The Inland Empire is poised for another year of steady growth in 2018. The region’s population continues to increase, local job gains are outpacing the state overall, and consumer spending is on the rise. In addition, while the Inland Empire’s residential and commercial real estate markets are more expensive than many parts of the nation, they remain more affordable than real estate in neighboring coastal communities in Southern California. This regional affordability advantage is paving the way for continued gains in the local market. Still, the area faces potential headwinds. Despite greater affordability, limited housing supply is inflating home prices and homeownership is out of reach for many Inland Empire residents. Couple that with a record-low unemployment rate, and businesses may find it difficult to attract the talent they need to maintain the level of growth they have enjoyed in recent years.

EMPLOYMENT

The latest numbers from California’s Employment Development Department indicate that the economic expansion in the Inland Empire is continuing at a healthy pace. From April 2017 to April 2018, the region added 45,100 nonfarm jobs, a 3.1% year-over-year increase. This pace of growth outshines the state’s more moderate 2.1% gain and is more robust than the nation’s 1.6% gain over the same period.

Wages in the Inland Empire are also increasing, although at a modest rate. Overall earnings in the region grew by 2.4% from 2016 to 2017, with wages in Riverside County increasing by 2.5% and wages in San Bernardino County increasing by 2.3%. Over the same period, wages in the state overall grew by 4.6%. However, upward pressure on wages is anticipated as labor markets throughout Southern California tighten. The unemployment rate in the Inland Empire fell to 4.1% in April 2018, the lowest rate on record for the region. Moreover, the local labor force grew by just 0.4% from April 2017 to April 2018. The scarcity of workers coupled with inflation exceeding 2% should drive appreciable wage increases in 2018.

Source: California Employment Development Department; Analysis by UCR Center for Economic Forecasting
At the industry level, job growth has been broad-based, with most Inland Empire sectors expanding payrolls over the last year. The Transportation and Warehousing sector has provided the most new jobs, with payrolls growing by 9,800 (+8.7%) positions from April 2017 to April 2018. The Transportation and Warehousing sector is also poised for continued growth – in the first quarter of 2018, the Inland Empire had more industrial space under construction than anywhere else in the United States.

The Administrative Support sector was second to Transportation and Warehousing, adding 7,900 (+8.1%) positions over the last year. This was followed by Government which added 6,400 (+2.6%) jobs from April 2017 to April 2018. The bulk of the new Government positions came from Local Government (+4,300), with Local Government Education (+3,600) driving much of the growth.

The Inland Empire’s Construction sector also is also experiencing a strong year, adding 5,200 (+5.4%) positions from April 2017 to April 2018. Increased construction activity across the region, and in other parts of Southern California, will be critical to sustaining the economic and job growth enjoyed in recent years. However, even with the recent gains, employment levels in the Inland Empire’s Construction sector remain 24% below their 2006 prerecession peak. The good news is there is ample room for continued job gains in the sector in the coming years, however many firms are finding it difficult to fill positions.

A handful of sectors in the Inland Empire shed positions over the last year, although the losses were not large. Manufacturing was responsible for the greatest decline, shedding 400 positions (-0.4%) from April 2017 to April 2018. Other sectors posting losses over the last year were Management (-200 positions) and Information (-200 positions). Fortunately, these recent job losses are small relative to the region’s employment base, which numbers nearly 1.5 million.

**BUSINESS ACTIVITY**

An uptick in construction spending and sustained gains in job counts have spurred local spending. From the fourth quarter of 2016 to the fourth quarter of 2017 (the most recent data available as of this writing), taxable sales in the Inland Empire increased by 5.8%.

Riverside County’s overall taxable sales increased by 5.4% during this period and within the County, the cities of Corona (+12.4%) and Moreno Valley (+5.3%) enjoyed considerable gains, while taxable sales declined in the City of Riverside (-0.6%). In San Bernardino County, taxable sales growth in the cities of Fontana (+6.8%) Rancho Cucamonga (+6.0%), and San Bernardino (+3.2%) all outpaced the County as a whole (+2.5%). Despite the growth in taxable sales, consumer and business spending in Riverside County (4.9%) and San Bernardino County (6.8%) trailed the state overall (7.3%).

All spending categories in the Inland Empire grew in 2017. Fuel and Services Stations led the way with a 12.2% increase from the fourth quarter of 2016 to the fourth quarter of 2017. Rising fuel prices were primarily responsible for the gain. Consumer spending at Food and Drug stores increased 5.5%, followed by Restaurants and Hotels where spending increased by 4.7% over this time period.

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The uptick in construction activity throughout the Inland Empire and other parts of Southern California boosted taxable sales receipts in the Building and Construction category by 11.5% from the fourth quarter of 2016 to the fourth quarter of 2017. The increase indicates that developers are using local suppliers for projects and, more importantly, are building badly needed housing stock, something that will be critical for continued economic vitality in the region.

Despite stagnating employment in the Leisure and Hospitality sector in recent months, local hotels are still enjoying strong visitor activity, which is reflected in the increased spending at Restaurants and Hotels (mentioned above). Occupancy rates at local hotels reached 79.1% in the first 3 months of 2018, representing a 0.5-percentage-point gain over the same period in 2017. The average daily rate for local hotels rose to $122.91 during the first quarter of 2018, a 4.4% increase over 2017 levels. All told, revenue per available unit grew by 6.4% for local hotels.

Passenger traffic at Ontario International Airport continues to expand. Last year represented the airport’s best passenger growth since 2010, and the 2018 outlook is even better. A total of 1.56 million passengers passed through the airport during the first four months of this year, a 10.7% increase over the same period in 2017. Moreover, after a decade-long hiatus, carrier JetBlue is returning to the airport, and passenger traffic should continue its upward trajectory.²

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RESIDENTIAL REAL ESTATE

The Inland Empire is one of the last bastions of affordable real estate in Southern California, and the market continues to post significant gains. The median price of an existing single-family home increased to $352,800 in the first quarter of 2018, a 9.4% jump from one year earlier. Year-over-year price gains in the Inland Empire surpassed Los Angeles County (7.2%), Orange County (6.2%) and the state as a whole (8.0%). And even with the recent increases, prices have yet to hit their pre-recession levels. Moreover, while recent market behavior may induce flashbacks to the years preceding the Great Recession, the driving forces behind the current cycle are starkly different and display no signs of a bubble. Additionally, while affordability has declined, it is still high relative to the historic lows of past decades.

With a total of 14,510 transactions in the first quarter of 2018, sales of existing homes decreased by 2.2% on a seasonally adjusted basis compared to the prior year. Despite the decline in home sales, demand for housing in the Inland Empire remains strong compared to the lean supply conditions. In April 2018, the region had just 3.7 months of supply on the market. This is to say that at the current pace of sales it would take just 3.7 months to exhaust the inventory of available housing units. Inventories were tighter in Riverside County at 3.6 months, and slightly better in San Bernardino County at 3.9 months.

Affordability remains a strong selling point for real estate in the Inland Empire. The median home price is roughly 45% of the median in Orange County and about 52% of the median in Los Angeles County. This affordability advantage should continue to lure would-be buyers to the area. Additional housing stock will be critical in attracting new residents and helping to augment the Inland Empire’s growing employment base. However, many new homes are still not affordable for current residents. Indeed, the median price of a new single-family home was $444,900 in the first quarter of 2018, a 5.4% increase from one year earlier.

Because homeownership remains out of reach for many Inland Empire residents, they are staying in the rental market. Even with increases in multifamily construction in recent years, the rental vacancy rate has increased only slightly over the last year due to strong demand. The average vacancy rate was 3.2% in the first quarter of 2018, slightly higher than one year earlier because of roughly 1,000 units coming online over that period. Overall, occupied stock grew by 274 units from the first quarter of 2017 to the first quarter of 2018. At the same time, the average asking rent increased to $1,319 per month, up 3.0% from the first quarter of 2017.

Residential construction activity continues to increase in the Inland Empire. There were 3,020 residential units permitted in the first quarter of 2018, a 4.7% increase over the same quarter last year. The bulk of residential construction is being driven by single-family units, which increased by 17.5% to 2,541 units in the first quarter of 2018. Multi-family permitting activity declined to 479 units. Residential alterations remained fairly stable at $41.8 million in the first quarter of 2018, a 1.2% increase over the first quarter of 2017. Given that population growth in the Inland Empire (1.2%) outpaced the state (0.8%), Los Angeles County (0.5%), and Orange County (0.7%) from 2017 to 2018, construction activity must also maintain a steady pace in order to preserve the region’s affordability advantage and accommodate its growth.
COMMERCIAL REAL ESTATE

As the Inland Empire’s economic expansion continues, the local commercial real estate market is on the rise. New stock continues to come online, vacancy rates are falling, and rents remain affordable relative to Los Angeles and Orange Counties. These attributes make the region attractive to new and relocating businesses.

The Inland Empire’s growing prominence in the Logistics sector is driving demand for warehouse space. New stock, rather than declining demand, caused the vacancy rate to edge up 0.1 percentage points to 6.9% over the prior year in the first quarter of 2018. And the 6.5% gain in asking rents over last year reaffirms that demand is not waning. Occupied warehouse stock in the region grew by 5.1% from the first quarter of 2017 to the first quarter 2018, as tenants clambered for distribution center space. With nearly 20 million square feet of warehouse space currently under construction, vacancy rates could continue to inch upward.

Demand for research and development space has also escalated, with vacancy rates falling to 5.2% in the first quarter of 2018, a 1.0-percentage-point decline from one year earlier. The average asking rent for research and development space edged up to $8.41 per square foot in the first quarter of 2018, a 3.8% gain compared to the year before. Still, although average rent has jumped, it is still 33% lower compared to Los Angeles County.

Rising employment is driving higher demand for office space in the Inland Empire. Vacancy rates fell to 17.1% in the first quarter of 2018, down 0.5-percentage points from the first quarter of 2017. At the same time, the average asking rent for office space increased to $22.56 per square foot, up 17% from one year earlier. Businesses can enjoy significant cost savings in the Inland Empire relative to the coastal communities. Asking rents for office space in Los Angeles County are over 68% higher than in the Inland Empire, while in Orange County, they are 47% higher.

Continued growth in consumer spending is leading to higher demand for retail space. Retail vacancy rates hit their lowest point since before the recession, dropping to 9.1% in the first quarter of 2018, a 0.2-percentage-point decline over the same period one year earlier. Strong demand inflated the average asking rent for retail space to $22.80 per square foot in the first quarter of 2018, a 3.1% increase over the first quarter of 2017.

Steady demand is also responsible for higher permitting activity among nonresidential buildings. Permitting for new nonresidential structures in the first quarter of 2018 was 43.5% higher than during the same period in 2017 and 70.5% higher than during the same period in 2016, reaching $648.3 million in total value.

Most of the permitting was for industrial space, with valuations totaling over $278 million during the first quarter of 2018, substantially higher than the same period in 2017 and 2016. Permitting activity for office space in the Inland Empire also increased over the last year, with $55.4 million in permits issued in the first quarter of 2018, more than double the amount issued during the first quarter of 2017. While down from one year earlier, permitting activity for retail space remained solid, totaling $89.9 million in the first quarter of 2018. Moreover, local businesses invested in improvements during the first quarter of 2018. Nonresidential alterations totaled $160.4 million, a 23.4% increase over 2017 levels.