INLAND EMPIRE

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RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA

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WHAT IS THE LIKELY FUTURE FOR THE INLAND EMPIRE'S HOUSING MARKET?

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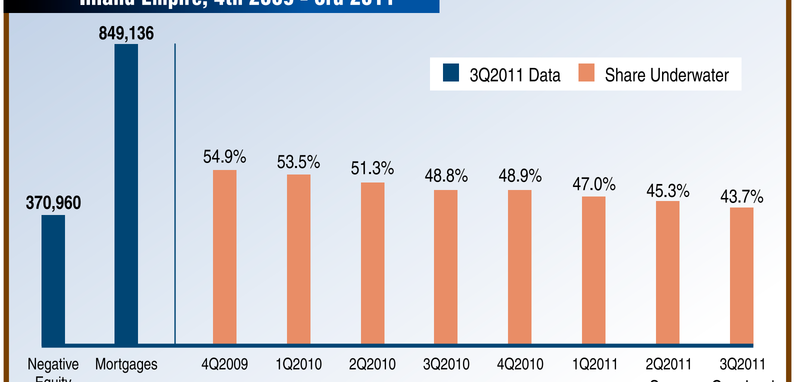
In 2011, the Inland Empire finally moved into growth mode adding 2,800 jobs for the full year including a surge to a 22,700 job gain from December 2010-2011 (*Exhibits 8-9*). However, the region's economy will not achieve a full recovery from the -161,300 jobs lost (*-12.6%*) from 2006-2010 until it overcomes the weaknesses in its housing market. That difficulty is underscored in that from 2006-2011, the area fell from 127,500 construction jobs to 57,300, off -70,200 or -55.1% (*Exhibit 4*). Construction will not return as a major factor in the area's economy until the mortgage crisis has ended. Even then, a question exists as to whether Southern Californians will value single family detached homes in the next housing cycle as much as they have historically. Looking ahead then, what lies in store for the inland home market?

MORTGAGE DIFFICULTIES

The dimensions of the Inland Empire's mortgage weakness is seen in that by third quarter 2011, CoreLogic data found 370,960 of the 849,136 homes carrying mortgages in the two county area were underwater. If the owners of those homes sold them today, they would not be able to fully pay off the loans on their property. That represented 43.7% of these homes (*Exhibit 1*). This situation exists because of the huge -56.3% drop in median existing home prices from the first quarter 2007 peak of $389,924 to the fourth quarter 2011 level of $170,428.

1 SHARE OF MORTGAGES UNDERWATER
Inland Empire, 4th 2009 - 3rd 2011



Source: CoreLogic

A little good news is found in that the Inland Empire's share of underwater homes is down from 54.9% in fourth quarter 2009, when 477,648

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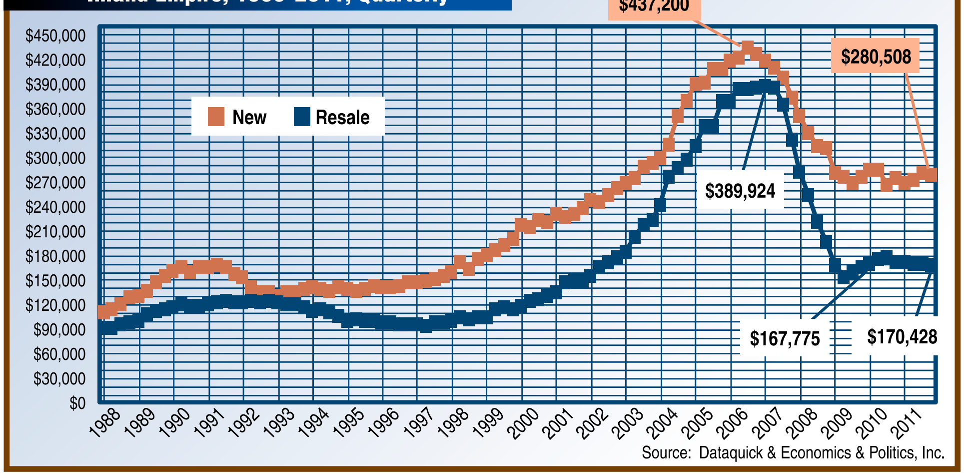
homes were underwater. That represents a reduction of -106,688 troubled homes or an average decline of -15,241 per quarter over a seven quarter timeframe. In that period, the area's existing home median price was nearly flat, going from $167,775 to $170,428, up 1.6% (*Exhibit 2*). The only way for such a significant number of homes to no longer be underwater was for them to have been taken back by their lenders via the foreclosure process, or sold for less than full value (*short sales*) with the permission of the lenders.

2 PRICE TRENDS, NEW & EXISTING HOMES
Inland Empire, 1988-2011, Quarterly



Source: Dataquick & Economics & Politics, Inc.

STRATEGIES

Looking ahead, it is important to determine how long it will take for the number of underwater mortgages to reach a level where they are no longer a drag on the Riverside and San Bernardino counties' economy. This involves one of four strategies. The best would be for an increase in the demand to raise inland home prices so that owners can sell at break even or higher prices. A second is for the government to intervene by subsidizing or forcing a reduction in the amount owed by underwater homeowners. Third would be for the government to intervene in a way that lowers the payments on underwater homes, so that owners decide to keep paying on them until prices recover. The fourth and least desirable would be to simply wait for the foreclosure process to bring down the number of problems homes to those on which owners are willing to keep paying.

DEMAND

Historically, the Inland Empire has been the fastest growing sub-region of Southern California because the coastal counties do not have the land to provide housing for the region's growing population. Thus, despite policy efforts to encourage people to remain in the coastal counties, the Southern California Association of Governments forecasts that the inland area will add 2.1 million people from 2008-2035. That is 25% more than the prediction for Imperial, San Diego, Orange and Ventura counties combined (*1.69 million*) and 37% more than for Los Angeles County (*1.54 million*).

There will thus be demand for inland homes, the question is when. Already, the marketplace is telling Southern Californians that they can save significantly on entry level and upscale houses by migrating to the Inland Empire. In fourth quarter 2011, the median priced inland home was $178,744. That was $148,898 cheaper than in Los Angeles County (*$327,642*), $184,922 less costly than San Diego County (*$363,696*) and $309,275 below Orange County (*$488,020*). In each case, these gaps are near their historic highs (*Exhibit 5*).

Meanwhile, the inland housing market has become extraordinarily affordable. In third quarter 2011, a record 69% of Inland Empire families could afford their median priced home or the 50% of homes that were less expensive. That was a better situation than those faced by residents of Los Angeles and San Diego counties (*42%*) or Orange County (*33%*), despite the higher incomes of families in those places (*Exhibit 6*). This situation exists because of the lower home prices and historically low mortgage rates affecting housing markets (*Exhibit 7*).

Normally, these conditions would caused inland housing demand to rise and people to migrate to buy homes. However, this has not been happening with the area's seasonally adjusted home volume at roughly its 1999 level for the past six quarters (*Exhibit 16*). A major reason for this is the fear caused by the high unemployment in the Inland Empire (*12.2%*) and the coastal counties: Los Angeles (*11.6%*), San Diego (*8.9%*) and Orange (*7.8%*). It is also because nationally, consumer confidence is well below the 100 level considered "normal." Whether it has been due to Congressional infighting, high unemployment or the European debt crisis, confidence in economy's future was measured in the 50s in third quarter 2011 and at 76.4 in December 2011 (*Exhibit 10*). These factors have caused people to avoid buying homes despite their extraordinary affordability.

The result is seen in that domestic migration to the Inland Empire has essentially be non-existent of late, with the 15,249 people who left the area during 2008-2009, not quite being offset by 12,001 people who migrated in during 2010-2011. This contrasts with the over 90,000 people who migrated inland during 2003-2004 (*Exhibit 11*).

GOVERNMENT INTERVENTION

If the natural market is not going to increase the demand and therefore the price of Inland Empire housing, three of the ways for alleviating this situation involve government intervention. The Federal Reserve Board and elements of the Obama Administration have proposed increasing demand by packaging the homes owned by Fannie Mae and Freddie Mac and selling them in bulk to landlords so they can become rentals. While this would increase demand and eliminate the number of unsold foreclosures on the market, the downside to local communities would be immense. In the 1990s, this approach resulted in rising crime in neighborhoods where large numbers of rentals were injected. Also, property values in those areas were ultimately hurt as rentals are generally not well maintained. In these areas, school performance deteriorated due to high classroom turnover as parents moved from place to place seeking the lowest rent and inadvertently destabilizing local schools.

A second approach is the Home Affordable Modification Program (*HAMP*) which subsidizes lenders so underwater homeowners can refinance at today's record low interest rates, while also lengthening mortgages to as long as 40 years. This approach is being extended to all borrowers no matter how far they are underwater, as long as they are current on their payments. While this would make it easier for homeowners to stay in their homes, it would leave their homes underwater until such time as prices completely recover.

A third approach would assist or force lenders to reduce the principle owed to them by underwater homeowners. This would eliminate the problem but come at a significant cost to lenders. Most state attorneys general are negotiating a partial settlement of this type with the major banks. California is not currently a part of the proposed settlement. A full settlement of this nature is unlikely, given today's divided political climate.

FORECLOSURES TAKE THEIR COURSE

If home prices will not rise enough to cure the problem of underwater homes, and if government intervention continues to have an insignificant impact on the problem, then the Inland Empire's housing market will not correct itself until the foreclosure and short sale processes have run their course for the 370,960 homes currently worth less than their mortgage debt. Only then will the Inland Empire economy be able to completely return to normal.

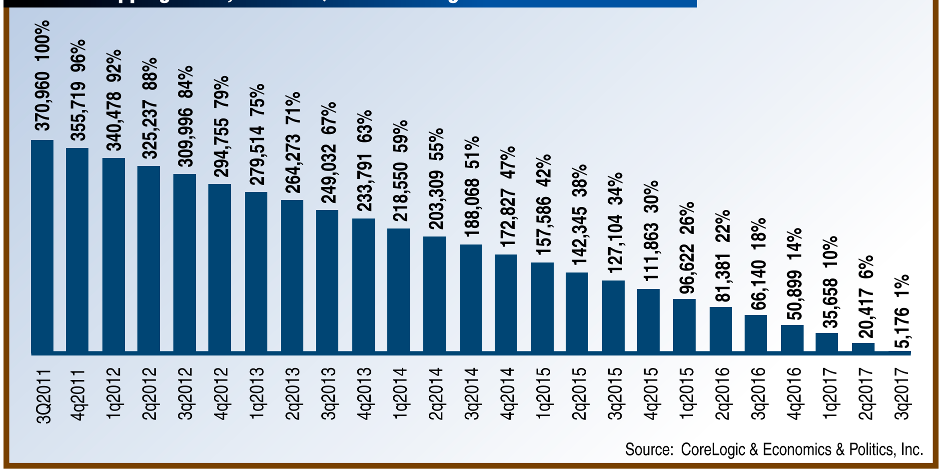
Two questions remain. At what pace will homes be lost? Here, the experience to date has been that the number of underwater homes has been declining at 15,241 per quarter. If that rate persists, it would take until third quarter 2017 for all 370,960 homes to be sold or taken through the foreclosure process (*Exhibit 3*). That six year period is the outside estimate as it assumes lenders will not become more aggressive in the foreclosure process, government intervention will not be more successful, and homeowners will not continue to pay for underwater homes.

Importantly, it is likely that a share of the homeowners will continue making their payments despite having homes that will not exceed their mortgage debt in the foreseeable future. If 22% elect to retain their homes, the mortgage market would return to normal supply and demand conditions in second quarter 2016. If 30% decide to do so, the mortgage distortion will end in fourth quarter 2015.

THE FUTURE

The logic of the Inland Empire's housing market indicates that 2015-2016 is the most probable time frame for the influence of the mortgage crisis on it to have dissipated. At that point, prices should begin rising in response to normal supply and demand conditions. Given that only 28,611 new homes were built

3 DECREASE IN UNDERWATER MORTGAGES FROM 3Q2011 Level
Dropping at 15,241 Per Quarter Average Since 2009



Source: CoreLogic & Economics & Politics, Inc.

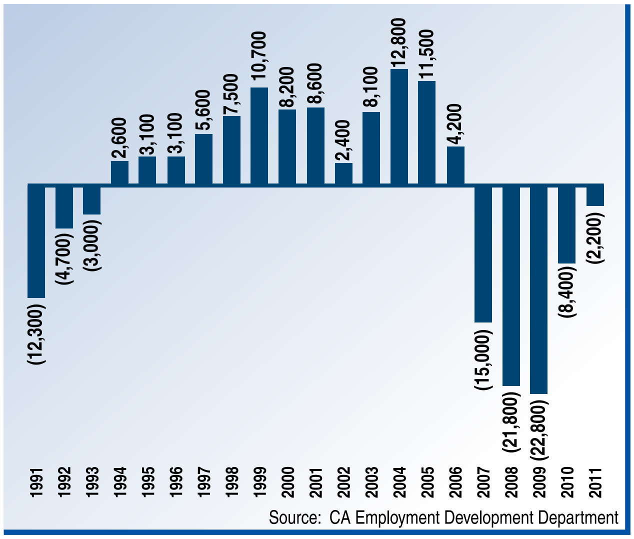
in the four years from 2008-2011 and the market is likely to be similarly restrained from 2012 through 2015, only 57,222 home will have been made available by 2016, an average of 7,153 per year. That is less than half the 16,806 average from 1988-2007. It indicates that a looming housing shortage is being created and that this is very likely to lead to rapidly rising prices toward the end of this decade. That is how every housing cycle in the past half century in Southern California has ended. As indicated, some contend that this will not occur this time due to the changing tastes of aging baby boomers and young adults. For different reasons, similar beliefs were expressed in earlier cycles and proved untrue. Thus, while these may be new market factors, it remains to be seen if they will fundamentally alter Southern California's historical housing dynamics. While a return to the hyper-aggressive housing markets of the mid-2000s will not occur, the most probable scenario for the Inland Empire is for a new round of aggressive housing dynamics similar to those that followed previous downturns.

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

www.johnhusing.com

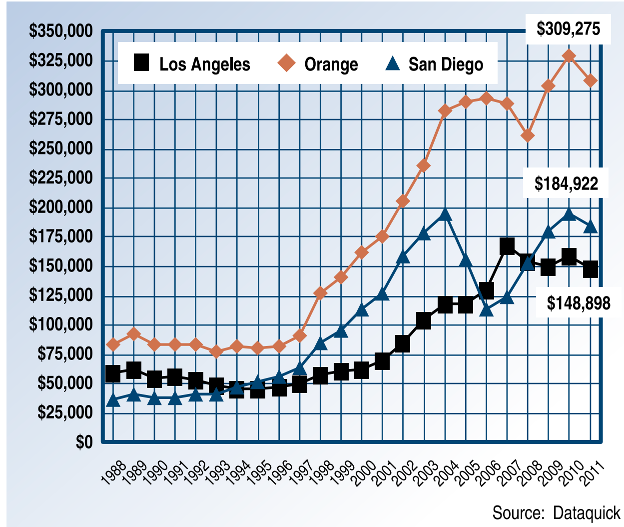
You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.

4 CONSTRUCTION EMPLOYMENT GROWTH
Inland Empire, 1991-2011



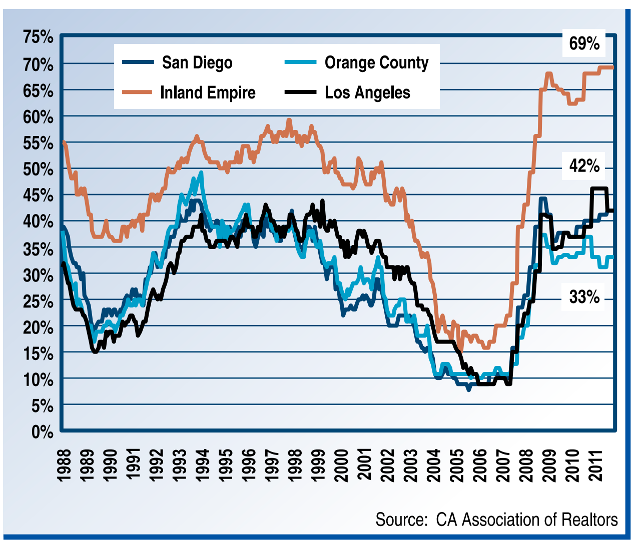
Construction Employment. A major reason the Inland Empire's economy has struggled is the fact construction employment, which peaked at 127,500 jobs in 2006 was down to 57,300 in 2011, off -70,200 (*-55.1%*). That is a huge decline for an area where 47.4% of adults stopped their schooling at high school or less and generally need to have blue collar jobs to access the middle class. The good news is that the hemorrhaging nearly stopped in 2011 (*-2,200*) with infrastructure and industrial projects causing the job level to rise (*200*) in December. However, the sector will not be a major force until home building returns.

5 GAP BETWEEN COASTAL & INLAND COUNTY PRICES
Existing & New Homes, 1988-2011



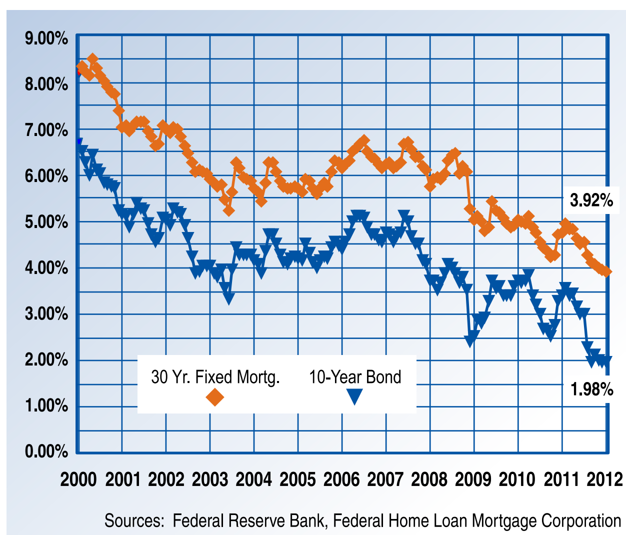
Home Price Gaps. In modern times, the Inland Empire has seen rapid population growth because Southern California's homebuyers could save significantly on both entry level and upscale houses by migrating to the region. The price gaps that have driven this behavior are near there all time highs. In fourth quarter 2011, the median priced Inland Empire home was $178,744. That was $148,898 cheaper than the median home in Los Angeles County (*$327,642*), $184,922 less costly than in San Diego County (*$363,696*) and $309,275 below Orange County (*$488.020*). In each case, these gaps are near their historic highs.

6 HOUSING AFFORDABILITY, SOUTHERN CALIFORNIA
Share of Families Afford Median Priced Home, 1988-2011



Affordability. A key factor normally driving home market demand is the share of local families able to afford the median priced home. In third quarter 2011, a record 69% of Inland Empire families could afford that home or the 50% that were less expensive. Los Angeles and San Diego counties were near records at 42%. Orange County was near its high for the past decade (*33%*), though not for earlier times. These affordability levels occurred because home prices have dropped and mortgage rates are historically low. Buyers have largely not reacted due to their fears about the economy.

7 30 YEAR MORTGAGE RATE & 10 YEAR BOND
2000-2012



Mortgage Rates. In January 2012, the 30 year mortgage rate was 3.92% according to Freddie Mac. That is the lowest rate since the 1950s. It has occurred because the Federal Reserve Bank has pushed the 10 year bond rate that generally determines the 30 year rate down to a record low of 1.98%. This has been done to allow homeowners to refinance at these very low rates to help some keep their houses and others to decrease their payments so they can help stimulate the economy. Combined with low prices, this has created the best home buying environment in modern history.

INLAND EMPIRE EMPLOYMENT ... SOLID STRONG JOB GROWTH

From December 2010-2011, CA Employment Development Department data estimated that the Inland Empire was up 2% or 22,7000 jobs indicating the region's economic recovery has finally started (*Exhibit 8*). Its job growth versus the same months of 2010 turned positive in August 2011 and has increased each month to this level (*Exhibit 9*). Interestingly, the area's December gain was a little below San Diego (*26,900*) and Orange (*24,800*) counties but well above Los Angeles County (*12,100*).

CLEAN WORK, GOOD PAY: -1.7%

Since December 2010, the Inland Empire's highest paying sectors lost -3,200 jobs (*-1.7%*). Higher education added 1,300 positions (*7.0%*) with people going back to school as often occurs in times of economic stress. Utilities gained 200 jobs as population growth has not stopped (*3.4%*). Federal and state government surprisingly gained 1,300 jobs (*3.3%*) and local government added 200 positions (*0.3%*). Mining was flat. Management and professions fell by -3,600 jobs (*-8.1%*) as high end employment has not done well, partly due to the construction difficulty affecting sectors related to it.

8 INLAND EMPIRE EMPLOYMENT INFORMATION 2010-2011

Sector	Oct-11	Nov-11	Dec-11	Dec-10	Chg. 10-11	Percent
Higher Education	19,200	19,900	19,800	18,500	1,300	7.0%
Utilities	6,000	6,000	6,000	5,800	200	3.4%
Federal & State	39,200	38,700	38,300	39,600	1,300	3.3%
Local Government	78,300	78,000	78,100	77,900	200	0.3%
Mining	1,100	1,100	1,000	1,000	0	0.0%
Mgmt & Professions	40,700	41,100	40,700	44,300	(3,600)	-8.1%
Clean Work, Good Pay	**184,500**	**184,800**	**183,900**	**187,100**	**(3,200)**	**-1.7%**
Admin. Support	49,000	48,300	50,500	42,700	7,800	18.3%
Health Care	108,500	108,400	108,500	105,400	3,100	2.9%
Publish, telecomm, Other	16,100	16,300	16,300	16,000	300	1.9%
Education	103,900	104,800	105,300	103,600	1,700	1.6%
Financial Activities	39,900	40,000	40,400	41,100	(700)	-1.7%
Clean Work, Moderate Pay	**317,400**	**317,800**	**321,000**	**308,800**	**12,200**	**4.0%**
Distribution & Transportation	116,200	116,800	117,800	112,000	5,800	5.2%
Manufacturing	84,000	85,000	84,700	83,900	800	1.0%
Construction	58,800	57,400	56,200	56,000	200	0.4%
Dirty Work, Moderate Pay	**259,000**	**259,200**	**258,700**	**251,900**	**6,800**	**2.7%**
Social Assistance	14,200	13,900	15,200	13,700	1,500	10.9%
Other Services	39,000	38,500	38,100	36,500	1,600	4.4%
Amusement	14,300	16,600	17,000	16,300	700	4.3%
Accommodation	13,100	13,300	14,100	13,600	500	3.7%
Employment Agcy	38,100	38,000	37,800	37,200	600	1.6%
Eating & Drinking	91,100	93,500	94,500	93,100	1,400	1.5%
Retail Trade	154,200	161,500	162,000	161,200	800	0.5%
Agriculture	13,600	14,200	15,600	15,800	(200)	-1.3%
Lower Paying Jobs	**377,600**	**389,500**	**394,300**	**387,400**	**6,900**	**1.8%**
Total, All Industries	**1,138,500**	**1,151,300**	**1,157,900**	**1,135,200**	**22,700**	**2.0%**
Civilian Labor Force	1,767,000	1,773,300	1,778,300	1,761,100	17,200	1.0%
Employment	1,532,600	1,552,000	1,561,100	1,514,900	46,200	3.0%
Unemployment	234,400	221,300	217,300	246,200	(28,900)	-11.7%
Unemployment Rate	13.3%	12.5%	12.2%	14.0%	-1.8%	-12.6%

Source: Employment Development Department

CLEAN WORK, MODERATE PAY: 4.0%

The Inland Empire's sectors that primarily pay moderate incomes to white collar workers grew 12,200 workers (*4.0%*). Administrative support added 7,800 jobs (*18.3%*) as firms saw the end of the down-cycle. Health care added 3,100 jobs (*2.9%*) as it continued to catch up with earlier population gains. Publishing/information added 300 jobs (*1.9%*) as the impact of the recession receded. K-12 education was up 1,700 jobs (*1.6%*) as enrollment grew despite weaker state funding. Financial organizations lost -700 people (*-1.7%*) due to cutbacks in large financial institutions.

DIRTY WORK, MODERATE PAY: 2.7%

From December 2010-2011, the Inland Empire's blue collar sectors began showing clear signs of recovering adding a net of 6,800 jobs (*2.7%*). Distribution and transportation added 5,800 workers (*5.2%*) as import and export activity expanded at Southern California's ports. Manufacturing added 800 jobs (*1.0%*) as aerospace and biomedical firms expanded. Construction finally started growing, up 200 jobs (*0.4%*) as infrastructure and industrial projects expanded.

9 WAGE & SALARY JOB CREATION/DESTRUCTION
Inland Empire, 2007-2011

Source: CA Employment Development Department

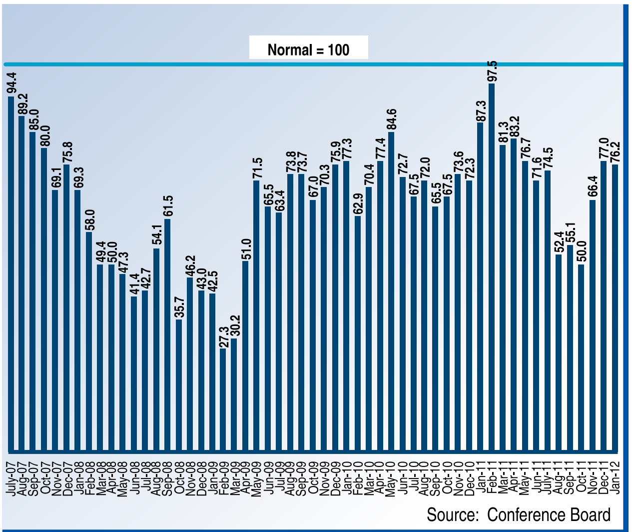
LOWER PAYING JOBS: 1.8%

The Inland Empire's lower paying sectors gained 6,900 jobs (*1.8%*). Social assistance grew by 1,500 jobs (*10.9%*) as demand increased with the recession and contributions helped. Other "consumer" service activity added 1,600 jobs (*4.4%*) with consumers becoming more comfortable with a recovery. Amusement gained 700 jobs (*4.3%*) and accommodation was up 500 (*3.7%*) with the U.S. and Southern California economies in recovery. Employment agencies were up 600 jobs (*1.6%*) as firms hired temp workers, though less than in an earlier phase of the turnaround. Eating & drinking gained 1,400 jobs (*1.5%*) and retailing grew by 800 (*0.5%*) as consumer spending was positive though restrained by high unemployment and low housing prices. Agriculture fell -200 jobs (*-1.3%*) as farm sales grew but technology held down the employment level.

COMMENT

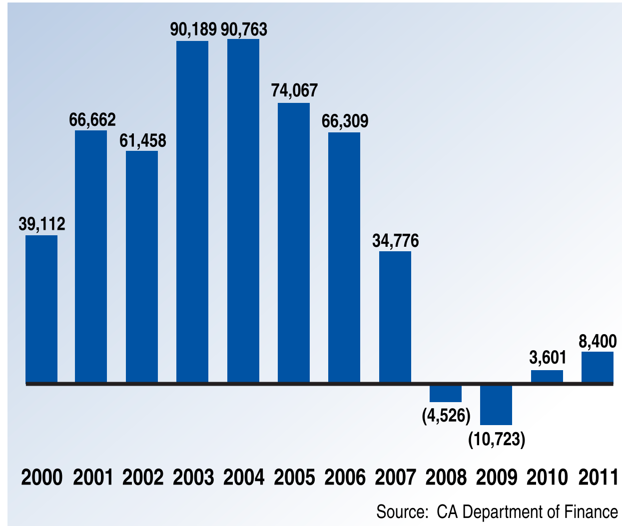
With job gains increasing for each month of 2011 versus 2010, it is clear that the Inland Empire has entered recovery mode. The preliminary data for all of 2011 was an increase of 2,800 jobs, somewhat below the 5,200 predicted by the QER last year. ■

10 U.S. CONSUMER CONFIDENCE
Future Outlook, July 2007 - Present



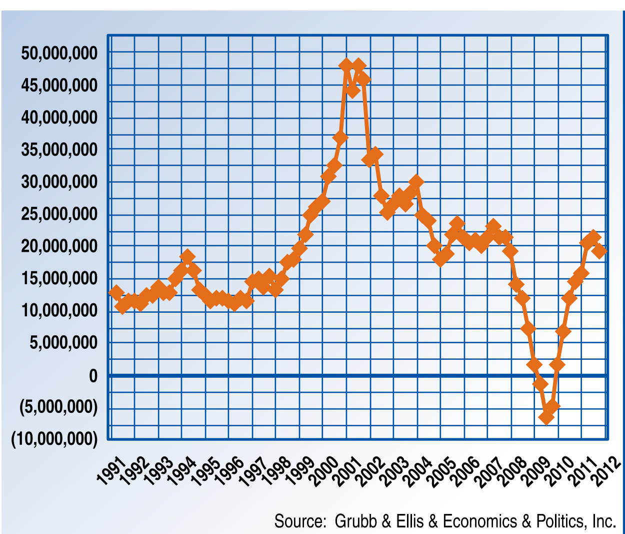
Consumer Confidence. With consumers responsible for about two-thirds of demand, their confidence is important to whether they will propel economic activity. This is particularly true for sectors, like housing, involving major expenditures. Given Congressional inaction and high unemployment, confidence readings have not reached "normal" or 100 since the recession started. Of late, Congressional inaction and high unemployment have driven readings as low as 50.0 in recent months in consumer views of the future, a fact helping to restrain demand in the housing market despite historic levels of affordability. In January 2012, the level was 76.2.

11 DOMESTIC IN-MIGRATION
Inland Empire, 2000-2011



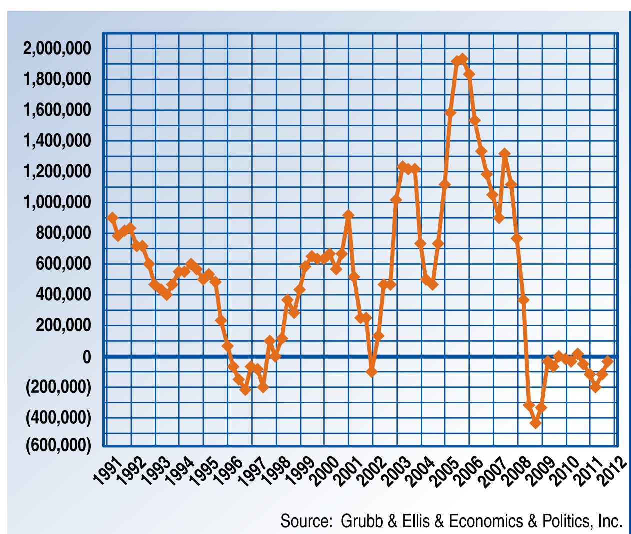
Domestic Migration. Traditionally, the affordability of the Inland Empire's housing has led families to migrate inland for both entry land and upscale housing. This led to in-migration levels of as many as 90,000 people in the past decade. However, since the housing downturn occurred, this migration has been slightly negative with 15,249 people leaving the area in 2008-2009, not quite offset by 12,001 people entering it in 2010-2011. This has meant that the region has not seen the transfers of income, wealth and spending that new families have historically brought to it.

12 INDUSTRIAL SPACE GROSS ABSORPTION
Inland Empire, 1991-Present (moving 4-quarter total)



Industrial Space Absorption. For the 4-quarters ended December 2011, Grubb & Ellis tracked 19.8 million sq. ft. of gross industrial space taken by Inland Empire users, highest in the U.S. That put the region just below the 20 million sq. ft. average annual level that has characterized "normal" periods. The 6.3% vacancy rate was the lowest since late 2007. Lee & Associates continues to indicate that the vacancy rate among facilities of 500,000 sq. ft. and up is zero due to the recovery of Southern California's port volumes in 2010-2011. The result is 4.5 million sq. ft. of new buildings under construction.

13 OFFICE NET SPACE ABSORPTION
Moving 4-quarters, Inland Empire, 1991-Present



Office Space Absorption. For 2011, Grubb & Ellis found that the Inland Empire's net office space absorption was essentially zero (*-36,868 sq. ft.*) with vacancies at 23.4%. The market has had zero or negative absorption for each four quarter period since early 2008. Lee & Associates indicates that the major issues have been the loss of tenants related to the housing sector and a reluctance of office firms to migrate to the area despite a local population (*3.23 million*) larger than 24 states starting with Oregon (*3.84 million*). In part, this is due to high vacancy rates found in San Diego (*20.4%*), Orange (*17.8%*) and Los Angeles (*17.0%*) counties.

14 SINGLE FAMILY HOME PRICES
4th Quarter, 2010-2011

County	4th Qtr-10	4th Qtr-11	% Chg.
NEW HOMES			
Riverside	$282,000	$285,000	1.1%
San Bernardino	255,500	269,500	5.5%
Los Angeles	405,000	360,000	-11.1%
Orange	550,000	575,500	4.6%
San Diego	504,000	453,000	-10.1%
Ventura	382,500	367,250	-4.0%
So. California	$408,800	$383,300	-6.2%
EXISTING HOMES			
Riverside	$191,182	$187,000	-2.2%
San Bernardino	150,000	150,000	0.0%
Los Angeles	335,000	315,000	-6.0%
Orange	490,000	450,000	-8.2%
San Diego	365,000	342,000	-6.3%
Ventura	410,000	379,000	-7.6%
So. California	$299,200	$284,500	-4.9%

Source: Dataquick

15 HOME DEED RECORDINGS
Inland Empire, 4th Quarter, 2010-2011

NEW HOMES				EXISTING HOMES			
Area	4th-2010	4th-2011	% Chg.	Area	4th-2010	4th-2011	% Chg.
Redlands, Loma Linda, Yucaipa	9	28	211.1%	Chino, CHill, Mtcl, Ont, RC, Upl	1,034	1,161	12.3%
SB Mountains	3	9	200.0%	SB Desert	415	424	2.2%
Victor Valley	81	110	35.8%	Redlands, Loma Linda, Yucaipa	373	381	2.1%
Chino, CHill, Mtcl, Ont, RC, Upl	98	116	18.4%	SB Mountains	655	668	2.0%
San Bernardino, Highland	27	30	11.1%	Fontana, Rialto, Colton, GT	1,264	1,264	0.0%
Fontana, Rialto, Colton, GT	60	42	-30.0%	Victor Valley	1,396	1,386	-0.7%
SB Desert	21	10	-52.4%	San Bernardino, Highland	776	767	-1.2%
SAN BDNO COUNTY	**299**	**345**	**15.4%**	**SAN BDNO COUNTY**	**5,913**	**6,051**	**2.3%**
Murrieta, Temecula, L. Elsinore, Wildomar	256	327	27.7%	Coachella Valley	1,193	1,278	7.1%
Coachella Valley	44	52	18.2%	Beaumont, Banning, Calimesa	375	379	1.1%
Riverside Rural	53	52	-1.9%	Riverside, Jurupa Valley	1,107	1,077	-2.7%
Moreno Valley	17	16	-5.9%	Riverside Rural	653	635	-2.8%
Beaumont, Banning, Calimesa	100	66	-34.0%	Murrieta, Temecula, L. Elsinore, Wildomar	1,578	1,523	-3.5%
Perris, Hemet, S. Jacinto, Menifee	278	176	-36.7%	Corona, Norco, Eastvale	916	883	-3.6%
Corona, Norco, Eastvale	234	138	-41.0%	Perris, Hemet, S. Jacinto, Menifee	1,881	1,707	-9.3%
Riverside, Jurupa Valley	62	23	-62.9%	Moreno Valley	735	652	-11.3%
RIVERSIDE COUNTY	**1,044**	**850**	**-18.6%**	**RIVERSIDE COUNTY**	**8,438**	**8,134**	**-3.6%**
INLAND EMPIRE	**1,343**	**1,195**	**-11.0%**	**INLAND EMPIRE**	**14,351**	**14,185**	**-1.2%**

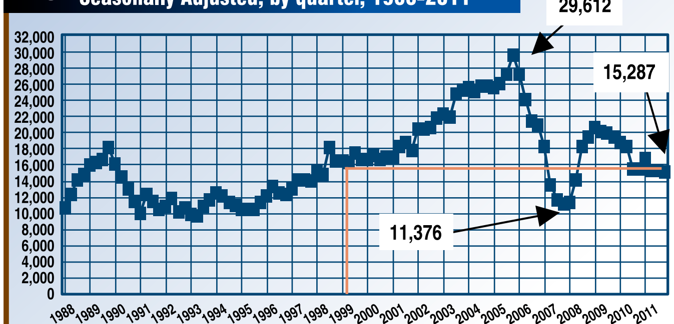
Source: Dataquick

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 roughly 20,000 quarterly units before decaying to a six quarter plateau ending in fourth quarter 2011 sales at 15,287 homes (*Exhibit 16*). This is roughly the level that existed from 1998-2001. Volume has decreased because the availability of foreclosed homes has declined with the legal difficulties facing major mortgage lenders as well as the difficulties facing short sellers and an unwillingness of potential buyers to buy. Meanwhile, the inland area's existing home median price stabilized at $170,428 in fourth quarter 2011 (*not shown*), up 9.7% from the low of $155,319 in second quarter 2009. With a record 69% of local families still able to afford the area's median priced home, demand should be stronger but is restrained by lack of funding and buyer fears.

Volume. Looking at raw data, Riverside County had 8,134 existing home sales in fourth quarter 2011, down -3.6% from the 8,438 level in 2010 (*Exhibit 15*). San Bernardino County had 6,051 existing home sales, up 2.3% from fourth quarter 2010. By sub-market, the Coachella Valley had Riverside County's largest

16 ALL HOME SALES, INLAND EMPIRE
Seasonally Adjusted, by quarter, 1988-2011



Source: Dataquick

percentage increase in volume (*1,278; +7.1%*); Perris, Hemet, San Jacinto, Menifee was its volume leader (*1,707, -9.3%*). In San Bernardino County, the area west of the I-15 freeway had the largest percentage increase (*1,161; +12.3%*); the Victor Valley led in volume (*1,386; -0.7%*).

Given the price competition from foreclosures, the new home market has continued to stall. Riverside County's fourth quarter 2011 volume was 850 sales, off –18.6% from 1,044 in 2010, and equal to third quarter 2011's sales of 850 units. The largest percentage gain and total volume was in Temecula, Murrieta, Lake Elsinore, Wildomar (*327; 27.7%*). San Bernardino County's volume was 345 sales, up 15.4% from fourth quarter 2010's volume of 299 and above third quarter's 2011's sales of 336. Redlands, Loma Linda, Yucaipa led in percentage growth (*28, 211.1%*). The area west of the I-15 freeway led in volume (*116; 18.4%*).

Prices. Riverside County's $285,000 new home price in fourth quarter 2011 was 1.1% above the prior year's level of $282,000 but down from $290,000 in third quarter 2011 (*Exhibit 14*). Its $187,000 existing home price was down -2.2% from $191,182 in fourth quarter 2010 and down a little from $189,000 in third quarter this year. San Bernardino County's new home price of $269,500 was up 5.5% from its fourth quarter 2010 price of $255,500 and up from third quarter's price of $260,000. Its existing home price of $150,000 was equal to fourth quarter 2010 (*$150,000*) as well as third quarter 2010 (*$150,000*). In Southern California, the fourth quarter 2010 new home median price was down -6.2% to $383,300; the existing home median was $284,500, down -4.9%.

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 370,690 homes (*Exhibit 13*) on which homeowners are still underwater end up foreclosed and resold.