INLAND EMPIRE
REGIONAL INTELLIGENCE REPORT
Fourth Quarter 2018
2018 was another strong year for the Inland Empire. The region’s population continued to grow, local job gains outpaced the state’s and nation’s overall, and consumer spending rose. Moreover, while record low unemployment rates and slowing labor force growth has cut employment opportunities in many parts of the state, the Inland Empire has largely avoided these ills. In addition, while the Inland Empire’s residential and commercial real estate markets are more expensive than in many parts of the nation, they remain more affordable than in neighboring coastal communities in Southern California. This affordability advantage will be a buffer in the face of a widespread slowdown in home sales across the Southern California region. Still, the area faces potential headwinds. Despite greater affordability, homeownership is out of reach for many Inland Empire residents, pushing many of the region’s lower-earning households out of state.

**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 October 2017 to October 2018, the region added 39,000 nonfarm jobs, a 2.7% year-over-year increase. This pace outshines the state’s more moderate 1.8% gain and is a full percentage point higher than the nation’s 1.7% gain over the same period.

**INLAND EMPIRE EMPLOYMENT**

Jan-2005 to Oct-2018

Source: California Employment Development Department; Analysis by UCR Center for Economic Forecasting

![Graph showing employment trends from Jan 2005 to Oct 2018.](image-url)
Although growth has slowed in many parts of the state over the last year, the Inland Empire has largely been able to avoid this slowdown. The Inland Empire’s affordability advantage has helped the region sustain gains in its labor force, even as labor force growth has slowed considerably in the state overall. In year-to-date terms, from October 2017 to October 2018, the Inland Empire’s labor force expanded by 1.2%, growing by 23,500. Over the same period, the labor force in California expanded by just 0.5%, with 91,200 Californians joining the labor force on net. This means that the Inland Empire accounted for over 25% of the net increase in the state’s labor force during this period.

Wages in the Inland Empire are also increasing, although at a modest rate. Overall earnings in the region grew by 2.8% from the first half of 2017 to the first half of 2018, with wages in Riverside County increasing by 3.0% and wages in San Bernardino County increasing by 2.6%. Over the same period, wages in the state overall grew by a more sizable 4.5%. Continued 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 October 2018, the lowest rate on record for the region. The scarcity of workers coupled with inflation exceeding 2% should drive appreciable wage increases in 2019.

At the industry level, job growth has been broad-based, with most Inland Empire sectors expanding payrolls over the last year. The Government sector has provided the largest number of new jobs, with payrolls growing by 9,700 (+3.8%) positions from October 2017 to October 2018. Most of the new Government positions came from Local Government (+8,600), with Local Government Education (+7,200) driving much of the growth.

The Administrative Support sector was second, adding 7,800 (+7.8%) positions over the last year. This was followed by Leisure and Hospitality, which added 6,600 (+4.0%) jobs from October 2017 to October 2018. Most of these gains were from local restaurants, which should not come as a surprise given the Inland Empire’s steadily growing population and employment base.

The Transportation and Warehousing sector also continued to provide a significant number of new jobs, with payrolls growing by 4,500 (+3.6%) positions from October 2017 to October 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.¹

A few sectors in the Inland Empire shed positions over the last year, although the losses were not large. Management and Real Estates both shed 300 positions from October 2017 to October 2018. 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 first three quarters of 2017 to the first three quarters of 2018 (the most recent data available), taxable sales in the Inland Empire increased by 6.3%.

Riverside County’s overall taxable sales increased by 7.1% during this period, and within the County, the cities of Corona (+4.8%) and Riverside (+2.4%) showed considerable gains, while taxable sales grew modestly in the Moreno Valley (0.4%). In San Bernardino County, taxable sales increased by 5.5% during this period and within the County, the cities of Fontana (+2.2%) Rancho Cucamonga (+4.8%), and San Bernardino (+4.6%) led the way. With solid growth in taxable sales through the first three quarters of 2018, consumer and business spending in Riverside County (7.1%) and San Bernardino County (5.5%) has outpaced the state overall (4.5%) compared to the same period a year earlier.

As for taxable receipts, almost all spending categories in the Inland Empire grew in 2018. Fuel and Services Stations led the way with a 9.3% increase from the third quarter of 2017 to the third quarter of 2017. Rising fuel prices were primarily responsible for the gain, a trend that will probably be tempered by the recent sharp decrease in prices. Consumer spending in the Food and Drug category increased 9.0%, followed by Restaurants and Hotels where spending increased by 1.8% over this time period.

This has been a good year for Hospitality and Tourism. Following the gains in Leisure and Hospitality employment and Restaurant and Hotel spending, occupancy rates at local hotels reached 79.7% in the first 10 months of 2018, representing a 0.5-percentage-point gain over the same period in 2017. The average daily rate for local hotels grew to $124.07 during the first quarter of 2018, a 3.5% increase over 2017 levels. All told, revenue per available unit grew by 4.1% for local hotels. Passenger traffic at Ontario International Airport continues to expand. Last year showed the airport’s best passenger growth since 2010, and the 2018 outlook is even better. A total of 3.76 million passengers passed through the airport during the first nine months of 2018, a 13.1% increase over the same period in 2017.

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INLAND EMPIRE TAXABLE RECEIPTS
Source: Hdl Companies; Analysis by UCR Center for Economic Forecasting
The uptick in construction activity throughout the Inland Empire and other parts of Southern California boosted sales tax receipts in the Building and Construction category by 7.5% from the third quarter of 2017 to the third quarter of 2018. The increase indicates that developers are using local suppliers for projects and, more important, are building desperately needed housing stock, which will be critical for continued economic vitality in the region.

Business to business spending has also grown over the last year in the Inland Empire, with Business and Industry sales tax receipts increasing by 3.6% from the third quarter of 2017 to the third quarter of 2018.

RESIDENTIAL REAL ESTATE

The Inland Empire is one of the last bastions of affordable real estate in Southern California, but like the rest of the region, the market continues to post significant gains. The median price of an existing single-family home increased to $355,900 in the third quarter of 2018, a 7.0% increase from one year earlier. Year-over-year price gains in the Inland Empire surpassed Los Angeles County (5.6%), Orange County (4.2%) and the state as a whole (5.9%). And even with the recent increases, prices have yet to hit their pre-recession levels. Additionally, although affordability has declined, it is still high relative to the historic lows of past decades.

With a total of 13,640 transactions in the third quarter of 2018, sales of existing homes decreased by 7.5% on a seasonally adjusted basis from the prior year. Affordability remains a strong selling point for real estate in the Inland Empire. The median home price is roughly 54% of the median in Orange County and about 48% of the median in Los Angeles County. This affordability advantage should continue to lure would-be buyers to the area, although higher interest rates have reduced affordability and may be reducing the pool of qualified buyers. Still, the need for housing is great, and additional housing stock will be critical in attracting new resi-
dents and helping to strengthen the Inland Empire’s growing employment base. There were sales of roughly 2,230 new homes during the third quarter of 2018, and the median price of a new single-family home was just over $450,000 in the third quarter of 2018, out of reach for many households in the Inland Empire from coastal communities in search of the Inland Empire’s strong balance between amenities, affordability, and access to employment opportunities.

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 because of strong demand. The average vacancy rate was 3.2% in the third quarter of 2018, slightly higher than one year earlier because of roughly 560 units coming online during that period. At the same time, the average asking rent increased to $1,349 per month, up 3.5% from the third quarter of 2017.

Residential construction activity continues to increase in the Inland Empire. There were 10,957 residential units permitted through the first three quarters of 2018, a 6.5% increase over the same period last year. The bulk of residential construction is being driven by single-family units, which increased by 6.6% to 8,298 units through the first three quarters of 2018. Multi-family permitting activity was also strong at 2,847, a 15.4% increase over the same period last year. 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 and accommodate its growth.

COMMERICAL 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 a prime location from businesses to start-up, expand, or relocate.

The Inland Empire’s growing prominence in the Logistics sector is driving demand for warehouse and distribution space. New stock, rather than declining demand, caused the vacancy rate to edge up 1.7 percentage points to 8.4% over the prior year in the third quarter of 2018. And the 4.5% gain in asking rents over last year reaffirms that demand for warehouse and logistics space remains strong. Occupied warehouse stock in the region grew by 3.8% from the third quarter of 2017 to the third quarter 2018, as tenants clambered for warehouse and distribution center space.

Demand for research and development space has also risen, with vacancies falling to 5.1% in the third quarter of 2018, a 0.5-percentage-point decline from one year earlier. The average asking rent for research and development space edged up to $8.53 per square foot in the third quarter of 2018, a 3.1% gain compared to the year before. Still, although average rent has jumped, research and development space in the Inland Empire goes for roughly two-thirds the price in Los Angeles County.
Rising employment is driving demand for office space in the Inland Empire. Vacancy rates fell to 16.8% in the third quarter of 2018, down 0.5-percentage points from the third quarter of 2017. At the same time, the average asking rent for office space increased to $22.79 per square foot, up 2.1% from one year earlier. Businesses can gain significant cost savings in the Inland Empire relative to the pricier coastal communities. In the third quarter of 2018, asking rents for office space in Los Angeles County are more than 68% higher than in the Inland Empire; while in Orange County, they are 48% higher.

Continued growth in consumer spending is leading to higher demand for retail space. Retail vacancy rates remained at their lowest point since before the recession, holding steady at 9.4% in the third quarter of 2018. This decrease occurred as more than 300,000 square feet of new retail space came online over the last year. Strong demand drove the average asking rent for retail space to $22.96 per square foot in the third quarter of 2018, a 1.7% increase over the third quarter of 2017.

Steady demand is also responsible for higher permitting activity among nonresidential buildings. Permitting for new nonresidential structures in the first three quarters of 2018 was 14.6% higher than during the same period in 2017 and 46.2% higher than during the same period in 2016, reaching nearly $2.0 billion in total value. Most of the permitting was for industrial space, with valuations totaling more than $795 million during the first three quarters 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 $94.2 million in permits issued in the first three quarters of 2018, roughly 54% higher than permits issued during the first three quarters of 2017. Although it is down from one year earlier, permitting activity for retail space remained solid, totaling $360 million in the first three quarters of 2018.