Understanding
Southern California's Growth Pattern

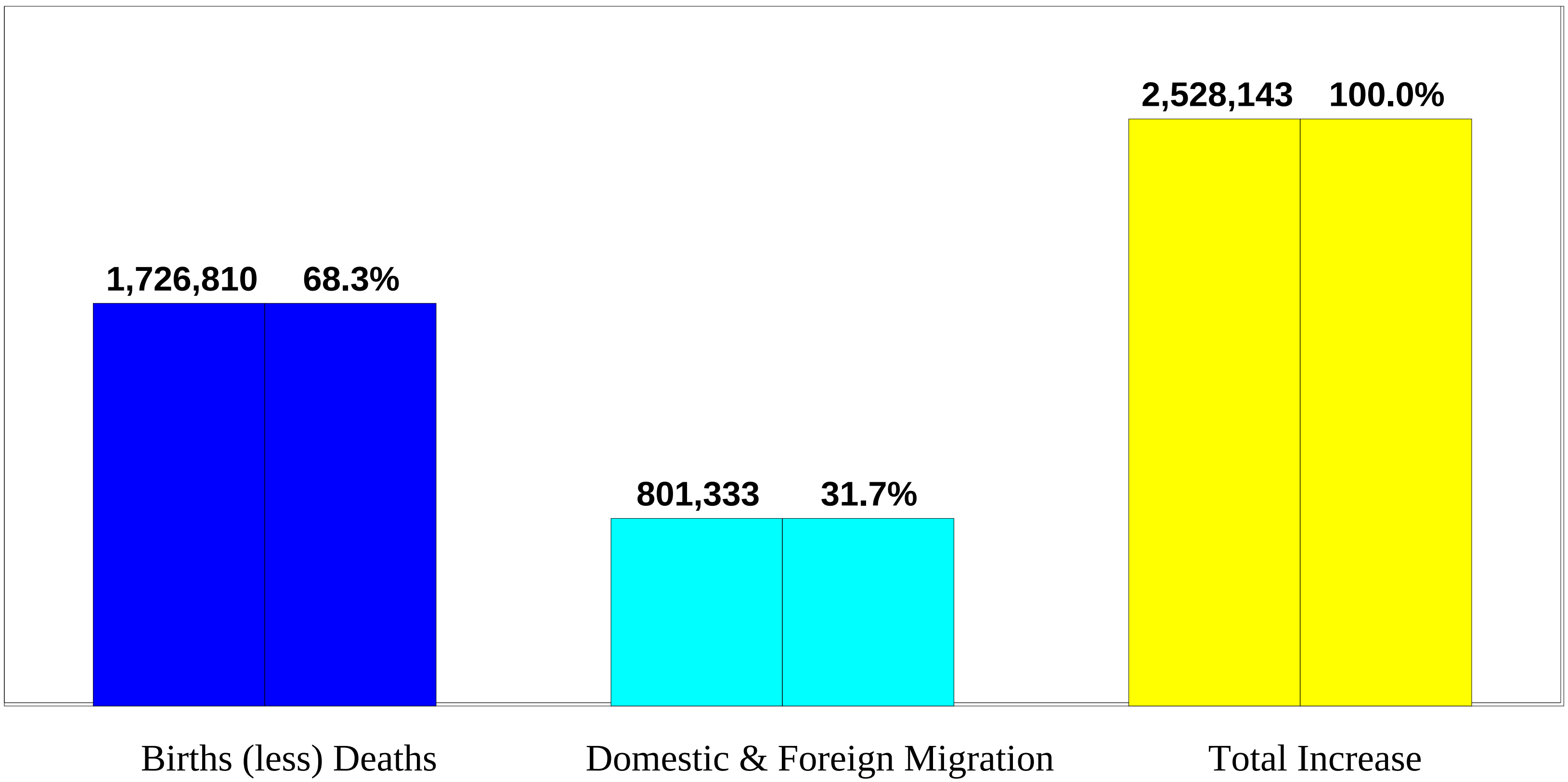
<u>DIRT</u>!

Three Step Growth Process Based On Interaction Of:

- Population
- Preferences
- Dirt
- Prices

Why Southern California Population Grows

Exhibit 2.-Who Caused Growth?
Southern California, 2000-2009



Source: California Department of Finance, Demographic Research Unit, E-2 Reports, 2000-2009

People <u>Prefer</u> To Live Near The Coast

What is your ideal home?

86%

Single Family Detached

Would you prefer a detached home EVEN if you must drive?

+

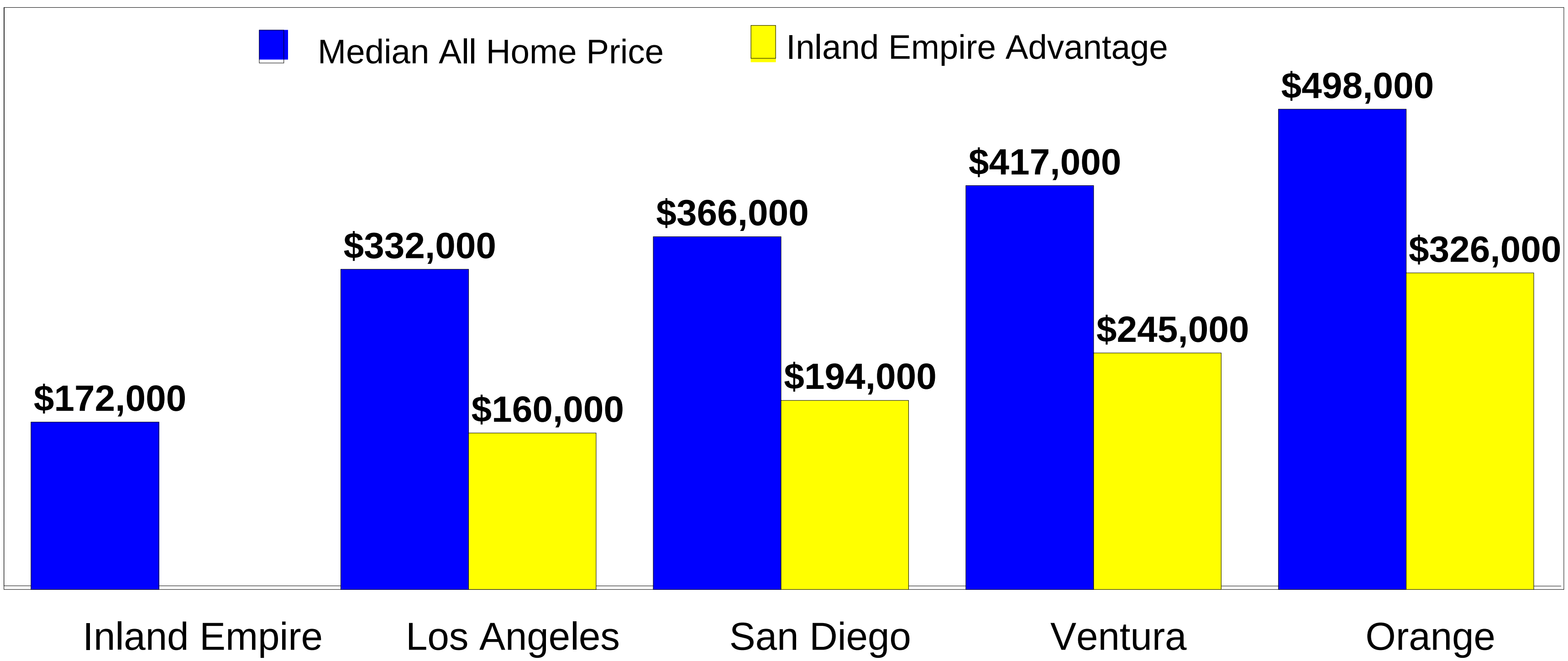
=

70%

“YES”

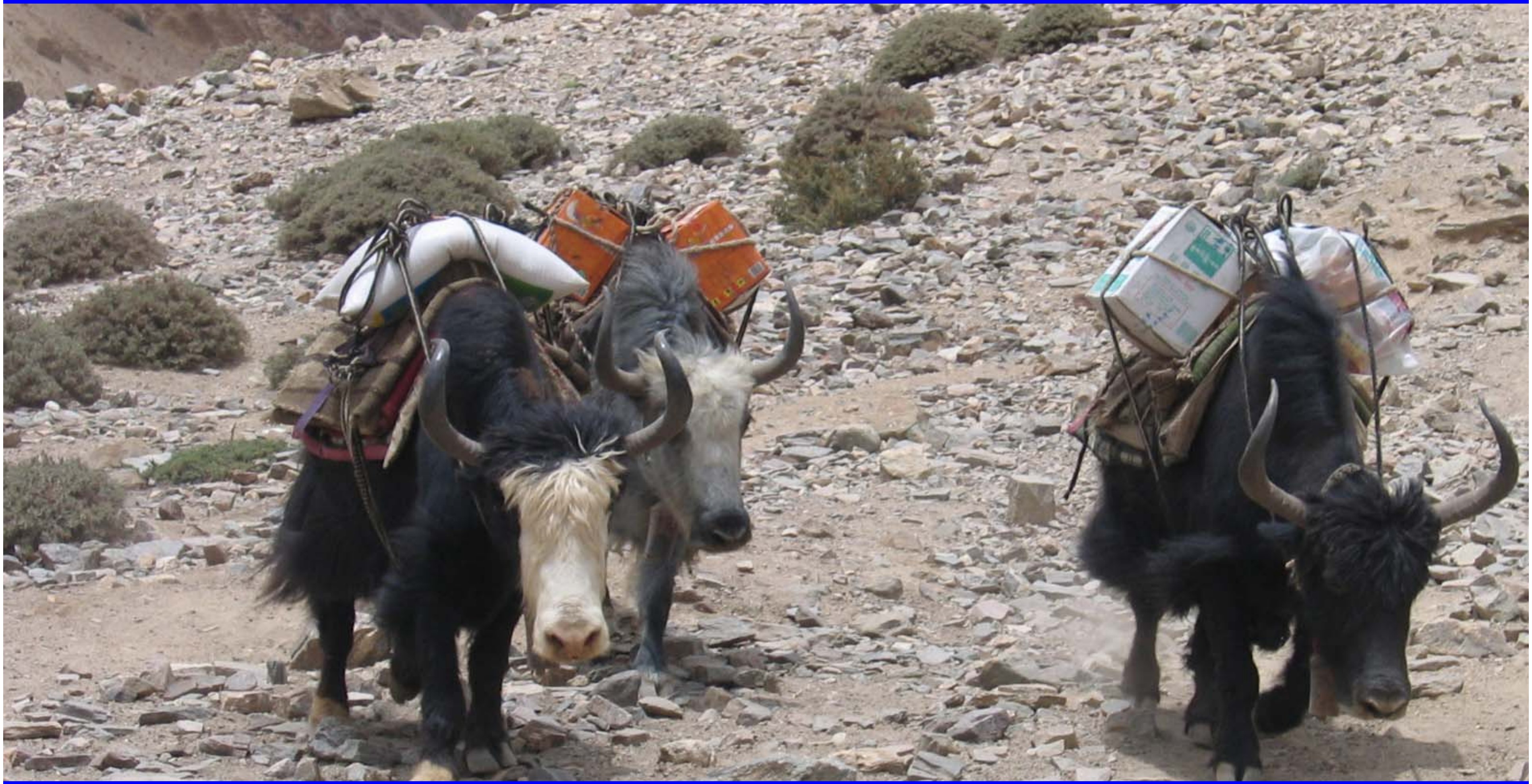
Not Enough Land Or Inadequate Zoning…
Prices Drive People Outward

Exhibit 3.-Home Price Advantage, So. California Marke
Median Priced New & Existing Home, 3rd Quarter 200



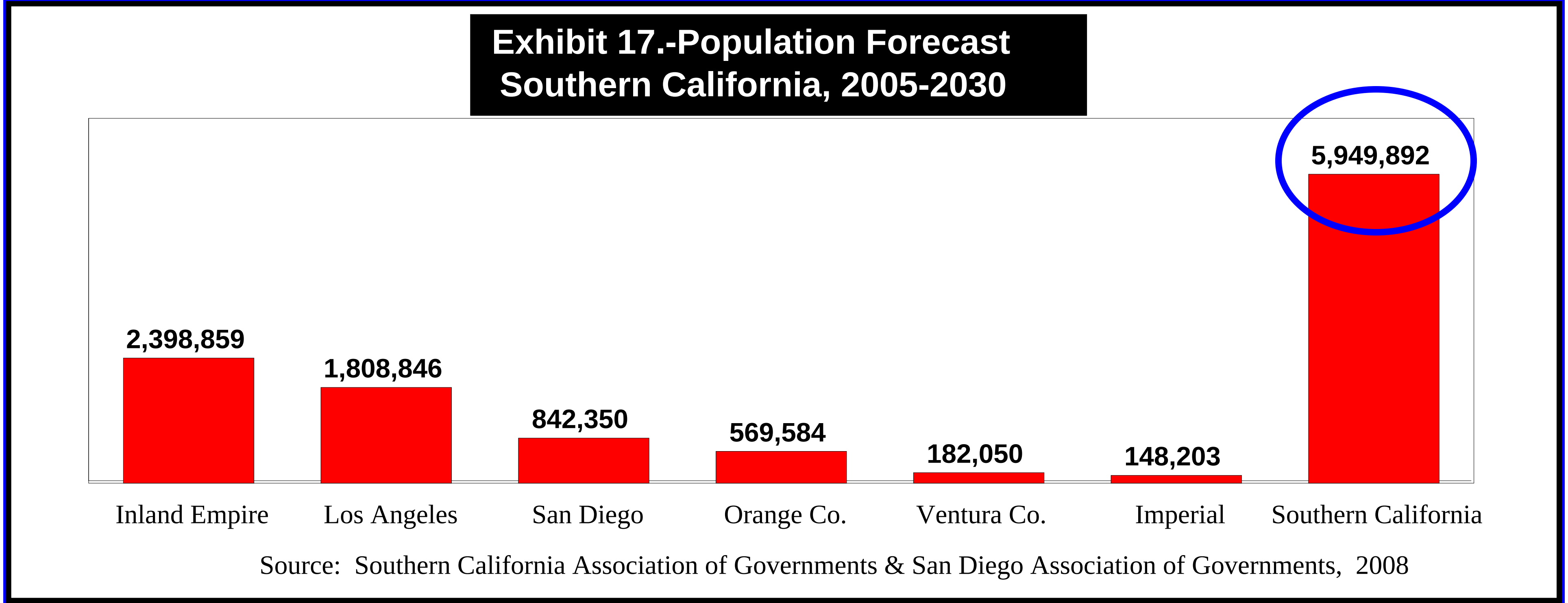
Source: Dataquick

BUILD FREEWAYS & THEY'LL COME



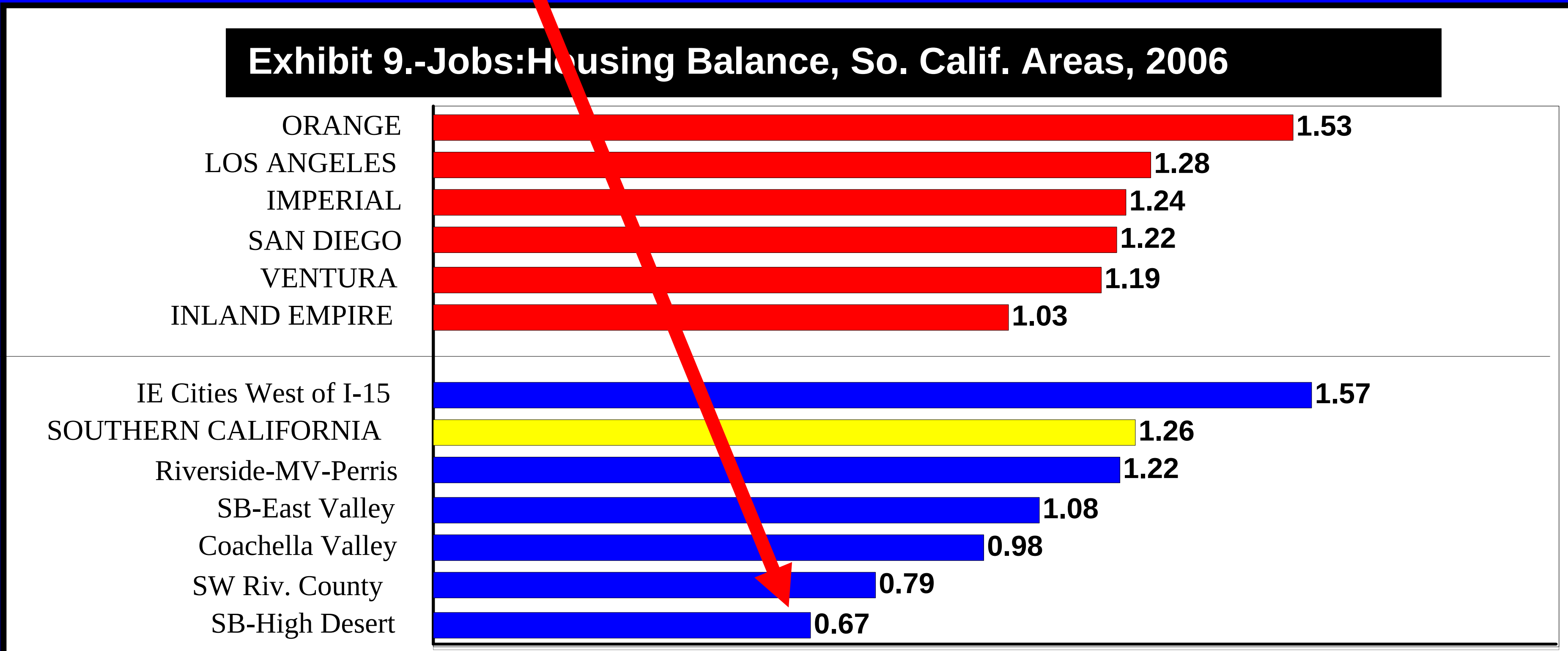
Don't Build Them & They'll Come Anyway!

Stage #1: Rapid Population Growth



- People forced to move inland for affordable homes
- Population Serving Jobs Only
- High Desert is today's example

Jobs:Housing Balance A Huge Issue

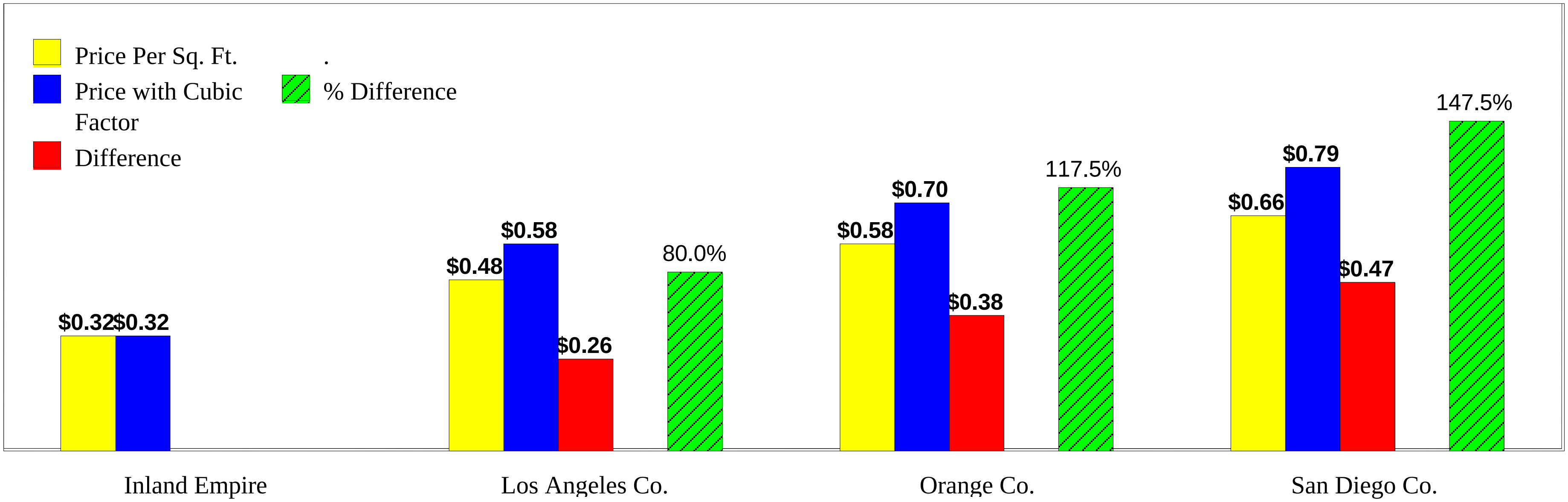


Note: Wage & Salary Jobs vs. Occupied Dwellings; Military in Outlying Deserts, Morongo Basin
Sources: CA Department of Finance & CA Employment Development Department

Business Prefers The Coastal Counties

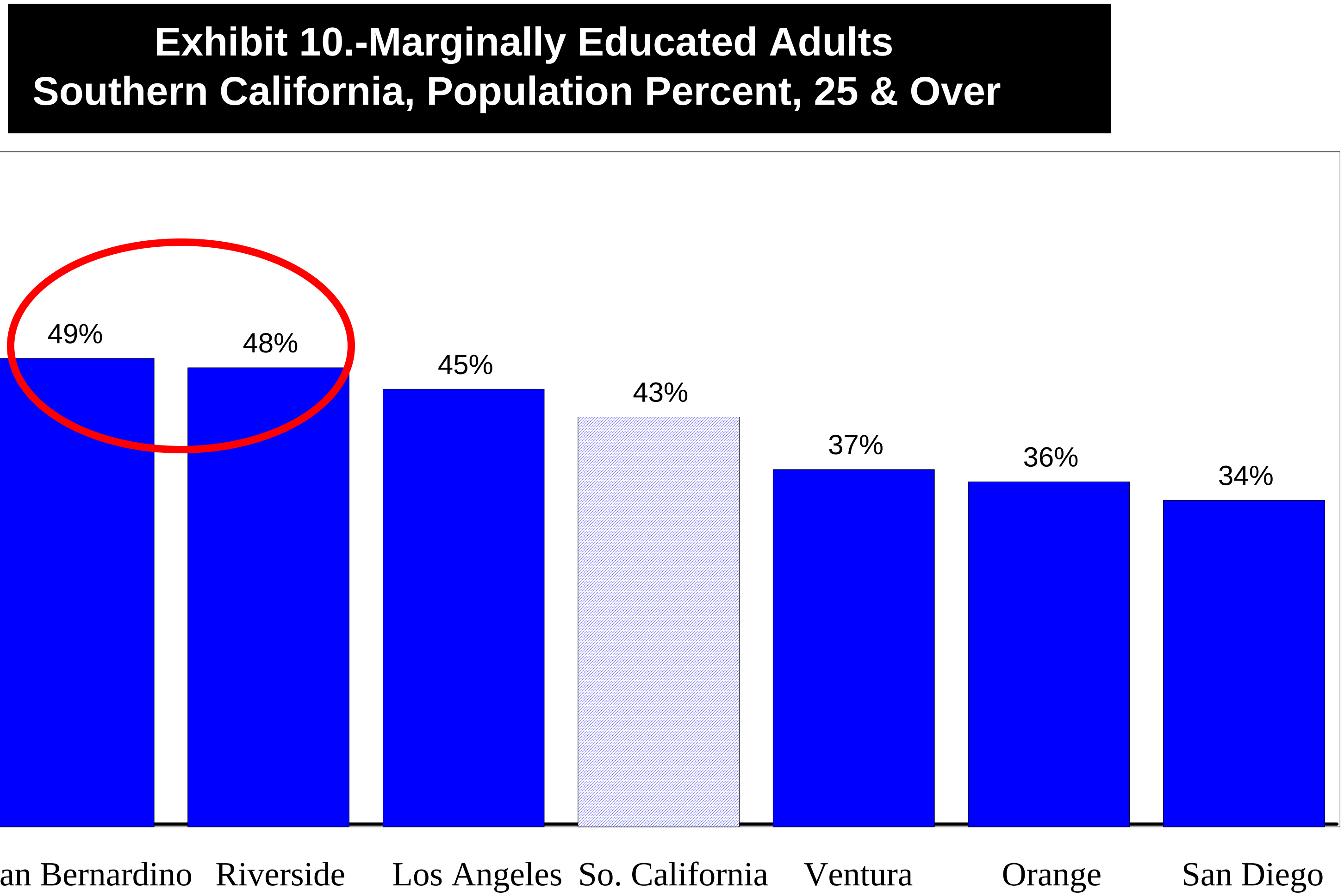
Not Enough Land … Prices Much Lower In Outlying Areas

Exhibit 5.-Industrial Space Costs Differences
Southern California, Sub-Markets, September 2009



nnn=net of taxes, insurance, common area fees
Source: Grubb & Ellis

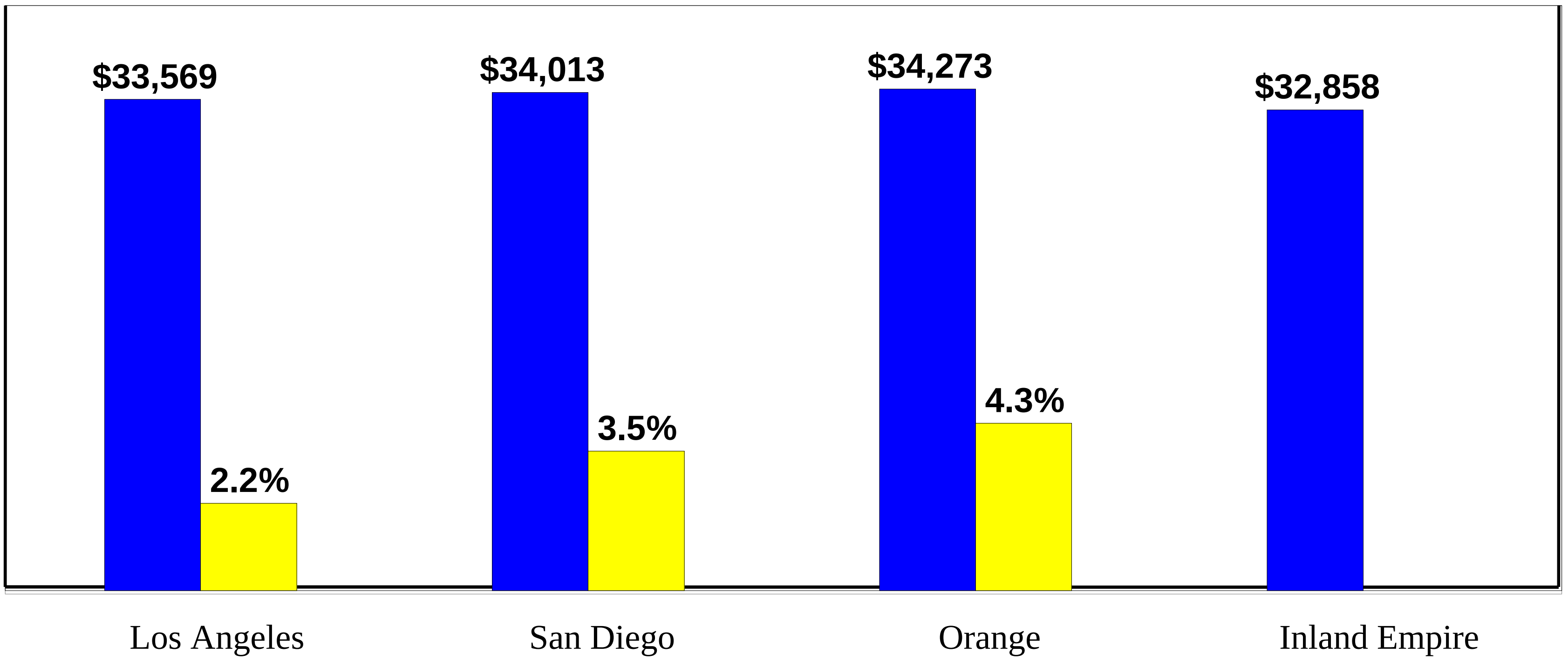
Blue Collar Jobs Important To Outlying Areas



Source: American Communitu Survey, 2008

Outlying Workers Will Work For <u>Less</u> Not To Commute

Exhibit 7.-Average Pay Per Job By Market Inland Empire vs. Coastal Counties, 2006

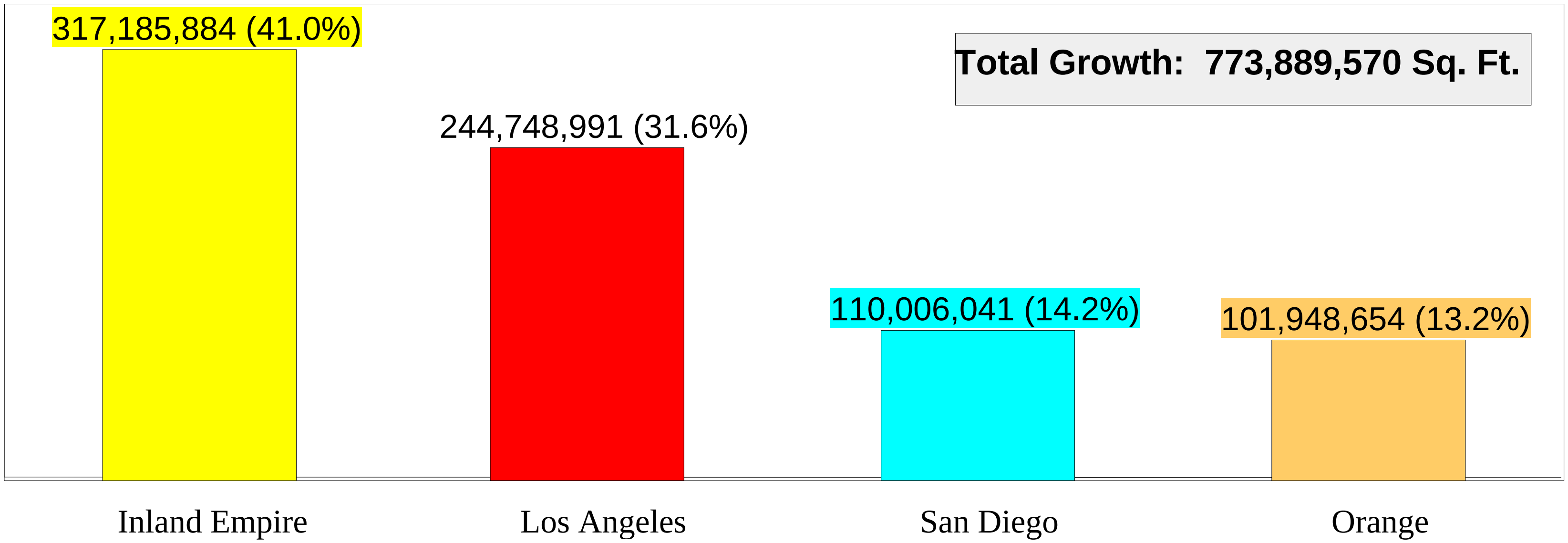


Source: Occupational Employment Survey, Employment Develoment Department; Weighting Economics & Politic

Stage 2: Rapid Blue Collar Growth

- **Industrial Developers Seek Available Land**

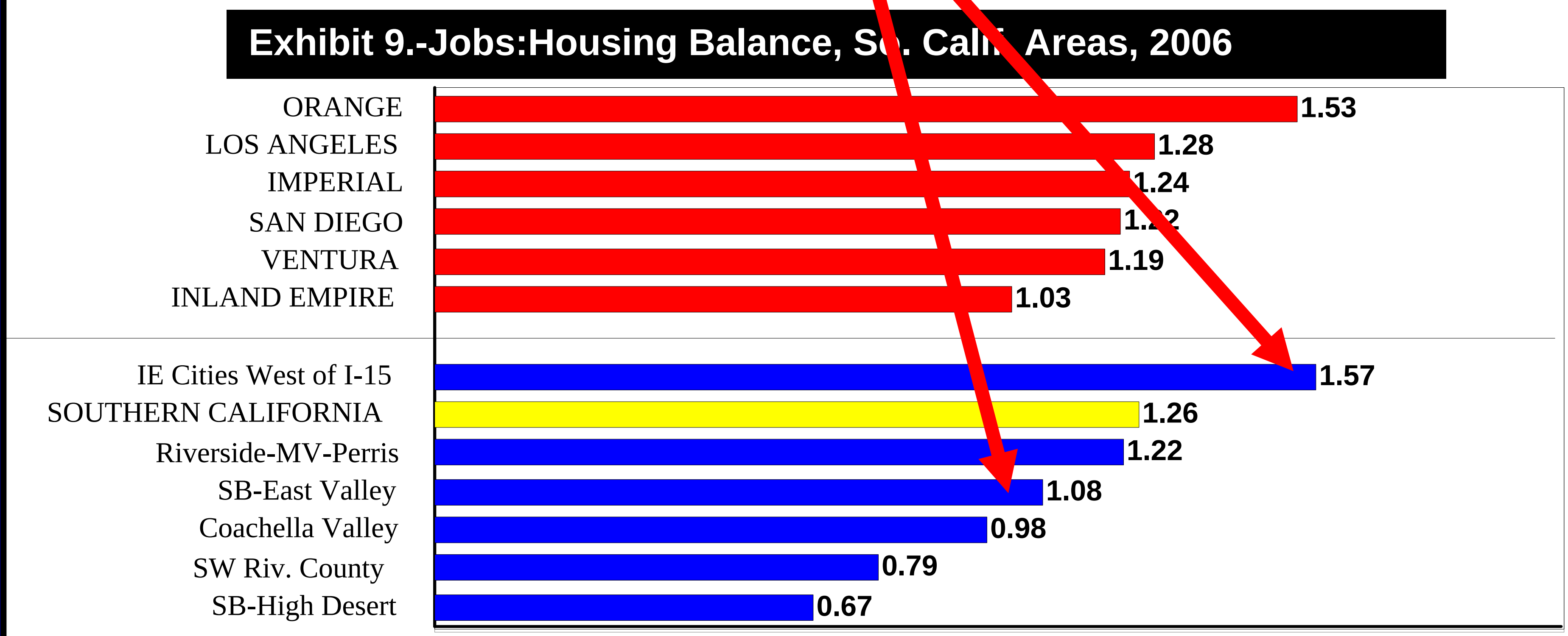
Exhibit 6.-Industrial Real Estate Market, Inventory Growth (Sq. Ft.)
Southern California's Areas, 1991-2009



Source: Grubb & Ellis

- Firms Follow For Lower Lease & Labor Costs

Jobs:Housing Balance Improves



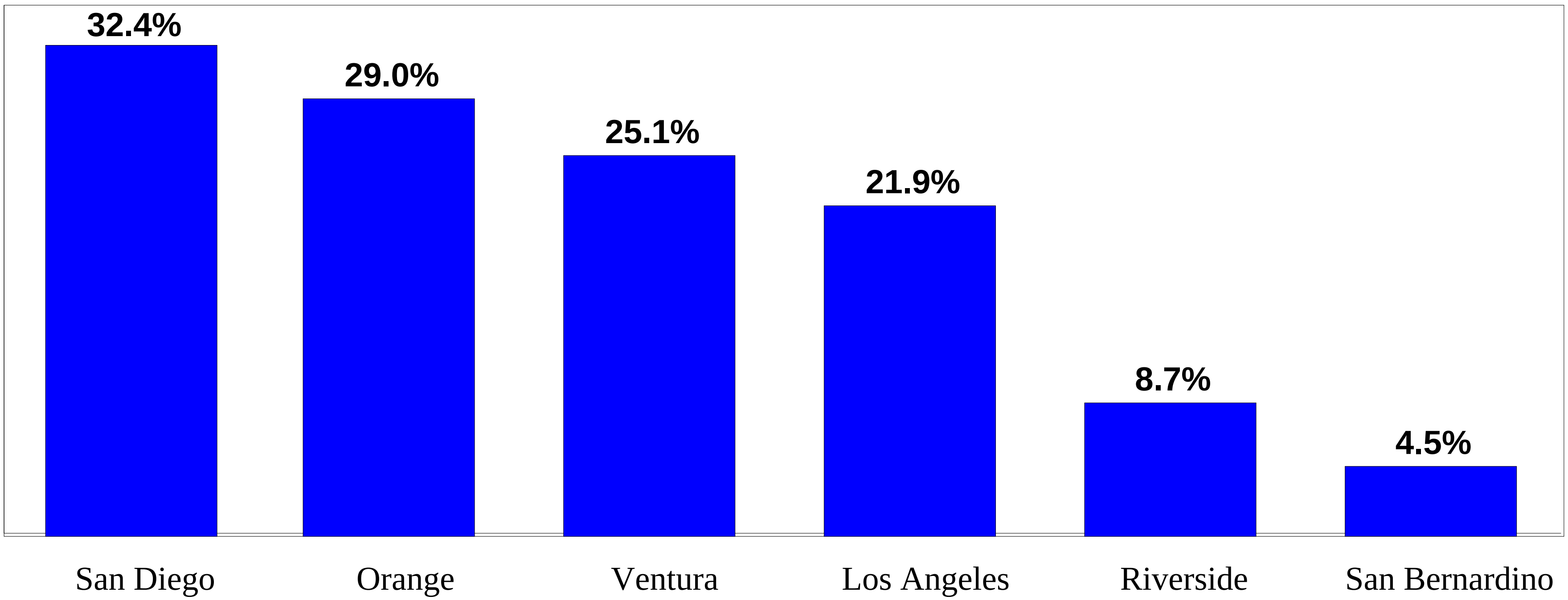
Note: Wage & Salary Jobs vs. Occupied Dwellings; Military in Outlying Deserts, Morongo Basin
Sources: CA Department of Finance & CA Employment Development Department

IE Western Edge is today’s best example

Final Maturing: **Higher End Housing Demand**

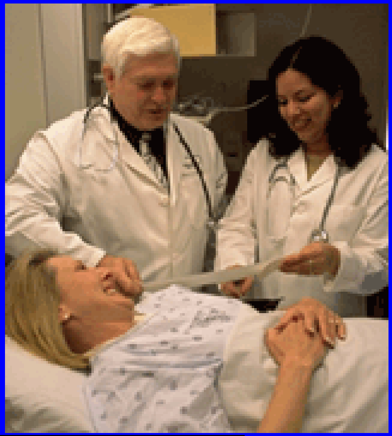
Condo Living Becomes More Prevalent

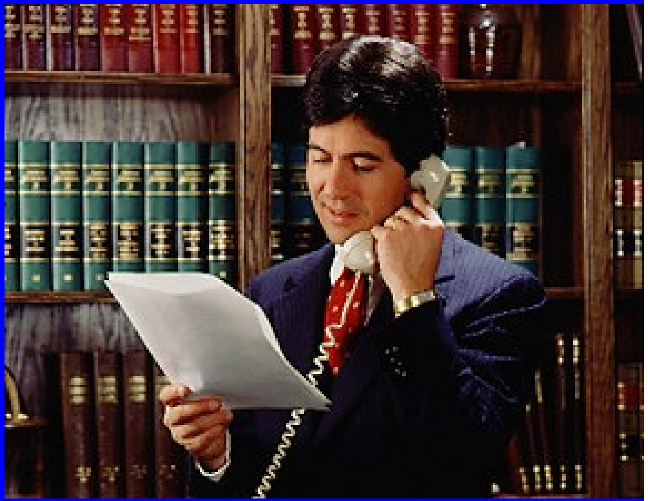
Exhibit 13.-Condo Sales Share of Home Sales
Southern California Markets, 2008



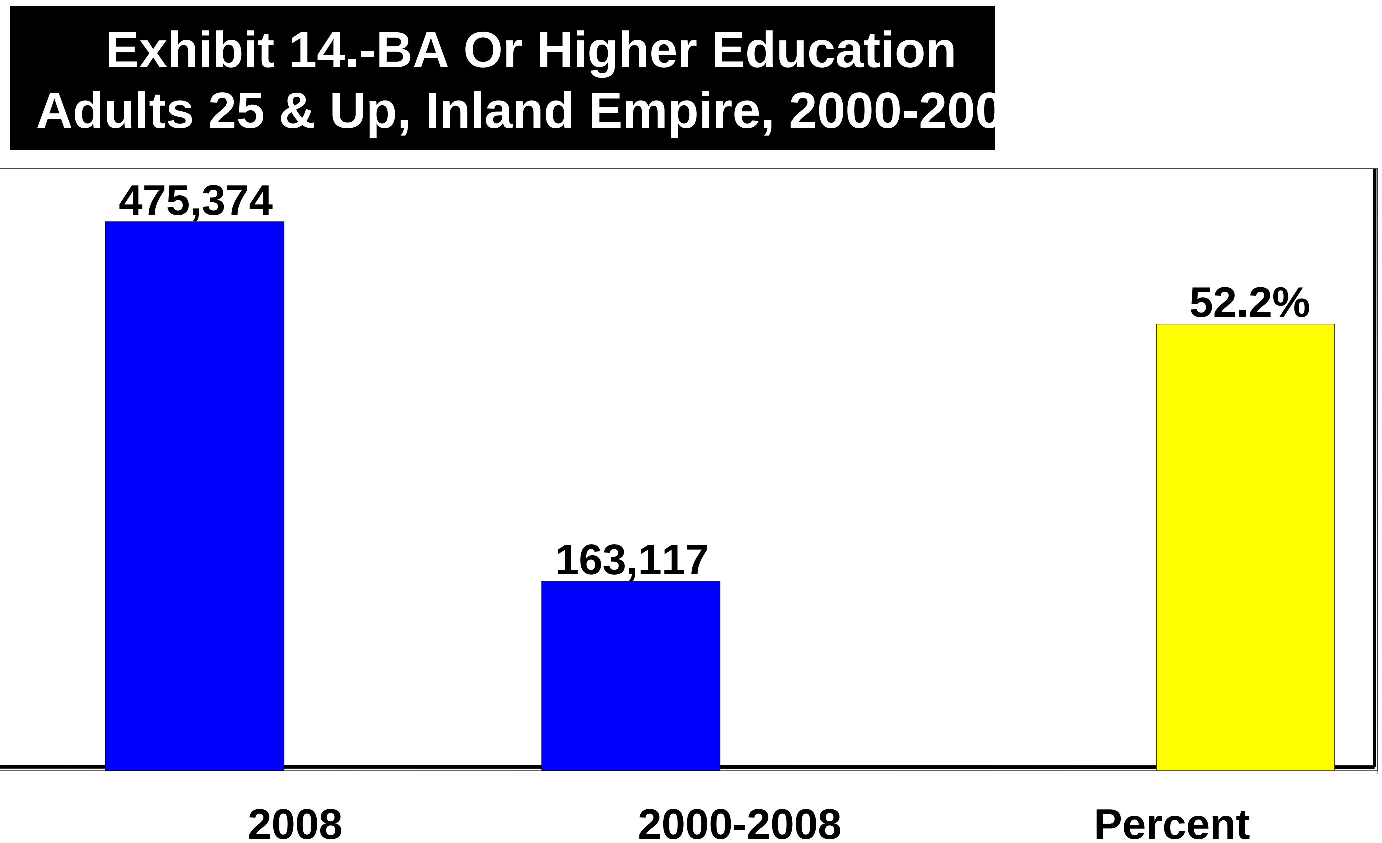
Source: DataQuick

Some ***Skilled Workers*** Migrate Inland For Better Homes





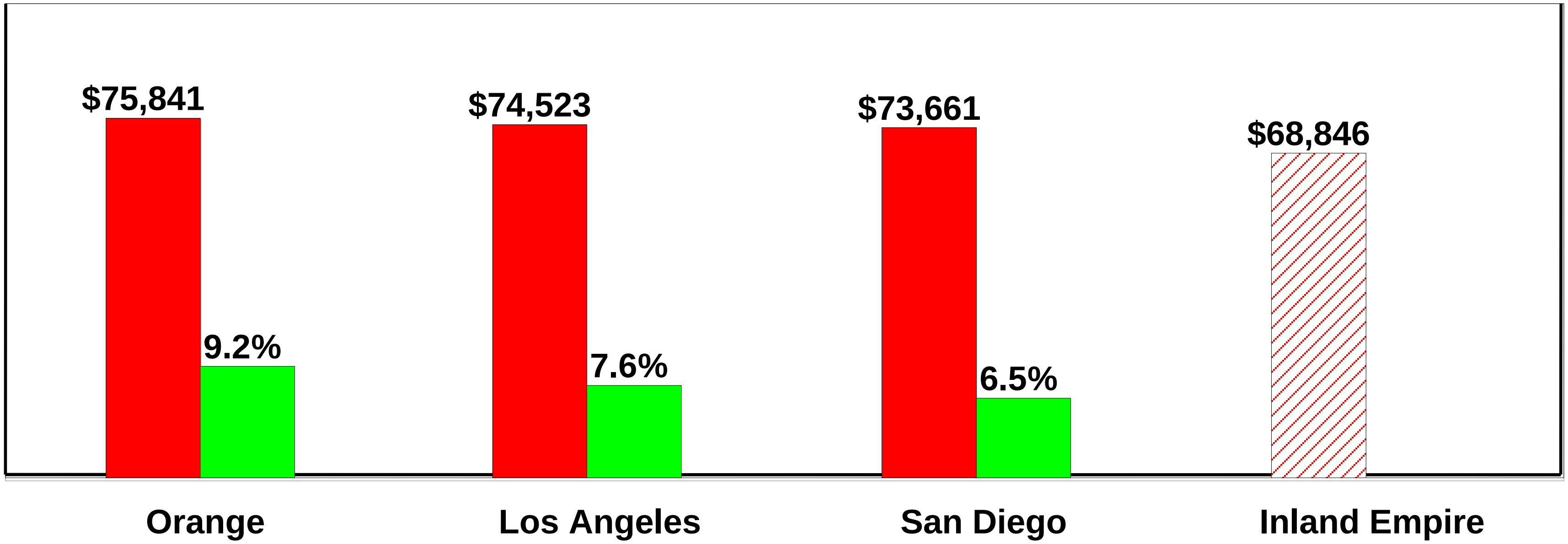
Changes Labor Force Competitiveness



Source: 2000 Census & 2008 American Community Survey

Willing To Work For Less To Avoid Commuting

Exhibit 15.-Average Pay in Jobs Paying $60,000 & Up
Inland Empire vs. Coastal Counties, 2006

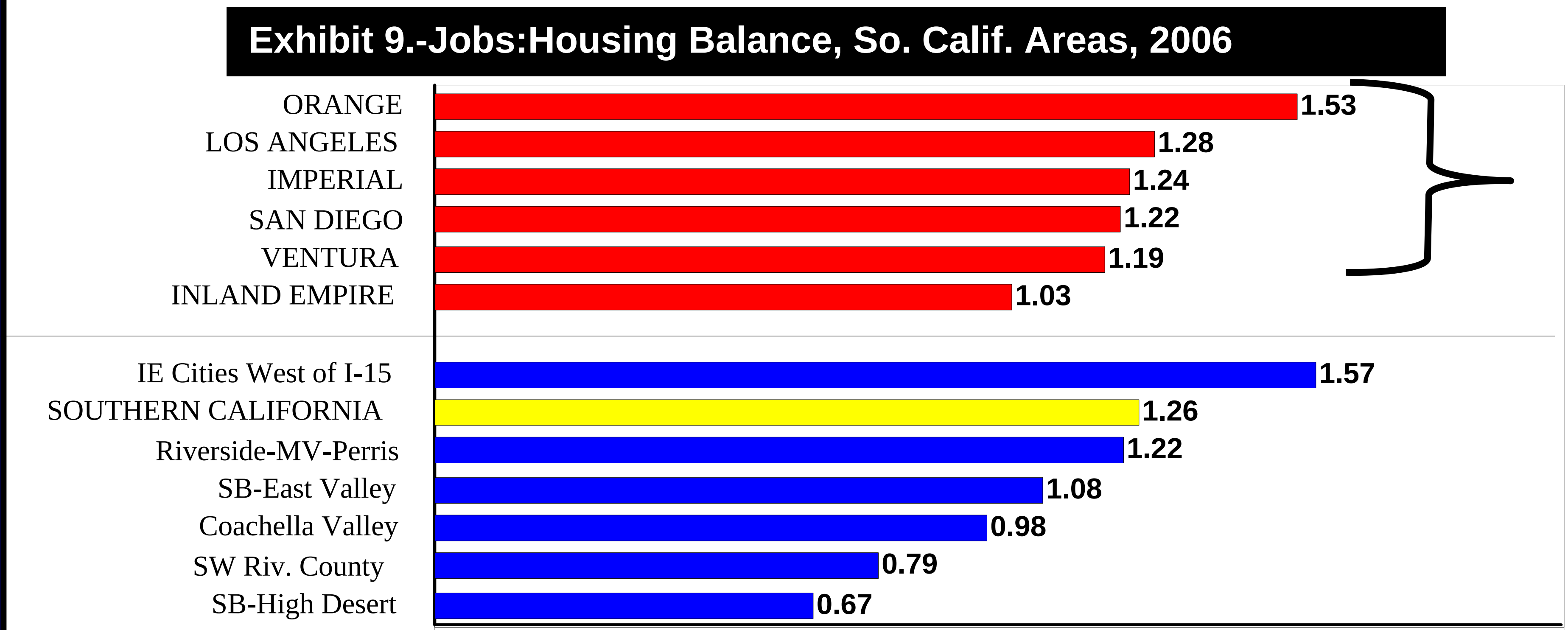


Note: Pay levels weighted by employment levels in Inland Empire

Source: 2006 Occupational Employment Survey, Employment Develoment Department; Weighting Economics & Politics Inc.

Stage 3.- High-End Companies Ultimately Follow Workers

Jobs:Housing Balance Fully Achieved



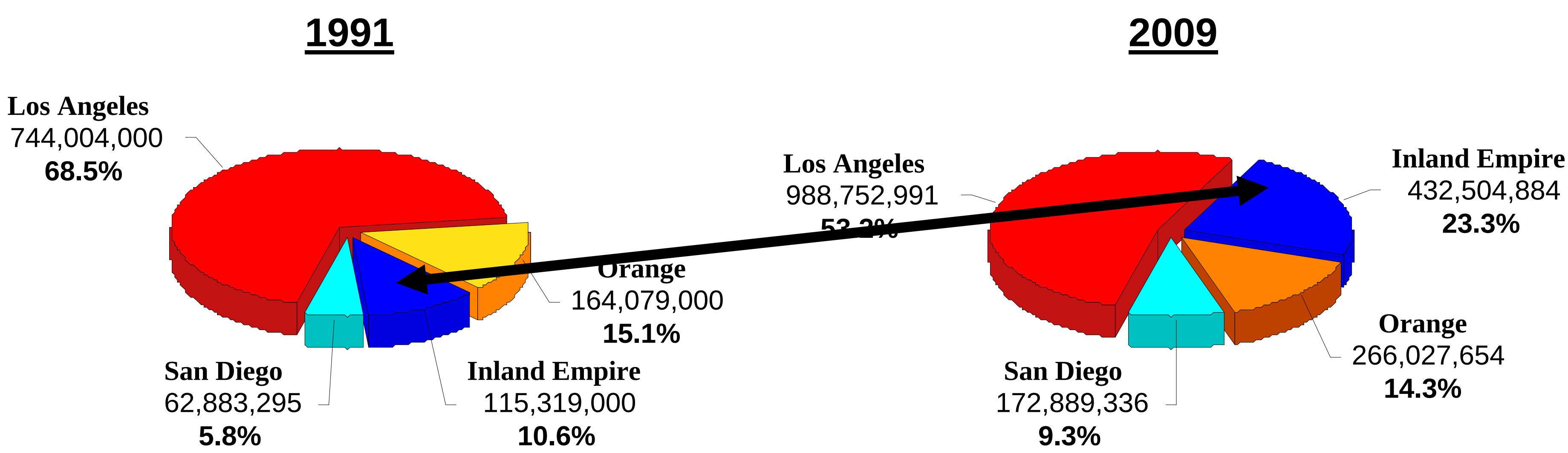
Note: Wage & Salary Jobs vs. Occupied Dwellings; Military in Outlying Deserts, Morongo Basin
Sources: CA Department of Finance & CA Employment Development Department

Policy Considerations

- With no restriction on population growth we face 5.9 million more Southern Californians
- There is no set of policies to stop a large number of people from being pushed inland
- That leaves these people with long commutes
- Policy should facilitate movement of jobs to them
- Blue Collar jobs are essential

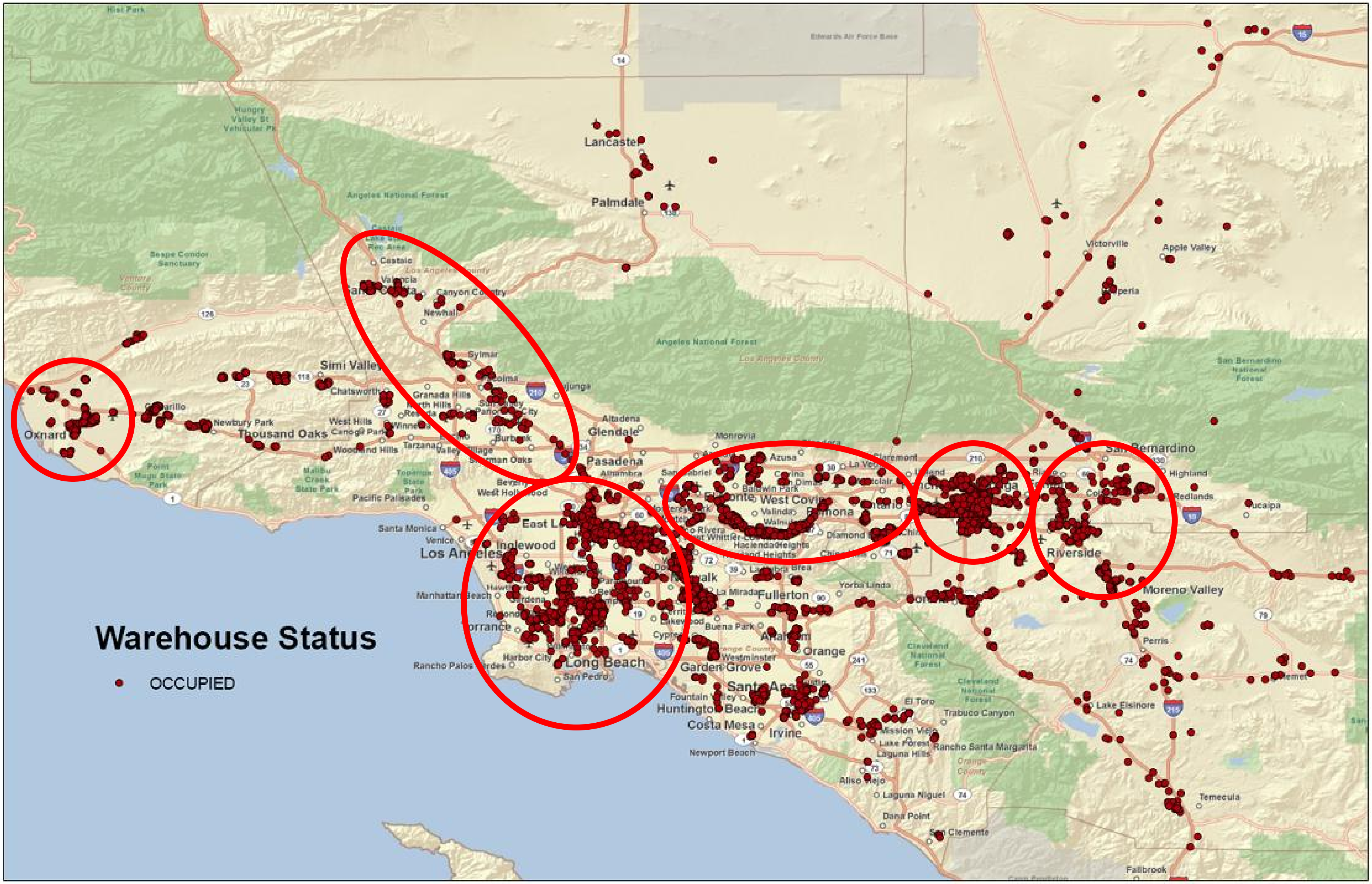
Economy Has Moved Industrial Space To Inland Valleys

Exhibit 19.-Where Industrial Space Was Located
Southern California Markets, 1991 & 2009



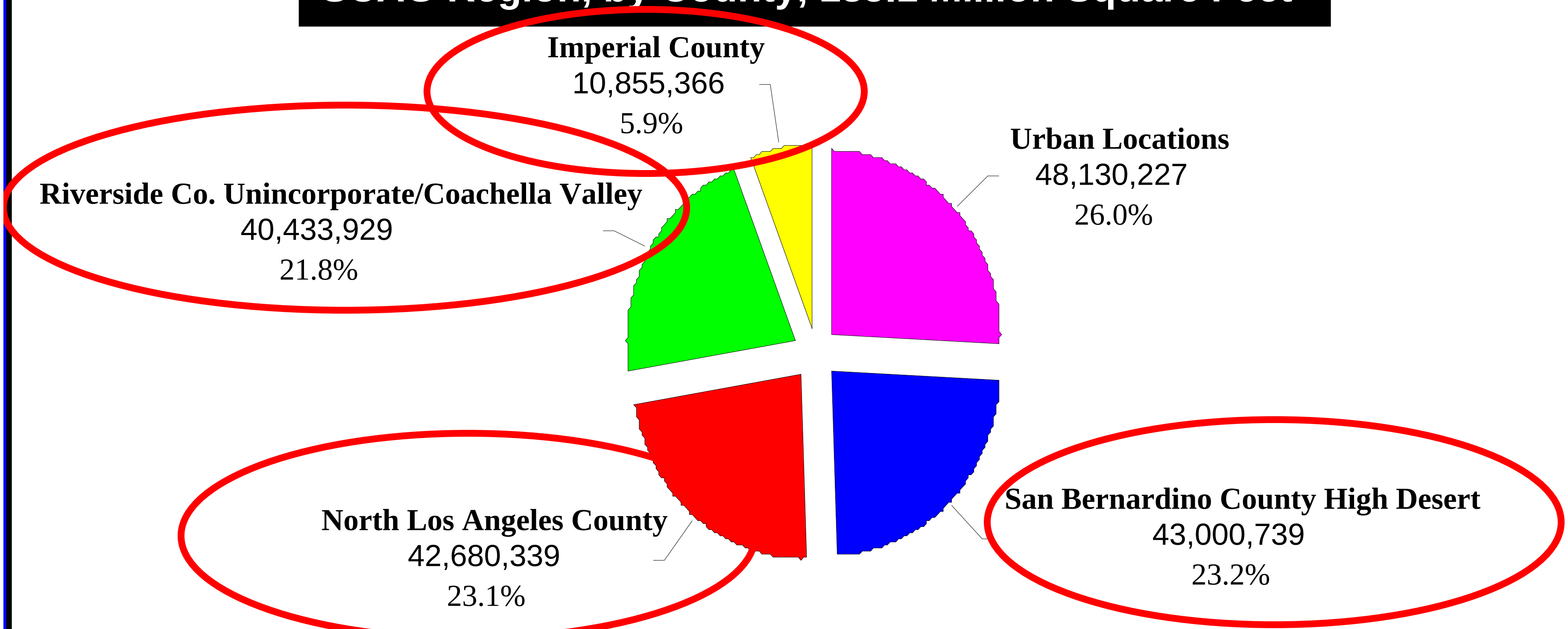
Sources: Grubb & Ellis

Where Space Has Gone: Dirt Theory



74% of Available Warehousing Space In Outlying Markets

Exhibit 22.-Dominence of Outlying Markets
SCAG Region, by County, 185.1 Million Square Feet



Source: County Industrially Zoned Sites vs. Developed Parcels
Note: 55% Floor Area Ratio

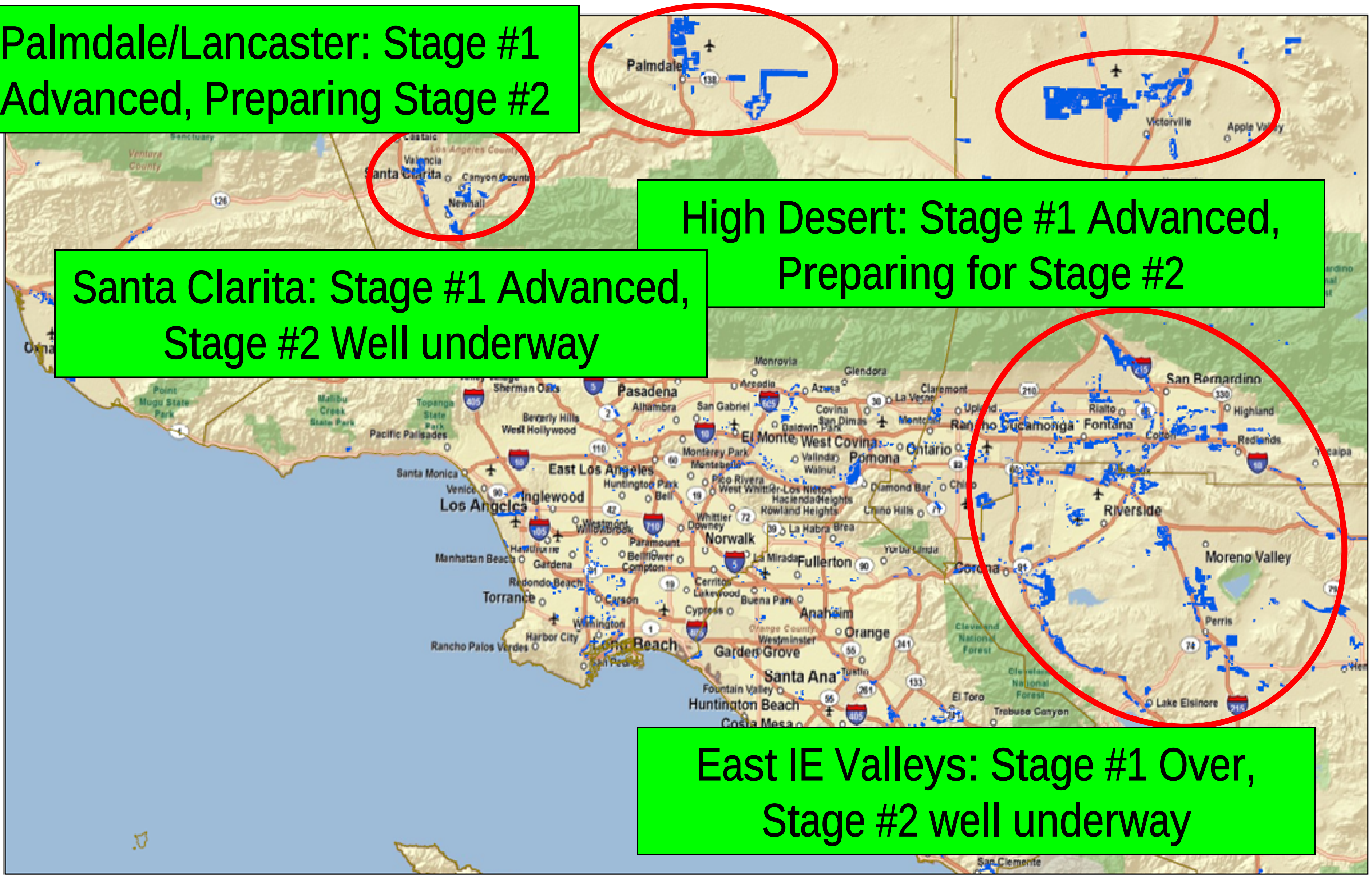
Outlying Markets

Palmdale/Lancaster: Stage #1 Advanced, Preparing Stage #2

High Desert: Stage #1 Advanced, Preparing for Stage #2

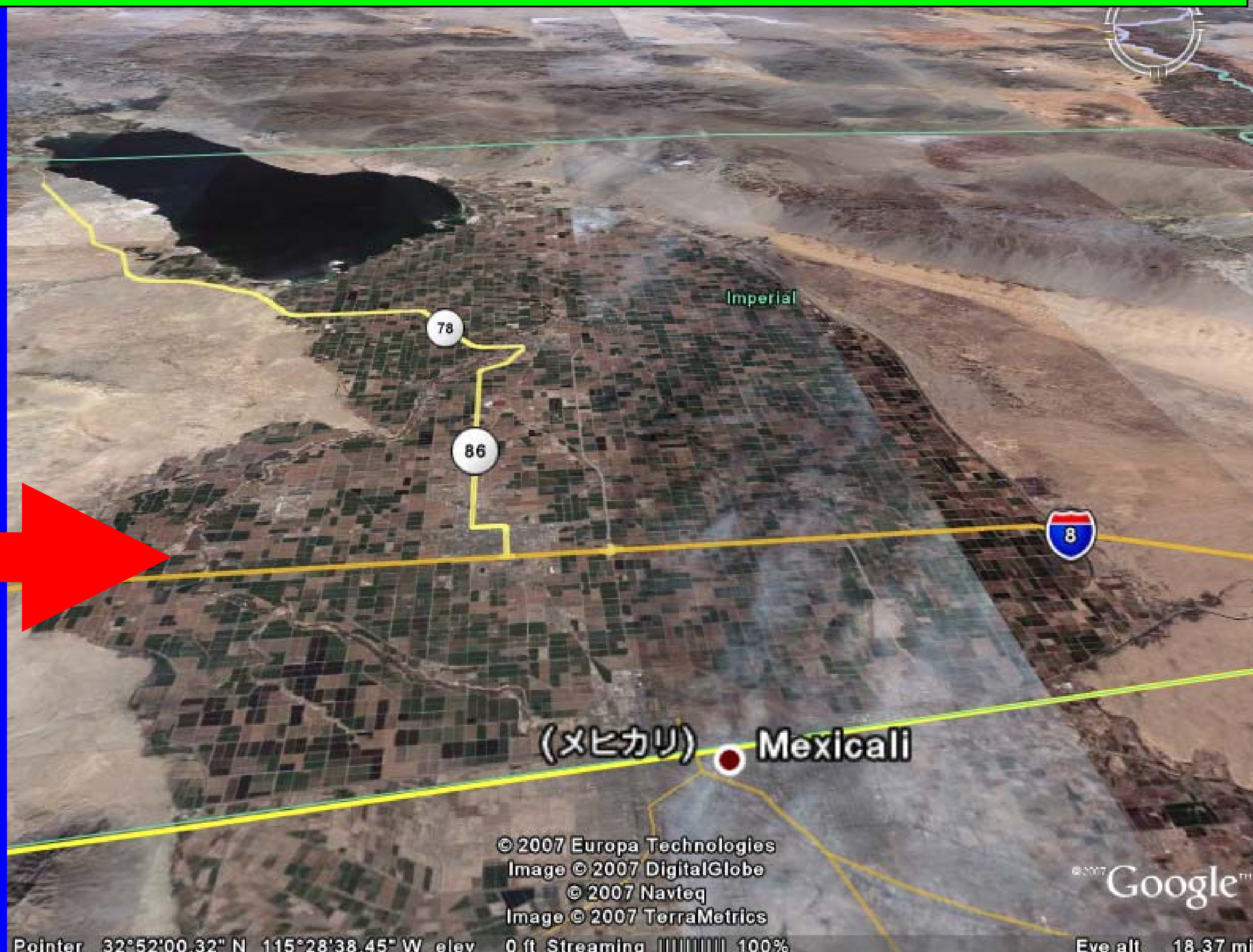
Santa Clarita: Stage #1 Advanced, Stage #2 Well underway

East IE Valleys: Stage #1 Over, Stage #2 well underway

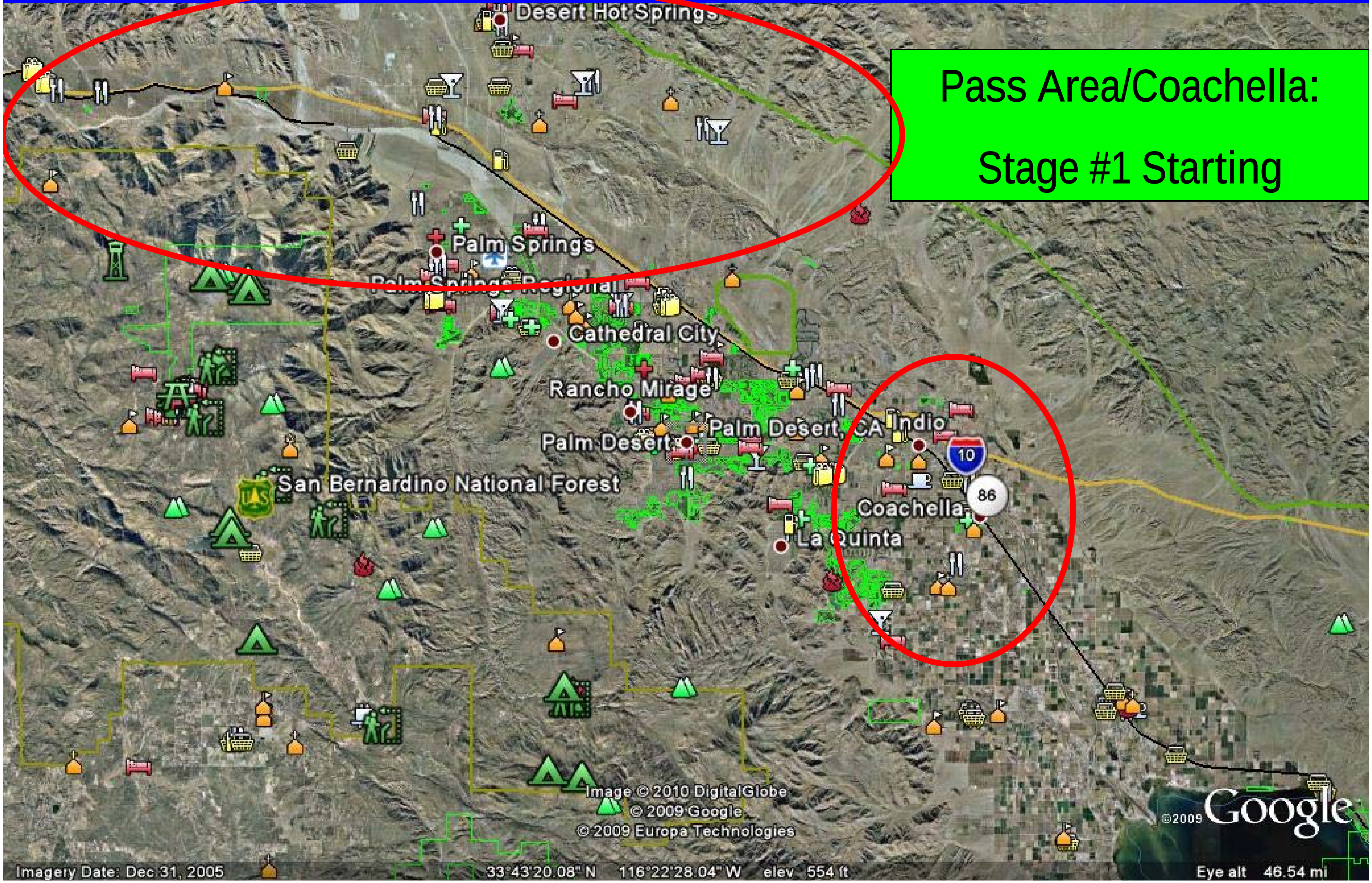


Imperial County

Imperial County: Stage #1 Starting



Pass Area/Coachella Valley



Issues That Might Stop Desert Area Stage #2

- Competition From Existing Stage #2 Markets
- Developer Skepticism
- Extra Distance & Passes
- Changes in Urban Core Aging Facility Usage
- Antagonistic Policies to Horizontal Growth
- Inadequate Transportation Infrastructure Financing
- Opposition to Expanded Transportation Routes
- Fuel Costs

Modeling Cost Differences
High Desert vs. Inland Valleys

- Different Sizes of Facilities
- Truck Trips Per Square Foot
- Destinations (Ports, Local, Intermodal Yard, InterState)
- Drayage Cost Differences (Desert vs. Valley)
- Diesel Cost Percentage Allowance
- Workers per 1,000 Sq. Ft.
- Difference in Pay Levels (Desert vs. Valley)
- Petroleum Prices times today's level by: 1, 2, 3, 4, 5

Sq. Ft. Lease Price *Difference* To Make High Desert Competitive

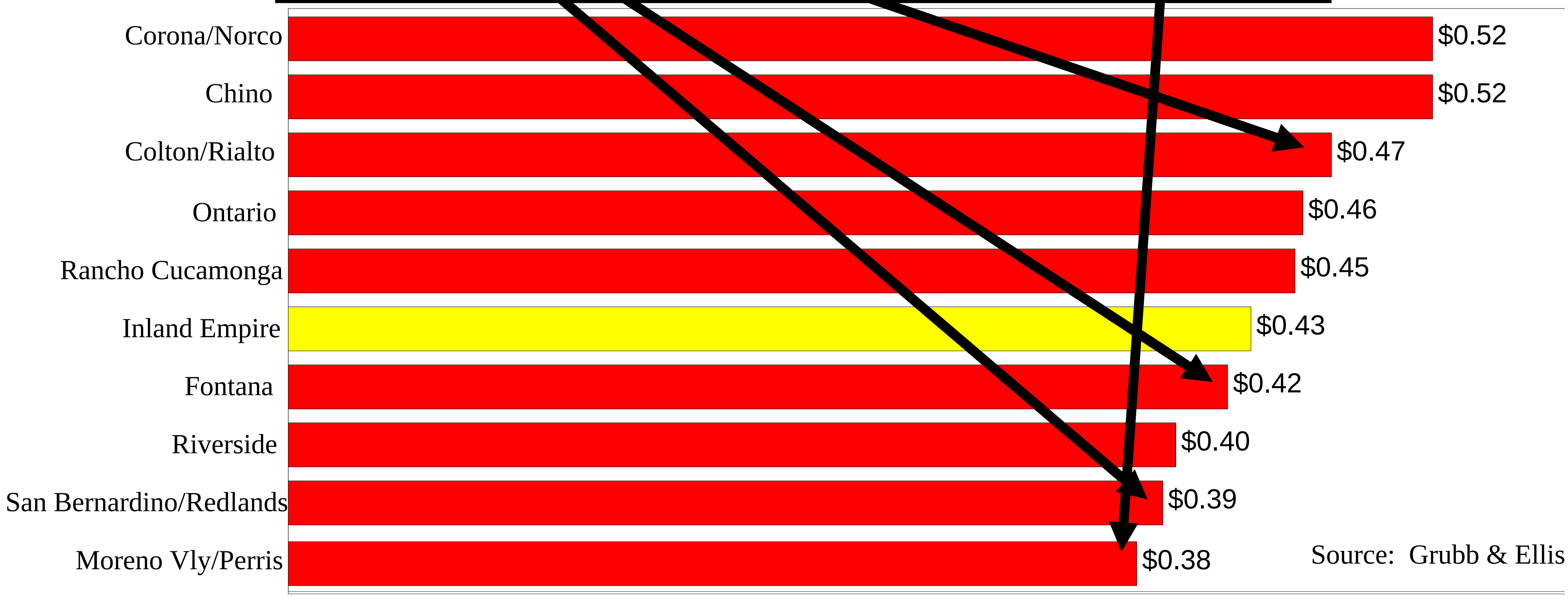
Size	Extra Drayage Cost	Labor Cost Saving	Net Extra Cost	Per Sq. Ft.
High Desert vs. East Valley				
1,000,000	$621,857	($168,009)	$453,847	$0.45
500,000	$310,928	($106,629)	$204,299	$0.41
250,000	$155,464	($49,984)	$105,480	$0.42
100,000	$62,186	($28,217)	$33,968	$0.34
High Desert Vs. March JPA				
1,000,000	$489,179	($106,629)	$321,170	$0.32
500,000	$244,590	($49,984)	$137,961	$0.28
250,000	$122,295	($28,217)	$72,311	$0.29
100,000	$48,918	($168,009)	$20,700	$0.21

Lease Differences Before “Great Recession”

East SB Valley
$0.34 - $0.45

March JPA
$0.21 - $0.32

Exhibit 34.-Industrial Space Costs, Sq. Ft./Month
Inland Empire, Sub-Markets, December 2007



Sq. Ft. Lease Price *Differences* If Oil Prices *Triple*

Oil Price Change	1 Times	2 Times	3 Times	4 Times	4 Times
Crude Price	$ 74.43	$ 148.86	**$ 223.29**	$ 297.72	$ 372.15
Diesel Premium	**17.8%**	**40.3%**	**62.8%**	**85.3%**	**107.9%**
East Valley					
1000000	$ 0.45	$ 0.57	**$ 0.69**	$ 0.81	$ 0.93
500000	$ 0.40	$ 0.53	**$ 0.64**	$ 0.76	$ 0.88
250000	$ 0.42	$ 0.54	**$ 0.66**	$ 0.78	$ 0.89
100000	$ 0.33	$ 0.46	**$ 0.58**	$ 0.69	$ 0.81
March JPA					
1000000	$ 0.32	$ 0.41	**$ 0.51**	$ 0.60	$ 0.69
500000	$ 0.27	$ 0.37	**$ 0.46**	$ 0.55	$ 0.65
250000	$ 0.28	$ 0.38	**$ 0.47**	$ 0.57	$ 0.66
100000	$ 0.20	$ 0.30	**$ 0.39**	$ 0.49	$ 0.58

Lease Cost Difference So. Calif., 2007

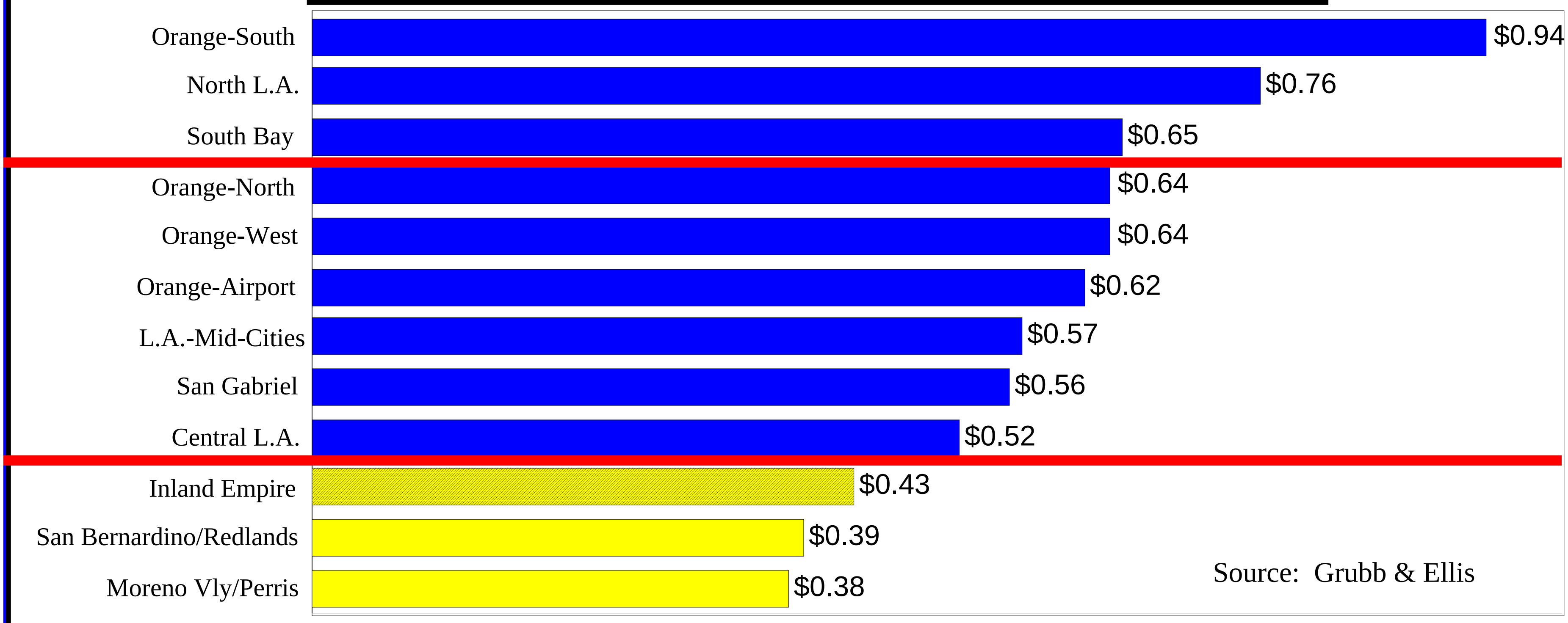
East SB Valley

$0.58 - $0.69

March JPA

$0.39 - $0.51

Exhibit 35.-Industrial Space Costs, Sq. Ft./Month
Inland Empire, Sub-Markets, December 2007



Conclusion

Stage #2 Inevitable In Desert Areas <u>Unless</u> Population Forecasts Are Totally Wrong john@johnhusing.com