



YARDI[®] Matrix

Inland Empire's Rule

Multifamily Winter Report 2017

**Rent Growth Far
Outpaces Nation**

**Steady Hiring
Boosts Demand**

**Transaction Volume
Hits \$1.8B**

Market Analysis

Winter 2017

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The Affordable SoCal Option

The Inland Empire is among the metros not affected by moderation in rent growth. Average rents were up 8% year-over-year in November. The metro's strength is its job market, which is closing in on its fourth consecutive year of above-average growth, albeit most of that improvement is happening in low-paying industries. Demand is also high, a result of population growth and affordability relative to other parts of Southern California.

With the Los Angeles and Long Beach ports rebounding well, demand for industrial space has boosted San Bernardino and Riverside counties. Low barriers to development and the larger availability of space will continue to make the industrial market a critical part of the Inland Empire. Speculative warehouse/industrial developments continue to pop up, adding more than 24 million square feet of space. Generally overlooked when discussing the area's economic performance, the office market has also improved significantly during recent years, with vacancy at cycle lows.

Apartment development has been lackluster, despite the 96.5% occupancy rate of stabilized properties, but rising property values and continued rent appreciation are finally reaping visible results in the pipeline. More than 8,300 units are subject to entitlement approvals or have been announced, meaning that housing inventory might see significant change in the future.

Recent Inland Empire Transactions

Terracina



City: Ontario, Calif.
Buyer: Bridge Investment Group Partners
Purchase Price: \$142 MM
Price per Unit: \$193,071

Solamonte



City: Rancho Cucamonga, Calif.
Buyer: Mesirow Financial
Purchase Price: \$130 MM
Price per Unit: \$249,520

Stonegate at Towngate



City: Moreno Valley, Calif.
Buyer: Weidner Investment Services
Purchase Price: \$99 MM
Price per Unit: \$178,532

The Ashton

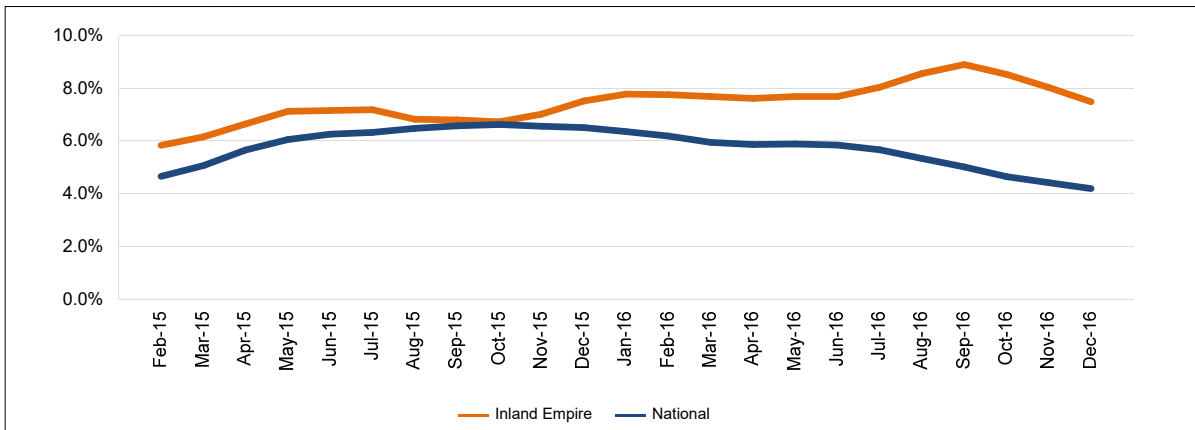


City: Corona, Calif.
Buyer: Starwood Capital Group
Purchase Price: \$98 MM
Price per Unit: \$199,813

Rent Trends

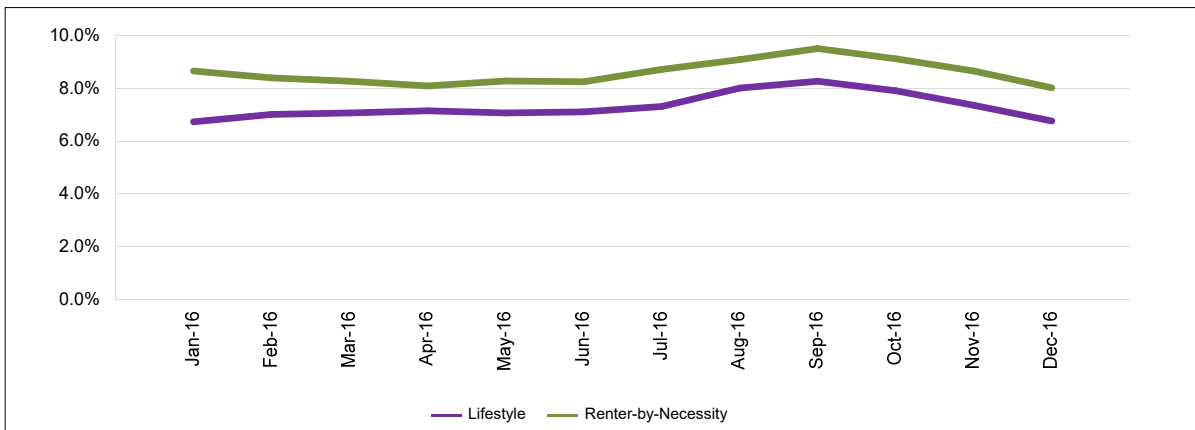
- Inland Empire rents were up 8% year-over-year in November, nearly twice the national rate of 4.3%. Rents are generally moderating across the country, with the national average dropping by another \$2 in November, according to the latest Yardi Matrix survey. Meanwhile, rents in the Inland Empire are at \$1,329, well above the national average. Demand is not letting up in San Bernardino and Riverside counties, as household growth continues to be robust.
- While employment growth has been strong throughout the past few years, the area's economy continues to rely on lower-paying industries, which means the bulk of renter demand is for Renter-by-Necessity assets. Rents in the segment have improved by 8.7% year-over-year, reaching an average of \$1,177 in November. Lifestyle assets rose to \$1,581 during that interval, up 7.3% year-over-year.
- The highest growth rates generally occurred in the lower-priced submarkets in Riverside County: Palm Springs (13.3%), Indio (12.8%), Hemet/San Jacinto (12%) and Moreno Valley (11.5%). San Bernardino County submarkets with typically higher rents, such as South Ontario and Chino/Chino Hills, grew at slightly more tepid rates, both just under the 5% mark. Yardi Matrix expects another strong year for rents in 2017, with appreciation at 7.9%, largely as occupancy remains high with little development.

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)

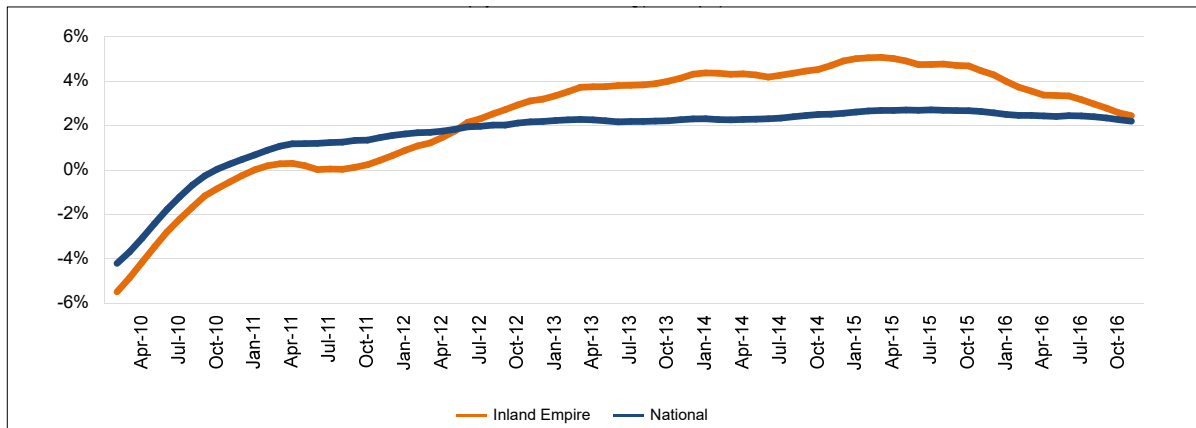


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in September, the Inland Empire added 31,400 jobs, up 2.8% and outperforming the 2.3% national average. The Inland Empire beat the overall U.S. rate for four years.
- Trade, transportation and utilities added 8,700 jobs, strengthening the sector’s position as the area’s economic cornerstone. Industrial development is boosted by the lower barriers to construction than in neighboring metros, while activity has also been fueled by the growing amount of imports and strong performance of the ports of Long Beach and Los Angeles. Despite more than 20 million square feet of new supply, vacancy in the industrial market is still trending downwards, while rents continue to go up.
- Job gains were led by government (9,100), while education and health services added 6,800 positions. Construction employment was up 1,900, in part due to the massive amount of industrial development.
- Absorption of office space has been healthy, pushing the vacancy rate down. Although the office segment is not as significant a part of the commercial real estate market in the Inland Empire compared to other SoCal metros, most office-using job sectors are on the upswing, compressing vacancy to about 13%, the lowest rate of the current cycle, according to CBRE.

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	239	17.3%	9,100	4.0%
40	Trade, Transportation and Utilities	344	24.9%	8,700	2.6%
65	Education and Health Services	214	15.5%	6,800	3.3%
30	Manufacturing	99	7.2%	3,200	3.3%
15	Mining, Logging and Construction	92	6.7%	1,900	2.1%
60	Professional and Business Services	146	10.6%	1,400	1.0%
80	Other Services	45	3.3%	1,000	2.3%
50	Information	11	0.8%	100	0.9%
55	Financial Activities	43	3.1%	-300	-0.7%
70	Leisure and Hospitality	149	10.8%	-500	-0.3%

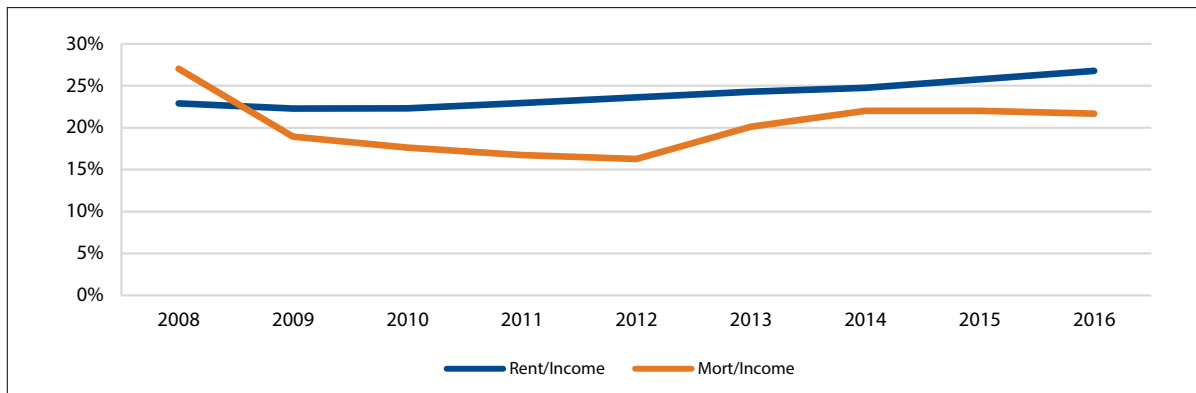
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

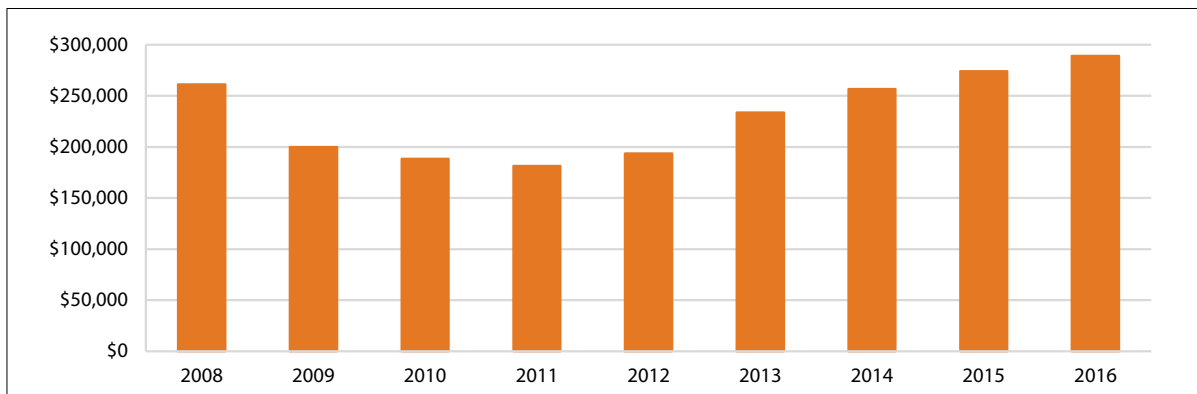
- Although jobs are being added at a steady rate, household income in the Inland Empire trails other Southern California markets. The median home price hit \$289,133 this year, following five consecutive years of appreciation, which is exacting a lot of pressure on residents' incomes.
- However, renting remains the costlier option for Inland Empire residents, comprising an average of 27% of income. A large cohort of the population works in the L.A. metro and takes advantage of the more affordable housing options available in San Bernardino and Riverside counties.

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's population grew by more than 200,000 in the past six years. The area has consistently exceeded the national rate of growth.

Inland Empire vs. National Population

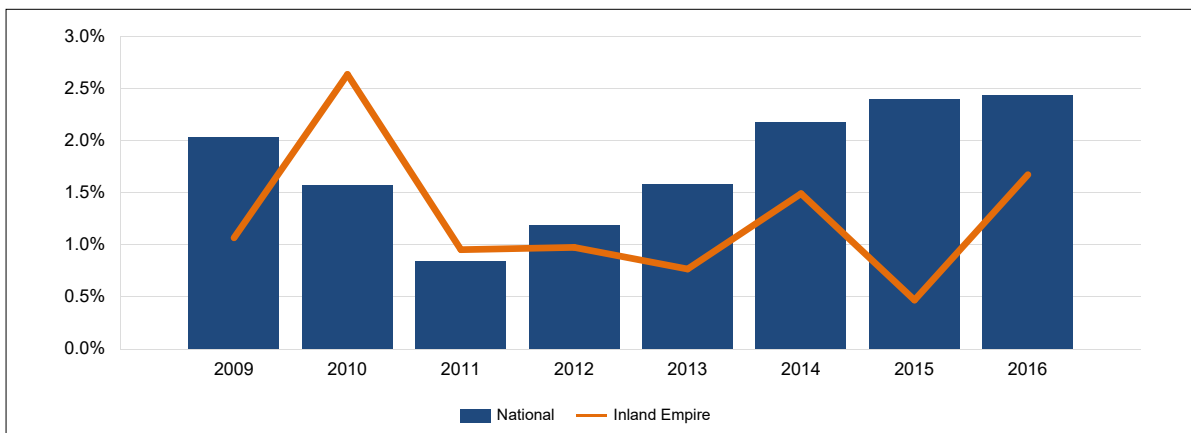
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	4,301,633	4,347,082	4,387,415	4,438,715	4,489,159

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

Supply

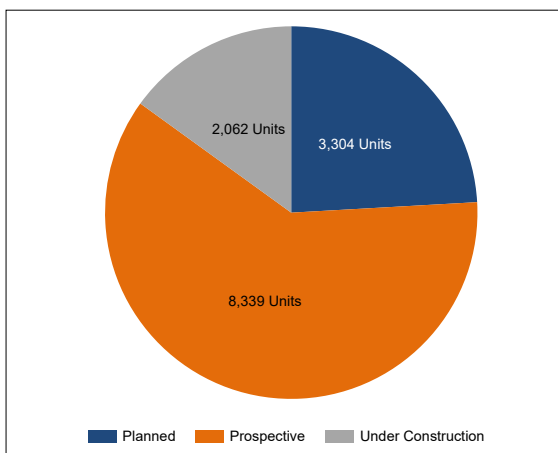
- Compared to the national average, growth in the Inland Empire’s apartment inventory is miniscule. Just 1,500 units are slated to be added to stock in 2017, a 1% growth rate and well below the national average of 2.5%. That comes on the heels of only 2,363 units added in 2016, up 1.6% and 700 units added in 2015.
- An above-average rate of completions, at 2,500 units as of November 2016, has led to a 10-basis-point downshift in the occupancy rate for stabilized assets, at 96.5% as of October. Demand is still high due to the creation of new households resulting from well-performing employment, as well as the relative affordability of the Inland Empire.
- Roughly 14,200 units are in various stages of development. Most of those units are prospective, suggesting that completions aren’t likely to increase in the near future. Some 2,500 units are under construction, many of which are being built in Corona and Chino/Chino Hills, where more than 1,100 units are underway. Distribution between the two counties is roughly on par, with around 1,200 units underway in both Riverside and San Bernardino counties. The largest property that’s scheduled to come online during the coming months is Wermers Properties’ The Metro in Corona, a 464-unit complex that is slated to be completed in the spring.

Inland Empire vs. National Completions as a Percentage of Total Stock (as of January 2017)



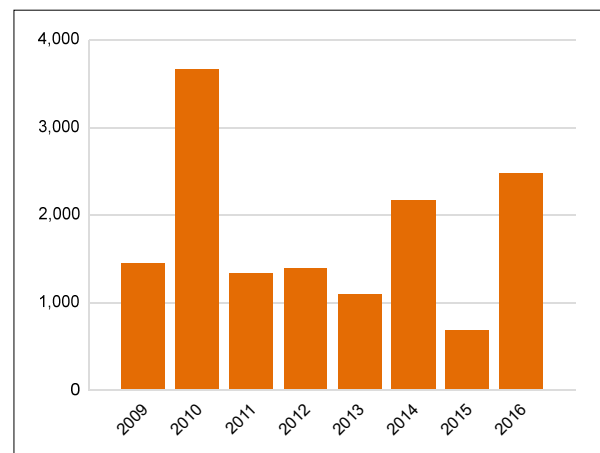
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Inland Empire Completions (as of January 2017)

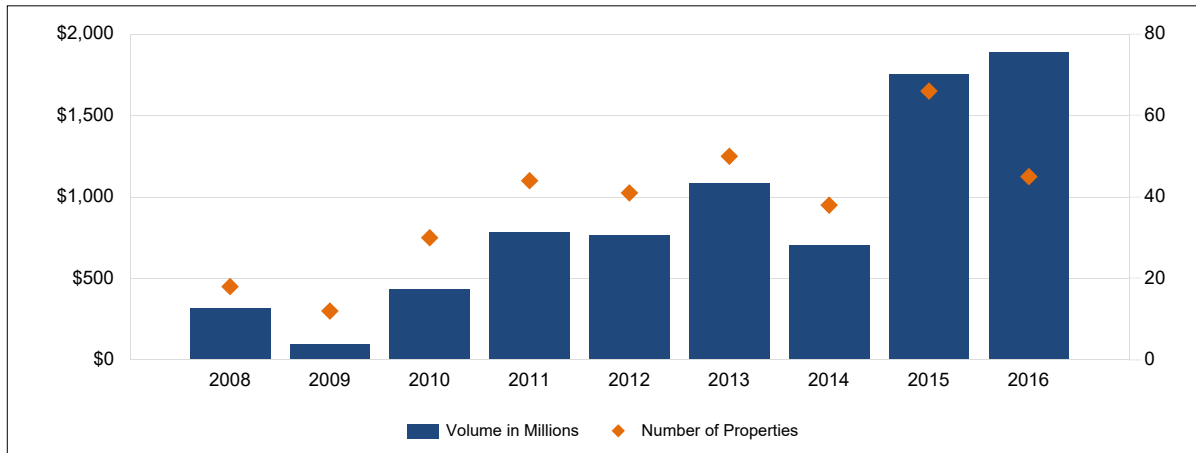


Source: YardiMatrix

Transactions

- Some \$1.8 billion worth of properties changed hands in the Inland Empire in 2016 for the second straight year. Many investors are looking for value-added properties in stable secondary markets not far from core metros such as Los Angeles. Prices are not as high per unit in the Inland Empire, plus the metro has better prospects for rent growth than more expensive Los Angeles and Orange County metros.
- Property values are quickly rising, with the average price per unit now over \$180,000. Investors are targeting mid-level assets, where rent appreciation occurs at higher levels than in upscale assets. Given the Inland Empire's economic profile, acquisition yields are typically higher than in other major markets in the state, hovering around the 6% mark for Class B assets. The largest transaction completed in 2016 was Bridge Investment Group Partners' purchase of the 736-unit Terracina community in Ontario. The asset traded for \$142.1 million, or \$193,071 per unit.

Inland Empire Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

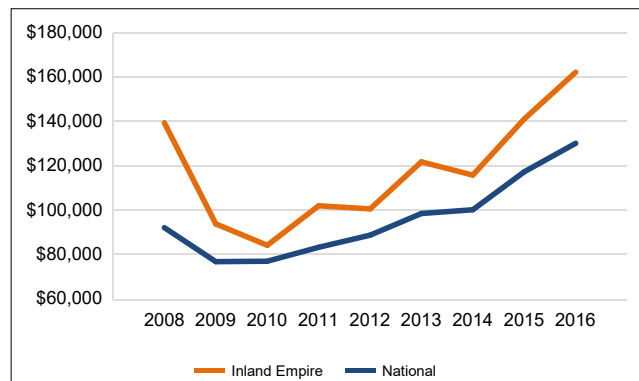
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Corona	319
Moreno Valley	255
Murrieta/Temecula	162
South Ontario	142
Rancho Cucamonga	130
Montclair/North Ontario	126
Chino/Chino Hills	94
Colton/Grand Terrace	92

Source: YardiMatrix

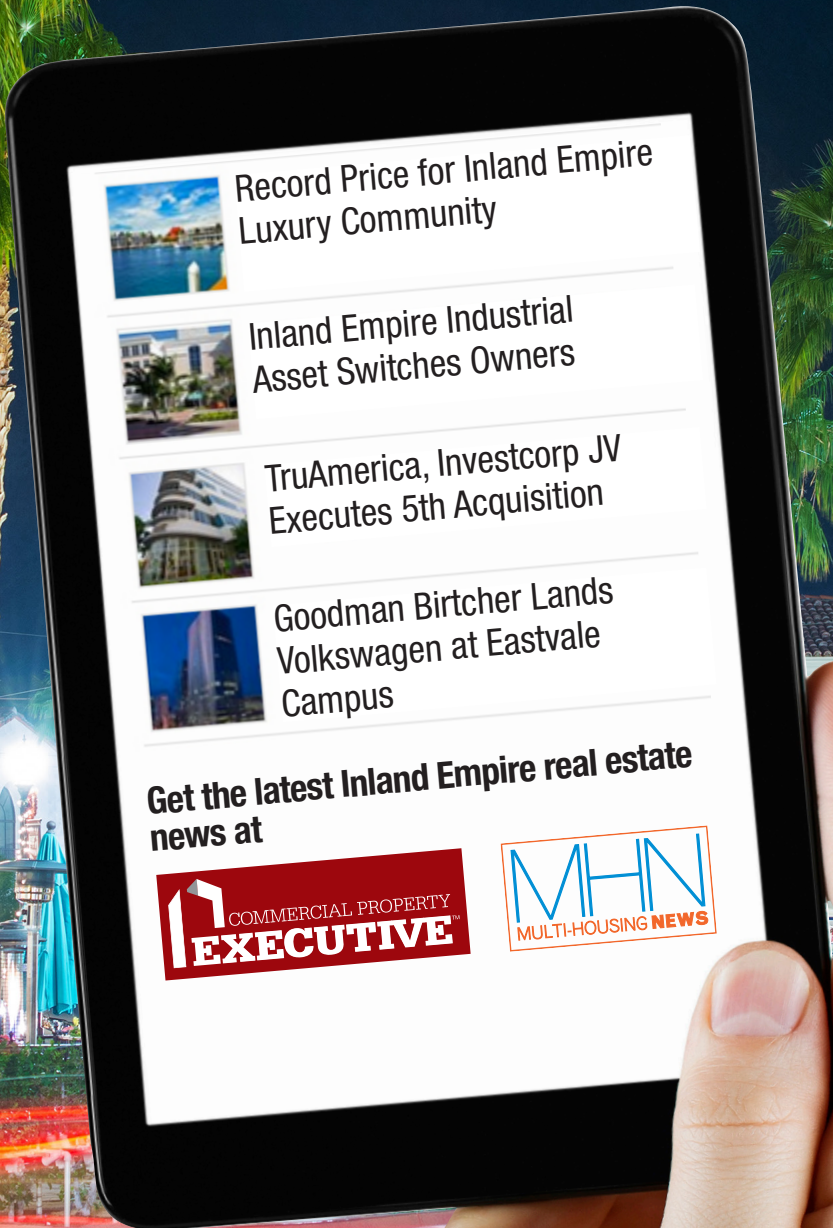
¹ From December 2015 to November 2016

Inland Empire vs. National Sales Price per Unit




Source: YardiMatrix


Read All About It!



 Record Price for Inland Empire
Luxury Community

 Inland Empire Industrial
Asset Switches Owners

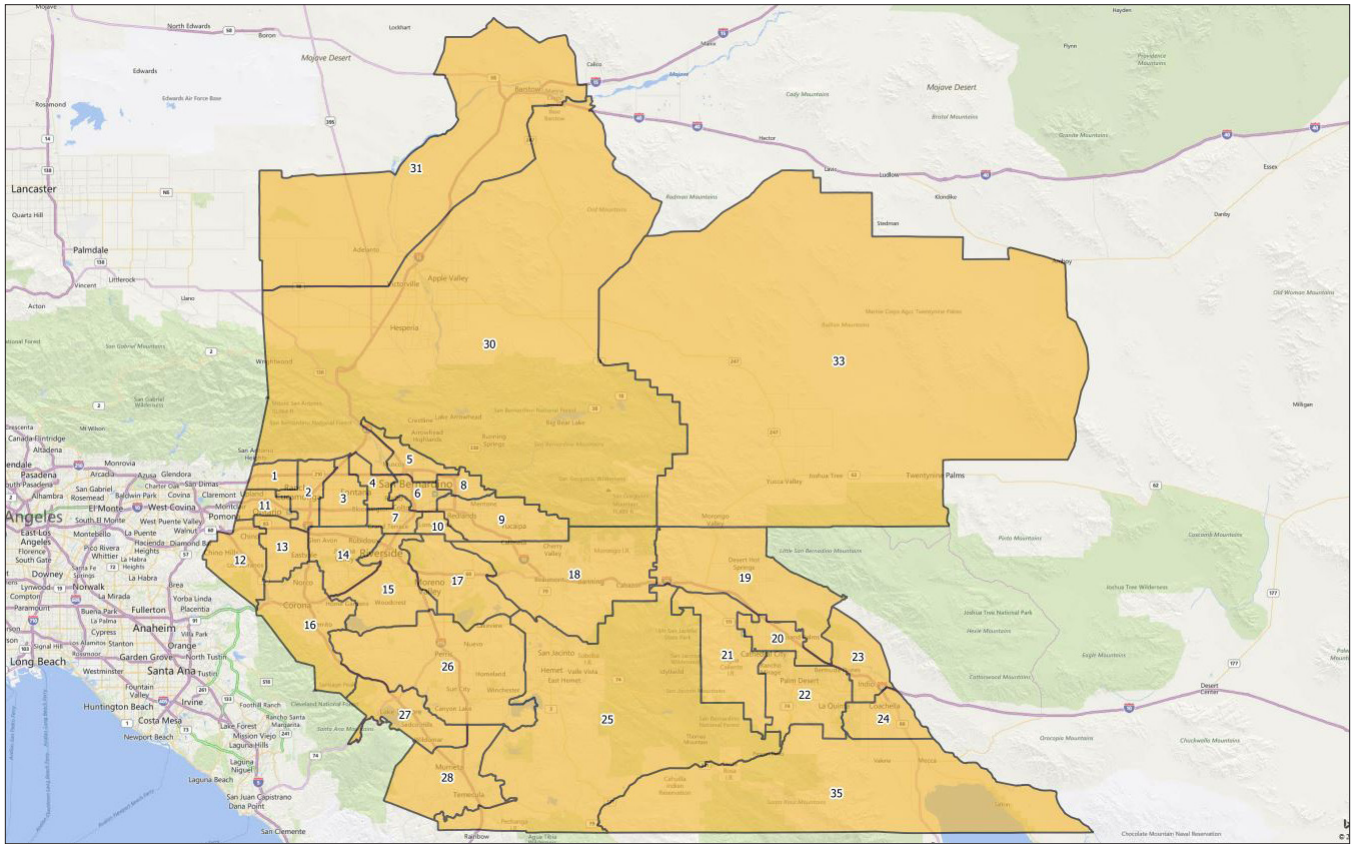
 TruAmerica, Investcorp JV
Executes 5th Acquisition

 Goodman Birtcher Lands
Volkswagen at Eastvale
Campus

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Inland Empire Submarket Map



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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