REGIONAL INTELLIGENCE REPORT

SAN BERNARDINO COUNTY

First Edition

April 2017

Prepared by

UC RIVERSIDE University of California School of Business

CENTER FOR ECONOMIC FORECASTING & DEVELOPMENT

United States

The Unknown Unknowns

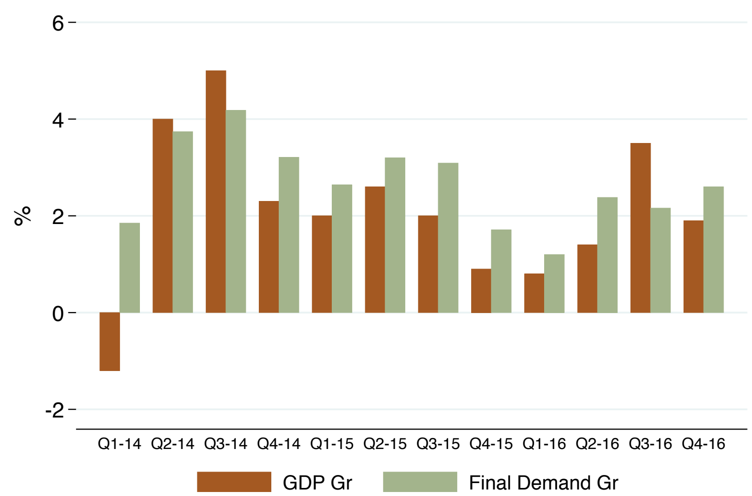
The U.S. economy has started 2017 with two distinctly opposing trends forming in terms of the outlook for the year. The economy is clearly starting to pick up momentum despite what looks to be a slow start to the year. Strong labor markets, a stronger global economy and the revival of the mining industry suggests overall growth in 2017 will be better than 2016. On the other hand, policy uncertainties coming out of Washington DC are as great as ever, even as the new administration moves into its 4th month.

The net result is that while Center for Forcasting point estimate for growth in 2017 has been increased slightly to slightly less that 2.5% growth for the year, but the range of variance around this estimate is also widening. In other words, uncertainty is the biggest issue the nation is dealing with.

Taking a look at current economic trends, U.S. economic growth in the last quarter of 2016 came in at a weaker than expected 1.9% and may be even lower for the first quarter of this year—perhaps as low as 1% given the current reading. But these top line numbers belie growing momentum in the economy.

The fourth quarter growth rate was pushed down by a very large jump in the nation's trade deficit, yet in contrast domestic demand (driven by increases in consumer, business, and government spending) grew at a 2.6% pace of growth—the best since the third quarter of 2015. As for the weak first quarter—this is a pattern in the data seen continuously since 2010, with a sharp slowing of consumer spending pushing the growth number down after a big holiday spending binge. The result is that estimates of growth for these first quarters have averaged 1%, while the final three of the year averaging 2.5%. Why the seasonal adjustment process has not ironed out this persistent pattern is hard to say.

GDP and Final Demand Growth



Source: Bureau of Economic Analysis

Beyond overall GDP growth, plenty of other indicators that the U.S. economy is gathering momentum. Industrial production estimates from the Federal Reserve have been rising since last fall, while the ISM indexes for both manufacturing and services continue to rise as well. These improved outcomes are being driven by global economy that is back on a growth track with better than expected numbers coming out of many corners of the globe including Europe, China and Japan, all which beat expectations for growth. U.S. exports have expanded accordingly, despite the rising value of the U.S. dollar. The oil slump is also reversing itself. New well construction is rising again, and oil production is back over 9 million barrels per day. These gains are reflected in increased business investment and rising corporate profits.

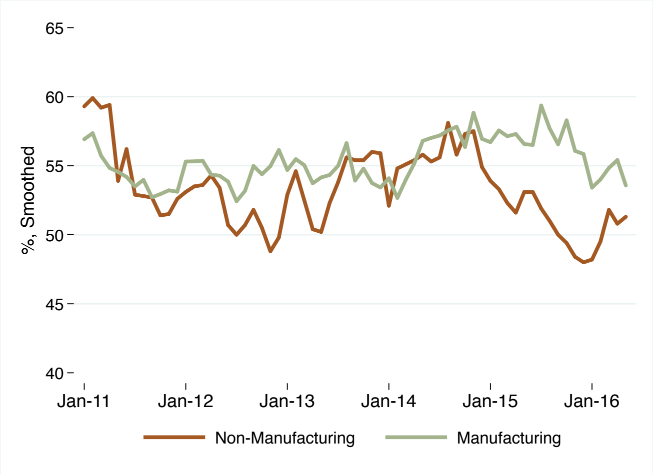
And it isn't just business experiencing better times. Also significant is the nation's increasingly tight labor market and the influence that is having on consumer spending. The headline U.S. unemployment rate is well below 5%, even as job openings remain close to an all-time high level. The net result has been an increase in wages as well as a sharp acceleration in labor force growth with workforce participation rates starting to climb again. This has been driving consumer spending even as credit expansion continues to move forward at a sustainable pace. The brief slowing of spends in Q1- related to cars and utilities- is simply going into savings, money that will be spent later in the year.

As for the new presidential administration, its first two major efforts on immigration and healthcare have been met with legal setbacks and a failure to find consensus among Republicans. The net result has been to throw other agenda items—including a sharp cutback in Federal spending on various discretionary programs, trade pact modifications, regulatory changes in connection with Dodd Frank, and tax reform—into uncertainty as well. The policy changes that might emerge from Washington DC over the next few months are simply unknown. This makes it very difficult to gage any particular impacts, positive or negative, and integrate them into the forecast.

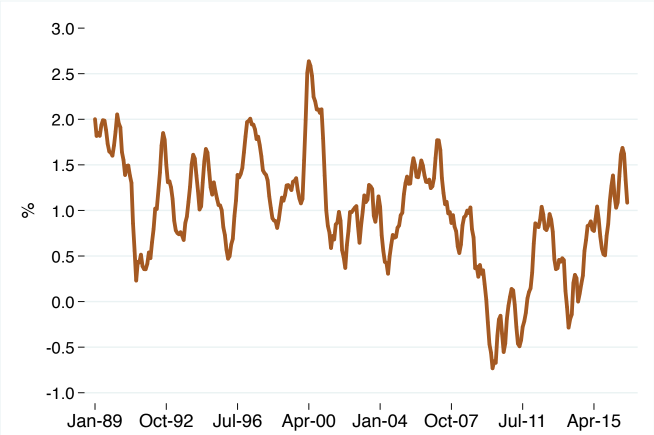
Of course, the entire conversation out of Washington has aggressively steered clear of Federal entitlements, all of which are about to see a rapid acceleration in spending growth due to the Baby Boomer generation moving into retirement. By our internal calculations without any changes in tax policies Medicare by itself will rise from using 18% of current revenues to over 40% in 2035.

Realistically, the long range outlook for the deficit is grim regardless of President Trump's budget changes unless the nation is willing to face these very real issues, something that is highly unlikely in today's political environment where even basic decisions such as raising the debt ceiling have become hyper-partisan.

ISM Diffusion Indexes



US Civilian Labor Force Growth



Source: U.S. Bureau of Labor Statistics

Uncertainty about the direction of the nation seems to fly in the face of the stock market's ongoing rally. The market's focus is exclusively on profits and the potential for corporate tax cuts. Wall Street may only start to worry if President Trump's tax cut proposals look less likely to succeed, which may cause the market to lose ground over the rest of the year.

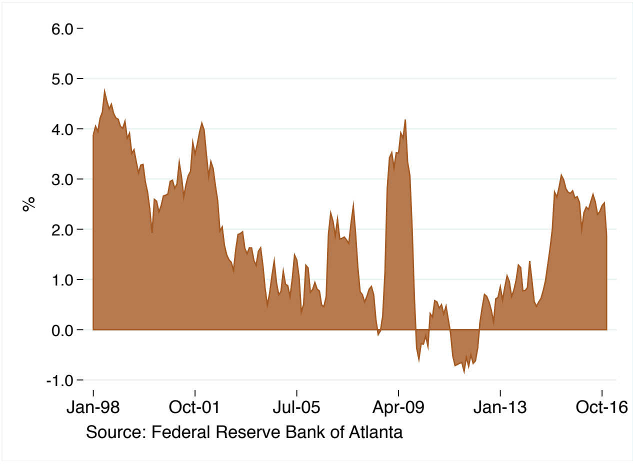
Then there is the Federal Reserve. The Fed has now raised rates three times in the last 6 months—a very sharp pace. The justifications for the increases are typical—that a full labor market implies that they need to back off the stimulus before creating inflation. But such a concern is of limited value in today's economy.

First, inflation is still low by historical standards and money supply growth is also constrained (hard to see any nascent issues here). Second, the Philips curve (the inverse relationship between inflation and unemployment) is hardly existent in a low inflation world. Lastly, the Fed typically chases a rise in the 10-year bond rate—responding to a steepening yield curve. The current move keeps the spread at well below 2 percentage points—very low from a long-term standpoint and even low relative to the spreads seen since the start of the Great Recession.

Trying to ascertain what is on the minds of the people at the Federal Reserve Banks is impossible in the best of times. Are they really concerned about inflation? Or are they more concerned about the potential for a new Trump driven bubble, which could take place if there is a strong fiscal stimulus applied to a full employment economy? Or is there some other motivation—such as heading off an effort by Congress to assert some control over the Federal Reserve after years of complaints about the Fed's loose monetary policies? We don't really know so it's difficult to say just how far the Fed will go in flattening the yield curve.

All this mystery only adds to the overall confusion about where the economy is headed next. Clearly the basis for moderate growth is in place, but how changes in policy will add or detract from these fundamentals is impossible to say. As we move through the year, beware the unknown unknowns.

Year over Year Growth Real Median Wage



10 Year Treasury - Federal Funds Rate

California

Slower Growth Ahead

California stands to be significantly impacted by shifts in the political environment that have characterized President Trump's first three months in office. With a large foreign-born population (foreign-born residents made up more than one-quarter of California's population in 2015, compared to 13% for the United States as a whole) and a significant amount of the nation's trade passing through its ports and over its borders, the state economy is hard-wired to the rest of the world. The Administration's desire to enact a travel ban along with its positions on trade have significant implications for many parts of the California economy. California government officials and business leaders are challenging the Administration on these issues and other policy fronts such as environmental regulation and infrastructure investment. State leaders will need to ensure that decisions from Washington work for the California economy, as well as its businesses and residents.

The California economy generally tracked the national economy as it advanced throughout 2016. The state's unemployment rate fell to it lowest in 10 years at 5.1% in January 2017, marginally higher than the U.S. rate. California's real Gross Domestic Product in the third quarter of 2016 (latest available data) grew 3.3% over the prior quarter in annualized terms, approximately on par with the nation's 3.5% rate in that period. For all of 2016, the pace of economic growth in both California and the U.S. was slower than in 2015. Meanwhile, California continues to get significant contributions from the tech sector, which accounted for 30% of the state's economic growth in the third quarter. Two other sectors, Transportation and Logistics and Finance and Insurance each accounted for 14%, and Durable Goods Manufacturing accounted for 12%.

Industry Employment for California (Jobs in thousands)

Industry	Jan-16	Jan-17	Yr-to-Yr	YTY% Changes
NR/Construction	787.90	800.4	12.5	1.6%
Manufacturing	1,309.30	1,304.50	-4.8	-0.4%
Wholesale Trade	719.40	732.2	12.8	1.8%
Retail Trade	1,671.10	1,680.10	9	0.5%
Logistics	572.10	589.7	17.6	3.1%
Information	511.80	531.7	19.9	3.9%
Financial Activities	814.60	833.2	18.6	2.3%
Prof Sci Tech	1,206.20	1,239.00	32.8	2.7%
Management	224.90	227.2	2.3	1.0%
Admin Support	1,089.70	1,089.30	-0.4	0.0%
Education	350.00	364.1	14.1	4.0%
Health Care	2,147.70	2,226.20	78.5	3.7%
Leisure and Hospitality	1,874.60	1,917.90	43.3	2.3%
Other Services	550.40	564.9	14.5	2.6%
Government	2,486.80	2,546.50	59.7	2.4%
Total Nonfarm	16,317.10	16,647.60	330.5	2.0%

Source: EDD, Complied by Center for Forecasting

The state has continued to experience steady but somewhat slower job growth as it has entered 2017. Wage and salary jobs rose by 2.0% year-over-year in January 2017, considerably lower than the 3.2% growth rate a year earlier. In the private sector, Health Care made the largest contribution, followed by Leisure and Hospitality, Professional Services, and Information. The Government sector also saw a significant gain mostly due to hiring by local school districts. These five sectors accounted for two-thirds of the 330,500 jobs added during the period. Private Education, Information Health Care, and Logistics experienced the largest percentage gains, while job losses occurred in Manufacturing (4,800 jobs or 0.4%) and Administrative Support (400 jobs or less than 0.1%). Having finished out 2016 with the highest annual employment on record despite the drought and the strong dollar, Agriculture posted an impressive 2.4% yearly job gain in January 2017.

Regionally, virtually all the metro areas of the state saw yearly job gains in January 2017. Among the MSAs with more than 100,000 jobs, the Modesto MSA led the way with a 3.6% increase from January 2016 to January 2017, followed by the Inland Empire, the Fresno MSA, and the Oakland MSA. As usual, Los Angeles County led in terms of absolute job gains adding 84,500 jobs.

Housing Outlook Mixed

The picture for California housing continues to be mixed. In general, prices have advanced modestly despite hurdles that have limited sales activity. Outside of the San Francisco Bay Area, home prices have yet to surpass their pre-recession peaks. Demand for homes has been sustained by low interest rates but has also been impeded by limited inventories, high underwriting standards, and large down payment requirements. On the supply side, existing home sales have been well below their long run averages, while new home construction has been relatively weak since the recession. Meanwhile, with the homeownership rate at its lowest level in decades, high demand for rental units has driven rents up and rental vacancy rates down.

The outlook for housing in 2017 is mixed. With growing incomes, more households will seemingly be in a position to become homeowners. However, interest rates are expected to rise, as will prices, and it appears that lenders are ratcheting up their lending requirements.

High Rents Across California's Metro Area

Location	Annual Wages ($)	Monthly Rents	Rent as % of Wage/Mo
Santa Cruz	49,364	1,954	47
Sonoma	51,878	1,598	37
San Joaquin	45,401	1,084	29
Orange	62,666	1,799	34
Monterey	47,141	1,418	36
Tulare	39,552	878	27
Santa Barbara	53,240	1,511	34
San Bernardino	46,874	1,262	32
Riverside	45,622	1,262	33
Contra Costa	67,516	2,112	38
San Diego	61,233	1,669	33
San Francisco	106,151	2,932	33
Alameda	73,889	2,112	34
Fresno	42,616	915	26
Kern	45,901	957	25
Sacramento	58,979	1,178	24
Santa Clara	120,947	2,468	24

Source: QCEW, Compiled by Center for Forecasting

A just released Federal Reserve Bank Senior Loan Officer Survey suggests that already tight consumer credit standards have become more stringent as the economy's expansion has lengthened and raised concern in the lending community about a forthcoming slowdown. Meanwhile, the rental market will offer little relief as renters face yet another year of rent hikes, prompting concern about affordability in many communities around the state.

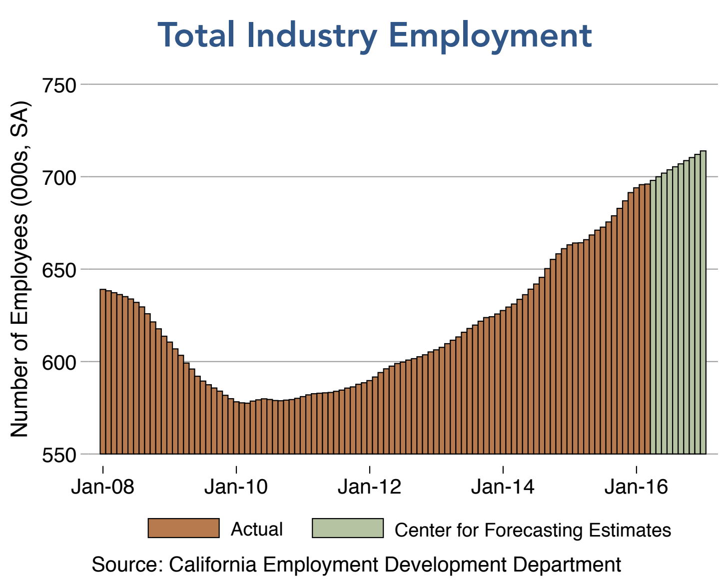
Conclusion and Statewide Policy Issues

It will take time for policy changes in D.C. to work their way through the political process. As such, California and its regions should experience continued growth in economic activity and jobs throughout 2017, with the largest contributions to employment coming from Health Care, Leisure and Hospitality, and Professional Services. Meanwhile, California must deal with its own homegrown issues. In addition to housing affordability concerns, the state must face up to long-run water problems, even though the precipitation of recent months has alleviated severe drought conditions across most of the state. And as the situation at Lake Oroville has demonstrated, decades of neglected maintenance and repairs have contributed to a significant infrastructure investment deficit. The state and its regions must do more to ensure that the all-important statewide water system, which ties north to south and inland California to coastal California, will be up to the task in the future. More generally, California must find ways to address and finance its infrastructure needs in transportation and other systems to support a growing state economy in the decades ahead.

County of San Bernardino

Employment

The economy of the County of San Bernardino continues to pick up steam. Center for Forecasting estimates that total nonfarm employment in the County grew by 2.9% to roughly 714,000 jobs in January 2017, outpacing growth in the state (2.0%) but not in the Inland Empire overall (3.2%). Although the rate of job growth slowed nationally and locally in recent months, the County of San Bernardino continues to chug along, experiencing year-over-year growth in total nonfarm payrolls for more than six years. Significant gains in the labor market occurred in the Transportation and Warehouse sector, the fastest growing sector in the County, which posted year-over-year gains of 6.1%. The Education and Health Care industry added nearly 5,000 jobs in the last year, accounting for nearly 25% of the gains in nonfarm employment.



It is often useful to characterize sectors that expand the economic pie as "external industries" and ones that serve primarily the local population as "internal industries." The Transportation and Warehouse, Manufacturing, and Leisure and Hospitality industries are the County's most prominent external industries. Although some individual categories in these sectors serve local consumers and businesses, many sell goods or services to customers outside the County, and these "exports" are a source of new income to the region. Internal industries include Health Care and Social Assistance, Food and Beverage Establishments, many of the individual categories within Financial Activities, and Other Services, which serve mainly the local population.

Exceptional growth occurred in a number of key industries in both the internal and external categories. Wage and population gains have been fueling growth in many internal industries, most notably Education and Health Care. A deeper dive into the latest data produced from the Quarterly Census of Wages and Employment (QCEW) shows robust growth in ambulatory health care services and offices of health care practitioners in the County, which increased payrolls 6.3% and 11.4% respectively from the third quarter of 2015 to the third quarter of 2016. The health care industry in San Bernardino County stands to benefit from a recent agreement to open a medical school in the City of Colton. The San Bernardino County Board of Supervisors approved a $10- million, five-year agreement to support the University of California's effort to establish the school.[1]

San Bernardino's population growth over the last several years has been fueled primarily by natural increases: births minus deaths. Although the County experienced an increase in net migration in 2016 in addition to a substantial increase in births, its population growth occurred at roughly the same pace as the state's.

As the County's population continues to increase, vital services like health care will continue to expand. Additionally, aging Baby Boomers will drive demand for health care.

The region's tourism industry is also helping drive employment growth in the County. Leisure and Hospitality, an external industry, grew at the second fastest pace in the County. Leisure and Hospitality wages also posted solid gains. From the third quarter of 2015 to the third quarter of 2016, its average annual wage increased 10.5% to roughly $20,500. Although this is not on par with the average wage across all industries in the County, strong gains in consumer-facing industries continue to be a significant source of new jobs, as are external industries that contribute to the County's economy.

Another County asset is Ontario International Airport, ownership of which was recently transferred from Los Angeles World Airports to the City of Ontario. The airport's traffic levels have yet to recover to pre-recession levels, although passenger volumes at Los Angeles International Airport and John Wayne Airport have recovered. As of 2015, annual passenger volumes and freight tonnage at Ontario International Airport amounted to 58% and 96%, respectively, of peak volumes recorded in the Inland Empire overall.

However, according to the Southern California Association of Governments' projections, the airport could see between 11 million and 19 million passengers annually by 2035, at minimum an increase over 2015 passenger volumes by a factor of 2.6. New airport leaders plan to expand international flights, bringing in more passengers and cargo from abroad, especially from China and South Korea. Recently, the vice chairman of the San Bernardino County Board of Supervisors traveled to China to discuss a potential deal to open a TISCO steel factory in the region.[2] Executives at the airport also have begun efforts to attract major Chinese courier companies to use Ontario International as a hub for the United States and Latin American markets.

While efforts are underway to integrate the County of San Bernardino with the global economy, County officials are also

Employment by Industry in San Bernardino County

Variable	17-Jan	YOYDiff	YOYChg
Transport/Warehouse	67,640	3,900	6.1
Leisure & Hospitality	73,190	3,760	5.4
Other Services	19,920	950	5.0
Education/Health	112,740	4,970	4.6
NR/Construction	36,950	1,490	4.2
Retail Trade	88,640	2,890	3.4
Government	120,280	2,960	2.5
Prof, Sci, Tech, & Mgmt	27,010	630	2.4
Real Estate	8,110	130	1.6
Finance & Insurance	15,000	200	1.4
Manufacturing	39,160	460	1.2
Wholesale Trade	38,930	130	0.3
Information	5,080	-40	-0.8
Admin Support	58,450	-2,880	-4.7
Total Nonfarm	713,930	19,950	2.9

Source: EDD

Average Annual Wages in San Bernardino County

Industry	2016-Q3	YTY % Change
Education	50,656	-0.9
Information	55,548	-2.9
Other Svcs.	35,146	6.4
Transport/Warehouse	51,576	9.1
Leisure and Hospitality	20,479	10.5
Health Care	51,538	13.3
Manufacturing	55,291	5.3
Fin. Svcs. and Real Estate	60,581	10.5
Retail Trade	32,017	7.4
Wholesale Trade	58,177	6.3
NR/Construction	58,115	7.9
Prof, Sci, Tech, and Mgmt	66,194	9.4
Admin Support	32,481	16.2
Government	58,709	2.9
Total Private	44,696	9.1

Source: QCEW

[1]http://www.sbsun.com/government-and-politics/20170307/san-bernardino-county-awards-new-colton-medical-school-a-10-million-contract

[2]http://www.dailybulletin.com/business/20170215/ontario-airport-commissioner-returns-to-china-to-attract-business

taking steps to facilitate domestic economic growth. With an abundance of inexpensive land, the County is a popular site for warehouses and transportation. The Logistics sector has been a leading driver for growth, responding to strong consumer demand both in Southern California and across the United States. Free logistics classes are being taught in the Inland Empire, and graduates of the Successful Occupational Strategies, a 132-hour course, can receive industry-recognized certificates.[3] Development efforts extend beyond the workforce to business owners as well.

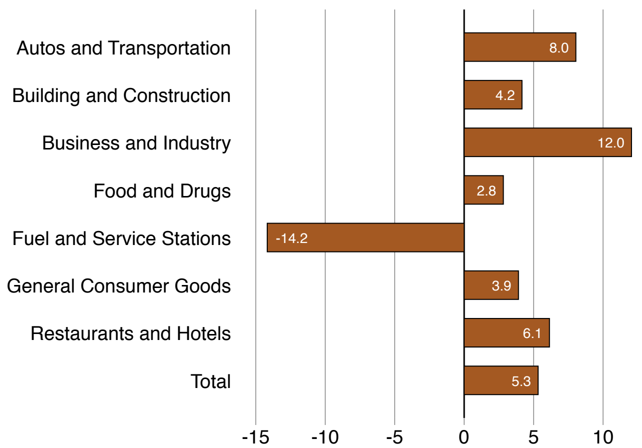
These actions have reinforced optimism in the County overall. The County's Workforce Development Board offers career planning and counseling, vocational training, resume assistance and workshops on interviewing. This year the board plans to expand services to include a job fair, outreach to businesses and stakeholders, and collaboration with the San Bernardino City Unified School District on a pilot program. With the labor market improving and myriad development efforts underway, there is ample reason for optimism. However, the economy does face some headwinds, particularly the ongoing debate about trade and trade policy. Center for Forecasting expects the County of San Bernardino to continue its upward trend.

Local Spending

Led by strength in the regional labor markets and growing consumer confidence because of falling gas prices, consumer and business spending has ticked up. The growing confidence of local consumers has contributed to more spending on goods and services outside the home. Adding to this trend has been spending by local businesses, which increased 12.0% during the first three quarters of 2016 compared to the first three quarters of 2015, according to taxable receipts data from HdL Companies, making it the top-performing category. This was in line with an impressive increase in employment in building equipment contractors, which increased payrolls by 7.6% from the third quarter of 2015 to the third quarter of 2016. This industry has surpassed its pre-recession peak and is on the higher-wage spectrum. According to the latest data available, workers in this category earn an average annual wage of nearly $59,000, more than 30% above the average wage for private employees in the County.

Business and commerce in the County are fueled in part by consumption activity at the local level. The second fastest growing category was Autos and Transportation, which posted an 8% gain during the first three quarters of 2016 compared to the first three quarters of 2015. This is in line with the resurgence in employment in automotive dealers in the County, which increased payrolls by 2.6% in the third quarter of 2016 from a year earlier. Local residents do not appear to have slowed their discretionary and leisure spending, with taxable receipts from Restaurants and Hotels increasing 6.1%. Helping drive this trend is the growing tourism industry. Hotel statistics from PKF Consulting show that revenue per available room——calculated by multiplying

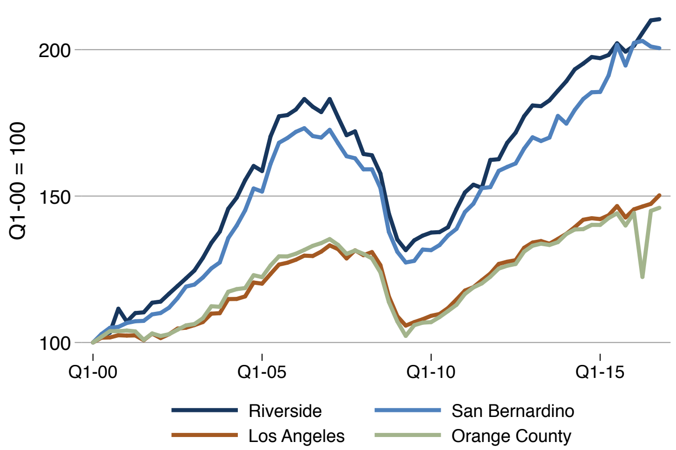
Taxable Receipts Growth YTD



Source: HdL Companies

Taxable Sales Indexed

Select Counties, Q1-00 to Q4-16



Source: Board of Equalization

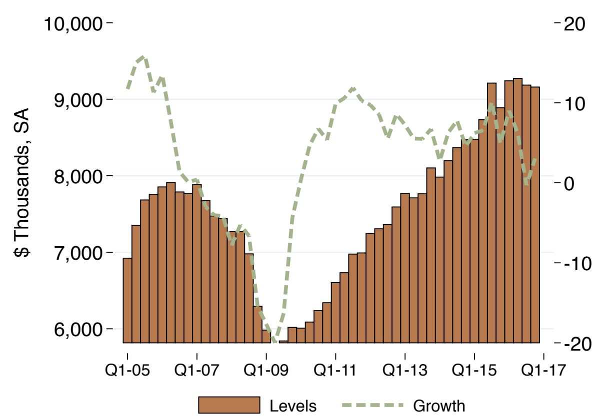
[3]http://www.sbsun.com/social-affairs/20170321/free-hands-on-logistics-training-classes-are-being-held-in-the-inland-empire?source=most_viewed

a hotel's average daily room rate and its occupancy rate—increased 6.4% in Ontario and 3.3% in San Bernardino from December 2015 to December 2016.

Gasoline prices continued to affect overall taxable receipts. Spending at fuel and services stations has been one of the culprits behind slowing taxable receipts growth. From summer 2014 to February 2017, oil prices plunged from more than $100 to nearly $54 per barrel. Falling oil prices have also kept inflation in check over the last year, but the trend is beginning to reverse. Oil prices have begun to rebound, and the Consumer Price Index increased 2.8% year over year in February 2017, the highest annual increase in five years.

Oil prices have been driven lower by a surge in global production the last few years. Shale oil production in the United States, as well as record production levels for OPEC (Organization of the Petroleum Exporting Countries) and non-OPEC member nations, have left the global market awash in crude. In November 2016, OPEC and non-OPEC oil producers agreed to production cuts of nearly 2 million barrels per day in an effort to reduce the oil glut's impact on prices. It appears that their efforts have not been in vain. As of February 2017, oil prices are up 76.3% year over year. A gradual firming in oil prices could reduce the drag on fuel and service station spending in the near term. However, lower fuel prices have allowed consumers and the Transportation sector spend their cash elsewhere, so they will be affected.

Taxable Sales: San Bernardino County



Source: Board of Equalization

While taxable sales growth in San Bernardino County slowed in 2016 compared to recent years, the County outdistanced many neighboring counties in terms of growth. From 2015 to 2016, taxable sales in the County increased 4.3%, outpacing the rate of growth in Riverside County (3.9%), Los Angeles County (2.6%), and Orange County (-1.6%). What's more, in 2016 the County experienced faster growth in taxable sales per capita (total taxable sales divided by total population) than neighboring counties and the state overall. In terms of taxable sales per capita, the County of San Bernardino had higher sales per person than the state and the counties of Los Angeles and Riverside.

Taxable Sales Per Capita, *Select Counties*

Location	2016 ($)	YTY % Change
California	**16,777**	**3.0%**
Los Angeles	**15,132**	**1.7%**
Orange	**18,977**	**-2.5%**
Riverside	**14,561**	**2.6%**
San Bernardino	**17,226**	**3.4%**

Source:BOE, DOF

Center for Forecasting outlook remains positive, and we expect taxable sales to grow at a steady rate during 2017. With the County's economy moving forward and local firms continuing to expand payrolls, income and spending for consumers and businesses will remain on an upward trajectory. Current spending trends support this view as taxable sales continue to reach post-recession highs, and nothing on the immediate horizon is expected to negatively affect the local economy.

Commercial Real Estate

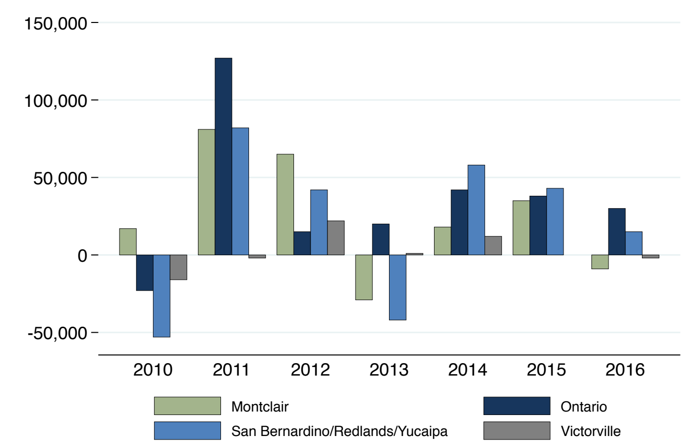
As is true in much of the Inland Empire, the County's commercial real estate market is growing at a healthy pace. New stock continues to come on line, and vacancy rates are declining and remain affordable relative to coastal communities, making the region attractive to new and relocating businesses.

The industrial market continues to drive a large portion of growth in commercial real estate in the County, fueled by a robust Logistics sector that has been a boon to the warehouse/distribution property segment of the real estate market. The City of Ontario remains a bright spot for commercial space. As of the fourth quarter of 2016, the vacancy rate stood at 3.6%, the lowest reported since the commercial real estate research firm REIS, Inc. began collecting data in 2010. The Ontario market absorbed a significant amount of industrial space in 2016.

The office market in the County also continued to improve, despite elevated vacancy rates. The Chino/Montclair/Upland submarket is much tighter relative to the County's submarket, with a vacancy rate of 10.3% in the fourth quarter of 2016, down 1.5 percentage points from a year earlier. By comparison, the office vacancy rate in the Inland Empire was 21.0% in the same period. Although the Chino submarket is tighter relative to the County's submarkets, the Rancho Cucamonga and Colton submarkets continued occupy new space; together these submarkets absorbed an additional 200,000 square feet of office space during 2016.

Net Absorption of Flex/R&D Space in San Bernardino County

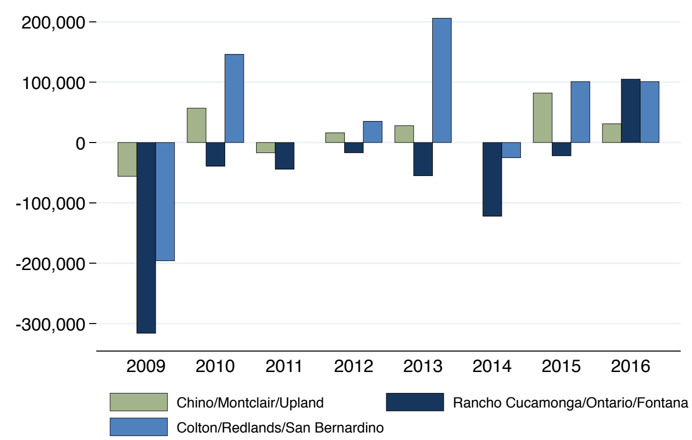
Select Submarket, 2010 to 2016



Source: REIS

Net Absorption of Office Space in San Bernardino County

Select Submarket, 2009 to 2016



Source: REIS

Warehouse/Distribution Rental Statistics, *2016-Q4*

	Cost of Rent		Vacancy Rate	
Submarket	($/Sq. Ft.)	YTY % Change	2016-Q4	YTY p.p. Change
Fontana	4.86	13.1	3.0	1.0
Victorville	4.16	13.7	1.2	-1.4
Montclair	4.81	6.0	2.3	0.3
San Bernardino/Redlands Yucaipa	4.25	9.0	3.4	-0.4
Rancho Cucamonga	4.48	7.5	3.2	-0.1
Ontario	4.9	7.9	3.2	-0.8

Source: REIS

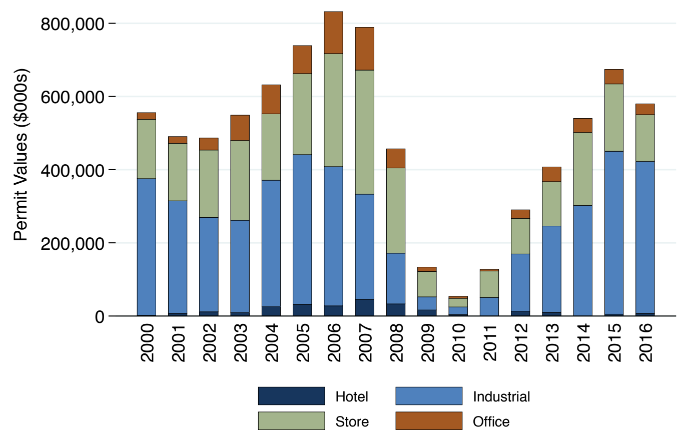
The growth in demand for commercial real estate in the County has fueled permitting activity, but non-residential permitting declined in 2016. Strong growth occurred in hotels, which posted a 37% increase in permits over 2015 levels. These gains were offset by declines in permits for industrial space (-7%), offices (-25%), and stores (-31%). Although these numbers sound grim on the surface, there's reason for optimism. In the last five years, the average growth in these categories has been nothing short of robust. On average, year over year, industrial permits have increased 66%, office permits have increased 88%, and store permits have increased 17%. By virtue of its available space and location, the County holds potential for significant economic growth.

Residential Real Estate

The housing market locally and across the state is still recovering from the housing crisis and the Great Recession, and growth has been weak in recent years. A lean supply of existing homes for sale and a gradual firming in new construction continues to put upward pressure on prices despite limited sales. Between the fourth quarter of 2015 and the fourth quarter of 2016, the median single-family home price grew 9.9% in San Bernardino County and 7.8% in Riverside County, compared to 5.8% growth in California overall. Inventories of homes for sale in San Bernardino County remain low at 3.8 months of supply (as of January 2017). This represents a substantial decline from the same period in 2015.

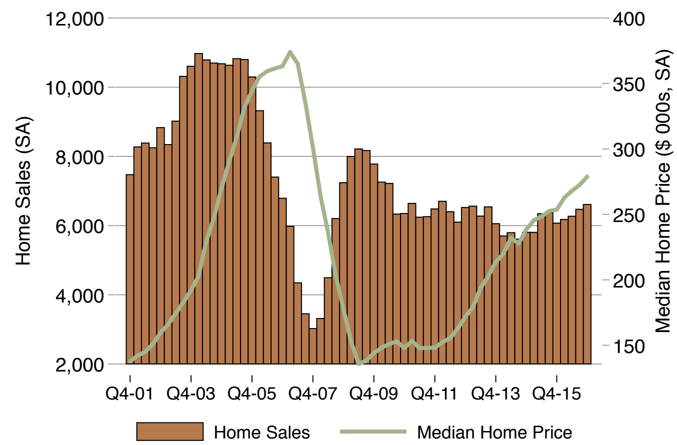
On the demand side, there should be a growing number of would-be buyers, given demographic trends. However, underwriting standards for mortgages remain very tight and down payments pose a significant hurdle for many despite mortgage rates near historic lows. The county's rental market remains strong, even though the cost of owning a home is historically low. Today's housing market looks nothing like the market that plagued the County in the depths of the recession. Traditional home sales have dominated the market since 2012, with foreclosed home sales making up a smaller share of total home sales every year.

Non-Residential Permitting Activity by Type San Bernardino County, *2000 to 2016*



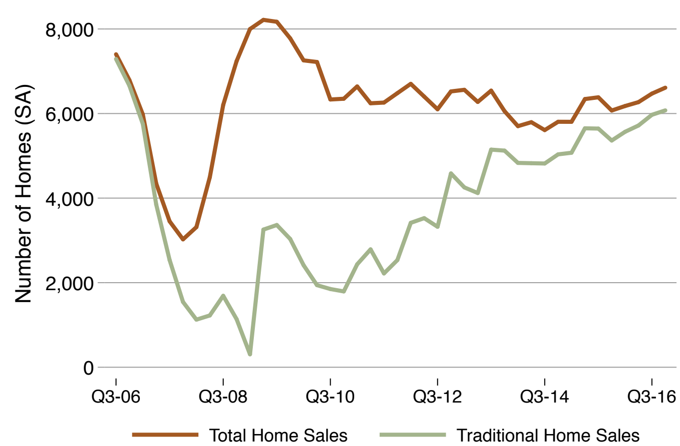
Source: CIRB

Existing Single-Family Home Prices & Sales San Bernardino County, *Q4-01 to Q4-16*



Source: DataQuick

Traditional Home Sales San Bernardino County, *Q3-06 to Q4-16*



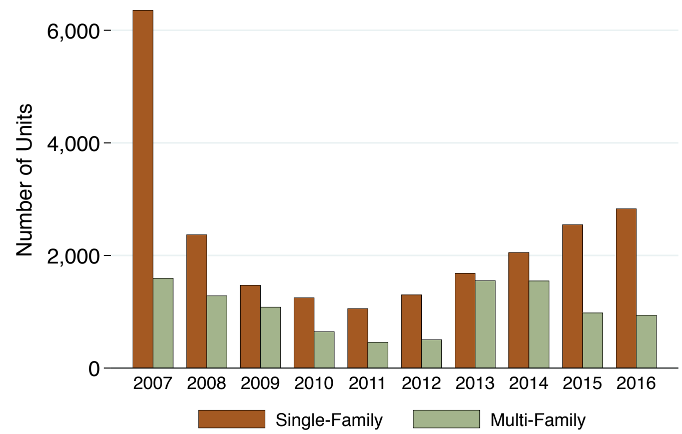
Source: DataQuick

Although development of new residential properties in 2016 remains well below levels seen in the peak of the housing bubble, permitting for residential units is climbing cautiously. Residential permitting has been particularly strong in the single-family segment of the market, rising 11.1% in 2016, for the fifth consecutive year of positive growth. Permits for multi-family units declined 4.1% in 2016, however, marking the second consecutive annual drop in the multi-family market. The County increased total nonresidential permits by 6.9% in 2016.

Overall, the county's housing market will continue to improve. Higher prices in the coastal communities will drive people inland. Although the first stop is Riverside County, San Bernardino County still offers a number of advantages in terms of affordability. High housing costs have weighed on many residents. In terms of sales of existing homes, the County of San Bernardino experienced an increase of 3.8% of sales in 2016, behind Riverside County (4.4%) but ahead of Los Angeles County (0.1%), Orange County (1.2%), and the state (1.0%). Prices clearly matter, and San Bernardino County beats many of its neighbors in affordability.

As of the fourth quarter 2016, the median price for an existing single-family home in the County was roughly $279,000, considerably lower than in neighboring counties. San Bernardino continues to be one of the state's most affordable housing markets, even when compared to Riverside County, where the median home price for an existing home is 21% higher. Housing affordability remains high by historic standards, thanks to low interest rates and increasing per capita incomes. In inflation-adjusted terms, current annual mortgage payments are roughly half what they were at the height of the housing bubble. The County also reports higher levels of homeownership and a lower price-to-income ratio than surrounding counties. In other words, the County's relative affordability will continue to attract new residents as coastal California prices pushes residents inland.

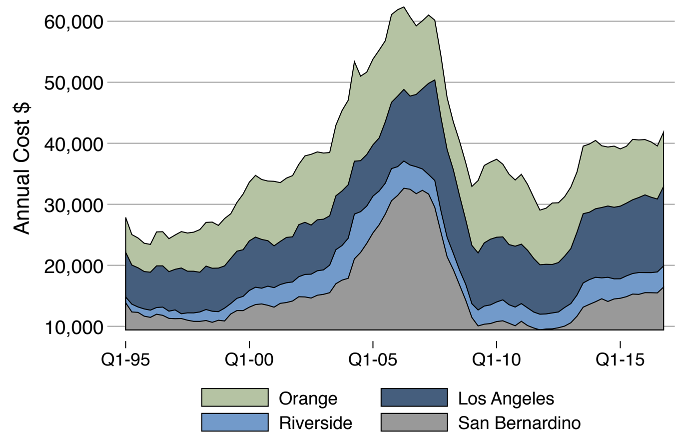
Residential Building Permits San Bernardino County, *2007 to 2016*



Source: Construction Industry Review Board

Inflation Adjusted Annual Cost of Homeownership

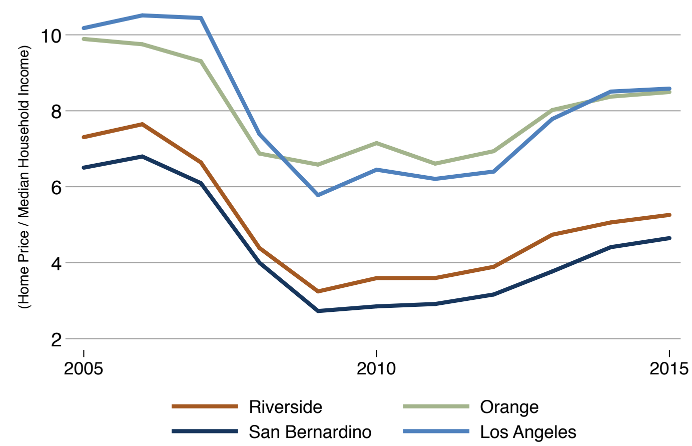
Select Counties County, Q1-95 to Q4-16



Source: DataQuick, FRED

Price to Income Ratio

Select Counties, 2005 to 2015



Source: DataQuick/American Community Survey

UC RIVERSIDE UNIVERSITY OF CALIFORNIA | School of Business

CENTER FOR ECONOMIC FORECASTING & DEVELOPMENT

About UCR Center for Economic Forecasting and Development

The UCR Center for Economic Forecasting and Development at the School of Business is a major new initiative for economic research and the first world class university forecasting center in Inland Southern California. The Center creates economic forecasts and economic development products that expand understanding of one of the state's most vital growth areas. By serving as a hub of collaboration, the Center is a place where innovative development ideas and strategies emerge from both researchers and business and government leaders.

University of California, Riverside
School of Business
Center for Economic Forecasting and Development
900 University Ave.
Riverside, CA 92521
951-827-1012
http://soba.ucr.edu/centers/forecasting.html

SAN BERNARDINO COUNTY

Analysis. Answers.