USC Lusk
Casden Real Estate Economics Forecast

2016 Multifamily Forecast Report






USC Lusk Center For Real Estate
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2016 Multifamily Report

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USC Casden Forecast 2016 Multifamily Report

Executive Summary

The U.S. financial market meltdown that dominated the news at the start of the year has faded and it is becoming clear that fears surrounding the potential impact of oil, the global economy, terrorism, and financial bubbles were highly overstated. The U.S. economy continues to truck along at a steady, albeit mediocre, pace of growth. That the financial markets should have gotten it wrong is no surprise—this is the fourth major selloff since the 'Great Recession' came to an end, an unprecedented display of volatility.

Nevertheless, USC Casden Forecast believes the great rental housing bull market that has defined the current economic expansion is starting to wane. The industry had been given a massive boost by the mortgage market mess that was at the center of the recession. The wave of foreclosures and new regulations that severely restricted access to mortgage credit pushed record numbers of people into rental housing. In total there were 5.5 million new renting households added to the market between 2006 and 2015.

But the tide is beginning to turn. Strong growth in the labor markets has increased the number of households that can afford to make the move to ownership. The credit markets are showing signs of thawing, and single-family housing is still very affordable from a long run standpoint because of low interest rates. Ownership rates are starting to rise again.

At the same time, record amounts of new supply are coming on to the market. Housing starts for 5+ unit buildings hit 385,000 last year at the national level—the highest since 1987. This new supply is already causing vacancy rates in many regions across the United States—and even here in California—to move up, albeit modestly. Permits for new construction across the nation were over 450,000, implying that even more supply will be coming online this year.

While we see the market softening, we don't foresee a rout. There are a number of other important trends that will maintain demand for multifamily rental properties.

- While the mortgage credit markets are loosening, the pace is still slow and from a medium term perspective the markets are clearly still tighter than normal and will likely remain so for some time.
- Household formation in the United States—muted for years because of slower migration and the lack of job opportunities for young workers—is starting to return to a normal pace of growth. The nation has seen 1.2 million new households form per year in the last two years—a sharp increase over previous years.
- Millennials are delaying major life decisions such as marriage, children, and home ownership, more than previous generations.

Just as important as these potentially inflationary demand side factors, there is a stabilizing influence on the supply side. Well over half of the newly renting households in the United States ended up in single-family rental properties over the past decade—roughly three million in total. These properties are owned by a wide variety of investors who took advantage of the record high disparity between rental rates and homeownership costs that existed from 2009 through 2011. History suggests that such investors will sell their assets into a new housing market expansion—and anecdotally there have already been announcements of sell offs by some major property holders.

As for California and Southern California, the situation is different. While the national trends described are clearly in place for the state, features that are unique to California's housing market will alter the supply-demand balance and keep the markets tight.

To begin, there is the constriction of overall housing supply that comes from various regulatory controls such as CEQA and Prop 13. California is home to 13% of the nation's population and traditionally sees a faster than average rate of population growth. Yet, over the last 20 years, the state has only been responsible for 8% of new residential building permits. And this trend is continuing. Over the last two years California has added more than four new people for each new residential building.

Similarly, the credit market tightness that currently constrains demand for owner-occupied housing is magnified in a state with home prices that are twice as high as the national average.

While the overall market will remain tight, the USC Casden Forecast does see potential issues in the high-end rental markets. The distortions that exist in California's housing supply pipeline also tend to skew construction towards high-end units. The average permit value for a multi-family unit in California is up 35% in real (cost adjusted) terms from 2004. The average permit value is 40% higher in California than the U.S. average. Families that start to migrate to owner-occupied product are likely to come out of the demand base for this type product. But this implies weaker rental growth for class A property as there is enough excess demand in other parts of the market to fill the space if priced accordingly.

This report on multifamily markets in Southern California begins with a "stay-the-course" outlook for the national and state economies in the Current View on the Economy section that immediately follow. Stronger fundamentals in all components of the real estate markets and the construction industry are a part of that outlook.

The multifamily markets of Southern California -Los Angles County, Orange County, Inland Empire (Riverside and San Bernardino Counties), and San Diego County – are each covered in subsequent sections of this report. For the most part, the markets of Southern California have experienced declining in vacancy rates and increasing rents over the post-recession period. These trends have been met with a pronounced supply response in Los Angeles, Orange, and San Diego Counties where multifamily permits have increased sharply over the last few years, with a more muted increase in the Inland Empire. The increase in supply has slowed the fall in vacancy rates in some markets and submarkets while others have seen vacancy rates edge up more recently. But it has barely tempered the rate of increase in rents.

Among the Southern California markets, Orange County saw the highest rent among the multifamily markets last year at $1,577/month, while San Diego County experienced the fastest growth rate in rents from 2014 to 2015 at 5.9%. Los Angeles County's vacancy rate was the lowest last year at 4.2% with Orange County marginally higher at 4.4%. Both Los Angeles and Orange Counties have seen steady, substantial increases in permit activity over the last four years, with San Diego not too far behind.

Rising rents throughout Southern California are a part of the forecast picture over the next two years. Economic fundamentals will drive the demand side of the market, notably job and income growth along with positive trends in demographics. Meanwhile, increases in the supply of units will continue and will temper decreases in vacancy rates over the next two years.

Current View of the Economy

U.S. Economy On Steady Course, Growth Continues in 2016 (and 2017)

Ostensibly, the year has not started well for the U.S. economy. The financial markets spooked in January and equity values dropped sharply even as treasuries rallied to highs not seen since 2012. Data from the U.S. Bureau of Economic Analysis (BEA) showed the nation's economy slowing to a crawl in the 4th quarter of 2015, and there have been perpetual worries about China, oil prices, high-yield credit, tech bubbles, deflation, and the list goes on.

Taking a step back from the noise, the reality is that the U.S. economic expansion continues to move along at a steady, if mediocre, pace. With that expansion, the unemployment rate has decreased to its lowest level in years, more people are working full-time, and wages are on the rise. More importantly, there is little reason to believe that the nation will stray from its current path of growth in 2016. The Casden Forecast believes growth will continue in the 2.5% plus range for the year, with perhaps even better numbers next year.

As for the financial markets, they apparently have overcome some of the fear that dogged them earlier in the year. The S&P has already gained back half the losses experienced in January and February. Bond prices are settling back as well.

So where will the economy see growth? Real spending data from the BEA indicates that 2015 was a strong year for consumer spending on goods, particularly in the auto sector where U.S. automakers enjoyed a record year. U.S. consumers are also being helped by solid, ongoing job growth, weak inflation, and low interest rates, conditions that have extended into the current year. Beyond the consumer sector, the U.S. economy will see a solid performance among many of its key industries (including manufacturing, professional and technical services, health care, and retail) while housing and construction will continue to improve.

There are plenty of reasons why the United States' economy will not grow as rapidly as everyone would like over the next couple of years. But there is little reason to believe the nation's economy will stop growing. Sometimes it pays to be a tortoise—particularly when that 'tortoise' offers the relatively high quality of life that so many American's enjoy.

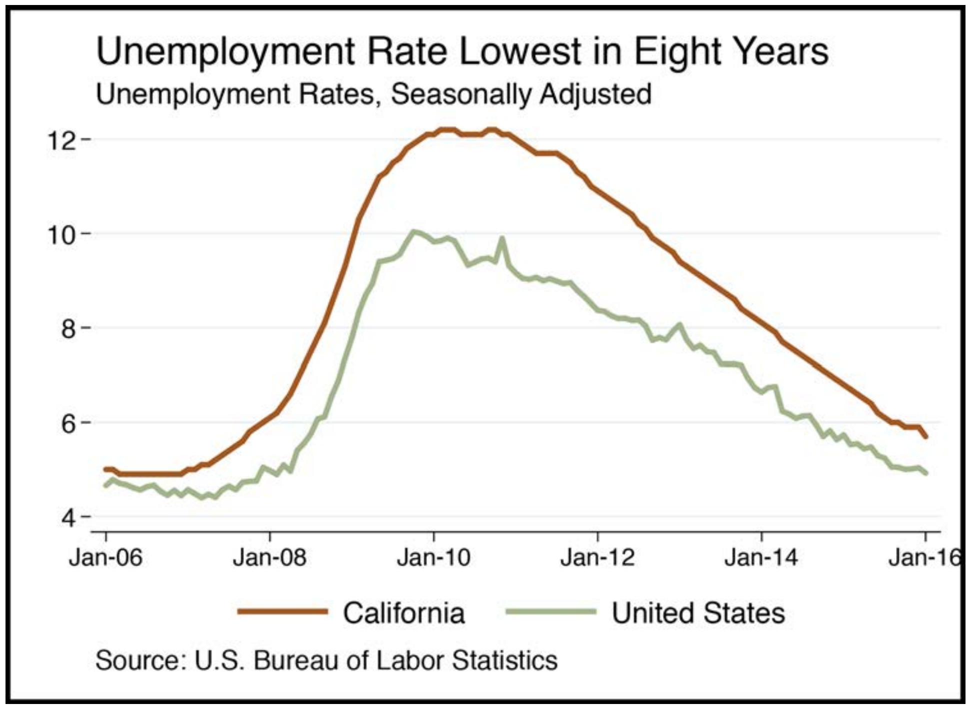
California Economy Outpacing the Nation

California did it again. The high-priced, over-regulated, fruits-and-nuts state that everyone loves to hate turned in another strong performance in 2015. For the fourth year in a row, California outpaced the nation in job growth as well as output. The state experienced broad-based gains across its key industries ranging from agriculture to high tech and nearly everything in between.

The closest thing to a real-time gauge of California's economic performance is its labor market. As the state economy has chugged forward over the past three and a half years, its unemployment rate has declined steadily. By the end of 2015, the unemployment rate stood at 5.9%, the lowest since late 2007, as job creation outpaced increases in the labor force.

For the fourth year in a row, California added wage and salary (nonfarm) jobs at a faster pace than the United States as a whole (3.0% annual rate compared to 2.1% for the U.S.). The pace of growth actually accelerated in 2015 to its fastest in over fifteen years. The state added over 460,000 jobs, with nearly every part of California—along the coast as well as inland—participating in that growth.

Nearly every industry in California experienced job gains over the past year, generally adding to the gains of recent years. Health Care & Social Assistance, Leisure & Hospitality, and Construction led the state's industries, combining to produce nearly 45% of the state's total job gains last year. Only Mining and Logging lost jobs last year, as it reeled from the plunge in energy prices.



Job Gains Across California Industries

Industry	2015 Jobs (000s)	Change '14-15 (000s)	Change '14-15 (%)
Construction	726.6	52.2	7.7
Transport,Warehouse,Util.	553.5	30.1	5.8
Information	482.5	19.6	4.2
Leisure and Hospitality	1,828.3	69.4	3.9
Education/Health	2,455.8	90.0	3.8
Admin Support	1,058.8	33.8	3.3
Prof Sci and Tech	1,207.4	34.1	2.9
Real Estate	271.9	6.7	2.5
Retail Trade	1,663.4	34.5	2.1
Management	230.1	4.5	2.0
Government	2,460.0	48.3	2.0
Finance and Insurance	526.2	9.6	1.9
Farm	423.3	6.9	1.6
Other Services	545.3	8.7	1.6
Wholesale Trade	720.8	10.8	1.5
Manufacturing	1,292.2	18.0	1.4
NR/Mining	29.0	-2.6	-8.3
Total Private	13,591.7	419.4	3.2
Total Nonfarm	16,051.8	467.7	3.0

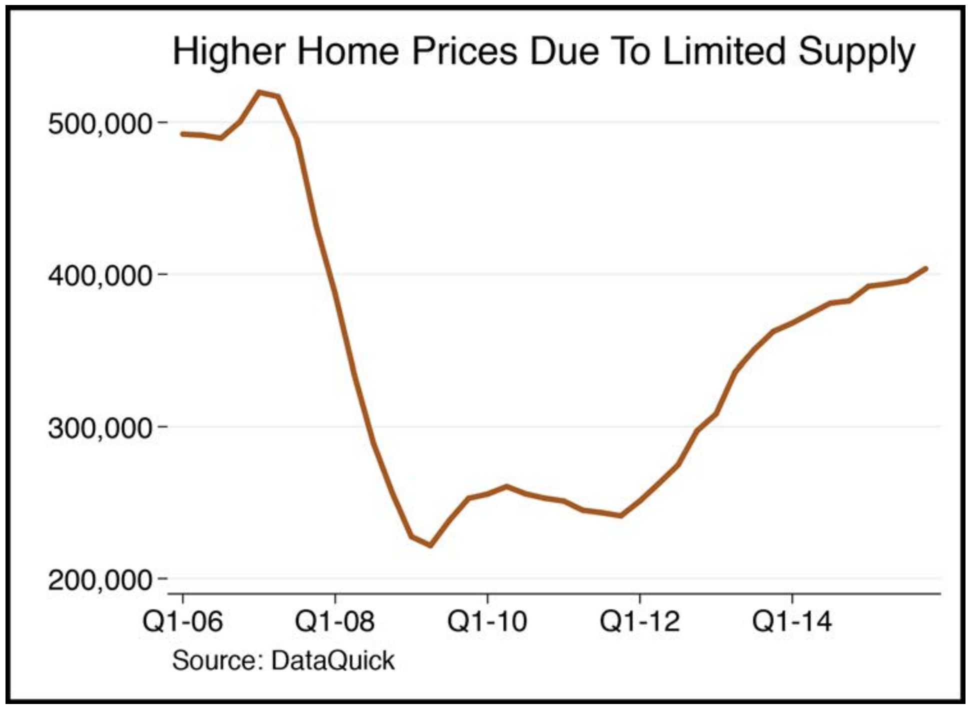
Source: California Employment Development Department

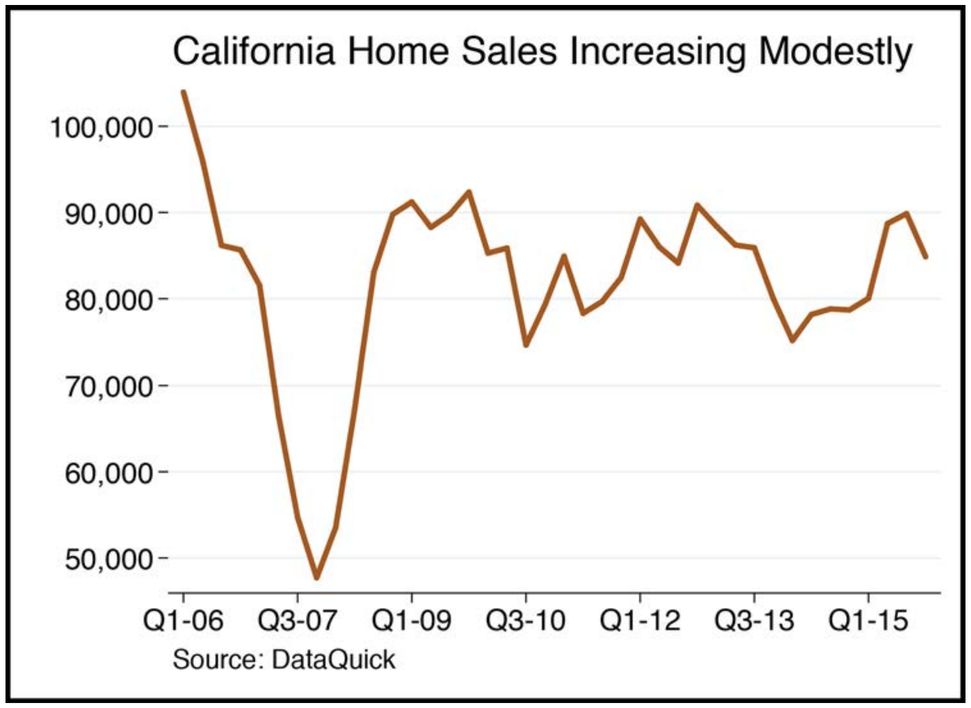
Housing Sector Prospects Improving

California's housing market continued to improve last year in terms of prices, sales, and new construction. The statewide median price of a home was $403,600 in final quarter of 2015, an increase of 5.5% from one year earlier. Sales rose by 10.5% following a decrease of 8.7% in 2014, but are still constrained by lean inventories in much of the state. Meanwhile, rental markets across the state were marked by low vacancy rates and rising rents last year, as the state's homeownership rate (54.3%) showed little sign of improvement.

Higher home prices and sales ought to trigger an increase in construction, but new home building has been restrained in this cycle. In 2015, the total permits rose last year, but still fell short of the 100,000 mark and were less than half of the peak levels that preceded the 'Great Recession'. Moreover, multifamily permits accounted for the lion's share of permits, mainly because much of the activity is taking place in the state's large metro areas.

Several forces should combine to drive heightened demand for housing in the next two years. Two of these are job and income growth along with low but rising mortgage rates, but a third demographic force will also play a significant role. Many Millennials delayed life cycle decisions such as forming households, becoming homeowners, and starting families in the immediate aftermath of the recession. Now in their late 20s and early 30s, these individuals are in a position to become renters and first-time buyers in large numbers over the next few years, a development that should drive new construction and lift the housing market overall.

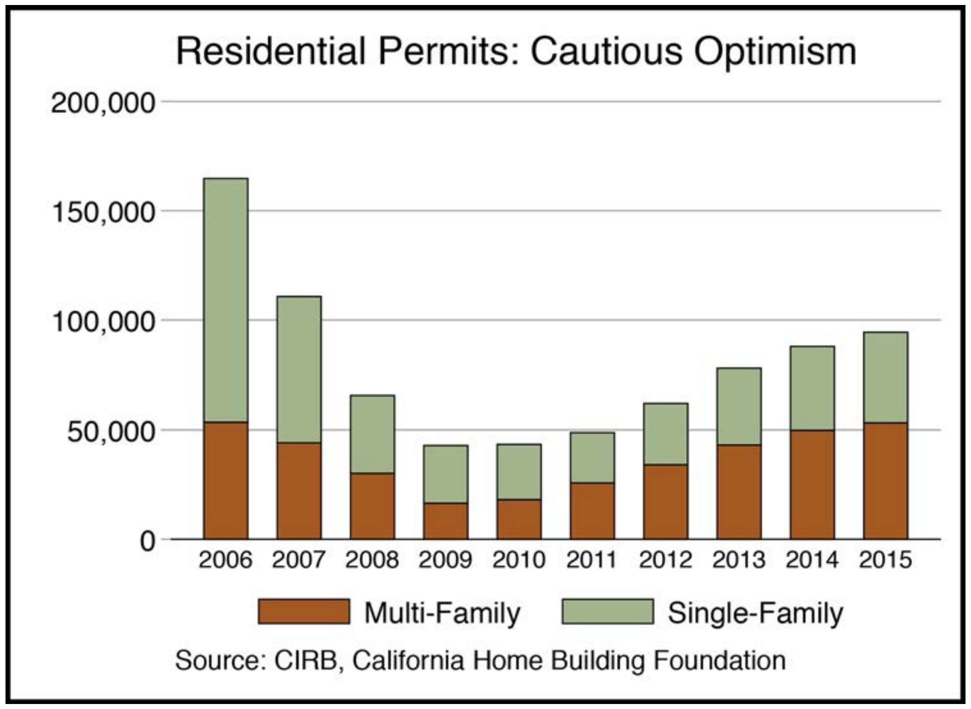




Conclusion: California Economy Grows in 2016, Faces Long-Term Challenges

This year is shaping up to be one of steady gains in overall economic activity and employment, with the state's key industries continuing to see job growth and the fortunes of California's households improving with rising wages and growth in personal income. Despite concerns over the business climate, the state economy is one of the most dynamic in the country, as evidenced by the large amount of venture capital it has attracted on a consistent basis over the last several years.

The state is well-acquainted with the challenges it faces in 2016 and beyond. As the economy prospers, home prices shoot up and housing affordability plunges. Builders respond, but the incentives and constraints they face affect the mix of homes, leading to more higher-priced homes and an undersupply of lower-priced homes that the state needs. This story is not new, but rather is a recurring theme of California's housing market.



The Los Angeles County economy has made steady progress over the last year. It may not be the fastest growing part of the state but it accounted for nearly one-fifth of all jobs created in California last year, placing it way ahead of every other county in terms of absolute job growth. The largest job gains occurred in Leisure & Hospitality, Health Care, and Government, but Retail Trade, Transportation and Warehousing, and Construction also experienced sizable increases. The county's unemployment rate fell to 6.7% on the heels of these gains, and is expected to show further improvement this year and next. In turn, the housing market will continue to ramp up, having seen hefty increases in rents, home sales, and prices over the past year.

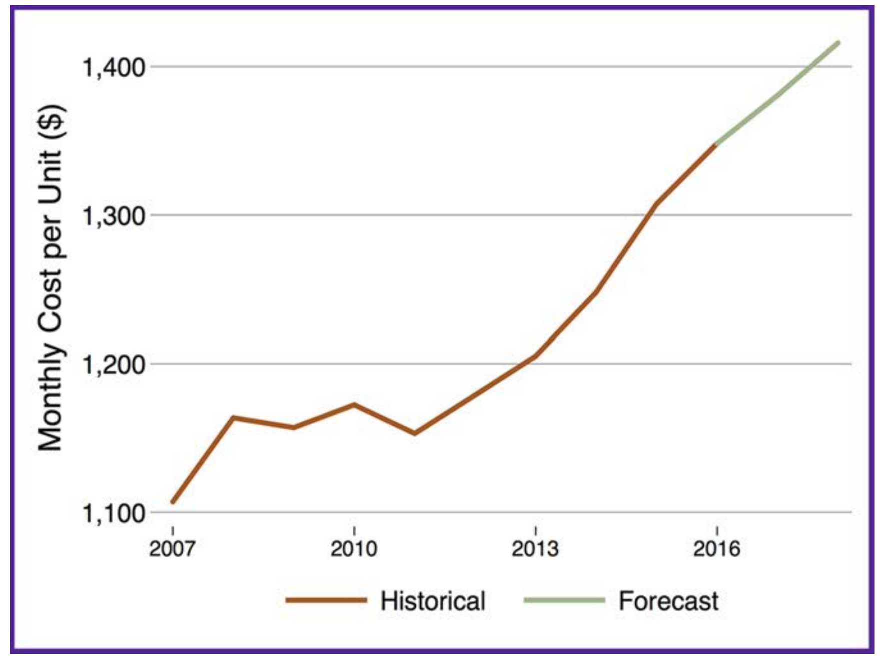
The Los Angeles County multifamily market has been quite active in recent years, with rents on the rise and vacancy rates generally tightening. The average rent in 2015 was $1,307/month, rising 4.8% from one year earlier. The average vacancy rate went virtually unchanged, with a slight uptick from 4.1% in 2014 to 4.2% last year. Multifamily construction in the County has increased sharply in recent years, with an 18% increase in permits last year alone.

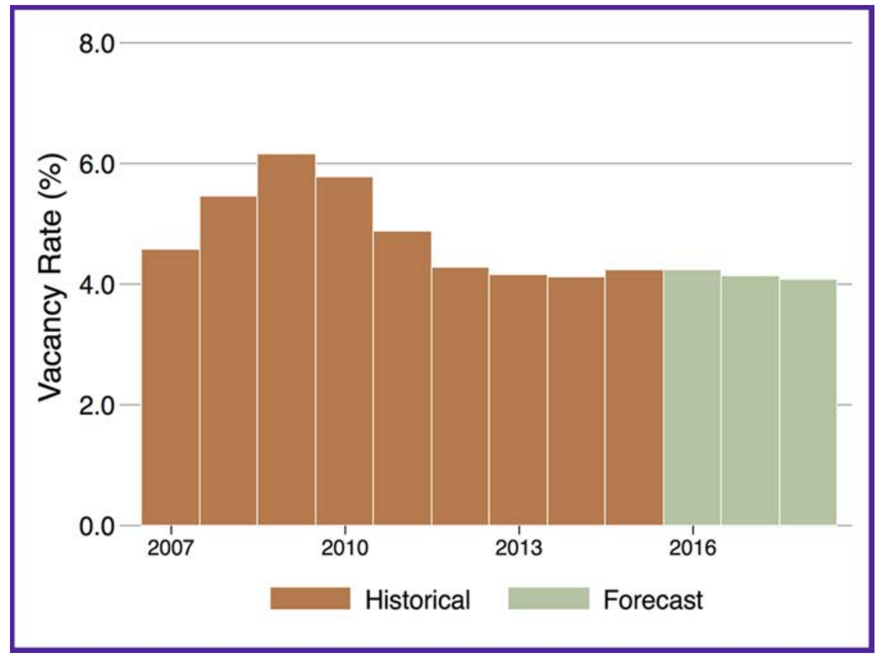
The Coastal Communities-Beverly Hills submarket led Los Angeles County's submarkets with the highest monthly rent last year ($1,648/month), followed by Burbank-Glendale ($1,357/month) and the West San Gabriel Valley ($1,315/month). South Los Angeles saw the lowest rent at $822/month. Rents increased most quickly in the Coastal Communities-Beverly Hills submarket (7.0%) and Long Beach-South Bay (6.9%).

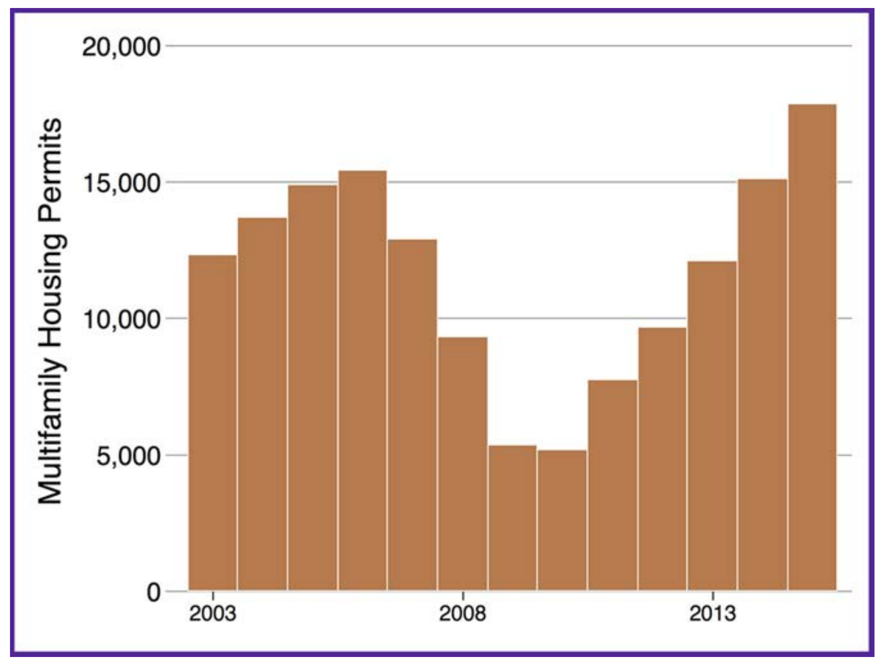
Vacancy rates were generally quite low among the County's submarkets. The lowest average vacancy rate was in the Inglewood-Gardena-Hawthorne submarket at 1.5%, followed by the San Fernando Valley at 1.9%. Vacancy rates were mixed last year, with decreases in four of Los Angeles County's 12 submarkets and increases in the remaining submarkets.

Population increases in Los Angeles County will fuel demand over the next few years and with more Millennials entering their late twenties and early thirties, demand for multifamily property should be particularly strong. Builders have responded to demographic forces in recent years, pushing new multifamily construction to pre-recession levels. Much of the growth has been in multifamily, but generally favors trendy locations and moderate- to high-income renters.

Los Angeles Overview







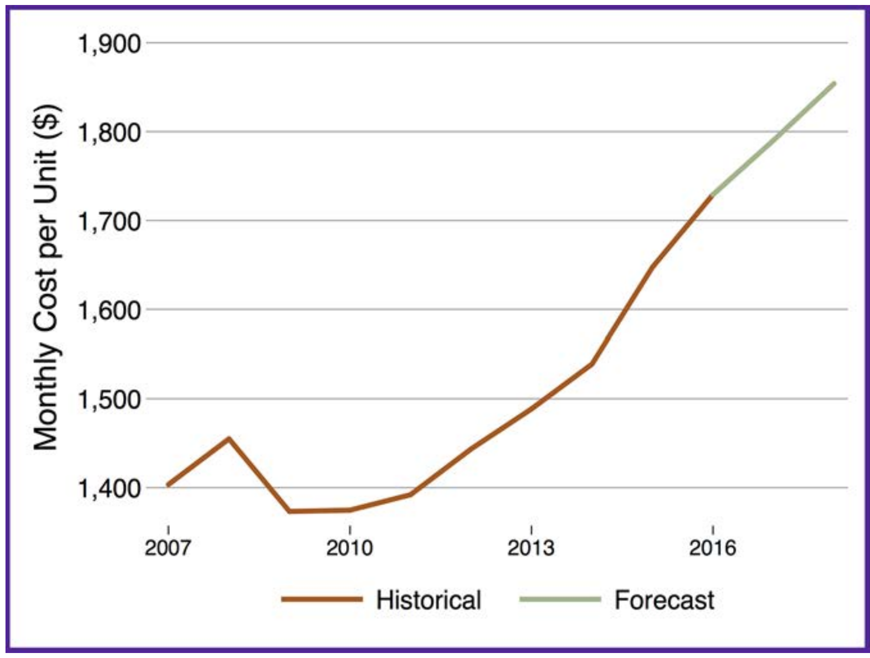
Average Rents in Los Angeles County Submarkets

Submarket	Average Rent (2015)	Percent Change (1-Year)
Coastal Communities-Beverly Hills	1,648	+7.0
Burbank-Glendale	1,357	+3.8
West San Gabriel Valley	1,315	+6.6
Long Beach-South Bay	1,270	+6.9
San Fernando Valley	1,250	+6.5
Palmdale-Lancaster	1,244	+5.7
Southeast Los Angeles	1,175	+4.1
East San Gabriel Valley	1,150	+4.4
Downtown	1,086	+6.7
Inglewood-Gardena-Hawthorne	1,071	+3.1
Koreatown-Mid-City	1,061	+4.7
South Los Angeles	822	+1.1
Los Angeles County	1,307	+4.8

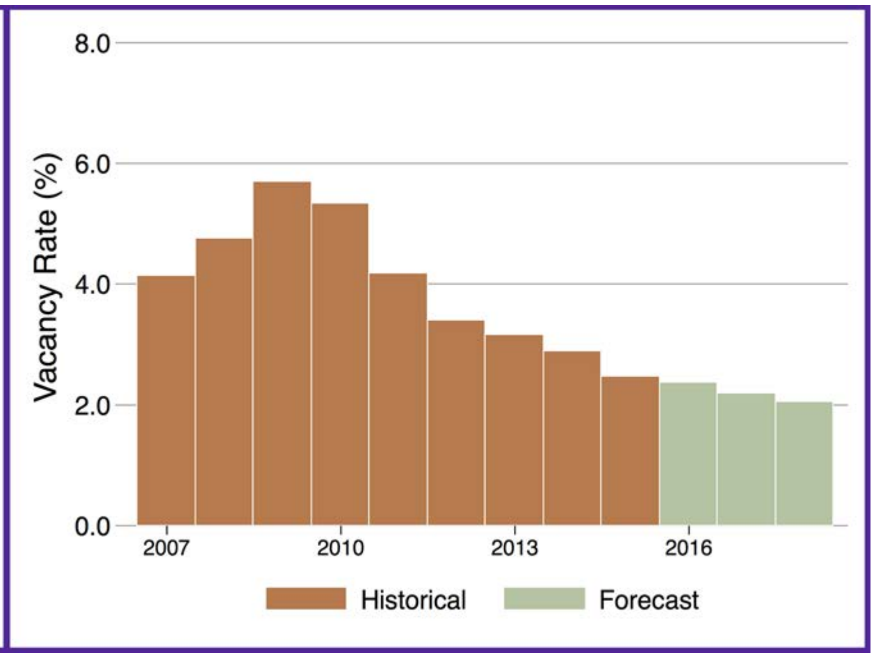
Vacancy Rates in Los Angeles County Submarkets

Submarket	Vacancy Rate (2015)	Basis Point Change (1-Year)
Inglewood-Gardena-Hawthorne	1.5	+13
San Fernando Valley	1.9	-191
West San Gabriel Valley	2.4	+24
Long Beach-South Bay	2.4	-40
Coastal Communities-Beverly Hills	2.5	-42
Burbank-Glendale	3.3	+188
South Los Angeles	3.8	+31
Palmdale-Lancaster	4.0	-130
Southeast Los Angeles	4.5	+12
East San Gabriel Valley	6.2	+28
Koreatown-Mid-City	7.4	+249
Downtown	7.9	+14
Los Angeles County	4.2	+

Coastal Communities-Beverly Hills

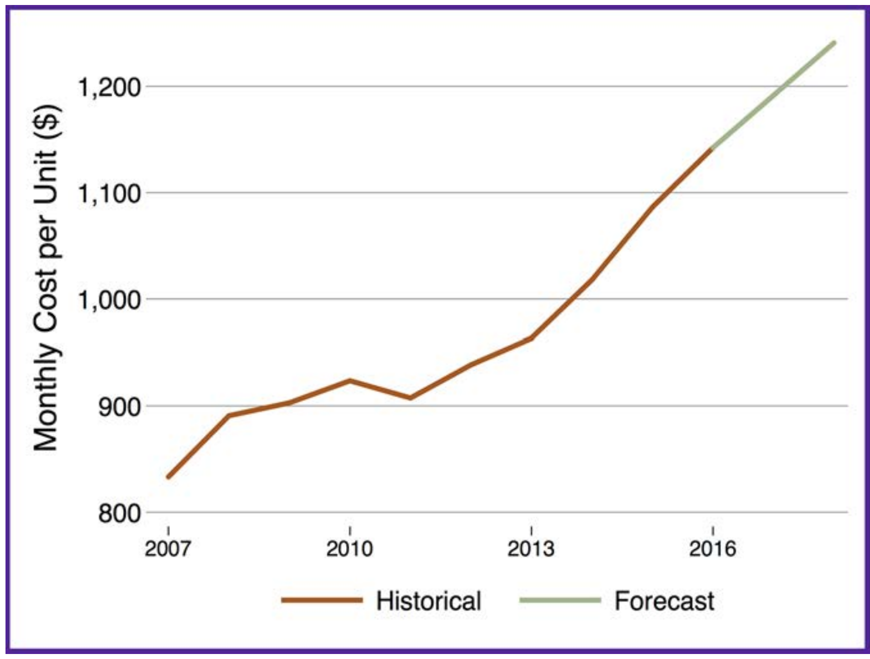


Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

Downtown Los Angeles



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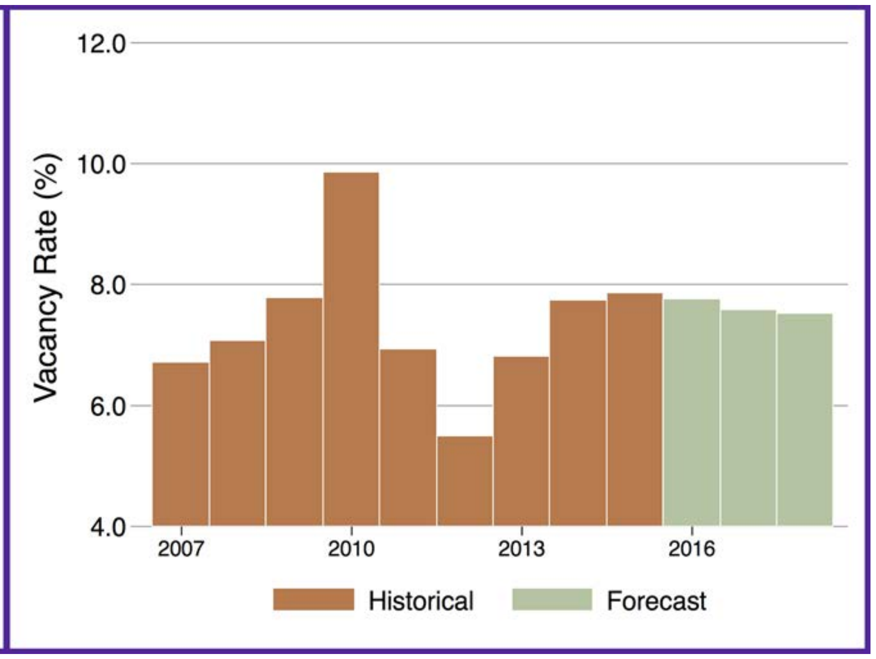
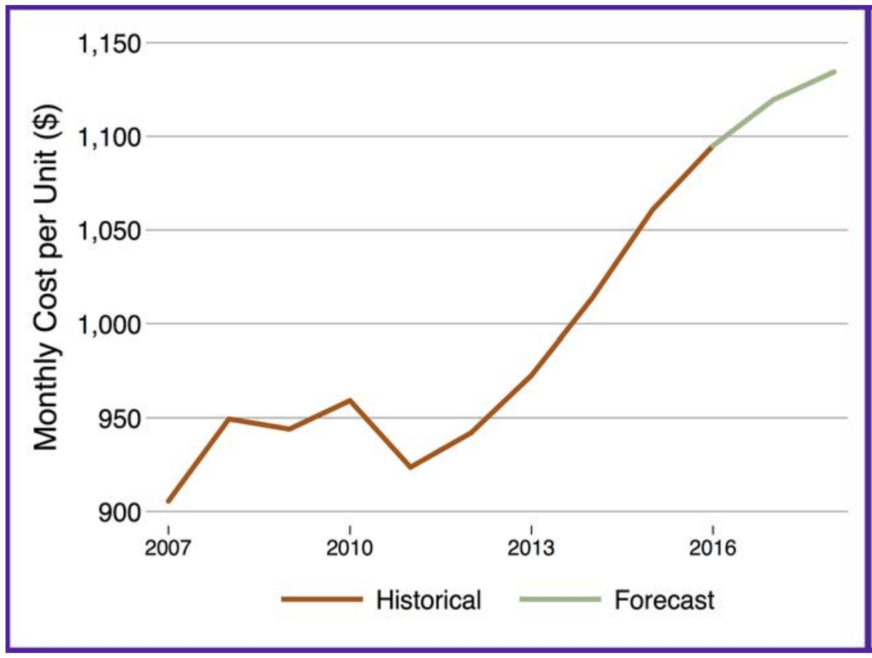


Source: American Community Survey and Beacon Economics

Koreatown-Mid-City



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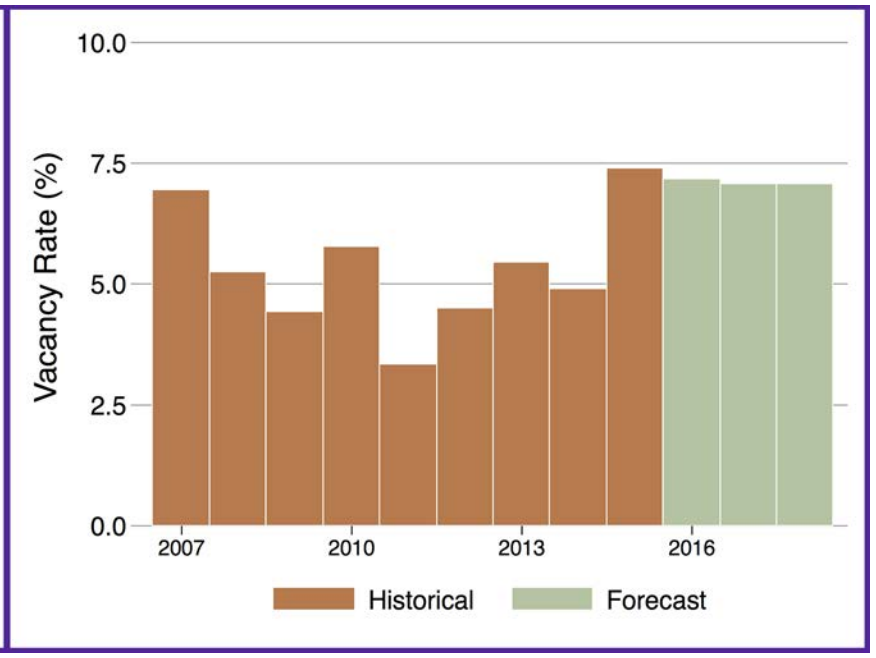
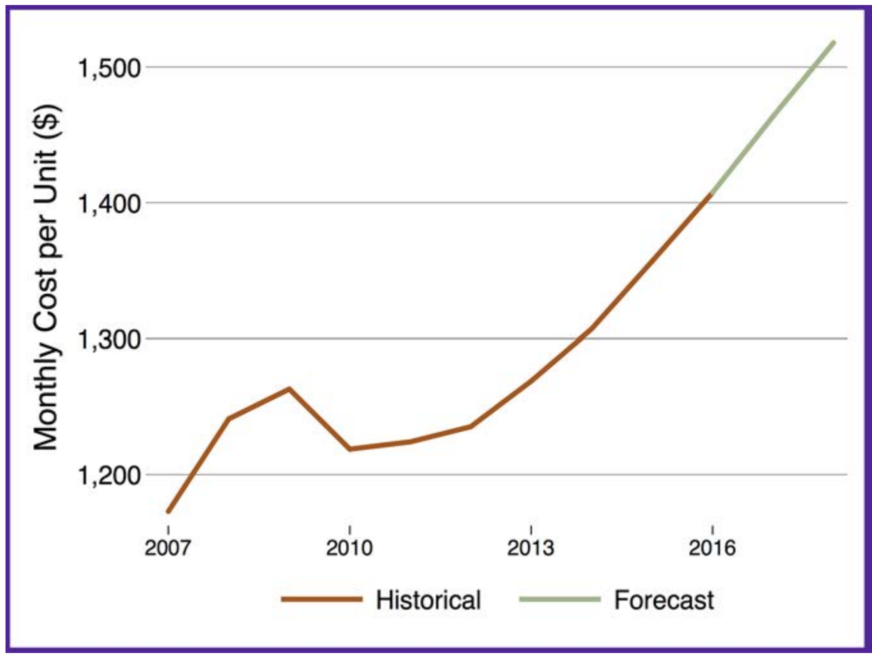


Source: American Community Survey and Beacon Economics

Burbank-Glendale



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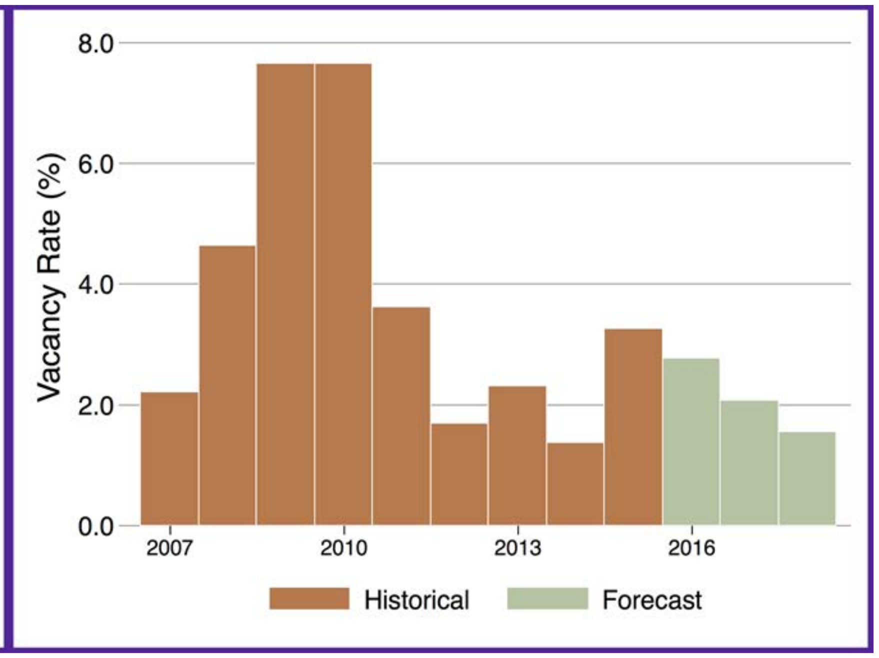
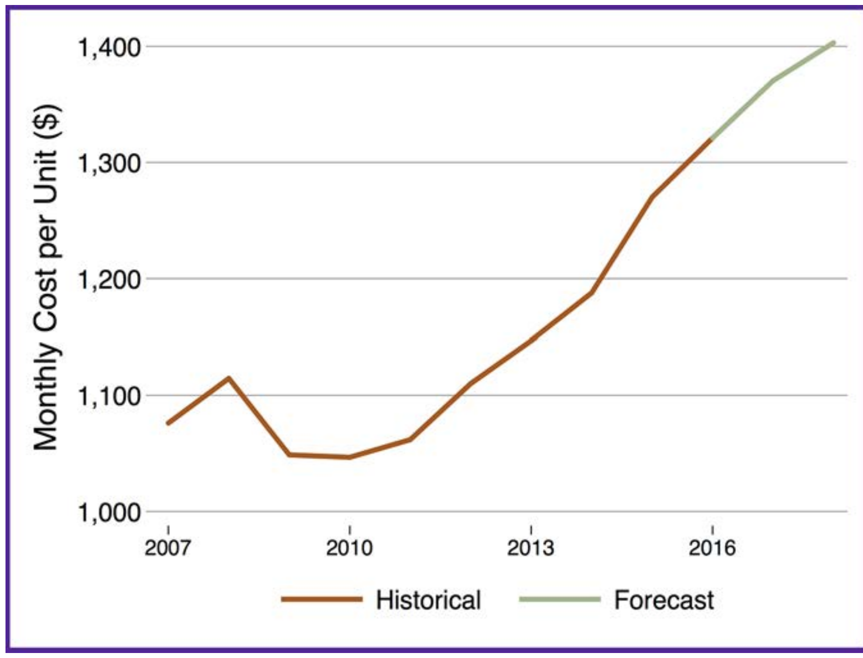


Source: American Community Survey and Beacon Economics

Long Beach-South Bay



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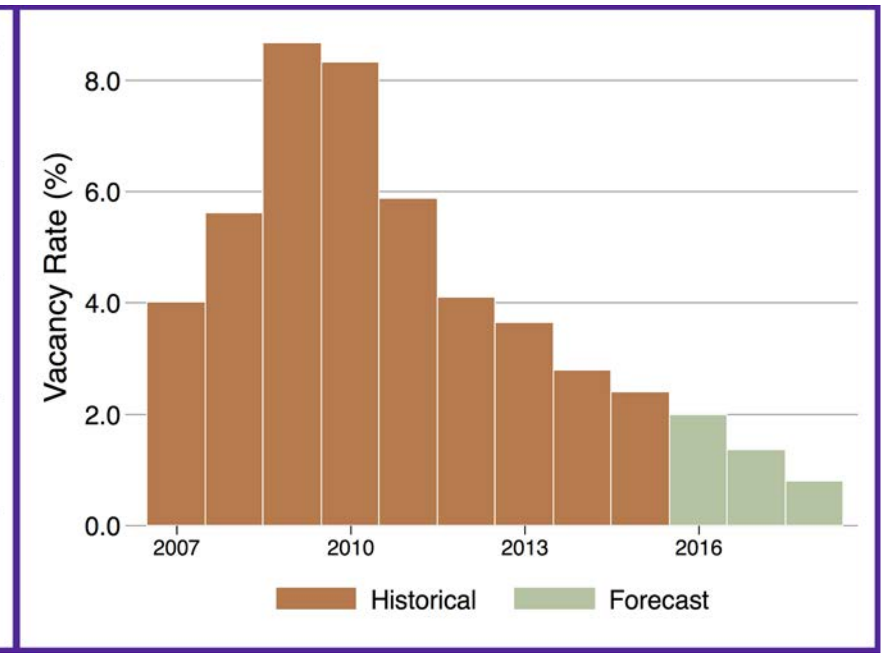
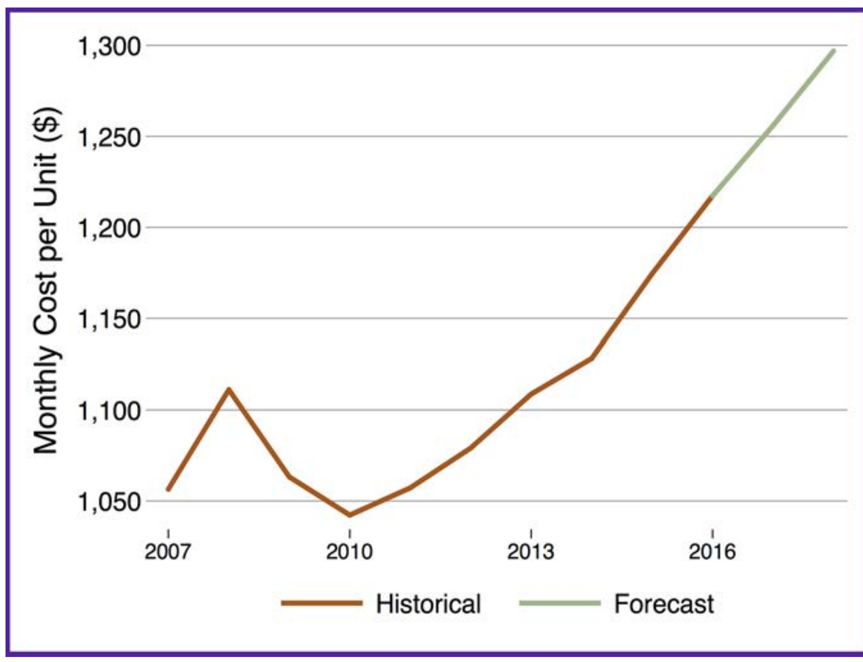


Source: American Community Survey and Beacon Economics

Southeast Los Angeles



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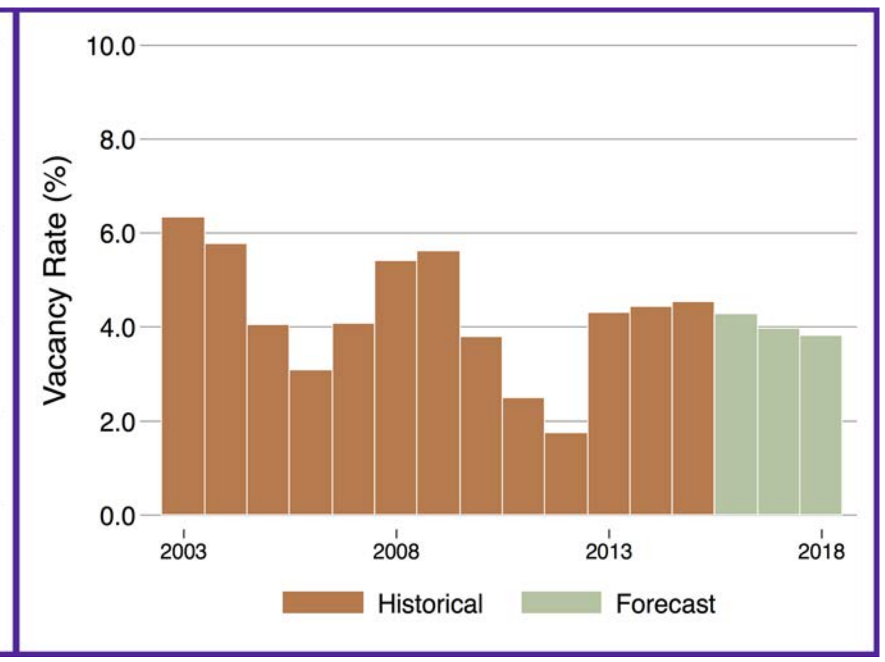
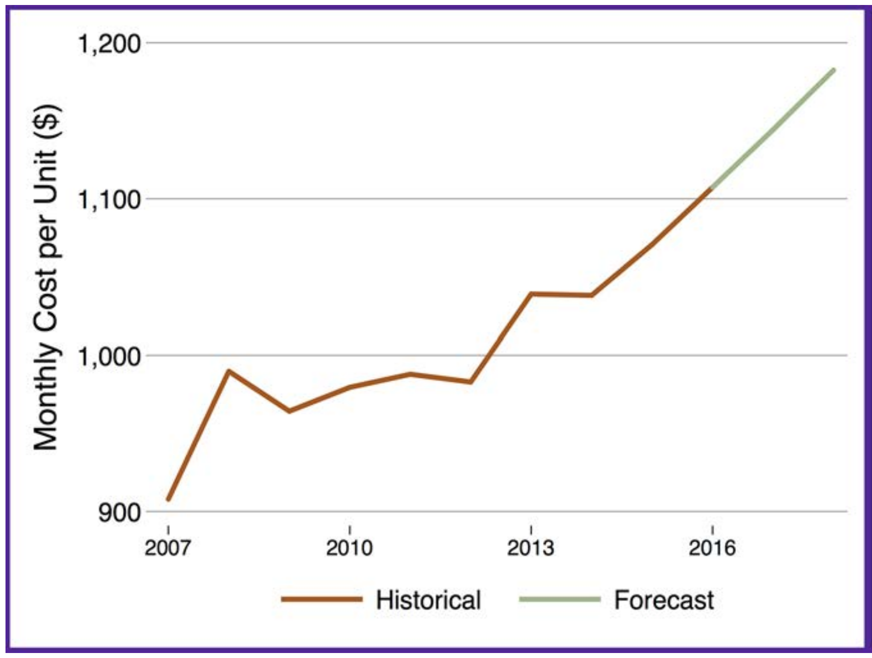


Source: American Community Survey and Beacon Economics

Inglewood-Gardena-Hawthorne



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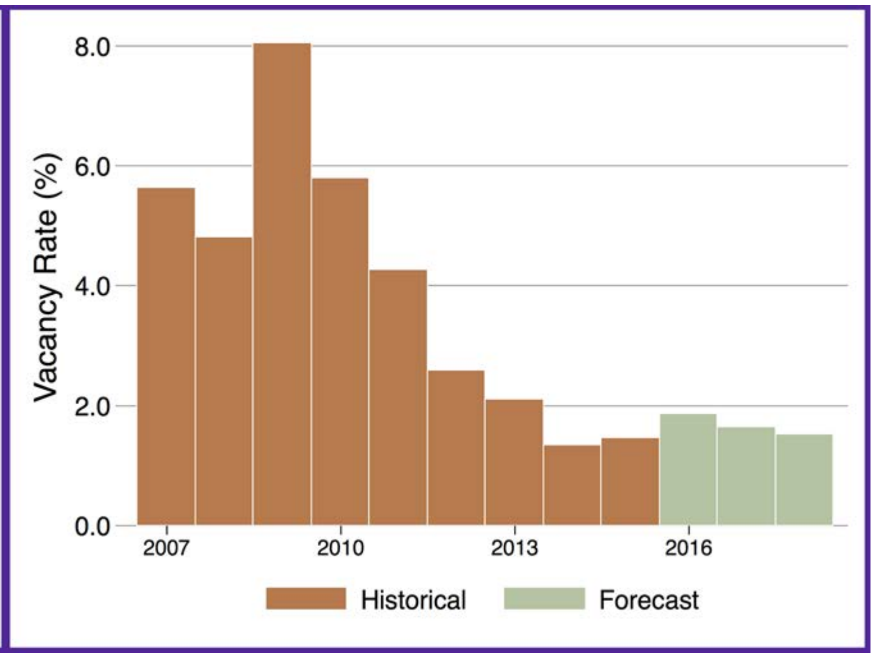
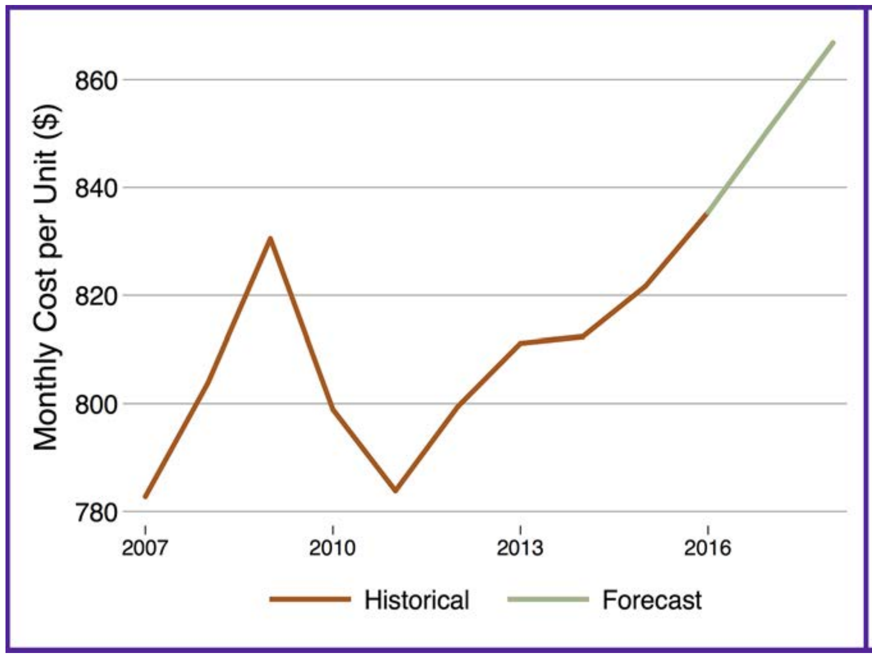


Source: American Community Survey and Beacon Economics

South Los Angeles



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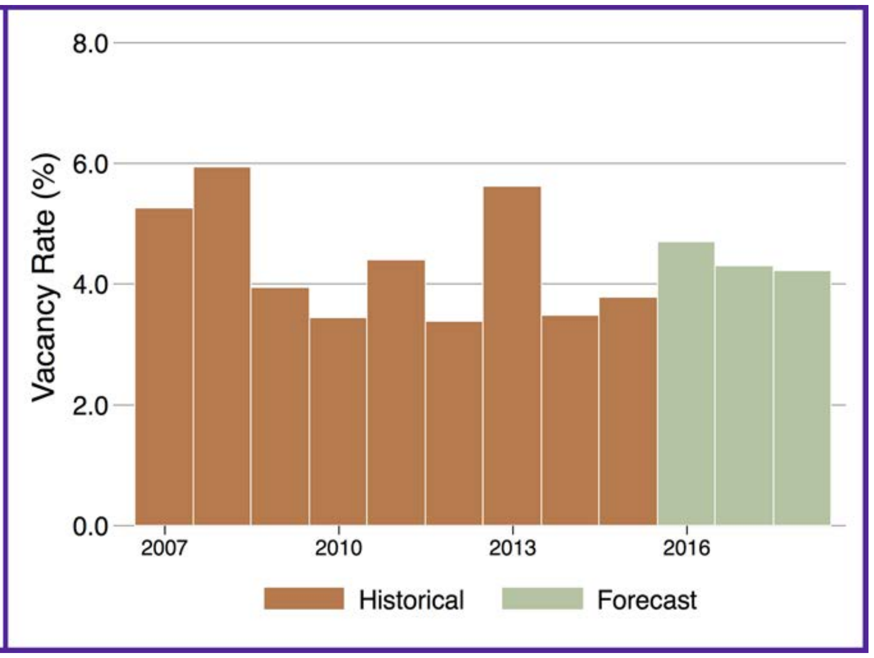
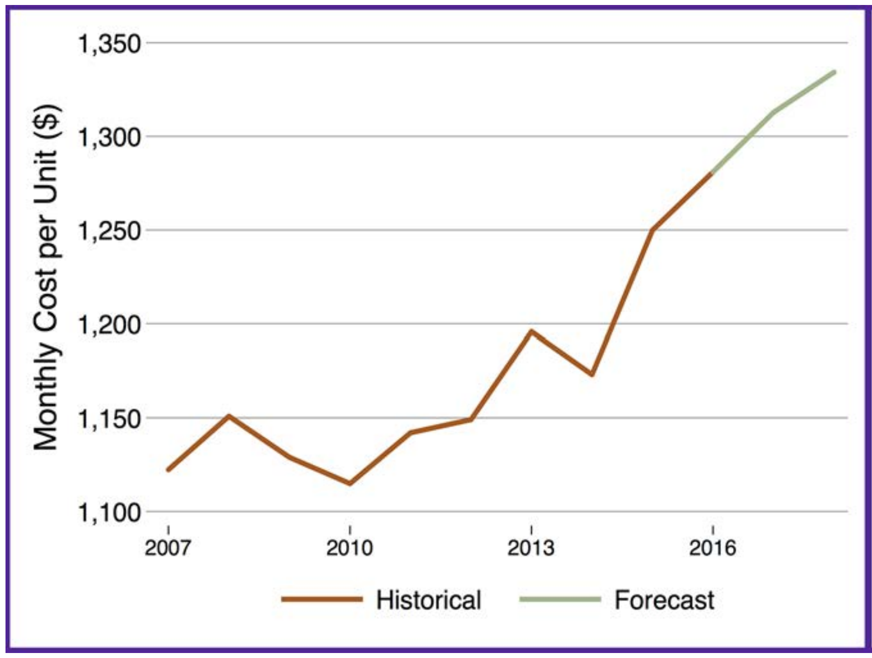


Source: American Community Survey and Beacon Economics

San Fernando Valley



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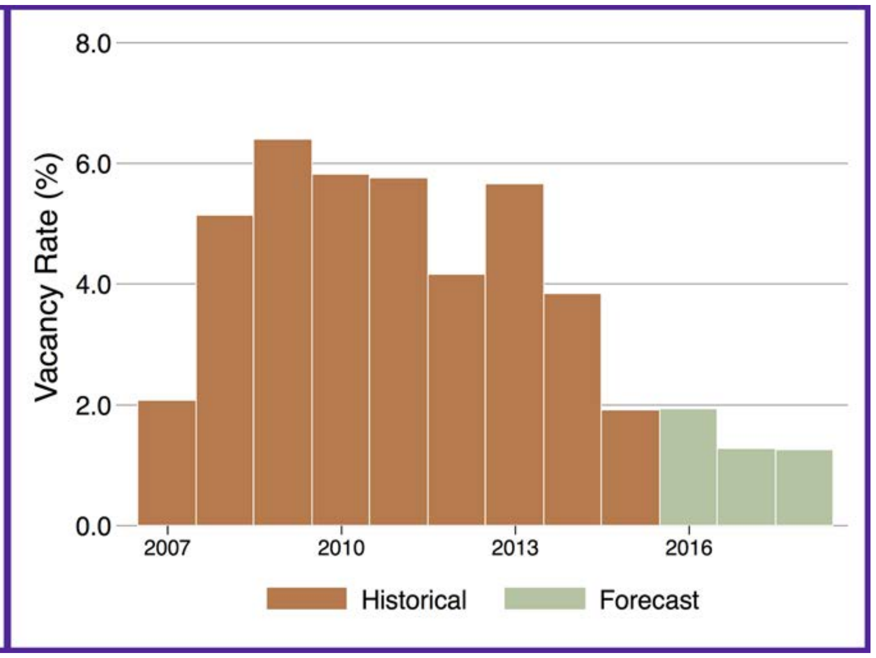
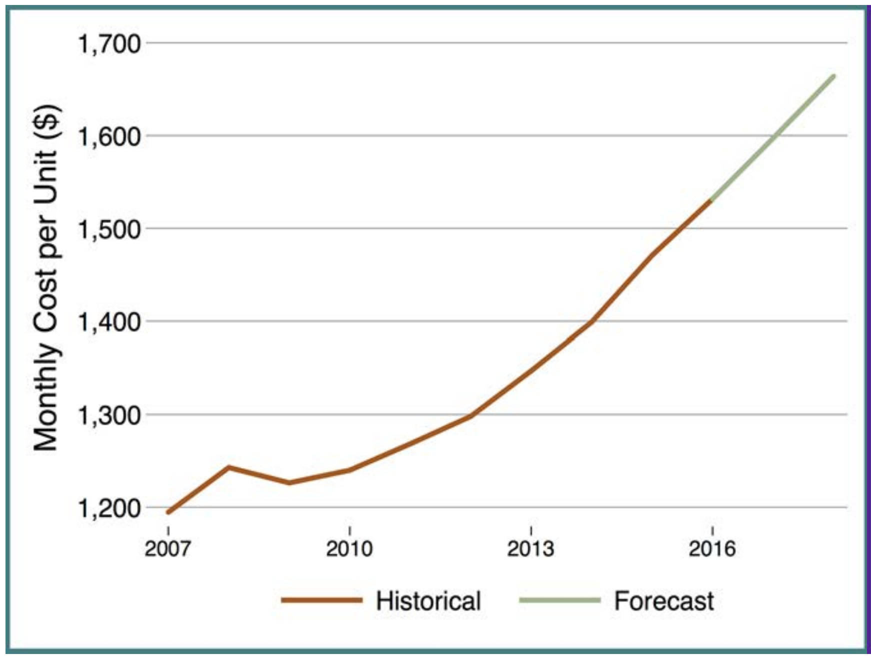


Source: American Community Survey and Beacon Economics

North Los Angeles



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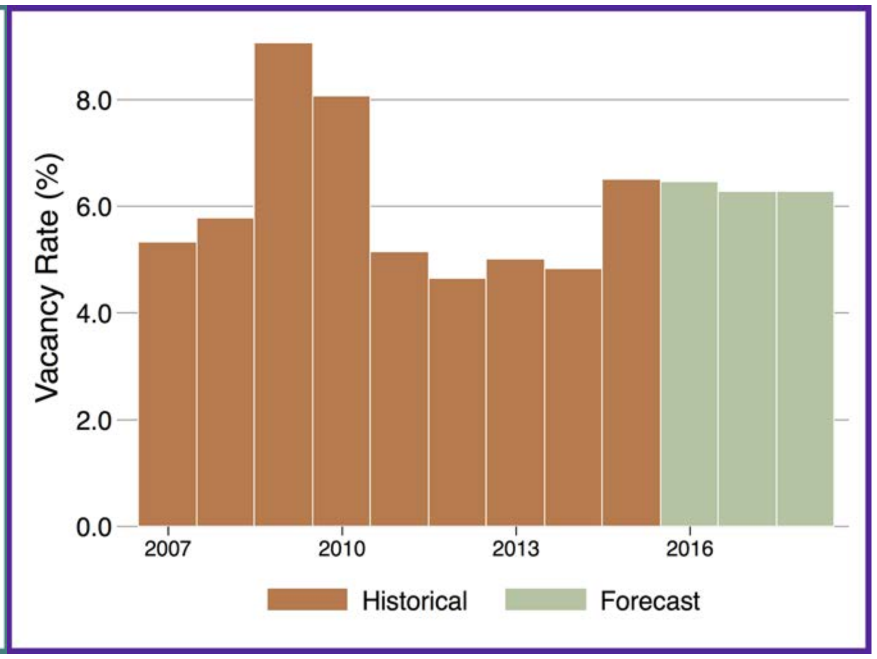
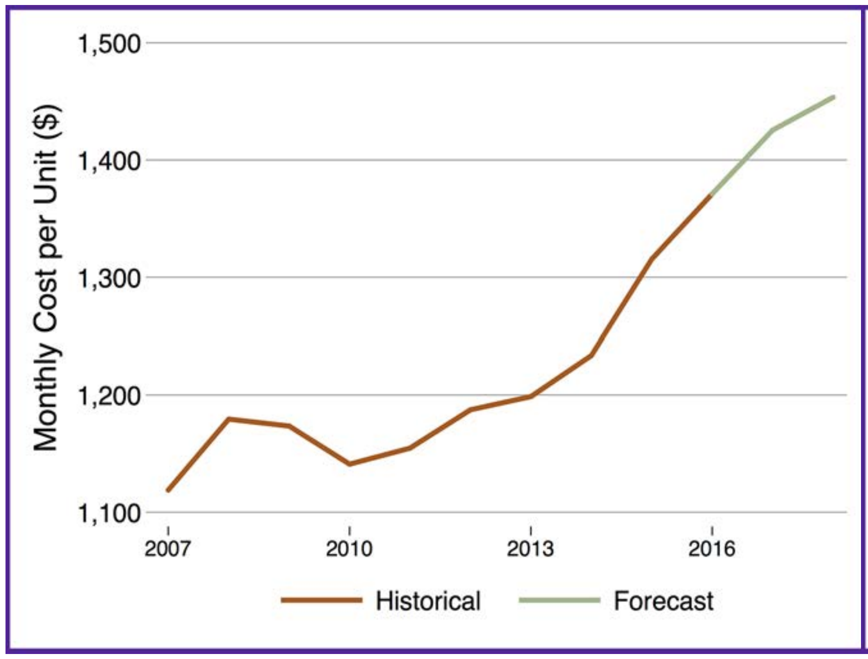


Source: American Community Survey and Beacon Economics

West San Gabriel Valley



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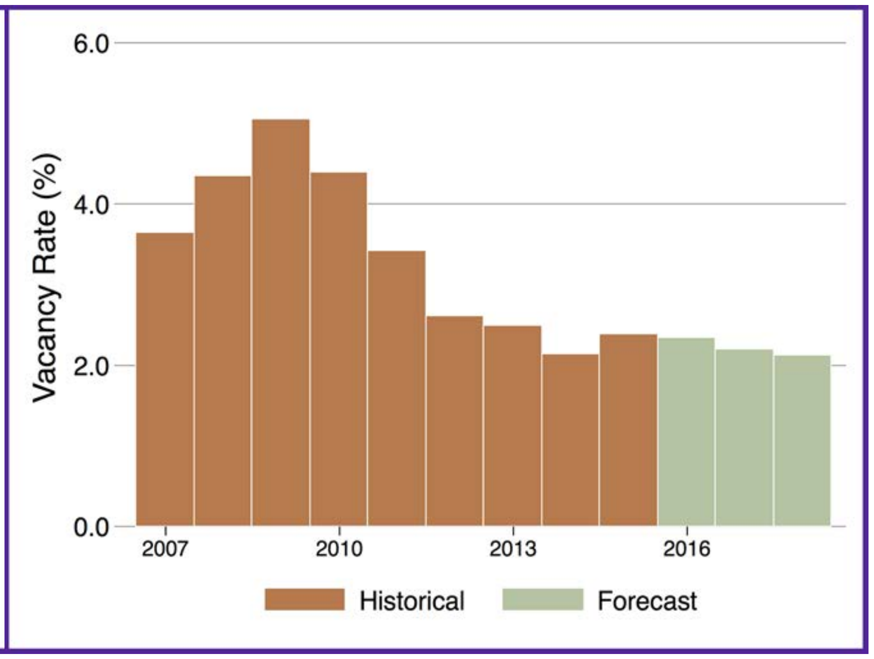
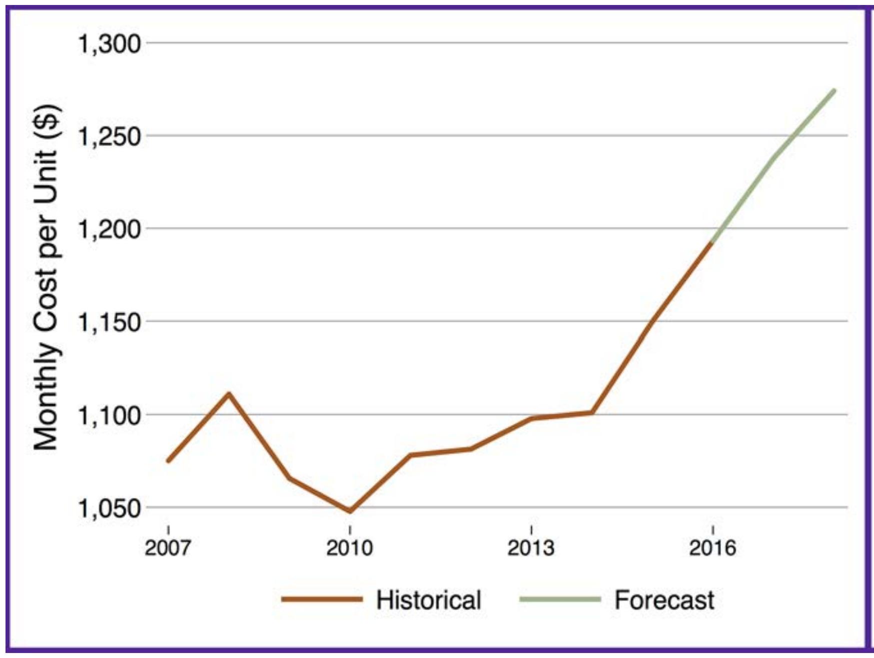


Source: American Community Survey and Beacon Economics

East San Gabriel Valley



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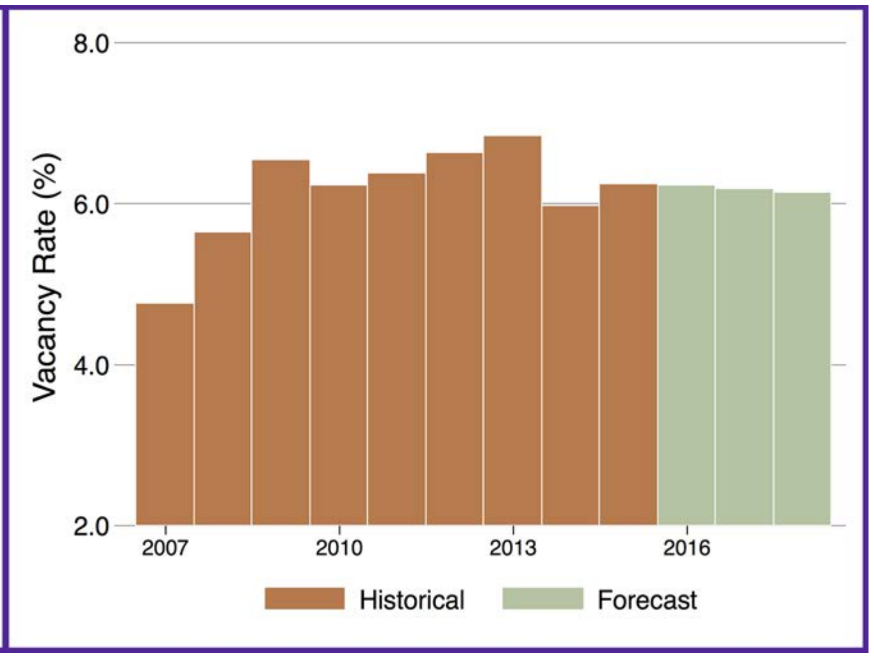


Source: American Community Survey and Beacon Economics

Renting Households and Rental Units - Selected Indicators for Los Angeles County and its Submarkets

	Renter Household Statistics			Rental Units by Size of Structure						Rental Units by Year Built			
Market/Submarket (Metro:1,797,200 Units)	% with Children Present	Average Household Size	Median Household Income	Single Family	2-4 Units	5-9 Units	10-19 Units	20 Units and Up	Total	Before 1970	1970-1999	2000-2014	Total
Burbank/Glendale	30%	2.4	$42,745	17%	14%	18%	18%	33%	100%	53%	41%	7%	100%
Downtown	29%	2.4	$29,799	11%	19%	8%	9%	53%	100%	67%	22%	10%	100%
Inglewood/Gardena/Hawthorne	45%	2.7	$35,566	19%	27%	16%	13%	26%	100%	60%	38%	2%	100%
Koreatown/Mid-City	33%	2.5	$28,647	10%	24%	12%	14%	39%	100%	64%	30%	6%	100%
Coastal Communities/Beverly Hills	17%	1.9	$55,782	9%	16%	20%	18%	37%	100%	57%	36%	8%	100%
Long Beach/South Bay	38%	2.7	$43,539	22%	25%	14%	16%	23%	100%	62%	35%	4%	100%
Southeast Los Angeles	49%	3.1	$42,039	29%	17%	11%	13%	31%	100%	57%	40%	3%	100%
West San Gabriel Valley	37%	2.7	$42,252	31%	25%	12%	12%	20%	100%	66%	29%	5%	100%
Palmdale/Lancaster	49%	3.1	$42,653	47%	15%	13%	9%	16%	100%	15%	68%	17%	100%
San Fernando Valley	38%	2.8	$41,575	20%	10%	9%	13%	48%	100%	44%	47%	8%	100%
East San Gabriel Valley	51%	3.3	$40,134	39%	24%	9%	9%	19%	100%	57%	37%	6%	100%
South Los Angeles	59%	3.6	$27,713	39%	34%	12%	7%	9%	100%	73%	22%	6%	100%
Los Angeles County	36%	2.7	$39,678	22%	20%	13%	13%	31%	100%	58%	36%	7%	100%

SOURCE: American Community Survey 2014

Orange County's economy is routinely among the best performing in Southern California. The County's unemployment rate dropped to 4.5% last year, well below the state average and lower than the nation as a whole. This was partly due to strong job gains in Orange County's industries, up 3.2% overall with large increases in Construction, Leisure & Hospitality, Health Care, and Professional, Scientific, & Technical Services. The County is poised to see additional job gains over the next two years. Home sales and prices will also edge more closely to prerecession levels and affordability concerns will increase.

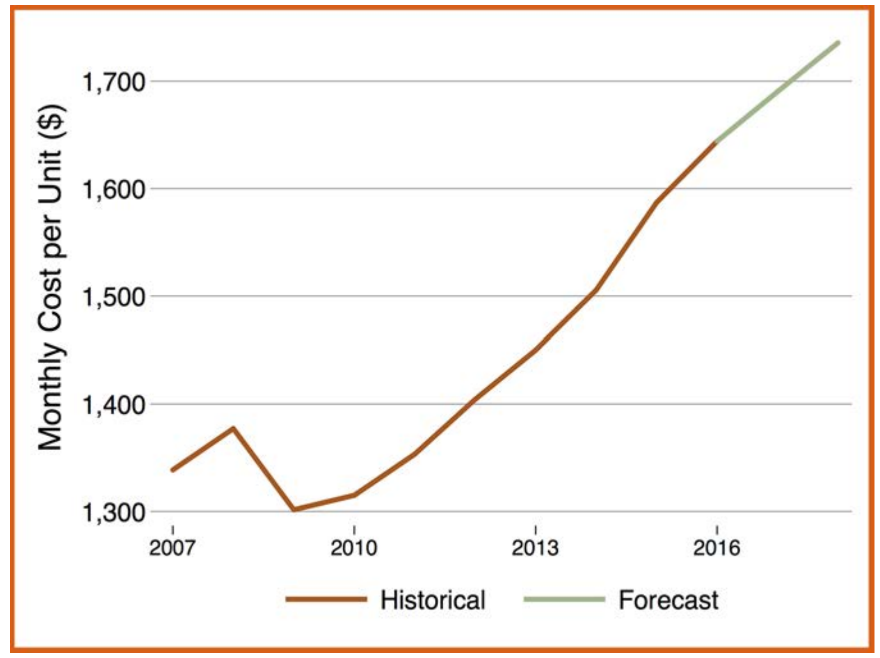
The Orange County multifamily market is one of the tightest in Southern California, and has been marked in recent years by rising rents and generally lower vacancy rates. The average rent in 2015 was $1,587/month, rising 5.4% from one year earlier. Multifamily construction in the County has surged in recent years, with a 16% increase in permits last year alone. Accordingly, the vacancy rate edged up slightly from 4.1% in 2014 to 4.4% last year.

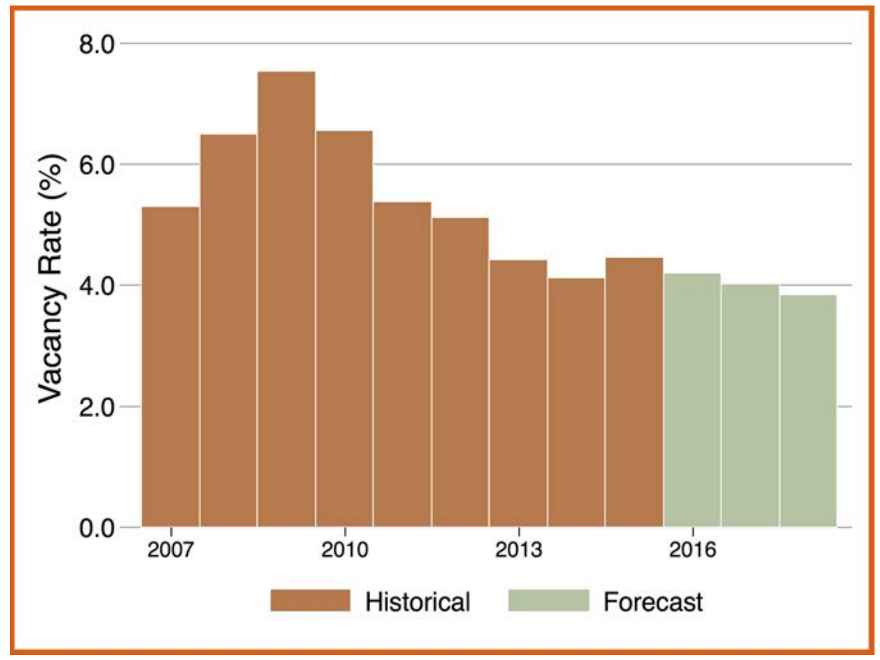
The Newport Beach-Laguna Niguel submarket led the County with the highest rent last year ($1,962/month), followed by Irvine-Mission Viejo-Foothill Ranch ($1,866/month) and Seal Beach-Huntington Beach ($1,507/month). The submarket with the lowest rent was Anaheim-Orange-Santa Ana at $1,337/month. The Irvine-Mission Viejo-Foothill Ranch submarket had the fastest growth in rental rates at 6.1%.

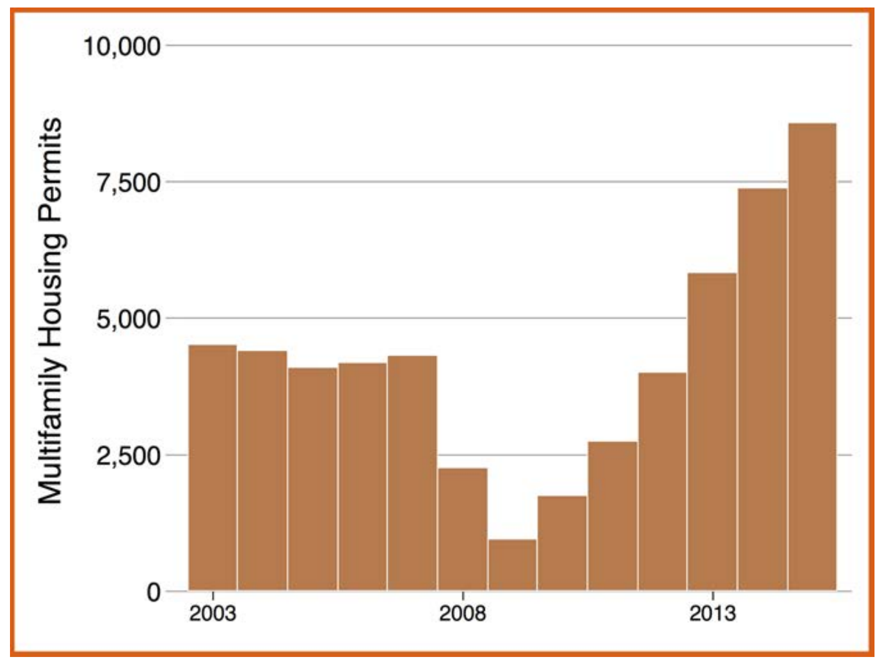
Vacancy rates were generally quite low among Orange County's submarkets. Not surprisingly, the lowest average vacancy rate was in the densely populated Anaheim-Orange-Santa Ana submarket at 2.9%, followed by La Habra-Fullerton-Yorba Linda at 3.3%. The direction of vacancy rates was mixed last year, with marginal declines occurring in Anaheim-Orange-Santa Ana and La Habra-Fullerton-Yorba Linda and flat or rising vacancy rates elsewhere.

Over the past year, the County's total stock of housing increased, but most of that increase came in the form of multifamily units, both rentals and owner-occupied. Steady increases in Orange County's population will drive housing demand in general. Because it is a relatively high-priced market, more new arrivals will opt for some type of multifamily living arrangement or another. Accordingly, Orange County will continue to add to its stock of multifamily units over the next two years, with permit counts approaching or exceeding levels that prevailed before the recession.

ORANGE COUNTY OVERVIEW







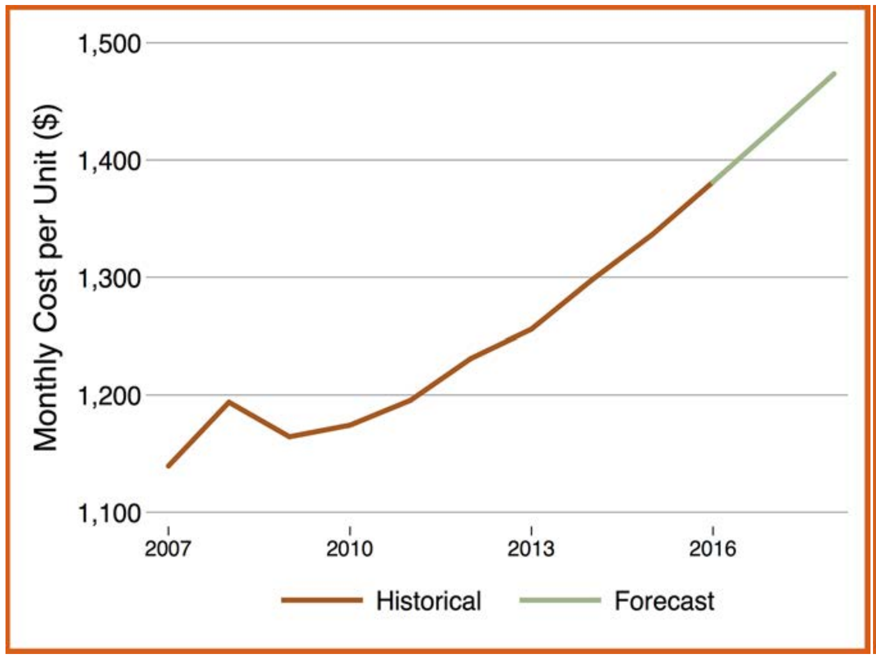
Average Rents in Orange County Submarkets

Submarket	Average Rent (2015)	Percent Change (1-Year)
Newport Beach-Laguna Niguel	1,962	+5.1
Irvine-Mission Viejo-Foothill Ranch	1,866	+6.1
Seal Beach-Huntington Beach	1,507	+4.3
La Habra-Fullerton-Yorba Linda	1,401	+4.6
Anaheim-Orange-Santa Ana	1,337	+3.0
Orange County	1,587	+5.4

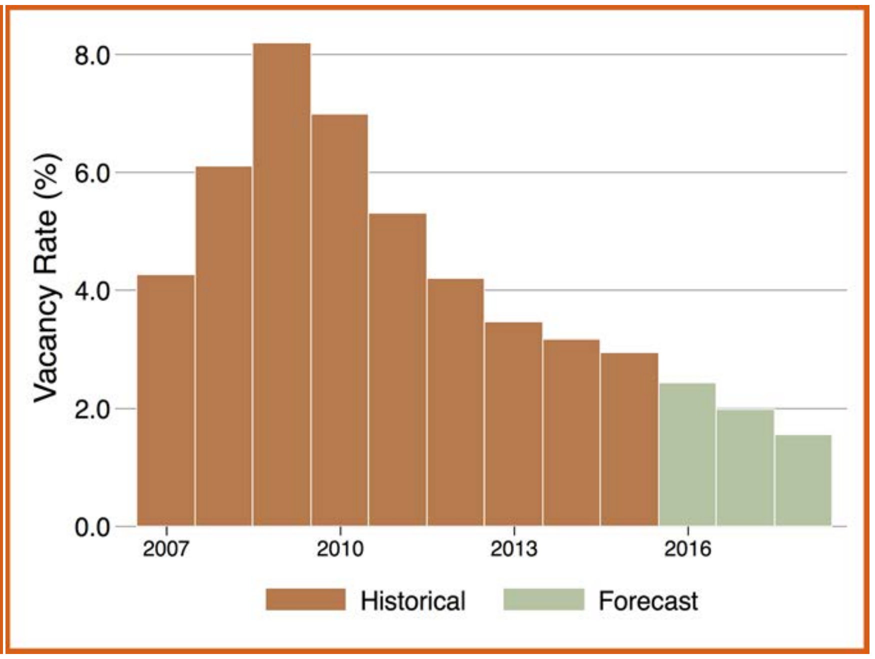
Vacancy Rates in Orange County Submarkets

Submarket	Vacancy Rate (2015)	Basis Point Change (1-Year)
Anaheim-Orange-Santa Ana	2.9	-22
La Habra-Fullerton-Yorba Linda	3.3	+6
Seal Beach-Huntington Beach	4.8	+79
Irvine-Mission Viejo-Foothill Ranch	5.1	+74
Newport Beach-Laguna Niguel	5.9	-15
Orange County	4.4	+33

Anaheim/Orange/Santa Ana

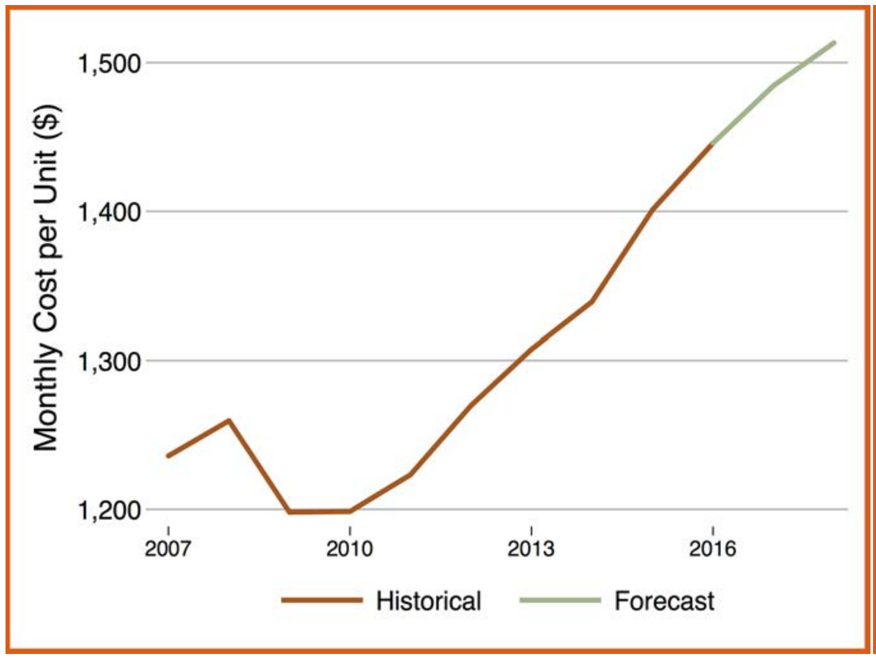


Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

La Habra/Fullerton/Yorba Linda



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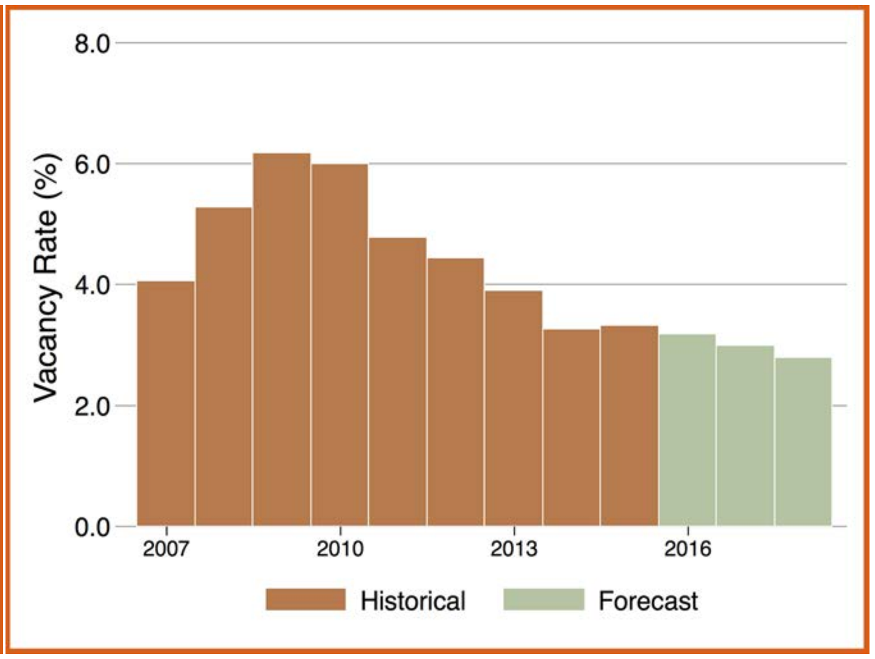
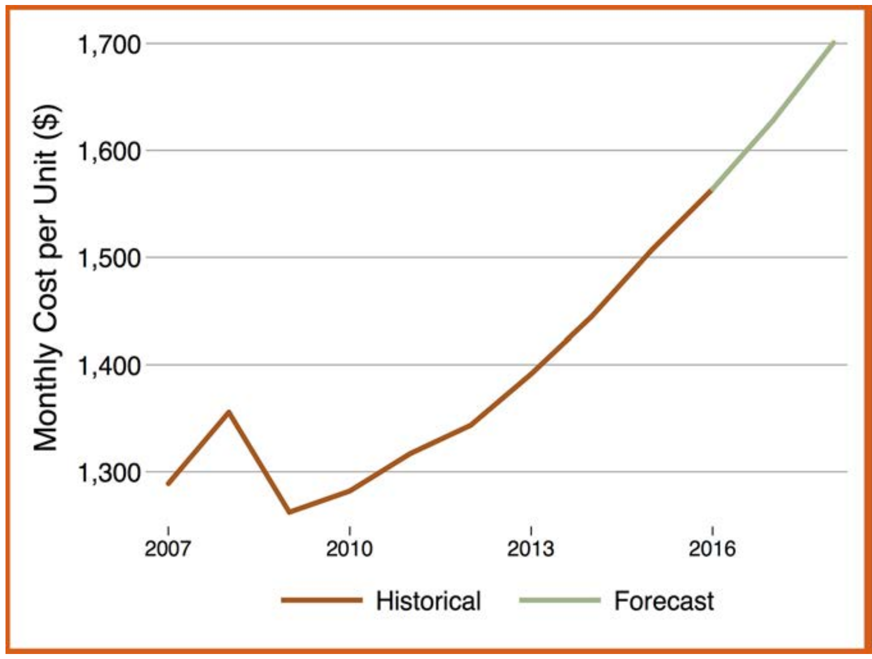
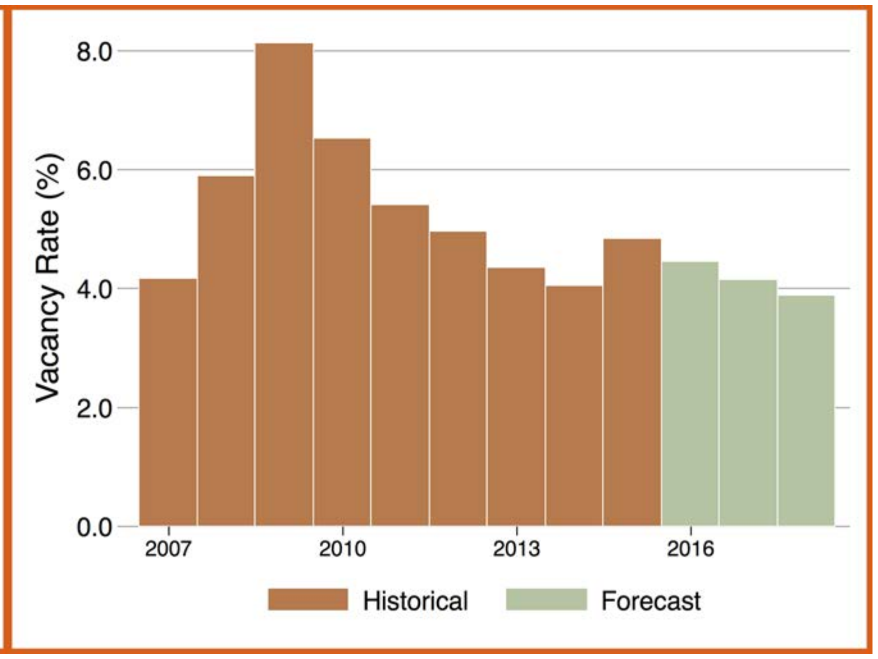


Source: American Community Survey and Beacon Economics

Seal Beach/Huntington Beach

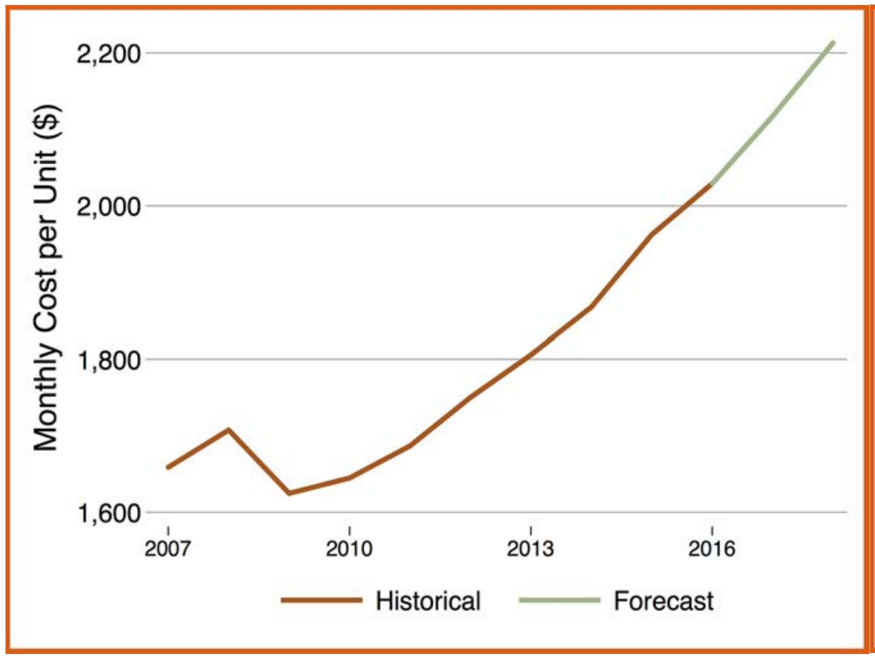


Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

Newport Beach/Laguna Niguel



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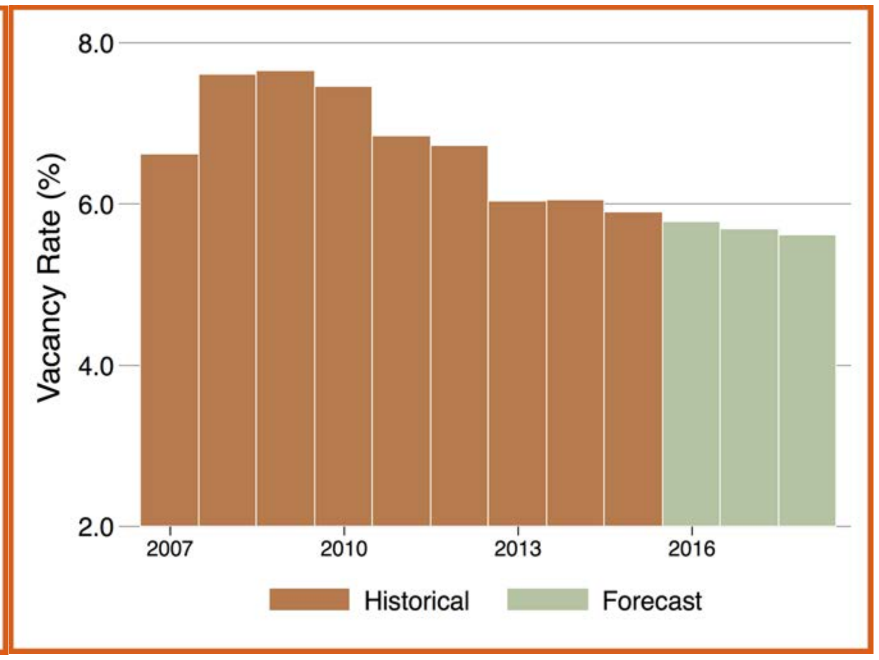
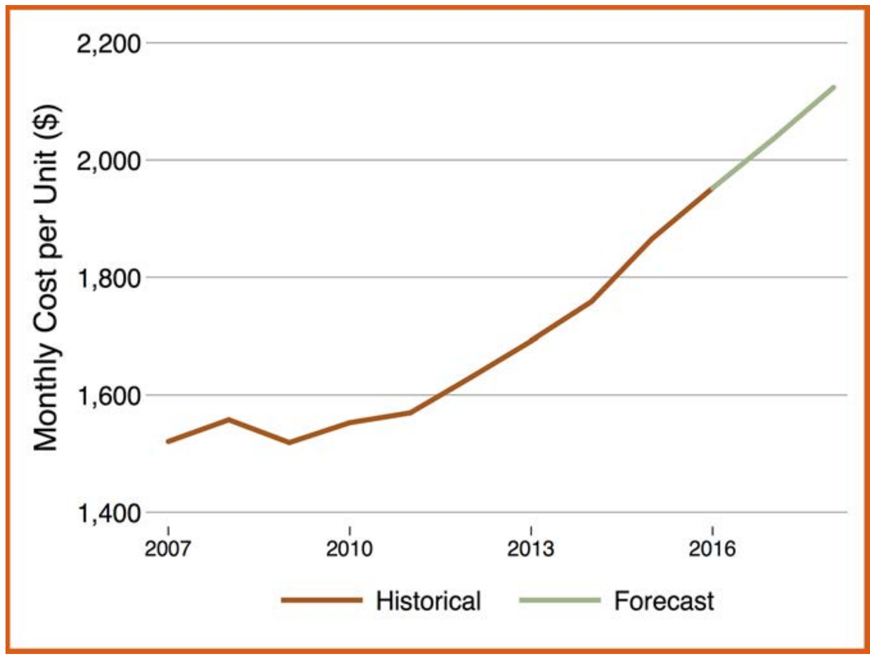
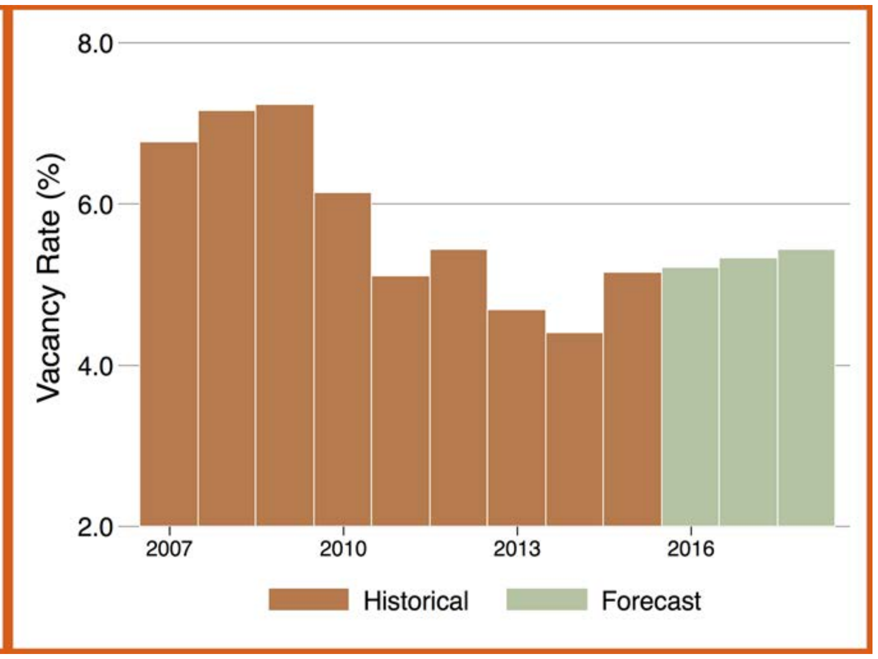


Source: American Community Survey and Beacon Economics

Irvine/Mission Viejo/Foothill Ranch



Source: American Community Survey and Beacon Economics

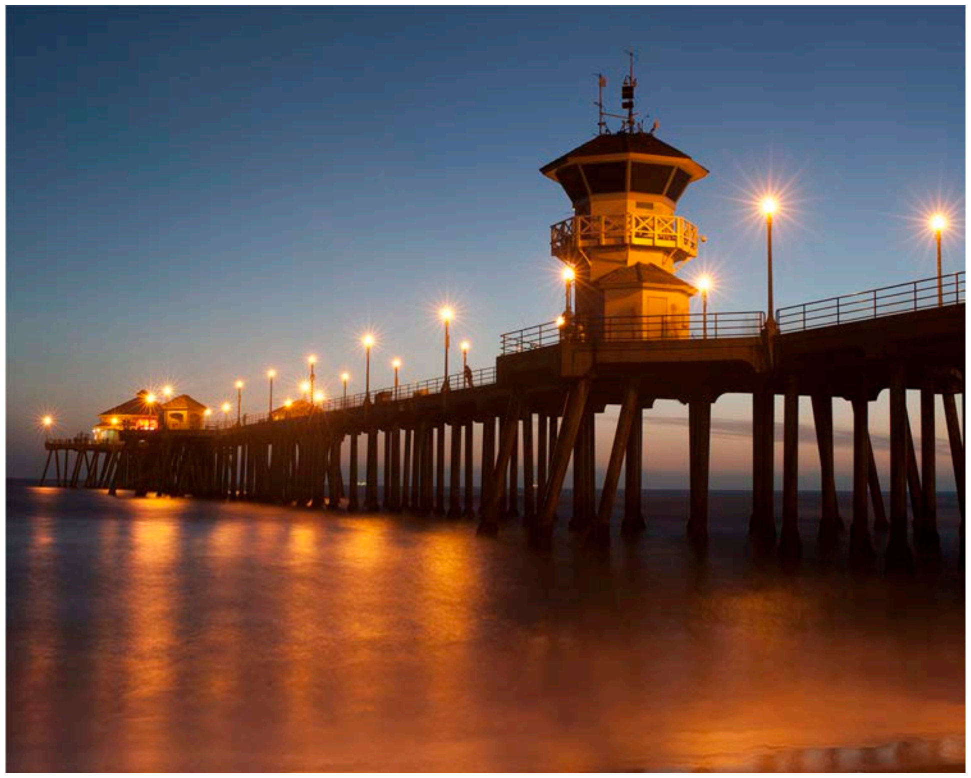


Source: American Community Survey and Beacon Economics

Renting Households and Rental Units - Selected Indicators for Orange County and its Submarkets

	Renter Household Statistics			Rental Units by Size of Structure						Rental Units by Year Built			
Market/Submarket (Metro: 432,100 Units)	% with Children Present	Average Household Size	Median Household Income	Single Family	2-4 Units	5-9 Units	10-19 Units	20 Units and Up	Total	Before 1970	1970-1999	2000-2014	Total
Anaheim/Orange/Santa Ana	53%	3.5	$42,799	22%	23%	16%	11%	29%	100%	44%	48%	7%	100%
Irvine/Mission Viejo/Foothill Ranch	42%	2.7	$62,645	18%	24%	13%	18%	26%	100%	10%	65%	25%	100%
La Habra/Fullerton/Yorba Linda	43%	2.9	$53,313	18%	27%	14%	13%	29%	100%	44%	48%	8%	100%
Newport Beach/Laguna Niguel	26%	2.2	$68,343	19%	33%	11%	10%	27%	100%	26%	63%	12%	100%
Seal Beach/Huntington Beach	36%	2.7	$54,694	19%	31%	13%	11%	26%	100%	44%	52%	5%	100%
Orange County	42%	2.9	$52,973	20%	27%	14%	12%	27%	100%	35%	54%	11%	100%

SOURCE: American Community Survey 2014



Inland Empire Overview

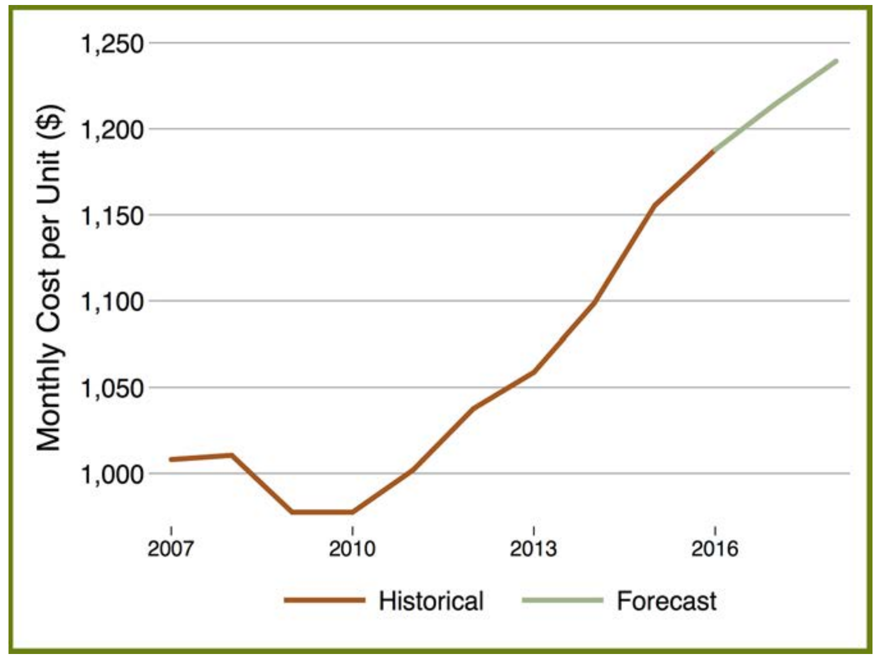
The economy of the Inland Empire has rallied over the last few years, with significant job growth above the statewide trend pushing the region's unemployment rate to its lowest level in eight years. The Inland Empire's signature industry, Transportation and Logistics, accounted for nearly one-quarter of the region's job gains last year, while industries such as Health Care, Construction, and Leisure & Hospitality also experienced substantial gains. Job and population increases in the Inland Empire will continue over the next two years, driving up rents along with home sales and prices, as Southern California residents once again turn to the region for more affordable housing options.

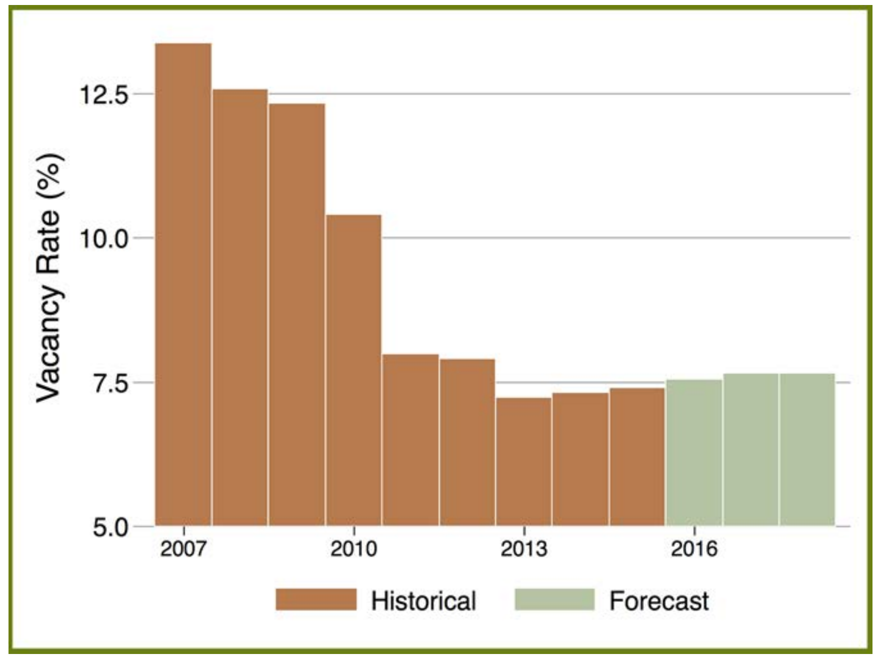
The Inland Empire multifamily market has seen rising rents and somewhat lower vacancy rates in the last few years. The average rent in 2015 was $1,155/month, increasing 5.2% from one year earlier. Multifamily construction had seen a modest rebound since the recession from 2011 through 2014, but experienced a 7.8% decline last year. In turn, the vacancy rate edged down slightly from 7.6% in 2014 to 7.5% last year.

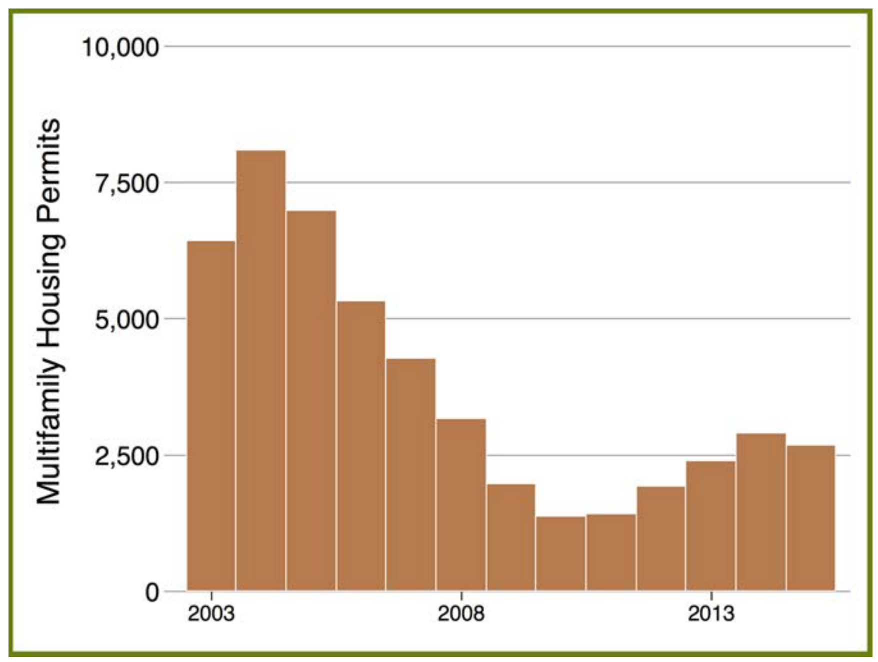
Chino Hills-Rancho Cucamonga led the region's submarkets with the highest rent last year ($1,399/month), followed by West Riverside County ($1,131/month) and the Redlands-Fontana-High Desert submarket ($966/month). The Palm Springs-Indio submarket saw the lowest rents last year at $948/month. Chino Hills-Rancho Cucamonga also had the fastest growth in rental rates at 6.3%.

Vacancy rates were generally higher in the Inland Empire compared to other parts of Southern California. The lowest average vacancy rate was in the Redlands-Fontana-High Desert submarket at 5.9%, followed by Chino Hills-Rancho Cucamonga at 7.3%. Vacancy rates fell last year in Palm Springs-Indio and Redlands-Fontana-High Desert, with slight to modest increases in the remaining submarkets.

Over the past year, the region's stock of multifamily units increased by just 1.4%. The region is known more for its single-family owner-occupied stock, with the multifamily segment moving at a much more deliberate pace. Going forward, rising prices and rents in Los Angeles and Orange Counties will cause population growth in the Inland Empire to accelerate. While this trend will drive housing demand in general, a larger and more immediate response will come from the market for single-family homes with multifamily units taking off somewhat later in the cycle. Accordingly, the Inland Empire will add somewhat deliberately to its stock of multifamily units over the next two years, with permit counts remaining below levels that prevailed before the recession.







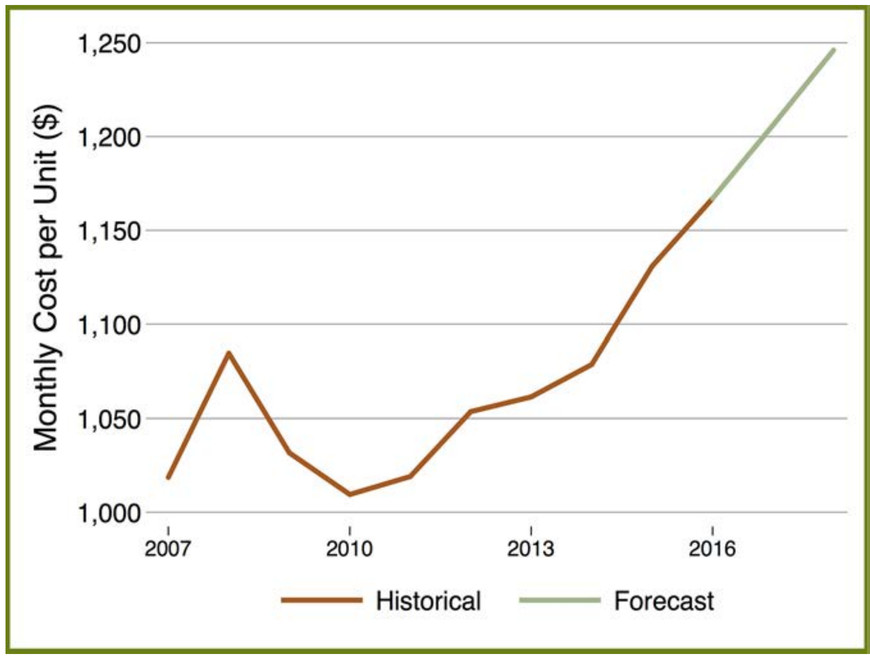
Average Rents in Inland Empire Submarkets

Submarket	Average Rent (2015)	Percent Change (1-Year)
Chino-Rancho Cucamonga	1,399	+6.3
West Riverside County	1,131	+4.8
Redlands-Fontana-High Desert	966	+3.2
Palm Springs-Indio	948	+5.1
Inland Empire	1,155	+5.2

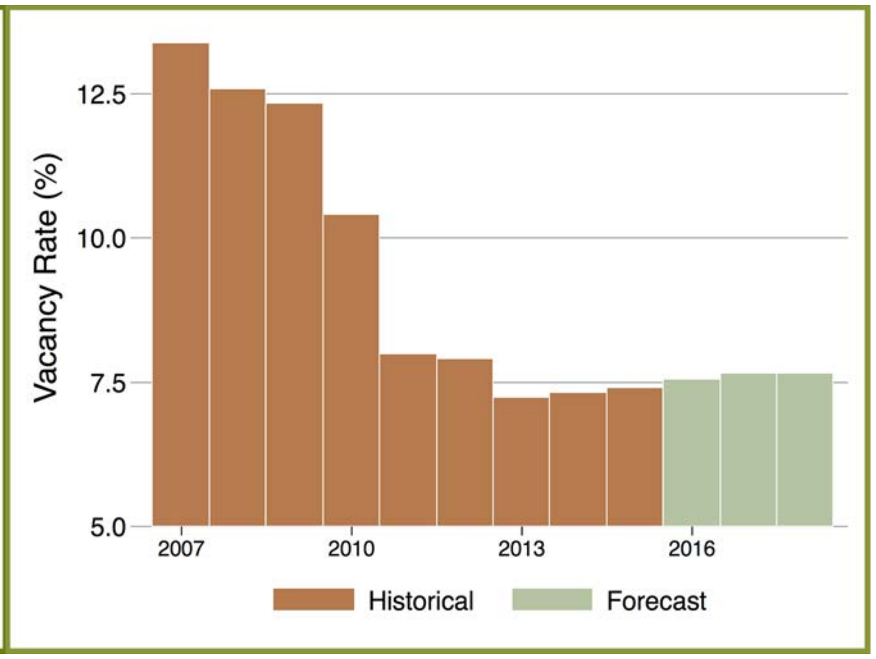
Vacancy Rates in Inland Empire Submarkets

Submarket	Vacancy Rate (2015)	Basis Point Change (1-Year)
Redlands-Fontana-High Desert	5.9	-71
Chino-Rancho Cucamonga	7.3	+52
West Riverside County	7.4	+7
Palm Springs-Indio	9.1	-65
Inland Empire	7.5	-12

West Riverside County

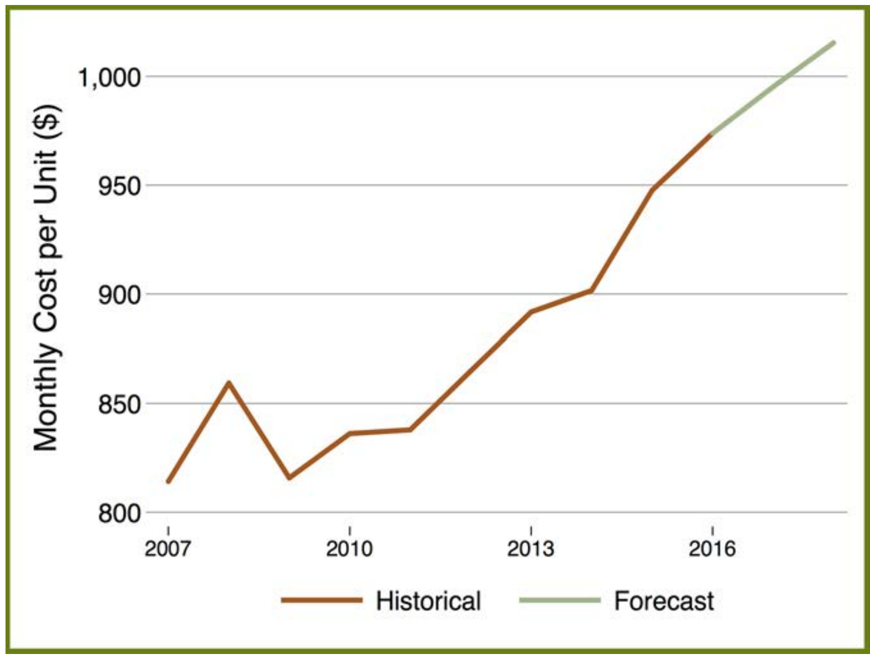


Source: American Community Survey and Beacon Economics

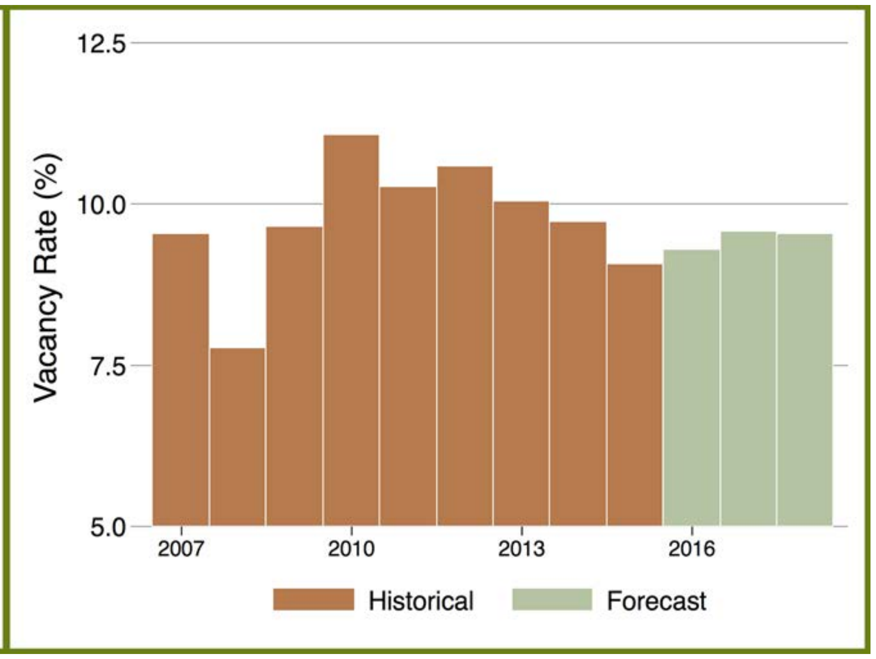


Source: American Community Survey and Beacon Economics

Palm Springs-Indio

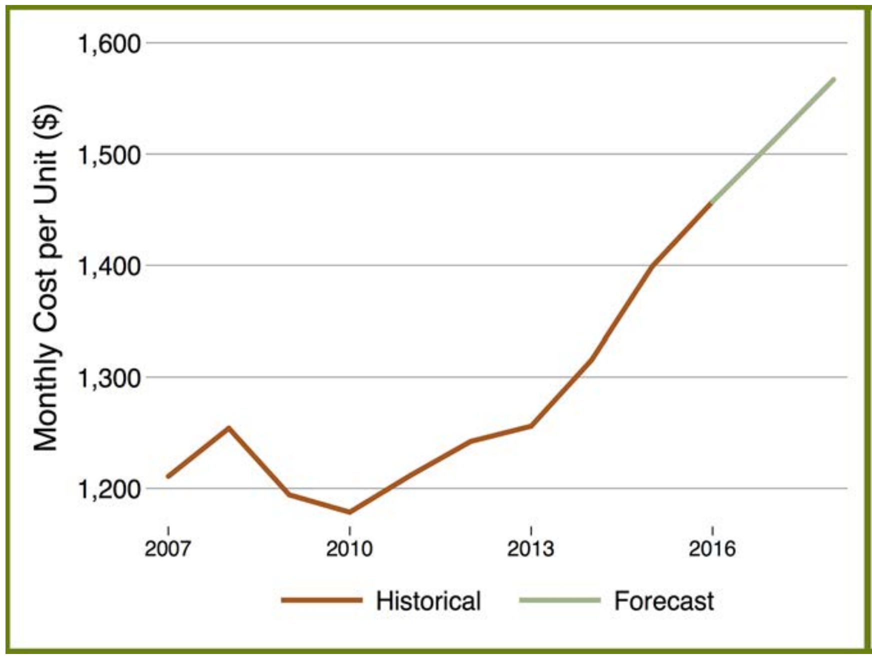


Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

Chino-Rancho Cucamonga



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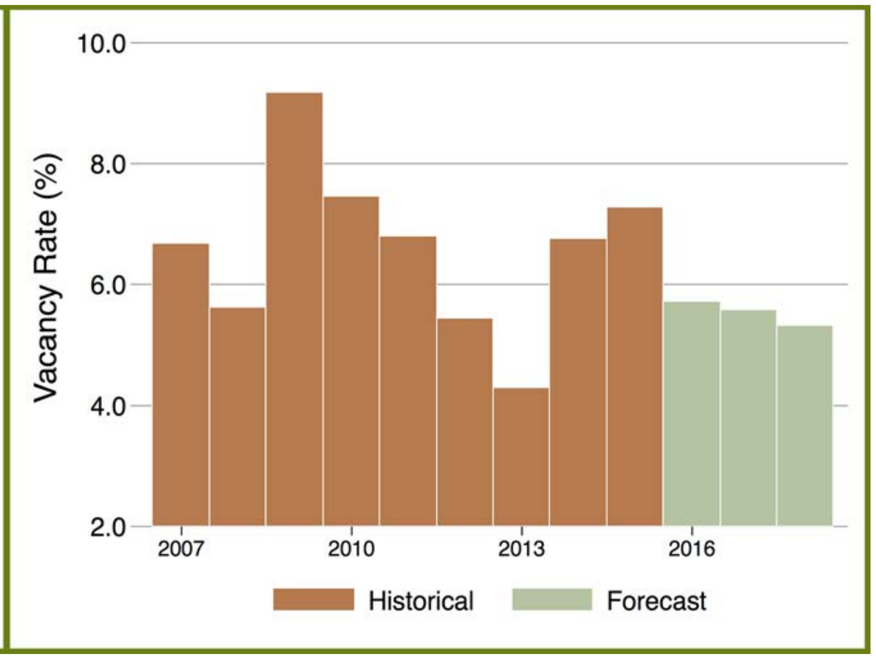
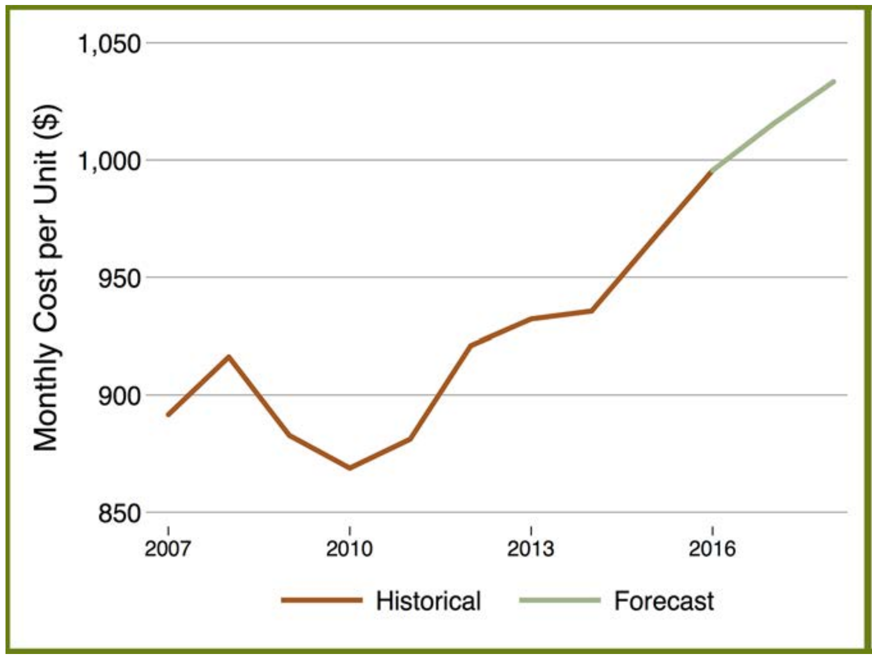
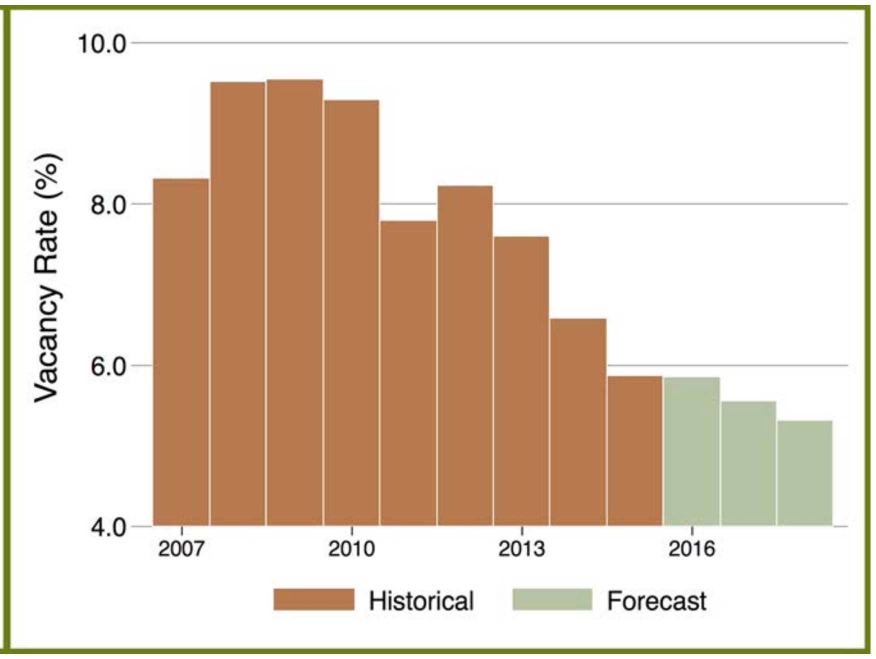


Source: American Community Survey and Beacon Economics

Redlands-Fontana-High Desert



Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

Renting Households and Rental Units - Selected Indicators for the Inland Empire and its Submarkets

	Renter Household Statistics			Rental Units by Size of Structure						Rental Units by Year Built			
Market/Submarket (Metro: 506,500 Units)	% with Children Present	Average Household Size	Median Household Income	Single Family	2-4 Units	5-9 Units	10-19 Units	20 Units and Up	Total	Before 1970	1970-1999	2000-2014	Total
Chino/Rancho Cucamonga	46%	2.8	$47,111	31%	20%	16%	12%	21%	100%	24%	55%	21%	100%
Palm Springs/Indio	42%	2.7	$32,309	39%	29%	12%	10%	10%	100%	25%	55%	20%	100%
Redlands/Fontana/High Desert	56%	3.3	$32,586	51%	18%	12%	7%	12%	100%	30%	57%	13%	100%
West Riverside County	51%	3.2	$40,363	51%	12%	14%	11%	13%	100%	22%	50%	28%	100%
Inland Empire	50%	3.1	$37,136	47%	18%	13%	9%	13%	100%	26%	54%	21%	100%

SOURCE: American Community Survey 2014

San Diego County has had one of the better performing economies in Southern California in recent years. The unemployment rate decreased to 5.2% last year, the lowest since 2007, as County wage and salary jobs grew by a solid 3.0%. Half of the 39,900 new jobs added in 2015 were concentrated in three industries: Health Care, Leisure & Hospitality, and Construction. Notably, the Manufacturing sector added jobs at more than double the statewide pace over the past year, a sign of that sector's continued strength in the region. With sound economic fundamentals, San Diego County's economy will expand over the next two years and the housing market will heat up with further increases in prices, sales, and rents.

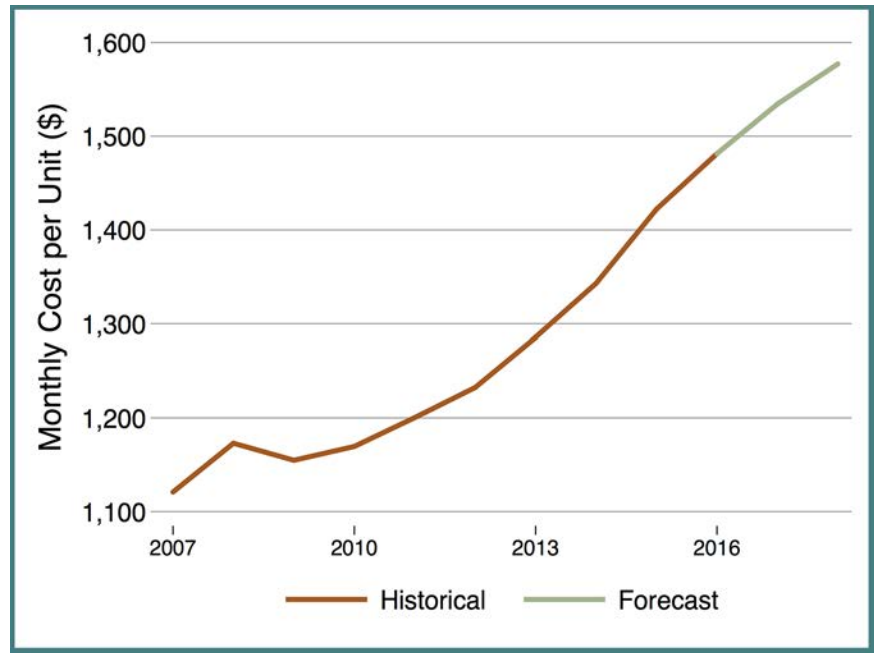
The trend in the San Diego County multifamily market has been marked in recent years by rising rents and generally lower vacancy rates. The average rent in 2015 was $1,422/month, rising 5.9% from one year earlier. Multifamily construction in the County has increased sharply in recent years, with a 15% increase in permits last year alone. In turn, the vacancy rate edged up from 4.6% in 2014 to 4.9% last year.

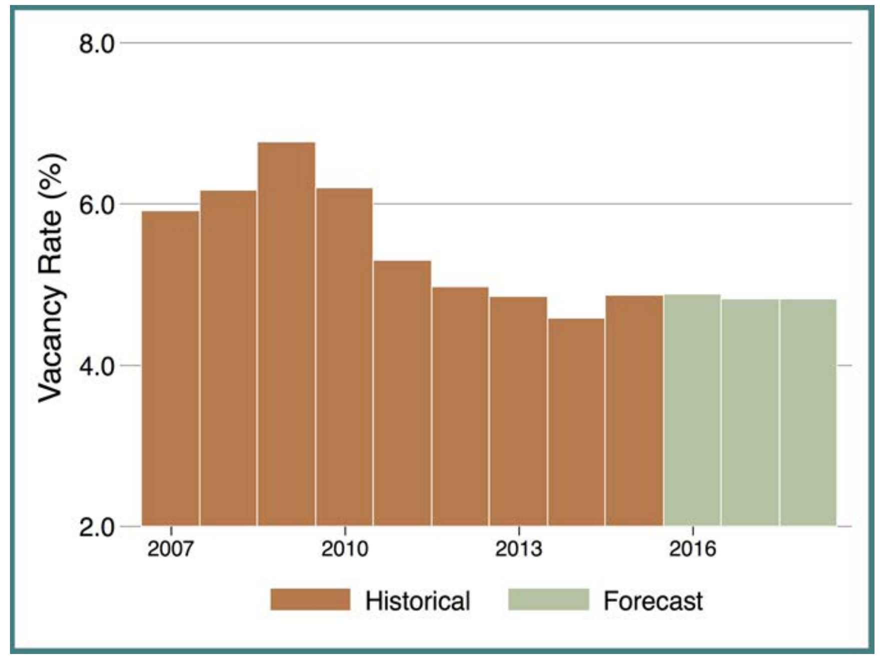
North San Diego County led the County's submarkets with the highest rent last year ($1,471/month), followed by the City of San Diego ($1,457/month) and Chula Vista-National City ($1,159/month). The City of San Diego experienced the fastest growth in rental rates at 5.8% in 2015, slightly ahead of North San Diego County (5.1%) and well ahead of Chula Vista/National City (1.6%).

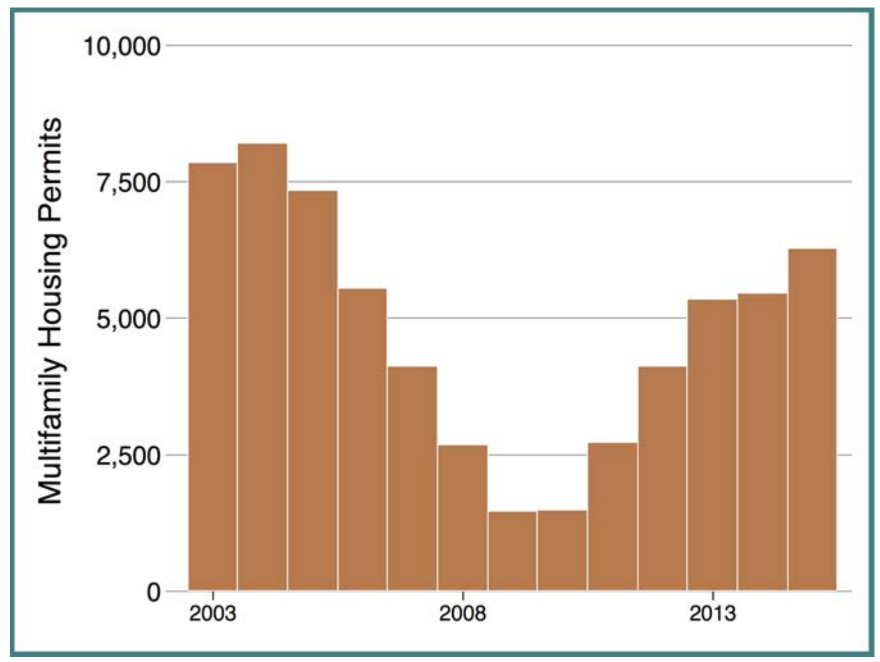
Vacancy rates were generally low among the County's submarkets. The lowest average vacancy rate was in the City of San Diego at 4.9%, followed by Chula Vista-National City at 5.8%, and North San Diego County at 6.5%. Vacancy rates rose in all the submarkets last year.

Over the past year, the total stock of housing increased. Ongoing growth in San Diego County's population will drive housing demand with both the rental and single-family owner-occupied markets expanding. San Diego County will continue to add to its stock of multifamily units over the next two years, with permit counts approaching or exceeding levels that prevailed before the recession.

San Diego Overview







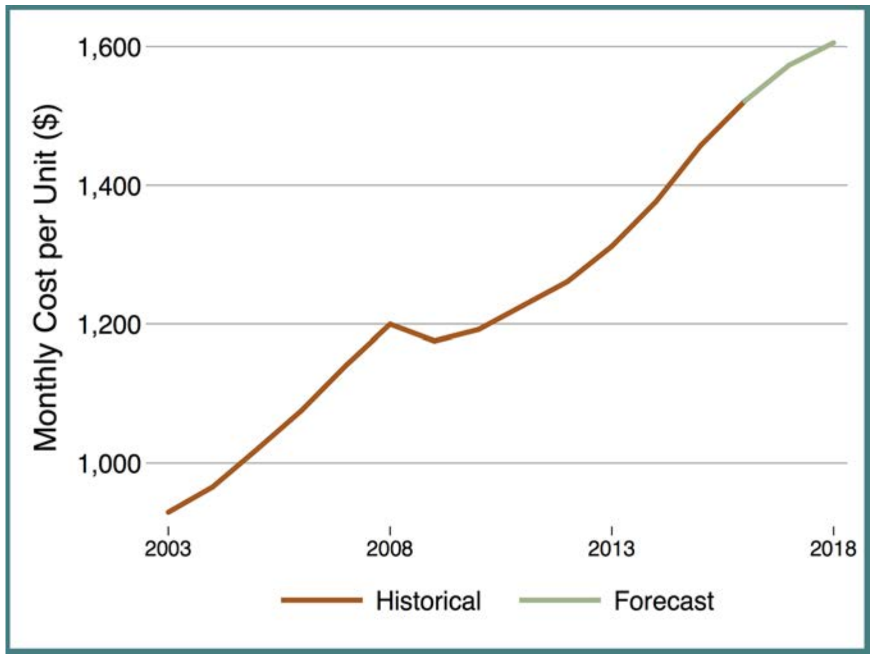
Average Rents in San Diego Submarkets

Submarket	Average Rent (2015)	Percent Change (1-Year)
North County	1,471	+5.1
Greater City of San Diego	1,457	+5.8
Chula Vista-National City	1,159	+1.6
San Diego County	1,422	+5.9

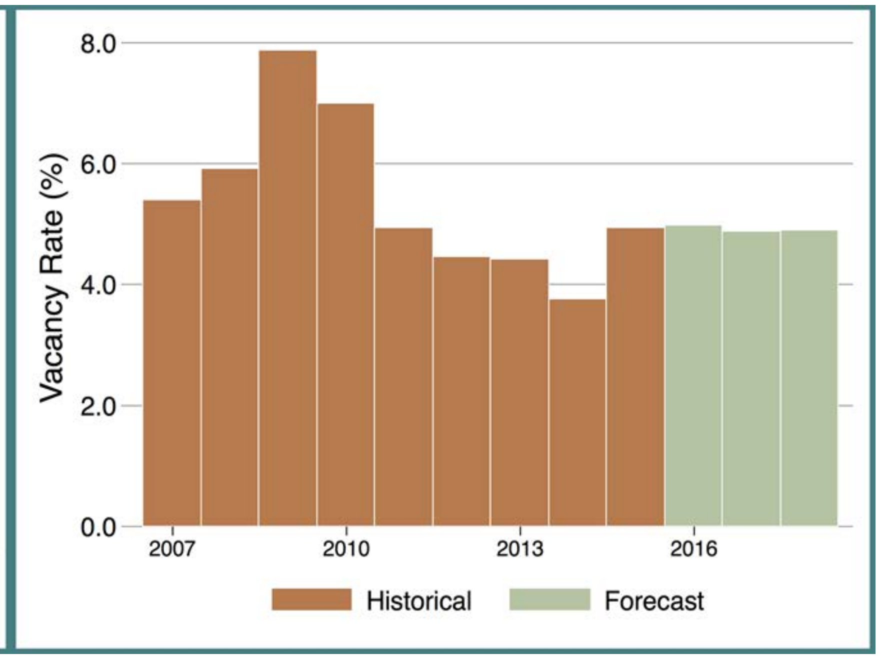
Vacancy Rates in San Diego Submarkets

Submarket	Vacancy Rate (2015)	Basis Point Change (1-Year)
Greater City of San Diego	4.9	+117
Chula Vista-National City	5.8	+34
North County	6.5	+168
San Diego County	4.9	+29

Greater City of San Diego

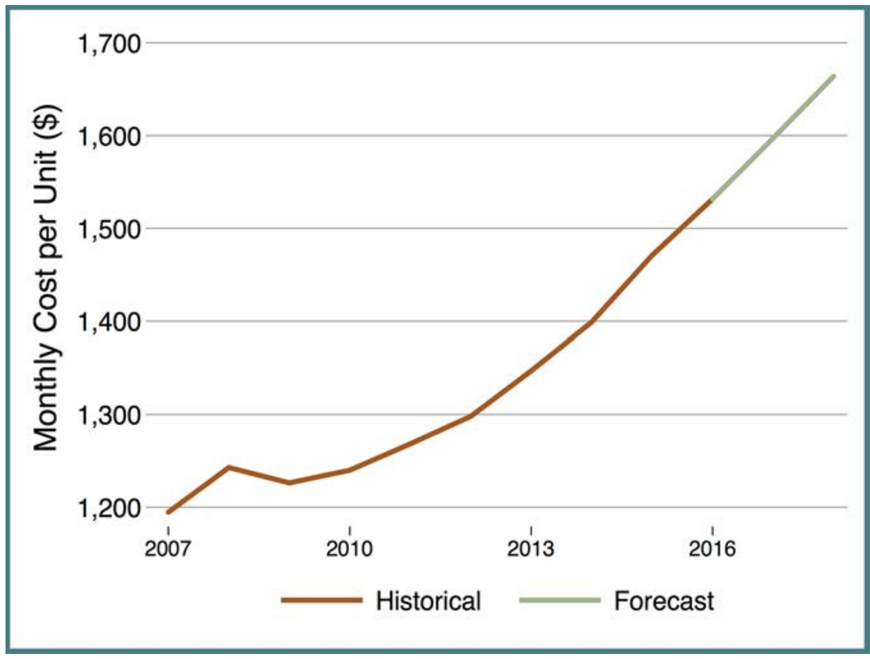


Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

North San Diego



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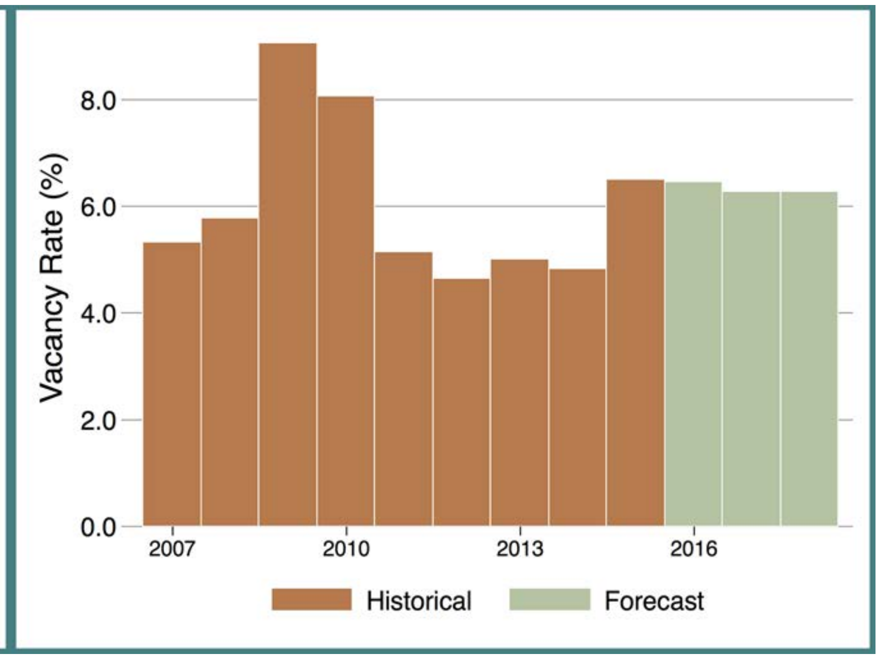
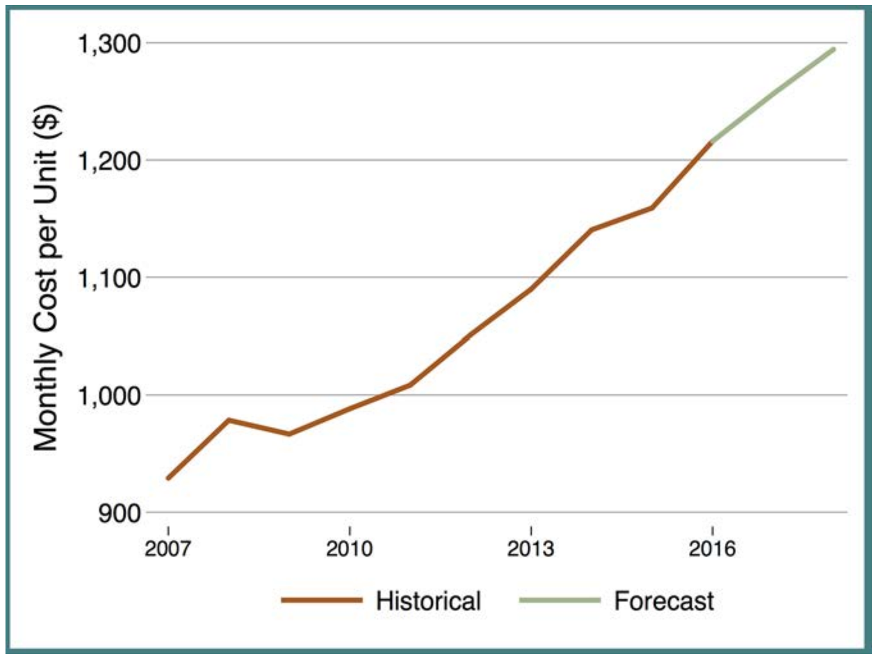
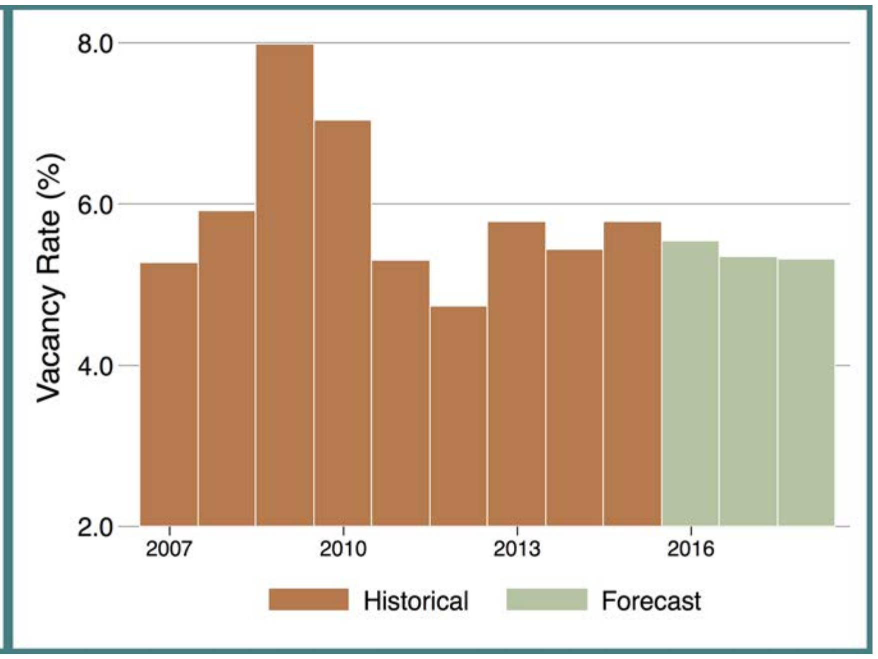


Source: American Community Survey and Beacon Economics

Chula Vista-National City



Source: American Community Survey and Beacon Economics



Source: American Community Survey and Beacon Economics

Renting Households and Rental Units - Selected Indicators for San Diego County and its Submarkets

	Renter Household Statistics			Rental Units by Size of Structure						Rental Units by Year Built			
Market/Submarket (Metro: 525,300 Units)	% with Children Present	Average Household Size	Median Household Income	Single Family	2-4 Units	5-9 Units	10-19 Units	20 Units and Up	Total	Before 1970	1970-1999	2000-2014	Total
North County	42%	2.9	$50,918	26%	20%	21%	11%	21%	100%	15%	70%	15%	100%
Greater City of San Diego	28%	2.4	$49,035	21%	20%	15%	12%	32%	100%	36%	52%	12%	100%
Chula Vista/National City	52%	3.2	$37,486	28%	25%	13%	9%	25%	100%	38%	51%	11%	100%
San Diego County	37%	2.7	$46,750	25%	21%	16%	12%	26%	100%	30%	57%	13%	100%

SOURCE: American Community Survey 2014

Technical Notes

Overall Disclaimer

Some of the data in this report was gathered from third party sources and was not independently verified. Neither Beacon Economics nor the Casden Forecast make any warranties or representations as to the completeness or accuracy thereof.

Methodology

Statistics reported in this year's USC Casden Forecast are based on data provided by the U.S. Census. Multifamily housing statistics reflect data for structures with 5 or more units, unless otherwise noted.

Beacon Economics utilized the Public Use Microdata Sample of the 2000 U.S. Census Decennial and the Public Use Microdata Sample of the Census U.S. Census American Community Survey (ACS)1-Year estimates from 2007 to 2014. Historic trends for every metropolitan area and for every submarket are based on ACS data that are adjusted using a proprietary technique to smooth out the inherent variability of Census data. Beacon Economics used this technique to estimate the number of multifamily renter housing units, rents, and vacancy rates.

The forecast presented in this report uses standard time-series econometric techniques based on historical correlations and forecasts of future economic trends. Beacon Economics forecasting methodology follows a layered approach: National policy changes and external shocks are built into a U. S. model with a variety of economic indicators including GDP, production, demographics, interest rates, government spending, taxes, savings, income growth, and real estate. Beacon Economics then crafts a California model that incorporates macro trends at the national level with trends in the statewide economy including employment/labor markets, demographics, real estate, and business activity indicators.

Taking into account these state and national factors, Beacon Economics sets up a regional model for each metropolitan area in Southern California using macro trends to create a local forecast that delivers a broad outlook for the region including rents and vacancy rates for multifamily renter-occupied housing units.

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