

RIVERSIDE-SAN BERNARDINO

MARKET SNAPSHOT

Published: February 28, 2007

Next Release: May 31, 2007

Data through December 31, 2006

Market Strengths

- Most affordable housing supply in Southern California
- Continued strong demand for industrial and office development
- Economic maturation is leading to an increase in higher-paying jobs

Market Concerns

- Increasing default and foreclosure rates
- Price appreciation being replaced by price depreciation
- Job loss in the construction industry
- Elevated rate of cancellations at housing developments
- Government imposed limitations on development

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DEMAND/SUPPLY RATIO

12 Months Demand vs. Supply Ratio

0.87

RANK 44 of 75

TREND ▲

HOUSING GROWTH RATIO

12 Months Total Permits per 1,000 Residents

9.23

RANK 29 of 75

TREND ▼

JOB GROWTH

Annual Rate Last 4 Quarters

+2.4%

RANK 30 of 75

TREND ▼

BUILDING PERMIT ISSUANCE

Last 12 Months vs. Previous 12 Months

-26.2%

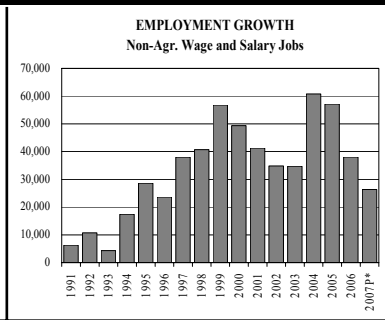
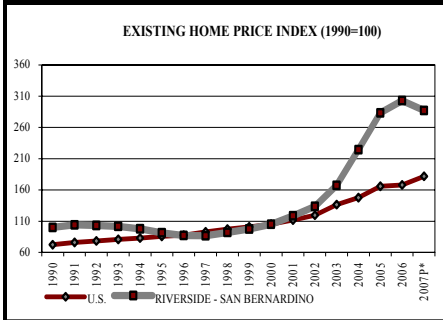
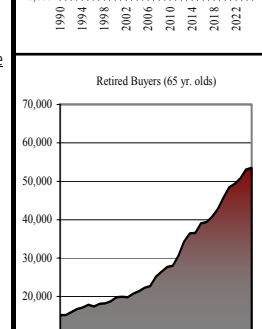
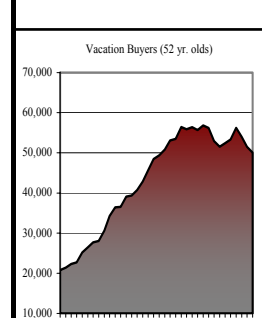
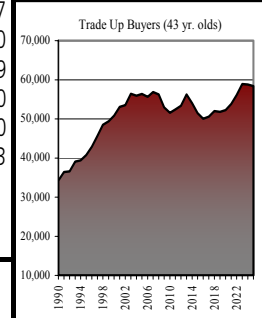
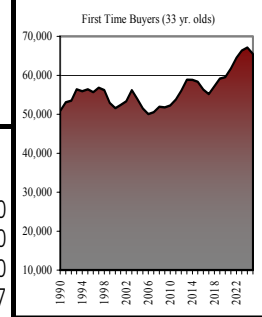
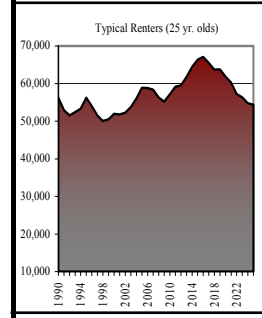
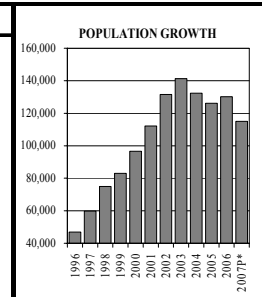
RANK 54 of 75

TREND ▼

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KEY STATISTICS AND TRENDS

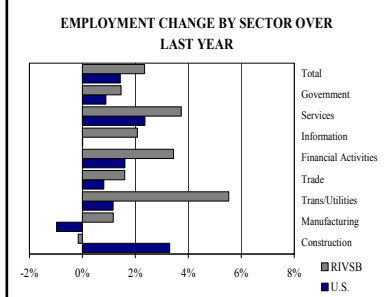
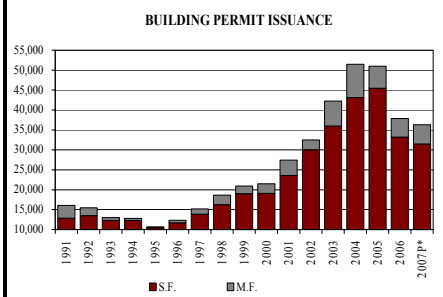
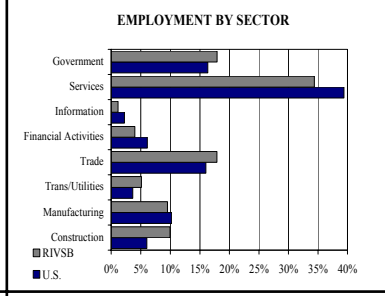
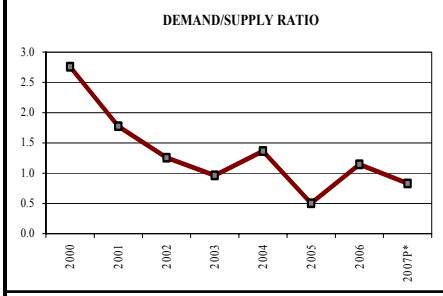
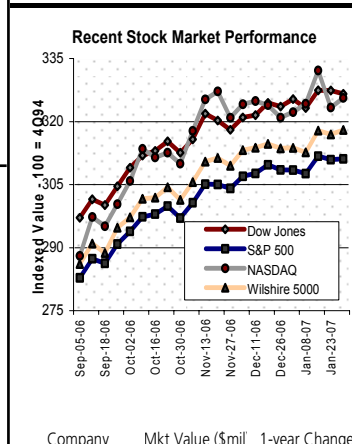
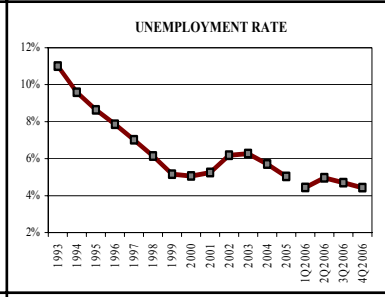
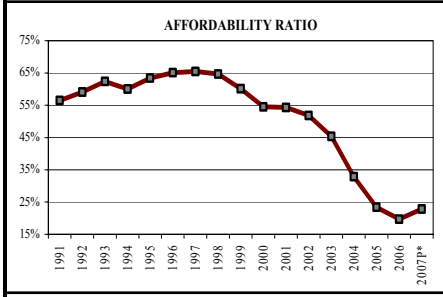
	2001	2002	2003	2004	2005	4Q2006	2006	2007P*
Median Existing Home Price	\$156,700	\$176,500	\$221,000	\$296,400	\$374,200	\$406,400	\$400,100	\$379,300
1-Year Growth Rate	13.1%	12.6%	25.2%	34.1%	26.2%	4.2%	6.9%	(5.2%)
Affordability Ratio	54.3%	51.8%	45.3%	32.9%	23.4%	19.4%	19.7%	22.8%
Mortgage Rates	6.97%	6.54%	5.83%	5.84%	5.93%	6.14%	6.41%	6.60%
Employment	1,029,700	1,064,500	1,099,200	1,160,000	1,217,100	1,275,300	1,255,200	1,281,600
1-Year Change	41,300	34,800	34,700	60,800	57,100	29,300	38,100	26,350
1-Year Growth Rate	4.2%	3.4%	3.3%	5.5%	4.9%	2.4%	3.1%	2.1%
Population	3,442,800	3,574,300	3,715,600	3,847,900	3,974,000	4,104,300	4,104,300	4,219,300
1-Year Change	112,104	131,512	141,312	132,320	126,105	130,237	130,237	115,000
1-Year Growth Rate	3.4%	3.8%	4.0%	3.6%	3.3%	3.3%	3.3%	2.8%
Single-Fam. Permits (12 mo.)	23,596	30,038	35,965	43,142	45,485	33,201	33,201	31,500
1-Year Change	4,506	6,442	5,927	7,177	2,343	(12,591)	(12,591)	(1,701)
1-Year % Change	23.6%	27.3%	19.7%	20.0%	5.4%	(27.5%)	(27.5%)	(5.1%)
Multifam. Permits (12 mo.)	3,821	2,436	6,287	8,321	5,523	4,661	4,661	4,825
1-Year Change	1,415	(1,385)	3,851	2,034	(2,798)	(842)	(842)	164
1-Year % Change	58.8%	(36.2%)	158.1%	32.4%	(33.6%)	(15.3%)	(15.3%)	3.5%
Total Permits (12 mo.)	27,417	32,474	42,252	51,463	51,008	37,862	37,862	36,325
1-Year Change	5,921	5,057	9,778	9,211	(455)	(13,433)	(13,433)	(1,537)
1-Year % Change	27.5%	18.4%	30.1%	21.8%	(0.9%)	(26.2%)	(26.2%)	(4.1%)
Employment/Permit Ratio	1.51	1.07	0.82	1.18	0.80	0.77	1.01	0.73
Demand/Supply Ratio	1.78	1.25	0.96	1.36	0.50	0.87	1.15	0.83
Housing Growth Ratio	7.96	9.09	11.37	13.37	12.84	9.23	9.23	8.61



TOP EMPLOYERS

Name	Jobs
U.S. Marine Corps. Logistics Base	175,000
United Parcel Service	8,600
March Air Reserve Base	7,250
University of California Riverside	6,737
Loma Linda Medical Center	6,147
Ontario International Airport	5,000
Verizon	4,519
Kaiser Permanente	4,200
Riverside Community College	2,800
Vons a Safeway Company	2,493

Source: Inland Empire Business Journal, Book of Lists 2006



Company	Mkt Value (\$mil)	1-year Change
Wal-Mart Stores	\$192,479	0.1%
Verizon	\$108,723	29.0%
Hansen Natural Corp	\$3,060	71.0%
Watson Phrm.	\$2,667	-19.9%
Ciena Corp.	\$2,340	33.3%
CVB Financial	\$1,107	-8.8%
PFF Bancorp	\$849	15.3%
American State Wat	\$658	28.3%
Fleetwood Ent.	\$506	-36.0%
Vineyard National	\$239	-24.3%

The Economy

Still Strong, But Without Quite As Much Steam. The Inland Empire has succumbed to the effects of the nationwide slowdown in housing, tempering the exceptional job growth experienced in recent years. While projected to continue to expand, the rate of job growth for the Inland Empire is projected to be less than half of the rate of expansion experienced in 2004 and 2005; this still represents a projected addition of over nearly 40,000 jobs in 2006 over 26,000 jobs in 2007. Nearly 16,000 jobs were added in the service sectors last year, representing an increase of 3.7%. Strong growth was also seen in the trade, transportation/utilities, and government sectors, collectively adding over 10,000 jobs. Construction was the only sector reporting a loss of jobs, as might be expected given the slowdown in the housing market. The decline was minimal though, with the loss of 200 jobs representing only 0.2% of the jobs in the construction sector. In 2007, further losses could be expected in construction due to the condition of the housing market, but increases in non-residential construction could cover much of this decrease.

Targeting High-Tech Workers. Businesses and cities are working collaboratively to attract skilled workers and high-tech firms. Employees of high-technology firms in Riverside who purchase a home in Riverside could qualify for lower mortgage rates, lower home-equity loans rates, reduced fees, and other benefits in the SmartRiverside Initiative. Similar programs have been utilized for teachers, police, nurses, and other public-sector employees.

Foreclosures on the Rise. Riverside and San Bernardino Counties experienced some of the highest increases in mortgage defaults in the state. Riverside County recorded over 4,500 notices of default during the fourth quarter, a nine-year high. San Bernardino County recorded a six-year high with over 3,500 notices filed during the quarter.

Home Sales

Different Results in Different Locations. While sales levels have diminished throughout the Inland Empire, results have varied depending upon product type, and location. In detached product, Riverside County has fared better overall than San Bernardino County. Sales totals for detached housing in Riverside during the fourth quarter of 2006 are off about 19% from the elevated levels experienced during the fourth quarter of 2005; San Bernardino County detached totals fell 43% during the same period. In the attached sector, sales totals in Riverside County fell 34% from the fourth quarter of 2005 to the fourth quarter of 2006, despite a 25% increase in the number of active

developments. San Bernardino County only had five active attached developments in the last quarter of 2005, producing 50 sales during the period. The number of projects nearly tripled during the same quarter of 2006, with a combined total of 117 sales.

It's Still Let's Make A Deal. In many portions of the Inland Empire, developers are utilizing incentives to generate absorption while attempting to maintain their existing pricing structure. Standing inventory often contained substantial incentives, in the form of credits at the builder's design center, below market rate financing, payment of closing costs, etc. to get the product off the books. Some builders developed advertising campaigns targeting buyers who would close by year's end, offering hefty incentives to move standing inventory.

Flood of New Apartments. While conversions of apartments into for-sale housing depleted the supply of rental housing in many areas, Riverside County has experienced a recent surge in apartment construction. The construction of over 4,000 new rental units in 2006 has helped to temper the escalating rental prices as Riverside County occupancy rates have dropped below 90%. San Bernardino County, by contrast, had approximately 1,000 new rental units built in 2006. The increased competition for renters, similar to the competition for buyers in the for-sale sector, has led to the use of incentives to attract renters to the new rental projects.

Investment Trends

Growth in Various Sectors, Various Locations. Investment opportunities are expanding throughout the Inland Empire in various industries and various locations. The High Desert could experience tremendous economic benefits if the discussions between the City of Victorville and BNSF Railway Company regarding the development of a major intermodal logistics facility at Southern California Logistics Airport (formerly George Air Force Base) reach fruition. The resulting job growth would provide tremendous impact to the local economy. The San Bernardino area is benefiting from the redevelopment of areas surrounding the San Bernardino International Airport. AllianceCalifornia, a Hillwood industrial development, has attracted Kohl's, Mattel, Stater Bros. Grocers, Pep Boys and other major firms to build regional headquarters and/or distribution centers in a master-planned industrial park bordering the airport. Since 2000, nearly 6 million square feet of space has been developed, creating nearly 3,000 jobs. Lower land costs and an extensive supply of labor will continue to make the Inland Empire an excellent choice for employers considering various locations in Southern California.

DEFINITIONS AND METHODOLOGY

Market Definitions: See page 5 for a complete list of county level market definitions.

Timing: The analysis and projections are completed during the second month of each quarter using the most current information available. The information data is through the end of the prior quarter. For example, revised employment figures are not available until the third month after month end. The same is true for home prices. The most current economic variables (consumer confidence, mortgage rates, etc.) and news (layoff announcements, etc.) are always evaluated with respect to making conclusions.

Analysis and Estimates: A regional housing market analyst who knows the market completes the analysis and estimates of future conditions. The analyst consults with local Hanley Wood Market Intelligence housing data collectors and/or consultants, as well as local housing market experts, if needed. The authors also have the benefit of reviewing and analyzing forecasts done by national and often local economists. Hanley Wood management communicates their knowledge of national, regional and local housing markets to the analysts.

Sources: The information in this report has been assembled from the sources we deem to be most reliable. More information on the methodology employed by our sources is available by selecting the appropriate variable on our Homebuilding page at www.hwmarketintelligence.com.

Current Quarter vs. Current Year Differences: The data reported for the current quarter will not match the data for the year because the data for the year is for the entire twelve month period while the data for the quarter is for that quarter only.

Median Existing Home Price: The median existing home price is the price at which 50% of the existing homes sold were higher-priced, and 50% were lower-priced during the period. Because it is for the period noted, the median in the 4th quarter is different than the median for the year. For most markets, the data is provided by the National Association of Realtors. The price includes only homes sold by a realtor.

1-Year Change: The absolute growth from year-ago period. Because the housing market is cyclical, we compare current data to the same data exactly one year earlier.

1-Year Growth Rate: The one-year growth rate is the growth rate from the statistic one-year ago to the current statistic

Affordability Ratio: The affordability ratio is the percentage of households that can afford the median priced existing home. The calculation assumes a 20% down payment and a 30-year fixed rate mortgage at the Freddie Mac mortgage rate published just prior to period end. We assume that total monthly payments (including mortgage, property taxes and insurance) cannot exceed 30% of gross household income.

Income information was obtained from Claritas Inc.

Employment: Historical and projected annual employment is the average monthly employment during the period noted, adjusted for the final counts (known as rebenchmarking) which occurs three months and fifteen months after yearend. Employment figures are non-farm wage and salary employment. Employment for the current period is for the last month of the quarter, and is compared to the same period twelve months earlier. Employment is seasonal; therefore, a drop from yearend to a current quarter should not be alarming. Employment data is collected from the Bureau of Labor Statistics.

Unemployment Rate: The Bureau of Labor Statistics provides the unemployment rate. The rate reported is the average during the period, with no adjustment for seasonality. The current rate reported is for the last month of the quarter. Rates are rebenchmarked three months after yearend.

Population: Current population estimates are based on the most recent growth patterns reported by the Census Bureau. We have adjusted the history based on the actual census count. The population estimates are as of the last date of the period (e.g. December 31, 2006).

Permits: Data for U.S. regions, states and all metropolitan areas are from the U.S. Department of Commerce, Bureau of the Census, Residential Construction Branch. The information reported is for the prior 12 months. The total is the annual number of permits during the previous year, plus the current year-to-date permits, less last year's year-to-date permits. These figures are the most accurate available because they incorporate anticipated annual revisions (released each May) of the corresponding year-to-date figures. In a few areas, these revisions are substantial

Employment/Permit Ratio: The Employment/ Permit ratio is the ratio of employment gain over a twelve-month period to the total number of building permits over the same period. It is a commonly accepted ratio for measuring the Demand/Supply balance, and is the numerator in our Demand/Supply Ratio.

Demand/Supply Ratio: This ratio is designed to help our clients measure housing demand (as determined by employment growth) and supply conditions. The ratio compares the recent job growth/building permits balance to an area's long-term equilibrium value of jobs per housing unit. The formula is the Employment/Permit ratio divided by the ratio of Total Employment/ Housing Unit. The number of housing units is updated once per year.

Housing Growth Ratio: This ratio measures the rate of growth in a market. The calculation is total permits per 1,000 people.

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Market Monitors Our Market Monitors present detailed new home market statistics and economic information combined with in-depth analysis written by an expert who knows the market.

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METROPOLITAN AREA COUNTY LEVEL MARKET DEFINITIONS

Albuquerque MSA: Bernalillo, Sandoval, Torrance, and Valencia counties in New Mexico

Atlanta MSA: Barrow, Bartow, Butts, Carroll, Cherokee, Clayton, Cobb, Coweta, Dawson, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Haralson, Heard, Henry, Jasper, Lamar, Meriwether, Newton, Paulding, Pickens, Pike, Rockdale, Spalding, and Walton counties in Georgia

Austin MSA: Bastrop, Caldwell, Hays, Travis, and Williamson counties in Texas

Bakersfield MSA: Kern county in California

Baltimore MSA: Anne Arundel, Baltimore, Carroll, Harford, Howard, and Queen Anne's counties and Baltimore city in Maryland

Birmingham MSA: Bibb, Blount, Chilton, Jefferson, Shelby, St. Clair, and Walker counties in Alabama

Boise MSA: Ada, Boise, Canyon, Gem, and Owyhee counties in Idaho

Boston MSA: Norfolk, Plymouth, Suffolk, Middlesex, and Essex counties in Massachusetts; Rockingham and Strafford counties in New Hampshire

Central New Jersey: Mercer, Middlesex, Monmouth, Ocean, and Somerset counties in New Jersey

Charleston-North Charleston MSA: Berkeley, Charleston and Dorchester counties in South Carolina

Charlotte MSA: Anson, Cabarrus, Gaston, Mecklenburg, and Union counties in North Carolina; York county in South Carolina

Chicago MSA: Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry, and Will counties in Illinois; Jasper, Lake, Newton, and Porter counties in Indiana; Kenosha county in Wisconsin

Cincinnati MSA: Dearborn, Ohio and Franklin counties in Indiana; Boone, Backen, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in Kentucky; Brown, Butler, Clermont, Hamilton, and Warren counties in Ohio

Cleveland MSA: Cuyahoga, Geauga, Lake, Lorain, and Medina counties in Ohio

Colorado Springs MSA: El Paso and Teller counties in Colorado

Columbia MSA: Calhoun, Fairfield, Kershaw, Lexington, Richland, and Saluda counties in South Carolina

Columbus MSA: Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway, and Union counties in Ohio

Dallas Metro Division: Collin, Dallas, Delta, Denton, Ellis, Hunt, Kaufman, and Rockwall counties in Texas

Daytona Beach MSA: Volusia county in Florida

Denver MSA: Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park counties in Colorado

Detroit MSA: Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties in Michigan

Fayetteville MSA: Benton, Madison, and Washington counties in Arkansas; McDonald county in Missouri

Fort Lauderdale Metro Division: Broward county in Florida

Fort Myers MSA: Lee county in Florida

Fort Worth Metro Division: Johnson, Parker, Tarrant, and Wise counties in Texas

Fresno MSA: Fresno county in California

Greensboro MSA: Guilford, Randolph and Rockingham counties in North Carolina

Houston MSA: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller counties in Texas

Indianapolis MSA: Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam, and Shelby counties in Indiana

Jacksonville MSA: Baker, Clay, Duval, Nassau, and St. Johns counties in Florida

Kansas City MSA: Franklin, Johnson, Leavenworth, Linn, Miami, and Wyandotte counties in Kansas; Bates, Caldwell, Cass, Clay, Clinton, Jackson, Lafayette, Platte, and Ray counties in Missouri

Lakeland MSA: Polk county in Florida

Las Vegas MSA: Clark county in Nevada

Los Angeles Metro Division: Los Angeles county in California

Louisville MSA: Clark, Floyd, Harrison, and Washington counties in Indiana; Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, Spencer, and Trimble counties in Kentucky

McAllen MSA: Hidalgo county in Texas

Melbourne MSA: Brevard county in Florida

Memphis MSA: Crittenden county in Arkansas; De Soto, Marshall, Tate, and Tunica counties in Mississippi; Fayette, Shelby and Tipton counties in Tennessee

Miami Metro Division: Miami-Dade county in Florida

Milwaukee MSA: Milwaukee, Ozaukee, Washington, and Waukesha counties in Wisconsin

Minneapolis MSA: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright counties in Minnesota; Pierce and St. Croix counties in Wisconsin

Myrtle Beach MSA: Horry county in South Carolina

Naples MSA: Collier county in Florida

Nashville MSA: Cannon, Cheatham, Davidson, Dickson, Hickman, Macon, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson, and Wilson counties in Tennessee

New Orleans MSA: Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany parishes in Louisiana

New York - Long Island: Bergen, Hudson, and Passaic counties in New Jersey; Bronx, Kings, New York, Putnam, Queens, Richmond, Rockland, Westchester, Nassau, and Suffolk counties in New York

Northern New Jersey: Essex, Hunterdon, Morris, Sussex, and Union counties in New Jersey; Pike county in Pennsylvania

Oklahoma City MSA: Canadian, Cleveland, Grady, Lincoln, Logan, McClain, and Oklahoma counties in Oklahoma

Omaha MSA: Harrison, Mills and Pottawattamie counties in Iowa; Cass, Douglas, Sarpy, Saunders, and Washington counties in Nebraska

Orlando MSA: Lake, Orange, Osceola, and Seminole counties in Florida

Philadelphia MSA: New Castle county in Delaware; Cecil county in Maryland; Burlington, Camden, Gloucester, and Salem counties in New Jersey; Bucks, Chester, Delaware, Montgomery, and Philadelphia counties in Pennsylvania

Phoenix MSA: Maricopa and Pinal counties in Arizona

Pittsburgh MSA: Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland counties in Pennsylvania

Port St. Lucie MSA: Martin and St. Lucie counties in Florida

Portland MSA: Clackamas, Columbia, Multnomah, Washington, and Yamhill counties in Oregon; Clark and Skamania counties in Washington

Raleigh MSA: Franklin, Johnston and Wake counties in North Carolina

Reno MSA: Storey and Washoe counties in Nevada

Richmond MSA: Amelia, Caroline, Charles City, Chesterfield, Cumberland, Dinwiddie, Goochland, Hanover, Henrico, King and Queen, King William, Louisa, New Kent, Powhatan, Prince George, and Sussex counties in Virginia

Riverside-San Bernardino MSA: Riverside and San Bernardino counties in California

Sacramento MSA: El Dorado, Placer, Sacramento, and Yolo counties in California

Salt Lake City MSA: Salt Lake, Summit and Tooele counties in Utah

San Antonio MSA: Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina, and Wilson counties in Texas

San Diego MSA: San Diego county in California

San Francisco Bay Area: Alameda, Contra Costa, Marin, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma counties in California

Santa Ana-Anaheim-Irvine Metro Division: Orange county in California

Sarasota MSA: Manatee and Sarasota counties in Florida

Seattle MSA: King, Pierce and Snohomish counties in Washington

St. Louis MSA: Bond, Calhoun, Clinton, Jersey, Macoupin, Madison, Monroe, and St. Clair counties in Illinois; Crawford, Franklin, Jefferson, Lincoln, St. Charles, St. Louis, Warren, and Washington counties in Missouri

Stockton MSA: San Joaquin county in California

Tampa MSA: Hernando, Hillsborough, Pasco, and Pinellas counties in Florida

Tucson MSA: Pima county in Arizona

Virginia Beach MSA: Currituck county in North Carolina; Gloucester, Isle of Wight, James City, Mathews, Surry, and York counties in Virginia

Washington D.C. MSA: District of Columbia; Calvert, Charles, Frederick, Montgomery, and Prince George's counties in Maryland; Arlington, Clarke, Fairfax, Fauquier, Loudon, Prince William, Spotsylvania, Stafford, and Warren counties in Virginia; Jefferson county in West Virginia; Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park in Virginia

West Palm Beach Metro Division: Palm Beach county in Florida

Wilmington MSA: Brunswick, New Hanover, and Pender counties in North Carolina