INLAND EMPIRE
QUARTERLY ECONOMIC REPORT

ie INLAND EMPIRE ECONOMIC PARTNERSHIP

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INLAND EMPIRE QUARTERLY ECONOMIC REPORT

INLAND EMPIRE 2018 FORECAST … CONTINUED STRONG GROWTH!

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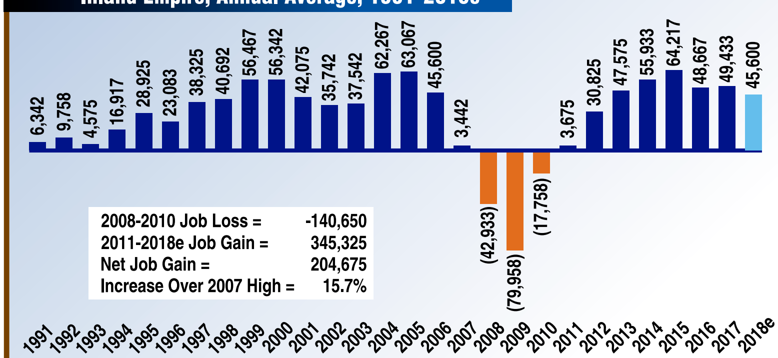
In 2018, the Inland Empire will continue the expansion underway since 2011. Through 2017, 300,325 jobs have been created. The 2018 gain is forecasted at another 45,000 jobs, up 3.1% (*Exhibit 1*). If this occurs, a total of 345,325 local jobs will have been created from 2011-2018 taking the area to 1,511,016 positions. That would be 204,675 jobs or 15.7% above the pre-recession high of 1,306,342 in 2007. Unemployment is forecasted to drop to 4.7% in 2018, down from 5.1% in 2017. Importantly among California's metropolitan areas, the Inland Empire's 2017 growth of 49,433 jobs ranked second, barely below Los Angeles (*50,617*) and well above Orange (*32,008*), San Diego (*28,258*), Silicon Valley (*26,475*) and San Francisco (*24,758*) (*Exhibit 2*). Its 3.49% growth rate was ranked first in the state ahead of Silicon Valley (*2.50%*).

1 WAGE & SALARY JOB CHANGE
Inland Empire, Annual Average, 1991-2018e



Sources: CA Employment Development Department, Economics & Politics, Inc.

U.S. GROWTH

The U.S. economy supplies the ocean of forces affecting its regions. In the 2008-2010 Great Recession, the country lost -8,693,000 jobs (*–6.3%*). From January 2010 to March 2018, it has gained back 18,504,000 positions or more than double (*112.9%*) the jobs that were lost (*Exhibit 4, p. 4*). The national economy now has 6.3% more jobs than its pre-recession high. Unemployment peaked at 10.0% in October 2009. It was 4.1% in March 2018. In 2018, GDP is forecasted by the Federal Reserve to grow 2.7%. That provides a modest framework for national job growth since growth of 3.0% is consider "normal."

With just 4.1% of workers unemployed by the traditional measure and 8.0% if workers who left the labor force or are unwillingly working part time are included, the U.S. is at full employment. The Federal Reserve is thus starting to raise interest rates. The federal funds rate is 1.50% now and they forecast it going to 2.00% -2.25% this year as they fear low inflation is ending. In this situation, Freddie Mac's 30 year fixed mortgage rate was 4.47% in April 2018, up from 4.00% in April 2017.

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The value of the U.S. dollar has weaken recently and stands -8.4% below its April 2017 level. This means imports are more expensive to Americans by roughly that percent, while U.S. exports are less expensive to the world. That should help the Inland Empire's manufacturing sector but hurt logistics. West Texas Intermediate oil prices were back to $68.20 in mid-April 2018, up 33.6% from April 2017. That should hurt consumer spending in modest income areas like the Inland Empire.

INLAND EMPIRE ECONOMIC BASE

The five sectors powering the Inland Empire's economic base are being helped by the national environment:

Logistics. The logistics industry (*wholesale trade; trucking & warehousing*) has been the primary driver of the inland economy in recent years. The strong U.S. economy has led imported containers entering through the San Pedro Bay ports in 2017 to set a record of 8.6 million 20-foot equivalent container units (*teu*). It is on track for a record 9.2 million in 2018 (*Exhibit 12*). Meanwhile, e-commerce continues expanding at a 15-16% compounded rate has forced even conventional retailers to begin aggressively creating and staffing large regional fulfillment centers. Their goal is to respond to on-line consumers with same-day deliveries. Almost all the facilities supporting Southern California e-commerce are in the Inland Empire. Inland logistics job growth thus remains strong, adding 14,025 jobs in 2017 to reach 178,725 (*Exhibit 7*). The 2017 median pay in the logistics group of sectors was $46,708. For 2017, 80% of workers had occupations requiring high school or less schooling and earning a median of $19.47 an hour. For entry level workers, it was $14.94. **A gain of 10,500 is forecasted in 2018 (*Exhibit 3*).** The slower forecast is due to the sudden difficulty in findings sites for expansion.

Construction has generally been one of the Inland Empire's strongest job creators with its 2007 record at 127,500 jobs. The sector faltered from 2006-2011, off -68,400 jobs (*-56.3%*) (*Exhibit 7*). From 2012-2017, it added back 37,900 positions including 5,083 in 2017 to be the area's second faster growing sector and reach 97,033 jobs (*Exhibit 3*). However, that remains -30,800 short of the 2006 high (*-23.9%*). Construction's 2017 median pay was $52,604. **In 2018, it is forecasted to add 7,500 jobs as industrial construction continues and residential increases.**

Construction growth is forecasted in 2018 in part because residential pricing is rising rapidly. New homes were up 5.5% to $449,760 from first quarter 2017-2018, showing developers have the ability to raise prices. Existing home prices rose 9.2% to $341,858 in that period, just -12.3% below the 2007 record. Importantly, with rising existing home prices, homeowners are no longer facing notices of default. The 9,490 defaults in 2017 were the lowest number since before 2000.

Health care was the only Inland Empire sector to expand employment throughout the recession (*Exhibit 5*). That growth continues with out-patient clinics, medical offices, hospitals and nursing homes hiring workers. The sector added 3,700 jobs in 2017 to reach 136,033. Propelling the expansion has been the increasing demand due to the Affordable Care Act (*ACA*) which saw uninsured local residents fall from 750,957 to 336,238 in 2012-2016, down -414,719 (*-55.2%*). Also impacting demand are the 1,073,526 residents (*23.7%*) aged 55 and over and 643,438 under age 10 (*14.2%*). Despite the sector's job growth, the Inland Empire remains underserved with one health care worker for every 33.5 residents, 26.0% above the state's average of 26.6. That fact along with the inland area's poor public health metrics means that health care employment will continue growing. In 2017, median pay in the sector was $60,768. **Given the controversy over the ACA, the health care forecast is restrained to only 3,500 new jobs in 2018.**

Manufacturing has had a small but positive impact in bringing outside monies into the Inland Empire's economy. However, the sector added just 98 jobs in 2017. Here, growth continues to be restrained due to state regulatory a policies and the high cost of its energy. For example, each kilowatt hour of industrial electricity costs 14.61¢ in California more than double either Nevada (*6.54¢*) or Arizona (*5.90¢*). That is seen in that the U.S. created 916,000 (*7.9%*) manufacturing jobs during 2011-2017 while California added only 60,000 (*4.8%*), just 6.6% of the national gain. The 2017 median pay in the sector was $51,385. **It is forecasted to create 200 more workers in 2018 given recent restraints on the sector.**

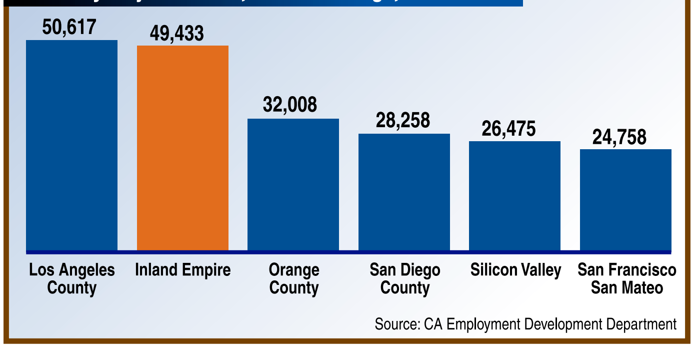
Higher paying private & public sectors *other than health care* have added little strength to the Inland Empire's recent growth (*Exhibit 6*). These sectors include management and professions, colleges, utilities, information and mining. The group tends to rely on workers with Associate of Arts or higher degrees, an inland area weakness, though there are cities near the coastal counties that have become competitive (*Exhibit 11*). In 2017, these combined sectors gained a net of 600 jobs. Firms in them tend to migrate into the Inland Empire or grow internally when its economy is strong. However, internet usage has allowed more coastal firms to serve the area remotely. **The full group is forecasted to add another 1,100 positions in 2018.** This, despite the need for professionals by the housing industry, the region's 3.56 million people and its 1.5 million job employment base. 2017 median pay in these combined was $76,279.

Government employment grows or declines with changes in state and federal workers in the area and changes in local city, county and agency jobs due to tax revenues fluctuations. Changes from 2011 to early 2018, left state and federal employment -3,021 below its 2007 peak. 2017 growth was just 292 jobs. Local government is now 1,514 jobs above its 2007 high after adding 2,375 in 2017. Both factors driving local government jobs are above pre-recession highs. Taxable sales are up 20.8% from their 2006 high and purchasing power has grown as prices have only risen 18.7% since then. Assessed valuation is 11.5% over the 2008 peak. However, the purchasing power of property taxes on valuation is still down as prices have risen 13.8% since 2008.

Other Sectors. Moderate paying non-blue collar sectors in the Inland Empire include K-12 education (*median pay: $60,021*) and finance, insurance and real estate (*median pay $49,034*). Local schools added 4,692 jobs in 2017 to reach 132,342 as budgets expanded significantly with the state's new priority on modest income areas. However, financial activities lost -133 positions in 2017, falling to 44,438. This occurred as internet usage reduced the staffing needed to process many financial transactions and realtors had trouble finding homes to sell with volume relatively flat for the past seven years (*Exhibit 16*). **K-12 education is forecasted to add another 4,500 positions in 2018. The financial sectors will grow by 500.**

Lower paying sectors in the Inland Empire generally expanded in 2017, adding 18,733 jobs. This included gains in social assistance (*6,208*), eating and drinking (*4,508*), retailing (*4,725*), administrative support (*2,403*), other services (*967*), accommodation (*658*) and amusement (*375*). This growth was due to funds flowing into the region from sectors like logistics, construction and medical care that was re-spent in these sectors. Weather related agriculture (*-233*) declined. So did employment agencies (*-3,08*), a traditional result as labor markets tightened. Together, this group added 18,733 jobs in 2017. Their combined median pay was $30,652. **They are expected to be up another 15,400 in 2018.**

2 CALIFORNIA JOB GAINS
By Major Markets, Annual Average, 2016-2017



Source: CA Employment Development Department

California's Growth. In 2017, California added 335,392 jobs, up 2.0%. This has brought the state's wage and salary employment to a record 17.2 million. It was up another 399,367 jobs from first quarter 2017-2018 (*2.4%*), indicating continued solid job growth this year. In first quarter, the sectors most crucial to the Inland Empire saw state gains, including construction (*65,067; 8.5%*), logistics (*37,400; 3.0%*), health care (*36,400; 2.5%*), professions and management (*34,833; 2.4%*) and manufacturing (*9,000; 0.7%*). Interestingly, the Inland Empire's growth in early 2018 was faster than California in construction (*11.6% to 8.5%*) and logistics (*8.5% to 3.0%*), but slower in health care (*2.1% to 2.5%*), manufacturing (*-0.1% to 0.7%*) and management and professions (*0.5% to 2.4%*).

QER 2018 FORECAST

The 2018 Inland Empire forecast is for a gain of 45,000 jobs (*3.1%*) to 1,511,016, below the 49,433 gain (*3.5%*) in 2017. The annual average unemployment rate is predicted to fall from 5.1% to 4.7%. It should be noted that first quarter 2018 growth would put the inland area up by 52,900 jobs (*3.7%*) if CA Employment Development Department data is accurate and that expansion continued. The predictions here were created sector by sector based upon local trends, with allowance for the area's strengths and weaknesses plus its relationship to California and U.S. trends. All four broad areas of economic activity are expected to grow:

1. Clean Work, Good Paying (*Over $60,000*). The Inland Empire's better paying sectors are expected to add 6,400 jobs in 2018, up 1.9% and represent 14.2% of area employment growth. This comes after a gain of 6,967 positions (*2.1%*) in 2017. Health care will add 3,500 jobs, down from 3,700 in 2017 as the sector reacts cautiously to attacks on the Affordable Care Act. Local, state and federal government will be up 1,800 and higher education will increase by 1,000 as their budgets are improving. Management and professional firms will add 300 positions. The full group will continue lagging behind other sector groups despite the strengthening economy.

2. Clean Work, Moderate Paying (*$45,000-$60,000*). In 2018, financial organizations and local school districts will add 5,000 jobs, a gain of 2.8% and account for 11.1% of growth. This is up from 6,500 (*3.6%*) in 2017. K-12 education will add 4,500 new positions, down from 4,692 last year as K-12 school funding still grows. Financial activities will expand by 500 positions versus a loss of -133 in 2017 as real estate strengthens though internet processing subdues hiring.

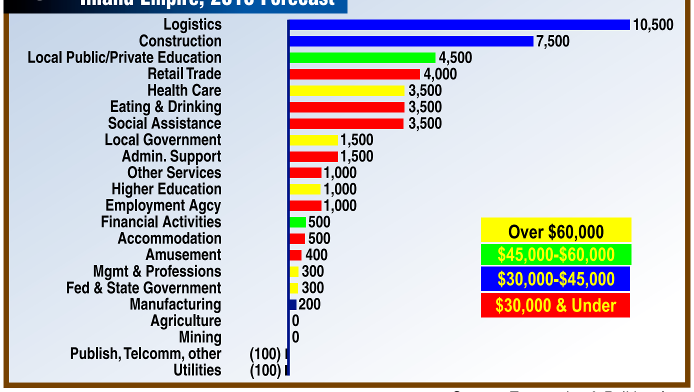
3. Blue Collar, Moderate Paying (*$40,000-$60,000*). The Inland Empire's modestly educated labor force and lower costs for homes and industrial facilities have historically caused its moderate paying blue collar firms to be ts fastest growing sectors. In 2018, this strength continues with the combined group expected to add 18,200 jobs, a growth rate of 4.9% and representing 40.4% of new positions. That is down from a gain of 19,175 (*5.4%*) in 2017. Logistics will grow by 10,500 workers, down from 14,025. It is propelled by increases in imports and the expansion of fulfillment centers but faces a shortage of available sites. Construction sector will exert itself as the housing market joins industrial and infrastructure building with the sector adding 7,500 jobs after an increase of 5,083 in 2017. Manufacturing will add 200 jobs versus 100 in 2017.

4. Lower Paying (*$30,000 & Below*). Like most U.S. areas, a large portion of the Inland Empire's economy is in sectors that pay lower incomes. In 2018, they are forecasted to add 15,400 jobs (*2.8%*) and represent 34.2% of employment growth. That would be down from 18,733 (*3.4%*) in 2017. Growth is believed to slow as internet purchases reduce retail spending and low unemployment creates shortages of workers.

SUMMARY

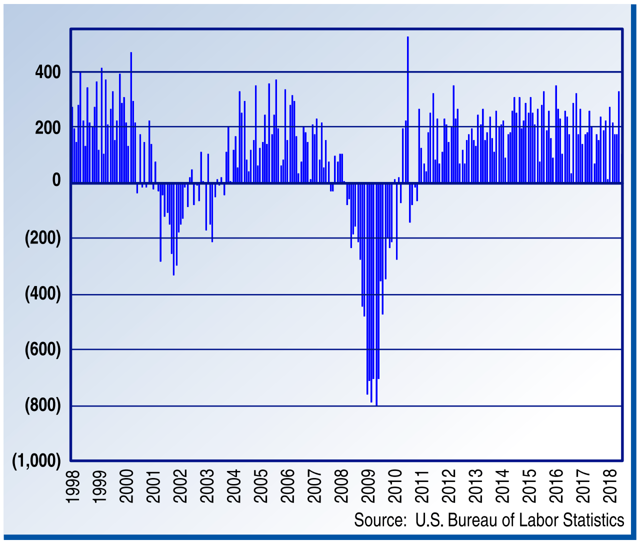
In 2018, the Inland Empire economy should gain 45,000 jobs (*3.1%*), after adding 49,433 in 2017 (*3.5%*). The expansion will continue partly because of the area's traditional advantages for blue collar/technical sectors (*less expensive land, modestly priced labor, growing population*), as well as continued growth in health care, and a small addition of jobs in higher paying sectors. As these sectors add workers, they will bring dollars into the area that then circulate through its population serving sectors causing them to expand as well. Interestingly, 34.2% of growth is forecasted for lower paying sectors and 65.8% in moderate and better paying jobs. That is a good mix as 60%-40% is a more normal distribution (*Exhibit 3*).

3 JOB CHANGE BY SECTOR
Inland Empire, 2018 Forecast



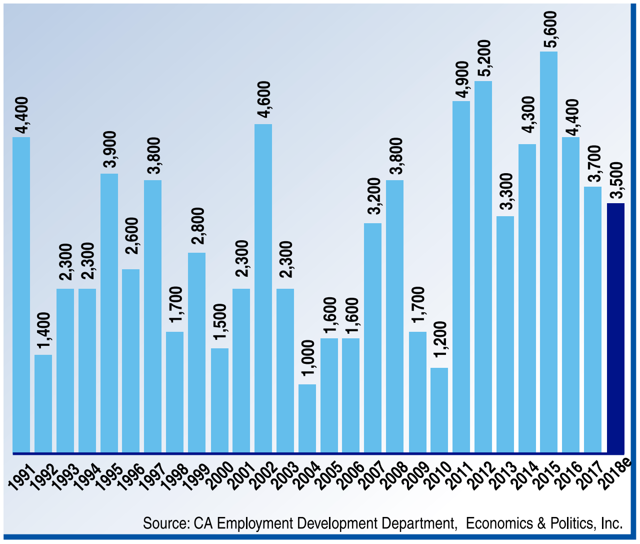
Source: Economics & Politics, Inc.

4 JOB CREATION OR DESTRUCTION
U.S., 1998-2018, Seasonally Adjusted (000)



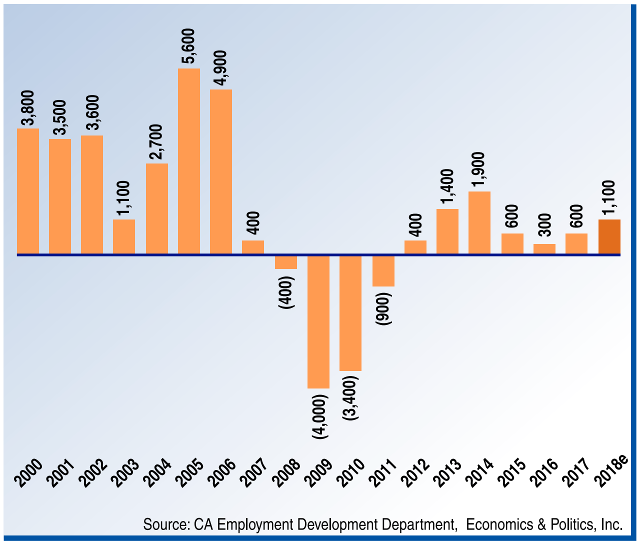
U.S. Job Creation. The deep 2008-2010 U.S. recession eliminated –8.7 million jobs (*-6.3%*). However, from January 2010 to March 2018, the economy created 18.5 million jobs. That brought total U.S. jobs to 9.8 million over the pre-recession high in February 2008. It means that the ocean of national forces affecting local economies like the Inland Empire are providing a positive environment. This situation is likely to be the norm for the foreseeable future as the relatively modest growth of the U.S. economy has not created the kinds of bubbles that have caused recessions in the last two decades. The federal tax cut could well accelerate the growth this year.

5 HEALTH SERVICES JOB GROWTH
Inland Empire, 1991-2018e



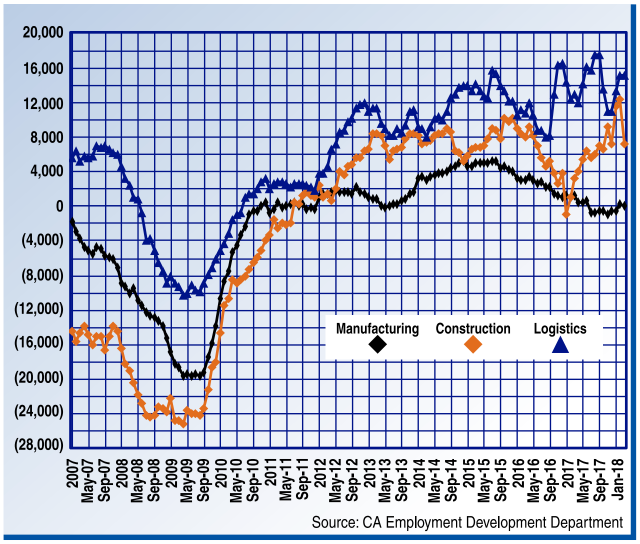
Health Care. Hospitals, ambulatory care and residential care facilities had median pay levels of $60,768 in 2017. They represent the only sector of the Inland Empire's economy that did not see job losses through the Great Recession. In the 2011-2017 general recovery period they added 31,400 jobs to reach a record 136,000. However, the confusion created by the political controversy surrounding the Affordable Care Act (*ACA*) means that the 2018 forecast is for relatively modest growth of 3,500 more jobs. Importantly, the ACA was responsible for creating health care demand by lowering the number of uninsured in the inland area from 2012 to 2016 from 750,957 to 336,238, off -414,719 or -55.2%. The uninsured share of residents fell from 28.8% to just 12.4%.

6 PROFESSIONAL, MANAGEMENT, MINING, UTILITIES, COLLEGES JOB GROWTH
Inland Empire, 2000-2018e



Non-Health Care, High Paying Sectors. The Inland Empire's high paying non-health care sectors had a combined 2017 median pay level of $73,279. Their local employment started the 2000s strongly, adding 25,700 jobs from 2000-2007. The group, which includes management, professionals, colleges, mining, information and utilities, then retreated by -8,700 jobs from 2008-2011 with housing developers and related professionals plunging while financial operations retreated to their coastal centers. A weak recovery occurred from 2012-2017 adding back 5,200 jobs. The 2018 forecast for just 1,100 more. This group is being hurt by the use of the internet for transactions as well as firms continuing to serve the inland region from their coastal offices.

7 BLUE COLLAR JOB GROWTH
Inland Empire, 2007-2018



Blue Collar/Technical Drivers. The Inland Empire's historic strength has been in the blue collar sectors that bring money to it from the outside world. The logistics sector has added 70,200 jobs during 2011-2017 to reach 178,900. The sector is forecasted to add 10,500 in 2018, down from 14,800 in 2017 as developable space is harder to find. Its 2017 median pay was $46,708. Construction dropped by –68,400 jobs in the recession but has added back 37,900 by 2017 to reach 97,000. It is expected to add 7,500 positions this year. Its 2017 median pay was $52,604. Manufacturing lost -38,300 positions in the recession and has added back 13,600 through 2017 to sit at 98,700 jobs. It is forecasted to add just 200 jobs in 2018, up from only 100 in 2017. The 2017 median pay was $51,385.

COMPARISON OF 2017 INLAND EMPIRE VS. CALIFORNIA: SHARES OF JOB CHANGES

From 2016-2017, the Inland Empire economy added 49,433 jobs, up 3.5%, while California created 335,392 jobs, up 2.0% (*Exhibit 8*). Employment growth in this region represented 14.7% of the jobs created in the state. That said, there are serious differences in the share of job growth in each sector found in the inland area versus the state.

High Paying Sectors. Among sectors paying median incomes of $60,000 and above, the Inland Empire's share of growth in two sectors was far below that for California during 2017. These were in management and professions (*0.0% v. 7.9%*) and health care (*7.5% v. 12.4%*). This underscores the lack of growth in higher paying sectors that has traditionally affected the inland counties. Smaller differences in the importance of two other such sectors also underline the difficulties the inland area is having with good paying jobs: higher education (*1.9% v. 3.3%*) and information (*-0.3% v. +0.8%*). Of the good paying sectors, the Inland Empire was favored slightly by shares of its employment gain in local government (*4.8% v. 3.4%*).

Moderate Paying Sectors. Of sectors paying $45,000-$60,000, the share of 2017 job growth in office based operations was split compared to the state. K-12 education employment gains (*9.5% v. 6.9%*) were a much higher share of the Inland Empire's growth, while financial activities were a smaller share (*-0.3% v. +2.5%*). Here we see the state's new priority for school funding to favor poorer districts in play. However, the tendency of finance, insurance and real estate firms to serve the inland area from their coastal county offices also shows up.

Also seen in the data is the enormous strength of the Inland Empire for blue collar/technical firms. For the area, the strength in logistics was a huge share of local job growth in 2017 (*28.4% v. 11.6%*) compared to the state. Construction's share of growth was similar between the region and the state (*10.3% v. 10.1%*). Manufacturing's share was weak in both (*0.1% v. 0.2%*). These facts underscore the competitive advantages of the region in logistics but also the long term worry as technology impacts each of these groups.

Low Paying Sectors. There was a significant difference in the share of growth in sectors paying median incomes of $30,000 and below during 2017 in the Inland Empire compared to the state. A much large shares of growth was in retail trade (*8.2% v. 4.5%*) possibly related to the high levels of consumption in a lower income area.. Smaller positive differences in the shares of job growth also occurred in administrative support (*5.0% v. 2.4%*) and accommodation (*1.3% v. 1.1%*) Otherwise, the share of lower paying job growth by sector were smaller in the Inland Empire than California. The largest negative growth share was in eating & drinking (*9.1% v. 12.1%*) and other services (*2.0% v. 4.3%*). Smaller differences showed up in amusement (*0.8% v. 2.1%*) and agriculture (*-0.5% v. +0.7%*). Local and state growth by employment agencies (*-0.6% v. 0.2%*) and social assistance (*12.6% v. 13.2%*) were very similar in share.

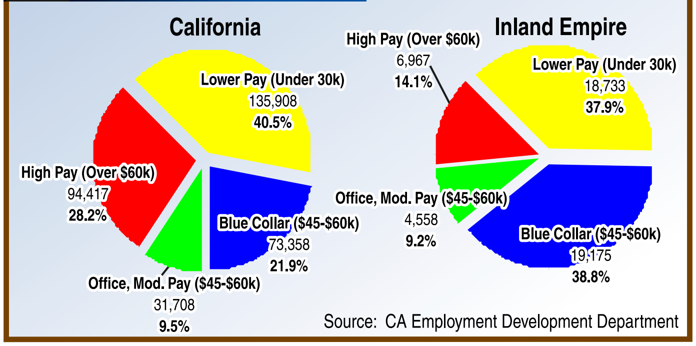
Summary. The differences in job growth between the Inland Empire and California show the very different competitive advantages for the inland area compared to the state generally. Blue collar/technical jobs continued as a local strength and a state weakness in 2017 (*Exhibit 9*). To a lesser extent, this is also true of K-12 education, social assistance and consumption sectors given the inland areas lower incomes. On the other hand, management, professions, information, and financial sector are a state strength and an inland weakness. As economic development professionals look at this information, the desire to overcome the weakness in high paying jobs is clearly a daunting one. Also, the strength in blue collar/technical jobs is scary given that technology is targeted towards eliminating this form of work as does the impact of much of California's regulatory environment.

8 JOB GROWTH SHARES
Inland Empire & California, 2016-2017

Sector	Inland Empire Job Change	% of Job Growth	Growth Rate	CA: Job Change	% of Job Growth	Growth Rate	IE Share of Growth More or Less Than CA
Mgmt & Professions	(17)	-0.0%	-0.0%	26,467	7.9%	1.8%	-7.9%
Health Care	3,700	7.5%	2.8%	41,708	12.4%	2.9%	-5.0%
Higher Education	942	1.9%	5.0%	11,192	3.3%	2.7%	-1.4%
Information	(158)	-0.3%	-1.4%	2,758	0.8%	0.5%	-1.1%
Federal & State	292	0.6%	0.8%	2,342	0.7%	0.5%	-0.1%
Utilities	(158)	-0.3%	-3.0%	(942)	-0.3%	-1.6%	-0.0%
Mining	(8)	-0.0%	-0.9%	(358)	-0.1%	-1.6%	0.1%
Local Government	2,375	4.8%	3.1%	11,250	3.4%	1.4%	1.5%
Clean Work, Good Pay	**6,967**	**14.1%**	**2.1%**	**94,417**	**28.2%**	**1.8%**	**-14.1%**
K-12 Education	4,692	9.5%	3.7%	23,175	6.9%	2.0%	2.6%
Financial Activities	(133)	-0.3%	-0.3%	8,533	2.5%	1.0%	-2.8%
Clean Work, Moderate Pay	**4,558**	**9.2%**	**2.6%**	**31,708**	**9.5%**	**1.6%**	**-0.2%**
Logistics	14,025	28.4%	8.5%	38,942	11.6%	3.1%	16.8%
Construction	5,083	10.3%	5.5%	33,758	10.1%	4.4%	0.2%
Manufacturing	67	0.1%	0.1%	658	0.2%	0.1%	-0.1%
Dirty Work, Moderate Pay	**19,175**	**38.8%**	**5.4%**	**73,358**	**21.9%**	**2.2%**	**16.9%**
Eating & Drinking	4,508	9.1%	3.7%	40,592	12.1%	2.9%	-3.0%
Other Services	967	2.0%	2.2%	14,517	4.3%	2.3%	-2.4%
Amusement	375	0.8%	2.0%	7,042	2.1%	2.3%	-1.3%
Agriculture	(233)	-0.5%	-1.6%	2,192	0.7%	0.5%	-1.1%
Employment Agcy	(308)	-0.6%	-0.7%	642	0.2%	0.1%	-0.8%
Social Assistance	6,208	12.6%	9.8%	44,250	13.2%	6.1%	-0.6%
Accommodation	658	1.3%	3.8%	3,750	1.1%	1.7%	0.2%
Admin. Support	2,483	5.0%	4.8%	8,000	2.4%	1.4%	2.6%
Retail Trade	4,075	8.2%	2.3%	14,925	4.5%	0.9%	3.8%
Lower Paying Jobs	**18,733**	**37.9%**	**3.4%**	**135,908**	**40.5%**	**2.1%**	**-2.6%**
Total, All Industries	**49,433**	**100.0%**	**3.5%**	**335,392**	**100.0%**	**2.0%**	

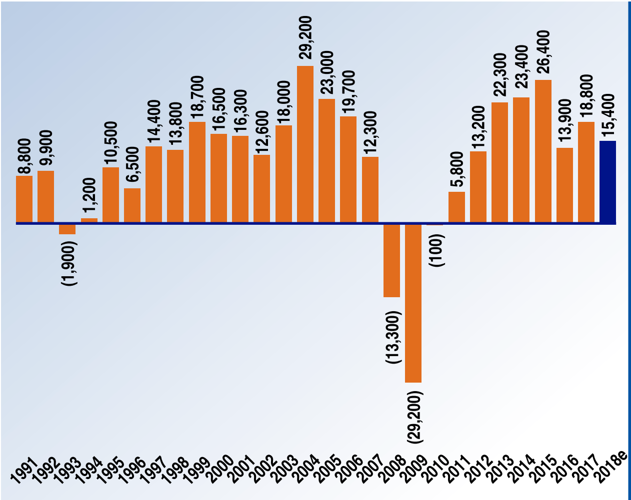
Source: Employment Development Department

9 JOB GROWTH
California & Inland Empire, 2017



Source: CA Employment Development Department

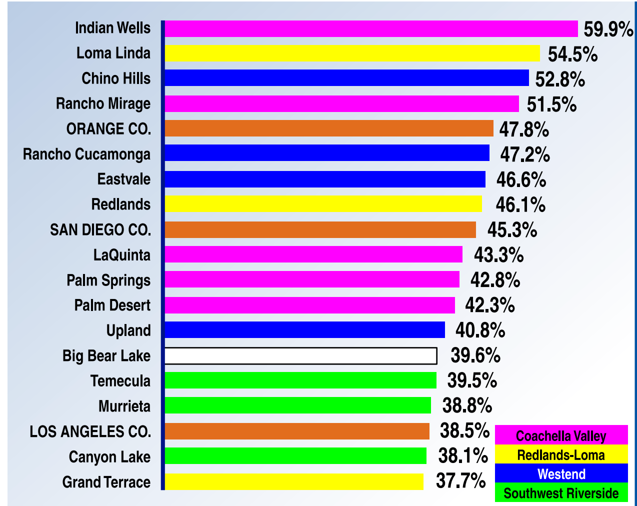
10 LOWER PAYING SECTORS
Inland Empire, 1991-2018e



Source: CA Employment Development Department, Economics & Politics, Inc.

Lower Paying Sectors. Median pay in the Inland Empire's lower paying sectors is $30,000 or less. They represent about 40% of employment as money brought by other sectors changes hands in local stores and service outlets. In the 2008-2010 recession, these sectors lost 42,600 jobs as the dollars moving through the local economy shrank. In the 2011-2017 recovery and expansion, they added back 123,800 positions as those flows of dollars increased. That was 81,200 more jobs than were lost. In 2018, the forecast is that these sectors will add a modest 15,400 jobs as regional growth continues but the pace slows. This group includes eating and drinking, retailing, accommodations and entertainment as well as social service, business and consumer services, agriculture and part timers.

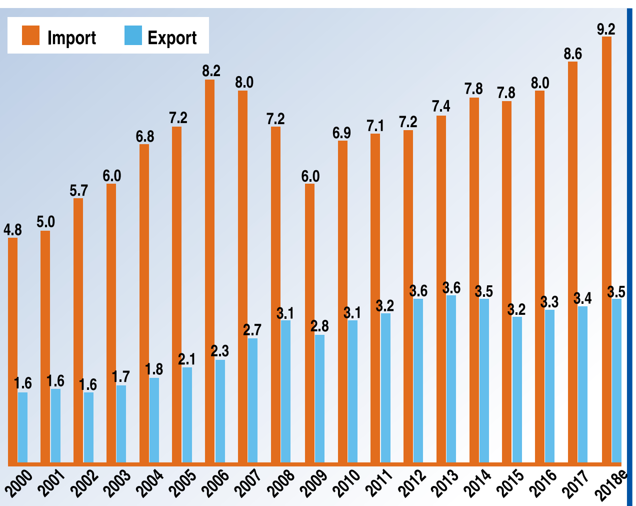
11 HIGHEST SHARE ASSOCIATES OR HIGHER DEGREES
Inland Empire Cities, 2016



Source: American Community Survey, 2016

AA Degrees & Above. The Inland Empire's educational attainment has inhibited the ability of its professional, engineering, managerial and scientific sector to grow. For the area, just 29.2% of adults have Associate of Arts (*AA*) or higher degrees well below Los Angeles (*38.5%*), San Diego (*45.3%*) and Orange (*47.8%*) counties in 2016. Of the 52 inland cities, four had adults with stronger AA and above educations than Orange County; three were below that and above San Diego County and seven are below San Diego County and above Los Angeles. These are the cities that can compete with their coastal neighbors on the basis of education.

12 IMPORT & EXPORT VOLUME, 2000-2018e
Ports of Los Angeles & Long Beach (mil. teus)

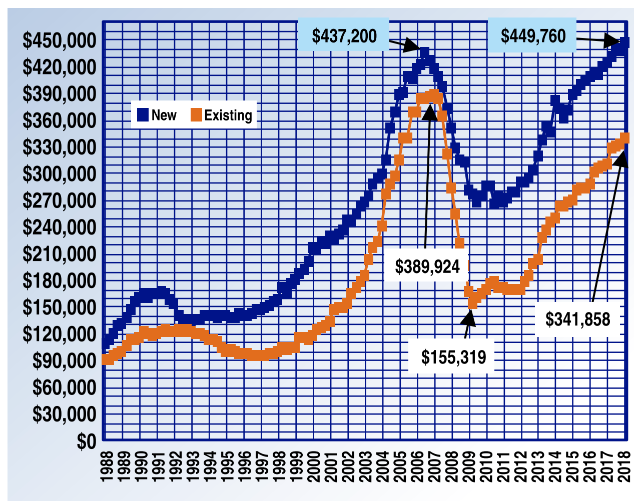


2018e = Based upon growth experienced Year to Date, March

Source: Port Import Export Reporting Service (PIERS), collected from Vessel, LA-LB for 2011-2018

Port Volumes. A key driver of the Inland Empire's economy is the volume of cargo flowing through the ports of Los Angeles and Long Beach. In 2018, the two ports are on track to see imported containers reach 9.2 million 20-foot equivalent containers (*teus*), a record and up 6.3% or 542,600 containers from 2017. Along with e-commerce, which continues growing nationally at 15-16% compounded, this volume will mean sustained strong growth in trucking and warehousing jobs in the Inland Empire. The weakening dollar helped exported containers start 2018 by rising another 4.3% and headed for 3.5 million teus.

13 PRICE TRENDS, NEW & EXISTING HOMES
Inland Empire, 1988-2018, Quarterly

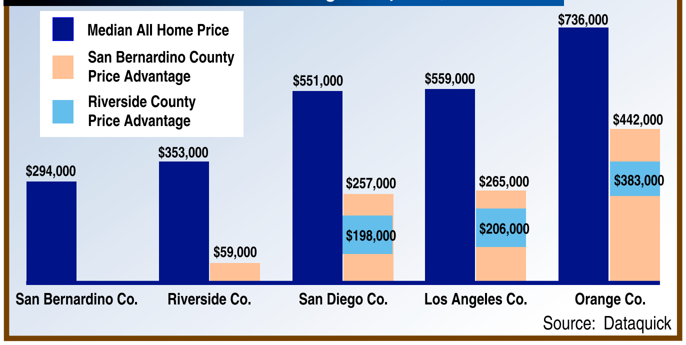


Source: Dataquick & Economics & Politics, Inc.

Residential Prices. During first quarter 2018, the Inland Empire's residential prices have continued rising. Existing median home prices rose from $312,952 in first quarter 2017 to $341,858 in 2018, up $28,906 or 9.2%. Since the 2009 low of $155,319, prices have more than doubled (*120.1%*) but remain -12.3% under the $389,924 high in 2006. Since many homes sold at the 2005-2007 peak were overpriced and purchased with questionable mortgages, prices need not reach the record highs for the market to be normal since many were lost to foreclosures. New homes reached $449,760 in 2018, up 5.5% from $426,333 in first quarter 2016. That was just $12,560 or 2.9% above the 2006 record of $437,200.

INLAND EMPIRE HOUSING MARKET SOARING PRICES, MODEST SALES

14 HOME PRICES, SO. CALIFORNIA MARKETS
Median Priced New & Existing Home, 1st Quarter 2017



Source: Dataquick

In first quarter 2018, single family sales in the Inland Empire's residential market appears to be in neutral. As indicated early (*Exhibit 7, page 4*), construction employment has grown for five straight years including 5,083 jobs in 2017 and a forecast of 7,500 for 2018. Meanwhile, total permit valuations were 10,307 in 2017, highest since 2007 and notices of default (*9,490*) lowest since before 2000. The inland region's first quarter residential prices have increased significantly, up 9.2% (*existing*) and 5.5% (*new*) from 2017 (*Exhibit 13, page 6*). The levels respectively reached $341,858 and $449,760. That put them -12.3% below and 2.9% above their pre-recession highs (*$389,924; $437,200*).

Prices. In first quarter 2018, the traditional pricing advantage in the Inland Empire's housing market remained (*Exhibit 14*). In 1st quarter 2018, the median priced San Bernardino County home sold at $324,000, while in Riverside, it was $382,000 (*half higher/half lower*). Compared to San Diego County (*$590,000*), families can save $208,000-$266,000 migrating inland. Los Angeles County buyers (*$605,000*) can save $223,000-$281,000 moving inland. In Orange County (*$782,000*), a family can save $400,000-$458,000 on the median inland home. As people begin to desire homes, these differentials will drive the Inland Empire's home markets.

Volume. Though Inland Empire residential prices have increased significantly, volume has been stuck in a range around 16,000 seasonally adjust sales for going on seven years. Seasonally adjusted new and existing sales in first quarter 2018 were 16,426 units, down from 16,750 the prior quarter (*Exhibit 16*). Growth should rise in 2018 now that millennials are aging and starting to form families and consumer confidence is soaring along with the economy.

Looking at raw volume data, Riverside County had 7,148 existing home sales in first quarter 2018, up 1.4% from 7,048 in 2017 (*Exhibit 15*). San Bernardino County had 5,221 existing home sales, down -5.7% from 5,536 in first quarter 2017. By sub-market, Coachella Valley had Riverside County's largest percentage gain in volume (*1,384; 13.3%*) though total volume was dominated by the South I-215 area (*1,452; -5.1%*). In San Bernardino County, the mountains led in percentage gain (*692; 13.3%*) while the West I-15 area led in volume (*1,106; -3.7%*).

16 ALL HOME SALES, INLAND EMPIRE
Seasonally Adjusted, by quarter, 1988-2018

Source: Dataquick

15 HOME DEED RECORDINGS
Inland Empire, 1st Quarter, 2017-2018

NEW HOMES				EXISTING HOMES			
Area	1st-2017	1st-2018	% Chg.	Area	1st-2017	1st-2018	% Chg.
West of I-15	255	469	83.9%	SB Mountains	611	692	13.3%
Victor Valley	51	90	76.5%	SB Desert	482	528	9.5%
East of I-215	26	35	34.6%	West of I-15	1,148	1,106	-3.7%
I-15 to I-215	130	135	3.8%	San Bdno-Highland	736	696	-5.4%
San Bdno-Highland	103	96	-6.8%	East of I-215	449	395	-12.0%
SB Desert	8	4	-50.0%	Victor Valley	1,181	1,032	-12.6%
SB Mountains	8	4	-50.0%	I-15 to I-215	929	772	-16.9%
SAN BDNO COUNTY	**581**	**833**	**43.4%**	**SAN BDNO COUNTY**	**5,536**	**5,221**	**-5.7%**
Moreno Valley	35	61	74.3%	Coachella Valley	1,222	1,384	13.3%
Pass Area	96	115	19.8%	Pass Area	315	354	12.4%
I-215 South	254	252	-0.8%	Riverside-Jurupa Valley	845	896	6.0%
Corona, Norco	187	160	-14.4%	Rural Desert	507	528	4.1%
I-15 South	322	269	-16.5%	Corona, Norco	747	730	-2.3%
Coachella Valley	99	71	-28.3%	I-15 South	1,374	1,325	-3.6%
Rural Desert	55	39	-29.1%	I-215 South	1,530	1,452	-5.1%
Riverside-Jurupa Valley	140	85	-39.3%	Moreno Valley	508	479	-5.7%
RIVERSIDE COUNTY	**1,188**	**1,052**	**-11.4%**	**RIVERSIDE COUNTY**	**7,048**	**7,148**	**1.4%**
INLAND EMPIRE	**1,769**	**1,885**	**6.6%**	**INLAND EMPIRE**	**12,584**	**12,369**	**-1.7%**

Source: Dataquick

Riverside County's first quarter 2018 volume was 1,052, down -11.4% from 1,188 in 2017 with the largest percentage gain in Moreno Valley (*61; 74.3%*). The volume leader was the I-215 south (*269; -16.5%*). San Bernardino County's volume was 833 units, up 43.4% from first quarter 2017's volume of 581. The I-15 west area had the largest absolute and percentage gain (*469; 83.9%*).

Summary. As indicated, the Inland Empire's housing market continues to remain in a narrow band. San Bernardino County's new home sales showed some life, but overall the markets retreated to their 16,000 sales range. Certainly, prices are soaring with new homes (*$449,760*) 2.5% above their 2007 peak (*$437,200*). Existing homes (*$341,858*) are now only -12.3% below their 2007 level (*$389,924*). Looking ahead, interviews with realtors indicated the highest optimism among them in several years with their difficulty being a lack of supply to sell to the growing number of potential buyers. Ultimately, this should translate into more new home construction, though the low FHA lending limit (*$405,950*) is hurting the market.