



# The California Monitor

October 2008

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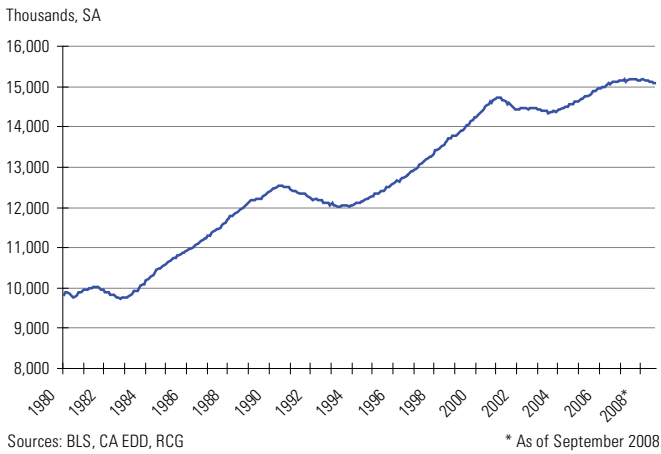
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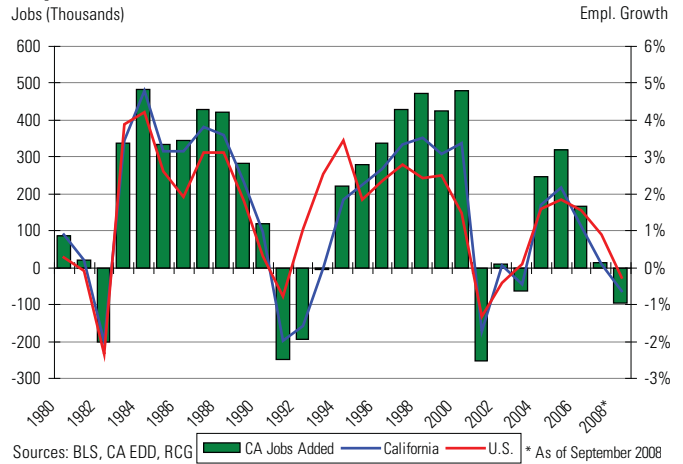
# California: Employment

## Total Non-Farm Employment: California



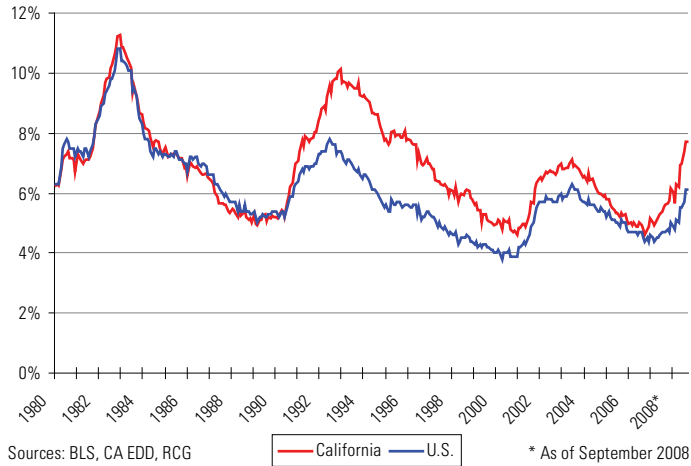
- Total employment declined 0.6% in California during the 12 months through September, with the loss of roughly 94,100 jobs. At the end of September, total non-farm employment accounted for roughly 15.1 million jobs, down from the peak of nearly 15.2 million jobs at the end of January 2008.

## Employment Growth: California vs. U.S.



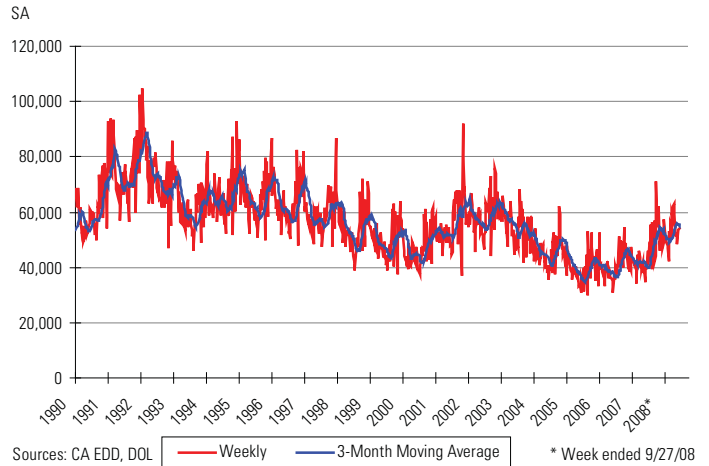
- Job losses in California are outpacing the national downturn. During the 12 months ending in June, total employment contracted 0.6% in California, compared with 0.3% nationally. California was among the first places in the country to enter the recession.

## Unemployment Rate: California vs. U.S.



- Since the early 1990s, unemployment in California has exceeded the national rate. However, the gap is widening, totaling 160 basis points in September, compared with 90 basis points during the same period a year earlier. In September, the unemployment rate was 7.1% in California and 6.1% nationally.

## Unemployment Insurance Claims: California



- At the end of September, the three-month moving average of initial claims was 55,548, reflecting an increase compared with the past few years. Nonetheless, claims regularly exceeded 60,000 at the beginning of the decade and throughout much of the 1990s.

# California: Employment

## California Non-Farm Payroll Employment

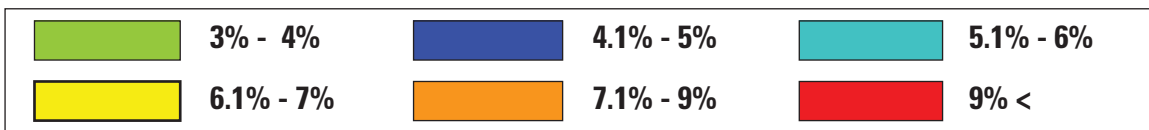
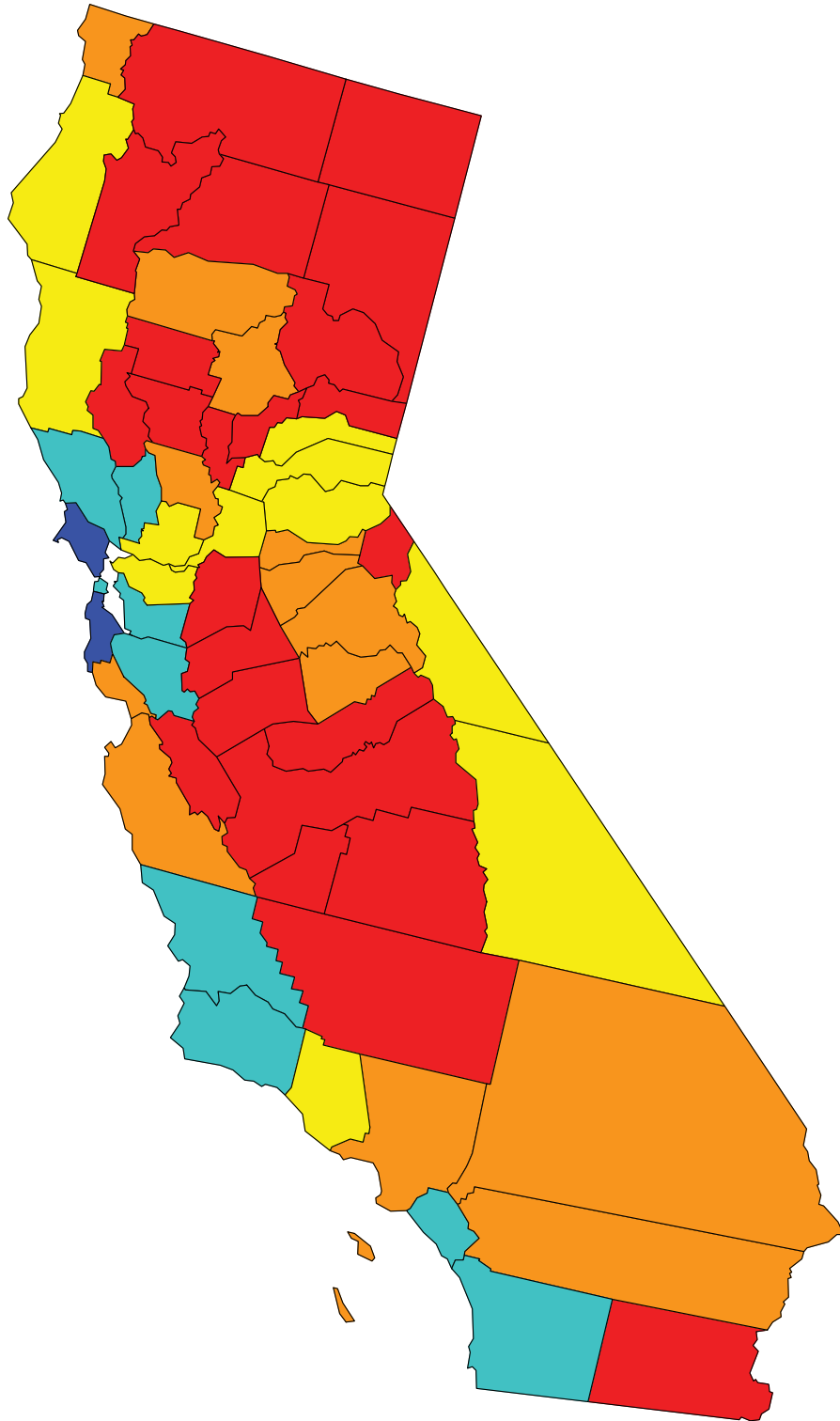
Year-End Levels (Thousands, SA)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	Sept-08 vs. Sept-07
Total Non-Farm	14,220.6	14,701.0	14,448.1	14,457.2	14,395.3	14,638.2	14,963.8	15,139.3	15,148.2	15,078.5
% Change	3.1%	3.4%	-1.7%	0.1%	-0.4%	1.7%	2.2%	1.2%	0.1%	-0.6%
Natural Rsrcs. & Mining	26.2	27.0	24.3	22.8	22.7	22.9	24.3	25.3	25.7	26.7
% Change	-3.5%	3.0%	-9.8%	-6.5%	-0.2%	0.9%	6.2%	3.9%	1.6%	3.7%
Construction	712.0	765.6	772.7	781.5	817.8	869.9	940.2	914.6	855.5	800.5
% Change	8.2%	7.5%	0.9%	1.1%	4.6%	6.4%	8.1%	-2.7%	-6.5%	-8.8%
Manufacturing	1,833.7	1,873.4	1,683.7	1,590.3	1,523.8	1,509.3	1,498.2	1,478.4	1,451.7	1,430.2
% Change	-0.1%	2.2%	-10.1%	-5.5%	-4.2%	-0.9%	-0.7%	-1.3%	-1.8%	-1.8%
Trade, Trans. & Util.	2,686.7	2,764.3	2,708.0	2,729.0	2,723.2	2,781.5	2,861.6	2,904.9	2,897.4	2,884.2
% Change	2.9%	2.9%	-2.0%	0.8%	-0.2%	2.1%	2.9%	1.5%	-0.3%	-1.0%
Information Services	537.3	596.3	519.0	476.0	474.7	481.3	474.7	460.3	471.8	473.2
% Change	7.4%	11.0%	-13.0%	-8.3%	-0.3%	1.4%	-1.4%	-3.0%	2.5%	-1.5%
Financial Activities	808.6	816.1	847.1	870.3	891.6	911.5	941.4	925.4	885.4	864.1
% Change	1.0%	0.9%	3.8%	2.7%	2.4%	2.2%	3.3%	-1.7%	-4.3%	-3.5%
Prof. & Business Svcs.	2,151.5	2,266.7	2,122.2	2,109.2	2,070.5	2,125.4	2,189.4	2,269.4	2,271.1	2,270.4
% Change	4.7%	5.4%	-6.4%	-0.6%	-1.8%	2.7%	3.0%	3.7%	0.1%	0.2%
Educ. & Health Svcs.	1,385.4	1,402.1	1,479.2	1,518.4	1,549.6	1,572.1	1,599.9	1,631.7	1,686.7	1,721.9
% Change	2.5%	1.2%	5.5%	2.7%	2.1%	1.4%	1.8%	2.0%	3.4%	2.9%
Leisure & Hospitality	1,319.4	1,353.4	1,364.1	1,391.7	1,417.2	1,455.4	1,496.8	1,540.3	1,557.2	1,564.5
% Change	2.8%	2.6%	0.8%	2.0%	1.8%	2.7%	2.8%	2.9%	1.1%	0.8%
Other Services	482.5	493.1	501.9	507.0	502.8	504.5	504.3	510.5	517.4	513.4
% Change	3.3%	2.2%	1.8%	1.0%	-0.8%	0.3%	0.0%	1.2%	1.3%	-0.3%
Government	2,274.7	2,338.9	2,420.5	2,455.1	2,397.2	2,401.2	2,430.2	2,474.0	2,523.2	2,532.5
% Change	3.3%	2.8%	3.5%	1.4%	-2.4%	0.2%	1.2%	1.8%	2.0%	1.1%

Sources: BLS, CA EDD, RCG



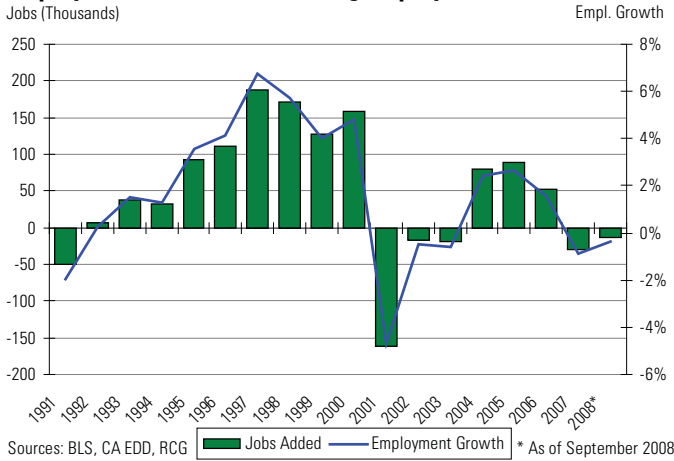
# California: Unemployment Rate by County



Note: As of September 2008, SA  
Sources: CA EDD, RCG

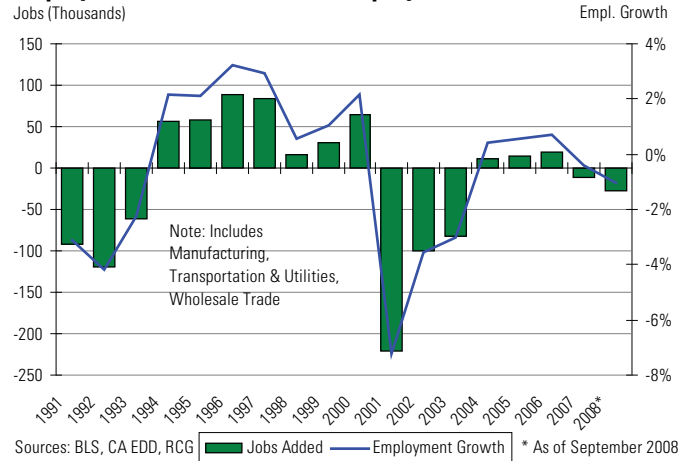
# California: Sector Employment

## Employment Growth: Office-Using Employment



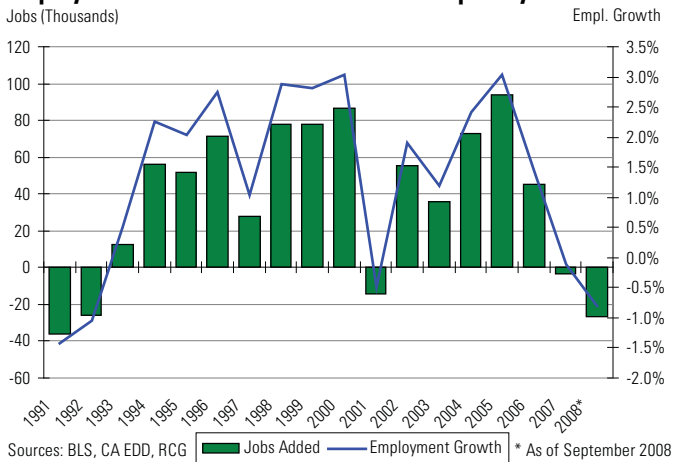
- Office-using employment shed 13,000 jobs during the 12 months ending in September, contracting 0.4%. Trouble in the financial and housing markets is the main contributor to these losses, which gained momentum in 2007, when office-using employment declined 0.9%. Among the major office-using sectors, the financial activities sector has been hit the hardest.

## Employment Growth: Industrial Employment



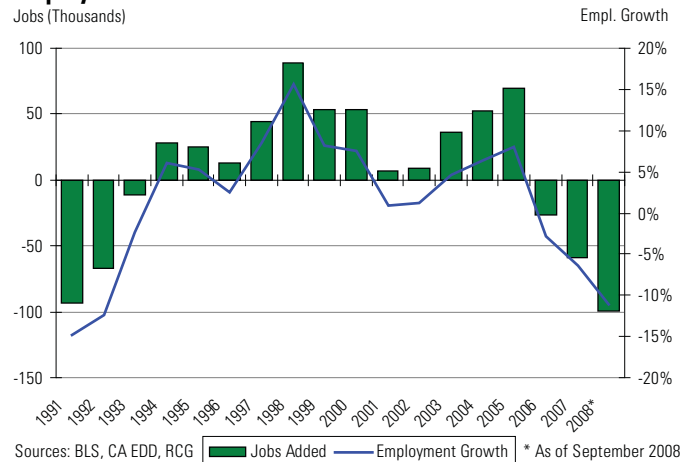
- The weakening national economy and continuing statewide recession are contributing to industrial job losses. During the 12 months ending in September, industrial employment contracted 1.0%, with the loss of 28,000 jobs. By comparison, industrial employment declined 0.4% in 2007, with small gains between 2003 and 2005.

## Employment Growth: Retail + Leisure & Hospitality



- Slowing consumer spending is negatively affecting retail and leisure and hospitality employment. During the 12 months ending in September, the sectors shed 26,000 jobs combined, contracting 0.8%. In contrast, the sectors combined grew an average of 2.0% annually between 2002 and 2006. Tight credit and falling home values are contributing to declining spending.

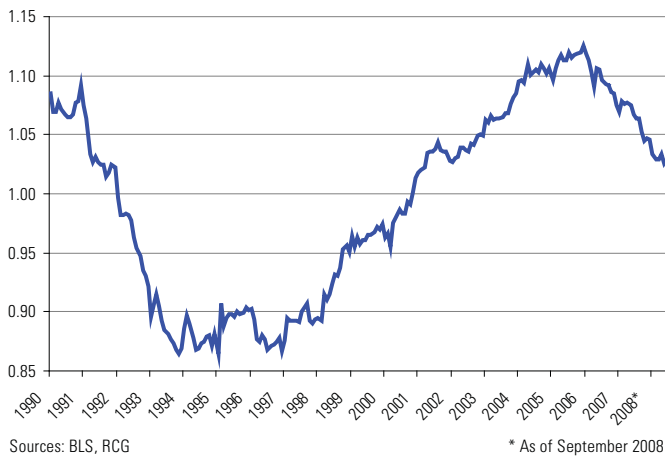
## Employment Growth: Construction



- Ongoing trouble in the housing market and tight credit access for construction loans is slowing building activity in the state. During the 12 months ending in September, construction employment was down 11.0%, with the loss of 99,000 jobs. Moreover, the sector declined 6.5% in 2007 and 2.8% in 2006, compared with 6.2% average annual growth between 1994 and 2005.

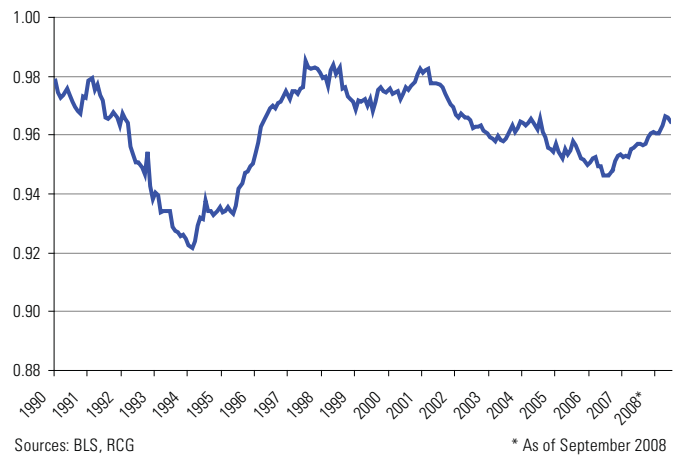
# California: Location Quotients

## Location Quotient: Construction



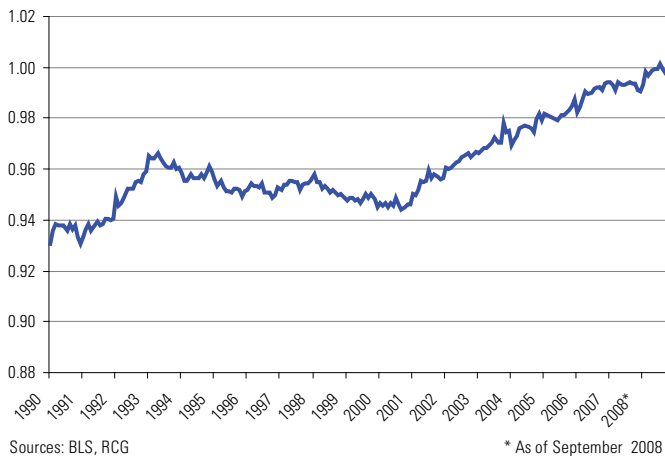
- Losses in the construction sector in the state of California are outpacing those throughout the nation as a whole, causing the location quotient to decline. During September, the location quotient was 1.02, down from 1.05 during the same period a year earlier, and 1.12 in September of 2005. The concentration of construction employment is now roughly equal to the concentration nationally.

## Location Quotient: Manufacturing



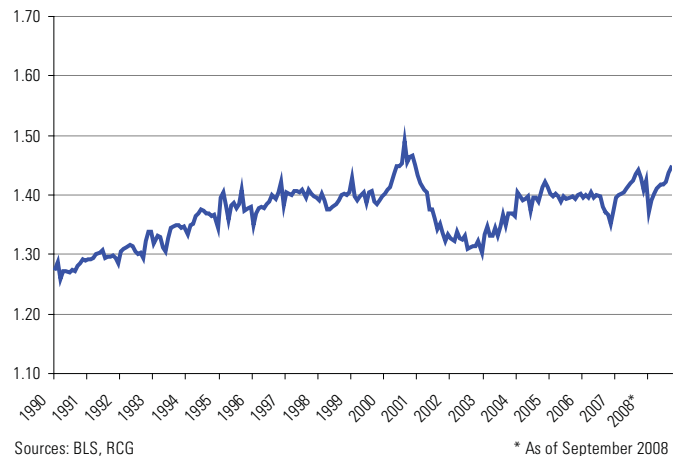
- Even with weakness in the manufacturing sector, the location quotient for manufacturing is gradually rising, as national losses outpace those locally. During September, the location quotient was 0.97, up from 0.95 two years earlier. However, the concentration of manufacturing employment is still lower than the national average.

## Location Quotient: Trade, Transportation & Utilities



- The concentration of trade, transportation and utilities employment in California is roughly on par with the rest of the country, measuring slightly less than 1.00 during September. Throughout the decade, employment growth in the sector has outpaced the nation, bringing the concentration closer to the national average.

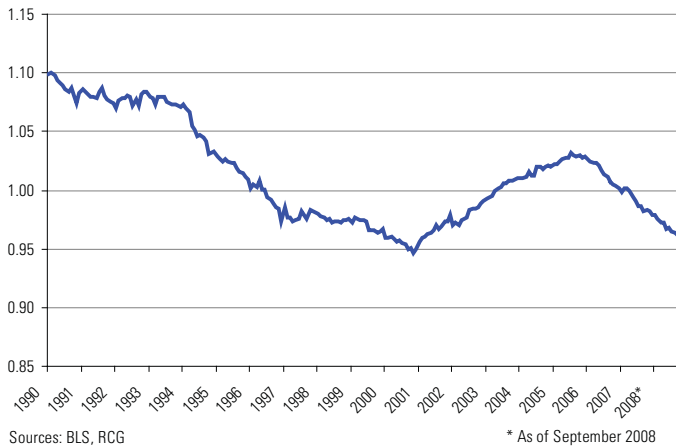
## Location Quotient: Information Services



- The concentration of information services jobs in California is higher than the concentration nationally, with a location quotient of 1.45 during September. Throughout the last decade, the information services location quotient has consistently remained around 1.4.

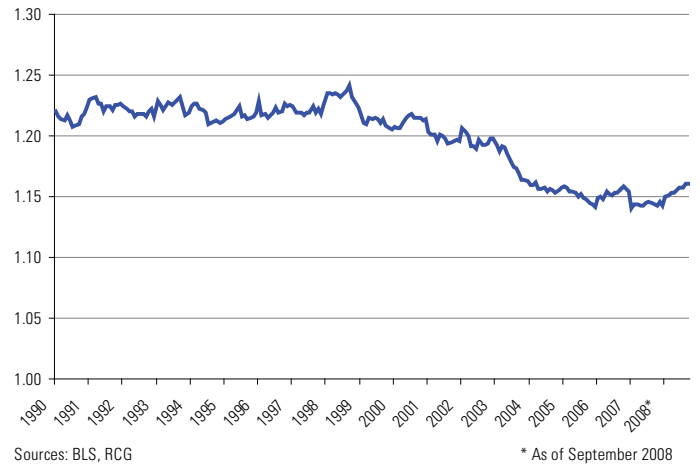
# California: Location Quotients

**Location Quotient: Financial Activities**



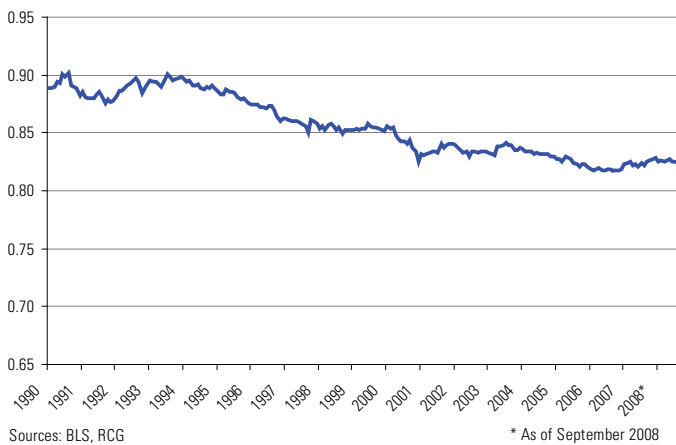
- Sharp losses at financial activities firms have contributed to a decline in the location quotient. During September, the location quotient was 0.96, down from 0.98 a year earlier, and 1.01 during the same period in 2006. The concentration of financial activities jobs in California is now lower than in the nation as a whole.

**Location Quotient: Professional & Business Services**



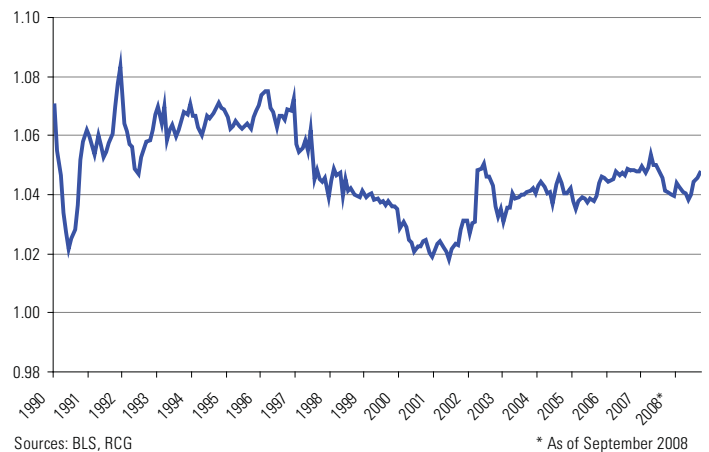
- The concentration of professional and business services jobs is higher in California than throughout the nation as a whole, measuring 1.16 in September. Throughout the past decade, the location quotient declined slightly, but remained close to 1.2.

**Location Quotient: Educational & Health Services**



- Despite strong growth in the sector during recent years, educational and health services employment lags the nation as a whole. During September, the location quotient was 0.82, unchanged from a year earlier. In general, the educational and health services location quotient has trended downward since the early 1990s.

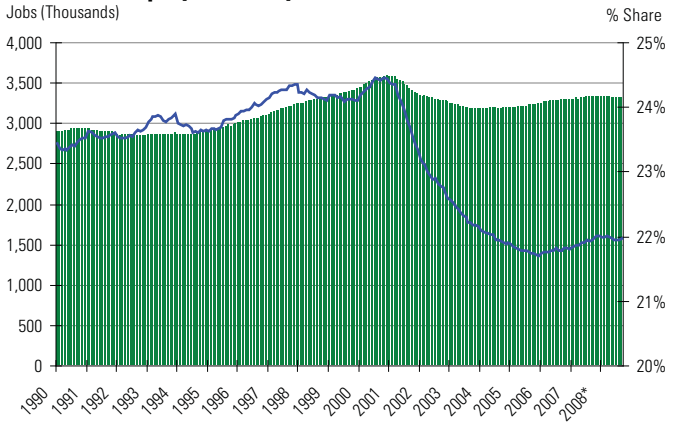
**Location Quotient: Leisure & Hospitality**



- The concentration of leisure and hospitality jobs in California is roughly the same as throughout the nation as a whole. During September, the location quotient was 1.04, compared with 1.05 a year earlier. Declining discretionary income is contributing to layoffs in the sector both locally and nationally.

# California: Regional Employment

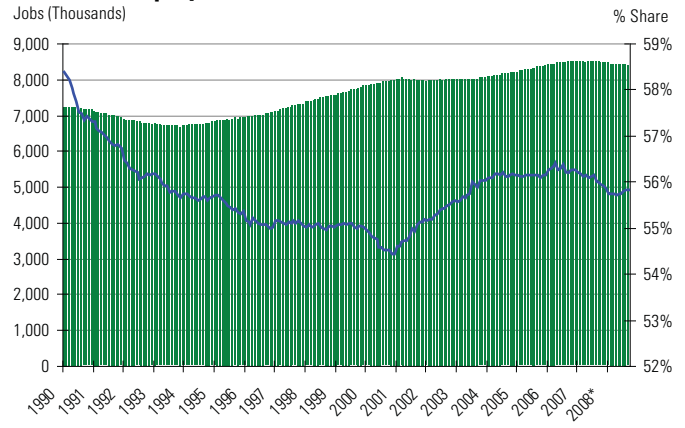
## Non-Farm Employment: Bay Area



Sources: BLS, CA EDD, RCG \* As of September 2008

- Declining payroll levels in construction and financial activities employment, as well as payroll contraction in the once seemingly infallible tech industry through 2008, resulted in a 0.5% year-over-year drop in Bay Area employment in September 2008. This marks the fourth consecutive month of year-over-year job declines in the region.

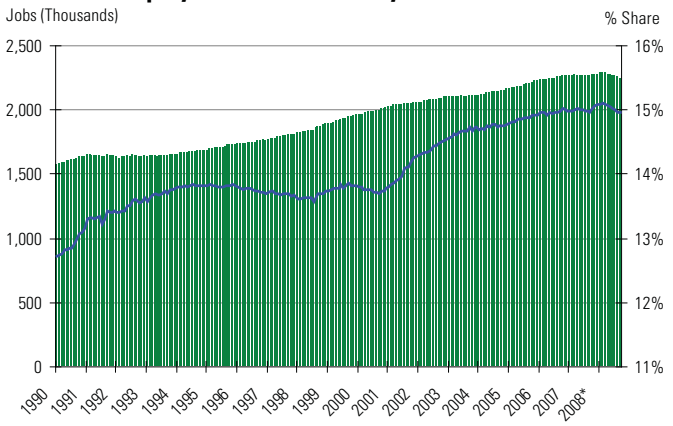
## Non-Farm Employment: Southern California



Sources: BLS, CA EDD, RCG \* As of September 2008

- Southern California employment levels declined by 1% during the previous twelve-month period ending September 2008, which is well above the 0.6% decline in jobs statewide. Despite the loss of more than 81,000 jobs during this time, with losses primarily in housing- and mortgage market-related industries, more than 55% of all jobs in California are in the five-county, Southern California region.

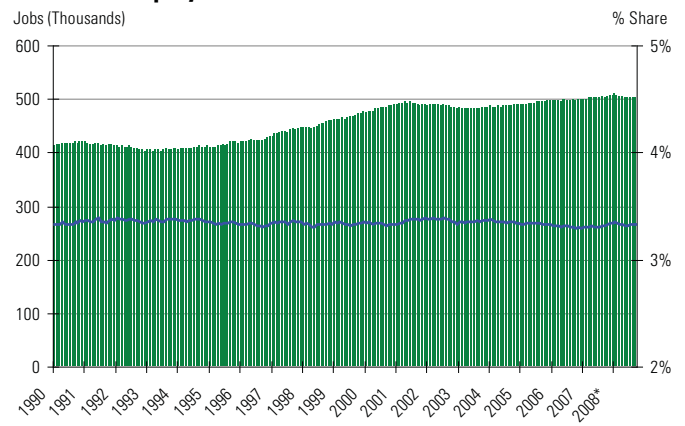
## Non-Farm Employment: Central Valley



Sources: BLS, CA EDD, RCG \* As of September 2008

- Through the second half of 2008, steady payroll declines in the construction and financial activities sectors resulted in a 0.6% reduction in Central Valley employment, marking the fourth consecutive month of year-over-year job declines in the region. The epicenter of the state's housing woes, employment in the Central Valley as a percentage of statewide employment has seemingly plateaued at 15%, following a steady increase since the beginning of the decade.

## Non-Farm Employment: Central Coast



Sources: BLS, CA EDD, RCG \* As of September 2008

- Following a 0.2% year-over-year decline in Central Coast employment through August 2008, employment growth increased by 0.1% in September 2008. Although Central Coast employment gradually expanded by 27,000 jobs since the beginning of the decade, the 500,000 jobs in the Central Coast economy constitute only 3% of statewide employment.

## California: MSA Comparison

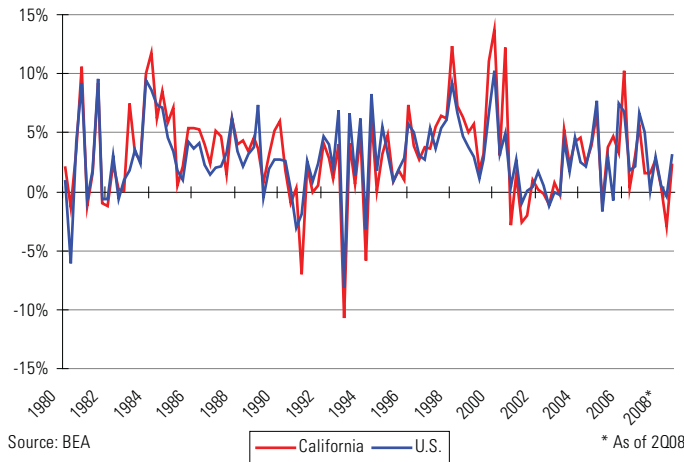
### California MSA Employment Ranked by Percent Growth in Jobs, SA

Rank	MSA	Sep-08	Sep-07	Absolute Change (000)	Percent Change
1	Hanford-Corcoran	36.4	35.5	0.9	2.5%
2	Merced	59.2	58.2	0.9	1.6%
3	Bakersfield	242.0	239.3	2.8	1.2%
4	Salinas	130.1	128.8	1.3	1.0%
5	El Centro	46.8	46.3	0.4	0.9%
6	San Francisco	997.7	992.4	5.4	0.5%
7	Santa Cruz	97.0	96.5	0.5	0.5%
8	Madera	34.8	34.7	0.1	0.4%
9	Chico	76.3	76.0	0.2	0.3%
10	San Jose	910.3	909.3	1.0	0.1%
11	Santa Barbara	173.1	173.3	-0.2	-0.1%
12	Fresno	304.1	304.5	-0.4	-0.1%
13	Santa Rosa	189.5	190.0	-0.5	-0.3%
14	San Diego	1,304.3	1,308.9	-4.6	-0.3%
15	Stockton	211.2	212.3	-1.1	-0.5%
16	Los Angeles	4,098.4	4,120.4	-22.0	-0.5%
17	Modesto	157.8	159.1	-1.3	-0.8%
18	Redding	64.6	65.2	-0.6	-0.9%
19	Napa	62.6	63.3	-0.7	-1.0%
20	Sacramento	891.2	901.8	-10.6	-1.2%
21	San Luis Obispo	103.1	104.4	-1.2	-1.2%
22	Inland Empire	1,247.0	1,266.2	-19.2	-1.5%
23	Vallejo	124.7	126.9	-2.3	-1.8%
24	Orange County	1,478.7	1,507.7	-29.0	-1.9%
25	Visalia	111.4	113.7	-2.3	-2.0%
26	Oakland	1,026.6	1,047.4	-20.9	-2.0%
27	Ventura	288.5	295.4	-6.9	-2.3%
28	Yuba	39.1	41.9	-2.7	-6.5%

Sources: BLS, CA EDD, RCG

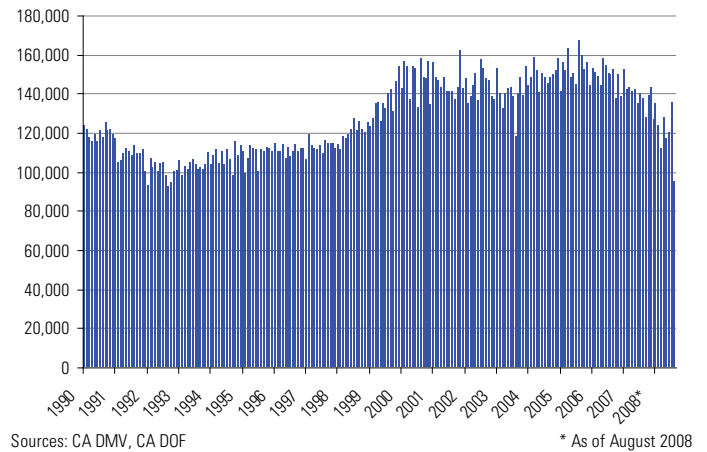
# California: Other Economic Indicators

## Real Personal Income: California vs. U.S.



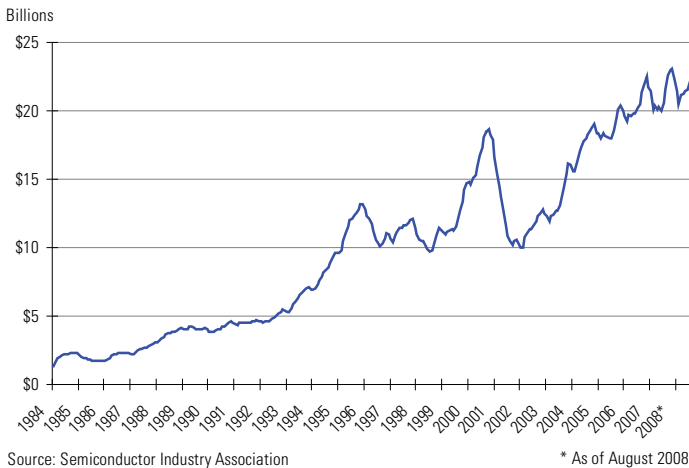
- Real personal income growth in California rose to an annualized rate of 2.3% in the second quarter of 2008 from -2.9% in the first quarter of 2008. This increase is largely a result of the rebate payments to eligible taxpayers provided by the Economic Stimulus Act of 2008. Nationally, real income growth improved to 3% in the second quarter of 2008 from -0.4% in the previous quarter.

## New Auto Registrations: California



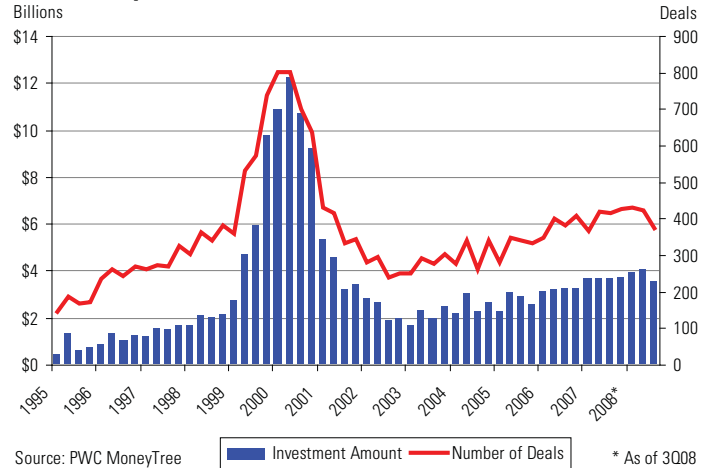
- Gas prices have eased considerably from a high of \$4.64 per gallon in June 2008 to \$3.52 in mid-October. Yet, rising economic uncertainty and job market instability are preventing consumers from making major purchases, maintaining the downward trend in auto sales.

## Global Semiconductor Sales: 3-Month Averages



- Semiconductor sales increased by 1.6% in September 2008, to \$23 billion, from \$22.6 billion in September 2007. Despite the growing uncertainty in the U.S. and global economy, consumer electronic product sales continue to grow, while personal computer and cell phone sales in emerging markets continue to drive much of the demand for semiconductors.

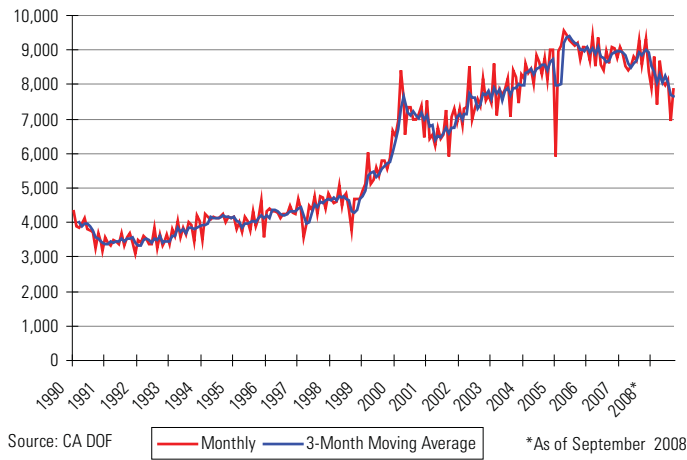
## Venture Capital Investment: California



- The unwinding of the credit market and dearth of venture-backed IPOs restrained venture capital investment activity in California during the third quarter of 2008. The \$3.5 billion in VC investment through the third quarter of 2008 is a 4% decline from VC investment activity during the same quarter last year, with 41 fewer deals. Nationally, VC investment activity fell 8.8% year-over-year in the third quarter of 2008, while 76 fewer deals occurred. Total U.S. VC investment during the quarter equaled \$7.1 billion.

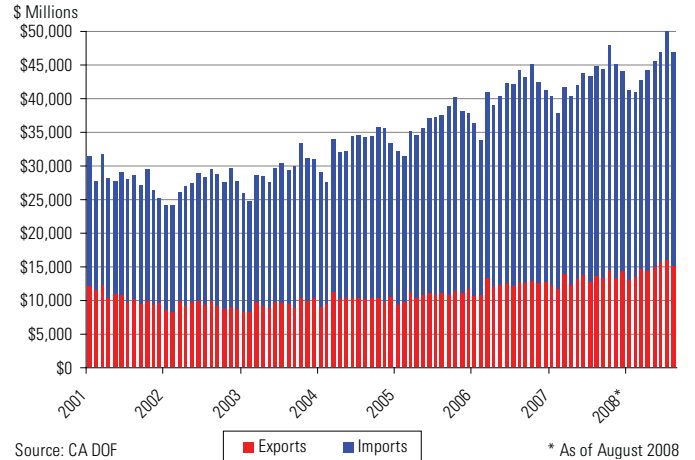
# California: Other Economic Indicators

## New Business Incorporations: California



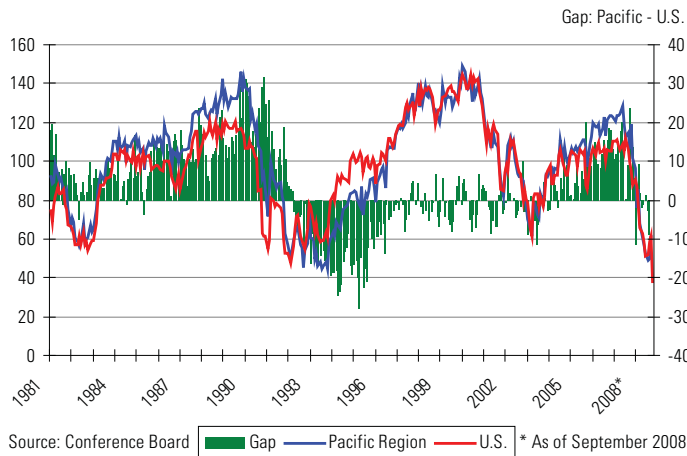
- New business incorporations dropped significantly coming into the last quarter of the year as prospects for both the state and national economies grew increasingly uncertain. The three-month average in September was 7,646, a 14.4% decline from the end of 2007. With the market for Small Business Administration loans expected to remain tight, and the state entering a recession, the number of new businesses should continue to decrease.

## Foreign Trade Through California Ports



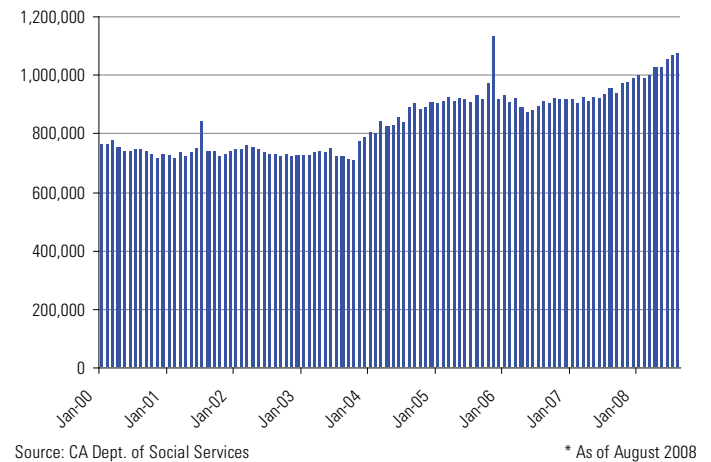
- The weak dollar continues to boost export activity. In August, exports passing through the state's ports exceeded \$15.2 billion, an increase of 12.4% from the same month in 2007. Import activity remained greater than \$30 billion during this time, a 2.2% increase from the same month the previous year. Further slowing in the growth of the California economy should greatly curtail the volume of imports through the remainder of the year.

## Consumer Confidence: Pacific Region vs. U.S.



- U.S. consumer confidence dropped to a historical low in October 2008, reaching 38 from a revised 61.4 in September 2008. Falling home prices and the contagion effect of the failing financial and credit markets on other sectors of the economy have consumers on edge. In the Pacific region, the consumer confidence index fell to a seasonally adjusted level of 61.1 in September from 106.3 in the same month last year.

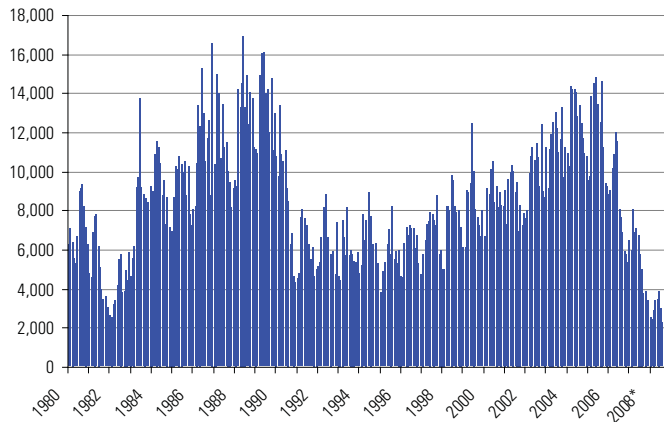
## Food Stamp Issuances: California



- With the unemployment rate increasing, social service programs are becoming stretched. In August, food stamp issuance reached nearly 1.1 million, a 12.4% increase from the same month in 2007. Close to one million California households receive federal, state or a combination of federal and state assistance.

# California: Housing Permits

## Single Family Permits: California

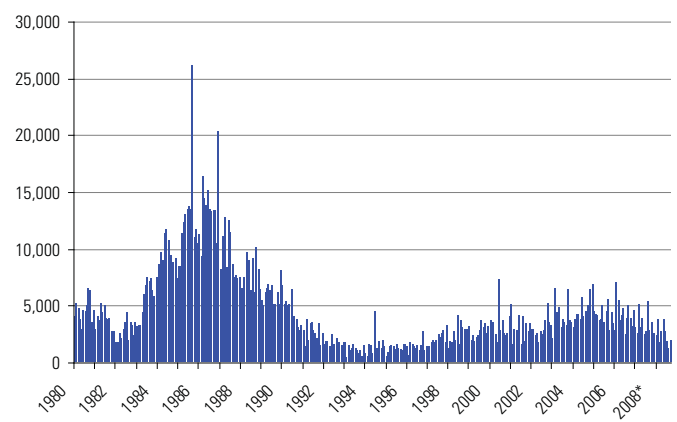


Source: Census

\* As of September 2008

- Single family permit issuance plummeted 40.5% year-over-year in September to 2,261. In comparison, developers pulled 14,667 permits in September 2005 at the peak of the housing boom.
- Approximately 26,300 permits were issued during the first nine months of 2008 – a 53% drop from the same period in 2007.

## Multifamily Permits: California

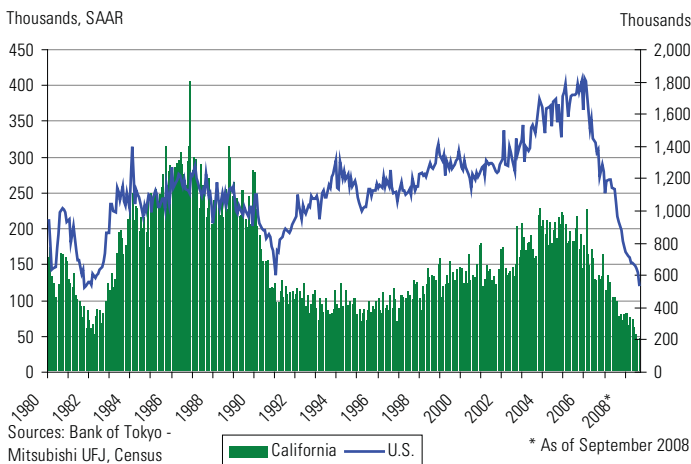


Source: Census

\* As of September 2008

- With new condo projects nearly impossible to finance, multifamily permit levels remained low through the first nine months of 2008. Roughly 22,800 permits were issued – a 28.0% decline from the same period in 2007, and a 42.7% drop compared with the first nine months of 2006.

## Privately-Owned Housing Starts: California vs. U.S.

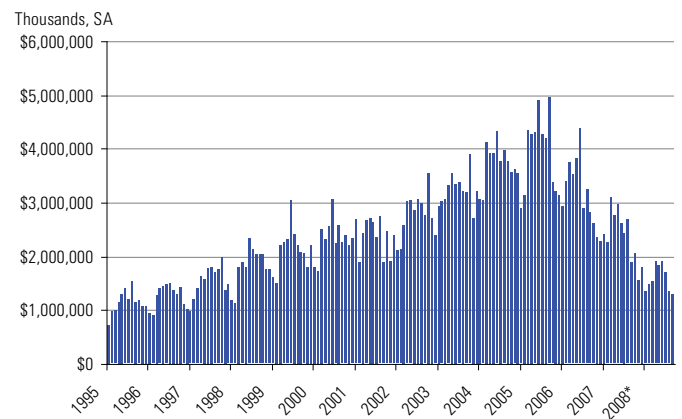


Sources: Bank of Tokyo - Mitsubishi UFJ, Census

\* As of September 2008

- Homebuilders continue to curtail construction activity in response to high unsold inventory levels and falling home prices.
- Year-over-year in September, starts fell 41.9% to a seasonally adjusted annual rate of 544,000 in the United States and 38.5% to a seasonally adjusted annual rate of 48,000 in California.

## Residential Permit Valuations: California



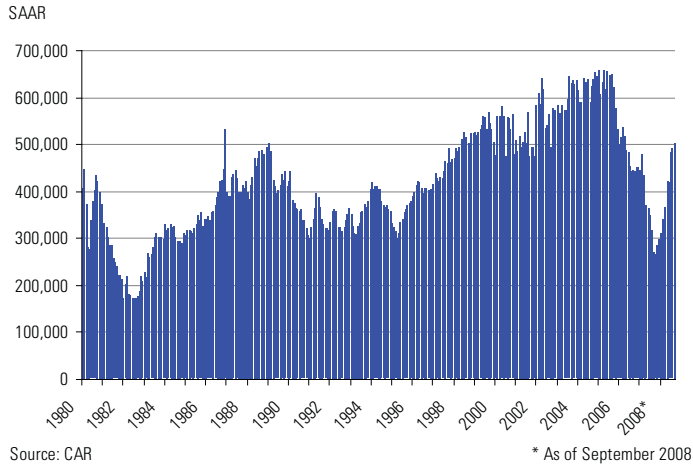
Sources: CIRB, RCG

\* As of September 2008

- In September 2008, permit valuations fell 30.0% year-over-year to \$1.3 billion, compared with a recent peak of nearly \$5 billion in September 2005.
- Year-to-date permit valuations totaled \$14.5 billion in September – a 37.6% decline compared with the same period in 2007.

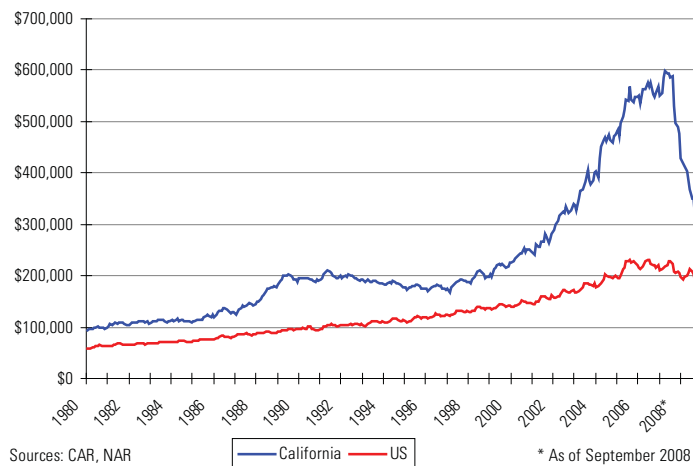
# California: Single Family Housing Market

## Single Family Home Sales: California



- Sales spiked in recent months as deep discounts on foreclosed homes attracted buyers, including investors.
- The seasonally adjusted annual rate of sales soared 84.0% year-over-year in September to 502,190 – the highest rate since April 2006.

## Existing Single Family Median Price: CA vs. U.S.



- The median price plunged 40.4% year-over-year in September to \$316,480 – nearly half of the peak median price of \$597,640 in April 2007. The United States as a whole posted a more moderate decline of 8.6% during the same period.
- Foreclosures accounted for a large proportion of all home sales in recent months, contributing to the freefall in the median price.

## Existing Home Sales and Median Pricing

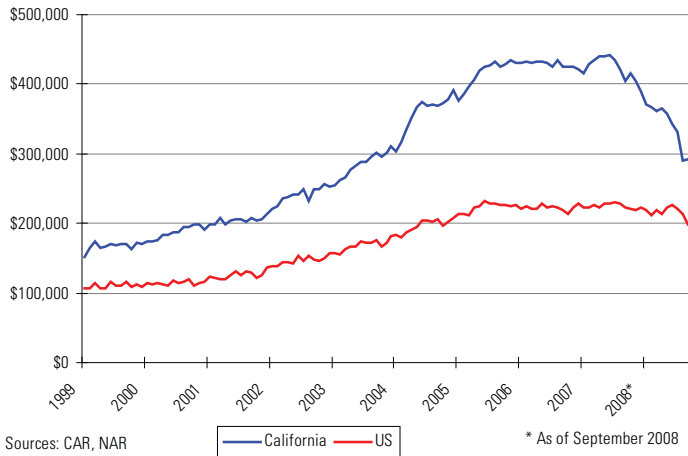
Seasonally Adjusted Annual Rate

		Existing Home Sales	Year-over-Year Percent Change	Existing Median Price	Year-over-Year Percent Change
<b>2004</b>	Jan	615,660	5.3%	\$404,463	20.3%
	Feb	589,220	3.9%	\$391,550	19.9%
	Mar	590,220	4.0%	\$428,060	21.9%
	Apr	640,710	9.8%	\$452,680	24.3%
	May	632,380	10.5%	\$463,320	26.0%
	Jun	633,670	10.8%	\$468,050	25.0%
	Jul	639,910	7.4%	\$462,145	21.0%
	Aug	591,150	-8.5%	\$473,520	16.6%
	Sep	626,220	-0.9%	\$463,630	20.5%
	Oct	639,570	0.5%	\$459,530	21.2%
	Nov	652,340	4.0%	\$471,980	22.8%
	Dec	645,860	1.4%	\$474,270	18.1%
<b>2005</b>	Jan	659,410	7.1%	\$484,580	19.8%
	Feb	608,160	3.2%	\$470,920	20.3%
	Mar	634,700	7.5%	\$496,550	16.0%
	Apr	658,060	2.7%	\$509,630	12.6%
	May	618,920	-2.1%	\$522,590	12.8%
	Jun	656,310	3.6%	\$542,330	15.9%
	Jul	647,910	1.3%	\$539,840	16.8%
	Aug	632,240	7.0%	\$567,320	19.8%
	Sep	650,780	3.9%	\$543,510	17.2%
	Oct	621,530	-2.8%	\$538,770	17.2%
	Nov	579,560	-11.2%	\$548,680	16.3%
	Dec	531,910	-17.6%	\$547,400	15.4%
<b>2006</b>	Jan	500,470	-24.1%	\$549,460	13.4%
	Feb	513,740	-15.5%	\$534,400	13.5%
	Mar	539,169	-15.1%	\$562,130	13.2%
	Apr	516,965	-21.4%	\$562,380	10.4%
	May	488,255	-21.1%	\$563,860	7.9%
	June	483,689	-26.3%	\$575,850	6.2%
	July	453,980	-29.9%	\$566,940	5.0%
	Aug	442,150	-30.1%	\$576,360	1.6%
	Sept	444,780	-31.7%	\$553,050	1.8%
	Oct	443,320	-28.7%	\$548,680	1.8%
	Nov	450,930	-22.2%	\$555,290	1.2%
	Dec	452,060	-15.0%	\$569,350	4.0%
<b>2007</b>	Jan	446,820	-10.7%	\$551,220	0.3%
	Feb	480,170	-6.5%	\$554,280	3.7%
	Mar	433,150	-19.7%	\$585,460	4.2%
	Apr	365,680	-29.3%	\$597,640	6.3%
	May	369,620	-24.3%	\$592,780	5.1%
	Jun	364,280	-24.7%	\$594,280	3.2%
	Jul	350,980	-22.7%	\$586,030	3.4%
	Aug	319,200	-27.8%	\$588,970	2.2%
	Sep	271,590	-38.9%	\$530,830	-4.0%
	Oct	265,030	-40.2%	\$497,110	-9.4%
	Nov	287,600	-36.2%	\$489,570	-11.8%
	Dec	297,970	-34.1%	\$476,380	-16.3%
<b>2008</b>	Jan	313,580	-29.8%	\$429,790	-22.0%
	Feb	340,580	-29.1%	\$419,640	-24.3%
	Mar	318,830	-26.4%	\$414,640	-29.2%
	Apr	366,720	0.3%	\$403,870	-32.4%
	May	423,700	14.6%	\$384,840	-35.1%
	Jun	420,550	15.4%	\$368,250	-38.0%
	Jul	482,290	37.4%	\$350,890	-40.1%
	Aug	490,850	53.8%	\$350,140	-40.6%
	Sep	502,190	84.9%	\$316,480	-40.4%

Source: CAR

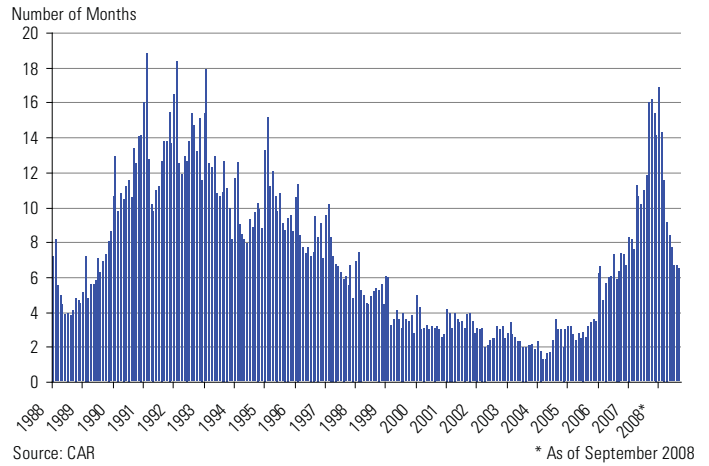
# California: Housing

## Existing Condo Median Price: California vs. U.S.



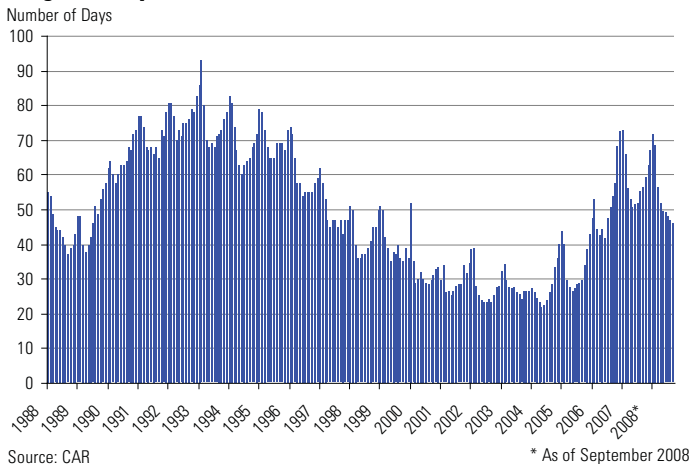
- California's median condo price continued to fall at a faster rate than the United States as a whole, declining 27.8% year-over-year in September compared with a 10.2% drop nationally.
- The California median condo price is now roughly 50% higher than the U.S. median condo price, compared with a gap of nearly 100% between 2005 and 2007.

## Single Family Housing Months Supply: California



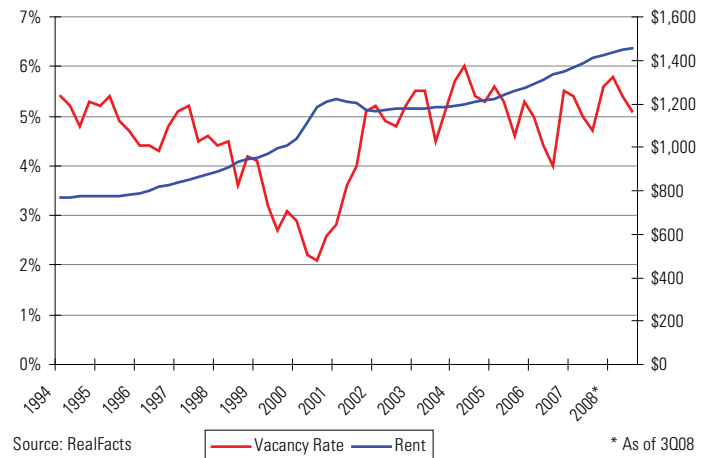
- As sales increased, the month's supply of unsold homes fell to 6.5 in September, compared with 16.0 one year earlier.
- Many would-be sellers are not listing their homes because of their expectation that prices will fall further. Therefore, the data mask the state's supply-demand imbalance.

## Single Family Time on Market: California



- As sales activity picked up, the average number of days that a single family home stayed on the market fell to 46.1 in September, compared with 56.7 one year earlier.
- Although homes are selling faster, the average time on the market remains significantly higher than between 2000 and 2004, when it was mostly in the 20-30-day range.

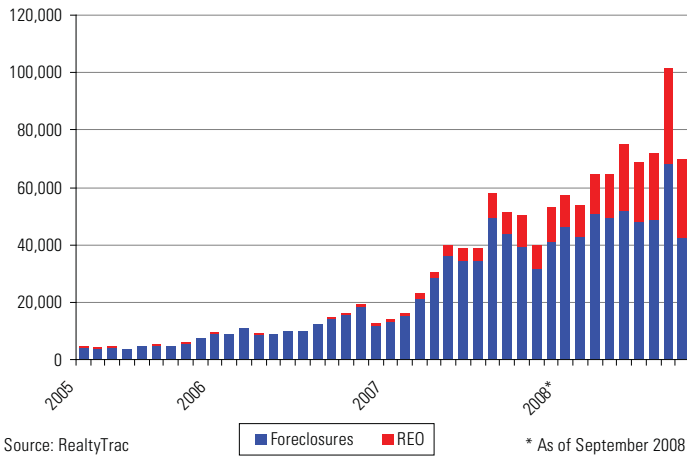
## California Apartments: Vacancy Rate vs. Rent



- Although the vacancy rate fell during each of the first three quarters of 2008, it remains significantly higher than the 2% range achieved during the dot-com boom. The growing supply of rental homes and condos, and an increasing number of households doubling up to save money are resulting in reduced demand for apartments.

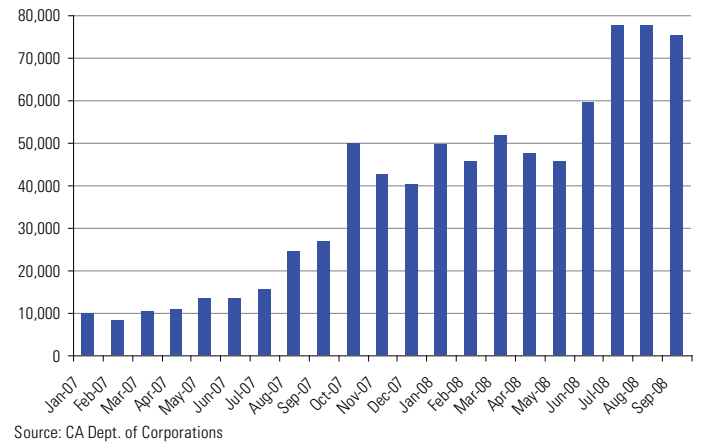
# California: Housing

## Foreclosures: California



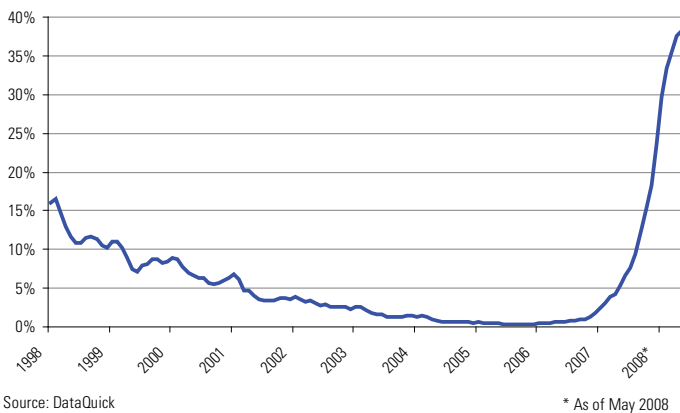
- Senate Bill 1137, which aims to increase mortgage workouts by requiring certain actions by lenders, had a notable impact on foreclosures in September. The number of foreclosure filings fell to 32,175 – a 2.8% year-over-year decrease and a 38.4% decline from the peak of nearly 69,000 filings in August 2008.

## Mortgage Workouts Initiated



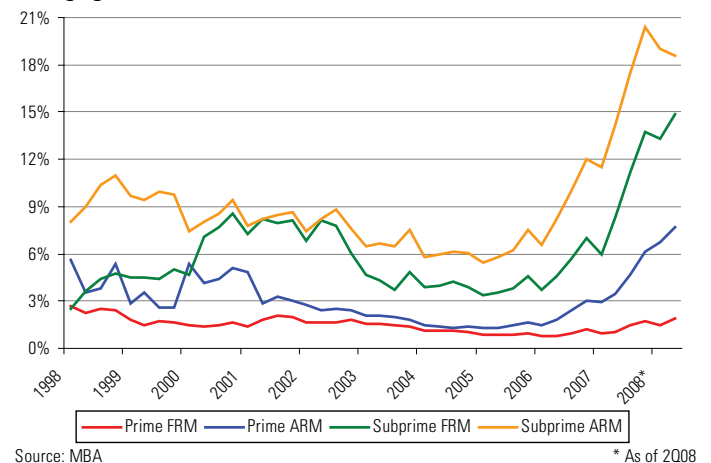
- The number of mortgage workouts initiated increased nearly three-fold in the 12 months to September, to 75,495, compared with 27,042 one year earlier. More than two-thirds of workouts initiated were for subprime loans.
- Data are from the California Department of Corporations Mortgage Servicers Survey. This survey is a voluntary survey covering approximately half of the servicing activity in the state.

## Real Estate-Owned (REO) Home Sales As % of All Home Sales



- The large proportion of sales that are real estate owned (REOs), nearly 40% in September, is the main reason for plummeting median prices in many MSAs during the last year. In comparison, just 1.0% of all sales were REOs in September 2006.
- As ARM resets continue, the share of REO sales is likely to remain high.

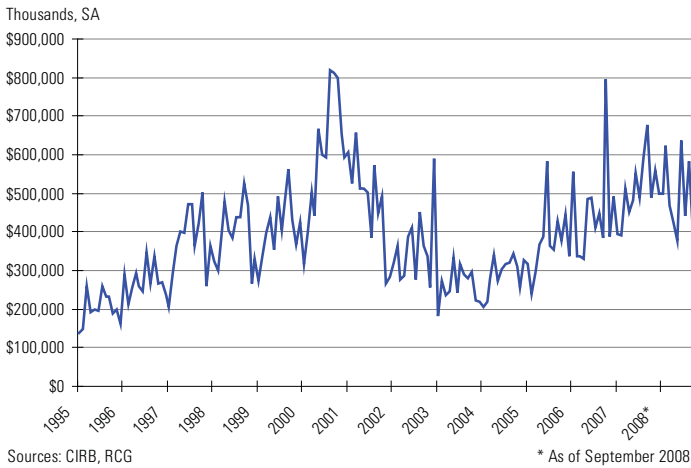
## Mortgages Past Due: California



- Although the delinquency rate for subprime ARMs ticked down slightly in the second quarter, it remained high, at 18.6% of all mortgages in this category.
- Accelerating job losses and falling home prices are negatively impacting the prime mortgage market, which posted a 4.0% overall delinquency rate in the second quarter, compared with 1.9% one year earlier.

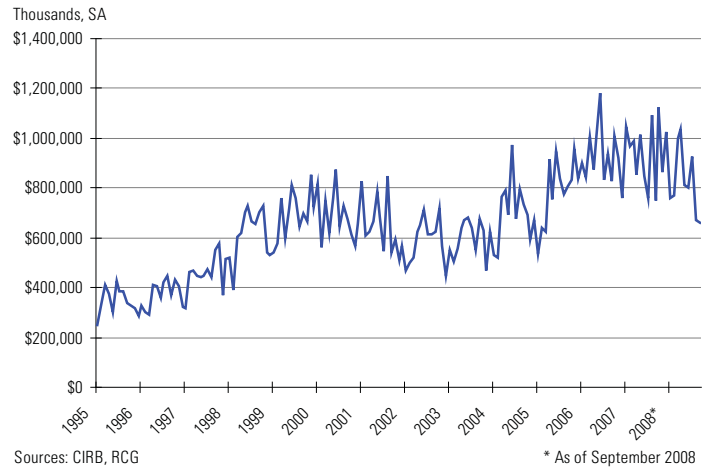
# California: Commercial Permits

## Commercial Permit Valuations: Bay Area



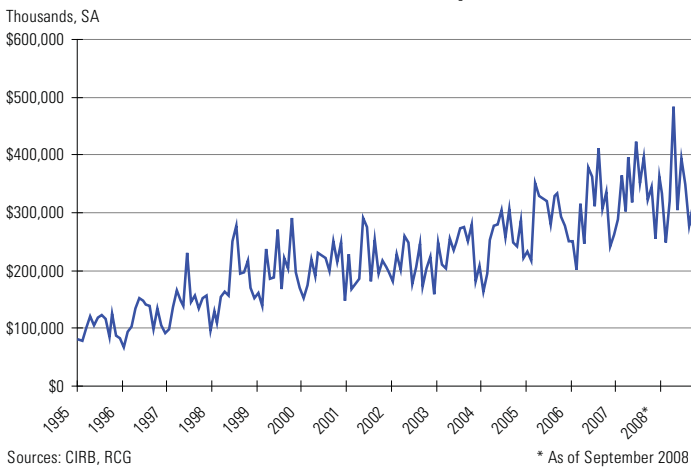
- Commercial construction activity fell significantly as the lack of financing hampers new development. In September, less than \$400 million of new projects were permitted, a decrease of 41% from one year ago.
- In September, office permits accounted for 10.8%, retail for 8.9%, and hotels for 2.3% of non-residential permitting activity.

## Commercial Permit Valuations: Southern California



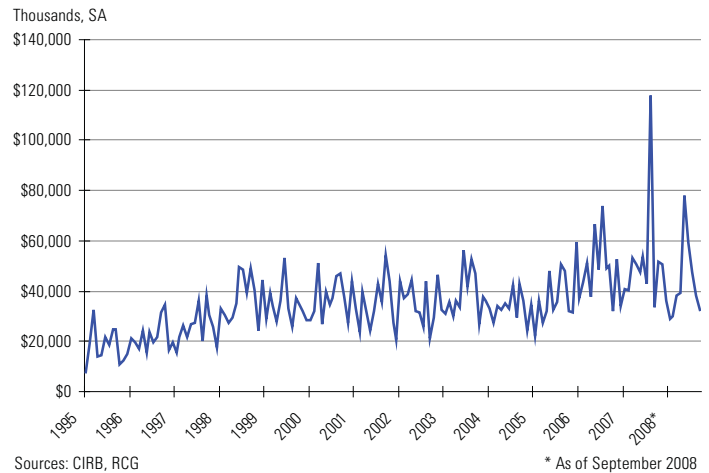
- Through September, valuations totaled nearly \$7.5 billion. Retail permits accounted for 16.1%, office for 10.6%, hotels for 4.8% and industrial for 4.2%.
- In September, permits totaled only \$660 million, the lowest monthly total since 2005.

## Commercial Permit Valuations: Central Valley



- Despite nearly all of the Central Valley counties having unemployment rates in excess of 9%, commercial construction activity is steady.
- In September, valuations reached \$313.3 million, on par with the same month in 2007. Year-to-date, more than \$3 billion of construction activity commenced, only 4.4% less than in the same period last year.

## Commercial Permit Valuations: Central Coast



- Permitting activity continued to slow, falling to \$32.4 million in September. Year-to-date, more than \$392 million of new projects were permitted, a decrease of 18.4% from the same period in 2007.

# California: Commercial Real Estate - Office

## California Office Market Conditions: 3Q 2008

Ranked by Vacancy Rate

Rank	MSA	Vacancy Rate	Construction Completions (SF 000)
1	San Francisco	11.0%	806
2	Los Angeles	11.6%	715
3	Sacramento	13.8%	1,420
4	Oakland	15.7%	26
5	Orange County	16.2%	1,105
6	San Jose	16.3%	1,480
7	San Diego	18.7%	969
8	Inland Empire	22.7%	1,309
9	Ventura	n/a	n/a

Sources: Cushman & Wakefield, Colliers International, CBRE

## California Office Market Conditions: 3Q 2008

Ranked by Rental Rate

Rank	MSA	Rental Rate	Year-To-Date Rent Growth
1	San Francisco	\$43.51	9.2%
2	Los Angeles	\$33.86	3.1%
3	San Jose	\$31.94	4.1%
4	Orange County	\$31.33	-3.4%
5	San Diego	\$29.66	2.1%
6	Sacramento	\$27.30	-5.0%
7	Oakland	\$27.27	2.8%
8	Inland Empire	\$24.53	-0.4%
9	Ventura	n/a	n/a

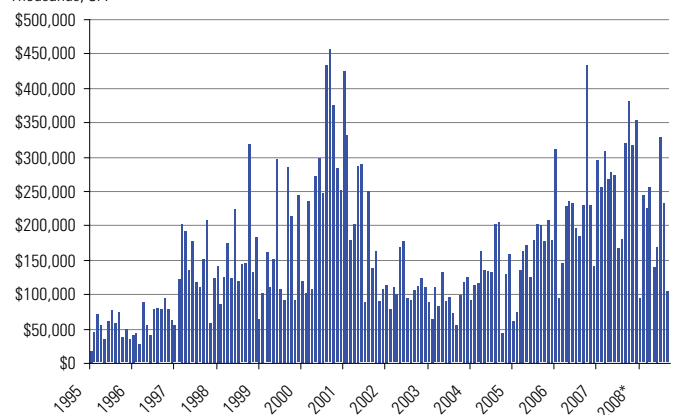
Sources: Cushman & Wakefield, Colliers International, CBRE

- San Francisco remained the tightest office market in California, even though the vacancy rate increased slightly in the third quarter. Nearly every major market had an increase in vacant space from the second quarter.
- The recession and office closures continue to reduce the demand for office space.

- Rent growth stalled in the third quarter as reduced tenant demand decreased landlords' leverage. In markets hardest hit by the housing recession, average rents contracted from the end of 2007.
- Effective rents are falling faster as larger concession packages are utilized more regularly.

## Office Permit Valuations: California

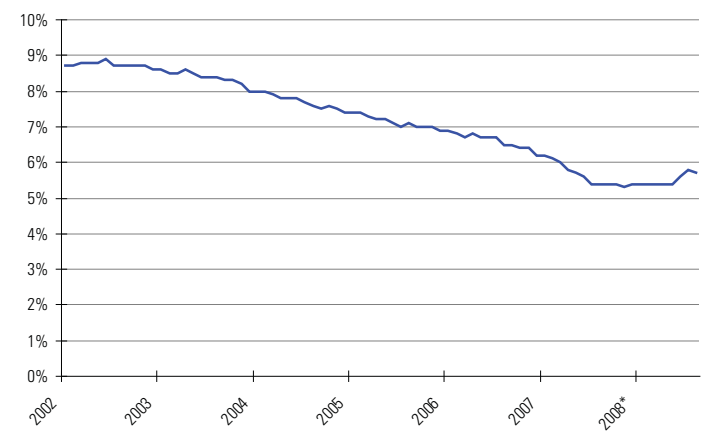
Thousands, SA



Sources: CIRB, RCG

\* As of September 2008

## Office Cap Rates: 12-Month Moving Average



Source: Real Capital Analytics

\* As of August 2008

- Valuations fell to \$105 million in September, two-thirds less than the total in September 2007. Valuations were only \$22.9 million in Southern California, the lowest monthly figure since 2002.
- Year-to-date, Southern California accounted for 44.1% of the \$1.8 billion in office activity. The Bay Area accounted for 35.1% of the total amount.

- The 12-month average cap rate stabilized at 5.7% in August. Transactional cap rates are likely higher, but the lack of deals is preventing this trend from being fully depicted.
- As financing options are few and uncertainty over the depth of the recession continues, few investment deals are being consummated. We expect this trend to continue in the short term.

# California: Commercial Real Estate - Industrial

## California Industrial Market Conditions: 3Q 2008

Ranked by Vacancy Rate

Rank	MSA	Vacancy Rate	Construction Completions (SF 000)
1	Los Angeles	3.0%	2,469
2	Orange County	4.2%	812
3	San Francisco	5.8%	-
4	Oaklnd	7.9%	206
5	San Diego	8.3%	1,203
6	Sacramento	10.9%	650
7	San Jose	11.6%	235
8	Inland Empire	11.6%	17,721
9	Ventura	n/a	n/a

Sources: Cushman & Wakefield, Colliers International, CBRE

## California Industrial Market Conditions: 3Q 2008

Ranked by Rental Rate

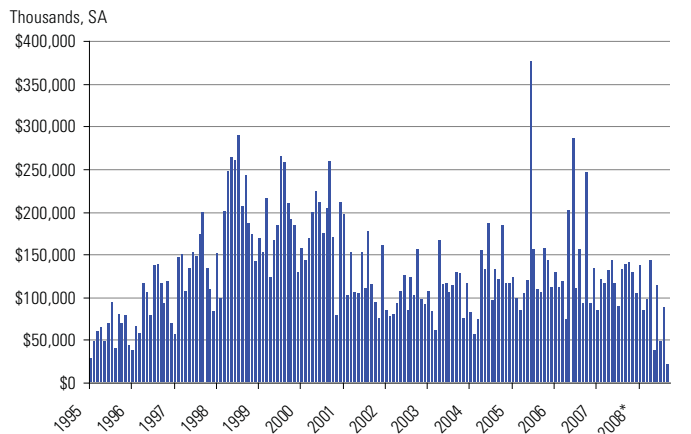
Rank	MSA	Rental Rate	Year-To-Date Rent Growth
1	San Francisco	\$18.07	2.6%
2	San Jose	\$15.86	6.7%
3	San Diego	\$12.96	-4.4%
4	Orange County	\$10.40	-5.9%
5	Los Angeles	\$8.05	0.0%
6	Oaklnd	\$7.46	-5.8%
7	Inland Empire	\$5.29	-7.3%
8	Sacramento	\$4.95	-5.7%
9	Ventura	n/a	n/a

Sources: Cushman & Wakefield, Colliers International, CBRE

- The vacancy rate increased in most markets, reflecting lower demand for regional and national distribution facilities. With import cargo traffic lower in Southern California and drayage costs still high, tenant demand is falling in the Inland Empire.
- With many users unwilling or unable to make large space commitments, new buildings are at risk of being vacant for an extended period of time.

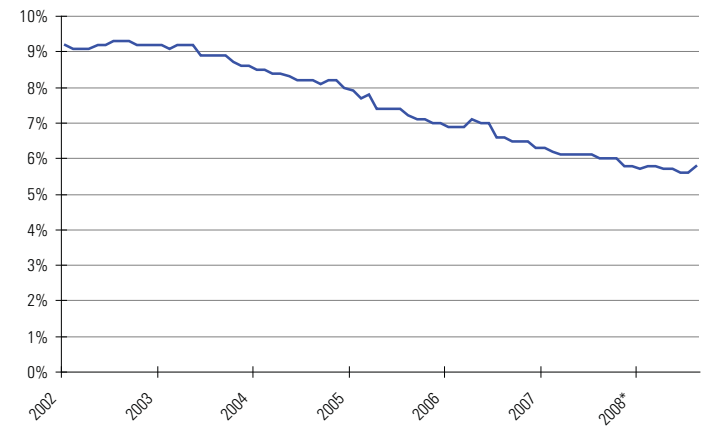
- Average asking rents continue to fall in many areas of the state. Even in tight markets such as Los Angeles County, average rents are decreasing as tenants reduce footprints.
- Rents for local distribution space are falling rapidly, particularly in markets at the center of the housing morass and with job losses. Consumers in these areas are pulling back, and ultimately reducing the demand for distribution space.

## Industrial Permit Valuations: California



- Through September, permit valuations totaled more than \$775 million, a 28% drop from the same period in 2007. The slowing tech industry appears to be constraining some activity in the Bay Area in recent months. In Southern California, the decrease in international trade flows is slowing some of the demand for new space. The increased price of commodities is helping fuel some additional demand for distribution and refrigerated facilities in the Central Valley.

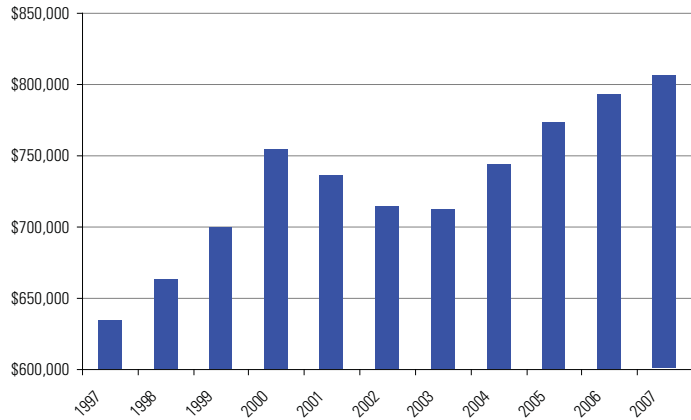
## Industrial Cap Rates: 12-Month Moving Average



- The 12-month average cap rate for California increased slightly to 5.8% in August. Although there have been few deals in recent months, current cap rates are much higher. For transactions closed in 2008, the average is greater than 6%.
- The average price per square foot paid was \$115 through August, slightly less than the \$123 per square foot paid in 2007.

# California: Commercial Real Estate - Retail

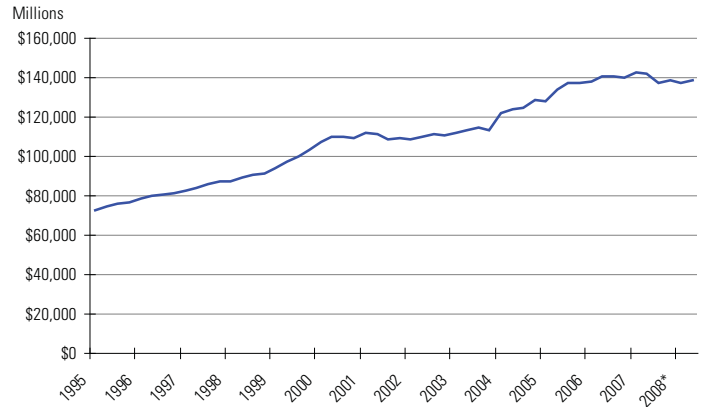
## Retail Sales Per Outlet



Source: California Retail Survey, 2008

- Retail sales per outlet reached more than \$806,000 in 2007. We expect this to be the peak as 2008 receipts will be impacted by high energy costs in the first half of the year and job losses. Additionally, with few households able to tap equity in their homes, if any remains, spending should contract through the remainder of the year.

## Retail Sales: California

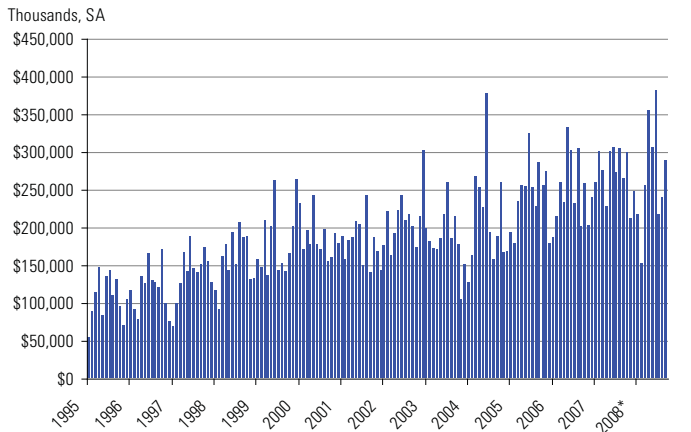


Sources: CA BOE, CA DOF

\* As of 2Q08  
2007 & 2008 are preliminary data

- Retail spending in the second quarter was propped up by the federal tax rebates, yet remained lower than in both 2006 and 2007. With job losses and a general lack of consumer confidence in recent months, we expect retail sales to fall in the second half of the year. As the recession worsens, consumers will pull back further.

## Retail Permit Valuations: California

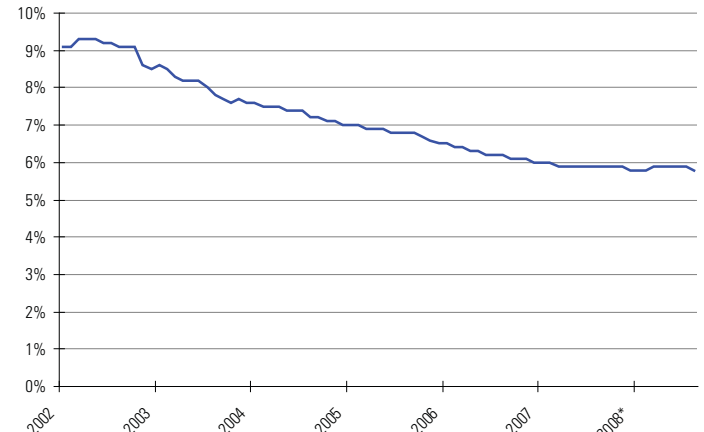


Sources: CIRB, RCG

\* As of September 2008

- Retail permit valuations totaled more than \$2.4 billion, only 4.1% lower than the same period in 2007. We expect the lack of construction funding and declining consumer spending to place additional downward pressure on development activity.

## Retail Cap Rates: 12-Month Moving Average



Source: Real Capital Analytics

\* As of August 2008

- The 12-month trailing average cap rate was 5.8% in September, on par with much of 2008. Preliminary data of recent transactions depict an average cap rate greater than 6%.
- Year-to-date, more than \$3.1 billion of retail transactions closed in the state, 72% less than the total for all of calendar year 2007.