INLAND EMPIRE ECONOMIC PARTNERSHIP

INLAND EMPIRE QUARTERLY ECONOMIC REPORT

RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA

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IEEP SPONSOR'S CONVERSATIONS WITH GUBERNATORIAL CANDIDATES

by
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For the first time in history, all of the major Democratic candidates for Governor of California agreed to come to the Inland Empire to discuss the major issues affecting the region. The Inland Empire Economic Partnership hosted these events to ensure that the region entered the mind-set of these public officials early and began to appreciate the importance of an area of 4.5 million people (*larger than 25 U.S. states*) with the unique issues affecting the inland areas of California.

IEEP was pleased to host former Los Angeles Mayor, Antonio Villaraigosa, California's Lieutenant Governor Gavin Newsom and California State Treasurer John Chiang for one-on-one sit down sessions with myself in front of large audiences, two in Ontario and one in Riverside. As viable Republican candidates for Governor appear, they will also be invited to be part of this IEEP Speaker Series.

Each of the candidates had time to make opening remarks about their reasons for choosing to run for governor and painted a picture of what their leadership of the state would do for Californians as well as those living in inland counties.

Afterwards, I had the opportunity to ask them questions focused on issues such as economic growth, educational attainment, poverty and environmental policy that affect the Inland Empire. As you might expect their answers revealed a lot about their basic

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THE INLAND EMPIRE'S TWO COUNTIES

John E. Husing, Ph.D.

The Riverside-San Bernardino Metropolitan Area contains two counties as do several others in California (*e.g. San Francisco-San Mateo*). Riverside (*2,384,783*) and San Bernardino (*2,160,256*) counties, together, are a major U.S. population center with their 4,505,439 people more than in 25 states. In the west, Oregon has half a million fewer. The issues facing the region are thus state level problems but with no state government under its control. Within the Inland Empire's leadership circles, there is always conversation about the relative performances of the two counties. Important questions arise continuously about how similar, different or interrelated they are.

Job Sufficiency. One approach to these issues is job sufficiency levels as measured by commuting (*Exhibit 1*). From 2009-2013, the Census Bureau found that on average 21.6% or 355,625 employed people left the two counties to work. Of these, 49.9% came from Riverside County (RivCo) while 50.1% came from San Bernardino County (SBCo). A greater share of SBCo's workers commuted outside the region (*22.6%*) compared to RivCo's (*20.7%*). Internally, the two economies are closely tied together with RivCo sending 92,082 commuters or a 10.7% share of its workers to SBCo employers with 60,089 workers driving the other way (*7.6% share*), a difference of 31,993.

1 COMMUTING & JOBS FROM EACH INLAND COUNTY

	Numbers	Shares
RIVERSIDE COUNTY		
Employed Persons	857,119	
Commute To San Bernardino Co.	92,082	10.7%
Commute Outside IE	177,591	20.7%
Local Jobs, 2016	688,400	
Job Growth, 2011 through 2016, up 25.3%	139,200	
SAN BERNARDINO COUNTY		
Employed Persons	788,495	
Commute To Riverside Co.	60,089	7.6%
Commute Outside IE	178,034	22.6%
Local Jobs, 2016	727,100	
Job Growth, 2011 through 2016, up 17.9%	110,600	
INLAND EMPIRE		
Employed Persons	1,645,614	
Commute Outside IE	355,625	21.6%
Local Jobs, 2016	1,415,500	
Job Growth, 2011 through 2016, up 21.6%	249,800	
OTHER		
Net Commute Riverside Co. to San Bernardino Co.	31,993	
Net Difference in Local Jobs	38,700	
Riverside Co. Share of Outside IE Commuters		49.9%
San Bernardino Co. Share of Outside IE Commuters		50.1%

Source: U.S. Census Data, 2009-2013

This pattern is somewhat reflective of the fact that in 2016 the CA Employment Development Department found that SBCo had 727,100 local jobs while RivCo had 688,400, a difference of 38,700 positions. In recent years, that difference has narrowed. From 2011 through 2016, RivCo added 139,200 jobs (*up 25.3%*) while its neighbor added 110,600

Continued on page 2

(*up 17.9%*). The Inland Empire area added a total of 249,800 (*21.6%*) in this turnaround and expansion period. Interestingly, among California's metropolitan areas only Los Angeles added more jobs. These data show that both inland counties have an interest in each other's success.

Income Measures, 2015. Another comparison of the two Inland Empire counties is found in their incomes and other metrics showing how well households are prospering (*Exhibit 2*). On most measures, RivCo. is better off. According to the Census Bureau's 2015 American Community Survey, its median household income level was $58,292 to SBCo's $53,803. The Southern California figure was $64,236. RivCo's average income was also higher at $76,841 to $69,543. The Southland's figure was $87,736.

2 INCOME MEASURES
Inland Counties, 2015

	Riverside Co.	San Bernardino Co.
Median HH Income	$58,292	$53,803
Average HH Income	$76,841	$69,543
Total Income (billion)	$84.0	$75.4
Poverty, All People	16.2%	19.0%
Poverty, Under 18	22.8%	27.4%
No Health Insurance	14.4%	12.7%

Source: American Community Survey, 2015
U.S. Bureau of Economic Analysis 2015

Relative poverty measures are reflective of these incomes. In RivCo., 16.2% of people were living in poverty during 2015. It was 19.0% for SBCo. For Southern California it was 15.6%. Among children under 18, the figures were 22.8% and 27.4% in the inland counties versus 21.7% for the wider region. Child poverty is clearly a major issue for the southern half of the state.

Oddly, the share of people without health insurance was lower in SBCo (*12.7%*) compared to RivCo (*14.4%*). The Southern California level was 15.3% indicting that there has been greater success in signing people up for health care in the Inland Empire than the wider region.

Demographics. It is interesting to look at the similarities of the populations residing in the two counties. As indicated earlier, RivCo has the larger 2017 number of 2.4 million compared to SBCo's 2.2 million. In 2015, the shares of these population under 18 years were very similar: 26.0% and 26.8% respectively. A difference does occur in the retirement ages 65 with 10.7% of SBCo's population in that older group compared to 13.5% in RivCo. This is likely because of retirees in the Coachella Valley.

3 DEMOGRAPHIC MEASURES
Inland Counties, 2015

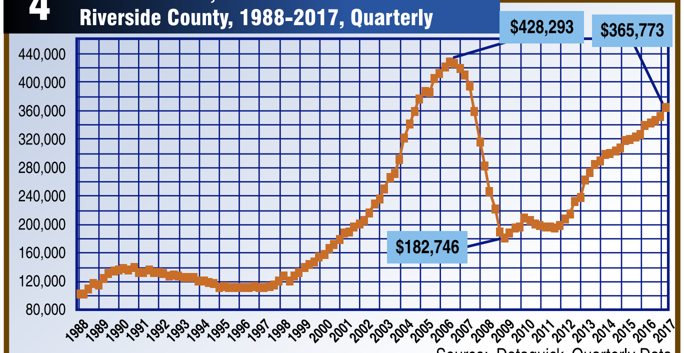
	Riverside Co.	San Bernardino Co.
Population	2,384,783	2,160,256
Under 18	26.0%	26.8%
65 & over	13.5%	10.7%
Bachelors or Higher	20.7%	19.4%
High School or Less	46.4%	47.8%
Non-Citizen	11.7%	11.3%
English Less Than Well	15.2%	15.9%

Source: American Community Survey, 2015

Educational achievement levels are also quite similar. In RivCo, 20.7% of adults 25 and over had a bachelor's or higher degree in 2015. That was just above the 19.4% in SBCo. This represents a key challenge for both counties as they try to interest companies needing an educated workforce. They face competition from the coastal counties whose share averages 33.6.%. Meanwhile, SBCo's share of adults with a high school or less schooling was 47.8%, just above RivCo's 46.4%. These are the workers most threatened by the automation of blue collar/technical and lower skilled jobs. These data stand at the base of the difficulties the two counties have with poverty.

In both inland counties, the share of non-citizens is relatively low at 11.7% in RivCo and 11.3% in SBCo. It was 15.5% in the coastal counties. These data are related to the shares of residents who "*speak English less than well:*" 15.2% in RivCo and 15.9% in SBCo. The figure in the coastal counties was 21.5% . The Inland Empire appears to have a smaller issue with immigration than its coastal county competitors.

4 PRICE TRENDS, NEW & EXISTING HOMES SOLD
Riverside County, 1988-2017, Quarterly



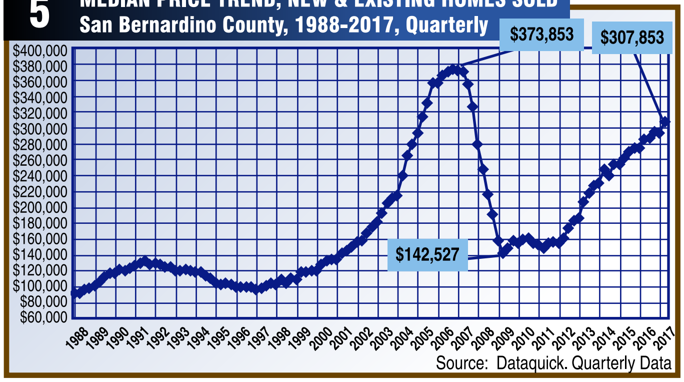
Source: Dataquick. Quarterly Data

Housing. Combined median new and existing home prices in RivCo peaked at $428,293 in 2006 (*Exhibit 4*). They then plunged to $182,746, a drop of -57.3%. Since then, prices have doubled, reaching $365,773 in second quarter 2017, up 100.2% from the low. However, they remain -$62,520 below the peak or -14.6%. Meanwhile, combined median new and existing home prices in SBCo peaked at $373,853 or -12.7% below the RivCo high (*Exhibit 5*). They then dropped to $142,527, off -61.8%. Since then, prices have rebounded, more than doubling to $307,853 in second quarter 2017, up 116.8% from the low. That is -11.8% below the current RivCo level. The county's median price remains -$65,529 below its peak or -17.6%.

In both Inland Empire counties, seasonally adjusted quarter sales have been restrained since the Great Recession of 2008-2010. For RivCo, volume peaked at 17,637 in late 2005, plunged to 6,843 in late 2007 and rose to 12,180 in late 2008 with the surge in foreclosure sales. They then dropped to either side of 9,000 units from 2010 to 2016 (*Exhibit 8, page 4*). In second quarter 2017, they have moved up to 9,516 as a slow expansion has begun to occur.

For SBCo, housing volume peaked at 12,126 in late 2005. That was -31.2% below the RivCo peak. From there, volume plunged to 4,294 in early-2008 and rose to 8,746 in 2009 with the foreclosure surge (*Exhibit 9, page 4*). Sales then dropped to 6,000 to 7,000 units from 2010 to 2016. In early 2017, that moved up to 7,710 sales as a clear expansion has started, though

5 **MEDIAN PRICE TREND, NEW & EXISTING HOMES SOLD**
San Bernardino County, 1988-2017, Quarterly



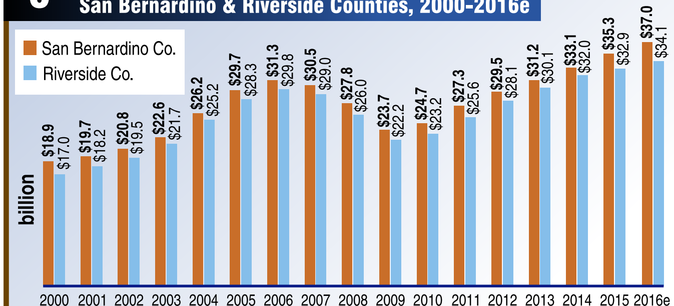
Source: Dataquick. Quarterly Data

volume remains -18.9% below RivCo. That difference is because that county has a larger housing stock than SBCo and more land available for home construction.

Local Sales Tax Base. Interestingly, while income and housing metrics are somewhat stronger in RivCo, this has not been the case with the recovery of the two main sources of tax revenues since the Great Recession. Looking at taxable retail sales, SBCo has maintained the stronger base throughout recent history. In 2016, that county's cities and unincorporated areas had taxable sales of $37.0 billion. That was 7.8% more than RivCo's $34.1 billion (*Exhibit 6*). From the pre-recession peak of $31.3 billion in 2006, SBCo's sales grew $5.7 billion or 18.3%. That exceeded the 17.2% change in prices allowing the purchasing power of sales taxes to be higher in 2016 than 2006 by 1.1%. By contrast, RivCo's cities and unincorporated areas saw taxable sales grow by $4.3 billion from 2006-2016. That was a gain of 14.5%. The purchasing power of the county's sales taxes was thus weaker in 2016 than 2006 by -2.7%.

These metrics carry over to taxable sales per capita (*Exhibit 10, page 4*). In the early 2000s, per capita sales were roughly equal in the two counties. However from 2005 on, sales per person in SBCo exceeded its neighbor. By 2016, the gap was $17,226 to $14,431 or $2,745 (*19.4%*). From 2006-2016, SBCo per capita sales rose 8.6% including 3.8% in 2016. RivCo sales per person fell -2.6% despite a 2.3% gain in 2016.

6 **TAXABLE RETAIL SALES (billions)**
San Bernardino & Riverside Counties, 2000-2016e

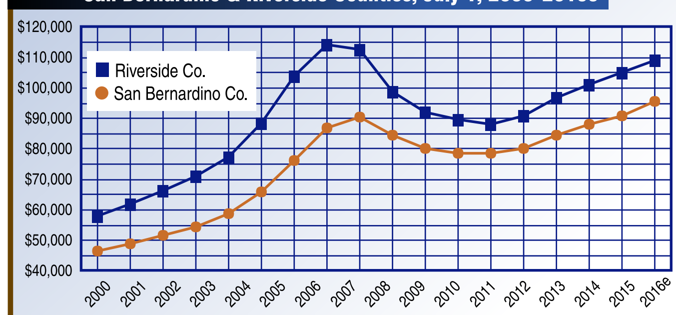


Note: 2015-2016 = Hinderliter DeLlamas estimated percentage growth
Source: CA State Board of Equalization

These results are unusual given the higher median household incomes in RivCo. The importance of a per capita measure is to show the extent that tax revenues allow local governments to potentially fund services to each of their residents.

Local Property Tax Base. Property tax revenue based upon Net Taxable Assessed Valuation is another important metric for discretionary spending by local governments. Since 2000, RivCo's level has consistently been higher than in SBCo with the great differentials during the housing surge when the difference reached $61.0 billion in 2008 (*Exhibit 7*). On July 1, 2017, the relative levels were $260.6 billion in RivCo to $206.6 billion in SBCo, a $54.0 billion difference(*26.2%*). That said, the growth of net taxable assessed valuation from the 2008 peak to 2017 shows SBCo rising $24.7 billion or 13.6% compared to $23.8 billion or 10.0% for RivCo. The gain in 2017 alone was 6.1% in SB Co versus 5.0% for its neighbor. From 2008-2017, SBCo's increase matched the rise in prices meaning the purchasing power of property tax revenues equaled the 2008 high. RivCo's gains meant that local governments still had less purchasing power than at the county's peak.

7 **NET TAXABLE ASSESSED VALUATION PER CAPITA**
San Bernardino & Riverside Counties, July 1, 2000-2016e



Source: Riverside & San Bernardino County Assessor's Offices

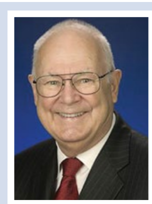
Assessed valuation per capita paints a similar portrait. RivCo's valuation per person and thus its property tax revenue available per resident has been consistently higher than in SBCo (*Exhibit 11, page 4*). By 2017, the respective levels were $109,285 versus $95,926. That said, SBCo's gain since the 2008 peak was $5,145 or 5.7% compared to a decrease of -$3,363 or -2.99% in RivCo.

Summary. Looking at the two counties that make up the Inland Empire, the job sufficiency and employment data show them to be economically quite interdependent. Though income metrics show households in RivCo to be somewhat more prosperous, demographic data indicate how similar they are in age, education, language difficulties and immigration status. RivCo has the stronger housing market as measured by median prices and volumes. However, the sales tax base and assessed valuation in SBCo have recently grown to allow its local governments to have equal or greater purchasing power than the peak years. So far this has not been the case in RivCo. ■

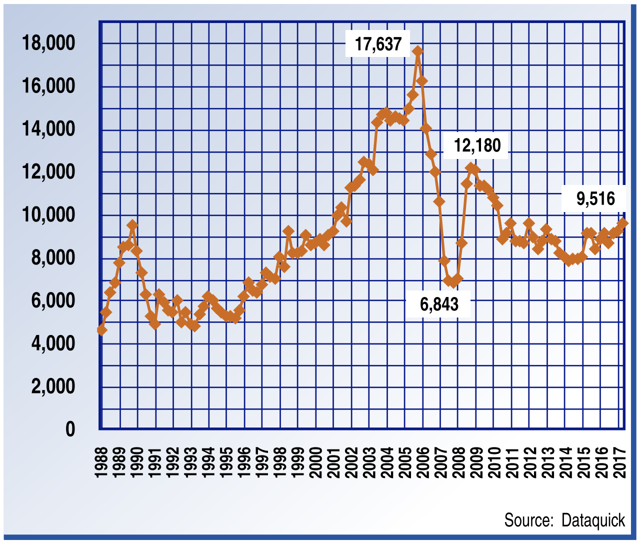
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

www.johnhusing.com

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

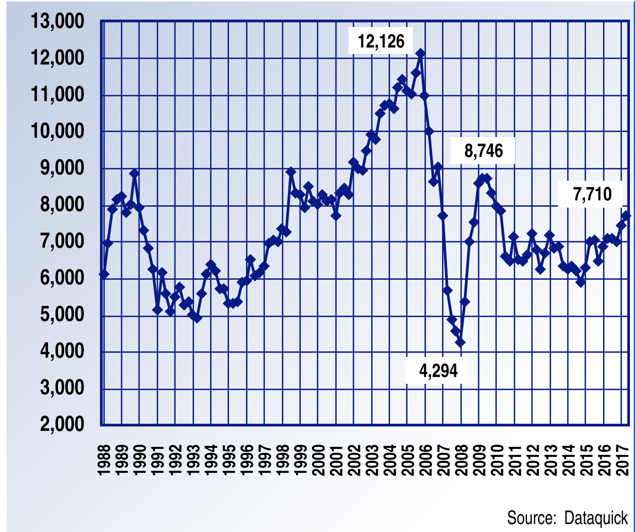


8 EXISTING & NEW HOME SALES, RIVERSIDE COUNTY
Seasonally Adjusted, by quarter, 1988-2017



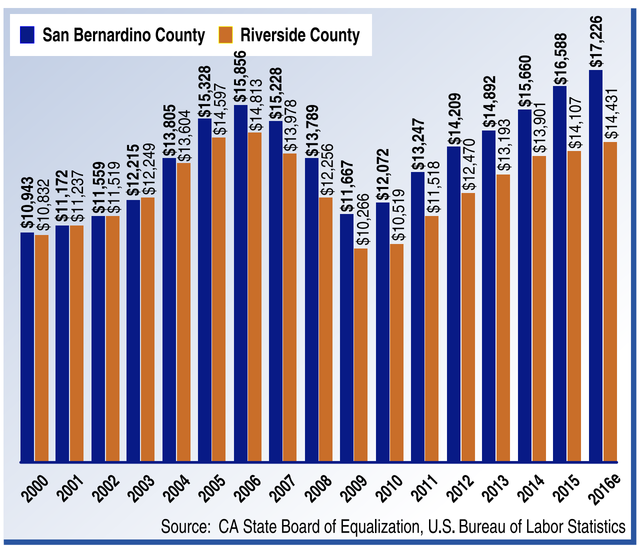
Home Volumes Riverside County. Seasonally adjusted existing and new home volume in Riverside County peaked at 17,637 in late 2005. It then plunged by -10,794 units to 6,843 in late 2007 (*-61.2%*) in the Great Recession. Volume then rose to just over 12,180 in late 2008 with the surge in foreclosure sales. Sales then dropped to either side of 9,000 units from 2010 to 2016. In second quarter 2017, they have started to increase, moving up to 9,516 with a slow expansion, up 4.4% in twelve months. Lack of available homes for sale has affected volumes.

9 EXISTING & NEW HOME SALES, SAN BERNARDINO COUNTY
Seasonally Adjusted, by quarter, 1988-2017



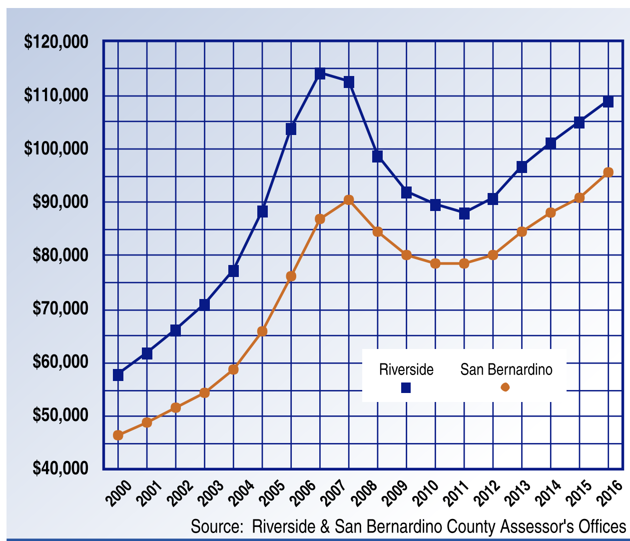
Home Volumes San Bernardino County. For San Bernardino County, seasonally adjusted existing and new housing volume peaked at 12,126 in late 2005. From there, volume plunged to 4,294 in early 2008, down –7,842 units or -64.6%. With the surge in foreclosure sales as a result of the Great Recession, volume then and rose to 8,746 in mid-2009. Sales then dropped to between 6,000 to 7,000 units from 2010 to 2016. In second quarter 2017, sales grew to 7,710 units as a clear expansion has started. Again, lack of available homes for sale has affected volumes.

10 TAXABLE SALES PER CAPITA
San Bernardino & Riverside Counties, 2000-2016e



Taxable Sales Per Capita. Per capita measures show the ability of local governments to fund services to each resident. In the early 2000s, per capita taxable sales were roughly equal in the Inland Empire counties. However from 2005 on, sales per person in San Bernardino County surged and have stayed higher. By 2016, volumes were respectively $17,226 to $14,431, a gap of $2,745 per person (*19.4%*). From 2006-2016, San Bernardino's per capita sales rose 8.6% including 3.8% in 2016. Riverside County's sales per person fell -2.6% despite a 2.3% gain in 2016. These results seem at odds with the higher median household incomes in Riverside County.

11 NET TAXABLE ASSESSED VALUATION PER CAPITA
San Bernardino & Riverside Counties, July 1, 2000-2017



Assessed Valuation Per Capita. Assessed valuation per capita shows a somewhat similar pattern to retail sales. Riverside County's valuation per person and thus its property tax revenue available per resident has been consistently higher than in San Bernardino County. By 2017, the respective levels were $109,285 versus $95,926. That said, San Bernardino County's gain since the 2008 peak was $5,145 or 5.7%. In that period, Riverside County's levels declined by -$3,363 or -2.99%. These data may indicate a loss of sales by Riverside County's residents into retail outlets in its northern neighbor. Or, it might be due to taxable sales by San Bernardino County's large number of warehouses.

INLAND EMPIRE EMPLOYMENT ... Jobs Growth Strong Again in 2017

Based on growth rates in the first half of 2017, the Inland Empire is on track in 2017 to add 44,907 jobs a 3.2% increase (*Exhibit 13*). This marks the fifth year in a row that local employment has increased by roughly 45,000 or more. In June 2017, the gain was led by construction (*18,100; 39% share*), logistics (*11,617, 15% share,*), eating & drinking (*3,800; 8% share*) and health care (*3,700; 8% share*) (*Exhibit 12*). The June 2017 unemployment rate of 5.5% was down slightly from 6.3% in June 2016. The number of unemployed fell by -14,200 (*-11.4%*) largely because an extra 8,600 people went looking for work (*0.4%*). A total of 22,900 residents found jobs in the past year either locally or in Southern California's coastal counties (*1.2%*).

12 INLAND EMPIRE EMPLOYMENT INFORMATION 2016-2017

Sector	Apr-2017	May-2017	Jun-2017	Jun-2016	Change	Percent
Mining	800	800	900	800	100	12.5%
Higher Education	20,500	19,600	19,400	18,500	900	4.9%
Mgmt & Professions	49,000	48,700	49,300	47,700	1,600	3.4%
Health Care	135,300	95,100	134,600	130,900	3,700	2.8%
Federal & State	38,100	38,100	38,400	37,900	500	1.3%
Local Government	77,500	77,500	77,500	77,000	500	0.6%
Utilities	5,200	5,200	5,200	5,300	(100)	-1.9%
Information	11,400	11,500	11,400	11,700	(300)	-2.6%
Clean Work, Good Pay	**337,800**	**296,500**	**336,700**	**329,800**	**6,900**	**2.1%**
Financial Activities	45,500	45,500	46,000	44,900	1,100	2.4%
K-12 Education	132,100	132,500	128,600	125,900	2,700	2.1%
Clean Work, Moderate Pay	**177,600**	**178,000**	**174,600**	**170,800**	**3,800**	**2.2%**
Construction	104,700	107,900	110,200	92,100	18,100	19.7%
Distribution & Transportation	166,400	166,100	165,000	158,200	6,800	4.3%
Manufacturing	99,300	99,800	100,000	98,700	1,300	1.3%
Dirty Work, Moderate Pay	**370,400**	**373,800**	**375,200**	**349,000**	**26,200**	**7.5%**
Amusement	20,600	20,600	19,400	18,300	1,100	6.0%
Accommodation	18,000	18,200	18,000	17,300	700	4.0%
Other Services	46,900	46,600	46,400	44,700	1,700	3.8%
Social Assistance	65,800	105,300	66,100	63,800	2,300	3.6%
Eating & Drinking	128,400	129,100	127,300	123,500	3,800	3.1%
Retail Trade	177,200	176,900	176,800	175,500	1,300	0.7%
Admin. Support	53,500	52,200	51,900	51,900	0	0.0%
Agriculture	14,200	16,200	17,800	19,000	(1,200)	-6.3%
Employment Agencies	43,200	43,600	44,300	44,400	(100)	-0.2%
Lower Paying Jobs	**567,800**	**608,700**	**568,000**	**558,400**	**9,600**	**1.7%**
Total, All Industries	**1,453,600**	**1,457,000**	**1,454,500**	**1,408,000**	**46,500**	**3.3%**
Civilian Labor Force	1,990,200	1,983,900	1,990,300	1,981,700	8,600	0.4%
Employment	1,895,900	1,894,400	1,880,000	1,857,100	22,900	1.2%
Unemployment	94,300	89,600	110,400	124,600	(14,200)	-11.4%
Unemployment Rate	**4.7%**	**4.5%**	**5.5%**	**6.3%**	**-0.8%**	**-12.7%**

Source: CA Employment Development Department

HIGH-END WORK, GOOD PAY: +2.1%

From June 2016 to 2017, the Inland Empire's highest paying sectors (*over $60,000*) gained 6,900 jobs (*2.1%*) (*Exhibit 12*). Mining added 100 jobs (*12.5%*). Higher education added 900 (*4.9%*) as budgets grew and people sought improvements in their educations and skills. Management, professions and scientific firms had growth of 1,600 (*3.4%*). Health care added 3,700 (*2.8%*) as care providers needed to match a growing population despite worries of the Affordable Health Care Act. Federal and state governments added 500 jobs (*1.3%*) as the state budget improved. Local governments grew by 500 positions (*0.6%*) for the same reason. Utilities lost -100 positions (*-1.9%*). Information firms lost -300 jobs (*-2.6%*).

OFFICE WORK, MODERATE PAY: +2.2%

Sectors primarily paying moderate incomes (*$45,000-$60,000*) to office based workers gained 3,800 jobs (*2.2%*) from June 2016-2017. Financial groups were up 1,100 jobs (*2.4%*) as the real estate market is recovering. K-12 education again saw budgets loosen and increase by 2,700 positions (*2.1%*).

INDUSTRIAL WORK, MODERATE PAY: +7.5%

Job growth in industrial firms including construction were the strongest group adding 26,200 positions above June 2016 (*7.5%*). Construction surged, adding 18,100 jobs (*19.7%*). Distribution and transportation firms slowed their growth but still added 6,800 jobs (*4.3%*) as port import activity and fulfillment center hiring continued expanding. Manufacturing did modestly well, up 1,300 jobs (*1.3%*), despite California's high cost environment.

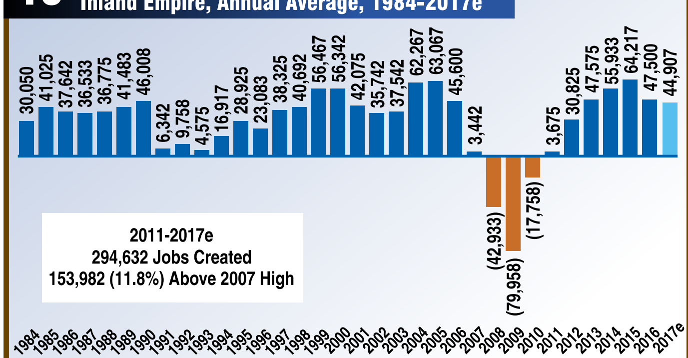
LOWER PAYING JOBS: +1.7%

The Inland Empire's lower paying sectors gained just 9,600 jobs from June 2016-2017 (*1.7%*). Amusement's growth rate led, up 1,100 jobs (*6.0%*). Hotel and accommodation added 700 workers (*4.0%*). Other services grew by 1,700 positions (*3.8%*). Social assistance added 2,300 (3.6%). Eating & drinking added 3,800 jobs (*3.1%*) as it remained relatively strong. Retail trade grew by only 1,300 (*0.7%*) as e-commerce affected anchor tenants. Companies used less outside help with administrative support firms stationary (*0.0%*). Agriculture dropped -1,200 workers (*-6.3%*). Employment agencies filled -100 fewer slots (*-0.2%*), a normal occurrence as a recovery matures.

COMMENT

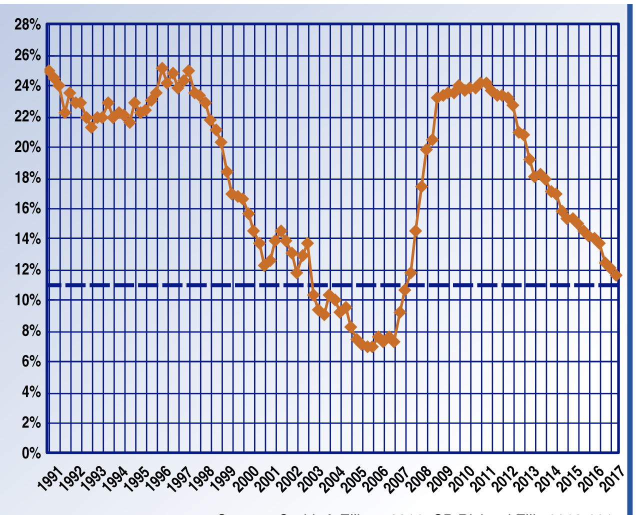
With the Inland Empire's economy on a pace to add 44,907 new local jobs in 2017 (*Exhibit 13*), it is performing slightly below the level predicted by the QER forecast of 46,600 for the year. That would be below the growth of 47,500 new positions in 2016. That is expected as the expansion phase of the area's cycle matures. Still, in recent years, the CA Employment Development Department's methodology for determining employment growth has tended to be overly conservative, especially in the second quarter. Data revisions in March 2018 will show whether that has been the case this year. ■

13 WAGE & SALARY JOB CHANGE
Inland Empire, Annual Average, 1984-2017e



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

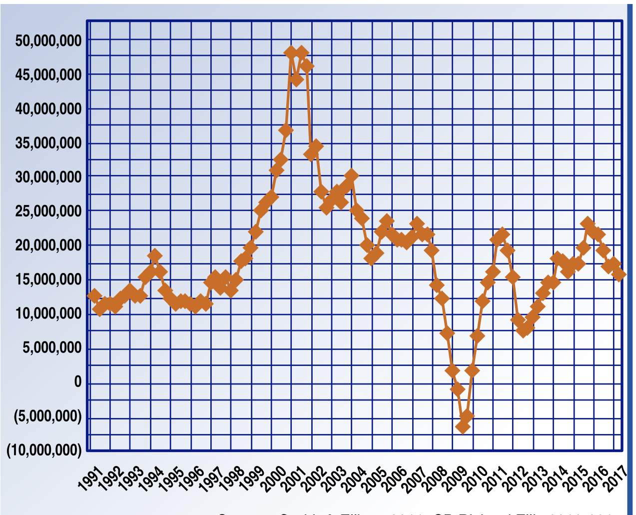
14 OFFICE VACANCY RATE
Inland Empire, 1991-Present



Source: Grubb & Ellis to 2011, CB Richard Ellis 2012-2017

Office Market. After surging to 24.0% in first quarter 2010 during the Great Recession, the Inland Empire office vacancy rate is slowly absorbing the space that was vacant. By 2nd quarter 2017, the vacancy rate was been more than cut in half to 11.6%. No space is currently under construction. The rate compares to 13.3% in Los Angeles County, 11.0% in San Diego County and 9.6% in Orange County. The asking lease rate for Class A and B space was $1.88 per square foot per month.

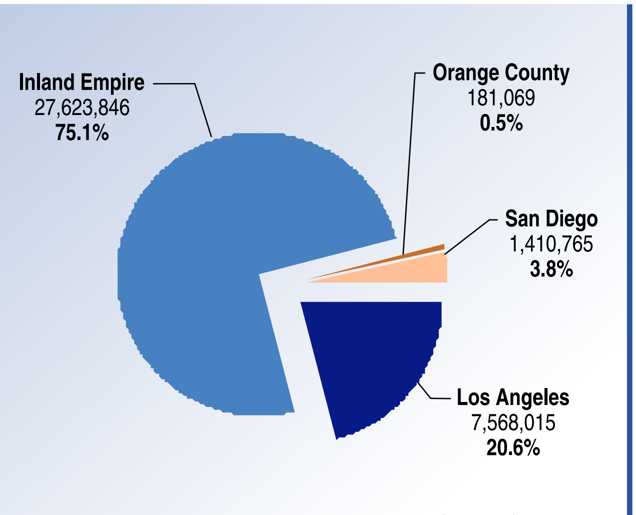
15 INDUSTRIAL SPACE NET ABSORPTION
Riverside Metropolitan Area, 1991-Present (moving 4-quarter total)



Source: Grubb & Ellis to 2011, CB Richard Ellis 2012-2017

Industrial Real Estate Trends. In the four quarters ended in June 2017, a net of 15.9 million square feet of industrial space was taken by firms deciding to enter or expand operations in the Inland Empire. While the level has declined of late, it is still in the range considered normal. The drop has occurred in part because vacancy space is down to just 3.3% despite some new space coming on the market. The net absorption is occurring largely because e-commerce and port-related operations need large facilities to handle their operations. Vacancy levels in Los Angeles and Orange counties are only 1.0% and 1.4% respectively.

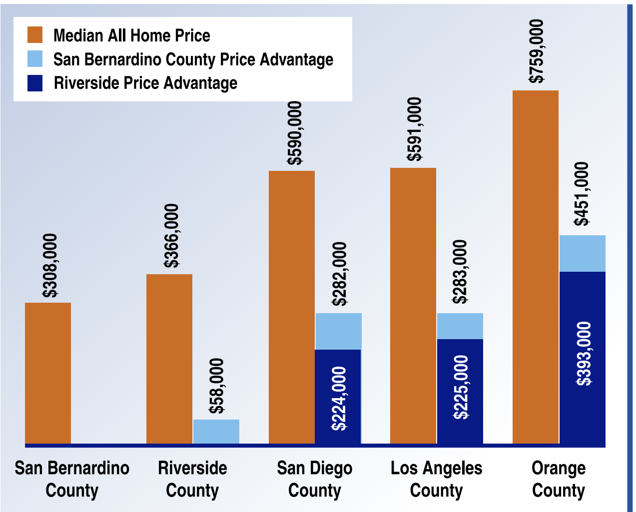
16 INDUSTRIAL SPACE UNDER CONSTRUCTION
Southern California Market, June 2017



Sources: CB Richard Ellis

Industrial Construction. With net industrial space absorption continuing to be strong, developers continue to expand construction in the Inland Empire. In June 2017, there was 27.6 million square feet being built. That was 75.1% of the Southern California total. Los Angeles had 7.6 million under construction (*20.6% share*). It was only 1.4 million square feet in San Diego County (*3.8% share*) and 181,069 in Orange County (*0.5% share*). Prices for space per square foot a month were: Inland Empire (*$0.51*), Los Angeles (*$0.79*), San Diego (*$0.85*), Orange (*$0.88*).

17 HOME PRICES, SOUTHERN CALIFORNIA MARKETS
Median Priced New & Existing Home, 2nd Quarter 2017



Source: Dataquick

Home Price Advantage. The very large Inland Empire housing price advantage compared to the coastal counties continues growing. For the area, the combined new and existing median home price of $308,000 in San Bernardino County ranged from $282,000 less than San Diego County (*$590,000*) to $283,000 less than Los Angeles County (*$591,000*) and a huge $451,000 below Orange County (*$759,000*). Riverside County's $366,000 median price was $224,000 below San Diego County, $225,000 below Los Angeles County and $393,000 less than Orange County. Housing affordability to coastal county families is down to 21% in Orange County and 28% in San Diego County and 29% in Los Angeles County.

18 HOME PRICES
2nd Quarter, 2016-2017

County	2nd Qtr-16	2nd Qtr-17	% Chg.
NEW HOMES			
Riverside	$404,500	$424,500	4.9%
San Bernardino	432,750	443,000	2.4%
Los Angeles	565,000	665,500	17.8%
Orange	829,500	813,500	-1.9%
San Diego	621,750	627,000	0.8%
Ventura	539,000	621,250	15.3%
So. California	$574,200	$599,800	4.5%
EXISTING HOMES			
Riverside	$330,000	$358,000	8.5%
San Bernardino	270,000	292,000	8.1%
Los Angeles	550,000	585,000	6.4%
Orange	710,000	750,000	5.6%
San Diego	540,000	587,000	8.7%
Ventura	585,000	619,000	5.8%
So. California	$491,400	$522,800	6.4%

Source: Dataquick

19 HOME DEED RECORDINGS
Inland Empire, 2nd Quarter, 2016-2017

NEW HOMES				EXISTING HOMES			
Area	2nd-2016	2nd-2017	% Chg.	Area	2nd-2016	2nd-2017	% Chg.
San Bernardino, Highland	80	159	98.8%	SB Mountains	658	787	19.6%
Chino, CHill, Mtcl, Ont, RC, Upl	341	414	21.4%	Redlands, Loma Linda, Yucaipa	494	557	12.8%
Redlands, Loma Linda, Yucaipa	37	44	18.9%	Chino, CHill, Mtcl, Ont, RC, Upl	1,388	1,527	10.0%
SB Desert	10	10	0.0%	SB Desert	574	625	8.9%
SB Mountains	8	8	0.0%	Fontana, Rialto, Colton, GT	1,063	1,136	6.9%
Victor Valley	74	68	-8.1%	San Bernardino, Highland	860	901	4.8%
Fontana, Rialto, Colton, GT	176	152	-13.6%	Victor Valley	1,344	1,369	1.9%
SAN BDNO COUNTY	**726**	**855**	**17.8%**	**SAN BDNO COUNTY**	**6,381**	**6,902**	**8.2%**
Beaumont, Banning, Calimesa	97	129	33.0%	Riverside, Jurupa Valley	1,109	1,198	8.0%
Coachella Valley	103	106	2.9%	South I-215	1,976	2,123	7.4%
Corona, Norco, Eastvale	234	237	1.3%	Corona, Norco, Eastvale	894	956	6.9%
Riverside, Jurupa Valley	160	151	-5.6%	Moreno Valley	623	658	5.6%
South I-215	306	282	-7.8%	I-215 to I-15	1,900	1,991	4.8%
I-215 to I-15	367	275	-25.1%	Coachella Valley	1,507	1,553	3.1%
Riverside Rural	46	33	-28.3%	Riverside Rural	580	597	2.9%
Moreno Valley	31	22	-29.0%	Beaumont, Banning, Calimesa	474	470	-0.8%
RIVERSIDE COUNTY	**1,344**	**1,235**	**-8.1%**	**RIVERSIDE COUNTY**	**9,063**	**9,546**	**5.3%**
INLAND EMPIRE	**2,070**	**2,090**	**1.0%**	**INLAND EMPIRE**	**15,444**	**16,448**	**6.5%**

Source: Dataquick

NEW & EXISTING HOMES … Prices Still Climbing, Volume Turns Up

In second quarter 2017, the Inland Empire recorded 17,347 *seasonally adjusted* detached home sales (*Exhibit 20*). This was below the peak of 29,836 in fourth quarter 2005. It was also down by -20.9% from the 2nd quarter 2003 level (*21,930*) when volumes had yet to move into the mortgage driven surge period. Volume has recently moved above the 16,000 level where it was stuck for several quarters. Sales have been hurt by a lack of supply, high FICO score requirements and the low ceiling on FHA, Fannie Mae and Freddie Mac conforming loans. The raw data show existing home sales at 16,448 units (*up 6.5% from 2nd quarter 2016*). Quarterly new home volume were up to 2,090 units (*1.0% from 2nd quarter 2016*) (*Exhibit 19*).

In second quarter 2017, Riverside County's median new home price was up 4.9% to $424,500 from a year ago while its existing home price was up 8.5% reaching $358,000 (*Exhibit 18*). San Bernardino County's median new home price was grew by 2.4% to $443,000; its existing home price rose 8.1% to $292,000. The existing & new home median prices for the two counties continued to show they remained a significant bargain compared to the coastal counties (*Exhibit 17 discussion, previous page*).

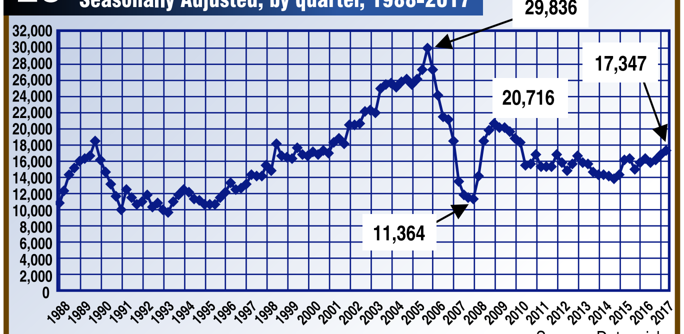
Sales. Riverside County recorded 1,235 new home sales during second quarter 2017, down -8.1% from 1,344 in 2016. As recordings come at the end of escrow, this included many sales from the first quarter. The county's percentage leader was the Pass area (*129 sales; 33.0%*). Its volume leader was the South I-15 (*282 sales; -7.8%*). Riverside County's existing home volume grew by 5.3% to 9,546 sales in second quarter 2016-2017. The outlying Riverside-Jurupa Valley area had the greatest percentage increase (*1,198 sales; 8.0%*). The volume leader was the South I-215 area (*2,123; 7.4%*).

San Bernardino County's second quarter 2017 new home sales rose 17.8% to 855 units from 726 last year. The San Bernardino-Highland market was the percentage leader (*159 sales; 98.8%*). The volume leader was the area west of the I-15 freeway (*414 sales; 21.4%*). Existing home sales in San Bernardino County rose 8.2% to 6,902 from 6,381 in 2016. The San Bernardino Mountain area was the percentage leader (*787 sales; 19.6%*). The area west of the I-15 was the volume leader (*1,527 sales; 10.0%*).

Prices. Riverside County's second quarter 2017 median new home price of $424,500 was up 4.9% from last year's $404,500. It was also above the prior quarter's $420,000. Its median existing home price was $358,000, was up from $330,000 the prior year (*8.5%*) and up from the prior quarter's $341,000. San Bernardino County's median new home price was $443,000, up 2.4% from last year's $423,750. It was above the prior quarter's $439,250. Its existing median home price of $292,000 was up 8.1% from $270,000 a year ago, and up from last quarter's $280,000. For new and existing home prices in both counties combined, the low was in second quarter 2009. Prices have now risen 116.0% since then. That said, combined prices remain -17.6% below their high in third quarter 2006.

The Future. The Inland Empire's housing markets are strengthening. Second quarter 2016 price levels were up powerfully in both counties and second quarter 2017 prices built on that base for both new and existing homes. New home volume has finally showed that builders want to reenter the Inland Empire, though it remains at a relatively low level in historical terms. Sales have gained strength in the existing home market. The huge price differentials to the coastal counties may be finally starting to play their normal role of powering demand in inland markets. ■

20 ALL HOME SALES, INLAND EMPIRE
Seasonally Adjusted, by quarter, 1988-2017



Source: Dataquick

INLAND EMPIRE ECONOMIC PARTNERSHIP

Continued from front page

knowledge of our region, the reality of a widening gap between coastal and inland California and their ability to discern how certain policies popular in Sacramento might be detrimental to the economy of the Inland Empire region. It was a fascinating event for local business and governmental leaders plus a smattering of residents of Riverside and San Bernardino counties to hear their vision and grapple with our difficult issues.

IEEP is grateful to Coca Cola and the Southern California Newsgroup for helping us present this Speaker Series. We are also appreciative of the candidates who understood the importance of participating in these forums and took the time to do so. Certainly a new day has dawned for the Inland Empire, our size and economic importance to the State of California and the nation now make us an important stop for those who are seeking to be the leader of the 6th largest economy in the world.

Paul Granillo
President & CEO

ie INLAND EMPIRE ECONOMIC PARTNERSHIP

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