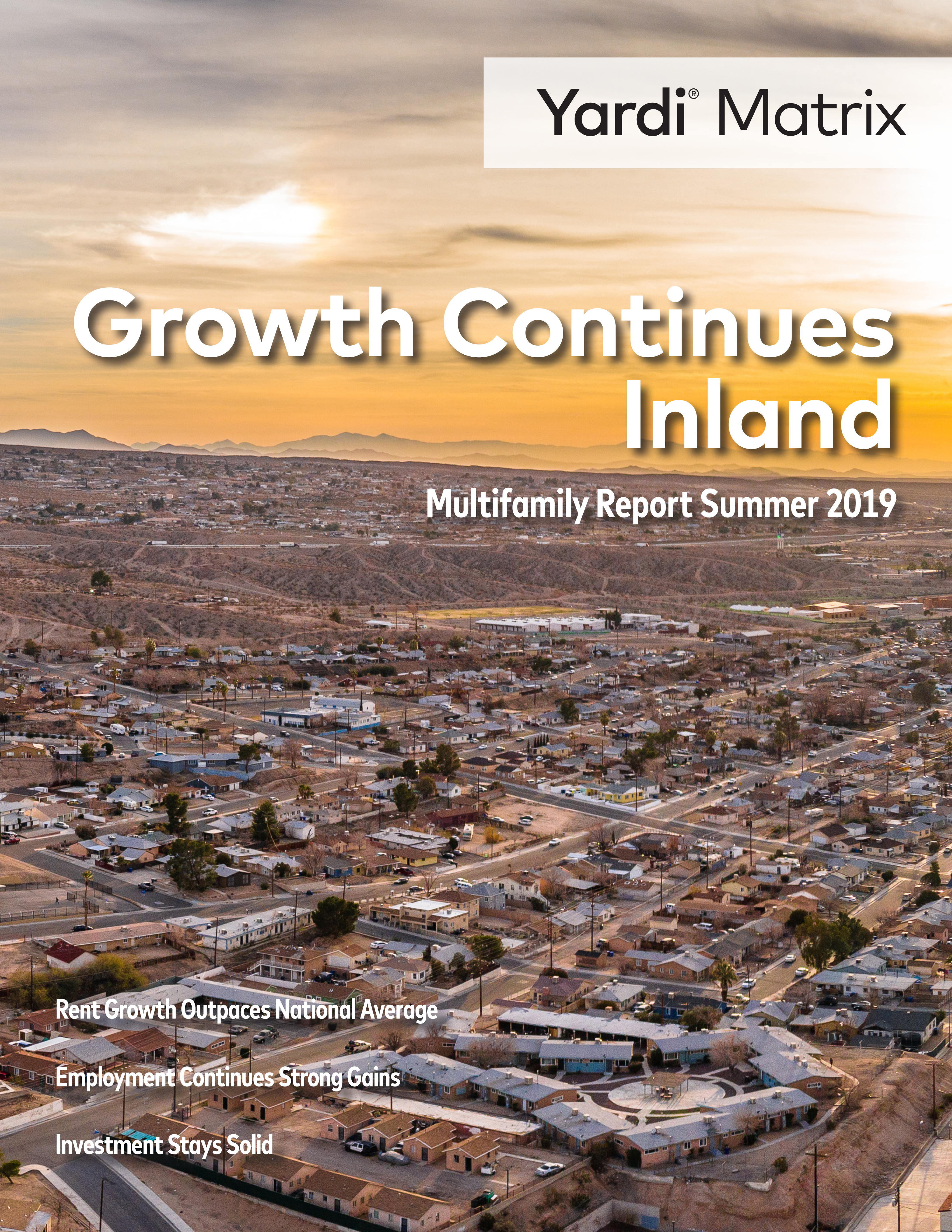
Yardi® Matrix



Growth Continues Inland

Multifamily Report Summer 2019

Rent Growth Outpaces National Average

Employment Continues Strong Gains

Investment Stays Solid

Market Analysis
Summer 2019

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Limited Supply Furthers Rent Growth

The Inland Empire's rental market saw its fortunes expand further to start the year, as rent growth continued at above-U.S. rates—up 4.2% year-over-year as of April. Historically limited inventory expansions have driven growth, while the market's affordability compared to other SoCal metros continues to push residents into the area.

Economic improvement has continued, with the logistics industry still acting as the area's economic anchor as nearly a quarter of all jobs are in trade, transportation and utilities. Proximity to the area's main ports—Los Angeles and Long Beach—continues to be economically beneficial and drives the bulk of the activity. Amazon is San Bernardino and Riverside counties' largest employer and is set to continue that trend with the opening of a new 640,000-square-foot fulfillment center in Beaumont.

The Inland Empire's multifamily development pipeline has been largely undersupplied for the better part of the cycle. After bottoming out at 503 completions in 2018, projects have picked up of late, with 4,121 units underway in the two counties as of April. Rents are likely to continue their rise, as inventory expansion won't be significant enough. With average occupancy in stabilized properties at 96.0%, we expect rent growth to continue, at 4.5% in 2019.

Recent Inland Empire Transactions

The Villas at Towngate

City: Moreno Valley, Calif.
Buyer: LivCor
Purchase Price: $94 MM
Price per Unit: $239,267

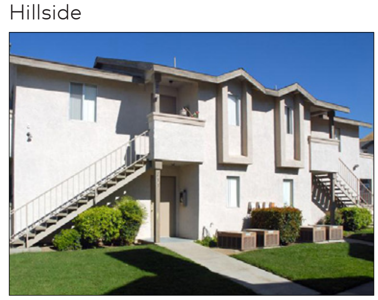
The Vineyards at Paseo Del Sol

City: Temecula, Calif.
Buyer: LivCor
Purchase Price: $91 MM
Price per Unit: $314,941

Avana Springs

City: Corona, Calif.
Buyer: Greystar
Purchase Price: $74 MM
Price per Unit: $232,500

Hillside



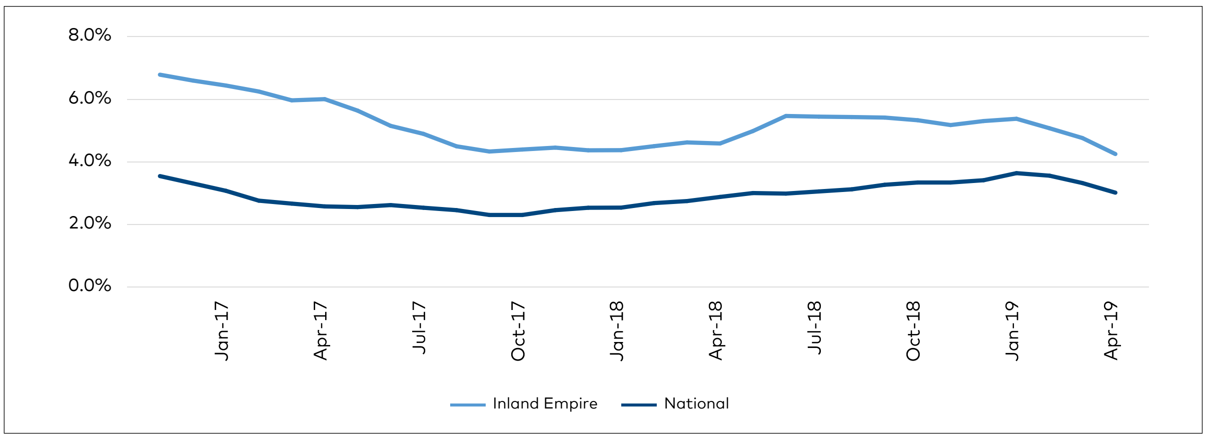
City: San Bernardino, Calif.
Buyer: Henley Investments
Purchase Price: $11 MM
Price per Unit: $137,500

On the cover: Photo by Frederick Thelen/iStockphoto.com

Rent Trends

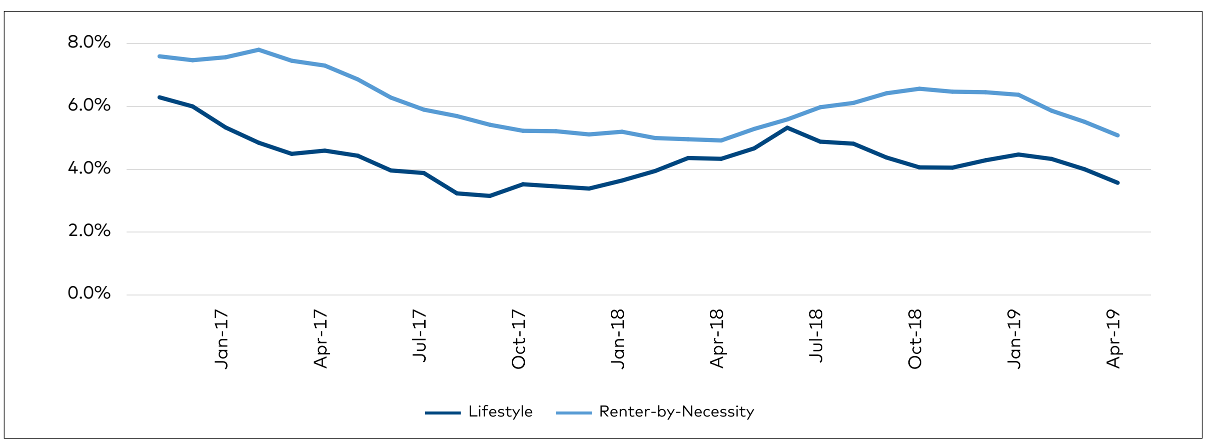
- Rents in the Inland Empire rose 4.2% year-over-year through April, outpacing the 3.0% national rate. The metro's average rent stood at $1,521, above the $1,436 U.S. figure. Rent gains are supported by minimal supply additions, as only 503 units came online in 2018, maintaining occupancy at a high 96.0% as of March—unchanged over the prior year and above the 94.8% national average.
- Rents in the working-class Renter-by-Necessity segment rose 5.1% to $1,344, while Lifestyle rates increased by 3.6%, to $1,770. Above-average population and employment growth in the context of a diverse and fast-growing economy bolstered demand for both asset classes. The metro's housing affordability advantage relative to surrounding areas allows the local labor force to expand more rapidly than in other major markets across California. As developers are expected to ramp up deliveries this year, we anticipate a more moderate rent growth of 3.7% by the end of 2019.
- All the metro's submarkets saw rent increases year-over-year through April. Growth was highest in Highlands, where rates went up 12.1%, to $1,162. Rents also rose significantly in Adelante/Oro Grande (up 11.6% to $882); Indio (up 10.4% to $1,082); Palm Springs (up 8.5% to $1,267) and Nuevo/Perris/Menifee (up 7.0% to $1,397). South Ontario, which commands the highest rents, saw them go up 3.2%.

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)

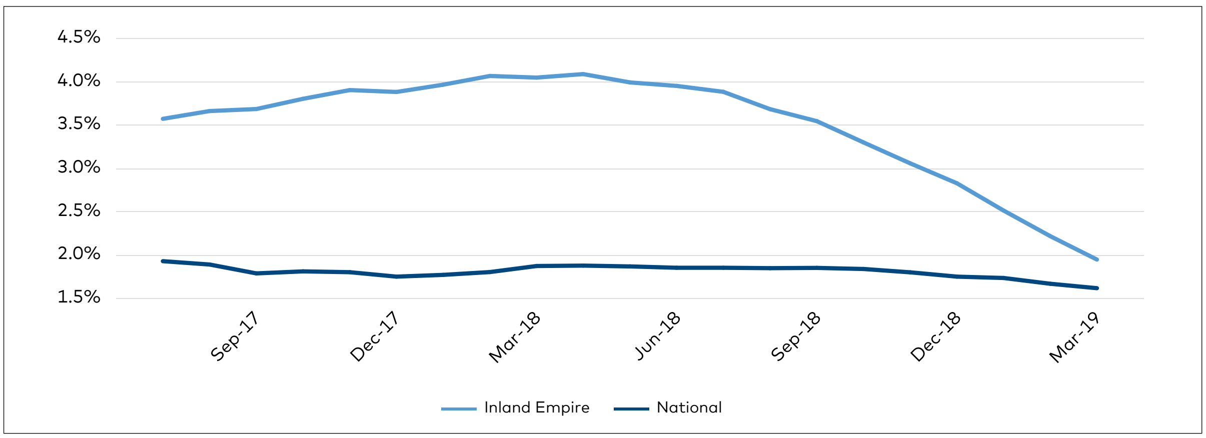


Source: YardiMatrix

Economic Snapshot

- The Inland Empire gained 20,600 jobs in the 12 months ending in March, up 2.0% year-over-year, 40 basis points over the 1.6% U.S. average. Following nationwide trends, the metro's unemployment rate has been decreasing, standing at 4.3% as of February.
- Growth was led by education and health services, which saw the addition of 9,600 jobs. This trend will likely continue as the population ages and new health-care projects come online, including a 373-bed Loma Linda University Children's Hospital and an adjacent 16-story adult medical center that will be the tallest building in San Bernardino County.
- The public sector gained 5,500 jobs, followed by trade, transportation, and utilities (4,000 jobs). With its proximity to the ports of Long Beach and Los Angeles, the region's economic success is intimately tied to its logistics market, which is undergoing a transformation as technology advances. This in turn is changing the nature of the jobs available in the industry due to innovations such as autonomous vehicles and predictive analytics. Amazon, the region's largest employer, is planning to open its 14th fulfillment center in the metro. The 640,000-square-foot facility, located in Beaumont near the intersection of Interstate 10 and Highway 60, is scheduled for completion in the summer of 2019.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	248	16.4%	9,600	4.0%
90	Government	266	17.6%	5,500	2.1%
40	Trade, Transportation and Utilities	374	24.7%	4,000	1.1%
70	Leisure and Hospitality	174	11.5%	2,000	1.2%
60	Professional and Business Services	151	10.0%	1,800	1.2%
15	Mining, Logging and Construction	104	6.9%	1,000	1.0%
30	Manufacturing	101	6.7%	200	0.2%
50	Information	11	0.7%	-	0.0%
55	Financial Activities	43	2.8%	-1,100	-2.5%
80	Other Services	43	2.8%	-2,400	-5.2%

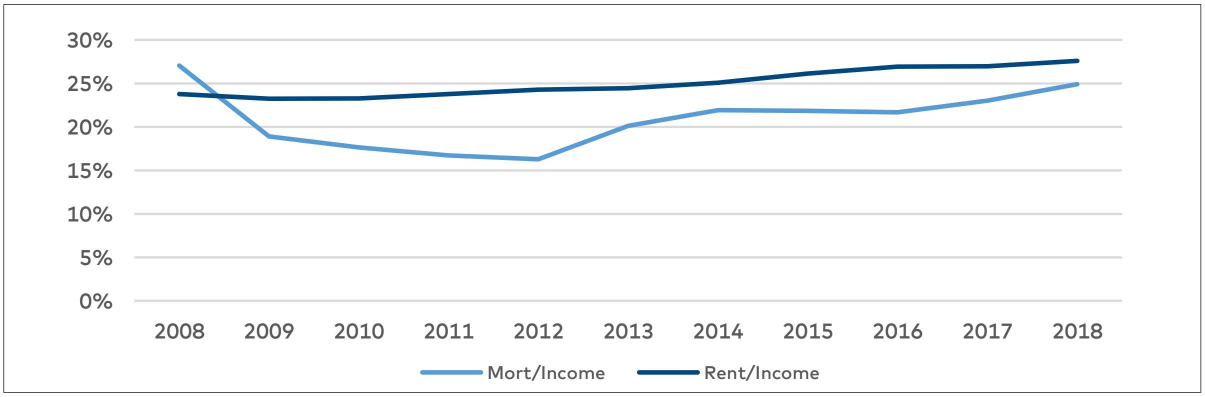
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

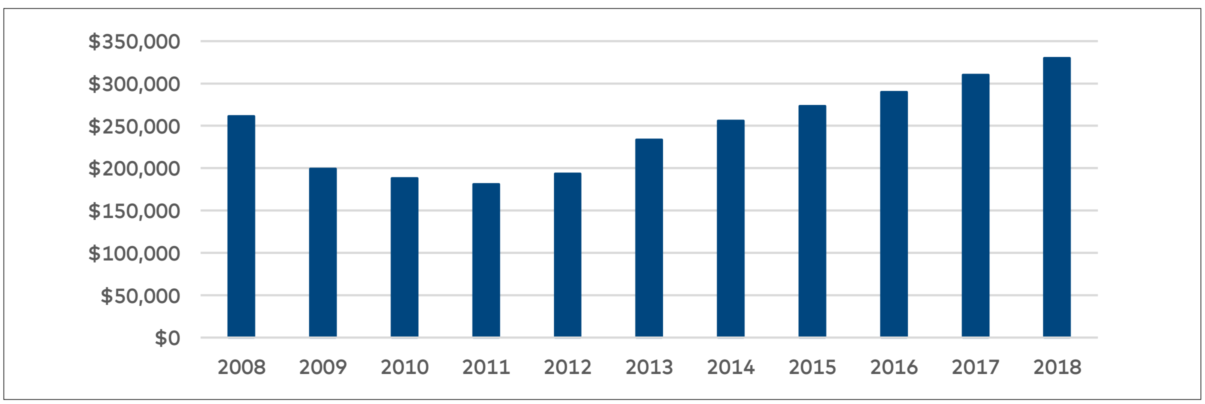
- The median home price in the Inland Empire rose to a new cycle peak of $330,225 in 2018, up 6.4% since 2018 and 82% above 2011 levels. The average mortgage payment accounted for 25% of the area median income, while the average rent equated to 28%.
- The Inland Empire, an area offering a lower cost of living compared to other major markets across the state, is benefiting from the slowdown in home sales occurring in Southern California, where many buyers are being priced out, especially those looking for a property in coastal locations. Meanwhile, a tight labor market is putting upward pressure on local wages.

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 grew by 202,532 residents, up 4.6% and well above the 3.0% U.S. average.

Inland Empire vs. National Population

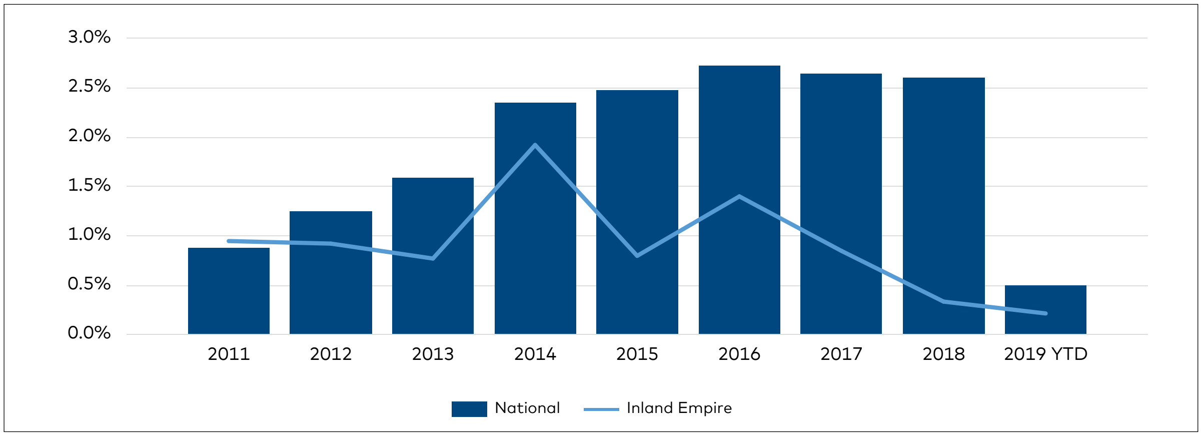
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Inland Empire Metro	4,378,138	4,425,776	4,472,874	4,523,653	4,580,670

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

Supply

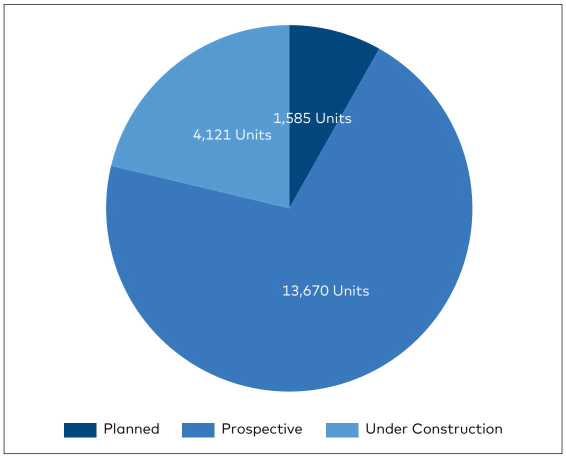
- Developers have ramped up deliveries in the Inland Empire, which had 4,121 units under construction as of April. Of those, 799 will be fully affordable upon completion, while the rest will cater to Lifestyle renters. Development activity saw a sluggish 2018, when only 503 units came online, 0,3% of total stock, way below the 2.6% national average.
- The metro's multifamily pipeline also includes 15,255 units in the planning and permitting stages. Absorption is expected to keep up with the new deliveries, putting downward pressure on occupancy while moderating rent growth.
- Submarkets that had the highest number of rental units underway as of April included Montclair/North Ontario (925 units), East Riverside (868 units) and Redlands/Yucaipa (621 units). The Paseos at Ontario, an 800-unit community in Montclair/North Ontario, was the metro's largest multifamily project underway as of April. G.H. Palmer is developing the 21.6-acre property near QVC's new 1.1 million-square-foot West Coast distribution center within the Meredith International Center north of the 10 Freeway; 1,000 people are expected to be employed there by 2020.

Inland Empire vs. National Completions as a Percentage of Total Stock (as of April 2019)



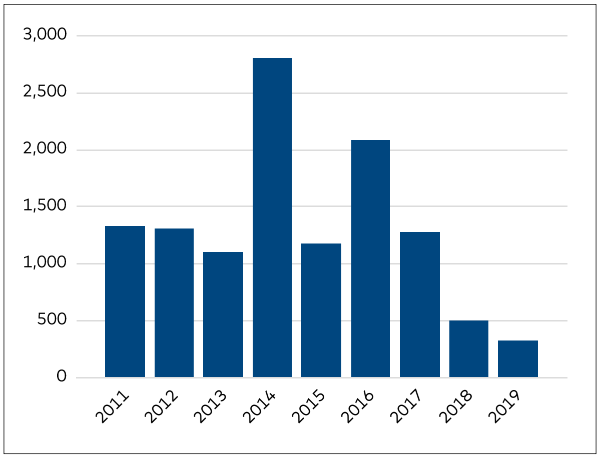
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Inland Empire Completions (as of April 2019)

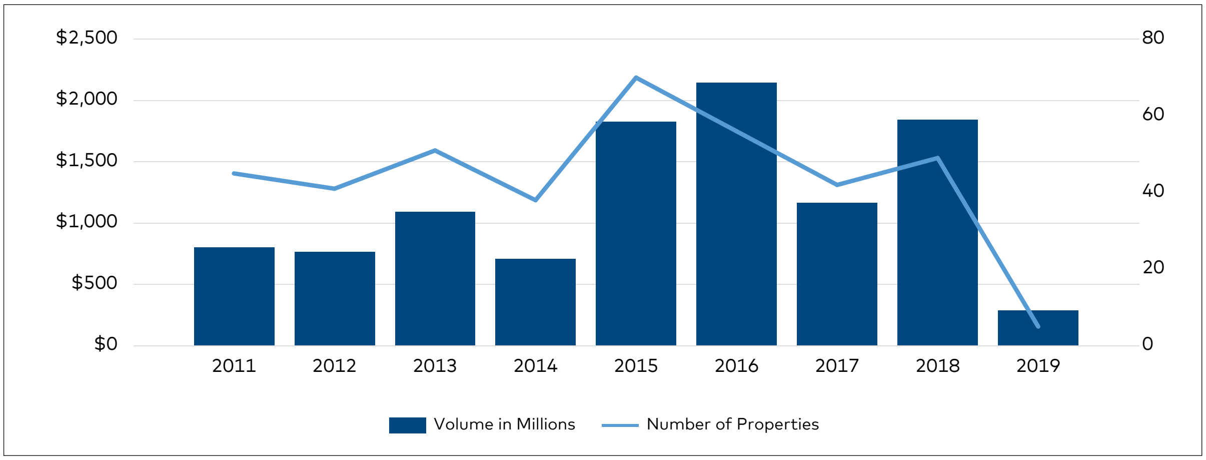


Source: YardiMatrix

Transactions

- Multifamily investment in the Inland Empire reached $282 million during the year's first four months. Coming off 2018's new cycle high, when sales surpassed $1.8 billion, the market's stability, strong demand and inventory of attractive value-add plays continued to attract capital. The increased competition between buyers has pushed property values to new highs, with the average per-unit price reaching $208,354 in 2018 and $244,726 in 2019 through April, a new cycle peak.
- Buyers targeted large Class A and B properties in infill locations, with acquisition yields ranging between 4.5% and 5.8%, as well as smaller Class C assets in suburban areas, with first-year returns in the low-6% range. The Blackstone Group's acquisition of The Villas at Towngate, a 394-unit Class A community in Moreno Valley, was the metro's largest multifamily deal during the first quarter of 2019. The company paid $94.3 million, or $239,267 per unit, to buy the property from Praedium Group.

Inland Empire Sales Volume and Number of Properties Sold (as of April 2019)



Source: YardiMatrix

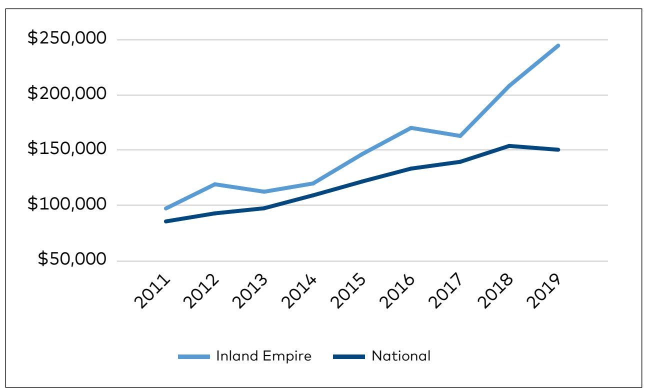
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
East Riverside	291
Rancho Cucamonga	222
Moreno Valley	210
Murrieta/Temecula	181
Montclair/North Ontario	175
Chino/Chino Hills	161
Redlands/Yucaipa	131
Corona	74

Source: YardiMatrix

[1] From May 2018 to April 2019

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix

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MULTI-HOUSING NEWS

Executive Q&A: Michael Schall, Essex Property Trust

By Keith Loria

Essex Property Trust acquires, develops, redevelops and manages multifamily apartment communities located in supply-constrained coastal submarkets along the West Coast, including those in Southern California, Northern California and the Seattle metropolitan area.

Michael Schall joined Essex 32 years ago and is now president & CEO of the company. He spoke with *MHN* about the firm's growth and how the changing economic landscape has influenced its expansion strategy.

What is the company's strategy for 2019?

In 2019, Essex remains focused on generating industry-leading growth in FFO and NAV per share through thoughtful capital allocation, the lease-up of more than $1 billion of apartment development, and disciplined expense management. We have continued to improve the balance sheet and have more than $1 billion in liquidity.

Market conditions have changed very quickly in 2019. We entered 2019 with a preference for allocating capital to repurchase Essex shares, resulting in $108 million repurchased in December 2018 through January 2019. With lower interest rates and a recent recovery in stock price, we are aggressively pursuing preferred equity investments related to apartment development opportunities and are bidding more aggressively on apartment acquisitions.

Describe the dynamics of your target markets. Why these areas?

Essex looks to invest in markets with the greatest long-term rent growth. Each year, our research group looks more broadly at the housing supply-demand dynamics for many major U.S. metros, essentially to continually challenge our market selection criteria and portfolio allocations. At this point, ongoing housing shortages, expensive housing alternatives and the exceptional growth in the technology industries continue to reaffirm our West Coast footprint. While it is challenging to build and acquire apartments in these markets, we believe that it is worth the effort.

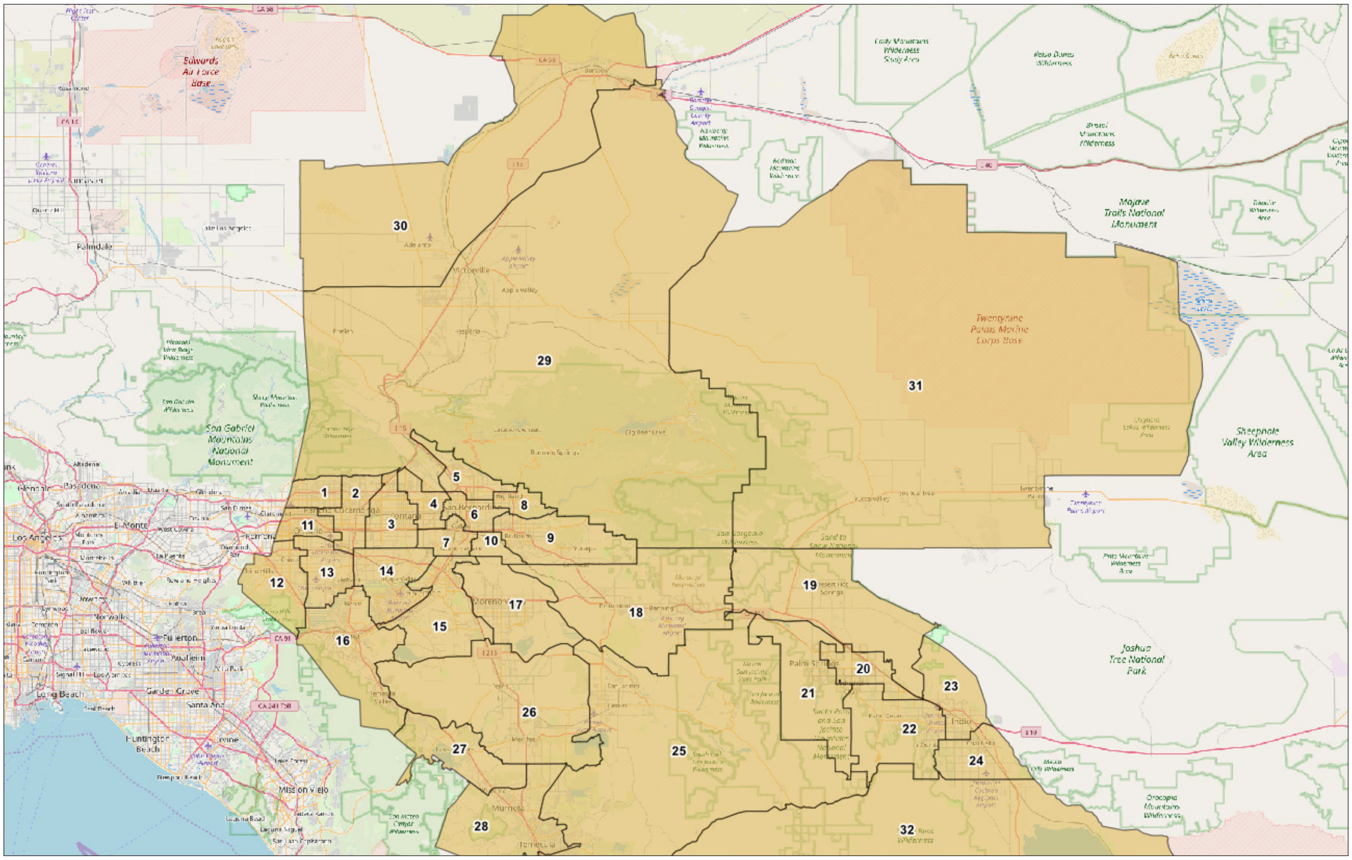
What makes a location a strong one? What do you look for and where do you think you might spread out?

In order to identify strong locations, we seek to understand the communities in which we invest. Our research and due-diligence activities focus on where jobs are being created and how infrastructure and traffic patterns influence where people choose to live. Local supply levels for competing housing are then considered, leading to rent growth estimates.

What defines an Essex property?

With more than 250 properties in our portfolio, no two communities are alike. Market selection and property desirability are the key drivers to investment selection. Within a market, we seek to invest in properties at a variety of rental price points, improving diversity as to resident profile while focusing on areas with the highest rent growth.

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/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 #	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 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.

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