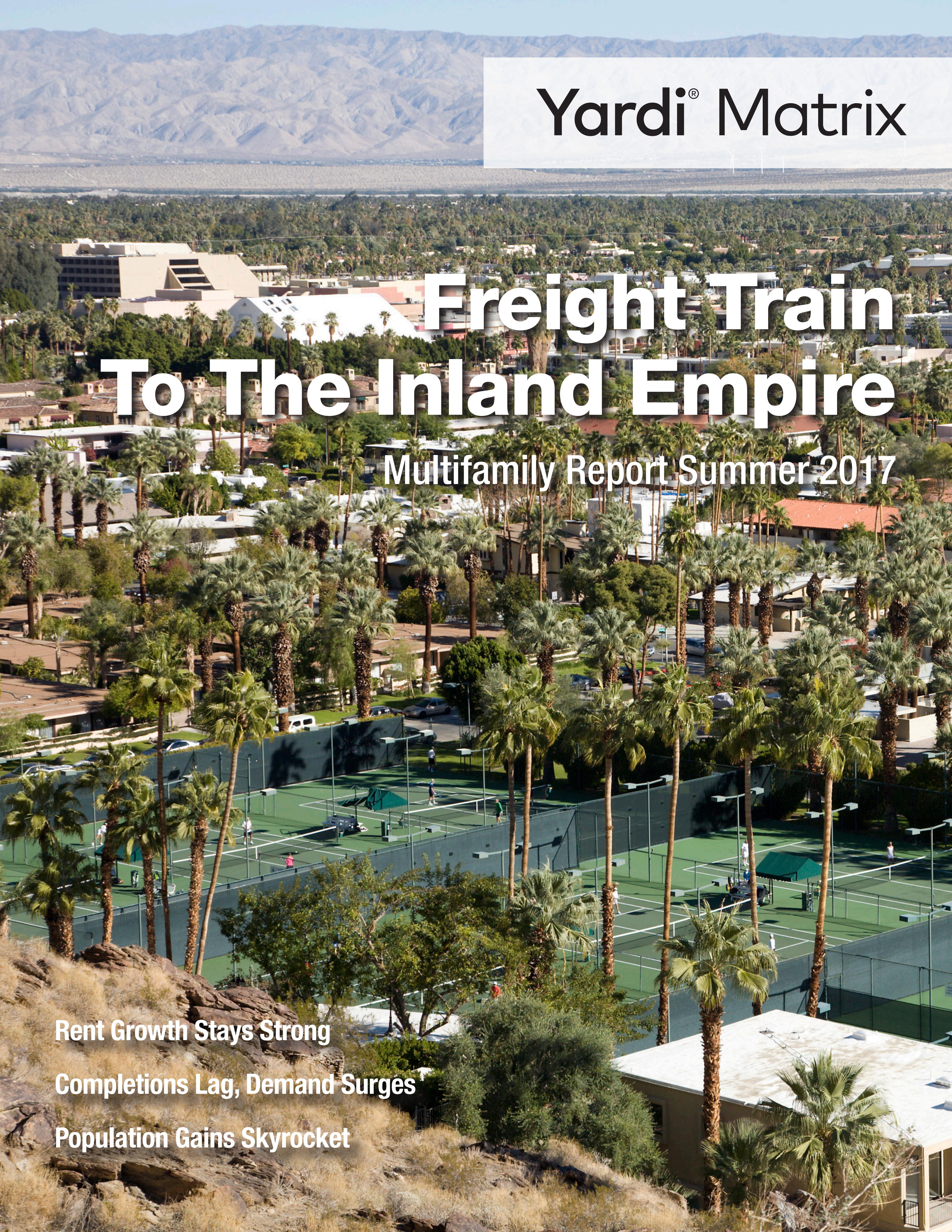

Yardi® Matrix

Freight Train To The Inland Empire

Multifamily Report Summer 2017

Rent Growth Stays Strong

Completions Lag, Demand Surges

Population Gains Skyrocket

Market Analysis

Summer 2017

Contacts

Paul Fiorilla

Associate Director of Research

Paul.Fiorilla@Yardi.com

(800) 866-1124 x5764

Jack Kern

Director of Research and Publications

Jack.Kern@Yardi.com

(800) 866-1124 x2444

Author

Alex Girda

Senior Editor

Market Grows in Strength

Riverside and San Bernardino counties continued to grow in the first half of 2017, adding jobs at some of the strongest rates in California. Although the sectors with the bulk of growth encompass mostly lower-paying jobs, demand for housing and a tepid rate of multifamily development pushed rent growth to 4.7% year-over-year as of July. Even with nearly 2,000 units projected to come online in 2017, average occupancy will most likely remain above the 96.0% mark.

Backed by a booming industrial market, the Inland Empire's economy added 48,000 jobs in the 12 months ending in July. Freighting in the nearby ports of Los Angeles and Long Beach was up in 2016. At the same time, the continued rise of e-commerce has helped increase demand for warehouse space. Logistics is the main driver of economic activity in the two counties, pushing industrial construction activity to historic highs.

Apartment deliveries have been slow throughout the cycle, but there were 3,300 units underway as of July, and that is likely to increase as demand continues to push rents higher. Developers are adding units in the immediate vicinity of the two counties' urban cores, which offer proximity to East Los Angeles County, attracting an influx of commuters looking for more affordable rents. With fewer than 2,000 units slated for completion this year, we expect rents to improve by 6.1% in 2017, one of the highest rates among major U.S. metros.

Recent Inland Empire Transactions

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: $99 MM
Price per Unit: $178,532

The Highlands at Grand Terrace

City: Grand Terrace, Calif.
Buyer: TruAmerica Multifamily
Purchase Price: $92 MM
Price per Unit: $165,467

Palisades at Sierra Del Oro

City: Corona, Calif.
Buyer: Jackson Square Properties
Purchase Price: $89 MM
Price per Unit: $309,027

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Hollie Zepke

Audience Development Specialist

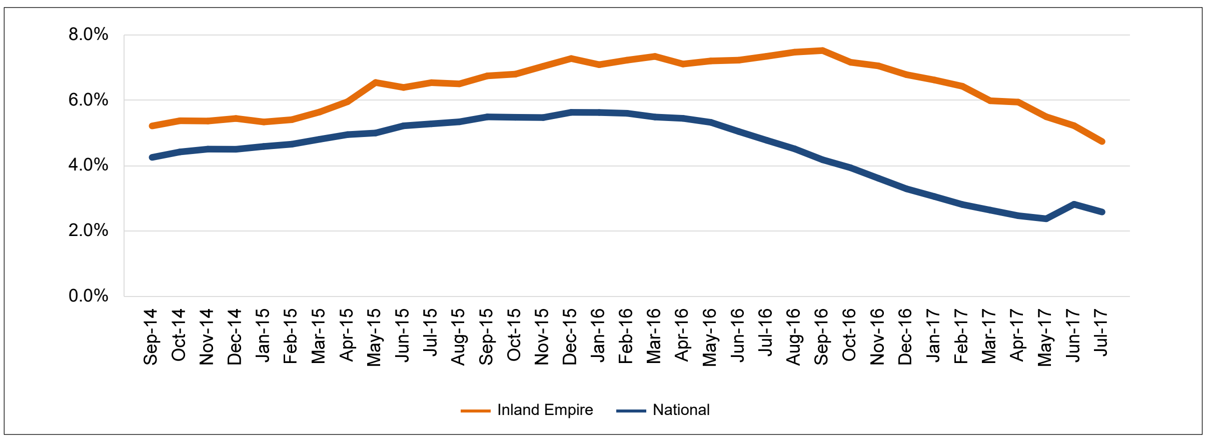
Hollie.Zepke@Yardi.com

(800) 866-1124 x5389

Rent Trends

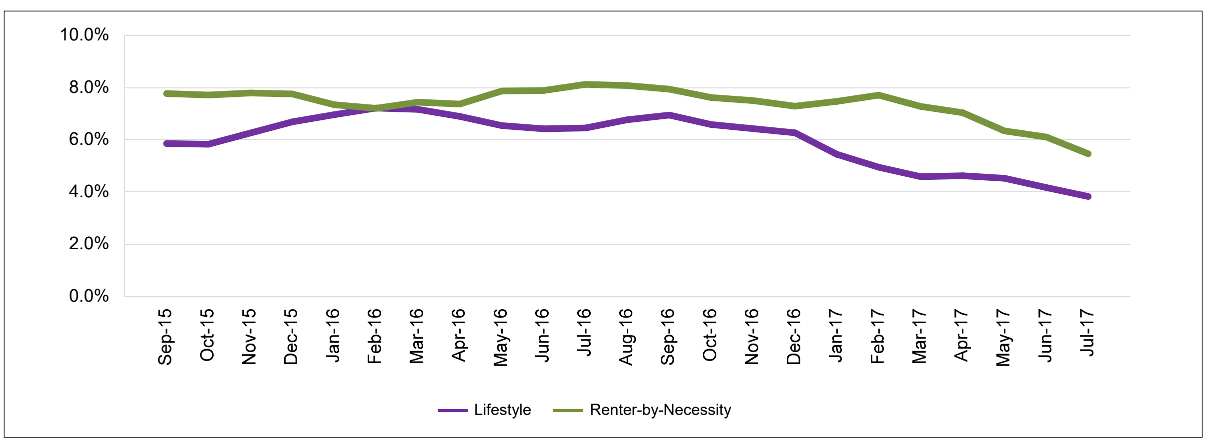
- Inland Empire rents improved 4.7% year-over-year in July, nearly twice the national rate. At an average of $1,392, some $40 over the U.S. average, rents are still well below those in major Southern California metros such as Los Angeles, San Diego and Orange County.
- The bulk of the Inland Empire's multifamily inventory consists of Renter-by-Necessity assets, and the segment drove rent growth with a 5.5% year-over-year improvement, up to an average of $1,235. Lifestyle rents rose 3.8% year-over-year to $1,626, as limited supply is keeping demand for upscale units at high levels.
- The average occupancy rate in stabilized properties remains high in the Inland Empire, at 96.3% as of July. Limited inventory growth has kept the occupancy rate flat in 2017, while continued job growth in lower-wage positions is slated to drive further demand for housing in the coming years.
- Rents grew at the highest rates in Beaumont/Banning (11.2%), White Water/Desert Hot Springs (9.5%), Victorville/Apple Valley/Big Bear (7.9%) and Palm Springs (7.8%). Limited completions during the year's first half and continued employment growth are bound to push rents further in the Inland Empire. As a result, we expect rents to improve by 6.1% in 2017.

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

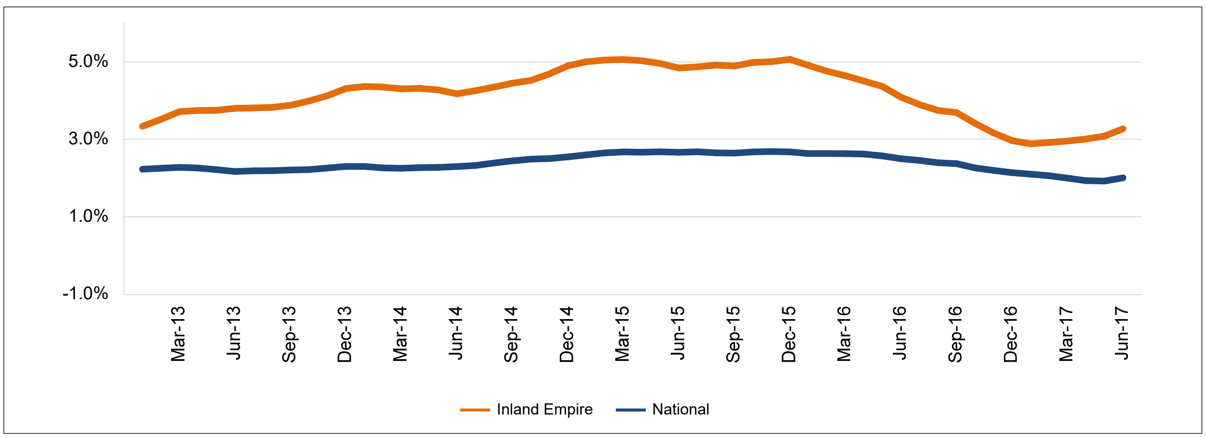
Economic Snapshot

- In the 12 months ending in June, the Inland Empire added 47,700 jobs for a 3.3% employment growth rate. The area's job market is improving at a significantly higher rate than the national average of 2.0%, reaffirming the prominence of the area's logistics boom. As a result, construction and trade, transportation and utilities added 26,200 jobs, with demand for industrial facilities having pushed the development pipeline to more than 27 million square feet of space underway. The ports of Los Angeles and Long Beach continue to drive trade activity and demand for new warehousing properties in the area.

- Beyond the improvement in trade and construction, education and health services added 6,000 jobs through that same interval. University of California Riverside's ongoing development of the five-story, 125,000-square-foot Multidisciplinary Research Building I is part of the university's push to evolve the local campus. The $150 million project is slated for completion in 2018.

- The Inland Empire's office market has also steadily improved, with the average asking rate rising since 2014, to about $1.80 per square foot at the end of the second quarter, according to Cushman & Wakefield. The vacancy rate has consistently decreased over the past few years to an average of approximately 11.0%, nearly half of what it was in 2010.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
15	Mining, Logging and Construction	111	7.7%	18,200	19.6%
40	Trade, Transportation and Utilities	347	24.1%	8,000	2.4%
65	Education and Health Services	219	15.2%	6,000	2.8%
70	Leisure and Hospitality	165	11.5%	5,600	3.5%
90	Government	246	17.1%	4,600	1.9%
80	Other Services	46	3.2%	1,700	3.8%
60	Professional and Business Services	146	10.2%	1,500	1.0%
30	Manufacturing	100	7.0%	1,300	1.3%
55	Financial Activities	46	3.2%	1,100	2.4%
50	Information	11	0.8%	-300	-2.6%

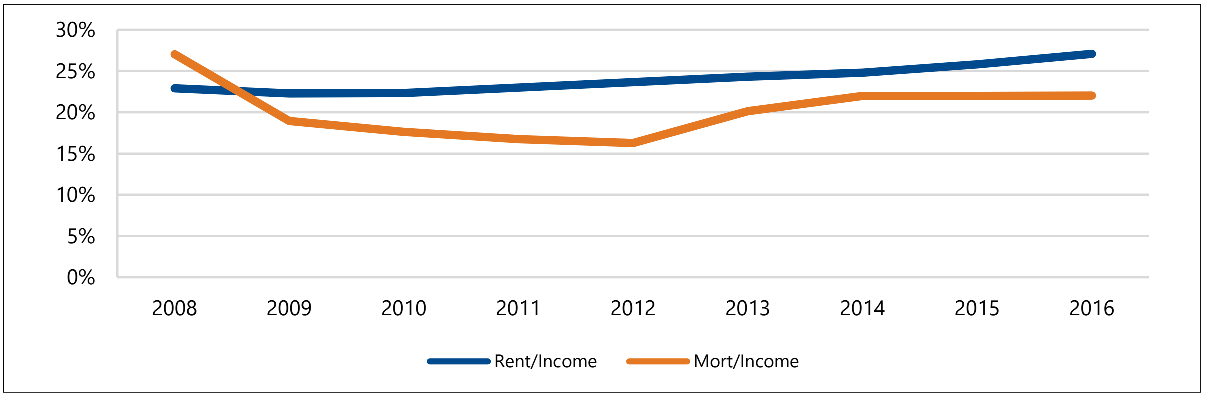
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

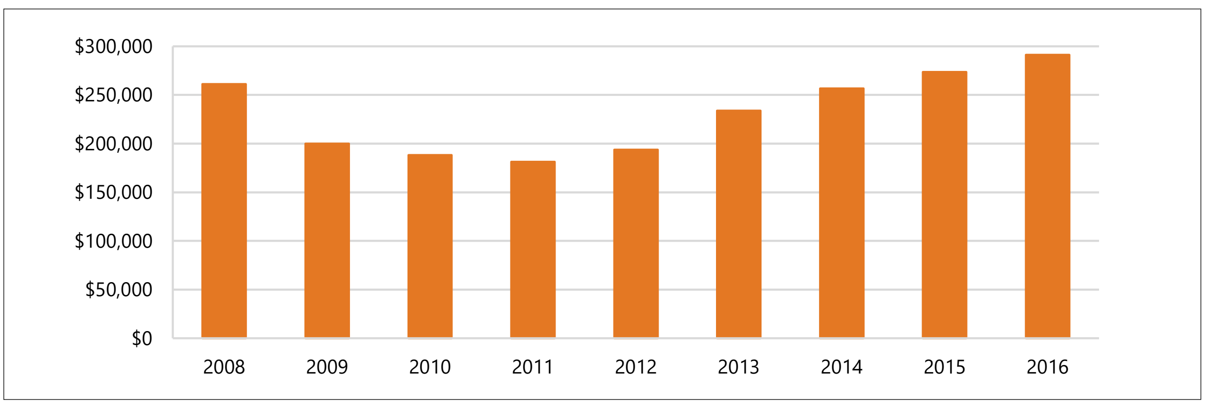
- The metro's median home value climbed to $291,099 last year, 60% over the 2011 level, when the housing market bottomed out. The increased job availability and continued improvement of the area's industrial market have led to rising rents, the average reaching $1,392 in July. Increased migration from Greater Los Angeles has begun exacting pressure on the area's median incomes, leading rents to account for 27%. Owning remains relatively more affordable, the average mortgage payment comprising 22% of the median income.
- The bulk of household creation has occurred in rentals throughout the cycle. Continued rent growth has essentially flipped the dynamic between owning and renting over the past decade.

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

- The Inland Empire added 52,400 residents in 2016, a population growth rate of 1.2%, nearly double the U.S. average.
- Strong employment and relatively affordable housing are driving further growth.

Inland Empire vs. National Population

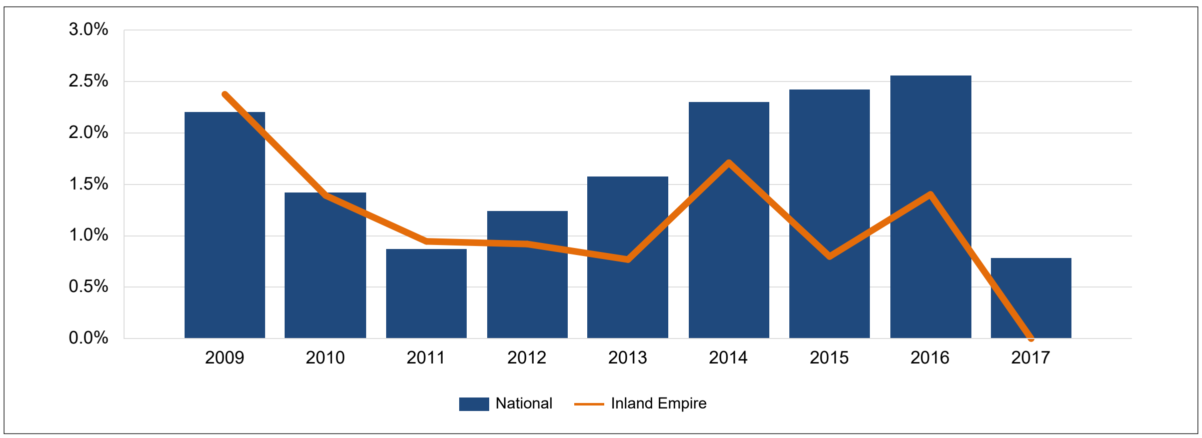
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Inland Empire Metro	4,342,166	4,379,397	4,428,390	4,475,437	4,527,837

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

Supply

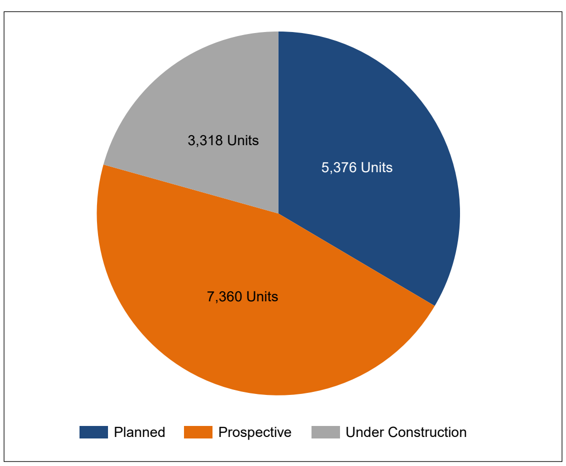
- Completions have significantly lagged during the year's first seven months, leading to no significant inventory expansion through July. However, deliveries are set to pick up, with about 1,200 units projected to come online in 2017.
- Roughly 3,300 units were underway in the Inland Empire as of July, while another 12,000 apartments were in various stages of development. With deliveries generally lagging behind the national average throughout the cycle, occupancy in stabilized assets began to surpass the 96.0% mark, rising nearly 200 basis points above the same point in 2011.
- Development is focused on areas bordering Los Angeles County: Montclair/North Ontario (800 units), Chino/Chino Hills (529 units), Corona (464 units) and East Riverside (366 units). With average rents significantly lower than in the East Los Angeles County submarkets, new developments are attracting both renters from the Inland Empire's two major urban centers and those seeking lower rents and willing to commute to L.A.
- The largest project underway in either county is the 800-unit The Paseos at Ontario. GH Palmer Associates is developing the community at 2421 Inland Empire Blvd. in North Ontario.

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



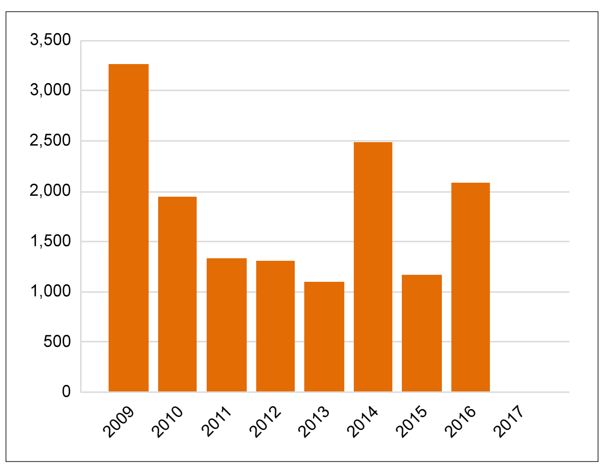
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Inland Empire Completions (as of July 2017)

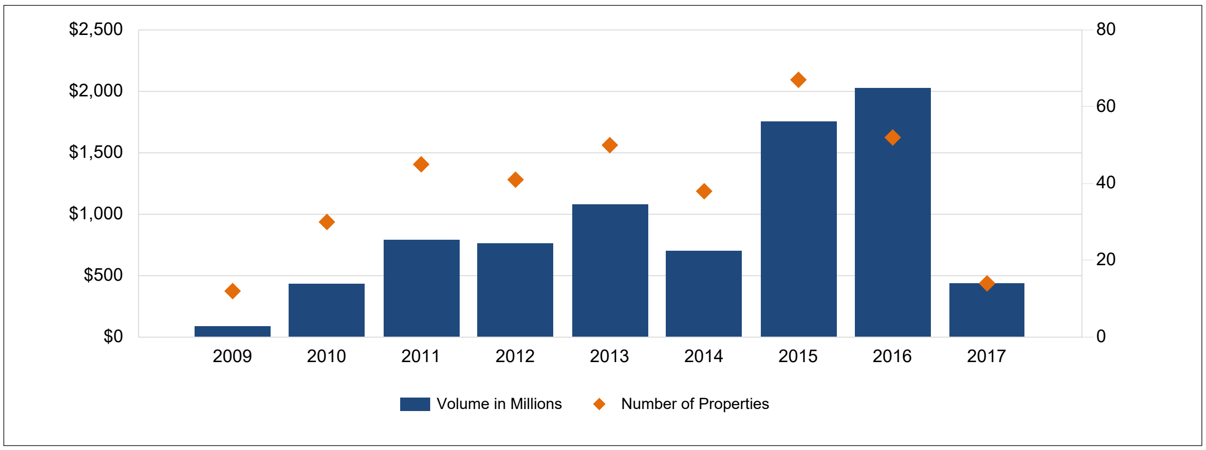


Source: YardiMatrix

Transactions

- Roughly $440 million in multifamily properties traded in 2017 through July. That's less than a quarter of the total investment sales volume of 2016, which marked a cycle high of $2 billion. Of the 14 sales completed during the year's first seven months, 71% were closed for assets in the Renter-by-Necessity segment.
- With investors pivoting toward value-add opportunities, the average per-unit price has dropped to $149,467, which is still $17,000 above the national average. Acquisition yields have compressed in the Inland Empire during this year's first half, with returns for Class A assets hovering in the 5.0-5.5% range.
- Investors focused on assets in Riverside County in the 12 months ending in July, investing $700 million in the county's submarkets: Moreno Valley ($239 million), Murrieta/Temecula ($153 million) and Corona ($114 million).

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



Source: YardiMatrix

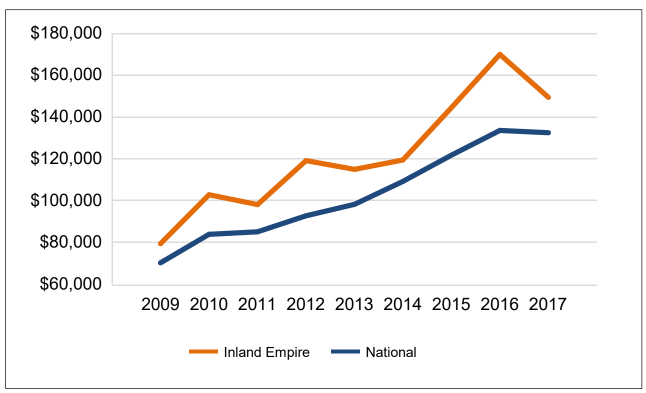
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Moreno Valley	239
Murrieta/Temecula	153
Colton/Grand Terrace	137
Rancho Cucamonga	122
Corona	114
Redlands/Yucaipa	83
Nuevo/Perris/Menifee	44
East Riverside	44

Source: YardiMatrix

[1] From August 2016 to July 2017

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix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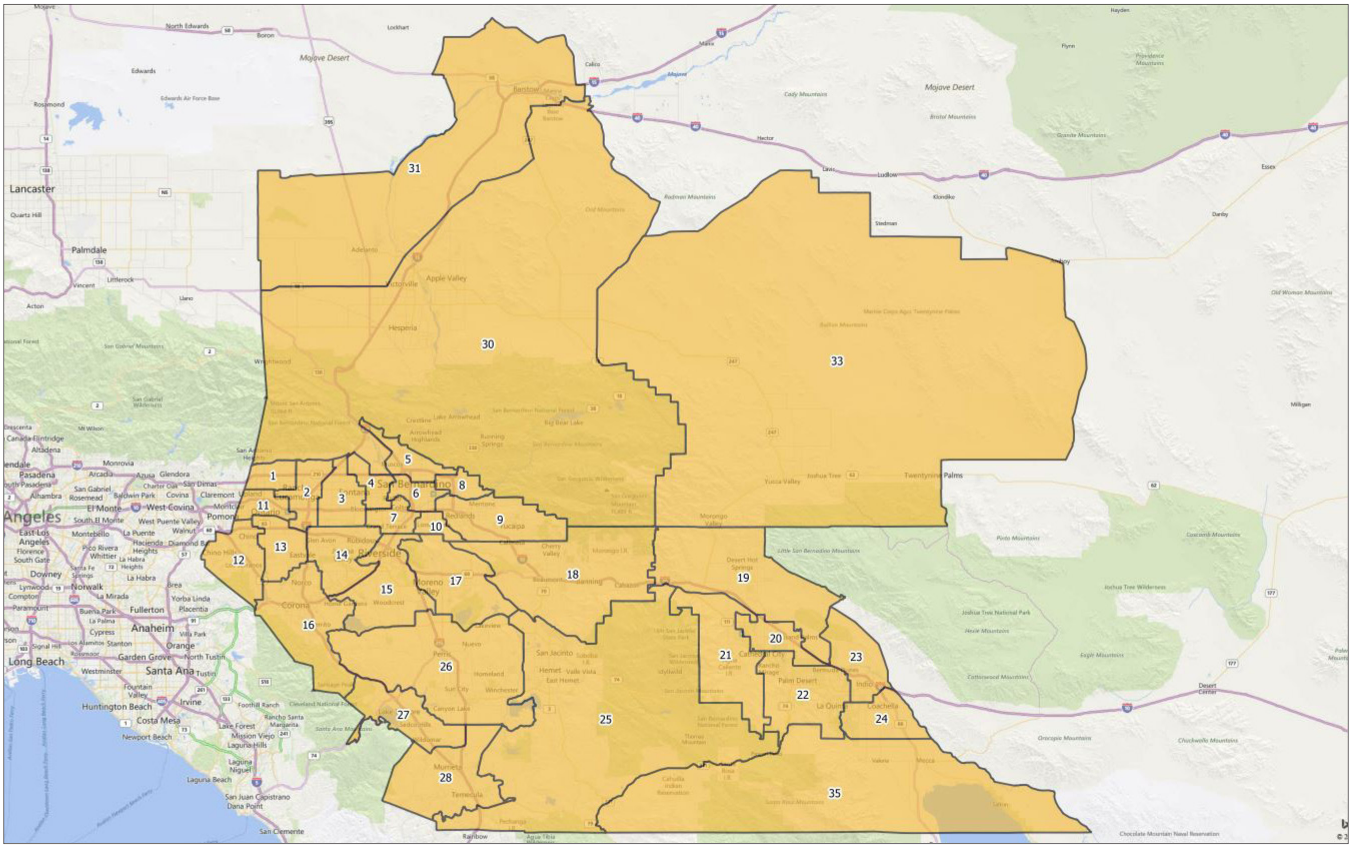
Inland Empire Submarkets



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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.