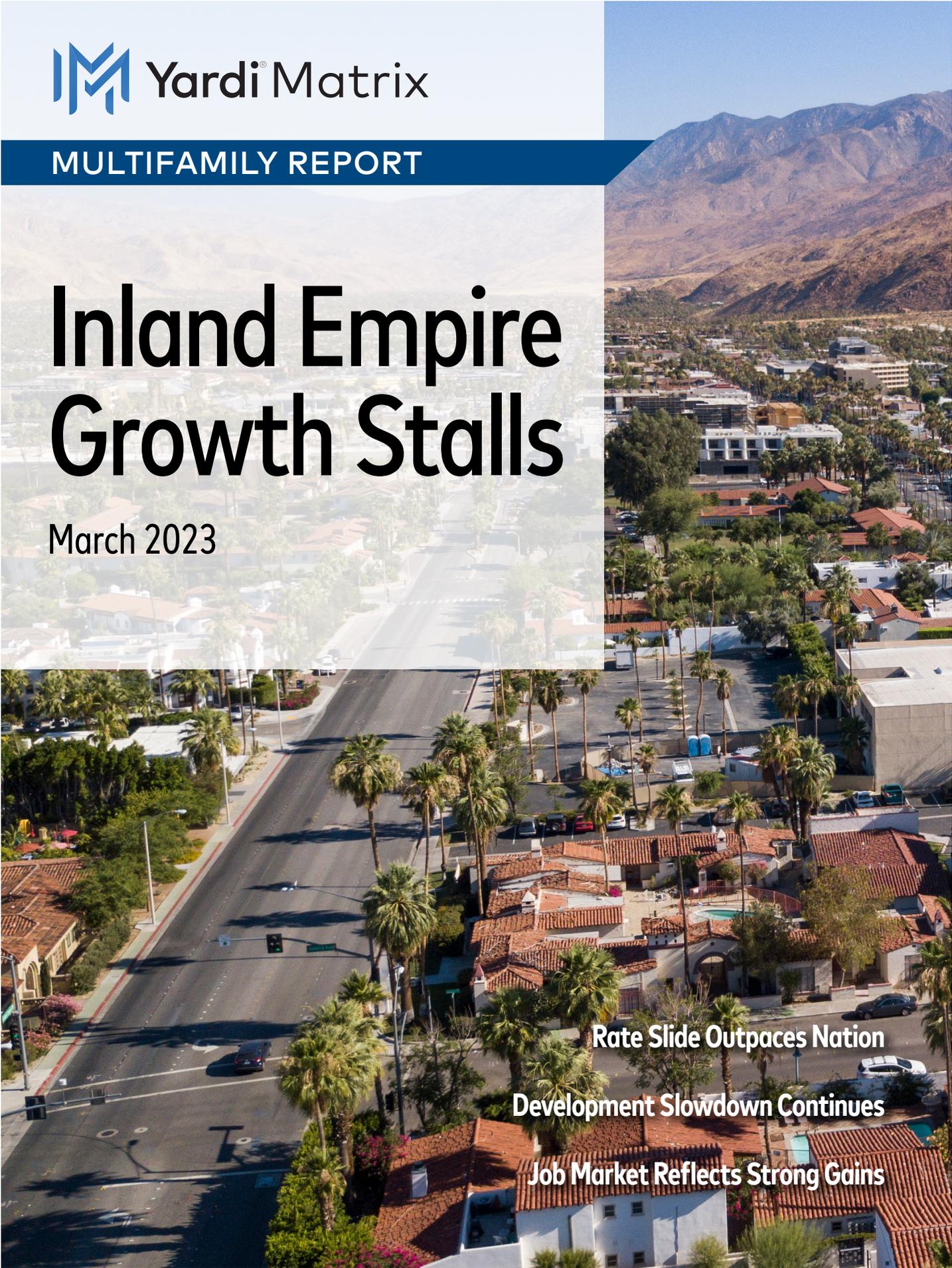


Inland Empire Growth Stalls

March 2023



Rate Slide Outpaces Nation

Development Slowdown Continues

Job Market Reflects Strong Gains

INLAND EMPIRE MULTIFAMILY



Development, Rent Expansion Taper

The Inland Empire has been one of the strongest performing rental markets in the U.S. throughout the past decade, with slow development and rapidly rising employment and population driving rent performance. However, marketwide and seasonal slowdowns have dampened growth, as rents were down 0.5% on a trailing three-month basis as of January, slightly above the U.S. figure, which was at 0.3%. Meanwhile, the overall average rate in the Inland Empire was \$2,088, nearly \$400 higher than the U.S. average but significantly more affordable than other Southern California areas.

Riverside and San Bernardino counties saw employment expansion outperform the U.S., up 5.5% year-over-year as of November and 160 basis points higher than the national figure. The counties' proximity to nearby ports and higher land availability compared to other Southern California markets have provided leverage to build a strong logistics sector that drives growth for the local economy. That coupled with a strong education and health services sector, generated a gain of more than 400,000 residents since 2010.

Development in the Inland Empire was limited even by the area's standards, with only 641 units added in 2022. As a result, property values have risen considerably, to an average price per unit of \$337,276, amid more than \$4.5 billion in sales during the past 24 months.

Market Analysis | March 2023

Contacts

Jeff Adler

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

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

Recent Inland Empire Transactions

Metro Thirty Six Ten



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

Tides at Grand Terrace



City: Colton, Calif.
Buyer: StepStone
Purchase Price: \$103 MM
Price per Unit: \$281,831

River's Edge



City: Lake Elsinore, Calif.
Buyer: Atlantic Pacific Cos.
Purchase Price: \$65 MM
Price per Unit: \$350,543

Stonegate

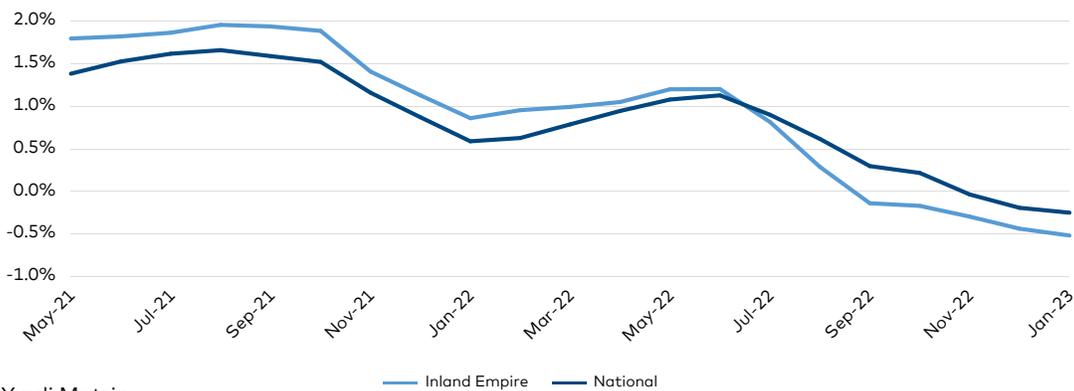


City: Riverside, Calif.
Buyer: Universe Holdings
Purchase Price: \$54 MM
Price per Unit: \$334,500

RENT TRENDS

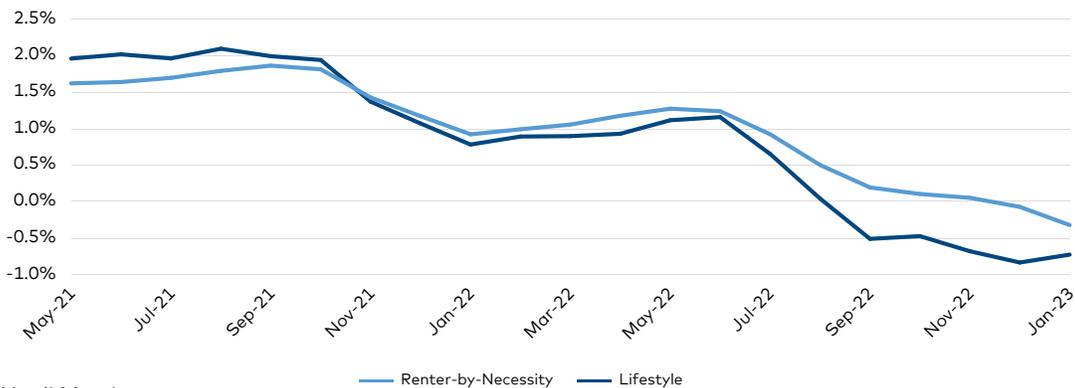
- Rents in the Inland Empire declined 0.5% on a trailing three-month (T3) basis as of January, a slide that was 20 basis points steeper than the national figure. The average rate in the area was up 3.5% on a year-over-year basis, 200 basis points lower than the U.S. rate of growth.
- The Inland Empire's overall average rent was \$2,088 as of January, well above the \$1,701 U.S. figure. However, by Southern California standards, the two counties were well below the rates recorded in L.A. (\$2,591), San Diego (\$2,637) and Orange County (\$2,701).
- Rents in the Lifestyle segment slid faster, down 0.7% on a T3 basis, to \$2,400. Meanwhile, working-class Renter-by-Necessity assets saw rates decrease 0.3%, to \$1,864.
- The average occupancy rate in stabilized assets was 96.3% at the end of December, following a 130-basis-point dip last year. The RBN segment fared better in occupancy as well, down 110 basis points to 96.8%. Meanwhile, the rate for Lifestyle assets dropped 160 basis points, to 95.7%.
- Only two Inland Empire submarkets recorded rent decreases on a year-over-year basis—Indio led growth, with improvement at 15.8% year-over-year, while Palm Desert/La Quinta (13.3%) and Rialto (10.9%) rounded out the top three.
- Rates in the single-family rental sector were down 0.7% year-over-year, while the occupancy in the sector matched the rent dynamic.

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 continued to overperform in employment growth, up 5.5% year-over-year as of November, 160 basis points higher than the U.S. rate. No employment sector in the metro recorded job losses in the 12 months ending in November.
- ▶ The Inland Empire's economic cornerstone, trade, transportation and utilities, led job additions with 19,900 positions, up 4.2% year-over-year. Education and health services followed, with 16,400 jobs added, for a 6.4% expansion. On a percentage basis, the resurging leisure and hospitality sector grew fastest, up 8.2%, or 13,900 new jobs.
- ▶ Riverside and San Bernardino have capitalized on their proximity to the ports of Los Angeles and Long Beach. As a result, the Inland Empire has the tightest industrial market in the nation, leading the way in terms of vacancy and near the top spots for development and leasing rates.
- ▶ More than a quarter of a million people are employed in the education and health services sector, the metro's second-largest economic driver. Projects such as the newly opened Arrowhead Regional Medical Center clinic location in Fontana and increased funding for UC Riverside will continue to push growth in the sector.

Inland Empire Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	493	28.9%
65	Education and Health Services	271	15.9%
70	Leisure and Hospitality	184	10.8%
60	Professional and Business Services	183	10.7%
90	Government	258	15.1%
15	Mining, Logging and Construction	114	6.7%
30	Manufacturing	98	5.8%
55	Financial Activities	48	2.8%
80	Other Services	46	2.7%
50	Information	10	0.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The Inland Empire's population has been steadily rising for the better part of the last decade, with a single significant oscillation in 2020, when the area was down 37,000 residents. In 2021, the figure bounced back, with 48,000 new residents, for a 1.0% expansion.

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

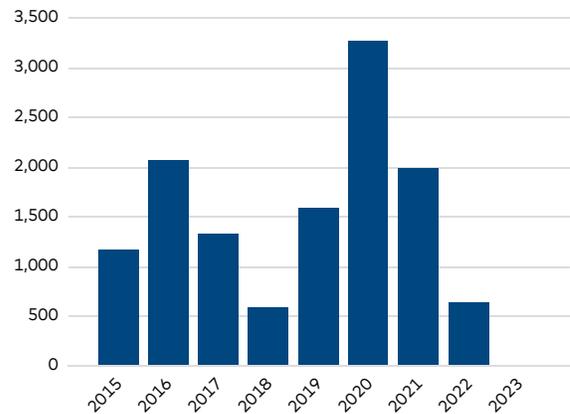
Source: U.S. Census

SUPPLY

- Only 641 units were completed in the Inland Empire in 2022, accounting for 0.4% of existing inventory. That's limited even by the two counties' standards. Apartment deliveries in the Inland Empire have stayed below the national average throughout the past decade, but the annual delivery average for the 2019-2021 interval was 2,284 units.
- There were 4,717 units under construction as of January, while another 30,500 apartments were in the planning and permitting stages. Of units underway, more than 80% are aimed at the upscale Lifestyle segment.
- The average occupancy rate in stabilized assets stood at 96.3% at the end of 2022, following a 130-basis-point decline over 12 months. Due to the area's economic profile, occupancy is still being driven by units in the Renter-by-Necessity segment, at 96.8%. With development activity mostly favoring upscale projects, occupancy in the segment will likely trend downward as incoming supply slowly gets absorbed, while workforce-level housing will continue to have higher occupancy rates.

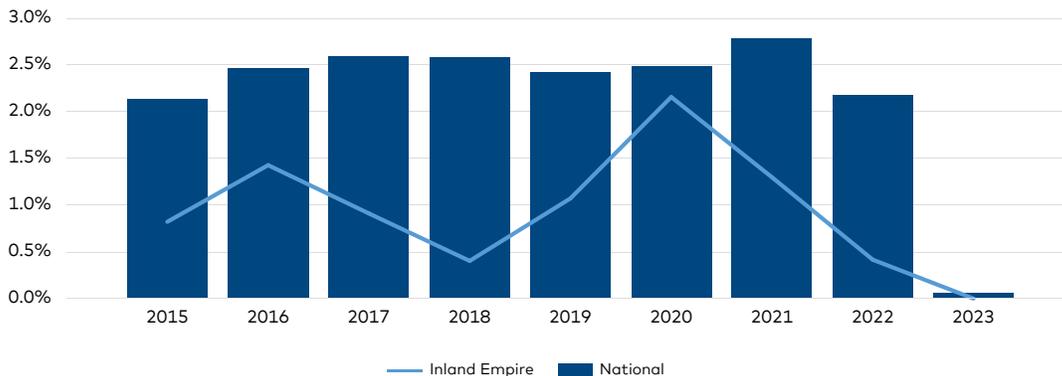
- Submarkets with more than 500 units under construction at the end of January included Montclair/North Ontario (925 units underway), Moreno Valley (718 units) and West Riverside (527 units). Montclair/North Ontario's under construction pipeline consists of a single large asset—Vineyards. The project is being built by GH Palmer Associates, with completion scheduled for this spring.

Inland Empire Completions (as of January 2023)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of January 2023)

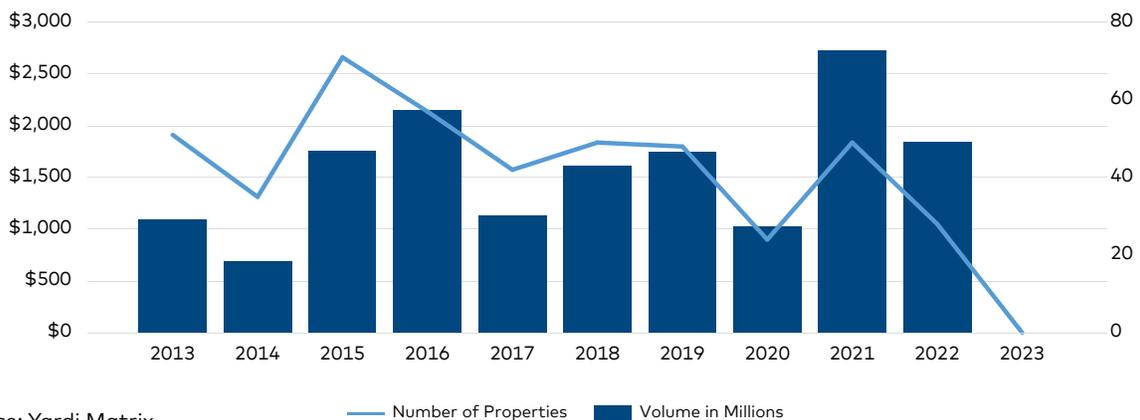


Source: Yardi Matrix

TRANSACTIONS

- ▶ Investment volume had another good year, as \$1.8 billion in multifamily assets traded in the Inland Empire in 2022. Still, that was nearly \$900 million less than 2021's total.
- ▶ Although deal distribution favored value-add transactions, high-priced Lifestyle assets recorded more than \$1 billion in sales, trading at an average price per unit of \$407,037.
- ▶ As demand for assets in Riverside and San Bernardino counties has increased, so have property values, with the average per-unit price at \$337,276 last year, up nearly \$55,000 over 2021 figures. Meanwhile, the U.S. average rate stood at \$211,873 in 2022.
- ▶ Submarkets in the Inland Empire with the highest sales volume in the 12 months ending in January included Rancho Cucamonga (\$354 million), South Ontario (\$337 million) and West Riverside (\$310 million).

Inland Empire Sales Volume and Number of Properties Sold (as of January 2023)



Source: Yardi Matrix

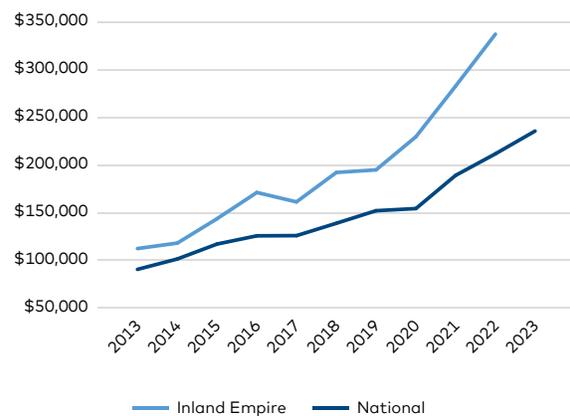
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Rancho Cucamonga	354
South Ontario	337
West Riverside	310
Murrieta/Temecula	134
Colton/Grand Terrace	103
Montclair/North Ontario	82
Palm Springs	70

Source: Yardi Matrix

¹ From February 2022 to January 2023

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Construction Activity

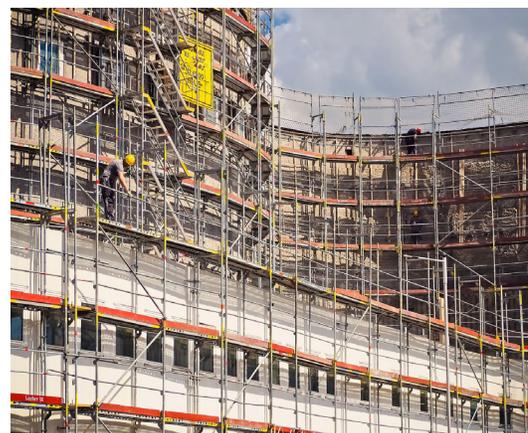
By Anda Rosu

While metros such as Dallas, Austin and Phoenix have seen increased performance since the onset 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. In the list below, we're highlighting the top multifamily markets in California using Yardi Matrix data as of the end of October 2022.

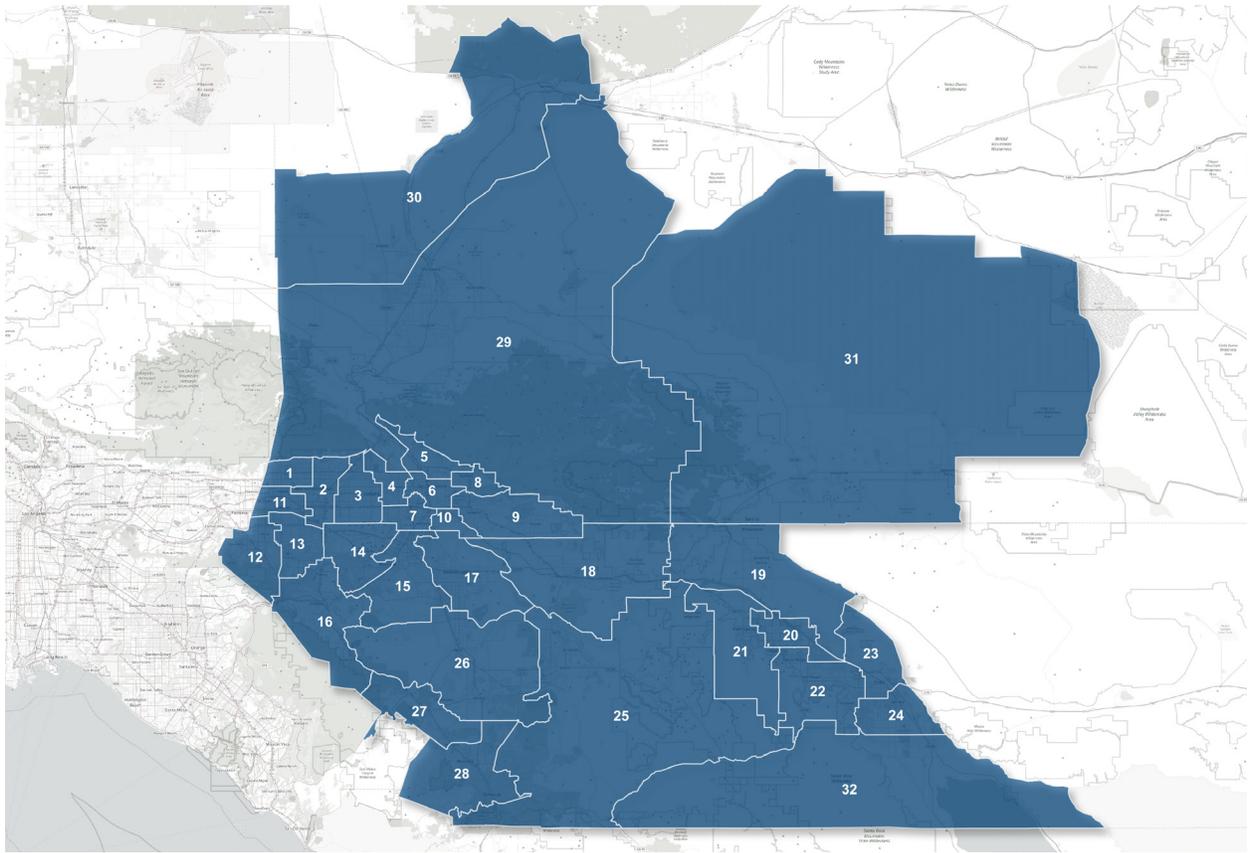
Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2021	Units
1	Los Angeles	33,114	6,487	13,037	213
2	San Francisco	20,244	5,740	10,820	174
3	Bay Area–South Bay	8,908	1,124	7,230	111
4	Orange County	8,407	1,497	2,616	93
5	San Diego	7,138	2,862	3,417	75
6	Sacramento	7,104	1,588	2,120	174
7	Inland Empire	4,737	404	2,136	111
8	Central Valley	3,851	1,071	2,780	93
9	Central Coast	1,467	254	728	75

Inland Empire

The market's proximity to Los Angeles and Long Beach ports made logistics the area's main economic driver. As the Inland Empire 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. Housing demand is strong, but development is typically limited in the metro. Only three properties comprising a total of 404 units were delivered by the end of October. Construction has started this year on another 1,309 units, less than half of last year's 2,833 starts.



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.

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



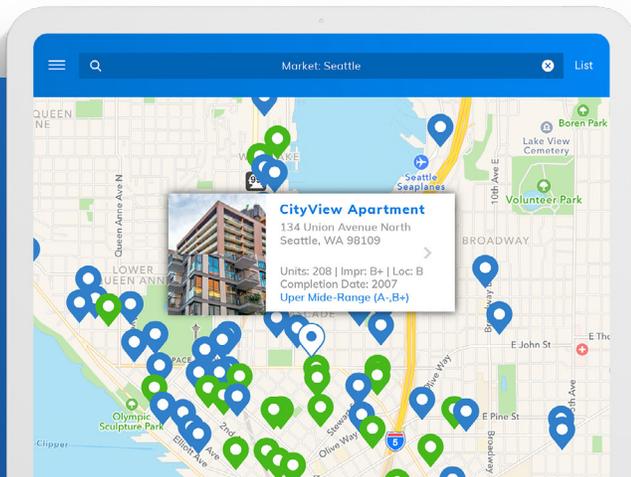
Yardi[®] Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- 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.



(800) 866-1144

Learn more at yardimatrix.com/multifamily

Contact
US



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.

© 2023 Yardi Systems, Inc. All Rights Reserved.