CALIFORNIA ECONOMIC UPDATE

ISSUE 48 JANUARY 2017 VIP SUBSCRIBERS ONLY

Reading Tea Leaves

This quarter's newsletter is a supplement to our upcoming seminar, "2% Interest Rates, $40 Trillion in Debt, and Other Surprise Endings." We won't have enough time to cover all the material in depth, so we'll cover some of it here.

For those who attend, you'll leave with an understanding of what's likely to happen for the next decade. I've diligently studied for the past six months and carefully chosen every chapter to cover. During next week's webinar on Wed., Jan. 25, noon PDT, I'll walk through each chapter and answer questions like I typically do for those who subscribe to our quarterly newsletters.

I think my favorite thing about writing what's next is when the ending surprises the author (me). I always write the conclusion chapter after looking at all the other completed chapters and charts.

About two months ago, you may have noticed I changed the title from "$30 trillion" to "$40 trillion." However, the last chapter in this report ended up surprising me. I didn't start out with the goal of writing a report that had a 10-year horizon.

When I wrote *California Comeback: Why Prices Will Double in the Next Eight Years*, in 1997, it was an eight-year projection. Fortunately, California did better than I predicted. It was a long time between reports when we came out with one in 2004 named *California Countdown*. At the time I realized California was nearing a peak market, but we still had plenty of time to make a calculated exit.

In late 2005, we released *The California Crash*, basically telling our network, "Get the heck out of here!" There was no doubt in my mind that exiting with your chips via a 1031 exchange to states historically less volatile would be a profitable move. Prices went down by over 50% in California; and those who cashed in their chips held onto their fortunes.

In about 2012, we wrote *All In or Fold*. This report took a serious look at whether real estate would ever boom in price again in California. After a serious debate with the topic, I came down on the side of, "Yes it would!"

FEATURES

NEWSLETTER TEAM

Bruce Norris
Aaron Norris
Rich Durant, *Graphic Design*

Please forward all questions or comments to aaron@thenorrisgroup.com.

Since the writing of that document, California real estate prices have doubled. For many in our network who purchased rentals, it's been a fun ride.

Writing predictions is always a bit scary. You are stuck with what you said in writing. So, I don't come to any conclusion lightly!

The conclusions in this new report surprised me. I'll bet they will surprise you as well. The findings will alter your investment decisions for the next decade; they have certainly altered mine already.

We're giving the seminar live only once. We are over 75% sold out. When we sell out, that will be it. We have produced a limited amount of manuals. Attending this event in person is really a must because of who is in the audience and the accuracy of past predictions. You want this document on your shelf for the next 10 years.

Following is a chapter in the report called *Wild Cards*. I'm not an expert on what I'm about to cover, so let me be honest about that up front. Most of the wild cards come outside of the world of real estate, and even outside the borders of the United States.

However, the intent of that chapter is not to fully inform you of each of the 10 wild cards. Actually, I'll only be covering five of them here. It's simply to let you know that I will keep an eye on them for the next 10 years.

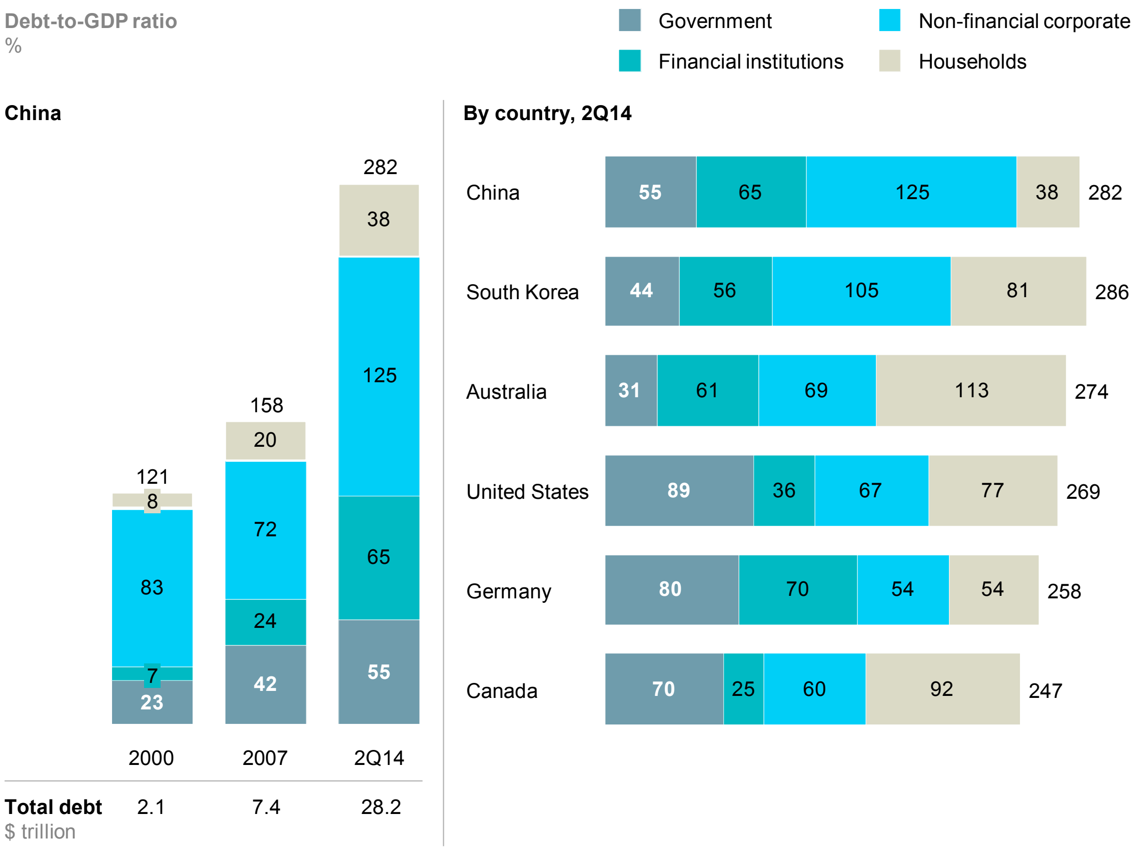
They have the potential to alter the outcomes we experience in real estate. They have the power to create recessions and even wars. These wild cards are potentially a big deal. I even have 10 extra books I'm about to read this year, and they all have to do with this category called *Wild Cards*.

5 Wild Cards

1. **China**

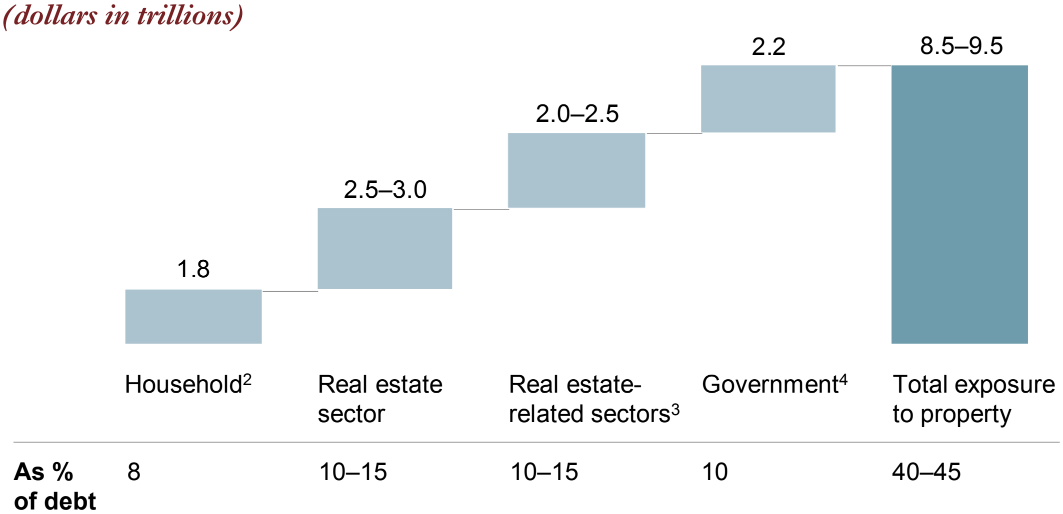
- Since the financial crisis, China's debt has increased to 282% of GDP (See Chart 1)
- The majority of that expansion of debt was financial institutions and the government spending on real estate

1. China's Debt Reached 282% of GDP in 2014, Higher Than Debt Levels in Some Advanced Economies



Source: MGI Country Debt database; McKinsey Global Institute analysis.

2. Nearly Half of China's Debt Is Related to Real Estate
Debt Exposure to Property, Real Economy 2014
(dollars in trillions)

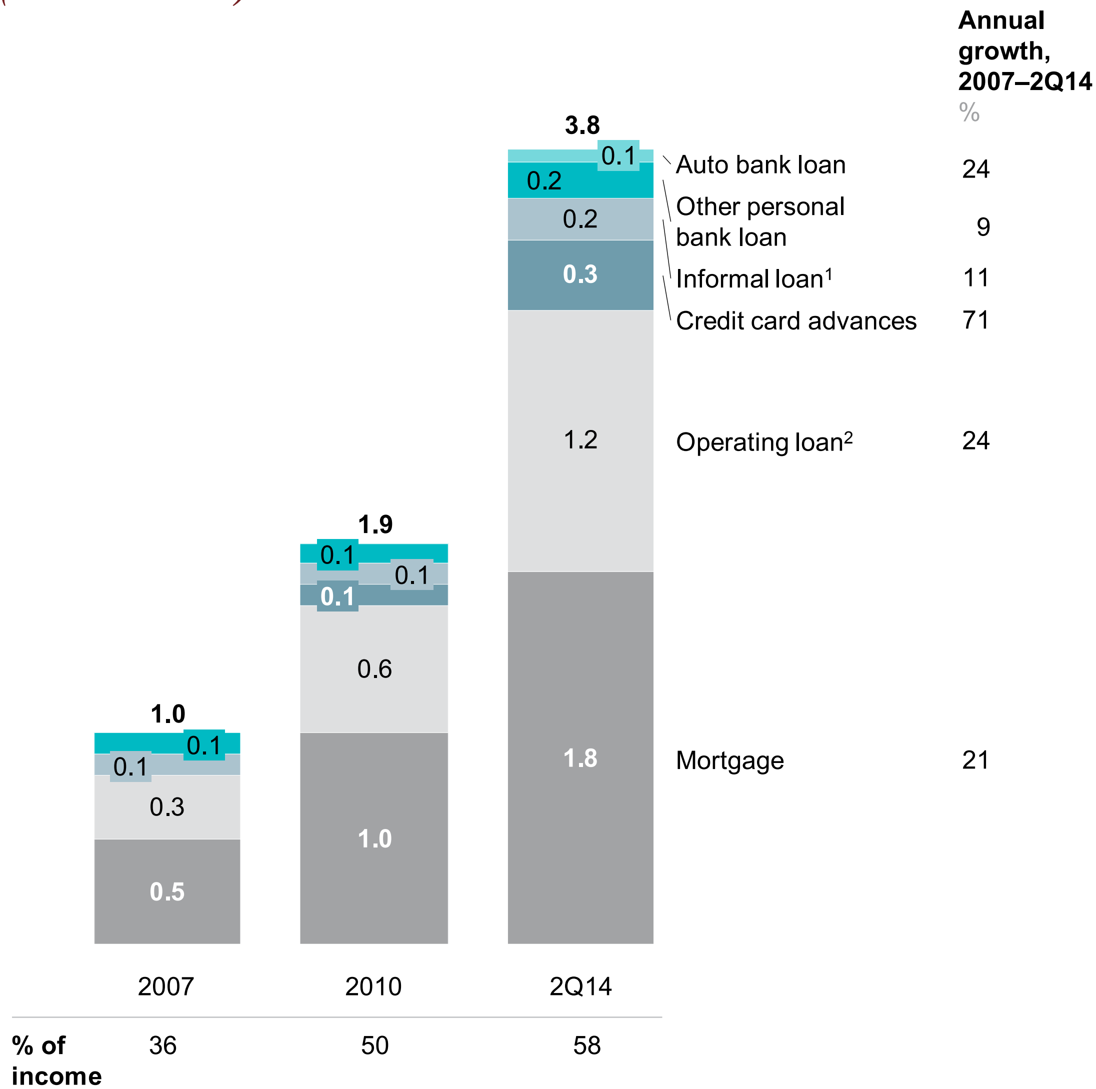


Source: People's Bank of China; National Audit Office; McKinsey Global Institute analysis.

- Between $8.5-$9.5 trillion of debt is connected to real estate

3. Mortgages Are the Largest Share of Chinese Household Debt, but Loans for Household Businesses Are Nearly as Large

Components of China's household debt (balance)
(dollars in trillions)



Source: People's Bank of China; CIC, ; Goldman Sachs; McKinsey Global Institute analysis.

- Mortgages represent about half of the household debt of the Chinese household
- It's gone up 80% in just the last four years and has over tripled since 2007

I was actually going to write a chapter about China in the report until I watched a number of videos and shows on Ghost Cities. Ghost cities are common in China. The government, in attempting to create jobs and a higher income for its citizens, constructs cities in advance of occupancy.

These cities aren't like rural, small towns. Instead, they look like Manhattan with high-rise condo towers, business centers, and everything thing else needed to have in a thriving city. The problem is, by and large, they are vacant.

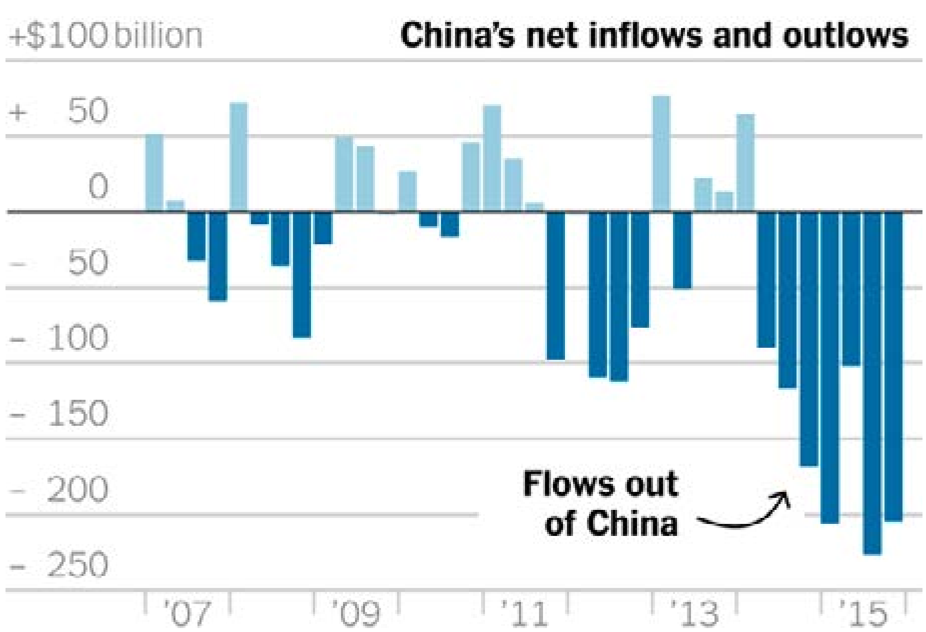
How do you grow a city from scratch? Who shows up first, the consumer or the businesses? Let's say I move in and want to buy some groceries….hmmm, no store. Let's say I open a grocery store…hmmm, no consumers.

The real problem I have with the concept involves looking at the median income of the area and the prices of the condos available. These cities are built where farming is the dominant employment source. The asking prices for the thousands -- and I do mean thousands -- of vacant condos available were $500,000. The median income of the area was $4,000 a year!

How do you appraise a condo for $500,000 when the buyer makes $4,000 a year?

What is scary when you look at the charts is that much of the debt in China is connected to real estate. I have no idea how that debt will ever get paid, or be attached to something of equal value.

4. China's Net Inflows and Outflows



Source: Fitch Ratings, The New York Times.

This chart shows the exiting of China's cash. Chinese citizens with wealth are finding ways to take their money out of the country. Following is an explanation of how one person thinks it is being done.

China has health care system problems. They have an aging population and a lack of doctors. to take care of people. Patients often have to pay for services up front. If they do not have money, they don't get care.

On a recent documentary about China's health care system, a man was shown sitting in a wheel chair. He had in a great deal of pain with a gangrenous leg. Doctors told him that he had a blood clot. If he did not get surgery, he would be dead in about 10 days. The cost of the surgery was $50,000. The man was a farmer and made -- you guessed it -- $4,000 a year. He was sent home with pain killers to die.

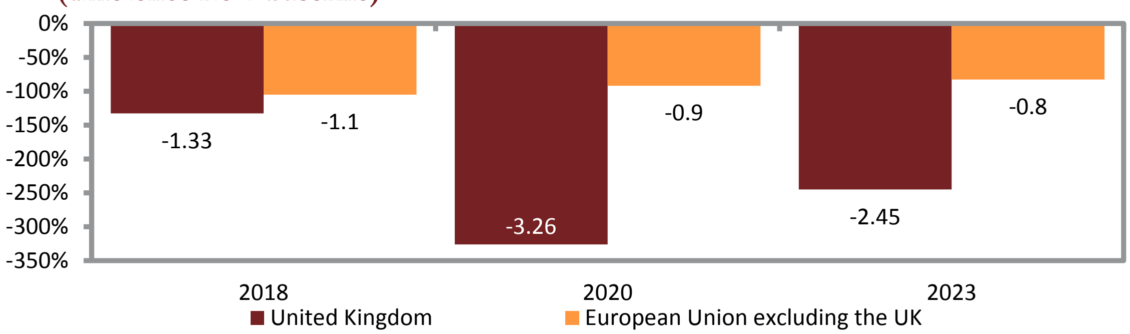
Incredibly, that man is still living. He took a saw and cut off his own leg, eliminating the problem. (Apologies for the graphic nature of that one). Infection apparently set in on the other leg. When the health care officials found out what he had done, they offered to take his other leg off for free, which they did.

I guess I'll wrap this up by saying that China is an amazing story of growth and prosperity and desperation. It is the second largest economy in the world, yet in many ways it is still an emerging economy.

The communist government has challenges; their economy could be in for some very rocky times. That would affect the world economy, the United States included.

2. Euro Zone Deflation or Breakup

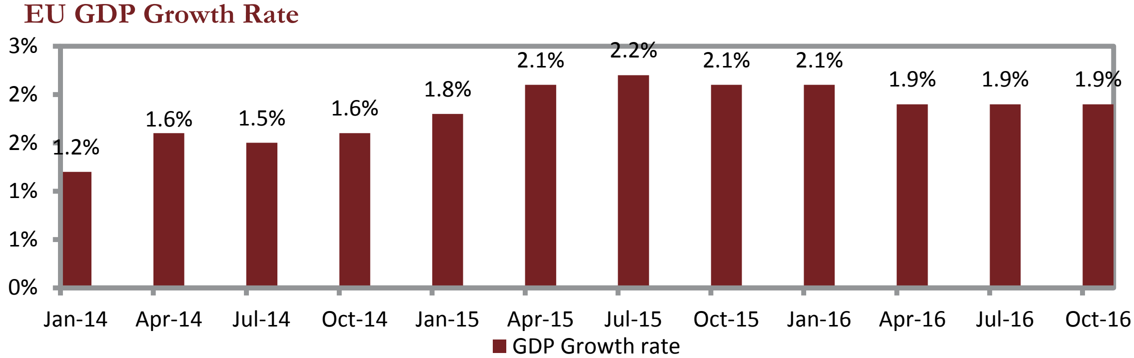
5. Near-term effects of Brexit on real GDP in the United Kingdom and the European Union (difference from baseline)



Source: OECD calculations.

- With the United Kingdom leaving the Euro Zone, a hit on GDP for both is expected.
- This projection is out six years, so this will have a negative impact for the Euro Zone for years to come

6. EU GDP Growth Rate



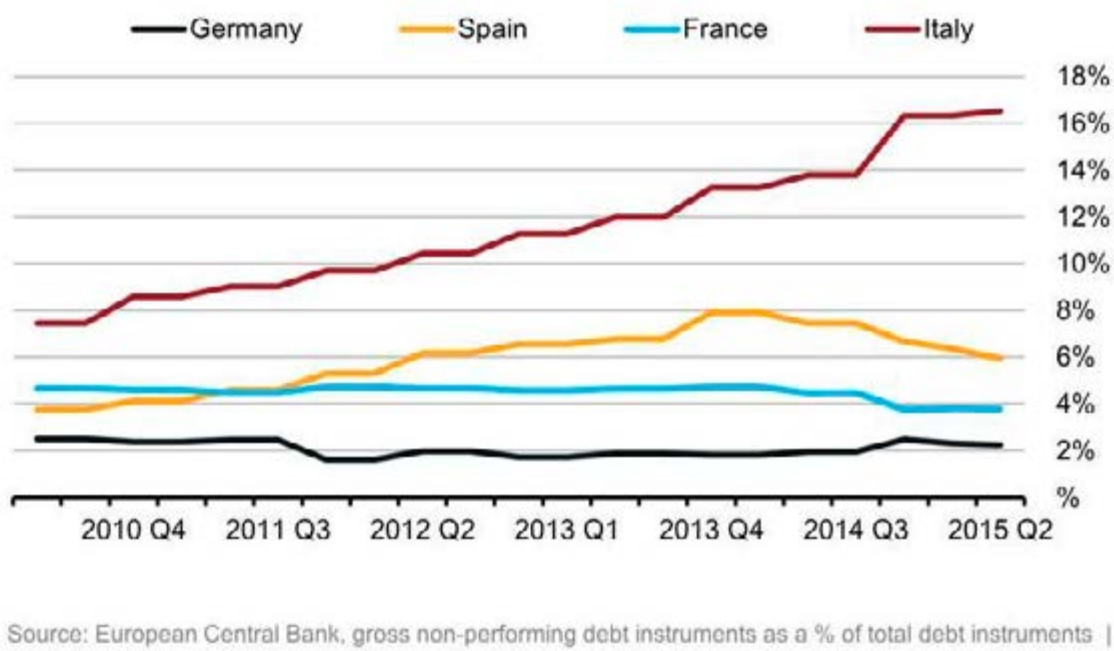
Source: Eurostat.

- The growth rate of GDP for the Euro Zone is already below 2% in 2016
- The Brexit will cause a recession

- Who's next for 2017 for the Euro Zone?

> "Elections in France, Germany and The Netherlands next year, as well next month's Italian constitutional referendum, are flashpoints that could ignite brewing political discontent across the continent.
>
> They are among the biggest risks for 2017, according to money managers attending this year's Reuters Investment Summit, who noted the surge of right-wing populism that went a long way to determining the surprise outcomes of this year's Brexit referendum and U.S. presidential election.
>
> 'Many of our clients are most worried about Europe,' said Mark Haefele, global chief investment officer at UBS Wealth Management, who sets the investment policy that guides more than $2 trillion in invested assets.
>
> 'The big concern would be a breakup of the European Union if you have these more right wing parties like (Marine) Le Pen in France arguing that they want to pull a large country like France out of the euro zone. That worries people,' he said."
>
> – *Reuters*
> *Nov. 16, 2016*

7. Non-Performing Loans Make Up a Worryingly High Share of Total Lending in Italy



Source: European Central Bank, gross non-performing debt instruments as a percentage of total debt instruments.

- Italy may big the biggest problem for the Euro Zone
  - If Italy were to default on their debt, the countries owed money would take a huge discount
  - The likelihood of this happening is now much higher

- Italy's banking system has over 16% of its existing loans listed as "non-performing." In 2008, the delinquency rate for Fannie Mae was 4.9% of its total book of business. On September 7, 2008, the follwing happened to Fannie Mae and Freddie Mac:

> "Federal officials on Sunday unveiled an extraordinary takeover of Fannie Mae and Freddie Mac, putting the government in charge of the twin mortgage giants and the $5 trillion in home loans they back."
>
> – *CNNMoney.com*

The follwing is a quote from a recent John Mauldin's newsletter.

> "'Chronic inability to separate the probable from the desirable has been the tragedy of 2016.' Those fateful words come from Financial Times columnist Wolfgang Münchau, who is normally very calm but now sees wishful thinking about Italy as a major threat. As much as some might wish Italy to remain in the Eurozone, Münchau thinks it's increasingly improbable. Timing is the main question.
>
> A brief sample of his analysis:
>
> One day Italy will be led by a party in favor of withdrawal from the euro. When that happens, euro exit would turn into a self-fulfilling prophecy. There would a be run on Italy's banks and its government's bonds.
>
> Italy's fate in the Eurozone and the possibility of a President Marine Le Pen of France are two large threats to the Eurozone and the EU. If Italy wants to stay in the euro, it needs to send a clear warning to Germany and the other northern European countries that the Eurozone is set on a path of self-destruction unless there is a change of parameters.
>
> The next Italian prime minister will need to explain to the next German chancellor, presumably Angela Merkel, that her choice will not be between a political union or no political union, but between a political union or Italy's withdrawal from the euro.
>
> The latter would imply the biggest default in history. The German banking system would be in danger of collapsing, and Europe's biggest economy would lose all the competitiveness gains so painstakingly accumulated over the past 15 years."

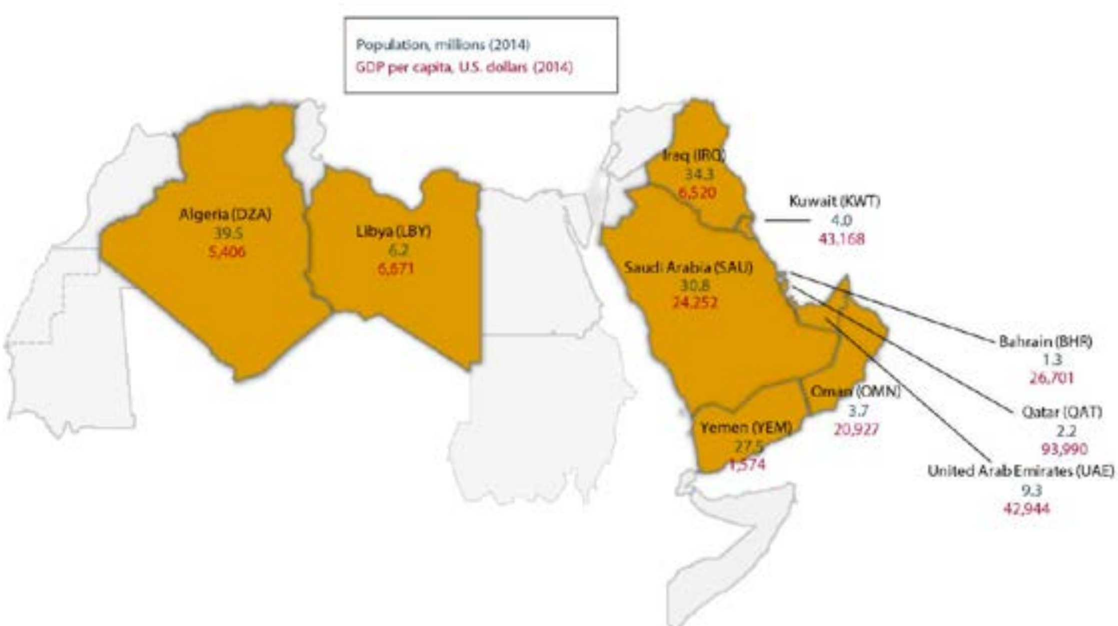
8. Italy GDP and Employment Rate Comparison

Source: Haver Analytics; Eurostat.

- Italy has declining GDP growth and debt it cannot pay back
- Only about 58% of 15-64 year olds are employed
- By leaving the Euro Zone and going back to their own currency, Italy could become competitive and begin to grow their economy
- The cost to all involved would be huge
- This would definitely add to the intensity of a recession and cost Italy's creditors 100s of billions of euros

3. Oil World Disruption

9. Arab Oil Exporters



Source: International Monetary Fund

These are the main oil producers in the Arab world. One of the biggest problems in the area is security and a stable society.

At the Annual Meeting of Arab Ministers of Finance that took place in April 2016, the intent of the meeting was to come up with valid ideas on how these oil producing countries can create other viable income sources and lower unemployment.

The following is a quote from the report:

> "It is acknowledged that economic diversification will not happen without security. Some countries (Iraq, Libya, and Yemen) are affected by wars that severely disrupt economic activity and weaken investor confidence. While this paper does not explicitly discuss this issue, it is understood that restoring political stability and security is a necessary precondition to economic diversification. The unemployment rate for young adults is very high. This creates a lot of instability in an area that doesn't need much help."
>
> *– Annual Meeting of Arab Ministers of Finance*
> *April 2016, Manama, Bahrain*

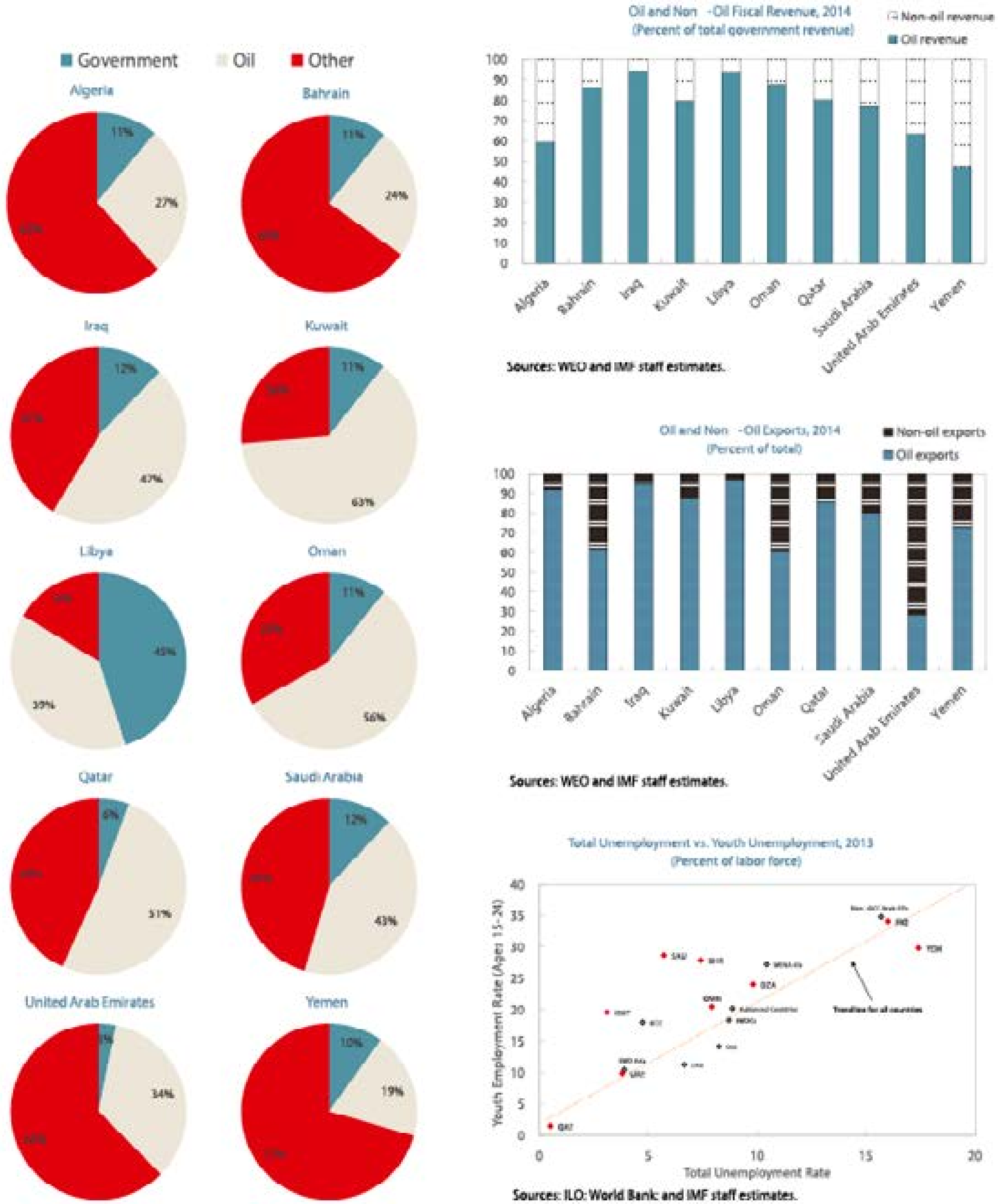
The percentage of the economy that comes from oil revenue is extreme. If oil has a problem, all of these countries have an economic disaster on their hands.

Grand Junction, Colorado invested heavily in oil shale in the late 70s and early 80s. When shale oil failed, the town was 50% vacant almost overnight. It was a local Great Depression. What they experienced was nothing in comparison to what would happen in these countries. When Grand Junction took a big hit, people could move elsewhere. To the people who live in these countries, that's often not an option.

What I'm most concerned about is what happens to these countries when two things happen:

- The United States becomes energy efficient and capable of large amounts of oil exports
- Renewable energy really takes hold, and oil and gas are used much less often.

10. Economic Diversification in Oil-Exporting Arab Countries



Source: International Monetary Fund

This area of the world is very volatile. I expect the next 10 years will put a lot of stress on already fragile economies and relationships with other nations.

4. Tax Law Changes Negative to Real Estate

The tax law changes potentially coming under the new Trump administration will include a $30,000 standard deduction for a married couple. It is estimated that the size of standard deductions will allow 60% of the tax filers who currently itemize deductions to file short form instead.

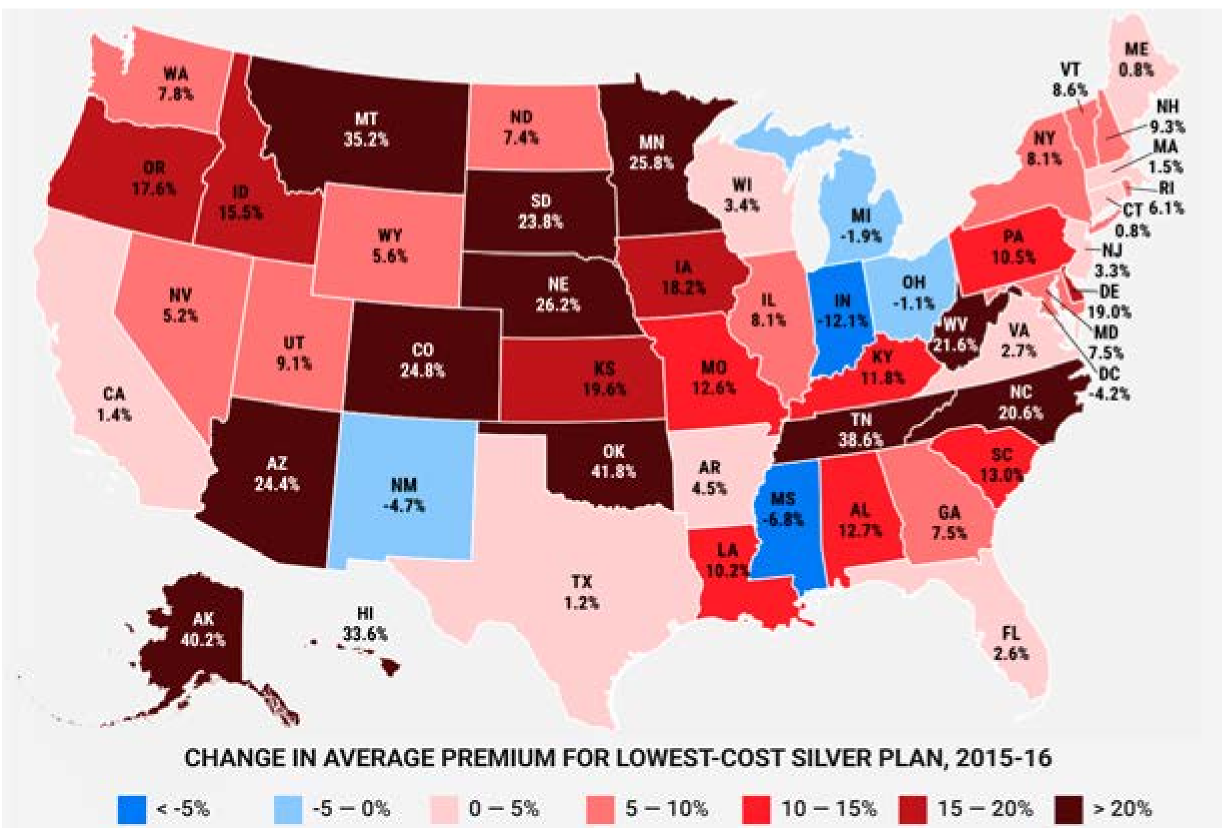
This will set the table to remove the interest rate deduction because it will apply to so few people. The only people affected will be those with deductions that exceed $30,000 (considered the wealthy).

The other national change may come in the revision of Internal Revenue Code 121, the $500,000/$250,000 non-taxable gain on the sale of your residence that is possible every two years. Personally, I was surprised that rule was ever allowed. I think it will be in the crosshairs of anyone trying to reign in budget deficits. Probably not a coincidence, that law was passed in 1997. Real estate prices tripled in California between 1997 and 2007.

Last but certainly not least, in the next 10 years, California will be hurting for tax revenue. It would not surprise me to see changes to Prop 13, at least for non-owner occupants and commercial real estate. If that happens, it could be a big problem for investors.

5. Health care costs

11. Obamacare Premium Increases by State



Source: Urban Institute, Business Insider.

One of the first goals of the Trump administration will be the removal of Obamacare. As you can see, costs are now escalating and becoming a much higher expense that we were first led to believe.

Let's assume that Obamacare is repealed. First of all, that will not be easy or popular. This will be a very combative issue. Not having insurance is a very scary thing. So is having a pre-existing condition that limits the coverage you can obtain.

I'll give a couple of personal examples:

I recently had a battery of blood tests done. Nothing was wrong; the tests were to make sure everything was okay. The tests were done at the doctor's office, not a hospital. The cost totaled $4,230!

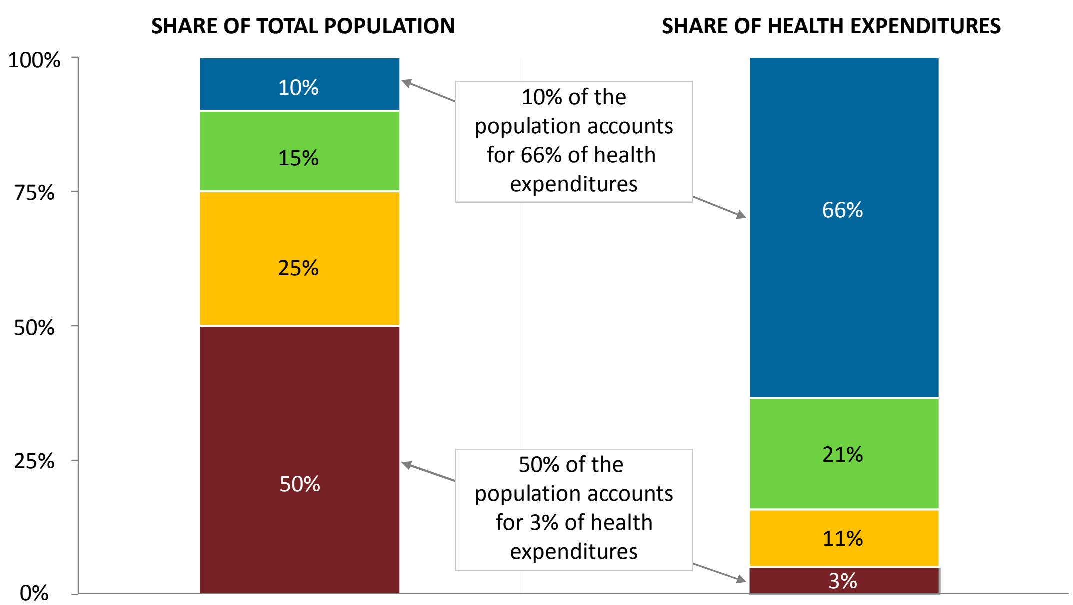
Because I have insurance and because they had negotiated fixed prices, my bill went down to $840.

About seven years ago, my wife, Marsha, had a surgery connected to cancer that had metastasized to her bones. She had been diagnosed with cancer over a decade before that. The only reason we had health insurance was that I owned a company and the company insurance plan did not allow them to cancel our insurance. Marsha was in the hospital about three days. The bill came to over $80,000. The negotiated net cost, because we had insurance, was $16,000.

By doing simple math, it looks like there's a 500% mark-up on health care, and the only ones who pay "retail" are the uninsured -- those least able to afford it.

I think we all can agree that we have to create some kind of system that can take care of people who are ill and without insurance. I think we can agree that pre-existing conditions shouldn't prevent someone from obtaining coverage. The biggest problem is that most of the heath care costs come from a very small percentage of the population.

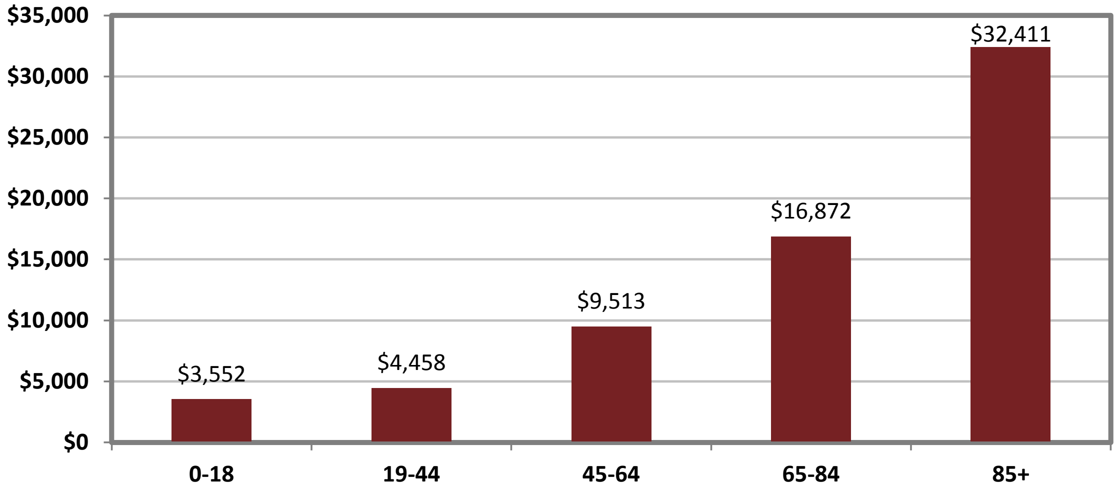
12. US Healthcare Spending is Highly-Focused on Costliest Patients



Source: Agency for Healthcare Research and Quality, Differentials in the Concentration in the Level of Health Expenditures across Population Subgroups. PGPF.org.

This chart shows that 66% of health care costs come from just 10% of the population. On the other end of the spectrum, 50% of the population account for only 3% of health costs.

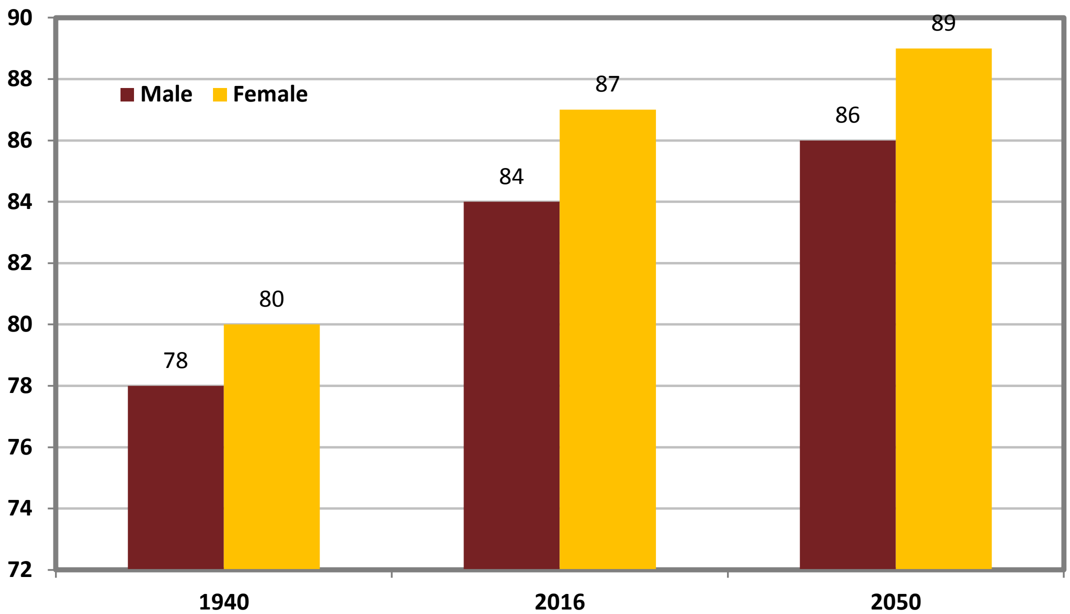
13. Annual Healthcare Spending per Capita *(dollars)*



Source: Peter G. Peterson Foundation, Centers for Medicare and Medicaid Services, national Health Expenditures by Age and gender, August 2016.

- Annual health care costs for those over 65 are a major reason health care costs are exploding

14. Life Expectancy



Source: Social Security Administration.

The number of people over 65 starts going vertical after 2016. That means health care is going to get more expensive, not less.

This will be one of the big tests for the Trump Administration. The solutions they come up with have to solve the problem and cut costs. It's a tall order and Democrats are in no mood to cooperate. Neither are citizens who fear getting their insurance taken away.

What does this category have to do with real estate? The cost of insurance keeps increasing and deductibles have increased substancially. Eventually, the cost of insurance and deductibles may become too big a factor for lenders to ignore. They currently don't calculate insurance costs or deductibles as debt. My guess is that before the next decade passes, they will.

Orange, CA

Orange County Potential Price Increases

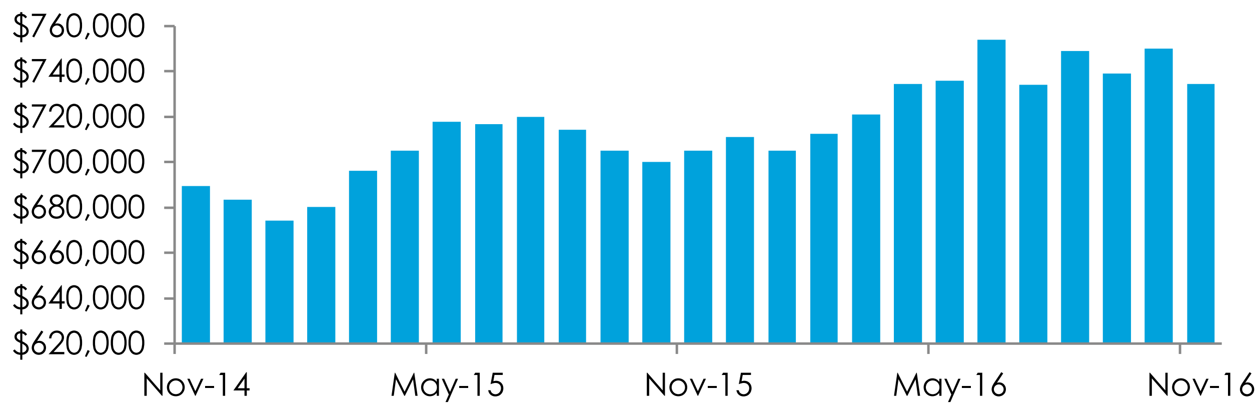
- Assume median income at peak in 2005
- Peak price was $775,424 due to aggressive lending, assume $697,798 max price
- Goal max payment $3,299, November 2016 interest rate 4%

	Peak	Jan 2015	Nov 2016
Price	$697,798	$692,390	$734,500
80% Loan	$558,000	$553,888	$587,600
Mortgage Payment (PI)	$3,299 (4/05)	$2,644.46	$2,805

	3%	4%	5%	6%
Median Price	$978,110	$863,766	$768,179	$687,807
80% of Median Price	$782,488	$691,013	$614,543	$550,246
Mortgage Payment (PI)	$3,299	$3,299	$3,299	$3,299
Potential Upside if Interest Rates Remain at Interest Rate Listed	33.2%	17.6%	4.6%	-6.4%

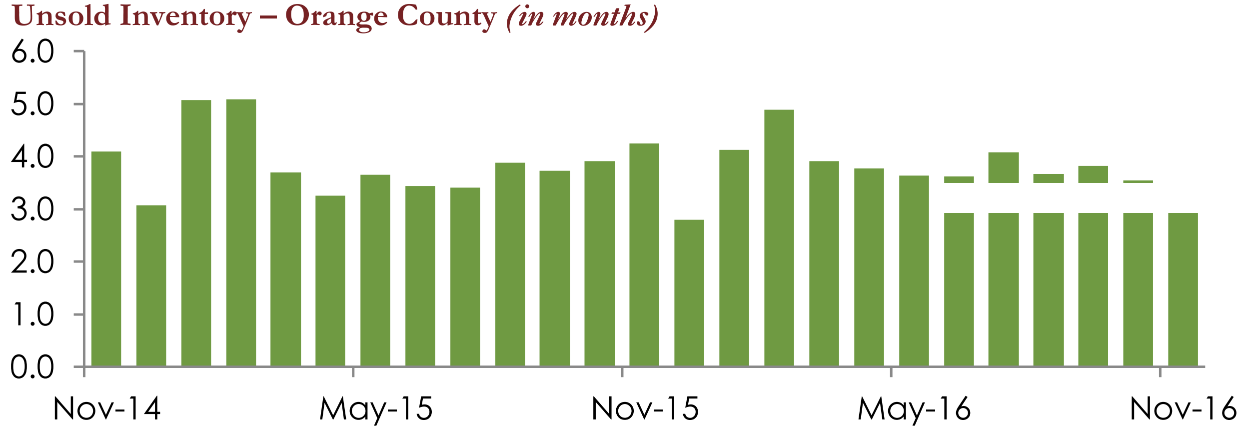
Source: The Norris Group.

15. Median Price – Orange County



Source: California Association of Realtors.

16. Unsold Inventory – Orange County *(in months)*



Source: California Association of Realtors.

Prices have essentially been flat for the past eight months in Orange County. Inventory is lower now than at any time this year. If you look at the past two years, inventory dips are common around the end of the year. If mortgage rates were to move to 5%, Orange County would be nearing the peak expected payment from the last cycle.

Riverside, CA

TheNorrisGroup

Riverside County Potential Price Increases

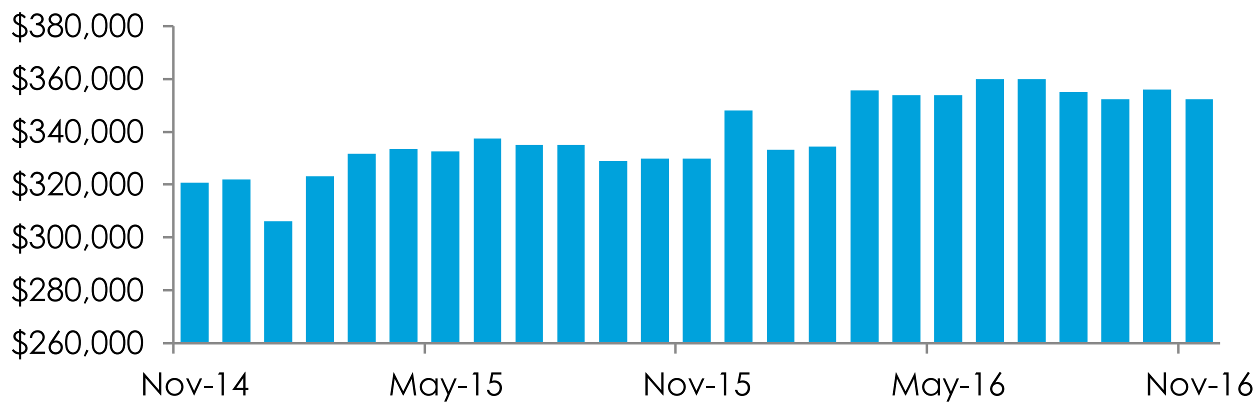
- Assume median income at peak in 2005
- Peak price was $431,713 due to aggressive lending, assume $389,406 max price
- Goal max payment $1,842

	Peak	Jan 2015	Nov 2016
Price	$389,406	$322,700	$352,500
80% Loan	$311,525	$258,160	$282,000
Mortgage Payment (PI)	$1,842 (4/05)	$1,232.50	$1,346.3

	3%	4%	5%	6%
Median Price	$546,129	$482,285	$428,913	$384,038
80% of Median Price	$436,903	$385,828	$343,131	$307,230
Mortgage Payment (PI)	$1,842	$1,842	$1,842	$1,842
Potential Upside if Interest Rates Remain at Interest Rate Listed	54.9%	36.8%	21.7%	8.9%

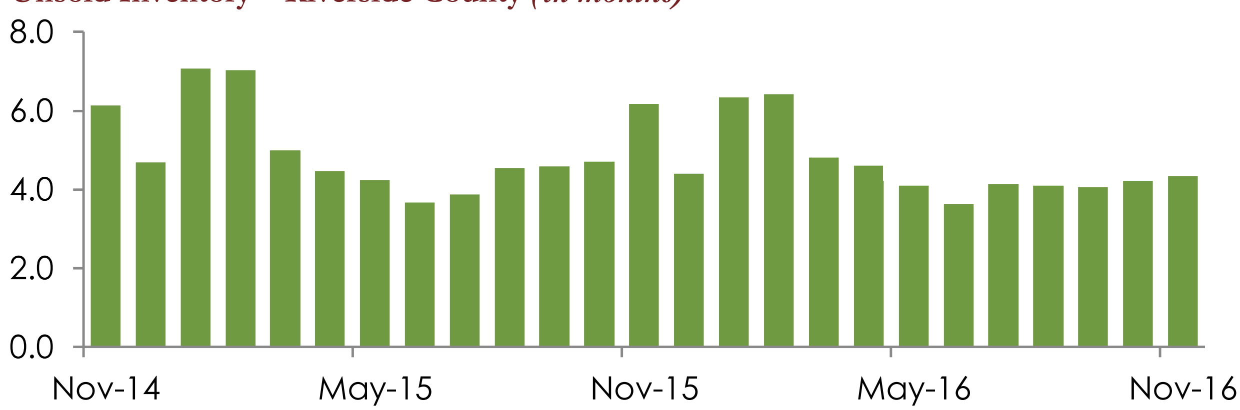
Source: The Norris Group.

17. Median Price – Riverside County



Source: California Association of Realtors.

18. Unsold Inventory – Riverside County *(in months)*



Source: California Association of Realtors.

Prices have essentially been flat for the past nine months in Riverside County. Inventory levels have been pretty consistently around the four month mark. If mortgage rates were to move to 5%, Riverside County would still have room to expand in price.

Sacramento, CA

Sacramento County Potential Price Increases

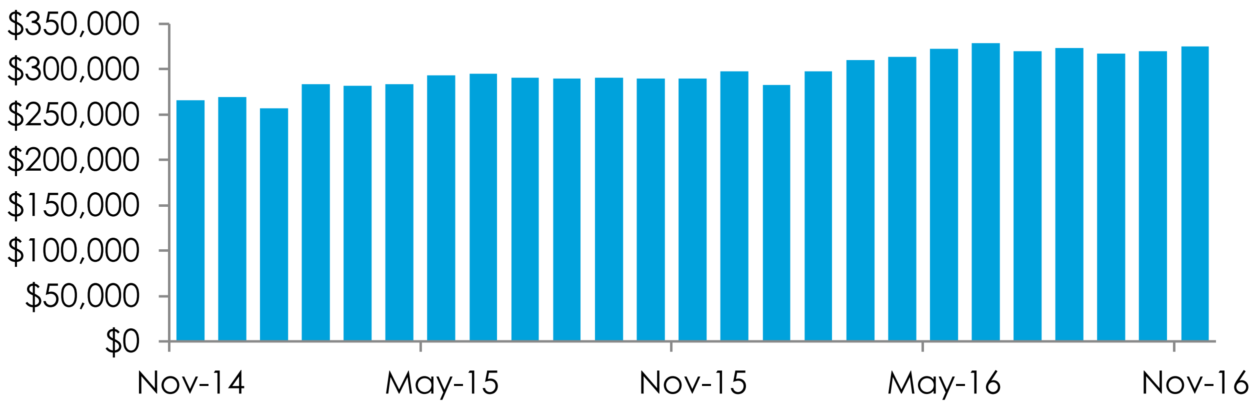
- Assume median income at peak in 2005
- Peak price was $394,450 due to aggressive lending, assume $369,765 max price
- Goal max payment $1,750

	Peak	Jan 2015	Nov 2016
Price	$369,765	$270,150	$325,000
80% Loan	$296,000	$216,120	$260,000
Mortgage Payment (PI)	$1,750 (4/05)	$1,031.80	$1,241.3

	3%	4%	5%	6%
Median Price	$518,852	$458,196	$407,491	$364,857
80% of Median Price	$415,081	$366,557	$325,993	$291,885
Mortgage Payment (PI)	$1,750	$1,750	$1,750	$1,750
Potential Upside if Interest Rates Remain at Interest Rate Listed	59.6%	41.0%	25.4%	12.3%

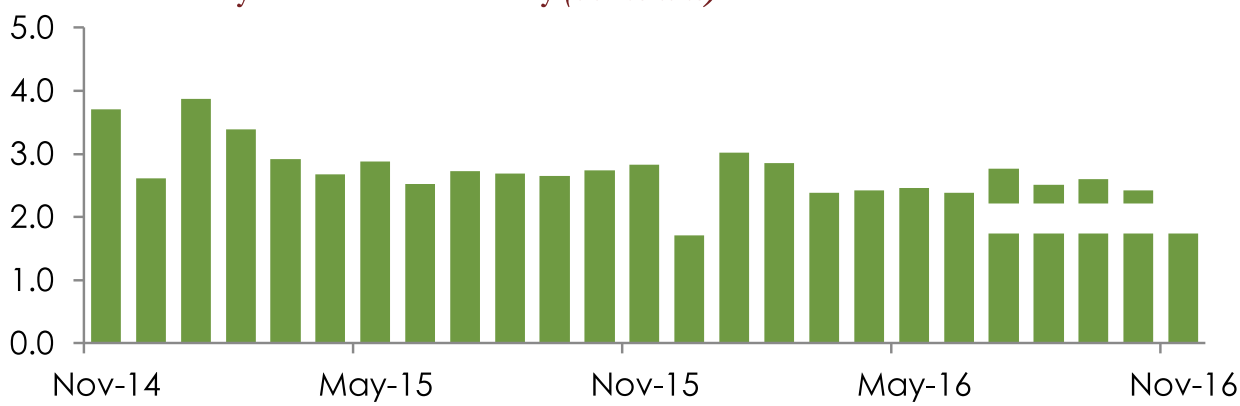
Source: The Norris Group.

19. Median Price – Sacramento County



Source: California Association of Realtors.

20. Unsold Inventory – Sacramento County *(in months)*



Source: California Association of Realtors.

Prices have essentially been gradually rising for the past 12 months in Sacramento County. Inventory levels are quite low and closing in on the two month mark. If mortgage rates were to move to 5%, Sacramento County would still have room to expand in price.

San Bernardino, CA

San Bernardino County Potential Price Increases

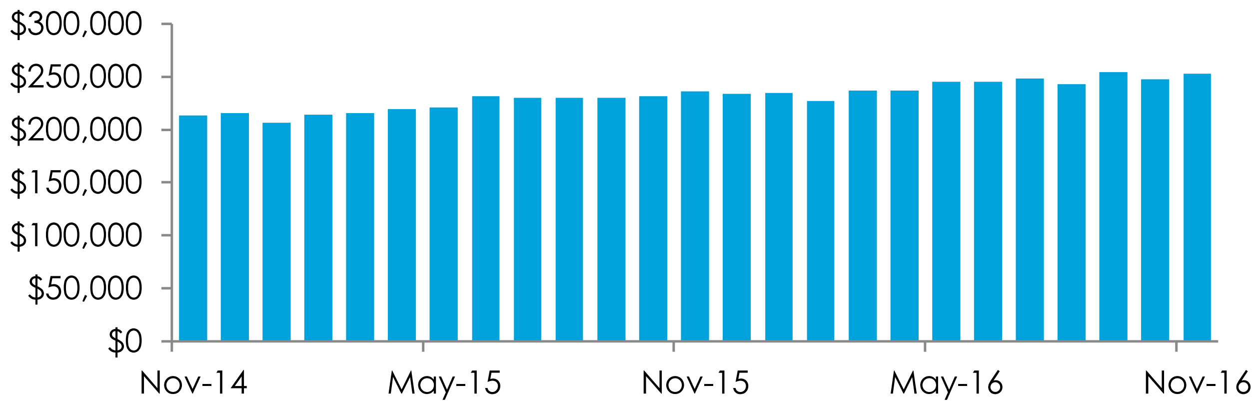
- Assume median income at peak in 2005
- Peak price was $350,288 due to aggressive lending, assume $301,799 max price
- Goal max payment $1,432

	Peak	Jan 2015	Nov 2016
Price	$301,799	$208,080	$253,140
80% Loan	$241,439	$166,464	$202,512
Mortgage Payment (PI)	$1,431 (4/05)	$794.70	$967

	3%	4%	5%	6%
Median Price	$424,569	$374,936	$333,444	$298,557
80% of Median Price	$339,655	$299,948	$266,755	$238,846
Mortgage Payment (PI)	$1,432	$1,432	$1,432	$1,432
Potential Upside if Interest Rates Remain at Interest Rate Listed	67.7%	48.1%	31.7%	17.9%

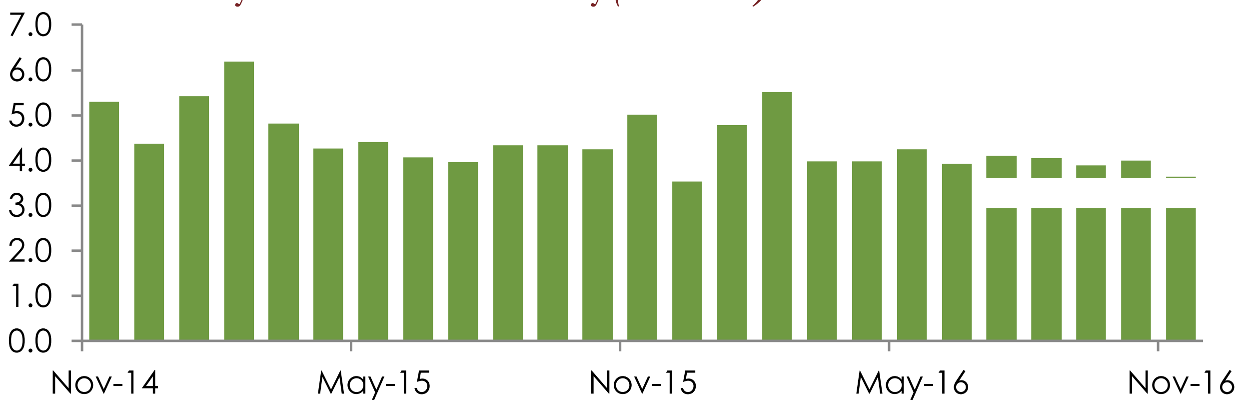
Source: The Norris Group.

21. Median Price – San Bernardino County



Source: California Association of Realtors.

22. Unsold Inventory – San Bernardino County *(in months)*



Source: California Association of Realtors.

Prices have essentially been gradually rising for the past 12 months in San Bernardino County. Inventory levels have slowly declined and are below four months. If mortgage rates were to move to 5%, San Bernardino County would still have room to expand in price.

San Diego, CA

San Diego County Potential Price Increases

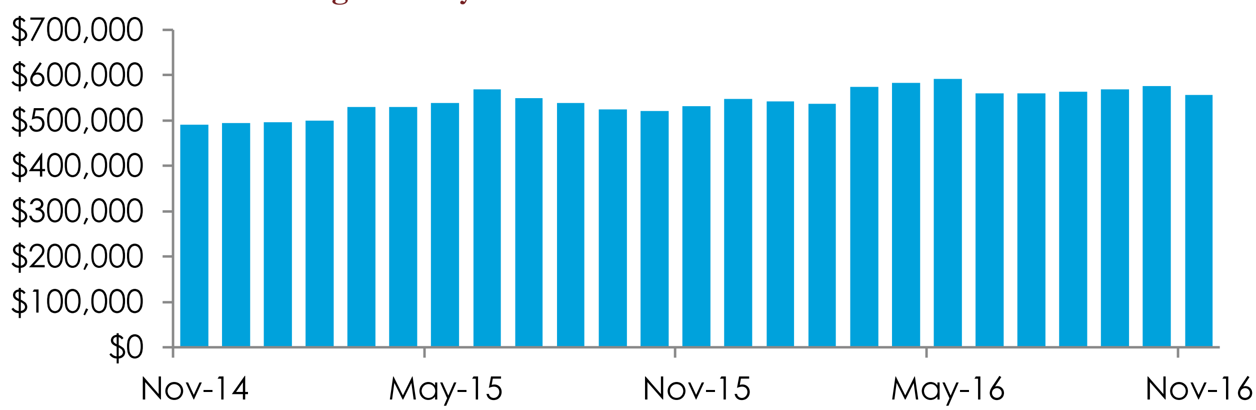
- Assume median income at peak in 2005
- Peak price was $622,378 due to aggressive lending, assume $593,601 max price
- Goal max payment $2,808

	Peak	Jan 2015	Nov 2016
Price	$593,601	$493,000	$557,000.0
80% Loan	$475,000	$394,400	$445,600.0
Mortgage Payment (PI)	$2,808 (4/05)	$1,883	$2,127.4

	3%	4%	5%	6%
Median Price	$832,535	$735,209	$653,848	$585,439
80% of Median Price	$666,028	$588,167	$523,079	$468,351
Mortgage Payment (PI)	$2,808	$2,808	$2,808	$2,808
Potential Upside if Interest Rates Remain at Interest Rate Listed	49.5%	32.0%	17.4%	5.1%

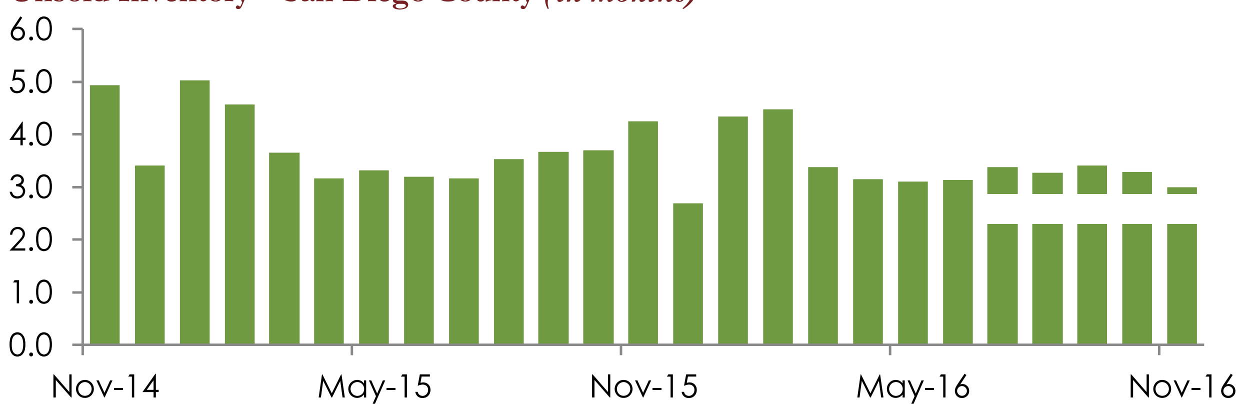
Source: The Norris Group.

23. Median Price – San Diego County



Source: California Association of Realtors.

24. Unsold Inventory – San Diego County *(in months)*



Source: California Association of Realtors.

- Prices have essentially been flat for the past nine months in San Diego County. Inventory is lower now than at any time this year at just below three months. If mortgage rates were to move to 5%, San Diego County would be nearing the peak expected payment from the last cycle.

Los Angeles, CA

Los Angeles County Potential Price Increases

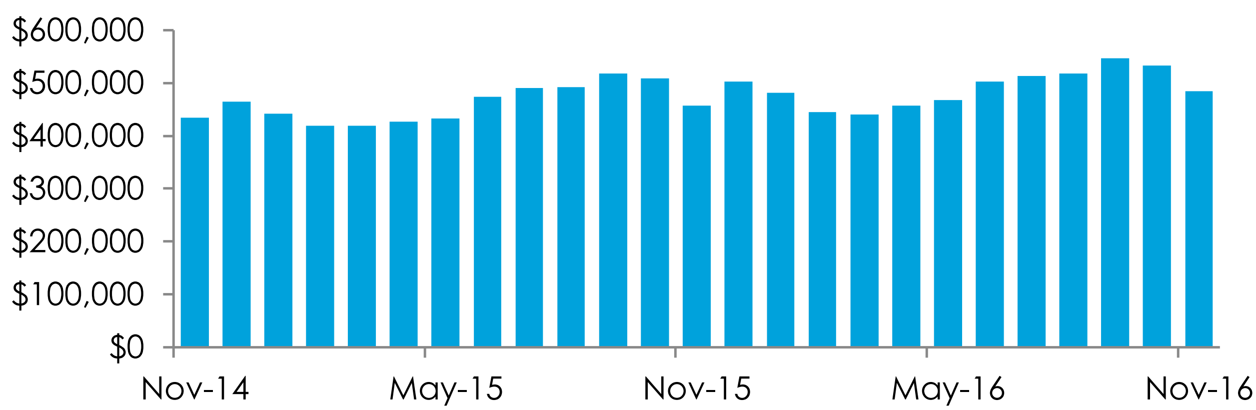
- Assume median income at peak in 2005
- Peak price was $625,812 due to aggressive lending. Going to use $500,000 as max price
- Goal max payment $2,365

	Peak	Jan 2015	Nov 2016
Price	$500,000	$477,600	$484,630
80% Loan	$400,000	$382,080	$387,704
Mortgage Payment (PI)	$2,365 (4/05)	$1,824	$1,851.0

	3%	4%	5%	6%
Median Price	$701,191	$619,220	$550,695	$493,078
80% of Median Price	$560,953	$495,376	$440,556	$394,462
Mortgage Payment (PI)	$2,365	$2,365	$2,365	$2,365
Potential Upside if Interest Rates Remain at Interest Rate Listed	44.7%	27.8%	13.6%	1.7%

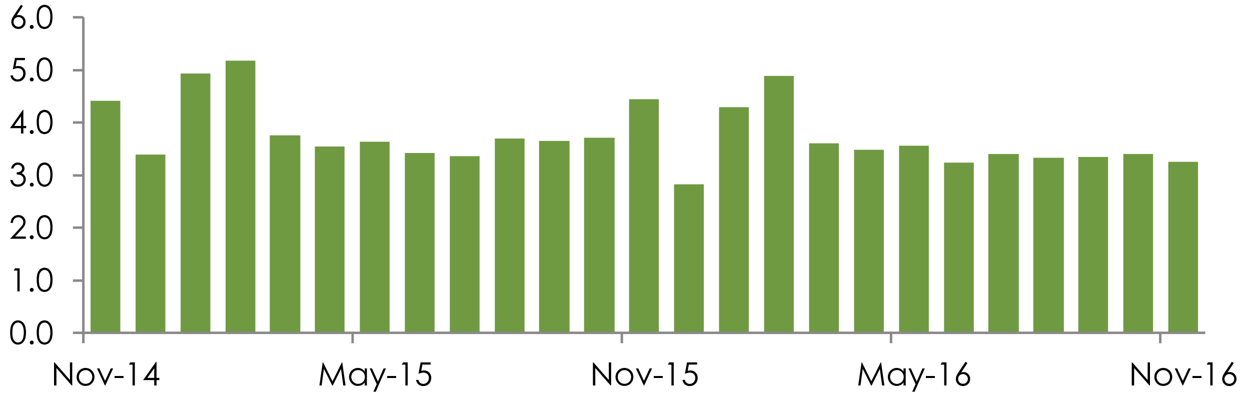
Source: The Norris Group.

25. Median Price – Los Angeles County



Source: California Association of Realtors.

26. Unsold Inventory – Los Angeles County *(in months)*



Los Angeles County has been giving back some price gains the past couple of months If you look all the way back to January 2015, basically there have been no price gains at all. Inventory levels at three months are at their lows for the year.

Santa Clara, CA

Santa Clara County

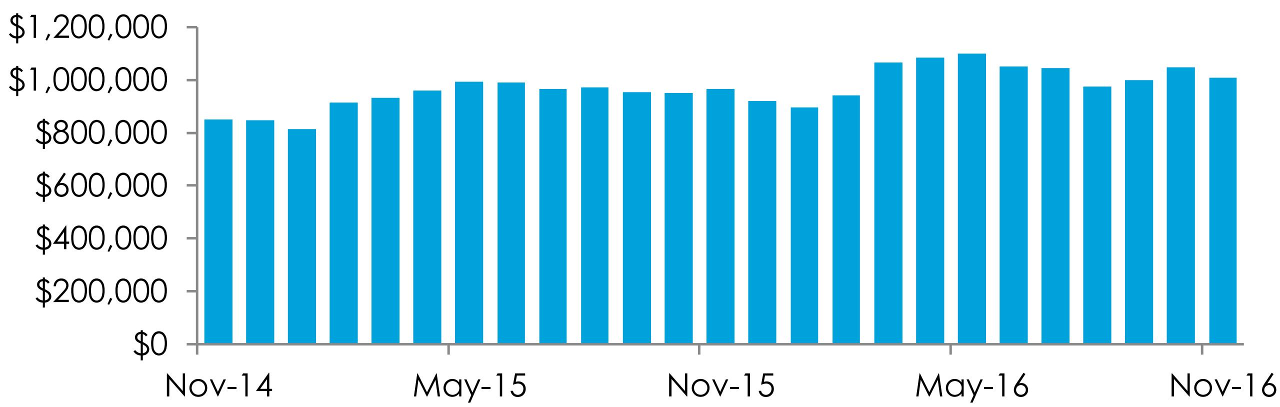
- Assume median income at peak in 2005
- Peak price was $865,000 due to aggressive lending, assume $865,000 max price
- Goal max payment $4,092

	Peak	Nov 2016
Price	$865,000	$1,010,000
80% Loan	$692,000	$808,000
Mortgage Payment (PI)	$4,092 (5/07)	$3,8518

	3%	4%	5%	6%
Median Price	$1,213,176	$1,071,352	$952,793	$853,106
80% of Median Price	$970,541	$857,082	$762,235	$682,485
Mortgage Payment (PI)	$4,092	$4,092	$4,092	$4,092
Potential Upside if Interest Rates Remain at Interest Rate Listed	20.1%	6.1%	-5.7%	-15.5%

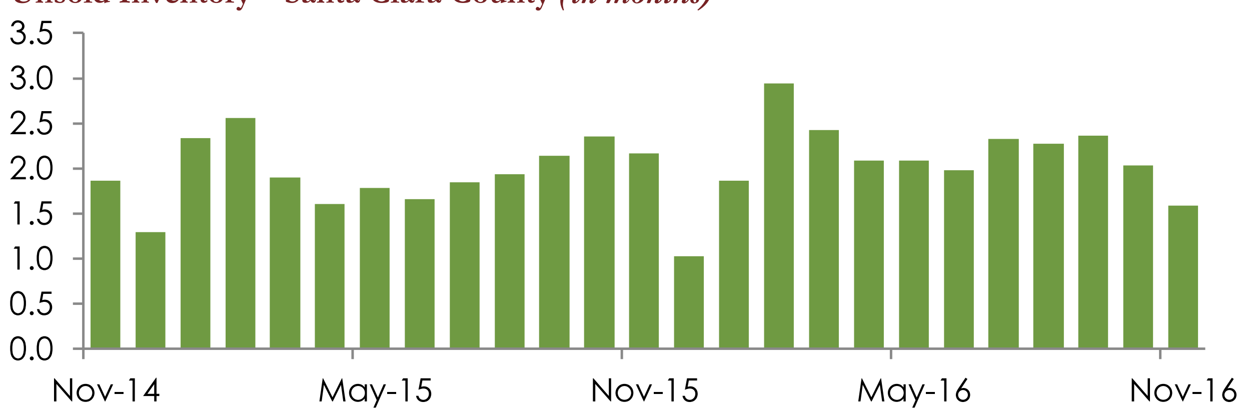
Source: The Norris Group.

27. Median Price – Santa Clara County



Source: California Association of Realtors.

28. Unsold Inventory – Santa Clara County *(in months)*



Prices have essentially been flat for the past nine months in Santa Clara County. Year over year, Santa Clara is still up. Inventory is lower now than at any time this year. This county usually ranges in inventory between 2.5 months and 1.5 months. If mortgage rates were to move to 5%, Santa Clara County would be over the peak expected payment from the last cycle.

San Francisco, CA

San Francisco County

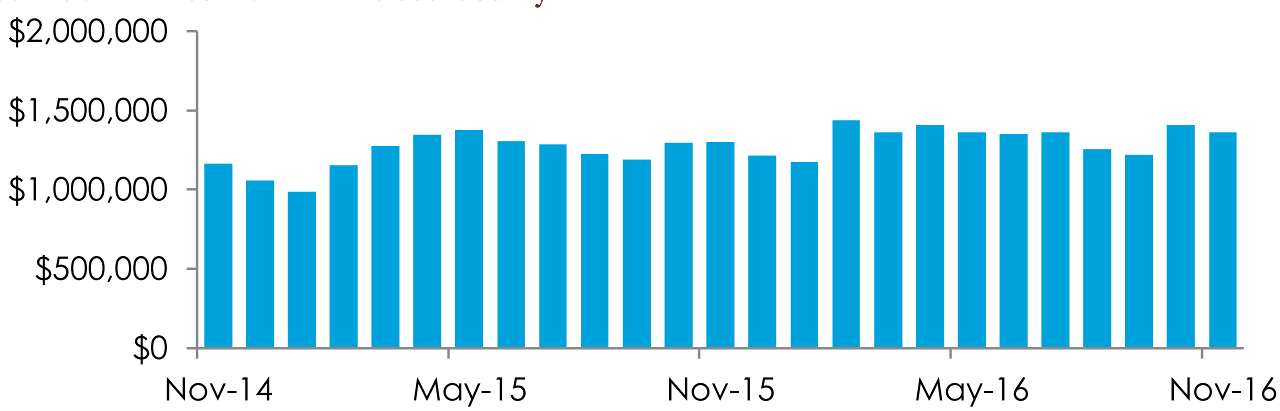
- Assume median income at peak in 2005
- Peak price was $972,010 due to aggressive lending, assume $972,010 max price
- Goal max payment $4,598

	Peak	Nov 2016
Price	$972,010	$1,360,500
80% Loan	$777,608	$1,088,400
Mortgage Payment (PI)	$4,598 (5/07)	$5,196

	3%	4%	5%	6%
Median Price	$1,363,258	$1,203,889	$1,070,663	$958,643
80% of Median Price	$1,090,606	$963,111	$856,530	$766,915
Mortgage Payment (PI)	$4,598	$4,598	$4,598	$4,598
Potential Upside if Interest Rates Remain at Interest Rate Listed	0.2%	-11.5%	-21.3%	-29.5%

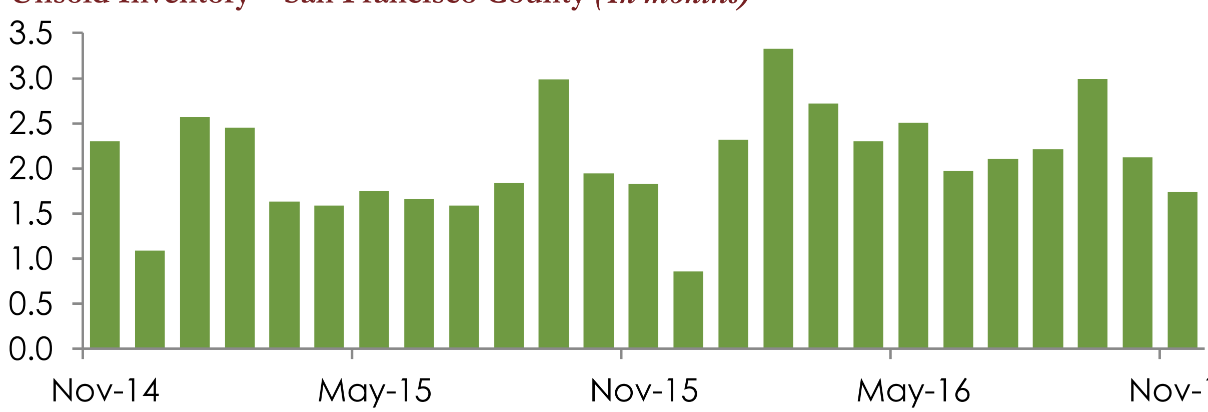
Source: The Norris Group.

29. Median Price – San Francisco County



Source: California Association of Realtors.

30. Unsold Inventory – San Francisco County *(In months)*



Source: California Association of Realtors.

Prices have been flat in San Francisco County over the past 10 months. This county had a nice price bump after the New Year but stayed range-bound without much upside. Inventory is lower now than at any time this year. This county usually ranges in inventory between 2.5 months and 1.5 months, with occasional flurries up to three months. Mortgage rates don't have to move up at all for San Francisco County to exceed the peak payment of the last cycle; they are already there.

Kern, CA

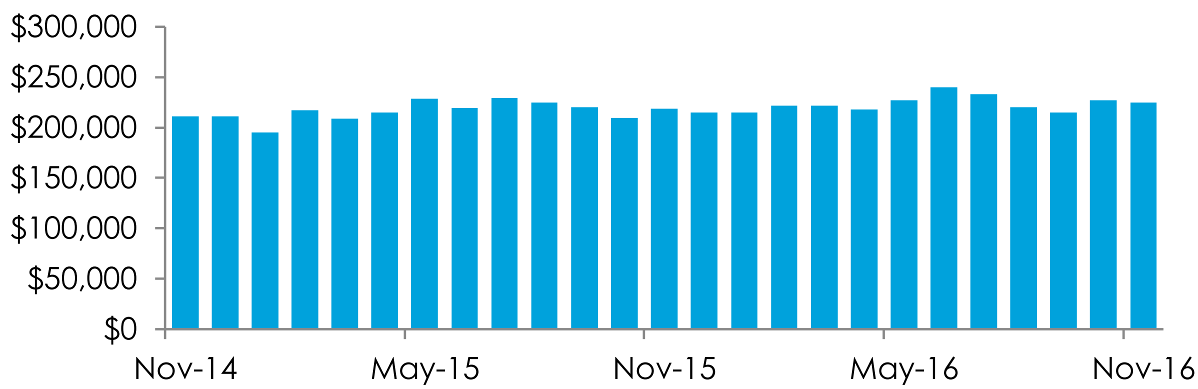
Kern County

- Assume median income at peak in 2005
- Peak price was $299,925 (6/06) due to aggressive lending, assume $260,141 max price
- Goal max payment $1,231

	Peak	Nov 2016
Price	$260,141	$225,000
80% Loan	$208,113	$180,000
Mortgage Payment (PI)	$1,231 (4/05)	$859

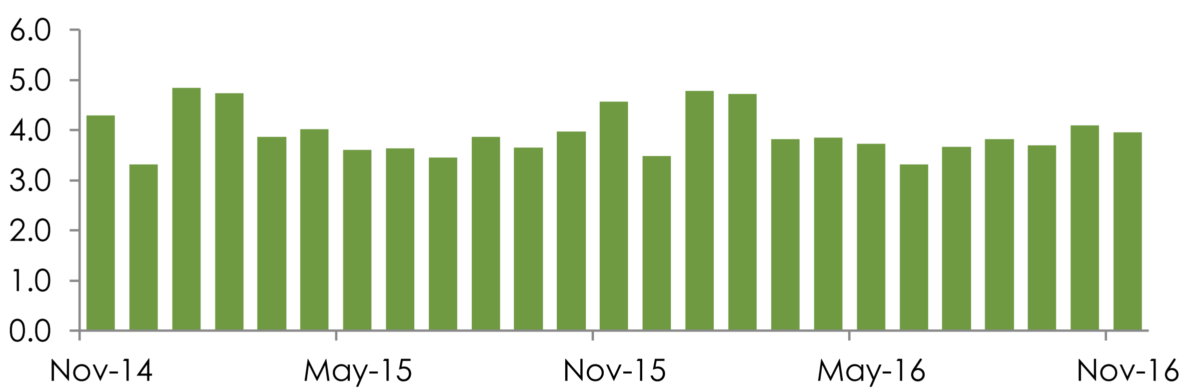
	3%	4%	5%	6%
Median Price	$364,851	$322,199	$286,543	$256,563
80% of Median Price	$291,881	$257,759	$229,234	$205,250
Mortgage Payment (PI)	$1,231	$1,231	$1,231	$1,231
Potential Upside if Interest Rates Remain at Interest Rate Listed	62.2%	43.2%	27.4%	14.0%

31. Median Price – Kern County



Source: California Association of Realtors.

32. Unsold Inventory – Kern County *(in months)*



Source: California Association of Realtors.

Fresno, CA

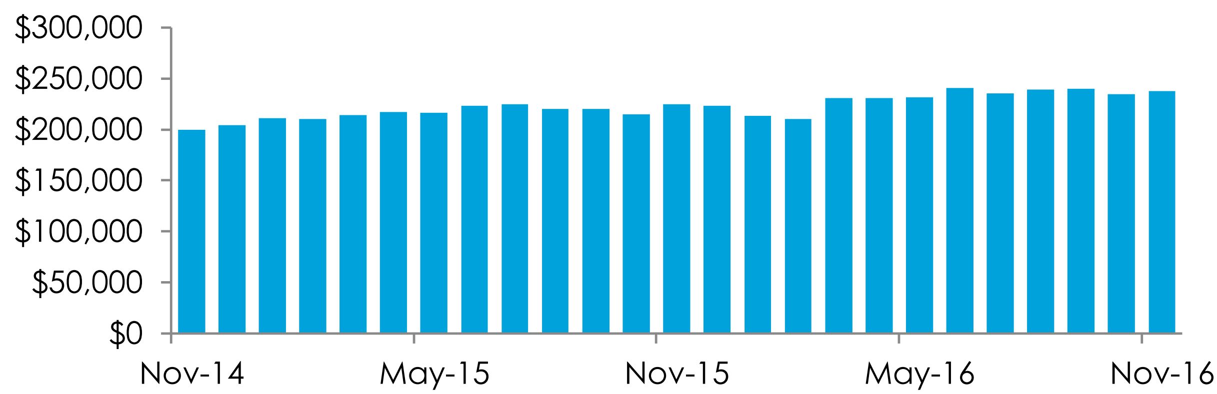
Fresno County

- Assume median income at peak in 2005
- Peak price was $306,936 (3/06) due to aggressive lending, assume $270,652 max price (4/05)
- Goal max payment $1,280

	Peak	Nov 2016
Price	$270,652	$238,000
80% Loan	$216,521	$190,400
Mortgage Payment (PI)	$1,280 (4/05)	$909

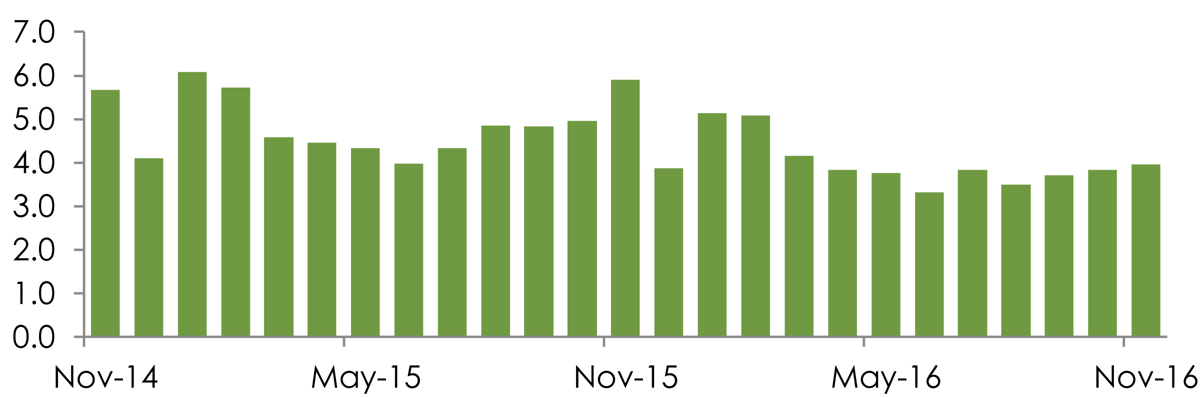
	3%	4%	5%	6%
Median Price	$379,592	$335,217	$298,120	$266,929
80% of Median Price	$303,674	$268,173	$238,496	$213,543
Mortgage Payment (PI)	$1,280	$1,280	$1,280	$1,280
Potential Upside if Interest Rates Remain at Interest Rate Listed	59.5%	40.8%	25.3%	12.2%

33. Median Price – Fresno County



Source: California Association of Realtors.

34. Unsold Inventory – Fresno County *(in months)*



Source: California Association of Realtors.

The Norris Group Calendar

= TNG Live Event   = Special All Day Training

Feb 1st	The 2017 Los Angeles Real Estate Summit	Embassy Suites 800 North Central Avenue Glendale, CA 91203
Feb 4th	2% Mortgage Rates, $30 Trillion in Debt, and Other Surprise Endings	Riverside Convention Center Riverside, CA
Feb 7th	10 Life-Changing Days of a Real Estate Investor - OC FIBI	Hilton Irvine - Orange County Airport Hotel 18800 MacArthur Blvd. Irvine, CA 92612
Feb 9th	10 Life-Changing Days of a Real Estate Investor - OCREIA	Avenue of the Arts Hotel - Orange County 3350 Avenue of the Arts Costa Mesa, CA 92626
Feb 15th	10 Life-Changing Days of a Real Estate Investor - Alpine Premier Investments	The Lake House 6331 Woodley Ave Van Nuys, CA 91406
Mar 1st	Inland Valley Association of Realtors	IVAR 3690 Elizabeth St. Riverside, CA 92506
Mar 7th	2017 Real Estate Market Forecast	DoubleTree by Hilton Hotel Ontario Airport 222 N Vineyard Ave Ontario, CA 91764
Mar 8th	10 Life-Changing Days of a Real Estate Investor - NORCALREIA	Crown Plaza 5321 Date Ave Sacramento, CA 95841
Apr 20th	10 Life-Changing Days of a Real Estate Investor - Pasadena FIBI	Courtyard by Marriott 180 North Fair Oaks Avenue Pasadena CA 91103
Jun 20th	NSDREI Annual Anniversary Party	El Camino Country Club 3202 Vista Way Oceanside, CA 92056

2% MORTGAGE RATES $40 TRILLION IN DEBT *and other* SURPRISE ENDINGS

BRUCE NORRIS SHARES HIS INSIGHTS AND EXITS CALIFORNIA REAL ESTATE?

Strange times we are living in as investors. Figuring out what's next has never been more difficult.

For the past eight years, we've lived through monetary policies unthought of and unheard of until now. It's caused asset prices to accelerate beyond what seems reasonable in many areas. Is a California crash inevitable? When?

We'll explore the next eight years under two scenarios; one where caution is thrown to the wind and one where calmer heads prevail.

We will contemplate the outcome for real estate prices if we have a 2% mortgage rate or if we have a 7% rate. We will contemplate the national budget cuts necessary to have a fiscally sound future (which means broken promises) and we'll look at the national debt under the scenario of allowing it to explode during the next eight years.

Baby Boomers retire at the clip of 10,000 a day and will keep that pace until about 2030. We've made a lot of promises that are about to be cashed out. But, technology and medicine may cause life expectancy not plotted by the number crunchers when Social Security promises were made.

We'll explore robotics, self-driving cars, 3D printing and virtual technology that will create huge shifts in the workforce, change the occupancy of commercial space, and could radically change the cost of building.

By the time we give this report in February, I will have sold the majority of what I had owned in California. We'll discuss where I went and why.

My hope is that you will leave the event with some exciting new information that will make your future investment decisions safer -- and more profitable.

TheNorrisGroup

EVENT DATE
Saturday, February 4, 2017

LOCATION
Riverside Convention Center
3637 5th Street, Riverside, CA

$597 **Per Person**
Until 1/26/17
$697 after

Includes color manual, continental breakfast, free parking, lunch, and video/audio of event.

www.thenorrisgroup.com/2percent
or call 951-780-5856

TheNorrisGroup
California Broker BRE#01219911

CALIFORNIA HARD MONEY
For Investors

Fast, easy, and reliable funding starting at 6.9%.
Funding in as little as *5 business days*!

	REHABBER/FLIP PROGRAM	**REHABBER/FLIP** PURCHASE PRICE	**REFINANCE/RENTAL** PROGRAM	**BUILD TO FLIP** PROGRAM
Term	1 YR	1 YR	3 YR	1 YR
Rate	11.5%	8.9%	6.9%	11.9%*
Loan to Value	70% ARV Max	Up to 75% of Purchase Price	Up to 65% LTV	65% Future Value
Prepay Penalty	None	None	1 YR	None
Points	2pts	2pts	2pts	2pts
Fees	$1,095	$1,095	$1,095	$1,095
Appraisal	$375-$400	$375-$400	$375-$400	$375-$400
Building Inspection	N/A	N/A	N/A	Managed by fund control. Roughly 1% of loan.
Notes	Ability to roll in repairs to loan.		Rental purchase program available. Call for details.	For build programs, investor must own lot free and clear and have approved construction plans and permits.

** Loan rate assumes participation in direct deposit program. All loan programs subject to change.*

www.thenorrisgroup.com/hardmoney or 951-780-5856