



Yardi® Matrix

# The Inland Empire Hits Its Stride

Multifamily Report Summer 2018

Stock Expansion Remains Mild

Investment Sales Mellow

Rent Growth Dips Below 4.0%

## Market Analysis

Summer 2018

### 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

## Demand, Deliveries Maintain Rent Growth

Following an interval of steady rent appreciation, year-over-year growth in the Inland Empire dipped below 4.0% for the first time since 2014. However, with both Lifestyle and Renter-by-Necessity assets growing nearly in unison, the prospect of continued improvement lingers. Demand continues to rise, bolstered by population gains that are among the highest in the state. And although some yields are compressing, there are still plenty of value-add opportunities around Riverside and San Bernardino counties.

As the industrial sector continues to grow by leaps and bounds, the Inland Empire's trade, transportation and utilities industry is reasserting itself as the local economy's main driver. The ports of Los Angeles and Long Beach have been posting strong freighting numbers to start the year, solidifying demand for warehousing and logistics space in the Inland Empire. With Amazon as its largest private-sector employer, the region's e-commerce sector continues to thrive. However, the absence of a discernible urban core to sustain economic development could begin to hinder the area's growth.

Going forward, development will likely stay tepid, as only 1,600 multifamily units are expected to come online this year. With restricted deliveries and demand continuing to stay high, we expect rents to grow by 4.4% in 2018.

## Recent Inland Empire Transactions

Waterstone at Corona Pointe



City: Corona, Calif.  
Buyer: Fairfield Residential  
Purchase Price: \$137 MM  
Price per Unit: \$217,356

Victoria Arbors



City: Rancho Cucamonga, Calif.  
Buyer: Sares-Regis Group  
Purchase Price: \$94 MM  
Price per Unit: \$294,200

Angelica



City: Rancho Cucamonga, Calif.  
Buyer: Mesirow Financial  
Purchase Price: \$84 MM  
Price per Unit: \$309,259

Country Hills

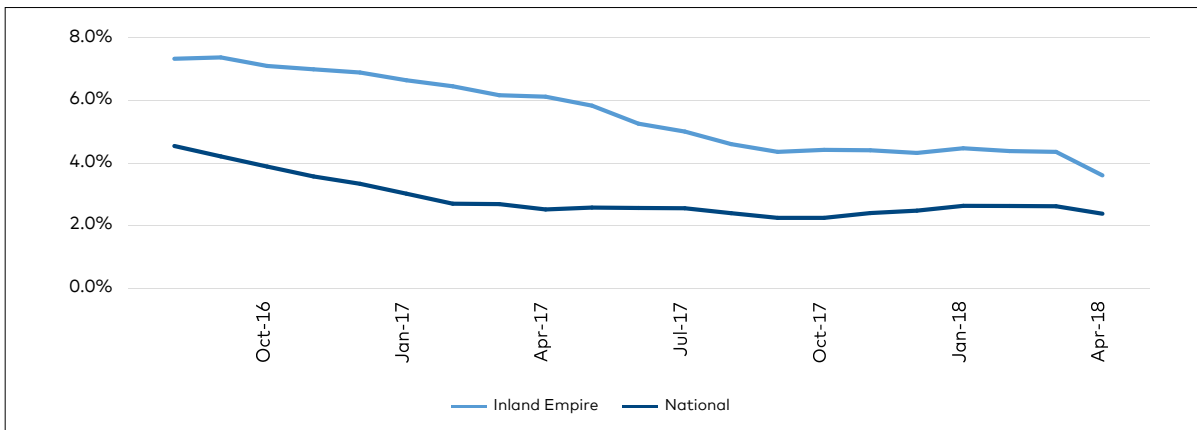


City: Corona, Calif.  
Buyer: Blackstone Group  
Purchase Price: \$72 MM  
Price per Unit: \$174,757

## Rent Trends

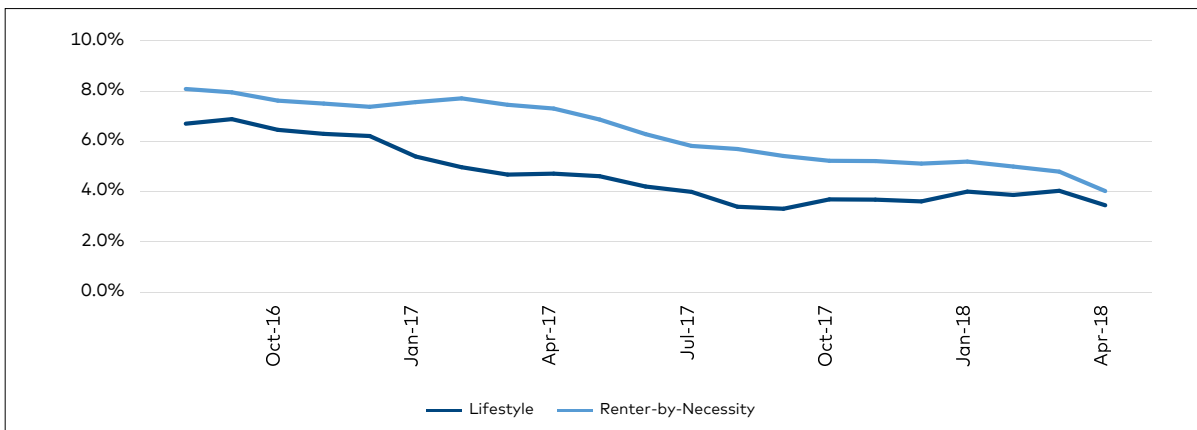
- Rents rose 3.6% year-over-year in April, 120 basis points over the national average. This is the first time in 48 months that the Inland Empire rent growth rate dipped below 4.0%. The overall average rent was \$1,437 in April, \$60 higher than the U.S. rate. Rents in San Bernardino and Riverside remain relatively affordable as compared to other major metros in Southern California, including Los Angeles, San Diego and Orange County.
- Assets in the working-class Renter-by-Necessity segment saw year-over-year rent growth of 4.0%, as most new jobs added in the Inland Empire create demand in the working-class tier. Rents in Lifestyle properties improved 3.5% through the interval, to an average of \$1,678 as of April.
- Lifestyle assets operated at an average occupancy rate of 95.2% as of March, roughly 120 basis points lower than Renter-by-Necessity communities.
- Rents grew the fastest in submarkets with multifamily stock made up mostly of Renter-by-Necessity assets or those located on the market's fringes: South San Bernardino (12.3% year-over-year), Adelante/Oro Grande (6.7%), Nuevo/Perris/Menifee (6.0%), Rialto (5.8%) and Fontana (5.5%). We expect rent growth to continue at a strong rate in 2018, reaching 4.4% for the year.

### 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)

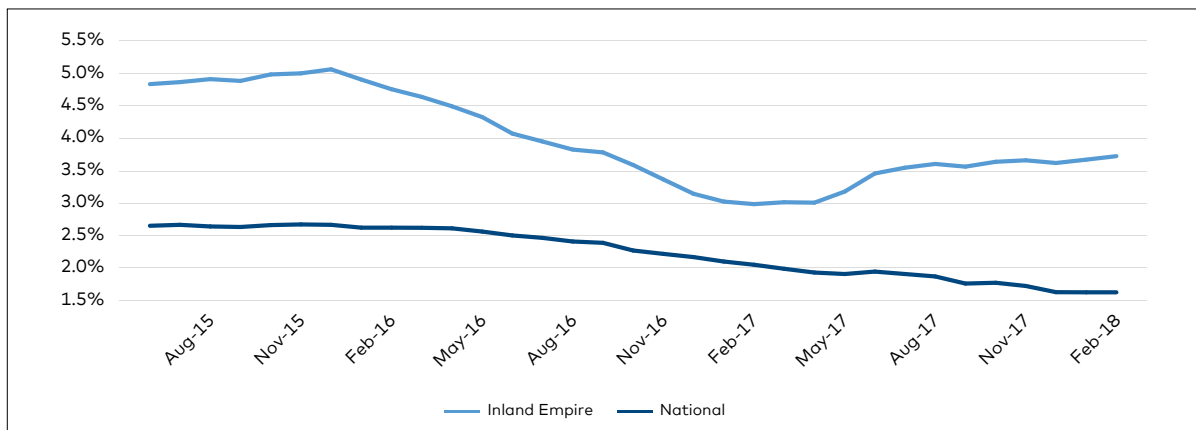


Source: YardiMatrix

## Economic Snapshot

- The Inland Empire added 55,600 jobs in the 12 months ending in February for a 3.7% year-over-year increase, 210 basis points above the national employment growth rate. Job expansion was strongest in Riverside and San Bernardino counties, with all industries except information seeing significant additions.
- Trade, transportation and utilities added 18,900 jobs as the two counties' warehousing and logistics-focused economy continues to fire on all cylinders. The industrial sector continues to be the area's cornerstone, with asking rents, construction activity and absorption all at very high levels. According to Cushman & Wakefield data, the market is operating at sub-4% vacancy, as more than 25 million square feet of industrial space is underway across Riverside and San Bernardino counties.
- With activity being driven by two of the nation's largest ports—Los Angeles and Long Beach—logistics and warehousing continue to generate economic growth. Amazon is now the largest private employer in the region, with the region being a clear priority for the e-commerce giant. The pressure to maintain its position within the industry has already generated the need for infrastructure improvements. As a result, Riverside County is accessing a \$152 million loan from the U.S. Department of Transportation.

### 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	%
40	Trade, Transportation and Utilities	374	25.3%	18,900	5.3%
15	Mining, Logging and Construction	103	7.0%	11,900	13.1%
65	Education and Health Services	229	15.5%	8,700	3.9%
90	Government	256	17.3%	6,900	2.8%
60	Professional and Business Services	151	10.2%	5,000	3.4%
70	Leisure and Hospitality	167	11.3%	1,400	0.8%
80	Other Services	46	3.1%	1,400	3.1%
55	Financial Activities	45	3.0%	1,200	2.7%
30	Manufacturing	99	6.7%	300	0.3%
50	Information	11	0.7%	-100	-0.9%

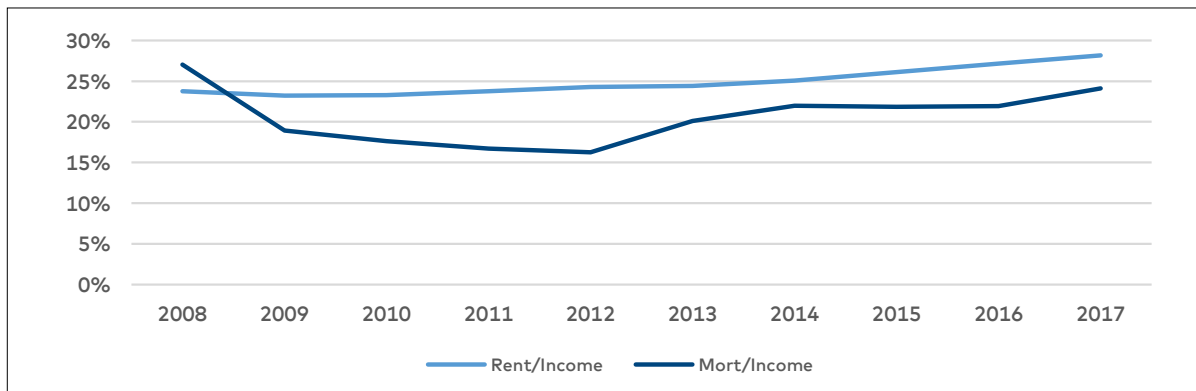
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

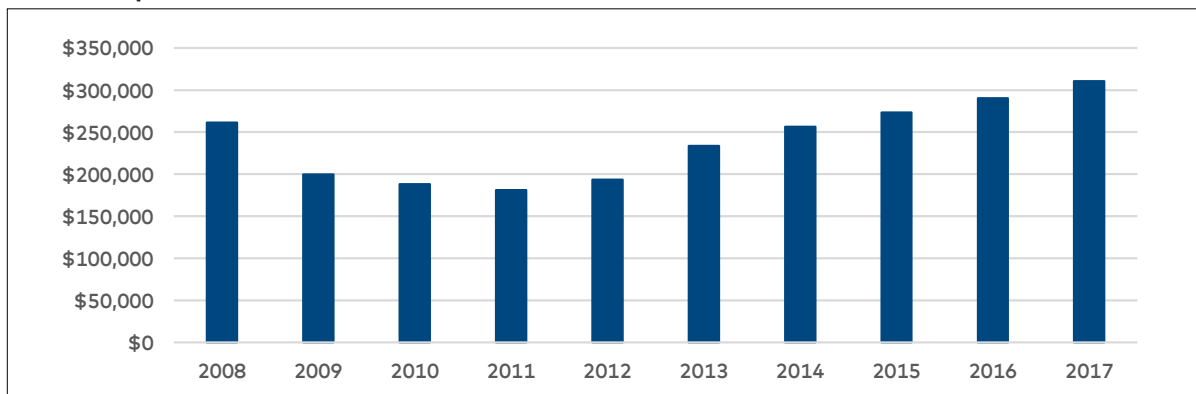
- Home values have consistently improved in the Inland Empire throughout the second half of the current expansion, with the median price reaching \$310,565 in 2017. That's 71% higher than it was in 2011, when the local housing market bottomed out. The average mortgage payment took up 24% of the area median income last year, while soaring rents accounted for significantly more—28%.
- Although home prices and rents have been consistently growing throughout the cycle, the cost of living in the Inland Empire is fairly affordable as compared to the nearby markets of Orange County and Los Angeles.

### 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's population grew by 1.3% in 2017, at nearly twice the U.S. rate.
- Riverside and San Bernardino counties added more than 220,000 residents between 2013 and 2017.

### Inland Empire vs. National Population

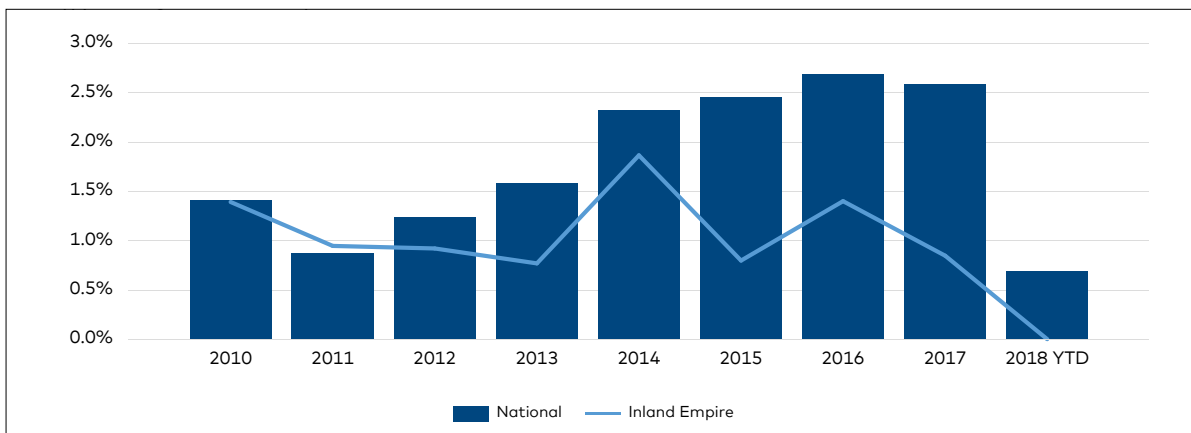
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Inland Empire Metro	4,378,138	4,425,776	4,472,874	4,523,653	4,580,670

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

## Supply

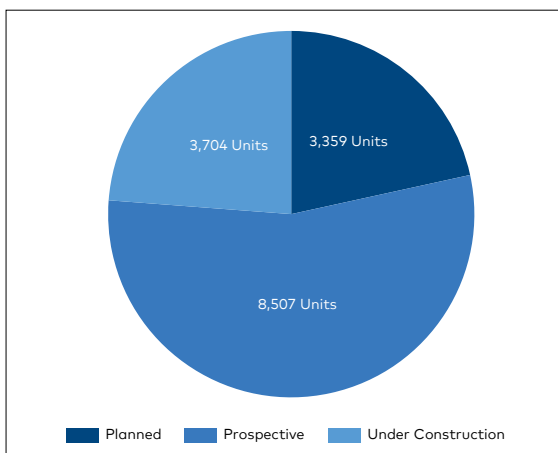
- With no significant deliveries to start the year, the Inland Empire is likely to have tepid inventory growth in 2019. Yardi Matrix forecasts that 1,600 units will be delivered by year-end, or about 1.1% of total stock.
- Approximately 3,700 units were underway in San Bernardino and Riverside counties in April, with another 12,000 units in the planning and permitting stages. Occupancy rates in stabilized properties have stopped their slide in the Inland Empire, reaching 95.9% as of March. Although down 60 basis points on a year-over-year basis, average occupancy is now effectively higher than it was in January, when the rate dipped to 95.8%.
- Montclair/North Ontario (800 units under construction), East Riverside (747 units), Chino/Chino Hills (670 units) and Redlands/Yucaipa (340 units) are projected to see the most significant rises in multifamily stock going forward. The largest property underway is GH Palmer Associates' The Paseos at Ontario, which will add 800 units upon completion.

**Inland Empire vs. National Completions as a Percentage of Total Stock** (as of April 2018)



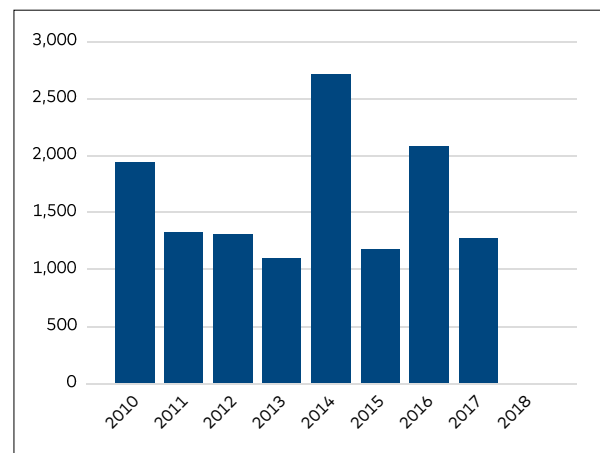
Source: YardiMatrix

**Development Pipeline** (as of April 2018)



Source: YardiMatrix

**Inland Empire Completions** (as of April 2018)

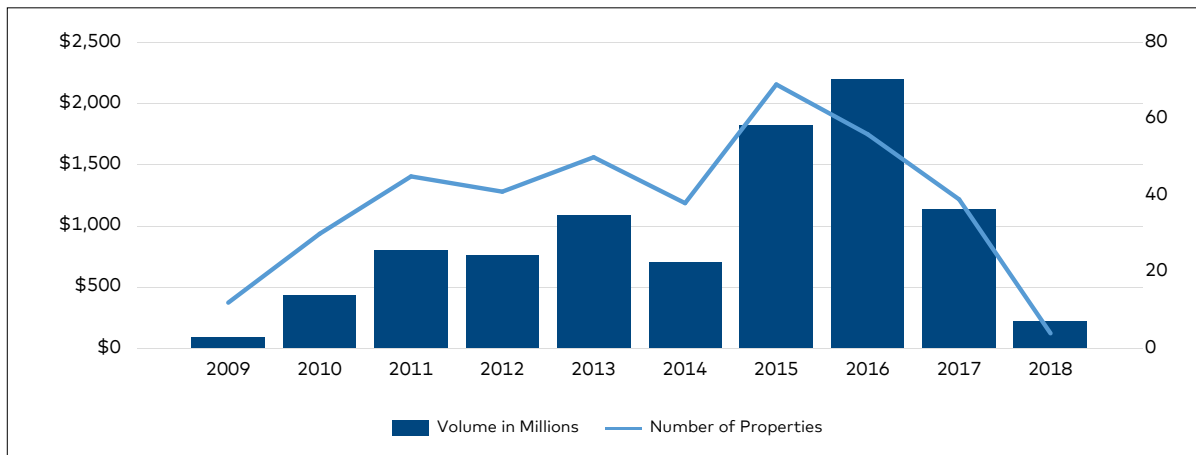


Source: YardiMatrix

## Transactions

- Roughly \$220 million in multifamily communities traded in 2018 through April, with 75% of properties sold being Renter-by-Necessity assets. Activity is not likely to return to 2016 levels, when \$2.2 billion in investment sales were recorded, the current cycle peak. As sheer sales volume dropped off to start the year, per-unit prices soared. The average price per unit hit \$193,295 as of April, about \$30,000 higher than it was in 2017. While compressing acquisition yields have diminished investor appetite, the Inland Empire remains attractive for buyers seeking value-add opportunities.
- In the 12 months ending in April, roughly \$850 million in multifamily properties traded in the Inland Empire. Of that, about \$476 million were properties located across Riverside county. Corona (\$280 million) led all submarkets for sales volume, followed by San Bernardino County's Rancho Cucamonga (\$177 million).

**Inland Empire Sales Volume and Number of Properties Sold** (as of April 2018)



Source: YardiMatrix

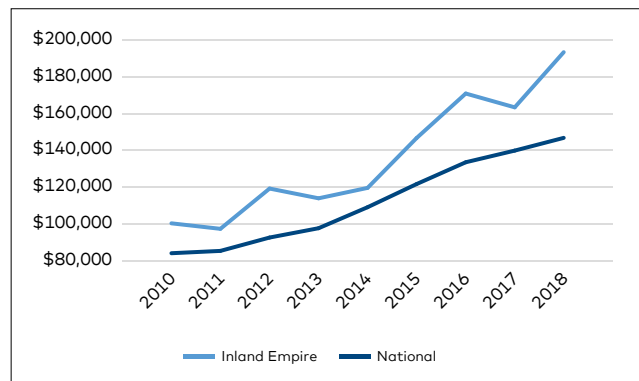
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Corona	280
Rancho Cucamonga	177
East Riverside	79
North San Bernardino	64
Lake Elsinore	39
Montclair/North Ontario	35
Loma Linda	33
Colton/Grand Terrace	33

Source: YardiMatrix

<sup>1</sup> From May 2017 to April 2018

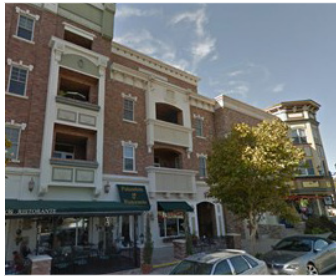
**Inland Empire vs. National Sales Price per Unit**



Source: YardiMatrix

## News in the Metro

Brought to you by:



### Cameron Properties Offloads Inland Empire Community

The property, featuring a mix of affordable rental units with street-level retail space, sold for nearly \$5 million to a private investor.



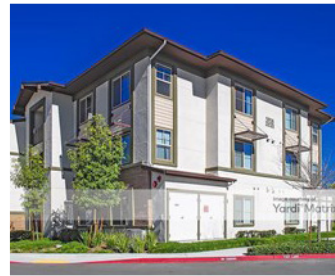
### Trammell Crow, HQ Capital to Develop Inland Empire Apartments

Architecture Design Collaborative designed the 211-unit Alexan Montclair, which is one block south of the Montclair Metrolink Station.



### Coachella Hotel Gets \$8M in Funding

The financing represents 15 percent of the total \$51 million development cost for IHG-Hotel Indigo. Pace Equity secured the loan in partnership with Renew Financial.



### BRIDGE Adds 200 Units to CA Affordable Housing

The nonprofit opened the second phase of Ivy at College Park, a 335-unit, \$41.6 million development in San Bernardino County.



### Rexford Industrial Buys, Sells \$136M In SoCal Assets

The standout of the three separate transactions is the addition of the fully leased, 695,100-square-foot industrial facility at 5300 Sheila St. in Commerce, near downtown Los Angeles.

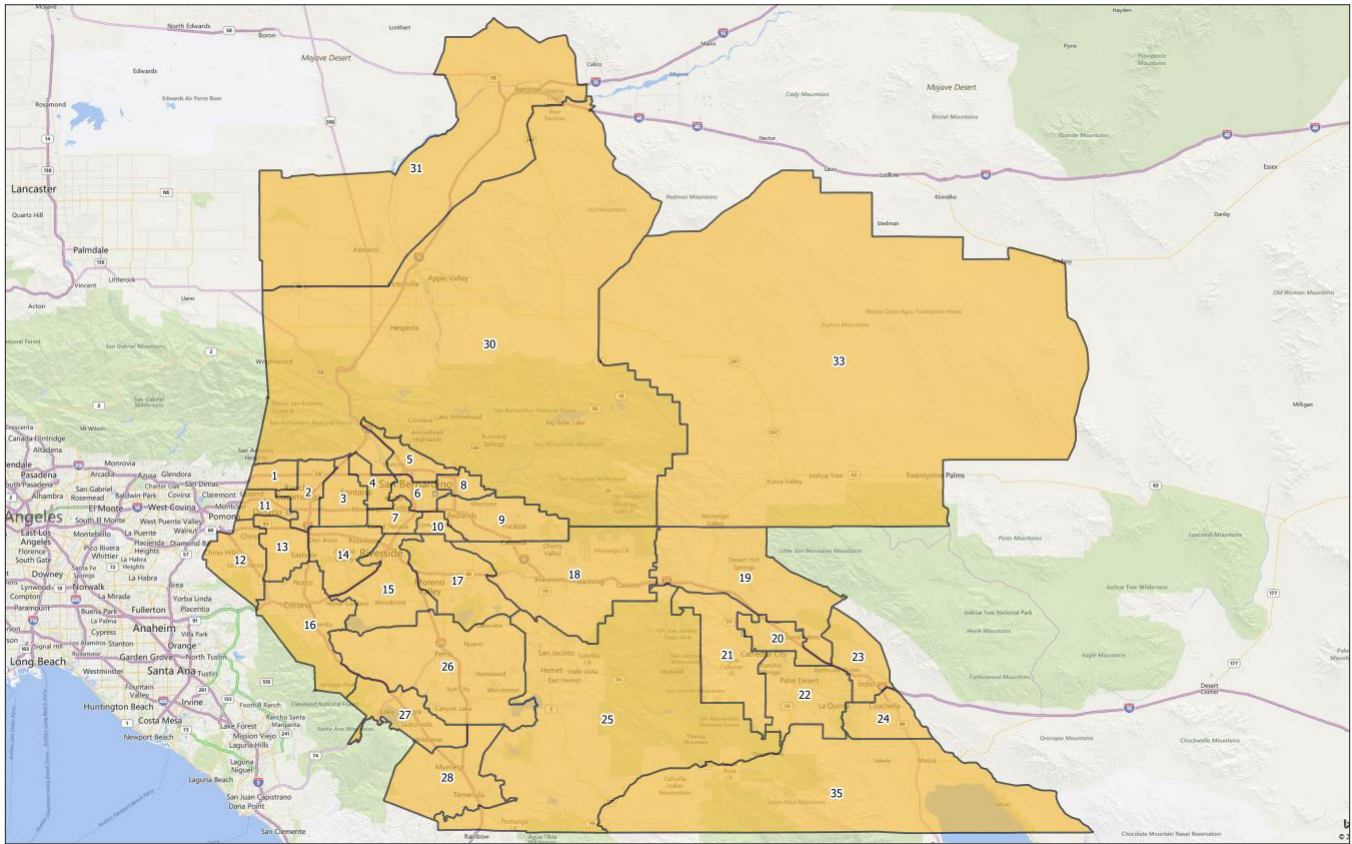


### Luxury SoCal Development Lands Management

The Trails at Canyon Crest, a 216-unit community, broke ground in October 2017. Construction is anticipated to finish early next year.



## 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

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## 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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