Staying the Course Amid Choppy Economic Waters: 2025-26 Outlook

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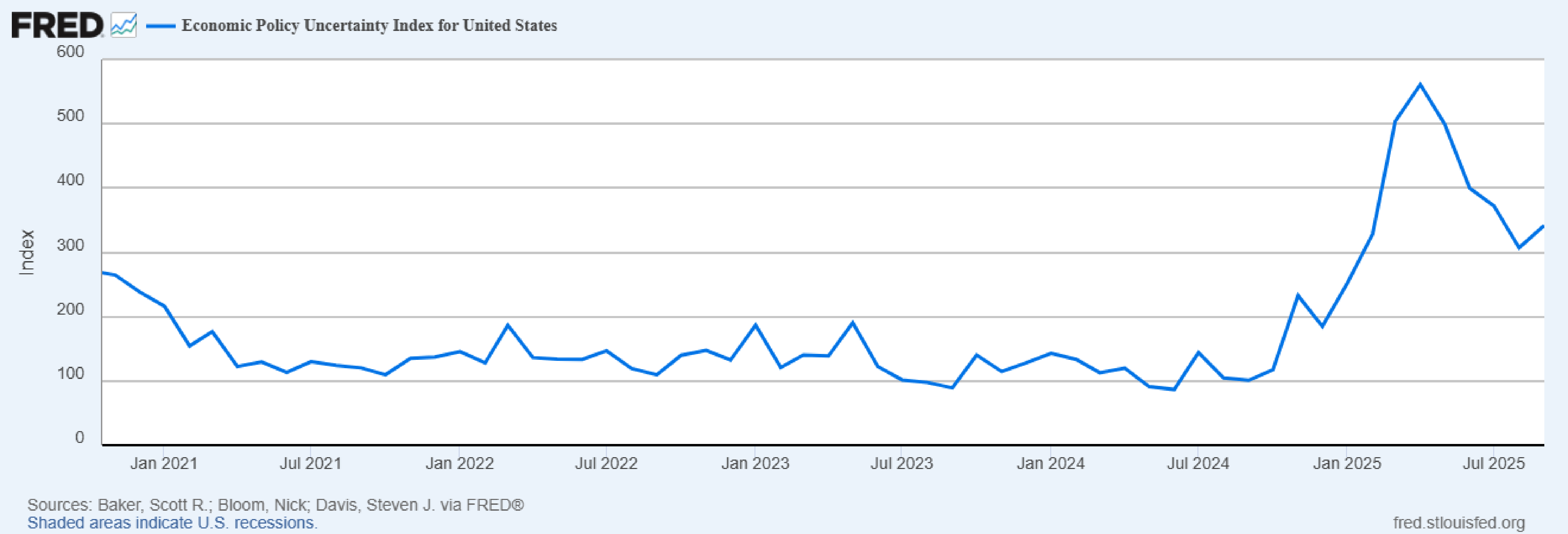
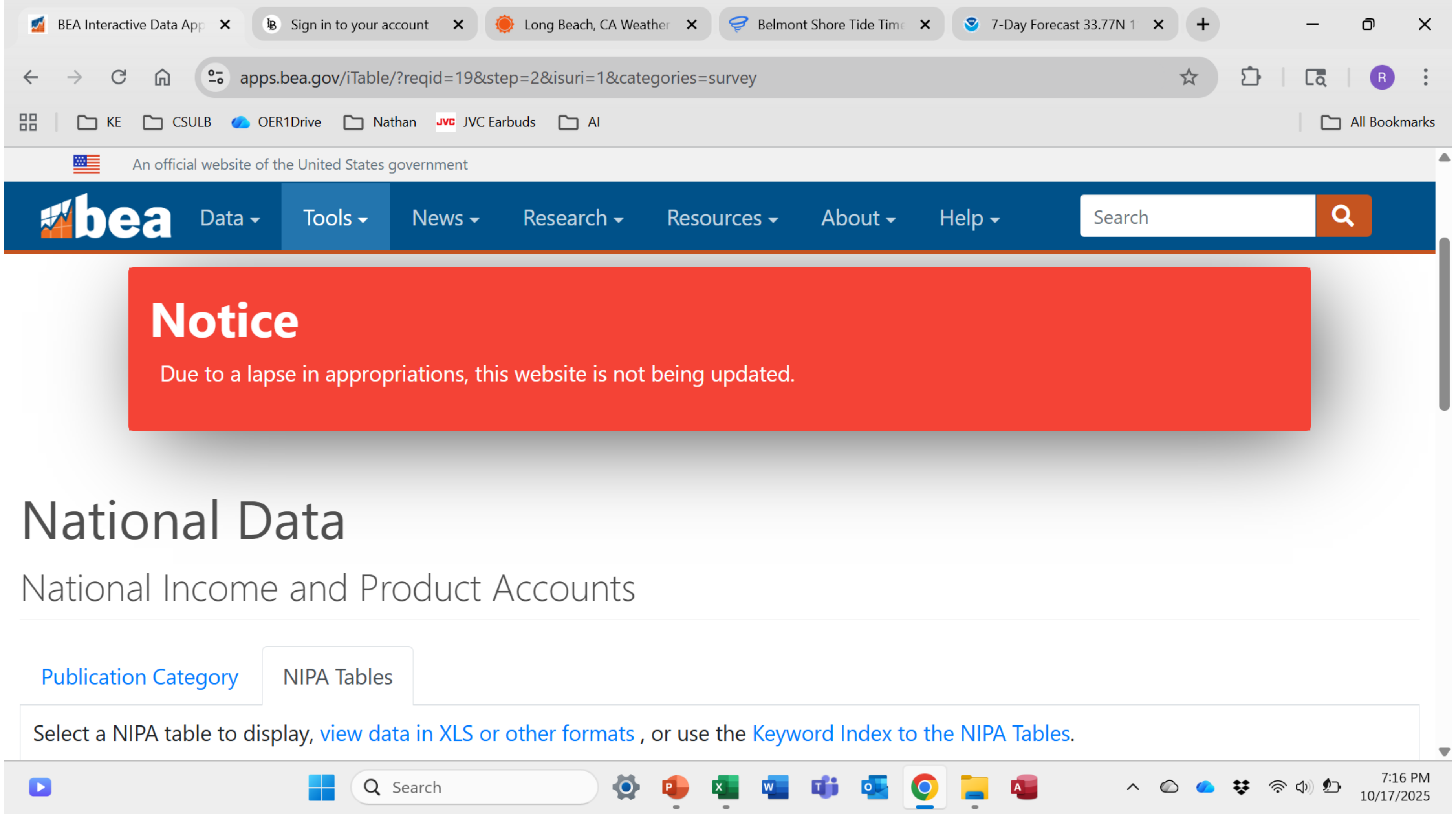
Outline

- U.S.: Uncertainty Slows Economy
- California: Weakness in Leading Industries
- Local Economy: Propped Up by a Few Industries
- Real Estate: Challenges Continue
- Conclusion

U.S. Economy:
Uncertainty's Chilling Effect

Economic Uncertainty Up Sharply in 2025

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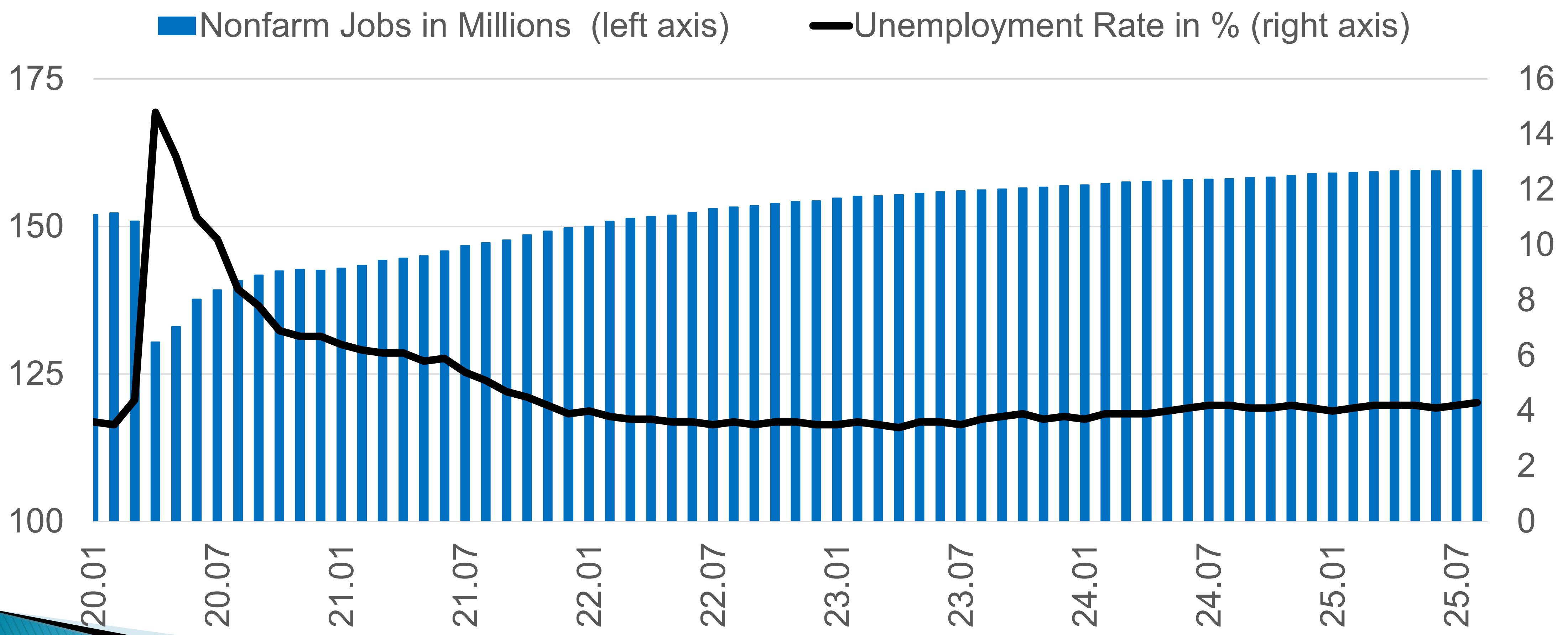
Vital Signs of the Economy

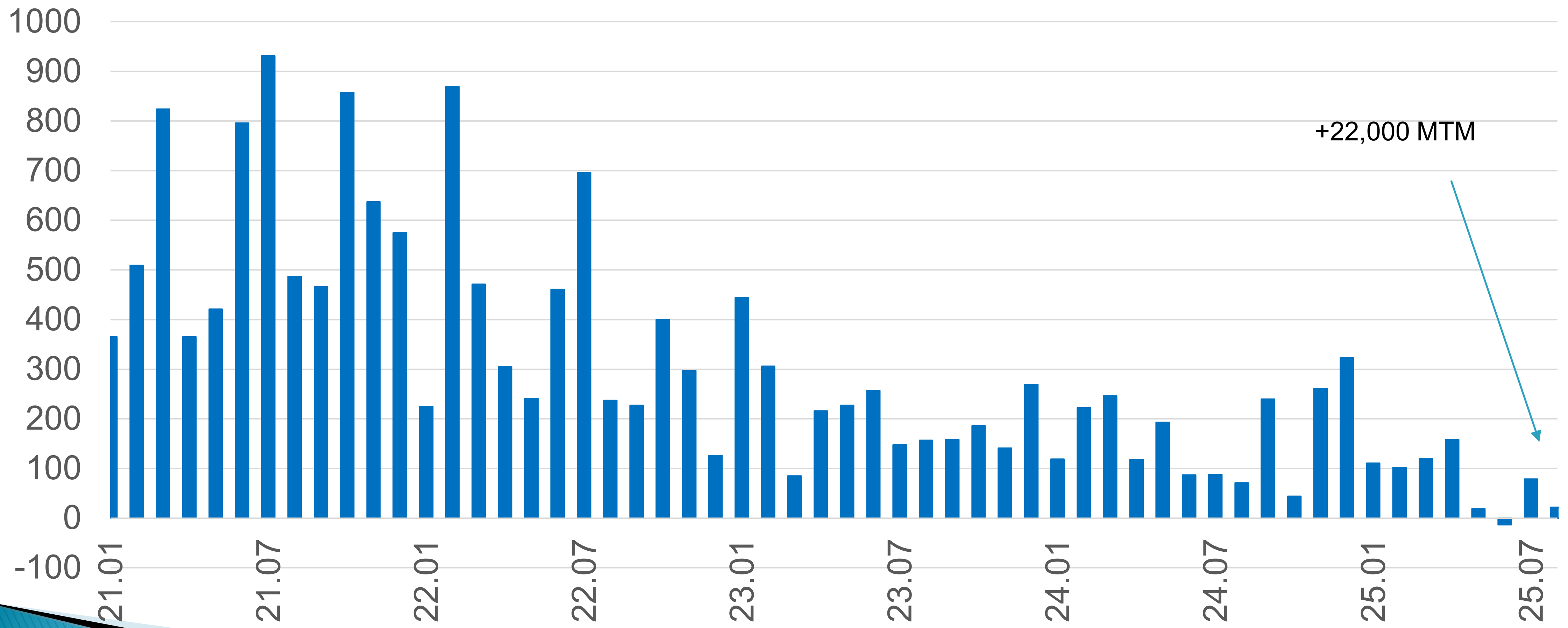
- Labor Market
- Gross Domestic Product (GDP)
- Inflation
- Interest Rates

Unemployment near L-R Rate (4.3% vs. 4.4%) Job Growth is Above L-R Average (0.9% vs. 0.8%)



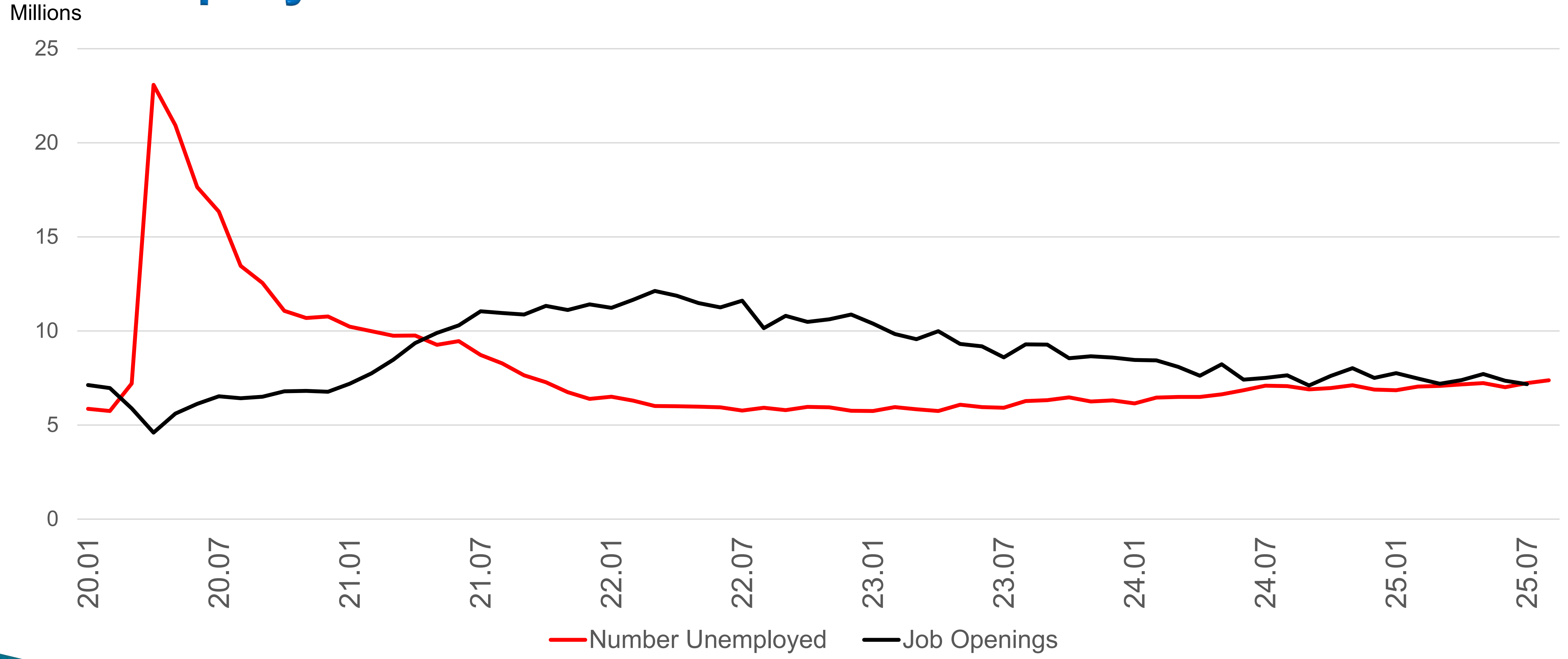
Source: BLS

Monthly Job Growth Decelerating

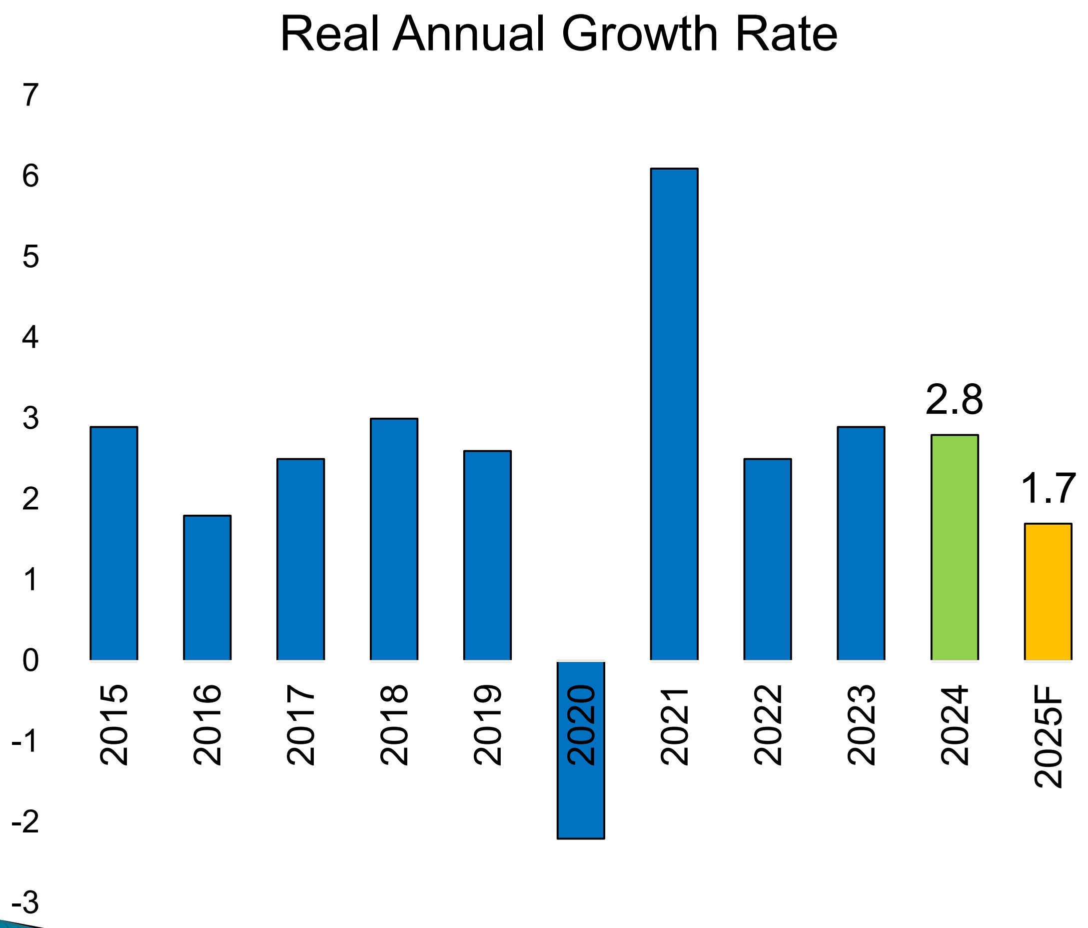


Source: BLS

Job Openings Weakening, Now Less than Number Unemployed



GDP Q2-25: +3.8% QTQ, +2.1% YTY

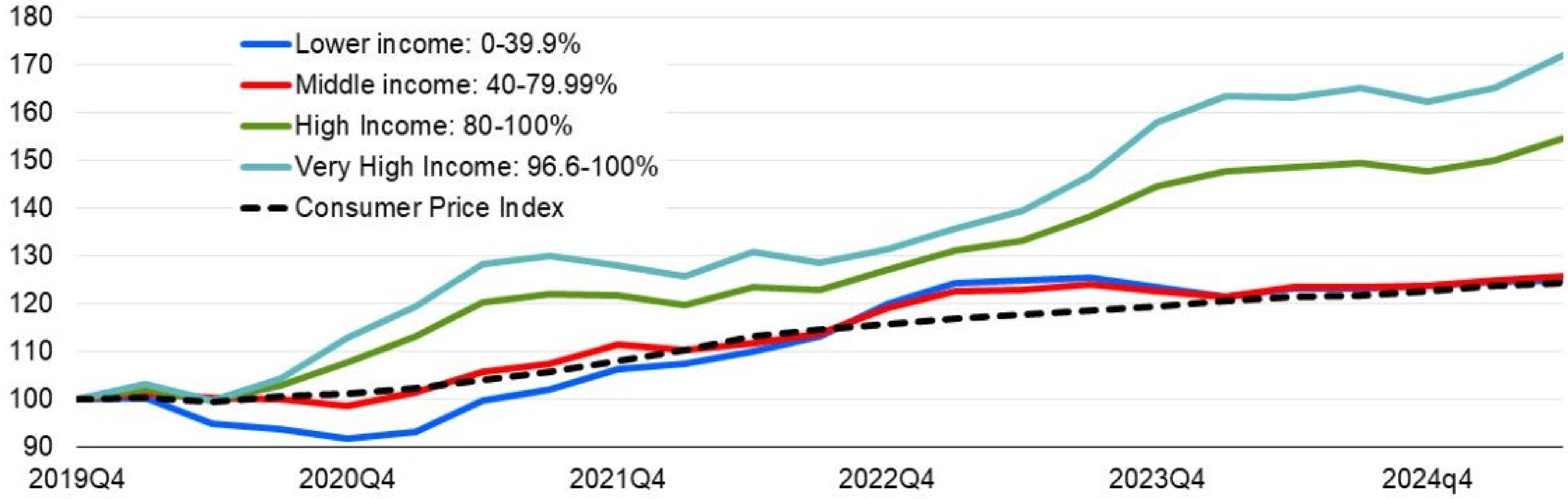


- Consumer Spending +2.7% YTY
- Business Investment Spending (+0.0%)
- International Trade
  - Imports: +1.8%
    - Goods Only: $3Trillion
  - Exports: +1.5%
- Government Spending (+1.9%)

- GDP Estimate for Q3-25: +3.9

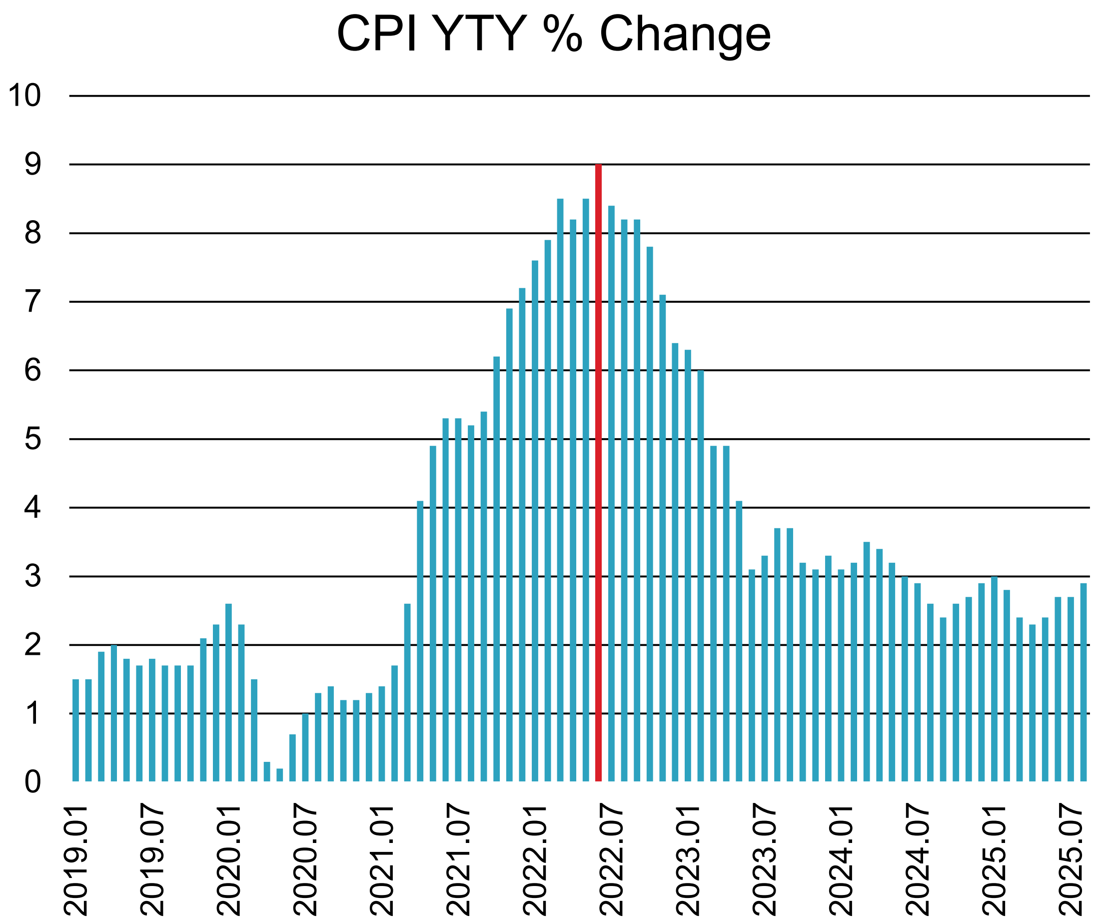
Consumer Spending Driven by Higher Income Households

Personal outlays by income group, 1999q4 = 100



Sources: BLS, Moody's Analytics

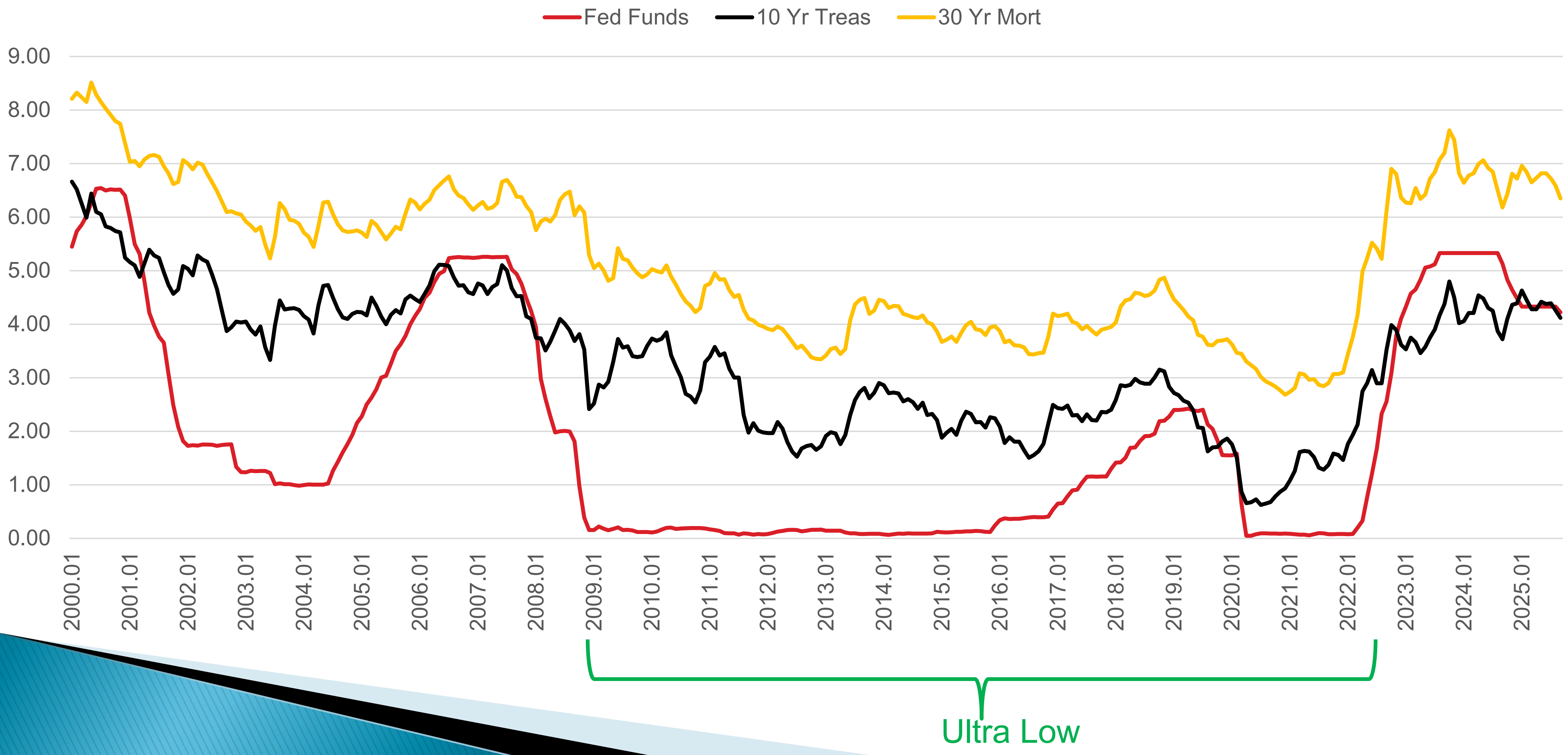
Inflation – Some Reaction to Tariffs



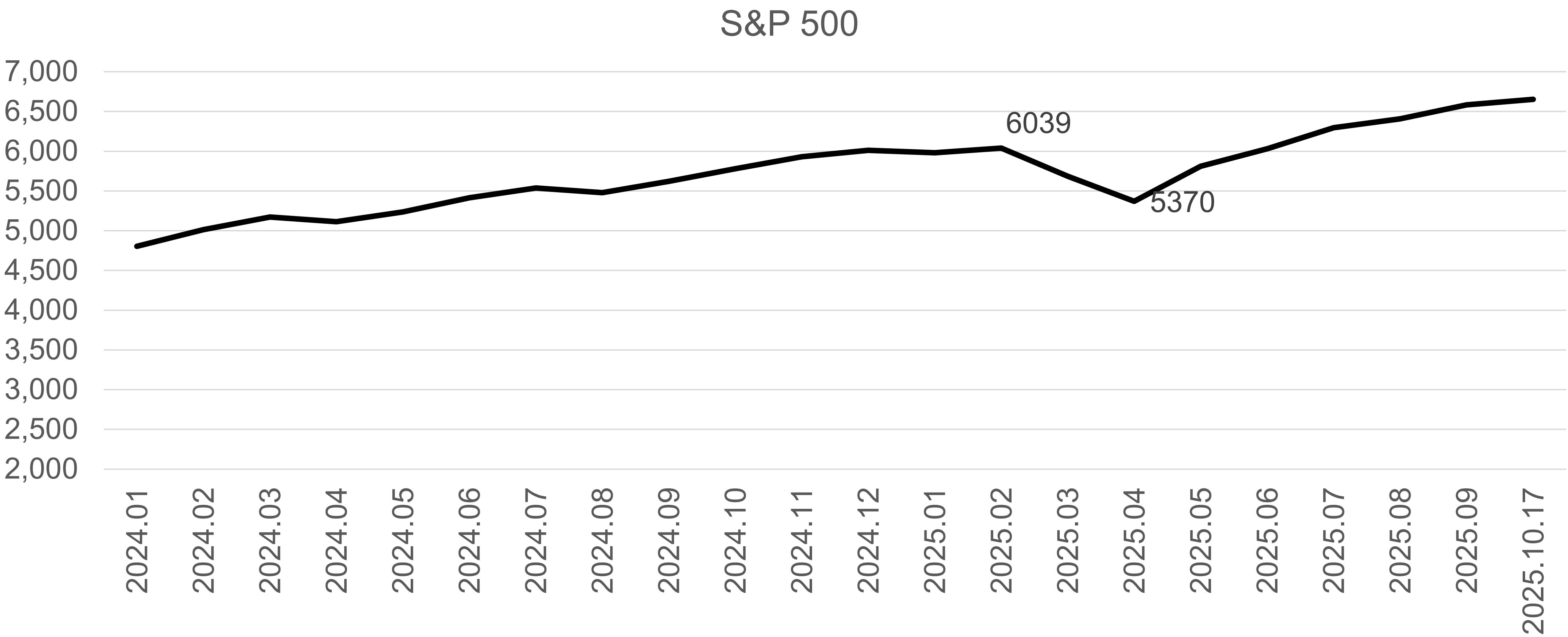
Inflation Measures (YTY)

CPI	Aug	+2.9% rising
PCE	Aug	+2.7% rising
PPI	Aug	+2.6% rising
Imports Jul		+0.9%
Fed Target		+2.0%

Rates Softening in Recent Weeks



Stocks Up for 2025



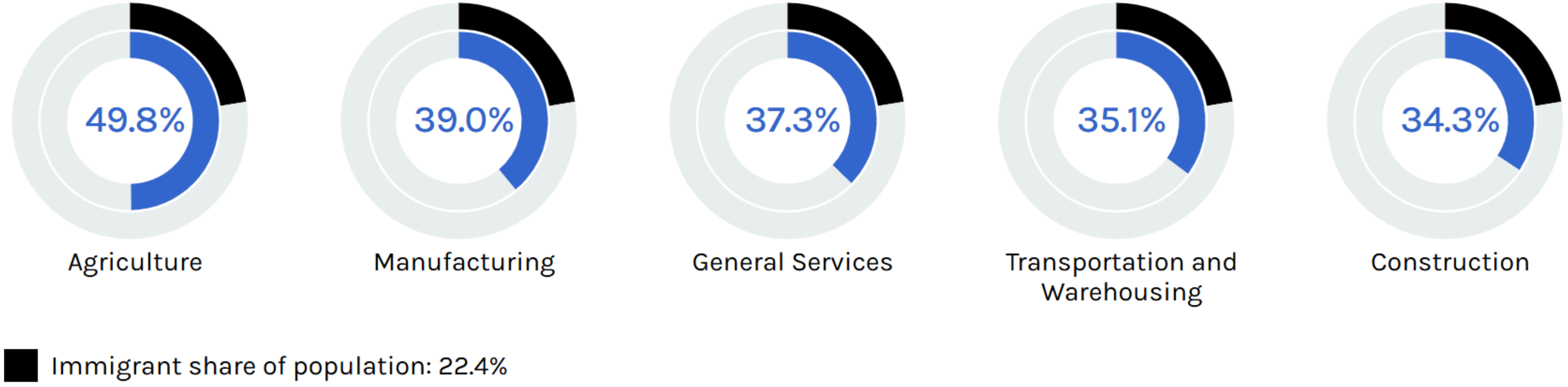
The stock market is not the economy!

Tariffs, Immigration, Government, and Taxes

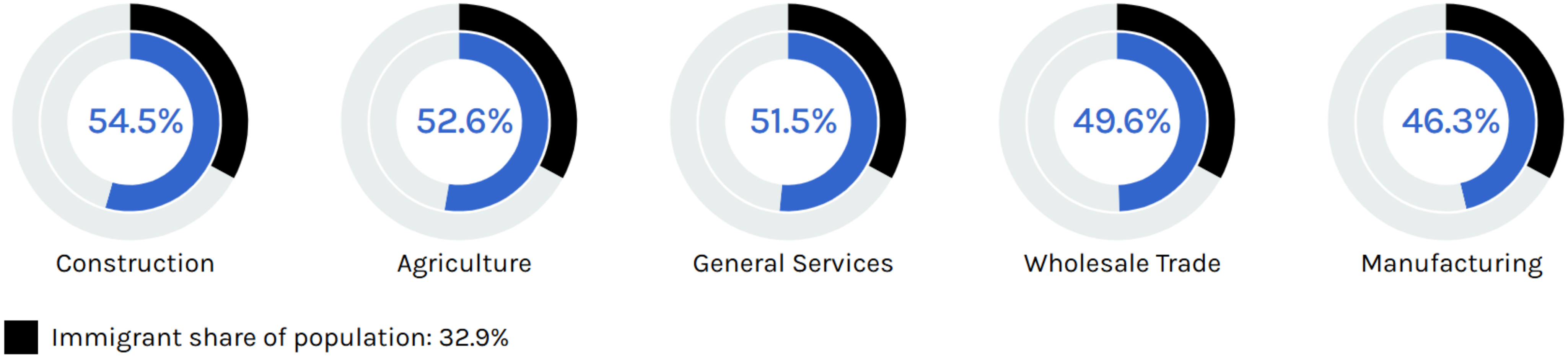
- Tariffs
  - Trade imbalances & restrictions
  - Return of manufacturing to US?
  - Effect on inflation and economy
- Immigration
  - Demographics and labor force
  - Labor shortages/wage increases
  - Lost wages, disrupts work flow and capacity
- Federal Government
  - Restructuring and spending cuts
  - Long term consequences
- Taxes
  - Distribution of income/ wealth has tilted toward higher income households in recent decades
  - 2025 tax act effects
  - Federal deficit/National debt

Importance of Immigrants to Industry

IE



LA-OC



U.S. Forecasts

Indicator	2023	2024	2025	2026
GDP % Rate of Change	2.9	2.8	1.7	1.7
Unemployment Rate	3.6	4.0	4.3	4.5
Inflation Rate (CPI)	4.1	2.9	2.8	3.0

Source: KE

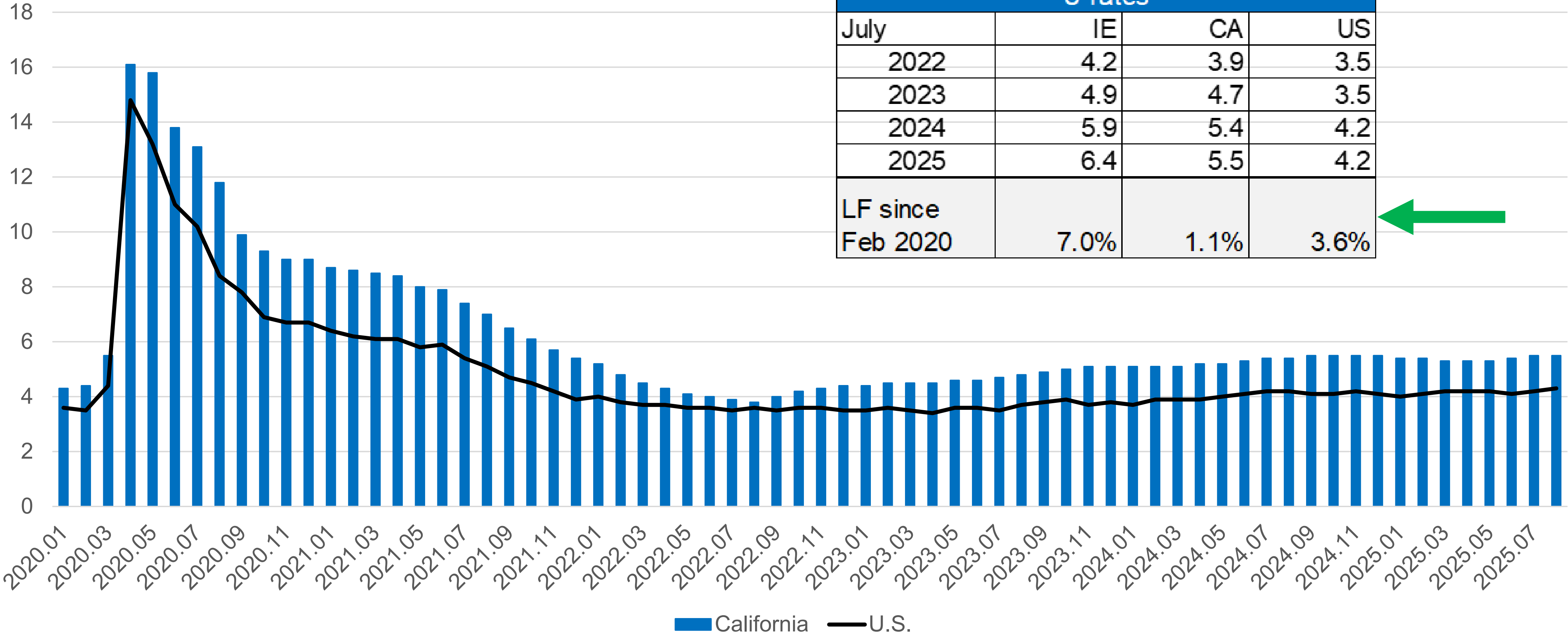
<u>Last Year's Forecast</u>

GDP	2.6%
U-Rate	4.1
Inflation Rate	3.0

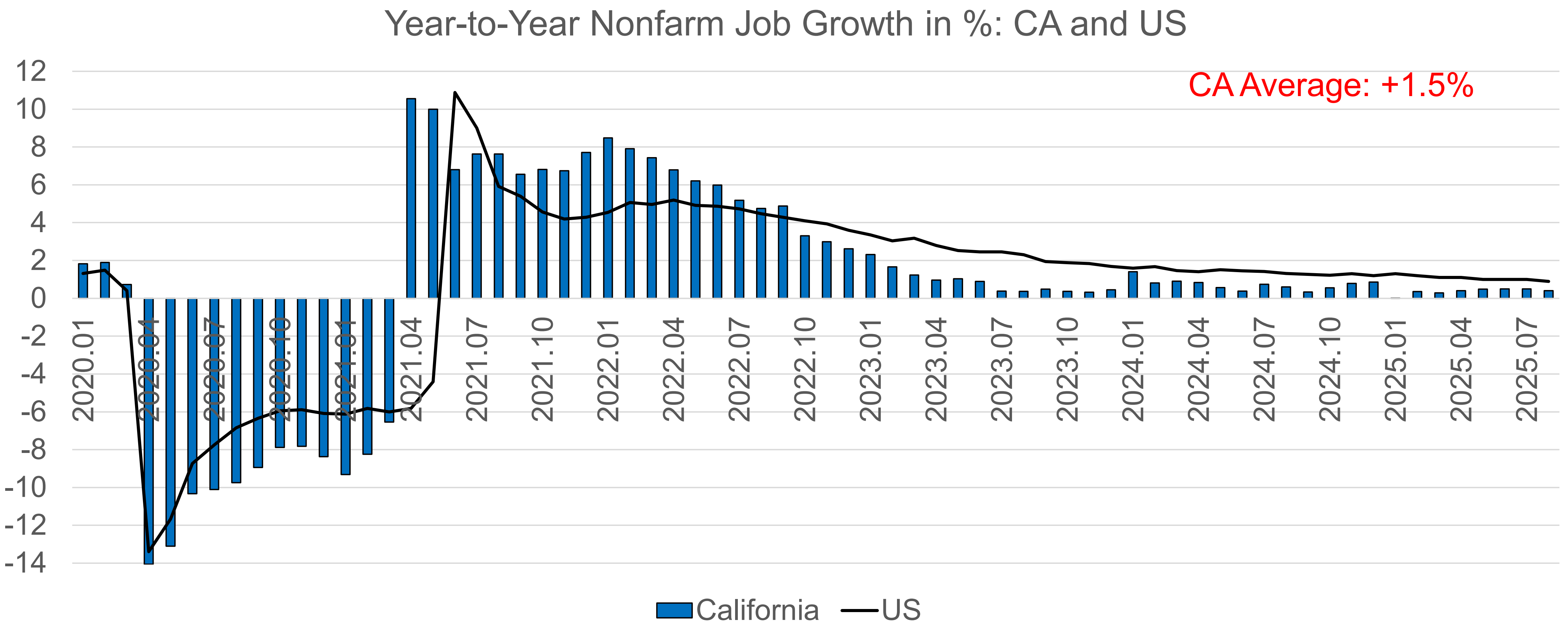
California:
Weakness in Leading Industries

California U-rate Up Slightly Over the Year (5.5%)

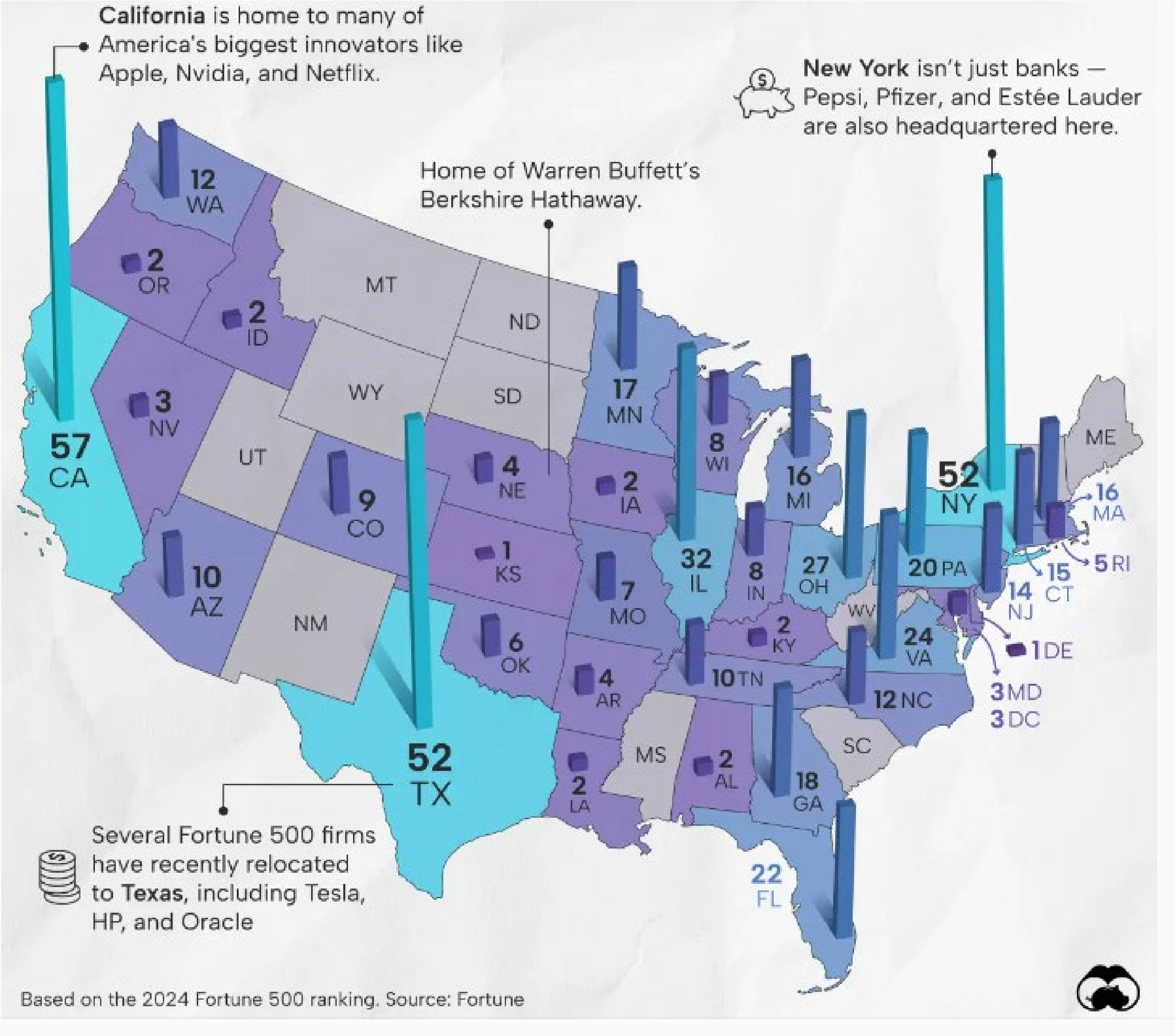
U-rates			
July	IE	CA	US
2022	4.2	3.9	3.5
2023	4.9	4.7	3.5
2024	5.9	5.4	4.2
2025	6.4	5.5	4.2
LF since Feb 2020	7.0%	1.1%	3.6%



CA Job Growth Weak (+69,500 or 0.4%)



Fortune 500 Companies by State



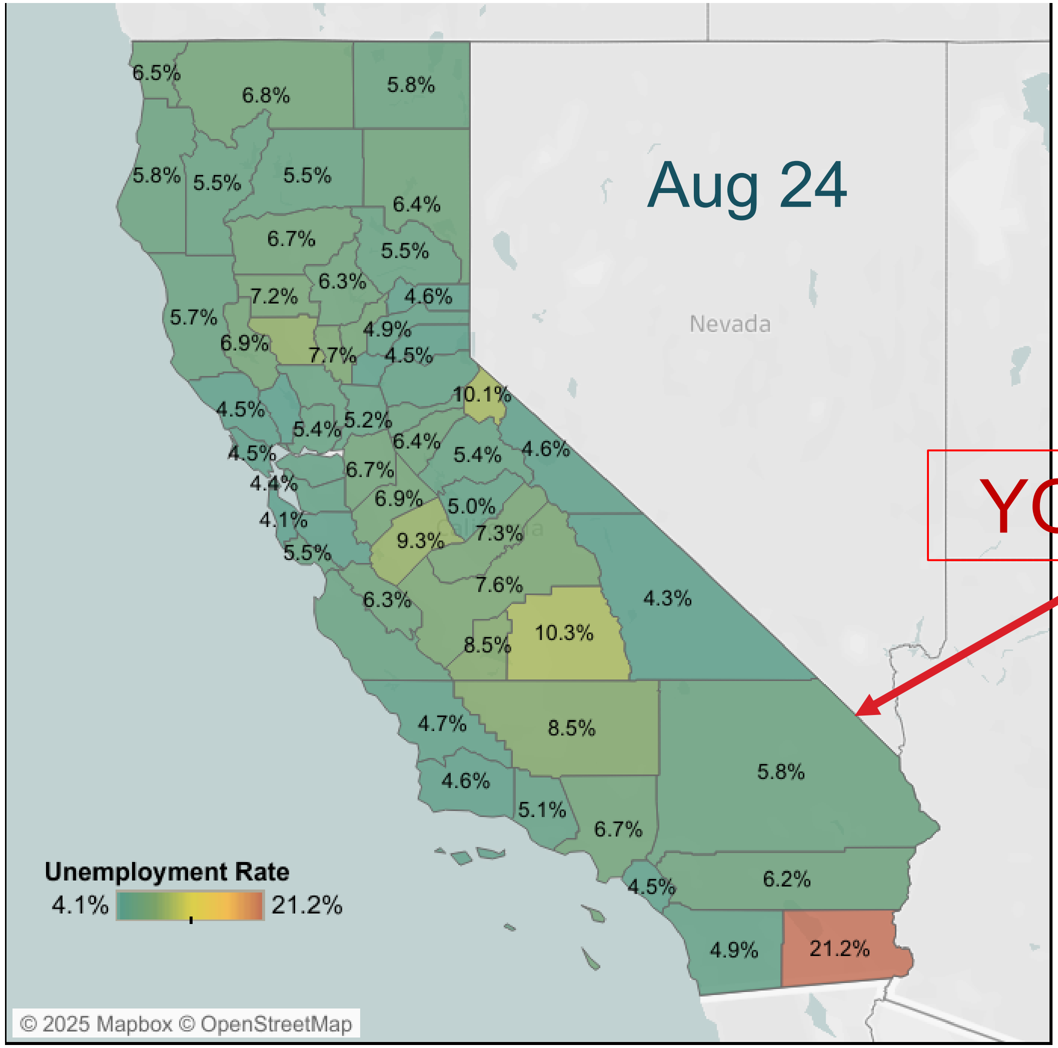
California Outlook

- Labor Market:
  - Urate at 5.5%, up 5.4% from a year ago
  - Weak labor force growth
  - ICE actions will limit labor force growth, upward pressure on wages, key industries will be hurt

- Industries (17 major industries):
  - Up: health care, government, transportation and warehousing, private education, retail trade
  - Flat/Down: 12 of the state’s industries, including leading sectors such as tech, entertainment, manufacturing, and leisure and hospitality/tourism
  - But California GDP continues to rise (economic growth with few job gains)

IE and So Cal Economies: The Details Matter!

Unemployment Rates by County



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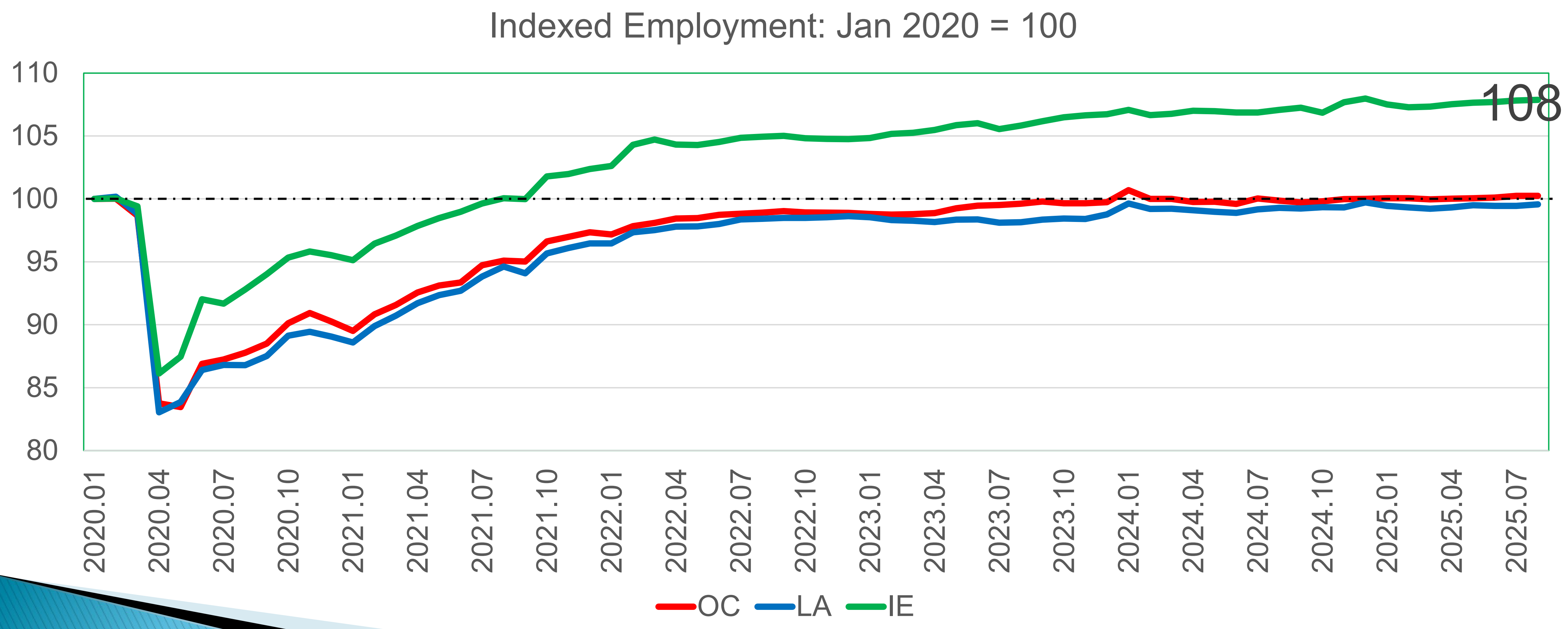
Source: EDD

San Bernardino County Unemployment Rates by Community (Aug. 25)

Area	Rate		Area	Rate
Adelanto city	8.3%		Mentone CDP	1.6%
Apple Valley town	7.3%		Montclair city	5.8%
Barstow city	7.6%		Morongo Valley CDP	6.5%
Big Bear City CDP	6.6%		Mountain View Acres CDP	15.6%
Big Bear Lake city	5.3%		Muscoy CDP	5.7%
Big River CDP	12.5%		Needles city	10.6%
Bloomington CDP	5.6%		Ontario city	5.3%
Bluewater CDP	0.0%		Rancho Cucamonga city	4.9%
Chino city	5.2%		Redlands city	4.8%
Chino Hills city	4.5%		Rialto city	6.2%
Colton city	5.8%		Running Springs CDP	4.5%
Crestline CDP	4.0%		San Antonio Heights CDP	1.9%
Fontana city	5.6%		San Bernardino city	6.6%
Grand Terrace city	5.6%		Searles Valley CDP	8.9%
Hesperia city	7.0%		Twentynine Palms city	7.4%
Highland city	6.0%		Upland city	4.7%
Joshua Tree CDP	5.8%		Victorville city	7.6%
Lake Arrowhead CDP	3.5%		Wrightwood CDP	2.2%
Lenwood CDP	4.7%		Yucaipa city	5.0%
Loma Linda city	4.6%		Yucca Valley town	6.2%
			San Bernardino County	5.9%

Source: EDD, Analysis by KE

IE Leads Post-COVID Gains, But at Plateau

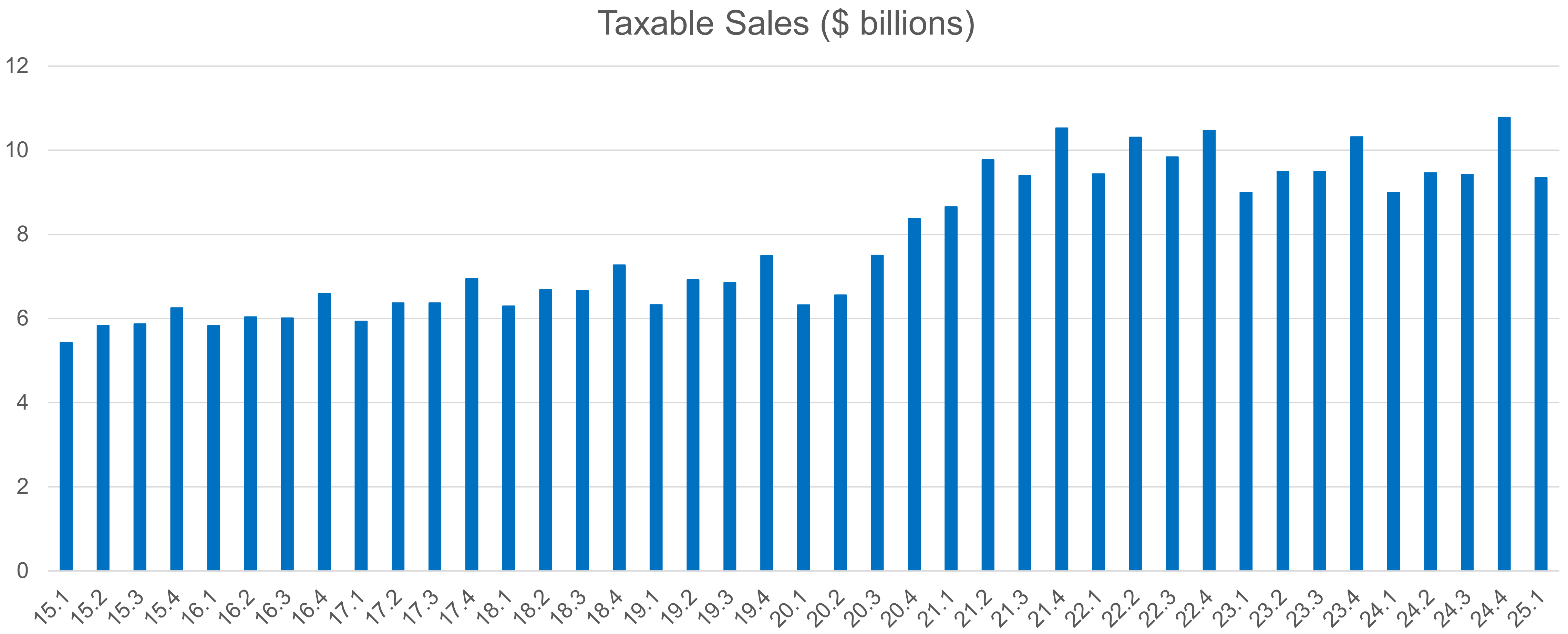


IE Industries – Mixed Picture

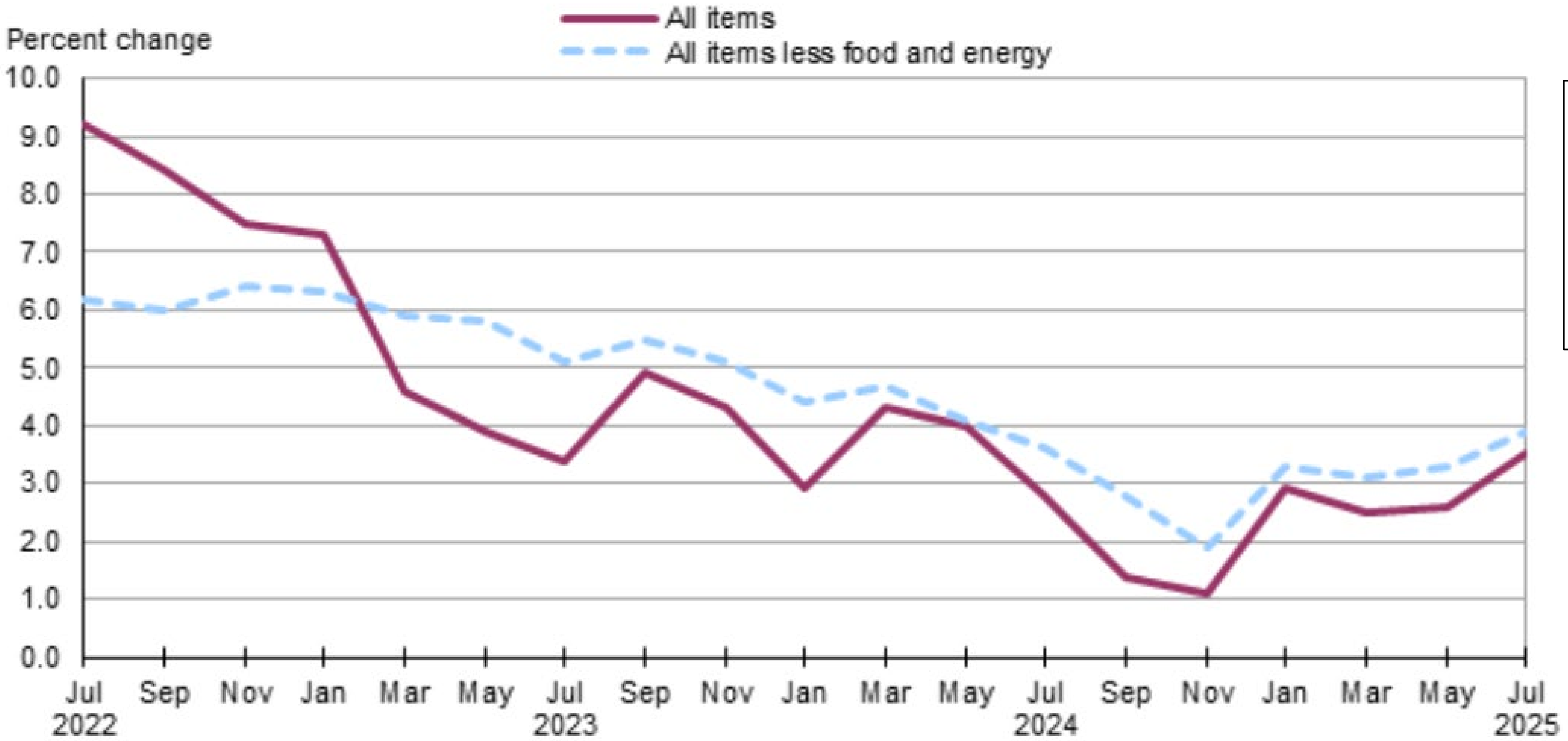
Major Industry	2025.08	MTM	YTY	MTM % Change	YTY % change	% of Feb 2020
Total Nonfarm	1,700,100	6,400	14,600	0.4%	0.9%	107%
Health Care & Social Assistance (1)	297,400	1,800	14,400	0.6%	5.1%	125%
Government (2)	272,200	4,200	10,400	1.6%	4.0%	102%
Leisure & Hospitality (4)	183,100	700	1,900	0.4%	1.0%	102%
Professional, Scientific & Technical Services	47,700	200	800	0.4%	1.7%	111%
Transportation, Warehousing (3)	196,400	400	700	0.2%	0.4%	128%
Other Services	51,300	-200	500	-0.4%	1.0%	107%
Management of Companies & Enterprises	8,800	0	0	0.0%	0.0%	99%
Mining and Logging	1,500	0	-100	0.0%	-6.3%	115%
Educational Services	24,700	200	-100	0.8%	-0.4%	113%
Wholesale Trade (3)	68,300	-400	-300	-0.6%	-0.4%	99%
Information	12,700	-100	-300	-0.8%	-2.3%	90%
Finance & Insurance	21,100	0	-600	0.0%	-2.8%	84%
Real Estate & Rental & Leasing	21,500	0	-700	0.0%	-3.2%	104%
Administrative & Support & Waste Services	104,500	900	-1,100	0.9%	-1.0%	96%
Retail Trade (5)	180,200	-300	-1,500	-0.2%	-0.8%	102%
Manufacturing	92,400	200	-2,800	0.2%	-2.9%	92%
Construction	110,800	-1,200	-6,500	-1.1%	-5.5%	102%

Source: EDD, KE

SB County Taxable Sales (Q1-25: +3.9% YTY)



IE Inflation Rate Rising (July 25: +3.5%)



Source: U.S. Bureau of Labor Statistics.

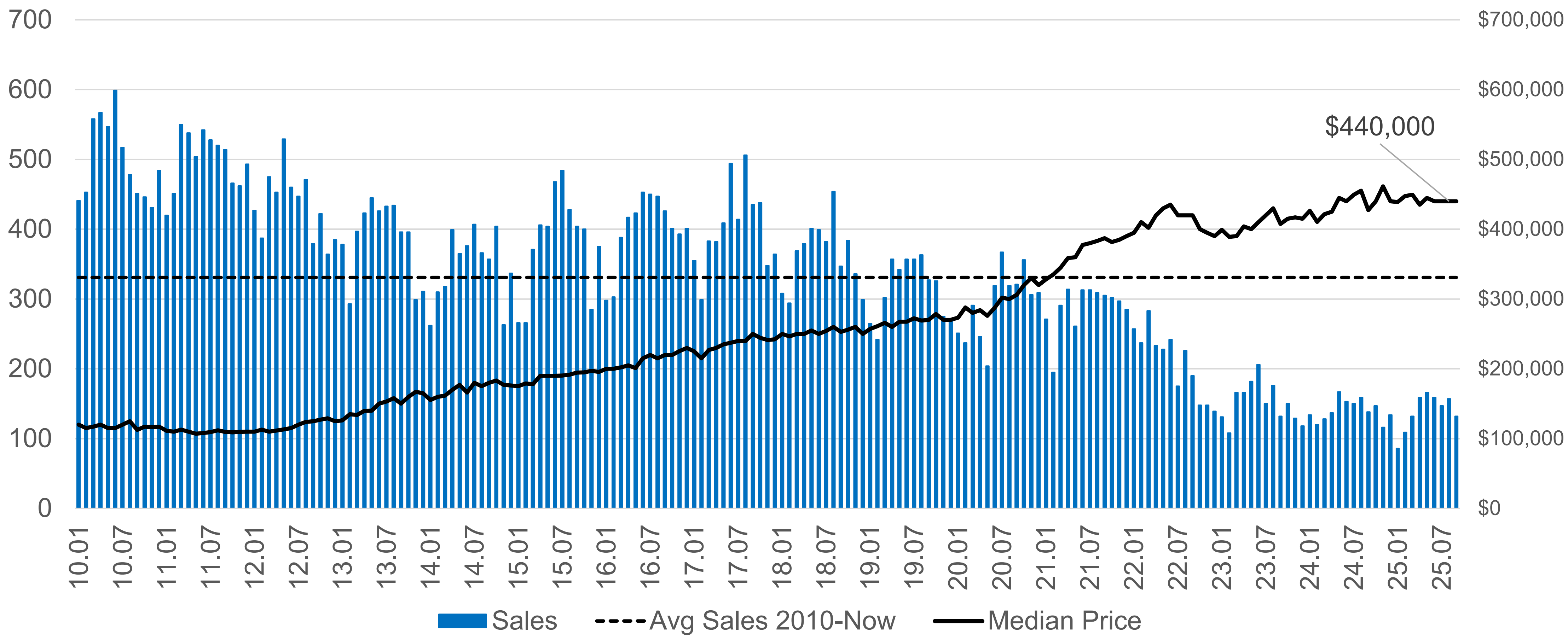
Highest since May 2024 (4.0%)

All items less food and energy: +3.9%

Real Estate: Challenges Continue

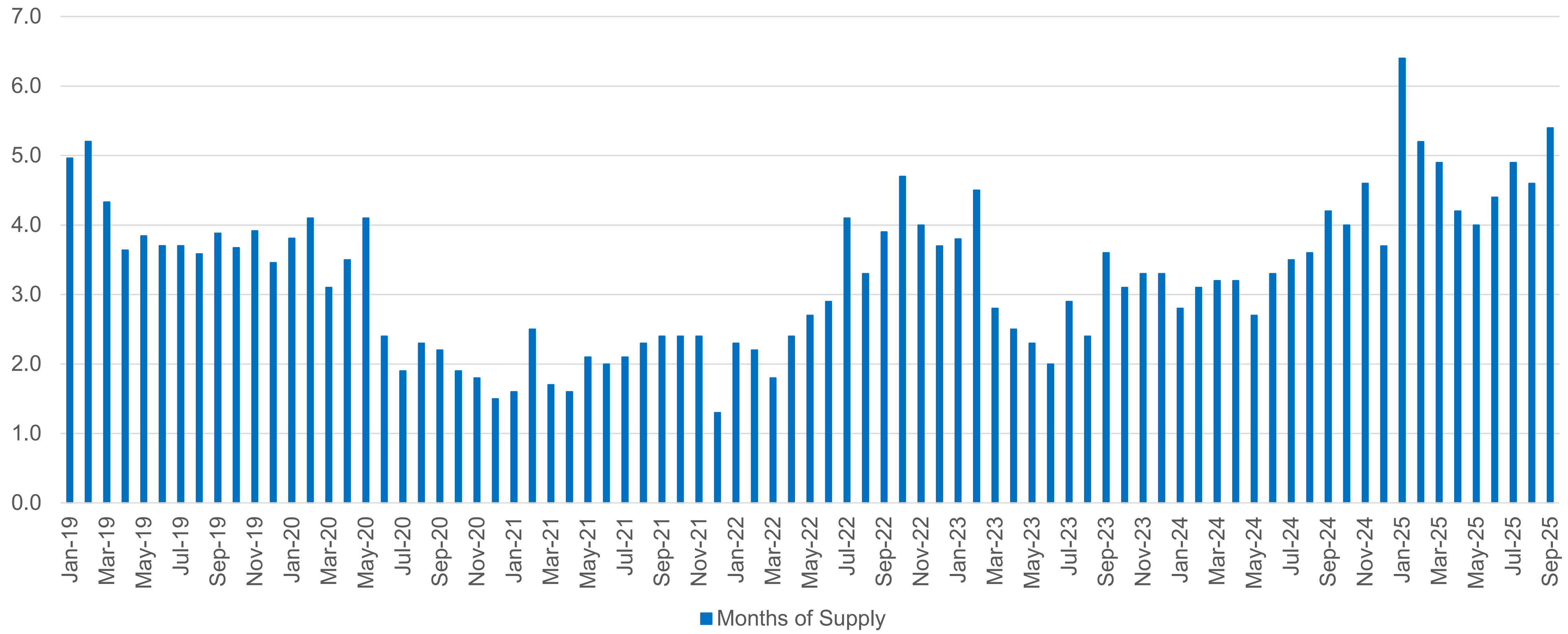
High Desert Housing Market: High Prices Despite High Rates

Sept. 2025
Price: +3% YTY
Sales: - 4% YTY
- 3% YTD



Source: CAR, KE

HDAR Unsold Inventory Index (Avg 2010-Now: 3.9 mos.)



So Cal Market: Prices and Sales Mixed

Southern California	24.09	25.08	25.09	Price MTM% Chg	Price YTY% Chg	Sales YTY% Chg
Imperial	$397,500	$405,000	$457,000	12.8%	15.0%	9.6%
Los Angeles	$960,370	$930,720	$983,230	5.6%	2.4%	13.8%
Orange	$1,397,450	$1,385,000	$1,401,250	1.2%	0.3%	10.8%
Riverside	$605,000	$625,000	$624,000	-0.2%	3.1%	11.2%
San Bernardino	$485,000	$501,270	$500,030	-0.2%	3.1%	4.5%
San Diego	$1,000,000	$1,025,000	$990,000	-3.4%	-1.0%	14.0%
Ventura	$900,000	$937,500	$900,000	-4.0%	0.0%	12.1%
California	$868,150	$899,130	$883,640	-1.7%	1.8%	6.6%

Source: California Association of Realtors, KE

Unsold Inventory Somewhat Higher vs 2024

Unsold Inventory Index (Months)			
Region	24.09	25.08	25.09
Imperial	1.9	3.3	2.8
Los Angeles	3.6	4.3	3.7
Orange	3.1	3.2	3.0
Riverside	4.1	4.3	4.2
San Bernardino	4.6	5.1	5.1
San Diego	3.2	3.3	3.1
Ventura	3.4	3.6	3.8

Source: California Association of Realtors, KE

Housing Affordability

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Percentage of Households that can Afford to Buy Median Priced Home

Region	2024.2	2025.1	2025.2	Median Home Price	Monthly Payment Including Taxes & Insurance	Minimum Qualifying Income
Los Angeles	13	13	13	$879,900	$5,650	$226,000
Orange	11	12	12	$1,431,500	$9,190	$367,600
Riverside	19	20	21	$640,000	$4,110	$164,400
San Bernardino	27	28	29	$491,000	$3,150	$126,000
San Diego	11	12	13	$1,025,000	$6,580	$263,200
Ventura	12	14	14	$965,750	$6,200	$248,000
CA SFH (SAAR)	14	17	15	$905,680	$5,810	$232,400
US	33	37	34	$429,400	$2,760	$110,400

Source: C.A.R, KE

Median HH Income (2024): SB: $88,300, RV: $93,200

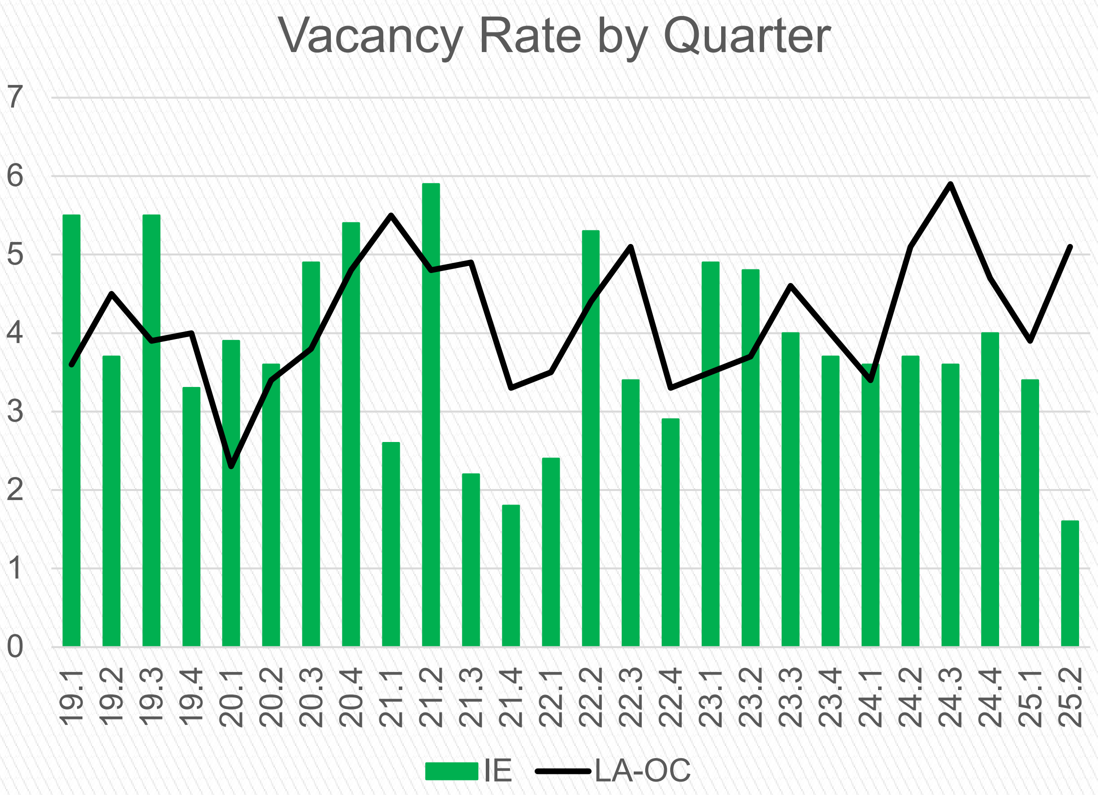
Permits By Selected Areas

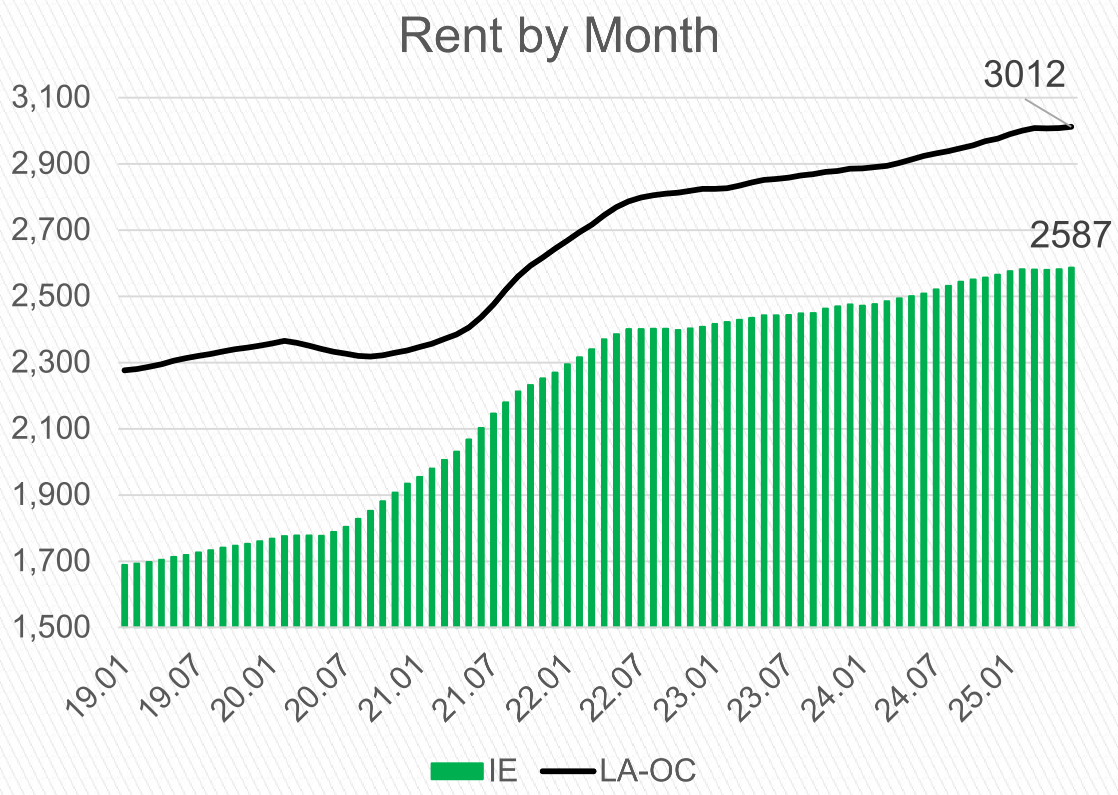
Permitted Residential Units				
Selected Areas, YTD through August				
MSA	2024	2025	Change	% Change
LA-OC	17,397	17,294	-103	-0.6%
Inland Empire	10,243	11,335	1,092	10.7%
San Diego	6,962	7,543	581	8.3%
Houston	44,744	44,762	18	0.0%

Source: Census Bureau, KE

Regional Housing Needs Allocation (RHNA), Oct 2021-October 2029
IE: 305,500 – 38,200/yr | 2024 Actual: 15,800

Rental Market





Vacancy Rates: LA MSA and IE

Monthly Rent: LA MSA and IE

Housing Outlook in 2026

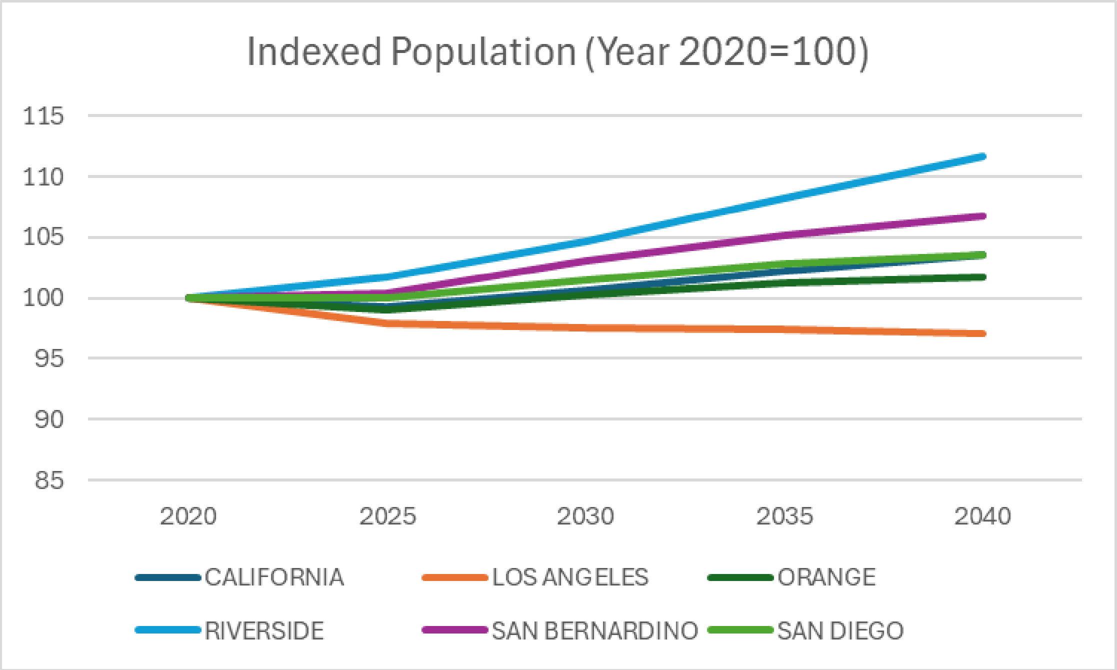
Opportunities

- Fed rate cuts and mortgage rates
- Latent demand driven by demographics in long run
- Recent legislation increases chance of more housing construction

Challenges

- High prices and downpayment requirements
- Rates still high compared to a few years ago
- Lean supply of existing homes

Long Run: Population Projections (DOF May 2025)



Geography	2020	2025	2030	2035	2040
CALIFORNIA	39,535,726	39,232,359	39,771,423	40,414,799	40,968,090
LOS ANGELES	10,019,274	9,807,291	9,772,981	9,762,834	9,732,175
ORANGE	3,187,162	3,154,492	3,196,336	3,226,616	3,243,240
RIVERSIDE	2,422,008	2,464,950	2,533,895	2,620,176	2,703,895
SAN BERNARDINO	2,184,801	2,192,784	2,252,832	2,298,042	2,333,216
SAN DIEGO	3,304,281	3,303,198	3,354,635	3,397,581	3,424,184

Geography	2020	2025	2030	2035	2040
CALIFORNIA		-0.8%	1.4%	1.6%	1.4%
LOS ANGELES		-2.1%	-0.3%	-0.1%	-0.3%
ORANGE		-1.0%	1.3%	0.9%	0.5%
RIVERSIDE		1.8%	2.8%	3.4%	3.2%
SAN BERNARDINO		0.4%	2.7%	2.0%	1.5%
SAN DIEGO		0.0%	1.6%	1.3%	0.8%

Silver Tsunami (San Bernardino County)

Population	2023	2024	2029	2034	2039
65+	274,243	285,175	340,165	383,912	419,725
Total	2,170,593	2,180,503	2,236,231	2,284,582	2,322,706
Share of Total	13%	13%	15%	17%	18%
CA Share of Total	16%	16%	19%	21%	22%

Vacancy Rates

Vacancy Rates		
Segment	Q2-24	Q2-25
Office	8.5	7.5
Industrial	6.8	6.7
Retail	6.4	6.8

Sources: CBRE Research

Conclusion and Outlook

U.S. and California Outlook

US

- Overall: From smooth to uncertain trajectory, slower GDP growth
- Interest rates: Fed ready to cut rates (information vacuum)
- Upheaval: tariffs, government, immigration, tax policy, regulation
- Resilience of U.S. economy

California

- Struggling to shake off pandemic and other setbacks to leading industries
- Long Term
  - Challenges: cost of living, demographics, fiscal situation
  - Opportunities: A.I./technology, media, knowledge creation, venture capital

IE Long Run Challenges and Opportunities

Jobs

- At Risk
  - Population serving industries: health care, govt, retail
  - Growth industries: logistics, manufacturing, construction
- Outperforming other parts of So Cal, but still weak compared to recent years

Housing

- Challenges continue

Other

- Sources of long run growth and job creation
- Brightline

Thank You!

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