Heard on the Street - Real Estate News from Ito Ripsteen
Winter 2017 Edition

**Goldilocks Economy: neither too hot nor too cold?**

Dear Friends and Colleagues,

Welcome to the Winter 2017 edition of “Heard on the Street.”

I continue to keep my ear to the ground and my eyes open as relating to the health of our local real estate environment. To take the pulse of the market, I’ve been reading, listening, eavesdropping, shopping, dining out, driving in traffic, all in the name of research. I’ve been looking for the indicators both big and small that could signal the strengthening or weakening of our real estate market and local economy in general. A summary of a few things I’ve learned:

Yellow Light, go slow, time for caution:

- Folks are generally concerned about economic instability due to the new presidency;
- Many people are sitting on cash, waiting until real estate prices come down before pursing income producing property (there is an assumption that we are cresting at the peak of a San Francisco Bay Area real estate boom, that could crash in significant ways);
- The Fed is poised to raise interest rates three times this year, giving investors concern over their assets secured by variable rate debt;
- San Francisco apartment and office rents have fallen a bit, but I believe this is more an indication rents climbed too high to begin with;
- Mid-Market Street retail and restaurant tenants have been struggling, suggesting its not always “build it and they will come”;
- Sears, Macys, Limited, American Apparel, all shuttering stores, demonstrating a shift in the ways we now shop;
- Enclosed 1980’s style mall owners are defaulting on their loans, handing keys back to the lender. Oddly, Wall Street and the ratings agencies don’t punish these REITs, but instead applaud that they have acted in the best interest of their investors. (If that standard held true for small mom

and pop developers like me, there would be few left standing next to me on the side of integrity).

Green Light, go, go, go:

- I continue to see comps in the fix and flip market that are mind blowing and that are yielding speculators a handsome return, partially due to a severe lack of housing inventory in the coveted areas (BART adjacent, walk to coffee and amenities);
- Even with rate increases on the horizon, money is still cheap and some investors are still trying to pounce on good real estate product when available, even at low cap rates;
- Traffic aside, the Bay Area is still an unbelievably desirable place to live, with new residents continuing to flock in;
- Even with news of recent layoffs locally, (Twitter, Alphabet, etc.) overall Bay Area job growth remains steady and should outpace the overall statewide job growth again this coming year.

So based on the above description of what I've heard, what’s the story? I think the above findings play in nicely with Federal Reserve Bank of San Francisco President and CEO John Williams' remarks in a recent Chronicle article, in which he references a Goldilocks economy, one that is neither too hot nor too cold, but just right. To get there, GDP growth should continue at a reasonable rate (1.5 to 2% annually). I think interest rates need to increase back to some level of normalcy, I think Bay Area jobs need to hold steady, and I think we need to solve our housing “crisis” by allowing more density at urban cores. That will in turn ease climbing rents and will allow for more economic diversity in our cities (as opposed to seeing teachers, laborers, and other skilled professionals having to flee the City- which would further exacerbate the terrible traffic and commute times for everyone).

Now, to speak to the lead concern, that there is unease over the possible actions of the Trump administration, here is how Federal activity could hurt us at home in the Bay:

- **Possible action:** Cut to health care research, NIH funding. Also the dismantling of the Affordable Care Act. **Possible Effect:** Loss of jobs and exciting growth we’ve enjoyed along the 3rd Street corridor and other areas around the Bay. (Already, investment bankers have held back several biotech IPOs due to the uncertainty over any overhaul of our healthcare system being in flux);
- **Possible Action:** Curb funding to “Sanctuary Cites” including San Francisco, Berkeley, Oakland. **Possible Effect:** Negative effect on funding of several programs including those having to do with HUD.

- **Possible Action:** The surprising tweets. **Possible Effect:** Markets react, we become glued to our twitter accounts in disbelief.

Taking all of the above factors into account, I for one am cautiously optimistic and I continue to keep my eye out for good investment opportunities.

On the local front, I am nearing completion of a two year construction project at the corner of Telegraph and Dwight in Berkeley. The corner tenant, Romeo's Coffee, should be opening in early March. I'm excited to report that along side Romeo's, four other tenants will be opening their doors as well: Juiced-Up (organic cold-pressed juices, acai bowls), Oh Shirt Yeah (a hybrid of online and in-store custom apparel), Maxi Cut Salon, and Poke Parlor (fresh poke fish bowls).

And in the first week of February, The Wolf, a highly anticipated restaurant by Rich and Rebekah Wood of Wood Tavern, will be opening in my building at 3853 Piedmont Avenue in Oakland. The space is looking amazing and the atmosphere will be vibrant and elegant.

I am always happy to discuss potential investments, financing requests, and the economy in general. Perhaps you will join me for a latte at Romeo's, or if it’s later in the day, a glass of wine at The Wolf. Call me. It’s always nice to hear from you.

Warm regards,

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