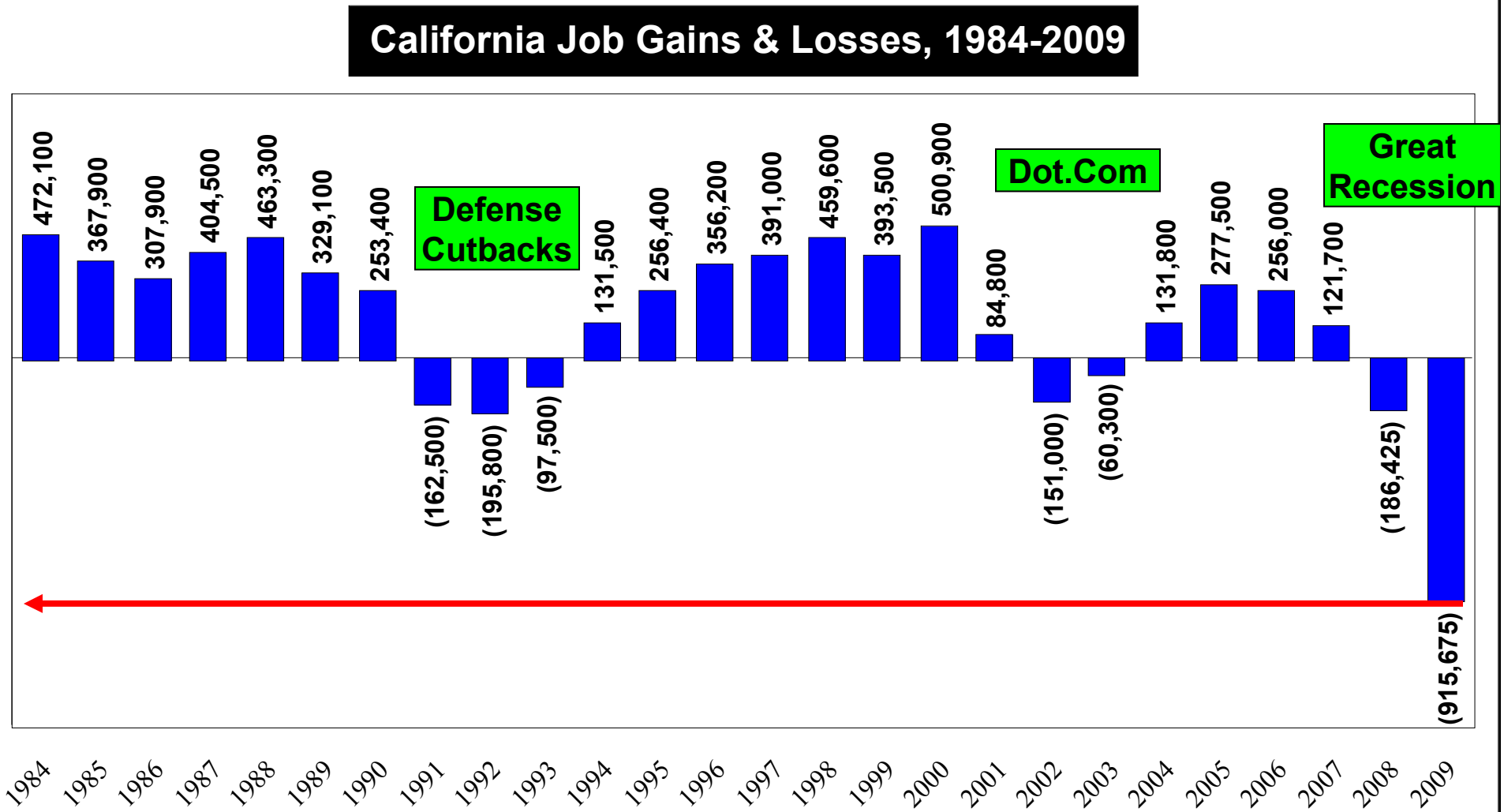
San Bernardino, 2010

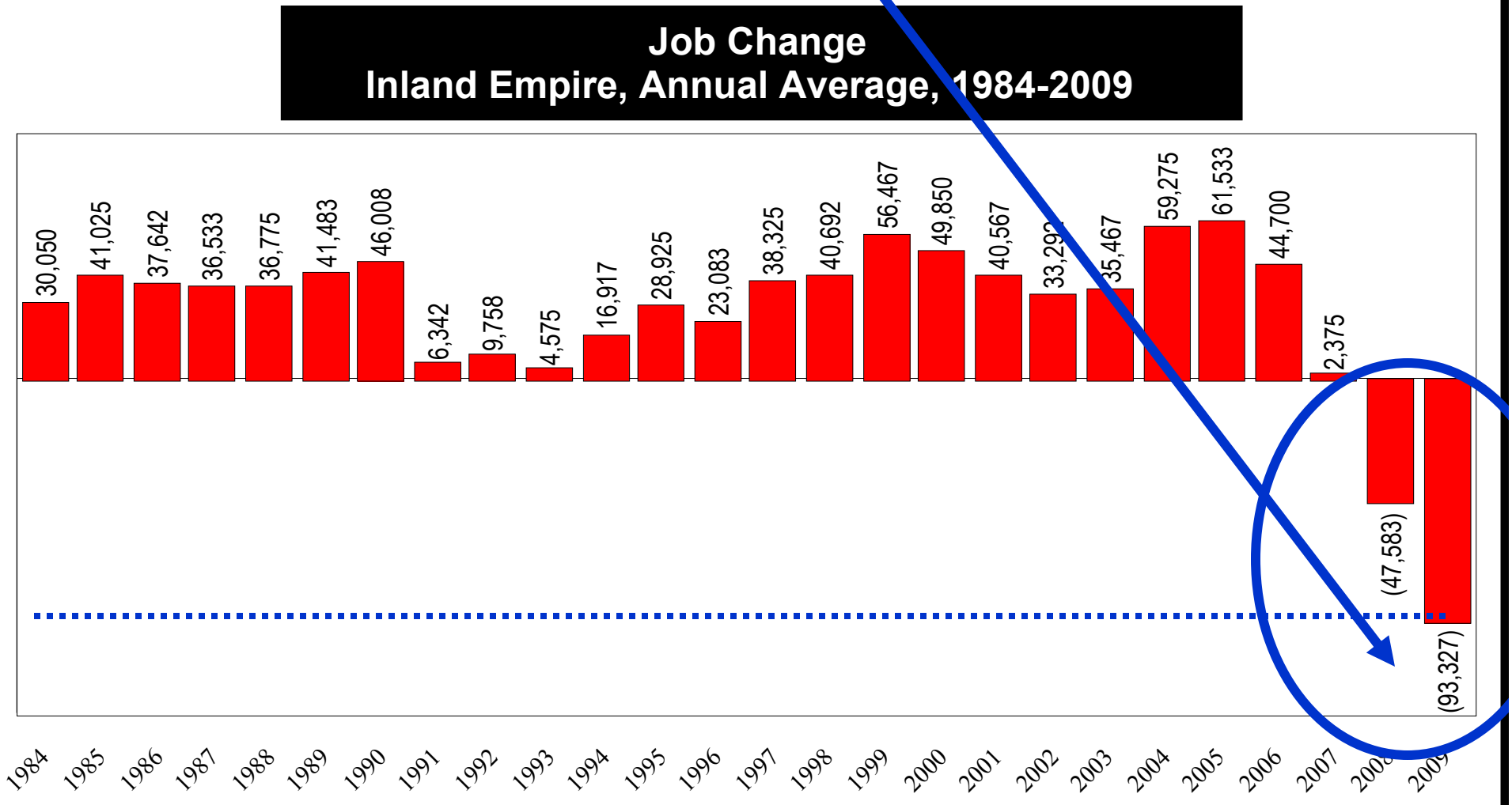
John Husing, Ph.D.
Economics & Politics, Inc.

California's Job Creation/Losses



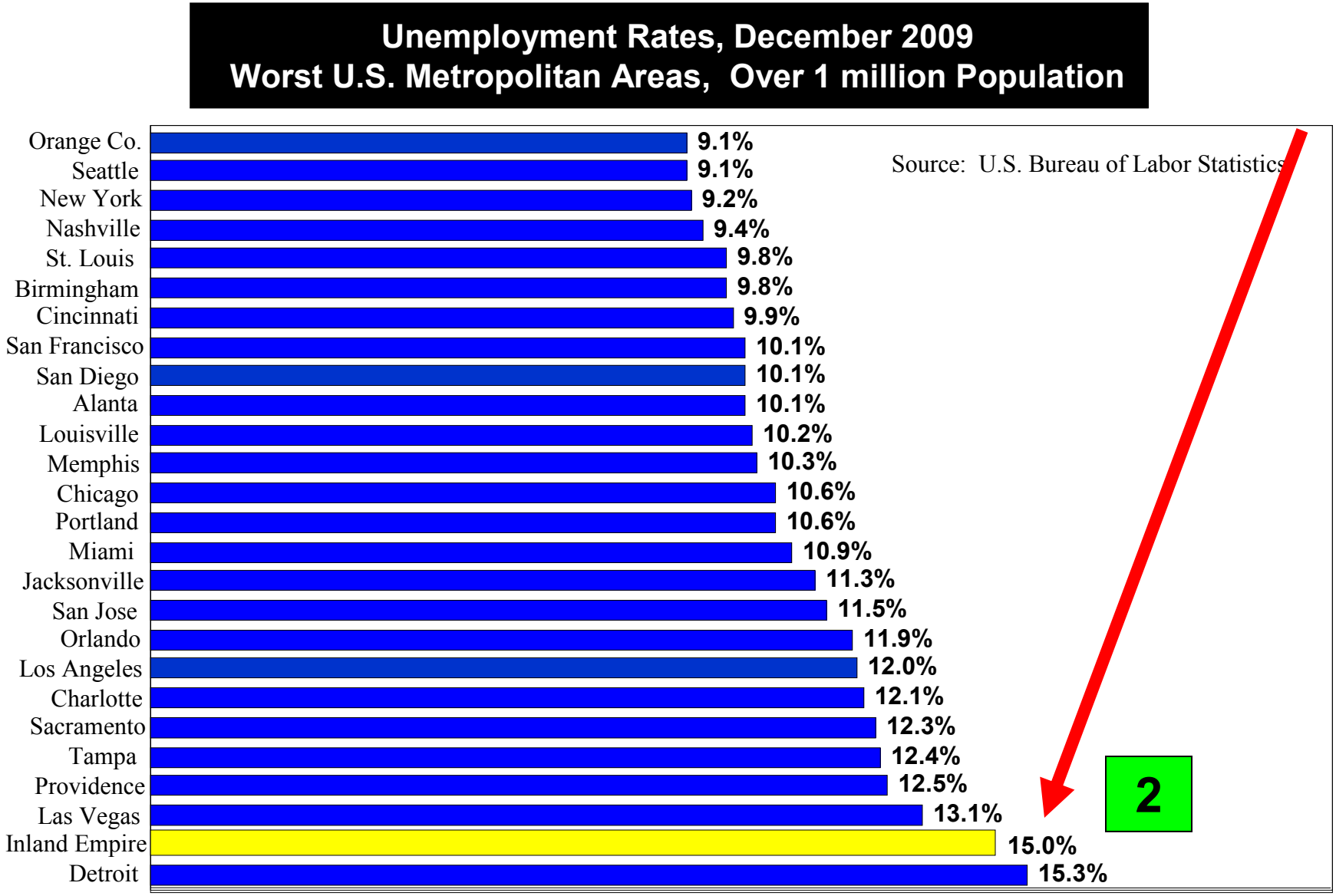
Source: CA Employment Development Department

Inland Empire Job Change, 1984-2009



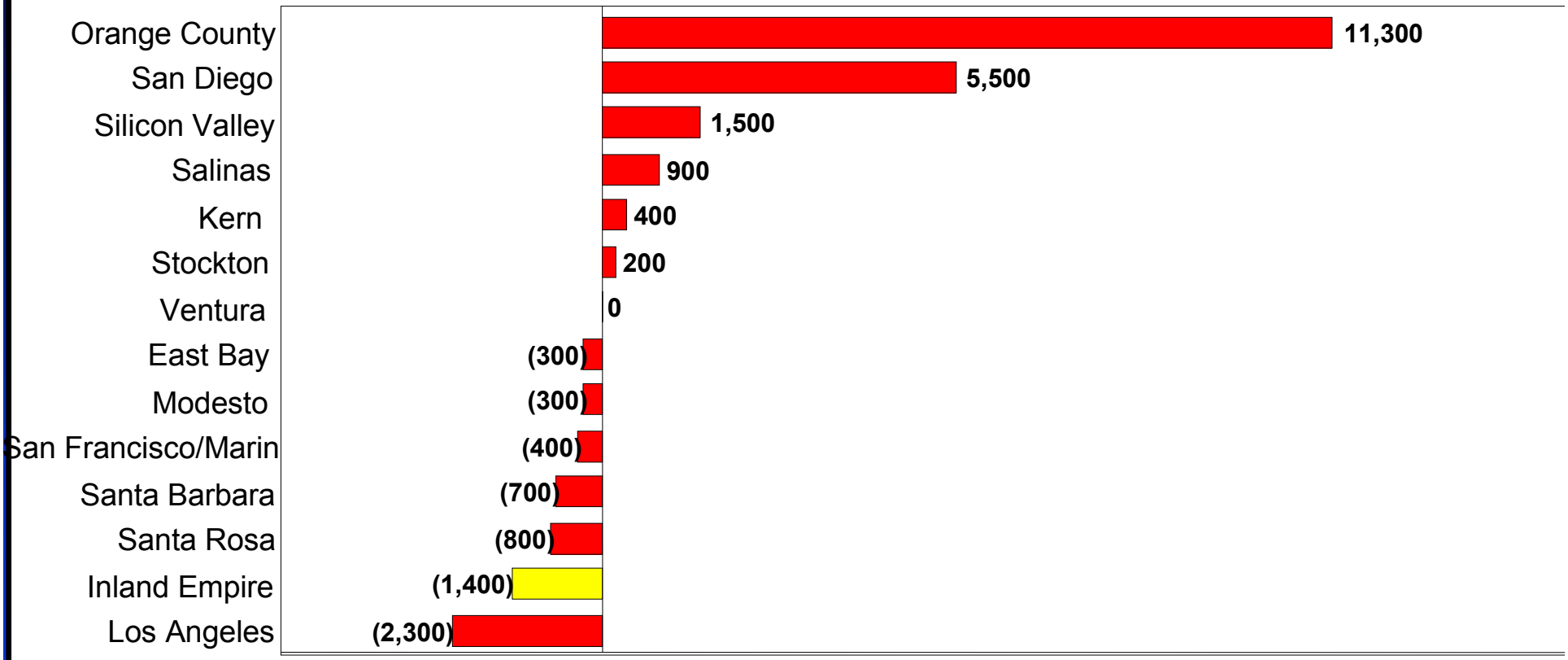
Sources: CA Employment Development Department, Economics & Politics, Inc.

Worst National Unemployment Rates



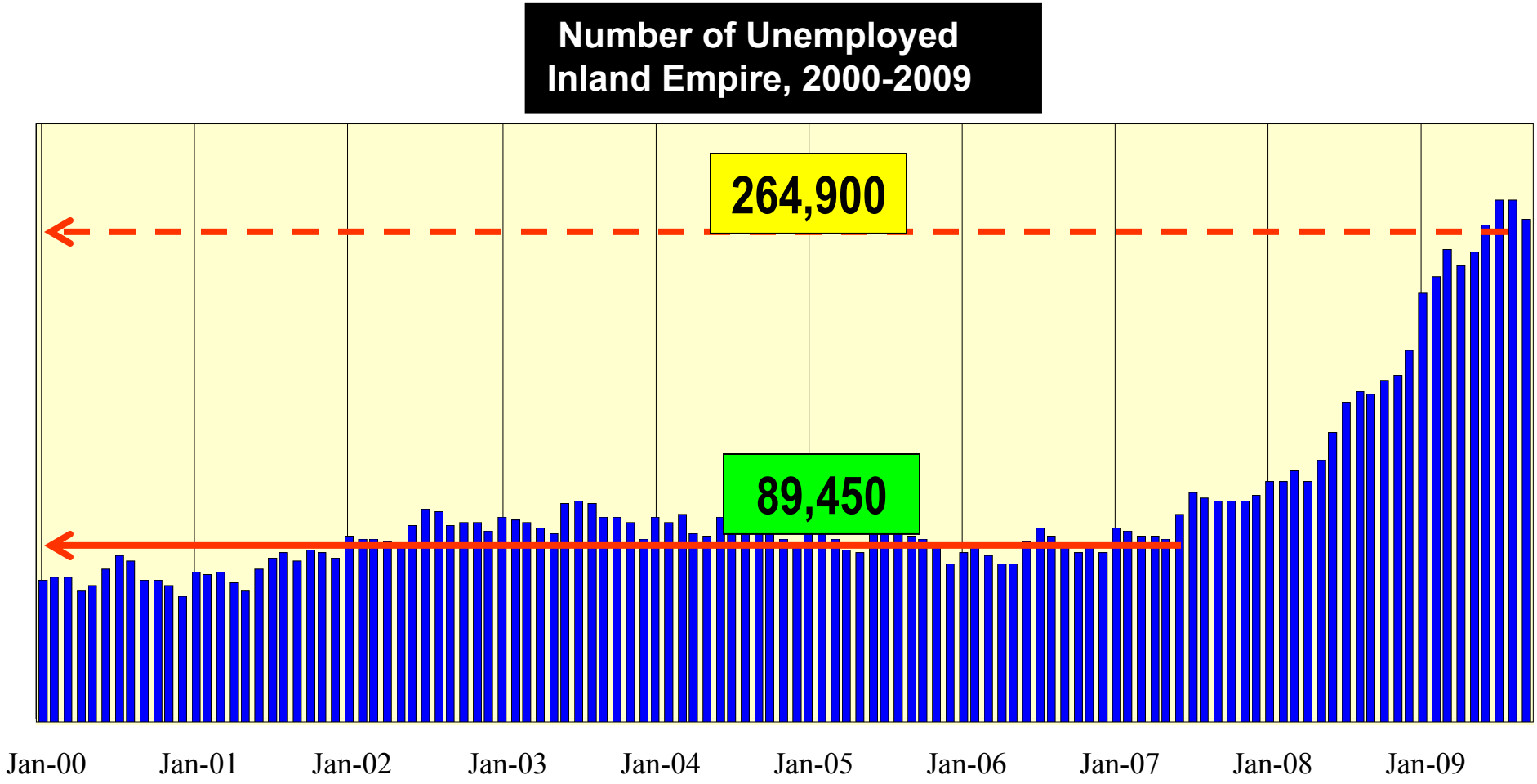
Inland Economy …
Still Slowing In January

Job Creation/Destruction, Seasonally Adjusted
California Metropolitan Areas, January 2010 vs. December 2009



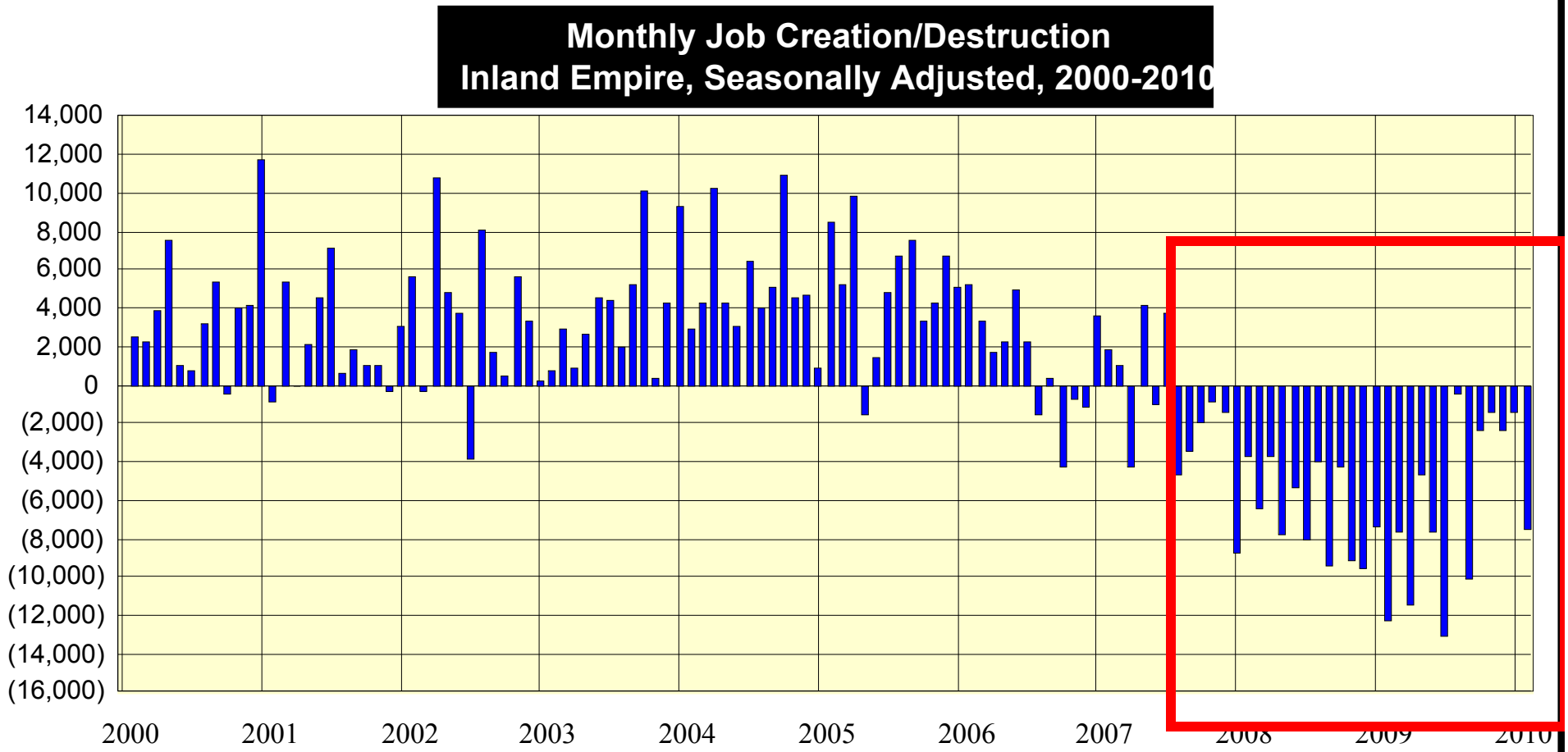
Source: CA Employment Development Department

259,200 Unemployed – Nearly 3 times Normal



Source: CA Employment Development Department

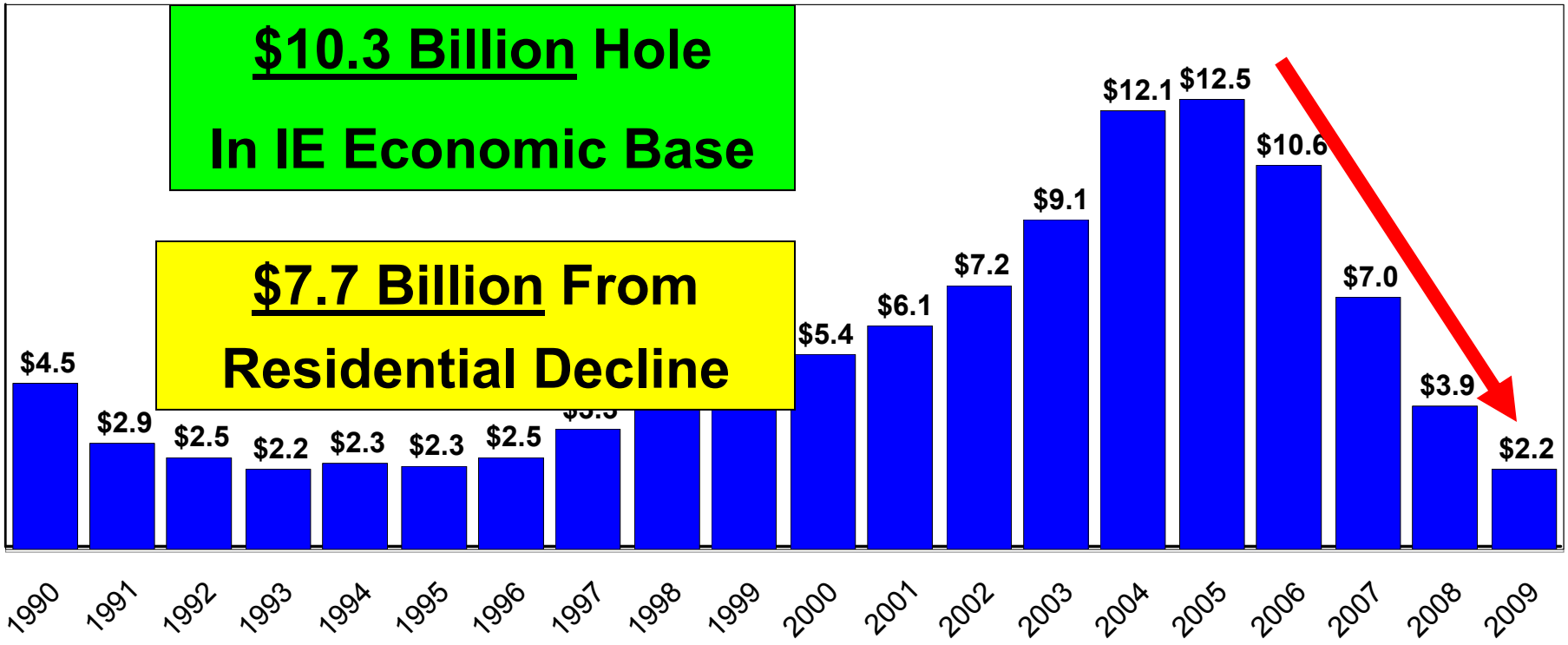
Level of Declines Slowly Being Reduced



Source: CA Employment Development Department

Shrinking Our Economy

Total Building Permit Valuation
Inland Empire, 1990-2009 (billions)



Construction Industry Research Board

-$20.6 Billion Loss To The Economy

Another
-$10.3 Billion

Primary Tier

-$10.3 Billion

Economic Base

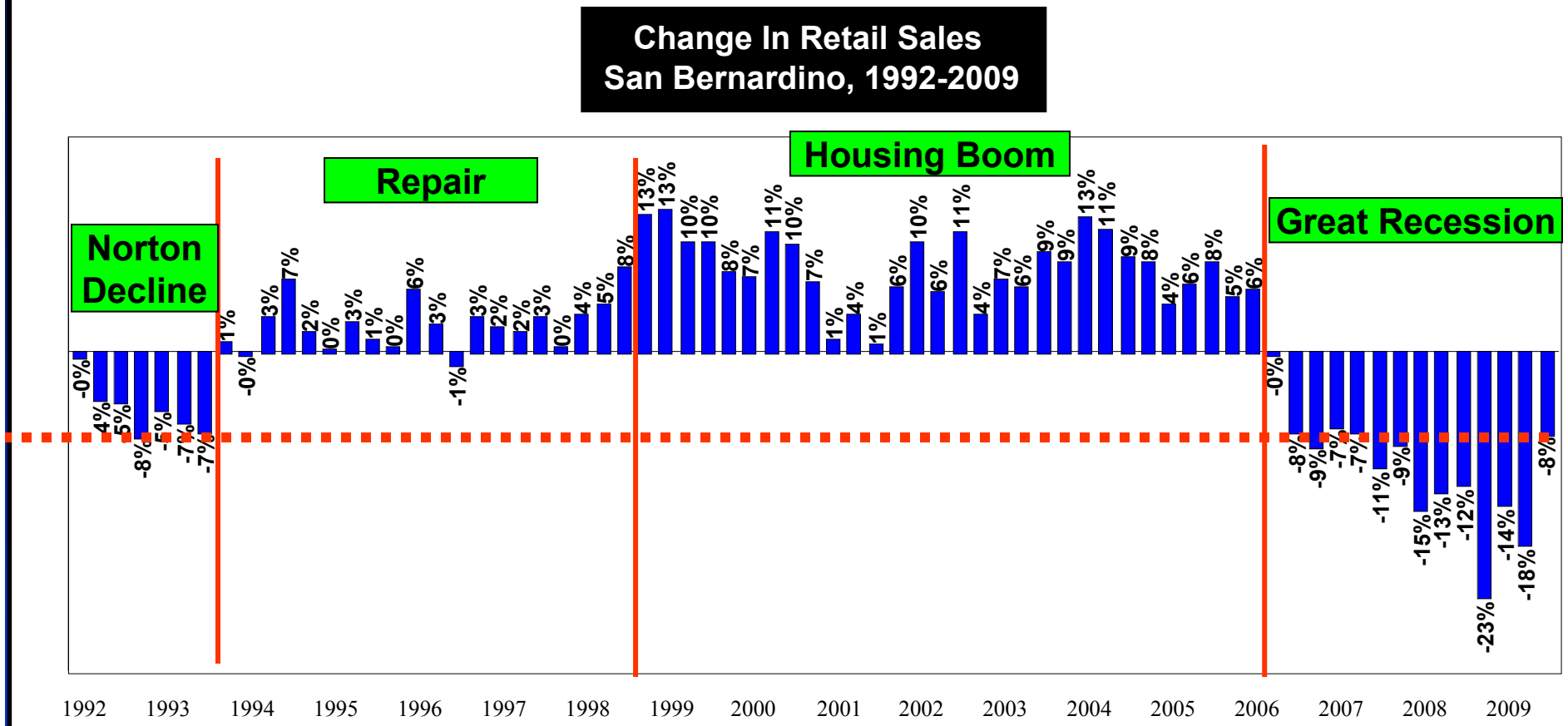
Construction: Blue Collar

Manufacturing: Blue Collar

Logistics: Blue Collar

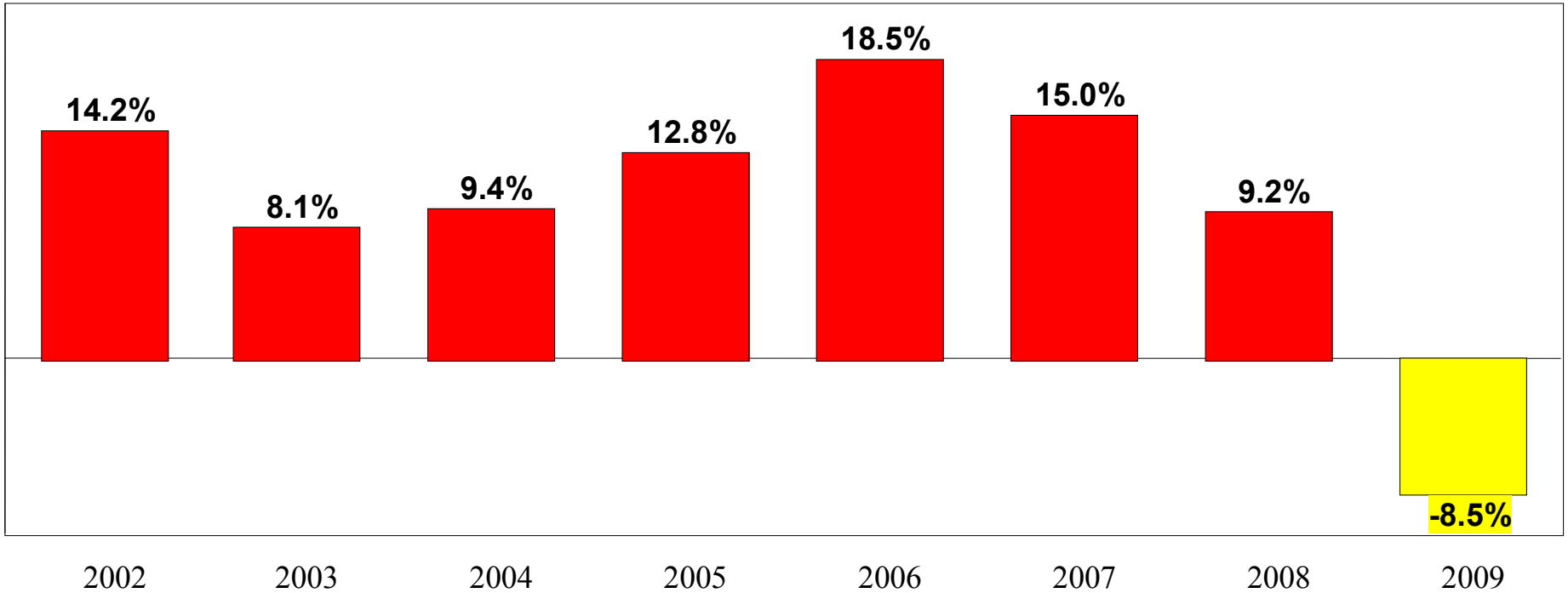
CA Policies Discourage Blue Collar Job Creation

Percentage Change In Retail Sales
City of San Bernardino



Source: CA Board of Equalization, Hinderliter & DeLlamas (2009)

Assessed Valuation Change
City of San Bernardino

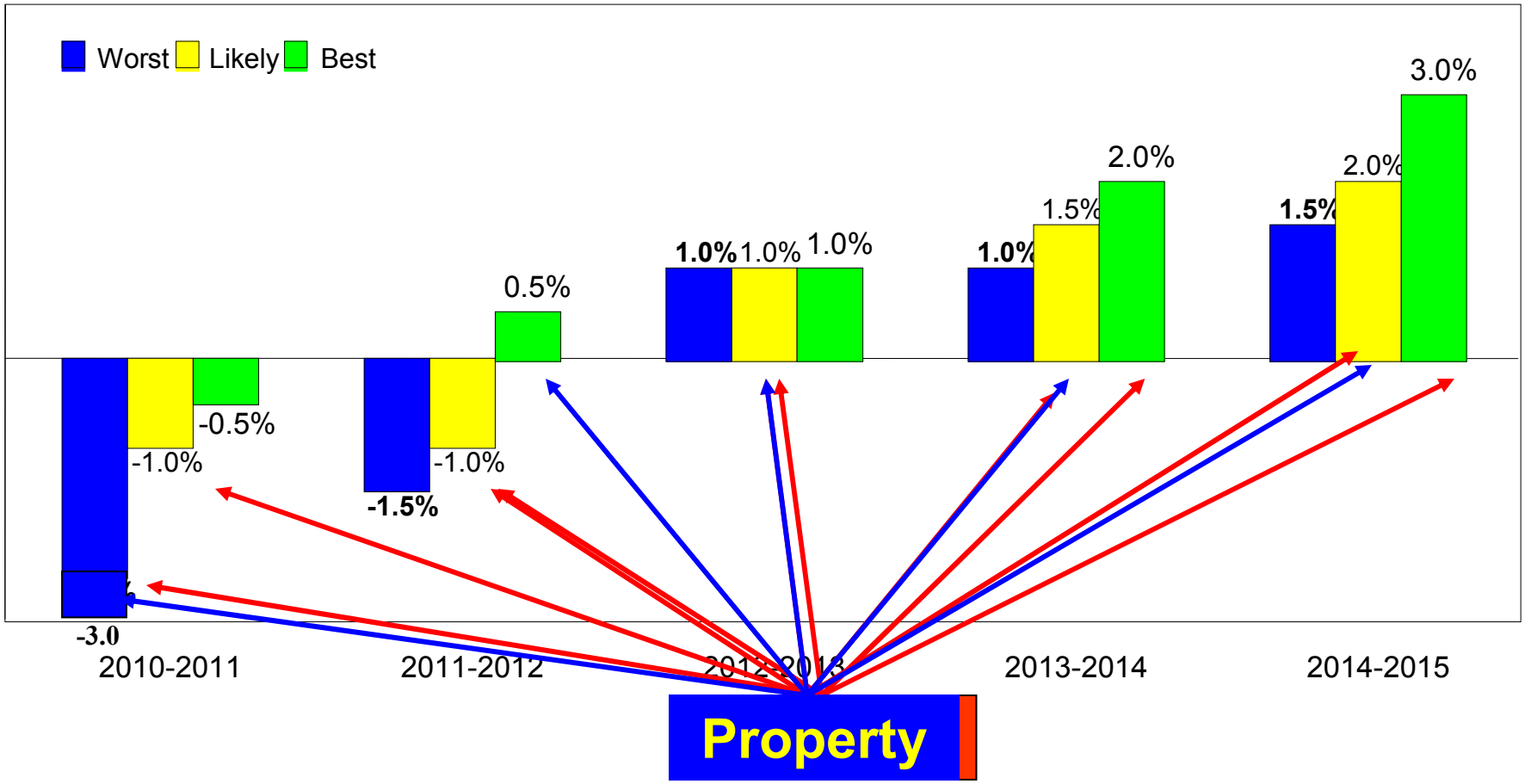


Source: San Bernardino County Assessor

Revenue Assumptions

Sales, Property, Utility, Other Tax Revenues

Revenue Assumptions
San Bernardino, FY 2011 to FY 2015



Why The Difficult Forecasts?

Housing Demand Rose With Population

CA Home Restrictions

Slow Growth
NIMBYs
Endangered Species
Water

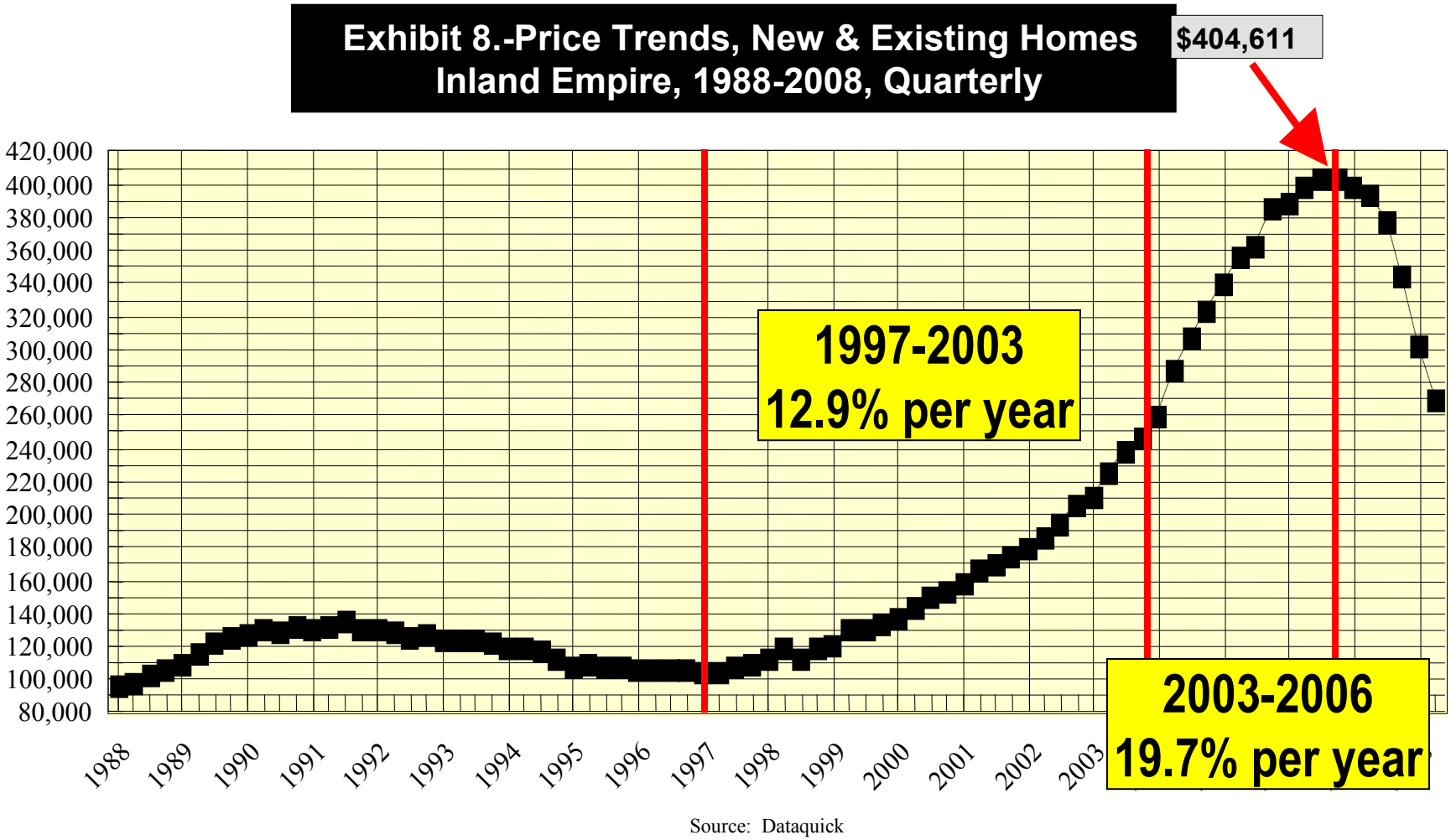
LA County Total
1997-2007
New Units

101,930

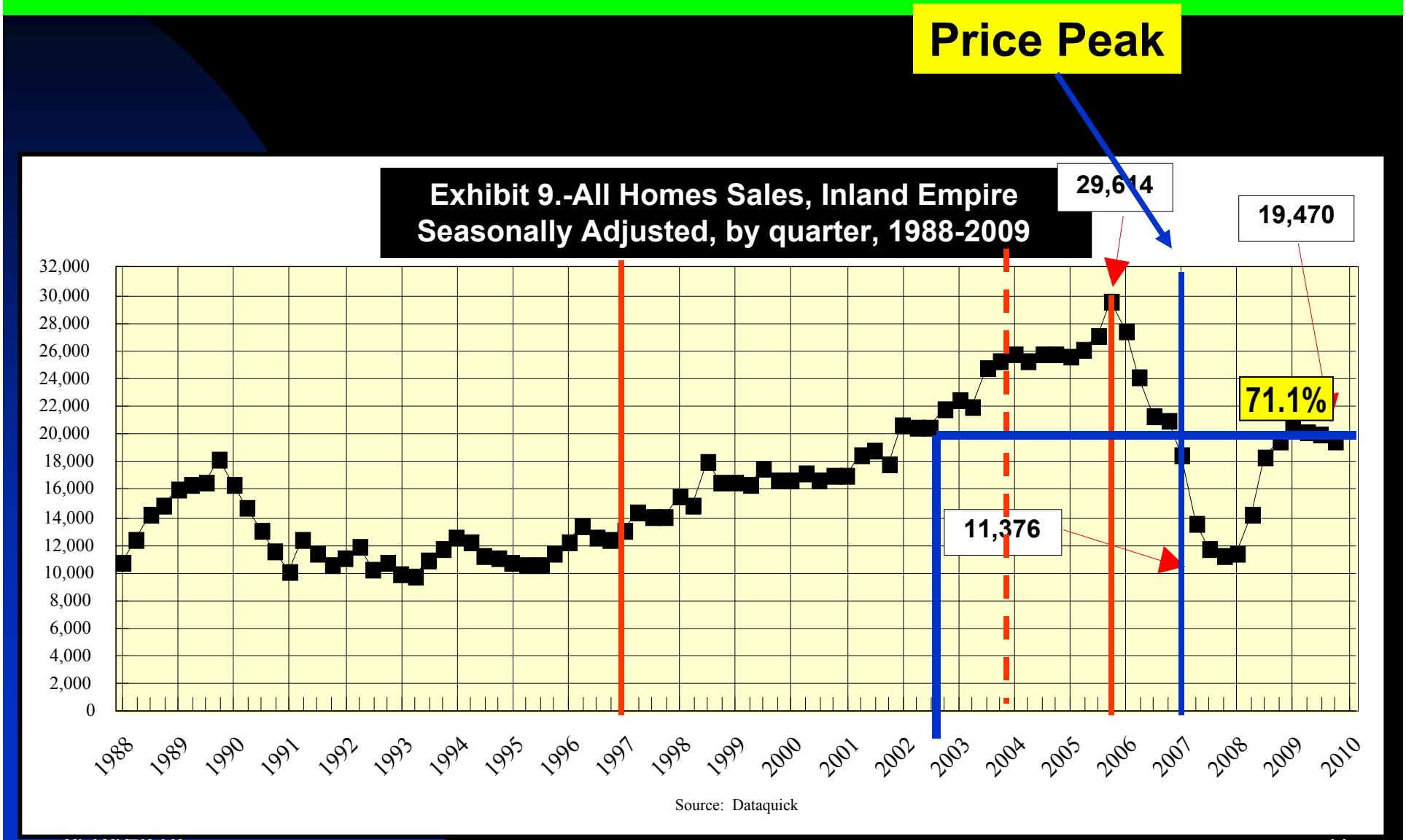
1997 18.3 million people/3.9 million SFR homes = 4.66

1997-2007 Add 3.0 million people: Need 652,732 homes = 4.66
1997-2007 Actual New homes 542,680
1997-2007 Shortfall *110,052*

Prices Had To Take-Off To Eliminate Buyers



Sales Soars Until Late 2005 … Back to 2002



Inland Empire Has 1,080,328 Homes

Sold/Refi 2004-7	Notices of Default	Share of 2004-7
359,044 (33%)		
269,283		
628,327 (58%)	250,831	40%

Shadow Inventory of Foreclosures?

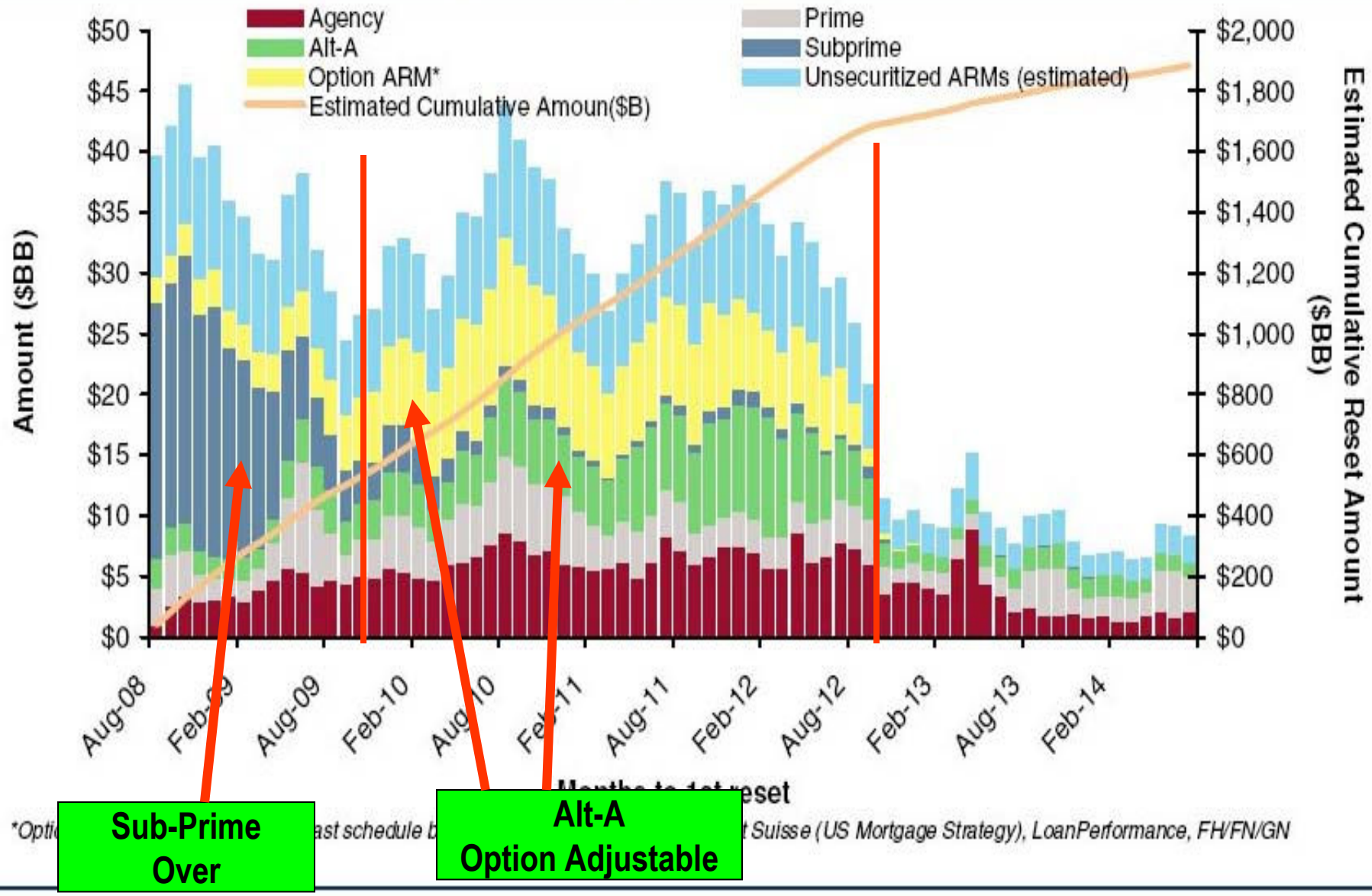
Upside Down:	628,327	???
Notice of Default:	230,691	47,244
Notice of Trustee Sale:	183,447	64,381
REO/ 3rd Party Sale:	119,066	
Bank Resale		111,625

Will Banks *Suddenly* Act Against Problem Homeowners …

OR

Will They *Slowly* Take Homes?

Exhibit 41: Option ARM and Alt-A mortgage resets become a much bigger issue in mid-2009 as the trouble shifts away from subprime



*Opti ast schedule b t Suisse (US Mortgage Strategy), LoanPerformance, FH/FN/GN

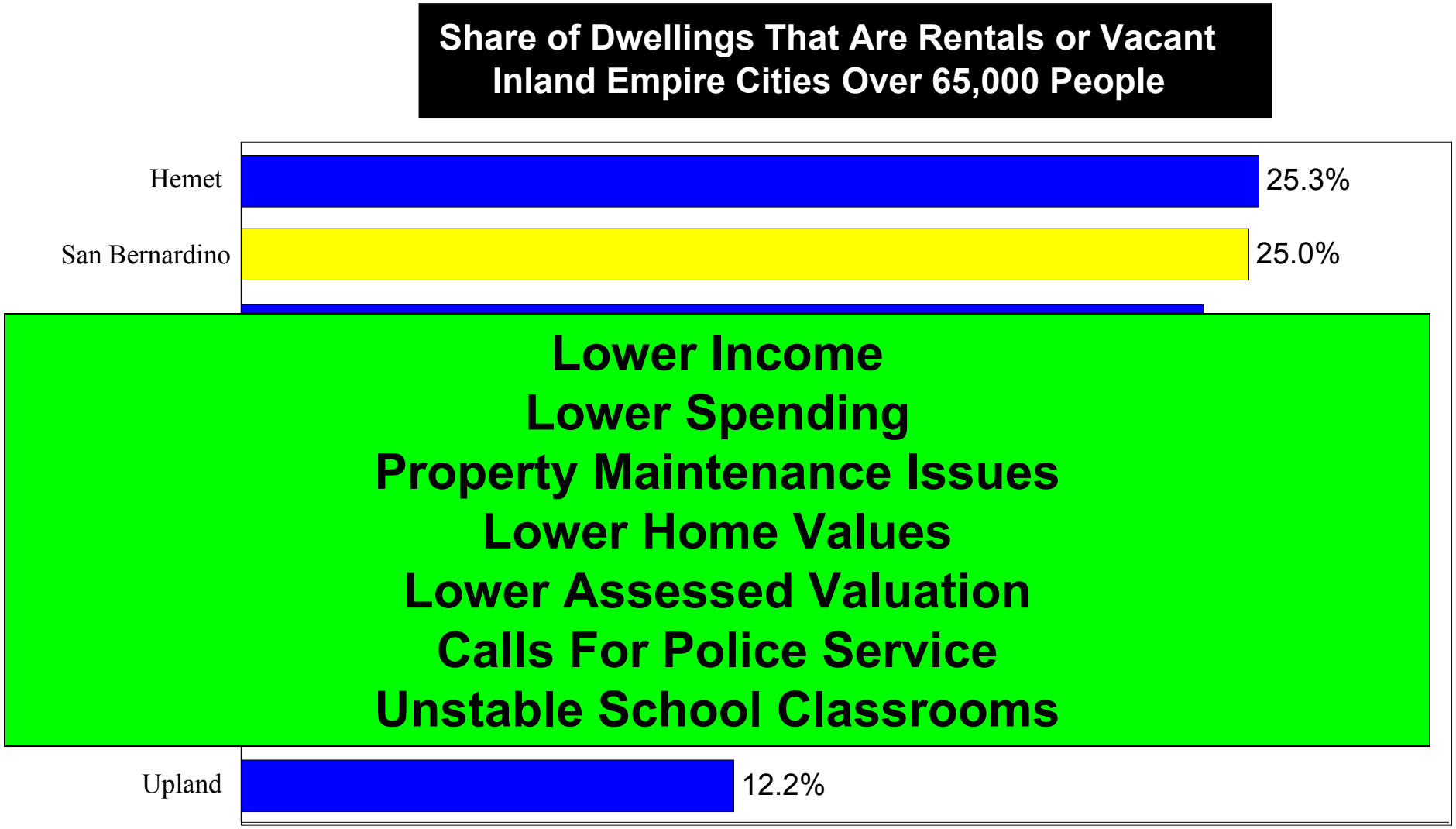
Source: Credit Suisse Structured Finance/RMBS Research Team

Specific San Bernardino Issue

One of Two City Families A Renter

Lower Income
Less Spending
Low Voter Turnout
Lack of Civic Involvement
Unstable School Classrooms

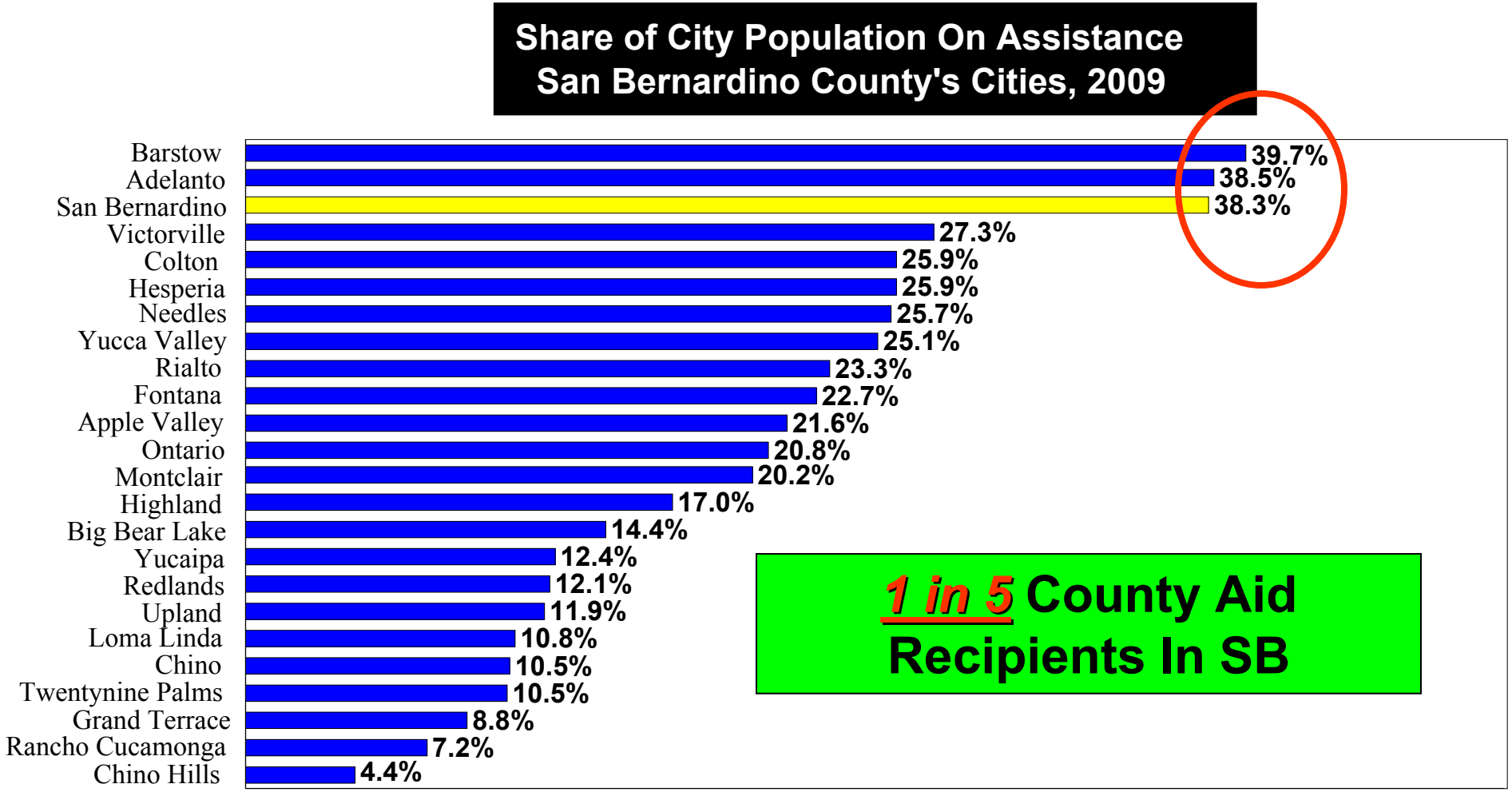
One of Four Detached Homes A Rental



Lower Income
Lower Spending
Property Maintenance Issues
Lower Home Values
Lower Assessed Valuation
Calls For Police Service
Unstable School Classrooms

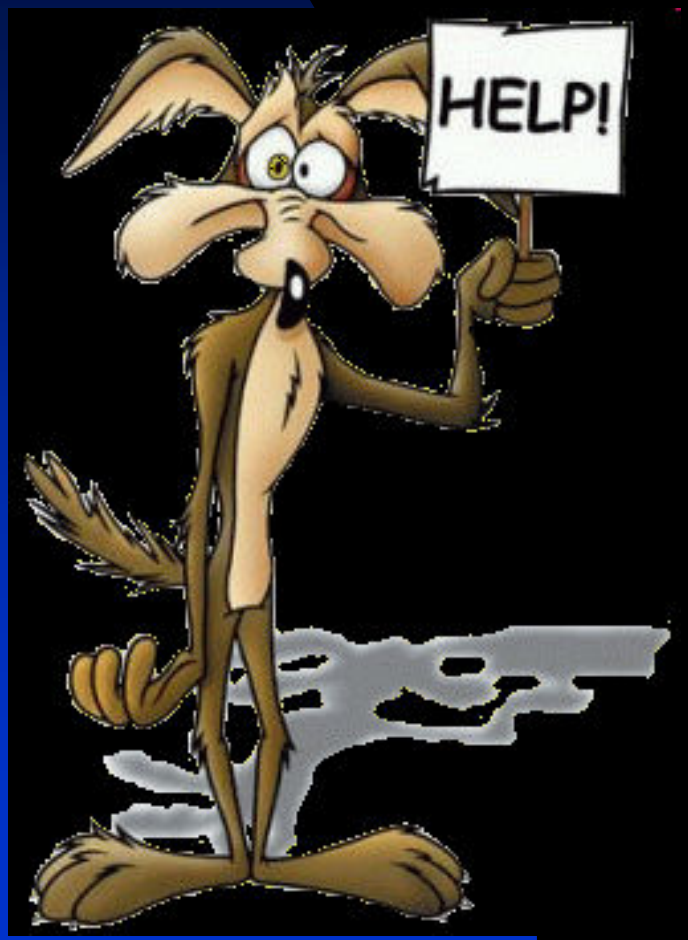
Source: American Community Survey, Census Bureau

Share of Population On Public Aid

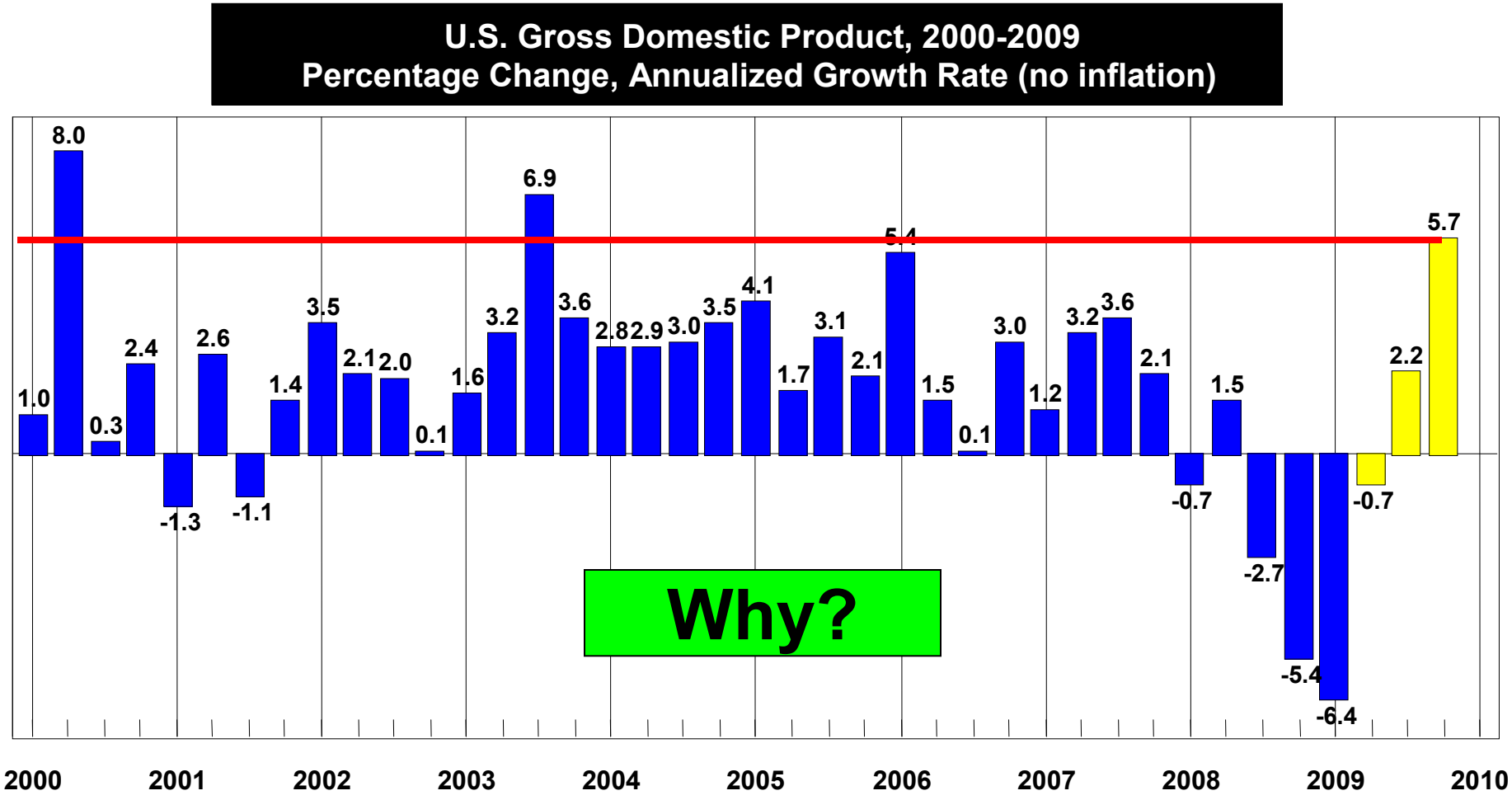


Source: San Bernardino County Human Services Agency

Is There Any Good News?

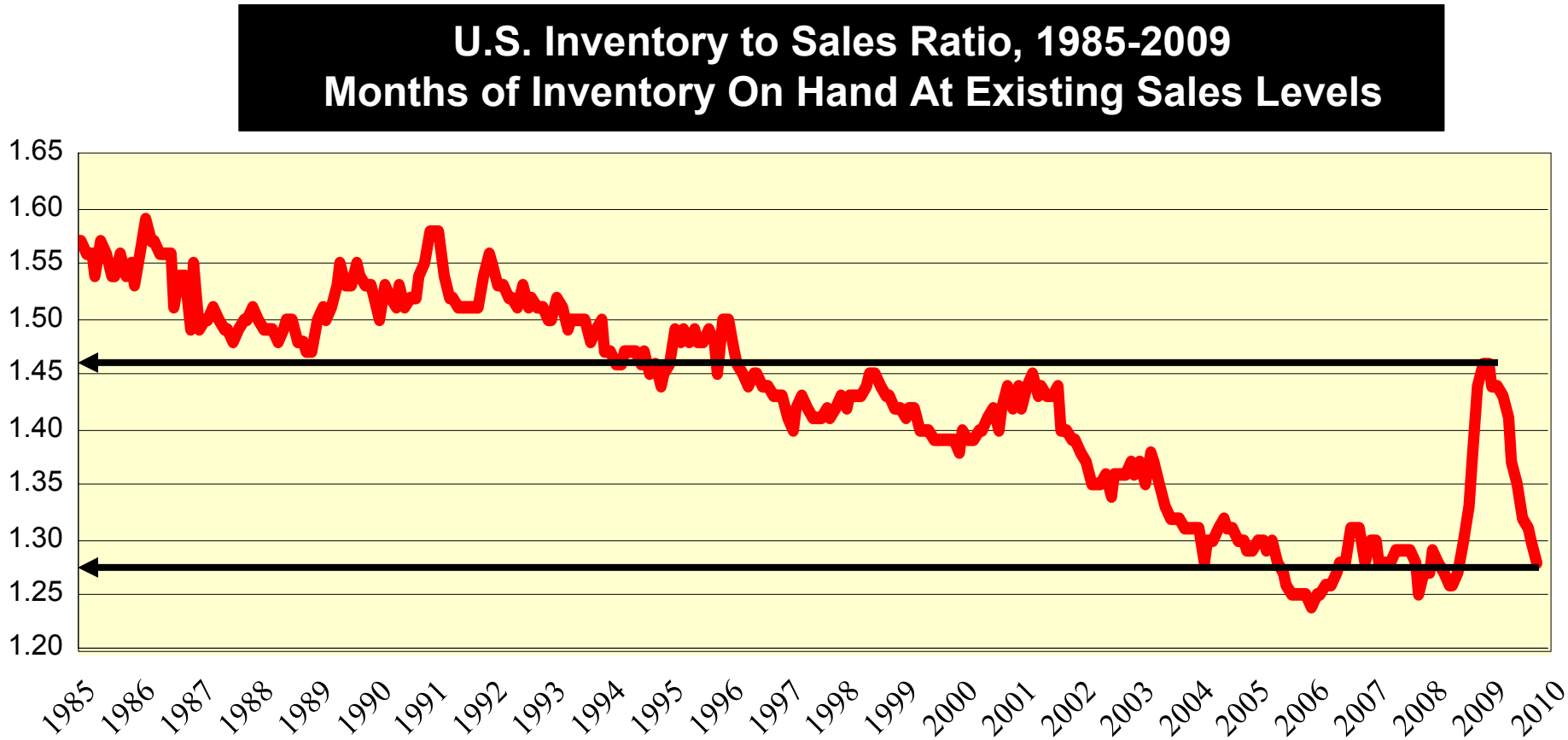


A U.S. Recovery Has *Begun!*



Source: U.S. Bureau of Economic Analysis, Wall Street Journal

Empty Shelves



Source: U.S. Census Bureau

Where Will Recovery Be Seen?

Weak Recovery ...

Housing Will *Lag* not Lead As It Normally Does!

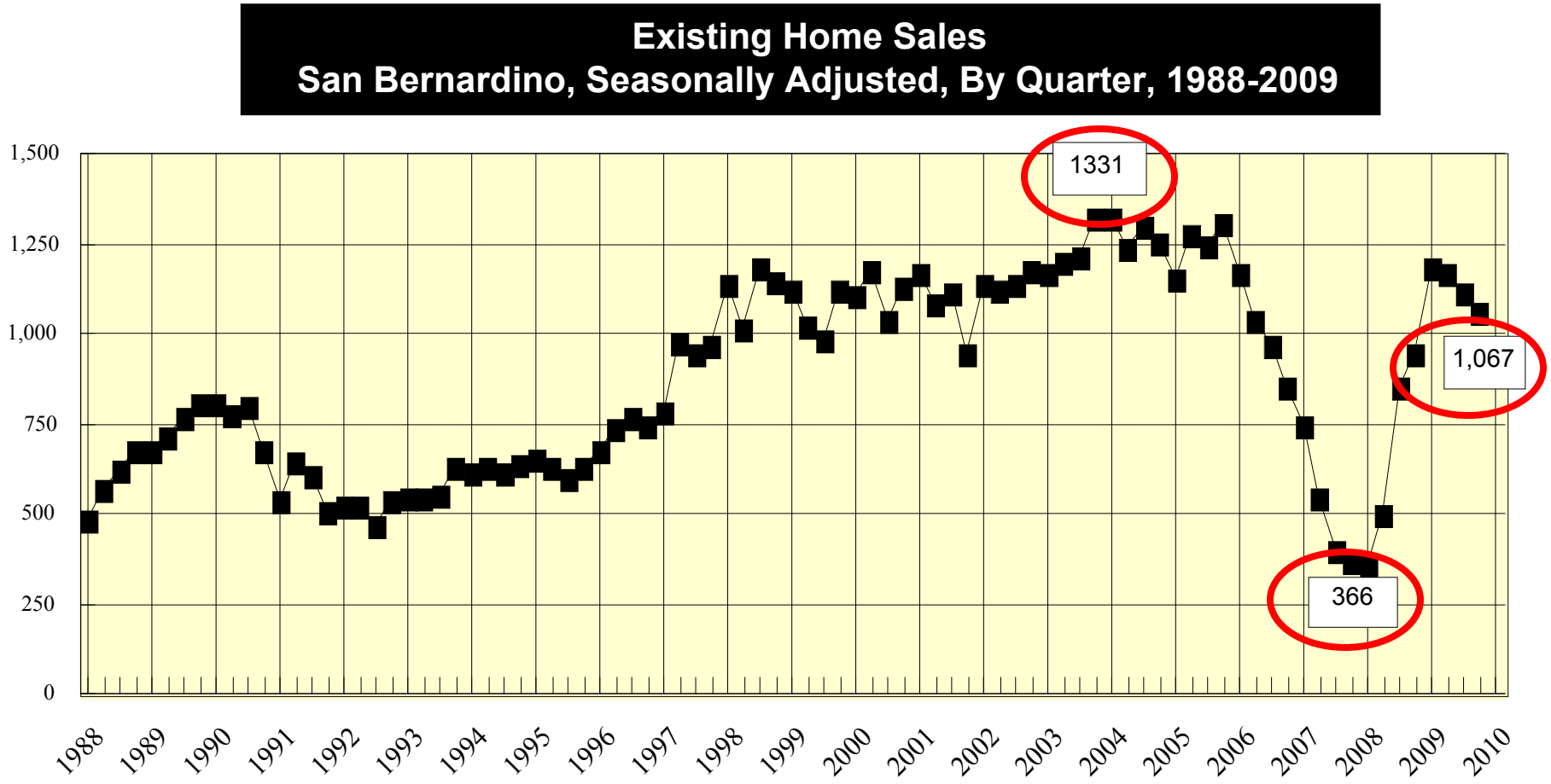
Housing: Supply & Demand

Supply From Foreclosures

vs.

Demand From Lower Prices

SB City Existing Home Sales *Triple* the Recent Low

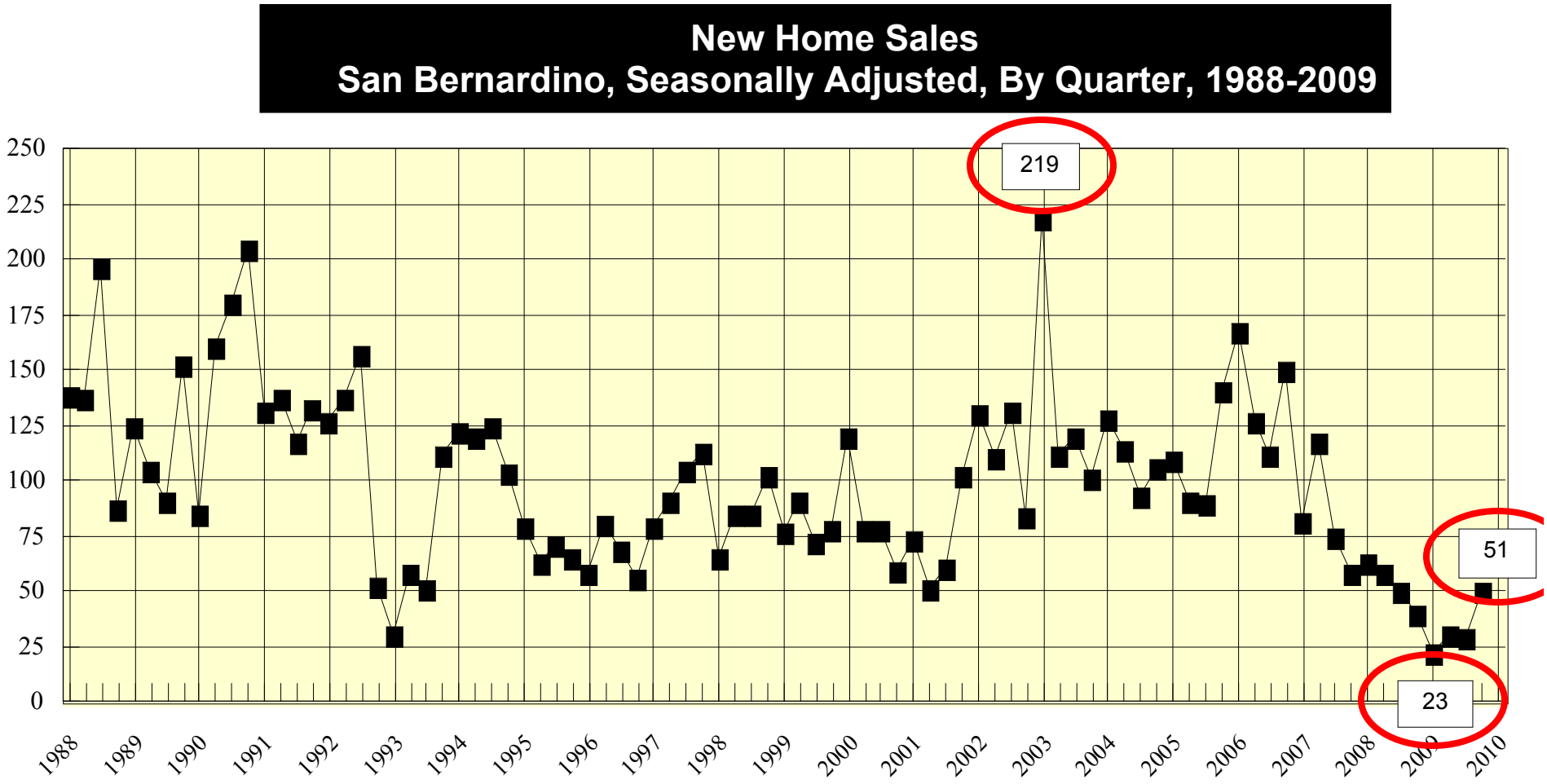


Source: Dataquick, Economics & Politics, Inc. Seasonality

Demand > Supply & Price Rising Though Assessed Valuation Is Still *Down*

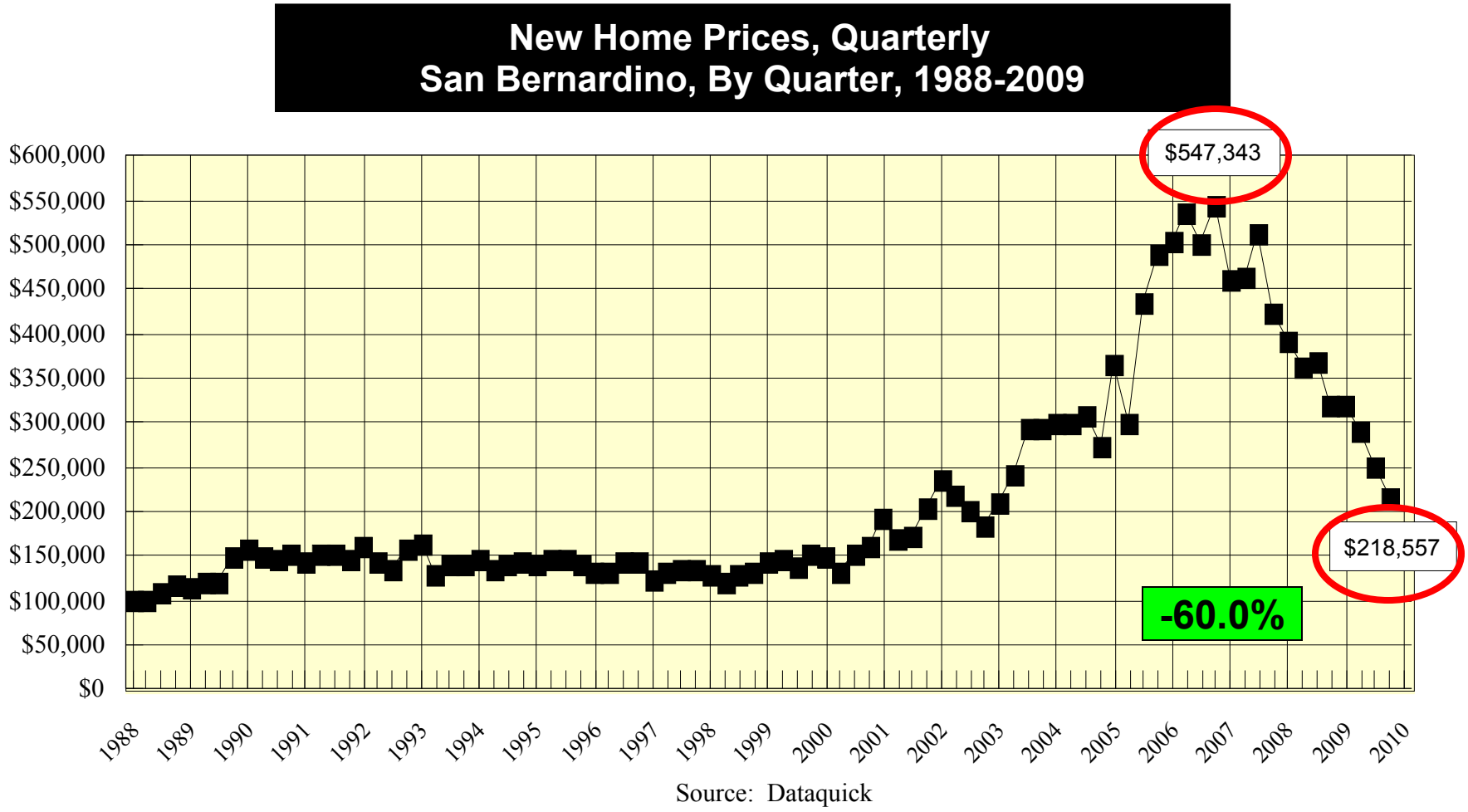
Source: Dataquick

New Home Sales, Small Uptick

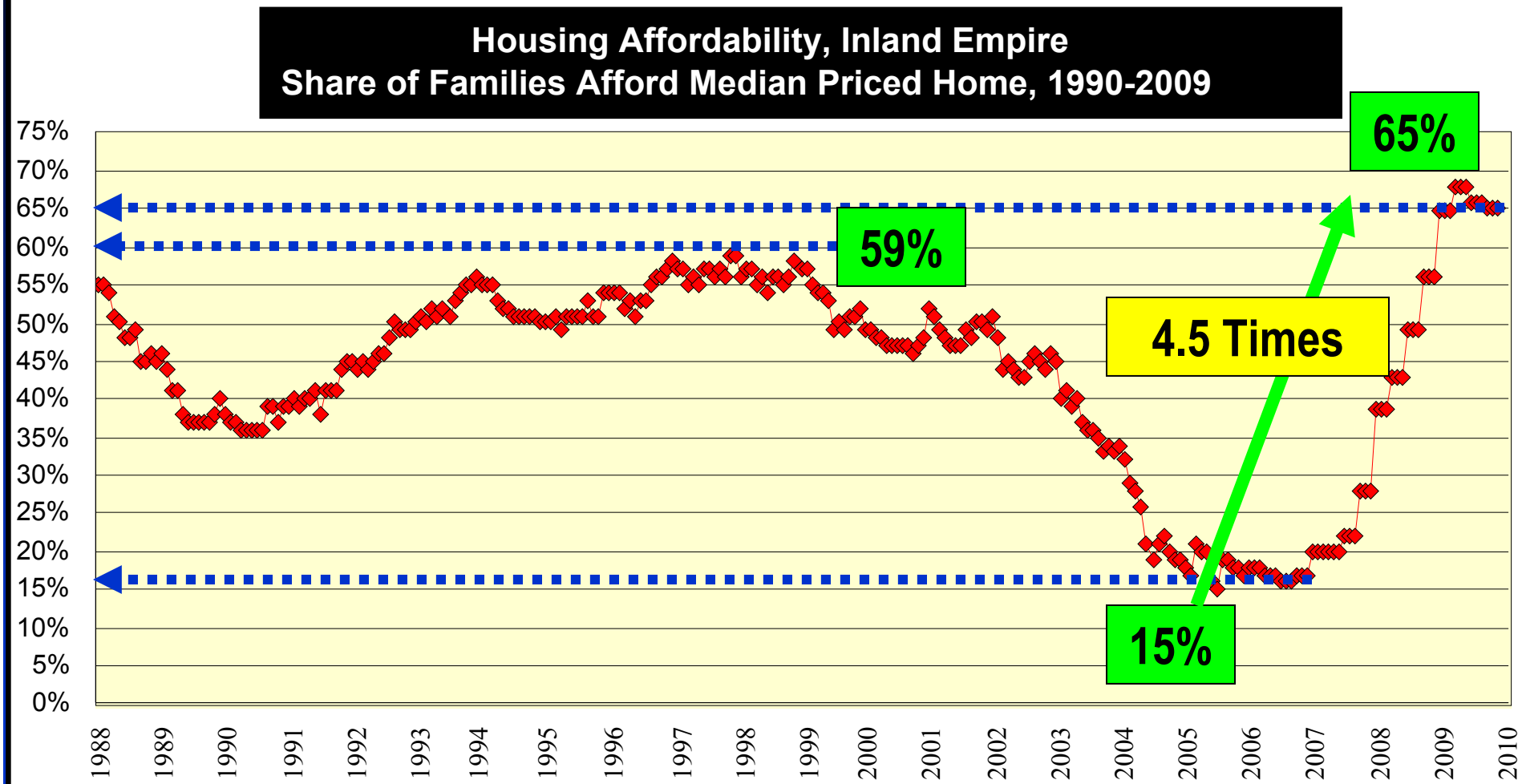


Source: Dataquick, Economics & Politics, Inc. Seasonality

New Home Prices, Still Falling



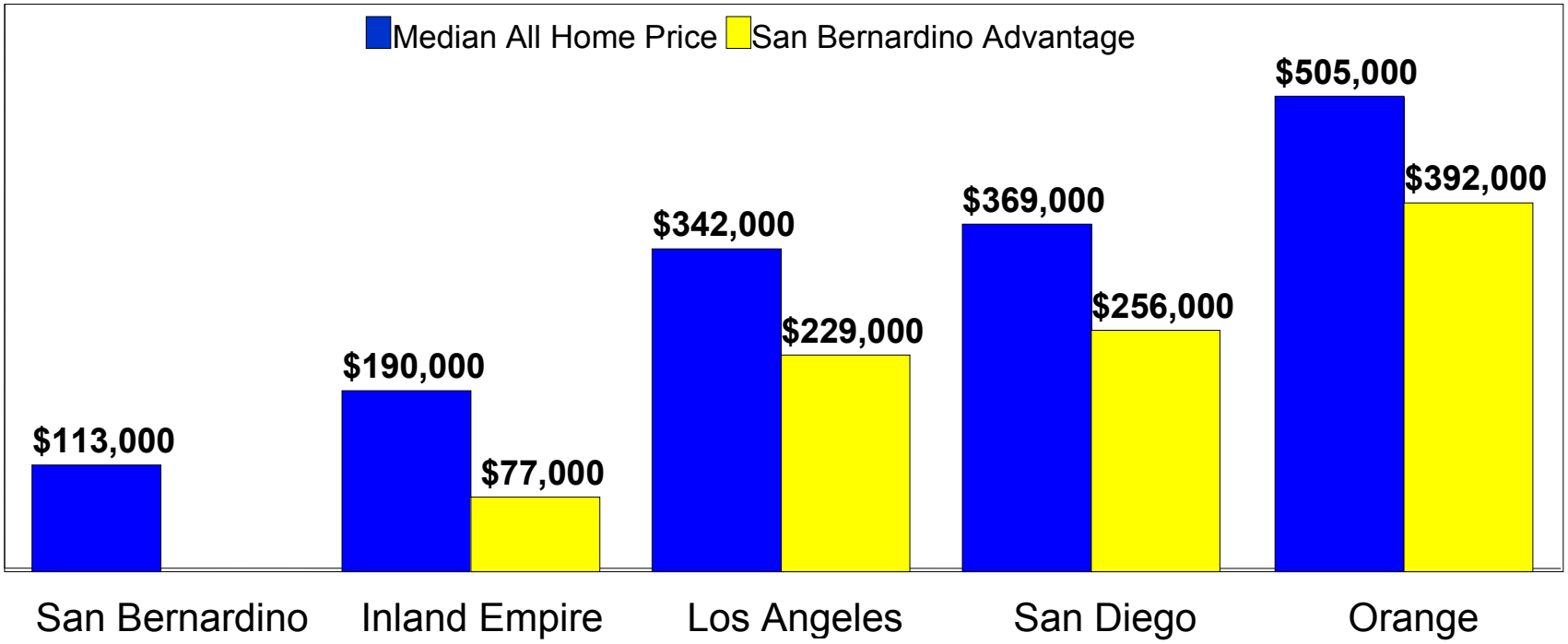
Soaring Inland Housing Affordability Easily Sets A Record



Source: CA Association of Realtors

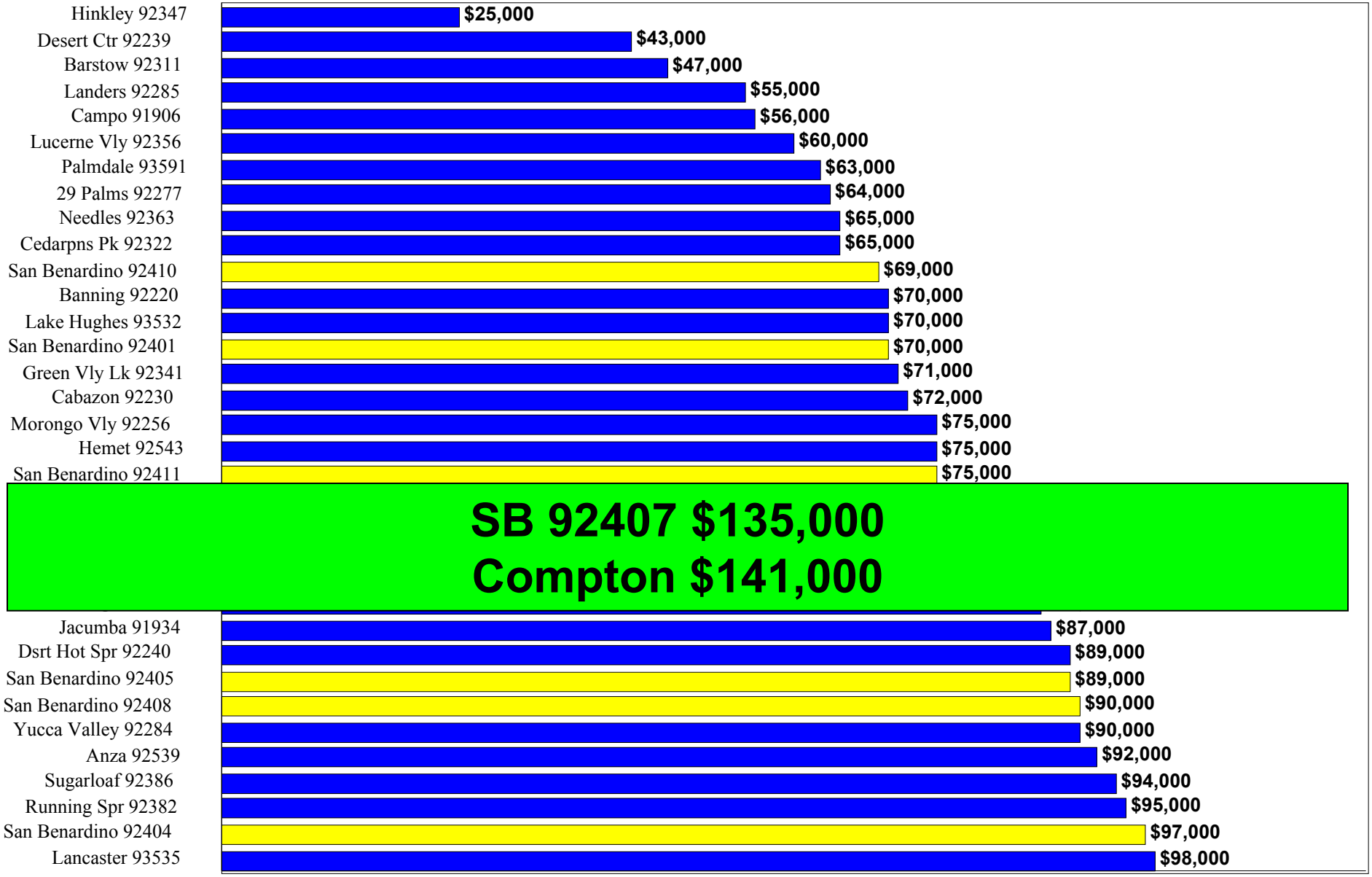
SB City Home Price Advantage

Home Price Advantage, Hemet & Southern California Markets
Median Priced New & Existing Home, 4th Quarter 2009



Source: Dataquick

40 Lowest Price Zip Codes of 601



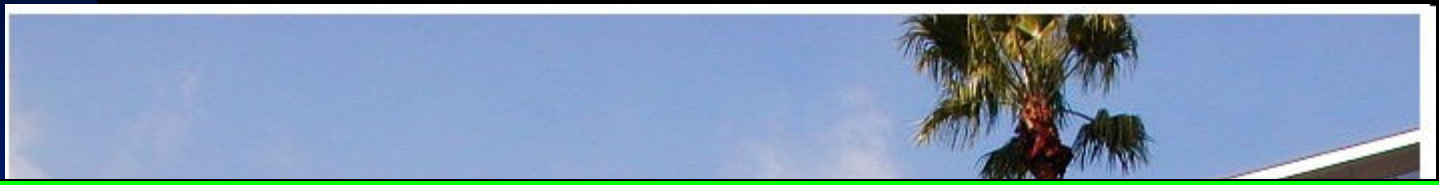
Price Stability Now Likely

April	$	180,000	$	138,500
May	$	180,000	$	137,000
June	$	185,000	$	140,000
July	$	185,000	$	140,000
August	$	190,000	$	145,000
Sept.	$	183,000	$	150,000
Oct.	$	190,000	$	150,000
Nov.	$	200,000	$	160,000
Dec.	$	196,000	$	154,000
Jan.	$	195,000	$	150,000

But …

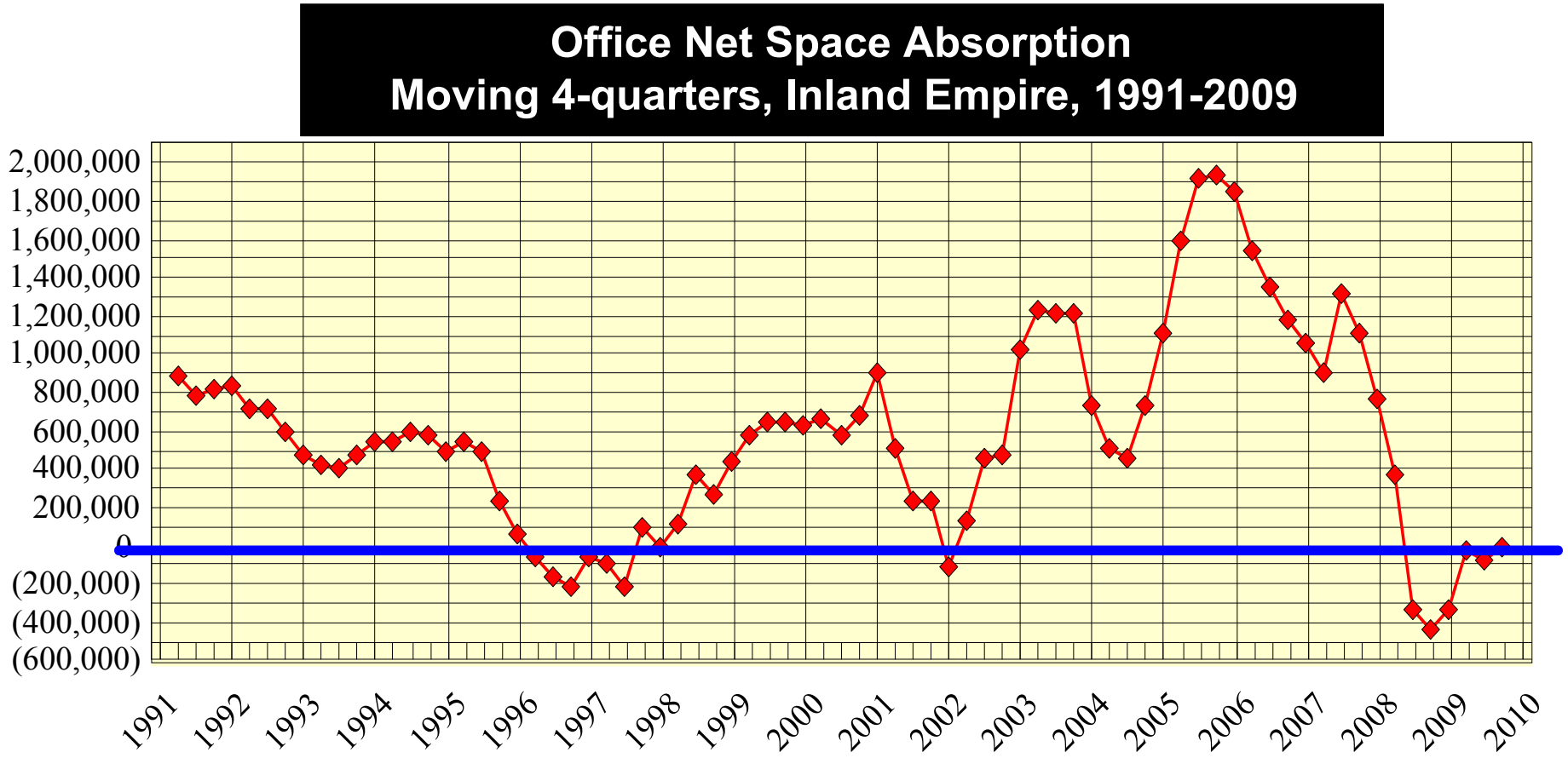
Some Construction Activity Will Occur In 2010, Not Major Activity Awaits 2011 or 2012

Office Market



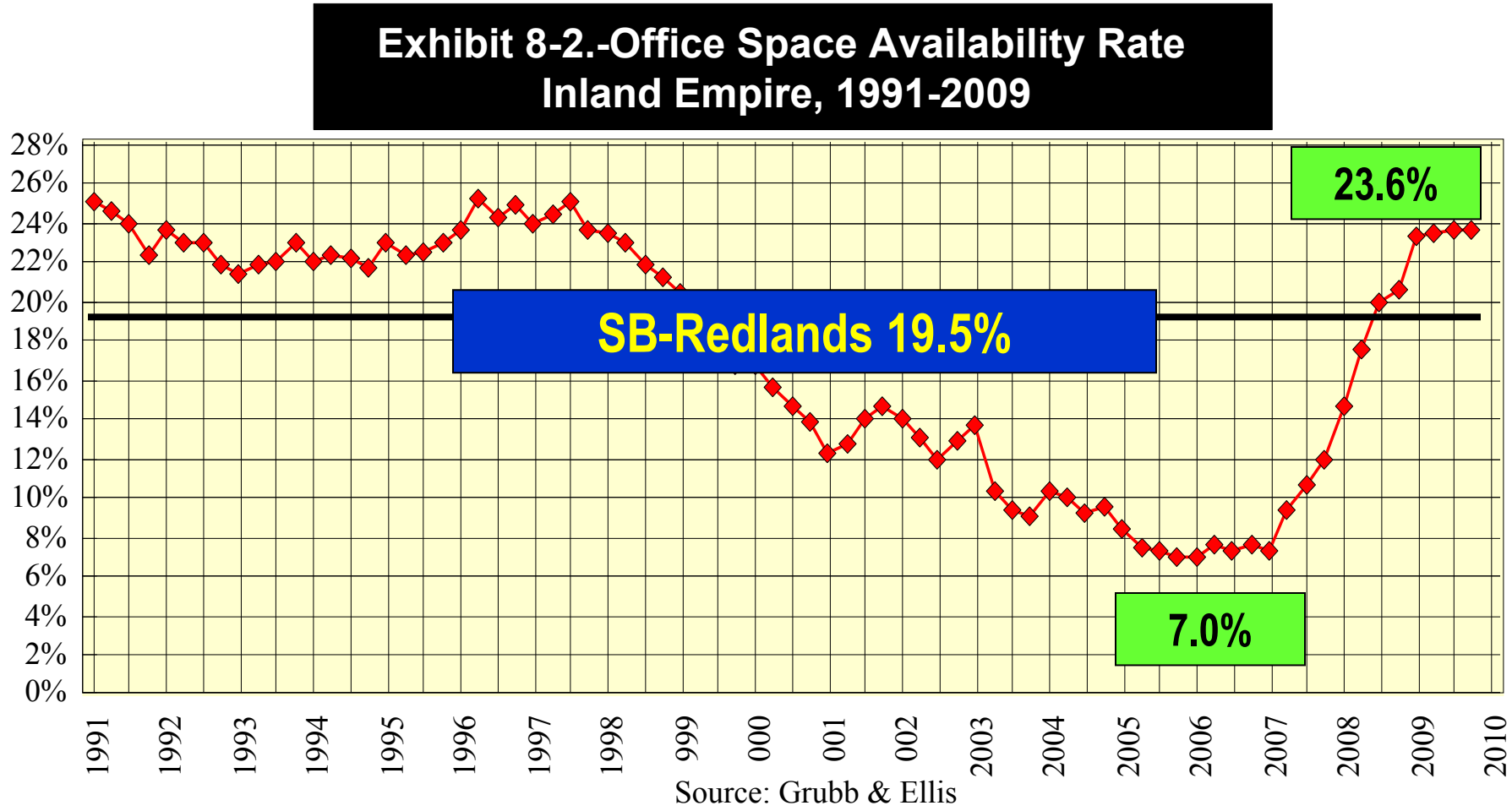
Housing Slowdown Hurts!

Office Space Absorption



Source: Grubb & Ellis & Economics & Politics, Inc.

Office Vacancy Rate Has Jumped Dramatically

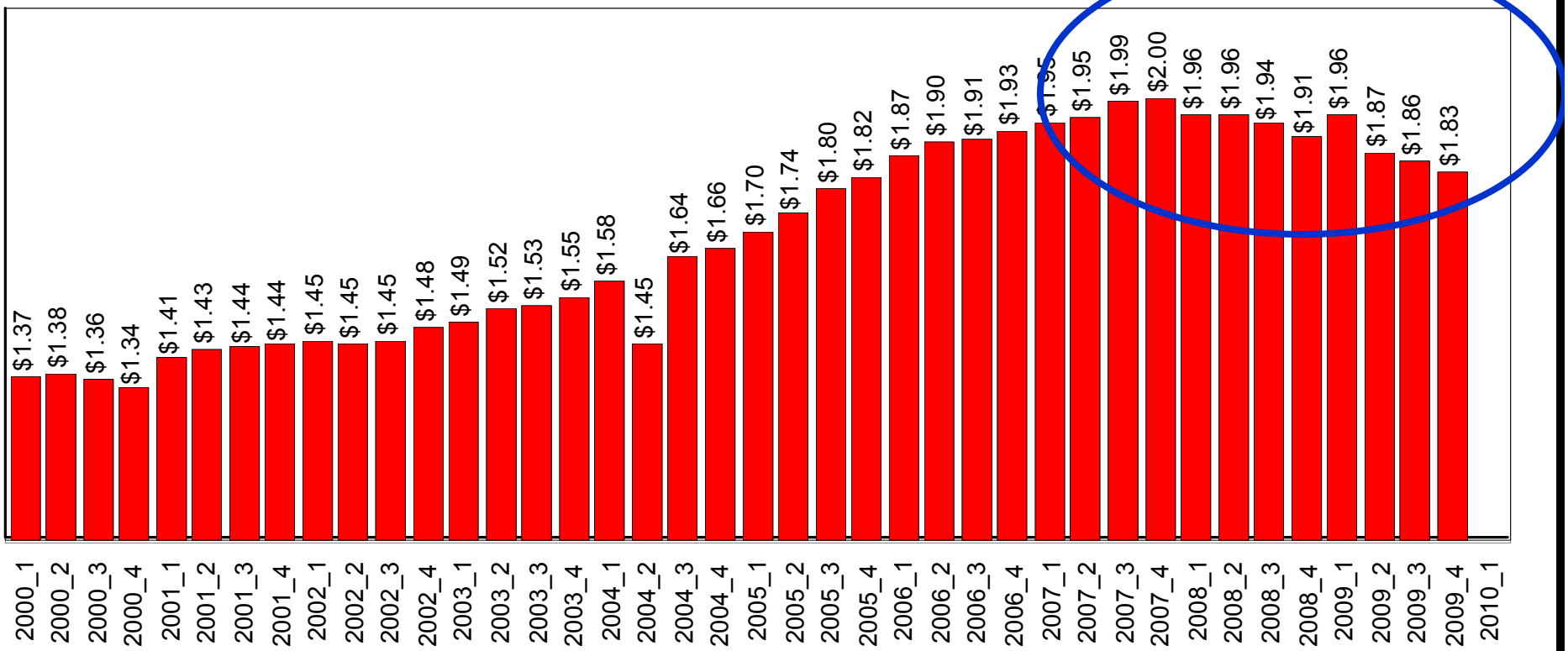


Why … The Inland Empire Slowdown?

- Housing Finance
- Escrow
- Title
- Home Insurance
- Developers
- Engineers
- Planners

Lease Rates *Down* …
Hurts Assessed Valuation

Exhibit 23.-Office Asking Lease Rates
Inland Empire, Class A & B Space, 2000-2009



Source: Grubb & Ellis

Office Financing System A Difficulty

Finance Offices For 5 Years At Interest Only

End of 5 Years, A Balloon Payment

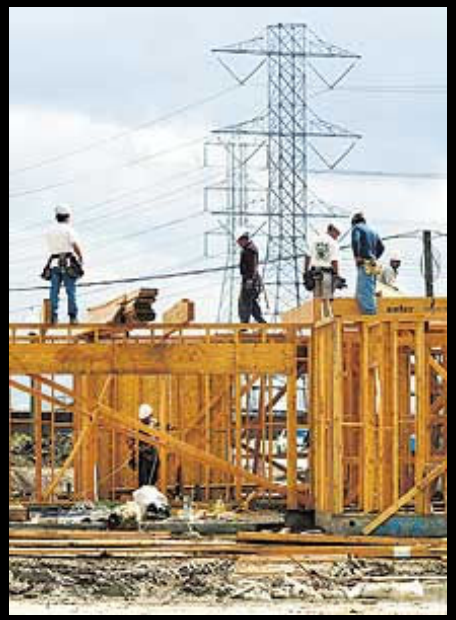
Refinance for Another 5 Years

Problem:

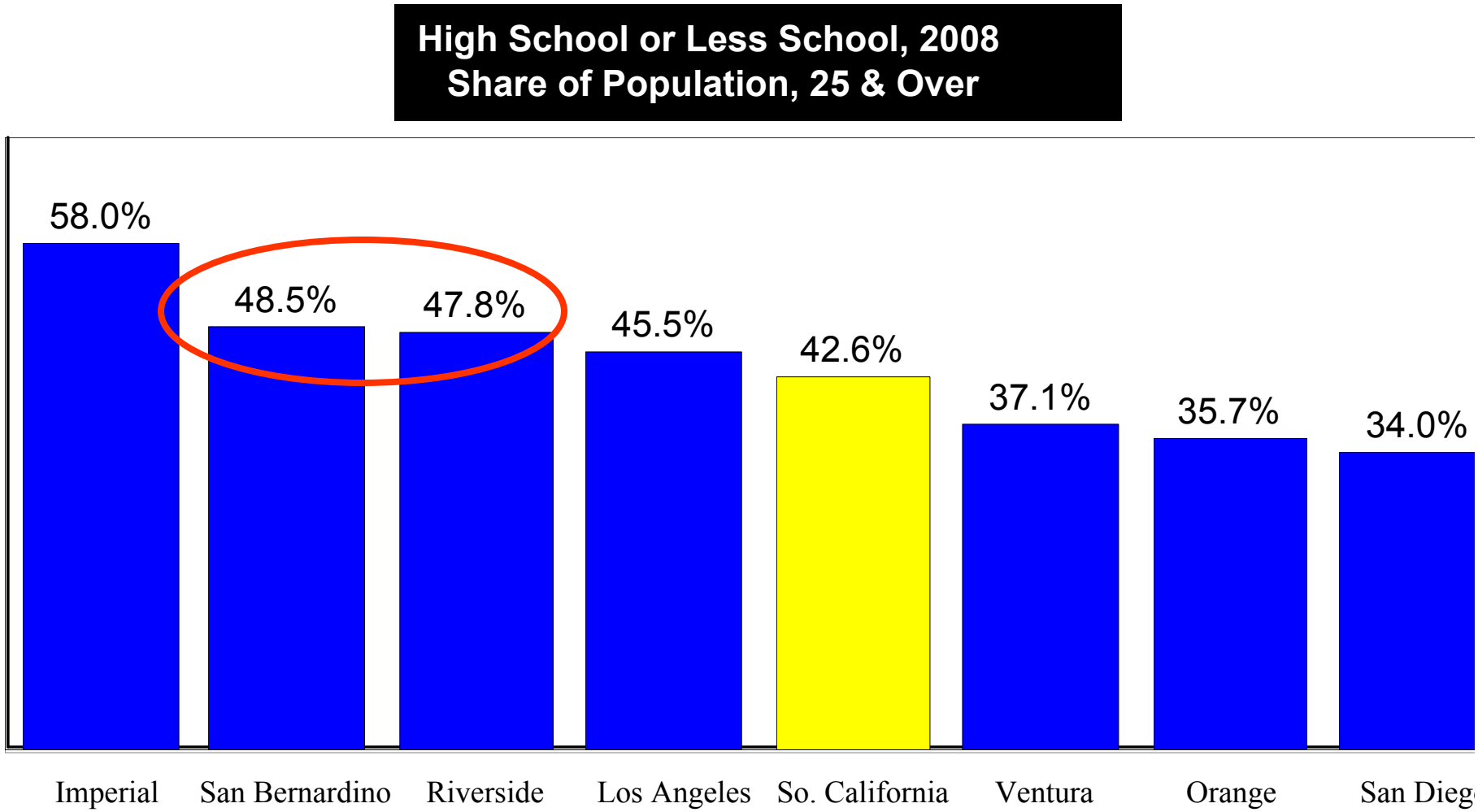
- **Rising Vacancy Rates Hurt Value & Ability to Refinance**
- **Financial Crisis Halting Ability to Refinance**

Local Banks Forced to Take Properties Worth Less Than Loan Value … Can't Make As Many Loans

Blue Collar Industrial Jobs



Why Blue Collar Jobs Important?



Source: American Communitu Survey, 2008

Ports On West Coast Nearest Asia

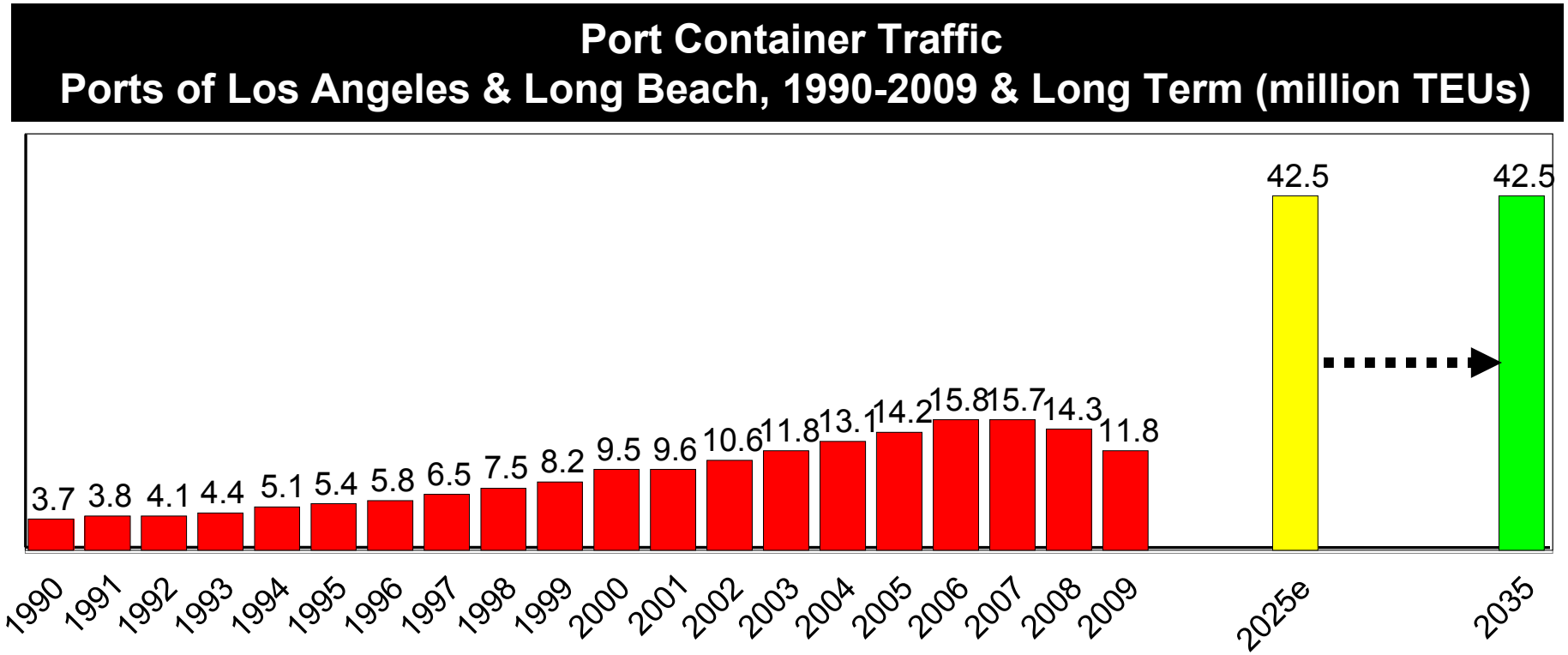
Los Angeles

Long Beach

Deep Water Ports As Ships Draw Over 50 feet of Water

8,000-Container Post-Panamax Ships

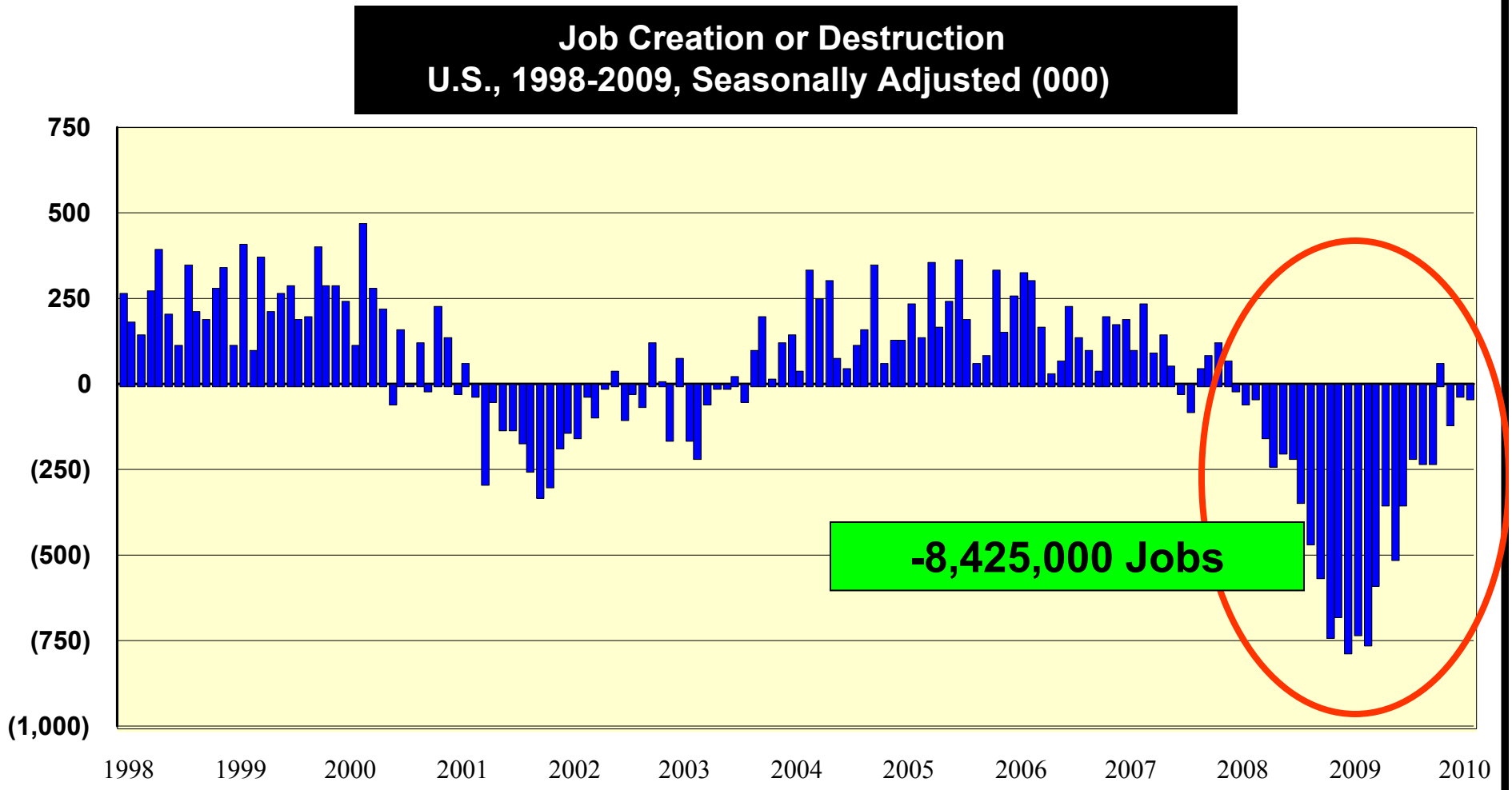
San Pedro Bay Volumes



TEU=20 foot equivalent container units

Source: Ports of Los Angeles & Long Beach; **Forecast: Moffatt & Nichol Engineers**

U.S. Economy Has Shrunk



Source: U.S. Bureau of Labor Statistics

CA Ports Increasingly Regarded As *Unreliable* By *BCOs*

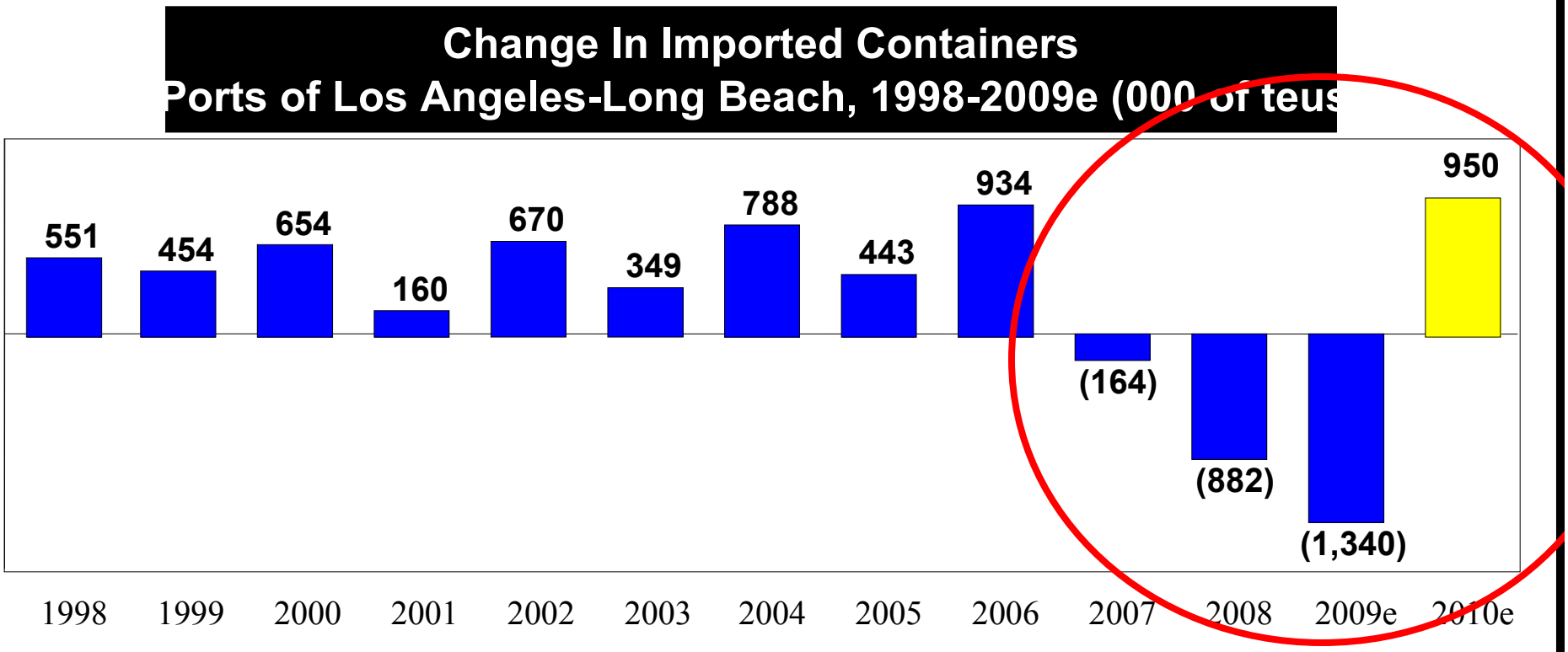
- 1996 UP Buys SP, Trains Can't Move
- 2002 ILWU-PMSA Lockout/Strike
- 2004 93 Ships Can't Be Unloaded: Not Enough Labor
- 2005 Rains Wash-Out Rail Track
- 2007 Clean Truck & Infrastructure Fees
- 2008 Employee Truck Mandate & Lawsuits
- 2009 Riverside Suing Ports to Stop Expansion
- 2009 LA-Oak Congressional Lobby-Employee Driver

Diversion & 4-Corners Strategy

Loss of Market Share

Panama & Suez

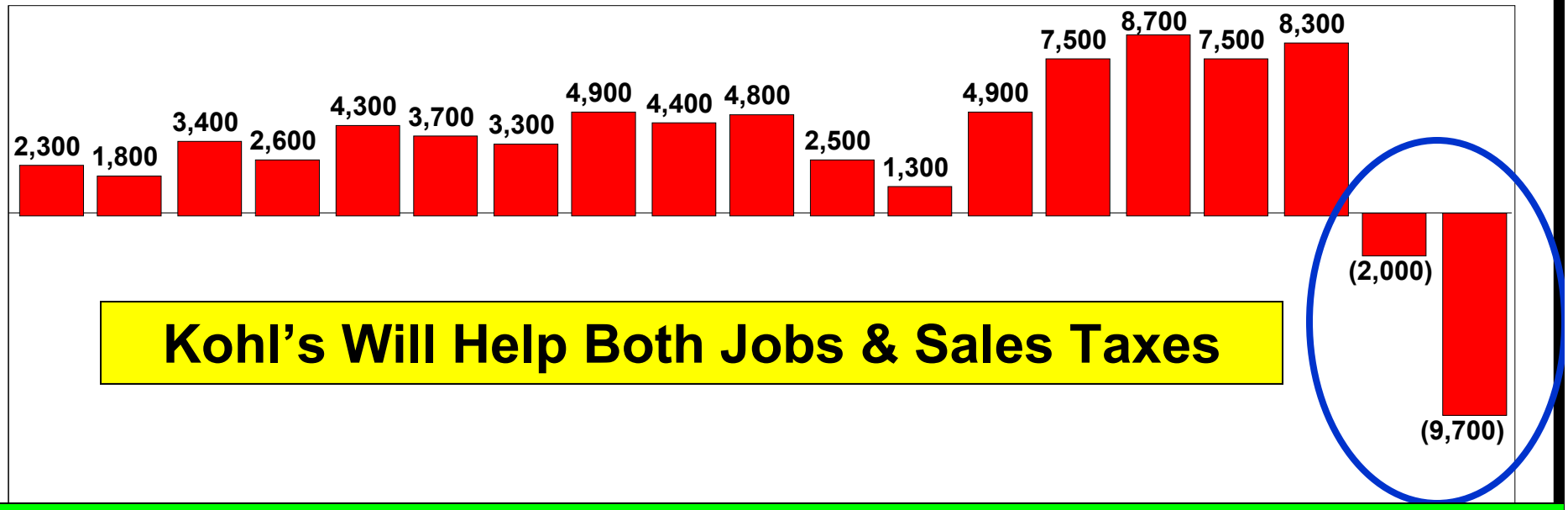
Port Imports Have Crashed
Turnaround Forecasted



Source: Port Import Export Reporting Service (PIERS), collected from Vessel
2009 Based on average of January-November change; 201 on Hackett Associates

Logistics Gained 76,500
But Now Lost -11,700

Logistics Sector Job Growth
Inland Empire, 1991-2009

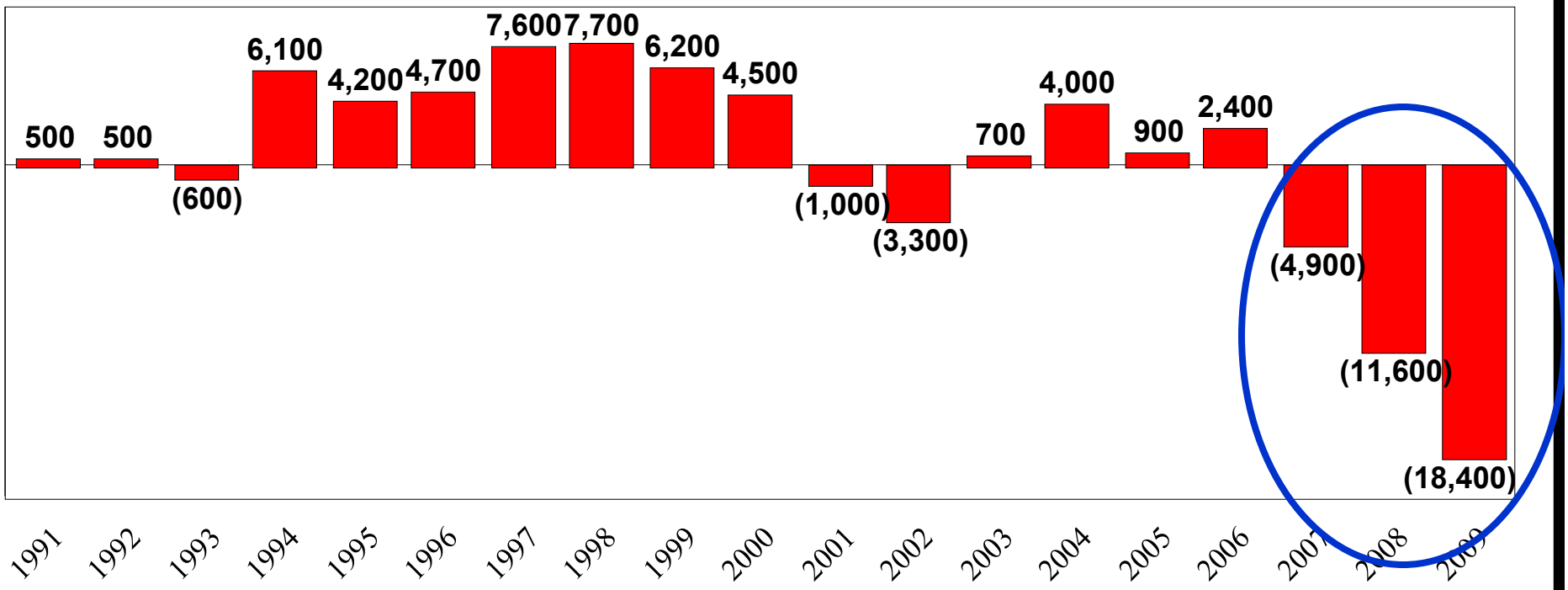


Kohl's Will Help Both Jobs & Sales Taxes

Inventory Cycle Has <u>Begun</u> To Start Helping

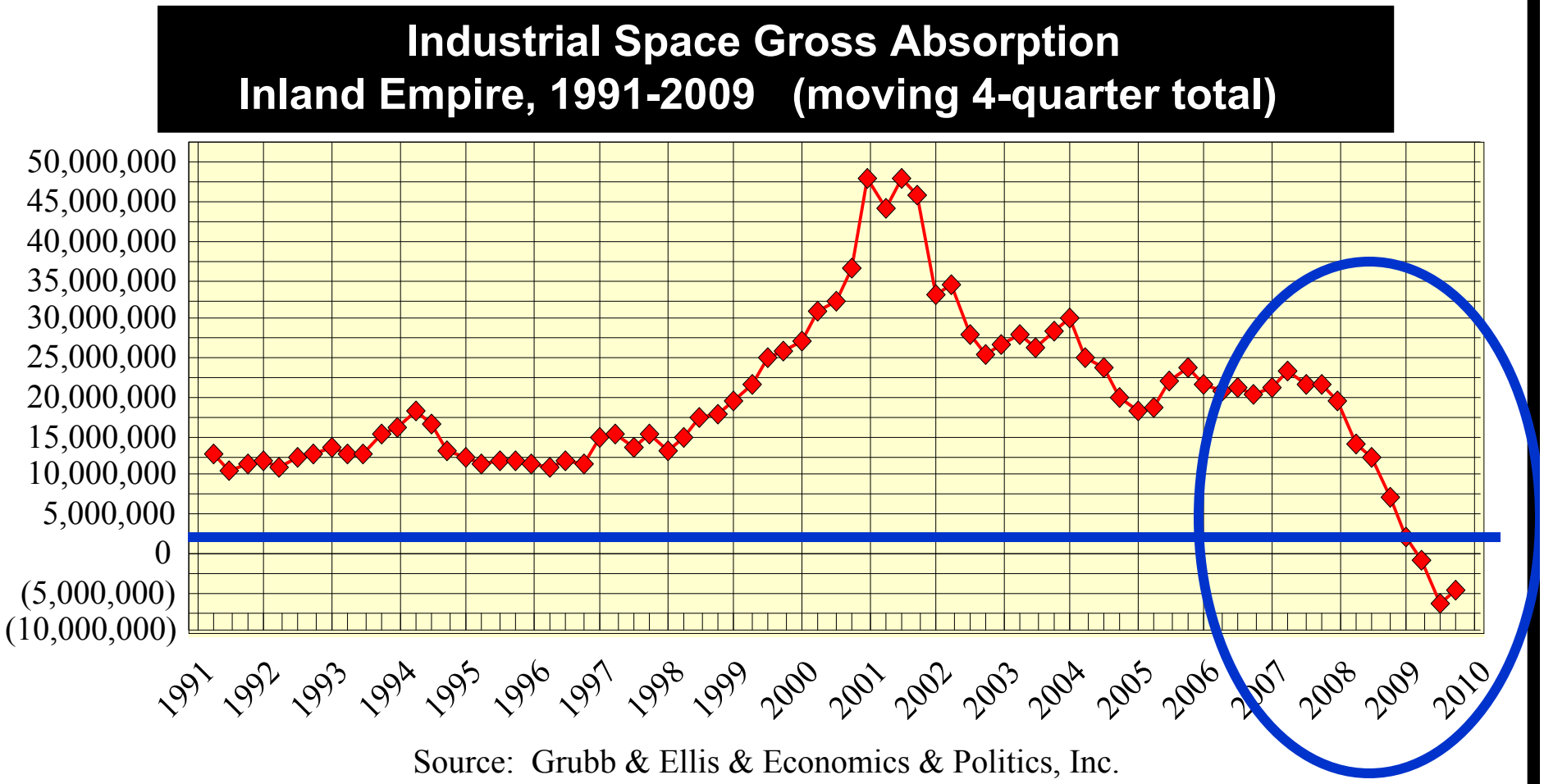
First Major Inland Sector To Start Back

Manufacturing Was Growing But Now Lost -34,900

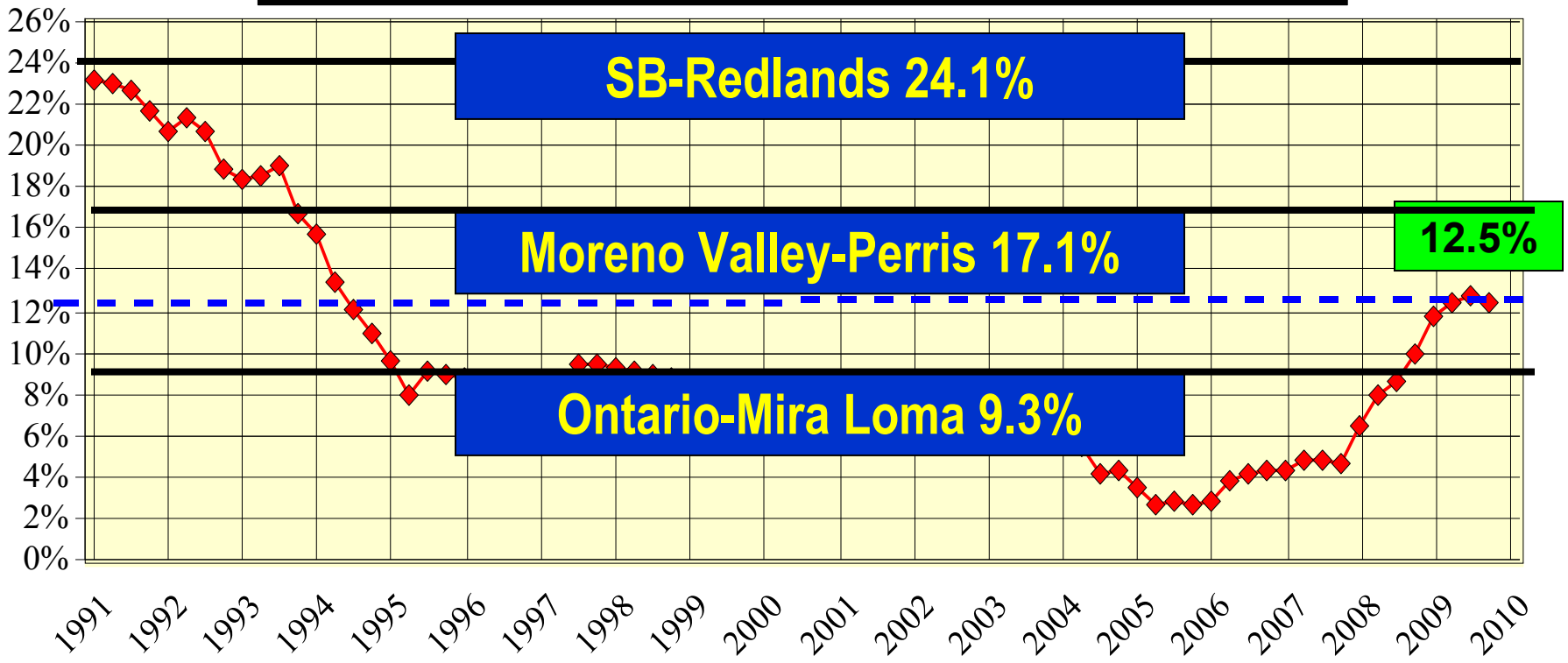


Source: CA Employment Development Department

Industrial Absorption Has Stopped



Industrial Vacancy Rate Soaring



Source: Grubb & Ellis

Industrial Lease Rates Lowest In Decade

Again … Hurts Assessed Valuation

Source: Grubb & Ellis

When Will "Normal" Start To Return?

2010 National

Inland Empire

2010 Logistics

2011-12 Manufacturing

2012-13 Construction

The New Normal

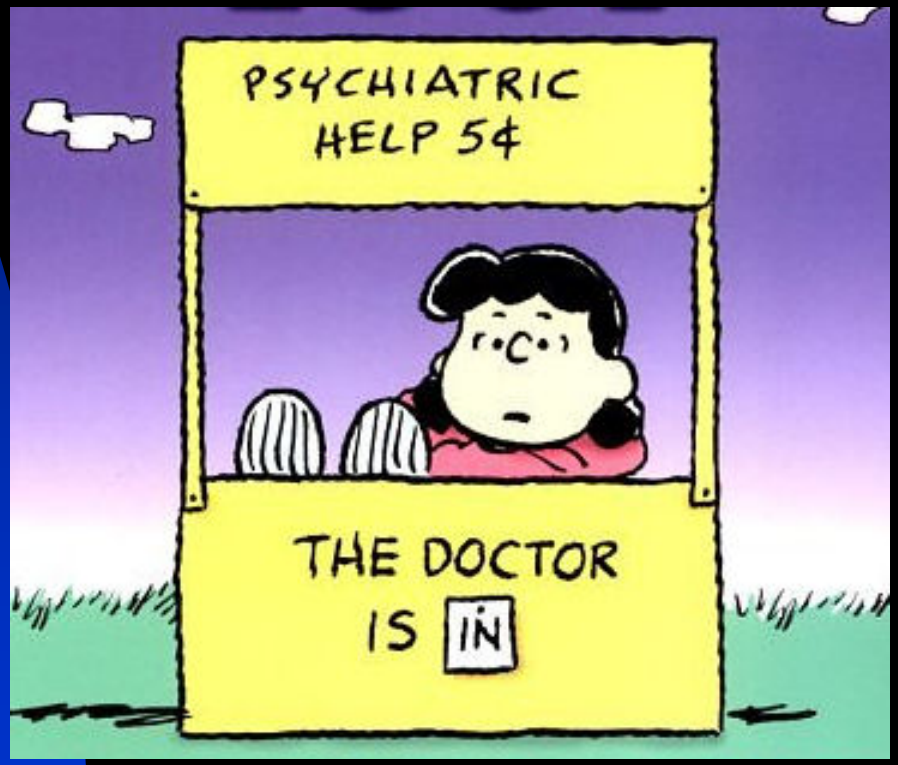
- Layoffs
- Furloughs
- Cities Contracting Out Municipal Services *(Trash, Parks)*
- Cities Combining Fire Departments
- Cities Combining Police Departments or Using Sheriffs
- Cities Filing for Bankruptcy Protection

SB Needs A Discussion

2009

The One Constant – The City's Odd Form of Government

While Waiting For Recovery….



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