



MULTIFAMILY REPORT

The Inland Empire Soars

Fall 2021

Investment Volume Climbs

Rent Growth Takes Flight

Investors Favor Lifestyle Assets

INLAND EMPIRE MULTIFAMILY



Rent, Investment Performance Accelerate

The Inland Empire's multifamily market is booming. Rents averaged \$1,993 in October, a 1.9% increase on a trailing three-month (T3) basis. The metro's year-over-year rent gains of 18.5% far surpassed the 13.7% national figure for the same period and, given the market's lower costs compared to the neighboring Los Angeles metro, this strong expansion is expected to continue. Lifestyle and working-class Renter-by-Necessity figures increased on a T3 basis by 1.9% and 1.8%, respectively, to \$2,350 and \$1,727, alongside solid upticks in occupancy.

The metro added 65,700 jobs during the 12 months ending in August, a year-over-year increase of 4.5%. Although the unemployment rate fell to 6.6% in September, it remained significantly higher than the 4.8% national figure. The Inland Empire's trade, transportation and utilities sector—the metro's largest—grew the most, adding 25,400 jobs alongside sustained, heightened distribution and e-commerce activity.

More than 2,700 units were under construction at the end of October, but deliveries are expected to slightly exceed 1,900 units by year-end, a decrease of more than 40% compared to 2020. As development slowed, investment activity rose swiftly: Transactions totaled \$1.9 billion year-to-date through October, putting the market on track to meet or surpass the 2016 cycle high of \$2.2 billion.

Market Analysis | Fa II 2021

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Recent Inland Empire Transactions

Solamonte



City: Rancho Cucamonga, Calif.
Buyer: Western National Group
Purchase Price: \$227 MM
Price per Unit: \$434,914

The Monterey



City: Corona, Calif.
Buyer: Ocean West Capital Partners
Purchase Price: \$220 MM
Price per Unit: \$497,738

Redlands Lawn and Tennis Club



City: Redlands, Calif.
Buyer: Reuven Gradon Acquisitions
Purchase Price: \$165 MM
Price per Unit: \$332,661

Artesa at Menifee Town Center



City: Menifee, Calif.
Buyer: MG Properties Group
Purchase Price: \$156 MM
Price per Unit: \$472,727

RENT TRENDS

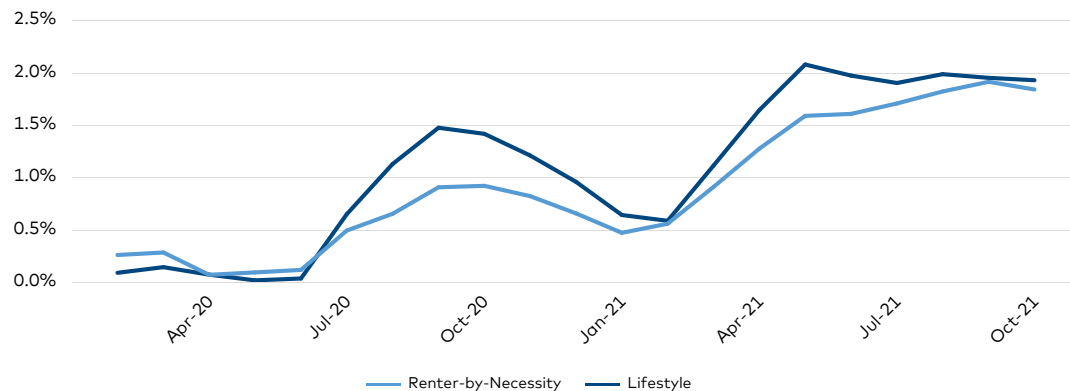
- ▶ The Inland Empire's average rent rose 1.9% on a trailing three-month basis as of October, to \$1,993. Rents were 26.8% higher than the national average of \$1,572, and growth also outpaced the U.S. figure of 1.5%. On a year-over-year basis, the market's rates grew by 18.5%.
- ▶ The metro's price point continued to attract renters from nearby Los Angeles. In October, Inland Empire rents were 16.4% less than the \$2,385 average in the wider Los Angeles metro.
- ▶ Lifestyle rents grew fastest, increasing 1.9% on a T3 basis to \$2,350. RBN figures kept pace, however, up 1.8% to \$1,727. Occupancy across the quality spectrum has grown in tandem, with Lifestyle and RBN occupancy up a respective 82 and 60 basis points year-over-year to September.
- ▶ The Murrieta/Temecula submarket experienced the highest rent expansion in the market, increasing 25.4% year-over-year through September to \$2,260. More than 60% of the units in the submarket, positioned halfway between Los Angeles and San Diego, were geared toward Lifestyle renters.
- ▶ The market's highest rents were in the Rancho Cucamonga submarket, averaging \$2,517 in October, an increase of 20.7% over the year. The submarket benefited from a location within 40 miles of Los Angeles and convenient to major highways and ample public transportation options.

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 added 65,700 jobs during the 12 months ending in August for a 4.5% gain year-over-year. The metro's unemployment rate was 6.6% in September, according to preliminary data from the Bureau of Labor Statistics. While this marked a notable improvement from the 7.6% August figure, it still significantly lagged the 4.8% U.S. rate.
- ▶ Most employment sectors reported growth during the year ending in August, with the highest gains (25,400 jobs) in the trade, transportation and utilities sector, the market's largest sector by far. The leisure and hospitality sector also displayed strong growth, up 20,100 jobs (or 15.6% year-over-year), as did the education and health services sector (up 13,900 jobs, or 5.7% over the year). The government sector shed the most jobs, down 6,800 jobs during the same period for a 2.8% year-over-year loss.
- ▶ Given the explosive evolution of e-commerce and the metro's large supply of industrial real estate, the Inland Empire's position as a leading distribution hub is likely to remain unchallenged. With record-high container traffic at the ports of Los Angeles and Long Beach, trade, transportation and utilities jobs will continue to drive the market's economy.

Inland Empire Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	432	28.3%
70	Leisure and Hospitality	149	9.8%
65	Education and Health Services	259	17.0%
60	Professional and Business Services	160	10.5%
80	Other Services	41	2.7%
15	Mining, Logging and Construction	109	7.1%
50	Information	9	0.6%
55	Financial Activities	42	2.8%
30	Manufacturing	91	6.0%
90	Government	232	15.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The metro gained 27,740 residents in 2020, for an annual increase of 0.6%.
- ▶ The Inland Empire's population growth rate has exceeded the national figure for each of the past 10 years, owing to migration from the neighboring Los Angeles metro.

Inland Empire vs. National Population

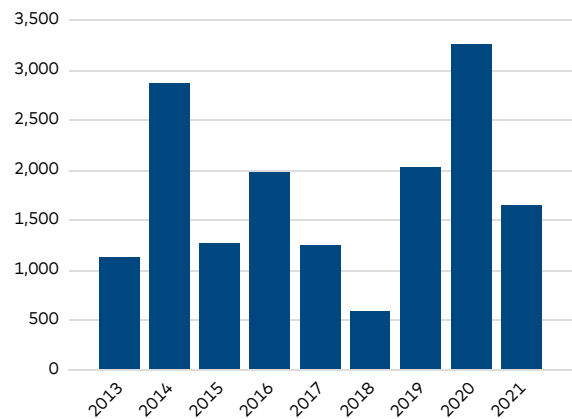
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Inland Empire	4,570,427	4,622,361	4,650,631	4,678,371

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

SUPPLY

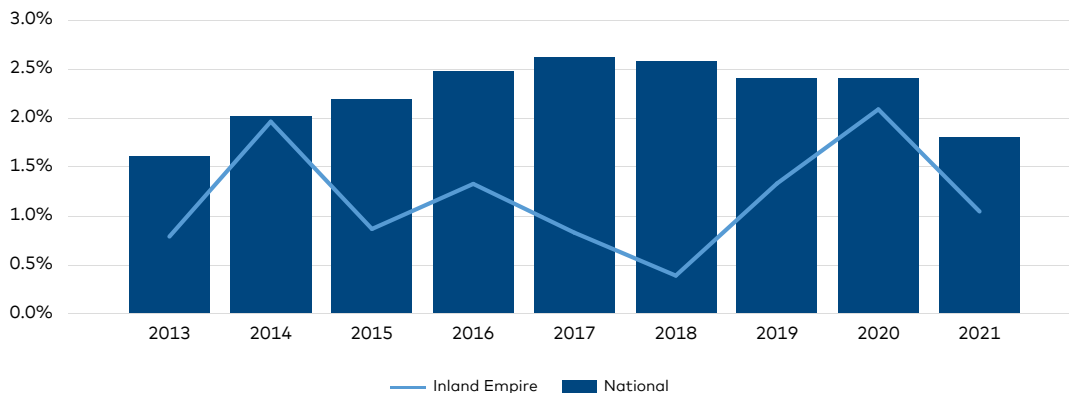
- ▶ There were 2,702 units under construction in the Inland Empire at the end of October, accounting for 1.7% of total stock, with nearly 20,000 units in the planning and permitting stages. Six projects, totaling 826 units, broke ground in the first 10 months of the year, a small decline compared to the same period last year, when construction started on 914 units.
- ▶ Eight developments totaling 1,652 units delivered this year through October. Multifamily completions are estimated to reach more than 1,900 units by year-end, a 41.5% decrease from the 2020 cycle high of 3,267 units.
- ▶ The West Riverside submarket had the highest level of construction activity in October, with three projects underway totaling 555 units, or 5.2% of the submarket's inventory. The largest development, the 397-unit Vernola, broke ground in 2020 and is expected to deliver in late 2023. BMO Harris Bank is financing the project with a \$73.2 million construction loan. Other submarkets with significant construction activity include Moreno Valley (497 units) and East Riverside (353 units).
- ▶ The largest multifamily delivery this year through October was Sares Regis' 442-unit The Monterey in the Corona submarket. The project broke ground in mid-2019, financed with \$77 million from PNC Bank. Upon completion in September, the garden-style community sold to Ocean West Capital Partners in a \$220 million transaction.

Inland Empire Completions (as of October 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- ▶ The Inland Empire's multifamily investment volume was \$1.9 billion year-to-date through October, already 81.2% higher than last year's volume and on track to reach the 2016 cycle high of \$2.2 billion. Sales averaged an all-time high of \$286,157 per unit, a 24.5% increase from 2020 and 55.5% greater than the national average of \$184,007.
- ▶ Investors targeted Lifestyle assets, which accounted for \$1.1 billion in transactions, or 58.4%

of total volume. This marks a shift from the past two years, when the bulk of investments involved RBN properties. Lifestyle communities sold for an average of \$403,391 per unit this year, compared to an average of \$203,119 for RBN assets.

- ▶ Western National Investments' \$227 million purchase of the 521-unit Solamonte in Rancho Cucamonga from Mesirow Financial was the largest transaction to close through October.

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



Source: Yardi Matrix

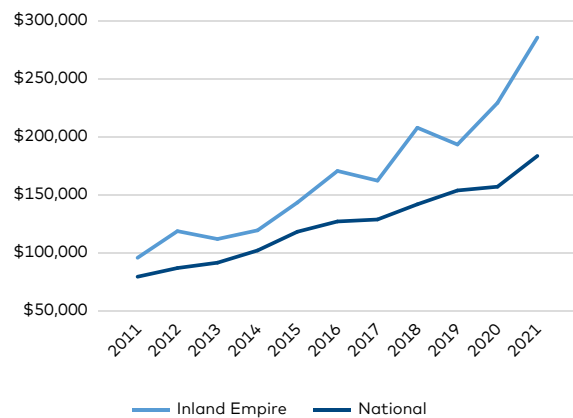
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Rancho Cucamonga	364
Corona	285
Redlands/Yucaipa	211
Moreno Valley	180
Nuevo/Perris/Menifee	156
East Riverside	144
South San Bernardino	144

Source: Yardi Matrix

¹ From November 2020 to October 2021

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Transactions

By Evelyn Jozsa

Thanks to solid performance in the multifamily sector, investors continue to forge ahead with notable ventures across the country. Year-to-date through August, California markets saw substantial investment activity, with \$7.4 billion in multifamily deals closed in the first eight months of the year, according to Yardi Matrix data. Deal velocity has significantly improved compared to the same period in 2020, when total sales volume amounted to \$3.9 billion.

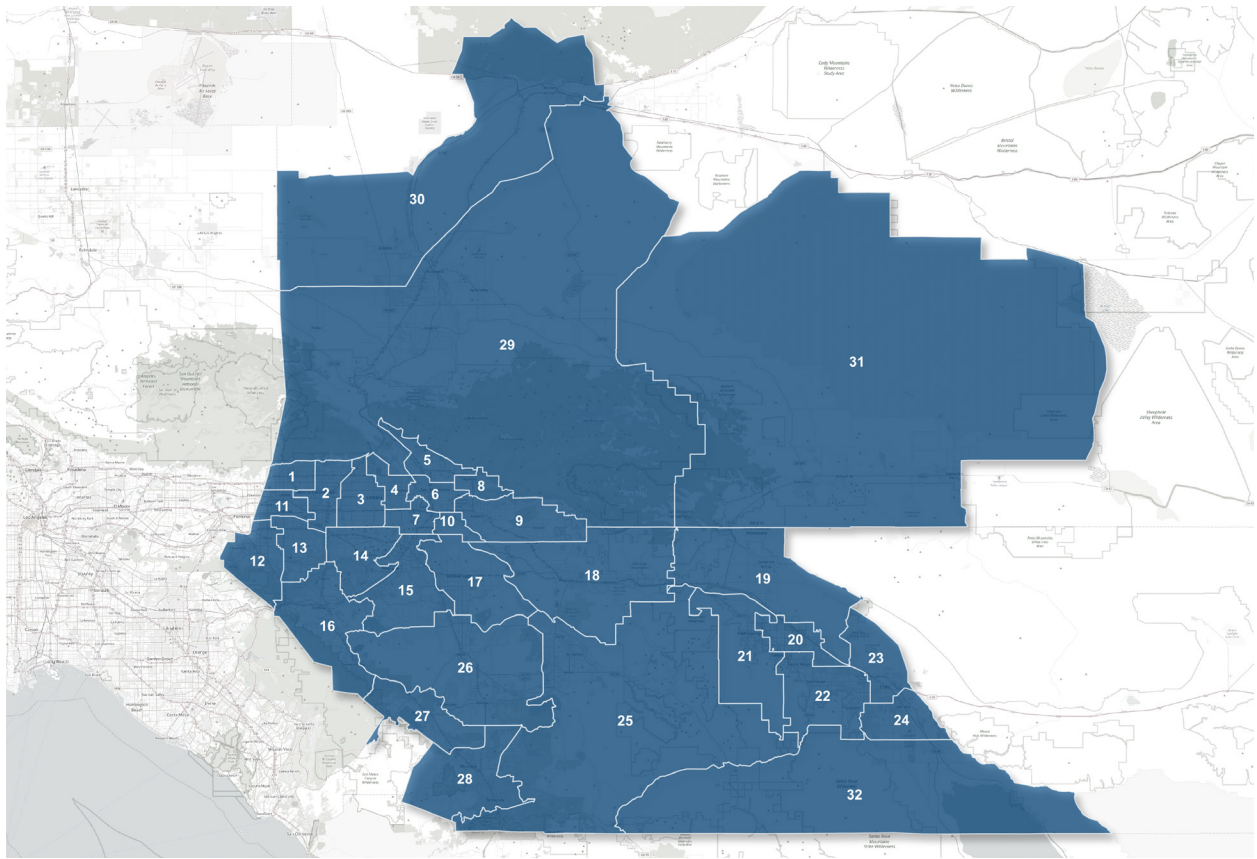
Rank	Market	Units	Transaction Volume (MM)	Price Per Unit
1	Los Angeles	6,858	\$2,543.2	\$370,834
2	San Francisco	3,653	\$1,418.7	\$388,365
3	Orange County	2,338	\$957.3	\$409,454
4	San Diego	2,541	\$934.8	\$367,893
5	Inland Empire	2,809	\$650.3	\$231,518

The Inland Empire

Transaction volume in the Inland Empire totaled more than \$650 million year-to-date through August, almost double the \$346 million traded during the same period in 2020. The metro recorded at least one sale every month from January to August, with August being the busiest month, when a total of seven properties, or 766 units, changed hands for \$147 million.



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.

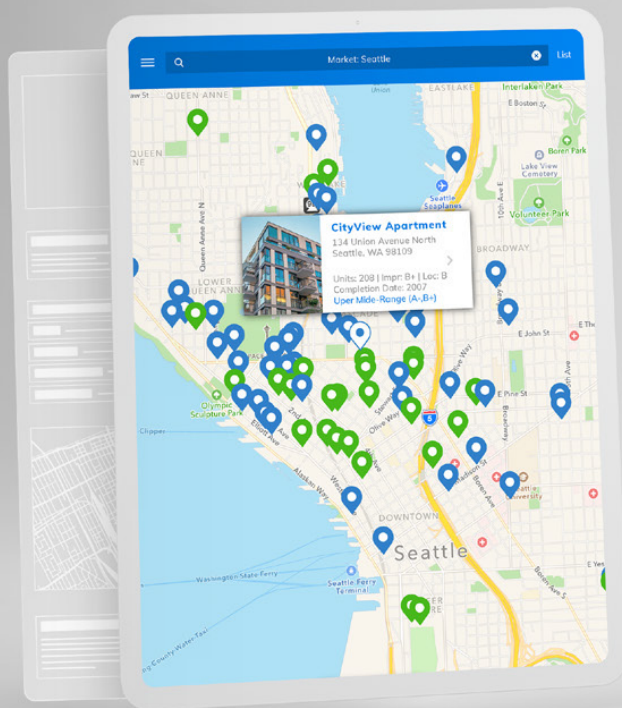
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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