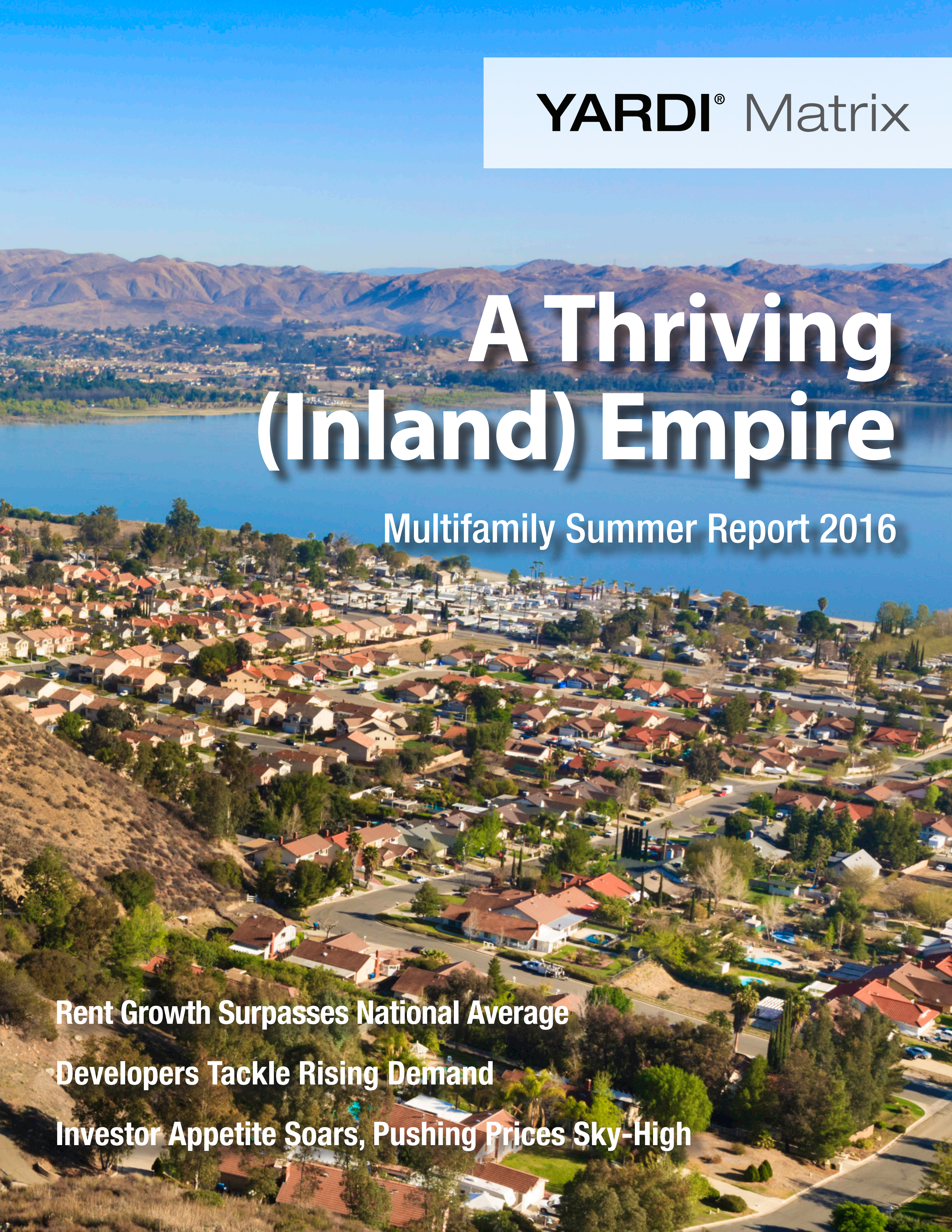

YARDI® Matrix

A Thriving (Inland) Empire

Multifamily Summer Report 2016

Rent Growth Surpasses National Average

Developers Tackle Rising Demand

Investor Appetite Soars, Pushing Prices Sky-High

Market Analysis

Summer 2016

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The (Inland) Empire Strikes Back

Propped up by robust job growth and a weak development pipeline, the Inland Empire's multifamily market is thriving. The area relies heavily on its role as the industrial hub of California, which has driven most of the growth for the metro, although improvement is visible across the board. Multifamily property values have consistently gone up along with occupancy rates, leading the transaction total and price per unit to all-time highs.

The continued growth of e-commerce, combined with the Inland Empire's proximity to the ports of Los Angeles and Long Beach, has driven the industrial sector into uncharted territory. However, demand has more than kept up with the pace of supply, pushing rents and occupancy rates higher. Expansions by Amazon, Walmart and other major retailers have turned post-downturn talk of overdevelopment into a distant memory, as industrial stock nears 500 million square feet.

And multifamily demand continues to rise, as the Inland Empire is still the less costly housing option in the area, attracting residents from Orange County and Los Angeles, where rents and home prices are significantly higher. Going forward, policy makers will have to take on the challenges caused by the area's poor air quality and income inequality. Multifamily fundamentals will remain favorable, however. The combination of high occupancy (97.1% as of April) and weak supply growth will lead to rent appreciation of roughly 6.8% in 2016.

Recent Inland Empire Transactions

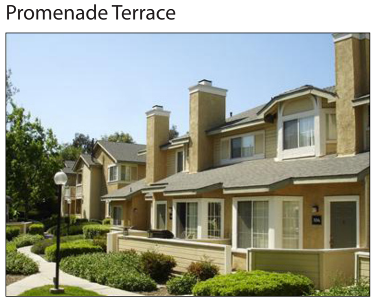
The Ashton

City: Corona, Calif.
Buyer: Starwood Capital Group
Purchase Price: $98 MM
Price per Unit: $199,813

The Heights

City: Chino Hills, Calif.
Buyer: TA Associates Realty
Purchase Price: $94 MM
Price per Unit: $282,380

Promenade Terrace



City: Corona, Calif.
Buyer: Bridge Investment Group Partners
Purchase Price: $78 MM
Price per Unit: $237,479

Deerwood

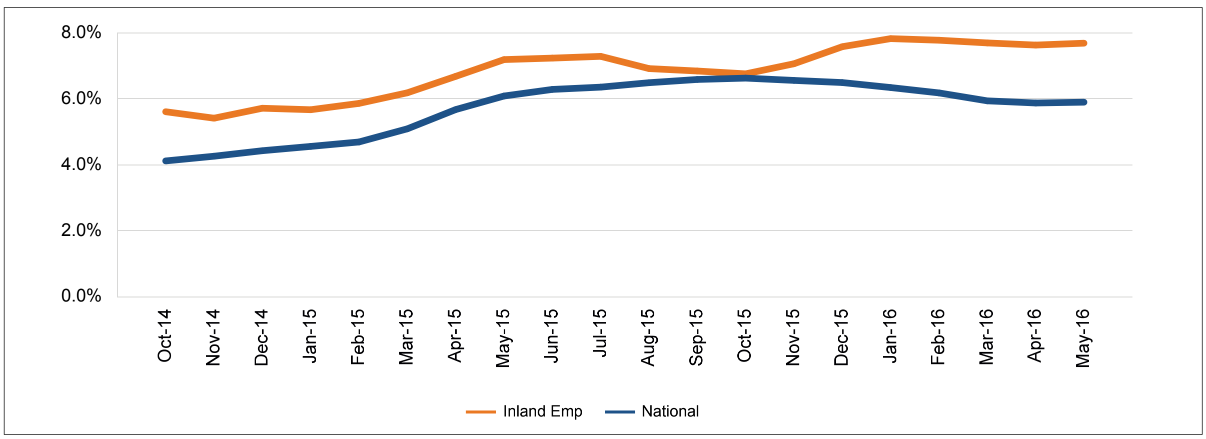
City: Corona, Calif.
Buyer: Starwood Capital Group
Purchase Price: $75 MM
Price per Unit: $238,116

On the cover: Photo by David Sucsy/iStockphoto.com

Rent Trends

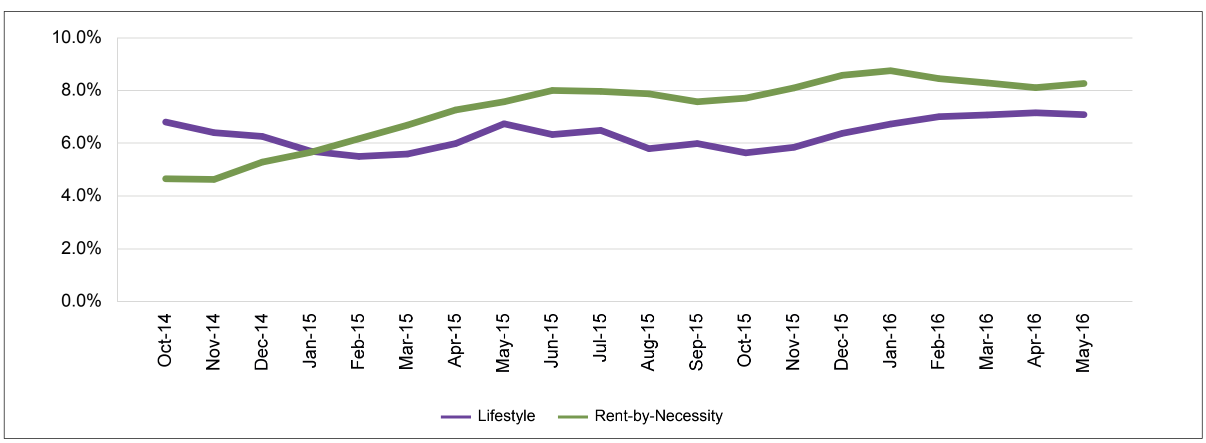
- Inland Empire rents rose 7.7% year-over-year through May, among the highest increases in the nation. Rents reached an average of $1,294 in May, $90 over the latest all-time-high national average, according to Yardi Matrix. The strong gains are underpinned by the 97.1% occupancy rate, also among the highest in the nation.
- Growth is being pushed forward by strong demand in lower-quality asset classes, especially as the area's job market continues to perform well. The weak development pipeline has provided little relief for growing demand, pushing occupancy rates above the 97% threshold.
- Performance of Renter-by-Necessity assets has driven growth in the metro to a very high rate, ending May at an average of $1,144, up 8.3% year-over-year. With most of the Inland Empire's housing stock Renter-by-Necessity, improvement in the sector is impacting the entire market. Rents have grown by more than $100 per unit in four submarkets during the past year: Indio, Highlands, Nuevo/Perris/Menifee and Montclair/North Ontario.
- We expect demand for units to remain strong throughout Southern California, producing another year of robust growth. Our forecast is for 6.8% growth in 2016.

Inland Empire vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Inland Empire Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Economic Snapshot

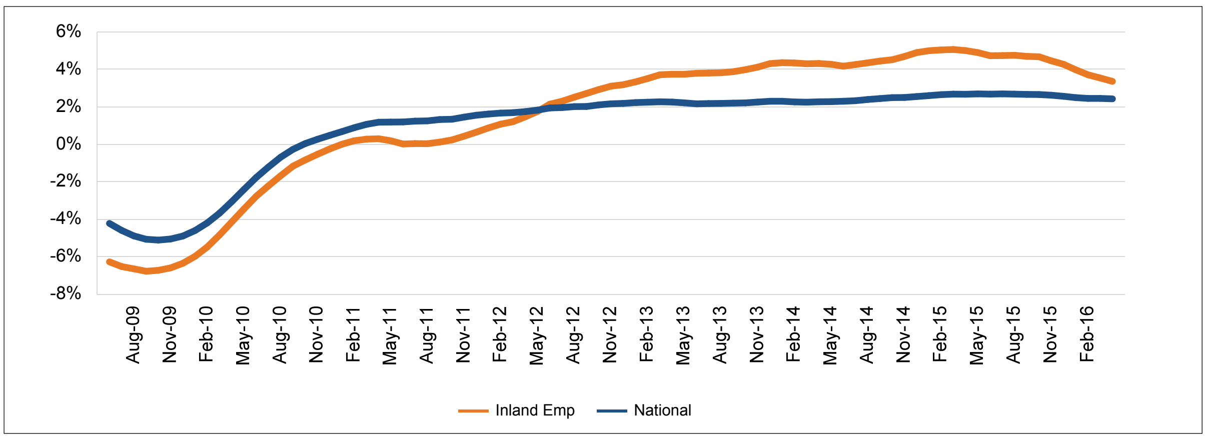
- The Inland Empire gained more than 45,000 jobs year-over-year through March, a 3.4% rate of growth. That is well above the national rate of 2.3% and trailed only San Francisco in the state of California. The unemployment rate has dipped to just above 5%, from around 14% in 2009.

- Trade, transportation and utilities added roughly 14,800 jobs, as the sector strengthened its position as the Inland Empire's main economic driver. Developers are adding industrial stock at a high rate, spurred by unprecedented demand. Industrial absorption is strong enough to keep pushing vacancy rates lower. With freighting activity high in both the Los Angeles and Long Beach ports, there is further incentive for warehousing to grow in the market.

- The construction sector added 6,300 jobs, 7.6% growth year-over-year. Although the multifamily sector failed to contribute much, a large industrial development pipeline has meant that jobs continued to be added in the sector. As developers catch up with demand levels, multifamily construction jobs may pick up the slack in coming years.

- Locals are hopeful that the metro will receive a shot in the arm from the change in control of Ontario International Airport. The city of Ontario, which is about to take over management from the city of Los Angeles, is planning several expansion projects aimed at increasing employment in the construction and transportation sectors.

Inland Empire vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Inland Empire Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	338	24.5%	14,800	4.6%
65	Education and Health Services	210	15.2%	7,400	3.7%
90	Government	244	17.7%	7,400	3.1%
15	Mining, Logging and Construction	89	6.5%	6,300	7.6%
70	Leisure and Hospitality	155	11.2%	2,900	1.9%
30	Manufacturing	98	7.1%	2,800	3.0%
60	Professional and Business Services	145	10.5%	2,000	1.4%
80	Other Services	45	3.3%	1,100	2.5%
55	Financial Activities	44	3.2%	600	1.4%
50	Information	11	0.8%	100	0.9%

Sources: YardiMatrix, Bureau of Labor Statistics

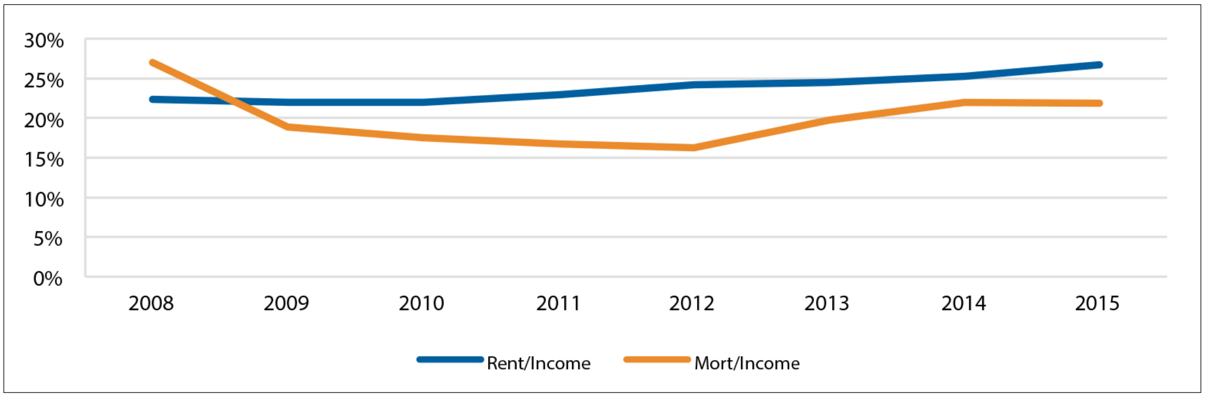
Demographics

Affordability

- Renting continues to be the more costly option in the Inland Empire, a trend that has generally been maintained throughout the current cycle. Average rents are now at $1,294, claiming roughly 27% of median income, with more improvement yet to come.

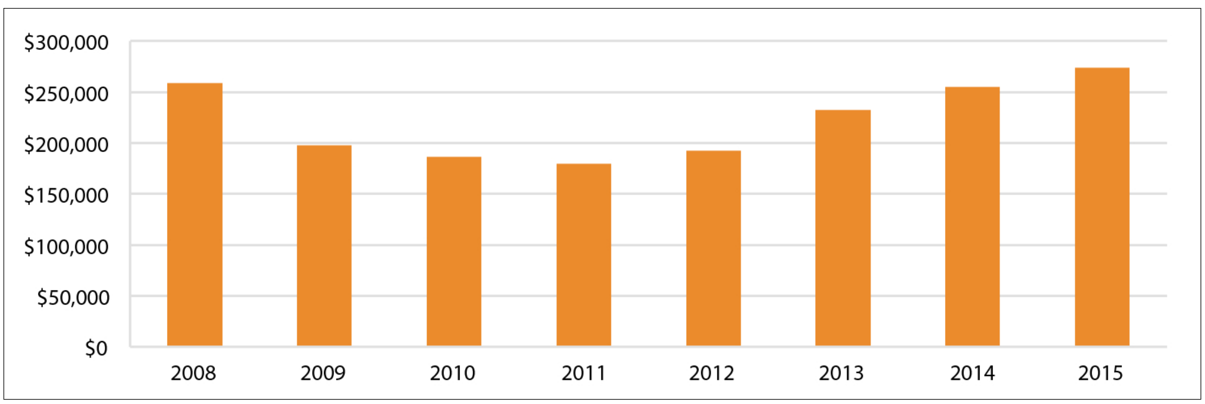
- Median home prices have completed their rebound, reaching $273,784 in 2015, up 52% from the trough in 2011 and 5.7% over the pre-downturn high of $258,949. In spite of substantial price gains, strong employment numbers have also pushed median incomes higher, maintaining the cost of ownership at around 22% of incomes, which is below pre-downturn levels.

Inland Empire Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Inland Empire Median Home Price



Source: Moody's Analytics

Population

- The Inland Empire is one of the fastest-growing California MSAs, with a population approaching 4.5 million.

- Between 2010 and 2014, the metro grew at a rate of 4.7%, far higher than the U.S. (3.1%).

Inland Empire vs. National Population

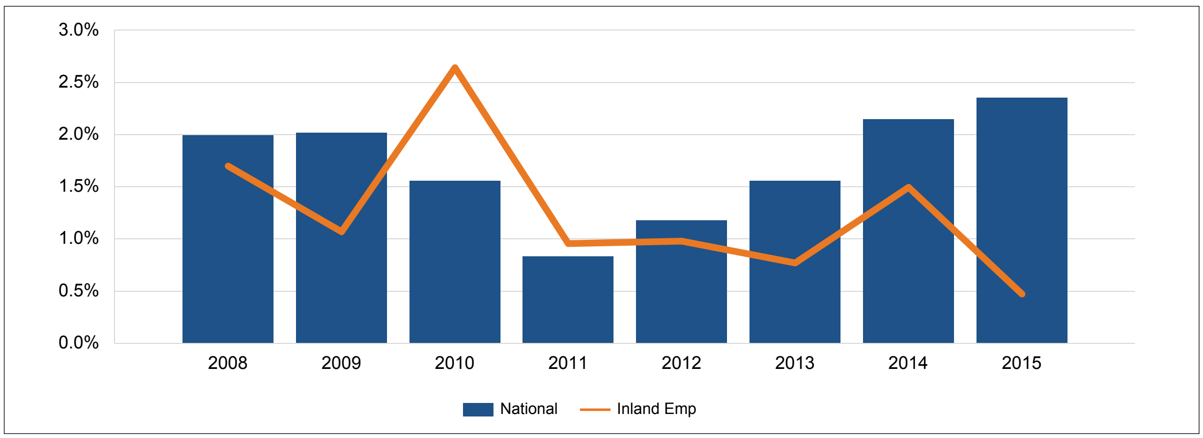
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Riverside-San Bernardino-Ontario, CA Metro	4,244,242	4,302,359	4,348,670	4,390,262	4,441,890

Source: U.S. Census

Supply

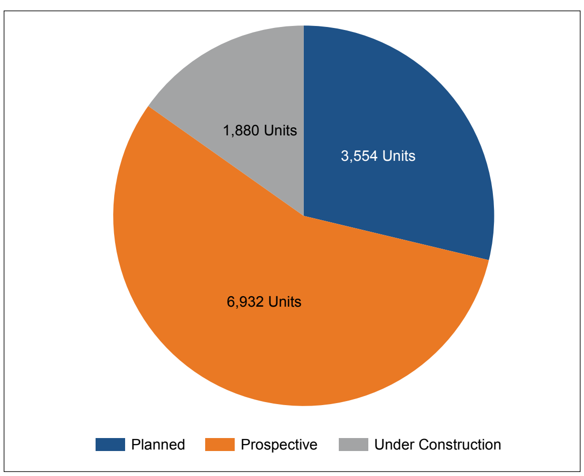
- Although demand has been trending upwards for some time now, supply has failed to increase in any meaningful way in the metro, with only 700 units coming online in 2015, an inventory expansion of 0.5%, roughly 190 basis points under the national rate.
- The Inland Empire's pipeline currently consists of about 12,300 units in various stages of development. More than half of those units are prospective, which signals that developers are finally taking note of escalating property values and rising demand in San Bernardino and Riverside counties. Only a handful of submarkets have projects underway; just 1,900 units are currently under construction.
- The lack of development is a result of the high cost of land and strict zoning laws, which make it difficult to build new stock. Supply constraints will continue to drive rents and property values higher, making way for more investment opportunity in the area.
- The largest project scheduled to come online in 2016 is One 11 in the Corona submarket. Wermers Properties is developing the project, which is slated to add 464 units by the end of the year.

Inland Empire vs. National Completions as a Percentage of Total Stock (as of May 2016)



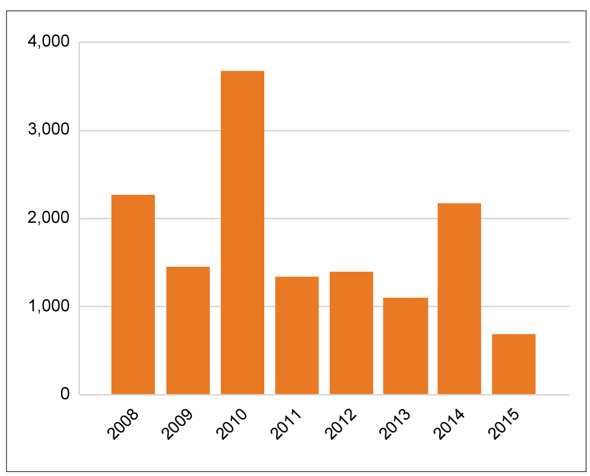
Source: YardiMatrix

Development Pipeline (as of May 2016)



Source: YardiMatrix

Inland Empire Completions (as of May 2016)

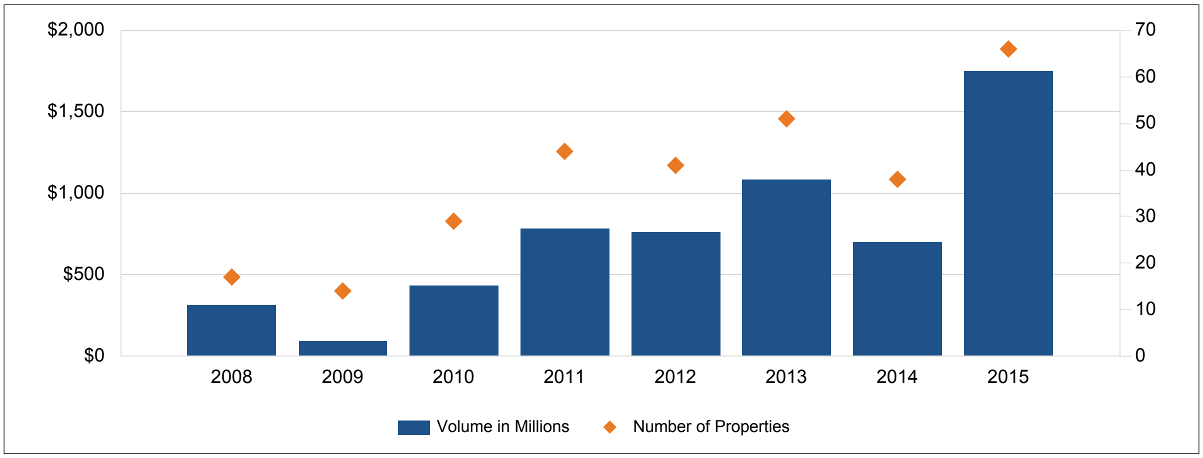


Source: YardiMatrix

Transactions

- Investor appetite is sky-high, as institutions and opportunistic capital sources look for stable assets in secondary markets along the entire West Coast. Nearly $1.8 billion worth of multifamily assets were traded in the Inland Empire in 2015, a 150% increase in volume over 2014.
- The demand pushed prices to record levels. The average price per unit ended the year at $141,195, 21% over the national average of $117,157. Since 2010, prices have consistently risen at a higher rate than the nation, a trend that continued through the first half of 2016.
- In June, a joint venture between MG Properties and affliates of Rockwood Capital sold the 736-unit Terracina apartment community in Ontario to Bridge Investment Group Partners for $142 million. That's a new multifamily sales record for the region, coming at a per-unit price of $193,000.

Inland Empire Sales Volume and Number of Properties Sold (as of May 2016)



Source: YardiMatrix

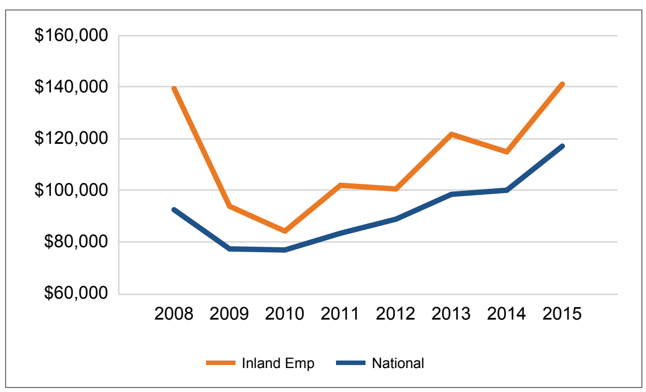
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Corona	334
Moreno Valley	262
Montclair/North Ontario	170
Chino/Chino Hills	159
East Riverside	83
Murrieta/Temecula	80
Upland/Alta Loma	67
Indio	66

Source: YardiMatrix

[1] From June 2015 to May 2016

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix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Voit Real Estate Facilitates
Inland Empire Industrial Lease
IPA Arranges Sale of Inland
Empire Multifamily Asset
Guitar Center Sets Up New
West Coast Distribution Center
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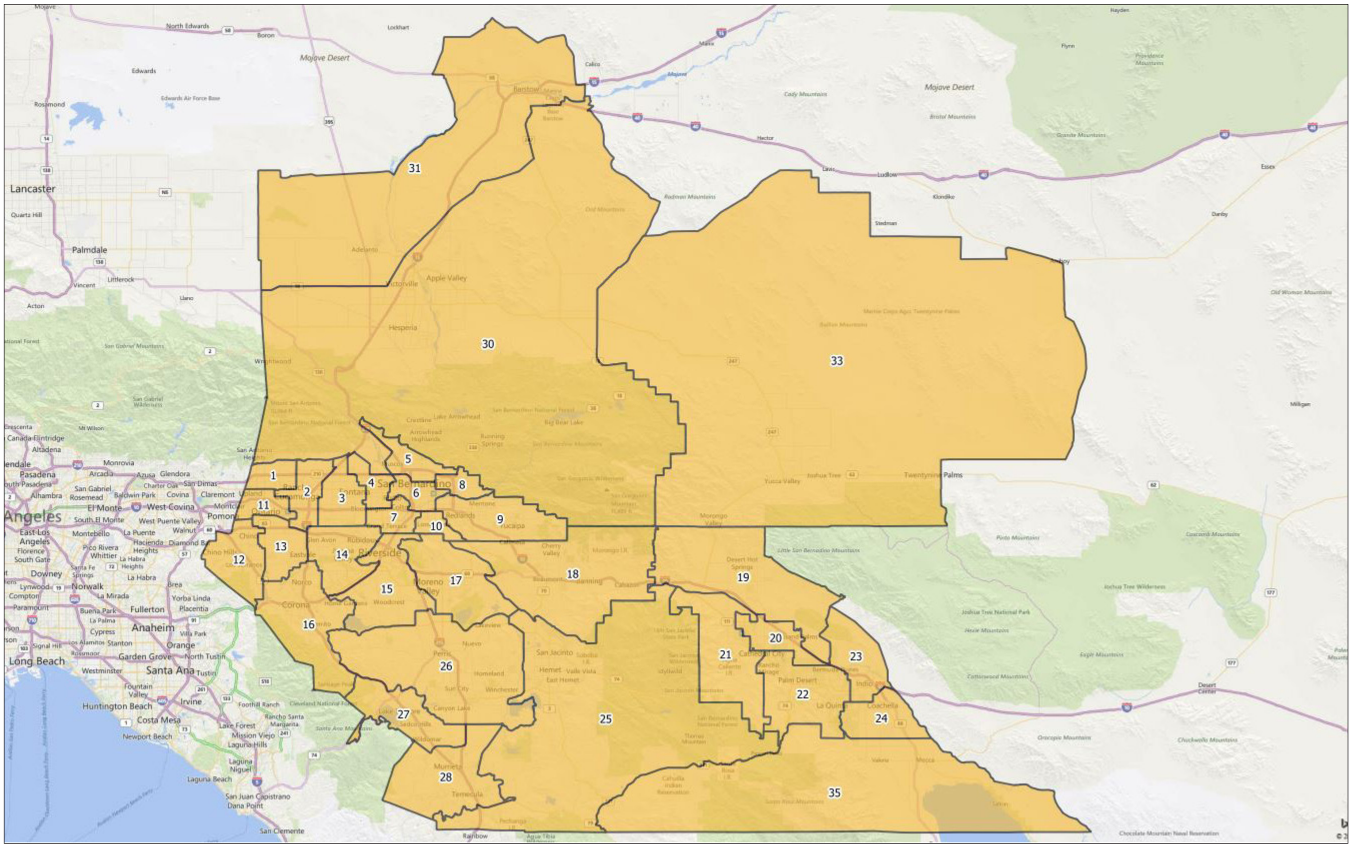
Inland Empire Submarket Map



Area #	Submarket
1	Upland/Alta Loma
2	Rancho Cucamonga
3	Fontana
4	Rialto
5	North San Bernardino
6	South San Bernardino
7	Colton/Grand Terrace
8	Highlands
9	Redlands/Yucaipa
10	Loma Linda
11	Montclair/North Ontario
12	Chino/Chino Hills
13	South Ontario
14	West Riverside
15	East Riverside
16	Corona

Area #	Submarket
17	Moreno Valley
18	Beaumont/Banning
19	White Water/Desert Hot Springs
20	Thousand Palms/Cathedral City
21	Palm Springs
22	Palm Desert/La Quinta
23	Indio
24	Coachella
25	Hemet/San Jacinto
26	Nuevo/Perris/Menifee
27	Lake Elsinore
28	Murrieta/Temecula
30	Victorville/Apple Valley/Big Bear
31	Adelante/Oro Grande
33	Yucca Valley/Morongo Valley

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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