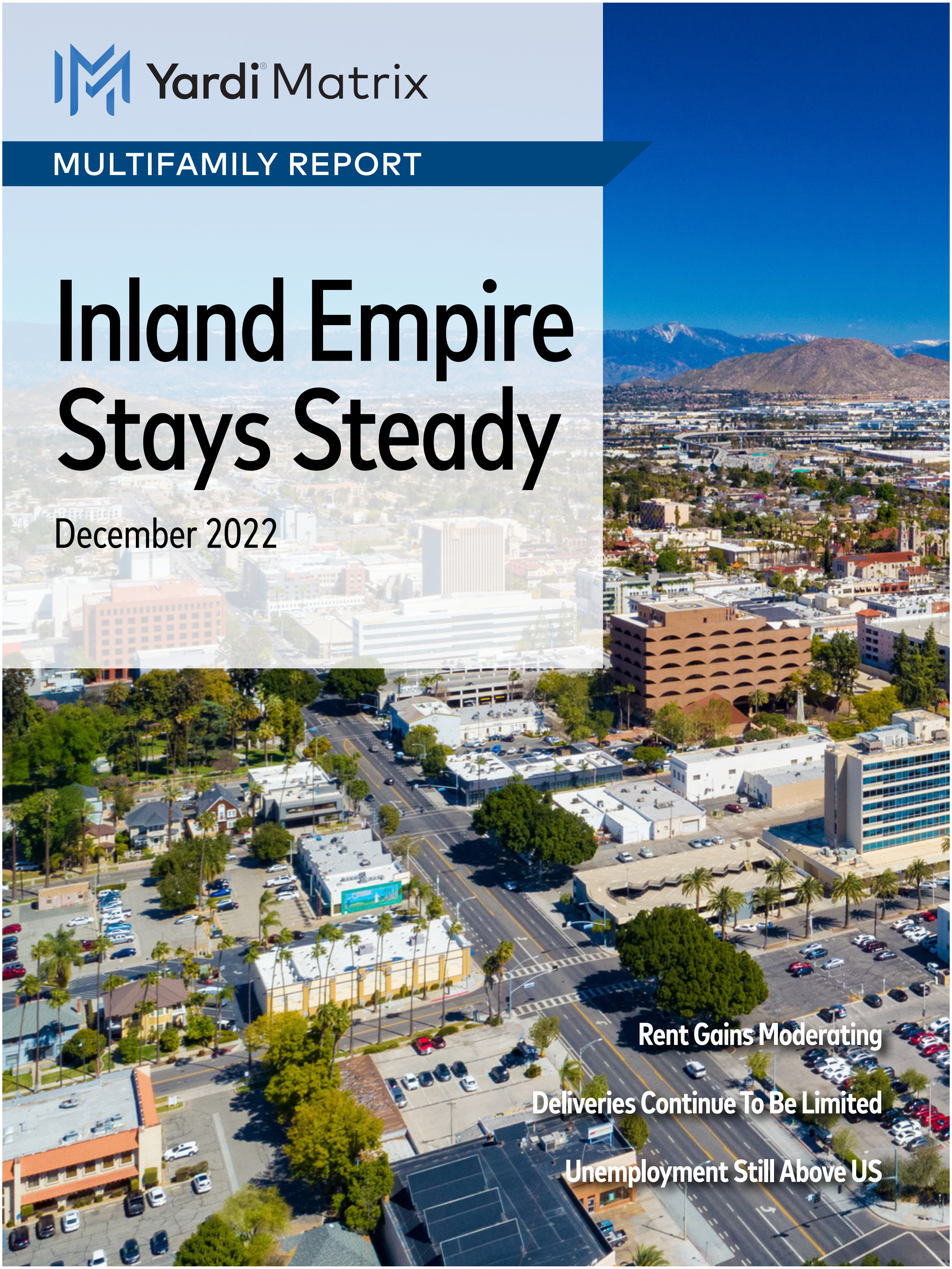
Yardi Matrix

MULTIFAMILY REPORT

Inland Empire Stays Steady

December 2022



Rent Gains Moderating

Deliveries Continue To Be Limited

Unemployment Still Above US

INLAND EMPIRE MULTIFAMILY

Logistics Sector Powers Rental Market

The Inland Empire's rental market continued to exhibit most of the same patterns established during the past decade, with the only major curveball being an oscillation in rent growth on a trailing three-month basis. Rents in Riverside and San Bernardino counties were down 0.2% on a T3 basis as of October, while national rates saw a 0.2% uptick. However, rent development on a year-over-year basis was at a solid 7.7%, showcasing the heightened rate of improvement recorded at the end of 2021 and at the start of this year. The average occupancy rate in stabilized assets was down 100 basis points year-over-year, to 96.9%.

The Inland Empire's economy is heavily reliant on its logistics sector, which added 32,400 jobs in the 12 months ending in August. Overall, employment growth totaled 89,300 new jobs, up 5.8% on a year-over-year basis, outpacing the national rate by 150 basis points. The metro's industrial sector had the lowest vacancy rate in the nation as of September, at 1.1%. Demand in the market is still very high, with a bustling pipeline driving further growth in the local economy, while leisure and hospitality's comeback also fueled job gains.

Investment activity was solid, recording $1.7 billion through the year's first 10 months. Property values increased during that time, as activity included a large number of Lifestyle assets. Rent growth is moderating, with improvement at 3.8% for the year.

Market Analysis | December 2022

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Recent Inland Empire Transactions

Citrine Hills

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

Metro Thirty Six Ten

City: Riverside, Calif.
Buyer: Silver Star Real Estate
Purchase Price: $204 MM
Price per Unit: $671,053

Camino Real

City: Rancho Cucamonga, Calif.
Buyer: TA Realty
Purchase Price: $123 MM
Price per Unit: $452,206

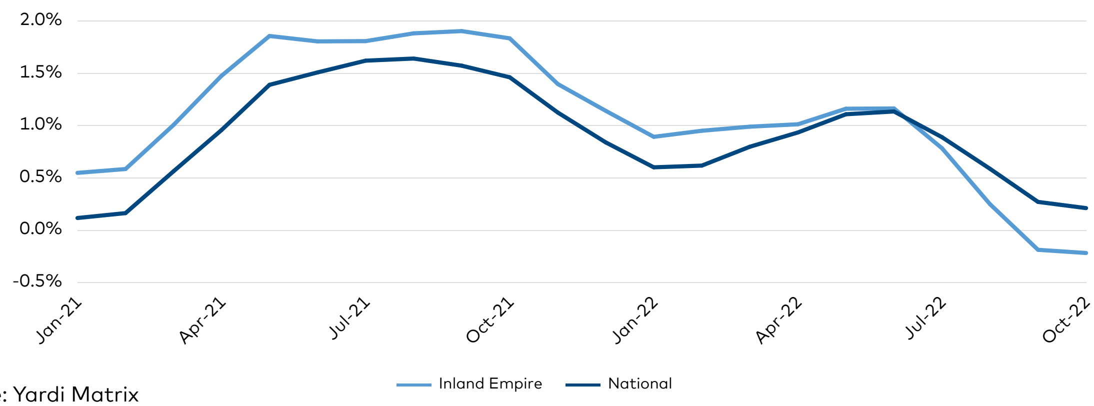
The Village on 5th

City: Rancho Cucamonga, Calif.
Buyer: Greystar
Purchase Price: $97 MM
Price per Unit: $367,424

RENT TRENDS

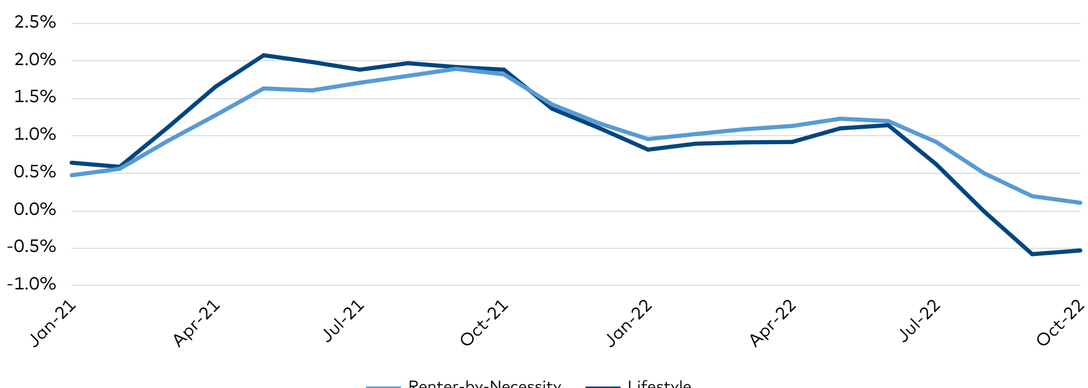
- Rents in the Inland Empire contracted 0.2% on a trailing three-month (T3) basis through October, for the second consecutive month of negative movement, while the national rate of growth was 0.2%. However, on a year-over-year basis, rents were still performing well, up 7.7%, 50 basis points below the U.S. figure. Yardi Matrix expects rates in the Inland Empire to end the year up 3.8%.
- The metro's average rent was $2,150, fairly affordable by California standards, but well above the $1,727 national average. Only Central Valley ($1,538) and Sacramento ($1,958) had lower averages among major urban areas in the state.
- Rates in the working-class Renter-by-Necessity segment were actually up 0.1% on a T3 basis, to an average of $1,894. However, a 0.5% contraction in the Lifestyle segment meant that overall rents were down in Riverside and San Bernardino counties. The RBN segment also led in occupancy rates, at 97.2% as of September, well above the Lifestyle average, at 96.5%.
- All submarkets in the Inland Empire saw rent gains on a year-over-year basis. Indio (up 26.4%), Palm Desert/La Quinta (23.1%), Hemet/San Jacinto (15.6%) and Nuevo/Perris/Menifee (15.5%) led improvement.
- The single-family rental sector saw average rents increase 3.8% on a year-over-year basis, to an overall average of $2,842. The SFR sector's occupancy rate in the Inland Empire was down 80 basis points year-over-year as of September.

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

- Riverside and San Bernardino counties added 89,300 jobs in the 12 months ending in August, as most job sectors recorded increases on a year-over-year basis. The metro's rate of employment growth was 5.8% year-over-year, 150 basis points over the U.S. figure.
- According to preliminary September numbers from the Bureau of Labor Statistics, the Inland Empire's jobless rate was 3.9%. That's just 10 basis points higher than the state of California, where unemployment has made significant progress since the pandemic ended, starting 2022 at 5.7%.
- The only two sectors that did not record growth were information, which plateaued, and other services, down 1,000 positions. As with national trends, leisure and hospitality accounted for a big chunk of jobs added, at 17,100 positions, up 10.3%.
- The Inland Empire's main economic driver is logistics, which pushed trade, transportation and utilities up 32,400 jobs, accounting for 28.3% of non-farm employment in the two counties. Proximity to the ports of Los Angeles and Long Beach has fueled continued growth in the area's industrial sector, which showcased both one of the highest rents in the nation, at $12.29 per square foot, as well as the lowest average vacancy rate, at just 1.1%.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
40	Trade, Transportation and Utilities	471	28.3%
70	Leisure and Hospitality	183	11.0%
90	Government	249	15.0%
65	Education and Health Services	266	16.0%
60	Professional and Business Services	180	10.8%
30	Manufacturing	99	6.0%
15	Mining, Logging and Construction	115	6.9%
55	Financial Activities	47	2.8%
50	Information	10	0.6%
80	Other Services	44	2.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire saw its population bounce back significantly in 2021, adding just under 49,000 residents. That marked a 1.0% expansion, while the U.S. rate stood at just 0.1%. However, when compared to 2019's pre-pandemic population total, growth was 0.2%.

Inland Empire vs. National Population

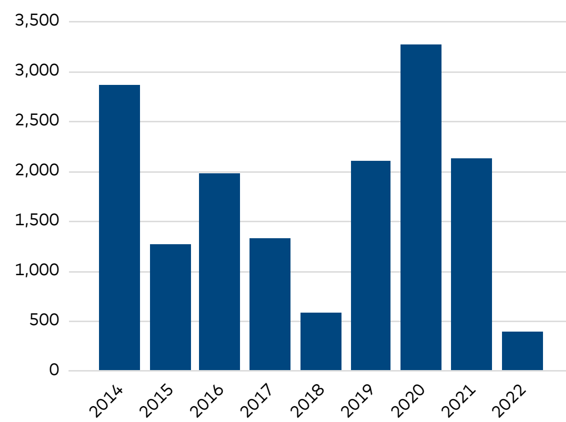
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Inland Empire	4,608,848	4,642,848	4,605,504	4,653,105

Source: U.S. Census

SUPPLY

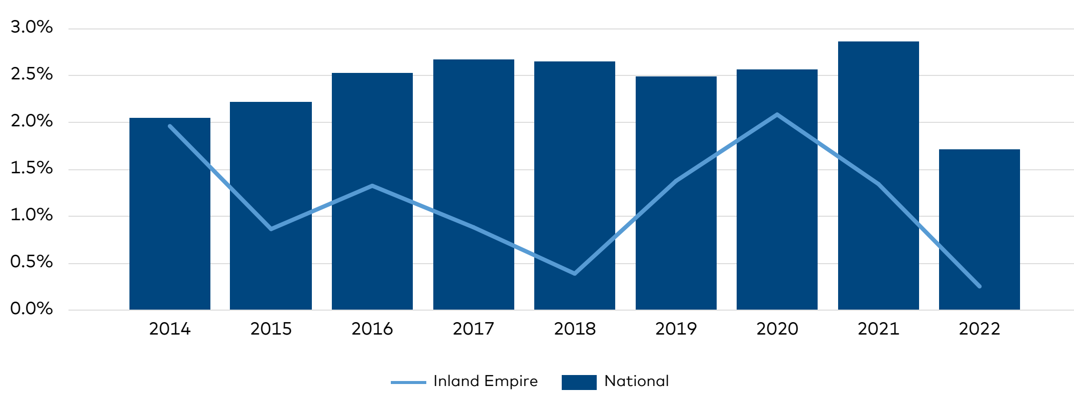
- Typically slow to add multifamily inventory, the Inland Empire had 4,918 units under construction as of the end of October. Another 25,300 units were in the planning and permitting stages.
- Developers are targeting higher yields, with multifamily assets in the Lifestyle segment accounting for 75% of the total rental pipeline. With affordability being a major concern for all California metros, just under 20% of the pipeline was in assets that are designated as fully affordable.
- Deliveries were limited through 2022, with only 404 units coming online during the year's first 10 months. That's just 0.3% of existing multifamily inventory, a far cry from the U.S. rate of 1.7%.
- Occupancy in the metro has been on a downward trend, with the average overall rate in stabilized assets at 96.9% as of September. Although the rate is still one of the highest in the U.S. and 120 basis points higher than the national average, it was actually 100 basis points down on a year-over-year basis, as California residents still search for more affordable living options.
- The list of Inland Empire submarkets that led construction activity in the two counties and feature at least 500 units underway includes Montclair/North Ontario (925 units under construction), Moreno Valley (718 units), West Riverside (527 units) and East Riverside (516 units).

Inland Empire Completions (as of October2022)



Source: Yardi Matrix

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

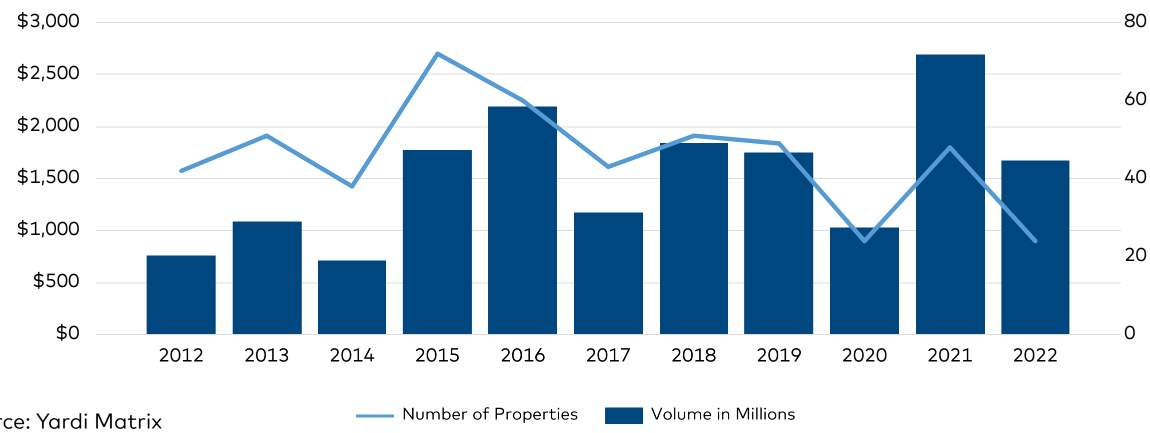


Source: Yardi Matrix

TRANSACTIONS

- The Inland Empire saw $1.7 billion in multifamily transactions in 2022 through October, some $200 million lower than what traded during the same interval last year.
- Property values rose significantly in Riverside and San Bernardino counties, reaching $365,515, some $150,000 higher than the national average. With Lifestyle assets accounting for more than 40% of deals completed in the market, per-unit prices jumped 30% over 2021 levels.
- Submarkets located in Riverside County accounted for just over 55% of the investment volume recorded in the 12 months ending in October. However, the leading submarket for sales activity was Rancho Cucamonga in San Bernardino County, where $446 million in multifamily assets traded. West Riverside ($406 million) and South Ontario ($365 million) rounded out the top three.

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



Source: Yardi Matrix

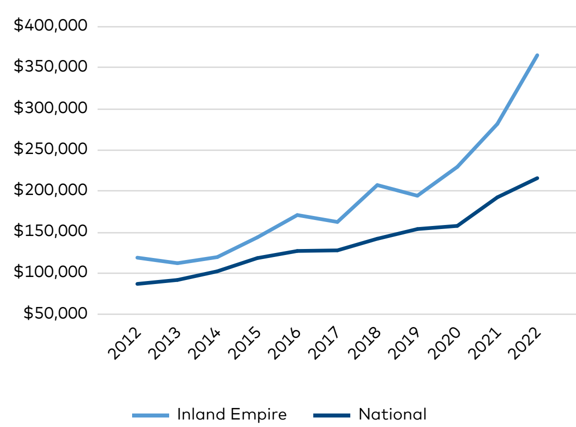
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Rancho Cucamonga	446
West Riverside	406
South Ontario	365
Murrieta/Temecula	259
East Riverside	224
Montclair/North Ontario	187
Corona	122

Source: Yardi Matrix

[1] From November 2021 to October 2022

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS
data by
Yardi Matrix

Top California Markets for Multifamily Construction Activity

By Anda Rosu

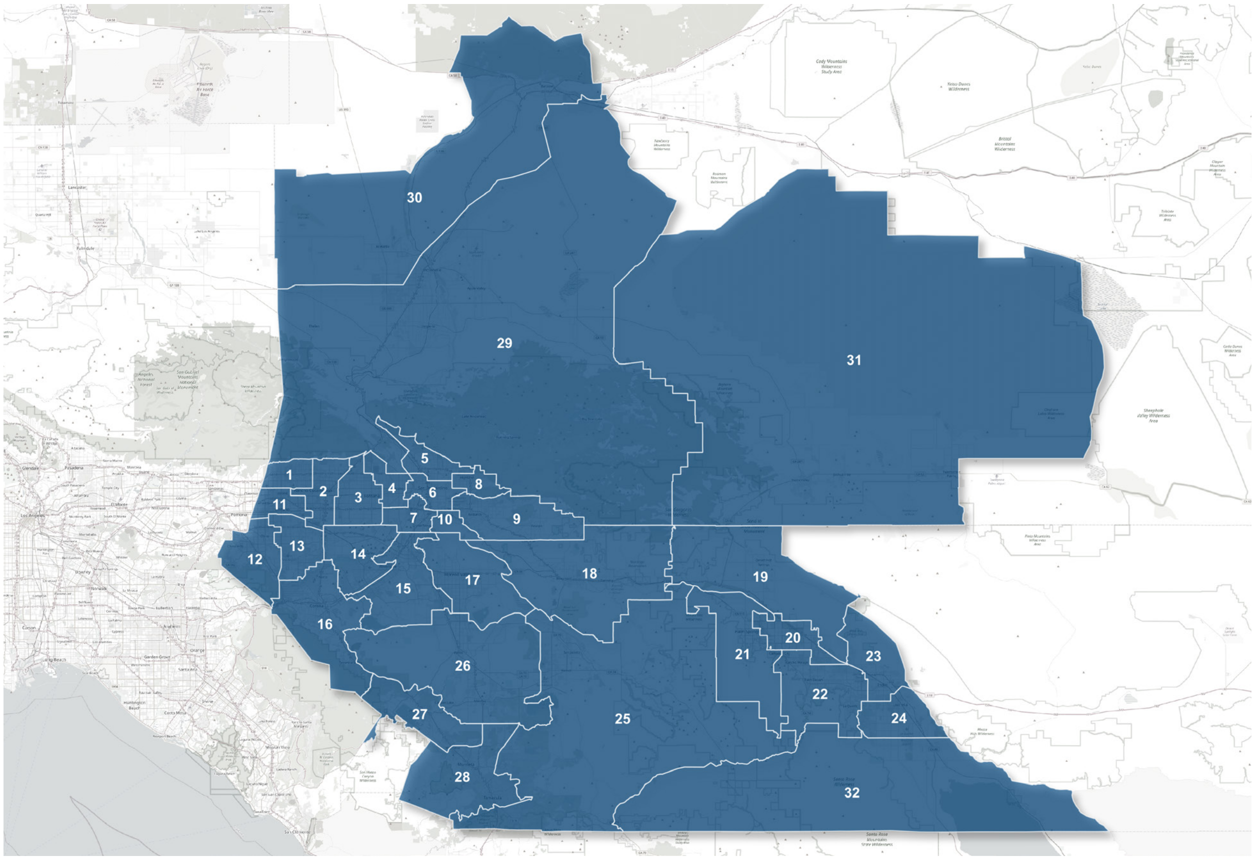
While metros such as Dallas, Austin and Phoenix have seen marked improvement in rental market performance since the height of the health crisis, most California markets are still in a housing crisis. California recovers at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment.

Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2022 YTD	Projects Under Construction 2022 YTD
1	Los Angeles	33,114	6,487	13,037	236
2	San Francisco	20,244	5,740	10,820	108
3	Bay Area–South Bay	8,908	1,124	7,230	34
4	Orange County	8,407	1,497	2,616	24
5	San Diego	7,138	2,862	3,417	29
6	Sacramento	7,104	1,588	2,120	30
7	Inland Empire	4,737	404	2,136	23
8	Central Valley	3,851	1,071	2,780	31
9	Central Coast	1,467	254	728	14

Inland Empire

The market's proximity to Los Angeles and Long Beach ports made logistics the area's main economic driver. Being that it is Southern California's most affordable market, more and more people move into the metro, with almost 350,000 residents added over the past decade.

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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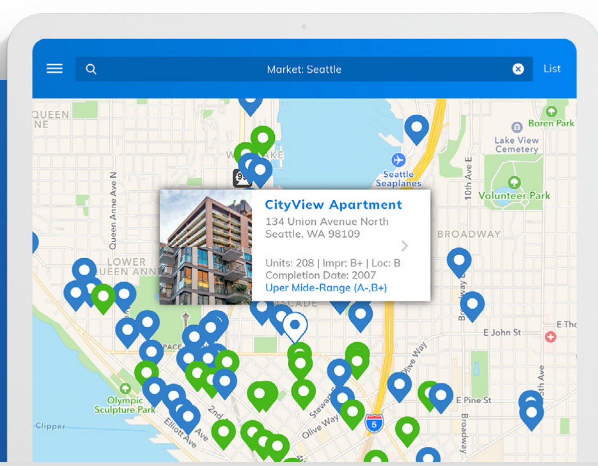
- Access aggregated and anonymized residential revenue and expense comps



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

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