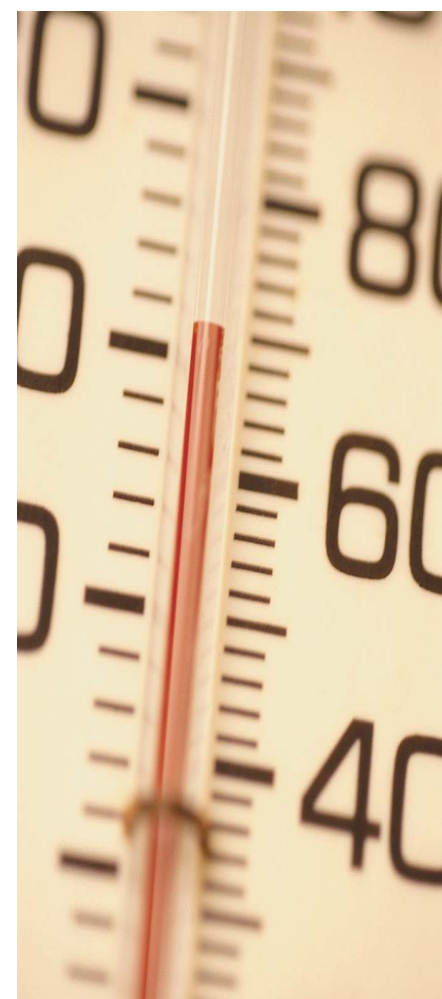




SONOMA COUNTY BUSINESS BAROMETER Q1 CY 2007



WITH ACKNOWLEDGMENT AND APPRECIATION TO LOCAL KEY BUSINESSES
SUPPORTING SONOMA COUNTY ECONOMIC DEVELOPMENT:

CHAIRMAN'S CIRCLE:

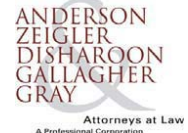
County of Sonoma
Board of Supervisors



EXECUTIVE TIER:



ASSOCIATE TIER:



- Sonoma County Permit & Resources Management
- Community Development Commission
- Sonoma County Health Services
- Sonoma County Transportation & Public Works

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Q1 BUSINESS BAROMETER 2007

May 2007

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to bring you the 2007 First Quarter Calendar Year (CY) Business Barometer. This report primarily covers data from the months of January, February, and March 2007.

The purpose of the Business Barometer Report is to provide a sense of how the Sonoma County economy is performing. The indicators selected for this report cover a broad swath of economic topics, including employment, housing and construction, and prices and inflation.

Highlights from the First Quarter Business Barometer include:

- The median price of an existing home sold in March 2007 dropped to \$520,500 from \$550,000 in March 2006, a 5.4% decline. The EDB has expanded the real estate section to include a more comprehensive analysis of residential and commercial real estate trends.
- Seasonally adjusted nonfarm employment reached an all-time high, surpassing Q1 2001's benchmark of 190,500 by over 2,000 jobs. The Sonoma County Business Index also increased to 106.8, an apex for that indicator.
- Sonoma County's Airport, STS, serviced over 4,000 passengers in March. The EDB will begin tracking passengers loads for STS with this edition of the Barometer.
- A special focus on the leisure and hospitality sector, one of Sonoma County's largest and fastest growing.

The EDB encourages interested readers to recommend any pertinent local indicator or ways in which we may improve this report. As always, if you have any questions, please feel free to contact us at (707) 565-7170.

Sincerely,

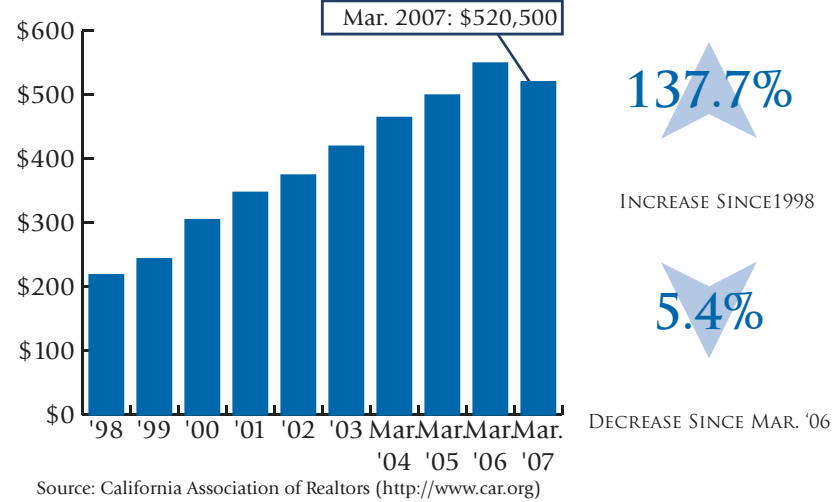


Ben Stone
Executive Director

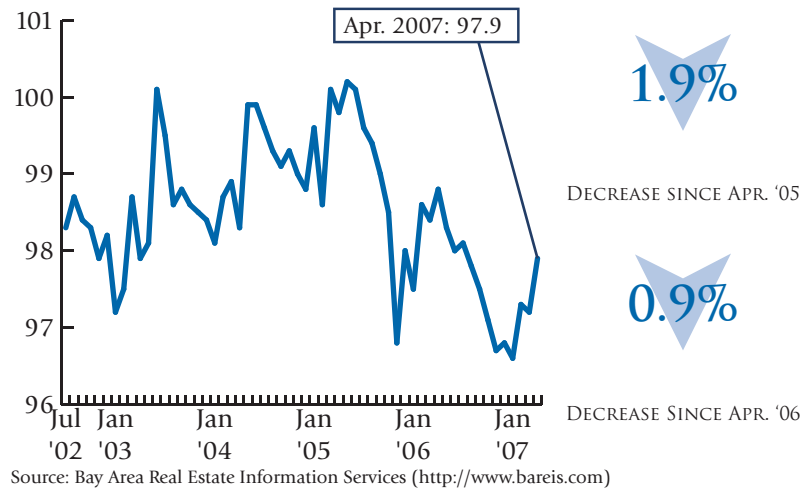
March's median home price decreased \$29,500, or 5.4%, on a year-over basis to \$520,500. The Press Democrat's monthly real estate report indicated a 1.9% year-over decline for March, extending that index's downward trend to nine consecutive months. The recent cooling of Sonoma County's residential real estate market follows a near decades' worth of strong price advances. From 2000-2006, the average Sonoma County home appreciated \$313,413, the 13th largest gain in the country (out of 360 metropolitan statistical areas), according to a report released by the U.S. Conference of Mayors. Consequently, Sonoma County started 2007 as the 7th least affordable metropolitan statistical area in the country based on the ratio of median income to median monthly housing costs.

The average home sold for 97.9% of its asking price in April 2007, down from 98.8% in April 2006 and 99.8% in April 2005. Sonoma County's sales/list price ratio has not reached 98% since June 2006 and has been hovering mainly around 97% since October. The general downward trend in sales/list price ratio and median price of homes sold suggests buyers have been able to apply more leverage in price negotiations given current market conditions.

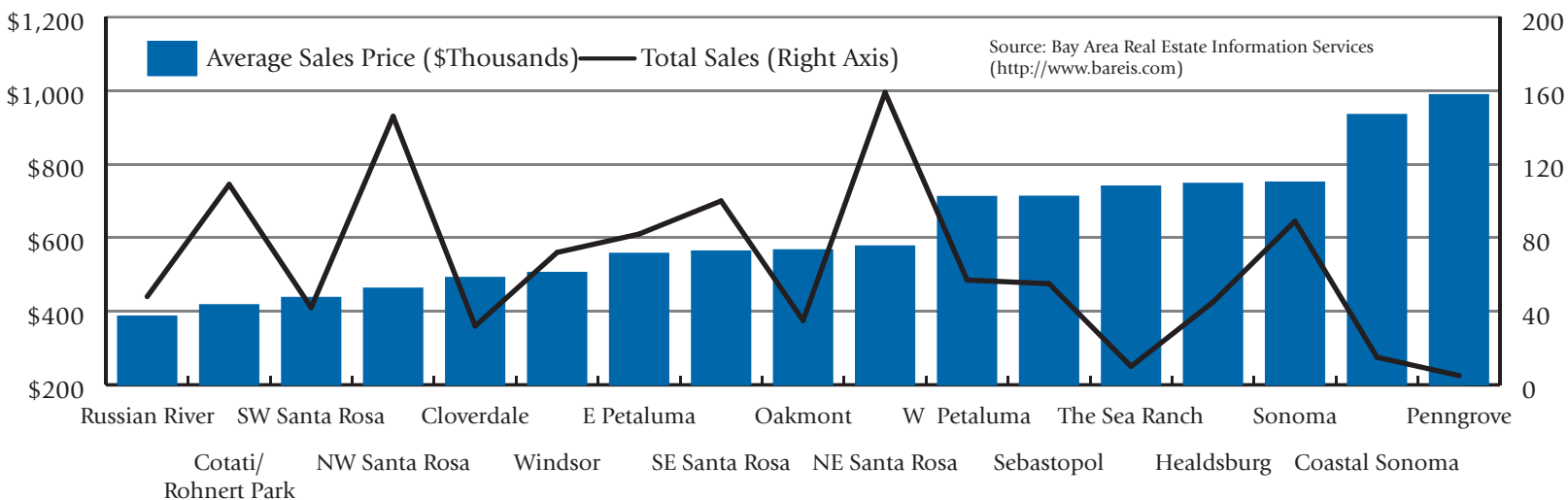
MEDIAN PRICE OF AN EXISTING HOME SOLD (\$THOUSANDS)



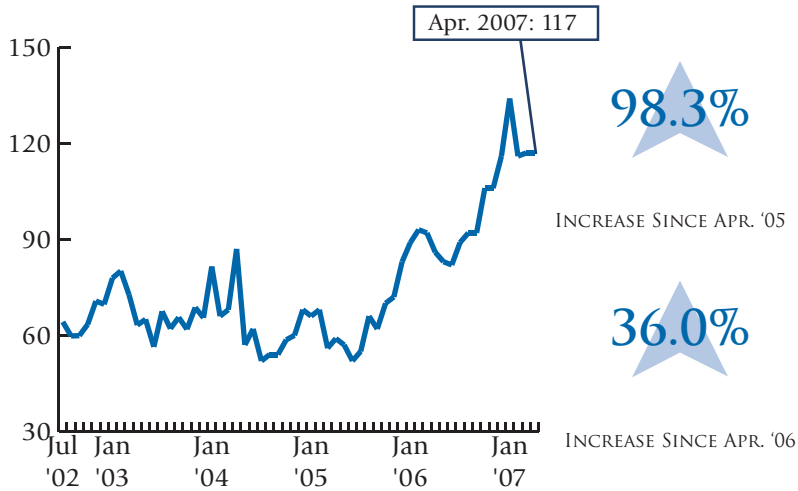
SALES/LIST PRICE RATIO OF HOMES SOLD



AVERAGE SALES PRICE (\$THOUSANDS) AND TOTAL SALES BY SUB-COUNTY AREA, Q1 2007



AVERAGE DAYS ON THE MARKET

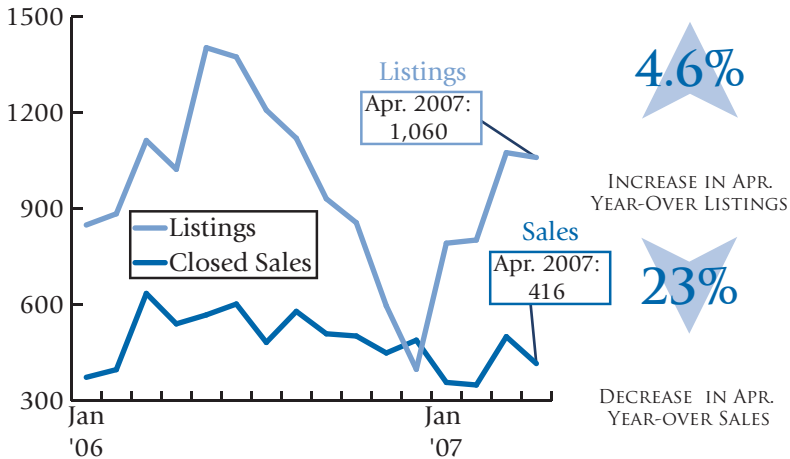


The average days on the market for sold homes has been increasing gradually since June 2006's nadir and has more than doubled in the past two years. The average home stayed on the market for nearly four months before being sold in April, up 31 days year-over.

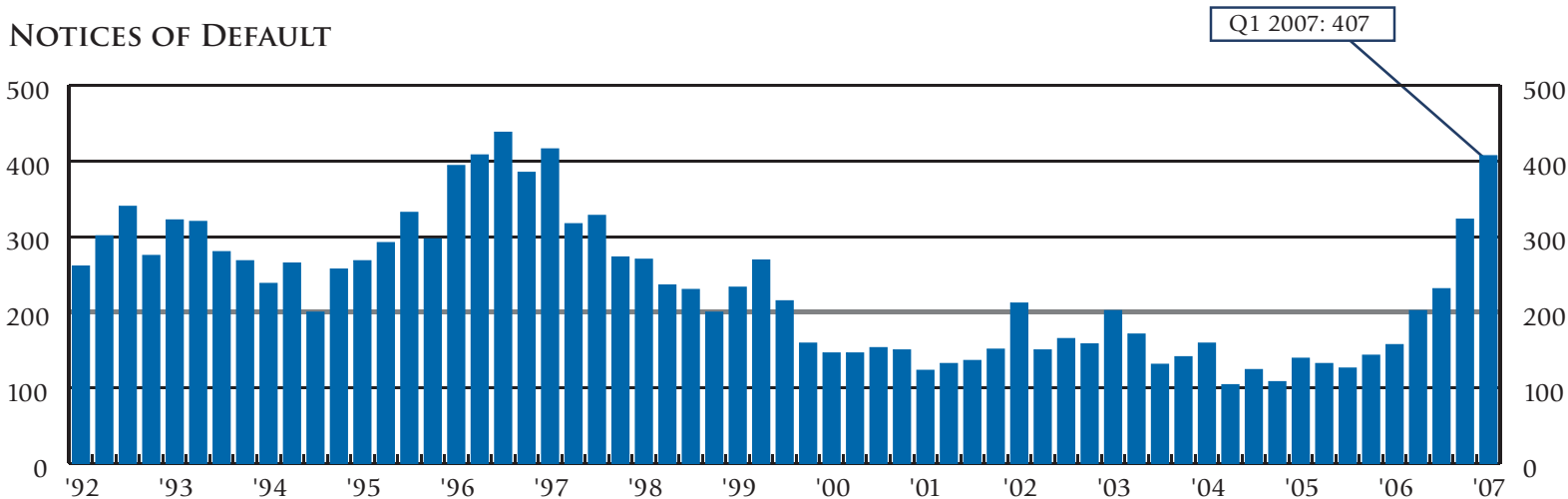
One hundred twenty-four fewer properties were sold in April 2007 than April 2006. The decrease in year-over sales was not met with a corresponding decline in year-over listings, perhaps contributing to excess inventory and downward price pressure.

Defaults rose 159% from Q1 2006 to 407 in Q1 2007, a near fifteen-year high. Around 23% of Sonoma County mortgage originations in 2005 were subprime, granted to individuals or families with tarnished or limited credit histories at premium rates. These loans have been widely criticized as a key source of the recent spate of foreclosures in California. Sonoma County did, however, have one of the lowest incidences of subprime refinance lending in the country in 2005, according to the Consumer Federation of America. Of the 7,903 refinancing originations, only 6.9%, or 542 loans, were subprime, the second-lowest rate among the over 300 metropolitan statistical areas included in the study.

LISTINGS AND CLOSED SALES (INCLUDES COMMERCIAL PROPERTIES)



NOTICES OF DEFAULT

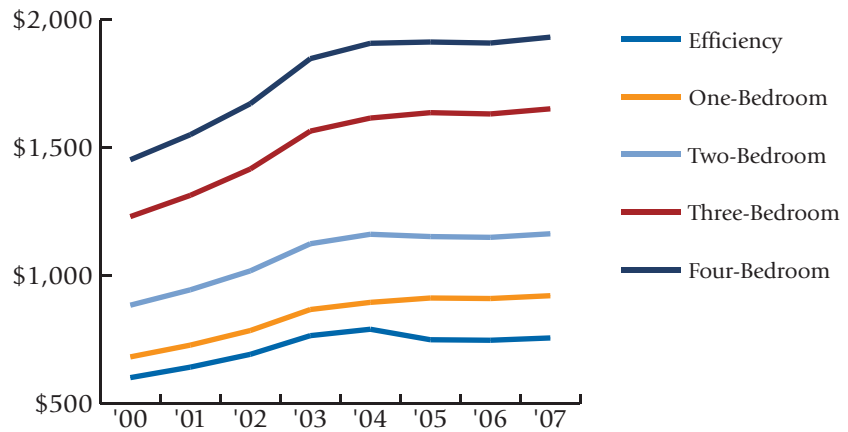


"Fair Market Rents," calculated by the Department of Housing and Urban Development, have reached a plateau in Sonoma County. The current fair market rents per month in Sonoma County are: \$923 for a one-bedroom residency, \$1,165 for a two-bedroom residency, \$1,653 for a three-bedroom residency, and \$1,933 for a four-bedroom residency.

First quarter residential permit issuances were at their highest level since 2002, led by an unseasonably high number of multi-family permits granted in January. In total, 251 multi-family permits were issued in Q1 2007, up from 39 in Q1 2006. Conversely, single-family permits showed a year-over decline, falling from 367 in Q1 2006 to 248 in Q1 2007.

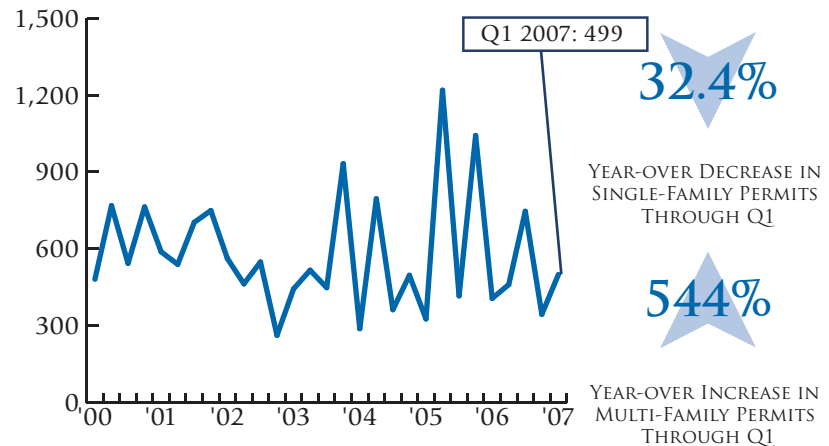
The large number of multi-family permit issuances helped elevate the value of residential building permits to \$111,320,000 through March, slightly lower than last year's figure but very healthy by historical standards. Of the roughly \$111.3 million in building permits issued, approximately \$38 million was attributable to multi-family permits, \$55.5 million to single-family permits, and \$17.8 million to residential alterations and additions permits. The percentage of total permit value attributable to multi-family permits, 34.2%, is the highest dating back to 2000.

FAIR MARKET RENTS



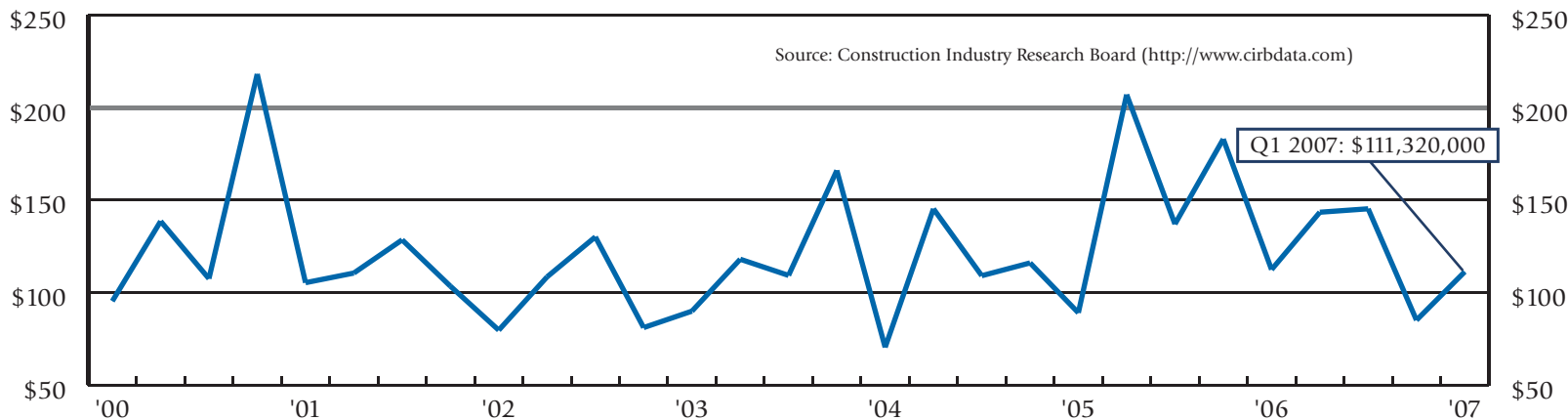
Source: Department of Housing and Urban Development (<http://www.hud.gov>)

RESIDENTIAL BUILDING PERMITS ISSUED (INCLUDES SINGLE- AND MULTI-FAMILY UNITS)



Source: Construction Industry Research Board (<http://www.cirbdata.com>)

VALUE OF RESIDENTIAL BUILDING PERMITS ISSUED (\$MILLIONS; INCLUDES SINGLE- AND MULTI-FAMILY UNITS, ALTERATIONS AND ADDITIONS)



Source: Construction Industry Research Board (<http://www.cirbdata.com>)

1.0%

35.5%

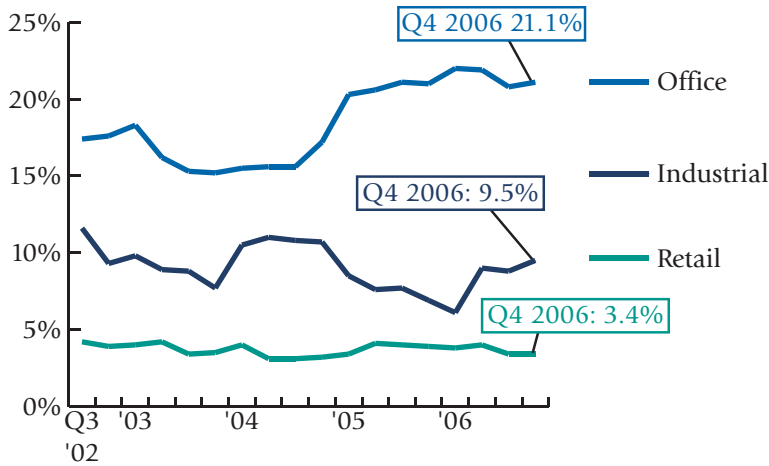
697%

YEAR-OVER DECREASE IN RESIDENTIAL PERMIT VALUE THROUGH Q1

YEAR-OVER DECREASE IN SINGLE-FAMILY PERMIT VALUE THROUGH Q1

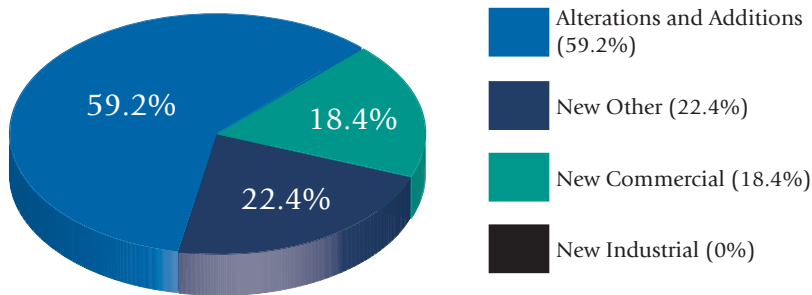
YEAR-OVER INCREASE IN MULTI-FAMILY PERMIT VALUE THROUGH Q1

COMMERCIAL PROPERTY VACANCY RATES



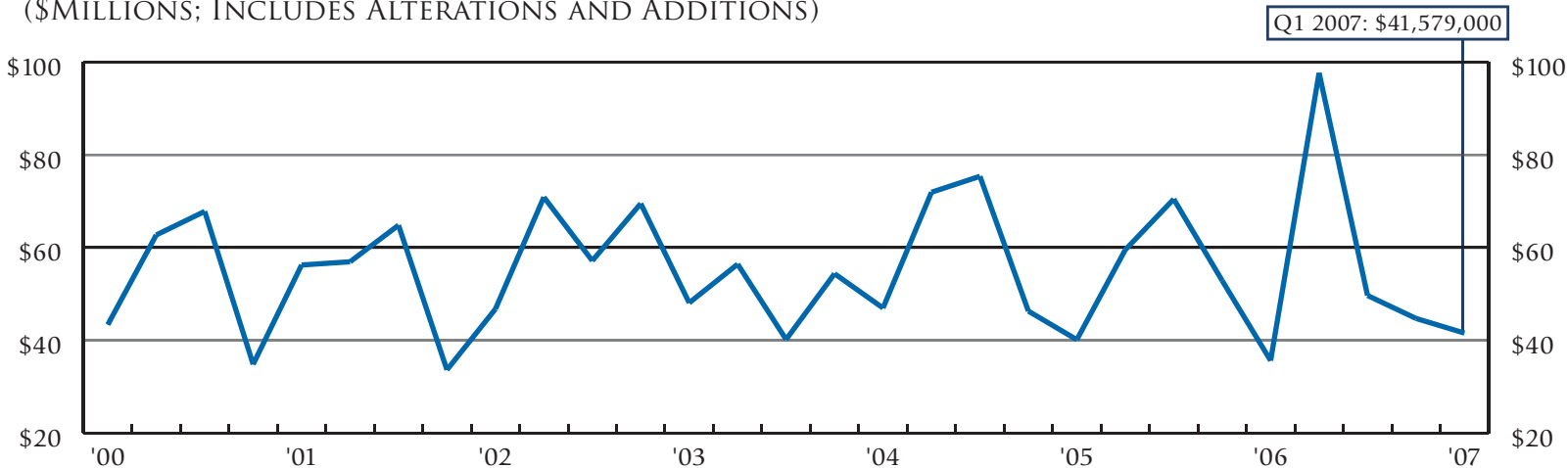
Source: Keegan and Coppin Company, Inc. (<http://www.keegancoppin.com>)

SHARE OF Q1 NONRESIDENTIAL PERMIT VALUE



Source: Construction Industry Research Board (<http://www.cirbdata.com>)

VALUE OF NONRESIDENTIAL BUILDING PERMITS (\$MILLIONS; INCLUDES ALTERATIONS AND ADDITIONS)



Source: Construction Industry Research Board (<http://www.cirbdata.com>)

The office vacancy rate for Q4 2006 in Sonoma County was virtually unchanged from Q4 2005, shifting from 21.0% to 21.1%. According to Keegan and Coppin figures, development projects, as of Q4 2006, are slated to add 553,449 square feet of office space to the current county total of 13,490,964, an increase of just over 4%.

The industrial vacancy rate increased from 6.9% in Q4 2005 to 9.5% in Q4 2006. Planned buildings, as of Q4 2006, are expected to add 1.3% to the current industrial square footage. No permits were issued in Q1 2007 for new industrial buildings.

The retail vacancy rate, at 3.4% for Q4 2006, was near a four-year low. Over the course of 2006, Sonoma County experienced a net absorption of retail space, as vacancy rates declined from 3.9% in Q4 2005.



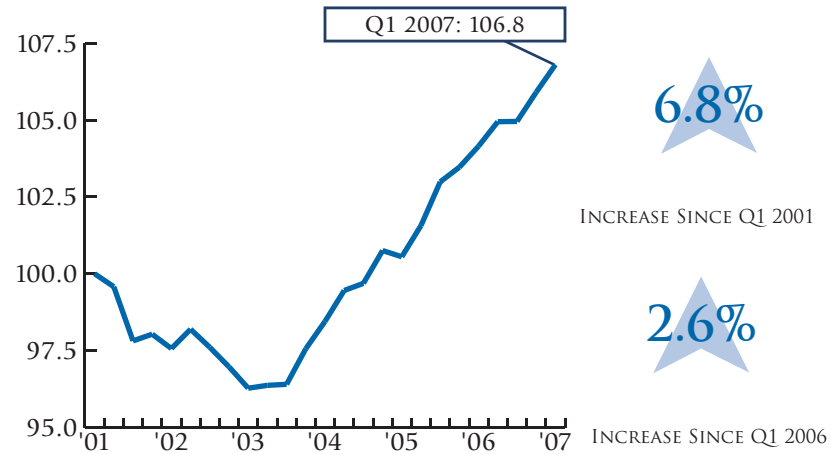
The Sonoma County Business Cycle rose again in the 1st Quarter of 2006. Currently, the Index stands at 106.8 -- 6.8% above 1st Quarter 2001. The index "bottoms out" in the first half of 2003, and has been steadily rising since, a representation of the improving economic conditions experienced in the County.

The Sonoma County Business Cycle Index attempts to show the current trends of several key economic statistics in one graph. The Index combines four statistics in varying proportions based on their volatility - those statistics, such as employment, which are relatively stable are considered more important than those statistics, such as business confidence, which tend to vary considerably. Currently the index is weighted in the following approximate proportions: Employment - 54%, Wages - 25%, Taxable Sales - 18%, Business Confidence - 3%. Following the decline of the technology sector, the index shows the economic contraction experienced in Sonoma County after 2001 and is set so that 1st Quarter 2001 = 100.

Sonoma County's seasonally adjusted nonfarm employment is up 4,900 jobs on a year-over basis and remains above 2001 levels for the second straight quarter, indicating that the local economy has fully rebounded from its contraction. Job growth has been strong across virtually every sector, with particularly sizable gains experienced by the Construction, Leisure and Hospitality, Manufacturing, and Professional and Business Services sectors.

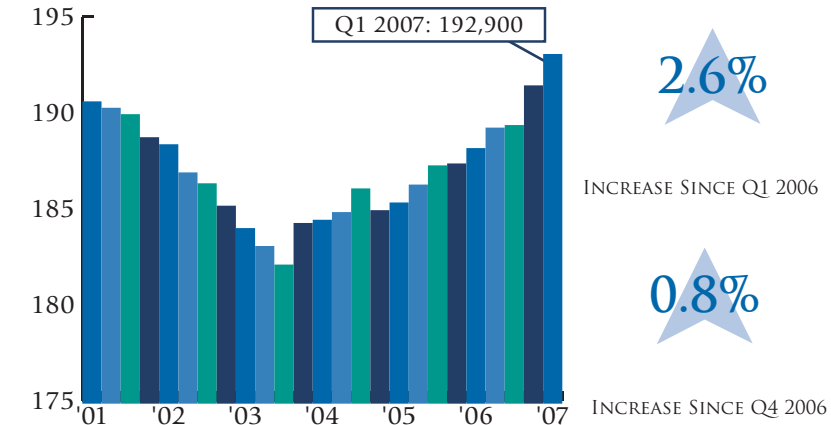
Sonoma County's seasonally adjusted unemployment rate decreased to 3.9% in Q1 2007 from 4.2% in Q1 2006. The seasonally adjusted unemployment rate was up 0.1% from Q4 2006, despite record job numbers, but remains well below the U.S. (4.5% for Q1 2007) and California (4.8% for Q1 2007) rates.

BUSINESS CYCLE INDEX



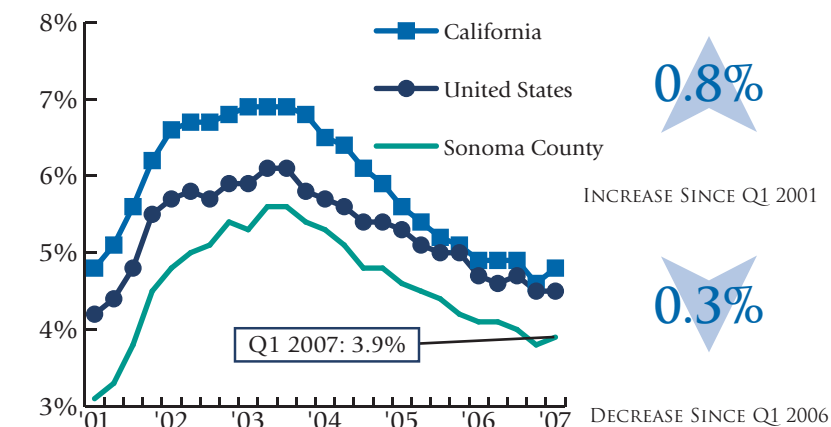
Source: Economic Development Board (<http://www.sonomaedb.org>)

SEASONALLY ADJUSTED NONFARM EMPLOYMENT (THOUSANDS)



Source: Bureau of Labor Statistics (<http://www.bls.gov>)

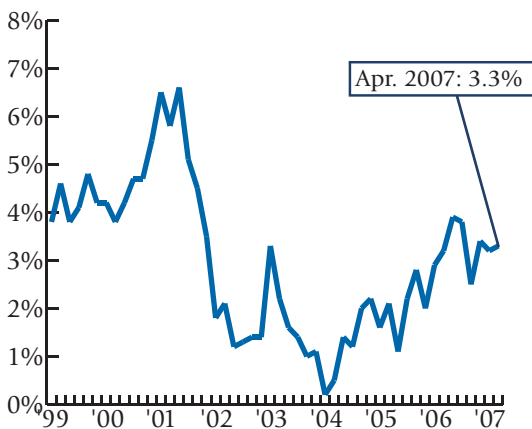
SEASONALLY ADJUSTED UNEMPLOYMENT RATE



Source: Bureau of Labor Statistics (<http://www.bls.gov>)
 Sonoma County's unemployment rate has been seasonally adjusted by the EDB.

ENERGY, INFLATION, AND INTEREST RATES

12-MONTH CHANGE IN PRICES, SAN FRANCISCO BAY AREA



3.3%

DECREASE IN RATE OF INFLATION SINCE JUNE 2001

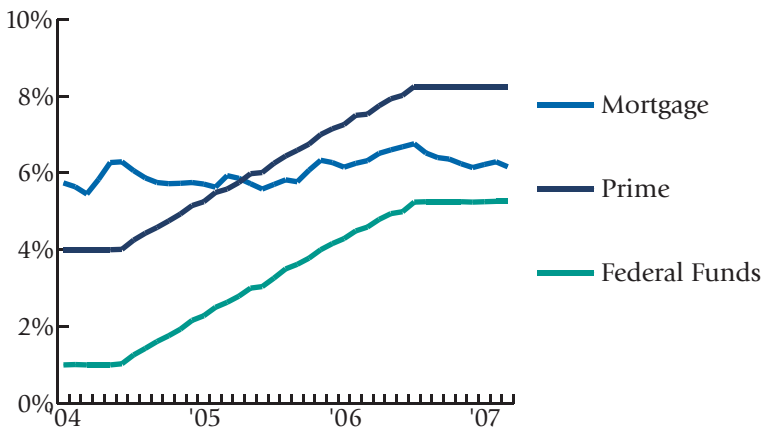
0.1%

INCREASE IN RATE OF INFLATION SINCE APR. 2006

Source: Bureau of Labor Statistics (<http://www.bls.gov>)

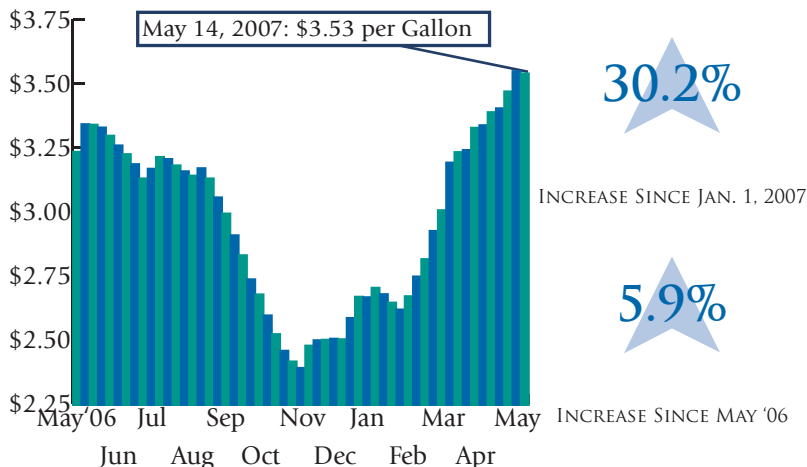
The price of regular unleaded gasoline in the San Francisco Bay Area rose to \$3.53 per gallon in the second week of May, a 5.9% increase over last year's high of \$3.33. Inflation crept upward from February's reading of 3.2% to 3.3% annualized in April. The Federal Reserve Board attributed the modest inflation in the San Francisco District to declining prices for construction materials and for certain consumer products, such as apparel and electronic goods. Retail sales were reported to have grown at a moderate pace, while the luxury good market fared particularly well. Weakness in residential construction and lending was offset by growth in commercial construction and lending.

INTEREST RATES



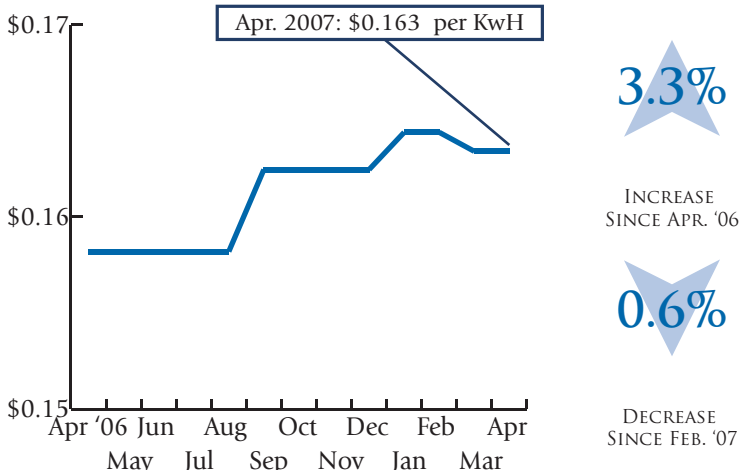
Source: Federal Reserve Board (<http://www.federalreserve.gov>)

REGULAR UNLEADED GASOLINE PRICES (\$ PER GALLON), SAN FRANCISCO BAY AREA



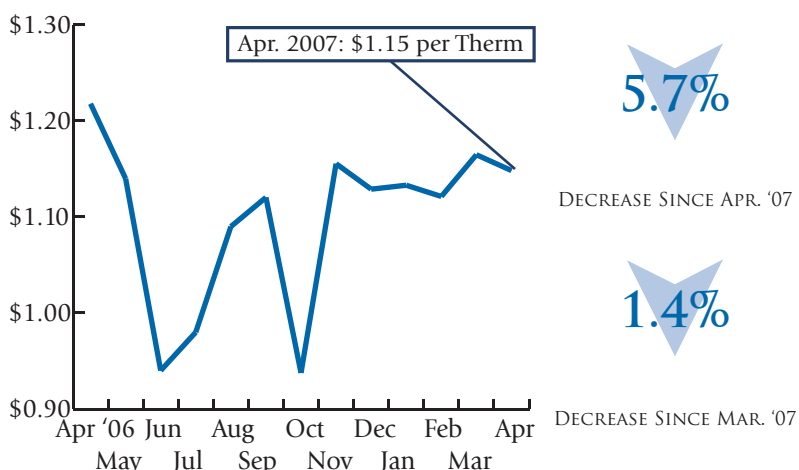
Source: Department of Energy (<http://www.doe.gov>)

ELECTRICITY PRICES (\$ PER KILOWATT HOUR)



Source: Pacific Gas and Electric (<http://www.pge.com>)

NATURAL GAS PRICES (\$ PER THERM)

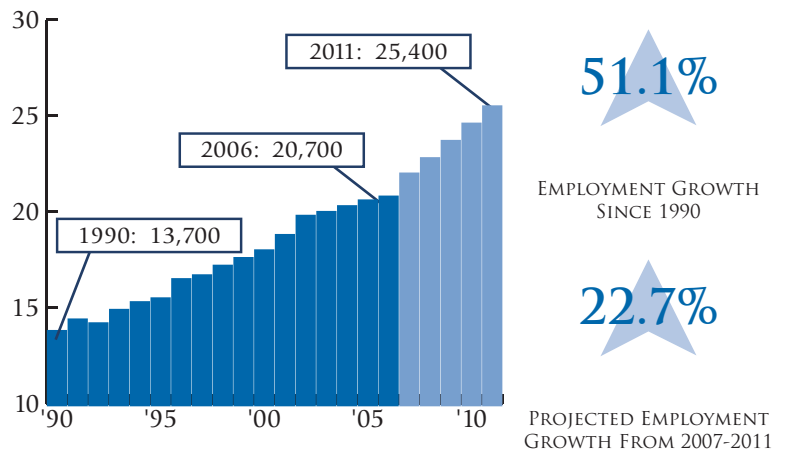


Source: Pacific Gas and Electric (<http://www.pge.com>)

The Leisure and Hospitality sector accounts for 10.7% of all employment within Sonoma County as of March 2007. Moody's Economy.com forecasts that Leisure and Hospitality employment will grow 22.7% over the next five years and will constitute 12.1% of county employment in 2011. The food services and drinking places industry accounts for the majority (66.9%) of jobs in the sector. The average annual wage for a Leisure and Hospitality worker grew 14.5% between 2001 and 2005.

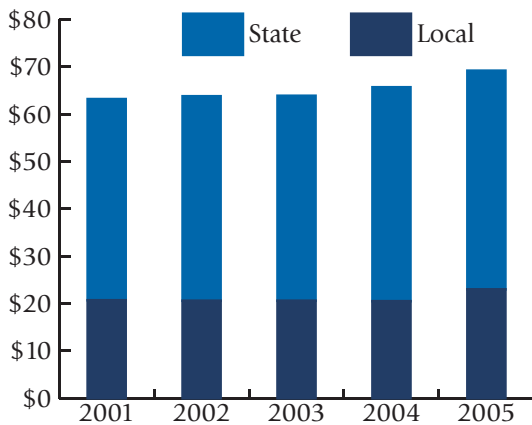
The Economic Development Board (EDB) will be releasing its annual tourism report within the month of May. The report can be accessed at the EDB's website (<http://www.sonomaedb.org>).

LEISURE AND HOSPITALITY EMPLOYMENT (THOUSANDS)



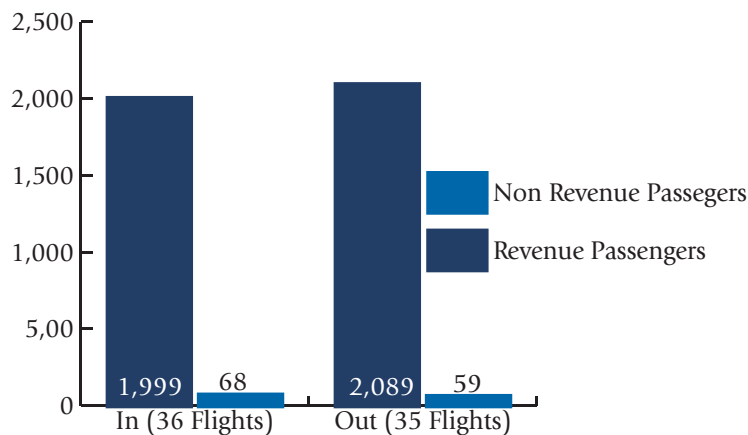
Source: Bureau of Labor Statistics (<http://www.bls.gov>)
Forecast by Moody's Economy.com, "Sonoma County on the Mend," June 2006

TAX RECEIPTS GENERATED BY TOURISM SPENDING, (CONSTANT 2005 \$MILLIONS)



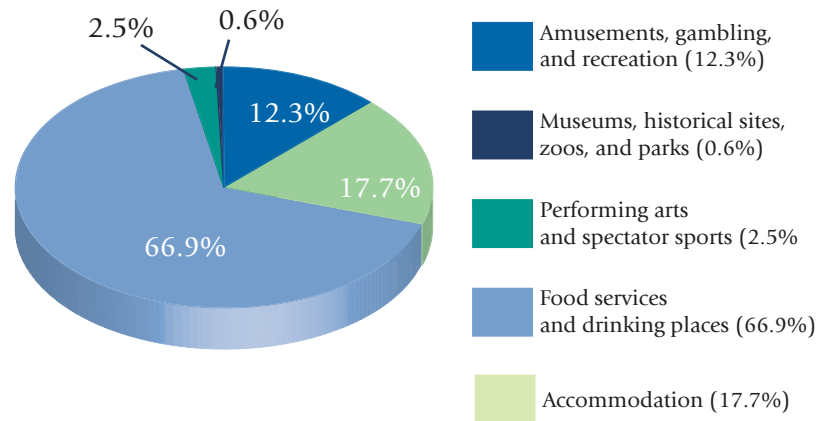
Source: Dean Runyan & Associates (<http://www.deanrunyan.com>)

STS AIRPORT (SONOMA COUNTY) PASSENGER LOADS, MARCH 2007



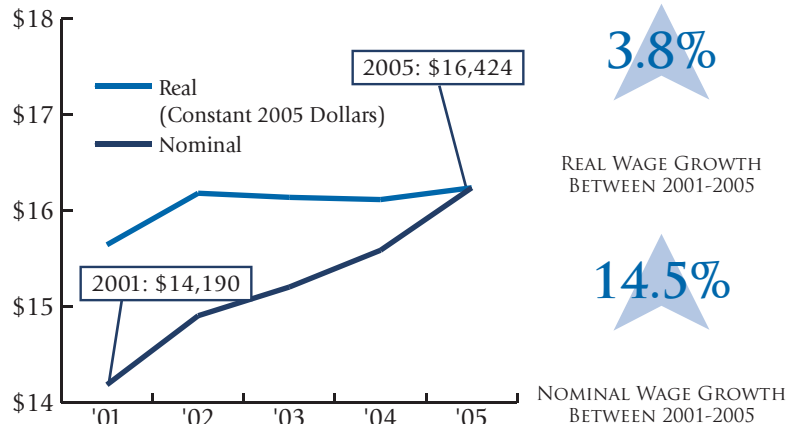
Source: Sonoma County Airport (<http://www.sonomacountyairport.com>)

LEISURE AND HOSPITALITY EMPLOYMENT BY INDUSTRY



Source: Bureau of Labor Statistics (<http://www.bls.gov>)

LEISURE AND HOSPITALITY AVERAGE ANNUAL WAGE (\$THOUSANDS)



Source: Bureau of Labor Statistics (<http://www.bls.gov>)