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INLAND EMPIRE

**QUARTERLY
 ECONOMIC REPORT**

RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA
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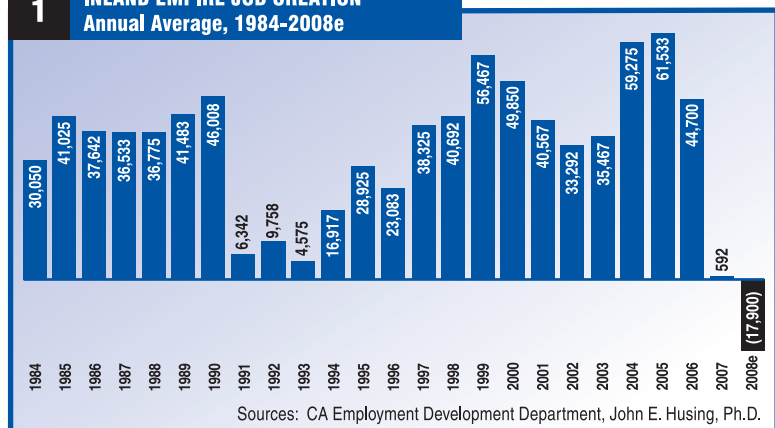
**INLAND EMPIRE 2008 FORECAST ...
 RECESSION!**

John E. Husing, Ph.D.

During 2008, the Inland Empire economy will be in a recession. The forecast is for -17,900 jobs, the area's first job loss in at least 44 years. This follows a job gain of just 592 positions in 2007 after a gain of 44,700 in 2006 (*Exhibit 1*). Average annual employment for 2008 is forecasted to fall to 1,268,000 (*Exhibit 2*). The growth rate will be -1.4%, down from 0.05% in 2007 and 3.6% in 2006.

U.S. Growth: Recession. A local forecast must start with the U.S. economy that supplies the ocean of forces affecting its regions. From February 2007-2008, the country added 860,000 jobs, up a modest 0.6% versus 1.3% last year. February unemployment was 4.8%, up from 4.5% a year earlier, and capital utilization was 80.9%, down from 81.6%. These are signs of a slowing economy. Meanwhile, national inflation is at 4.0%, well above the Federal

1 INLAND EMPIRE JOB CREATION
 Annual Average, 1984-2008e



Reserve Bank's (*Fed*) 1-2% target range. However, in response to the national financial crisis, the Fed has cut its federal fund rate to 2.25%, down from 5.25% in mid-2007. This has lowered the 10-year bond to 3.54%. Unfortunately, 30-year mortgages remain at a relatively high 5.85% because lender fears have widened the gap with the 10-year bond to 2.32%, far above the norm of 1.77% (*Exhibit 12*). Oil prices are at record levels with West Texas crude at \$105.62, up 74.4% from a year ago.

In this context, U.S. Gross Domestic Product (*GDP*) grew just

0.6% in 4th quarter 2007 and most forecasters see negative growth (*recession*) in the first half of 2008 (*Exhibit 4*). This will occur due to the decline in residential markets, the seizing up of credit markets and soaring energy prices. GDP should have slow but positive growth in the last half of 2008 as the federal government is sending checks to most taxpayers and the Fed is pumping money into financial markets. The dollar's low value will help as exports are rising and non-petroleum imports falling since U.S. goods are cheaper abroad while foreign goods are more expensive here.

California Growth: Slow. In 2007, California added 114,100 jobs, up 0.7%, following growth of 256,00 jobs (1.7%) in 2006. Looking ahead, the CA Department of Finance forecasts the state's 2008 growth at 185,000 jobs (0.7%). In 2007, the major changes in California's economy were in sectors important to the inland area. The state's four major growing sectors were health care (29,400), professional services (25,800), restaurants (24,600), and logistics (22,000). Its four major declining sectors were construction (-41,400), financial activities (-28,600), manufacturing (-24,800) and employment agencies (-12,000). Another key Inland Empire sector, retailing, added just 8,400 jobs at the state level.

QER 2008 FORECAST

In this environment, the QER's 2008 forecast is for the Inland Empire to lose 17,900 jobs (-1.4%), falling to 1,268,000. The forecast was built sector by sector based upon known local trends (*Exhibit 2*) and allowing for the

inland area's strengths and weaknesses plus its relationships with the California and U.S. economies.

1. Clean Work, Good Paying (\$50,000 & up). In a poor environment, the good news for the Inland Empire is that its higher paying sectors are expected to be flat. However, any growth will come because the local, state and federal governments plus higher education have begun the year strongly. This means that when they slow in the second half of the year, they will still have some gains. Unfortunately, the higher paying private sectors are starting 2008 with fewer jobs and that situation will worsen. This forecast contrasts with 2007 when high-end sectors added 5,602 jobs (2.7%), including 4,600 in state and local government. However, even last year, the key management, professional and supply chain management group was flat after adding a total of 8,900 jobs in 2005 and 2006.

In 2008, the clean work, good pay group is expected to be essentially flat, adding just 100 jobs (0.0%). It will thus have little influence on the Inland Empire's loss of 17,900 jobs. **Management and professional firms** will lose 750 jobs (-1.3%) due to the slowdown in work for the residential sector. **Local, state and federal governments plus higher education** will end up adding 900 jobs, though they began 2008 up by 3,000. Here, the issue will be budget cutbacks as sales and property taxes fall locally while the state faces another budget crisis. **Mining, utility, medical device and pharmaceutical** firms will lose 50 jobs.

2. Clean Work, Moderate Paying (\$30,000-\$40,000). Traditional white collar sectors will be in the unusual position of providing the largest share of new Inland Empire jobs in 2008. In 2007, they added just 400 jobs (0.1%). In 2008, they are expected to grow by 1,400 jobs (0.5%) and offset some of the weakness in other sectors that will cause the region to lose 17,900 jobs.

With the Inland Empire's population having soared, the **health care** sector, which has been sluggish for several years, is expected to add 4,200 jobs in 2008. **Local private and public schools** have begun 2008 up 4,000 jobs. However, state budget cutbacks in the year's second half will cut this to just 1,500 jobs for the year as a whole. Firms supporting the Inland Empire's business community will lose 800 jobs and financial activities will be off 3,500 as the economy is hit by the continued

2 EMPLOYMENT FORECAST BY SECTOR & GROUP Inland Empire, 2008e							
Sector	2006	2006-2007 Change	2007	Percent	2007-2008 Forecast	2008e	Percent
Local Government	79,400	3,100	82,500	3.9%	500	83,000	0.6%
Higher Education	15,100	700	15,800	4.6%	200	16,000	1.3%
Federal & State Government	36,900	1,500	38,400	4.1%	200	38,600	0.5%
Other	19,882	302	20,184	1.5%	(50)	20,134	-0.2%
Mgmt, Professions & Supply Chain	56,400	0	56,400	0.0%	(750)	55,650	-1.3%
Clean Work, Good Pay	207,682	5,602	213,284	2.7%	100	213,384	0.0%
Health Care	94,700	2,900	97,600	3.1%	4,200	101,800	4.3%
Local Public/Private Education	105,100	(1,200)	103,900	-1.1%	1,500	105,400	1.4%
Administrative Support & Info	56,800	200	57,000	0.4%	(800)	56,200	-1.4%
Financial Activities	51,600	(1,500)	50,100	-2.9%	(3,500)	46,600	-7.0%
Clean Work, Moderate Pay	308,200	400	308,600	0.1%	1,400	310,000	0.5%
Distribution & Transportation	106,600	4,700	111,300	4.4%	1,700	113,000	1.5%
Manufacturing	110,518	(4,500)	106,016	-4.1%	(4,000)	102,016	-3.8%
Construction	127,500	(14,700)	112,800	-11.5%	(12,500)	100,300	-11.1%
Dirty Work, Moderate Pay	344,618	(14,500)	330,116	-4.2%	(14,800)	315,316	-4.5%
Employment Agcy	50,200	3,100	53,300	6.2%	300	53,600	0.6%
Other Services	42,500	100	42,600	0.2%	300	42,900	0.7%
Social Assistance	13,400	700	14,100	5.2%	200	14,300	1.4%
Agriculture	17,300	(500)	16,800	-2.9%	(100)	16,700	-0.6%
Hotel, Amuse, Eat	128,000	3,700	131,700	2.9%	(1,500)	130,200	-1.1%
Retail Trade	173,200	2,200	175,400	1.3%	(3,800)	171,600	-2.2%
Low Paying Work	424,600	9,300	433,900	2.2%	(4,600)	429,300	-1.1%
Total, All Industries	1,285,200	600	1,285,900	0.05%	(17,900)	1,268,000	-1.4%

Columns may not add due to EDD rounding
Source: CA Employment Development Department, Economics & Politics, Inc.

shrinkage in its residential real estate sector and associated activities.

3. Blue Collar, Moderate Paying (\$35,000-\$42,000).

The Inland Empire's fastest growing sectors have normally been those paying moderate incomes to blue collar workers. However in 2007, these sectors faltered, losing 14,500 jobs (-4.2%). In 2008, there will be little strength in these sectors as logistics growth will be hurt by a slowdown of imports at the ports of Los Angeles and Long Beach. Housing and transportation related manufacturing will shrink, and construction will continue to suffer due to the housing crisis and soaring fuel costs. Altogether, the blue collar group will lose 14,800 jobs (-4.5%) and account for most of the inland area's loss of 17,900 jobs.

Distribution and transportation (*logistics*) will add just 1,700 jobs given that national retailers are importing less goods in anticipation of a U.S. recession. In 2007, the sector added 4,700 jobs (4.4%). **Manufacturing** is expected to lose 4,000 jobs as local producers of after-market auto parts as well as products for the housing market cutback in the midst of generally weak California and U.S. environment. In 2007, they lost 4,500 jobs. The **construction** situation will remain dismal, falling 12,500 jobs in 2008 (-11.1%), after a drop of 14,700 jobs in 2007 (-11.5%). The residential slowdown will continue due to consumer fears about price levels and the lack of available financing. Also, construction will be inhibited by the large inventory of unsold new homes plus the need by speculators, financial institutions and homeowners to sell troubled existing homes. Modest interest rates may help restrain the difficulty late in the year. Fortunately, non-residential construction will offset some of the job losses thanks to numerous retail, office, industrial and infrastructure projects.

Lower Paying (\$15,000-\$25,000). Like most U.S. areas, the Inland Empire's largest sectors are those paying low average incomes including retailing, consumer services, employment agencies, hotels, amusement, agriculture and social services. In 2007, they added 9,300 jobs (2.2%). In 2008, they are expected to lose jobs for the first time in memory, down 4,600 positions (-1.1%). They will thus contribute to the Inland Empire's loss of 17,900 jobs.

Retail Trade, normally one of the Inland Empire's strengths, will lose 3,800 jobs in 2008 (-2.2%) after adding 2,200 in 2007. The housing slowdown will reduce home improvement, furniture and appliance sales. Reduced population migration will mean fewer new families with their incomes and spending. High fuel prices will reduce the ability of consumers to buy other products. The **hotel, amusement and restaurant** sectors will lose 1,500 jobs after growing 3,700 in 2007 due to the slowdown in population growth and

general economic weakness. **Agriculture** will continue to consolidate, down 100 jobs after losing 500 in 2007. The largest low income job gain will be by **employment agencies**. They will add 300 jobs (0.6%) down from 3,100 in 2007 as the logistics, manufacturing and office sectors weaken. **Other services** like auto repair will add 300 jobs (0.7%), up from 100 in 2007, as people avoid purchasing new products. **Social assistance** will grow by 200 jobs, down from 700 in 2007 as rising needs are offset by thin budgets.

SUMMARY

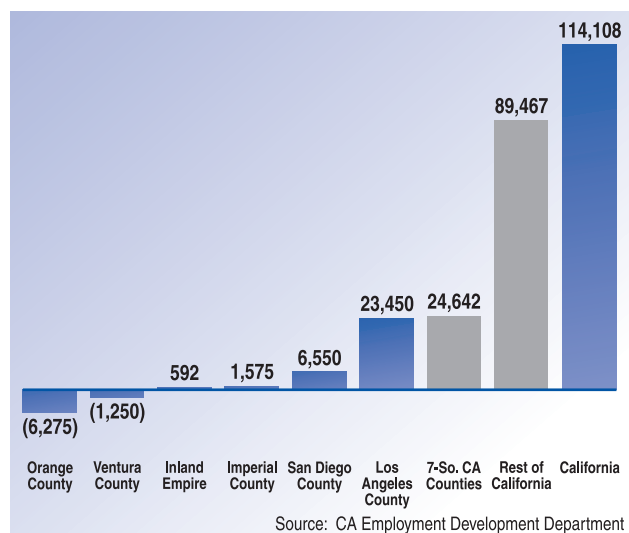
In 2008, the Inland Empire economy is forecasted to lose 17,900 jobs (-1.4%), after having added just 592 jobs in 2007 (0.05%). The decline will principally come about due to reduced residential construction and real estate activity and their corresponding impact on population growth and population serving sectors. Thus, construction jobs will be hurt as will employment in housing related manufacturing plus retailing, amusement and restaurant activity. The office market will not be spared as financial activities slow with less need for jobs in real estate, escrow, title, home lending and insurance. High fuel prices will contribute to difficulties, primarily in retailing. Meanwhile, a national slowdown is reducing activity at the ports, sapping strength from the inland region's normally powerful logistics sector. The general slowdown will hurt governmental and educational budgets in the second half of the year. The only major sign of strength will be in health care which has lagged population growth but is now surging.

FORECAST RISKS

The risks to this Inland Empire forecast appear tilted towards the downside. The most feared impact would be a further seizing up of credit markets with the possibility of a general collapse in the worldwide financial system. While a remote possibility, this is the fear that has caused interest rates to remain unusually high and credit to be generally unavailable, often to borrowers who would normally qualify for loans. The full affect of soaring oil prices may also deepen the difficulties facing the economy beyond what is now forecasted.

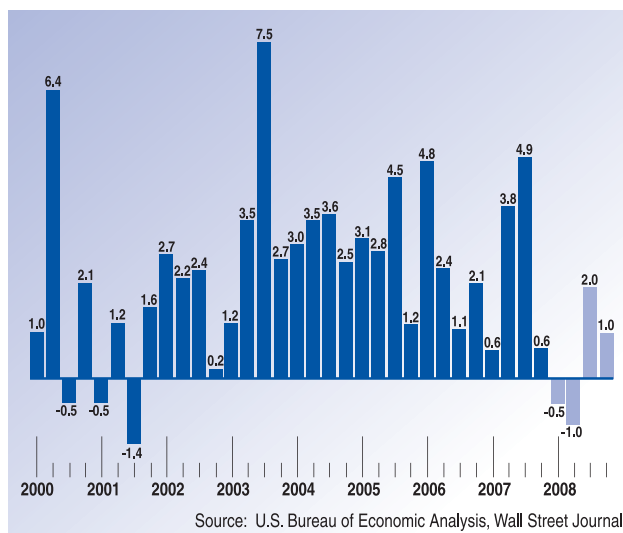
On the upside, the forecast will be conservative if lower home prices and lower interest rates are recognized by potential home buyers as having increased affordability enough to cause residential markets to recover faster than expected. Also, there is the possibility that guarantees by the Federal Housing Administration may free up funds for potential home buyers. In addition, infrastructure construction could conceivably accelerate faster than expected, or more coastal firms than expected could make the inland move. Finally, the low value of the dollar could result in rising export trade boosting some of the Inland Empire's manufacturing firms. ■

3 EMPLOYMENT CHANGE, SOUTHERN CALIFORNIA MARKETS Annual Average, 2007



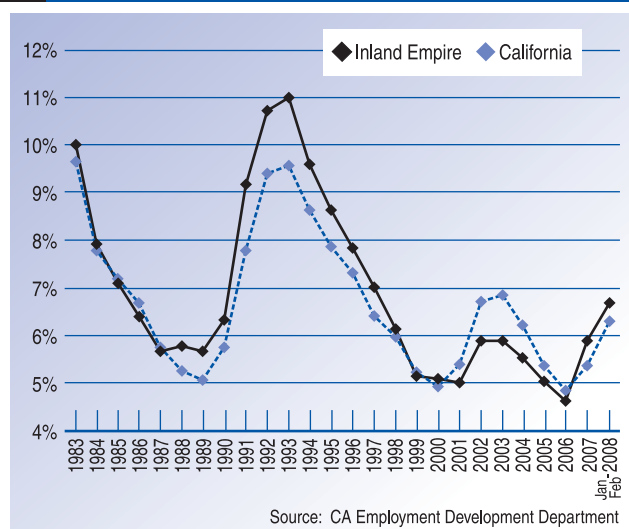
Job Growth in 2007. According to the CA Employment Development Department's revised 2007 data, the Inland Empire's average annual employment gain was just 592 jobs in 2007, reaching a total of 1,285,542. This was the smallest job gain in at least 44 years. In Southern California, job gains occurred in Los Angeles (23,450), San Diego (6,550) and Imperial (1,575) counties. Orange (-6,275) and Ventura (-1,250) counties lost jobs.

4 U.S. GROSS DOMESTIC PRODUCT, 2000-2008e Percentage Change, Annualized Growth Rate (no inflation)



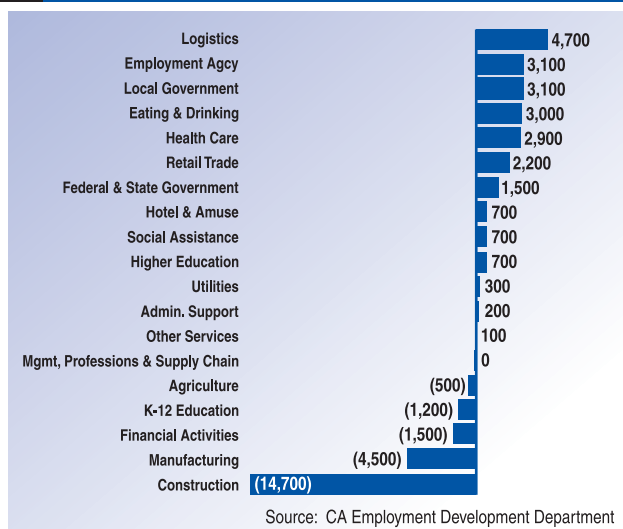
GDP Growth Forecast. The U.S. economy is in a period of weakness brought on by housing and financial sector difficulties. In fourth quarter 2007, the Gross Domestic Product rose just 0.6%. Ethan Harris, the most accurate forecaster of the Wall Street Journal's survey of 60 economists, sees a 2008 recession with GDP growth of -0.5% and -1.0% in the first two quarters. The tax cut and Fed policy will help create 2.0% growth in the third quarter with the last quarter up just 1.0%. In this environment, the already weak Inland Empire's job picture will be negative in 2008.

5 UNEMPLOYMENT RATES, 1983 TO EARLY 2008 Annual, Inland Empire & California



Unemployment. In 2007, the Inland Empire's annual average unemployment rate was 5.9%, up from the modern low of 4.6% in 2006. California's rate of 5.4% was up from 4.9% the prior year. In January-February 2008, both rates rose because rates in these months are traditionally high, but also because the economy has slowed further. The Inland Empire rate was 6.7%, the state reached 6.3%. While unemployment will be up in 2008, the rates will not approach the 11.0% reached in 1993 during the early 1990s post-Cold War defense downturn.

6 JOB CHANGE BY SECTOR Inland Empire, 2007



Economic Drivers. In 2007, the housing crisis hit the Inland Empire with significant job losses in construction (-14,700) and the related financial sectors (-1,500). Major declines also occurred in manufacturing (-4,500) and K-12 education (-1,200). However, growing sectors offset these losses leaving the region up a net of 592 jobs. The largest gains were in the port related logistics group (4,700) and related employment agencies (3,100). Several population serving sectors had moderately strong growth including local government (3,100), eating and drinking (3,000), health care (2,900), retail trade (2,200) and federal and state government (1,500).

INLAND EMPIRE VS. SOUTHERN CALIFORNIA JOB PROFILE

In 2007, there were 1,285,900 jobs in the Inland Empire representing 15.6% of the 8,246,800 in the combined San Bernardino, Riverside, Los Angeles, Orange and San Diego county area. That was down from 15.9% in 2006. The 1990 share was only 10.4%. The inland area slowed as it only added 592 jobs in 2007 (0.05%), the smallest gain in at least 44 years. Among the other counties, Los Angeles (23,450) and San Diego (6,550) added jobs, while Orange (-6,275) county shrank (*Exhibit 3*). The make up of the inland region's jobs was as follows:

CLEAN WORK, HIGH PAY

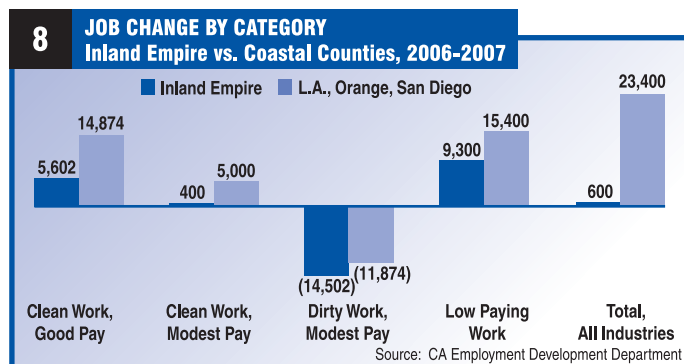
During 2007, 213,284 or 16.6% of the Inland Empire's jobs were in higher paying sectors (*tech manufacturing, software, engineering, professions, film, higher education, government*). That was up from 15.7% in 2006. The share was 23.5% in the three coastal counties (*Exhibit 7*). While underrepresented, the inland area added 5,602 higher paying jobs in 2007, up 2.7% (*Exhibit 8*). The gain was 0.9% in the coastal counties (14,874).

CLEAN WORK, MODERATE PAY

Modest paying white collar sectors (*education, health, finance, real estate, business services*) represented 308,600 or 24.0% of the inland area's jobs. Their share was near the 26.8% average for the coastal counties. In 2007, these sectors grew by just 400 jobs or 0.1% in the inland area compared to just 0.3% in the coastal counties (5,000). This poor growth occurred as housing related financial activities fell by 1,500 jobs in the Inland Empire out of the 18,300 lost in all of Southern California (8.2% share). Inland health care providers added strength, growing by 2,900 jobs, but K-12 education lost 1,200 jobs.

DIRTY WORK, MODERATE PAY

In 2007, moderate paying blue collar sectors (*construction, distribution, most manufacturing*) accounted for 330,116 of the Inland Empire's jobs or 25.7%, down from 27.3% in 2006. In the coastal counties, the group shrank from 21.3% to 20.5%.



7 TOTAL CALIFORNIA JOBS BY SECTOR

Annual Average, 2007

Sector	Inland Empire	Los Angeles Co.	Orange County	San Diego County	In. Empire Distribution	Coastal Distribution	In. Empire Growth	Coastal Growth
Utilities	5,900	13,200	3,800	6,600	0.5%	0.3%	5.4%	2.6%
Higher Education	15,800	101,100	22,600	33,300	1.2%	2.3%	4.6%	1.2%
Federal & State Government	38,400	82,000	21,600	54,300	3.0%	2.3%	4.1%	-0.2%
Local Government	82,500	214,700	44,000	66,100	6.4%	4.7%	3.9%	2.2%
Computer & Med Mfg.	12,884	70,259	56,695	34,032	1.0%	2.3%	0.0%	-4.9%
Mining	1,400	4,400	600	400	0.1%	0.1%	0.0%	5.9%
Mgmt, Professions & Supply Chain	56,400	361,000	154,700	135,300	4.4%	9.4%	0.0%	1.7%
Pictures, Broadcast, Internet	NA	153,600	NA	NA	0.0%	2.2%	NA	1.9%
Clean Work, Good Pay	213,284	1,000,259	303,995	330,032	16.6%	23.5%	2.7%	0.9%
Health Care	97,600	329,300	107,200	89,400	7.6%	7.6%	3.1%	2.0%
Admin. Support	41,800	154,000	74,000	51,200	3.3%	4.0%	0.7%	1.3%
Publish, telecomm, other	15,200	55,600	31,300	38,000	1.2%	1.8%	-0.7%	0.6%
Local Public/Private Education	103,900	298,900	92,500	90,100	8.1%	6.9%	-1.1%	1.5%
Financial Activities	50,100	245,000	128,500	80,400	3.9%	6.5%	-2.9%	-3.6%
Clean Work, Moderate Pay	308,600	1,082,800	433,500	349,100	24.0%	26.8%	0.1%	0.3%
Transportation and Warehousing	60,900	153,100	25,000	22,200	4.7%	2.9%	4.8%	0.6%
Wholesale Trade Goods	50,400	200,800	72,500	38,900	3.9%	4.5%	3.9%	2.0%
Other Non-Durable	34,862	192,983	49,325	19,183	2.7%	3.8%	0.4%	-2.5%
Durable Goods-Non Computer	71,154	183,958	74,280	48,885	5.5%	4.4%	-6.1%	-1.2%
Construction	112,800	157,200	103,700	87,200	8.8%	5.0%	-11.5%	-2.4%
Dirty Work, Moderate Pay	330,116	888,041	324,805	216,368	25.7%	20.5%	-4.2%	-0.8%
Employment Agcy	53,300	119,500	58,100	36,600	4.1%	3.1%	6.2%	-2.5%
Social Assistance	14,100	57,000	13,100	17,600	1.1%	1.3%	5.2%	3.7%
Amusement	16,800	72,000	35,200	24,600	1.3%	1.9%	5.0%	2.1%
Eating & Drinking	97,200	285,000	113,300	104,900	7.6%	7.2%	3.2%	1.9%
Retail Trade	175,400	423,600	160,700	148,700	13.6%	10.5%	1.3%	0.1%
Other Services	42,600	147,100	47,600	48,800	3.3%	3.5%	0.2%	0.9%
Accommodation	17,700	40,400	23,100	31,500	1.4%	1.4%	-0.6%	3.3%
Agriculture	16,800	7,800	5,000	10,800	1.3%	0.3%	-2.9%	-0.8%
Low Paying Work	433,900	1,152,400	456,100	423,500	33.7%	29.2%	2.2%	0.8%
Total, All Industries	1,285,900	4,123,500	1,518,400	1,319,000	100.0%	100.0%	0.1%	0.3%

Note: Columns may not add due to rounding NA = Not Available
SOURCE: CA Employment Development Department, Economics & Politics, Inc.

Here, Southern California's construction job losses were concentrated in the Inland Empire which lost 14,700 of the region's decline of 23,400 (62.8% share). Inland manufacturers also lost 4,500 jobs of the Southland's 23,300 job decline (19.3% share). However, the area's logistics sectors (*wholesale, transportation & warehousing*) fared well, adding 4,700 of the 11,900 jobs gained in Southern California (39.5% share). Altogether, the blue collar group fell 4.2% in the inland counties (-14,502) versus a drop of 0.8% in the coastal counties (-11,874).

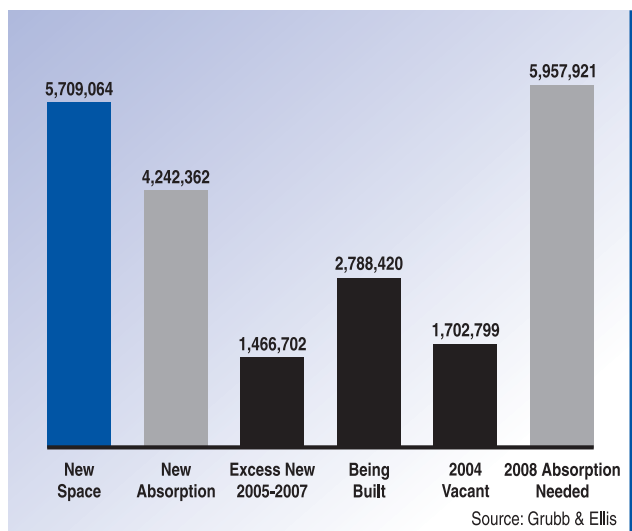
LOWER PAYING WORK

In 2007, 433,900 or 33.7% of the inland region's jobs were in lower paying sectors (*amusement, retail, consumer services, temp agency, hotel, agriculture*). That was up from 32.8% in 2006. The coastal county share was 29.2%. In both cases, these groups were the largest in the economy. These sectors added 9,300 jobs in Inland Empire, a 2.2% growth rate versus 0.8% in the coastal counties (15,400). The inland region's largest growth was in employment agencies (3,100) and eating and drinking outlets (3,000).

SUMMARY

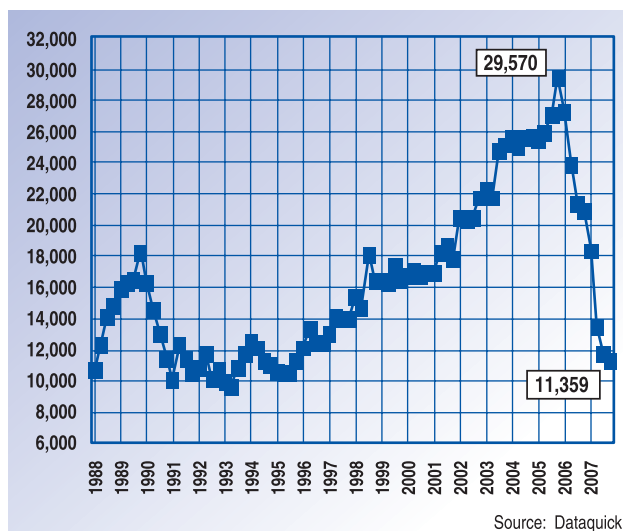
Compared to the adjacent coastal counties, the Inland Empire's 2007 jobs were more heavily concentrated in moderate paying blue collar jobs (25.7% vs. 20.5%) and lower paying sectors (33.7% vs. 29.2%). Its share was substantially lower in high paying "clean" jobs (16.6% vs. 23.5%), though that gap continues to narrow. ■

9 OFFICE CONSTRUCTION & ABSORPTION Inland Empire, 2005-2007 (square feet)



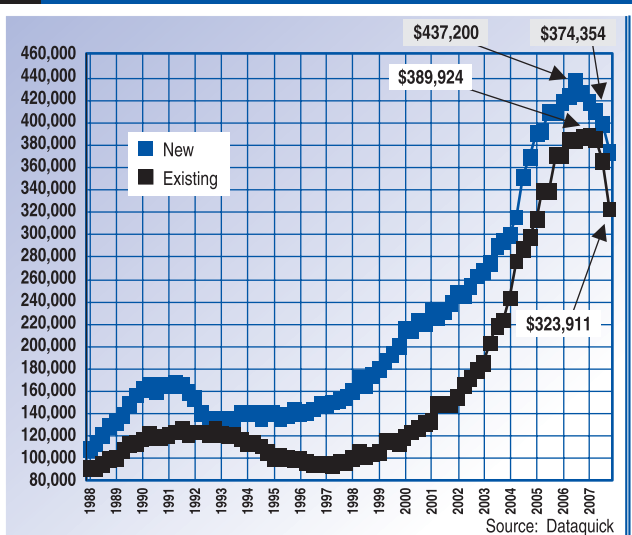
Office Over-Building. From 2005 to 2007, the Inland Empire added 5.71 million square feet of office space. Of this, 4.24 million square feet was leased, leaving 1.47 million of newly vacant space. Currently, 2.79 million square feet is being built. Adding the 2005-2007 excess space and 2008 new construction to 2004's 1.7 million square feet of vacant space, means 2008 starts with 5.96 million square feet of potentially vacant offices. Optimistically, if 2008 leases equaled the 2005-2007 annual average of 1.90 million square feet, the year will end with 4.05 million square feet of vacant space in a market of 23.6 million or 17.2%.

10 EXISTING & NEW HOME SALES, INLAND EMPIRE Seasonally Adjusted, by Quarter, 1988-2007



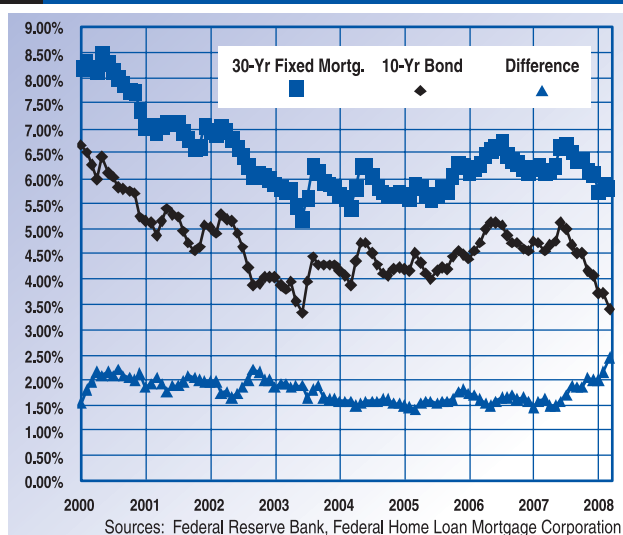
Home Volume Plunges. Seasonally adjusted data show the plunge in the Inland Empire's new and existing home sales. Volume peaked at 29,570 sales in 4th quarter 2005 and fell throughout 2006-2007 reaching a seasonally adjusted low of 11,359 in 4th quarter 2007, off 61.1%. A floor appears to be forming at this new lower level. Throughout 2008 and into the start of 2009, most home sales will involve sellers being forced to sell for financial reasons. Few homeowners will want to voluntarily sell in an environment when prices are dropping rapidly.

11 PRICE TREND, NEW & EXISTING HOMES Inland Empire, 1988-2007, Quarterly



Home Prices. With every home sale a distressed transaction, median home prices are down steeply in the Inland Empire. New home prices have fallen from a \$437,200 third quarter 2006 peak to a fourth quarter 2007 low of \$374,354, off \$62,846 (-14.4%). Existing home prices have gone from a \$389,924 peak in first quarter 2007 to \$323,911 in fourth quarter 2007, down \$66,012 (-16.9%). With only forced sales occurring, no one knows if the low prices will be reflective of the prices at which families and builders will eventually voluntarily trade homes.

12 30 YEAR MORTGAGE RATE & 10 YEAR BOND Inland Empire, 2000-2008, Quarterly



Credit Market Fear. Since 2000, the 30-year conforming mortgage rate (on loans under \$417,000 with 20% down) and the 10-year bond rate have essentially moved in tandem, with mortgages rates averaging 1.77% higher. The highest spread before 2008 was 2.22% in June 2002. In June 2007, the gap was exactly 1.77%. In late March 2008, lenders charged 5.85% on conforming mortgages, a record 2.32% above the 3.56% on 10 year bonds. While, the Federal Reserve has been trying to move mortgage rates down, lender fear that they will not be repaid is causing rates to rise instead.

13 SINGLE FAMILY HOME PRICES 4th Quarter, 2006-2007			
County	4th-06	4th-07	% Chg.
NEW HOMES			
Riverside	\$448,000	\$378,000	-15.6%
San Bernardino	391,000	367,000	-6.1%
Los Angeles	501,500	454,250	-9.4%
Orange	760,250	601,500	-20.9%
San Diego	455,000	450,000	-1.1%
Ventura	637,750	609,000	-4.5%
So. California	\$480,000	\$437,500	-8.9%
EXISTING HOMES			
Riverside	\$410,000	\$341,000	-16.8%
San Bernardino	365,000	303,500	-16.8%
Los Angeles	545,000	520,000	-4.6%
Orange	662,000	630,000	-4.8%
San Diego	540,000	500,000	-7.4%
Ventura	625,000	573,000	-8.3%
So. California	\$508,800	\$442,400	-13.1%

Source: Dataquik

14 HOME DEED RECORDINGS Inland Empire, 4th Quarter, 2006-2007							
NEW HOMES				EXISTING HOMES			
Area	4th-06	4th-07	% Chg.	Area	4th-06	4th-07	% Chg.
Chino, CHill, Mtcl, Ont, RC, Upl	687	573	-16.6%	SB Desert	434	303	-30.2%
Redlands, Loma Linda, Yucaipa	302	206	-31.8%	SB Mountains	641	416	-35.1%
Victor Valley	975	513	-47.4%	Redlands, Loma Linda, Yucaipa	353	194	-45.0%
SB Desert	105	46	-56.2%	Victor Valley	1,156	523	-54.8%
Fontana, Rialto, Colton, GT	574	226	-60.6%	Chino, CHill, Mtcl, Ont, RC, Upl	1,226	550	-55.1%
SB Mountains	21	8	-61.9%	San Bernardino, Highland	841	365	-56.6%
San Bernardino, Highland	274	73	-73.4%	Fontana, Rialto, Colton, GT	1,287	500	-61.1%
SAN BERNARDINO COUNTY	2,938	1,645	-44.0%	SAN BERNARDINO COUNTY	5,938	2,851	-52.0%
Beaumont, Banning, Calimesa	330	325	-1.5%	Coachella Valley	894	734	-17.9%
Perris, Hemet, S. Jacinto	1,306	859	-34.2%	Riverside Rural	360	233	-35.3%
Moreno Valley	193	119	-38.3%	Murrieta, Temecula, L. Elsinore	1,201	678	-43.5%
Murrieta, Temecula, L. Elsinore	1,097	653	-40.5%	Beaumont, Banning, Calimesa	252	141	-44.0%
Corona, Norco	990	546	-44.8%	Perris, Hemet, S. Jacinto	1,205	673	-44.1%
Coachella Valley	526	258	-51.0%	Riverside	1,000	484	-51.6%
Riverside	530	254	-52.1%	Corona, Norco	838	381	-54.5%
Riverside Rural	671	305	-54.5%	Moreno Valley	729	277	-62.0%
RIVERSIDE COUNTY	5,643	3,319	-41.2%	RIVERSIDE COUNTY	6,479	3,601	-44.4%
INLAND EMPIRE	8,581	4,964	-42.2%	INLAND EMPIRE	12,417	6,452	-48.0%

Source: Dataquik

REAL ESTATE IN GREAT DIFFICULTY

In 2007, the Inland Empire recorded 19,918 new home sales down from the record of 35,586 in 2006. The decline was -44.0%, after a fall of -4.4% the prior year (*Exhibit 15*). In 2007, existing home sales were 34,494 units, down -38.3% from the 55,927 in 2006. In the fourth quarter, the Inland Empire's new home sales fell -42.2% from that quarter of 2006. The drop was from 8,581 to 4,964 units (*Exhibit 14*). Existing home sales fell -48.0% from 12,417 to 6,452 units. Home prices moved down as well. In 4th quarter 2007, Riverside County's new (-15.6%) and existing home (-16.8%) prices were also down from 2006 (*Exhibit 13*). San Bernardino County's were down -6.1% (new) and -16.8% (existing).

Sales. Within the region, 3,319 new home sales were recorded in Riverside County during 4th quarter 2007, down from 5,643 (-41.2%). As recordings come at the end of escrow, this activity largely represented sales from the 3rd quarter. The Beaumont, Banning, Calimesa area had the smallest percentage loss, off -1.5% to 325 units. Despite slowing dramatically,

Perris, Hemet, San Jacinto was the volume leader (859, -34.2%). The county had 3,601 existing home sales in the period, down from 6,479 in 2006 (-44.4%). The smallest decline in growth rate was in the Coachella Valley, off -17.9% to 734 units. It was also the volume leader.

San Bernardino County's 4th quarter 2007 new home sales fell -44.0% from 2,938 to 1,645. The area west of the I-15 freeway had the smallest percentage decline, off -16.6% to 573 units. It also led in sales. The county's existing home sales fell -52.0% from 5,938 to 2,851 in the 4th quarter. The smallest percentage decline was in the outlying desert area down -30.2% to 303 units. The volume leader, despite slowing, was the area west of the I-15 (550, -55.1%).

Prices. Riverside County's 4th quarter 2007 median new home price was \$378,000, down -15.6% from 2006 and below 3rd quarter's \$401,500. Its median existing home price was \$341,000, down -16.8% from 2006 and below last quarter's \$390,000. San Bernardino County's 2007 median new home price was \$367,000, down -6.1% from 2006 and down from last quarter's \$397,000. Existing home prices averaged \$303,500, off -16.8% from 2006 and down from 3rd quarter's \$339,000. Southern California's median new home price was down -8.9% to \$437,500 with declines in all counties. Existing home prices fell across the board, down -13.1% to \$442,400.

Summary. Inland Empire's housing market is in a period of great difficulty with volume and prices having plunged in the existing and new home markets. Looking ahead, prices will likely fall throughout 2008 as sub-prime mortgages adjust, some homeowners and speculators default on mortgages and most transactions are distressed sales. Volume will not recover until affordability levels rise and potential buyers recognize that homes are again "reasonably" priced. ■

15 HOME DEED RECORDINGS Inland Empire, Annual, 2006-2007							
NEW HOMES				EXISTING HOMES			
Area	2006	2007	% Chg.	Area	2006	2007	% Chg.
SChino, CHill, Mtcl, Ont, RC, Upl	2,325	1,774	-23.7%	SB Mountains	2,588	2,004	-22.6%
SB Mountains	78	55	-29.5%	SB Desert	2,043	1,492	-27.0%
Redlands, Loma Linda, Yucaipa	1,056	739	-30.0%	Redlands, Loma Linda, Yucaipa	1,697	1,193	-29.7%
SB Desert	470	305	-35.0%	Chino, CHill, Mtcl, Ont, RC, Upl	5,238	3,493	-33.3%
Fontana, Rialto, Colton, GT	1,774	1,043	-41.2%	Victor Valley	5,254	2,684	-48.9%
Victor Valley	3,489	1,861	-46.7%	San Bernardino, Highland	4,018	2,043	-49.2%
San Bernardino, Highland	955	479	-49.9%	Fontana, Rialto, Colton, GT	5,709	2,822	-50.6%
SAN BERNARDINO COUNTY	10,148	6,256	-38.4%	SAN BERNARDINO COUNTY	26,547	15,731	-40.7%
Corona, Norco	3,443	2,317	-32.7%	Coachella Valley	4,175	3,663	-12.3%
Riverside Rural	2,436	1,454	-40.3%	Riverside Rural	1,601	1,140	-28.8%
Beaumont, Banning, Calimesa	1,779	1,024	-42.4%	Corona, Norco	3,401	2,215	-34.9%
Riverside	1,905	1,060	-44.3%	Beaumont, Banning, Calimesa	1,133	730	-35.6%
Coachella Valley	2,630	1,426	-45.8%	Murrieta, Temecula, L. Elsinore	5,299	3,387	-36.1%
Perris, Hemet, S. Jacinto	6,673	3,280	-50.8%	Perris, Hemet, S. Jacinto	5,706	3,493	-38.8%
Murrieta, Temecula, L. Elsinore	5,380	2,626	-51.2%	Riverside	4,726	2,652	-43.9%
Moreno Valley	1,192	475	-60.1%	Moreno Valley	3,339	1,483	-55.6%
RIVERSIDE COUNTY	25,438	13,662	-46.3%	RIVERSIDE COUNTY	29,380	18,763	-36.1%
INLAND EMPIRE	35,586	19,918	-44.0%	INLAND EMPIRE	55,927	34,494	-38.3%

Source: Dataquik