

Yardi® Matrix

Tighter Market, Rising Rents

Multifamily Report Fall 2019

Rent Growth Stays Above National Average

Health Care Leads Employment Gains

Construction Activity Picks Up

Market Analysis

Fall 2019

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Rents Rise Amid Limited Supply

The Inland Empire's affordability advantage compared to other SoCal metros is drawing in new residents, expanding the local labor market and driving up demand for multifamily product. A historically limited supply of new apartments is maintaining rent growth above the national average.

Education and health services led employment gains as of June (12,900 jobs), as new outpatient facilities become operational while the number of residents without health insurance dropped significantly between 2012 and late 2018, following the implementation of the Affordable Care Act. Leisure and hospitality gained 6,900 jobs, due to record tourism numbers in 2018, when visitor spending exceeded \$7.8 billion in Riverside County and hit an all-time high of \$4.9 billion in San Bernardino County. Government employment rose by 5,100 jobs, followed by professional and business services (4,300 jobs) and trade, transportation and utilities (3,500 jobs).

In 2019 through August, more than \$1 billion in multifamily assets traded in the metro, at an average price per unit of \$209,785, a new cycle peak. Developers completed five projects totaling 1,357 units, a significant uptick following last year's cycle low of only 503 units, while another 4,481 units were under construction. Boosted by the migration of new residents from coastal counties, rent growth is expected to stay at 4.5% by year-end.

Recent Inland Empire Transactions

Promenade Terrace



City: Corona, Calif.
Buyer: LivCor
Purchase Price: \$99 MM
Price per Unit: \$300,000

Sonora at Alta Loma



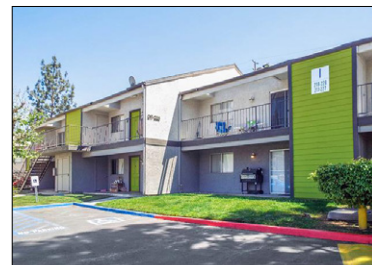
City: Alta Loma, Calif.
Buyer: Sequoia Equities
Purchase Price: \$83 MM
Price per Unit: \$334,008

Lasselle Place



City: Moreno Valley, Calif.
Buyer: Praedium Group
Purchase Price: \$68 MM
Price per Unit: \$223,684

The District at Grand Terrace

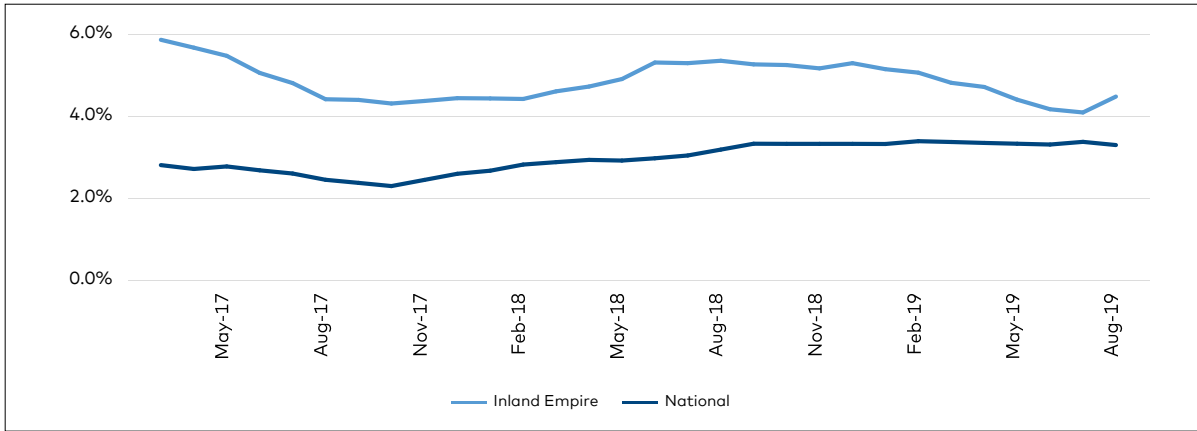


City: Colton, Calif.
Buyer: Tower 16 Capital Partners
Purchase Price: \$63 MM
Price per Unit: \$179,119

Rent Trends

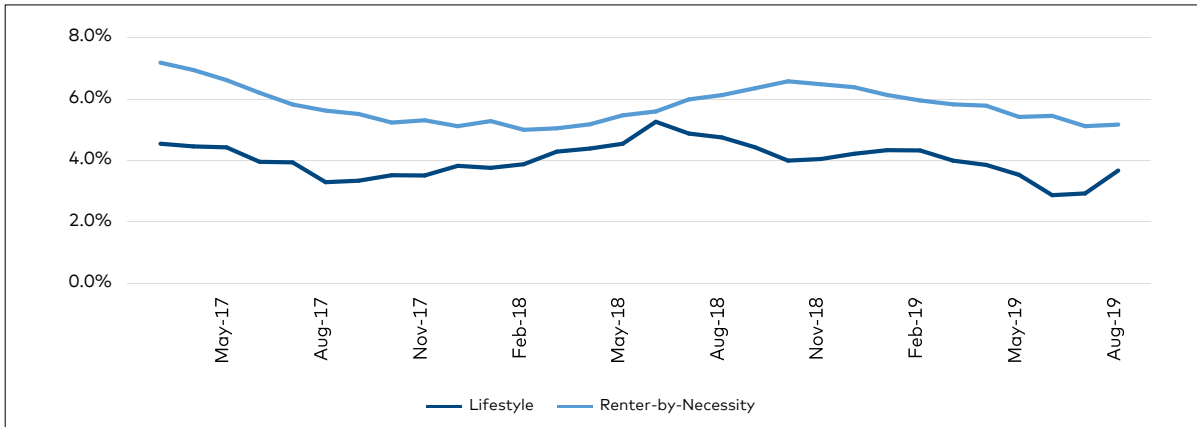
- Rents in the Inland Empire rose 4.5% year-over-year through August, outpacing the 3.3% national rate. The metro's average rent stood at \$1,561, above the \$1,472 U.S. figure. Last year's minimal supply additions of only 503 units spurred rent growth, while pushing the metro's occupancy rate in stabilized properties to 96.2% as of July, up nearly 10 basis points year-over-year.
- Rents in the working-class Renter-by-Necessity segment rose 5.2% to \$1,385, while Lifestyle rates increased 3.7% to \$1,807. Unhindered by an unaffordable cost of living relative to other major California metros, the local population and labor force are steadily expanding, driving up apartment demand and sustaining rent gains in the context of a limited supply. By the end of 2019, we expect the metro's average rent growth to remain at 4.5%.
- Rents rose across all submarkets. Areas that saw the strongest gains year-over year as of August included Highlands (up 12.6% to \$1,224); Adelante/Oro Grande (up 11.1% to \$888); Lake Elsinore (up 7.6% to \$1,609); Palm Springs (up 7.3% to \$1,316); Indio (up 7.2% to \$1,099); Hemet/San Jacinto (up 7.1% to \$1,211) and Nuevo/Perris/Menifee (up 7.1% to \$1,438). South Ontario ranks among the metro's most expensive rental submarkets (with the average rate up 1.6% to \$1,902), along with Rancho Cucamonga (up 3.7% to \$1,922) and Chino/Chino Hills (up 2.2% to \$1,864).

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)

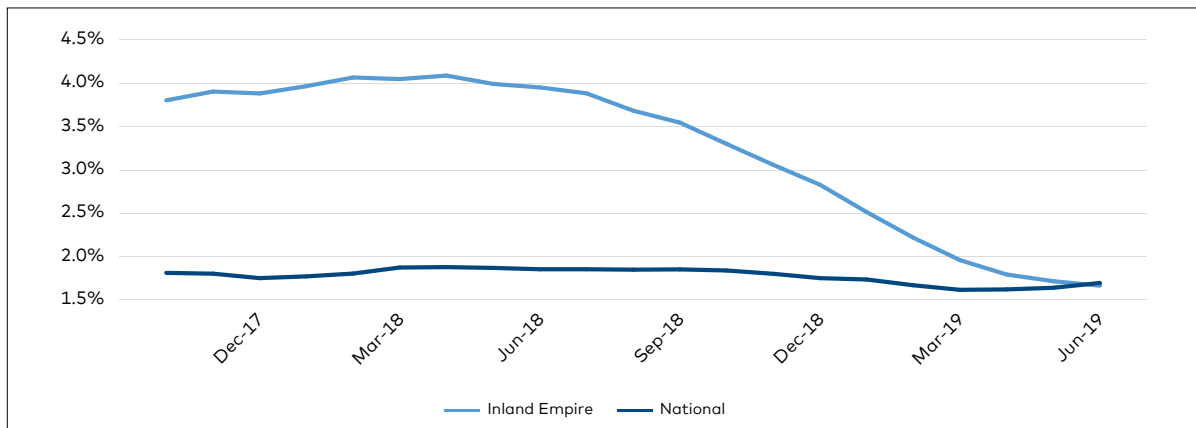


Source: YardiMatrix

Economic Snapshot

- The Inland Empire gained 30,800 jobs in the 12 months ending in June, a 1.7% increase, in line with the national average. Unemployment stood at 4.3% for the same month, above the 3.8% U.S. rate.
- Education and health services led growth (12,900 jobs). The metro's high population gains have led to the creation of additional outpatient facilities, while the number of residents without health insurance dropped from 750,000 in 2012 to 302,000 in late 2018, following the implementation of the Affordable Care Act. Recent expansions include Cucamonga Valley Medical Group's new Chino office, the company's sixth location in the Inland Empire. On the education front, Riverside-area legislators are proposing Senate Bill 56, requesting \$80 million for the construction of a new University of California, Riverside School of Medicine facility, with the aim of addressing the area's shortage of physicians.
- Leisure and hospitality gained 6,900 jobs, due to record tourism numbers in 2018, when visitor spending exceeded \$7.8 billion in Riverside County (up 6.5% year-over-year), while supporting 82,460 jobs, and hit an all-time high of \$4.9 billion in San Bernardino County, a 53% increase since 2003. Government employment rose by 5,100 jobs, followed by professional and business services (4,300 jobs). Hiring in trade, transportation and utilities, the area's main economic driver, moderated to 3,500 jobs, after years of significant growth as a result of intense e-commerce activity and strong consumer spending.

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	%
65	Education and Health Services	251	16.4%	12,900	5.4%
70	Leisure and Hospitality	176	11.5%	6,900	4.1%
90	Government	267	17.4%	5,100	1.9%
60	Professional and Business Services	152	9.9%	4,300	2.9%
40	Trade, Transportation and Utilities	379	24.7%	3,500	0.9%
50	Information	11	0.7%	100	0.9%
30	Manufacturing	102	6.6%	-200	-0.2%
55	Financial Activities	43	2.8%	-300	-0.7%
15	Mining, Logging and Construction	108	7.0%	-500	-0.5%
80	Other Services	45	2.9%	-1,000	-2.2%

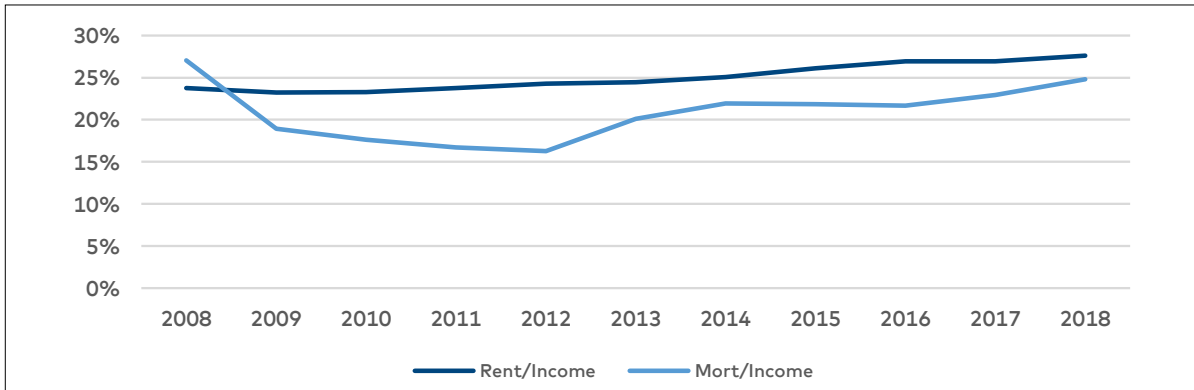
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

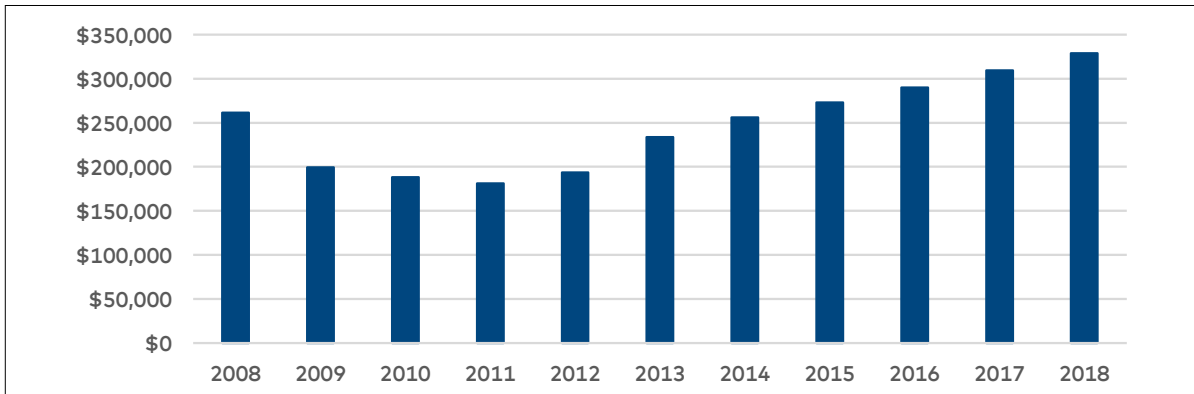
- The median home price in the Inland Empire rose to a cycle high of \$328,691 in 2018, up 6.3% since 2017 and 81% above the level in 2011, when values saw the steepest drop. The average mortgage payment accounted for 25% of the area median income, while the average rent encompassed 28%.
- Even though the number of homes that can be comfortably financed by a typical family has dropped by about 50% since 2014, according to the National Association of Home Builders, the Inland Empire continues to hold an affordability advantage relative to other California regions, allowing the local workforce and population to expand at a robust pace.

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

Inland Empire vs. National Population

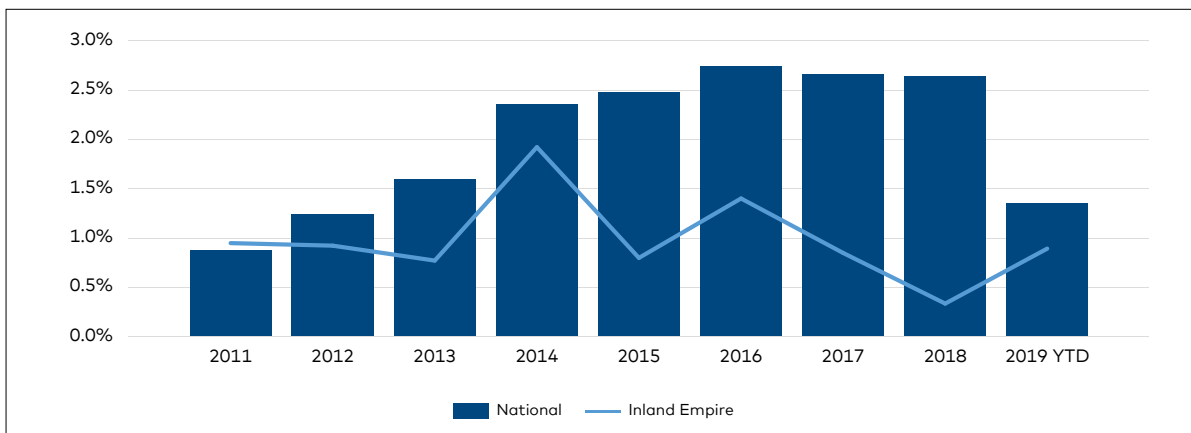
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Inland Empire Metro	4,378,138	4,425,776	4,472,874	4,523,653	4,580,670

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

Supply

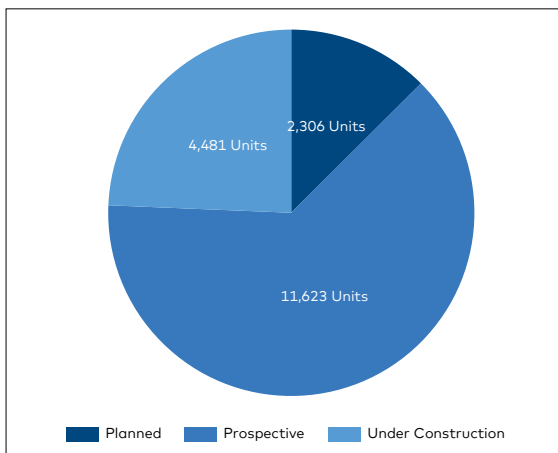
- Some 4,481 units were under construction in the Inland Empire as of August, more than 3,400 of them in the Lifestyle segment. In 2019 through August, five high-end properties totaling 1,357 units were delivered, 0.9% of total stock, below the 1.4% national average.
- The pace of development has stayed below the national average since 2012, hitting a cycle high in 2014, when nearly 2,800 units came online, as well as a cycle low in 2018, when a mere 503 units were completed. The pipeline is significant, with more than 13,900 units in the planning and permitting stages. Absorption of new inventory is expected to remain positive, due to above-average population gains and household formation.
- Montclair/North Ontario topped the metro's submarket list for strong development activity, with 1,136 apartments under construction as of August, thanks to The Paseos at Ontario, an 800-unit community G.H. Palmer is developing just north of Ontario International Airport. The property will offer easy access to the Meredith International Center industrial park, which has recently drawn a 330,000-square-foot IKEA store project, where hundreds of well-paying jobs will be created.

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



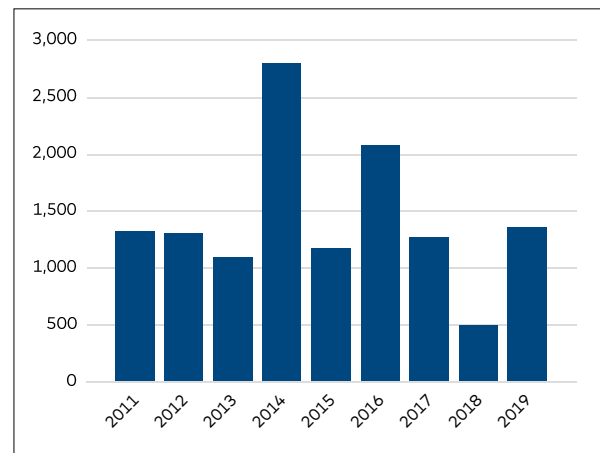
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

Inland Empire Completions (as of August 2019)

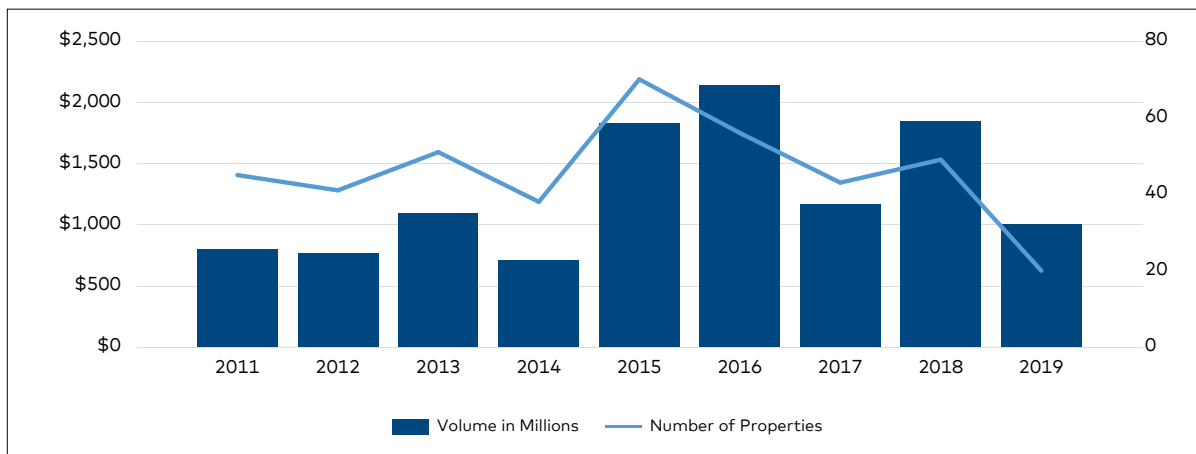


Source: YardiMatrix

Transactions

- More than \$1 billion in multifamily assets traded in the Inland Empire in 2019 through August, at an average price per unit of \$209,785, a new cycle peak and above the \$159,011 national average. Of the 20 properties that changed ownership during the interval, 12 were in the Renter-by-Necessity segment. In 2018, \$1.8 billion in properties traded at an average per-unit price of \$208,354.
- Investors focused on a wide range of assets, from well-located Class A communities with a value-add component, for which acquisition yields can reach 5.3%, to Class C communities that offer first-year returns of as much as 6.5%, in both infill and suburban locations.
- LivCor's \$99 million acquisition of Promenade Terrace, a 330-unit community in Corona, was the metro's largest deal of the year. Alliance Residential Co. sold the property for \$300,000 per unit.

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



Source: YardiMatrix

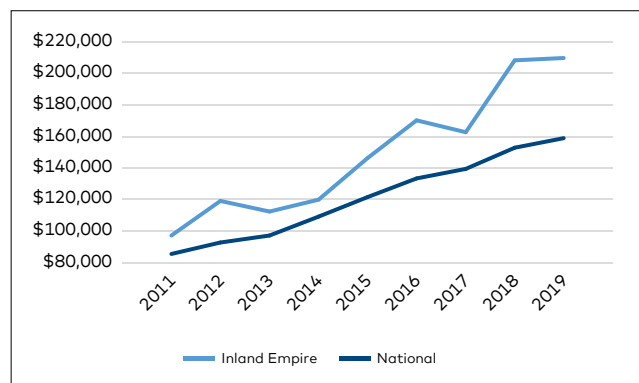
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
East Riverside	390
Moreno Valley	349
Murrieta/Temecula	258
Rancho Cucamonga	222
Corona	184
Chino/Chino Hills	161
Redlands/Yucaipa	131
Montclair/North Ontario	101

Source: YardiMatrix

¹ From September 2018 to August 2019

Inland Empire vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:

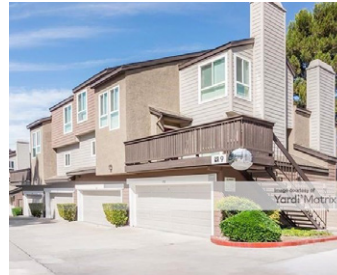


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Inland Empire Senior Housing Commands \$58M

Cushman & Wakefield negotiated the sale of a Southern California continuing care retirement community to a buyer who plans to convert the asset to a rental property.



Inland Empire Community Sells For \$54M

The deal marks the second sale of a Southern California property this summer by Klingbeil Capital Management.



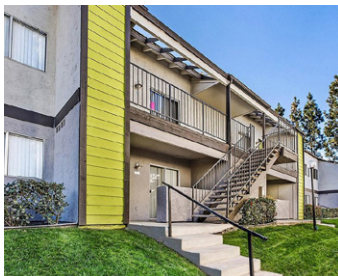
Davlyn Investments Buys Apartments For \$60M

The 187-unit luxury community is the buyer's latest Inland Empire acquisition, following the \$35 million purchase of 125 units in November.



Sequoia Equities Acquires SoCal Community for \$83M

CBRE provided the buyer of the 247-unit Class A asset in the Inland Empire with \$52 million in acquisition financing through Fannie Mae.



Tower 16 Capital Buys Inland Empire Community for \$63M

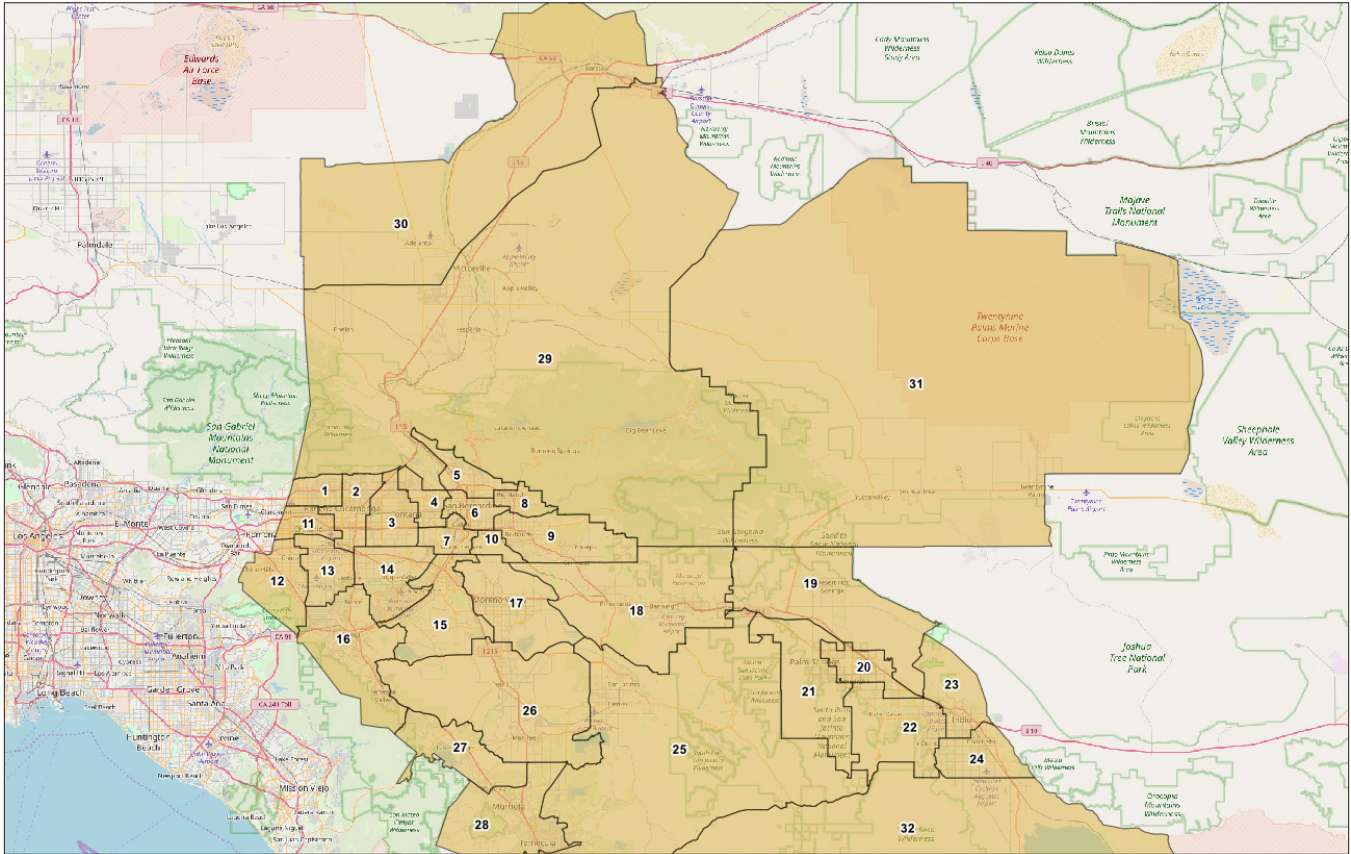
The value-add investment and management firm purchased the 352-unit asset in Colton, Calif., from FPA Multifamily and will invest \$4 million in renovations and upgrades.



Bridge Investment Group Opens SoCal Community

The owner broke ground on the 346-unit Class A asset in early 2017, with East West Bank providing construction 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/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.

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