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THE INLAND EMPIRE AS SOUTHERN CALIFORNIA’S INDISPENSABLE GEOGRAPHY

A SPECIAL REPORT BY JOEL KOTKIN
WITH WENDELL COX AND MARK SCHILL

At National Community Renaissance, we develop, build and manage high-quality, affordable housing for tens of thousands of people, including for more than 13,000 residents in the Inland Empire. Our Hope through Housing Foundation has provided more than two million hours of service that better the lives of our very youngest to our most senior residents.

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The Inland Empire as Southern California’s Indispensable Geography

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For generations, the Inland Empire has provided a convenient target for criticism from Southern California coastal areas, largely derided as a smoggy expanse populated by less-skilled workers. Yet in reality, the Riverside-San Bernardino area has emerged as the indispensable geography for the region’s hard-pressed middle class, for the foreign born and even for millennials.

The Inland Empire has burned for years as an urban wasteland but the recent housing crash has made it even more vulnerable. Yet in the wake of the great housing crash of 2008, the Inland Empire has been widely written off as epitomizing a failed “suburban” past. Yet despite the widespread media categorization, the Inland Empire has begun to regain its footing, gaining jobs more quickly than the coastal areas of Southern California while its population growth, although no longer soaring, continues to outpace that of other parts of the region.

In the wake of the great housing crash of 2008, the Inland Empire has been widely written off as epitomizing a failed “suburban” past. Yet despite the widespread media categorization, the Inland Empire has begun to regain its footing, gaining jobs more quickly than the coastal regions of Southern California while its population growth, although no longer soaring, continues to outpace that of other parts of the region. Clearly, the Inland Empire continues to play a critical role in Southern California. This is particularly true for middle and working class families, including many immigrants who continue to move into the area. Yet this shift is now endangered as regulatory burdens, both locally and statewide, begin to impinge on the creation of new housing. These measures, we believe, are short-sighted and could leave Southern California without an affordable outlet for middle class families, particularly younger ones, who already have been largely driven out of the coastal regions by insurmountable housing costs.

To find ways to restore growth and prosperity to the region, local cities and towns have to start regarding housing not as a detriment, but as a critical economic asset. After all, affordable housing has driven the region’s growth for a generation, and if this asset degrades, or becomes too expensive, the future consumer and workforce base of the entire region will deteriorate. People who might have settled in the Inland Empire may now head for other states, where housing is more affordable.

The need to reorient the Inland Empire back towards a growth model does not suggest we can return to the patterns of the past. Historically, the area’s economy depended largely on growth from the coastal counties that compose the Los Angeles metropolitan area (Los Angeles and Orange counties). But growth, both demographically and economically, has slowed in these areas, particularly in the blue collar and mid-skilled categories critical to many Inland Empire residents. Rather than regarding housing as something separate from the overall economy, officials and developers need to link it with broader strategies for economic development.

It is important to house people, but equally critical to spark broader income gains that would allow them to adequately cover their housing costs.
THE HISTORICAL TRAJECTORY

What is now widely described as the Inland Empire - the areas of Riverside and San Bernardino counties - started off as largely agricultural settlements. Its early economy was dominated by rancheros and sawmills, with a strong presence of citrus cultivation in the south. Transportation links (mainly via freeway) to Los Angeles and San Diego facilitated migration from both coastal counties and from other parts of the nation. The area's appeal was due in part to its dry and mild climate, and the nearby presence of mountains, as well as the desert resorts of the Coachella Valley.

Like much of Southern California, the Inland Empire's growth was stoked by the Second World War, as it became a staging area for the U.S. military, with the production of wartime goods. The most important development was the building of the massive Kaiser Steel plant in Fontana, which brought many blue collar workers to the area. By the 1950s, Kaiser and Bourns Incorporated, a maker of high-technology instruments, were the area's largest employers.

As the Los Angeles and Orange County economies began to burgeon in the 1950s and 1960s, the inland area evolved into essentially a massive "bedroom" suburb, as blue collar and middle class families sought out less expensive housing. Between 1945 and 1970, the area's population soared from 265,000 to nearly 1,150,000, making it one of the fastest growing regions in the country. This growth accelerated further, reaching a peak between 2000 and 2010, when the population grew by nearly 1 million, to 4.25 million.1

Local retail and business services grew rapidly, along with construction, but fundamentally the economy depended on the then-rapid growth along the coast. Many workers went over the county lines to work in either Orange or Los Angeles County. This pattern worked well – except for increasingly difficult commutes – for many decades, as long as the coastal economies continued to generate new jobs but lacked affordable housing for workers.

By the 1990s, the Inland Empire was developing some independent industries, particularly in logistics, manufacturing, and services. Between 1994 and 2002, according to economist John Husing, more than 1,000 such firms moved or expanded into the region. In that period the region accounted for more new net jobs than Orange, Ventura and Los Angeles counties combined. In the period until 2002, the Inland Empire also continued to gain production jobs, even as Los Angeles lost almost a quarter million positions.2

Increasingly, there was also growth in the number of educated professionals. Yet still, the dependence on construction and the coastal economies remained intact, something that would soon come to haunt the region. While historical data is not readily available, the net employment interchange between the Riverside-San Bernardino and Los Angeles metropolitan areas has been upwards of 15 percent and 25 percent.3

This growth trajectory, and the impact of low-interest and unconventional loans, helped spark an inflated housing and rental market in the early 2000s. Once generally affordable relative to incomes (with a median multiple4 of under 3.5 from 1995 to 2000), the Inland Empire rapidly became unaffordable, with its median multiple reaching a peak of 7.6 in 2006.5 By this time, housing prices across California, including the Inland Empire, had risen to levels well above the rest of the nation. This fundamentally led to the disaster that occurred during the housing crash. (See Figure 3)

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The Inland Empire is experiencing a far greater increase in permits than either Los Angeles or Orange County. This has also helped to encourage construction employment somewhat, although not to anything like the levels experienced a decade before. Overall construction employment, although up recently, still employs barely half the number of people it did in 2006. (See Figure 7)

Some observers, such as University of Redlands economist Johannes Moeuris, express concern that the region may fall back to its old formula of relatively low-wage growth and an unhealthy dependence on construction. Industries like warehousing and even manufacturing, he notes, are increasingly using part-time workers. Overall, low-paying jobs — those paying between $15,000 and $30,000 annually — constitute almost half of all jobs in the area and also account for nearly half of all new jobs since 2010. Since 2010, according to Census estimates, real household incomes in the Inland Empire have fallen by nearly 7 percent. Los Angeles also has experienced a drop, with real incomes down 3 percent since 2010.

Yet at the same time, there are some promising signs that other, better-paying industries — particularly in sectors such as health care, insurance, and high-tech services such as engineering — are also on the rise. The key to the future lies in shifting more of the balance of growth toward middle and higher wage jobs that could prove less cyclical than traditional regional workplaces such as housing, manufacturing and logistics. (See Figure 8)

Overall, the slowly recovering economy is still not sufficient to greatly boost public attitudes. A survey by Cal State San Bernardino found that although the percentage of those saying the economy was excellent or good had almost doubled since 2010 from 9 percent to 17 percent, this was considerably below the over 40 percent number seen in the years before the crash.

Demographic Opportunities for the Inland Region

Demographic factors have long driven the Inland Empire’s growth. Like much of the rest of America, Southern California’s population continues to spread out, with most of the growth concentrated in the outer fringes of Riverside-San Bernardino and Los Angeles counties. Between 2000 and 2010, the Riverside-San Bernardino metropolitan area added twice as many people as Los Angeles. Riverside-San Bernardino is already the nation’s 12th largest metropolitan area and could pass San Francisco and Boston by 2020 (unless faster-growing Phoenix gets there first). (See Figure 9)

There is a notion, widely expressed in the mainstream media, that Southern California’s growth will now focus more on the urban core around downtown Los Angeles. Yet as is often the case, what planners and pundits want is not the same as what the vast majority of people want. Indeed, even since 2010, growth in Southern California has continued to take place primarily outside the core urban areas. (See Figure 10)

This continued outward migration into the region from the rest of Southern California, although more muted than in the past, has continued. Although population growth in the region, like that of the rest of the state, is now much slower than in the past, the Inland Empire continues to draw strongly on residents of Los Angeles and Orange counties. This reflects in part the fact that Los Angeles and Orange counties have among the most expensive housing and rental costs, based on income, in the nation.

Yet for now, these higher costs on the coast continue to drive migration. Indeed, an analysis of domestic net migration within the region shows a distinct pattern that is not “back to the city,” as some might suggest, but outward from high-priced areas to lower-priced ones. The number of residents moving away from Los Angeles, Orange and San Diego counties to the Inland Empire still greatly exceeds the number moving to high-priced areas. Census Bureau data indicates that between 2007 and 2011, nearly 35,000 more residents moved from Los Angeles County to the Inland Empire than moved in the other direction. There was also a net movement of more than 9,000 residents from Orange County to the Inland Empire, and more than 4,000 net migration from San Diego County.

The Inland Empire as Southern California’s Indispensable Geography

HOUSING THE FUTURE

THE ROAD TO RECOVERY

Yet despite the largely negative perceptions of the region, conditions have improved in the area recently, albeit in ways somewhat muted and slow to develop. This may seem odd from a national perspective which maintains that California is already in the midst of a “boom.” In reality, this recovery has been predominantly about the success of one region - the San Francisco Bay Area. Of the over 162,000 net new jobs created since 2007, notes economist Bill Watkins at California Lutheran University, the vast majority have been along the coast, mostly along the San Francisco-San Jose corridor.

In spite of all the devastation from the housing crash, there are clear and encouraging signs that the area’s economy is recovering. In fact, the region is creating jobs over the past year at a 2.2 percent rate, well above the 2.0 increase the region is creating jobs over the past year at a 2.2 percent rate, well above the 2.0 increase.
Several long-standing demographic trends favor a continued shift to the Inland Empire. Perhaps the most critical group flowing into the region are immigrants and their offspring. Over the past decade, the Inland Empire increased its population of foreign-born residents dramatically, more than three times over and at nearly 18 times the rate of the coastal counties. (See Figure 11)

This migration has changed the nature of the region. Once largely Anglo, the Inland Empire has become increasingly ethnically diverse. Over the past decade, the area’s Latino, Asian and African-American populations have been growing far faster than elsewhere in Southern California, suggesting this has become a locus of opportunity for minorities. (See Figure 12)

This immigrant growth is critical as newcomers have become one of the few groups to increase its number of new businesses, particularly related to technology and engineering, in recent years.26 In the Inland Empire, as elsewhere, immigrant-owned business have expanded much more than those of native-born Americans.

The influx of immigrants and their children has created a younger population than that of the rest of Southern California. Historically, Southern California has been an incubator of families. As recently as 2000, the proportion of population in Los Angeles and Orange counties ages five to 14 stood at 16 percent, the sixth highest among the nation’s 52 largest metropolitan areas. Thirteen years later that proportion had dropped to 12.8 percent, 33rd out of the nation’s 52 largest. In terms of the drop in share of youngsters, the area experienced a 20 percent drop, the highest in the nation.27

In contrast, the Inland Empire remains somewhat of a bastion of familialism, with 15.3 percent of the population between ages five and 14, among the highest levels in the nation.

Even now, some parts of the Inland Empire – Victor Valley, San Bernardino, Perris-Temecula – continue to experience a healthy growth in the number of children. This follows a general pattern: according to recent analysis of Census data, high-cost areas tend to repel families, with almost all of the most expensive areas in the country, such as the Bay Area, New York and Boston, experiencing strong drops in the numbers of children. (See Figure 13)

The area also has become far more attractive to younger, educated workers – the parents of the next generation – than in the past. In fact, between 2011 and 2013, according to American Community Survey data, Riverside-San Bernardino achieved the 12th largest increase in the share of aged 25 to 34 college-educated residents among the 52 major metropolitan areas. No major California metropolitan area, including Silicon Valley, equaled this level of youthful population growth. The Inland Empire also led such information technology hubs as Raleigh and Portland. (See Figure 14)

Although slow to develop, these trends suggest that the area is beginning to gain a critical mass of educated workers. The Inland Empire experienced a 91 percent jump in its population with bachelor’s degrees or higher between 2000 and 2013. Orange County saw a 55 percent gain, ahead of Los Angeles’ 47 percent gain. This is critical to the region’s recovery, particularly given the area’s historically low percentage of workers with college degrees.27 (See Figure 15)

Perhaps even more surprising has been the growth of the millennial generation in the region. We examined the percentages of millennials – basically young adults between the ages of 20 and 29 – and tracked their growth in all 52 major U.S. metropolitan areas. To our surprise, San Bernardino-Riverside ranked second of 52 metro areas, adding 50,000 millennials, an 8.3 percent increase since 2010. Los Angeles and Orange counties – older, settled areas with far lower population growth – together registered 18%, adding 30,000 twenty-somethings since 2010. (See Figure 16)

Some theorists suggest that millennials, particularly younger, educated ones, will never consider a largely suburban region like the Inland Empire. The green magazine Grist even sees them as a “hero generation” that is anxious to stay in the city, eschewing the materialism and family focus of previous generations.28

Yet survey data suggests quite the opposite. When asked where their “ideal place to live” would be, according to a survey by Frank Magid and Associates, more millennials identified suburbs than previous generations.29 Millennials note a 2014 study by the Demand Institute (sponsored by Nielsen and the Conference Board), also favor suburbs, embrace homeownership and crave more space, just like previous generations. If they are not buying new, economic reasons seem to be the predominant explanation. “They are still,” the study notes, “seeking the American dream.”30 (See Figure 17 on next page)
Housing stands at the center of all this. Traditionally, low-cost housing has attracted people to the region, and in comparative terms with the coastal areas, there are still considerable cost advantages. But, viewed from a national perspective, California’s over-stronger restrictions on where houses can be built and its out of control fee structure threaten to keep prices far higher, relative to incomes, than in other regions. The connection between higher housing costs and more stringent land use regulations (such as those that pervade California) has been the subject of considerable economic research. Further, there is increasing evidence associating higher housing prices relative to incomes with greater domestic out-migration.33 (See Figure 18)

Indeed, after a brief period following the housing crash when median house prices relative to median income fell back to the historic norm of three, the area more recently has started to experience a disturbing rise in its relative prices. The median multiple (median house price divided by the median household income) rose from 3.7 (well above historic norms) to 5.1 between the third quarters of 2012 and 2014.34 According to the California Association of Realtors, house prices rose faster over the past year in the Inland Empire than in Los Angeles and San Diego (though slower than in the San Francisco Bay Area).35 The region appears to be experiencing again something of the kind of housing price inflation that presaged the great crash of 2008. (See Figure 18)

Nor is the situation necessarily getting better; between October 2013 and 2014, for example, Riverside County home prices surged more than 9 percent, a rate of increase second only to Orange County during that time period.36 These rising prices also are reflected in the rental market. Indeed, rental prices have increased in the Inland Empire even more than the purchase cost of a new home, one reason why such a high percentage of residents now pay an inordinate share of their income for either mortgage or rent. (See Figure 20, page 15)

The Inland Empire: Southern California’s Opportunity Region

The continued movement to the Inland Empire – particularly in comparison with stagnating growth elsewhere – suggests that the area remains Southern California’s opportunity region. It is the one Southern California region with the land, and the housing cost structure, ideal for future economic growth. Without the growth in the inland region, Southern California will be largely doomed to a torpid economy and rapidly aging demographics.

Looking forward, regional business and government leaders must focus more on the notion that housing, particularly affordable units, region’s critical component in attracting the labor force needed to drive the regional economy. Housing influx benefits some, predominately if-you-own owners, but inexorably higher rents and mortgages, in the absence of strong income growth, could undermine the recovery. Indeed, this could lead future homeowners and renters who would normally come into the region to look elsewhere, likely entirely out of state, where housing is considerably less expensive, in large part because the constraints on housing tend to be less draconian.

Learning From the Past

Eastvale, a new community just outside Ontario, California is the town. Almost half the households speak a language other than English at home; Asians account for close to a quarter of the population while Latinos some 40 percent. For the most part, they are attracted to the suburban lifestyle so widely deterred in planning circles.

There’s no way you can live this life in Mumbai,” notes Indian immigrant Nibha Kothari, who moved to Eastvale with her husband and young daughter earlier this year. “There’s a balance here between city and town. In Mumbai, everything is so crowded and congested and there’s so much stress. It’s the little things, the quality of life for our family, that got us here.” Residents like Kothari say it is not the restaurants or the aesthetics of the urban design that brings their families to Eastvale. Instead, it’s the things urban pundits barely address, like good schools, a well-developed park system, low crime rates and, perhaps most importantly, larger home footprints. After all, family is the main reason people move to Eastvale, and many locals talk about raising relatives living in the same community.

The housing crunch has kept new houses distant from current area residents. This includes industries such as warehousing and storage, and particularly banks and other financial services. Yet, the area has also extended families, who until this point have been able to maintain a sense of community with a large number of family members living nearby. And it has some of the best quality-of-life features, with great weather, easy access to the city and the beach, and good schools.

Rather than looking at housing and economic development as somewhat separate things, it is time to link them together. The early and continuing enforcement of the stronger land use regulations required under Senate Bill 375 seem likely to severely limit building the types of suburban housing which many families seek in the Inland Empire. It seems likely that any efforts to deregulate housing affordability – extending into higher rents for multifamily dwellings – will continue, because of the excess of demand over the supply of new houses at affordable prices. An adequate supply of affordable housing, both rental and for sale, is critical to a stronger regional recovery. But keeping housing costs down is not sufficient; to reduce the price of housing relative to income, the region must also look for ways to boost salaries and business revenues across the region. Rather than looking at housing and economic development as somewhat separate things, it is time to link them together.

The fundamental priority for the region must be the creation of a broad base of jobs for current and future area residents. This includes a focus on industries that have historically been strong in the region, and are now clear areas of competitive strength. These include industries such as warehousing and storage, high-tech industries such as warehousing and storage, areas of competitive strength. These include industries such as warehousing and storage, areas of competitive strength. These include industries such as warehousing and storage, areas of competitive strength. These include industries such as warehousing and storage, areas of competitive strength. These include industries such as warehousing and storage, areas of competitive strength.
As millennials, immigrants and their offspring begin to look for affordable housing, more could be lured to the region if there were good jobs for them. The key to regional success then has to be seen as two-pronged: creating more affordable housing and also generating new, decent-paying jobs. Rather than separate, these actually are intensely intertwined and related.

The revival of the Inland Empire is critical to maintaining a middle class option in Southern California. Young Californians, notes one study, already are now less likely to graduate from college than their parents. Meanwhile, the middle class — the social and economic linchpin of the state — continues to decline, with a drop in households earning between $25,000 and $75,000 more pronounced (according to research at the California Lutheran University forecast project) than in the rest of the country.43 As late as the 1980s, the Golden State was about as egalitarian as the rest of the country and roughly 60 percent of its population was middle class. But now, for the first time in decades, the middle class is a minority. This is reflected as well by the fact that the largest proportion of those leaving the state are those with high school degrees and some college workers, who as a group, suffered disproportionately during and after the crash.

Under current trends, when young Californians choose to start a family, they increasingly look to settle elsewhere, ironically some to locations like Oklahoma and Texas, places that historically sent eager migrants to the Golden State.

Overall, the future prosperity of the Inland Empire depends on mixing its traditional strengths — affordable housing and strong blue collar sectors — with the expansion of newer industries as well as its growing immigrant-based economy. And with the rising numbers of millennials, including those with college degrees, the area increasingly can tap human capital that can create a base of higher-wage professional jobs in the region.

This requires a strategy that seeks, first and foremost, to maintain an affordable housing stock of all kinds, including both for sale and rent. But this needs to be joined with policies that allow for greater job creation that is a prerequisite both for the demand for housing and the ability to pay for it. Following one strategy without the other is likely to be self-defeating and will lead to future crises similar to that of the 2008 housing crash.

In terms of staunching this trend, the Inland Empire’s revival is critical not only for the region, but for all of Southern California. It has become, for many across the Southland, the last refuge of a middle class California “dream.”44 Without the Inland Empire’s growth, particularly in housing, the future of Southern California will become increasingly constrained and devoid of much opportunity for many of its middle class families.

The Inland Empire and the Crisis of the California Middle Class

Conclusion: No Silver Bullet, But Lots of Opportunity

As we should know by now, a successful housing industry requires a strong economy. Given the still relatively low level of education in the Inland Empire, development officials need to continue their focus on traditional blue collar industries, as well as those in the higher-paying, college-educated sectors.

This will require a new determination on the part of local officials, the real estate industry and economic planners to craft strategies that adopt a more holistic approach to growth. To remain Southern California’s opportunity region, the area needs to both retain it and build on its past successes. Only a strong Inland Empire can guarantee that middle class opportunity remains alive in Southern California.
Robert Frisch, Profile of a Century, 1893-1993, Riverside Historical Commission, 1993; Riverside and San Bernardino 2002; McCormick’s annual guide, p. 4, p. b7.

James T. Brown, Harvest of the Sun: An Illustrated History of Riverside County, p. 86.

James T. Brown, Harvest of the Sun: An Illustrated History of Riverside County, p. 165.


See: http://www.whitehouse.gov/sites/default/files/omb/assets/fedreg_2010/06282010_metro_standards-Complete.pdf. The employment interchange measure is the total of the percentage of workers residing in the smaller metropolitan area (in this case Riverside-San Bernardino) and the percentage of jobs in the smaller metropolitan area filled by residents of the larger metropolitan area (in this case Los Angeles).

The median multiple is a price to income ratio, which divides the median house price by the median household income. Generally, a median multiple of 3.0 or below is considered affordable. Before the 1970s expansion of strong housing regulation in California, all major markets tended to have median multiples of 3.0 or less.

Median multiples from Demographia International Housing Affordability Survey, Joint Center for Housing Studies, Harvard University and calculated from US Census Bureau data.


http://www.newgeography.com/content/004766-californias-southern-discomfort (calculated from US Census Bureau data).


11th Annual Demographia International Housing Affordability Survey in publication.


http://www.realclearmarkets.com/articles/2014/03/21/california_ceos_rate_it_worst_us_business_climate_for_8_years_running_100963.html

The Riverside-San Bernardino urban area (area of continuous urban development) is more dense than the average US urban area and more dense than the Portland urban area (an urban area renown for its densification policies). Based on 2010 census data.


https://www.caltrux.org/policy/environmental

http://www.reuters.com/article/2014/04/26/us-usa-drought-cattle-idUSBREA3R0O320140428


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Imagine A Whole Tomorrow

where children play and thrive, people live longer and happier, good health is global and lives are restored.

At Loma Linda University Health, this dream of a healthier whole tomorrow — focused on prevention and wellness — is at the core of our organization. The campaign is a daring $1.2 billion strategy that will redefine health and have a lasting impact on the health and wellness of the families of the Inland Empire and beyond. Be a part of our journey to create a whole tomorrow at LLUVision2020.org.

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