INLAND EMPIRE

REGIONAL INTELLIGENCE REPORT

Winter 2023

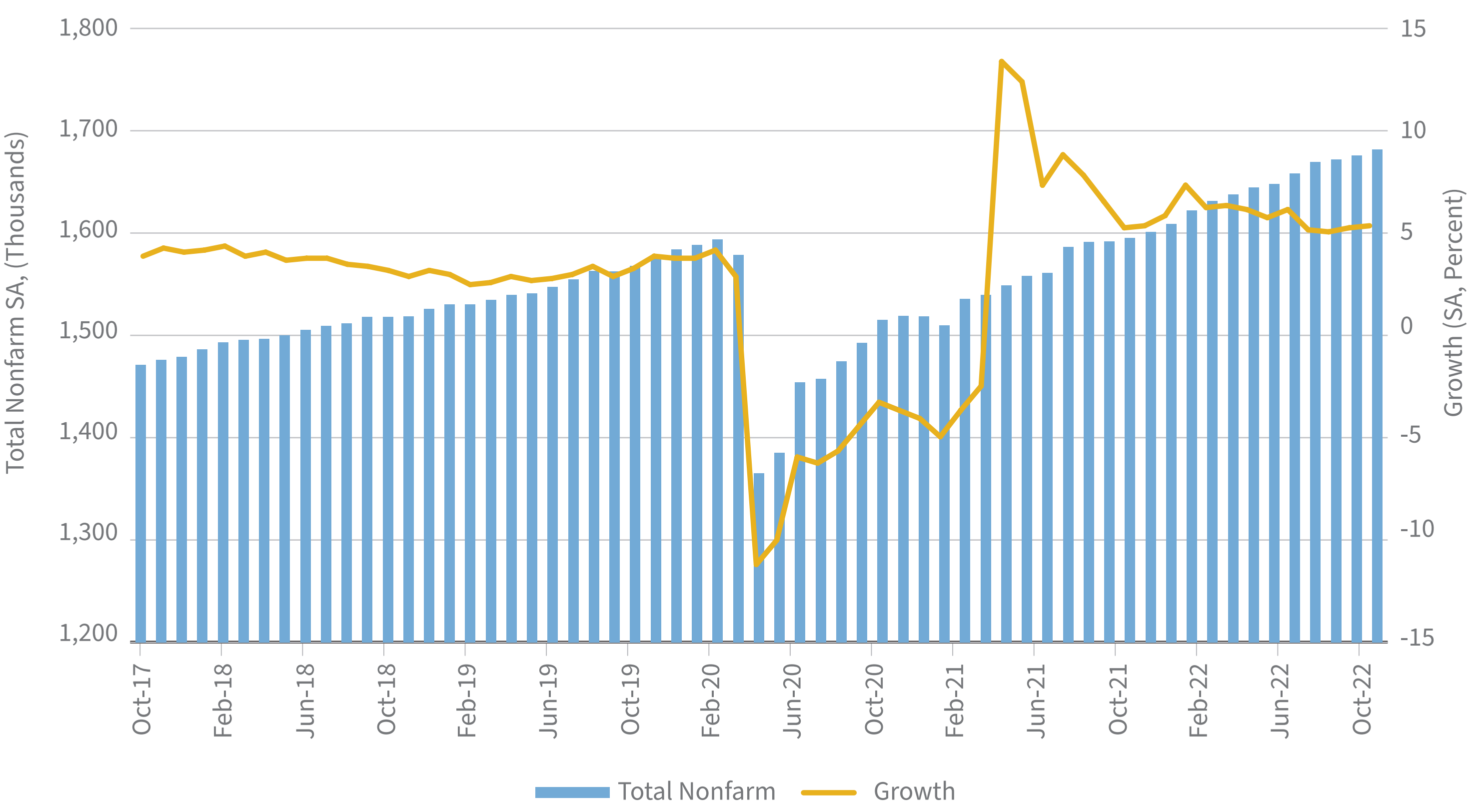
UC RIVERSIDE | School of Business
CENTER FOR ECONOMIC FORECASTING & DEVELOPMENT

EMPLOYMENT AND WAGES

The Inland Empire's labor market has fully recovered from the COVID-19 pandemic and continues to show strength. More than 316,000 jobs have been added since the national lockdown in April 2020, surpassing the 228,700 jobs that were lost at that time. Employment growth in the Inland Empire outpaced the state and nation during this period. Total non-farm employment in the Inland Empire has grown 5.5% since February 2020, surpassing growth in California (0.2%) and the United States (0.5%) over this period.

At 4.3%, the Inland Empire's unemployment rate has risen in recent months, but it still remains near pre-pandemic lows. Unlike other regions of California, the labor force (individuals willing and able to work) has grown steadily in the Inland Empire. From February 2020 to October 2022, the region's labor force rose by 75,800, a 3.6% increase. By contrast, California's overall labor force declined -1.3%, or -256,900 workers.

INLAND EMPIRE NONFARM EMPLOYMENT



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

The pandemic's impact on consumers has favored some local industries. For example, the surge in e-commerce has helped boost payrolls in the Inland Empire's Transportation and Warehousing sector. This sector boasts a major presence in the region and has increased 41.5% since February 2020, outpacing sector growth in the state by a wide margin. Moreover, with 63,500 local jobs added since February 2020, Transportation and Warehousing has been the driving force behind the region's economic recovery.

Significant job gains have also occurred in Education and Health Care, Administrative Support, Retail Trade, and Professional, Scientific and Technical Services. In stark contrast to other regions of Southern California, the Leisure and Hospitality sector in the Inland Empire has recovered all jobs lost due to the pandemic.

INLAND EMPIRE INDUSTRY EMPLOYMENT

Sector	Oct-22 Employment (000s)	Change Since Feb-20 (%)	Change Since Feb-20 (000s)
Transport/Warehouse	217.9	41.1	63.5
Education/Health	269.1	3.9	10.0
Admin Support	118.8	6.9	7.7
Prof Sci and Tech	50.9	12.0	5.4
Retail Trade	183.2	2.3	4.1
Leisure and Hospitality	181.6	2.0	3.5
Wholesale Trade	71.5	3.5	2.4
NR/Construction	114.8	1.6	1.8
Financial Activities	47.0	2.2	1.0
Utilities	5.1	2.3	0.1
Manufacturing	100.3	-0.2	-0.2
Management	8.7	-1.9	-0.2
Information	10.1	-11.9	-1.4
Other Services	45.7	-5.1	-2.5
Government	257.0	-2.8	-7.5
Total Nonfarm	**1,681.7**	**5.5**	**87.9**

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

Despite the overall gains in Inland Empire payrolls since February 2020, a handful of sectors still have a ways to go to recover all jobs lost from the pandemic. Job losses have been most pronounced in Government, which decreased payrolls by -7,500 since February 2022, a -2.8% decline. Other significant job losses have occurred in Other Services (a sector including hair and nail salons and other personal care services), Information, Management, and Manufacturing.

Wages in the Inland Empire are not keeping pace with rapidly rising prices. From first-quarter 2021 to first-quarter 2022 (latest data available as of this writing), wages grew 4.6%, outpacing the 1% increase in California overall. Local wage growth was strongest in San Bernardino County where it increased 5.2%, while wages in Riverside County grew 3.9%. However, real wages fell -2.9% over the last year due to high inflation.

BUSINESS ACTIVITY

Consumer spending is continuing to increase steadily. From second-quarter 2021 to second-quarter 2022, taxable receipts in the Inland Empire increased 9.5%. This has been driven by higher fuel prices, construction activity, more business and industry spending, and continued spending increases in categories impacted by government health mandates and consumer reservations related to COVID-19.

INLAND EMPIRE SALES TAX RECEIPTS BY CATEGORY

Category	Q2-22 ($, Thousands)	1-Year Change (%)	3-Year Change (%)
Fuel and Service Stations	32,035	39.2	53.4
Building and Construction	30,802	13.5	49.7
Business and Industry	65,046	11.4	82.2
Restaurants and Hotels	28,318	9	25.1
County & State Pool	44,299	6	71.3
Autos and Transportation	46,857	2.4	39.4
Food and Drugs	12,121	1.6	30.6
General Consumer Goods	47,588	1.2	17.2
Total	**307,539**	**9.5**	**47.1**

Source: HdL Companies; Analysis by UCR Center for Economic Forecasting

With fuel prices near record highs and more people traveling for work and leisure, spending at Fuel and Service Stations was the fastest growing category in the Inland Empire over the last year, jumping 39.2%.

Other spending categories posting significant gains over the last year were Building and Construction (13.5%), Business and Industry (11.4%), Restaurants and Hotels (9%), and Autos and Transportation (2.4%). As more consumers ate more meals away from home, the increase was modest at Food and Drug Stores, which was up just 1.6%.

With more consumers spending money at traditional locations like restaurants and brick-and-mortar retail stores, the County and State Pool (the category for e-commerce sales) has experienced a more modest gain in spending over the last year relative to recent years, growing 6%. However, this category is still up 71.3% over the past three years, well above the 47.1% increase across all categories over the same period and also the fastest growing category.

Taxable sales have grown across the Inland Empire in 2022. From second-quarter 2021 to second-quarter 2022, taxable sales in Ontario expanded 16.2%, the fastest rate among large cities. This was followed by growth in the cities of Chino (14.2%), Fontana (10.6%), Corona (9.7%), Riverside (9.6%), Temecula (7%), and Rancho Cucamonga (6.3%).

INLAND EMPIRE TAXABLE SALES BY CITY

City	Q2-22 ($, Millions)	1-Year Change (%)
Ontario	2,765.8	16.2
Chino	788.0	14.2
Fontana	1,244.2	10.6
Corona	1,181.1	9.7
Riverside	2,006.7	9.6
Temecula	1,082.3	7.0
Rancho Cucamonga	850.0	6.3
Rialto	1,235.6	4.0
Moreno Valley	802.7	3.8
San Bernardino	1,195.1	3.5
Eastvale	967.4	-1.0

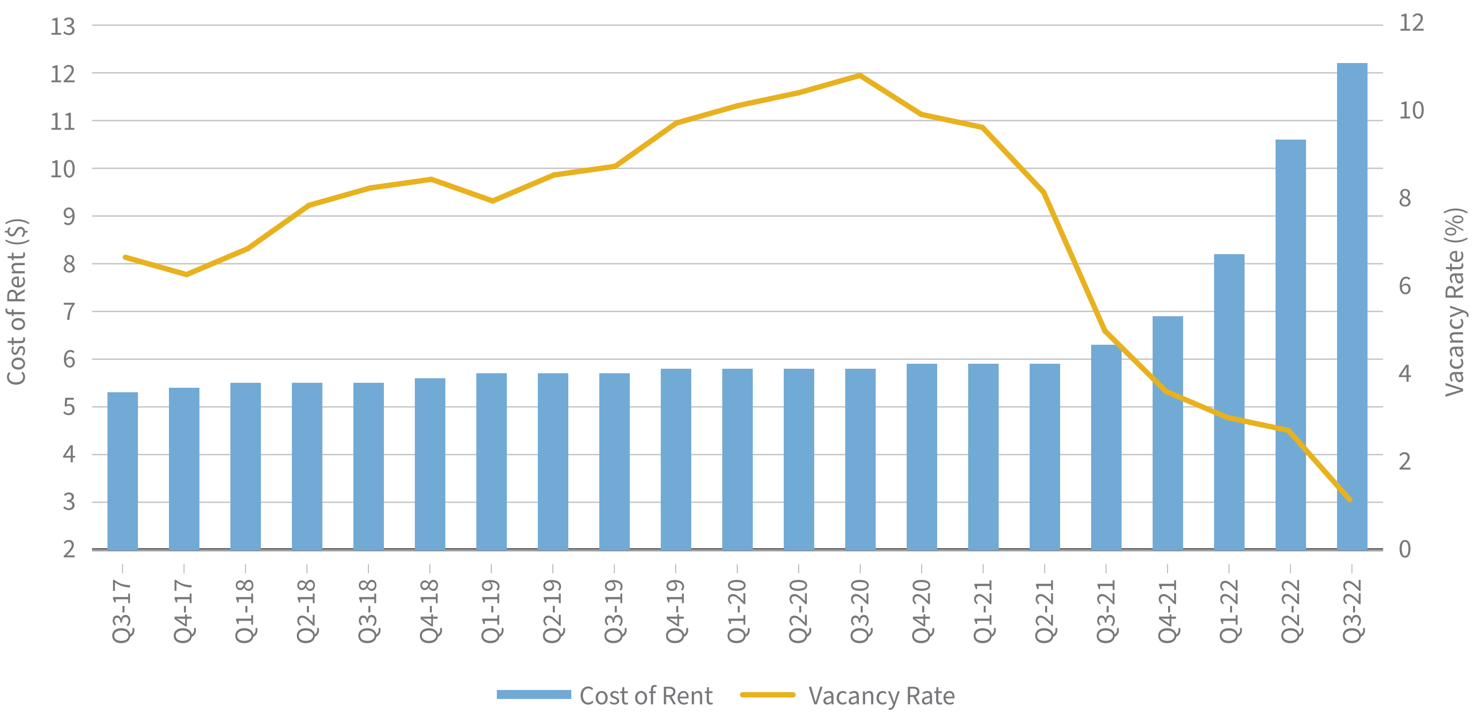
Source: California Department of Tax and Fee Administration; Analysis by UCR Center for Economic Forecasting

Passenger traffic at Ontario International Airport is continuing to recover as well. A total of 4.8 million passengers passed through the airport during the first 10 months of 2022, a 33.7% increase over 2021. Airport activity is now outpacing pre-pandemic levels, with passenger traffic up 4% over the same period in 2019.

COMMERCIAL REAL ESTATE

The increase in demand for e-commerce goods has caused a surge in demand for Warehouse and Distribution space in the Inland Empire. The vacancy rate among these properties fell to 1.1% in the third quarter of 2022, a -3 percentage-point decrease from one year earlier. Occupied stock grew by 29.6 million square feet, a 7.1% increase. In addition, asking rents grew 92.4% to an average annual rate of $12.18 per square-foot. Still, Warehouse and Distribution space remains more affordable than Los Angeles County ($12.34). However, Warehouse and Distribution space is now cheaper in Orange ($9.78) and San Diego ($11.09) counties.

INLAND EMPIRE WAREHOUSE MARKET



Source: REIS; Analysis by UCR Center for Economic Forecasting

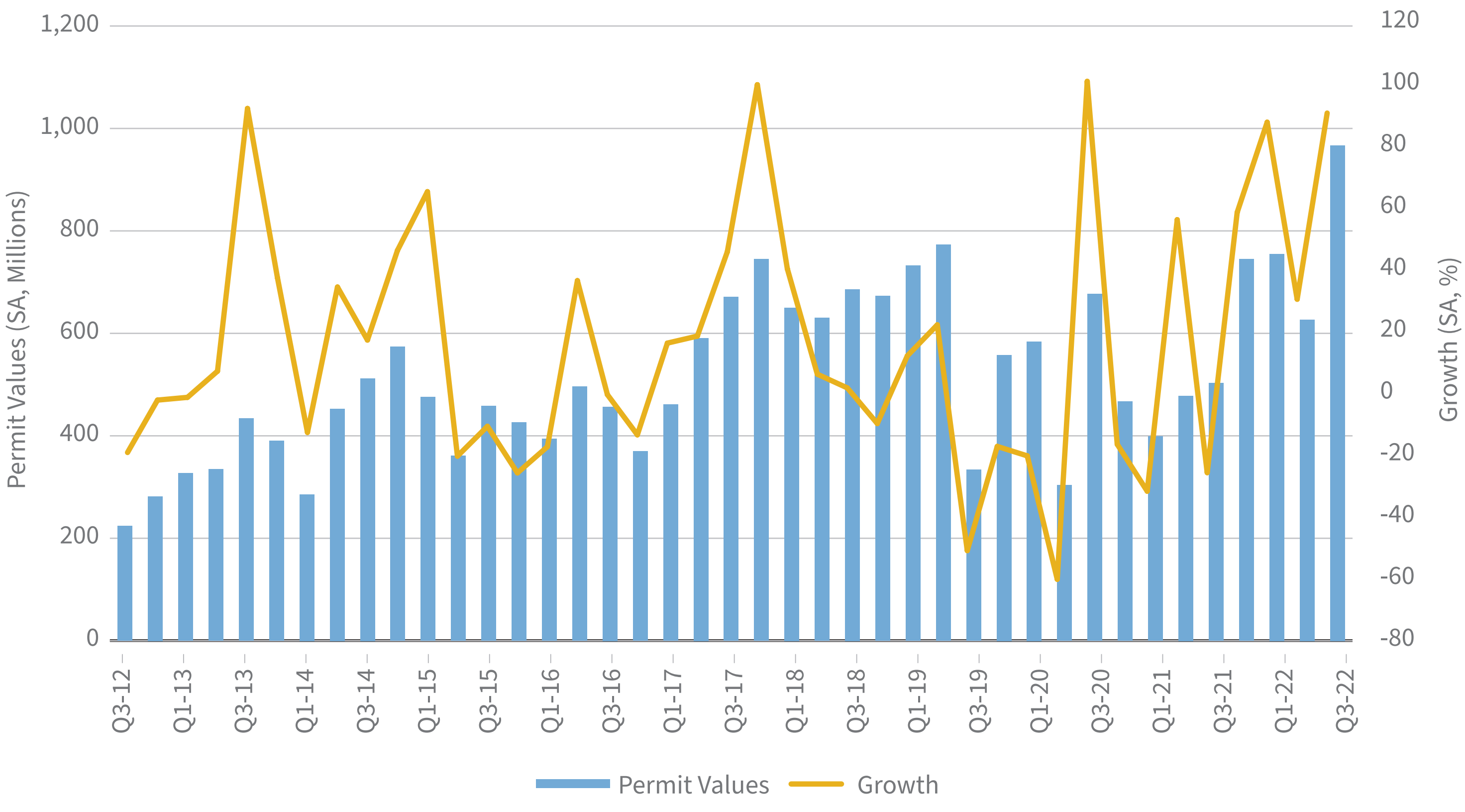
After a decline due to the pandemic, demand for Office properties in the Inland Empire is beginning to increase. The Office vacancy rate hit 16.9% in the third quarter of 2022, down -0.7 percentage points from one year earlier. In addition to the decrease in vacancy rate, occupied stock increased 1.4%. Asking rents grew 3.3% to an annual rate of $24.37 per square-foot, keeping Office space more affordable than Los Angeles ($41.51), Orange ($34.22), and San Diego ($35.19) counties.

The vacancy rate among Flex/Research and Development (R&D) properties in the Inland Empire fell to 2.1% in the third quarter of 2022, a -1.1 percentage-point decrease from one year earlier. Asking rents grew 56.5% to reach an annual rate of $14.49 per square-foot, keeping Flex/R&D space more affordable than Los Angeles ($18.12), Orange ($15.24), and San Diego ($17.12) counties.

Demand for Retail space in the Inland Empire is beginning to stabilize; however, it remains below pre-pandemic levels. The vacancy rate increased to 10.4% in the third quarter of 2022 (a 0.5 percentage-point increase from one year earlier), and asking rents were unchanged at an annual rate of $22.52 per square-foot. As with other commercial property types, Retail space remains more affordable than Los Angeles ($33.58), Orange ($34.35), and San Diego ($32.40) counties.

Non-residential permitting in the Inland Empire has increased over the last year. Building permit values in the first three quarters of 2022 totaled $2.36 billion, a 74% increase from the first three quarters of 2021. The largest increases were in Retail properties, which totaled $531 million in the first three quarters of 2022, up 185% from the first three quarters of 2021. Industrial properties, totaling $423 million in building permits, were also up 2.8%. Office permitting continues to be tepid, totaling just $50 million in the first three quarters of 2022; however, this is a significant increase from the first three quarters of 2021.

INLAND EMPIRE NON-RESIDENTIAL PERMITS



Source: Construction Industry Research Board (CIRB); Analysis by UCR Center for Economic Forecasting

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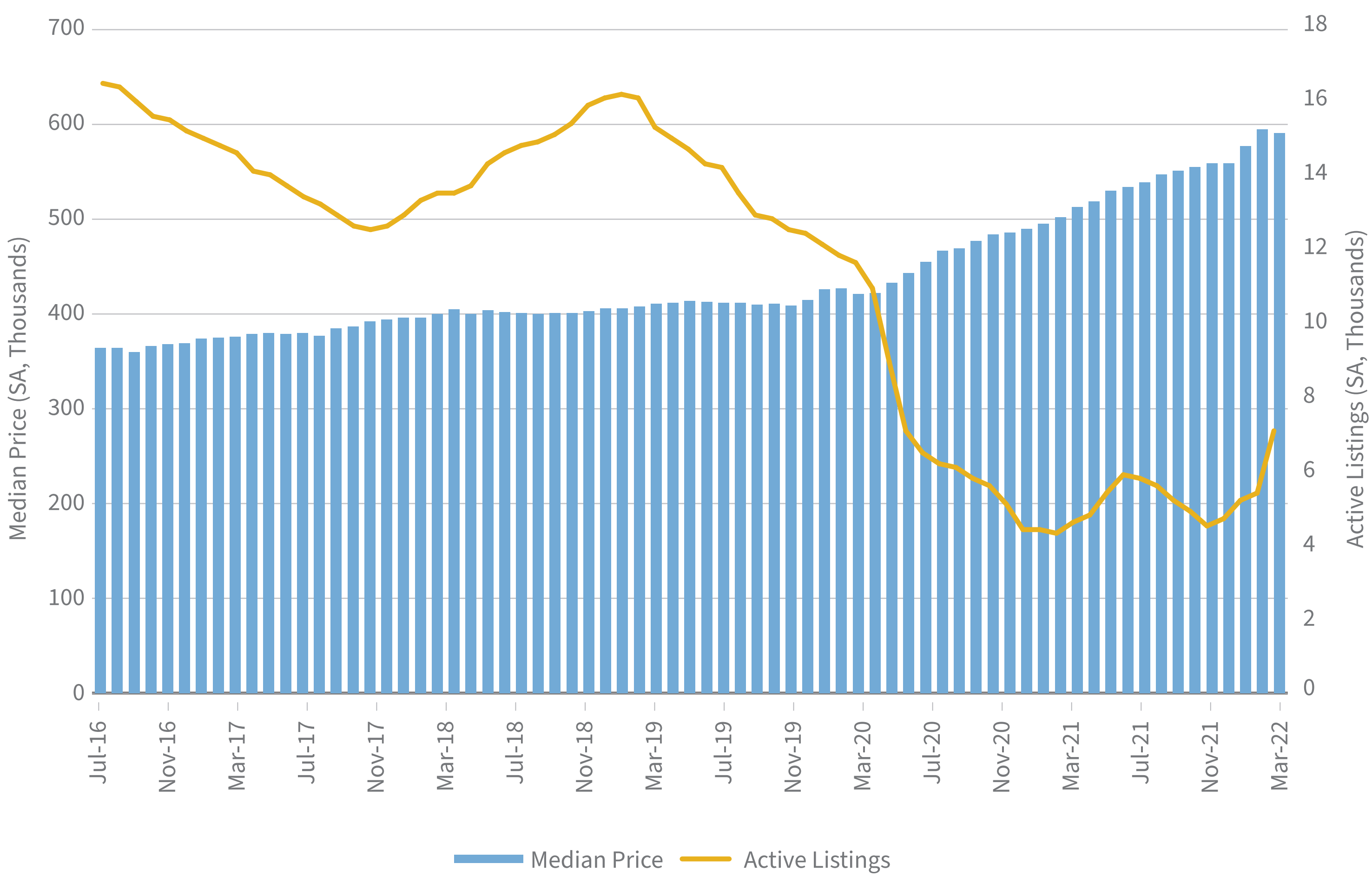
RESIDENTIAL REAL ESTATE

The housing market was by far the brightest spot in the Inland Empire's economy over the last two years. However, today's elevated mortgage rates are constraining demand.

Still, home prices in the Inland Empire continue to rise. From November 2021 to November 2022, the median home price rose 3.5%. This is stronger growth relative to Los Angeles (-0.5%) yet slightly slower growth compared to Orange (10.8%) and San Diego (6.3%) counties.

Part of the reason the Inland Empire is experiencing home-price growth is because it is one of the last relatively affordable housing markets in Southern California. At a median price of $570,200, the region's existing single-family homes are significantly more affordable than those in Los Angeles ($907,600), Orange ($1.11 million), and San Diego ($890,600) counties.

INLAND EMPIRE HOME PRICES AND LISTINGS

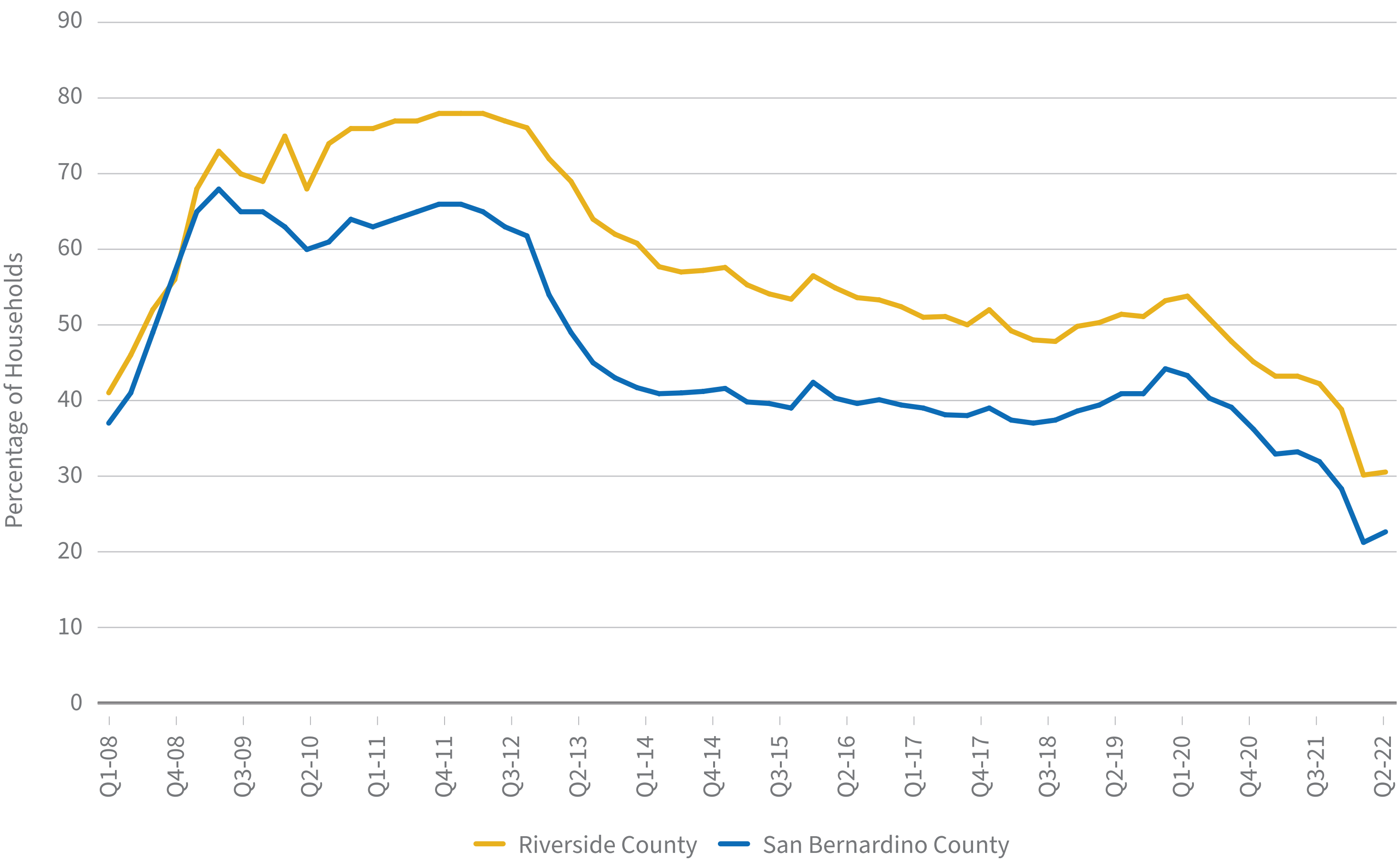


Source: Realtor.com; Analysis by UCR Center for Economic Forecasting

While more affordable than neighboring counties, buying a home is becoming more costly. Only 25% of local households could afford to purchase a median-priced home in the Inland Empire in the third quarter of 2022, down from 36% in the third quarter of 2021. This makes the region more affordable than California (18%), but less affordable than the United States overall (39%).

With mortgage interest rates rising, the number of active home listings have increased. Active listings grew 94.3% in the Inland Empire from November 2021 to November 2022, a significant increase compared to Los Angeles (50.1%) and San Diego (88.3%) counties, but more modest compared to Orange County (109.6%).

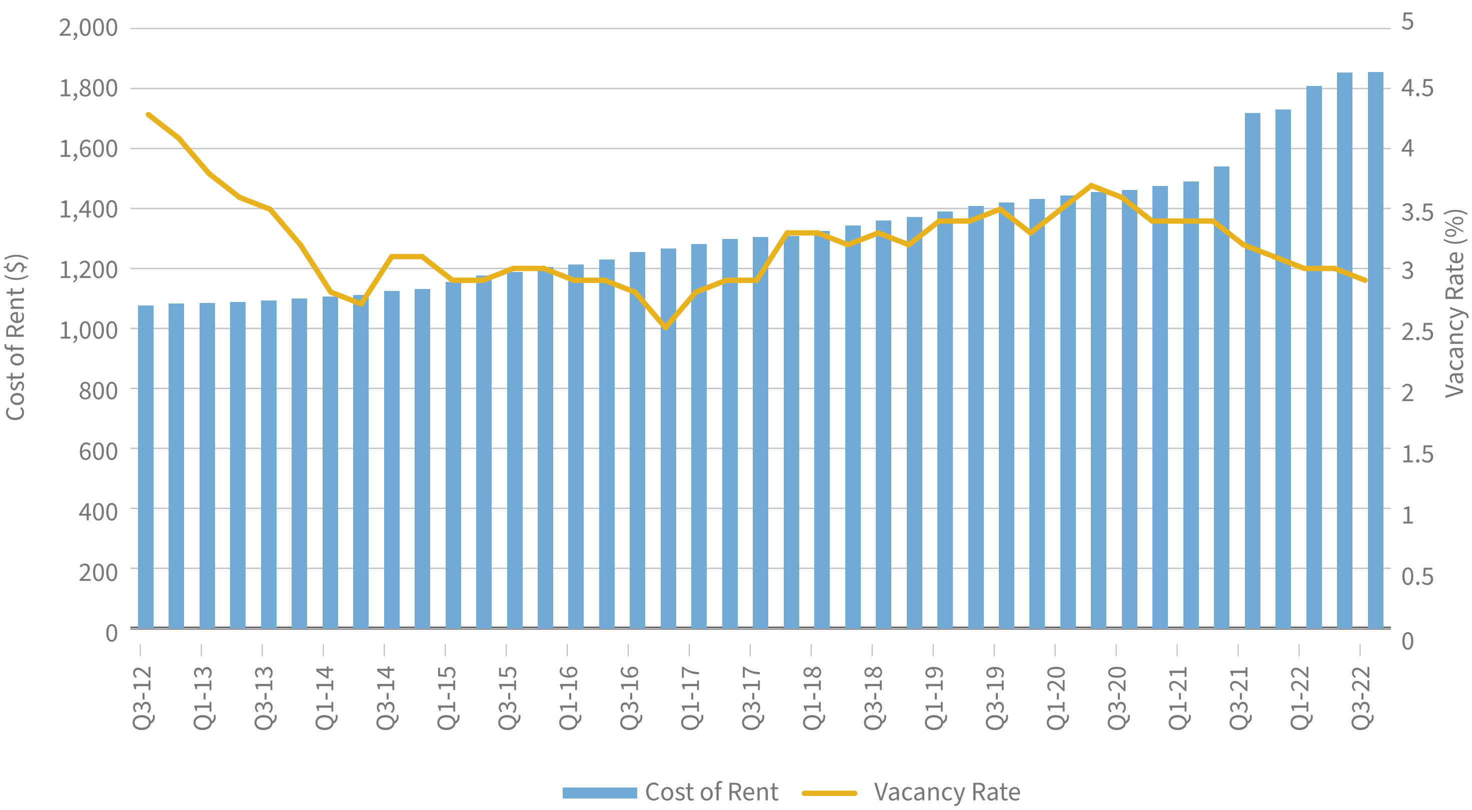
INLAND EMPIRE HOUSING AFFORDABILITY INDEX



Source: California Association of Realtors (CAR); Analysis by UCR Center for Economic Forecasting

The pandemic-driven economic stimulus from the federal government increased demand for housing throughout California. However, this stimulus led to higher home prices and rising mortgage rates, which are beginning to constrain demand. In October 2022, there was only 3.9 months of housing supply available for purchase in Riverside County and 4 months in San Bernardino County. While this is more inventory compared to recent months, a balanced market typically equates to 6 – 7 months of supply, with a buyer's market being seven months of supply and above and a seller's market six months of supply and under. [1]

INLAND EMPIRE APARTMENT MARKET



Source: REIS; Analysis by UCR Center for Economic Forecasting

[1] National Association of Realtors

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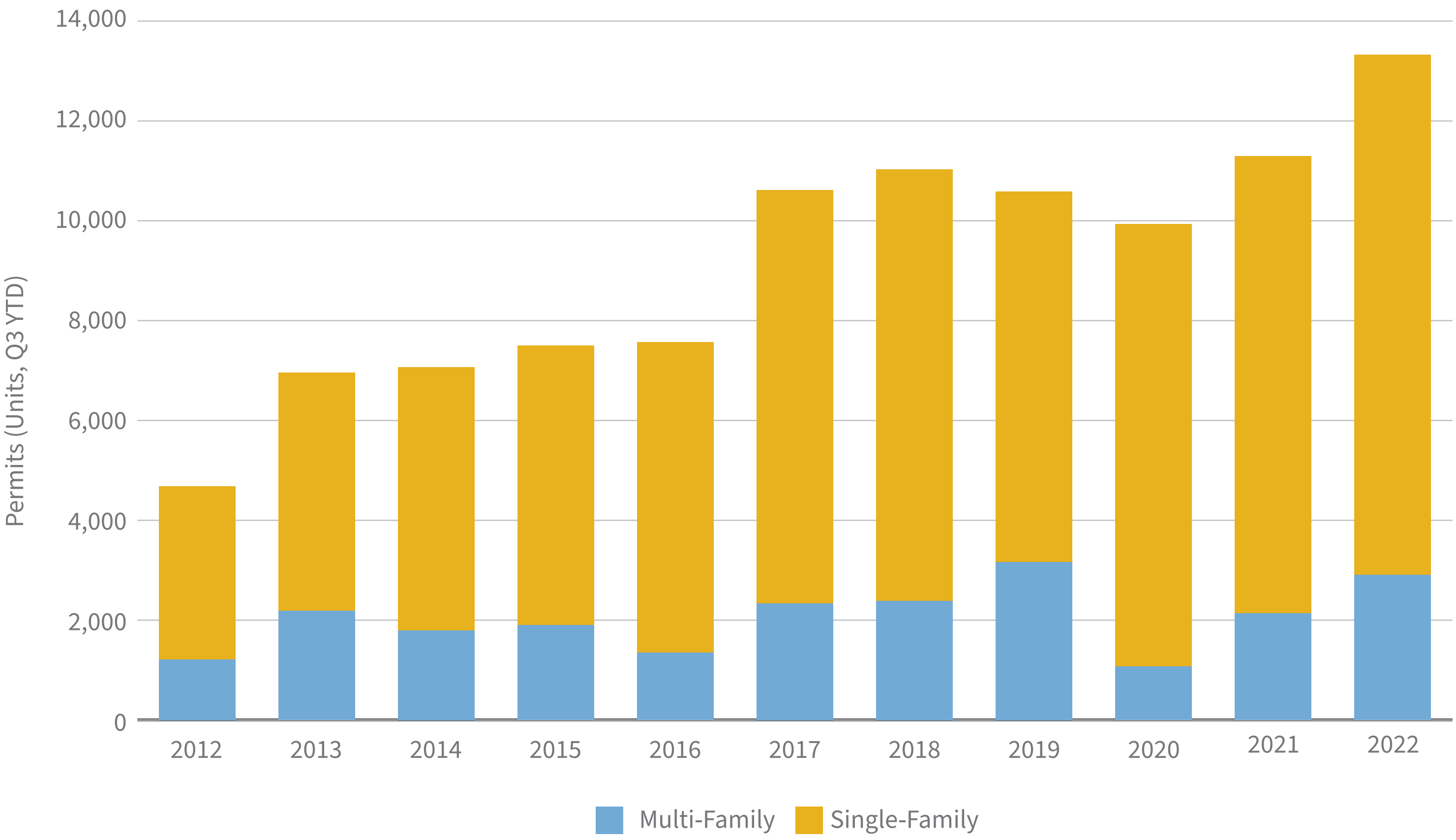
Demand for apartments in the Inland Empire has also surged. The apartment vacancy rate fell to 2.9% in the third quarter of 2022, a -0.3 percentage-point decrease from one year ago. In addition, the number of occupied units grew 0.4%. Asking rents jumped 7.9% to $1,854 per unit, per month. But even with that increase, the Inland Empire remains a more affordable rental market than Los Angeles ($2,358), Orange ($2,499), and San Diego ($2,247) counties.

In step with the hot housing market, residential construction in the Inland Empire has increased 17.9% from the first three quarters of 2021 to the first three quarters of 2022. The region issued 2,907 multi-family building permits and 10,414 single-family building permits in the first three quarters of 2022, an increase of 36.1% and 13.7% (respectively) compared to the first three quarters of 2021.

INLAND EMPIRE RESIDENTIAL PERMITS (YTD)



Source: Construction Industry Research Board (CIRB); Analysis by UCR Center for Economic Forecasting

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