



QUARTERLY ECONOMIC REPORT

RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA

VOL. 29 NO. 2

APRIL 2017

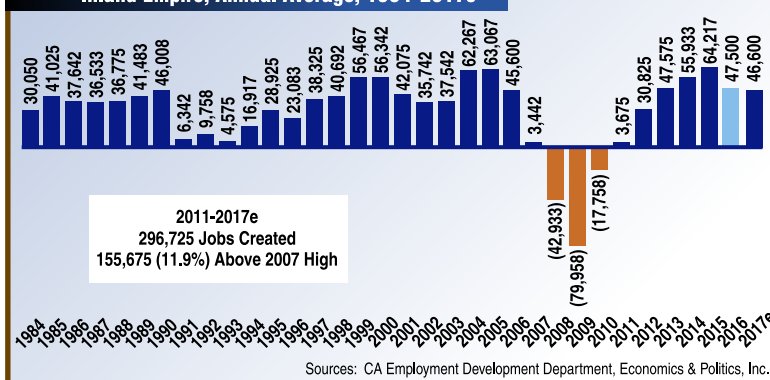
\$5.00

INLAND EMPIRE 2017 FORECAST ... CONTINUED STRONG GROWTH!

John E. Husing, Ph.D.

In 2017, the Inland Empire will continue the expansion that has been underway since 2011. Through 2016, 249,725 jobs have been created. The 2017 gain is forecasted to add another 46,600 jobs, up 3.3% (*Exhibit 1*). If this occurs, a total of 296,725 local jobs will have been created from 2011-2017 taking the area to 1,462,017 positions. That would be 155,675 jobs or 11.9% above the pre-recession high of 1,306,342 in 2007. Unemployment is forecasted to drop to 5.3% in 2017, down from 5.9% in 2016. Importantly among California's metropolitan areas, the Inland Empire's 2016 growth of 47,500 jobs ranked second after Los Angeles (109,200) and next above San Francisco (43,800). Its 3.47% growth rate in 2016 was second to San Francisco (4.16%).

1 WAGE & SALARY JOB CHANGE Inland Empire, Annual Average, 1984-2017e



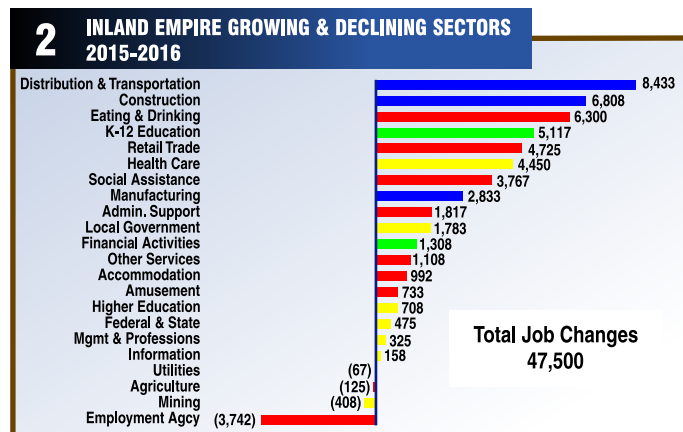
U.S. GROWTH

The U.S. economy supplies the ocean of forces affecting its regions. In the 2008-2010 Great Recession, the country lost -8,697,000 jobs (-6.3%). From February 2010-2017, it has gained back 16,065,000 or 84.7% more jobs than were lost (*Exhibit 4*). The national economy now has 5.3% more jobs than its pre-recession high. Unemployment peaked at 10.0% in October 2009. It was 4.7% in February 2017. In 2017, GDP is forecasted by the Federal Reserve to grow 2.0%-2.2%. That provides a modest framework for national job growth since growth of 3.0% is consider "normal."

With just 4.7% of workers unemployed by the traditional measure and 9.2% if workers who left the labor force or are unwillingly working part time are included, the U.S. is at or near its full employment level. The Federal Reserve is thus starting to raise interest rates. The federal funds rate is at 1.0% now and they forecast it going to 1.4%-1.6% this year as they fear that low inflation is ending. In this situation, Freddie Mac indicates its 30 year fixed mortgage rate stood at 4.30% in March 2017, up from a recent low of 3.44% in July-August 2016. The value of the U.S. dollar has strengthened

Continued on page 2

more in recent weeks and stands 29.5% above its 2012 level. This means imports from the world are less expensive to Americans by roughly that percent, while U.S. exports are more expensive to the world. That should help the Inland Empire's logistics sector but hurt manufacturing. West Texas Intermediate oil prices were back to \$48.75 in mid-March 2017, but still down -54.3% from August 2013. This should encourage consumer spending in modest income areas like the Inland Empire.



Source: CA Employment Development Department

INLAND EMPIRE ECONOMIC BASE

The five sectors powering the Inland Empire's economic base are being helped by the national environment:

Logistics. The logistics industry (*wholesale trade; trucking & warehousing*) has been the primary beneficiary. Thus, the stronger dollar has led imported containers entering through the ports of Los Angeles and Long Beach in 2016 to tie for second highest volume at 8.0 million twenty-foot equivalent container units (*teu*). It is on track for a record 8.3 million in 2017 (*Exhibit 10*). Meanwhile, the fact e-commerce continues expanding at a 15% compounded rate has forced even conventional retailers to begin aggressively embracing, creating and staffing large regional fulfillment centers. Their goal is to respond to on-line consumers with same-day deliveries. With its available land for large facilities, almost all of these facilities are locating in the Inland Empire. Inland logistics job growth thus remains strong, adding 8,433 jobs in 2016 to reach 162,100 (*Exhibit 2*). The 2016 median pay in wholesale trade, public warehousing and transportation sectors that make-up logistics was \$45,677 with 83% of workers currently in occupations requiring high school or less schooling. **A gain of 8,500 is forecasted in 2017.**

Construction has generally been one of the Inland Empire's strongest job creators with its 2007 record at 127,500 jobs. The sector faltered from 2006-2011, off -68,400 jobs (-56.3%) (*Exhibit 7*). From 2012-2016, it has added back 33,400 positions including 6,808 in 2016 to be the region's second fastest growing sector and reach 92,500 jobs. However, that still is -35,000 short of the 2007 high. The 2016 median pay in construction was \$51,915. **In 2017, it is forecasted to add 7,500 jobs.**

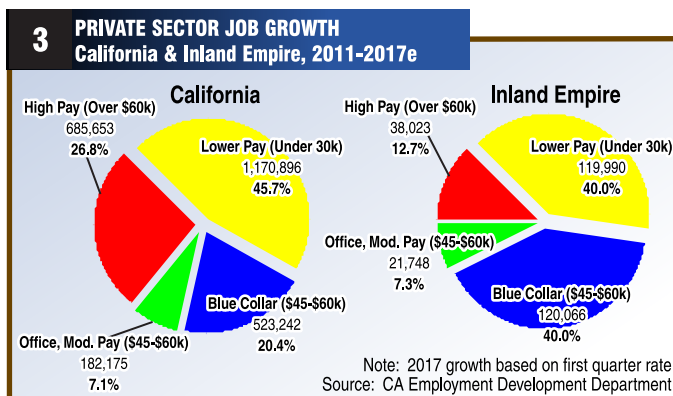
Construction growth is forecasted in 2017 in part because residential pricing is rising rapidly. New homes were up 3.9% from fourth quarter 2015-2016, showing developers have the ability to raise prices. Existing home prices rose 8.7% in this period.

Importantly, with rising existing home prices, homeowners are no longer seeing massive numbers of notices of default. The 5,453 defaults in 2016 were the lowest number since before 2000.

Health care was the only Inland Empire sector to expand its employment throughout the recession (*Exhibit 5*). That growth continues with out-patient clinics, medical offices, hospitals and nursing homes hiring workers. The sector added 4,450 jobs in 2016. Propelling this expansion has been the increasing demand due to the Affordable Care Act (ACA) which saw uninsured local residents fall from 750,957 to 365,374 in 2012-2015, off -385,583 (-51.3%). Also impacting demand are the 1,040,569 residents (23.2%) aged 55 and over and 642,727 under 10 (14.3%). Despite the sector's job growth, the Inland Empire remains underserved with one health care worker for every 34.0 residents versus the state's average of 26.8, a 27.1% greater burden per worker. That fact combined with the poor public health metrics of the inland area means that health care employment will continue growing. In 2016, median pay in the sector was \$59,494. **Given the controversy over the ACA, the health care forecast is restrained to only 3,000 jobs in 2017.**

Manufacturing has had a small but positive impact in bringing outside monies into the Inland Empire's economy. The sector added 2,833 jobs in 2016. Here, the difficulty is the high value of the dollar that discourages exports and brings in competitive foreign imports. Also, growth continues to be restrained due to state regulatory and environmental policies. That is seen in that the U.S. created 771,000 (6.6%) manufacturing jobs from 2011-2017 while California added only 49,500 (4.0%), just 5.4% of the national gain (*Exhibit 7*). The 2016 median pay in the sector was \$50,106. **It is forecasted to create another 2,500 in 2017.**

Higher paying private & public sectors other than health care have added a little strength to the Inland Empire's recent growth (*Exhibit 6*). These sectors include management and professions, all levels of government, colleges, utilities, information and mining. The group tends to rely on workers with Associate of Arts degrees or higher, an inland area weakness (*Exhibit 11*). In 2016, the group gained 2,975 jobs. Private sector jobs in this group



tend to migrate into the Inland Empire or grow internally when its economy is strong. However, the use of the internet has allowed more coastal firms to serve the area remotely. This despite the fact that there are strong needs for professional help by the housing industry, the region's 3.5 million people and an employment base of over 1.4 million jobs. Government employment grows when

increased state and federal funds flow into the area and when local retail sales and property values strengthen. 2016 median pay in these combined higher paying sectors was a strong \$69,864. **It is forecasted to be up another 3,000 positions in 2017.**

Other Sectors. Modest paying non-blue collar sectors in the Inland Empire include K-12 education (*median pay: \$58,112*) and finance, insurance and real estate (*median pay \$50,364*). The local schools grew by 5,117 jobs in 2016 as their budgets expanded significantly. However, financial activities were up by just 1,308 positions again to the use of the internet for many financial transactions as well as the difficulty by realtors to find homes to sell. **K-12 education is forecasted to add another 5,000 positions in 2017. The financial sectors will grow by 1,700.**

Lower paying sectors in the Inland Empire were generally expanding in 2016. This included eating and drinking (6,300), retailing (4,725), social assistance (3,767), administrative support (1,817), other services (1,108), accommodation (992) and amusement (733). This growth was due to the large amounts of the money flowing into the region from basic sectors like logistics, construction and medical care that is re-spent in these sectors. Weather related agriculture (-125) declined. So did employment agencies (-3,742), a traditional result as labor markets tighten. These combined sectors had a median pay of \$29,169. Together, they added 15,500 jobs in 2016. **They are expected to be up another 15,400 in 2017.**

CALIFORNIA'S GROWTH

In 2016, California added 425,925 jobs, up 2.6%. This has brought California's wage and salary employment to a record 16.9 million. The state has added another 335,367 jobs in first quarter 2017 (2.0%), indicating a continuation of solid job growth into this year. In first quarter 2017, California sectors most crucial to the Inland Empire saw job gains, including health care (44,933; 3.1%), professions and management (29,567; 2.1%), construction (24,533; 3.3%) and logistics (37,467; 3.1%), while manufacturing shrank (-7,133; -0.6%). Interestingly, the Inland Empire's growth in early 2017 was faster than California in construction (10.6% to 3.3%), logistics (4.9 to 3.1%), health care (4.0% to 3.1%) and manufacturing (2.5% to -0.6%) plus tied in management and professions (2.1%).

QER 2017 FORECAST

The 2017 Inland Empire forecast is for a gain of 46,600 jobs (3.3%) to 1,415,800, just below the 47,500 (3.5%) in 2016 (*Exhibit 1*). The annual average unemployment rate is predicted to fall to 5.3% from 5.9%. Through first quarter 2017, the area's growth would put the region up by 46,505. The predictions were created sector by sector based upon local trends, with allowance for the area's strengths and weaknesses plus its relationship to California and U.S. trends. All four broad areas of economic activity are expect to grow:

1. Clean Work, Good Paying (Over \$60,000). The Inland Empire's better paying sectors are expected to add 6,000 jobs in 2017, up 1.8% and represent 12.9% of area employment growth. This comes after a gain of 7,600 positions (2.3%) in 2016. Health care will grow by 3,000 jobs, down from 4,400 in 2016 as the sector reacts cautiously to the Affordable Care Act controversy. Local, state and federal government will be up 1,900 and higher education will increase by 800 as their budgets are improving. Managers and pro-

fessionals will add 500 positions. The full group will continue lagging behind other sector groups despite the strengthening economy.

2. Clean Work, Moderate Paying (\$45,000-\$60,000).

In 2017, financial organizations and local school districts will add 6,700 jobs, a gain of 3.9% and account for 14.4% of growth. This is up from 6,500 (3.6%) in 2016. K-12 education will add 5,000 new positions, down from 5,100 last year as school funding still grows. Financial activities will expand by 1,700 positions up from 1,400 as real estate strengthens though internet processing subdues hiring.

3. Blue Collar, Moderate Paying (\$40,000-\$60,000).

The Inland Empire's modestly educated labor force and lower costs for homes and industrial facilities have historically caused its moderate paying blue collar firms to be among its fastest growing sectors. In 2017, this strength continues with the combined group expected to add 18,500 jobs, a growth rate of 5.2% and representing 39.7% of new positions, That is up from a gain of 18,100 (5.4%) in 2016. Logistics will grow by 8,500 workers, the same as in 2016. It is propelled by increases in imports due to a stronger dollar and the expansion of fulfillment centers. Construction sector will again exert itself as the housing market joins industrial and infrastructure building with the sector adding 7,500 jobs after an increase of 6,800 in 2016. Manufacturing will add another 2,500 jobs versus 2,700 in 2016 given the impact of the growing U.S. and world economies.

4. Lower Paying (\$30,000 & Below). Like most U.S. areas, a large portion of the Inland Empire's economy is in sectors that pay lower incomes. In 2017, they are forecasted to add 15,400 jobs (2.8%) and represent 33.0% of employment growth. That would be down from 15,500 (2.9%) in 2016. Growth is believed to slow as families have still not adjusted to prosperity and are tending to be very conservative in their retail, consumer services, travel, eating out and other such consumption activities.

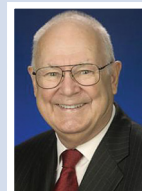
SUMMARY

In 2017, the Inland Empire economy should gain 46,600 jobs (3.3%), after adding 47,500 in 2016 (3.5%). The expansion will continue partly because of the area's traditional advantages for blue collar/technical sectors (*available land, modestly priced labor, growing population*), as well as continued growth in health care, and a small addition of jobs in higher paying sectors. As these sectors add workers, they will bring dollars to the area that then circulate through its population serving sectors causing them to expand as well. Interestingly, 33.0% of growth is forecasted for lower paying sectors and 67.0% in moderate and better paying jobs. That is a good mix as 50%-50% is a more normal distribution. If 2017 performs as forecasted, the share of lower paying jobs for the *full 2011-2017* period shows the Inland Empire (40.0%) with the smallest share than California (45.7%). This is largely due to the importance of its blue collar/technical sectors in its job growth mix. ■

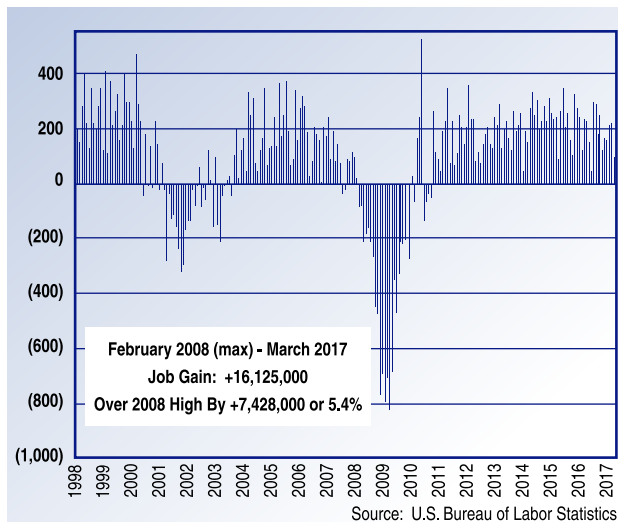
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

www.johnhusing.com

You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.

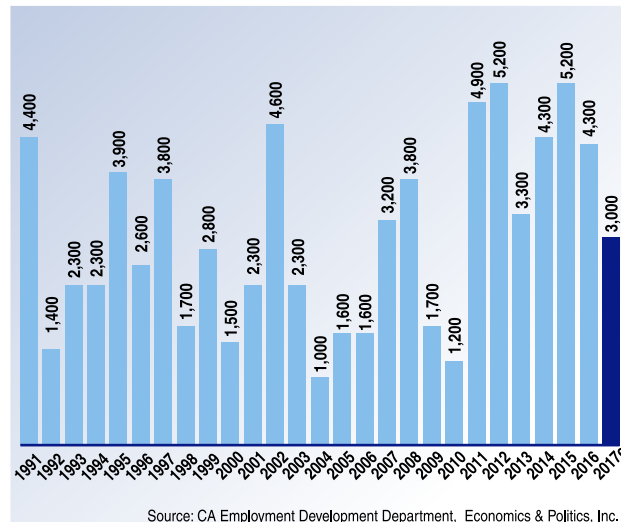


4 JOB CREATION OR DESTRUCTION U.S., 1998-2017, Seasonally Adjusted (000)



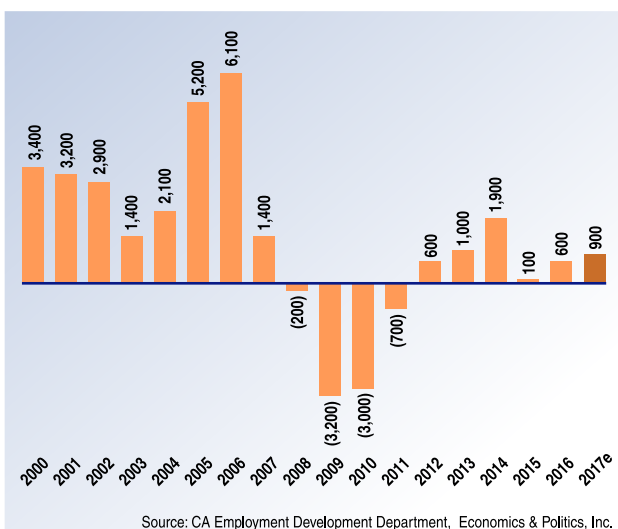
U.S. Job Creation. The deep 2008-2010 U.S. recession eliminated -8.7 million jobs (-6.7%). However, from February 2010 to March 2016, the economy created 16.1 million jobs. That brought total U.S. jobs to 7.4 million over the pre-recession high in February 2008. It means that the ocean of national forces affecting local economies like the Inland Empire are providing a positive environment. This situation is likely to be the norm for the foreseeable future as the relatively modest growth of the U.S. economy has not created the kinds of bubbles that have caused recessions in the last two decades.

5 HEALTH SERVICES JOB GROWTH Inland Empire, 1991-2017e



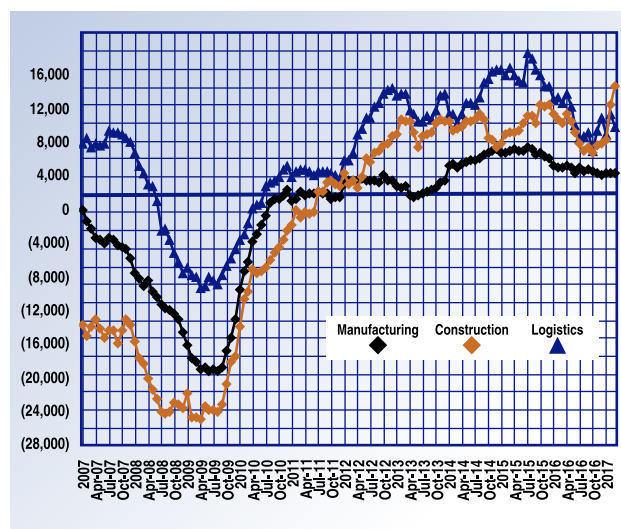
Health Care. Hospitals, ambulatory care and residential care facilities had median pay levels of \$59,494. They represent the only sector of the Inland Empire's economy that did not see job losses through the Great Recession. In the 2011-2016 general recovery period they added 27,300 jobs to reach a record 131,900. However, the confusion created by the political controversy surrounding the Affordable Care Act (ACA) means that the 2017 forecast is for relatively slow growth of 3,000 more jobs. Importantly, the ACA was responsible creating health care demand by lowering the number of uninsured in the inland area from 750,957 to 365,374, off -385,583 or -51.3%.

6 PROFESSIONAL, MANAGEMENT, MINING, UTILITIES, COLLEGES JOB GROWTH Inland Empire, 2000-2017e



Non-Health High Paying Sectors. The Inland Empire's high paying non-health care sectors had a combined 2016 median pay level of \$69,864. Their local employment started the 2000s strongly, adding 25,700 jobs from 2000-2007. The group, which includes management, professionals, colleges, mining, information and utilities, then retreated by -7,100 jobs from 2008-2011 with housing developers and related professionals plunging while financial operations retreated to their coastal centers. A weak recovery occurred from 2012-2016 adding back 4,200 jobs. The 2017 forecast is for 900 more. This group is being hurt by the use of the internet for transactions as well as firms continuing to serve the inland region from their coastal offices.

7 BLUE COLLAR JOB GROWTH Inland Empire, 2007-2017



Blue Collar/Technical Drivers. The Inland Empire's historic strength has been in the blue collar sectors that bring money to it from the outside world. Logistics has been the strongest losing -11,100 in the recession but adding 53,400 jobs from 2011-2016. It is forecasted to add 8,500 in 2017 with median pay of \$45,456. Construction dropped by -68,400 jobs in the recession, but has added back 33,400 by 2016. It is expected to add 7,500 positions this year with median pay of \$51,915. Manufacturing lost 38,300 positions in the recession and has added back 13,800 through 2016. It is forecasted to add 2,500 jobs in 2017 with median pay of \$50,106.

COMPARISON OF 2016 INLAND EMPIRE VS. CALIFORNIA JOB CHANGES

From 2015-2016, the Inland Empire economy added 47,500 jobs, up 3.5%, while California created 425,925 jobs, up 2.5% (*Exhibit 8*). Employment growth in this region represented 11.2% of the jobs created in the state. That said, there are serious differences in the share of job growth found in the inland area versus the state.

HIGH PAYING SECTORS

Among sectors paying median incomes of \$60,000 and above, the Inland Empire's share of growth in two sectors was far below those for California during 2016. These were in management and professions (0.7% v. 6.8%) and information (0.3% v. 8.6%). This underscores the lack of growth in these sectors that has traditionally affected the inland counties. Smaller differences in the importance of three other such sectors to job growth also underline the difficulties the inland area is having with high paying work: health care (9.4% v. 9.7%), higher education (1.5% v. 2.9%), federal and state (1.0% v. 1.3%), and utilities (-0.1% v. 0.2%). Of the good paying sectors, the Inland Empire was favored and only slightly by shares of its employment change in local government (3.8% v. 3.6%) and mining (-0.9% v. -1.0%).

MODERATE PAYING SECTORS

Of sectors paying \$45,000-\$60,000, the share of 2016 job growth in office based operations was split compared to the state. K-12 education employment gains (10.8% v. 6.4%) were a much higher share of the Inland Empire's growth, while financial activities were a smaller share (2.8% v. 5.1%). Here we see the state's new priority for school funding to favor poorer districts in play. However, the tendency of finance, insurance and real estate firms to serve the inland area from their coastal county offices also shows up.

Also seen in the data is the enormous strength of the Inland Empire for blue collar/technical firms. For the area, the strength in logistics was a huge share of local job growth in 2016 (17.8% v. 8.5%) compared to the state. The same was true in construction (14.3% v. 9.9%) as well as manufacturing (6.0% v. 1.0%). These facts underscore the competitive advantages of the region

8 INLAND EMPIRE JOB GROWTH SHARES 2015-2016

Sector	IE: Job Change	% of Job Growth	Growth Rate	CA: Job Change	% of Job Growth	Growth Rate	IE Share of Growth More or Less Than CA
Health Care	4,450	9.4%	3.5%	5,717	9.7%	2.8%	-0.3%
Local Government	1,783	3.8%	2.4%	15,433	3.6%	1.9%	0.1%
Higher Education	708	1.5%	3.9%	12,392	2.9%	3.0%	-1.4%
Federal & State	475	1.0%	1.3%	908	1.3%	1.1%	-0.3%
Mgmt & Professions	325	0.7%	0.7%	28,942	6.8%	2.0%	-6.1%
Information	158	0.3%	1.4%	36,750	8.6%	7.0%	-8.3%
Utilities	(67)	-0.1%	-1.3%	(4,267)	0.2%	1.5%	-0.4%
Mining	(408)	-0.9%	-31.8%	41,242	-1.0%	-17.4%	0.1%
Clean Work, Good Pay	7,425	15.6%	2.3%	137,117	32.2%	2.6%	-16.6%
K-12 Education	5,117	10.8%	4.2%	27,292	6.4%	2.4%	4.4%
Financial Activities	1,308	2.8%	3.0%	21,617	5.1%	2.6%	-2.3%
Clean Work, Moderate Pay	6,425	13.5%	3.9%	48,908	11.5%	2.5%	2.0%
Distribution & Transportation	8,433	17.8%	5.5%	36,325	8.5%	2.9%	9.2%
Construction	6,808	14.3%	7.9%	4,092	9.9%	5.5%	4.4%
Manufacturing	2,833	6.0%	2.9%	42,275	1.0%	0.3%	5.0%
Dirty Work, Moderate Pay	18,075	38.1%	5.4%	82,692	19.4%	2.5%	18.6%
Eating & Drinking	6,300	13.3%	5.4%	51,742	12.1%	3.8%	1.1%
Retail Trade	4,725	9.9%	2.7%	21,200	5.0%	1.3%	5.0%
Social Assistance	3,767	7.9%	6.3%	31,567	7.4%	4.4%	0.5%
Other Services	1,817	3.8%	3.6%	11,783	2.8%	2.1%	1.1%
Admin. Support	1,108	2.3%	2.5%	17,158	4.0%	2.8%	-1.7%
Accommodation	992	2.1%	6.0%	3,367	0.8%	1.5%	1.3%
Amusement	733	1.5%	4.0%	12,692	3.0%	4.2%	-1.4%
Agriculture	(125)	-0.3%	-0.8%	4,408	1.0%	1.0%	-1.3%
Employment Agency	(3,742)	-7.9%	-7.5%	3,292	0.8%	0.7%	-8.7%
Lower Paying Jobs	15,575	32.8%	2.9%	157,208	36.9%	2.5%	-4.1%
Total, All Industries	47,500	100.0%	3.5%	425,925	100.0%	2.5%	

Source: CA Employment Development Department; Economics & Politics, Inc.

in these fields but also the long term worry as technology impacts each of these groups.

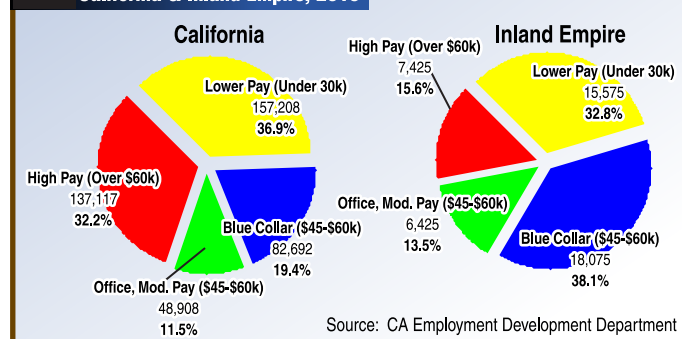
LOW PAYING SECTORS

There was a significant difference in the share of growth in sectors paying median incomes of \$30,000 and below during 2016 in the Inland Empire compared to the state. A much large shares of growth was in retail trade (9.9% v. 5.0%). Smaller positive differences in the shares of job growth occurred in eating & drinking (13.3% v. 12.1%), other services (3.8% v. 2.8%) possibly related to the high levels of consumption in a lower income area. Similarly, social assistance was more important to job growth (7.9% v. 7.4%). Accommodation's share showed the influence of the Coachella Valley's tourist areas (2.1% v. 0.8%). The inland region's growth saw a far smaller share of jobs growth in employment agencies though this may be a state data error (-7.5% v. 0.8%). There were also somewhat smaller shares in administrative support (2.3% v. 4.0%), amusement (1.5% v. 3.0%) and agriculture (-0.3% v. 1.0%).

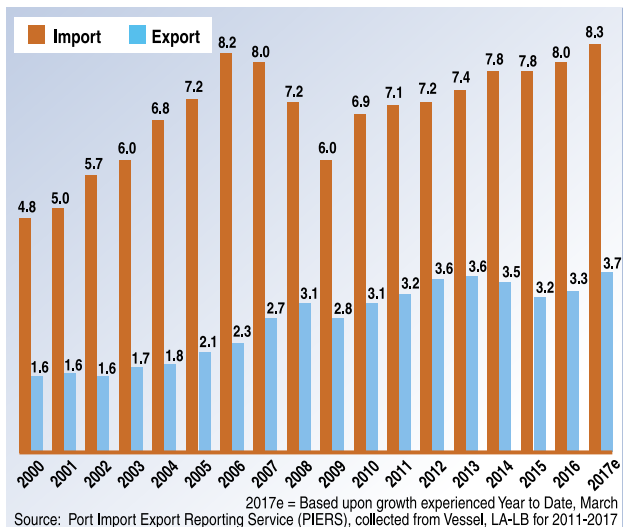
SUMMARY

The differences in job growth between the Inland Empire and California show the very different competitive advantages for the inland area compared to the state generally. Blue collar/technical jobs continued as a local strength and a state weakness in 2016 (*Exhibit 8*). To a lesser extent, this is also true of K-12 education, social assistance and consumption sectors given the inland areas lower incomes. On the other hand, management, professions, information, financial sector, administrative support and employment agency jobs are a state strength and an inland weakness. As economic development professionals look at this information, the desire to overcome the weakness in high paying jobs is clearly a daunting one. Also, the strength in blue collar/technical jobs is scary given that technology is targeted on eliminating this form of work as does the impact of much of California's regulatory environment. ■

9 JOB GROWTH California & Inland Empire, 2016

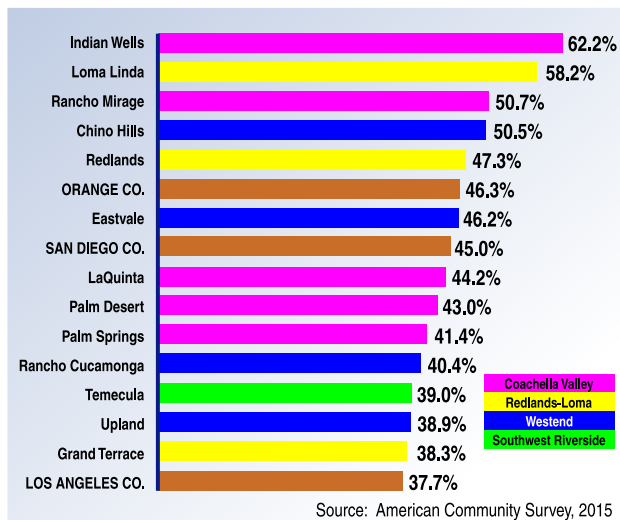


10 IMPORT & EXPORT CONTAINER VOLUME Ports to Los Angeles & Long Beach (mil. teus)



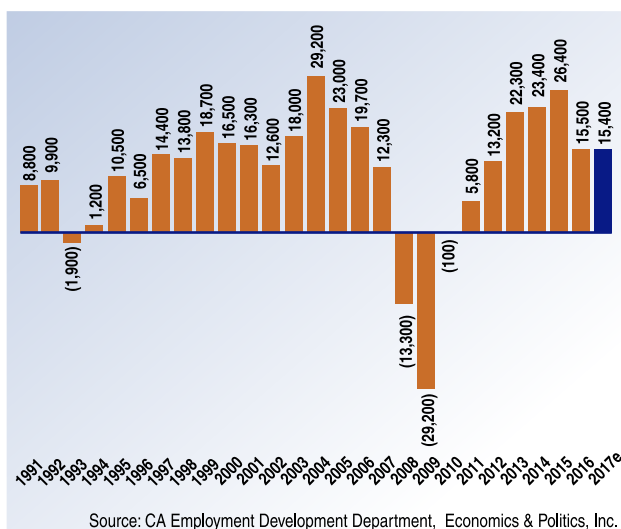
Port Volumes. A key driver of the Inland Empire's economy is the volume of cargo flowing through the ports of Los Angeles and Long Beach. In 2017, the two ports are on track to see imported containers reach 8.3 million 20-foot equivalent containers (*teus*), a record and up 4.3% or 340,167 containers from 2016. Along with e-commerce, which continues growing nationally at 15% compounded, this volume will mean sustained strong growth in trucking and warehousing jobs in the Inland Empire. Despite the strong dollar, exported containers are also growing rapidly in 2017, up 10.0% and headed for a record 3.7 million teus.

11 SHARE ASSOCIATES DEGREE OR HIGHER Inland Empire Cities, 2015



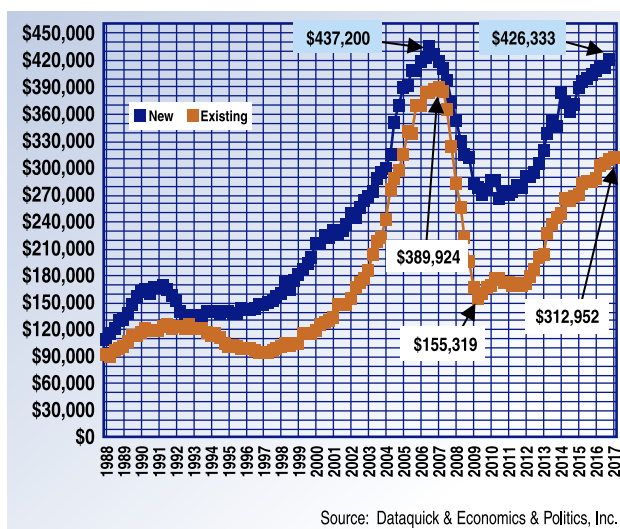
AA Degrees & Above. The Inland Empire's educational attainment has inhibited the ability of its professional, engineering, managerial and scientific sector to grow. For the inland area, just 28% of adults have Associate of Arts (AA) or higher degrees well below Los Angeles (38%), San Diego (45%) and Orange (46%) counties. Of the 52 inland cities, five have adults with stronger AA and above educations than Orange County; one is below that and above San Diego County and seven are below Orange County and above Los Angeles County. These are the cities where labor exists that will allow the inland area to compete with its coastal neighbors.

12 LOWER PAYING SECTORS Inland Empire, 1991-2017e



Lower Paying Sectors. The Inland Empire's lower paying sectors have median pay levels under \$30,000. They represent roughly 40% of employment as money brought by other sectors changes hands in local stores and service outlets. During the Great Recession from 2008-2010, these sectors lost 42,600 jobs as the dollars moving through the local economy shrank. In the 2011-2016 recovery, they added back 106,600 positions as the flow of money into the region increased. That was 64,000 more jobs than were lost. In 2017, the forecast is that these sectors will grow by a modest 15,400 jobs. Among others, this group includes eating and drinking, retailing, accommodations and entertainment as well as social, business and consumer services.

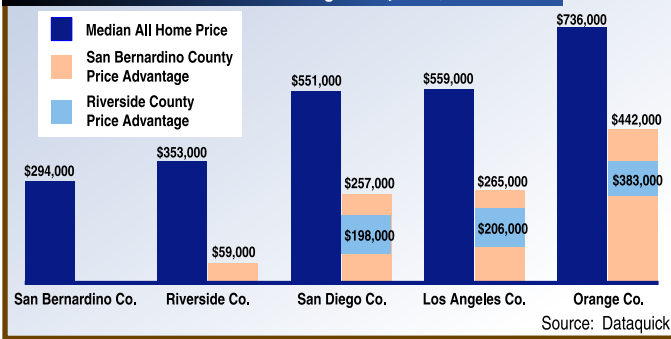
13 PRICE TRENDS, NEW & EXISTING HOMES Inland Empire, 1988-2017, Quarterly



Residential Prices. During first quarter 2017, the Inland Empire's residential prices have continued rising. Existing median home prices rose from \$288,936 in first quarter 2016 to \$312,952 in 2017, up \$24,017 or 8.3%. Since the 2009 low of \$155,319, prices have more than doubled (101.5%) but remain -19.7% under the \$389,924 high in 2006. Since many homes sold at the 2005-2007 peak were overpriced and purchased with questionable mortgages, prices need not reach the record highs for the market to be normal since many were lost to foreclosures. New homes reached \$426,333 in 2017, up 3.9% from \$410,148 in first quarter 2016. That was just -2.5% under the 2006 record of \$437,200.

INLAND EMPIRE HOUSING MARKET HEADED TOWARDS "NORMAL"

14 HOME PRICES, SO. CALIFORNIA MARKETS Median Priced New & Existing Home, 1st Quarter 2017



In first quarter 2017, the Inland Empire's residential market appears to be slowly moving into expansion mode. As indicated early (*Exhibit 7, page 4*), construction employment has grown for five straight years including 6,808 jobs in 2016 and a forecast of 8,500 for 2017. Meanwhile, total permit valuations are up and notices of 5,453 in 2016 were the lowest since before 2000. In addition, the inland region's residential prices have increased significantly, up 101.5% (*existing*) and 59.0% (*new*) from their all time lows in 2009 (*Exhibit 13, page 6*).

PRICES

In first quarter 2017, the traditional pricing opportunities in the Inland Empire's housing market remain in place (*Exhibit 14*). In 1st quarter 2017, the median priced San Bernardino County home sold at \$294,000 while in Riverside, it was \$353,000 (*half higher/half lower*). Compared to San Diego County (\$551,000), families can save \$198,000-\$257,000 migrating inland. Los Angeles County buyers (\$559,000) can save \$206,000-\$265,000 moving inland. In Orange County (\$736,000), a family can save \$383,000-\$442,000 on the median house. As people begin to desire homes, these differentials are starting to drive the Inland Empire's home markets.

VOLUME

Though home prices have recently increased significantly, volume has finally begun to rise after being stuck the past six

years. Seasonally adjusted new and existing sales in first quarter 2017 were 16,750 units, highest in 20 quarters (*Exhibit 16*). Added growth should continue for the rest of 2017 now that millennials are aging and starting to form families and consumer confidence is soaring.

Looking at raw volume data, Riverside County had 7,048 existing home sales in first quarter 2017, up 4.9% from 6,721 in 2016 (*Exhibit 15*). San Bernardino County had 5,536 existing home sales, up 8.8% from 5,086 in first quarter 2016. By sub-market, Moreno Valley had the largest percentage gain in volume (508; 12.1%) though total volume was dominated by the South I-215 area (1,530; -0.1%). In San Bernardino County, the San Bernardino-Highland area led in percentage gain (736; 13.6%) while the Victor Valley led in volume (1,181; 10.4%).

New home sales are also showing some life. Riverside County's first quarter 2017 volume was 1,188, up 1.4% from

15 HOME DEED RECORDINGS Inland Empire, 1st Quarter, 2016-2017

NEW HOMES				EXISTING HOMES			
Area	1 st -2016	1 st -2017	% Chg.	Area	1 st -2016	1 st -2017	% Chg.
San Bernardino, Highland	65	103	58.5%	San Bernardino, Highland	648	736	13.6%
Redlands, Loma Linda, Yucaipa	18	26	44.4%	SB Desert	432	482	11.6%
SB Mountains	7	8	14.3%	Victor Valley	1,070	1,181	10.4%
Chino, CHill, Mtcl, Ont, RC, Upl	252	255	1.2%	Fontana, Rialto, Colton, GT	851	929	9.2%
SB Desert	9	8	-11.1%	SB Mountains	561	611	8.9%
Fontana, Rialto, Colton, GT	147	130	-11.6%	Redlands, Loma Linda, Yucaipa	417	449	7.7%
Victor Valley	66	51	-22.7%	Chino, CHill, Mtcl, Ont, RC, Upl	1,107	1,148	3.7%
SAN BDNO COUNTY	564	581	3.0%	SAN BDNO COUNTY	5,086	5,536	8.8%
Riverside, Jurupa Valley	109	140	28.4%	Moreno Valley	453	508	12.1%
Murrieta, Temecula, L. Elsinore, Wildomar	266	322	21.1%	Coachella Valley	1,107	1,222	10.4%
Moreno Valley	32	35	9.4%	Murrieta, Temecula, L. Elsinore, Wildomar	1,277	1,374	7.6%
Perris, Hemet, S. Jacinto, Menifee	241	254	5.4%	Riverside Rural	473	507	7.2%
Riverside Rural	56	55	-1.8%	Corona, Norco, Eastvale	712	747	4.9%
Beaumont, Banning, Calimesa	105	96	-8.6%	Riverside, Jurupa Valley	824	845	2.5%
Coachella Valley	125	99	-20.8%	Perris, Hemet, S. Jacinto, Menifee	1,531	1,530	-0.1%
Corona, Norco, Eastvale	238	187	-21.4%	Beaumont, Banning, Calimesa	344	315	-8.4%
RIVERSIDE COUNTY	1,172	1,188	1.4%	RIVERSIDE COUNTY	6,721	7,048	4.9%
INLAND EMPIRE	1,736	1,769	1.9%	INLAND EMPIRE	11,807	12,584	6.6%

Source: Dataquick

1,172 in 2016 with the largest percentage gain in Riverside-Jurupa Valley (140; 28.4%). The volume leader was Southwest County (322; 21.1%). San Bernardino County's volume was 581 units, up 3.0% from first quarter 2016's volume of 564. Again, San Bernardino-Highland had the largest percentage gain (103; 58.5%). The area west of the I-15 freeway continued to lead in volume (255; 1.2%).

SUMMARY

As indicated, there is some indication that the Inland Empire's housing markets are finally pulling out of the doldrums. Certainly, prices are soaring with new homes (\$426,333) just -2.5% below their historic peak (\$437,200). Existing homes (\$312,952) remain -19.7% below their highest price (\$389,924) but many of the homes sold at that high level have long since been lost to foreclosures. Looking ahead, interviews with realtors indicated the highest optimism among them in several years with their difficulty being a lack of supply to sell to the growing number of potential buyers. Ultimately, this should translate into more new home construction. ■

16 ALL HOME SALES, INLAND EMPIRE Seasonally Adjusted, by quarter, 1988-2017

