The Trade, Transportation, & Utilities sector has been a red-hot driver of growth in the Inland Empire, and the Employment Development Department’s June data release reveals that it is still on the rise. The Inland Empire continues to outpace the state in overall nonfarm jobs growth (3.3%), as it has since April 2012. With the exception of Financial Activities (-0.46% YOY) and Mining (-14.5% YOY), all other super sectors attained varying levels of growth. However, with year-over-year job creation in the Trade, Transportation & Utilities sector accounting for one in five new jobs, the super-sector made an outsized contribution.

Logistics Sector Continues To Be Primary Driver

Increasing shifts in retail toward e-commerce are driving growth in the Logistics sector across the nation, as retail giants Amazon, QVC, and Nordstrom expand supply networks and distribution centers in the Inland Empire. Weak employment gains in the Retail sector locally (+0.9% YOY) reflect that shifting landscape. Online and other non-store sales increased by 13.9% in June, year-over-year, according to the National Retail Federation. This is occurring even as the Los Angeles and Long Beach seaports experienced depressed shipment volumes last year, in the midst of labor disputes along the West Coast. Uncertainty in labor conditions and delays, in addition to the recent expansion of the Panama Canal, caused a shift in growth towards ports on the East Coast, according to a recent CBRE report. It is likely that the expansion of the canal, which now accommodates ships carrying 2.8 times the volumes they did before, will redirect some discretionary cargo to ports on the East Coast. This is only part of a longer-term trend as East Coast ports have been increasing overall shares of maritime shipments over the last decade.

However, shipments so far are faring better as of June, with a 2.8% increase in TEUs (twenty foot equivalent units) reported at the Port of Long Beach and the Port of Los Angeles year-to-date compared to one year prior. In recent news, the Ports of Long Beach and Los Angeles are re-examining the case for building a short-haul rail line directly between the ports and the Inland Empire. If approved, this would cut out long wait times at the increasingly congested ports and on the CA-91 Eastbound (named the worst commute in America in 2013), accelerating the movement of goods towards the area.

Meanwhile, recent permitting data released by the Construction Industry Research Board shows that the value of industrial projects in the pipeline, which have increased by 6.5% year-to-date, is still historically high as of the second quarter of 2016. This is in contrast to a 21.3% drop in industrial permit values statewide as the post-recession recovery winds down. Robust demand for warehousing in the Inland Empire has continued to push vacancy rates downward to a current 10.2% compared to the national average of 1.6%, according to the CBRE.

Increasing shifts in retail toward e-commerce are driving growth in the Logistics sector across the nation, as retail giants Amazon, QVC, and Nordstrom expand supply networks and distribution centers in the Inland Empire. Weak employment gains in the Retail sector locally (+0.9% YOY) reflect that shifting landscape. Online and other non-store sales increased by 13.9% in June, year-over-year, according to the National Retail Federation. This is occurring even as the Los Angeles and Long Beach seaports experienced depressed shipment volumes last year, in the midst of labor disputes along the West Coast. Uncertainty in labor conditions and delays, in addition to the recent expansion of the Panama Canal, caused a shift in growth towards ports on the East Coast, according to a recent CBRE report. It is likely that the expansion of the canal, which now accommodates ships carrying 2.8 times the volumes they did before, will redirect some discretionary cargo to ports on the East Coast. This is only part of a longer-term trend as East Coast ports have been increasing overall shares of maritime shipments over the last decade.

However, shipments so far are faring better as of June, with a 2.8% increase in TEUs (twenty foot equivalent units) reported at the Port of Long Beach and the Port of Los Angeles year-to-date compared to one year prior. In recent news, the Ports of Long Beach and Los Angeles are re-examining the case for building a short-haul rail line directly between the ports and the Inland Empire. If approved, this would cut out long wait times at the increasingly congested ports and on the CA-91 Eastbound (named the worst commute in America in 2013), accelerating the movement of goods towards the area. Meanwhile, recent permitting data released by the Construction Industry Research Board shows that the value of industrial projects in the pipeline, which have increased by 6.5% year-to-date, is still historically high as of the second quarter of 2016. This is in contrast to a 21.3% drop in industrial permit values statewide as the post-recession recovery winds down. Robust demand for warehousing in the Inland Empire has continued to push vacancy rates downward to a current 10.2% from 10.7% in the second quarter of 2015, and rents up 2.9% year-over-year to $4.65 per square foot, as of the second quarter of 2016. Rental rates in the Inland Empire are far behind the average rates in Los Angeles ($6.70 per square foot) and Orange County ($6.49 per square foot), which will support growth in the near term as the region maintains its relative affordability advantage over its coastal neighbors.

---

Looking ahead, Beacon Economics is confident that the logistics sector in the Inland Empire will remain on a course of strong growth. It is geographically well positioned for continued predominance as a logistical center, and comparatively low costs of labor and capital will continue to confer an edge over other parts of inland California.

Consumption Remains Strong; Tourism Economy Lagging

Strong employment and income growth in the Inland Empire continues to drive higher levels of consumption and business activity. At 4.6% taxable sales growth between the first quarter of 2015 and the first quarter of 2016, the Inland Empire is growing at 1.4 times the rate of the state (3.2%).

While California’s tourism economy is embarking on its sixth year of consecutive growth, regional gains in direct travel expenditures have been far from equally distributed. The state realized gains of 19.8% in annual direct travel expenditures between 2008 and 2015, according to a VisitCalifornia report. In contrast, annual direct travel expenditures in the Inland Empire only expanded by 11.5% during the same period – compared to a 21% gain in San Diego. In recent years, local officials have blamed a lack of local control over the Ontario International Airport for low passenger volumes and for stunting the Inland Empire’s growth as a travel destination and gateway city.

Warehouse & Distribution Rents & Vacancies

It is likely that these gains stem from the expansion of the Logistics sector, as transportation and warehousing expenditures fall under that category. Building and Construction was another spending category that experienced fast growth, with taxable sales in the first quarter of 2016 7.4% higher than those recorded one year prior.

Consumption in the Inland Empire is growing at a faster pace than it is in the state among all categories except Fuel and Service Stations and Restaurants and Hotels. In the Restaurants and Hotels category, California, at 5.6% annual growth, is outpacing the Inland Empire by a mere 0.1-percentage-point. This comes alongside lackluster employment growth in the Inland Empire’s Leisure and Hospitality sector, which experienced year-over-year gains of 1.6%.

Table: Taxable Receipts

<table>
<thead>
<tr>
<th>Category</th>
<th>Taxable Receipts (S000's), Q1 ‘16</th>
<th>Q1 ‘16 vs Q1 ‘15</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Industry</td>
<td>31877</td>
<td>21.3</td>
<td>34.8</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>15807</td>
<td>7.4</td>
<td>26.5</td>
</tr>
<tr>
<td>Autos and Transportation</td>
<td>30176</td>
<td>6.7</td>
<td>36.6</td>
</tr>
<tr>
<td>Restaurants and Hotels</td>
<td>18063</td>
<td>5.5</td>
<td>26.7</td>
</tr>
<tr>
<td>General Consumer Goods</td>
<td>37951</td>
<td>4.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Food and Drugs</td>
<td>8262</td>
<td>3.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Fuel and Service Stations</td>
<td>15160</td>
<td>-1.3</td>
<td>-26.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>177659</strong></td>
<td><strong>6.8</strong></td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

Source: Hdl Companies

This growth is being driven in large part by business-to-business spending, with taxable sales in the Business and Industry category accounting for 49.8% of year-over-year gains as of the first quarter of 2016.

http://industry.visitcalifornia.com/media/uploads/files/edi
1.>
1.0tor/CAmp15rev1.pdf

7https://www.gopetition.com/petitions/set-ontario-free.html
The recent transfer of control over the airport to a local authority may be a boon to the Inland Empire’s tourism economy. The passage of the FAA Authorization bill includes legislation that grants the Ontario International Airport special privileges to transfer passenger facility charges to the Los Angeles World Airports Authority (LAWA) over the next ten years – a crucial aspect of the inter-city agreement. This concludes an effort that began in 2012 to regionalize control of the airport in the midst of accusations that declines in airport traffic were caused by the LAWA’s neglect and excessively high ramp fees, resulting in traffic flowing towards the LAX.  

As of 2015, annual passenger volumes at Ontario International were 4.2 million – just 58% of the peak volumes recorded in 2007. According to the Southern California Association of Governments’ projections, the airport could see between 11 million and 19 million passengers annually by 2035. However, the challenges faced by the untried authority should not be underestimated, and it is yet to be seen how smooth the transition will be, and how strong of an impact the change will have on local tourism. In the immediate term, however, statistics as of May 2016 reflect increasing average daily rates and occupancy rates in regional hotels, standing at $92.51 and 71.5%, respectively.

Despite Climbing Home Values, Inland Empire Most Affordable SoCal Region

The Inland Empire has experienced rapid growth so far this decade. The region’s population swelled by an additional 909,600 people between 2010 and 2016 according to the California Department of Labor’s estimates, corresponding to a population growth rate of 7.7%.

In marked contrast, residential permitting activity in the region has been well below that number despite rapid gains last year, with building permits for about 48,000 new units granted in the most recent six-year period. Inventories of homes for sale in both Riverside and San Bernardino Counties remained low at 3.6 and 3.9 months supply (based on current rate of sales), respectively, in June, representing a small decline from the same time last year.

According to the Press Enterprise, this has resulted in the Inland Empire having the most people per rental unit, the highest share of single-family homes rented, and the second-highest level of financially stressed renters out of the 40 largest metro areas in the United States. Local governments in less affordable parts of the Inland Empire have responded in recent years with affordable development initiatives, such as the Villa Borba Community in Chino Hills, and the Valencia Grove Housing Project in Redlands. The City of Corona is likewise spearheading a project that will add 85 units to the City’s existing base of 1,308 affordable housing units.
However, the Inland Empire remains the most affordable region for homeownership in Southern California by a wide berth, with 57% and 42% percent of residents able to afford the median priced home in San Bernardino and Riverside Counties, respectively. When compared with the 30% and 22% of residents who are able to afford the median priced home in Los Angeles and Orange County, respectively, the Inland Empire presents a dramatic affordability advantage.

While rental rates grew by 3.2% year-over-year as of the second quarter of 2016 in the Inland Empire, vacancy rates have hovered at 2.8% for the past three quarters – coinciding with a recent slowdown in the pace of multifamily permitting, which is down 23.4% in the first half of 2016 compared to one year prior. At the same time, single family permitting is up 9.1% year-to-date. This signals a real estate market that is beginning to transition back to single-family housing growth, indicating that new families and first time homeowners are gaining confidence in committing to homes of their own. This is also a response to high home prices in more expensive adjacent areas such as Los Angeles and Orange Counties.

Both existing and new single-family home sales are up in the Inland Empire, with the strongest increase in new home sales (+18.6% year-over-year) as of the second quarter of 2016. This robust demand has resulted in rapid price appreciation; the median price of a new home increased by 4.8% between the second quarter of 2015 and the second quarter of 2016 and currently stands at $411,672. While existing home sales have not experienced as dramatic an increase in sales at 2.8% year-to-date growth, home values have jumped by 7.3% since the second quarter of 2015 – indicating that demand is well distributed regionally and not just centered around hotbeds of new development.

Meanwhile, despite slow, but steady year-over-year employment gains in the Retail Trade (+1.0%) and Professional & Business Services (+0.7%) sectors (as of June 2016), planned commercial construction is up in the Inland Empire so far this year. The value of planned commercial construction has increased by 19.6%, compared to the first half of 2015.

While still relatively high, office vacancy rates have been trending lower since peaking in late 2009, and currently stand at 22%, a 1.9 percentage point decrease from the second quarter of 2015. Office and retail properties have both seen gains in rental rates over the last year, with 1.2% and 2.5% year-over-year increases, respectively. While growth in Retail Trade employment has been slow, retail rental rates are being fueled by persistent growth in taxable sales. Permitting data released by CIRB reflects that there is more retail construction in the pipeline, with concentrated spending planned in the cities of Palm Springs, Corona, and Riverside.

This trend is corroborated by recent industry news, with experts in commercial real estate identifying San Bernardino County as an area for strong potential growth. As comparatively low housing costs attract increasing numbers of both millennials and retirees, the County has seen a greater number of large mixed-use developments. Developers anticipate stronger demand for experiential retail and restaurants, in addition to the fundamentals.

All in all, while the Inland Empire's growth has been catalyzed by the Logistics sector and low property values, the expansion is expected to continue spreading across other local sectors. The region's outlook is quite positive, and for good reason: Virtually all major economic indicators are trending in the right direction, and there is nothing on the immediate horizon that signals a reversal of these trends.
