

# The Inland Empire In Expansion

Summer 2021



**Robust Demand Keeps Rent Growth Among US Highest**

**Trade, Transportation and Utilities Sector Drives Economy**

**Average Per-Unit Prices Increase Rapidly**



# INLAND EMPIRE MULTIFAMILY



## Demand Outpaces Supply, Boosts Rents

The Inland Empire's rental market posted its best performance yet in 2021. Rents rose 15.1% year-over-year through June to \$1,843, second among major metros in rent growth, while on a trailing three-month basis, the average rent improved by 1.7%, 30 basis points above the U.S. rate. The occupancy rate in stabilized properties signaled one of the tightest markets in the country, rising 180 basis points in the 12 months ending in May to 98.0%.

The unemployment rate improved to 7.2% in May, according to preliminary data from the BLS, trailing the 5.8% U.S. rate. Yet, the employment market posted a 0.8% contraction in the 12 months ending in May, well above the -1.9% U.S. average. The reopening of the economy helped the leisure and hospitality sector expand by 27.7%, gaining 30,900 jobs. Most positions were added in the trade, transportation and utilities sector—the market's main economic driver—which gained 56,400 jobs. Riding the wave of e-commerce expansion, Black Creek Group announced plans to develop two new industrial centers, totaling 1.7 million square feet.

Transaction activity through the year's first half reached \$380 million, while average per-unit prices soared. With demand and rent growth in the Inland Empire at historic levels, buyers and sellers alike are looking to capitalize on the area's growth potential.

## Market Analysis | Summer 2021

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### Recent Inland Empire Transactions

#### Victoria Arbors



City: Rancho Cucamonga, Calif.  
Buyer: MG Properties Group  
Purchase Price: \$138 MM  
Price per Unit: \$431,347

#### Estancia



City: Riverside, Calif.  
Buyer: AEW Capital Management  
Purchase Price: \$74 MM  
Price per Unit: \$356,730

#### The District at Grand Terrace



City: Colton, Calif.  
Buyer: MG Properties Group  
Purchase Price: \$88 MM  
Price per Unit: \$250,000

#### Foothill Villas



City: San Bernardino, Calif.  
Buyer: Standard Communities  
Purchase Price: \$58 MM  
Price per Unit: \$241,666

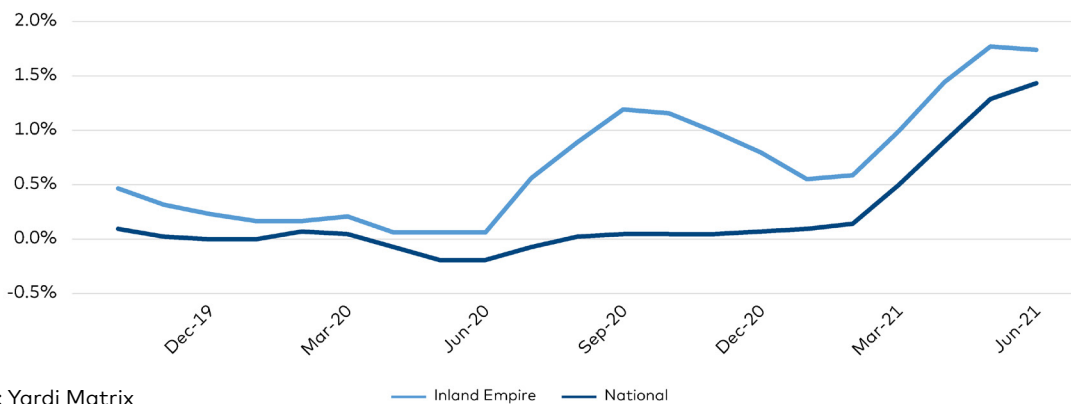
## RENT TRENDS

- ▶ Rents in the Inland Empire rose 1.7% on a trailing three-month (T3) basis through June to \$1,843, outperforming the national average by 30 basis points and \$361. On a year-over-year basis, rents improved by 15.1%, which placed the metro in the second-highest rank among major markets, alongside Tampa and only trailing Phoenix.
- ▶ The Inland Empire has been a top relocation market for renters looking for larger living spaces and reduced housing costs. Hence, demand has been strong across asset classes, denting the metro's affordability by a significant margin: Rent growth was led by the Lifestyle segment, up 1.9% on a T3 basis through June to \$2,168, while Renter-by-Necessity units improved by 1.6% to \$1,603.

The occupancy rate in stabilized properties mirrored the dynamic: Overall, it rose by 180 basis points in the 12 months ending in May, to 98.0%, especially boosted by the Lifestyle segment (up by 280 basis points to 98.1%). RBN occupancy climbed 140 basis points to 98.0%.

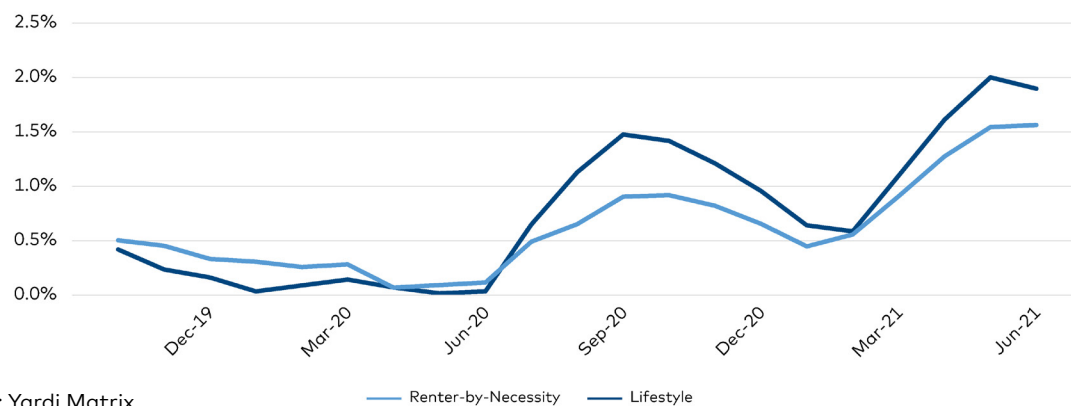
- ▶ Of the 31 submarkets tracked by Yardi Matrix, six posted average rents above the \$2,000 mark, up from zero a year ago. The largest increases were registered in the most sought-after areas, led by South Ontario and Rancho Cucamonga, up by 19.1% each to \$2,374 and \$2,315, respectively.
- ▶ While there are no signs of cooling off, this rate of growth is unsustainable in the long term.

### 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 unemployment rate in the Inland Empire has maintained a slow but steady recovery trend since the start of the year, clocking in at 7.2% in May, according to preliminary data from the Bureau of Labor Statistics. The market still trails the U.S. rate, which stood at 5.8% in May.
- ▶ The employment market posted a 0.8% contraction in the 12 months ending in May, outperforming the -1.9% national rate. Fueled by the reopening of the economy, growth by percentage was led by the leisure and hospitality sector (up 27.7%, or 30,900 jobs). Moreover, Topgolf announced its first location in SoCal,

which will need 400 employees at its opening slated for 2022. By number of jobs, trade, transportation and utilities—the market's largest sector—gained 56,400 jobs.

- ▶ The Inland Empire market, historically regarded as a key industrial market, saw record-level demand for industrial space as online sales surged during the pandemic. The metro is ideally positioned for continued growth, given its proximity to two of the largest ports in the U.S. and easy access to major transportation routes. Its main drawback is limited land availability as demand is outpacing supply which is impacting land values, sale prices and lease rates.

### Inland Empire Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	426	28.0%
70	Leisure and Hospitality	143	9.4%
65	Education and Health Services	257	16.9%
60	Professional and Business Services	158	10.4%
15	Mining, Logging and Construction	113	7.4%
80	Other Services	40	2.6%
90	Government	243	15.9%
55	Financial Activities	43	2.8%
50	Information	9	0.6%
30	Manufacturing	92	6.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ The Inland Empire gained 27,740 residents in 2020 for a 0.6% uptick, 20 basis points above the U.S. rate.
- ▶ Growth was fueled by the work-from-anywhere trend pushing residents from L.A. and a boost in the already booming logistics sector.

### Inland Empire vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Inland Empire	4,570,427	4,622,361	4,650,631	4,678,371

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

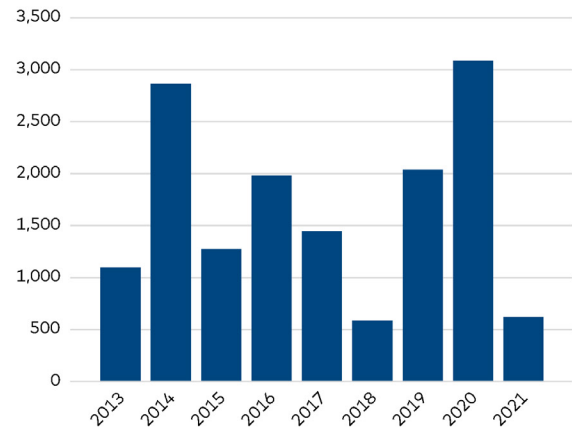
## SUPPLY

- ▶ Following the 3,087 units delivered in 2020—which marked the best year in supply additions so far—development remained elevated in the Inland Empire, with 3,361 units under construction and 18,400 in the planning and permitting stages.
- ▶ With demand bolstered by renters relocating from Los Angeles, developers' focus remained on the upscale segment with 2,720 units catering to the Lifestyle segment. Even though demand was strong for Renter-by-Necessity apartments, too, construction activity was limited in the segment. The construction pipeline was complemented by 561 units in seven fully affordable communities and just one 80-unit market-rate project.
- ▶ In the first half of the year, just 619 units—or 0.4% of total stock came online—50 basis points below the national average. The newly added stock also favored the Lifestyle renter with all but 143 units in one fully affordable community catering to the segment.
- ▶ Construction activity was uneven across the map with the top three submarkets account-

ing for half the number of units underway: Moreno Valley (622 units) West Riverside (555 units) and Corona (442 units).

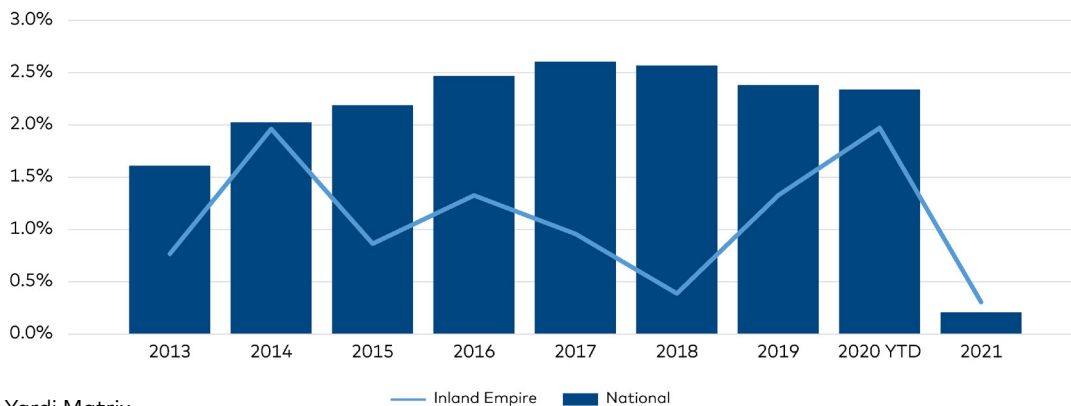
- ▶ Taking into account the robust demand for apartments and the sustained economic recovery in the market, Yardi Matrix anticipates that the multifamily inventory will expand by 0.8% by the end of the year.

**Inland Empire Completions** (as of June 2021)



Source: Yardi Matrix

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

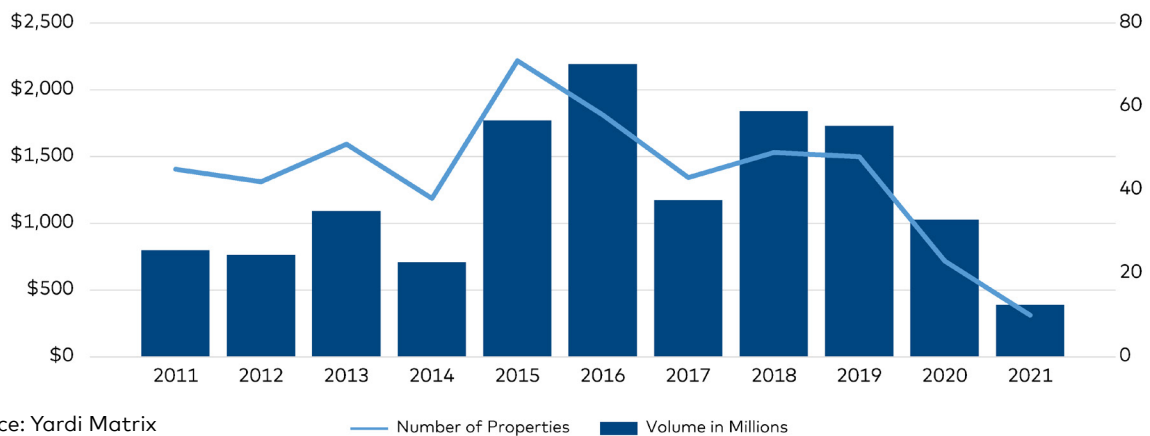


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Investment sales in the Inland Empire's multi-family sector hit \$380 million during 2021's first six months, less than half of last year's overall volume, when just over \$1 billion in rental assets changed hands.
- ▶ With rents in Riverside and San Bernardino counties rising at some of the fastest rates in the nation, property values are climbing at a quick clip. As a result, the average per-unit price reached \$267,520, 34% higher than it was during the first half of 2020.
- ▶ Over the past 12 months, investment has been heavily skewed toward the Renter-by-Necessity segment—64% of deals involved properties in the category—as value-add plays provide the most upside in the Inland Empire.
- ▶ MG Properties Group has been the most active buyer in the area, having completed three multi-family purchases worth around \$303 million.

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



Source: Yardi Matrix

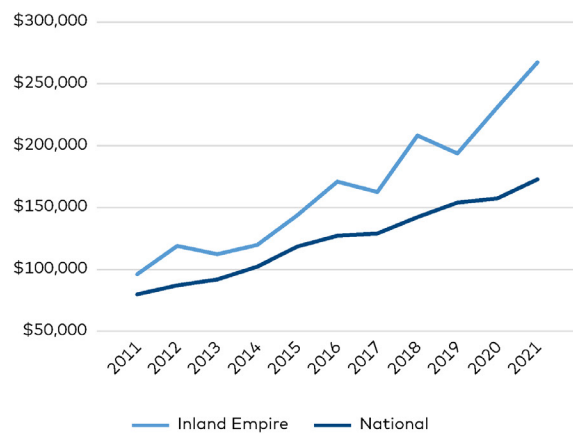
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
East Riverside	213
North San Bernardino	151
Palm Desert/La Quinta	138
Indio	128
Rancho Cucamonga	110
Moreno Valley	102
Corona	94

Source: Yardi Matrix

<sup>1</sup> From July 2020 to June 2021

### Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

## Top 5 Multifamily Markets for Rent Growth

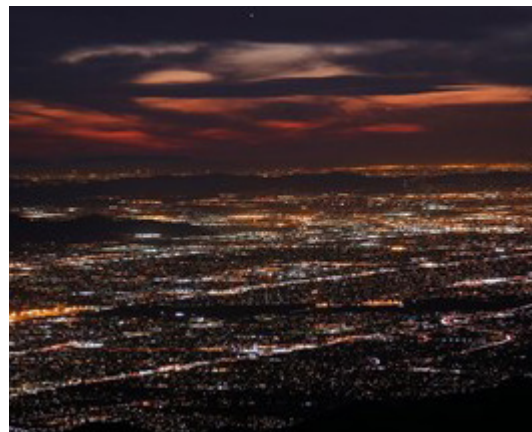
By Evelyn Jozsa

The U.S. multifamily market showcased strong growth in June, with unprecedented rent increases registered across the entire country. Asking rents increased by a substantial 6.3 percent on an annual basis to \$1,482, representing the largest year-over-year rent growth recorded by Yardi Matrix. While gateway markets started to rebound, rent expansion was led by lower-cost metros that have attracted a large number of residents amid the pandemic.

Rank	Market	Rent June-2021	YoY Rent Change-June 2021	Rent Change on a T3 Basis
1	Boise	\$1,477	20.7%	2.9%
2	Phoenix	\$1,418	17.0%	2.3%
3	Spokane	\$1,204	16.0%	2.8%
4	Tampa	\$1,484	15.1%	2.3%
5	Inland Empire	\$1,843	15.1%	1.7%

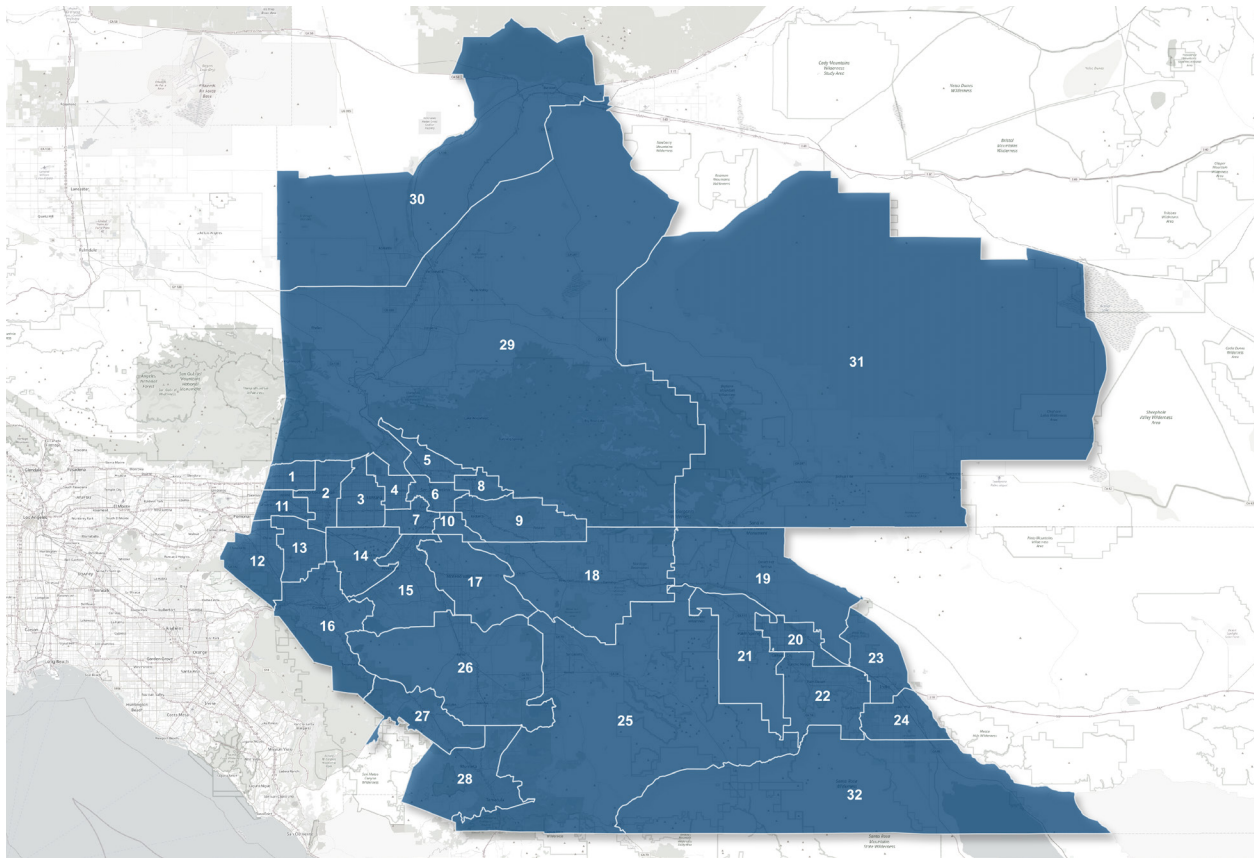
### INLAND EMPIRE

Thanks to its proximity to Los Angeles, the Inland Empire's multifamily market was able to benefit from the accelerated migration trends fueled by the pandemic. With an existing housing stock of over 157,000 units, the overall occupancy rate in the Inland Empire reached 98.1 percent as of June, up 1.5 percent year-over-year. The metro recorded historic rent growth, up 15.1 percent on a year-over-year basis through June, when the average rent was \$1,843, above the \$1,482 national figure. On a trailing three-month basis, rents rose 1.7 percent.





# 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.

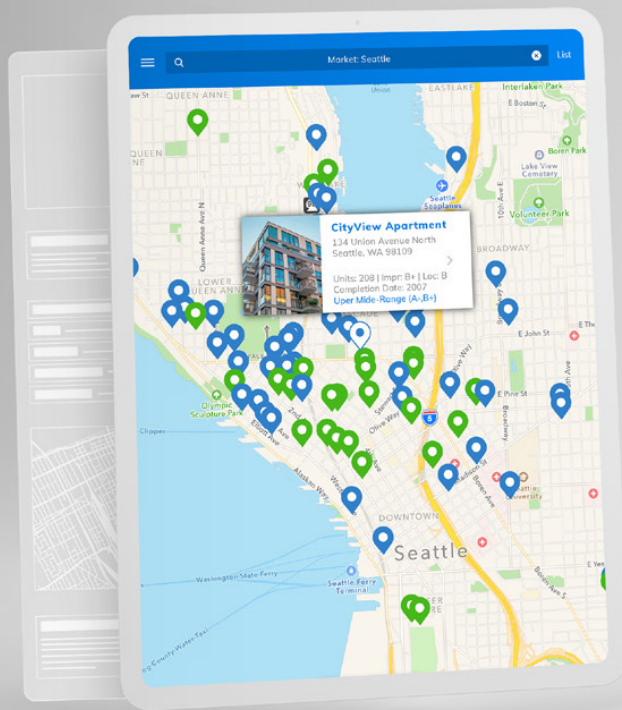
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



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