At Last, Economic Growth . . .

Can It Take Off?

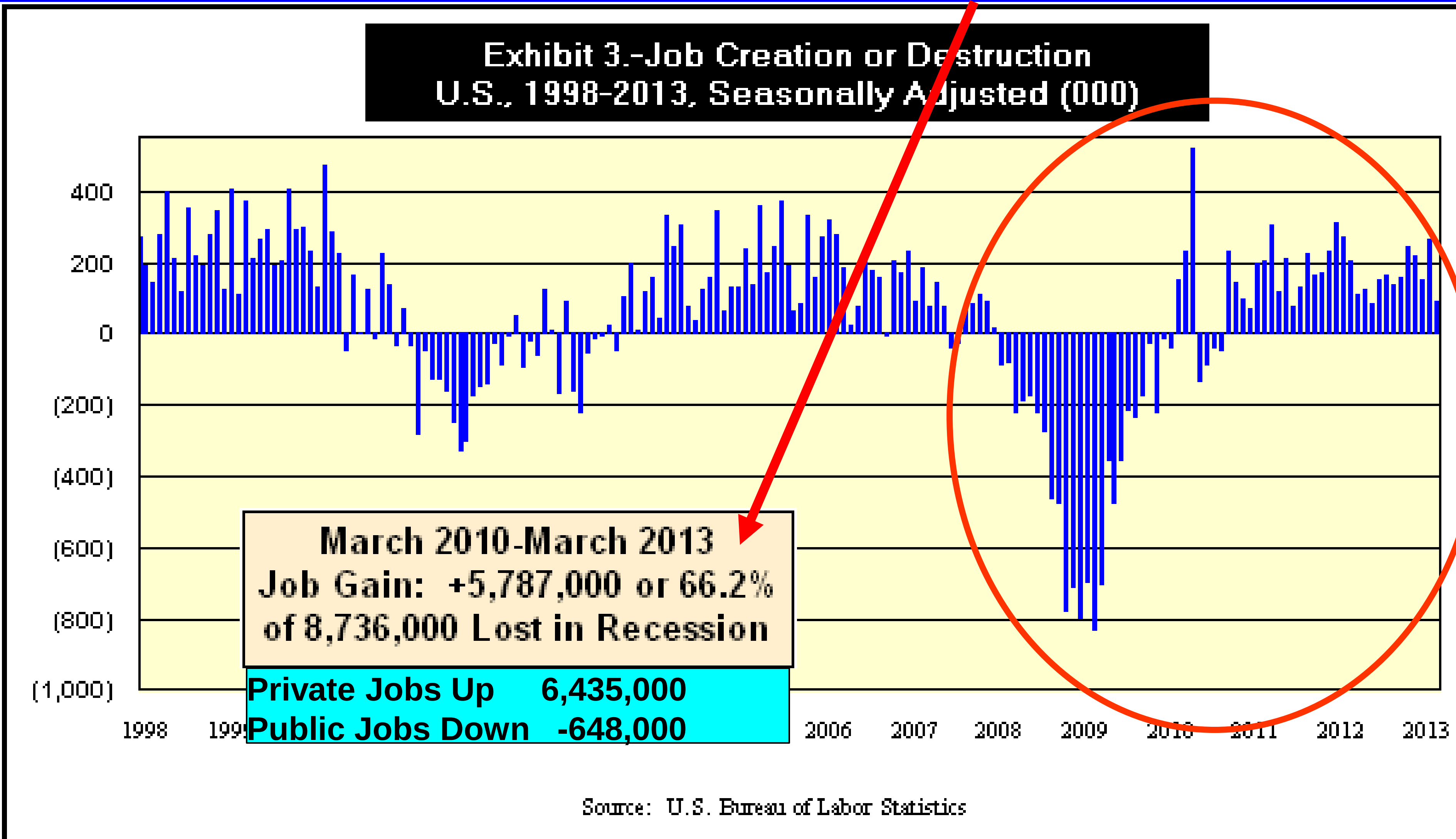
John Husing, Ph.D.

Economics & Politics, Inc.

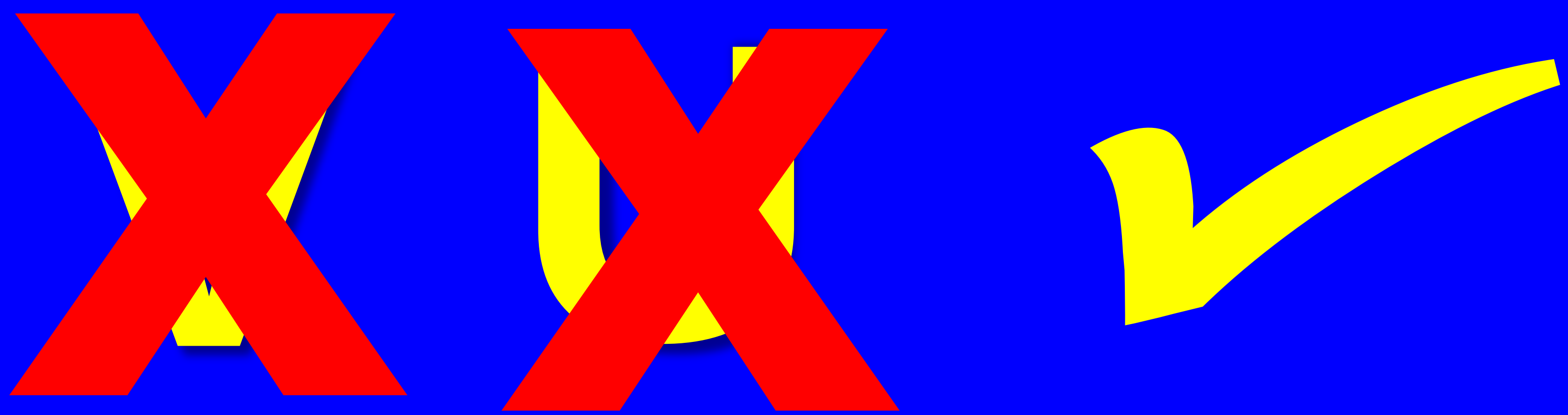
&

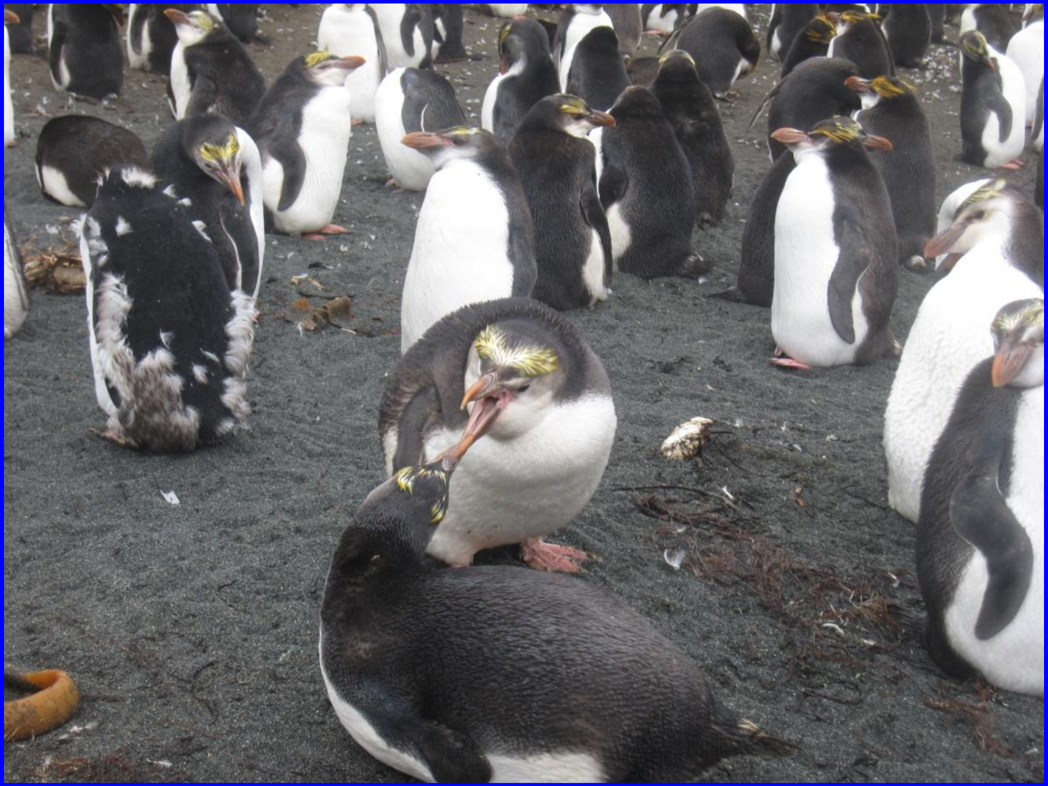
Chief Economist, IEEP

After Losing 8.74 Million Jobs …
U.S. Job Creation is Beginning to Mature
Unemployment 7.6%



Pattern of Likely Recovery

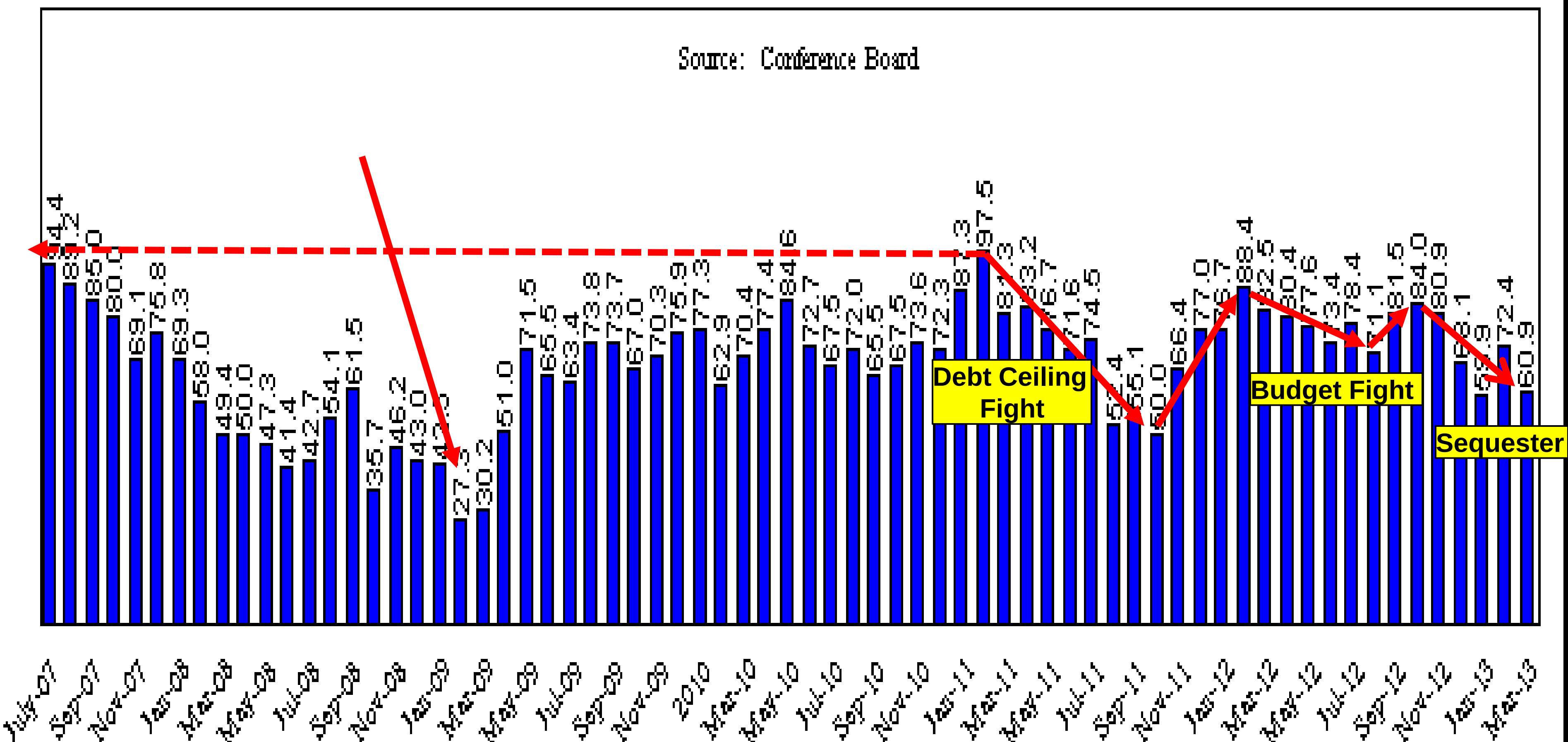




Congressional Fights

Consumer & Business Confidence

Exhibit 14.-U.S. Consumer Confidence
Future Outlook, July 2007-Present



Sources of Increased Demand

- **Consumers**
- **Business Investment in Plant & Equipment**
- **Exports to Other Countries**
- **Federal Government Spending Beyond Taxes**

- **Federal Taxes Cut Consumer & Investment Demand**
  - **If Spend That Amount … Budget <u>Neutral</u> on U.S. Demand**
  - **If Spend Less (Surplus) … Budget <u>Reduces</u> U.S. Demand**
  - **If Spend More (Deficit) … Budget <u>Increases</u> U.S. Demand**

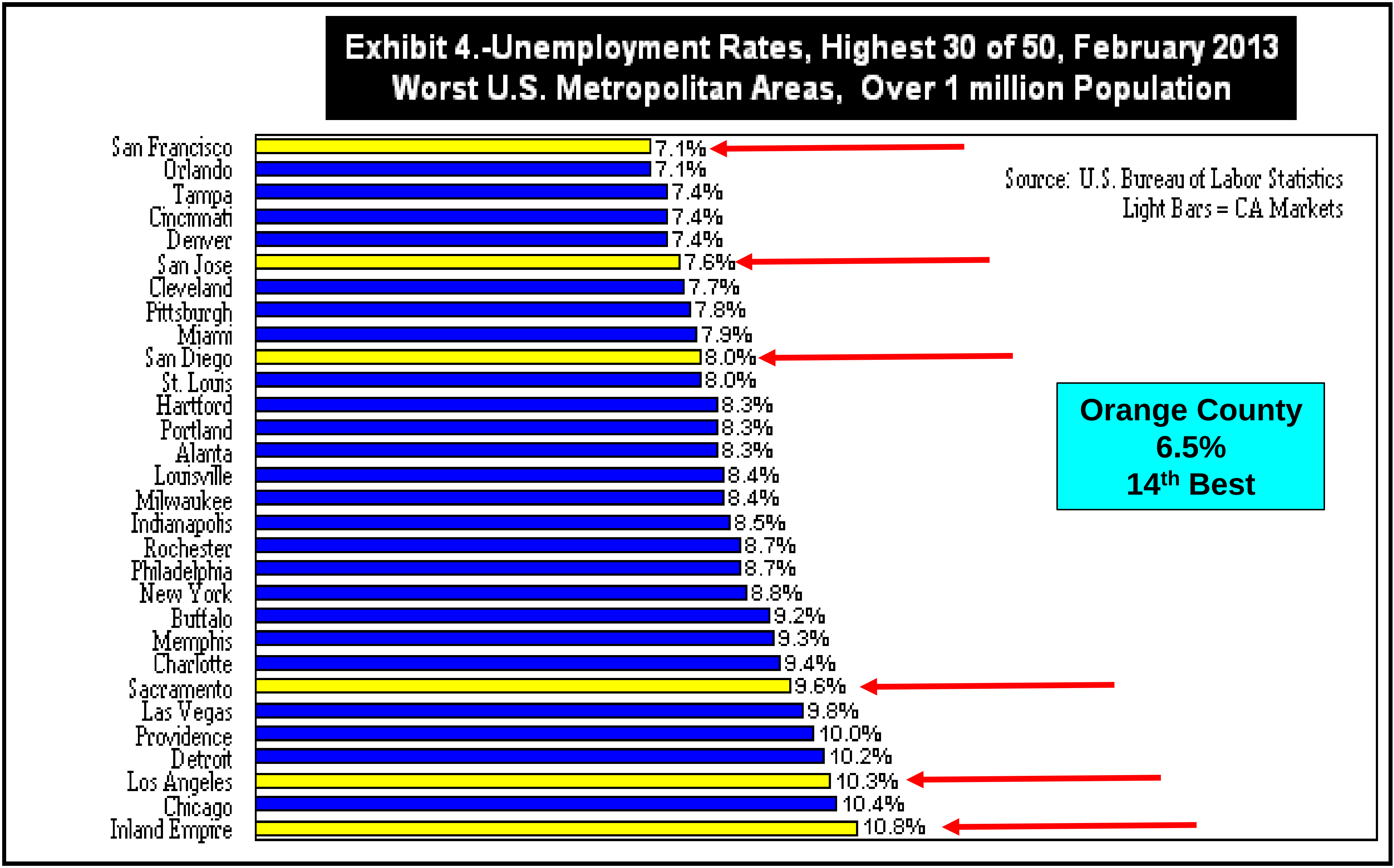
History of Debt Creation

- **Hoover Administration**
- **FDR 1932-1936**
- **FDR 1936-1940 Back To Hoover Policies**
- **World War II: Debt Over 100% of GDP**
- **<u>Boom</u> 1947-1958 Debt to GDP Reduced**

California Wage & Salary Employment Back to 2000
Unemployment = 9.6% Tied For Worst (*Nevada, Mississippi*)

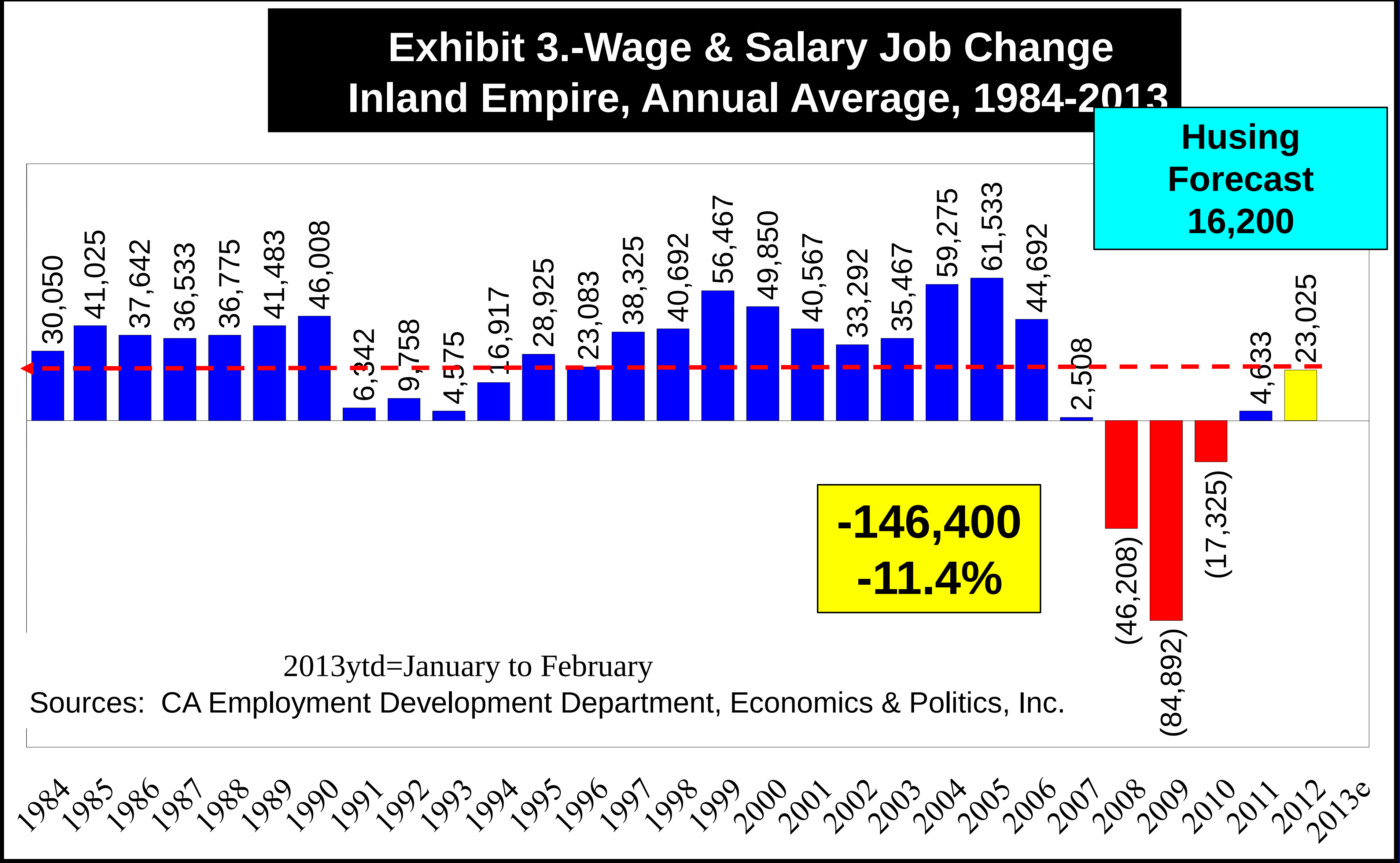
Every Wage & Salary Job Created In California In This Decade Has been Lost: <u>Not A State Priority</u>

Worst U.S. Metropolitan Area Unemployment Rates

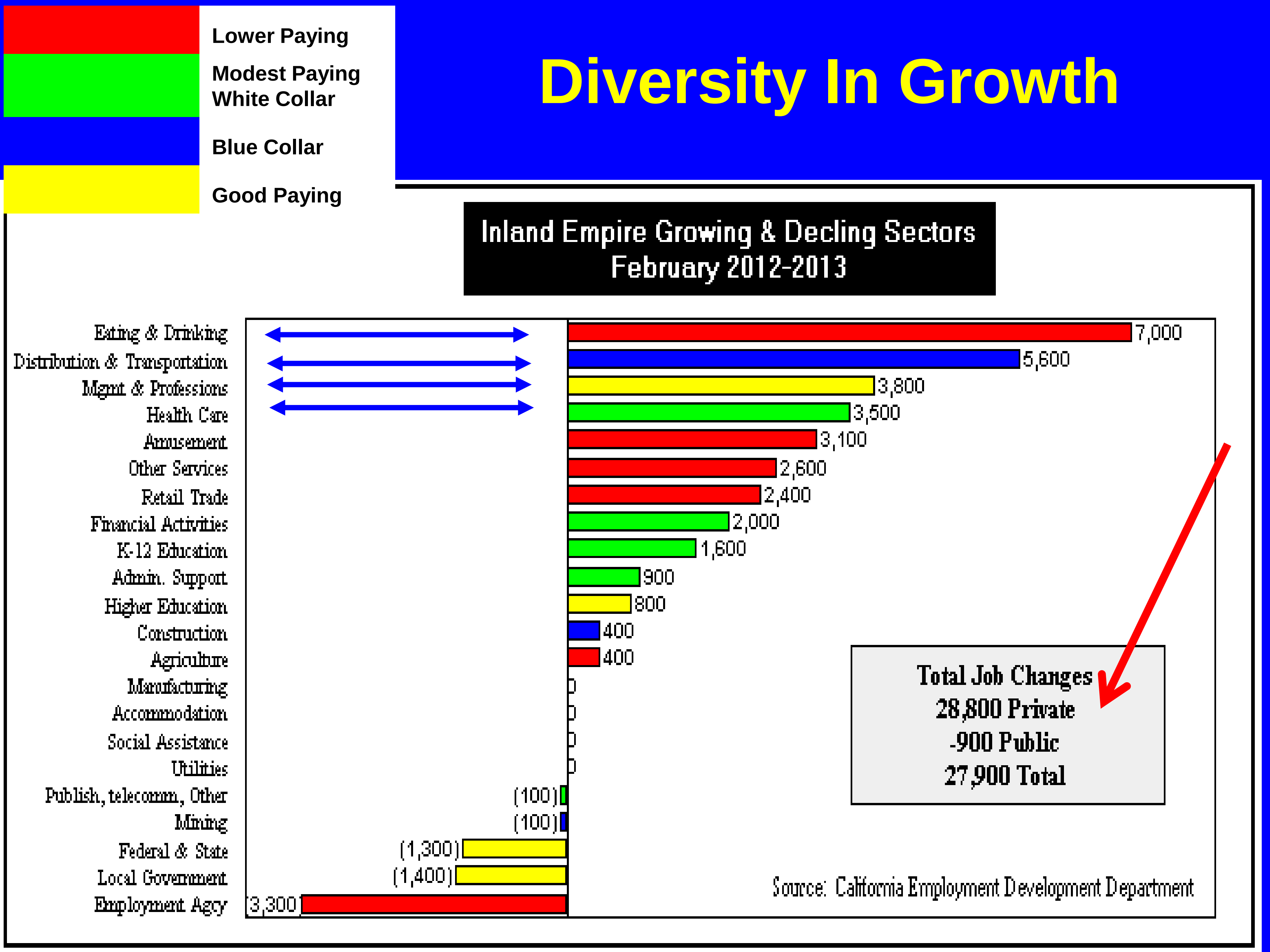


In the Inland Empire
Things Are Looking Up!

IE Up 23,025 Jobs in 2012



Diversity In Growth

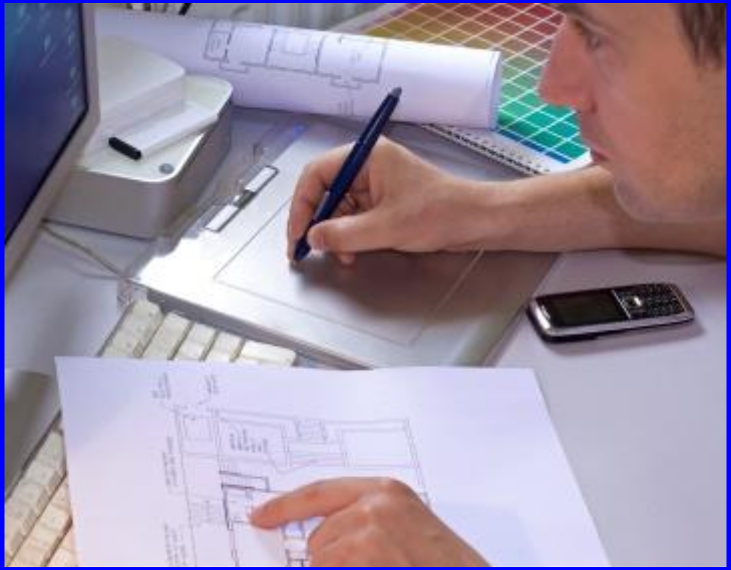


Gold Mine Theory

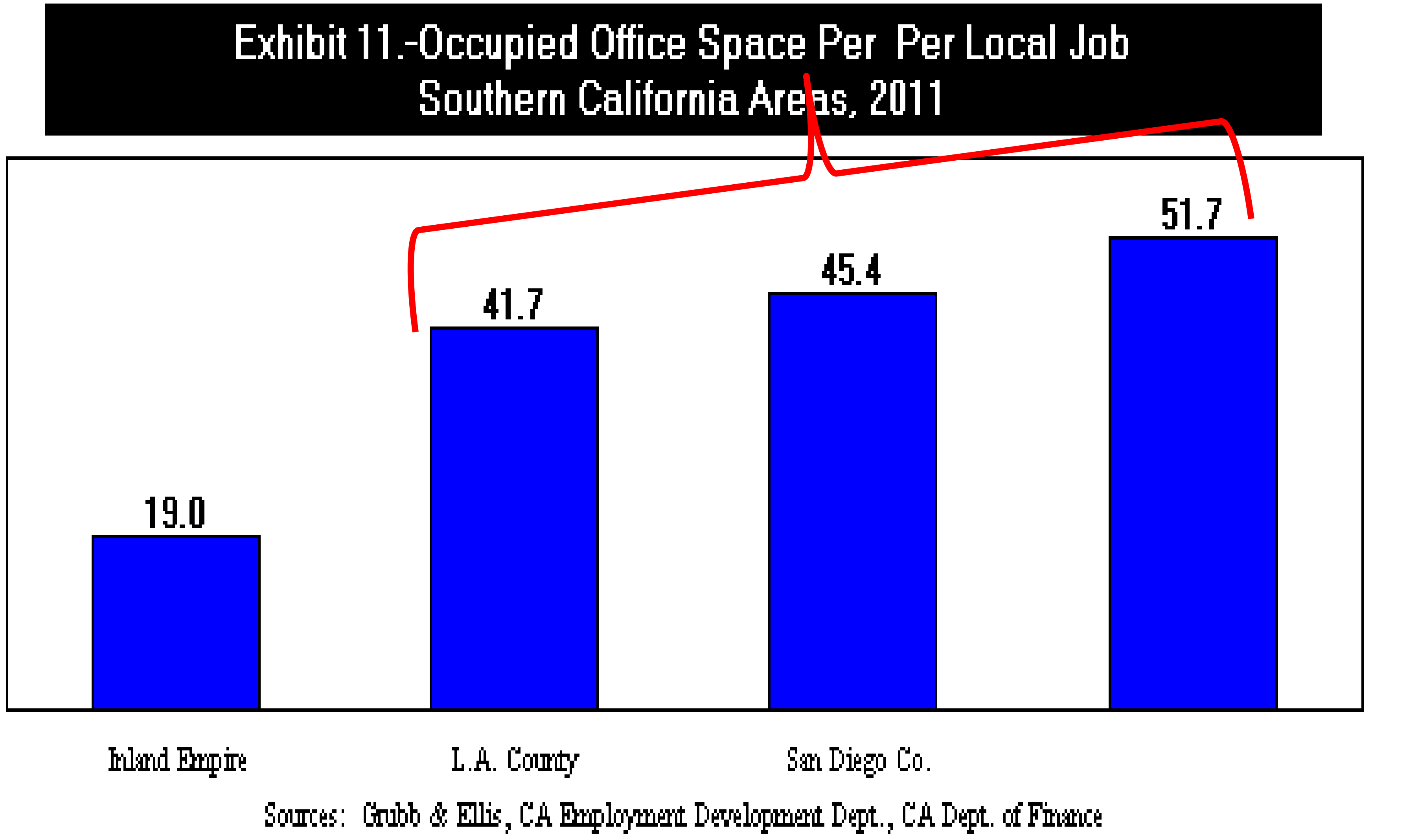
Secondary Tier

Primary Tier

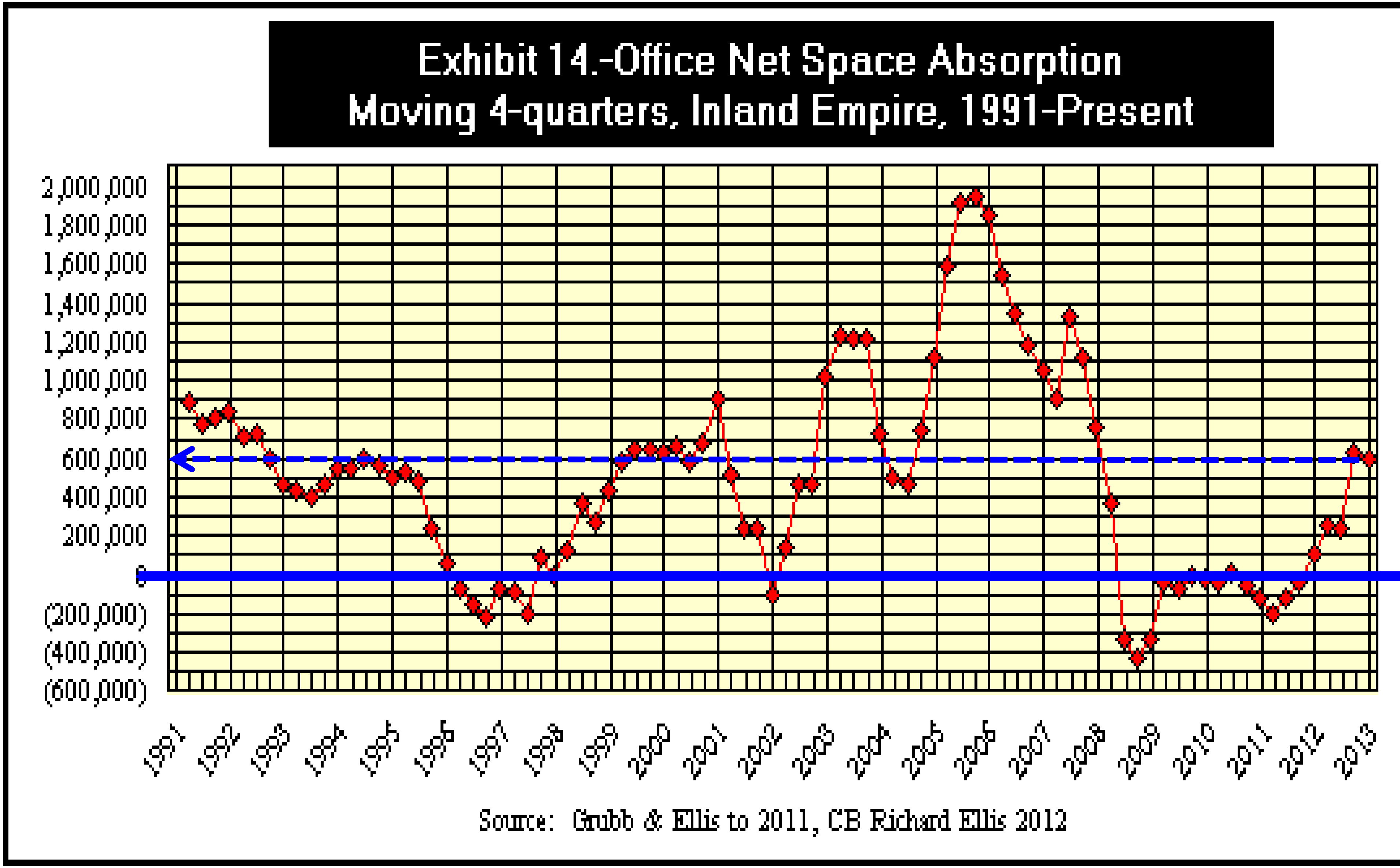
High-End & Office Based Jobs



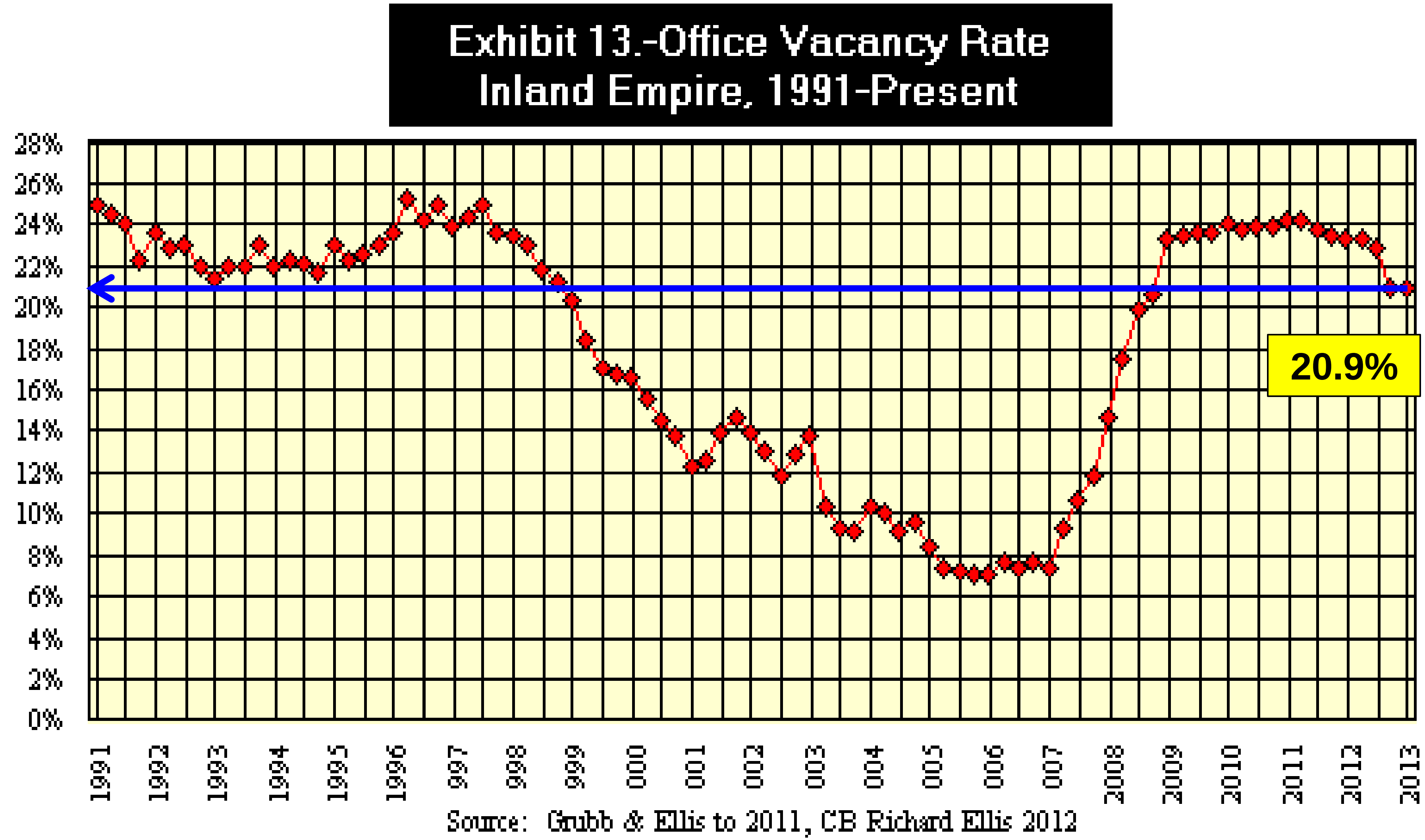
Occupied Office Space Ratio to Jobs



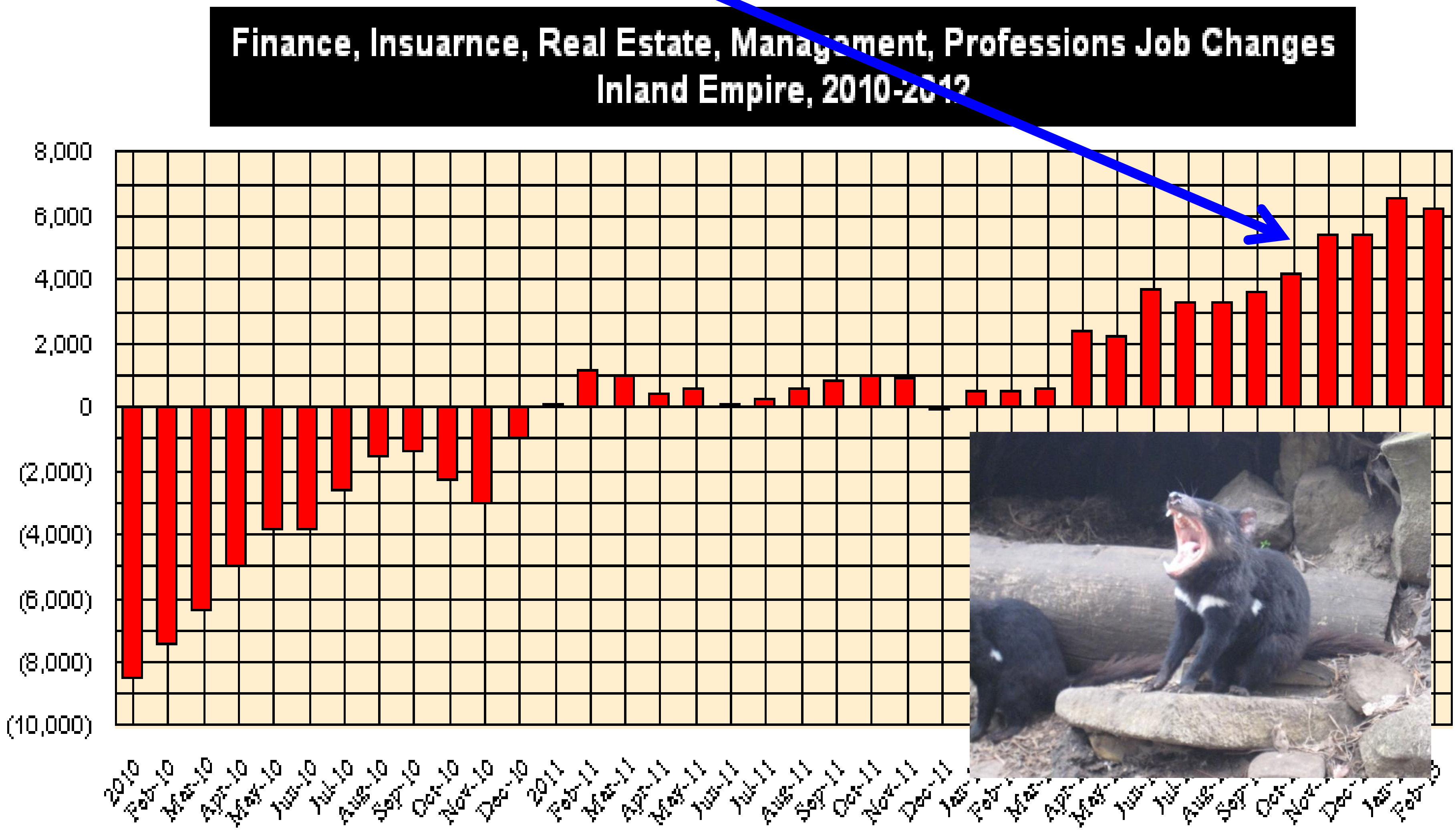
Office Market: Some Recovery



Office Vacancy Rates Improving
But Still Very High



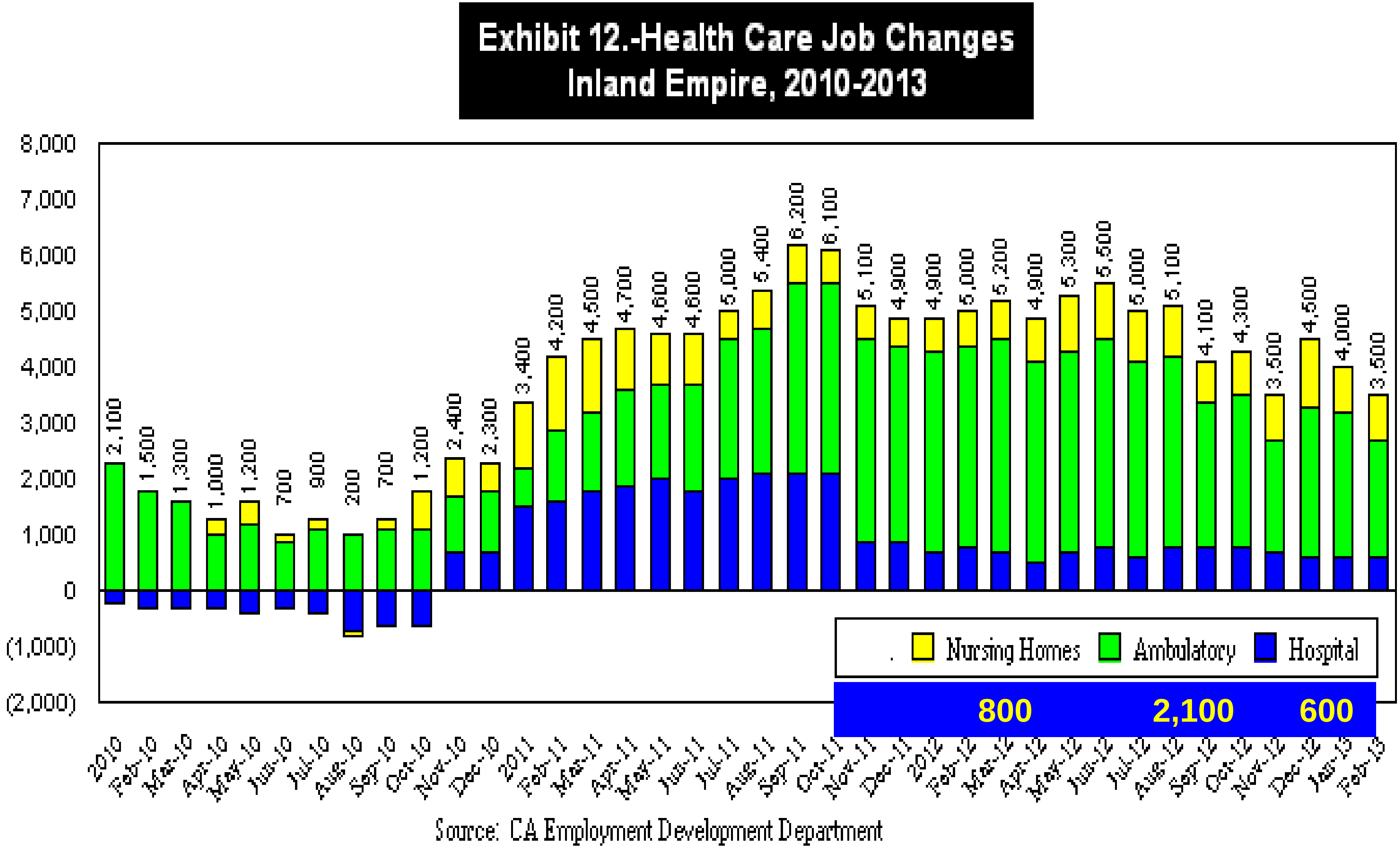
High End Occupations & Office Operations Gaining Strength



Source: CA Employment Development Department

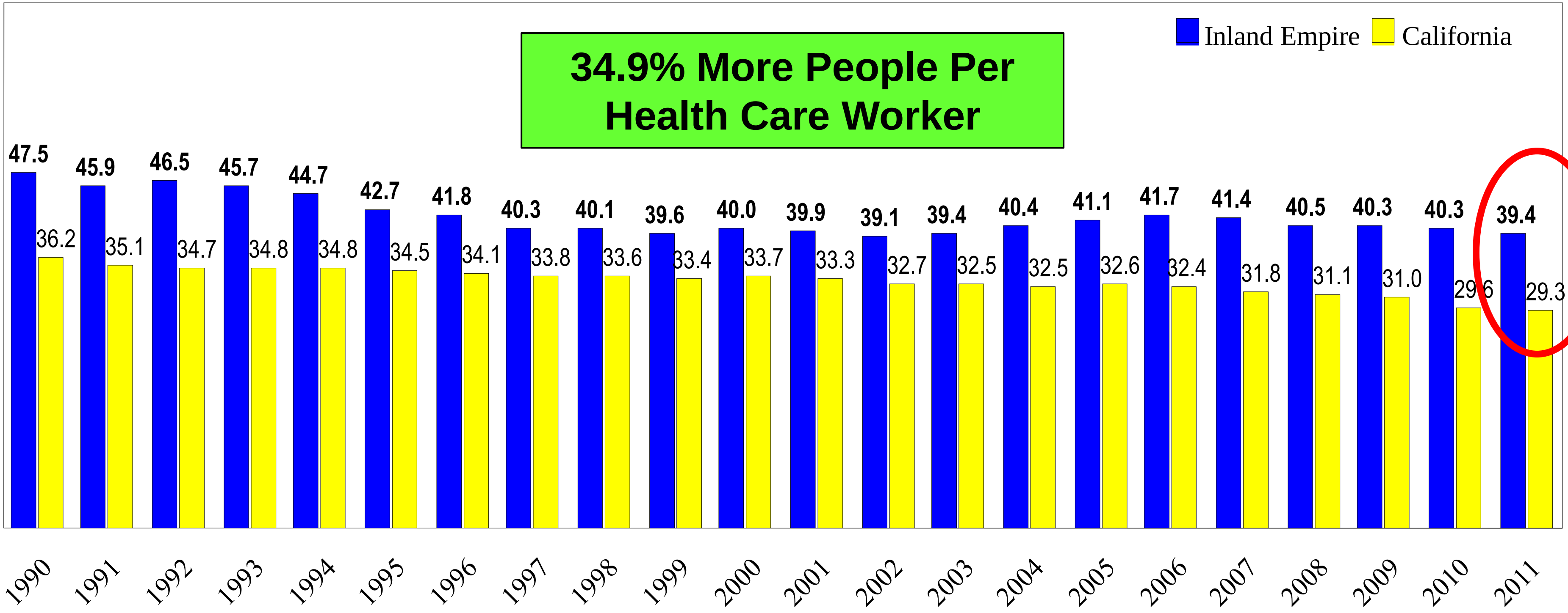
Health Care

Health Care Jobs: Continuous Growth

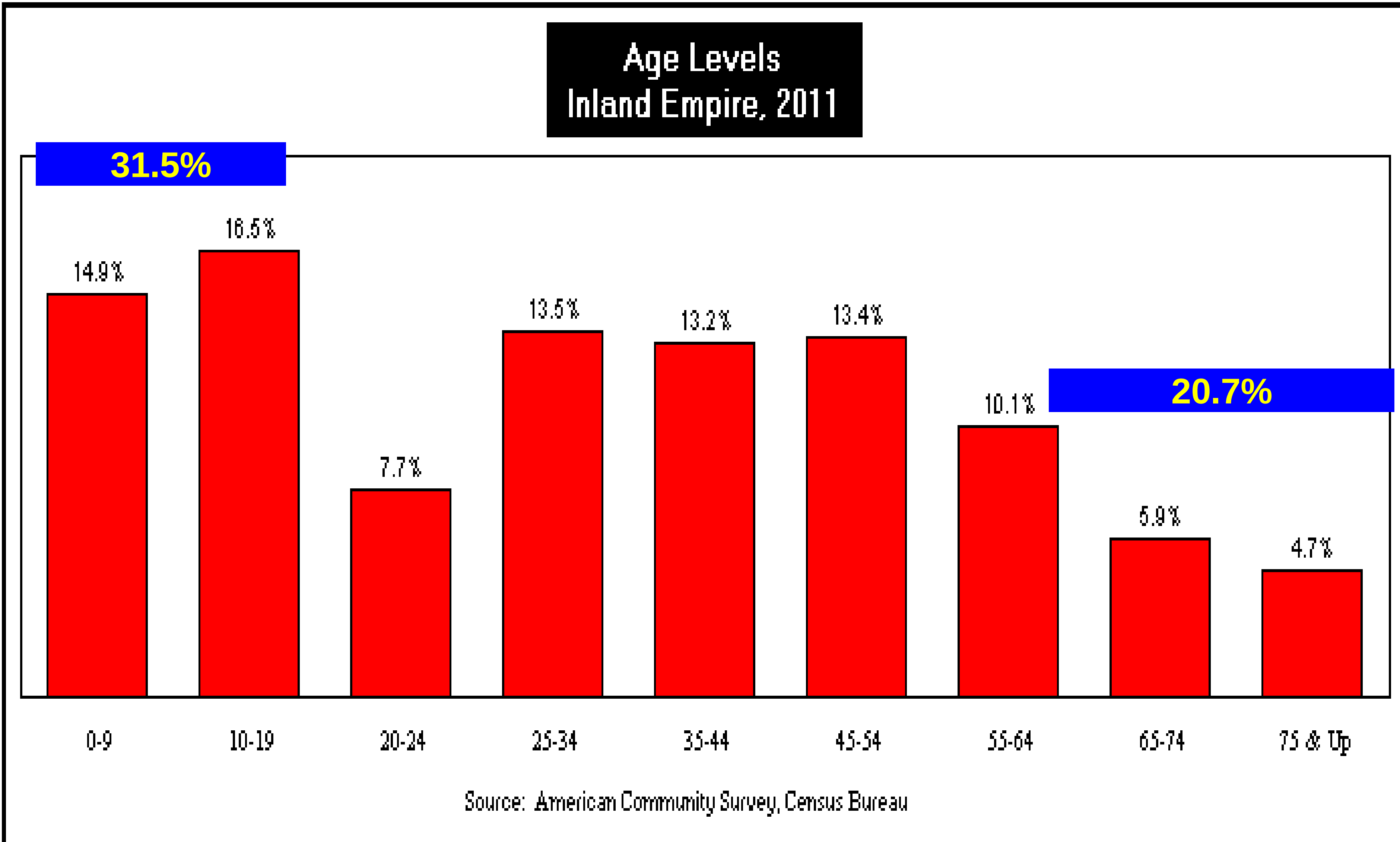


Inland Empire Underserved by Health Care Workers

Population Per Health Care Job
Inland Empire v. California, 1990-2011

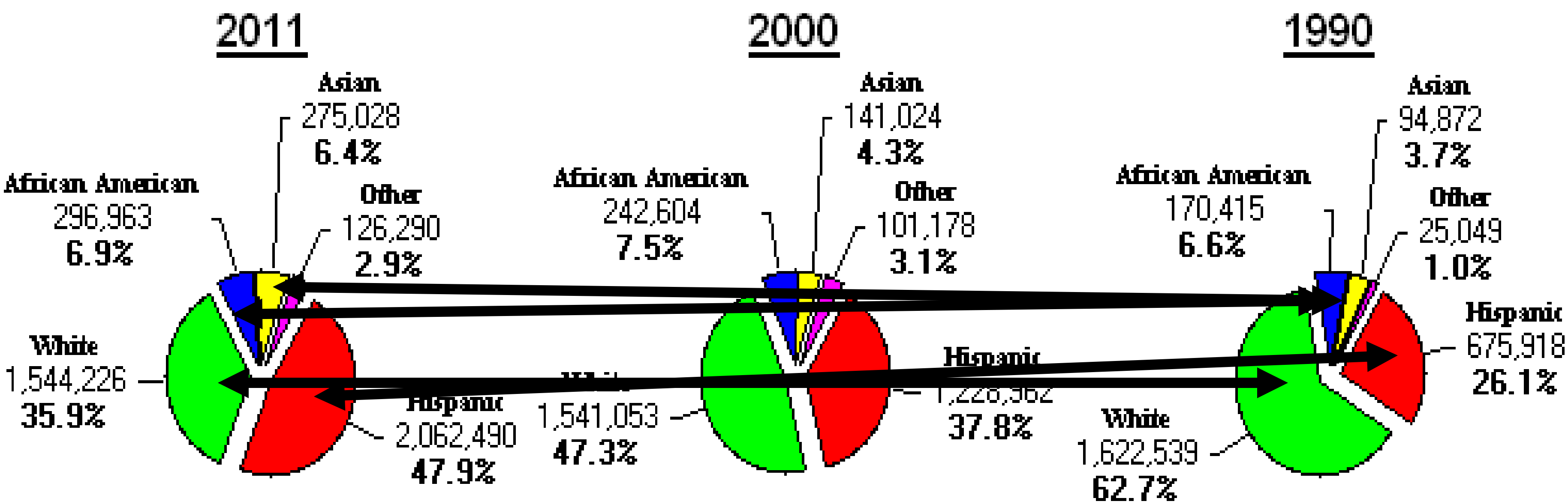


Who Will Health Care Workers Serve?



Who Will Health Care Workers Serve?

Exhibit 7.-Ethnic Composition
Inland Empire, 1990-2011



Source: American Community Survey, 2011; Census Bureau, 1990-2000

Health Care

EPIC MANAGEMENT, L.P.

BEAVER MEDICAL GROUP

John Goodman, President & CEO

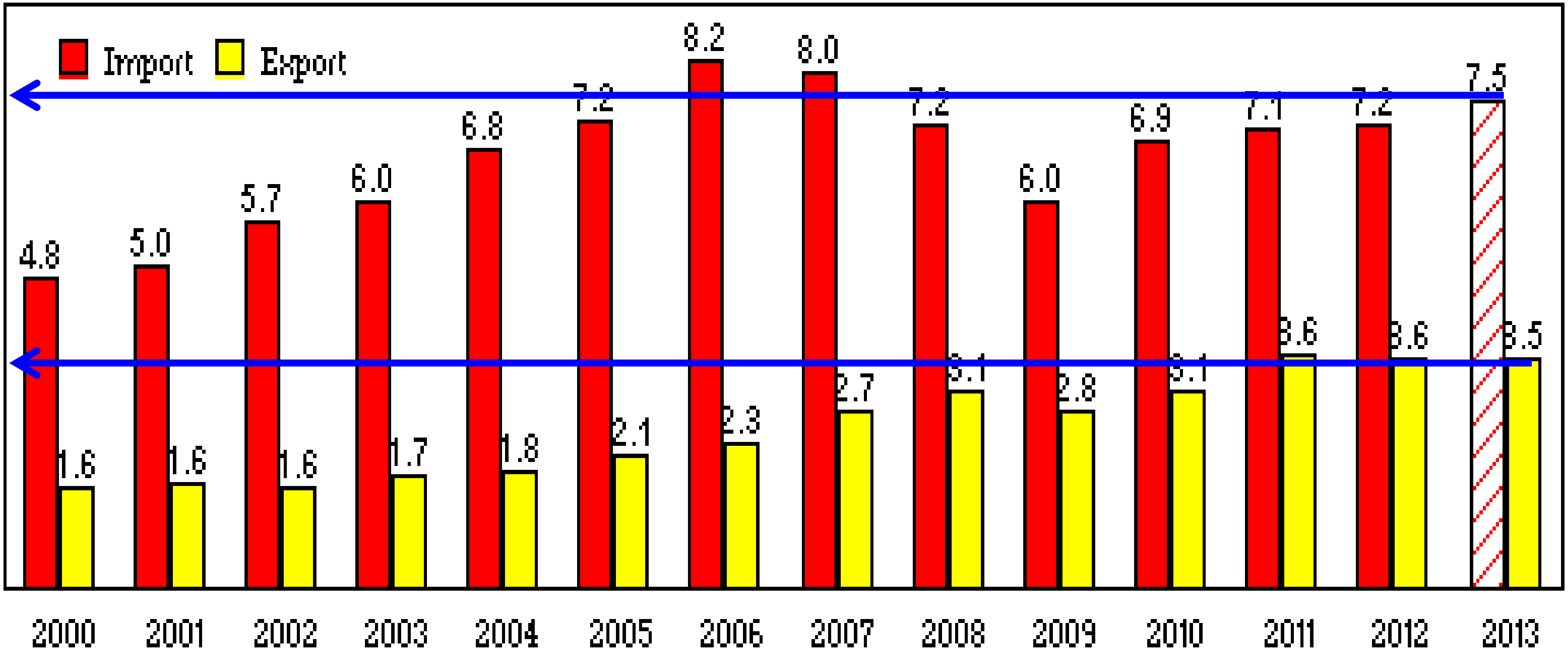
Logistics Flow of Goods

Truck To Inland Empire

Sophisticated Warehousing Operations

Port Container Volumes

Exhibit 10.-Import & Export Container Volume, 2000-2013e
Ports of Los Angeles & Long Beach (mil. teus)



2013 = Based upon experienced Year to Date, Febriary
Source: Port Import Export Reporting Service (PIERS), collected from Vessel, LA-LB for 2011-2013

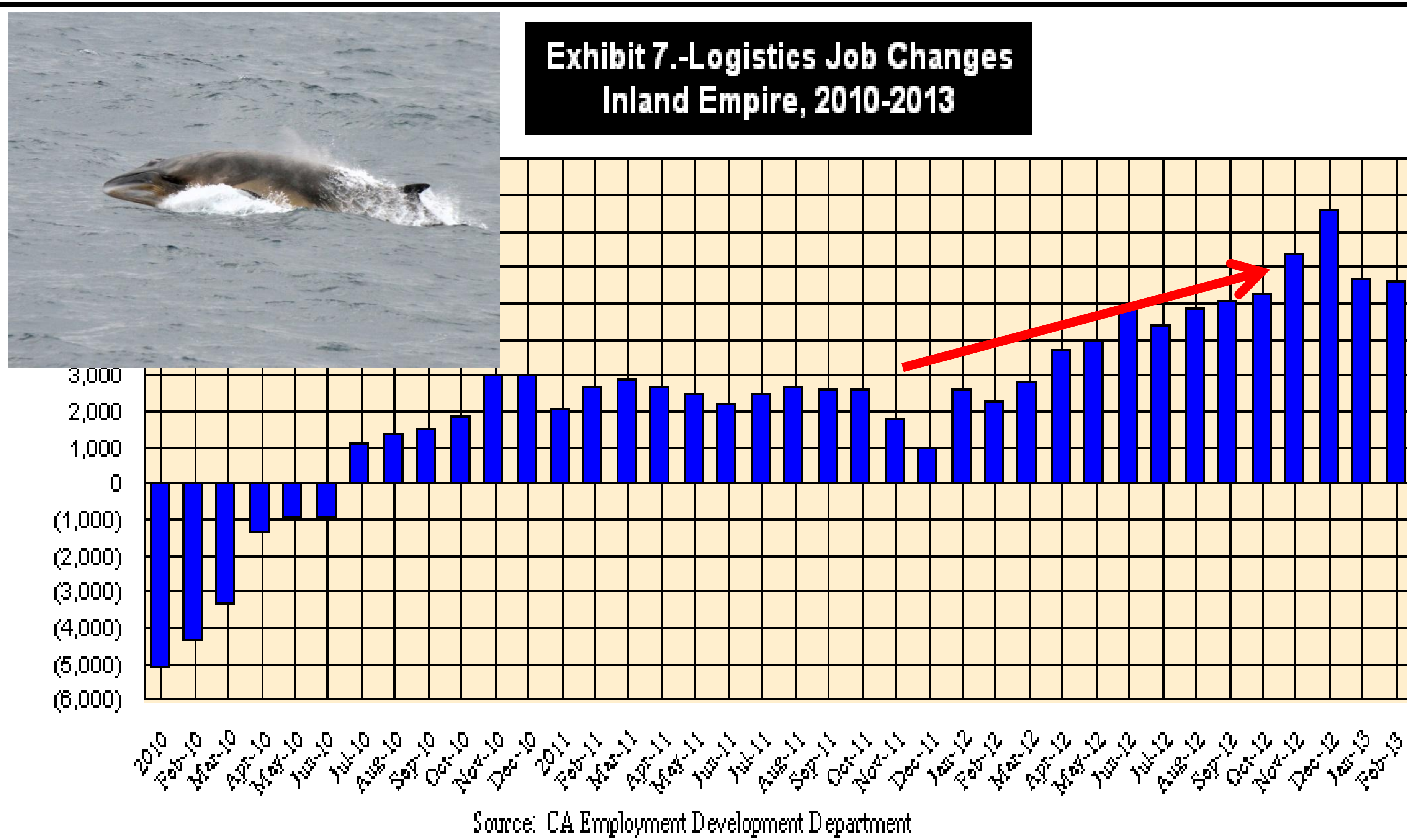
Fulfillment Warehousing

Industrial Vacancy Rate Recovering <u>Everywhere</u>!

	2005/2006	2009Q3	2013Q1
Inland Empire	2.7%	12.8%	6.2%
San Diego	7.0%	12.0%	8.9%
Orange Co.	5.4%	6.5%	3.4%
L.A. Co.	2.1%	3.2%	2.1%

IE Gross Absorption Back to 25 million Sq. Ft. Above Its Long Term Average

Inland Empire Logistics Jobs



Logistics

HILLWOOD
A PEROT COMPANY®

John, Magness, Senior Vice President

IE Industrial Market 2013

Port of LB/LA still largest in US by far

Port numbers back to 2007 levels (14M TEU)

ONT cargo (UPS) strong growth

BNSF/UP upgrading facilities

New tenants in market vs. Consolidation

Industrial Land rush (Rialto, Redlands, Chino)

IE Industrial Market 2013

IE 400Msf- part of LA 1Bsf

2012 first spec buildings returned

2013 7.7Msf in spec buildings u/c in IE so far

Rents up; Land up; Cap Rates down

Redlands vs. Ontario vs. Chino

What is a Fulfillment Center?

Industrial work space characterized by:

- Material handling/automation usually greater than value of the building
- More cars less trucks
- High employment
- Long term leases
- Point of Sale

Kohls.com; Amazon.com; etc

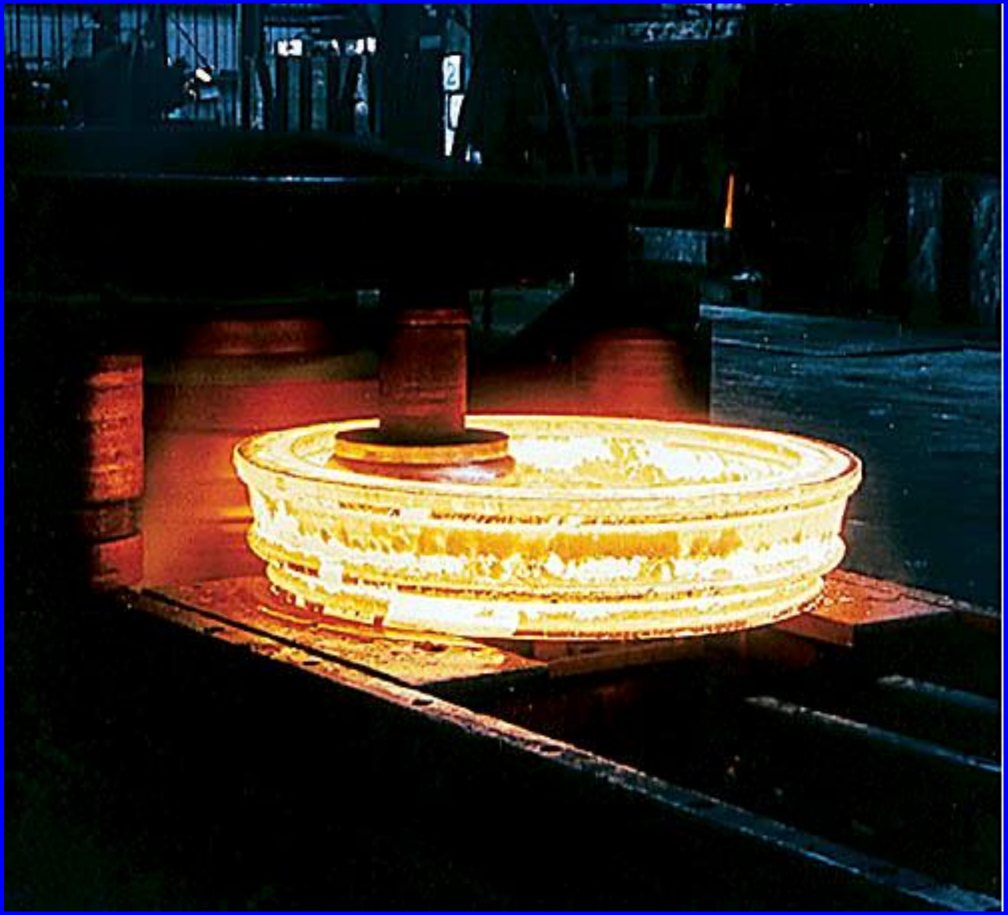
E-Commerce

By 2025 it has been estimated that E-commerce will represent 30% of all Retail Sales and account from *$2.7 trillion in total sales (Source: Dematic)*

E-commerce= (E-commerce, M-commerce and S-commerce)

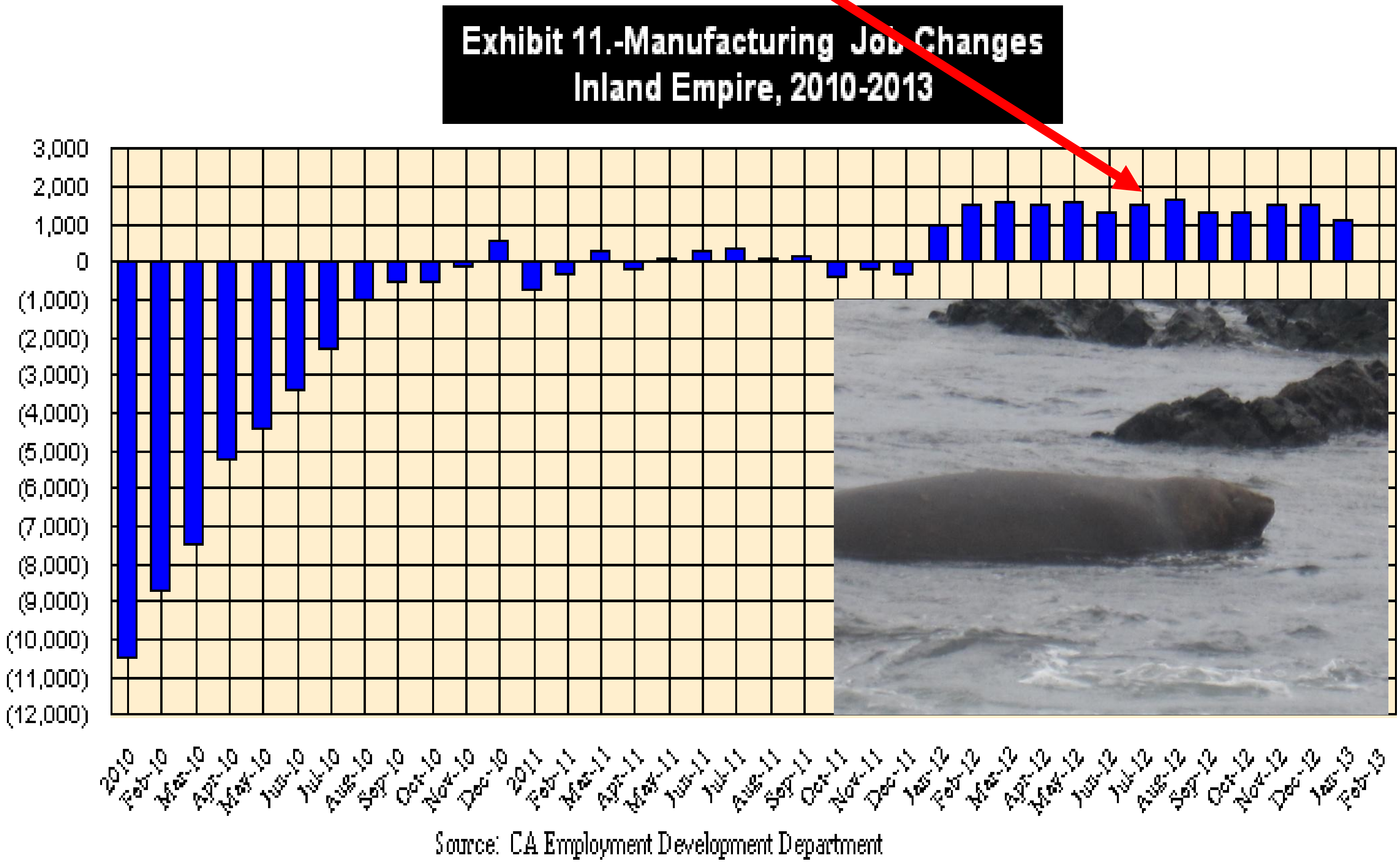
Within 5 years, the percentage of sales closed at physical stores vs. alternative sales channels will drop from 91% (today) to 76% (Deloitte Study)

Manufacturing:
Could Be A Major Growth Source



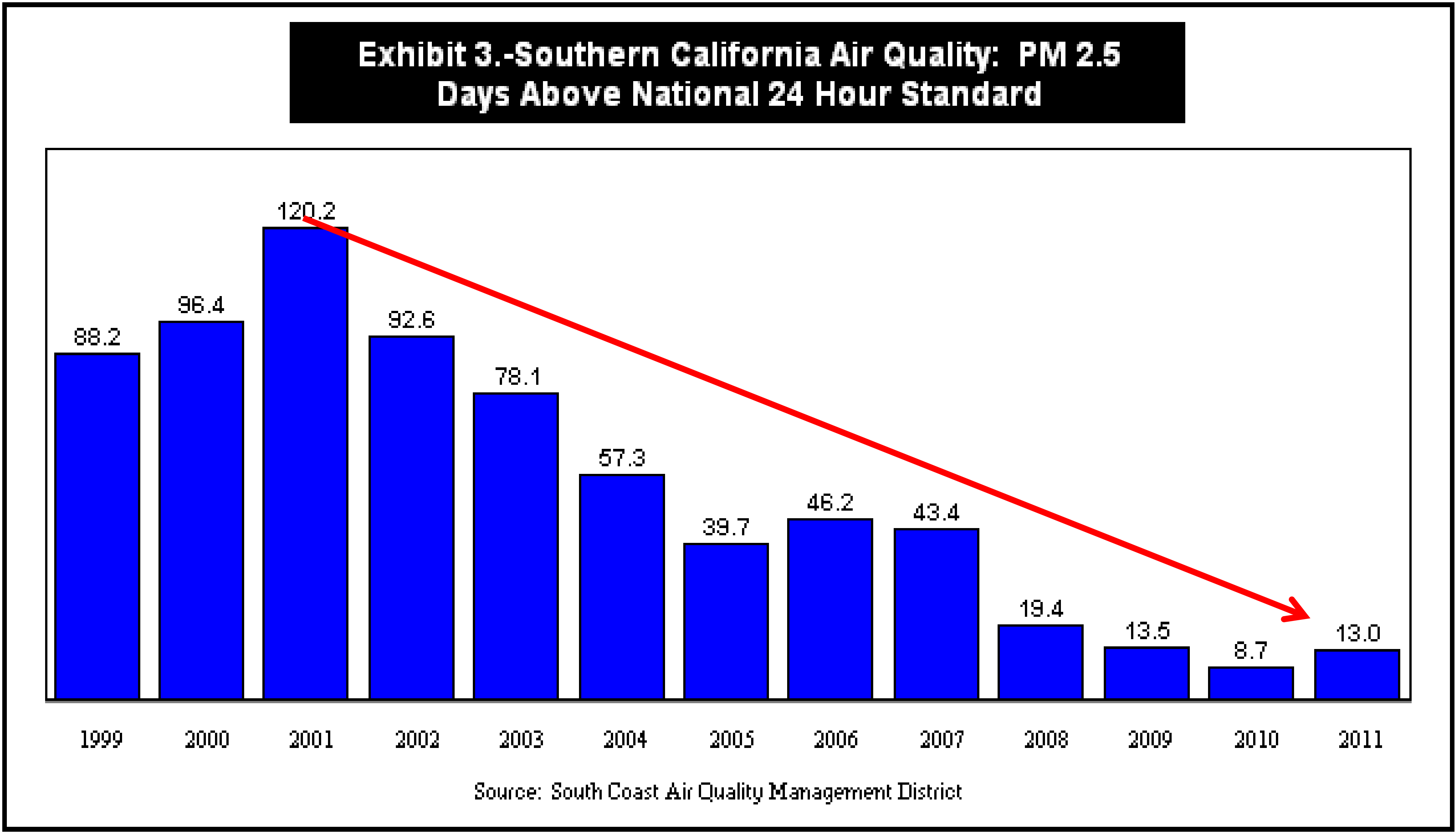
Manufacturing Orders Rising

Inland Empire Manufacturing Jobs



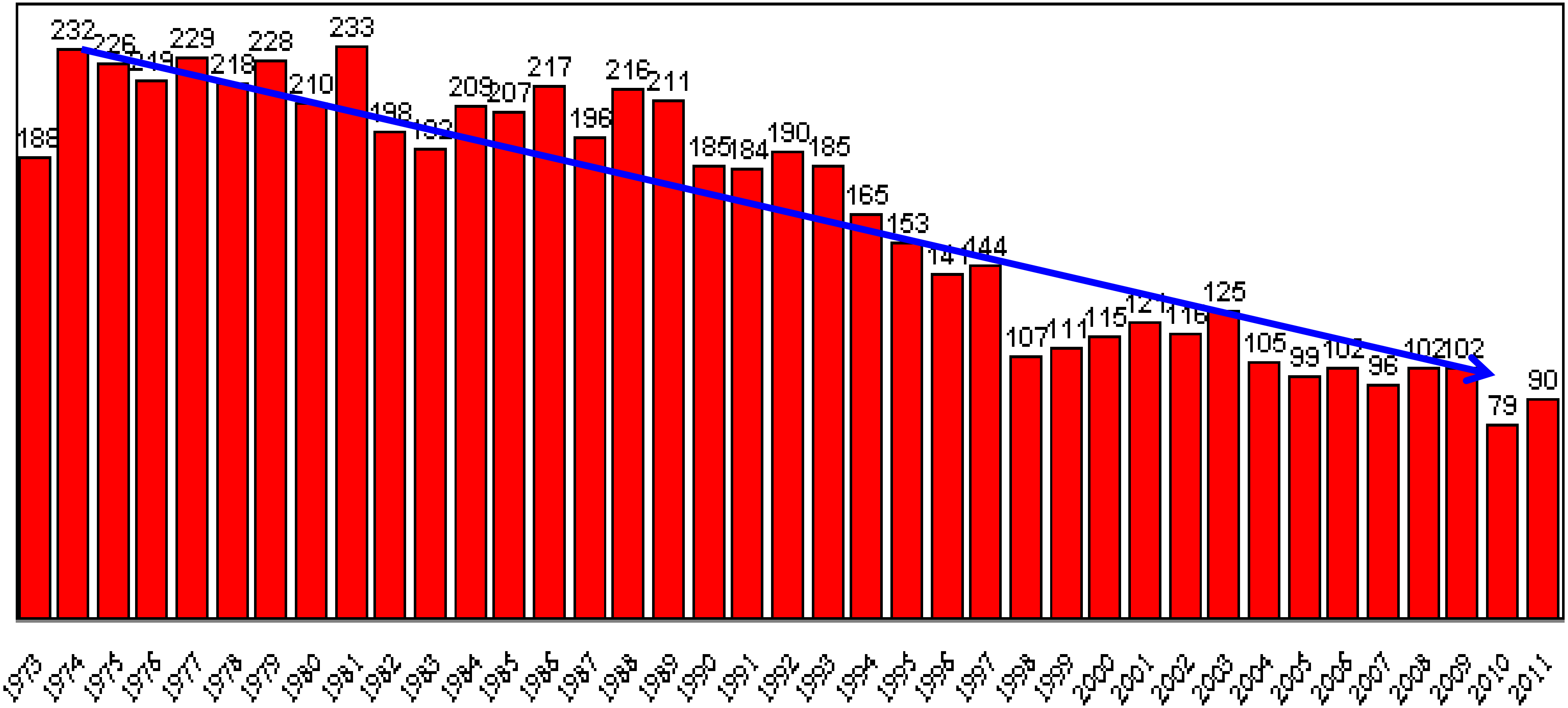
Regulatory Environment Aimed At “Dirty” Blue Collar Sectors

PM 2.5: Reduce
For Public Health & Social Justice



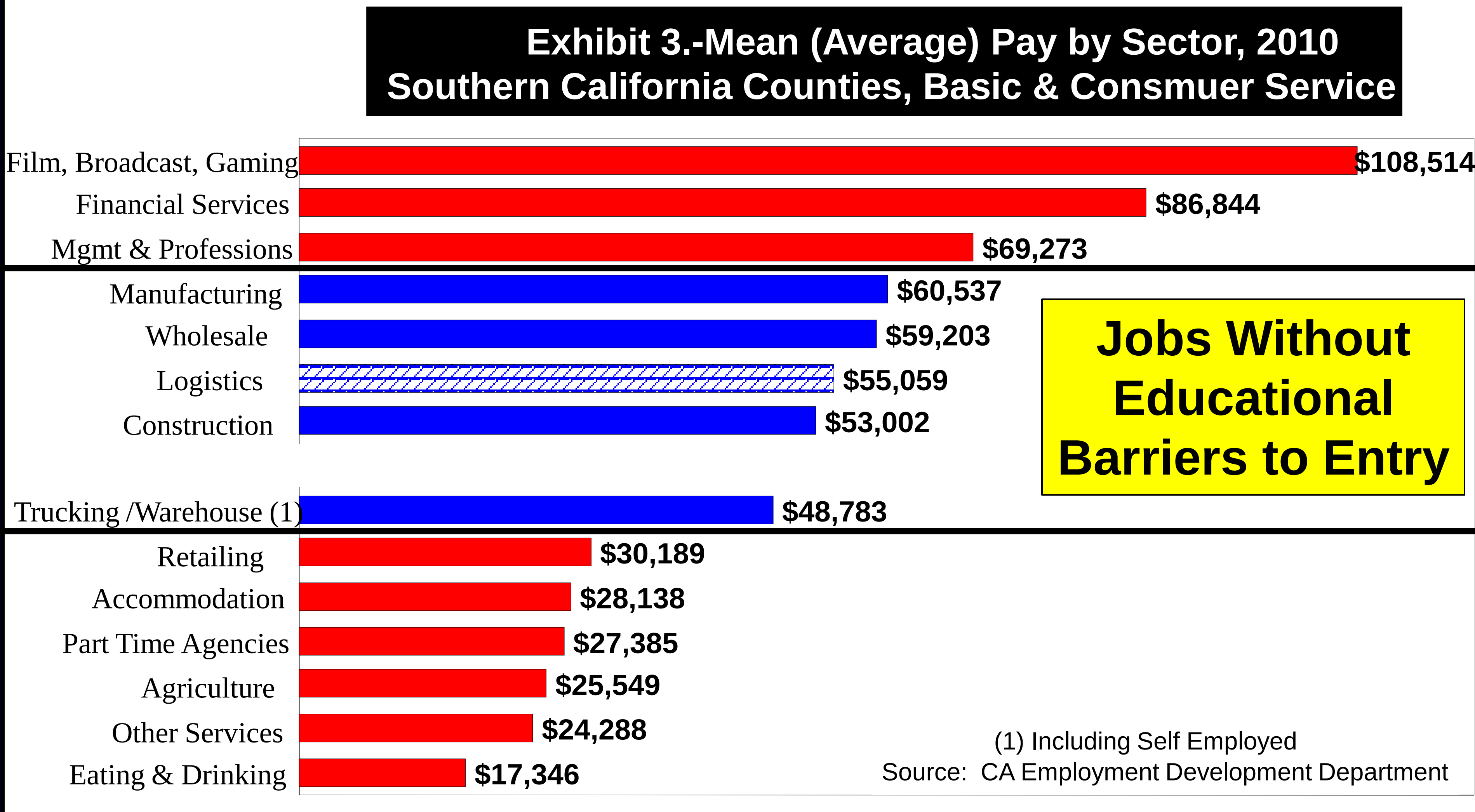
Ozone: Reduce
For Public Health & Social Justice

Exhibiti 2.-Southern California Air Quality: Ozone
Days Exceeding CA Standard, 1976-2010 (Maximum: .09 ppm Ozone, One Hour)

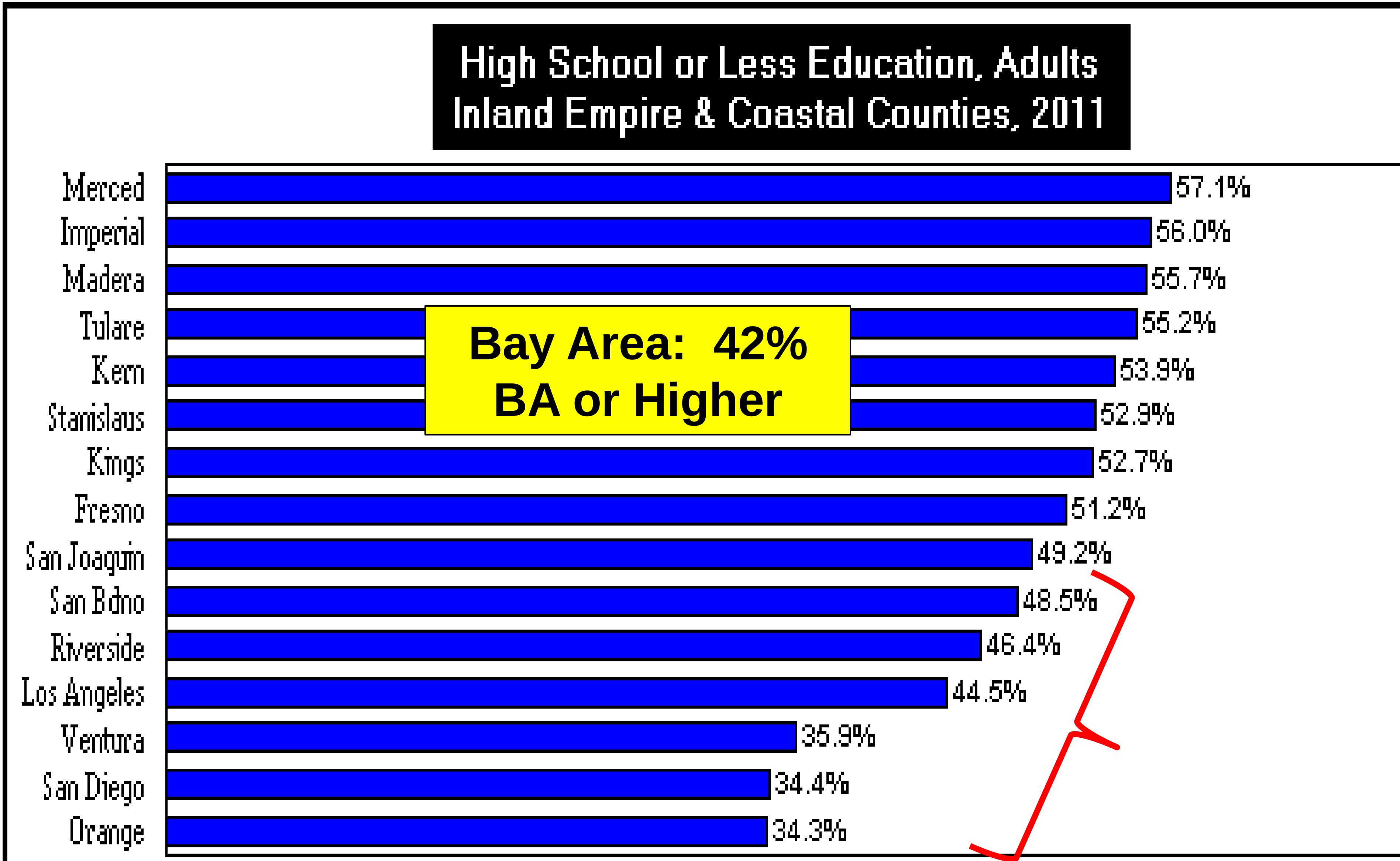


Source: South Coast Air Quality Management District

Mean Pay Levels



Share Stopped Education High School or Less



Adults With High School Or Less Educations

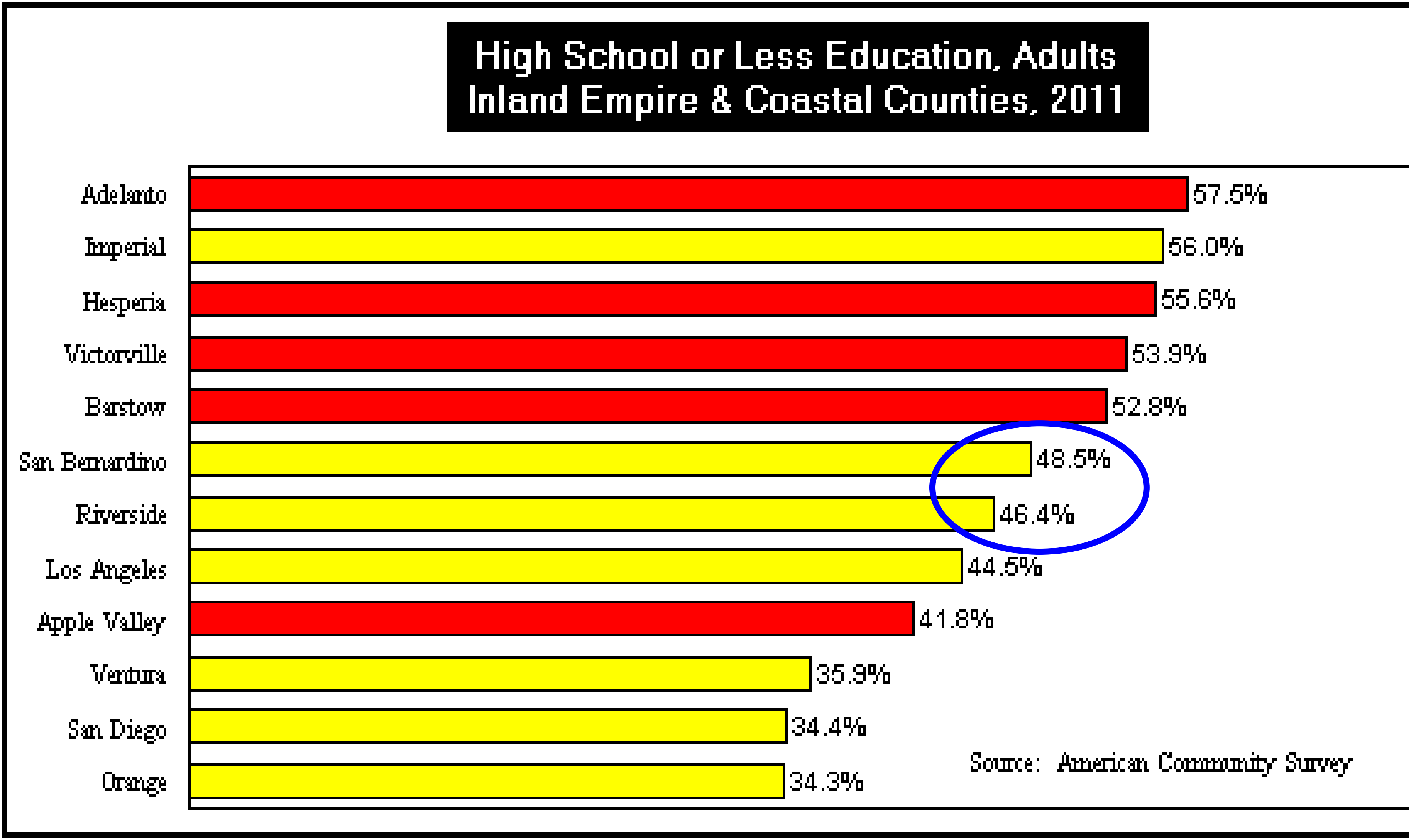
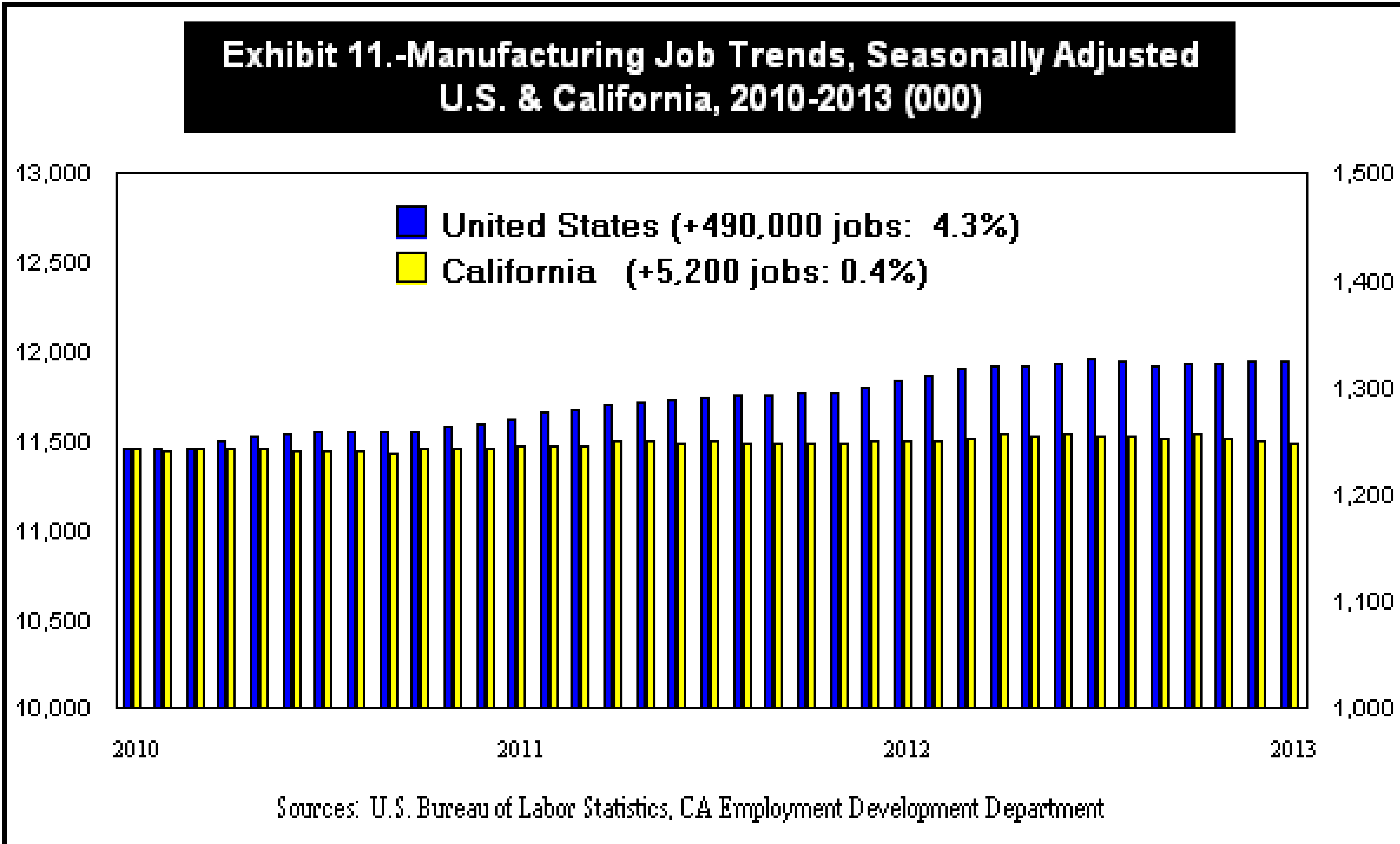


Exhibit 8.-Marginally Educated Hispanics, 2011
San Joaquin County to Mexico, 25 & Over

County	Total Hispanic 25 & Up	High School or Less	Share
Riverside	529,863	355,523	67.1%
San Bernardino	533,129	352,080	66.0%
Imperial	80,623	49,213	61.0%
Inland So. CA	**1,143,615**	**756,816**	**66.2%**
Fresno	244,300	165,919	67.9%
Kern	211,636	154,970	73.2%
Kings	42,161	29,580	70.2%
Madera	41,949	31,366	74.8%
Merced	71,404	51,609	72.3%
San Joaquin	138,779	95,998	69.2%
Stanislaus	111,365	79,626	71.5%
Tulare	134,117	93,898	70.0%
Central Valley	**995,711**	**702,966**	**70.6%**
Inland Spine	**2,139,326**	**1,459,782**	**68.2%**
Los Angeles	2,685,944	1,847,407	68.8%
Orange	562,138	358,891	63.8%
San Diego	550,249	333,563	60.6%
Ventura	183,696	118,009	64.2%
Southern California Coast	**3,982,027**	**2,657,870**	**66.7%**
Total	**6,121,353**	**4,117,652**	**67.3%**

CA's Dismal Manufacturing Growth



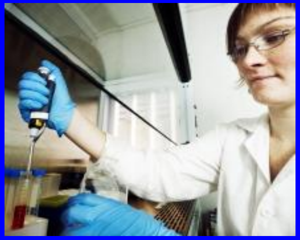
Results: A Policy Cause Crisis

- California Uncompetitive for Manufacturing & Other Blue Collar Work
- Reduced Access To Middle Class Jobs For Marginally Educated Who Are A Huge Share of State Workers
- Disproportionately Impact Hispanic Families
- Health & Social Justice Issue Being Created
- Increasing the Income Disparity in the State

Manufacturing

California Steel Industries

Brett Guge
Executive Vice President, Finance & Administration



Manufacturing Matters More than Ever

For discussion today

1. Why manufacturing matters

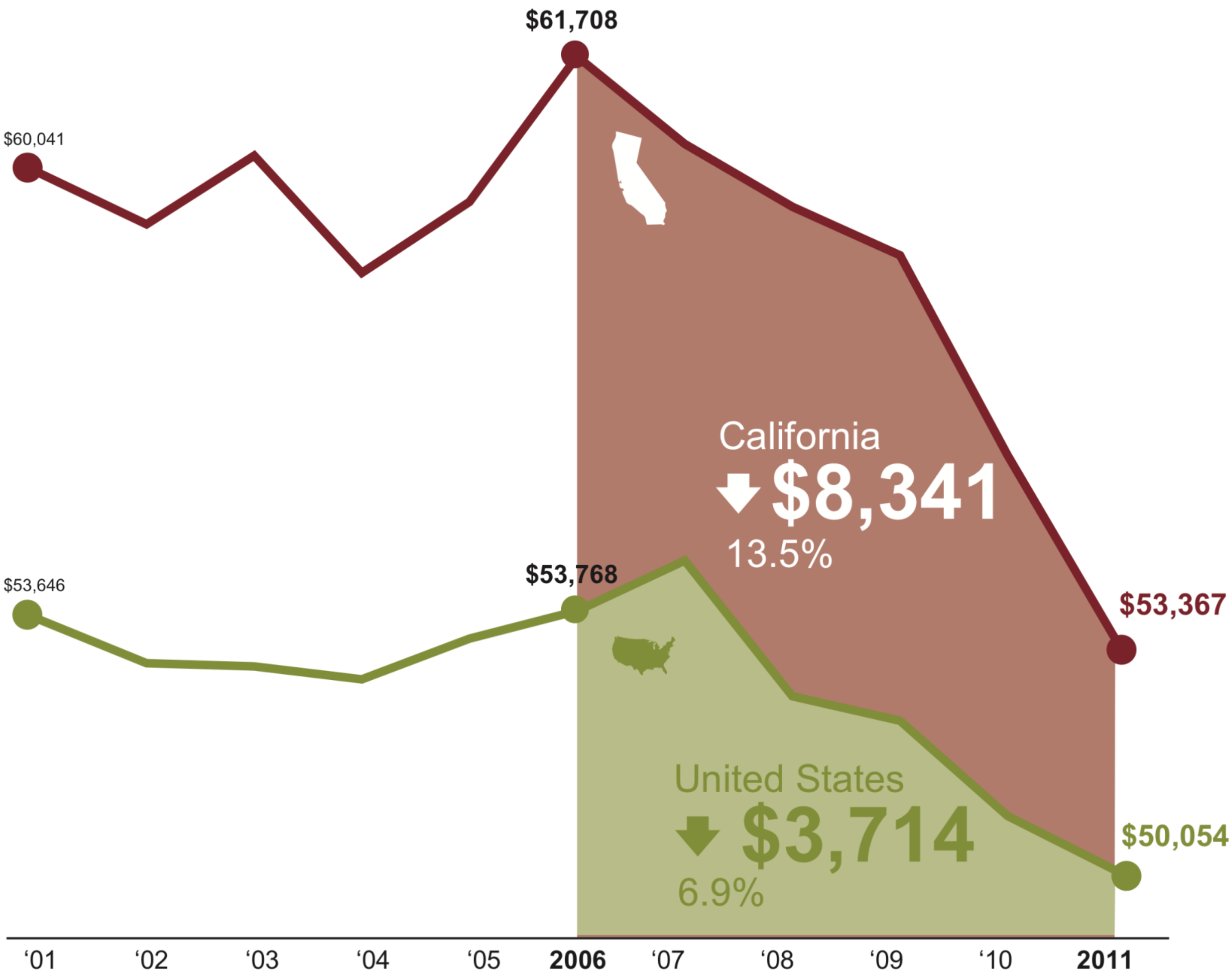
2. An opportunity to create jobs…LOTS of jobs

Dr. Husing nails it.

Workers get access to the middle class through shop floor jobs.

California middle-income families losing their fair share

Median incomes adjusted in 2011 dollars



Source: U.S. Bureau of Labor Statisitics   Chart: California Manufacturers & Technology Assn.

Value of California Manufacturing

Wages

Manufacturing job

$74K

Vs.

Service job

$52K

Wealth Creation

Expands Economy

One California manufacturing job supports

x 2.5

other jobs in the economy

Inspires Innovation

Manufacturing funds

60%

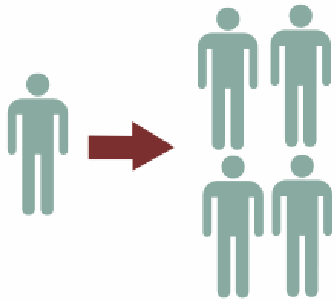
of Research and Development in California

Generates

$230 billion

in gross state product*

Opportunity for Growth



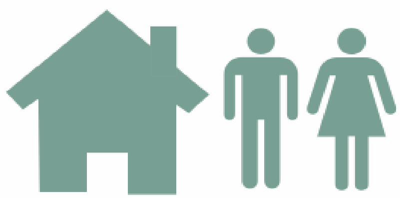
Small Manufacturing is Big

More than

50%

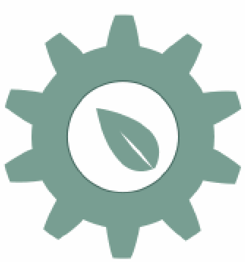
of California manufacturers have less than nine employees

Helps California Rebuild Middle Class

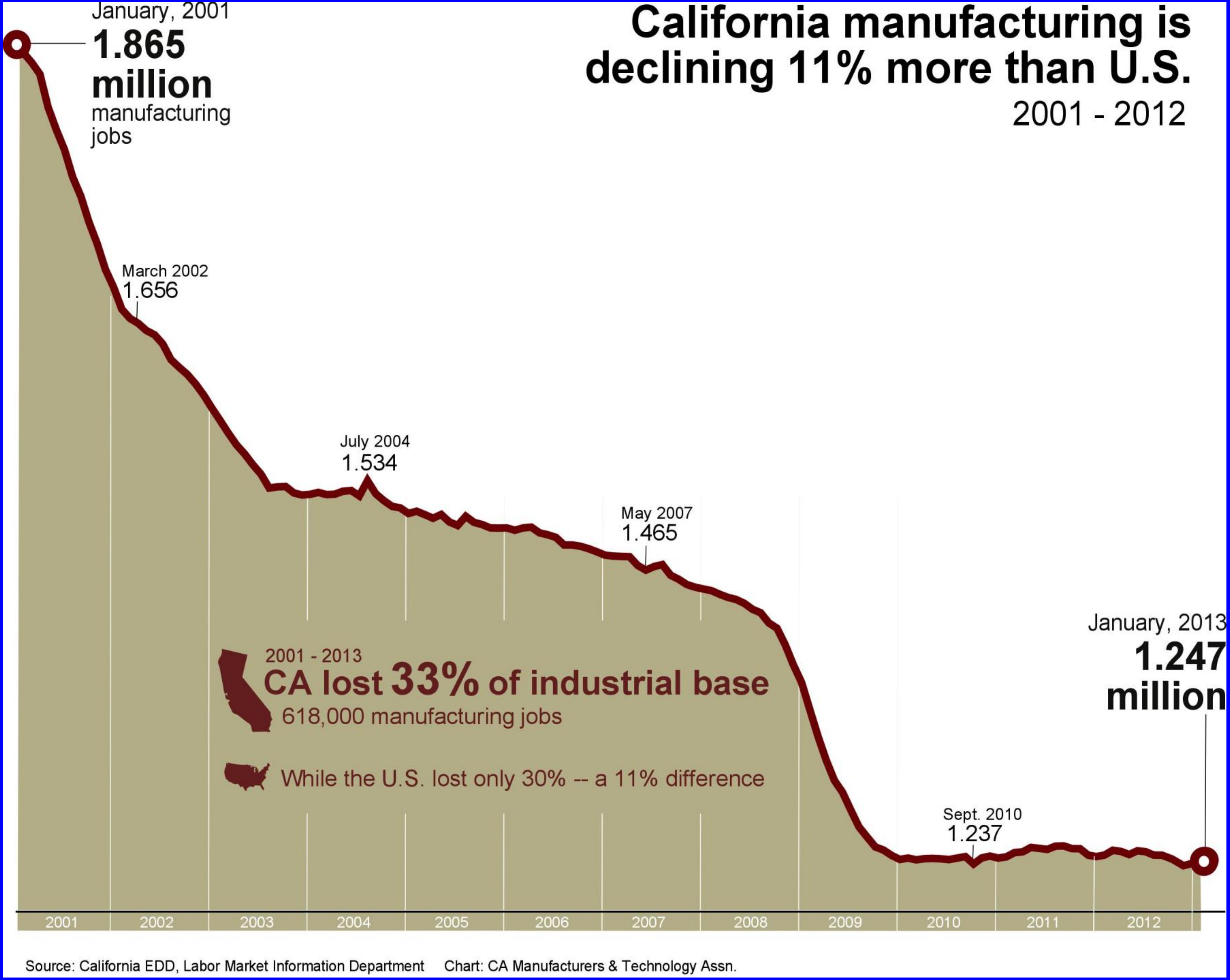


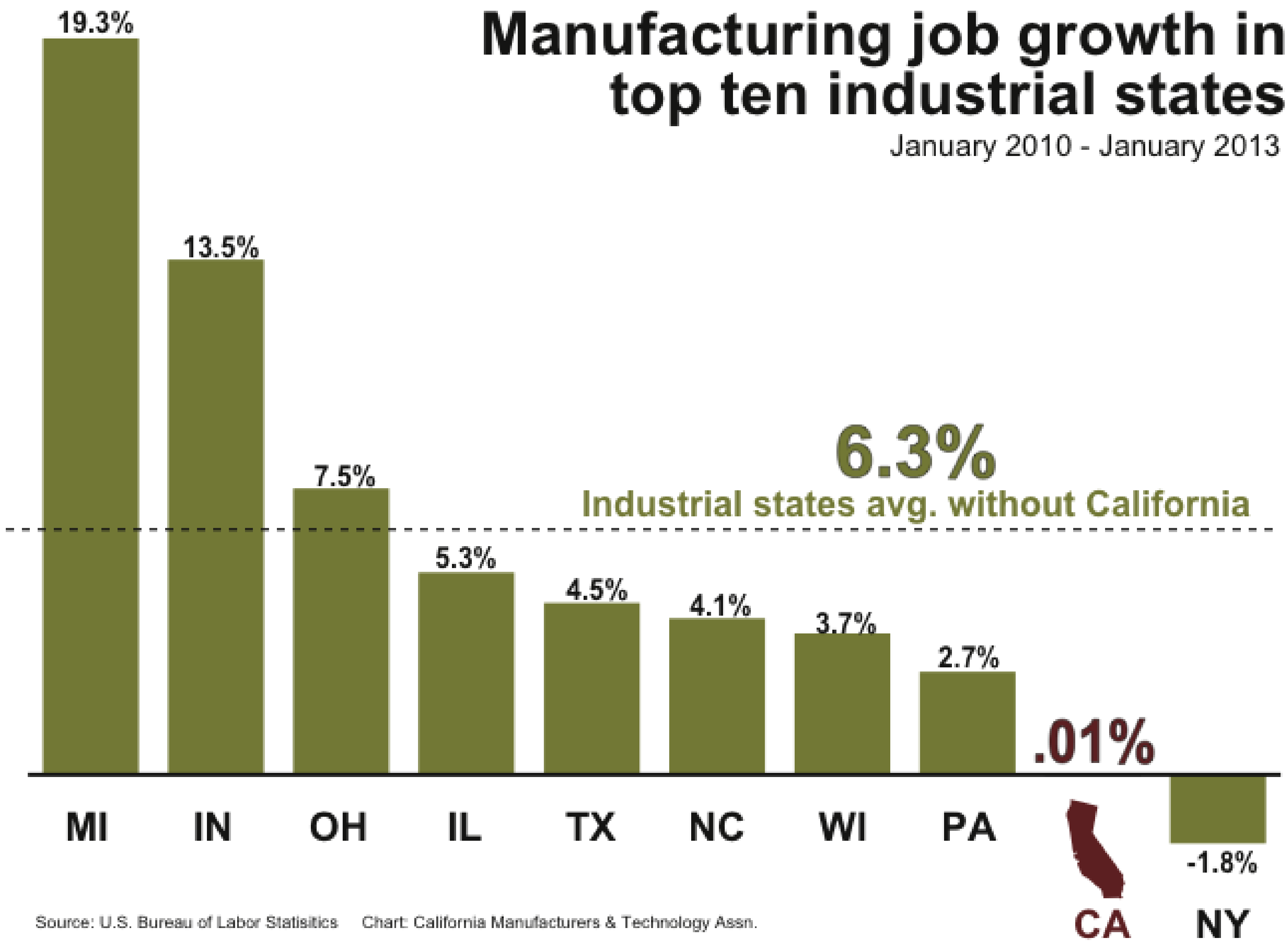
> *I have only a high school diploma, I make $72,000 a year and parts that I help design are on the planet Mars."*
>
> *- Employee at aerospace supplier ACE Clearwater when asked why he works in manufacturing.*

California Manufacturing is Green

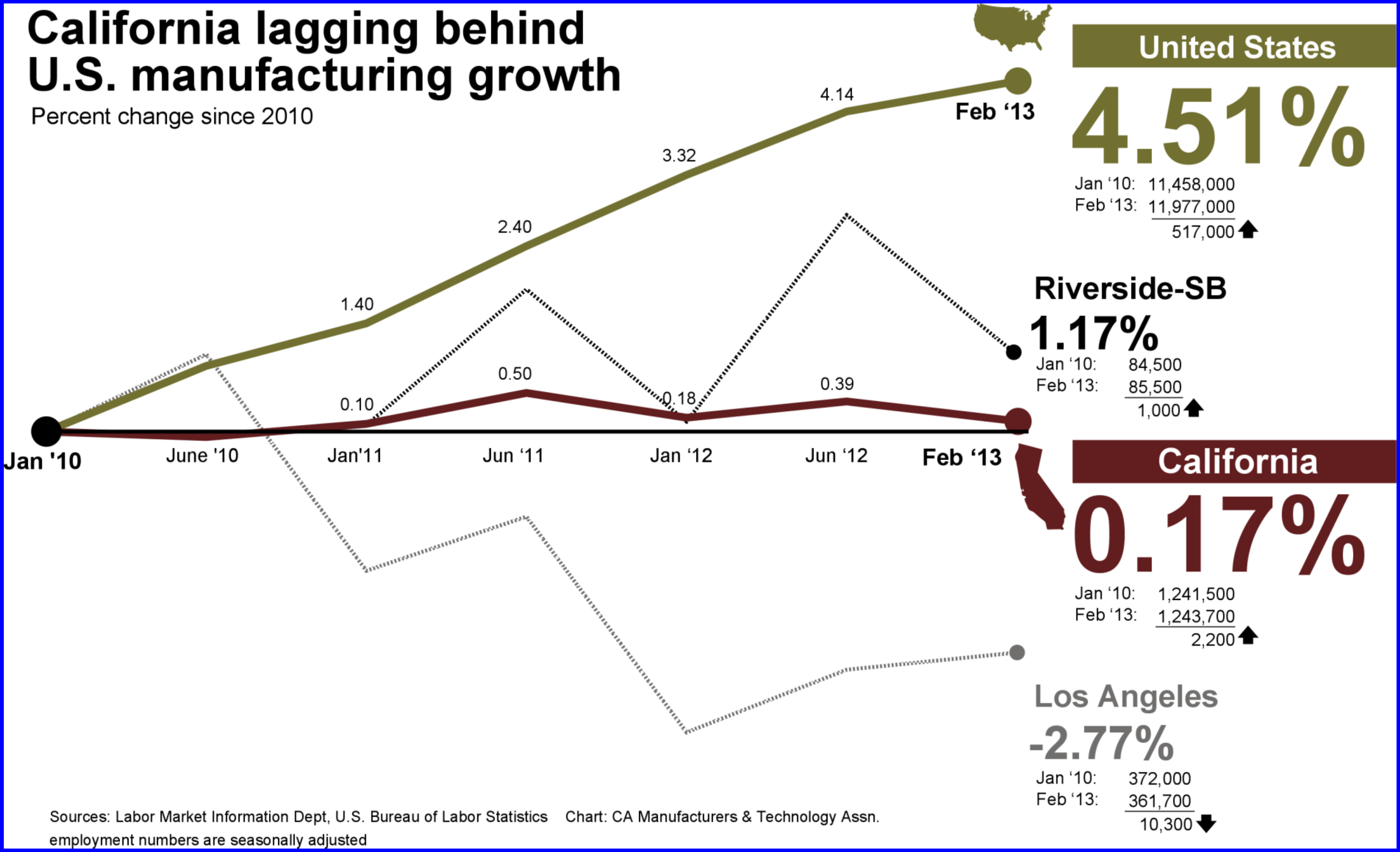


For the last **20 years**, California has been the most efficient industrial state in greenhouse gas emissions per capita.


California manufacturing is declining 11% more than U.S.
2001 - 2012
January, 2001
1.865 million manufacturing jobs
March 2002
1.656
July 2004
1.534
May 2007
1.465
Sept. 2010
1.237
January, 2013
1.247 million
2001 - 2013
CA lost 33% of industrial base
618,000 manufacturing jobs
While the U.S. lost only 30% -- a 11% difference
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Source: California EDD, Labor Market Information Department
Chart: CA Manufacturers & Technology Assn.



Manufacturing job growth in top ten industrial states
January 2010 - January 2013
19.3%
13.5%
7.5%
5.3%
4.5%
4.1%
3.7%
2.7%
.01%
-1.8%
6.3%
Industrial states avg. without California
MI
IN
OH
IL
TX
NC
WI
PA
CA
NY
Source: U.S. Bureau of Labor Statisitics
Chart: California Manufacturers & Technology Assn.



California lagging behind
U.S. manufacturing growth
Percent change since 2010
4.14
Feb '13
3.32
2.40
1.40
0.50
0.10
0.18
0.39
Jan '10
June '10
Jan'11
Jun '11
Jan '12
Jun '12
Feb '13
United States
4.51%
Jan '10: 11,458,000
Feb '13: 11,977,000
517,000
Riverside-SB
1.17%
Jan '10: 84,500
Feb '13: 85,500
1,000
California
0.17%
Jan '10: 1,241,500
Feb '13: 1,243,700
2,200
Los Angeles
-2.77%
Jan '10: 372,000
Feb '13: 361,700
10,300
Sources: Labor Market Information Dept, U.S. Bureau of Labor Statistics Chart: CA Manufacturers & Technology Assn.
employment numbers are seasonally adjusted

Manufacturers have choices

- **Arizona, Nevada, Utah, Texas and others aggressively recruiting our high wage employers.**

"Greater Phoenix Economic Council doubles down in bid to recruit California companies"

Phoenix Business Journal -- November 16, 2012

- **CA high costs, taxes and regulations will continue to pressure manufacturers**

Key Issues for Manufacturing Growth

- **Protect against new taxes and fees**
- **Cap and trade costs (AB 32)**
- **Energy costs**
- **Exempt equipment purchases from sales tax**
- **Protect Enterprise Zones**
- **Worker comp costs**
- **Improve regulatory oversight**
- **<u>More technically skilled workers</u>**

A California Opportunity for Jobs:
The Monterey Shale Oil & Gas Field

- **1750 Sq. Miles**
- **Crude Oil Reserves 4 Times Bigger Than Bakken**
- **1.5 to 2.0 Tcf of Shale Gas**

Source: Energy Information Administration

Source: sfgate.com

The Monterey Shale – Potential State Impacts

More than 15 billion barrels of oil

Per capita GDP increase by 2.6% to 14.3%

Personal incomes up by an average of 2.1% to 10.0%

State & local tax revenues up by $4.5 billion to $24.6 billion

Increased economic activity:

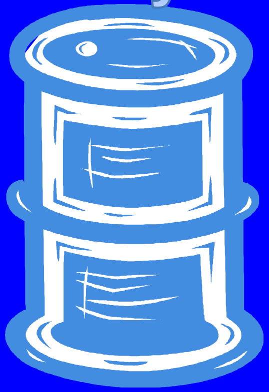
- Oil industry and every sector of supply-chain
- Consumer spending
- Jobs in every category
- Skilled workers migrating to California

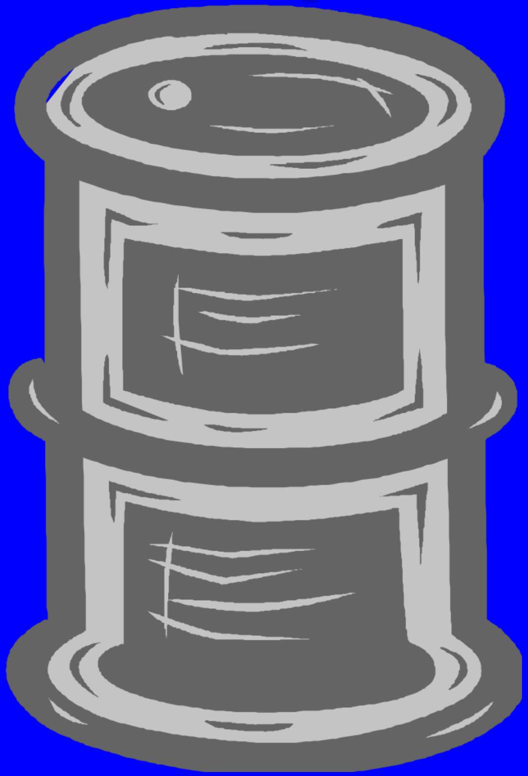
USC Global Energy Network Study

The Monterey Shale: New Jobs for California

2,815,800 New Jobs by 2020

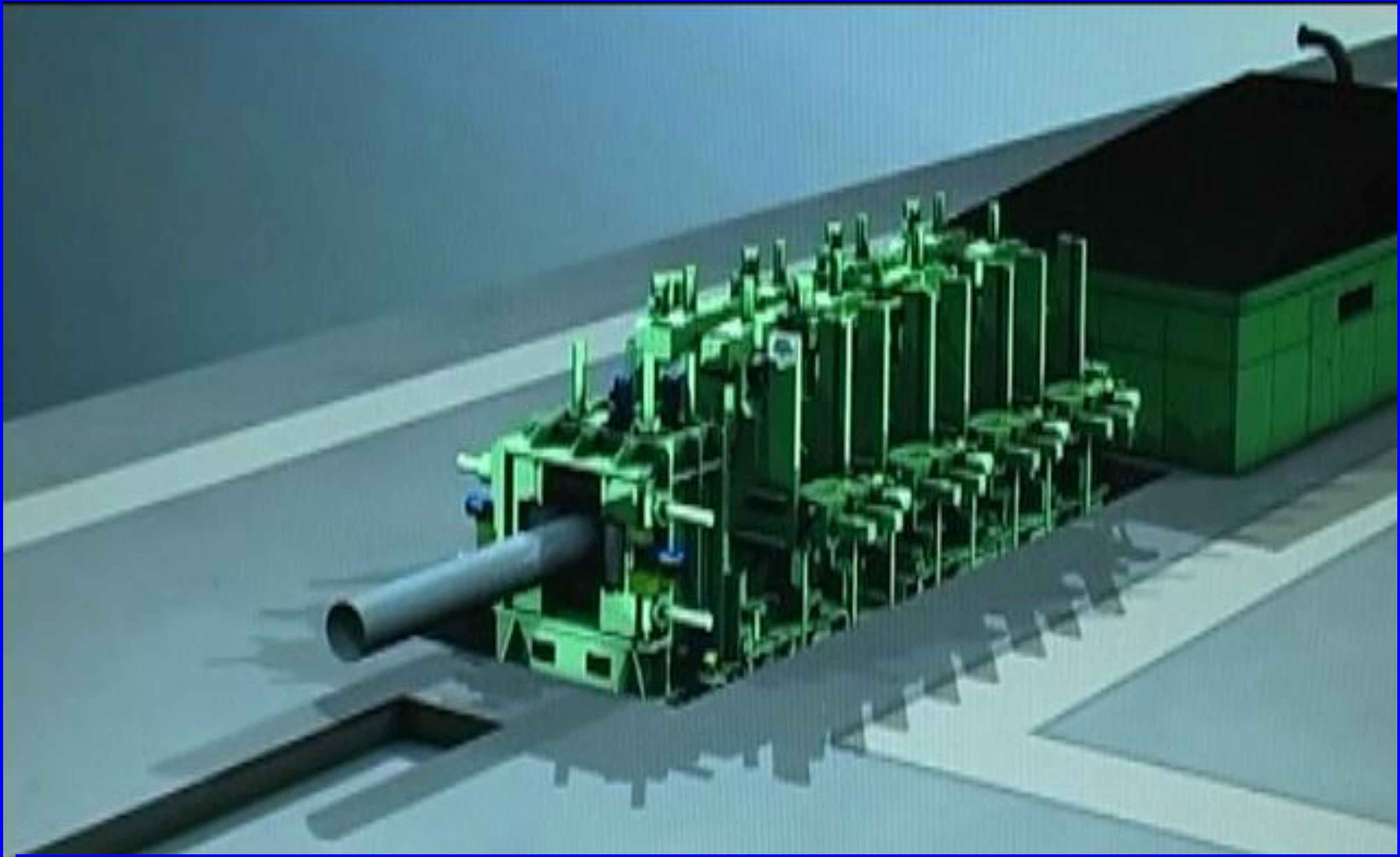
512,000 New Jobs by 2015





Source: The USC Global Energy Network

California Steel (CSI) Pipe Ready to Ship



Artists Conception, CSI's New $100 Million Pipe Mill, Currently Under Construction

Summary:

Manufacturing jobs are needed

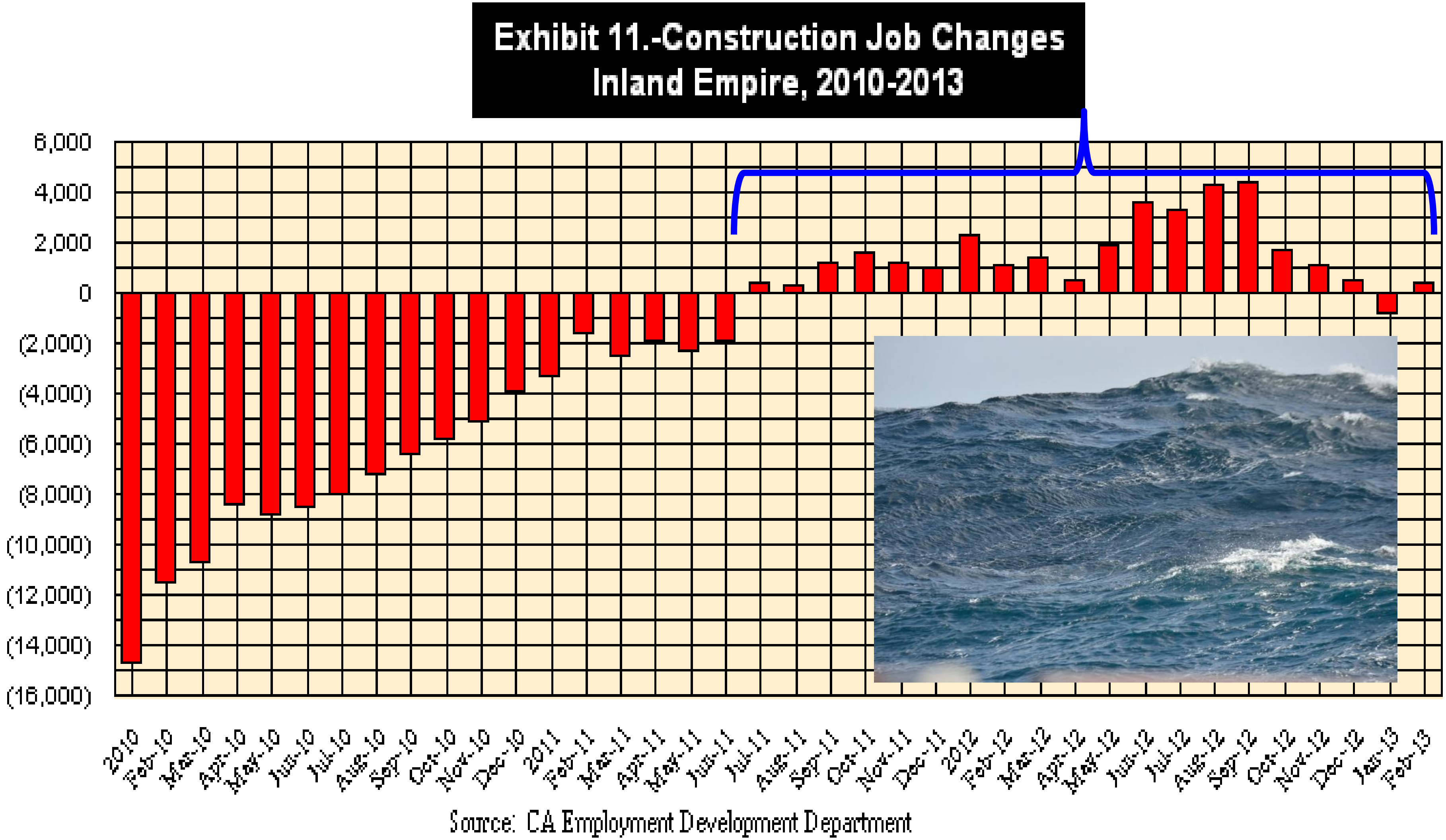
The State must review its policies

Technical skills are critical

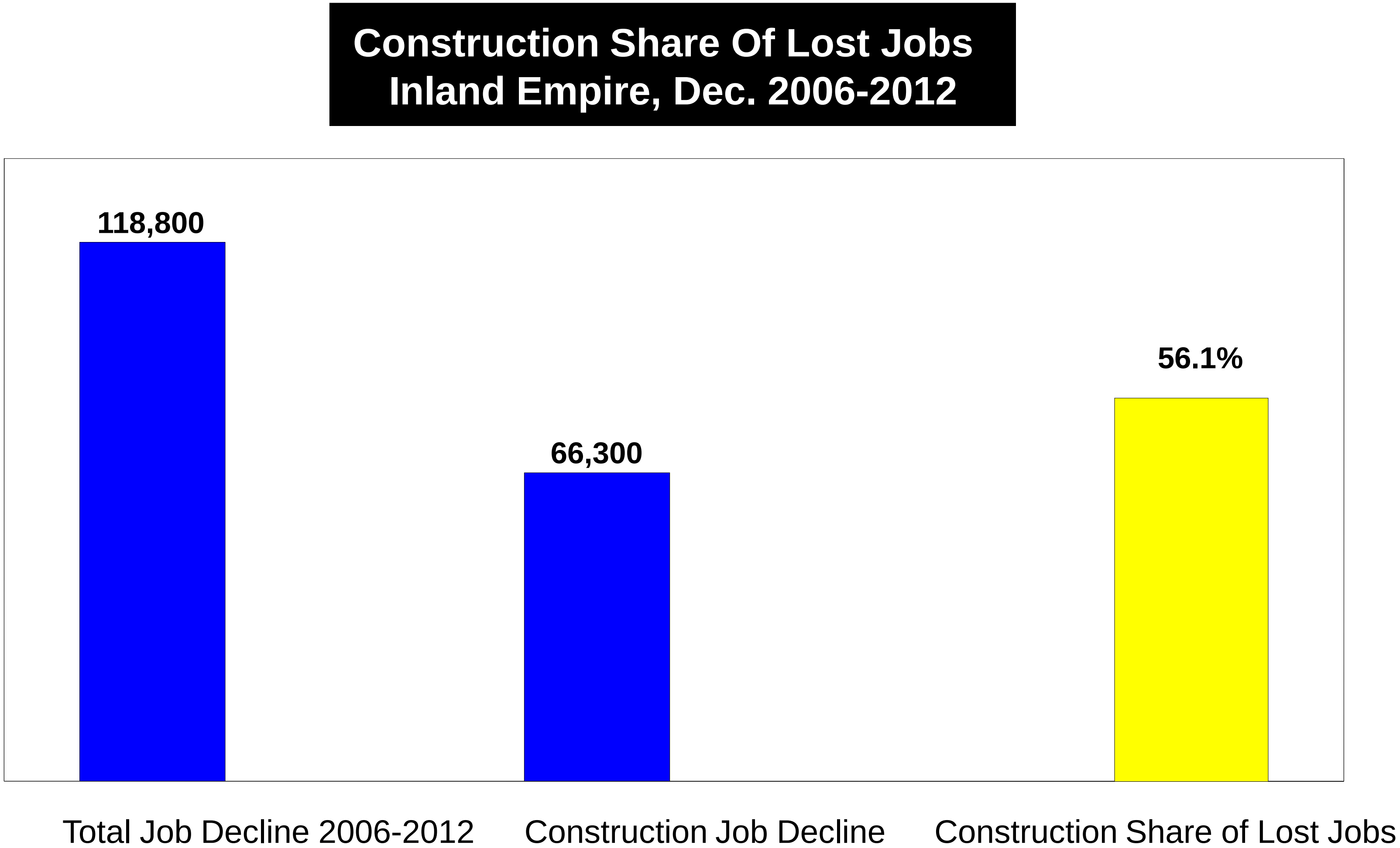
Monterey Shale oil and gas can be an igniter for growth

Construction: Finally Some Hope

Construction Jobs: Finally Growth



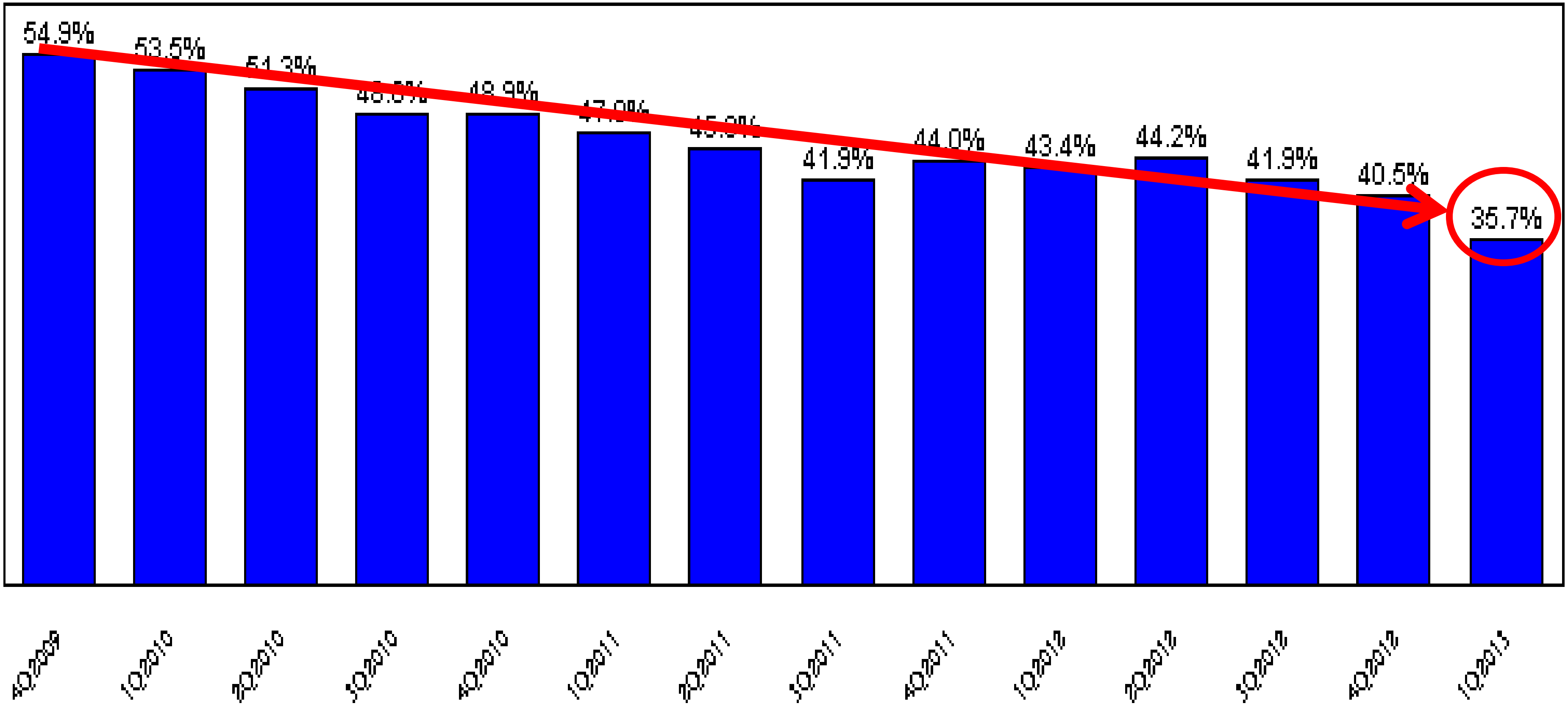
Construction Share of Lost Jobs



Source: CA Employment Development Department

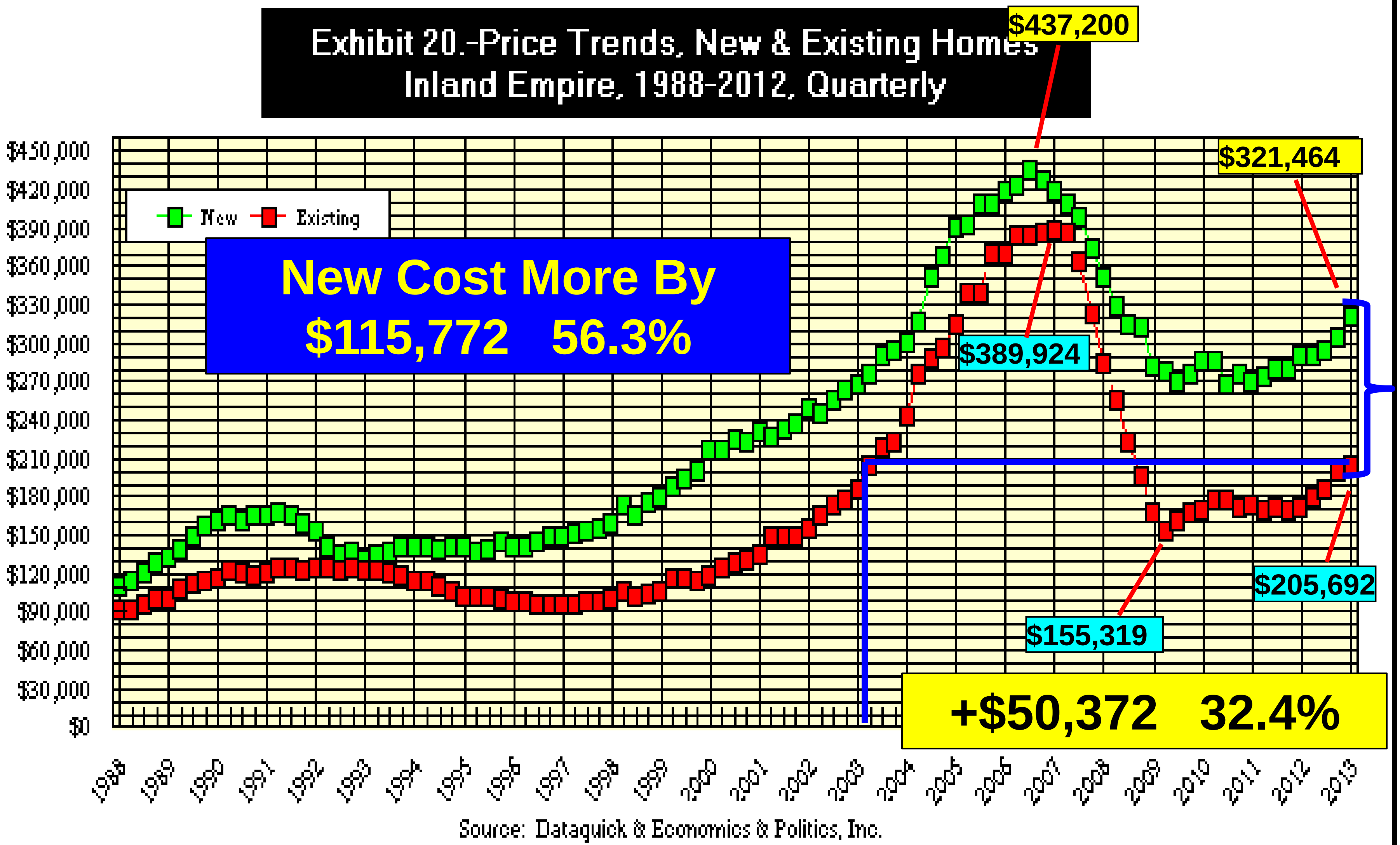
Share of Underwater Homes Falling

Exhibit 17.-Share of Mortgages Underwater
Inland Empire, 4th 2009 - 1Q2013

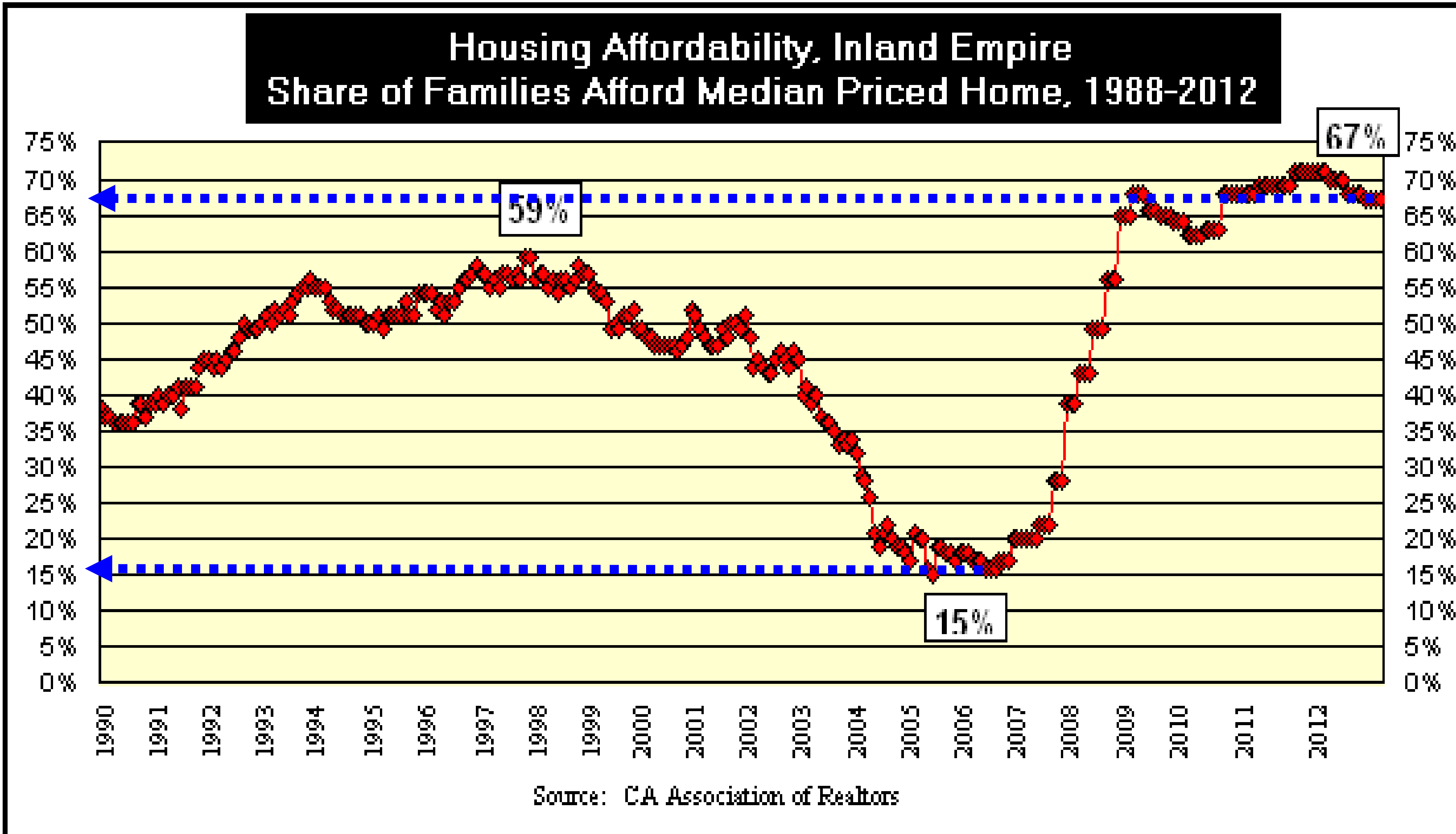


Source: CoreLogic

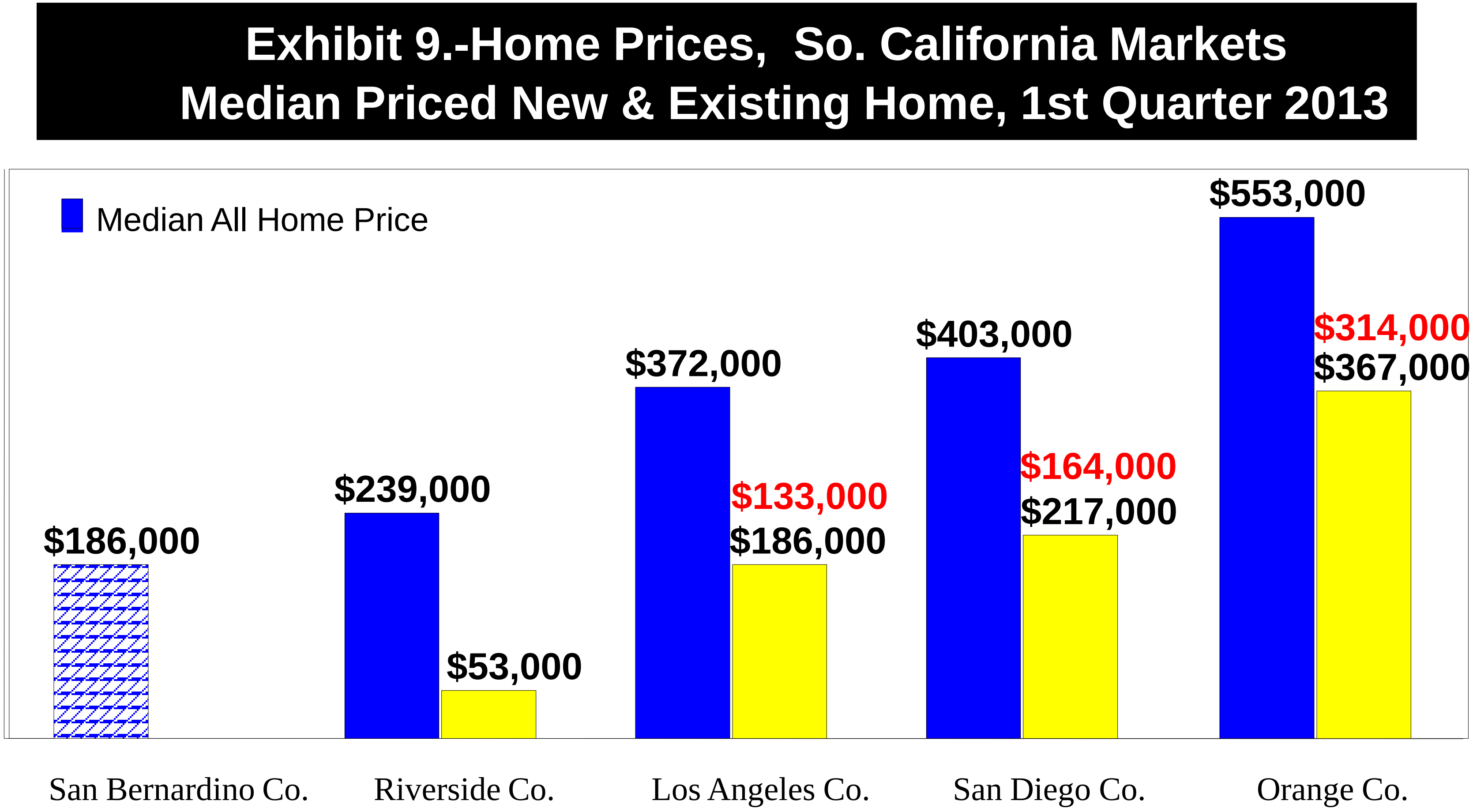
Home Prices Rising!



Record Inland Housing Affordability <u>Should Be</u> Stimulating Demand

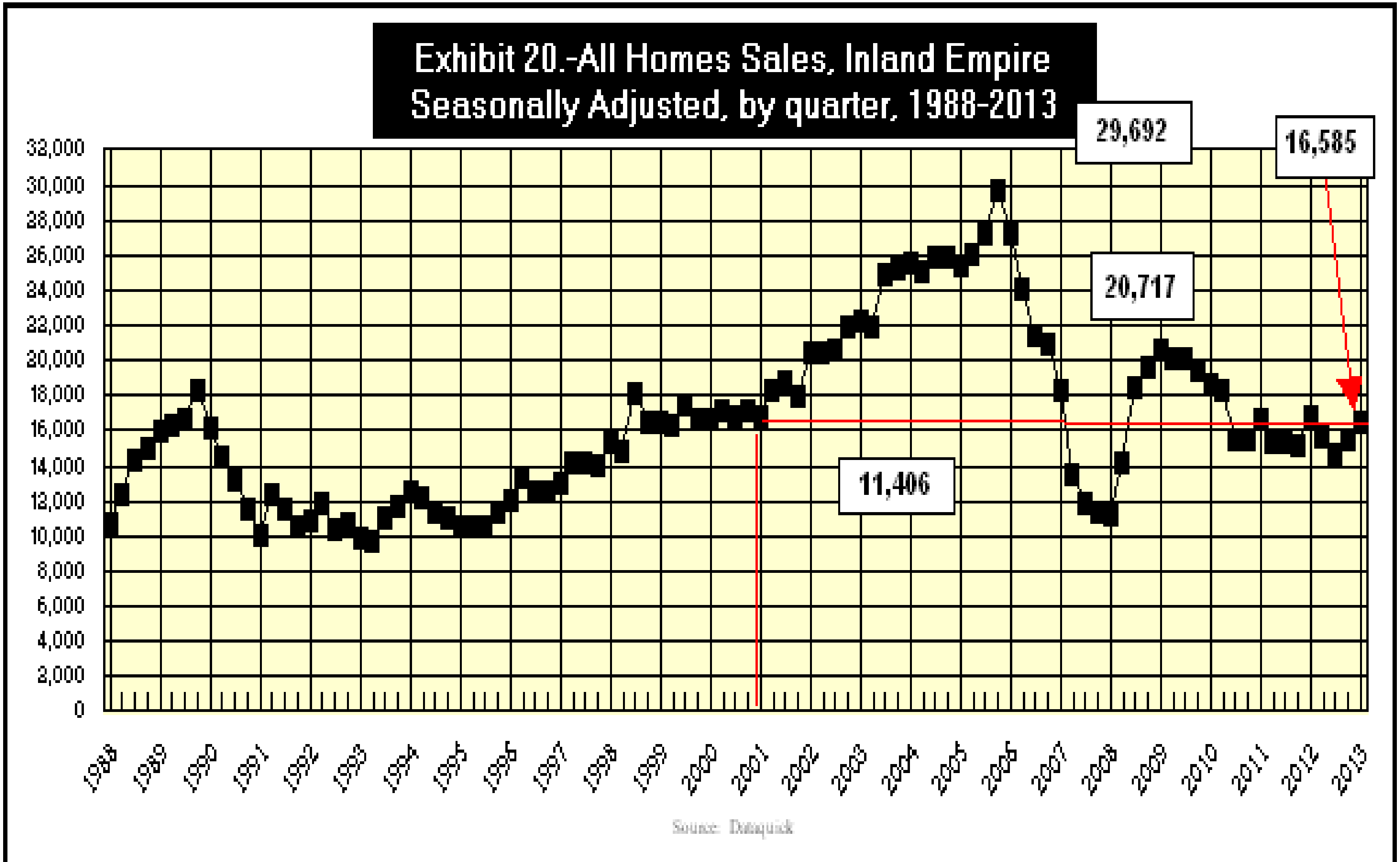


Inland Empire's Long Term Price Competitive Advantage Still Exists



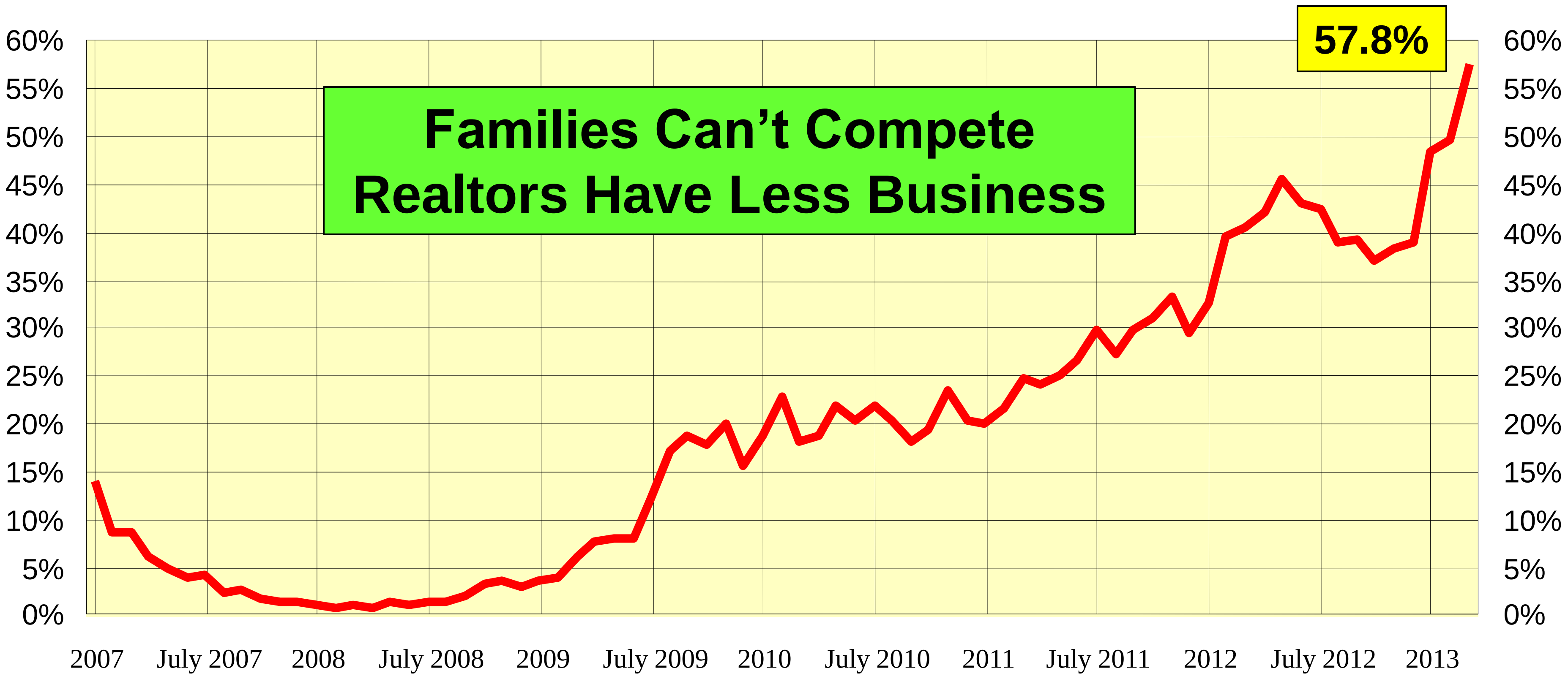
Source: Dataquick & Zillow.com

Home Sales Volume Up Slightly



Investor Pre-Market Home Buying

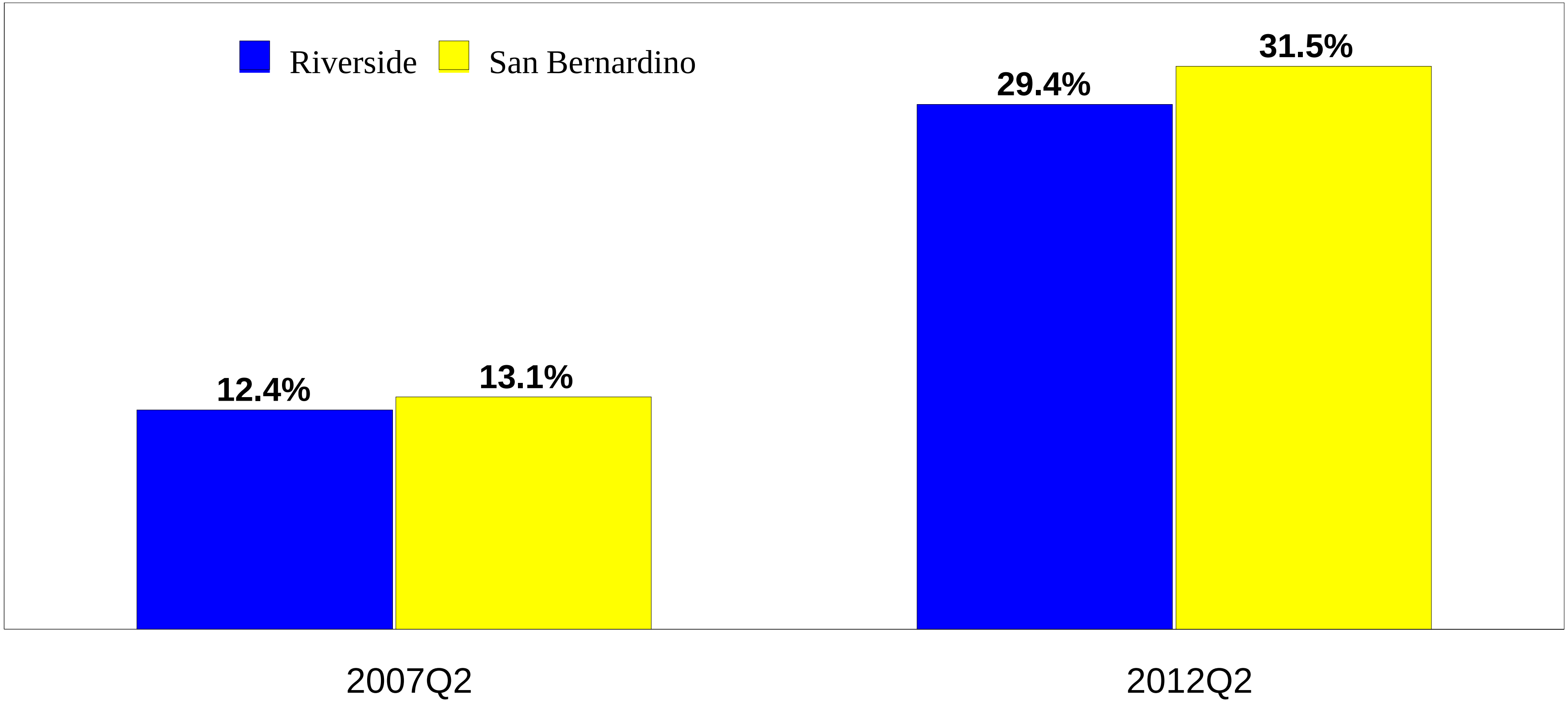
Exhibit 12.-Direct Investor Purchase of Foreclosure Sales
Inland Empire, 2007-2013



Source: Foreclosureradar.com

Investor Purchases of Homes

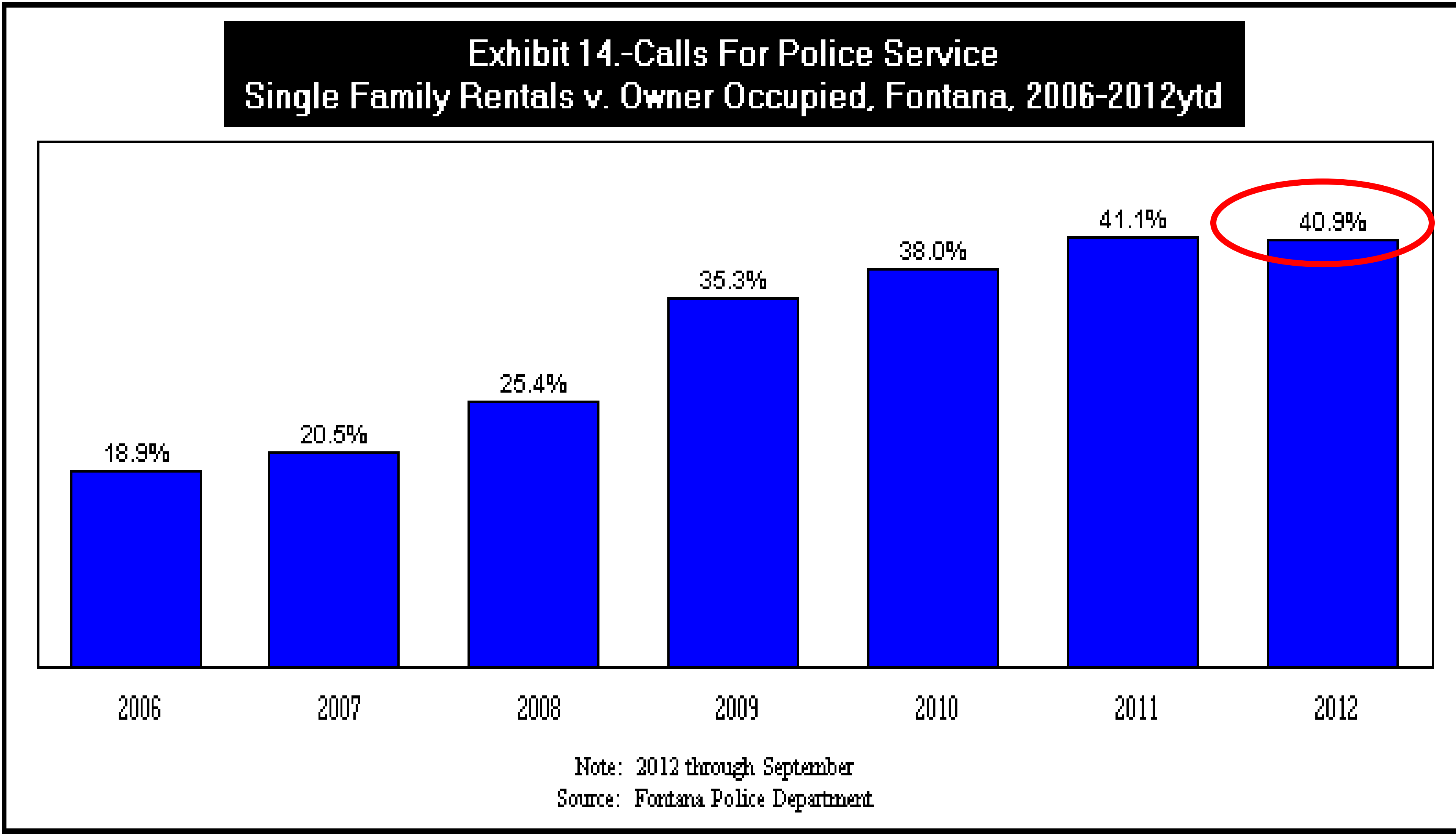
Exhibit .-Share of Home Sold to Absentee Owners
Inland Empire, Second Quarter 2007 vs. 2012



Source: Dataquick

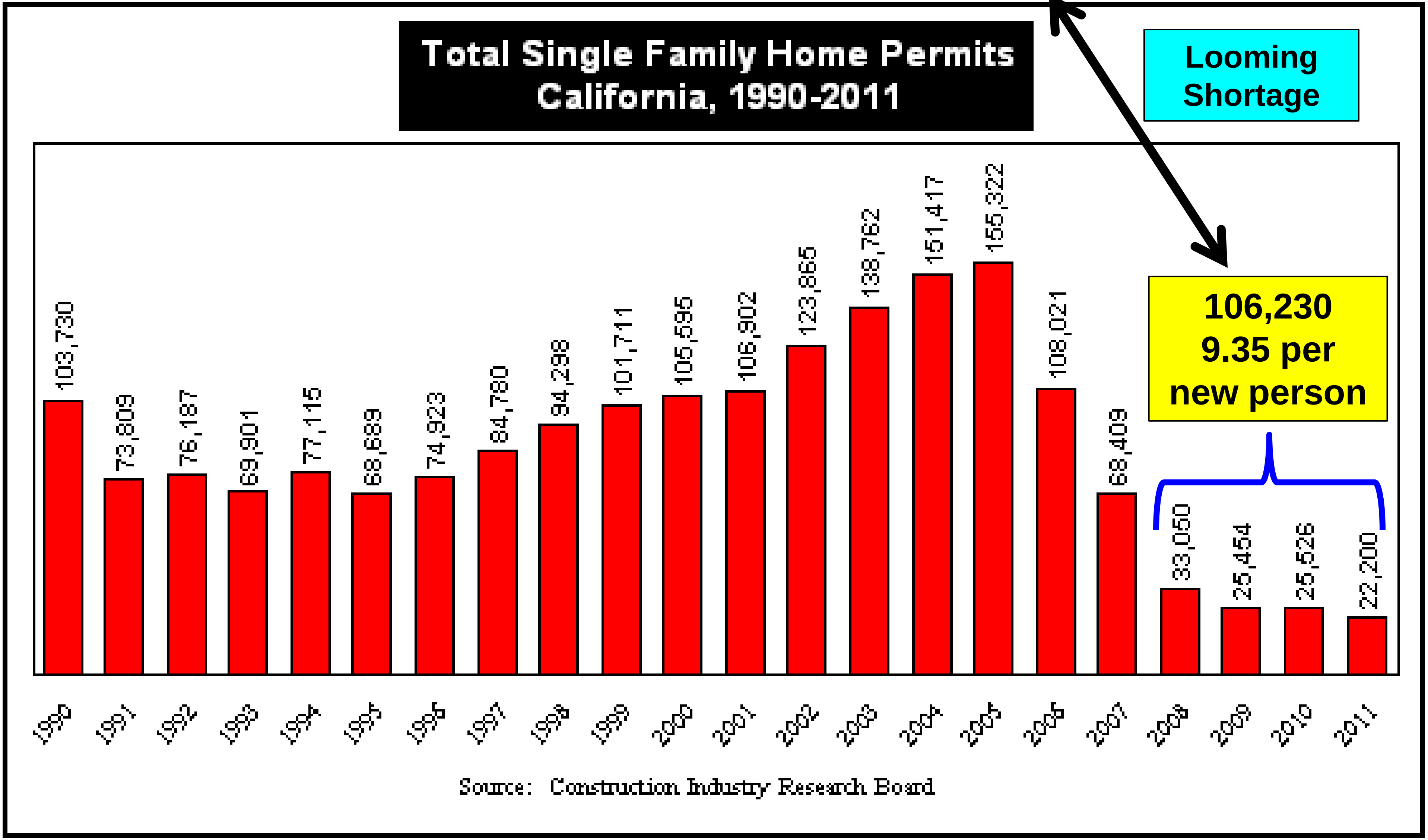
How Much Higher Is The Likelihood of Calls for Police Service?

Single Family Rental v. Owner Occupied



How This Ends: A Housing Shortage

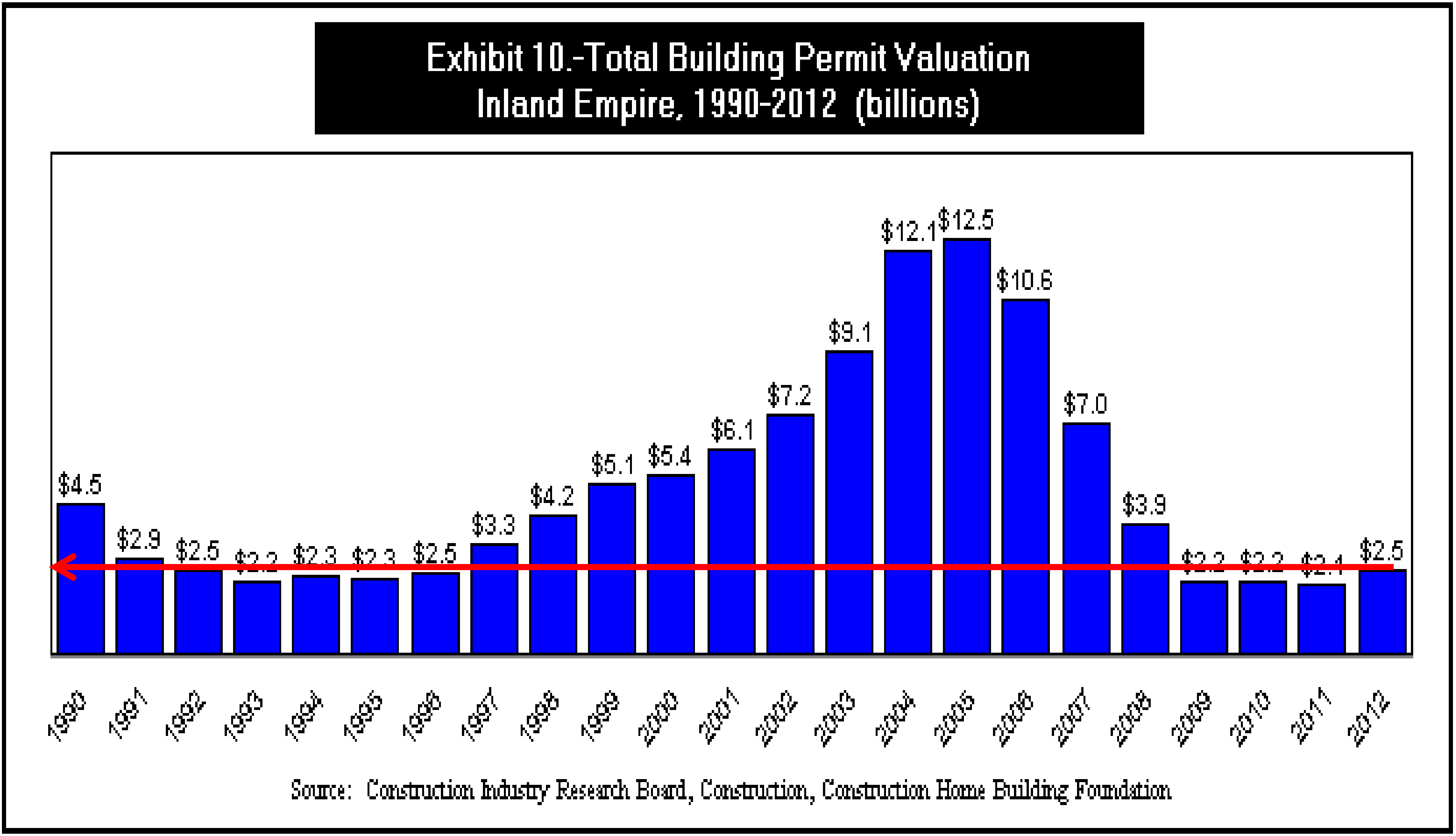
During 2008 thru 2012
California Population Grew by 993,624



When Underwater Homes Won't Be Underwater Any Longer @ 9.2% Price Increase

Sep-2013	12.7%
Mar-2014	35.7%
Mar-2015	50.0%
Apr-2017	60.0%

Total Building Permits Still In The Doldrums



Real Estate

Century 21
Lois Lauer Realty

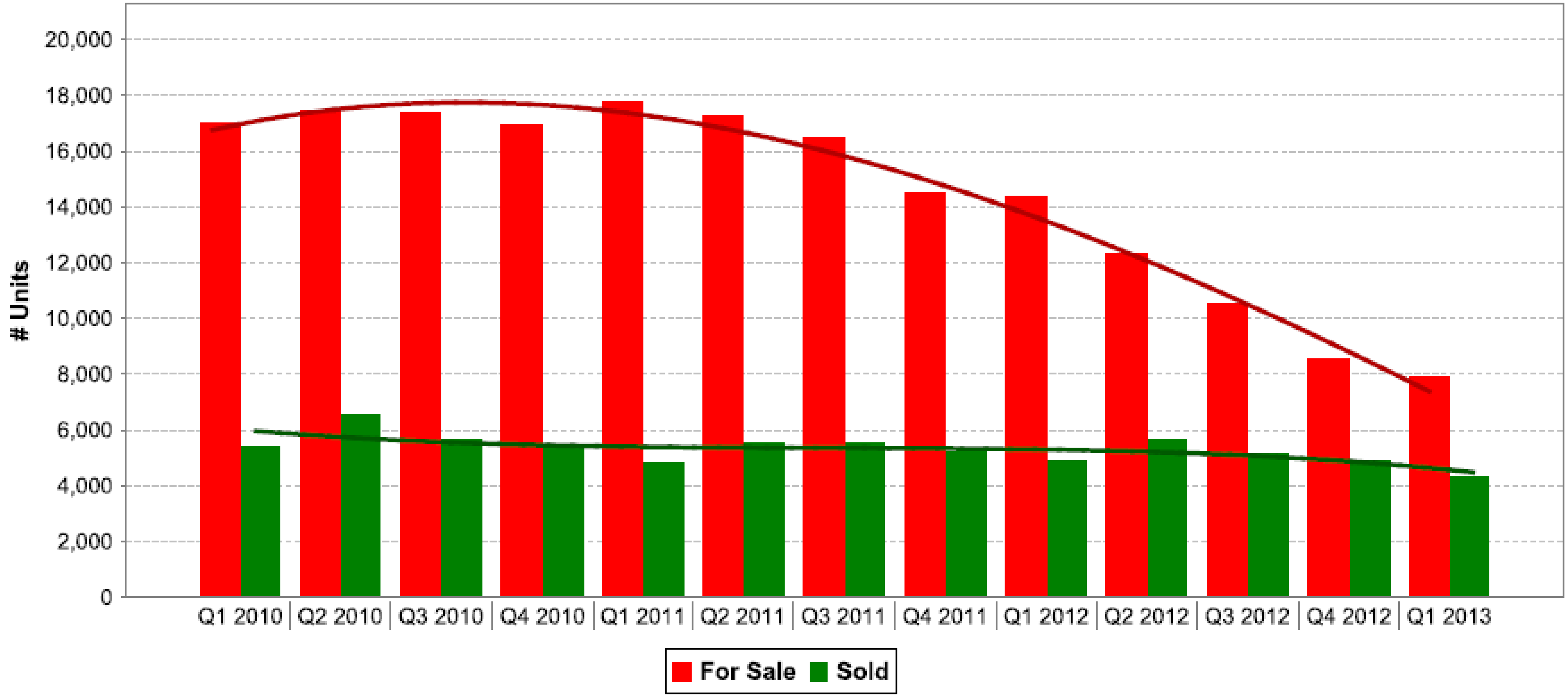
Dave Coy, President,
Lois Lauer Real Estate

Century 21 Lois Lauer Realty

Market Dynamics

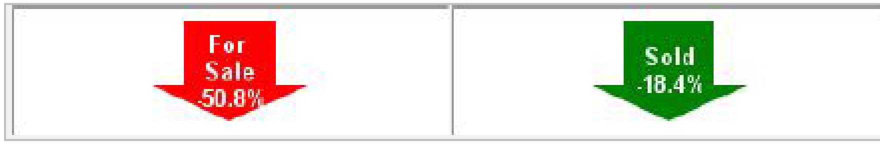
Supply & Demand - # Units (FS, Sold)

Q1 2010 through Q1 2013



KEY INFORMATION

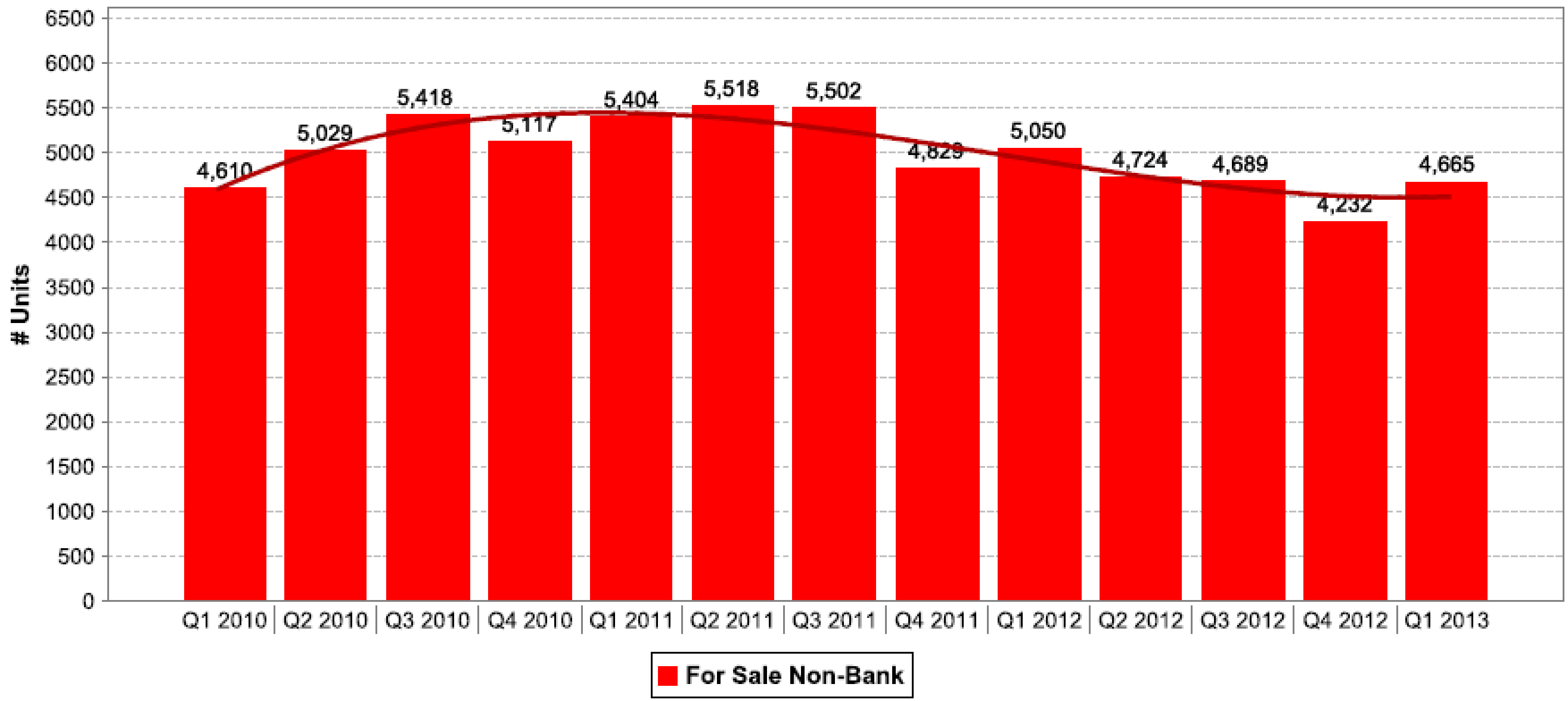
	Quarterly Change	Quarterly %	Total Change	Total % Change
For Sale	-822.57	-4.23	-9,870.83	-50.81
Sold	-89.63	-1.54	-1,075.58	-18.43



MLS:	CRMLS	Period:	3 Years (Quarterly)	Price:	All	Construction Type:	All	Bedrooms:	All	Bathrooms:	All	Lot Size:	All
Property Types:	Residential: (Single Family Residence)											Sq Ft:	All
Inland Empire:	Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona												

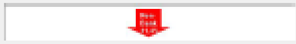
Century 21 Lois Lauer Realty

Market Dynamics
For Sale # Units (Non-Bank)
Q1 2010 through Q1 2013



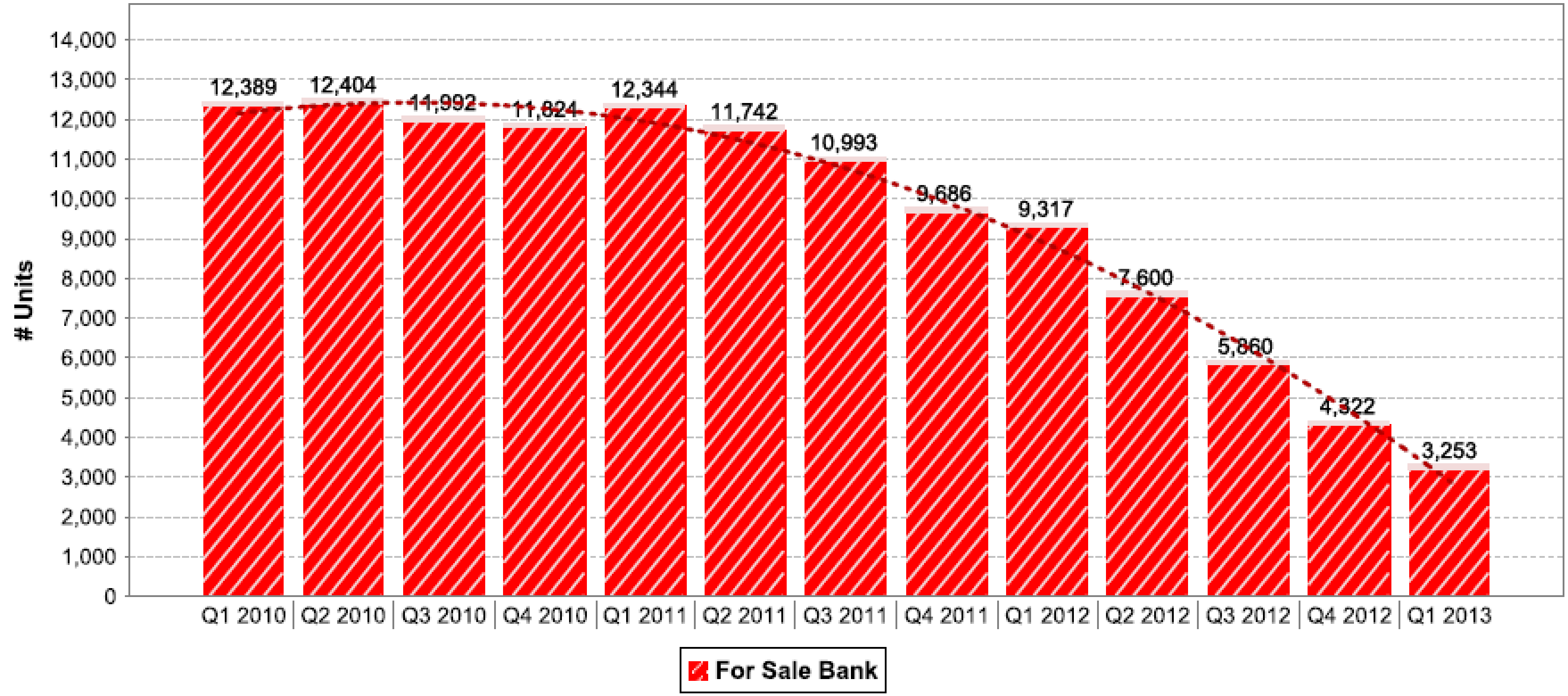
KEY INFORMATION

	Quarterly Change	Quarterly % Change	Total Change	Total % Change
Non-Bank	-50.33	-0.95	-603.99	-11.43



MLS: CRMLS Period: 3 Years (Quarterly) Price: All Construction Type: All Bedrooms: All Bathrooms: All Lot Size: All
Property Types: Residential: (Single Family Residence) Sq Ft: All
Inland Empire: Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona

Market Dynamics
For Sale # Units (Bank)
Q1 2010 through Q1 2013



KEY INFORMATION

	Quarterly Change	Quarterly % Change	Total Change	Total % Change
Bank	-772.24	-5.46	-9,266.84	-65.53

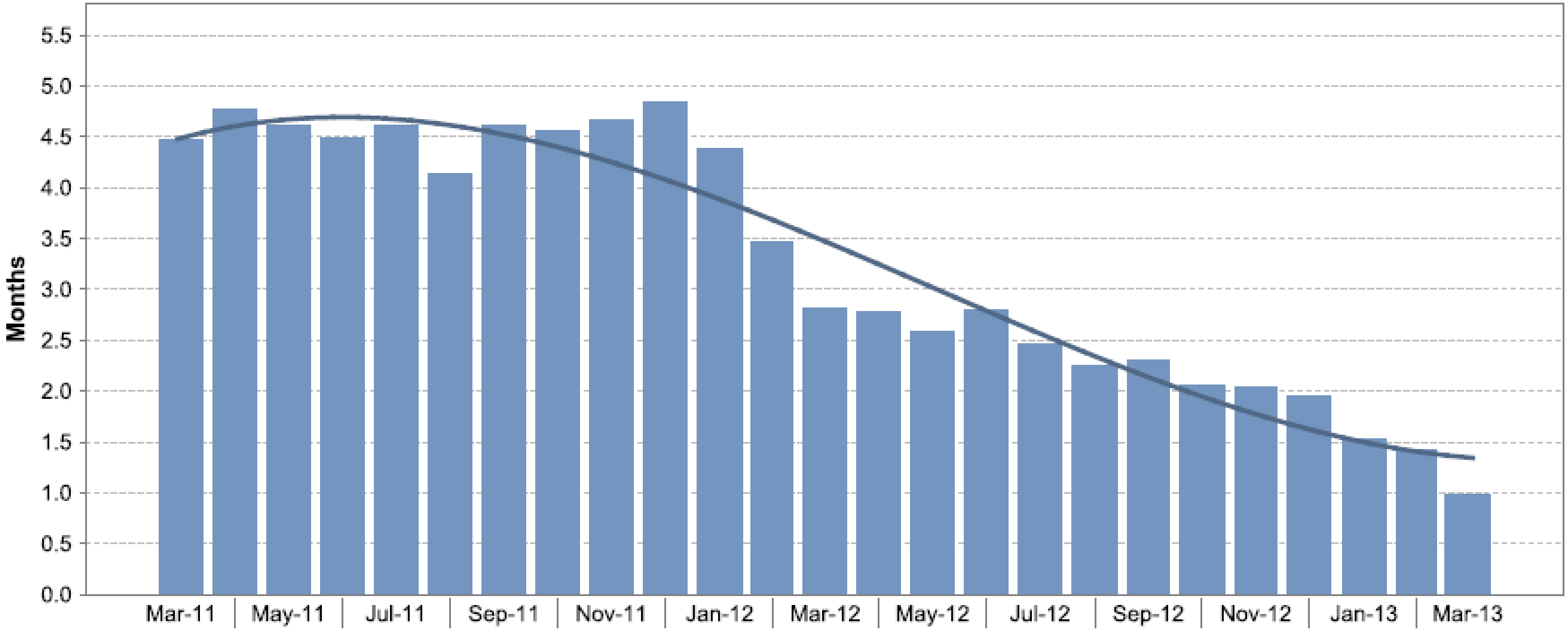
MLS:	CRMLS	Period:	3 Years (Quarterly)	Price:	All	Construction Type:	All	Bedrooms:	All	Bathrooms:	All	Lot Size:	All
Property Types:		Residential: (Single Family Residence)										Sq Ft:	All
Inland Empire:		Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona											

Market Dynamics

Century 21 Lois Lauer Realty

Months Supply of Inventory (UC Calculation) (All)

2 Years (Monthly) 03/01/11 - 03/31/13



KEY INFORMATION

	Monthly Change	Monthly % Change	Total Change	Total % Change
All	-0.16	-3.12	-3.91	-74.84

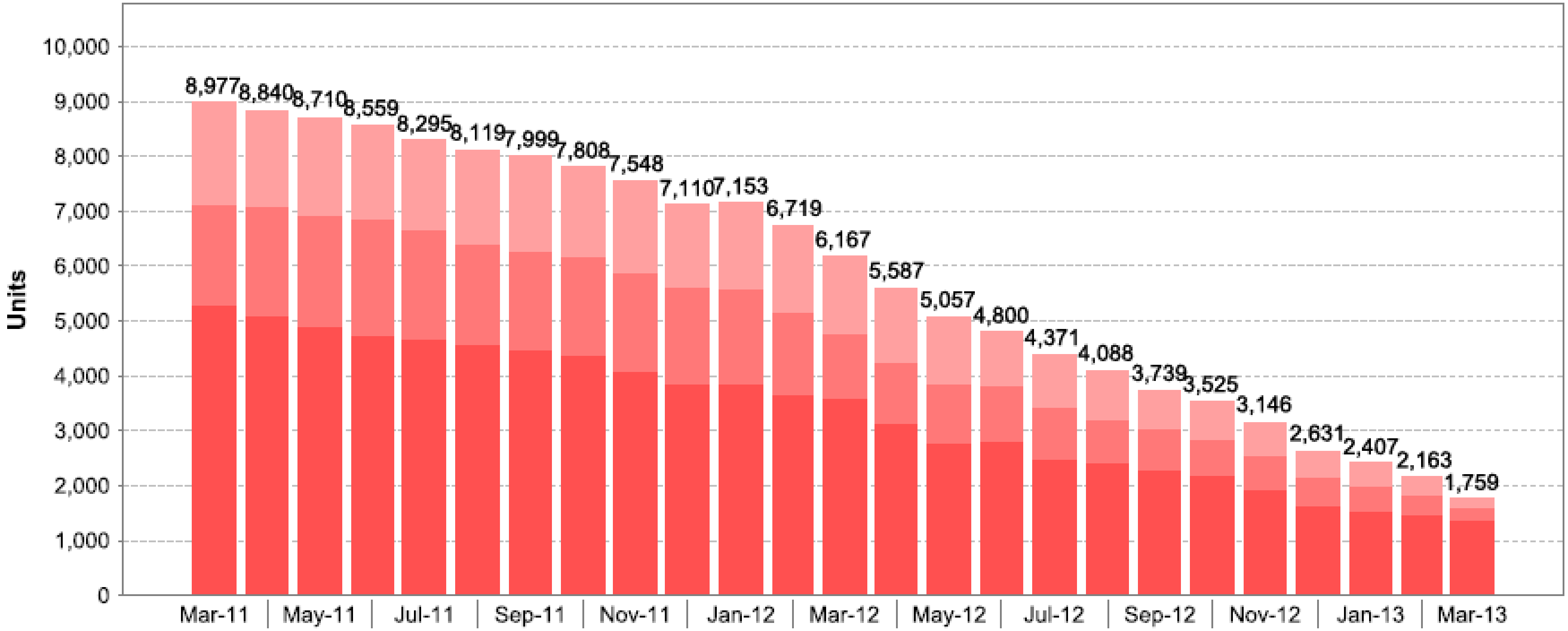
MLS:	CRMLS	Period:	2 Years (Monthly)	Price:	All	Construction Type:	All	Bedrooms:	All	Bathrooms:	All	Lot Size:	All
Property Types:	Residential: (Single Family Residence)											Sq Ft:	All

Inland Empire: Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona

Market Dynamics

CDOM Breakout (For Sale Last Day of the Month)

2 Years (Monthly) 03/01/11 - 03/31/13



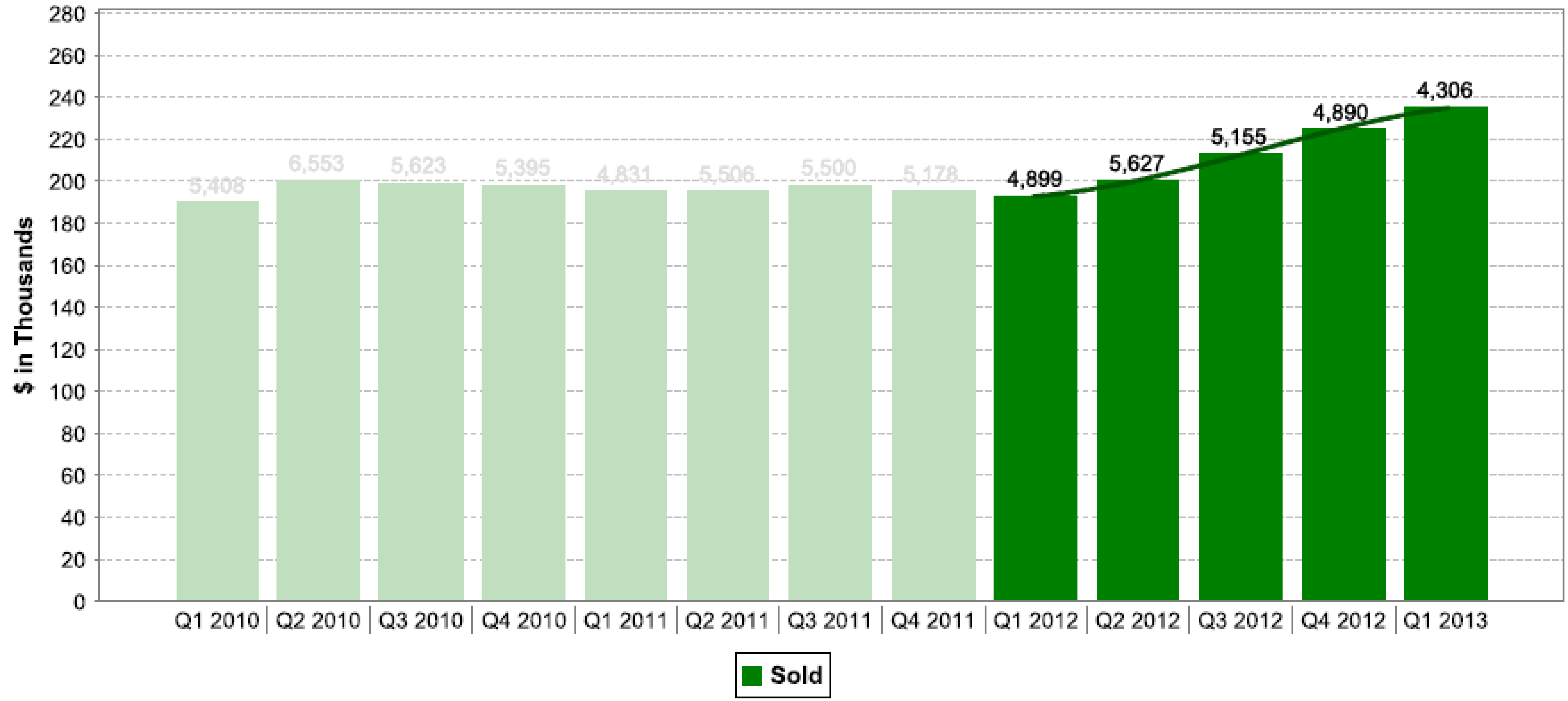
KEY INFORMATION

	Monthly Change	Monthly %	Total Change	Total % Change
0-90 CDOM	-170.67	-3.19	-4,096.15	-76.54
91-180 CDOM	-80.74	-3.59	-1,937.85	-86.13
181+CDOM	-70.25	-3.38	-1,686.02	-81.06

MLS: CRMLS	Period:	2 Years (Monthly)	Price:	All	Construction Type:	All	Bedrooms:	All	Bathrooms:	All	Lot Size:	All
Property Types:	Residential: (Single Family Residence)										Sq Ft:	All

Inland Empire: Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona

Market Dynamics
Median Price (Sold)
Q1 2012 through Q1 2013

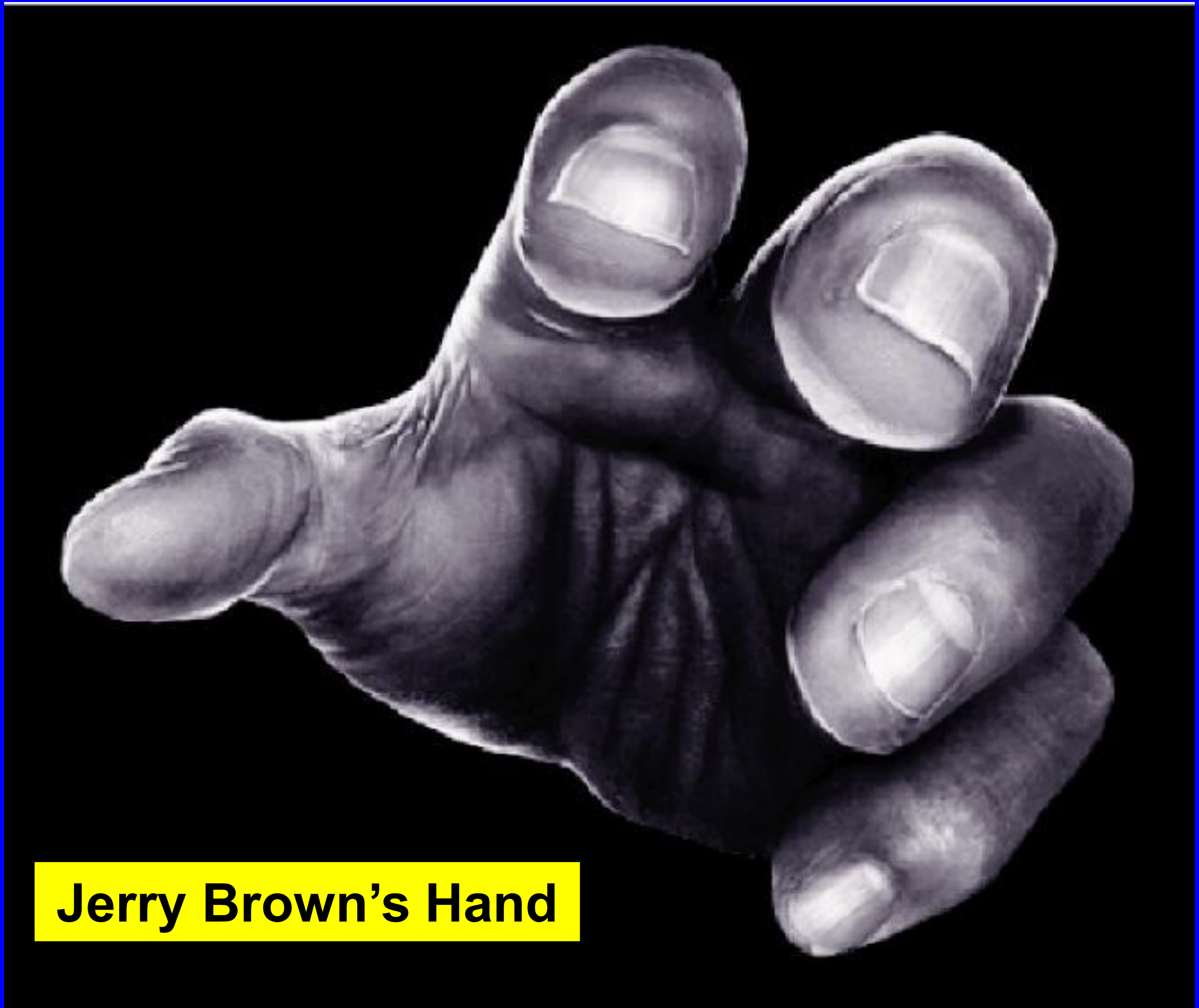


KEY INFORMATION

	Quarterly Change	Quarterly % Change	Total Change	Total % Change
Sold	10,900.89	5.69	43,603.57	22.77

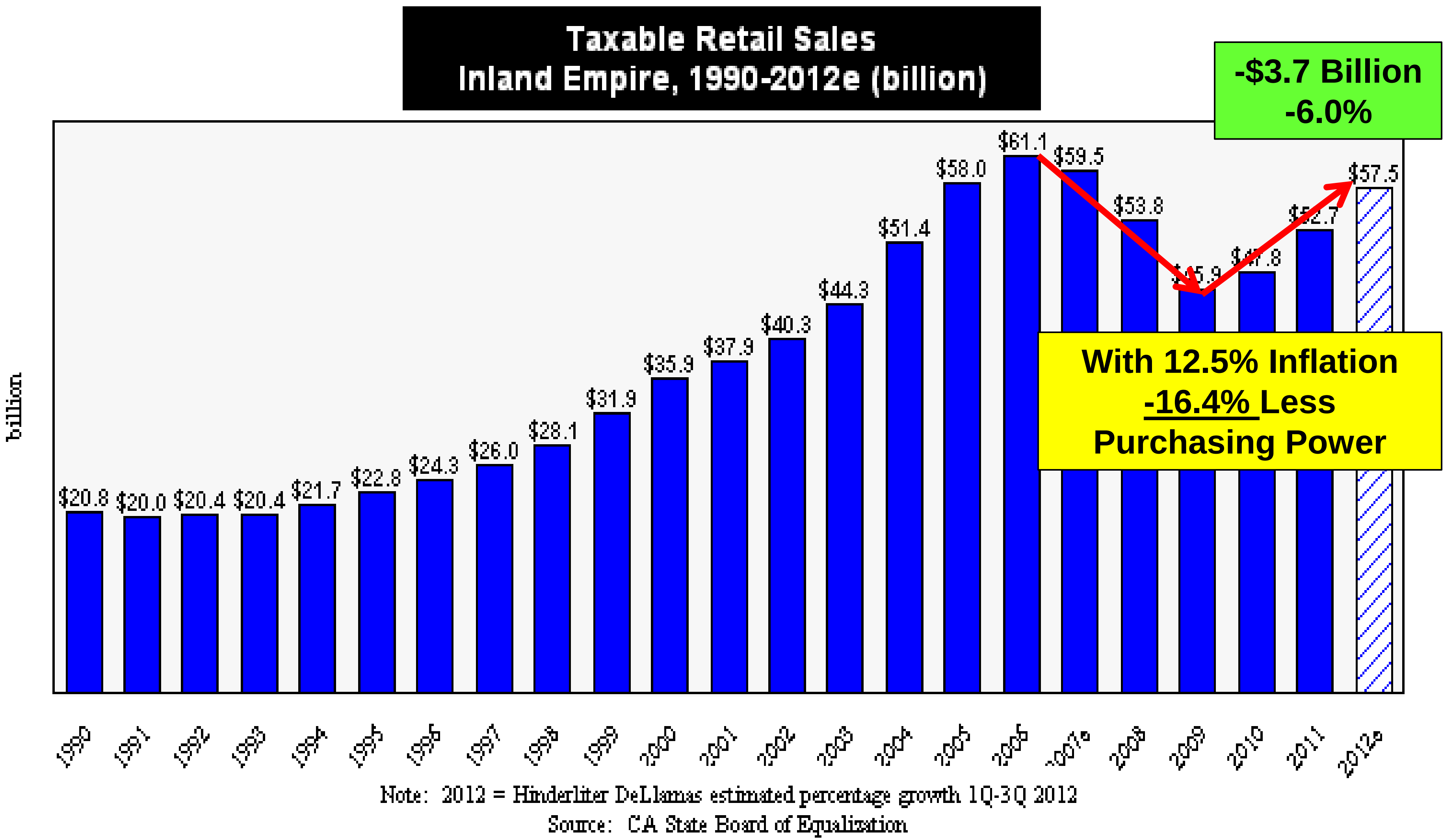
MLS: CRMLS Period: 3 Years (Quarterly) Price: All Construction Type: All Bedrooms: All Bathrooms: All Lot Size: All
Property Types: Residential: (Single Family Residence) Sq Ft: All
Inland Empire: Yucaipa, Grand Terrace, Mentone, Riverside, Fontana, Rancho Cucamonga, Redlands, Bloomington, Moreno Valley, San Bernardino, Rialto, Devore, Loma Linda, Ontario, Colton, Highland, Corona

California Grabbing Money From Local Government … School Funding Cut

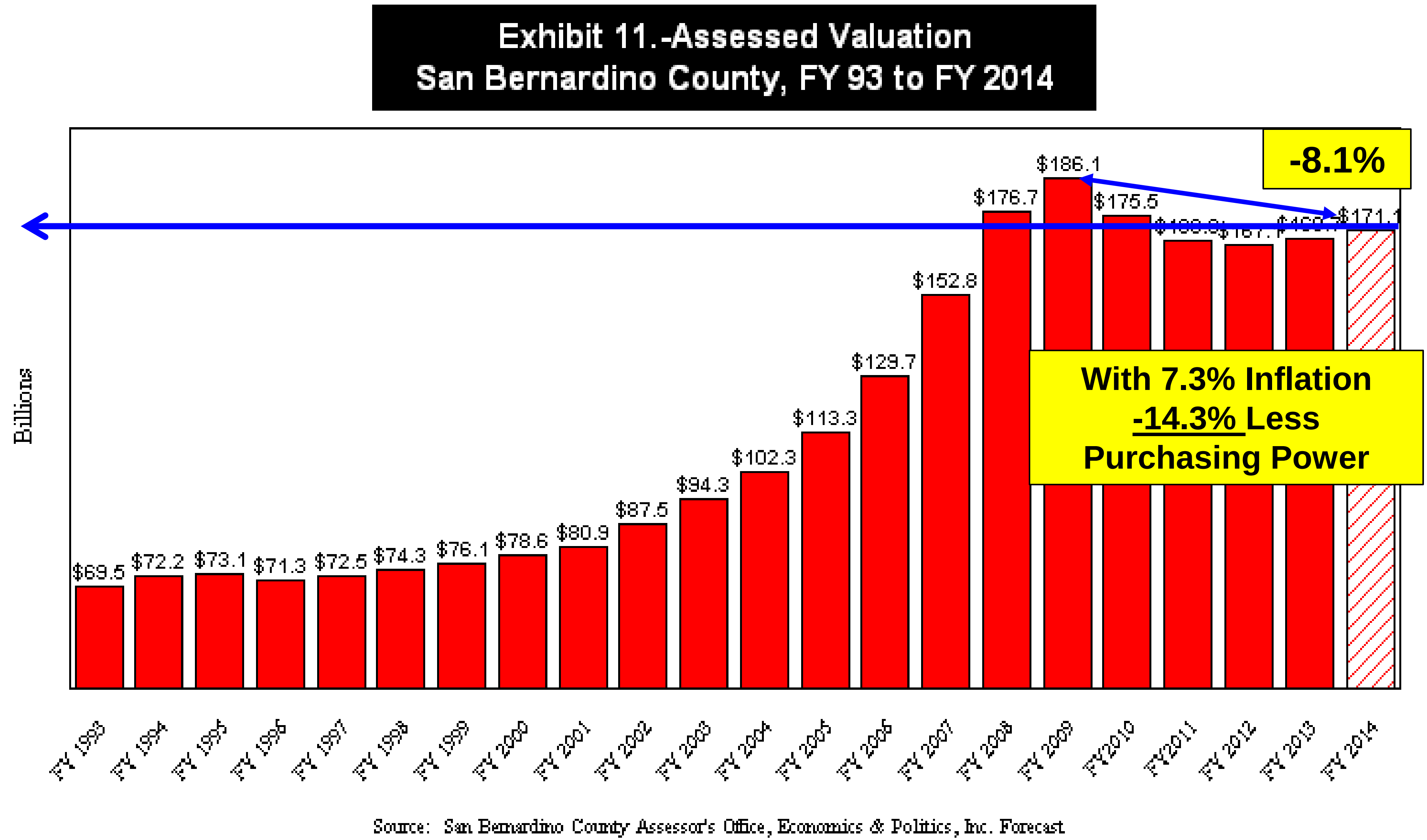



Sequester
Federal Job Cuts

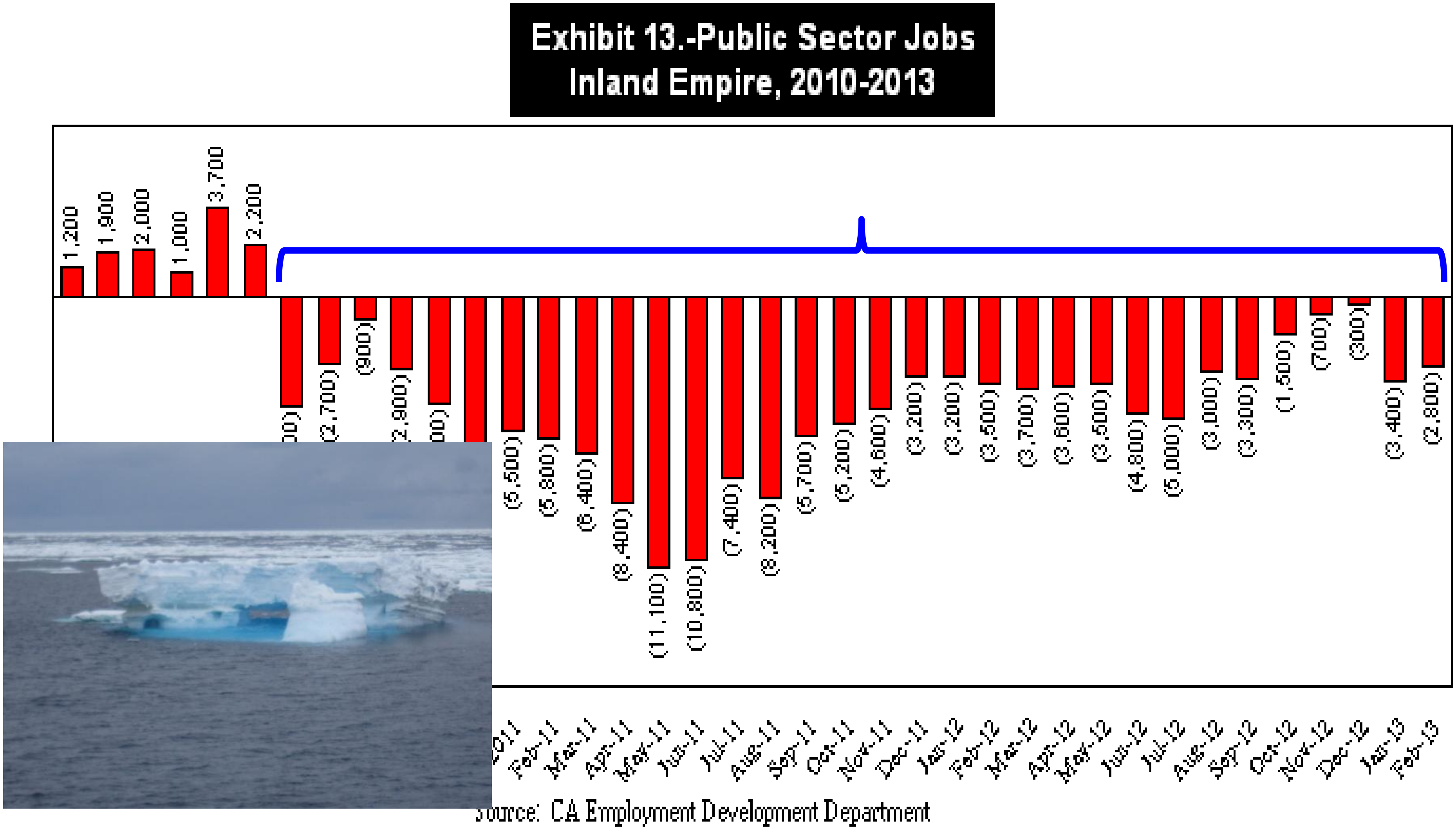
Retail Sales, San Bernardino County



Assessed Valuation Very Slowly Growing (1.41%)



Public Sector A Drag!



Government

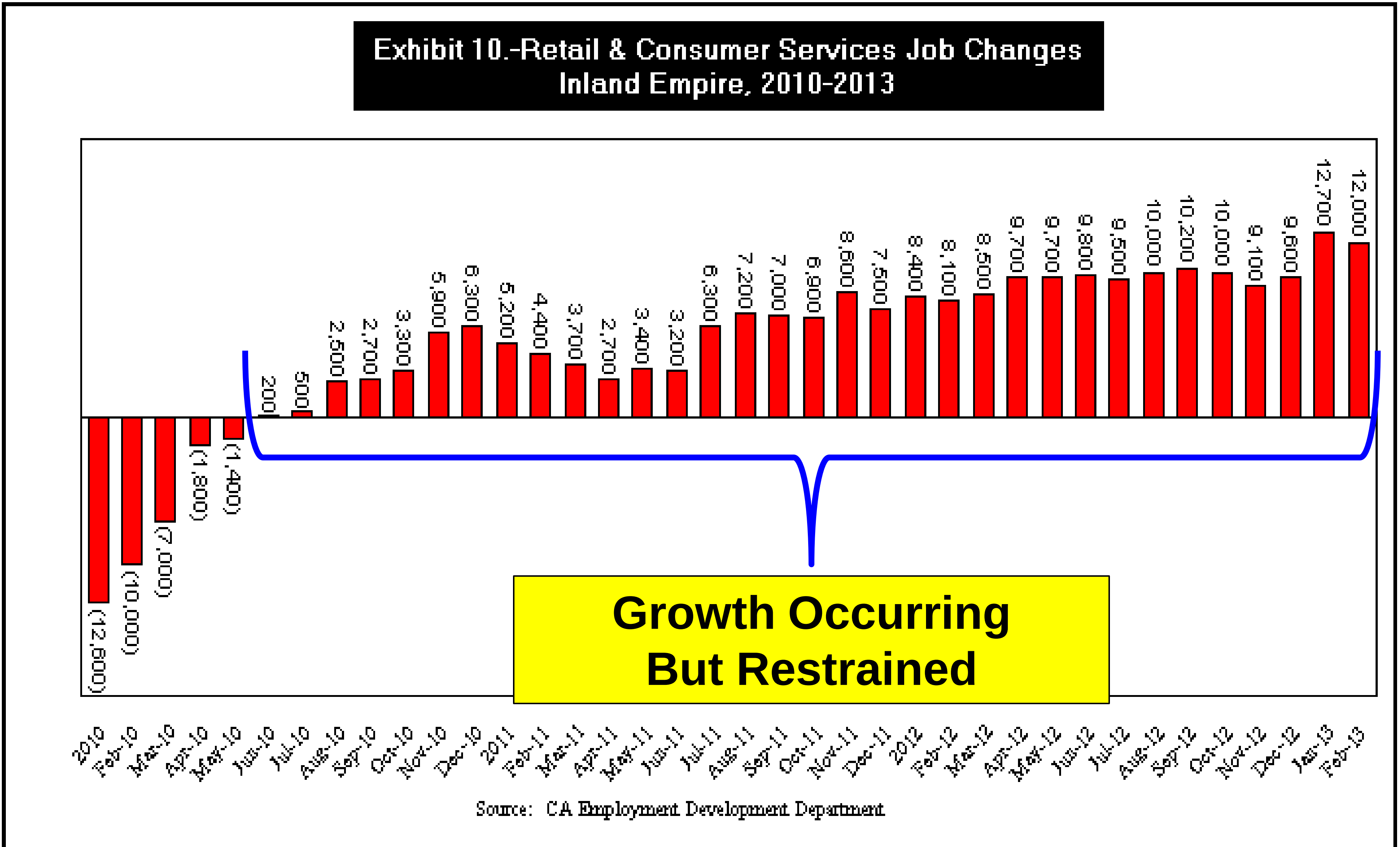
Greg Devereaux
Chief Administrative Officer

Gold Mine Theory

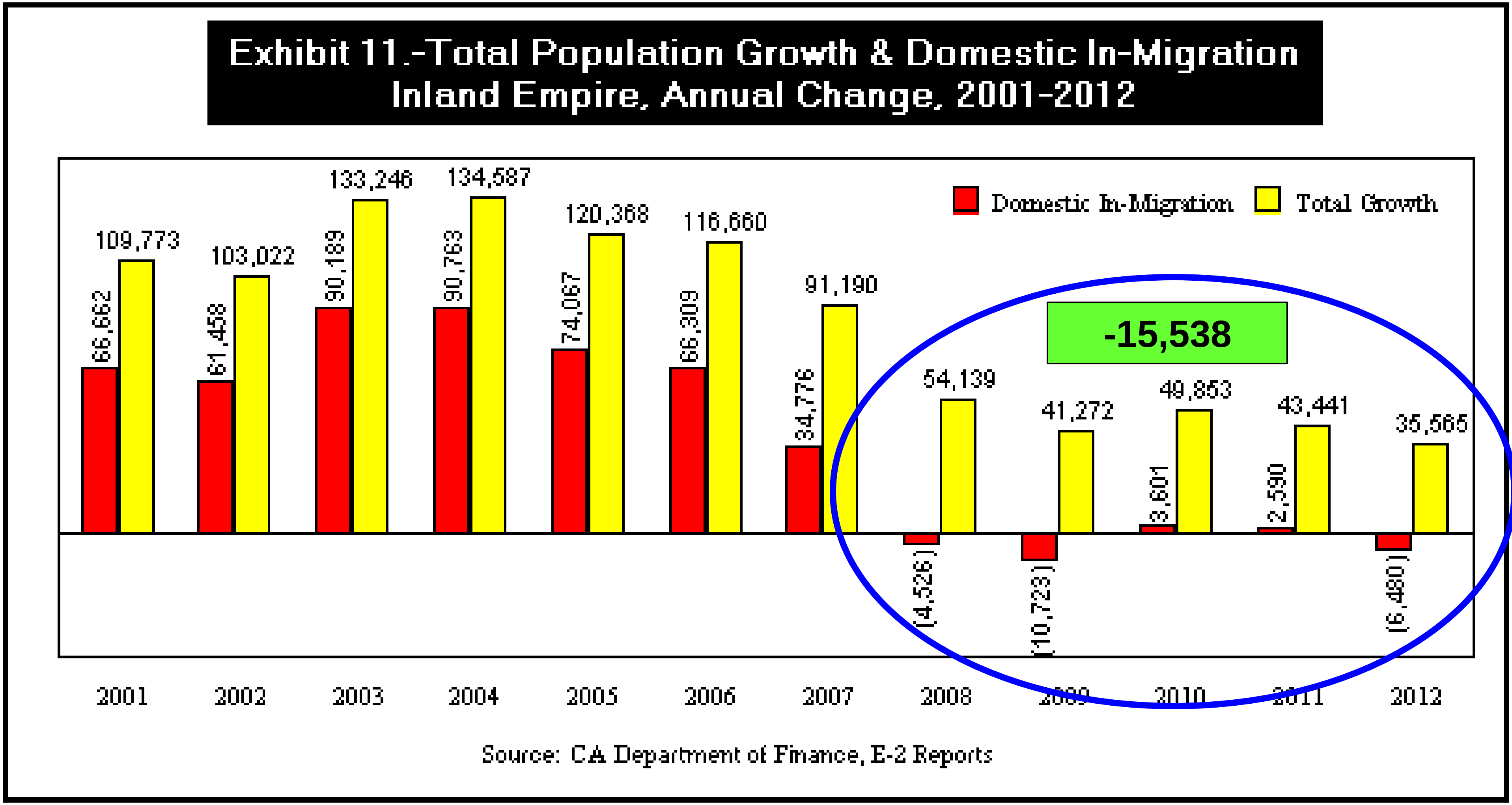
Secondary Tier

Primary Tier

Retail, Consumer Service, Hotel, Amusement Jobs Growing

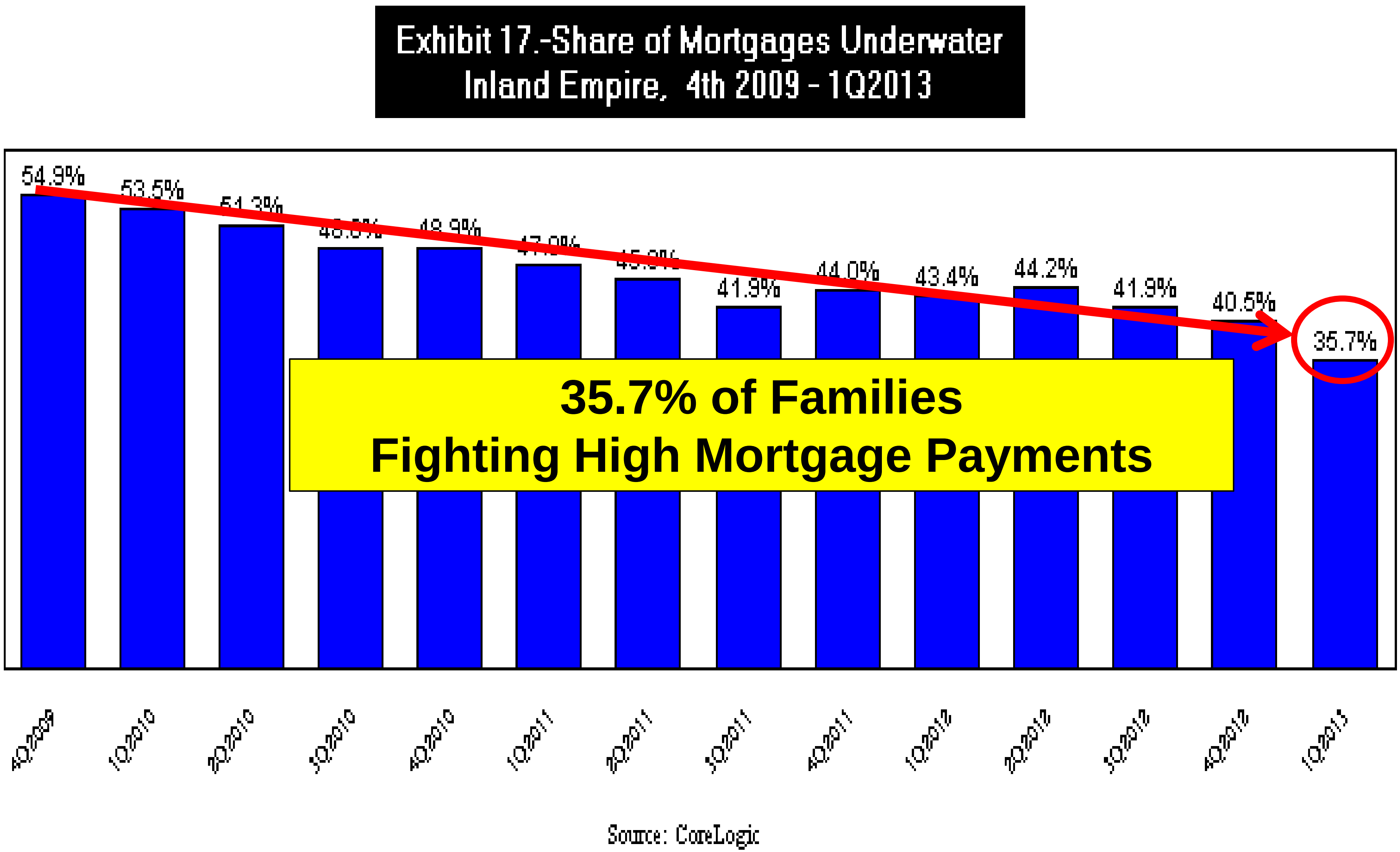


Inland Empire's In-migration From Coastal Counties Has Stopped

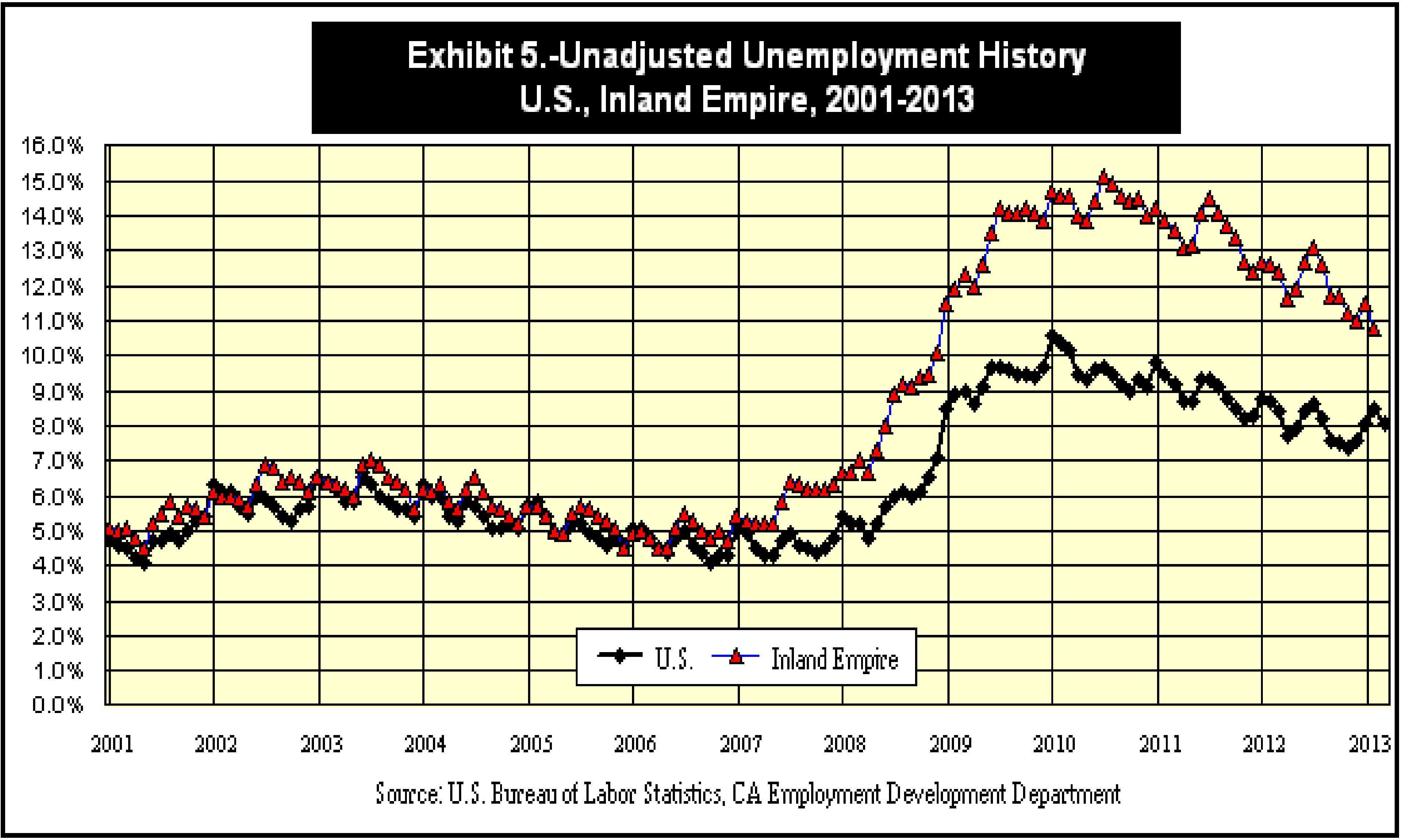


Not Bringing Skills, Wealth, Income & Spending

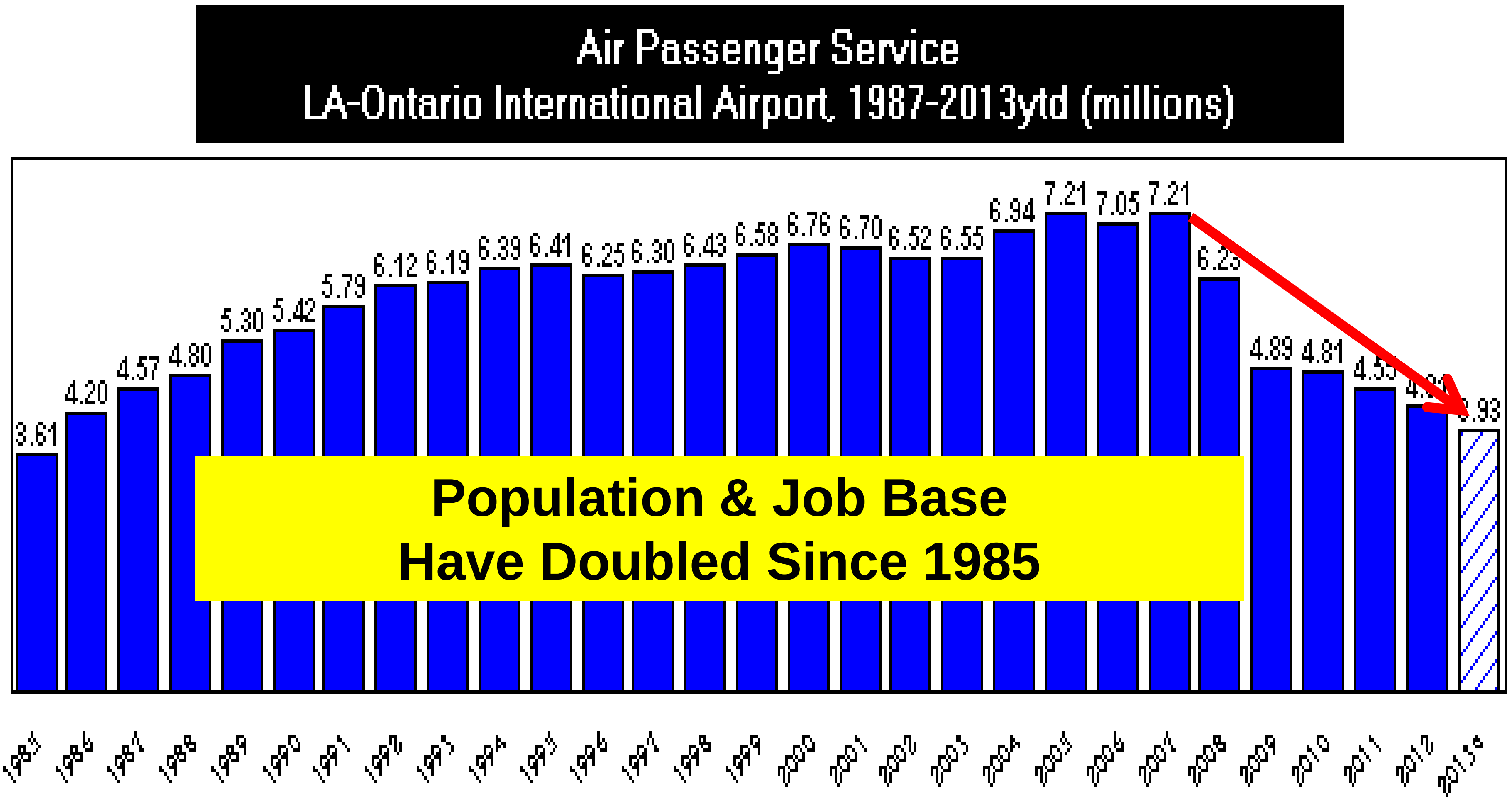
Share of Underwater Homes Still High



Unemployment Falling, But High



Ontario International Airport Shrinking

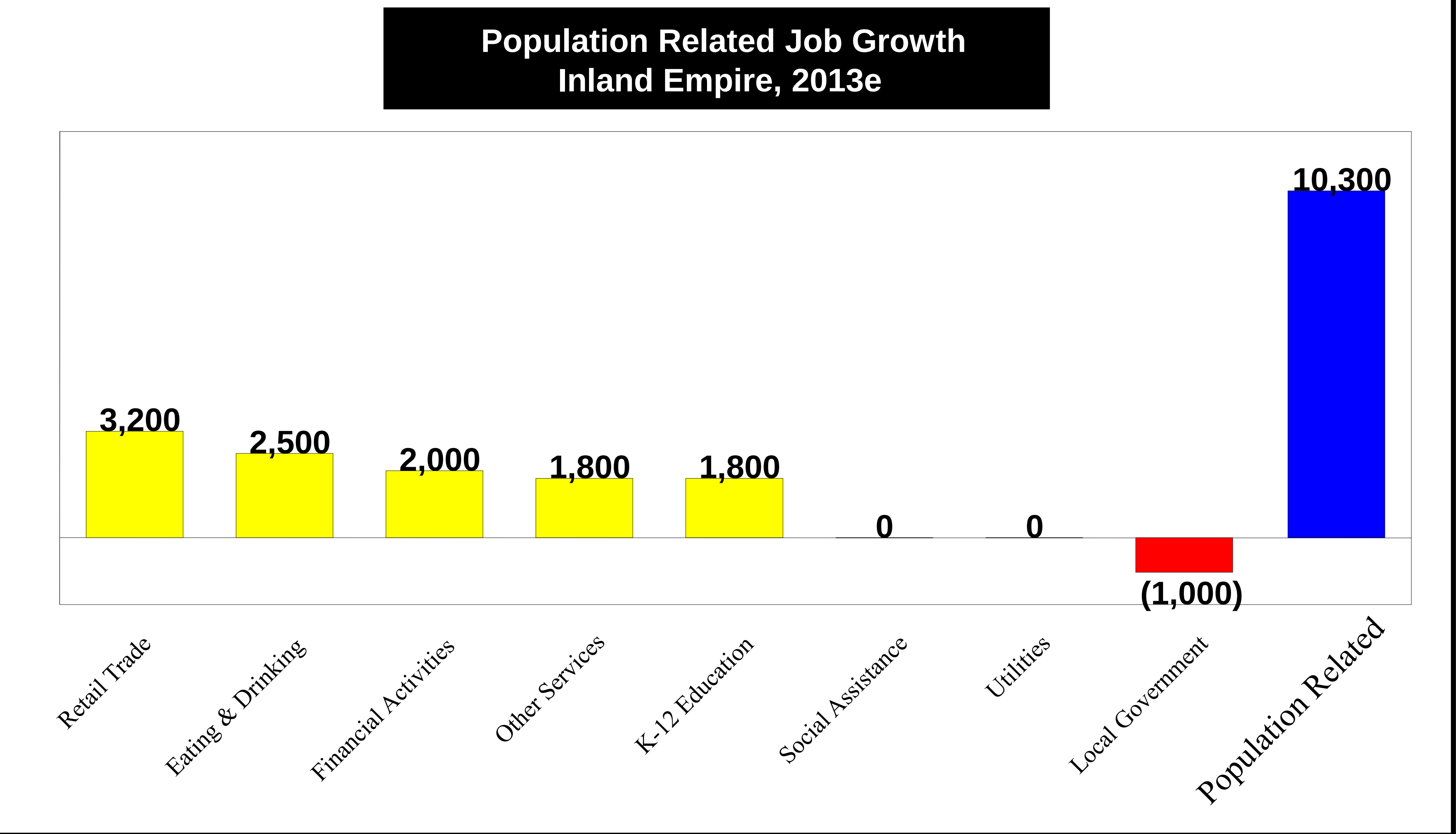


Based On Jan-Feb 2013

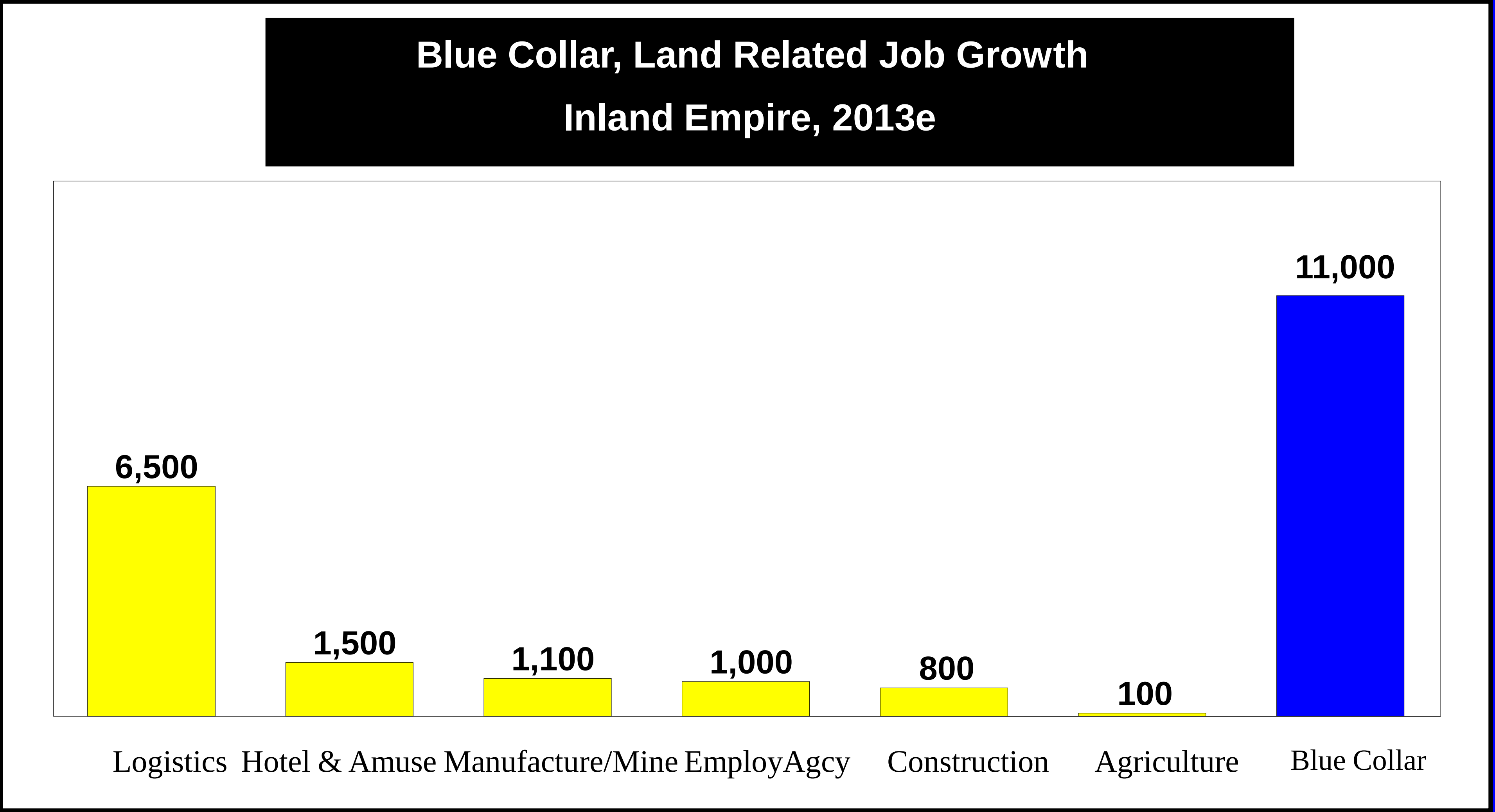
Source: Los Angeles World Airports

Curious?
What Is The Forecast

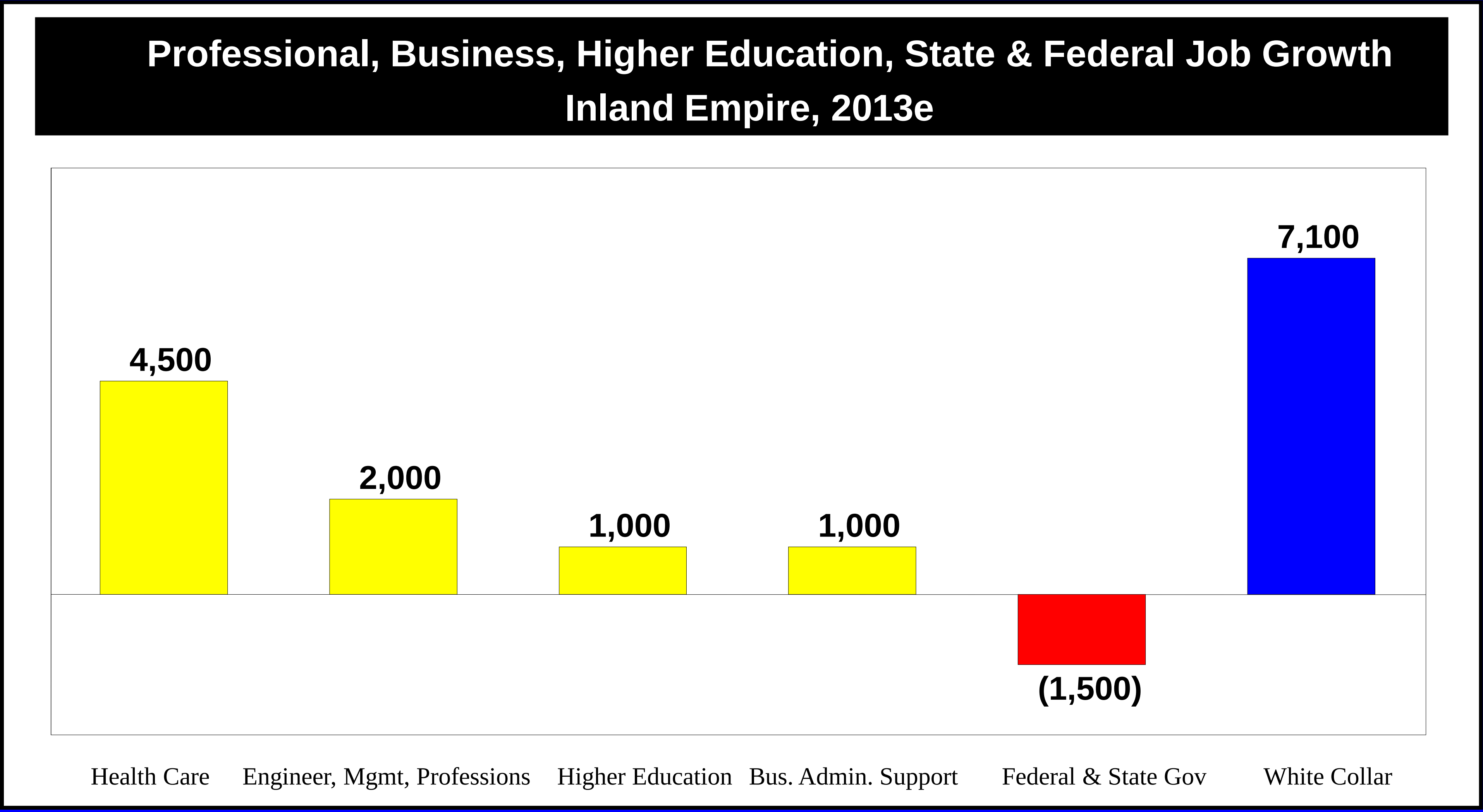
Population Serving Sectors



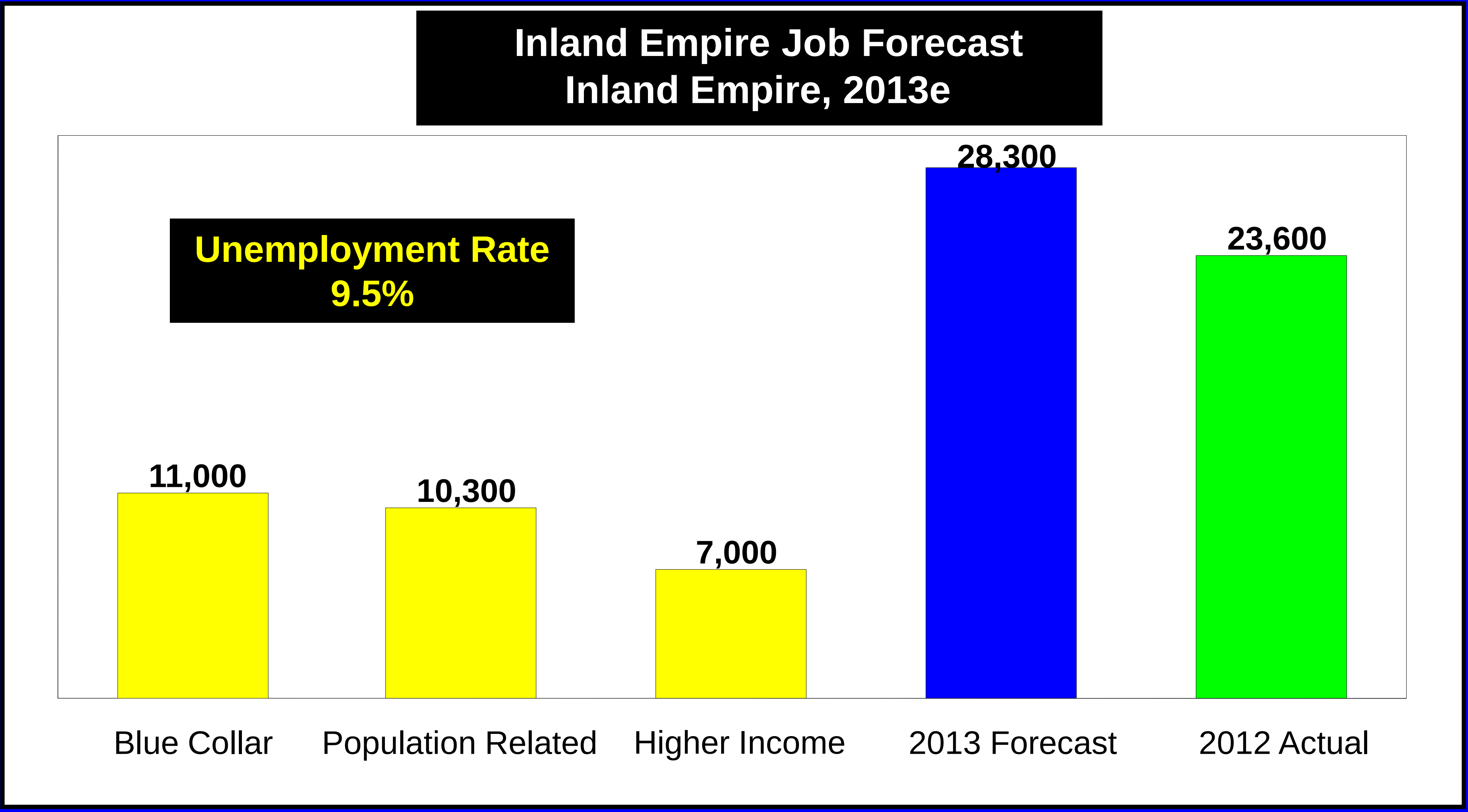
Blue Collar Jobs



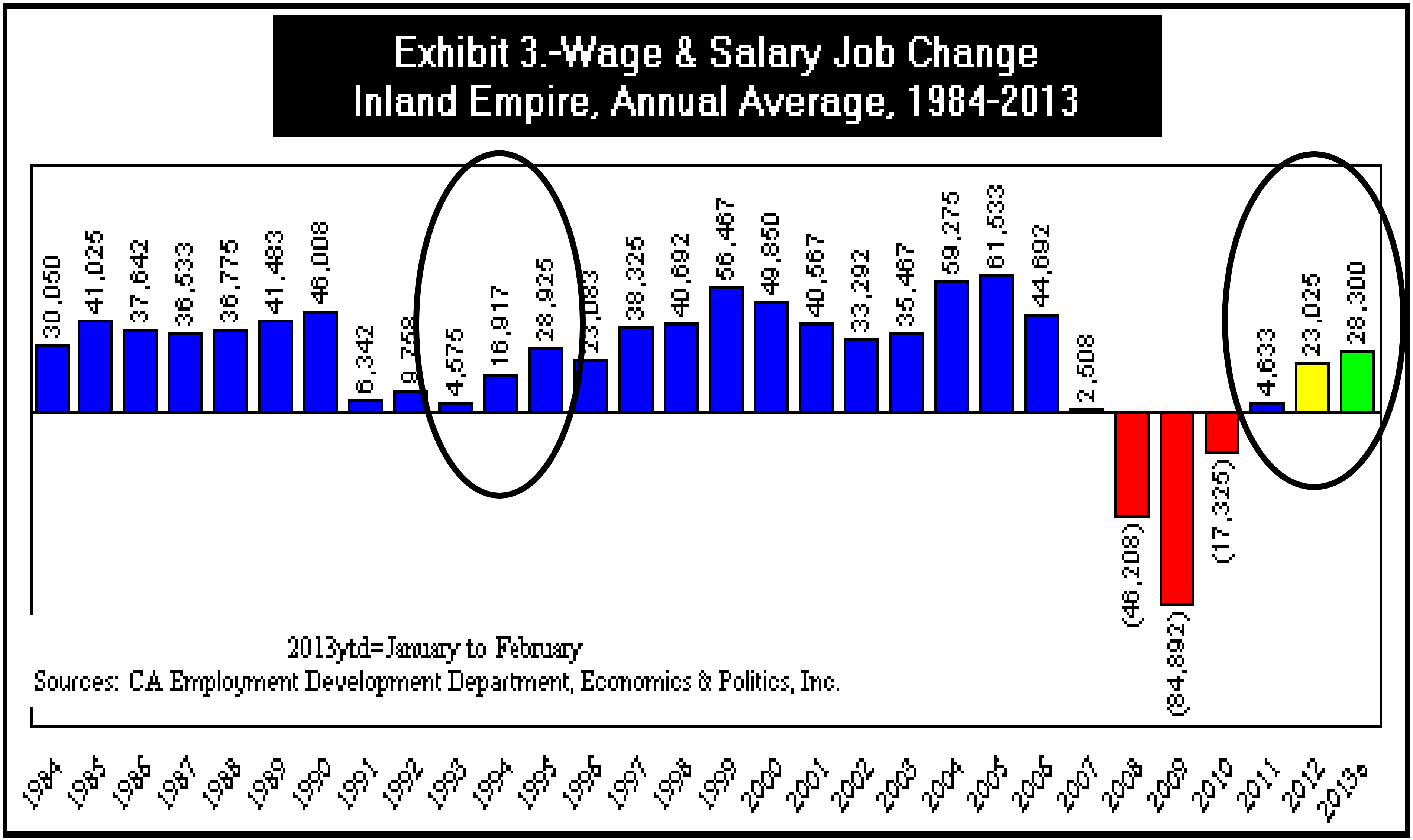
High Pay Jobs



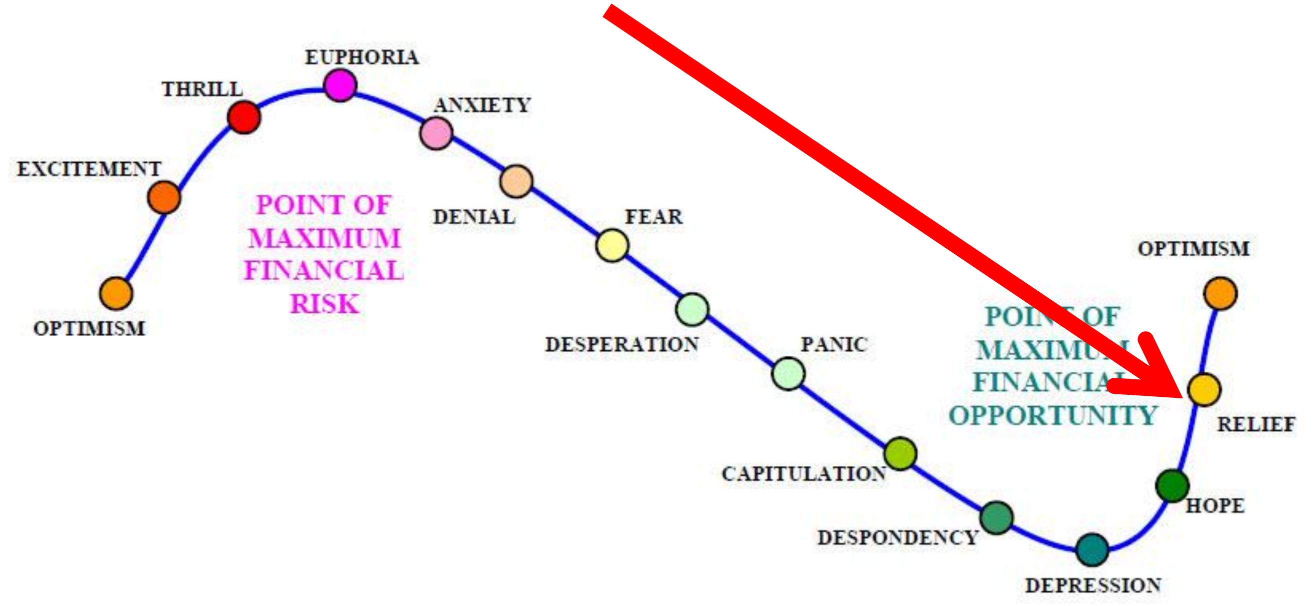
Complete Forecast



Where Will IE Be In Its Job History?



Major Potential Difficulty



Source: Westcore Funds/Denver Investment Advisors LLC, 1998 www.johnhusing.com