



Yardi® Matrix

Rise of the Inland Empire

Multifamily Report Winter 2019

Rent Growth
Remains Strong

Limited Supply
Pushes Up Occupancy

Transaction Volume Rises,
Values Keep Climbing

Market Analysis

Winter 2019

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Demand Outstrips Supply

Strong employment and population gains underpin multifamily demand in the Inland Empire, where a limited supply of new apartments is driving up rents at an above-average rate.

Employment growth was led by the government sector, which added 9,300 jobs year-over-year as of October, followed by professional and business services, which gained 8,400 jobs. Intense e-commerce activity and consumer spending also generated increased hiring in the trade, transportation and utilities sector, which added 7,300 jobs, while the metro's high demand for warehouse and distribution properties led to the delivery of more than 22 million square feet of industrial space in 2018.

Multifamily property sales, which totaled \$1.4 billion in 2018, are expected to spike in 2019, following the rejection of Proposition 10, which would have allowed the local government to expand rent control through the annulment of the Costa-Hawkins Act. As apartment demand continues to outmatch supply, occupancy in stabilized properties remains high across the metro, which only saw the completion of 503 units in 2018. In the context of a moderate supply increase of 2,130 units projected to come online this year, rising employment and population gains are expected to further bolster multifamily demand, driving up rents by an average of 4.5% in 2019.

Recent Inland Empire Transactions

Ironwood



City: Rancho Cucamonga, Calif.
Buyer: Crow Holdings
Purchase Price: \$146 MM
Price per Unit: \$293,810

Sterling Highlander



City: Riverside, Calif.
Buyer: Horizon Realty Advisors
Purchase Price: \$114 MM
Price per Unit: \$530,056

Capriana at Chino Hills



City: Chino Hills, Calif.
Buyer: Invesco Real Estate
Purchase Price: \$96 MM
Price per Unit: \$333,916

University Village Towers

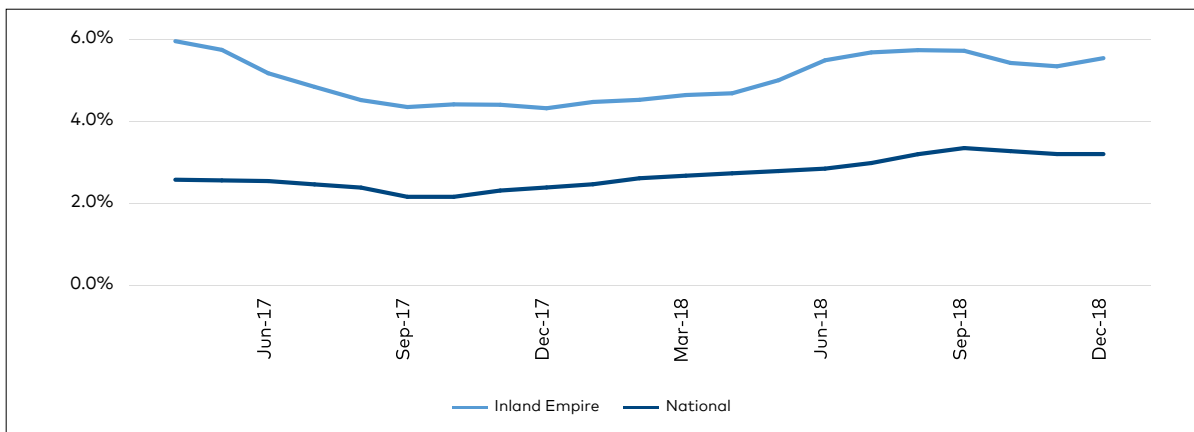


City: Riverside, Calif.
Buyer: Greystar
Purchase Price: \$86 MM
Price per Unit: \$577,181

Rent Trends

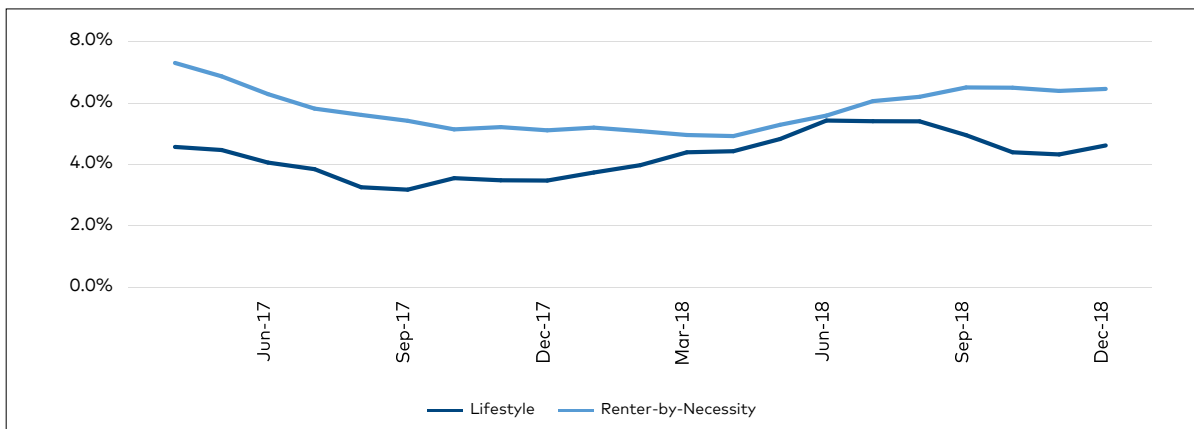
- Rents in the Inland Empire rose 5.5% year-over-year through December, well above the 3.2% national rate. The metro's average rent stood at \$1,504, higher than the \$1,419 U.S. figure. As demand continued to outstrip supply, occupancy in stabilized properties remained high, at 96.3% as of November, up 40 basis points year-over-year and 100 basis points above the 95.3% U.S. rate.
- Rents in the working-class Renter-by-Necessity segment rose 6.5% to \$1,336, while Lifestyle rates increased by 4.6% to \$1,745. Employment and population gains sustain multifamily demand, while a limited supply of single-family homes caused by high construction costs, labor shortages and strict regulations is driving up prices, keeping many first-time buyers out of the market.
- All submarkets saw rent hikes in 2018. The strongest growth was recorded in some of the metro's more affordable areas: South San Bernardino (up 16.7% to \$1,292), Highlands (up 11.4% to \$1,139), Indio (up 10.9% to \$1,042) and Palm Springs (up 10.8% to \$1,229). Rents in South Ontario, which commands some of the highest rates, rose 6.7% to 1,866, while Rancho Cucamonga saw a 5.2% growth to \$1,860.
- In the context of a limited supply increase relative to demand, rising employment and strong population gains are expected to drive up rents by an average of 4.5% in 2019.

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)

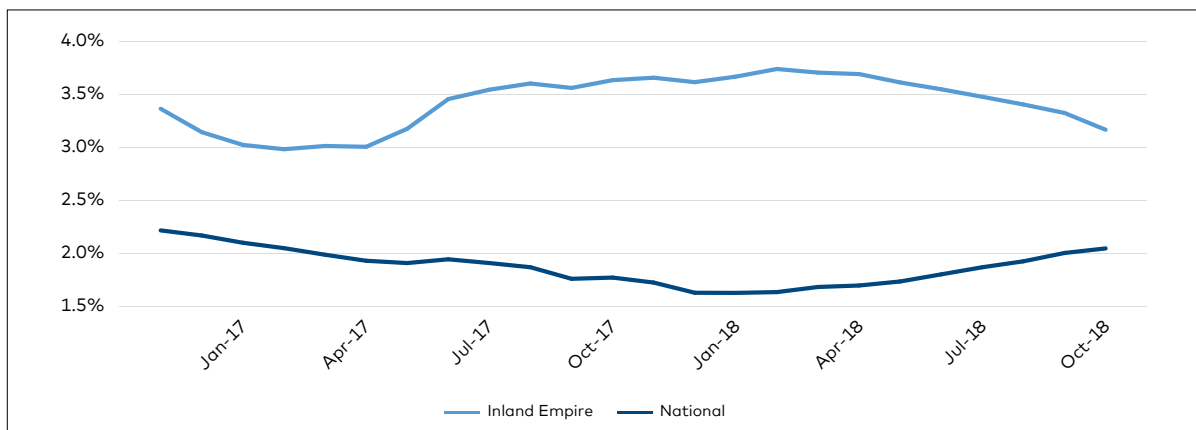


Source: YardiMatrix

Economic Snapshot

- Sustained by increased business activity, the Inland Empire added 37,200 jobs in the 12 months ending in October, up 3.2% year-over-year, outpacing the 2.1% national rate of employment growth. The metro's unemployment rate dropped to record lows in 2018: It was 4.1% as of October, in line with California's average rate.
- Growth was led by the government sector, which added 9,300 jobs. In 2018, San Bernardino won five awards from the California State Association of Counties for its innovative programs that aim to improve food safety, develop job prospects for high school students and streamline the way the county's roads are maintained.
- Professional and business services added 8,400 jobs, buoyed by a strengthening economy and an increasing number of highly skilled employees. Intense e-commerce activity and consumer spending continued to boost trade, transportation and utilities, with 7,300 jobs added. High demand for warehouse and distribution space led to the delivery of more than 22 million square feet across 49 industrial properties in 2018. Some of the largest projects included Majestic Chino Gateway-Building 1, developed by Majestic Realty in Ontario-Chino, and First Nandina Logistics Center, built by First Industrial Realty Trust in the Moreno Valley. Each was approximately 1.4 million square feet.

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	%
90	Government	263	17.4%	9,300	3.7%
60	Professional and Business Services	158	10.4%	8,400	5.6%
40	Trade, Transportation and Utilities	382	25.3%	7,300	1.9%
70	Leisure and Hospitality	170	11.2%	6,200	3.8%
30	Manufacturing	101	6.7%	2,300	2.3%
65	Education and Health Services	233	15.4%	2,100	0.9%
80	Other Services	47	3.1%	1,100	2.4%
15	Mining, Logging and Construction	102	6.7%	500	0.5%
50	Information	11	0.7%	-	0.0%
55	Financial Activities	45	3.0%	-	0.0%

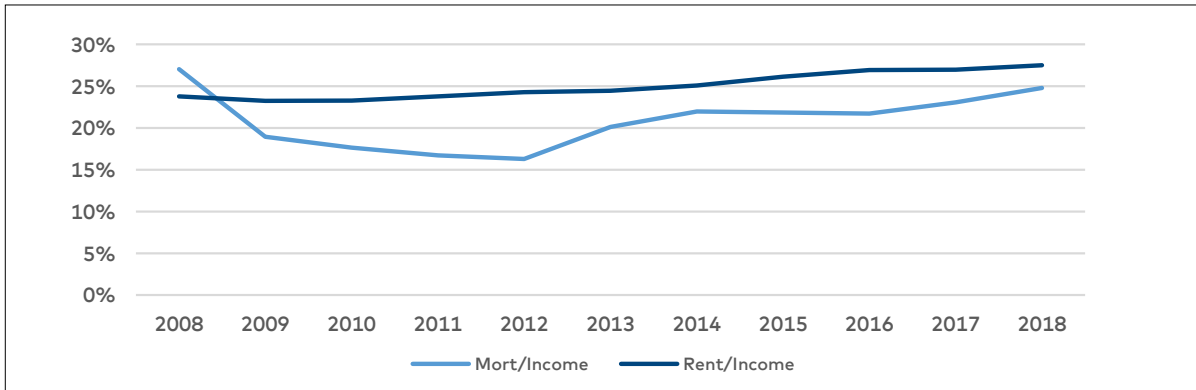
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

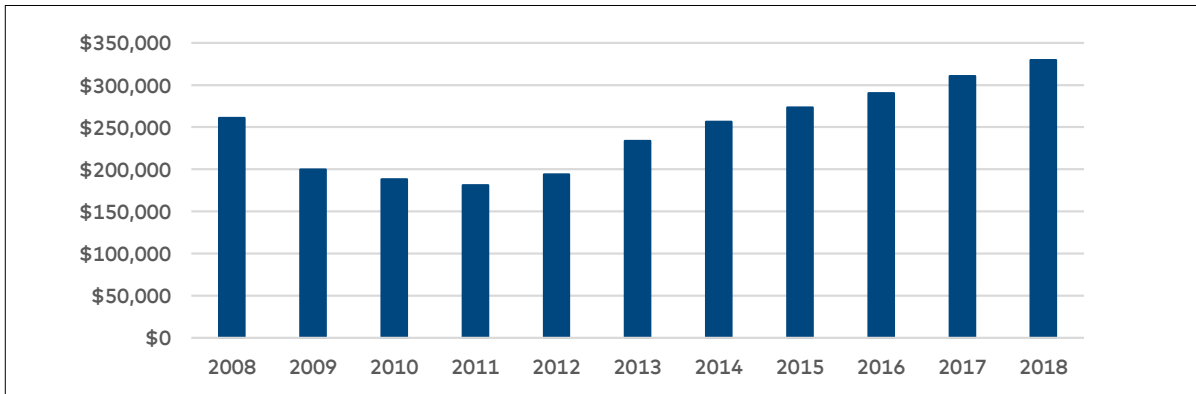
- The median home price in the Inland Empire rose to \$329,597 in 2018, a new cycle peak and well above the \$261,147 level recorded in 2008. The average mortgage payment accounted for 25% of the area median income, while the average rent equated to 27%.
- The Inland Empire is among the less expensive regions of California, along with Sacramento and the San Joaquin Valley, attracting new residents at a quick clip. In 2017, Riverside County alone added 36,744 people, the third-highest increase of any U.S. county. Limited new supply for both single-family and multifamily housing could begin to erode affordability, cutting into demand.

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 57,017 residents in 2017, a 1.3% increase, outpacing the 0.7% national rate.
- Between 2013 and 2017, the metro gained 202,532 residents, up 4.6% and well above the 3.0% U.S. average.

Inland Empire vs. National Population

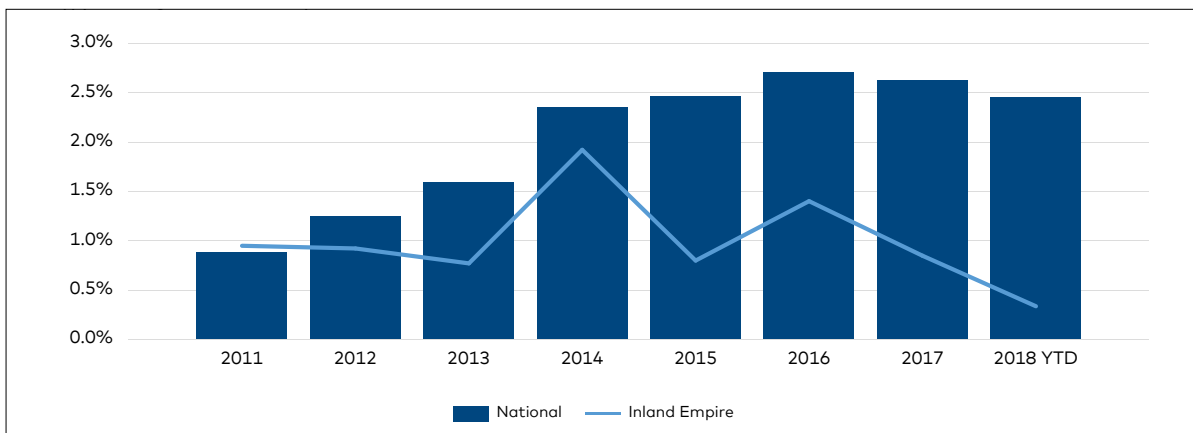
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Inland Empire Metro	4,378,138	4,425,776	4,472,874	4,523,653	4,580,670

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

Supply

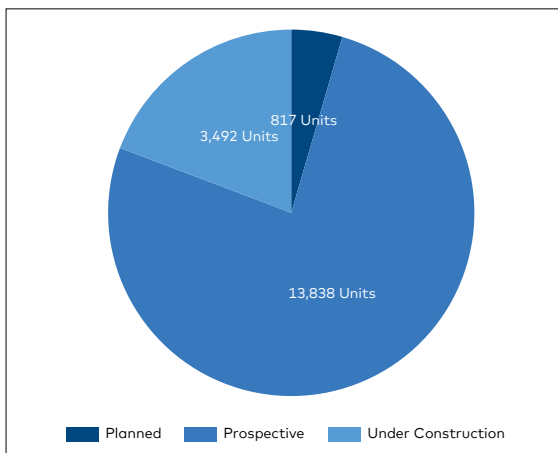
- Only three properties totaling 503 units came online in the Inland Empire in 2018, representing 0.3% of total stock, well below the 2.5% national average. Two Class A communities—the 89-unit Imperial Hardware Lofts in East Riverside and the 276-unit Terrano at Dos Lagos in Corona—were completed in September, while March Veterans Village, a 138-unit fully affordable asset restricted to veteran households, opened in Moreno Valley in the spring.
- Construction is expected to pick up, with 3,492 units under construction as of December, while another 14,655 units were in the planning and permitting stages. In 2019, Yardi Matrix forecasts 2,130 completions, as construction accelerates.
- Developers primarily targeted Montclair/North Ontario, which had 850 units underway as of December across two projects, including The Paseos at Ontario. The metro's largest new apartment development, it is set to bring 800 units upon completion by mid-2019. The property is located in proximity to the 243-acre Meredith International Center industrial park, which can accommodate as many as 2,000 employees. Chino/Chino Hills also had 670 apartments underway, while East Riverside had 656 units.

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



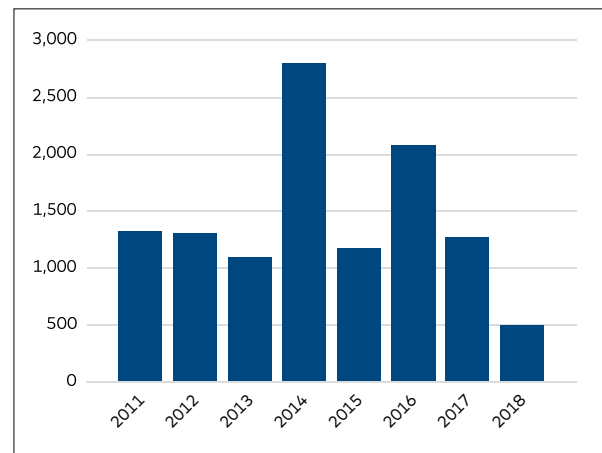
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Inland Empire Completions (as of December 2018)

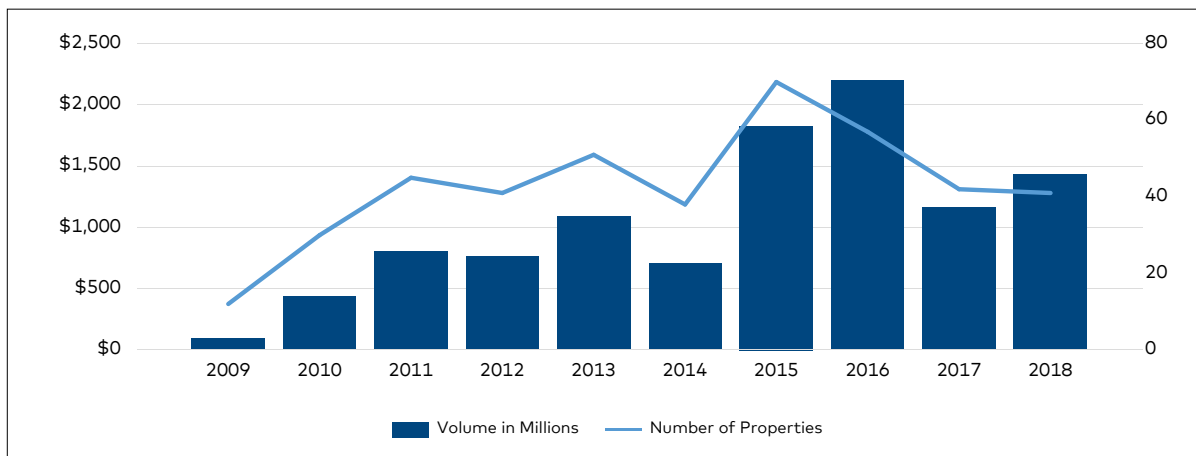


Source: YardiMatrix

Transactions

- More than \$1.4 billion in assets changed hands in the Inland Empire in 2018, at an average price per unit of \$196,557. That figure is a new cycle high and well above the \$153,765 U.S. average. Investment is expected to accelerate in 2019, following the rejection of Proposition 10, which would have allowed local authorities to expand rent control through the annulment of the Costa-Hawkins Act.
- Investors primarily targeted Renter-by-Necessity assets, as only 10 of the 41 properties that traded were in the Lifestyle category. Acquisition yields for Class A assets hovered in the 4% range in both infill and suburban locations, while Class B/C communities brought in yields between 5% and 6%.
- Crow Holdings' acquisition of the 496-unit Ironwood community in Rancho Cucamonga was the largest transaction of 2018. Seller Western National Investments netted \$145.7 million, or \$293,810 per unit.

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



Source: YardiMatrix

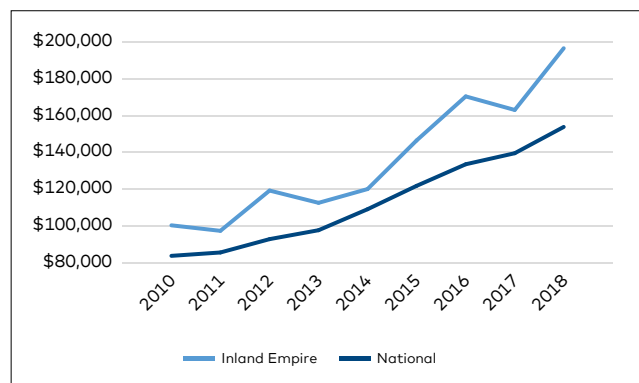
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East Riverside	343
Rancho Cucamonga	208
Chino/Chino Hills	161
Corona	137
Montclair/North Ontario	123
Hemet/San Jacinto	71
Moreno Valley	63
Colton/Grand Terrace	60

Source: YardiMatrix

¹ From January 2018 to December 2018

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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LivCor Trades 288-Unit SoCal Asset

The company sold the Inland Empire asset for more than \$63 million, with Capital One providing a Fannie Mae acquisition loan to the buyer.



Inland Empire Community Changes Hands for \$35M

Davlyn Investments acquired the 125-unit luxury residential property located in Chino Hills, Calif., with financing provided by City National Bank.



FPA Acquires Age-Restricted Inland Empire Community

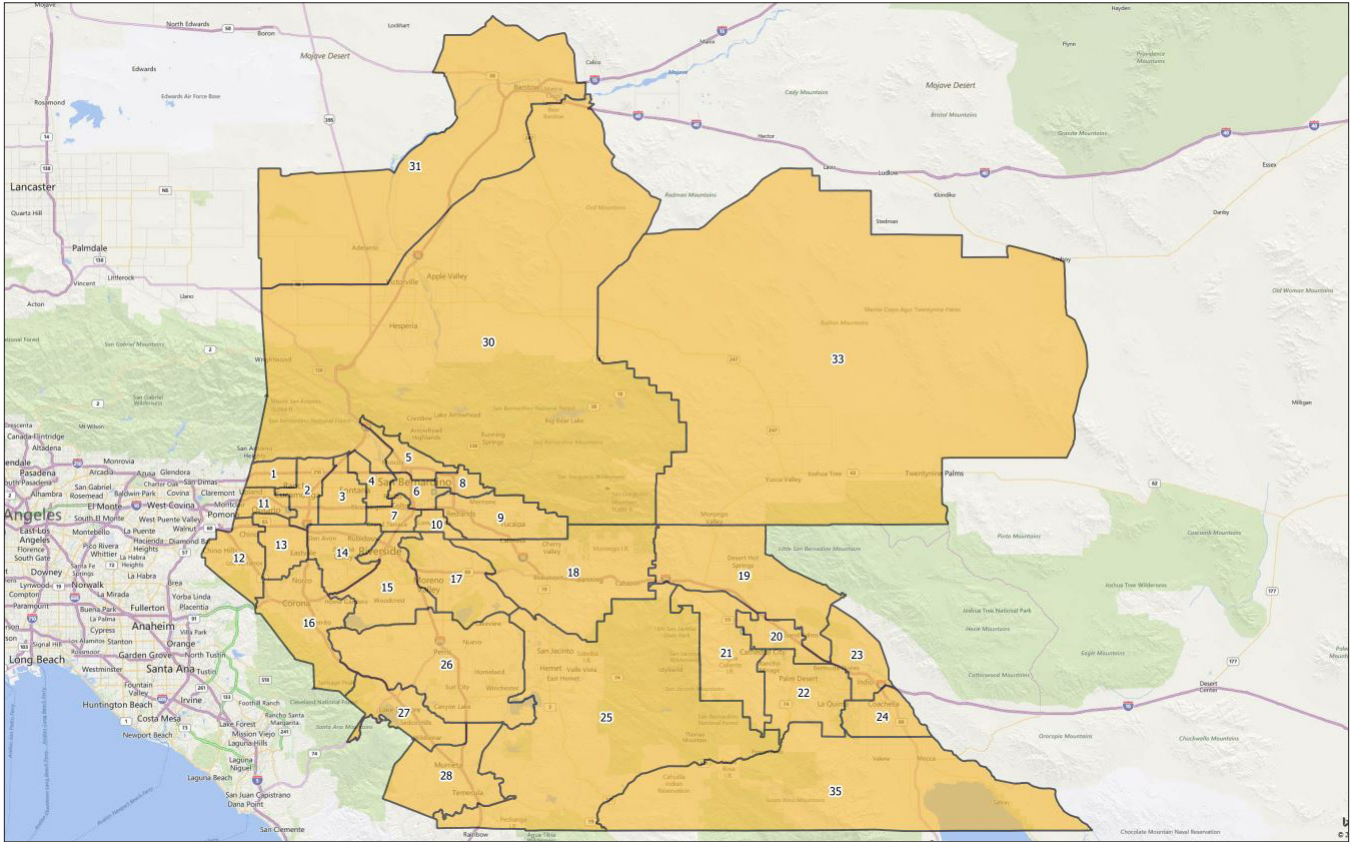
Positive Investments, which picked up the 177-unit Class C property in 2016 for \$11.9 million, sold the asset for more than \$14 million.



SoCal Affordable Community Changes Hands

The 60-unit fully affordable property fetched a price tag of \$3 million, with the buyer landing \$2.7 million in acquisition financing.

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
Fogelman Properties

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