Inland Southern California continues to outpace the state and nation in job growth.

More housing is needed to sustain the inland region’s economic expansion.
When the year’s final data are analyzed, 2015 will be seen as another strong year for employment growth in Inland Southern California. The region’s seasonally adjusted nonfarm employment increased to 1,351,100 in December 2015, a 3.6% (46,800 jobs) increase over December 2014. In comparison, nonfarm employment in the state overall grew by 2.9% over the same period, putting Inland Southern California well ahead of the statewide average. This is not a recent trend, as growth in the region has surpassed statewide growth over the last five years.

In addition, Inland Southern California’s unemployment rate fell to 6.2% in December 2015, compared to 7.3% in December 2014. This decrease coincided with a 1.3% increase in the labor force over the last year. This indicates that the driving force behind the decline in the unemployment rate has been an increase in household employment, which grew by 2.5% over the last year. At an industry level, employment growth continues to be broad-based, with the majority of the region’s sectors expanding their payrolls over the last year. The Leisure & Hospitality sector in particular is expanding at a robust pace. Leisure & Hospitality establishments provided the most new jobs (+6,700) over the last year among all major sectors. An increase in business and leisure travel and an uptick in the number of households opting for a night on the town have motivated growth in the sector over the last year.

The Construction sector also experienced significant growth over the last year, growing by 11.9% and leading growth in percentage terms in the region across all major sectors. Nonetheless, the region has a long way to go to make up for all of the jobs the sector lost during the downturn, with employment levels still 35.5% below their pre-recession peak. The Logistics industry is also continuing to expand in the region. The Wholesale Trade sector (5.5%) and Transportation, Warehousing, and Utilities sector (3.0%) posted solid gains over the year. Amazon is one of the region’s key players in this industry. In November, it opened a new fulfillment center in Rialto; there are also centers in San Bernardino, Moreno Valley, and Redlands.

The Natural Resources & Mining sector and the Information sector were the only sectors in Inland Southern California that decreased payrolls over the last year. However, these sectors account for only a small share of the region’s jobs, and this decrease in payrolls accounts for a net loss of only 200 jobs for Inland Southern California overall, despite declining by 8.2% and 0.9%, respectively, in the last year.

Overall, the Center for Economic Forecasting and Development is optimistic about the trajectory of the labor markets in Inland Southern California. The region offers plentiful opportunities for new residents and businesses. Office, Retail, and Industrial rents make the region an attractive place for new and relocating businesses. In addition, home prices remain affordable relative to prices in coastal communities, making Inland Southern California an attractive place for new residents.
Taxable sales growth in Inland Southern California has continued expanding at a faster rate than in neighboring counties in Southern California, growing 5.3% from the third quarter of 2014 to the third quarter of 2015 and 44.3% from the third quarter of 2010 to the third quarter of 2015. In California, by comparison, taxable sales increased 3.9% year over year and 34.8% over the last five years. Spending in the Inland Southern California shows positive growth year to year and as a three-year change across all categories except Fuel & Service Stations, as low gasoline prices push down revenues in that category.

As the economy continues to expand, spending in the Autos & Transportation (up 12.0% year over year) and Restaurants & Hotels (up 7.4% year over year) sectors has been growing substantially because local employment and wages are rising. As the unemployment rate falls, the increase in disposable income allows people to spend more on nonessentials than they could during tougher economic times.

Gasoline prices continued their downward trend during the third quarter and into late 2015, when the average price of a gallon of self-serve gasoline in the Inland Southern California was at its lowest level since the start of the recession in 2008. The decline in gas prices during this period helps to explain the 12.0% increase in taxable receipts from Autos & Transportation and the contraction in Fuel & Service Stations from the third quarter of 2014 to the third quarter of 2015. These changes suggest a substitution effect: As the cost of the gasoline falls, consumers respond by buying cars because the overall cost of operating an automobile declines as gasoline prices decrease. Also, forward-looking consumers likely anticipated the end of the Federal Reserve monetary policy enacted after the Great Recession, which left U.S. interest rates near zero since the end of 2008 and gave potential buyers an incentive to lock in low rates to finance purchases. As expected, the Fed announced a modest interest rate hike, the first in almost a decade, on December 16. Cost-conscious consumers may see it as the harbinger of increases to come.

The Restaurants & Hotels sector was the second-fastest-growing from the third quarter of 2014 to the third quarter of 2015 (+7.4%), an increase motivated by the growth in tourism in Inland Southern California. One popular event is the electronic dance musical festival Nocturnal Wonderland, held early each September in San Bernardino. Last year marked the 20th anniversary for the longest-running electronic dance music festival in North America. For the first time, Nocturnal Wonderland was expanded to three days, September 4-6. Festivals like this provide myriad economic benefits for the region, including spending on transportation, hotels, and restaurants.

Tourism in the Inland Southern California will probably continue to expand. One of the largest employers in the area, Pechanga Resort and Casino, broke ground in December on a $285-million resort expansion; completion is expected in 24 months. Pechanga is already the largest resort/casino in California; the expansion will double the size of its resort offerings and add more than 3,500 jobs. The Center for Economic Forecasting and Development estimates that the expansion will result in an economic output of more than $550 million while generating 2,944 jobs during construction.

Given current economic trends, spending categories exhibiting positive growth in Inland Southern California are expected to increase. The outlook for Fuel & Service Stations spending is less clear because external forces such as supply and demand of energy and prices of oil are outside the Inland Southern California’s control.
Although price appreciation has cooled over the last year, the residential real estate market in Inland Southern California has continued in the right direction. Fueling gains has been the relative affordability of its real estate market. Inland Southern California is one of the most affordable locations in Southern California, as the average home in the region costs about 40% less than a home in Los Angeles County and roughly 50% less than the average home in Orange County.

The median price for an existing single-family home in Inland Southern California increased to $289,971 in the third quarter of 2015, an 8.3% increase from the same quarter a year ago. This puts the region’s home price appreciation at more than twice the pace across the state. 3.9% over the period. Sales of existing homes also grew in that time, with 14,508 homes sold in the third quarter of 2015, 14.1% more than in the third quarter of 2014.

Home inventories in the region continue to fall short of demand, despite healthy permitting levels in recent years. This is in part a result of the unfriendly regulatory environment developers face in the region, where difficulties also include NIMBYism, local zoning boards, and “show-me-the-water” compliance requirements that developers must overcome before breaking ground on new ventures. There was a 5.7-month supply of available homes in Inland Southern California in November 2015, essentially the same as a year ago.

A contributing factor for the lull in inventories has been a significant reduction of distressed properties on the market over the past two years. The number of defaults and foreclosures in the region has fallen to pre-recession levels. If foreclosed properties are removed from the equation and the focus is only on traditional sales, the sales picture becomes much brighter, highlighting the uptick in demand for traditional properties.

The demand for rental properties in Inland Southern California continues to be strong and remains one of the hottest in the United States. The Inland Southern California’s rate of rent growth was 4.0% year over year in the third quarter of 2015, outpacing Orange County (3.3%) and but trailing Los Angeles County (4.4%). In addition, vacancy rates remain low in Inland Southern California. In the third quarter of 2015, only 2.6% of all rental units were vacant, which is 0.4 percentage points below the third quarter of 2014. Moreover, the absorption of new units that came online in recent quarters demonstrates the strong demand for rental properties in the region.

Permitting activity is also continuing at a steady pace for both single-family and multi-family residences. In the third quarter of 2015, single-family permitting in the region totaled 1,898 units, an 11.6% increase over the third quarter of 2014. Permitting for multi-family residences is still fluctuating, but despite this bumpiness, permitting activity was up 6.0% during the first three quarters of 2015 relative to the first three quarter of 2014.

Our outlook for the residential real estate market in Inland Southern California remains positive. The relative affordability makes the region an attractive place for new residents and the availability of land makes it a desirable place for future development.
The commercial real estate market is growing in a pattern consistent with employment growth in the region. Vacancy rates are declining, new stock is coming on line, and rents, although they are rising, remain affordable relative to rents in the coastal communities, making the region attractive to new and relocating businesses.

The Industrial market continues to be the shining star of commercial real estate in Inland Southern California. The driving force behind much of this growth has been the Logistics sector. As mentioned above, Amazon has been helping fuel some of the growth, opening multiple fulfillment centers in the region. Vacancy rates at warehouse/distribution properties declined to 10.5% in the third quarter of 2015, a 0.4 percentage point decline from the third quarter of 2014. More important, this decline in the vacancy rate coincided with the addition of more than 6,000,000 square feet of new stock.

Growth in the industrial market has not been limited to warehousing. Following gains in manufacturing sector employment over the last year, the flex and R&D market has also grown significantly. Vacancy rates dipped to 10.7% at flex/R&D properties in the third quarter of 2015, a 1.3 percentage point decline from a year ago. The uptick in demand has also driven rents up, with the cost of rent at flex/R&D properties increasing by 2.0% over the last year.

The office market in Inland Southern California is also continuing to steadily improve. Although vacancy rates remain high at 23.3%, they have declined 0.3 percentage points over the last year. This decline has coincided with the addition of 58,000 square feet of office space during the last year. With new properties coming on line and an increase in demand, the cost of rent at office properties has also increased, growing by 1.3% from the third quarter of 2014 to the third quarter of 2015.

The retail market in Inland Southern California has continued to grow at healthy pace, driven by new retail space coming on line and new tenants moving into once-vacant units. Vacancy rates for retail space in the region fell to 9.3% in the third quarter of 2015, a 0.7 percentage point decline from a year earlier. The decrease coincided with the addition of more than 81,000 square feet of retail space in the region. With increased demand and new retail space coming on line, the cost of rent increased 2.3% from the third quarter of 2014 to the third quarter of 2015. This uptick in demand was not surprising given the population growth and relative affordability of retail space. Moreover, with several new projects already in the works the retail market is poised for additional gains in the coming years. Some of the major ventures include, Redlands Crossing, which will be anchored by a Walmart Supercenter and the expansion of the Promenade Mall in Temecula.

Industrial permitting is continuing to drive much of the region’s non-residential construction activity. For the first three quarters of 2015, non-residential permitting in Inland Southern California grew by 0.9%, with industrial permitting increasing by 31.5%. Although the total value of permits was much lower for office properties than for industrial properties, permitting for office properties grew 93.1% during the first three quarters of 2015 over the first three quarters of 2014.

The outlook for the commercial real estate markets in Inland Southern California remains positive. Lower rents and available land relative to coastal communities make Inland Southern California an attractive place for firms to establish business and should continue to do so in the coming years.