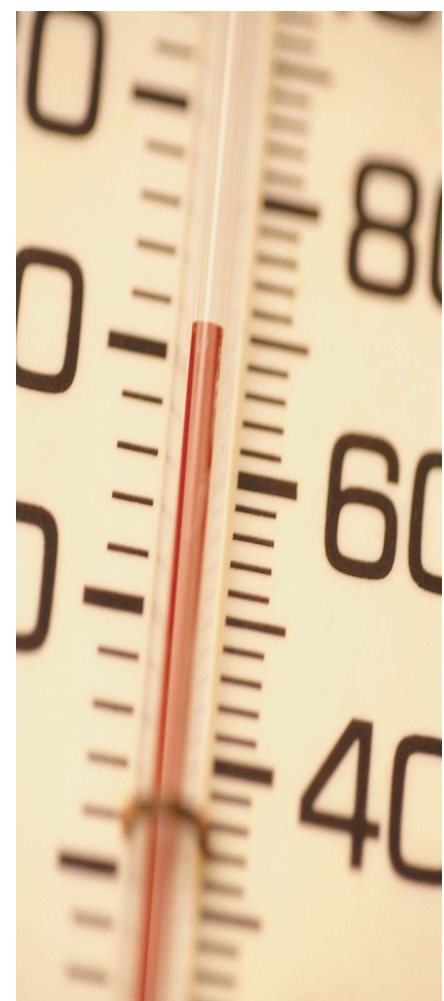




SONOMA COUNTY BUSINESS BAROMETER Q4 CY 2007



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

CHAIRMAN'S CIRCLE:



EXECUTIVE TIER:



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- County of Sonoma Board of Supervisors ■
- Sonoma County Permit & Resources Management
■ Community Development Commission
- Sonoma County Health Services
■ Sonoma County Transportation & Public Works

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Q4 BUSINESS BAROMETER 2007

February 2008

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to bring you the 2007 Fourth Quarter Calendar Year (CY) Business Barometer. This report primarily covers data from the months of October, November, and December 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 Fourth Quarter Business Barometer include:

- The median price of an existing home sold in November 2007 dropped to \$462,500 from \$537,250 in November 2006, a 13.9% decline.
- Seasonally adjusted nonfarm employment remained within all-time highs, surpassing Q1 2001's benchmark of 190,400 by more than 3,000 jobs. The Sonoma County Business Cycle Index also held steady at 107.4, close to the apex for that indicator.
- The seasonally adjusted unemployment rate was 4.7%, lower than both the state and national figures.
- A special focus on the Construction sector, one of Sonoma County's largest, is printed herein.

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,



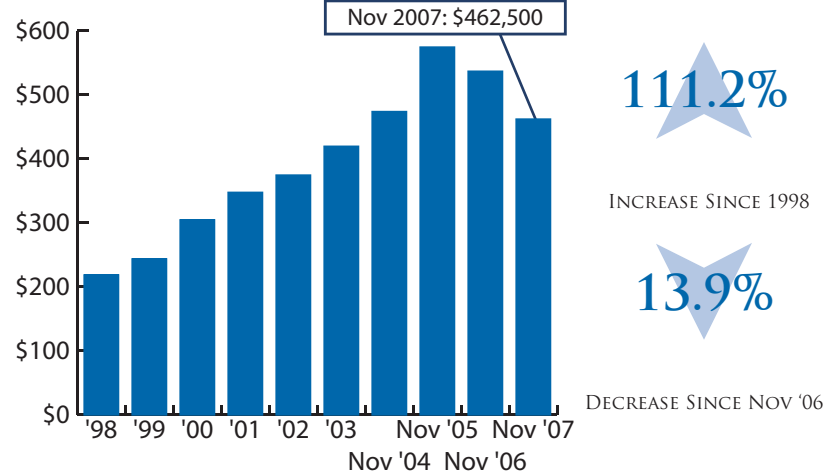
Ben Stone
Executive Director

November's median home price decreased \$74,750, or 13.9%, on a year-over basis to \$462,500. The recent cooling of Sonoma County's residential real estate market follows nearly a decade's worth of strong price advances. According to the Center for Regional Economic Analysis at Sonoma State University, home prices tripled in Sonoma County from 1996 to 2005. In a recent report by Moody's Economy.com, Sonoma County ended 2007 as the 5th least-affordable metropolitan area in the country, based on the ratio of median income to median monthly housing costs.

The average home sold for 95.9% of its asking price in December 2007, down from 96.8% in December 2006 and 98.0% in December 2005. Sonoma County's sales/list price ratio is currently at its second-lowest mark since EDB tracking began in 2003, with the lowest figure recorded in November 2007. The general downward trend in the 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.

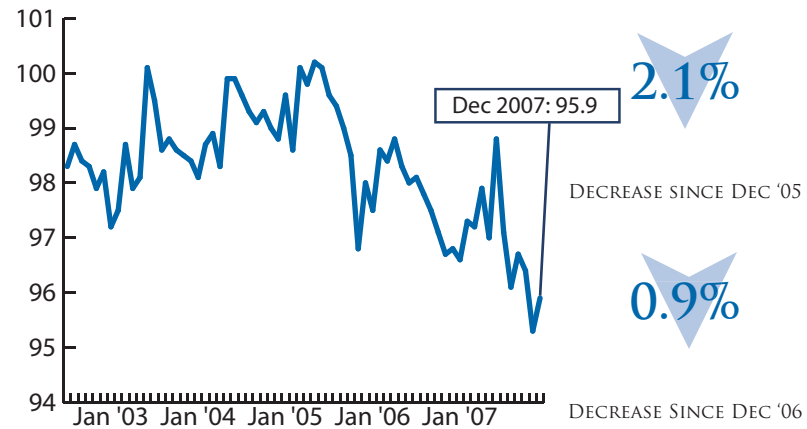
Northeast Santa Rosa, Northwest Santa Rosa and Cotati/Rohnert Park had the greatest number of home sold. The Sea Ranch, Healdsburg and Coastal-Sonoma had the highest average home price during the fourth quarter.

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



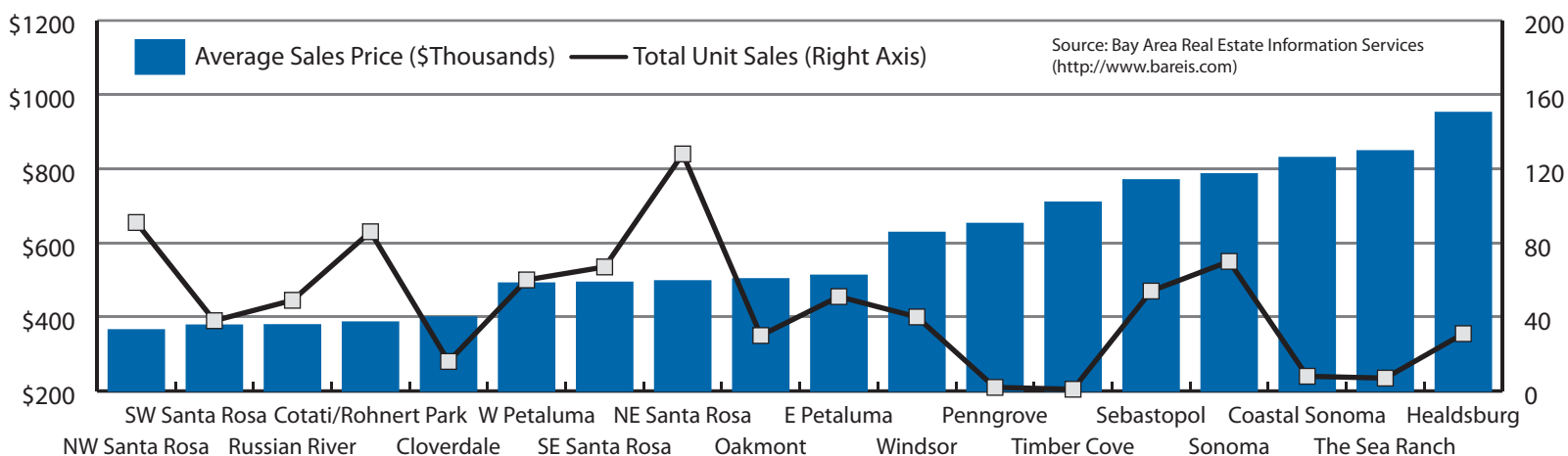
Source: California Association of Realtors (<http://www.car.org>)

SALES/LIST PRICE RATIO OF HOMES SOLD



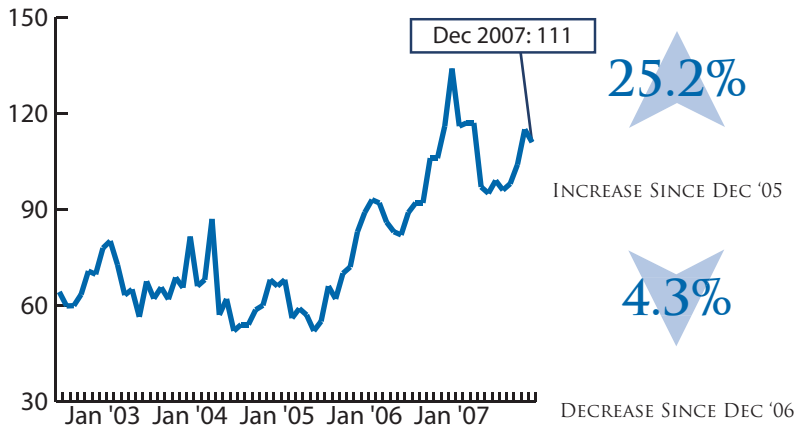
Source: Bay Area Real Estate Information Services (<http://www.bareis.com>)

AVERAGE SALES PRICE (\$THOUSANDS) AND TOTAL SALES BY SUB-COUNTY AREA, Q4 2007



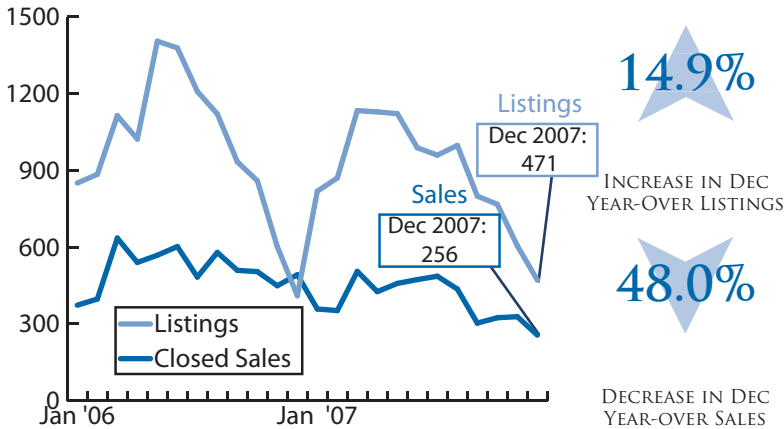
Source: Bay Area Real Estate Information Services (<http://www.bareis.com>)

AVERAGE DAYS ON THE MARKET



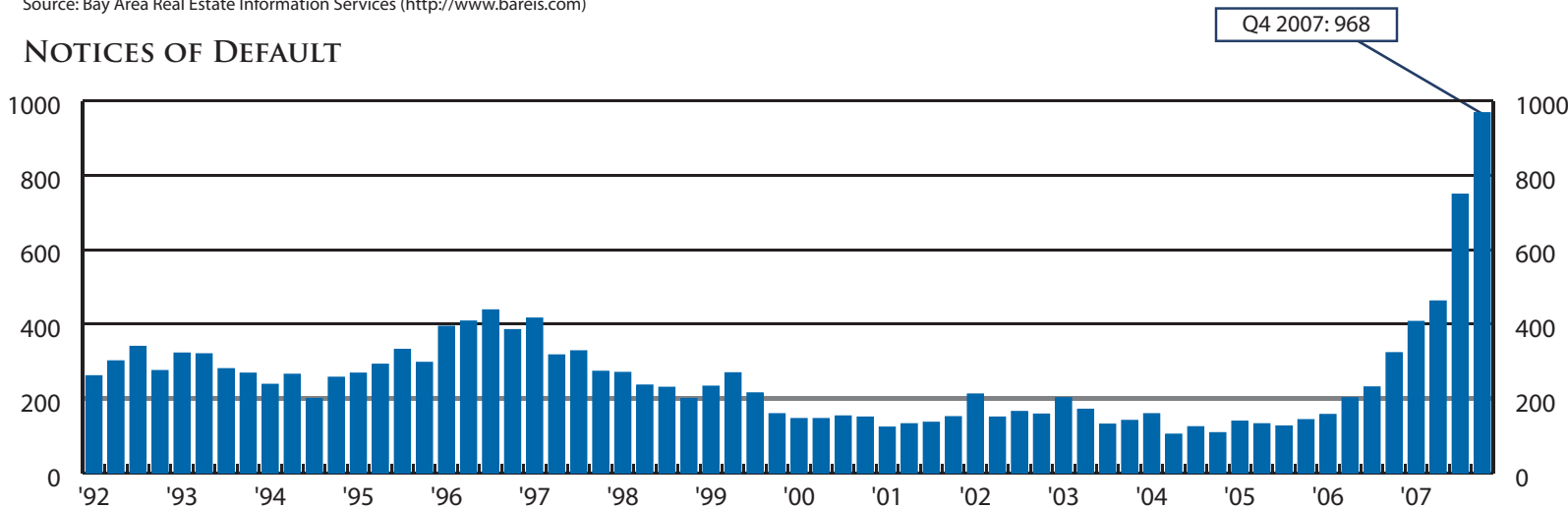
Source: Bay Area Real Estate Information Services (<http://www.bareis.com>)

LISTINGS AND CLOSED SALES (INCLUDES COMMERCIAL PROPERTIES)



Source: Bay Area Real Estate Information Services (<http://www.bareis.com>)

NOTICES OF DEFAULT



Source: DataQuick Information Services (<http://www.dataquick.com>)

The average days on the market for sold homes has been volatile since June 2006's peak, and it is up more than 25% in the past two years. The average home stayed on the market for more than three months before being sold in December, down five days year-over.

Two hundred thirty-six (48.0%) fewer properties were sold in December 2007 than December 2006. The decrease in year-over sales was met with a corresponding rise in year-over listings, indicating an increasing supply of housing relative to demand.

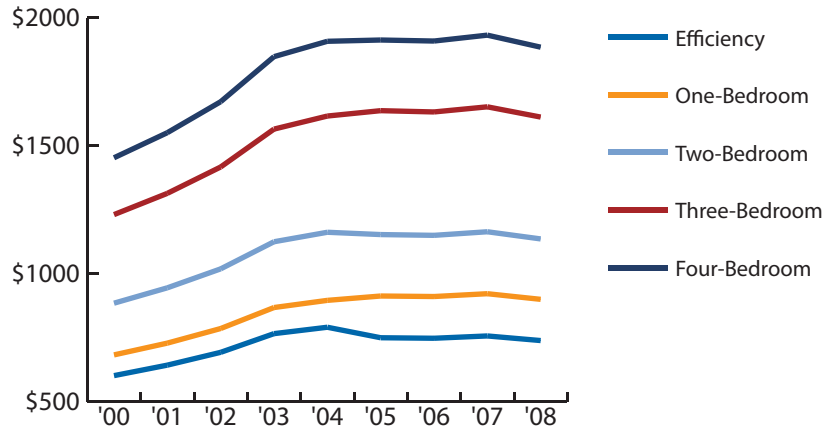
Defaults rose 200% from 323 defaults in Q4 2006 to 968 in Q4 2007, a new 15-year high. Each of the last three quarters of 2007 established a new record for the number of defaults. Around 23% of Sonoma County mortgage originations in 2005 were subprime, granted to individuals or families with tarnished 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.

"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 \$901 for a one-bedroom residency, \$1,137 for a two-bedroom residency, \$1,613 for a three-bedroom residency, and \$1,886 for a four-bedroom residency.

Fourth quarter residential permit issuances were at their fourth-lowest quarterly level since 2001. Single-family permits over the entire year 2007 were at their lowest since 2000. In total, 187 multi-family permits were issued in Q4 2007, up from 114 in Q4 2006. Conversely, single-family permits showed a year-over decline, falling from 230 in Q4 2006 to 127 in Q4 2007.

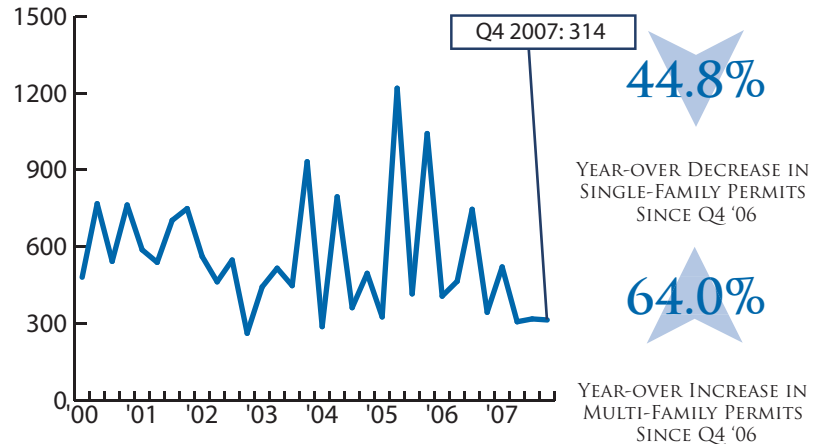
The small number of single- and multi-family permit issuances depressed the value of residential building permits to \$70,737,000 through December, significantly lower than last year's figure and is the second-lowest figure since 2000. Of \$70.7 million in building permits issued, approximately \$24.9 million (35.2%) was attributable to multi-family permits, \$32.0 million (45.3%) to single-family permits, and \$13.8 million (19.6%) to residential alterations and additions permits.

FAIR MARKET RENTS



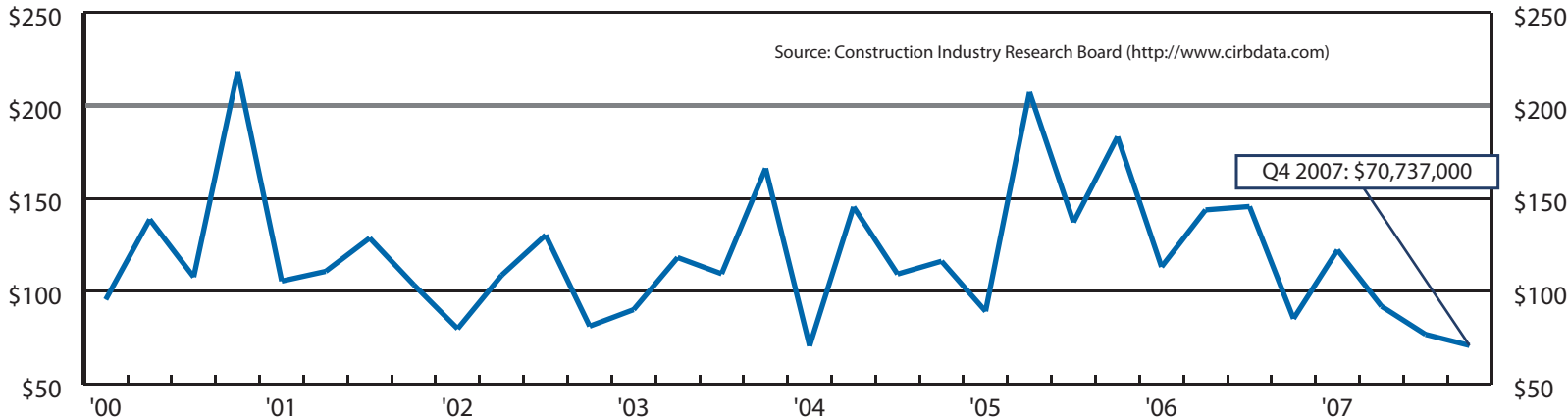
Source: Department of Housing and Urban Development (<http://www.hud.gov>)

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>)

16.9%

42.8%

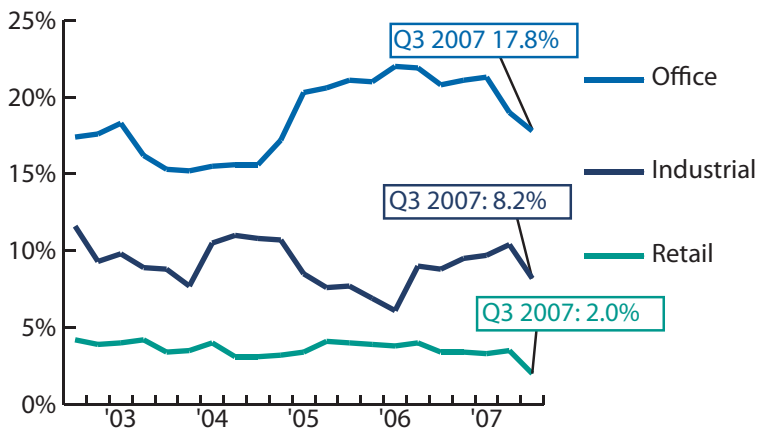
144%

YEAR-OVER DECREASE IN RESIDENTIAL PERMIT VALUE SINCE Q4 '06

YEAR-OVER DECREASE IN SINGLE-FAMILY PERMIT VALUE SINCE Q4 '06

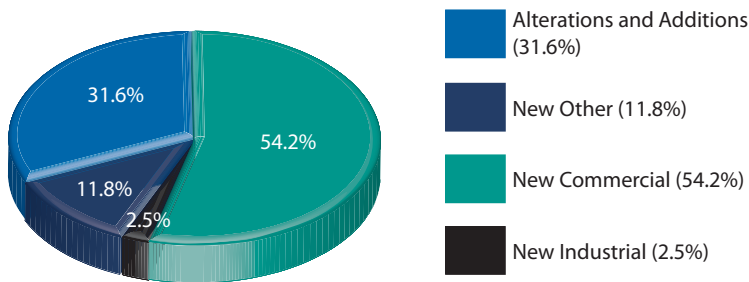
YEAR-OVER INCREASE IN MULTI-FAMILY PERMIT VALUE SINCE Q4 '06

COMMERCIAL PROPERTY VACANCY RATES



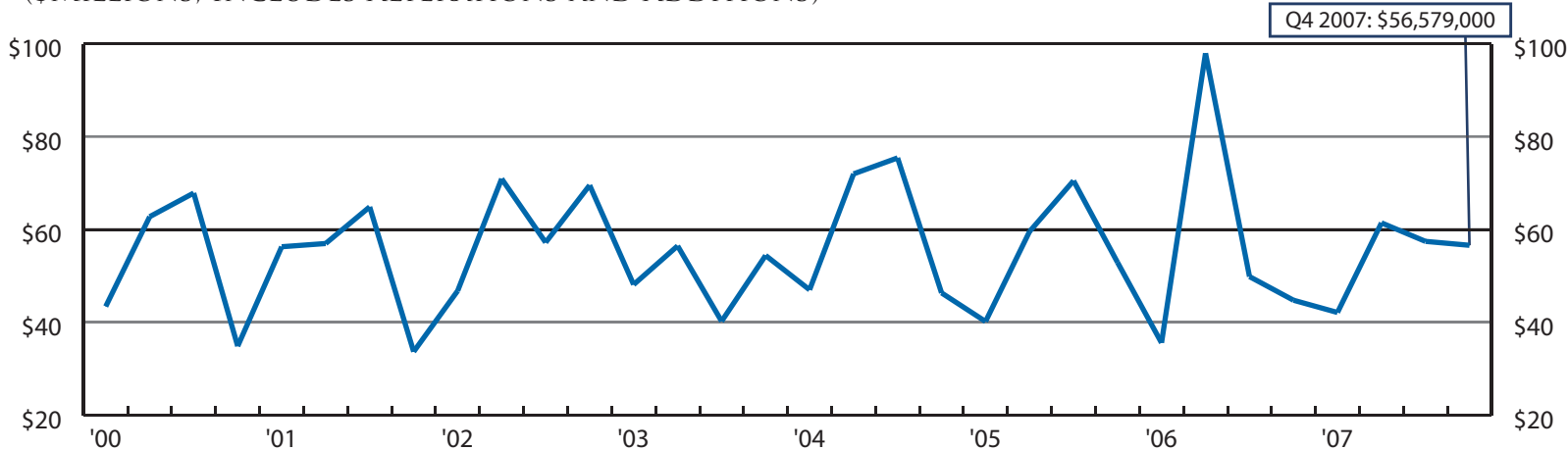
Source: Keegan and Coppin Company, Inc. (<http://www.keegancoppin.com>)
 Source: Orion Partners, Ltd. (<http://www.orionre.com>)

SHARE OF Q4 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>)

Fourth quarter data for commercial property vacancy rates were not available at the time of publishing this document. The office vacancy rate for Q3 2007 in Sonoma County was down noticeably from Q3 2006, shifting from 20.8% to 17.8%. Over 250,000 square feet of new office space has been added over the past eighteen months, according to Orion Partners figures. Orion Partners also predicts lower Sonoma County office vacancies in the future as rising lease rates in Marin County may cause many firms to relocate, particularly to the southern half of Sonoma County.

The industrial vacancy rate decreased from 8.8% in Q3 2006 to 8.2% in Q3 2007. According to Orion Partners, industrial lease rates have remained relatively constant in the area.

The retail vacancy rate, at 2.0% for Q3 2007, was a four-year low. Sonoma County is one of the fastest-growing retail markets in the Bay Area.



26.5%

YEAR-OVER INCREASE IN VALUE OF Q4 NONRESIDENTIAL PERMITS

68.2%

INCREASE IN VALUE OF NONRES. PERMITS RELATIVE TO Q4 2001

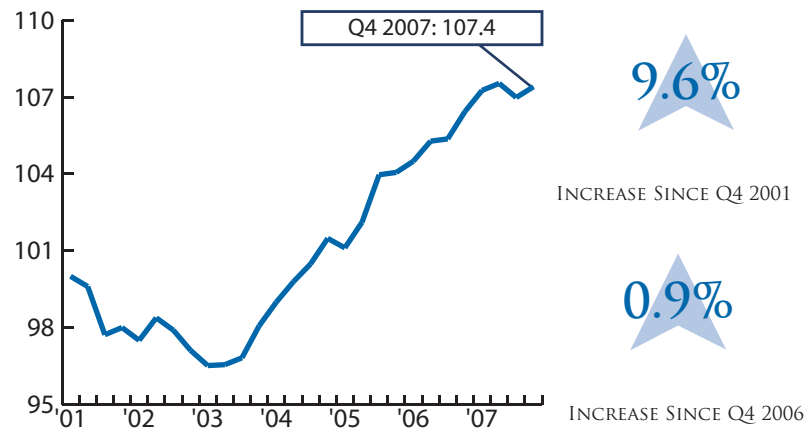
The Sonoma County Business Cycle held steady in the 4th Quarter of 2007. Currently, the Index stands at 107.4 -- 9.6% above 4th Quarter 2001. The index "bottomed out" in the first half of 2003, and has been steadily rising since, a representation of the improving economic conditions experienced in the 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 - 50.2%, Wages - 25.7%, Taxable Sales - 20.3%, Business Confidence - 3.8%. 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 2,100 jobs on a year-over basis and remains above 2001 levels for the fifth-straight quarter, indicating that the local economy has fully rebounded from its contraction. Job growth has been strong across virtually every sector between 2006 and 2007, with particularly sizable gains experienced by the Construction, Professional and Business Services, Manufacturing, and the Trade, Transportation and Utilities sectors.

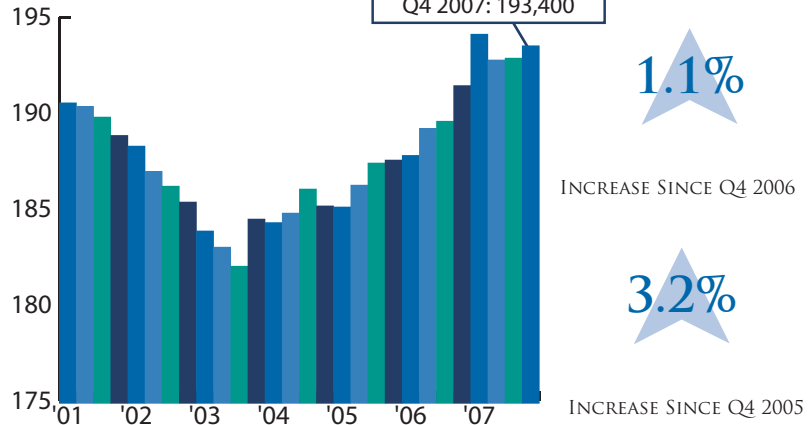
Sonoma County's seasonally adjusted unemployment rate increased to 4.7% in Q4 2007 from 3.8% in Q4 2006. The seasonally adjusted unemployment rate was up 0.2 percentage points from Q3 2007, despite high job numbers in the fourth quarter, but remains below the U.S. (4.8% for Q4 2007) and California (5.8% for Q4 2007) rates. Despite recent shakeups in the real estate and financial sectors, Sonoma County's diversified economy should buffer the area from sudden labor market swings.

BUSINESS CYCLE INDEX



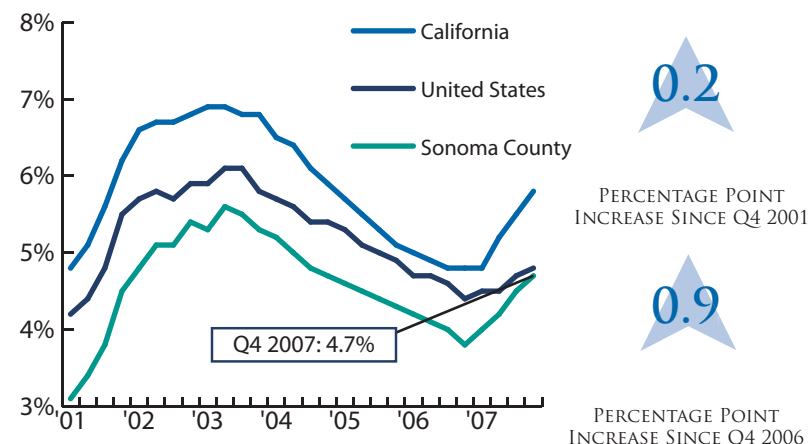
Source: Economic Development Board (<http://www.sonomaedb.org>)

SEASONALLY ADJUSTED NONFARM EMPLOYMENT (THOUSANDS)



Source: California Employment Development Department
Sonoma County's nonfarm employment has been seasonally adjusted by the EDB.

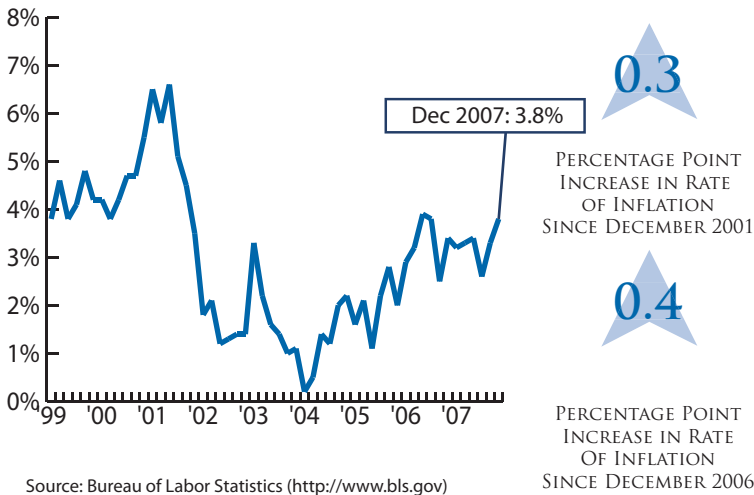
SEASONALLY ADJUSTED UNEMPLOYMENT RATE



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

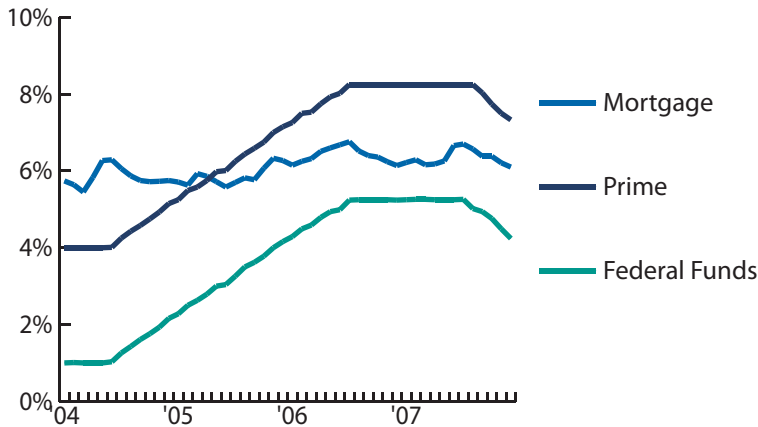
12-MONTH CHANGE IN PRICES, SAN FRANCISCO BAY AREA



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

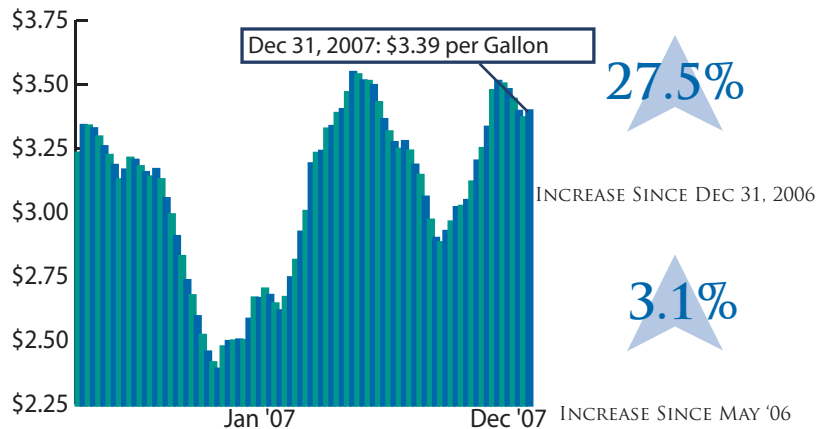
The price of regular unleaded gasoline in the San Francisco Bay Area rose to \$3.39 per gallon in the last week of December, a 27.5% increase over last year's reading of \$2.66. Inflation crept upward from August's reading of 2.8% to 3.8% annualized in December. The Federal Reserve of San Francisco attributed the rise in inflation to increasing oil prices in tandem with the falling dollar. However, inflation is expected to remain contained over the long-term due to apparent slack in the labor market, despite the pressure of rising energy prices. Additionally, the recent uptick in inflation may have been partially caused by the simultaneous drop in interest rates, thereby increasing the availability of credit and bolstering consumer demand.

INTEREST RATES



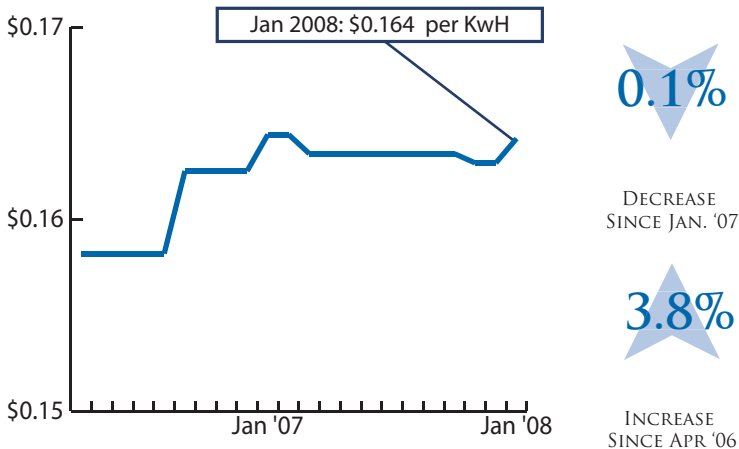
Source: Federal Reserve Board (<http://www.federalreserve.gov>)

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



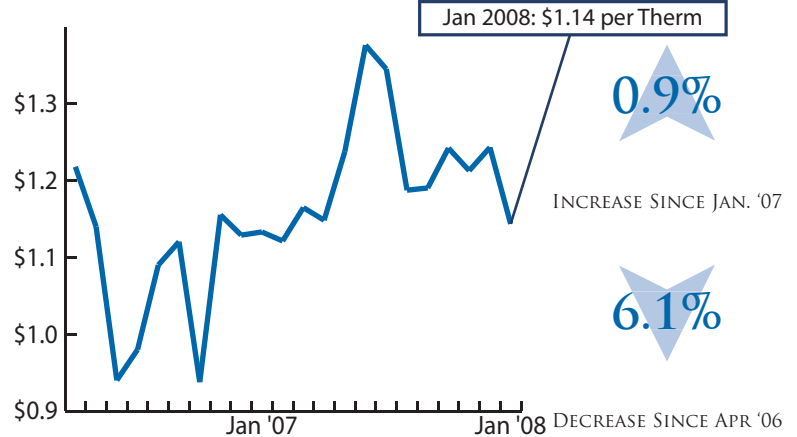
Source: Department of Energy (<http://www.doe.gov>)

ELECTRICITY PRICES (\$ PER KILOWATT HOUR)



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

NATURAL GAS PRICES (\$ PER THERM)

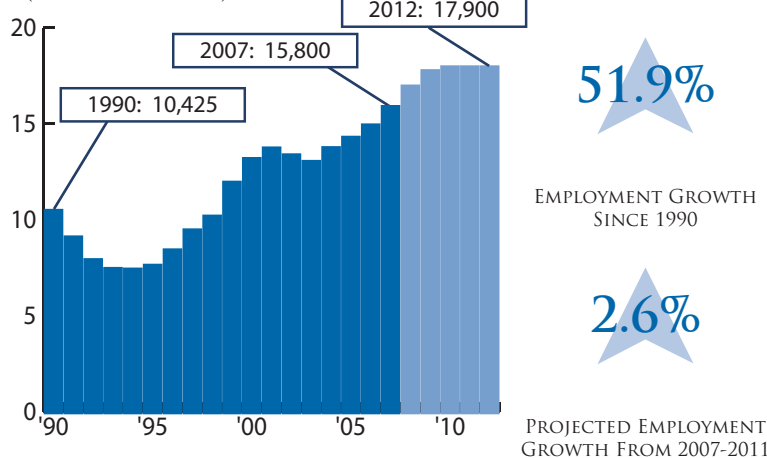


Source: Pacific Gas and Electric (<http://www.pge.com>)

The Construction sector accounts for 6.3% of all employment within Sonoma County as of December 2007. Moody's Economy.com forecasts that Construction employment will grow 2.6% over the next five years. Specialty Trade Contractors accounts for the majority (60.0%) of jobs in the sector. The average annual wage for a Construction worker grew 12.8% between 2001 and 2006. In 2005, Construction economic output was 7.7% of total Sonoma County economic output.

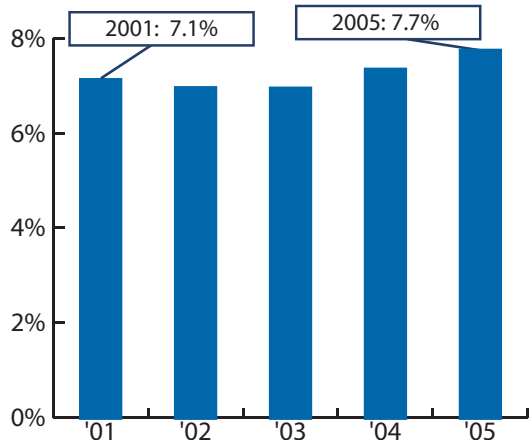
Horizon Air traffic at the Sonoma County Airport averaged nearly 6,500 passengers during the quarter. New service to Portland, OR may have caused the 22.7% increase in passenger volume between the third and fourth quarters of 2007.

CONSTRUCTION EMPLOYMENT (THOUSANDS)



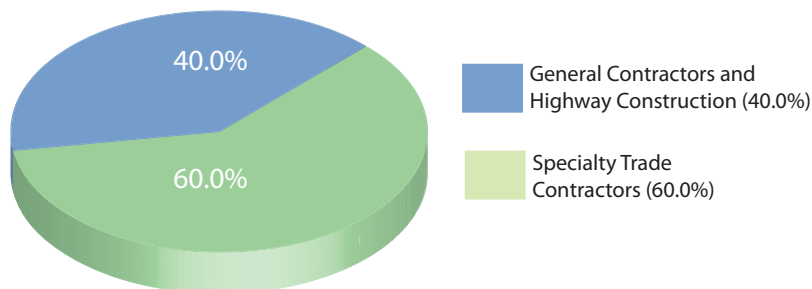
Source: Bureau of Labor Statistics (<http://www.bls.gov>)
Forecast by Moody's Economy.com, "Sonoma County's Advantage In A Slowing Economy," May 2007

CONSTRUCTION'S SHARE OF TOTAL SONOMA COUNTY REGIONAL PRODUCT



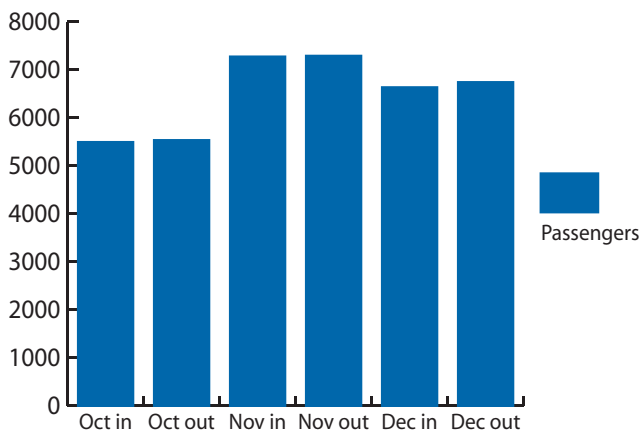
Source: U.S. Bureau of Economic Analysis (<http://www.bea.gov>)

CONSTRUCTION EMPLOYMENT BY INDUSTRY, 2007



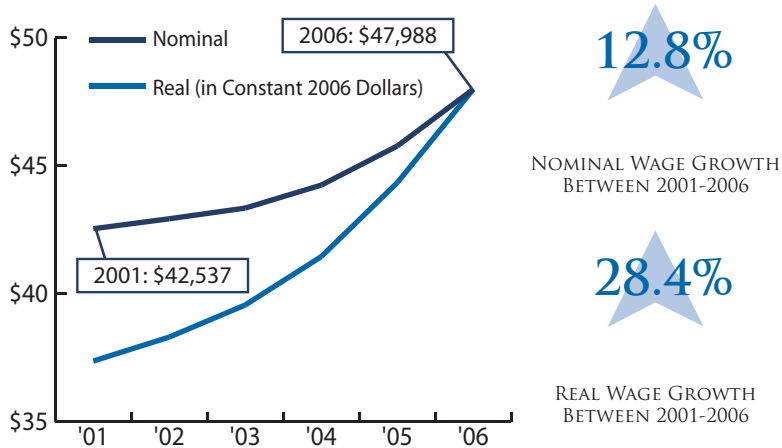
Source: Bureau of Labor Statistics (<http://www.bls.gov>)

STS AIRPORT (SONOMA COUNTY) PASSENGER LOADS, Q4 2007



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

CONSTRUCTION AVERAGE ANNUAL WAGE (\$THOUSANDS)



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

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