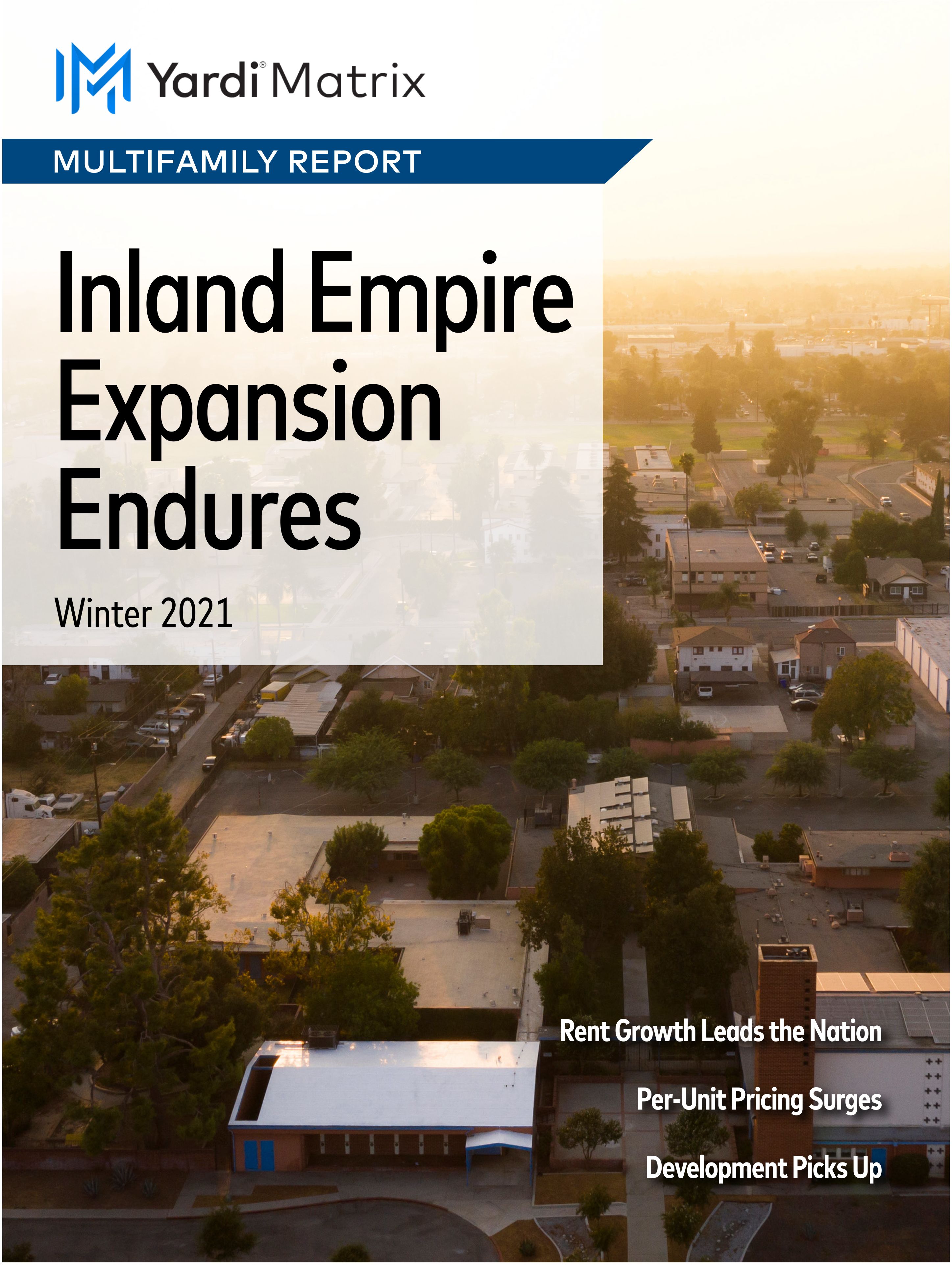

Yardi® Matrix

MULTIFAMILY REPORT

Inland Empire Expansion Endures

Winter 2021

Rent Growth Leads the Nation

Per-Unit Pricing Surges

Development Picks Up

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Playing to Its Strengths

The Inland Empire's multifamily market is showing signs of strength, despite economic headwinds. Rent expansion remained positive through 2020 and surpassed the nation. Rates increased by 0.6% on a trailing three-month basis as of January, with Lifestyle figures outperforming the working-class Renter-by-Necessity segment. As more and more people are shifting inland from expensive coastal metros—a factor that is offsetting the area's economic volatility—rent growth is expected to endure in 2021.

The market has not been immune to stress during the past year, with employers shedding 108,000 jobs during the 12 months ending in November. Unemployment in the metro was 9.1% in December, exceeding the 6.7% national rate. However, the Inland Empire benefits from one of the country's largest industrial markets, bolstered by major growth in e-commerce demand, as well as Los Angeles' spillover effect.

Transactions totaled $1 billion in 2020; despite being a 40% drop from the previous year, this did not equate a cycle low. Meanwhile, per-unit prices improved considerably. Despite delays in most metros, the Inland Empire's construction activity picked up last year, with 2,735 units under construction as of January. The economic situation did not slow activity: In the second half of 2020, projects totaling more than 1,000 units broke ground.

Market Analysis | Winter 2021

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On the cover: Photo by MattGush/iStockphoto.com

Recent Inland Empire Transactions

The Crossings of Chino Hills

City: Chino Hills, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: $128 MM
Price per Unit: $369,942

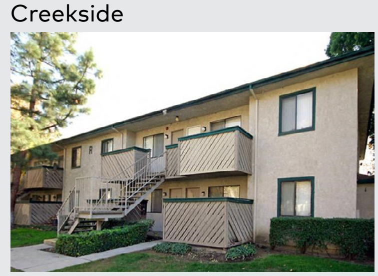
Country Hills

City: Corona, Calif.
Buyer: Abacus Capital Group
Purchase Price: $94 MM
Price per Unit: $227,549

Mitchell Place

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

Creekside



City: San Bernardino, Calif.
Buyer: Reuven Gradon Acquisitions
Purchase Price: $52 MM
Price per Unit: $171,382

RENT TRENDS

- Inland Empire rents were up by 0.6% on a trailing three-month (T3) basis through January, even as rates remained flat at the national level. The average rent was $1,703, above the $1,392 U.S. figure. Year-over-year, rents in the Inland Empire increased 7.4%, leading all U.S. metros.

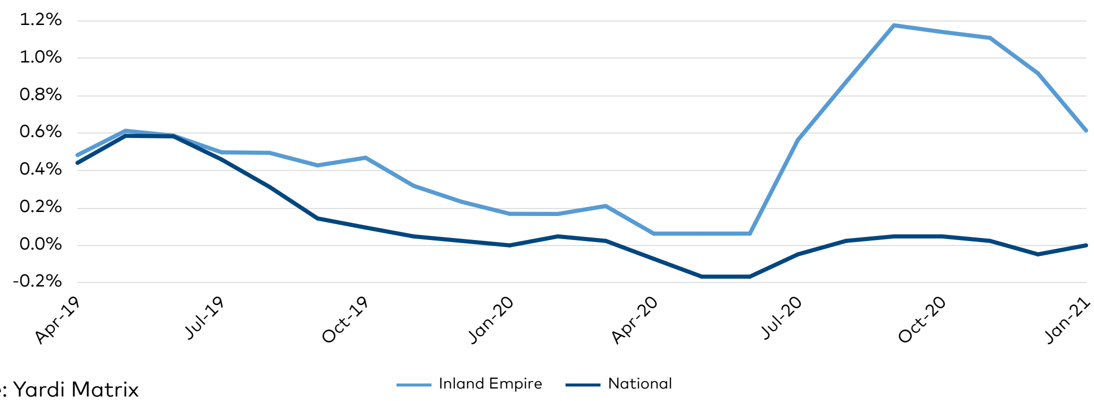
- Lifestyle assets led growth, with the average up 1.0% on a T3 basis through January to $2,006. The trend is likely to continue, given increasing demand coupled with a relatively modest supply of upscale inventory. Meanwhile, Renter-by-Necessity rates were up 0.2%, to $1,485.

- The market remains significantly more affordable than its neighbors, leading to an influx of renters. While this has been the case for years, economic volatility and the work-from-home experiment greatly accelerated the trend. The Inland Empire's average January rent was 28.5% lower than LA ($2,383) and 21.0% below Orange County ($2,157).

- South Ontario ($2,147) recorded the highest average as of January, marking a 7.6% year-over-year increase. Nearly 65% of the submarket's inventory consists of Lifestyle assets. Neighboring Chino/Chino Hills had some of the market's most notable rent gains, up 13.6% year-over-year to $2,059.

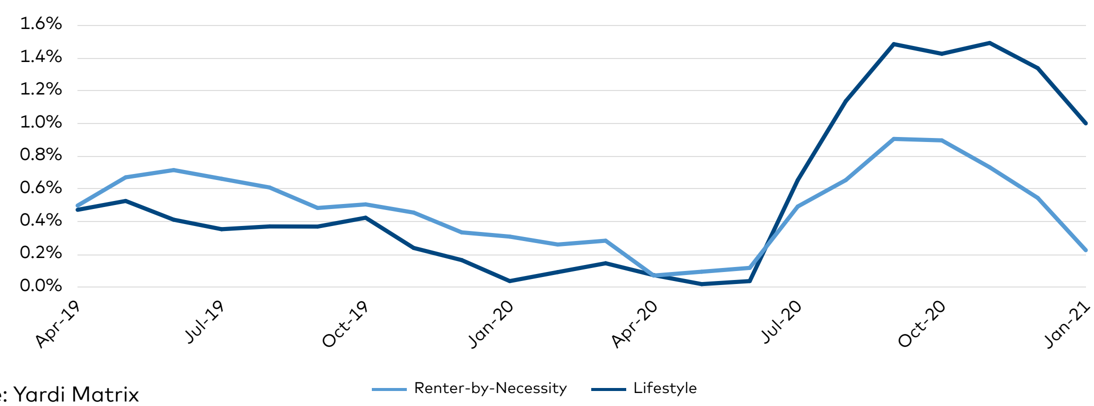
- As more renters migrate to the metro, growth is likely to decelerate but endure. We expect the average Inland Empire rate to increase 2.4% in 2021.

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

- The Inland Empire's economy took a hit in 2020. Overall employment contracted 8.0% year-over-year through November, compared to -7.2% nationwide. While unemployment had been improving through November from its May peak of 15.1%, the preliminary December rate of 9.1% marked a 120-basis-point increase month-over-month, indicating more challenges may lie ahead.

- Industrial activity, the mainstay of the market's economy, continued to endure and appeared to be heading for a recovery. While the trade, transportation and utilities sector lost 6,800 jobs in the 12 months ending in November, this was a modest decline of 1.7% compared to the overall drop. Sectors that shed the most jobs included leisure and hospitality (49,600 jobs), government (13,700 jobs) and manufacturing (11,400 jobs).

- Remote work is one factor that may aid the Inland Empire's recovery. Migration from Los Angeles has been increasing, as people previously based in physical offices in the city have shifted to working from home. San Bernardino and Riverside counties' lower cost of living could lead to a pronounced short-term population boom that could partially endure.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	108	7.4%
55	Financial Activities	44	3.0%
50	Information	10	0.7%
60	Professional and Business Services	153	10.4%
40	Trade, Transportation and Utilities	403	27.5%
80	Other Services	37	2.5%
65	Education and Health Services	247	16.8%
30	Manufacturing	89	6.1%
90	Government	250	17.1%
70	Leisure and Hospitality	126	8.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire's population has rapidly grown during the last 10 years, due to a lower cost of living than Los Angeles and the market's expanding industrial sector.

- The metro added 28,270 residents in 2019, for a 0.6% uptick.

Inland Empire vs. National Population

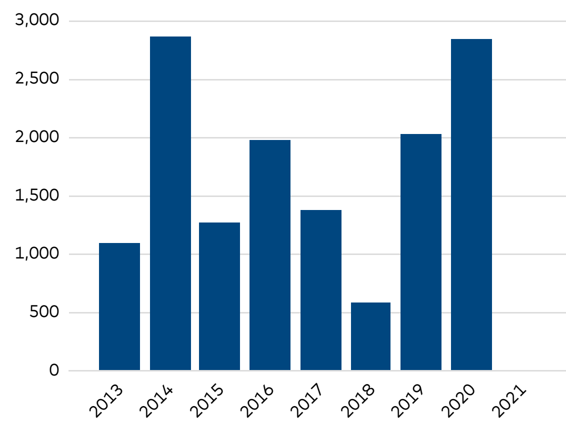
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Inland Empire	4,516,744	4,570,427	4,622,361	4,650,631

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

SUPPLY

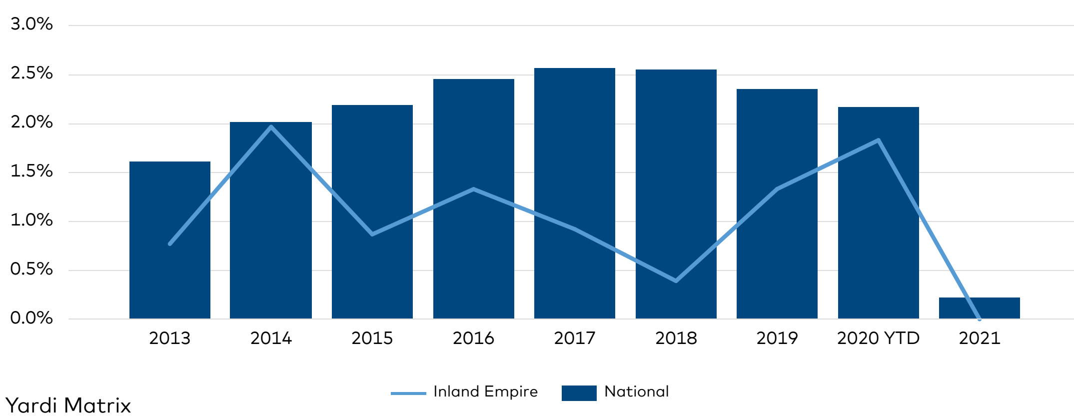
- The Inland Empire had 2,735 units under construction at the end of January, or 1.8% of completed stock. Nearly 1,500 units broke ground in 2020, with the majority—1,034 units or 70%—occurring in the second half of the year, signaling renewed confidence. Projects targeting Lifestyle renters comprised 89% of the pipeline, which could dampen rent growth in higher-end assets in the long run.
- Developers added 2,853 units in 2020, accounting for 1.8% of total stock. This level of activity nearly matches the cycle peak of 2014, when 2,867 units were completed. Deliveries are expected to moderate slightly in 2021, with nearly 2,500 units anticipated to come online by year-end.
- The Montclair/North Ontario submarket led deliveries in 2020, with two projects totaling 1,011 units. Demand has increased in the submarket in recent years, owing to its accessibility to Los Angeles and the proximity of one of the Inland Empire's primary industrial corridors.
- As of January, the largest development underway was The Monterey, a 442-unit project in the Corona submarket. Sares-Regis Group broke ground on the 20-building, garden-style community in early 2019, backed by $77 million in construction financing from PNC Bank. Delivery is slated for mid-2021. Demand within the submarket has long attracted multifamily developers: More than 1,300 units were added to the submarket's inventory between 2016 and 2020.

Inland Empire Completions (as of January 2021)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of January 2021)



Source: Yardi Matrix

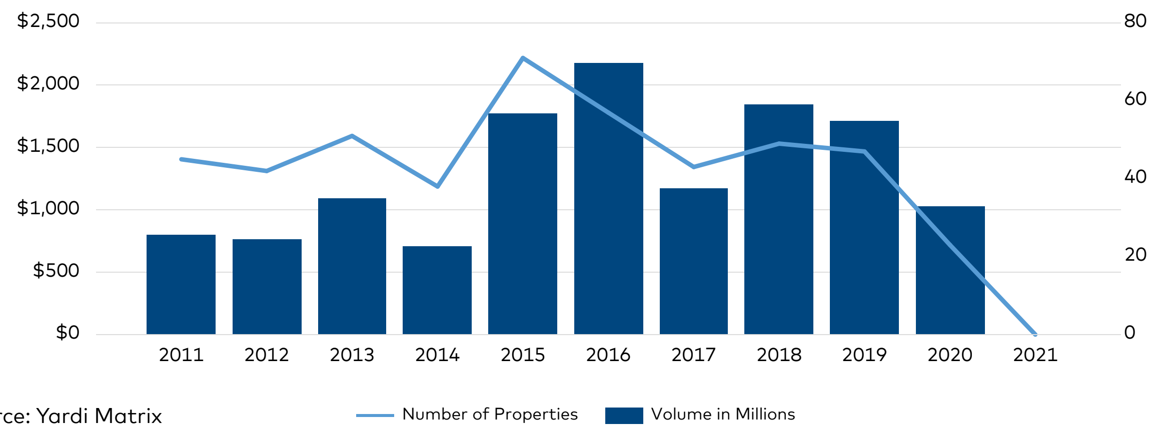
TRANSACTIONS

- The Inland Empire's multifamily transaction volume clocked in at $1 billion in 2020, marking a 40% decline from the $1.7 billion total of 2019. Despite the slowdown, the market's average price per unit increased 19.1% to $231,024 for the year, 46.3% above the 2020 national average of $157,900.

- RBN transactions totaled $605 million, or 58.8% of volume, with sale prices averaging $193,570 per unit. While investor interest has followed a wider shift in renter preferences toward lower-cost units amid economic uncertainty, Lifestyle properties continued to show appeal.

- The largest transaction in 2020 was Advanced Real Estate Services' $128 million acquisition of The Crossings at Chino Hills from Bridge Investment Group. NorthMarq Capital provided $77 million in Fannie Mae financing for the purchase. The seller delivered the 346-unit Lifestyle property in mid-2019.

Inland Empire Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

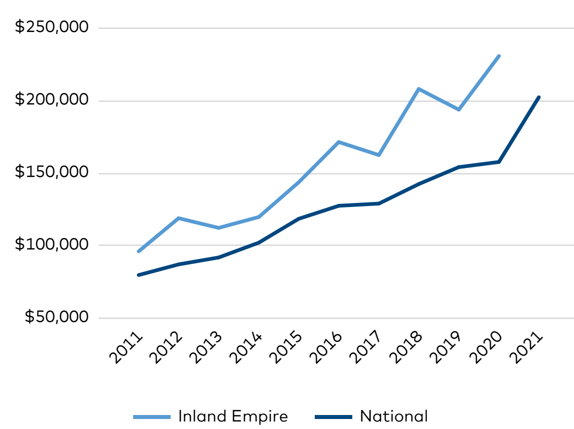
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Colton/Grand Terrace	171
Chino/Chino Hills	128
West Riverdale	122
Lake Elsinore	102
Corona	94
East Riverdale	77
South San Bernardino	73

Source: Yardi Matrix

[1] From February 2020 to January 2021

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

MHN MULTI-HOUSING NEWS
data by
Yardi Matrix

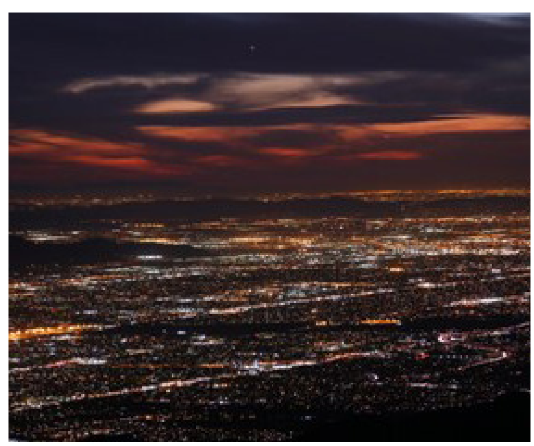
Top California Markets for Construction Activity

By Razvan Cimpean

One of the immediate effects at the start of the health crisis, as most states took action to prevent the spread of the virus in March and April, was that construction activity slowed down. While deliveries did not meet initial expectations in all markets, it's important to note that they only saw a 4.9 percent drop from the previous year—to more than 315,000 units—as states came out of lockdown, according to Yardi Matrix data. In California, 31,168 units came online last year, 9.8 percent of the nation's total rental completions.

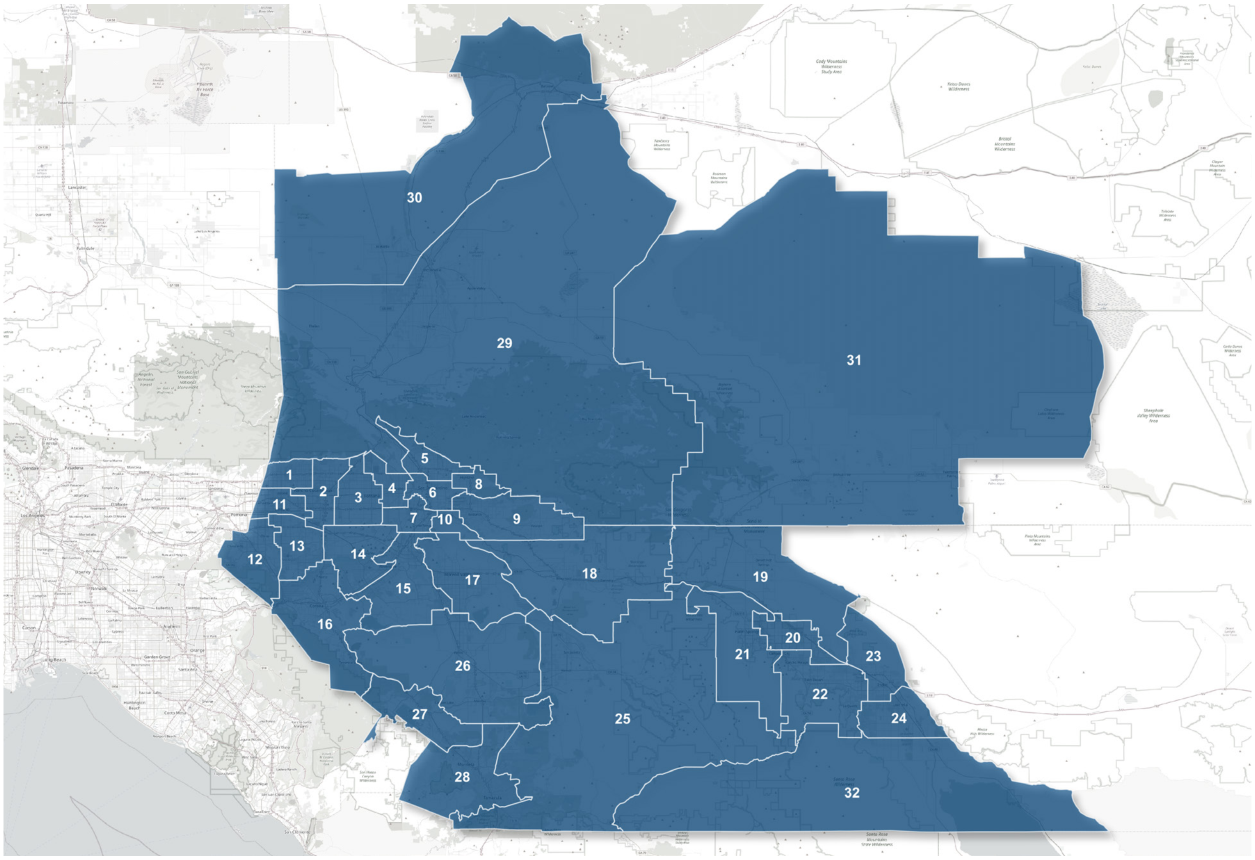
Rank	Market	Units Underway (as of January 2021)	Prop. Underway (as of January 2021)
1	Los Angeles	25,640	182
2	Bay Area–East and South Bay	24,019	103
3	San Francisco	9,497	54
4	San Diego	8,300	35
5	Orange County	6,686	27
6	Sacramento	4,701	23
7	Inland Empire	3,240	19
8	Central Valley	2,072	16
9	Central Coast	678	5

INLAND EMPIRE



As online sales have skyrocketed since the onset of the health crisis and ensuing lockdown measures, the industrial-centric market has outperformed expectations. With the Inland Empire's multifamily sector reliant on shipping and logistics, and with residents relocating from major metros toward less densely populated markets, multifamily demand increased last year. A total of 2,853 units were delivered in 2020, a 40 percent uptick from the previous year. And as of January, an additional 3,240 apartments were underway throughout the metro.

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 December 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 December 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, December 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.