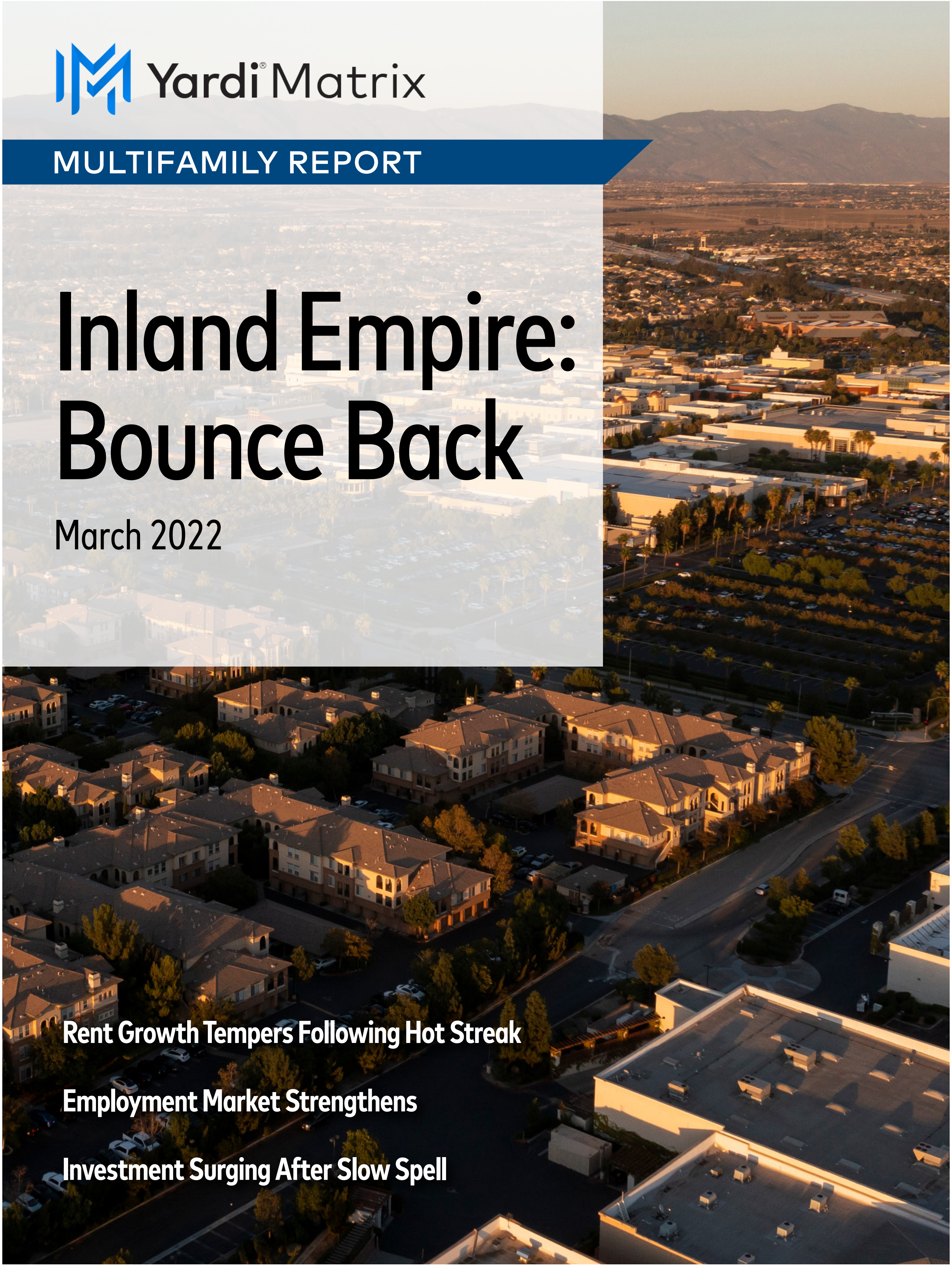


Yardi Matrix

MULTIFAMILY REPORT

Inland Empire: Bounce Back

March 2022

Rent Growth Tempers Following Hot Streak

Employment Market Strengthens

Investment Surging After Slow Spell

Yardi Matrix

Tight Inventory Pushes Rents, Occupancy Up

The Inland Empire's multifamily market performed well in 2021, displaying a significant rebound in activity compared to the first year of the health crisis. With year-over-year rent growth at 18.4%, some moderation was likely, as improvement on a trailing three-month basis stood at 0.6% as of January. The overall average rent in San Bernardino and Riverside counties was $2,024, roughly $400 higher than the national figure but still well below neighboring Southern California metros.

Job market recovery is underway in the two counties, with unemployment at 5.4% as of November 2021, significantly lower than the state's 7.0% rate. The Inland Empire's 62,000 new positions during the previous 12 months paint the picture of a recovering market, with only the public sector recording employment contraction, losing 600 jobs. With proximity to the country's largest shipping complex—the ports of L.A. and Long Beach—the market's economy is anchored by the trade, transportation and utilities sector, which added the most jobs through the same interval.

Following a visible slowdown in deal velocity and volume in 2020, the Inland Empire's investment market has bounced back, recording a new decade-high in sales, at $2.2 billion. Development activity, already notoriously tepid in the two counties, marked just 1,803 units under construction as of January.

Market Analysis | March 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Alex Girda
Senior Editor

On the cover: Photo by MattGush/iStockphoto.com

Recent Inland Empire Transactions

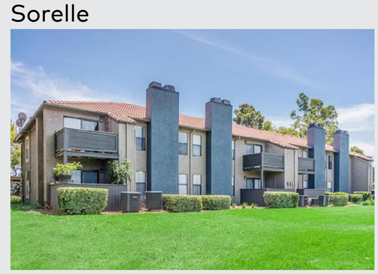
Artesa at Menifee Town Center

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

The BelAire Apartment Homes

City: Rancho Cucamonga, Calif.
Buyer: R.W. Selby & Co.
Purchase Price: $92 MM
Price per Unit: $351,145

Sorelle



City: Moreno Valley, Calif.
Buyer: Tower 16 Capital Partners
Purchase Price: $85 MM
Price per Unit: $257,575

The Benson

City: Upland, Calif.
Buyer: New Standard Equities
Purchase Price: $81 MM
Price per Unit: $343,617

RENT TRENDS

- Rents in the Inland Empire were up 0.6% on a trailing three-month (T3) basis as of January, as a seasonal slowdown has tempered rent development nationally. The U.S. rate stood at 0.3% through the same interval. The average rate in the two counties was $2,024, more than $400 above the U.S. figure, at $1,604. On a year-over-year basis, Inland Empire rent growth stood at 18.4%.

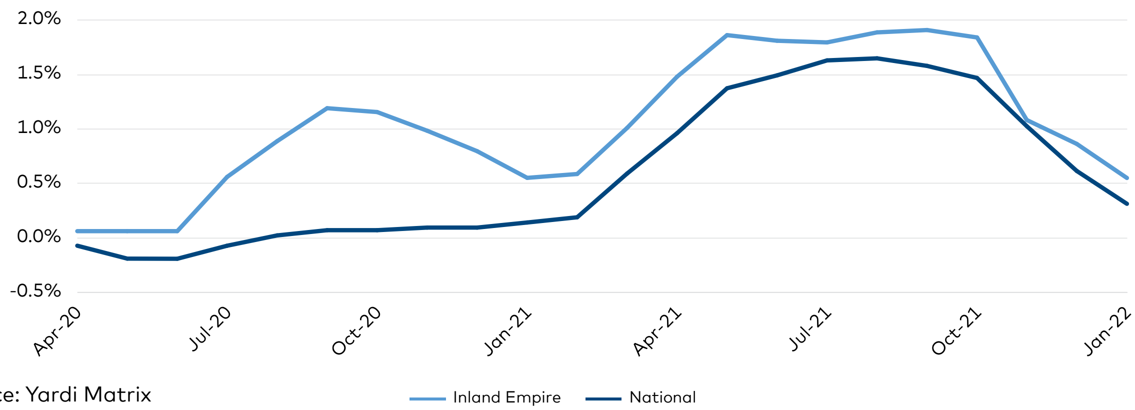
- Despite consistent increases, Inland Empire rents are still the lowest among major Southern California markets, trailing San Diego ($2,394), Orange County ($2,562) and Los Angeles ($2,657).

- Figures in the Lifestyle segment led growth on a T3 basis, at 0.6%, 20 basis points higher than Renter-by-Necessity rate improvement. With the logistics sector anchoring the local economy, housing demand will likely continue to cater to the workforce segment, although RBN assets recorded a 0.1% month-over-month decline.

- Rents grew across the map, with submarkets from the L.A. County line (Montclair/North Ontario, up 23.1% year-over-year), to the northern end of the metro (Victorville/Apple Valley/Big Bear, up 23.0%) and in the southern edge (Murrieta/Temecula, up 22.6%) seeing strong gains.

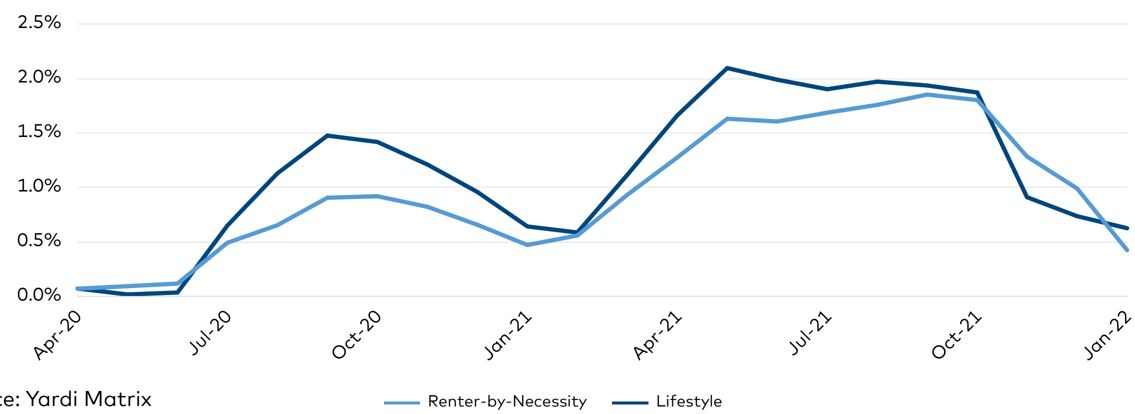
- Single-family rents have consistently improved in the Inland Empire, with growth in the niche at 16.3% as of January, 280 basis points higher than the U.S. figure.

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 unemployment rate stood at 5.4% as of November 2021, data from the Bureau of Labor Statistics shows. That's 160 basis points lower than the state figure—California's economy has been one of the hardest hit by the health crisis and resulting restrictions.

- The bounce back in San Bernardino and Riverside counties continued, with the addition of 62,000 jobs in the 12 months ending in November. That translated into an employment growth rate of 4.6%, in lockstep with the U.S. figure. Only one job sector registered contractions through the interval—the public sector lost 600 positions.

- The Inland Empire's economic cornerstone, the trade, transportation and utilities sector, added 19,300 jobs, accounting for nearly one-third of new positions. With the nearby ports of L.A. and Long Beach anchoring the local logistics center, that dynamic will likely continue. Shipping volume at the port complex hit a new record in 2021, a 13% increase over the previous record. Despite noticeable supply chain woes and queuing at the major transit hubs, some relief is visible. According to CommercialEdge data, the industrial sector in the Inland Empire has performed at some of the strongest levels in the country, with year-over-year rent increases leading the nation, at 6.3%.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	456	28.9%
70	Leisure and Hospitality	152	9.6%
65	Education and Health Services	263	16.7%
80	Other Services	45	2.9%
60	Professional and Business Services	161	10.2%
30	Manufacturing	94	6.0%
15	Mining, Logging and Construction	110	7.0%
55	Financial Activities	43	2.7%
50	Information	9	0.6%
90	Government	245	15.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire added nearly 108,000 new residents from 2017 to 2020, as Riverside and San Bernardino counties enjoyed a positive demographic trend bolstered by incoming residents from higher-priced metros in Southern California.

Inland Empire vs. National Population

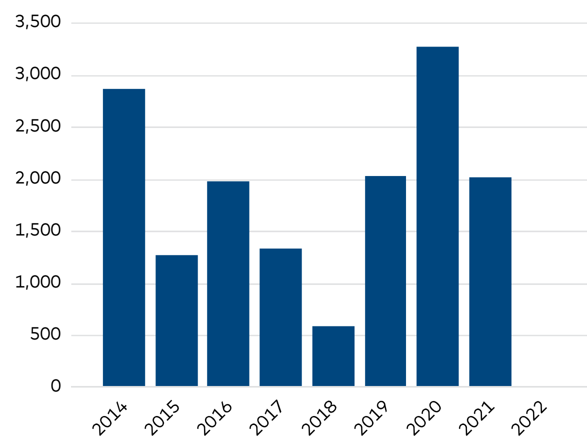
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Inland Empire	4,570,427	4,622,361	4,650,631	4,678,371

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

SUPPLY

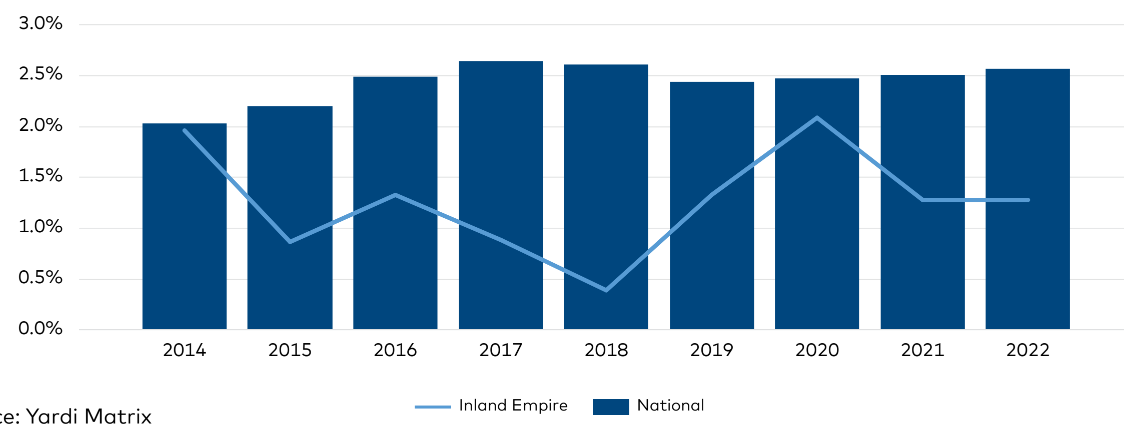
- The Inland Empire's traditionally tight construction market saw 2,026 multifamily units delivered in 2021, accounting for 1.3% of existing inventory and 200 units above the market's five-year average. The delivery rate was 120 basis points lower than the U.S. figure, continuing a decade-long trend of limited activity.
- Developers had 1,803 units under construction as of January, pointing to stable development activity in the near future. Another 21,000 units were in the planning and permitting stages.
- The average occupancy rate in stabilized assets was 97.9% as of December 2021, one of the highest in the nation. With limited construction activity throughout the past decade, and an influx of residents from the significantly higher-priced Los Angeles metro, occupancy rates in the Inland Empire have stayed consistently elevated. Occupancy in Renter-by-Necessity assets led the way, at 98.1%, 40 basis points higher than those in the Lifestyle segment.
- With limited development in the working-class segment, demand will continue to be high, further bolstered by the local economy, specifically the logistics sector.
- Construction activity was mostly focused in three submarkets in Riverside County, which accounted for 71% of multifamily development in the Inland Empire. The trio included West Riverside (555 units under construction), Moreno Valley (498 units) and East Riverside (237 units).

Inland Empire Completions (as of January 2022)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of January 2022)

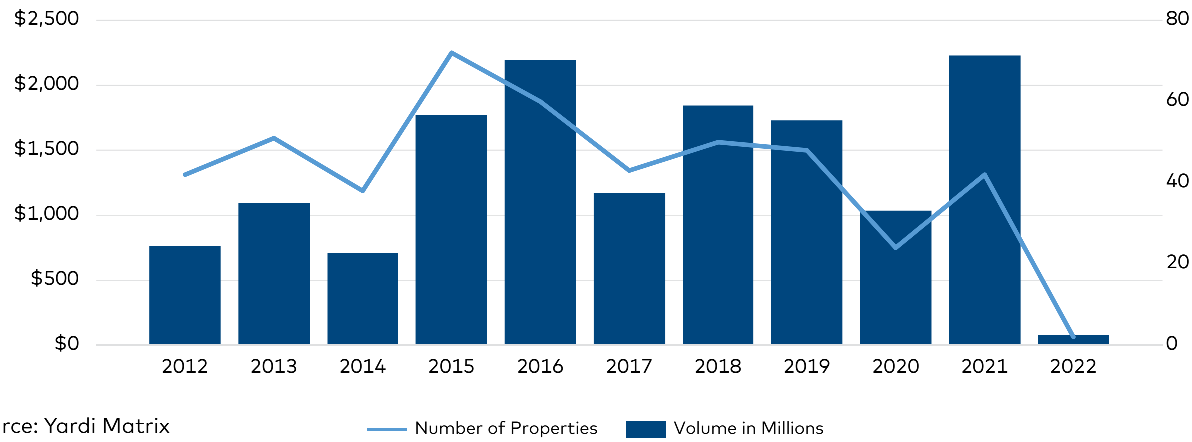


Source: Yardi Matrix

TRANSACTIONS

- The Inland Empire's multifamily transaction activity hit a decade-high of $2.2 billion in 2021. Increased investor appetite nearly doubled the number of deals completed last year—42 transactions, compared to 2020's 24 transactions, for a combined $1 billion in sales volume.
- The average per-unit price in Riverside and San Bernardino counties rose 23% to $283,159 in 2021. Renter-by-Necessity assets comprised two-thirds of activity, accounting for 28 transactions in 2021 and $918 million in volume. Value-add plays dominated deal velocity, while higher property values in the Lifestyle sector accounted for the bulk of volume—$1.3 billion.
- In the 12 months ending in January, investment volume was almost equally split between Riverside and San Bernardino counties, with both recording just over $1.1 billion in completed multifamily transactions.

Inland Empire Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

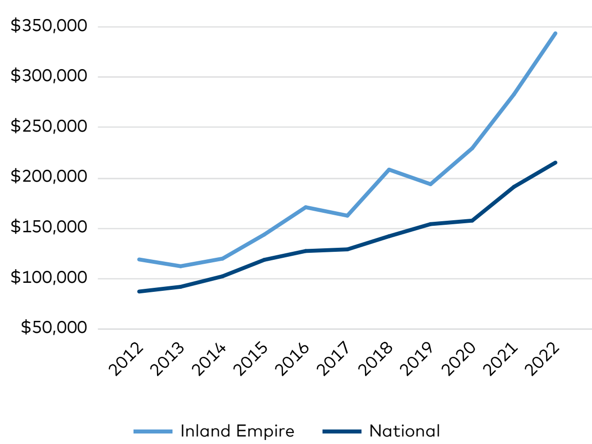
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Rancho Cucamonga	456
East Riverside	368
Corona	285
Redlands/Yucaipa	211
Moreno Valley	180
Nuevo/Perris/Menifee	175
Hemet/San Jacinto	98

Source: Yardi Matrix

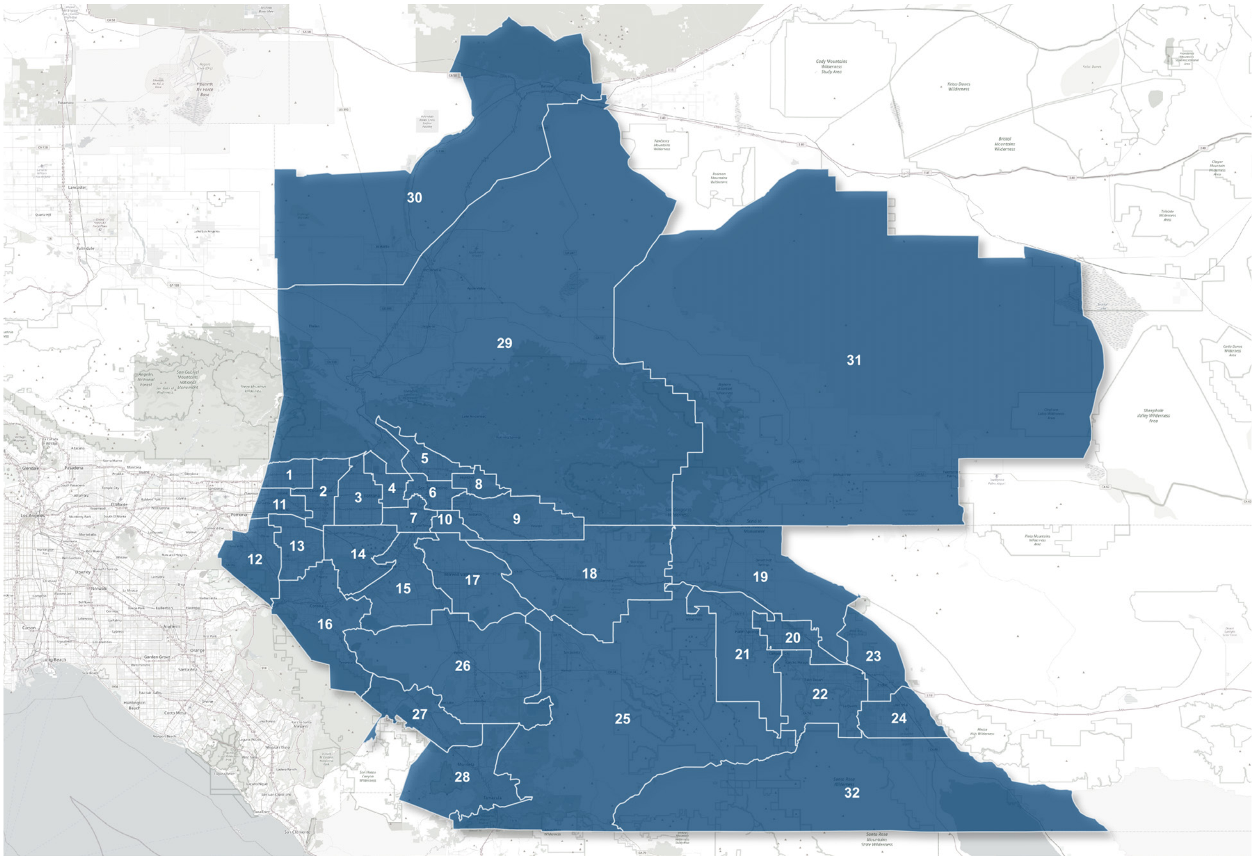
[1] From February 2021 to January 2022

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 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

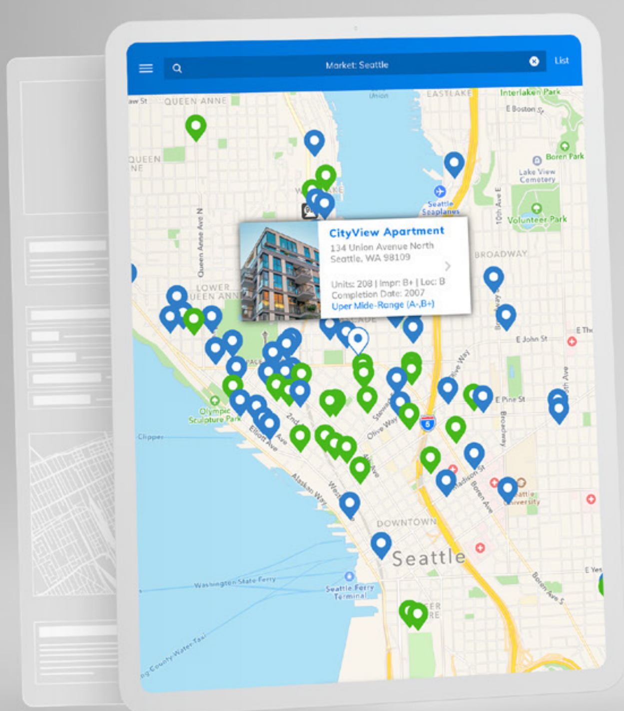
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

Yardi® Matrix

Power your business with the industry's leading source for originating, pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

See how we can help you achieve your investment goals.
Request a personalized demo at yardimatrix.com/**contact-us**

(800) 866-1144 | yardimatrix.com/multifamily

©2021 Yardi Systems, Inc. All Rights Reserved. Yardi, the Yardi logo, and all Yardi product names are trademarks of Yardi Systems, Inc.

YARDI

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (http://www.yardimatrix.com/Terms) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2022 Yardi Systems, Inc. All Rights Reserved.