

An aerial photograph of a city, likely Las Vegas, showing a large residential area with many multi-story apartment buildings. In the foreground, there is a well-maintained golf course with green fairways, sand traps, and numerous palm trees. The city extends towards the base of a large, rugged mountain range under a clear blue sky. The overall scene is bright and sunny.

Yardi® Matrix

The Inland Empire Endures

Multifamily Report Fall 2018

Inventory Expansion Remains Tepid

Population Gains Outpace Nation

Rents Continue to Inch Up

Market Analysis

Fall 2018

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Limited Deliveries Prop Up Rent Growth

Strong demographics and robust hiring have maintained the region's economic vitality. The industrial sector continues to drive development in the area, bolstering demand for multifamily properties. Although rents were up 5.4% in the 12 months ending in August, San Bernardino and Riverside remain the most affordable counties in Southern California.

Trade, transportation and utilities accounted for more than one-third of the 45,800 jobs that the Inland Empire added in the year ending in June. Professional and business services, government, as well as education and health services each added more than 7,000 jobs. The rapid expansion of these sectors has reinforced the need for infrastructure improvements across both counties. Interstate 10, the region's main tie to other Southern California metros, as well as an important freighting line, will soon include two more express lanes. Security Paving Co. and Lane Construction Corp. are heading the project, valued at nearly \$673 million.

Investors continued to prefer value-add properties, with the total transaction volume at \$590 million in 2018 through July. Development is likely to stay tepid, as only 1,600 units are expected to be completed this year. This will likely exact more pressure on rents, prompting Yardi Matrix to expect continued rent increases in 2018.

Recent Inland Empire Transactions

Hensley at Corona Pointe



City: Corona, Calif.
Buyer: Fairfield Residential
Purchase Price: \$137 MM
Price per Unit: \$217,357

Country Hills



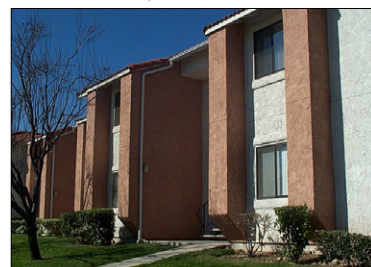
City: Corona, Calif.
Buyer: Blackstone Group
Purchase Price: \$72 MM
Price per Unit: \$174,757

Parcwood



City: Corona, Calif.
Buyer: Acacia Capital
Purchase Price: \$71 MM
Price per Unit: \$228,205

The BelAire Apartment Homes

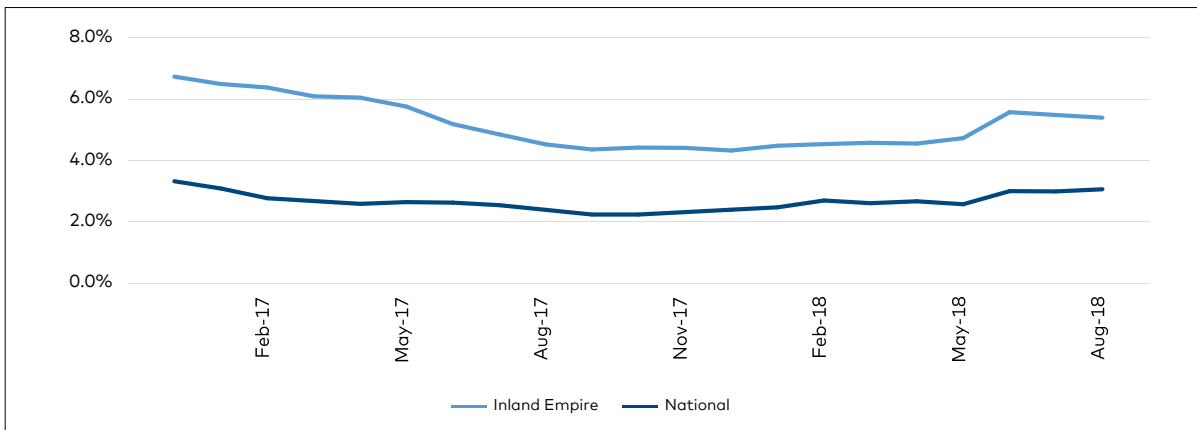


City: Rancho Cucamonga, Calif.
Buyer: FPA Multifamily
Purchase Price: \$62 MM
Price per Unit: \$236,285

Rent Trends

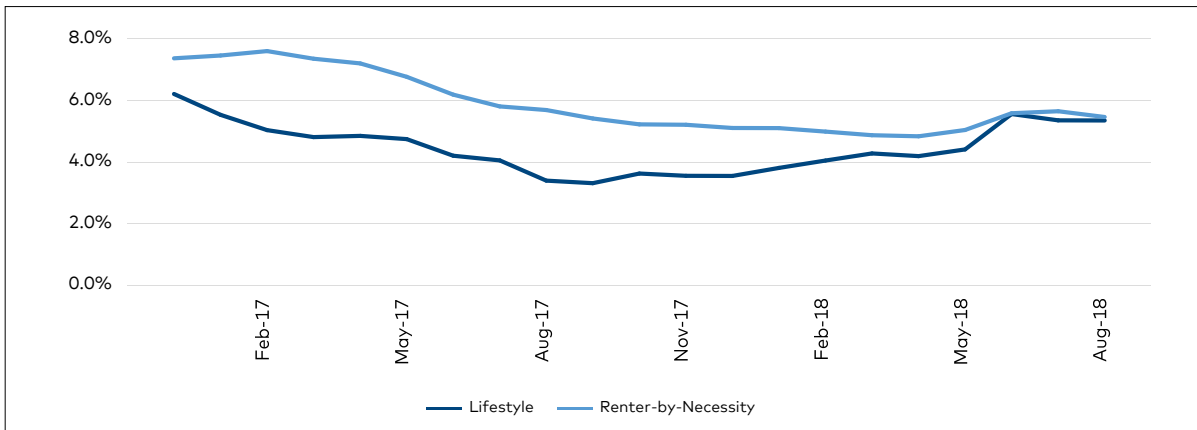
- With no significant deliveries this year, rents rose 5.4% year-over-year through August, 230 basis points above the national rate. At \$1,484, the Inland Empire's average rent was \$72 above the U.S. figure. Despite strong employment gains and limited new supply, the area remains the most affordable option among Southern California metros.
- Rent gains were consistent across segments, with Renter-by-Necessity properties leading growth. The average RBN rent rose by 5.5% year-over-year through August, to \$1,312. The gap between asset classes was almost insignificant, as Lifestyle rents increased 5.3%, to an average rent of \$1,733.
- Rents advanced quickly across the two counties, with no submarket recording contractions. South San Bernardino (17.1%) and Palm Springs (10.8%), where multifamily stock mostly consists of Renter-by-Necessity assets, saw the largest year-over-year increases. However, South Ontario (\$1,891), Rancho Cucamonga (\$1,868) and Chino/Chino Hills (\$1,780) were still the most expensive.
- Multifamily assets in the Inland Empire are likely to remain an attractive alternative to many families that are not able to afford expensive single-family properties in the neighboring coastal counties. Yardi Matrix expects rent growth to continue at a good rate in 2018.

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)

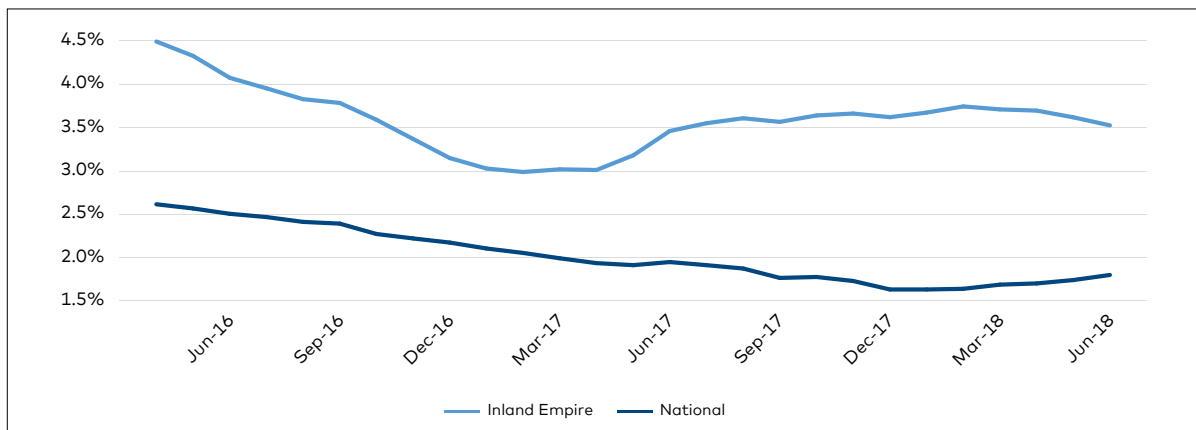


Source: YardiMatrix

Economic Snapshot

- The Inland Empire added 45,800 jobs in the 12 months ending in June, a 3.5% year-over-year increase, nearly double the 1.8% national rate of employment growth.
- Gains were led by trade, transportation and utilities (16,400 jobs), followed by professional and business services, with 7,900 jobs. The area's economic cornerstone—its industrial sector—continues to perform at record levels. One of the largest projects underway is Colony Commerce Center, a \$450 million Class A industrial project built by CapRock Partners. The property is slated to encompass almost 3 million square feet of leasable space.
- Logistics and warehousing will likely continue to generate economic growth in the region, increasing the need to upgrade the two counties' infrastructure networks. Security Paving Co. and Lane Construction Corp. will design and construct two express lanes in each direction of Interstate 10, a critical link within the Inland Empire. The project serves as a major trucking route between Southern California and the rest of the U.S., and has an overall value of almost \$673 million. Moreover, the California Transportation Commission awarded funding from the state's gas-tax increase for more than 100 transportation projects, including \$215 million for Interstate 10 and \$158 million for Interstate 60.

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	375	25.1%	16,400	4.6%
60	Professional and Business Services	152	10.2%	7,900	5.5%
90	Government	261	17.5%	7,300	2.9%
65	Education and Health Services	229	15.3%	7,000	3.1%
15	Mining, Logging and Construction	103	6.9%	3,300	3.3%
70	Leisure and Hospitality	169	11.3%	2,000	1.2%
80	Other Services	47	3.2%	1,100	2.4%
55	Financial Activities	45	3.0%	700	1.6%
30	Manufacturing	100	6.7%	200	0.2%
50	Information	11	0.7%	-100	-0.9%

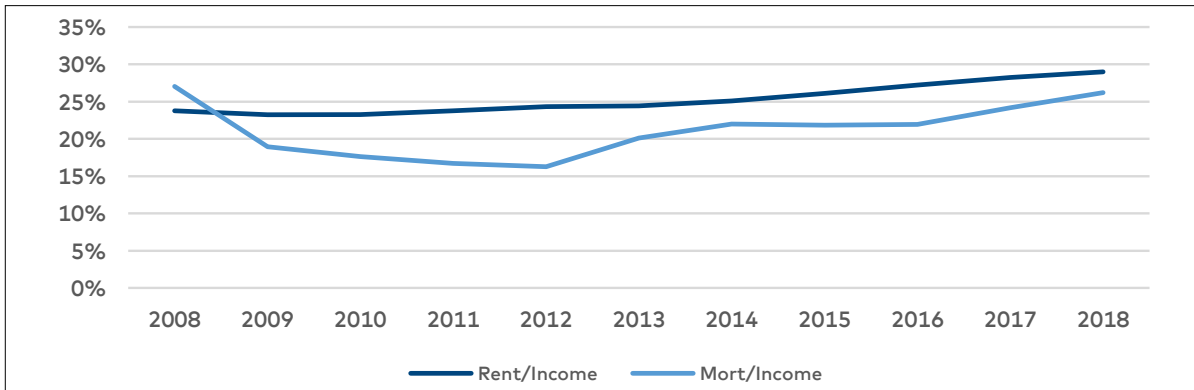
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

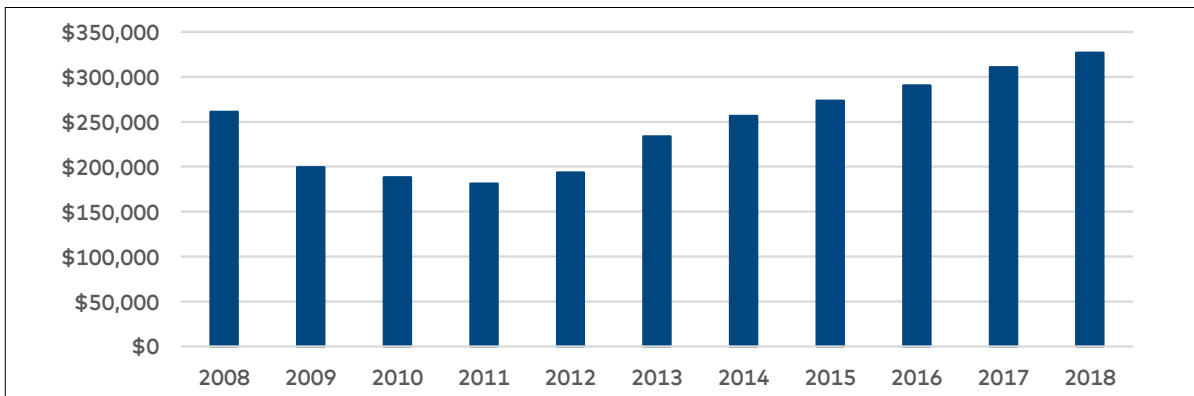
- The median home value in the Inland Empire hit \$326,587 in the first half of 2018, a new cycle peak. Renting and owning are almost equally expensive in the metro, accounting for 29% and 26% of the area's median income, but the barrier of down payments favors rental demand. However, the Inland Empire is still Southern California's most affordable major metro.
- Demand for housing in the Inland Empire should remain strong in the foreseeable future. As long as residents continue to prefer the tradeoff between commuting and housing, the metro will still have an affordability advantage over neighboring areas.

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 more than 57,000 residents in 2017, for a 1.3% growth rate.
- During the past five years, the metro's population grew by 239,265 people, lured into the area by a lower cost of living than in nearby markets.

Inland Empire vs. National Population

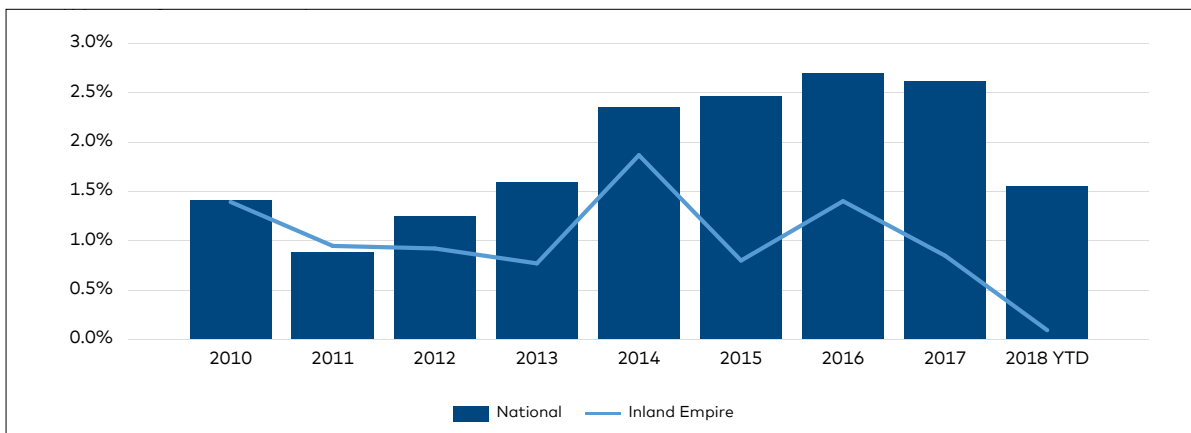
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Inland Empire Metro	4,378,138	4,425,776	4,472,874	4,523,653	4,580,670

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

Supply

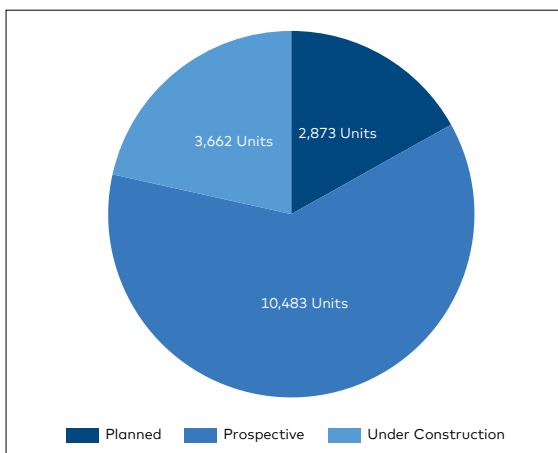
- During the year's first eight months, developers added only 138 units to the Inland Empire's multifamily inventory, a mere 0.1% of total stock. That's still well below the 1.5% national rate. All units delivered this year were part of a Coachella Valley Housing Coalition property in Moreno Valley—March Veterans Village, a fully affordable asset restricted to veteran households.
- Almost 3,700 units were under construction as of August, while another 13,356 were in the planning and permitting stages. The occupancy rate in stabilized properties was 96.1% as of July, indicating the need for more supply. Fueled by job creation and the metro's growing population, demand should continue to stay elevated going forward. Yardi Matrix estimates that completions will remain limited to close out the year in San Bernardino and Riverside counties.
- Development was concentrated in Montclair/North Ontario (800 units), East Riverside (745 units) and Chino/Chino Hills (670 units). GH Palmer Associates is building the 800-unit The Paseos at Ontario—the largest project under construction in the metro—which started pre-leasing in August. Located near Ontario International Airport, the property is slated for completion by year-end.

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



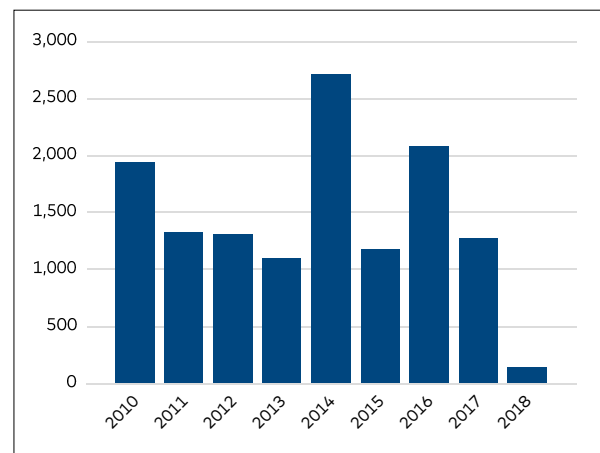
Source: YardiMatrix

Development Pipeline (as of August 2018)



Source: YardiMatrix

Inland Empire Completions (as of August 2018)

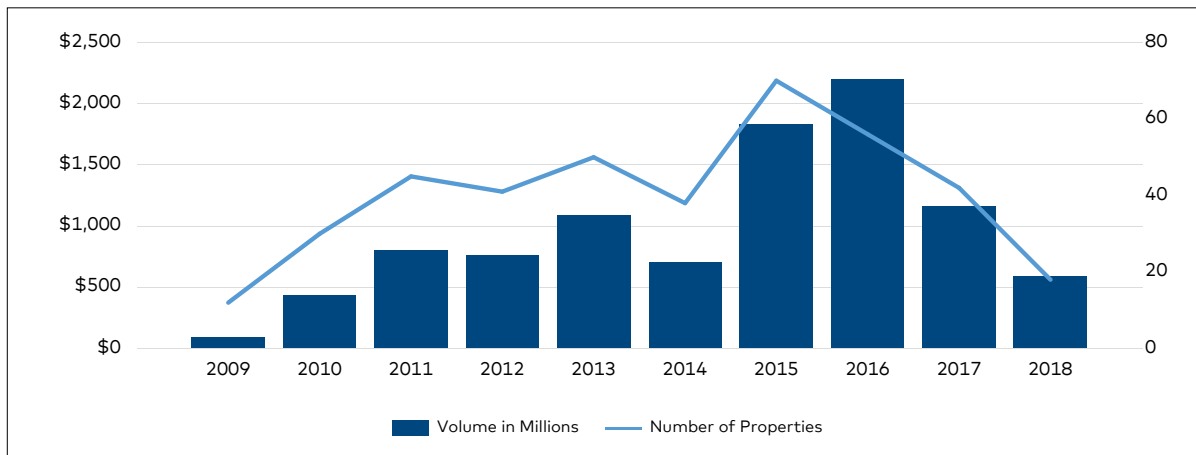


Source: YardiMatrix

Transactions

- Following three years of intense investor activity, only 18 multifamily properties traded this year through July, for a total of \$590 million. That's only a little over a quarter of 2016's overall sales volume. However, at \$155,668 as of August, per-unit prices were still well above the \$147,630 national average. Investors continue to focus on value-add opportunities, as less than 25% of the properties that traded were Lifestyle-rated.
- The transaction volume in the 12 months ending in July exceeded \$952 million, with Corona (\$280 million) leading sales activity due to Fairfield Residential's \$137 million purchase of the 628-unit Hensley at Corona Pointe. The deal was the largest transaction in the metro through the interval. Investment activity was also high in East Riverside (\$79 million), followed by Rancho Cucamonga (\$62 million), Montclair/North Ontario (\$61 million) and North San Bernardino (\$61 million).

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



Source: YardiMatrix

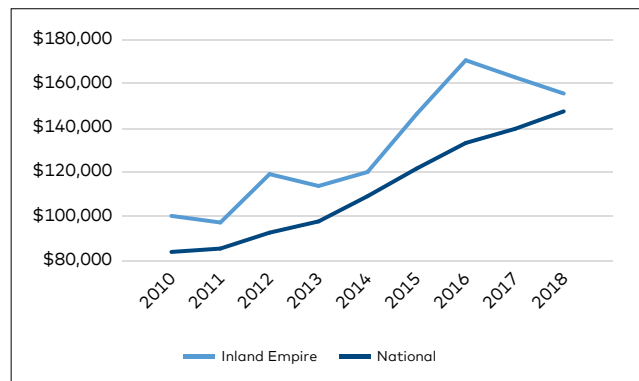
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Corona	280
East Riverside	79
Rancho Cucamonga	62
Montclair/North Ontario	61
North San Bernardino	61
Colton/Grand Terrace	60
South San Bernardino	53
Redlands/Yucaipa	45

Source: YardiMatrix

¹ From August 2017 to July 2018

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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SoCal Apartments Trade for Nearly \$50M

The seller, StarPoint Properties, acquired the 232-unit Class B community in the Inland Empire in late 2001, for approximately \$15 million.



Palm Springs Community Changes Hands

Prism Multifamily funded the acquisition of the 121-unit Class A Latitude 33 in Southern California with a \$10.8 million loan originated by Walker & Dunlop.



CBRE Brokers Sale of 2 CA Properties

Located in the Inland Empire and Orange County, the assets sold for a total of \$10.8 million. The larger of the two properties is Town Center Garden Apartments, with 46 units.



Majestic Realty Enters Multifamily Market

The longtime developer's first residential project is a 17-building, garden-style community in Southern California's Inland Empire. Completion is scheduled for late 2019.



Riverside Community Gets New Management

UBS Realty Investors, the owner of the 2005-built, 256-unit Inland Empire asset, selected Alliance Residential Co. to oversee property operations.



C.W. Driver Completes \$78M Student Housing Project

The assets include a 407-bed community and a 750-seat dining facility and will serve students attending California State University, San Bernardino.

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Top 10 Inland Empire Multifamily Transactions



By Tudor Scolca

data by
Yardi Matrix

Inland Empire multifamily inventory continues to expand at a slow rate, further inflating rent rates and property values. One effect of this dynamic is its growing price per unit, which currently averages \$156,020 across the metro, roughly \$9,000 above the national mark.

Development activity in the Inland Empire's multifamily sector is slowing down after three years of strong capital flow. A total of 35 properties changed hands in the 12 months ending in October, for a total of \$929.9 million, according to Yardi Matrix.

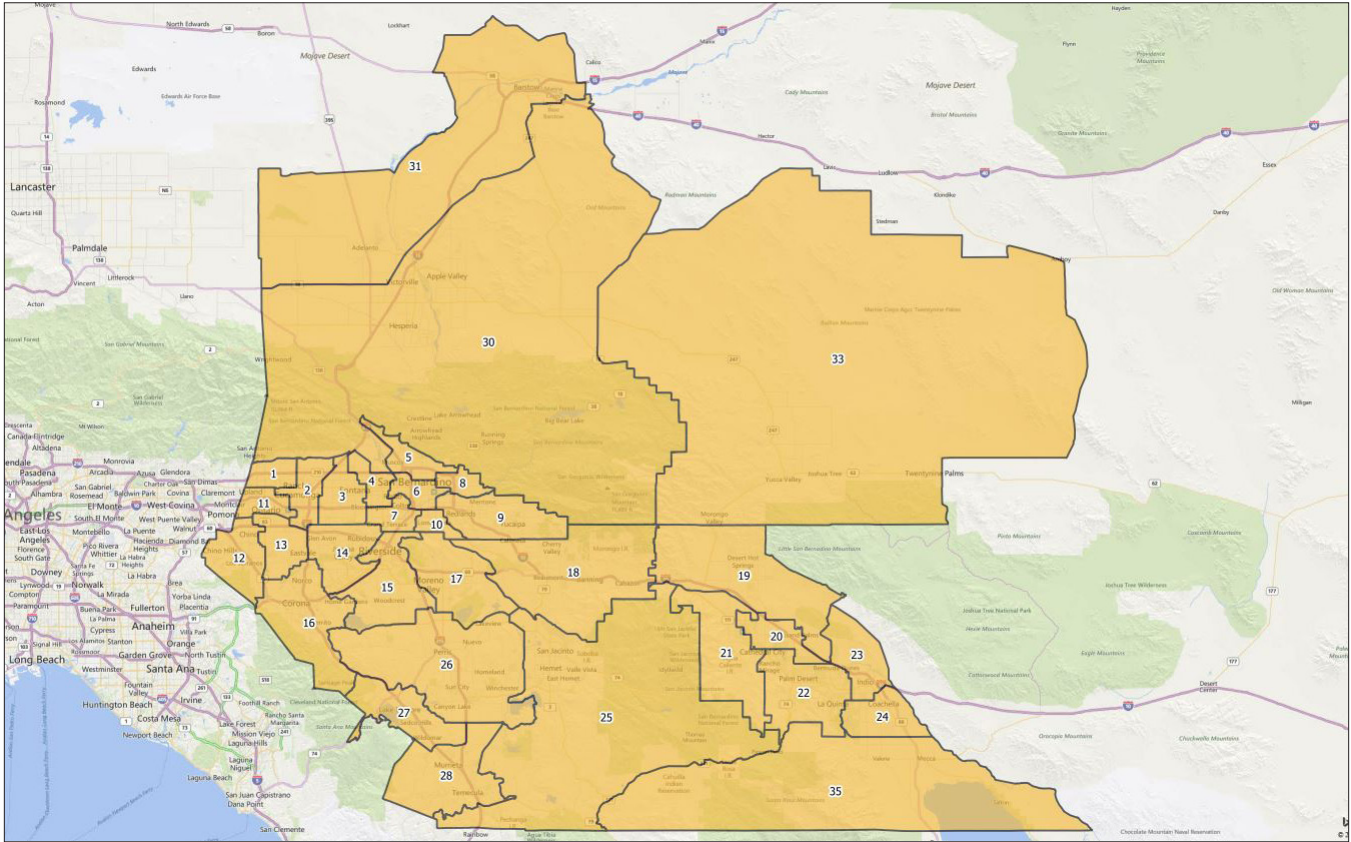
Property Name	City	Seller	Buyer	No Units	Total Sale Price (MM)
Hensley at Corona Pointe	Corona	Sterling American Property	Fairfield Residential	628	136.50
The BelAire Apartment Homes	Rancho Cucamonga	NNC Apartment Ventures	FPA Multifamily	262	61.91
Nova Pointe	Colton	The Korda Group	Hagins, Elizabeth	600	60.00
Foothill Ridge	Upland	StarPoint Properties	Virtu Investments	232	48.25
Broadstone Serrano	San Bernardino	Strata Equity	Crystal Asset Management	254	44.50
Berkdale	Riverside	Sterling American Property	Fairfield Residential	296	44.00
Dakota	Winchester	Fairfield Residential	MJW Property Group	174	42.00
The Palms on University	Riverside	Pierce Education Properties	Scion Group	152	35.34
Laurel Heights	Riverside	LivCor	Hagins, Elizabeth	176	27.25
Ontario	Ontario	Mid-City Financial	National Foundation for Affordable Housing Solutions	86	26.00

HENSLEY AT CORONA POINTE

Fairfield Residential purchased Hensley at Corona Pointe for \$136.5 million from Sterling American Property. This transaction was also subject to a Freddie Mac loan, a \$100 million financing package originated by Capital One. Sterling American Property acquired the asset in 2007 for \$114.5 million. Hensley at Corona Pointe is located at 1171 E. Baywood Drive in Corona. The community comprises 232 one-bedroom and 396 two-bedroom units, ranging from 622 to 900 square feet. The 1988-built community features common-area amenities such as a fitness center, a clubhouse, three swimming pools, six spas, a business center and 900 parking spaces. As of August, the property was 95 percent occupied and monthly rents averaged \$1,621.



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.

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Mark Fogelman
President
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