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INLAND EMPIRE

QUARTERLY ECONOMIC REPORT

RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA
VOL. 19 NO. 4 OCTOBER 2007 \$5.00

INLAND EMPIRE CITY PROFILE 2007

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Frequently, questions are asked about the relative strengths of the Inland Empire's 48 cities. The annual Inland Empire City Profile (*Exhibits 1 & 2*) provides the relevant information. The sources are the most recently available data for population, taxable sales, assessed valuation, bank deposits, housing prices and volumes, and income.

Population. From 2000-2007, the CA Department of Finance reports that the Inland Empire added 823,882 people to reach 4,079,408, a 3.3% compound growth rate. Exhibit 1 indicates that eight cities have over 100,000 people: Riverside (287,820) and San Bernardino (205,010) led the region, followed by Fontana (181,640) and Moreno Valley (174,565). The others were Ontario (172,701), Rancho Cucamonga (172,331), Corona (144,661) and Victorville (102,538). Rialto (99,064) remains close. The smallest cities were Indian Wells (4,865), Needles (5,759) and Big Bear Lake (6,207). Four cities added over 40,000 people from 2000-2007: Murrieta (52,975), Fontana (52,712) Rancho Cucamonga (44,588) and Temecula (40,219). Four cities added under 1,000: Needles (929), Big Bear Lake (769), Grand Terrace (754) and Calimesa (275).

Among California's 478 cities in 2007, Riverside, San Bernardino, Fontana and Moreno Valley ranked 12th, 18th, 22nd and 23rd in population. From 2006-2007, five of the state's fastest growth rates were in Inland Empire cities: Beaumont (21.1%; 1st), Lake Elsinore (15.4%; 3rd), Fontana (9.8%; 7th), San Jacinto (9.8%; 7th) and Adelanto (9.2%; 10th). In addition, six inland cities ranked in the top 20 in absolute 2006-2007 growth: Fontana (16,281; 2nd), Victorville (7,453; 11th) Lake Elsinore (6,363; 13th), Hesperia (5,658; 16th), Indio (5,004; 19th), Beaumont (4,946; 20th).

Taxable Retail Sales. Taxable sales are a major city revenue source. The CA Board of Equalization reports them quarterly, nine months after they occur. In fiscal year 2006, San Bernardino County's sales grew 11.9% to \$31.2 billion. Riverside County's sales were up 11.3% to \$29.6 billion (*Exhibit 1*). Sales in the Inland Empire (11.6%) again grew much faster than California (7.4%).

Large malls, strong non-store sales and a large population allowed Ontario (\$5.62 billion) to have the Inland Empire's highest retail volume above Riverside (\$5.08 billion). Corona (\$3.55 billion) passed San Bernardino (\$3.32 billion). Temecula was fifth (\$2.74 billion) followed by Rancho Cucamonga (\$2.32 billion), Victorville (\$2.09 billion) and Fontana (\$2.03 billion). Palm Desert (\$1.58 billion) and Montclair (\$1.28 billion) remained smaller cities yet are key retail hubs, ranked 9th and 11th in sales despite being 24th and 29th in population.

Several cities near large retail centers continue to have unusually low sales. Chino Hills (\$439 million) was 14th in population but 29th in sales, Apple Valley (\$364 million) 18th and 30th, Highland (\$118 million) was 20th and 41st, and Yucaipa (\$243 million) 22nd and 35th. Smaller towns like Montclair (\$1.28 billion), Perris (\$555 million) and Barstow (\$554 million) outperformed them. Among the large cities, Moreno Valley (\$1,268 million) ranked 4th in population but 12th in sales. These data highlight the disparities created by California's heavily reliance on sales taxes for municipal finance. Thirty-one of the 48 Inland Empire cities had double digit sales growth led by several cities with

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1 INLAND EMPIRE CITY PROFILE

City	Population				Taxable Retail Sales				Assessed Valuation				Financial Deposits					
	2007	Rank	2000-2007 Change		FY 2005-2006		Per Capita	Rank	FY 2006-2007		Per Capita	Rank	2006		Per Capita	Rank		
			(mil)	Rank	% Chg.	(mil)			Rank	(mil)			Rank	%Chg.				
SAN BERNARDINO COUNTY																		
Adelanto	27,139	35	9,009	26	\$135	39	28.1%	\$5,794	40	\$2,202	36	\$86,105	25	\$41	47	10.2%	\$1,697	45
Apple Valley	70,297	18	16,058	15	\$364	30	26.1%	\$5,388	42	\$5,364	23	\$76,301	31	\$559	20	13.2%	\$8,117	32
Barstow	23,943	37	2,824	41	\$554	27	18.9%	\$23,378	9	\$1,159	43	\$48,403	46	\$272	32	2.6%	\$11,405	21
Big Bear Lake	6,207	46	769	46	\$193	36	3.9%	\$31,214	4	\$2,840	34	\$457,558	3	\$231	35	0.5%	\$37,297	3
Chino	81,224	13	14,056	19	\$1,570	10	8.1%	\$22,283	11	\$8,468	15	\$117,689	13	\$1,768	8	19.0%	\$24,832	9
Chino Hills	78,668	14	11,881	21	\$439	29	9.5%	\$5,631	41	\$8,469	14	\$107,650	15	\$642	19	31.2%	\$8,195	31
Colton	51,797	21	4,135	35	\$995	17	8.8%	\$19,227	13	\$2,902	32	\$56,031	43	\$410	27	15.2%	\$7,910	35
Fontana	181,640	3	52,712	2	\$2,025	8	12.2%	\$12,246	27	\$14,510	5	\$79,884	29	\$919	15	20.8%	\$5,296	39
G. Terrace	12,380	43	754	47	\$86	44	16.1%	\$6,962	38	\$804	44	\$64,941	39	\$115	41	625%	\$9,295	30
Hesperia	85,876	12	23,286	9	\$670	23	21.6%	\$8,353	34	\$5,860	21	\$68,237	37	\$669	18	8.9%	\$8,055	33
Highland	52,186	20	7,561	29	\$118	41	5.5%	\$2,298	47	\$3,132	31	\$60,022	41	\$94	42	6.6%	\$1,810	44
Loma Linda	22,451	38	3,223	39	\$271	33	14.1%	\$12,399	26	\$1,621	41	\$72,207	34	\$309	31	2.1%	\$13,916	17
Montclair	36,622	29	3,573	38	\$1,276	11	2.1%	\$35,828	1	\$2,499	35	\$68,234	38	\$382	29	9.4%	\$10,587	25
Needles	5,759	47	929	45	\$47	47	9.0%	\$8,268	35	\$322	48	\$55,885	44	\$63	44	4.7%	\$11,040	23
Ontario	172,701	5	14,694	17	\$5,623	1	15.6%	\$32,883	2	\$18,014	3	\$104,309	16	\$1,781	7	8.2%	\$10,363	27
R. Cucamonga	172,331	6	44,588	3	\$2,315	6	14.8%	\$13,883	23	\$19,434	2	\$115,196	14	\$1,758	10	10.7%	\$10,479	26
Redlands	71,375	17	7,784	28	\$1,140	13	-1.5%	\$16,053	19	\$6,541	19	\$91,648	20	\$1,910	4	10.3%	\$26,819	7
Rialto	99,064	9	7,182	30	\$1,042	16	16.1%	\$10,514	31	\$6,052	20	\$61,088	40	\$472	23	6.9%	\$4,768	40
San Bdn	205,010	2	19,628	11	\$3,320	4	4.7%	\$17,011	18	\$11,155	11	\$56,200	42	\$2,964	2	2.0%	\$15,058	15
29 Palms	24,830	36	10,066	24	\$83	45	11.4%	\$3,040	46	\$750	45	\$30,202	48	\$68	43	6.0%	\$2,609	43
Upland	75,169	15	6,776	32	\$964	18	20.5%	\$13,018	25	\$6,796	18	\$90,410	22	\$1,446	12	2.2%	\$19,375	12
Victorville	102,538	8	38,509	5	\$2,086	7	12.4%	\$22,539	10	\$8,882	13	\$88,817	24	\$1,395	13	12.2%	\$14,491	16
Yucaipa	51,784	22	10,577	22	\$243	35	12.7%	\$4,811	43	\$3,644	28	\$70,367	36	\$409	28	11.9%	\$7,996	34
Yucca Valley	21,044	41	4,179	34	\$291	32	11.3%	\$14,203	21	\$1,501	42	\$71,347	35	\$510	22	5.5%	\$24,548	10
SB County	2,028,013		317,874		\$31,212		11.9%	\$15,840		\$172,936		\$86,275		\$19,587		10.0%	\$9,855	
RIVERSIDE COUNTY																		
Banning	28,272	32	4,710	33	\$251	34	13.5%	\$8,854	32	\$2,090	38	\$73,928	32	\$445	26	9.7%	\$15,715	14
Beaumont	28,250	33	16,866	14	\$192	37	31.8%	\$8,255	36	\$3,408	29	\$120,654	11	\$164	38	19.8%	\$6,380	37
Blythe	22,179	39	2,160	42	\$173	38	13.3%	\$13,134	24	\$605	47	\$44,762	47	\$132	40	0.2%	\$9,903	29
Calimesa	7,415	45	275	48	\$48	46	11.0%	\$6,403	39	\$616	46	\$83,070	26	\$213	37	3.2%	\$28,565	5
Canyon Lake	10,939	44	1,017	44	\$13	48	-26.9%	\$1,200	48	\$1,702	40	\$155,192	7	\$1	48	NA	\$87	48
Cathedral City	51,081	23	9,468	25	\$922	19	0.2%	\$17,917	16	\$4,297	27	\$82,460	27	\$225	36	2.9%	\$4,348	41
Coachella	35,207	30	15,762	16	\$299	31	31.4%	\$8,446	33	\$1,983	39	\$51,514	45	\$50	45	-19.2%	\$1,364	46
Corona	144,661	7	21,198	10	\$3,549	3	14.0%	\$24,365	8	\$17,537	4	\$119,980	12	\$1,758	9	10.3%	\$12,047	19
Dsrt Hot Spr.	22,011	40	6,962	31	\$97	43	10.3%	\$4,372	44	\$2,115	37	\$89,830	23	\$259	34	2.7%	\$11,318	22
Hemet	69,544	19	12,893	20	\$1,056	15	10.3%	\$15,081	20	\$5,520	22	\$76,977	30	\$1,861	6	5.1%	\$26,265	8
Indian Wells	4,865	48	1,126	43	\$101	42	18.0%	\$20,618	12	\$4,752	26	\$961,477	1	\$328	30	7.8%	\$66,732	1
Indio	71,654	16	28,030	8	\$836	21	8.5%	\$11,591	30	\$6,995	17	\$90,673	21	\$823	16	8.1%	\$11,031	24
Lk Elsinore	40,985	27	18,704	12	\$586	24	13.3%	\$14,192	22	\$4,886	24	\$102,576	17	\$459	25	8.1%	\$10,332	28
La Quinta	38,340	28	17,398	13	\$725	22	14.3%	\$18,771	15	\$11,866	10	\$288,777	4	\$552	21	11.9%	\$13,856	18
Moreno Vly.	174,565	4	38,087	6	\$1,268	12	11.6%	\$7,211	37	\$13,315	6	\$73,780	33	\$1,104	14	7.3%	\$6,198	38
Murrieta	92,933	11	52,975	1	\$1,101	14	16.0%	\$11,763	28	\$12,362	9	\$127,108	9	\$729	17	11.7%	\$7,640	36
Norco	27,263	34	3,204	40	\$573	25	9.1%	\$25,143	7	\$2,863	33	\$125,923	10	\$270	33	3.9%	\$11,874	20
Palm Desert	49,539	24	8,597	27	\$1,580	9	6.4%	\$31,687	3	\$13,058	8	\$262,455	5	\$2,188	3	12.2%	\$43,912	2
Palm Springs	46,437	26	4,053	36	\$886	20	15.1%	\$18,944	14	\$9,701	12	\$207,026	6	\$1,527	11	0.9%	\$32,619	4
Perris	47,139	25	14,474	18	\$555	26	17.0%	\$11,689	29	\$4,833	25	\$95,388	19	\$148	39	5.0%	\$3,019	42
Rancho Mirage	16,672	42	3,695	37	\$524	28	7.0%	\$31,213	5	\$7,830	16	\$462,124	2	\$461	24	-0.7%	\$27,318	6
Riverside	287,820	1	36,232	7	\$5,083	2	6.8%	\$17,543	17	\$23,873	1	\$81,924	28	\$5,031	1	8.6%	\$17,314	13
San Jacinto	31,066	31	10,566	23	\$127	40	15.9%	\$4,059	45	\$3,296	30	\$95,955	18	\$43	46	-6.2%	\$1,302	47
Temecula	93,923	10	40,219	4	\$2,735	5	9.8%	\$28,917	6	\$13,233	7	\$135,119	8	\$1,897	5	12.4%	\$19,705	11
Riv County	2,031,625		486,238		\$29,646		11.3%	\$15,181		\$233,979		\$115,952		\$21,937		8.2%	\$11,049	
Inl. Empire	4,079,408		823,882		\$60,859		11.6%	\$15,512		\$289,119		\$101,163		\$41,524		9.0%	\$21,296	

Source: CA Finance Dept., E-5 Population Report; CA Bd. of Equalization, Taxable Retail Sales; San Bernardino/Riverside Co. Assessors' Offices, HighLine Data

rapid population growth: Beaumont (31.8%), Coachella (31.4%), Adelanto (28.1%), Apple Valley (26.1%) and Hesperia (21.6%).

Per capita sales reveal how well the sales tax can finance services for each city resident. In 2006, Montclair (\$35,828), Ontario (\$32,883), Palm Desert (\$31,687), Big Bear Lake (\$31,214) and Rancho Mirage (\$31,213) were the strongest. Highland (\$2,298) and Canyon Lake (\$1,200) were the weakest [Note: large prison populations were deducted in per capita calculations].

Assessed Valuation. Assessed valuation is important since property taxes are also a major local revenue source. As of July 1, 2007, San Bernardino County's net taxable valuation reached \$173 billion, up 15.9%. Riverside County's grew to \$234 billion, up 16.8%. Each has benefited from strong residential growth, home price appreciation and strong non-residential construction.

For cities, assessed valuation tends to follow population and industrial development as seen in the inland region's top five cities: Riverside (\$23.9 billion), Rancho Cucamonga (\$19.4 billion), Ontario (\$18.0 billion), Corona (\$17.5 billion) and Fontana (\$14.5 billion). San Bernardino ranked second in population and has an industrial base, but low housing values caused its valuation (\$11.2 billion) to rank only eleventh.

Assessed value per capita measures the ability of property taxes to support services for each city resident. Here, home values played a major role. The Coachella Valley had five of the six top cities, led by Indian Wells (1st, \$961,477) and Rancho Mirage (2nd, \$462,124). Two smaller cities made the top ten: Big Bear Lake (3rd, \$457,558) and Canyon Lake (7th, \$155,192). So did three high growth towns: Temecula (8th, \$135,119), Murrieta (9th, \$127,108), Norco (10th, \$125,923). By contrast, four East SB Valley cities remained in the bottom group: Rialto (40th, \$61,088), Highland (41st, \$60,022), San Bernardino (42nd, \$56,200) and Colton (43rd, \$56,031). They were ahead of five outlying desert communities: Needles (44th, \$55,885), Coachella (45th, \$51,514), Barstow (46th, \$48,403), Blythe (47th, \$44,762) and Twentynine Palms (48th, \$30,202).

Financial Deposits. Bank and credit union deposits are the only available indicator of local financial wealth since there is no local measure of stock market investments. Exhibit 1 shows the Inland Empire's deposits by city from HighLine Data. They increased by 9.0% to a record \$41.5 billion from 2005-2006. Riverside County deposits grew 8.2% to \$21.9 billion; San Bernardino County's rose 10.0% to \$19.6 billion.

The county seats had the most deposits: Riverside (\$5.0 billion) and San Bernardino (\$3.0 billion) followed by Palm Desert (\$2.2 billion). Redlands (\$1.91 billion) and Temecula (\$1.90 billion) were above Hemet (\$1.86 billion). From 2005-2006, deposits grew in 45 of 48 cities with declines in Coachella (-19.2%), San Jacinto (-6.2%), and Rancho Mirage (-0.7%). Growth was led by two cities seeing an influx of upscale families: Chino Hills (31.2%) and Fontana (20.8%). Coachella Valley cities had the highest deposits per capita led by Indian Wells (\$66,732) and Palm Desert (\$43,912). Big Bear Lake (\$37,297) ranked third, followed by Palm Springs (\$32,619). Calimesa (\$28,565) was fifth.

Home Sales Volumes. Dataquick provides home deed recordings by zip code using county recorders' data. In 2006, low interest rates plus soaring coastal home prices still caused buyers to move inland. In 2007, the market has slowed with prices leveling off or falling. San Bernardino County's 2006 **existing home** deed recordings were down 20.2% to 28,266 units. Riverside County's sales also declined 18.3% to 29,488 units (Exhibit 2).

Except for Ontario (1,299, 15th), the largest cities tend to have the highest existing home sales in 2006. Using each city's zip code areas, the volume leaders were Riverside (4,726), San Bernardino (4,018), Moreno Valley (3,339), Fontana (3,092) and Corona (2,788).

Only Coachella had sales growth (+34.6%). Five other cities had single digit declines: Indio (-6.0%), Blythe (-7.2%), Perris (-9.4%), Beaumont (-9.5%) and Yucaipa (-9.5%).

In 2006, the **new home market** saw Riverside County's sales decline 4.8% to 25,438 units. San Bernardino County's sales drop 3.3% to 10,148 units. Sales rose in only 9 of 48 cities. Five cities had volumes over 1,000 units: Corona (3,036), Indio (1,666), Fontana (1,645), Beaumont (1,602) and Murrieta (1,021).

Home Prices. Dataquick's second quarter 2007 data showed San Bernardino County's **existing home prices** up 1.4% from second quarter 2006 to \$365,000. Riverside County's homes declined 1.0% to \$405,000 (Exhibit 2). Indian Wells (\$1,100,000), Rancho Mirage (\$685,000), La Quinta (\$615,000), Chino Hills (\$598,500) and Upland (\$582,600) had the highest prices. Outlying desert communities had the lowest: Barstow (\$185,000), Twentynine Palms (\$130,000), Needles (\$108,7500). High priced La Quinta (17.5%) and Canyon Lake (11.8%) ... and moderately priced Blythe (11.1%) and Needles (10.1%) had the fastest appreciation, while 33 of 48 inland cities had lower prices led by Rancho Mirage (-15.3%) and Palm Springs (-14.6%).

In second quarter 2007, San Bernardino County's median **new home price** rose a slight 0.1% over second quarter 2006, reaching \$387,000. In Riverside County, there was a 4.2% decline to \$421,000. The highest priced new homes were in Chino Hills (\$1,644,500), Indian Wells (\$892,500), Rancho Cucamonga (\$728,435), Redlands (\$700,474) and Highland (\$649,000). Prices rose fastest (over 50 sales) in Ontario (45.5%), Chino Hills (35.7%), Palm Springs (33.4%), Apple Valley (29.7%) and Redlands (26.0%).

Inland Empire homes now generally cost more to finance due to these higher prices and somewhat higher rates. Using 10% down, 30-year financing and a 5.98% interest rate (6.96% *jumbo*), Exhibit 2 shows each city's monthly mortgage payments in second quarter 2007. Overall, San Bernardino County's monthly payments on a median priced existing home were \$1,932 versus \$1,994 in 2006. It was \$2,049 versus \$2,141 for a median priced new home. In Riverside County, the median existing home payment was \$2,144, down from \$2,266 in 2006. For new homes, the payment was \$2,457, down from \$2,503.

Income. Exhibit 2 estimates income within the Inland Empire using the Census Bureau's American Community survey for cities over 65,000 in population. For other cities, four assumptions were made: income growth matched inflation (26.7%) since 1999 (*census data*); incomes grew 0.75% beyond inflation; city populations have grown; and the share of a city's families in low, middle and high income groups was unchanged. Using these conventions, the highest median incomes were in Indian Wells (\$120,074), Chino Hills (\$100,394), Rancho Mirage (\$78,434), Rancho Cucamonga (\$75,429) and Murrieta (\$75,102). Total personal income was highest in larger cities led by Riverside (\$6.3 billion). However, Rancho Cucamonga (\$4.5 billion) and Corona (\$4.0 billion) were next despite having fewer people than Fontana (\$3.1 billion), Moreno Valley (\$3.0 billion), Ontario (\$2.9 billion) and San Bernardino (\$2.9 billion).

Most Prosperous Cities? Which Inland Empire cities are the most economically prosperous? Summing the city rankings for *per capita* retail sales, *per capita* assessed value, *per capita* financial deposits, as well as absolute population growth, median income, median price of all homes and their jobs:housing balance could yield a **perfect score of 7** for seven 1st places or a worst score of 336 from seven 48th places. The best 10 scores or most economically successful cities were: Temecula (55), Rancho Mirage (57), Indian Wells (60), Corona (63), La Quinta (65), Palm Desert (69), Chino (71), Rancho Cucamonga (75), Murrieta (97), Palm Springs (100). ■

INLAND EMPIRE EMPLOYMENT ... Over One of Three New California Jobs

In August 2007, the CA Employment Development Department estimated that the Inland Empire was up 51,300 jobs or 4.0% from August 2006 (*Exhibit 3*). That represented 34.1% of the jobs created in California (150,300). The data appear unusually strong given the residential construction slowdown. The region's 6.1% unemployment rate was up from 5.2% in August 2006. The area's job growth was almost five times the 10,500 added in San Diego (8,800) and Orange (1,700) counties (*Exhibit 4*).

CLEAN WORK, GOOD PAY: +9,000 JOBS (4.6%)

Since August 2006, the Inland Empire's highest paying sectors added 9,000 jobs (4.6%). Local government grew 3,800 (4.8%) as tax revenues continued growing. Management and professions were up 3,300 (5.7%) and federal and state government added 1,300 (3.6%) as both expanded to serve the area's growing economy and population. Improved funding allowed higher education to grow by 400 jobs (3.1%). Utilities were up 300 jobs (5.4%). Mining was off 100 (-7.1%) with the construction slowdown.

CLEAN WORK, MODERATE PAY: +12,100 JOBS (4.0%)

The Inland Empire's sectors that primarily pay moderate incomes to white collar workers added 12,100 jobs (4.0%). Health care was up 4,600 jobs (4.8%) as out-patient offices and hospitals grew. K-12 education was up 2,600 jobs (2.7%) despite surprisingly slow enrollment growth. Administrative support was up 2,200 jobs (5.3%) with office firms migrating inland. The financial sector added 2,000 people (3.9%) with population growth overcoming the slowing mortgage market. Publishing/information grew 700 (4.6%).

DIRTY WORK, MODERATE PAY: +12,300 (3.4%)

From August 2006-2007, the Inland Empire's blue collar sectors added 12,300 jobs or 3.4%. Manufacturing grew 3,500 jobs, despite the fall off in construction products (2.8%). Trans-

3 INLAND EMPIRE EMPLOYMENT INFORMATION June-August, 2007

Sector	Jun-07	Jul-07	Aug-07	Aug-06	Change	% Change
Local Government	82,900	83,200	83,400	79,600	3,800	4.8%
Mgmt & Professions	60,900	60,900	61,200	57,900	3,300	5.7%
Federal & State	37,200	37,400	37,700	36,400	1,300	3.6%
Higher Education	15,500	13,700	13,200	12,800	400	3.1%
Utilities	5,700	5,900	5,900	5,600	300	5.4%
Mining	1,300	1,300	1,300	1,400	(100)	-7.1%
Clean Work, Good Pay	203,500	202,400	202,700	193,700	9,000	4.6%
Health Care	99,800	99,900	100,100	95,500	4,600	4.8%
K-12 Education	111,100	102,300	98,600	96,000	2,600	2.7%
Admin. Support	43,700	43,500	43,600	41,400	2,200	5.3%
Financial Activities	53,900	53,900	53,600	51,600	2,000	3.9%
Publish, telecom, Other	15,900	15,800	15,900	15,200	700	4.6%
Clean Work, Moderate Pay	324,400	315,400	311,800	299,700	12,100	4.0%
Manufacturing	126,500	127,300	127,600	124,100	3,500	2.8%
Transport & Warehouse	61,400	61,500	61,600	58,300	3,300	5.7%
Wholesale Trade	51,000	50,800	50,900	48,100	2,800	5.8%
Construction	133,700	134,300	135,100	132,400	2,700	2.0%
Dirty Work, Moderate Pay	372,600	373,900	375,200	362,900	12,300	3.4%
Retail Trade	176,100	175,700	176,100	171,200	4,900	2.9%
Eating & Drinking	98,800	98,300	98,300	93,800	4,500	4.8%
Employment Agcy	51,700	52,400	53,100	49,300	3,800	7.7%
Other Services	45,500	45,300	45,300	42,800	2,500	5.8%
Amusement	17,700	17,500	17,400	16,300	1,100	6.7%
Accommodation	18,600	18,400	18,400	17,500	900	5.1%
Social Assistance	13,700	13,600	13,500	13,300	200	1.5%
Agriculture	22,100	17,300	14,100	14,100	0	0.0%
Lower Paying Jobs	444,200	438,500	436,200	418,300	17,900	4.3%
Total, All Industries	1,344,700	1,330,200	1,325,900	1,274,600	51,300	4.0%
Civilian Labor Force	1,834,800	1,848,400	1,837,100	1,769,100	68,000	3.8%
Employment	1,732,700	1,736,500	1,725,500	1,676,900	48,600	2.9%
Unemployment	102,100	111,900	111,600	92,200	19,400	21.0%
Unemployment Rate	5.6%	6.1%	6.1%	5.2%	0.9%	

SOURCE: CA Employment Development Department

portation and warehousing were up 3,300 jobs (5.7%) and wholesale trade added 2,800 (5.8%) as international trade powered the logistics group. Construction grew by 2,700 jobs (2.0%) as non-residential projects overcame plunging home construction.

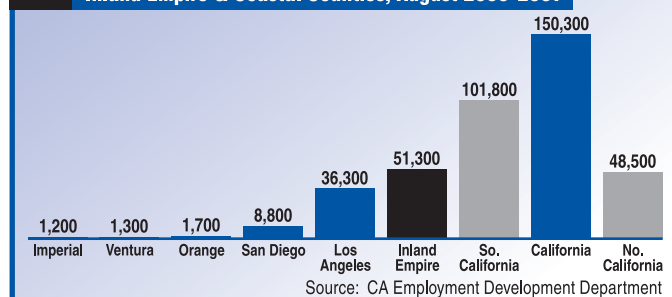
LOWER PAYING JOBS: +17,900 (4.3%)

The Inland Empire's lower paying sectors grew 17,900 jobs (4.3%). Retailing added 4,900 jobs (2.9%) despite falling home sales. The related other "consumer" services group added 2,500 (5.8%). Eating & drinking gained 4,500 jobs (4.8%) with several new venues. Employment agencies were up 3,800 (7.7%) as numerous sectors needed workers. With several new hotels and Indian gaming expanding, amusement (1,100; 6.7%) and accommodation (900; 5.1%) saw strong gains. Social assistance (200, 1.5%) grew with the population. Despite drought and urbanization, agriculture was unchanged.

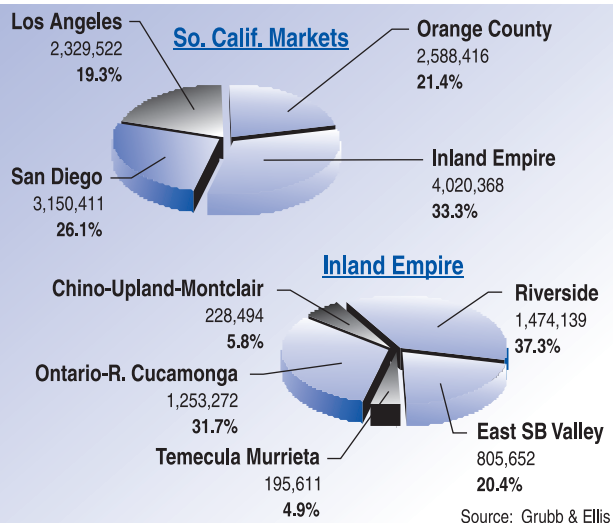
COMMENT

The Inland Empire's job growth in mid-2007 seems too good to be true given the declining residential sector. EDD's August data may be overestimating not underestimating the area's growth since it is likely that many small construction firms have disappeared. So far, the January-August 2007 estimate of 44,600 new jobs nearly matches the 48,150 for 2006 and exceeds the QER's forecast of 37,200 for this year. ■

4 JOB CHANGE, CALIFORNIA MARKETS Inland Empire & Coastal Counties, August 2006-2007

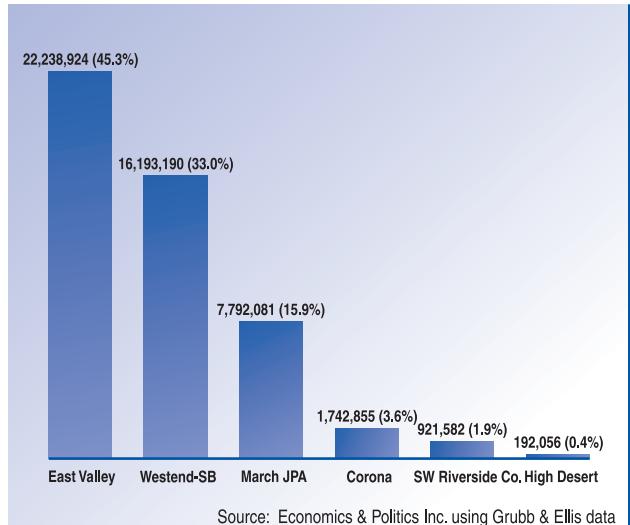


5 OFFICE SPACE UNDER CONSTRUCTION
Southern California Markets, June 2007



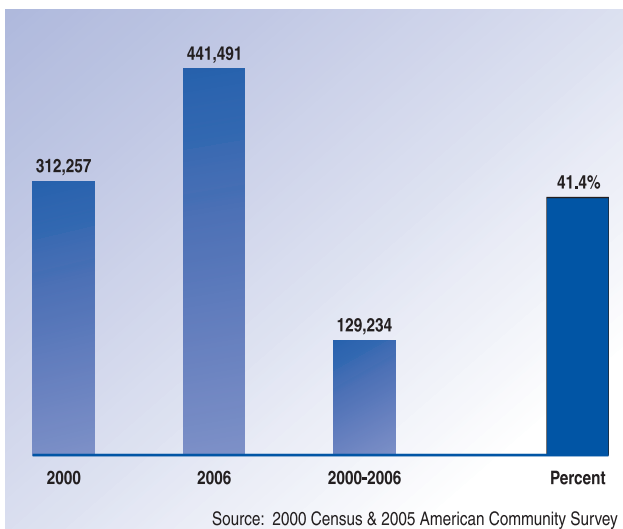
Office Market. According to Grubb & Ellis, office construction in the Inland Empire is soaring in response to a growing demand for space by firms seeking to service its huge population (4.1 million) and economy (1.3 million jobs). In June 2007, the area had 4.0 million square feet being built representing 33.3% of Southern California's market. The largest shares were in Riverside (37.3%; 1.5 million sq. ft.) and Ontario-Rancho Cucamonga (31.7%; 1.3 million sq. ft.).

6 LOCATION OF INCREASED INDUSTRIAL OCCUPANCY
Inland Empire Sub-Markets, June 2005 - June 2007 (sq. ft.)



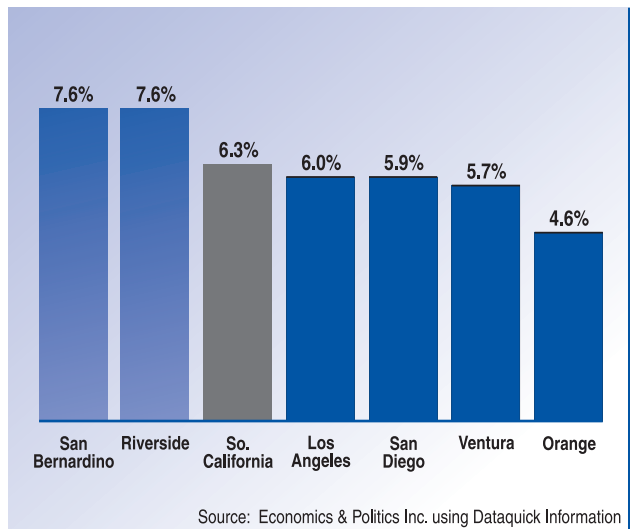
Industrial Market. With the Westend running out of land, industrial absorption is migrating deeper into the Inland Empire. From June 2005-2007, newly occupied space in the Westend of San Bernardino County (33.0%) and Corona (3.6%) represented only 36.6% of the Inland Empire total of 49.1 million square foot. The other 63.4% was divided between the East Valley (22.2 million sq. ft.; 45.3%), March JPA cities (7.8 million sq. ft.; 15.9%), Southwest Riverside County (921,582 sq. ft.; 1.9%) and the High Desert (192,056 sq. ft.; 0.4%). This trend will continue.

7 BA OR HIGHER EDUCATION
Adults 25 & Up, Inland Empire, 2000 - 2006



Well-Educated Residents. The Census Bureau's American Community Survey is now annually providing a wealth of data on cities, counties and school districts with 65,000 or more people (<http://www.census.gov/acs/www/>). Historically, these data would have been available in 12 months. One finding: from 2000-2006, the Inland Empire has added 129,234 people with Bachelor's or higher degrees, a 41.4% increase in just six years. Clearly, the housing market is changing the nature of who lives in the region and making it more competitive for higher-end firms.

8 SHARE OF HOMES & CONDOS SOLD 2004-2006 GOING INTO DEFAULT
Southern California, 1st & 2nd Quarter 2007



Defaults. In the first six months of 2007, there were 9,498 notices of default to homeowners in San Bernardino County and 12,398 in Riverside County. That was 7.6% of all homes and condos sold during 2004, 2005 and 2006. The area was 1.3% above Southern California's 6.3% average. The 2004-2006 period is used since that was when sub-prime mortgages and speculation became serious issues. The data overstate the mortgage problem to the extent homeowners solved their first quarter mortgage problems by the second quarter. About half have been able to do so.

9 HOME PRICES 2nd Quarter, 2006-2007			
County	2nd Qtr-06	2nd Qtr-07	% Chg.
NEW HOMES			
Riverside	\$439,500	\$421,000	-4.2%
San Bernardino	386,500	387,000	0.1%
Los Angeles	475,000	505,500	6.4%
Orange	719,000	633,500	-11.9%
San Diego	431,000	417,000	-3.2%
Ventura	630,000	641,000	1.7%
So. California	\$460,800	\$462,100	0.3%
EXISTING HOMES			
Riverside	\$409,000	\$405,000	-1.0%
San Bernardino	360,000	365,000	1.4%
Los Angeles	545,000	580,000	6.4%
Orange	700,000	715,000	2.1%
San Diego	564,000	561,500	-0.4%
Ventura	649,000	630,000	-2.9%
So. California	\$517,600	\$546,500	5.6%

Source: Dataquick

10 HOME DEED RECORDINGS Inland Empire, 2nd Quarter, 2006-2007							
NEW HOMES				EXISTING HOMES			
Area	2nd-06	2nd-07	% Chg.	Area	2nd-06	2nd-07	% Chg.
SB Mountains	16	13	-18.8%	Redlands, Loma Linda, Yucaipa	457	376	-17.7%
SB Desert	146	112	-23.3%	SB Mountains	685	549	-19.9%
San Bernardino, Highland	262	192	-26.7%	Chino, CHill, Mtcl, Ont, RC, Upl	1,415	1,025	-27.6%
Chino, CHill, Mtcl, Ont, RC, Upl	477	321	-32.7%	SB Desert	547	382	-30.2%
Fontana, Rialto, Colton, GT	418	243	-41.9%	San Bernardino, Highland	1,099	581	-47.1%
Redlands, Loma Linda, Yucaipa	347	172	-50.4%	Fontana, Rialto, Colton, GT	1,484	780	-47.4%
Victor Valley	923	410	-55.6%	Victor Valley	1,411	734	-48.0%
SAN BDNO COUNTY	2,589	1,463	-43.5%	SAN BDNO COUNTY	7,098	4,427	-37.6%
Corona, Norco	702	719	2.4%	Coachella Valley	1,235	1,141	-7.6%
Riverside	302	253	-16.2%	Riverside Rural	429	309	-28.0%
Riverside Rural	648	334	-48.5%	Corona, Norco	867	594	-31.5%
Moreno Valley	222	109	-50.9%	Beaumont, Banning, Calimesa	324	211	-34.9%
Perris, Hemet, S. Jacinto	1,738	813	-53.2%	Murrieta, Temecula, L. Elsinore	1,506	950	-36.9%
Coachella Valley	990	432	-56.4%	Perris, Hemet, S. Jacinto	1,569	954	-39.2%
Beaumont, Banning, Calimesa	515	200	-61.2%	Riverside	1,269	749	-41.0%
Murrieta, Temecula, L. Elsinore	1,562	564	-63.9%	Moreno Valley	922	398	-56.8%
RIVERSIDE COUNTY	6,679	3,424	-48.7%	RIVERSIDE COUNTY	8,121	5,306	-34.7%
INLAND EMPIRE	9,268	4,887	-47.3%	INLAND EMPIRE	15,219	9,733	-36.0%

Source: Dataquick

INLAND EMPIRE: Housing Transition Under Way

Clearly, the Inland Empire has moved deeply into a transition period in its housing markets. For second quarter 2007, the area recorded 8,879 *seasonally adjusted* existing home sales and 4,801 new home sales. Respectively, these were down from the record levels of 18,563 (*existing: 4th quarter 2005*) and 11,013 (*new: 1st quarter 2006*) (*Exhibit 11*). With this weakening, the area's property values either fell or were nearly constant. Riverside County's median new home price dropped to \$421,000, off 4.2% from second quarter 2006. Its existing home price fell to \$405,000, down 1.0% (*Exhibit 9*). San Bernardino County's new home price was \$387,000, up 0.1%. Its existing home price was \$365,000, up 1.4%.

Looking at the Inland Empire's raw data, quarterly existing home sales totaled 9,733 units, down 36.0% from second quarter 2006 (*Exhibit 10*). Quarterly new home sales were 4,887, down 47.3%. The area's share of new home sales from San Diego to Ventura counties in the first half of 2007 was 45%, down from 54% in 2006.

SALES

Riverside County recorded 3,424 new home sales during second quarter 2007, off 48.7% from 2006. As recordings come at the end of escrow, this included many sales from the first quarter. Corona-Norco gained sales with 719 units (2.4%). Despite its

steep decline, the affordable Perris, Hemet, San Jacinto area was the volume leader (813, -53.2%). Riverside County had 5,306 existing home sales, down 34.7% from 2006 with declines in every sub-market. The Coachella Valley was the sales leader sales and had the smallest slowdown (1,141; -7.6%).

San Bernardino County's second quarter 2007 new home sales fell to 1,453 units (-43.5%). The mountains had the smallest decline (-18.8%) to 16 sales. The affordable Victor Valley was the volume leader despite the largest slowdown (410; -55.6%). Existing home sales fell 37.6% to 4,427 units. The Redlands, Loma Linda, Yucaipa area (376; -17.7%) had the smallest slowdown. The area west of the I-15 freeway was the volume leader (1,025; -27.6%).

PRICES

Riverside County's \$421,000 new home price in second quarter 2007 was down from \$434,500 in the first quarter and down 4.2% from 2006 (\$439,500). Its \$405,000 existing home price was down from \$410,000 in the prior quarter and off 1.0% above 2006 (\$409,000). San Bernardino County's new home price of \$387,000 was equal to its first quarter price and 0.1% above 2006 (\$386,500). Its existing home price of \$365,000 was below the first quarter 2006 record of \$368,000 but was up 1.4% from second quarter 2006 (\$360,000). In Southern California, the second quarter 2007 new home median price rose 0.3% to \$462,100; the existing home median was \$546,500 (5.6%).

THE FUTURE

Inland Empire's home market is in a period of steep readjustment. Despite being well under coastal county levels, high prices have made affordability an issue for local and coastal residents. Fortunately, Federal Reserve Board action has lowered both long and short term interest rates. Locally, job growth appears strong, meaning that the housing issue is not being caused by the larger economy. However, homebuyers are shaken and will stay on the sidelines until they believe prices are again reasonable. It remains the QER's view that by the end of the adjustment, median new homes will be off 13% in price, existing will drop 10% and remain there for two or three years. ■

