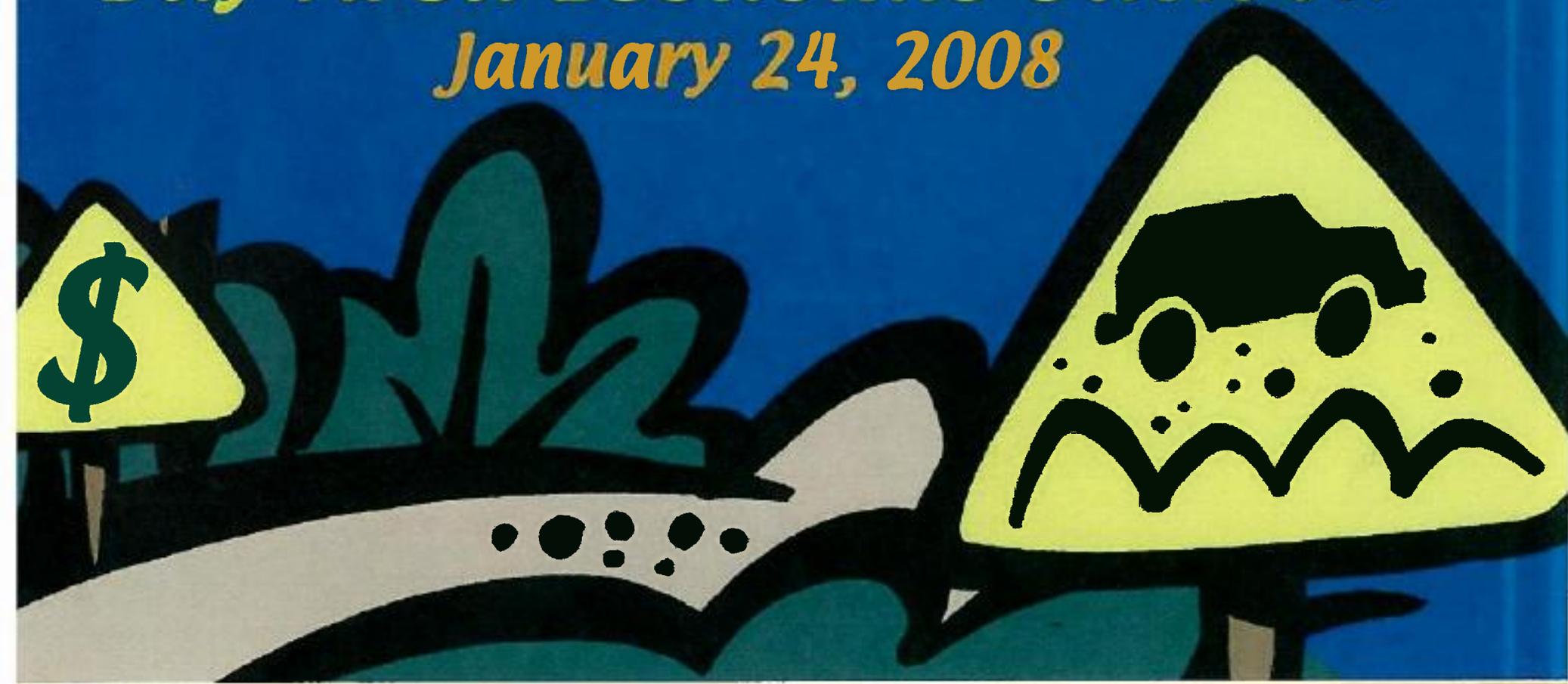


Just a Bump in the Road?

Bay Area Economic Outlook

January 24, 2008



Association of Bay Area Governments

101 Eighth Street • Oakland, CA • 510-464-7900 • www.abag.ca.gov

Agenda

8:30am Registration

9:00am Welcome and Overview

Rose Jacobs Gibson, ABAG President
San Mateo County Supervisor
Paul Fassinger, Research Director
Association of Bay Area Governments

9:10am Will California Have a Clear Road into the Future?

Howard Roth, Chief Economist
California Department of Finance

- To what degree will the housing slowdown affect the State's economy?
- What will be the reverberations of higher energy prices?
- Where will we see strength in the State's economy?

9:50am Bay Area Outlook: A Bump in the Road?

Paul Fassinger, Research Director
Association of Bay Area Governments

- Bay Area index of leading indicators: Still rosy?
- Overall, is the regional economy stronger or weaker than a year ago?
- Economic trends in the Bay Area's future: what can be expected?

10:30am Break

10:45am Bay Area Retail Sales: The Short-term Outlook

Hing Wong, Senior Regional Planner
Association of Bay Area Governments

- County-by-county taxable sales forecast
- Who is winning and losing when it comes to sales tax

11:15am The Residential Real Estate Market: Dire Straights or Recovery by 2009?

Gerald P. Cox, Director of Sales and Marketing
RealFacts

- Current trends: Rising rental prices for California and the Bay Area
- What the data tells us about the demand for more rental housing
- Bay Area vs. California - how the Bay Area differs from the State



Will California Have a Clear Road into the Future?

Howard Roth
Chief Economist
California Department of Finance



Last Year's Overview

- California and national housing sector downturns are not yet over - both economies will decelerate in the first half of 2007
- Both economies should pick up in 2008
- Major risks:
 - The housing sector downturns turn out to be worse than expected
 - Interest rates jump



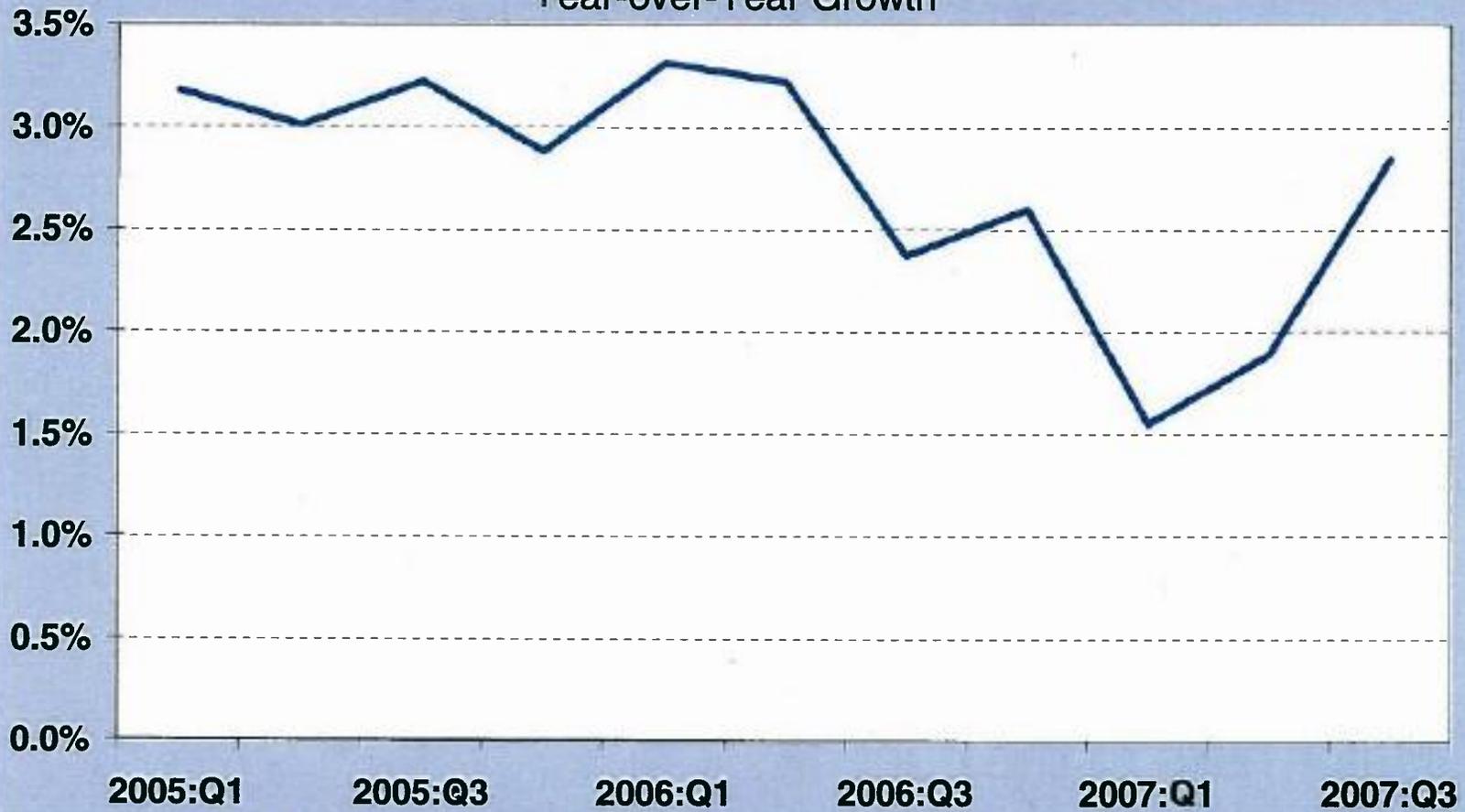
This Year's Overview

- The California and national housing sector slumps showed no signs of abating at yearend
- 2008 will be a weak year for both economies
- Best case: economic growth stabilizes at a low level at yearend
- The risk on a recession has increased considerably
- Major risks to the outlook:
 - The housing sector downturns turn out to be worse than expected
 - Higher energy prices



Real GDP

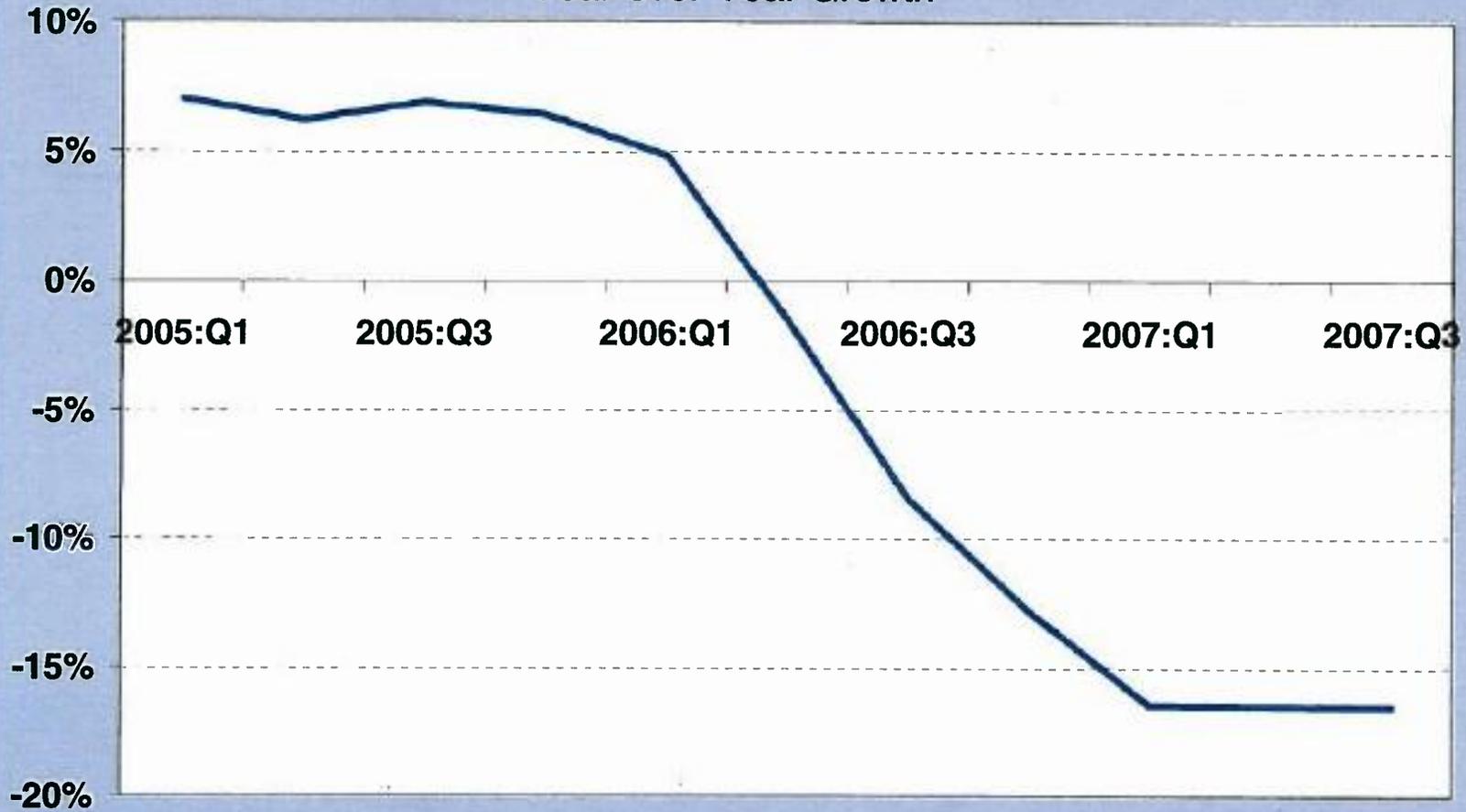
Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis



Residential Construction, Adjusted for Inflation Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis



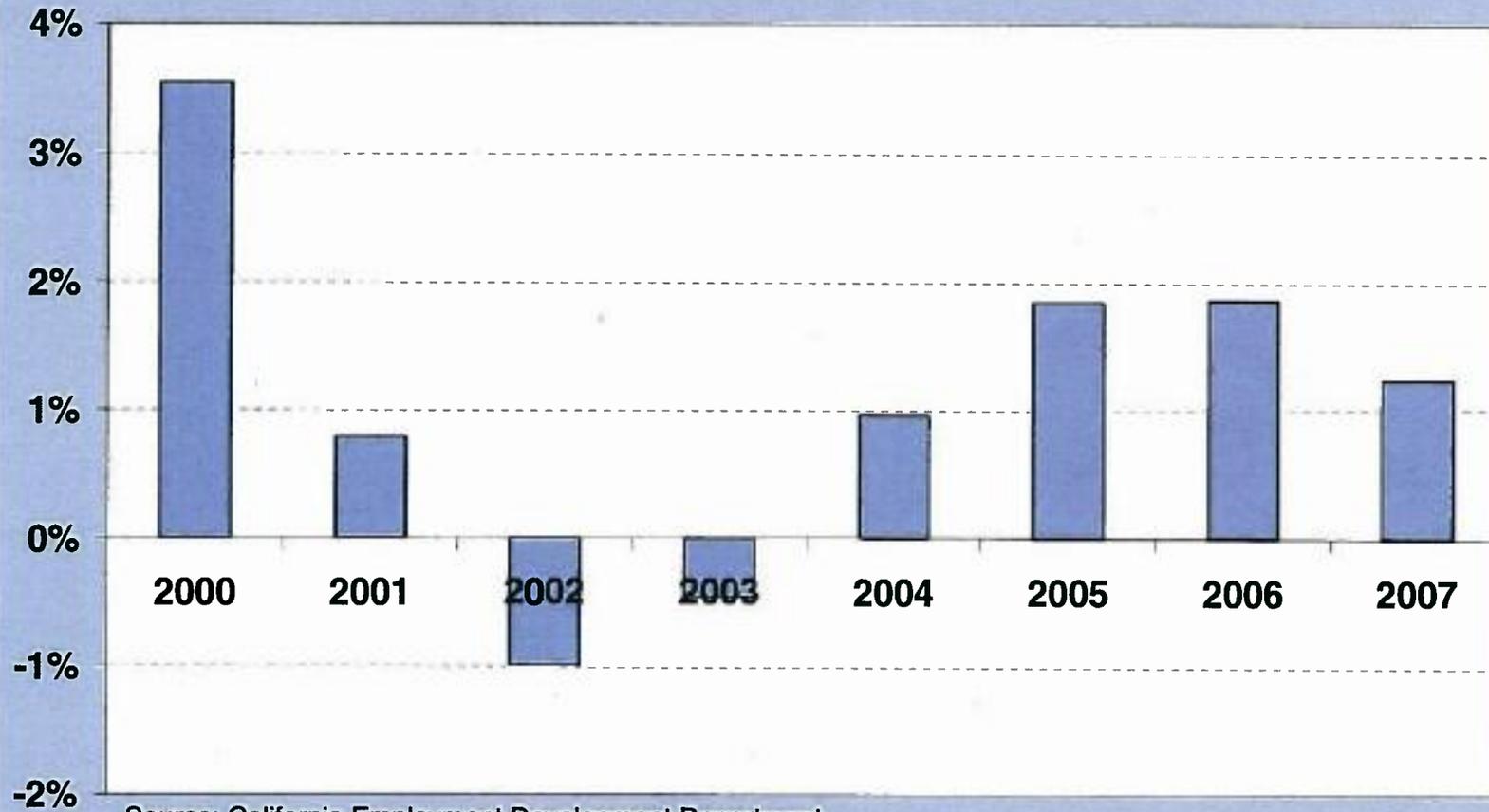
Consumer Spending, Adjusted for Inflation Year-over-Year Growth



Source: U.S. Bureau of Economic Analysis



California Nonfarm Payroll Employment Annual Average Growth



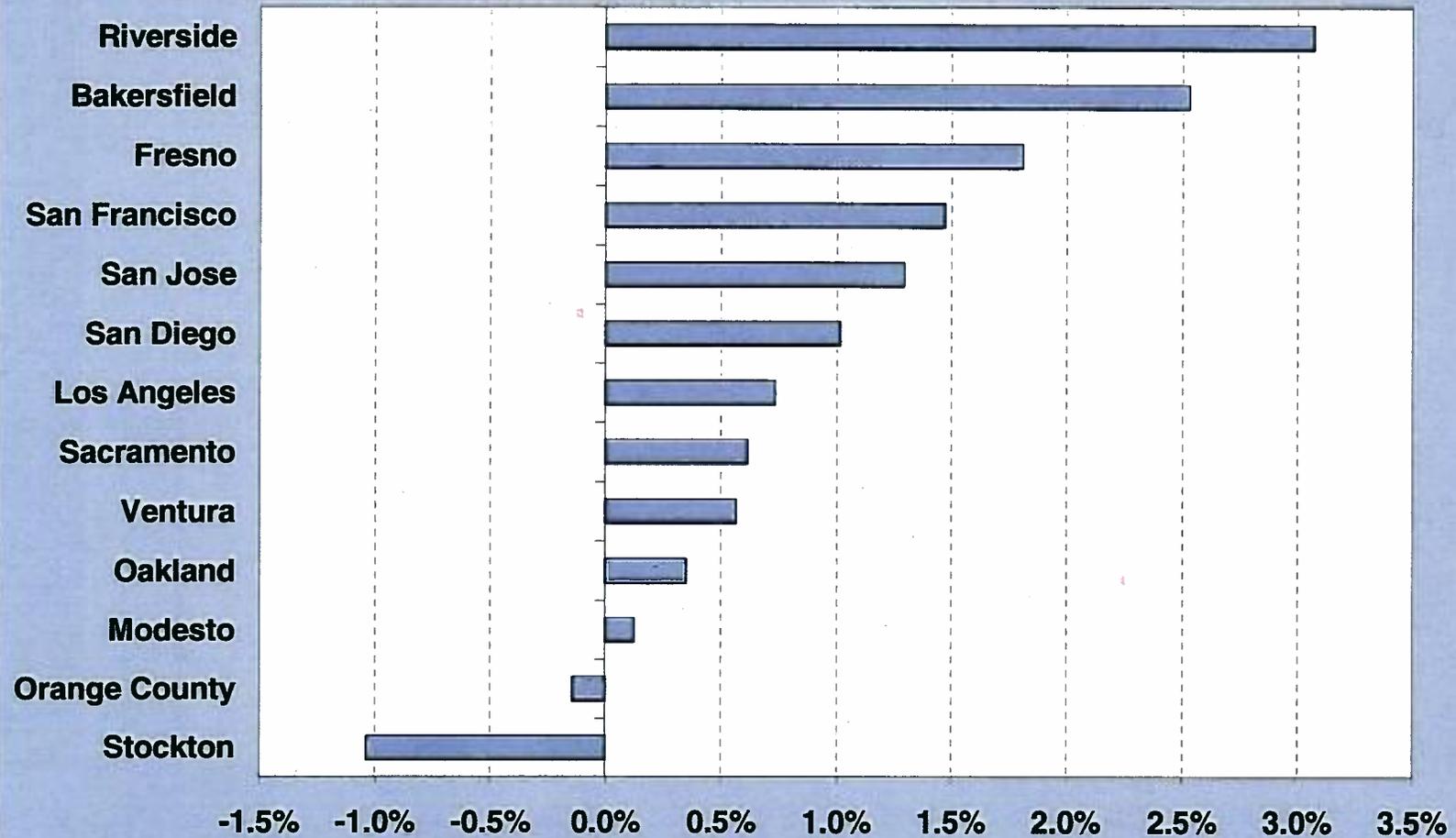
Jobs Growth Slows

| | Average Monthly California Job Gain | Percentage of National Job Gain |
|------|---|---------------------------------------|
| 2005 | 27,200 | 12.9% |
| 2006 | 21,700 | 11.5% |
| 2007 | 6,600 | 6.0% |

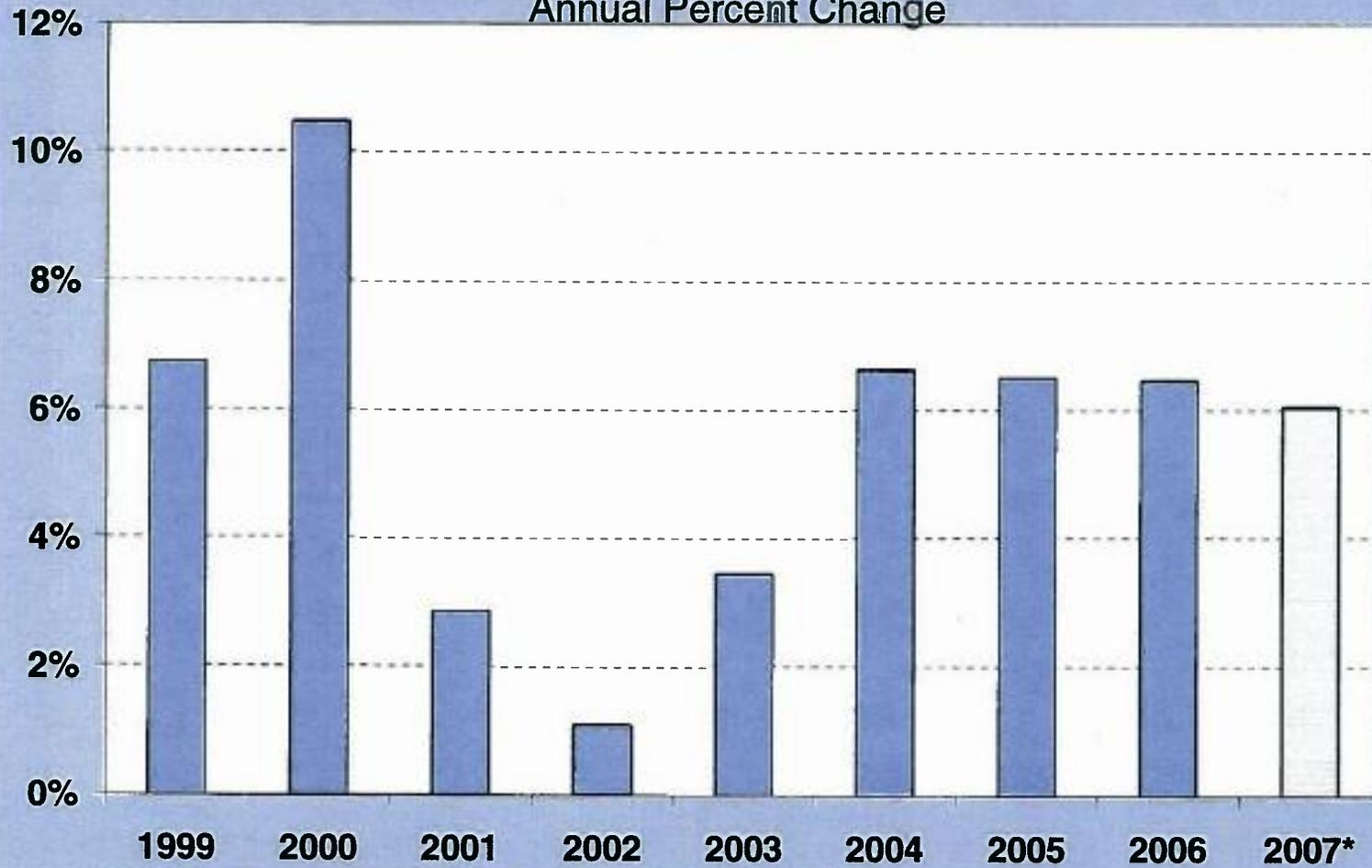


Nonfarm Payroll Employment Growth

November 2006 to November 2007



California Personal Income Annual Percent Change

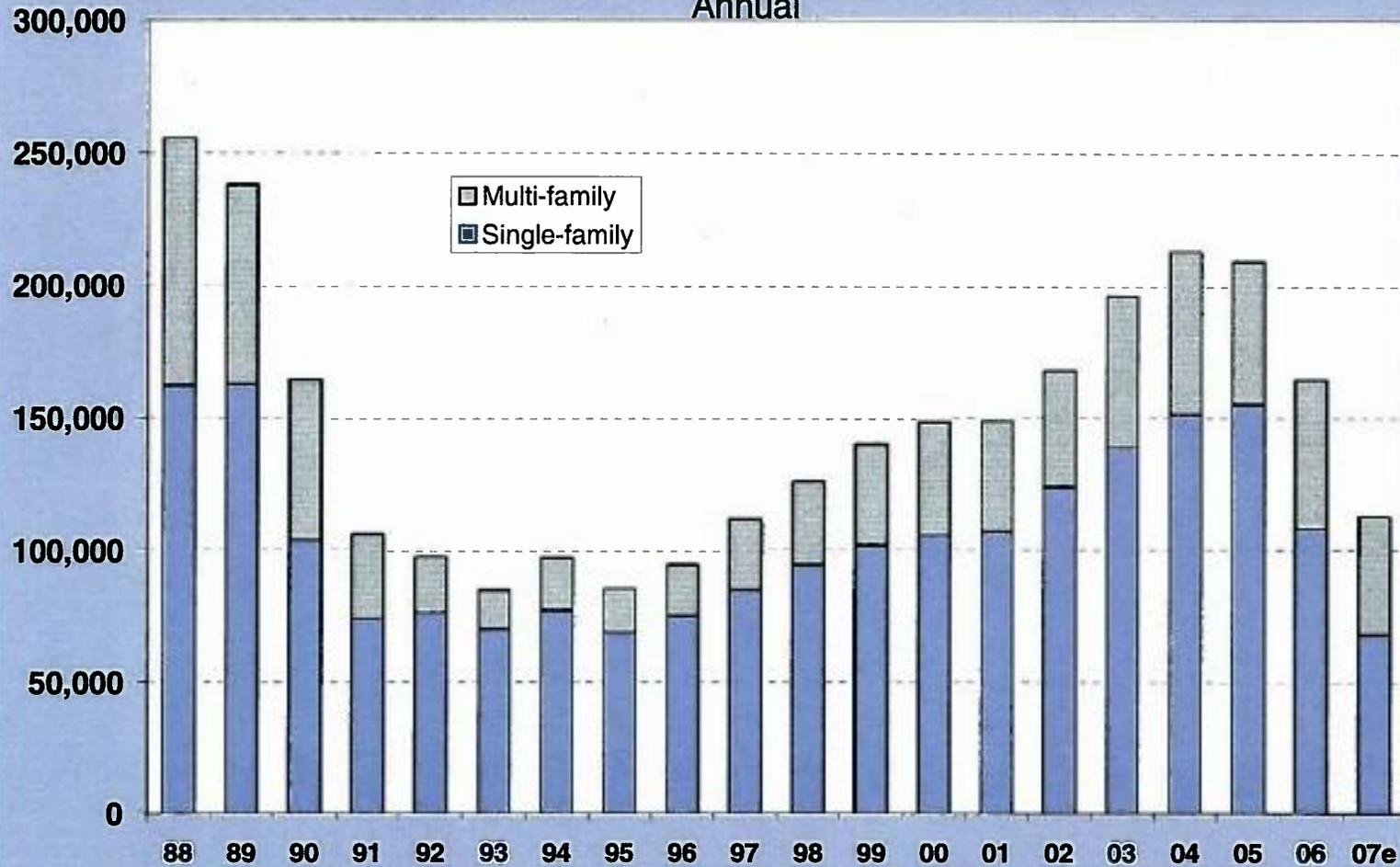


* first three quarters; Source: U.S. Bureau of Economic Analysis



California Housing Permits Tumble

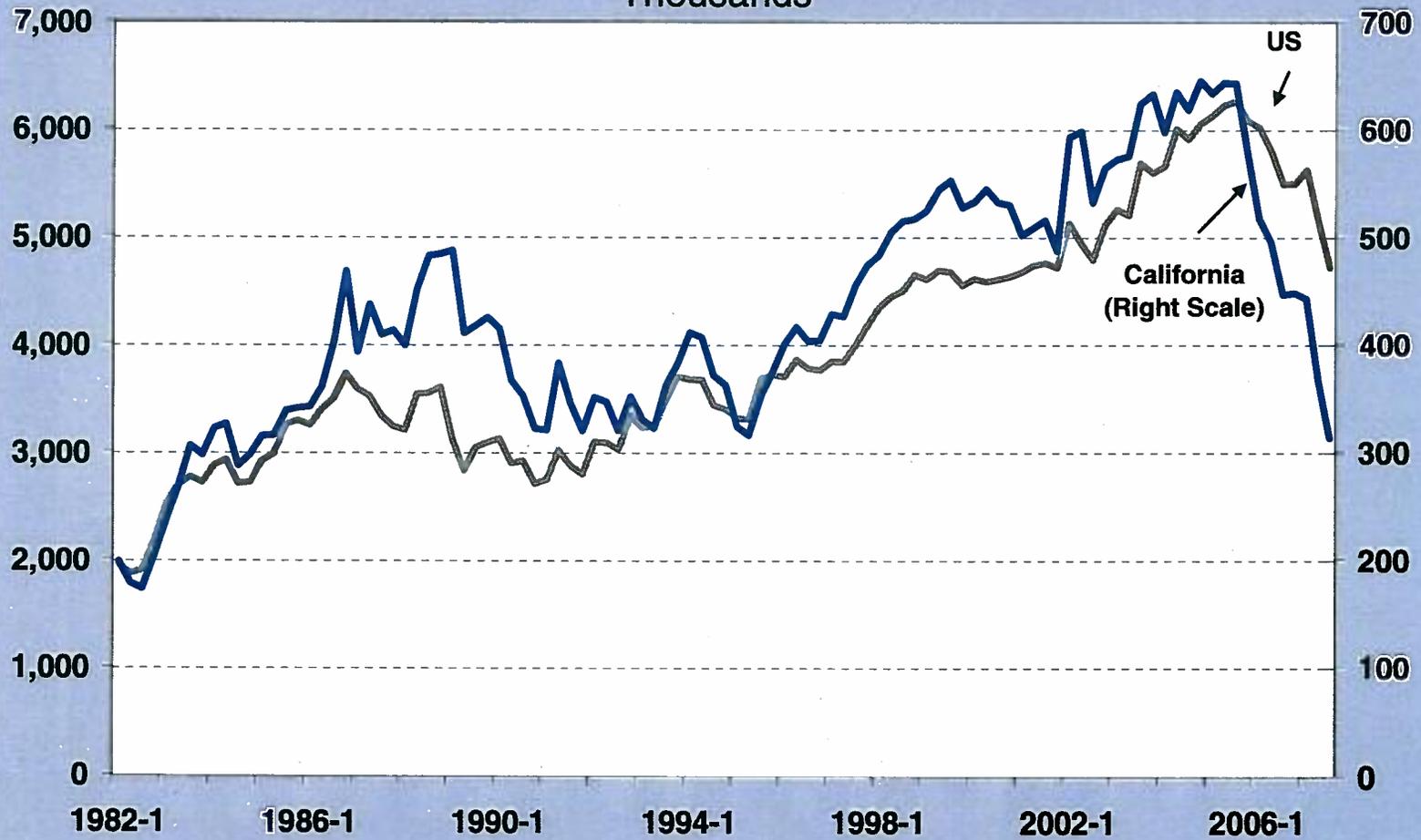
Annual



e: estimate based on data through November; Source: Construction Industry Research Board



Existing Single-Family Home Sales in CA and the Nation Thousands



Sources: The National and California Associations of Realtors



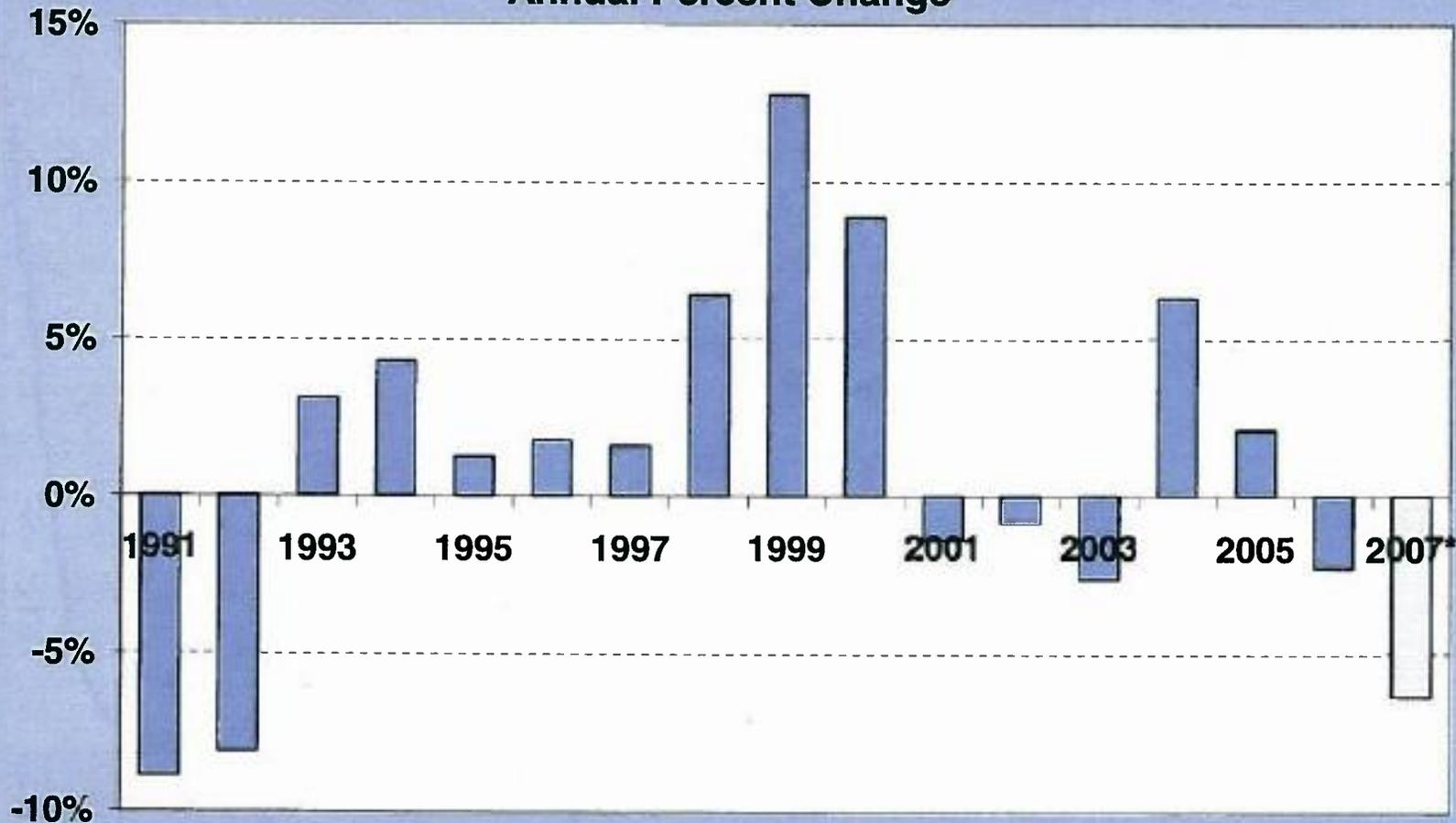
California Home Foreclosures Monthly



Source: DataQuick



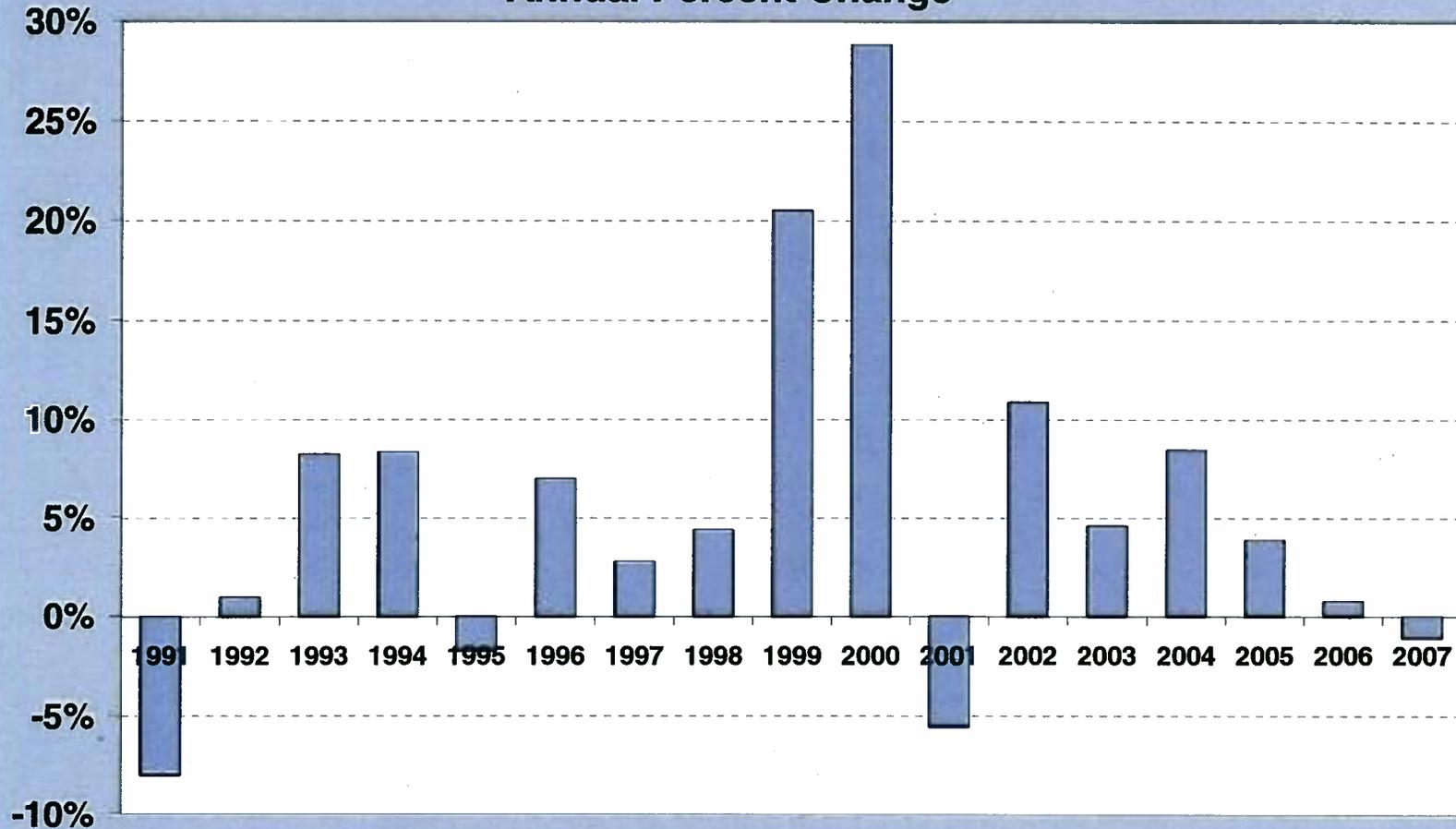
New Vehicle Registrations in California Slip Annual Percent Change



* through November; Source: California Department of Motor Vehicles



New Business Incorporations in California Annual Percent Change



Source: California Secretary of State



Bay Area Outlook: A Bump in the Road?

Paul Fassinger
Research Director
Association of Bay Area Governments



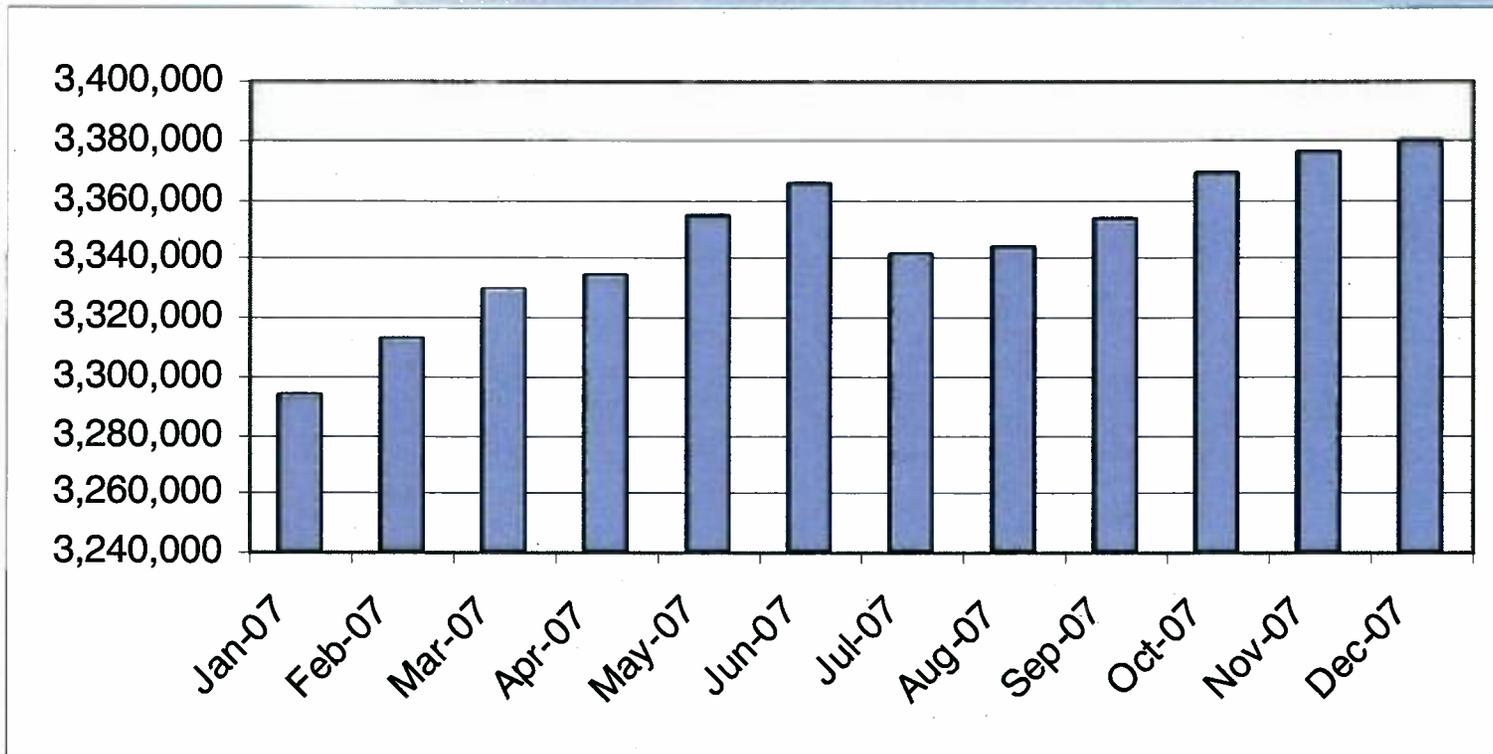
Short Term Expectations for the Bay Area

- Slow job growth and even a potential recession is expected in 2008 with improvement in 2009
- Incomes are expected to grow no more than inflation
- Given tight energy markets, inflation is expected to grow a little more rapidly
- Bay Area should mirror the rest of the nation



Bay Area Employment

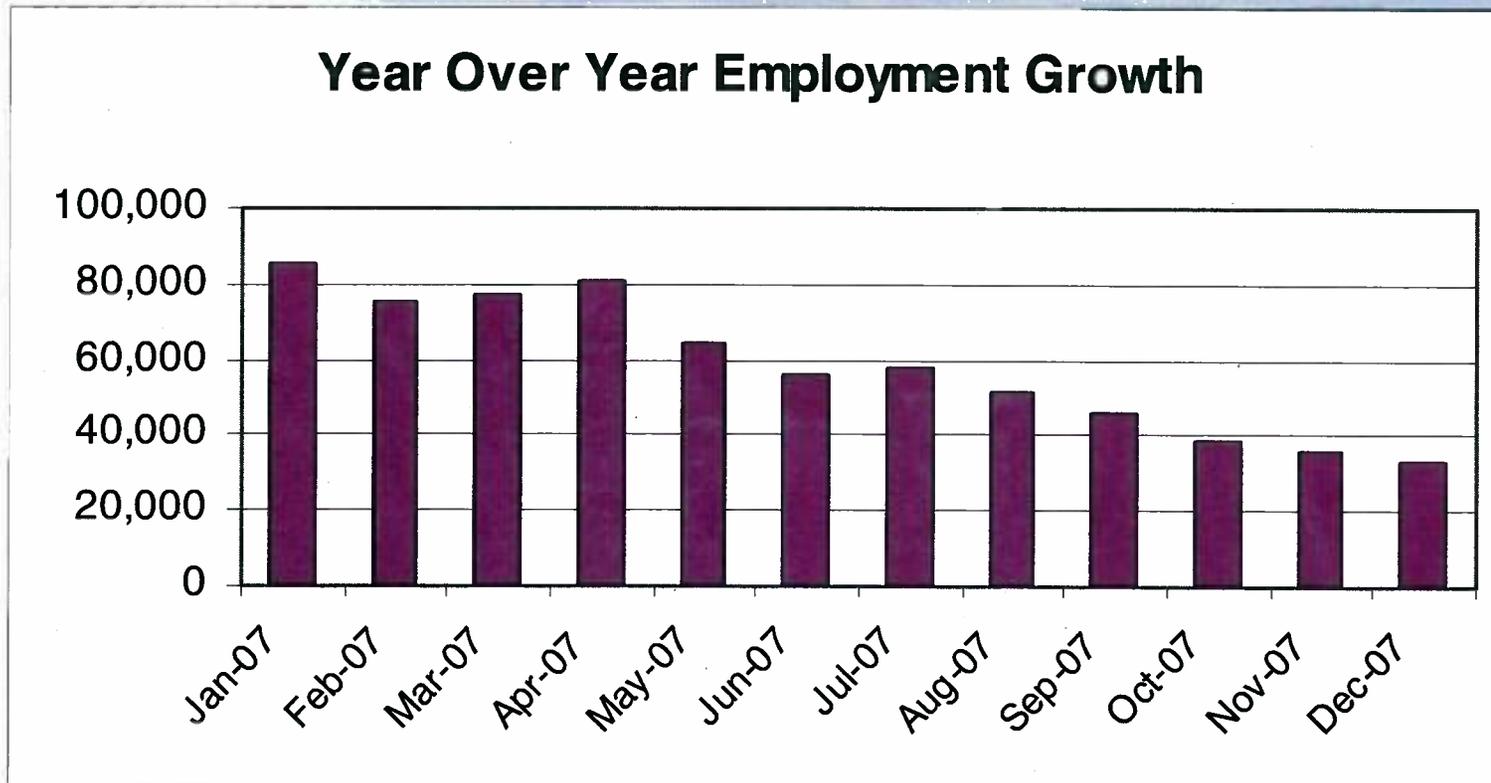
EDD Industry Employment



Source: California Employment Development Department

Year Over Year Change for 2007

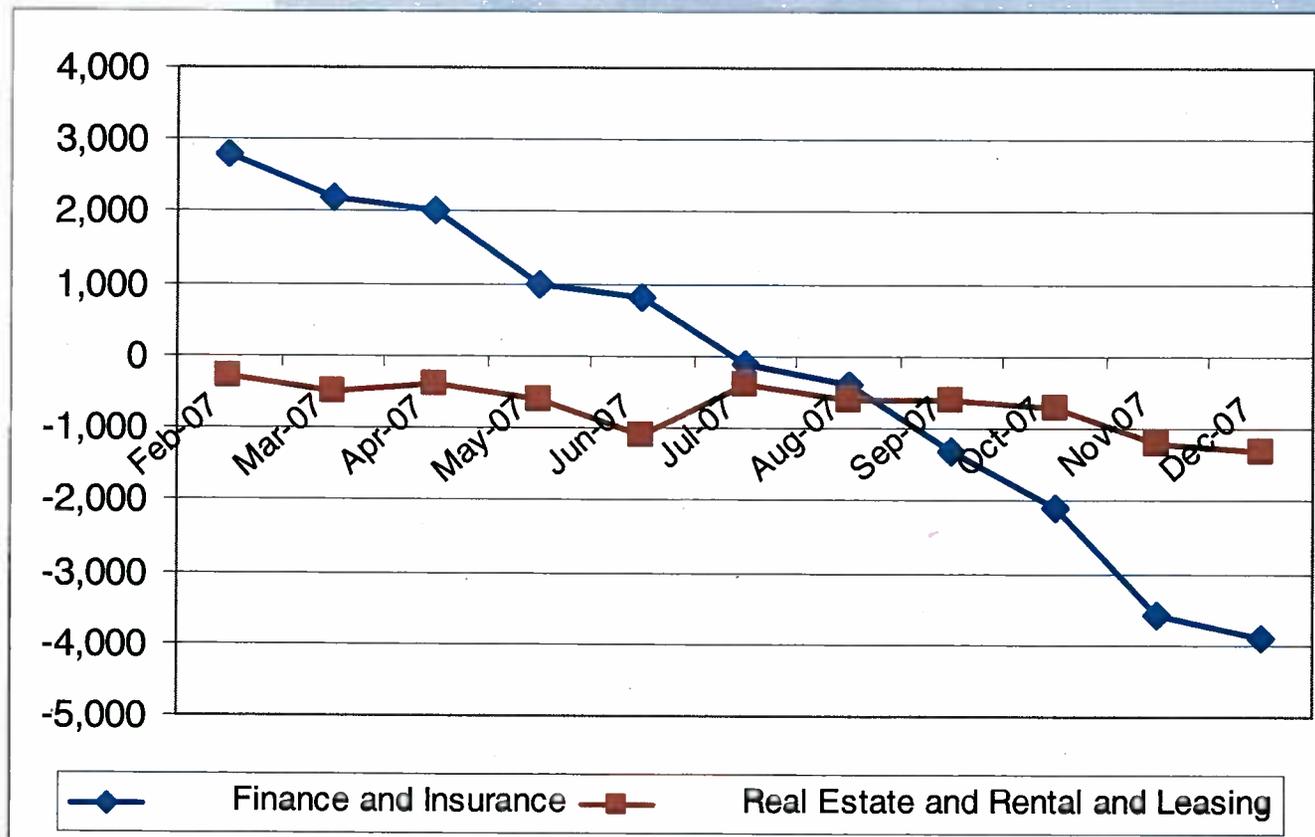
EDD Industry Employment



Source: California Employment Development Department

Change in Finance and Real Estate

Year Over Year



Source: California Employment Development Department



Recent Job Growth History

Primary Metropolitan Statistical Areas

| | 2004 Average | 2005 Average | 2006 Average | 2007 Average |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Oakland | 1,025,167 | 1,033,700 | 1,047,600 | 1,059,417 |
| San Francisco | 940,250 | 944,917 | 963,883 | 985,458 |
| Vallejo | 126,775 | 130,033 | 132,117 | 133,867 |
| Napa | 65,642 | 66,217 | 67,325 | 68,583 |
| Sonoma | 190,667 | 192,250 | 195,208 | 199,025 |
| Santa Clara | 852,992 | 860,100 | 881,642 | 899,875 |
| Bay Area | 3,201,492 | 3,227,217 | 3,287,775 | 3,346,225 |
| <i>Change</i> | <i>-21,400</i> | <i>25,725</i> | <i>60,558</i> | <i>58,450</i> |



Source: California Employment Development Department Note: Totals may not add up due to rounding

Unemployment Rates

Primary Metropolitan Statistical Areas

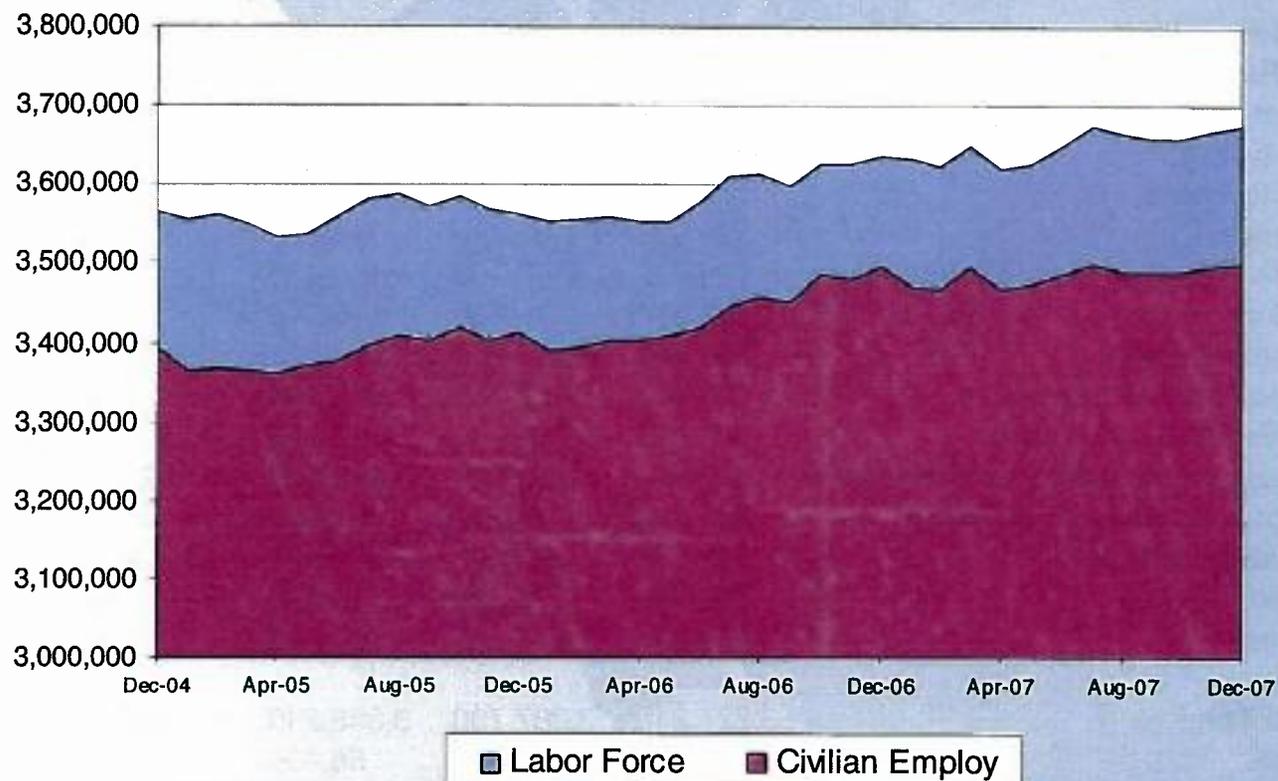
| | Dec-04 | Dec-05 | Dec-06 | Dec-07 |
|---------------|---------------|---------------|---------------|---------------|
| Oakland | 4.9% | 4.3% | 3.9% | 5.0% |
| San Francisco | 4.5% | 3.9% | 3.4% | 4.2% |
| Vallejo | 5.3% | 4.7% | 4.4% | 5.8% |
| Sonoma | 4.4% | 3.9% | 3.6% | 4.7% |
| Santa Clara | 5.5% | 4.6% | 4.1% | 5.1% |
| Napa | 5.0% | 4.3% | 3.9% | 5.1% |
| Bay Area | 4.9% | 4.2% | 3.8% | 4.8% |



Source: California Employment Development Department

Labor Force Survey

San Francisco Bay Area



Source: California Employment Development Department

Jobs by Industry

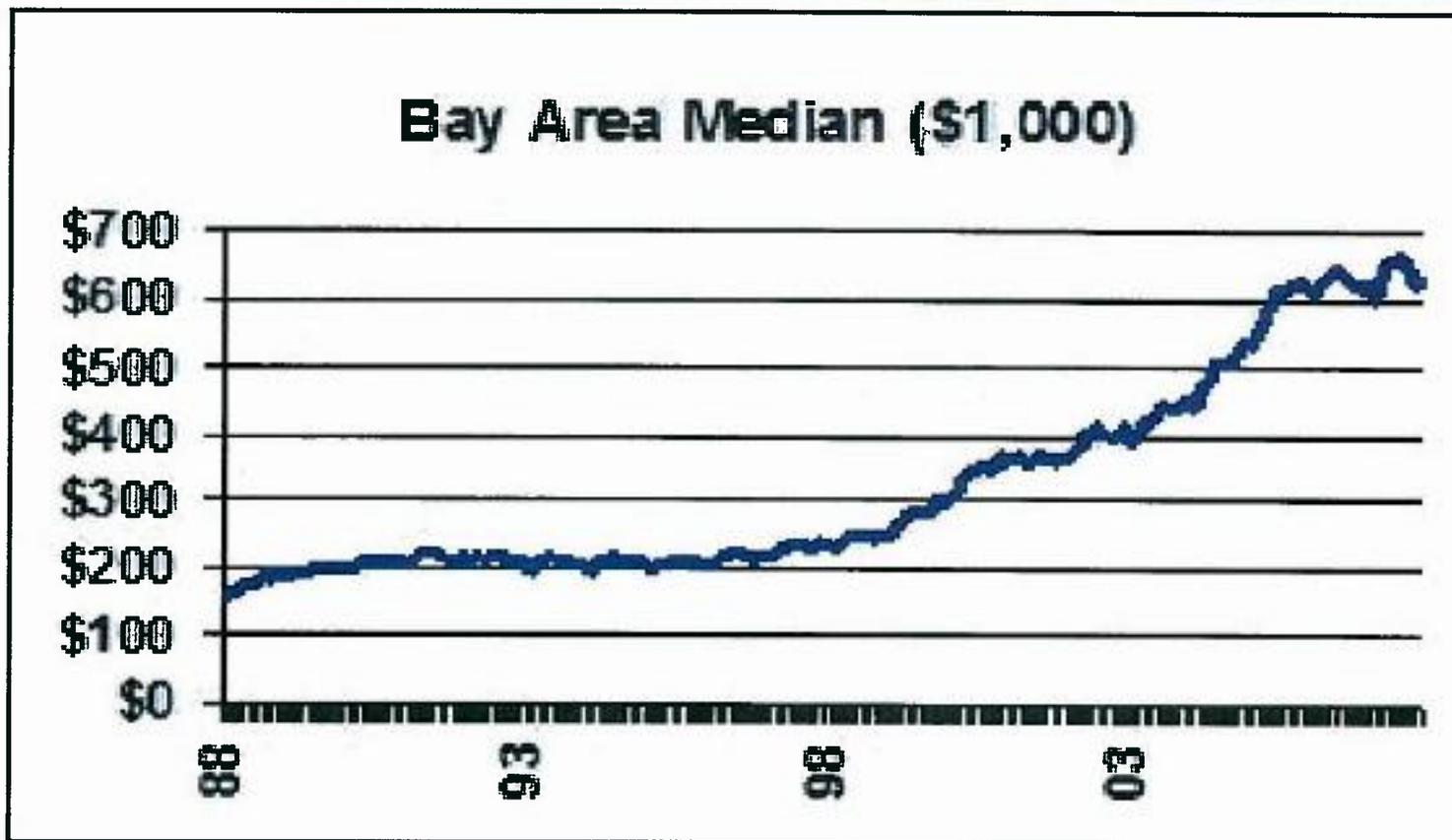
San Francisco Bay Area

| | 2005 | 2006 | 2007 | 2005-06 | 2006-07 |
|---|------------------|------------------|------------------|---------------|---------------|
| Agriculture | 20,520 | 20,250 | 19,820 | (270) | (430) |
| Natural Resources & Mining | 2,110 | 2,240 | 2,450 | 130 | 210 |
| Construction | 188,980 | 195,520 | 195,210 | 6,540 | (310) |
| Manufacturing | 350,410 | 351,700 | 355,560 | 1,290 | 3,860 |
| Wholesale Trade | 123,080 | 126,140 | 128,000 | 3,060 | 1,860 |
| Retail Trade | 336,530 | 337,480 | 343,630 | 950 | 6,150 |
| Transport. Warehousing & Utilities | 100,400 | 100,100 | 100,430 | (300) | 330 |
| Information | 112,680 | 112,650 | 113,210 | (30) | 560 |
| Financial Activities | 211,980 | 213,700 | 213,080 | 1,720 | (620) |
| Finance and Insurance | 150,830 | 152,150 | 152,160 | 1,320 | 10 |
| Real Estate and Leasing | 61,150 | 61,550 | 60,920 | 400 | (630) |
| Professional and Business Services | 529,800 | 549,800 | 566,520 | 20,000 | 16,720 |
| Educational and Health Services | 361,770 | 373,260 | 384,860 | 11,490 | 11,600 |
| Leisure and Hospitality | 312,150 | 322,010 | 330,990 | 9,860 | 8,980 |
| Other Services | 108,830 | 109,780 | 111,080 | 950 | 1,300 |
| Government | 468,000 | 473,160 | 481,400 | 5,160 | 8,240 |
| Regional Total | 3,227,240 | 3,287,790 | 3,346,240 | 60,550 | 58,450 |
| Change | | 60,550 | 58,450 | | |

Source: California Employment Development Department



Home Prices

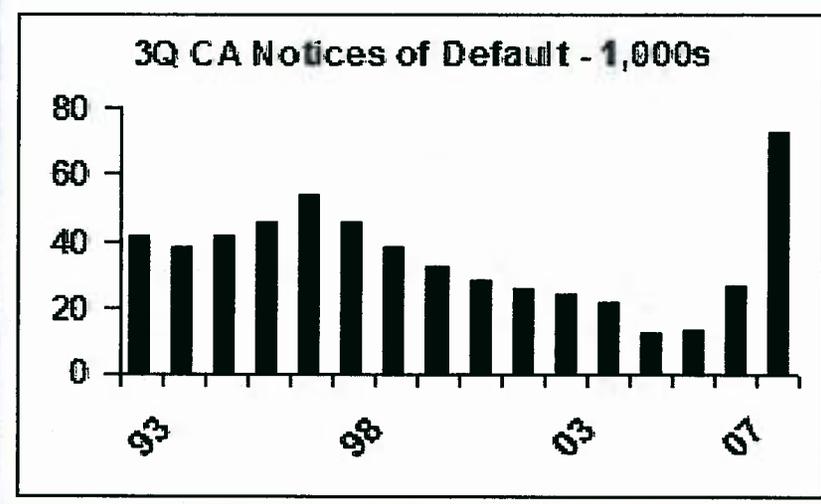


Source: DataQuick

Real Estate Distress

Notices of Default

| County/Region | 2006Q3 | 2007Q3 | %Chg |
|-----------------|--------------|---------------|---------------|
| San Francisco | 149 | 252 | 69.1% |
| Alameda | 803 | 2,126 | 164.8% |
| Contra Costa | 1012 | 3,216 | 217.8% |
| Santa Clara | 670 | 1,655 | 147.0% |
| San Mateo | 290 | 581 | 100.3% |
| Marin | 89 | 172 | 93.3% |
| Solano | 510 | 1,513 | 196.7% |
| Sonoma | 231 | 749 | 224.2% |
| Napa | 43 | 163 | 279.1% |
| Bay Area | 3,797 | 10,427 | 174.6% |



Source: DataQuick

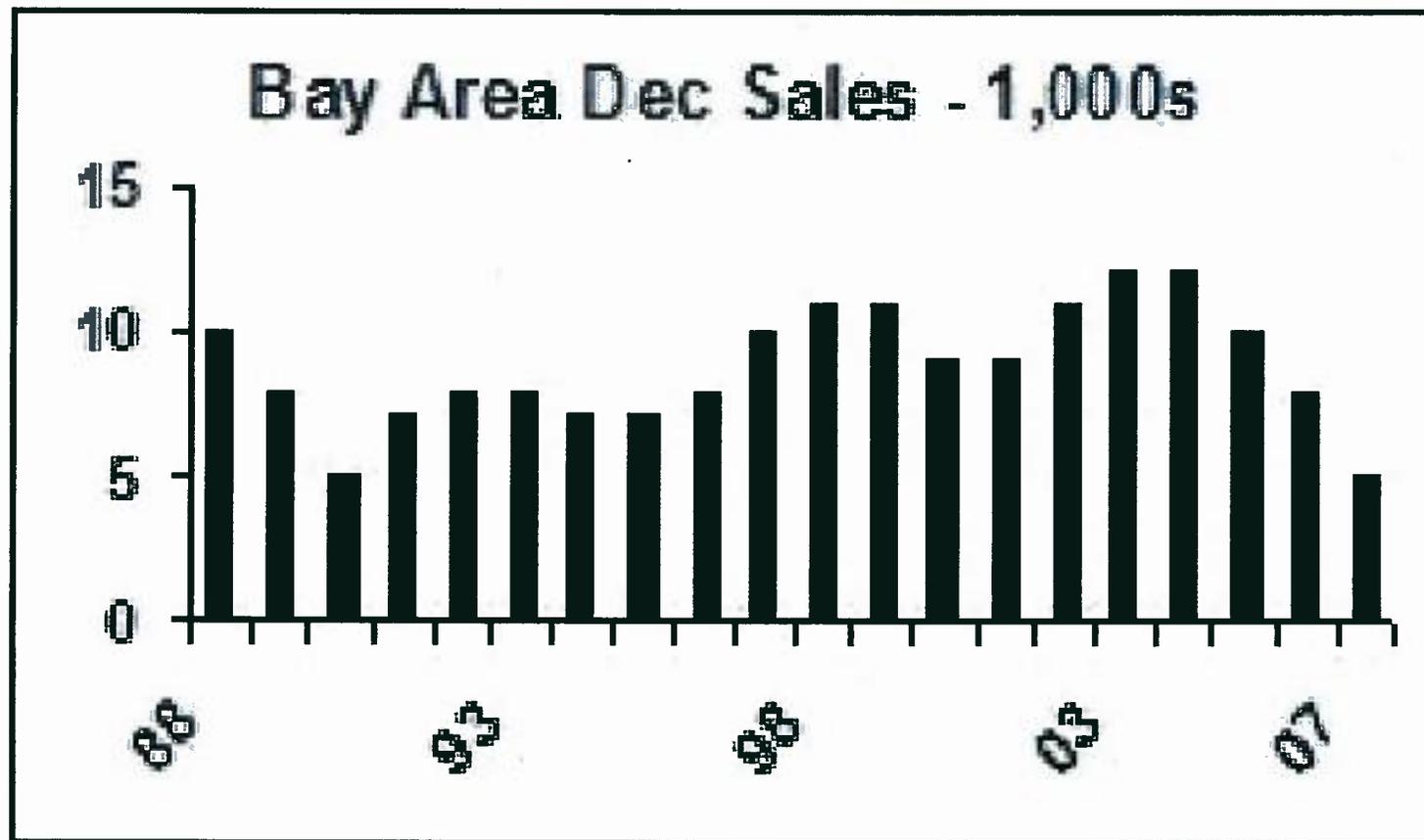
Recent Housing Price Data

| All Homes | Number Sold Dec 2006 | Number Sold Dec 2007 | Percent Change | Median Dec-06 | Median Dec-07 | Percent Change |
|------------------|-------------------------|-------------------------|-------------------|------------------|------------------|-------------------|
| Alameda | 1,589 | 983 | -38.10% | \$589,000 | \$540,000 | -8.30% |
| Contra Costa | 1,788 | 971 | -45.70% | \$569,500 | \$505,000 | -11.30% |
| Marin | 268 | 193 | -28.00% | \$804,750 | \$760,500 | -5.50% |
| Napa | 127 | 72 | -43.30% | \$590,000 | \$590,000 | 0.00% |
| Santa Clara | 2,106 | 1,265 | -39.90% | \$656,000 | \$655,000 | -0.20% |
| San Francisco | 589 | 445 | -24.40% | \$745,000 | \$731,000 | -1.90% |
| San Mateo | 685 | 468 | -31.70% | \$735,000 | \$733,500 | -0.20% |
| Solano | 622 | 360 | -42.10% | \$439,500 | \$370,000 | -15.80% |
| Sonoma | 598 | 308 | -48.50% | \$525,000 | \$410,000 | -21.90% |
| Bay Area | 8,372 | 5,065 | -39.50% | \$618,000 | \$587,500 | -4.90% |

Source: DataQuick



Comparison of December Home Sales



Source: DataQuick

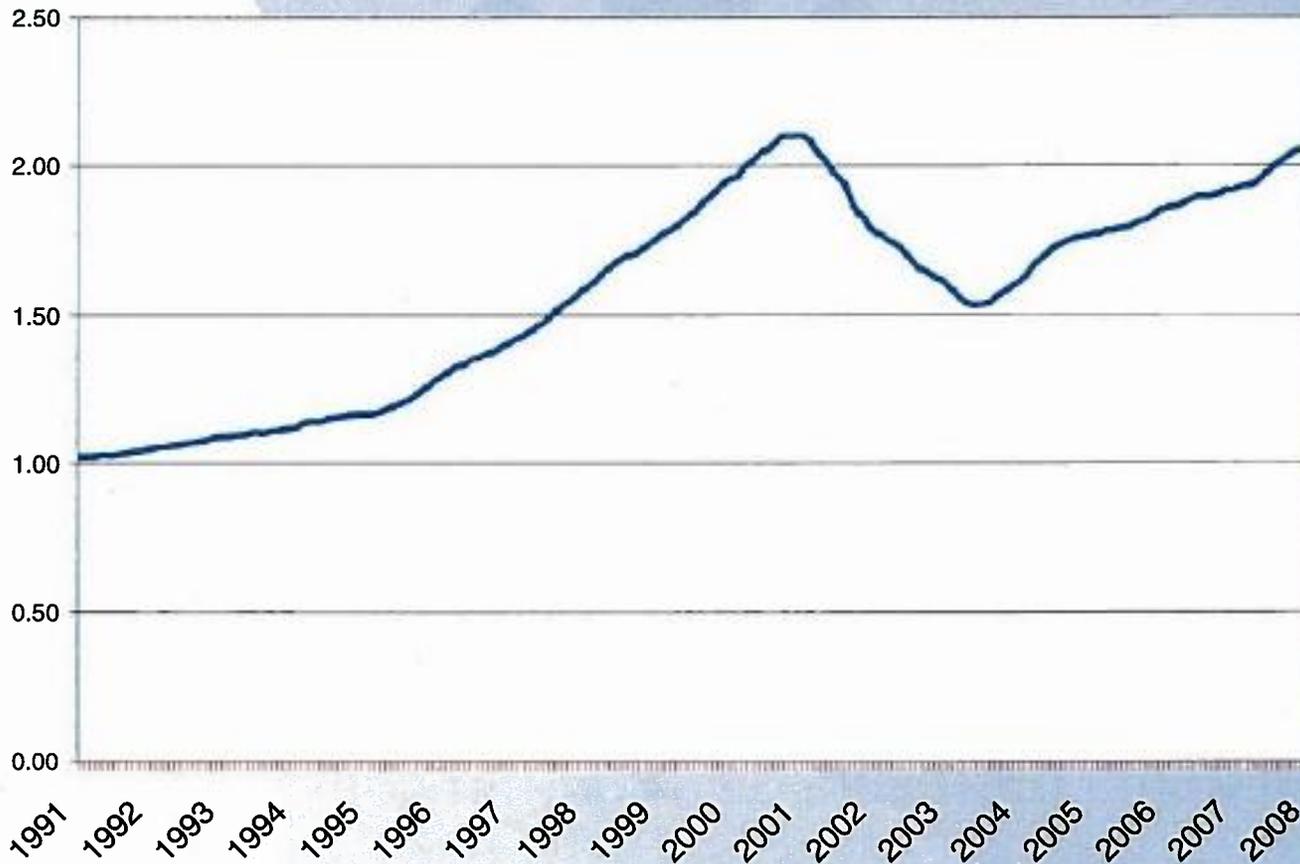


Bay Area Index

- Leading economic indicator for the Bay Area
- Indicates employment growth 3-6 months in advance
- Components include:
 - Book to Bill Ratio for Printed Circuit Boards
 - S&P 500
 - Airline Passenger Travel
 - Regional Retail Sales Data
- Components represent 12-month moving averages



Bay Area Index



Source: ABAG



S&P 500 Index

S&P 500 INDEX (STANDARD & POOR)
as of 4-Jan-2008

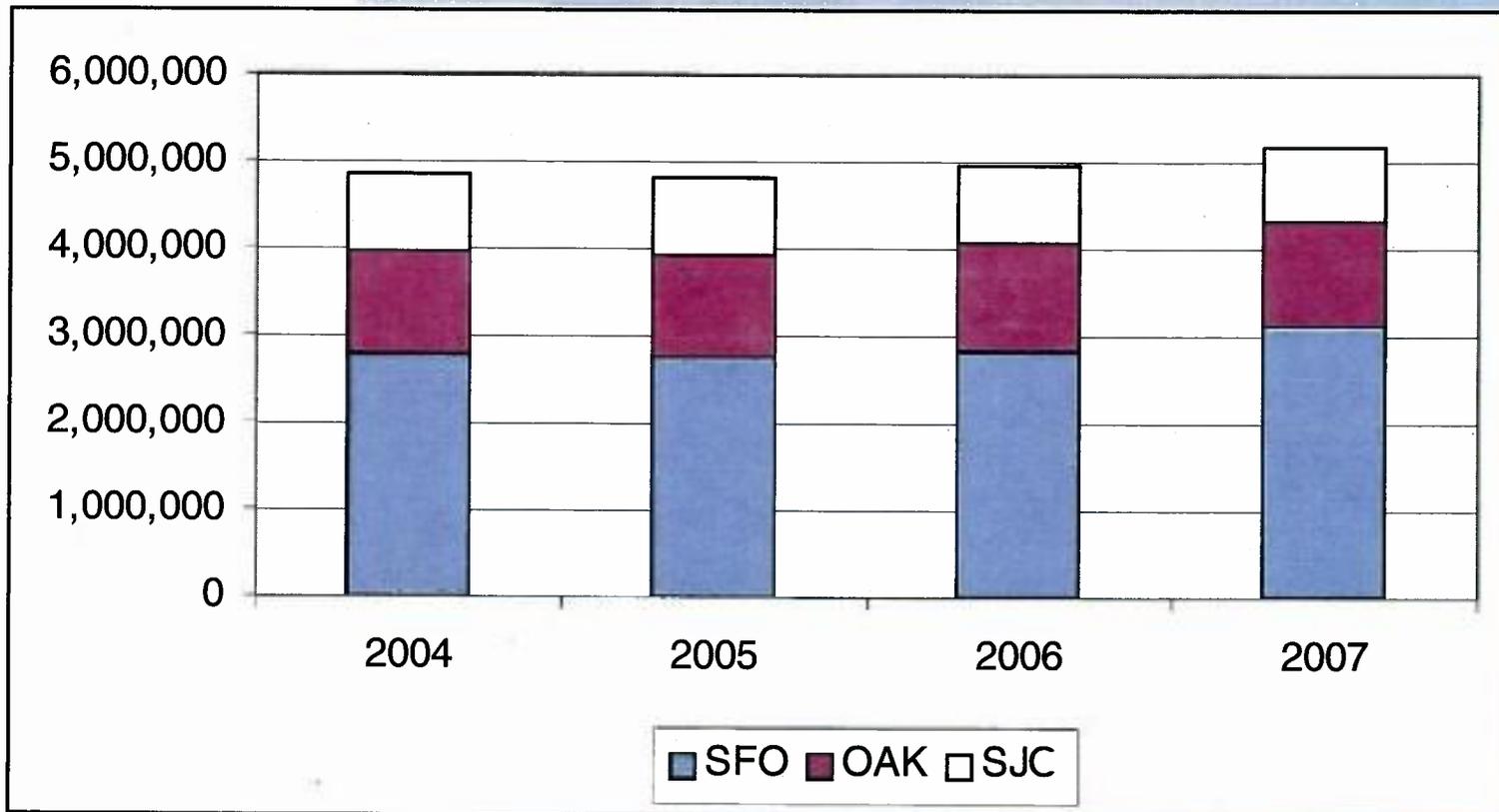


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Bay Area Airline Passenger

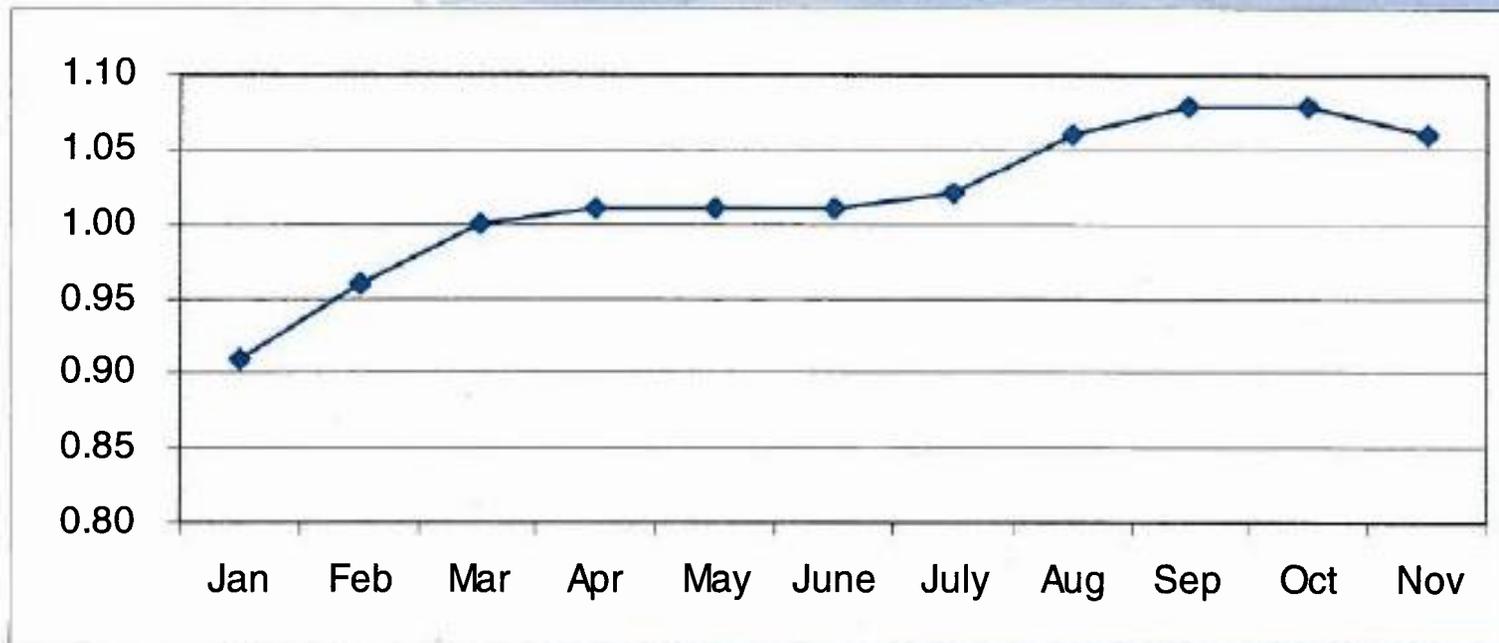


Source: San Francisco, Oakland, and San Jose International Airports



2007 Book to Bill Ratio

IPC Printed Circuit Boards 12-Month Moving Averages

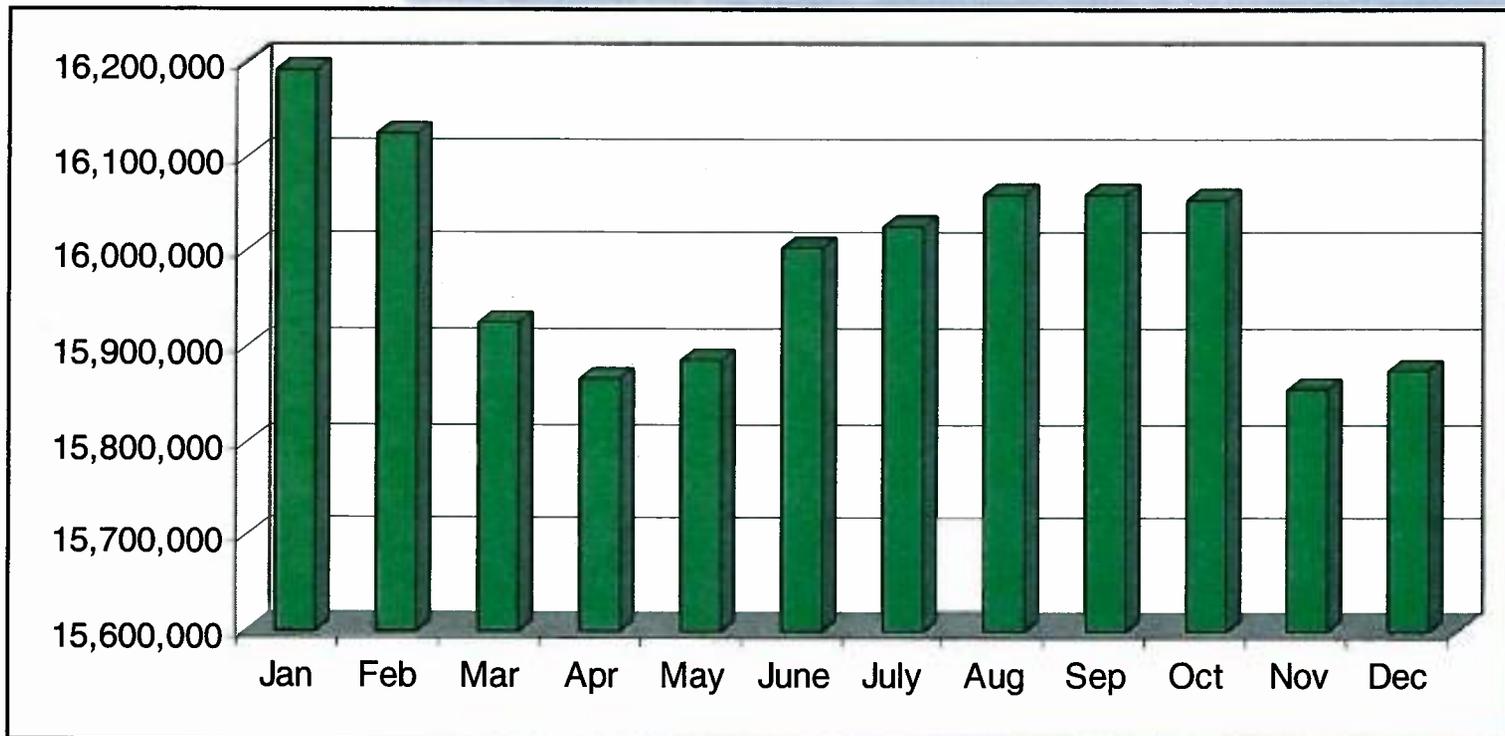


Source: ABAG



2007 Bay Area Retail Sales

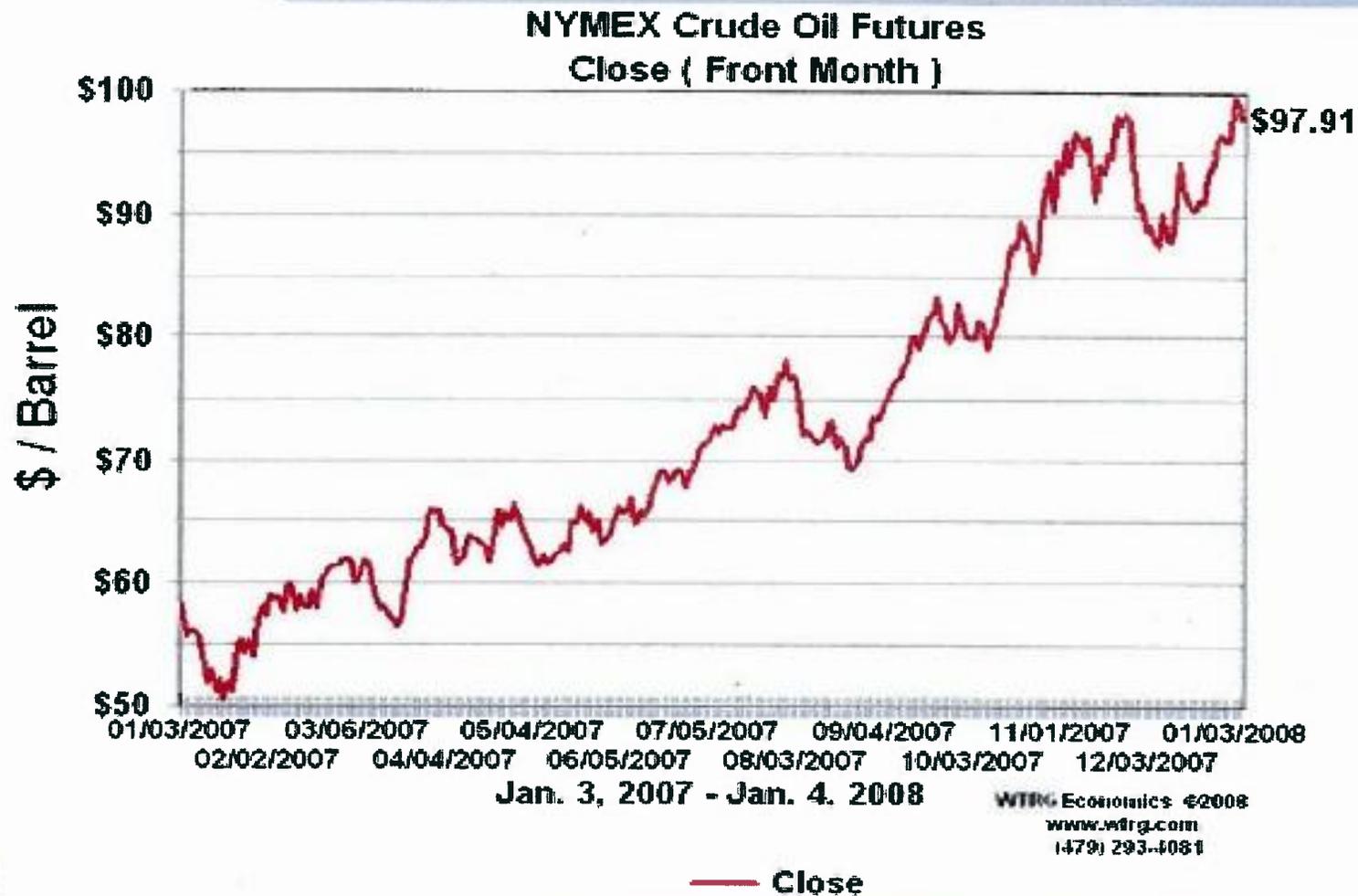
12-Month Moving Average TDA Receipts



Source: Metropolitan Transportation Commission

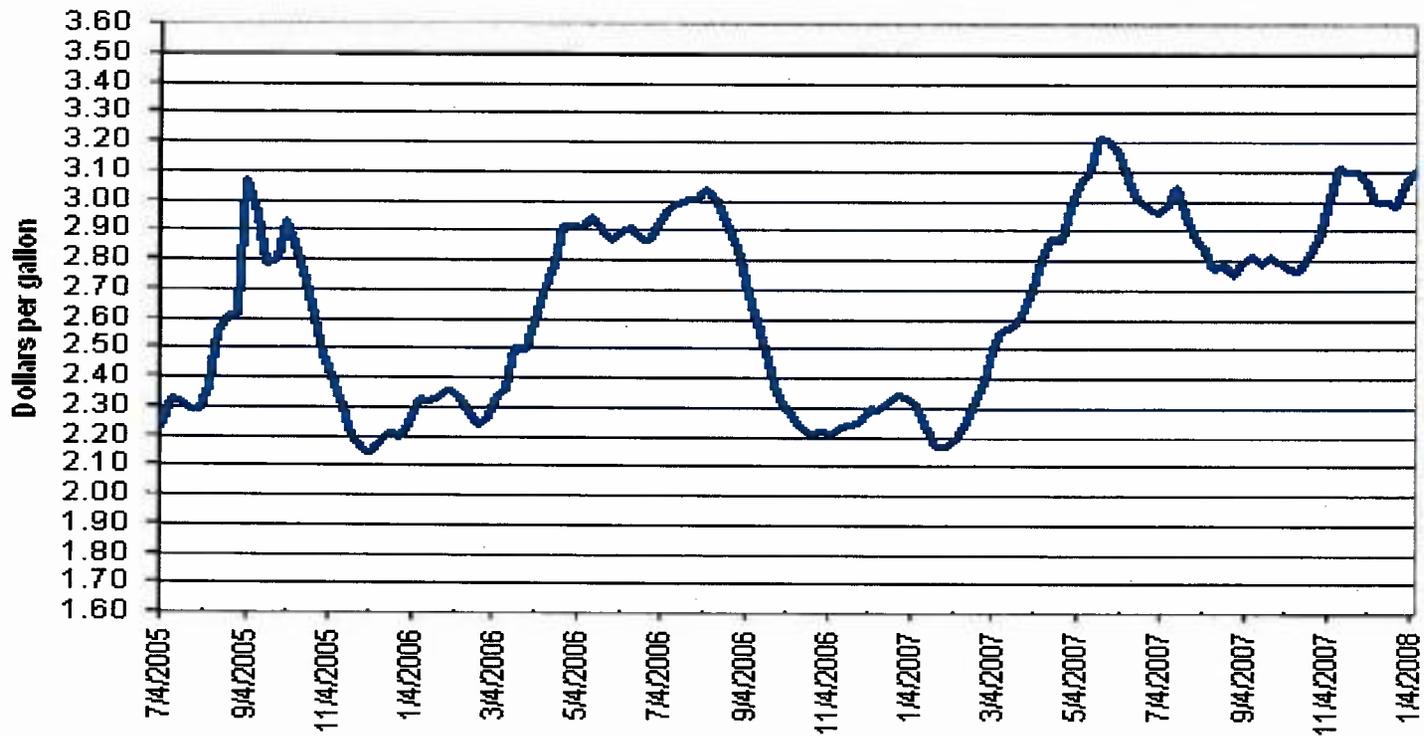


Crude Oil Futures



Gasoline Prices

Weekly U.S. Retail Gasoline Prices, Regular Grade

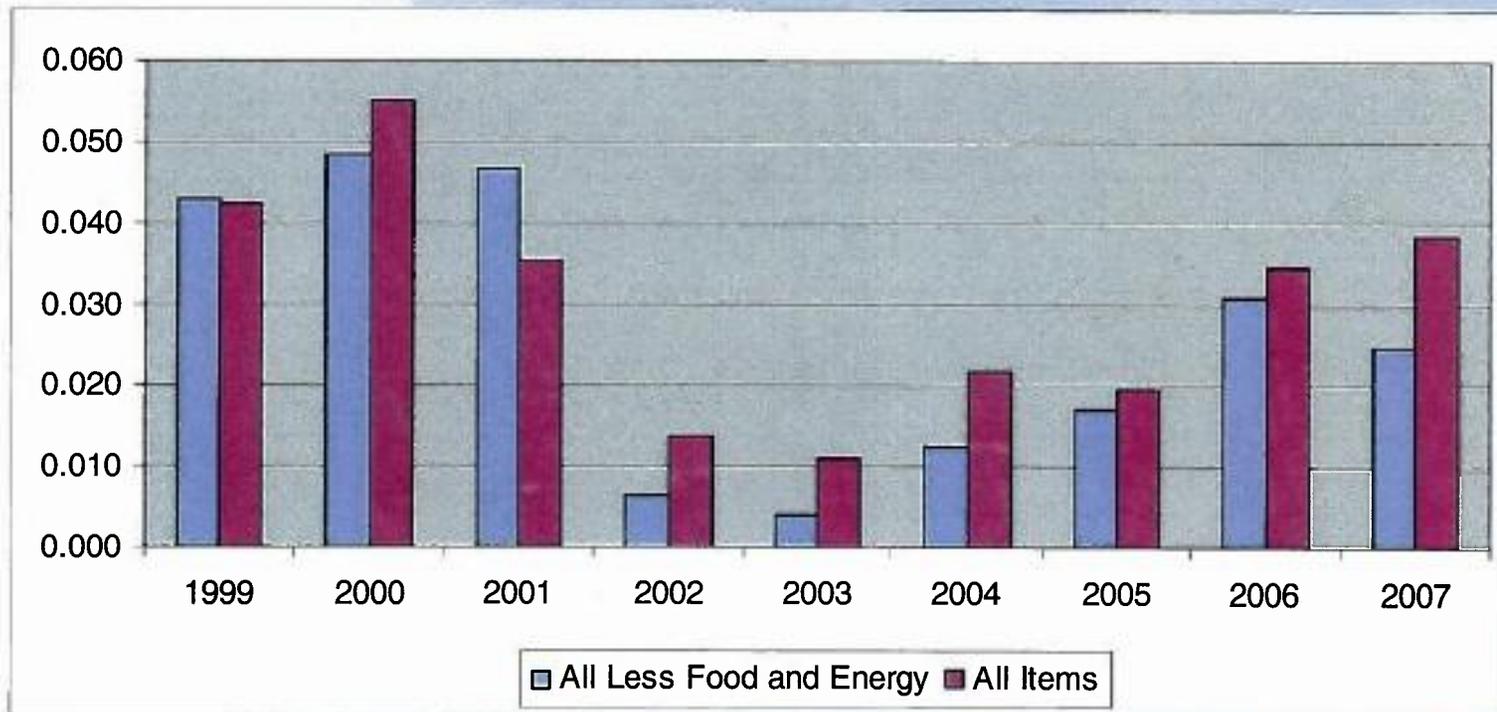


Source: Energy Information Administration



Bay Area Consumer Price Index

All Urban Consumers December to December



Source: Bureau of Labor Statistics

Inflation Rate

San Francisco - All Urban Consumer

- 2004 at 2.2%
- 2005 at 2.0%
- 2006 at 3.4%
- 2007 at 3.8%
- 2008 at 3.4%
- 2009 at 3.0%



Source: Bureau of Labor Statistics, ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Slowdown

- A recession is classically two consecutive quarters of negative GDP growth
- Recently employment declines
- Bay Area sensitive to all the national factors
- Businesses here more robust?
- More export-oriented businesses makes a difference?



Growth Ranges for the Bay Area

1990-2007

- Inflation (BLS CPI-U Bay Area)
 - 1.6% to 5.4% annual change
- Household Income
 - -2.0% to 6.3% real annual change
 - 1.2% to 8.5% nominal annual change
- Employment
 - -4.9% to 5.3% annual change
 - -171,300 to 177,200 annual change



Household Income

Constant 2005 Dollars

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------|-----------|-----------|-----------|-----------|-----------|
| Alameda | \$88,800 | \$89,870 | \$90,769 | \$90,769 | \$91,223 |
| Contra Costa | \$98,400 | \$99,580 | \$100,576 | \$100,576 | \$101,079 |
| Marin | \$121,600 | \$123,060 | \$124,291 | \$124,291 | \$124,912 |
| Napa | \$85,900 | \$86,930 | \$87,799 | \$87,799 | \$88,238 |
| San Francisco | \$97,400 | \$98,570 | \$99,556 | \$99,556 | \$100,053 |
| San Mateo | \$121,700 | \$123,160 | \$124,392 | \$124,392 | \$125,014 |
| Santa Clara | \$97,900 | \$99,070 | \$100,061 | \$100,061 | \$100,561 |
| Solano | \$84,400 | \$85,410 | \$86,264 | \$86,264 | \$86,695 |
| Sonoma | \$82,600 | \$83,590 | \$84,426 | \$84,426 | \$84,848 |
| Region | \$97,300 | \$98,400 | \$99,400 | \$99,400 | \$99,900 |



Source: ABAG



Average Annual Employment Growth

Wage and Salary Employment

Primary Metropolitan Statistical Areas

| | 2008 | 2009 |
|---------------|--------|--------|
| Oakland | 2,750 | 6,000 |
| San Francisco | 5,420 | 8,300 |
| Vallejo | 310 | 600 |
| Napa | 600 | 800 |
| Sonoma | 890 | 1,500 |
| Santa Clara | 5,030 | 8,050 |
| Total | 15,000 | 25,250 |



Source: ABAG



Forecast Summary

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------|--------|--------|--------|--------|--------|
| Inflation | 2.0% | 3.4% | 3.8% | 3.4% | 3.0% |
| Income Growth | 0.8% | 4.2% | 1.2% | 0.0% | 0.5% |
| Job Growth | 22,320 | 27,000 | 54,100 | 15,000 | 25,250 |



Source: ABAG



Conclusions

- Bay Area Index and its components suggest a possible recession
- Our expectations are for a relatively mild condition
- Energy prices, mortgage industry and state budget continue to cause concerns



Bay Area Retail Sales: The Short-term Outlook

Hing Wong
Senior Regional Planner
Association of Bay Area Governments



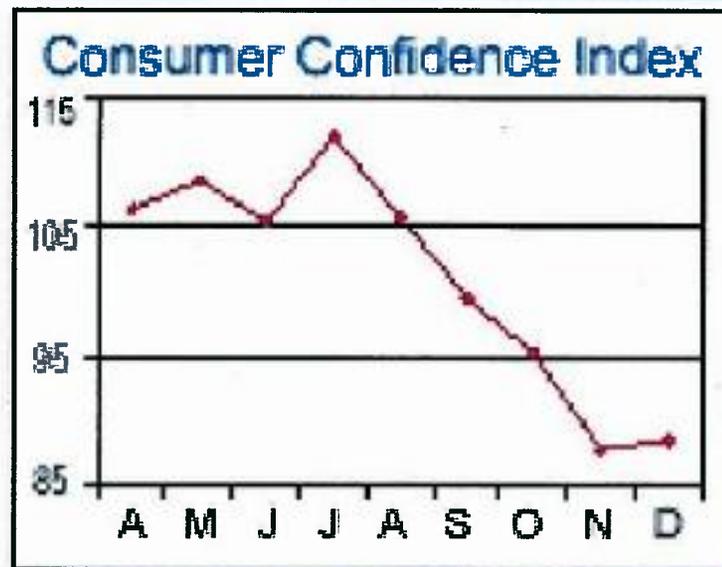
Taxable Sales Forecast

Due to the stock market crisis, the subprime mortgage meltdown, the high energy costs, the housing slowdown, the ongoing war, and the economy in general, consumer confidence has been declining.



Consumer Confidence

- The national Consumer Confidence Index, which had been declining monthly since the summer, posted only a slight increase in December.



Source: The Conference Board

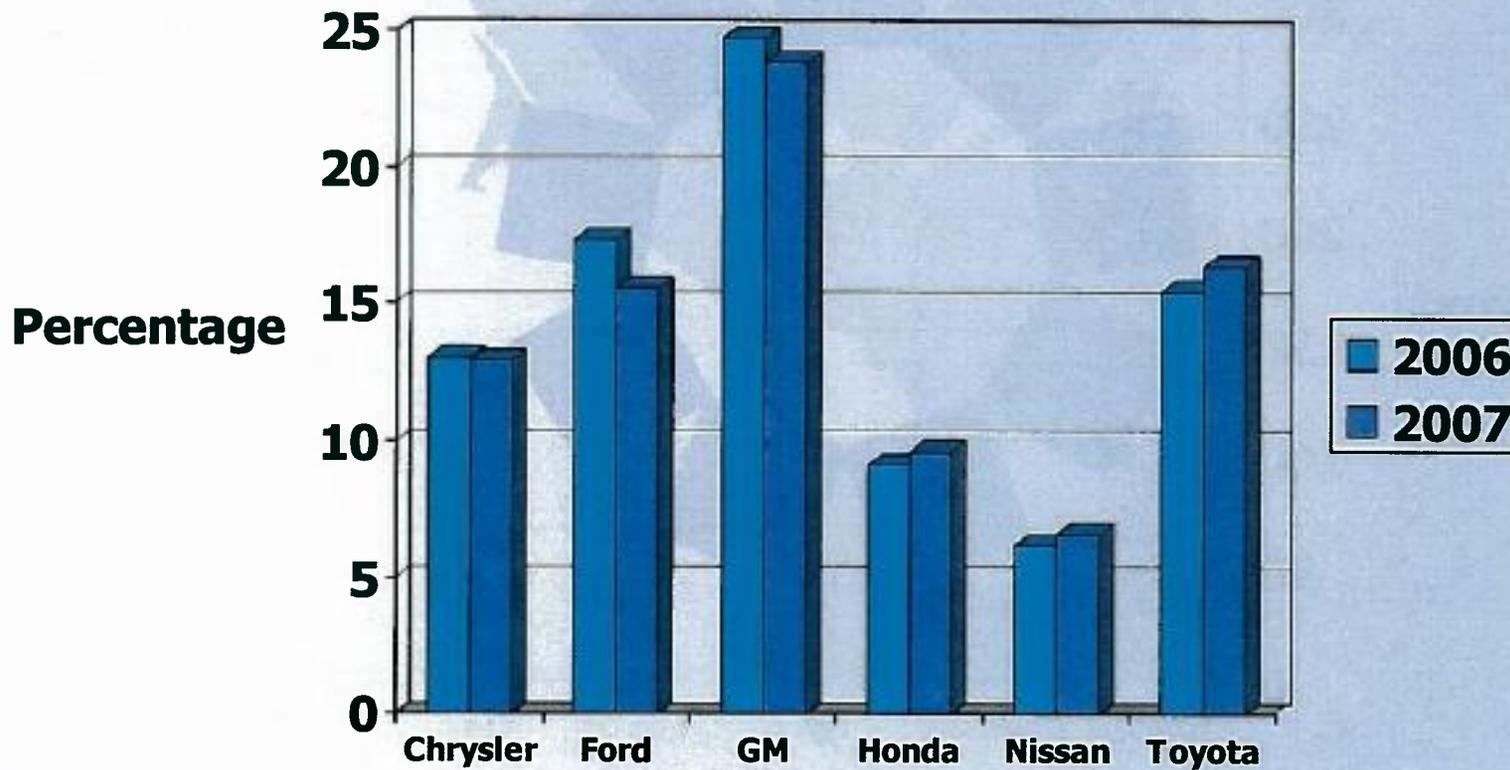
Outlook for Taxable Sales

- Sales slowed during the last half of 2007
- Sluggish national job market may affect the growth
- Unemployment rate rising
- Subprime mortgage rates
- California's budget issues
- National health care



Market Share for Top Six Auto

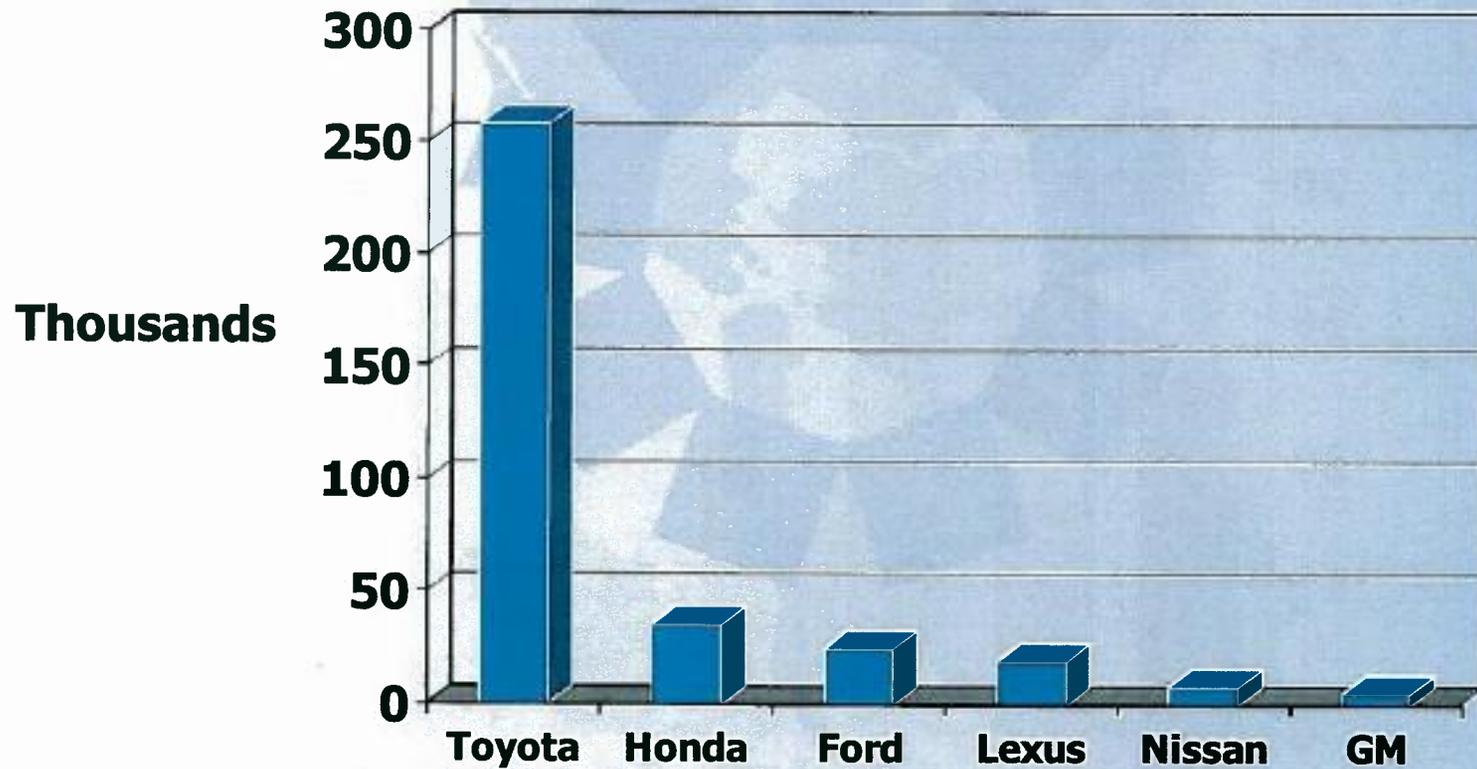
2006 and 2007 Shares for US Sales



Source: autoobserver.com

Hybrid Cars

2007 US Sales



Source: hybridcar.com

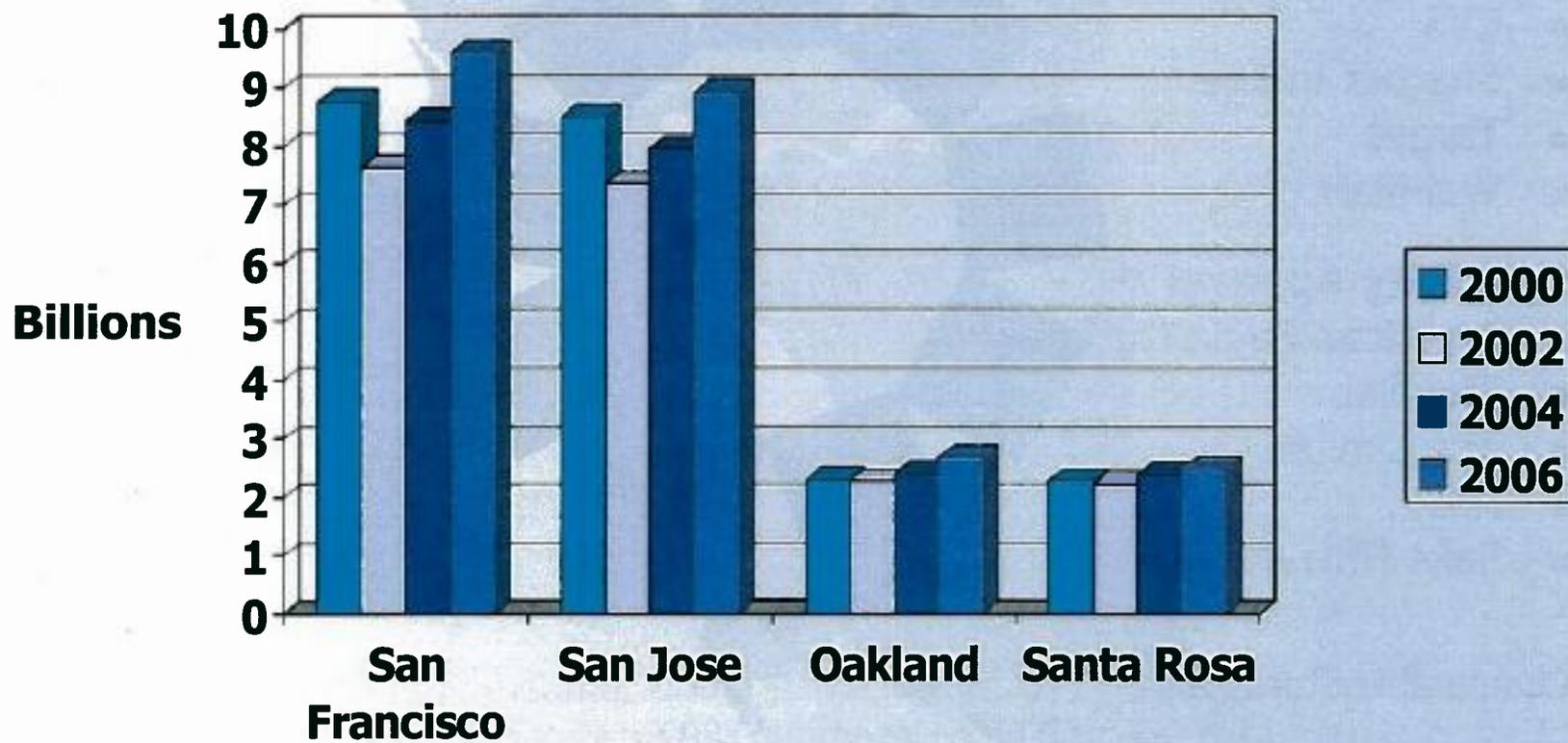
ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Total Retail Sales

Top Four Bay Area Cities



Source: California State Board of Equalization; taxable transactions in billions of dollars

Retailer Ups & Downs

2006 and 2007 Comparable-Store Sales

General Merchandise

| | YTD – Dec 2006 | YTD – Dec 2007 |
|-----------------|----------------|----------------|
| ■ CVS | 8.2% | 5.3% |
| ■ Sharper Image | -26.0% | -13.0% |
| ■ Target | 4.8% | 3.3% |
| ■ Wal-Mart | 1.9% | 1.0% |

Specialty Apparel

| | YTD – Dec 2006 | YTD – Dec 2007 |
|----------------------------|----------------|----------------|
| ■ American Eagle Outfitter | 11.0% | 2.0% |
| ■ The Gap | -7.0% | -5.0% |
| ■ The Limited | 7.0% | -2.0% |
| ■ Ross | 4.0% | 1.0% |
| ■ Saks Fifth Avenue | 4.6% | 12.3% |

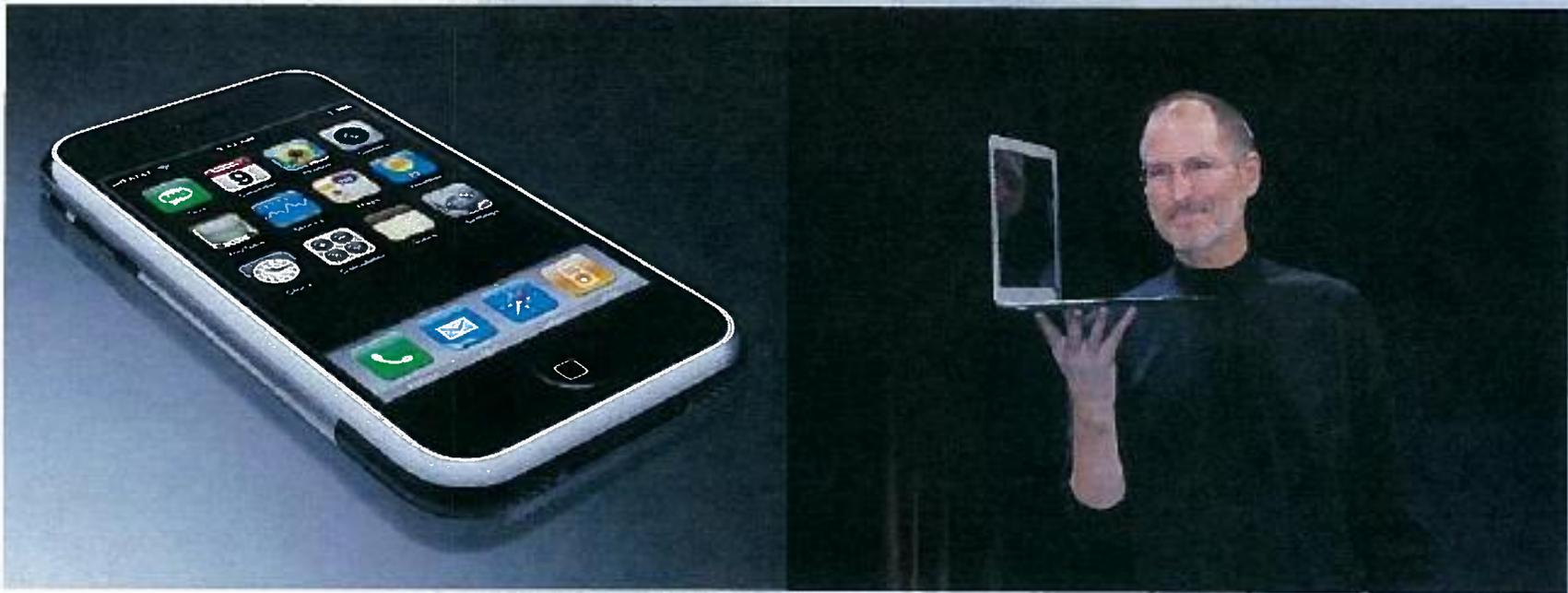
Comparable-Store Sales – YTD for December 2006 compared to December 2005 and
YTD for December 2007 compared to December 2006



Source: Business Wire Retail Report

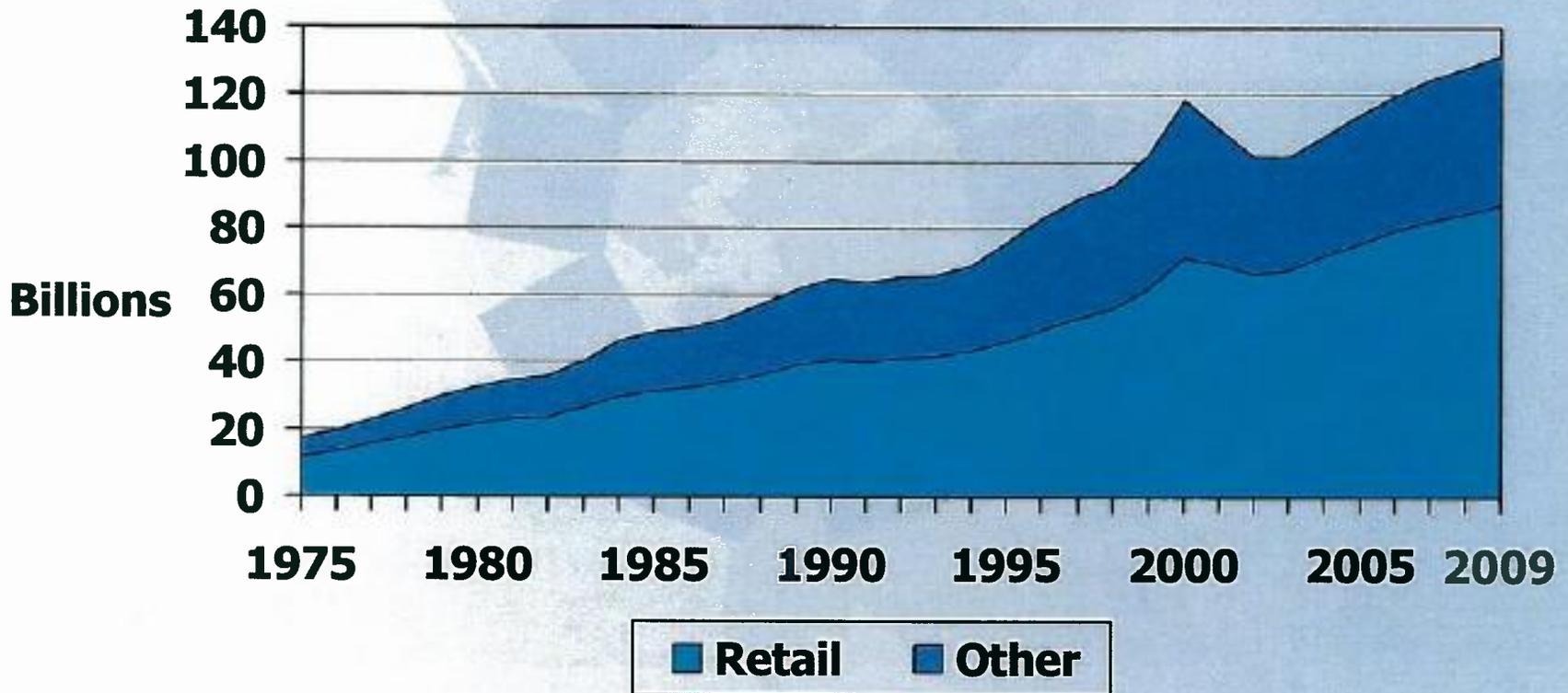


High Ticket Electronic Items



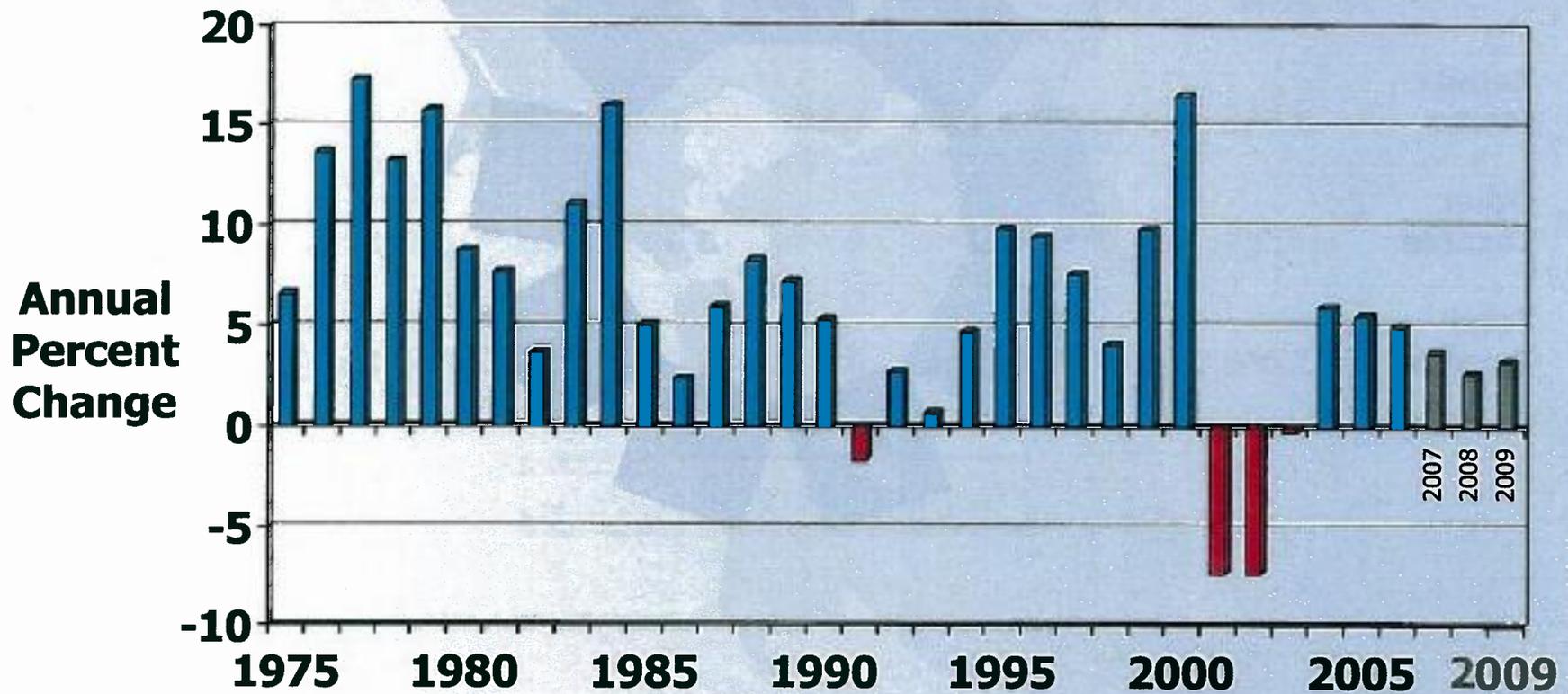
Regional Taxable Sales

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area
Nominal Dollars



Taxable Sales Growth

San Francisco Bay Area

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Estimate 2007 | Forecast 2008 | Forecast 2009 |
|--------------------------|---------------|---------------|--------------|-------------|-------------|-------------|------------------|------------------|------------------|
| Retail Stores | -3.6% | -3.5% | 1.1% | 6.8% | 5.7% | 3.8% | 3.7% | 2.6% | 3.3% |
| Other Taxable | -13.3% | -14.0% | -2.8% | 4.4% | 5.0% | 7.5% | 3.8% | 2.7% | 3.3% |
| Total Taxable | -7.4% | -7.4% | -0.3% | 6.0% | 5.5% | 5.0% | 3.7% | 2.7% | 3.3% |

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

Taxable Sales Growth

East Bay and South Bay

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Estimate 2007 | Forecast 2008 | Forecast 2009 |
|-------------------------|---------------|---------------|--------------|-------------|-------------|-------------|------------------|------------------|------------------|
| Alameda | -4.2% | -6.6% | 0.5% | 7.6% | 5.4% | 4.0% | 3.6% | 2.7% | 3.7% |
| Contra Costa | -0.6% | -0.8% | 0.5% | 6.3% | 3.8% | 2.9% | 3.2% | 2.0% | 2.9% |
| Santa Clara | -13.9% | -14.6% | -1.4% | 5.3% | 6.0% | 6.9% | 4.9% | 3.4% | 3.7% |

Nominal Percent Growth



Source: California State Board of Equalization, ABAG



Taxable Sales Growth

North Bay

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Estimate 2007 | Forecast 2008 | Forecast 2009 |
|---------------|-------|-------|-------|------|------|------|------------------|------------------|------------------|
| Napa | 2.0% | 6.3% | -4.2% | 7.4% | 9.0% | 5.1% | 2.8% | 1.9% | 2.5% |
| Solano | 7.3% | 6.9% | 5.2% | 7.7% | 4.9% | 6.9% | 2.5% | 1.9% | 2.1% |
| Sonoma | -0.1% | -1.7% | 1.4% | 5.8% | 6.0% | 3.6% | 2.3% | 1.7% | 2.2% |

Nominal Percent Growth



Source: California State Board of Equalization, ABAG

ABAG Bay Area Economic Outlook 2008-09



Just a Bump in the Road?

Taxable Sales Growth

West Bay

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Estimate 2007 | Forecast 2008 | Forecast 2009 |
|--------------------------|---------------|--------------|--------------|-------------|-------------|-------------|------------------|------------------|------------------|
| Marin | -2.6% | -2.6% | 1.1% | 4.2% | 2.9% | 2.7% | 2.4% | 2.0% | 2.5% |
| San Francisco | -11.6% | -7.0% | -0.8% | 6.2% | 6.7% | 6.6% | 4.5% | 3.3% | 4.5% |
| San Mateo | -8.4% | -9.7% | -2.2% | 4.0% | 5.4% | 3.6% | 2.7% | 2.0% | 2.6% |

Nominal Percent Growth



Source: California State Board of Equalization, ABAG



Conclusions

- Consumers will continue to feel the economic pinch as retail sales is forecasted to grow by only by 2.6% in 2008 while total taxable sales is forecasted to increase by 2.7%
- For developers, retail developments will be sluggish in the short term



The Residential Real Estate Market: Dire Straights or Recovery by 2009?

Gerald P. Cox

**Director of Sales and Marketing
RealFacts**



What Happened in 2007?

Annual Average Rent Growth

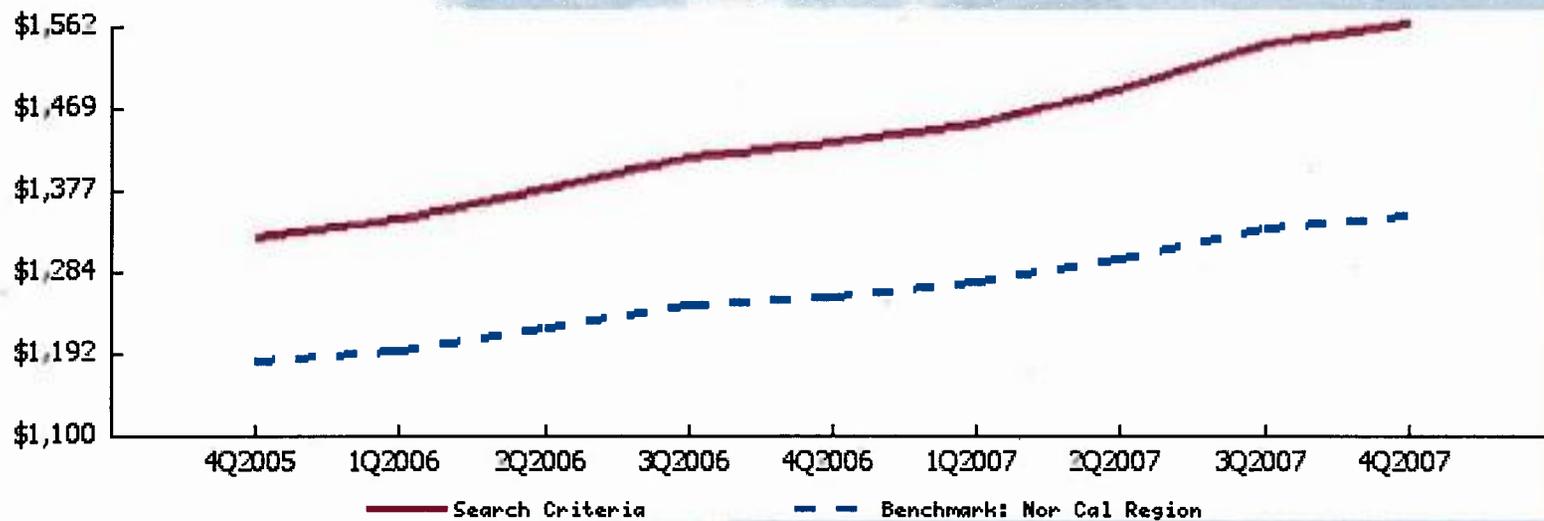
9.4%

From \$1,427 to \$1,562



4Q 2005 Thru 4Q 2007

Average Rent Growth



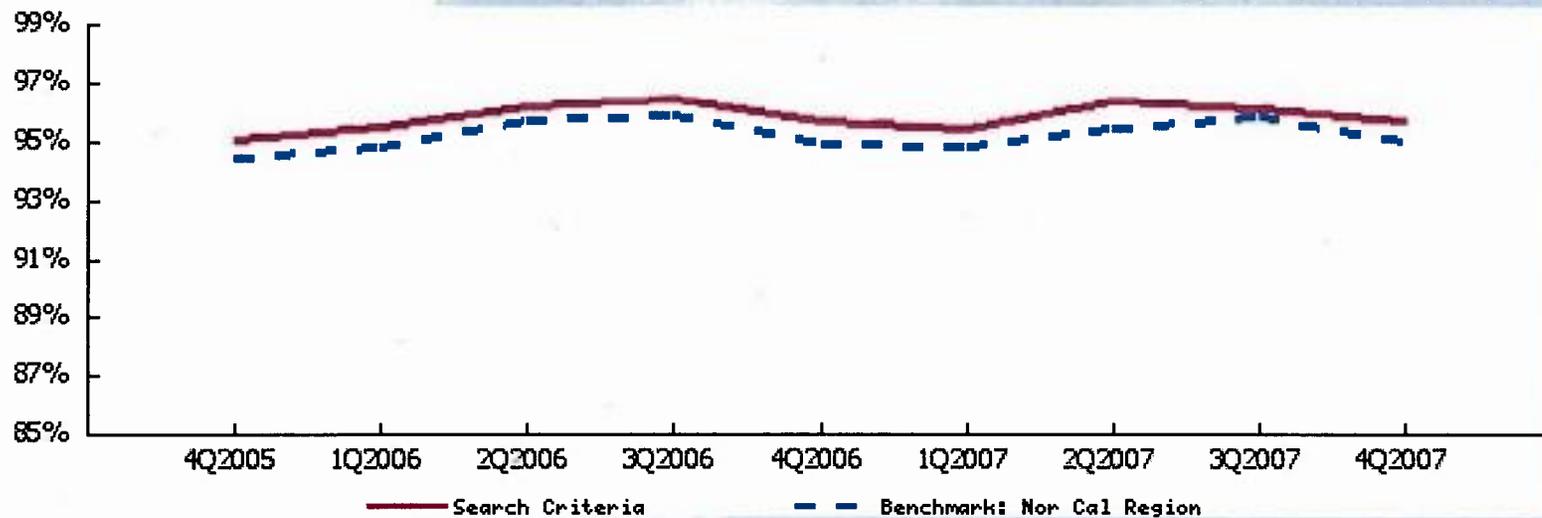
Average Occupancy Growth

0.0%



4Q 2005 Thru 4Q 2007

Average Occupancy



3Q to 4Q 2007

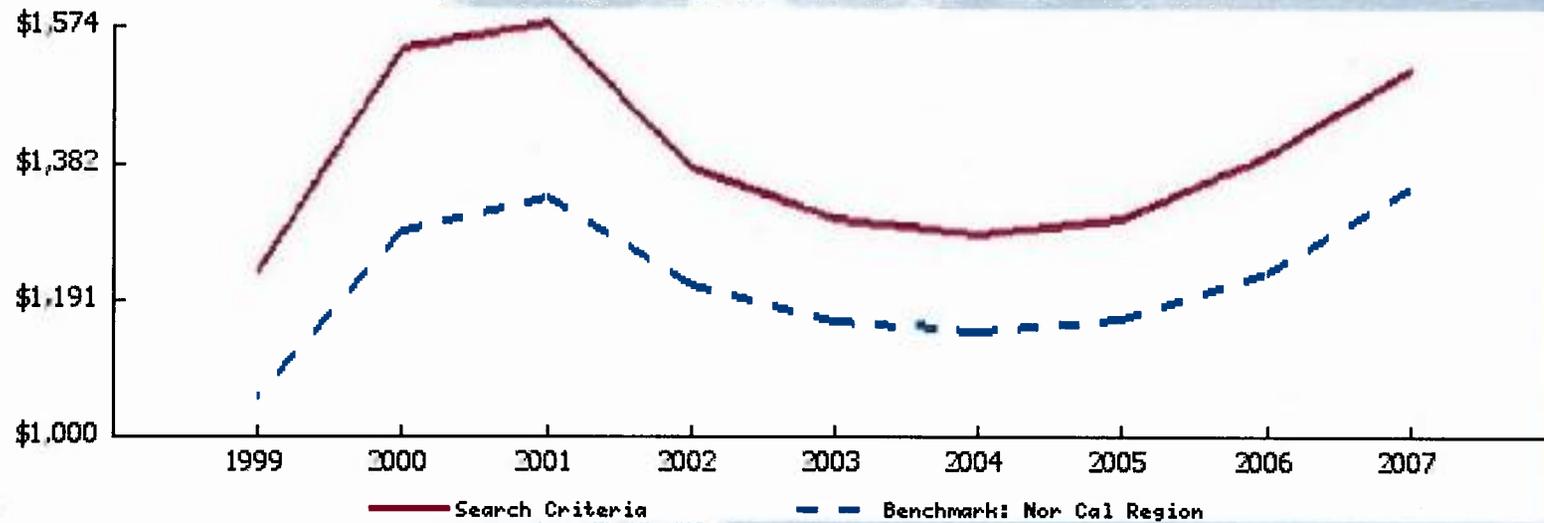
**Average Rent Growth
1.5%**

**Average Occupancy
fell from 96.1% to 95.5%**

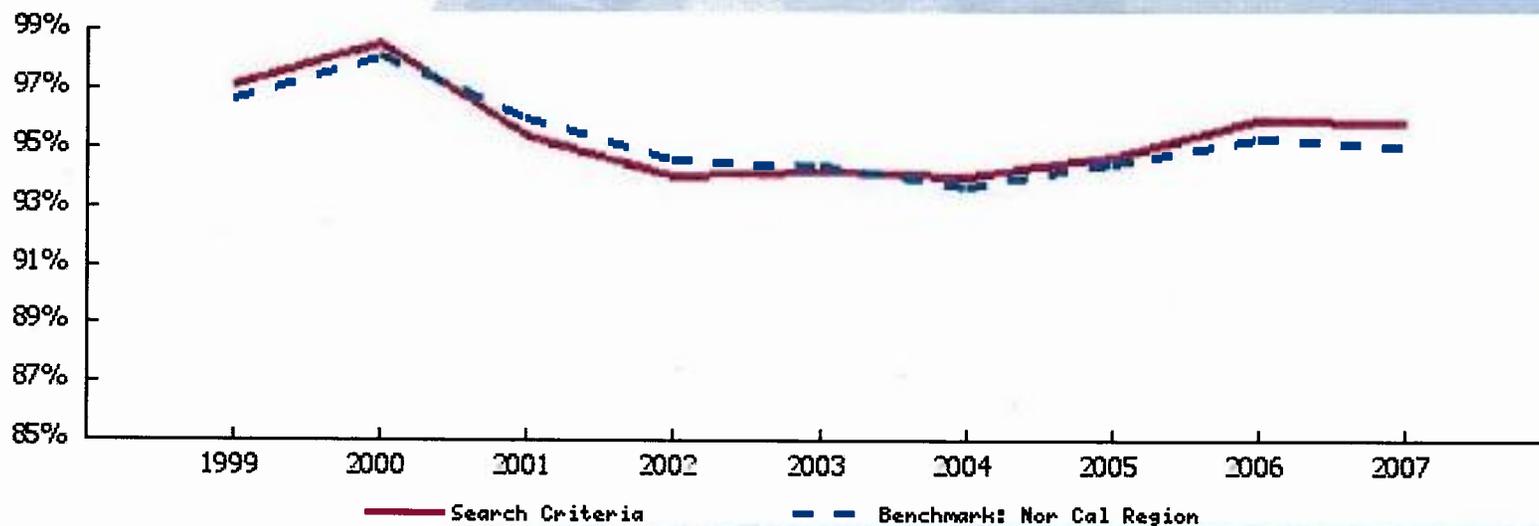


Annual Rent Trend

1999 to 2007



Annual Occupancy Trend 1999 to 2007



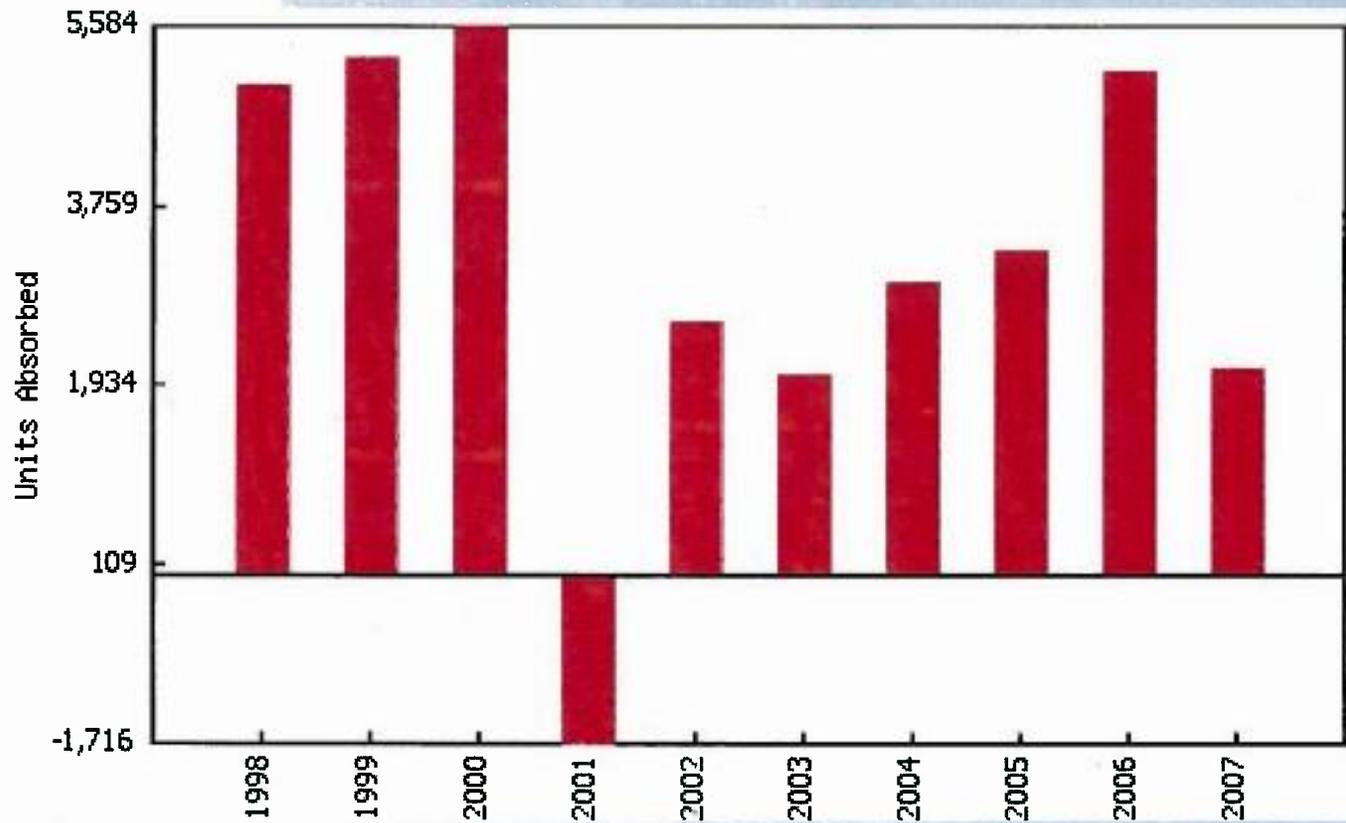
Absorption

Units Absorbed

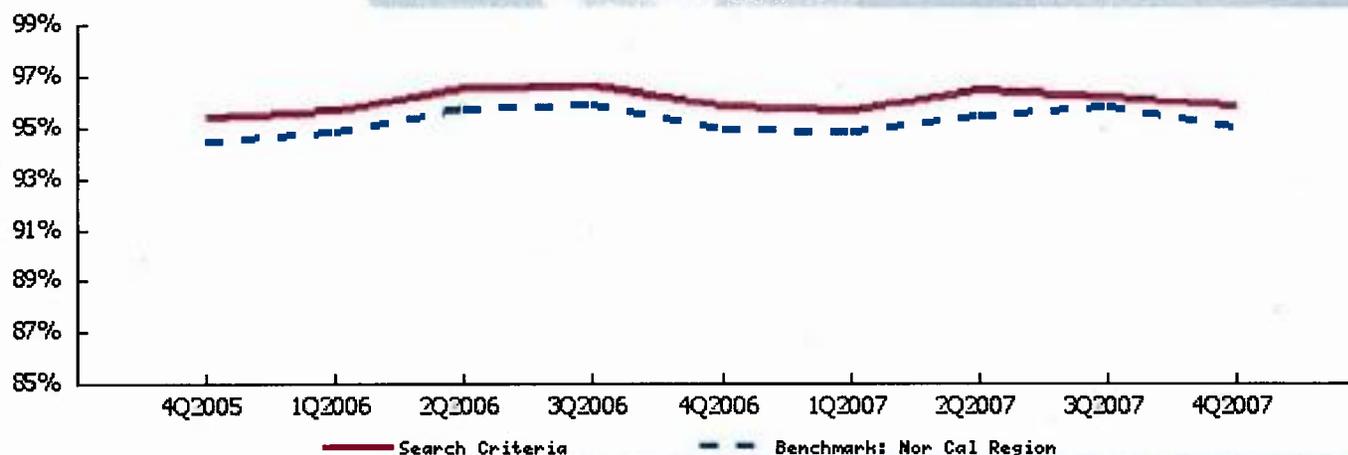
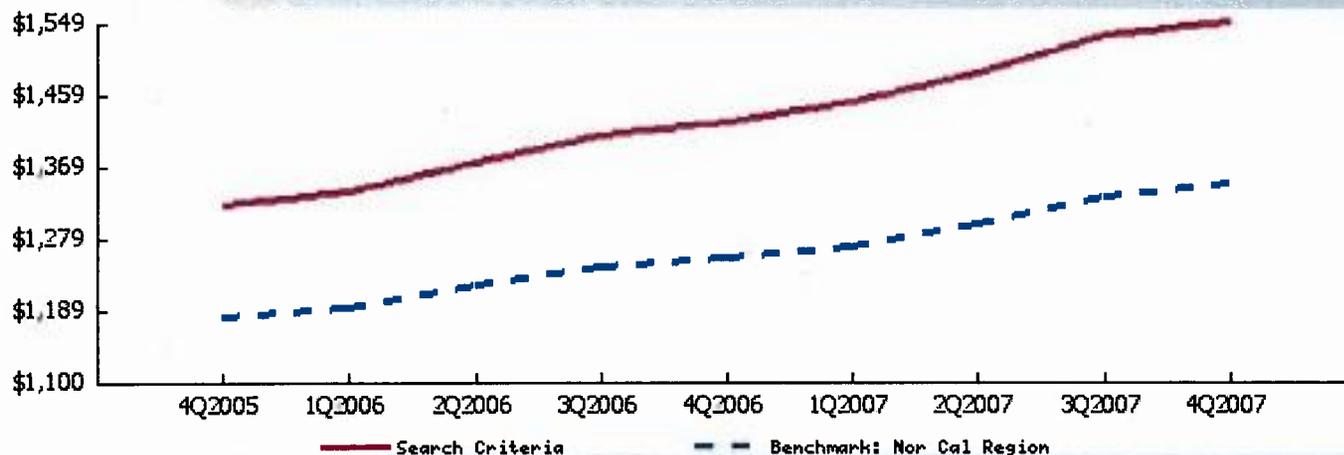
| | Units Built | Total Units | Occupancy Rate | Occupied Units | Units Absorbed |
|------|-------------|-------------|----------------|----------------|----------------|
| 1997 | 2237 | 183,632 | 96.3% | 176,837 | N/A |
| 1998 | 5195 | 188,827 | 96.3% | 181,840 | 5,003 |
| 1999 | 4068 | 192,895 | 97.0% | 187,108 | 5,268 |
| 2000 | 2931 | 195,826 | 98.4% | 192,692 | 5,584 |
| 2001 | 4359 | 200,185 | 95.4% | 190,976 | -1,716 |
| 2002 | 5475 | 205,660 | 94.1% | 193,526 | 2,550 |
| 2003 | 2173 | 207,833 | 94.1% | 195,570 | 2,044 |
| 2004 | 3396 | 211,229 | 94.0% | 198,555 | 2,985 |
| 2005 | 2157 | 213,386 | 94.6% | 201,863 | 3,308 |
| 2006 | 2466 | 215,852 | 95.9% | 207,002 | 5,139 |
| 2007 | 2405 | 218,257 | 95.8% | 209,090 | 2,088 |



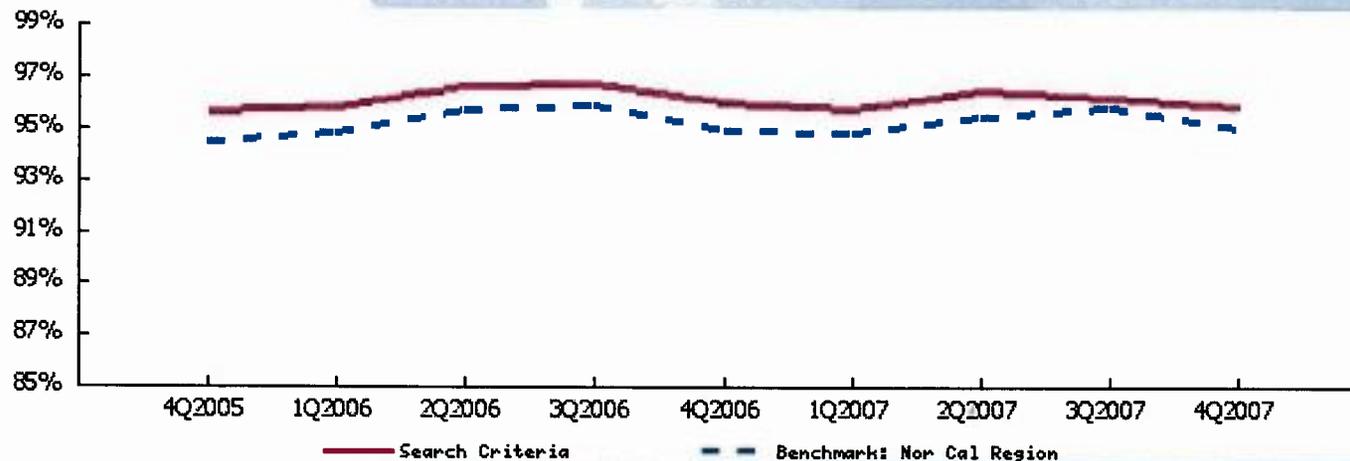
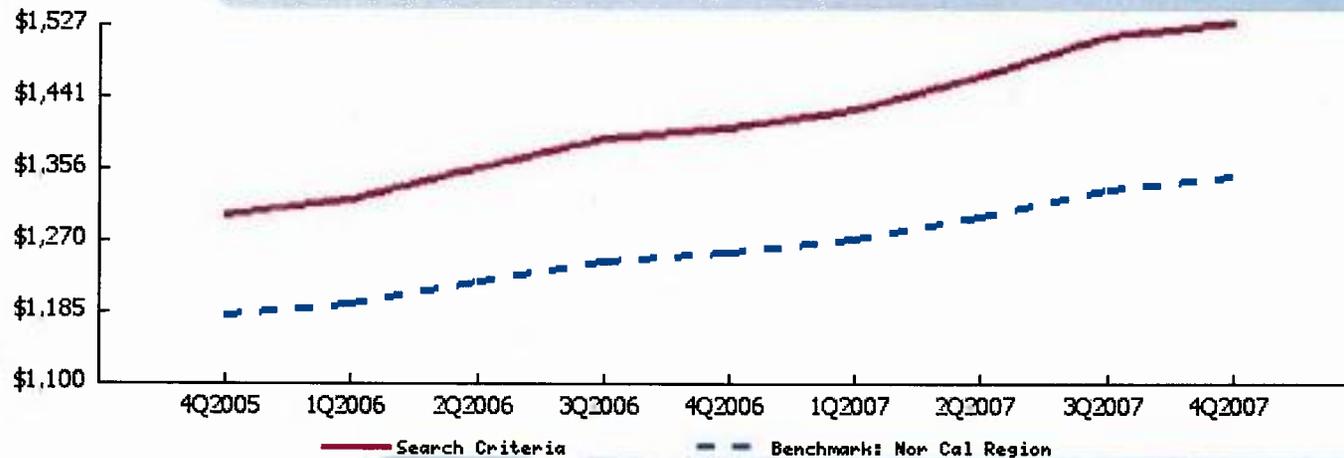
Absorption



Properties Built In/Prior to 2004



Properties Built In/Prior to 2001



The State of California

| | | | |
|-------------------|---------|------------------|-------|
| Average Rent | \$1,428 | Year/Year Growth | 5.6% |
| Average Occupancy | 94.4% | Year/Year Change | -0.1% |

| | |
|----------------------------|-------|
| Quarterly Rent Growth | 1.1% |
| Quarterly Occupancy Growth | -0.9% |

