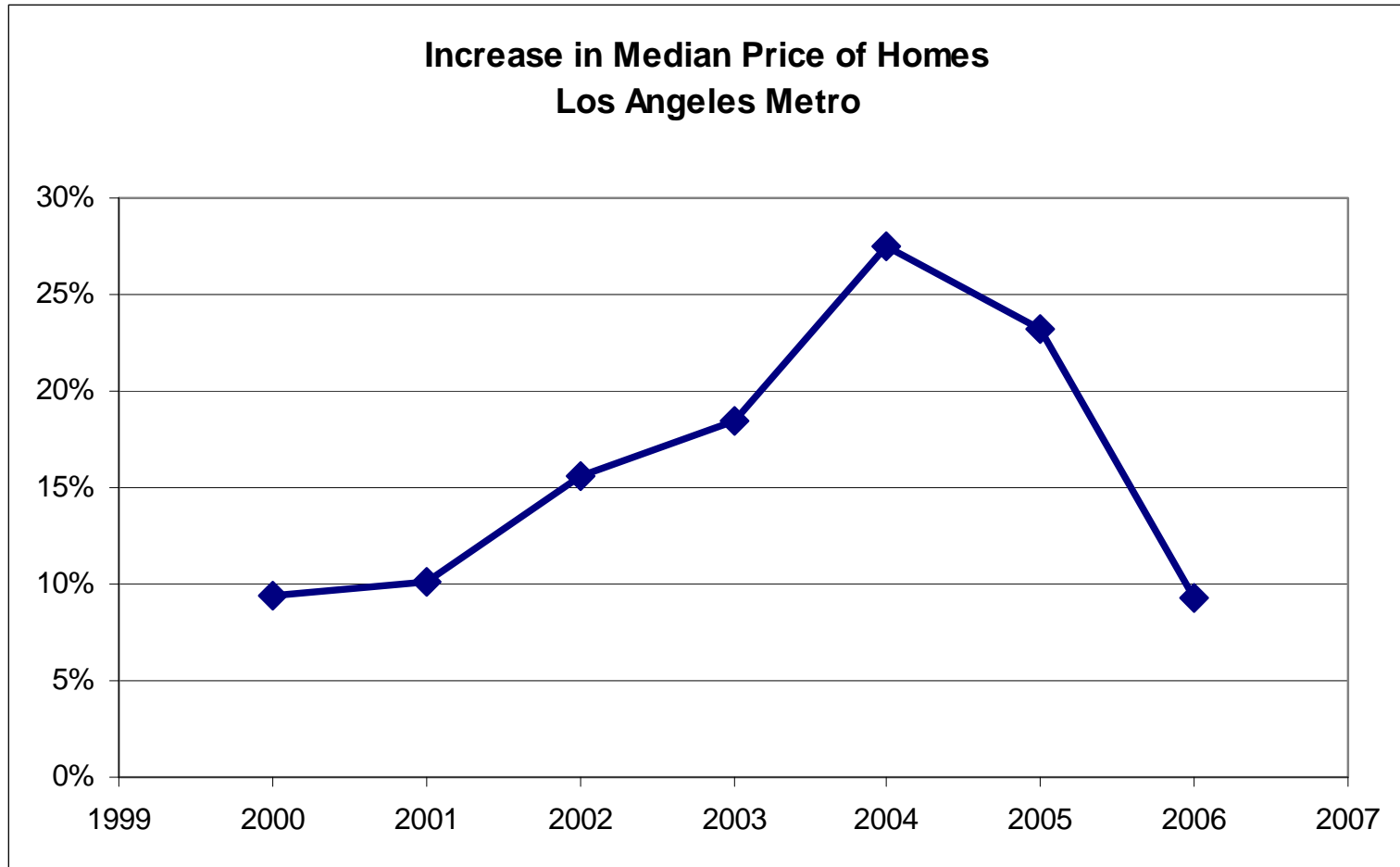
Other Factors - Land Cost

Downtown Land Cost per Square foot



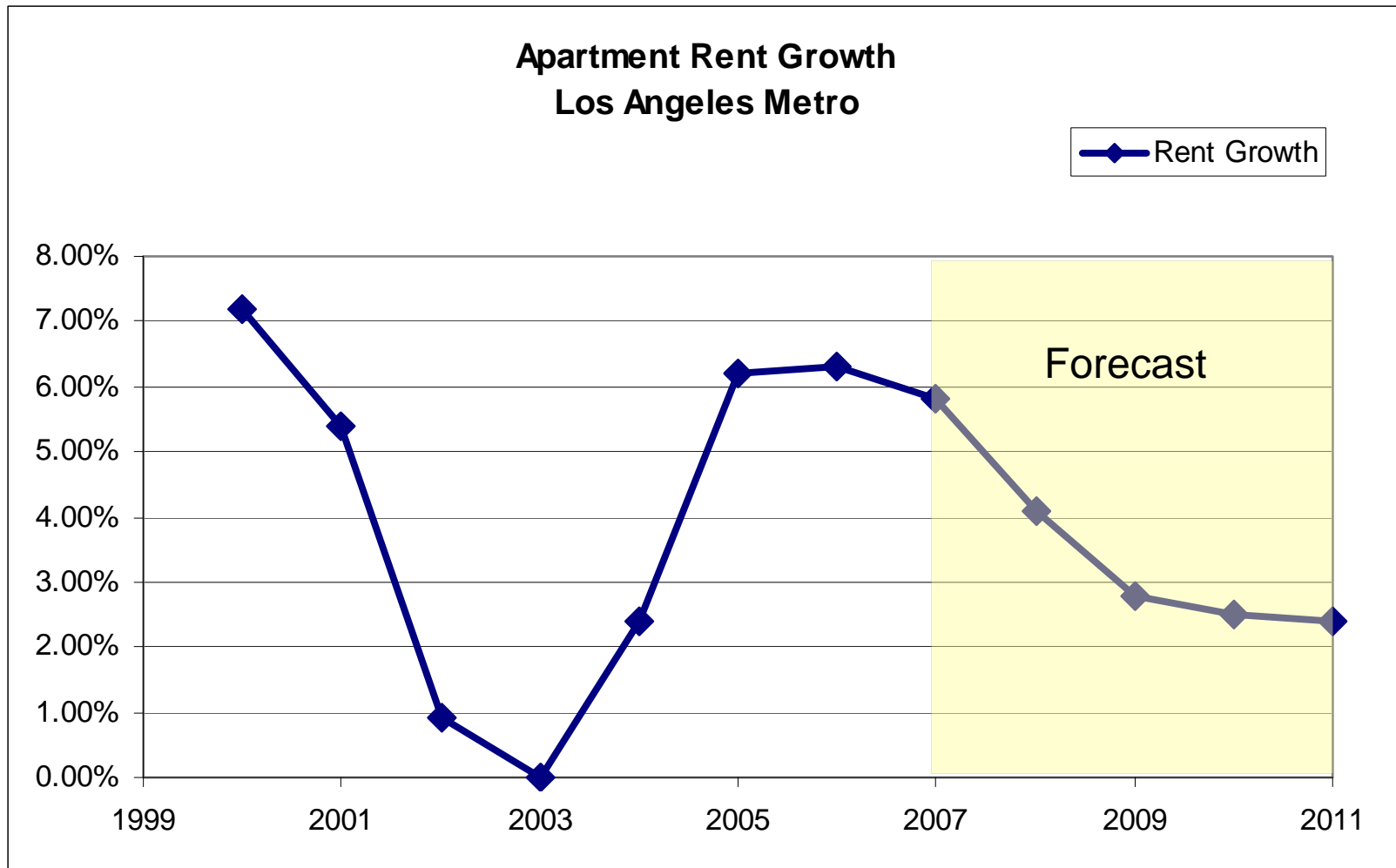


Median Sale Price of Homes in Los Angeles



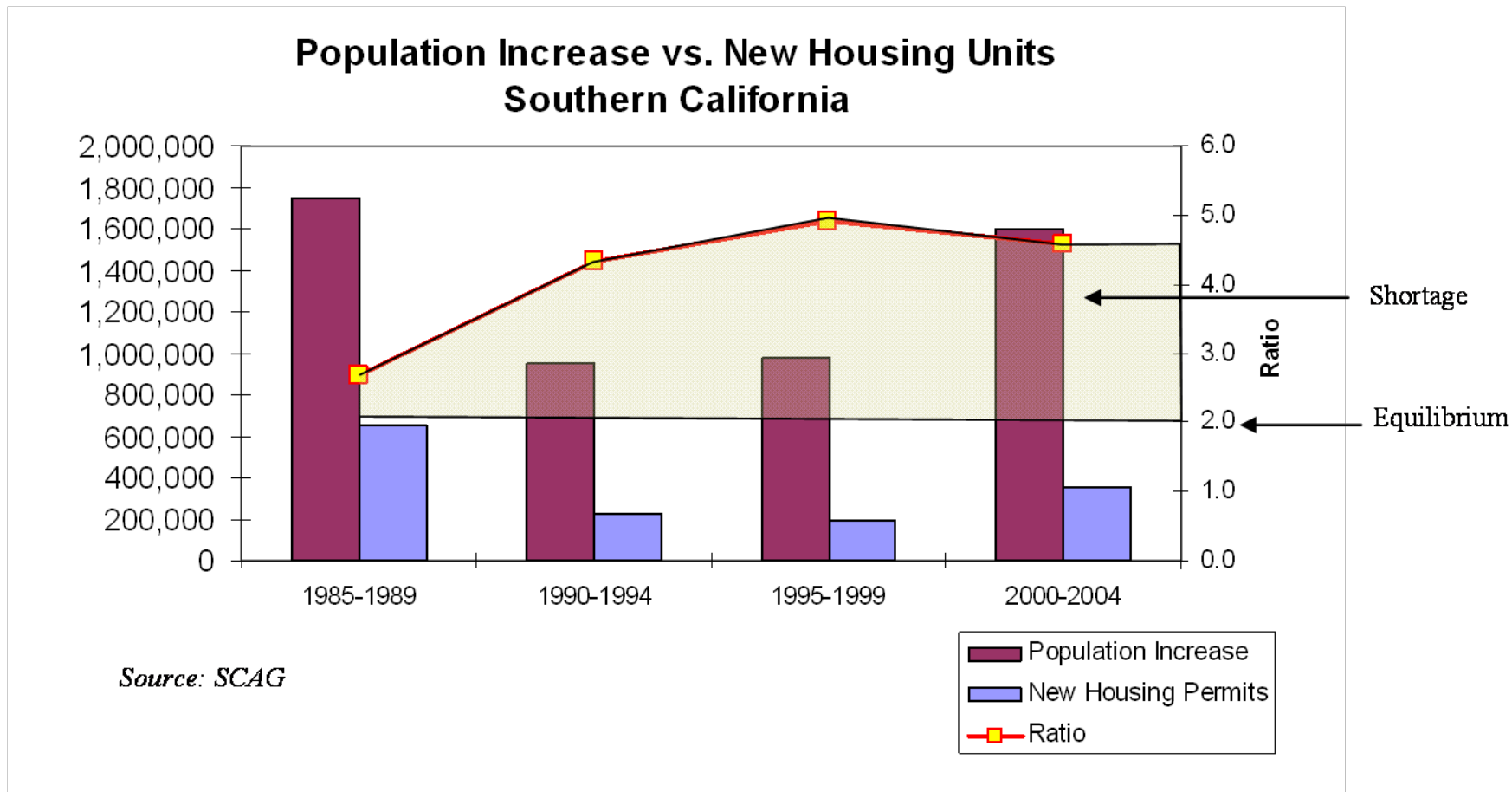
Source: PPR

Rent Growth in Los Angeles

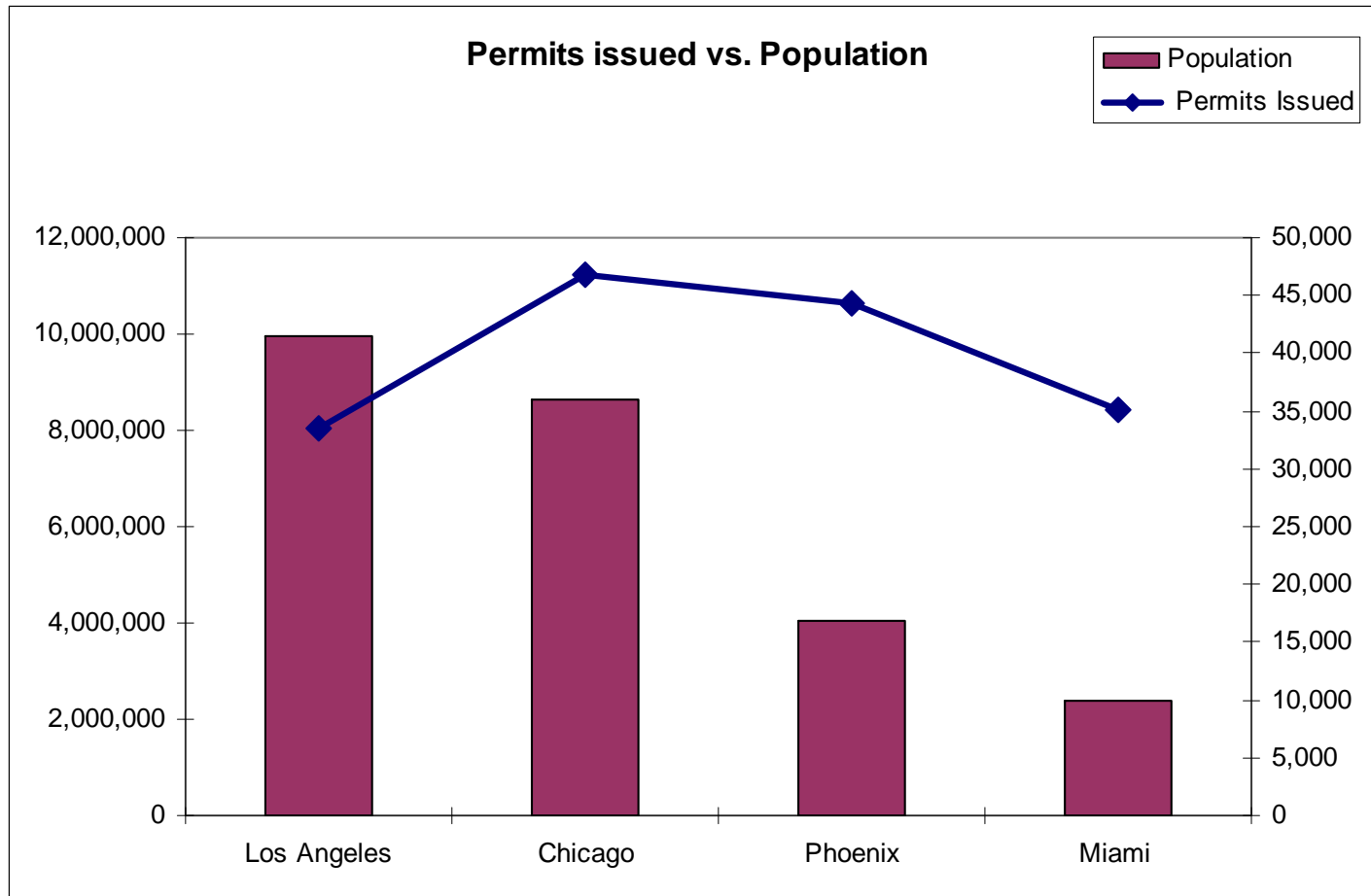


Source: PPR

Supply-Demand Imbalance



Los Angeles compared to other metropolitan counties



Source: US Bureau of Census

How is this a reason for optimism?

- At the end of the day, it is all about financing the gap to deliver affordable housing
- Force to look at innovative practices for providing housing
- Planning/ Design
 - Sustainability – New Urbanism
 - Building Technology
 - Transportation, TOD
- New Funding Partnership
 - Prop C funding
 - Innovative Financing (Public Public Pvt partnerships) Eg. LAUSD & teacher's housing