

REGIONAL INTELLIGENCE REPORT™



BEACON ECONOMICS Prepared by Beacon Economics, LLC



City of Ontario

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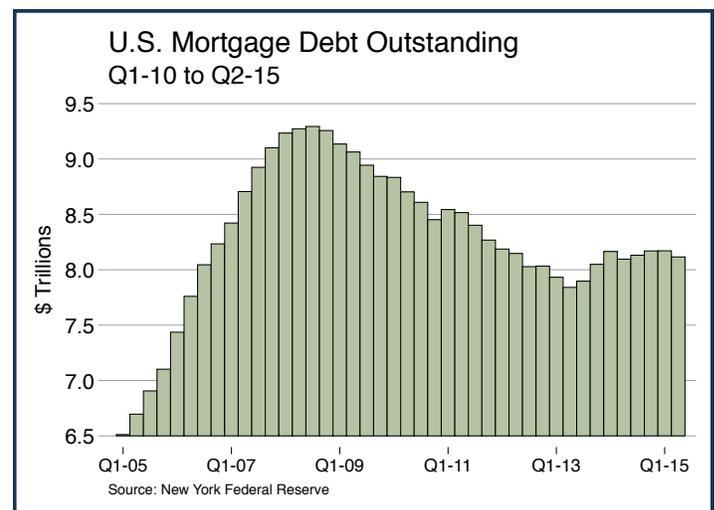
U.S. Economic Outlook

Fall 2015 marked a notable recovery in the U.S. financial markets, ending a short period of increased volatility. The summer dip reaffirmed, to many, the ongoing fragility of the current economic expansion. Beacon Economics disagrees. While all eyes have been focused on global equity markets, a slew of new economic data has been coming out that point to a healthier U.S. economy:

- U.S. economic growth has averaged 2.5% through the first three quarters of 2015, a slight improvement over the 2.4% growth for all of 2014. The third quarter figure came in softer than the prior quarter (1.5% versus 3.9% annualized growth), but the longer-term trend is clearly continuing to rise.
- Consumers across the country continue to ramp up spending and remain a strong factor in the economy. Personal consumption expenditures in the third quarter of 2015 grew at an annualized rate of 3.2%, down from 3.6% in the second quarter, but still above the 1.8% in the first quarter.
- A closer look at the numbers reveals an economy that remains sure-footed. Due to a buildup in inventories during the second quarter, business did not need to restock in the third quarter, which acted as a drag on overall growth. Excluding the change in inventories, GDP would have grown by close to 3%.
- The slowdown in China and the overall global economy has been at the forefront of news headlines lately. Yet for all the noise international data has made in the press, the US economy has yet to feel the brunt of it. Net exports of goods and services were essentially flat during the third quarter, detracting just 0.03 percentage points from the headline number.

Yet despite these positive trends, there are still some risks to the national outlook that can hinder long-term economic growth. For example, the recovery of the U.S. economy over the past few years has not lifted all boats equally. Average wages have been rising, but median wages have not—suggesting that income gains are happening mainly among skilled workers. Similarly, gains in the financial markets have primarily benefitted the wealthiest households in the nation.

Similarly, mortgages remain difficult to access for many borrowers without relatively high credit scores. For many that can obtain a mortgage, finding an affordable home is difficult because housing remains undersupplied. While there are some positive numbers coming out of the housing market, the pace of new home construction remains very depressed relative to long run trends.



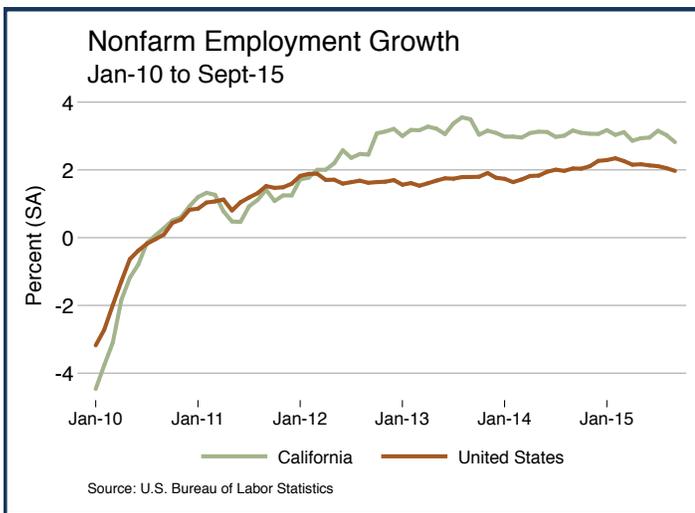
In addition, while the markets have not gone into 'bubble' mode, the recent swoon in prices is concerning. Valuations appear to make sense given high corporate profits and low interest rates and the rapid recovery in prices that has already occurred back this up. But what is really concerning was how the markets turned volatile for almost no reason and these episodes of volatility may become increasingly frequent.

Beacon Economics doesn't see any near-term risk of a recession in the data, despite choppiness in economic growth and these apparent risks. The current forecast has the nation's economy growing at just over 2.5% for all of 2015.

California Economy

While trouble has plagued the international economy in recent months, domestic economic activity continues to move forward, especially in California. Over the past year, the Golden State has remained one of the bright spots in the national economy.

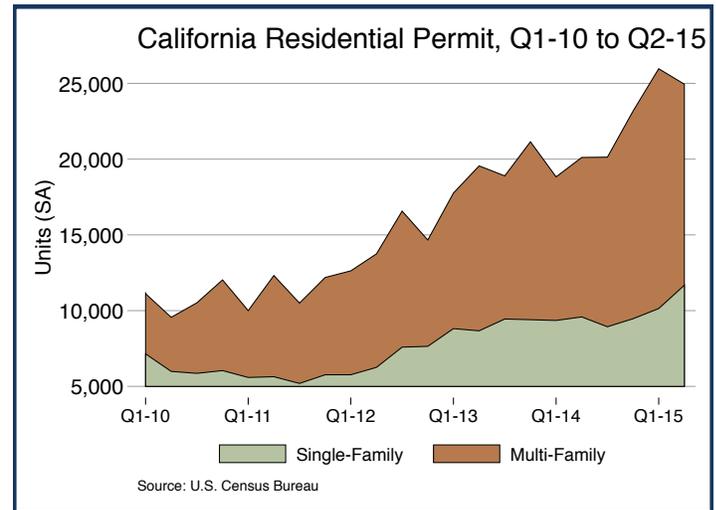
September 2015 marked the 43rd consecutive month that California has outpaced the U.S. overall in terms of nonfarm job growth. With a 3.0% expansion through the first nine months of 2015, California is growing half-again as fast as the nation.



Not only has California been generating a significant quantity of new jobs, but the quality of those jobs has been improving as well. Professional, Scientific, and Technical Services sector jobs, which generally offers above-average wages, have been the largest contributor over the past year, accounting for 78,000 (17.6%) of the 444,300 nonfarm jobs created during the past 12 months (period ending in September 2015).

San Francisco and San Jose continue to lead the pack in terms of employment gains, having each grown by 4.7% over the last year. San Diego County has climbed to the #3 spot for growth, expanding its employment base by 3.6% over the last 12 months. The state's Farm sector, which has been plagued by drought in recent years, is holding steady with 2.2% job growth as of September 2015 relative to the previous year.

Despite the uptick in the economy, home sales had been absent amidst a backdrop of rising home prices, new construction activity, and gradually improving labor markets. However, 2015 has seen the trend in home sales change from a disappointing one to one where transactions are once again on the rise. Through the first half of 2015, sales of existing single-family homes have climbed 9.8% more than at the same point in 2014. To date, nearly 170,000 homes have been sold in California.

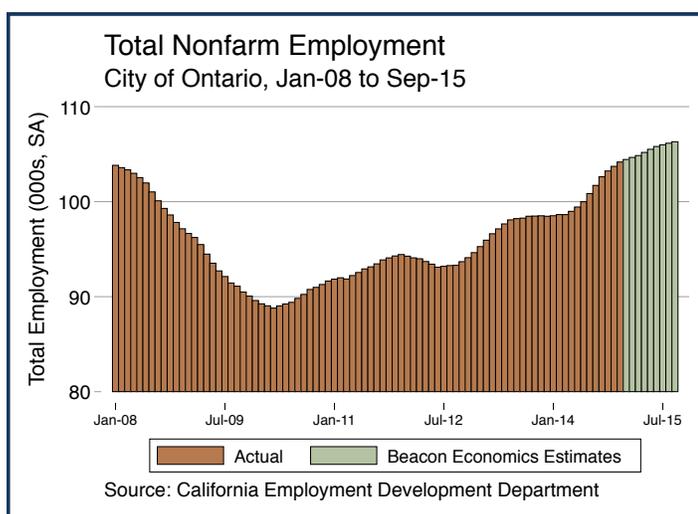


Recent troubles in Europe/Greece, and the downgraded outlook for Chinese economic growth, could impact exports at California's various air and seaports, however these external factors are not expected to greatly impact the state's economy. Through September 2015, loaded containers for export at the Ports of Los Angeles and Long Beach were down 11% over the same time last year. However, import traffic has held relatively steady, which will help to provide alternative demand for the state's Logistics industry.

Beacon Economics is optimistic about the current trajectory of the state economy. Nonfarm employment is projected to grow more than 2% per year over the next five years, while home sales gain momentum, and job growth will likely occur in both low- and high-skilled industries.

Employment

Total Nonfarm employment in the City of Ontario rose 4.4% year over year to 106,425 in September 2015, based on data from the California Employment Development Department (EDD) and Beacon Economics' estimates. This number is momentous because it means that Ontario has regained all the jobs it lost during the recession of 2008 and has begun to pass its pre-recession highs. Meanwhile, unemployment has continued to improve. The unemployment rate for the Inland Empire fell 1.7 percentage points year over year to 6.0% in September 2015.



Helping Nonfarm employment reach new levels were gains in individual employment sectors. All sectors except Natural Resources/Mining and Government experienced job gains over the last year. The fastest-growing sectors were Transport/Warehouse; Wholesale Trade; Professional, Scientific, Technical & Management; Admin Support; Finance & Insurance; and Education/Health. Jobs in the Transport/Warehouse, Wholesale Trade, and Retail Trade sectors—also known as the Trade, Transportation, and Utilities super sector when the sectors are combined—accounted for 51.3% of the jobs created during the year and, as of September 2015, now make up 37.7% of the jobs in Ontario.

One reason Ontario's labor market is improving is that economic expansion has traveled east from California's coastal regions. The entire United States economy and consumer spending are better than ever. Ontario and Inland Southern California overall are crucial to the American supply chain because of their relatively low rents, vast amounts of available land, business-friendly environment, and ideal and convenient location near major sea ports, rail systems, and

interstate highways. In addition, the City is in the process of finishing the transfer of Ontario International Airport to local control, which is expected to help expand its services for local distributors and travelers. Thus, Inland Southern California is the logistics and distribution center of the West Coast, if not the entire United States; most U.S. imports and exports are transported, stored, and/or distributed by Inland Southern California's workers.

Another reason employment is doing well in Ontario is that e-commerce is on the rise. There were more than \$40 billion worth of e-commerce transactions in the U.S. in September 2015, a figure that has grown by 5.6% in the last year and by 40% in the last five years. As more transactions are made online rather than in person, there is more need for warehouse and distribution centers.

Employment by Sector in the City of Ontario

Sector	15-Sep	YOY Chg.	YOY (%)
Transport/Warehouse	15,300	1,350	9.5
Wholesale Trade	11,050	825	7.9
Prof, Sci, Tech, & Mgmt	6,250	425	7.2
Admin Support	14,850	1,000	7.2
Finance & Insurance	2,450	150	7
Information	1,875	50	3.3
Construction	4,050	125	3.2
Education/Health	7,400	200	2.8
Manufacturing	12,375	275	2.4
Other Services	2,375	50	2.2
Real Estate	1,225	25	1.9
Leisure & Hospitality	7,050	125	1.9
Retail Trade	13,925	200	1.6
NR/Mining	725	0	1.4
Government	5,525	-75	-1.1
Total All Industries	106,425	4,500	4.4

Source: California Employment Development Department

Ontario employment growth is also attributable to the unprecedented rates at which industrial complexes are being built and leased. Thus, more and more local residents are being hired to build industrial complexes and work at them. In Ontario, recent examples of businesses acquiring industrial space for manufacturing, storage, and distribution operations include R2 Logistics, Dependable Highway Solutions, and QVC. R2 Logistics, a third-party logistics

services provider, just opened its ninth operation center in Ontario.¹ Dependable Highway Solutions, a logistics company, just expanded to a new building at 1406 S. Cucamonga in Ontario.² QVC, the world's leading video and e-commerce retailer, just broke ground in Ontario for its first West Coast distribution center, which will employ about 1,000 employees after its completed and begun operating.³

Recent job growth in Ontario has been accompanied by upward pressure on wages. The average annual wage in all industries grew by 3.1% from 2013 to 2014, reaching \$43,750. Wages grew most in Admin Support (6.5%), Wholesale Trade (5.8%), and Professional, Scientific, Technical, & Management (4.6%). In 2014, wages in Ontario were 3.8% greater than in San Bernardino County as a whole.

Ontario employment is poised for further gains, and this will have widespread repercussions throughout the local economy, including population migration, productivity gains, and growth in local spending and tax revenue.

Professional, Scientific, Technical, and Management

The Professional, Scientific, Technical, and Management Services sector added 425 jobs—a 7.2% year-over-year increase—from September 2014 to September 2015. As of September 2015, the sector employed one of every five workers in Ontario.

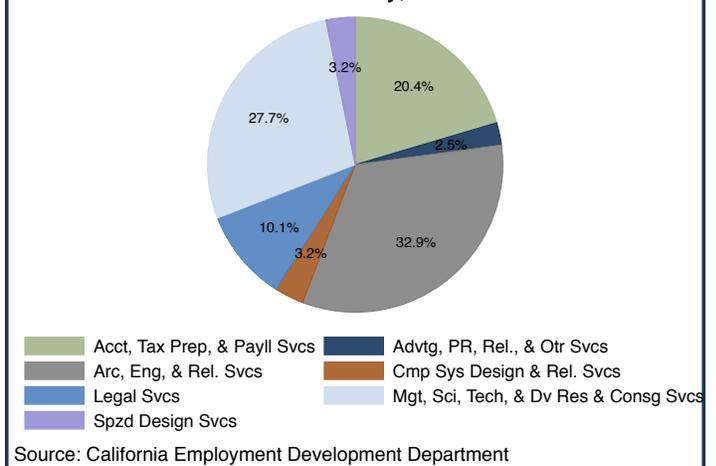
Not only has the sector grown, but its composition has varied over the past five years. From the fourth quarter of 2008 to the fourth quarter of 2014:

- The share of Accounting, Tax Prep, Bookkeeping, and Payroll Services contracted from 20.4% to 14.2%.
- The share of Architectural, Engineering, and Related Services decreased from 32.9% to 24.2%.
- The share of Legal Services grew from 5.3% to 7.4%.
- The share of Specialized Design Services stayed about the same.

- The share of Advertising, Public Relations, Related, and Other Services shrunk from 7.2% to 4.1%.
- The share of Computer System Design and Related Services remained unchanged.
- The share of Management, Science, Technology, and Development Research and Consulting Services increased from 27.7% to 43.6%.

The increase in share of Management, Science, Technology, and Development Research and Consulting Services is attributed to this subsector growing three times faster than the sector (64.1% versus 24.1%). Specifically, Ontario has experienced a large increase in the number of Other Scientific and Technical Consulting Services, Administrative Management and General Management Consulting, and Process, Physical Distribution, and Logistics Consulting Services firms in the subsector. One reason for the subsector's fast growth is its link to the Trade, Transportation, and Utilities super sector. As more industrial buildings are built or enlarged, for example, more managers and supervisors are needed to oversee them and more science, technology, and development firms are hired to plan and outfit them with the latest logistics equipment, environmentally friendly features, and sophisticated software and hardware. Another reason for the subsector's gains is that more new businesses have been moving in and more existing businesses have been adding locations in the region in order to participate in an economy that is beginning to resemble the bustling economies of coastal metropolitan areas but without the same high retail rent prices.

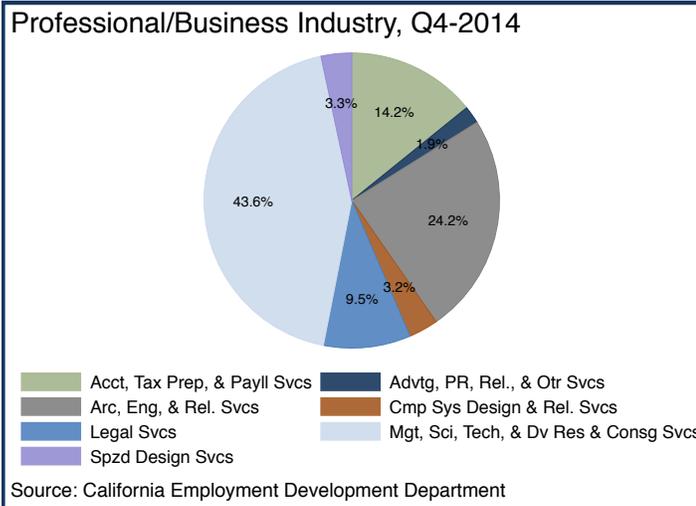
Professional/Business Industry, Q4-2008



¹Area Development News Desk, "R2 Logistics Opens Ontario California, Operating Center," Area Development, October 26, 2015, available at <http://www.areadevelopment.com/newsitems/10-5-2015/r2-logistics-operations-center-ontario-california-568934.shtml>.²Source: Los Angeles World Airports

²Economic Development Agency Staff, "Weekly Round Up: October 19," Ontario EDA, October 26, 2015, available at <http://www.ontariothinksbusiness.com/news/weekly-round-october-19>.

³PR Newswire, "QVC to Open First West Coast Distribution Center in Ontario, California," UBM Pic Company, October 26, 2015, available at <http://www.prnewswire.com/news-releases/qvc-to-open-first-west-coast-distribution-center-in-ontario-california-300112552.html>.



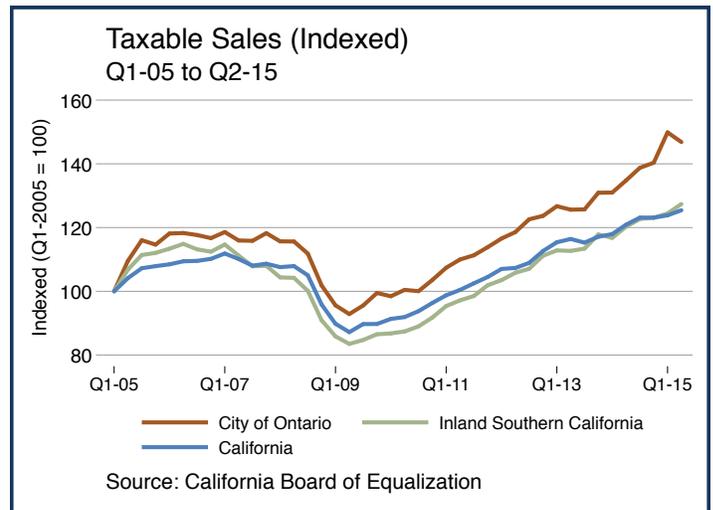
Jobs in Accounting, Tax Prep, Bookkeeping, and Payroll Services declined by 13.8% from the fourth quarter of 2008 to the fourth quarter of 2014. The decline is a reflection of the structural change underway in the industry: Technological advancements are replacing people. With the rise of tax return programs and websites, for example, many more Americans are doing their own taxes rather than hire professionals. Additionally, firms of this subsector are winding down their payrolls in Ontario and migrating to metropolitan areas to be closer to their corporate cliental. Jobs in this subsector have increased by 8.5% in Los Angeles, 13.8% in Orange County, and 21.0% in San Francisco over the same time period.

Employment in the Architectural, Engineering, and Related Services subsector declined by 8.8% over the five years because many local engineering consulting firms went out of business.

The Logistics and Distribution industry may be the flagship of Inland Southern California's economy and employ the majority of residents, but it should not dwarf the importance of other sectors. The Professional, Scientific, Technical, and Management sector is a great and well-known source of highly skilled, high-wage jobs. Employees in this sector in Ontario make, on average, \$65,800 per year, compared to an average of \$44,700 per year for industries in Ontario as a whole. A sizable and growing portion of employment in Ontario is in these specialized and high-paying jobs. As a result, more and more people in Ontario are achieving—and will continue to achieve—higher standards of living and better access to growing opportunities.

Local Spending

In the second quarter of 2015, taxable sales in Ontario continued to reach new highs, growing 8.9% year over year to \$1.7 billion. Local taxable sales are increasing so fast that they are outpacing taxable sales growth across Inland Southern California and the State as a whole. Furthermore, all the taxable sales receipts categories throughout San Bernardino County, except for Fuel and Services Stations, are up.



The recent decline in Fuel and Service Stations spending is a result of the transitory and dramatic drop in oil prices. This is great news for Ontario and other areas that do not rely on oil production, because residents can spend less to obtain the energy they need and can spend more on other goods and services.

Spending in Ontario by consumers and businesses has been increasing because of the rising number of employed people, businesses, and economic activity in the area. When the economy is healthy, more people are employed, have more disposable income, and feel wealthier. Consequently, their spending habits change. People spend more money willingly and comfortably on dining out, taking vacations, and purchasing nonessential items and/or such big-ticket items as cars and home appliances. These large increases in local spending are greatly beneficial to and thus warmly welcomed by local establishments, including Ontario Mills Shopping Center and Ontario Auto Center.

Sales Tax Receipts in San Bernardino County

Category	Q2-2015 (\$ 000s)	YOY Chg. (%)	2 Yr Chg. (%)
Business & Industry	17,737	20.9	23
Autos & Transportation	14,833	14.5	24
Restaurants & Hotels	8,117	12.9	21.7
Building & Construction	6,812	7.1	16.1
General Consumer Goods	17,994	4.7	11.1
Food & Drugs	3,735	2.6	11.5
Fuel & Service Stations	10,432	-11	-0.2
Total	89,132	8.9	15.7

Source: HdL Companies

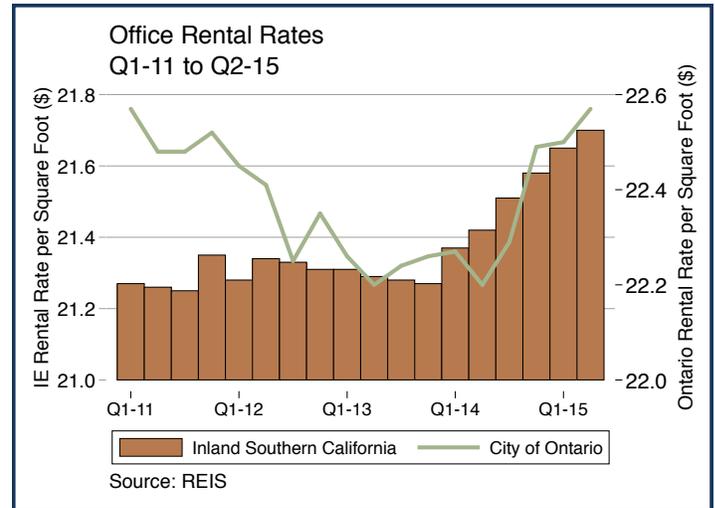
Building and Construction spending has been increasing because of higher construction costs nationwide and new residential and nonresidential construction locally. Construction activity has increased in Ontario because there is high demand for industrial complexes and because builders feel more confident about developing the residential and commercial infrastructures consumers and businesses need and want.

Business and Industry spending has increased by double digits because more enterprise titans have been setting up warehouse and distribution centers in Ontario. Furthermore, these companies are spending more in order to expand physically, invest in research and development, obtain intangible and tangible assets, and upgrade their technologies to improve security, efficiency, and use of space. For instance, QVC is not moving into any old warehouse; the company is creating a high-tech, environmentally friendly distribution center.

Overall, local spending is projected to continue increasing and to generate many positive effects in Ontario, including more tax revenues for the City and more activity for local businesses.

Commercial Real Estate

Rents for all types of commercial property in Ontario continue to increase slightly year after year but are still much lower than rents in coastal regions. Thus, Ontario continues to maintain its affordability. In the second quarter of 2015, retail rent increased 2.0% year over year to \$22.94 per square foot, office rent increased 1.7% to \$22.57, and industrial rent increased 1.96% to \$4.68 in Ontario.



Vacancy rates, on the other hand, continue to be a mixed bag because of varying demand and supply. In the second quarter of 2015, retail vacancy rates fell 0.5 percentage points year over year to 9.4%, office vacancy rates increased 0.4 percentage points to 26.9%, and industrial vacancy rates increased 0.7 percentage points to 8.8% in Ontario.

- Retail vacancy rates fell because retail space is being absorbed. Demand in Ontario has not been strong, so developers and city officials are letting the existing stock be absorbed rather than building more. Retail permits in Ontario decreased 50% year to date to \$2.8 million in September 2015.
- Tenants moving in and out caused the slight increase in office vacancy rates.
- Industrial vacancy rates rose because of an increase in supply, rather than a decrease in demand. Industrial permits in Ontario increased from \$36.3 million in all of 2014 to \$58.6 million through September 2015. According to the California Homebuilding Foundation, a \$27 million building permit was issued in September 2015 for a new industrial building in Ontario.⁴

Some of the construction added during the year is in a large commercial real estate project underway north of the 10 Freeway and near Vineyard Avenue. Sares Regis, a development company, is acquiring 150 acres of a total 250 acres of the undeveloped land in order to build seven industrial buildings amounting to 3 million square feet of industrial space. The remaining 100 acres will be used for mixed-use development of high-density housing, retail, and office space. The project is projected to bring thousands of jobs and millions of dollars in potential revenue to the city.⁵

⁴Construction Industry Research Board, "September 2015 California Construction Review", California Homebuilding Foundation, October 30th, 2015.

⁵Neil Nisperos, "Potential industrial project aims to bring 5,000 jobs to Ontario", Inland Valley Daily Bulletin, October 26, 2015, available at <http://www.dailybulletin.com/business/20150305/potential-industrial-project-aims-to-bring-5000-jobs-to-ontario>.

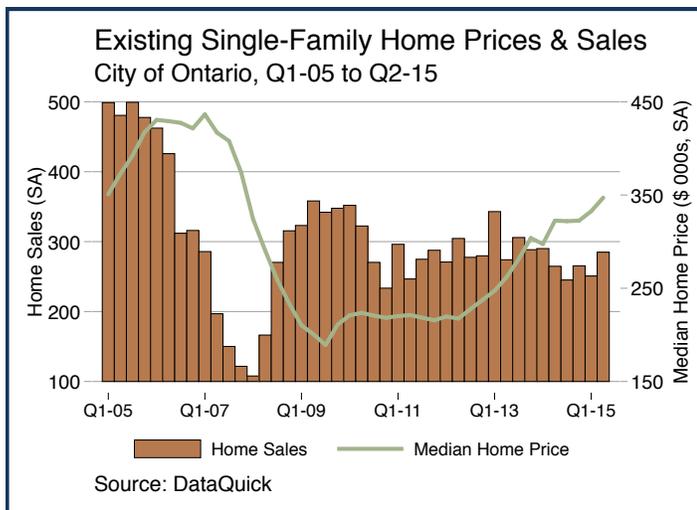
An important thing to note about the 250-acre project is that it is being built on one of the last big swaths of vacant land in the city.⁶ Developers are likely to remain interested in building more industrial complexes in Ontario in the future because of the high demand for structures and growing Logistics- and Distribution-related sectors. Meanwhile, despite the growth of the Professional, Scientific, Technical, and Management Services sector, demand for offices in Ontario has not yet grown enough to require many new offices in the next few years.

Street will add 298 multifamily units upon completion.⁷ Also, Brookfield Residential just had the grand opening for its three new home communities at New Haven in Ontario Ranch.⁸ Permits for multi-family structures increased year to date from none to 191 units as of September 2015, and permits for single-family homes increased during that period from 80 to 210 permits.

Residential Real Estate

Over the last year, the rental and housing markets continued to heat up in Ontario. Apartment rents rose 6.0% year over year to \$1,234 per unit while vacancy rates increased 1.8 percentage points to 3.4% in the second quarter of 2015. Median home prices increased 7.6% year over year to \$347,160 in the second quarter, while inventory remained tight. There was only a 4.7-month supply of homes on the market in San Bernardino County as of September 2015; a six- to nine-month supply reflects a more balanced housing market.

The upward trend in the rental and housing markets and subsequent construction is mainly attributable to the bounce back in Ontario's economy and employment. More developers feel confident about building houses and apartments when economic times are good and residential real estate prices are going up.



Demand for apartments and houses is intensifying, as reflected by increased rents, median home prices and sales, falling vacancy rates, and tightening inventory. The increase in demand is being met by an increase in supply, however, to make the residential real estate markets more balanced. The Vistara luxury apartments at Haven Avenue and Fourth

The economies of Ontario and Inland Southern California as a whole have recently gotten back on their feet, and already we are seeing the housing and rental markets improving. The local and regional economies have far to run before the next economic slowdown, so we can expect residential real estate to continue climbing toward and possibly reaching its pre-recession levels, but this time with better underlying fundamentals.

⁶See footnote #5

⁷Neil Nisperos, "Luxury Apartments going up in Ontario," Inland Valley Daily Bulletin, October 26, 2015, available at <http://www.dailybulletin.com/business/20150227/luxury-apartments-going-up-in-ontario>.

⁸Economic Development Agency Staff, "Weekly Round Up," September 14, 2015, Ontario EDA, October 26, 2015, available at <http://www.ontariothinksbusiness.com/news/weekly-round-september-14>.



About Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy.

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