INLAND EMPIRE
REGIONAL INTELLIGENCE REPORT

Spring 2022

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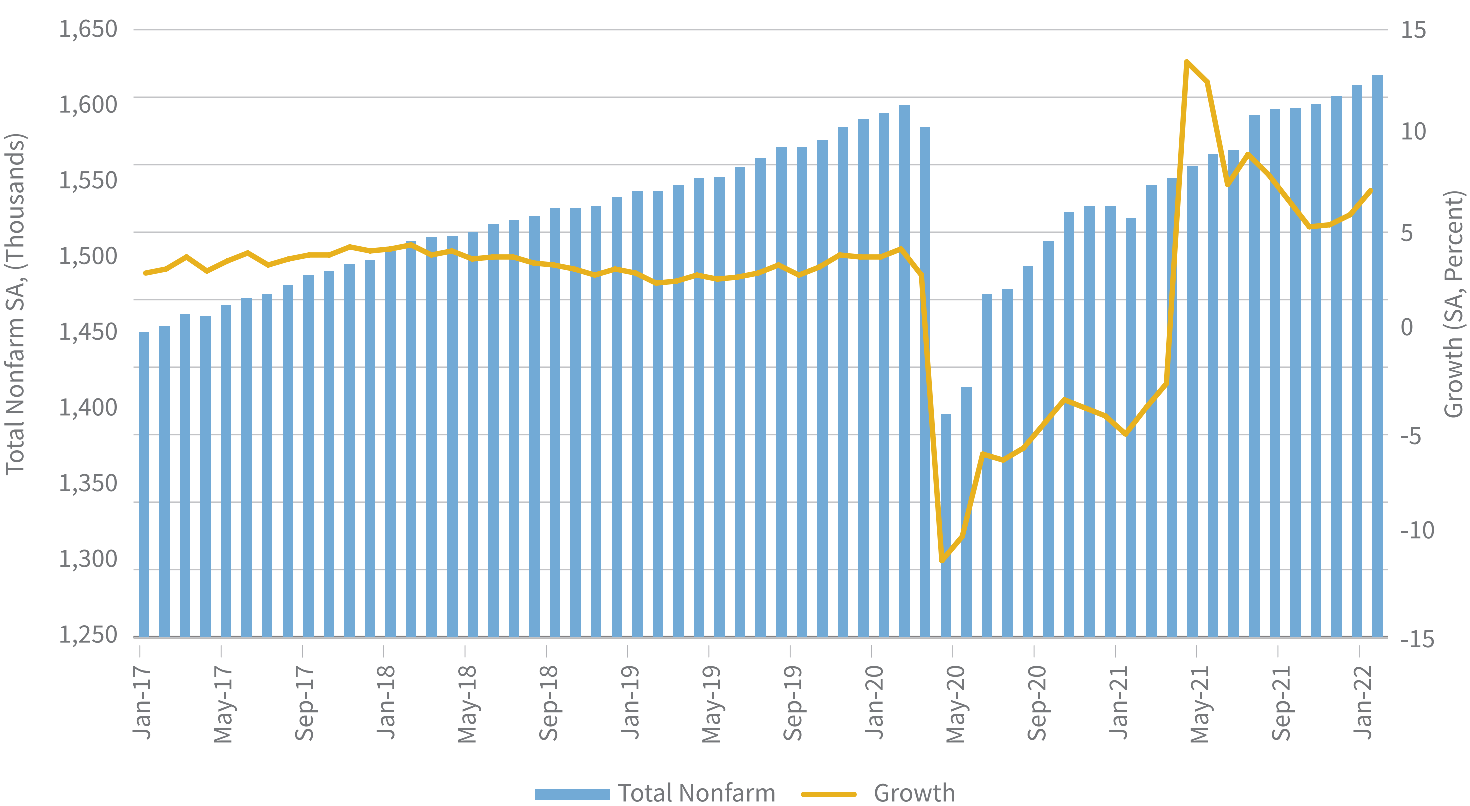
CENTER FOR ECONOMIC FORECASTING & DEVELOPMENT

EMPLOYMENT AND WAGES

The Inland Empire's labor market has continued to steadily recover from the COVID-19 pandemic, adding 151,200 jobs since it hit bottom in April 2020. This is more than the total jobs lost between February and April of that year. Total payroll employment in the region is now 1.4% (or 22,500 jobs) above its pre-pandemic peak in February 2020. During this time, employment growth in the Inland Empire outpaced the state (-2.8%) and nation (-1.8%).

With the release of January employment figures, the California Employment Development Department (EDD) also provided its annual benchmark revision. Throughout the year, employment-by-industry data are estimated from sample figures. On an annual basis, when updated information becomes available from detailed tax records, the employment-by-industry estimates are revised, providing a more accurate picture. The additional data showed total payroll employment in the Inland Empire grew 0.9% from February 2020 to December 2021, a significant increase from the original estimate of a -2.2% decline

INLAND EMPIRE NONFARM EMPLOYMENT



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

The Inland Empire's unemployment rate, at 6.2%, has also improved from the lows of last year but remains significantly elevated compared to February 2020 when it was just 4%. The region's unemployment rate is higher relative to California (5.8%) and the United States (4%).

Unsurprisingly, given the effects of the pandemic, the largest job losses have been concentrated in the Inland Empire's Leisure and Hospitality sector, with -12,800 fewer jobs today compared to February 2020 (a -7.2% decline). Other significant job losses have occurred in Government, Other Services (a sector that includes hair and nail salons and other personal care services), Manufacturing, Natural Resources and Construction, Information, and Wholesale Trade. These were some of the sectors heavily impacted by government health mandates and consumer reservations related to COVID-19.

INLAND EMPIRE INDUSTRY EMPLOYMENT

Sector	Jan-22 Employment (000s)	Change Since Feb-20 (%)	Change Since Feb-20 (000s)
Transport/Warehouse	212.1	36.8	57.1
Admin Support	115.7	3.9	4.4
Retail Trade	182.1	1.6	2.8
Utilities	5.1	1.3	0.1
Education/Health	258.2	-0.3	-0.9
Prof Sci and Tech	45.1	-0.4	-0.2
Financial Activities	45.4	-1.5	-0.7
Wholesale Trade	68.0	-1.6	-1.1
NR/Construction	109.2	-3.5	-4.0
Manufacturing	96.5	-4.0	-4.0
Government	252.9	-4.2	-11.0
Management	8.3	-6.2	-0.5
Leisure and Hospitality	164.8	-7.2	-12.8
Other Services	43.0	-10.6	-5.1
Information	9.8	-14.0	-1.6
Total Nonfarm	**1,616.3**	**1.4**	**22.5**

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

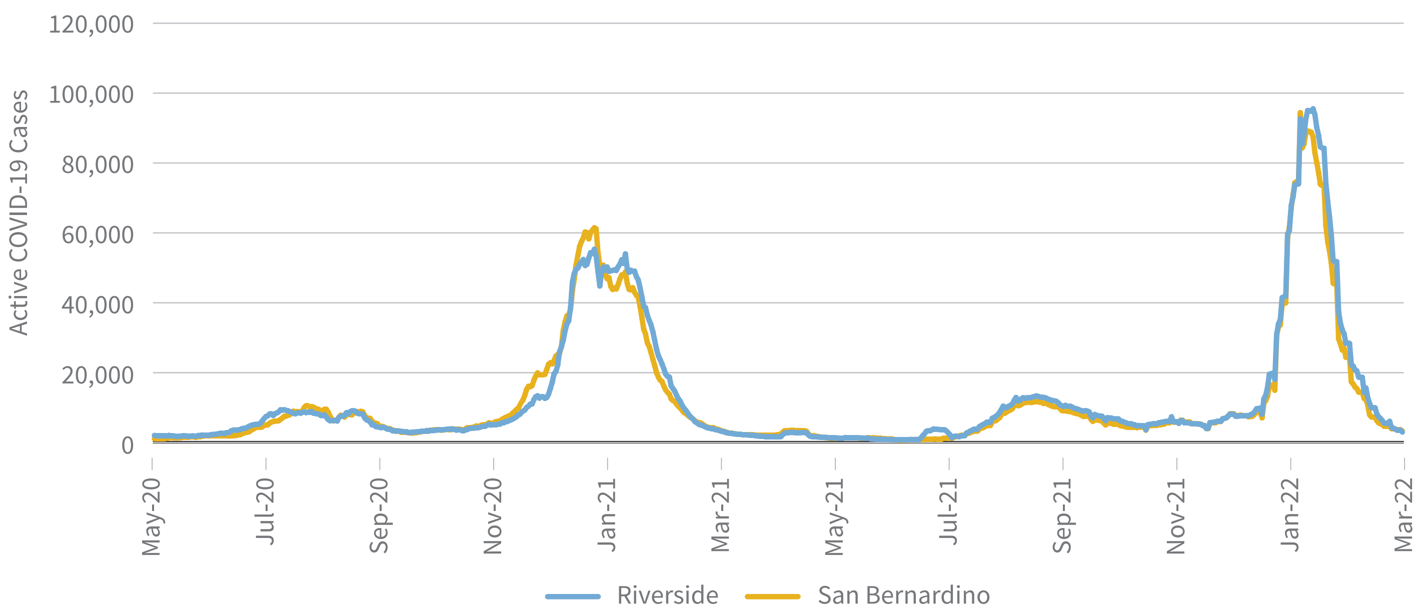
The pandemic and its consumer effects have been a benefit to some industries. The surge in e-commerce has helped boost payrolls in the Inland Empire's Transportation and Warehousing sector (which has a major presence in the region) by 36.8% since February 2020, outpacing growth in the state by a wide margin. Moreover, with 57,100 jobs added since February 2020, the Transportation and Warehousing sector has been the driving force behind the region's economic recovery.

With lower-paying industries such as Leisure and Hospitality and Retail Trade adding back the most positions, wage growth in the region has been modest this year compared to 2020. Still, wages in the Inland Empire have been steadily rising. From third-quarter 2020 to third-quarter 2021 (latest data available as of this writing), wages in the region grew 2.3%, trailing the 4.2% pace in California overall. Local wage growth was strongest in Riverside County where it increased 3%, while wages in San Bernardino County grew 1.7%. However, this marks a decrease in real wages during the year due to high inflation.

COVID-19 TRENDS AND BUSINESS ACTIVITY

With more than 58% of the Inland Empire's residents fully vaccinated, and with COVID-19 hospitalizations having fallen precipitously, on Feb. 16 California announced plans to lift mask mandates in many indoor venues. In the absence of a resurgence, the public health mandates put in place to halt the spread of the virus are beginning to disappear quickly. Hopefully this is the beginning of the end of a tumultuous two-year period in California's history, marked by tens of thousands of virus-related deaths, great strain on the state's health care infrastructure, and transformations in venues ranging across education, leisure, and work.

INLAND EMPIRE TOTAL NEW COVID-19 CASES



Source: Los Angeles Times, California Department of Public Health; Analysis by UCR Center for Economic Forecasting

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As a result, consumer spending has rebounded strongly. From the third-quarter 2020 to third-quarter 2021, taxable receipts in the Inland Empire increased 22.8%. This has been driven by increased spending in categories that were impacted by government health mandates and consumer reservations related to COVID-19.

INLAND EMPIRE SALES TAX RECEIPTS BY CATEGORY

Category	Q3-21 ($, Thousands)	1-Year Change (%)	3-Year Change (%)
Fuel and Service Stations	25,405	56.8	20.9
Business and Industry	57,416	45.1	67.9
Restaurants and Hotels	27,526	35.3	27.5
General Consumer Goods	47,108	20.6	19.8
Autos and Transportation	43,549	15.7	32.6
Building and Construction	26,127	9.0	28.7
Food and Drugs	12,055	6.0	31.7
County & State Pool	42,006	3.7	65.3
Total	**282,238**	**22.8**	**38.3**

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

With more people traveling for work and leisure, spending at Fuel and Service Stations increased 56.9% over the last year. With fuel prices rising in the first half of 2022, this category should continue to see increases.

Business and Industry also expanded, which grew 45.1% over the last year. This is also the category expanding the most over the last three years, up 67.9%. Spending also grew rapidly at Restaurants and Hotels, with spending levels up 35.3% over the last year. This was one of the categories hardest hit from the pandemic, and spending levels are now exceeding pre-pandemic levels.

Other categories posting significant gains over the last year were General Consumer Goods (20.6%), Autos and Transportation (15.7%), and Building and Construction (9%). As more consumers ate more meals away from home, gains were more modest at Food and Drug Stores, which was up just 6% over the last year. Similarly, with more consumers buying goods and services from brick-and-mortar retail locations, the County and State Pool (the category for e-commerce sales) was up just 3.7% over the last year.

Passenger traffic at Ontario International Airport began to recover in 2020. A total of 4.5 million passengers passed through the airport in 2021, a 77.1% increase over 2020 levels. The airport still has a way to go to return to pre-pandemic levels, with passenger traffic still down -24.2% from 2019 levels.

RESIDENTIAL REAL ESTATE

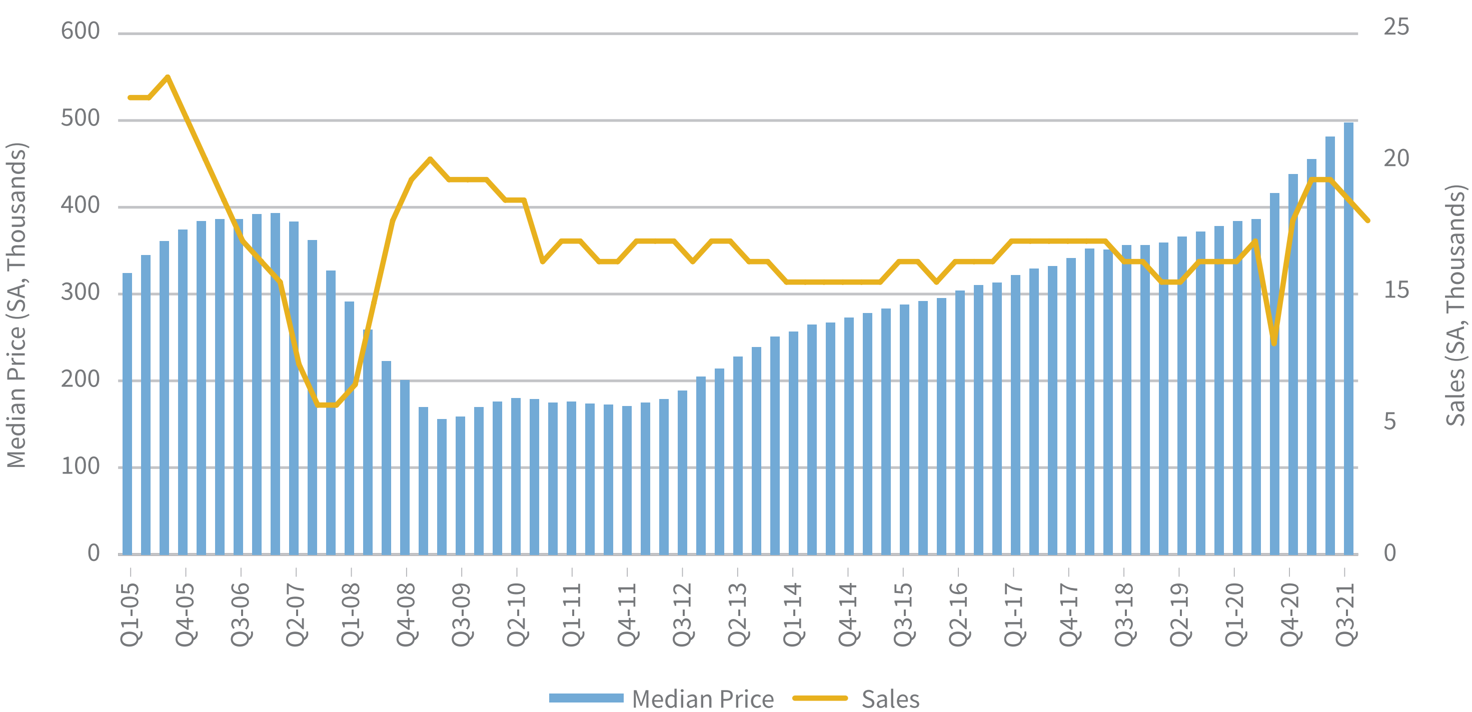
The housing market was by far the brightest spot in the Inland Empire's economy over the last two years. The strong performance is likely being driven by three factors. First, typical homebuyers (higher-income earners) have been less affected by the labor market downturn. Second, mortgage rates bottomed out at historically low levels, spurring purchase activity. And third, housing inventories are near historic lows. These factors have pushed purchase offers far over asking prices even as buyers waive inspections and other contingencies in an attempt to get a leg-up on the competition.

With this backdrop, home prices in the Inland Empire continue to increase rapidly. From fourth-quarter 2020 to fourth-quarter 2021, the median single-family home price rose 18.3%. This represents stronger growth relative to Los Angeles (12.1%) and San Diego (14.6%) counties, yet slightly slower growth relative to Orange County (19.3%).

Part of the reason the Inland Empire is seeing more rapid growth is because it is one of the last relatively affordable housing markets in Southern California. At a median price of $517,000, the region's existing single-family homes are significantly more affordable than those in Los Angeles ($860,000), Orange ($1.07 million), and San Diego ($832,000) counties.

With limited available inventory, the number of homes sold has decreased slightly despite homebuyer demand remaining high. Existing single-family home sales declined -3.2% in the Inland Empire from fourth-quarter 2020 to fourth-quarter 2021, outpacing sales growth in San Diego (-9.2%) and Orange (-11.1%) counties but trailing growth in Los Angeles County (-1.4%).

INLAND EMPIRE SINGLE-FAMILY HOMES, PRICES AND SALES



Source: CoreLogic; Analysis by UCR Center for Economic Forecasting

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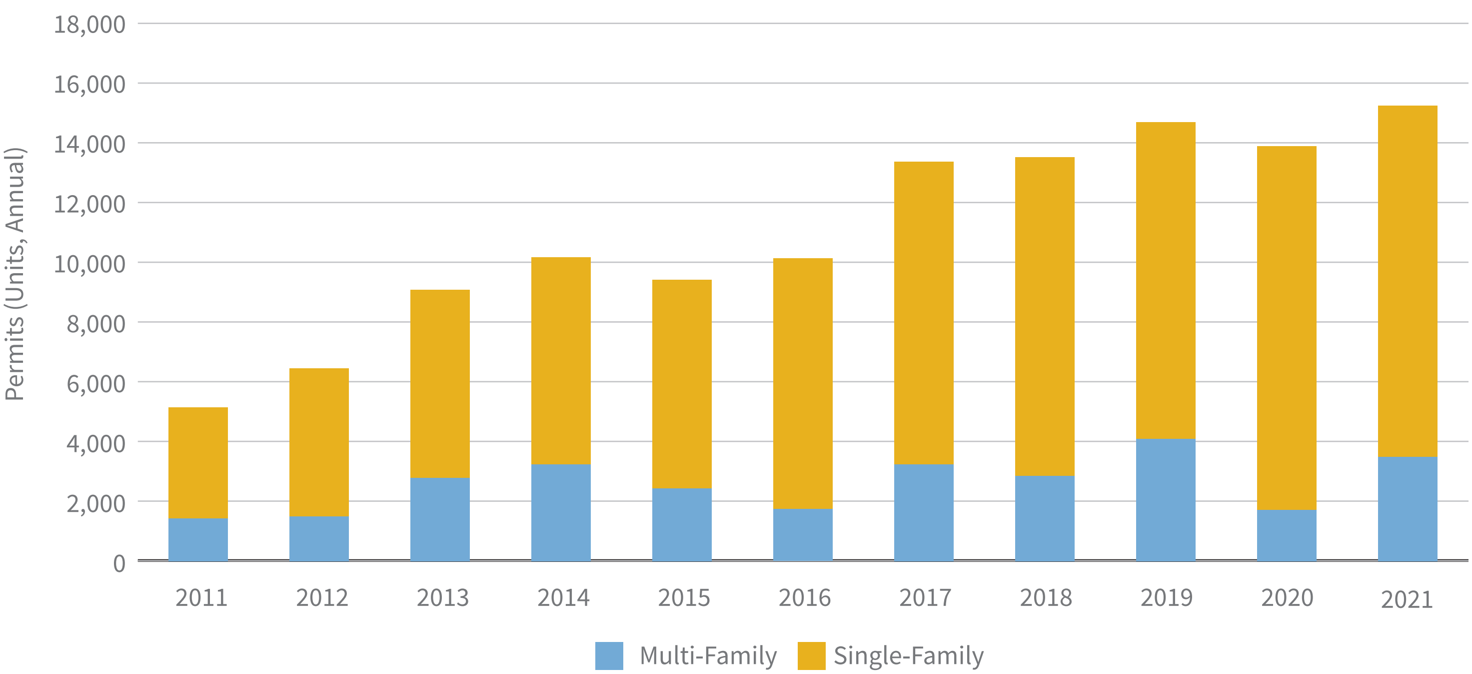
The pandemic-driven economic stimulus from the federal government, combined with low interest rates, has increased demand for housing throughout California. However, supply has not increased to meet demand. In January 2022, there was only 1.8 months of housing supply available for purchase in Riverside County and 2.1 months in San Bernardino County. 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] Moreover, the strong fundamentals at the start of this hot market imply there is still headroom to grow, and with inventory so low, it will take years for builders to catch up with high demand. Note that if today's high inflation persists, mortgage rates will take a similar jump and the market could downshift rapidly. But these effects, if they occur, are unlikely within the next two years.

Demand for apartments in the Inland Empire has also surged over the last year. The apartment vacancy rate fell to 3.1% in the fourth quarter of 2021, a -0.3 percentage-point decrease from one year ago. In addition, the number of occupied units in the region grew 0.9% over the last year. Asking rents expanded by a substantial 17.4% to $1,729 per unit per month. But even with that increase, the Inland Empire remains a more affordable rental market than Los Angeles ($2,136), Orange ($2,327), and San Diego ($2,155) counties.

INLAND EMPIRE RESIDENTIAL PERMITS YEAR TO DATE



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

In step with the hot housing market, residential construction in the Inland Empire has increased over the last year, up 11.5% from 2020 to 2021. The region issued 3,484 multi-family building permits and 11,757 single-family building permits in 2021, a change of 103.1% and -3.3% (respectively) compared to 2020.

[1] National Association of Realtors

COMMERCIAL REAL ESTATE

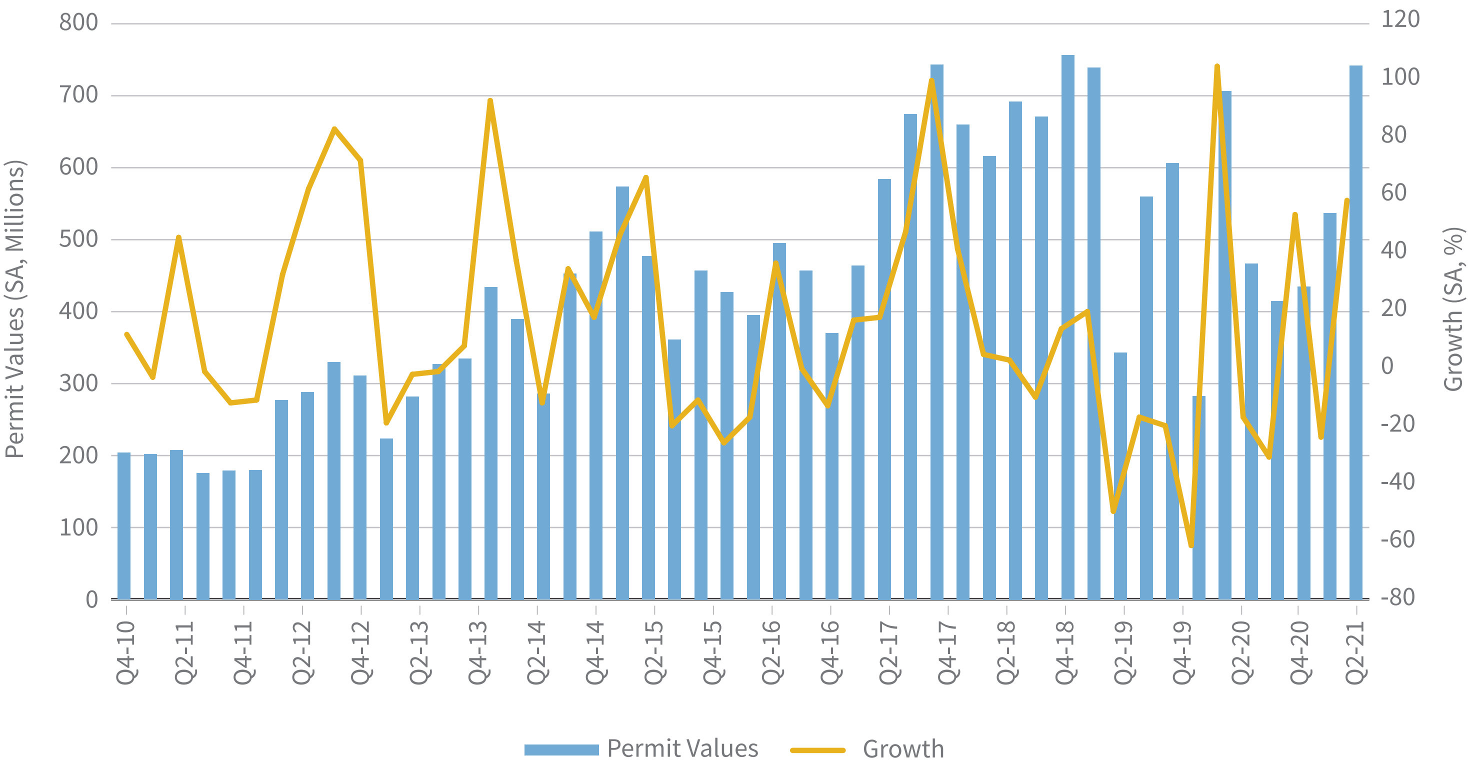
The vacancy rate among warehouse properties in the Inland Empire fell to 3.6% in the fourth quarter of 2021, a -6.4 percentage-point decrease from one year earlier. This decline in vacancy occurred even as 4.4 million square feet of new space came online over the last year, a 1% increase in the available warehouse stock in the region. In addition, asking rents grew 4.6% over the last year to an average annual rate of $6.14 per square foot. Still, warehouse space in the Inland Empire remains more affordable than Los Angeles ($8.37), Orange ($7.99), and San Diego ($9.76) counties.

Demand for office properties in the Inland Empire has stabilized. The office vacancy rate hit 17.5% in the fourth quarter of 2021, down -0.2 percentage points from one year earlier. In addition to the decrease in the vacancy rate, occupied stock increased by 0.4% over the last year. Asking rents grew a modest 1.1% over the last year to an annual rate of $23.71 per square foot, keeping office space in the Inland Empire more affordable than Los Angeles ($41.00), Orange ($33.92), and San Diego ($34.71) counties.

The vacancy rate among flex/research and development (R&D) properties in the Inland Empire fell to 3.1% in the fourth quarter of 2021, a -2.4 percentage-point decrease from one year earlier. Over the same time, asking rents grew 3.5% to reach an annual rate of $9.23 per square foot, keeping flex/R&D space in the Inland Empire more affordable than Los Angeles ($13.80), Orange ($12.79), and San Diego ($15.16) counties.

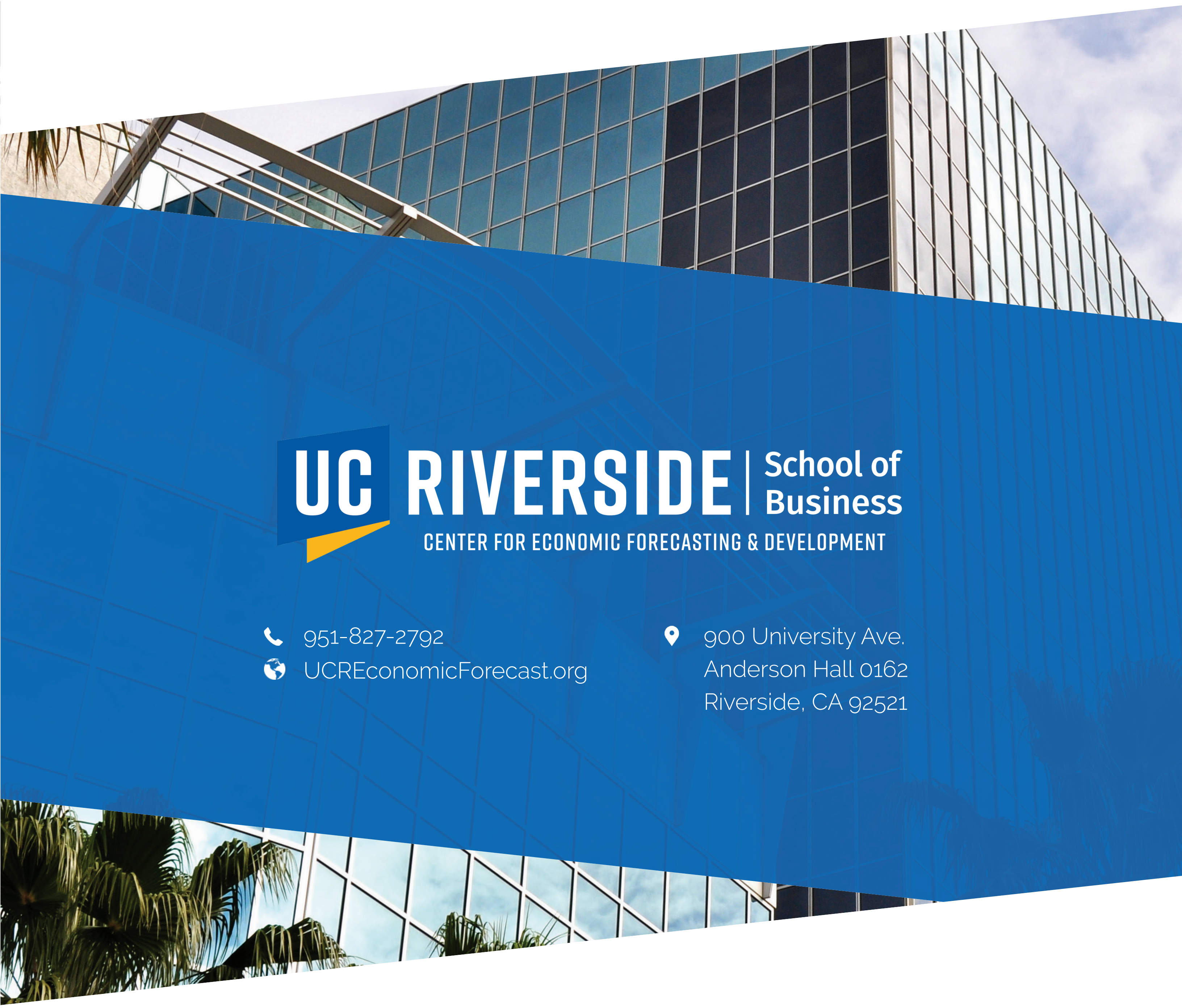
Demand for retail space in the Inland Empire has also fallen over the last year, a result of government health mandates and consumer reservations amid the COVID-19 pandemic. While the vacancy rate dropped to 9.9% in the fourth quarter of 2021, a 0.1 percentage-point decline from one year earlier, asking rents fell -0.3% to an annual rate of $22.52 per square foot. As with other commercial property types, retail space in the Inland Empire remains more affordable than Los Angeles ($33.50), Orange ($34.30), and San Diego ($32.32) counties.

INLAND EMPIRE NON-RESIDENTIAL BUILDING PERMITS



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

Non-residential permitting in the Inland Empire has increased over the last year; however, at the property-type level gains were mixed. Building permit values during 2021 totaled $2.1 billion, a 4% increase from 2020. The largest increases were in other non-residential structures, which totaled just $562.2 million in 2021, up 163% from 2020. The largest declines were in office permitting, which totaled just $25.2 in 2021, off -35.7% from 2020. Building permits for retail properties, totaling just $364.7 million, were -17.3% lower than 2020. Industrial properties, totaling $464.1 million in building permits, were also down -14% over 2020 levels.



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