

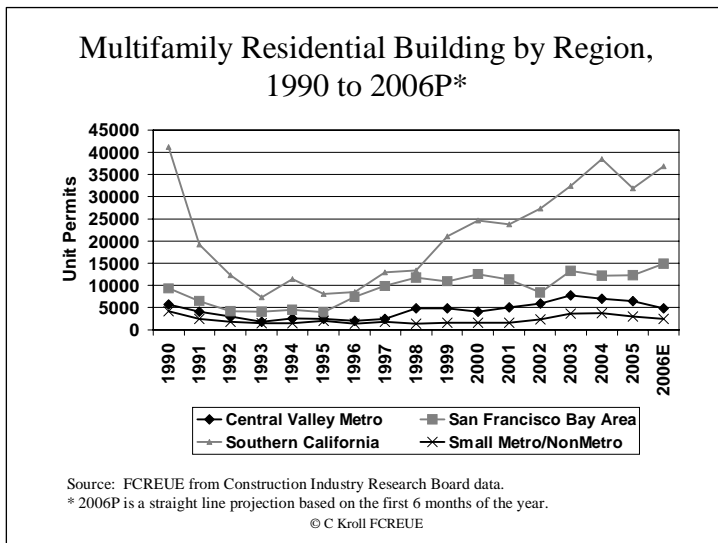
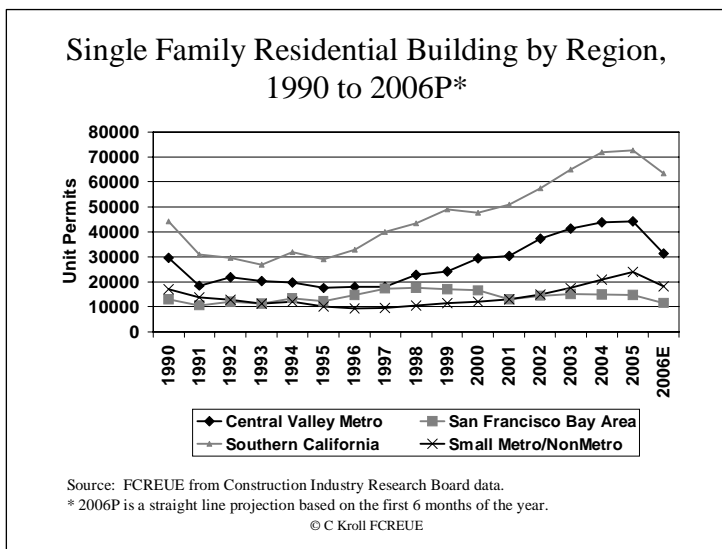
A Quick Overview of the Sacramento Economy and Real Estate Trends

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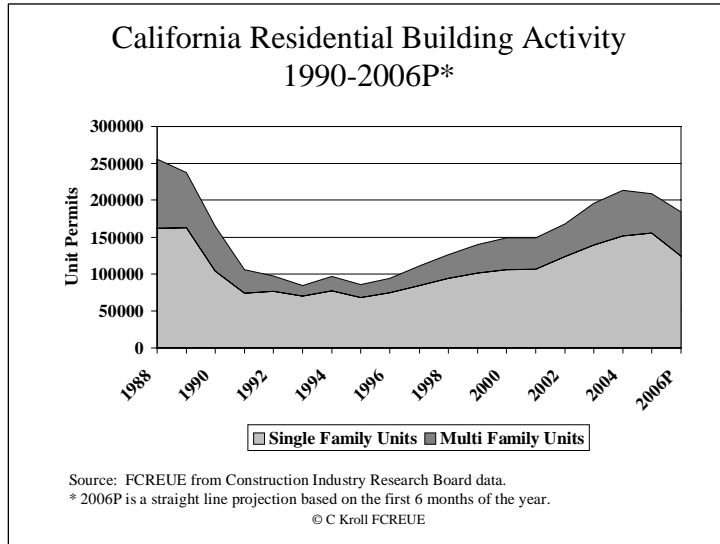
The Context--Statewide Residential Building Activity:

Single family building activity boomed in the past decade in all parts of the state with the exception of the San Francisco Bay Area. The Central Valley continued to be the second largest market for single family residential construction, after the heavily populated Southern California region. Single family building permits equaled those for the San Francisco Bay Area in 1997, but by 2005, single family unit permits filed in the Central Valley were triple the number filed in the San Francisco Bay Area.



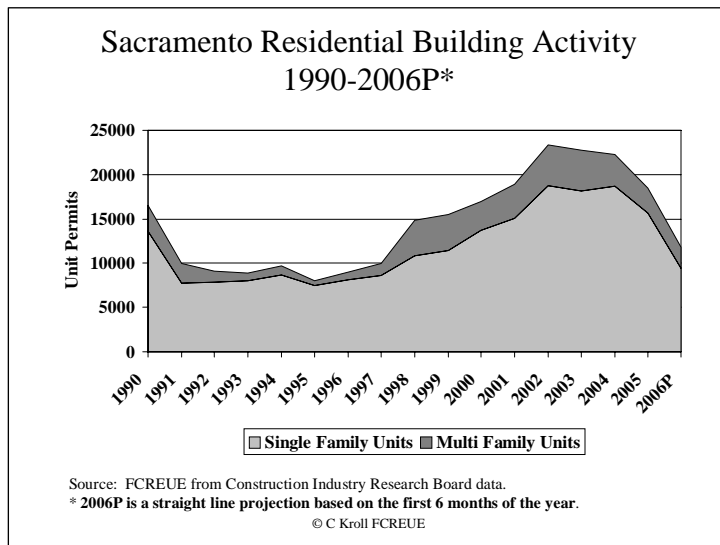
Multifamily residential building activity played a much smaller role in the Central Valley. Both Southern California and the San Francisco Bay Area saw large increases in multifamily building beginning in the economic expansion in the mid 1990s and continuing through the recession in 2001. Multifamily permits also increased in the Central Valley in the late 1990s, but had begun to slow by 2004.

Statewide, projecting from trends for the first half of 2006, show an overall slowdown in residential building activity. The downturn began first with multifamily permits, which dropped in 2005, but have gained ground again in 2006. At current trends, the 2006 multifamily unit permit level will be 10 percent above the 2005 permit level but 4 percent below the 2004 15-year peak. Single family permits reached a 16-year peak of over 155,000 in 2005. The 2006 year-to-date activity is about 20 percent below 2005.



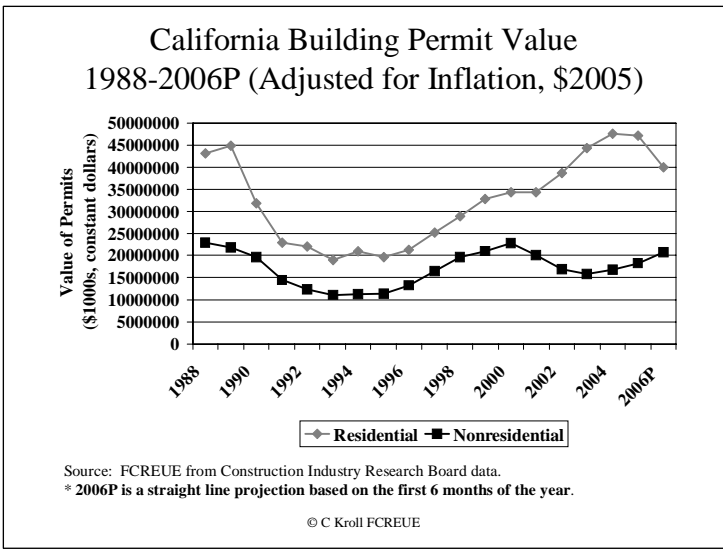
Sacramento Residential Building Slows More Sharply:

In Sacramento County, residential building permit activity--both single and multifamily--expanded at a faster pace than statewide in the 1995-2005 period, and now have dropped much more sharply than the state. At the current rate of permit filing this year, single family unit permits filed will be 40 percent below the 2005 level and almost 50 percent below the 2004 level. Multifamily permits for the first half of the year were 19 percent below 2005 levels. If the trend continues for the year, multifamily permits will be 35 percent below the 2004 level and 50 percent below the 2002-2003 peak in multifamily permit activity.

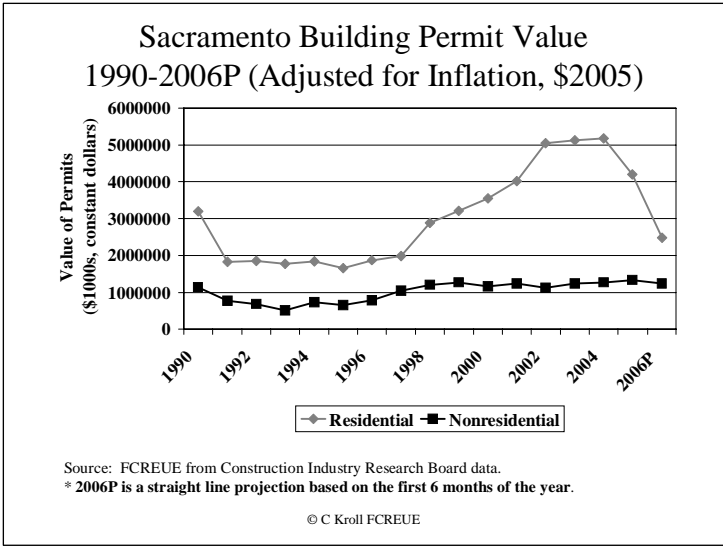


Nonresidential Permit Increases Do Not Fill in the Gap:

The residential and nonresidential permit cycles have not moved in concert during the past decade. The 2001 recession brought a large dip in nonresidential permit activity,

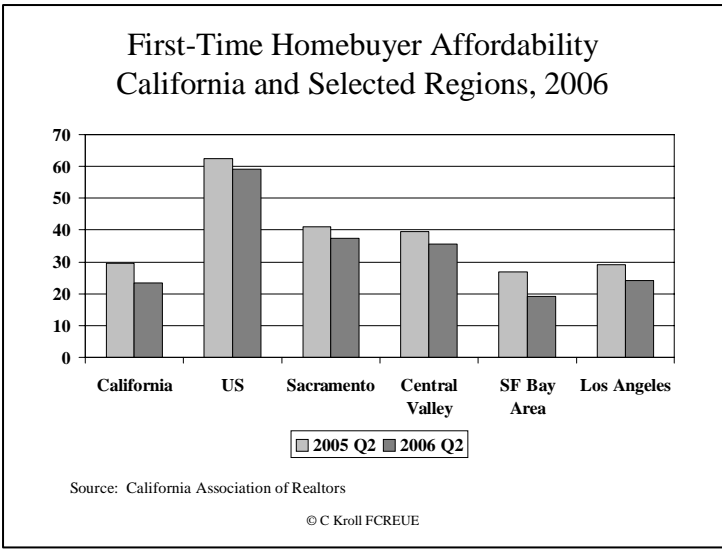


while residential permit activity leveled off briefly and then rose quickly. Nonresidential building activity began to show signs of recovery in 2004 and continues to increase even as residential building slows. The increase in nonresidential permit value is offsetting about 80 percent of the drop in residential building statewide. However, that offset is not happening in Sacramento. In the Sacramento MSA, nonresidential permits have dipped slightly this year, with reduced activity in Sacramento and El Dorado counties responsible for the decline.



Sacramento Home Prices Show Vulnerability as Sales Decline:

Recent building activity in Sacramento has kept the price of the region's for-sale homes affordable, particularly in comparison with other parts of the state. The most recent indices released by the California Association of Realtors calculate affordability based on first-time homebuyer financing. Sacramento affordability has dropped

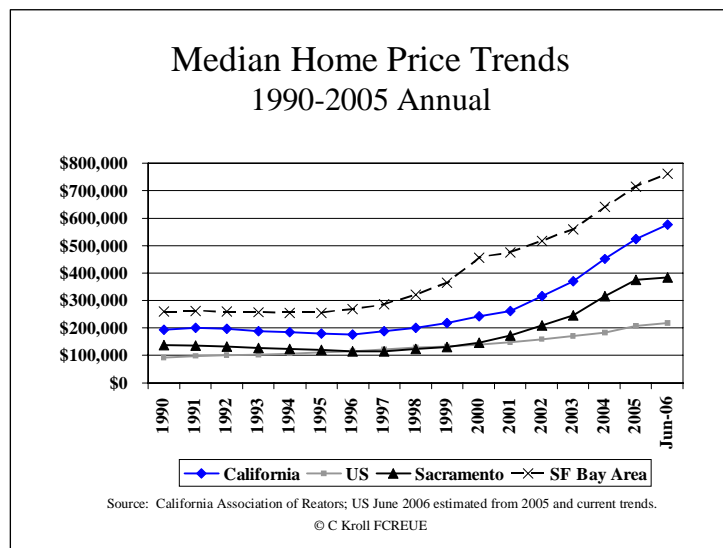
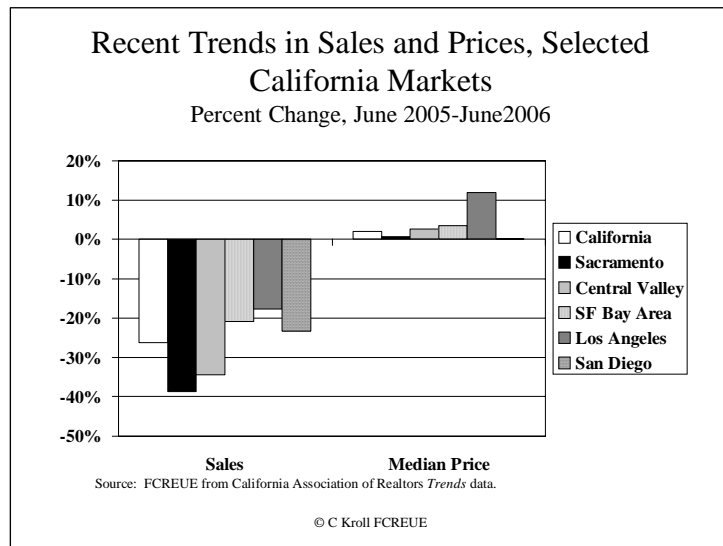


slightly in the last year, from 41 percent to 37.5 percent. The Central Valley as a whole has shown a similar modest shift. The change is much less extreme than for California as a whole, which experienced a drop from almost 30 percent to just over 23 percent, or for the larger San Francisco Bay Area or Los Angeles region.

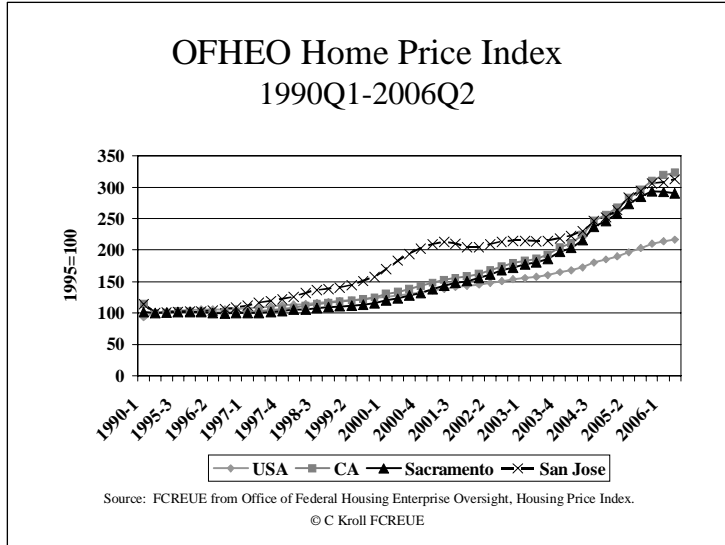
Affordability numbers are only one part of the story. Although Sacramento and Central Valley affordability compares well with the state as a whole and particularly the coastal areas, prices nevertheless have risen rapidly in the Sacramento area. Indices compiled by the Real Estate Research Council (based at Cal Poly Pomona) indicate that Sacramento area home values (as appraised for the same home, rather than estimated from median home sales price) have risen by 177 percent since 2000, compared to 102 percent for the San Francisco Bay Area. Sacramento's median home price, as reported by the California Association of Realtors, was close to the US median for much of the 1990s, but by 2005 was 76 percent above the US median.

Both historic trends and recent sales activity reported by the California Association of Realtors suggests that the strong appreciation of Sacramento homes may not last. Home prices held up fairly well in the 1991-1993 recession only to dip below 1990 levels in the mid 1990s (lagging the downturns that occurred in the San Francisco Bay Area and Southern California).

Currently, sales activity has fallen off more sharply in Sacramento than in other parts of the state, and median home prices reported for June of this year show Sacramento home prices essentially flat, matching only the San Diego region in weak price change. In this housing cycle, the slowdown has come to Sacramento more rapidly than to the state's larger metropolitan centers (although the San Francisco Bay Area experienced a brief slowdown in 2001).

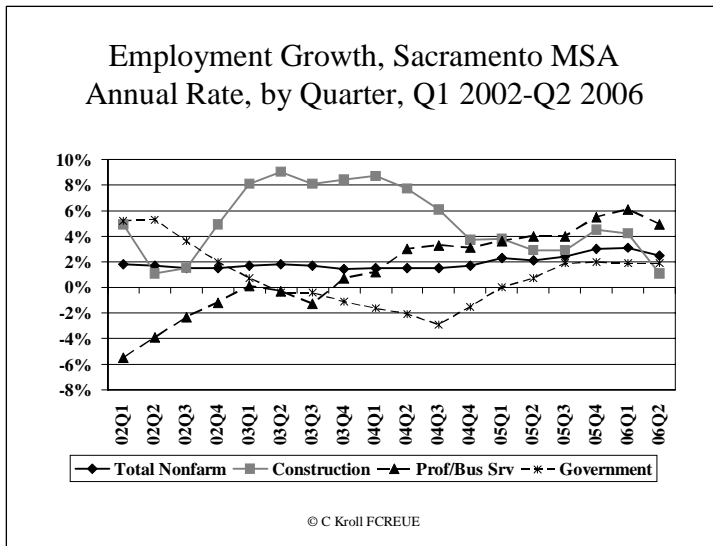


The housing price index published by the Office of Federal Housing Enterprise Oversight (OFHEO) gives further evidence of Sacramento's weakening housing market. The OFHEO home price index shows price appreciation slowing nationwide and statewide, but prices declining slightly in Sacramento over the last three quarters. Unlike the median home price numbers, the OFHEO



index is an indicator of how home value has changed (based on the same mix of homes).

Possible Effects on the Economy:



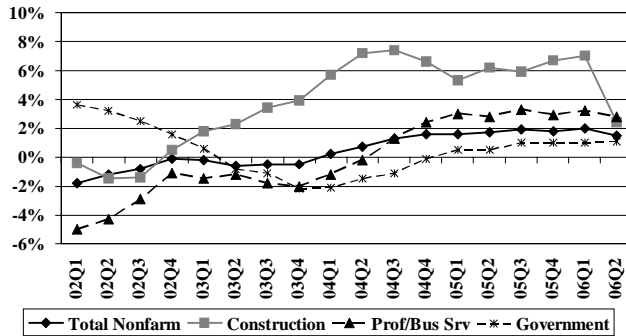
The real estate slowdown will have its most immediate impacts on employment in construction, real estate sales, and finance sectors. Construction employment growth continues to be positive, but the rate of growth has dropped sharply in both California and the Sacramento region.

Strong growth of construction employment helped to cushion the Sacramento area when the state budget crisis led to a

decline in government employment. Sacramento's total rate of growth has been slightly faster than the state, and growth rates in many sectors remain higher than for California. Employment growth remains positive in all of the major sectors except information, in contrast to statewide trends, where job losses continue in manufacturing. Sacramento jobs also are growing more quickly than statewide in professional/technical services, trade, and finance and insurance.

Overall, the Sacramento area is likely to see slower employment growth in the second half of 2006, but the government base and diversity of the Sacramento region's economy

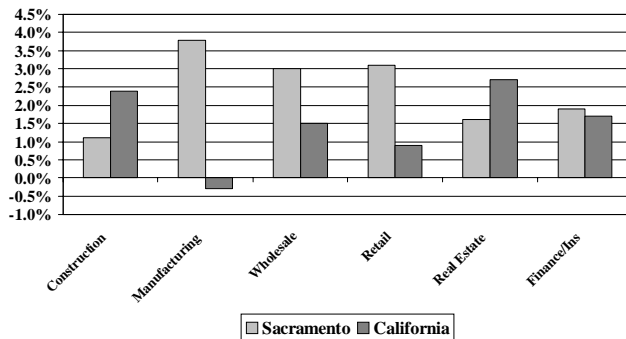
Employment Growth, California Annual Rate, by Quarter, Q1 2002-Q2 2006



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may help to counterbalance employment slowdowns and even job losses in construction and real estate related sectors.

Employment Growth, Sacramento and California, Selected Sectors Annual Rate, Q2 2006



Source: FCREUE from California Employment Development Department data.
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