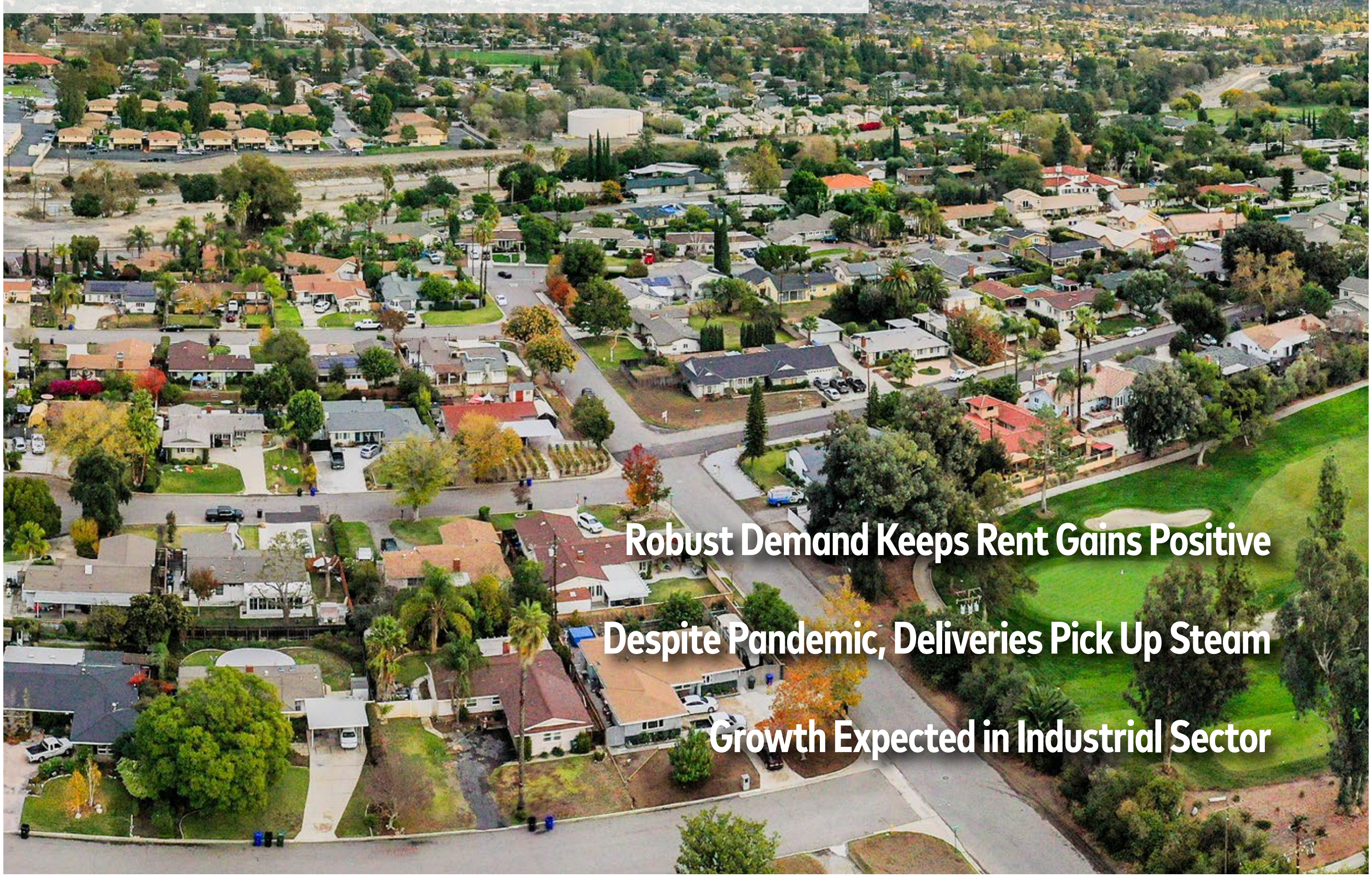
Yardi Matrix

MULTIFAMILY REPORT

The Inland Empire's New Hope

Summer 2020



Robust Demand Keeps Rent Gains Positive

Despite Pandemic, Deliveries Pick Up Steam

Growth Expected in Industrial Sector

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Challenges, Opportunities Ahead

The Inland Empire's rental segment showed signs of vigor during the first three months of the pandemic. Sustained demographic expansion, limited supply and high demand kept rent growth positive, with the average rate up 0.1% on a trailing three-month basis through June. Meanwhile, the occupancy rate in stabilized properties slid to 95.5% as of May, down 0.6% in 12 months.

Job growth turned negative for the first time since early 2011. All sectors posted year-over-year contractions, with unemployment rising from 4.1% in January to 14.7% in April and 15.1% in May. Between mid-March and mid-July, nearly 6.6 million Californians filed unemployment claims. Leisure and hospitality shrunk by 44%, while trade, transportation and utilities—the area's main economic driver—contracted by 8.4%. On the plus side, Moreno Valley authorities approved the World Logistics Center project, a 41 million-square-foot warehouse complex, for the second time.

Transaction activity slowed considerably in the first half of 2020, totaling only $232 million. Meanwhile, development powered through, and 1,742 units came online. Another 2,849 units were underway as of June. Considering the pandemic's impact, we expect the average rent to fall 3.4% in 2020.

Market Analysis | Summer 2020

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Recent Inland Empire Transactions

Arte

City: Rancho Cucamonga, Calif.
Buyer: Providence Capital Group
Purchase Price: $68 MM
Price per Unit: $363,636

The Heights at Grand Terrace

City: Grand Terrace, Calif.
Buyer: Harbor Group International
Purchase Price: $46 MM
Price per Unit: $199,561

Overture at Riverwalk

City: Riverside, Calif.
Buyer: Greystar
Purchase Price: $38 MM
Price per Unit: $187,745

Village Green

City: San Bernardino, Calif.
Buyer: Alliant Capital
Purchase Price: $21 MM
Price per Unit: $111,957

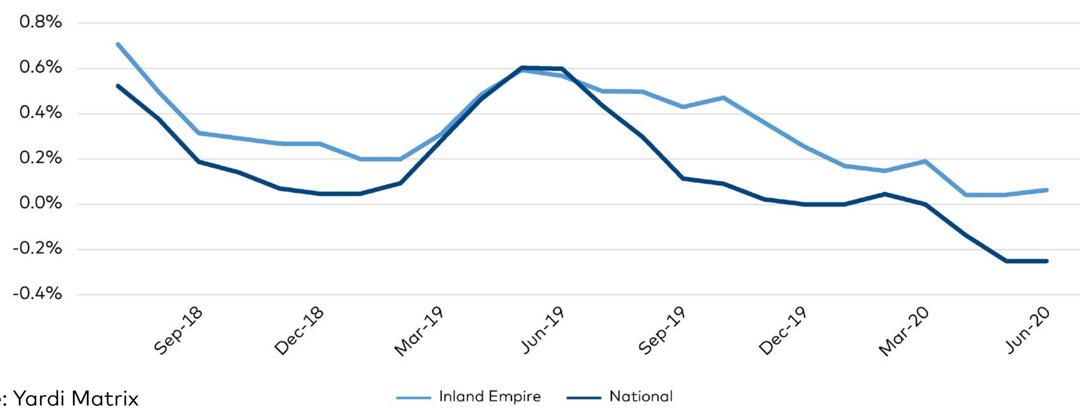
RENT TRENDS

- Rent expansion in the Inland Empire has remained positive through the pandemic. While the national average posted a 0.3% contraction to $1,457, on a trailing three-month (T3) basis through June, the average rent across San Bernardino and Riverside counties rose 0.1% to $1,587. Limited supply, coupled with Los Angeles' spillover effect, favored rent hikes, as demand remained high. Nonetheless, the area's multifamily environment felt some effects of the COVID-19 crisis, as rent growth stayed flat during April and May.

- The working-class Renter-by-Necessity segment led growth, with rates up 0.1%, on a T3 basis through June, to $1,420. Meanwhile, upscale Lifestyle rents stayed flat for the second consecutive month, clocking in at $1,826. Although rents remained above the national average, the health crisis impacted the occupancy rate in stabilized properties—prices slid to 95.5% as of May, down 60 basis points from 12 months prior.

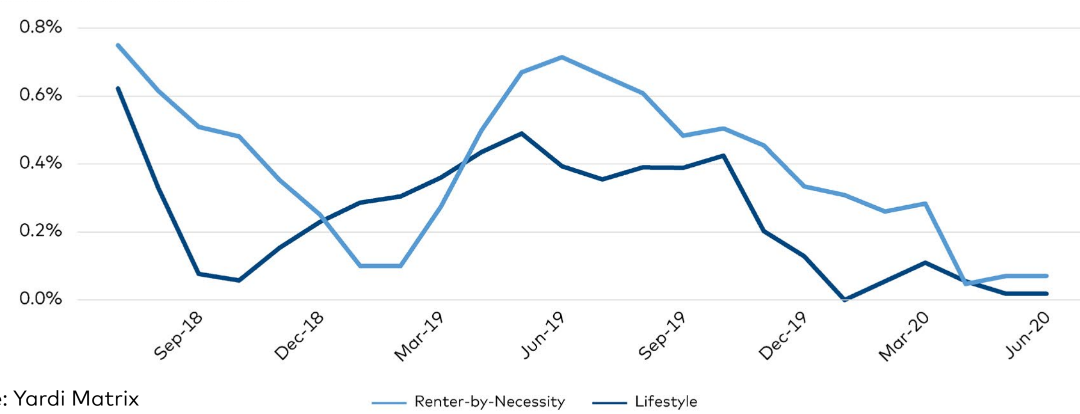
- Missed rent payments across Southern California recorded an uptick, but the situation was still relatively in check as of June, thanks to state and federal assistance. In June, 82% of the region's renters paid on time, slightly better than the national average, according to a U.S. Census Bureau survey cited by the Orange County Register. An additional 5% of renters had their payments deferred. The survey covered responses from renters in four counties: Los Angeles, Orange, San Bernardino and Riverside.

Inland Empire vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Inland Empire Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- After starting the year at 4.1%, the Inland Empire's unemployment rate rose to 14.7% in April—when the full effects of the lockdown became apparent—and registered another uptick in May, hitting 15.1%. Between mid-March and mid-July, nearly 6.6 million Californians filed unemployment claims.

- The pandemic halted the area's robust economic performance. Job growth turned negative for the first time since 2011, dropping 3.3% for the 12 months ending in May. The leisure and hospitality and information sectors took the strongest hits, shrinking by more than 44% and 18%, respectively.

- The area's burgeoning logistics industry has continued to thrive in recent years. With the lockdown leading to a surge in e-commerce, the metro faces new opportunities, as well as challenges: While it offers some job market stability and can reinforce the Inland Empire's position as a primary logistics hub, warehouse workers are more likely to toil in dangerous conditions that put them at greater risk of infection.

- The market totals some 600 million square feet of industrial space and is expected to grow further. Moreno Valley has reapproved the World Logistics Center, a 41 million-square-foot warehouse complex, accounting for 10% of the Valley's land.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	44	3.2%
50	Information	10	0.7%
15	Mining, Logging and Construction	102	7.5%
60	Professional and Business Services	143	10.5%
65	Education and Health Services	236	17.3%
90	Government	254	18.7%
80	Other Services	34	2.5%
30	Manufacturing	89	6.5%
40	Trade, Transportation and Utilities	350	25.7%
70	Leisure and Hospitality	99	7.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire gained 28,270 residents in 2019, for a 0.6% uptick—roughly half the rate in the previous year but double the U.S. rate.

- Between 2016 and 2019, the metro gained 133,887 residents, for a 3.0% expansion.

Inland Empire vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Inland Empire	4,516,744	4,570,427	4,622,361	4,650,631

Sources: U.S. Census, Moody's Analytics

SUPPLY

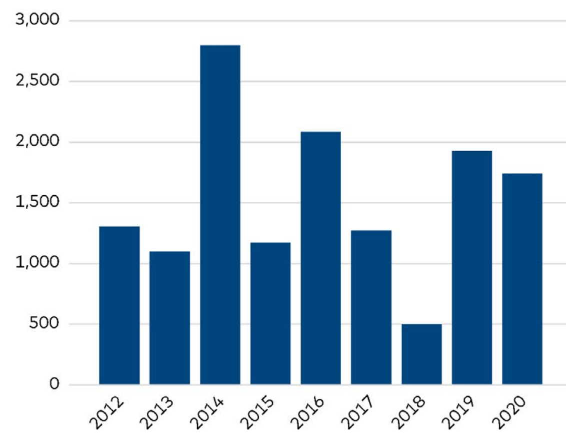
- The Inland Empire had 2,849 units under construction as of June—1,991 of which are slated for completion by the end of the year—and another 13,595 units in the planning and permitting stages. Considering the implications of the health crisis, completion delays are likely, while many of the planned and prospective developments could be postponed or axed.

- While nearly 14,000 apartments came online in the Inland Empire since 2012, the area is considered overbuilt for business and underbuilt for housing. Despite the pandemic, however, 1,742 apartments across six properties came online in the first half of 2020, close to the 1,930 units that were delivered during all of 2019. Both figures were above the Inland Empire's 1,393-unit five-year average.

- Construction activity is uneven across the map, which does not come as a surprise considering local land-use restrictions. Montclair/North Ontario continues to be the most active submarket, with three projects underway, two of which are slated to become fully affordable communities. The submarket also houses the largest community delivered in recent years—the 800-unit the Paseos at Ontario, a G.H. Palmer Associates property completed in May this year.

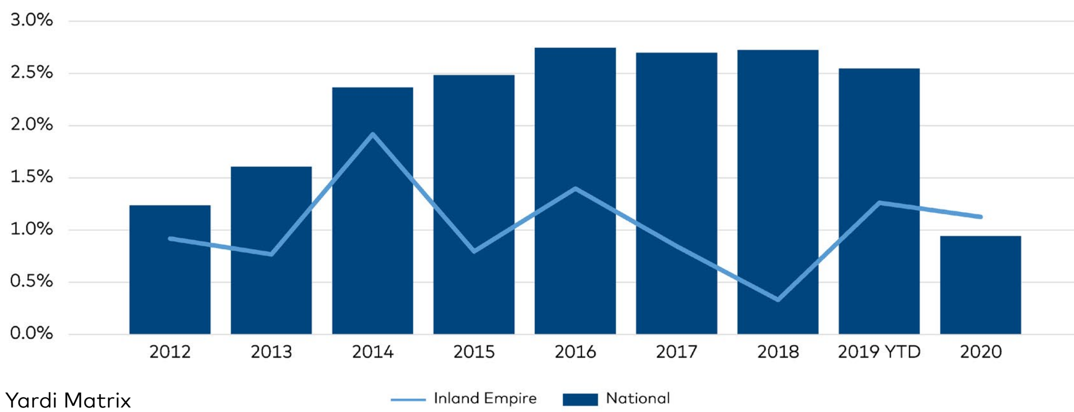
- Five submarkets had more than 300 apartments underway as of June: Montclair/North Ontario (387), Redlands/Yucaipa (340), East Riverside (331), Nuevo/Perris/Menifee (330) and Palm Desert/La Quinta (301).

Inland Empire Completions (as of June 2020)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of June 2020)



Source: Yardi Matrix

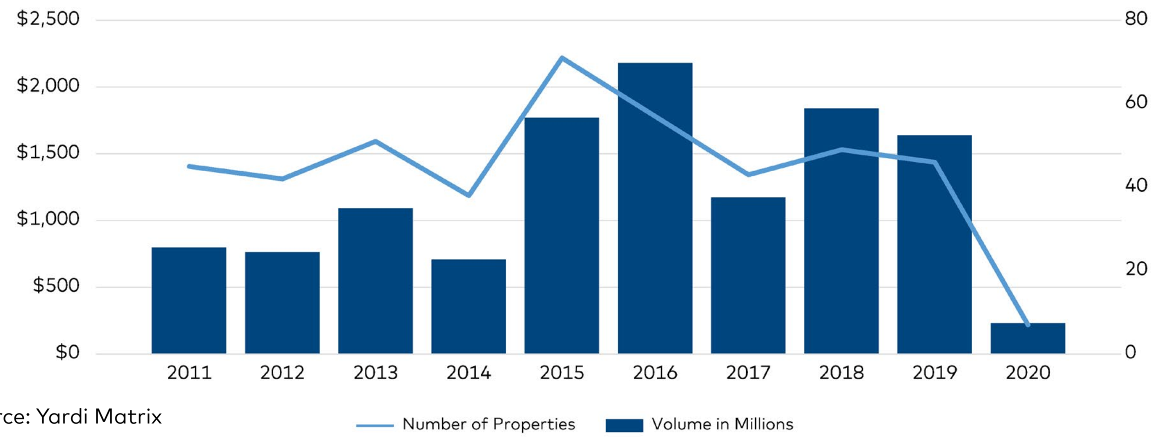
TRANSACTIONS

- In the first half of 2020, a total $232 million in multifamily assets traded in the Inland Empire. That represented roughly a quarter of last year's volume during the same period, when sales totaled $820 million. Activity was most intense in March, when four properties were traded for a combined total of $150 million. Overall, during the first quarter, investors spent $194 million on multifamily units in the metro.

- Of the seven properties that changed ownership in 2020 through June, five were RBN assets. Even so, the per-unit price rose 7.2% to $206,341, well above the $163,799 national figure, but below the area's 2018 cycle peak of $208,354.

- So far, the largest sale of the year has been Providence Capital Group's $68 million acquisition of the 2019-completed Arte in Rancho Cucamonga. The 187-unit asset, previously owned by Fore Property Co., traded for $363,636 per unit.

Inland Empire Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

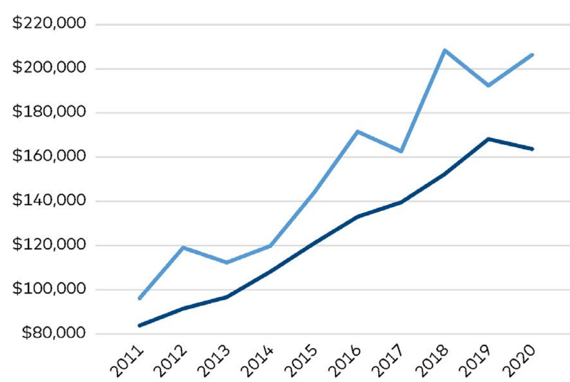
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Riverside	131
Colton/Grand Terrace	118
Moreno Valley	108
Redlands/Yucaipa	97
Nuevo/Perris/Menifee	92
Rancho Cucamonga	85
Upland/Alta Loma	68

Source: Yardi Matrix

[1] From July 2019 to June 2020

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

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What Draws Investors' Attention to Western Markets?

By Adina Marcut

MG Properties Group focuses on the acquisition, development, rehabilitation and management of residential properties throughout the western U.S. Since 2017, the company has acquired nearly $3 billion worth of apartment properties on the West Coast. CIO Paul Kaseburg talks about investing in the area during these challenging times and shares how the company's approach has changed.

What makes smaller Western markets like Sacramento, the Inland Empire and Orange County suitable for multifamily investment?

Much of the development during this last cycle has been focused on core urban locations in gateway markets. The affordability of secondary markets has driven population and job growth, creating strong demand combined with less competition from new supply.

How has your focus changed during the health crisis?

Our primary goal has been to support the health and well-being of our residents and employees by working proactively and individually with those personally impacted by the crisis. The fact that we manage our own properties has allowed us to quickly reallocate our corporate and on-site teams, and to implement new processes to address the situation as it unfolds. With no playbook or best practices to rely on, our operations team has had to be creative and flexible to manage issues as they arise.

How has the pandemic impacted your business so far?

The initial impact of the pandemic on our investment portfolio has been a modest increase in delinquency rates. However, we expect to see erosions in rents and vacancy as well, if demand softens due to an economic slowdown. The multifamily industry has been less impacted by the crisis than other asset types so far, but it is hard to predict the effect of the pandemic on the broader economy and our prospects for future growth. Multifamily has a reputation as a lower-risk product type within the commercial real estate industry and its performance in this crisis should reinforce that reputation with investors.

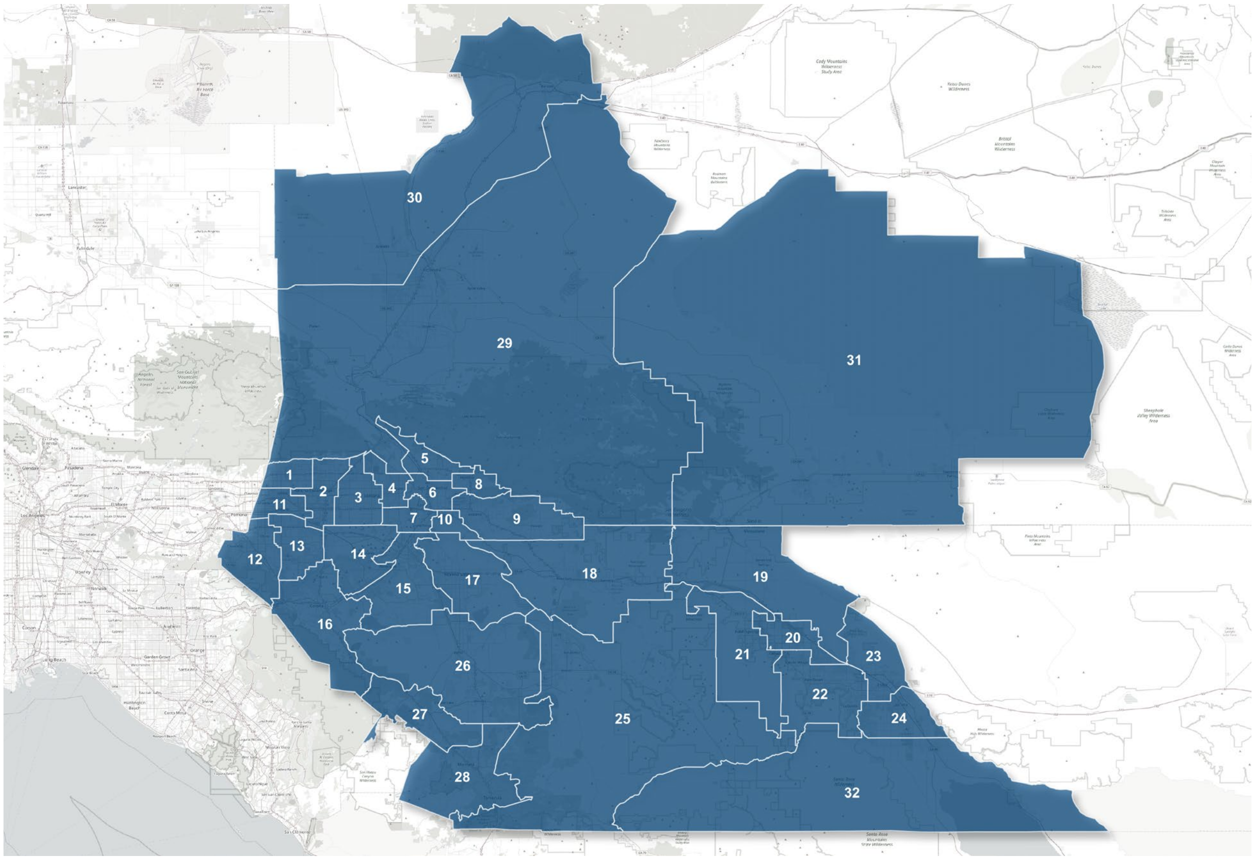
Did the crisis affect the California markets you are active in?

Los Angeles and the Bay Area have been disproportionately affected by the crisis, while the influence on other markets has been more moderate. Portfolio performance so far tends to be most impacted in submarkets with a high concentration of job losses due to COVID-19 and those with more polarized political environments.

What are your expectations for investment in the West Coast markets going forward?

Western markets tend to have relatively higher barriers to entry and they have benefited from sustained job growth, which we do not expect to change due to the COVID-19 crisis.

INLAND EMPIRE SUBMARKETS



Area No.	Submarket
1	Upland/Alta Loma
2	Rancho Cucamonga
3	Fontana
4	Rialto
5	North San Bernardino
6	South San Bernardino
7	Colton/GrandTerrace
8	Highlands
9	Redlands/Yucaipa
10	Loma Linda
11	Montclair/North Onta
12	Chino/Chino Hills
13	South Ontario
14	West Riverside
15	East Riverside
16	Corona

Area No.	Submarket
17	Moreno Valley
18	Beaumont/Banning
19	WhiteWater/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
29	Victorville/Apple Valley/Big Bear
30	Adelante/Oro Grande
31	Yucca Valley/Morongo Valley
32	Indian Wells

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 June 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 June 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, June 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.