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INLAND EMPIRE
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CREATING AN INLAND EMPIRE ECONOMIC DEVELOPMENT STRATEGY

By John E. Husing, Ph.D.

While the U.S. economy has begun a long slow recovery from the Great Recession, having added 951,000 jobs from January-November 2010 (*Exhibit 4*), the Inland Empire has yet to start recovering. Its best month was November with -8,900 fewer wage and salary jobs than in 2009. This then is the time to examine what is needed for the region to reestablish its prosperity.

Here, the starting point is an analysis of the period from 2000 to 2007 when the Inland Empire was the major force driving the state's job growth (*Exhibit 1*). In this period, it added 277,200 or 42.0% of California's 660,500 new jobs. Interestingly, 90.5% of all of the state's growth was in Southern California (*Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, Ventura*). The highly touted Bay Area lost -206,500 jobs.

SECTORS DRIVING GROWTH

To understand what drove the Inland Empire's expansion, it is important to concentrate on the sectors that brought money into it from the outside world. Just as gold mines in an Old Western town brought the money that when re-spent allowed general stores and saloons to exist, these are the sectors that ultimately powered locally based activities ranging from retailing to banking to hair styling.

To determine the extent to which sectors are economic drivers, estimates were made of the share of jobs in each supported by monies flowing into the inland region. Their job growth from 2000-2007 was

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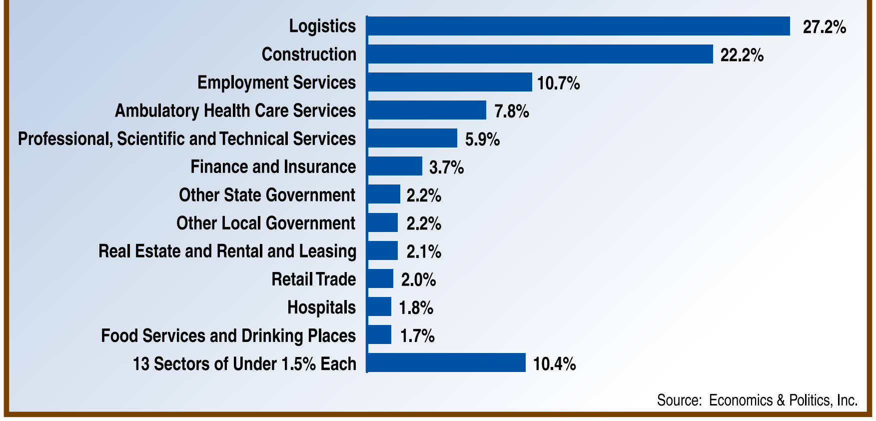
multiplied by these percentages to determine the degree each was part of the "gold mine" driving the area's growth. This process led to the estimate that 125,600 or 44.9% of the Inland



2 BASIC DRIVERS OF INLAND EMPIRE GROWTH 2000-2007

Source: Economics & Politics, Inc.

Empire's 277,200 new jobs were responsible for its expansion. The other 152,600 jobs came about as the outside funds brought in by the economic drivers re-circulated through its locally based activities.

Six sectors were responsible for 77.6% of the increased inflow of economic activity into the Inland Empire from 2000-2010 (*Exhibit 2*). Most important was logistics at 27.2%. It is made-up of warehousing and distribution (*90% outside funding*) plus wholesale trade (*75% outside funding*). These sectors are heavily dependent upon the ports of Los Angeles and Long Beach. Surprisingly, construction ranked second, accounting for 22.2% of the influx of economic activity. It was followed by employment services (*65% outside funding*), since many part-time workers are used in the first two groups. It accounted for 10.7% of the growth among economic drivers.

Ambulatory care ranked fourth with 80% of doctors and dentist offices assumed to be funded by insurance policies and state or federal agencies. It accounted for 7.8% of the growth among the economic drivers. Fifth was professional, scientific and technical services (*40% outside funding*), including everything from ESRI's programmers to workers in accountants, lawyers and civil engineering firms. They were 5.9% of the "gold mine." Sixth was finance and insurance firms (*50% outside funding*) largely due to the real estate boom. Each of the other 19 sectors accounted for under 2.5% of growth among economic drivers. Sadly, manufacturing (*100% outside funding*) was a negative factor having lost -1,200 jobs from 2000-2007.

SECTORS DRIVING DECLINE

From 2007-2010, the Inland Empire lost 172,100 jobs. That was 13.1% of those lost in California (*-1,323,200*). This occurred because the sectors bringing economic force into the area shrank with 78.6% of the losses in "gold mine" activity concentrated in just three sectors, led by construction (*Exhibit 3*). Residential activity was clobbered as the mortgage crisis cut-off new home demand. Industrial construction suffered as port-related warehousing slowed and the manufacturing shrinkage accelerated. With little work, the demand for office space by developers collapsed. As a result, construction caused 40.1% of the drop in the inland region's economic activity, nearly twice its earlier role as a positive force.

Second was the accelerating decline in manufacturing from 2007-2010. It represented 29.4% of the decline in economic drivers spuring the Inland Empire's economy. Third was the weakness in the logistics group due to the shrinkage in imported goods entering the ports. This caused 9.2% of the fall in the outside activity entering the inland region. All other sectors but one accounted for declines of less than 3.0% in the region's "gold mine." The exception was employment services which caused 7.0% of the shrinkage because of the lack of need for part-time workers by the three sectors discussed above. Thus, while six sectors drove 77.6% of the inland area's growth, just three caused 78.6% of its decline with four responsible for 85.6%.

ECONOMIC STRATEGY

For the Inland Empire to recover, either the power of its traditional blend of economic drivers must be restored, or a change in their mix is necessary. To help determine a strategy, lengthy interviews were held with roughly 100 of the region's major corporate, entrepreneurial and community leaders with a heavy concentration on those in activities that drive the economy. They were asked the current and short term status of their sectors as well as what economic development issues needed resolution, short and long term.

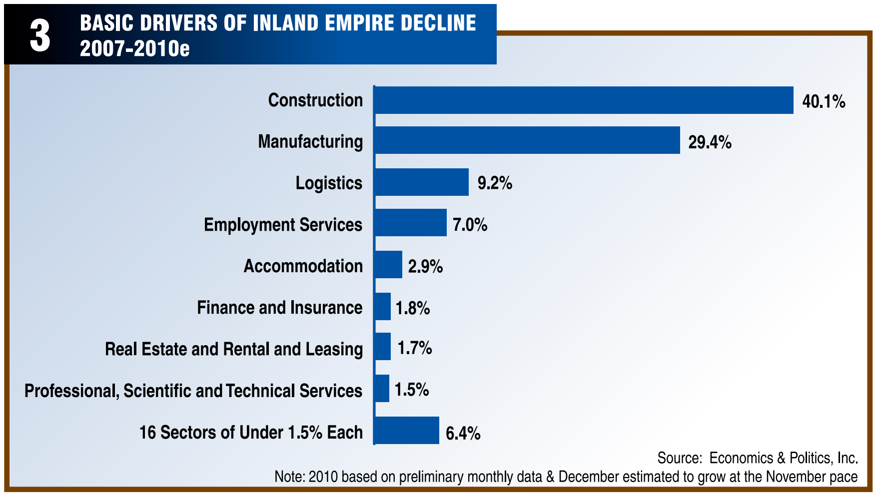
STRENGTHENING DRIVERS

Several "gold mine" sectors were found to be strengthening from their earlier 2010 lows but the interviews showed they still face challengers. **Employment agencies** are up 5,500 jobs in 2010 as they generally do well when upturns start due to employer uncertainty. In 2011, this group's role as an economic driver will depend on the continued growth of temp hiring in sectors like logistics, manufacturing and accommodation. Private and public **colleges** were up 4,700 jobs from their summer lows due to seasonal factors and an inordinate number of students seeking training given the weak workplace. For enrollment to continue rising, they need growth in endowments and state funding. **Logistics** is up from 2009 by 3,100 jobs due to rising strength at the ports. For local truckers and warehouses to grow further, they need that expansion to continue now that the inventory replenishment cycle is complete.

Agriculture is up 1,700 jobs due to seasonal factors and strong markets. However, the sector still faces major difficulty due to water cost and reliability and the need for a more balanced resolution to environmental issues like the Delta Smelt. Farmers expect a worker shortage in the next recovery unless serious immigration reform occurs. Continuing strength among **health care providers** has added 1,000 jobs over 2009. Their need is to increase efficiency in light of Obamacare and the low ratio of local health care workers to the population. Longer term, they anticipate a skilled worker shortage as a recovery plus aging baby boomers causes significant retirements.

MODESTLY GROWING DRIVERS

While up from earlier in 2010, some sectors are just beginning to show strength. **Tech, defense and professional** firms are up 800 jobs from 2009. Here, executives indicate they face continued difficulties with the lack of a local, well-educated labor force. They are also impacted by the image and/or reality that inland communities do not offer the lifestyle options needed to recruit and hold their workers. **Art, entertainment and recreation** (*1,100 jobs*) plus **accommodation** (*300 jobs*) have strengthened a little from early 2010. Their future success depends on increased tourist travel and the end of the "AIG effect." That phenomenon has corporations shying away from higher-end business travel. Meanwhile, local Indian casinos need discretionary income to rise among their coastal county customers.



WEAK DRIVERS

Among the Inland Empire's economic drivers, **construction** remains the weakest, down another -9,900 jobs from 2009-2010. Until it recovers, the Inland Empire will not return to prosperity. That will take until 2015-2016, if the market must wait for troubled homes to be foreclosed and resold. The alternative is for lenders to lower balances owed, an increasingly unlikely prospect. Even with the mortgage issue solved, builders indicate that the their sector's recovery faces hurdles from lengthy permitting processes and the misuse of CEQA and endangered species laws as a tool for delaying projects.

Manufacturing is the other problem sector, off -4,300 jobs from 2009-2010. Here, executives and entrepreneurs indicated that California-specific laws put their firms at a severe cost disadvantage because neither the Congress nor the other 49 states have adopted them. These include requirements like 8-hours a day, not 40-hours a week for overtime; inflexible break periods; automatic family leave; and required compensation for unused vacation and sick leave. Worse, California's unstable regulatory environment makes their long term planning impossible. The result is for firms to put their growth elsewhere or consider leaving California altogether, while firms not here will not even consider locating in the state. These factors hinder manufacturing and also impact construction and logistics. To date, state leaders refuse to acknowledge that there are public health and social justice consequences to the resulting unemployment, underemployment and poverty.

SUMMARY

In the first seven years of the last decade, a diverse group of sectors drove the Inland Empire's growth, led by logistics, construction, health services and professional, scientific and technical services. The 2007-2010 downturn, however, was largely driven by difficulties in construction, manufacturing and logistics. For the region to recover, either those sectors need to be repaired or some combination of other "gold mine" activities need to be stimulated. However, given the modest educational levels of inland workers (*Exhibit 10*), these blue collar sectors offer the only true opportunity for decent incomes for nearly half of the region's families. Here, California's legal environment creates an untenable situation. It seeks to discourage jobs in "dirty" sectors like logistics, construction and manufacturing for the sake of public health. Yet, without their growth, the Inland Empire's high unemployment rate will not come down, placing a public health and social justice burden on the modestly educated families that need those types of jobs.

NEXT STEPS

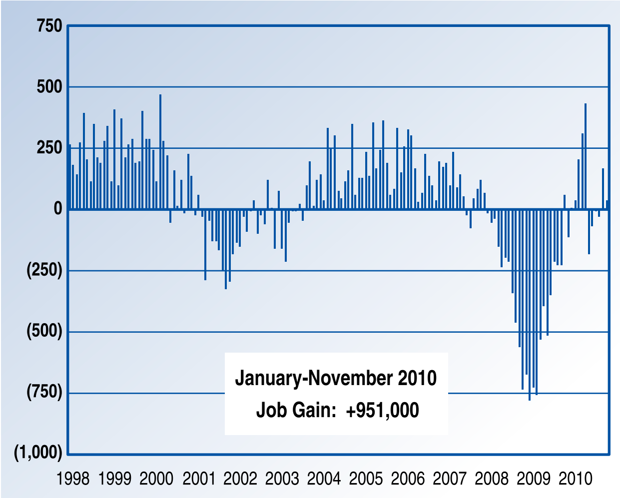
This Spring, the Inland Empire Economic Partnership will host the annual Economic Report Card. That event will feature the specifics of an economic strategy aimed at dealing with the short and long term issues facing the inland counties. The conference will discuss the data outlined above as well as what local leaders were interviewed, the sectors they represent, the issues they believe must be solved to further local job creation, the strategies for approaching those issues, and a local decision-making structure for doing so. ■

For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

www.johnhusing.com

You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.

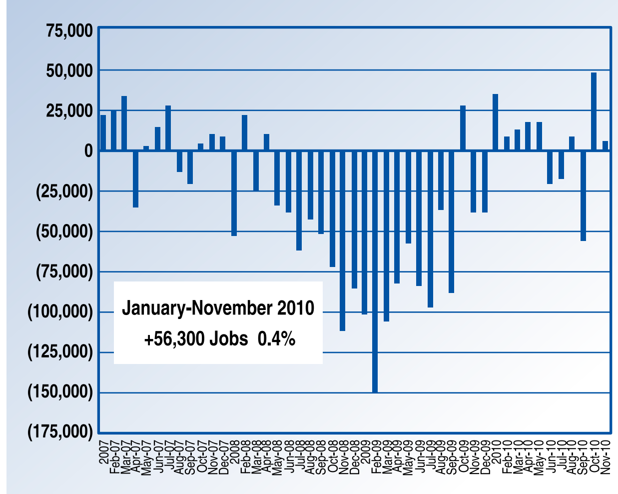
4 JOB CREATION OR DESTRUCTION
U.S., 1998-2010, Seasonally Adjusted (000)



Source: U.S. Bureau of Labor Statistics

U.S. Job Changes. Seasonally adjusted U.S. data show the economy has begun the long climb out of the deep hole created by the Great Recession. Altogether, -8,363,000 jobs disappeared in the downturn. From January–November 2010, the slow expansion has seen a net of +951,000 jobs created, 11.4% of those lost. However, growth was only 0.7%. Hiring and firing of census workers has made the process irregular, though essentially positive. Progress has been slow due to the damage needed to be fixed. Meanwhile, new labor force entrants have left U.S. unemployment stuck at 9.8%.

5 SEASONALLY ADJUSTED JOB CHANGES
California, 2007-2010



Source: CA Employment Development Department

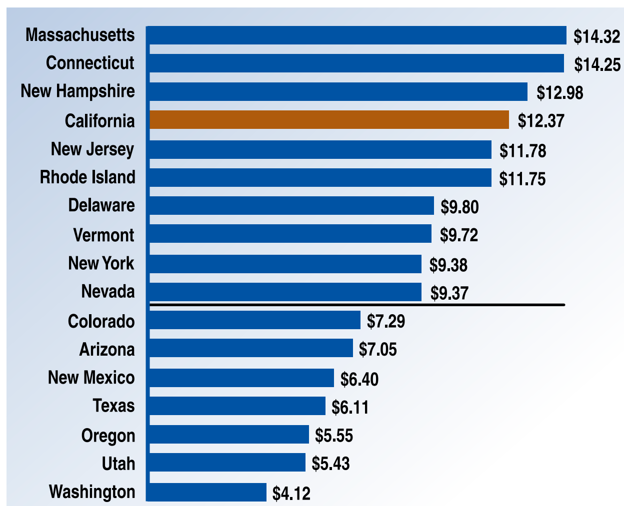
California Job Changes. During 2010, California's economic recovery has been both irregular and slow. From January to November 2010, seasonally adjusted data has seen the state add 56,300 jobs, a small 0.4% increase. Census hiring and firing were a factor through June. However, the greatest fluctuations started with a decline of -55,800 jobs in September, with -28,600 of those positions lost due to cuts in government budgets. October saw a gain of 47,400 jobs, with 30,400 in the private sector. November saw an increase of another 5,100 jobs. State unemployment is still 12.4%.

6 CALIFORNIA BUSINESS LOSSES
2007-2010

Source: Southern California Association of Governments presentation December 2, 2010

California Business Losses. According to Dun & Bradstreet and SCAG economist Jack Kyser, 2,565 businesses (*with 3 or more employees*) relocated from California to other states since January 2007. Approximately 109,000 jobs left with these employers. The map shows where they went. This fact underscores the difficulties facing California and its subregions in reestablishing prosperity in light of state-specific rules that drive up its costs as well as the instability of its regulatory environment.

7 ELECTRICAL RATES PER KWH, SEPTEMBER 2010
Most Expensive 10 of 48 Contiguous States & Other Western States



Source: U.S. Energy Information Agency

Energy Rates. In interviewing Inland Empire manufacturers, one difficulty cited was California's high energy costs. In September 2010, the industrial rate was 12.37¢ per kilowatt hour, fourth highest among the 48 contiguous states, after three New England states. Among nearby western competitors, the nearest was Nevada at 9.37¢ or -24.3% lower, followed by Colorado at 7.29¢ or -41.1% less. The rate in Texas was $6.11 or -50.6% lower. Unless national policy causes other states to follow California into the increased use of renewable energy, these gaps will widen.

INLAND EMPIRE EMPLOYMENT ... On The Verge of Sustained Job Growth

From November 2009-2010, seasonally adjusted CA Employment Development Department data estimated that the Inland Empire was down -8,900 jobs (*Exhibit 9*). Comparing each month of 2010 to those in 2009, that was the narrowest loss recorded with the gap closing in every month. The 14.3% unemployment rate equaled that of November 2009, with the number of unemployment workers 100 lower (*Exhibit 8*).

8 INLAND EMPIRE EMPLOYMENT INFORMATION 2009-2010

Sector	Sep-10	Oct-10	Nov-10	Nov-09	Chg. 09-10	Percent
Mining	1,200	1,200	1,200	1,100	100	9.1%
Utilities	5,900	5,900	5,900	5,900	0	0.0%
Higher Education	14,300	16,800	17,400	17,700	(300)	-1.7%
Federal & State	38,200	38,300	38,400	39,400	(1,000)	-2.5%
Mgmt & Professions	44,000	44,400	44,800	46,000	(1,200)	-2.6%
Local Government	79,500	79,200	79,100	80,400	(1,300)	-1.6%
Clean Work, Good Pay	**183,100**	**185,800**	**186,800**	**190,500**	**(3,700)**	**-1.9%**
Health Care	102,700	103,100	103,300	102,400	900	0.9%
Admin. Support	40,900	41,000	40,700	40,400	300	0.7%
Publish, telecomm, Other	14,200	14,200	14,400	14,800	(400)	-2.7%
Financial Activities	41,600	41,800	41,800	42,700	(900)	-2.1%
Education	96,900	103,200	104,200	106,900	(2,700)	-2.5%
Clean Work, Moderate Pay	**296,300**	**303,300**	**304,400**	**307,200**	**(2,800)**	**-0.9%**
Distribution & Transportation	108,000	108,100	108,600	107,300	1,300	1.2%
Manufacturing	84,000	83,800	83,200	85,000	(1,800)	-2.1%
Construction	57,600	56,700	56,000	61,800	(5,800)	-9.4%
Dirty Work, Moderate Pay	**249,600**	**248,600**	**247,800**	**254,100**	**(6,300)**	**-2.5%**
Employment Agcy	41,500	42,100	43,100	40,500	2,600	6.4%
Amusement	14,500	14,700	15,600	14,100	1,500	10.6%
Agriculture	13,300	13,700	14,200	13,700	500	3.6%
Accommodation	13,800	13,900	14,100	13,800	300	2.2%
Other Services	35,900	35,600	35,900	35,700	200	0.6%
Social Assistance	13,700	13,500	13,600	13,800	(200)	-1.4%
Eating & Drinking	89,100	89,500	90,000	90,300	(300)	-0.3%
Retail Trade	149,900	150,800	154,800	155,500	(700)	-0.5%
Lower Paying Jobs	**371,700**	**373,800**	**381,300**	**377,400**	**3,900**	**1.0%**
Total, All Industries	**1,100,700**	**1,111,500**	**1,120,300**	**1,129,200**	**(8,900)**	**-0.8%**
Civilian Labor Force	1,768,900	1,769,600	1,774,900	1,767,800	7,100	0.4%
Employment	1,507,300	1,518,200	1,521,500	1,514,300	7,200	0.5%
Unemployment	261,600	251,400	253,400	253,500	(100)	-0.0%
Unemployment Rate	14.8%	14.2%	14.3%	14.3%	0.0%	0.0%

Source: Employment Development Department

CLEAN WORK, GOOD PAY: -1.9%

Since November 2009, the Inland Empire's highest paying sectors lost -3,700 jobs (*-1.9%*). Mining gained 100 jobs (*9.1%*) as infrastructure projects increased. Utilities were flat as population growth nearly stopped. Higher education lost -300 positions (*-1.7%*) due to state cutbacks. Federal and state government decreased by -1,000 with budget cuts (*-2.5%*). Management and professions fell by -1,200 jobs (*-2.6%*) with construction down. Local government lost -1,300 positions (*-1.6%*) due to lost tax revenues.

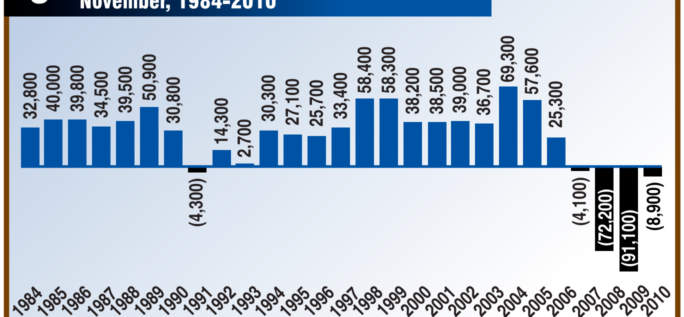
CLEAN WORK, MODERATE PAY: -0.9%

The Inland Empire's sectors that primarily pay moderate incomes to white collar workers fell by -2,800 workers (*-0.9%*). Health care added 900 jobs (*0.9%*) as it continued to catch up with earlier population gains. Administrative support grew by 300 jobs (*0.7%*) as firms began to see the down-cycle ending. Publishing/information lost -400 jobs (*-2.7%*) as the recession affected advertising revenues. Financial organizations lost -900 people (*-2.1%*) due to cutbacks at Arrowhead Credit Union. K-12 education was off -2,700 jobs (*-2.5%*) as enrollment paused and state funding weakened.

DIRTY WORK, MODERATE PAY: -2.5%

From November 2009-2010, the Inland Empire's blue collar sectors began showing the cross currents affecting them, losing a net of -6,300 jobs (*–2.5%*). Distribution and transportation added 1,300 workers (*1.2%*) as import activity expanded at Southern California's ports. Manufacturing lost -1,800 jobs (*-2.1%*), due to low sales to builders. Construction plunged by -5,800 jobs (*-9.4%*) as non-residential building slowed with projects ending.

9 INLAND EMPIRE JOB CHANGE November, 1984-2010



Source: CA Employment Development Department

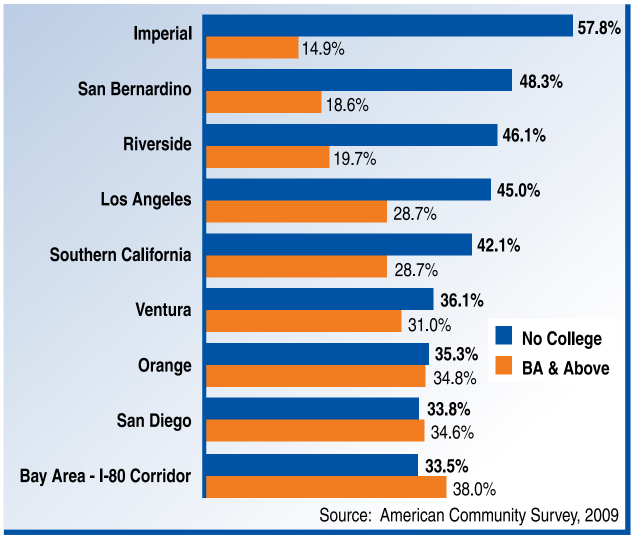
LOWER PAYING JOBS: +1.0%

The Inland Empire's lower paying sectors gained 3,900 jobs (*1.0%*). Employment agencies were up 2,600 jobs (*6.4%*) as firms began hiring temp workers, generally an early sign of a turnaround. With the U.S. and Southern California economies starting slow recoveries, amusement gained 1,500 jobs (*10.6%*) and accommodation was up 300 (*2.2%*). Agriculture was up 500 jobs (*3.6%*) as farming strengthened. Other "consumer" service activity added 200 jobs (*0.6%*). Social assistance fell by -200 jobs (*-1.4%*) as contributions remained weak. Eating & drinking lost -300 jobs (*-0.3%*) and retailing fell by -700 (*-0.5%*) as consumer spending was still affected by high unemployment and low housing prices.

COMMENT

With job losses narrowing for each month of 2010 versus 2009, it appears that the Inland Empire will see positive, year over year, job gains in either December or January. That will mark the end of the down cycle but leave several years of upward growth needed to restore the job losses of the past three years. ■

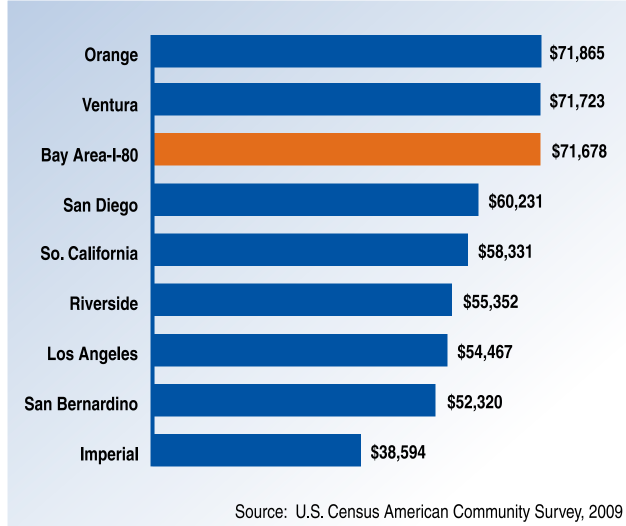
10 ADULT EDUCATION LEVEL
Persons 25 & Over, 2009



Source: American Community Survey, 2009

Adult Educational Achievement. In 2009, the Census Bureau found that 18.6% of San Bernardino County's adults 25 and over had Bachelor's or higher degrees. The share was 19.7% in Riverside County. This contrasted with 28.7% for all of Southern California. Meanwhile, 48.3% of San Bernardino County's adults and 46.1% of those in Riverside County stopped their schooling without any college classes. This compared to 42.1% for the Southern California region. These data underscore the long term difficulties the inland area faces with education issues and the building of a high-end economy.

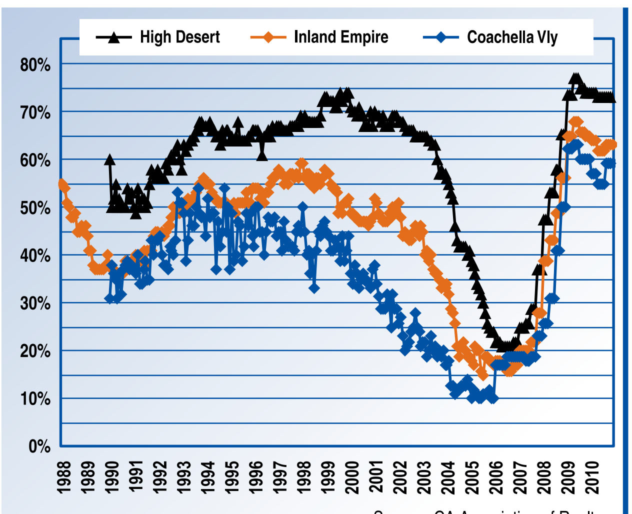
11 MEDIAN INCOME
Southern California & Bay Area-I-80, 2009



Source: U.S. Census American Community Survey, 2009

Median Income. An area's median income is the level where 50% of households earn both more and less. This measure is based on a simple ranking of households, and is not pulled up by a few fabulously wealthy households. It thus provides a good measure of the prosperity of an area's households. In 2009, the Census Bureau found that California's median was $58,331 versus $50,221 for the U.S. Locally, Riverside (*$55,352*) and San Bernardino (*$52,320*) counties bracketed Los Angeles (*$54,467*). Southern California was led by Orange (*$71,865*) and Ventura (*$71,723*) counties.

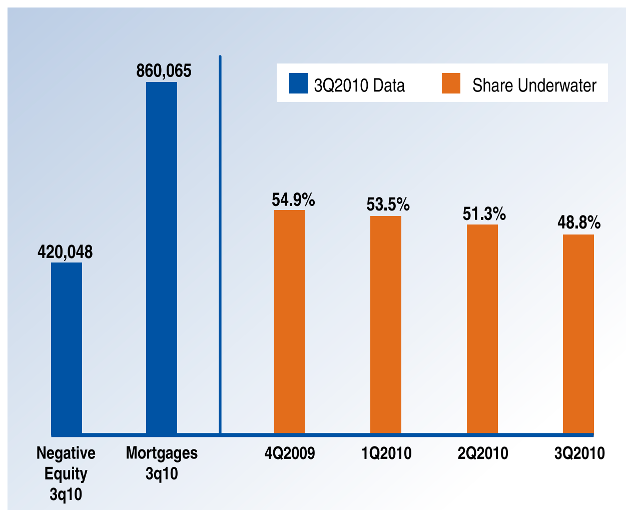
12 HOUSING AFFORDABILITY, INLAND EMPIRE
Share of Families Afford Median Priced Home, 1988-2010



Source: CA Association of Realtors

High Affordability. During the 2004-2007 housing bubble, affordability dropped to where just 15% of Inland Empire families could afford the bottom 50% of the area's homes. That historic low set up the collapse in demand that followed. In 2010, with interest rates low and prices down dramatically, affordability peaked at 68% in second quarter 2009. In third quarter 2010, it was still 64%. The rate was 73% in the Victor Valley and 59% in the Coachella Valley. Historically, this remains the best period in recent history to buy a home. The previous affordability high was 58% in 1997.

13 SHARE OF MORTGAGES UNDERWATER
Inland Empire, 4th Qtr 2009-3rd Qtr 2010



Source: CoreLogic

Homes Underwater. In third quarter 2010, the Inland Empire had 420,048 homes with negative equity according to CoreLogic. That represented 48.8% of the 860,065 homes with mortgages. While the number remains very high, it is down from 54.9% in the fourth quarter of 2009. Not every homeowner with negative equity will default. However, the fact that a very high share of homes are underwater shows the difficulty that the mortgage market holds for an Inland Empire recovery. Until the existing home market stabilizes, low resale prices will make it difficult for residential construction to reemerge.

14 SINGLE FAMILY HOME PRICES
3rd Quarter, 2009-2010

County	3rd-09	3rd-10	% Chg.
NEW HOMES			
Riverside	$270,000	$270,000	0.0%
San Bernardino	272,000	263,250	-3.2%
Los Angeles	400,000	425,000	6.3%
Orange	480,000	604,000	25.8%
San Diego	410,000	465,000	13.4%
Ventura	374,500	340,000	-9.2%
So. California	$358,900	$393,200	9.6%
EXISTING HOMES			
Riverside	$180,000	$199,000	10.6%
San Bernardino	140,000	155,000	10.7%
Los Angeles	325,000	349,000	7.4%
Orange	499,000	522,500	4.7%
San Diego	360,000	375,000	4.2%
Ventura	420,000	420,000	0.0%
So. California	$289,500	$313,400	8.3%

Source: Dataquick

15 HOME DEED RECORDINGS
Inland Empire, 3rd Quarter, 2009-2010

NEW HOMES				EXISTING HOMES			
Area	3rd-09	3rd-10	% Chg.	Area	3rd-09	3rd-10	% Chg.
SB Desert	13	22	69.2%	Redlands, Loma Linda, Yucaipa	411	396	-3.6%
San Bernardino, Highland	33	27	-18.2%	SB Mountains	611	578	-5.4%
Victor Valley	146	117	-19.9%	SB Desert	455	407	-10.5%
SB Mountains	6	4	-33.3%	Chino, CHill, Mtcl, Ont, RC, Upl	1,430	1,212	-15.2%
Chino, CHill, Mtcl, Ont, RC, Upl	222	145	-34.7%	Fontana, Rialto, Colton, GT	1,925	1,395	-27.5%
Fontana, Rialto, Colton, GT	155	77	-50.3%	San Bernardino, Highland	1,184	837	-29.3%
Redlands, Loma Linda, Yucaipa	43	7	-83.7%	Victor Valley	2,185	1,484	-32.1%
SAN BDNO COUNTY	**618**	**399**	**-35.4%**	**SAN BDNO COUNTY**	**8,201**	**6,309**	**-23.1%**
Corona, Norco	190	230	21.1%	Coachella Valley	1,317	1,199	-9.0%
Perris, Hemet, S. Jacinto	257	281	9.3%	Murrieta, Temecula, L. Elsinore	2,161	1,757	-18.7%
Murrieta, Temecula, L. Elsinore	307	238	-22.5%	Riverside Rural	722	581	-19.5%
Beaumont, Banning, Calimesa	178	117	-34.3%	Riverside	1,460	1,157	-20.8%
Coachella Valley	98	54	-44.9%	Corona, Norco	1,179	884	-25.0%
Riverside Rural	128	69	-46.1%	Perris, Hemet, S. Jacinto	2,686	1,960	-27.0%
Riverside	95	51	-46.3%	Beaumont, Banning, Calimesa	466	328	-29.6%
Moreno Valley	52	21	-59.6%	Moreno Valley	1,164	776	-33.3%
RIVERSIDE COUNTY	**1,305**	**1,061**	**-18.7%**	**RIVERSIDE COUNTY**	**11,155**	**8,642**	**-22.5%**
INLAND EMPIRE	**1,923**	**1,460**	**-24.1%**	**INLAND EMPIRE**	**19,356**	**14,951**	**-22.8%**

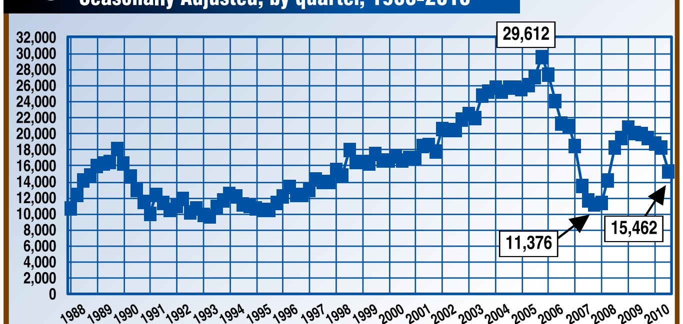
Source: Dataquick

INLAND EMPIRE ... Housing Volumes Sag, Prices Stabilize Above Their Lows

In fourth quarter 2007, the Inland Empire's seasonally adjusted housing volume reached its trough at 11,376 units. Sales then rose to a rough plateau between 18,000-20,000 quarterly units. However, in third quarter 2010, sales of 15,462 homes were down -15.9% from second quarter (*Exhibit 16*). Volume has decreased because the availability of foreclosed homes has declined with the legal difficulties facing major mortgage lenders. Meanwhile, the inland area's existing home median price stabilized at $179,306 in third quarter 2010 (*not shown*), up 15.4% from the low of $161,931 in 2009. With 64% of local families still able to afford the area's median priced home, demand is meeting supply and prices have essentially stabilized.

VOLUME. Looking at raw data, Riverside County had 8,642 existing home sales in third quarter 2010, down -22.5% from the 11,155 level in 2009 (*Exhibit 15*). San Bernardino County had 6,309 existing home sales, down -23.1% from third quarter 2009. By sub-market, the Coachella Valley had Riverside County's smallest percentage decrease in volume (*1,199; -9.0%*); Perris, Hemet, San Jacinto was its volume leader (*1,950, -29.6%*). In San Bernardino County, the Redlands, Loma Linda, Yucaipa market had the smallest percentage drop (*396; -3.6%*); the Victor Valley led in volume but had the largest percentage decline (*1,484; -32.1%*).

16 ALL HOME SALES, INLAND EMPIRE
Seasonally Adjusted, by quarter, 1988-2010



Source: Dataquick

Given the price competition from foreclosures, the new home market has stalled. Riverside County's third quarter 2010 volume was 1,061 sales, off –18.7% from 1,305 in 2009, and well below second quarter 2010's sales of 1,349 units. The largest percentage gain was in Corona Norco (*230; 21.1%*). Perris, Hemet, San Jacinto had the highest volume (*281; 9.3%*). San Bernardino County's volume was 399 sales, off –35.4% from third quarter 2009 volume of 618 and well below second quarter 2010's sales (*579*). The outlying desert area led in percentage growth (*22, 69.2%*). The area west of the I-15 freeway shrank but led in volume (*145; -34.7%*).

PRICES. Riverside County's $270,000 new home price in third quarter 2010 was equal to the prior year's level but down from $287,500 in second quarter 2010 (*Exhibit 14*). Its $199,000 existing home price was up 10.6% from $180,000 in third quarter 2009 though down slightly from $200,000 in second quarter this year. San Bernardino County's new home price of $263,250 was down -3.2% from its third quarter 2009 price of $272,000 and down from second quarter's price of $285,000. Its existing home price of $155,000 was up 10.7% from third quarter 2009 (*$140,000*) and up from second quarter 2010 (*$150,000*). In Southern California, the third quarter 2010 new home median price was up 9.6% to $393,200; the existing home median was $313,400, up 8.3%. The region's new home price was up from second quarter 2009 (*$358,900, 9.6%*); Southern California's existing home prices rose 8.3% from $289,500.

A LOOK AHEAD. The fact that the Inland Empire's home prices have roughly stabilized indicates that near record affordability (*Exhibit 12*) has provided sufficient demand to offset supply, despite the fear still in the market. The key issue will be how many of the 420,048 homes (*Exhibit 13*) on which homeowners are still underwater end-up foreclosed and resold. ■