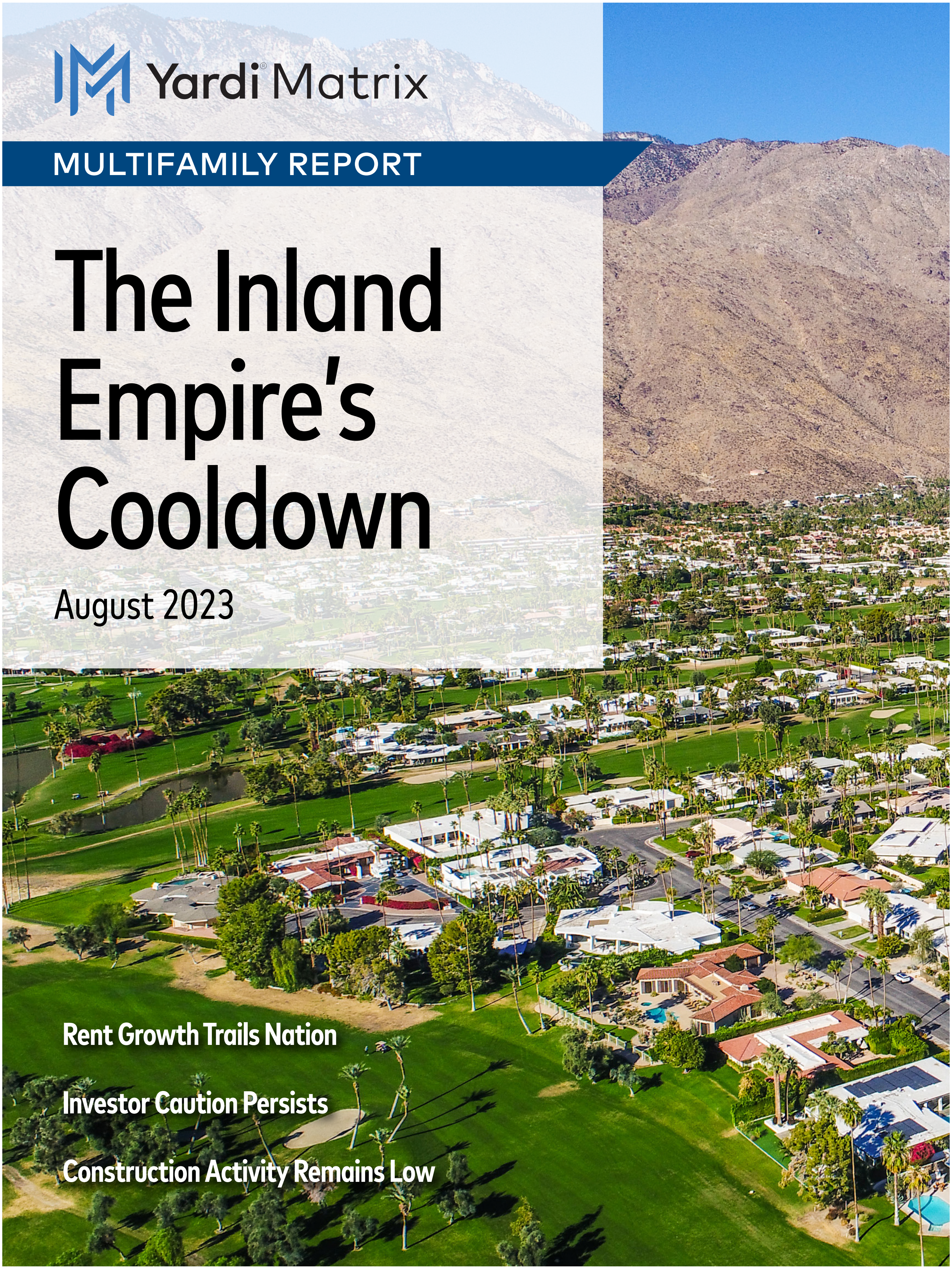
Yardi Matrix

MULTIFAMILY REPORT

The Inland Empire's Cooldown

August 2023



Rent Growth Trails Nation

Investor Caution Persists

Construction Activity Remains Low

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Softening Across Fundamentals

The Inland Empire's fundamentals were soft but steady in mid-2023. Rent growth was tepid but above negative territory, up 0.3% on a trailing three-month basis through June, to $2,131, still well above the $1,726 U.S. figure. The occupancy rate in stabilized properties decreased by 130 basis points year-over-year through June but was still healthy, at 95.5%.

The Inland Empire posted a 4.4% unemployment rate in May, trailing the 3.7% U.S. figure and leading California by only 10 basis points, according to preliminary data from the Bureau of Labor Statistics. The metro's labor market expanded 1.4%, or 12,100 jobs, in the 12 months ending in April, well behind the 2.9% national rate. Only four sectors sustained growth, led by education and health services (13,400 jobs) and government (7,700 jobs). Meanwhile, the metro's largest sector—trade, transportation and utilities—posted the biggest loss, down 8,000 positions, followed by manufacturing (-3,600). Still, the Purchasing Managers' Index, a key factor in the local economy, points to a positive future for the metro.

Deliveries nearly came to a halt, with just 81 units coming online in 2023 through June. The pipeline had 5,739 units, just 306 of which broke ground in 2023. Similarly, investment activity dropped significantly, with just $273 million in assets changing hands, at a per-unit price that decreased 16.5% year-over-year, to $297,171.

Market Analysis | August 2023

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Recent Inland Empire Transactions

The Paseos at Montclair North

City: Montclair, Calif.
Buyer: Archway Equities
Purchase Price: $150 MM
Price per Unit: $389,610

The Landing

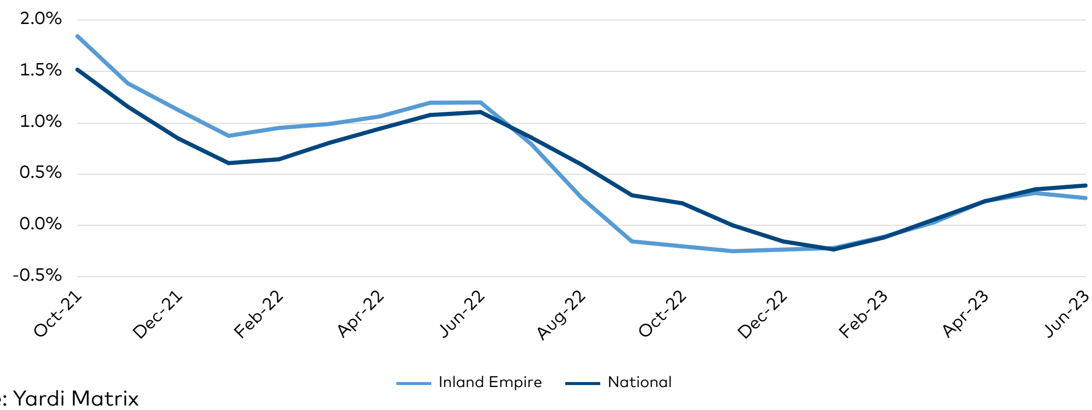
City: Ontario, Calif.
Buyer: Convenient Holdings
Purchase Price: $51 MM
Price per Unit: $323,718

On the cover: Photo by Trace Rouda/iStockphoto.com

RENT TRENDS

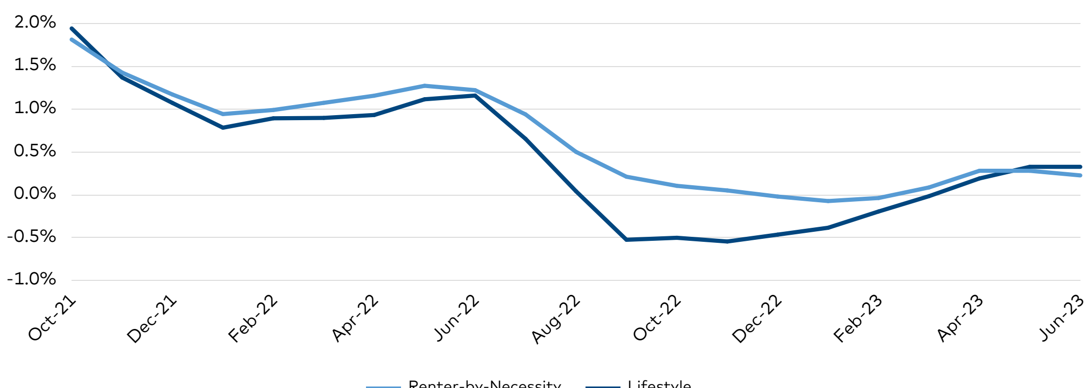
- The average asking rent in the Inland Empire rose 0.3% on a trailing three-month (T3) basis through June, 10 basis points behind the U.S. rate of growth for the second consecutive month. On a year-over-year basis, rents decreased slightly, down 0.3% in June, to $2,131, while the U.S. rate softened to a 1.8% increase, to $1,726.
- Rent growth was slightly higher in the upscale Lifestyle segment, up 0.3% on a T3 basis through June, to $2,450, while working-class Renter-by-Necessity figures rose 0.2%, to $1,901.
- While rent gains endured, the average overall occupancy rate in stabilized properties took a hit, declining 130 basis points in the 12 months ending in June, but remaining healthy, at 95.5%. The drop was steeper in the RBN segment, marking a 140-basis-point decline, to 95.7%, while Lifestyle rates decreased by 100 basis points, to 95.2%.
- Rents contracted in nine of the 31 submarkets tracked by Yardi Matrix on a year-over-year basis, but even so, the number of areas with an average rate above the $2,000 threshold increased from 12 in June 2022 to 16 in June 2023. The most expensive submarkets in the metro posted uneven performance, down 2.7%, to $2,563, in Rancho Cucamonga and increasing 0.7%, to $2,456, in Chino/Chino Hills.
- The single-family rental market moderated further, with annual rates declining 4.0% in June and occupancy decreasing by 0.7% in May.

Inland Empire vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Inland Empire Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- The unemployment rate in the Inland Empire stood at 4.4% in May, up 30 basis points month-over-month, according to data from the BLS. The metro lagged the nation (3.7%) and slightly outperformed California's 4.5% rate.

- The Inland Empire had a robust economic recovery from pandemic lows—outpacing coastal California metros along several metrics—but growth is slowing. In the 12 months ending in April, job growth decelerated to 1.4%, or 12,100 jobs, trailing the 2.9% U.S. rate. Only four sectors added jobs, led by education and health services (13,400 jobs) and government (7,700 jobs). The former is likely to continue to grow, as several projects are slated to open by the end of the year, including four St. John's Community Health clinics.

- Although manufacturing (-3,600 jobs) and trade, transportation and utilities (-8,000 jobs) saw the largest job losses during the period, signs of recovery appeared in June, with the Purchasing Managers' Index (PMI) rising above 50 for the second consecutive month. Moreover, the Production Index reached 64 from 47.9 in May, indicating a positive trend in production. Combined with steady employment, these factors indicate strong momentum. However, challenges exist, including potential interest rate hikes and a UPS worker strike.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	277	16.6%
90	Government	258	15.4%
60	Professional and Business Services	181	10.8%
80	Other Services	50	3.0%
50	Information	10	0.6%
55	Financial Activities	47	2.8%
15	Mining, Logging and Construction	117	7.0%
70	Leisure and Hospitality	181	10.8%
30	Manufacturing	97	5.8%
40	Trade, Transportation and Utilities	453	27.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire gained 47,601 residents in 2021. The metro is now the 12th largest MSA in the country. The annual increase is the equivalent of a 1.0% demographic uptick, well ahead of the 0.1% U.S. average.

- Since the 2010 Census, the metro's population has risen 9.7%.

Inland Empire vs. National Population

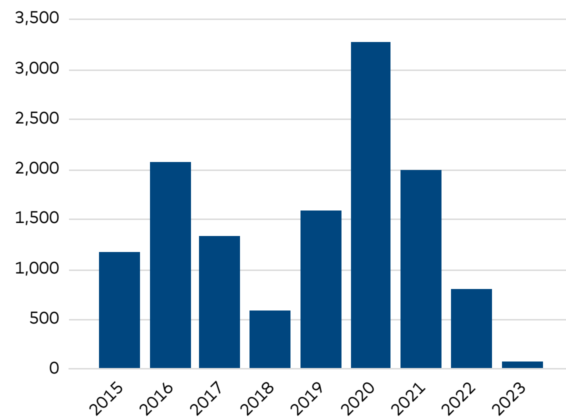
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Inland Empire	4,608,848	4,642,848	4,605,504	4,653,105

Source: U.S. Census

SUPPLY

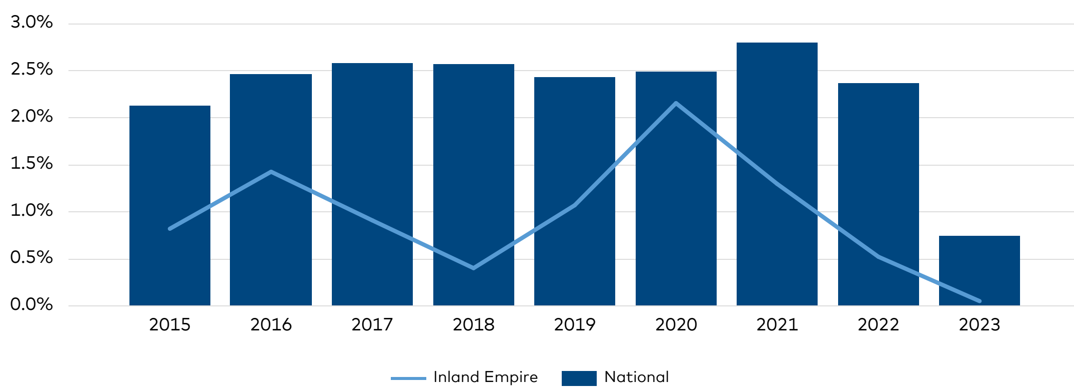
- During the first half of 2023, just 81 units in one fully affordable community came online in the Inland Empire, less than 0.1% of stock, while the national rate stood at 0.8%.
- Developers had 5,739 units under construction as of June, and another 36,500 units in the planning and permitting stages. The pipeline composition was heavily tilted toward the upscale Lifestyle segment, which accounted for 84% of units underway. Another 13% consisted of units in fully affordable communities. Roughly 3,100 units have completion dates slated for 2023, but delays are expected due to labor shortages and high construction materials costs.
- New projects are slowing in the Inland Empire, as in 2023 through June just 306 units in three projects broke ground, about a quarter of the 1,392 units that developers started construction on during the same period last year. The volume is lower than the total for 2020, when 539 units broke ground, all during the second half of the year.
- Of the 31 submarkets tracked by Yardi Matrix, 14 had at least 50 units under construction, and six had more than 500 units underway. Montclair/North Ontario led by volume with 1,275 units under construction. Moreno Valley (637 units) and Murrieta/Temecula (635 units) were next in line. The former also houses the largest project underway, the 925-unit Vineyards, built by G.H. Palmer Associates with aid from a $239 million construction loan issued in 2021 by U.S. Bank. The development is slated for completion in late 2024.

Inland Empire Completions (as of June 2023)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of June 2023)

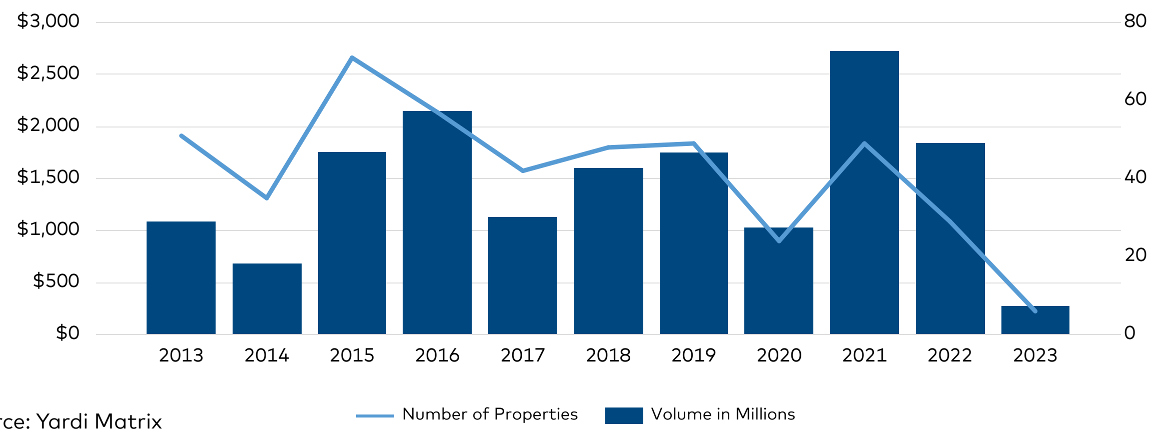


Source: Yardi Matrix

TRANSACTIONS

- In line with the national trend, transaction activity softened in the Inland Empire, with investors trading just $273 million in multifamily assets in 2023 through June. The amount represents just 23% of the $1.2 billion volume registered during the same period last year.
- A sales composition consisting of two-thirds value-add plays, along with slowing sales activity, led to a 16.5% year-over-year drop in the average price per unit, to $297,171 in June. Even so, the rate remained well above the $182,694 U.S. figure. While RBN sales accounted for the bulk of transactions, Lifestyle transactions amounted to more than $200 million, at $307,609 per unit.
- The highest price paid for a multifamily property in 2023 through June was $150 million for the 385-unit The Paseos at Montclair North in Montclair/North Ontario. G.H. Palmer Associates sold it to Archway Equities for $389,610 per unit.

Inland Empire Sales Volume and Number of Properties Sold (as of June 2023)



Source: Yardi Matrix

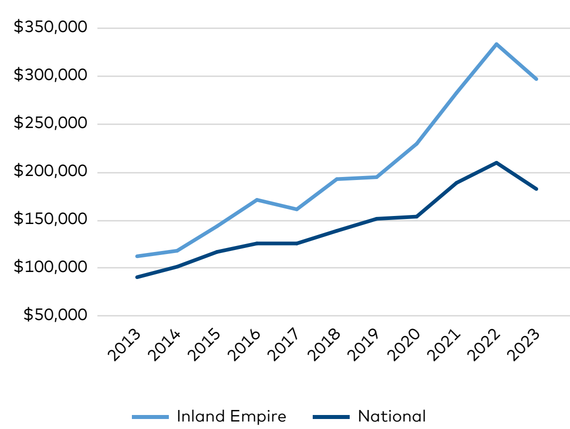
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West Riverside	295
Montclair/North Ontario	150
Colton/Grand Terrace	103
Rancho Cucamonga	97
Lake Elsinore	65
Rialto	57
Indio	55

Source: Yardi Matrix

[1] From July 2022 to June 2023

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

Building Affordable in California, Hawaii: High Demand, High Hurdles

By Anda Rosu

The cost of housing in Hawaii is among the highest in the U.S. Similarly, California is also among the most expensive housing markets in the country, with a high concentration of cost-burdened renters. EAH Housing has been serving low-income renters in both markets for the past 55 years. Chief Real Estate Development Officer Welton Jordan highlights the differences and similarities between these states' housing markets.

In what ways are Hawaii and California's markets similar, and what sets them apart?

Both states face significant challenges in meeting the demand for affordable housing, and this shortage is particularly concerning in the low- and very low-income sectors. Lastly, both states experience difficulties and complexities in the process of building new housing, due to regional regulations and permit procedures.

There are also notable differences between the two states. In California, there is currently a firm commitment from the government to address the housing crisis by taking steps to fund housing and holding localities responsible for the lack of housing in their areas.

What policy changes at the state or federal levels do you believe would encourage developers to build more?

One major policy change would be lowering the 50 percent test for tax-exempt bonds to 25

Welton Jordan

percent. By doing this, developers would immediately have the ability to finance more housing and would be encouraged to take on more affordable housing projects, making a significant impact on improving the affordable housing shortage.

How do you plan to develop more affordable properties over the next five years than you did over the past 25?

First, we prioritized building a strong team of professionals with both expertise and a shared commitment to our mission. We also had to make the hard decision of doubling down on new development. While we recognize the importance of preserving existing properties, we've found we can drive greater impact when focused on new construction, as we can create greater density, at a much faster pace. By actively pursuing new construction projects our goal is to contribute to increasing the availability of affordable housing options for those most in need.

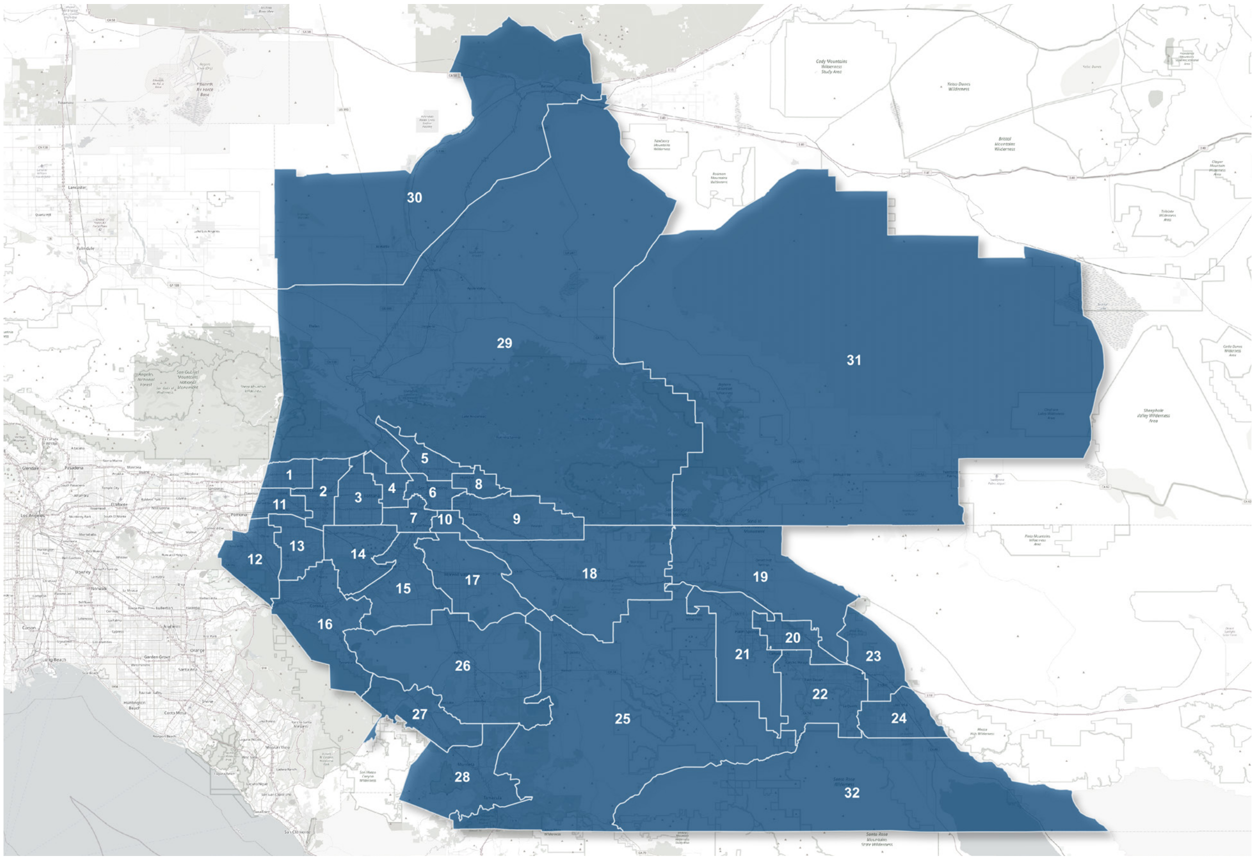
How do you expect the West Coast affordable housing crisis to evolve?

This is definitely a concerning trend. Despite recent political efforts and funding initiatives to meet the affordable housing needs, levels of housing insecurity and percentages of cost-burdened households continue to increase at record heights.

However, I remain optimistic, especially as more communities display increased openness and empathy toward the needs of lower-income families and individuals.

(Read the complete interview on multihousingnews.com.)

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
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 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 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, 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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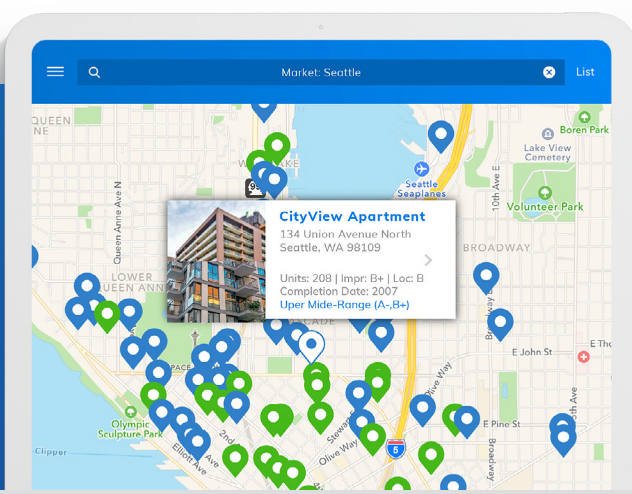
- Access aggregated and anonymized residential revenue and expense comps



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