Yardi Matrix

MULTIFAMILY REPORT

Inland Empire Strengthens Presence

August 2022

E-commerce Fuels Economy

Rent Development Accelerates

Investment Continues Solid Growth

Yardi Matrix

Logistics Sector Drives Improvement

The Inland Empire has seen extensive improvement in its industrial real estate sector, but multifamily has been equally hot lately. As Southern California's most affordable market, continued population increases—nearly 350,000 residents added in the past decade—coupled with the rise of logistics, have pushed up housing demand. Rent development was at 1.2% on a trailing three-month basis as of June, just above the U.S. figure, while the average stood at $2,164, well above the $1,706 U.S. rate.

Employment gains in Riverside and San Bernardino counties were also solid, up 6.2% year-over-year as of May, outpacing national improvement by 150 basis points. The market's proximity to major shipping hubs, namely the ports of Los Angeles and Long Beach, has turned logistics into the area's main economic driver. What's more, continued increases in e-commerce and some easing of supply-chain disruptions have pushed the Inland Empire to lead the nation in industrial rent growth and average vacancy.

Demand has boosted investment to unprecedented levels, with nearly $3.2 billion in multifamily assets trading in the Inland Empire in the 12 months ending in June. Meanwhile, development remained typically modest, with only 184 units delivered in the first half of 2022 and a little more than 4,000 units under construction as of June.

Market Analysis | August 2022

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Recent Inland Empire Transactions

Terracina

City: Ontario, Calif.
Buyer: Waterton
Purchase Price: $310 MM
Price per Unit: $421,196

The Angelica

City: Rancho Cucamonga, Calif.
Buyer: TA Realty
Purchase Price: $134 MM
Price per Unit: $495,000

Eagle Glen

City: Murrieta, Calif.
Buyer: Crow Holdings
Purchase Price: $134 MM
Price per Unit: $417,188

Foothill Ridge

City: Upland, Calif.
Buyer: Clear Capital
Purchase Price: $82 MM
Price per Unit: $353,448

RENT TRENDS

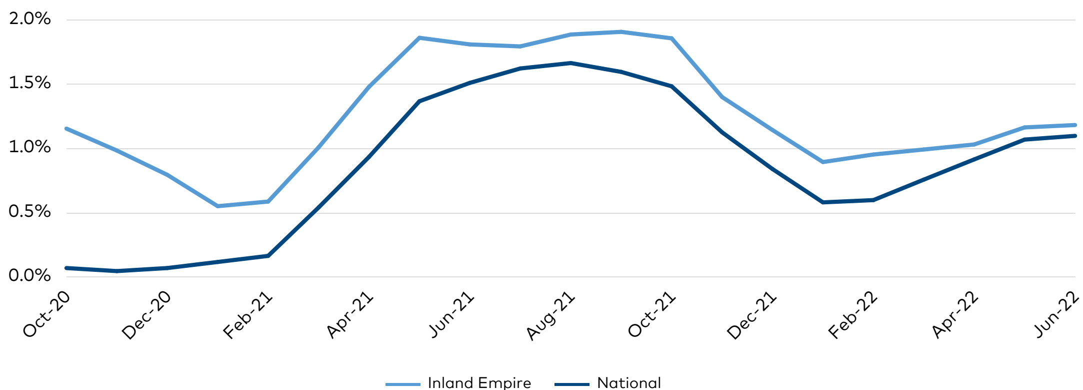
- Rents in the Inland Empire were up 1.2% on a trailing three-month (T3) basis as of June, 10 basis points higher than the national rate of growth. The average in the metro reached $2,164, well above the $1,706 national figure. However, Inland Empire rates are low by state standards and among major metros, its rents are trailed only by Sacramento, at $1,952. When compared to other Southern California metros, Riverside and San Bernardino counties bear the lowest average rent, by far, outpaced by Orange County ($2,706), San Diego ($2,610) and Los Angeles ($2,552).

- With most U.S. markets, rent growth is typically driven by one of the two quality classes. However, in the Inland Empire, T3 rate growth shows that recent improvement has been perfectly in sync, with both classes at 1.2%. The difference is clear when we look at the gap in average rates, which widened to nearly $700—working-class Renter-by-Necessity rents averaged $1,882, while Lifestyle figures reached $2,539 as of June.

- Rent improvement was generally accelerated across the metro, with only two of 31 tracked submarkets recording single-digit rate gains on a year-over-year basis, while just one had an average below the $1,000 threshold.

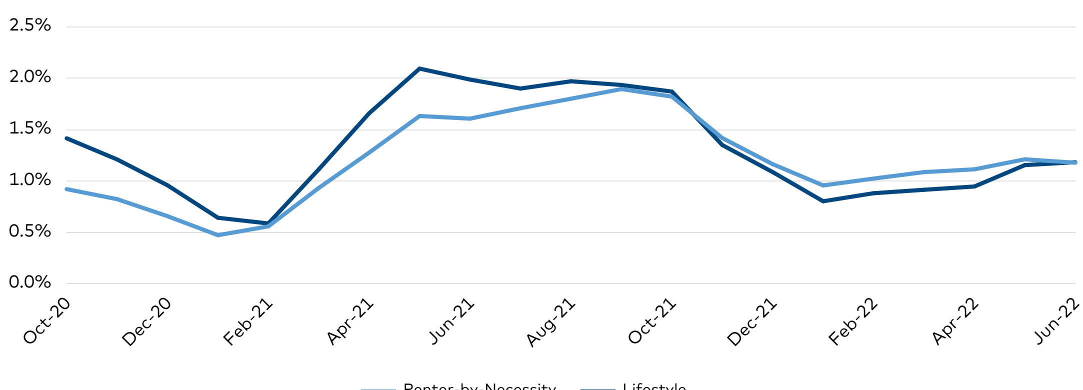
- While year-over-year rent growth in the multifamily sector was 16.8%, single-family rentals also saw solid improvement, at 13.5% year-over-year. Furthermore, the Inland Empire's SFR sector saw no change in occupancy rates over the 12 months ending in May.

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 83,700 jobs in the 12 months ending in May, for a 6.2% employment growth rate, 150 basis points above the national rate. The metro's jobless rate was 3.4% in May, 90 basis points below the state average.
- With trade, transportation and utilities adding 31,100 jobs, the Inland Empire's main economic driver is leaping from one strength to another. The metro is the only major market in the nation with an industrial vacancy rate below the 1.0% mark, at 0.6% as of June, while year-over-year industrial rent improvement also led the nation, at 7.4%.
- Driven by its proximity to the largest port in the Western Hemisphere (Port of L.A.) and the port of Long Beach, the area has benefited from a significant increase in e-commerce, while the need for industrial space has been amplified. The largest project underway is CapRock's Palomino Rancho in Norco. The facility will encompass 24 buildings, with the first phase featuring eight buildings and 700,000 square feet of industrial space.
- Leisure and hospitality came in second for job gains, adding 21,300 positions, a 13.2% improvement, largely following national trends. The only sector to record a contraction in the 12 months ending in May was construction, down 800 jobs, or 0.7%.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	462	28.1%
70	Leisure and Hospitality	182	11.1%
90	Government	258	15.7%
65	Education and Health Services	262	15.9%
30	Manufacturing	99	6.0%
60	Professional and Business Services	172	10.4%
80	Other Services	46	2.8%
55	Financial Activities	47	2.9%
50	Information	10	0.6%
15	Mining, Logging and Construction	112	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Riverside and San Bernardino counties' population has oscillated over the past decade, but the overarching trend is up, with the metro adding some 350,000 residents in 10 years. Relative affordability compared to other Southern California markets should continue to drive growth.

Inland Empire vs. National Population

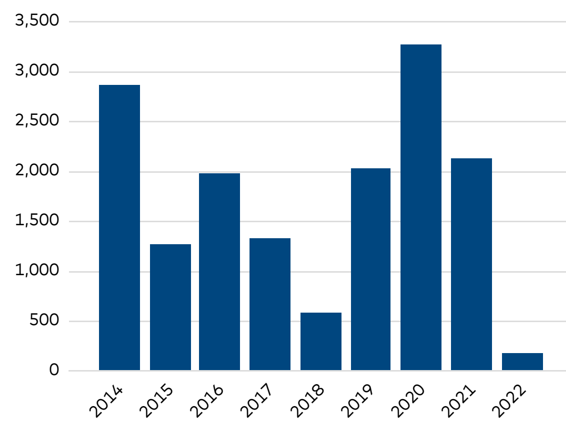
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Inland Empire	4,608,848	4,642,848	4,605,504	4,653,105

Source: U.S. Census

SUPPLY

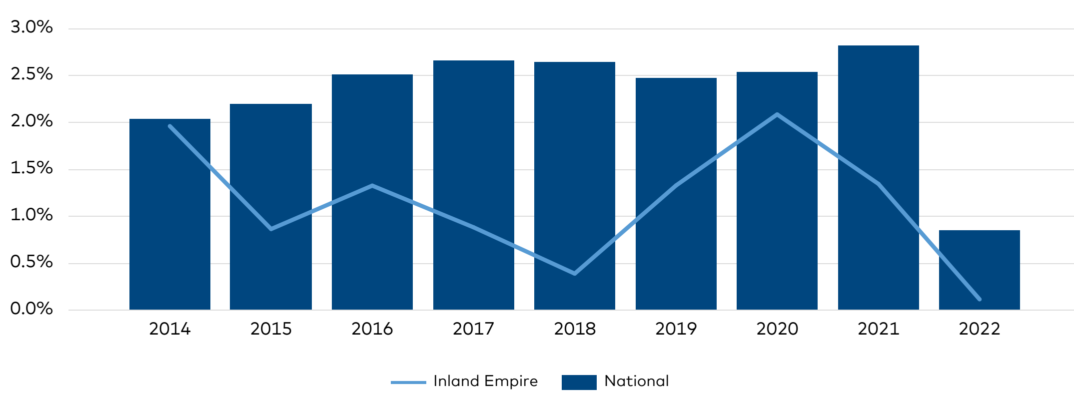
- The Inland Empire had 4,054 units under construction at the midyear point, as development activity stayed limited in the metro. Another 20,300 units were in the planning and permitting stages.
- Riverside and San Bernardino counties have been notoriously slow to add multifamily inventory over the past decade, having never even come close to the national average rate of deliveries. In 2022 through June, only 184 units, or 0.1% of total stock, came online, while the national figure stood at 0.9%.
- Although the Inland Empire is typically a working-class-driven market, the metro's multifamily pipeline consists overwhelmingly of upscale inventory—some 73% of units under construction are in Lifestyle assets.
- The average occupancy rate in stabilized assets in the Inland Empire was 97.5% as of May, well above the 96.0% national figure. The undersupplied Renter-by-Necessity segment saw occupancy of 97.7%, down 50 basis points year-over-year. The Lifestyle segment was down 70 basis points through the interval, to 97.2%.
- The list of submarkets with strong development activity as of June included Montclair/North Ontario (925 units under construction), Moreno Valley (498 units) and West Riverside (447 units). Montclair/North Ontario leads the way for construction activity, but its pipeline consists of a single asset: GH Palmer Associates' Vineyards at Ontario West. The 925-unit community is slated to come online in early 2023.

Inland Empire Completions (as of June 2022)



Source: Yardi Matrix

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

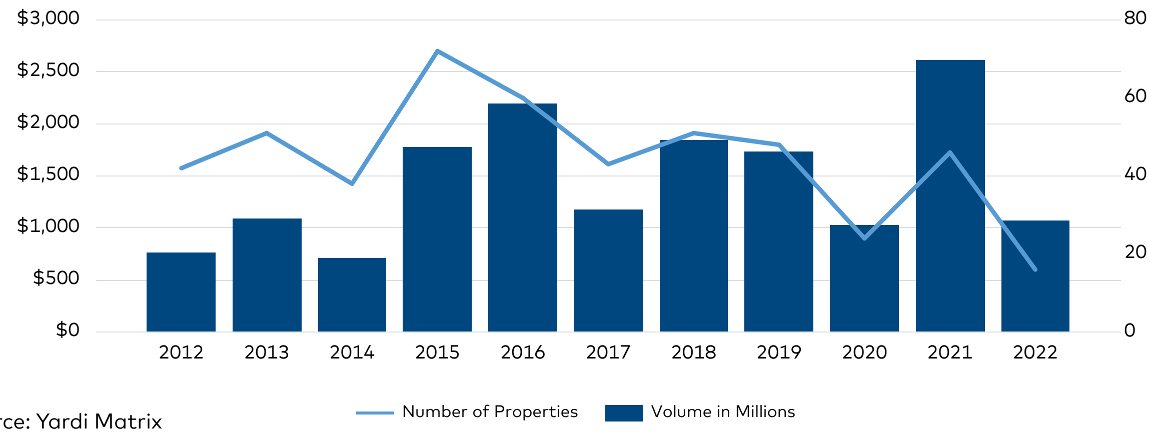


Source: Yardi Matrix

TRANSACTIONS

- During the first half of 2022, more than $1 billion in multifamily product traded in the Inland Empire. Riverside and San Bernardino counties have seen consistently rising property values throughout the past decade, reaching an average price per unit of $278,212 in 2021, far outpacing the national figure of $192,272.
- Per-unit prices continued their climb in the first half of the year, to an average of $360,284, as deal distribution between Lifestyle and Renter-by-Necessity assets became more balanced than during previous years—of 16 recorded deals, seven were for upscale assets.
- Riverside County led the way for investment, with $1.8 billion in rental assets sold during the 12 months ending in June, while San Bernardino County recorded $1.4 billion in asset sales. The most sought-after submarkets were Rancho Cucamonga ($452 million), Corona ($407 million) and South Ontario ($369 million).

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



Source: Yardi Matrix

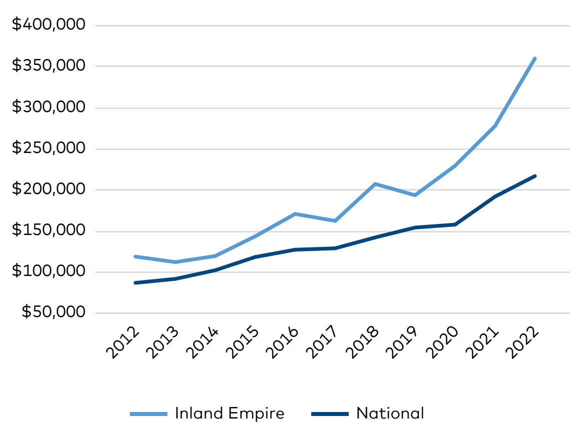
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Rancho Cucamonga	452
Corona	407
South Ontario	369
Moreno Valley	286
Murrieta/Temecula	259
Redlands/Yucaipa	224
East Riverside	224

Source: Yardi Matrix

[1] From July 2021 to June 2022

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:

Wakeland's New CEO on California's Affordable Housing Crisis

By Anda Rosu

California's housing crisis is notorious. Demand for affordable housing in the state's biggest urban centers is sky-high, and developers are struggling to strike the right balance between catering to residents' need for affordable housing and the increasing cost of building. Wakeland Housing and Development Corp. new President & CEO Rebecca Louie knows firsthand what stands in the way of more affordable housing projects in California.

How much has the pandemic worsened housing affordability in California?

Rents have increased in California by approximately 10 percent since the start of the pandemic. Statewide, the average rent is now approximately $2,200 per month, up from $2,000 per month at the start of the pandemic.

What are the top three reasons why it is so difficult to build affordable housing projects in the state today?

The top reason is the lack of resources for affordable housing development, including subordinate financing, project-based Section 8 vouchers, limitations on bond volume cap and 9 percent tax credit equity. The second is high construction and other development costs, many of which have been exacerbated by the pandemic. The third reason is a lack of political will, which often allows a vocal minority to block affordable housing projects before they are developed.

How do the recent interest rate hikes and the rising inflation impact California's affordable housing sector?

Inflation and interest rate hikes are slowing the production of affordable housing. Projects that were feasible six months ago have been delayed or shelved entirely. Developers have to spend longer securing additional funding to make projects feasible, and state, as well as local subordinate lenders, have to increase subsidies on a per-unit basis.

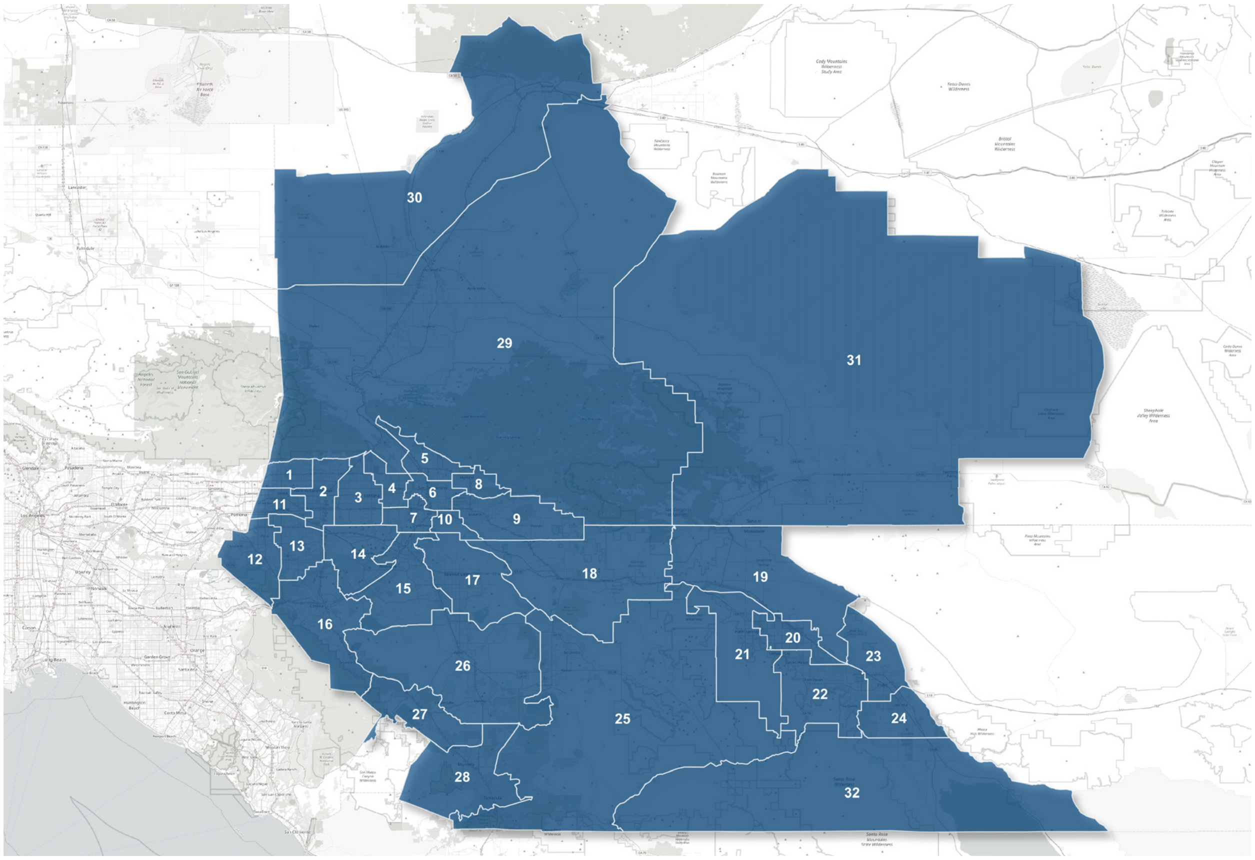
What are your priorities in your new role at Wakeland?

My top priority is always to build as many affordable homes as we can, at every level, from family housing to senior housing, to housing for people experiencing homelessness. I also plan to be a strong advocate for improving our local, state and federal policies to encourage the production of more affordable housing. We are in the midst of a severe housing crisis, with the supply being low, rents being high, and the effects, dramatic.

Could you share a few details about the projects that Wakeland has under construction across California today?

We have four projects under construction in Los Angeles, all of which will house formerly homeless seniors, many of whom have chronic health conditions. We have two projects under construction in Riverside County. In San Diego, we have four projects under construction that will provide a range of homes for low-income families and individuals experiencing homelessness.

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 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 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, 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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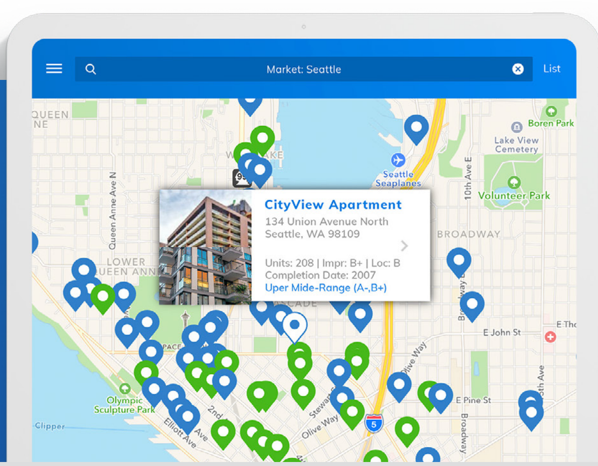
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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