INLAND EMPIRE ECONOMIC PARTNERSHIP

INLAND EMPIRE
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NATIONAL TRENDS & THE INLAND EMPIRE ECONOMY

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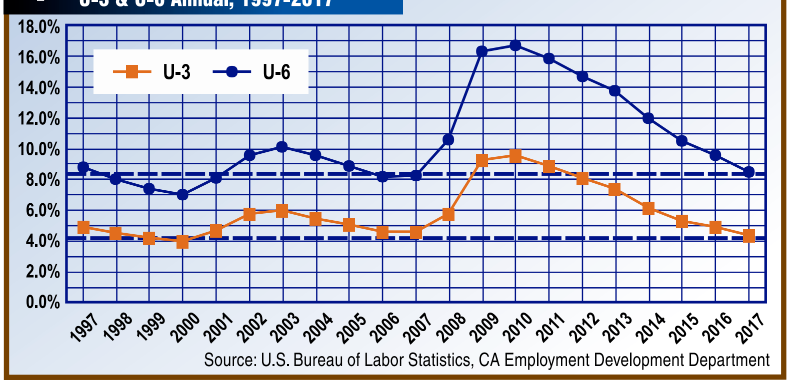
Like all U.S. metropolitan areas, the Riverside-San Bernardino area (*Inland Empire*) is powerfully impacted by the tidal forces exerted on it by the U.S. economy. As the Inland Empire moves into 2018, it is therefore important to understand what those national forces are and trace how they are likely to affect our region. This will provide part of the road map to understanding how well the inland area's economy will perform this year.

FEDERAL TAX BILL, INFLATION & INTEREST RATES

Certainly, the largest single change that will impact the nation's economic environment has been the passage of the 2017 federal tax bill. It is estimated that this measure will cut U.S. tax receipts by $1.5 billion while making no commensurate decrease in federal spending. This level of deficit spending will cause the demand for goods and services in the country to grow over what already exists. Such a policy is normally recommended when the economy is in recession with significant levels of unused labor. In such a period, adding to demand would result in putting workers back to work. What is unusual with the deficit created by the 2017 tax bill is that it will add to demand for goods and services at a time of near full employment. The Inland Empire will see its strong job growth continue in this environment with 2018 probably mimicking 2017 as a result.

1 U.S. UNEMPLOYMENT RATE HISTORY
U-3 & U-6 Annual, 1997-2017



Source: U.S. Bureau of Labor Statistics, CA Employment Development Department

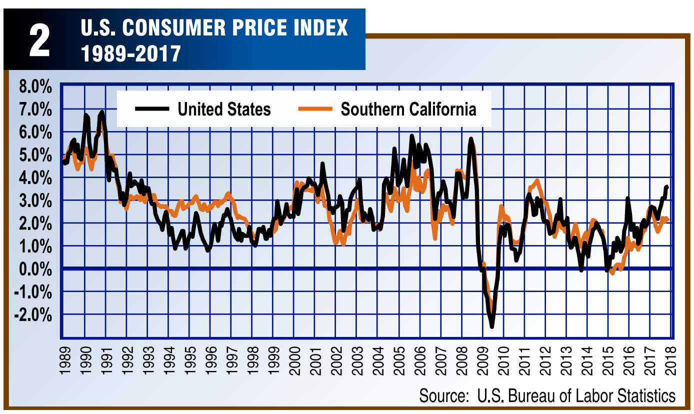
Looking at unemployment, the traditional U-3 measure averaged 4.4% for 2017 (*Exhibit 1*). It has only been lower in two years over the past two decades 1990 (*1999-2000*). U-3 does not count

Continued on page 2

Continued from front page

workers who have dropped out of the labor force or are working part time but want full time jobs. They are added to U-3 to form U-6 data which averaged 8.5% in 2017. U-6 unemployment was a little lower in 2006-2007 and in 1999-2000 but essentially even that measure shows very little slack in the labor force. However, when unemployment is low and the government steps on the economic accelerator with deficit spending, it will likely cause the economy to quickly put whatever qualified labor is available to work. With employees in short supply, labor costs will rise. With the economy straining at capacity, materials costs will also be bid up. The result will be for prices to begin rising faster.

In fact, prices had already begun to rise before passage of the tax bill (*Exhibit 2*). The U.S. Consumer Price Index was up 2.1% from December 2016-2017, while the Southern California index was up 3.6%. The U.S. level was the highest in five years or since 2012.

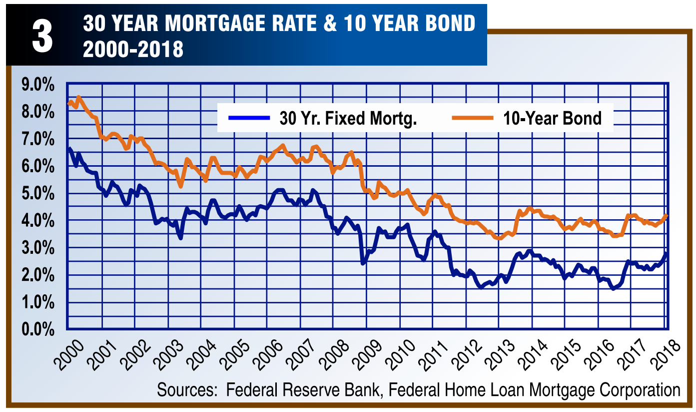


2 **U.S. CONSUMER PRICE INDEX 1989-2017**

Source: U.S. Bureau of Labor Statistics

Both the Federal Reserve Bank and financial markets are thus becoming worried about inflation. This is showing up in interest rate levels (*Exhibi 3*). Of great concern to the Inland Empire is the 10-year bond rate which has gone from a recent low of 1.50 % in July 2016 to 2.84% in early February 2018, a gain of 1.34%. As a result, the 30 year mortgage rate which is closely tied to the 10-year bond has gone from 3.44% to 4.22%, an increase of 0.78%. Changes like these will impact the cost of borrowing to buy homes, finance infrastructure projects, invest in new equipment or build new construction projects.

These interest rate rises could negatively impact the Inland Empire's vitally important construction sector. During the years 2012 through 2017, that sector created 46,917 new jobs or 16.0% of the 292,767 added in that period (*Exhibit 6, page 4*). In fact, 2017 preliminary CA Employment Development Department (*EDD*) data showed construction (*14,150*) increasing by more jobs than logistics (*6,208*). The sector's continued strength is important to the region's workers since its 2017 median pay was a strong $52,604 (*Exhibit 7, page 4*).



3 **30 YEAR MORTGAGE RATE & 10 YEAR BOND 2000-2018**

Sources: Federal Reserve Bank, Federal Home Loan Mortgage Corporation

FHA LOAN LIMITS

Another federal policy impacting the Inland Empire's construction sector are the limits on Federal Housing Administration (FHA) loans. In 2018, FHA will guarantee single family residential loans up to $453,100. However, in adjacent Los Angeles and Orange counties that limit is $679,650; it is $649,750 for San Diego County. This hurts the ability of Inland Empire builders to sell their homes as the median price of the area's new homes already stood at $439,612 in fourth quarter 2017 (*Exhibit 16, page 7*).

In effect, the lower FHA loan limit means that many inland new home buyers cannot access FHA guaranteed loans which would allow them to buy houses with just 3.5% down and credit scores of at least 580. They are also stopped from obtaining loans with the lower "conforming" interest rates that Fannie Mae and Freddie Mac give to FHA qualified homes. Instead, they face the higher interest rates, larger down payments and bigger mortgage payments on "jumbo loans." This is suppressing the inland area's new home market and its construction jobs.

This policy also adversely affects real estate agents and buyers in existing home markets in the higher priced areas of the Inland Empire near the coastal markets. Thus, the median priced existing homes cannot be bought with conforming loans in places like Rancho Cucamonga (*$559,608*), Corona (*$502,362*) or Temecula (*$461,800*).

AFFORDABLE CARE ACT (ACA)

One provision of the new tax bill eliminated the individual health care mandate that required everyone to either have health insurance or pay a fee through their income taxes. Within health care circles, this was regarded as a key element in securing the financing for expanding affordable health insurance. Eliminating this provision will likely raise coverage rates and reduce the number able to afford coverage. Such a change would adversely affect the demand for health care in the Inland Empire where the ACA has resulted in the number of uninsured falling from 750,957 in 2012 to 336,238 in 2016, a drop of -414,719 or

-55.2%. In this period, the share of local residents without health insurance plunged from 28.8% to 12.4% (*Exhibit 4, page 4*).

This change could have a negative impact on the growth of jobs in health care, the one large, high paying sector in the inland area. The sector was the fourth fastest growing in the Inland Empire accounting for 10.7% of all job growth from 2011 through 2017 when it added 31,208 jobs with a 2017 median pay of $60,768.

TRADE POLICIES

Since taking office, the administration has argued for a stronger dollar, put in place tariffs on solar panels and washers and indicated a desire to unwind NAFTA. These moves could have a slowing impact on the Inland Empire logistics sector which handles imported goods but help area manufacturers that export goods.

Specifically, the dollar has gone from $1.04 to buy €1.00 (*euro*) worth of goods in January 2017 up to $1.24 dollars per €1.00 in January 2018, up 19.2%. That makes European imported goods +19.2% more expensive to Americans and our exported goods -19.2% less expensive to Europeans. That is good for exports but bad for imports. Oddly however, the index for all major trading partners does not reflect that shift having gone from 95.6 to 86.3, down -8.7%. Thus, imports from most of the world remain -8.7% cheaper to Americans than in January 2017 and our exports to them +8.7% more expensive. Those latter facts showed up in the 2017 record level of imported containers handled at L.A. and Long Beach harbors (*8.6 million teus or 20-foot equivalent containers*) but a flat level of exported containers at 3.4 million teus (*Exhibit 5, page 4*). So far, this has helped the inland logistics sector since an important part of its activity is handling imports.

When the U.S. puts tariffs on imported goods, it raises their cost to American consumers. Thus the 30% tariff on solar panels will raise the price of those panels if they are bought by a local household. To the extent that tariffs become more extensively used, they would lower imports and negatively impact the trade dependent Inland Empire's logistics operations. However, it would help any local manufacturers in protected sectors.

NAFTA is the trade agreement between the U.S., Canada and Mexico that allows goods to flow relatively freely between them. The agreement has been important to Inland Empire exporters as the area's 2016 leading trade partners were Mexico (*$1.5 billion*) and Canada (*$1.2 billion*). They accounted for 27.3% of the $10.2 billion in total exports from the area. The inland area ranked 28th among the country's 50 largest metropolitan areas. Abandoning NAFTA would thus hurt the area's manufacturing sector. This group of firms added 15,058 jobs from 2011 through 2017. That represented 30.2% of new California manufacturing jobs in that period. Locally, the sector accounted for the eighth largest share of job growth with a 2017 median pay of $51,385.

E-COMMERCE

A major national trend has been the explosion of e-commerce growth. In 2001, the sector accounted for $4.4 billion of retail trade. That was just 0.6% of $723 billion in total U.S. sales. By third quarter 2017, e-commerce purchases were $115.3 billion. That was 9.1% of the $1,268 million in total retail sales. Interestingly since 2010, the speed of e-commerce growth has been 15% to 16% per year (*Exhibit 6, page 4*). This huge rapid expansion is clearly not going to stop with some forecasters seeing it eventually reaching beyond 20% of all sales.

To handle the volumes of goods created by the e-commerce phenomenon, outlets require facilities of roughly one million square feet to house their operations. This means industrial developers must find lots with 52 acres of flat land. In Southern California, the Inland Empire is the only such location. This has added e-commerce to international trade as a major driver of the logistics employment that has dominated the area's job growth. From 2011 through 2017, the sector added 59,533 new inland jobs representing 20.3% of the 292,767 created in this period. Median pay in the sector during 2017 was $46,708 according to EDD. Without this expansion, the Inland Empire would still be in the recession.

SUMMARY

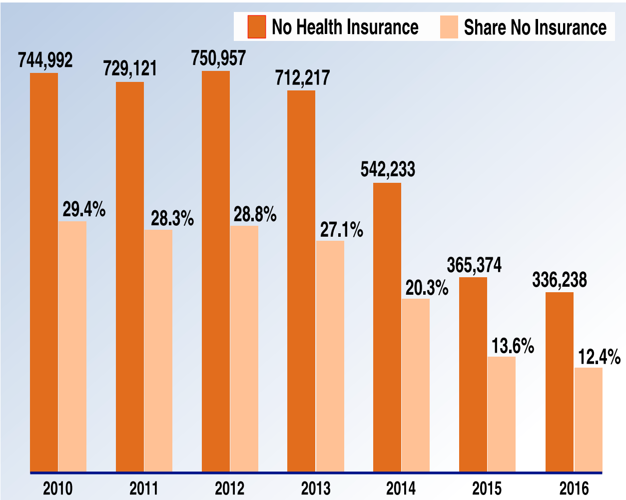
National policy and economic forces will have important impacts on the Inland Empire in 2018 and beyond. The tax cut legislation will help the speed of the local economy but will hurt the vitality of the health care sector. Rising inflation as a result of the tax cut is already leading to higher interest rates that will negatively impact local home sales and construction. FHA policy on maximum loan levels is hurting the housing market. U.S. trade policy is still unfolding. The direction in which the administration appears headed on the value of the dollar could help local manufacturing but hurt logistics. Tariffs and undoing NAFTA would hurt trade and/or both of those sectors. E-commerce is the new major U.S. economic change. It is strongly benefiting job growth in the region.

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.

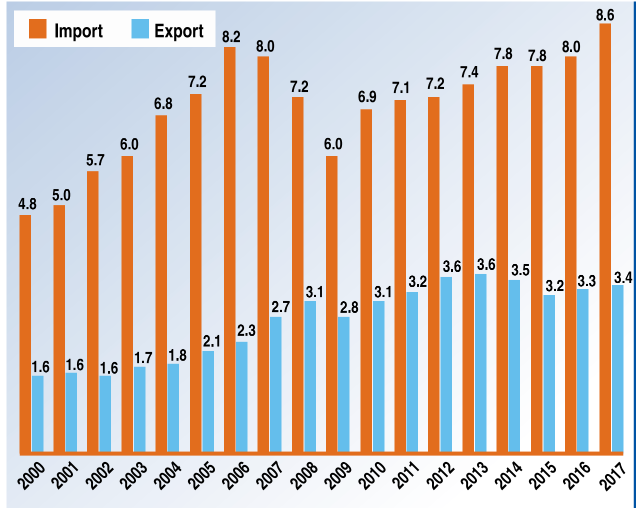
4 NUMBER & SHARE OF POPULATION WITHOUT HEALTH INSURANCE
Inland Empire, 2010-2016



Source: American Community Survey, 2010 & 2016

Affordable Care Act Impact. For the Inland Empire, the Affordable Care Act (*ACA*) has had a significant impact on the demand for health care services and the quality of life of residents. In 2012, before the ACA went into effect, there were 750,957 local people without health insurance, 28.8% of the population. In 2016, the latest census data showed this had dropped to 336,238 and just 12.4% of the population. Altogether, 414,719 people acquired health insurance in this period bringing the number of uninsured down -55.2%. The pressures to unwind the ACA could adversely impact both the number of uninsured and the growth of jobs serving them.

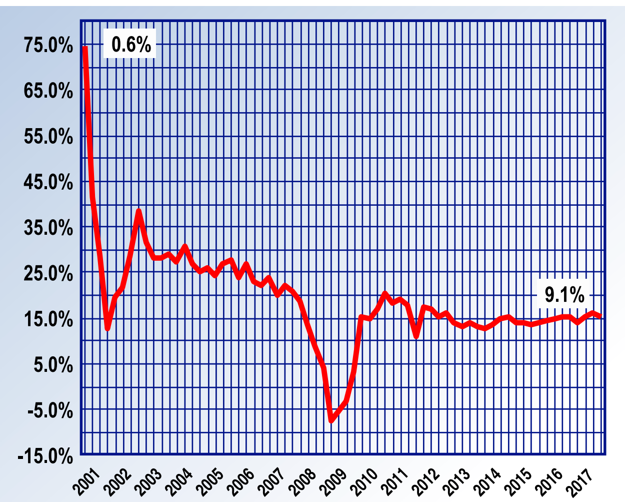
5 IMPORT & EXPORT VOLUME, 2000-2017
Ports of Los Angeles & Long Beach (mil. teus)



Source: Port Import Export Reporting Service (PIERS), collected from Vessel, LA-LB for 2011-2017

Port Volumes. In 2017, the volume of imported goods entering the U.S. through Los Angeles and Long Beach Harbors reached 8.6 million twenty-foot equivalent container units (*teu*). That was an all-time high, having surpassed the 8.2 million in 2006. The main driver of these figures is the high level of consumption of imported goods by U.S. families through major retail outlets. At the same time, exported goods through the ports have remained in a narrow band from 3.4 million to 3.6 million teus. Exports by ocean carriers tend to be heavy bulky items not the high value cargo that tends to go by air freight.

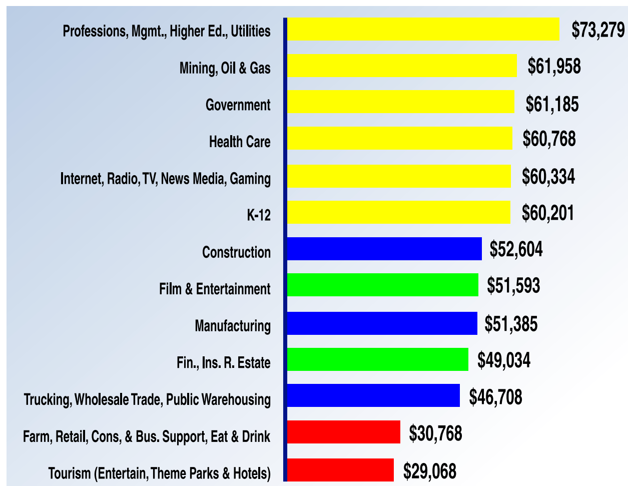
6 U.S. E-COMMERCE GROWTH RATES
Quarter over Same Period Year, 2001-2017



Source: Bureau of the Census

U.S. E-commerce Growth. On-line purchases by U.S. consumers are soaring. From 2001 to 2017, they have gone from 0.6% to 9.1% of total U.S. retail sales. Since the start of 2010, the pace of e-commerce sales has been spectacular with year over year growth remaining in a band from 15% to 16% a year. Every forecaster sees this pace continuing as more and more people become accustomed to ordering on line and having goods delivered to their door. The share of U.S. retail sales could well surpass 20% in the future. This fact has helped to drive demand for labor in the logistics sector. It is reducing demand for labor and goods at retail outlets. Local governments will see their sales taxes revenues negatively affected by this trend over time.

7 MEDIAN PAY LEVEL BY SECTOR
Inland Empire, 1st Quarter, 2017



Source: Occupational Pay Scales & Sector Job Composition
CA Employment Development Department

Median Pay By Sector. Median pay is the level at which 50% of the workers in a sector make less and 50% more. It is a superior metric to average pay as it is not pulled to the high side by a few well paid workers. In the exhibit, the high paying sectors show workers earning medians of $60,201 (*K-12 education*) to $73,279 (*mostly professions and management firms*). Earnings of $46,708 (*logistics*) to $52,604 (*construction*) are the blue collar and moderately paid office workers. The lower paying sectors at median earnings of $29,068 (*tourism*) to $30,768 (*population serving and other service groups*).

INLAND EMPIRE EMPLOYMENT: 43,042 New Jobs; Up 3.0% in 2017

With the twelve monthly estimates of the Inland Empire's job growth from 2016-2017 completed, the difficulty analysts face is that CA Employment Development Department (*EDD*) estimates (*43,042 new jobs; 3.0%*) must now be revised to hard data findings by U.S. Bureau of Labor Statistics (*BLS*). At mid-year, BLS's put growth at 43,766 jobs, up 3.2%. EDD found 3.6% job growth at mid-year slowing to 2.9% in the second half, an unusually strong drop. Still, the annual averages from EDD's monthly surveys appears to give a relatively good idea of the share of growth in 2017 for each sector (*Exhibit 9*).

8 INLAND EMPIRE EMPLOYMENT INFORMATION 2016-2017

Sector	Dec-2016	Dec-2017	Change	2016 Chg.	2017p Chg.	Growth	Share	CA Share
Health Care	135,300	138,300	3,000	4,450	3,442	2.7%	8.0%	9.8%
Mgmt & Professions	48,900	50,500	1,600	325	1,392	2.3%	3.2%	5.5%
Local Government	77,500	77,500	0	1,783	842	1.5%	2.0%	4.7%
Federal & State	38,100	38,600	500	475	525	1.4%	1.2%	0.6%
Higher Education	19,200	20,500	1,300	708	383	1.4%	0.9%	5.4%
Utilities	5,200	5,200	0	(67)	(58)	-1.5%	-0.1%	-0.2%
Mining	900	800	(100)	(408)	(25)	-2.6%	-0.1%	-0.5%
Information	11,600	11,500	(100)	158	(133)	-1.1%	-0.3%	2.6%
Clean Work, Good Pay	**336,700**	**342,900**	**6,200**	**7,425**	**6,367**	**1.9%**	**14.8%**	**27.8%**
K-12 Education	130,900	134,500	3,600	5,117	2,883	2.1%	6.7%	10.0%
Financial Activities	46,200	47,800	1,600	1,308	1,100	2.5%	2.6%	3.1%
Clean Work, Moderate Pay	**177,100**	**182,300**	**5,200**	**6,425**	**3,983**	**2.2%**	**9.3%**	**13.1%**
Construction	94,600	108,900	14,300	6,808	14,150	15.2%	32.9%	13.7%
Logistics	172,000	176,500	4,500	8,433	6,208	4.0%	14.4%	8.8%
Manufacturing	100,000	100,800	800	2,833	1,283	1.5%	3.0%	-2.3%
Dirty Work, Moderate Pay	**366,600**	**386,200**	**19,600**	**18,075**	**21,642**	**6.3%**	**50.3%**	**20.2%**
Eating & Drinking	126,200	133,800	7,600	6,300	5,342	4.0%	12.4%	12.4%
Social Assistance	64,200	68,900	4,700	3,767	2,842	3.6%	6.6%	10.9%
Amusement	21,100	23,700	2,600	733	1,417	6.5%	3.3%	2.3%
Other Services	45,900	46,900	1,000	1,108	1,225	3.1%	2.8%	3.8%
Admin. Support	51,500	54,500	3,000	1,817	958	1.0%	2.2%	6.2%
Retail Trade	191,000	189,900	(1,100)	4,725	683	0.5%	1.6%	1.9%
Accommodation	18,100	18,800	700	992	608	3.4%	1.4%	1.0%
Agriculture	14,200	13,900	(300)	(125)	(942)	-7.2%	-2.2%	1.7%
Employment Agcy	47,500	47,800	300	(3,742)	(1,083)	-2.7%	-2.5%	-1.2%
Lower Paying Jobs	**579,700**	**598,200**	**18,500**	**15,575**	**11,050**	**1.7%**	**25.7%**	**39.0%**
Total, All Industries	**1,460,100**	**1,509,600**	**49,500**	**47,500**	**43,042**	**3.0%**	**100.0%**	**100.0%**
Civilian Labor Force	2,009,500	2,046,900	37,400					
Employment	1,906,200	1,962,900	56,700					
Unemployment	103,300	84,000	(19,300)					
Unemployment Rate	**5.1%**	**4.1%**	**-1.0%**					

Source: Employment Development Department

CLEAN WORK, GOOD PAY: 6,367 JOBS; 1.9% GROWTH; 14.8% SHARE

Job growth from 2016-2017 in sectors that pay a median of over $60,000 is estimated at 6,367, up 1.9% from 2016-2017 and 14.8% of new jobs. Health care led, up 3,442 (*2.7%*). Management and professions added 1,392 jobs (*2.3%*). Local government grew by 842 positions (*1.5%*). Federal and state government grew a little (*525 jobs; 1.4%*). High education's growth was 383 (*1.4%*). Utilities lost -58 jobs (*-0.1%*). Mining contracted (*-25; -2.6%*). Information was down 133 positions or -1.1%. This group represented 14.8% of new jobs in 2017 compared to 27.8% for California.

CLEAN WORK, MODERATE PAY: 3,983 JOBS; 2.2% GROWTH; 9.3% SHARE

From 2016-2017, the Inland Empire's sectors paying moderate incomes (*$45,000-$60,000*) to office-based workers are estimated to have gained 3,983 workers (*2.2%*) and 9.3% share of new jobs. This group represented 13.1% of California's new jobs in 2017. K-12 education added 2,883 jobs (*2.1%*) with a stronger state budget. Finance, insurance and real estate groups increased by 1,100 positions (*2.5%*).

DIRTY WORK, MODERATE PAY: 21,642 JOBS; 6.3% GROWTH, 50.3% SHARE

Blue collar and technical jobs in the Inland Empire (*$45,000-$60,000*) grew by 21,642 jobs (*6.3%*) during 2017. Construction added 14,150 jobs (*15.2%*) as infrastructure and industrial projects continued and home building saw some life. Distribution and transportation added 6,208 workers (*4.0%*). Manufacturing gained 1,283 jobs (*1.5%*) despite the difficulty of doing business in California. For 2017, the group represented 50.3% of new jobs compared to 20.2% for California. Anecdotal evidence seems to indicate that EDD's numbers overestimate construction and underestimate logistics.

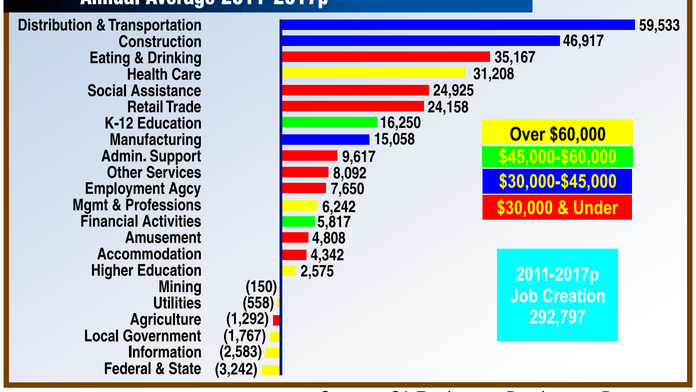
LOWER PAYING JOBS: 11,050 JOBS; 1.7% GROWTH; 25.7% SHARE

The Inland Empire's lower paying sectors (*$30,000 or less*) added 11,050 jobs (*1.7%*) in 2017 and 25.7% share of overall job growth. California saw these sectors account for 39.0% of the state's growth. The fastest growth was in eating & drinking group which resumed its rapid expansion up 5,342 jobs (*4.0%*). Social assistance was next (*2,842; 3.6%*) followed by amusement (*1,417 jobs; 6.5%*). Consumer services like auto repairs grew by 1,225 (*3.1%*). Firms providing services to office firms were up 958 jobs (*1.0%*). Retail trade felt the impact of e-commerce and added only 683 workers (*0.5%*). Accommodation added 608 jobs (*3.4%*). Declines occurred in agriculture (*-942; -7.2%*) and employment agencies (*-1,083; -2.7%*).

COMMENT

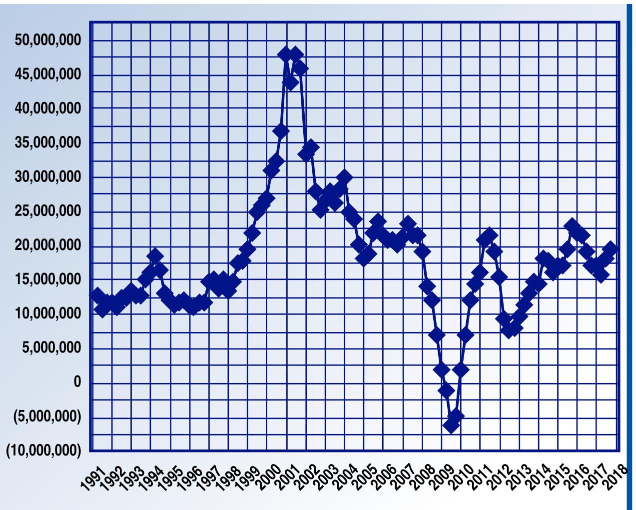
Last year, the QER forecasted that 2017 would see 46,600 more jobs in 2017, up 3.3%. EDD's preliminary estimate for 2017 has come in at 43,042 new jobs and growth of 3.0%. Unemployment was forecasted at 5.6% for the full year. EDD has estimated it at 5.0%. EDD's data will be revised in March 2018 to show the actual results. With these new estimates, the Inland Empire has added 292,797 jobs in 2011 through 2017 (*Exhibit 9*) and exceeds its pre-recession level in 2007 by 151,575 locally employed workers or 11.7%.

9 INLAND EMPIRE GROWING & DECLINING SECTORS Annual Average 2011-2017p



Sources: CA Employment Development Department, U.S. Bureau of Labor Statistics, Economics & Politics, Inc.
2017p = Preliminary

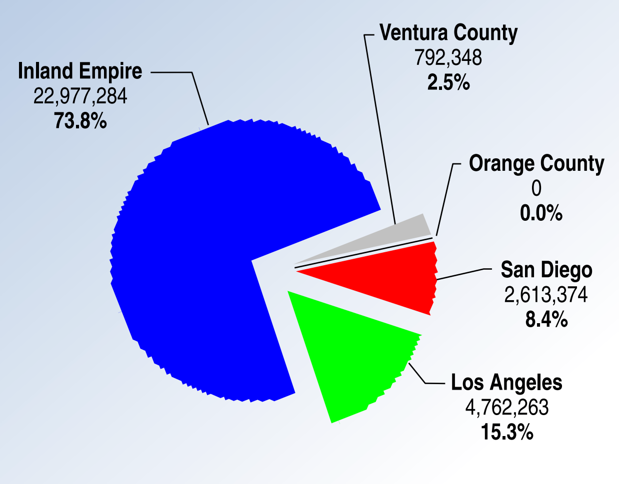
10 INDUSTRIAL SPACE NET ABSORPTION
Inland Empire, 1991-Present (moving 4-quarter total)



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

Industrial Space Net Absorption. For the four quarters ended in December 2016, industrial firms took a net of 17.1 million square feet of Inland Empire space. That was down from a peak of 23.1 million for 2016 but still quite strong. Absorption is coming partly due to the continued growth of imported cargo at the ports of L.A. and Long Beach which tied for its second strongest year at 8.0 million 20-foot equivalent containers. Importantly, the surge in large new fulfillment centers in the inland area has continued. They are needed to process and ship goods to families throughout Southern California in the rapidly expanded e-commerce market. Absorption brought the vacancy rate down to a very low 4.0%.

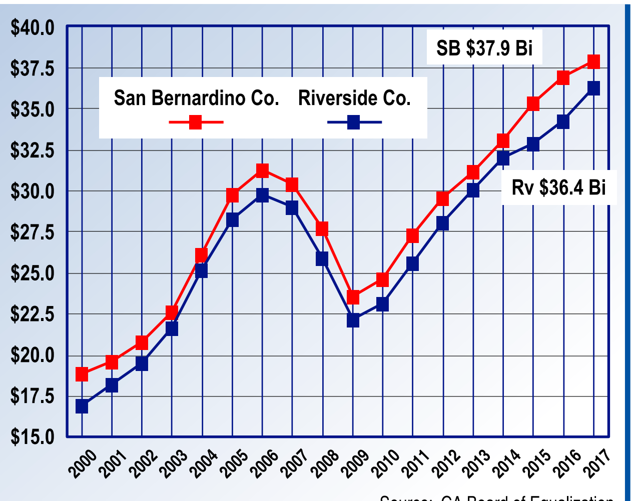
11 INDUSTRIAL SPACE UNDER CONSTRUCTION
Southern California Market, December 2016



Sources: CB Richard Ellis

Industrial Construction. One reason that the Inland Empire's construction employment has strengthen has been the strong demand to build new industrial facilities for international trade and e-commerce operations. In December 2016, 21.2 million square feet were under construction or 78.3% of the space being built in Southern California. That was 4.5 times the amount in second placed Los Angeles County. Completed facilities in L.A. County totaled 935.3 million square feet while it was 485.5 million in the Inland Empire (not shown). The local inventory is now 51.7% of the 939.2 million in Los Angeles County.

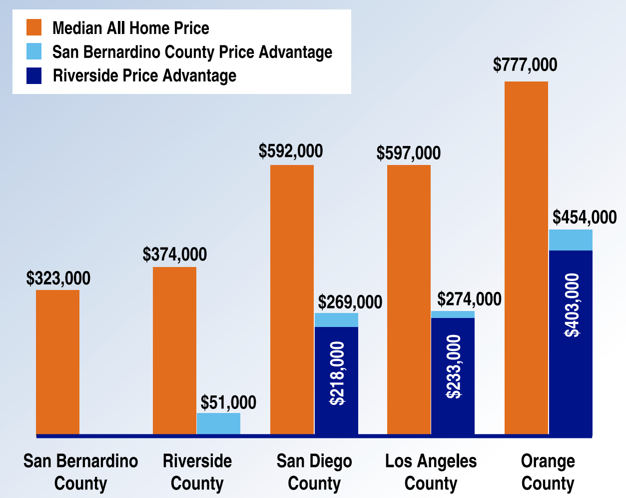
12 TAXABLE RETAIL SALES
Inland Empire, 2000-2016e (billion)



Source: CA Board of Equalization
2015-2016e Based upon Hinderliter DeLlamas Data

Taxable Sales. A major issue facing the Inland Empire's local governments and transportation agencies was the deep decline in taxable retail sales during the Great Recession. Volume peaked at $61.1 billion in 2006, but fell -24.9% to $45.9 billion by 2009. Volume has since steadily increased reaching $71.0 billion in 2016. That was a record, 16.2% above 2006. However, Southern California prices rose 17.2% in this period. The purchasing power of the sales taxes collected in 2016 have not quite matched the 2006 record. The increase was 17.6% in San Bernardino County which outpaced inflation. It was 4.7% in Riverside County.

13 HOME PRICES, SOUTHERN CALIFORNIA MARKETS
Median Priced New & Existing Home, 4th Quarter 2016



Source: Dataquick

Home Price Advantage. In fourth quarter 2016, the median priced of new and used San Bernardino County homes was $295,000. That was $257,000 less than the $552,000 in Los Angeles County, $266,000 below the $561,000 in San Diego County and $445,000 below Orange County's $740,000. Homes sold for $348,000 in Riverside County. That was $204,00 below Los Angeles, $213,00 under San Diego and $392,000 below San Diego. These enormous price differentials have historically caused numerous families to migrate inland. To date, this has not happened likely due to the pervasive fears developed by consumers during the Great Recession's housing collapse. With mortgage defaults lower than before 2000 and Millennials now entering family formation ages, normal demand should begin re-emerging.

14 HOME PRICES
4th Quarter, 2016-2017

County	4th Qtr-16	4th Qtr-17	% Chg.
NEW HOMES			
Riverside	$420,000	$422,500	0.6%
San Bernardino	426,000	462,000	8.5%
Los Angeles	578,000	620,750	7.4%
Orange	867,500	869,000	0.2%
San Diego	690,000	613,000	-11.2%
Ventura	570,000	810,000	42.1%
So. California	$607,900	$613,100	0.9%
EXISTING HOMES			
Riverside	$334,000	$365,000	9.3%
San Bernardino	280,000	300,000	7.1%
Los Angeles	550,000	595,000	8.2%
Orange	705,000	750,000	6.4%
San Diego	545,000	588,000	7.9%
Ventura	577,750	620,000	7.3%
So. California	$489,700	$526,100	7.4%

Source: Dataquick

15 HOME DEED RECORDINGS
Inland Empire, 4th Quarter, 2016-2017

NEW HOMES				EXISTING HOMES			
Area	4th-2016	4th-2017	% Chg.	Area	4th-2016	4th-2017	% Chg.
SB Mountains	7	12	71.4%	SB Desert	803	963	19.9%
Victor Valley	87	144	65.5%	Victor Valley	723	773	6.9%
San Bdno-Highland	80	130	62.5%	West of I-15	519	534	2.9%
I-15 to I-215	122	186	52.5%	I-15 to I-215	457	460	0.7%
West of I-15	387	546	41.1%	San Bdno-Highland	1,231	1,228	-0.2%
East of I-215	46	31	-32.6%	East of I-215	1,290	1,277	-1.0%
SB Desert	8	4	-50.0%	SB Mountains	987	944	-4.4%
SAN BDNO COUNTY	**737**	**1,053**	**42.9%**	**SAN BDNO COUNTY**	**6,010**	**6,179**	**2.8%**
Pass Area	129	207	60.5%	Coachella Valley	1,139	1,288	13.1%
Moreno Valley	44	62	40.9%	Rural Desert	519	562	8.3%
I-215 South	322	340	5.6%	Corona, Norco	780	778	-0.3%
I-15 South	380	363	-4.5%	Moreno Valley	614	602	-2.0%
Coachella Valley	67	64	-4.5%	I-15 South	1,596	1,546	-3.1%
Rural Desert	60	41	-31.7%	Pass Area	420	392	-6.7%
Corona, Norco	302	195	-35.4%	I-215 South	1,728	1,610	-6.8%
Riverside	184	108	-41.3%	Riverside	1,019	939	-7.9%
RIVERSIDE COUNTY	**1,488**	**1,380**	**-7.3%**	**RIVERSIDE COUNTY**	**7,815**	**7,717**	**-1.3%**
INLAND EMPIRE	**2,225**	**2,433**	**9.3%**	**INLAND EMPIRE**	**13,825**	**13,896**	**0.5%**

Source: Dataquick

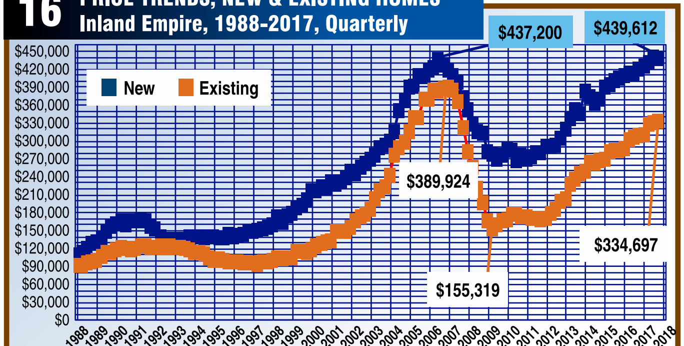
INLAND EMPIRE: Housing Volumes Some Growth, Home Prices Soaring

In second quarter 2006, the Inland Empire's median new home price peaked at $437,200, with existing homes reaching $389,924 in first quarter 2007. Prices then plunged with new homes reaching a low of $268,155 in third quarter 2010 (*-38.7%*) and existing home hitting $155,319 in second quarter 2009 (*-60.2%*). Both prices have since gained significant ground to a record $439,612 for new homes and $334,697 for existing homes in fourth quarter 2017. The new home price is 0.6% above the prior peak. The existing home price is now -14.2% below its peak. With FHA's 2018 conforming loan maximum at $453,100, it is difficult for home buyers to finance most new homes or existing homes in higher priced inland markets (*Exhibit 16*).

Volume. While home prices have recently increased significantly, volume has been essentially stuck in a 15,000-16,500 range for the past eight years reaching 16,493 seasonally adjusted sales in fourth quarter 2017 (*not shown*). Some added growth should return to the market in 2018. This is the case since notices of default for inland homes are the lowest since before 2000, while San Bernardino County's combined median home price (*$323,000*) is $269,000 to $454,000 below prices in the coastal counties and Riverside County's combined median (*$374,000*) is $218,000 to $403,000 lower (*see Exhibit 13, page 6*).

Looking at raw volume data, Riverside County had 7,717 existing home sales in fourth quarter 2017, down -1.3% from 7,815 in 2016 (*Exhibit 15*). San Bernardino County had 6,179 existing home sales, up 2.8% from 6,010 in fourth quarter 2016. By submarket, Riverside's Coachella Valley had the largest percentage gain (*1,288; 13.1%*) with I-215 South the volume leader (*1,610; -6.8%*). In San Bernardino County, the outlying desert areas led in percentage gain (*19.9%; 963*) while the area west of the I-15 led in volume (*1,277; -1.0%*).

16 PRICE TRENDS, NEW & EXISTING HOMES
Inland Empire, 1988-2017, Quarterly



Source: Dataquick & Economics & Politics, Inc.

New home sales are a mixed picture. Riverside County's fourth quarter 2017 volume was 1,380, down -7.3% from 1,488 in 2016 with the largest percentage gain was in the Pass Area (*207, 60.5%*). The volume leader was I-15 South (*363; -4.5%*). San Bernardino County's volume was 1,053, up 42.9% from fourth quarter 2016's volume of 737. The mountain area had the highest percentage gain (*12; 71.4%*). The area west of the I-15 freeway led in volume (*546; 41.1%*).

Prices. Riverside County's $422,500 new home price in fourth quarter 2017 was up 0.6% from the prior year's $420,000 (*Exhibit 14*). Its $365,000 existing home price was up 9.3% from $334,000 in fourth quarter 2016. San Bernardino County's new home price of $462,000 was up 8.5% from its fourth quarter 2016 price of $426,000. Its fourth quarter 2017 existing home price of $300,000 was up 7.1% from fourth quarter last year (*$280,000*). In Southern California, the fourth quarter 2017 new home median price was up 0.9% from $607,900 in 2016 to $613,100; the existing home median increased 7.4% from $489,700 to 526,100.

Looking Ahead. As was the case in 2016, the enormous difference in price between new and existing homes in the inland counties versus that in the coastal counties did not cause buyers to aggressively migrate inland in 2017, despite the qualifying income for the median existing home of $68,750. In addition, the fact that inland affordability is 43% versus 21% to 26% in the coastal counties has not yet overcome buyers' fears of large purchases, long commutes or the lack of Millennial housing formation and demand. The unknown is the extent to which that will change in 2018 as the Inland Empire and coastal economies continue overcoming the psychological effects created by the Great Recession. ■