

How Did the Subprime Problem Become California's Problem?

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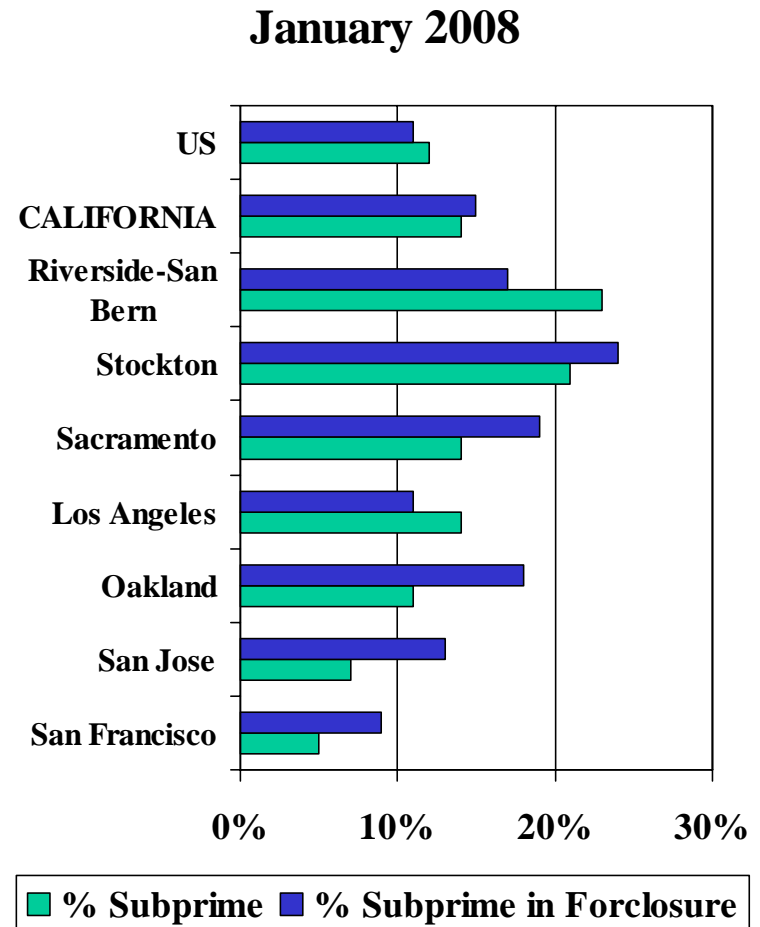


Factors and Concerns for California

- Mortgage related problems—
Vulnerability—who and where?
- Housing market effects—construction, sales, and price effects
- Economic spillover—employment, unemployment, investment, income
- Public sector finance—property revenues, income and sales tax revenues, service demand

Where has the subprime problem hit hardest?

- Varies widely among metro areas and within metro areas
- Lower cost markets
- Newer markets
- Suburban communities



Source: First American CoreLogic, LoanPerformance data.

Housing Market Effects

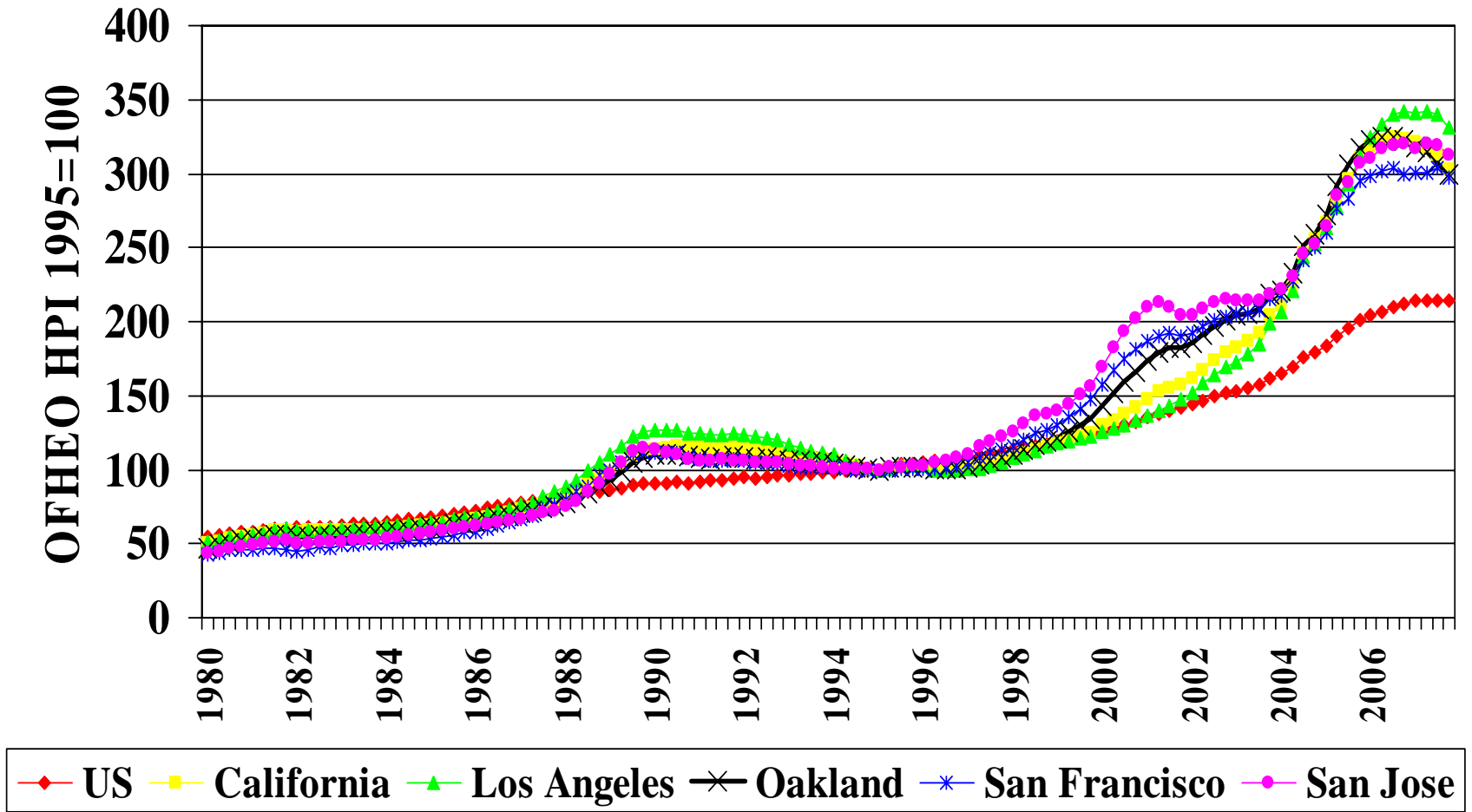
- Sales activity—California home sales down 25% in past year; 50% since 2005
- Home prices—
 - Median down 29% from March 2007
 - OFHEO same home index value down 7%
 - Started at the low end, spreading to the high end
- Rents—Pressure to *increase* in short term
- Building activity down 31% in 2007 and by 47% since peak in 2004.

Home Sales and Price Trends, New Homes and Resale Homes, Northern California Q1 2005 – Q4 2007



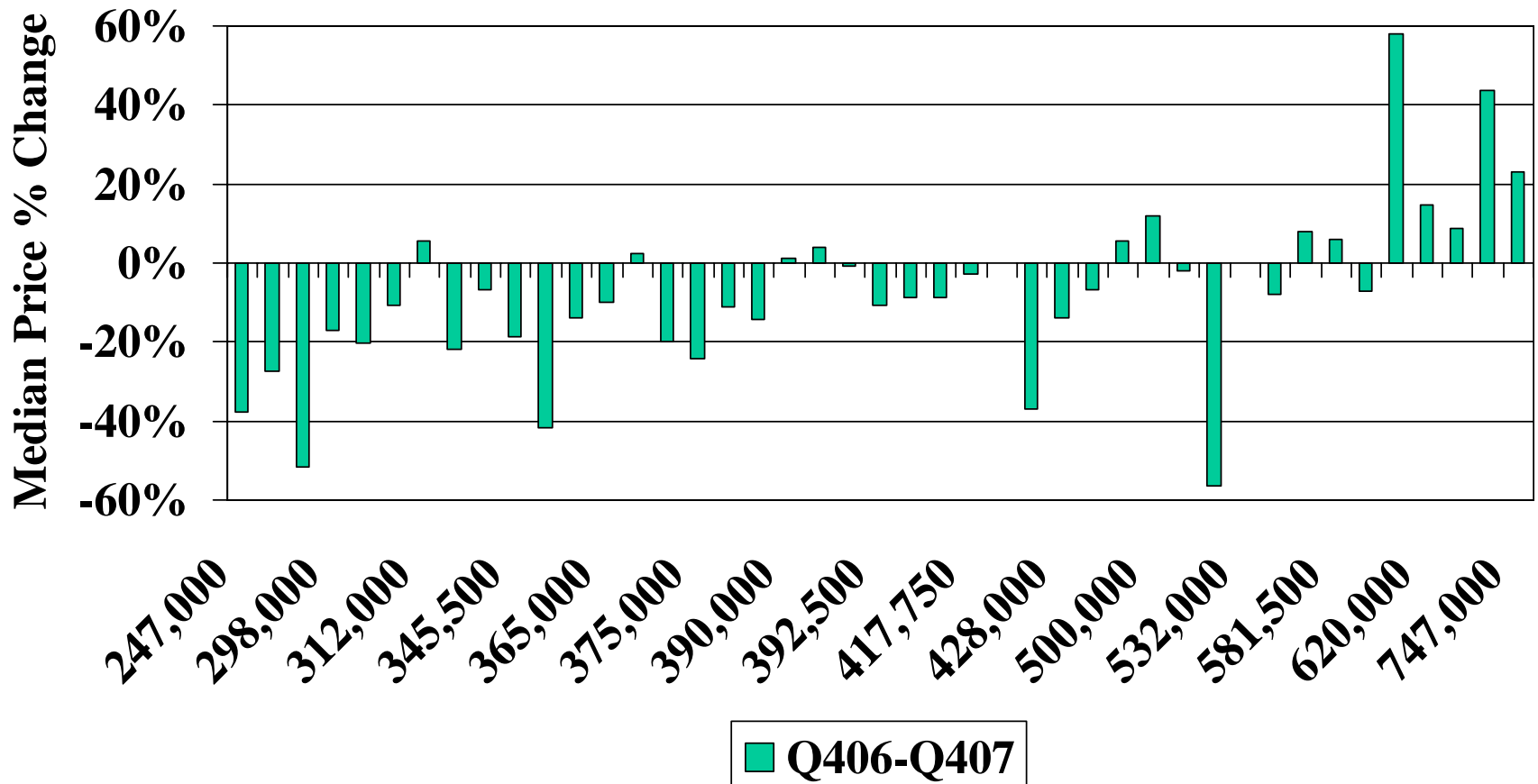
Source: FCREUE from Real Estate Research Council summaries of Dataquick data.

California Historic Home Price Trends Q1-1980 to Q4- 2007



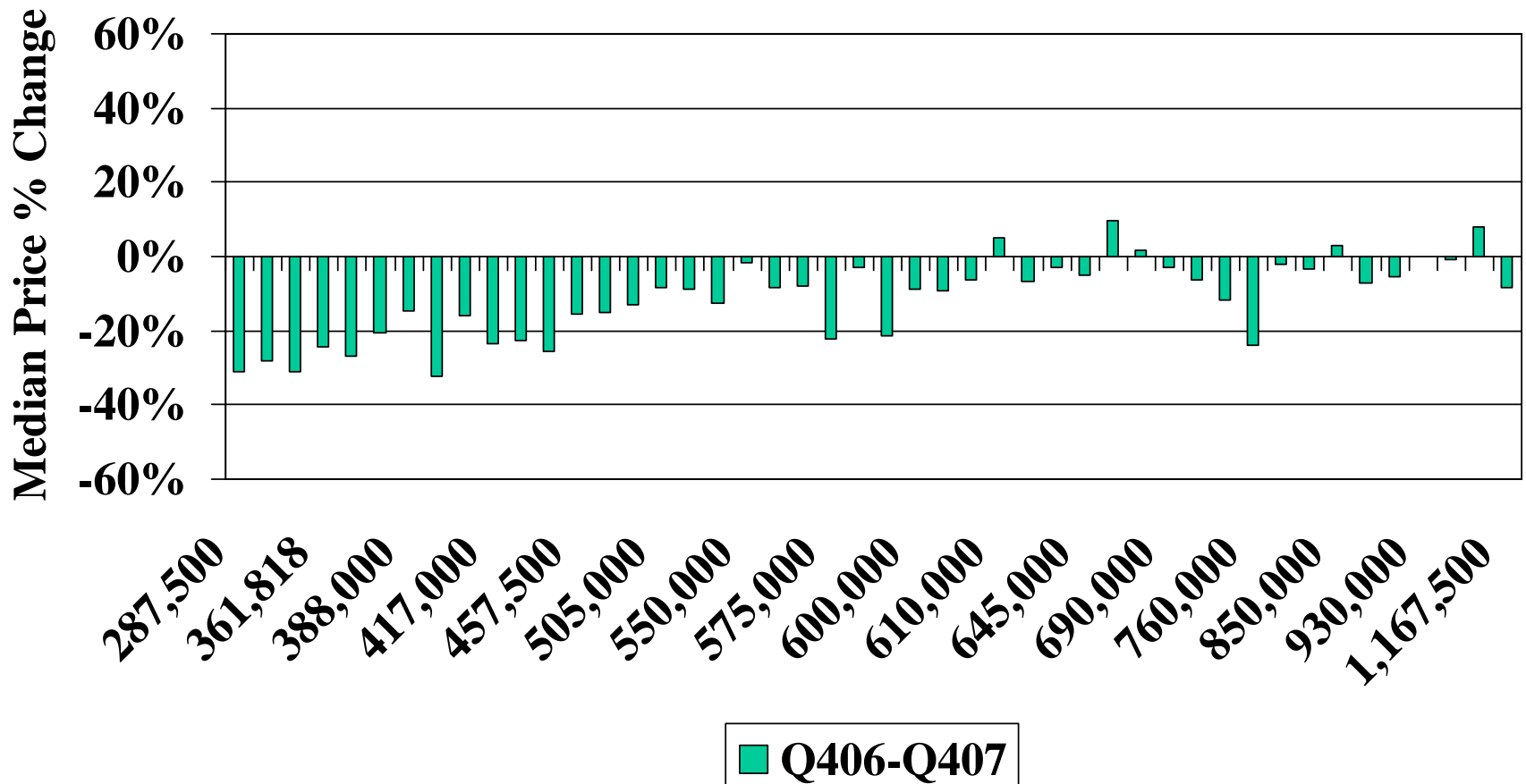
Source: FCREUE from OFHEO data.

Home Price Change by Median Price of Neighborhood, Alameda County Attached



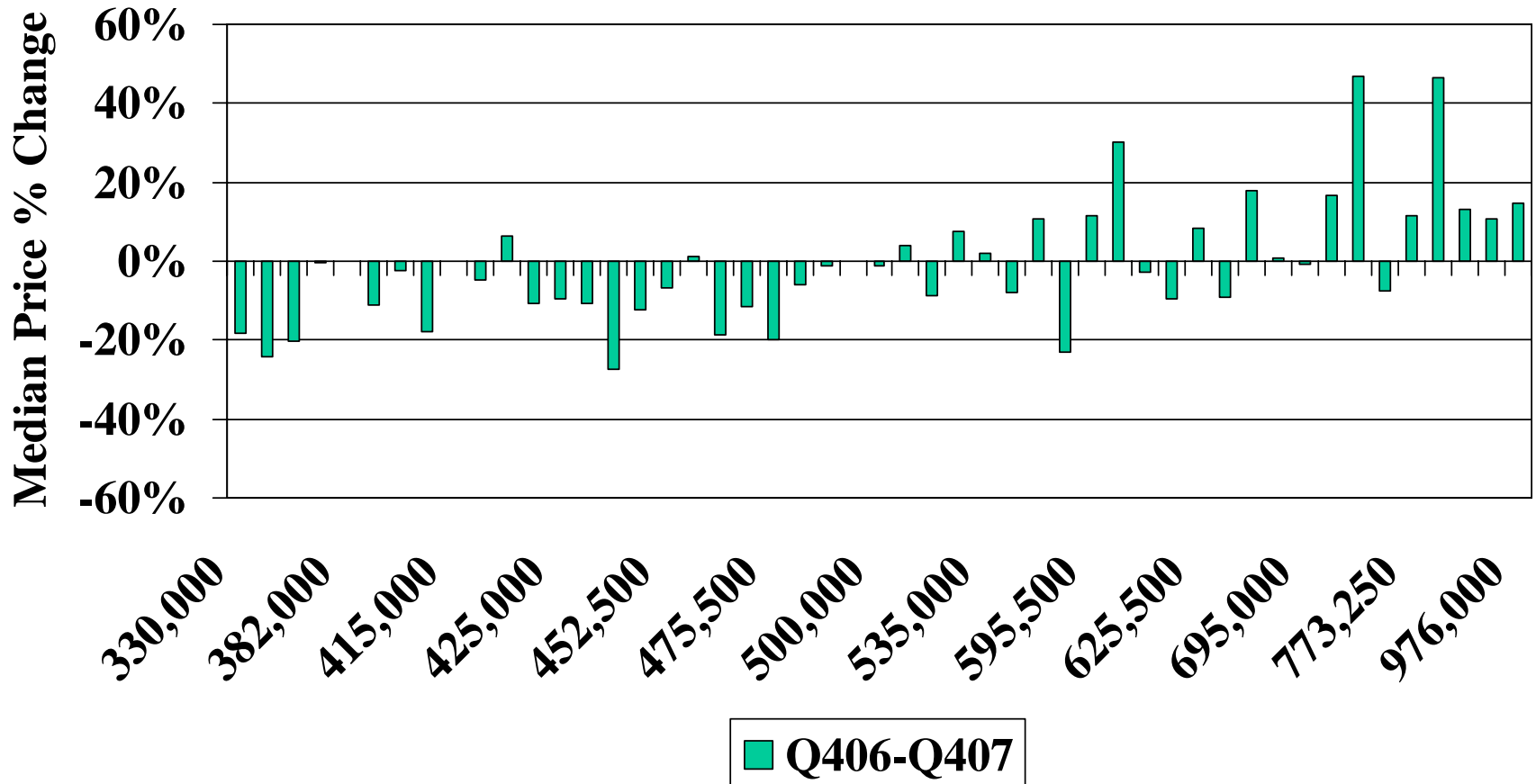
Source: FCREUE from zip code summaries provided by IHP Capital.

Home Price Change by Median Price of Neighborhood, Alameda County Detached



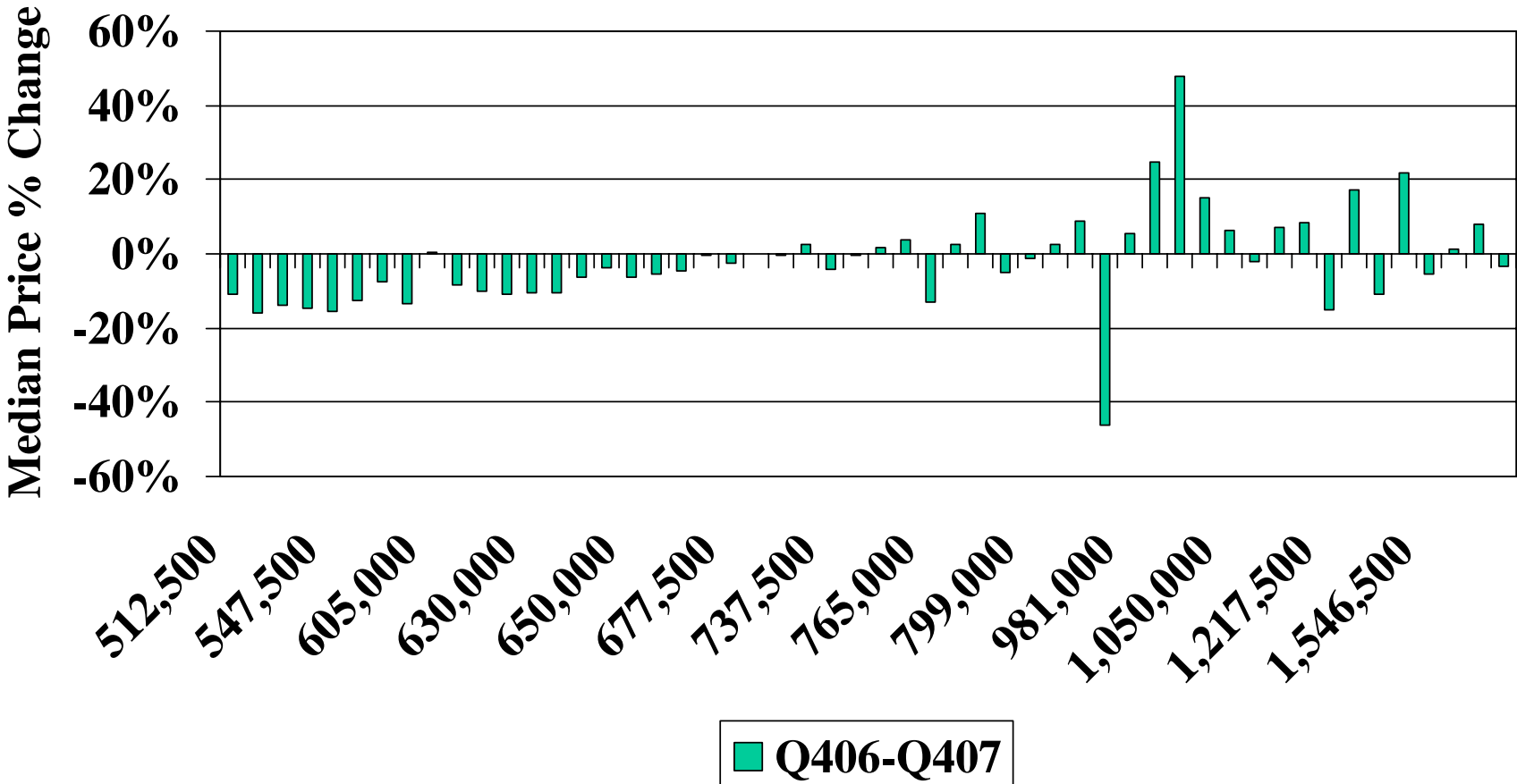
Source: FCREUE from zip code summaries provided by IHP Capital.

Home Price Change by Median Price of Neighborhood, Santa Clara County Attached



Source: FCREUE from zip code summaries provided by IHP Capital.

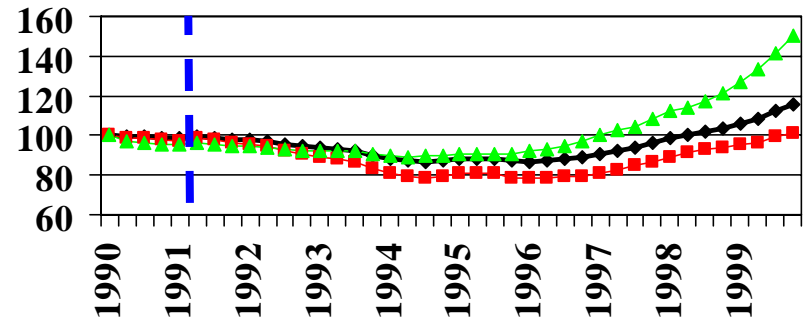
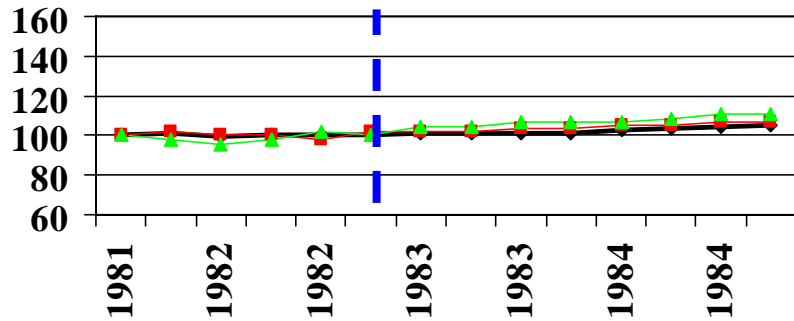
Home Price Change by Median Price of Neighborhood, Santa Clara County Detached



Source: FCREUE from zip code summaries provided by IHP Capital.

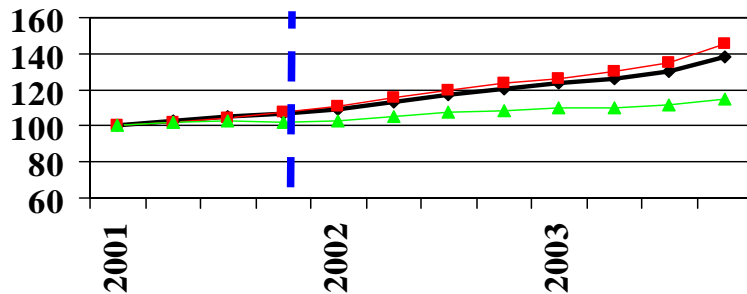
California Housing Cycle Price Histories

Index: 100=Price index at peak prior to downturn
(Q3 1981, Q3 1990, Q12001)



California Los Angeles San Francisco

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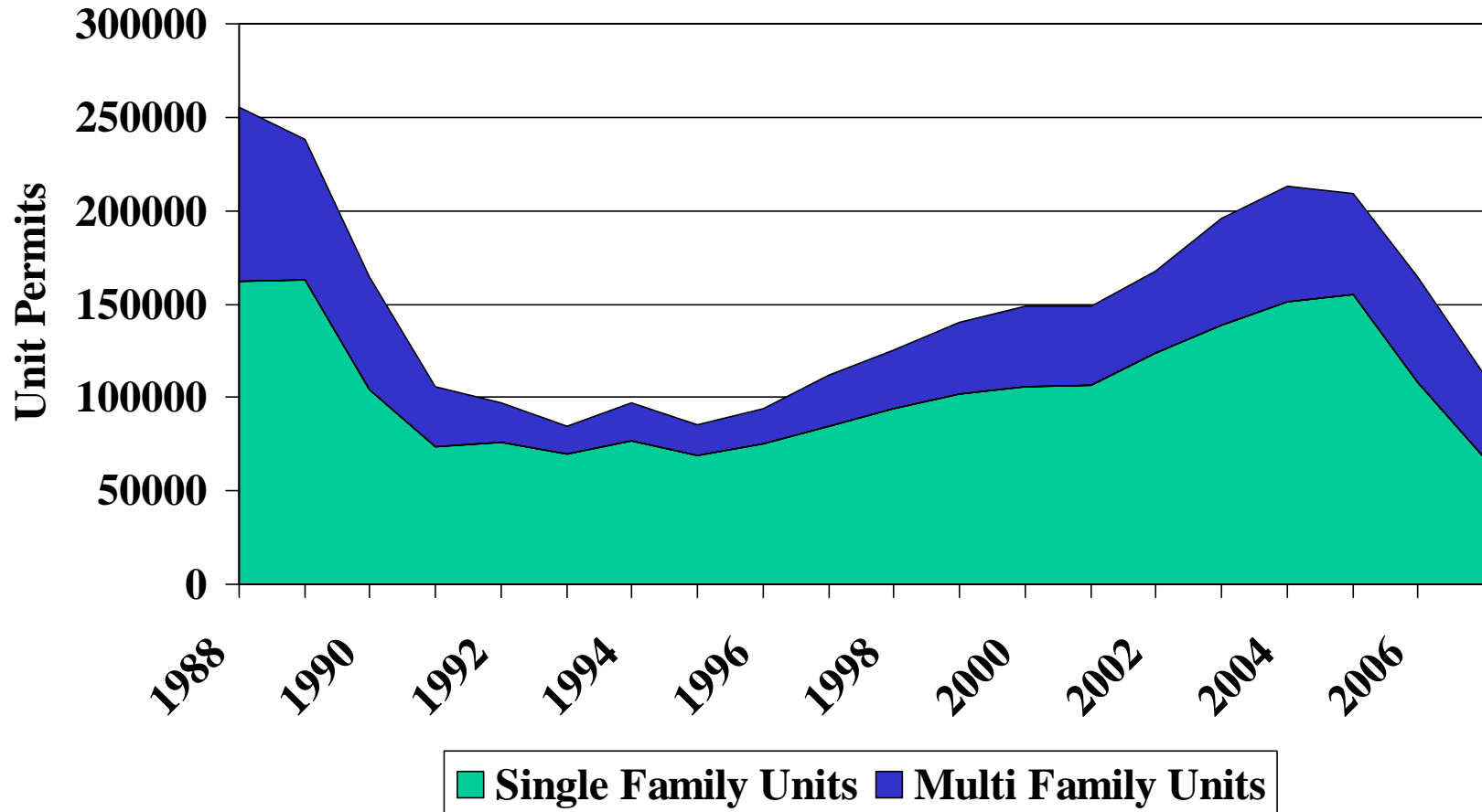
California Los Angeles San Francisco

HOW LONG TO RECOVERY?

- Prices don't always decline (California, LA, 2001-2002)
- Shortest recovery after decline—2 quarters (San Francisco 2001-2002)
- Longest recovery after decline—10 years (Los Angeles, 1990-2000)

Source: FCREUE from OFHEO data.

California Residential Building Activity 1988-2007



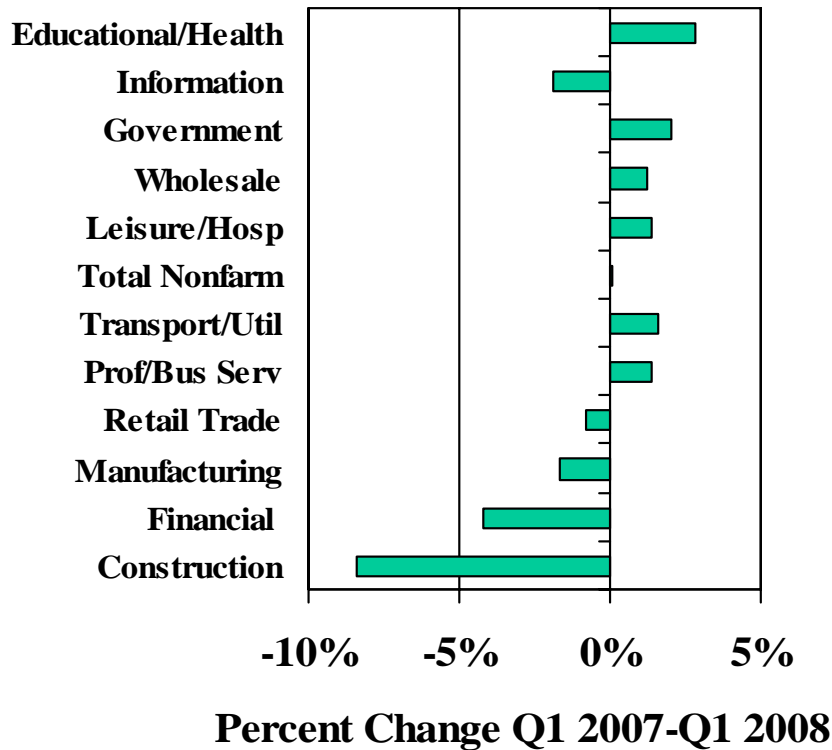
Source: FCREUE from Construction Industry Research Board data.

Consequences for Employment

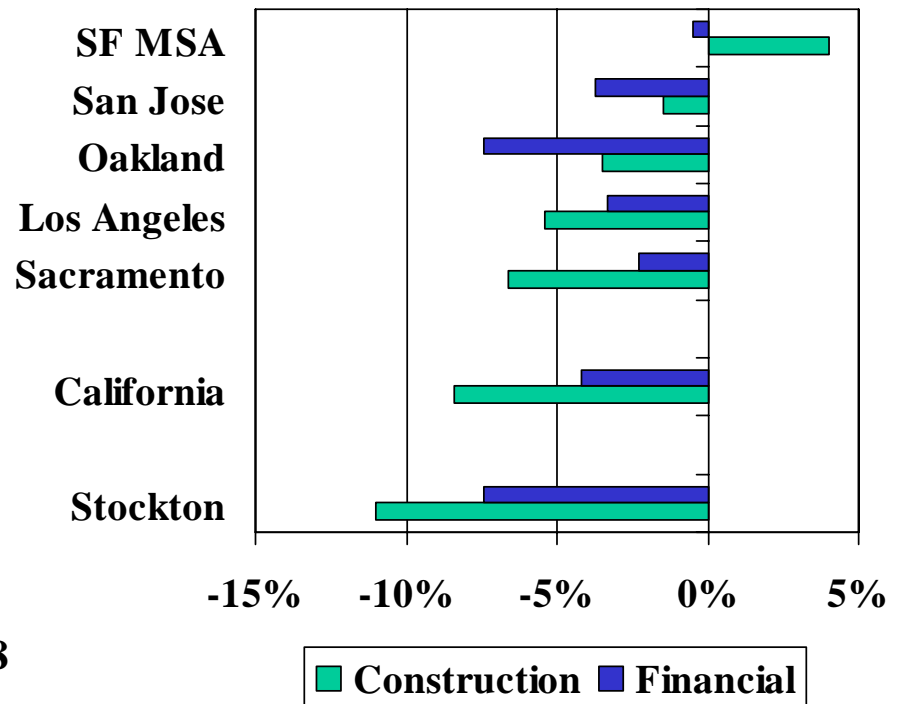
- Direct effects
 - Employment in construction and finance
 - Access to and cost of credit
- Cumulative effects—
 - Consumer confidence
 - Spending and investment
 - Employment and income in other sectors
 - Unemployment

1st Quarter 2008 Employment Effects Still Heavily Housing-Market Weighted

California Employment Change



Housing-Related Employment Change by MSA



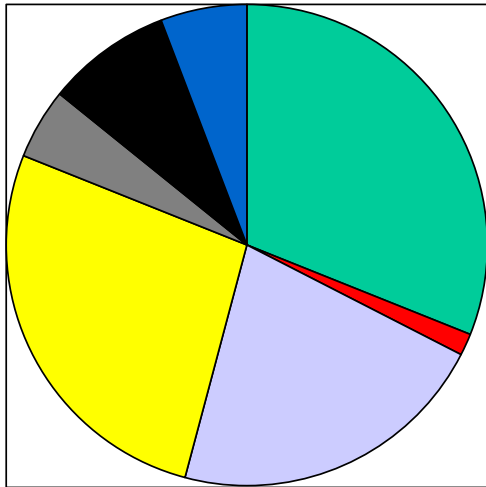
Source: FCREUE from California Employment Development Department data.

Public Sector Vulnerabilities

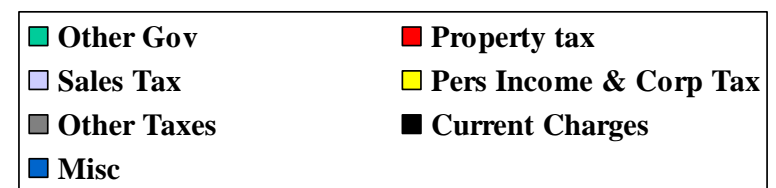
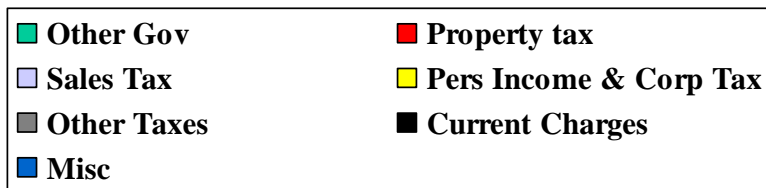
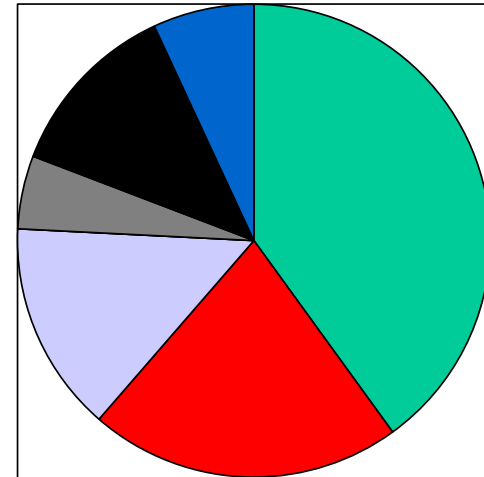
- Local government general funds rely on property and sales tax revenues
- Property transaction revenues and development fees change more rapidly than property tax revenues
- New communities with many recent sales faces greater risk of property tax revenue drops
- State affected by related income and corporate tax revenue declines

General Revenue Sources California State and Local Governments

California State Government



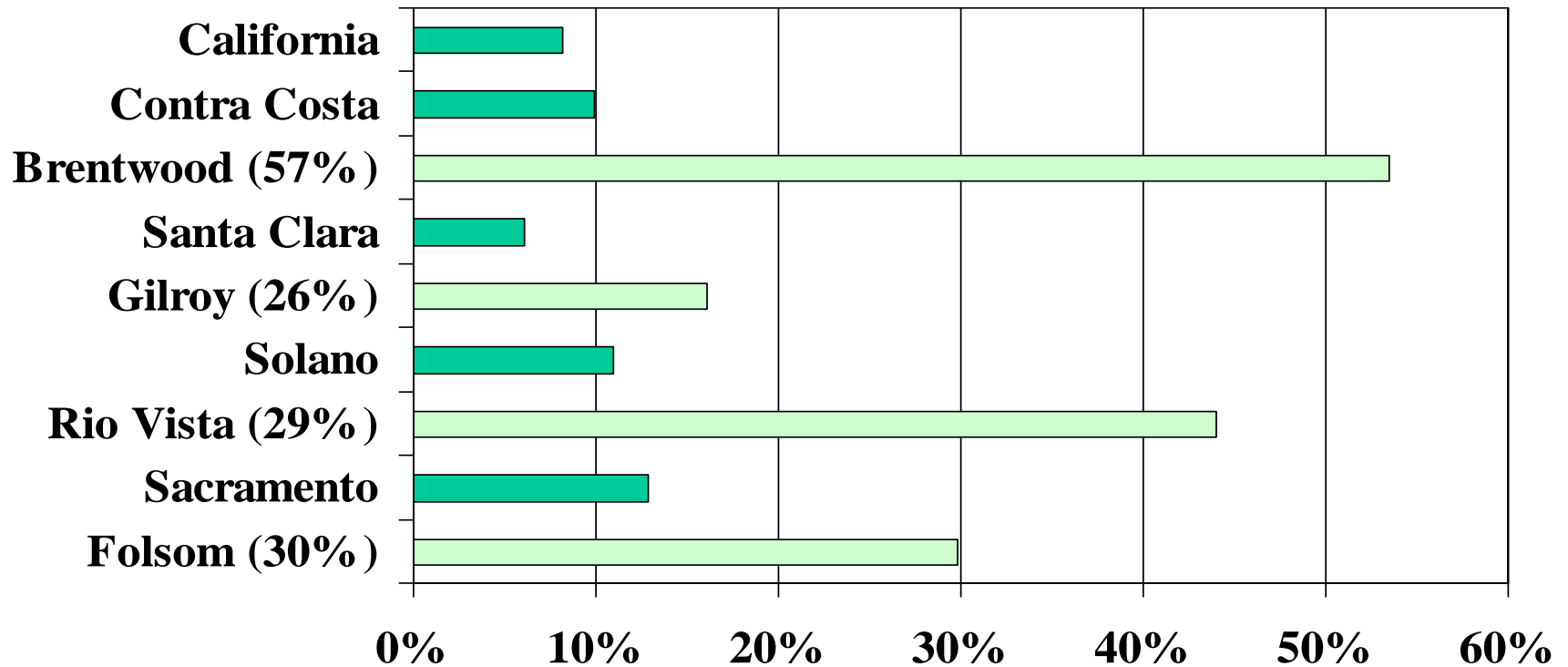
Local Government



Source: US Bureau of the Census, Census of Governments 2002.

Percent of Homes Added within Jurisdiction Since 2000

(*Share of 2004/05 General Fund from Real Estate Income)



Source: FCREUE from California Dept of Finance and Construction Industry Research Board data.

Summary: Effects of the Subprime Crisis/ Mortgage Meltdown on California's Economy

- Declines in home sales, prices, and building permits
- Employment effects in construction, real estate and finance have halted employment growth
- Local governments revenue impacts from slower property tax growth, decreasing transfer tax revenues, fewer permit and development fees, and related sales tax revenue declines
- Public sector effects, as well as other economic issues, could bring about wider spread employment impacts