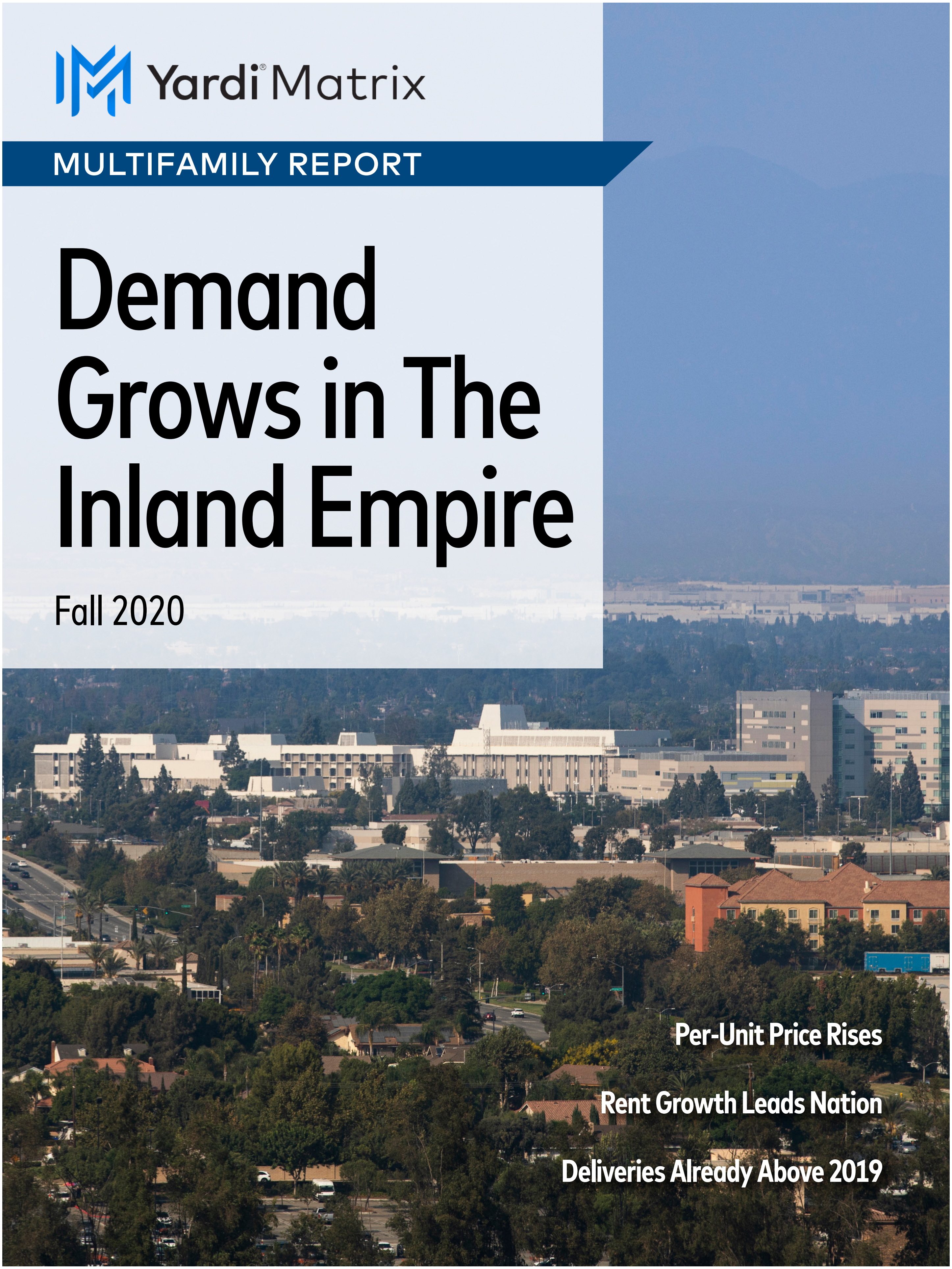
Yardi® Matrix

MULTIFAMILY REPORT

Demand Grows in The Inland Empire

Fall 2020



Per-Unit Price Rises

Rent Growth Leads Nation

Deliveries Already Above 2019

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Economic Rehabilitation At a Crossroads

The Inland Empire's multifamily market benefits greatly from its vicinity to Los Angeles and the Bay Area, with incoming residents from more expensive, denser markets driving demand and rent growth. Rents were the highest in the nation on a trailing three-month basis through October, up 1.2% to $1,669, while the U.S. average remained flat at $1,464.

Employment in the metro continued to deteriorate, clocking in at -9.9% year-over-year during the 12 months ending in September, below the -9.3% U.S. rate. The metro's economic rehabilitation is caught between California's economic reconstruction and the nation's recovery. The unemployment rate improved steadily from the all-time high of 15.1% in May to 10.5% in August, while preliminary data for September pointed to 10.4%. Leisure and hospitality shrunk by 30 percent, while trade, transportation and utilities–the metro's largest sector–contracted by 3.4%. Amazon's newest fulfillment center in Beaumont expanded the warehousing footprint, which is sustained by the surge in e-commerce purchases.

Multifamily deals totaled $477 million through October, with an average price per unit that rose 13.7% to $218,799. Meanwhile, developers delivered 2,383 units and had another 2,302 underway.

Market Analysis | Fall 2020

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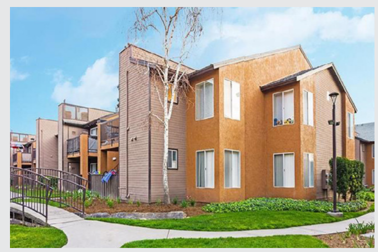
On the cover: Photo by MattGush/iStockphoto.com

Recent Inland Empire Transactions

Mitchell Place

City: Murrieta, Calif.
Buyer: MG Properties Group
Purchase Price: $78 MM
Price per Unit: $340,217

Artessa



City: Riverside, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: $58 MM
Price per Unit: $267,907

The 3900

City: Riverside, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: $26 MM
Price per Unit: $215,417

Bay Family

City: Moreno Valley, Calif.
Buyer: Hearthstone Housing Foundation
Purchase Price: $4 MM
Price per Unit: $70,492

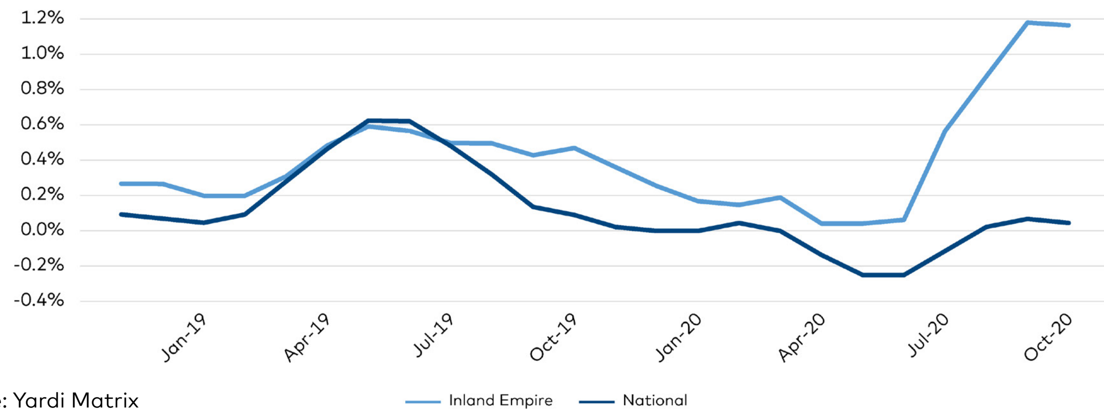
RENT TRENDS

- The Inland Empire led the nation in rent performance, with the average rent rising 1.2% on a trailing three-month basis through October to $1,669, while the U.S. average stayed flat at $1,464. The spike in rent growth began at the start of the third quarter, as its geographical location made the metro the main choice for the exodus of residents leaving Los Angeles and the Bay Area.

- Incoming residents from more expensive and denser California markets has increased demand for apartments across the quality spectrum in the metro. With the average rent in the Inland Empire 23% lower than the average rent in Los Angeles, demand is likely to continue to rise. Furthermore, as many workers in creative and knowledge-based industries had the flexibility to work remotely, Lifestyle units led growth, up 1.4% through October. Renter-by-Necessity rates increased by 0.9% to $1,476.

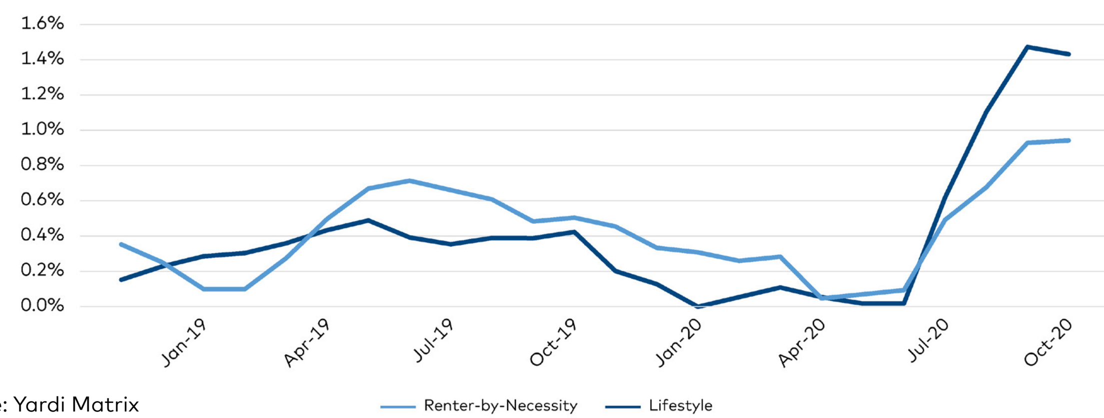
- Bucking the national trend, rents in the metro's most sought-after submarkets were also among those with the highest average rent. In Rancho Cucamonga, the average rent rose 10.1% to $2,088, while in Chino/Chino Hills rents hiked by 11.5% to $2,005.

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

- While job expansion in the Inland Empire is outpacing the state, it is trailing the nation–in the 12 months ending in September, overall employment had dropped 9.9%, 60 basis points higher than the U.S. rate.

- Unemployment has improved slowly since the onset of the pandemic, dropping from the all-time high of 15.1% in May to 10.5% in August, with preliminary data for September pointing to 10.4%. The most significant drops were recorded in the leisure and hospitality sector, equal to a 30% decline or 51,500 jobs. Next in line was the trade, transportation and utilities sector, which shrunk by just 3.4%, the equivalent of more than 13,000 jobs. At 26.7% of total employment, it is the Inland Empire's largest employment sector. Still, the surge in e-commerce purchases has kept the metro afloat and the warehousing industry has expanded its footprint in the region, with Amazon opening a new 640,000-square-foot fulfillment center in Beaumont in September.

- Previously reapproved, the World Logistics Center in Moreno Valley has again been put on hold due to difficulties in addressing environmental issues.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	44	3.1%
50	Information	10	0.7%
15	Mining, Logging and Construction	104	7.3%
65	Education and Health Services	244	17.2%
80	Other Services	35	2.5%
90	Government	245	17.3%
60	Professional and Business Services	147	10.4%
30	Manufacturing	89	6.3%
40	Trade, Transportation and Utilities	378	26.7%
70	Leisure and Hospitality	120	8.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire gained 28,270 residents in 2019, up 0.6% and double the U.S. rate.

- With in-migration from neighboring large gateway markets such as Los Angeles and the Bay Area, demographic additions are anticipated to continue their strong streak.

Inland Empire vs. National Population

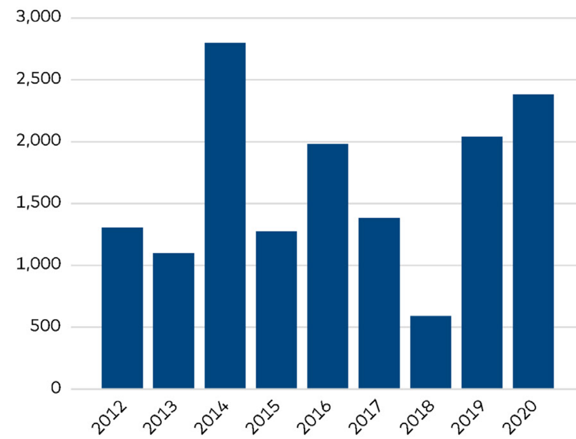
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Inland Empire	4,516,744	4,570,427	4,622,361	4,650,631

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

SUPPLY

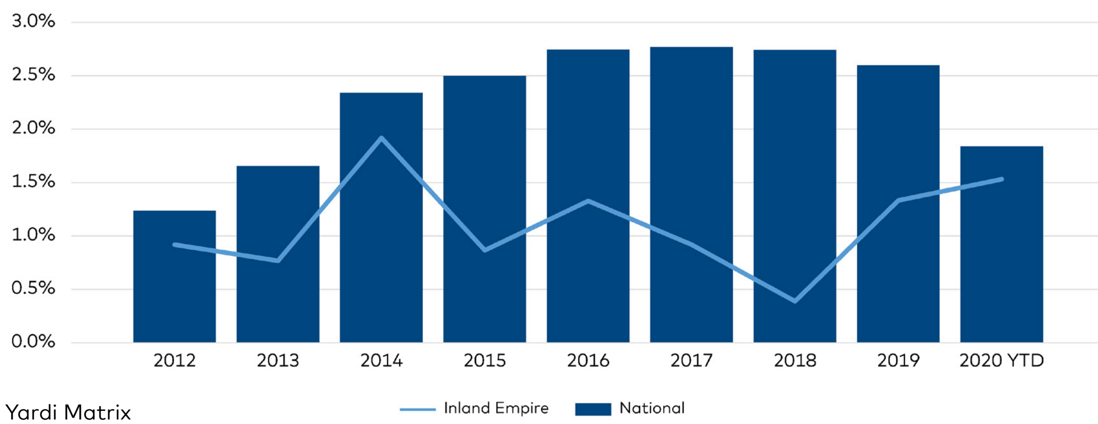
- Development activity picked up in the Inland Empire this year, as developers delivered 2,383 units in 2020 through October. That's already an uptick over last year's total completions, at 1,930 units. Still, the newly added supply accounts for 1.5% of total stock and trails the nation by 30 basis points.
- In October, 2,302 units were under construction and another 15,600 in the planning and permitting stages. Some 759 units were slated for completion by the end of the year and the bulk of both deliveries and the development pipeline is geared to the upscale Lifestyle segment.
- The Inland Empire is a traditionally undersupplied market, with only 15,000 units added to the multifamily housing stock since 2012. The pandemic's impacts translated into an amplified movement from denser California markets and this has put pressure on developers to find construction sites, despite the two counties having multiple local land-use restrictions. As a result, construction activity is uneven.
- The Redlands/Yucaipa submarket is home to the largest community underway—the 340-unit The Crossing at Redlands. Meanwhile East Riverside and Murrieta/Temecula each had two projects under construction, totaling 218 and 210 units, respectively.

Inland Empire Completions (as of October 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

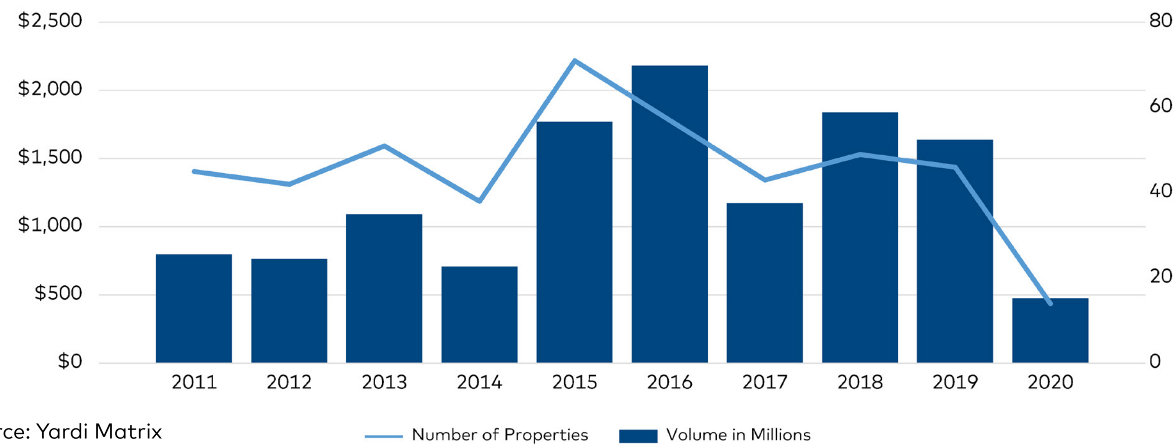
TRANSACTIONS

- Transaction activity in the first 10 months of 2020 was moderate in the Inland Empire, with $477 million in multifamily assets changing hands. By comparison, during the same time frame last year, investors traded some $1.5 billion in multifamily assets.

- Of the 14 assets that changed ownership, 11 were properties in the RBN segment, pointing to robust investor interest in the asset class. Per-unit prices rose 13.7% to $218,799, going above the $200,000 mark for only the second time in over a decade. The current average is 118.2% higher than it was in 2010.

- The largest deal of the year so far was MG Properties Group's purchase of Mitchell Place for $78 million, or $340,217 per unit. The 230-unit Lifestyle asset was acquired from MBK Real Estate with aid from a $51 million loan issued by Berkadia Commercial Mortgage and funded by Fannie Mae.

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



Source: Yardi Matrix

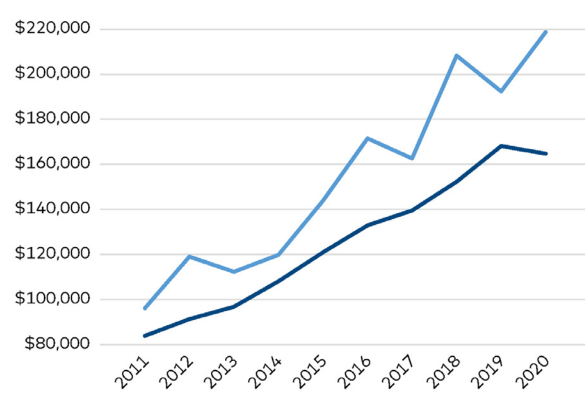
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West Riverside	122
Moreno Valley	108
Rancho Cucamonga	85
Lake Elsinore	78
Upland/Alta Loma	68
Redlands/Yucaipa	52
Colton/Grand Terrace	46

Source: Yardi Matrix

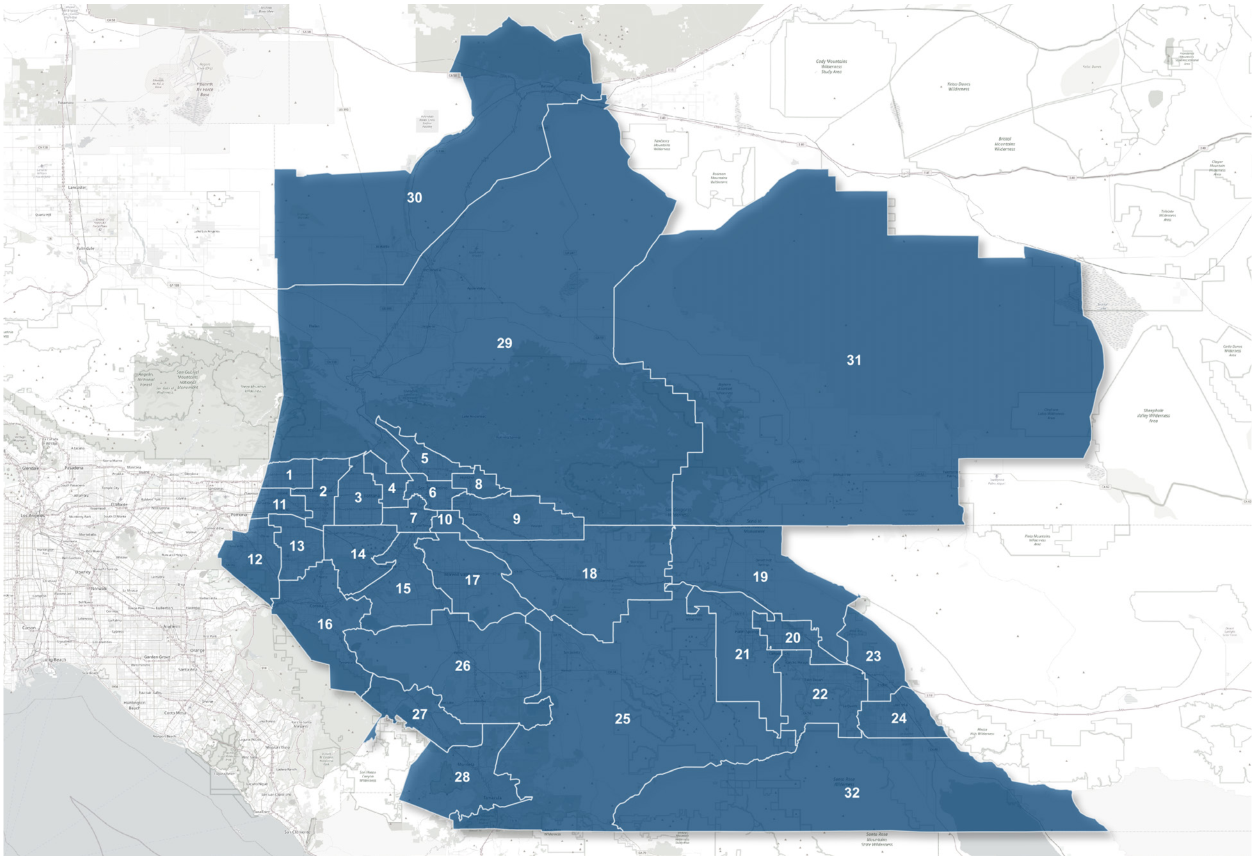
[1] From November 2019 to October 2020

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

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
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 October 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 October 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, October 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.

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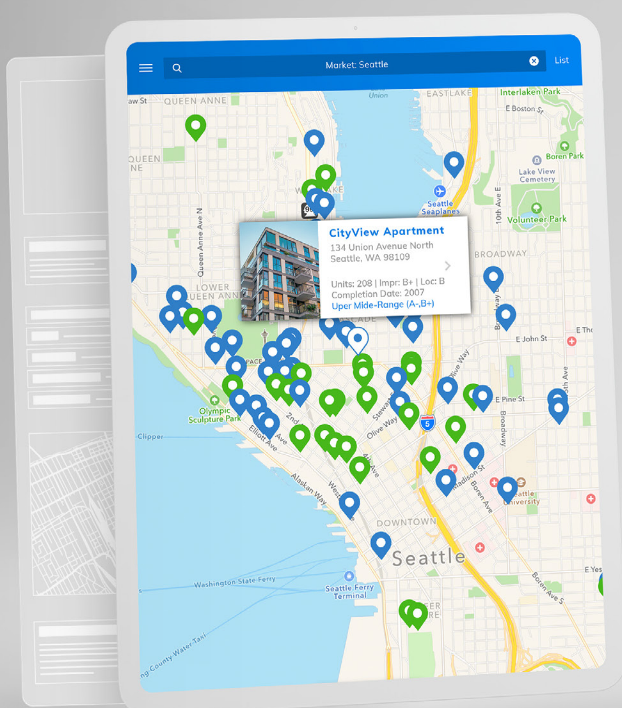

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