The Inland Empire’s strong economic expansion during 2016 carried into the new year, with nonfarm employment increasing 3.2% from January 2016 to January 2017, outpacing statewide gains. Payroll increases have been accompanied by rising incomes, with the average annual wage up 1.6% from the second quarter of 2015 to the second quarter of 2016, reaching $43,000.

The Leisure and Hospitality sector provided the most new jobs in the Inland Empire over the last year, adding 8,900 from January 2016 to January 2017. With several major projects in the works, including Pechanga’s $285 million expansion slated to finish this year, gains in hospitality jobs are expected to continue in the coming year. Entertainment venues and restaurants are also in the works, including Punchbowl Social at Victoria Gardens, which is slated to open in April, and the Mess Hall on Market in Riverside, which received approval late last year. These businesses and others will thrive as incomes rise and as business and leisure travel to the region continues to expand. Although these trends can be seen across the state, they are more pronounced in the Inland Empire, with year-over-year growth outpacing the state’s overall.

The Health Care sector followed Leisure and Hospitality in providing a substantial amount of new jobs over the past year, with payrolls increasing by 8,000 from January 2016 to January 2017. The Logistics sector is also continuing to expand its Inland Empire footprint, with payrolls increasing by 7,600 over the period. The Construction sector increased payrolls by 6,400 from January 2016 to January 2017, a 7.1% gain. With another solid year of permitting activity in the region, this sector should see continued gains as developers tap into strong demand for real estate.

Growth in the Inland Empire was not limited to the private sector; Government also boosted payrolls significantly. From January 2016 to January 2017, the Government sector added 8,800 jobs, a 3.7% increase. The driving force was Local Governments, mainly Education, which contributed 7,600 jobs. With incomes and consumer spending rising, Government balance sheets are continuing to improve, enabling agencies to provide communities with increased service.

According to the California Employment Development Department’s just-released annual benchmark revision, nonfarm job growth in the Inland Empire last year was greater than previously estimated (from 2.8% to 3.5%) with total annual nonfarm jobs up from the previous estimate of 1.386 million to a final count of 1.401 million.

Household employment increased 1.9% to 1.854 million in January 2017. The region’s unemployment rate also declined to 5.5% in January, a 0.3-percentage-point decline from January 2016. The unemployment rate would have fallen further if so many residents hadn’t been seeking work; the region’s labor force expanded an impressive 15% over the last year. With employment opportunities increasing, the region’s unemployment rate should remain low over the next year. And with payroll employment outpacing household employment growth, many of these new jobs should continue to be located in the Inland Empire.

At the industry level, job growth remains broad-based, with most Inland Empire sectors expanding payrolls over the last year. This has resulted in employment opportunities across the wage and skill spectrum, in high-skill sectors like Health Care and low-skill sectors including Leisure and Hospitality.
Rising incomes and job counts have also paved the way for increases in local spending. Taxable sales in the Inland Empire expanded 3.3% from the third quarter of 2015 to the third quarter of 2016, outpacing the 2.1% growth in the state over the period. At the county level, spending grew faster in Riverside County (5.4%) than in San Bernardino County (1.3%). At the city level, growth was widespread, with sales tax revenue rising in Riverside (+4.2%), San Bernardino (+3.3%), Fontana (+11%) and Corona (+3.7%).

Consumer spending on Autos and Transportation expanded 6.4% from the third quarter of 2015 to the third quarter of 2016, outpacing statewide gains. Improved consumer sentiment and rising incomes in the region have helped spur increases in spending for household and consumer items. Indeed, the only major consumer sector to suffer a drop in spending levels over the last year was Fuel and Service Stations, a decline that was driven largely by falling fuel prices rather than slack in consumer demand.

In contrast to consumer spending, business spending in the Inland Empire has been a mixed bag in 2016. Following the gains in Construction sector payrolls, taxable receipts for Building and Construction goods grew 2.9% year over year. On the other hand, there was a drop in business-to-business spending, which fell 0.6% year over year. Still, despite the modest pullback, business-to-business spending is up 20.7% over the last three years, and businesses are continuing to pump significant resources into the Inland Empire economy, which will help continue to drive growth.

According to taxable receipts from HdL Companies, most spending categories in the Inland Empire increased in 2016. The category posting the largest gains was Restaurants and Hotels, with taxable receipts rising 7.9% from the third quarter of 2015 to the third quarter of 2016. This follows the trends in Leisure and Hospitality employment and at local hotels. Occupancy rates in the Inland Empire increased to 78.8% during the first 11 months of 2016, a 0.8-percentage-point increase from a year earlier. The increase in occupancy rates coupled with rising room rates in the region fueled a 7.4% increase in revenue per available room for local hotels. 2016 also marked a solid year for Ontario Airport, particularly in the second half, with passenger traffic growing 0.9% from 2015 to 2016. As mentioned earlier, with Pechanga’s $285 million expansion slated to finish this year, gains in hospitality jobs are expected to continue in the Inland Empire.
Although the latest data indicate that home price appreciation has cooled from recent years, the residential real estate market in the Inland Empire advanced at a steady pace in 2016. The median price of an existing single-family home increased to $312,000 in the fourth quarter, a 7.3% increase over the same quarter a year earlier and ahead of the state’s 5.8% increase over the same period. Sales of existing homes also increased during that time, with 14,810 homes sold in the fourth quarter of 2016 on a seasonally adjusted basis, 9.9% more than in the fourth quarter of 2015.

Fueling much of the demand is the region’s clear affordability advantage over neighboring areas. The average home in the Inland Empire costs about 44% as much as the average home in Orange County and roughly half as much as the average home in Los Angeles County.

Low levels of construction in recent years, along with limited numbers of existing homes for sale, have continued to keep inventory low. There were just 3.6 months of supply in December 2016, highlighting strong demand and limited inventory. Additional housing stock will be necessary to continue to attract residents to the region and to help accommodate the Inland Empire’s growing employment base.

The Inland Empire’s rental market remains solid. In the fourth quarter of 2016, only 2.4% of rental units were vacant. More important, vacancy rates were lower than in Los Angeles County (3.3%) and Orange County (3.2%). At the same time, the cost of rent in the Inland Empire grew 5.0%, matching rent growth in Los Angeles County (+5.0%) and outpacing Orange County (+2.4%). Tight supply for rental units in the region along with rapidly rising rents highlight the need for additional multifamily housing in the region.

Strong demand for single-family real estate has fueled permitting activity, though not enough to meet the demand. During 2016, single-family permitting in the Inland Empire totaled nearly 8,000 units, a 10.8% increase over 2015. Permitting for multi-family residences fell to 1,711 units in 2016, a 27.5% decline relative to 2015. Overall, permitting activity in 2016 was in line with 2015 levels. The sustained levels of permitting activity in the region resulted in a solid year for the Construction sector, although considerably more building will be necessary to help alleviate the region’s need for additional housing.
Like much of the rest of the Inland Empire economy, the local commercial real estate market is growing at a solid pace. New stock continues to come online, occupied stock is increasing, and rents remain affordable relative to Los Angeles and Orange Counties, making the region attractive to new and relocating businesses.

With increasing demand for warehouse/distribution properties, the Logistics sector has fueled much of the growth in non-residential real estate. From the fourth quarter of 2015 to the fourth quarter of 2016, more than 6.6 million square feet of new warehouse/distribution space came online. At the same time, vacancy rates at warehouse/distribution properties declined by 0.1 percentage point as occupied stock increased 2.1% over the period. In line with this growth, Stirling Development recently began building a 370,000-plus-square-foot facility at the Southern California Logistics Airport in Victorville. Construction is expected to end this summer and should help to further boost the facility’s status as a logistics hub for the Southern California economy.

As wages have risen and employment opportunities have increased, the resulting jump in disposable income has allowed residents and visitors to spend more. This has fueled growth in the Retail market over the last year. With new retail space coming online over the past year, occupied stock grew by over 200,000 square feet. Even so, rents rose 2.5% from the fourth quarter of 2015 to the fourth quarter of 2016.

The office market in the Inland Empire also continues to improve despite elevated vacancy rates. Office vacancy rates dipped to 21.1% in the fourth quarter of 2016, a 1.9-percentage-point decline from the previous year. And although no new stock came online in the last year, the uptick in occupied stock highlights gains in office-using employment in the region.

Although nonresidential permitting activity has pulled back from a year ago, continued demand for industrial and commercial property in the region, like that at the Southern California Logistics Airport in Victorville, has continued to fuel construction activity. Nonresidential permitting activity during 2016 was 6.3% below 2015 levels, but it was up from 2013 levels by more than 20%, highlighting the continued investment developers are pumping into the region.

Our outlook for commercial space in the Inland Empire remains positive. Lower rents and more available land than in Los Angeles and Orange Counties, along with proximity to a skilled and dynamic workforce, make it an attractive place for firms to locate. Another draw for the Inland Empire is continued population growth. Although many communities in California have experienced modest population growth amid negative net migration, the Inland Empire is continuing to draw both domestic and international migrants. The region attracted over 18,800 net new residents from both international and domestic migration from 2015 to 2016.

Growth in the industrial market has not been limited to warehouse/distribution properties. In part because of recent growth in the Manufacturing sector, the Flex and R&D submarket has continued to grow in the Inland Empire. Vacancy rates fell to 9.7% at Flex/R&D properties in the fourth quarter of 2016, a 0.7-percentage-point decline from a year earlier. Rents in the region grew 2.5% at Flex/R&D properties over the last year.

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