

YARDI[®] Matrix

The Inland Empire Expands

Multifamily Report Spring 2017

**Rising Rents Weather
Seasonal Shifts**

**Affordability Attracts
Nearby Angelenos**

**Deliveries Cater to
Workforce Renters**

Market Analysis

Spring 2017

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Affordability Rules the Inland Empire

Rent growth in San Bernardino and Riverside counties continued its extremely fast pace over the past year, supported by a healthy job market and moderate inventory expansion. The metro boasts high occupancy rates—96.1% for stabilized properties as of the first quarter—and a pipeline brimming with new supply, though most deliveries are still a year or two away.

Although employment growth has tempered, the Inland Empire managed to outperform the national average, due to solid gains in trade, transportation and utilities; education; and health care. Rising global trade and the growth of e-commerce have increased demand for industrial and warehouse properties. California's Road Repair and Accountability Act will bring projects worth an estimated \$427 million to Riverside alone, further stimulating transportation and construction.

Evidently, investors are eyeing this area: More than \$2.3 billion in multifamily assets have changed hands since the beginning of 2016. A limited amount of new inventory throughout the current cycle has helped bolster rents, which have risen modestly but not nearly as much as in most U.S. cities. As long as supply is weak and demand strong, rents in the Inland Empire should rise at an above-trend rate of 7.6% in 2017.

Recent Inland Empire Transactions

Terracina



City: Ontario, Calif.
Buyer: Bridge Investment Group Partners
Purchase Price: \$142 MM
Price per Unit: \$193,071

Solamonte



City: Rancho Cucamonga, Calif.
Buyer: Mesirow Financial
Purchase Price: \$130 MM
Price per Unit: \$249,520

Avana Rancho Cucamonga



City: Rancho Cucamonga, Calif.
Buyer: Greystar
Purchase Price: \$122 MM
Price per Unit: \$195,192

Stonegate at Towngate

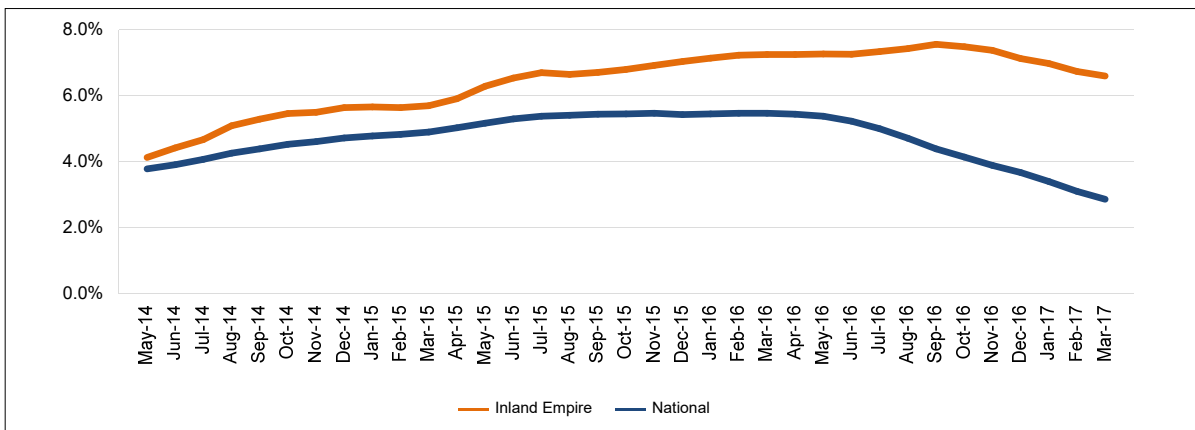


City: Moreno Valley, Calif.
Buyer: Weidner Investment Services
Purchase Price: \$96 MM
Price per Unit: \$178,532

Rent Trends

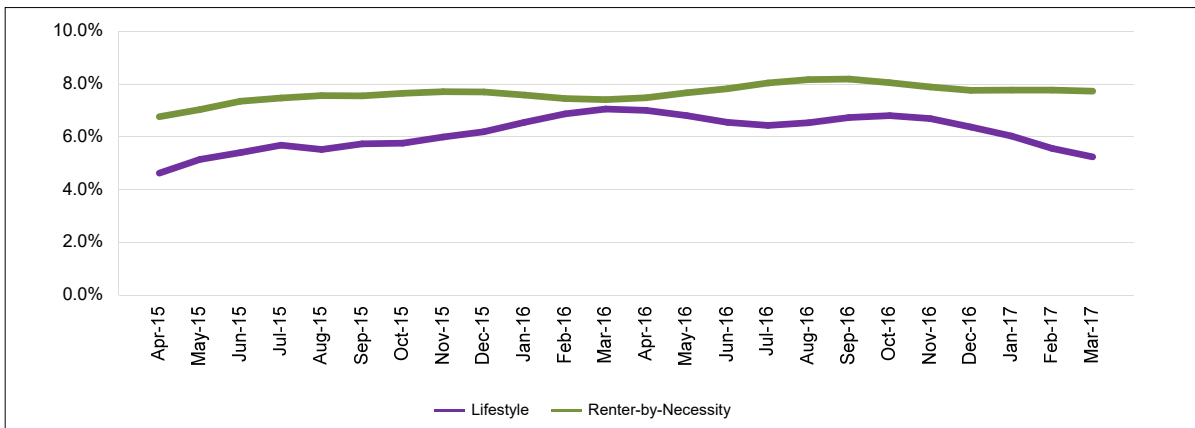
- The Inland Empire’s average rent hit \$1,365, representing a 6.6% year-over-year increase through March, more than double the national rate of 2.7%. The metro has among the fastest-growing rents in the U.S. Continued job growth, relative affordability and improving fundamentals have attracted residents and pushed rent increases above the national average in recent years.
- Renter-by-Necessity assets, which encompass two-thirds of the market’s inventory, led rent growth with a 7.7% year-over-year increase, 250 basis points above the rate of improvement in Lifestyle properties. Demand for workforce-oriented apartments is strong. Employment is expanding most rapidly in medium- and lower-paid sectors of the economy, while residents are looking for affordable housing in an expensive market. Although rents in upscale properties are nearing the \$1,600 mark, the market remains more affordable than Los Angeles.
- Rents increased the most in some of the more affordable submarkets, including Victorville/Apple Valley/Big Bear (10.2%), Fontana (9.8%), South San Bernardino (9.4%) and Colton/Grand Terrace (9.3%). Rents in Upland/Alta Loma, Corona, Murrieta/Temecula and Montclair/North Ontario crossed the \$1,500 threshold during the past 12 months.

Inland Empire vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Inland Empire Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

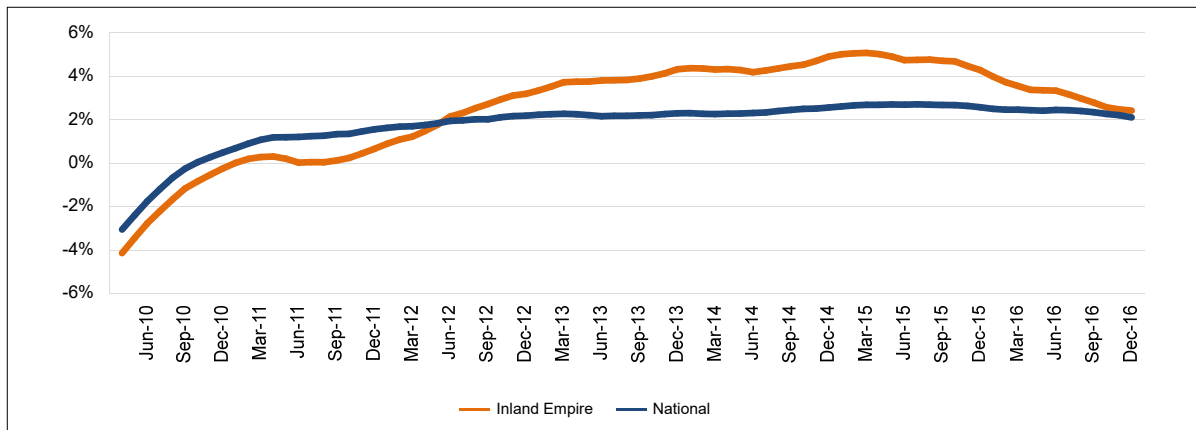


Source: YardiMatrix

Economic Snapshot

- The Inland Empire added 40,800 jobs in the 12 months ending in January, a 2.4% increase and 30 basis points above the national average. Over the past five years, San Bernardino and Riverside counties have consistently added jobs in trade, transportation and utilities, as well as manufacturing and construction. Furthermore, none of the main employment sectors experienced net job losses over the past 12 months.
- California’s Road Repair and Accountability Act of 2017—signed into law in March—will provide funding for transportation and construction, which added a combined 14,000 jobs in 2016. As trade grows and major e-commerce operators expand, the industrial sector continues to thrive. Amazon is building a new fulfillment and distribution center in Redlands, where hiring is underway for 1,000 full-time positions.
- The Inland Empire’s office sector has recorded five consecutive years of steady improvement. Due to several quarters of positive net absorption, vacancy is slowly trending toward 12%—700 basis points lower than it was five years ago—while development activity remains scarce across both counties. Increased demand is gradually tightening the market, with rents poised to escalate.

Inland Empire vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Inland Empire Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
90	Government	252	17.6%	12,300	5.1%
40	Trade, Transportation and Utilities	365	25.5%	9,800	2.8%
65	Education and Health Services	218	15.2%	8,500	4.1%
15	Mining, Logging and Construction	92	6.4%	3,500	4.0%
30	Manufacturing	99	6.9%	2,400	2.5%
70	Leisure and Hospitality	158	11.0%	1,400	0.9%
60	Professional and Business Services	147	10.3%	1,000	0.7%
80	Other Services	46	3.2%	1,000	2.2%
55	Financial Activities	44	3.1%	700	1.6%
50	Information	12	0.8%	200	1.8%

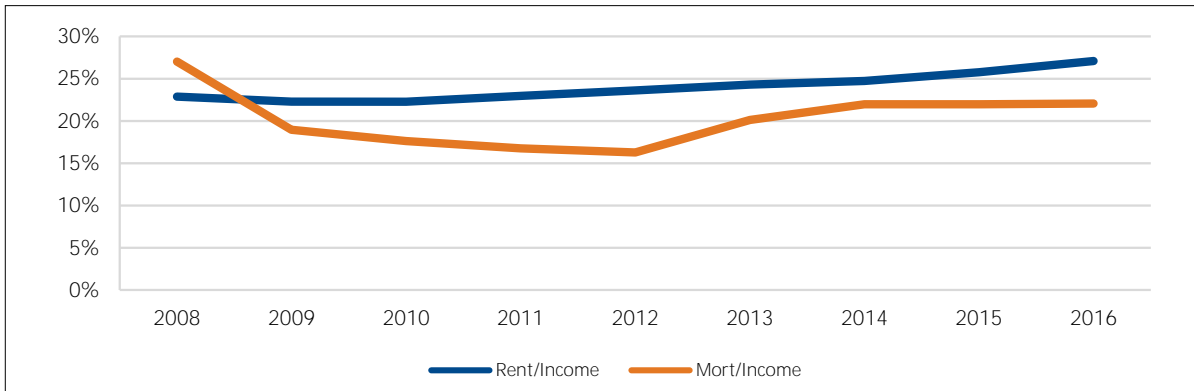
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

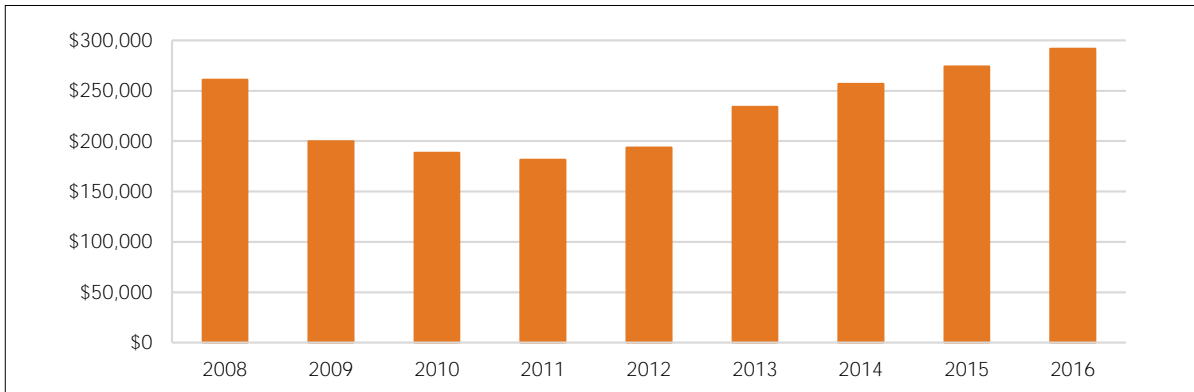
- Rents reached \$1,365 in March, \$50 above the national average. Continued appreciation has resulted in declining affordability, as the average rent accounted for more than a quarter of the area's median income.
- In 2016, the Inland Empire's median home price was \$291,624, 60% higher than when the market bottomed out in 2011. Since then, rents have increased by 30%.

Inland Empire Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Inland Empire Median Home Price



Source: Moody's Analytics

Population

- A lower cost of living than in nearby markets such as Los Angeles and Orange County and a strong job market have spurred population growth.
- The Inland Empire has grown by 4.4% since 2011, exceeding the 3.1% national average.

Inland Empire vs. National Population

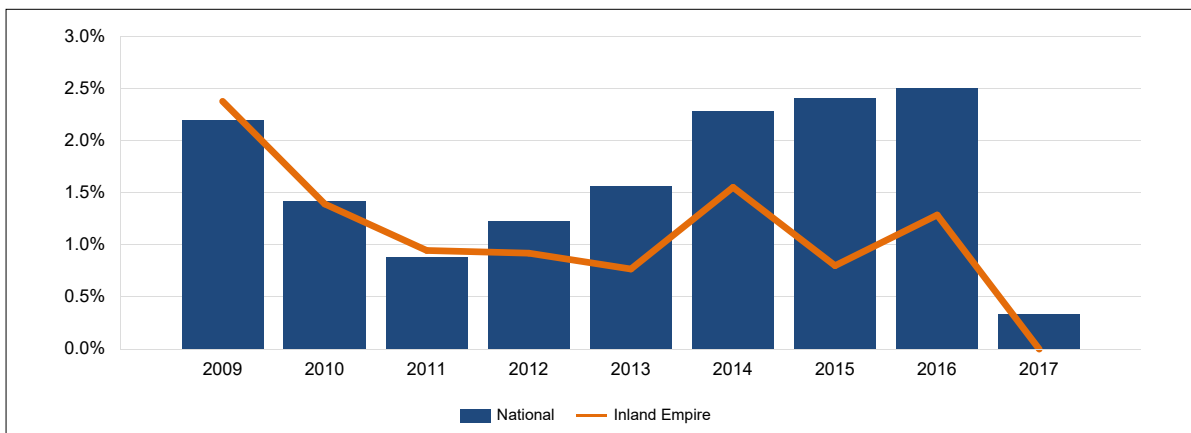
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Riverside-San Bernardino-Ontario, Calif. Metropolitan Statistical Area	4,301,633	4,347,082	4,387,415	4,438,715	4,489,159

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

Supply

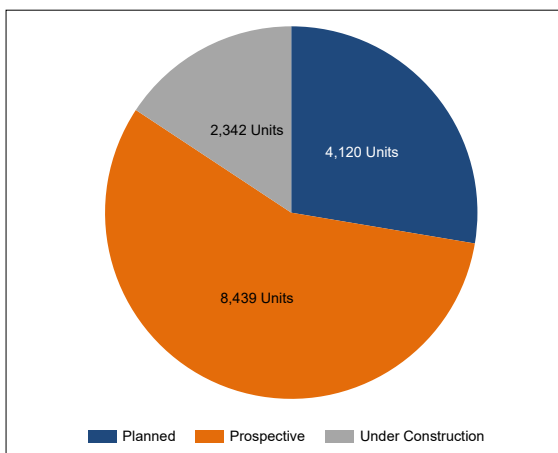
- Developers delivered nearly 2,000 new units in 2016, increasing inventory by 1.3%, about half the national rate. Construction activity has been moderate throughout the current cycle, with only 5,300 new units coming online since 2014. Roughly two-thirds of the Inland Empire's apartment stock consists of Renter-by-Necessity units, highlighting the market's blue-collar profile.
- Occupancy of 96.1% in stabilized properties demonstrates the need for more supply. Despite strict controls on construction in Southern California, developers are trying to do their part. Though there are nearly 15,000 rentals in progress, more than half remain subject to entitlement approvals. With only 2,300 units underway, we expect the number of deliveries to remain weak in 2017.
- Nearly half of all apartment units under construction in the Inland Empire are located in the submarkets of Corona, Chino/Chino Hills and South Ontario. Developers are favoring San Bernardino County, where 61% of the units under construction are located. The largest development underway is Wermers Properties' 464-unit Metro at Main in Corona. Situated close to a Metrolink station, the project is part of an urban, mixed-use redevelopment with a cluster of retail, apartments and offices.

Inland Empire vs. National Completions as a Percentage of Total Stock (as of March 2017)



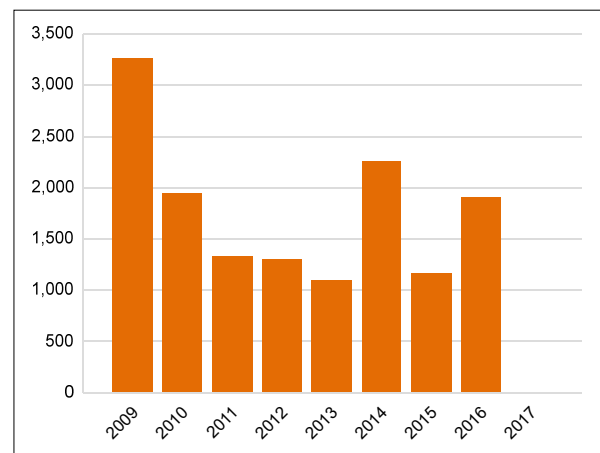
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Inland Empire Completions (as of March 2017)

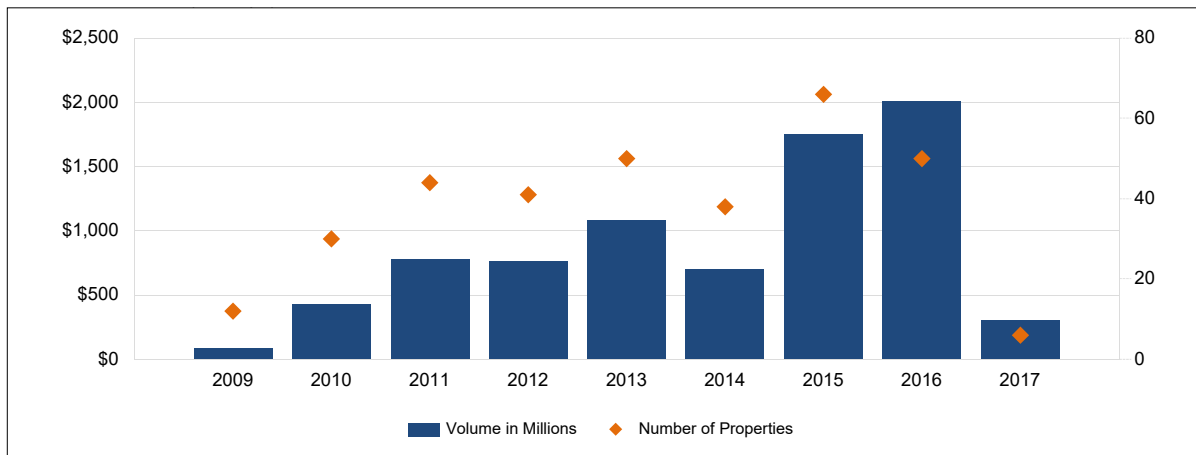


Source: YardiMatrix

Transactions

- Coming off a new cyclical high of \$2 billion in 2016, sales activity looks to remain strong, with more than \$300 million in transactions completed during 2017's first quarter. Investors remain on the hunt for value-add properties in secondary markets, and the Inland Empire shows strong growth potential.
- Prices continue to grow steadily in the metro, despite having leveled off nationally. The average per-unit price rose nearly \$10,000 in the first quarter to \$179,554.
- Three of the top four submarkets for investment over the past 12 months were located in Riverside County. The largest deal completed in 2017 was Greystar's \$122 million acquisition of the 624-unit Avana Rancho Cucamonga from Deutsche Asset & Wealth Management. The property fetched a price per unit of \$195,000, up 30% from the last time it traded, in 2006.

Inland Empire Sales Volume and Number of Properties Sold (as of March 2017)



Source: YardiMatrix

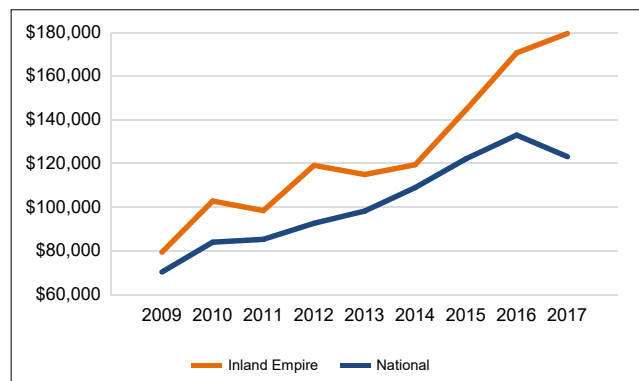
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Rancho Cucamonga	252
Moreno Valley	239
Murrieta/Temecula	226
Corona	177
Redlands/Yucaipa	142
South Ontario	142
Colton/Grand Terrace	137
Palm Desert/La Quinta	65

Source: YardiMatrix

¹ From April 2016 to March 2017

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Capital One Secures Refi
For SoCal Affordable Community



NGKF Closes \$79M Sale
Of Empire Towers I-IV



Denver Investor Buys
Inland Empire Apartments

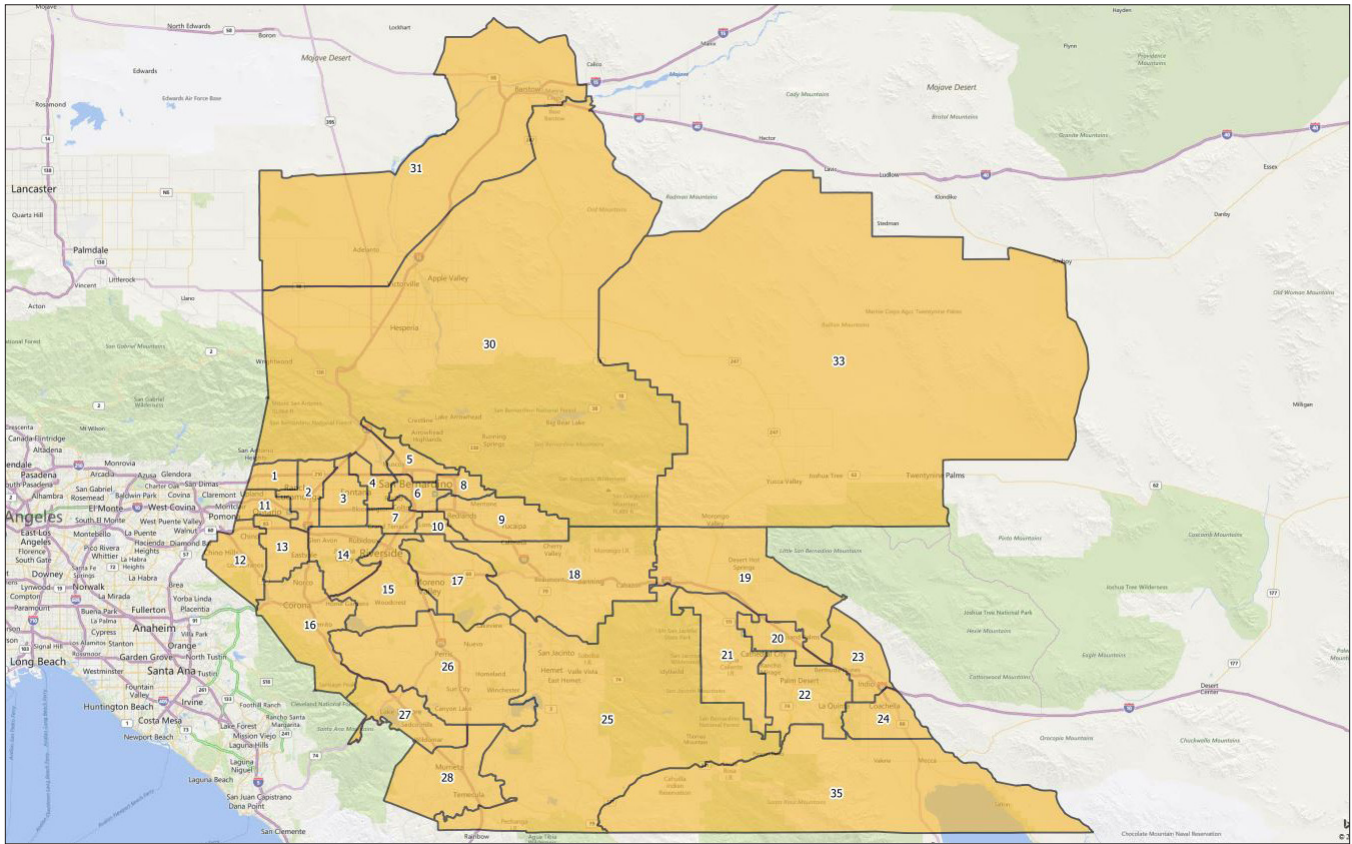


Newcastle Adds
To Inland Empire's
Industrial Inventory

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Inland Empire Submarket Map



Area #	Submarket
1	Upland/Alta Loma
2	Rancho Cucamonga
3	Fontana
4	Rialto
5	North San Bernardino
6	South San Bernardino
7	Colton/Grand Terrace
8	Highlands
9	Redlands/Yucaipa
10	Loma Linda
11	Montclair/North Ontario
12	Chino/Chino Hills
13	South Ontario
14	West Riverside
15	East Riverside
16	Corona

Area #	Submarket
17	Moreno Valley
18	Beaumont/Banning
19	White Water/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
30	Victorville/Apple Valley/Big Bear
31	Adelante/Oro Grande
33	Yucca Valley/Morongo Valley

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 may 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 may 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, may 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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