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RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA

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KEY INDUSTRIES DRIVING RIVERSIDE COUNTY'S PROSPERITY

Marney Cox, Ph.D., Chief Economist,
San Diego Association of Government

John E. Husing, Ph.D.

For some time, the I-15 Interregional Partnership, a collaborative effort led by locally elected representatives from both Riverside and San Diego, has been sponsoring a research project designed to identify the "basic" cluster of sectors driving economic growth in Riverside and San Diego counties. The purpose of this research has been twofold. One has been to identify the portions of each county's economy upon which economic development specialists should concentrate in order to maximize the opportunity to enhance their prosperity. The second has been to determine the levels of similarity between the economies of the two counties so that common strategies beneficial to both can be identified. Hopefully, this will lay the foundation of economic development initiatives that can be pursued under a collaborative and bi-regional approach. Below, the project's findings for Riverside County are summarized.

BASIC VS. SECONDARY ACTIVITY

In designing economic development strategies, it is important to differentiate between two types of economic sectors. One group are "basic" sectors or clusters of activity that bring money to a community from the outside world. These activities are analogous to the gold mines in an old western town. There, the miners dug up the gold and sent it away in return for money. The dollars supported the miners and represented a new influx of economic energy coming into the town. The other type of activity occurred when the miners spent these *same* dollars buying tools at the general store or entertainment at the saloon. As the dollars changed hands locally, a "secondary" tier of economic activity, income and jobs was created. If more gold was found, the influx of dollars expanded both the basic and secondary tiers of the economy creating expanded prosperity. However, if the gold mines went dry, the influx of basic dollars stopped and the secondary activity disappeared as well, resulting in a ghost town.

In a modern economy, the larger and more diversified the basic tier of sectors, the more prosperous and stable a community's economy will be. As a result, in our fast-paced, international economy, elected officials, planners, and local residents want information about the basic sectors that ultimately are the source of their community's prosperity. These are often interrelated "clusters" of firms while some are com-

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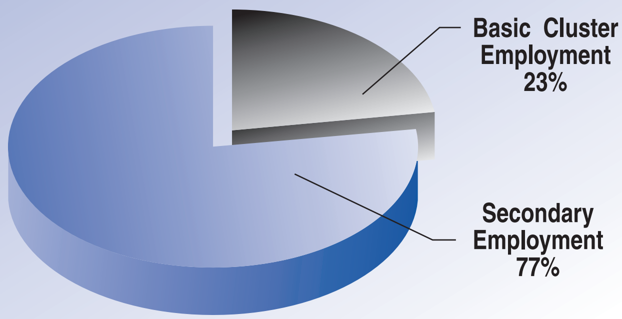
1 PERCENT OF JOBS IN BASIC CLUSTERS
Riverside County, 2005



Source: San Diego Association of Governments using 2005 CA Employment Development Department data

petitors. Others are their suppliers. Together, they represent regional specialization as they bring dollars to a place from the rest of the world.

MODERN DAY BASIC SECTORS

At one time, most basic activities were primarily associated with manufacturers who sold goods outside the local area and brought fresh influxes of dollars into it. However, today, the basic clusters playing this role in Riverside County are just as likely to be activities like medical instrument design, biotechnology, telecommunications, logistics or software programming. The list may also contain unique sectors like the county's Indian gaming and winery industries.

Like the gold mining town in the Old West, the more successful Riverside County's basic sectors, the greater its prosperity is likely to be. Thus, the dollars flowing into these sectors from the outside world increase activity both within them as well as in the county's secondary economy. The secondary activity is seen in the growth of retail outlets like the Promenade or Tyler mall, service sectors from local professionals to beauty saloons, and governmental agencies like the city governments and school districts.

Importantly, Riverside County's basic clusters compete more nationally and internationally than locally. Their sales are thus not constrained by the size of the local market. This allows them to expand far beyond what Riverside County's internal economy would justify. As they bring more and more money into the county, these sectors set the pace for the expansion of its secondary sectors as well as the prosperity of local residents. In addition, because these firms often face national or worldwide competition, they tend to be relatively efficient users of labor and capital. As they compete locally for workers and capital (*money*), they tend to raise the level of efficiency and productivity of the economy. Since the more productive a local economy becomes the higher its general level of wages and return to capital, their presence can raise local incomes and living standards.

ECONOMIC STRATEGIES

Meanwhile, communities would like a broad range of basic firms so that they are not vulnerable to the ebbs and flows of any one industry. The importance of this desire was seen in the devastating impact that the mid-1990s downsizing of March Air Force Base had on much of Riverside County. That event showed that the county had been overly depended upon an influx of basic dollars from the defense sector.

Given the importance of basic sectors to Riverside County's prosperity, economic development professionals need to understand what sectors are playing this role so they can design strategies to maintain and expand their competitiveness for them. Some efforts might be aimed at creating a better educated workforce for these firms. Others may include building more efficient truck, rail and airport linkages. When an area realizes it has competitive advantages for a sector, outreach programs are often used to ensure that these facts are known to the people who advise companies on where to expand. This might include their location executives and consultants or their commercial brokerage tenant representatives.

RIVERSIDE COUNTY'S BASIC CLUSTERS

In the study of Riverside County, 17 sector clusters were identified as being the county's primary "basic" drivers of economic growth (*Exhibit 1*). They provided more than 136,800 jobs during 2005 and accounted for 23% of the

2 EMPLOYMENT AND WAGES IN BASIC CLUSTERS
Riverside County, 2005

	Basic Cluster Employment	Average Wage	2005 Employment	Average Annual Change in Jobs, 2001-05
1.	Aircraft Parts and Defense-Related Mfg.	$61,000	1,700	1.5%
2.	Alternative Power Generation	$76,900	800	25.8%
3.	Aluminum and Metal Product Manufacturing	$44,900	3,500	8.5%
4.	Biological Product Manufacturing	$63,200	1,800	6.7%
5.	Electronic Component Manufacturing	$33,800	1,500	30.1%
6.	Entertainment and Hospitality	$25,400	32,100	8.7%
7.	Fruits, Vegetables and Melon (Except Grapes)	$19,400	2,600	0.0%
8.	Logistics: Warehousing and Transportation	$36,600	10,600	16.1%
9.	Manufactured, Mobile, and Motor Homes	$36,800	6,800	7.3%
10.	Musical Instrument Manufacturing	n.d.	1000-5000	1.8%
11.	Nursery and Floriculture Production	$26,600	1,300	6.8%
12.	Plastics and Foam Product Manufacturing	$32,000	4,000	-3.0%
13.	Poultry and Dairy Products	$30,700	3,400	-4.1%
14.	Residential Construction and Const. Products	$33,600	57,700	12.2%
15.	Surgical and Medical Instruments and Supplies	n.d.	1000-5000	-0.1%
16.	Telecommunications	$62,100	2,500	4.1%
17.	Wineries and Grape Vineyards	$17,800	2,400	-5.5%
	Total Traded Clusters	**$33,625**	**136,827**	**8.7%**
	Total Riverside County	**$34,013**	**598,408**	**6.1%**

Notes: n.d. suppressed to protect confidentiality.
Source: San Diego Association of Governments using CA Employment Development Department data

county's total employment.

Total payroll in these basic clusters was $4.6 billion in 2005, with average annual wage of $33,625. This average wage was slightly less than the $34,013 for all wage and salary jobs in the county. This reflects the fact that some of the county's historical basic clusters like agriculture and food production are still important drivers of the economy. Note that total wage and salary employment in Riverside County grew rapidly between 2001 and 2005, rising by over 30%, or 6.1% per year (*Exhibit 2, page 2*).

Employment in basic clusters as a group grew more rapidly in the same period, up 8.7% per year (*Exhibit 2*). Clusters such as alternative power generation and electronic component manufacturing grew at exceptional rates of 25% and 30% per year respectively, but these increases were from very small 2001 job bases. Some of the larger clusters, like logistics and residential construction, also grew rapidly while poultry and dairy products and plastics and foam product manufacturing both lost jobs from 2001 to 2005. Employment in wineries and grape vineyards also appeared to lose employment. However, that may be a reflection of a move towards a greater use of contract labor.

In terms of size, employment in the 17 basic clusters ranged from 800 (*alternative power generation*) to 57,700 (*residential construction & construction products*). The average wages ranged from $17,800 per year (*wineries & grape vineyards*) to $76,900 per year (*alternative power generation*).

JOB GROWTH VS. AVERAGE PAY LEVELS

One way to analyze Riverside County's 17 basic sector clusters is to divide them into groups according to 2001-2005 employment growth and 2005 average wage level, and then compare the groups against their countywide average job growth and wage levels. The result is four pairings.

The **high job growth, high wage level** group was led by alternative power generation. Its 25.8% job growth was over four times the county's average of 6.1%; its $76,900 average annual wage was over twice the county's $34,013 average. Unfortunately, 2005 employment in this cluster was just 800 jobs. Other high job growth, high wage level clusters included aluminum and metal product manufacturing, biological product manufacturing, logistics, and manufactured mobile and motor homes.

Next were the **high job growth, low average wage level** clusters. This included the fastest growing group: electronic component manufacturing. It had a 30% job increase from 2001-2005. Its 2005 average wage of $33,800 was a little below the county's $34,013 average. Other clusters in this group included residential construction and construction products, entertainment and hospitality, and nursery and floriculture production.

Group three were the **low job growth, high average wage level** clusters. Here, the primary example was aircraft and defense manufacturing with job growth of just 1.5%, well below the county's 6.1% rate. However, its average pay was a very high $61,000. Others in this group were surgical and medical instruments and supplies, as well as telecommunications.

Finally, there were the **low job growth (*or declines*), low average wage level** groups. Here, a leading example was fruits, vegetables and melon (*except grapes*). Its job growth rate was roughly 0.0% and it had average pay of just $19,400. Other cluster sectors in this weak group were plastics and foam product manufacturing, poultry and dairy products, plus wineries and grape vineyards.

ECONOMIC CONCERN

In 2005, 23% of Riverside County's 136,827 basic sector jobs were found in the two basic sector groups that had average pay levels above the county's average pay level of $34,013. In the **high job growth, high average wage level** clusters, there were 23,600 jobs (*17%*) with most of these in either logistics or manufactured mobile and motor homes. In this group, average wages were $41,300 or 23% above the county's $34,013 average. In the **low job growth, high average wage level** clusters, there were 8,300 jobs (*6%*). This group's average wage of $56,100 was 67% higher than the county's average.

Most troubling for Riverside County's current employment trends was the fact that 77% of its 2005 basic cluster jobs were in the two lower wage level groups. The **high job growth, low average wage level** clusters had 92,600 jobs (*68%*). Its average wages of $30,600 was 10% below the county's average of $34,013. The **low job growth, low average wage level** group had 12,300 of the county's basic cluster jobs (*9%*). These had an average pay level of $26,300 or 22% below the county's average.

A key concern thus emerging from these trends is that, over time, Riverside County must strive to have more job growth in basic sectors with average wage levels above its $33,625 countywide average than it does in basic sectors with average wages below that level. If this does not occur, the county will see an overall decline in the average pay levels of the county. Worse, this will be brought about by the sectors that should be its strongest: those bringing money to it from the outside world.

3 JOBS IN BASIC CLUSTERS, BY AREA & JOB/WAGE GROUP
Riverside Co., 2005

Riverside County Planning Area	High Job Growth Higher Wage	High Job Growth Lower Wage	Slow Job Growth Higher Wage	Slow Job Growth Lower Wage	Total
North/Northwest	11,611	35,079	3,574	4,846	55,110
Central/Hemet/San Jacinto	5,339	5,739	273	843	12,194
Southwest	1,266	11,623	3,088	1,210	17,187
East County/Unincorporated	5,360	40,189	1,360	5,427	52,336
Total Riverside County	**23,576**	**92,630**	**8,295**	**12,326**	**136,827**

Note: Higher or slower is defined by comparing against the county average.
Source: San Diego Association of Governments

BASIC SECTORS: GEOGRAPHIC SPREAD

Within Riverside County in 2005, the jobs in the basic sector clusters were spread unevenly throughout the county. The North/Northwest (*40%*) and East County (*39%*) areas had the largest concentrations of basic employment, accounting for some 79% of the 136,827 jobs in these sectors (*Exhibit 3, page 3*). The Southwest (*13%*) and Central/Hemet/San Jacinto (*9%*) areas accounted for only 21%.

However, the location of basic sector jobs paying above Riverside County's average of $33,625 were distributed somewhat differently. The highest average pay levels in basic clusters were found in the job strong North/Northwest area (*$36,300*), followed by the relatively job weak Southwest area (*$35,200*). The job weak Central/Hemet/San Jacinto area ranked third in average pay among its basic clusters (*$34,700*). The job strong East County/Unincorporated area had the lowest average pay in its basic sectors (*$30,100*) (*Exhibit 4*).

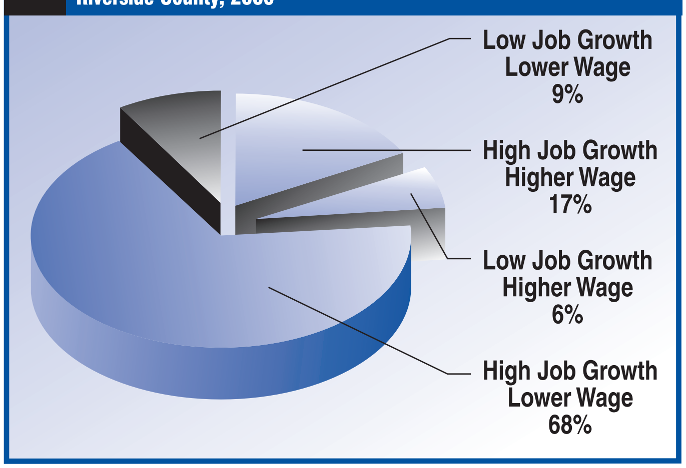
STUDY'S KEY FINDINGS

The Riverside County economic study had two key findings:

1. The largest and fastest growing basic job clusters offer wages below the county's average wage rate.

The economic development issues facing Riverside today are not from a moribund economy. One would be hard-pressed to find another county that has experienced similar rates and amounts of economic growth that Riverside has shown over the past ten years. However, there is reason to believe that Riverside's economic prosperity is at risk. The economic development challenges for Riverside are more serious than would first appear from reviewing the aggregate, surface level data. These trends, if left unchecked, will likely bring long-term problems, ultimately affecting the residents' standard of living.

5 JOB CONCENTRATION HIGHER JOB GROWTH LOWER WAGE CLUSTERS
Riverside County, 2005



This point is found in the fact that 68% of the county's jobs are in basic clusters that offer new jobs at a pace faster than the county average but have wages below its $33,625 average wage rate. A continuation of this trend will make it difficult for the region's standard of living to rise. More middle-income job opportunities are needed to provide balanced job growth and a steadily rising standard of living. The full draft study includes a set of recommendations to accomplish this goal. It is available at:

http://www.i15irp.com/Cluster%20Study%20-%20Draft%20Report.pdf

4 Wage Level in Basic Clusters, by Area & Job/Wage Group
Riverside Co. 2005

Riverside County Planning Area	High Job Growth Higher Wage	High Job Growth Lower Wage	Slow Job Growth Higher Wage	Slow Job Growth Lower Wage	Total
North/Northwest	$43,000	$55,700	$32,900	$30,900	$36,300
Central/Hemet/San Jacinto	$38,000	$61,200	$31,200	$29,200	$34,700
Southwest	$45,800	$56,100	$29,500	$24,600	$35,200
East County/Unincorporated	$39,900	$56,300	$28,900	$22,100	$30,100
Total Riverside County	**$41,300**	**$56,100**	**$30,600**	**$26,300**	**$33,625**

Note: Higher or slower is defined by comparing against the county average.
Source: San Diego Association of Governments

2. The opportunities to develop, expand and shape employment clusters.

Among other possibilities, the study found that Riverside County's logistics and wineries clusters may offer opportunities to expand and improve their presence. Businesses in the logistics cluster provide long-distance transportation services, especially trucks, warehousing and storage, and other related shipping and broker related services. Riverside economic development professionals have indicated a desire to expand this cluster, which would put more trucks on the road and require an expansion of warehousing and storage facilities as well as activity at March Air Reserve Base. Today, many of these trucks originate from the Los Angeles, Long Beach, San Pedro Harbor area, with a smaller number bringing goods from Mexico through the Otay Mesa Border crossing in San Diego. The "truck only lane" concept may help to facilitate the movement of goods and help to expand the logistics cluster while also improving safety and delivery speed.

An economic development opportunity may be found in the future potential of wineries in the southern Riverside-northern San Diego county area. Marketing and linking the wineries together may provide sufficient economies of scale to substantially increase the number of visitors. In addition, there is the opportunity to connect the wineries to the growing Indian gaming cluster. Together, these industries would offer tourists multiple reasons for visiting and spending money in the area. Also, there is the opportunity of establishing a linkage between the wineries and research at the University of California, Riverside similar to what has occurred in northern areas like the Napa Valley. This linkage could help provide advanced workforce skills and degrees, as well as product research to help with grape stocks, pesticides, herbicides, fertilizers and irrigation technology. ■

INLAND EMPIRE EMPLOYMENT ... Continued Disappointing Growth

From January to November 2005-2006, the Inland Empire was up an average of 30,373 jobs or 2.5%. In this same period, the gains were 46,145 in Los Angeles, 18,982 in San Diego, and 17,300 in Orange counties. For the inland area, the gain would represent a significant slowdown from the 2004-2005 increase of 58,109 jobs. However, a slowdown of that size is more likely the result of sampling errors by the CA Employment Development Department. Thus, in first quarter 2006, EDD showed the area up 34,700 jobs but the U.S. Bureau of Labor Statistics put the gain at 54,868 (*Exhibit 9*). Ultimately, EDD must adjust to BLS's figures.

6 INLAND EMPIRE EMPLOYMENT INFORMATION
September-November, 2006

Sector	Sep-06	Oct-06	Nov-06	Nov-05	2005-2006	%2005-2006
Local Government	79,000	79,700	79,400	75,900	3,500	4.6%
Mgmt & Professions	54,500	54,600	55,000	52,800	2,200	4.2%
Higher Education	13,700	15,700	16,200	15,900	300	1.9%
Federal & State	36,800	36,800	36,800	36,600	200	0.5%
Utilities	5,500	5,500	5,400	5,400	0	0.0%
Mining	1,300	1,300	1,300	1,400	(100)	-7.1%
Clean Work, Good Pay	**190,800**	**193,600**	**194,100**	**188,000**	**6,100**	**3.2%**
Admin. Support	42,100	42,500	42,500	39,900	2,600	6.5%
Health Care	95,500	95,900	96,200	93,700	2,500	2.7%
Financial Activities	50,100	50,500	50,400	49,400	1,000	2.0%
Education	105,500	109,100	110,800	110,400	400	0.4%
Publish, telecomm, Other	14,500	14,500	14,600	14,300	300	2.1%
Clean Work, Moderate Pay	**307,700**	**312,500**	**314,500**	**307,700**	**6,800**	**2.2%**
Transport & Warehouse	58,600	59,000	59,300	55,900	3,400	6.1%
Manufacturing	121,200	121,100	121,200	120,000	1,200	1.0%
Wholesale Trade	45,400	45,400	45,300	44,800	500	1.1%
Construction	129,800	128,000	126,200	127,200	(1,000)	-0.8%
Dirty Work, Moderate Pay	**355,000**	**353,500**	**352,000**	**347,900**	**4,100**	**1.2%**
Employment Agcy	51,200	50,700	50,600	48,300	2,300	4.8%
Eating & Drinking	91,200	91,200	91,700	89,500	2,200	2.5%
Retail Trade	169,000	169,900	173,200	171,400	1,800	1.1%
Other Services	42,300	42,500	42,700	41,300	1,400	3.4%
Amusement	14,400	14,800	15,700	15,300	400	2.6%
Accommodation	17,700	18,000	18,200	17,900	300	1.7%
Social Assistance	13,100	12,900	12,900	12,900	0	0.0%
Agriculture	15,000	14,900	15,000	16,000	(1,000)	-6.3%
Lower Paying Jobs	**413,900**	**414,900**	**420,000**	**412,600**	**7,400**	**1.8%**
Total, All Industries	**1,267,400**	**1,274,500**	**1,280,600**	**1,256,200**	**24,400**	**1.9%**
Civilian Labor Force	1,732,300	1,751,300	1,755,100	1,729,400	25,700	1.5%
Employment	1,650,900	1,674,700	1,673,700	1,647,200	26,500	1.6%
Unemployment	81,400	76,600	81,500	82,300	(800)	-1.0%
Unemployment Rate	4.7%	4.4%	4.6%	4.8%	-0.2%	

p = preliminary, will be subject to revisions
SOURCE: CA Employment Development Department

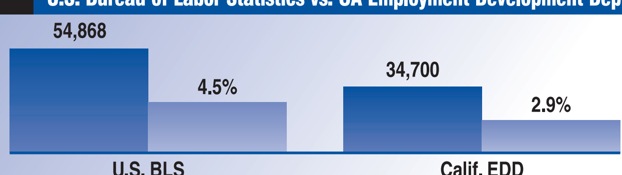
CLEAN WORK, GOOD PAY: 3.2% VS. 7.0% FORECAST

Sectors providing high paying work added 6,100 jobs (*3.2%*) in the Inland Empire from November 2005-2006 (*Exhibit 8*). Local government added 3,500 jobs (*4.6%*) as their budgets recovered. Management and professions added 2,200 jobs (*4.2%*) as the office market expanded with the area's larger population and economy. Higher education grew 300 (*1.9%*) and state and federal employment rose 200 (*0.5%*) due to the growing population. Utilities were flat and mining lost 100 positions (*-7.1%*).

CLEAN WORK, MODERATE PAY: 2.2% VS. 1.8% FORECAST

The Inland Empire's sectors that primarily pay moderate incomes to white collar workers grew by 6,800 jobs (*2.2%*) from November 2005. Administrative support services added 2,600 jobs (*6.5%*) as more local firms are being served. Health care again showed strength due to the rising population, up 2,500 jobs (*2.7%*). The financial sector added 1,000 people (*2.0%*) as the growing population overcame weakness in the mortgage market. K-12 education grew by 400 jobs (*0.4%*) as student growth lagged behind population increases as many districts found childless couples buying high-end homes. Publishing and communications grew after shrinking for many quarters, up 300 jobs (*2.1%*).

7 INLAND EMPIRE JOB GROWTH, 1st QUARTER 2005-2006
U.S. Bureau of Labor Statistics vs. CA Employment Development Dept.



Sources: CA Employment Development Department, U.S. Bureau of Labor Statistics

DIRTY WORK, MODERATE PAY: 1.2% VS. 5.6% FORECAST

From November 2005-2006, the Inland Empire's blue collar sectors are shown up just 4,100 jobs (*1.2%*), well below the QER's forecast of 5.6%. Transportation and warehousing gained 3,400 jobs (*6.1%*) as port activity caused inland logistics firms to expand, though wholesale trade added just 500 jobs *(1.1%)* despite the area's many new warehouses, an oddity. Manufacturing grew 1,200 jobs (*1.0%*) mostly due to transportation equipment. Importantly, construction lost 1,000 jobs (*-0.8%*) as home building began its long expected decline.

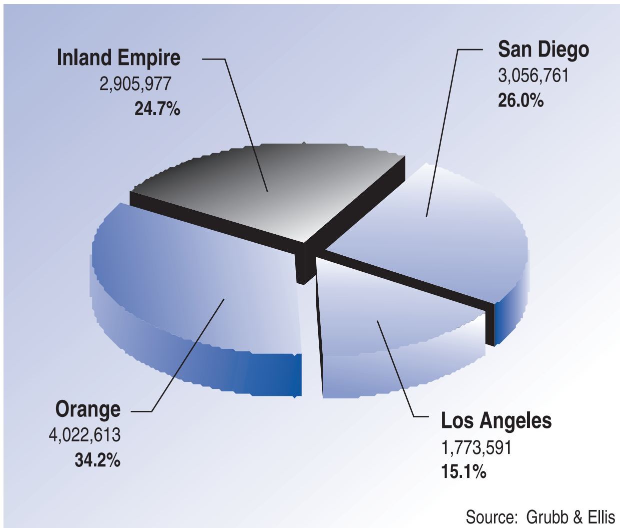
LOWER PAYING JOBS: 1.8% VS. 5.5% FORECAST

The Inland Empire's lower paying sectors were very weak, adding just 7,400 jobs (*1.8%*) despite the area's powerful population growth. Employment agencies gained 2,300 jobs (*4.8%*), a sign that the blue collar industries may have grown more than reported. Eating & drinking outlets were up 2,200 positions (*2.5%*) as the many new outlets expanded. Other services gained 1,400 jobs (*3.4%*) as the population grew. Retailing was up just 1,800 jobs (*1.1%*) despite several mall expansions. Amusement added just 400 (*2.6%*) jobs despite the growth of casinos, and accommodation was up only 300 (*1.7%*) despite several new hotels. They are likely the most underreported groups. The weakest sectors were social assistance which was flat and agriculture each lost 1,000 jobs due to urbanization (*-6.3%*).

COMMENT

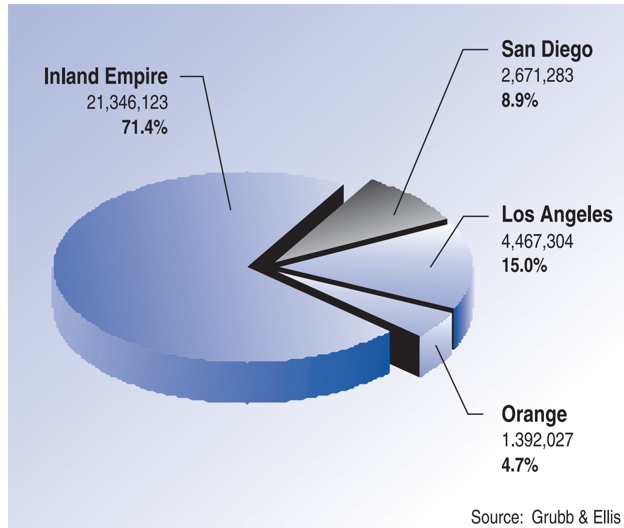
EDD's report appears to again under-estimate the Inland Empire's 2006 growth as it did in 2005 when initial estimates were doubled in its February revision to BLS levels. This year, an upward adjustment will likely bring growth to about 40,000 job. The QER's forecast, made last April, was for growth of 46,200. ■

8 OFFICE SPACE UNDER CONSTRUCTION
Southern California Market, September 2006



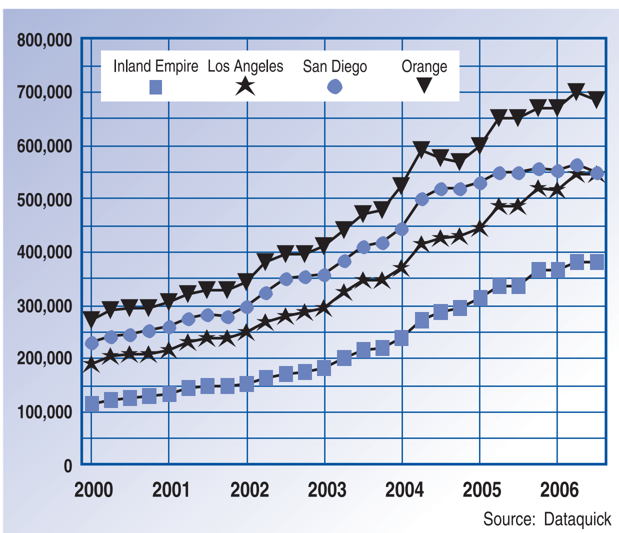
Office Construction. In September 2006, Grubb & Ellis reported that there was 11.8 million square feet of office construction underway in Southern California. For the first time, the Inland Empire was a major player in the market with 2.9 million square feet or 24.7%. The largest share was 4.0 million square feet being built in Orange County (*34.2%*), followed by the 3.1 million square feet under construction in San Diego County (*26.0%*). Los Angeles trailed with 1.8 million square feet (*15.1%*).

9 INDUSTRIAL SPACE UNDER CONSTRUCTION
Southern California Market, September 2006



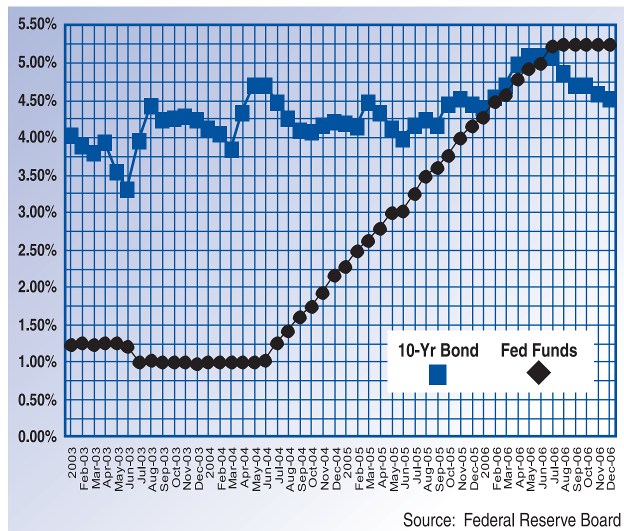
Industrial Construction. In September 2006, there was 27.2 million square feet of industrial construction underway in Southern California. Of this, the land rich Inland Empire was the location of 21.3 million square feet or 71.4%. That was nearly five times the 4.5 million square feet being built in Los Angeles County (*15.0%*). Much smaller shares were under construction in San Diego County at 2.7 million square feet (*8.9%*) and Orange County at 1.4 million square feet (*4.7%*).

10 SINGLE FAMILY HOME EXISTING PRICE TRENDS
Southern California Markets, Quarterly, 2000-2006



Soft Landing, So Far. In late 2006, comparisons of existing home prices show that virtually every single family detached home market in Southern California has softened. Still, the region's long awaited price slowdown appears to be a "soft-landing" not a "bubble burst". San Diego County's prices have fallen roughly to the flat Los Angeles County level. Orange County's prices remain the region's highest but have settled a little. The Inland Empire's prices remain the lowest and have also flattened.

11 FED FUNDS & YEAR BOND RATES
2003-2006



Long & Short Term Rates. Home buyers face a dilemma. Short term rates that drive variable rate mortgages have soared. The Federal Reserve Board has taken the overnight rate that impacts them from 1.00% in May 2004 to 5.25% since July 2006. However, with international investors pouring money into U.S. bonds, the 10-year bond that drives 30-year mortgages has been flat. It was 4.53% in December 2006, well below the short rate. The low long rate may keep home sales from falling much below the current floor.

12 **HOME PRICES**
3rd Quarter, 2005-2006

County	3rd-05	3rd-06	% Chg.
NEW HOMES			
Riverside	$412,000	$450,000	9.2%
San Bernardino	405,500	398,500	-1.7%
Los Angeles	452,000	498,000	10.2%
Orange	727,000	775,000	6.6%
San Diego	464,500	420,750	-9.4%
Ventura	700,000	698,500	-0.2%
So. California	$459,800	$475,900	3.5%
EXISTING HOMES			
Riverside	$370,000	$409,000	10.5%
San Bernardino	310,000	362,000	16.8%
Los Angeles	485,000	545,500	12.5%
Orange	650,000	685,000	5.4%
San Diego	550,000	552,000	0.4%
Ventura	613,000	650,000	6.0%
So. California	$474,600	$515,400	8.6%

Source: Dataquick

13 **HOME DEED RECORDINGS**
3rd Quarter, 2005-2006

NEW HOMES				EXISTING HOMES			
Area	3rd-05	3rd-06	% Chg.	Area	3rd-05	3rd-06	% Chg.
Redlands, Loma Linda, Yucaipa	198	230	16.2%	SB Mountains	770	647	-16.0%
SB Mountains	19	22	15.8%	Victor Valley	1,697	1,407	-17.1%
San Bernardino, Highland	157	171	8.9%	Redlands, Loma Linda, Yucaipa	579	477	-17.6%
Victor Valley	910	794	-12.7%	San Bernardino, Highland	1,316	1,030	-21.7%
Chino, CHill, Mtcl, Ont, RC, Upl	727	470	-35.4%	Fontana, Rialto, Colton, GT	1,935	1,477	-23.7%
SB Desert	162	92	-43.2%	Chino, CHill, Mtcl, Ont, RC, Upl	1,946	1,316	-32.4%
Fontana, Rialto, Colton, GT	647	310	-52.1%	SB Desert	830	525	-36.7%
SAN BDNO COUNTY	**2,820**	**2,089**	**-25.9%**	**SAN BDNO COUNTY**	**9,073**	**6,879**	**-24.2%**
Beaumont, Banning, Calimesa	242	504	108.3%	Riverside Rural	409	408	-0.2%
Riverside	324	598	84.6%	Beaumont, Banning, Calimesa	374	292	-21.9%
Perris, Hemet, S. Jacinto	1,597	1,987	24.4%	Perris, Hemet, S. Jacinto	1,923	1,490	-22.5%
Moreno Valley	428	413	-3.5%	Corona, Norco	1,146	881	-23.1%
Corona, Norco	803	751	-6.5%	Riverside	1,698	1,250	-26.4%
Riverside Rural	756	560	-25.9%	Moreno Valley	1,092	797	-27.0%
Coachella Valley	823	594	-27.8%	Murrieta, Temecula, L. Elsinore	1,880	1,347	-28.4%
Murrieta, Temecula, L. Elsinore	1,664	906	-45.6%	Coachella Valley	1,356	892	-34.2%
RIVERSIDE COUNTY	**6,637**	**6,313**	**-4.9%**	**RIVERSIDE COUNTY**	**9,878**	**7,357**	**-25.5%**
INLAND EMPIRE	**9,457**	**8,402**	**-11.2%**	**INLAND EMPIRE**	**18,951**	**14,236**	**-24.9%**

Source: Dataquick

HOME MARKETS: The Correction Has Begun

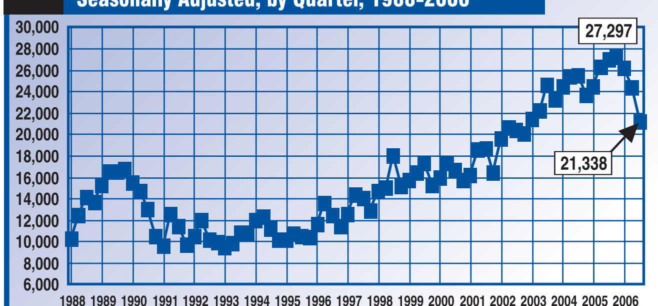
In third quarter 2006, the Inland Empire recorded 21,338 *seasonally adjusted* new home sales, down 21.8% from the fourth quarter 2005 record of 27,297 (*Exhibit 14*). Looking at raw data, third quarter new home sales were 8,402 units, down 11.2% from third quarter 2005 (*Exhibit 13*). Existing home sales were 14,236 units, off 24.9%. From January- September 2006, the inland region has been responsible for 55.2% of new home sales from Mexico through Ventura County, up from 51.6% in 2005, indicating even greater weakness in coastal markets.

SALES

Riverside County recorded 6,313 new home sales in third quarter 2006, off 4.9% from 2005 (*Exhibit 13*). As recordings come at the end of escrow, this included many sales from the second quarter. The Beaumont, Banning, Calimesa area saw new home sales rise to 504 units (*108.3%*) largely due to its affordability. The volume leader was the Perris, Hemet, San Jacinto area, the county's other affordable market (*1,987; 24.4%*). Riverside County had 7,357 existing home sales in third quarter 2006, off 25.5% from 2005. The rural deserts had the smallest sales decline (*-0.2%; 408*). Perris, Hemet, San Jacinto was also the volume leader (*-22.5%; 1,490*).

San Bernardino County's third quarter 2006 new home sales were down to 2,089 units, off 25.9% from third quarter 2005. The percent leader was the Redlands, Loma Linda, Yucaipa area with 230 units (*16.2%*). The largest volume was in the affordable Victor Valley (*794; -12.7%*). Existing home sales in the third quarter fell 24.2% to 6,879 units from third quarter 2005-2006. The 647 units sold in the mountains recorded the smallest decline (*-16.0%*), while the mid-county Fontana, Rialto, Colton, Grand Terrace area led in volume (*1,477;-23.7%*).

14 **EXISTING & NEW HOME SALES, INLAND EMPIRE**
Seasonally Adjusted, by Quarter, 1988-2006



Source: Dataquick

PRICES

Riverside County's third quarter 2006 median new home price was a record $450,000, up 9.2% from 2005 and 2.4% above the prior quarter's $439,500 (*Exhibit 12*). Its third quarter 2006 median existing home price was equaled to second quarter at $409,000 and 10.5% above third quarter 2005. San Bernardino County's median new home price was $398,500 in third quarter 2006, down 1.7% from 2005 but up 3.1% from second quarter's $386,500. Its existing home median price of $362,000 was up 16.8% from third quarter 2005-2006 but the gain was only 0.6% above the prior second quarter. Southern California's third quarter 2006 existing home prices rose everywhere with a $515,400 median and an 8.6% increase, but prices were down 0.4% from second quarter. Year-over-year, new home prices were mixed, falling in San Bernardino, San Diego and Ventura counties but rising overall to $475,900 (*3.5%*). They were up 3.3% from second quarter 2006.

THE FUTURE

2007 looms as a year of housing correction in the Inland Empire with sales at a low plateau and prices coming off their highs, down in the neighborhood of 5%. Low interest rates will set a floor under the market but buyer confusion over prices will dampen sales as some families are forced to sell homes bought with creative financing, speculators lose their last gamble on appreciation, and new home sellers cut deals to eliminate inventories. A recovery should be in evidence in 2008, thanks to the area's lower prices relative to the coastal markets. ■