Yardi® Matrix

MULTIFAMILY REPORT

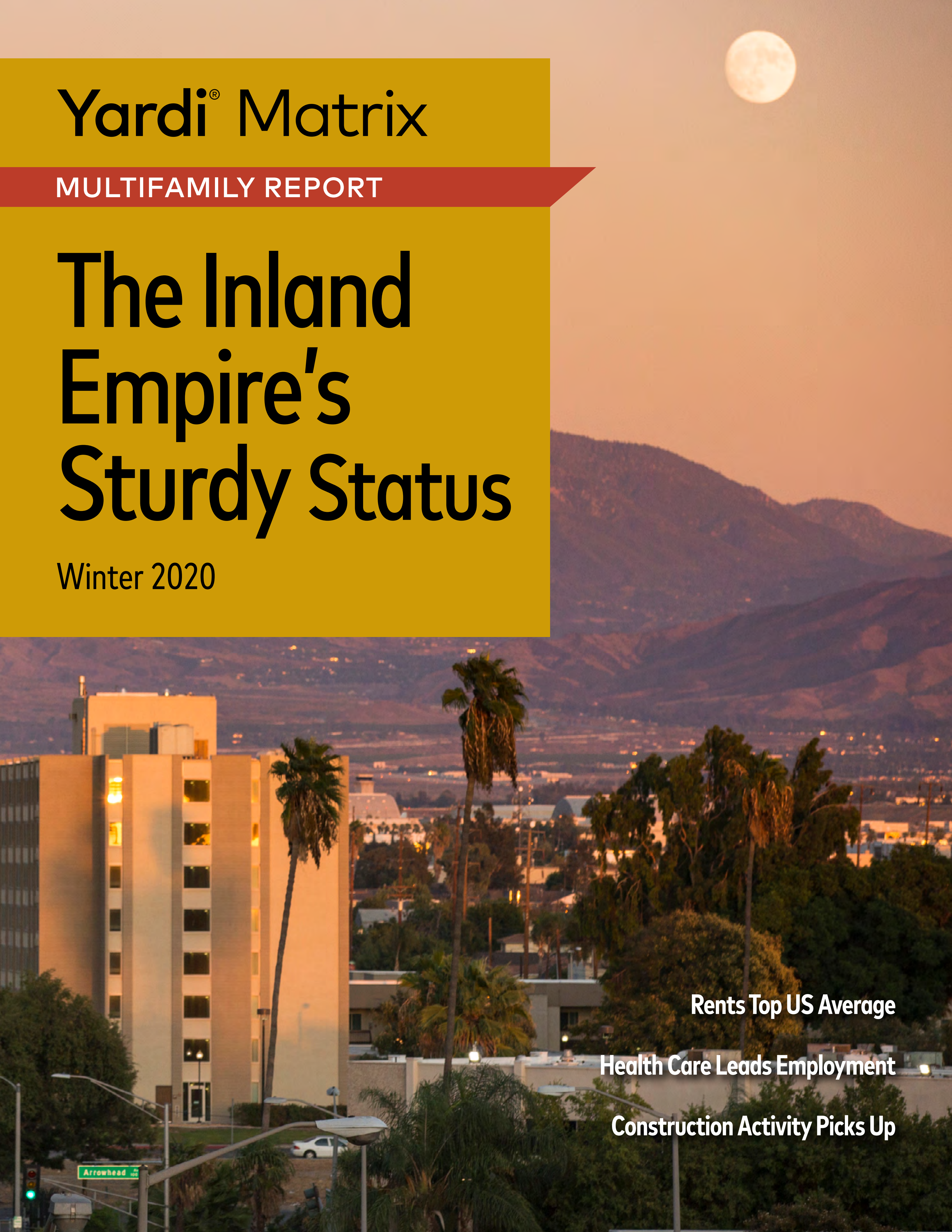
The Inland Empire's Sturdy Status

Winter 2020

Rents Top US Average

Health Care Leads Employment

Construction Activity Picks Up



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Demand Outpaces New Supply

Multifamily demand in the Inland Empire remains strong, boosted by solid population and employment gains despite a chronic shortage of new supply. Consequently, rent growth and occupancy continue to exceed the national average.

Education and health services led job gains in the 12 months ending in November (16,000 jobs). A surge of insured residents following the implementation of the Affordable Care Act has spurred hiring in the sector, along with demand for medical office space. Since the region is facing a shortage of physicians, new medical schools have opened, including the California University of Science and Medicine, which debuted last summer in San Bernardino. Professional and business services gained 6,400 jobs, followed by trade, transportation and utilities (6,100 jobs).

More than $1.4 billion in multifamily assets traded in the Inland Empire in 2019, most of it Renter-by-Necessity properties. With the state's rent control law—in effect since January 2020—impacting properties built before 2005, investors could lose interest in the metro's Class C assets, and therefore limit value-add plays. Developers completed 1,925 units last year, representing 1.3% of stock, while nearly 4,200 units were underway as of December. Absorption is expected to keep up, supporting consistent rent growth in 2020.

Market Analysis | Winter 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Adriana Pop
Senior Associate Editor

On the cover: Photo by Matt Gush/iStockphoto.com

Recent Inland Empire Transactions

Tides at Grand Terrace/ Alvista Terrace

City: Colton, Calif.
Buyer: Tides Equities
Purchase Price: $72 MM
Price per Unit: $197,404

Vista Springs

City: Moreno Valley, Calif.
Buyer: Crystal Asset Management
Purchase Price: $40 MM
Price per Unit: $186,321

Sierra Vista

City: Redlands, Calif.
Buyer: Afton Properties
Purchase Price: $37 MM
Price per Unit: $221,386

ReNew Mills

City: Ontario, Calif.
Buyer: FPA Multifamily
Purchase Price: $28 MM
Price per Unit: $196,479

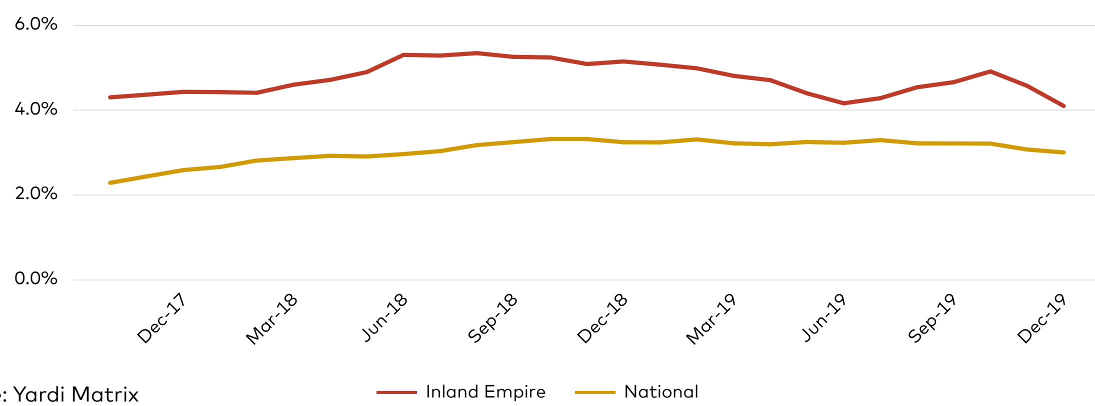
RENT TRENDS

- Rents in the Inland Empire rose 4.1% year-over-year as of December, outpacing the 3.0% national rate. The metro's average rent stood at $1,573, well above the $1,474 national figure. Despite a spike in new deliveries, which almost quadrupled in 2019 compared to 2018, the occupancy rate in stabilized properties has remained relatively unchanged—at 95.9% as of November. That's down only 10 basis points year-over-year and above the 94.9% national average, reflecting rapid absorption of new multifamily product.

- Rents in the working-class Renter-by-Necessity segment rose 4.6% to $1,392, while Lifestyle rates increased 3.4% to $1,821. Above-trend population and employment gains sustain demand for both asset classes despite a prolonged shortage of supply. As the state's new rent control law took effect at the start of this year, rent increases for properties older than 15 years are now limited to 5% per year plus inflation, up to a maximum of 10%.

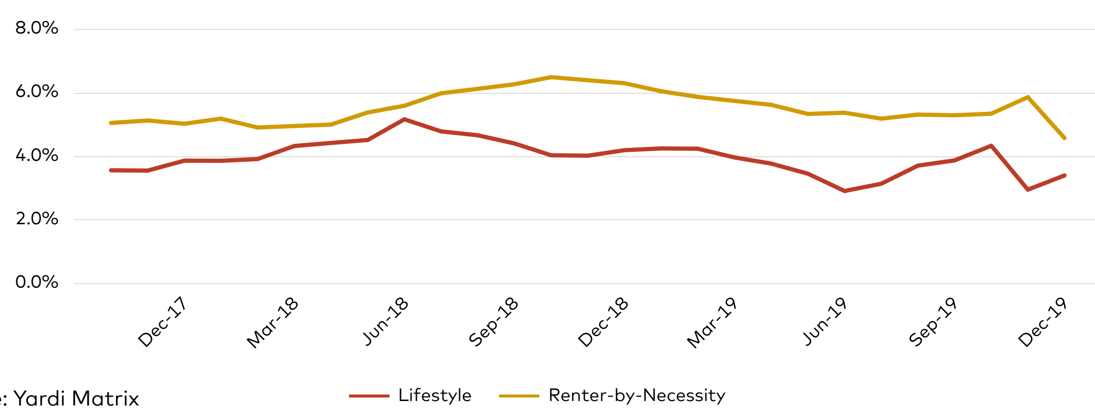
- All submarkets saw year-over-year rent gains. Areas with the strongest growth included Highland, where rents rose 9.9% to $1,247, followed by Colton/Grand Terrace (up 9.6% to $1,406), Adelanto/Oro Grande (8.6% to $898), Fontana (8.2% to $1,352) and Palm Desert/La Quinta (8.0% to $1,412). Rents in South Ontario—the metro's priciest submarket—rose 2.9% to $1,922, while in Rancho Cucamonga the average rate rose 1.1% to $1,876.

Inland Empire vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Inland Empire Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

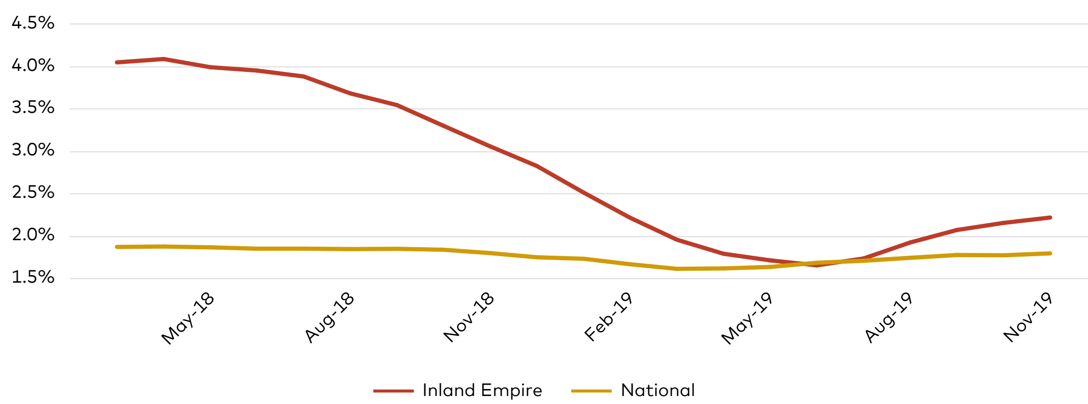
ECONOMIC SNAPSHOT

- The Inland Empire gained 33,000 jobs in the 12 months ending in November, a 2.2% year-over-year increase that outpaced the 1.8% national rate, as well as the state's 1.9% average. The metro's unemployment rate stood at 3.7% as of October, below the state's 3.9%, its lowest level since 1976.

- Education and health services led growth with the addition of 16,000 jobs. The implementation of the Affordable Care Act has fueled a surge in insured residents and the creation of additional outpatient facilities. This has spurred hiring in the sector and increased demand for medical office space. However, the Inland Empire faces a shortage of doctors, according to the latest California Health Care Foundation data, which shows that the region had 35 physicians for every 100,000 residents—about half the rate of what is considered healthy. To address this, new medical schools have recently opened, including the California University of Science and Medicine, which debuted last summer in Colton and was funded by the Prime Healthcare Foundation.

- Professional and business services gained 6,400 jobs, followed by trade, transportation and utilities (6,100 jobs), with the latter employing more than a quarter of the metro's workforce.

Inland Empire vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	262	16.7%	16,000	6.5%
60	Professional and Business Services	161	10.2%	6,400	4.2%
40	Trade, Transportation and Utilities	400	25.4%	6,100	1.5%
90	Government	269	17.1%	6,000	2.3%
70	Leisure and Hospitality	175	11.1%	2,300	1.3%
30	Manufacturing	103	6.6%	1,200	1.2%
55	Financial Activities	44	2.8%	600	1.4%
50	Information	11	0.7%	100	0.9%
80	Other Services	43	2.7%	-1,500	-3.3%
15	Mining, Logging and Construction	103	6.6%	-4,200	-3.9%

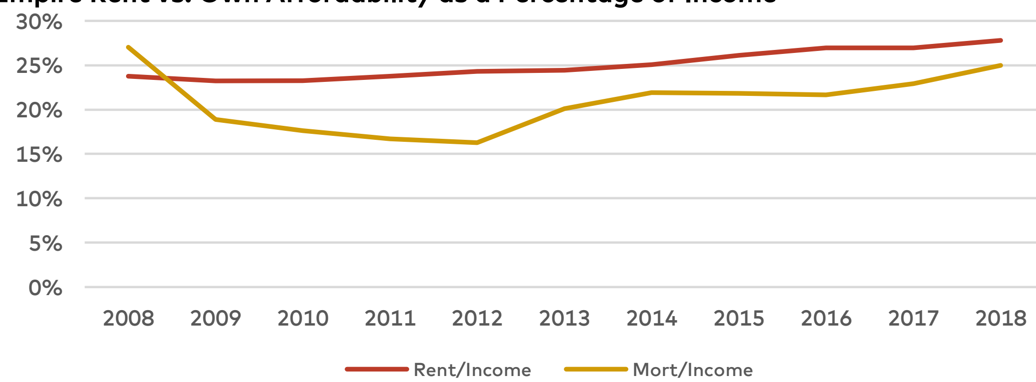
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

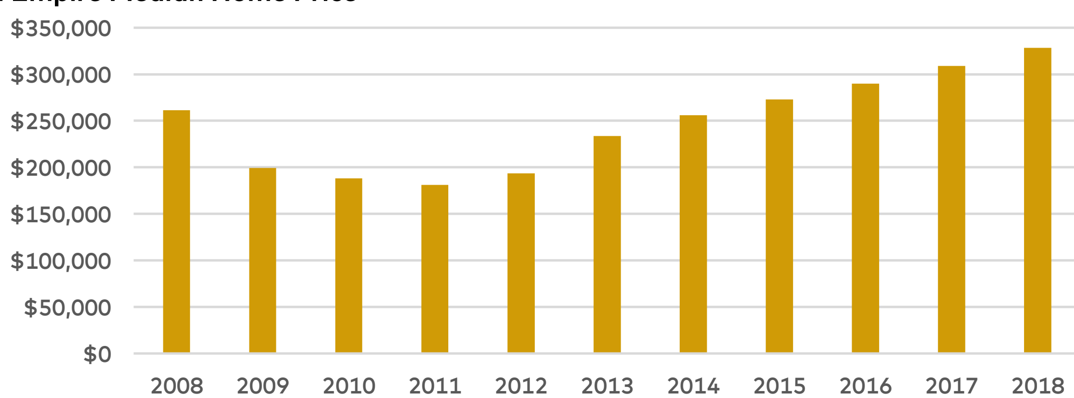
- The median home price in the Inland Empire rose to a cycle peak of $328,543 in 2018, up 6.3% since 2017 and 82% above the rates in 2011, when values saw the steepest drop. The average mortgage payment accounted for 25% of the area median income, while the average rent encompassed 28%.
- The Inland Empire holds an affordability advantage relative to other parts of the state. However, the median household income lags behind that of other Southern California cities and the state overall, mainly because the metro's prominent industries such as logistics and retail offer lower wages, according to the University of California Riverside School of Business Center for Economic Forecasting and Development.

Inland Empire Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Inland Empire Median Home Price



Source: Moody's Analytics

Population

- The Inland Empire added 51,934 residents in 2018, gaining 1.1% in population and outpacing the 0.6% national rate.
- Between 2015 and 2018 the metro gained 157,129 residents, for a 3.5% population increase.

Inland Empire vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Inland Empire	4,465,232	4,516,744	4,570,427	4,622,361

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

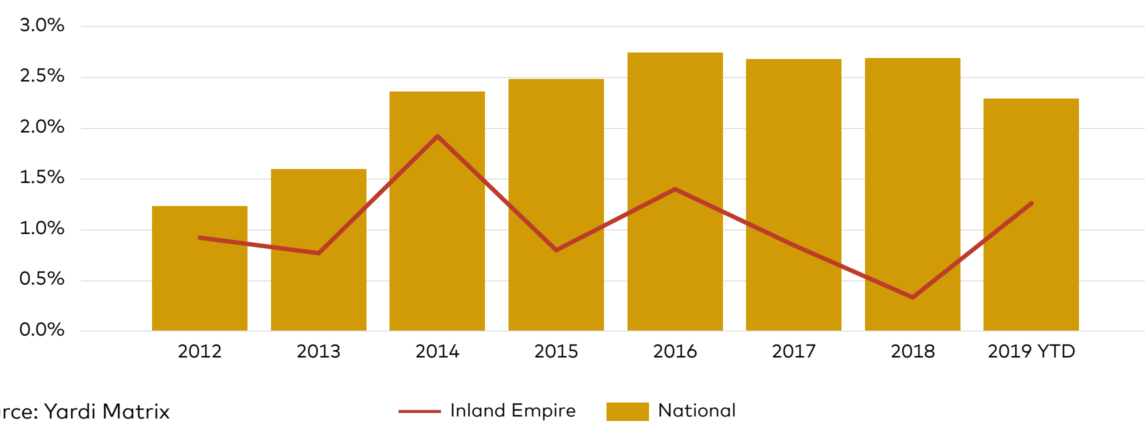
SUPPLY

- Some 4,200 units were underway in the Inland Empire as of December, with more than 3,400 catering to Lifestyle renters, while 774 are fully affordable. In 2019, 1,925 units or 1.3% of total stock came online, below the 2.3% national average, but well above the previous year's 0.3% as only 503 units were delivered in 2018.

- Multifamily development in the Inland Empire has remained below the national average in recent years. This trend is not caused by a lack of demand, but rather it is due to land-use restrictions, coupled with an inefficient tax model that encourages more investment in business development, and minimal interest in housing. Consequently, the region remains overbuilt for business and underbuilt for housing. The metro's pipeline as of December also included 12,996 units in the planning and permitting stages.

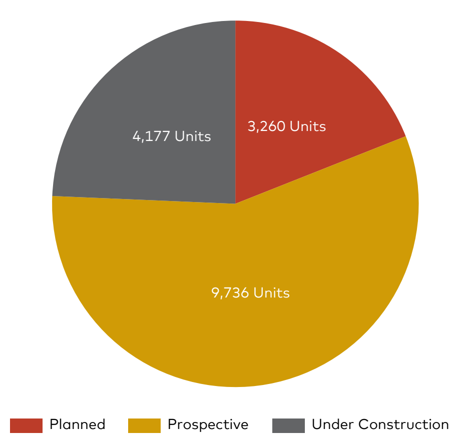
- Montclair/North Ontario topped the list for new supply with 1,136 units underway. The area is home to The Paseos at Ontario, an 800-unit community that G.H. Palmer is developing north of Ontario International Airport. The property will provide easy access to the Meredith International Center industrial park. Of the region's 10 largest cities, Ontario saw the fastest population growth in 2018, at 2.3%. Redlands/Yucaipa also had 621 units, followed by East Riverside (547 units) and Moreno Valley (391).

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



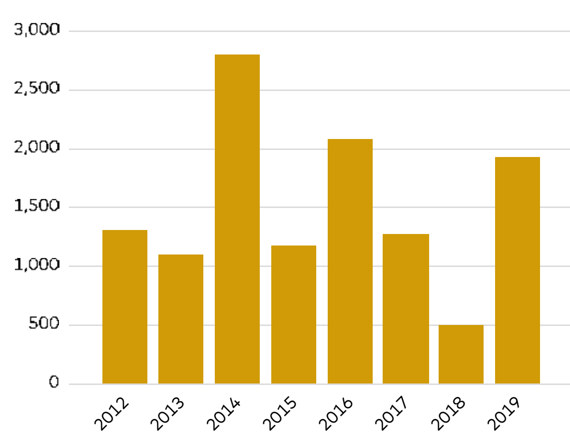
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Inland Empire Completions (as of December 2019)

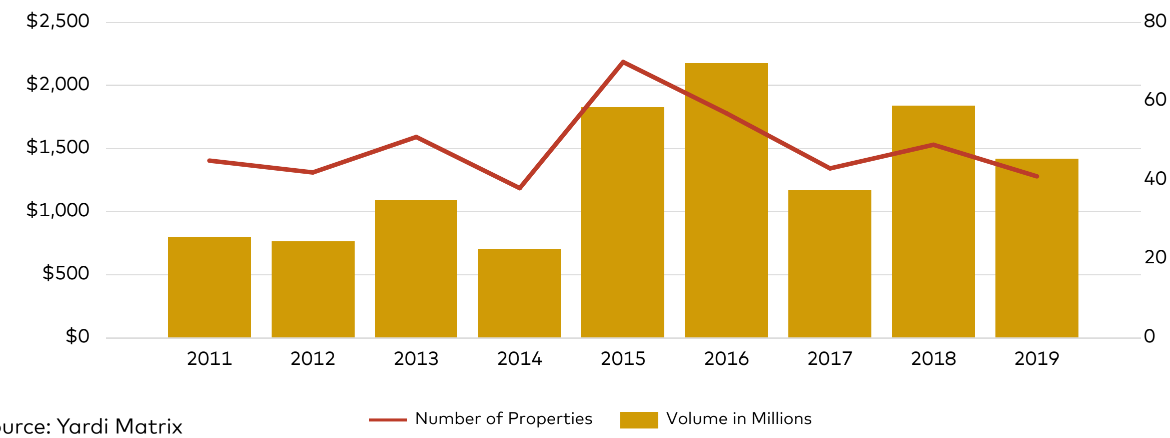


Source: Yardi Matrix

TRANSCTIONS

- More than $1.4 billion in multifamily assets traded in the Inland Empire in 2019, at an average price per unit of $188,603—above the $166,589 national average. Of the 41 properties that changed ownership, 30 were Renter-by-Necessity assets.
- Since the AB 1482 bill, which took effect this year, impacts properties built before 2005, investors could become less attracted to the metro's aging inventory as value-add plays—acquisition yields for these assets ranged between 6.0% and 6.5% in 2019.
- LivCor's $99 million acquisition of Promenade Terrace, a 330-unit community in Corona, was the metro's largest multifamily deal in 2019. Alliance Residential Co. sold the property for $300,000 per unit.

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



Source: Yardi Matrix

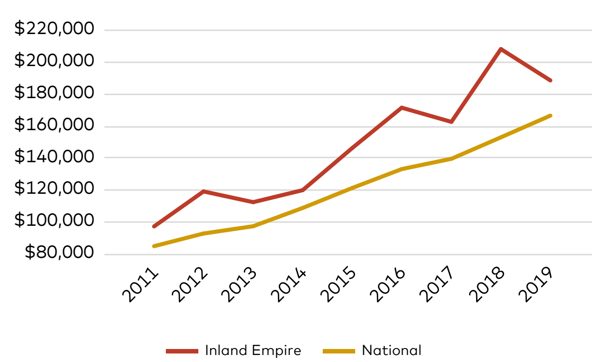
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Moreno Valley	273
Murrieta/Temecula	203
Corona	199
East Riverside	154
Colton/Grand Terrace	135
Upland/Alta Loma	83
North San Bernardino	62

Source: Yardi Matrix

[1] From January 2019 to December 2019

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

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Positive Investments Trades Asset

The buyer paid $14 million for the 120-unit property and plans to invest in capital improvements.

Berkadia Secures $82M for Refi

The funds will be used to retire the existing debt on the 492-unit Silverado Apartment Homes.

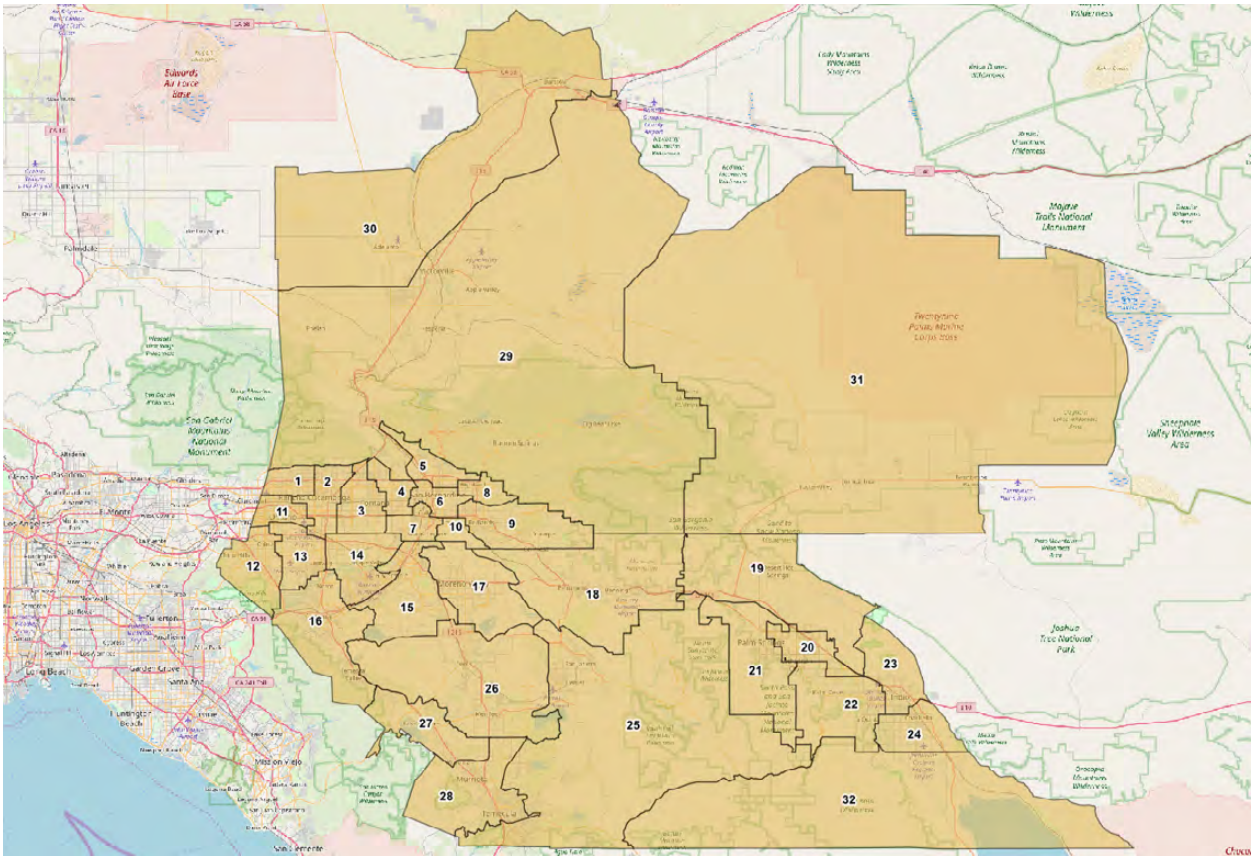
Apartment Complex Changes Hands For $40M

Providence Capital sold the 212-unit Vista Springs multifamily property in Moreno Valley.

Community Lands $39M Green Loan

Fannie Mae originated the loan in August 2019, when Afton Properties acquired the asset from Klingbeil Capital Management.

INLAND EMPIRE SUBMARKETS



Area No.	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 No.	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/Big Bear
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.

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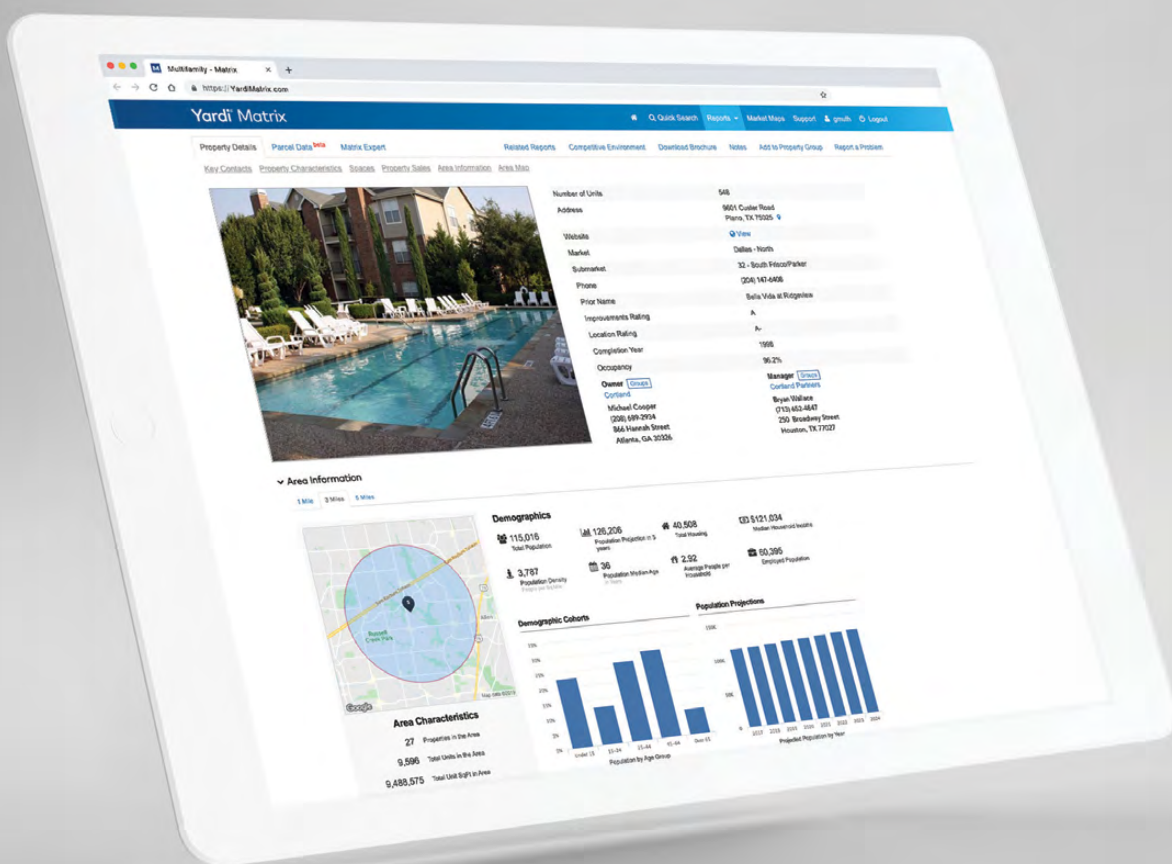

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